

THE CHALLENGES THE INTERNATIONAL FINANCIAL CRISIS POSES FOR THE SPANISH
ECONOMY

The challenges the international financial crisis poses for the Spanish economy

Address by the Director General of Economics, Statistics and Research, José Luis Malo de Molina, at the series of lectures on "Future economic challenges" organised by the Fundación Ramón Arreces in Madrid.

Let me thank the Fundación Ramón Arreces for the opportunity to take part in this series of lectures on the challenges facing the Spanish economy. I shall be addressing a matter of vital importance, namely how the economy is faring in the midst of this serious global financial crisis. In his inaugural lecture, Professor Rojo described the extent and depth of the present crisis, and the complexity and range of the challenges it poses for all aspects of the world economy. We are in fact facing an unprecedented contraction spiral worldwide. Financial turmoil of this kind presents a huge challenge for the future of the Spanish economy, and this is the subject of my talk today: the challenges the international financial crisis poses for the Spanish economy.

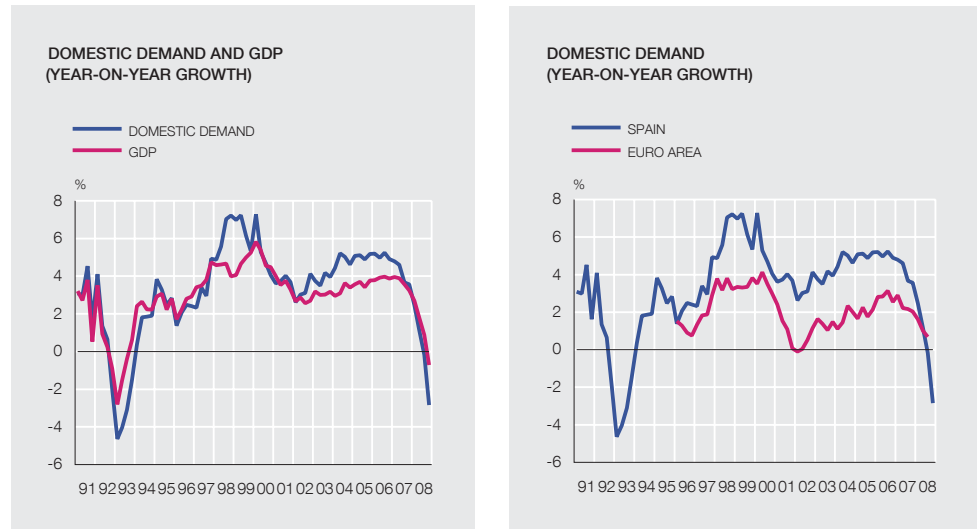
All the economic data available confirm that the Spanish economy is entering a deep recession, against a recessionary background worldwide. The INE flash estimate of GDP for Q4 released today shows a quarter-on-quarter growth rate of -1% in 2008 Q4. This being the second consecutive quarter of negative growth, that conforms to the technical definition of recession, and also highlights the intensification of the contractionary phase that began last summer.

The limited data available on economic performance in 2009 to date point to a continuation of the same trends. Registered unemployment and Social Security contributions reveal the ongoing deterioration of the labour market.

The first idea I want to convey to you, as the starting point and fulcrum for my talk, is that the current recession in Spain is the result of two processes that have unfortunately coincided in time. The crisis has dual origins. The first is domestic, arising from the inevitable correction of the imbalances that had built up during the long period of economic expansion enjoyed by the Spanish economy since the mid-1990s on the back of the enormous benefits afforded by Spain's convergence drive and its joining the euro in 1999.

The correction of these imbalances had been deferred owing to the expansionary financial climate across the world in recent years, but had finally begun in 2006 and in the first half of 2007, before the onset of the current financial crisis. The adjustment had at first been gradual, and could in theory have been compatible with a soft landing and a moderate correction, had financial stability prevailed internationally and had there been sufficient external dynamism. In this setting, the Spanish economy could have counted on robust net external demand to offset the inevitable reining in of domestic demand, and on continued high volumes of the external financial flows it needed, even in a scenario of adjustment.

However, these hypotheses faded abruptly with the emergence and subsequent heightening of the international financial crisis, which became the second origin or causal factor behind the present recession. The international financial crisis introduced powerful global contractionary factors that superimposed themselves on the domestic adjustment factors, obliging the Spanish economy to combat the crisis under extraordinarily difficult conditions. Since then, there has been a feedback loop between the processes originated by the domestic adjustment and the international crisis, exacerbating the severity and complexity of the situation. The international crisis has most forcefully impacted all the developed economies, irrespective of their domestic position. A case in point is Germany, which was on an expanding course following



SOURCES: INE and Eurostat.

the correction of some of its main domestic imbalances as the crisis hit, and which has now entered recession, along with everybody else. In the case of Spain, the prevalence of the international crisis should not mask the fact that its effects are coming on top of an adjustment that was in itself complex and costly.

Both the domestic and international factors must be borne in mind if we are to make a correct diagnosis and identify the challenges ahead. From this starting point, I do not intend to focus on a description of the economic situation – those interested in this information may consult the latest quarterly report published by the Banco de España – but rather to analyse in depth some of the most salient features of the diagnosis and some of the main challenges facing the Spanish economy in this difficult situation.

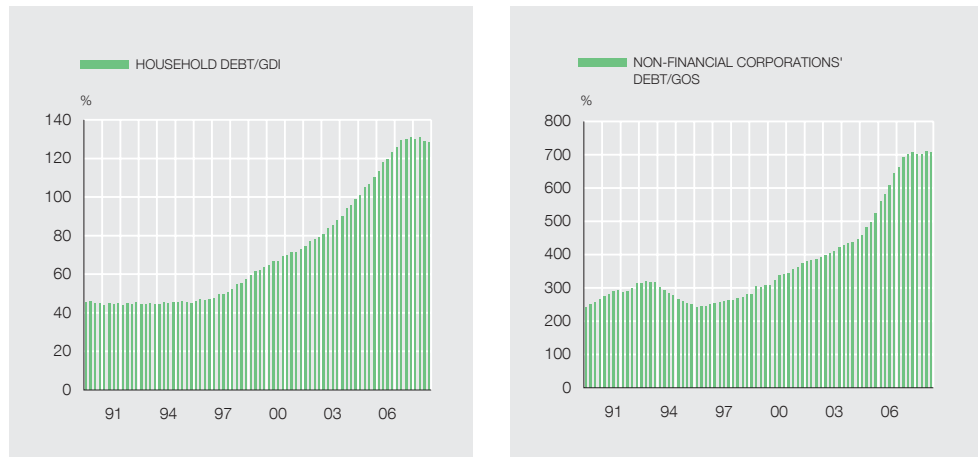
Salient features of the Spanish economic situation in the present international financial crisis

THE DOMESTIC COMPONENT OF THE CRISIS IS THE RESULT OF AN EXTENDED PERIOD OF EXCESSIVE DEMAND PRESSURE, LEADING TO AN INEVITABLE ADJUSTMENT

As shown in Chart 1, between 1991 and 2006 domestic demand in Spain grew at a consistently higher pace than GDP and incomes. As the chart also shows, the growth of expenditure in Spain considerably outpaced that in the euro area as a whole. In Spain, expenditure has systematically been beyond economic agents' means, a situation that in economics cannot continue indefinitely. Either future income generation responds to the expectations on which the expenditure decisions were based, closing the gap with higher growth, or sooner or later the level of expenditure becomes unsustainable and must be reduced.

Interestingly, some of the factors behind the emergence of the international financial crisis also contributed to the prolonged period of excessive expenditure in Spain. Specifically, the crisis is linked to continuous extraordinary financial growth at an international level, based on the illusion that came to be known as "the Great Moderation" and that implied the existence of a series of factors that permitted rapid non-inflationary growth, as if the economic cycle no longer existed, apparently justifying the pursuit of clearly expansive macroeconomic policies. And this, combined with a climate of easy tolerance, based on naïve trust in the self-regulating capacity of the markets, in a context of sweeping financial innovation, led to enormous laxity in risk assessment. These international conditions helped sustain a pattern of excessive expenditure in Spain.

The common monetary policy of the euro area may be said to have had a similar effect on the Spanish economy. The structural difficulties hindering high growth rates in most of the core



SOURCES: INE and Banco de España.

euro area countries have influenced the common monetary policy, which has duly been largely expansive; in the case of Spain, this has translated into a manifest easing of monetary and financial conditions, which has been conducive to spending.

Excessive expenditure comes about when supply is unable to provide a sufficiently flexible response to demand-pull forces, despite population growth and the increase in the percentage of the population available for work, thanks to large-scale immigration and the growing share of working women. This insufficient supply-side responsiveness is linked to inefficiencies that persist in the Spanish economy, despite the transformations made, and to the low level of productivity. A complex question to which I will return later.

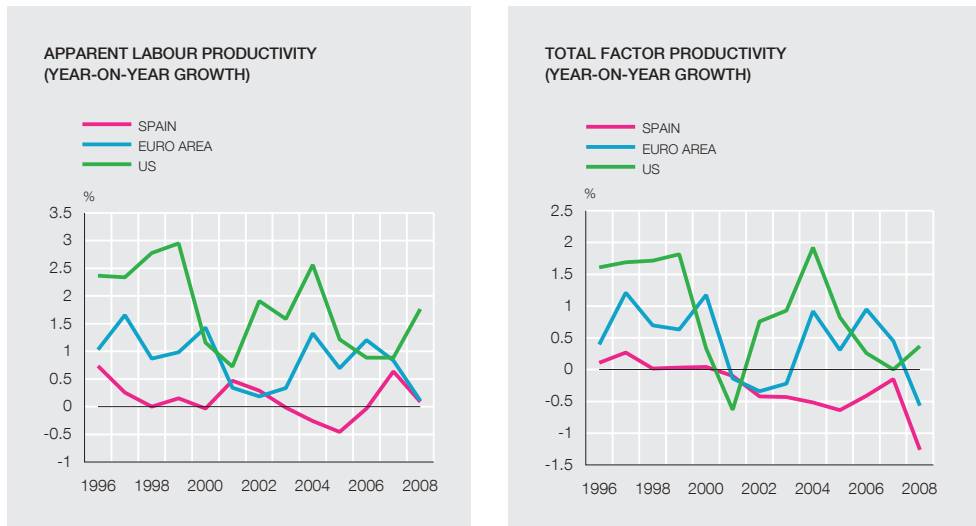
EXCESSIVE GROWTH IN DEMAND BASED ON A MARKED TENDENCY OF HOUSEHOLDS AND FIRMS TO TAKE ON DEBT

Low interest rates and their swift pass-through to financial costs as a result of the predominance of variable-rate loans and the abundance of credit, against the backdrop of global financial growth, permitted large-scale recourse to debt by households and firms to finance spending decisions. Spurring on such decisions were the stable macroeconomic conditions and rising growth expectations in the euro area, and the lesser drainage of resources as a result of the reduction in the budget deficit. As Chart 2 shows, household debt as a percentage of disposable income and corporate debt as a percentage of gross operating surplus have virtually tripled in less than ten years, making Spain one of the leading countries in terms of private-sector indebtedness. However, more than the level of indebtedness, which is always difficult to assess, the two most important factors are the speed and the intensity with which it has grown.

Much of the increase in indebtedness was justified by the sounder fundamentals of the Spanish economy and the new opportunities this produced. However, as is often the case in economics, the movement went too far, surpassing levels that can be explained by fundamentals. Various Banco de España estimates show that the level of indebtedness assumed could only be justified if Spain were to rapidly converge with the core euro area countries. And expectations of reaching the per capita income levels of the more advanced European countries in just a few years were unfounded in the light of the economy's efficiency and productivity.

A KEY FEATURE OF THE SCANT RESPONSIVENESS ON THE SUPPLY SIDE HAS BEEN LOW PRODUCTIVITY GROWTH

Chart 3 plots the poor performance of both actual and total factor productivity in comparison with the euro area and the US. In-depth analysis of this question would be the subject for a lecture in itself; suffice to say there are numerous factors involved and various different explanations. But what this poor performance does reflect is that economic growth in Spain has



SOURCES: AMECO and Banco de España.

been based more on growth in the volume of economic activity and in levels of production, on the back of abundant unskilled labour and against a background of low financial costs, than on advances in quality and efficiency. This has exacerbated the consequences of excessive demand and indebtedness, and is a factor of weakness amid episodes of tension and difficulties, posing a major challenge for continued future dynamism.

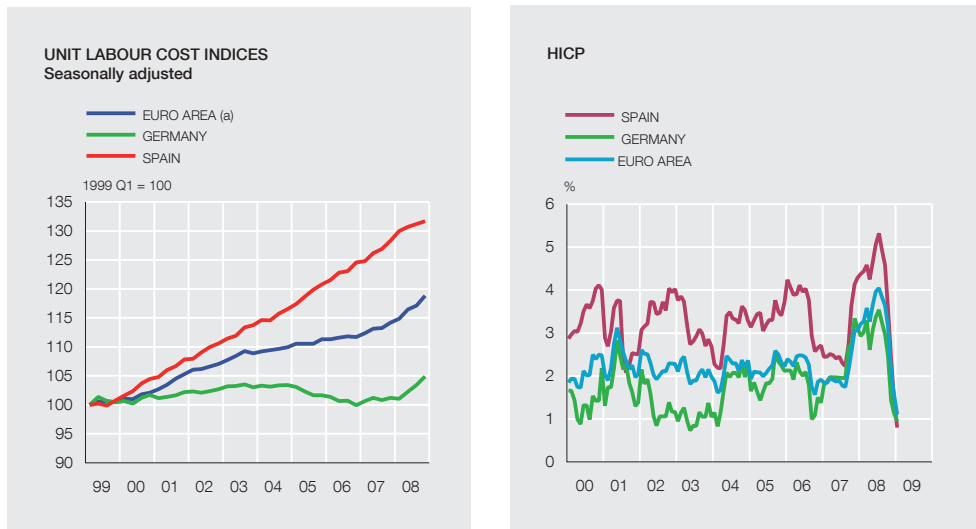
LOW PRODUCTIVITY GROWTH HAS COEXISTED WITH WAGE FORMATION AND MARGIN SETTING ON A STEEPER UPWARD TREND THAN IN THE REST OF THE EURO AREA

As Chart 4 shows, unit labour costs, calculated by dividing wages by productivity, have systematically outgrown the euro area average and, to a greater extent, those of the most competitive countries, such as Germany. Moreover, the increase in business margins has been driven by strong demand and by the lack of flexibility in some markets for goods and, most especially, for services. Both factors, i.e. unit labour costs and higher margins, maintained persistent inflation differentials with the euro area that have created problems of competitiveness and have intensified the growing shift from domestic to foreign expenditure, thus widening the current account deficit.

These wage formation and margin setting patterns reveal a lack of adaptation by economic agents to the requirements of euro area membership since, as the new currency is a common currency and devaluation is impossible, relative price adjustments are only possible by means of directly containing costs and margins. A particularly blatant example has been the use of inflation-combating indexation clauses that led to wage rises of 5% on average in 2008, a year that closed with inflation at 1.4% and with a sharp slide in employment levels (3% in Q4). Spain, Belgium and Cyprus are the only euro area countries in which these clauses are still in use, revealing a certain lack of confidence in the ability to live with the rate of inflation deemed to be compatible with price stability in the euro area.

EXCESSIVE EXPENDITURE AND DEBT WERE PARTICULARLY MARKED IN THE REAL ESTATE SECTOR

Spain presented four factors conducive to surging housing demand: dynamic population growth, financial conditions, income expectations and the country's attractive position for non-resident buyers. However, over-reaction is a very common trend in the property market, as a result of the long investment maturation period, and this led to severe mismatches in terms of house over-valuation and over-production. Chart 5 offers a clear picture of the high price rises seen in the recent property boom and of the relative moderation and resilience of the subsequent correction, at least to date. The figures on the extent of the surplus production of homes during this cycle are also quite clear.



SOURCES: Eurostat, INE, ECB and Banco de España.

a. Based on Spain's foreign trade weightings.

The real estate sector is the best exponent of the imbalances that built up over the extended period of economic expansion. We should not overlook the fact that all the imbalances are closely interconnected and that they gradually undermined the foundations of economic growth, creating the conditions for a correction that was not only inevitable but also necessary, and which had in fact already begun before the emergence, in the summer of 2007, of the financial turmoil that was to lead to the grave international financial and economic crisis besetting us today.

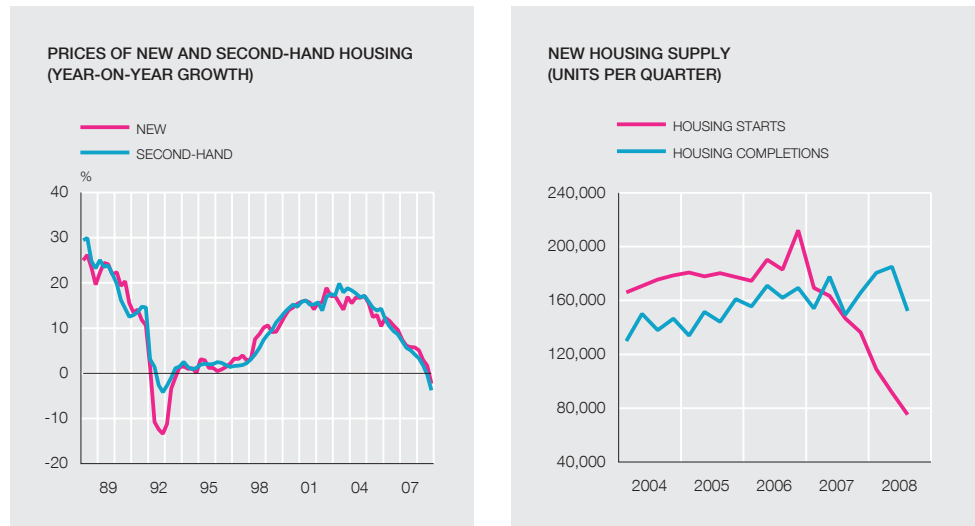
THE EXCEPTIONAL SEVERITY OF THE INTERNATIONAL FINANCIAL CRISIS WOULD SHARPLY IMPACT AN ECONOMY THAT HAD JUST BEGUN TO CORRECT A SITUATION OF EXCESSIVE EXPENDITURE AND DEBT

The scale of the global turmoil compounded the dynamics of the domestic adjustment, while at the same time amplifying its scope. As is well known, the Spanish financial system was sufficiently protected from the bad practices that had first created and then driven the financial crisis, as is demonstrated by the non-existence of toxic financial products in Spain and the resilience of Spanish financial institutions, in contrast to the situation in most industrialised countries, where there have been numerous bankruptcies in the banking sector and major bail-outs. The position of the Spanish financial system is very different and constitutes a factor of strength.

Nevertheless, the effects of the financial crisis are not confined to the degree of direct exposure to toxic financial products or practices; instead they have become global and systemic in nature, in a dual dimension that is having a profound impact on the Spanish crisis.

On one hand, in the financial arena the world has gone from a position of bold – and in some cases ill-conceived – expansion of financial institutions' balance sheets and proliferating flows of funds to a virtual paralysis of wholesale financial markets and a generalised process of corporate deleveraging, by means of balance sheet containment or contraction, to the extent that competition criteria would appear to have been inverted. There has been a shift from competing to achieve leadership by gaining size to competing to achieve the lowest possible level of leverage in the shortest possible time.

This radical change in scenario has seen a manifold increase in the losses of those institutions that had assumed most risk and has amplified the generalised effects of the loss in value of



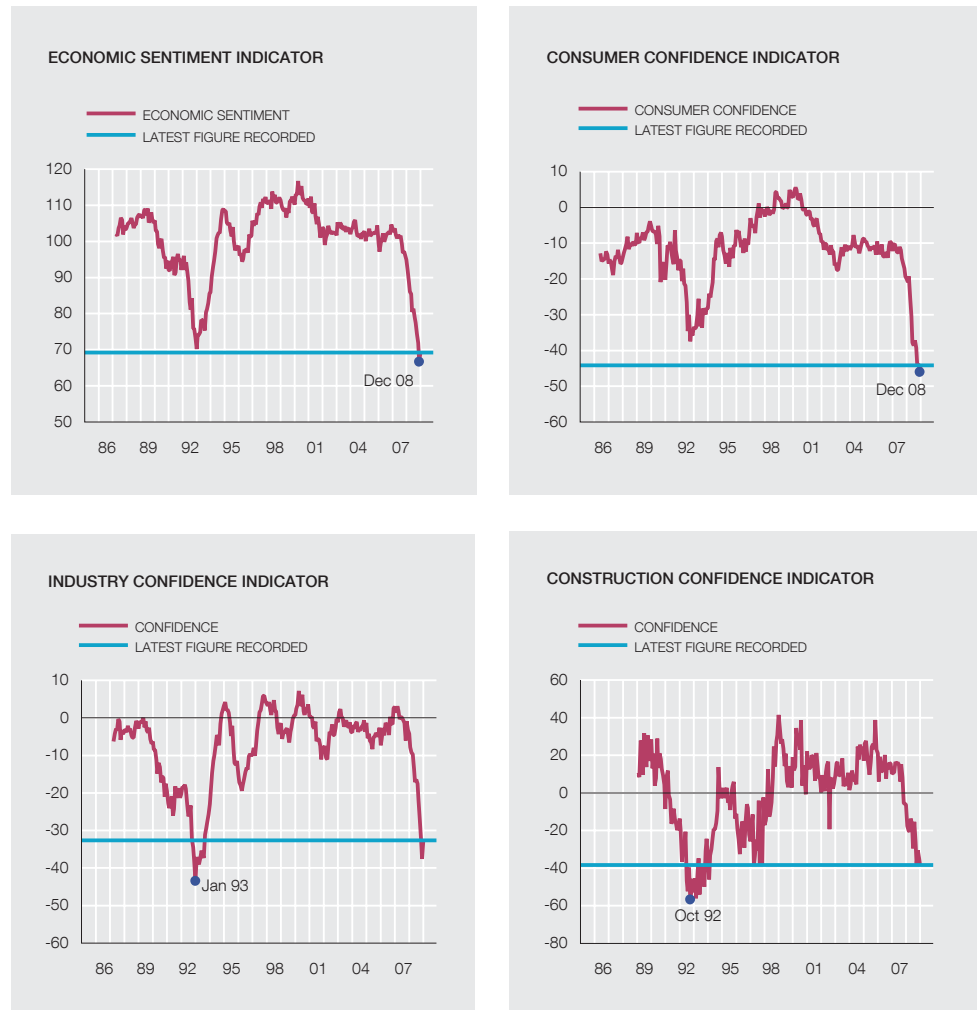
SOURCE: Ministry of Housing.

financial assets, raising many institutions' solvency risks. The crisis on the international financial markets has become a global credit crisis whose effects are now making it more difficult for both households and firms to obtain credit.

The determined and exceptional measures taken by authorities worldwide have allowed us to sidestep the danger of a widespread collapse in depositors' confidence in the financial system overall, thanks especially to the extension of bank deposit guarantees and to the announced readiness to bail out ailing institutions. Nonetheless, the large-scale liquidity injections, the public guarantees of debt issues, the contribution of public capital and the acquisition of banks' impaired assets have still not been sufficient to halt balance sheet corrections and restore normality to the flow of funds, which remains scant and burdensome, and which in some countries constitutes an added factor of economic contraction. Contractionary pressures persist in respect of credit and, in fact, continue to increase practically worldwide.

On the other hand, in the real economy, the extent of the crisis is having a profound and generalised impact, making for a global recession on an unprecedented scale that would have dragged the Spanish economy down whatever. On the latest IMF forecasts, all the developed economies are now either in or heading towards a major recession; in most cases, the most severe recession since the Second World War. The European Commission expects euro area GDP to shrink by 2 pp, affecting all the large euro area economies alike.

Both aspects have significant repercussions on an economy that was immersed in an adjustment. First, because they deprive it of the external support that it could have counted on in ordinary circumstances to offset in part the necessary cutback in domestic expenditure. Second, because they heighten the impact on confidence (see Chart 6) and precipitate expenditure constraints beyond the level required by the domestic adjustment. Third, because they accentuate the need for economic agents to rapidly reduce their level of indebtedness in light of the radical turnaround in expectations, the increase in risk perception and the adverse financial conditions. And fourth, *inter alia*, because they severely constrain and raise the cost of external borrowing, on which both the availability of domestic credit and economic growth hinge, even in a period of adjustment.



SOURCE: European Commission.

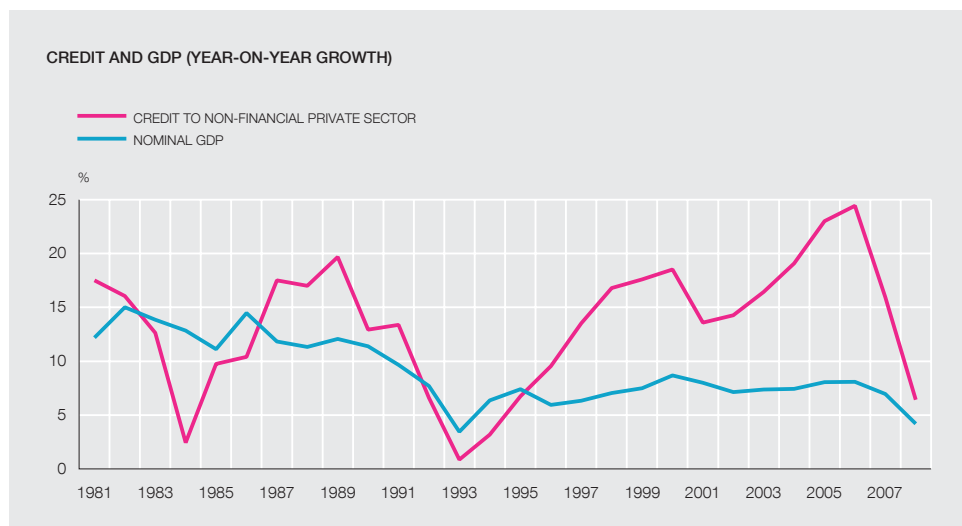
CREDIT STANDARDS HAVE TIGHTENED SHARPLY AND THE FLOW OF FUNDS ON INTERNATIONAL FINANCIAL MARKETS HAS DRIED UP, RADICALLY ALTERING THE FINANCIAL CONDITIONS OF THE SPANISH ECONOMY AND INTENSIFYING THE REVERSAL OF THE CREDIT CYCLE

As Chart 7 shows, credit is a strongly procyclical variable. During expansions it outgrows nominal GDP, while in recessions it grows at a slower pace. After a long period of rapid expansion, in 2006 credit growth began to decelerate, in step with the cyclical downturn. As we saw in the early 1980s and again in the early 1990s, in economic downturns credit tends to grow below the rate of nominal GDP.

On this occasion the change is taking place against the backdrop of an unprecedented global credit crisis, so it is heightened by a series of factors: the sharp rise in the cost of borrowing; the dramatic reduction in borrowing demand as a result of the deterioration in both confidence and expectations; and a more restrictive attitude on the part of financial institutions in line with the increase in risk aversion and the deterioration in the perceived solvency of borrowers, as a result of the scarcity of funds, exacerbated by the high degree of independence of the wholesale financial markets and financial institutions' need to reduce the degree of leverage to strengthen their financial position.

The credit adjustment is being aggravated by the exceptional conditions generated by the crisis and may be becoming in itself an additional factor of contraction.

As in other countries, the measures taken to alleviate the effects of the international financial crisis have enabled Spain to avoid the manifest risks of collapse of the financial system that



SOURCES: INE and Banco de España.

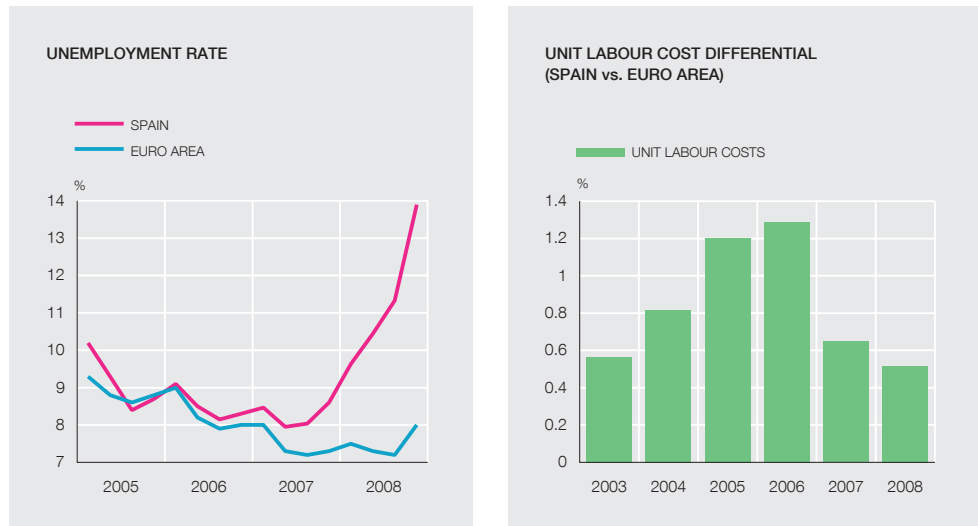
emerged in early autumn 2008. The creation of the Fund for the Acquisition of Financial Assets and the granting of guarantees for new debt issues are helping to alleviate the restrictive effects of the crisis on financial institutions' funding. Capitalisation levels continue to afford some room for defence. Nevertheless, it is very difficult to prevent the extreme financial pressures experienced at the international level, in the form of a general tendency towards risk reduction, from placing further restrictions on credit availability to households and firms, which could in turn further hamper their willingness to spend.

THE CONDITIONS CREATED BY THE INTERNATIONAL CRISIS AND THEIR IMPACT ON CONFIDENCE AND CREDIT HAVE INTENSIFIED THE SEVERITY OF THE DOMESTIC ADJUSTMENT

The most immediate effect of the international crisis has been the intensification of the correction in the real estate sector, as housing demand has slumped. This has coincided, as a result of the time delay in the housebuilding cycle, with a record number of housing completions. In 2008 the number of housing completions was again at an all-time high, up 3% on the previous year, while housing starts fell by more than 60%. The surplus supply accumulated brought house price rises to a halt and prices began to decline after having risen very sharply in previous years. Above all, however, there was a dramatic reduction in housebuilding activity, which gave rise to a very sharp drop in employment. Employment in the construction sector fell by 20% in 2008 Q4 and the number of unemployed in the industry climbed by more than 150%. Overall, the employment adjustment is being felt more severely in Spain than in other countries and than in previous recessions (see Chart 8). This reflects the persistent rigidities of the Spanish labour market, which are helping spread rather than contain the economic contraction; moreover, the impact on consumption is being amplified by the high level of household debt. All domestic demand components are feeling the dual impact of the global recession and domestic adjustment in particularly adverse circumstances.

The key challenges facing the economy

The main determinants of the economic situation described point to a prolongation of the contractionary trends, in a setting in which it is very difficult to forecast the intensity and duration of the current recession. Lower interest rates and their rapid pass-through to all agents, given the predominance of variable-rate debts, together with the lower oil prices and the fall in the inflation rate, which for the first time has dropped below the euro area average, may be expected to act as a source of relief and to provide for escape routes. In any case, for the purposes of this talk, rather than discussing short-term forecasts, I believe it will be more use-



SOURCES: INE and Eurostat.

ful to outline the key challenges facing the Spanish economy, with a view to exiting the recession as soon as possible and in the best possible conditions.

THE MOST IMPORTANT CHALLENGE IS TO PRESERVE THE SOUNDNESS OF THE FINANCIAL SYSTEM, TO SMOOTH THE FLOW OF FUNDS AND TO ENSURE THAT SPAIN IS IN A GOOD POSITION WHEN THE INTERNATIONAL ECONOMIC AND FINANCIAL CRISIS COMES TO AN END

The international financial crisis is a major external determinant over which we have little control. The global situation is highly complex, due to the feedback loop between the financial crisis and the global recession and, as Professor Rojo explained in the inaugural lecture, past experience shows that digesting an episode of this kind takes time. We do not know how long the effects of this crisis will last in Spain, or the extent of the impact. But within this uncertainty one particular challenge is to ensure that the soundness of the Spanish financial system is preserved. The emergence of the financial crisis found the Spanish financial system in a relatively advantageous position, which has provided it with a good degree of resilience. Yet we should not overlook the fact that the adverse financial conditions and global macroeconomic deterioration will tend to erode this soundness and stability. Despite its sound starting point, the financial system is not immune to such dangerous developments as those currently being witnessed.

The arsenal of measures taken in Spain is similar to that seen in all the developed economies and is being used in accordance with the specific characteristics of the Spanish financial system. These are exceptional measures, in keeping with the gravity of the situation, aimed at alleviating pressures at financial institutions and creating conditions for credit to flow more freely.

It is essential that the stability of the financial system should not become a hindrance when the international crisis finally starts to unwind and the foundations are in place for the start of the recovery. The strength of the Spanish financial system must be maintained, not only from the standpoint of financial stability but also so as to enable Spain to emerge from recession and create sound bases for recovery. How this challenge is met will be key to ensuring that the economy can count on the appropriate funding. The soundness of financial institutions and prudence in the assessment and assumption of risk are essential for restoring credit flows. If the financial system were severely debilitated, as has happened in other countries, restarting the flow of finance in the economy would be even more difficult and growth would be impacted to a greater extent.

THE SECOND CHALLENGE INVOLVES PURSUING DEMAND-SIDE POLICIES WITHIN THE HEADROOM AVAILABLE

The serious deterioration in confidence and the feedback of contractionary trends in spending warrant the adoption of expansive demand-side policies along the lines of those adopted at the G20 summit in Washington and by the Eurogroup in Paris. This is the stance adopted by monetary policy in the euro area; as inflationary risks have diminished, interest rates have been cut by 225 bp since the autumn and operational procedures have been set in place to ensure all liquidity demands are met. This policy should act as a stimulus for the economy, especially as the intermediary functions of the credit system return to normal and the monetary policy transmission mechanism is restored. 1-year EURIBOR has now dropped by more than 300 bp, and this will pass through not only to the cost of new lending transactions but also to most of the financial burden borne by households and firms, due to the predominance of variable-rate mortgages and loans. Although it will be impossible to return to the accommodative financing conditions enjoyed before the crisis, the lower interest rates effectively paid by households and firms will offer significant relief.

Fiscal policy also has an important part to play in offsetting the weakness of private expenditure, by means of well-chosen expansionary measures to halt the spread of the recession and protect the worst-hit sectors. These measures should also be transitory, to ensure they are compatible with the maintenance of budgetary stability in the medium term; if not, there is a risk that the adverse effects on long-term interest rates, market confidence or expectations of future tax increases may sterilise their positive impact on growth. The margin for manoeuvre in each individual country is very different, as a result of different starting points and different public revenue and expenditure profiles. Spain was running a budget surplus in 2007, but the economic turnaround and the measures taken to combat the recession transformed this surplus into a deficit in excess of 3% in 2008. Such a swift change may lead to a doubling of this figure in 2009, and it reflects, *inter alia*, the high sensitivity of public revenues to the real estate sector and the economic cycle, and how significantly rising unemployment and the growing cost of unemployment benefits are affecting the behaviour of the Spanish economy. The room for manoeuvre is, therefore, very limited and any measures adopted must be taken bearing in mind the risk that would be faced if, due to a rapid deterioration of public finances, budget consolidation measures were required that would have a contractionary effect on an economy still trying to find its feet.

THE THIRD CHALLENGE CONCERNS THE NEED TO CIRCUMVENT THE RISK OF COMPETITIVE IMBALANCES ENTAILING A SHIFT IN THE ADJUSTMENT OF THE ECONOMY TOWARDS A MORE SEVERE CONTRACTION IN ACTIVITY AND EMPLOYMENT

When there is no possibility of resorting to exchange rate depreciation, losses in competitiveness must be absorbed either by genuine productivity gains based on improved efficiency or by improved relative costs.

To improve relative prices, agents must adapt their habits and behaviour to the standards required for successful participation in the euro area, and this has not been fully the case. The recent decline in inflation, which for the first time has dropped below the euro area average, represents an opportunity to redress this process. Maintaining cost inflation below that of our competitors in the euro area forms part of the necessary adjustment and will enable us to secure enhanced competitiveness on which to base the recovery.

THE FOURTH CHALLENGE, CLOSELY CONNECTED WITH THE THIRD, INVOLVES URGENT MEASURES TO CONTAIN THE INTENSITY OF THE EMPLOYMENT ADJUSTMENT

This is one of the negative distinguishing features of the present economic situation in Spain, and one that may take unemployment to very high levels, making it more difficult for Spain to ride out the crisis. The Spanish labour market has a number of characteristics which cause no problems when the economy is in expansion but which intensify job destruction in periods of recession, forcefully amplifying contractionary trends. Current hiring and collective bargaining arrangements still suffer from the rigidities that prevent an appropriate response in the form of wage flexibility, meaning that the bulk of the adjustment is operated through job losses. Against this background, reforms remain necessary to improve the relationship between job flexibility

and job security. This is unsatisfactory at present as the employment protection mechanisms for some groups generate significant job losses in the economy as a whole and reduce hiring incentives. Urgent measures are particularly important here in the present circumstances in which sectoral mobility and wage flexibility may help alleviate both the extent and the duration of the recession. To staunch job losses and halt the attendant amplifying effect on the recession, adopting exceptional transitory measures to maximise the incentives for maintaining and hiring workers would even be justified.

THE FIFTH CHALLENGE IS TO PROMOTE A CHANGE TO NEW PRODUCTIVE ACTIVITIES ON WHICH TO BASE THE DYNAMISM OF THE ECONOMY

Crisis-combating measures must be consistent with the reallocation of resources between sectors that the economic adjustment requires. Other productive sectors must take up the baton from the role played by the real estate sector. The conditions of the Spanish economy guarantee that the real estate sector will play an important role in both the medium and long term, assisted possibly by immigrant labour, acting as a source of potential growth. But before even contemplating a reactivation of this sector, the surplus production accumulated must be absorbed and the sector restructured and downsized. Moreover, future steps will be needed to prevent such excesses from recurring.

Accordingly, recovery will involve setting in place the flexible conditions and incentives that will allow for the emergence of activities in which the economy has comparative advantages in terms of factor endowment and greater relative efficiency.

From this viewpoint, structural reforms and productivity-enhancing measures are the key instruments available to the authorities to effectively shorten the recession and set in place the conditions for a recovery in line with the economy's high growth potential in the long term, whilst avoiding the risk that being trapped in a protracted period of weak growth and high unemployment would entail.

And on that note I conclude. The serious global crisis has impacted the Spanish economy with force just as it was entering a complex adjustment process, giving rise to a severe recession. How we exit the recession will depend to a great extent on international developments that are beyond our control; but it will also depend, when the international situation returns to normal, on how the Spanish economy has withstood the major challenges posed that I have endeavoured to set out here.

12.2.2009.