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ABBREVIATIONS

ABCP	Asset-backed commercial paper
AIAF	Association of Securities Dealers
BCBS	Basel Committee on Banking Supervision
BE	Banco de España
BIS	Bank for International Settlements
CBSO	Central Balance Sheet Data Office
CCR	Central Credit Register
CEBS	Committee of European Banking Supervisors
CEIPOS	Committee of European Insurance and Occupational Pensions Supervisors
CEMLA	Center for Latin American Monetary Studies
CEPR	Centre for Economic Policy Research
CNE	Spanish National Accounts
CNMV	National Securities Market Commission
CPI	Consumer price index
DGS	Directorate General of Insurance and Pension Funds
EAGGF	European Agricultural Guidance and Guarantee Fund
ECB	European Central Bank
ECOFIN	Council of the European Communities (Economic and Financial Affairs)
EDP	Excessive Deficit Procedure
EMU	Economic and Monetary Union
EONIA	Euro overnight index average
EPA	Official Spanish Labour Force Survey
ERDF	European Regional Development Fund
ESA 79	European System of Integrated Economic Accounts
ESA 95	European System of National and Regional Accounts
ESCB	European System of Central Banks
EU	European Union
EU-15	Countries making up the European Union as at 31/04/04
EU-25	Countries making up the European Union as from 1/05/04
EU-27	Countries making up the European Union as from 1/01/07
EURIBOR	Euro Interbank Offered Rate
EUROSTAT	Statistical Office of the European Communities
FASE	Financial Accounts of the Spanish Economy
FDI	Foreign direct investment
FIAMM	Money market funds
FIM	Securities funds
FSAP	Financial Services Action Plan
GDI	Gross disposable income
GDP	Gross domestic product
GFCF	Gross fixed capital formation
GNP	Gross national product
GVA	Gross value added
HICP	Harmonised index of consumer prices
IADB	Inter-American Development Bank
IGAE	National Audit Office
IMF	International Monetary Fund
INE	National Statistics Institute
INEM	National Public Employment Service
MBSs	Mortgage-backed securities
MEFF	Financial Futures and Options Market
MEW	Mortgage equity withdrawal
MFIs	Monetary financial institutions
MiFID	Markets in Financial Instruments Directive
MMFs	Money market funds
MROs	Main refinancing operations
NAIRU	Non-accelerating-inflation rate of unemployment
NCBs	National central banks
NPISHs	Non-profit institutions serving households
NRPs	National Reforms Programmes
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of Petroleum Exporting Countries
PPP	Purchasing power parity
QNA	Quarterly National Accounts
RoW	Rest of the World
SCLV	Securities Clearing and Settlement Service
SDRs	Special drawing rights
SEPA	Single European Payments Area
SGP	Stability and Growth Pact
SICAV	Open-end Investment Companies
SIVs	Structured investment vehicles
SMEs	Small and medium-sized enterprises
TARGET	Trans-European Automated Real-time Gross settlement Express Transfer system
TFP	Total factor productivity
ULCs	Unit labour costs
VAT	Value added tax
XBRL	Extensible Business Reporting Language

COUNTRIES AND CURRENCIES

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

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

CONVENTIONS USED

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

CONTENTS

1 Overview

During the first half of 2008, the trajectory of adjustment on which the Spanish economy had embarked the previous year intensified. In Q1, the year-on-year growth rate of GDP declined by 0.8 pp to 2.7%, while the related quarter-on-quarter rate was 0.3%, 0.5 pp less than the previous quarter. Behind this loss of momentum was the marked weakening in national demand, which was marginally cushioned by the contribution of net external demand to output growth.

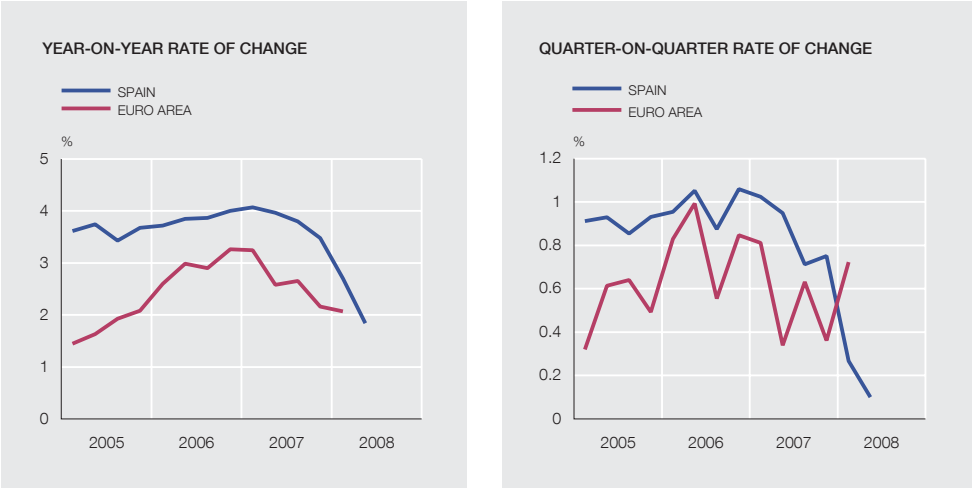
The economic indicators for 2008 Q2 point to a more pronounced adjustment, and one particularly sharp in private consumption and in employment, against a background in which the extension of the bout of financial turbulence and the climb in crude oil prices are heightening uncertainty over economic developments, with significant effects on agents' confidence. The Spanish economy's high dependence on external saving along with the importance of oil and oil derivatives in its productive structure are contributing to spreading the effect of the shocks assailing it. In this setting, the estimates made drawing on the available conjunctural information suggest that the year-on-year growth rate of GDP in Q2 was 1.8% (0.1% in terms of its quarter-on-quarter rate), as a result of a significant cut in the growth rates of the different components of national demand — which overall are expected to have increased at a rate of 1.9% (2.8% in the previous quarter) — and of a 0.2 pp improvement in the contribution of net external demand, which is estimated to stand at -0.1 pp. On the supply side, the correction in the residential sector has become more acute in recent months and is exerting a marked impact on employment, which would be acting as the main transmission channel of the real estate adjustment to the rest of the economy. The EPA data for Q2 show a strong cut in job creation, the growth rate of which was 0.3% on a yearly basis. The unemployment rate rose to 10.4%. As to prices, the deterioration in inflation continued in Q2, and the increase in oil prices was quickly reflected. As a consequence, the HICP rose in June to a year-on-year growth rate of 5.1%, which placed the differential with the euro area at 1.1 pp, the average level since the start of Monetary Union.

Turning to the international economic picture, 2008 Q2 saw the continuation of the episode of financial instability, the upward course of oil prices, the deterioration in the inflation outlook and the macroeconomic adjustment in the main developed economies, which is proving particularly pronounced in the United States. These developments have shaped a more uncertain scenario than that of recent quarters, increasing the likelihood that the down phase of the world business cycle will continue well into 2009.

There were strong rises in oil prices during the quarter, up to levels close to $145 per barrel in mid-July (an all-time high in real terms), although this was corrected partially in the following days. The hike in oil prices is generating a progressive increase in the industrialised and emerging economies' inflation rates, raising the perception of inflationary risks globally. Accordingly, during the quarter there was a change in the outlook for the monetary policy stance in the second half of the year, which was reflected in a relatively widespread upward revision in expectations about official interest rates.

After the somewhat more stable behaviour of the financial markets in April and May, there were fresh outbreaks of financial strains in June and July, which took the form of a further increase in credit risk premiums, a more negative tone on stock markets — which posted significant losses — and increases in long-term bond yields, although the latter underwent a slight down-

GROSS DOMESTIC PRODUCT (a) CHART 1



SOURCES: ECB, INE and Banco de España.

a. Seasonally adjusted series.

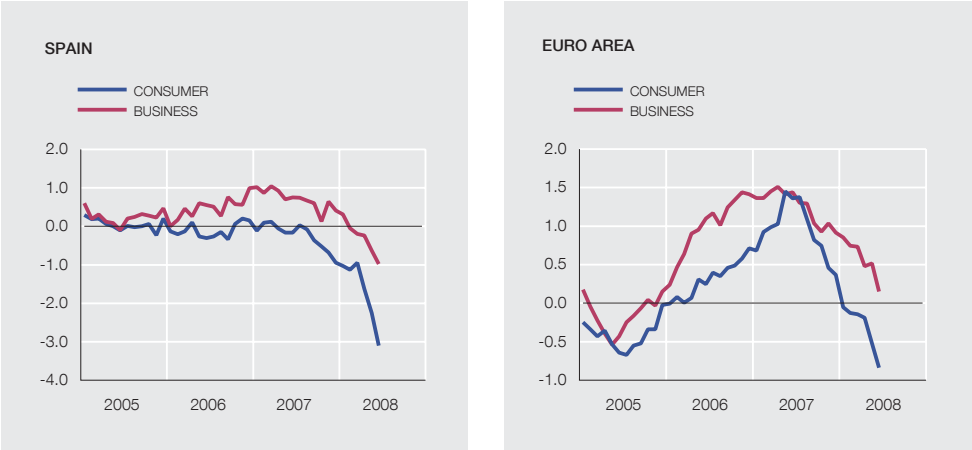
ward correction in July. Contributing to these strains, along with the aforementioned perception of inflationary risks, was the downgrading of some of the main monoline bond insurers, the disclosure of further losses by some US investment banks and, into July, the financial difficulties of two major mortgage institutions, which led the US government to announce a contingency plan to support them. In these circumstances, the main central banks continued to perform sizable liquidity assistance operations (raising, in some cases, the ceiling on specific liquidity injection mechanisms) and the Federal Reserve made a one-off cut during the quarter, specifically in April, to its federal funds target rate, taking it to 2%. The dollar depreciated slightly against the euro in a setting of high volatility.

Activity in the world economy remained highly influenced by the adjustment of the US economy, despite the fact that US GDP in Q1 was somewhat higher than initially estimated. The latest indicators show further weakening owing to the deepening of the adjustment in the real estate sector and the decline in employment, despite some improvement in the consumption indicators due to the effect of the tax aid. The economic outlook has worsened in Japan and, above all, in the United Kingdom, given the rapid deterioration in the residential sector. In the emerging economies, activity generally remained more dynamic, although some signs of easing were observed and inflation continued rising across the board, which prompted the tightening of the monetary policy stance in a good number of these countries.

As regards economic developments in the euro area, the latest data suggest a notable reduction in the pace of GDP in 2008 Q2. The slowdown in activity reflected in part the correction of certain factors that had exceptionally boosted growth in Q1 but, more fundamentally, it highlighted the effect of a weaker external setting and of financial conditions that have become more restrictive as a result of the extension of the period of financial instability, the rise in oil and food commodity prices, and the appreciation of the euro.

Inflation in the euro area also moved on a rising trend in recent months, essentially as a result of the energy component, while the contribution of the food component remained high. Nonetheless, the price aggregate that excludes energy and unprocessed food prices underwent a small cut during the quarter to 2.5% in June. In a setting in which the labour market remains relatively tight, the upside risks to inflation in the area are high, due both to possible further

CONFIDENCE INDICATORS (a) CHART 2



SOURCE: European Commission.

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

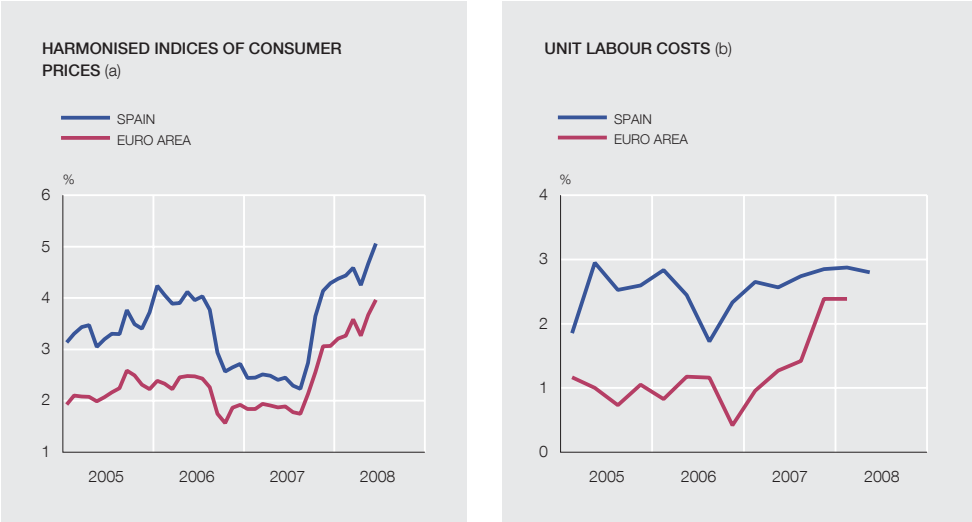
rises in oil prices and because price and wage-setting mechanisms may give rise to the spread of second-round effects if inflation expectations deteriorate further.

Against this backdrop, the ECB governing Council decided at its meeting in early July to raise the interest rate on its main refinancing operations by 25 bp to 4.25%, in order to pre-empt the emergence of such effects and to counter the growing upside risks to price stability in the medium term.

All these factors meant that the external environment of the Spanish economy continued to weaken during the quarter. At the same time, household and corporate financing conditions tightened further, as manifest in the additional increases in the cost of funds obtained — in line with the rises in interest rates on the benchmark markets — and in the application of stricter lending standards by banks, against a background of global risk re-pricing. As earlier mentioned, volatility on stock markets remained high and the main stock exchange indices resumed a declining trajectory as from the second half of May which accelerated during July, checking the revaluation of financial wealth. Lastly, in the real estate market, house prices showed very modest average increases in year-on-year terms (2%) in Q2, entailing a quarter-on-quarter decline of 0.3%. As a result, the revaluation of real estate wealth is expected to have continued slowing.

In the setting described, household spending is following a fairly marked pattern of adjustment. The sharp slowdown in household consumption seen in Q1 continued during Q2, for which a year-on-year growth rate of close to 1% is estimated. Underlying the rapid response of consumption are, as in previous quarters, the low increases in disposable income and the slacker rises in wealth, in both its financial component and that linked to real estate value. But a further element in recent months must be added, namely the persistence of a highly uncertain economic environment in which the deterioration of consumer confidence is adversely affecting spending decisions. In the case of disposable income, mention should be made of the contractionary effect that the reduction in the pace of job creation is exerting and the increase in the inflation rate, further to the hike in energy prices. Their impact on income has exceeded the impulse stemming from the rise in wages and from the expansionary conduct of the public sector in the opening months of the year, although when estimating the latter, the tax rebate that came into force in late June has not been taken into account, since its effects

PRICES AND COSTS CHART 3



SOURCES: Eurostat, ECB and INE.

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

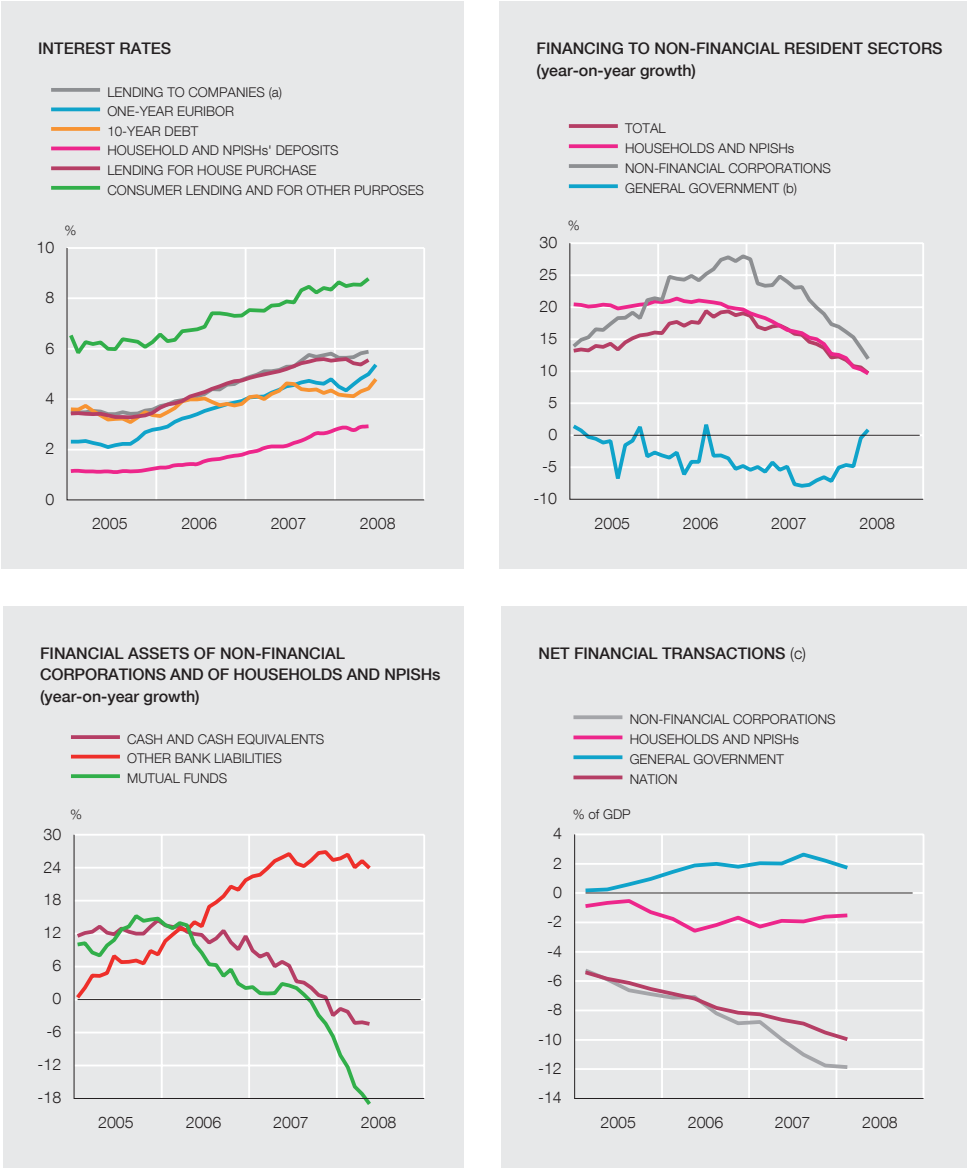
will, irrespective of the magnitude they acquire, foreseeably arise fundamentally in the second half of the year. That said, it is highly likely that the reduction in the growth rate of consumption is beginning to be more marked than that of its determinants, whereby the saving ratio might have begun to rise already in Q2, in line with the scenario of greater uncertainty portrayed in the foregoing paragraphs. The rise in interest rates would have acted along these same lines, encouraging the substitution of future consumption for present consumption and raising the saving ratio. In these circumstances, the course of recovery of household saving is expected to continue during the rest of the year.

Turning to residential investment, the intensity of the adjustment in Q2 was greater than that observed in the opening months of the year, with estimated declines of around 3%. As in the case of consumption, the climate of uncertainty and the fall in confidence have made the correction of the sector under way since the second half of 2006 more acute, in step with the progressive transmission towards residential investment of the change in expectations about real estate prices and the tightening of the cost of financing. Furthermore, the correction is taking place in a phase in which there is a high volume of house completions, which is contributing to increasing the stock of unsold properties.

Throughout the household spending adjustment phase, there has been a containment of the pace of household debt. This trajectory has continued in the year to date, in a more sluggish macroeconomic setting and one marked by an increase in the cost of funds. As a result, the growth rate of credit has drawn closer to that of income in the sector, which has allowed the household debt ratio to stabilise, this having stood in Q1 at somewhat over 130% of GDI. The year-on-year growth of the financing of the household sector stood in May at slightly below 10%, almost 1 pp down on the previous quarter, with declines both in credit for house purchases, the year-on-year growth rate of which stood at 10%, and in funds earmarked for consumption and other purposes, which increased by 8% over the last 12 months.

Business investment also shows signs, albeit somewhat milder ones, of weakening, prolonging the slowing profile observed since the second half of 2007. The loss of momentum of in-

FINANCIAL INDICATORS OF THE SPANISH ECONOMY CHART 4



SOURCE: Banco de España.

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

vestment in capital goods, which is estimated to have reached a year-on-year rate of somewhat below 3% in Q2, is in line with the profile of economic activity and with the strong deterioration in business confidence. As to financial developments at companies, there was a fresh tightening of lending standards during the quarter and some turnaround in companies' profit ratios, chiefly as a consequence of the increase in the interest burden. That said, these ratios remain at levels which, in the absence of the climate of deterioration in economic prospects, would enable the development of new spending plans.

The progressive tightening of financing conditions for companies and the loss of steam in business activity continued contributing to the slowdown in the rate of increase of corporate debt, which grew at a rate of close to 12% in May, more than 3 pp below the March figure. By pro-

ductive activity, the latest information, for 2008 Q1, shows that the reduction in the rate of increase of credit is proving very sharp in that intended to finance real estate activities and more moderate in construction, while funds earmarked for the industrial sector and other services retain their dynamism, despite the sluggishness of activity, with year-on-year growth rates of 19% and 22%, respectively. In line with the progressive deceleration in debt, the level of corporate indebtedness has tended to stabilise in recent quarters, although the interest burden has continued to increase.

In Q2, the contribution of net external demand to GDP growth is estimated to have improved by 0.2 pp to -0.1 pp, as a result of the relatively dynamic behaviour of exports, which posted similar increases to those of the previous quarter (around 5%), and of a reduction in the pace of imports which, as in similar cyclical phases, swiftly feel the impact of the loss of vigour of final demand. All these developments were against an external background in which the slowdown in global trade flows continued and in which the price-competitiveness indicators deteriorated somewhat, chiefly as a consequence of the appreciation of the euro over the last few months. In this respect, the maintenance of Spanish exports should be related to some extent to the buoyant imports of the oil-producing countries, as a result of the extraordinary revenue they are receiving. Regarding tourist services, the indicators available denote some recovery in exports of this type of activity, albeit on a moderating trajectory, and a slowdown in imports. The pace of foreign trade in non-tourist services has diminished in the opening months of the year.

It should be stated, however, that the gradually improving trajectory of the contribution of net external demand to GDP growth which began approximately two years ago has not prevented the nation's net borrowing from increasing. In Q1, and in cumulative 12-month terms, this variable rose to 10.0% of GDP. In this respect, the rise in oil prices poses further difficulty to the correction of the trade deficit and, therefore, of the external deficit.

On the supply side, the reduction in spending was rapidly reflected in activity and employment, where all sectors performed more weakly than in the previous quarter, with cuts in value added and in employment in the construction and manufacturing sectors (which were greatly affected by the sluggishness of consumption and by the decline in inputs attributable to construction-related activities). Countering this, services activities were more dynamic, albeit on a slowing trajectory which progressively became more marked, in the market services component, as the quarter unfolded. Of note was the rapid response of employment to the cyclical change, a pattern which was already observable in the opening months of the year but which has stepped up to a level of great intensity in the most recent period. From increasing at a rate close to 3% in the second half of 2007, employment has posted increases of virtually zero in Q2 this year. Furthermore, as in previous contractionary phases, temporary employment is bearing the brunt of the adjustment, as evidenced by the rapid downward correction in the ratio of temporary to total employees in recent quarters. In addition, the vigour of the labour force means that the increase in joblessness is being accompanied by rapid increases in the unemployment rate, which rose to 10.4% in 2008 Q2. Overall, the reduction in the pace of job creation in market branches was greater than that in activity, whereby apparent productivity rose slightly to around 1.5%.

Despite the notable loss of dynamism in the labour market, wages continued to increase. That reflected the rise in average wage settlements under collective bargaining agreements (which stood at 3.5% in June, 0.4 pp up on the previous year) and the impact of the activation of indexation clauses owing to the deviation by inflation from the official target in 2007 (this meant a further 1.1 pp increase). Accordingly, compensation per employee in the market economy is

expected to stand at a rate somewhat higher than 4% in Q2. In terms of unit labour costs, the increase would be somewhat lower owing to the offsetting effect exerted by the productivity gains observed.

The rise in labour costs and the strong increase in energy and, to a lesser extent, food commodity costs, in a setting in which margins are not sufficiently flexible in certain activities, shape a scenario of price pressures, despite the weakening in activity, and of a worsening inflation outlook for the rest of the year. Although the increase in the inflation rate in the most recent period (to a year-on-year rate of 5% in June in terms of the CPI) has been essentially due to the direct impact of the hike in energy prices, the rise in the services component in the last month suggests that indirect effects might be starting to emerge. In any event, the risk of energy price increases being incorporated into cost and price-formation processes and generating second-round effects has increased notably in recent months. Specifically, the existence of indexation clauses in collective bargaining — a feature virtually absent in other euro area countries — raises the likelihood of such increases (whether they are permanent or not) feeding through to wages next year, hampering the adjustment of the economy in the face of these shocks.

In the year to date, the Spanish economy has moved onto a more intense and rapid path of adjustment than had been expected some time back. In an external environment which will continue to weaken, the outlook is for a continuation of this process, depending on the scope of the adjustment in employment. From the financial standpoint, the slowdown in financing to households and firms tends to channel the dynamic of private-sector indebtedness towards a more sustainable pattern. However, the level of debt in some household and corporate segments, along with the increase in the cost of borrowing and the weakening in activity, is likely to be increasing the proportion of segments under greater financial pressure, as reflected in the rise in default ratios in recent months. Further, in a setting in which the Spanish economy continues to depend greatly on external saving, the extension of the episode of financial instability poses an additional factor of risk.

In these circumstances, economic policy should be geared to smoothing the adjustment and to raising the economy's growth potential. It will be of paramount importance here to contain inflationary pressures, promoting the necessary adaptation of all agents to the inevitable effects of dearer oil. It is also necessary to heighten efforts to maintain budgetary stability, in line with the requirements assumed, in a setting in which the rapid deterioration of the budget balance brought about by weakening revenue demands greater austerity in fiscal policy management. Lastly, the economy's flexibility will prove vital when it comes to regulating the scale and depth of the adjustment process, meaning that structural measures, particularly those relating to the labour market that may help limit job losses, will be of great importance.

2 The external environment of the Spanish economy

In the past quarter, developments in the external environment of the euro area were characterised by the transition from a situation of relative calm – following the US authorities' measures in support of the financial system in mid-March – to a scenario in which inflation concerns emerged forcefully further to the hike in commodity prices, with doubts resurfacing subsequently over the financial situation and activity.

Following some improvement in May on the credit and stock markets, June saw a qualitative change on international financial markets as the instability that had marked the first quarter re-emerged. This fresh step-up in turmoil came about against a background of heightening concern over global inflationary risks and the reappearance of problems at certain financial institutions (the downgrading of some of the main bond insurers and the disclosure of further losses by certain US investment banks). The latest manifestation of these renewed problems in the US financial sector was the financial support, in mid-July, by the US authorities to Fanny Mae and Freddie Mac, the government-sponsored mortgage securitisation agencies currently assailed by major financial difficulties. Further to these developments, during the quarter the monetary authorities toughened their line, 10-year interest rates increased by approximately half a point to mid-June in the main economies (which was subsequently reversed in part) and there was a significant correction on stock markets.

The emerging economies experienced a sharper deterioration in market sentiment than in previous episodes. Among other reasons, this was because inflationary risks are perceived to be greater in this group of countries. As a result, the emerging markets behaved this time in a similar way to other developed international markets: stock markets posted losses (exceeding those in the developed economies in some countries) and sovereign spreads in all regions widened. Oil prices continued on a rising trend in a setting of high volatility, standing at around $145 per barrel in the opening weeks of July, although in recent weeks there has been a notable correction. The dollar depreciated against the euro from early May to mid-July, and the all-time high of $1.6 per euro attained in late April was almost restored. However, it is not clear that there is causality between the developments in the dollar and oil prices (see Box 1). As regards other commodities, food prices continued to rise at a similar rate to that in Q1, while that of industrial metals dipped owing to the increase in stocks of certain minerals.

In the United States, the final GDP estimate for 2008 Q1 confirmed an annualised quarterly growth rate of 1%. Although the impact of the fiscal impulse meant that consumption improved somewhat towards the end of the quarter, pointing to a rise in growth in Q2, the remaining indicators for this period suggest an underlying weakening in activity. The consumer confidence indices fell sharply, the housing market indicators continued to evidence a deep adjustment in the residential sector (housing starts, construction permits and house sales all fell year-on-year in Q2) and confidence in the construction industry in July fell to a new low. While the manufacturing ISM index rose above the expansion threshold during Q2, industrial production fell and the non-manufacturing ISM index stood at levels associated with a contraction in activity. The labour market weakened further with a rise in the unemployment rate to 5.3% and net destruction of 191,000 jobs during the quarter. CPI inflation increased once again in Q2 to 5% year-on-year in June – 1 pp up on March – as a result of the rise in energy and food prices, while core inflation posted a year-on-year rate of 2.4% in June, unchanged on March. Against this backdrop, the Federal Reserve has held its official interest rate stable at 2% since May.

The doubling of oil prices since the start of the financial turmoil (July 2007) has placed this commodity at its all-time high in nominal and real terms, far exceeding the levels reached in the early 80s. This sustained increase in oil prices, which marks a step-up in the upward trend seen since 2003, happens to have come about at a time when the world economy – especially the industrialised economies – is undergoing a phase of strong deceleration, brought on precisely by the financial turmoil. This apparent dislocation between the course of the world economy and oil prices has prompted the search for possible factors other than supply and demand fundamentals so as to explain oil price developments.

One of the hypotheses put forward is that the weakness of the dollar might explain, at least in the main, the recent increase in the price of oil, which is quoted in this currency on international markets. Indeed, since 2002 and, in particular, early 2007, there has been a sustained depreciation of the dollar, coinciding with the increase in oil prices (see panel 1). The correlation between the increases in both variables is at a peak for the last 10 years (see panel 2), although it is not too different from that observed the previous year at the start of the turmoil on financial markets.

The first channel through which the weakness of the dollar might be reflected in an increase in oil prices is the so-called "numeraire effect": if the actual price of oil is determined in equilibrium by fundamentals and there is a reduction in the value of the US currency, then the oil price in dollars should increase by the same proportion as that by which the dollar depreciates. However, the numeraire effect would only explain part of the increase in the oil price, since this is not consistent with the fact that the price has also increased in other currencies, such as in euro, for example (see panel 1).

To justify the price increases in other currencies, two alternative hypotheses point to effects other than that of the numeraire. Firstly, a depreciation of the dollar might detract from the attractiveness of financial assets denominated in this currency and channel financial investment flows towards the oil market, which would raise its price. Yet the role of financial flows in the recent increase in oil prices is debatable, given the lack of evidence of an increase in crude oil stocks.

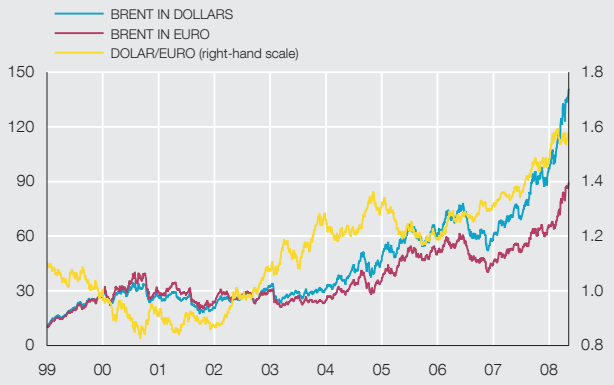
The second hypothesis complementing the numeraire effect argues that the depreciation of the dollar might lead to a relaxation of the monetary policies of countries with fixed exchange rates against the dollar, which would stimulate aggregate demand and, in turn, the global demand for oil. Thus considered, this hypothesis would not indicate causality between the exchange rate of the dollar and the oil price, but between exchange-rate regimes pegged to the dollar and the oil price, since what would lead to the expansion of aggregate demand (and oil demand) in these countries is the monetary impulse in the United States.

In this respect, it seems more likely that the recent increase in the correlation between the depreciation of the dollar and the rise in oil prices is determined by a common factor: monetary policy developments in the United States. Concerning the dollar, a lax monetary policy in the United States tends to depreciate the exchange rate of the dollar against other currencies. Further, as previously indicated, a lax monetary policy in the United States will be reflected in an aggregate demand (and oil demand) impulse in those economies whose exchange rate against the dollar is characterised by scant flexibility.[1] It is worth noting that it is precisely the regions with a greater proportion of countries with stable exchange rates against the dollar (emerging Asia and the Middle East) that have most driven the increase in the world demand for oil in recent years.

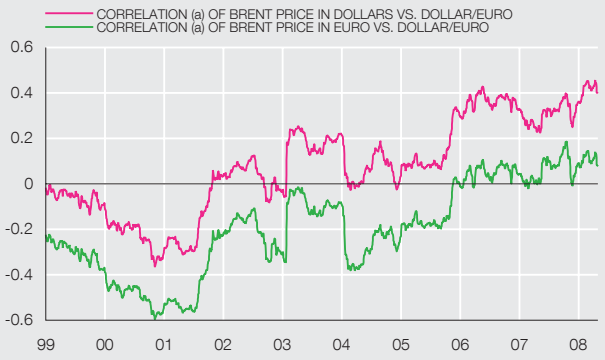
Accordingly, the correlation between the exchange rate of the dollar and oil prices should not be understood as a causality relationship but, rather, as the reflection of changes in a third variable – the relaxing of monetary policy in the United States – that exerts some influence on developments in the first two variables.

1. See also Jeffrey Frankel, *The Effect of Monetary Policy on Real Commodity Prices*, NEBR Working Paper 12713, 2006. This paper suggests alternative reasons for why a reduction in interest rates may boost commodity prices. The empirical analysis reveals a negative and significant relationship between real commodity prices and real interest rates for the period from 1950 to 2005.

1 OIL PRICE AND DOLLAR/EURO EXCHANGE RATE



2 CORRELATION OF OIL PRICE TO DOLLAR/EURO EXCHANGE RATE

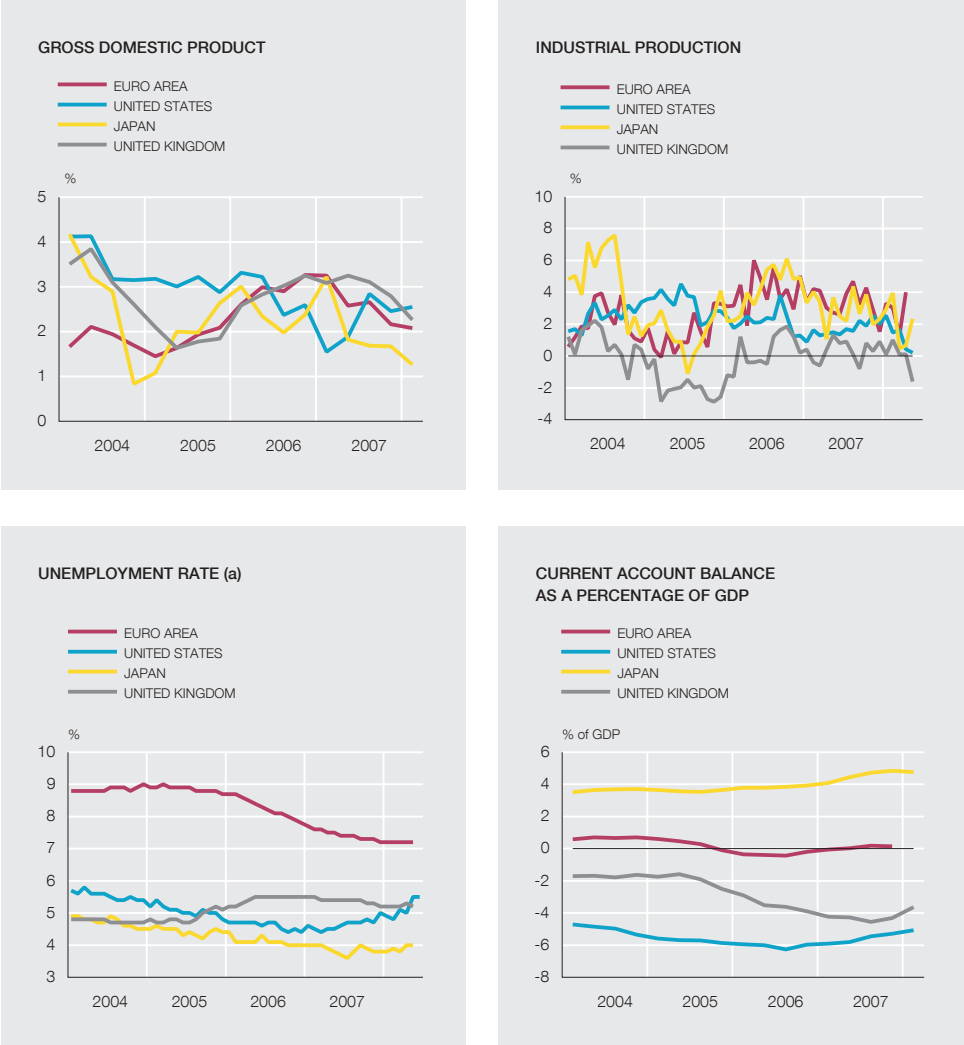


SOURCE: Datastream.

a. Annual correlations of weekly growth rates. One-year moving window.

MAIN MACROECONOMIC INDICATORS
Year-on-year rate of change

CHART 5

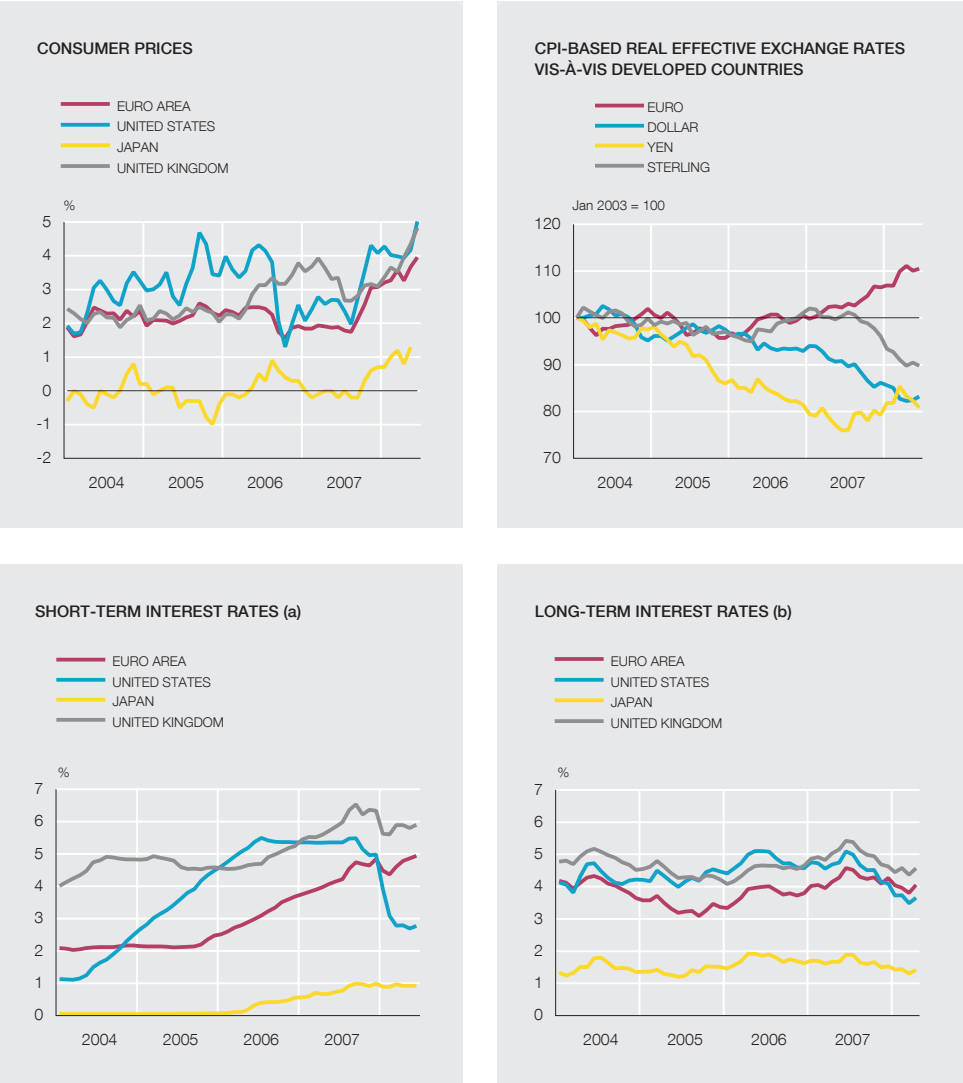


SOURCES: Banco de España, national statistics and Eurostat.

a. Percentage of labour force.

In Japan, GDP in 2008 Q1 grew by 4% in annualised quarterly terms, up on the figure of 2.9% for the preceding quarter. However, the latest indicators point to a notable slowdown in activity in the short run. The growth rate of industrial production dipped in April and May compared with the same two-month period a year earlier, and the Tankan business confidence survey showed a negative trend, the result of the deterioration in the terms of trade. The construction sector offered mixed signals, and the current slackness of demand appears to be holding back its recovery. The private consumption indicators available for Q2 trended unfavourably, with household spending and consumer confidence both declining further to the loss of purchasing power and the weakness of the labour market. The unemployment rate edged up in April, and held in May at 4%, while the slowdown in nominal wages continued. On the external front, the trade balance figures for Q2 evidenced a strong cut in the surplus compared with a year earlier. Inflation continued to rise, posting a year-on-year rate of 2% in June as a result of the rise in energy and fresh food prices. Stripping out these two components, the price index grew at a year-on-year rate of 0.1%. Over the course of the quarter the Bank of Japan held its official interest rate at 0.5%.

PRICES, REAL EXCHANGE RATE AND INTEREST RATES CHART 6



SOURCE: Banco de España.

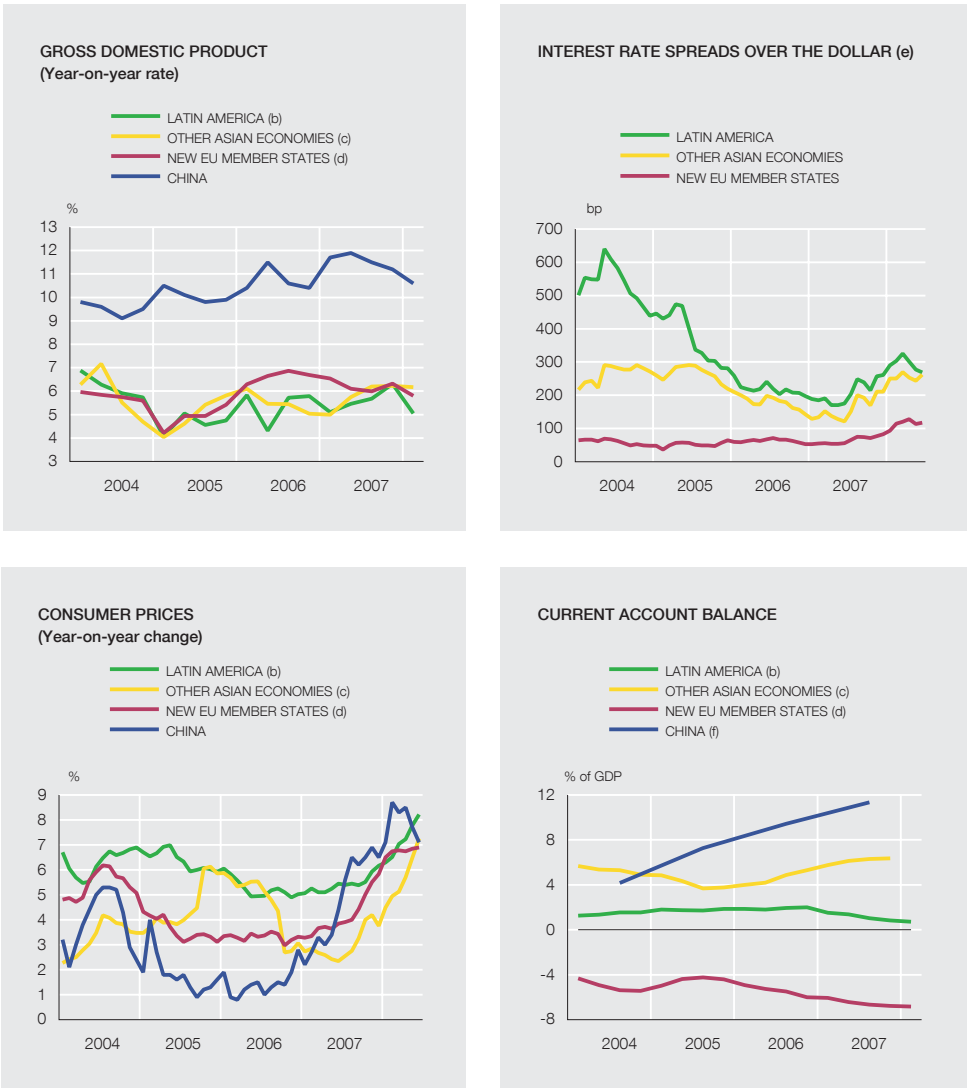
a. Three-month interbank market interest rates.
b. Ten-year government debt yields.

In the United Kingdom, GDP grew at an annualised quarterly rate of 1.1% in Q1 (2.3% year-on-year), 1.1 pp down on the previous quarter. Nonetheless, the indicators for Q2 denote a deterioration in activity – as reflected in an initial GDP growth estimate for Q2 that is 0.3 pp below (annualised quarterly) growth in Q1 – against a background of worsening inflation. On the supply side, the PMI indices for the manufacturing and services sectors fell to levels associated with a contraction in activity, while the tightening of credit conditions for households and firms continued. House prices posted a year-on-year decline for the first time since 1996 (3.9% in Q2), while the 12-month inflation rate stood at 3.8% in June, 1.3 pp more than in March. Although the Bank of England forecasts that inflation will be around 4% at the end of the year (2 pp above target), it decided to hold its official interest rate at 5% throughout the quarter. As regards financial measures, in late April the Bank of England instituted its Special Liquidity Scheme, an arrangement under which banks can swap assets for government bonds in order to alleviate liquidity problems on the financial markets.

GDP in the new EU Member States not belonging to the euro area slowed by 0.6 pp in Q1 to a year-on-year rate of 5.8%. There was a greater-than-expected expansion in Bulgaria

EMERGING ECONOMIES:
MAIN MACROECONOMIC INDICATORS (a)

CHART 7



SOURCES: National statistics and JP Morgan.

a. The aggregate of the different areas has been calculated using the weight of the countries that make up these areas in the world economy, drawing on World Bank information.
b. Argentina, Brazil, Chile, Mexico, Colombia, Venezuela and Peru.
c. Malaysia, Korea, Indonesia, Thailand, Hong Kong, Singapore, Philippines and Taiwan.
d. Poland, Hungary, Czech Republic, Slovak Republic, Estonia, Latvia, Lithuania, Cyprus, Malta, Bulgary 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.

and Romania, while economic activity underwent a strong adjustment in the Baltic states owing to the deceleration in domestic demand against a background of slowing credit. The indicators of industrial production and retail sales for Q2 offered signs of sluggishness in consumer demand and of diminished dynamism in activity. Inflation rose during the quarter and posted a rate of 6.9% for the region as a whole in June, standing at over 11% in the Baltic states and in Bulgaria. Greater inflationary pressures drove the tightening of the monetary policy stance in Poland, Hungary and Romania. In the institutional sphere, the ECOFIN formally approved on 8 July the adoption of the euro by Slovakia, scheduled for 1 January 2009, with a conversion rate equal to its current central parity against the euro.

In China, GDP grew by 10.1% in 2008 Q2, down from 10.6% in Q1. The monthly indicators continued to show signs of holding up, especially as regards retail sales, although industrial production remained somewhat tempered in relation to its trend in 2007. On the external front, the trade surplus in Q2 was 11.8% down in relation to the previous year, despite which international reserves continued to grow strongly, by $127 billion in Q2 to $1.81 trillion in June. Inflation eased during the quarter (though remaining at high levels in relation to 2007), standing at a year-on-year rate of 7.1% in June, 1.2 pp less than in March. Against this background, the authorities raised the bank reserve requirement on two occasions during the quarter, from 16% to 17.5%. In the rest of Asia, growth in most economies was similar or higher than that of the previous quarter, although the figures available point to a year-on-year reduction in that of industrial production in Q2. Inflation rose in all countries in the region; in some, such as India and Malaysia, it did so notably, against a backdrop of upward readjustments to energy prices. In this setting, several countries raised their official interest rates during the quarter, in particular India and Indonesia (each by a total of 75 bp).

In 2008 Q1, GDP growth in Latin America slowed to a year-on-year rate of 5%, down from 6.3% the previous quarter, as a result of domestic demand developments. The slowdown was particularly marked in Mexico, Chile, Venezuela and Colombia, while growth remained relatively robust in Argentina, Brazil and Peru. Some of the slowdown may be attributed to seasonal effects, although the indicators of economic activity suggest an ongoing easing in growth in Q2. The increase in food prices and domestic demand pressures drove inflation across the board during the quarter, taking it to 8.2% in June. As a result, and with the sole exception of Brazil, inflation stands above its explicit targets in those countries where central banks have implemented this type of monetary regime. Given this situation, all the central banks continued to tighten their monetary policies. During the quarter Chile, Peru and Colombia registered downward exchange rate movements, in notable contrast to the appreciating trend their currencies had previously shown. Lastly, several rating agencies upgraded sovereign debt in Uruguay, Colombia, Brazil and Peru (to investment grade in the latter two countries).

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

The latest data on developments in the euro area economy suggest a notable reduction in GDP growth in 2008 Q2. The slowdown in activity will, in part, likely offset a number of factors that unusually drove growth in Q1, but beyond the volatility in the quarterly figures, it reflects the combined action of the unfavourable elements that have been building up over the past year. These include most notably the rise in oil and food prices, the progressive loss of momentum of world growth, the appreciation of the euro, the deterioration in consumer and business confidence, and more restrictive financing conditions due to the prolonged period of financial instability dating back to August last year, which has shrouded the global economic outlook in considerable uncertainty. Medium-term forecasts point to the continued slowing of GDP growth in the euro area and place it at year-end levels clearly below potential, with the consequent negative impact on growth in 2009. Most recent forecasts also invoke this central scenario.

Euro area inflation has continued on the rising trend that started in autumn 2007 as a result of the growing contribution of the energy component, stemming from the surge in oil prices, while the contribution of the food component remains significant. The price aggregate excluding both these groups of goods is fairly stable on account of the opposing forces exerted, on one hand, by the indirect effects of the oil price rise on other items – mainly certain services – and, on the other, by worsening growth prospects. Labour costs quickened in 2008 Q1, although their impact on price formation in the economy is being partly countered by stable profit margins. Against this background, the rate of inflation will foreseeably ease as the growth rate of oil prices moderates, as anticipated by the futures markets, although it will remain above 2% for many months to come. The risks to this scenario are on the upside, however, owing to the possibility that an oil price rise may exceed – once again – current forecasts and that price and wage-setting mechanisms may lead to widespread second-round effects if inflation expectations were to deteriorate further.

Against this backdrop, the Governing Council of the ECB decided at its meeting at the beginning of July to raise its intervention rate by 25 bp in order to pre-empt widespread second-round effects and to counter the increasing upside risks to medium-term price stability. With regard to fiscal policy, and in line with the European Commission's spring forecasts, the continued improvement in public finances observed over the past four years in the euro area will be interrupted, since the economic slowdown and the implementation of a number of discretional measures (which will lead to a fall in revenues) will increase the euro area fiscal deficit by an estimated 0.4 pp to 1%. Further, the high degree of uncertainty surrounding the economic outlook may entail difficulties for those countries that have little room for manoeuvre to keep their budget deficits below the ceiling of 3% of GDP.

3.1 Economic developments

On the second National Accounts estimate, euro area GDP in 2008 Q1 was more dynamic than expected and grew by 0.7%, 0.3 pp more than in the preceding quarter (see Chart 8). This acceleration was in response, first, to favourable developments in domestic demand (excluding inventories), whose contribution to output growth rose by 0.3 pp to 0.5 pp; and further, to stockbuilding, which contributed 0.2 pp to GDP growth (having subtracted 0.1 pp in the previous quarter). Nevertheless, the quickening in domestic demand was largely determined by the influence of exceptional factors, namely the good weather, which boosted construction investment, and some fiscal measures, which helped investment in equipment to maintain a robust rate of growth (particularly in Germany). However, private consumption re-

EURO AREA ECONOMIC INDICATORS (a) TABLE 1

	2006	2007				2008		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2 (a)	Q3 (b)
GDP								
Year-on-year growth	3.3	3.2	2.6	2.7	2.2	2.1		
Quarter-on-quarter growth	0.8	0.8	0.3	0.6	0.4	0.7		
IPI (c)	4.1	3.9	2.8	4.0	2.9	2.5	*1.7*	
Economic sentiment	109.3	109.4	111.0	108.7	104.3	100.5	96.5	
Industrial confidence	5.7	5.3	6.3	4.3	2.3	0.3	-3.0	
Manufacturing PMI	56.7	55.5	55.3	54.2	52.3	52.4	50.2	
Services confidence	19.7	20.7	22.0	20.0	15.0	10.7	8.0	
Services PMI	57.1	57.6	57.5	56.9	54.4	51.5	50.6	
Unemployment rate	7.9	7.6	7.5	7.4	7.3	7.2	*7.2*	
Consumer confidence	-7.0	-5.7	-2.7	-4.0	-7.7	-12.0	-14.7	
HICP (annual growth) (d)	1.9	1.9	1.9	2.1	3.1	3.6	4.0	
PPI (annual growth) (d)	4.1	2.8	2.3	2.7	4.4	5.8	*7.1*	
Oil price in USD (d)	62.8	62.3	71.8	78.2	91.2	104.3	132.0	*137.1*
Loans to the private sector (annual growth) (d)	10.8	10.5	10.8	11.0	11.2	10.8	10.4	
Euro area ten-year bond yield	3.9	4.1	4.4	4.5	4.3	4.1	4.5	*4.7*
US-euro area ten-year bond spread	0.82	0.67	0.47	0.32	-0.03	-0.46	-0.60	*-0.79*
Dollar/euro exchange rate (d)	1.317	1.332	1.351	1.418	1.472	1.581	1.576	*1.586*
Appreciation/ depreciation of the EER-22 (d)	4.5	0.9	1.5	3.7	6.3	3.6	3.4	*3.4*
Dow Jones EURO STOXX 50index (d)	15.1	1.5	9.0	6.4	6.8	-17.5	-23.8	*-24.2*

SOURCES: Eurostat, ECB and Banco de España.

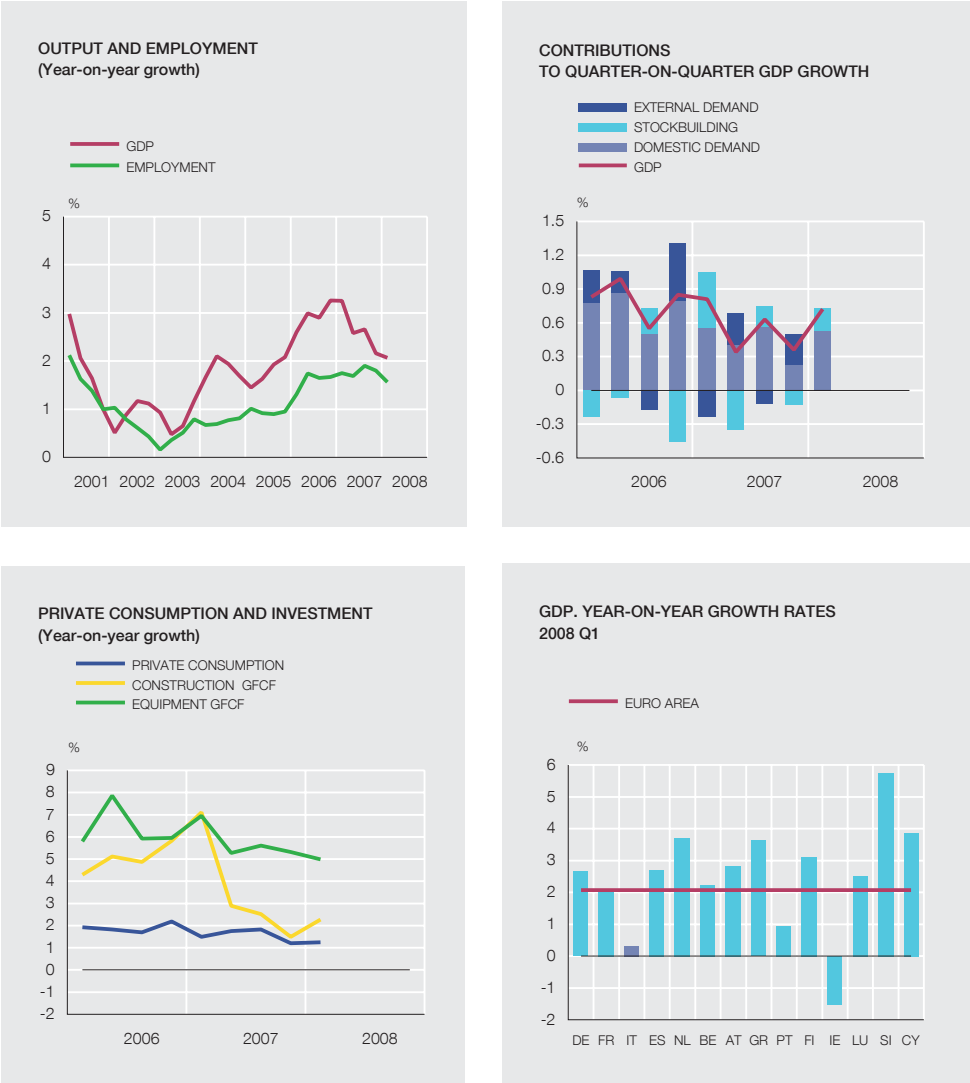
a. Quarterly average. The information in italics does not cover a full quarter.
b. Information available to 21 July 2008.
c. Year-on-year growth rates of working days-adjusted data.
d. End-period data. Figures for exchange rates and the stock market are percentage changes over the year.

mained sluggish, although it did accelerate. The contribution of the external sector to growth declined by 0.3 pp on account of a stronger rebound in imports than in exports. On an annual basis, euro area GDP grew by a rate of 2.1% in Q1, 0.1 pp less than in the last quarter of 2007. The breakdown of value added at the sectoral level shows a widespread increase in quarter-on-quarter growth for 2008 Q1, which was particularly sharp in construction.

The greater economic dynamism in the euro area was largely the result of strong growth in the German economy, which posted a quarter-on-quarter growth rate of 1.5%, up 1.2 pp on the previous quarter. Nonetheless, there were notable differences across countries. In Germany, the upturn applied to all components, although the good performance of investment and the sizeable positive contribution of changes in inventories were particularly notable. The upturn in Italy was also significant, with GDP growing by 0.5% – driven mainly by the positive contribution of net external demand – after falling 0.4% in the last quarter of 2007. In France, the growth rate of output rose slightly (by 0.1 pp, to 0.5%) as a result of the build-up in stocks, which – having shaved 0.6 pp off growth in the previous quarter – offset the slowdown in the other domestic demand components and in net exports. However, in Spain and the Netherlands, the economy weakened notably, with growth falling by 0.5 pp to 0.3% and by 1.1 pp to 0.4%, respectively.

In 2008 Q1, employment recorded quarter-on-quarter growth of 0.3%, unchanged from the second half of 2007. On an annual basis, however, it slowed further, falling off 0.3 pp to 1.5%. This development, together with the continued economic dynamism in the euro area during the opening months of 2008, gave rise to a small increase in the growth rate of labour produc-

EURO AREA NATIONAL ACCOUNTS CHART 8



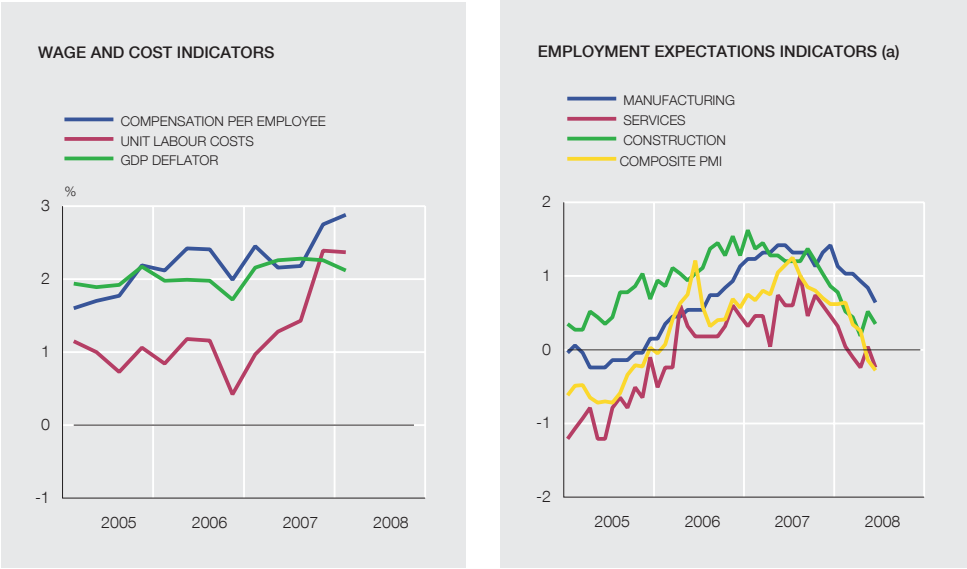
SOURCES: Eurostat and national statistics.

tivity to 0.5%. The acceleration in productivity partly offset the increase in the growth of compensation per employee, which rose to 2.9% (compared with 2.7% in 2007 Q4), leaving the growth rate of unit labour costs steady at 2.4% (see Chart 9). Furthermore, the performance of margins helped cushion the increase in labour costs, growth in which was virtually nil for the second consecutive quarter.

The conjunctural data available for 2008 Q2 reflect significantly slower euro area growth. This stems partly from the offsetting effect of a number of exceptional factors that drove activity in Q1 more than expected, but also points to a loss of dynamism in the economy (see Chart 10). Thus, on the supply side, the industrial production index fell sharply in May, placing the April-May average below that of the previous quarter and taking the annual rate of change into negative territory (-0.6%) for the first time in three years. Similarly, the qualitative indicators worsened over the entire quarter. According to the European Commission's sentiment surveys, in Q2 confidence fell both in the manufacturing sector and in services and construction. A similar pattern was revealed by the indices compiled using the purchasing managers' surveys (PMI), which, moreover, fell below 50 points in June and thereby seem to point to a decline in economic activity in both sectors at the end of the quarter. Additionally, the indicators

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

CHART 9



SOURCES: Eurostat and ECB.

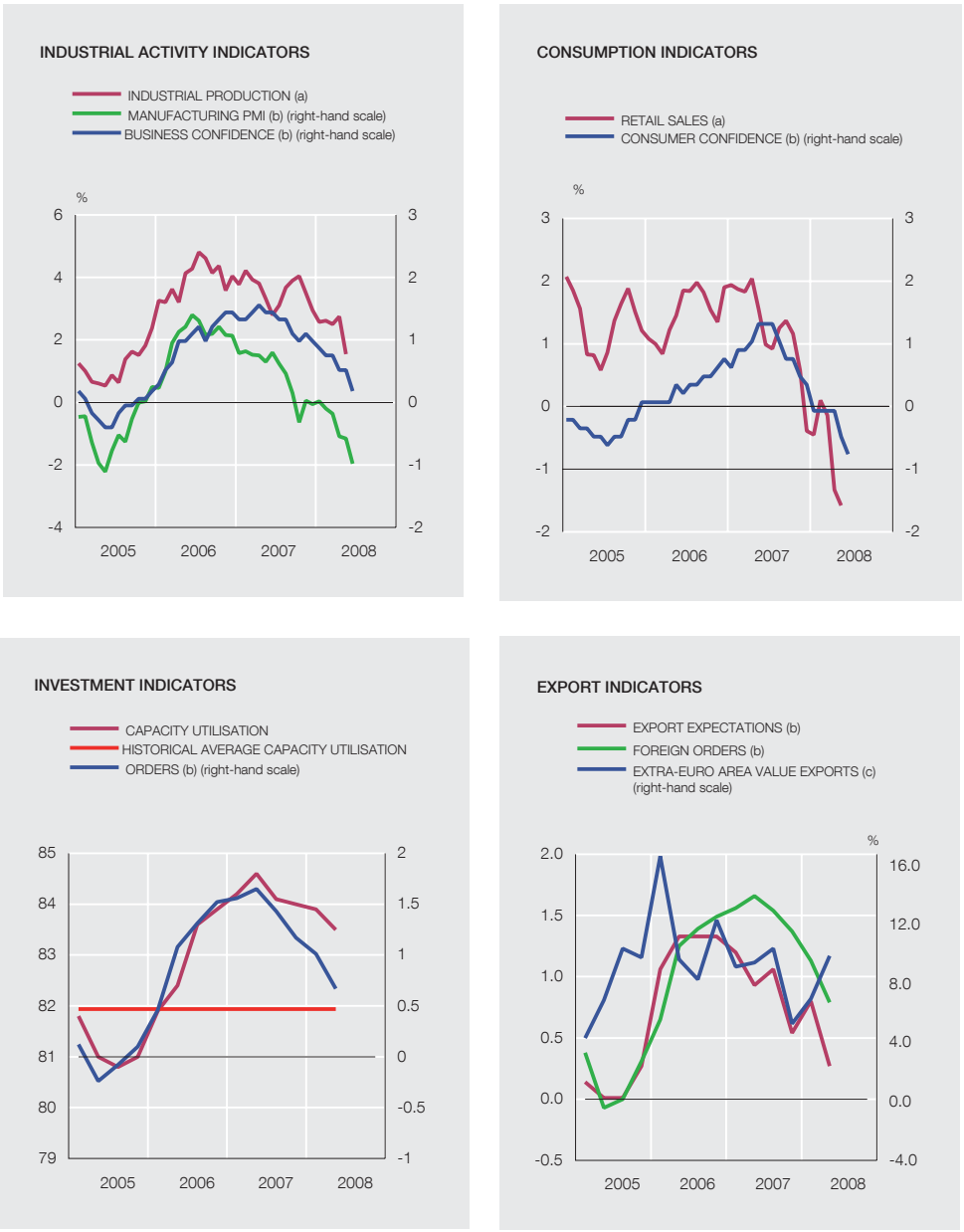
a. Expectations based on European Commission sentiment indicators and Reuters PMI survey. Normalised data.

of job creation expectations continued to slow, while the unemployment rate held steady at 7.2%.

On the demand side, available indicators also portrayed a clearly weakening scenario, particularly regarding consumption, which may be reflecting the adverse impact of steep price rises. More specifically, although they were subject to some volatility, retail sales and new car registrations were lower in Q2 (in the case of sales, the data are only to May). Confidence fell over the second quarter both in the retail trade sector and among consumers – whose willingness to purchase durable consumer goods dropped sharply – against a background of continued tightening of financing conditions and of heightened uncertainty over economic prospects. As regards investment, both the assessment of order books and the level of capacity utilisation continued to trend downwards. Nevertheless, capacity utilisation remains higher than its long-term average, which may explain why, according to the European Commission's half-yearly industrial investment survey, firms are maintaining their capital expenditure for 2008 at levels similar to those of the past two years. Lastly, on the external demand front, nominal exports – despite performing soundly in April – fell subsequently in May. Along with the unfavourable course of export expectations and the assessment of export order books, this augurs an easing off of sales to the rest of the world in Q2.

In short, the available economic data reflect the overall effect of various adverse shocks on recent trends in euro area economic activity and, more especially, on prospects. These shocks include rising oil prices, the slowdown in the global economy, diminished wealth (financial and non-financial alike), the tightening of financing conditions and the impact of inflationary shocks and financial tensions on agents' confidence. Thus, euro area GDP will foreseeably continue to grow moderately in the second half of 2008, although the degree of uncertainty is very high and there are many doubts as to the depth and duration of the slowdown. Additionally, in the medium term, this scenario is subject to downside risks, including a potential further increase in energy prices and the possibility that the financial turmoil may

EURO AREA. REAL INDICATORS CHART 10



SOURCES: Eurostat and European Commission.

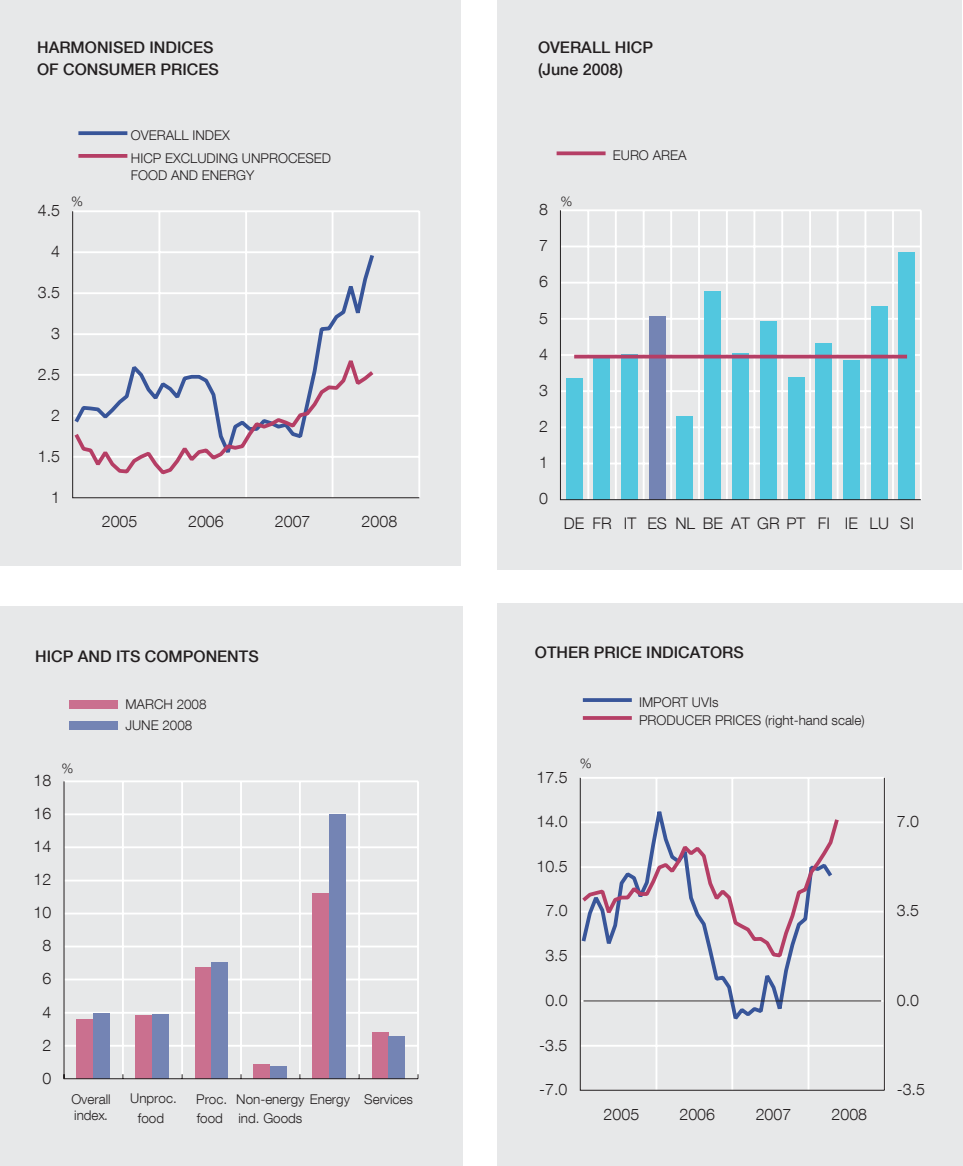
a. Non-centred annual percentage changes, based on the quarterly moving average of the seasonally adjusted series.
b. Normalised data.
c. Year-on-year rates of the original series. Quarterly average.

have a greater impact than expected on the real economy, especially if its effects spread to the emerging economies.

Euro area inflation has continued on an upward path in the last few months, owing mainly to energy price developments (see Chart 11). Year-on-year growth in the euro area HICP rose to 4% in June, more than one-third of which is attributable to the energy component (up 16% year-on-year), although the contribution from the processed food component is also very high. At the same time, the prices of unprocessed foods accelerated slightly. Services prices, having picked up in March owing to the impact of the Easter holidays, which last year fell in April, have returned to their average level for 2007 (2.5%), while the non-energy industrial goods compo-

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

CHART 11



SOURCES: Eurostat and ECB.

nent is still growing at a very moderate rate. As a result, core inflation – measured by the year-on-year rate of change of the CPI excluding unprocessed food and energy – stood at 2.5% in June, 0.2 pp less than in March.

The accelerating profile of producer prices has intensified in recent months, reaching a year-on-year rate of 7.1% in May, almost 3 pp above the end-2007 rate. Once again, the surge in energy prices is mainly responsible for the sharp acceleration in producer prices, although the rate of growth of capital goods prices has also been on an upward trend since the beginning of 2008.

In the short and medium term, and based on how the prices of commodity futures perform, inflation will foreseeably stand above 2% for a longer period of time than expected a few months ago, in line with the latest forecasts and with indicators of short-term inflation expectations. Only with a moderation in oil price growth rates, as currently implied by futures markets, will inflation start gradually to ease. Nevertheless, the upside risks to this outlook are high, on

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

% of GDP

	BUDGET BALANCES (a)					
	2006	2007 (b)	2007 (c)	2008 (b)	2008 (c)	2009 (c)
Belgium	0.3	-0.2	-0.2	-0.4	-0.4	-0.6
Germany	-1.6	0.0	0.0	-0.5	-0.5	-0.2
Greece	-2.6	-2.7	-2.8	-1.6	-2.0	-2.0
Spain	1.8	1.8	2.2	1.2	0.6	0.0
France	-2.4	-2.4	-2.7	-2.3	-2.9	-3.0
Ireland	3.0	0.5	0.3	-0.9	-1.4	-1.7
Italy	-3.4	-2.4	-1.9	-2.2	-2.3	-2.4
Luxembourg	1.3	1.0	2.9	0.8	2.4	2.3
Netherlands	0.5	-0.2	0.4	0.5	1.4	1.8
Austria	-1.5	-0.7	-0.5	-0.6	-0.7	-0.6
Portugal	-3.9	-3.0	-2.6	-2.4	-2.2	-2.6
Slovenia	-1.2	-0.6	-0.1	-0.9	-0.6	-0.6
Finland	4.1	4.5	5.3	3.7	4.9	4.6
Malta	-2.6	-1.6	-1.8	-1.2	-1.6	-1.0
Cyprus	-1.2	1.5	3.3	0.5	1.7	1.8
MEMORANDUM ITEMS: Euro area (including Malta and Cyprus)						
Primary balance	1.6	2.2	2.3	2.1	1.9	1.8
Total balance	-1.3	-0.8	-0.6	-0.9	-1.0	-1.1
Public debt	68.5	66.6	66.4	64.8	65.2	64.3

SOURCES:European Commission, national stability programmes and Banco de España.

a. As a percentage of GDP. Deficit (-) / surplus (+). The deficits that exceed 3% of GDP have been shaded.
b. Objectives of the Stability Programmes submitted between late 2007 and early 2008.
c. European Commission forecasts (spring 2008).

account of the possibility that there will be further oil and food price rises and that price and wage-setting mechanisms will give rise to second-round effects if inflation expectations worsen further. These risks are only partly mitigated by diminished demand pressure, in a context of slower economic growth.

According to the information published by the ECB, the current account balance for the euro area posted a deficit of €25 billion (0.8% of GDP) between January and April 2008, in contrast to the surplus of €1.5 billion recorded for the same period last year. With the exception of the services balance, where the surplus increased slightly, the remaining balances contributed to this sharp deterioration in the euro area balance of payments during the opening months of the year. In particular, the surplus on trade in goods shrank significantly (as a result of the worsening in the terms of trade) and the income balance recorded a deficit after the surplus a year earlier. The current transfers balance went further into deficit. Meanwhile, with regard to the financial account, the period between January and April saw a large net outflow of capital in the form of direct investment amounting to €90.5 billion, far exceeding the figure recorded in the same period last year. At the same time, net capital inflows in the form of portfolio investment totalled €69.1 billion, less than half the amount one year before. Thus, in the first four months of 2008 the basic balance, which aggregates the current account balance and these two types of investment, showed a deficit of €46.4 billion, marking a sharp fall from the surplus of €132.6 billion as at April 2007 (see Chart 14).

According to the European Commission's spring forecasts, the budget deficit of the euro area as a whole decreased in 2007, for the fourth year running, to 0.6% of GDP (see Table 2). The

Since mid-2007, surging energy and agricultural commodity prices have prompted sharp rises in the rate of inflation. In particular, as the main body of the chapter describes, the HICP grew 4% year-on-year in June and the change in the CPI excluding energy and unprocessed food was 2.5%. The HICP is the single most important indicator of euro area inflation, given that it is the target variable for the Eurosystem's monetary policy. Published monthly, it measures developments in a representative basket of final consumer prices. However, a comprehensive assessment of inflationary developments requires an in-depth analysis of price and cost formation in the production process. The main source of information for this lies in the national accounts, is available only quarterly and is published with some lag to the reference period. For this reason, monthly price development indicators drawn from surveys provide information that helps make up this shortfall, albeit only partially.

In the monthly surveys – primarily the European Commission's harmonised surveys and the purchasing managers' surveys conducted by Reuters[1] (known as PMIs) – there are a number of questions on various relevant price variables. Some of these qualitative indicators refer to input and sales prices and provide useful information on developments in prices, costs and margins.

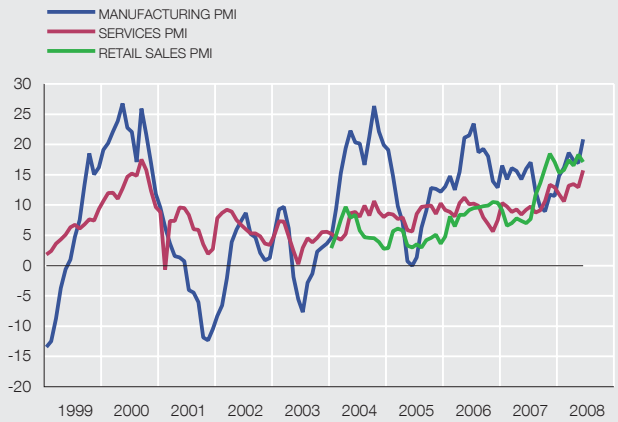
The questions in the Reuters surveys enquire about the prices of inputs in the manufacturing, services and retail trade sectors.[2] However, the underlying definition for these purchases varies considerably across sectors. For example, while the manufacturing survey does not include wages, the services survey does. The question addressed to retailers relates exclusively to purchases of goods for resale. In the questionnaires, employers are asked to compare the average price of their purchases with the situation one month previously. As can be seen in panel 1, all three sectors under review have posted increases in input prices since mid-2007, although in the case of the retail trade sector the increase is larger.

The surveys conducted by Reuters also gather data on sale prices developments in the manufacturing and services sectors relative to

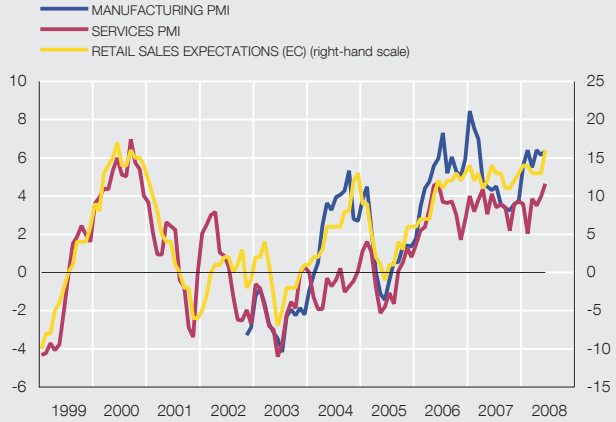
1. See European Commission (2003), "The Joint Harmonised EU Programme of Business and Consumer Surveys. User Guide" and the webpage of NTC Economics (http://www.nteconomics.com/default.aspx).

2. The Services PMI covers the transport and communication, financial intermediation, business services, personal services, IT and telecommunications, and hotel and restaurant sectors.

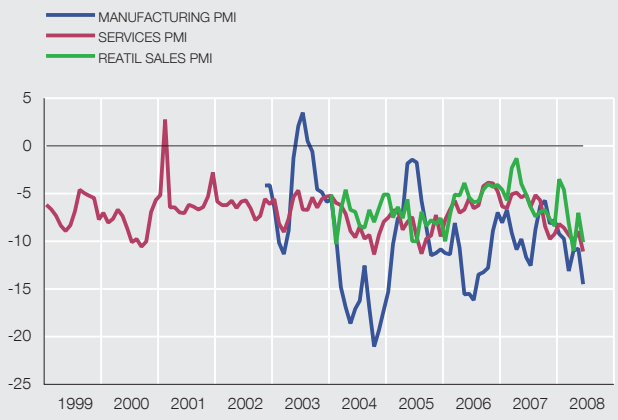
1 INPUT PRICE INDICATORS



2 PRODUCER PRICE INDICATORS



3 MARGINS INDICATORS



4 QUARTERLY MARGINS INDICATORS

SOURCES: European Commission, Reuters and Bloomberg.

the previous month's levels. In addition, the European Commission's harmonised survey of business proprietors asks their opinion on expected developments in their sales prices over the following three-month period (see panel 2). In recent months, all of these indicators have shown increases. However, the variables for industry and manufacturing have picked up significantly since mid-2007, in line with developments in the non-energy industrial price index, whereas in services the upturn has been on a smaller scale and with a greater lag.

With the sales price and input price variables from the Reuters surveys for the manufacturing and services sectors, it is possible to obtain, by difference, indicators that approximate margins in these sectors. The Reuters survey also provides direct measures of developments in margins in the retail trade sector. As panel 3 shows, from the closing months of 2007 to June 2008, when the latest data became available, the indicators pointed to a somewhat declining trend in the three sectors. These developments are consistent with the quantitative information from the euro area table of costs for 2008 Q1 (see panel 4).

In summary, an analysis of these indicators reveals that both sales and inputs prices have picked up significantly in recent months. A comparison of these prices in the industrial and services sector and developments in the indicator of margins in the retail trade sector suggest that increases in costs to firms have not been passed through fully to customers, indicating a squeeze on margins.

structural deficit, i.e. the budget balance net of cyclical factors and temporary measures, fell 0.5 pp in 2007 to 0.7% of GDP. Some of the structural improvement, however, stems from the substantial extraordinary revenues collected over recent years, which will foreseeably diminish significantly in 2008. These unexpected revenues (though to some extent temporary in nature, they are part of the structural balance) have mostly been used by governments to finance public spending rather than to improve fiscal positions, which leaves less room for manoeuvre in the current phase of slowing growth.

For 2008 the Commission forecasts a worsening of the euro area budget balance by 0.4 pp to –1% of GDP. This deterioration is likely to be the result mainly of lower rates of growth in the euro area and a reduction in tax elasticities from the exceptionally high levels previously observed, as well as of certain discretionary measures that will lead to a reduction in tax revenues as a percentage of GDP (some 0.4 pp), far higher than the marginal cut in public spending.

Country by country, the fiscal position in 2008 is expected to worsen in most euro area members, with the exceptions of Greece, the Netherlands, Malta and Portugal. Notwithstanding, on current forecasts no countries will exceed the 3% ceiling in 2008. Accordingly, on 3 June the ECOFIN Council concluded the excessive deficit procedures that had been opened against Italy and Portugal, after they had reduced their government deficits below this limit. However, several countries (in particular Greece, France, Italy and Portugal) have deficits above 2%, which, in a context of high uncertainty over future economic developments, leaves only a narrow margin separating them from the maximum reference value.

3.2 Monetary and financial developments

Throughout Q2, financial developments were determined by increased concern over global inflationary risks and fresh bouts of financial instability following some easing in tensions in April and May.

After a prolonged period during which official interest rates held unchanged, the need to preempt second-round effects and to counter the increasing upside risks to price stability over the medium term led the ECB's Governing Council to increase rates by 25 bp at its meeting in early July. Accordingly, the minimum bid rate on the main refinancing operations of the Eurosystem was raised to 4.25%, and the rates on the deposit facility and the marginal lending facility to 3.25% and 5.25%, respectively (see Chart 12). This decision was taken against a background of high inflation, which is expected to last for a more protracted period than previ-

EURO AREA INTEREST RATES CHART 12

SOURCES:ECB and Banco de España.

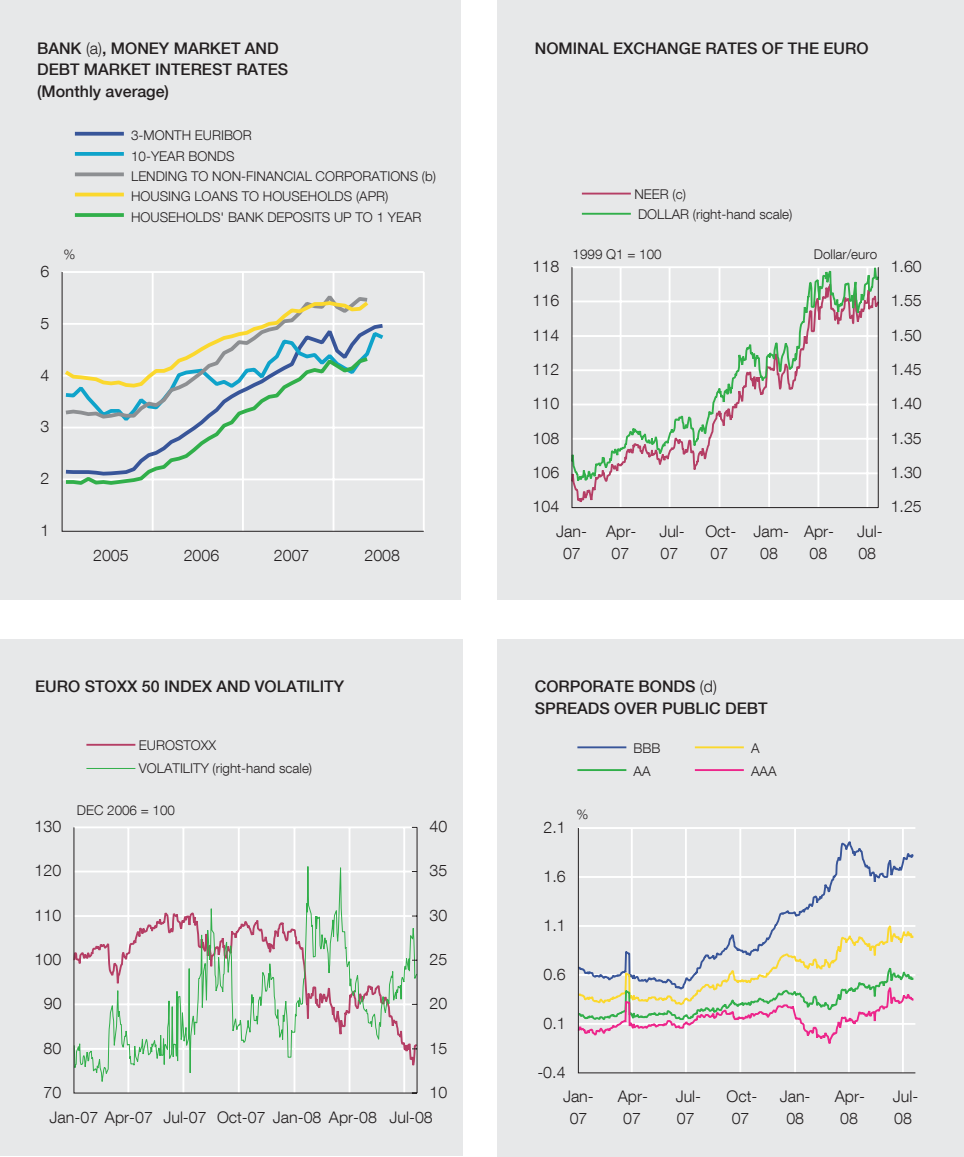
a. Estimated using Euribor data.

ously thought, very dynamic money and credit aggregates, and the absence of significant constraints on banks' credit supply, despite ongoing financial market tensions. At the same time, the ECB reaffirmed its commitment to the objective of medium-term price stability and its determination to keep inflation expectations firmly anchored in line with price stability. Lastly, it expressed its view that the monetary policy stance following the decision to increase interest rates would contribute to achieving its objective.

This last statement tempered expectations of further rate increases, which had been building up since the June meeting of the ECB's Governing Council and had given rise to an increase, commensurate with terms, in interbank market interest rates. Since end-March, the one-month and twelve-month EURIBOR rates have risen by around 10 bp and 70 bp, respectively. On the days immediately after the June meeting they stood at levels around 4.5% and 5.4%, where they have since remained. The tensions in this market, linked to liquidity problems and counterparty risk, have continued. Hence the yield spread between unsecured (EURIBOR) and secured (EUREPO) interbank transactions stood at around 80 bp on 21 July on one-year ma-

EURO AREA INTEREST RATES, EXCHANGE RATE AND STOCK MARKET INDEX

CHART 13



SOURCES: ECB and Banco de España.

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

turity operations. Against this background, the ECB continued exceptionally to inject liquidity through its main refinancing operations, in which volumes above those considered to be neutral continued to be assigned, and through supplementary longer-dated operations and operations in dollars. By pursuing this policy, the ECB was successful in bringing shorter-term interest rates down to levels closer to the rate marking the monetary policy stance.

In government bond markets, yields continued on the upward trend dating back to mid-March. Ten-year bonds posted values above 4.9% in mid-June, although a subsequent slight downward correction left them lower at 4.7% on 21 July. The increase in ten-year government bond yields in the euro area – by some 70 bp over the period – was somewhat more pronounced than that observed in the United States, with the result that the negative spread between ten-year US bonds and euro area bonds has risen to close to 80 bp. In Q2, the spreads between German sovereign bonds and their

Since 2005, the growth rate of loans to non-financial corporations in the euro area has been increasingly robust, rising to 12% year-on-year in 2007 (see panel 1). For much of this period, lending was driven by the firming of economic expansion, favourable financing conditions, the sector's healthy balance sheet position and a high degree of M&A activity.

The financial tensions, in train since mid-2007, have led to a significant adjustment in risk assessment, a sharp contraction in liquidity on international credit markets and, in short, a tightening of financing conditions and a worsening of economic prospects. Nevertheless, flows of funds to euro area non-financial corporations have shown considerable resilience in the period to May at the aggregate level of the sector. Although the empirical evidence points to a late response by credit to the change in economic and financial conditions, the notably robust growth of this variable over the past year has raised the possibility that it may also be influenced by agents' decisions taken as a result of the turmoil.

By type of liability, loans granted by resident institutions (MFIs) have been the most expansive component, with growth rates of over 14% year-on-year since August 2007 (see panel 2). In terms of amounts, new business exceeding €1 million has been the most dynamic segment, potentially reflecting demand by the biggest corporations, given the difficulties in issuing securities. Overdrafts have also quickened notably, growing at a rate of over 15% year-on-year in May, up from 8% in June 2007, with a significant contribution from Germany, France and the Netherlands. Owing to their similarity with the activation of credit lines (except in Spain), the momentum behind overdrafts would be due to the tightening of the conditions of access to new financing and to the greater need to finance working capital in the current economic circumstances.

The breakdown by country shows that the strength of bank loans to euro area non-financial corporations to April is fairly widespread, with the exception of Spain and Ireland, where a significant slowdown from relatively high growth rates is taking place. Despite this widespread strength, Germany and the Netherlands, among the biggest countries in the area, stand out owing to the significant acceleration in this type of financing in recent months (see panel 3).

Fixed-income securities, which account for 10% of the sector's debt, have slowed slightly since the start of the financial tensions (see Chart 4). Long-term securities, which have not expanded much since 2000, stood at a year-on-year rate of increase of 3% in May, down from 7% in July 2007, with a significant contribution from the French market, where almost 45% of the total issued by this sector in the euro area is concentrated. In contrast, short-term securities displayed notable dynamism to February, owing to the momentum of the German market. Their growth has since declined significantly.

These developments have come about against a background of mounting borrowing costs, particularly for companies with a poor credit rating (see panel 5). In the case of loans, the interest rate on new business has increased by 39 bp since June 2007 to 5.5% in May. In loan contracts for less than €1 million, the related increase is 51 bp, to 6%. The breakdown of the latter by country shows sizeable discrepancies: increases of less than 20 bp in Germany and Finland, while in Spain, Slovenia and Portugal these exceeded 70 bp.

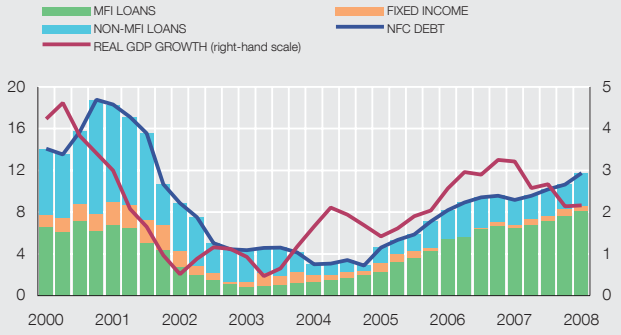
As panel 6 illustrates, the latest Bank Lending Surveys point to markedly more restrictive supply conditions since the onset of the financial turmoil in 2007, although this tightening has been relatively limited in some countries, such as Germany. In contrast, demand has begun to show signs of weakness only in the latest survey, for 2008 Q1, when the momentum of applications for funds to invest in fixed capital diminished significantly. In any event, the component most weakened by the financial tensions has been that relating to mergers and acquisitions, while the difficulties of issuing securities are considered to have prompted greater demand for loans.

In sum, despite the bout of turbulence that began a year ago, financing of euro area non-financial corporations and, in particular, bank loans have continued to grow at relatively high rates. Although part of their momentum may stem from transitory factors relating to the financial tensions, corporations have accommodated loan demand in a setting marked by the sector's sound financial position and by higher interest rates. In any event, as the latest information available on bank loans in May might indicate, and as the empirical evidence shows, the continuation of the financial tensions and, above all, of the deterioration seen in the economic outlook will, combined with dearer financing, ultimately weaken the demand for credit in this sector with some delay.

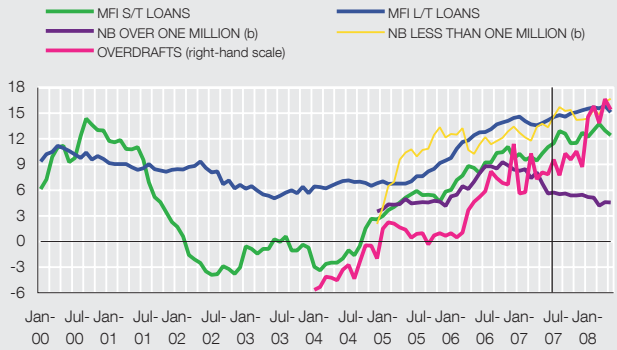
CREDIT TO EURO AREA NON-FINANCIAL CORPORATIONS AFTER THE ONSET OF THE FINANCIAL TENSIONS

(cont'd)

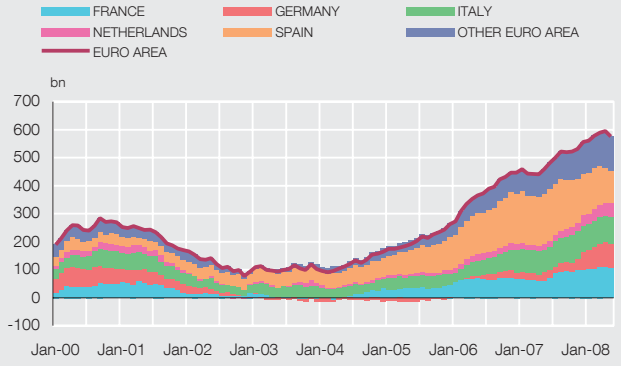
1 CONTRIBUTION TO YEAR-ON-YEAR GROWTH OF DEBT (a)



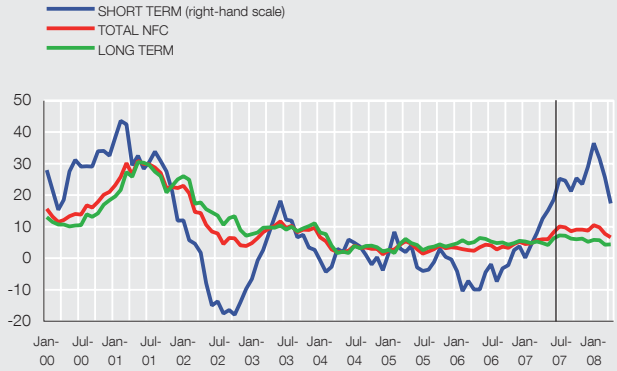
2 RESIDENT MFI LOANS. YEAR-ON-YEAR GROWTH



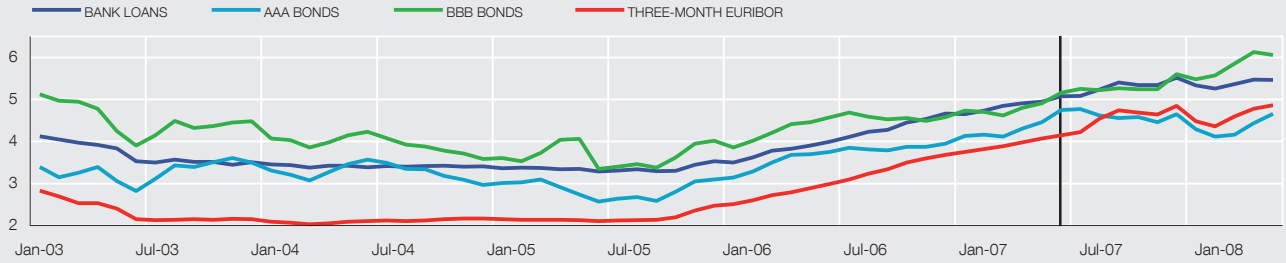
3 RESIDENT MFI LOANS (12-MONTH CUMULATED DATA)



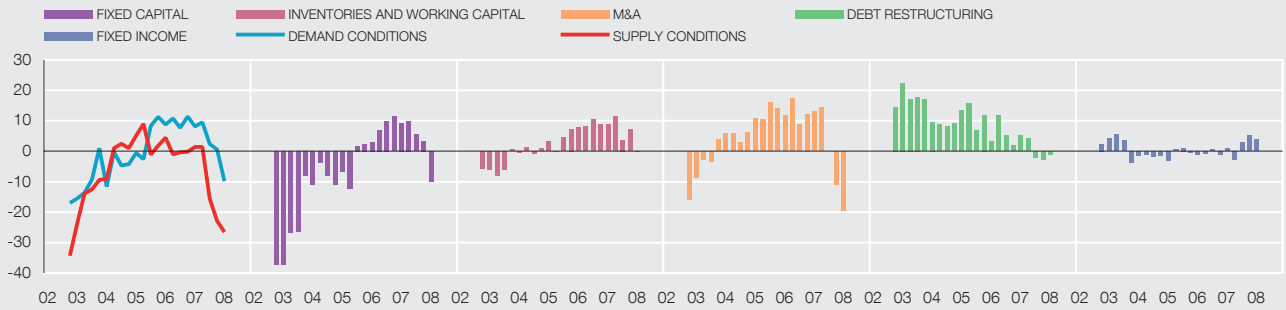
4 FIXED INCOME SECURITIES. YEAR-ON-YEAR GROWTH



5 NOMINAL COST OF FINANCING



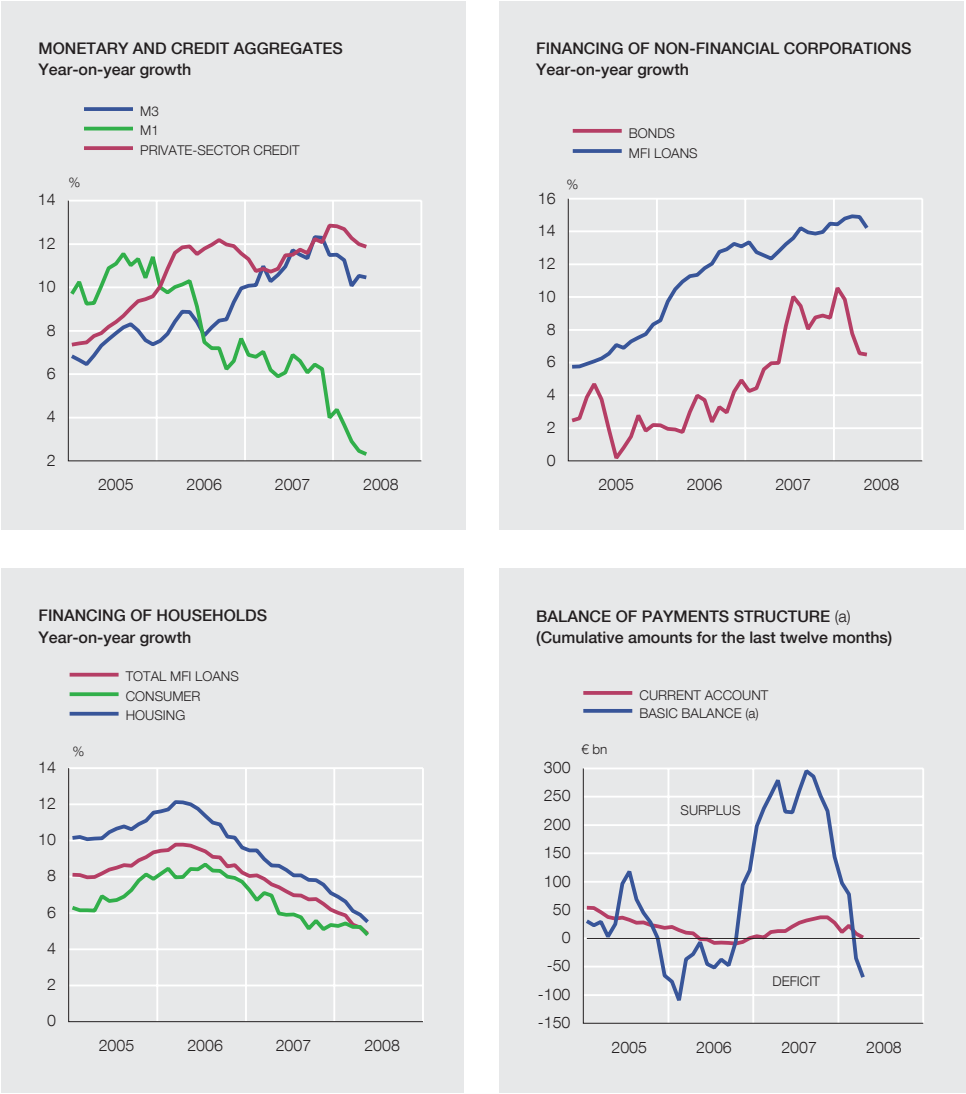
BANK LENDING SURVEY AND DEMAND FACTORS (c)



SOURCES: ECB, Eurostat and Banco de España.

a. Information drawn from the financial accounts to 2007 Q4. Estimate for 2008 Q1.
b. Year-on-year growth of new business (NB) (twelve-month cumulated data); in accordance with interest rate statistics.
c. Indicator = % of institutions indicating a considerable easing × 1 + % of institutions indicating some easing × 1/2 – % of institutions indicating some tightening × 1/2 – % of institutions indicating considerable tightening × 1. The demand factors are: investment in fixed capital, inventories and working capital, mergers and acquisitions (M&A), debt restructuring and fixed-income securities issues. Data to 2008 Q1.

MONETARY AND CREDIT AGGREGATES AND BALANCE OF PAYMENTS CHART 14



SOURCES: ECB and Banco de España.

a. The basic balance is approximated adding the current account balance to direct and portfolio investment.

equivalents in other euro area countries narrowed somewhat after the strong pick-up in previous months. Compared with government bonds, yield spreads on the private fixed-income markets showed a sustained increase. The exception here was bonds of the lowest credit quality, whose yields fell slightly before this movement was reversed at the end of the period (see Chart 13).

The deterioration in growth expectations has been reflected in equity markets, which since May have seen a sharp fall in stock prices and increased volatility. As a result, many of the European indices recorded their lowest levels for the year. By 21 July the EURO STOXX 50 had accumulated a 14% loss since May, and a loss of over 24% for the year. The deterioration is practically across the board, although it has been more acute in the construction, banking and financial sectors. Meanwhile, during Q2 the euro exchange rate fluctuated considerably with no defined path. Since end-March, the euro has appreciated 0.3% against the dollar, while depreciating slightly in nominal effective terms.

A relatively flat yield curve and continued instability in financial markets gave rise to strong growth in the broad monetary aggregates (mainly driven by the dynamism of time deposits),

albeit at rates lower than those recorded at end-2007. Thus, M3 posted a year-on-year increase of 10.5% in May, the same as in the previous month and 1 pp less than the rate recorded in December (see Chart 14). At the same time, growth in the narrow monetary aggregate M1 slowed, falling to a year-on-year change of 2.3% in May as a result of moderation in the growth of cash in circulation and especially overnight deposits.

With regard to counterparties, growth in MFIs' credit to the private sector and its most important component – loans – moderated slightly; nevertheless, rates remain high (11.9% and 10.4%, respectively, in May). These developments mask behaviour that is uneven across the loan-taking sectors, with an acceleration in flows to the other financial intermediaries sector. By contrast, loans to households continued their deceleration, growing by less than 5% in May, with a loss of dynamism in consumer loans and, more particularly, in loans for house purchase. Loans to non-financial corporations, which are examined in greater detail in Box 2, continued to grow at relatively high rates, although the latest data point to a slowdown. In May, this component recorded an annualised month-on-month growth rate of 9.6%, considerably lower than the figure of 14% for the previous year.

4 The Spanish economy

The adjustment process initiated by the Spanish economy in 2007, following a long phase of high economic growth, became more accentuated in 2008 Q1 according to QNA estimates. In this period GDP posted a year-on-year growth rate of 2.7%, 0.8 pp below the estimated figure for 2007 Q4. In quarter-on-quarter terms, the rate of increase of output was 0.3%. The slowdown reflected the loss of dynamism of national demand, the rate of which rose by 2.8% compared with the same period a year earlier (0.8 pp less than in the previous quarter), and, in particular, of private consumption and residential investment. In contrast, the contribution of the external sector to GDP growth improved by 0.1 pp to –0.3 pp. On the supply side, with the exception of agriculture, the pace of all sectors of activity eased off, and the sharpest loss of momentum was seen in construction and in industry. The pace of job creation reflected the slowdown in activity and, on QNA figures, eased considerably in the opening months of 2008, posting a year-on-year rate of 1.7%, 0.8 pp less than the end-2007 figure, whereby the rate of increase of productivity held at around 1%.

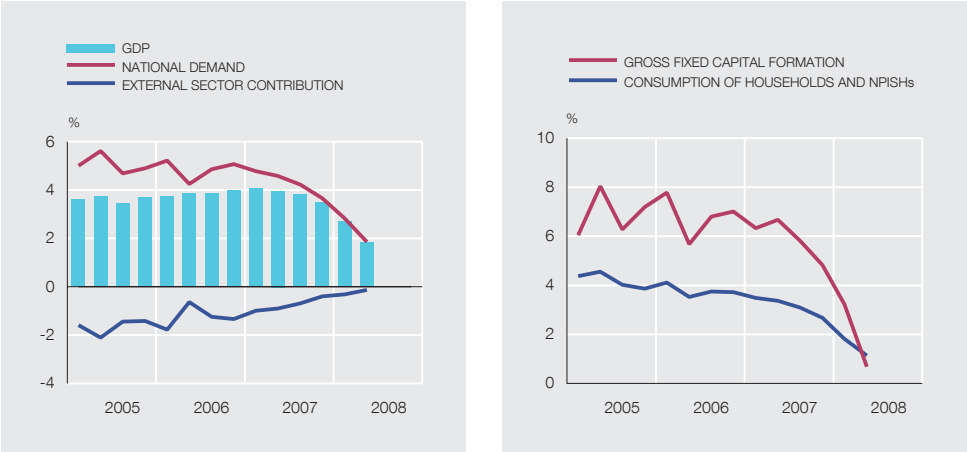
On the information available, the Spanish economy has once again seen a substantial reduction in its rate of expansion in 2008 Q2. The persisting instability on international financial markets and the climb in oil prices have accentuated the adverse effects of the adjustment in the real estate market, putting a brake on activity. Against this background, the data available suggest that the year-on-year rate of change of GDP might have undergone a further moderation of 0.9 pp in Q2 to 1.8%, which would correspond to a quarter-on-quarter rate of 0.1%. This slowdown in output would be attributable to the further loss of steam in national demand, whose year-on-year growth rate is estimated to have fallen to 1.9%, while the negative contribution of the external sector is expected to have continued to improve, to –0.1 pp (see Chart 15).

On the supply side, the slowdown in value added in the market economy in Q2 is estimated to have continued bearing mainly on the industry and construction sectors. As regards the labour market, the available indicators point to a sharp adjustment in the pace of job creation, on a greater scale than that foreseen for GDP growth. As a result, the rate of increase of productivity for the economy as a whole is expected to have exceeded the figure of 1% observed in Q1. At the same time, compensation per employee is estimated to have risen at a similar pace, meaning that the growth of unit labour costs would have stabilised in Q2. Turning to consumer prices, the 12-month rate of change in the CPI continued to climb in Q2 up to an average rate of 4.6%, 0.2 pp up on Q1. This was due to dearer energy and processed food prices. Core inflation held stable for the third quarter running at 3.2% year-on-year.

4.1 Demand

In 2008 Q1, final consumption spending by households and NPISHs grew at a year-on-year rate of 1.8% (0.2% in quarter-on-quarter terms), 0.9 pp less than in 2007 Q4, which highlights the notable loss of dynamism of this component of national demand at the start of the year. The latest conjunctural information suggests that the weakness of private consumption became more marked in 2008 Q2 (see Chart 16). Specifically, consumer and retail trade confidence indicators once again posted significant declines in this period, higher than those observed in the previous months. The former indicator showed an all-time low, and the latter displayed levels not seen in the last 13 years. Among the quantitative indicators, Tax Agency figures for April and May indicated diminished dynamism in large companies' domestic sales of consumer goods and services. In these two months the real retail trade index underwent a significant decline, greater than that in Q1, in step with the deterioration in retail confidence in this period. Finally, under consumer durables, there was a fall-off in car sales in 2008 Q2, although the decline recorded in June may have been amplified by the delaying of some pur-

MAIN DEMAND AGGREGATES (a) CHART 15



SOURCES: INE and Banco de España.

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

chases as consumers awaited the imminent entry into force of the VIVE plan (a scheme conceived to withdraw old cars and renew the national stock of vehicles).

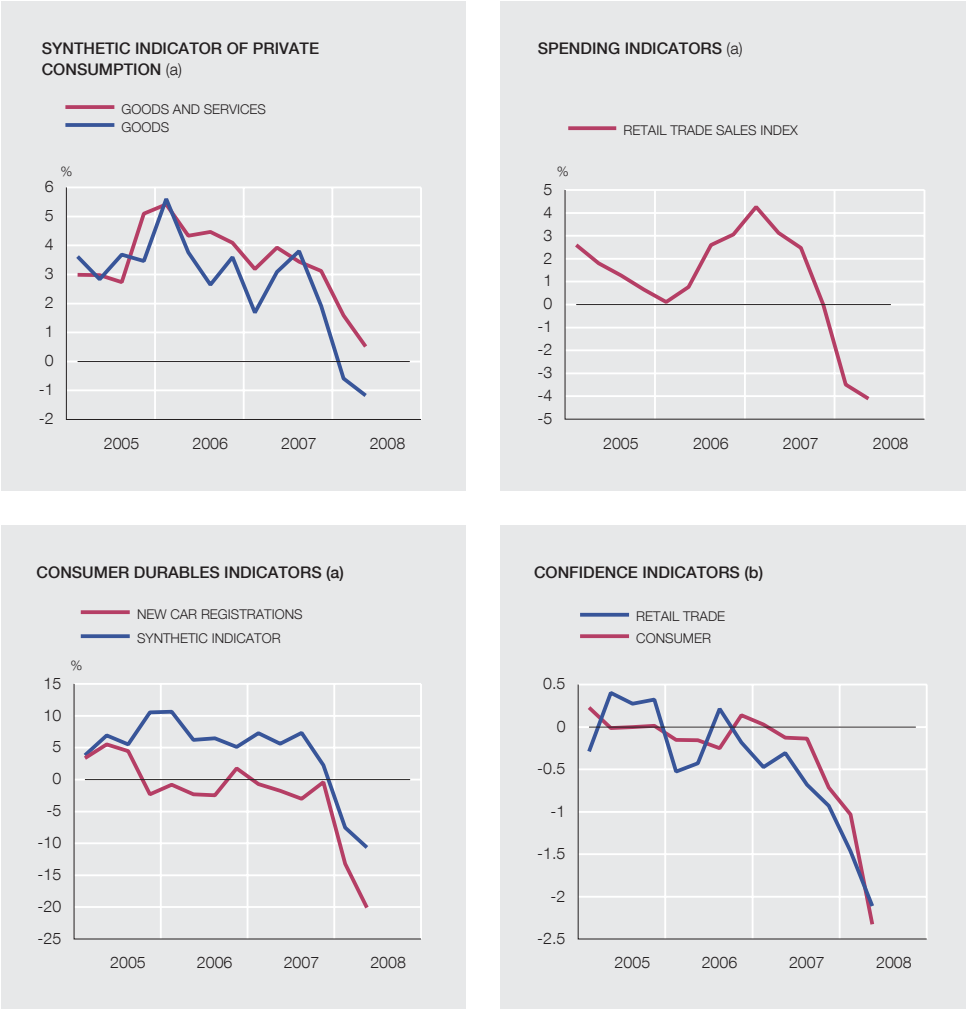
The weakening of household consumption in Q2 is in response to diminished confidence brought on by the deterioration in the macroeconomic outlook and the less favourable course of its determinants. Hence, albeit in a setting of wage acceleration, the growth of household disposable income in nominal terms has begun to be dented by lower employment generation, an effect which has been heightened in real terms by the observed rise in inflation. Moreover, less accommodative financial conditions have probably contributed to households postponing durable consumption spending decisions, while the slowdown in the pace of households' real and financial wealth might be beginning to promote an increase in saving by these agents. However, in the latest non-financial accounts of the institutional sectors, for 2008 Q1, the saving rate still declined slightly.

The rate of increase of general government final consumption stepped up in Q1 to a year-on-year rate of 4.7% (1.7% quarter-on-quarter), 0.3 pp up on 2007 Q4. A further acceleration in this demand component is forecast for 2008 Q2, judging by the trend of compensation per employee in the public sector, based on the State budget outturn figures.

Gross fixed capital formation slowed notably in 2008 Q1 to a year-on-year rate of 3.2%, 1.6 pp less than the previous quarter. This figure reflects the loss of dynamism in all its components, sharply so in the case of investment in equipment, whose rate of increase eased by 2.3 pp to 6.3% year-on-year. Despite this, it remained the most vigorous component of national demand (see Chart 17). The slowdown in investment in construction was on a somewhat lesser scale; it grew at a year-on-year rate of 1.3% (1.6 pp less than at end-2007), the outcome of a 0.2% decline in residential investment – which slipped for the first time in five years – and of a 1 pp slowdown in investment in other construction, to 3%. The dynamism of investment in other products also slackened, although it held at a high growth rate of 5.2%, 0.9 pp down on the close of 2007. The information available for 2008 Q2 points to further easing in the rate of expansion of the various components of gross fixed capital formation and, in particular, of investment in equipment and residential investment.

In the specific case of capital investment, the indicator of apparent investment in capital goods, calculated with incomplete data for the quarter, recorded a significant decline in Q2, higher than that observed at the start of the year. The business confidence indicator in the capital goods in-

PRIVATE CONSUMPTION INDICATORS CHART 16



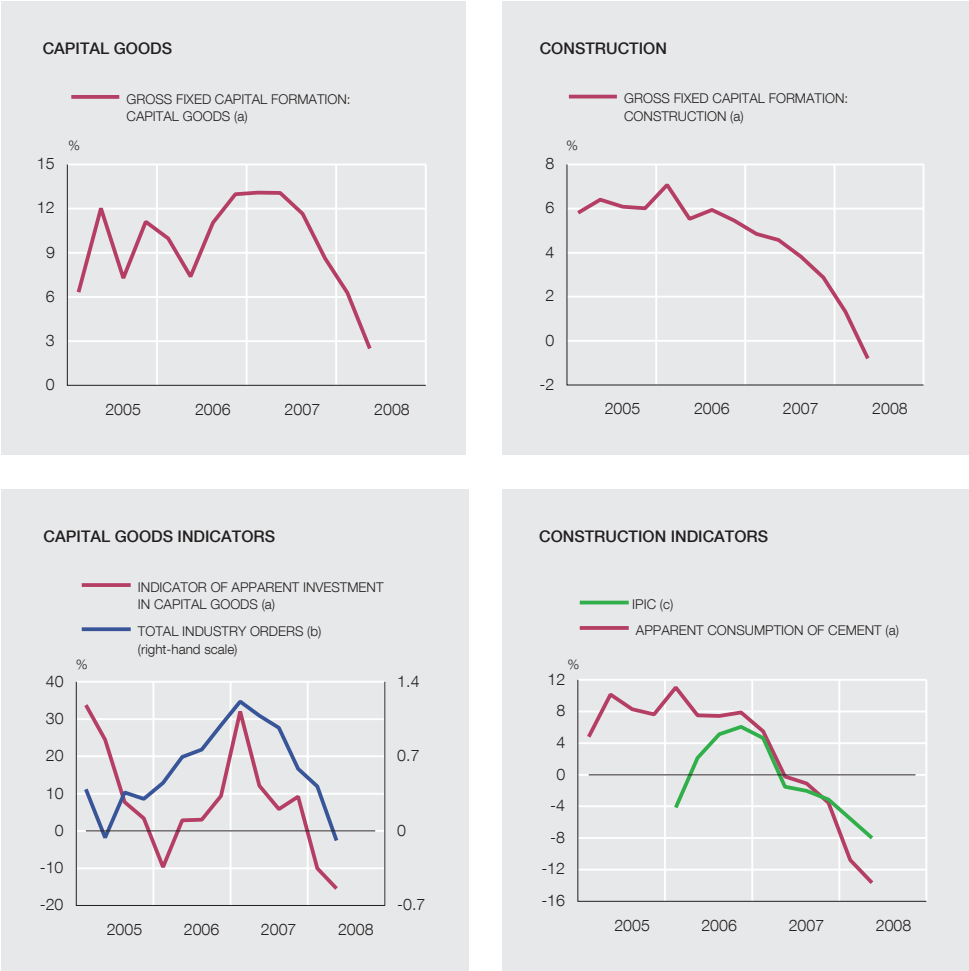
SOURCES: INE, European Commission, ANFAC and Banco de España.

a. Year-on-year percentage change based on the seasonally adjusted series.
b. Normalised confidence indicators (difference between the indicator and its mean value, divided by the standard deviation).

dustry continued to worsen in April and May, and the deterioration was particularly significant in order books. Likewise, a slowdown is also expected in investment in other products in Q2. From the standpoint of its determinants, a moderation in future investment plans is to be expected, given the deterioration in the prospects of some of the elements that have been underpinning the dynamism of this demand component in the recent past, such as the buoyancy of final demand and the favourable trend of corporate profits. Indicative here is the reduction in the level of capacity utilisation in industry in Q2. And adding to this is the less favourable environment for the resort to borrowed funds, which stems not only from the increase in the debt burden resulting from the rise in lending rates, but also from the tightening of the conditions of access to these sources of financing. In this respect, the data available on credit to non-financial corporations by end-purpose suggest that the tightening of credit access conditions by resident financial institutions is affecting, above all, companies linked to the construction and real estate development sector. That said, according to the non-financial accounts of the institutional sectors, net borrowing by non-financial corporations as a whole held stable at 10.6% of GDP in the four quarters to 2008 Q1.

The deceleration seen in investment in construction since 2006 stepped up in 2008 Q1, when this demand component grew at a year-on-year rate of 1.3% (stagnating in quarter-on-quarter

GROSS FIXED CAPITAL FORMATION CHART 17



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

a. Year-on-year percentage change based on the seasonally adjusted series.
b. Normalised indicator (difference between the indicator and its mean value, divided by the standard deviation)
c. Construction industry production index. Year-on-year rates base on the original series.

terms), 1.6 pp less than in the previous quarter. This slowdown reflects, in particular, the ongoing correction in the residential component, which posted a fall of 0.2% year-on-year (compared with positive growth of 1.8% the previous quarter), and, to a lesser extent, the loss of dynamism of the component of other construction, which increased by 3%, 1 pp less than in 2007 Q4. The coincident indicators of total investment in construction, such as inputs or employment, suggest that the adjustment of the sector has become more marked in 2008 Q2. Among the indicators of inputs, both the domestic production of construction materials and the apparent consumption of cement fell in April and May by a greater amount than in Q1. As to the coincident labour market indicators for Q2, the average number of Social Security registrations declined by 7%, compared with the fall of 2.2% in Q1, while the growth rate of the number of registered unemployed increased to 62.2% in Q2, 26.5 pp up on Q1. In addition, the construction industry production index fell in April (the latest month for which information is available) by 8% year-on-year, down more than 2.4 pp on Q1. Lastly, the European Commission's construction industry confidence indicator continued to worsen, albeit to a lesser extent than in the two previous quarters.

By type of building work, the adjustment of residential investment is expected to have stepped up in Q2, posting negative rates clearly higher than those at the start of the year. The notable

decline seen in approvals for new projects since mid-2007 means that a reduction in the number of housing starts in 2008 may be anticipated, and that residential investment will therefore trend unfavourably in the coming quarters. These developments are the result of the adjustment of supply to the rapid slowing in demand, the outcome of dearer financing and of the gloomier outlook for real estate wealth. The information on housing transactions and new mortgages, for which there are figures to April, is illustrative of the path the demand for housing has followed in recent months. It is also estimated that non-residential building will lose momentum in Q2, in step with the decline in approvals for new projects in the recent past. Finally, the procurement of civil engineering works has continued to grow at a sharp pace, although works executed might have slowed in the April-June period due to their being linked to the decline in official procurement in the second half of 2007.

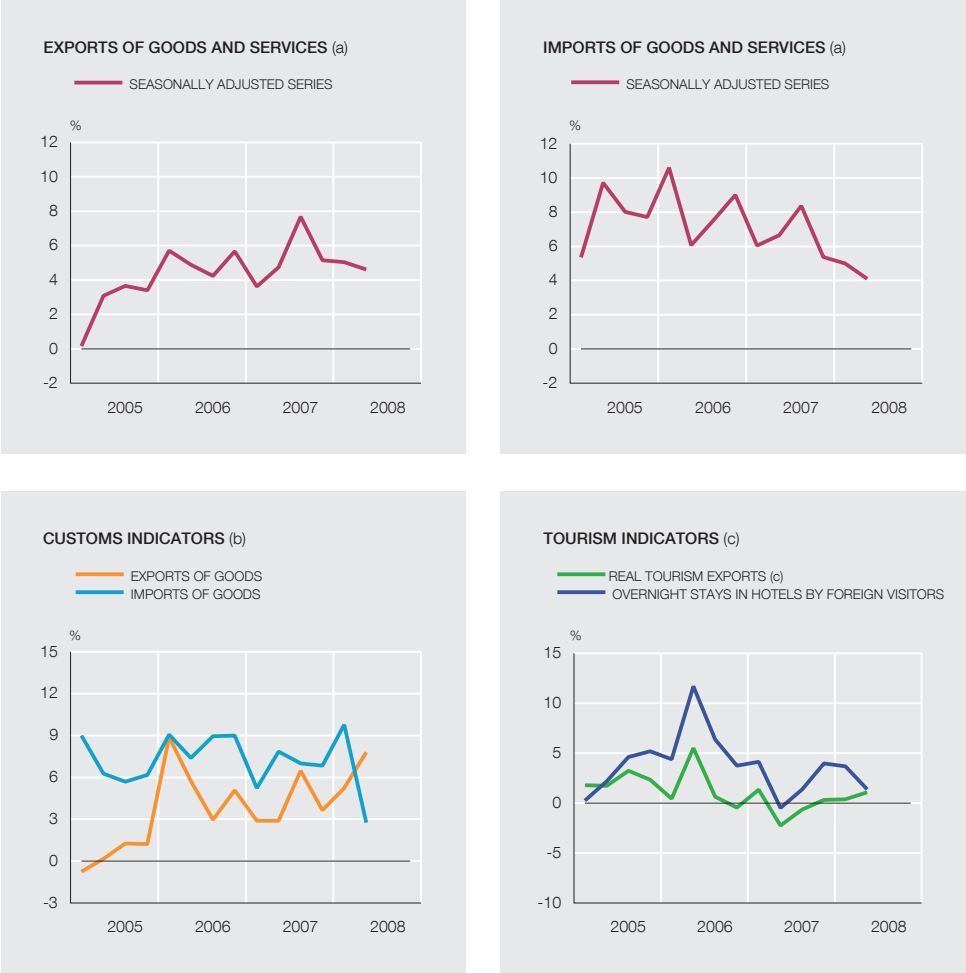
On QNA data, the negative contribution of net external demand to output growth continued to decline in 2008 Q1, standing at 0.3 pp, 0.1 pp less than the previous quarter, set against the slight deceleration in foreign trade flows (of exports and imports alike). This came about against the background of the progressive slowdown in world trade which, after growing at a rate of 6% in 2007, slowed somewhat at the start of 2008 (to a rate of close to 5%). In particular, in the case of Spanish export markets, there was a weakening in the developed economies as a whole, including some of the main recipients of our exports, such as France and Italy. However, sales to the emerging countries continue to grow at double-figures rates. Most of the indicators of competitiveness have continued to worsen to date in 2008, this being due, above all, to the appreciation of the euro against the developed countries' basket of currencies and, to a lesser extent, to the widening of price and cost differentials. Nonetheless, the indicators compiled with export prices have trended favourably during 2008 Q1, thanks to the continued containment of export prices (with far lower growth rates than those of domestic production prices or unit labour costs). This would be showing the effort by exporting sectors to maintain their market shares against the backdrop of the appreciation of the euro and the slowdown in national demand.

The incomplete information for 2008 Q2 suggests exports will remain on a relatively favourable course, despite the continued strength of the euro. Imports, meanwhile, will continue to lose steam, in step with the moderation of private consumption and of investment in equipment. As a result of these developments in trade flows, the contribution of net external demand to growth is expected to have improved by 0.2 pp in 2008 Q2 to –0.1 pp of GDP.

On QNA figures, the year-on-year rate of real goods exports edged up in 2008 Q1 to 5.1% from 4.6% the previous quarter, interrupting the decelerating path onto which this variable moved in 2007 Q4 (see Chart 18). The Customs Department's foreign trade figures also reflected, in seasonally adjusted terms, a more favourable performance by exports in Q1, owing essentially to the dynamism of car sales and intermediate products. In terms of geographical areas, the improvement was concentrated in EU markets, while exports to third countries slowed, though they continued posting high growth rates in nominal terms. As to the latest figures, real exports rose in April and May to a year-on-year rate of 12.6%, although this figure may be biased upward by the effect of Easter falling earlier (in March) in 2008 as opposed to 2007 (April). However, in terms of the seasonally adjusted series, the increase was – at 8.9% – also notable, far higher than that recorded in Q1. By product group, the most dynamic components of exports in April and May were intermediate goods – both energy and, to a lesser extent, non-energy goods alike - and non-food consumer goods. Under non-energy intermediate goods, products intended for the transport and manufactured electrical equipment industries and for the metalworking sector rose forcefully. In the case of consumer goods exports, car sales contributed significantly. Capital goods exports, although they quickened in April and May, continued to grow at a moderate rate of 2.8% in real terms. This was

FOREIGN TRADE
Percentage change on year ago

CHART 18



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

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

essentially due to the pick-up in sales of machinery and land transport equipment. By geographical area, exports to the Community in April and May quickened notably (to a real rate of increase of 12.2%, compared with the increase of 3.6% in 2008 Q1), boosted by the momentum of sales to some of our main markets, such as Germany, France and the United Kingdom. Non-Community exports also stepped up in these two months (to a year-on-year rate of 13.4%, compared with the decline of 1.1% in Q1), reflecting the dynamism of sales to Russia and the CIS countries, China and the OPEC countries, which contrasts with the fall in exports to Latin America. In the first five months of the year, exports thus posted a higher real growth rate than in 2007 (6.4% against 4.2%).

On QNA figures, real tourist services exports in 2008 Q1 maintained the moderation they had shown in the previous quarter, increasing by a year-on-year rate of 0.4% (0.3% in 2007 Q4) and abandoning the declining path on which they moved in the second and third quarters of 2007. Likewise, the main real indicators of tourism have so far in Q2 moved further along the improving path observed since late 2007. On figures to May, both inflows of foreign tourists and the number of overnight hotel stays show higher growth rates (3.5% and 4.2%, respectively) than the average for the previous year. EGATUR, the tourism expenditure survey, reveals a somewhat more expansionary performance by tourism receipts over the course of the first five

months of the year, with average increases of 6.7% in total nominal expenditure by tourists and of 3.2% in average spending per person. This is the result of the recovery, following the slackness of the previous years, in the markets that are the main suppliers of tourists for Spain, especially Germany (with an average increase of 3.3% in the January-May period) and, to a lesser extent, the United Kingdom and France (with respective growth rates of 2.9% and 2%).

Real exports of non-tourist services continued to slow during 2008 Q1, dipping to 9.2% from 11.7% the previous quarter. Drawing on Balance of Payments disaggregated information by type of service, the main contributing factor to the slowdown was transport services, since receipts from services provided to business recovered slightly, although they continued to grow at moderate rates, in contrast to the high increases they displayed for much of the previous year. On Balance of Payments figures for April, tourism receipts in Q2 may be expected to hold on the recovery path initiated late last year, while receipts from other services should moderate.

Turning to real goods imports, the growth rate of this variable in 2008 Q1 on QNA figures rose to 5.9% year-on-year, 1.2 pp up on the previous quarter, though similar to the average increase observed the previous year. This acceleration, which was sharper according to Customs figures (seasonally adjusted data[1]), was centred on the intermediate goods component, especially energy goods, since consumer goods imports slowed and capital goods imports fell. The latest figures, for April and May, show a significant slowdown in real imports to 4.4% year-on-year. Once adjusted for the Easter effect, this rate declines to 1.7%, clearly down on Q1. By product group, there was a marked fall-off in capital goods imports (which declined by 14.9% in real terms), this being essentially due to the notable fall in imports of maritime transport equipment and, to a lesser extent, of machinery, especially construction machinery. Likewise, consumer goods imports also posted a negative rate in this period (–1.8% in real terms), reflecting the unfavourable behaviour of imports of cars and other consumer durables, such as household electrical goods. Conversely, imports of non-energy intermediate goods retained their dynamism in April and May, growing at a rate of 9.9% as a result of the robustness shown by purchases of intermediate products intended for the electrical equipment, chemical and foodstuffs industries. After growing at a rate of 30% in Q1, real imports of energy intermediate goods eased in April and May, although they increased at a rate of 11.6%, despite their prices rising notably. In the five months to end-May, real goods imports grew by 5.9%, 1 pp less than the rate for the whole of 2007.

Lastly, in QNA terms, real services imports increased by scarcely 1.3% in Q1, with the slowdown initiated the previous quarter intensifying. This performance was the result of the slowdown both in real imports of non-tourist and tourist services (whose year-on-year rates dipped to 1.2% and 1.8%, respectively). Under non-tourist services, and drawing on Balance of Payments disaggregated data, there was a clear loss of momentum under its main component, namely business services, while payments for insurance and IT services fell. The Balance of Payments figures for April suggest that imports of services – tourism and other services alike – will continue on this declining trend during 2008 Q2.

4.2 Output and employment

In 2008 Q1 the slowing profile shown by the market economy throughout 2007 steepened, meaning that the growth rate of its gross value added declined to a year-on-year rate of 2.5%, 0.8 pp down on the previous quarter. With the exception of agriculture and energy, all the productive sectors contributed to this loss of dynamism in activity, which was more acute in the case of manufacturing industry and of construction. The information available for 2008 Q2 points to a further moderation in market economy value added, which will likewise be more

1. The different course shown since end-2007 by real goods imports in Customs terms and in QNA terms is due to the fact that in this period the imports UVI has increased by around 3 pp less than the imports deflator.

notable in these two branches (see Chart 19). Foreseeably, GVA in industry will show a more pronounced decline than that observed the previous quarter and the growth rate in construction, which was still positive at the start of the year, will turn negative in Q2. It is estimated that market services will slow, but to a lesser extent than the other sectors.

Activity in the agriculture and fisheries sectors grew in the period January-March 2008 at a rate of 3%, a very similar figure to the previous quarter. Nonetheless, GVA in this sector is expected to show a lesser pace in Q2, since the heavy rainfall recorded in April and May has been unable to offset the adverse effects of the scant winter rainfall on crop yields that account for a highly significant portion of the branch as a whole, as is the case of cereals and fruits.

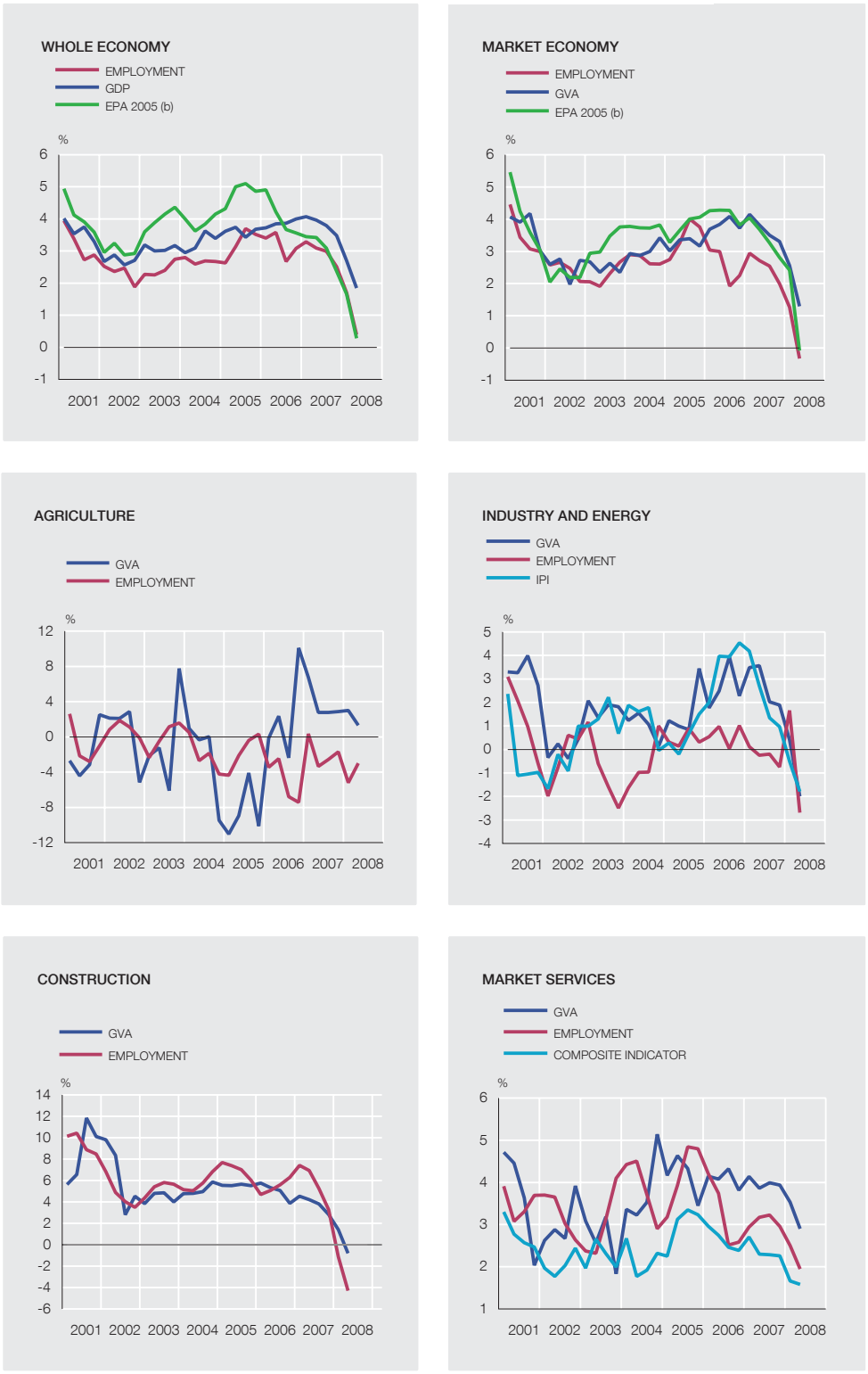
Output in the industrial and energy sectors evidenced a notable loss of dynamism in Q1, accentuating the slowdown initiated in the second half of 2007. On QNA figures, the growth rate of GVA in these branches declined by 1.5 pp to a year-on-year rate of 0.4%. This slowdown essentially reflected the unfavourable course of industrial activity, whose GVA fell by 0.3% year-on-year in 2008 Q1, since value added in the energy sector continued to grow at a high rate (4%). The conjunctural indicators for Q2 point to a decline in industrial activity on a greater scale than in Q1, as a result of the fall-off in the demand for goods intended both for final household consumption and for use as inputs in market services and, above all, in construction. Notable among the quantitative indicators was the behaviour of the industrial production index; the year-on-year rate of fall in its non-energy component steepened in April and May relative to Q1, mirroring the trend of large corporations' domestic sales of industrial goods. Social Security registrations declined slightly in year-on-year terms in 2008 Q2 (having posted growth of 0.8% in Q1), while the rate of increase of the number of registered unemployed quickened to over 10%. Opinion-based surveys also point to a further worsening in industrial activity in Q2. Both the European Commission's confidence indicator and the manufacturing PMI presented a far lower value in Q2 than that recorded in Q1, with a significant decline in the assessment of order books.

Turning to construction activity, the slowdown already evident throughout 2007 intensified in 2008 Q1. GVA grew at a year-on-year rate of 1.4%, half the figure for the closing months of 2007. It is estimated that this trend has stepped up in Q2, judging by the decline observed (as indicated in the description of the outlook for investment in construction) in residential and non-residential building projects.

Finally, the growth rate in the services sector also eased in 2008 Q1, albeit less sharply than in industry and construction. Value added in services branches as a whole rose by 3.7% year-on-year, 0.5 pp below the related Q1 increase. This slowdown was more marked in non-market services (0.8 pp, to 4.2%), although they continued to show higher rates. As to market services, the growth rate of their value added declined by 0.4 pp to 3.5%. The conjunctural information available for Q2 suggests that the loss of momentum will have been somewhat sharper in this period. The average number of Social Security registrations in the sector increased at a year-on-year rate of 2.2% in the April-June period, 0.7 pp down on 2008 Q1, while the pace of large corporations' sales of services, in real and calendar-adjusted terms, fell in April and May compared with the growth in Q1. The European Commission's indicators of confidence in the services sector and in the retail trade worsened in Q2, as did the PMI index, reaching historical lows in some cases.

On QNA data, the slowing path of the rate of job creation economy-wide steepened in 2008 Q1. Specifically, the year-on-year growth rate of employment declined by 0.8 pp to 1.7%. This slowdown was approximately similar in the market economy, where employment increased by 1.3%. In the latter case, this diminished employment generation was accompanied by the lesser momentum of value added, meaning that productivity held unchanged at 1.3%.

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



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

a. Year-on-year percentage rates based on seasonally adjusted series, except gross seris in the EPA. Employment in terms of full-time equivalent jobs. For incomplete quarters, the year-on-year rate for the period available within the quarter is taken.
b. Series linked by the Banco de España's DG Economics, Statistics and Research on the basis of the control survey conducted using the methodology applied until 2004 Q4.

The indicators available point to job creation having adjusted sharply downwards during Q2. The growth in the number of Social Security registrations, calculated with average daily data, declined to 0.5%, compared with growth of 1.7% in Q1. However, registered hires drawing on INEM (National Public Employment Service) figures held at the same rate of decline in Q2 on average as in Q1 (–7.2% year-on-year).

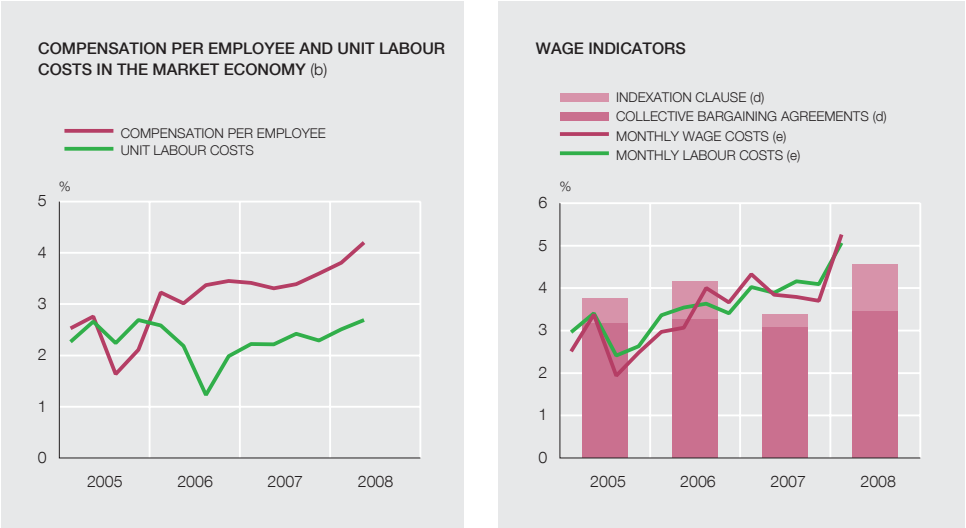
As regards the breakdown by productive branch of QNA data for 2008 Q1, job destruction in the construction sector – an event not witnessed since the early 90s – was notable. Specifically, the loss of equivalent jobs amounted to 1.1% year-on-year, a figure that contrasts with the positive growth of 3.3% in 2007 Q4. Likewise, as in the previous quarters there was further job destruction in agriculture, albeit on a much higher scale, where a negative year-on-year rate of –5.2% was recorded, compared with the end-2007 figure of –1.7%. Conversely, in the industry and energy branches, and contrary to what was observed throughout 2007, there was a pick-up in employment, which grew at a year-on-year rate of 1.7% compared with the decline of 0.7% in the previous quarter. Finally, the pace of job creation slowed both in market and non-market services alike, to 2.5% and 3.6%, respectively (these rates were 0.5 pp and 1.1 pp lower than those of the previous quarter). The indicators available for Q2 suggest job destruction has taken place both in industry and in construction, while job creation in services has slowed. In this respect, the EPA data for Q2 confirm a 7.9% decline in employment in construction, compared with the fall of 1.1% in Q1, and a slowdown in industry, albeit at a still-positive rate of 0.9%, against 1.7% the previous quarter. Employment in agriculture continued to fall at a rate of –4.4%, compared with –6.8% in Q1. Finally, the rate of job creation in market services declined by 2.4 pp to 2.6%.

According to QNA figures, the rate of increase of both dependent employment and self-employment eased in 2008 Q1, although the slowdown was sharper in the former category, as is habitual in phases of economic slowdown. Specifically, the respective rates of increase declined by 0.9 pp and 0.2 pp to 1.9% and 0.4% relative to the same period in 2007. On EPA data, however, the loss of steam in employment generation in 2008 Q1 was relatively similar among both categories, which meant that the proportion of dependent employees to total numbers employed in the economy held stable at 82.4%, scarcely 0.1 pp below the figure a year earlier.

The EPA data for Q2 infer that the slowdown in employment affected both Spanish and foreign workers, although the latter maintained a rate of net job creation of 6.9%, compared with –0.75% in the case of nationals. In terms of contractual duration, permanent employment retained the high momentum of 2008 Q1, with a year-on-year growth rate of 4.1%; nonetheless, this rate was 0.4 pp down on the previous quarter. The year-on-year rate of decline of temporary employment steepened to –7.4%. As a result, the ratio of temporary to permanent employees fell significantly during the quarter to 29.4%, 2.6 pp down on one year earlier. Lastly, both part- and full-time hires showed positive though lower growth of 0.37% and 0.27% in year-on-year terms, respectively. As a result, the ratio of part-time to full-time employees held at 12%.

The labour force grew at a rate of 3.1% in 2008 Q2 compared with the same period a year earlier, 0.1 pp up on the previous quarter. The participation rate rose by almost 1 pp in year-on-year terms to 59.8%. However, growth in the over-16 population stood at 1.5%, 0.1 pp less than three months earlier, and confirmed the process of deceleration evident in Q1. By sex, women continued to contribute more than men to the rise in the labour force in Q2 (4.6% against 2%). Specifically, the respective participation rates for women and men were 50.3% (1.4 pp more than a year ago) and 69.6% (0.3 pp up on a year ago). By nationality, the foreign labour force continued to show very high dynamism, despite the moderation observed in the related year-on-year increase (12.6%, 0.9 pp less than the rate one quarter earlier), while in the case of Spanish nationals growth was 1.5% (against 1.3% in 2008 Q1). The high participation rate of foreigners (76.7%) held up.

WAGES AND LABOUR COSTS (a) CHART 20



SOURCES: Instituto Nacional de Estadística, Ministerio de Trabajo e Inmigración and Banco de España.

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

Finally, the result of the slowdown in the pace of job creation, combined with the continuing dynamism of the labour force, was the notable growth in unemployment in 2008 Q2 of the order of 621,000 people compared with the same period in 2007. This translated into a 35.3% year-on-year increase in joblessness, which took the unemployment rate to 10.4%, 0.8 pp up on the previous quarter.

4.3 Costs and prices

On QNA estimates, compensation per employee economy-wide posted year-on-year growth of 3.9% in 2008 Q1, 0.1 pp up on the previous quarter (see Chart 20). However, this wage rise is below that inferred by the quarterly labour costs survey, according to which the rate of change in average monthly wage costs increased by 1.1 pp to 5.1%, a pace more in keeping with the increase in wage settlements for 2008 and the estimated impact of the indexation clauses relating to 2007.

The information available indicates that compensation per employee is expected to have risen once again in Q2. Collective bargaining agreements signed in the period to June, which affect 7.2 million workers, show an average increase in wage rates of 3.5% for this year. This figure, which is almost 0.6 pp higher than the agreed increase in 2007 (without considering the impact of activation of the indexation clause), is above the guidelines agreed in the Inter-Confederal Agreement for Collective Bargaining for 2008. As usually occurs at times of worsening inflation, the wage settlements accorded in newly signed agreements have been higher than those incorporated into the revisions of agreements spanning several years (4.2% and 3.4%, respectively), although the proportion of workers availing themselves of the latter agreements is far higher, at close to 95% of the total. The estimate of the impact of the indexation clauses for 2007 (which affect around 74% of workers with an agreement in that year) on wage increases in 2008 is 1.1 pp, 0.8 pp up on the previous year, which is the result of the high inflation rate at end-2007. This highlights how the wage indexation mechanisms in place in Spain can contribute to transitory increases in inflation, such as that prompted by higher oil prices, influencing labour cost trends adversely, and hampering the adjustment of the economy when faced with a change in cycle as at present.

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

SOURCES: INE and Banco de España.

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

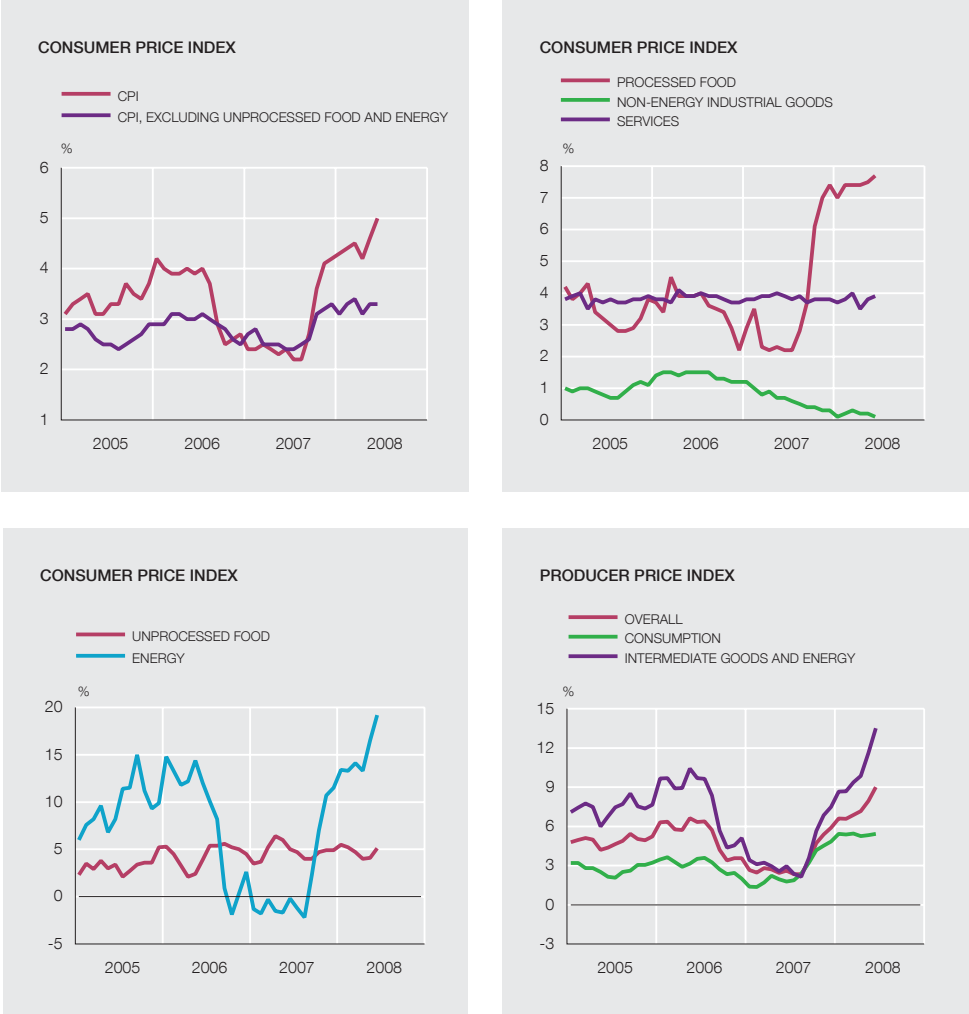
The acceleration in compensation per employee in Q1 was, according to QNA figures, similar across the economy to the rise in productivity, meaning that unit labour costs (ULCs) maintained a growth rate unchanged on end-2007, at 2.9% year-on-year. Nonetheless, in the market economy the growth rate of ULCs increased by 0.2 pp to 2.5%, as a result of the acceleration in compensation against a background of ongoing increases in productivity (see Chart 21). Compensation per employee is expected to rise to a greater extent than productivity in 2008 Q2, meaning that ULCs should quicken once again.

The rate of increase of the final demand deflator increased in 2008 Q1 to 3.6%. This rise reflected the 0.6 pp increase to 5.1% of the rate of expansion of the deflator of goods and services imports. The growth rate of the GDP deflator also stepped up in 2008 Q1, albeit more moderately, to 3.1%, 0.2 pp up on 2007 Q4. This increase continued to be higher than that recorded by ULCs, so margins continued to widen, despite the sluggishness of demand. On the expenditure side, the private consumption deflator accelerated by 0.4 pp to 3.1%, somewhat below the rise in the CPI.

According to the various indicators, the upward trend in prices initiated in the second half of 2007 has continued during Q2. The year-on-year rate of change in the CPI increased once more in this period, standing at 4.6% for the quarter as a whole, 0.2 pp up on Q1 (see Chart 22). This rise shows inflation to be on a rising path over the course of the quarter, and to have risen to 5% in

PRICE INDICATORS (a)
Spain

CHART 22



SOURCE: INE.

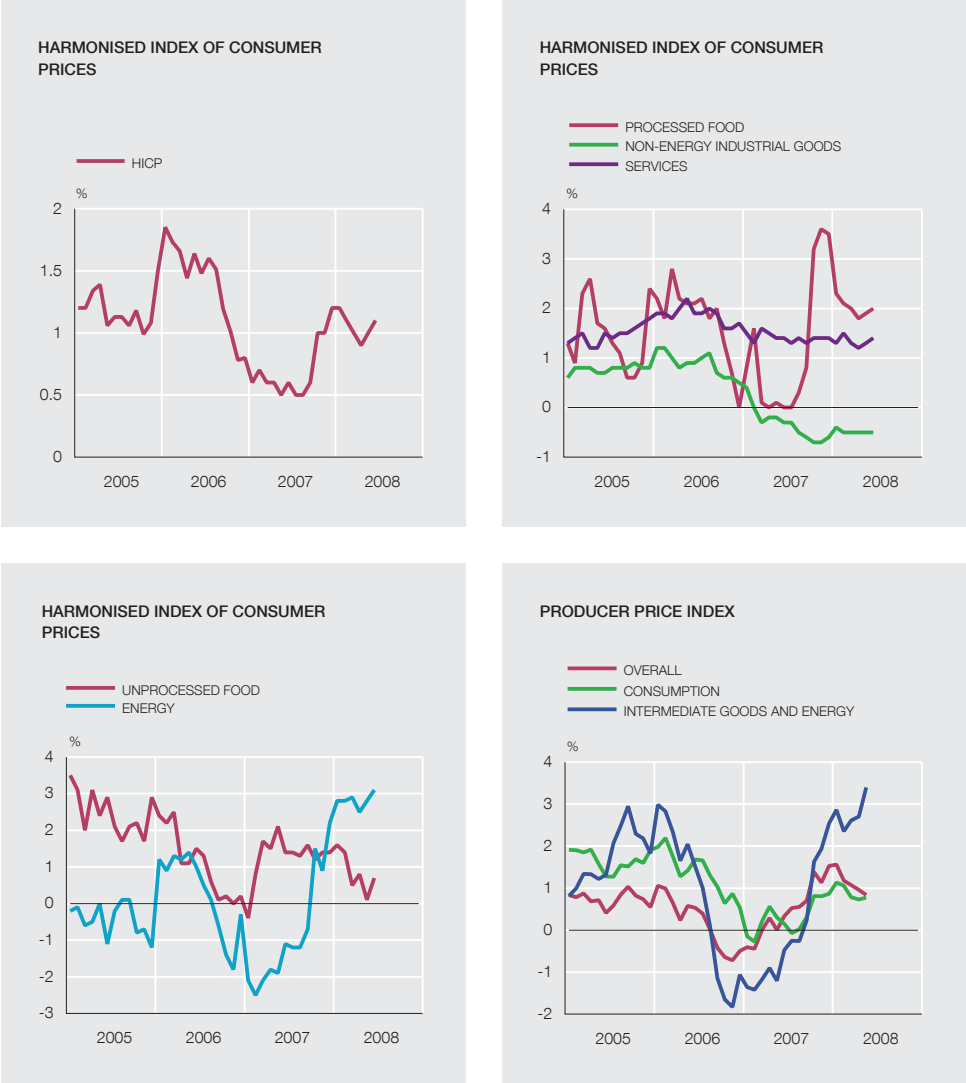
a. Twelve-month percentage change based on the original series.

June, a rate not seen since July 1995. Behind these developments is the significant hike in energy prices and, to a lesser extent, in processed food prices. Indeed, for the third quarter running, energy prices accelerated significantly to a year-on-year rate of 16.8%, owing to the considerable rise in oil prices (the price of Brent oil exceeded $130 per barrel in June). Processed food prices rose once again in the quarter, on this occasion by 0.2 pp, to 7.5%. While the year-on-year rate of increase of bread and cereal prices, and of alcoholic beverages, continued to increase in Q2, milk prices eased, although they continued to post very high year-on-year growth rates.

In contrast, the year-on-year growth rates of both unprocessed food and services prices eased in relation to the previous quarter (by 0.6 pp and 0.2 pp, respectively), although they continued to show very high rises (4.4% and 3.7%). The slowdown in the pace of unprocessed food prices interrupted the rising trend on which they had been moving since the second half of 2007. In June, however, there was a further rise in the price of certain products, as a result of the impact of the strike by fishermen and road hauliers. Turning to services prices, although their average year-on-year rate of change dipped in Q2, it showed a rising trend over the course of the quarter. This is partly the result of the pass-through of the increase in costs induced by dearer oil to the prices of specific services, such as air transport and package tours.

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

CHART 23



SOURCES: Eurostat and Banco de España.

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

Finally, non-energy industrial goods prices maintained in Q2 the moderate growth observed in the previous months (0.2% year-on-year). This variable continued to be favoured by the ongoing decline in the prices of cars and of electronic and IT equipment, and by the downward impact on the prices of specific articles (clothing and footwear) of special offers and promotions in the run-up to the official sales period. As a consequence of the developments in the various components, the average year-on-year rate of change of the CPI excluding unprocessed food and energy in Q2 held stable at the figure for Q1 (3.2%).

As in the case of the CPI, inflation measured by the harmonised index of consumer prices (HICP) rose by 0.2 pp over the course of Q2 to 4.7%, although in June this rate was even higher (5.1%). In the euro area as a whole, the average quarterly rate of inflation increased by 0.3 pp to 3.6% (and 4% in June), meaning that Spain's inflation differential with the euro area narrowed by 0.1 pp over the course of the quarter to stand at 1 pp (see Chart 23). Contributing to these developments was the significant correction in the differential in the case of processed and – especially – unprocessed food prices, due in this latter instance to the easing of inflation

in these goods in Spain. The services inflation differential also narrowed, albeit to a lesser extent, while that relating to energy goods held stable at around the figure for the preceding quarter. The inflation differential (in this case negative) for non-energy industrial goods also held steady.

Finally, the producer price index remained throughout 2008 Q2 on the path of high growth on which it embarked in late 2007, rising to an average year-on-year rate of 8%, 1.3 pp more than in Q1. The rise is due exclusively to the notable increase in the producer prices of energy goods, which grew by 21.1% in Q2, against 13.8% in Q1. In the remaining components, producer prices tended to hold stable, easing slightly in the case of consumer and capital goods, and edging up in intermediate goods. In the euro area as a whole, producer prices posted a year-on-year rate of increase of 7.1% in May, enabling the inflation differential with the euro area to narrow that month to 0.8 pp, 0.3 pp below the March figure. Export and import producer prices quickened somewhat in May to 2.8% and 9.3%, respectively, as a result of their energy component. Meanwhile, the remaining items broadly displayed much more moderate growth rates or even declines in prices, as was the case of consumer durables, in terms of both exports and imports.

4.4 The State budget

According to the National Accounts methodology, the figures published on the State budget outturn in the first half of the year show a marked contrast to the trend of recent years, having posted a deficit of €4,683 million (0.4% of GDP) in the six months to June 2008 compared with the surplus of €5,218 million (0.5% of GDP) in the same period in 2007. This result was essentially due to the 4.8% decline in resources, set against the 10% increase in uses. Admittedly, it should be borne in mind that, in seasonal terms, June is one of the months in which the State balance is lowest, whereby a recovery might be expected in the following months; but it should also be considered that the figures for this year do not yet reflect the impact of the new personal income tax credit for taxpayers of up to €400, which will only begin to be apparent from July onwards, reducing revenue for the second half of the year.

Along the same lines, the cash-basis outturn shows a deterioration in the budgetary situation. The State posted a deficit of €2,065 million in the first half of 2008, in contrast to the surplus of €4,168 million recorded in the same period in 2007 (see Table 3).[2] This change is due mainly to the ongoing decline in tax revenue, which reflects both the influence of the slowdown in the economy on takings and the impact of the measures approved by the government, some of which have already begun to be applied. Given the observed course of revenue and the outlook for the second half of the year, for 2008 as a whole there will foreseeably be significant deviations between actual and budgeted revenue. Conversely, the Social Security budget outturn shows a notable improvement, as described in Box 4.

For the analysis of revenue, information is available on total takings under the main taxes, both for the portion assigned to the State and that relating to the ordinary-regime Territorial Governments. According to this information, revenue declined by 0.9% in the first half of 2008 compared with the same period a year earlier, owing mainly to the negative course of VAT and corporate income tax takings. Conversely, personal income tax remained robust, with growth of 14.9%, underpinned mainly by revenue relating to withholdings on earned and unearned income, which increased by 9.8% and 36.8%, respectively. In the coming months, however, the aforementioned personal income tax credit will foreseeably prompt a notable slowdown in this

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2. The discrepancy between the balance in cash-basis terms and in National Accounts terms is mainly due to the adjustment for the different interest imputation criterion and for the change in receivables and payables.

SOCIAL SECURITY BUDGET OUTTURN

BOX 4

The Social Security system posted a surplus of €11,301 million in the period January-April 2008, up 16.8% on the same period a year earlier. Revenue increased by 11.4% to April compared with the same period 12 months earlier, while the increase in expenditure amounted to 9.5% (see accompanying table).

Revenue from social security contributions rose by 7.7% to April, standing slightly above the budgeted increase for 2008 as a whole. The loss of dynamism in the labour market was manifest in the 0.9% reduction in the number of Social Security registrations in the first half of the year, the first such fall since 1994.

Turning to expenditure, the growth of that earmarked for contributory pensions grew by 7.8% to April, above the figure budgeted for the year as a whole. In the first six months of 2008 the number of contributory pensions has been running at a rate of 1.4%, similar to the previous year's figure (1.3% for 2007 as a whole). The growth rate of expenditure on sickness benefits climbed by 7.1% to April, likewise above-budget for 2008.

As regards the SPEE (National Public Employment Service), the information on revenue for 2007 is not yet available. The growth of expenditure earmarked for unemployment benefits quickened markedly in the first five months of the year, increasing by 21.2% in year-on-year terms to May 2008. The coverage ratio in the same month stood at 70.4%, somewhat less than 4 pp above the rate recorded in the same month of 2007. On data to May, the number of beneficiaries increased by 28.1% compared with the same month in 2007, while registered unemployment grew at a year-on-year rate of 21.4% in the same period. The latest information available on registered unemployment shows a further acceleration to 23.9% in the first half of the year, in line with the loss of momentum in the labour market.

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

EUR m and %

	Budget			Outturn JAN-APR		
	2007	2008	% change	2007	2008	% change
	1	2	3 = 2/1	4	5	6 = 5/4
1 REVENUE	106,142	114,081	7.5	36,592	40,767	11.4
1.1 Social security contributions	97,942	105,107	7.3	33,680	36,262	7.7
1.2 Current transfers	5,963	6,796	14.0	2,041	3,322	62.8
1.3 Other	2,237	2,177	-2.7	870	1,182	35.8
2 EXPENDITURE	98,390	106,048	7.8	26,915	29,466	9.5
2.1 Wages and salaries	2,253	2,412	7.1	658	704	7.0
2.2 Goods and services	1,807	1,978	9.5	487	503	3.4
2.3 Current transfers	93,743	101,056	7.8	25,721	28,156	9.5
Contributory pensions	*80,099*	*86,041*	*7.4*	*22,098*	*23,820*	*7.8*
Sickness	*7,313*	*7,716*	*5.5*	*1,947*	*2,085*	*7.1*
Other	*6,331*	*7,300*	*15.3*	*1,677*	*2,251*	*34.3*
2.4 Other	588	601	2.2	49	103	111.0
3 BALANCE	7,752	8,033	3.6	9,677	11,301	16.8

SOURCES: Ministerio de Economía y Hacienda, Ministerio de Trabajo e Inmigración and Banco de España.

a. Only data relating to the system, not to the entire Social Security Funds sector are given. This is because the figures for other Social Security funds will not be available until October 2008.
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.

STATE BUDGET OUTTURN

TABLE 3

EUR m and %

	Outturn 2007	Percentage change 2006/2007	Initial Budget 2008	Percentage change 2008/2007	Outturn JAN-MAR Percentage change 2008/2007	Outturn 2007 JAN-JUN	Outturn 2008 JAN-JUN	Outturn Percentage change
	1	2	3	4 = 3/1	5	6	7	8 = 7/6
1 REVENUE	159,840	12.7	158,757	-0.7	1.1	69,126	65,624	-5.1
Direct taxes	96,980	19.5	90,753	-6.4	9.6	32,003	33,398	4.4
Personal income tax	*48,626*	*17.3*	*43,260*	*-11.0*	*8.7*	*21,445*	*24,378*	*13.7*
Corporate income tax	*44,823*	*20.5*	*44,420*	*-0.9*	*20.1*	*8,937*	*7,368*	*-17.6*
Other (a)	*3,531*	*42.8*	*3,073*	*-13.0*	*8.1*	*1,621*	*1,651*	*1.9*
Indirect taxes	48,445	0.2	53,363	10.2	-7.2	30,515	24,989	-18.1
VAT	*33,752*	*-4.7*	*38,205*	*13.2*	*-9.5*	*23,567*	*18,192*	*-22.8*
Excise duties	*11,468*	*15.9*	*11,661*	*1.7*	*2.5*	*5,386*	*5,243*	*-2.6*
Other (b)	*3,224*	*7.2*	*3,497*	*8.5*	*6.3*	*1,561*	*1,554*	*-0.5*
Other net revenue	14,415	16.4	14,641	1.6	7.1	6,608	7,237	9.5
2 EXPENDITURE	139,704	7.2	152,331	9.0	4.1	64,958	67,689	4.2
Wages and salaries	23,678	6.6	25,378	7.2	2.7	11,722	12,601	7.5
Goods and services	4,454	17.2	3,563	-20.0	-1.2	1,956	1,906	-2.5
Interest payments	14,539	-6.9	16,631	14.4	14.6	6,521	7,519	15.3
Current transfers	77,680	7.6	83,372	7.3	3.0	36,467	38,111	4.5
Contingency fund and other unforeseen expenditure	—	—	3,100	—	—	—	—	—
Investment	10,106	11.8	10,588	4.8	0.0	4,601	4,452	-3.2
Capital transfers	9,248	23.5	9,699	4.9	-4.3	3,692	3,101	-16.0
3 CASH-BASIS BALANCE (3 = 1 – 2)	20,135	—	6,426	—	—	4,168	-2,065	—
MEMORANDUM ITEM: NATIONAL ACCOUNTS								
Resources	165,171	12.2	157,166	-4.8	1.3	70,332	66,934	-4.8
Uses	151,877	6.2	153,920	1.3	12.8	65,114	71,617	10.0
NET LENDING (+) OR BORROWING (–)								
	13,294	—	3,246	—	—	5,218	-4,683	—
(as a percentage of GDP)	1.3	—	0.3	—	—	0.5	-0.4	—

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.

revenue. Corporate income tax, following the first prepayment, declined strongly by 17.6%, owing both to the deterioration in taxable income and to the impact of the second phase of the reduction in the standard tax rate for large corporations (from 32.5% to 30%) and of the change in the means of calculating prepayments[3]. Under indirect tax, there was a decline in VAT takings, which posted a negative rate of –14.2% compared with the same six-month period in 2007. In this case, developments have been affected both by the impact of the economic slowdown and by the bringing forward of refunds and the change in the treatment of corporate groups, which enables them to offset balances payable by and refundable to the various group companies (which is tantamount to bringing forward refunds applied for). The items aggregated under "Other State revenue" (see Table 3) showed relatively high growth owing partly to the share in Banco de España profits and to the net difference between public debt redemptions and issues.

3. The aim of this measure is to postpone the tax effects of the accounting adjustments on these payments arising from the application of the new Spanish Chart of Accounts.

The growing internationalisation of economies has not only boosted global trade but has also wrought significant changes in its composition. Specifically, developing countries' exports to the industrialised economies have been on a rising trend throughout the past decade, in particular in the case of consumer goods (owing to lower price levels in the developing countries) and of non-energy intermediate goods (given the spatial fragmentation of production aimed at taking advantage of low-wage countries). Consequently, there has been a generalised increase in the degree of import penetration in the developed countries, to which Spain has been no exception.

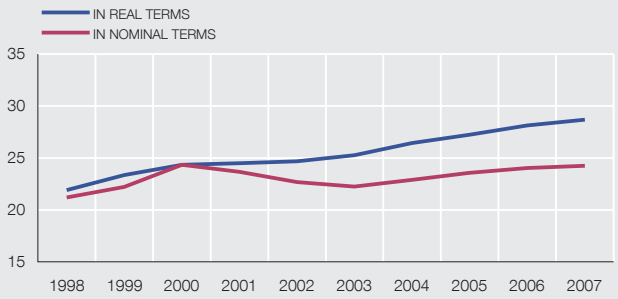
On Spanish National Accounts data, the penetration of goods and services imports has increased to some extent from the late 90s to the present day (see panel 1). As a proportion of final demand, total imports in nominal terms accounted for 24.1% in 2007, around 3 pp above the related 1998 figure. This increase is far higher when the figures are considered in real terms; the percentage rises to 28.7% in 2007 compared with 21.9% in 1998.

An initial approximation to the relevance of imports in each of the final demand components could be obtained from the Spanish Customs foreign trade figures, which provide information broken down by type of good (see panel 2). According to these figures, which should nonetheless be viewed with caution since they combine information from two different statistical sources, the weight of final consumer goods imports, in nominal terms, increased by 3 pp from 1998 to 2007 to 13.1% (by 5.4 pp in real terms to 15.5%). The weight of capital goods imports also climbed in nominal terms relative to total investment in equipment, rising by 4 pp over the period considered to 40.7% in 2007 (by 12.7 pp in real terms to 49.3%).

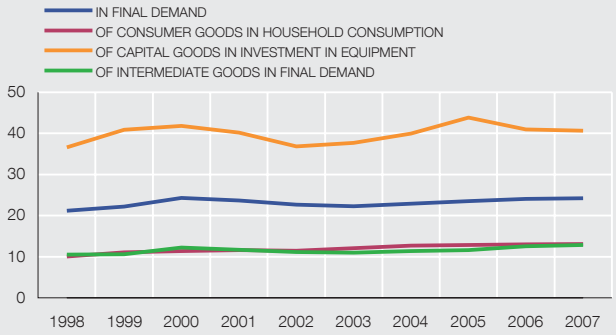
However, the foregoing data do not take into consideration the imported intermediate inputs used in domestic productive processes and which, once transformed, are recorded as part of national production; accordingly, this approximation, especially in a setting in which the fragmentation of production is of greater importance, would be underestimating the import content of each component of final demand. The weight of imported intermediate goods in total final demand is significant and, moreover, it has increased since 1998 by 2.4 pp, in nominal terms, to 12.9% (by 3.1 pp, to 13.8%, in real terms). In order to assign imported intermediate goods to the different components of final demand, it is necessary to resort to the Spanish National Accounts input-output tables. These provide information allowing the final destination of these imports to be estimated. The results drawn from this information for 1998, the last year for which the tables have been used to this end, are given in panel 3.[1]

1. These calculations are not made immediately, hence the use made of the input-output tables is with some delay. Recently, INE has published the input-output tables for 2004 and has revised those previously published for 2000 and 2001. The initial results obtained with this information did not differ substantially from those presented in this box.

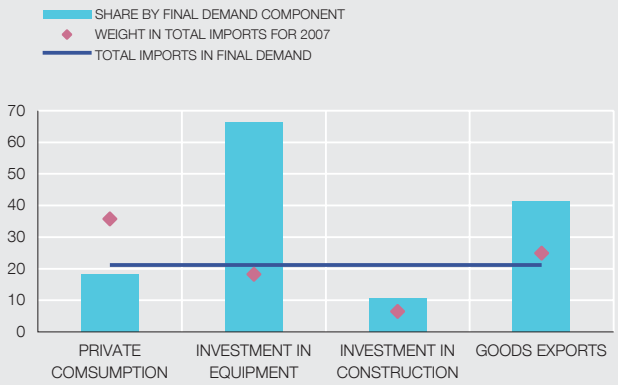
1 IMPORT PENETRATION IN FINAL DEMAND
Goods and services



2 IMPORT PENETRATION BY PRODUCT GROUP
In nominal terms



3 SHARE OF IMPORTS IN MAIN COMPONENTS OF FINAL DEMAND



4 FOREIGN TRADE IN AUTOMOBILES

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

As might be expected, by making this adjustment the import content of the various components of demand increases in comparison with that obtained directly from the Customs figures and from the National Accounts components. According to these figures, investment in equipment was the demand component that showed the highest import content (66.3%) in 1998, followed by goods exports (41.2%) – far higher in both cases than the weight of total imports in final demand (21.2%) – and, some distance back, by household final consumption (18.2%). Once the imported intermediate inputs have been redistributed among the final demand components and these weights have been applied to the 2007 figures, it is seen that in this year total imports were chiefly earmarked for private consumption (35.7%), to a lesser extent for goods exports (24.9%) and, finally, for investment in equipment (18.3%).

These data show that, when explaining the high import content of final demand in Spain, factors other than those mentioned in the introduction (mainly the penetration in the Spanish market of products from the emerging economies) come into play. These include the growing demand for goods and services of higher value added content, the result of the higher level of household per capita income[2], Spanish companies' dependence on imported technology and the importance of imported energy inputs. Finally, the weight in the export structure of sectors such as the car industry, which use a very high proportion of imported intermediate goods, should be taken into account. Panel 4 illustrates this point. It can be seen that imports of car components – intermediate inputs in the automobile industry – show a high and positive correlation with the industry's situation, as they have shown higher growth rates in recent years than those recorded by car exports (80% of domestic car production is for the foreign market). In sum, various factors relating to growing globalisation, which have affected all economies to differing degrees, along with other factors specific to Spain appear to explain the increase in the degree of import penetration in recent years.

2. Drawing on Spanish National Accounts figures for the period 2000-2005, the expenditure on household final consumption that most grew in real terms was on communications, audiovisual and IT equipment and accessories, drugs and travel expenditure abroad.

State cash-basis expenditure increased by 4.2% year-on-year to June, below the budgetary forecast, which points to growth of 9% for 2008 as a whole. While expenditure on wages and salaries and on interest payments grew at a higher-than-budgeted rate for the year as a whole, spending on current transfers (mainly directed to other general government) was more moderate. Nonetheless, given the figures budgeted, an acceleration in this expenditure may be expected in the coming months.

4.5 The balance of payments and capital account

The Spanish economy's net borrowing (i.e. the overall deficit on current and capital account) stood at €38,260 million in the first four months of 2008, 13% up on the same period a year earlier, a rate that is still high but below that observed in recent years. This widening of the external imbalance reflected the deterioration in the current account balance, whose deficit increased by 15.5% in year-on-year terms to €40,720 million. This widening in the current account imbalance was essentially due to the increases in the energy deficit and, to a lesser extent, in the current transfers deficit, which more than offset the improvement seen in the non-energy deficit, in the services surplus and in the income deficit. The surplus on capital account improved notably by 77.9% to €2,460 million.

In the first four months of 2008, the deficit on the trade balance widened by €4,865 million relative to the level recorded in the same period of 2007, rising to €31,653 million (18.2% up on the figure for the first four months of 2007). This rate, though similar to that observed in 2007 Q4, is appreciably higher than that recorded over the whole of the previous year. Despite the fact that the growth rate of real goods exports quickened between January and April 2008 according to Customs figures, imports continued to post higher growth rates, driven by purchasers of energy products. The worsening terms of trade contributed to widening the differential between the growth rates of exports and imports in nominal terms (9.9% and 12%, respectively) and, therefore, to the further deterioration of the trade balance. Unlike in 2007, the energy bill, which increased significantly in the first four months of 2008, accounted for the widening of the nominal trade deficit in its entirety, set against the significant rise in net imports

BALANCE OF PAYMENTS: SUMMARY (a) TABLE 4

EUR m

		ENERO-ABRIL	
		2007	2008
CREDITS	Current account	109,198	119,923
	Goods	*61,519*	*67,652*
	Services	*26,010*	*28,334*
	— Tourism	10,488	10,804
	— Other services	15,522	17,530
	Income	*16,027*	*19,131*
	Current transfers	*5,642*	*4,806*
	Capital account	2,212	2,884
	Current + capital accounts	111,410	122,807
DEBITS	Current account	144,443	160,643
	Goods	*88,307*	*99,304*
	Services	*21,979*	*23,485*
	— Tourism	4,208	4,401
	— Other services	17,771	19,085
	Income	*24,912*	*27,812*
	Current transfers	*9,245*	*10,041*
	Capital account	829	424
	Current + capital accounts	145,272	161,066
BALANCES	Current account	-35,245	-40,720
	Goods	*-26,788*	*-31,653*
	Services	*4,031*	*4,849*
	— Tourism	6,281	6,403
	— Other services	-2,249	-1,554
	Income	*-8,885*	*-8,681*
	Current transfers	*-3,603*	*-5,235*
	Capital account	1,383	2,460
	Current + capital accounts	-33,862	-38,260

SOURCE: Banco de España.

a. Provisional data.

of energy products in real terms. Conversely, the non-energy trade deficit declined in nominal terms.

In the first four months of 2008 the services balance posted a surplus of €4,849 million, 20.3% higher than the same period in 2007. The widening of the surplus was due to the modest 2% improvement in the tourism surplus, to €6,403 million, and, to a greater extent, to the 30.9% correction in the deficit on other services, placing it at €1,554 million. Nominal tourism receipts increased by 3% in this four-month period, a rate below both that in 2007 Q4 and that for 2007 as a whole (4.5% and 3.6%, respectively). Tourism expenditure slowed to a year-on-year rate of increase of 4.6%, in step with the development of its main determinants and, in particular, with the loss of momentum in household spending. As to other services, the buoyancy of receipts in the first four months was more pronounced than that of expenditure (the respective growth rates were 12.9% and 7.4%), which meant that the deficit on this heading narrowed considerably.

Unlike in recent years, the deficit on the income balance fell slightly – by 2.3% year-on-year – in the first four months of 2008 to stand at €8,681 million. This decline was due to receipts outperforming expenditure, although both flows posted notable growth (19.4% and 11.6%, re-

spectively). By type of investment, the notable improvement in the surplus on net direct investment income countered the widening of the deficits on other investment and, in particular, on portfolio investment. The increase in the surplus on foreign direct investment income reflected the favourable trend of dividend income received by other resident sectors and of the fall in related payments. In contrast, the deficit on current transfers widened by 45.3% year-on-year in the first four months of 2008 compared with the same period a year earlier to €5,235 million. This was due both to the fall-off in revenue (–14.8% year-on-year) and to the increase in payments (8.6% year-on-year). The former was particularly influenced by the decline under the Community EAGGF Fund and in the taxes received by general government. The growth of payments reflected the increase in those made by the public sector to the EU (especially those under the GNI resource, which countered the decline in traditional own resources), while migrants' remittance payments declined slightly (–1.5%).

5 Financial developments

5.1 Overview

In 2008 Q2 interbank market interest rates again rose, and this trend was particularly marked at longer maturities. Thus 1-year Euribor stood at 5.4% at the end of June, up 0.7 pp on the rate three months earlier, and since then it has remained around that level until the cut-off date of this report. On this occasion the rise was linked to the upward revision of market expectations as to the future level of Eurosystem official interest rates (which rose by 25 bp at the beginning of July), and not to an intensification of the turmoil, since the difference with respect to secured transactions with the same time horizon (Eurepo) decreased slightly in this period to around 80 bp on 21 July, nearly 10 bp less than at the end of March.

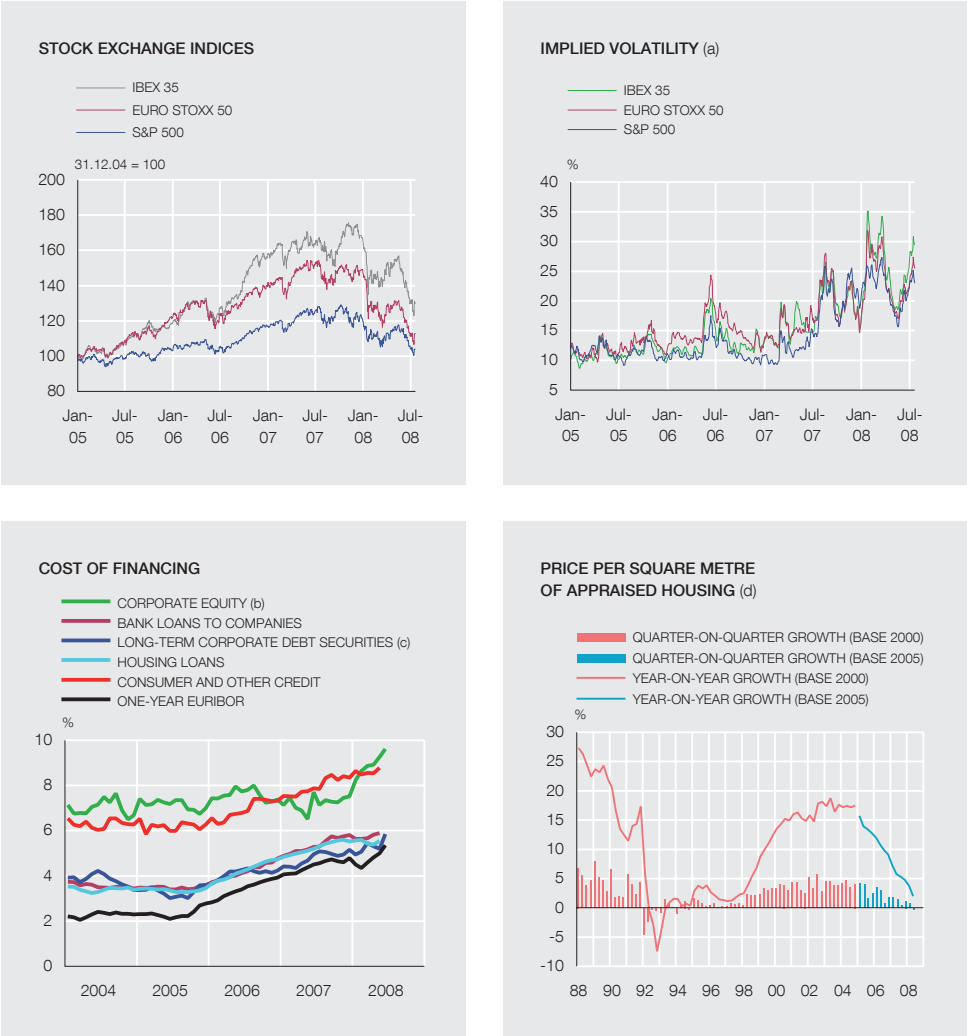
The yield on government bonds also increased, most significantly in the case of five-year bonds (by more than 1 pp). Also, in April and the first fortnight of May the stock markets showed a certain recovery (higher prices and lower volatility) and a narrowing of credit spreads (see Chart 24). These trends, however, subsequently reversed. As a result, the Ibex-35 had lost 22% by 21 July this year, much more than the S&P 500 (14%) but somewhat less than the broad Euro Stoxx index (24%), and credit derivative premiums again rose above their end-2007 levels.

The latest information on private-sector financing conditions points to further tightening. Thus between March and May, the latest month on which information is available, the interest rates on new lending to households for consumer and other purposes and to non-financial corporations rose by somewhat more than 20 bp to 8.78% and 5.89%, respectively, while that on debt taken on for house purchases, which reflects with a certain lag the movements in interbank market interest rates, showed a smaller rise (up by 12 bp to 5.5%). In addition, it should be kept in mind that these figures do not take into account the June rise in Euribor rates. The cost for firms of raising funds through fixed-income securities and the cost of own funds also rose. Moreover, according to the April bank lending survey, credit institutions expected to apply tighter credit standards in the second quarter of the year.

In the real estate market, the latest data provided by the Ministry of Housing show that the slowing trend in unsubsidised housing prices continued between March and June, giving rise, for the first time in recent years, to a slight fall with respect to the previous quarter (down 0.3%). In year-on-year terms, the growth rate of the value of these assets continued to be positive (2%, down 1.8 pp on March).

Against this background, and in line with the observed behaviour of its determinants, the slowdown in private-sector debt apparent in previous quarters has continued in recent months. The year-on-year growth of households' liabilities in May was somewhat less than 10%, down nearly 1 pp on March. The growth rate of corporations' borrowing decreased more sharply (by more than 3 pp) to stand at around 12% in that same period. The annualised quarter-on-quarter rates point to smaller increases in the financing received by both sectors, of around 7% and 8%, respectively (see Box 6). The latest information on credit by productive purpose, which relates to Q1, shows that this slowdown was particularly marked in loans to the residential sector. Thus the rate of expansion of borrowing for real estate activities and construction decreased by nearly 7 pp and somewhat more than 2 pp, respectively, although continuing at high levels (around 18% and 12%). By contrast, the dynamism of borrowing by industry and by other services held steady.

FINANCING CONDITIONS AND ASSET PRICES CHART 24



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

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

The slowdown in household liabilities contributed to stabilising the sector's ratio of debt to gross disposable income (GDI) in the first few months of 2008, while the associated debt burden still shows an upward path as a result of the rising interest rates (see Chart 25). Meanwhile, household saving before debt service recovered slightly, while net wealth and net borrowing with respect to GDI and GDP, respectively, scarcely changed.

Nor did the debt ratio of corporations show significant changes in 2008 Q1. Rather, the associated debt burden increased, and this development contributed to reducing the return on capital (see Chart 26). These trends were also apparent in the corporations reporting to the CBQ, a high proportion of which are large. As result of these developments, the synthetic indicator of financial pressure on employment increased, while the corresponding indicator for investment decreased, this divergence reflecting the different weights of the variables used to calculate them. Further, the Financial Accounts information indicates that in this period the sector's net borrowing did not change significantly, standing near 12% of GDP. By contrast,

The financing received by the non-financial private sector is a highly significant variable in analysis of the economic conjuncture and in assessment of medium-and long-term growth prospects, since the movements of this indicator usually bear a certain relation to the course of spending by households and firms. This is because a significant part of these funds tends to be used for consumption and investment in real assets.

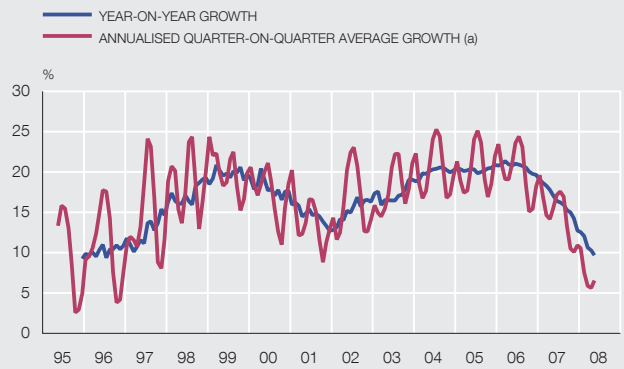
The availability of monthly information on financing enables both shorter-term (monthly or quarterly) and longer-term (annual) growth rates to be calculated. The main advantage of the first of these alternatives is that it uses only the most recent data, so that changes in profile tend to be detected more quickly. However, seasonality, calendar affects and the high variability of monthly flows hinder the extraction of signals about the trend in these series. Although there are statistical and econometric tools to deal with some of these problems, these procedures are subject to an error of estimation.

In view of the foregoing, the Banco de España bases its analysis of financing mainly on the year-on-year growth rate of this variable. The main advantage of this is that it avoids problems of seasonality and reduces calendar affects and the inconvenience of high volatility of series (since atypical movements in one direction in a month tend to be offset by others in the opposite direction in other periods). This allows much more stable measures to be obtained and minimises the risk of extracting erroneous signals or messages that change from one month to another. However, the drawback of this approach is that when changes of trend occur, the information contained in the longer-term rates is captured with a certain lag. Specifically, in periods in which borrowing by the private sector decelerates, the longer-term rates tend to be higher than the shorter-term ones, and the opposite occurs at times of acceleration of this aggregate. In these situations, indicators based on quarterly or monthly changes can be a useful complement to those calculated from year-on-year movements, although their behaviour should be assessed with certain caution, given the problems associated with them.

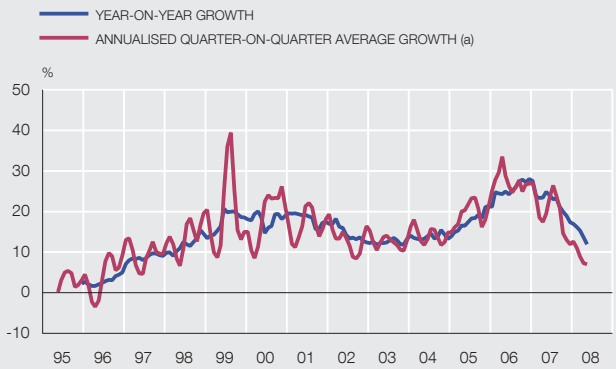
Charts 1 and 2 show, respectively, the growth rate of financing to households and firms, using both shorter-term rates (measures such as the annualised change in the average stock of financing in the last quarter with respect to that in the previous quarter) and longer-term rates (year-on-year growth). It is clearly discernible how the series based on longer-term rates are much more stable than those based on shorter-term rates, which is in line with the foregoing comments. Noticeable in both cases is a decelerating profile of the debt of households and firms which dates from mid-2006 in the first case and from early 2007 in the second. This moderation, which occurred after a long phase in which these variables had been growing at high rates (above 20%), seems to have been prompted by both demand-side and supply-side factors, as suggested by the bank lending surveys conducted in this period.

The most recent data show that the shorter-term rates are lower than the longer-term ones, which is consistent with the current stage of deceleration. Specifically, in May the year-on-year growth rate of financing was around 10% and 12% in the case of households and firms, respectively, as compared with an annualised quarter-on-quarter average growth rate of around 7% and 8%. These latter figures are already near the expansion of nominal GDP, meaning that the aggregate debt ratios of households and firms are stabilising, after a long phase of strong growth.

1 FINANCING TO HOUSEHOLDS. GROWTH RATES



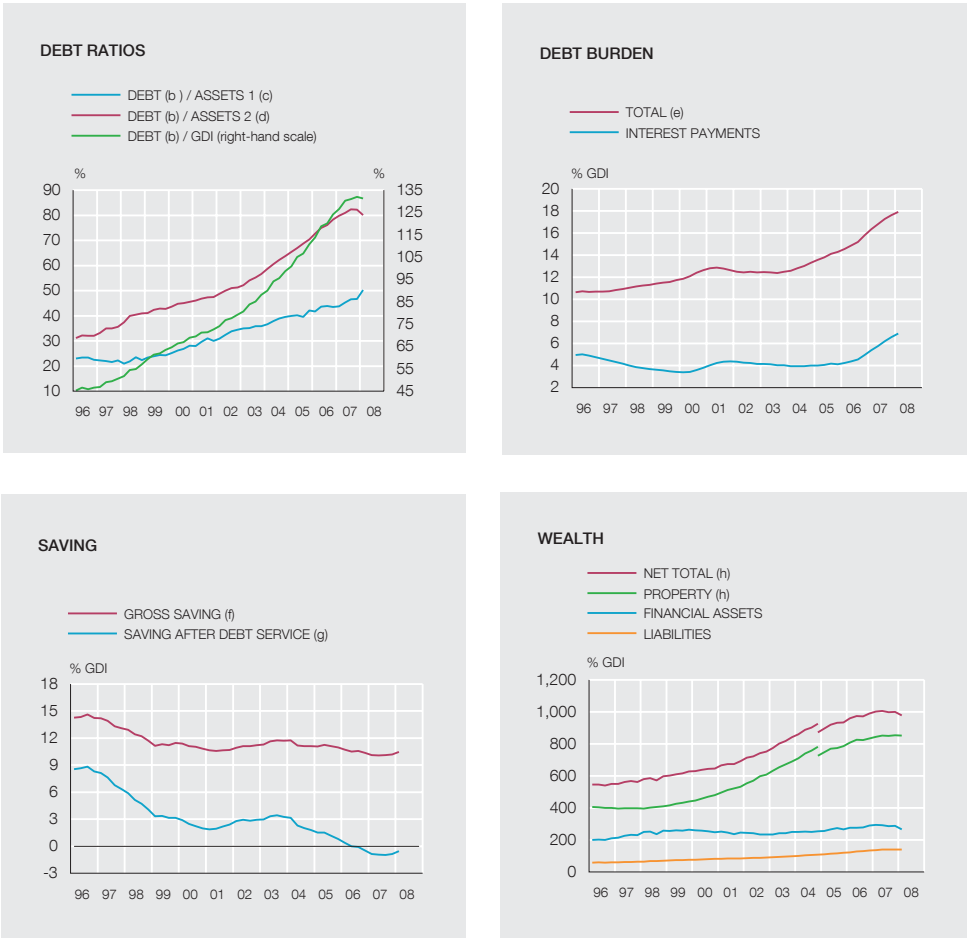
2 FINANCING TO FIRMS. GROWTH RATES



SOURCE: Banco de España.

a. Calculated as the growth rate of the average stock in the last three months with respect to that in the preceding three months and annualised using the compound capitalisation formula.

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



SOURCE: Banco de España.

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

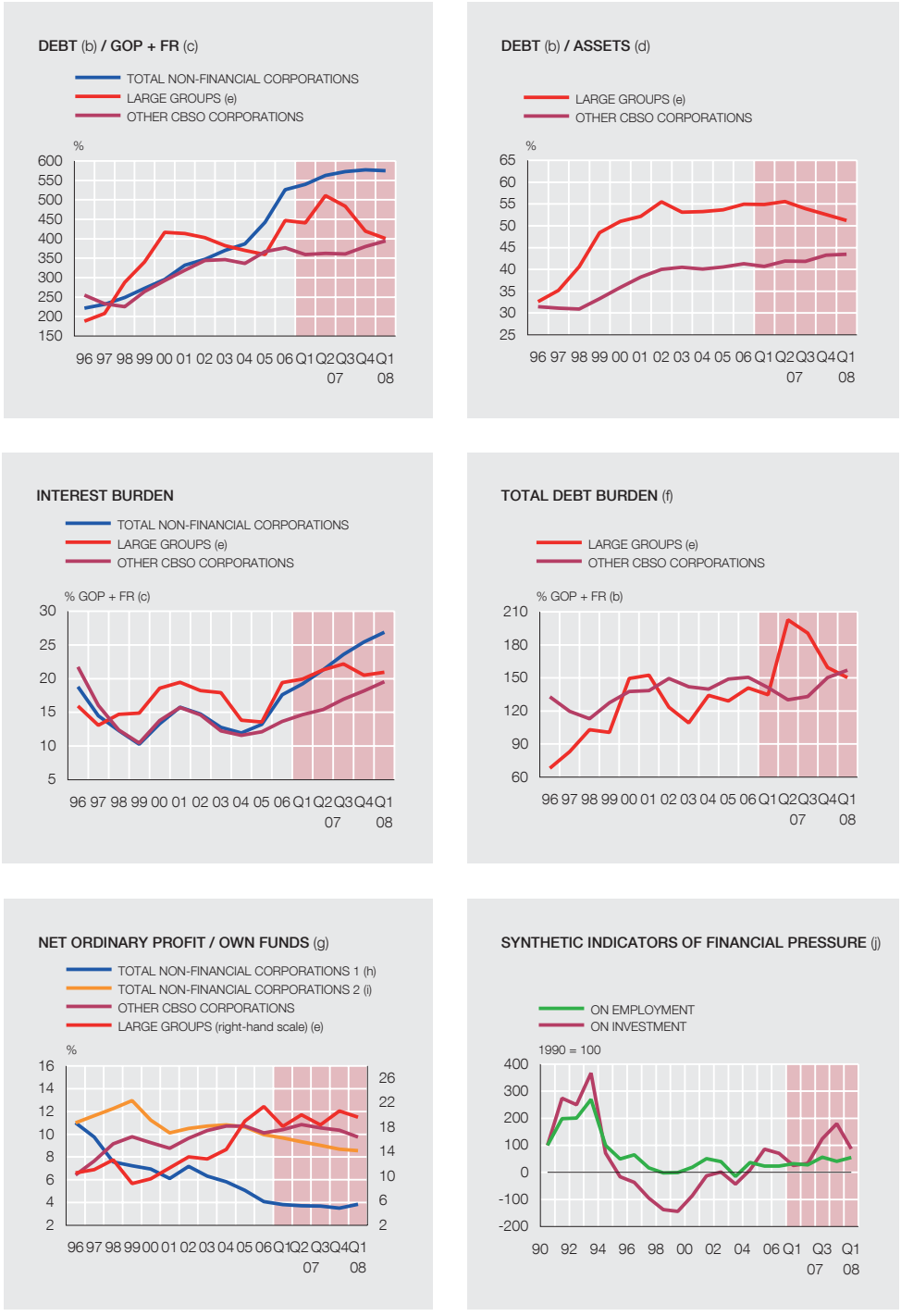
the financing gap (which approximates the funds required to bridge the difference between gross corporate saving and gross capital formation plus permanent foreign investment) widened slightly to nearly 18% of GDP, up 0.5 pp on end-2007.

The projections available for 2008 Q2 point to a continuation of the recent trends of the debt and debt-burden ratios of households and firms. Thus the former scarcely changed, while the latter continued to increase.

Although the shortfall in households' and corporations' funds held unchanged between December 2007 and March 2008, the lower saving of general government along with the scant change in the surplus of financial institutions led to an increase in the nation's net borrowing, which amounted 10% of GDP in cumulative year-on-year terms (see Table 5). Unlike what happened in the second half of 2007, in 2008 Q1 the net funds raised in the rest of the world by the sectors other than the Banco de España were sufficient to cover the external deficit.

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

CHART 26



SOURCE: Banco de España.

a. Based on CBSO annual and quarterly survey data, except in the case of the "total non-financial corporations" series, which is based on the Spanish National Accounts (CNE and FASE). From 1999, the income of the sector corrresponds 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.

NET FINANCIAL TRANSACTIONS
Four-quarter data

TABLE 5

% GDP

	2003	2004	2005	2006	2007				2008
					Q1	Q2	Q3	Q4	Q1
National economy	-2.9	-4.8	-6.5	-8.1	-8.3	-8.6	-8.9	-9.5	-10.0
Non-financial corporations and households and NPISHs	-3.8	-5.1	-8.2	-10.5	-11.1	-11.9	-12.9	-13.4	-13.4
Non-financial corporations	*-3.9*	*-4.5*	*-6.9*	*-8.9*	*-8.8*	*-10.0*	*-11.0*	*-11.7*	*-11.9*
Households and NPISHs	*0.1*	*-0.6*	*-1.3*	*-1.7*	*-2.3*	*-1.9*	*-1.9*	*-1.6*	*-1.5*
Financial institutions	1.0	0.6	0.7	0.6	0.8	1.2	1.4	1.6	1.7
General government	-0.2	-0.4	1.0	1.8	2.0	2.0	2.6	2.2	1.7
MEMORANDUM ITEM:									
Financing gap of non-financial corporations (a)	-8.2	-8.7	-11.1	-16.1	-13.8	-15.6	-15.9	-17.4	-17.9

SOURCE: Banco de España.

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

However, in cumulative year-on-year terms, the capital inflows through this institution increased.

In sum, the latest data show that the financing conditions faced by households and firms tightened further in Q2, both through increases in the cost of funds and through the stricter credit standards applied by credit institutions. In line with this development and with the other basic determinants of liabilities, the borrowed funds raised by households and firms continued their progressive deceleration, and this will contribute to the more sustainable long-run course of the aggregate debt of these sectors. However, the high level of debt of some segments, along with the increase in financing costs and, in certain cases, the less favourable earnings performance, might be subjecting an increasing proportion of these agents to higher financial pressure. The increase in the doubtful assets ratio in recent months points in this direction. Between December 2007 and March 2008 this ratio increased by 0.3 pp both for households and for non-financial corporations, with a sharper rise in construction and real estate services (0.4 pp), although the level reached continues to be low both in historical terms and in comparison with other EU countries.

Although in 2008 Q1 the financing of the external deficit did not give rise to a decrease in the net position of the Banco de España vis-à-vis the rest of the world, and despite the fact that subsequent months have seen the incipient re-opening of some securities issuance markets, the persisting difficulty in raising funds on international markets continues to be a factor of risk, given the high net borrowing of the Spanish economy.

5.2 Households

2008 Q2 saw a further rise in households' financing costs. Between March and May the interest rates applied by credit institutions to new consumer credit and other lending increased by 23 bp to 8.78%, while that associated with funds for house purchase, which reflects with a certain lag the movements in interbank market interest rates, underwent a smaller rise (by 12 bp to 5.55%). The increase in Euribor rates in June points to a prolongation of the upward trend in the cost of credit to households. Moreover, according to the April bank lending survey, credit institutions anticipate applying tighter credit standards in both types of lending in Q2 compared with the preceding quarter.

Against this background, the decelerating path of household debt initiated in 2006 has continued in the last few months and the pace of year-on-year expansion decreased further to stand below 10% in May, down nearly 1 pp on March, a rate which is somewhat lower if measured in annualised quarter-on-quarter terms (around 7%). This development reflects the slower pace both of house purchase loans, the year-on-year growth rate of which stood at 10%, and of consumer credit and other lending, which was up by 8% with respect to the same period of 2007.

Regarding portfolio decisions, the most recent Financial Accounts information shows that purchases of financial assets by households again moderated in 2008 Q1. Hence, in cumulative annual terms, they stood at around 6% of GDP, nearly 1.5 pp below the end-2007 level. A large part of this decrease was concentrated in higher-risk instruments (shares and other equity and investment funds), in line with the greater volatility and downward trend of stock market prices in this period. Meanwhile, the heading other deposits and fixed-income securities continued to account for the bulk of fresh financial investment by households (it amounted to 7.7% of GDP) and was in fact the only heading, along with insurance technical reserves, to show positive flows in cumulative 12-month terms.

Thus in recent months the growth rate of household financing has moved progressively closer to that of household income. As a result, the debt ratio has tended to stabilise, and at the end of 2008 Q1 it stood at somewhat more than 130% of GDI. By contrast the associated interest burden continued to increase, driven by the rise in the component linked to interest payments. Despite this development, saving after debt service increased (by 0.4 pp with respect to GDI), basically as a result of the recovery of the sector's gross saving. Neither the net wealth of households with respect to their GDI, nor their net borrowing in terms of GDP showed significant changes.

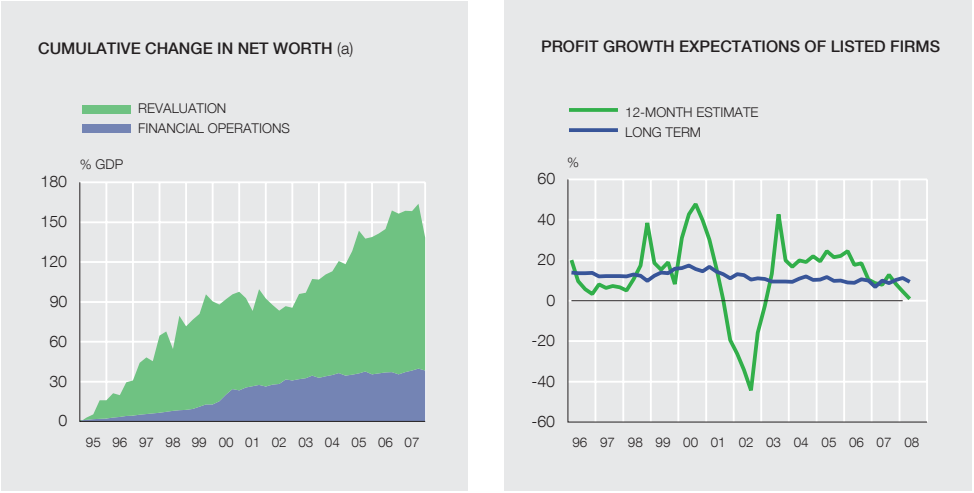
5.3 Non-financial corporations

The cost of corporate financing also increased in 2008 Q2. The breakdown into components shows that up to May, the date of the latest data available, the interest rate on credit increased by 22 pp to 5.9%. As in the case of households, these figures do not include the June rise in Euribor, which will foreseeably pass through to the price of bank financing. Also, between March and June the cost of equity rose by 75 pp and that of short-and long-term fixed-income securities issuance was up by 64 bp and 40 bp, respectively. Further, according to the April bank lending survey, between March and June credit institutions anticipate applying more stringent credit standards than in early 2008.

The progressive tightening of the credit conditions faced by firms, along with the developments in the other determinants of debt (in particular, the lower economic buoyancy), has contributed to the ongoing decline in the growth rate of firms' borrowed funds, which in many stood at around 12% in year-on-year terms (more than 3 pp below the March figure), and at around 8% according to the annualised quarter-on-quarter rates. Analysed by component, this development was a result of the deceleration in lending by resident credit institutions and in loans from non-residents, since fixed-income securities issuance showed greater vigour.

Analysis by loan purpose of the latest information, which relates to 2008 Q1, shows that the slowdown in credit granted by resident institutions was particularly marked in that to the real estate sector (its year-on-year growth rate fell by nearly 7 pp to stand somewhat below 18%), and more moderate in that for construction (the rate of expansion dropped by somewhat more than 2 pp). By contrast, despite the less vigorous activity, the funds raised by industry and the other services branches retained their notable dynamism, with year-on-year growth of around 19% and 22%, respectively.

OTHER FINANCIAL INDICATORS OF NON-FINANCIAL CORPORATIONS CHART 27



SOURCES: I/B/E/S and Banco de España.

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

The Financial Accounts information for 2008 Q1 shows few changes in the sector's net borrowing, which held at levels around 12% of GDP. However, the financing gap, the indicator which approximates the funds required to bridge the difference between gross corporate saving and gross capital formation plus permanent foreign investment, increased to nearly 18% of GDP, up 0.5 pp on end-2007.

In line with the progressive deceleration of borrowing, the level of corporate debt has tended to stabilise lately, standing in Q1 at around 575% of the funds raised by this sector (see Chart 26). This, together with the increased financing costs, led the debt burden ratio to move upwards once again to reflect the fact that financial costs absorbed 27% of gross operating profit plus financial revenue. This increase contributed to the contraction of firms' ordinary net profit, which led to a certain decrease in the return on capital.

The latest available information from firms reporting to the CBQ, which relates to 2008 Q1, shows a picture similar to that reflected by aggregate sector data. There was an increase in the proportion of revenue used for debt service, more marked in the case of firms not belonging to large corporate groups, while the debt ratio did not undergo significant changes. Profitability decreased slightly with respect to the same period of the previous year, and this trend was fairly general across the various branches of activity. As result of the overall effect of these developments, the synthetic indicator of financial pressure on employment increased slightly, while that for investment decreased. These divergences result from the different weighting of the variables used to calculate the indicators.

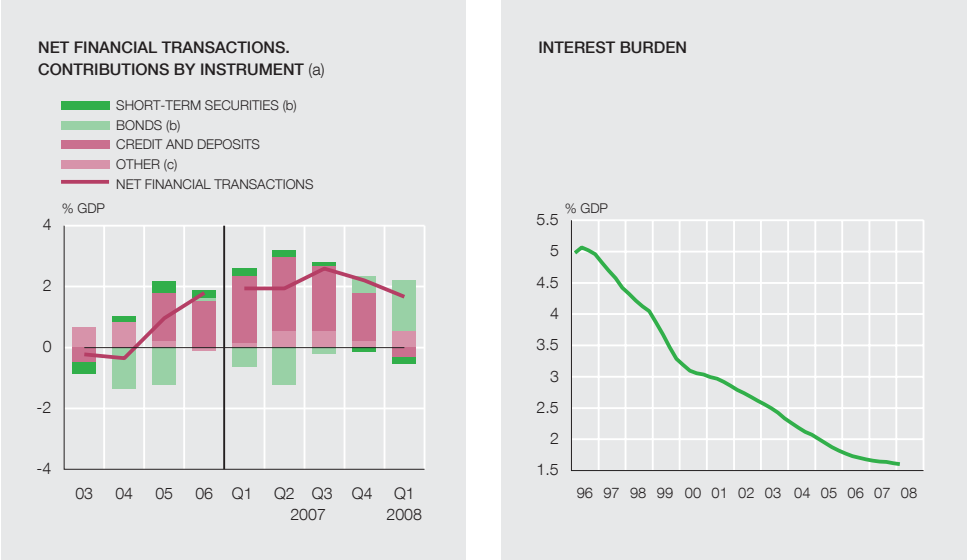
Analysts' projections of the increase in the profits of listed non-financial corporations for the next 12 months were again revised downwards in 2008 Q2, to practically zero. Those for longer time horizons were also down, albeit to a lesser extent, and so still remain at comfortable levels (see Chart 27).

5.4 General government

From December 2007 to March 2008, general government net lending in cumulative 12-month terms stood at 1.7% of GDP, down 0.5 pp on end-2007 (see Chart 28). Analysis by instrument shows some significant changes compared with the recent past. Thus the balance of general

GENERAL GOVERNMENT
Four-quarter data

CHART 28



SOURCE: Banco de España.

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

government deposits (net of credits) declined with respect to the same period of the previous year, in contrast with the pattern of growth of this heading in the preceding period. Also, net placements of short-term securities increased. These changes were basically offset by the cut-back in the outstanding volume of long-term securities. As in previous quarters, the decrease in the debt ratio meant that, despite the rise in the average cost of funds, interest payments as a proportion of GDP held stable at around 1.6%.

5.5 The rest of the world

In 2008 Q1 the debit balance of the nation's financial transactions increased further to stand, in cumulative 12-month terms, at 10% of GDP, up 0.5 pp on 2007. Sectorally speaking, this result was basically a consequence of less saving by general government, since net borrowing by the other sectors scarcely changed (see Table 5).

In cumulative four-quarter terms, the net capital inflows channelled through the financial system (excluding the Banco de España and institutional investors) continued to decrease with respect to GDP between December 2007 and March 2008. Nevertheless, the reduction was much more moderate than in the preceding months and, moreover, was accompanied by a significant change in the composition of these flows. Thus, as a result of the persistent issuance difficulties in the securitisation markets, the funds raised through financial institutions other than institutional investors (which include issues by financial vehicle corporations) contracted again significantly (by 4.6 pp with respect to GDP). By contrast, the funds raised directly by credit institutions increased notably (by 4.3 pp with respect to GDP), a development which manifested itself basically in an increase in interbank financing vis-à-vis the rest of the world. Net purchases of foreign assets by institutional investors and by the Banco de España were again negative, amounting to 2.9% and 1.7% of GDP, respectively, compared with 1.9% and 1.4% at end-2007. Finally, the flows channelled through general government continued to show a net credit balance, which is consistent with the decrease in the volume of outstanding debt, whereas the opposite occurred in those corresponding to the non-financial private sector.

TRANSACTIONS OF HOUSEHOLDS, NPISHs AND NON-FINANCIAL CORPORATIONS TABLE 6
Four-quarter data

% GDP

	2004	2005	2006	2007		2008
				Q3	Q4	Q1
HOUSEHOLDS AND NPISHs:						
Financial transactions (assets)	9.5	10.4	10.9	8.4	7.2	5.8
Cash and cash equivalents	3.9	4.0	3.1	0.6	-1.0	-1.0
Other deposits and fixed-income securities (a)	1.2	1.6	5.6	6.8	7.7	7.7
Shares and other equity (b)	0.3	0.2	-1.1	-0.2	0.4	-0.3
Investment funds	1.6	1.9	0.2	-1.0	-1.2	-1.6
Insurance technical reserves	1.9	2.0	1.8	1.6	1.0	0.9
Of which:						
Life assurance	*0.7*	*0.8*	*0.6*	*0.6*	*0.3*	*0.3*
Retirement	*0.9*	*1.0*	*0.9*	*0.8*	*0.6*	*0.5*
Other	0.7	0.7	1.3	0.5	0.4	0.1
Financial transactions (liabilities)	10.1	11.8	12.6	10.3	8.8	7.4
Credit from resident financial institutions (c)	10.8	12.3	13.0	10.9	9.4	8.0
House purchase credit (c)	*8.7*	*10.2*	*9.9*	*8.5*	*7.2*	*6.2*
Consumer and other credit (c)	*2.1*	*2.2*	*3.1*	*2.5*	*2.2*	*1.8*
Other	-0.7	-0.5	-0.4	-0.6	-0.6	-0.6
NON-FINANCIAL CORPORATIONS:						
Financial transactions (assets)	14.4	18.2	22.8	17.7	13.8	11.6
Cash and cash equivalents	1.0	2.0	2.3	0.4	-0.4	-1.1
Other deposits and fixed-income securities (a)	0.3	1.2	2.0	2.8	2.5	2.8
Shares and other equity	6.3	7.2	10.9	8.5	7.2	5.7
Of which:						
Vis-à-vis the rest of the world	*3.8*	*3.9*	*7.7*	*5.1*	*5.3*	*5.3*
Other	6.8	7.7	7.5	5.9	4.5	4.1
Financial transactions (liabilities)	18.9	25.1	31.6	28.7	25.6	23.4
Credit from resident financial institutions (c)	8.3	12.9	17.7	16.9	13.9	12.4
Foreign loans	0.7	2.1	3.4	2.1	2.6	2.8
Fixed-income securities (d)	0.0	0.3	1.8	0.8	0.5	0.3
Shares and other equity	4.4	3.7	2.5	4.1	5.0	5.0
Other	5.5	6.1	6.4	4.9	3.5	3.0
MEMORANDUM ITEM: YEAR-ON-YEAR GROWTH RATES (%):						
Financing (e)	16.3	21.2	24.2	18.6	15.3	13.3
Households and NPISHs	20.2	20.9	19.6	15.3	12.7	10.6
Non-financial corporations	13.2	21.4	28.0	21.1	17.3	15.3

SOURCE: Banco de España.

a. Not including unpaid accrued interest, which is included under "other".
b. Excluding investment 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.

In 2008 Q1 the volume of capital inflows again fell, and, in cumulative four-quarter terms, stood at 19% of GDP, down 3.7 pp on end-2007 (see Table 7). Analysis by instrument disclosed the same trends as at the end of the previous year. Thus, against a background of paralysis of the international securitisation markets and of notable tightening of financing conditions on other debt markets, there was a sharp contraction (of 8 pp with respect to GDP) in the funds associated with securities other than shares (the amount of which actually turned negative). This significant decrease reflected the lesser funds raised by this means, basically by financial institutions, and also, albeit to a lesser extent, by general government, in line with the decrease in the outstanding stock of assets of this type. By contrast, the funds raised through shares and

FINANCIAL TRANSACTIONS OF THE NATION TABLE 7
Four-quarter data

% GDP

	2004	2005	2006	2007		2008
				Q3	Q4	Q1
NET FINANCIAL TRANSACTIONS	-4.8	-6.5	-8.1	-8.9	-9.5	-10.0
FINANCIAL TRANSACTIONS (ASSETS)	13.3	18.7	17.9	16.5	13.2	9.0
Gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	3.2	2.2	5.5	5.7	2.2	-0.7
Of which:						
Interbank (a)	*0.7*	*3.1*	*3.4*	*5.9*	*4.2*	*1.6*
Securities other than shares	1.8	8.8	-1.2	2.7	1.6	1.3
Of which:						
Credit institutions	*1.0*	*6.6*	*-2.1*	*2.3*	*1.8*	*1.9*
Institutional investors (b)	*0.3*	*2.3*	*0.6*	*0.5*	*-0.1*	*-0.7*
Shares and other equity	6.8	5.1	10.2	6.6	7.6	6.0
Of which:						
Non-financial corporations	*3.8*	*3.9*	*7.7*	*5.1*	*5.3*	*5.3*
Institutional investors (b)	*0.8*	*0.9*	*1.2*	*-0.4*	*-1.0*	*-1.9*
Loans	0.8	1.1	1.8	0.4	1.1	1.4
FINANCIAL TRANSACTIONS (LIABILITIES)	18.2	25.2	26.0	25.4	22.7	19.0
Deposits	1.7	5.6	0.3	5.4	7.3	11.2
Of which:						
Interbank (a)	*5.0*	*7.2*	*0.6*	*5.3*	*6.7*	*10.9*
Securities other than shares	12.4	15.8	21.7	15.0	7.9	-0.3
Of which:						
General government	*2.7*	*0.2*	*1.3*	*-0.5*	*-1.5*	*-2.3*
Credit institutions	*4.6*	*6.3*	*8.0*	*5.8*	*3.5*	*0.8*
Other non-monetary financial institutions	*5.1*	*9.3*	*12.4*	*9.7*	*5.9*	*1.2*
Shares and other equity	2.7	0.9	-0.1	2.1	4.3	4.8
Of which:						
Non-financial corporations	*1.7*	*1.0*	*-0.5*	*2.1*	*4.5*	*4.8*
Loans	1.3	2.3	3.6	2.4	2.8	3.0
Other, net (c)	-0.6	-0.9	-1.0	-0.6	-0.4	-0.7
MEMORANDUM ITEMS						
Spanish direct investment abroad	5.8	3.7	8.1	6.4	8.7	8.6
Foreign direct investment in Spain	2.4	2.2	2.2	1.6	4.0	5.4

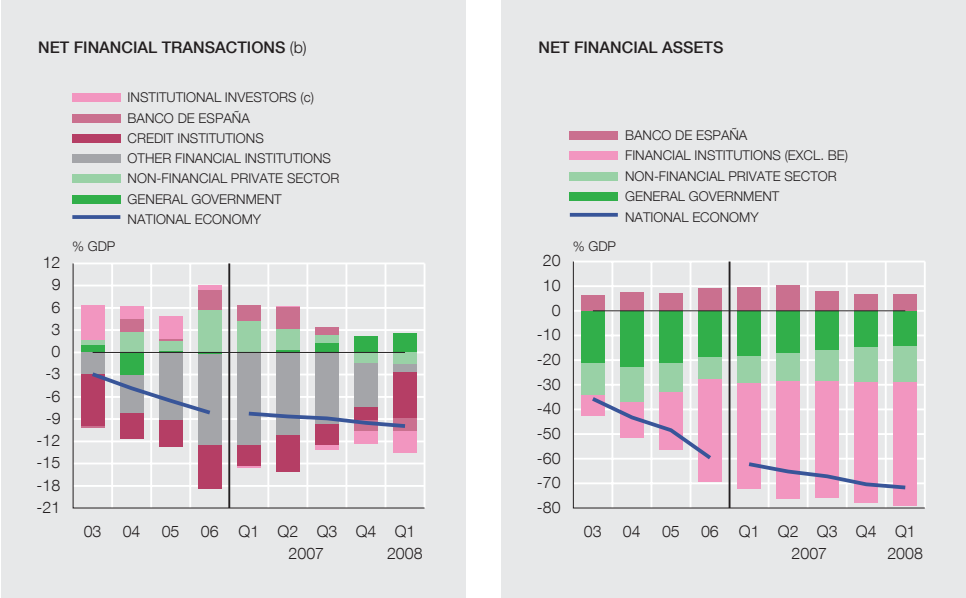
SOURCE: Banco de España.

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

other equity increased, in line with the rise in foreign direct investment in Spain and, in particular, in interbank financing, which accounted for more than half the funds received from the rest of the world.

The volume of capital outflows also decreased, standing at 9% of GDP, down 4.2 pp on 2007. This decline was fairly general across instruments, with the exception of loans. The largest contractions were in the heading cash and deposits (specifically in interbank market deposits) and in investment in shares and other equity, basically as a result of smaller purchases by credit institutions and institutional investors. Spanish direct investment abroad as a proportion of GDP scarcely changed, standing at 8.6%.

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 collective investment institutions.

As a result of the changes in cross-border financial flows, asset prices and the exchange rate, the value of the accumulated net liabilities to the rest of the world increased slightly (see Chart 29). Sectorally, this was due to an increase in the debit balance of financial institutions (excluding the Banco de España) and of the non-financial private sector, which exceeded the decrease attributable to general government.

24.7.2008

Results of non-financial corporations in 2008 Q1

Overview[1]

The information gathered by the Central Balance Sheet Data Office Quarterly Survey (CBQ) for 2008 Q1 confirms the gradual slowdown of activity of the sample non-financial corporations which began last year and which, in this period, has affected a growing number of companies and sectors. It is worth bearing in mind that the fact that Easter fell in 2008 Q1, whereas in 2007 it was in Q2, affected the comparison of activity data from the two periods. Gross value added (GVA) increased by 2% in 2008 Q1, considerably less than in the same period last year (6.9%). Most sectors of activity were less buoyant: market services were affected by the softening of private consumption and, following a year of clear growth, aggregate activity of the industrial sector contracted in the first three months of 2008 (the rate of change of GVA stood at –3.5%), most sharply in the industrial sub-sectors more closely linked to construction. These developments are consistent with the slowdown in investment in capital goods shown by alternative indicators to the CBQ, and with the greater uncertainty in the international arena. In the period under analysis, the energy sector alone posted higher increases in GVA than in 2007, essentially due to the extraordinary rise in the turnover of oil refining companies in a setting of rising international crude oil prices.

Personnel costs increased at a rate of 4.9% in 2008 Q1, slightly down on a year earlier (5.1%), as a result of the combined effect of a slowdown in job creation and a larger increase in average compensation. Thus, the average number of employees at firms reporting to the CBQ increased in 2008 Q1 by 0.8%, which is lower than the 1.3% recorded a year earlier. The sectoral analysis indicates that there was greater headcount restraint in industrial and in transport and communications firms. Compensation grew in 2008 Q1 by 4.1%, 0.3 pp up on the same period of the previous year (3.8%). Therefore, there was an ongoing trend of gradual upward adjustment of wage costs, which in the last three years have accelerated moderately (but uninterruptedly) in the CBQ data (3.4% in 2005, 3.5% in 2006 and 3.7% in 2007).

As a result of the slowdown of GVA and the rise in personnel costs, gross operating profit (GOP) did not change with respect to 2007 Q1, when it grew by 8.2%. In addition to this behaviour of GOP, financial costs once again increased strongly (26.7%) and financial revenue grew less sharply (11.8%) and, as a result, ordinary net profit fell with respect to 2007 Q1 (–6.3%). The strong growth of financial costs was due to the combined effect of an increase in the cost of debt and greater recourse to borrowing than in previous quarters (mainly due to certain transactions at large firms in 2007 Q2). Therefore, the sum of ONP and financial costs (the numerator used in profit ratios) remained stable, permitting the return on investment to reach positive values (5.9%), only slightly down on the same period of 2007 (6.3%). Return on equity also worsened slightly, and somewhat more sharply than return on investment, dropping from 8.2% in 2007 to 6.9% in 2008 Q1. Finally, the ratio which approximates the cost of

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1. This article is based on the information from the 666 corporations that reported their data to 16 June 2008. The GVA of this aggregate accounts for 12.5% of the total GVA of the sector non-financial corporations (according to Spanish National Accounts data). This is the first quarter in which Spanish non-financial corporations have applied the new Spanish general chart of accounts (Plan General de Contabilidad 2007, "PGC" by its Spanish abbreviation) which explains why data are being sent in with a slight delay (5% of reporting firms will send their data in the next quarter). In any event, these delays do not affect the largest sample firms and, consequently, the results discussed in this article give an accurate picture of the situation in the sector. Box 1 describes the main ways in which the adaptation to the PGC 2007 is affecting the accounting information of firms and the analysis of this information. Notably the application of the new chart of accounts has not meant significant breaks in the main statistical series on which this article is based. However, since under the PGC 2007 capital gains and losses are no longer provided separately in official accounting forms but rather in net terms, Table 1 had to be adapted to this new format and from this article onwards the net amount of extraordinary revenue and expenses will be presented.

IMPLEMENTATION OF THE NEW SPANISH GENERAL CHART OF ACCOUNTS. EFFECTS ON CORPORATIONS' ACCOUNTING DATA

BOX 1

Changes in the "language" used with firms: the new Spanish general chart of accounts (PGC 2007)

The new Spanish general chart of accounts (PGC 2007, by its Spanish abbreviation), promulgated by Royal Decree 1514/2007 of 16 November 2007, is applicable to accounting periods beginning on 1 January 2008.[1] This new accounting framework in force in Spain for firms' individual accounts is in line with international financial reporting standards (IFRS), which have applied since 2005 to the consolidated accounts of listed companies.[2] As part of the process of adapting corporate and accounting law to IFRS, the regulatory body for accounting in Spain, the Spanish Accounting and Audit Institute (ICAC, by its Spanish acronym) reviewed the international standards and eliminated the various options envisaged by them for recording and valuing certain assets and liabilities.

The main new features of the PGC 2007 are as follows: firstly, the introduction of the fair value method of accounting for certain financial instruments (among others, assets and liabilities classified by the firm as held for trading, and available-for-sale financial assets). The variations arising from changes in fair value are recorded on the basis of the purpose of the financial instrument and affect the income statement (where specific captions have been created) and the balance sheet (a specific caption has been created under equity for adjustments due to changes in value). Secondly, under the PGC 2007, corporations' accounting records must include information on certain types of assets and liabilities which were not regulated sufficiently or were not envisaged in the PGC 1990 (in force until 31 December 2007), such as, for example, information on investment properties a separate breakdown of investments in non-current assets held for sale and of the liabilities relating to these assets, and the recording in the balance sheet of financial assets and liabilities as a result of derivatives transactions. Thirdly, the traditional "extraordinary profit (loss)" item practically disappears from the income statement since it has been sharply reduced in scope, most of its content now being included under operating profit (loss).[3] Finally, the PGC 2007 introduces two new accounting statements: the statement of changes in equity (compulsory for all firms) and the cash flow statement (only compulsory for firms of a certain size that use the standard accounting format, which is the one requesting the most detailed information).

The new CBQ questionnaire: impact of the PGC 2007 on reporting firms

In order to adapt to the above-mentioned regulatory changes, the Central Balance Sheet Data Office prepared two new questionnaires

1. There is a simplified version of the PGC 2007 for small firms, called the SME chart of accounts, which was promulgated by Royal Decree 1515/2007 of 16 November 2007. **2.** A Box in the article "Results of non-financial corporations in 2005 Q1", published in the June 2005 Economic Bulletin, made a preliminary evaluation of the impact of the application of IFRSs on the consolidated accounts of listed firms.

3. Under the new chart of accounts, most extraordinary profit or loss must be classified in the income statement according to the nature of the revenue or expense. The Central Balance Sheet Data Office, in direct contact with corporations, identifies these transactions in order to isolate and exclude them from the calculation of ordinary net profit (the basis for the analysis of return on investment).

USE OF THE QUESTIONNAIRE ADAPTED TO THE PGC 2007 BY CBQ REPORTING FIRMS
Principal results

	Total firms	Questionnaire	
		PGC 1990	PGC 2007
1 Use of new questionnaire	668	130	538
	Total firms 08 Q1 (PGC 2007)	Reported having comparability problems	
		Number	Percentage
2 Comparability problems due to application of PGC 2007	538	36 (a)	6.7%
3 Impact of fair value	No. of firms	Adjustment/Equity (b)	Adjustment/Total assets (b)
a) Balance sheet (adjustment to equity due to change of value)	62	2.7%	1.0%
	666	0.9%	0.3%
	No. of firms	Adjustment/Turnover plus financial revenue (b)	Change/Net profit (b)
b) Income statement (change in fair value)	24	7.4%	83.9%
	666	0.5%	6.6%

a. After making the adjustments required to connect the time series, 34 firms which reported having comparability problems were included in the study (only two were excluded).
b. The weight of the adjustments is calculated, for the stated variables, both for the firms reporting these impacts due to fair value and as a percentage of the total firms included in the sample.

IMPLEMENTATION OF THE NEW SPANISH GENERAL CHART OF ACCOUNTS. EFFECTS ON CORPORATIONS' ACCOUNTING DATA (cont'd) BOX 1

(an annual and a quarterly one) for 2008, in line with the guidelines of the PGC 2007. The survey for 2008 Q1 is the first experience of collecting information in the framework of the new chart of accounts. However, it was anticipated that some firms, at least during the initial quarters, would not have adapted to the new framework, and the possibility was left open of them completing the quarterly questionnaire using the old format (PGC 1990) and applying internally a conversion table and resolving the linkage problems encountered. The accompanying table shows the qualitative and quantitative impact of the PGC 2007 on the new CBQ questionnaire:

— Only 19% of firms continued to send their information using the old questionnaire, due to lack of time to adapt to the new chart of accounts.

— In the new questionnaire firms were asked if, as a result of application of the new accounting rules, changes had occurred which had a significant impact on comparability of their data. Slightly less than 6.7% of firms answered this question in the affirmative (36 out of the 538 firms which filled in the new questionnaire). The data were processed so as to preserve the consistency of the time series, which was possible in 34 cases (only two firms finally had to be excluded from the studies). In addition to the matter discussed in the following paragraph, the comparability problems mentioned by firms have been: the different classification of financial leases (which are no longer part of intangible fixed assets and are now included under tangible fixed assets), the elimination of the reversion fund and the inclusion of capital grants under equity.

— As expected, the main issue noted by firms, for data comparison purposes, arose from the application of the fair value method. The accompanying table provides information on the relative importance of the new valuation system in non-financial corporations reporting to the CBQ. The impact on their balance sheet is limited (62 firms reported an impact of 2.7% of their own funds, which amounts to 0.9% of the own funds of the total sample). The impact on the income statement is slightly larger. Thus, the 24 firms which reported that their income statement had changed due to carrying financial instruments at fair value stated that this change was for a positive amount (net income) which represents 83.9% of their net profit. This is an impact of 7.4% if compared with these firms' net sales (6.6% and 0.5% when this change is calculated using these same variables with respect to the total sample). Consequently, the main effect is that net profit will henceforth show higher volatility.

Lastly, as regards the presentation format of the financial statements included in this article (see Table 1), the decision was taken to keep publishing during the initial quarters of 2008 the same information as has been published so far, for two main reasons: first, practically all the captions and ratios used so far can still be calculated with the new information, thus guaranteeing a near perfect match with previous series; and, second, it was considered appropriate to wait until a longer data series is available (at least three quarters) to commence publication of the new breakdowns of information available within the framework of the new chart of accounts.

borrowing continued on the upward path of recent years (it rose 0.5 pp above the previous year's ratio to 4.8%) due to the effect of interest rate rises and, as a result, the difference between ROI and cost of debt narrowed significantly to 1.1 (in comparison with 2.0 in 2007).

Lastly, the most notable developments regarding extraordinary results are the considerable growth in revenue, due to substantial gains on share sales and the revaluation of certain financial assets (which were recorded for the first time using the fair value method), along with a sharp drop in control portfolio impairment charges.[2] Both effects contributed to a clearly more positive change in net profit than in previous periods. Thus the increase of 9.4% in 2008 Q1 clearly exceeds the rate posted one year earlier (3.6%). This increase in net profit, together with more contained growth of GVA, took the profit level of CBQ firms, expressed as a percentage of GVA, to 32%, almost 3 pp higher than in 2007 Q1.

Thus, the data collected by the CBQ for 2008 Q1 confirmed the slowdown in productive activity, which had begun the previous year, triggering a fall in ordinary profits and employment

2. As indicated in Box 1, the information available in the Central Balance Sheet Data Office Survey on the impact of the use of the fair value method enables us to isolate its effects on the profit and debt ratios so that it can be analysed in the time series. However, in the case of the profit and loss account it was decided not to strip out the effect of fair value accounting, in order to give a true and fair view of final net profit, although that meant that its volatility increased and thus further reduced its analytical predictive significance. In any event, in view of this variable's high volatility, since 1998 profit ratios have been calculated in relation to ordinary net profit and not as a percentage of net profit.

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

	CBA STRUCTURE	CBA		CBQ		
DATABASES	2006	2005	2006	07 Q1-Q4/ 06 Q1-Q4 (a)	07 Q1/ 06 Q1	08 Q1/ 07 Q1
Number of corporations		9.093	8.836	811	876	666
Total national coverage		32,6%	32,2%	13,9%	14,9%	12,5%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including subsidies)	100.0	9.9	9.4	5.8	3.5	9.5
Of which:						
- Net amount of turnover and other operating income	*139.8*	*11.9*	*9.6*	*4.0*	*0.4*	*9.4*
2. INPUTS (including taxes)	68.5	12.5	10.0	6.2	1.8	13.4
Of which:						
- Net purchases	*40.2*	*13.5*	*11.4*	*3.2*	*-2.7*	*19.2*
- Other operating costs	*28.4*	*12.2*	*8.1*	*7.3*	*7.1*	*4.5*
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	31.5	4.7	8.1	4.9	6.9	2.0
3. Personnel costs	16.7	5.8	6.9	4.5	5.1	4.9
S.2. GROSS OPERATING PROFIT [S.1 – 3]	14.9	3.6	9.4	5.2	8.2	0.0
4. Financial revenue	3.5	24.4	18.2	39.3	53.6	11.8
5. Financial costs	3.2	9.7	35.3	35.4	41.5	26.7
6. Depreciation and operating provisions	5.8	-0.1	9.7	-1.4	-1.0	0.0
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.3	10.5	5.3	11.0	13.7	-6.3
7. Extraordinary revenue and expenses (b)	2.6	20.5	(c)	117.0	12.0	102.7
9. Other (net provisioning and income tax)	4.8	-5.2	64.7	83.8	48.5	-9.3
S.4. NET PROFIT [S.3 + 7 – 8]	9.0	20.0	36.4	13.9	3.6	9.4
NET PROFIT/GVA (S.4/S.1)		22.1	28.4	37.4	29.2	32.0
PROFIT RATIOS	Formulas (d)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	8.7	8.9	8.9	6.3	5.9
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	3.7	4.0	4.5	4.3	4.8
R.3 Ordinary return on equity (before taxes)	S.3/E	12.8	13.1	13.2	8.2	6.9
R.4 ROI - cost of debt (R.1 - R.2)	R.1–R.2	5.0	4.9	4.4	2.0	1.1

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.
b. Includes capital gains and capital losses.
c. Rate not significant or not calculable because the relevant figures are of opposite sign.
d. The items in the formulas are expressed as absolute values. NA = net assets (net of non-interest-bearing borrowing); E = Equity; IBB = Interest-bearing borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include that portion of financial costs which is interest on borrowed funds (5.1) and not commissions or cash discounts (5.2).
Note: in calculating rates, internal accounting movements have been edited out of items 4, 5 and 8.

data, against a backdrop of a rising trend in oil prices, inflation and wage costs. These developments affected most of the productive sectors as a result of weaker private consumption and the loss of momentum in investment and external activity. In addition, the higher increase in financial costs than in financial revenue resulted in the sample firms recording a decline in their profit levels and a narrowing of the spread with respect to financial costs which, nevertheless, continued to show positive values.

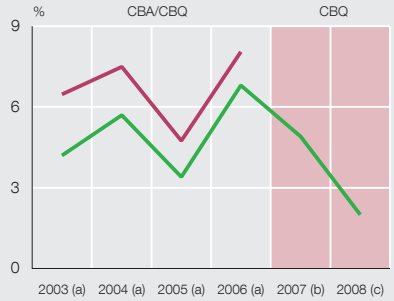
Activity

The non-financial corporations reporting to the CBQ posted a slowdown in their productive activity in 2008 Q1, giving rise to 2% growth in GVA in this period, in comparison with 6.9% recorded in 2007 (see Table 1 and Chart 1). The CBQ compares the data provided by non-financial corporations in their accounting records and does not subject this information to statistical processes to adjust the series for seasonal or calendar effects, and this must be considered when interpreting the results. In 2008 Easter fell in Q1, whereas in 2007 it was in

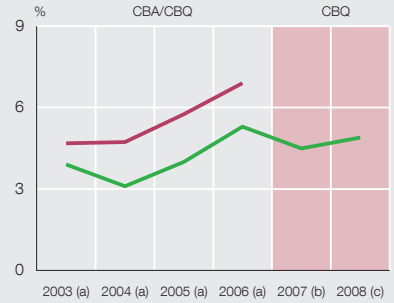
NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE

CHART 1

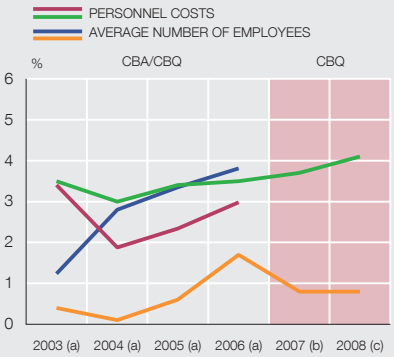
GROSS VALUE ADDED AT FACTOR COST
Rate of change



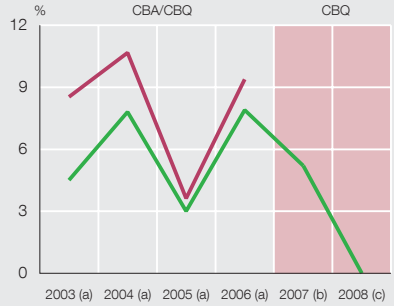
PERSONNEL COSTS
Rate of change



EMPLOYMENT AND WAGES
Rate of change



GROSS OPERATING PROFIT
Rate of change



REPORTING NON-FINANCIAL CORPORATIONS		2003	2004	2005	2006	2007	2008
Number of corporations	CBA	8,834	9,063	9,093	8,836	—	—
	CBQ	838	831	811	829	811	666
% of GDP of the sector non-financial corporations	CBA	29.9	32.3	32.6	32.2	—	—
	CBQ	15.1	15.0	14.6	14.5	13.9	12.5

SOURCE: Banco de España.

a. 2003, 2004, 2005 and 2006 data are the average data of the four quarters of each year (CBQ) relative to the previous year for the corporations reporting to the annual survey (CBA).
b. Average of the four quarters of 2007 relative to the same period of 2006.
c. Data for 2008 Q1 relative to the same period of 2007.

Q2, which may partially affect the comparison of data from the two periods. These negative developments affected practically all sectors of activity, except for energy, the only aggregate whose increases in GVA exceeded the previous year's, due mainly to the positive impact on oil refining companies' activity of the strong upward trend in the international prices of oil (the main input in their productive processes). In fact, if the impact of these firms on the GVA of the periods analysed were stripped out, an even greater slowdown would be seen in this variable for the sample total: the increase in GVA of 8.7% posted in 2007 would fall to 1% for 2008 Q1.

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

CHART 1

REPORTING NON-FINANCIAL CORPORATIONS		2003	2004	2005	2006	2007	2008
Number of corporations	CBA	8,834	9,063	9,093	8,836	—	—
	CBQ	838	831	811	829	811	666
% of GDP of the sector non-financial corporations	CBA	29.9	32.3	32.6	32.2	—	—
	CBQ	15.1	15.0	14.6	14.5	13.9	12.5

SOURCE: Banco de España.

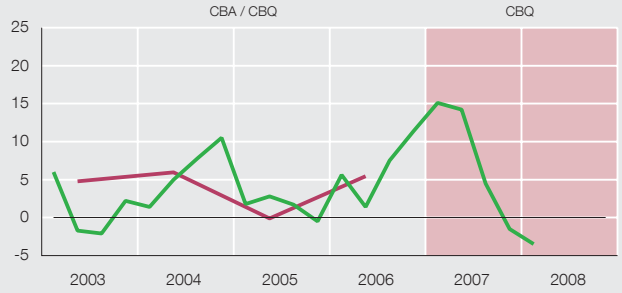
a. 2003, 2004, 2005 and 2006 data are the average data of the four quarters of each year (CBQ) relative to the previous year for the corporations reporting to the annual survey (CBA).
b. Average of the four quarters of 2007 relative to the same period of 2006.
c. Data for 2008 Q1 relative to the same period of 2007.

In a more detailed sectoral analysis, it can be seen that, although the downturn in activity had a strong effect on practically all the aggregates analysed, as mentioned in the introduction, the sharpest change of trend occurred in the industrial sector. It went from clear growth in 2007 Q1, when GVA was up by 15.1%, to posting a negative rate of –3.5% in 2008 Q1. However, analysis of the various sub-sectors which make up the industrial aggregate (see Box 2) seems to indicate that these developments have been marked by the performance of the industrial firms most closely linked to construction and of the transport equipment manufacturing firms. Other industrial sub-sectors continued to show increases in their GVA (this was the case of food, chemicals and electrical and optical

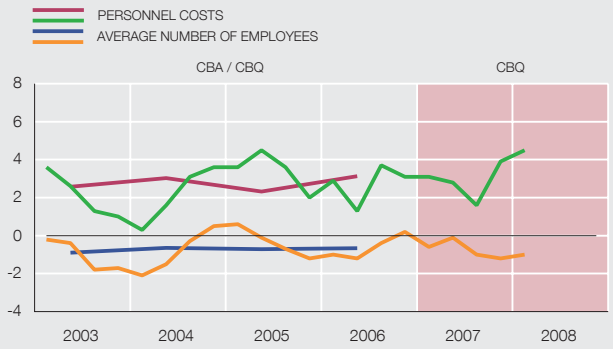
According to CBSO data, the activity of industrial firms contracted in 2008 Q1, when their GVA decreased by -3.5%. This performance, which contrasts with that recorded a year earlier, when this aggregate showed clearly expansionary behaviour with an increase of 15.1% in GVA, is due basically to certain industrial sub-sectors which are more closely linked to developments in construction activity. The loss of dynamism of this aggregate is also attributable to the progressive weakening of investment in capital goods, together with a sharper slowdown in exports than in imports, which led to a rate of change of -20% in net external demand (exports less imports) in this aggregate. The fall in productive activity was concentrated in glass, ceramics and metals, in other manufacturing industries and, finally, in the manufacture of transport equipment, in which GVA showed rates of change of –19.9%, –6.6% and –2.3%, respectively. By contrast, the sample corporations belonging to the food products, beverages and tobacco industries recorded, against a background of price escalation, GVA increases of 17.3%, well above the 5.4% posted in the same quarter of the previous year. Similarly, the chemicals and the electrical and optical equipment manufacturing industries posted GVA increases of 16.4% and 10.6%, respectively. Employment fell back in 2008 Q1 by –1%, nearly twice the dip a year earlier (-0.6%). The contraction of this variable was concentrated in transport equipment manufacturing, which showed the largest drop in average number of employees (–4.9%), since they were especially affected by certain major staff reductions. By contrast, electronic equipment manufacturing posted sharp increases in employment (8.6% in the corporations surveyed). Average compensation accelerated in the early months of 2008 to 5.6%, well above the 2007 figure of 3.7%. The sharp increase in wage costs is explained, on one hand, by the effect of variable compensation, the impact of which was particularly strong in this quarter, and, on the other, by the greater costs associated with staff reductions, such as those seen in some large industrial firms in 2008. As a result of these developments in compensation and employment, personnel costs increased by 4.5% (nearly one-

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

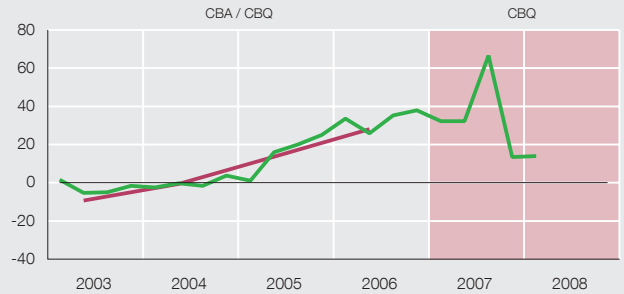
1 GROSS VALUE ADDED AT FACTOR COST
Rate of change



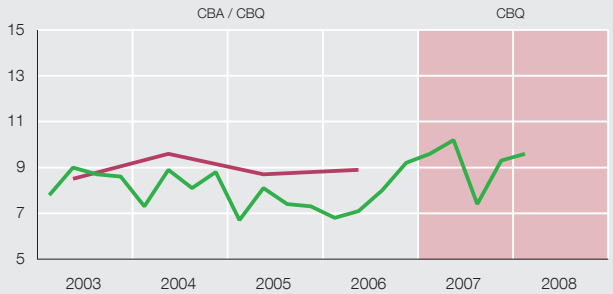
2 EMPLOYMENT AND WAGES
Rate of change



3 FINANCIAL COSTS
Rate of change



4 RETURN ON INVESTMENT
Ratios



REPORTING INDUSTRIAL CORPORATIONS		2003				2004				2005				2006				2007				2008			
Number of corporations	CBA	2,624				2,530				2,457				2,355				—				—			
	CBQ	367	362	354	346	352	342	335	333	323	311	304	296	320	304	291	281	312	296	277	263	230	—	—	—
% of GDP of the sub-sector industrial corporations	CBA	28.5				29.0				28.6				30.1				—				—			
	CBQ	18.8	19.1	17.1	17.8	19.5	19.7	17.8	19.1	18.9	19.6	16.7	17.2	18.4	17.4	16.0	17.0	18.6	18.5	15.2	14.7	12.4	—	—	—

SOURCE: Banco de España.

and-a-half percentage points more than 2007), which, along with the growth in financial costs (14%), explains the sharp falls in both gross operating profit (–11.4%) and ordinary net profit (–18.8%) in 2008 to date. As a result of all this, the sum of GOP and financial costs, which is the numerator used to calculate return on investment, showed a positive rate of change, as for the total CBQ sample firms, and enabled this ratio to remain at a high level (9.4%). The return on equity deteriorated somewhat, standing at 12.3% in 2008 Q1, 3 pp less than in the same period of 2007. The ratio which approximates the cost of debt continued to increase progressively in 2008, standing at 4.9% (1 pp more than in 2007), due to the effect of the higher interest rates on business costs. As a result of the changes in return on investment and cost of debt, the difference between them remained at positive values (4.7), although somewhat smaller than in the previous year. In sum, following a clearly expansionary year in 2007, the non-financial corporations in some industrial sub-sectors commenced 2008 by showing signs of weakness, which spread to the industrial aggregate covered by the CBQ.

equipment manufacturing). In any event, the slowdown in industry as a whole was seemingly a consequence of the weakening shown in alternative sources to the CBQ due to investment in capital goods and slacker external activity against a backdrop of international uncertainty. Table 3 confirms this by showing how net external demand (exports less imports) deteriorated further in 2008 Q1 (–20%) mainly due to the loss of momentum in exports in this sector. There was also a considerable slowdown in the activity of wholesale and retail trade and of transport and communications in the early months of 2008, which resulted in moderate GVA growth rates (0.4% and 1.4%, respectively, considerably lower than the rates of 6% and 6.3% recorded by the two sectors a year earlier). In the case of retail and wholesale trade corporations, these developments are mainly explained by the impact on them of slacker private consumption, while in the transport and communications aggregate, the easing of activity was mainly due to the negative effect of higher fuel prices on transport firms' costs. Lastly, the energy sector was the only one of the four major aggregates analysed in which GVA improved in 2008 Q1 (it increased 9.9% in comparison with a decrease of 3.6% posted one year earlier). The main explanation for this change in trend is, as mentioned above, the strong expansionary impact of higher oil prices on refining companies and their ordinary surpluses in 2008 (see Chart 2), which contrasts with the situation in 2007 Q1, when the opposite phenomenon occurred (there was a strong contraction of GVA). In any event, electricity, gas and water utilities, which make up the other major energy aggregate, also recorded an increase, albeit more moderate, in their productive activity; the sector's GVA rose by 5.4% in 2008 Q1 compared with 2.4% a year earlier, which is mainly accounted for by the higher growth in GVA at gas utilities in this period.

Finally, Chart 3 shows the distribution of firms according to the rate of change in their GVA, irrespective of size and sector of activity. The main conclusion which can be drawn from the data obtained for 2008 Q1 is that the percentage of corporations with a fall in GVA increased. This percentage stood at 43.3% of the sample in the first three months of 2008, compared with 37% a year earlier, and was at the expense of the segment of corporations with GVA increases of more than 20%, which fell by nearly 5 pp in comparison with the situation in 2007. All these factors confirm that the deceleration of productive activity has gradually spread and affected a growing number of corporations in the sample.

Employment and personnel costs

In the first three months of 2008 personnel costs increased by 4.9% (see Table 2.a), a slightly lower rate than in the same period of the previous year (5.1%). This restraint is the result of the combined effect of the smaller increase in employment in 2008 and the sharper growth in average compensation in 2008 relative to 2007.

The average number of employees at CBQ firms rose by 0.8% in 2008 Q1, 0.5 pp less than in the previous year (1.3%). Analysis by type of contract (see Table 2.b) shows that both permanent and

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			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	2006	07 Q1-Q4 (a)	07 Q1	08 Q1	2006	07 Q1-Q4 (a)	07 Q1	08 Q1	2006	07 Q1-Q4 (a)	07 Q1	08 Q1	2006	07 Q1-Q4 (a)	07 Q1	08 Q1
Total	8.1	4.9	6.9	2.0	3.8	0.8	1.3	0.8	6.9	4.5	5.1	4.9	3.0	3.7	3.8	4.1
SIZE																
Small	4.3	—	—	—	0.0	—	—	—	4.8	—	—	—	4.7	—	—	—
Medium	8.4	6.1	4.5	0.6	2.3	2.0	1.7	1.2	6.3	5.3	4.2	6.2	4.0	3.2	2.5	5.0
Large	8.1	4.8	7.0	2.1	4.1	0.7	1.3	0.7	7.0	4.4	5.2	4.9	2.8	3.7	3.9	4.1
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	7.5	1.2	-3.6	9.9	-1.3	-0.4	-1.2	1.5	3.6	3.1	4.2	4.8	4.9	3.5	5.4	3.3
Industry	5.5	8.3	15.1	-3.5	-0.7	-0.7	-0.6	-1.0	3.1	2.8	3.1	4.5	3.8	3.5	3.7	5.6
Wholesale and retail trade	8.0	0.8	6.0	0.4	2.7	0.3	1.3	1.8	7.9	1.3	3.2	4.7	5.0	1.0	1.9	2.9
Transport and communications	4.0	5.8	6.3	1.4	1.3	-0.1	0.0	-0.8	4.8	5.4	5.0	3.8	3.5	5.5	4.9	4.7

SOURCE: Banco de España.

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

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

		TOTAL CBQ CORPORATIONS 08 Q1	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations		666	408	258
PERSONNEL COSTS				
Initial situation 07 Q1 (€m)		6,196.4	3,180.5	3,015.9
Rate 08 Q1 / 07 Q1		4.9	8.5	1.2
AVERAGE COMPENSATION				
Initial situation 07 Q1 (€)		11,235.0	11,577.7	10,894.8
Rate 08 Q1 / 07 Q1		4.1	2.9	5.3
NUMBER OF EMPLOYEES				
Initial situation 07 Q1 (000s)		552	275	277
Rate 08 Q1 / 07 Q1		0.8	5.5	-3.9
Permanent	Initial situation 07 Q1 (000s)	460	222	238
	Rate 08 Q1 / 07 Q1	0.6	4.3	-2.7
Non-permanent	Initial situation 07 Q1 (000s)	92	53	39
	Rate 08 Q1 / 07 Q1	1.3	10.4	-10.9

SOURCE: Banco de España.

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

TABLE 3

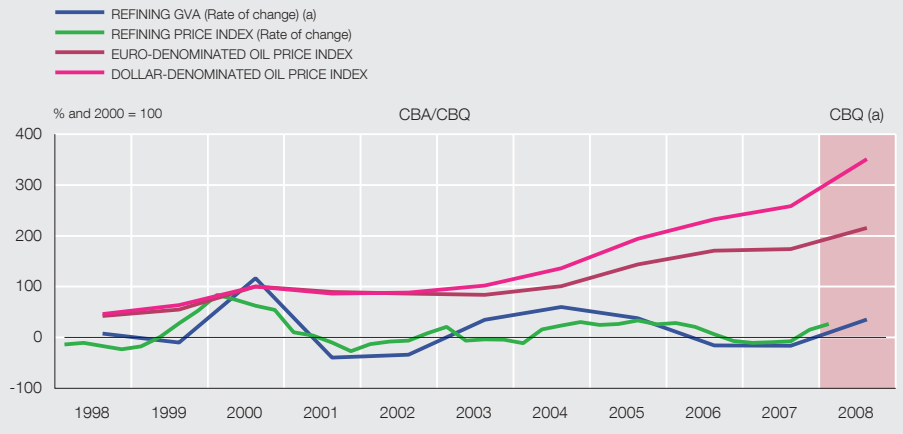
		CBA	CBQ (a)		
		2006	07 Q1-Q4 (a)	07 Q1	08 Q1
Total corporations		8,836	811	666	666
Corporations reporting source/destination		8,836	766	630	630
Percentage of net purchases according to source	Spain	68.8	80.7	78.2	79.8
	Total abroad	31.2	19.3	21.8	20.2
	EU countries	*17.1*	*14.6*	*16.2*	*14.6*
	Third countries	*14.1*	*4.7*	*5.6*	*5.6*
Percentage of net turnover according to destination	Spain	84.4	91.0	91.9	91.9
	Total abroad	15.6	9.0	8.1	8.1
	EU countries	*10.3*	*6.6*	*6.0*	*6.3*
	Third countries	*5.3*	*2.4*	*2.1*	*1.8*
Change in net external demand (exports less imports), rate of change	Industry	-7.7	10.8	4.2	-20.0
	Other corporations	-35.3	-13.0	-17.9	9.2

SOURCE: Banco de España.

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

IMPACT OF OIL PRICES ON THE REFINING SECTOR

CHART 2

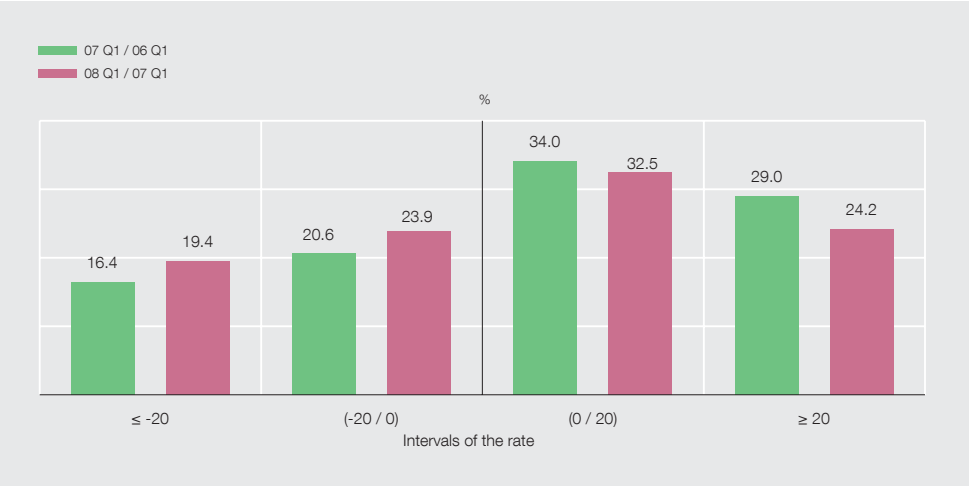


SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (Informe mensual de precios).

a. 2008 data relate to the CBQ.

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

CHART 3



SOURCE: Banco de España.

non-permanent employment posted net increases, although they were sharper for temporary employment (1.3%). Sectoral analysis shows that the wholesale and retail trade and energy sectors are worth noting due to their positive performance. Employment in the wholesale and retail trade sector grew by 1.8%, which is even higher than the 1.3% increase in 2007 Q1, as a result of new store openings at large retail outlets. The energy sector showed an increase of 1.5%, largely stemming from staff growth at corporations in the refining sector (6.4%) and, to a lesser extent, due to the slight increase in the number of employees in the utilities sector (0.7%). The latter rate, although low in quantitative terms, is particularly important from a qualitative standpoint since it is the first quarter of the whole series in which the electricity, gas and water aggregate has shown net increases in employment. Conversely, the negative trend in employment continued in the transport and communications and the industrial sectors (–0.8% and –1%, respectively). These data were heavily influenced in both cases by the impact of workforce restructuring focused on certain large corporations in these aggregates. It must also be pointed out that in the first three months of 2008, as in the previous year, the rise in the average number of employees was highest at firms in the other services sector, where it amounted to 5.9% (the tables in this article do not provide specific data for this aggregate.) Lastly, the data in Table 4 show that, in comparison with one year ago, in 2008 Q1 there was an increase of approximately 2 pp in the percentage of corporations whose average number of employees fell (up from 36.7% to 38.9%), which would confirm the slowdown in job creation.

Average compensation grew 4.1% in 2008 Q1, up 0.3% on the previous year. This figure confirms the trend of smooth, albeit progressive, growth in wage costs in recent years (the rate in the CBQ stood at 3.4% in 2005, 3.5% in 2006 and 3.7% in 2007), probably resulting from the pass-through to wages of the successive increases in inflation via the application of indexation clauses. By sector, salary increases were highest in industry and in transport and communications (5.6% and 4.7%, respectively), partly due to the existence of variable remuneration and to the higher costs associated with the above-mentioned staff restructuring. Conversely, the wholesale and retail trade and energy sectors posted more moderate increases in compensation (2.9% and 3.3%, respectively), coinciding with the more positive performance of employment in these aggregates.

Profits, rates of return and debt

As a result of the slowdown of productive activity and the growth in personnel costs in 2008 Q1, gross operating profit held at the same level as in the previous year, when it grew 8.2%

PERSONNEL COSTS, EMPLOYEES AND AVERAGE COMPENSATION TABLE 4
Percentage of corporations in specific situations

	CBA		CBQ			
	2005	2006	06 Q1 - Q4 (a)	07 Q1 - Q4 (a)	07 Q1	08 Q1
Number of corporations	9,093	8,836	829	811	876	666
PERSONNEL COSTS	100	100	100	100	100	100
Falling	26.6	25.6	26.9	27.3	27.1	23.3
Constant or rising	73.4	74.4	73.1	72.7	72.9	76.7
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	30.9	30.6	39.3	37.0	36.7	38.9
Constant or rising	69.1	69.4	60.7	63.0	63.3	61.1
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	43.3	42.6	48.3	45.8	41.9	51.4
Higher or same growth (b)	56.7	57.4	51.7	54.2	58.1	48.6

SOURCE: Banco de España.

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

(see Table 5). Financial costs continued to rise in 2008, and the rate of 26.7% led this item to continuously increase its weight in corporations' profit and loss accounts to nearly 6% of total output. The strong growth of this variable is evident considering that in 2006 this profit and loss account item accounted for 3.7% of output. In any event, the increase in this percentage does not provide enough qualitative information about the underlying reasons for this trend. Consequently, the following table shows the portion of growth of financial costs attributable to the increase in borrowing and that attributable to interest rate developments in 2008:

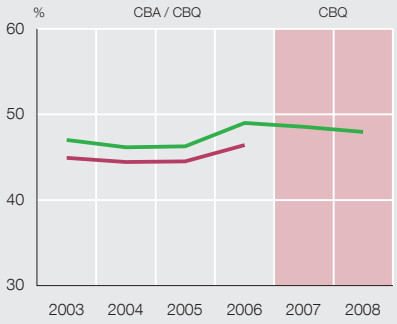
	08 Q1/07 Q1
Change in financial costs	**26.7%**
A. Interest on borrowed funds (1+2)	*25.2%*
1. Due to the cost (interest rate)	13.3%
2. Due to the amount of interest-bearing debt	11.9%
B. Commissions and cash discounts	*1.5%*

As shown by the table above, the increase in financial costs in 2008 Q1 is due to both interest rate rises and new borrowing. The portion of the change due to cost is linked to successive interest rate hikes in the latest period, which have gradually been passed through to corporations. The growth of debt is related to substantial acquisitions of equity holdings made basically by large corporations in 2007, which affect the comparison of end-2007 Q1 and end-2008 Q1 balance sheets. However, no further significant increases were recorded in the early months of 2008 and, consequently, this effect should begin to fade over the next few quarters. This trend in debt has gone hand in hand with ongoing investment activity by firms reporting to the CBQ. Thus, on the information available, there have been sizeable fixed asset acquisitions in energy firms (particularly refineries), industrial firms and wholesale and retail trade firms, in the latter case due to the opening of new shopping centres. The analysis of debt may be supplemented by the insight provided by the debt ratios included in Chart 4. The ratio E1 (interest-bearing borrowing to net assets) was slightly lower in 2008 than at the end of 2007, confirming that during the first three months of the current year there were no new significant transactions needing additional borrowing. The E2 ratio, which is used to analyse firms' ca-

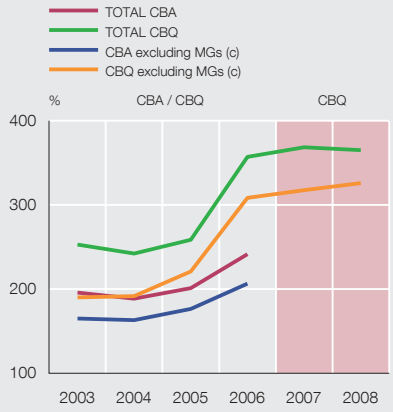
DEBT RATIOS

CHART 4

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



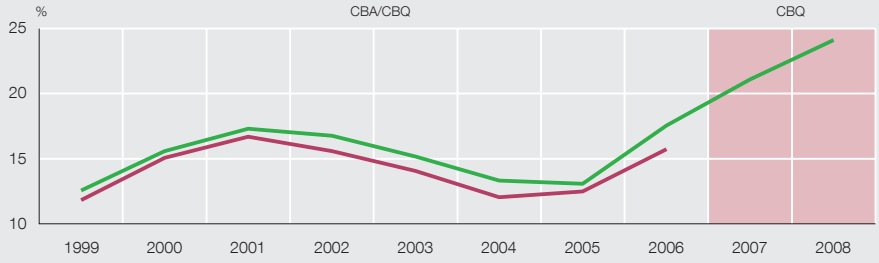
E2. INTEREST-BEARING BORROWING/GVA (b)
Ratios



	2003	2004	2005	2006	2007	2008
CBA	44.9	44.4	44.5	46.4		
CBQ	47.0	46.2	46.3	49.0	48.6	48.0

	2003	2004	2005	2006	2007	2008
CBA	195.8	188.4	201.2	241.6		
CBQ	252.9	242.3	258.5	357.0	368.5	365.0
CBA excl. MGs	165.0	163.0	176.3	206.3		
CBQ excl. MGs	189.9	191.5	221.0	308.4	317.6	326.0

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



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CBA	11.8	15.1	16.7	15.6	14.0	12.0	12.5	15.7		
CBQ	12.6	15.6	17.3	16.8	15.2	13.3	13.1	17.5	21.1	24.1

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			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	2006	07 Q1 - Q4 (a)	07 Q1	08 Q1	2006	07 Q1 - Q4 (a)	07 Q1	08 Q1	2006	07 Q1 - Q4 (a)	07 Q1	08 Q1	2006	07 Q1 - Q4 (a)	07 Q1	08 Q1
Total	9.4	5.2	8.2	0.0	5.3	11.1	13.7	-6.3	8.9	8.9	6.3	5.9	4.9	4.4	2.0	1.1
SIZE																
Small	3.5	—	—	—	8.3	—	—	—	6.7	—	—	—	2.6	—	—	—
Medium	11.6	7.1	4.9	-5.9	17.7	0.4	-7.8	-11.7	7.8	7.5	7.1	6.7	3.9	3.1	3.3	2.0
Large	9.3	5.2	8.3	0.2	4.2	11.4	14.6	-6.1	9.0	9.0	6.3	5.9	5.0	4.5	2.0	1.1
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	8.6	0.7	-5.5	11.2	2.6	-0.2	-6.8	1.2	9.8	9.0	7.7	7.0	6.2	4.7	3.9	2.7
Industry	8.8	14.4	28.9	-11.4	9.5	11.1	38.0	-18.8	8.9	9.7	9.6	9.6	4.7	4.9	4.8	4.7
Wholesale and retail trade	8.3	0.2	9.3	-4.2	11.5	-4.9	10.0	1.4	11.4	7.0	9.5	9.9	6.8	2.6	5.5	4.9
Transport and communications	3.3	6.1	7.3	-0.4	-4.9	12.5	13.4	-0.1	7.1	12.2	11.1	10.7	3.0	7.8	6.9	6.3

SOURCE: Banco de España.

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

pacity to repay debt principal and relates it to their ability to generate value added, improved slightly (3.5 pp) for the total sample as a result of the impact on this ratio of large multinationals reporting to the CBQ. Lastly, the interest burden ratio (see Chart 4), which expresses interest on borrowed funds as a proportion of firms' income (gross operating profit plus financial revenue), shows that in 2008 Q1 the upward trend of the last two years continued, as a direct consequence, as mentioned above, of the higher weight of interest on borrowed funds in firms' profit and loss accounts. This weight currently stands at twice the figure of ten years ago (24.1% in 2008 in comparison with 12.6% in 1999).

Financial revenue increased by 11.8%, considerably lower than in 2007 as a whole (39.3%) and in 2007 Q1 (53.6%), periods in which the inflow of dividends from foreign subsidiaries was extraordinarily high. The above-mentioned rate for 2008 was based on higher interest earnings (up 17.7%) rather than on maintenance of the rate of inflow of additional dividends, precisely because in 2007 the amount of dividends was so high. In any event, the dividends earned continued to grow (by a further 6.8%) in the period considered. The higher increase in financial costs than in financial revenue was reflected in ordinary net profit (ONP) which decreased by –6.3% in comparison with growth of 13.7% in 2007 Q1. Nevertheless, the combined trend in ONP and financial costs (the numerator used to calculate ROI) enabled firms to maintain high levels of profitability, albeit slightly below those of the previous year (see Table 6). Thus, return on investment (R1) stood at 5.9% for 2008 Q1 (6.3% in 2007) and return on equity was 6.9% in 2008 (8.2% in 2007). By sector, there was a deterioration, albeit moderate, in rates of return practically across the board with the exception of the wholesale and retail trade sector, which was the only one to have slightly higher rates of return than a year earlier (9.9% in comparison with 9.5% in 2007). The ratio that approximates the cost of borrowing (R.2) continued on the upward path of recent years, to stand at 4.8% in 2008, half a point higher than in 2007 Q1, which led to a significant narrowing of the difference between ROI and the cost of debt to 1.1, which although it remains positive is almost half the value recorded a year earlier.

STRUCTURE OF REPORTING CORPORATIONS' RETURN ON INVESTMENT AND ORDINARY RETURN ON EQUITY TABLE 6

		CBQ			
		RETURN ON INVESTMENT (R.1)		ORDINARY RETURN ON EQUITY (R.3)	
		07 Q1	08 Q1	07 Q1	08 Q1
Number of corporations		876	666	876	666
Percentage of corporations by profitability bracket	R ≤ 0%	23.5	24.7	28.3	31.4
	0% < R ≤ 5%	19.4	21.7	13.7	13.7
	5% < R ≤ 10%	18.1	17.4	11.6	13.7
	10% < R ≤ 15%	11.3	11.7	10.7	9.9
	15% < R	27.7	24.5	35.7	31.3
MEMORANDUM ITEM: Average return		6.3	5.9	8.2	6.9

SOURCE: Banco de España.

Finally, the analysis of extraordinary results[3] shows a strong increase in extraordinary revenue, mainly due to the capital gains generated by share sales and the revaluation of certain financial assets which are now carried at their fair value in the balance sheet since they are part of the trading book. This occurred in particular at certain firms in the electricity sector. The expansion of extraordinary revenue was also influenced by the significant decrease in share portfolio impairment charges. As a result, there was a positive effect on final net profit, which was able to maintain positive rates of change and grow by 9.4% in 2008 Q1. This growth rate was higher than that in 2007 (3.6%) and enabled profit as a percentage of gross value added to rise to 32%, almost three points above its level in the same period of 2007. Therefore, in spite of a decline in income from ordinary activities, the CBQ firms were able to maintain, and even increase, their profit levels.

3. As indicated in note 1, as a result of the application of the new PGC 2007, capital gains and losses are no longer provided separately in official accounting forms but in net terms. For this reason, Table 1 had to be adapted to this new presentation format.

Commodities, inflation and monetary policy: a global perspective

The authors of this article are Paula López Urruchi, Juan Carlos Berganza and Enrique Alberola of the Associate Directorate General International Affairs.[1]

Introduction

Over the past year, the issue of rising commodity prices has attracted growing interest and raised concern at international level owing to its macroeconomic (the rise in inflation and impact on the economy), social (redistribution effect) and, indeed, geopolitical repercussions.

This article briefly describes developments in commodity prices with an emphasis on food, reviews the reasons behind these developments and assesses the short and medium-term outlook, before focusing on the macroeconomic implications. It looks, in particular, at the potential impact of rising commodity prices on inflation and monetary policy in a global context marked by considerable uncertainty and the slowdown in some of the biggest economies. The analysis is geared towards emerging economies for the following reasons: first, they are, in theory, more exposed to the inflationary impact of an increase in commodity prices; second, the anti-inflation credibility of their monetary authorities is, in general, less anchored than in the advanced economies; and lastly, the monetary policy conduct is complicated in some countries by rigid exchange rate regimes and/or as a result of their status as exporters of commodities. The same reasons dictate that emerging countries are likely to run a greater risk of a deterioration in inflation expectations. Furthermore, the rise in commodity prices has greater social implications in emerging countries and requires a more active policy response by the economic authorities.

The prominence of emerging countries in the global economy is ever greater and they have so far displayed relative resilience to the effects of the financial turmoil and the slowdown in the advanced economies.[2] Consequently, they are proving instrumental in maintaining the dynamism of the global economy. This means that their response to the increase in global inflationary pressures transcends their borders and also has global implications.

Developments in commodity prices

The upward trend in commodity prices started in 2002. Between 2002 and April 2008, prices increased by 277% in nominal terms and by 214% in real terms, according to the IMF index used in this article (see the upper panels in Chart 1). However, considerable differences in the figures can be observed for different commodities. In the period 2002-2006, food prices grew at a very moderate pace, while metal and energy prices recorded very significant growth. However, since 2006 food prices have gained ground, posting an annual average growth of 23% in real terms, exceeding metals (19%) and drawing close to energy (24%). This upward trend has strengthened over the past year, such that the year-on-year rate of growth of the aggregate index now stands at around 40%, with food at a similar level and energy at 60%. The price of oil has reached all-time highs in real terms, while the prices of metals and food are at levels not seen since the 1980s, at least in nominal terms; in real terms, however, they are far off their historical peaks. In short, the sharp, prolonged and generalised rise in commodity prices following a twenty-year downward trend, has brought about a fundamental change in the structure of relative prices at global level.

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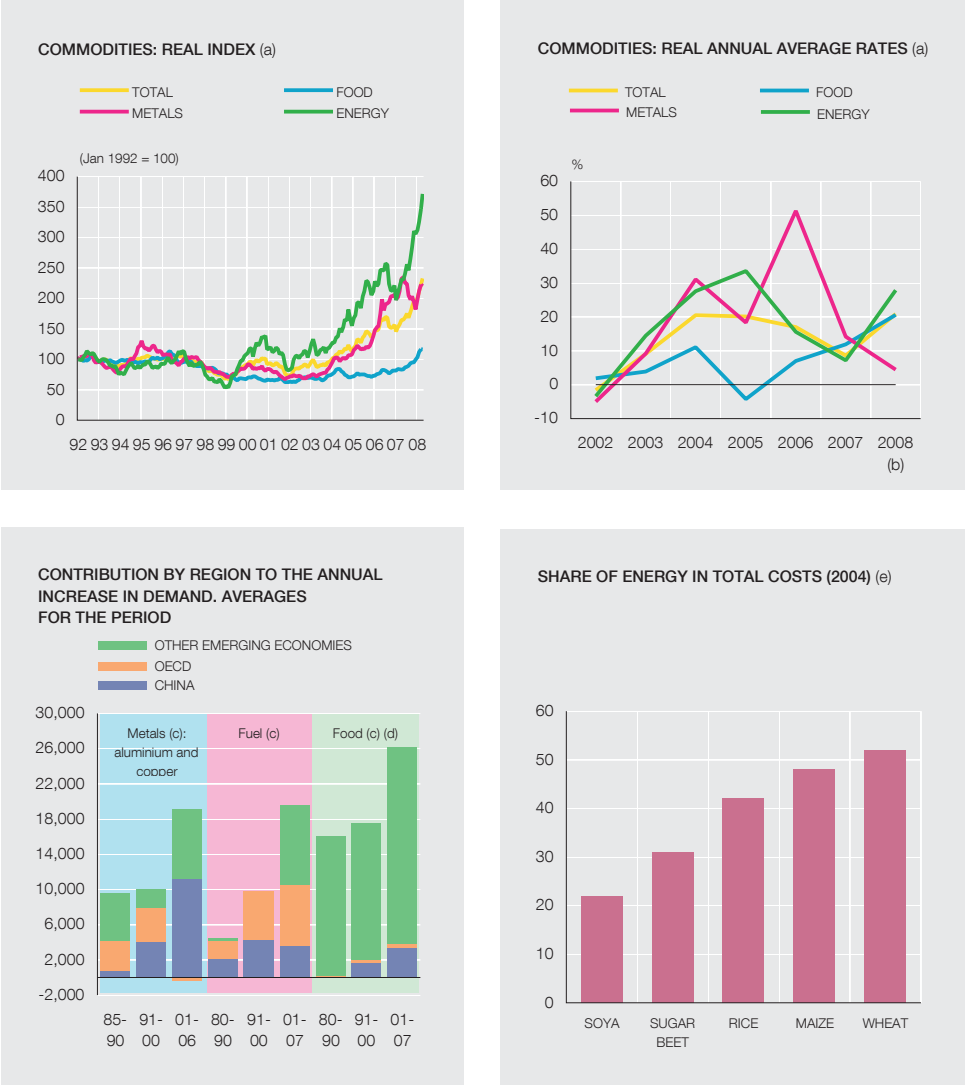
1. We would like to thank Sarai Criado for her work on the increase in food prices, on which we based the second part of this article, along with José María Martínez Pérez for providing us with the charts. **2.** See Alberola, Broto and Gallego (2008).

COMMODITIES

CHART 1



SOURCES: IMF, ECB, USDA and Banco de España.

a. "Food" includes cereals, plant oils, meat, seafood, sugar, bananas and oranges. "Metals" includes copper, aluminium, iron oxide, tin, nickel, zinc, lead and uranium. "Energy" includes, oil, natural gas and coal. To deflate, the US CPI was used.
b. The annual average was calculated using the last twelve months available.
c. Hundred thousand tonnes for metals and thousand tonnes for the remainder.
d. Maize, rice, soya and wheat.
e. Includes cost of fuel for transport and the cost of fertiliser.

The reasons for this increase are mainly structural and derive from the disparity between accelerating demand and the relatively rigid response of supply.[3]

On the demand side, the economic development of the emerging countries has had significant implications for the consumption of all types of commodity, partly owing to the fact that they are used more intensively than in other regions. Developing countries use energy less efficiently, which is why the growth in energy demand associated with an increment of one unit of productivity or consumption is greater than that for developed countries. Similarly, development itself leads to changes in the habits of consumers and affects diet. So, emerging Asia

3. Banco de España (2007): See Box 3.1 of the Annual Report 2007, chapter 1.1.

now consumes higher levels of protein and, indirectly, of cereals. In short, the contribution of emerging countries to the ever-growing demand for commodities – and food in particular – is far greater than that of the advanced economies (see the lower left-hand panel of Chart 1). These structural changes have been observed for some time and are expected to continue exerting sustained upward pressure on the demand for commodities.

With regard to supply, a distinction should be drawn between renewable and non-renewable resources. In the case of non-renewable resources, such as oil or metals, there is usually little possibility of adjusting supply in the short term, especially when there is no surplus capacity. In the medium and long term, this is limited to resources with proven reserves. On the contrary, for food and agricultural commodities, the elasticity of supply is greater in the short term, and in the medium and long term. But in recent years, bad weather and, in some cases, factors limiting the increase of yields and acreage have prevented supply from meeting demand.

In short, the combination of supply, which is adjusting in a slow and limited way, and a particularly marked rise in demand has led to a sharp drop in inventories and a notably prolonged and steep rise in prices.

It is worth highlighting the increasingly close link between the respective developments in energy and food commodity prices, which occurs mainly via two channels. The first is the increase in the production of biofuels as substitutes for traditional fuels, which has occurred in response to a proliferation of farming subsidies in the context of concerns over climate change. This has generated additional demand for food commodities, such as maize, sugar cane and plant oils, putting extra pressure on prices and, in turn, upward pressure on the prices of related subsititutes. It is not clear what impact biofuels will have on energy and food commodity prices in the long term, but they are an additional factor contributing to the structural growth in demand for agricultural products. The second channel relates to the importance of energy as an input in farming (fertilisers, harvesting and storage) and in the transportion of agricultural commodities. Already in 2004, the proportion of energy costs in farming costs fluctuated at around 50% for some cereals, such as wheat, and at around 20% for other crops, like soya (see the lower right-hand panel of Chart 1). Both of these channels are contributing to the upward pressures on agricultral commodity prices and to the duration of the process, although it is difficult to determine to what extent.

Lastly, financial factors, such as the increase in non-tradable positions in commodities, low real interest rates or the weakness of the US dollar, may be strengthening the above-mentioned price rises and increasing their volatility.

Furthermore, most of the factors considered point towards the prices of some staple goods remaining at elevated levels in the medium term. Energy and food prices will probably remain high owing to the greater constraints on expanding supply. However, the duration of the current cycle of food price rises, which has far exceeded that of previous cycles, coupled with the sharp and accelerating rate of increase in demand, also explain the particularities of the current boom cycle in this sector.

The increase in headline inflation and the stability of core inflation

Following several years of relative stability at 2-3%, the global inflation rate started to rise in late 2006, and this trend has gone largely unabated since. The global inflation rate rose in year-on-year terms from 2.4% in December 2006 to 4% in December 2007 and 4.5% in March 2008, an increase of more than 2 pp (see the upper left-hand panel of Chart 2).

In the developed countries, inflation rose from 2% to 3.2%, up 1.2 pp, while in the emerging countries it reached 7.2%, an increase of almost 4 pp (see the upper right-hand panel in Chart 2).

In relative terms, the rise in inflation was also steeper in emerging countries as a whole (116% since the end of 2006 compared with 60% in the advanced economies). As a whole, the emerging countries account for approximately three-fifths of the overall rise in inflation since the end of 2006 (1.2 pp), even though they account for only 30% of GDP in the sample used.[4] The rise has been greater and more prolonged in China (5.5 pp and almost 200% in relative terms)[5], with its contribution reaching 0.8 pp.

This rising trend in consumer prices has caused the inflation forecasts for 2008 to be revised upward several times for all geographical areas from the second half of 2007 (see the lower left-hand panel of Chart 2). Particularly notable were the revisions upward for Eastern Europe and South East Asia of over 3 pp compared with the mid-2007 forecasts. However, both market consensus and the expectations implicit in financial instruments continue to point in the medium and long term to a gradual return to previous rates of inflation. The inflation forecasts for December 2009, therefore, are in general substantially below current rates of inflation, at close to 2% for the United States and the euro area, 4% for emerging Asia and 6-7% for Latin America and Eastern Europe.

The fact that the rise in headline inflation has taken place in a context of relatively stable core inflation has probably anchored medium-term expectations. Indeed, the upper left-hand panel of Chart 2 shows that global core inflation continues to average around 2%, although it has started to rise in several emerging countries since the end of 2007. This development has opened a growing gap between overall and core inflation at the global level, which already stands at over 2 pp, the widest it has been in recent years. The widening of the gap has been fairly generalised across geographical areas, with the cases of China in Asia, Chile and Peru in Latin America and the United States and the euro area among the developed countries all standing out.

The above-mentioned analysis is based on a measure of core inflation that is intended to be as consistent as possible across countries. To this end, the food (processed and unprocessed) and energy components were excluded from the overall index for each country. In a number of cases, the measures used differ from the official measures of core inflation employed by central banks, which often design them to reflect persistent changes in overall price levels. The excluded components are more volatile or more prone to transitory shocks: unprocessed food, energy, administered prices, impact of the exchange rate on indirect taxes, etc. The decision to use one measure over another is intentional, which is why attention is drawn to this in the literature.[6] The fact that numerous central banks use this variable in their communication with the public or, to a lesser extent, to set the inflation target underlines its importance. The lower right-hand panel of Chart 2 shows the divergence between the measure of core inflation used in this article and the national measures used by Latin American countries. The aggregate of the official measures of core inflation used in the region indicates stronger inflationary pressures than the consistent measure and enables different conclusions to be drawn as to developments in the transitory component of inflation.

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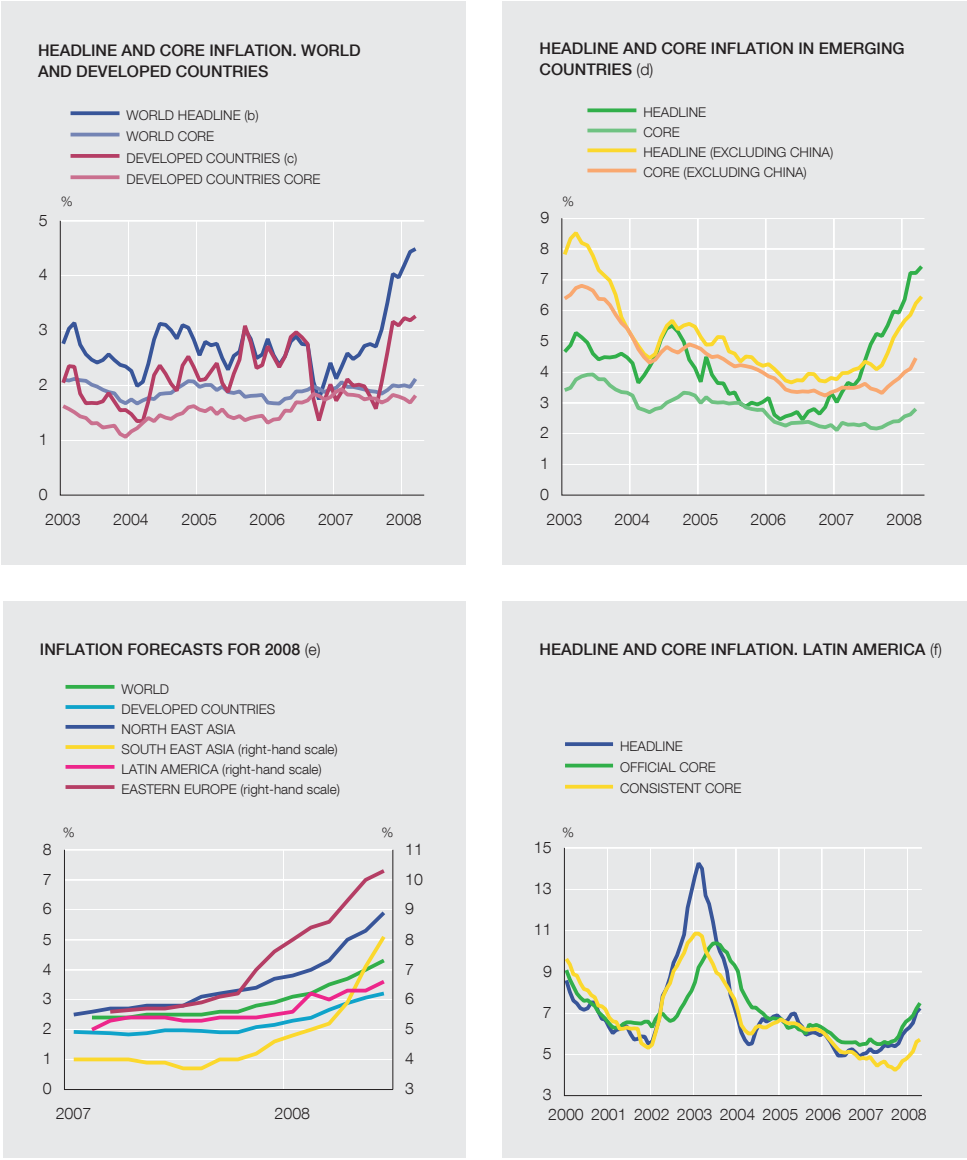
4. The sample includes 35 countries: 22 developed countries and 13 emerging countries. The former account for 51% of world GDP and the latter for 22%, i.e. the sample represents around 73% of world GDP. According to the most recent figures released by the World Bank, there are a total of 141 developing and emerging countries, representing 43.6% of world GDP and 31 developed countries, which account for the remaining 56.4%. **5.** If China had been excluded from the aggregate of emerging countries, the developed countries and the emerging countries would have recorded similar rises in inflation in relative terms. **6.** For an international comparison of the various official measures of core inflation, see, for example, McCauley (2007) and the Bank of Mexico (2007). For an analysis of the problems encountered in devising a measure of core inflation and the implications of various options, see, for example Clark (2001) or Silver (2006).

HEADLINE AND CORE INFLATION (a)

CHART 2



SOURCES: National statistics, World Bank, Consensus Forecast and Banco de España.

a. Year-on-year rates. The core inflation index is consistent since it excludes the total for food and energy for all of the countries in the sample, except Thailand, South Africa and, from January 2005 to December 2005, China.
b. Aggregate calculated based on the data for 35 countries, which represent over 70% of world GDP.
c. United States, Canada, Japan, euro area, Denmark, Norway, Sweden and the United Kingdom.
d. Brazil, Chile, Mexico, Colombia, Venezuela, Peru, Hungary, Poland, Czech Republic, Slovakia, China, Korea and Thailand.
e. Developed countries: United States, United Kingdom, euro area and Japan; North East Asia: China, Hong Kong, South Korea and Taiwan; South East Asia: Indonesia, Malaysia, Singapore, Thailand, Philippines and Vietnam; for Latin America forecasts are for December; for the remainder, mid-year forecasts.
f. Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

Food commodities and inflation

Looking at the gap between overall and core inflation, it is clear that food and energy have been behind the rise in headline inflation at the global level since late 2006. The upper panel of Chart 3 also illustrates this point and further confirms that, in recent months, energy price increases, boosted by a significant base effect, have made a very strong contribution to the rise in the global inflation rate. However, since the aim of this article is to focus on emerging economies and the impact of the food price increases are particularly important for these economies, this section will focus on food prices.

When explaining the impact of international food prices on inflation in individual countries, it is necessary to distinguish between two types of effect: (1) the pass-through effect derived from the transmission of international prices to the corresponding domestic component of the CPI; and (2) the composition effect, derived from the weight of the food component in the overall index.

With regard to the pass-through effect, the centre left-hand panel of Chart 3 shows food inflation by region between 2006 and the opening months of 2008. It is measured by comparing the food component of the CPI relative to developments in food commodities internationally.[7] The sharp increase in international food commodity prices is only partially reflected in the food component of the CPI, although to differing degrees of intensity across the regions, and there tends to be more pass-through in emerging countries. This is a reasonable outcome, since it is usually the case that, the lower the level of development, the larger the share of commodity prices in the total cost of the final consumer good. This is presumably because the value added between the commodity and the consumer good is lower on account of lower wage costs and the fact that there are fewer stages of production and intermediation.

As far as the composition effect is concerned, with an identical increase in food inflation in each country, the larger the weight of the food component, the higher the impact on headline inflation. In this regard, a simple statistical analysis indicates that, indeed, there is a positive relationship for a large sample of countries – which is statistically very significant – between the weight of food components in the CPI and the increase in headline inflation from the end of 2006 to the latest data available at the time of this report going to press. The centre right-hand panel of Chart 3 illustrates the strong positive relationship compared with the assessment of the starting level of inflation in each country and confirms the relevance of the composition effect: a 10 pp difference in the weight of food components in the CPI implies an additional 1 pp rise in inflation.

Additionally, the lower panels of Chart 3 illustrate how the lower per capita income, the heavier the weight of food in the overall consumer price index and also the stronger the transmission of the increase from international to national prices for these goods. This explains why in emerging countries the rise in inflation – which has contributed significantly to food price increases – has been around 3 pp higher than in the developed countries.

Further factors, some of which are idiosyncratic, may have influenced the impact of the increase in international commodity prices on inflation in individual countries, for example the position in the cycle or the various shocks in each economy. In recent years, strong demand pressures and symptoms of overheating have thus been identified in many emerging economies. The cyclical position and demand pressures are associated with two factors which merit particular attention in the current circumstances and which, as will be seen in the following section, are also closely interrelated:

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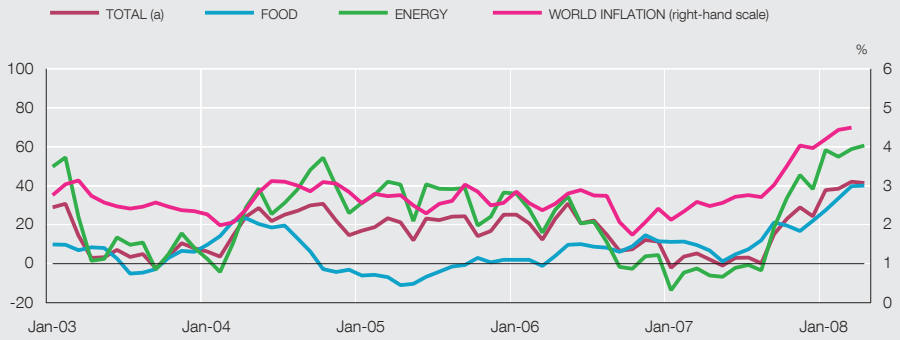
7. The figures for 2008 were calculated using the data available for the opening months of the year only. If year-on-year rates recorded for the remainder of the year are similar to those recorded during the first few months, food inflation in 2008 will exceed that in 2007 and will be significantly higher than the 2006 rate in most countries.

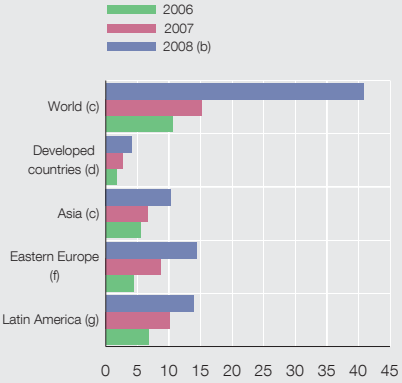
FACTORS CONTRIBUTING TO INFLATION

CHART 3

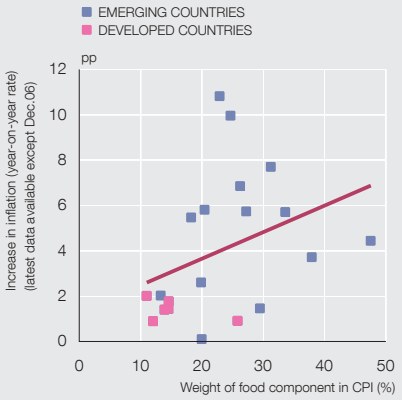
COMMODITIES (REAL INDICES) AND WORLD INFLATION. YEAR-ON-YEAR RATES



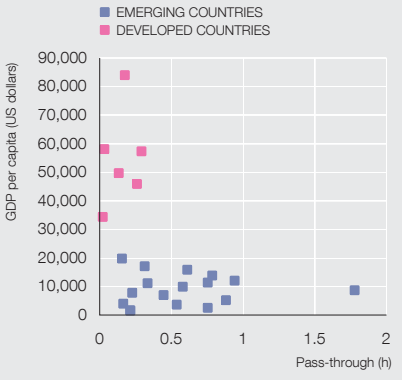
FOOD. WORLD AND DOMESTIC (CPI) PRICES. YEAR-ON-YEAR RATES



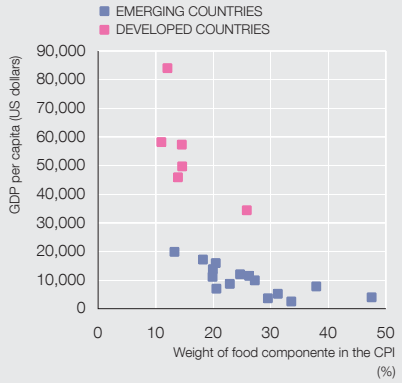
INCREASE IN INFLATION AND WEIGHT OF THE FOOD COMPONENT



GDP PER CAPITA AND PASS-THROUGH. 2007



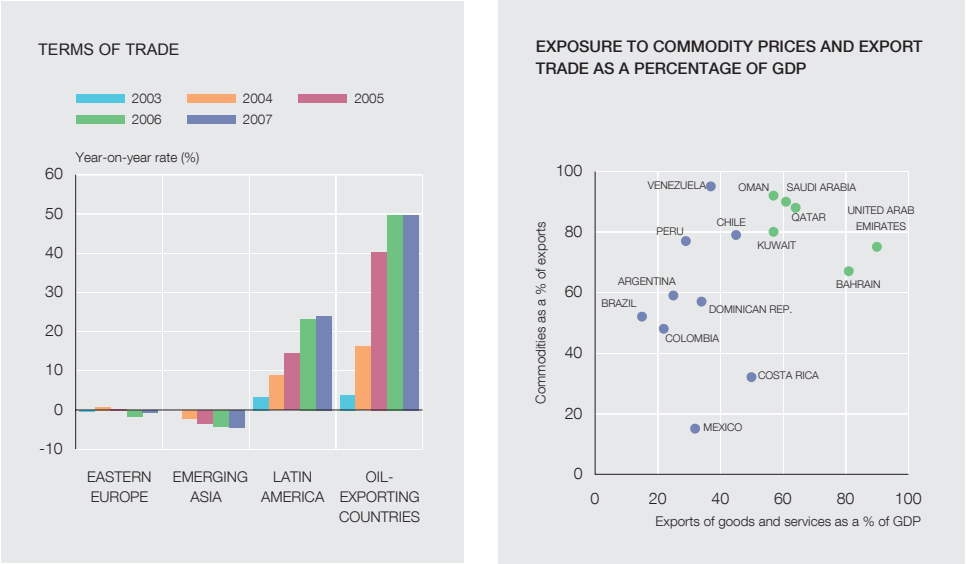
GDP PER CAPITA AND WEIGHT OF THE FOOD COMPONENT IN THE CPI. 2007



SOURCES: National statistics, IMF, World Bank and Banco de España.

a. IMF's commodity prices index, deflatd by the US CPI.
b. To April.
c. Food component of the IMF's commodity prices index.
d. United States, Canada, Japan, euro area, Norway, Sweden, Denmark, United Kingdom and Switzerland.
e. China, Korea, Indonesia, Philippines and Thailand.
f. Hungary, Poland, Czech Republic, Latvia, Lithuania, Estonia, Slovakia, Bulgaria and Romania.
g. Argentina, Brazil, Chile, Colombia, Mexico, Venezuela and Peru.
h. Ratio of domestic food inflation to international food inflation.

TERMS OF TRADE AND EXPORT TRADE CHART 4



SOURCES: IMF and Banco de España.

(a) the real terms of trade, i.e. relative export prices compared with relative import prices, especially in commodites exporting countries; and

(b) the economic policy options in each country and, most particularly, monetary policy and its relationship to the current exchange rate regime.

The adjustment of the economy and the monetary policy response

The rise in inflation following a prolonged period of very moderate inflation rates raises important issues and challenges, globally and for the national authorities, in developed and emerging countries alike. Nevertheless, the emerging countries face a greater challenge for two reasons. First, because low inflation is a recent achievement: the substantial and persistent easing in inflation in most emerging countries, which was particularly marked in Latin America, led in the 1990s to the use of nominal anchors, which initially were external (forms of fixed or rigid exchange rate regimes) and are increasingly internal, based on inflation targeting regimes and greater monetary discipline by the central banks. The disinflation process also benefited from the entry into global trade of new and highly dynamic competitors, such as China, and from structural reforms. Against this background, the recent rise in inflation is a critical test for these countries, since it will reveal whether the transition towards a sustained low inflation regime, consisting of the anchoring of agents' inflation expectations and the credibility of the monetary authorities, has taken root or whether the progress made in recent years in terms of price stability will be reversed.

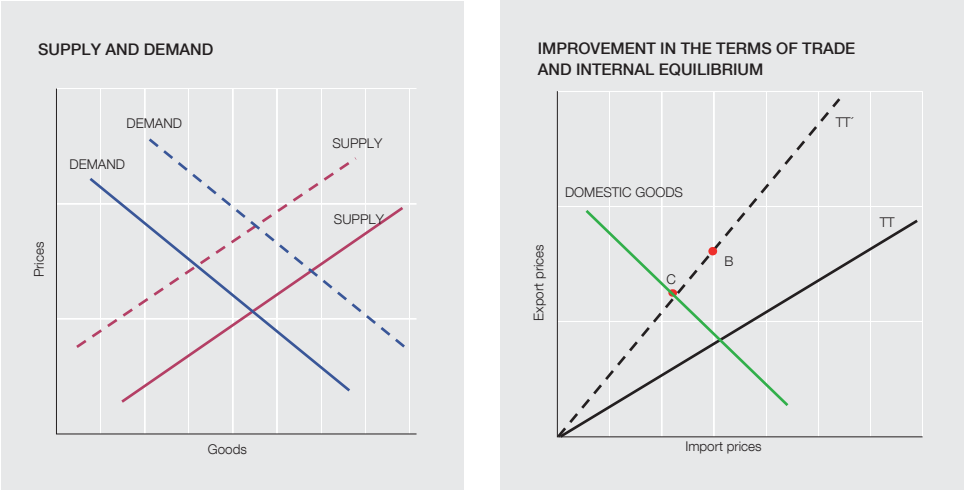
Second, many emerging countries are exporters of commodities, posing an additional challenge in terms of inflationary pressures. As shown in the left-hand panel of Chart 4, oil exporting countries and Latin American economies that export metals and agricultural commodites have witnessed a significant improvement in their terms of trade in recent years, also owing to the fact that they are open economies (see right-hand panel of Chart 4).

IMPACT AND ECONOMIC ADJUSTMENT OF THE RISE IN COMMODITY PRICES

In order to assess more accurately whether economic policies are responding adequately to the persistent increase in commodity prices, it is useful to start by analysing the impact of the latter on the economy and on adjustment mechanisms.

An increase in the price of commodities used in the supply chain entails an increase in production costs, which in the traditional aggregate supply and demand model produces an upward

TERMS OF TRADE AND ECONOMIC ADJUSTMENT CHART 5



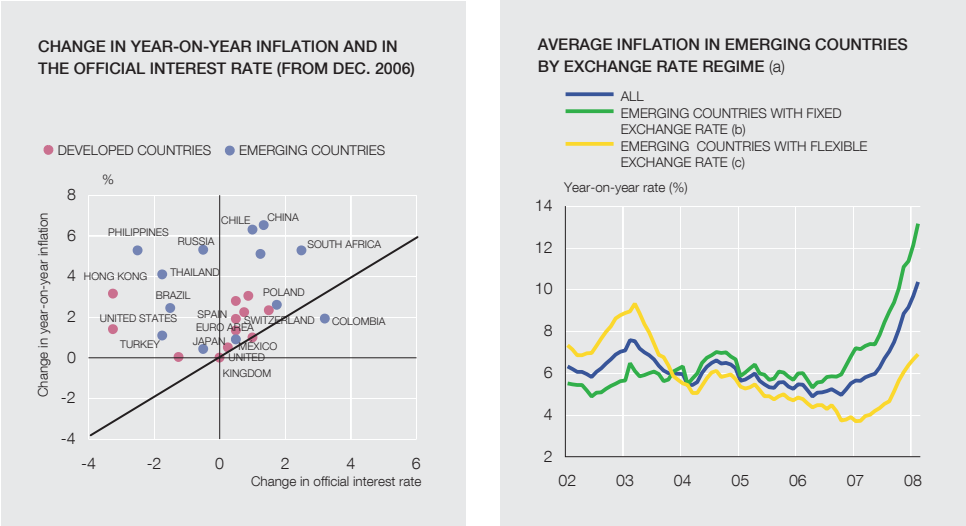
SOURCE: Banco de España.

shift in the supply curve (see the left-hand panel of Chart 5), whereby the same quantity of goods is supplied at a higher price. The impact of an increase in commodity prices on aggregate demand depends on whether the terms of trade are deemed to be improving or worsening. This is depicted in the right-hand panel of Chart 5, where the steeper slope of the TT curve indicates an improvement in the terms of trade and the perpendicular curve represents equilibrium in the domestic market in (non-tradable) goods produced by a country (see Dornbusch (1980) and Obstfeld and Rogoff (1996)). If the terms of trade deteriorate, the value of the country's real income declines, leading to lower spending capacity, which restricts aggregate demand. To some extent, this effect offsets the inflationary impact of the rise in commodity prices, but reinforces the adjustment of the economy (the demand curve moves leftward). On the contrary, if the terms of trade improve, the purchasing power of a country increases, leading, in normal circumstances, to an improvement in the external balance. With respect to the supply and demand model, the demand curve shifts towards the right, indicating the expansionary nature of the improvement in the terms of trade. In addition, this also leads to an increase in output and investment in export sectors, which has a positive effect on supply and potential output, but does not neccessarily counter the negative impact on the increase in costs in the rest of the economy (for the sake of simplicity, this impact is not depicted in the supply and demand model).

The first conclusion that can be drawn from this simplified analysis is that the rise in commodity prices does have an inflationary impact, and one that will increase the more commodities are used as an input in the various supply chains (shift in aggregate supply) and the greater the improvement in the terms of trade (shift in aggregate demand). The ultimate impact on the economy will depend on the relative shift in the supply and demand curves and on the attendant elasticity.

For the economy to accommodate the terms of trade shock, it is necessary to adjust the real exchange rate. An improvement in the terms of trade would lead to an appreciation of the real exchange rate (the scale of which would depend on how permanent the improvement was perceived to be). This would imply stronger demand for imports at the expense of non-tradable domestic goods, such that the external surplus would tend to ease off and excess demand to correct itself. In accordance with the right-hand panel of Chart 5, this appreciation would result in equilibrium at point C.

INFLATION, INTERNATIONAL RATES AND EXCHANGE RATE REGIMES CHART 6



SOURCE: National statistics.

a. Exchange rate classified according to the "De Facto Classification of Exchange Rates Regime and Monetary Policy Framework", IMF, July 2006.
b. Bolivia, Bulgaria, China, Ecuador, Honduras, Hungary, Iran, Latvia, Lithuania, Nicaragua, Panama, Saudi Arabia, Ukraine and Venezuela.
c. Brazil, Colombia, Croatia, Guatemala, Korea, Peru, Poland, Romania, Russia, Singapore, South Africa and Uruguay.

Confirmation that real appreciation is occurring is provided by the revaluation of the nominal exchange rate or higher inflation. Under a flexible exchange rate regime, this is the factor that would be most likely to adjust itself. However, in the case of a more rigid exchange rate, the adjustment tends to take place by means of higher inflationary pressures. Under flexible exchange rates, monetary policy can help to contain inflation by the raising of interest rates, which helps to moderate demand and facilitates the adjustment of the nominal exchange rate. In contrast, exchange rate rigidity hinders the achievement of price stability, in that the exchange rate makes no contribution when it comes to abating inflationary pressures, and nor is it possible, given free circulation of capital, to increase interest rates autonomously. In these circumstances, there are significant constraints on the use of monetary policy to counter inflationary pressures, and the risks to price stability in the medium term increase considerably.

In the case of a worsening of the terms of trade, i.e. in countries which are not net exporters of commodities (mostly developed countries), there is less need for a monetary policy response. On one hand, demand pressures work in favour of the required adjustment. On the other, the depreciation of the nominal effective exchange rate, which may add to inflationary pressures, will forseeably be of a lower magnitude than in the opposite case, given that the relative share of commodities in a country's imports is usually much smaller than the weight of commodities in the exports of those countries benefiting from the enhanced terms of trade.

THE MONETARY POLICY RESPONSE

In practice, individual central banks have applied different monetary policy responses to the rise in inflation. It is difficult to see these outside of the context of the financial turmoil, the sharp slowdown in the United States and the deterioration in global growth expectations.

The left-hand panel of Chart 6 depicts the variation in percentage points in official interest rates and in inflation since the start of the rise in late 2006, distinguishing between developed and emerging countries. The points above the diagonal line between the axes represent a reduction in real interest rates, giving an indication of which countries have, ex-post, relaxed their

monetary conditions in the period under review. This interpretation should be viewed with caution, since decisions on monetary policy are taken in relation to anticipated developments in inflation rather than to actual ex-post inflation. In any case, it is telling that, although most countries have raised their official interest rates, the rise in inflation has meant that, in all but one (Colombia), real interest rates have decreased. This suggests that monetary conditions have eased across the board during the period of rising inflation.[8] This conclusion can be drawn for the developed and the emerging economies alike, although the marked fall in real interest rates of over 4 pp in the United States and several emerging economies (such as China and Russia) is notable.

With regard to the exchange rate regime, the right-hand panel of Chart 6 plots average inflation for a sample of emerging countries, broken down in terms of countries with fixed or rigid exchange rates and those with flexible exchange rates according to the IMF classification. Inflation is much higher for rigid exchange rate regimes (13% compared with 7%) and the recent rise in inflation is also sharper, in both absolute and real terms. This situation is the opposite to that of a few years ago, when the exchange rate anchor was key in reducing inflation expectations. The upward pressures on the real exchange rate seen in emerging economies in recent years as a result of both the improvement in the terms of trade and large financing inflows have led to higher inflation in economies with rigid exchange rate regimes. This is exemplified by the Persian Gulf economies, whose terms of trade have improved most substantially and whose economies are pegged to the US dollar. This particularly complicates their monetary policy conduct as, in addition to having to implement a more generous than necessary monetary policy, in parallel with the monetary loosening in the United States, their currencies have depreciated (in real effective terms). This combination reinforces what are already significant inflationary pressures. For this reason, the current monetary policy framework puts central banks in the region in a very difficult situation as far as maintaining price stability is concerned.

The above-mentioned charts suggest that, in general, monetary policy is responding only in a limited way to the rise in inflation and that, under rigid exchange rate regimes, the response tends to be even more constrained. It is worth reiterating that the increase in commodity prices represents a change in relative prices. In principle, monetary policy should be geared towards preventing this adjustment of relative prices from giving rise to second-round effects on prices and wages and towards keeping inflation expectations anchored. In this context, the moderate monetary policy response in developed countries can be attributed to the fact that inflation expectations continue to be anchored, although concerns are growing in this respect. It is also worth noting that there has been a marked downward revision of growth expectations in the United States and other advanced economies and that uncertainty continues to prevail as far as developments in the international financial markets and their effects on the global economy are concerned.

The timidity of the response in the emerging countries is more striking given that demand continues to be dynamic, particularly in commodity exporting countries. It has been observed that countries tend to avoid sharp currency appreciations, including those with flexible exchange rate regimes. This has led a number of governments to intervene in the exchange markets. There are various arguments in favour of limiting currency appreciations or, in the case of fixed exchange rate regimes, revaluing the exchange rate. First, certain sectors of tradable goods other than commodities have seen their competitiveness deteriorate ('the Dutch disease') and are concerned that it will not remain viable, leading to a permanent impact on the productive

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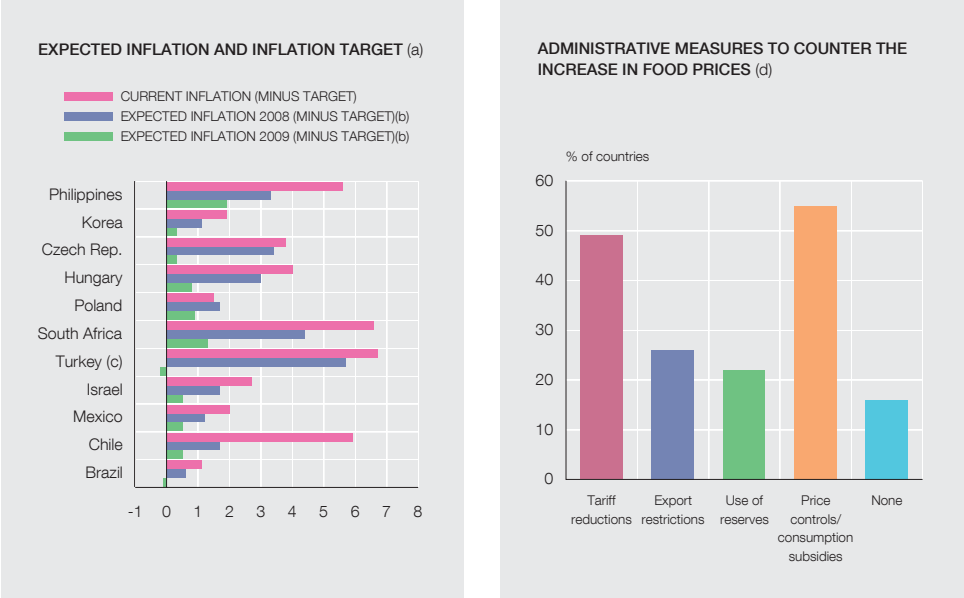
8. In any event, some countries have tightened monetary conditions by other means, such as larger reserve requirements.

INFLATION TARGETS AND ADMINISTRATIVE MEASURES CHART 7



SOURCES: Consensus Forecast, national statistics, FAO and Banco de España.

a. For cases in which the inflation target is set in accordance with a range of values, the average point in the range was used.
b. For Latin America, forecasts are for December; for the remaining countries, mid-year forecasts.
c. The inflation target for 2009 was recently revised upward from 4% to 7.5%.
d. Based on a sample of 77 countries.

and export structure. This would constitute a natural adjustment if the change in relative prices were permanent. However, the uncertainty in this regard explains the resistence to appreciation. Second, given the scale of the food and oil price increases, some authorities argue that their reluctance vis-à-vis appreciation is warranted, because an extremely significant appreciation of the exchange rate would be necessary for it to have the required impact in terms of controlling inflation. However, this argument applies to food inflation, but not to headline inflation, which is what the central banks are mandated to control. Lastly, it can be argued that allowing currencies to appreciate attracts more short-term capital flows, generating expectations of futher appreciations in the future, which would reinforce appreciation pressures even more.

The cuts in official interest rates by the US Federal Reserve System have widened the official interest rate differential between the Fed and many emerging economies' central banks, making it more difficult for the latter to resist appreciation and inflation pressures. Consequently, in order to effect the necessary monetary tightening in a way compatible with the need to contain appreciation, some central banks have resorted to raising reserve requirements or imposing temporary capital controls. These measures may be useful in the short term, but may impact on monetary policy transmission in other ways and are usually less effective in the medium term.

The increase in inflation may erode the credibility of the monetary authorites, given the opening of a wide gap between the inflation target (or officially forecast inflation) and actual inflation. In the left-hand panel of Chart 7, the upper column illustrates this divergence for a sample of emerging countries that use direct inflation targeting, while the lower columns show the expected deviation at the end of 2008 and of 2009. While the gap noticeably narrows in the medium term, it remains positive in almost all of the countries, including over the longest horizon (the third column).

This development poses a challenge to the central banks in these countries, as their credibility is associated in the medium term with the achievement of the announced inflation targets. Partly as a result, various proposals have surfaced in recent months to modify inflation targeting in some countries, e.g. by adopting a core rather than a headline inflation target since it is less exposed to short-term fluctuations, by lengthening the periods of time over which the inflation target must be reached, or, like Turkey, by revising the inflation target upwards. In all cases, there remains a lot of room for manoeuvre to shape the monetary policy response to inflation developments, which may be temporary or due to specific goods. An additional argument in favour of adopting a core inflation target is that it is core inflation that is most directly affected by monetary policy. However, there may be external pressures on the central bank behind this debate, which raises the questions on the independence of the monetary authority.

As stressed at the beginning of this section, the current rise in inflation is a critical challenge for emerging countries in terms of building on the advances made in recent years. To this end, the monetary authorities are advised to observe the frameworks established to achieve their inflation targets and to resist the temptation (or pressures) to move the goalposts, since this could bring about a loss of credibility for monetary policy and the central bank as an institution. In this context, the central bank communication policies are particularly important in effectively conveying the reasons for potentially missing an inflation target and in justifying the monetary policy decisions taken. This recommendation applies equally to advanced and emerging economies, irrespective of the type of monetary policy regime.

The response of other economic policies

Other types of policy can help the economy to adjust to the rise in commodity prices, also contributing to limiting the inflationary impact of this shock.

Fiscal policy plays a prominent role in that it can support monetary policy in easing inflationary pressures. In countries where the terms of trade are improving and are having a positive impact on tax revenues, it may be inferred from the foregoing that fiscal policy should adopt a counter-cyclical stance. The greater the degree of improvement in the terms of trade and the more transitory this is perceived to be, the more marked this stance should be. In this regard, the most complex issue when implementing fiscal policy is how to manage the increase in tax takings stemming from the improvement in the terms of trade and, in particular, to decide on how much to adjust the level of spending upward. On one hand, there is usually some uncertainty over the duration of the improvement; on the other, there may be limits to the economy's capacity to absorb the external boom and to the increase in disposable income. Lastly, it is useful to establish mechanisms for absorbing and accumulating these funds for future cyclical contingencies. In fact, some commodity exporting countries have set up stabilisation funds or sovereign wealth funds precisely for the purpose of dampening the direct impact of the economic boom, spreading out the revenue over the cycle and/or accumulating and investing funds for future generations. Although these funds have grown exponentially in recent years, in many countries there is plenty of room for improving the efficient use of such funds.

It is also important when devising economic policies in emerging countries to take into account the social impact of price increases in staple goods, which are particularly affected by the rise in commodity prices (as in the case for food shown in the central right-hand panel of Chart 3). Concerns in this regard have led many governments to adopt an array of administrative measures to restrict the rises in food and energy prices for the poorest segments of the population. The right-hand panel of Chart 7 shows the results of a survey carried out by the FAO, which assesses some of these measures and their sizeable influence in a wide sample of countries, affecting in some cases more than half of the countries.

Some of these measures, such as lowering import tariffs (or duties), are aimed at reducing the final cost of the goods and have been used extensively in the past few months. Ultimately, these policies help iron out market distortions and can thus be considered positive. Measures designed specifically to boost the supply of commodities and the productivity of the agricultural sector (e.g. subsidies for fertilisers and investment in machinery) may also be considered in a favourable light. Likewise, conditional cash transfers, aimed at mitigating the shrinking purchasing power of the most vulnerable (with high relative food consumption) are, in principle, also well received. Indeed, one of the main objections to subsidies to production or these kinds of transfer relates to the way in which they are implemented, since they can lead to distortions and perverse incentives. In this respect, it is worth highlighting the experience of Latin America in recent years, which through its social programmes based on these kinds of transfer[9] has shown itself to have an appropriate infrastructure for transferring assistance of this type swiftly and efficiently.

In contrast, several countries have been implementing measures that are having a distortionary effect on the market. Among these are the restrictions or bans on exports of specific goods, price controls or freezes, and generalised food and energy consumption subsidies. Moreover, the latter are usually counter-productive in that the better-off tend to consume more of these goods. Export restrictions or bans have been adopted by almost 30% of the countries, while price controls have been adopted by over half of them, making them the most widely adopted measure. All of these measures hinder the adjustment of production and consumption to the change in relative prices, and they mostly lead to the price rises persisting. Tihis is either because they prevent a correction of demand (as would occur, for example, if the commodity price increases were passed on to the final consumer) or because they tend to exacerbate supply constraints at the global level (by restricting exports). The use of reserves (by 20% of the countries) also distorts price signals, but may be justified in the event of the food shortages recently experienced in many countries.

These administrative measures also have repercussions on fiscal and monetary policies. The budgetary impact of some of these measures means that fiscal policy may ultimately take on an expansionary bias in an inflationary environment, which should be countered with fiscal measures in the opposite direction. The fiscal cost of the measures can be high – in some cases of the order of several percentage points of GDP – and may grow over time. Furthermore, some of the measures contribute to the deterioration in the current account balance. In some countries, mainly in Asia, governments are cutting these subsidies, many of which have been implemented for decades, because the fiscal costs have reached unsustainable levels. For this reason, the measures must be well designed and temporary. The problem is that, for reasons of political economy, some of these measures are easier to introduce than to dismantle.

With regard to monetary policy, these measures have a direct impact on inflation. This can work in one direction or another, depending on the type of measure: price controls tend to reduce inflation in the component in question, while passing on the price increases to the consumer tends to induce a rise in inflation. However, over and above these effects, possibly the most significant implications relate to the role of the monetary authority itself. Since some of these administrative measures are aimed at mitigating price increases, they are, in a way, anti-inflationary – even if restricted to very specific components. This could lead to them gaining in prominence or becoming perceived as alternatives to conventional monetary policy. Most of

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9. These development initiatives, known as cash transfer programs, transfer money to low-income households on condition that the parents send their children to primary school, attend regular medical check-ups and turn up for talks given at local health centres.

them are designed in response to exceptional circumstances and should be abandoned once these have been overcome. However, as pointed out above, sometimes as a result of the incentives, the very opposite occurs and the measures are retained. For this reason, there is always a risk that this kind of measure might take root, which could led to conflict between the different economic policy authorities and undermine the credibility of the central banks.

Conclusions

The rise in commodity prices, in particular energy and food prices, has triggered a worldwide increase in headline inflation since late 2006. In emerging countries, this rise has been steeper, in absolute and relative terms, than in developed countries. One possible reason for the stronger impact on the overall price index lies in the fact that lower levels of development generally entail a heavier weight of food in the CPI and a greater pass-through of international to national food prices. Although it would be difficult for commodity prices to continue growing at the rates seen in recent months, there is cause to expect that prices will remain high in the medium term.

Among the emerging countries, inflationary pressures have tended to be stronger in commodity exporting countries and those with rigid exchange rates, in particular when they are pegged to the US dollar. In some countries both of these factors have coincided, painting a particularly worrisome picture since, as has been discussed in this article, in order for the economy to adjust to improved terms of trade, an appreciation of the real exchange rate is required. If this is not effected through a revaluation of the nominal exchange rate, it will ultimately manifest itself as higher inflation.

The increase in headline inflation has so far scarcely fed through to core inflation rates or medium-term inflation expectations. Nevertheless, these kinds of effect are starting to be observed in a number of emerging economies. This stability, combined with the uncertainty surrounding the economic outlook and the expectation that price increases will ultimately ease off, explains the generally cautious response by the monetary authorities. In short, the rise in commodity prices is an adjustment of relative prices, which central banks should continue to monitor carefully to ensure that it does not generate second-round effects or have an impact on medium-term inflation expectations. It should, however, be noted that real interest rates have fallen in almost all of the countries in question during this phase of mounting inflation, which would denote an easing of monetary policy stances.

Nevertheless, the growing and persistent gap between headline and core inflation gives cause for concern, and monetary policy is faced with several challenges on a global scale. And the challenges facing developing countries are even greater. This is not only due to the fact that the increase in inflation has been higher in these countries and that, in some of them, core inflation is already on the rise, but is also because price stability is a recent achievement and anti-inflation credibility is less anchored than in the advanced economies. This situation thus presents a clear risk to the consolidation of the low inflation regimes that were so hard to achieve. In countries with a less favourable institutional context, administrative measures to contain food and energy inflation – some of which are justified in the light of the exceptional market situation – have proliferated, constituting an additional obstacle for central bankers. More specifically, such measures risk mutating into factors that undermine the conduct of monetary policy and the very autonomy of the central bank, as a result of their distortionary effect on prices and because they come to be seen as an alternative way of combating inflation, which is neither conventional nor desirable.

Faced with these challenges and the complexity of conducting monetary policy, it is essential for all monetary authorities to respond in a prudent and firm manner. This applies especially to

emerging economies, which must avoid making changes to the operational framework of monetary policy and reaffirm their autonomy and commitment to price stability.

23.6.2008

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Labour market trends in the euro area in the last decade

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

Introduction

Between 1998 and 2007 total employment in the euro area increased by more than 18.5 million, representing total employment growth of 15.7% for the whole period. This entailed a 6.7-percentage-point (pp) rise in the employment rate (defined as the percentage of the population aged 15 to 64 with a job) to approximately 66% last year. As shown in Chart 1, most of this increase was possible due to the favourable performance of the working-age population's participation in the labour market: the participation rate climbed by more than four points in the period analysed to 70.9%. However, changes in the unemployment rate also made a positive contribution since there was a decrease in the proportion of those participating in the labour market who cannot find work, which in 2007 reached its lowest level since the creation of the euro area.

This favourable performance of the labour market in the euro area seems to show that the various reforms undertaken in the last decade, especially in recent years, have borne fruit. However, the employment rate targets set for 2010 in the framework of the Lisbon strategy have not yet been achieved in the area as a whole or in most of the euro area countries.

The purpose of this article is to analyse labour market trends in the euro area – and in its member countries – in the last decade with data from the Labour Force Survey (LFS) published by Eurostat (based on national surveys).[1] Consequently, the performance of employment, the labour supply and unemployment will be described in the sections below, both at aggregate level (for the population aged between 15 and 64) and by different groups of individuals (classified on the basis of characteristics such as gender or age), in order to examine European labour market trends in recent years and to see the extent to which the results achieved are approaching or falling short of the Lisbon targets for 2010. Also, since the trends were not uniform throughout the period of analysis, their behaviour in the various stages will be studied.

Employment

In 2007 the number of persons in employment in the euro area as a whole amounted to approximately 137 million, posting a year-on-year increase of 1.9% over 2006 and a rise of 15.7% in cumulative terms since 1998 (equivalent to average annual growth of 1.63% in the period analysed). Likewise, the employment rate increased 6.7 pp to 65.7% in 2007, a level that was still lower than the target of 70% which according to the Lisbon strategy should be achieved by 2010 (see Tables 1 and 2).

The period analysed can be split into three stages of the same length based on the economy's position in the cycle in each one of them. The first stage (1998-2001) was characterised by robust growth of economic activity in the euro area. However, between 2002 and 2004 the euro area economy slowed down significantly until 2005 when it began to gradually recover

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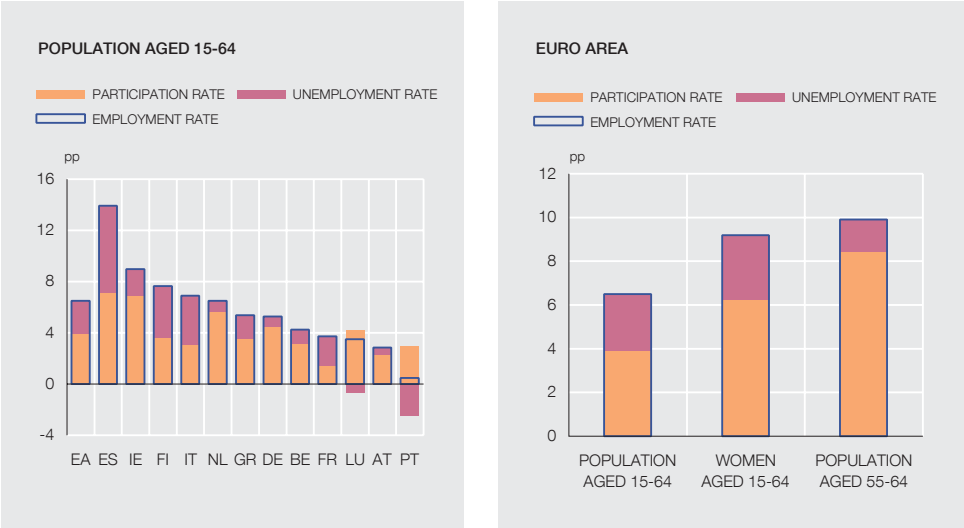
1. The LFS only provides quarterly data from 2005, since for the previous period certain countries only presented annual data for the Spring survey (the second quarter). Consequently, so that the results are comparable throughout the whole period the data for the second quarter of each year were taken as an annual reference. It should also be pointed out that the data for 2005 were affected by a series of methodological changes in the survey for Germany which give rise to a slight jump in German employment (and participation) data and, consequently, in the euro-area aggregate which is then shown in the growth rate. The twelve euro area member countries until 2006 and the related aggregate were analysed.

CONTRIBUTIONS TO CHANGES IN THE EMPLOYMENT RATE, 1998-2007 (a) CHART 1



SOURCES: Eurostat and Banco de España.

a. The relationship between the three variables is: employment rate = participation rate * (1 – unemployment rate).

and by the end of the period it was notably buoyant. In parallel, employment increased at a higher rate in the initial and final stage – averaging annual growth of above 2% – but rose moderately in the intermediate period (see Table 1). Nonetheless, the resilience of employment in the period of cyclical deceleration was seen as a clear sign of the favourable impact of labour reforms already under way in European labour markets since job losses were commonplace during previous downturns. Furthermore, as shown in Table 2, even in this period it was possible to increase the employment rate and, thus, to continue to make progress, albeit moderate, towards achieving the Lisbon targets.

Yet the results were not the same for all euro area countries and substantial differences were seen in the strength of the rise in their employment rates as shown in Chart 2. In the whole period, the highest increases in employment rates were recorded in Spain (nearly 15 pp), Ireland, Finland and Italy. The Netherlands was also noteworthy: it started out with the highest rate in 1998 and managed to increase it considerably to 76% in 2007. Most of the countries where the employment rate rose to a lesser extent (such as Portugal or Austria) started out from higher levels – above the euro-area average – which contributed to reducing cross–country differentials.

Also, although the various countries' employment rates generally performed worse in the intermediate stage (falling in many cases), considerable differences can be seen in developments in each country since then. In particular, among the large countries, certain events are worth highlighting in the latter period. Spain posted the highest increase between 2004 and 2007, as in previous stages, but particularly noteworthy were the strong recovery of the employment rate in Germany in the last stage, which brought it significantly nearer to meeting the Lisbon target, and the small rise in Italy and France.

Job creation in the whole euro area was much stronger for women; the female employment rate grew in all stages and consistently more than that for men. Between 1998 and 2007, the number of women in employment increased 24% in cumulative terms raising the female employment rate, which started from very low levels, by 9.5 pp to 57.9%, relatively close to the

EMPLOYMENT IN THE EURO AREA

TABLE 1

Year-on-year rates of change (%)										Change (a)			
	1999	2000	2001	2002	2003	2004	2005	2006	2007	TOTAL	Stage 1	Stage 2	Stage 3
EMPLOYMENT	2.2	2.2	1.7	0.9	1.0	0.6	2.4	1.9	1.9	15.7	6.2	2.4	6.4
By gender													
Men	1.4	1.6	1.2	0.3	0.2	0.0	1.6	1.6	1.6	9.9	4.3	0.5	4.9
Women	3.2	3.0	2.4	1.7	2.1	1.3	3.4	2.3	2.4	24.0	8.8	5.1	8.4
By age													
15-24	3.3	2.8	1.1	-0.7	-1.1	-1.8	1.9	0.8	0.8	7.3	7.4	-3.5	3.6
25-54	2.2	2.2	1.9	0.6	0.7	0.5	2.0	1.7	1.4	13.9	6.4	1.8	5.2
55-64	0.9	1.3	0.9	5.0	5.5	3.6	5.8	4.5	6.6	39.6	3.2	14.8	17.8
By educational attainment level (b)													
Low	-0.5	-1.4	1.4	-0.8	-1.2	-3.2	0.4	0.7	-1.1	-5.5	-0.5	-5.2	0.1
Medium	2.5	3.0	2.1	2.1	0.5	0.6	5.0	2.1	2.7	22.5	7.8	3.2	10.1
High	8.3	4.8	3.5	1.7	4.4	5.4	4.7	2.9	4.1	47.2	17.4	11.8	12.2
By nationality													
Nationals	2.3	2.1	1.2	0.4	0.9	-0.1	1.9	1.6	1.4	12.3	5.6	1.2	5.0
Foreigners	4.6	5.7	7.9	4.5	1.4	5.8	10.2	5.8	8.3	68.5	19.2	12.0	26.2
EMPLOYEES	2.7	2.6	1.9	1.1	0.9	0.4	2.6	2.1	2.2	17.9	7.4	2.5	7.1
By contract term													
Permanent	2.0	2.1	2.2	1.4	1.0	-0.2	1.4	1.5	2.2	14.4	6.4	2.2	5.2
Temporary	7.2	5.5	0.4	-0.2	0.4	3.8	9.3	5.1	2.3	38.8	13.5	4.0	17.5
By working time													
Full time	2.1	2.2	1.6	0.9	0.3	-0.6	1.2	1.2	2.1	11.6	6.1	0.6	4.5
Part time	6.2	4.7	3.2	2.1	3.9	4.8	9.2	5.6	2.9	51.2	14.7	11.2	18.6
SELF-EMPLOYMENT	-0.5	-0.2	1.0	-0.4	1.4	1.4	1.2	1.3	0.4	5.7	0.3	2.4	2.9
EMPLOYMENT BY BRANCH OF ACTIVITY													
Agriculture	-1.9	-2.4	-0.7	-3.0	0.1	-6.4	-0.8	0.3	-2.7	-16.2	-4.8	-9.1	-3.1
Industry	0.1	0.6	0.6	-1.0	-1.9	-1.0	-1.0	1.2	0.2	-2.2	1.3	-3.9	0.4
Construction	3.5	3.1	1.6	0.5	1.1	-0.1	3.1	2.5	4.4	21.4	8.4	1.5	10.3
Services	3.0	2.8	2.3	1.4	2.4	1.6	3.5	2.2	2.4	23.8	8.4	5.5	8.3
Market (c)	*3.7*	*3.8*	*2.4*	*1.2*	*1.8*	*2.1*	*3.1*	*2.7*	*3.2*	*26.7*	*10.2*	*5.2*	*9.3*
Non-market (c)	*2.2*	*1.7*	*2.2*	*1.7*	*3.1*	*1.0*	*3.9*	*1.7*	*1.3*	*20.3*	*6.2*	*5.8*	*7.1*

SOURCES: Eurostat and Banco de España.

a. Cumulative growth in the total period and in each of the three stages (1998-2001, 2001-2004 and 2004-2007, respectively).
b. According to the LFS classification, a low educational attainment level includes "pre-primary and lower secondary education"; a medium one includes "upper secondary and post-secondary non-tertiary education" and a high one includes "tertiary education".
c. Market services include: wholesale and retail trade, hotel and restaurant services, transport, financial intermediation, real estate and business services. Non-market services include all other services.

Lisbon target of 60%. Conversely, the male employment rate only increased by 3.8 pp in the same period and, although it continued to be much higher, the gap narrowed constantly. Chart 3 also shows the favourable performance of female employment, which made a higher contribution to the year-on-year growth rate in total employment than male employment throughout the whole period.

There have also been significant differences in employment developments by age group. Between 1998 and 2007, the employment rate for the group of older workers (aged 55-64), which was lowest at the beginning of the period, increased most (by more than 10 pp), followed by that for the group of workers aged 25 to 54 and, lastly, by that for the youngest workers (see Table 1). The trend in the aggregate employment rate and the year-on-year growth rate of total employment, as shown in Chart 3, is mainly accounted for by the performance of employment in the largest age group (25-54 years old), whose contribution has always been positive. However, the sizeable increase in the contribution of the oldest group since 2002 was particularly significant in the intermediate stage (coinciding with the slowdown in job

EMPLOYMENT RATE IN THE EURO AREA TABLE 2

Levels in %											Change (b)			
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Total	Stage 1	Stage 2	Stage 3
EMPLOYMENT RATE (a)	59.0	60.1	61.3	62.0	62.4	62.7	62.8	63.9	64.8	65.7	6.7	3.0	0.8	2.9
By gender														
Men	69.7	70.5	71.4	71.9	71.8	71.6	71.3	71.9	72.7	73.5	3.8	2.2	-0.6	2.2
Women	48.4	49.8	51.2	52.2	52.9	53.8	54.3	55.8	56.8	57.9	9.5	3.8	2.1	3.6
By age														
15-24	33.9	35.3	36.6	37.2	37.1	36.8	36.2	36.6	37.0	37.5	3.6	3.3	-1.0	1.3
25-54	73.1	74.2	75.3	76.0	76.2	76.4	76.6	77.4	78.4	79.2	6.1	2.9	0.6	2.6
55-64	33.5	33.7	34.1	34.7	36.1	37.5	38.3	40.5	41.8	43.7	10.2	1.2	3.6	5.4
By level of educational achievement (c)														
Low	47.8	49.3	50.0	48.9	49.1	49.4	49.0	49.3	50.0	50.3	2.5	1.1	0.1	1.3
Medium	63.9	66.7	67.7	68.2	68.4	68.3	68.2	69.4	70.4	71.4	7.5	4.3	0.0	3.2
High	78.2	80.3	81.1	81.5	81.4	81.5	81.3	81.7	82.2	83.1	4.9	3.3	-0.2	1.8
By nationality														
Nationals	59.9	61.2	62.3	62.9	63.1	63.4	63.2	64.2	65.1	66.1	6.2	3.0	0.3	2.9
Foreigners	53.1	54.2	56.1	57.9	57.8	57.6	57.6	60.3	61.5	62.7	9.7	4.8	-0.3	5.2
RATIOS														
Employees/total employment (d)	82.7	83.1	83.5	83.7	83.9	83.8	83.7	83.9	84.0	84.2	1.5	1.0	0.0	0.5
Temporary employment (e)	14.3	14.9	15.3	15.1	14.8	14.8	15.3	16.2	16.8	16.8	2.5	0.8	0.2	1.5
15-24 year olds	*45.7*	*47.1*	*47.0*	*46.2*	*45.8*	*45.7*	*47.5*	*49.2*	*50.5*	*50.9*	*5.2*	*0.5*	*1.3*	*3.4*
25-49 year olds	*11.0*	*11.5*	*12.1*	*12.0*	*11.9*	*12.0*	*12.6*	*13.6*	*14.2*	*14.3*	*3.3*	*1.0*	*0.6*	*1.7*
50-64 year olds	*5.7*	*6.1*	*6.2*	*6.1*	*6.0*	*5.9*	*6.0*	*6.5*	*6.7*	*6.9*	*1.2*	*0.4*	*-0.1*	*0.9*
Part-time employment (f)	15.0	15.5	15.8	16.0	16.1	16.5	17.5	18.7	19.3	19.4	4.4	1.0	1.5	1.9
Men	*4.9*	*5.0*	*5.1*	*5.1*	*5.3*	*5.4*	*5.8*	*6.4*	*7.0*	*7.0*	*2.1*	*0.2*	*0.7*	*1.2*
Women	*29.6*	*30.3*	*30.7*	*30.9*	*30.8*	*31.3*	*32.8*	*34.6*	*35.1*	*35.2*	*5.6*	*1.3*	*1.9*	*2.4*

SOURCES: Eurostat and Banco de España.

a. Total employed as a percentage of the working-age population (aged 15-64).
b. Change in the employment rate in percentage points in the whole period and in each of the three stages (1998-2001, 2001-2004 and 2004-2007, respectively).
c. See note b in Table 1.
d. Employees as a percentage of total employment.
e. Temporary employment as a percentage of total depedent employment.
f. Part-time employment as a percentage of total employment.

creation in the 25-54 year-old group). These developments reflect the results of the various reforms and measures to promote employment which have targeted this group in order to achieve the goal set within the framework of the Lisbon strategy. Nevertheless, the employment rate of the oldest group, which was approximately 44% in 2007, is still a long way off the target of 50% which should be reached by 2010. On the other hand, the contribution of youth employment has been limited and has proven to be clearly procyclical which explains why employment was destroyed in this category in the intermediate stage.

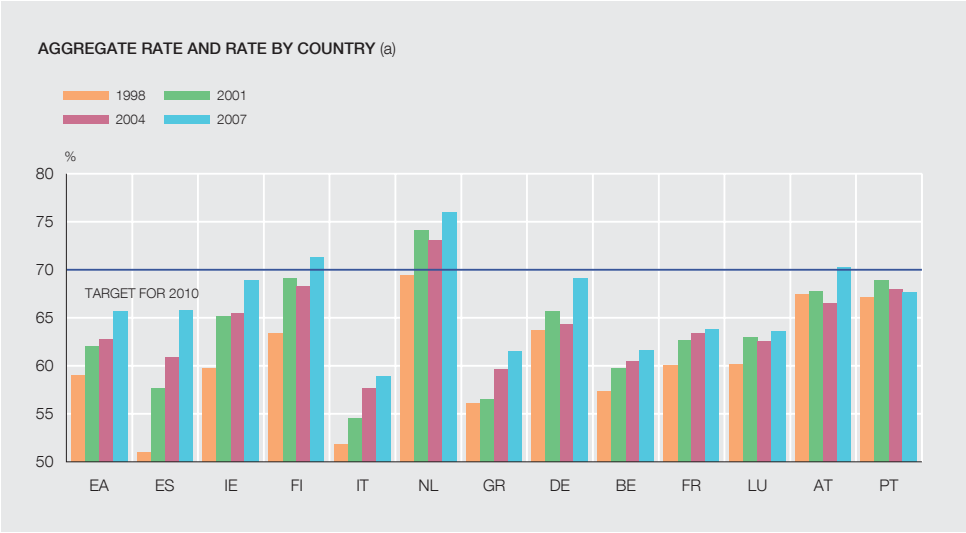
The breakdown of the data by educational attainment level confirms that there is a clear positive relationship between education and employment rates: highly-skilled individuals have higher employment rates, followed by those with an intermediate level of skills whose employment rate has increased most in the last decade. Lastly, the least skilled individuals show the lowest employment rate which has also increased to a lesser extent.

By nationality, Table 1 shows that in all euro area countries the number of foreign[2] workers has risen at a very high pace which notably exceeds that posted by persons in employment in their

2. This aggregate may include workers who are nationals of a euro area country and work in a country other than their own.

EMPLOYMENT RATE BY COUNTRY

CHART 2



SOURCES: Eurostat and Banco de España.

a. The aggregate considered is the EA-12. The rate for France and Austria relates to Q1 each year.

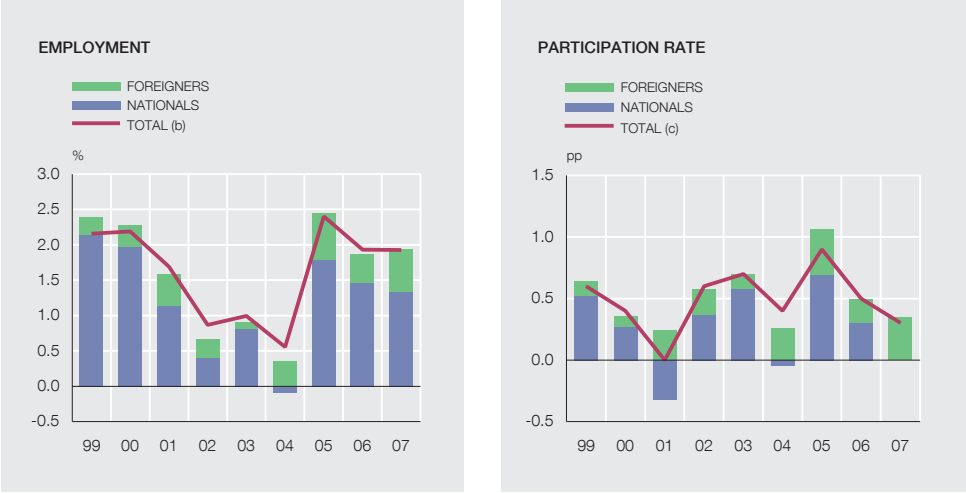
EMPLOYMENT
Annual growth rates and contributions by gender and age

CHART 3

SOURCES: Eurostat and Banco de España.

country of origin (which even fell slightly in 2004). Furthermore, this difference was particularly strong in the last stage when, as seen in Chart 4, the contribution of foreign workers to the total employment growth rate was highly significant, despite their low weight (below 8% in 2007) in the total number of people in work. The high buoyancy of the foreign employed population was also evidenced by the developments in their employment rate. Although the employment rate for nationals in 2007 continued to be higher than that for foreign workers, the disparity narrowed significantly (except in the deceleration stage) since, as shown in the following section, foreign workers have increased their participation in the labour market to a much greater extent.

EMPLOYMENT AND PARTICIPATION RATE CHART 4
Year-on-year rates of change and contributions by nationality (a)



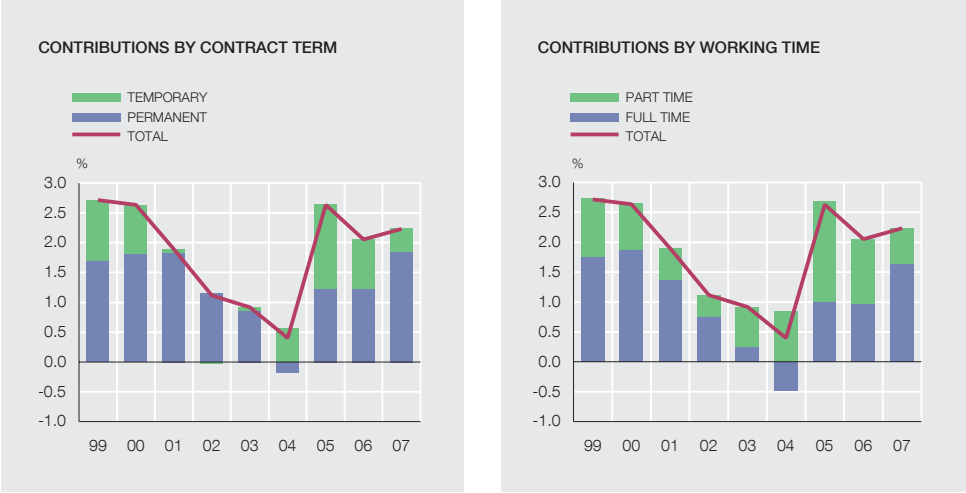
SOURCES: Eurostat and Banco de España.

a. The breakdown of data by nationality is not available for Italy until 2005. This is why the sum of the contributions from nationals and foreigners to employment growth and the year-on-year rate of change in participation (calculated with an aggregate excluding Italy until 2005) does not coincide with the total.
b. Year-on-year employment growth rate.
c. Year-on-year rate of change in the participation rate (in pp).

Employment throughout the period was underpinned by the rise in the number of employees which increased 17.9% in comparison with 5.7% growth in self-employment. However, in the stage of cyclical deceleration, employment growth was driven by self-employed workers whose numbers increased almost as much as employees (in 2003 and 2004 their numbers increased by even more than the latter). Nevertheless, since 2005 the recovery of the labour market was once again based on the substantial creation of jobs for employees (7.1% in comparison with 2.9% growth in self-employment), which explains why the number of employees as a percentage of total employment has shown a rising trend in the last decade, which was only interrupted in 2003 and 2004.

Within the group of employees and according to contract term, the high creation of temporary employment throughout the period analysed was noteworthy with cumulative growth of 38.8%, whereas permanent employment climbed by 14.4%. The number of employees with a temporary contract grew at a higher rate in each stage, although this group showed a more procyclical behaviour than permanent employees. In any event, it should be pointed out that in 2006, and especially in 2007, there seems to be a change in trend: the growth rate of temporary employment has slowed significantly, whereas permanent employment quickened gradually (see also Chart 5). These developments in the last decade were also seen in the percentage of employees with a temporary contract which followed an upward trend that was only interrupted in the initial years of the slowdown (2001-2003) and, more importantly, in 2007, when it held steady at approximately 17% (see Table 2). If temporary employment is analysed on the basis of age, it can be seen how it is inversely related to the age of workers: it is more prevalent among young than older workers. Noteworthy by country are the higher rates of temporary employment in Spain (31.9% in 2007, although it has declined since 1998) and in Portugal (22.2%) than in other countries. In the whole period the increases in the Netherlands, Portugal and Italy should be noted.

EMPLOYMENT CHART 5
Annual growth rates and contributions by contract term and working time



SOURCES: Eurostat and Banco de España.

As for working time, as shown by Table 1, part-time employment among employees has grown much more throughout the period and in each stage, although more notably in the last stage when it increased by 18.6% in comparison with 4.5% growth in full-time employment. However, in this case it can also be seen that it performed differently from 2006, which explains why in 2007 the ratio of part-time to total employment remained practically stable (at 19.4%), after having increased continuously throughout the period analysed and that, unlike in the four previous years, full-time employment contributed to a greater extent to explaining growth in the total number of employees (see Chart 5). Whereas temporary employment mainly affects young people, part-time working is much more concentrated amongst women who, as shown in Table 2, started out with much higher rates of part-time employment in 1998. This difference has increased continuously in the last decade. Noteworthy by country is the high part-time ratio in the Netherlands (46.3% in 2007) and, albeit to a lesser extent, in Germany (25.6%). The countries where this ratio has risen most throughout the period analysed are Luxembourg and, precisely, the Netherlands and Germany, especially in the case of the latter in the final stage of recovery of the labour market.

By branch of activity, one of the characteristics of employment in the last ten years is its high growth in services (23.8%) and construction (21.4%), although employment was destroyed in net terms in agriculture (–16.2%) and industry (–2.2%). Jobs were destroyed in agriculture in all stages, however, in industry job destruction was centred on the intermediate phase and there was scant employment growth in this sector in the period 2004-2007 (0.4%). The construction and services sectors posted strong employment growth in the first stage which moderated in the intermediate stage (more sharply in the case of construction) and they were once again the engines of European employment growth from the beginning of the labour market recovery (especially construction and market services).

Labour force

The supply of labour grew throughout the period. The percentage of the population aged between 15 and 64 which participates in the labour market (the participation rate) stood at 70.9% in 2007, more than four points up on 1998 (see Table 3). The absolute number of persons in the labour force is more than 147.5 million, representing a total increase of 10.8% in the period analysed which is equivalent to average annual growth of 1.15%.

PARTICIPATION RATE IN THE EURO AREA TABLE 3

											Change (b)			
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	TOTAL	Stage 1	Stage 2	Stage 3
Labour force (a)		1.2	0.9	0.4	1.3	1.5	0.9	2.1	1.2	0.9	10.8	2.5	3.7	4.3
Population aged 15-64 (a)		0.2	0.3	0.4	0.4	0.4	0.3	0.8	0.5	0.4	3.8	0.9	1.2	1.7
PARTICIPATION RATE	66.5	67.1	67.5	67.5	68.1	68.8	69.2	70.1	70.6	70.9	4.4	1.0	1.7	1.7
By gender														
Men	76.9	77.2	77.3	77.1	77.4	77.7	77.8	78.3	78.5	78.6	1.7	0.2	0.7	0.8
Women	56.1	57.1	57.7	57.9	58.8	59.9	60.6	61.9	62.7	63.3	7.2	1.8	2.7	2.7
By age														
15-24	43.2	44.1	44.4	43.9	44.1	44.1	43.9	44.3	44.1	44.1	0.9	0.7	0.0	0.2
25-54	81.0	81.6	81.9	81.8	82.4	83.0	83.5	84.1	84.6	84.7	3.7	0.8	1.7	1.2
55-64	37.2	37.3	37.4	37.5	38.8	40.6	41.6	43.8	45.0	46.6	9.4	0.3	4.1	5.0
By educational attainment level (c)														
Low	55.8	56.9	56.9	54.7	55.1	55.8	55.6	55.9	56.3	56.2	0.4	-1.1	0.9	0.6
Medium	71.8	73.9	74.1	73.9	74.4	74.7	74.9	76.0	76.5	76.7	4.9	2.1	1.0	1.8
High	85.2	86.0	85.9	85.7	85.9	86.3	86.3	86.5	86.5	86.9	1.7	0.5	0.6	0.6
By nationality														
Nationals	66.8	67.5	67.8	67.7	68.2	68.9	69.1	70.1	70.6	71.0	4.2	0.8	1.5	1.8
Foreigners	64.2	64.7	65.0	66.2	66.6	67.6	67.9	69.8	70.2	70.6	6.4	2.1	1.6	2.7

SOURCES: Eurostat and Banco de España.

a. Year-on-year rates of change.
b. In terms of year-on-year rates of change, cumulative growth in the total period and in each stage (1998-2001, 2001-2004 and 2004-2007, respectively). In terms of participation rates, change in percentage points in the total period and in each stage.
c. According to the LFS classification, a low educational attainment level includes "pre-primary, primary and lower secondary education"; a medium one includes "upper secondary and post-secondary non-tertiary education"; and a high one includes "tertiary education".

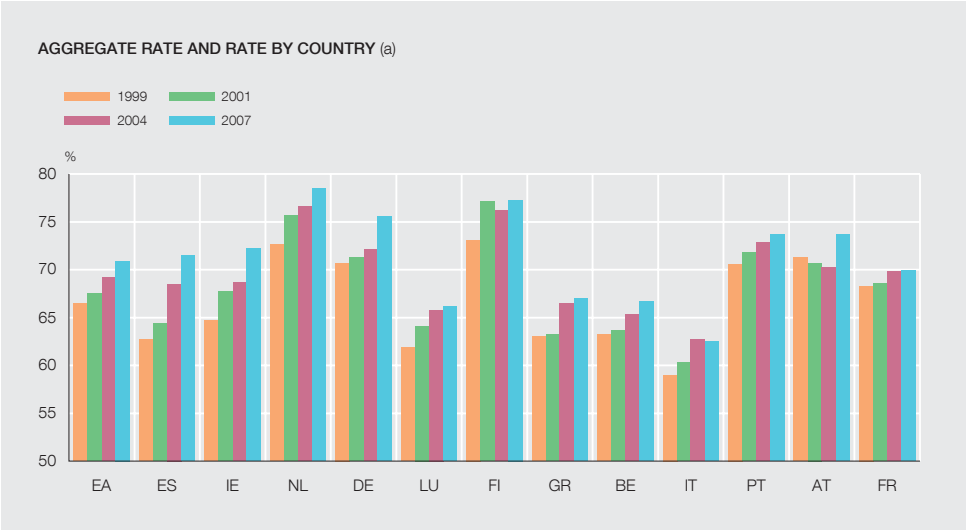
Unlike developments in employment, the labour force gradually accelerated over the period with the result that in the last stage the total growth of the labour force amounted to 4.3%, 0.6 pp up on the intermediate stage and nearly 2 pp higher than in the initial stage. The reforms undertaken in European labour markets and, in particular, certain measures aimed at increasing the employability of disadvantaged groups led previously inactive persons to enter the labour force from 2001, in view of their better prospects of finding a job. Even so, the growing pace of expansion over the decade of the working age population, which between 2004 and 2007 grew 1.7% (nearly double the rate in the first stage),[3] also contributed to the acceleration of the labour force.

The increase in participation rates was observed across the board in all countries throughout the period and, as with employment, the countries posting the highest increases were Spain and Ireland, which started out from very low rates, followed by the Netherlands which had one of the highest rates at the beginning of the period. At the opposite end of the scale were France and Austria (see Chart 6). In the most recent period, the trend in participation rates in the major euro area countries was uneven. Germany, which had posted modest results, experienced a considerable improvement of 3.5 pp, slightly above the also notable 3 pp increase in Spain. Conversely, Italy and France performed more unfavourably in the last stage.

As can be seen in Chart 7, most of the increase in euro area participation rates during the period analysed is a result of the strong influx of women into the labour market: the female participation rate increased more than 7 pp between 1998 and 2007, four times more than the

3. The relationship between these variables can be defined as: labour force = participation rate * working age population (aged 15 to 64).

PARTICIPATION RATE BY COUNTRY CHART 6



SOURCES: Eurostat and Banco de España.

a. The aggregate considered is the EA-12. The rate for France and Austria relates to Q1 each year.

male participation rate. Moreover, its growth was clearly higher in all stages and, consequently, the gender gap, which was above 20 pp in 1998, narrowed to 15.3 pp in 2007.

By age group, Table 3 shows that in terms of participation older workers performed best. They started out with the lowest rate in 1998, which climbed by 9.4 pp, especially from 2002. This positive progress is also clearly reflected in Chart 7, where it can be seen that this group's contribution to the annual increase in the aggregate participation rate grew throughout the period. By contrast, the participation rate of the youngest workers only rose by 0.9 pp, since the increase in the population's educational attainment level is achieved at the cost of delaying the age at which individuals enter the labour market. Also, in absolute terms, the number of young economically active people fell by 1.2% between 1998 and 2007, due to the decrease in the population aged 15 to 24, clearly reflecting the process of population ageing which is already affecting European countries.

As for changes in activity based on educational attainment levels, between 1998 and 2007 the group with a medium level of educational attainment achieved the highest increase in its participation rate, followed by the most highly qualified, whose participation rate was around 87% in 2007. However, the participation rate of persons with a low educational attainment level has hardly increased (only by 0.4 pp).

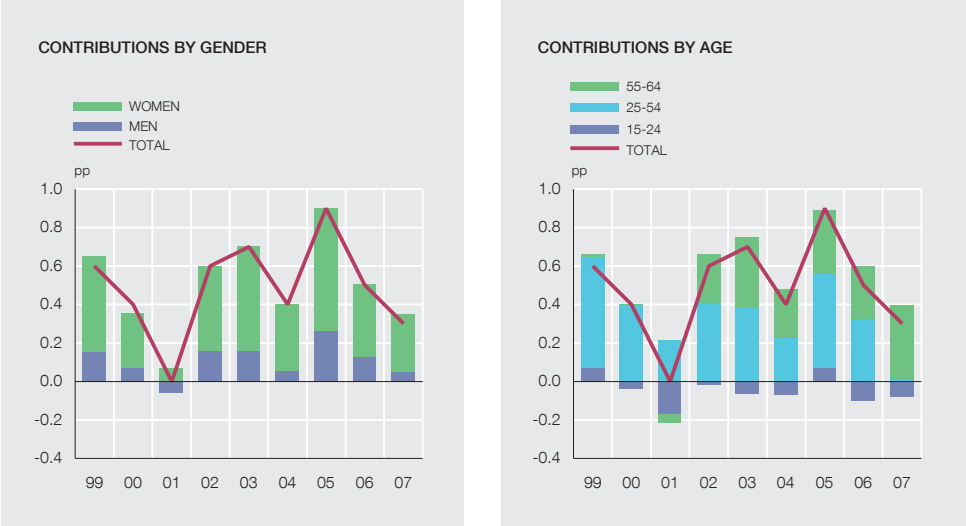
Lastly, as mentioned in the preceding section, the percentage of the foreign population participating in the labour market has increased more sharply than that of nationals with the result that in 2007 the participation rate of both groups was practically the same (see Table 3). In fact, Chart 4 shows how in some years of the period analysed, the increase seen in the aggregate participation rate was solely attributable to the foreign population.

Unemployment

The number of unemployed in the euro area stood in 2007 at under 11 million, i.e. the number of people out of work in the whole period analysed dropped by 27.8%, the equivalent of an average annual decrease of 3.3% (see Table 4). This performance shaved nearly 4 pp off the unemployment rate, reducing it to 7.3% in 2007, its lowest level since the euro area was created.

PARTICIPATION RATE
Year-on-year rates of change and contributions by gender and age

CHART 7



SOURCES: Eurostat and Banco de España.

However, the trend in the unemployment rate in this period was not always downwards since it rose between 2001 and 2004. The highest fall occurred in the first stage because growth in employment was fed relatively more by the unemployed. However, the strong acceleration in the labour supply from then onwards caused the unemployment rate to increase in the phase of cyclical downturn, when job creation moderated, and to fall significantly, although by less than in the first few years, when employment recovered its buoyancy.

As shown in Chart 8, the majority of euro area countries posted a decline in unemployment rates during the period analysed, but the cases of Finland, Italy and especially Spain, where unemployment fell by more than 10 points, are particularly remarkable. Conversely, in Luxembourg and, in particular, in Portugal the unemployment rate increased between 1998 and 2007, which in Portugal meant going from one of the lowest rates in the euro area to a rate above the euro-area average in 2007. In the most recent phase the favourable performance of Germany should be noted; it managed to be one of the countries in which unemployment (as a percentage of the labour force) was reduced most in this period, although it continued to have the highest rate in the euro area in 2007 (8.6%). In contrast, France, which had performed better than the euro area on average in the first two stages, only managed to slightly reduce its unemployment rate between 2004 and 2007.

The female unemployment rate fell more than the male one over the period as a whole and in each of the stages analysed.

The difference between these two groups may seem small, in view of the significantly higher creation of female employment, but the strong influx of women to the labour market in the decade to 2007 limited the fall in the female unemployment rate and its contribution to the reduction of the aggregate unemployment rate, especially in the final stage (see Chart 9).

By age, although the unemployment rates for the three groups analysed declined in the period as a whole, the extent to which they fell varied. Thus, as Table 4 shows, the youth unemployment rate, which started out as the highest in 1998, fell most, followed by that for older workers. Chart 9 shows the counter-cyclical behaviour of unemployment for all age groups, al-

UNEMPLOYMENT IN THE EURO AREA

TABLE 4

											Change (b)			
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	TOTAL	Stage 1	Stage 2	Stage 3
Unemployed (a)		-6.7	-10.4	-12.0	5.9	6.6	4.4	-1.1	-6.2	-10.3	-27.8	-26.4	18.0	-16.8
UNEMPLOYMENT RATE	11.2	10.3	9.2	8.1	8.4	8.9	9.2	8.9	8.2	7.3	-3.9	-3.1	1.1	-1.9
By gender														
Men	9.4	8.6	7.6	6.8	7.3	7.9	8.2	8.1	7.4	6.4	-3.0	-2.6	1.4	-1.8
Women	13.7	12.7	11.3	9.7	9.9	10.1	10.4	9.9	9.3	8.4	-5.3	-4.0	0.7	-2.0
By age														
15-24	21.5	19.8	17.4	15.2	15.8	16.4	17.4	17.3	16.0	14.8	-6.7	-6.3	2.2	-2.6
25-54	9.8	9.0	8.0	7.1	7.5	8.0	8.2	7.9	7.3	6.5	-3.3	-2.7	1.1	-1.7
55-64	10.1	9.5	8.6	7.5	7.1	7.4	7.9	7.5	7.1	6.2	-3.9	-2.6	0.4	-1.7
By educational attainment level (c)														
Low	14.3	13.3	12.2	10.5	11.0	11.5	11.9	11.8	11.3	10.6	-3.7	-3.8	1.4	-1.3
Medium	11.0	9.7	8.6	7.7	8.1	8.6	9.0	8.8	7.9	6.9	-4.1	-3.3	1.3	-2.1
High	8.2	6.5	5.6	4.8	5.2	5.5	5.8	5.4	5.0	4.3	-3.9	-3.4	1.0	-1.5
By nationality														
Nationals	10.2	9.3	8.2	7.1	7.6	8.1	8.6	8.4	7.8	6.8	-3.4	-3.1	1.5	-1.8
Foreigners	16.9	15.9	13.6	12.5	13.1	14.6	14.9	15.1	14.1	13.1	-3.8	-4.4	2.4	-1.8
Long-term unemployed (a)		-9.4	-12.7	-14.5	-1.4	9.7	3.3	2.5	-3.5	-14.6	-36.3	-32.5	11.7	-15.6
Incidence (d)	50.3	48.8	48.3	46.7	42.8	44.3	43.8	45.4	46.7	44.3	-6.0	-3.6	-2.9	0.5
By gender														
Men	48.5	47.0	46.7	45.4	40.8	42.9	42.7	44.7	46.9	44.2	-4.2	-3.0	-2.7	1.5
Women	52.0	50.4	49.7	47.9	44.8	45.7	44.9	46.1	46.4	44.3	-7.7	-4.1	-3.0	-0.6
By age														
15-24	38.7	35.9	35.6	33.2	29.7	30.7	28.3	28.5	30.7	27.0	-11.7	-5.4	-4.9	-1.4
25-54	52.5	51.3	50.1	48.7	44.7	46.2	46.0	48.0	48.7	45.9	-6.6	-3.8	-2.7	-0.1
55-64	63.9	63.7	66.3	64.7	61.5	61.3	63.0	65.6	66.7	70.6	6.7	0.9	-1.7	7.6

SOURCES: Eurostat and Banco de España.

a. Year-on-year rates of change.
b. In terms of year-on-year rates of change, cumulative growth in the total period and in each stage (1998-2001, 2001-2004 and 2004-2007, respectively). In terms of unemployment rates, change in percentage points in the total period and in each stage.
c. According to the LFS classification, a low educational attainment level includes "pre-primary, primary and lower secondary education"; a medium one includes "upper secondary and post-secondary non-tertiary education"; and a high one includes "tertiary education".
d. Long-term unemployed (individuals who have been unemployed for a year or more) as a percentage of the total unemployed.

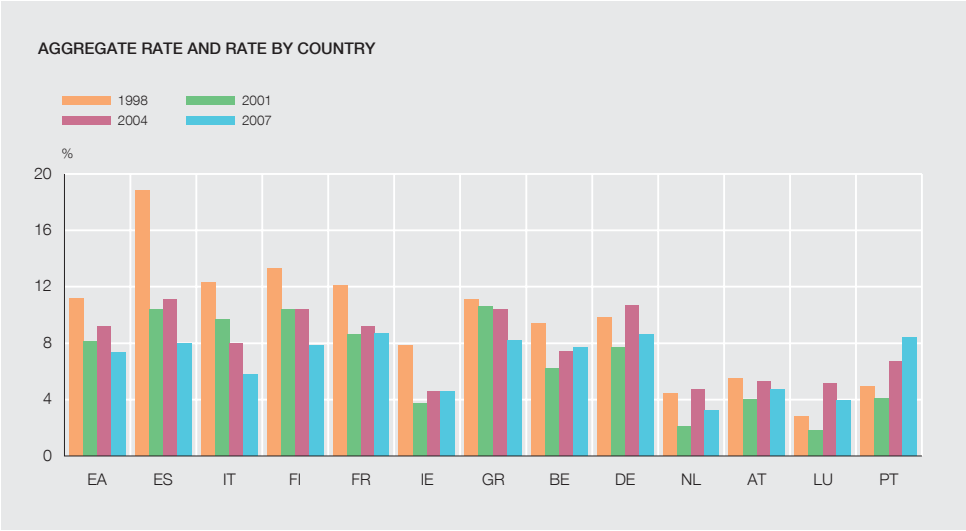
though it is more pronounced in the 25-54 year-old group, which accounts for most of the year-on-year change in the aggregate unemployment rate.

As for nationality, there were no sizeable differences between changes in the unemployment rate for nationals and foreigners. Both rates fell by a similar amount, that for foreigners remaining slightly more than 6 pp higher than that for nationals.

It is important to highlight with respect to the breakdown by duration of unemployment that the proportion of long-term unemployed (those out of work for more than a year) as a percentage of the total fell by 6 pp in the whole period to 44.3% in 2007, although it increased slightly in the last stage. This rise resulted from the fact that, although the number of long-term unemployed dropped by 15.6% in this stage, aggregate unemployment fell even more.

The incidence of long-term unemployment fell among males and, to a greater extent, among females, with the result that the gap which had existed at the beginning of the period between the two groups had practically closed by the end of the period. Table 4 shows a clear positive relationship between age and the incidence of long-term unemployment and that the gap between the various age groups widened during the period. In particular, it was among young people, who started out with the lowest proportion of individuals unemployed for more than a

UNEMPLOYMENT RATE BY COUNTRY CHART 8



SOURCES: Eurostat and Banco de España.

a. The aggregate considered is the EA-12. The rate for France and Austria relates to Q1 each year.

year, that this proportion decreased most, followed by the group aged 25 to 54. However, among individuals aged over 55, who had the highest ratio in 1998, the proportion increased most, a negative development which was concentrated particularly in the most recent stage. Consequently, although there was a sizeable increase in employment for this group in the latter years, many of them remained continuously sidelined.

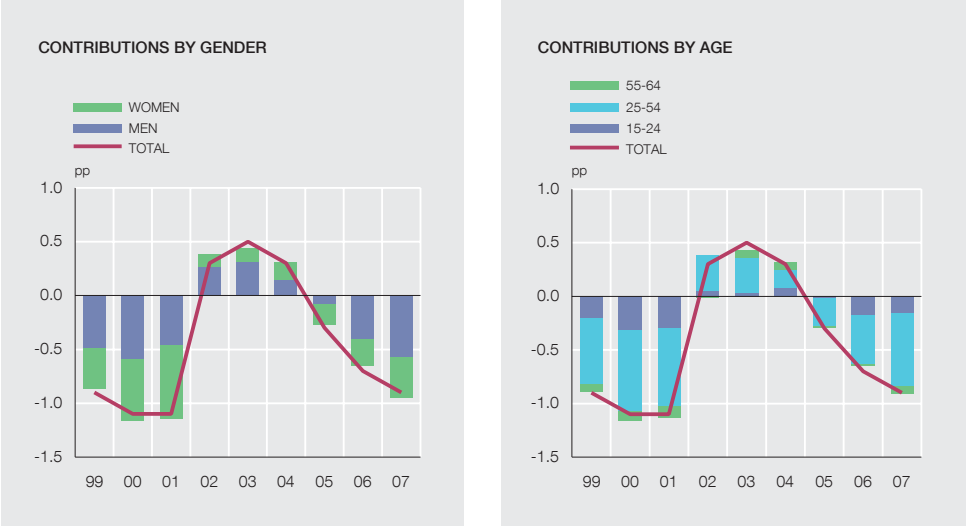
Conclusion

In the period 1998-2007, there were positive trends in the euro area labour market as a whole, characterised by considerable job creation, against a backdrop of strong labour force growth, which was, moreover, compatible with a significant reduction in unemployment. In particular, according to the results of the European Labour Force Survey (published by Eurostat on the basis of data from national surveys), between 1998 and 2007 employment increased by more than 18.5 million, giving rise to a substantial increase in the employment rate. Similarly, the fall in the unemployment rate meant that by 2007 it had reached its lowest level since the creation of the euro area. Furthermore, this positive progress was recorded right across the euro area, although to a different degree in each country. It is worth pointing out that Spain was the best performer although its starting position was one of the least favourable. In the last stage the sound results achieved by Germany were notable, making up for its previous scant progress.

The favourable performance of the euro area labour market seems to reflect the positive impact of several reforms undertaken in the last decade (especially in recent years) which, although to the benefit of the population as a whole, have favoured to a greater extent women and older workers, who were in a relatively worse situation at the beginning of the period. Furthermore, the foreign population made a significant contribution to growth of the labour force and employment.

Nevertheless, the targets set for 2010 in the framework of the Lisbon Agenda (both as originally formulated in March 2000 and in its relaunched version in 2005), in relation to employment rates (for the total working age population, the female population and that aged 55 to 64), have still not been achieved in the area as a whole or in most euro area countries. However, the female employment rate in 2007 was relatively close to the target (only 2 pp off 60%) and, in view of its growth rate in the period analysed, it seems probable that this target will be

UNEMPLOYMENT RATE CHART 9
Year-on-year rates of change and contributions by gender and age



SOURCES: Eurostat and Banco de España.

met. The same cannot be said of the total employment rate and, in particular, the employment rate for older workers. As a result, further structural reforms and measures to make the labour market more flexible need to be implemented so that, by enhancing the ability of working age individuals to adapt to available jobs and to a constantly changing economic environment (by promoting geographical mobility, continuous training and integration with new technologies, etc.), it is possible to continue increasing the degree of utilisation of the labour factor and, consequently, income per capita throughout the euro area.

19.6.2008.

Indexed bonds and inflation expectations in the euro area[1]

The author of this article is Juan Ángel García of the European Central Bank

Introduction

In recent years, the issuance of inflation-indexed bonds has grown strongly in the main debt markets. The fundamental characteristic of these bonds is that their yield is protected against inflation, since their holders are compensated in both coupon payments and in the repayment of principal (upon maturity) for the loss of purchasing power attributable to actual inflation.

Although the origin of indexed debt and its theoretical rationale go back more than two hundred years,[2] the essential development of this market is very recent and has coincided with a setting of historically relatively low inflation rates in most of the industrialised countries. This is surprising when considered from the investor's standpoint, since the main characteristic of these instruments is that they protect the yield on the investment against inflation. From the viewpoint of the issuer, however, the current setting is clearly more favourable.

One of the channels through which monetary policy may have a bearing on price developments is through its effect on long-term inflation expectations. If economic agents give credibility to the capacity and commitment of the central bank to maintain price stability, price and wage setting mechanisms will contribute to the attainment of the inflation target. Hence the importance of long-term inflation expectations remaining firmly anchored, and the need to monitor their developments very closely.

The purpose of this article is twofold. First, it describes the evolution of the indexed debt market in the euro area and its main characteristics; and, second, it analyses the possibilities offered by these instruments for measuring changes in long-term inflation expectations. In particular, a detailed analysis of the break-even inflation rate (BEIR), which is estimated using the yield on inflation-linked bonds, is presented. Currently, the bulletins of the most important central banks, as well as a large number of international public institutions and many financial institutions, comment regularly on these movements. This article may, therefore, be considered a practical guide to the interpretation of such information.

To this end, the second section presents an overview of the main indexed-debt markets and discusses, in particular, the development of the indexed-bond market in the euro area. Thereafter, the use of these instruments in the construction of inflation expectations indicators is analysed, with an explanation of the various possibilities that they offer, as well as their advantages and disadvantages. Finally, some brief conclusions are drawn.

Inflation-indexed debt in perspective

From a historical perspective, the issuance of indexed bonds has had three objectives. First, countries with high and variable inflation rates have found that indexed bonds are their best (if not their only) financing option. This group includes, notably, Chile in 1956, Brazil in 1964, Colombia in 1967 and Argentina in 1973. France, Finland, Israel and Iceland also issued indexed bonds occasionally in the period immediately after the Second World War.

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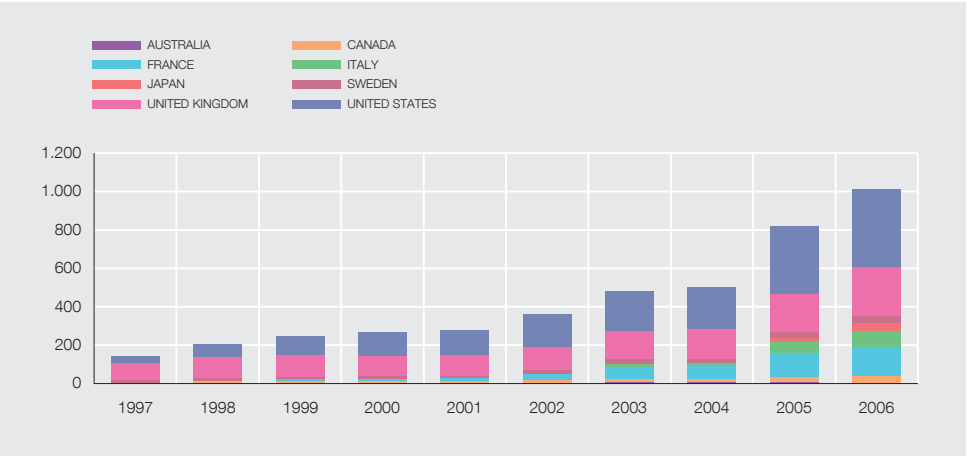
1. This article takes as reference the work of García and Van Rixtel (2007). Adrian Van Rixtel works in the Associate Directorate General International Affairs. **2.** A bond whose principal and interest were linked to the price of a basket of goods was issued by the State of Massachusetts in 1790 and the theoretical rationale for paying interest in real terms was developed in the 19th century [see Shiller (2003)].

AMOUNT OF OUTSTANDING INFLATION-INDEXED DEBT IN THE MAJOR INTERNATIONAL MARKETS (a) CHART 1



SOURCE: Barclays Capital.

a. Year-end data.

A second group of countries (the United Kingdom in 1981, Australia in 1985, Sweden in 1994 and New Zealand in 1995) decided to issue inflation-indexed debt in the 1980s and early 1990s as part of an economic policy strategy orientated towards a process of disinflation. In this setting, the issuance of indexed debt sought to give credibility to the commitment of governments to controlling inflation and to reduce the cost of public debt linked to high inflation expectations and/or an excessive risk premium in the markets.

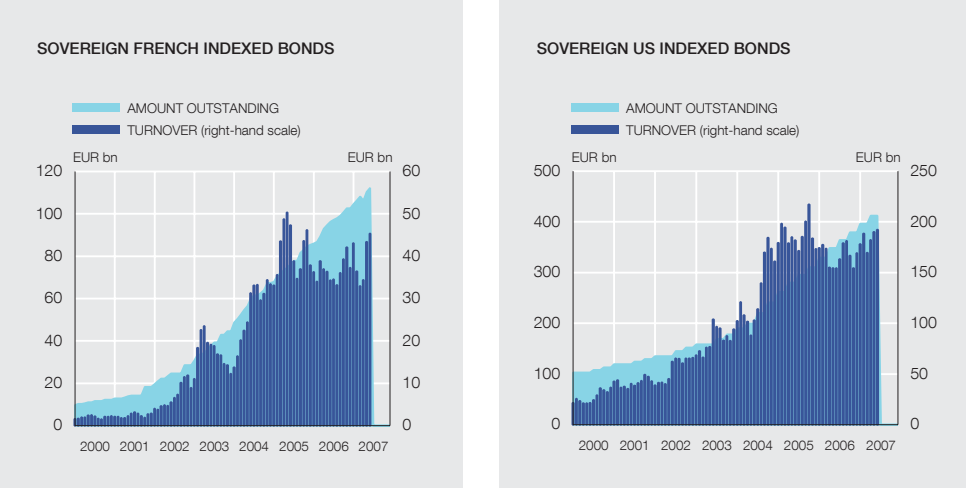
More recently, a third group of industrialised countries (Canada in 1991, United States in 1997, France in 1998, Greece and Italy in 2003, Japan in 2004 and Germany in 2006) has chosen to issue indexed debt in a period of low (actual and expected) inflation. In these cases, the fundamental motivation is related to social welfare arguments, like broadening the range of assets available in the financial markets or meeting the need for efficient protection against long-term inflation risks in public and private pension schemes, given the population ageing in many of these countries. Other countries have continued (United Kingdom) or resumed (Australia) their issuance of indexed debt on the basis of similar arguments. Indexed bonds still represent a small percentage of total outstanding debt, but they play an important role in public-debt issuance strategy in a growing number of countries [see De Cecco et al. (1997) and Favero et al. (2000)].

Currently, Australia, Canada, Sweden, the United Kingdom, the United States, Japan and a group of European countries (France, Italy, Greece and Germany) are the main issuers of sovereign indexed bonds (see Chart 1). One important characteristic of the growth of inflation-indexed bond markets is the acceleration since 2004, in volumes of issuance and, especially, turnover (see Chart 2).

The euro area inflation-indexed bond market is one of the most recent to be set up. In a short space of time it has become second only to the US market in terms of the amount of debt outstanding and turnover.

The French Treasury issued the first bond with coupon payments indexed to euro area inflation in October 2001, with maturity July 2012 (OATei 2012), only a few years after issuing bonds indexed to the general French price index (excluding tobacco) (OATis), in 1998. Al-

AMOUNT OUTSTANDING AND TURNOVER (a) CHART 2



SOURCE: BNP Paribas.

a. Monthly turnover in terms of three-month moving averages.

though the price index on which the European Central Bank's quantitative definition of price stability is based is the overall HICP, the euro area HICP (excluding tobacco) was chosen as the reference for calculating the protection against actual inflation in order to comply with French regulations on indexation, which prohibit the inclusion of tobacco in the reference index. The euro area HICP (excluding tobacco) has since become the benchmark reference in the market for indexed bonds and related products, such as swaps and inflation futures.

So far, the countries that have issued debt indexed to euro area inflation, along with France, are Greece, Italy and Germany.[3] The indexed bonds of these countries share some of the basic characteristics of French indexed bonds: indexing to the HICP (excluding tobacco); protection in the case of deflation by guaranteeing redemption at par; and the same mechanism for calculating the daily indexation indices.[4] However, the Italian and Greek bonds do not have the same credit rating as the French and German ones. In addition, the payment frequency of Italian indexed bonds is semi-annual, rather than annual, as for the other bonds. Table 1 provides a list of the indexed bonds existing in the euro area.[5] The increase in the number of issuers and bonds issued has made a decisive contribution to enhancing market liquidity, as reflected in the greater volume of trading in recent years (see Chart 2).

The use of indexed bonds for the analysis of market inflation expectations

Over the years, many economists have proposed using indexed bonds to measure the real interest rate and the inflation expectations of financial agents [see Campbell and Shiller (1996)]. The presence of these bonds in the market increases the possibilities for decomposing nominal interest rates into the expected real interest, expected future inflation and the risk premium.

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3. Finland in the early 1990s, Greece in 1997, Austria in 2003 and Belgium in 2004 also issued indexed debt, but only sporadically. Other EU countries, such as the Czech Republic and Hungary, also did so in the period 1996-1997, and Poland in 2004. **4.** The official inflation statistics are published monthly, but refer to the previous month. As it is necessary to know them in order to adjust the indexed bond coupon payments, the compensation is based on actual inflation up to three months prior to the payment. The daily price level values used to value indexed bonds in real time are based on official rules for interpolating between the monthly values. These rules and other basic characteristics of French bonds indexed to euro area inflation (OATeis) can be found at http://www.aft.gouv.fr/article_774.html?rech=1. **5.** Detailed information on the euro area indexed bond market can be found in the report of the Euro Debt Market Association [AMTE (2005)]. For a detailed overview of other markets, see, for example, Deacon et al (2004).

BONDS INDEXED TO THE HICP (EXCLUDING TOBACCO) IN THE EURO AREA TABLE 1

ISSUER	MATURITY DATE	ISSUANCE DATE	Amount outstanding (EUR billions)	Rating (S&P)
Italy	Sep. 2008	Sep. 2003	13.40	A+
France	Jul. 2010	Apr. 2006	5.75	AAA
Italy	Sep. 2010	Sep. 2004	14.30	A+
France	Jul. 2012	Nov. 2001	14.50	AAA
Italy	Sep. 2014	Feb. 2004	14.50	A+
France	Jul. 2015	Nov. 2004	10.00	AAA
Germany	Apr. 2016	Mar. 2006	9.00	AAA
Italy	Sep. 2017	Oct. 2006	7.45	A+
France	Jul. 2020	Jan. 2004	11.00	AAA
Greece	Jul. 2025	Mar. 2003	7.20	A (FIT)
France	Jul. 2032	Oct. 2002	8.75	AAA
Italy	Sep. 2035	Oct. 2004	10.30	A+
Italy	Sep. 2057	Feb. 2007	N.A.	N.A.

This section describes how to use indexed bonds to extract that information in the euro area.[6] As a comparison, certain references to other markets are included, principally the US market for indexed bonds (Treasury Inflation-Indexed Securities, TIIS, also known popularly as Treasury Inflation-Protected Securities, TIPS).

BREAK-EVEN INFLATION RATES AS INDICATORS OF INFLATION EXPECTATIONS

Inflation expectations indicators are fundamental for economic policy, and indexed bonds are an important instrument for measuring such expectations. In particular, the inflation compensation estimated on the basis of indexed bonds in the euro area, commonly known as the break-even inflation rate (BEIR), is calculated as the difference between the yield on a nominal bond and on a bond indexed to the HICP (excluding tobacco), with the same characteristics as regards issuer and maturity. The theoretical rationale for this calculation is the Fisher equation, which establishes that the nominal yield on a bond is approximately equal to the sum of the required real rate and the expected average inflation rate during the residual maturity.

BEIRs have two main advantages as a source of information for inflation expectations. First, since indexed bonds are continuously traded on the market, they are available at high frequency. Second, since both nominal and indexed bonds are issued with various maturities, inflation expectations can be calculated for different periods, which is fundamental both for central banks and for private investors.

However, some caution is necessary in the interpretation of these indicators as measures of inflation expectations, owing, first, to the presence of the risk premium. If investors were risk neutral, they would require the same expected return on both types of bond, and the compensation for future inflation would be (approximately) equal to the average expected inflation until the maturity of the bonds.[7] However, investors are generally risk averse. As future inflation will depreciate the payments received on a nominal bond, but not those on an indexed bond, it is

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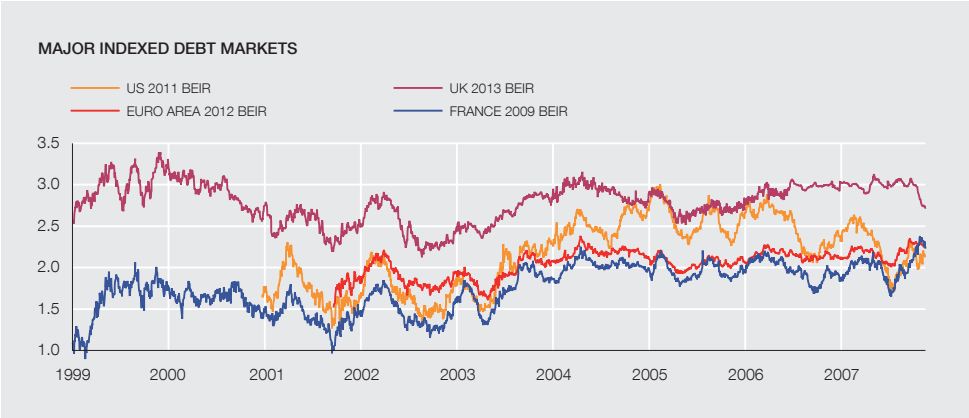
6. Breedon and Chadha (1997) analyse the properties of BEIRs as leading indicators of inflation for the United Kingdom and Chistensen et al. (2004) for Canada; Sack (2003) investigates their use to predict interest rate movements. **7.** Even ignoring the risk premium, it should be taken into account that the yield differential is a linear approximation of the Fisher equation, based on nominal rates, and that it differs from the calculation based on equivalent annual rates of return by a few basis points. For example, with a nominal rate of 4% and a real one of 2%, the Fisher equation would indicate a BEIR of 1.96%, in comparison with a simple differential of 2%.

LONG-TERM BEIR (a) CHART 3



SOURCES: Reuters and author's calculations.

a. BEIRs calculated as the yield spread between a nominal bond and an indexed bond with the same maturity.

natural to think that, in the case of nominal bonds, investors require additional compensation for the uncertainty associated with expected inflation. Therefore, the total compensation for inflation required by investors will not only reflect the average expected inflation rate, but also additional compensation in the form of a risk premium for the uncertainty associated with that future inflation.

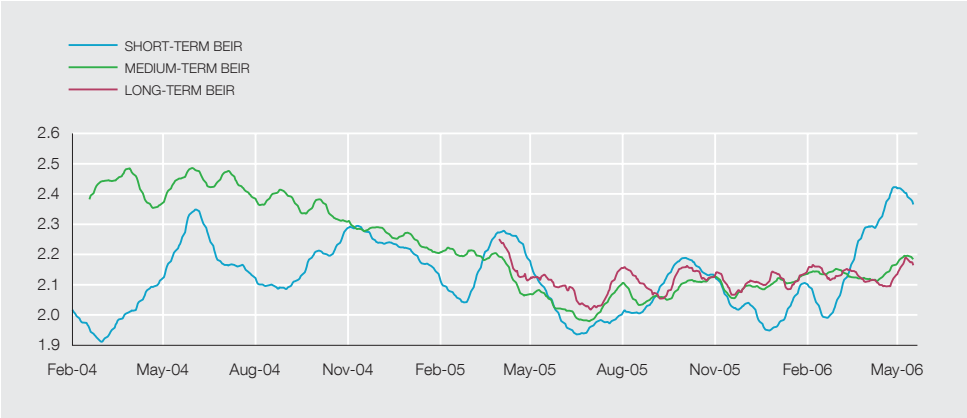
A second problem arises from the fact that indexed bonds are normally less liquid than conventional bonds. The presence of a liquidity premium in indexed-bond yields means that BEIRs underestimate inflation expectations. For example, the presence of a considerable liquidity premium in the US indexed bond market is the most plausible explanation for the difference observed until the year 2003-2004 between financial indicators and inflation expectations arising from surveys [see Sack and Elsasser (2004)]. As discussed in the previous section, the turnover of indexed bonds is currently much higher, and it is very likely that the liquidity premium has declined significantly.

Third, BEIRs are biased slightly downwards relative to inflation measured by the overall HICP, since the reference price index used in the euro area for all the indexed bonds issued until now is the HICP excluding tobacco, and in recent years its growth rate has been slightly below that of the overall HICP. As regards their use in central banks, it has also been argued that, while these bonds are usually indexed to general price indices, monetary policy analysis may be founded (although this is not the case of the ECB) on indicators based on measures of core inflation [see Bernanke (2004)].

Finally, movements in these indicators may occasionally be influenced by technical or institutional factors, such as tax distortions or regulatory changes, which may affect the demand for indexed bonds and reduce the information content of BEIRs. Such distortions are often difficult to identify and even more difficult to quantify, but a comparison of the movements in other similar markets may be useful to detect specific distortions [see Chart 3 and, for example, Scholtes (2002) for the United Kingdom].

In short, the interpretation of BEIRs requires that a number of considerations be taken into account. First, the yield spreads between nominal and indexed bonds should be interpreted as a measure of the total inflation compensation required in the markets, and not as a "simple"

IMPLIED BEIRs AT DIFFERENT TIME HORIZONS (a) (b) CHART 4



SOURCES: Reuters and author's calculations.

a. Daily data. Five-day moving averages.
b. Short-term BEIRs calculated on the basis of the indexed bond with maturity 2008. Implied medium and long-term BEIRs calculated on the basis of indexed bonds with maturity in 2008 and in 2014, and 2012 and 2015, respectively.

inflation rate that equalises the yield on assets (to break even). This compensation for inflation provides information on the expected level of inflation and also on the level of risk associated with that level of inflation (in the form of a risk premium). Accordingly, changes in BEIRs may reflect changes in the expected level of inflation, changes in the inflation risks perceived by economic agents, or else a combination of both. From the central bank's viewpoint, both components are relevant: a credible commitment to maintaining price stability should anchor the expected inflation rate at values consistent with the monetary policy target, while the degree of uncertainty associated with the long-term inflation expectations provides a measure of the firmness of this anchoring. Changes in the inflation compensation required by investors in the bond market provide central banks, and economic agents in general, with information on inflation expectations and their associated risks that it is difficult to obtain by any other means.

A breakdown of BEIRs into inflation expectations and the associated risk premium requires a model of the time structure of nominal rates. Given the complexity involved in formulating and estimating such models, recent research usually incorporates indexed-bond yields as additional information. For the euro area, such estimates are still scant, but the evidence available suggests that, in the long term, inflation expectations are the main component of the level of BEIRs. The long-term risk premium in the euro area is relatively low (on average, of the order of 25 basis points). However, variation in this premium is the main determinant of changes in BEIRs at short horizons [see García and Werner (2008)].[8]

MONITORING MOVEMENTS IN BREAK-EVEN INFLATION RATES

The greatest advantage of BEIR's as indicators of inflation expectations is their immediate availability. Although the sample is still relatively short and the European indexed debt market has only gradually developed, these indicators have in recent years provided sufficient evidence of their usefulness for the conduct of monetary policy, especially since 2004, when indexed bond turnover in the major markets seems to have reached sufficient levels.

8. The risk premium explains 90% of the variation in BEIRs in the long term. As regards the inflation risk premium in US Treasury bonds, recent estimates indicate large fluctuations over the last few decades, between the levels of 20 and 140 basis points [see Ang et al. (2008) and Buraschi and Jiltsov (2005)]. Kim and Wright (2005) argue that the inflation risk premium gradually decreased from 1990, to reach 50 basis points by mid-2005.

Spot BEIRs provide information on the average inflation expected during the period to maturity of the bonds. For example, disregarding the risk premium, the BEIRs calculated on the basis of the OATei 2012 bond reflect the expected average inflation until that date.

Chart 3 shows the BEIRs for the euro area, United States, United Kingdom and France, calculated on the basis of indexed bonds issued with a maturity of ten years. In all these markets, BEIR's have experienced significant volatility in recent years, but the similarities between the behaviour of these indicators in the four markets indicate that inflation rates have been influenced by global factors. For example, since mid-2003, coinciding with the strong growth in the prices of oil and other commodities, there was an upward trend in all four markets.

The observed spreads in Chart 3 are consistent with the differences between the long-term inflation targets of the monetary authorities of the three economic areas. The case of the US economy seems rather extreme, however, since the BEIRs were abnormally low in the period 1997-2003, probably reflecting the lack of liquidity in the US indexed debt market, given its scant development at the time, while after that period they display levels much more consistent with other indicators of long-term inflation expectations.[9]

Spot BEIRs, by reflecting the average inflation compensation demanded by investors until the maturity date of the bonds, may be strongly influenced by short-term inflation expectations owing to temporary inflationary pressures beyond the control of the monetary authorities. For this reason, it is normal practice in the official publications of central banks to present (implied) forward BEIRs that provide information on medium and long-term inflation expectations. For example, in the case of the euro area, this calculation may be based on bonds with maturity in 2012 and 2015 issued by the French Treasury. The implied 2012-2015 BEIR would reflect average inflation expectations (and associated risks) between 2012 and 2015, and would therefore be free from the influence of short-term inflation movements. By combining spot and implied BEIRs, one can easily construct indicators that reflect, at a given time, short, medium and long-term inflation expectations (see Chart 4). However, the spot and implied BEIRs calculated using market-traded bonds have the disadvantage that the time horizon of the inflation expectations which they reflect shortens as the maturity of the bonds used approaches. This is a significant problem when the objective is to analyse movements over a relatively long period of time.

To avoid these problems in the monitoring of medium and long-term inflation expectations, the normal practice is to estimate the zero-coupon BEIR as the spread between the estimated yields on nominal and real zero-coupon bonds [see Ejsing et al (2007)].[10] These estimates enable nominal and real yields to be obtained at any term and, therefore, enable inflation expectations to be monitored for any time horizon, not only those for which there is an issued bond. Although the lack of a sufficient number of indexed bonds with short maturities in the euro area market makes it less advisable to use such measures for time horizons of less than three

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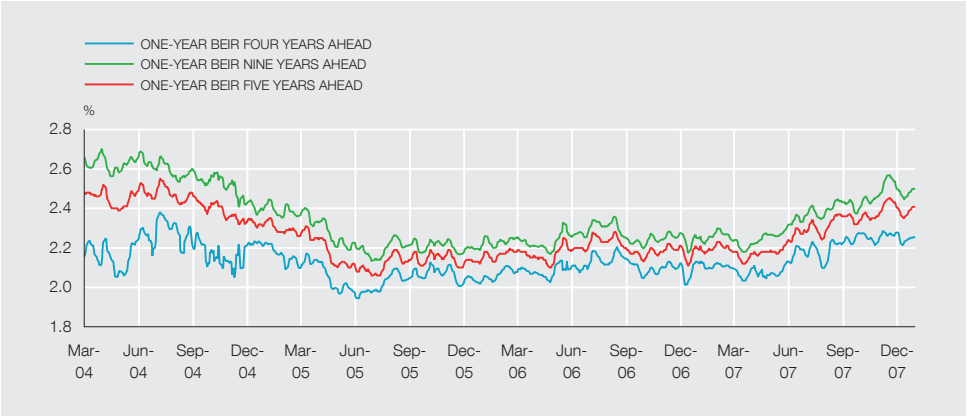
9. This interpretation is consistent with the assessment of the Federal Reserve itself which, despite the significant increase in BEIRs during 2004, described long-term inflation expectations as well contained in various official statements by its Open Market Committee. **10.** Estimating the term structure of the BEIR in the euro area has a number of complications, such as for example the small number of indexed bonds, especially in the short term, as well as the presence of various different issuers. Ejsing et al. (2007) apply the method of Nelson and Seigel (1987), a parametric approach common at central banks [see BIS (2005)]. The yield spreads between nominal and real zero-coupon bonds avoid the distortions arising from differences in the duration of indexed and nominal bonds with the same maturity. This article confirms that, at least in recent years, these differences are small and the BEIRs based on observed yields are a good approximation. However, the seasonality of inflation gives rise to large fluctuations in these measures, so that it is advisable to adjust the yield curves for this seasonality in order to obtain better measures of inflation expectations at different time horizons.

BEIRs AT DIFFERENT HORIZONS (a) (b) CHART 5



SOURCES: Reuters and author's calculations.

a. Daily data. Five-day moving averages.
b. Seasonally-adjusted forward BEIRs calculated following Ejsing, García and Werner (2007).

years, for longer periods zero-coupon BEIRs provide reliable and more precise measures of implied inflation expectations.

The European Central bank, in line with other important central banks, regularly provides detailed information in its Monthly Bulletin on the movements in long-term inflation expectations by decomposing ten-year BEIRs (an indicator of the average inflation compensation required by markets for the next ten years) five-year BEIRs and the implied BEIRs for between five and ten years, which offer more precise information on the inflation rate (and associated risk premium) expected on average in the medium and long-term (see Chart 5).

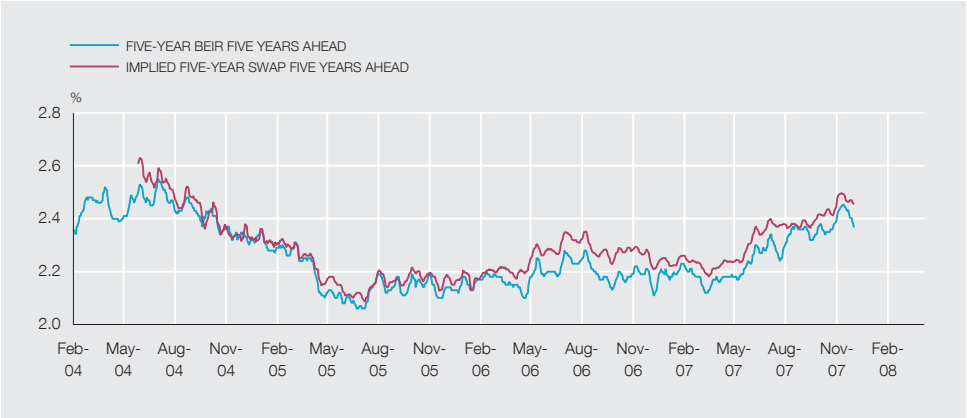
The estimation of zero-coupon term structures also enables the movements in the implied BEIRs for between five and ten years to be interpreted by means of measures separately reflecting inflation expectations in the medium and long term. To this end, the calculation of implied one-year BEIRs four and nine years ahead may often be useful. Chart 5, for example, confirms the conclusion of Chart 4 as regards the sharp decline in medium and long-term inflation expectations in the euro area between 2004 and early 2005, and their relative stability thereafter until the first half of 2007, despite the rises in short-term BEIRs and in actual inflation.

BREAK-EVEN INFLATION RATES AND OTHER INDICATORS OF LONG-TERM INFLATION EXPECTATIONS

Apart from the BEIRs calculated on the basis of indexed bonds, there are two further sources of information on long-term inflation expectations in the euro area: inflation swaps and surveys of macroeconomic expectations. Comparison of the developments in these three indicators is often very useful, since it provides information from different markets and economic agents and enables more robust conclusions to be obtained on movements in inflation expectations.

Inflation swaps are contracts involving the exchange of two capital flows, one of which will depend on actual inflation during the life of the swap, while the other is a fixed rate agreed between the parties. In a similar way to BEIRs, the inflation compensation is the rate that would ex ante equalise the nominal flows exchanged. Inflation swaps offer a broad range of maturities so that, as in the case of BEIRs, a curve of inflation compensation and contract terms can be obtained and the most important values selected. However, in order to compare these two indicators it is important to take into account two differences between them. First, swaps are contracts relating to annual periods of one or more years, and therefore the inflation compensation they incorporate is free from the seasonality of monthly inflation. For compari-

BEIR AND INFLATION SWAPS CHART 6



SOURCES: European Central Bank, Reuters and author's calculations.

son to be useful, therefore, it is necessary to adjust the BEIRs for the effect of inflation seasonality [see Ejsing et al. (2007)]. Second, besides the inflation risk premium that they have in common with BEIRs, inflation swaps may incorporate a premium to compensate for counterparty risk.

As can be seen in Chart 6, these two alternative measures of compensation for long-term inflation have followed a very similar trajectory for the euro area, which contributes to the robustness of the conclusions drawn from their interpretation. In fact, the discrepancies between them are useful to identify occasional distortions in the indexed bond market. For example, in the first few months of 2008, the strong demand for (highly rated) sovereign short and medium-term bonds gave rise to large fluctuations in the spot BEIR five years ahead and in the implied long-term BEIRs, which exceeded swaps by a wide margin (see also Box 3 of the "Quarterly report on the Spanish economy" in the April 2008 edition of this Bulletin).

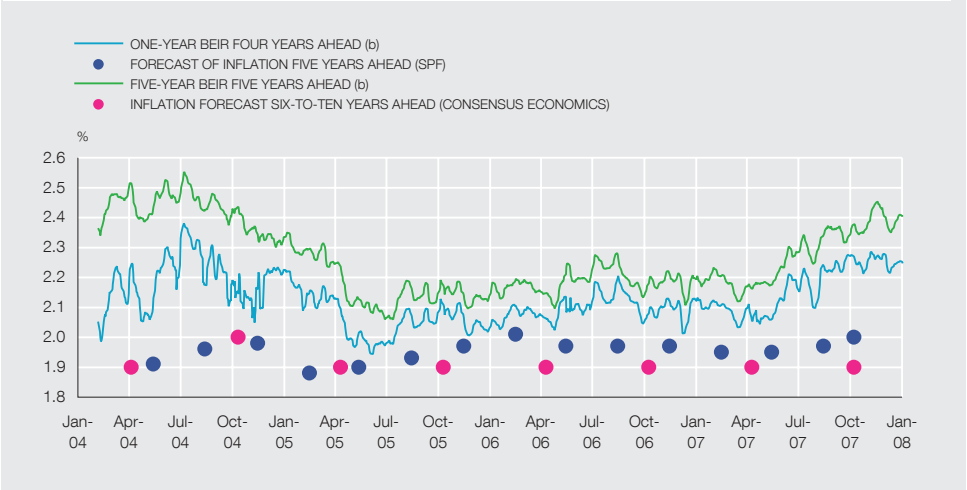
The decomposition of BEIRs into inflation expectations and the associated risk premium is rather complex and the results often depend on the model chosen. The comparison of long-term inflation expectations based on financial indicators with those based on surveys of inflation expectations is a simple (but intuitive) way of obtaining information on the relative size of the two components of BEIRs.

For the euro area, two of the most important surveys of inflation expectations are Consensus Economics, which publishes, on a half-yearly basis, inflation expectations for 6-10 years, and the European Central Bank Survey of Professional Forecasters (SPF), which provides 5-year inflation expectations on a quarterly basis.[11] In principle, BEIRs and surveys of inflation expectations reflect the opinion of different economic agents (investors and professional economists, respectively) and are available with different frequencies, but these differences do not imply that it is of no interest to compare them, at least for the long term.

Chart 7 illustrates the two main differences between BEIRs and inflation expectations obtained from surveys. First, financial indicators display larger fluctuations than the survey data. Sec-

11. For a detailed description of the ECB Survey of Professional Forecasters (SPF), see García (2003). The Euro Zone Barometer survey also includes long-term inflation expectations for the euro area, with monthly periodicity.

INDICATORS OF EURO AREA LONG-TERM INFLATION EXPECTATIONS (a) CHART 7



SOURCES: Reuters, Consensus Economics and author's calculations.

a. Zero-coupon BEIRs calculated as the difference between zero-coupon curves for nominal and real yields estimated following Ejsing, García and Werner (2007). The average long-term inflation expectations of the SPF, estimated following García and Manzanares (2007).
b. Seasonally adjusted inflation series.

ond, BEIRs usually fluctuate at above the level of the long-term inflation expectations reflected in surveys, which supports the hypothesis of the existence of an inflation risk premium in the return on the nominal bonds used for this calculation.

As indicators of long-term inflation expectations (and associated risks), BEIRs enable changes to be detected in these expectations as soon as they occur. For example, unlike the upward movement in BEIRs in 2004 Q2, against a background of strong oil price rises, the long-term inflation expectations reflected in the April surveys that year showed hardly any change with respect to the previous quarter. The surveys were not conducted again until several months later (the SPF in mid-July and Consensus Economics in October), when inflationary pressures had already subsided, as the decline in both the spot and implied BEIRs suggests.

Conclusions

In recent years, the issuance of inflation-indexed bonds has grown sharply in the main debt markets. This phenomenon has entailed a significant contribution to financial market expansion and development, since it provides new possibilities for enhancing the efficiency of financial services in developed economies. A detailed (but accessible) discussion of these advantages may be found in García and Van Rixtel (2007).

The inflation-indexed debt market of the euro area is one of the most recently created ones. Yet four countries (France, Greece, Italy and Germany) have already issued bonds indexed to the HICP (excluding tobacco) of the euro area. Taken together, these issues currently represent the second largest sovereign indexed bond market in terms of the outstanding amount of debt and turnover, only the US market being larger.

This article has focused on the possibilities offered by indexed bonds for analysing inflation. BEIRs, usually calculated as the yield spread between a conventional and an indexed bond with the same issuer and maturity, have important advantages as a source of information for inflation expectations, as they can be calculated continuously and for different periods. However, some caution is necessary in the interpretation of these indicators. It is important to taken into account that BEIRs reflect the total compensation for inflation, i.e. expected inflation

plus a risk premium. In addition, like any financial instrument, they may sometimes be affected by technical factors (liquidity, changes in regulations, etc.), which are often difficult to identify and even more difficult to quantify. Accordingly, it is very important to analyse these measures of inflation compensation in combination with survey-based inflation expectations indicators.

14.05.2008.

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Financial regulation: 2008 Q2

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

Introduction

In 2008 Q2 relatively few new financial provisions were enacted in comparison with previous periods.

In the field of credit institutions, the Spanish government enacted the final implementing regulations on own funds and supervision on a consolidated basis in line with the solvency guidelines set by the Basel Committee on Banking Supervision in 2004 and written into subsequent Community directives, which, after various pieces of implementing legislation, have now been transposed in full into Spanish law.

In the area of securities markets, two provisions have been enacted: first, the scope of operations of collective investment institutions (CIIs) has been made more flexible in regard to operations in derivative financial instruments and certain concepts have been adapted to Community law; and second, the law on the appraisal of real estate held by real estate investment companies and funds has been amended, among other reasons, to permit appraisal certificates to be sent electronically. Lastly, a number of fiscal and economic measures have been promulgated to spur economic activity and combat the slowdown of the Spanish economy.

Amendment of regulations on the determination and control of minimum own funds of credit institutions

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

Subsequently, in the EU this Accord was adopted in two directives: Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) and Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast).[1] These two directives were partially included in Spanish law through two different laws: Law 36/2007 of 16 November 2007[2] amending Law 13/1985 of 25 May 1985 on the investment ratios, own funds and reporting obligations of financial intermediaries and other financial system rules, in the area of credit institutions, and Law 47/2007 of 19 December 2007[3] amending Law 24/1988 of 28 July 1988 on the securities market, in the area of investment firms. In this broad setting, subsequently Royal Decree 216/2008 of 15 February 2008[4] on the own funds of financial institutions was published. It undertook the further partial transposition of the above-mentioned directives, which made it necessary to complete the process of transposition in lower ranking provisions containing the technical specifications provided in said directives.

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1. For more information on these two directives, see "Financial regulation: 2006 Q2", *Economic Bulletin*, July 2006, Banco de España, pp. 142-146. **2.** See "Financial regulation: 2007 Q4", *Economic Bulletin*, January 2008, Banco de España, pp. 174-176. 3**.** See "Financial regulation: 2007 Q4", *Economic Bulletin*, January 2008, Banco de España, pp. 182-189. **4.** See "Financial regulation: 2008 Q1", *Economic Bulletin*, April 2008, Banco de España, pp. 159-163.

For this purpose, *Circular CBE 3/2008 of 22 May 2008* of the Banco de España (BOE of 10 June 2008) on the determination and control of minimum own funds was published. It constitutes the final implementation, in the field of credit institutions, of the legislation on own funds and supervision of financial institutions on a consolidated basis (hereafter "the Circular"). This Circular replaces CBE 5/1993 of 26 March 1993 on the determination and control of minimum own funds.[5]

The Circular makes significant changes, since it not only replaces the old system of determination of minimum own funds with a more complex one more sensitive to actual banking risks, but also, as a result of implementation of pillars 2 and 3, introduces new features in other respects, such as those relating to the function of the supervisor, whose responsibility in the process of control in this area is broadened, and to mandatory reporting by credit institutions.

Outlined below are the main new features of the Circular, which came into force on 11 June 2008. Table 1 compares, in summary form, the main elements of the Circular with their treatment in CBE 5/1993 and subsequent updates.

SCOPE OF APPLICATION

Like its predecessor, the Circular applies to groups and sub-groups of credit institutions, as well as to individual credit institutions of Spanish nationality regardless of whether or not they form part of a group or sub-group of credit institutions.[6] In contrast, co-ordination groups controlled by a foreign financial institution with registered office outside the European Union shall not be subject to supervision in Spain provided they are subject to supervision on a consolidated basis by the competent authority of a third country equivalent to that provided for in Spanish law. Otherwise, the consolidated supervision regime provided for in this Circular within the framework of Directive 2006/48/EC shall be applicable to such group.

GENERAL MINIMUM OWN FUNDS REQUIREMENTS

In regard to minimum own funds requirements, an institution shall hold a sufficient volume of regulatory own funds to cover the sum of: a) the requirement for *credit risk and dilution risk* in respect of all its activities with the exception of its trading book business; b) the requirement for *counter-party risk* and for *position and settlement risk* in respect of its trading book; c) the requirement, in respect of all its activities, for *foreign-exchange and gold-position risk*, based on its overall net foreign-exchange position and its net gold position; and d) the requirement for operational risk determined in respect of all its activities.

The new features included in the Circular, in addition to the limits on large exposures, consist of obligations relating to *corporate governance*, *capital assessment*, *interest rate risk measurement* and *market disclosure*.

Moreover, the Circular sets out the requirements to be complied with at consolidated level and at individual level, by both parents and Spanish subsidiaries. However, the Banco de España may exempt them from this obligation in response to an application submitted jointly by the subsidiary and its parent if certain conditions are met that ensure a suitable allocation of the own funds and risks within the group and the non-existence of any obstacle to the transfer of own funds and the repayment of liabilities.

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5. With the wording given by the following circulars: CBE 12/1993 of 17 December 1993, CBE 2/1994 of 4 April 1994, CBE 6/1994 of 26 September 1994, CBE 12/1996 of 29 November 1996, CBE 3/1997 of 29 April 1997, CBE 5/1998 of 29 May 1998, CBE 10/1999 of 17 December 1999, CBE 4/2001 of 24 September 2001, CBE 3/2003 of 24 June 2003, CBE 3/2004 of 23 July 2004, CBE 3/2005 of 30 June 2005, CBE 2/2006 of 30 June 2006 and CBE 2/2008 of 25 January 2008. **6.** For simplicity, from now on the term "institution" will be used to refer collectively to groups of credit institutions, sub-groups of credit institutions and credit institutions not forming part of such groups or sub-groups, including the branches in Spain of credit institutions with head office in third countries.

DETERMINATION AND CONTROL OF MINIMUM OWN FUNDS OF CREDIT INSTITUTIONS

TABLE 1

CBE 5/1993 of 26 March 1993	CBE 3/2008 of 22 May 2008
Scope of application	
Groups and sub-groups of credit institutions, as well as individual credit institutions of Spanish nationality regardless of whether or not they form part of a group or sub-group of credit institutions	No significant changes
General minimum own funds requirements	
Institutions shall at all times hold a sufficient volume of regulatory own funds to cover certain risks (credit, foreign-exchange and gold position, trading book and commodity). They must comply with limits on risk concentration and tangible fixed assets, and comply individually with limits on foreign-exchange position risks. They must also have administrative and accounting procedures, risk management systems and internal control mechanisms appropriate to their size and to the diversity and complexity of their activities.	An institution shall at all times hold a sufficient volume of regulatory own funds to cover risks similar to those established in CBE 5/1993 (plus operational risk and dilution risk). Also, institutions must comply with the obligations relating to limits on large exposures, internal risk management, corporate governance, capital assessment, interest rate risk measurement and market disclosure.
Components of own funds	
Tier 1 capital	Tier 1 capital
Share capital of public limited companies, initial capital and non-voting equity units of savings banks, capital contributions of credit co-operatives and assigned capital of branches	No significant changes
Disclosed reserves, and funds similar to or reclassified as reserves	
Preference shares and non-voting shares not carrying cumulative dividend collection rights	Preference shares and non-voting shares ear-marked for the coverage of risks and losses in the event of general write-down, with undefined term, and which do not carry cumulative dividend collection rights. Limits are set on what can form part of tier 1 capital, unless there are clauses to ensure they can be converted into capital, and in the case of general
Tier 2 capital	Tier 2 capital
Asset regularisation, adjustment and revaluation reserves	
The book value of the general loan loss provisions.	No significant changes
Other non-voting shares and redeemable shares with a maturity of not less than five years	
Subordinated debt with a maturity of not less than five years	No significant changes (now known as "standard")
Subordinated debt with undefined maturity.	No significant changes
Not envisaged	Short-term subordinated debt: its original maturity must be no less than two years from the effective disbursement date and it may not contain rescue, repayment or early redemption clauses.
Not envisaged	Ancillary capital: for the coverage of position and foreign-exchange risk only
Solvency ratio	
Credit risk: the minimum capital requirements will be 8% of the result of the weightings of the various risk components.	Credit risk: The minimum capital requirements are 8% of the institution's total risk-weighted assets calculated by the standardised approach or, if authorised by the Banco de España, the internal ratings based (IRB) Included in credit risk is dilution risk, which arises from the possibility that an amount receivable acquired by a credit institution is reduced through credits to the obligor for reasons such as the commercial relationship between the obligor and the seller of the receivables.
Counterparty risk: the risk of counterparty default in derivatives transactions. Two valuation systems are established: at market prices and by the original exposure method.	Counterparty risk: The value of counterparty risk exposure can be calculated by various methods: original exposure method, mark-to-market method, standardised approach and internal model method.
Foreign-exchange and gold-position risk: not less than the sum of 8% of the net overall foreign-exchange position and 8% of the net gold position. However a ratio below 8% may be set in certain cases. Subject to certain requirements, institutions may use internal risk management models to determine the foreign-exchange and gold-position risk.	Foreign-exchange and gold-position risk: calculated under the standardised approach by multiplying by 8% the sum of the net overall positions in currencies, gold and reporting currencies. A minimum threshold is set equal to 2% of total regulatory own funds, below which these requirements are zero. For all or for a pool of foreign-exchange positions, this method may be replaced by internal models.
Trading book risk: in calculating capital requirements, regard shall be had to both the credit risk and the market risk on trading book business. Position risk shall be divided into a general risk and a specific risk. Thresholds shall be set below which the minimum requirement shall not apply. If certain requirements are met, internal risk management models may be used to determine the trading book and commodity position risks.	Trading book risk: the capital requirements shall be determined by the sum of the following requirements: that for price risk of fixed-income positions; that for price risk of commodities positions; that for price risk on positions in shares and other equity, including those in collective investment institutions; that for credit and counterparty risk linked to the trading book; that for clearing and delivery risk; and that for foreign-exchange and gold position risks. Position risk shall be broken down into a general risk and a specific risk. Credit institutions with a significant level of activity they may use their own internal risk management models to calculate their capital requirements. The exemption thresholds for little activity have undergone only small changes.

SOURCE: BOE and Banco de España

DETERMINATION AND CONTROL OF MINIMUM OWN FUNDS OF CREDIT INSTITUTIONS (cont'd) TABLE 1

CBE 5/1993 of 26 March 1993	CBE 3/2008 of 22 May 2008
Solvency ratio (cont'd)	
Not envisaged	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. The methods for calculating capital requirements for operational risk are the basic indicator approach, the standardised approach and its variant the alternative standardised approach, and the advanced measurement approaches based on each institution's own measurement systems.
Limits on large exposures: an exposure is considered to be large if its value exceeds 10% of the credit insitution's own funds. The value of all the exposures of a credit institution to one individual, institution or external economic group shall not exceed 25% of its own funds. The total large exposures shall not exceed 800% of the credit institution's own funds.	No significant changes.
Adoption of measures to return to compliance with solvency regulations: if a regulatory capital shortfall exceeds 20% of the minimum requirement, all net profit or surplus must be allocated in full to reserves. If the capital shortfall is 20% or less, a proposed distribution of profits shall be submitted for authorisation to the Banco de España, which shall set the minimum percentage to be allocated to reserves, although it may never be less than 50% of profits.	Adoption of measures to return to compliance with solvency regulations: if a regulatory capital shortfall exceeds 20% of the minimum requirement or tier 1 capital falls below 50% of that minimum requirement, all net profit or surplus must be allocated in full to reserves, although the Banco de España is empowered to authorise other action in the event that the programme submitted by the institution for restoring compliance with capital requirements is approved. If the capital shortfall is 20% or less of the minimum requirement, a proposed distribution of profits shall be submitted for authorisation to the Banco de España, which shall set the minimum percentage to be allocated to reserves (the limit of 50% of profits no longer applies).
Governance, organisational structure, risk management and internal control procedures	
Institutions must have an organisational structure commensurate with the volume of the risks managed by them. In particular, they must have a risk control department or unit which is independent from the operating units, and their staff must be competent in using risk control models.	Organisational structure. Institutions must have: an organisational structure appropriate to the nature of their activities, with well defined, transparent and consistent lines of responsibility; an internal audit function which oversees the smooth working of the information and internal control systems; a unit to carry out the regulatory compliance function; and adequate internal control mechanisms, including sound administrative and accounting procedures.
Not envisaged	Assessment of on-balance-sheet interest rate risk: establishment of specific procedures to assess and manage this risk. Institutions shall, among other things, analyse the effect that interest rate risk may have on their future solvency and stability when the potential impact of that risk is negative and exceeds certain thresholds.
Not envisaged	Internal capital adequacy assessment process: institutions shall specifically have sound, effective and exhaustive strategies and procedures to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital and own funds that they consider adequate to cover the nature and level of the risks to which they are or might be exposed. A yearly internal capital adequacy assessment report shall be sent to the Banco de España.
Not envisaged	Review and assessment by the Banco de España: if a supervised credit institution or group or sub-group of credit institutions does not have adequate corporate governance procedures or if its internal capital adequacy assessment process is inadequate, it has to prepare a compliance and capital adequacy programme which shall be submitted to the approval of the Banco de España.
Disclosure	
Not envisaged	Obligation to publish the document "Prudential information". The Circular stipulates the minimum content of this document to ensure that the disclosures made by institutions are comparable and establish the principles on which an institution's disclosure policy should be based. This document must be made public at least annually, at the same time the annual accounts are issued. However, depending on the circumstances, the Banco de España may require more frequent disclosure and stipulate deadlines. The institutions themselves may also increase the frequency of such public disclosures if considered appropriate in view of the characteristics of their business. The disclosures to be made in this document centre on key aspects of an institution's business profile, risk exposure and means of managing risk. In particular, disclosure should be made of risk management objectives, the institution's strategies and processes to manage those risks, the scope and nature of risk reporting and measurement systems, and the policies for hedging and mitigating risk

SOURCES: BOE and Banco de España.

COMPONENTS OF OWN FUNDS

Within the elements composing the own funds of credit institutions, the Circular, like its predecessor, distinguishes tier 1 capital from tier 2 capital and introduces the new concept of ancillary capital. Regarding the former, which consists of capital, effective reserves, preference shares and non-voting shares, few changes have been made with respect to the previous rules, save the quantitative limitations which will be described later on.

Tier 2 capital consists of the other elements specified in Circular CBE 5/1993 and of the excesses over the limits established for certain elements in tier 1 capital.

Ancillary capital represents a significant new feature in Spanish prudential regulation, as an alternative definition of own funds, for the coverage of position and foreign-exchange risk only. Apart from the excesses over the limits established for tier 2 capital, the most significant development is the inclusion of a new type of *short-term subordinated debt* within regulatory own funds, for which the following conditions, among others, must be met: its original maturity must be no less than two years from the effective disbursement date and it may not contain rescue, repayment or early redemption clauses, although the Banco de España may authorize the debtor to make early repayment at any time if this does not affect the institution's solvency.

The method of calculating the regulatory own funds of a group or sub-group does not differ significantly from that under the previous rules.

Among the limitations on what can be included as own funds, mention may be made of certain new ones in regard to tier 1 capital.

Included as such are preference shares and non-voting shares not exceeding 30% of tier 1 capital, unless there are clauses to ensure they can be converted into short- or long-term ordinary capital, and in the case of general write-down of the institution. If the non-voting shares include early-redemption incentives but meet certain conditions,[7] this limit is reduced to 15%.

The new Circular limits the inclusion as group own funds of the minority interests in subsidiaries, provided they meet certain thresholds of materiality and come from individually over-capitalised subsidiaries. Specifically, tier 1 capital shall exclude the portion of the aggregate excess amount of minority interests held as ordinary shares that exceeds 10% of the group or sub-group's total tier 1 capital. The way in which that excess is determined is specified.

Another new feature is that ordinary capital, reserves and minority interests (less losses and own shares) must in any event exceed 50% of tier 1 capital.

MINIMUM CAPITAL REQUIREMENTS FOR CREDIT RISK

The minimum capital requirements for credit risk remain at 8% of risk-weighted assets, including the off-balance-sheet items that entail credit risk and have not been deducted from own funds. The main new features of the Circular arise from the implementation of Royal Decree 216/2008. In particular, to calculate credit risk, institutions may choose between the standardised approach or, if authorised by the Banco de España, the internal ratings based approach.

For the standardised approach,[8] the Circular determines the weights applicable to the various risk exposures and sets the requirements to be met by external credit assessment institutions.

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7. These conditions are: availability to cover risks and losses of the issuing company in the event of general write-down and of its liquidation; undefined duration, and no granting of cumulative receivables. **8.** Under the standardised approach, the own funds requirements for credit risk are determined by applying the weights assigned to the different risk exposures.

There are some new developments in regard to the weights of the various risk exposures. Those to general governments and central banks of the European Economic Area generally retain a weight of 0%, and the others are set a weight of 100% which can be changed depending on the external rating. Two new categories are established: that of *retail*, with a weight of 75%, and that of corporate, with a weight equal to the higher of 100% or that assigned to the central government of the jurisdiction in which it is domiciled, which may be replaced by the firm's external credit rating, if any. Other new developments are that risk exposures secured on residential real estate collateral will receive a weight of 35%, provided they meet certain conditions, including, among others, that the loan value does not exceed 80% of the collateral value. If the loan is more than this percentage but not more than 95% of the collateral, it shall be weighted at 100%. Loans over 95% shall receive a weight of 150%.[9] Also new is the inclusion of risk exposures secured by commercial real estate collateral, which have a weight of 50% provided they meet certain conditions, including that the loan value may not exceed 60% of the collateral value. If the loan is more than this percentage but not more than 80% of the collateral, it shall be weighted at 100%. Loans over 80% shall receive a weight of 150%. Other exposures worthy of note are: those in default (more than 90 days past-due), which shall receive a weight of up to 150%, equal to that of regulatory high-risk categories.[10]

External credit assessment institutions (ECAIs) may only be used to determine the risk weight if they have been recognised by the Banco de España. An ECAI will be recognised if its rating methodology meets the requirements of objectivity, independence, ongoing review of the methodology applied and transparency established in detail in the Circular. Also noteworthy is the recognition of the credit assessments issued by export credit agencies for determining the risk weight of an exposure to a central government or central bank, when they emanate from Compañía Española de Seguros de Crédito a la Exportación (CESCE) or when they are recognised by the Banco de España, provided they meet certain conditions.

The second method for calculating risk exposures, i.e. the internal ratings based approach (IRB approach), is subject to the express authorisation of the Banco de España. Authorisation can also be requested to use own estimates of loss in the event of default (LGD[11]), of conversion factors or both. Credit institutions which request authorisation to use the IRB approach or the LGD approach must provide evidence that, prior to obtainment of the authorisation, they have been using, for at least three years, assessment systems that are consistent for the purposes of measurement and internal risk management. Also, a set of prudential and technical minimum requirements, relating basically to risk management and the soundness of the credit institution's internal controls for the use of the IRB approach, is established. Thus, institutions must have suitable internal ratings systems for measuring the credit risk and, where applicable, the dilution risk, of their exposures. These systems should include all the methods, processes, controls and data collection and IT systems needed to appropriately assess the nature of debtors and of transactions, to differentiate between risks through the assignment of exposures to grades or pools of exposures, and to quantify, reasonably accurately and consistently, the default and loss estimates for a certain type of exposure. Once authorisation has been obtained for use of the IRB approach, credit institutions shall not return to using the standardised approach, save for justified reasons and with authorisation from the Banco de España.

Turning to credit risk, the Circular contains, as a new feature, the treatment of *dilution risk*, which is the risk that an amount receivable acquired by a credit institution is reduced through

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9. Under the previous rules, loans secured by house mortgages had a weight of 50% if the risk exposure was less than 80% of the house appraisal value; any excess was weighted at 100%. **10.** Such as investments in venture capital firms and private equity investments of a non-permanent nature. **11.** Loss given default.

cash or non-cash credits to the obligor for reasons such as the commercial relationship between the obligor and the seller of the receivables. To calculate it, the Circular establishes in detail how to estimate the risk parameters and the expected loss. However, these calculations will not be necessary where a credit institution has full recourse in respect of all purchased receivables for default risk and for dilution risk, to the seller of the purchased receivables, or where such risk is immaterial.

A new feature of the Circular relates to the techniques allowed for credit risk mitigation and the requirements for applying them. There are three such requirements: first, protection based on collateral or similar instruments, such as on-balance-sheet netting of mutual claims between counterparties or master netting agreements relating to repurchase transactions, securities or commodities lending transactions or other transactions linked to the capital market or other assets or claims used as collateral in the terms specified by the Circular; second, protection based on guarantees, including those derived from credit insurance, provided by certain protection providers, which must be sufficiently solvent; and, finally, protection based on credit derivatives, whether they be simple derivatives (credit default swaps, total return swaps and credit-linked notes) or basket derivatives. In addition, the Circular allows combinations of these techniques (for which purpose, the institutions must identify which part of the exposure is protected by each of these techniques) and, as a new feature, imperfect cover.

Within credit risk, a major new feature introduced by the Circular is the treatment of capital requirements for securitisation exposures,[12] both for the originator institution and for the holder or any other participant in the process. The new system is much more risk sensitive and establishes the criterion that, for the purpose of calculating own funds for these transactions, it much be taken into account whether there has been a significant transfer of credit risk, which is considered to take place when a significant portion of the tranches where the risk of first loss is concentrated has been transferred to third parties.

Securitisation exposures shall be calculated as the sum of the products of the exposure value of each position by its respective risk weight. To calculate the exposure value and the risk weight of each of the positions held in a securitisation, institutions can use the standardised approach for securitisation or the IRB approach. Also, both methods may be used for the various securitised exposures composing the underlying portfolio ("mixed" portfolios), provided that the institution meets certain conditions.

MINIMUM CAPITAL REQUIREMENTS FOR COUNTERPARTY CREDIT RISK

Like CBE 5/1993, the Circular regulates the own funds requirements for counterparty credit risk, which is the risk that the counterparty to a transaction involving derivatives[13] could default before the final settlement of the transaction's cash flows. The value of counterparty risk exposure can be calculated by various methods: original exposure method, mark-to-market method, standardised method and internal model method. The latter may be used with prior authorisation from the Banco de España. Once authorisation has been obtained, neither the standardised method nor the mark-to-market method may be used

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12. The Circular defines securitisation as a financial transaction or scheme in which the credit risk associated with an exposure or pool of exposures is divided into two or more separately transferable tranches and which has the following characteristics: payments in the transaction or scheme are dependent on the performance of the securitised exposure or pool of exposures, and the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme. In addition to traditional securitisation (which involves the economic transfer of the exposures being securitised), it provides for synthetic securitisation (in which the division of credit risk into tranches and their transfer is achieved through the purchase of credit protection for the securitised exposures) and multiple-transferor securitisation (in which there is more than one originator institution). **13.** Also included, in addition to the types of derivatives (swaps, futures and options), are repurchase transactions, securities or commodities loans, long settlement transactions and margin lending transactions.

again, except for justified causes and subject to prior authorisation from the Banco de España. Credit institutions may use counterparty risk mitigation techniques such as contractual netting agreements, bilateral contracts for novation between a credit institution and its counterparty, and contractual cross product netting agreements, provided they meet certain requirements set out in the Circular. Netting transactions between institutions forming part of a group shall not be taken into account for the purpose of calculating own funds requirements.

MINIMUM CAPITAL REQUIREMENTS FOR FOREIGN-EXCHANGE RISK

As above, the capital requirements for foreign-exchange risk shall be calculated under the standardised method by multiplying by 8% the sum of the net overall positions in currencies, gold and reporting currencies , without taking into account their sign. However, as a new feature, a minimum threshold equal to 2% of total own funds is set.

Capital requirements for foreign-exchange risk shall be calculated by the standardised method, although, for all or for a pool of foreign-exchange positions, this method may be replaced by internal models, subject to prior authorisation from the Banco de España.

MINIMUM CAPITAL REQUIREMENTS FOR TRADING BOOK RISK

There are no major changes with respect to the previous rules. The trading book shall consist of all positions in financial instruments and commodities held by the credit institution for trading or used to hedge other items of that portfolio. As a new feature, the trading book may include internal hedges which significantly offset the risk associated with a non-trading book position or set of positions. The positions arising from internal hedges may form part of the trading book provided they meet certain conditions.

The capital requirements for trading book business shall be determined by the sum of the following requirements: that for position risk on fixed income, including convertible instruments; that for position risk on shares and other equity; that for position risk on shares and other equity in collective investment institutions; that for price risk of commodities positions; that for credit and counterparty risk linked to the trading book; that for clearing and delivery risk; and that for foreign-exchange and gold position risks.

Position risk shall be broken down into a general risk, arising from a change in the price of trading book components due to general movements in markets, and a specific risk, arising from a price change in the instrument concerned due to factors related to its issuer or, in the case of a derivative, the issuer of the underlying instrument. The position in a commodity shall include the holdings of that commodity and the derivatives in which it is the underlying, such as, among others, financial futures and warrants.

As under the previous circular, the treatment of risks of this type shall not apply when a credit institution's average trading book is lower, during the immediately preceding six months, than the lower of 5% of its total activity and €15 million, and does not at any time in that period exceed 6% of its total activity or €20 million. A new feature is that they can also be exempt if they temporarily exceed these thresholds, provided that in the observation period of six months immediately preceding the request for exemption they have not, on 75% of the days, exceeded the thresholds of 5% of total activity or €15 million.

Another new development in the Circular is that credit institutions with a significant level of activity in regard to their trading book positions may, upon prior authorisation from the Banco de España, use their own internal risk management models to calculate their capital requirements for position risk, including that of commodities, and for foreign-exchange and gold position risks. To do so, credit institutions must, among other conditions, have a risk management

system that is adequate for the volume of risk under management, conceptually sound and implemented with integrity.

MINIMUM CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

As required by Directive 2006/49/EC, and incorporated in Law 13/1985 with the wording given by Law 36/2007, the Circular introduces, as a new feature, the capital requirements for operational risk. The methods that can be used are the basic indicator approach,[14] the standardised approach[15] and, where applicable, the alternative standardised approach,[16] and the advanced measurement approaches based on each institution's own measurement systems. The Circular sets out in detail the characteristics of each of the systems and the requirements to be met by institutions to obtain authorisation to apply the alternative standardised approach and the advanced measurement approaches. Institutions may also use a combination of various methods in exceptional, temporary circumstances, such as the recent acquisition of a new business, albeit always subject to authorisation from the Banco de España.

LIMITS ON LARGE EXPOSURES

There are no significant changes in respect of large exposures. As in the previous circular, a large exposure is defined as one whose value exceeds 10% of a credit institution's own funds. The value of all the exposures of a credit institution to a third-party person or economic group may not exceed 25% of its own funds. Where the exposures are to non-consolidated entities of a credit institution's economic group, this limit shall be reduced to 20%. Finally, the total large exposures may not exceed eight times a credit institution's own funds.

PROFIT APPROPRIATION IN THE EVENT OF NON-COMPLIANCE WITH SOLVENCY REGULATIONS

The Circular makes some changes to the measures in place to return to compliance with solvency regulations. Thus it equates a shortfall of 20% of minimum own funds with a shortfall of 50% in tier 1 capital, so that where a credit institution or group or sub-group of credit institutions has a regulatory capital shortfall exceeding 20% of the minimum requirement, or its tier 1 capital falls below 50% of that minimum requirement, the individual institution or each and every institution in the group or sub-group must allocate its net profit or surplus in full to reserves. However, as a new feature, and as required by Royal Decree 216/2008, the Banco de España is empowered to authorise other action in the event that the programme submitted by the institution for restoring compliance with capital requirements is approved.

If the capital shortfall is 20% or less of the minimum requirement, the individual institution or each and every institution in the group or sub-group shall submit a proposed distribution of its profits, and of those of each of the institutions in the group or sub-group, to the Banco de España for authorisation. The Banco de España will set the minimum percentage to be allocated to reserves, taking into account the programme submitted to restore the required levels. In this case, the limit of 50% which the previous circular set on the profits allocated to reserves no longer applies.

The limitations on the distribution of dividends do not apply to the subsidiaries in which consolidated group entities hold at least 80% (previously 90%) of the voting rights and of the capital, provided that, in the case of credit institutions, they individually meet the general own funds requirements.

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14. The capital requirements for operational risk shall be determined as 15% of the average of the relevant income over the last three financial years as per the profit and loss account, provided it is positive. **15.** The capital requirements for operational risk shall be determined as the simple average over the last three years of the aggregation, for each year, of the higher of zero and the sum of the relevant income of each line of business defined in the Circular multiplied by its respective risk weight. **16.** For the commercial banking and retail banking lines of business, the capital requirements formula is similar to that under the standardised approach, but the relevant income is replaced by normalised relevant income, which is determined as the book amount of the financial assets assigned to the respective business line multiplied by 0.035.

Finally, as under the previous circular, if one of the credit institutions belonging to a group or sub-group has a capital shortfall at individual level but its group or sub-group does not, the limitations on dividend distribution shall apply only to the results of that institution.

INTERNAL ORGANISATION, RISK MANAGEMENT AND INTERNAL CONTROL

In conformity with Pillar 2 of Directive 2006/48/EC, which has been partially implemented in Law 36/2007 and in Royal Decree 216/2008, and which aims to foster internal risk management in credit institutions, the Circular includes a large number of measures designed to develop and improve their internal risk management. The previous circular, although requiring internal control and risk management systems, did not address this matter so exhaustively and completely.

Thus the Circular requires both credit institutions and consolidated groups and sub-groups of credit institutions to have robust governance arrangements, and, in particular, a clear organisational structure with well defined, transparent and consistent lines of responsibility, adequate internal control mechanisms, including sound administrative and accounting procedures, and effective processes to identify, manage, monitor and report the risks it is or might be exposed to. Compliance with these obligations will require, at a minimum, the observance of certain requirements, such as the segregation of duties, the criteria for the prevention of conflicts of interest, the periodic review of the strategies and policies for taking up, managing, monitoring and mitigating risks, the establishment of appropriate internal control systems in all areas of activity and of sound and adequate internal audit procedures which ensure that the policies, procedures and systems established to assess, manage and report risks are observed and are consistent and appropriate.

The new risk management system includes two notable new features: express assessment of *on-balance-sheet interest rate risk* and *internal capital adequacy assessment*.

Regarding the first, to assess and manage risk derived from possible changes in interest rates, institutions must have in place specific procedures conforming to certain rules set out in the Circular. Institutions shall, among other things, analyse the effect that interest rate risk can have on their future solvency and stability when the potential impact of that risk is negative and exceeds certain thresholds (decrease of more than 20% in the economic value of the institution or of its own funds or a decrease of more than 50% in the interest-rate-sensitive net interest income in one year).

Regarding the second, both credit institutions and groups of credit institutions shall carry out a process of internal capital adequacy assessment. This process shall include exhaustive strategies and procedures to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital and own funds that they consider adequate to cover the nature and level of the risks to which they are or might be exposed. In order to measure them, institutions may use their own methodologies or, alternatively, the criteria provided for this purpose by the Banco de España in its guidelines on the internal capital adequacy assessment process at credit institutions. These strategies and procedures shall be summarised in a yearly internal capital adequacy assessment report to be sent to the Banco de España at the same time as the own funds reporting relating to the end of the year.

If a credit institution or group or sub-group of credit institutions does not have adequate corporate governance procedures or if its internal capital adequacy assessment process is inadequate, it has to prepare a compliance and capital adequacy programme which shall be submitted to the approval of the Banco de España.

Lastly, the circular provides that credit institutions may delegate to a third party the provision of services or the exercise of functions forming part of their ordinary activities, provided that certain conditions are met. Thus such delegation may not apply to the activities restricted to credit institutions alone (receiving deposits from the public and granting loans), nor may it leave an institution bereft of its general activity or reduce its internal control or the Banco de España's supervisory capabilities.

MARKET DISCLOSURE OBLIGATIONS

Under Pillar 3 of Directive 2006/48/EC, and partially implemented by Law 36/2007 and Royal Decree 216/2008 regulating and promoting the public disclosure of relevant information, the Circular stipulates the minimum content of the document entitled "Prudential information" to ensure that the disclosures made by institutions are comparable and establish the principles on which an institution's disclosure policy should be based. This document must be made public at least annually, at the same time the annual accounts are issued. However, depending on the circumstances, the Banco de España may require more frequent disclosure and stipulate deadlines. The institutions themselves may also increase the frequency of such public disclosures if considered appropriate in view of the characteristics of their business.

The disclosures to be made in this document centre on key aspects of an institution's business profile, risk exposure and means of managing risk. In particular, disclosure should be made of risk management objectives, the institution's strategies and processes to manage those risks, the scope and nature of risk reporting and measurement systems, the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

Lastly, the Circular specifies the confidential prudential information to be reported periodically to the Banco de España by supervised institutions and groups. This information is homogeneous with that required within the framework of the single market, since it reflects a process of convergence between the various countries of the European Union.

Financial collective investment institutions: transactions in derivative financial instruments and other matters

Ministerial Order of 10 June 1997[17] on the transactions of financial collective investment institutions (CIIs) in derivative financial instruments added flexibility to the operational framework of these institutions to enable more efficient management of their assets. Also, for the first time it enabled the use of derivative financial instruments not traded on secondary markets. Since then, the law in this respect has been updated in light of the new legal framework for these institutions,[18] in order to broaden the scope of their operations via financial instruments of this type. Specifically, the implementing regulations of Law 35/2003 on CIIs laid down the rules for investment in instruments of this type, included new underlyings among the assets considered suitable for investment and permitted the netting of positions in derivatives for the calculation of limits on investments in these instruments. Further, they empowered the minister of Economy and Finance and, with his express authorisation, the CNMV, to lay down provisions implementing this law.

In exercise of this power, *Ministerial Order EHA/888/2008 of 27 March 2008* (BOE of 2 April 2008) on transactions of financial CIIs in derivative financial instruments, clarifying certain concepts in the implementing regulations of Law 35/2003, was published.

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17. See *Regulación financiera: segundo trimestre de 1997* in Boletín económico, Banco de España, July-August 1997, pp. 111-113. **18.** See Law 35/2003 of 4 November 2003 on collective investment institutions and its implementing regulations in Royal Decree 1309/2005 of 4 November 2005 discussed, respectively, in "Financial regulation: 2003 Q4", *Economic Bulletin*, January 2004, Banco de España, pp. 84-87 and in "Financial regulation: 2005 Q4", *Economic Bulletin*, January 2006, pp. 112-116.

In general terms, the Ministerial Order has two aims: first, to add flexibility to the operational framework of CIIs in derivative financial instruments by, among other changes, enlarging the range of underlying assets deemed suitable for investments by financial CIIs, and, second, to update certain definitions under Community law.

Within its scope of application, the Ministerial Order clarifies that it does not apply to hedge funds, since the aforementioned regulations consider them to be institutions with a more flexible mandate and not subject to the general rules governing investments.

The derivatives suitable for investment are specified, as are the purposes for which they can be used: to ensure adequate hedging of the risks assumed in all or part of the portfolio, as an investment for more effective management, or to achieve a specific target rate of return. The Ministerial Order empowers the CNMV to authorise the use of other different derivative financial instruments, for which purpose regard shall be had to the specific characteristics of the instrument, its application and use in the financial markets and its impact on the risk and investment management policy of CIIs. Additional requirements are added where the underlying consists of certain assets (derivatives whose underlying asset consists of credit risk, a financial index or the volatility of another asset) or where the instrument is traded on an OTC market.

The Circular sets general limits for the use of market and counterparty risk derivatives and the way of valuing the positions in them. In the case of the former, the total exposure[19] to the market risk associated with derivative financial instruments may not exceed the equity of the CII. Regarding the latter, CIIs must have a reasonable policy of diversification of counterparty risk in transactions involving OTC derivative financial instruments that takes into account the situations of risk concentration that may arise in the future. CIIs must value positions in derivative financial instruments daily at market prices. When there is not a sufficiently liquid market to enable daily valuation, the management company or open-end investment company (SICAV) must, before carrying out the transaction, submit its elected valuation method to verification by the custodian.

The Ministerial Order includes certain internal control obligations which have to be observed to operate with derivatives, such as the disclosures to be made to the CNMV and to unit-holders and shareholders about the transactions carried out.

In regard to disclosures to shareholders and unit-holders, CIIs shall include in their (quarterly, half-yearly and annual) reports the extensive information spelt out by the CNMV on the derivatives transactions carried out in the relevant periods, including data on the risks taken on, the gains or losses resulting from those transactions and their purpose.

Lastly, the Circular specifies the provisions that will apply to financial CIIs wishing to market products of this type in other Member States of the European Union as permitted under Directive 85/611/EEC of the Council of the European Communities of 20 December 1985.

As regards the second aim, the Ministerial Order writes into Spanish law Commission Directive 2007/16/EC of 19 March 2007[20], particularly in regard to CII assets eligible for investment included in the regulations of Law 35/2003. This clarifies the references relating to transferable securities, to money market instruments, to institutions subject to prudential supervision and

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19. Total exposure is defined as any current or potential obligation that results from the use of derivative financial instruments, including short sales. **20.** The Directive seeks to ensure uniform application of Community law throughout the European Union and thus reduce the legal uncertainty of market players, by clarifying in greater detail the assets considered eligible.

to operations involving financial instruments, for the purpose of more effective portfolio management, and to financial CIIs which reproduce indices.

Finally, the sole additional provision of the Ministerial Order empowers the CNMV to establish and change the records that CIIs have to keep, the accounting rules and the public and confidential reporting formats to be employed in periodic financial statements and other statistical information of the official futures and options market operators.

Real estate investment funds: financial information

Circular 2/2008 of 26 March 2008 (BOE of 3 May 2008) of the Spanish National Securities Market Commission (CNMV), which partially amends Circular 4/1994 of 14 December 1994 on accounting rules, reporting obligations, determination of net asset value and investment and operating ratios, and operations in the appraisal of real estate held by real estate investment funds and companies, was published. The Circular stipulates that the management companies of collective investment institutions (CIIs) or the investment companies must send appraisal reports, now known as "extract of appraisal report", electronically via the new CIFRADOC/CNMV system approved by the CNMV board of directors on 15 September 2006 and discontinues the remittance of appraisal certificates on paper.

The Circular requires additional information to be sent to the CNMV, such as: the technical parameters used by the appraisal company to calculate the rates for adjusting cash flows from other rental property; an express, reasoned statement from the appraisal company when conditioning factors have been lifted, or from the management company when such conditioning factors exist but were unable to be lifted before the extract of appraisal report was sent; and the dates on which new real estate will be periodically appraised (appraisal schedule).

Lastly, the Circular specifies certain information concerning property appraisals, to be used to determine the assets of real estate CIIs or to be linked with the information sent by CIIs. A new development is the information relating to the percentage of completion of buildings under construction and to the percentage of occupation of the building, as well as that already indicated in Circular 4/1994, such as the sequential number assigned to the property by the manager or investment company to identify it in confidential reports to the CNMV, the functional units and the reason for the appraisal.

The Circular will come into force on 30 September 2008.

Measures to boost economic activity

Royal Decree-Law 2/2008 of 21 April 2008 (BOE of 22 April 2008) on measures to boost economic activity was enacted to combat the slowdown of the Spanish economy. The main measures taken are described below.

FISCAL MEASURES

The Royal Decree-Law contains a number of measures which affect, inter alia, personal income tax, corporate income tax, non-resident income tax and, among the indirect taxes, VAT and transfer tax.

Under personal income tax, a new tax credit with effect from 1 January 2008 has been added for the recipients of wage and business income, provided that certain limits are not exceeded.[21] Also, certain changes have been made to enable a new legal calculation procedure to be designed for the withholding and prepayment rate, with a view to gauging the impact of this tax credit for the 2008 tax year. Finally, it is stipulated that the new tax credit will not affect the

21. This amount may not exceed the result of applying the average tax rate to the total net wage and business income less the respective reductions established in Articles 20 and, where applicable, 32 of 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.

determination of the personal income tax revenue assigned to regional and local governments, since the State bears the total cost of the measure.

In regard to corporate income tax, measures are defined to offset the tax effects derived from the application of the new general chart of accounts regulated by Royal Decree 1514/2007 of 16 November 2007[22] and the general chart of accounts for SMEs and specific accounting criteria for microenterprises, enacted by Royal Decree 1515/2007 of 16 November 2007[23] In this respect, Law 16/2007 of 4 July 2007[24] on reform and adaptation of accounting-related corporate law stipulated that, to prepare the financial statements of the first accounting period starting after 1 January 2008, companies must prepare an opening balance sheet as at the beginning of that accounting period. This opening balance sheet must apply the new accounting regulations, and this will entail adjustments as a result of the first-time application of the new chart of accounts, the balancing entries of which will generally be recorded in reserve accounts. These adjustments often affect the determination of the 2008 tax base. These tax effects would have immediate practical application, particularly when the advance payments for the tax periods starting in 2008 are made. To offset this, the Royal Decree-Law stipulates that the taxpayer can choose from two alternatives: use the tax payable for the previous tax period as the basis for calculating the advance payment, or take as a reference the portion of the tax base obtained in the first three, nine and eleven months of 2008, with the proviso that the effects of the adjustments derived from first-time application of the new general chart of accounts need not be included in this calculation.

The scope of the exemptions from non-resident income tax on public debt and other fixed-income instruments is widened for all non-residents, regardless of their place of residence.

Regarding VAT, the treatment of building refurbishment work[25] is amended. Now the proportional part relating to the land shall be subtracted when calculating 25% of the acquisition cost or market price of the building. In addition, the number of projects classed as refurbishment, and thus qualifying for the related advantageous tax regime with a tax rate of 7%, increases.

OTHER MEASURES

To help the economic situation of households, when loan holders arrange to lengthen the term of mortgage loans granted to purchase, build and refurbish a principal residence, they are not subject to stamp duty and notarial deeds may be executed on ordinary paper.

Also, the government receives a mandate to change the meaning of housing refurbishment[26] in the personal income tax regulations, in a similar way to the change in the VAT regulations.

Lastly, the upper limit set in the budget law for 2008 for the State to guarantee asset-backed securities within the framework of the FTPYME initiative is raised, the government is empowered to approve an extraordinary vocational guidance, training and integration plan and express provision is made for grants to assist job search processes and foment geographical mobility. These grants will be included in the plan together with the existing vocational guidance, training and integration measures, which will thus be strengthened.

7.7.2008.

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22. See "Financial Regulation: 2007 Q4", *Economic Bulletin*, January 2008, Banco de España, pp. 196-198. **23.** See "Financial Regulation: 2007 Q4", *Economic Bulletin*, January 2008, Banco de España, pp. 198-199. **24.** See "Financial Regulation: 2007 Q3", *Economic Bulletin*, October 2007, Banco de España, pp. 149-151. **25.** Building refurbishment work aims mainly to reconstruct a building through the strengthening and treatment of the structure, facade, roof and other similar elements, provided that the total cost of the refurbishment work exceeds 25% of the acquisition cost or, where applicable, market price. **26.** When its main purpose is to reconstruct a building through the strengthening and treatment of the structure, facade, roof and other similar elements.

CONTENTS

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

1. IMF Special Data Dissemination Standard (SDDS).

INTEREST RATES AND EXCHANGE RATES

1. IMF Special Data Dissemination Standard (SDDS).

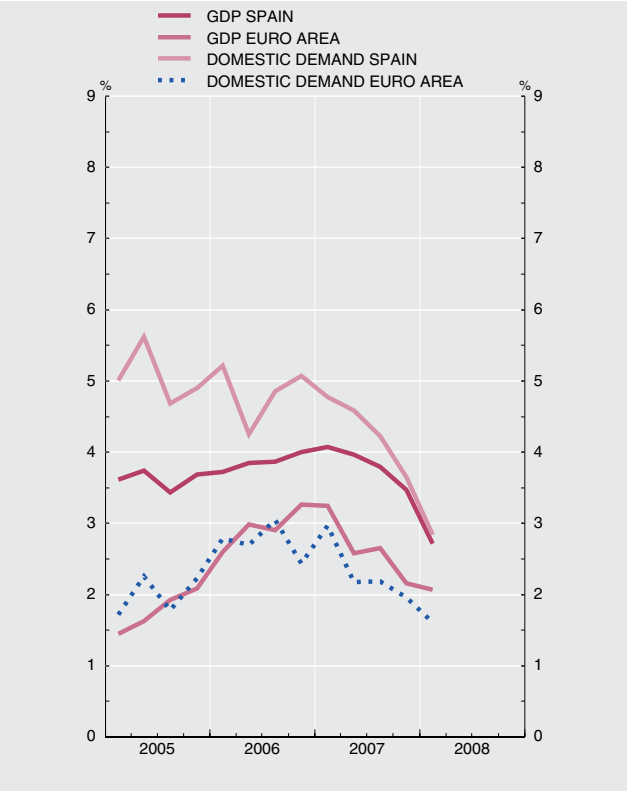
1.1. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES, REFERENCE YEAR 2000=100.DEMAND COMPONENTS. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

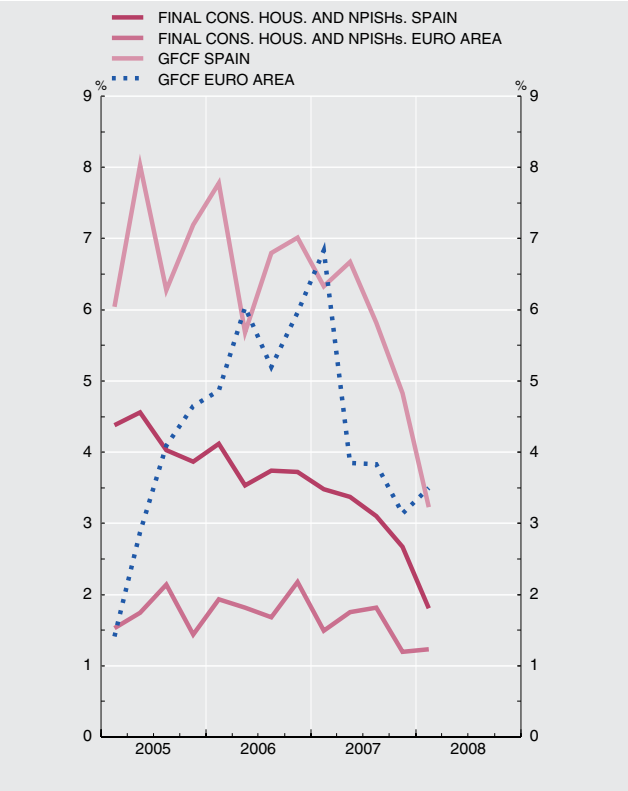
Annual percentage changes

		GDP		Final consumption of households and NPISHs		General government final consumption		Gross fixed capital formation		Domestic demand		Exports of goods and services		Imports of goods and services		Memorandum item: GDPmp (current prices) (g)	
		Spain	Euro area	Spain (b)	Euro area (c)	Spain	Euro area (d)	Spain	Euro area	Spain (e)	Euro area	Spain	Euro area (f)	Spain	Euro area (f)	Spain	Euro area
		1 ■	2 ■	3 ■	4 ■	5	6	7 ■	8 ■	9 ■	10 ■	11	12	13	14	15	16
05	P	3.6	1.8	4.2	1.7	5.5	1.5	6.9	3.3	5.1	2.0	2.6	5.0	7.7	5.8	908	8 059
06	P	3.9	2.9	3.8	1.9	4.8	2.0	6.8	5.5	4.9	2.7	5.1	8.1	8.3	7.8	981	8 455
07	P	3.8	2.7	3.2	1.6	5.1	2.3	5.9	4.4	4.3	2.3	5.3	6.1	6.6	5.4	1 050	8 905
05 *Q2*	P	3.7	1.6	4.6	1.7	5.9	1.7	8.0	2.9	5.6	1.6	3.1	4.0	9.7	5.9	225	2 004
Q3	P	3.4	1.9	4.0	2.1	5.1	1.7	6.3	4.1	4.7	1.9	3.7	6.0	8.0	5.8	229	2 026
Q4	P	3.7	2.1	3.9	1.4	5.4	1.6	7.2	4.7	4.9	2.1	3.4	5.6	7.7	6.2	234	2 049
06 *Q1*	P	3.7	2.6	4.1	1.9	4.9	2.2	7.8	4.9	5.2	2.6	5.7	8.7	10.6	9.5	238	2 073
Q2	P	3.8	3.0	3.5	1.8	4.0	1.6	5.7	6.0	4.3	3.0	4.9	8.1	6.1	7.4	243	2 105
Q3	P	3.9	2.9	3.7	1.7	4.8	1.7	6.8	5.2	4.9	2.9	4.2	6.6	7.5	7.2	247	2 126
Q4	P	4.0	3.3	3.7	2.2	5.7	2.5	7.0	6.0	5.1	3.3	5.7	8.9	9.0	6.9	252	2 152
07 *Q1*	P	4.1	3.2	3.5	1.5	6.1	2.4	6.3	6.8	4.8	3.2	3.6	6.7	6.1	6.1	257	2 194
Q2	P	4.0	2.6	3.4	1.8	5.0	2.3	6.7	3.8	4.6	2.6	4.7	6.0	6.7	5.2	261	2 215
Q3	P	3.8	2.7	3.1	1.8	5.1	2.5	5.8	3.8	4.2	2.7	7.7	7.2	8.4	6.1	264	2 240
Q4	P	3.5	2.2	2.7	1.2	4.4	2.0	4.8	3.1	3.6	2.2	5.2	4.4	5.4	4.0	268	2 256
08 *Q1*	P	2.7	2.1	1.8	1.2	4.7	1.4	3.2	3.5	2.8	2.1	5.0	5.5	5.0	4.5	272	2 292

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



DEMAND COMPONENTS. SPAIN AND EURO AREA
Annual percentage changes



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

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

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

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

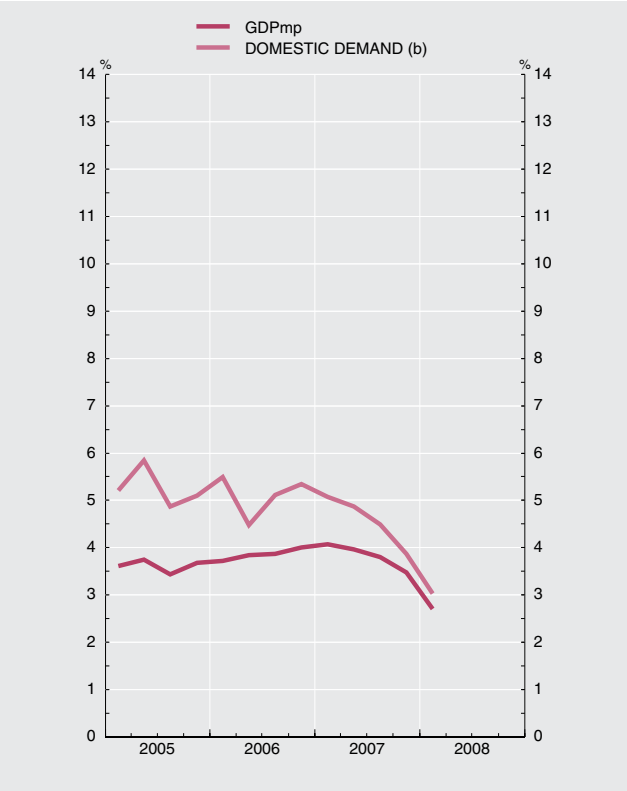
1.2. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES. REFERENCE YEAR 2000=100. DEMAND COMPONENTS. SPAIN: BREAKDOWN (a)

■ Series depicted in chart.

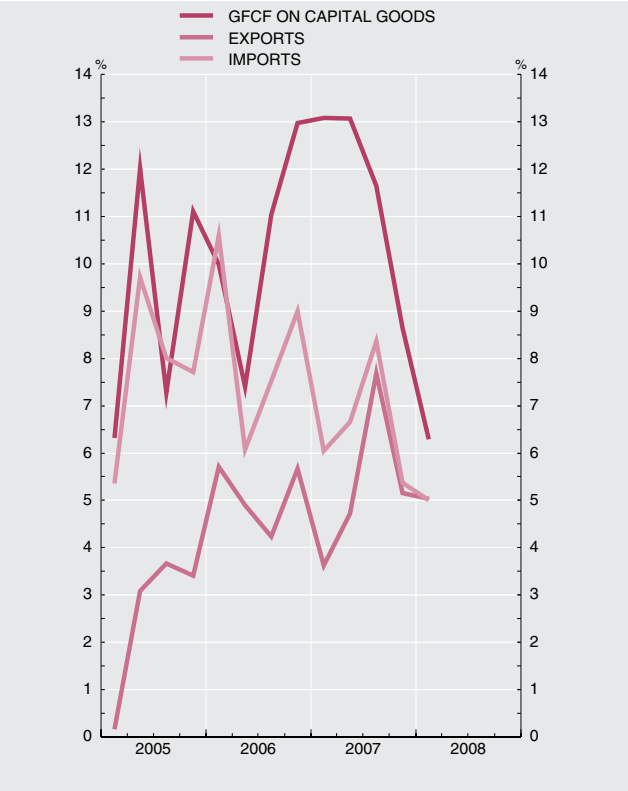
Annual percentage changes

		Gross fixed capital formation				Change in Stocks (b)	Exports of goods and services				Imports of goods and services				Memorandum items:	
		Total	Capital goods	Construc-tión	Other products		Total	Goods	Final con-sumption of non-resi-dents in economic territory	Services	Total	Goods	Final consumption of residents in the rest of the world	Services	Domestic demand (b) (c)	GDP
		1	2 ■	3	4	5 ■	6	7	8	9	10 ■	11	12	13	14 ■	15 ■
05	P	6.9	9.2	6.1	6.4	-0.1	2.6	1.1	2.3	9.7	7.7	7.1	20.6	8.2	5.3	3.6
06	P	6.8	10.4	6.0	4.6	0.1	5.1	4.6	1.5	11.0	8.3	8.0	6.0	10.0	5.1	3.9
07	P	5.9	11.6	4.0	4.2	0.0	5.3	4.7	-0.3	13.1	6.6	6.0	5.8	9.7	4.6	3.8
05 *Q2*	P	8.0	12.0	6.4	7.9	-0.1	3.1	1.8	1.7	10.5	9.7	10.4	24.9	3.5	5.8	3.7
Q3	P	6.3	7.3	6.1	5.6	-0.1	3.7	1.8	3.2	12.6	8.0	6.2	19.0	14.5	4.9	3.4
Q4	P	7.2	11.1	6.0	5.6	-0.1	3.4	2.7	2.3	7.4	7.7	6.8	15.7	10.3	5.1	3.7
06 *Q1*	P	7.8	10.0	7.1	7.1	-0.0	5.7	5.3	0.5	13.2	10.6	10.4	4.6	13.0	5.5	3.7
Q2	P	5.7	7.4	5.5	3.8	0.0	4.9	4.0	5.5	8.2	6.1	4.7	4.0	13.6	4.5	3.8
Q3	P	6.8	11.0	5.9	3.7	0.1	4.2	4.6	0.6	6.6	7.5	8.0	11.4	4.5	5.1	3.9
Q4	P	7.0	13.0	5.5	3.8	0.1	5.7	4.7	-0.5	16.2	9.0	9.1	4.2	9.4	5.3	4.0
07 *Q1*	P	6.3	13.1	4.9	1.9	0.1	3.6	3.4	1.3	6.9	6.1	5.9	6.7	6.7	5.1	4.1
Q2	P	6.7	13.1	4.6	4.7	0.0	4.7	4.7	-2.2	11.8	6.7	6.1	4.4	9.9	4.9	4.0
Q3	P	5.8	11.6	3.8	4.3	0.0	7.7	6.2	-0.6	22.0	8.4	7.4	5.5	13.7	4.5	3.8
Q4	P	4.8	8.6	2.9	6.1	0.1	5.2	4.6	0.3	11.7	5.4	4.7	6.5	8.5	3.9	3.5
08 *Q1*	P	3.2	6.3	1.3	5.2	0.1	5.0	5.1	0.4	9.2	5.0	5.9	1.8	1.2	3.0	2.7

GDP. DOMESTIC DEMAND
Annual percentage changes



GDP. DEMAND COMPONENTS
Annual percentage changes



Source: INE (Quarterly National Accounts of Spain. Base year 2000).

a. Prepared in accordance with ESA95, seasonally- and working-day-adjusted series (see Economic bulletin April 2002).

b. Contribution to GDPmp growth rate.

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

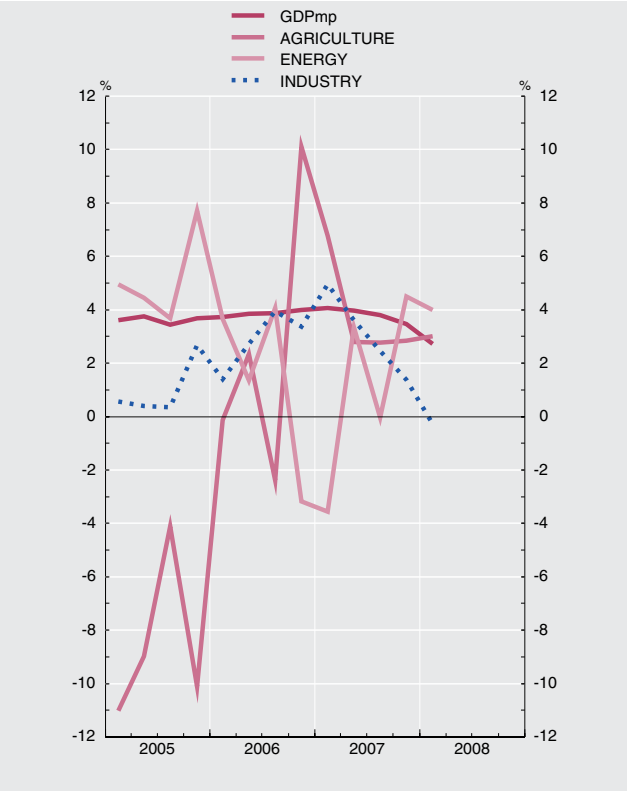
1.3. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES. REFERENCE YEAR 2000=100. BRANCHES OF ACTIVITY. SPAIN (a)

■ Series depicted in chart.

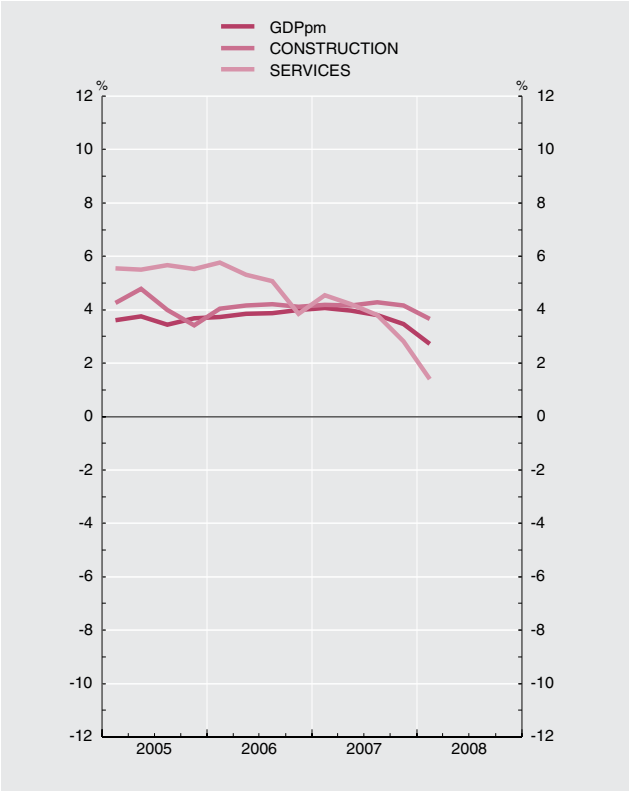
Annual percentage changes

			Gross domestic product at market prices	Agriculture and fisheries	Energy	Industry	Construction	Services			VAT on products	Net taxes linked to imports	Other net taxes on products
								Total	Market services	Non-market services			
			1 ■	2 ■	3	4 ■	5 ■	6 ■	7	8	9	10	11
05		P	3.6	-8.6	5.2	1.0	5.6	4.1	4.1	3.9	5.5	4.9	7.3
06		P	3.9	2.4	1.4	2.9	5.0	4.1	4.1	4.3	4.3	5.9	2.3
07		P	3.8	3.8	1.0	3.1	3.8	4.2	4.0	5.0	3.4	0.0	3.7
05	*Q2*	P	3.7	-9.0	4.4	0.4	5.5	4.8	4.6	5.3	6.0	7.7	2.4
	Q3	P	3.4	-4.1	3.7	0.4	5.7	4.0	4.3	2.7	5.4	4.9	3.4
	Q4	P	3.7	-10.1	7.7	2.7	5.5	3.4	3.5	3.3	4.3	8.4	14.9
06	*Q1*	P	3.7	-0.1	3.7	1.4	5.8	4.0	4.1	3.6	4.8	10.5	2.7
	Q2	P	3.8	2.3	1.4	2.7	5.3	4.2	4.1	4.5	4.3	5.6	1.3
	Q3	P	3.9	-2.4	4.1	4.0	5.1	4.2	4.3	3.8	4.1	5.1	-0.4
	Q4	P	4.0	10.1	-3.2	3.4	3.9	4.1	3.8	5.2	3.8	2.8	5.6
07	*Q1*	P	4.1	6.8	-3.6	5.0	4.5	4.2	4.1	4.3	4.1	-1.9	2.2
	Q2	P	4.0	2.8	3.4	3.6	4.2	4.2	3.9	5.2	3.5	-2.0	3.9
	Q3	P	3.8	2.8	-0.0	2.4	3.8	4.3	4.0	5.3	3.0	1.8	5.9
	Q4	P	3.5	2.9	4.5	1.4	2.8	4.2	3.9	5.0	2.8	2.3	2.9
08	*Q1*	P	2.7	3.0	4.0	-0.3	1.4	3.7	3.5	4.2	2.0	-0.8	2.2

GDP. BRANCHES OF ACTIVITY
Annual percentage changes



GDP. BRANCHES OF ACTIVITY
Annual percentage changes



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

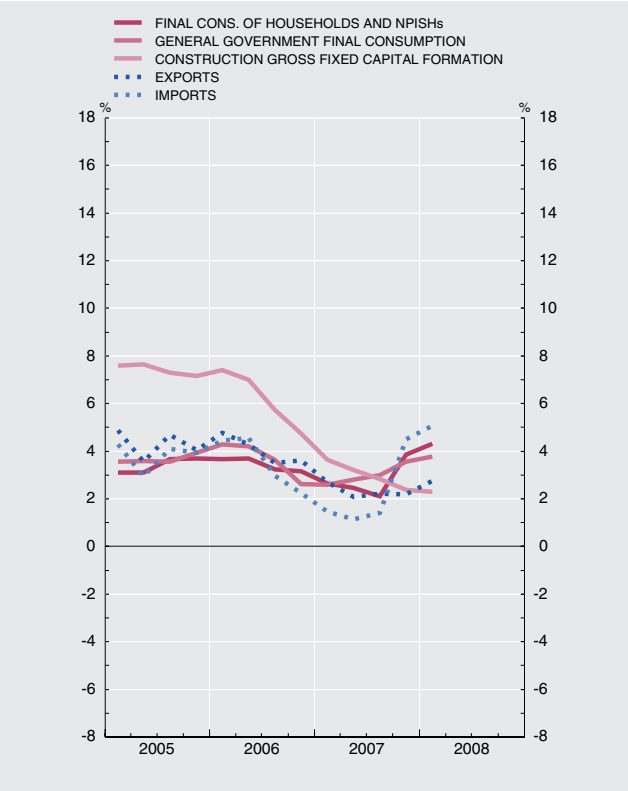
1.4. GROSS DOMESTIC PRODUCT. IMPLICIT DEFLATORS. SPAIN (a)

■ Series depicted in chart.

Annual percentage changes

		Demand components								Branches of activity					
				Gross fixed capital formation										Of which	
		Final consumption of households and NPISHs (b)	General government final consumption	Capital goods	Construction	Other products	Exports of goods and services	Imports of goods and services	Gross domestic product at market prices	Agriculture and fisheries	Energy	Industry	Construction	Services	Market services
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
05	P	3.4	3.7	3.0	7.4	4.4	4.3	3.8	4.2	3.4	14.3	3.4	10.7	2.7	2.4
06	P	3.4	3.7	2.0	6.2	3.7	4.0	3.5	4.0	-5.2	4.1	3.3	7.7	3.0	2.8
07	P	2.8	3.0	2.8	3.0	5.5	2.3	2.1	3.1	4.9	2.8	3.9	4.3	3.5	3.4
05 *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	4.6	4.1	-6.7	5.4	3.3	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	3.6	2.3	3.7	-4.7	-1.7	3.2	5.9	2.8	2.7
07 *Q1*	P	2.7	2.6	3.1	3.6	6.1	2.7	1.5	3.4	-1.9	-0.5	3.9	4.9	3.3	3.3
Q2	P	2.5	2.8	3.0	3.2	5.4	2.1	1.1	3.2	4.8	1.1	3.6	4.2	3.5	3.5
Q3	P	2.1	3.0	2.6	2.8	5.2	2.2	1.4	2.9	7.3	3.4	3.9	4.0	3.6	3.6
Q4	P	3.9	3.6	2.6	2.4	5.3	2.2	4.5	2.9	9.4	7.0	4.2	4.0	3.5	3.3
08 *Q1*	P	4.3	3.8	2.4	2.3	4.9	2.8	5.1	3.1	7.9	9.5	4.9	3.9	4.3	4.4

GDP. IMPLICIT DEFLATORS
Annual percentage changes



GDP. IMPLICIT DEFLATORS
Annual percentage changes

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

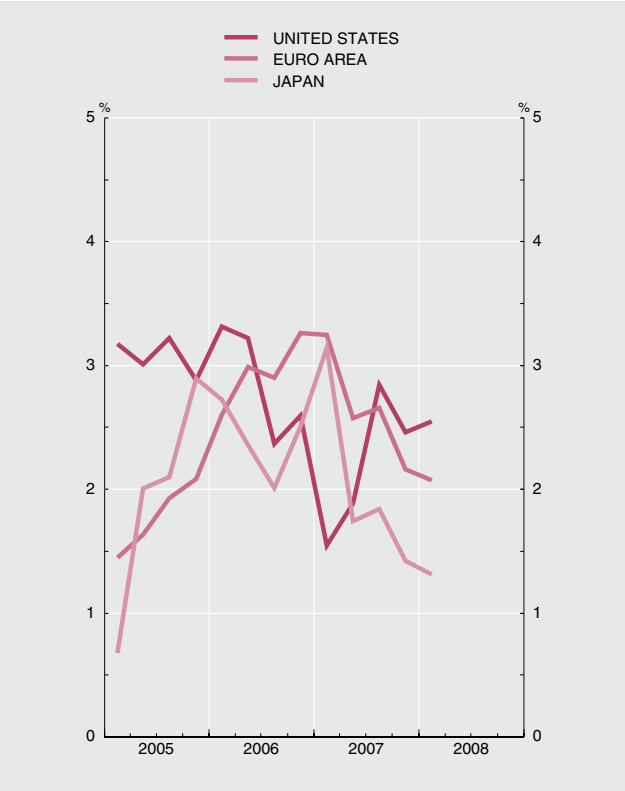
2.1. INTERNATIONAL COMPARISON. GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

■ Series depicted in chart.

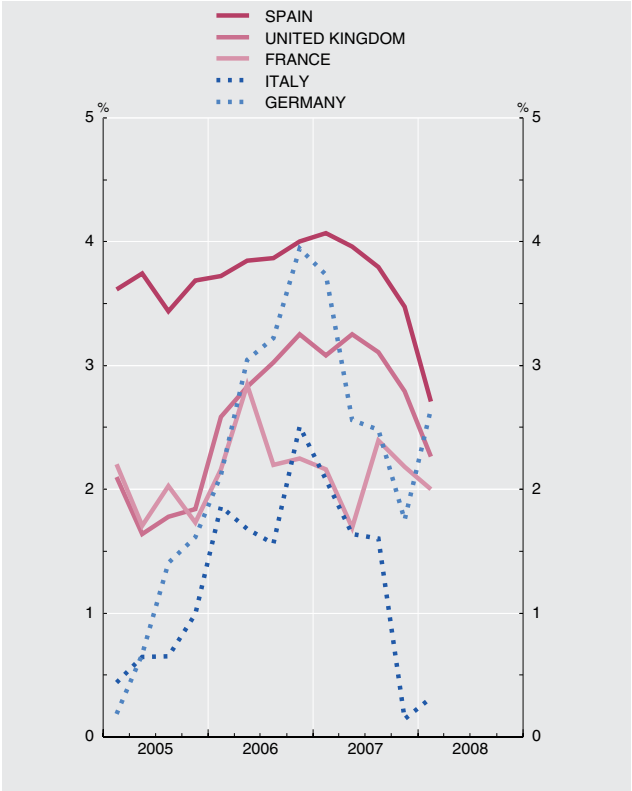
Annual percentage changes

	OECD 1	EU-15 2	Euro area 3 ■	Germany 4 ■	Spain 5 ■	United States 6 ■	France 7 ■	Italy 8 ■	Japan 9 ■	United Kingdom 10 ■
05	2.7	1.8	1.8	1.0	3.6	3.1	1.9	0.7	1.9	1.8
06	3.2	3.0	2.9	3.1	3.9	2.9	2.4	1.9	2.4	2.9
07	2.7	2.7	2.7	2.6	3.8	2.2	2.1	1.4	2.0	3.1
05 *Q1*	2.4	1.6	1.4	0.2	3.6	3.2	2.2	0.4	0.7	2.1
Q2	2.5	1.7	1.6	0.7	3.7	3.0	1.7	0.6	2.0	1.6
Q3	2.8	2.0	1.9	1.4	3.4	3.2	2.0	0.7	2.1	1.8
Q4	2.9	2.1	2.1	1.6	3.7	2.9	1.7	1.0	2.9	1.8
06 *Q1*	3.3	2.7	2.6	2.1	3.7	3.3	2.2	1.9	2.7	2.6
Q2	3.4	3.0	3.0	3.0	3.8	3.2	2.8	1.7	2.4	2.8
Q3	2.9	3.0	2.9	3.2	3.9	2.4	2.2	1.6	2.0	3.0
Q4	3.1	3.3	3.3	3.9	4.0	2.6	2.2	2.5	2.5	3.2
07 *Q1*	2.7	3.2	3.2	3.7	4.1	1.5	2.2	2.1	3.1	3.1
Q2	2.5	2.6	2.6	2.6	4.0	1.9	1.7	1.6	1.7	3.3
Q3	3.0	2.7	2.7	2.5	3.8	2.8	2.4	1.6	1.8	3.1
Q4	2.7	2.3	2.2	1.8	3.5	2.5	2.2	0.1	1.4	2.8
08 *Q1*	...	2.0	2.1	2.6	2.7	2.5	2.0	0.3	1.3	2.3

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.

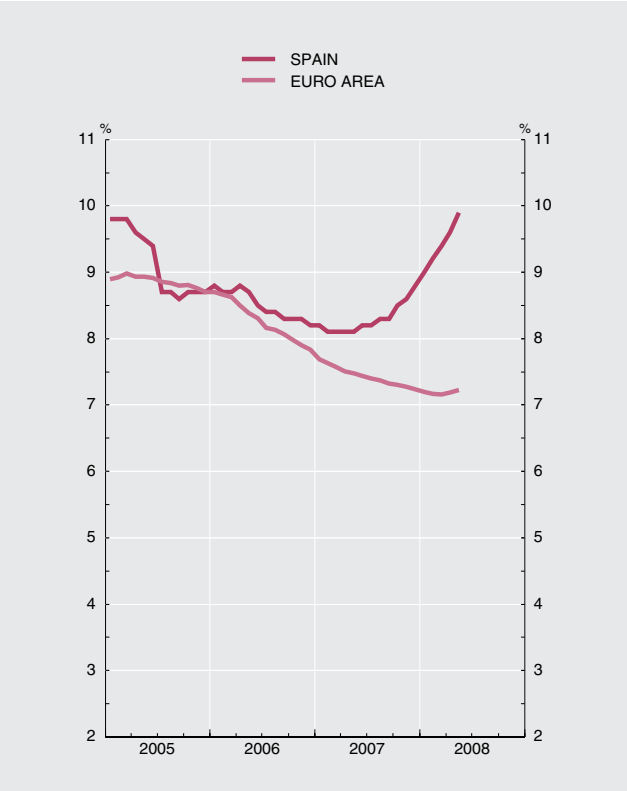
2.2. INTERNATIONAL COMPARISON. UNEMPLOYMENT RATES

■ Series depicted in chart.

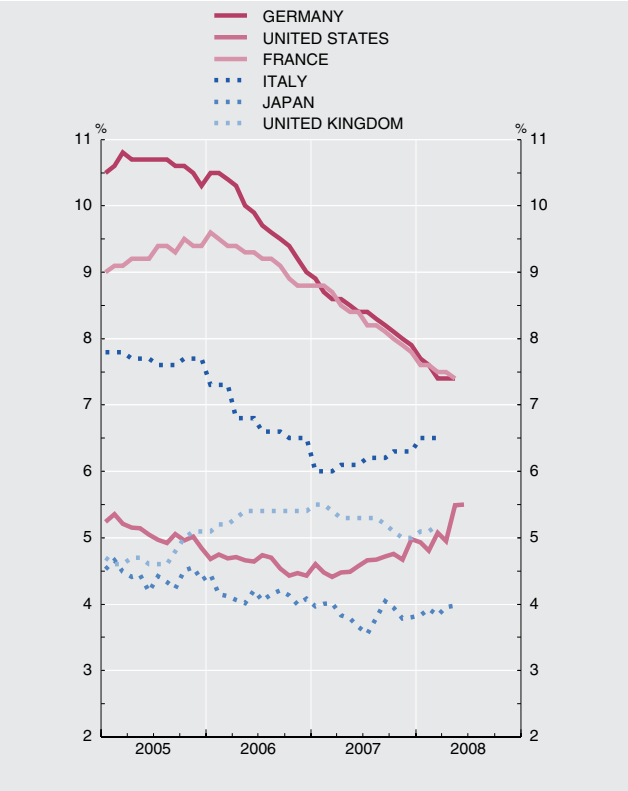
Percentages

	OECD 1	EU-15 2	Euro area 3 ■	Germany 4 ■	Spain 5 ■	United States 6 ■	France 7 ■	Italy 8 ■	Japan 9 ■	United Kingdom 10 ■
05	6.7	8.1	8.9	10.6	9.2	5.1	9.3	7.7	4.4	4.8
06	6.1	7.7	8.3	9.8	8.5	4.6	9.2	6.8	4.1	5.3
07	5.6	7.0	7.4	8.4	8.3	4.6	8.3	6.2	3.8	5.3
06 *Dec*	5.8	7.3	7.8	9.0	8.2	4.4	8.8	6.5	4.1	5.4
07 *Jan*	5.8	7.3	7.7	8.9	8.2	4.6	8.8	6.0	4.0	5.5
Feb	5.7	7.2	7.6	8.7	8.1	4.5	8.8	6.0	4.0	5.5
Mar	5.7	7.1	7.6	8.6	8.1	4.4	8.7	6.0	4.0	5.4
Apr	5.6	7.1	7.5	8.6	8.1	4.5	8.5	6.1	3.8	5.3
May	5.6	7.0	7.5	8.5	8.1	4.5	8.4	6.1	3.8	5.3
Jun	5.6	7.0	7.4	8.4	8.2	4.6	8.4	6.1	3.7	5.3
Jul	5.6	7.0	7.4	8.4	8.2	4.7	8.2	6.2	3.6	5.3
Aug	5.6	6.9	7.4	8.3	8.3	4.7	8.2	6.2	3.8	5.3
Sep	5.6	6.9	7.3	8.2	8.3	4.7	8.1	6.2	4.0	5.2
Oct	5.6	6.9	7.3	8.1	8.5	4.8	8.0	6.3	4.0	5.1
Nov	5.5	6.8	7.3	8.0	8.6	4.7	7.9	6.3	3.8	5.0
Dec	5.6	6.8	7.2	7.9	8.8	5.0	7.8	6.3	3.8	5.0
08 *Jan*	5.5	...	7.2	7.7	9.0	4.9	7.6	6.5	3.8	5.1
Feb	5.5	...	7.2	7.6	9.2	4.8	7.6	6.5	3.9	5.1
Mar	5.6	...	7.2	7.4	9.4	5.1	7.5	6.5	3.8	5.2
Apr	5.6	...	7.2	7.4	9.6	5.0	7.5	...	4.0	...
May	5.7	...	7.2	7.4	9.9	5.5	7.4	...	4.0	...

UNEMPLOYMENT RATES



UNEMPLOYMENT RATES



Sources: ECB and OECD.

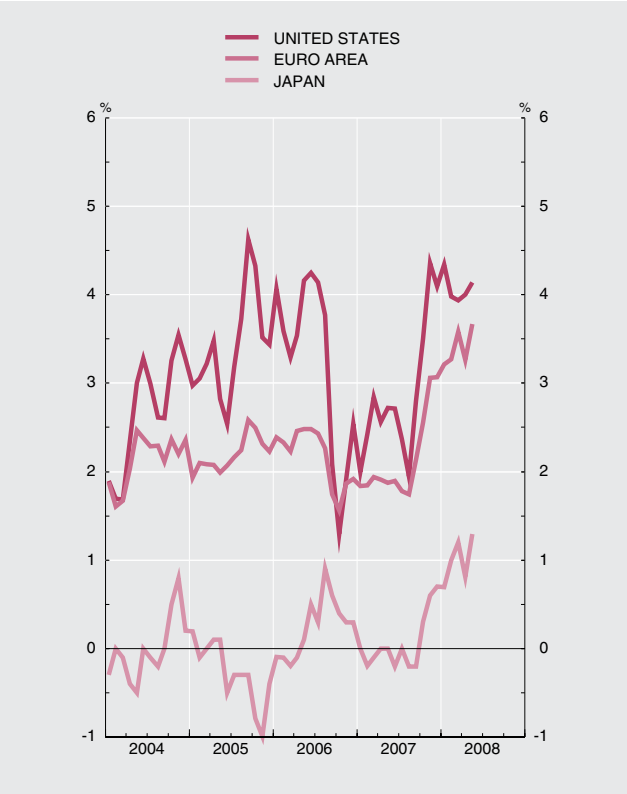
2.3. INTERNATIONAL COMPARISON. CONSUMER PRICES (a)

■ Series depicted in chart.

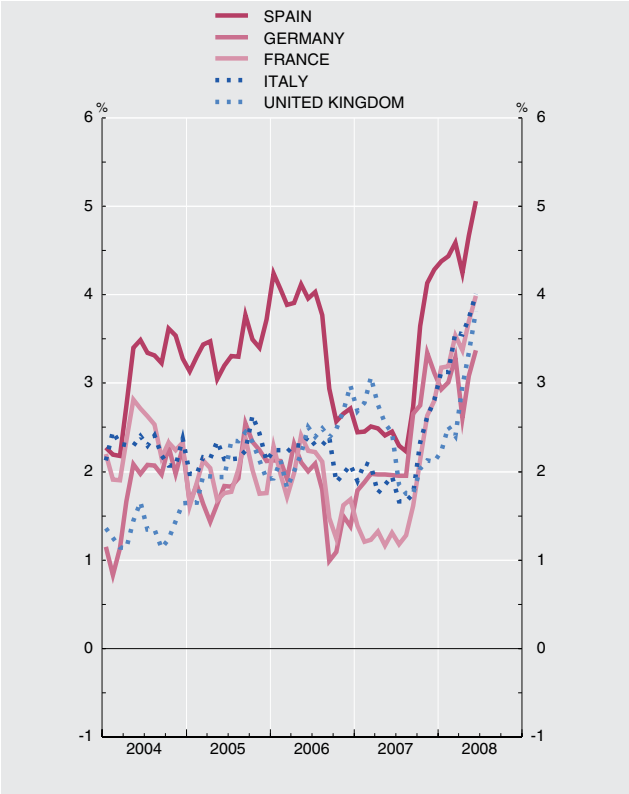
Annual percentage changes

	OECD (1)	EU-15 (2)	Euro area (3) ■	Germany (4) ■	Spain (5) ■	United States (6) ■	France (7) ■	Italy (8) ■	Japan (9) ■	United Kingdom (10) ■
04	2.4	2.0	2.1	1.8	3.1	2.7	2.3	2.3	-0.0	1.3
05	2.6	2.1	2.2	1.9	3.4	3.4	1.9	2.2	-0.3	2.1
06	2.6	2.2	2.2	1.8	3.6	3.2	1.9	2.2	0.2	2.3
07	2.5	...	2.1	2.3	2.8	2.9	1.6	2.0	0.1	2.3
07 *Jan*	2.1	...	1.8	1.8	2.4	2.0	1.4	1.9	-	2.7
Feb	2.3	...	1.8	1.9	2.5	2.4	1.2	2.1	-0.2	2.8
Mar	2.5	...	1.9	2.0	2.5	2.8	1.2	2.1	-0.1	3.1
Apr	2.4	...	1.9	2.0	2.5	2.6	1.3	1.8	-	2.8
May	2.4	...	1.9	2.0	2.4	2.7	1.2	1.9	-	2.5
Jun	2.3	...	1.9	2.0	2.5	2.7	1.3	1.9	-0.2	2.4
Jul	2.2	...	1.8	2.0	2.3	2.4	1.2	1.7	-	1.9
Aug	1.9	...	1.7	2.0	2.2	1.9	1.3	1.7	-0.2	1.7
Sep	2.3	...	2.1	2.7	2.7	2.8	1.6	1.7	-0.2	1.7
Oct	3.0	...	2.6	2.7	3.6	3.5	2.1	2.3	0.3	2.0
Nov	3.5	...	3.1	3.3	4.1	4.4	2.6	2.6	0.6	2.1
Dec	3.5	...	3.1	3.1	4.3	4.1	2.8	2.8	0.7	2.1
08 *Jan*	3.5	...	3.2	2.9	4.4	4.3	3.2	3.1	0.7	2.2
Feb	3.4	...	3.3	3.0	4.4	4.0	3.2	3.1	1.0	2.5
Mar	3.6	...	3.6	3.3	4.6	3.9	3.5	3.6	1.2	2.4
Apr	3.5	...	3.3	2.6	4.2	4.0	3.4	3.6	0.8	3.0
May	3.9	...	3.7	3.1	4.7	4.1	3.7	3.7	1.3	3.3
Jun	...	...	...	3.4	5.1	...	4.0	4.0	...	3.8

CONSUMER PRICES
Annual percentage changes



CONSUMER PRICES
Annual percentage changes



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

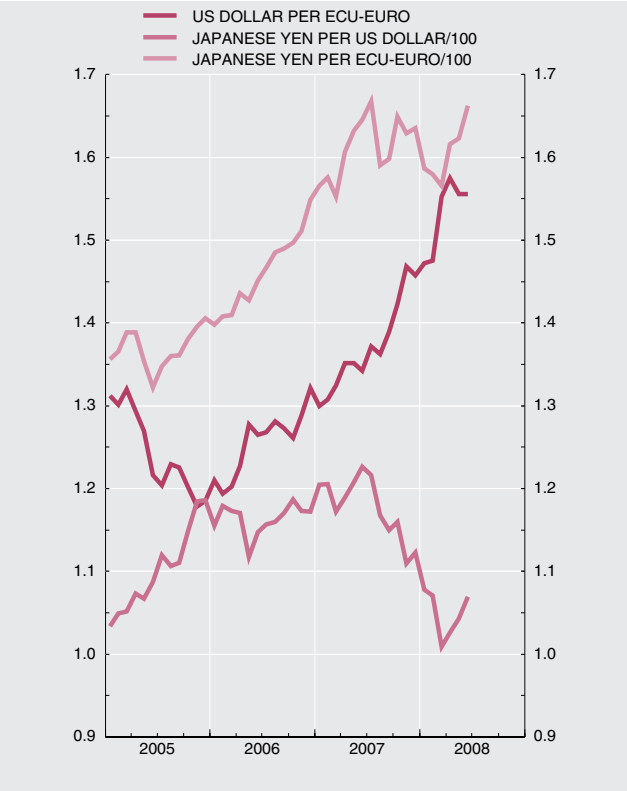
2.4. BILATERAL EXCHANGE RATES AND NOMINAL AND REAL EFFECTIVE EXCHANGE RATE INDICES FOR THE EURO, US DOLLAR AND JAPANESE YEN

■ Series depicted in chart.

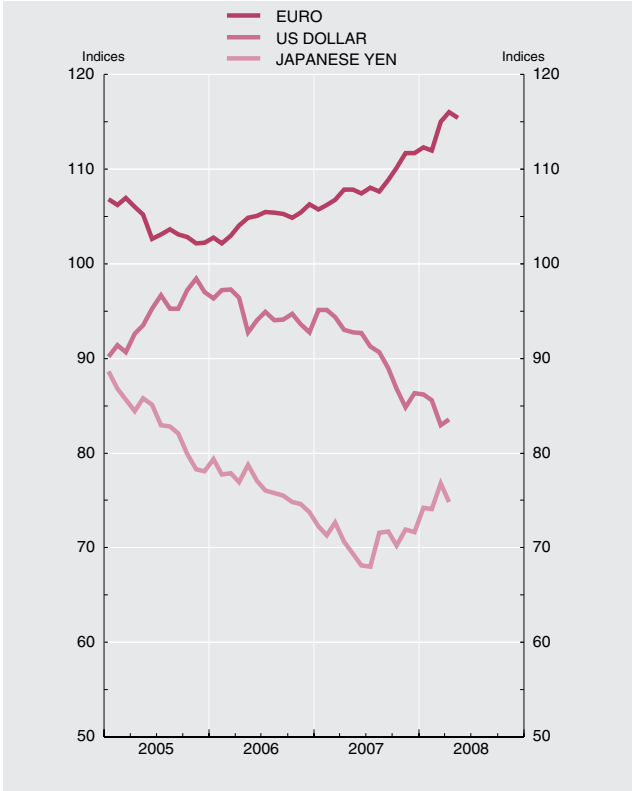
Average of daily data

	Exchange rates			Indices of the nominal effective exchange rate vis-à-vis the (a) developed countries 1999 QI=100			Indices of the real effective exchange rate vis-à-vis the developed countries (b) 1999 QI=100					
							Based on consumer prices			Based on producer prices		
	US dollar per ECU/euro	Japanese yen per ECU/euro	Japanese yen per US dollar	Euro	US dollar	Japanese yen	Euro	US dollar	Japanese yen	Euro	US dollar	Japanese yen
	1 ■	2 ■	3 ■	4	5	6	7 ■	8 ■	9 ■	10	11	12
05	1.2445	136.88	110.17	103.3	87.8	99.9	104.2	94.5	83.3	102.5	96.2	83.4
06	1.2561	146.09	116.32	103.7	86.8	93.9	104.6	94.8	76.5	103.0	96.3	77.2
07	1.3710	161.26	117.74	107.7	82.3	89.0	108.3	91.0	70.8	106.9	92.6	71.9
07 *J-J*	1.3295	159.64	120.08	106.3	85.2	88.6	107.0	93.8	70.7	105.5	94.8	71.8
08 *J-J*	1.5311	160.55	104.92	114.2	75.4	95.4	114.2	84.6	75.0	112.3	87.1	75.9
07 *Apr*	1.3516	160.68	118.88	107.2	84.4	88.8	107.8	93.0	70.6	106.3	94.2	71.7
May	1.3511	163.22	120.80	107.3	83.8	87.3	107.9	92.7	69.4	106.2	94.4	70.3
Jun	1.3419	164.55	122.63	106.9	83.6	86.1	107.4	92.7	68.1	105.9	94.3	69.3
Jul	1.3716	166.76	121.59	107.6	82.2	85.8	108.1	91.3	68.0	106.5	93.3	69.1
Aug	1.3622	159.05	116.75	107.1	81.9	89.9	107.7	90.7	71.6	106.4	92.2	72.8
Sep	1.3896	159.82	115.01	108.2	80.3	90.4	108.9	89.0	71.7	107.5	90.8	72.9
Oct	1.4227	164.95	115.94	109.4	78.3	88.4	110.1	86.8	70.2	108.7	89.1	71.4
Nov	1.4684	162.89	110.95	111.0	76.3	91.2	111.7	84.9	71.9	110.0	88.1	72.8
Dec	1.4570	163.55	112.26	111.2	77.9	90.8	111.7	86.4	71.6	110.1	88.8	72.8
08 *Jan*	1.4718	158.68	107.81	112.0	77.1	94.3	112.3	86.2	74.2	110.5	88.2	75.2
Feb	1.4748	157.97	107.12	111.8	76.7	94.7	112.0	85.6	74.1	110.5	87.9	75.3
Mar	1.5527	156.59	100.88	114.6	74.0	98.5	115.0	82.9	76.8	112.9	86.0	77.5
Apr	1.5751	161.56	102.58	116.0	74.4	96.5	116.1	83.5	74.8	114.2	86.4	75.5
May	1.5557	162.31	104.34	115.5	74.7	95.3	115.4	...	...	113.5	...	...
Jun	1.5553	166.26	106.91	115.4	75.5	93.1	...	...	...	...	...	...

EXCHANGE RATES



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



Sources: ECB and BE.

a. Geometric mean -calculated using a double weighting system based on 1995-97 (until 1999) and 1999-2001 (since 1999) manufacturing trade of changes in the spot price of each currency against the currencies of the other developed countries. A fall in the index denotes a depreciation of the currency against those of the other developed countries.

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

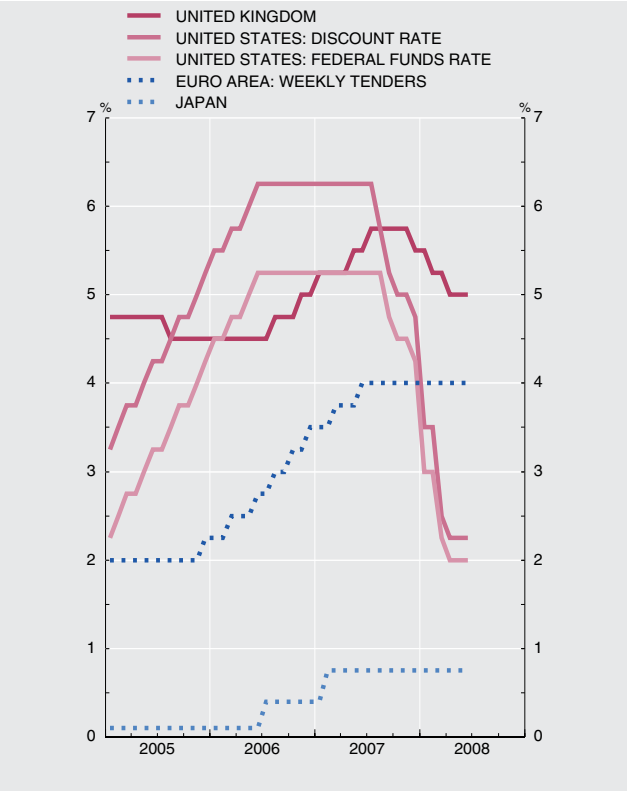
2.5. OFFICIAL INTERVENTION INTEREST RATES AND SHORT-TERM INTEREST RATES

■ Series depicted in chart.

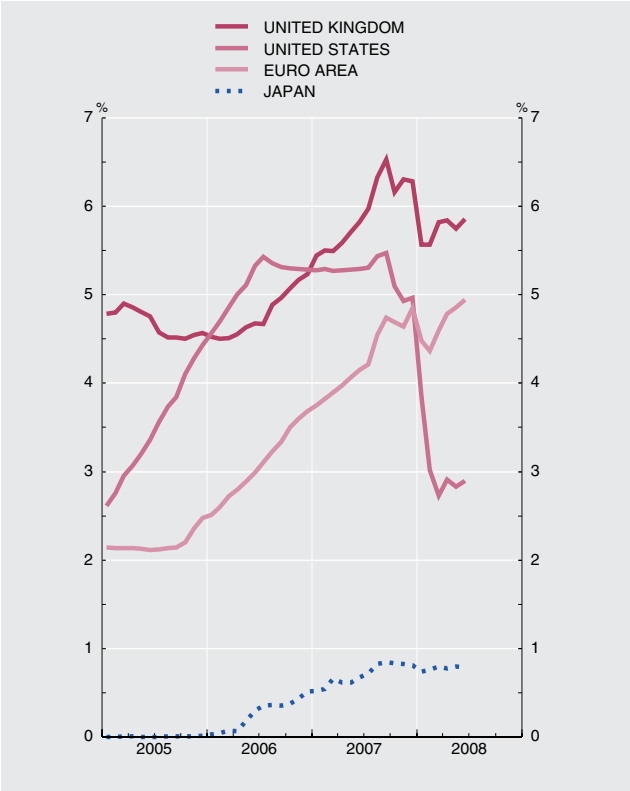
Percentages

	Official intervention interest rates					3-month interbank rates									
	Euro area	United States		Japan	United Kingdom	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	(a)	Discount rate (b)	Federal funds rate	(c)	(d)										
	1 ■	2 ■	3 ■	4 ■	5 ■	6	7	8 ■	9	10	11 ■	12	13	14 ■	15 ■
05	2.25	5.25	3.25	0.10	4.50	2.57	2.55	2.18	-	-	3.50	-	-	0.01	4.68
06	3.50	6.25	5.02	0.40	5.00	3.61	3.32	3.08	-	-	5.13	-	-	0.26	4.78
07	4.00	4.75	5.00	0.75	5.50	4.23	4.51	4.28	-	-	5.24	-	-	0.71	5.93
07 *Jan*	3.50	6.25	5.25	0.40	5.25	3.99	4.00	3.75	-	-	5.28	-	-	0.52	5.44
Feb	3.50	6.25	5.25	0.75	5.25	4.03	4.06	3.82	-	-	5.29	-	-	0.54	5.50
Mar	3.75	6.25	5.25	0.75	5.25	4.06	4.12	3.89	-	-	5.27	-	-	0.66	5.49
Apr	3.75	6.25	5.25	0.75	5.25	4.09	4.21	3.98	-	-	5.28	-	-	0.62	5.59
May	3.75	6.25	5.25	0.75	5.50	4.13	4.30	4.07	-	-	5.28	-	-	0.62	5.71
Jun	4.00	6.25	5.25	0.75	5.50	4.18	4.39	4.15	-	-	5.29	-	-	0.67	5.82
Jul	4.00	6.25	5.25	0.75	5.75	4.24	4.47	4.22	-	-	5.31	-	-	0.72	5.97
Aug	4.00	5.75	5.25	0.75	5.75	4.45	4.79	4.54	-	-	5.44	-	-	0.82	6.33
Sep	4.00	5.25	4.75	0.75	5.75	4.55	4.99	4.74	-	-	5.47	-	-	0.85	6.53
Oct	4.00	5.00	4.50	0.75	5.75	4.36	4.89	4.69	-	-	5.09	-	-	0.84	6.16
Nov	4.00	5.00	4.50	0.75	5.75	4.29	4.88	4.64	-	-	4.93	-	-	0.83	6.31
Dec	4.00	4.75	4.25	0.75	5.50	4.37	5.05	4.85	-	-	4.97	-	-	0.81	6.28
08 *Jan*	4.00	3.50	3.00	0.75	5.50	3.74	4.64	4.48	-	-	3.85	-	-	0.74	5.56
Feb	4.00	3.50	3.00	0.75	5.25	3.38	4.54	4.36	-	-	3.02	-	-	0.76	5.57
Mar	4.00	2.50	2.25	0.75	5.25	3.36	4.78	4.60	-	-	2.73	-	-	0.80	5.82
Apr	4.00	2.25	2.00	0.75	5.00	3.49	4.93	4.78	-	-	2.91	-	-	0.77	5.84
May	4.00	2.25	2.00	0.75	5.00	3.46	4.98	4.86	-	-	2.83	-	-	0.79	5.75
Jun	4.00	2.25	2.00	0.75	5.00	3.53	5.07	4.94	-	-	2.90	-	-	0.79	5.85

OFFICIAL INTERVENTION INTEREST RATES



3-MONTH INTERBANK RATES



Sorces: ECB, Reuters and BE.

a. Main refinancing operations.

b. As from January 2003, the Primary Credit Rate.

c. Discount rate.

d. Retail bank base rate.

2.6. 10-YEAR GOVERNMENT BOND YIELDS ON DOMESTIC MARKETS

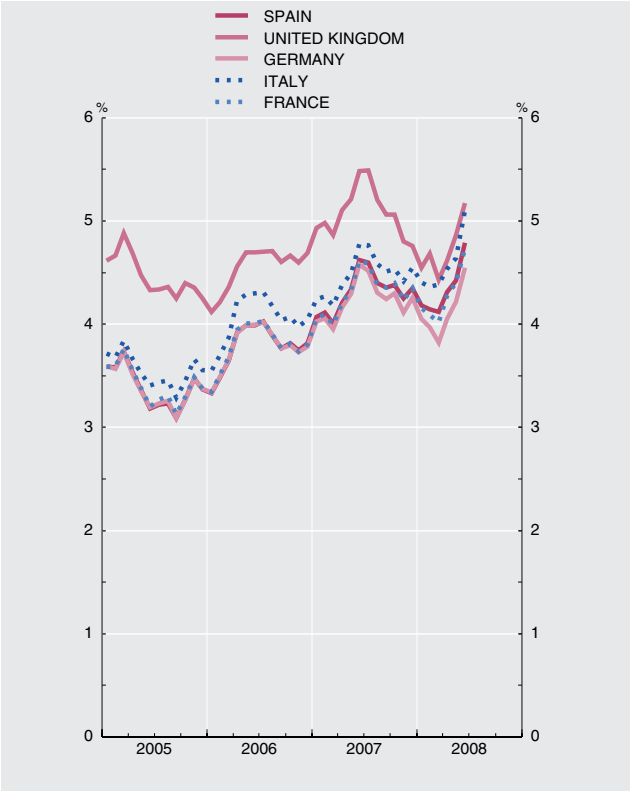
■ Series depicted in chart.

Percentages

	OECD 1	EU-15 2	Euro area 3 ■	Germany 4 ■	Spain 5 ■	United States 6 ■	France 7 ■	Italy 8 ■	Japan 9 ■	United Kingdom 10 ■
05	3.58	3.59	3.44	3.38	3.39	4.33	3.41	3.56	1.39	4.47
06	3.99	3.95	3.86	3.78	3.79	4.85	3.80	4.05	1.75	4.55
07	4.12	4.44	4.33	4.23	4.31	4.68	4.30	4.48	1.68	5.08
07 *Jan*	4.08	4.22	4.10	4.03	4.07	4.81	4.06	4.24	1.71	4.93
Feb	4.08	4.25	4.12	4.05	4.11	4.79	4.10	4.27	1.71	4.98
Mar	3.96	4.15	3.98	3.95	4.01	4.61	3.99	4.18	1.62	4.86
Apr	4.11	4.36	4.25	4.16	4.21	4.75	4.21	4.38	1.68	5.10
May	4.18	4.48	4.37	4.29	4.34	4.79	4.33	4.49	1.68	5.21
Jun	4.49	4.77	4.66	4.58	4.62	5.17	4.62	4.78	1.89	5.49
Jul	4.44	4.74	4.63	4.52	4.60	5.07	4.58	4.76	1.89	5.49
Aug	4.18	4.53	4.43	4.31	4.40	4.74	4.39	4.58	1.65	5.20
Sep	4.08	4.46	4.37	4.24	4.35	4.56	4.36	4.51	1.61	5.06
Oct	4.11	4.50	4.40	4.30	4.38	4.58	4.40	4.53	1.66	5.06
Nov	3.87	4.33	4.25	4.11	4.25	4.22	4.23	4.42	1.51	4.80
Dec	3.87	4.43	4.38	4.25	4.35	4.13	4.35	4.55	1.53	4.76
08 *Jan*	3.63	4.24	4.23	4.05	4.18	3.76	4.16	4.41	1.43	4.55
Feb	3.63	4.21	4.14	3.97	4.14	3.76	4.09	4.36	1.45	4.68
Mar	3.46	4.13	4.07	3.82	4.12	3.53	4.02	4.39	1.31	4.43
Apr	3.63	4.33	4.28	4.05	4.31	3.68	4.27	4.54	1.41	4.62
May	3.82	4.48	4.42	4.22	4.42	3.90	4.40	4.64	1.67	4.86
Jun	4.07	4.83	4.81	4.55	4.79	4.13	4.73	5.11	1.75	5.17

10-YEAR GOVERNMENT BOND YIELDS

10-YEAR GOVERNMENT BOND YIELDS



Sources: ECB, Reuters and BE.

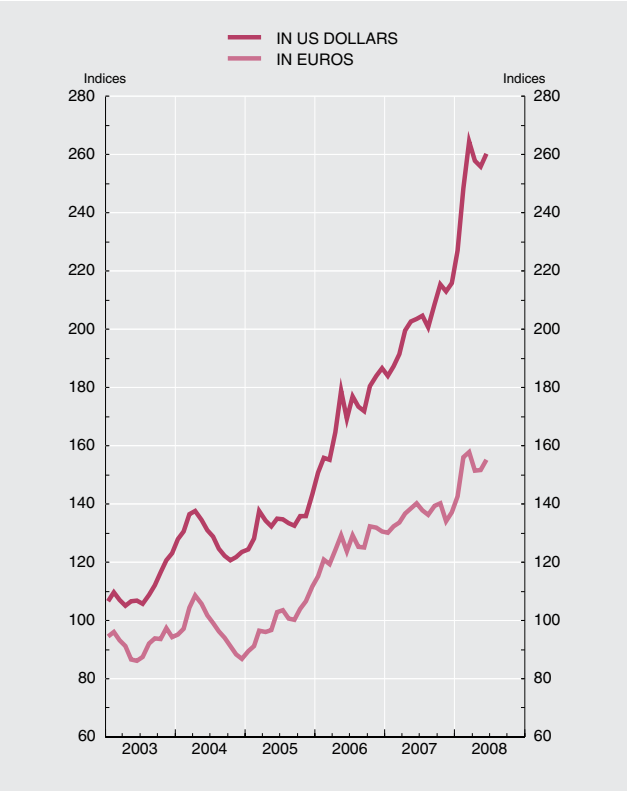
2.7 INTERNATIONAL MARKETS. NON-ENERGY COMMODITIES PRICE INDEX. CRUDE OIL AND GOLD PRICE.

■ Series depicted in chart.

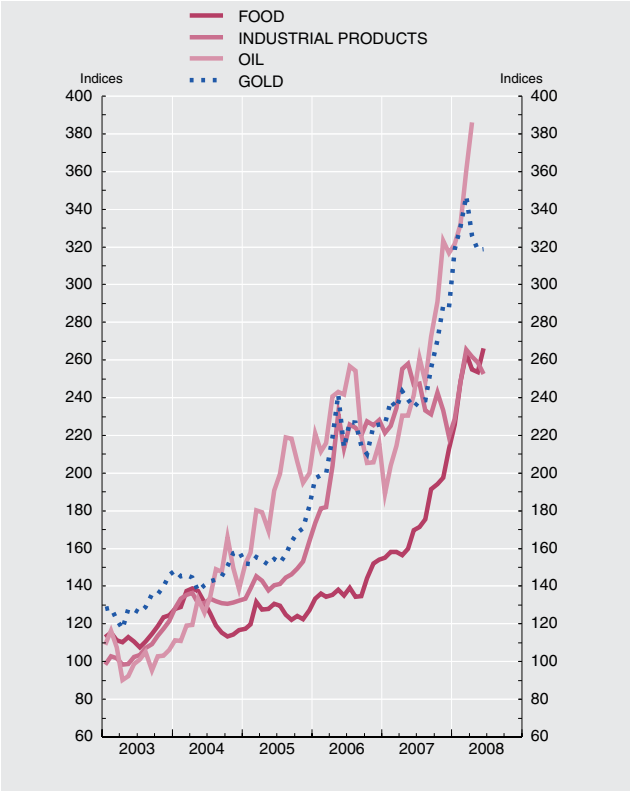
Base 2000 = 100

	Non-energy commodity price index (a)						Oil		Gold		
	Euro index	US dollar index						Brent North sea			
	General	General	Food	Industrial products			Index (b)	US dollars per barrel	Index (c)	US dollars per troy ounce	Euro per gram
				Total	Non-food agricultural products	Metals					
	1 ■	2 ■	3 ■	4 ■	5	6	7 ■	8	9 ■	10	11
03	92.2	110.7	114.4	106.2	118.7	95.5	102.3	28.9	130.3	363.6	10.33
04	97.4	128.3	125.5	132.2	131.5	130.7	133.8	38.3	146.7	409.2	10.58
05	100.0	134.0	125.5	144.8	131.2	152.1	189.2	54.2	159.5	445.1	11.53
06	125.6	170.8	139.3	211.6	147.3	246.4	227.8	64.9	216.7	604.6	15.45
07	136.4	202.3	175.1	237.4	162.4	278.4	252.1	73.0	249.8	696.7	16.32
07 *J-J*	135.2	194.8	159.6	240.3	157.3	285.7	218.4	63.5	236.1	658.6	15.93
08 *J-J*	152.5	252.3	252.0	252.7	193.5	285.1	...	109.4	326.7	911.4	19.15
07 *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	71.6	238.5	665.4	15.70
Sep	139.3	208.7	191.4	231.0	162.1	268.7	272.4	78.2	255.5	712.9	16.47
Oct	140.1	215.3	194.2	242.7	168.4	283.3	291.0	82.5	270.5	754.6	17.05
Nov	134.1	213.1	197.5	233.3	175.7	264.7	323.3	93.0	289.0	806.2	17.65
Dec	137.1	215.7	212.8	219.5	176.1	243.2	316.7	91.2	287.9	803.2	17.77
08 *Jan*	142.7	227.1	225.7	228.8	181.9	254.6	321.7	92.4	318.9	889.6	19.42
Feb	156.1	248.4	248.4	248.5	190.4	280.3	332.0	95.8	330.6	922.3	20.11
Mar	157.9	264.3	263.4	265.5	193.7	304.9	360.7	104.3	347.1	968.4	20.06
Apr	151.5	257.9	254.8	261.9	191.4	300.4	386.2	108.7	326.1	909.7	18.57
May	151.7	255.9	253.7	258.7	199.3	291.2	...	123.0	318.6	888.7	18.39
Jun	155.2	260.3	266.2	252.6	204.1	279.2	...	132.0	318.8	889.5	18.39

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.

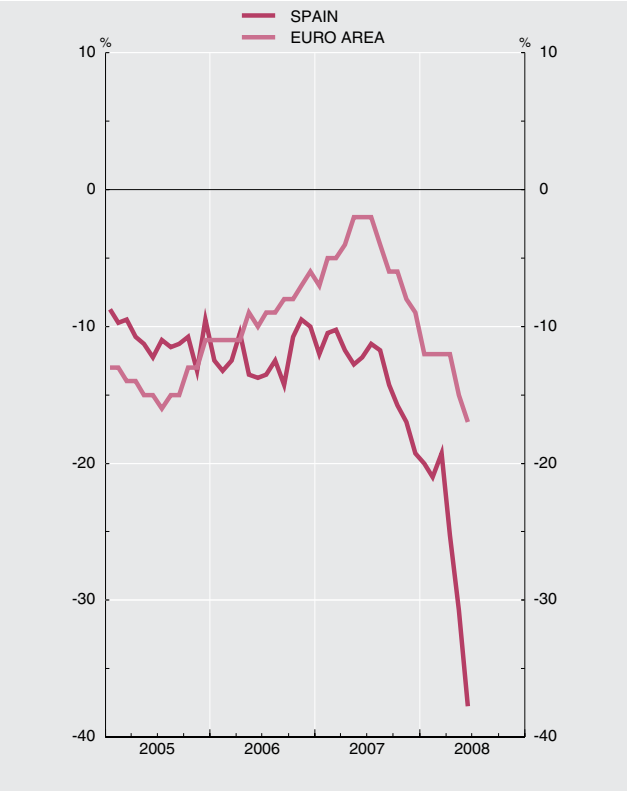
3.1 INDICATORS OF PRIVATE CONSUMPTION. SPAIN AND EURO AREA

■ Series depicted in chart.

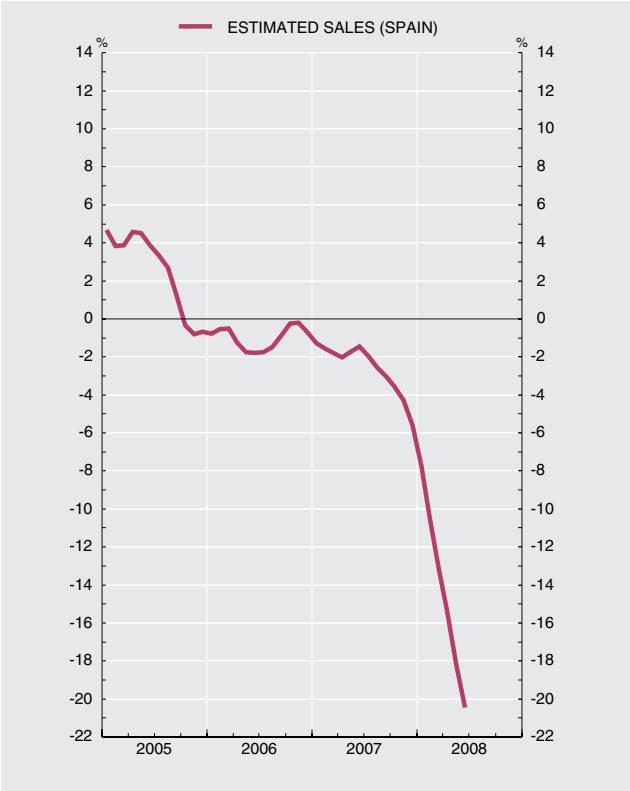
Annual percentage changes

		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
05		-11	-7	-1	-5	-14	-8	1.4	1.9	2.1	0.9	4.4	1.3	3.2	0.1	2.1	1.3
06		-12	-12	-3	-9	-9	1	-1.0	-0.8	-0.9	3.2	5.0	1.6	2.6	0.7	2.2	1.6
07	P	-13	-12	-4	-13	-5	1	-1.6	-2.2	-1.2	-0.4	4.8	2.6	1.9	1.3	3.5	0.9
07 *J-J*	P	-12	-10	-3	-11	-4	0	-0.8	-2.2	-1.6	-2.0	5.4	3.7	3.1	2.5	4.6	1.4
08 *J-J*	A	-26	-25	-15	-24	-13	-2	-15.8	-19.0	-17.6	...	...	...	...	...	...	...
07 *Jul*	P	-11	-9	-2	-15	-2	3	-0.3	0.2	-0.0	3.0	4.8	3.5	1.3	0.5	5.4	1.4
Aug	P	-12	-10	-2	-8	-4	4	-4.2	-3.7	-2.7	0.6	5.4	4.2	2.3	1.7	5.9	0.5
Sep	P	-14	-14	-5	-18	-6	-3	-8.2	-7.3	-7.7	2.2	2.4	0.3	-1.6	-1.8	1.7	1.6
Oct	P	-16	-16	-6	-14	-6	-2	1.8	1.3	3.4	0.8	6.6	3.1	2.9	2.9	3.2	0.6
Nov	P	-17	-16	-7	-16	-8	2	-7.2	-6.6	-5.9	-3.8	4.7	0.4	1.5	-0.1	0.8	-0.7
Dec	P	-19	-19	-10	-17	-9	1	1.0	1.9	6.3	4.0	2.1	-2.2	-1.7	-2.3	-2.1	-1.0
08 *Jan*	A	-20	-20	-8	-13	-12	-3	-2.7	-7.0	-12.7	-1.4	2.8	-1.7	-1.7	-0.3	-2.4	0.6
Feb	A	-21	-21	-12	-23	-12	1	1.2	-9.0	0.7	5.7	5.3	0.6	1.3	3.1	-1.1	-0.1
Mar	A	-19	-17	-10	-26	-12	1	-27.9	-29.4	-28.2	-4.8	-4.5	-8.8	-7.8	-5.2	-11.3	-1.9
Apr	A	-25	-23	-15	-34	-12	-5	1.5	-1.3	1.5	2.1	4.2	-0.4	-2.4	1.2	-1.4	-2.7
May	A	-31	-31	-17	-23	-15	-1	-24.0	-28.1	-24.3	-10.0	-0.5	-5.3	-2.4	-0.3	-8.5	-0.2
Jun	A	-38	-38	-25	-25	-17	-4	-30.5	-33.5	-30.8	...	...	...	...	...	...	...

CONSUMER CONFIDENCE INDEX



CAR SALES
Trend obtained with TRAMO-SEATS



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

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

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

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

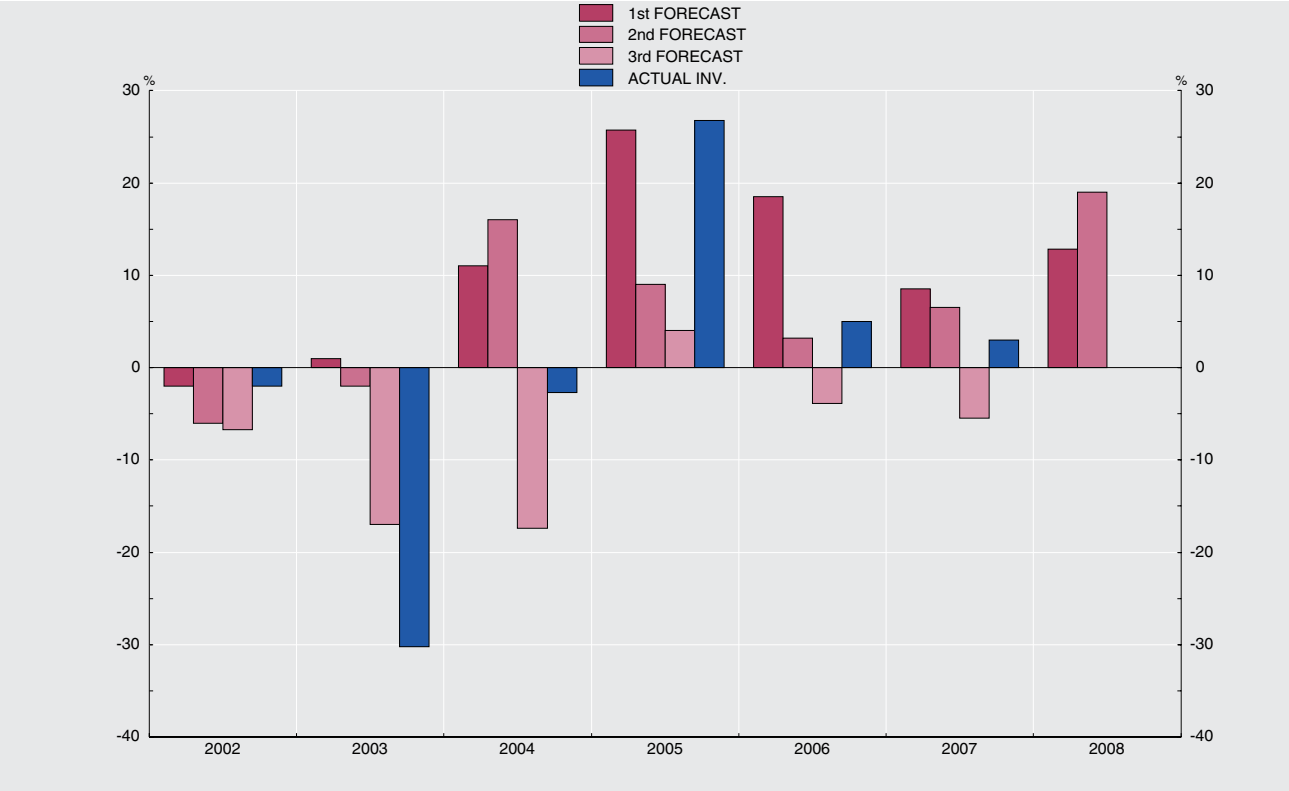
3.2. INVESTMENT IN INDUSTRY (EXCLUDING CONSTRUCTION): OPINION SURVEYS. SPAIN

■ Series depicted in chart.

Annual percentage changes at current prices

	ACTUAL INV. 1 ■	1st FORECAST 2 ■	2nd FORECAST 3 ■	3rd FORECAST 4 ■
02	-2	-2	-6	-7
03	-30	1	-2	-17
04	-3	11	16	-17
05	27	26	9	4
06	5	19	3	-4
07	3	9	7	-6
08	...	13	19	...

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.

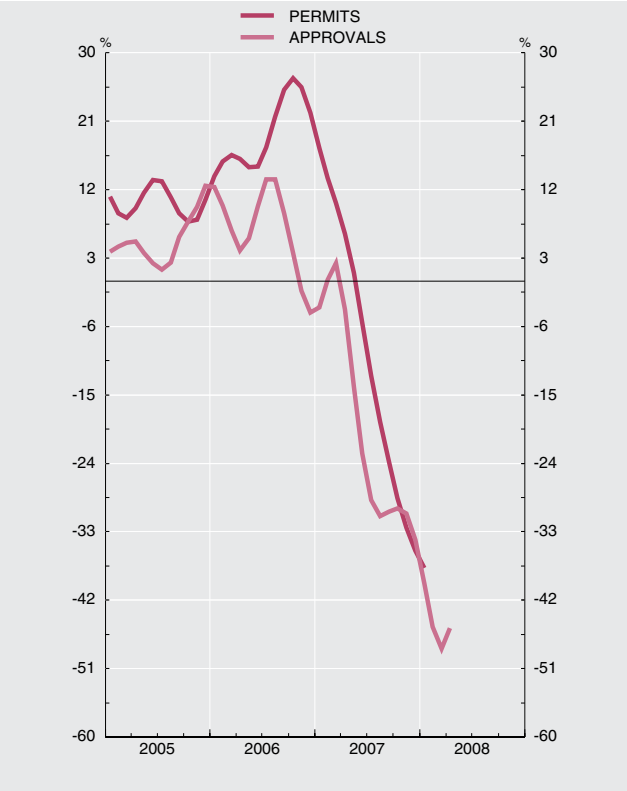
3.3. CONSTRUCTION. INDICATORS OF BUILDING STARTS AND CONSUMPTION OF CEMENT. SPAIN

■ Series depicted in chart.

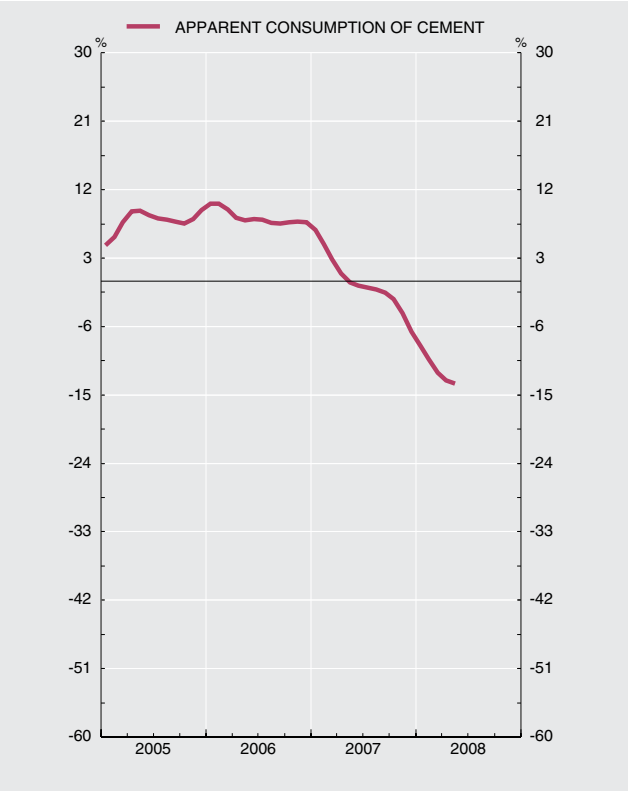
Annual percentage changes

		Permits: buildable floorage				Approvals: buildable floorage		Government tenders (budget)							
			of which				of which	Total		Building					Apparent consumption of cement
		Total	Residential	Housing	Non-residential	Total	Housing	For the month	Year to date	Total	Residential	of which Housing	Non-residential	Civil engineering	
		1 ■	2	3	4	5 ■	6	7 ■	8	9	10	11	12	13	14 ■
05		7.7	8.4	8.6	4.4	5.3	4.8	18.5	18.5	40.4	14.7	30.2	51.1	10.7	7.3
06		22.0	20.1	20.4	31.9	14.2	16.5	31.3	31.3	26.8	61.7	57.0	15.8	33.3	8.5
07		-10.9	-13.1	-13.3	-0.5	-22.3	-25.2	-14.9	-14.9	-17.7	-46.5	-33.3	-5.0	-13.7	0.2
07 *J-M*		13.2	14.2	14.4	9.0	1.4	0.7	2.8	2.8	4.0	-32.5	-8.1	22.3	2.3	3.2
08 *J-M*	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-12.4
07 *Feb*		-2.5	-2.3	-1.8	-3.6	-5.4	-5.3	56.3	23.2	95.3	2.6	22.5	139.0	32.1	3.9
Mar		24.2	18.7	19.3	47.9	23.8	27.8	2.2	14.9	9.8	-20.2	-24.2	27.7	-2.0	-0.6
Apr		6.4	14.2	14.3	-18.4	8.4	5.7	-12.1	7.5	-24.2	74.1	44.4	-37.3	-5.9	2.8
May		14.5	15.9	17.1	9.3	-19.0	-22.3	-9.4	2.8	-3.6	-46.5	-24.4	18.3	-11.5	-2.1
Jun		-2.4	-2.3	-3.7	-3.0	-25.2	-28.2	18.1	5.3	-1.1	-54.2	-35.6	12.8	28.9	-4.1
Jul		-18.0	-15.9	-15.1	-26.6	-33.9	-38.1	20.6	7.4	-30.2	-38.8	-52.4	-27.7	44.0	3.9
Aug		-16.5	-16.2	-16.7	-17.9	-36.5	-40.3	-55.8	-3.5	-56.5	-76.8	-79.2	-48.3	-55.6	-2.2
Sep		-26.8	-39.9	-40.6	49.5	-64.2	-66.4	-42.3	-7.0	-50.0	-68.4	-89.5	-40.5	-38.5	-5.2
Oct		-28.5	-29.3	-30.1	-24.9	-27.7	-31.4	-33.3	-10.4	-29.1	-50.3	-54.4	-18.2	-34.8	4.3
Nov		-34.9	-38.1	-38.7	-20.3	-24.6	-25.8	-38.8	-13.2	-39.6	-41.1	-55.7	-39.3	-38.5	-0.5
Dec		-38.2	-48.9	-48.8	15.7	-26.4	-36.2	-28.2	-14.9	-24.5	-60.3	-2.0	2.9	-29.3	-11.4
08 *Jan*	P	-41.4	-48.9	-47.9	2.8	-43.8	-47.4	-3.0	-3.0	46.8	35.4	71.2	49.5	-20.1	-7.7
Feb	P	...	...	...	...	-39.3	-46.9	15.1	4.3	-39.9	-32.9	-40.5	-41.3	65.4	-6.0
Mar	P	...	...	...	...	-67.3	-70.5	70.6	27.5	-33.3	-52.0	-64.0	-26.3	135.6	-27.2
Apr	P	...	...	...	...	-38.6	-40.6	65.0	35.9	111.5	63.5	4.1	129.3	45.7	1.3
May	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-18.7

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.

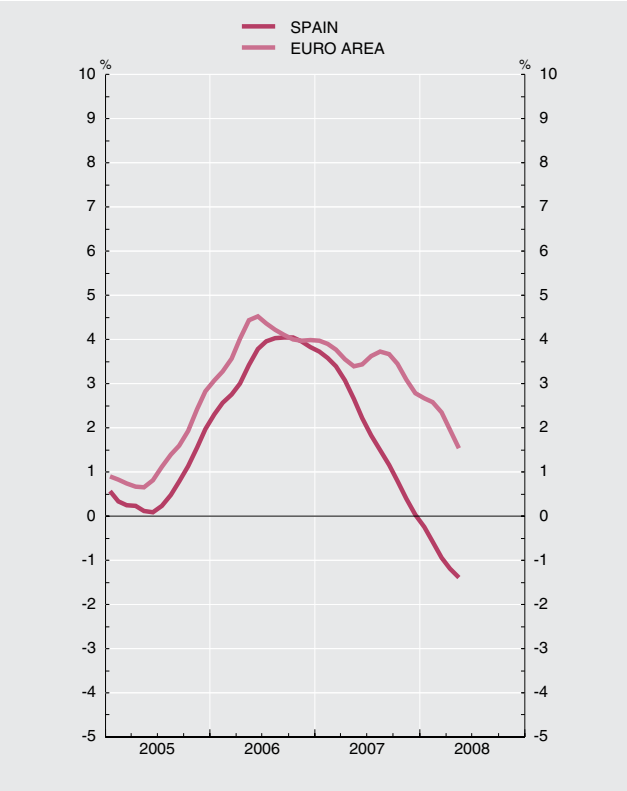
3.4. INDUSTRIAL PRODUCTION INDEX. SPAIN AND EURO AREA

■ Series depicted in chart.

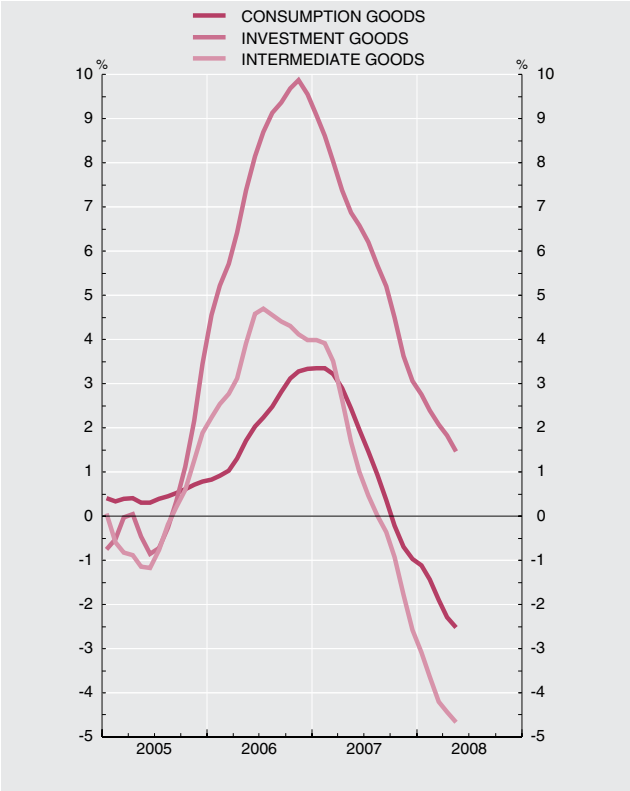
Annual percentage changes

		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 wich		By end-use of goods		
		Original series	12-month %change 12								Total	Manufacturing	Consumption	Investment	Intermediate goods
		1	2 ■	3 ■	4 ■	5 ■	6	7	8	9	10 ■	11	12	13	14
05	MP	102.4	0.1	0.2	-0.7	-0.6	2.9	-4.0	-0.3	4.1	1.3	1.3	0.5	2.8	0.8
06	MP	106.2	3.7	2.1	8.2	3.8	0.9	2.4	4.0	1.1	4.0	4.4	2.5	5.9	4.9
07	MP	108.6	2.3	1.8	6.3	1.3	0.7	-1.2	2.5	1.4	3.4	4.0	2.4	5.9	3.8
07 *J-M*	MP	111.2	4.2	4.6	7.8	3.8	-0.7	-3.5	4.8	0.1	3.5	4.9	3.2	6.2	5.3
08 *J-M*	MP	109.3	-1.7	-2.5	1.3	-4.6	3.8	-4.6	-2.3	3.9	2.2	1.9	-0.6	5.2	1.2
07 *Feb*	P	106.5	3.6	3.6	10.3	4.1	-6.6	-9.4	5.1	-5.9	4.3	6.2	3.0	7.6	7.6
Mar	P	119.0	2.1	2.9	4.1	3.0	-4.2	-8.4	2.9	-2.0	4.2	5.9	4.3	6.8	6.7
Apr	P	102.8	6.3	6.2	8.6	4.7	7.8	0.7	6.1	9.0	3.1	4.0	2.8	5.4	3.9
May	P	118.0	2.1	2.6	4.0	0.1	3.9	-0.4	2.0	3.1	2.8	3.0	2.1	4.2	2.8
Jun	P	115.2	-0.5	-1.7	3.8	-1.4	-2.6	-2.0	-0.3	-1.9	2.7	3.0	1.2	5.2	2.8
Jul	P	114.9	3.7	4.7	10.6	2.5	-3.7	15.1	4.7	-4.5	4.0	4.7	2.7	7.3	4.2
Aug	P	81.1	1.6	2.0	5.4	0.3	0.2	3.9	1.8	-0.6	4.7	5.0	5.1	7.5	3.6
Sep	P	107.7	-1.3	-3.1	3.2	-2.8	0.8	0.9	-1.5	-	3.3	3.2	1.7	5.4	2.9
Oct	P	117.6	4.7	2.6	10.8	3.5	4.1	2.3	4.5	6.6	4.4	4.0	1.9	7.2	3.2
Nov	P	113.9	-1.0	-3.2	-0.5	-2.9	8.8	-4.7	-2.4	12.3	3.0	2.3	0.2	5.1	1.6
Dec	P	97.2	-0.2	-2.5	4.3	-2.8	4.3	-12.1	-1.0	5.7	1.7	1.4	-0.5	3.2	0.6
08 *Jan*	P	108.8	-0.7	0.7	1.9	-3.8	1.5	-3.1	-0.9	1.5	3.3	3.3	1.5	6.9	2.1
Feb	P	110.8	4.0	4.5	7.2	0.1	9.9	4.3	3.5	8.8	3.1	2.8	0.6	6.5	1.8
Mar	P	102.6	-13.8	-16.8	-14.4	-17.0	3.0	-12.8	-15.6	2.3	1.4	-0.2	-1.8	3.1	0.4
Apr	P	114.9	11.8	13.0	20.6	8.6	5.9	10.9	12.5	6.6	4.0	4.4	0.3	7.9	2.5
May	P	109.4	-7.3	-10.2	-4.7	-8.7	-0.5	-18.4	-7.9	0.7	-0.5	-0.4	-3.5	2.3	-0.6

INDUSTRIAL PRODUCTION INDEX
Trend obtained with TRAMO-SEATS



INDUSTRIAL PRODUCTION INDEX
Trend obtained with TRAMO-SEATS



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

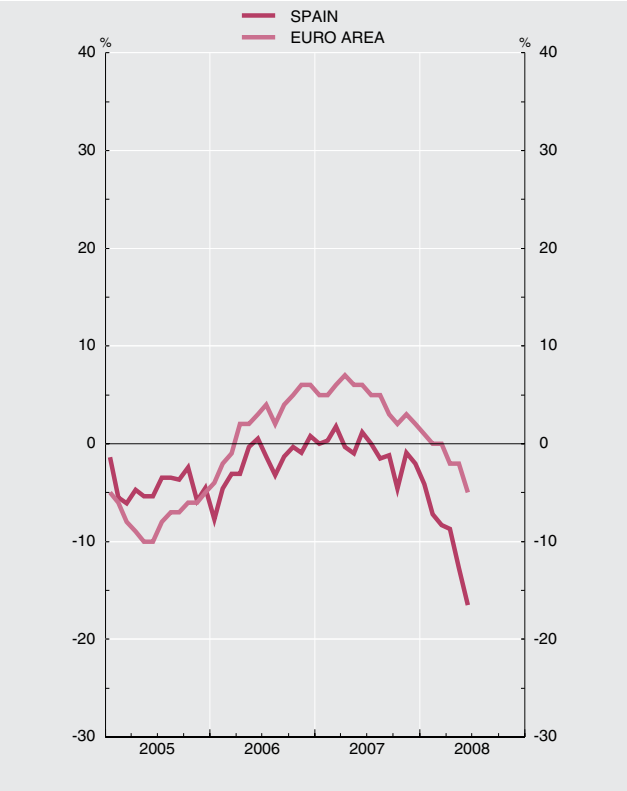
3.5. MONTHLY BUSINESS SURVEY: INDUSTRY AND CONSTRUCTION. SPAIN AND EURO AREA

■ Series depicted in chart.

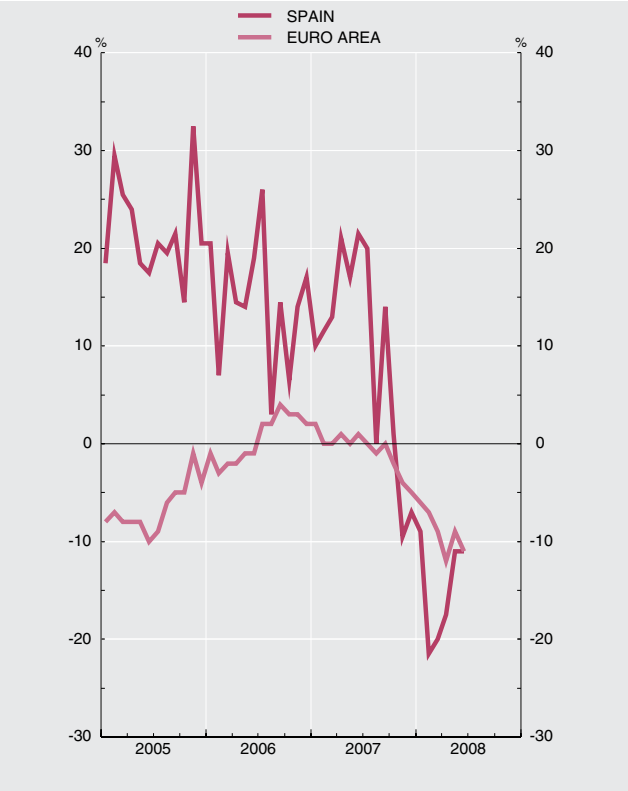
Percentage balances

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

INDUSTRIAL BUSINESS CLIMATE
Percentage balances



CONSTRUCTION BUSINESS CLIMATE
Percentage balances



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

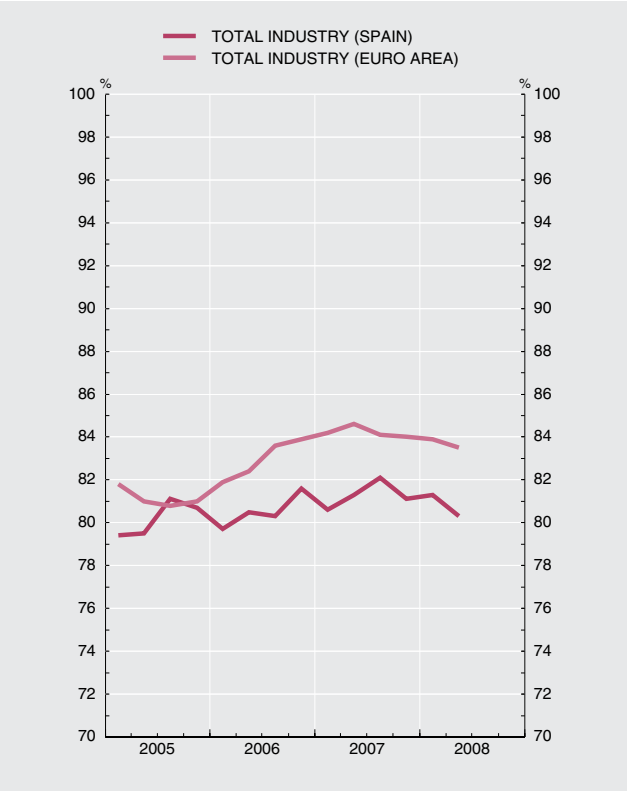
3.6. BUSINESS SURVEY: CAPACITY UTILISATION. SPAIN AND EURO AREA

■ Series depicted in chart.

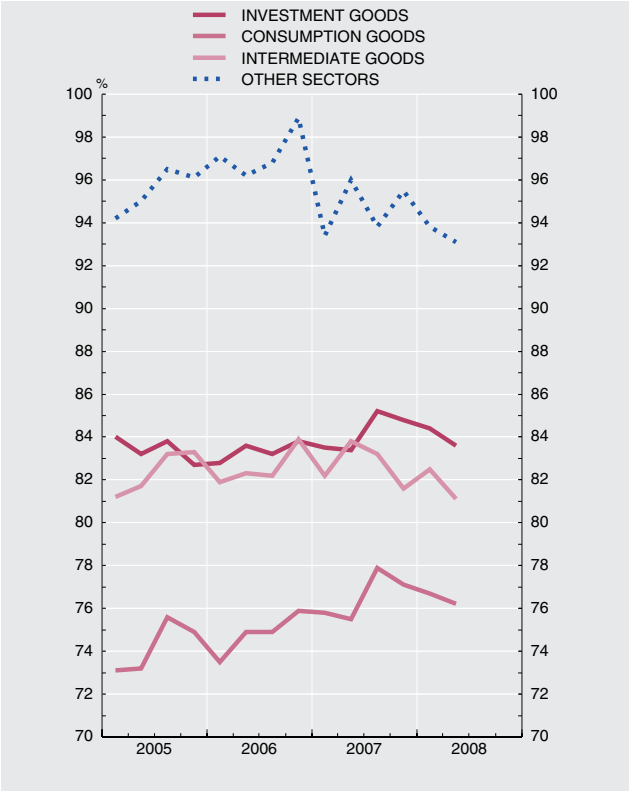
Percentages and percentage balances

	Total industry			Consumer goods			Investment goods			Intermediate goods			Other sectors			Memo-ramdum item: euro area capacity utilisa-tion
	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	
	Over last three months (%)	Forecast (%)	(Per-centage balan-ces)	Over last three months (%)	Forecast (%)	(Per-centage balan-ces)	Over last three months (%)	Forecast (%)	(Per-centage balan-ces)	Over last three months (%)	Forecast (%)	(Per-centage balan-ces)	Over last three months (%)	Forecast (%)	(Per-centage balan-ces)	(%)
	1 ■	2	3	4 ■	5	6	7 ■	8	9	10 ■	11	12	13 ■	14	15	16 ■
05	80.2	81.5	5	74.2	76.3	6	83.4	84.3	5	82.4	83.3	4	95.5	95.1	0	81.2
06	80.5	81.6	4	74.8	76.5	4	83.4	83.8	7	82.6	83.5	4	97.3	97.5	-	83.0
07	81.3	82.6	3	76.6	78.2	5	84.2	85.0	-0	82.7	84.2	2	94.7	95.5	-	84.2
07 *Q1-Q2*	81.0	82.3	3	75.7	77.7	5	83.5	83.9	1	83.0	84.3	2	94.7	95.6	-	84.4
08 *Q1-Q2*	80.8	81.8	5	76.5	78.2	9	84.0	84.7	4	81.8	82.5	3	93.5	94.2	-	83.7
05 *Q4*	80.7	81.3	5	74.9	76.7	6	82.7	82.9	8	83.3	83.4	3	96.1	91.9	0	81.0
06 *Q1*	79.7	80.5	9	73.5	75.5	6	82.8	82.6	14	81.9	82.5	9	97.1	97.4	-	81.9
Q2	80.5	82.2	5	74.9	77.9	5	83.6	84.2	7	82.3	83.8	5	96.2	96.5	-	82.4
Q3	80.3	81.1	2	74.9	75.9	1	83.2	83.4	4	82.2	83.0	1	96.8	97.8	-	83.6
Q4	81.6	82.4	2	75.9	76.5	3	83.8	84.8	5	83.9	84.8	-0	98.9	98.4	-	83.9
07 *Q1*	80.6	81.7	2	75.8	77.2	4	83.5	83.8	1	82.2	83.4	1	93.4	95.9	-	84.2
Q2	81.3	82.8	3	75.5	78.1	6	83.4	84.0	2	83.8	85.2	2	96.0	95.3	-	84.6
Q3	82.1	83.3	1	77.9	79.4	5	85.2	86.5	-7	83.2	84.2	1	93.8	94.6	-	84.1
Q4	81.1	82.5	5	77.1	77.9	6	84.8	85.6	4	81.6	83.9	6	95.5	96.2	-	84.0
08 *Q1*	81.3	82.1	5	76.7	77.8	9	84.4	85.8	5	82.5	82.9	3	93.8	94.9	-	83.9
Q2	80.3	81.5	5	76.2	78.5	9	83.6	83.5	3	81.1	82.1	4	93.1	93.5	-	83.5

CAPACITY UTILISATION. TOTAL INDUSTRY
Percentages



CAPACITY UTILISATION. BY TYPE OF GOOD
Percentages



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

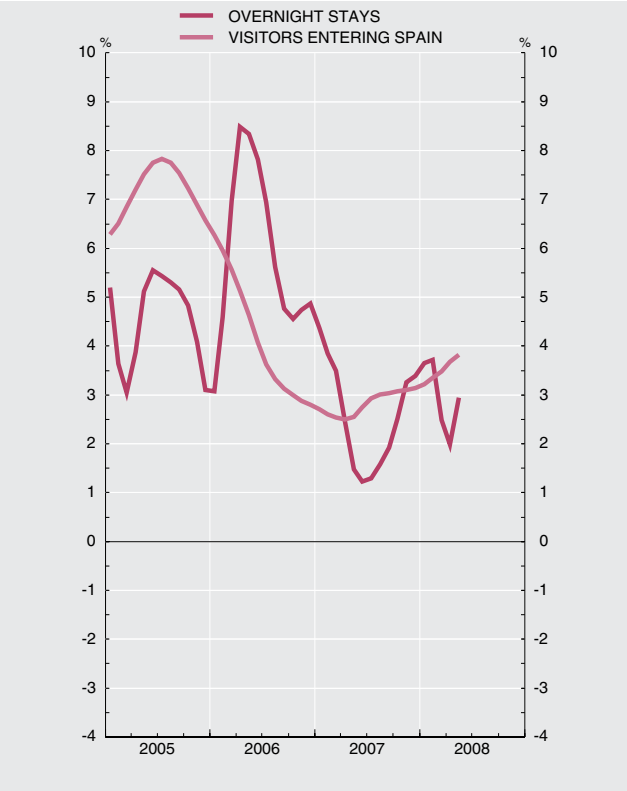
3.7. TOURISM AND TRANSPORT STATISTICS. SPAIN

■ Series depicted in chart.

Annual percentage changes

		Hotel stays (a)		Overnight stays		Visitors entering Spain			Air transport				Maritime transport		Rail transport	
									Passengers							
		Total	Foreigners	Total	Foreigners	Total	Tourists	Day-trippers	Total	Domestic flights	International flights	Freight	Passengers	Freight	Passengers	Freight
		1	2	3 ■	4	5 ■	6	7	8 ■	9	10	11	12	13	14 ■	15
05		5.7	5.1	4.7	3.1	7.7	6.6	9.2	9.2	13.6	6.2	-3.0	-1.1	9.0	4.3	-2.5
06		5.8	6.1	6.2	6.5	3.6	4.1	3.0	6.7	6.7	6.8	-4.5	10.2	4.9	2.0	-3.1
07	P	3.3	4.2	2.0	2.3	3.1	1.5	5.6	9.1	9.0	9.2	4.2	5.2	4.7	-1.9	-1.5
07 *J-M*		2.8	3.3	2.2	2.3	0.7	0.7	0.7	8.1	8.4	7.8	5.2	8.8	4.2	0.7	0.2
08 *J-M*	P	2.2	4.7	2.7	4.0	3.8	3.5	4.2	...	...	...	...	...	...	-1.7	...
07 *Feb*		3.1	5.9	2.5	4.2	0.5	3.6	-3.1	9.1	8.9	9.4	6.5	5.6	6.9	-2.0	-3.7
Mar		6.7	7.8	6.5	7.3	6.1	6.2	6.1	12.0	10.7	13.2	1.3	17.3	1.7	5.6	4.0
Apr		1.4	1.4	2.4	1.5	-1.3	-4.3	3.4	6.1	7.6	5.0	4.2	-0.8	4.3	0.8	8.5
May		0.6	-0.6	-1.0	-1.5	-3.4	-1.8	-6.1	6.8	8.4	5.6	9.1	18.9	7.7	-0.7	-4.3
Jun	P	5.4	3.5	2.2	0.5	7.9	4.8	14.3	8.8	9.6	8.3	7.6	13.9	3.0	-2.0	-5.1
Jul	P	1.7	1.7	1.1	1.0	5.1	1.8	11.4	11.6	14.3	10.0	3.4	1.4	3.6	-1.9	2.5
Aug	P	3.6	5.3	1.3	2.7	5.7	1.6	11.5	10.5	10.0	10.9	6.7	0.0	8.3	-7.9	-6.6
Sep	P	2.7	4.6	1.1	1.9	4.3	0.6	11.3	9.7	8.9	10.3	5.5	0.7	7.5	-4.7	-0.9
Oct	P	2.5	3.6	0.7	1.9	1.5	0.0	3.9	8.4	8.5	8.4	4.9	8.3	4.5	-3.3	2.6
Nov	P	8.3	9.2	7.7	6.7	5.1	5.0	5.1	10.4	8.0	12.6	-2.0	13.8	9.1	-3.3	-6.2
Dec	P	2.2	10.2	1.6	7.2	-0.4	0.7	-1.6	7.6	4.9	10.0	-0.5	-1.4	-0.2	-4.5	-5.9
08 *Jan*	P	3.4	4.7	2.3	3.6	0.2	0.9	-0.7	6.9	6.8	7.1	-1.9	4.8	13.2	-2.2	-4.1
Feb	P	7.8	8.4	9.3	9.4	5.5	6.5	4.3	10.2	9.9	10.5	4.2	2.9	1.0	1.5	3.6
Mar	P	7.4	5.5	10.0	4.1	6.5	7.4	5.2	6.8	2.4	10.6	-2.4	27.2	0.3	-6.6	-18.4
Apr	P	-10.4	-1.9	-11.5	-2.2	-2.9	-1.0	-5.7	-2.4	-2.0	-2.7	9.9	-19.2	9.6	4.1	7.7
May	P	6.0	7.6	6.6	6.3	9.2	4.2	18.6	...	...	...	...	...	...	-4.5	...

TOURISM
Trend obtained with TRAMO-SEATS



TRANSPORT
Trend obtained with TRAMO-SEATS

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

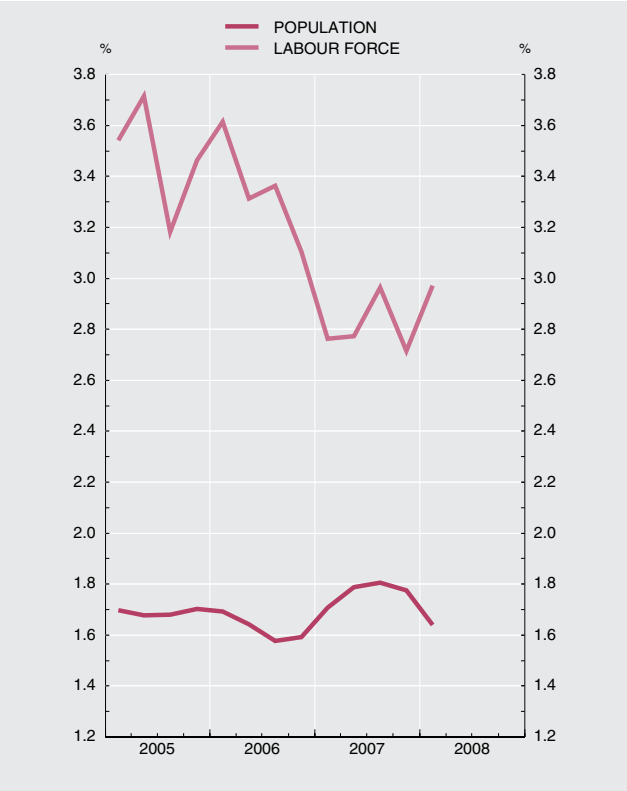
4.1. LABOUR FORCE. SPAIN

■ Series depicted in chart.

Thousands and annual percentage changes

		Population over 16 years of age				Labour force				
							Annual change (b)			
		Thousands	Annual change	4-quarter % change	Participation rate (%) (a)	Thousands (a)	Total	Due to change in population over 16 years of age	Due to change in participation rate	4-quarter % change
		1	2	3 ■	4	5	6 ■	7 ■	8 ■	9 ■
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
07	M	37 663	655	1.8	58.92	22 190	605	386	219	2.8
07	*Q1-Q1* M	37 429	629	1.7	58.58	21 925	589	368	221	2.8
08	*Q1-Q1* M	38 043	614	1.6	59.35	22 577	651	364	287	3.0
05	*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
08	*Q1*	38 043	614	1.6	59.35	22 577	651	364	287	3.0

LABOUR FORCE SURVEY
Annual percentage change



LABOUR FORCE
Annual changes

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

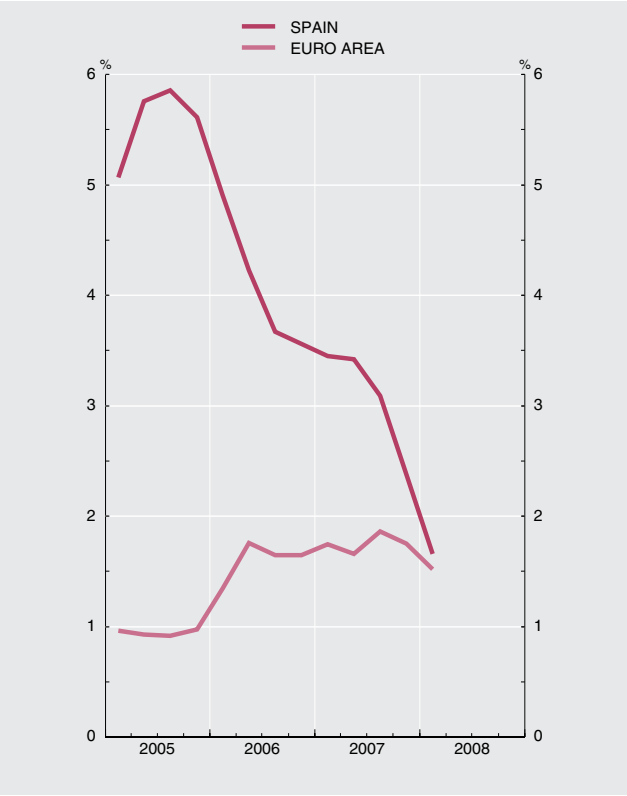
4.2. EMPLOYMENT AND WAGE-EARNERS. SPAIN AND EURO AREA

■ Series depicted in chart.

Thousands and annual percentage changes

		Employment									Unemployment				Memorandum item: euro area	
		Total			Wage-earners			Other								
		Thousands	Annual change	4-quarter % change	Thousands	Annual change	4-quarter % change	Thousands	Annual change	4-quarter % change	Thousands (a)	Annual change	4-quarter % change	Unemployment rate (a)	Employment 4-quarter % change	Unemployment rate
		1	2	3 ■	4	5	6 ■	7	8	9 ■	10	11	12 ■	13	14	15
05	M	18 973	1 002	5.6	15 502	781	5.3	3 471	221	6.8	1 913	-301	-13.6	9.16	0.9	8.85
06	M	19 748	774	4.1	16 208	706	4.6	3 540	68	2.0	1 837	-75	-3.9	8.51	1.6	8.26
07	M	20 356	608	3.1	16 760	552	3.4	3 596	56	1.6	1 834	-3	-0.2	8.26	1.8	7.42
07	*Q1-Q1* M	20 069	669	3.4	16 515	626	3.9	3 555	44	1.2	1 856	-80	-4.1	8.47	1.7	7.63
08	*Q1-Q1* M	20 402	333	1.7	16 817	303	1.8	3 585	30	0.8	2 174	318	17.1	9.63	1.5	7.14
05	*Q3*	19 191	1 062	5.9	15 750	874	5.9	3 442	188	5.8	1 765	-416	-19.1	8.42	0.9	8.82
	Q4	19 314	1 026	5.6	15 842	819	5.5	3 473	207	6.3	1 841	-318	-14.7	8.70	1.0	8.74
06	*Q1*	19 400	907	4.9	15 889	912	6.1	3 511	-5	-0.1	1 936	-163	-7.8	9.07	1.3	8.65
	Q2	19 693	798	4.2	16 112	671	4.3	3 582	127	3.7	1 837	-108	-5.5	8.53	1.8	8.39
	Q3	19 896	705	3.7	16 366	616	3.9	3 530	88	2.6	1 765	-	-	8.15	1.6	8.10
	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	1.7	7.63
	Q2	20 367	674	3.4	16 779	668	4.1	3 588	6	0.2	1 760	-77	-4.2	7.95	1.7	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	1.9	7.35
	Q4	20 477	475	2.4	16 877	410	2.5	3 600	65	1.8	1 928	117	6.5	8.60	1.8	7.24
08	*Q1*	20 402	333	1.7	16 817	303	1.8	3 585	30	0.8	2 174	318	17.1	9.63	1.5	7.14

EMPLOYMENT
Annual percentage changes



LABOUR FORCE: COMPONENTS
Annual percentage changes

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

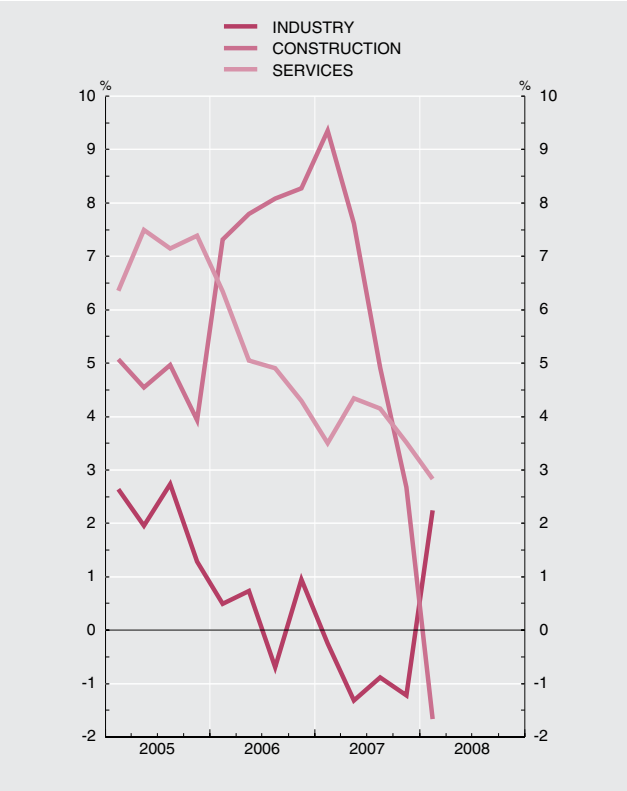
4.3. EMPLOYMENT BY BRANCH OF ACTIVITY. SPAIN (a)

■ Series depicted in chart.

Annual percentage changes

		Total			Agriculture			Industry			Construction			Services			Memorandum item:
		Employment	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	Employment in branches other than agriculture
		1	2	3 ■	4	5	6	7 ■	8	9 ■	10 ■	11	12 ■	13 ■	14	15 ■	16
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
07	M	3.1	3.4	31.7	-2.0	2.3	58.8	-0.9	-0.7	22.7	6.1	6.8	54.7	3.9	3.9	28.3	3.3
07	*Q1-Q1* M	3.4	3.9	-4.1	0.5	7.3	3.2	-0.3	-0.3	-5.3	9.4	10.0	-1.9	3.5	3.8	-6.7	3.6
08	*Q1-Q1* M	1.7	1.8	-5.6	-6.8	-7.9	-7.1	2.2	3.0	-2.3	-1.7	-2.1	-6.0	2.8	2.8	-4.8	2.1
05	*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
08	*Q1*	1.7	1.8	30.1	-6.8	-7.9	58.8	2.2	3.0	21.9	-1.7	-2.1	51.8	2.8	2.8	27.0	2.1

EMPLOYMENT
Annual percentage changes



TEMPORARY EMPLOYMENT
Percentages

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

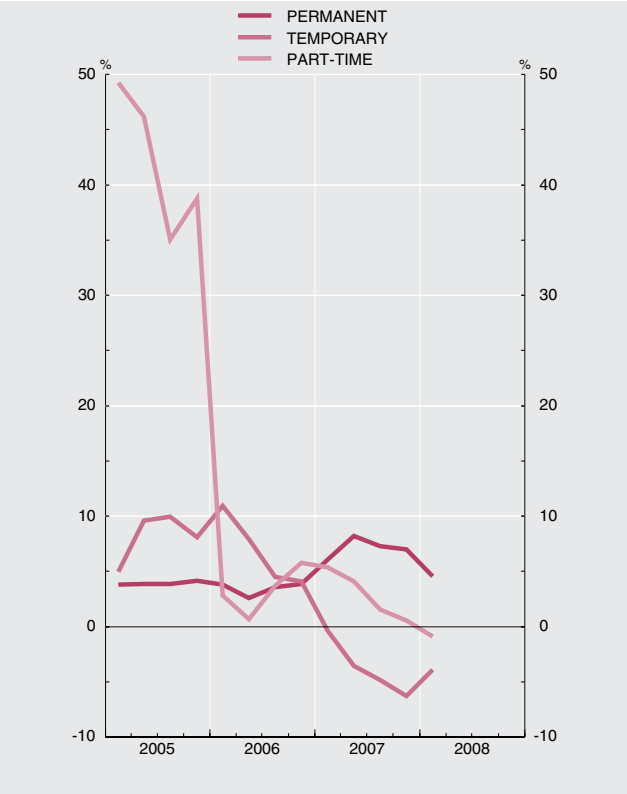
4.4. WAGE-EARNERS BY TYPE OF CONTRACT AND UNEMPLOYMENT BY DURATION. SPAIN. (a)

■ Series depicted in chart.

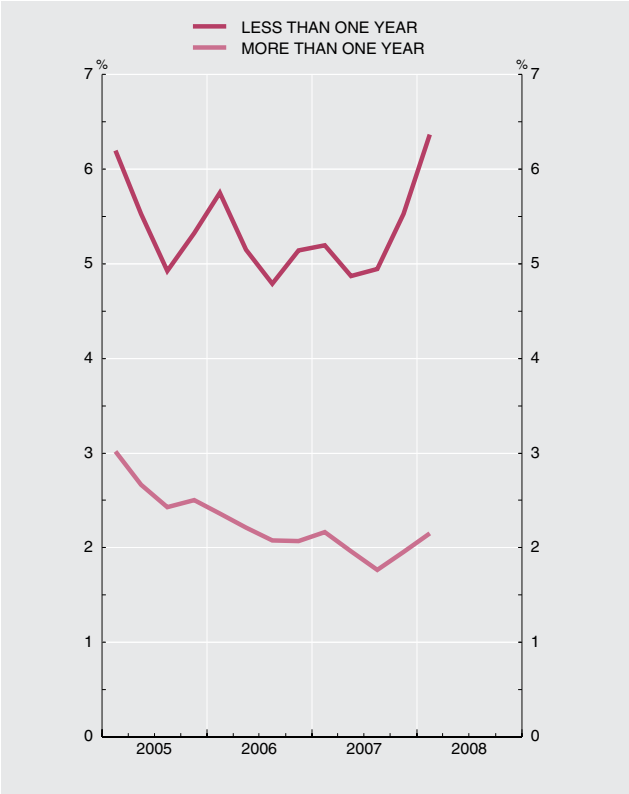
Thousands, annual percentage changes and %

		Wage-earners										Unemployment			
		By type of contract					By duration of working day					By duration			
		Permanent		Temporary			Full-time		Part-time			Less than one year		More than one year	
		Annual change Thousands	4-quarter % change	Annual change Thousands	4-quarter % change	Proportion of temporary employment	Annual change Thousands	4-quarter % change	Annual change Thousands	4-quarter % change	As % for wage earners	Unemployment rate (a)	4-quarter % change	Unemployment rate (a)	4-quarter % change
		1	2 ■	3	4 ■	5	6	7	8	9 ■	10	11 ■	12	13 ■	14
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
07	M	762	7.1	-210	-3.8	31.67	495	3.5	57	2.9	12.07	5.14	1.5	1.96	-7.6
07	*Q1-Q1* M	645	6.1	-19	-0.4	31.95	519	3.7	107	5.4	12.66	5.19	-7.2	2.17	-5.8
08	*Q1-Q1* M	509	4.5	-207	-3.9	30.15	321	2.2	-18	-0.9	12.33	6.36	26.2	2.15	2.1
05	*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
08	*Q1*	509	4.5	-207	-3.9	30.15	321	2.2	-18	-0.9	12.33	6.36	26.2	2.15	2.1

WAGE-EARNERS
Annual percentage changes



UNEMPLOYMENT
Unemployment rate



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

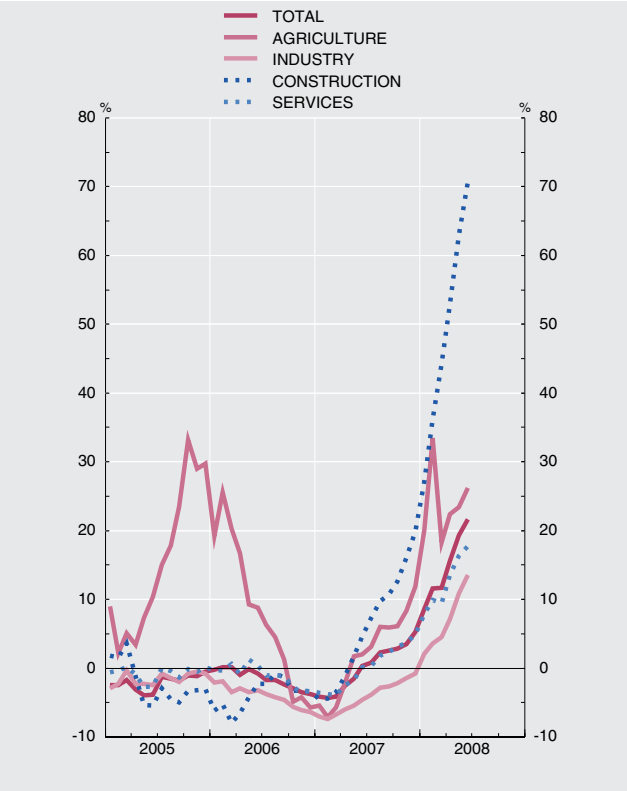
4.5. REGISTERED UNEMPLOYMENT BY BRANCH OF ACTIVITY. CONTRACTS AND PLACEMENTS. SPAIN

■ Series depicted in chart.

Thousands, annual percentage changes and %

		Registered unemployment										Contracts					Placements	
		Total			First time job-seekers	Previously employed						Total		Percentage of total			Total	
						12-month % change												
		Thousands	Annual change Thousands	12 month % change	12 month % change	Total	Agriculture	Branches other than agriculture				Thousands	12 month % change	Permanent	Part time	Temporary	Thousands	12 month % change
								Total	Industry	Construction	Services							
		1	2	3 ■	4	5	6 ■	7	8 ■	9 ■	10 ■	11	12	13	14	15	16	17 ■
05	M	2 070	-44	-2.1	-12.5	-0.6	15.2	-1.1	-1.6	-2.2	-0.8	1 430	5.0	9.03	23.34	90.97	1 391	4.1
06	M	2 039	-30	-1.5	-0.6	-1.6	7.4	-1.9	-4.0	-4.0	-1.0	1 544	7.9	11.77	23.39	88.23	1 475	6.0
07	M	2 039	-0	-0.0	-0.7	0.1	1.9	-0.0	-4.3	5.7	-0.0	1 552	0.5	11.88	23.90	88.12	1 505	2.0
07 *J-J*	M	2 030	-58	-2.8	-0.7	-3.1	-2.9	-3.1	-6.2	-1.4	-2.6	1 537	2.5	12.58	22.55	87.42	1 483	2.5
08 *J-J*	M	2 327	297	14.6	0.8	16.4	24.0	16.1	6.9	48.7	12.4	1 426	-7.2	12.38	23.62	87.62	1 397	-5.8
07 *May*		1 973	-31	-1.6	0.3	-1.8	1.8	-1.9	-5.4	1.8	-1.7	1 625	-0.7	11.71	22.90	88.29	1 587	-0.5
Jun		1 966	6	0.3	3.0	-0.0	2.0	-0.1	-4.6	4.6	0.1	1 582	-4.4	11.27	23.39	88.73	1 529	-3.9
Jul		1 970	15	0.8	2.1	0.6	3.2	0.5	-3.9	7.3	0.3	1 755	5.0	10.30	24.89	89.70	1 694	6.2
Aug		2 028	45	2.2	2.2	2.3	6.1	2.1	-2.8	9.8	1.8	1 287	-2.7	9.91	22.51	90.09	1 249	-0.3
Sep		2 017	51	2.6	1.6	2.7	5.9	2.6	-2.7	10.8	2.4	1 596	-4.7	12.05	25.50	87.95	1 584	-2.7
Oct		2 049	56	2.8	-3.2	3.6	6.1	3.5	-2.2	12.6	3.1	1 911	5.1	12.19	27.67	87.81	1 870	7.4
Nov		2 094	71	3.5	-4.4	4.5	8.3	4.4	-1.4	16.1	3.7	1 592	-4.1	11.94	25.61	88.06	1 540	-1.2
Dec		2 130	107	5.3	-2.3	6.2	11.9	6.0	-0.8	19.9	4.8	1 261	-9.0	10.66	25.29	89.34	1 223	-1.7
08 *Jan*		2 262	179	8.6	-1.0	9.8	20.0	9.4	2.1	27.1	7.9	1 581	-4.3	12.44	21.61	87.56	1 535	-0.3
Feb		2 315	240	11.6	0.4	12.9	33.5	12.2	3.6	36.1	9.9	1 427	1.3	13.04	22.79	86.96	1 434	5.0
Mar		2 301	242	11.7	0.4	13.2	18.3	13.0	4.5	44.2	9.4	1 286	-17.8	13.08	23.63	86.92	1 258	-17.2
Apr		2 339	315	15.6	-0.5	17.7	22.4	17.5	7.1	52.9	13.6	1 460	5.3	12.97	24.29	87.03	1 416	4.1
May		2 354	380	19.3	2.3	21.5	23.4	21.4	10.9	63.0	16.3	1 385	-14.8	11.88	24.30	88.12	1 358	-14.4
Jun		2 390	425	21.6	3.2	24.0	26.2	23.9	13.5	70.7	17.7	1 419	-10.3	10.85	25.09	89.15	1 381	-9.7

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.

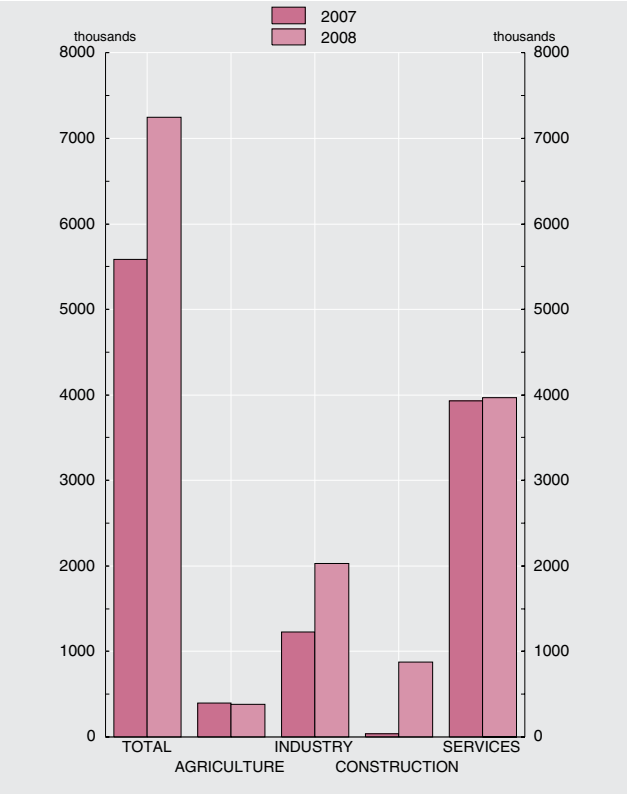
4.6. COLLECTIVE BARGAINING AGREEMENTS

■ Series depicted in chart.

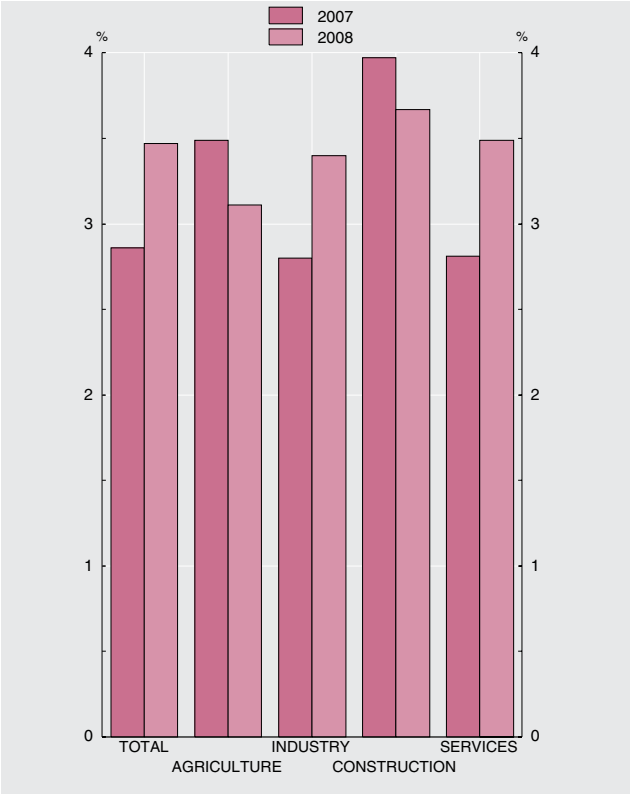
Thousands and %

	As per month economic effects come into force(a)		As per month recorded														
			Employees affected (a)								Average wage settlement (%)						
	Employees affected	Average wage settlement	Automatic adjustment	Newly-signed agreements	Total	Annual change	Agriculture	Industry	Construction	Services	Automatic adjustment	Newly signed agreements	Total	Agriculture	Industry	Construction	Services
	1	2	3	4	5 ■	6	7 ■	8 ■	9 ■	10 ■	11	12	13 ■	14 ■	15 ■	16 ■	17 ■
05	10 756	4.04	5 581	2 800	8 381	580	568	2 418	1 095	4 300	2.87	3.20	2.98	3.38	3.00	2.93	2.93
06	11 119	3.29	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	10 634	3.08	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
07 *Jan*	10 121	3.07	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	10 132	3.07	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	10 172	3.07	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	10 470	3.06	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	10 476	3.06	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	10 494	3.06	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	10 501	3.07	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	10 502	3.07	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	10 607	3.07	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	10 617	3.07	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	10 632	3.08	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	10 634	3.08	5 778	2 634	8 412	-509	510	2 172	475	5 254	2.87	2.96	2.90	3.35	2.88	3.55	2.81
08 *Jan*	7 021	3.43	4 503	5	4 508	1 263	270	1 331	161	2 746	3.27	4.59	3.27	2.91	3.32	3.61	3.27
Feb	7 028	3.43	5 281	12	5 293	1 271	293	1 462	487	3 052	3.36	3.77	3.36	2.92	3.32	3.83	3.35
Mar	7 066	3.43	5 601	24	5 624	889	298	1 612	530	3 184	3.38	4.20	3.39	2.94	3.41	3.77	3.35
Apr	7 238	3.46	6 352	241	6 593	1 851	299	1 954	690	3 650	3.39	4.47	3.43	2.94	3.39	3.72	3.43
May	7 238	3.46	6 790	459	6 975	2 208	339	1 975	830	3 831	3.43	4.07	3.47	3.10	3.40	3.67	3.49
Jun	7 247	3.46	6 790	459	7 250	1 662	381	2 028	875	3 966	3.43	4.07	3.47	3.11	3.40	3.67	3.49

EMPLOYEES AFFECTED
January-June



AVERAGE WAGE SETTLEMENT
January-June



Source: Ministerio de Trabajo e Inmigración (MTIN), Estadística de Convenios Colectivos de Trabajo. Avance mensual.
a. Cumulative data.

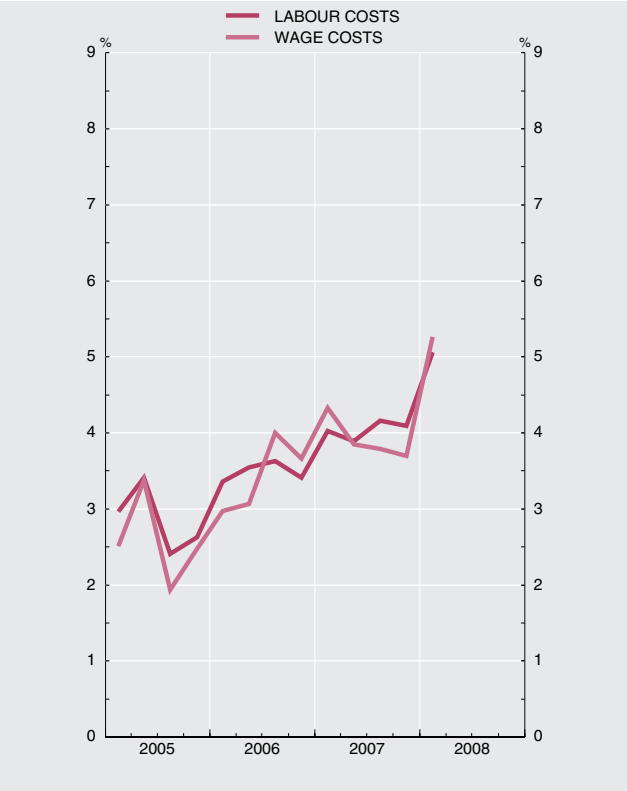
4.7. QUARTERLY LABOUR COSTS SURVEY

■ Series depicted in chart.

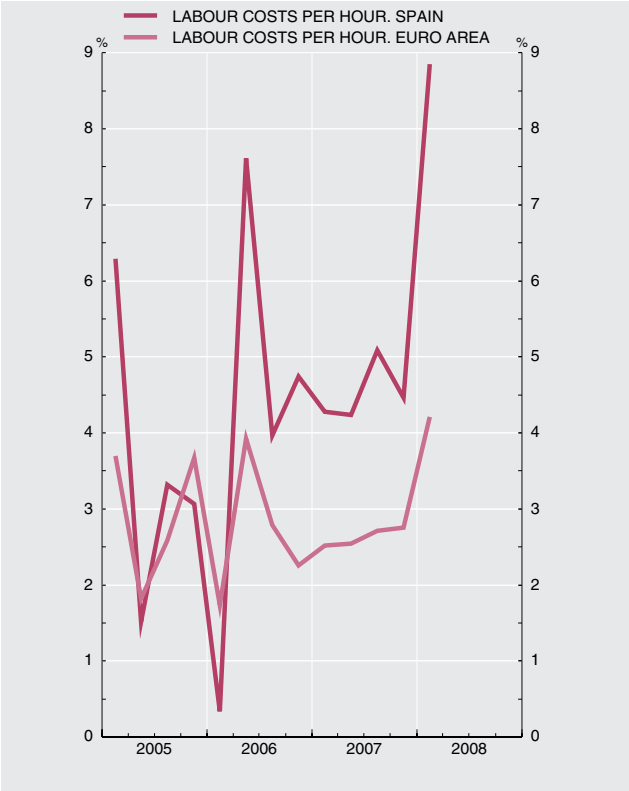
Annual percentage change

		Labour costs					Wage costs					Other costs per worker and month	memoram-dum 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 ■
05	M	2.9	3.1	2.8	3.1	3.5	2.6	2.7	2.3	2.9	3.2	3.6	2.9
06	M	3.5	3.7	4.0	3.6	4.2	3.4	3.6	3.7	3.7	4.2	3.6	2.7
07	M	4.0	3.3	5.0	4.3	4.5	3.9	3.0	4.8	4.2	4.4	4.4	2.6
07	*Q1-Q1* M	4.0	4.2	5.0	4.0	4.3	4.3	3.7	5.5	4.5	4.6	3.2	2.5
08	*Q1-Q1* M	5.1	4.1	5.8	5.2	8.8	5.3	5.8	4.8	5.1	9.0	4.5	4.2
05	*Q3*	2.4	2.1	2.2	2.9	3.3	1.9	1.5	1.3	2.6	2.8	3.7	2.6
	Q4	2.6	3.2	2.6	2.8	3.1	2.5	3.0	2.0	2.8	2.9	3.1	3.7
06	*Q1*	3.4	4.5	4.3	3.2	0.3	3.0	3.8	3.8	3.0	-	4.4	1.7
	Q2	3.5	3.5	3.9	3.8	7.6	3.1	3.1	3.1	3.4	7.1	4.9	3.9
	Q3	3.6	3.6	4.1	3.8	4.0	4.0	4.1	4.2	4.3	4.4	2.6	2.8
	Q4	3.4	3.4	3.7	3.7	4.7	3.7	3.6	3.9	4.0	5.0	2.6	2.3
07	*Q1*	4.0	4.2	5.0	4.0	4.3	4.3	3.7	5.5	4.5	4.6	3.2	2.5
	Q2	3.9	2.7	4.4	4.4	4.2	3.8	3.1	3.9	4.3	4.2	4.0	2.5
	Q3	4.2	3.0	5.4	4.5	5.1	3.8	2.3	4.8	4.2	4.6	5.2	2.7
	Q4	4.1	3.4	5.3	4.2	4.5	3.7	2.8	5.1	3.8	4.1	5.3	2.8
08	*Q1*	5.1	4.1	5.8	5.2	8.8	5.3	5.8	4.8	5.1	9.0	4.5	4.2

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)

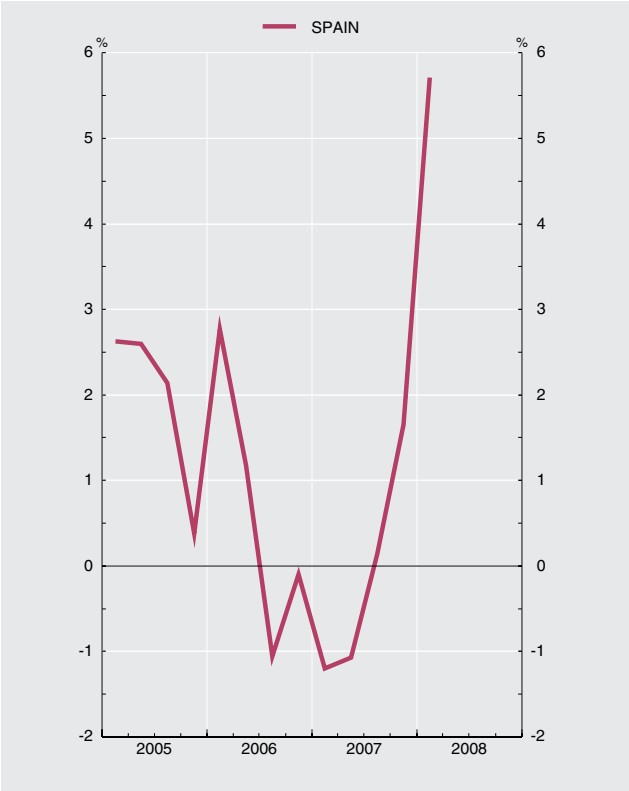
■ Series depicted in chart.

Annual percentage changes

		Whole-economy unit labour costs		Compensation per employee		Productivity						Memorandum item: unit labour costs in manufacturing	
								Output		Employment			
		Spain	Euro area	Spain (b)	Euro area	Spain	Euro area	Spain	Euro area	Spain (b)	Euro area	Spain (c)	Euro area
		1 ■	2 ■	3	4	5	6	7	8	9	10	11 ■	12
05	P	2.5	1.0	2.8	1.8	0.4	0.8	3.6	1.8	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	1.6	0.7	...
07	P	2.7	1.5	3.6	2.4	0.8	0.9	3.8	2.7	3.0	1.8	-0.1	...
05 *Q2*	P	2.9	1.0	3.6	1.7	0.6	0.7	3.7	1.6	3.1	0.9	2.6	...
Q3	P	2.5	0.7	2.3	1.8	-0.2	1.0	3.4	1.9	3.7	0.9	2.1	...
Q4	P	2.6	1.1	2.8	2.2	0.2	1.1	3.7	2.1	3.5	1.0	0.4	...
06 *Q1*	P	2.8	0.8	3.1	2.1	0.3	1.3	3.7	2.6	3.4	1.3	2.8	...
Q2	P	2.4	1.2	2.7	2.4	0.3	1.2	3.8	3.0	3.6	1.7	1.2	...
Q3	P	1.7	1.2	2.9	2.4	1.2	1.2	3.9	2.9	2.7	1.7	-1.1	...
Q4	P	2.3	0.4	3.2	2.0	0.9	1.6	4.0	3.3	3.1	1.7	-0.1	...
07 *Q1*	P	2.7	1.0	3.4	2.4	0.8	1.5	4.1	3.2	3.3	1.8	-1.2	...
Q2	P	2.6	1.3	3.4	2.2	0.8	0.9	4.0	2.6	3.1	1.7	-1.1	...
Q3	P	2.7	1.4	3.5	2.2	0.8	0.7	3.8	2.7	3.0	1.9	0.1	...
Q4	P	2.9	2.4	3.8	2.7	0.9	0.4	3.5	2.2	2.5	1.8	1.7	...
08 *Q1*	P	2.9	2.4	3.9	2.9	1.0	0.5	2.7	2.1	1.7	1.5	5.7	...

UNIT LABOUR COSTS: TOTAL
Annual percentage changes

UNIT LABOUR COSTS: MANUFACTURING
Annual percentage changes



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

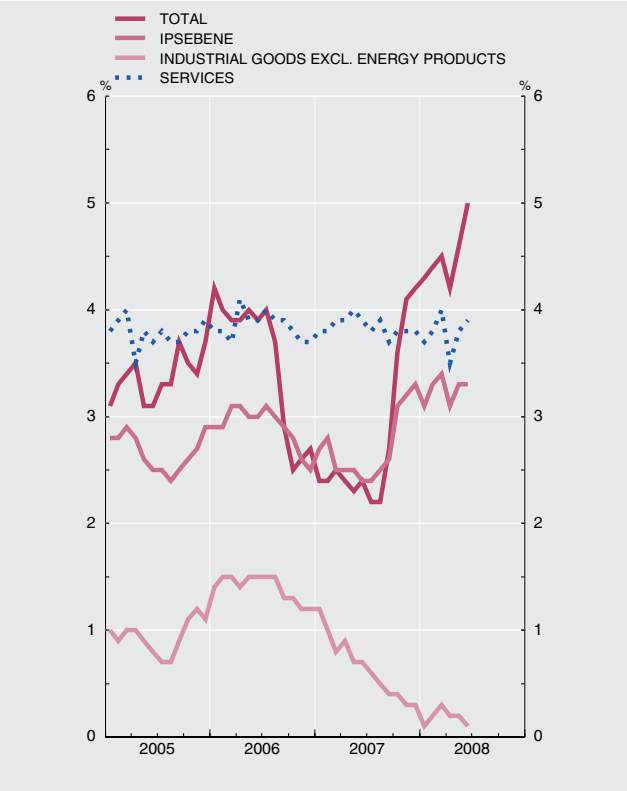
5.1. CONSUMER PRICE INDEX. SPAIN (2006=100)

■ Series depicted in chart.

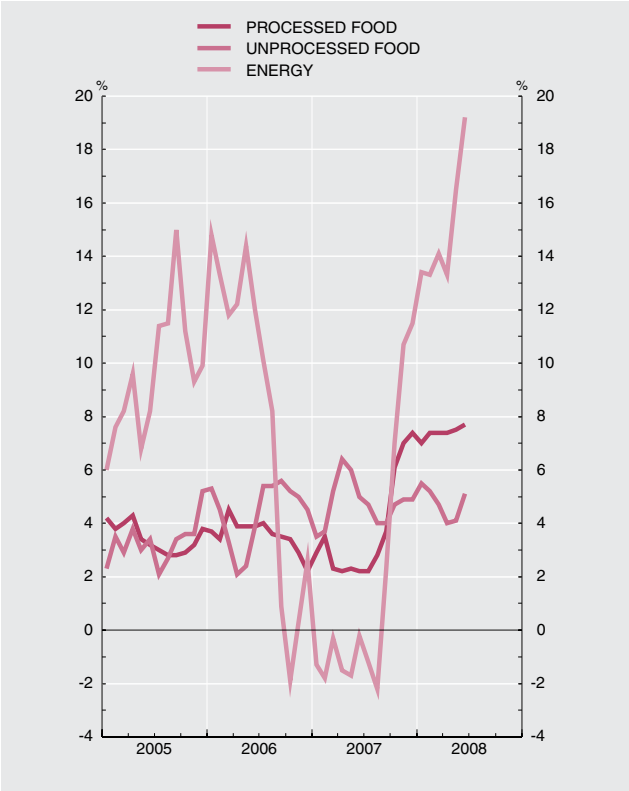
Indices and annual percentage changes

		Total (100%)				Annual percentage change (12-month % change)						Memorandum item:prices for agricultural products (2000=100)	
		Original series	Month-on-month % change	12-month % change (a)	Cumulative % change during year (b)	Unprocessed food	Processed food	Industrial goods excl. energy products	Energy	Services	IPSEBENE (c)	Original series	12-month % change
		1	2	3 ■	4	5 ■	6 ■	7 ■	8 ■	9 ■	10 ■	11	12
05	M	96.6	_	3.4	3.7	3.3	3.5	0.9	9.6	3.8	2.7	109.9	2.9
06	M	100.0	_	3.5	2.7	4.4	3.6	1.4	8.2	3.9	2.9	108.9	-0.9
07	M	102.8	_	2.8	4.2	4.8	3.7	0.7	1.8	3.8	2.7	115.5	6.0
07 *J-J*	M	101.9	0.3	2.4	0.7	5.0	2.6	0.9	-1.1	3.9	2.6	115.6	-0.2
08 *J-J*	M	106.4	0.5	4.5	1.0	4.8	7.4	0.2	15.0	3.8	3.3	...	...
07 *Mar*		101.3	0.8	2.5	0.1	5.2	2.3	0.8	-0.3	3.9	2.5	115.3	1.5
Apr		102.7	1.4	2.4	1.5	6.4	2.2	0.9	-1.5	3.9	2.5	120.3	6.7
May		103.0	0.3	2.3	1.8	6.0	2.3	0.7	-1.7	4.0	2.5	116.2	0.4
Jun		103.2	0.2	2.4	2.0	5.0	2.2	0.7	-0.2	3.9	2.4	116.3	2.6
Jul		102.4	-0.7	2.2	1.3	4.7	2.2	0.6	-1.2	3.8	2.4	106.1	2.5
Aug		102.5	0.1	2.2	1.4	4.0	2.8	0.5	-2.2	3.9	2.5	108.0	5.1
Sep		102.9	0.3	2.7	1.7	4.0	3.7	0.4	2.3	3.7	2.6	112.7	12.1
Oct		104.2	1.3	3.6	3.0	4.7	6.1	0.4	7.0	3.8	3.1	116.0	13.8
Nov		105.0	0.7	4.1	3.8	4.9	7.0	0.3	10.7	3.8	3.2	124.6	15.7
Dec		105.4	0.4	4.2	4.2	4.9	7.4	0.3	11.5	3.8	3.3	125.8	17.6
08 *Jan*		104.7	-0.6	4.3	-0.6	5.5	7.0	0.1	13.4	3.7	3.1	124.2	11.1
Feb		104.9	0.2	4.4	-0.5	5.2	7.4	0.2	13.3	3.8	3.3	122.1	7.3
Mar		105.8	0.9	4.5	0.4	4.7	7.4	0.3	14.1	4.0	3.4	127.4	10.5
Apr		107.0	1.1	4.2	1.5	4.0	7.4	0.2	13.3	3.5	3.1	130.6	8.5
May		107.7	0.7	4.6	2.2	4.1	7.5	0.2	16.5	3.8	3.3	133.9	15.2
Jun		108.3	0.6	5.0	2.8	5.1	7.7	0.1	19.2	3.9	3.3	...	...

CONSUMER PRICE INDEX. TOTAL AND COMPONENTS
Annual percentage changes



CONSUMER PRICE INDEX. COMPONENTS
Annual percentage changes



Sources: INE, Ministerio de Medio Ambiente y Medio Rural y Marino, Pesca y Alimentación and BE.
Note: The underlying series for this indicator are in Tables 25.2 and 25.8 of the BE Boletín estadístico.
a. For annual periods: average growth for each year on the previous year.
b. For annual periods: December-on-December growth rate.
c. Index of non-energy processed goods and service prices.

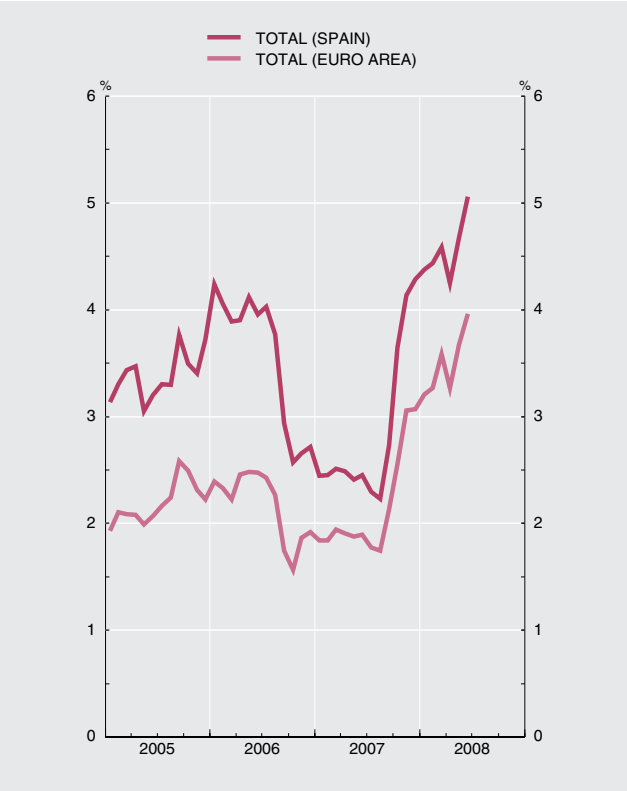
5.2. HARMONISED INDEX OF CONSUMER PRICES. SPAIN AND EURO AREA (2005=100) (a)

■ Series depicted in chart.

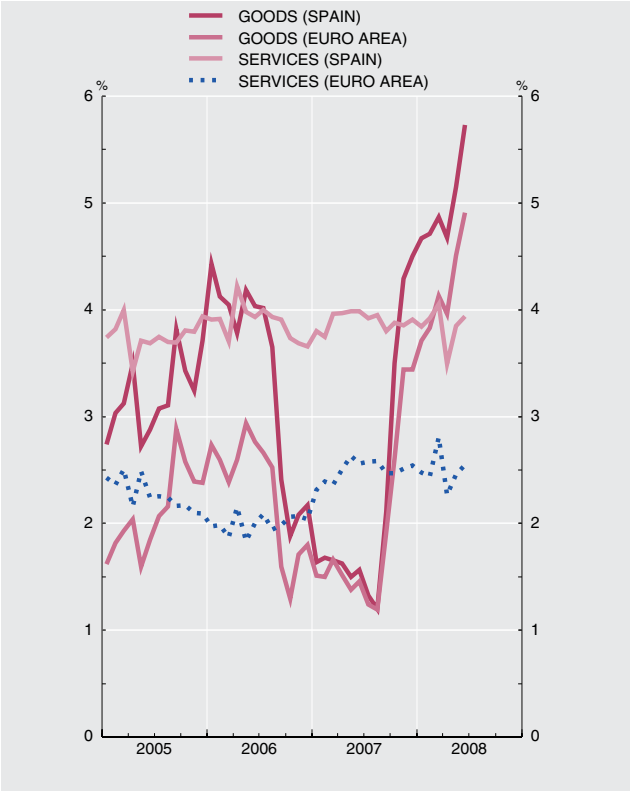
Annual percentage changes

		Total		Goods														Services	
						Food						Industrial							
						Total		Processed		Unprocessed									
		Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Non-energy Spain	Non-energy Euro area	Energy Spain	Energy Euro area	Spain	Euro area
		1 ■	2 ■	3 ■	4 ■	5	6	7	8	9	10	11	12	13	14	15	16	17 ■	18 ■
05	M	3.4	2.2	3.2	2.1	3.4	1.6	3.5	2.0	3.3	0.8	3.1	2.4	1.0	0.3	9.7	10.1	3.8	2.3
06	M	3.6	2.2	3.4	2.3	3.9	2.4	3.9	2.1	3.9	2.8	3.1	2.3	1.5	0.6	8.0	7.7	3.9	2.0
07	M	2.8	2.1	2.2	1.9	4.1	2.8	3.9	2.8	4.3	3.0	1.0	1.4	0.7	1.0	1.7	2.6	3.9	2.5
07 *J-J*	M	2.5	1.9	1.6	1.5	3.4	2.5	2.4	2.0	4.4	3.2	0.5	1.0	1.0	1.1	-1.1	0.8	3.9	2.5
08 *J-J*	M P	4.6	3.5	5.0	4.2	6.6	5.5	8.7	6.7	4.4	3.6	4.0	3.5	0.3	0.8	15.0	12.2	3.8	2.5
07 *Mar*		2.5	1.9	1.7	1.7	3.3	2.3	2.0	1.9	4.6	2.9	0.6	1.4	0.9	1.2	-0.3	1.8	4.0	2.4
Apr		2.5	1.9	1.6	1.5	3.6	2.7	1.9	1.9	5.4	3.9	0.4	1.0	0.9	1.1	-1.4	0.4	4.0	2.5
May		2.4	1.9	1.5	1.4	3.5	2.4	2.0	1.9	5.2	3.1	0.2	0.9	0.8	1.0	-1.6	0.3	4.0	2.6
Jun		2.5	1.9	1.6	1.5	3.2	2.4	2.0	2.0	4.4	3.0	0.5	1.0	0.7	1.0	-0.2	0.9	4.0	2.6
Jul		2.3	1.8	1.3	1.2	3.0	2.3	1.9	1.9	4.2	2.8	0.2	0.7	0.6	0.9	-1.2	-	3.9	2.6
Aug		2.2	1.7	1.2	1.2	3.2	2.5	2.8	2.5	3.7	2.4	-0.1	0.6	0.5	1.0	-2.1	-0.9	4.0	2.6
Sep		2.7	2.1	2.1	1.9	3.8	2.7	3.9	3.1	3.7	2.1	1.0	1.5	0.4	1.0	2.3	3.0	3.8	2.5
Oct		3.6	2.6	3.5	2.6	5.6	3.5	7.0	3.8	4.3	3.1	2.1	2.1	0.4	1.1	7.0	5.5	3.9	2.5
Nov		4.1	3.1	4.3	3.4	6.3	4.0	8.2	4.6	4.4	3.0	3.0	3.2	0.4	1.1	10.6	9.7	3.9	2.5
Dec		4.3	3.1	4.5	3.4	6.6	4.3	8.6	5.1	4.5	3.1	3.2	3.0	0.4	1.0	11.4	9.2	3.9	2.5
08 *Jan*		4.4	3.2	4.7	3.7	6.5	4.9	8.2	5.9	4.9	3.3	3.6	3.1	0.3	0.7	13.4	10.6	3.8	2.5
Feb		4.4	3.3	4.7	3.8	6.7	5.2	8.6	6.5	4.7	3.3	3.6	3.1	0.3	0.8	13.2	10.4	3.9	2.4
Mar		4.6	3.6	4.9	4.1	6.6	5.6	8.8	6.8	4.3	3.8	3.9	3.4	0.4	0.9	14.1	11.2	4.1	2.8
Apr		4.2	3.3	4.7	4.0	6.3	5.4	8.8	7.0	3.9	3.1	3.6	3.2	0.3	0.8	13.3	10.8	3.5	2.3
May		4.7	3.7	5.2	4.5	6.4	5.8	8.8	6.9	4.0	3.9	4.3	3.9	0.2	0.7	16.5	13.7	3.8	2.5
Jun	P	5.1	4.0	5.7	4.9	6.8	5.8	9.0	7.0	4.6	3.9	5.0	4.5	0.2	0.7	19.1	16.0	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).

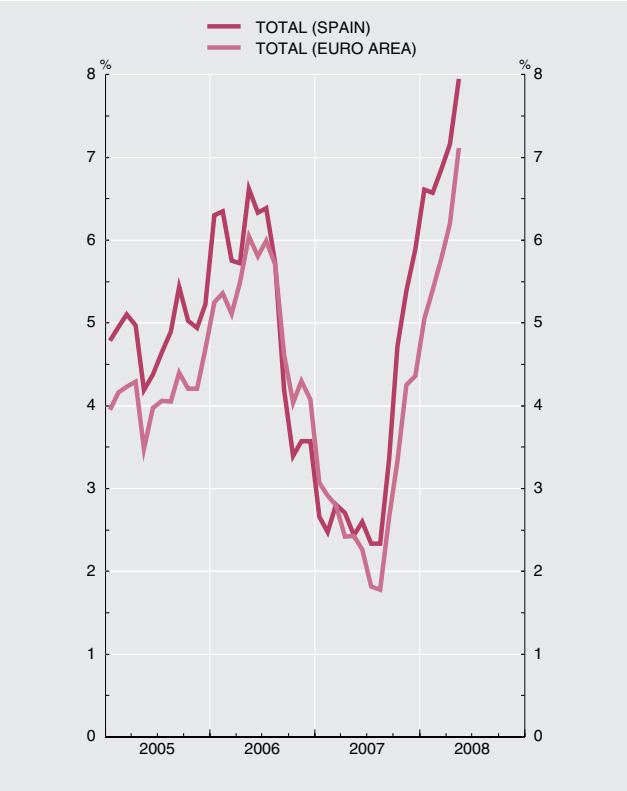
5.3. PRODUCER PRICE INDEX. SPAIN AND EURO AREA (a)

■ 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
													12-month % change	12-month % change	12-month % change	12-month % change	12-month % change
		1	2	3 ■	4	5 ■	6	7 ■	8	9 ■	10	11	12 ■	13	14	15	16
05	MP	112.7	_	4.9	_	2.8	_	1.9	_	3.8	_	14.0	4.1	1.1	1.4	2.9	13.6
06	MP	118.6	_	5.3	_	3.0	_	2.3	_	6.0	_	11.0	5.1	1.7	1.4	4.8	13.6
07	MP	122.6	_	3.3	_	2.6	_	3.1	_	5.8	_	0.8	2.8	2.3	1.8	4.8	1.8
07 *J-M*	MP	120.8	_	2.6	_	1.7	_	3.1	_	6.4	_	-2.1	2.7	1.6	2.0	5.8	0.6
08 *J-M*	MP	129.3	_	7.0	_	5.4	_	2.4	_	6.0	_	15.8	5.9	4.5	1.6	4.2	13.6
07 *Feb*	P	120.2	0.6	2.5	0.6	1.4	0.4	2.9	1.2	6.7	-0.4	-2.5	2.9	1.6	2.1	5.9	1.0
Mar	P	120.9	0.6	2.8	0.3	1.7	0.4	3.3	0.5	6.3	1.2	-1.6	2.8	1.5	2.0	5.8	0.9
Apr	P	121.5	0.5	2.7	0.5	2.2	0.1	3.1	0.7	6.5	0.7	-2.6	2.4	1.7	2.0	5.8	-0.7
May	P	122.1	0.5	2.4	0.1	2.0	0.4	3.3	0.6	6.0	1.0	-2.8	2.4	1.7	2.0	5.4	-0.1
Jun	P	122.3	0.2	2.6	0.1	1.8	-	3.1	0.2	5.8	0.6	-1.4	2.3	1.6	1.9	5.1	-0.5
Jul	P	122.7	0.3	2.3	0.2	1.9	0.1	3.1	0.2	5.6	0.8	-2.6	1.8	1.9	1.7	4.5	-1.9
Aug	P	122.9	0.2	2.3	0.4	2.4	0.1	3.1	0.2	5.4	-0.4	-2.9	1.8	2.4	1.7	4.2	-2.0
Sep	P	123.3	0.3	3.4	0.5	3.2	0.2	3.2	0.2	5.4	0.5	0.8	2.7	2.9	1.6	4.0	1.7
Oct	P	124.4	0.9	4.7	0.9	4.2	0.1	3.2	0.5	5.3	2.4	6.1	3.3	3.4	1.5	3.9	4.3
Nov	P	125.2	0.6	5.4	0.3	4.5	0.1	3.1	-	5.1	2.7	9.8	4.3	3.7	1.5	3.6	8.1
Dec	P	125.8	0.5	5.9	0.3	4.8	-	2.9	-	5.0	1.7	11.6	4.4	4.0	1.5	3.5	8.6
08 *Jan*	P	127.4	1.3	6.6	1.0	5.4	0.8	2.7	1.6	5.9	1.8	13.3	5.1	4.3	1.4	3.8	10.8
Feb	P	128.1	0.5	6.6	0.6	5.4	0.3	2.5	1.2	6.0	-0.4	13.3	5.4	4.3	1.5	4.2	11.7
Mar	P	129.2	0.9	6.9	0.4	5.5	0.3	2.3	0.8	6.3	2.4	14.6	5.8	4.7	1.5	4.4	12.7
Apr	P	130.2	0.8	7.2	0.3	5.3	0.1	2.3	0.5	6.0	2.3	16.5	6.2	4.5	1.7	4.3	14.5
May	P	131.8	1.2	7.9	0.1	5.3	0.1	2.0	0.5	5.9	5.1	21.2	7.1	4.5	1.8	4.3	18.2

PRODUCER PRICE INDEX. TOTAL
Annual percentage changes



PRODUCER PRICE INDEX. COMPONENTS
Annual percentage changes

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

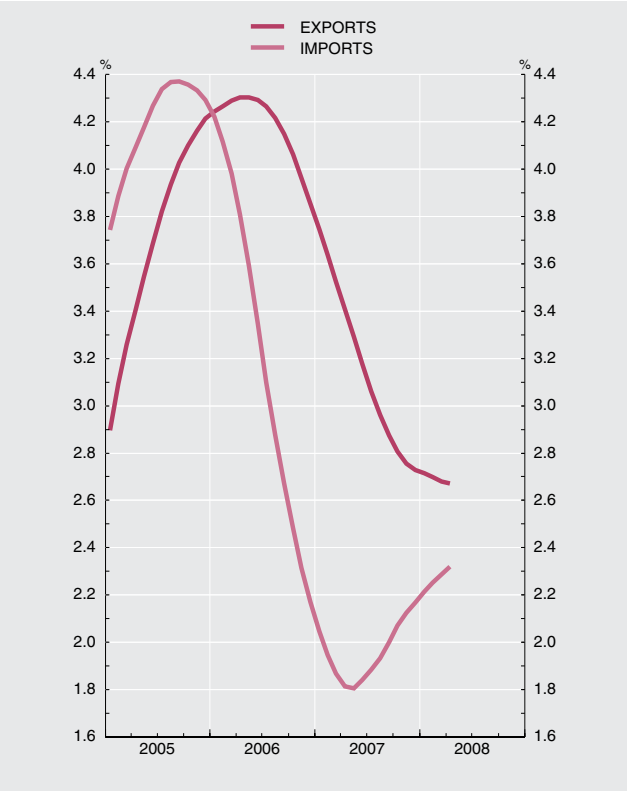
5.4. UNIT VALUE INDICES FOR SPANISH FOREIGN TRADE

■ Series depicted in chart.

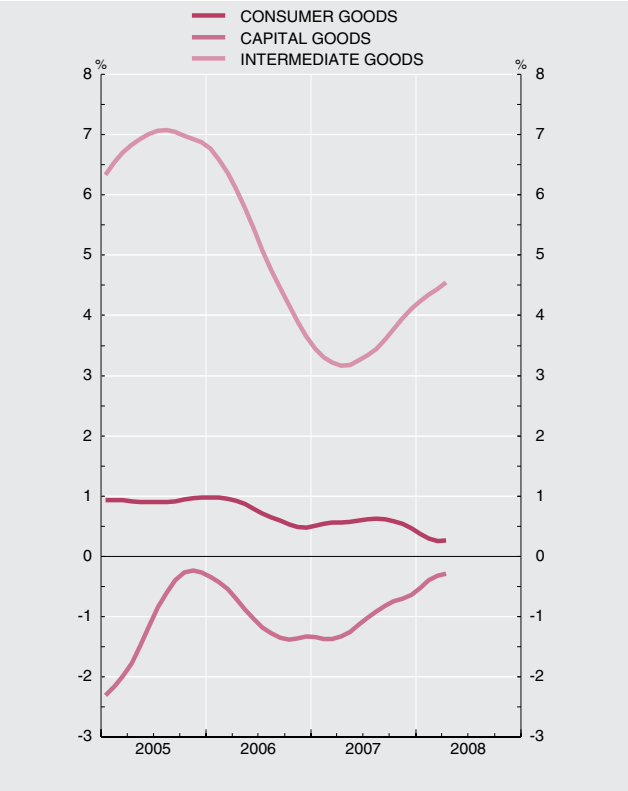
Annual percentage changes

	Exports/dispatches						Imports/arrivals					
	Total	Consumer goods	Capital goods	Intermediate goods			Total	Consumer goods	Capital goods	Intermediate goods		
				Total	Energy	Non-energy				Total	Energy	Non-energy
	1 ■	2	3	4	5	6	7 ■	8 ■	9 ■	10 ■	11	12
05	4,7	1,9	6,3	6,6	34,1	5,0	5,1	1,1	1,0	8,1	26,2	3,5
06	4,8	3,7	3,0	6,1	18,0	5,6	3,4	-0,1	-1,7	6,1	21,5	2,1
07	2,5	2,4	-0,8	3,3	2,0	3,3	1,0	1,2	-2,3	1,6	-1,0	2,9
07 *J-A*	3,5	3,5	0,0	4,2	-10,7	5,6	0,3	3,4	-3,3	-0,5	-7,5	2,7
08 *J-A*	2,6	2,9	1,4	2,5	35,6	0,2	3,3	-2,4	5,1	5,4	25,7	-2,2
06 *Nov*	3,4	3,2	-4,7	5,3	6,0	6,3	0,2	-5,4	-0,7	2,8	1,6	4,0
Dec	3,9	2,1	8,3	4,7	-2,8	4,7	1,2	-2,2	4,1	2,1	7,7	0,5
07 *Jan*	3,3	1,4	3,2	4,6	-4,8	5,6	0,8	8,6	0,8	-3,2	-5,9	-1,2
Feb	4,5	4,9	-2,3	5,5	-13,7	7,0	0,5	1,9	-4,0	1,0	-10,2	5,1
Mar	3,9	3,6	4,2	4,0	-12,3	5,5	1,9	1,8	-4,1	3,2	-6,6	7,1
Apr	2,5	4,4	-5,4	2,9	-12,4	4,3	-2,0	1,1	-5,9	-2,6	-7,6	0,0
May	3,4	2,3	-2,9	5,4	-6,9	6,4	-2,5	-2,5	-4,1	-2,2	-13,1	1,7
Jun	4,0	5,1	1,9	3,6	-2,7	4,2	3,1	1,6	-2,5	4,9	-1,8	7,0
Jul	1,9	0,5	0,3	3,2	-8,9	4,0	1,8	0,3	2,7	2,3	-3,8	4,9
Aug	1,6	1,1	-0,4	2,3	15,8	0,2	-0,6	5,5	-3,2	-2,7	-8,1	0,4
Sep	2,2	0,7	2,7	3,3	13,3	2,5	2,8	0,5	3,4	4,0	2,2	4,8
Oct	1,1	-0,6	-0,5	2,8	11,5	1,7	2,1	0,8	-1,1	3,2	6,5	2,6
Nov	1,5	1,0	-4,4	3,0	17,0	1,0	6,5	5,3	5,0	7,3	23,0	3,5
Dec	0,4	4,8	-6,3	-0,7	27,2	-2,1	-2,1	-10,9	-14,3	4,5	13,3	-0,1
08 *Jan*	3,8	7,0	2,5	1,7	21,3	0,2	5,4	-0,4	3,4	8,0	25,5	0,1
Feb	4,2	3,9	0,7	5,0	46,2	2,9	2,7	-4,6	4,8	5,5	28,8	0,1
Mar	0,6	1,5	-0,1	0,2	37,2	-2,9	0,9	-4,6	0,2	3,0	25,0	-7,4
Apr	1,7	-1,0	2,4	3,2	38,5	0,6	4,4	-0,0	12,3	4,9	23,7	-1,7

EXPORT AND IMPORT UNIT VALUE INDICES (a)



IMPORT UNIT VALUE INDICES BY PRODUCT GROUP (a)



Sources: ME and BE.

Note: The underlying series for this indicator are in the Tables 18.6 and 18.7 of the Boletín Estadístico.

a. Annual percentage changes (trend obtained with TRAMO-SEATS).

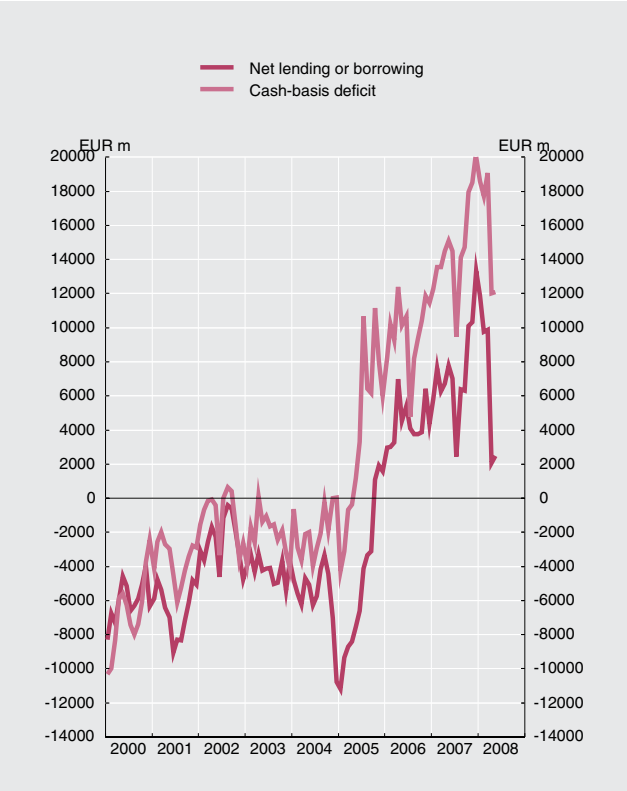
6.1. STATE RESOURCES ANS USES ACCORDING TO THE NACIONAL ACCOUNTS. SPAIN

■ Series depicted in chart.

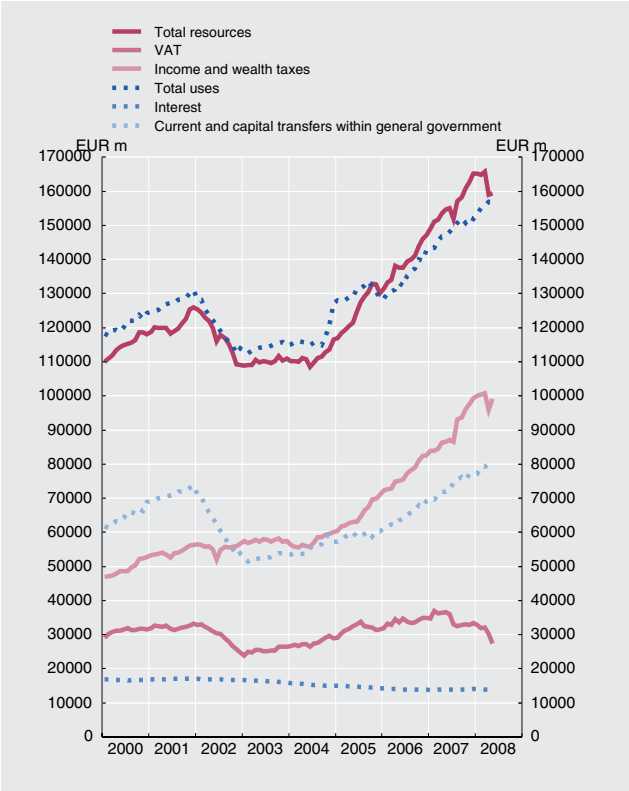
EUR millions

			Current and capital resources						Current and capital uses						Memorandum item: cash-basis deficit		
		Net lending (+) or borrowing (-)	Total	Value added tax (VAT)	Other taxes on products and imports	Interest and other income on property	Income and wealth taxes	Other	Total	Compensation of employees	Interest	Current and capital transfers within general government	Investment grants and other capital transfers	Other	Cash-basis deficit	Revenue	Expenditure
		1=2-8 ■	2=3 a 7 ■	3 ■	4	5	6 ■	7	8=9 a13 ■	9	10 ■	11 ■	12	13	14=15-16 ■	15	16
99		-7 303	109 643	29 002	16 408	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	28 947	10 991	4 730	60 054	11 855	127 339	14 831	15 060	57 177	8 760	31 511	59	114 793	114 734
05		1 590	130 171	31 542	11 068	4 401	70 986	12 174	128 581	15 665	14 343	60 311	5 122	33 140	6 022	128 777	122 755
06	P	4 362	147 201	34 929	11 331	5 261	82 541	13 139	142 839	16 883	13 820	69 299	5 846	36 991	11 471	141 847	130 375
07	P	13 323	165 171	33 334	12 948	6 838	99 265	12 786	151 848	18 096	13 986	76 885	5 431	37 450	20 135	159 840	139 704
07 *J-M*	P	13 600	66 236	23 493	5 015	2 458	31 131	4 139	52 636	6 621	5 753	27 858	1 553	10 851	11 220	65 523	54 303
08 *J-M*	A	2 747	60 351	17 563	5 029	2 601	31 033	4 125	57 604	7 021	5 675	30 623	1 518	12 767	3 185	59 923	56 738
07 *Sep*	P	484	12 199	3 283	1 214	354	5 986	1 362	11 715	1 364	1 150	6 108	278	2 815	2 942	11 870	8 929
Oct	P	15 331	26 994	6 751	1 000	242	18 407	594	11 663	1 345	1 210	6 229	389	2 490	14 910	26 804	11 894
Nov	P	-2 413	10 835	1 205	1 185	1 222	6 126	1 097	13 248	1 333	1 131	7 448	275	3 061	-975	10 080	11 055
Dec	P	-11 938	13 359	681	1 060	1 253	7 528	2 837	25 297	2 536	1 185	8 779	2 084	10 713	-3 968	11 432	15 400
08 *Jan*	A	1 438	11 089	-943	945	333	10 608	146	9 651	1 298	1 202	5 380	5	1 766	-5 290	12 833	18 123
Feb	A	7 951	20 249	14 649	1 193	211	3 805	391	12 298	1 336	1 058	6 785	155	2 964	9 121	18 802	9 680
Mar	A	-6 099	6 960	499	872	1 079	3 085	1 425	13 059	1 558	1 138	6 733	613	3 017	-2 559	6 546	9 105
Apr	A	5 636	17 827	5 961	953	815	9 437	661	12 191	1 417	1 113	6 408	550	2 703	7 104	18 065	10 961
May	A	-6 179	4 226	-2 603	1 066	163	4 098	1 502	10 405	1 412	1 164	5 317	195	2 317	-5 191	3 678	8 868

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



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



Source: Ministerio de Economía y Hacienda (IGAE).

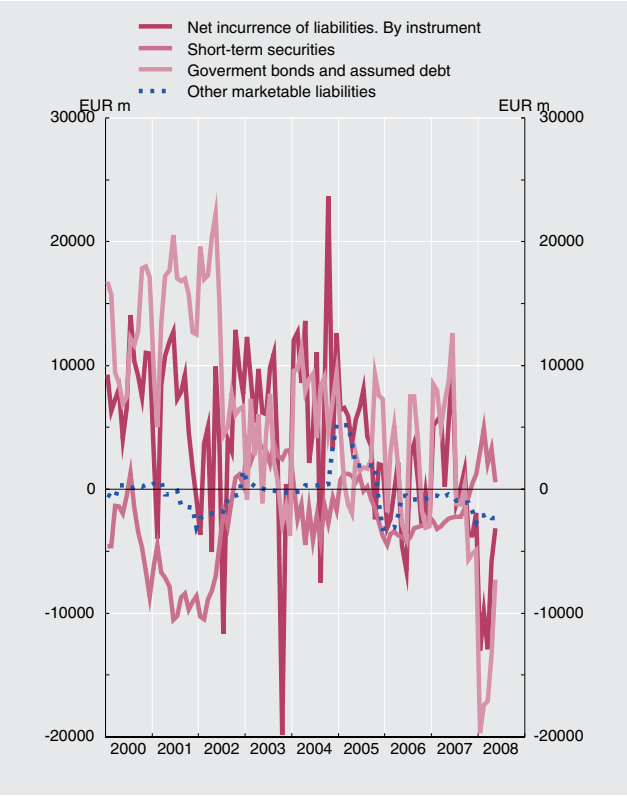
6.2. STATE FINANCIAL TRANSACTIONS. SPAIN

■ Series depicted in chart.

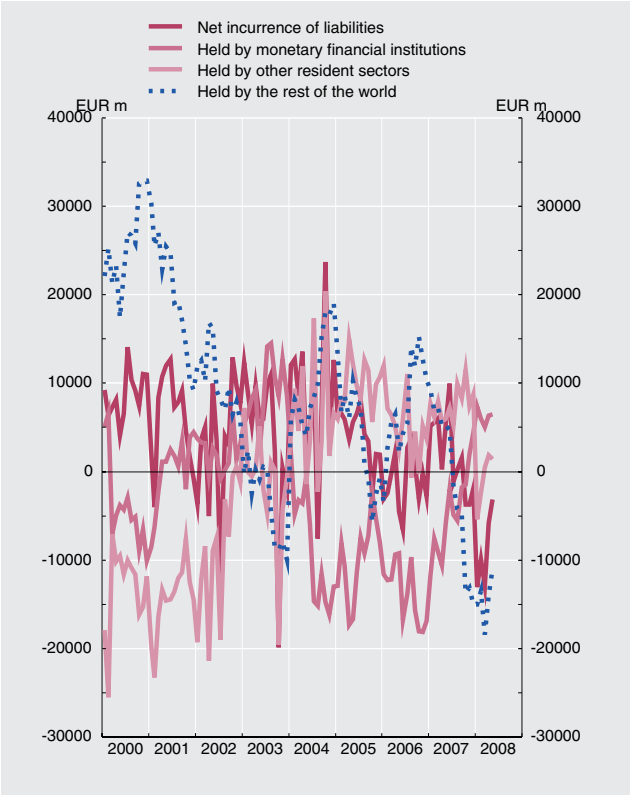
EUR millions

		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				
			Of which									Held by resident sectors			Rest of the world	
			Total	Deposits at the Banco de España	Total	In currencies other than the peseta/ euro	Short-term securities	Goverment bonds and assumed debt	Banco de España loans	Other marketable liabilities (a)	Other accounts payable	Total	Monetary financial institutions	Other resident sectors		
		1	2	3	4 ■	5	6 ■	7 ■	8	9 ■	10	11	12 ■	13 ■	14 ■	15
99		-7 303	4 264	4 574	11 567	209	-6 629	19 592	-499	-446	-451	-10 458	-7 605	-2 853	22 026	12 018
00		-6 330	4 625	5 690	10 955	1 162	-8 683	17 127	-499	283	2 727	-21 968	-10 117	-11 851	32 924	8 228
01		-5 076	-5 852	-20 141	-776	803	-8 616	12 521	-499	-3 101	-1 081	-9 982	4 424	-14 406	9 206	305
02		-4 780	2 942	-95	7 722	-888	346	6 655	-486	1 488	-280	1 932	3 148	-1 215	5 790	8 002
03		-3 692	-5 749	0	-2 057	-135	3 146	-3 761	-486	-281	-675	7 918	8 524	-606	-9 975	-1 381
04		-10 762	1 872	-0	12 634	-1 600	-1 688	9 416	-486	5 204	188	-6 341	-12 978	6 637	18 975	12 446
05		1 590	3 505	0	1 915	-1 910	-3 771	7 276	-486	-3 180	2 076	2 673	-8 026	10 699	-758	-161
06	P	4 362	1 549	-200	-2 813	175	-2 198	-2 976	-486	-536	3 382	-13 170	-16 867	3 698	10 357	-6 195
07	P	13 323	11 420	65	-1 903	-120	1 206	-4 916	-519	-2 701	5 027	13 124	4 393	8 730	-15 026	-6 930
07 *J-M*	P	13 600	16 806	6 900	3 206	18	308	5 978	-519	-181	-2 379	2 072	-54	2 126	1 135	5 585
08 *J-M*	A	2 747	4 686	-63	1 939	2 374	-335	3 625	-583	195	-962	-3 165	2 029	-5 194	5 104	2 901
07 *Sep*	P	484	6 829	97	6 345	3	2 598	4 001	-	-195	-59	4 569	3 144	1 425	1 776	6 404
Oct	P	15 331	2 372	1 800	-12 959	4	-1 216	-12 685	-	18	924	-5 174	-3 165	-2 009	-7 785	-13 883
Nov	P	-2 413	2 265	-1 908	4 678	-115	2 834	2 746	-	-625	-278	3 713	3 976	-263	964	4 955
Dec	P	-11 938	-6 626	78	5 312	8	-1 062	2 581	-	-960	4 753	7 821	1 997	5 824	-2 510	559
08 *Jan*	A	1 438	-7 629	10	-9 067	8	3 403	-14 642	-	617	1 554	-9 179	241	-9 420	112	-10 621
Feb	A	7 951	9 342	25	1 391	7	-1 131	5 433	-	-12	-2 899	-626	1 015	-1 641	2 017	4 290
Mar	A	-6 099	-3 496	0	2 603	3	-617	1 008	-	-96	2 308	4 937	-1 080	6 017	-2 334	295
Apr	A	5 636	6 815	2	1 179	-10	-1 462	4 706	-583	-311	-1 170	-2 200	-2 957	757	3 379	2 349
May	A	-6 179	-346	-99	5 833	2 365	-528	7 119	-	-4	-754	3 903	4 811	-908	1 930	6 587

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



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



Source: BE.

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

6.3. STATE: LIABILITIES OUTSTANDING. SPAIN

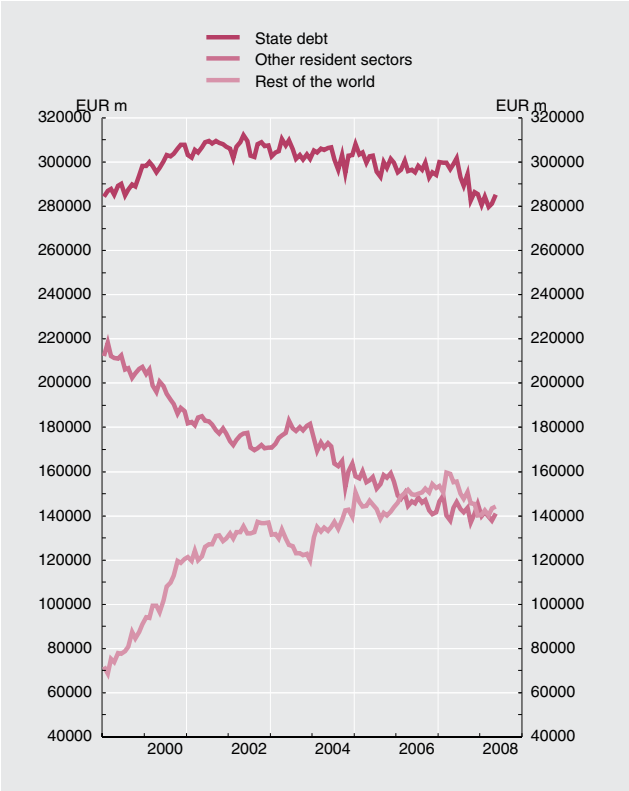
■ Series depicted in chart.

EUR millions

			Liabilities outstanding (excluding other accounts payable)										Memorandum item:	
				of which	By instrument				By counterpart sector					
			State debt according to the methodology of the excessive deficit procedure	In currencies other than the peseta/euro	Short-term securities	Government bonds and assumed debt	Banco de España loans	Other marketable liabilities (a)	Held by resident sectors			Rest of the world	Deposits at the Banco de España	Guarantees given (contingent liabilities). Outstanding level
									Total	General government	Other resident sectors			
			1 ■	2	3 ■	4 ■	5 ■	6 ■	7	8	9 ■	10 ■	11	12
95			232 754	19 362	71 070	132 463	11 050	18 171	180 408	385	180 023	52 731	9 379	6 059
96			263 972	20 434	81 084	152 302	10 814	19 772	210 497	529	209 969	54 003	15 195	8 185
97			274 176	23 270	71 730	180 566	10 578	11 303	211 538	445	211 093	63 083	9 829	7 251
98			284 161	30 048	59 939	205 189	10 341	8 691	215 207	305	214 902	69 258	10 273	6 412
99			298 384	7 189	53 142	227 157	9 843	8 243	207 465	150	207 315	91 070	14 846	5 310
00			307 726	8 197	44 575	245 255	9 344	8 552	188 488	1 187	187 301	120 424	20 536	5 430
01			306 895	7 611	35 413	257 192	8 845	5 445	179 123	2 018	177 105	129 791	395	5 460
02			307 610	5 823	35 459	258 877	8 359	4 914	177 561	6 831	170 730	136 880	300	6 819
03			301 476	5 105	38 702	250 337	7 873	4 564	192 399	10 952	181 447	120 029	300	6 821
04			303 254	3 267	35 996	250 125	7 388	9 746	182 967	19 412	163 554	139 700	300	7 186
05			299 578	2 154	31 647	254 442	6 902	6 588	178 398	22 810	155 588	143 990	300	6 020
06		P	294 223	515	31 060	250 702	6 416	6 046	163 603	21 897	141 706	152 517	100	5 794
07	*Aug*	P	289 325	384	28 738	248 837	5 832	5 917	167 392	25 689	141 703	147 622	98	6 106
	Sep	P	294 478	373	31 334	251 589	5 832	5 723	169 508	25 818	143 690	150 788	195	6 193
	Oct	P	282 566	373	30 122	240 871	5 832	5 740	161 472	24 536	136 937	145 629	1 995	6 277
	Nov	P	286 465	364	32 954	242 563	5 832	5 116	165 687	24 536	141 151	145 313	87	6 207
	Dec	P	285 570	355	31 614	243 159	5 832	4 965	170 996	25 669	145 327	140 243	165	6 162
08	*Jan*	A	280 457	348	35 024	234 018	5 832	5 582	164 492	24 609	139 883	140 574	174	6 123
	Feb	A	284 292	340	33 878	239 010	5 832	5 571	166 325	24 609	141 715	142 576	199	6 121
	Mar	A	279 742	327	33 244	235 191	5 832	5 475	167 944	28 416	139 528	140 214	199	6 072
	Apr	A	281 023	76	31 880	238 730	5 249	5 164	166 099	28 314	137 785	143 238	202	5 939
	May	A	285 292	76	31 360	243 522	5 249	5 160	169 485	28 507	140 977	144 315	102	...

STATE. LIABILITIES OUTSTANDING
By instrument

STATE. LIABILITIES OUTSTANDING
By counterpart sector



Source: BE.

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

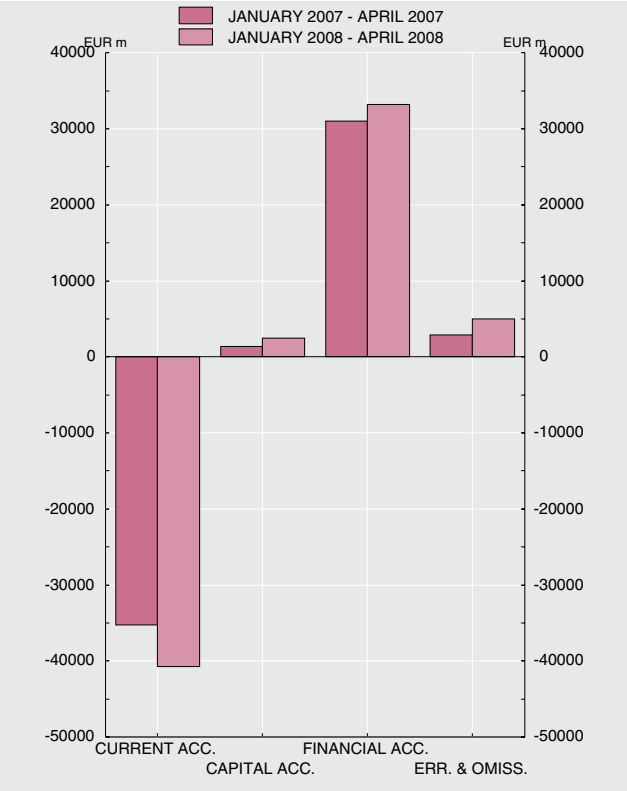
7.1. THE SPANISH BALANCE OF PAYMENTS VIS-à-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. CURRENT ACCOUNT

■ Series depicted in chart.

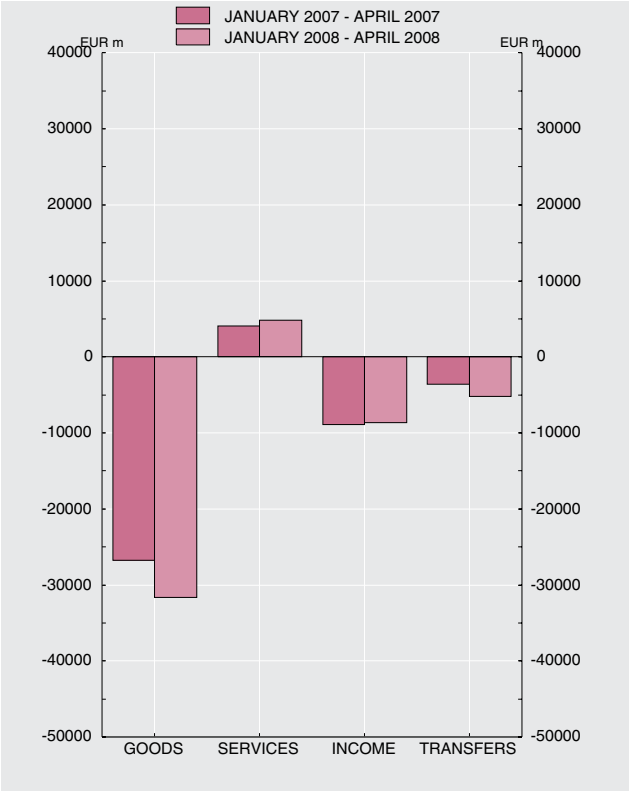
EUR millions

		Current account (a)													Capital account	Current account plus capital account	Financial account	Errors and omissions
			Goods			Services					Income			Current transfers (balance)				
		Total (balance)	Balance	Receipts	Payments	Balance	Receipts		Payments		Balance	Receipts	Payments		(balance)		(balance) (b)	
							Total	Of which Travel	Total	Of which Travel								
		1=2+5+10+13 ■	2=3-4 ■	3	4	5=6-8 ■	6	7	8	9	10=11-12 ■	11	12	13 ■	14 ■	15=1+14	16 ■	17=-(15+16) ■
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		-87 715	-83 272	175 883	259 154	22 335	84 732	40 715	62 397	13 266	-20 581	44 382	64 963	-6 198	6 196	-81 519	83 276	-1 757
07		P -105 893	-89 805	187 194	276 999	22 152	94 151	42 171	71 999	14 360	-31 507	52 913	84 420	-6 733	4 516	-101 378	97 633	3 744
07	*J-A*	P -35 245	-26 788	61 519	88 307	4 031	26 010	10 488	21 979	4 208	-8 885	16 027	24 912	-3 603	1 383	-33 862	30 977	2 885
08	*J-A*	P -40 720	-31 653	67 652	99 304	4 849	28 334	10 804	23 485	4 401	-8 681	19 131	27 812	-5 235	2 460	-38 260	33 231	5 029
07	*Jan*	P -8 891	-6 862	14 434	21 296	1 013	6 569	2 690	5 556	1 100	-2 443	4 025	6 468	-599	1 260	-7 631	6 512	1 119
	Feb	P -10 435	-6 098	15 373	21 471	702	5 862	2 293	5 160	1 037	-3 214	3 317	6 531	-1 825	133	-10 302	10 668	-365
	Mar	P -7 311	-6 862	16 866	23 728	1 318	7 060	2 812	5 742	1 017	-1 501	4 393	5 894	-267	-288	-7 599	6 471	1 128
	Apr	P -8 608	-6 966	14 846	21 812	998	6 518	2 694	5 520	1 054	-1 727	4 292	6 019	-913	278	-8 330	7 326	1 004
	May	P -8 493	-7 131	16 542	23 673	2 002	7 493	3 342	5 491	841	-2 776	4 327	7 103	-588	238	-8 254	8 868	-614
	Jun	P -7 263	-7 548	16 627	24 175	2 380	8 483	4 114	6 102	1 317	-1 930	6 488	8 418	-166	100	-7 163	6 878	285
	Jul	P -10 027	-7 911	15 796	23 707	3 481	10 274	5 070	6 793	1 381	-4 672	4 276	8 948	-925	258	-9 769	8 834	935
	Aug	P -7 515	-7 082	12 530	19 612	3 525	9 679	5 357	6 154	1 584	-3 124	3 178	6 302	-834	101	-7 414	9 778	-2 363
	Sep	P -8 467	-7 615	15 358	22 973	2 809	8 931	4 578	6 122	1 375	-2 540	3 747	6 287	-1 122	148	-8 320	9 464	-1 145
	Oct	P -9 023	-8 445	17 248	25 693	2 317	8 919	4 020	6 602	1 350	-1 766	5 005	6 771	-1 129	838	-8 185	9 282	-1 097
	Nov	P -10 803	-7 904	17 094	24 999	972	7 177	2 799	6 205	1 230	-3 004	3 697	6 701	-867	289	-10 515	9 257	1 258
	Dec	P -9 057	-9 382	14 479	23 861	635	7 185	2 404	6 550	1 076	-2 810	6 168	8 978	2 500	1 162	-7 895	4 295	3 600
08	*Jan*	P -11 879	-8 374	15 431	23 806	1 297	7 418	2 759	6 121	1 138	-3 553	4 689	8 243	-1 249	1 234	-10 645	8 911	1 734
	Feb	P -8 807	-7 318	17 209	24 527	1 025	6 891	2 449	5 866	1 202	-853	5 131	5 985	-1 661	621	-8 187	7 152	1 034
	Mar	P -11 307	-8 762	16 434	25 196	1 154	6 851	2 975	5 697	1 065	-2 365	4 656	7 021	-1 333	347	-10 960	8 976	1 984
	Apr	P -8 727	-7 198	18 578	25 776	1 372	7 174	2 621	5 801	996	-1 910	4 655	6 564	-992	258	-8 469	8 191	277

SUMMARY



CURRENT ACCOUNT



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

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

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

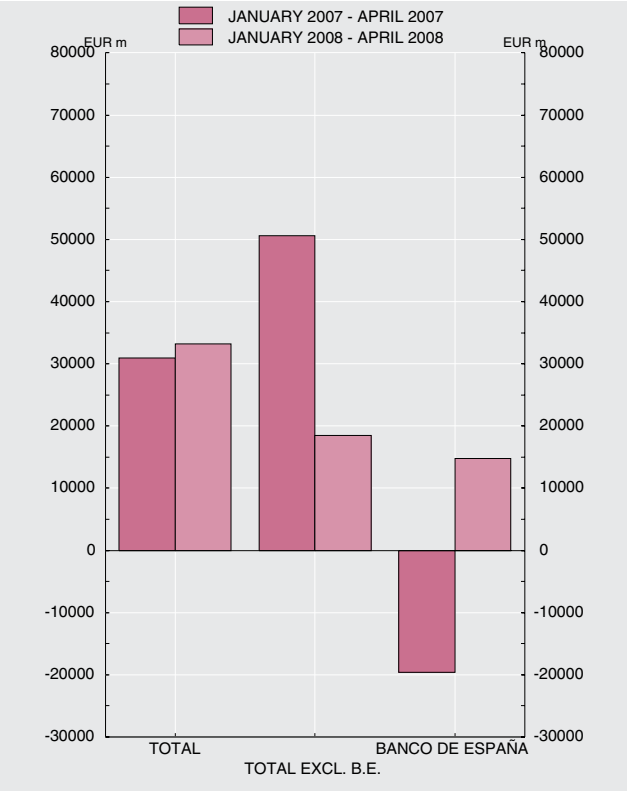
7.2. THE SPANISH BALANCE OF PAYMENTS VIS-à-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. FINANCIAL ACCOUNT (a)

■ Series depicted in chart.

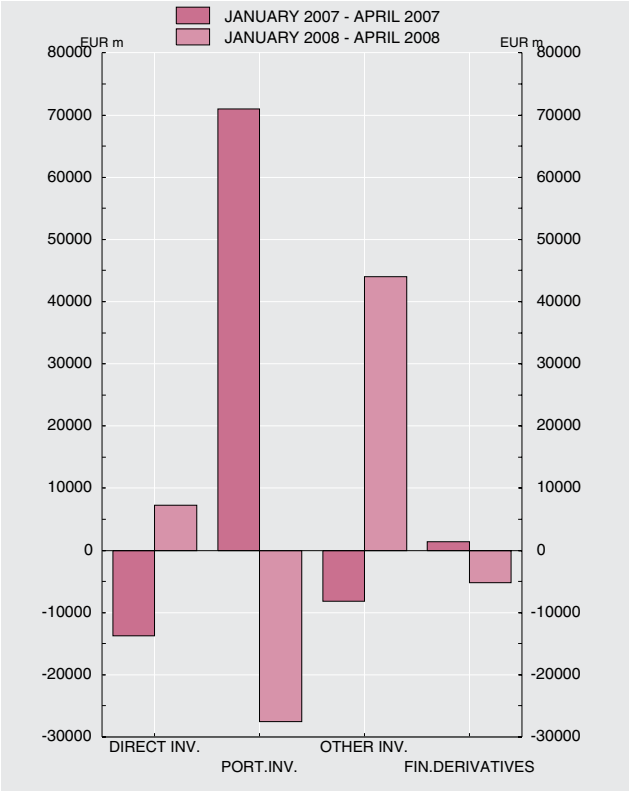
EUR millions

		Financial account	Total, excluding Banco de España											Banco de España			
			Total	Direct investment			Portfolio investment			Other investment (d)			Net financial derivatives	Balance	Reserves	Net claims with the Eurosystem	Other net assets
				Balance	Spanish investment abroad	Foreign investment in Spain	Balance	Spanish investment abroad	Foreign investment in Spain	Balance	Spanish investment abroad	Foreign investment in Spain					
		(NCL-NCA)	(NCL-NCA)	(NCL-NCA)	(NCA)	(NCL) (b)	(NCL-NCA)	(NCA)	(NCL) (c)	(NCL-NCA)	(NCA)	(NCL)	(NCL-NCA)	(NCL-NCA)	(e)	(e)	(NCL-NCA)
		1= 2+13 ■	2=3+6+ 9+12 ■	3=5-4 ■	4	5	6=8-7 ■	7	8	9=11-10 ■	10	11	12 ■	13=14+ 15+16 ■	14	15	16
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		83 276	109 076	-58 479	79 913	21 434	200 030	-4 092	195 938	-34 393	68 601	34 208	1 919	-25 800	-480	-12 327	-12 993
07	P	97 633	83 311	-49 518	91 722	42 205	103 804	-8 250	95 554	35 718	58 566	94 284	-6 693	14 322	-164	28 329	-13 843
07 *J-A*	P	30 977	50 556	-13 723	21 168	7 444	70 996	10 946	81 942	-8 148	21 855	13 707	1 432	-19 579	26	-15 282	-4 323
08 *J-A*	P	33 231	18 490	7 232	8 904	16 136	-27 581	-3 616	-31 197	44 022	29 636	73 658	-5 183	14 741	156	14 116	469
07 *Jan*	P	6 512	5 471	-3 775	5 196	1 421	15 295	-836	14 459	-6 024	3 543	-2 481	-25	1 041	45	963	33
Feb	P	10 668	18 291	1 509	-69	1 440	19 227	5 550	24 777	-2 650	11 748	9 099	204	-7 623	32	-6 077	-1 578
Mar	P	6 471	5 697	-6 272	2 757	-3 515	18 142	5 687	23 829	-6 404	18 846	12 442	232	774	-33	2 645	-1 838
Apr	P	7 326	21 097	-5 186	13 284	8 098	18 332	544	18 876	6 931	-12 283	-5 352	1 021	-13 771	-17	-12 813	-941
May	P	8 868	7 032	-11 072	13 469	2 397	10 194	5 424	15 618	8 713	5 339	14 052	-803	1 836	-29	3 622	-1 756
Jun	P	6 878	8 528	-3 020	2 377	-643	14 796	680	15 476	-3 136	11 275	8 139	-112	-1 650	-308	321	-1 663
Jul	P	8 834	10 943	-4 307	8 931	4 624	14 457	-2 630	11 827	2 734	8 430	11 164	-1 942	-2 109	-35	949	-3 023
Aug	P	9 778	-5 943	-759	-2 363	-3 123	-815	-3 505	-4 320	-4 445	7 060	2 615	76	15 721	-6	15 663	64
Sep	P	9 464	468	-7 926	8 301	376	7 039	-7 875	-837	2 673	10 239	12 912	-1 318	8 996	336	9 339	-679
Oct	P	9 282	7 834	-2 938	26 519	23 581	-14 957	-4 825	-19 782	29 085	-2 417	26 669	-3 357	1 448	-111	3 692	-2 132
Nov	P	9 257	2 062	-1 768	3 085	1 317	5 113	-4 795	318	-3 317	20 727	17 411	2 033	7 195	35	7 757	-596
Dec	P	4 295	1 831	-4 004	10 236	6 231	-3 020	-1 669	-4 690	11 559	-23 943	-12 385	-2 703	2 464	-71	2 268	266
08 *Jan*	P	8 911	3 409	10 423	4 162	14 585	-752	-12 999	-13 751	-4 841	35 585	30 744	-1 421	5 502	123	5 483	-104
Feb	P	7 152	6 951	-723	568	-155	-10 981	9 726	-1 255	19 855	15 746	35 600	-1 200	201	-36	61	177
Mar	P	8 976	15 992	-3 518	3 205	-312	-15 477	1 655	-13 821	35 021	-38 541	-3 519	-35	-7 016	22	-7 297	259
Apr	P	8 191	-7 862	1 050	968	2 018	-371	-1 999	-2 370	-6 013	16 846	10 833	-2 527	16 053	47	15 869	137

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.

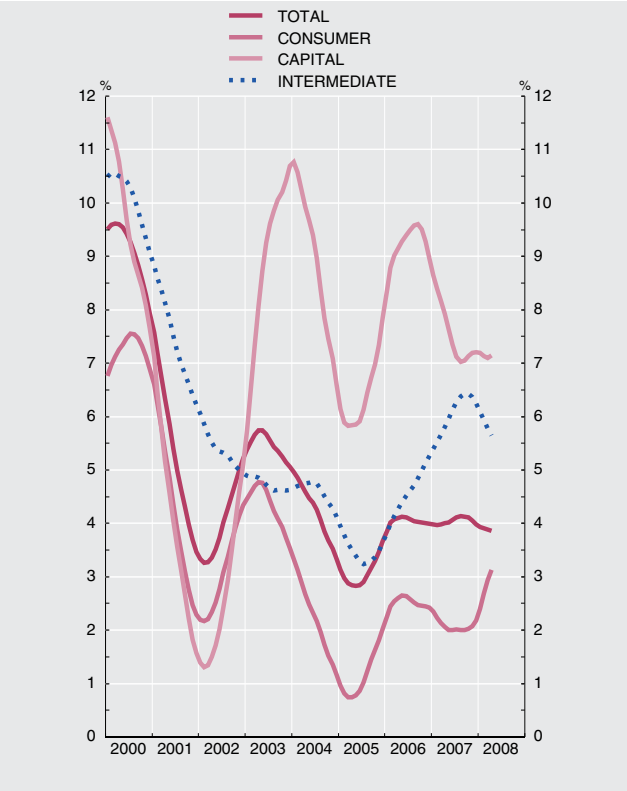
7.3. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD
EXPORT AND DISPATCHES

■ Series depicted in chart.

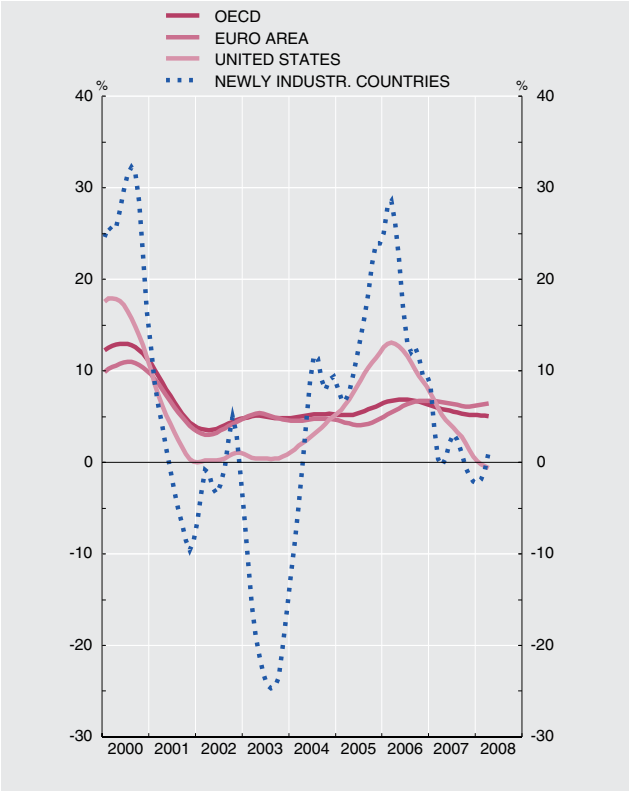
Eur millions and annual percentage changes

		Total			By product (deflated data) (a)					By geographical area (nominal data)							
		EUR millions	Nominal	Deflated (a)	Consumer	Capital	Intermediate			EU 27		OECD		OPEC	Other American countries	China	Newly industrialised countries
							Total	Energy	Non-energy	Total	Euro Area	of which: Total	of which: United States				
		1	2	3 ■	4 ■	5 ■	6 ■	7	8	9	10 ■	11 ■	12 ■	13	14	15	16 ■
03		138 119	3.6	5.2	4.2	11.9	4.8	24.7	3.9	4.5	5.1	3.8	-1.7	-5.4	2.2	38.2	-23.4
04		146 925	6.4	5.3	2.2	13.1	6.6	10.2	6.4	5.0	5.2	5.9	2.0	12.2	3.3	5.6	4.7
05		155 005	5.5	0.8	-0.9	5.3	1.4	-8.9	2.0	2.6	2.2	4.2	10.2	10.4	11.8	31.4	14.5
06		170 439	10.0	5.0	3.0	12.5	5.1	-5.0	5.6	8.1	7.7	8.4	17.7	1.2	34.5	12.8	16.5
07	P	181 479	6.9	4.2	0.1	-0.7	8.1	8.4	8.3	5.7	6.1	4.7	2.6	24.7	-3.6	27.4	5.1
07	*Mar*	16 302	5.5	1.6	0.3	-6.4	4.0	-19.7	5.2	8.4	9.2	5.9	-2.8	15.7	-24.0	11.1	-8.1
	Apr	14 399	9.4	6.7	6.7	18.6	4.5	-6.7	5.0	9.2	10.2	4.8	-12.0	45.0	42.2	43.8	-4.6
	May	16 019	3.5	0.2	-5.9	1.6	4.6	-6.2	5.1	4.5	5.7	2.5	-22.1	-11.0	-14.4	41.1	-10.9
	Jun	16 110	6.0	2.0	-2.2	0.5	5.3	-3.3	5.6	3.4	3.1	4.2	24.3	14.2	22.0	-2.3	14.4
	Jul	15 322	12.7	10.6	13.2	-5.8	12.2	15.5	12.0	12.7	13.8	11.7	9.4	27.7	-20.9	26.3	8.0
	Aug	12 126	7.6	6.0	-3.8	-8.3	14.8	30.5	13.9	5.0	7.2	3.9	2.9	24.0	-38.6	20.1	9.0
	Sep	14 903	5.8	3.4	-0.8	-1.2	7.1	8.6	7.1	0.0	-0.7	0.9	13.7	31.2	-17.4	67.3	-0.7
	Oct	16 707	9.5	8.2	2.9	12.7	11.2	31.9	10.4	1.6	2.6	3.7	26.2	44.2	16.6	97.3	-1.5
	Nov	16 568	9.7	8.2	-1.8	13.0	15.0	85.3	12.9	4.2	2.0	3.9	-2.4	95.7	7.1	33.5	-8.0
	Dec	14 196	-2.4	-2.8	-11.6	-16.8	7.2	-15.8	8.7	4.6	2.5	1.1	-29.1	-6.4	-49.7	-10.0	7.1
08	*Jan*	14 928	6.9	3.0	-2.6	7.3	6.5	30.3	5.6	5.6	5.4	5.7	-7.4	8.3	-13.5	58.3	-17.5
	Feb	16 621	11.9	7.3	9.7	-9.9	8.7	1.7	9.1	14.0	11.4	12.5	-5.7	25.1	-31.9	20.8	11.6
	Mar	15 882	-2.6	-3.2	-1.8	-10.3	-3.1	44.6	-4.8	-2.2	-3.9	-4.6	-15.5	6.4	-3.7	1.7	-18.5
	Apr	17 964	24.8	22.7	21.2	4.5	27.2	49.5	26.3	21.2	19.9	23.8	33.7	27.6	-16.6	45.2	8.8

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



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



Sources: ME y BE.
Note: The underlying series for this indicator are in Tables 18.4 and 18.5 of the Boletín estadístico.
The monthly series are provisional data, while the annual series are the final foreign trade data.
a. Series deflated by unit value indices.

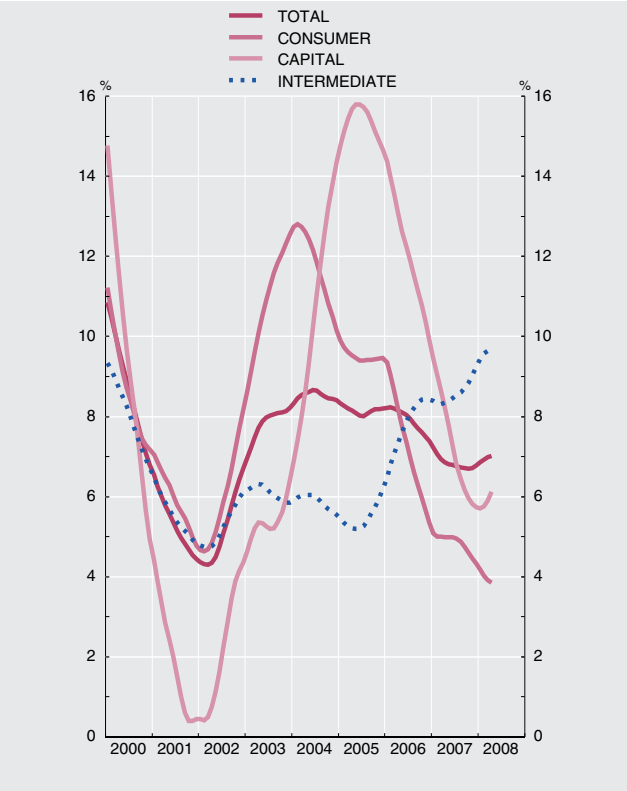
7.4. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD IMPORTS AND ARRIVALS

■ Series depicted in chart.

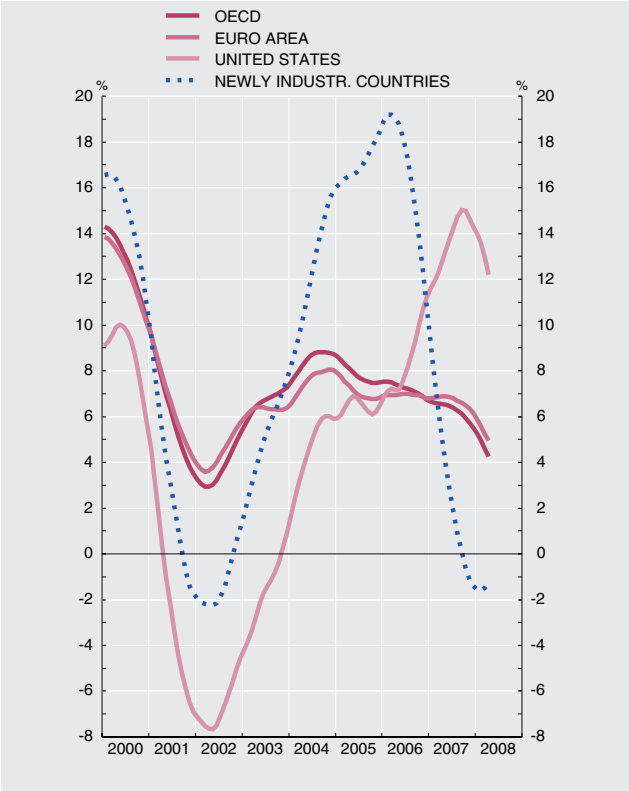
Eur millions and annual percentage changes

		Total			By product (deflated data) (a)					By geographical area (nominal data)							
		EUR millions	Nominal	Deflated (a)	Consumer	Capital	Intermediate			EU 27		OECD		OPEC	Other American countries	China	Newly industrialised countries
							Total	Energy	Non-energy	Total	Euro Area	of which: Total	of which: United States				
		1	2	3 ■	4 ■	5 ■	6 ■	7	8	9	10 ■	11 ■	12 ■	13	14	15	16 ■
03		185 114	5.6	7.1	9.6	12.9	4.8	1.0	5.7	5.8	5.3	5.8	-4.8	1.9	12.9	16.6	1.1
04		208 411	12.6	9.9	13.5	14.4	7.3	10.6	6.5	9.9	10.0	11.3	9.3	12.8	7.9	26.8	14.6
05		232 954	11.8	6.4	8.4	17.6	3.4	10.9	1.5	5.6	5.3	6.1	-0.1	36.9	29.3	37.3	11.2
06		262 687	12.8	9.2	7.4	5.9	10.6	4.8	12.2	8.4	7.9	8.5	14.7	26.5	24.1	22.7	28.6
07	P	280 431	8.2	6.9	5.1	9.9	7.2	4.0	8.5	8.6	9.0	8.2	19.1	-4.7	5.9	31.2	-2.9
07	*Mar*	24 106	2.7	0.8	3.1	14.8	-2.7	-12.0	-0.5	4.7	5.8	2.7	-3.6	-19.6	-1.7	45.2	0.6
	Apr	22 059	10.0	12.3	10.6	9.3	13.5	1.9	16.4	12.0	13.4	11.8	11.6	-11.3	5.5	32.0	-1.9
	May	23 943	4.1	6.8	-0.1	17.6	8.0	6.4	8.4	5.5	7.5	6.5	18.0	-10.0	-26.2	33.9	-10.6
	Jun	24 426	6.8	3.6	7.2	6.2	1.4	1.0	1.5	6.5	6.2	6.3	18.1	-2.4	3.3	19.0	13.7
	Jul	23 983	15.4	13.4	15.0	0.6	14.8	10.6	15.8	13.8	15.0	15.1	4.1	-1.1	22.2	46.9	2.5
	Aug	19 946	3.1	3.7	5.7	-6.2	4.3	-0.3	5.7	4.4	4.2	5.3	38.5	-14.2	1.6	34.0	-9.6
	Sep	23 313	7.2	4.3	4.6	3.0	4.2	1.9	4.7	6.4	6.5	7.0	47.8	-2.1	19.3	24.5	7.4
	Oct	26 017	9.9	7.7	9.2	6.8	7.2	2.6	8.3	9.6	10.3	9.6	61.0	3.2	1.4	27.8	-16.9
	Nov	25 267	5.8	-0.6	-1.3	-1.8	-0.0	-4.4	0.9	6.9	7.0	5.3	12.2	-2.8	-5.4	29.8	-15.9
	Dec	24 030	14.8	17.3	16.3	24.9	16.5	32.0	13.0	18.5	19.8	15.1	-2.3	11.5	-4.3	4.8	-1.6
08	*Jan*	24 080	11.5	5.8	-2.6	-18.3	14.1	33.7	9.6	1.7	3.8	6.4	32.5	51.4	7.7	24.3	-8.8
	Feb	24 695	13.5	10.6	8.8	-4.1	13.6	1.5	16.5	13.3	13.7	12.9	36.2	13.6	-14.5	23.7	-9.9
	Mar	25 484	5.7	4.8	-8.8	-23.4	16.7	57.2	8.2	-5.5	-6.6	-5.5	29.7	45.3	0.7	-2.8	-26.1
	Apr	26 012	17.9	13.0	3.2	-6.6	20.5	29.3	18.6	11.3	10.9	10.0	13.5	35.6	42.0	34.7	6.9

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 18.2 and 18.3 of the Boletín estadístico.
The monthly series are provisional data, while the annual series are the final foreign trade data.
a. Series deflated by unit value indices .

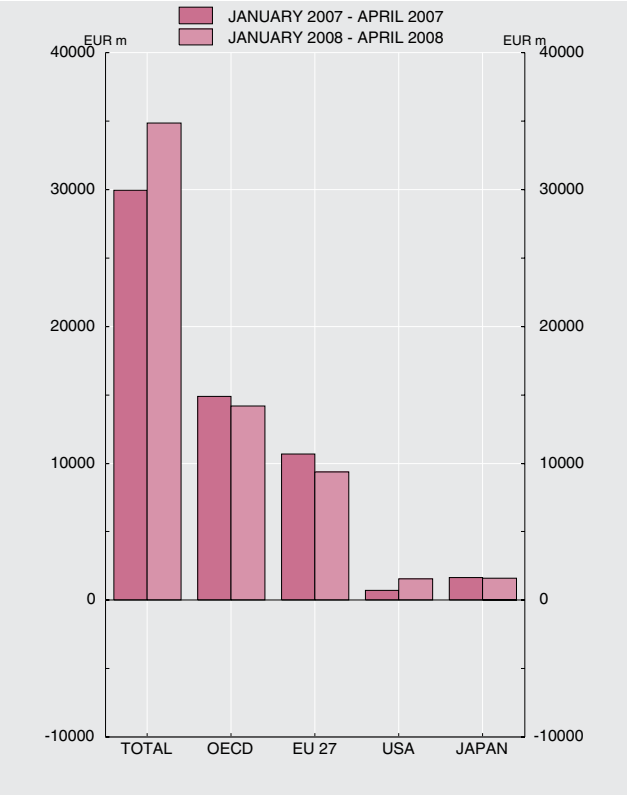
7.5. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD. TRADE BALANCE. GEOGRAPHICAL DISTRIBUTION

■ Series depicted in chart.

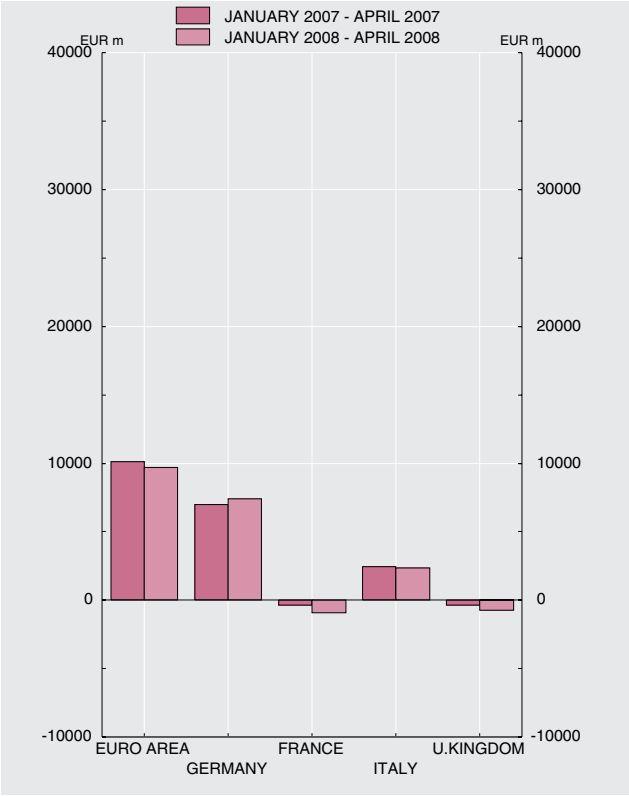
EUR millions

		World total	European Union (EU 27)							OECD			OPEC	Other American countries	China	Newly industrialised countries
			Total	Euro area				Other EU 27		Of which:						
				Total	Of which:			Total	Of which:	Total	United States	Japan				
					Germany	France	Italy		United Kingdom							
		1 ■	2 ■	3 ■	4 ■	5 ■	6 ■	7	8 ■	9 ■	10 ■	11 ■	12	13	14	15
02		-42 000	-16 786	-18 192	-12 970	-3 436	-3 312	1 406	1 430	-24 004	-1 416	-3 224	-7 771	-897	-4 975	-2 176
03		-46 995	-19 057	-19 307	-13 731	-3 239	-3 517	250	1 035	-27 616	-1 170	-3 855	-8 187	-1 467	-5 629	-2 600
04		-61 486	-25 991	-25 298	-16 282	-3 353	-5 671	-693	472	-36 990	-1 692	-4 583	-9 253	-1 784	-7 369	-3 104
05		-77 950	-30 703	-29 334	-16 749	-3 112	-6 938	-1 369	-210	-41 592	-1 092	-4 769	-13 683	-3 089	-10 182	-3 411
06		-92 249	-33 547	-31 868	-18 689	-1 625	-7 184	-1 679	294	-45 357	-1 062	-4 652	-18 384	-3 316	-12 647	-4 564
07	P	-98 952	-38 583	-36 711	-22 949	-441	-8 919	-1 872	456	-52 074	-2 358	-4 708	-15 816	-4 025	-16 583	-4 349
07	*J-A*	-29 977	-10 673	-10 103	-6 961	381	-2 434	-570	364	-14 892	-691	-1 641	-4 872	-990	-4 872	-1 335
08	*J-A*	-34 877	-9 374	-9 708	-7 394	922	-2 374	333	757	-14 187	-1 561	-1 581	-6 979	-1 615	-5 774	-1 171
07	*Apr*	-7 660	-3 304	-3 047	-1 908	-68	-749	-257	-113	-4 559	-337	-389	-1 153	-3	-1 049	-285
	May	-7 924	-2 832	-2 697	-1 974	153	-714	-135	81	-4 191	-269	-407	-1 268	-192	-1 303	-394
	Jun	-8 316	-3 578	-3 582	-2 199	-24	-897	4	188	-4 529	73	-410	-1 463	-111	-1 303	-540
	Jul	-8 661	-3 195	-3 195	-2 052	102	-881	1	132	-4 458	-184	-368	-1 437	-390	-1 541	-361
	Aug	-7 820	-2 994	-2 643	-1 355	-203	-731	-350	-142	-4 070	-196	-352	-1 330	-382	-1 590	-250
	Sep	-8 410	-3 159	-2 978	-1 934	-45	-728	-182	5	-4 396	-242	-341	-1 343	-674	-1 536	-357
	Oct	-9 310	-3 758	-3 518	-2 132	17	-849	-240	-94	-5 072	-346	-476	-1 513	-510	-1 529	-340
	Nov	-8 699	-3 595	-3 467	-2 130	-102	-807	-127	-11	-4 801	-313	-396	-921	-441	-1 747	-386
	Dec	-9 835	-4 800	-4 527	-2 212	-720	-878	-273	-66	-5 665	-190	-317	-1 669	-335	-1 163	-386
08	*Jan*	-9 152	-1 863	-1 834	-1 546	367	-542	-29	73	-3 358	-438	-406	-2 163	-509	-1 711	-339
	Feb	-8 074	-2 587	-2 873	-2 110	46	-608	286	335	-3 824	-376	-361	-1 329	-273	-1 513	-279
	Mar	-9 602	-2 251	-2 356	-1 716	174	-574	104	220	-3 579	-468	-437	-1 891	-447	-1 156	-251
	Apr	-8 048	-2 673	-2 646	-2 022	335	-650	-27	130	-3 427	-279	-378	-1 597	-387	-1 396	-302

CUMULATIVE TRADE DEFICIT



CUMULATIVE TRADE DEFICIT



Source: ME.

Note: The underlying series for this indicator are in Tables 18.3 and 18.5 of the Boletín Estadístico.
The monthly series are provisional data, while the annual series are the final foreign trade data.

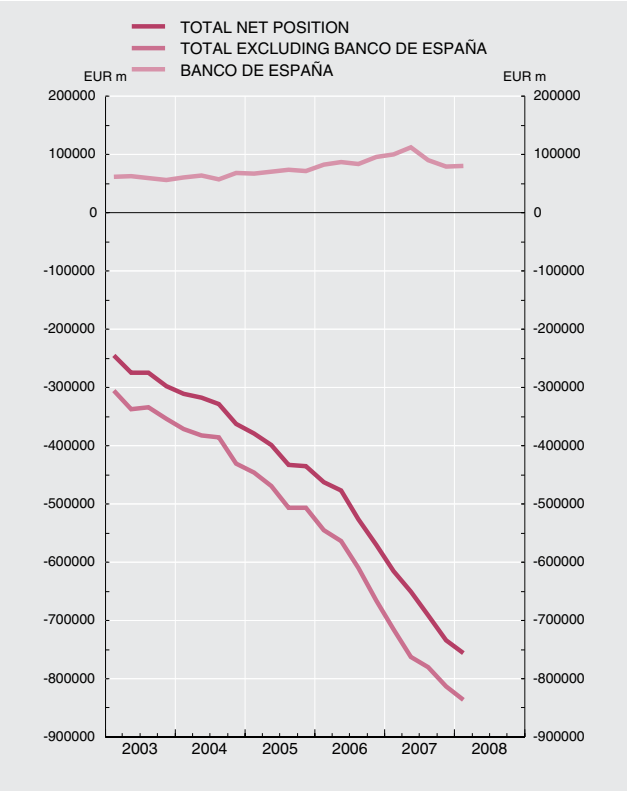
7.6. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-à-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD SUMMARY

■ Series depicted in chart.

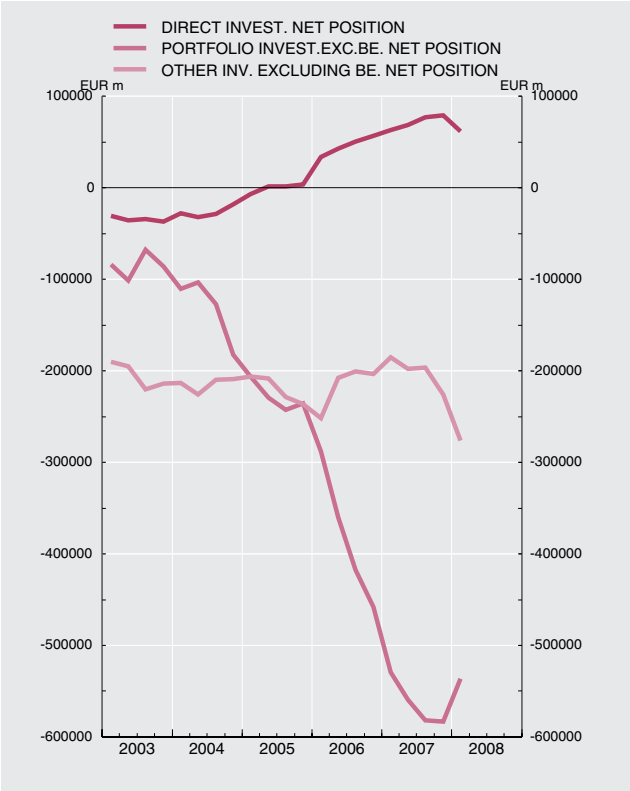
End-of-period stocks in EUR billions

		Net international investment position (assets-liabil.)	Total excluding Banco de España											Banco de España			
			Net position excluding Banco de España (assets - liabil.)	Direct investment			Portfolio investment			Other investment			Financial derivatives Net position (assets-liabil.)	Banco de España Net position (assets-liabil.)	Reserves	Net assets vis-à-vis the Eurosystem	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
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		-362.9	-431.0	-18.4	272.3	290.7	-203.2	359.3	562.5	-209.4	222.2	431.6	-	68.1	14.5	31.9	21.7
05	*Q1*	-378.8	-446.0	-7.3	288.1	295.4	-232.7	366.5	599.2	-206.0	239.5	445.4	-	67.2	13.3	25.2	28.7
	Q2	-398.7	-468.9	1.1	299.6	298.5	-261.4	390.8	652.2	-208.5	254.9	463.4	-	70.2	13.7	22.0	34.5
	Q3	-432.8	-506.4	1.4	303.6	302.3	-278.9	417.7	696.6	-228.9	254.7	483.6	-	73.6	14.0	21.2	38.4
	Q4	-435.0	-506.7	3.4	317.9	314.5	-273.6	454.7	728.4	-236.5	268.2	504.7	-	71.7	14.6	17.1	40.1
06	*Q1*	-462.6	-545.0	33.8	348.5	314.7	-327.1	476.7	803.8	-251.7	285.2	536.9	-	82.4	15.4	26.8	40.3
	Q2	-476.4	-563.7	43.0	363.8	320.8	-399.2	444.3	843.5	-207.5	300.6	508.1	-	87.3	14.6	32.2	40.5
	Q3	-526.2	-609.5	50.3	380.5	330.2	-459.1	447.7	906.8	-200.7	315.4	516.1	-	83.4	15.0	25.4	43.0
	Q4	-569.8	-665.5	56.4	392.6	336.2	-508.9	455.7	964.6	-203.4	327.3	530.7	-9.6	95.7	14.7	29.4	51.6
07	*Q1*	-615.2	-715.6	63.1	398.9	335.8	-582.4	461.0	1 043.3	-185.1	360.9	546.0	-11.3	100.4	14.0	31.9	54.5
	Q2	-650.4	-762.5	68.5	426.0	357.5	-617.2	471.0	1 088.2	-197.8	364.8	562.7	-15.9	112.1	12.9	40.7	58.5
	Q3	-690.8	-780.5	77.2	436.0	358.8	-643.4	455.2	1 098.6	-196.3	387.4	583.7	-17.9	89.6	12.5	14.8	62.4
	Q4	-734.0	-812.9	79.3	467.0	387.7	-647.6	443.3	1 090.8	-225.8	382.8	608.6	-18.8	78.9	12.9	1.1	64.9
08	*Q1*	-755.6	-836.2	61.5	462.6	401.2	-600.6	419.9	1 020.5	-276.4	383.1	659.5	-20.7	80.6	13.0	2.8	64.8

INTERNATIONAL INVESTMENT POSITION



COMPONENTS OF THE POSITION



Source: BE.

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

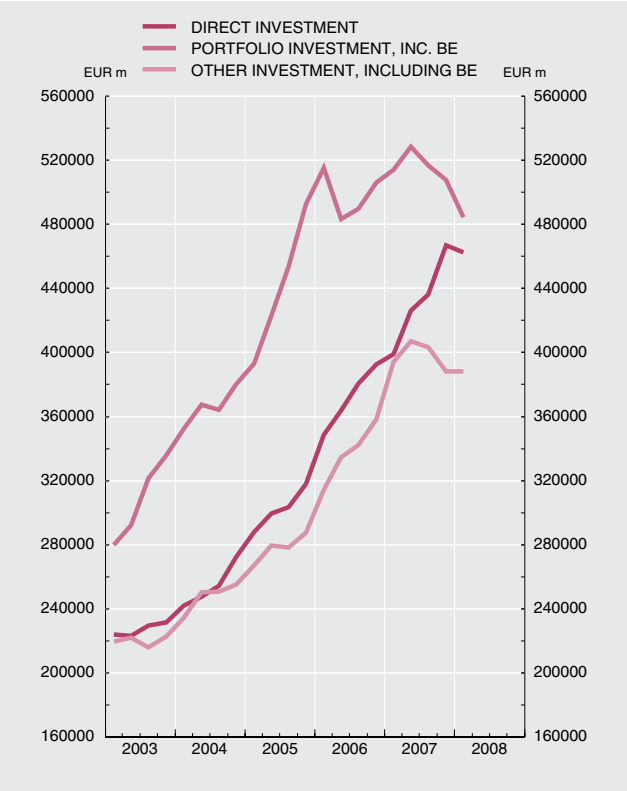
7.7. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-à-VIS OTHER EURO AREA RESIDENTES AND THE REST OF THE WORLD BREAKDOWN BY INVESTMENT

■ Series depicted in chart.

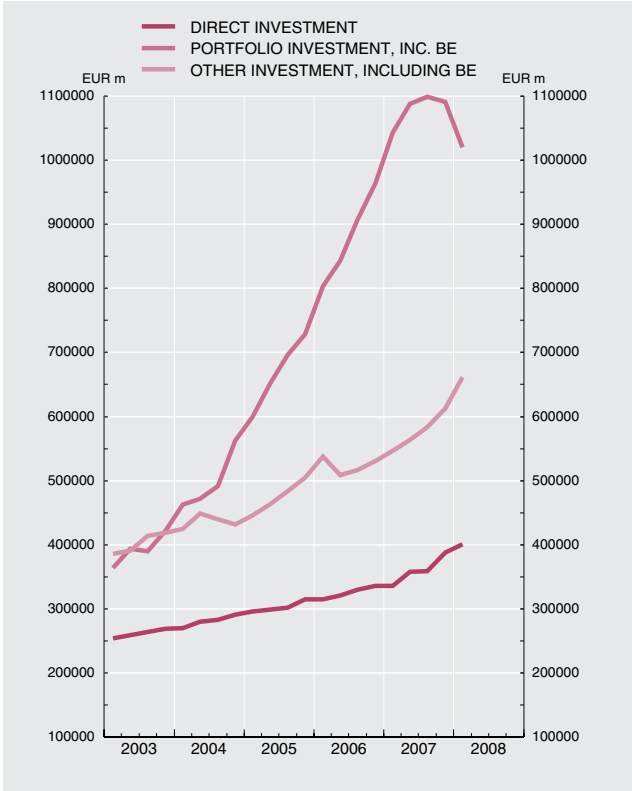
End-of-period stocks in EUR millions

		Direct investment				Portfolio investment, including Banco de España				Other investment, including Banco de España		Financial derivatives	
		Spanish investment abroad		Foreign investment in Spain		Spanish investment abroad		Foreign investment in Spain					
		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	Spanish investment abroad	Foreign investment in Spain	Spanish investment abroad	Foreign investment in Spain
		1	2	3	4	5	6	7	8	9 ■	10 ■	11	12
00		167 151	13 095	142 844	25 182	83 918	109 764	147 521	163 138	212 159	305 778	...	...
01		197 233	20 231	164 360	36 768	74 596	158 052	144 151	188 925	202 099	344 845	...	...
02	R	206 268	16 815	194 711	50 456	50 712	206 581	116 967	245 492	220 483	367 646	-	-
03		217 086	14 477	207 096	61 828	62 677	273 344	147 878	274 166	222 670	418 202	-	-
04		254 696	17 627	223 215	67 501	78 053	302 067	183 211	379 279	254 992	431 651	-	-
05	*Q1*	267 443	20 629	225 155	70 241	79 829	313 130	184 793	414 446	266 918	445 447	-	-
	Q2	278 521	21 031	229 158	69 311	83 676	339 219	178 505	473 699	279 362	463 496	-	-
	Q3	281 577	22 071	229 623	72 671	93 654	360 155	204 334	492 267	278 226	483 662	-	-
	Q4	295 784	22 133	239 162	75 322	104 157	388 472	197 347	531 035	287 551	504 831	-	-
06	*Q1*	329 989	18 489	240 318	74 391	119 452	395 944	214 645	589 149	314 147	537 450	-	-
	Q2	342 095	21 671	246 755	74 004	122 047	361 127	206 547	636 951	334 783	508 451	-	-
	Q3	359 863	20 641	250 437	79 808	126 170	363 383	232 494	674 271	342 206	516 386	-	-
	Q4	370 304	22 327	256 600	79 609	133 193	373 001	245 683	718 897	358 015	530 980	32 973	42 569
07	*Q1*	378 458	20 471	259 147	76 658	140 704	373 512	256 533	786 784	394 280	546 286	33 197	44 487
	Q2	410 883	15 097	274 134	83 396	153 730	374 852	269 506	818 657	406 890	563 078	39 921	55 856
	Q3	415 045	20 954	278 154	80 667	142 095	374 617	273 560	825 065	403 284	583 968	44 181	62 069
	Q4	441 651	25 310	301 781	85 891	134 762	372 789	286 207	804 620	388 001	612 127	44 642	63 487
08	*Q1*	436 837	25 802	318 549	82 602	100 972	383 465	238 454	782 021	388 042	661 369	53 297	74 001

SPANISH INVESTMENT ABROAD



FOREIGN INVESTMENT IN SPAIN



Source: BE.
Note: See footnote to Indicator 7.6

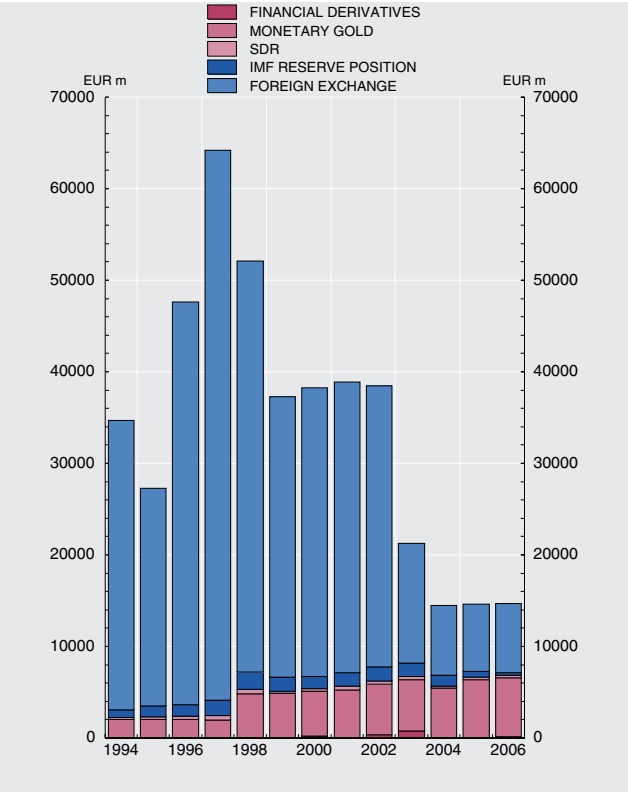
7.8. SPANISH RESERVE ASSETS

■ Series depicted in chart.

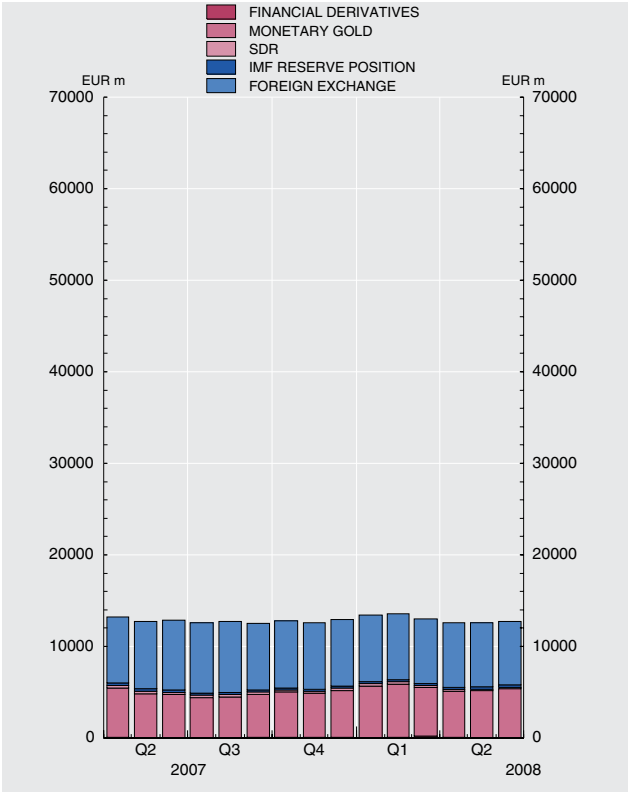
End-of-period stocks in EUR millions

	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
02	38 431	30 695	1 518	337	5 500	382	16.8
03	21 229	13 073	1 476	328	5 559	793	16.8
04	14 505	7 680	1 156	244	5 411	15	16.8
05	14 601	7 306	636	281	6 400	-21	14.7
06	14 685	7 533	303	254	6 467	127	13.4
07 *Jan*	14 893	7 557	307	261	6 716	52	13.4
Feb	14 800	7 459	261	251	6 735	94	13.4
Mar	14 045	7 410	255	251	6 037	91	12.1
Apr	13 232	7 252	252	249	5 379	100	10.8
May	12 696	7 332	281	243	4 829	11	9.9
Jun	12 873	7 616	281	244	4 732	0	9.9
Jul	12 572	7 647	261	246	4 397	20	9.1
Aug	12 734	7 764	249	245	4 460	16	9.1
Sep	12 493	7 227	245	241	4 711	69	9.1
Oct	12 791	7 314	230	240	4 948	60	9.1
Nov	12 559	7 221	225	236	4 809	68	9.1
Dec	12 946	7 285	218	252	5 145	46	9.1
08 *Jan*	13 450	7 316	218	255	5 630	31	9.1
Feb	13 586	7 222	216	253	5 795	101	9.1
Mar	12 976	7 021	211	189	5 367	189	9.1
Apr	12 568	7 045	204	190	5 070	59	9.1
May	12 598	7 029	245	176	5 166	-18	9.1
Jun	12 709	6 921	233	175	5 357	23	9.1

RESERVE ASSETS
END-OF-YEAR POSITIONS



RESERVE ASSETS
END-OF-MONTH POSITIONS



Source: BE.

Note: From January 1999 the assets denominated in euro and other currencies vis-à-vis residents of other euro area countries are not considered reserve assets. To December 1998, data in pesetas have been converted to euro using the irrevocable euro conversion rate. Since January 1999, all reserve assets are valued at market prices. As of January 2000 reserve assets data have been compiled in accordance with the IMF´s new methodological guidelines published in the document 'International Reserves and Foreign Currency Liquidity

Guidelines for a Data Template', October 2001 (http://dsbb.imf.org/Applications/web/sddsguide). Using this new definition, total reserve assets as at 31.12.99 would have been EUR 37835 million instead of the ammount of EUR 37288 million published in this table.

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

End-of-period positions — *EUR millions*

	Total	General government						Other monetary financial institutions				
		Total	Short-term		Long-term			Total	Short-term		Long-term	
			Money market instruments	Loans	Bonds and notes	Loans	Trade credits		Money market instruments	Deposits	Bonds and notes	Deposits
	1	2	3	4	5	6	7	8	9	10	11	12
04 *Q1*	818 597	189 370	3 592	489	172 254	13 035	-	398 303	361	186 529	77 928	133 485
Q2	859 825	186 801	3 200	428	170 051	13 121	-	430 763	353	207 118	84 615	138 676
Q3	870 725	192 431	2 873	1 755	174 457	13 346	-	427 166	362	198 299	92 532	135 974
Q4	906 924	202 222	2 776	705	181 878	16 864	-	431 337	301	194 245	104 720	132 071
05 *Q1*	958 055	204 834	2 513	1 024	183 038	18 259	-	460 500	467	202 197	125 535	132 301
Q2	1 038 214	213 939	2 110	437	194 059	17 333	-	490 258	587	232 191	139 670	117 810
Q3	1 080 328	213 370	3 088	1 424	191 719	17 139	-	517 879	400	264 976	150 727	101 776
Q4	1 144 447	213 412	2 465	65	192 798	18 085	-	548 891	981	276 566	164 457	106 887
06 *Q1*	1 238 544	214 075	4 628	11	191 300	18 135	-	589 522	1 003	295 771	193 633	99 115
Q2	1 258 360	213 336	3 620	345	191 381	17 991	-	580 901	2 186	268 475	208 797	101 443
Q3	1 307 827	214 171	6 070	1 469	188 569	18 062	-	602 346	5 274	267 202	225 647	104 224
Q4	1 370 170	215 559	4 836	662	191 871	18 190	-	622 804	6 252	277 169	236 038	103 344
07 *Q1*	1 460 727	219 396	4 901	37	195 781	18 678	-	658 078	11 331	295 511	252 211	99 026
Q2	1 521 730	215 143	5 446	440	190 503	18 754	-	684 725	11 316	294 386	269 682	109 341
Q3	1 541 098	207 154	4 820	1 326	182 455	18 553	-	707 002	15 079	308 877	273 907	109 138
Q4	1 556 809	197 735	4 505	875	173 414	18 941	-	723 931	16 802	327 376	265 459	114 294
08 *Q1*	1 582 520	194 336	5 538	548	168 630	19 619	-	768 087	15 075	380 361	261 209	111 443

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

End-of-period positions — *EUR millions*

	Monetary authority		Other residents sectors								Direct investment		
	Total	Short-term	Total	Short-term			Long-term				Total	Vis-à-vis	
		Deposits		Money market instruments	Loans	Other liabilities	Bonds and notes	Loans	Trade credits	Other liabilities		Direct investors	Subsidiaries
	13	14	15	16	17	18	19	20	21	22	23	24	25
04 *Q1*	62	62	146 248	2 321	20 013	359	53 044	69 437	405	669	84 614	36 527	48 088
Q2	1	1	152 757	2 561	18 246	229	61 378	69 314	403	625	89 504	37 429	52 075
Q3	0	0	160 970	3 312	18 630	634	67 310	70 153	393	537	90 157	37 826	52 331
Q4	16	16	177 355	4 043	19 005	1 175	85 561	66 675	414	482	95 994	38 687	57 307
05 *Q1*	0	0	194 559	4 274	20 471	787	98 620	69 232	387	788	98 161	39 449	58 712
Q2	71	71	232 928	3 839	19 803	1 569	133 435	73 111	384	788	101 020	41 447	59 573
Q3	42	42	244 638	3 401	19 164	1 636	142 932	76 503	356	646	104 399	42 506	61 893
Q4	126	126	273 437	3 380	17 817	996	166 955	83 404	358	527	108 581	43 547	65 034
06 *Q1*	535	535	322 467	2 905	19 460	408	195 679	102 516	360	1 139	111 945	46 934	65 011
Q2	328	328	350 836	4 283	18 328	330	226 684	99 898	352	961	112 959	48 198	64 761
Q3	316	316	373 824	4 641	21 876	830	244 071	101 140	348	918	117 170	51 614	65 556
Q4	281	281	411 234	4 786	22 661	694	275 114	107 087	338	555	120 293	51 928	68 365
07 *Q1*	322	322	455 274	5 303	21 610	541	317 258	109 294	334	932	127 658	50 009	77 648
Q2	423	423	481 444	5 418	27 005	1 054	336 291	110 323	331	1 022	139 995	50 357	89 637
Q3	277	277	494 601	2 153	22 164	837	346 652	121 462	339	994	132 065	51 983	80 082
Q4	3 550	3 550	491 532	201	20 315	277	344 239	125 478	329	692	140 062	54 523	85 539
08 *Q1*	1 855	1 855	479 112	502	19 858	396	331 067	126 278	318	692	139 129	55 582	83 547

Source: BE.

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

Average of daily data, EUR millions

	Net lending in euro							Counterparts					
	Total	Open market operations				Standing facilities		Autonomous factors					Actual reserves of credit institutions
		Main refinancing operations	Longer-term refinancing operations	Fine-tuning reverse operations (net)	Structural reverse operations (net)	Marginal lending facility	Deposit facility	Total	Banknotes	Deposits to general government	Gold and net assets in foreign currency	Other assets (net)	
	1=2+3+4+5+6-7	2	3	4	5	6	7	8=9+10-11-12	9	10	11	12	13
07 *Jan*	435 640	317 755	120 000	-1 996	-49	101	171	260 616	610 602	53 185	323 823	79 348	175 024
Feb	418 116	289 075	130 001	-902	-	61	119	239 276	604 440	43 961	321 666	87 459	178 840
Mar	420 563	280 636	140 909	-480	-	95	597	237 488	608 664	44 597	321 551	94 222	183 075
Apr	434 241	285 048	150 001	-1 180	-	667	295	251 756	619 122	54 077	326 081	95 363	182 485
May	433 184	283 588	149 999	-107	-	257	553	249 131	622 961	50 066	326 289	97 607	184 053
Jun	437 672	288 001	150 003	-300	-	223	254	250 320	628 080	50 988	326 083	102 665	187 353
Jul	452 764	302 818	150 003	114	-	138	308	259 984	637 586	54 551	316 884	115 269	192 780
Aug	452 514	282 934	160 437	9 185	-	238	280	253 724	640 337	47 773	317 108	117 278	198 790
Sep	453 016	219 501	235 000	-888	-	321	918	262 862	636 467	63 672	317 895	119 383	190 154
Oct	442 998	183 479	265 003	-4 978	-	152	658	252 295	639 176	60 888	327 814	119 954	190 703
Nov	439 982	171 319	270 460	-1 261	-	108	645	242 541	640 840	55 191	327 447	126 042	197 440
Dec	467 813	259 094	274 422	-65 014	-	314	1 003	260 023	663 813	51 566	331 310	124 047	207 790
08 *Jan*	438 306	191 905	268 486	-21 373	-	199	911	245 582	658 002	52 664	354 557	110 527	192 724
Feb	443 028	175 548	268 494	-762	-	158	410	238 533	651 786	52 814	348 531	117 537	204 496
Mar	470 375	198 667	268 696	3 286	-	196	470	254 680	659 638	68 872	341 404	132 425	215 695
Apr	458 583	166 978	292 729	-676	-	111	558	258 599	662 688	74 650	360 191	118 549	199 984
May	462 508	171 819	291 841	-1 068	-	172	256	255 055	670 599	65 643	370 568	110 619	207 453
Jun	460 645	182 477	278 839	-667	-	304	308	245 546	674 406	64 832	376 972	116 720	215 099

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 in euro							Counterparts							
	Total	Open market operations				Standing facilities		Intra-ESCB		Autonomous factors					Actual reserves of credit institutions
		Main refinancing operations	Longer-term refinancing operations	Fine-tuning reserve operations (net)	Structural reserve operations (net)	Marginal lending facility	Deposit facility	Target	Rest	Total	Banknotes	Deposits to general government	Gold and net assets in foreign currency	Other assets (net)	
	14=15+16+17+18+19-20	15	16	t 17	18	19	20	21	22	23=24+25-26-27	24	25	26	27	28
07 *Jan*	21 706	18 536	3 170	-	-	-	0	-22 011	-4 784	30 083	84 423	15 970	11 001	59 309	18 418
Feb	22 586	19 883	2 692	12	-	-	0	-21 757	-4 784	30 172	83 187	17 596	10 920	59 690	18 954
Mar	20 302	16 637	3 939	-	-	-	274	-21 032	-4 786	26 878	83 729	15 890	10 716	62 025	19 243
Apr	19 144	15 571	3 876	-232	-	-	72	-26 289	-4 787	29 797	85 050	17 924	10 255	62 922	20 423
May	20 280	16 315	3 997	-	-	0	32	-32 805	-4 787	38 502	84 242	26 822	9 691	62 870	19 370
Jun	18 244	15 824	2 419	-	-	-	0	-34 802	-4 787	37 642	84 836	27 165	9 180	65 180	20 191
Jul	18 325	15 804	2 520	2	-	-	2	-27 106	-4 787	29 122	85 999	20 438	8 477	68 837	21 095
Aug	18 180	15 657	2 341	183	-	-	1	-24 045	-4 787	25 767	85 141	18 069	8 312	69 131	21 245
Sep	20 942	12 319	8 673	-49	-	-	1	-17 669	-4 787	23 288	83 558	17 363	8 210	69 423	20 111
Oct	35 401	18 311	17 821	-734	-	3	0	-5 873	-4 787	24 122	82 899	20 605	8 430	70 952	21 938
Nov	40 374	19 314	21 172	-90	-	-	21	291	-4 787	24 657	81 859	23 257	8 463	71 996	20 214
Dec	44 088	33 527	18 781	-8 202	-	-	17	4 278	-4 787	20 766	84 039	17 913	9 107	72 079	23 831
08 *Jan*	39 645	28 261	14 356	-2 957	-	22	37	4 993	-4 787	18 104	82 646	18 048	11 174	71 416	21 336
Feb	44 170	24 201	20 086	-115	-	1	3	7 985	-4 787	18 829	80 774	19 962	9 836	72 071	22 143
Mar	44 173	21 534	22 480	161	-	-	2	6 549	-4 787	18 842	81 638	19 314	9 313	72 798	23 569
Apr	47 940	18 749	29 240	-27	-	-	23	12 728	-4 787	17 878	80 339	20 191	9 608	73 045	22 121
May	47 981	20 386	27 966	-373	-	3	0	9 119	-4 787	19 386	79 609	22 623	10 697	72 149	24 263
Jun	47 077	19 627	27 534	-59	-	27	51	8 300	-4 787	19 006	79 207	23 987	11 228	72 960	24 559

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

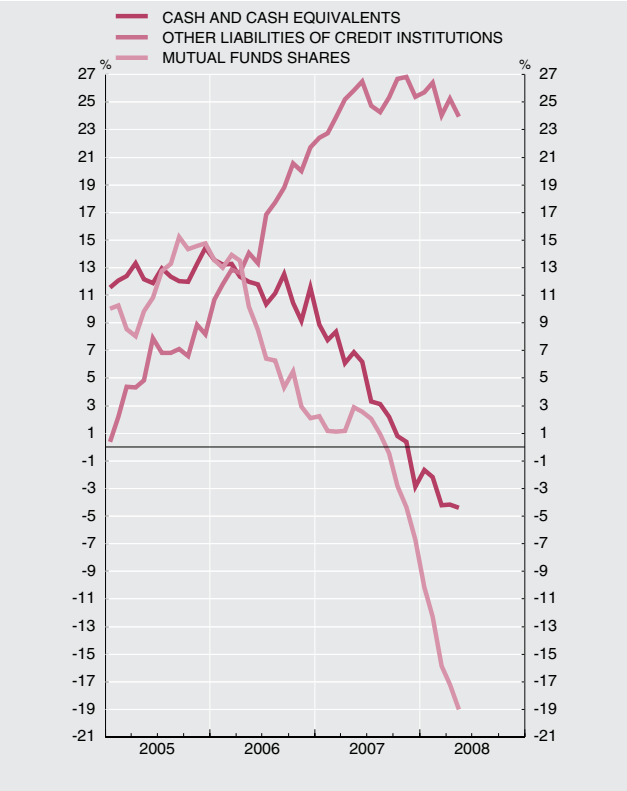
8.2 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

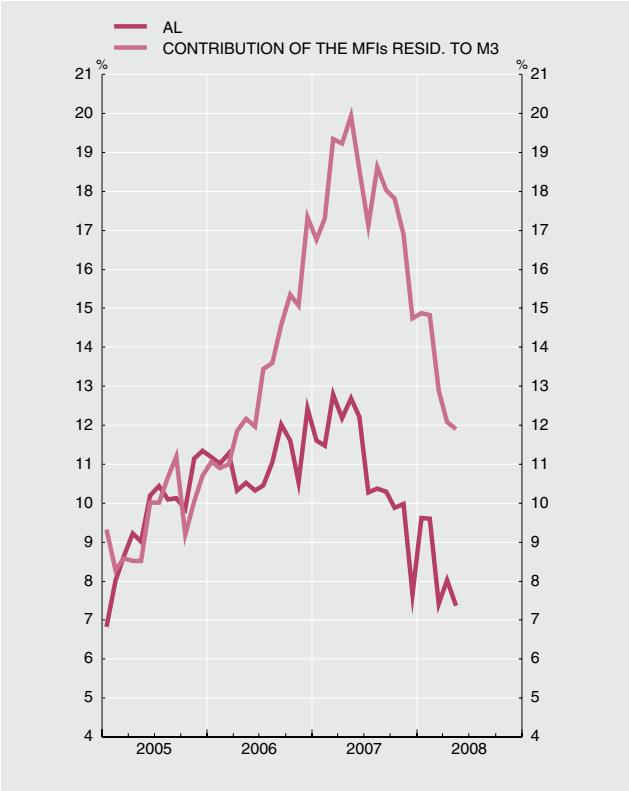
EUR millions and %

	Cash and cash equivalents				Other liabilities of credit institutions					Mutual funds shares				Memorandum items	
	Stocks	12-month % change	12-m. % change: Cash	12-m. % change: Deposits (b)	Stocks	12 month % change	12-month % change: Other deposits (c)	12-month % change: Repos + credit institutions' securities	12-month % change: Deposits in branches abroad	Stocks	12-month % change	12-month % change: Fixed income in EUR (d)	12-month % change: Other	12-month % change: AL (e)	12-month % change: Contribution of the MFIs resid. to M3
	1	2 ■	3	4	5	6 ■	7	8	9	10	11 ■	12	13	14 ■	15 ■
05	459 550	14.4	16.1	14.0	300 666	8.2	10.5	-3.8	6.6	220 195	14.7	7.6	22.3	11.3	10.7
06	512 581	11.5	9.9	11.9	365 928	21.7	22.8	21.6	0.9	224 851	2.1	-10.1	13.5	12.4	17.3
07	497 913	-2.9	2.3	-4.1	458 871	25.4	29.8	7.4	-10.7	209 767	-6.7	-3.9	-8.8	7.7	14.7
07 *Feb*	491 105	7.8	8.6	7.6	380 311	22.7	26.6	8.2	-4.1	225 913	1.2	-6.6	7.4	11.5	17.3
Mar	501 895	8.4	8.4	8.4	392 083	23.9	27.7	7.3	8.9	228 762	1.1	-2.2	3.7	12.8	19.3
Apr	491 348	6.1	7.4	5.8	396 422	25.2	28.5	11.3	7.1	229 158	1.2	-1.2	3.0	12.2	19.2
May	498 634	6.9	7.5	6.7	404 252	25.9	28.0	15.6	17.9	230 548	2.9	-2.9	7.4	12.7	19.9
Jun	516 830	6.2	7.0	6.0	413 739	26.5	28.5	20.4	5.4	229 715	2.6	-5.3	8.9	12.2	18.6
Jul	502 872	3.3	6.1	2.6	416 130	24.8	27.0	16.0	8.3	227 973	2.1	-4.3	7.1	10.3	17.1
Aug	491 707	3.1	6.7	2.3	423 718	24.3	26.3	16.1	10.5	227 517	0.9	-2.4	3.6	10.4	18.6
Sep	501 220	2.2	5.6	1.4	430 175	25.4	27.9	13.5	12.1	223 556	-0.4	-1.7	0.6	10.3	18.0
Oct	485 437	0.8	4.9	-0.2	440 094	26.7	29.8	12.5	5.6	220 368	-2.8	-5.0	-1.2	9.9	17.8
Nov	488 042	0.4	3.9	-0.4	449 317	26.8	30.0	13.4	1.1	214 662	-4.4	-3.6	-5.0	10.0	16.9
Dec	497 913	-2.9	2.3	-4.1	458 871	25.4	29.8	7.4	-10.7	209 767	-6.7	-3.9	-8.8	7.7	14.7
08 *Jan*	482 423	-1.7	1.8	-2.5	469 866	25.7	30.0	6.2	-6.7	202 639	-10.1	4.5	-20.6	9.6	14.9
Feb	480 371	-2.2	1.5	-3.1	480 754	26.4	31.2	3.1	-7.4	198 198	-12.3	3.1	-23.1	9.6	14.8
Mar	480 690	-4.2	-0.3	-5.2	486 321	24.0	29.7	-2.1	-15.4	192 551	-15.8	0.4	-27.6	7.4	12.9
Apr P	470 959	-4.1	-0.7	-5.0	496 421	25.2	31.6	-7.6	-10.7	189 713	-17.2	-0.7	-29.0	8.0	12.1
May P	476 618	-4.4	-1.9	-5.0	501 134	24.0	31.5	-12.8	-19.6	186 752	-19.0	-1.4	-31.3	7.4	11.9

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.

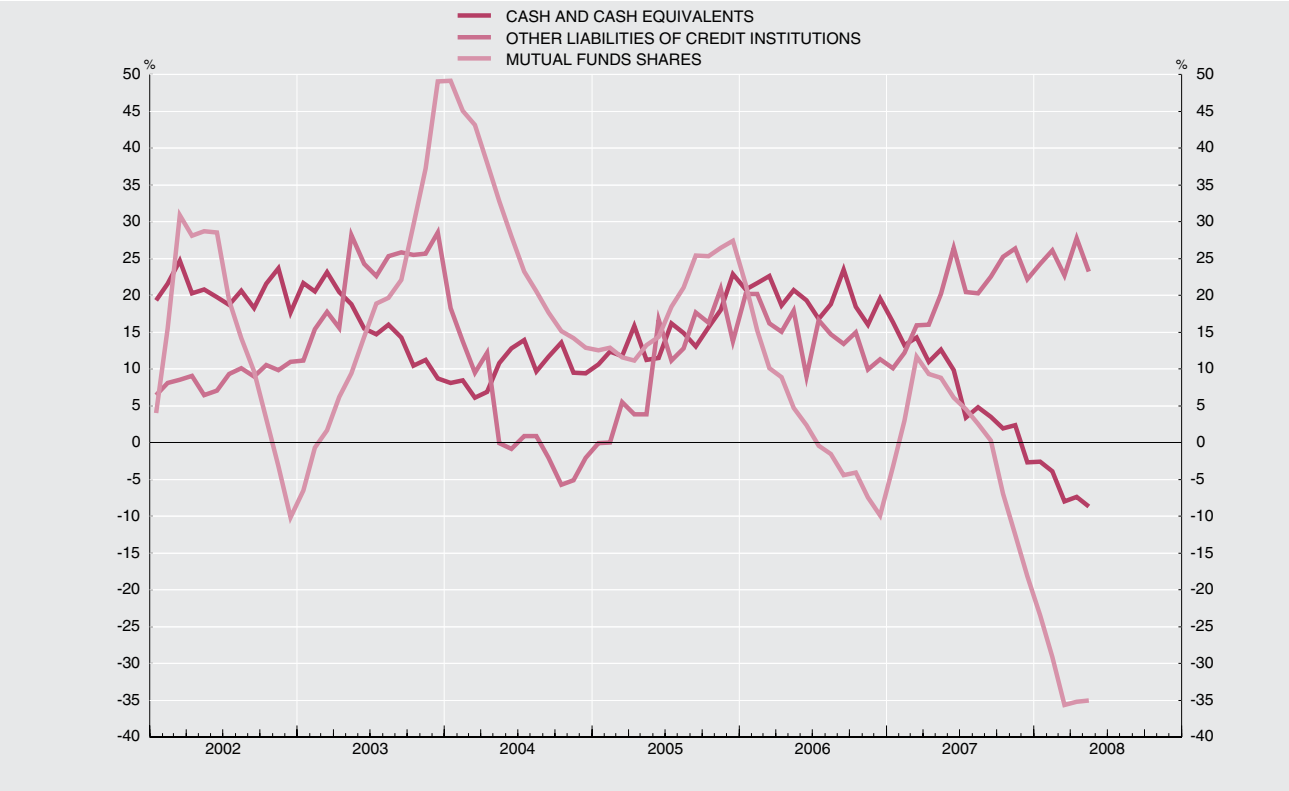
8.3 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF NON-FINANCIAL CORPORATIONS RESIDENT IN SPAIN (a)

■ 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
05		114 876	22.9	70 939	13.7	30.5	-3.5	29 442	27.4	13.9	41.4
06		137 357	19.6	78 960	11.3	17.4	2.8	26 523	-9.9	-15.9	-5.0
07		133 623	-2.7	96 445	22.1	37.4	-2.1	21 692	-18.2	-15.7	-20.0
07	*Feb*	129 819	13.3	78 557	12.2	28.2	-8.9	28 899	3.0	-1.7	6.6
	Mar	134 565	14.3	82 398	16.0	30.7	-3.9	30 454	11.6	10.4	12.5
	Apr	128 862	11.0	80 843	16.1	28.8	-2.5	29 817	9.3	9.5	9.2
	May	133 554	12.7	84 428	20.2	29.8	5.8	29 278	8.8	5.7	11.1
	Jun	137 293	9.9	89 842	26.5	36.9	10.3	28 474	6.1	1.2	9.9
	Jul	128 420	3.4	86 679	20.5	30.3	5.3	27 707	4.5	0.8	7.4
	Aug	126 227	4.8	89 949	20.2	27.4	9.1	27 100	2.5	1.7	3.1
	Sep	132 591	3.5	92 027	22.5	30.7	9.4	26 101	0.3	1.5	-0.7
	Oct	125 602	1.9	93 141	25.2	35.8	7.6	24 743	-6.9	-8.1	-6.1
	Nov	129 238	2.4	95 075	26.3	37.4	7.2	23 169	-12.6	-11.8	-13.1
	Dec	133 623	-2.7	96 445	22.1	37.4	-2.1	21 692	-18.2	-15.7	-20.0
08	*Jan*	125 515	-2.6	96 495	24.3	36.2	3.1	21 258	-23.5	-7.8	-34.6
	Feb	124 705	-3.9	99 031	26.1	38.6	2.8	20 491	-29.1	-13.3	-40.2
	Mar	123 864	-8.0	101 117	22.7	35.6	-0.9	19 600	-35.6	-19.9	-47.1
	Apr P	119 348	-7.4	103 297	27.8	44.4	-4.1	19 304	-35.3	-19.0	-46.9
	May P	121 938	-8.7	104 021	23.2	43.1	-13.1	19 019	-35.0	-17.4	-47.3

NON-FINANCIAL CORPORATIONS
Annual percentage change



Source: BE.

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

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

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

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

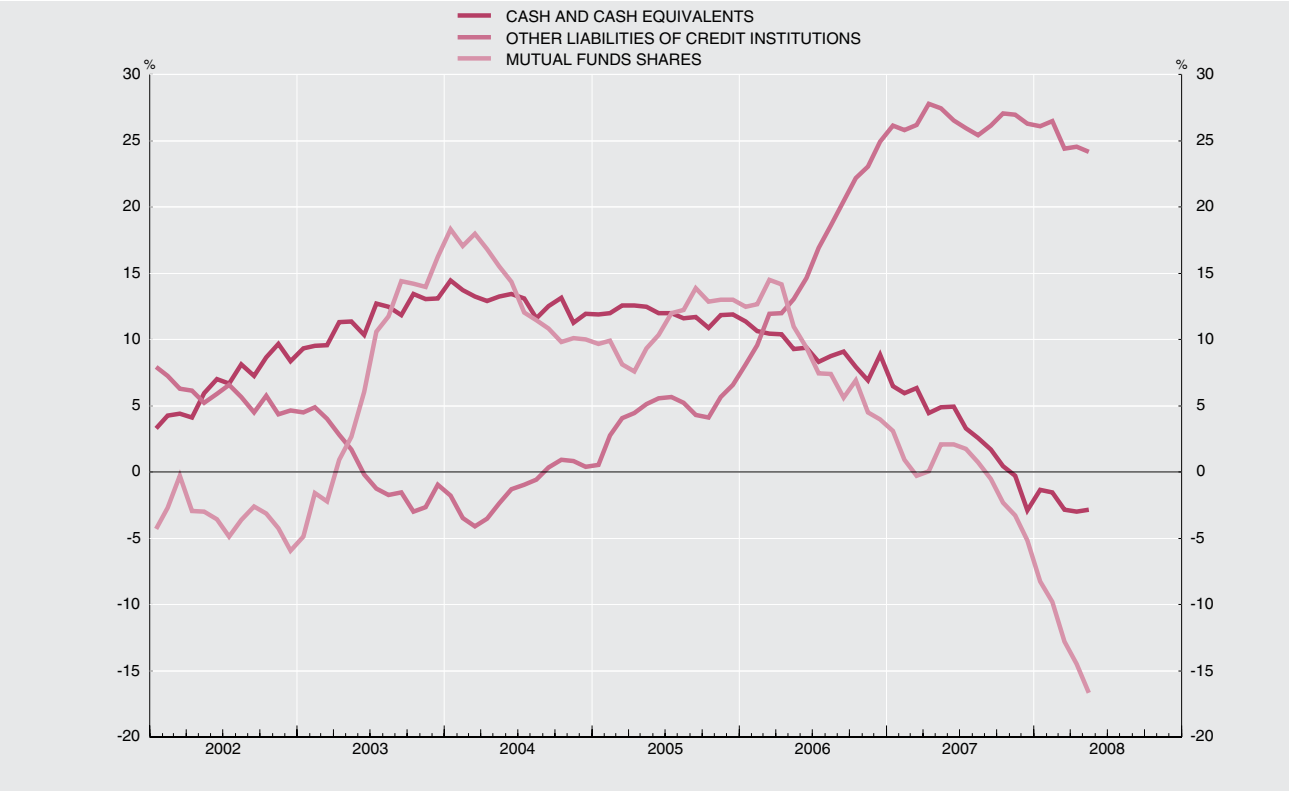
8.4 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

EUR millions and %

		Cash and cash equivalents				Other liabilities of credit institutions				Mutual funds shares			
		Stocks	Annual growth rate	Annual growth rate		Stocks	Annual growth rate	Annual growth rate		Stocks	Annual growth rate	Annual growth rate	
				Cash	Deposits (b)			Other deposits (c)	Repos + credit instit.' securit.+ dep. in branches abroad			Fixed income in EUR (d)	Other
		1	2 ■	3	4	5	6 ■	7	8	9	10 ■	11	12
05		344 674	11.9	14.3	11.2	229 726	6.6	7.3	1.0	190 753	13.0	6.7	19.6
06		375 224	8.9	9.2	8.8	286 967	24.9	23.8	34.4	198 328	4.0	-9.3	16.5
07		364 290	-2.9	2.8	-4.6	362 426	26.3	28.4	9.4	188 075	-5.2	-2.3	-7.3
07	*Feb*	361 286	5.9	8.2	5.3	301 754	25.8	26.3	21.8	197 014	0.9	-7.2	7.6
	Mar	367 330	6.4	8.0	5.9	309 686	26.2	27.1	19.6	198 308	-0.3	-3.8	2.4
	Apr	362 486	4.4	7.1	3.6	315 579	27.8	28.4	23.0	199 340	0.1	-2.7	2.1
	May	365 080	4.9	7.3	4.2	319 824	27.5	27.7	25.9	201 270	2.1	-4.0	6.8
	Jun	379 537	4.9	6.9	4.4	323 898	26.5	26.9	23.6	201 241	2.1	-6.1	8.8
	Jul	374 452	3.3	6.1	2.4	329 452	25.9	26.3	22.9	200 266	1.7	-4.9	7.1
	Aug	365 480	2.6	6.8	1.3	333 769	25.4	26.1	20.5	200 417	0.7	-3.0	3.7
	Sep	368 629	1.7	5.8	0.5	338 148	26.2	27.4	16.8	197 455	-0.5	-2.2	0.8
	Oct	359 835	0.4	5.2	-1.0	346 953	27.1	28.7	14.2	195 625	-2.3	-4.6	-0.5
	Nov	358 804	-0.3	4.3	-1.7	354 243	27.0	28.6	14.1	191 494	-3.3	-2.5	-3.9
	Dec	364 290	-2.9	2.8	-4.6	362 426	26.3	28.4	9.4	188 075	-5.2	-2.3	-7.3
08	*Jan*	356 908	-1.3	2.3	-2.5	373 371	26.1	28.8	4.1	181 381	-8.3	6.3	-18.6
	Feb	355 666	-1.6	2.0	-2.6	381 722	26.5	29.8	-0.4	177 707	-9.8	5.5	-20.6
	Mar	356 825	-2.9	0.3	-3.8	385 204	24.4	28.5	-8.0	172 950	-12.8	3.5	-24.6
	Apr P	351 611	-3.0	-0.2	-3.9	393 124	24.6	29.2	-11.3	170 409	-14.5	2.1	-26.4
	May P	354 681	-2.8	-1.4	-3.3	397 113	24.2	29.3	-15.0	167 733	-16.7	1.0	-29.0

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.

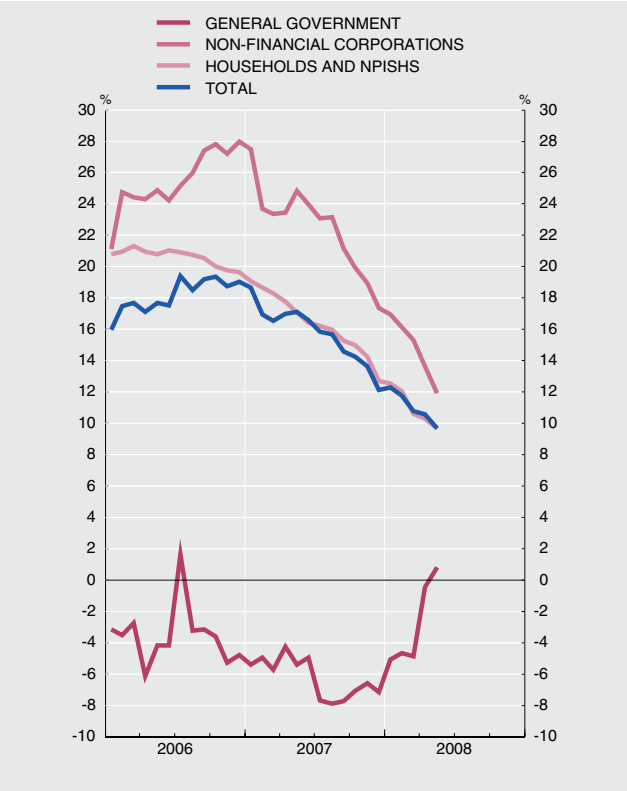
8.5. FINANCING OF NON-FINANCIAL SECTORS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

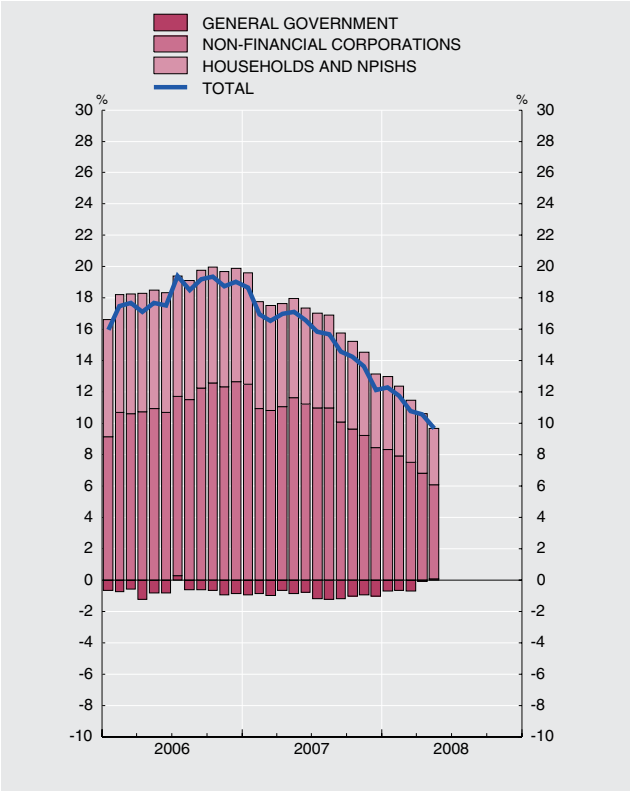
EUR millions and %

		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 instrumentss		
							Non-financial corporations	Households and NPISHs	Credit institutions' loans & securit. funds	Securities other than shares	External loans			Non-financial corporations	Households and NPISHs	Credit institutions' loans & securit. funds	Securities other than shares	External loans
		1	2	3 ■	4 ■	5	6 ■	7 ■	8	9	10	11 ■	12	13 ■	14 ■	15	16	17
05		1 763 901	242 997	16.1	-2.7	21.2	21.4	20.9	23.0	23.7	10.7	-0.6	16.6	9.2	7.4	15.2	0.2	1.3
06		2 102 825	335 894	19.0	-4.8	24.2	28.0	19.6	24.4	134.2	16.0	-0.9	19.9	12.6	7.3	17.0	1.0	1.9
07		2 363 515	255 205	12.1	-7.2	15.3	17.3	12.7	15.9	18.1	11.4	-1.0	13.2	8.5	4.7	11.6	0.3	1.3
07	*Feb*	2 136 684	23 073	16.9	-4.9	21.5	23.7	18.7	23.7	61.0	5.5	-0.8	17.8	10.9	6.8	16.4	0.7	0.7
	Mar	2 172 123	29 372	16.5	-5.7	21.1	23.4	18.3	23.3	58.4	5.5	-1.0	17.5	10.8	6.7	16.2	0.6	0.7
	Apr	2 178 275	11 960	17.0	-4.2	20.9	23.5	17.8	22.6	56.2	8.4	-0.7	17.7	11.1	6.6	16.0	0.6	1.0
	May	2 216 003	38 391	17.1	-5.4	21.4	24.8	17.1	22.5	55.4	11.8	-0.9	18.0	11.6	6.4	15.9	0.6	1.5
	Jun	2 266 624	40 024	16.6	-4.9	20.6	24.0	16.4	21.9	29.8	12.2	-0.8	17.4	11.2	6.1	15.5	0.4	1.4
	Jul	2 280 996	20 404	15.9	-7.7	20.1	23.1	16.2	21.3	29.9	11.7	-1.2	17.0	11.0	6.0	15.2	0.4	1.4
	Aug	2 292 802	12 263	15.7	-7.9	20.0	23.2	16.0	21.3	30.3	11.1	-1.2	16.9	11.0	5.9	15.2	0.4	1.3
	Sep	2 311 421	18 451	14.6	-7.7	18.6	21.1	15.3	19.9	28.1	9.3	-1.2	15.8	10.1	5.6	14.3	0.4	1.1
	Oct	2 315 039	8 166	14.2	-7.1	17.8	19.9	15.0	18.7	24.0	11.3	-1.0	15.2	9.7	5.6	13.6	0.4	1.3
	Nov	2 339 173	23 514	13.6	-6.6	16.9	19.0	14.2	17.6	21.7	11.8	-0.9	14.5	9.2	5.3	12.9	0.3	1.4
	Dec	2 363 515	24 401	12.1	-7.2	15.3	17.3	12.7	15.9	18.1	11.4	-1.0	13.2	8.5	4.7	11.6	0.3	1.3
08	*Jan*	2 370 205	9 436	12.3	-5.1	15.1	17.0	12.5	15.4	18.3	12.3	-0.7	13.0	8.3	4.6	11.3	0.3	1.4
	Feb	2 385 716	14 754	11.8	-4.6	14.4	16.1	12.1	15.0	13.9	10.8	-0.6	12.4	7.9	4.5	10.9	0.2	1.3
	Mar	2 399 375	12 896	10.8	-4.9	13.3	15.3	10.6	13.6	10.7	11.7	-0.7	11.5	7.5	3.9	9.9	0.2	1.4
	Apr P	2 406 253	7 914	10.6	-0.4	12.2	13.6	10.3	12.6	15.0	9.2	-0.1	10.6	6.8	3.8	9.3	0.2	1.1
	May P	2 428 010	22 192	9.7	0.8	11.0	11.9	9.7	11.6	17.0	6.3	0.1	9.6	6.0	3.6	8.6	0.3	0.8

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 deducted.

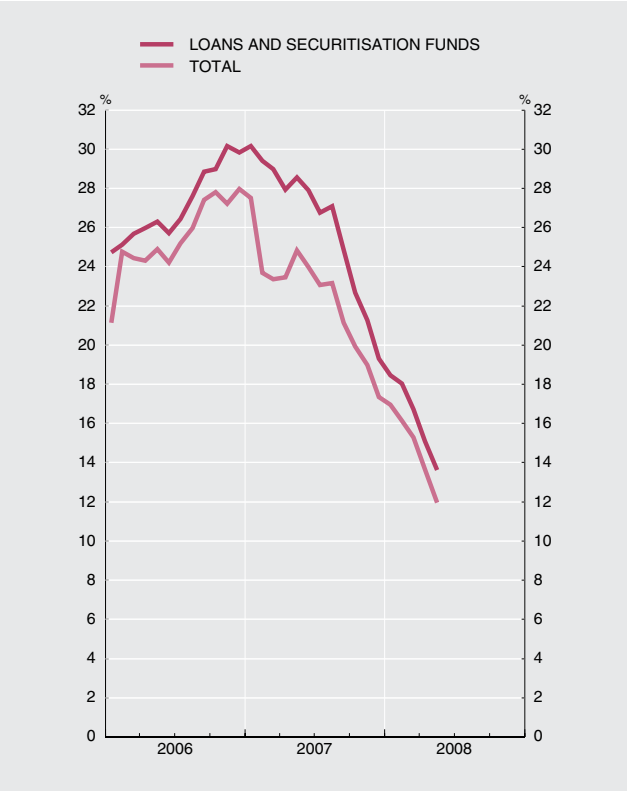
8.6. FINANCING OF NON-FINANCIAL CORPORATIONS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

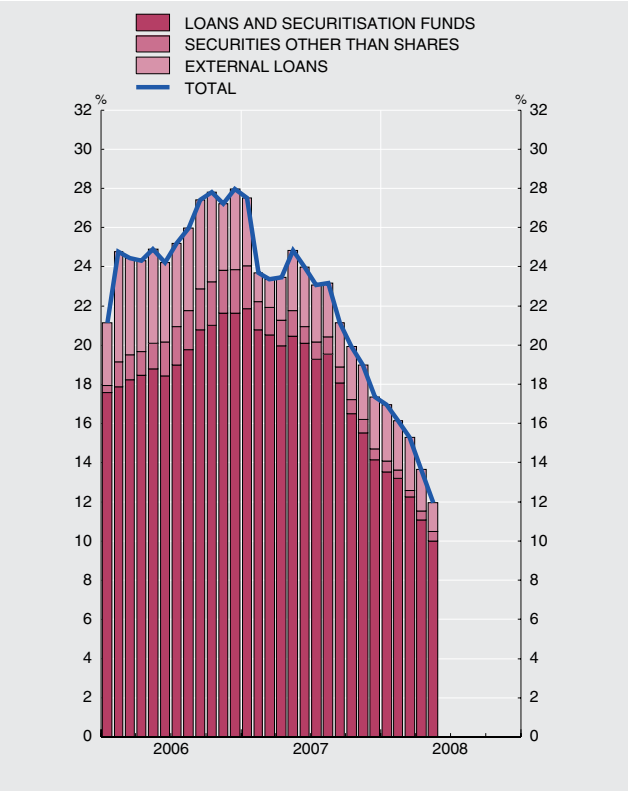
EUR millions and %

	Total			Resident credit institutions' loans and off-balance-sheet securitised loans			Securities other than shares (b)				External loans			Memorandum items: off-balance-sheet securitised loans
							of which							
	Stocks	Effective flow	Annual growth rate	Stocks	Annual growth rate	Contribution to col.3	Stocks	Issues by resident financ. subsid.	Annual growth rate	Contribution to col.3	Stocks	Annual growth rate	Contribution to col.3	
	1	2	3 ■	4	5 ■	6 ■	7	8	9	10 ■	11	12	13 ■	14
05	797 568	139 281	21.4	578 229	25.5	18.1	13 206	2 634	23.7	0.4	206 133	10.7	3.0	5 581
06	1 024 213	223 105	28.0	750 137	29.8	21.6	30 934	19 370	134.2	2.2	243 142	16.0	4.1	3 230
07	1 208 854	177 691	17.3	894 156	19.3	14.1	36 531	22 951	18.1	0.5	278 167	11.2	2.7	1 166
07 *Feb*	1 049 960	10 256	23.7	767 415	29.4	20.8	32 080	20 821	61.0	1.4	250 464	5.5	1.5	3 162
Mar	1 069 862	13 734	23.4	783 259	29.0	20.5	32 356	21 172	58.4	1.4	254 247	5.4	1.5	3 079
Apr	1 087 069	22 914	23.5	798 420	27.9	20.0	31 889	21 049	56.2	1.3	256 760	8.4	2.2	3 104
May	1 110 346	23 928	24.8	813 013	28.6	20.4	32 571	21 137	55.4	1.3	264 761	11.8	3.1	2 763
Jun	1 137 283	16 206	24.0	832 546	27.9	20.1	33 407	21 389	29.8	0.8	271 330	12.2	3.1	3 004
Jul	1 161 103	29 816	23.1	854 200	26.7	19.3	35 905	23 321	29.9	0.9	270 997	11.6	2.9	2 759
Aug	1 161 730	1 041	23.2	856 056	27.1	19.5	35 898	23 304	30.3	0.9	269 776	11.0	2.8	2 665
Sep	1 175 452	13 289	21.1	869 184	24.9	18.1	36 429	23 023	28.1	0.8	269 840	9.2	2.3	2 300
Oct	1 183 264	12 301	19.9	874 064	22.7	16.5	36 804	23 338	24.0	0.7	272 397	11.2	2.7	2 142
Nov	1 195 090	11 126	19.0	883 525	21.3	15.5	36 654	23 234	21.7	0.7	274 911	11.6	2.8	1 880
Dec	1 208 854	13 284	17.3	894 156	19.3	14.1	36 531	22 951	18.1	0.5	278 167	11.2	2.7	1 166
08 *Jan*	1 214 326	8 249	17.0	900 652	18.5	13.5	36 604	22 766	18.3	0.5	277 070	12.1	2.9	1 138
Feb	1 218 797	3 653	16.1	904 942	18.0	13.2	36 527	22 562	13.9	0.4	277 329	10.6	2.5	1 047
Mar	1 227 889	7 906	15.3	912 905	16.7	12.2	35 814	22 482	10.7	0.3	279 170	11.5	2.7	899
Apr	P 1 234 427	7 540	13.6	917 556	15.1	11.1	36 681	22 468	15.0	0.4	280 190	9.0	2.1	847
May	P 1 242 355	8 199	11.9	922 384	13.6	10.0	38 123	22 339	17.0	0.5	281 849	6.1	1.5	792

FINANCING OF NON-FINANCIAL CORPORATIONS
Annual percentage change



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



Source: BE.

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

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

b. Includes issues of resident financial subsidiaries of non-financial corporations, insofar as the funds raised in these issues are routed to the parent company as loans. The issuing institutions of these financial instruments are classified as Other financial intermediaries in the Boletín Estadístico and in the Financial Accounts of the Spanish Economy.

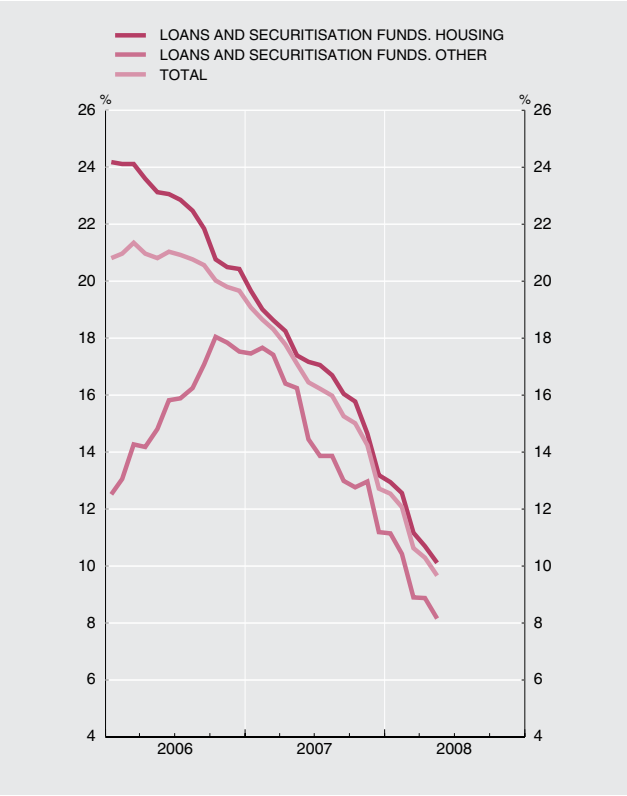
8.7. FINANCING OF HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

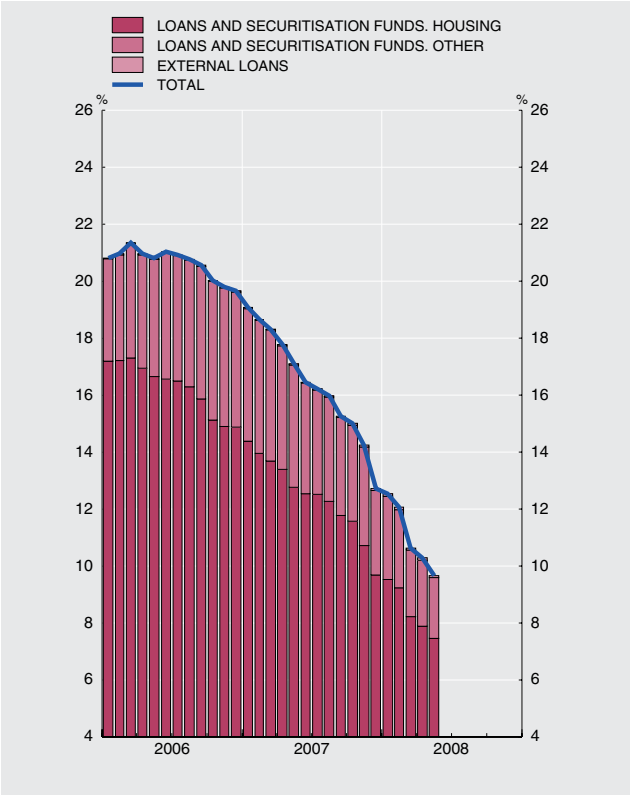
EUR millions and %

		Total			Resident credit institutions' loans and off-balance-sheet securitised loans. Housing			Resident credit institutions' loans and off-balance-sheet securitised loans. Other			External loans			Memorandum items: off-balance-sheet securitised loans	
		Stocks	Effective flow	Annual growth rate	Stocks	Annual growth rate	Contribution to col.3	Stocks	Annual growth rate	Contribution to col.3	Stocks	Annual growth rate	Contribution to col.3	Housing	Other
		1	2	3 ■	4	5 ■	6 ■	7	8 ■	9 ■	10	11	12 ■	13	14
05		650 997	112 525	20.9	474 499	24.3	17.2	175 571	12.5	3.6	927	10.8	0.0	28 527	3 030
06		778 372	127 886	19.6	571 325	20.4	14.9	205 872	17.5	4.7	1 175	26.7	0.0	26 937	3 421
07		875 912	99 004	12.7	646 121	13.2	9.7	228 017	11.2	3.0	1 774	51.0	0.1	27 909	5 802
07	*Feb*	790 516	7 779	18.7	581 809	19.0	13.9	207 527	17.7	4.7	1 180	18.7	0.0	25 735	3 638
	Mar	803 646	13 231	18.3	592 049	18.6	13.7	210 362	17.4	4.6	1 236	23.2	0.0	25 708	3 196
	Apr	812 275	8 729	17.8	598 772	18.2	13.4	212 254	16.4	4.3	1 249	19.8	0.0	26 108	3 333
	May	821 189	8 925	17.1	604 835	17.4	12.8	215 069	16.2	4.3	1 285	21.2	0.0	25 294	5 101
	Jun	838 588	17 534	16.4	616 513	17.2	12.5	220 775	14.4	3.9	1 301	19.5	0.0	27 819	5 143
	Jul	845 511	6 956	16.2	625 074	17.0	12.5	219 063	13.9	3.7	1 374	25.1	0.0	27 842	5 208
	Aug	849 569	4 101	16.0	628 701	16.7	12.3	219 399	13.9	3.7	1 469	31.9	0.0	28 675	5 120
	Sep	854 765	5 463	15.3	632 594	16.0	11.8	220 652	13.0	3.4	1 519	35.1	0.1	27 971	6 211
	Oct	863 443	8 736	15.0	638 006	15.8	11.6	223 838	12.7	3.4	1 599	42.7	0.1	27 708	6 170
	Nov	875 889	12 526	14.2	643 572	14.7	10.7	230 657	13.0	3.5	1 661	46.7	0.1	27 565	6 049
	Dec	875 912	561	12.7	646 121	13.2	9.7	228 017	11.2	3.0	1 774	51.0	0.1	27 909	5 802
08	*Jan*	879 451	3 508	12.5	649 550	12.9	9.5	228 118	11.1	2.9	1 782	51.9	0.1	27 970	5 817
	Feb	884 439	5 049	12.1	654 122	12.6	9.2	228 529	10.4	2.7	1 788	51.5	0.1	29 859	5 807
	Mar	887 388	3 372	10.6	657 188	11.2	8.2	228 344	8.9	2.3	1 857	50.2	0.1	28 705	5 645
	Apr P	894 139	6 786	10.3	661 903	10.7	7.9	230 334	8.9	2.3	1 902	52.3	0.1	28 615	5 663
	May P	898 802	4 826	9.7	665 107	10.1	7.5	231 747	8.2	2.1	1 947	51.5	0.1	28 255	5 501

FINANCING OF HOUSEHOLDS AND NPISHs
Annual percentage change



FINANCING OF HOUSEHOLDS AND NPISHs
Contributions to the annual percentage change



Source: BE.

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

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

8.8. NET FINANCING OF SPAIN'S GENERAL GOVERNMENT

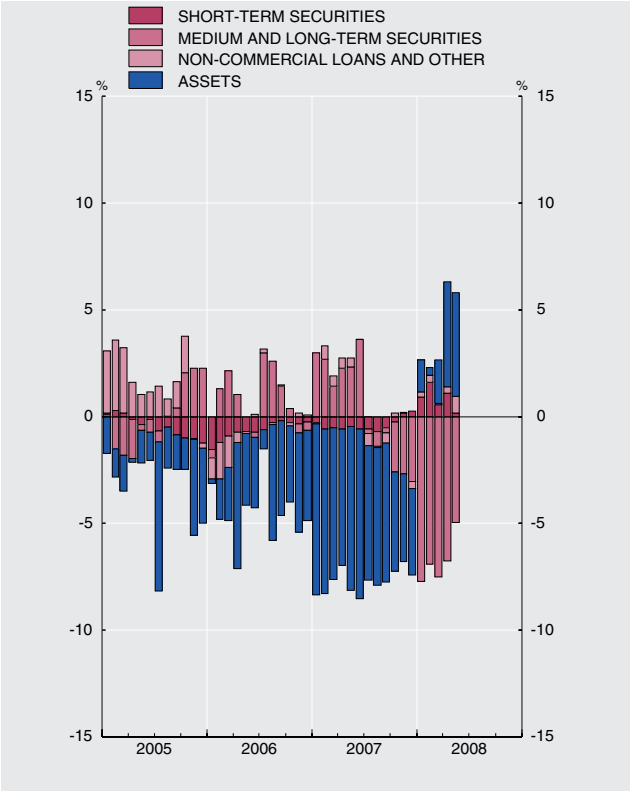
■ Series depicted in chart.

EUR millions and %

		Net financing			Monthly change in stocks						12-month % change in stocks					Contribution to 12-month % change in net stocks of liabilities			
					Liabilities (a)				Assets		Liabilities					Liabilities			
		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)	Assets	Securities		Non-commercial loans and other (a)	Assets
						Short-term	Medium and long-term					Short-term	Medium and long-term			Short-term	Medium and long-term		
		1	2	3 ■	4	5	6	7	8	9	10	11 ■	12 ■	13 ■	14	15 ■	16 ■	17 ■	18 ■
04		324 145	680	0.2	6 813	-2 491	1 510	7 794	-1 817	7 949	1.8	-6.2	0.5	12.9	10.6	-0.8	0.5	2.4	-1.9
05		315 336	-8 809	-2.7	2 573	-4 042	7 366	-751	-695	12 077	0.7	-10.8	2.6	-1.1	17.7	-1.2	2.3	-0.2	-3.5
06		P 300 239	-15 097	-4.8	-1 754	-770	-1 218	234	1 780	11 562	-0.4	-2.3	-0.4	0.3	17.6	-0.2	-0.4	0.1	-4.2
07		P 278 749	-21 490	-7.2	-9 320	792	-9 090	-1 022	2 973	9 196	-2.4	2.4	-3.1	-1.5	13.7	0.3	-3.0	-0.3	-4.1
06	*Dec*	P 300 239	13 179	-4.8	982	-1 781	618	2 145	32	-12 228	-0.4	-2.3	-0.4	0.3	17.6	-0.2	-0.4	0.1	-4.2
07	*Jan*	P 291 170	-9 069	-5.4	4 217	1 638	4 151	-1 572	926	12 360	2.1	-2.5	3.2	-0.2	31.9	-0.3	3.0	-0.0	-8.0
	Feb	P 296 208	5 038	-4.9	534	-3 007	2 608	933	71	-4 575	2.2	-5.5	2.9	3.0	32.5	-0.6	2.7	0.6	-7.7
	Mar	P 298 614	2 406	-5.7	1 887	2 379	-1 633	1 140	422	-942	1.1	-4.6	1.5	2.3	30.1	-0.5	1.4	0.5	-7.1
	Apr	P 278 930	-19 683	-4.2	-3 203	-2 692	-123	-389	13 375	3 105	1.6	-5.1	2.3	2.1	19.6	-0.6	2.3	0.5	-6.4
	May	P 284 468	5 538	-5.4	1 213	2 267	37	-1 091	131	-4 457	1.8	-4.1	2.4	2.0	26.7	-0.5	2.3	0.4	-7.7
	Jun	P 290 752	6 284	-4.9	3 138	-2 643	5 646	136	-4 295	1 150	2.4	-5.5	3.8	0.1	29.7	-0.6	3.6	0.0	-7.9
	Jul	P 274 383	-16 369	-7.7	-9 925	1 892	-10 458	-1 359	-6 321	12 765	-1.0	-5.1	-0.2	-2.4	19.9	-0.6	-0.2	-0.5	-6.3
	Aug	P 281 504	7 121	-7.9	-4 510	-1 808	-2 043	-660	-158	-11 473	-1.2	-6.7	-0.7	-0.3	24.1	-0.7	-0.7	-0.1	-6.4
	Sep	P 281 203	-301	-7.7	5 674	2 582	2 769	323	-72	6 046	-1.0	-4.5	-0.3	-2.1	22.7	-0.5	-0.3	-0.5	-6.5
	Oct	P 268 332	-12 871	-7.1	-10 578	-1 178	-10 088	688	1 512	780	-1.8	-2.3	-2.3	0.8	14.0	-0.3	-2.3	0.2	-4.6
	Nov	P 268 193	-139	-6.6	3 495	2 868	842	-215	-2 152	5 786	-1.8	1.5	-2.7	0.1	11.7	0.2	-2.7	0.0	-4.1
	Dec	P 278 749	10 556	-7.2	-1 261	-1 505	-800	1 043	-468	-11 350	-2.4	2.4	-3.1	-1.5	13.7	0.3	-3.0	-0.3	-4.1
08	*Jan*	A 276 429	-2 321	-5.1	-5 554	3 506	-9 228	168	7	-3 240	-4.9	7.8	-7.7	1.1	-4.3	0.9	-7.7	0.2	1.5
	Feb	A 282 480	6 051	-4.6	4 884	-956	4 589	1 252	1 046	-2 213	-3.7	15.1	-6.9	1.5	-1.0	1.6	-6.9	0.3	0.3
	Mar	A 284 098	1 618	-4.9	-4 013	-708	-3 606	301	-328	-5 303	-5.2	4.8	-7.6	0.3	-6.3	0.5	-7.5	0.1	2.1
	Apr	A 277 686	-6 412	-0.4	2 467	-1 287	3 480	273	115	8 763	-3.8	9.8	-6.4	1.3	-12.1	1.1	-6.8	0.3	4.9
	May	A 286 853	9 167	0.8	4 794	-322	4 796	320	-411	-3 962	-2.9	1.3	-4.8	3.4	-12.6	0.2	-5.0	0.8	4.8

NET FINANCING OF GENERAL GOVERNMENT
Annual percentage changes

NET FINANCING OF GENERAL GOVERNMENT
Contributions to the annual percentage change



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

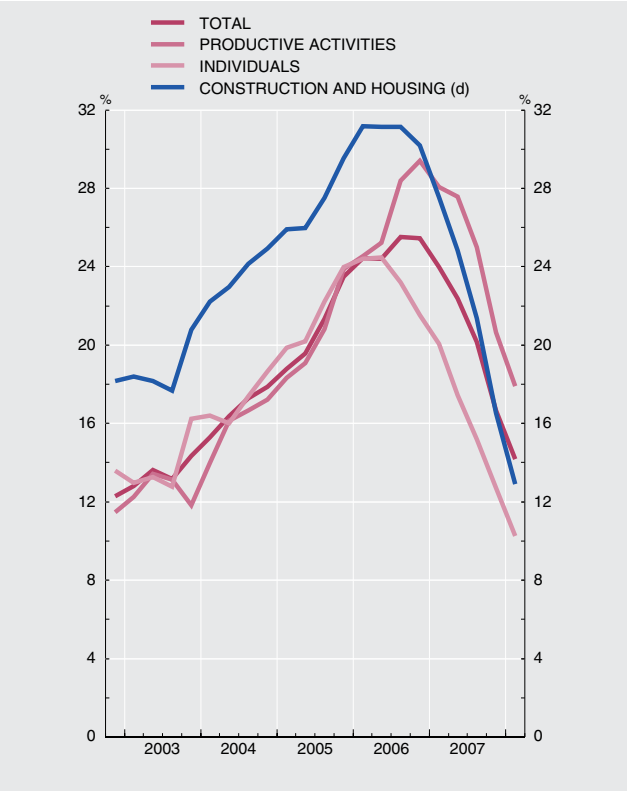
8.9 LENDING BY CREDIT INSTITUTIONS TO OTHER RESIDENT SECTORS. BREAKDOWN BY END-USE.

■ Series depicted in chart.

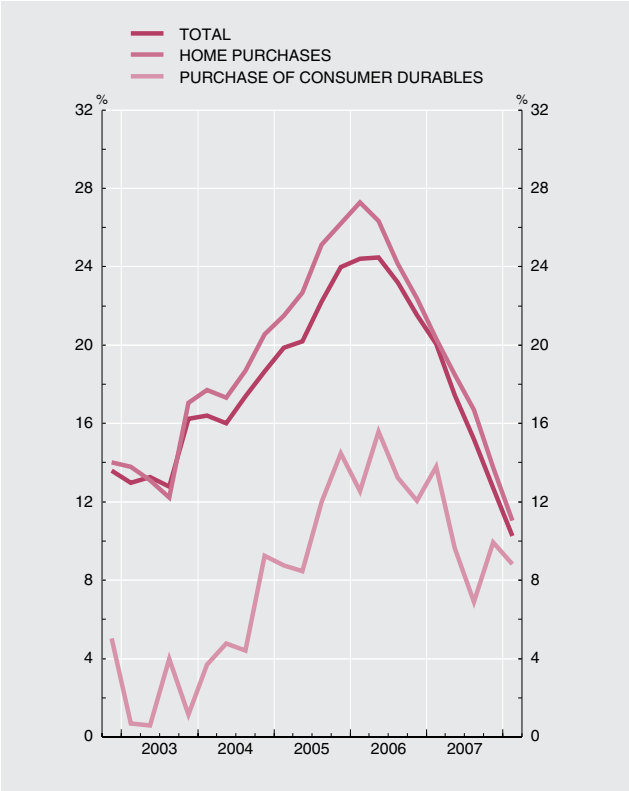
EUR millions and percentages

	Total (a)	Financing of productive activities						Financing of individuals					Financing of private non-profit institutions	Unclassified	Memorandum item: construction and housing (d)
		Total	Agriculture and fisheries	Industry excluding construction	Construction	Services		Total	Home purchases and improvements		Purchases of consumer durables	Other (b)			
						Total	Of which: Real estate activities		Total	Of which: Purchases					
	1 ■	2 ■	3	4	5	6	7	8 ■	9	10 ■	11 ■	12	13	14	15 ■
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
07	1 760 213	943 086	25 245	141 571	153 453	622 818	303 514	789 250	618 212	590 600	56 576	114 462	6 089	21 788	1 075 179
03 *Q4*	802 212	411 986	16 402	85 829	65 784	243 972	77 980	372 013	275 958	263 192	35 136	60 919	3 002	15 212	419 722
04 *Q1*	832 734	428 517	16 973	85 326	68 171	258 047	85 136	386 179	288 736	275 107	36 201	61 242	3 108	14 930	442 044
Q2	878 477	452 030	17 102	86 636	72 362	275 930	94 970	405 486	301 537	286 744	37 374	66 575	3 183	17 777	468 869
Q3	903 590	464 578	17 655	88 360	75 494	283 069	102 455	419 230	315 021	299 447	38 075	66 134	3 426	16 355	492 970
Q4	945 697	482 984	18 104	90 487	78 372	296 020	112 165	441 443	333 826	317 268	38 379	69 238	3 677	17 594	524 363
05 *Q1*	989 196	507 089	18 188	93 815	83 421	311 665	121 444	462 910	351 757	334 224	39 375	71 778	3 548	15 649	556 622
Q2	R1 085 320	544 048	19 501	99 393	89 806	335 349	135 483	516 384	394 989	375 523	42 531	78 864	4 200	20 687	620 277
Q3	1 131 241	567 022	20 182	101 716	94 411	350 714	144 811	541 346	419 032	398 498	44 644	77 670	4 355	18 518	658 253
Q4	1 202 628	604 061	20 738	104 695	100 761	377 867	162 087	576 253	445 972	424 238	45 928	84 354	4 666	17 648	708 819
06 *Q1*	1 265 755	637 277	21 213	105 687	106 183	404 195	181 491	604 878	471 966	449 246	46 320	86 592	4 788	18 813	759 639
Q2	1 350 191	681 307	21 946	109 856	116 195	433 311	198 998	642 698	498 248	474 404	49 161	95 289	5 109	21 077	813 441
Q3	1 419 973	728 058	22 460	115 266	127 420	462 911	216 642	666 972	519 130	494 739	50 552	97 291	5 359	19 584	863 192
Q4	1 508 625	781 644	23 014	119 488	134 317	504 825	244 050	700 294	544 389	519 244	51 461	104 445	5 704	20 983	922 756
07 *Q1*	1 569 169	816 098	23 436	121 148	137 836	533 678	264 653	726 179	566 341	540 541	52 713	107 125	5 743	21 149	968 830
Q2	1 652 352	869 174	24 294	132 145	144 552	568 184	282 081	754 726	588 694	562 101	53 898	112 135	5 955	22 497	1 015 326
Q3	1 706 126	910 001	25 085	140 332	150 341	594 243	292 599	768 197	604 623	577 337	54 035	109 539	6 106	21 822	1 047 563
Q4	1 760 213	943 086	25 245	141 571	153 453	622 818	303 514	789 250	618 212	590 600	56 576	114 462	6 089	21 788	1 075 179
08 *Q1*	1 791 679	962 333	25 003	143 816	154 237	639 277	311 274	800 564	628 482	600 279	57 357	114 724	5 804	22 978	1 093 994

CREDIT BY END-USE
Annual percentage changes (c)



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



SOURCE: BE.

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

b. Includes loans and credit to households for the purchase of land and rural property, the purchase of securities, the purchase of current goods and services not considered to be consumer durables (e.g. loans to finance travel expenses) and for various end-uses not included in the foregoing.

c. Asset-backed securities brought back onto the balance sheet as a result of the entry into force of Banco de España Circular BE 4/2004 have caused a break in the series in June 2005. The rates depicted in the chart have been adjusted to eliminate this effect.

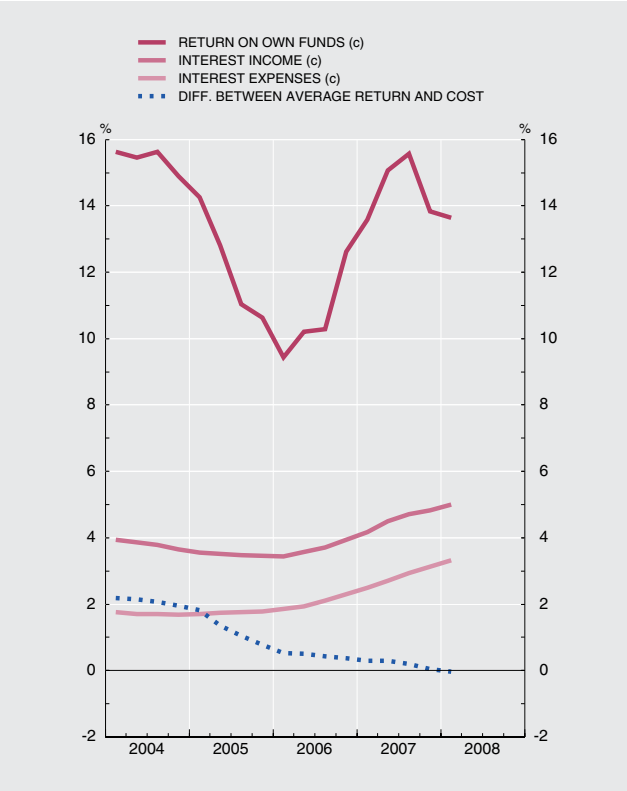
d. Including: construction, real estate activities and home purchases and improvements

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

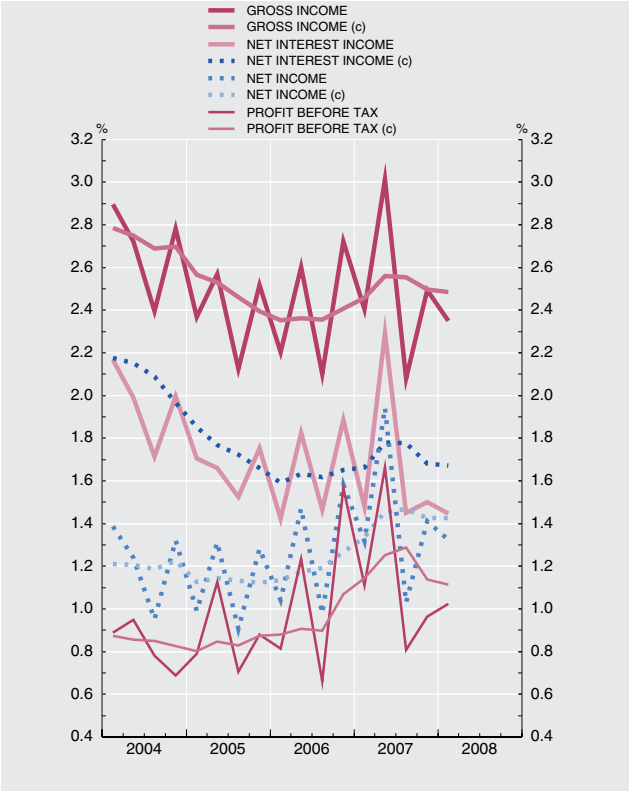
■ Series depicted in chart.

		As a percentage of the adjusted average balance sheet										Percentages			
		Interest income 1 ■	Interest expenses 2 ■	Net interest income 3 ■	Non interest income and expenses 4	Gross income 5 ■	Operating expenses: 6	Of which: Staff costs 7	Net income 8 ■	Provisions and other income and expenses 9	Profit before tax 10 ■	Return on own funds (a) 11 ■	Average return on lending operations (b) 12	Average cost of borrowing operations (b) 13	Difference (12-13) 14 ■
05	R	3.6	1.8	1.8	0.8	2.5	1.2	0.8	1.3	-0.8	0.9	10.0	2.8	2.0	0.8
06		4.5	2.6	1.9	0.8	2.7	1.1	0.7	1.6	-0.4	1.6	19.4	2.9	2.5	0.4
07		5.0	3.5	1.5	1.0	2.5	1.1	0.7	1.4	-1.0	1.0	12.4	3.5	3.5	0.1
05 *Q1*		3.4	1.7	1.7	0.7	2.4	1.4	0.8	1.0	-0.2	0.8	13.5	3.8	1.9	1.8
Q2	R	3.5	1.8	1.7	0.9	2.6	1.3	0.8	1.3	-0.2	1.1	11.4	3.3	2.0	1.4
Q3		3.3	1.8	1.5	0.6	2.1	1.2	0.8	0.9	-0.2	0.7	7.7	3.0	2.0	1.0
Q4		3.6	1.8	1.8	0.8	2.5	1.2	0.8	1.3	-0.2	0.9	10.0	2.8	2.0	0.8
06 *Q1*		3.4	2.0	1.4	0.8	2.2	1.2	0.7	1.0	-0.2	0.8	8.7	2.6	2.1	0.5
Q2		4.0	2.2	1.8	0.8	2.6	1.1	0.7	1.5	-0.2	1.2	14.4	2.7	2.2	0.5
Q3		3.9	2.4	1.5	0.6	2.1	1.1	0.7	1.0	-0.3	0.7	8.0	2.8	2.3	0.4
Q4		4.5	2.6	1.9	0.8	2.7	1.1	0.7	1.6	0.3	1.6	19.4	2.9	2.5	0.4
07 *Q1*		4.3	2.8	1.5	0.9	2.4	1.1	0.7	1.3	-0.2	1.1	12.5	3.1	2.8	0.3
Q2		5.3	3.0	2.3	0.7	3.0	1.1	0.7	1.9	-0.3	1.7	20.4	3.3	3.0	0.3
Q3		4.7	3.2	1.5	0.6	2.1	1.0	0.6	1.0	-0.2	0.8	10.0	3.4	3.2	0.2
Q4		5.0	3.5	1.5	1.0	2.5	1.1	0.7	1.4	-0.3	1.0	12.4	3.5	3.5	0.1
08 *Q1*		5.0	3.5	1.4	0.9	2.4	1.0	0.6	1.3	-0.3	1.0	11.7	3.7	3.7	-0.0

PROFIT AND LOSS ACCOUNT
Percentages of the adjusted average balance sheet and returns



PROFIT AND LOSS ACCOUNT
Percentages of the adjusted average balance sheet



Source: BE.
Note: The underlying series for this indicator are in Table 4.36 of the BE Boletín estadístico.
a. Profit before tax divided by own funds (capital,reserves, and general risk fund less losses from previous financial years and intangible assets).
b. Only those financial assets and liabilities which respectively give rise to financial income and costs have been considered to calculate the averge return and cost.
c. Average of the last four quarters.

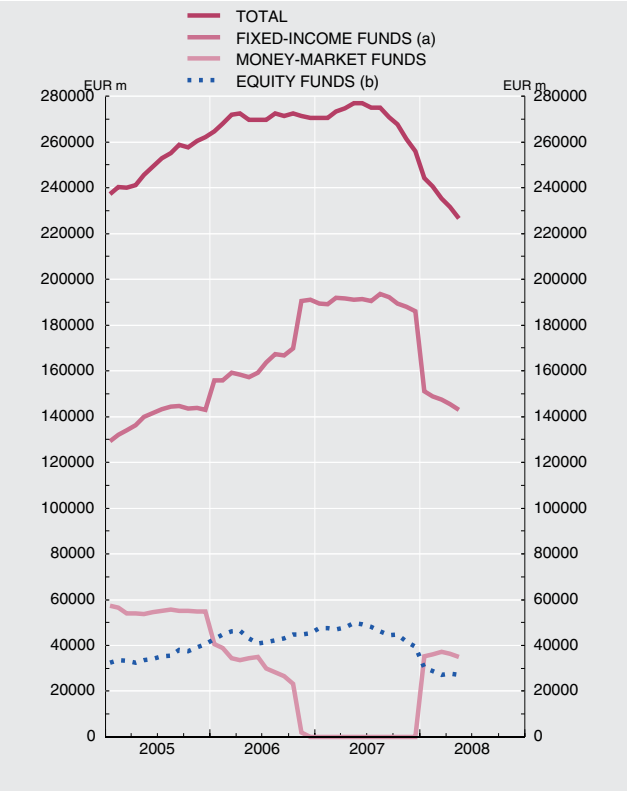
8.11. MUTUAL FUNDS RESIDENT IN SPAIN

■ Series depicted in chart.

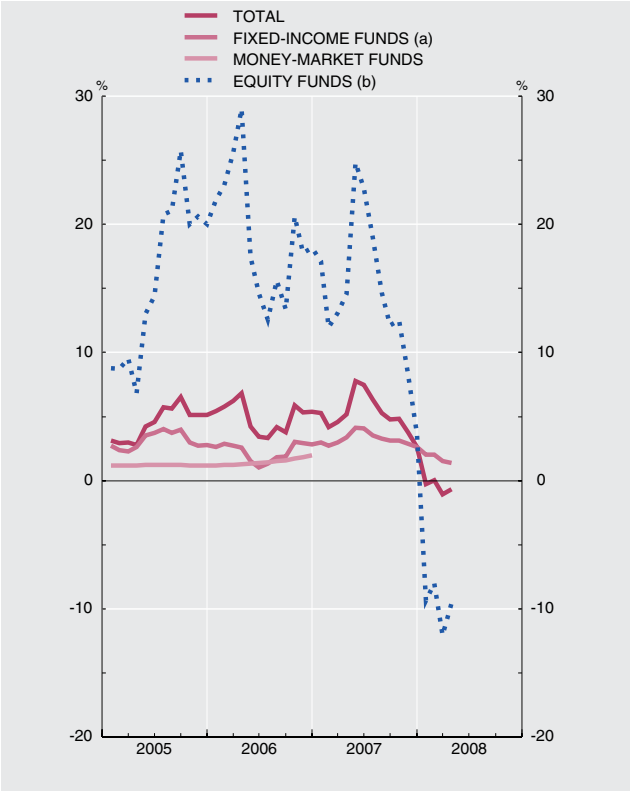
EUR millions

		Total				Money-market funds				Fixed-income funds (a)				Equity funds (b)				Others funds (c)
			Of which				Of which				Of which				Of which			
		Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value
		1 ■	2	3	4 ■	5 ■	6	7	8 ■	9 ■	10	11	12 ■	13 ■	14	15	16 ■	17
05		262 201	26 113	14 270	5.1	54 751	-3 237	-3 881	1.2	143 047	15 312	12 061	2.8	40 672	8 649	2 303	20.0	23 730
06		270 407	8 206	-10 861	5.4	106	-54 645	-55 113	2.0	191 002	47 954	39 212	2.8	45 365	4 693	-2 189	18.2	33 934
07		256 055	-14 352	-22 008	2.6	-	-106	-106	...	185 963	-5 039	-8 287	2.6	39 449	-5 916	-7 179	3.6	30 643
07	*Jan*	270 607	200	-1 500	5.3	-	-106	-106	...	189 293	-1 708	-2 277	3.0	47 473	2 108	1 088	17.1	33 841
	Feb	270 597	-11	730	4.2	-	-	-	...	189 012	-281	-354	2.7	47 433	-40	721	12.0	34 151
	Mar	273 422	2 825	898	4.6	-	-	-	...	191 896	2 883	2 302	3.0	47 088	-345	-1 194	13.1	34 438
	Apr	274 562	1 140	-591	5.2	-	-	-	...	191 508	-387	-582	3.4	47 907	819	31	14.6	35 147
	May	276 925	2 362	-575	7.8	-	-	-	...	191 131	-378	-819	4.1	49 730	1 824	-23	24.8	36 063
	Jun	277 006	81	727	7.5	-	-	-	...	191 436	305	682	4.1	49 234	-496	-60	22.8	36 335
	Jul	275 034	-1 971	-1 101	6.3	-	-	-	...	190 493	-943	-950	3.6	48 196	-1 038	-190	19.0	36 346
	Aug	275 016	-19	-242	5.3	-	-	-	...	193 565	3 073	2 697	3.3	46 136	-2 060	-1 421	14.7	35 314
	Sep	270 736	-4 279	-5 439	4.8	-	-	-	...	192 289	-1 277	-1 624	3.1	44 560	-1 576	-1 877	12.1	33 887
	Oct	267 586	-3 151	-6 069	4.8	-	-	-	...	189 387	-2 902	-3 907	3.1	44 816	255	-1 196	12.5	33 383
	Nov	261 331	-6 255	-4 310	3.8	-	-	-	...	188 057	-1 330	-1 536	2.9	41 620	-3 196	-1 640	8.3	31 654
	Dec	256 055	-5 276	-4 537	2.6	-	-	-	...	185 963	-2 094	-1 919	2.6	39 449	-2 171	-1 417	3.6	30 643
08	*Jan*	244 286	-11 769	-6 863	-0.3	35 111	35 111	1 027	...	151 093	-34 870	531	2.0	30 184	-9 265	-5 341	-9.4	27 898
	Feb	240 462	-3 824	-4 123	0.0	36 169	1 058	-10	...	148 946	-2 147	-1 376	2.0	28 813	-1 371	-1 319	-8.0	26 534
	Mar	235 174	-5 288	-3 933	-1.1	37 340	1 171	-369	...	147 530	-1 415	-1 658	1.5	27 214	-1 599	-906	-12.0	23 090
	Apr P	231 723	-3 451	-5 458	-0.7	36 428	-912	-909	...	145 511	-2 019	-2 512	1.4	27 622	409	-839	-9.5	22 161

NET ASSET VALUE



RETURN OVER LAST 12 MONTHS



SOURCES: CNMV and Inverco.

a. Includes short and long-term fixed-income funds in euros and international, mixed fixed-income funds in euros and international and guaranteed funds.

b. Includes equity funds and mixed equity funds in euros, national and international.

c. Global funds.

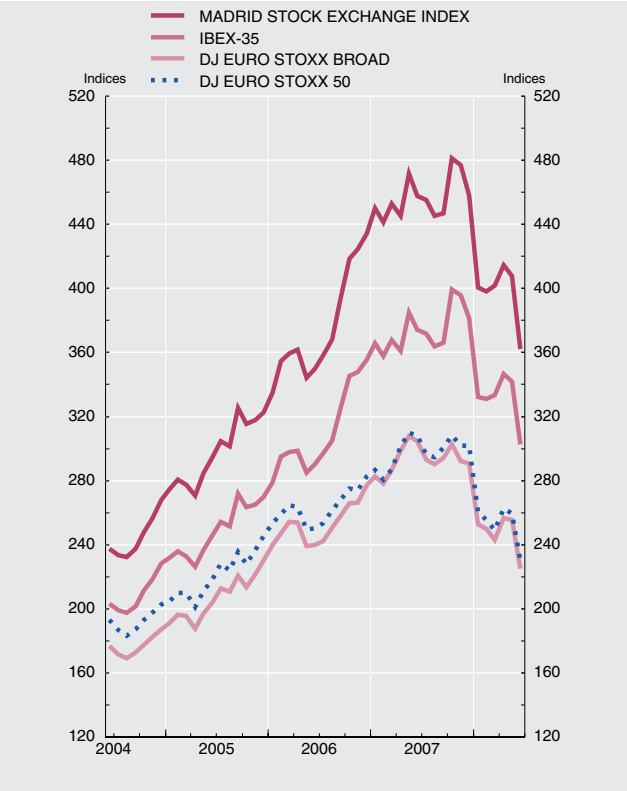
8.12. SHARE PRICE INDICES AND TURNOVER ON SECURITIES MARKETS. SPAIN AND EURO AREA

■ Series depicted in chart.

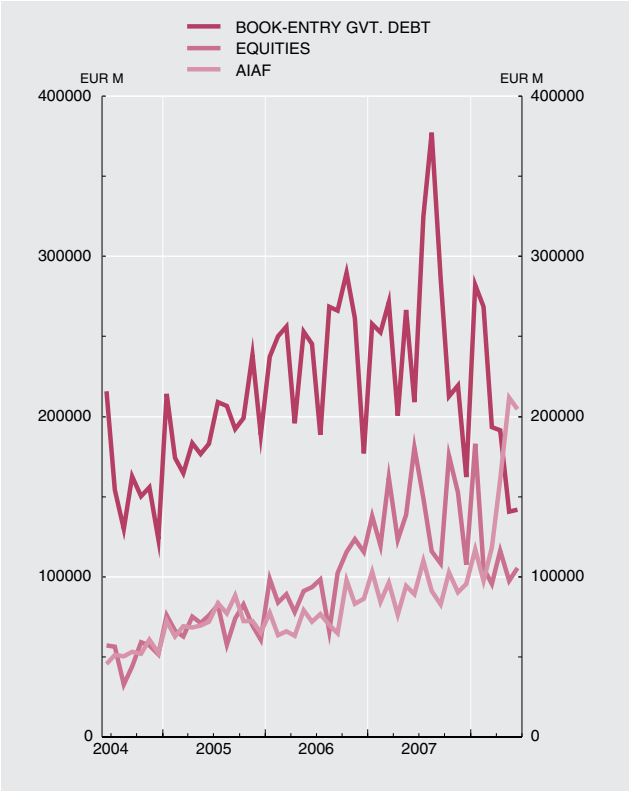
Indices, EUR millions and thousands of contracts

		Share price indices				Turnover on securities markets							
		General Madrid Stock Exchange	IBEX 35	Dow Jones EURO STOXX indices		Stock market		Book-entry government debt	AIAF fixed-income market	Financial options (thousands of contracts)		Financial futures (thousands of contracts)	
				Broad	50	Equities	Bonds			Fixed-income	Shares and other equities	Fixed-income	Shares and other equities
		1 ■	2 ■	3 ■	4 ■	5 ■	6	7 ■	8 ■	9	10	11	12
06		1 344.36	12 346.51	361.00	3 830.10	1 155 682	93 449	2 888 728	900 202	-	12 977	-	6 569
07		1 637.50	14 899.46	419.02	4 344.48	1 670 178	89 600	3 040 244	1 115 708	-	14 161	-	8 722
08	A	1 424.32	13 188.70	352.86	3 684.10	703 165	39 149	1 218 033	909 944	-	8 539	-	3 854
07	*Mar*	1 622.49	14 641.70	408.97	4 181.03	161 924	9 882	271 139	96 198	...	1 470	...	833
	Apr	1 595.92	14 374.60	426.32	4 392.34	123 156	6 930	200 727	76 317	...	888	...	733
	May	1 690.28	15 329.40	439.24	4 512.65	138 715	8 206	266 433	94 244	...	854	...	731
	Jun	1 640.40	14 892.00	434.76	4 489.77	180 794	7 209	209 163	89 256	...	1 441	...	842
	Jul	1 630.91	14 802.40	418.05	4 315.69	148 942	8 404	324 836	110 001	...	750	...	772
	Aug	1 595.04	14 479.80	414.30	4 294.56	115 739	7 388	377 247	91 052	...	1 086	...	777
	Sep	1 600.90	14 576.50	419.92	4 381.71	108 347	6 150	286 110	82 760	...	1 334	...	740
	Oct	1 724.44	15 890.50	432.10	4 489.79	175 472	8 313	212 587	102 545	...	1 139	...	724
	Nov	1 708.19	15 759.90	417.26	4 394.95	152 642	8 272	219 320	90 490	...	1 685	...	734
	Dec	1 642.01	15 182.30	414.90	4 399.72	107 346	6 163	162 213	95 535	...	1 719	...	549
08	*Jan*	1 435.24	13 229.00	360.56	3 792.80	183 005	6 080	282 093	117 244	...	1 274	...	844
	Feb	1 425.98	13 170.40	356.76	3 724.50	105 424	7 551	268 415	97 445	...	1 260	...	650
	Mar	1 439.06	13 269.00	346.99	3 628.06	95 384	5 646	193 445	118 222	...	1 466	...	633
	Apr	1 485.01	13 798.30	366.23	3 825.02	116 192	7 223	191 286	160 603	...	1 544	...	563
	May	1 460.74	13 600.90	364.68	3 777.85	97 678	5 904	140 822	211 806	...	799	...	515
	Jun	P 1 297.87	12 046.20	321.61	3 352.81	105 483	6 745	141 973	204 624	...	2 196	...	649

SHARE PRICE INDICES
JAN 1994 = 100



TURNOVER ON SECURITIES MARKETS



Sources: Madrid, Barcelona, Bilbao and Valencia Stock Exchanges (columns 1, 2, 5 and 6); Reuters (columns 3 and4); AIAF (column 8) and Spanish Financial Futures Market (MEFFSA) (columns 9 to 12)

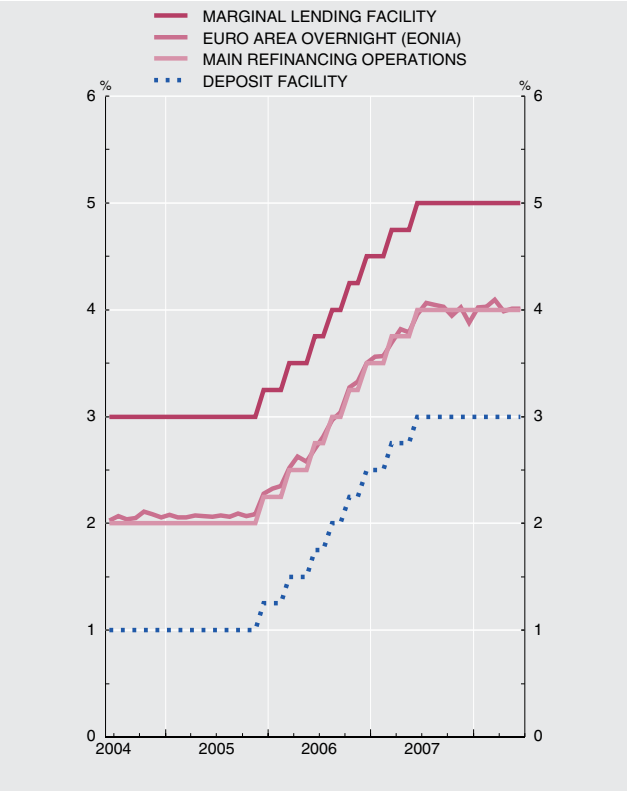
9.1. INTEREST RATES. EUROSYSTEM AND MONEY MARKET. EURO AREA AND SPAIN

■ Series depicted in chart.

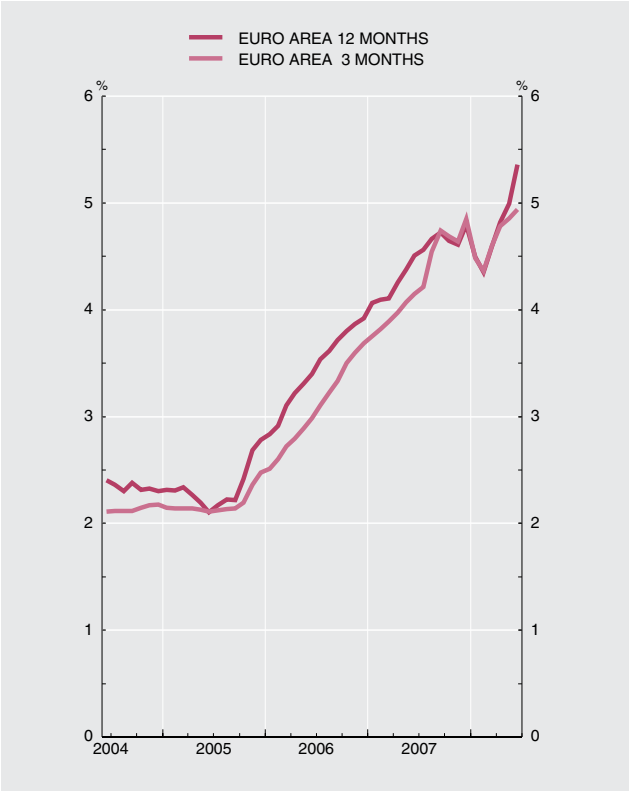
Averages of daily data. Percentages per annum

		Eurosystem monetary policy operations				Money market													
		Main refinancing operations: weekly tenders	Longer term refinancing operations: monthly tenders	Standing facilities		Euro area: deposits (Euribor) (a)					Spain								
											Non-transferable deposits					Government-securities repos			
				Marginal lending	Deposit	Overnight (EONIA)	1-month	3-month	6-month	1-year	Overnight	1-month	3-month	6-month	1-year	Overnight	1-month	3-month	1-year
		1 ■	2	3 ■	4 ■	5 ■	6	7 ■	8	9 ■	10	11	12	13	14	15	16	17	18
06		3.50	3.66	4.50	2.50	2.839	2.94	3.08	3.24	3.44	2.83	2.93	3.08	3.23	3.44	2.75	2.82	2.93	3.28
07		4.00	4.00	5.00	3.00	3.866	4.09	4.28	4.35	4.45	3.85	4.08	4.27	4.33	4.44	3.78	3.85	3.90	4.11
08	A	-	4.50	5.00	3.00	4.025	4.32	4.67	4.71	4.77	4.01	4.29	4.65	4.66	4.72	3.97	3.99	3.99	3.59
07	*Mar*	3.75	3.87	4.75	2.75	3.691	3.84	3.89	4.00	4.11	3.70	3.83	3.89	4.00	4.12	3.64	3.73	3.75	-
	Apr	3.75	3.96	4.75	2.75	3.819	3.86	3.98	4.10	4.25	3.80	3.85	3.97	4.10	4.25	3.71	3.75	3.84	-
	May	3.75	4.06	4.75	2.75	3.790	3.92	4.07	4.20	4.37	3.79	3.90	4.07	4.20	4.39	3.73	3.81	3.94	-
	Jun	4.00	4.11	5.00	3.00	3.956	4.10	4.15	4.28	4.51	3.95	4.08	4.14	4.27	4.48	3.88	3.99	4.01	-
	Jul	4.00	4.20	5.00	3.00	4.063	4.11	4.22	4.36	4.56	4.05	4.10	4.19	4.30	4.56	3.96	3.99	4.05	4.36
	Aug	4.00	4.56	5.00	3.00	4.047	4.31	4.54	4.59	4.67	4.03	4.31	4.54	4.53	4.64	3.86	3.97	4.06	4.37
	Sep	4.00	4.50	5.00	3.00	4.029	4.43	4.74	4.75	4.73	3.99	4.38	4.72	4.70	4.72	3.94	4.00	4.00	-
	Oct	4.00	-	5.00	3.00	3.941	4.24	4.69	4.66	4.65	3.90	4.24	4.65	4.69	4.64	3.88	3.96	3.98	4.04
	Nov	4.00	4.65	5.00	3.00	4.022	4.22	4.64	4.63	4.61	4.01	4.25	4.64	4.57	4.59	3.96	3.97	3.99	4.00
	Dec	4.00	4.00	5.00	3.00	3.879	4.71	4.85	4.82	4.79	3.85	4.74	4.82	4.79	4.78	3.80	3.94	3.92	-
08	*Jan*	4.00	4.21	5.00	3.00	4.022	4.20	4.48	4.50	4.50	3.98	4.17	4.46	4.44	4.42	3.90	3.94	3.93	3.60
	Feb	4.00	4.16	5.00	3.00	4.028	4.18	4.36	4.36	4.35	4.00	4.17	4.34	4.30	4.33	3.99	3.97	3.93	3.58
	Mar	4.00	4.44	5.00	3.00	4.091	4.30	4.60	4.59	4.59	4.07	4.28	4.58	4.57	4.58	4.01	3.99	3.94	-
	Apr	4.00	-	5.00	3.00	3.987	4.37	4.78	4.80	4.82	3.99	4.33	4.76	4.77	4.76	3.97	3.98	3.98	-
	May	4.00	4.51	5.00	3.00	4.010	4.39	4.86	4.90	4.99	4.00	4.36	4.82	4.85	4.95	3.99	3.98	4.00	-
	Jun	4.00	4.50	5.00	3.00	4.009	4.47	4.94	5.09	5.36	3.99	4.43	4.94	5.02	5.29	3.98	4.08	4.18	-

EUROSYSTEM: MONETARY POLICY OPERATIONS AND EURO AREA OVERNIGHT DEPOSITS



INTERBANK MARKET: EURO AREA 3-MONTH AND 1-YEAR RATES



Source: ECB (columns 1 to 8).

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

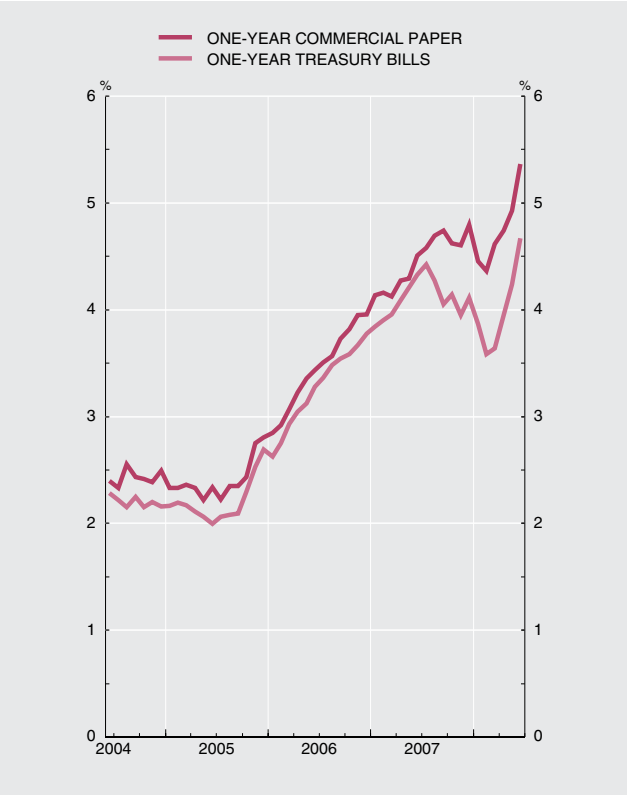
9.2. INTEREST RATES: SPANISH SHORT-TERM AND LONG-TERM SECURITIES MARKETS

■ Series depicted in chart.

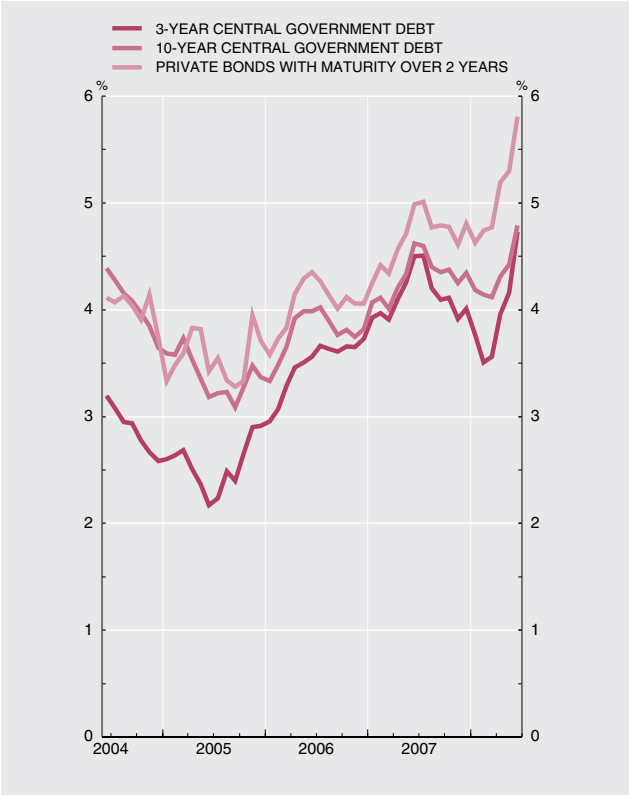
Percentages per annum

		Short-term securities				Long-term securities							
		One-year Treasury bills		One-year commercial paper		Central Government debt							Private bonds with a maturity of over two years traded on the AIAF
		Marginal rate at issue	Secondary market: outright spot purchases between market members	Rate at issue	Secondary market: outright spot purchases	Marginal rate at issue					Secondary market. Book-entry debt. Outright spot purchases between market members		
						3-year bonds	5-year bonds	10-year bonds	15-year bonds	30-year bonds	At 3-years	At 10-years	
		1 ■	2	3 ■	4	5	6	7	8	9	10 ■	11 ■	12 ■
06		3.27	3.26	3.45	3.44	3.36	3.57	3.76	-	4.04	3.48	3.79	4.05
07		4.11	4.07	4.46	4.49	4.00	4.16	4.24	-	4.49	4.13	4.31	4.67
08	A	3.99	3.96	4.75	4.81	4.21	4.22	4.52	-	4.86	3.95	4.33	5.07
07	*Mar*	3.95	3.89	4.12	4.12	-	3.95	3.96	-	-	3.91	4.01	4.34
	Apr	4.09	4.08	4.27	4.25	-	-	-	-	-	4.10	4.21	4.57
	May	4.21	4.22	4.29	4.37	-	-	-	-	-	4.26	4.34	4.71
	Jun	4.33	4.32	4.51	4.51	-	4.49	-	-	-	4.50	4.62	4.99
	Jul	4.42	4.36	4.58	4.54	-	-	4.65	-	-	4.51	4.60	5.01
	Aug	4.27	4.18	4.69	4.75	-	-	-	-	-	4.20	4.40	4.77
	Sep	4.05	4.03	4.74	4.82	-	4.20	-	-	4.70	4.09	4.35	4.79
	Oct	4.14	4.02	4.62	4.75	-	-	-	-	-	4.11	4.38	4.78
	Nov	3.95	4.02	4.60	4.67	-	-	4.26	-	-	3.91	4.25	4.61
	Dec	4.11	4.03	4.80	4.88	4.05	-	-	-	-	4.01	4.35	4.81
08	*Jan*	3.87	3.76	4.46	4.58	3.97	4.00	-	-	-	3.76	4.18	4.63
	Feb	3.59	3.61	4.36	4.43	-	-	4.20	-	-	3.50	4.14	4.74
	Mar	3.64	3.71	4.62	4.62	-	-	-	-	-	3.56	4.12	4.77
	Apr	3.95	3.98	4.74	4.84	3.90	3.96	-	-	4.79	3.96	4.31	5.19
	May	4.24	4.18	4.93	5.02	3.99	4.07	-	-	4.92	4.16	4.42	5.30
	Jun	4.67	4.55	5.37	5.36	-	-	4.84	-	-	4.73	4.79	5.81

PRIMARY MARKET



SECONDARY MARKET



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

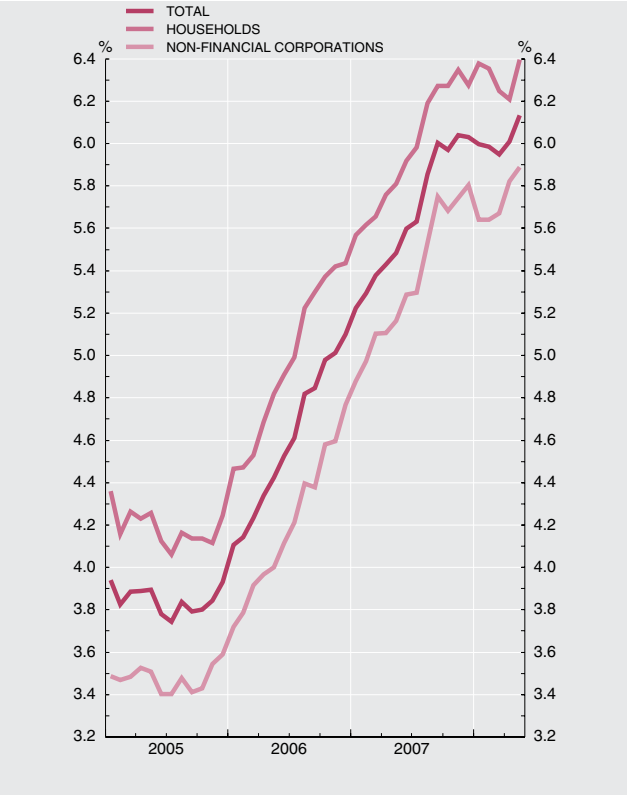
9.3. INTEREST RATES ON NEW BUSINESS. CREDIT INSTITUTIONS. (CBE 4/2002)

■ Series depicted in chart.

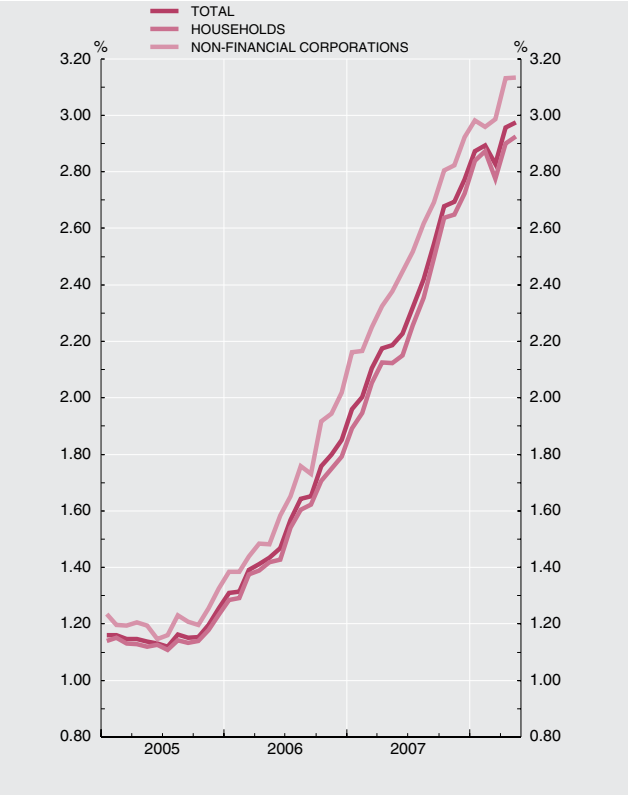
Percentages

		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	Overnight and redeemable at notice	Time	Repos	Synthetic rate	Overnight	Time	Repos
		1 ■	2 ■	3	4	5 ■	6	7	8 ■	9 ■	10	11	12	13 ■	14	15	16
06		5.10	5.43	4.74	7.32	4.77	5.20	4.56	1.85	1.79	0.52	3.20	3.28	2.02	1.27	3.37	3.48
07		6.03	6.28	5.53	8.34	5.80	6.32	5.50	2.77	2.72	0.70	4.41	3.72	2.92	1.94	4.42	3.92
08	A	6.13	6.40	5.55	8.78	5.89	6.45	5.50	2.97	2.92	0.78	4.50	3.84	3.13	1.97	4.56	4.06
06 *Oct*		4.98	5.37	4.63	7.37	4.58	5.07	4.22	1.76	1.71	0.51	3.04	3.07	1.92	1.19	3.18	3.19
Nov		5.01	5.42	4.71	7.31	4.60	5.15	4.28	1.80	1.75	0.51	3.10	3.15	1.95	1.22	3.22	3.27
Dec		5.10	5.43	4.74	7.32	4.77	5.20	4.56	1.85	1.79	0.52	3.20	3.28	2.02	1.27	3.37	3.48
07 *Jan*		5.22	5.57	4.85	7.53	4.88	5.38	4.58	1.96	1.89	0.57	3.25	3.39	2.16	1.41	3.46	3.54
Feb		5.29	5.62	4.92	7.52	4.97	5.40	4.69	2.00	1.95	0.58	3.32	3.41	2.17	1.43	3.43	3.53
Mar		5.38	5.66	4.98	7.51	5.10	5.47	4.87	2.10	2.05	0.60	3.51	3.60	2.25	1.47	3.56	3.70
Apr		5.43	5.76	5.05	7.71	5.11	5.53	4.81	2.18	2.13	0.60	3.60	3.62	2.32	1.51	3.66	3.78
May		5.48	5.81	5.11	7.74	5.16	5.60	4.89	2.19	2.12	0.61	3.59	3.68	2.38	1.56	3.73	3.78
Jun		5.60	5.92	5.20	7.88	5.29	5.69	5.05	2.23	2.15	0.60	3.70	3.81	2.45	1.48	3.99	3.96
Jul		5.63	5.98	5.32	7.85	5.30	5.76	5.03	2.32	2.26	0.63	3.82	3.80	2.52	1.56	4.02	4.04
Aug		5.86	6.19	5.43	8.32	5.53	5.92	5.22	2.42	2.36	0.67	3.91	3.76	2.62	1.65	4.08	3.99
Sep		6.00	6.27	5.49	8.47	5.75	6.14	5.47	2.54	2.50	0.69	4.15	3.83	2.69	1.67	4.33	4.02
Oct		5.97	6.27	5.57	8.24	5.68	6.21	5.27	2.68	2.64	0.71	4.31	3.81	2.80	1.82	4.24	3.97
Nov		6.04	6.35	5.59	8.41	5.74	6.22	5.33	2.69	2.65	0.71	4.29	3.81	2.82	1.87	4.22	4.02
Dec		6.03	6.28	5.53	8.34	5.80	6.32	5.50	2.77	2.72	0.70	4.41	3.72	2.92	1.94	4.42	3.92
08 *Jan*		6.00	6.38	5.56	8.64	5.64	6.24	5.23	2.87	2.84	0.72	4.52	3.77	2.98	1.96	4.43	3.94
Feb		5.99	6.35	5.59	8.49	5.64	6.13	5.23	2.89	2.87	0.74	4.51	3.81	2.96	1.97	4.27	4.02
Mar		5.95	6.25	5.43	8.55	5.67	6.17	5.28	2.83	2.78	0.76	4.31	3.84	2.99	1.92	4.36	4.04
Apr		6.01	6.21	5.38	8.54	5.82	6.35	5.42	2.96	2.90	0.77	4.47	3.82	3.13	1.97	4.55	4.02
May	P	6.13	6.40	5.55	8.78	5.89	6.45	5.50	2.97	2.92	0.78	4.50	3.84	3.13	1.97	4.56	4.06

LOANS
SYNTHETIC RATES



DEPOSITS
SYNTHETIC RATES



Source: BE.

a. APRC: annual percentage rate of change. NEDR: narrowly defined effective rate, which is the same as the APRC without including commissions.

b. Calculated by adding to the NDER rate, which does not include commissions and other expenses, a moving average of such expenses.

c. The synthetic rates of loans and deposits are obtained as the average of the interest rates on new business weighted by the euro-denominated stocks included in the balance sheet for all the instruments of each sector.

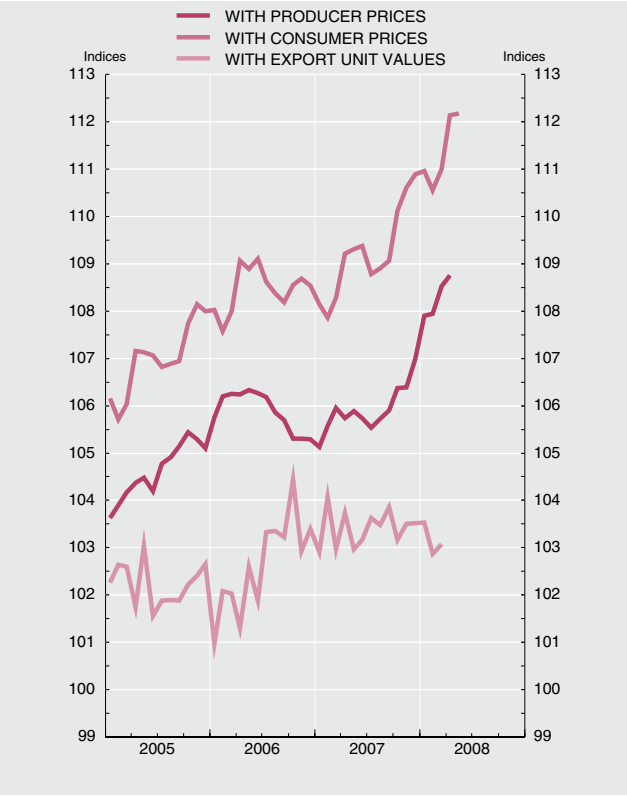
9.4 INDICES OF SPANISH COMPETITIVENES VIS-à-VIS THE EU-27 AND THE EURO AREA

■ Series depicted in chart.

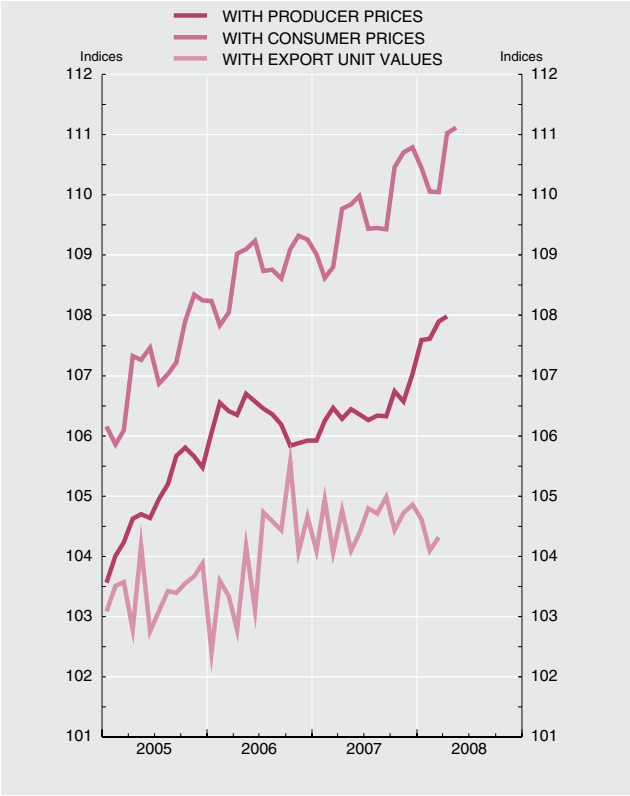
Base 1999 QI = 100

	Vis-à-vis the EU-27									Vis-à-vis the euro area				
	Total (a)				Nominal component (b)	Price component (c)				Based on producer prices	Based on consumer prices	Based on total unit labour costs	Based on manufacturing unit labour costs (d)	Based on export unit values
	Based on producer prices	Based on consumer prices	Based on total unit labour costs	Based on export unit values		Based on producer prices	Based on consumer prices	Based on total unit labour costs	Based on export unit values					
	1 ■	2 ■	3	4 ■	5	6	7	8	9	10 ■	11 ■	12	13 ■	14 ■
05	104.6	107.0	105.5	102.2	100.1	104.6	106.9	105.5	102.2	104.8	107.1	106.5	111.7	103.4
06	105.9	108.5	106.7	102.6	100.0	105.9	108.5	106.7	102.7	106.2	108.8	108.0	113.8	104.0
07	105.9	109.2	107.8	103.4	99.9	106.0	109.3	107.9	103.5	106.3	109.7	109.4	114.6	104.6
06 *Q2*	106.3	109.0	106.8	101.9	100.1	106.2	108.9	106.7	101.8	106.5	109.1	107.9	114.2	103.4
Q3	105.9	108.4	106.2	103.3	100.0	105.9	108.4	106.2	103.3	106.2	108.7	107.5	112.0	104.6
Q4	105.3	108.6	107.2	103.6	99.8	105.5	108.8	107.4	103.8	105.8	109.2	108.9	113.6	104.8
07 *Q1*	105.6	108.1	107.6	103.3	99.7	105.9	108.4	107.9	103.6	106.1	108.8	109.3	116.0	104.4
Q2	105.8	109.3	107.6	103.3	99.8	106.0	109.5	107.7	103.5	106.3	109.8	109.1	113.4	104.4
Q3	105.7	108.9	107.4	103.7	99.8	105.9	109.1	107.5	103.8	106.2	109.4	109.1	113.3	104.8
Q4	106.6	110.5	108.7	103.4	100.3	106.3	110.3	108.4	103.1	106.7	110.6	110.1	115.8	104.7
08 *Q1*	108.1	110.8	110.3	103.2	101.0	107.1	109.8	109.2	102.2	...	...	...	...	...
07 *Sep*	105.9	109.1	...	103.9	100.0	105.9	109.1	...	103.9	106.2	109.4	...	...	105.0
Oct	106.4	110.1	...	103.2	100.1	106.3	110.1	...	103.1	106.7	110.4	...	...	104.4
Nov	106.4	110.6	...	103.5	100.3	106.1	110.3	...	103.2	106.5	110.7	...	...	104.7
Dec	107.0	110.9	...	103.5	100.5	106.5	110.4	...	103.1	106.9	110.8	...	...	104.9
08 *Jan*	107.9	111.0	...	103.5	100.9	107.0	110.0	...	102.7	...	...	...	...	...
Feb	107.9	110.6	...	102.9	100.9	107.0	109.6	...	102.0	...	...	...	...	...
Mar	108.5	111.0	...	103.1	101.2	107.2	109.7	...	101.8	...	...	...	...	...
Apr	108.8	112.1	...	...	101.4	107.2	110.6	...	...	...	...	...	...	...
May	...	112.2	...	...	101.3	...	110.7	...	...	...	...	...	...	...
Jun	...	...	...	...	101.3	...	...	...	...	...	...	...	...	...

INDICES OF SPANISH COMPETITIVENESS VIS À VIS THE EU-27



INDICES OF SPANISH COMPETITIVENESS VIS À VIS THE EURO AREA



Source: BE.

a. Outcome of multiplying nominal and cost/price components. A decline in the index denotes an improvement in the competitiveness of Spanish products.

b. Geometric mean calculated using a double weighting system based on 1995-1997 (until 1999) and 1999-2001 (since 1999) manufacturing foreign trade figures.

c. Relationship between the price indices of Spain and of the group.

d. The index obtained drawing on Manufacturing Labour Costs has been compiled using base year 2000 National Accounts data.

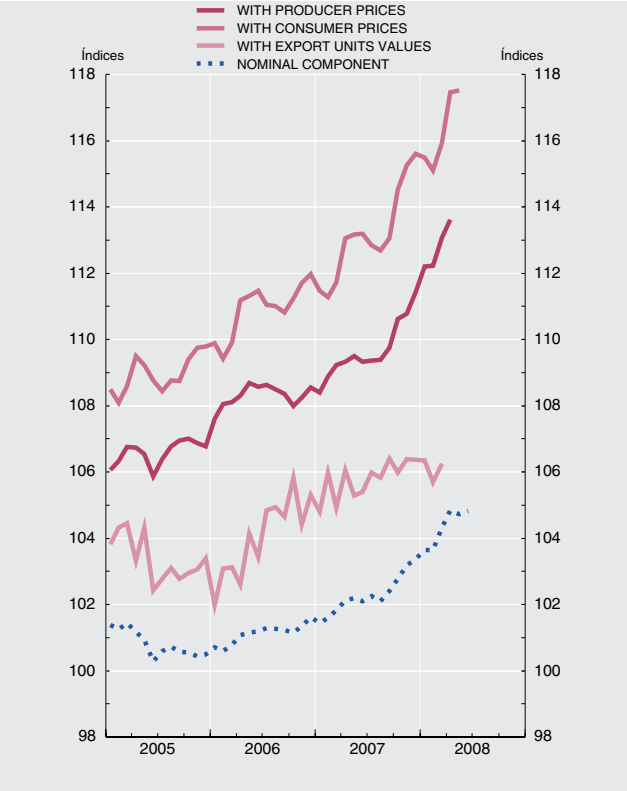
9.5 INDICES OF SPANISH COMPETITIVENESS VIS-à-VIS THE DEVELOPED COUNTRIES AND INDUSTRIALISED COUNTRIES

■ Series depicted in chart.

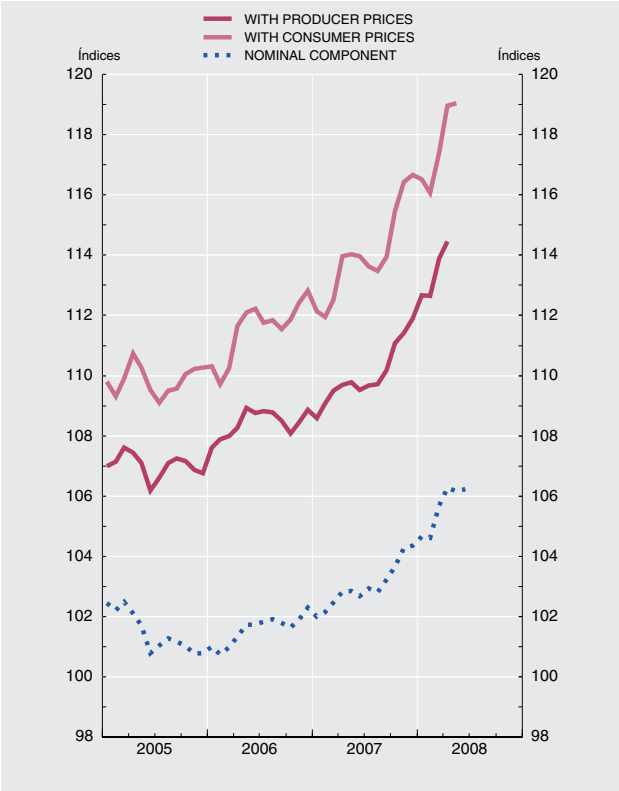
Base 1999 QI = 100

	Vis-à-vis developed countries									Vis-à-vis industrialised countries				
	Total (a)				Nominal component (b)	Prices component (c)				Total (a)		Nominal component (b)	Prices component(c)	
	Based on producer prices	Based on consumer prices	Based on manufac - turing unit labour costs (d)	Based on export unit values		Based on producer prices	Based on consumer prices	Based on manufac - turing unit labour costs (d)	Based on export unit values	Based on producer prices	Based on consumer prices		Based on producer prices	Based on consumer prices
	1 ■	2 ■	3	4 ■	5	6	7	8	9	10	11	12	13	14
05	106.6	109.0	114.1	103.4	100.8	105.7	108.1	113.2	102.6	107.0	109.9	101.5	105.5	108.3
06	108.3	110.9	115.9	104.0	101.1	107.1	109.7	114.6	102.9	108.4	111.5	101.6	106.7	109.8
07	109.7	113.2	117.5	105.8	102.3	107.2	110.6	114.8	103.4	110.0	114.0	103.0	106.8	110.7
06 *Q2*	108.5	111.3	116.4	103.4	101.1	107.3	110.1	115.1	102.2	108.7	112.0	101.6	106.9	110.2
Q3	108.5	111.0	114.2	104.8	101.3	107.1	109.6	112.8	103.5	108.7	111.7	101.8	106.7	109.7
Q4	108.3	111.6	115.9	105.2	101.4	106.8	110.1	114.3	103.8	108.5	112.4	101.9	106.4	110.2
07 *Q1*	108.8	111.5	118.1	105.2	101.6	107.1	109.7	116.2	103.5	109.1	112.2	102.2	106.7	109.8
Q2	109.4	113.1	116.4	105.6	102.1	107.1	110.8	114.0	103.4	109.7	114.0	102.8	106.7	110.9
Q3	109.5	112.9	116.0	106.1	102.2	107.1	110.4	113.4	103.7	109.9	113.7	103.0	106.7	110.4
Q4	110.9	115.1	119.3	106.2	103.1	107.6	111.7	115.7	103.0	111.5	116.2	104.1	107.1	111.6
08 *Q1*	112.5	115.5	126.7	106.1	103.9	108.3	111.2	121.9	102.2	113.1	116.7	105.0	107.7	111.1
07 *Sep*	109.8	113.1	...	106.4	102.4	107.2	110.4	...	103.9	110.2	113.9	103.2	106.7	110.4
Oct	110.6	114.5	...	106.0	102.8	107.6	111.4	...	103.1	111.1	115.5	103.7	107.2	111.4
Nov	110.8	115.3	...	106.4	103.2	107.4	111.7	...	103.1	111.4	116.4	104.3	106.9	111.7
Dec	111.4	115.6	...	106.4	103.4	107.8	111.8	...	102.9	111.9	116.7	104.4	107.2	111.8
08 *Jan*	112.2	115.5	...	106.3	103.6	108.3	111.4	...	102.6	112.7	116.5	104.7	107.7	111.3
Feb	112.2	115.1	...	105.7	103.6	108.3	111.1	...	102.0	112.6	116.1	104.6	107.7	110.9
Mar	113.1	115.9	...	106.2	104.3	108.4	111.2	...	101.9	113.9	117.4	105.7	107.8	111.1
Apr	113.6	117.5	...	...	104.8	108.4	112.0	...	...	114.4	119.0	106.3	107.7	111.9
May	...	117.5	...	...	104.7	...	112.2	...	...	...	119.0	106.2	...	112.1
Jun	...	...	...	...	104.8	...	...	...	...	...	...	106.2	...	...

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



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



Source: BE.

a. Outcome of multiplying nominal and cost/price components. A decline in the index denotes an improvement in the competitiveness of Spanish products.

b. Geometric mean calculated using a double weighting system based on 1995-1997 (until 1999) and 1999-2001 (since 1999) manufacturing foreign trade figures.

c. Relationship between the price indices of Spain and of the group.

d. The index obtained drawing on Manufacturing Labour Costs has been compiled using base year 2000 National Accounts data.

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