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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	EUR (euro)
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

TESTIMONY OF THE GOVERNOR OF THE BANCO DE ESPAÑA, MIGUEL FERNÁNDEZ ORDÓÑEZ, TO THE PARLIAMENTARY COMMITTEE ON ECONOMIC AND FINANCIAL AFFAIRS

Testimony of the Governor of the Banco de España, Miguel Fernández Ordóñez, to the Parliamentary Committee on Economic and Financial Affairs

I have been asked to appear before Parliament to inform you of the Banco de España's management of the Fund for the Acquisition of Financial Assets and share with you its analysis of the current situation of credit flows.

As you know, the Fund for the Acquisition of Financial Assets is assigned to the Ministry of Economic Affairs and Finance, which by law is responsible for administering, managing and directing it through an Executive Council and its Executive Committee. Yesterday's testimony by the State Secretary for Economic Affairs to this Committee gave a comprehensive account of the management of the Fund. The Banco de España's function is to carry out its financial asset selection and acquisition operations and to act as the custodian bank of its portfolio. Every two months the Banco de España reports in detail to the Executive Committee on the execution of the Fund's transactions. The first of these regular reports was submitted by the Banco de España to the Executive Committee of the Fund, and you are familiar with it.

As described in that report, to date four auctions have been held in which a total of nearly €20 billion was allotted. The Fund implementation work consists of entering into and settling transactions which are carried out through the purchase, on a temporary or held-to-maturity basis, of the financial assets which thereby become part of the Fund's assets. Maintenance tasks on the portfolios of securities acquired are also carried out.

We are all aware that this testimony comes at a particularly delicate time, not only for the Spanish economy, but also for that of the world. We would have to go back at least 80 years to find a situation of global risk comparable to this one. In these conditions, we have to avoid a simplistic approach focused on facets taken in isolation from reality and from the complex environment in which they are set.

You will therefore understand why I devote my testimony not only to describing and analysing the information available at this time, but also to setting it appropriately in the context of the current developments in the international financial and credit markets and in the Spanish economy.

Allow me, then, to begin by reviewing the most recent data available to the Banco de España in its dual capacity as credit institution supervisor and as producer of monetary and financial statistics. We make these statistics available to the community regularly in our publications and on our website. As you undoubtedly realise, however, the collection and processing of the input information used to compile the statistics takes time and, at this moment, the most up-to-date data available relate to January, although it should be noted that they are largely provisional.

Ministry of Economic Affairs and Finance Order 3118/2008, which implements Royal Decree-Law 6/2008, recently entrusted the Banco de España with "a four-monthly analysis of the general financial conditions in which the Fund for the Acquisition of Financial Assets conducts its activity and of developments in bank lending" to be submitted to the government, which, in turn, will send it to Parliament within the framework of the scheduled parliamentary control of this Fund's activities. Once this has taken place, we will have full information on the first quarter of this year.

Hence, taking January as the reference month, Spanish household and corporate credit are, on the available information, growing at a year-on-year rate of nearly 6% (5.8%). In net terms, i.e. subtracting the effect of past loan repayments, this sector received approximately €110 billion of financing in the past 12 months.

A breakdown of these figures by market segment shows differences of some size between firms and households. House purchase loans to households were growing at a rate of nearly 4% (4.2%), which was faster than that of loans for consumer and other purposes (3%).

Funds granted to firms, however, showed greater dynamism, with rates of around 6% (6.1%). This rate, however, masks significant differences between different productive sectors. It should be noted that the information allowing this sectoral breakdown becomes available with a certain lag, but there are no signs that there will be a break in the existing trends, which have been showing a much sharper slowdown in financing to construction firms and those engaging in real estate development services and a smaller loss of momentum in financing to industry and to other services firms.

It is highly likely, in any event, that part of this corporate credit growth reflects not so much the most recent lending decisions of banks as a much more intensive use by non-financial corporations of credit lines opened in the past under less demanding conditions than those currently prevailing, which allow institutions little or no leeway to take action.

Along these same lines, I wish to point out that the dynamism reflected by year-on-year growth rates diminishes notably when a time horizon shorter than one year is considered. Hence, looking at only the last three months from November 2008 to January of this year, the growth rate of credit to other resident sectors, expressed in year-on-year terms for comparison purposes, drops to values a little above 2% (2.1%). This is equivalent to an increase of €10 billion in the outstanding balance of the total credit granted by institutions resident in Spain in the fourth quarter of 2008, or, in annual terms, somewhat more than €40 billion.

To put this lending behaviour in Spain into context, it is useful, as an initial point of reference, to compare it with bank lending in other major developed countries, although taking care to keep in mind that in some of them (specifically, the United States) credit institutions play a much less active role in the provision of financing to firms, which raise funds directly on the market to a much greater extent than in Spain.

Allow me, for the sake of brevity, to spare you the detail of the figures and simply to say that what that comparison shows is that the loss of dynamism in credit is shared by most economies, including most notably the euro area, United Kingdom and United States. In Spain, the slowdown has been more marked because it started from higher levels, but the process here has not so far reached the seriousness it has in those other economies.

Another key point of reference is how credit behaved in other economic slumps. From this standpoint, the adjustment of credit should not surprise us, since it is a variable with a marked cyclical behaviour: when the economy grows, bank lending tends to do so at a comparatively faster rate, so the debt ratios of the private sector increase. By contrast, cyclical downturns are accompanied by a rapid contraction of credit growth, which tends to stand below that of GDP, and the relative debt of households and firms decreases.

The behaviour of Spanish credit and GDP fits exactly the pattern I have just described. In the last recession in Spain, at the end of 1993, bank lending contracted year-on-year by somewhat more than two percentage points (2.2%), a short time after nominal GDP growth reached a minimum only slightly above zero. And that was in the absence of financial strains comparable to those seen at present.

In just one month, we will make public our growth projections for the Spanish economy, continuing the practice commenced two years ago. As you will undoubtedly understand, I am unable to give specific figures. Nonetheless, the still largely unrevised figures clearly point to a recession of some depth, as do the projections being issued by other organisations, such as the International Monetary Fund, the European Commission and the OECD.

The Spanish economy is unquestionably passing through a period of contraction with low inflation, which will make for an extremely modest, if not negative, growth rate. As seen in the past, a situation like this would, by itself, be expected to lead to very weak or even negative credit expansion.

It is now necessary to superimpose on this scenario the further contractionary affects on lending derived, on one hand, from the severity of the crisis of confidence accompanying the current recession and, on the other, from the marked financial stress inevitably accompanying the serious events at worldwide level, with major bank failures which required voluminous and exceptional rescue plans in the countries affected.

I thus wish to begin my assessment of the credit situation in Spain by looking, first, at the reasons why the strong contraction of the Spanish economy inevitably affects lending. I leave for later a consideration of the more direct effects of the crisis in the international financial markets.

As in the case of so many other goods and services, the observed credit behaviour results from different forces operating both on the demand side and on the supply side and which, in this case, are tightly synchronised with the business cycle.

Economic downturns are characterised, first, by a widespread decline in household and corporate spending, which naturally means that less funds are needed to finance that spending. Also, firms' and workers' expectations about their future income and, in the case of the latter, about their employment prospects, are usually revised downwards in recessions, especially if the recession resulted from a need to correct the imbalances accumulated during the expansionary phase of the cycle. Obviously this revision of their future ability to pay naturally also has a contractionary affect on the demand for credit.

From early 2003 the Banco de España, in coordination with the other Eurosystem central banks, has been carrying out a regular quarterly survey of credit institutions to improve our knowledge of the euro area credit markets: the bank lending survey. It is one of the few tools which allows us to separate the components of demand and supply underlying observed credit behaviour. The bank lending survey clearly shows that private-sector demand for credit has been declining in Spain since late 2006. This is before the international credit crisis broke out and more in line with the first incipient signs of an adjustment to the Spanish economy, the pace of which was subsequently accelerated by that same crisis.

The fall-off in demand, however, is insufficient to explain alone the strong slowdown in lending. The cyclical position of the economy also plays a central role in the behaviour of the supply of financing. When GDP growth turns negative and unemployment increases, households and firms find it more difficult to keep up their debt repayments. This means that funds which, in other circumstances, could have added to the flow of credit, have to be set aside by credit institutions to cover growing bad debts. This increase in bad debts is evident in Spain, although it started from fairly low levels and Spanish banks have a significant cushion of provisions to enable them to cope with this increase in defaults.

From a more medium-term standpoint, the same phenomenon of downward revision of expectations as to the economy's future dynamism which adversely affects credit demand also puts pressure on institutions which, faced with the change of cycle, will tend to correct upwards their assessment of the risks associated with their operations and therefore tighten their conditions for new lending.

Institutions' responses to the bank lending survey confirm that these supply effects are having a major impact on the recent behaviour of credit in Spain. More specifically, the bank lending survey shows that the tightening which is taking place is basically due to a revision of bank expectations about economic growth in general, about the future of specific markets of great importance for credit, such as housing, and about the solvency of consumers.

Other factors, such as difficulties in funding loans or the potential constraints associated with the desired levels of capitalisation, which are more directly linked to the crisis currently besetting the international financial markets, play a less significant role. However, their influence may be beginning to increase and they may take their place alongside the traditional cyclical determinants of credit supply.

In past testimonies I have described in detail how, for various reasons, this international financial crisis found Spanish credit institutions in a position of relative strength, which enabled them to withstand the initial onslaught relatively unscathed. However, the prolongation of those tensions and, above all, the negative feedback between the financial and real sectors to which they have given rise, have generated indirect or induced second-round affects. Averting some of these indirect effects will be complicated.

Among those which should not be cause for great concern are the effects linked to the persistence of a problem of lack of liquidity in the money markets. When liquidity strains become chronic, this increases the danger that they will ultimately degenerate into insolvency. However, this risk has been substantially covered by the action taken by the Eurosystem, which has substantially enlarged the volume of liquidity it provides to institutions, and has extended, also amply, the range of securities it accepts as collateral in those loans. The Eurosystem's manifest readiness to pursue this policy as long as the tensions last strengthens my conviction that this type of risk will no longer constitute a determining constraint.

However, apart from liquidity problems, the evident excesses committed in many countries during a long period of markedly lax financial conditions are now forcing widespread deleverage among financial intermediaries, which are now finding that their capital levels are limiting their ability to grant loans. The information available at this time does not yet indicate that in Spain this affect is significant, but it is obviously a source of risk to be taken into account.

Also, the ongoing state of collapse of the international wholesale markets in which Spanish institutions had been borrowing most of the funds needed to finance excess domestic spending poses significant challenges for the Spanish financial system. The temporary solutions undertaken in the face of the first wave of direct effects of the crisis – and I naturally refer to the recourse to the Eurosystem and to the issuance of commercial paper – are useful, but limited in scope. As in the case of deleverage, our analyses do not reveal that the funding difficulties are playing a determining role at this time, but do suggest that their influence on institutions' credit policies is increasing.

Last but not least, the beginning of a recession, particularly one set against a backdrop of financial crisis, is a phase prone to the overreaction so common in financial markets. The tendency to overreact may lead institutions to exaggerate the risks of borrowers and, consequently, give rise to an excessive contraction of the credit supplied by them.

All these risks of credit restriction resulting from the need for deleverage, from the insufficient funds available on wholesale markets and from the tendency to overreact are not by any means exclusive to Spanish institutions. On the contrary, some of them have already materialised, with clearly severe effects, for certain institutions in other countries. In response to them, exceptional measures have been adopted in various countries and headway has been made in the design of common concerted guidelines in some areas, such as the European Union. The variety of experience gained from these interventions allows an inventory of the tools used to be compiled. This gives a better idea of those available and of their potential efficacy in correcting the adverse lending conditions.

The first set of measures aims to stop the lack of confidence from spreading through the banking system. These mutual misgivings arose as a result of the stress to which certain specific banks, none of them Spanish, were subject at the onset of the crisis. In view of the imminent danger of a bank panic, which could have brought the simultaneous collapse of the financial system in various countries, the coverage provided by deposit guarantee funds was extended and, more generally, the authorities undertook not to allow possible bankruptcies to harm depositors. I do not believe I am being over-optimistic when I affirm that this objective was fully achieved.

Action was also taken to ensure the availability of liquidity at maturities exceeding those currently envisaged in monetary policy operations, even after the increase in the amounts and maturities of the customary Eurosystem auctions. The creation in Spain of the Fund for the Acquisition of Financial Assets is a good example of the type of specific instruments designed in this regard to provide liquidity at longer time horizons.

The countries most affected by the crisis have also taken measures to prevent the process of credit institution deleverage from adversely affecting their ability to finance spending projects, through the recapitalisation of banks with government funds and the introduction of programmes to purchase impaired bank assets. As you know, none of these actions has been necessary in Spain, although the royal decree-law of last October established the legal basis to carry out recapitalisation operations, if and when necessary. In view of the enormous uncertainty as to the outcome of this international financial crisis, it would not seem prudent to rule out the possible use of measures of this type at some later time in the process.

As is well-known, Spanish institutions' balance sheets are free from so-called "toxic" assets. This has been a key factor in their resilience to the initial onslaught of the crisis and represents a major difference from what is happening in the national financial systems most severely affected by the crisis. However, this does not mean that Spain's financial system will be immune to the processes which the financial crisis has unleashed.

In any event, if the depth of the financial crisis and the accompanying deterioration of the macroeconomic environment do finally bring a reorganisation of the Spanish financial system, we must not overlook another singular strength of Spain's institutional framework. Unlike other countries, Spain has deposit guarantee funds which are financed by contributions from the sector itself and, if necessary, can play an important role in possible operations to restructure a given institution. They have proved to be very effective in situations of this type in the past, and have thus built up experience and a reputation which may be very useful.

Nearly 20 months have passed since the international financial crisis broke out. During this time the Spanish banking system has demonstrated its soundness and solvency. But this does not mean that it is immune to the most serious worldwide economic and financial crisis of recent times. As remarked earlier, the depth of the crisis may require a restructuring of our banking system. If so, the Banco de España will act as it always has: with the aim that neither depositors nor creditors are affected at all. And, naturally, with discretion and professionalism.

Returning now to the range of measures taken, particular mention should be made of those designed to address the funding difficulties in international wholesale markets through the provision of government guarantees for the bond issues of institutions which meet certain requirements. The European Commission has designed a common framework for the provision of these guarantees in Europe, in order to reduce to a minimum possible harmful effects on competition and equal treatment. In numerous countries, including Spain, institutions are already making use of these facilities and, although their introduction is not free from complications, market funding is again becoming possible, which means that one of the most serious factors of blockage is being overcome. Nonetheless, the funding available continues to be scant and expensive, since savers are still providing funds very cautiously and only in exchange for high remuneration.

This brief review would not be complete without mentioning another set of important measures aimed at mitigating the effects that the tighter credit conditions may have on specific sectors or agents that are highly vulnerable to market strains of this type. This type of action includes, for example, diverse measures to help small and medium-sized enterprises gain access to funds or to enable households in particular difficulty to renegotiate the terms and conditions of their loans. Along these lines, financing programmes to provide substantial amounts to these sectors have been undertaken through the Instituto de Crédito Oficial (Official Credit Institute) in Spain.

The range of measures available is thus extensive. The challenges and complications are so formidable that the most severely affected countries are still striving to find suitable mechanisms and not a day passes without some new proposal being put forward. However none of these measures is free from risk, and not only in terms of their possible adverse effects on competition or equal treatment. Most of these actions require, in one way or another, a considerable budgetary effort by the State, so it is essential to find a mechanism that does not jeopardise the long-term soundness of public finances. Also, great care should be taken that appropriate terms and conditions are required of the institutions which benefit from the measures, and close attention should be paid to the design of suitable mechanisms for monitoring the proper use of the aid.

Having completed my analysis of recent credit behaviour and of the measures taken to deal with the current financial stress, I feel it would be particularly useful to devote the last part of this testimony to commenting on the perspective from which the current credit restrictions in the Spanish economy should be analysed. In my judgment, this analysis should start from two basic premises. The first is the recognition that lending behaviour in Spain cannot be decoupled from the existence of a global financial crisis, the solution to which cannot be significantly influenced by us. The second is that the crisis hit Spain at a time when the economy was already in the midst of an adjustment which would in any case have had a major contractionary effect on fund supply and demand.

If these premises are ignored, there is a danger that, driven by a our wish to find a remedy for the financial stress of households and firms, we may make a mistaken diagnosis based on simplistic explanations which leads us to believe that the solution lies in mechanical formulas that, far from providing relief, may, in the final analysis, be counter-productive.

It is not now difficult to identify some of these dangers in the voices and proposals heard in certain countries in favour of economic nationalism and protectionism, based on the false belief that a return to defending the national interest can protect each economy from the affects of a global contractionary spiral. The results of this strategy are well-known: when each country goes its own way and tries to protect itself, the result is to magnify the global recessionary trend. That was the most destructive force in the Great Depression and is a lesson that we should not forget.

Relief from the economic strains necessarily requires concerted and coordinated action between the largest-possible number of countries. This action will have to restore confidence to the financial markets, promote the restructuring of financial institutions and encourage spending. In a framework of freedom of trade and of financial transactions, the coordination of national policies strengthens and multiplies their effects, thereby magnifying the expansionary waves emanating from them. The evident corollary of this reasoning is that any action plan undertaken must necessarily mesh with internationally adopted agreements.

Further, we should not make the mistake of isolating the recent behaviour of lending in Spain from the other factors shaping the current severe adjustment of the Spanish economy. Nothing would be more counter-productive than to take the simplistic view that overcoming the crisis depends solely on the availability of abundant credit financing.

Before anglicisms like subprime, conduit and others became part of our common vocabulary, a series of internal imbalances had been building up in the Spanish economy and eroding its dynamism, making adjustment inevitable. This adjustment might have been gradual if the international circumstances had not changed so dramatically. In any event, given the unfortunate coincidence of the domestic adjustment with extraordinarily adverse external conditions, the recovery of confidence – additionally dented by the exceptional events taking place on a worldwide scale – and the resumption of spending – hit by numerous contractionary factors – will only be possible if the groundwork has been laid for the absorption of the accumulated imbalances.

The resumption of lending undoubtedly forms part of the solution, but this solution requires the right conditions for households and firms to regain confidence in their future income and to lay solid foundations for their plans to embark on consumer spending or investment or, in the case of firms, job creation. On previous occasions I have referred to the current phenomena as the result of the confluence of a series of vicious circles which feed back into each other. Consumers spend less because they are worried about their future income. Firms invest less and recruit fewer workers because they expect less demand and face greater financial difficulties. Banks lend less because they raise less funds and fear for the solvency of borrowers. They are vicious circles which are unlikely to be broken at a single point. The level of confidence and the tone of expectations determine not only spending decisions and the demand for financing, but also the perception of risk and credit standards. And the recovery of confidence in the improvement of expectations, although not unrelated to the course of the International crisis, will depend largely on how well the economy can cope with the prevailing adverse circumstances and overcome the current challenges.

We must also realise that, in any possible post-crisis scenario, credit conditions will necessarily be more limited and tighter than before the crisis. During the long expansionary phase, Spanish household and corporate debt grew at rates which the Banco de España repeatedly described as unsustainable. In my judgment, it is unlikely that this economy can find its way back to a path of sound and sustained reactivation of spending without previously making headway in the process of financial restructuring of the private sector now under way.

The Spanish financial system will also have to adapt to these new conditions. Its good overall health is of prime importance to the Spanish economy, but we must take care that such soundness is preserved in the current conditions of financial stress and macroeconomic deterioration. It is not credible to invoke scenarios of recovery of financing flows that are not underpinned by a solid and profitable system of intermediaries. If the Spanish financial system were severely weakened, as has occurred in other countries, the financing of the economy would become even more difficult and growth would suffer to a greater extent.

Moreover, the re-establishment of an appropriate basis for the recovery of confidence and for the resumption of private-sector spending plans largely depends on whether the adjustment to the economy results in improved competitiveness and labour market conditions. After various years of vigorous job creation, we have now moved into a phase in which jobs are being destroyed and unemployment is rising more quickly than in previous recessions. This reflects the persistence of certain structural features of our labour market which do not cause problems when the economy is expanding, but which tend to put the burden of adjustment excessively on employment when the cycle changes. What this contributes to is that consumption contracts more sharply than disposable income and that the contraction in investment is not limited to the residential component, where the need for adjustment is evident, but that it also sharply affects other productive investment. The spillover of contractionary trends driven by rising unemployment is also transmitted to bad debts, bank asset quality and, in short, the tightening of credit conditions. And in these conditions it is very likely that a significant part of the possible expansionary thrust that may be generated will not effectively pass through to spending.

All this is sufficiently illustrative of the complexity underlying the current economic and financial contraction, in the framework of the first global credit crisis in recent economic history. I hope I have been able to get across the idea that the credit strains cannot be considered in isolation. The corollary of this – and here I will finish – is that any effective action programme must prescribe coordinated action on various fronts so as to tackle simultaneously all the not inconsiderable challenges facing the Spanish economy at this time. This is the approach adopted at international level, and we also have to follow suit, adapting it to the particularities of the adjustment process under way and of the specific situation of Spain's financial system.

Thank you

25.2.2009.

“THE SPANISH ECONOMY AFTER THE CRISIS”. OPENING ADDRESS BY THE GOVERNOR OF THE BANCO DE ESPAÑA, MIGUEL FERNANDEZ ORDOÑEZ, AT THE “IV CONFERENCE ON THE UNIQUE FEATURES OF SPANISH SAVINGS BANKS” / FEDERACIÓN DE USUARIOS DE LAS CAJAS DE AHORROS (FEDERATION OF SAVINGS BANKS CUSTOMERS)

"The Spanish economy after the crisis". Opening address by the Governor of the Banco de España, Miguel Fernández Ordoñez, at the "IV Conference on the unique features of Spanish savings banks" / Federación de Usuarios de las Cajas de Ahorros (Federation of Savings Banks Customers)

Thank you Mr Chairman,

The profound worldwide economic slowdown, which in the industrialised countries has already turned into a rapid and sharp recession, is undoubtedly the most serious since the 1929 Great Depression. In recent months, the collapse of international financial markets has been averted only with great difficulty and we don't yet know what the final consequences of the events unfolding will be for the real economy.

Faced with this situation, all efforts will inevitably focus on attempting to exit the crisis. Internationally, and within Spain, hitherto inconceivable measures have been adopted, such as unlimited liquidity injections by central banks, extensive fiscal stimuli and exceptional support to the financial system. Naturally enough, governments, politicians, central bankers, supervisors and academics are all contributing to these tasks. And it is not surprising, therefore, that all my speeches in recent months have been to analyse the causes of the global crisis and to review the various measures to tackle it.

However, on receiving your much appreciated invitation, I thought I'd take advantage of the sense of calm reflection which university fora instil to pause and ponder on what may happen to the Spanish economy after the crisis, when the global economy recovers.

It is worth reflecting on the aftermath because the global nature of the crisis is "homogenising" the different economies. And by blurring the differences from one economy to another, it is hard to discern the different tasks awaiting them. As the crisis left nobody unscathed, not even those countries which acted prudently, i.e. those that did not incur excessive debt or whose competitiveness did not worsen, are faring better than those which were not so virtuous. But when the crisis ends, differences will re-emerge.

When a plane taking off from New York almost crashed last month, the health and well-being of all the passengers hinged on how the crisis was resolved, without this depending on their youth, cholesterol levels, excess weight or the state of their lungs. The drama was the same for everybody. Luckily, they all emerged safe and sound from the landing on the Hudson. But after that, with the crisis behind, their health and well-being depends once again on the state of their organs, diet and exercise, and on taking the right medicine.

Countries worldwide have entered into a similar negative spiral (a deep slowdown in – and in some cases the collapse of – consumption, employment, output, credit, investment...). And that might feed the illusion that, once the recession is behind, all countries will recover in the same way. But that will not be so. Each country has singular features that will prove pivotal when defining the path to follow once the crisis is over. Accordingly, my reflections will focus on what distinguishes us from others.

The Spanish experience shows that, from 1985 to 2008, growth in the economy was outpacing the EU average, with the sole exception of 1992 and 1993. This spectacular growth over the past 23 years has allowed us to draw closer to the welfare levels enjoyed by the most prosperous EU countries. But what will happen to the Spanish economy when we emerge from the current crisis? Will we witness such satisfactory growth as in the past?

The reply, as always in economics, is that “it depends”. If we do what we have to do, if the necessary reforms are made, we will once again grow above the European average. But if we do not reform we will probably grow at or below the EU average, with convergence with our main economic partners being checked.

Yet if we have been able so far to advance without these reforms, is it absolutely vital to adopt them now? Before answering that, let us look at the causes of growth in the Spanish economy in recent decades. Such high growth may prove surprising given our economy’s shortcomings or weaknesses: a much lower level of educational attainment than other European countries, low capital stock, inferior technology and labour institutions which, as we shall see, do not generate the incentives needed to enhance individual and collective efficiency. Why, despite this, have we grown so much? Partly because we made more progress than the other countries in some areas, which has offset our relative shortcomings.

First, the relative weight of our public sector is much lower than that of the other European countries. Consequently, the greater weight of the private sector accounts for the greater dynamism of our economy. Next, public spending has been decentralised in a manner akin to Germany after World War II, and, to date, that has allowed greater efficiency in the allocation of spending. Further, we have also been bolder than other countries in privatisation. In recent decades there have been many significant privatisations in practically all productive sectors, allowing us to push ahead more than other economies in infusing competition into many goods and services markets. Unlike in other countries, privatisation has been wholesale, which is essential for breaking the link between corporations and governments. Finally, up to 2007 Spain managed notable progress in terms of balancing public finances and reducing public debt. All these aspects might be viewed as some of the inherent virtues of the Spanish economy, which account for much of our favourable growth differential over the past 20 years.

What is most surprising is that our economy has been growing despite progressively losing external competitiveness. The growth of our prices, unit wage costs and business margins has outpaced those of the euro area. This has ultimately resulted in a sizable current-account deficit which, though it may be seen as excessive investment relative to saving, also indicates Spain’s insufficient competitiveness, with very poor productivity gains.

And how has it been possible to grow in the last 23 years despite losing competitiveness? Because in addition to the above factors or “inherent virtues”, Spain has had access to other possibilities which have also helped it grow. There are two in particular.

The first was the resort to devaluation. Though the last devaluation was in 1995, this instrument was available until 1999, when Spain entered the euro area. Devaluation allowed losses in competitiveness to be absorbed – without the labour market being reformed or corrective measures being taken to enhance productivity – by means of reducing real wages, increasing import prices and improving the relative prices of products sold abroad.

But let’s not deceive ourselves. Periodic devaluations, though providing temporary relief that allowed necessary structural adjustments to be postponed, entailed huge costs and kept private agents in a setting of financial and exchange-rate instability far from conducive to sustained growth.

During our decade in the euro area we have also grown at a higher rate than our partners, despite not having the resort to devaluation. How has that been possible? Along with the effect of the positive factors I mentioned earlier, we should also highlight euro area membership for what it has meant in terms of stability and reducing uncertainty, and the contribution of immigration, which has added notable flexibility to the Spanish economy.

Unquestionably, though, a decisive factor in growth from 1999 to 2008 was the extraordinary increase in household and corporate debt. In that decade, Spanish domestic demand growth was double that of the European Union because private agents' debt rose twofold in the 1999-2007 period. As a proportion of gross disposable income, household debt climbed from little more than 60% to 130%, and corporate debt from 270% to almost 600% of the gross operating surplus.

The problem facing us on emerging from the crisis is that although this swift indebtedness drove the increase in domestic demand and, therefore, in economic growth in recent years, the high level attained will prevent debt from growing in the future at a similar rate to what it did in the past. Moreover, for several years we may well witness a debt reduction or deleveraging process, meaning its effect on domestic demand will be the opposite of what it was in the past, reducing our growth rate.

The Spanish economy's main problem, then, is that its future looks very different from its past since the two possibilities I mentioned – devaluation and increased debt – have disappeared. Thus, even if our economy's many strengths (a very small public sector, privatisation, low public debt, etc.) remain in place and there is no slippage in progress made, Spain will face more demanding situations for having forgone these two possibilities. Naturally, were we to backtrack on competition, for instance, or were the budget deficit to surge to unsustainable levels, our growth would be even more severely impacted, as occurred in the past decade in some European countries.

The only possible means here of recouping the external competitiveness lost following the latest upturn is to increase our productivity. And higher productivity, in addition to requiring a priority focus on education and training, inevitably involves structural reforms in numerous fields. As we have limited time, I'll refer exclusively to the reform of labour institutions, where the Banco de España researchers have made most valuable contributions. Also, this is surely the reform that can most contribute to resolving the problem most concerning Spaniards, namely unemployment. Yet while not mentioning them today, we should remember there are many other vital structural reforms needed, such as that of the rental market, boosting competition in services, railway freight transport, energy, public administration, etc., and that can also contribute to enhancing productivity and to a return to higher growth than the EU average.

Clearly, inadequate labour institutions generate very harmful effects not only on productivity and economic growth, but also on employee welfare. Spaniards need little convincing of the problems unemployment poses, problems which assail us even when the business cycle is buoyant. In the past year we regrettably posted once again the highest unemployment rate in the OECD; and furthermore, the speed at which joblessness in Spain is increasing during the current crisis is the fastest among all the developed countries.

In countries facing a contraction in activity similar to that in Spain, the unemployment rate rose only slightly last year (e.g. by 0.2 pp in France), or even fell (Germany). We might argue that these countries show much lower increases in the labour force than Spain and that the expansion in their construction sectors was not comparable. The problem is that when we compare with countries that do have these two characteristics, such as the United States or the United Kingdom, Spain's unemployment increase continues to stand out. Specifically, the US unemployment rate rose by "only" 2.3 pp in 2008, somewhat more than in the United Kingdom, where the increase from January to October 2008 was 1.4 pp. These are very moderate increases when compared with the figure of over 5 pp for Spain in 2008. Evidently, the Spanish economy's labour adjustment mechanisms are not working properly.

Another harmful effect of an inefficient labour market is that it reduces the room for workers' real compensation to improve. In recent years, the Spanish economy has had to compete abroad on the basis of holding down its real labour costs, which was imposed by the economy's low productivity. This has direct consequences for everybody's welfare, particularly so for those groups most adversely affected in terms of both wages and unemployment, namely women and the young.

These particularities of workers' situation in Spain compared with other developed countries – higher unemployment, even in the good times, a swifter increase in unemployment in adjustment phases, lower real wage growth, lower labour productivity growth, greater discrimination against certain groups – match the singularity of our labour institutions when compared with those countries. There is a long list of areas where we differ: the practical impossibility of opting out of collective bargaining, the scant share of compensation in corporate profits, wage indexation mechanisms with no connection to firms' situation, State intervention through mandatory authorisations that prevent firms from increasing their productivity, etc. But as time presses, I'll focus on just one of these particularities: the way in which we provide for the unemployment contingency.

Spain continues to adhere to unemployment contingency arrangements which, formerly, were similar to those in other European countries, but which have all been reformed in recent decades. Under our system, assistance to the unemployed combines a government benefit with the payment of a one-off amount related to the time the beneficiary was at a single company. This amount is payable by firms, not the State, and it is occasionally the biggest portion of the assistance to the unemployed. All these features lead to numerous inefficiencies in the system, which makes for lower productivity and categorical failure in the goal of reducing unemployment.

Under its current design, unemployment compensation is an absolute deterrent to labour mobility, since it depends on workers' years of service at the last firm at which they were employed. And in today's world the reallocation of workers from one firm to another is crucial if the economy is to adjust suitably to the rapid changes unfolding in demand and in technologies. In that way, workers move from firms in decline to those pursuing more productive activities. The compensation system in force is not conducive either to the start-up or growth of more productive firms. And not only because it deters employers, discouraging new hires. Spanish workers themselves ultimately do not accept changing job because even though more productive firms may offer them substantially better wages, the change does not compensate for the fact that any severance payment would be back to zero in their new job.

The fact that unemployment protection largely resides on a compensation package (which is colloquially known as firing costs) payable exclusively by the private sector also adds numerous distortions. The fundamental one is that it discourages company start-ups and hiring in general, a matter which, while important, is all the more so now that the inevitable and massive reduction in employment in housebuilding needs to be offset by job creation in other sectors.

The Spanish system is inefficient. Yet it would be absurd to ignore the fact that the Spanish public largely believes the current system protects workers. And clearly, if there is no widespread awareness of the harm the system causes, there will be no reforms. It is therefore absolutely vital to study and publicise the reforms other European countries have undertaken, choosing those alternatives that allow us to raise our productivity, and thus our external competitiveness, to increase our per capita income and quality of life, and to improve the conditions of the most disadvantaged groups.

In many respects the current situation of labour protection can be equated with the trade protectionism characterising the Spanish economy until the late 1950s. During that period, import tariffs and quotas were very high in comparison with those in other developed countries. The belief until then was that trade protectionism shielded Spanish firms and workers, but nothing was further from the truth. The goods sold in Spain were expensive and of poor quality, workers' wages were so low that attempting to hold down two jobs was the norm and the level of per capita income even fell relative to that of our trading partners.

The situation changed radically with the opening up of the Spanish economy, when we began to resemble other developed countries. Indeed, this process, which started with the 1959 Stabilisation Plan and culminated in accession to the European Union in 1985, has seen Spain successfully converge on European standards of living. The opening up of the economy did not only not lead to the disappearance of industry and agriculture; it also raised Spaniards' standard of living significantly.

In short, what was apparently a singular system protecting us was leading us down the road to disaster. It was not until an acute crisis hit us hard at the end of the 1950s that we realised that what distinguished us from other countries and what we thought was protecting us was actually achieving the opposite.

It is now precisely in Spain, where employment protection purports to be in good health thanks to the high unemployment severance packages on top of government benefits, where labour shedding in the face of the current economic crisis is proving fiercer than in other countries. For this reason we should study the experience, for example, of Austria and Denmark, whose labour market reforms can offer us some ideas for reform at home. In Denmark, where the unemployment rate is 4.1%, the authorities opted to improve regular benefit payments and to practically eliminate redundancy payments. In Austria, where the unemployment rate is 3.8%, firms set up an individual fund for each worker which becomes available if workers loses their job, acting as a top-up to government unemployment benefits. When workers find employment in another firm, the unused portion of the fund goes with them and starts growing once again with the new firm's contributions. At the end of their working life, the funds available are an additional source of retirement income.

The virtue of these systems is that they do not deter worker mobility. This is so in Austria because, by not forgoing their "established rights", it is workers themselves who manage the accumulated resources during periods in which they are unemployed. Also, this arrangement offers protection to all workers, even those whose previous terms of employment have been short-lived. In Denmark, the choice was of a system which firmly supports the unemployed (with substantial unemployment subsidies and intensive training programmes) in a setting in which, however, firing costs are very low.

Just as 50 years ago the external sector crisis obliged Spain to change its trade protection policy, the current, serious unemployment crisis should lead us to examine what we can change in our labour market, given what other countries have done with very favourable results. Admittedly, this is nothing new, since the Banco de España has reiterated in its annual reports, at least in the past 10 years, the need for such reform. What is new is that reform has now become absolutely vital; otherwise, when we emerge from the current crisis, and in the absence of the instruments that were used in the past, we will be liable to grow far below what we did in previous decades.

The reform of labour institutions is a pressing task, since the short-run effects on hiring are absolutely necessary in the current circumstances. But we require action on another front, even though the effects are longer-term. I refer to education. Undoubtedly, progress in education is Spain's most important outstanding task in respect of economic growth, enhanced productivity, fairer income distribution and also the attainment of low unemployment. True, Spain has advanced in some fields here, such as university education and business schools. But we continue to take up the rear as regards the average quality of our citizens' educational attainment, with the serious consequences this entails.

It is well known that countries with a better educated population are characterised by having higher wages, lower unemployment rates and a higher labour market participation rate. For example, both in Denmark and in the United Kingdom, more than two-thirds of the population have a post-compulsory education qualification, as against only 50% in the case of Spain. In both countries, the average worker has 30% higher spending power than Spanish workers, and their unemployment rates in 2007 were 3% and 5%, respectively, less than half the level in Spain.

This relationship between training and wages is explained by the fact that more highly educated workers are more efficient, and therefore obtain higher wages, and by the fact that employers always prefer to fire the least productive workers. In fact, the unemployment rate in Spain for persons with only a primary education has increased in 2008 by almost 8 pp, as against 5 pp in the case of those with a secondary education and only 2 pp in that of persons with a further education. The data also show that not only are the largest increases in the unemployment rate among groups with lower levels of education, but that these groups also have the highest unemployment rates.

Yet we should not only strive to improve the educational attainment of our workers before they start working. We should also promote training within the firm. If we managed to make our labour market institutions more like those of other developed countries, we would also do away with labour market arrangements that hinder workplace training and do not give employers any incentive to improve their firms' human capital.

We urgently need a debate between all political, economic and social agents to convince them of the need for reforms. The government and the parties who support it, the opposition parties, trade unions, employers, academics, researchers and the media should all participate. And we should not forget those who the reforms would benefit most: unemployed workers and employers who still do not exist, but who would be able to if there were a significant structural change in labour market institutions.

Without sufficient social acceptance this debate will obviously not even be joined, so it is very important to clearly underline the objectives pursued which I've repeated ad nauseam in this speech, but which I shall attempt to express again in a different way so as not to tire you. We should all agree that the best protection against unemployment is not that which concerns itself with subsidising the unemployed, but that which ensures that the majority do not lose their job. We should admit that it is useful to allow employers to improve their productivity because that way we will see higher real wage growth. And, finally, we should let workers take the opportunity to switch to better-paid jobs without losing a substantial part of their protection in the event that they lose such jobs.

You will have realised that my approach to the debate on labour market reform is far removed from that of those who confine it to the question of whether or not to lower dismissal costs. In my view it is a mistake to debate cheaper firing alone, and I believe that we can only make headway if we focus on finding formulae that allow us to increase productivity, to reduce the numbers of unemployed and to improve workers' wages.

The fact that Spain is today more advanced than other European countries in many areas that I mentioned at the start of my speech should not let us forget that there are still some fields in which we can learn from others. It is precisely this attitude of having learnt from others, and made the consequent reforms, which largely explains the positive performance of the Spanish economy in recent decades. In my opinion, the time has come to do the same (to learn and to reform) with labour market institutions which, as systematically stated by international organisations, are the major structural difference remaining between us and the more developed countries.

We must acknowledge that the task is not an easy one. Apart from convincing people about their necessity, something historians and economists can help do, the skills of many others will be needed to design and implement the reforms. One thorny issue is how to set some changes in motion immediately and, at the same time, be sensitive to what may be seen as an alteration of established rights. Political acuity is crucial to resolve these problems, as indeed it is also to make the interests of the different groups of workers compatible with each other. But it should also reassure us to know that the reform toolbox is full of possibilities: calendars, compensation, incentives, etc. Lawyers also have an important job to do, since the problem with all structural reforms is that they alter the status quo and, accordingly, it is essential to find legal formulae that circumvent the obstacles that may arise in their approval and implementation.

The difficulties that may arise, not only when reforming but also in opening the debate, may lead some to ask why, without reforms and, in particular, without modifying our labour market institutions, Spain won't be able to grow as in the past. From what I've said already you can imagine my reply. It is possible that Spain may be able to grow as in the past, but it is highly unlikely. And I say that it is possible solely because, following the general failure of most of the forecasts that have been made during the current crisis, we should all be more humble when postulating about the future. Honestly, though, it is more difficult to imagine today how, without reforms, the Spanish economy can perform as favourably in the future as it has done in the last few decades. Moreover, what do we gain by refusing to learn from others about what can reduce the rate of unemployment and raise labour productivity and real wages? Even if our economy can grow again as it has in the past, with low productivity and with higher unemployment and lower wages than our neighbours, that would not seem to be preferable to the strategies for growth that they apply.

Allow me one final consideration on an argument occasionally deployed, when there are no other arguments left, for not adopting structural measures. These reforms, it is said, may work very well, but they should be postponed until later because they are not useful for exiting the current crisis. Firstly, some of these reforms, such as those conducive to hiring, would clearly have immediate effects in resolving the main problem of the current crisis, namely unemployment. Yet while it is true that other structural reforms would not have immediate direct effects but would yield future results, the decisions economic agents take today depend greatly on how they see the future. What has brought decisions to consume and invest today to a grinding halt is mistrust of the future; accordingly, if confidence about the future is restored, that would have highly beneficial effects not only in the medium run but now, in the present.

In sum, tomorrow we'll broach again the financial and real-sector crisis facing us. And how to exit it. We'll be reflecting on how to break the vicious circles of the lack of confidence. We'll discuss how it is naive to believe these vicious circles can be broken only in one place, concluding that what we need is a recovery in the confidence of all economic agents. These measures cannot be taken only at the national level; the crisis is a global one and attempts should be made to coordinate action to the full worldwide. That makes very strong demands on all multilateral fora and institutions, governments, politicians, central bankers, supervisors and all those with responsibilities in the matter. We must all continue doing all we can to emerge from the current situation.

Today, however, I wanted to pause and look beyond the crisis. For one thing, we do not know how deep and long it may be. But what is certain is that this crisis will end. We are certain we will finally emerge from it. This is not wishful thinking, but an empirical regularity. The economy has worked this way at least since the time Joseph interpreted the Pharaoh's dream about lean and fat cows.

I wanted to focus today on the future of the Spanish economy because the essentially macroeconomic dimension of the current crisis makes us forget certain things: that our main problems are structural; that our chief task is to improve and boost productivity; that we ought to seize the moment to reform our regulations and institutions; and because whatever we do to improve productivity does not run counter to exiting the crisis but, quite on the contrary, may help us emerge more rapidly from it.

To conclude, let me reiterate what I said earlier. If I've talked of only one area of structural reform, namely labour reform, it is because I think it is the most important one for re-launching corporate start-ups and reducing unemployment. But is it not the only area of reform, and nor are others less necessary. Giving a greater degree of legal security to rental contracts, and liberalising the related terms, is absolutely necessary for reducing rental costs and for making a smoother real estate adjustment, without a collapse of the value of the wealth in which Spaniards have their assets concentrated. Re-launching privatisation, liberalisation and the boosting of competition in numerous sectors is vital because, by reducing unwarranted business margins, workers' real wages can be increased without harming competitiveness. And thus we could say for many more areas of reform. But we'd need many more speeches to talk about this. And fear not, I won't be making them today.

Thank you.

11.2.2009.

1 Overview

There was a continual loss of momentum in the Spanish economy in 2008 which stepped up in the second half of the year, leading to a decline in the year-on-year rate of GDP of 0.7% in Q4. Behind this is the forceful decline in national demand, which fell by 2.8% in Q4, while there was a positive contribution of net external demand to GDP growth of 2.3 pp in the same period, derived above all from the rapid loss of steam in imports.

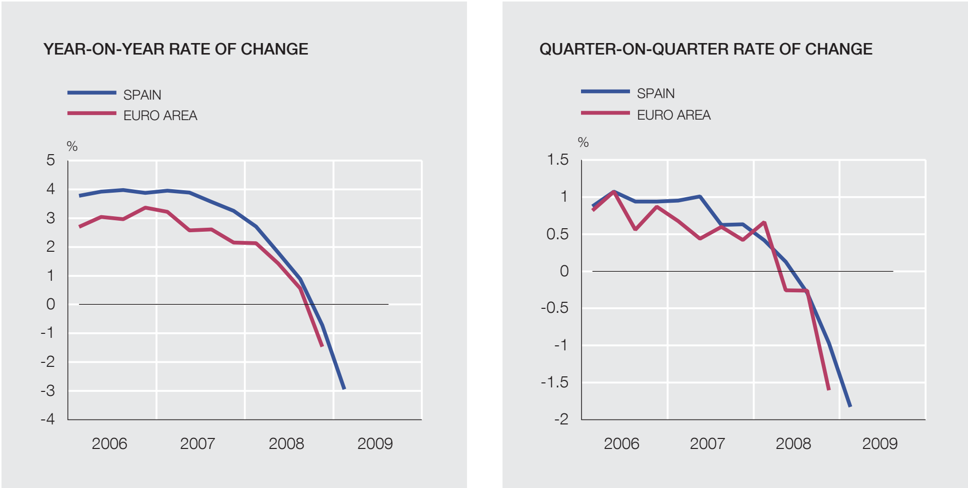
The indicators available for the opening months of 2009 point to an intensification of the contractionary trends observed in late 2008, in a severely recession-bound international environment in which the degree of financial strain has remained high. Estimates made drawing on the as yet incomplete economic information available suggest a more pronounced decline in activity in Q1, meaning that the year-on-year rate of GDP is expected to have declined by 2.9% (-1.8% in quarter-on-quarter terms). On the expenditure side, it is estimated there has been a further reduction in national demand, whose annual rate would fall by 2 pp to –4.9%, and a slight fall in the contribution of net external demand, to 2.2 pp, a reflection of the sharp contraction in world trade. On the supply side, the contractionary trajectory of the construction and industry branches seen in late 2008 intensified, while services began to show signs of stagnating, owing to the decline in market services. Against this background, employment figures were most adverse in Q1, with a decline in employment of 6.4%, according to EPA figures, which has led to a substantial rise in the unemployment rate to 17.4% (13.9% in Q4). As a consequence of the sharp turnaround in oil and food prices, and to the market weakness of demand, the inflation rate declined markedly during the quarter, posting a negative year-on-year rate of change – for the first time since 1952 – of –0.1% in March, and a likewise negative inflation differential with the euro area of –0.7 pp (see Box 1).

On the international economic front, the strains on financial markets showed some improvement relative to the height of the instability experienced in the closing months of 2008, although financing conditions remained globally tight. In the circumstances the pass-through of the financial crisis to activity continued, exacerbated in the recent period by the sharp decline in trade flows. As a result, GDP in the developed economies is expected to have fallen back further in Q1, on a scale similar to that seen in late 2008, on a par with the increasing weakness in the emerging economies. Globally, inflation slowed markedly, posting negative annual rates in a growing number of countries, against a backdrop in which commodities prices stabilised, although oil prices rose somewhat.

Overall, all these factors have made for a fresh downward revision in the growth outlook for the world economy. On the latest forecasts, which are subject in any event to a high measure of uncertainty, growth could turn negative in 2009 for the first time in the last 60 years. That would delay the start of the recovery until 2010, when all the effects of the stimulus provided by monetary and fiscal policy and by the support to the financial system should have worked through. In this recessionary scenario, price projections point to very moderate growth in the inflation rate, which might post negative figures in some of the main developed economies in 2009, such as the United States and Japan.

Over the course of the quarter, the economic authorities continued to act with resolve to check the deterioration in the economic and financial situation globally. In this respect, further macroeconomic stimulus and financial system support measures were announced, while an important

GROSS DOMESTIC PRODUCT (a) CHART 1



SOURCES: ECB, INE and Banco de España.

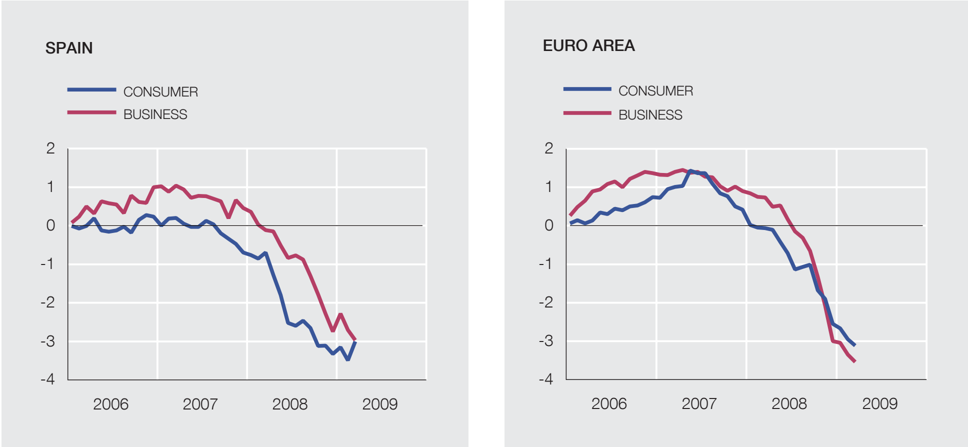
a. Seasonally adjusted series.

commitment was reached at the London G20 meeting on 2 April to reinforce the international financial framework. Among the fiscal stimulus plans, the new US administration approved a package in March for an amount equivalent to 5% of GDP, while the Japanese authorities announced a raft of fiscal measures for an amount of 3% of GDP. As to financial system restructuring plans, the US Treasury set in train a new financial stabilisation programme in March which includes the possibility of fresh capital injections, credit support measures and government financing of private sector-managed funds to acquire troubled assets.

Central banks, meantime, maintained a supply of unlimited liquidity and further cut official interest rates. In instances in which the room for further cuts was already limited, exceptional monetary policy operations were undertaken (basically comprising the purchase of private and public assets), which required changes to be made to the operational framework of the central banks in question. In this connection, the Federal Reserve held its federal funds target rate in a range of 0 to 0.25% (its December level), but began to make government debt purchases in order to influence the long-term segments of the yield curve. The Bank of England left Bank rate unchanged, after having cut it in January to 0.5%, and also launched a government bond purchase programme. The ECB Governing Council decided to continue providing a large volume of funds with an unlimited supply of liquidity at fixed rates, and maintained its mechanisms for the provision of liquidity in dollars. In addition, it cut its key rates on three occasions, following the January, March and April meetings, meaning the reduction since October has amounted to 300 bp, with the rate on its main refinancing operations at 1.25%. Regarding the possibility of increasing monetary policy instruments, the President of the ECB said that the Council would consider the possibility of adopting new extraordinary monetary policy measures at its first meeting in May.

This set of measures has checked the deterioration in the main indicators of financial strains, with signs of improvement discernible, more clearly so since March. Interbank market interest rates continued to decline, although they remain considerably above the rates on secured bank loans, denoting the persistence of strains. Risk premia in the credit derivative markets eased somewhat and, on the equity markets, share prices posted increases in March and April that partly offset the heavy falls in January and February. Meanwhile, the implied volatility indices declined significantly. At the time of this Bulletin going to press, share prices were still at

CONFIDENCE INDICATORS (a) CHART 2



SOURCE: European Commission.

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

lower levels than at end-2008 on most stock markets. Turning to government debt markets, yields fell in the shorter-dated terms but increased in the longer-dated ones.

Activity in the world economy continued to worsen following the very negative GDP growth figures in Q4 in the United States, the United Kingdom, Japan and the euro area. There was a strong slowdown in the emerging economies, more markedly so in the new EU Member States that do not belong to the euro area (see Box 2), as a result of the adverse impact of the financial crisis on credit conditions.

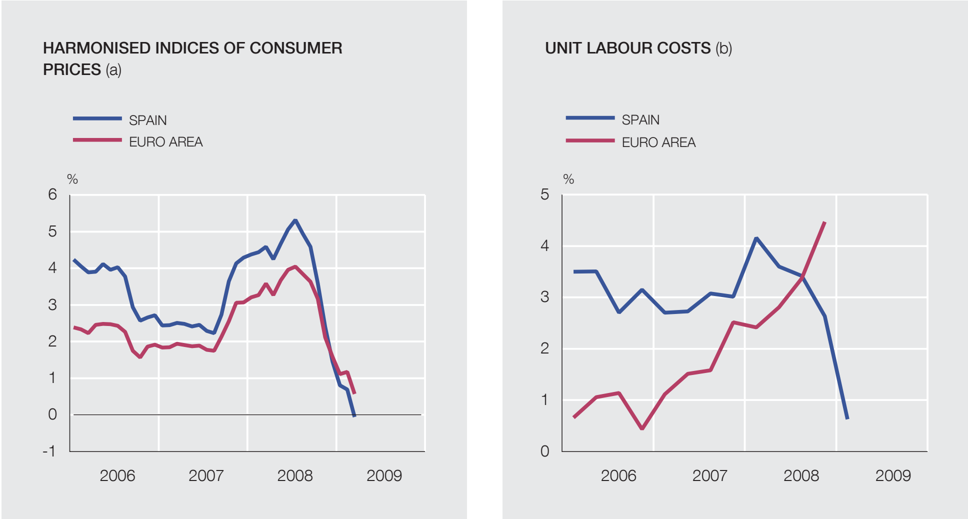
In the euro area, the available economic indicators point to a significant worsening of activity in the opening months of 2009 owing to the tightening of financing conditions, the fall in confidence and the effects of the strong decline in world trade. Inflation continued to fall, reaching a level of 0.6% in March, an all-time low since the creation of the euro area. This was the result of baseline effects in respect of energy prices and, to a lesser extent, of the sluggishness of domestic demand.

Further to these developments the external environment of the Spanish economy has become strongly contractionary and financing conditions remain restrictive. Although the cost of bank lending to households and firms fell significantly, compared with end-2008 levels, financial institutions once again tightened their lending standards, albeit to a significantly lesser extent than in the preceding quarters. The negative trajectory of stock market prices during the quarter, which compounded the heavy losses accumulated in 2008, and the intensification of the falling trend of property prices – which were down 6.8% year-on-year in Q1, according to the information provided by the Ministry of Housing – led to fresh declines in the value of private-sector wealth.

The contractionary course of household spending seen in the closing months of 2008 continued into 2009. Household consumption fell by 3.3% year-on-year in 2009 Q1, constrained by the strong slowdown in disposable income, a reflection above all of the sharp deterioration in employment. Other, counteracting factors were unable to offset this powerful effect. These factors included those that helped underpin household purchasing power during the quarter, such as the expansionary general government measures, the decline in inflation and the fall in interest payments borne by households, which are beginning to attest to the decline in inter-

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.

bank rates, even though several quarters must elapse before the effects feed through fully to disposable income. In addition, household wealth contracted and confidence remained very depressed in the face of the worsening general macroeconomic outlook, which contributed to households drawing in their spending plans, beyond what the slowdown in disposable income might justify. All these factors, along with the need to reduce the debt built up in recent years, are proving conducive to a rapid recovery in the saving ratio, which climbed to 13% of disposable income in 2008, almost 3 pp up on the previous year.

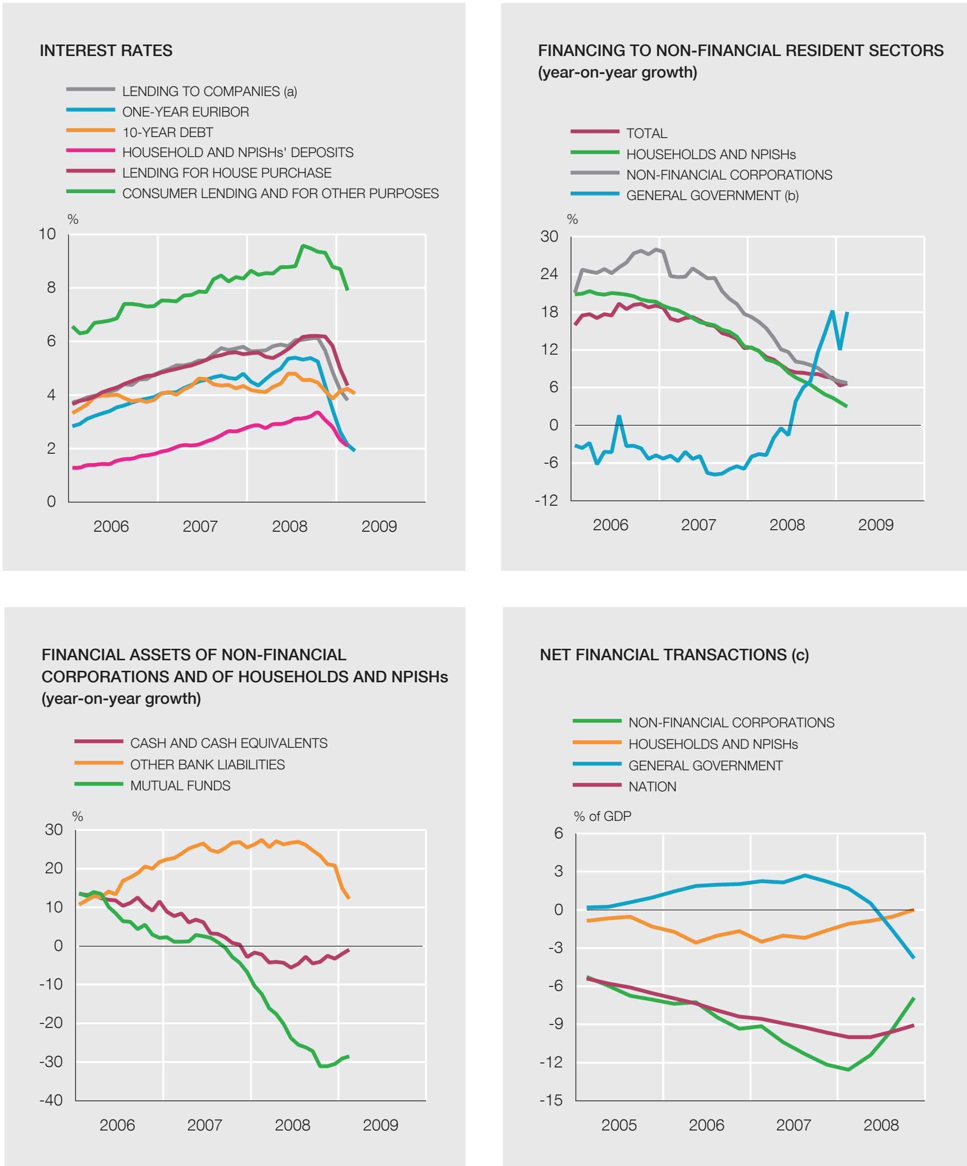
Residential investment weakened further, affected by the revised expectations concerning property values – in view of the decline seen in house prices and doubts about their future course – and by tighter financing conditions. A decline of over 20% is estimated for the year-on-year rate of this variable. The pace of the correction in real estate supply has also quickened in past months, pressured by the build-up of a high number of unsold properties, which has continued to increase over recent months.

The downscaling of household spending plans, along with stricter lending standards, meant that the decline in the annual pace of household financing continued in Q1, falling to 3% in February. That shows the lower growth observed in lending for house purchase (which stood at 3% year-on-year in February) and in lending for consumption and other purposes (2%). However, the seasonally adjusted quarter-on-quarter rates point to less dynamism in these variables which, in some cases, may be expected to translate into negative growth rates. The slowdown in household debt allowed for the continuing reduction in their debt ratio, albeit still moderately.

The fall-off in business investment steepened in Q1, in line with the sluggishness of both domestic and external demand, the climate of uncertainty and the persistence of rather unfavourable financing conditions for undertaking investment projects. As in the case of households, the standards applied by banks for the approval of new loans became stricter, more markedly so for small and medium-sized enterprises, in line with the greater risk such transactions entail. Moreover, the resort to internal financing sources was hampered by the decline in share prices

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. Four-quarter cumulated data.

and by the downward revision of earnings expectations. Investment in capital goods fell by around 20% year-on-year, and investment in other construction, which includes investment in non-residential construction and the participation of private-sector companies in civil engineering works, prolonged the declining trajectory that had begun the previous quarter. It is nonetheless expected that, following the start-up of the work to be undertaken under the State Fund for Local Investment, this domestic demand component will regain some momentum from April.

Set against the fall-off in investment and the tighter supply of bank funds, borrowing by non-financial corporations continued to slow, reaching a year-on-year rate of slightly below 7% in February, which made for a moderate reduction in their debt ratio. As with households, the attendant quarter-on-quarter growth rates reveal a less buoyant performance. The latest information on credit by end-use, for December 2008, shows a widespread slowdown across the branches of activity, although this is sharpest in construction and real estate services, posting negative rates of 1% in the former case.

Weaker domestic spending was alleviated by net external demand to a lesser extent than had been habitual in previous quarters, owing to the growing role that the trade channel is playing, in Spain too, in spreading the global crisis (see Box 3, which analyses recent euro area export developments). Exports saw a greater reduction in intensity than in 2008 Q4, in step with the abrupt collapse in international trade in the most recent period and the contraction in economic activity in our main trading partners. Imports, meanwhile, underwent a further fall. As regards tourist services, the indicators available also point to negative figures in Q1, which are accentuating the rapid deterioration that came about in the closing months of 2008, further to the heightening of the international financial crisis. Against this background of worldwide activity grinding to a halt, the decline in non-tourist services, which comprise activities such as communications, transport and financial services, was likewise on a very large scale. Overall, the sharp reduction in global trade flows has tended to dilute the potential support for exports arising from the improved relative behaviour of the price-competitiveness indices in recent months.

The January Balance of Payments figures show a notable correction – of almost 40% in year-on-year terms – in the Spanish economy's net borrowing, the result of the reduction in the trade deficit and, to a lesser extent, of the deficits on the income and transfers accounts. This trajectory will foreseeably continue in the coming months, in line with the narrowing of the trade deficit observed in February.

On the supply side there were declines in Q1 in the value added of all productive branches in the market economy. In the case of services, this was the first time a fall had come about since this phase of cyclical adjustment began. In any event, the contraction in activity was most substantial in the construction sector, where there have been declines in value added for five consecutive quarters, and in industry, following the sudden collapse observed in the closing months of 2008. Job destruction in the market economy became more acute, with a contraction in employment that affected all the productive branches, especially construction and industry. The ratio of temporary to permanent employees fell to 25.4%. Overall, the rate of decline in employment was higher than that in value added, whereby there was a fresh increase in productivity.

Labour costs turned down to some extent in Q1, chiefly reflecting the effect of the correction of inflation in the final quarter of 2008. The improved price performance favourably affected inflation expectations, which helped provide for wage settlements (2.7% to March) that were lower than in 2008 (3.6%), although they remain high if the marked weakness of the labour market is taken into account. A further factor containing labour costs is the fact that the wage indexation clauses will have no effect this year, since the growth rate of the CPI at end-2008 did not exceed 2%. It is therefore estimated that compensation per employee in the market economy will stand at around 3% in Q1 (close to 4% for the whole economy) and that the rate of change of unit labour costs will be temporarily reduced owing to the countercyclical nature of productivity in Spain.

Inflation declined markedly in Q1 as a result of which the rate of change of the CPI was negative in March (-0.1%) for the first time since 1952. One determinant of this sharp slowdown has been the pronounced decline in energy prices compared with a year earlier; but, additionally, the reduction in inflation has been extensive to all the less volatile components and, most

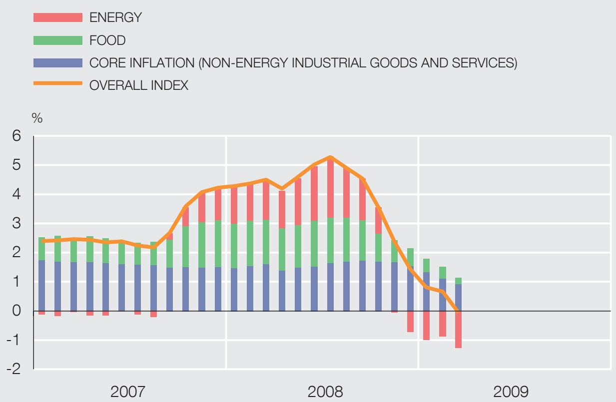
Inflation in Spain – proxied by the rate of change of the consumer price index (CPI) – has slowed substantially since the summer of 2008, when it peaked at 5.3% in July, to –0.1% in March 2009, the lowest rate of change since 1952. Since December 2008, moreover, this growth rate has been considerably below that for the euro area. Most analysts consider that, temporarily, negative rates of change will continue to be posted in the coming months. That is prompting a debate on the scale of this disinflation episode and also on the possibility that the Spanish economy may move into a deflationary spiral.

Although it is a widely held misconception, deflation should not be confused with the mere fact that the rate of change of a price index is temporarily negative. Reductions in the prices of goods and services, especially in a moderate inflation environment, come about habitually. The adjustments in relative prices driven by supply and demand shocks are necessary for the efficient allocation of economic resources and do not entail a deflation process. From a rigorous analytical perspective, the concept of deflation only applies to the phenomenon of a widespread and sustained decline in prices in an economy.

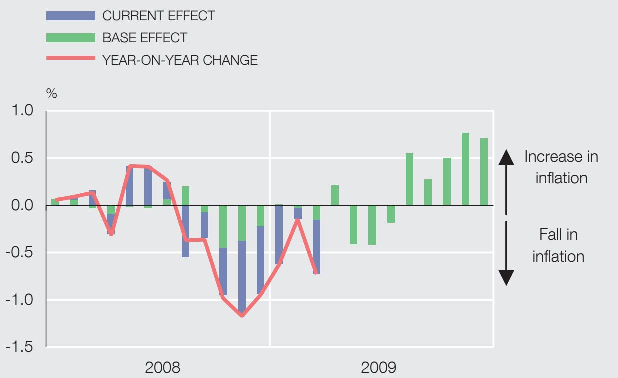
It should further be borne in mind that price level falls may be caused by shocks of a different nature. Hence positive supply-side shocks that improve productivity may lead to widespread declines in prices, but they are in this case accompanied by higher growth in output and by increases in workers' real wages and in corporate profits. Conversely, the process may prove damaging if it is in response to a sharp contraction in demand capable of triggering expectations of sustained reductions in prices that inhibit consumption and investment decisions, refuelling downward pressures on spending and on prices themselves. The severity of such a situation is exacerbated by the increase in the real value of debts and by higher debt-servicing payments in real terms, thereby posing greater difficulties for indebted households and firms. And given that this occurs in a setting in which nominal interest rates cannot be negative, monetary policy effectiveness is substantially curtailed.

It should be stressed that deflationary spirals are eminently monetary phenomena. Accordingly, in a monetary union they cannot arise in isolation only in certain countries but will affect the entire area. Such spirals are therefore intimately linked to monetary policy, which is set for the whole area and steers inflation expectations in the countries included in the zone. The sole risks of deflation in Spain, therefore, are those that may exist for the whole of the euro area. And these, according to the analysis of the European Central Bank's Governing Council, are remote.

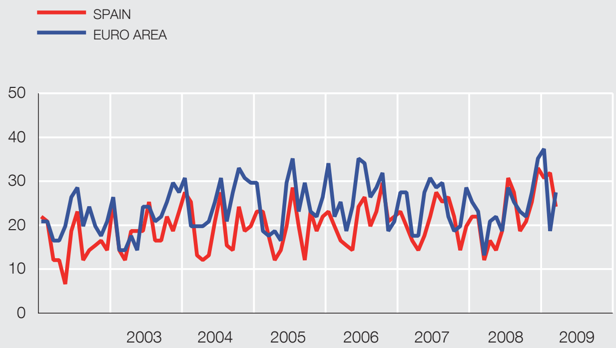
1 CONTRIBUTIONS TO THE YEAR-ON-YEAR RATE OF THE CPI



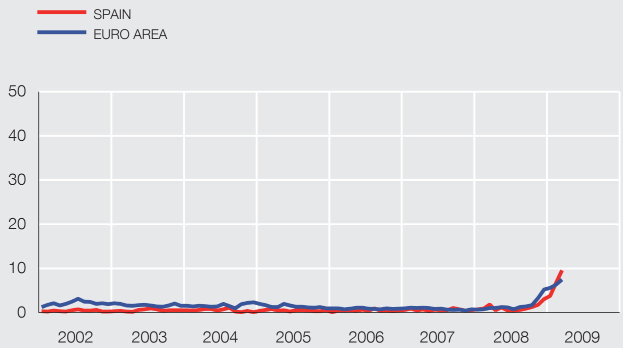
2 CHANGE IN THE YEAR-ON-YEAR RATE IN RELATION TO THE PREVIOUS MONTH



3 DIFFUSION INDICATORS OF DECLINES IN PRICES
Percentage of items of the HICP with declines in prices



4 EXPECTATIONS OF DECLINES IN PRICES OVER THE NEXT TWELVE MONTHS
European Commission Business and Consumer Survey



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

Within a monetary union there may be divergences in the rates of increase of prices across the different economies, as has been the case with Spain since the start of EMU. But these differences are confined since, when they exceed certain limits, the cumulative real appreciation or depreciation of the country's exchange rate tends to give rise to a correction. In this respect, the Spanish economy's inflation differential with the euro area between 1999 and 2008 has entailed an appreciation of the real exchange rate and an erosion of price competitiveness, with adverse consequences for production and employment generation, the correction of which is manifest both in the contraction in demand and in the existence, for the first time, of a negative price differential. This affords a competitive advantage which, if maintained, will be conducive to greater export dynamism and a recovery based on a more sustainable pattern. However, to preserve this gain once the recession is behind us, reforms that increase competition in certain markets and lead to improved productivity across the productive branches will be needed.

To characterise the reduction in inflation and the episode of falling prices in Spain appropriately, an accounting exercise has been performed which breaks down the year-on-year growth of the CPI in terms of its main components. This shows that the decline in the year-on-year rate of the CPI between July 2008 and March 2009 largely responds to the course of the most volatile components (see panel 1). The change in the CPI rate has also been broken down into two terms. The first relates to the month to which the rate refers (current effect), and the second to the performance in the same month of the previous year (based effect), the aim being to discern the influence of past and present phenomena on the behaviour of year-on-year rates (see panel 2). According to this analysis, the simple statistical effect might lead to a 1 pp cut in the year-on-year rate of change of the CPI between May and July 2009, owing essentially to the rise oil prices underwent in the related months in 2008. Likewise, the notable fall in oil prices in the second half of 2008 would exert upward pressure on the year-on-year growth of prices in the second half of this year, offsetting the previous downward trend, meaning that the CPI may be expected to post positive rates of change in the closing months of 2009.

In this respect, the observed decline in inflation largely responds to the trend of the more variable components of the CPI, which are those that account for the negative rates being recorded mid-year and which give these rates their temporary nature. Yet this should not mask the falls in non-energy industrial goods prices and the substantial reduction in services inflation, which reflect greater sensitivity to developments in demand and are propitious to improved competitiveness. The recent trajectory reveals a considerably greater adjustment in the prices and margins of these products than that which might be derived from past experience, and has enabled the growth differential of Spanish prices with those of the euro area to turn negative, even for these core inflation goods.

To ascertain how generalised the declines in prices are, a diffusion indicator has been constructed for Spain and the euro area that measures the percentage of items[1] of the harmonised index of consumer prices (HICP) whose month-on-month rate is negative. The indicator shows that the declines in prices of certain products are not infrequent, in line with the microeconomic evidence available (see panel 3). These price reductions generally affect those articles that most benefit from technological innovation, such as computers and electronic products. It can likewise be seen that the current recession is prompting a somewhat greater generalisation of price reductions both in Spain and in the euro area, although the percentage of items affected is still small in both cases.

Finally, a very important aspect of the potential scope of the falls in prices is the behaviour of expectations. An indicator of price expectations can be obtained from the European Commission's monthly Business and Consumer Survey. Specifically, one of the questions to respondents is: "By comparison with the past 12 months, how do you expect that consumer prices will develop in the next 12 months?" . It is a multiple-choice question, with one of the replies being that prices will fall. Panel 4 shows that the percentage of households expecting a fall in prices is historically close to zero both in Spain and in the euro area, although in recent months there has been some increase in both economies. In any event, in 2009 the proportion of Spanish households expecting a decline in prices within one year is only 10%, and somewhat below this figure in the euro area as a whole. This behaviour of expectations is consistent with the temporary nature attributed to the current negative inflation rates and appears to denote a very limited influence of price reductions on the potential deferral of consumption and investment decisions.

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1. The 91 items available in the most detailed breakdown of the HICP have been used in the construction of this indicator.

particularly, to services prices, which have historically shown scant cyclical sensitivity. It is estimated that the ongoing recession is prompting a far greater adjustment in services prices and margins than past experience would indicate, and is enabling Spain's price growth differential with the euro area to turn negative, to which the greater effect of oil fluctuations on Spanish prices is also contributing.

Foreseeably, the CPI will continue to post negative rates of change in the coming months. But this will be a temporary development since it arises from the statistical effect linked to dearer oil in early 2008. Accordingly, it should not be inferred that the Spanish economy is going to face a situation of widespread price declines or that it is close to moving into a deflationary spiral. As analysed in some detail in Box 1, in a monetary union, deflationary spirals are eminently monetary phenomena which affect the single currency across the board, and which do not arise in isolation in only certain parts of the monetary area. Against this backdrop, the fact that a negative price differential with the euro area is in place for the first time affords something of a competitive advantage which should be preserved, once the period of sluggish demand has been put behind, by means of reforms that increase competition in certain markets and lead to improved productivity across the productive branches.

A general government deficit of 3.8% of GDP was recorded at end-2008. That was 6 pp worse than the previous year and gives some idea of the forceful impact the recession has had on public finances, although it is also a consequence of the discretionary measures adopted to soften the effects of the crisis on demand. As a result, the European Council summit decided Spain's deficit was excessive and recommended reducing this deficit by 2012 at the latest. A further deterioration in public finances is expected in 2010, with both the budget deficit and the public debt ratio rising in 2009, even in the absence of new discretionary measures of an expansionary nature. That underscores the scant headroom available to continue using budgetary policy as an instrument for boosting demand, and highlights the importance of the budgetary consolidation plans to resume a path of stability in the medium term.

2 The external environment of the euro area

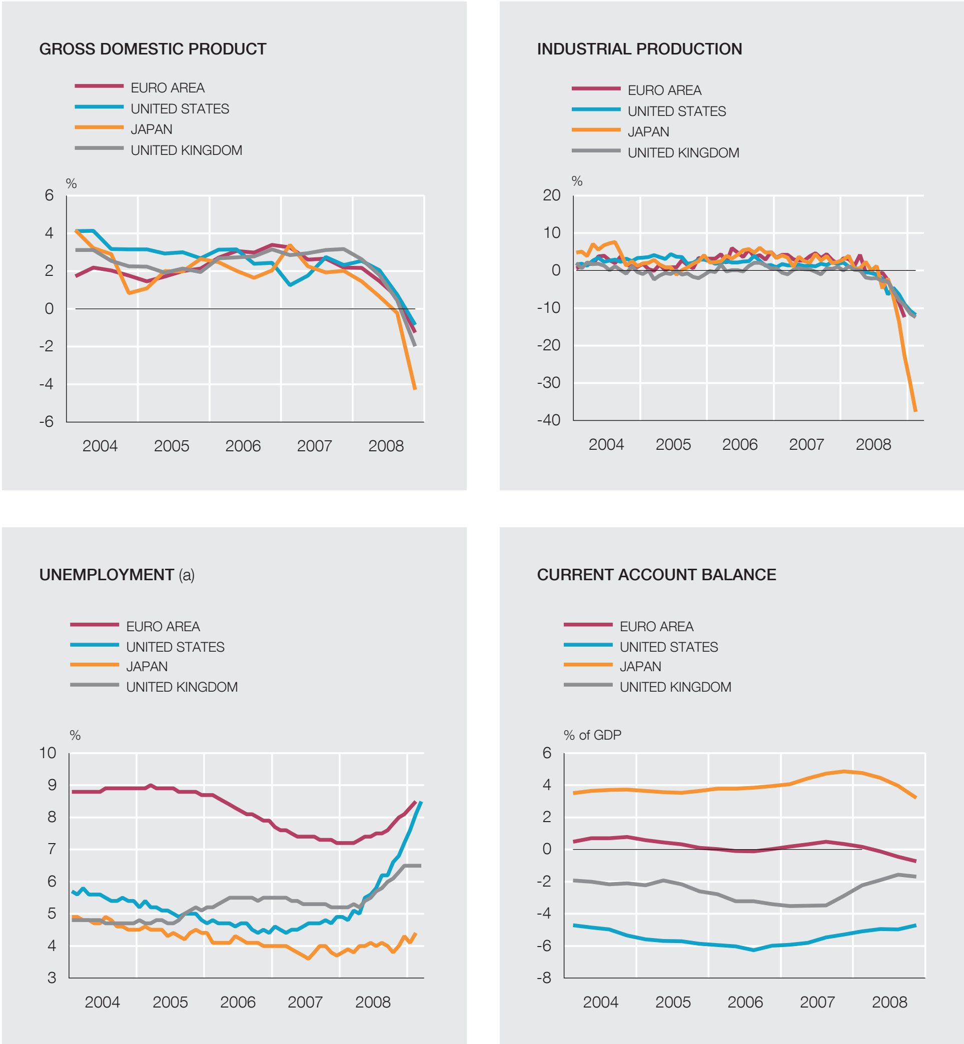
Since March, the international financial markets have shown some incipient signs of recovery, after months marked by heavy losses and bouts of instability. The sharp and continued macroeconomic deterioration, which points to a 2009 Q1 as negative as 2008 Q4, and the difficulties in the banking sector were largely offset by the announcement and subsequent implementation of macroeconomic stimulus and financial industry support measures and by a series of better-than-expected corporate earnings releases from some of the US financial institutions. New financial industry support measures were announced throughout the quarter, some of them company-specific, such as the additional aid packages for Citigroup or AIG, and some more general. Most notable among the more general measures are, in the United States, the Treasury's new Financial Stability Plan which allows for new capital injections, credit support measures such as extension of the Federal Reserve's TALF facility and the creation of private-sector funds for acquiring problem assets with public-sector funding and, in the United Kingdom, the release of further details on the Treasury's Asset Protection Scheme (APS) for problem asset portfolios held at financial institutions. The central banks, for their part, announced new monetary policy measures and some countries whose official interest rates are already very low – such as the United Kingdom and the United States – started to purchase public debt instruments, aiming to stabilise long-term interest rates. Several previously-announced fiscal stimulus programmes were implemented in the quarter and various new ones were announced. The scope of these programmes varies enormously, according to each country's implementation capacity, the strength of their automatic stabilisers and the perceived effectiveness and sustainability of the measures.

In this setting, the credit and interbank markets improved gradually, while the equity markets posted gains in many countries, with a significant decrease in volatility. The foreign exchange markets were quite stable, two developments worthy of note being the gradual yen depreciation in the quarter and appreciation of the emerging currencies against the dollar. Despite government bond purchases by the Federal Reserve and the Bank of England, there was no significant fall in long-term interest rates; in fact, in the United States, they rose slightly due to the increase in public-sector net borrowing. The emerging markets, similarly to the developed markets, performed favourably in the quarter, especially in March: emerging market bourses recorded even larger gains than those seen in other economies, and sovereign credit spreads narrowed virtually across the board. However, the situation of the most vulnerable economies that had been hardest hit in the previous months, such as the eastern European economies (see Box 2), remains difficult. On the commodities markets, the price of Brent oil rose in the quarter from $40-45/barrel in January to over $50 at the end of March, as lower demand was offset by a drop in production by the OPEC countries. Food prices showed little change in the quarter, but metals prices rose, driven by demand from specific countries (for example, demand for copper from China).

In the United States, the final GDP estimate for 2008 Q4 confirmed a decline of 6.3%, far steeper than the 0.5% fall in Q3. Thus for the year as a whole, GDP growth stood at 1.1%, 0.9 pp lower than in 2007. The higher-frequency indicators are again showing sharp signs of contraction in recent months, despite some indications of growing stability in the housing market and in private consumption. On the demand side, consumer confidence indices remained at all-time lows, although the underlying component of retail sales improved somewhat in the quarter (despite the decline in March). A number of housing market indicators, such as house sales, housing starts and construction permits, rebounded in Q1, although they fell

MAIN MACROECONOMIC INDICATORS
Year-on-year rates of change

CHART 5



SOURCES: Banco de España, national statistics and Eurostat.

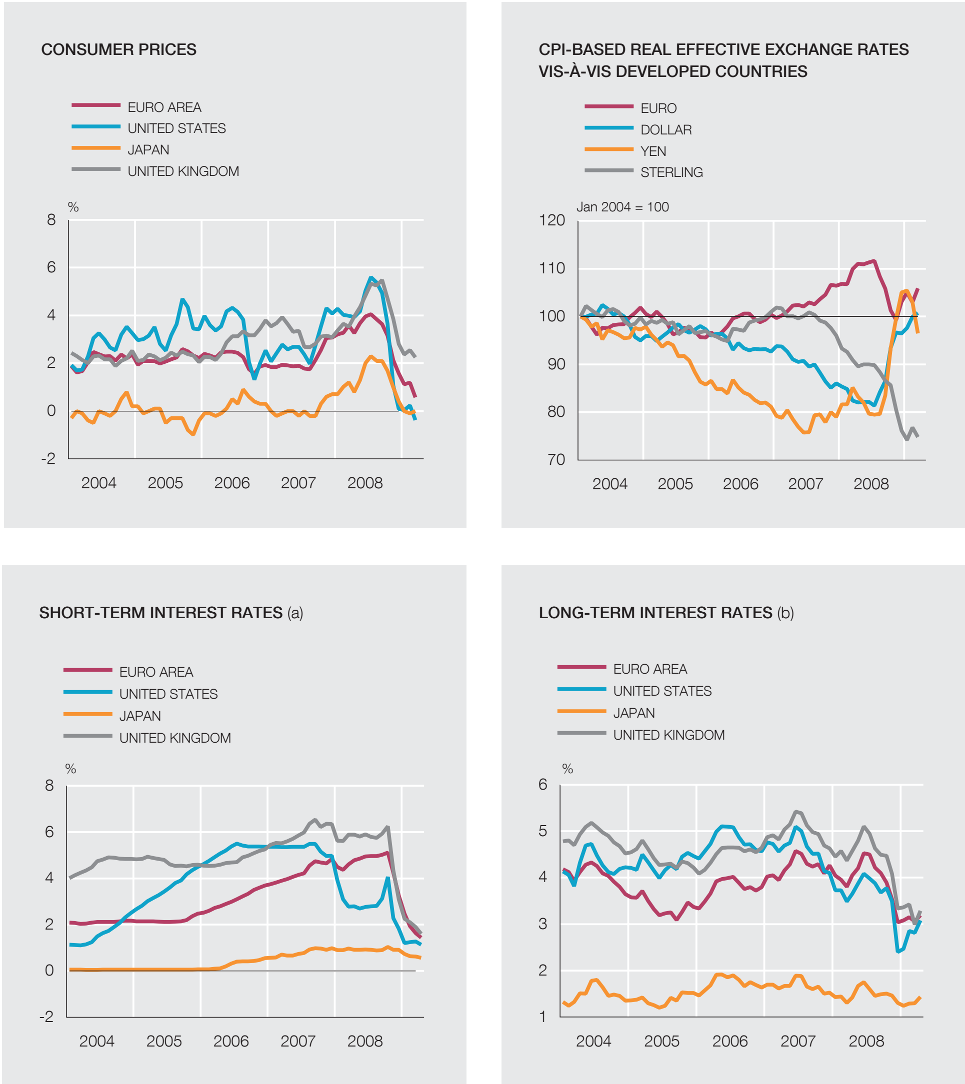
a. Percentage of labour force.

back again in March. House prices continued to drop sharply year-on-year and, in 2008 Q4, mortgage foreclosures and default rates continued to rise. Activity indicators remained weak in the quarter, with the manufacturing and non-manufacturing PMIs at record lows and industrial production down sharply. The labour market witnessed large-scale job destruction, with a net loss of two million jobs in the quarter, taking the unemployment rate up from 7.2% at the end of 2008 to 8.5%. The inflation rate entered negative territory in March, going from 0.2% to –0.4%, while core inflation held at 1.8%. In this setting, the Federal Reserve held its target federal funds rate within the range of 0% to 0.25%. At the same time, it made further changes in its monetary policy strategy, including, inter alia, the public debt purchases mentioned earlier. The Treasury, for its part, secured approval for a $787 bn fiscal stimulus package (5.5% of GDP) targeting tax cuts, financial aid – in particular for the health system and the individual States – and increased public expenditure.

In Japan, Q4 GDP – despite being revised up slightly – shrank by 12.7% in annualised quarter-on-quarter terms, a much larger drop than that seen in the other developed economies. In 2008 overall, GDP fell by 0.6%, against growth of 2.4% in 2007. Moreover, the

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.

bulk of the most recent indicators remain very unfavourable, despite some signs that the deterioration is losing pace. Thus the February manufacturing and services PMIs remained very weak, despite a minor increase, the Q1 Tankan survey pointed to a collapse in business confidence and industrial production continued very negative in year-on-year terms (–9.4% in February) in the light of excessive inventories. Consumer indicators, such as retail sales, also continued to deteriorate, down more than 5% year-on-year, due inter alia to the rising unemployment rate and nominal wage contraction. There was a current account deficit in January and February, for the first time since 1996, due to the sharp fall in exports. Turning to prices, average inflation measured by the CPI fell by 0.1 pp in February to –0.1%. The Bank of Japan held its official interest rate unchanged in March at 0.1% and the government announced a new fiscal stimulus package worth 5.4 bn yen (3% of GDP).

In the United Kingdom, the preliminary 2009 Q1 GDP estimate showed further contraction: –7.7% in annualised quarter-on-quarter terms, against –6.1% in the previous quarter. The

THE IMPACT OF THE GLOBAL CRISIS ON THE NEW EU MEMBER STATES AND THE ECONOMIC POLICY RESPONSES

BOX 2

The global economic and financial crisis has severely impacted the emerging economies, but the effect is being felt in particular by many of the new EU Member States[1], as a result of their severe macroeconomic and financial imbalances. It was precisely their entry into the European Union that drove the convergence process, backed up by large-scale foreign capital inflows. In this setting, credit expanded rapidly, much of it denominated in foreign currency, and this contributed hugely to domestic demand growth. But there has been a downside to this strong expansion, in the form of the persistently high current account deficits and the consequent dependence on external borrowing. This dependence is particularly marked in the banking sector, where EU banks have a considerable presence[2]. Accordingly, many of these countries have, from a financial point of view, become highly vulnerable to a reversal of the favourable economic climate such as that witnessed in recent quarters (see Table 1 which depicts the main vulnerability indicators for the new EU Member States, together with their monetary policy strategies).

The heightened financial tension seen in the first few months of 2009 accentuated international investors' aversion to this group of countries far more than to other emerging regions, as is shown by the growth in credit default swaps (CDSs) (see Panels 1 and 2). The countries that are most dependent on external borrowing and that have most exposure to foreign currency credit – the Baltic States, Hungary, Bulgaria and Romania – have been hardest hit by the financial markets.

Fears of credit quality deterioration led to large-scale capital outflows from the region, severe credit restrictions and strong pressure for currency depreciation. These pressures were realised in the countries with floating exchange rates, whilst in those with fixed exchange rates there were considerable strains on interest rates and reserves diminished. The sharp economic slowdown in the rest of the European Union was already being felt by the economies of the region, most of which are very open, in terms of external demand, but the latest deterioration in the financial climate and the heightening of the economic difficulties in Europe exacerbated the adjustment in the fourth quarter, establishing a feedback loop between the two areas. In fact in recent months all the main international organisations and private institutions have cut back their growth forecasts for the region for 2009, more so than for other emerging economies. The latest IMF WEO report forecasts that GDP among the new EU Member States will shrink by 2.9% in 2009, almost double the decline expected for the economies of Latin America, whilst the emerging Asian economies (including China) are expected to post 3.3% growth.

The high net external borrowing of the new EU Member States, and their limited capacity to meet these funding requirements domestically, suggest that substantial internal adjustments will be needed, together with considerable external support, to help these economies ride out the crisis. In this respect, the support capacity has increased significantly in recent months[3].

In these circumstances, and as a response to the crisis, the region's governments have gradually adopted a series of measures to support the banking sector, including extending bank deposit guarantees and, in some cases, recapitalisations and bank debt guarantees. These measures have had to be supplemented and reinforced with access to external support.

In light of the liquidity problems stemming from the strains on the international financial markets, a number of countries have asked for help from other central banks: Poland and Hungary, in the form of repo transactions totalling €10 bn and €5 bn, respectively, from the ECB, and euro/Swiss franc swap facilities from the Swiss central bank; Latvia, in the form of euro/lats swap facilities totalling €500 m from the central banks of Sweden and Denmark.

In addition, some countries with more pressing net external financing requirements have also had to ask for financial assistance – conditional upon fiscal adjustment and financial sector restructuring programmes – via lending facilities organised jointly by the IMF, the European Union, the World Bank, the development banks and neighbouring countries. To date, three countries have benefited from this assistance (see breakdown in Panel 2): Hungary (€20 bn), Latvia (€7.5 bn) and most recently Romania (€20 bn) at the end of March. The credit lines made available to these three countries by the IMF are in the form of a general Stand-by Arrangement (SBA) conditional upon fulfilment of the terms set out in the support arrangement. For its part, on 14 April Poland applied for $20.5 bn, equivalent to 1,000% of its quota, under the new Flexible Credit Line (FCL) which implies no conditions ex post but rather verification ex ante that prudent policies have been implemented and that economic fundamentals are sound, with a view to shoring up its economic position and as a preventive measure. The European Union has granted its lending facilities through the Medium-Term Financial Assistance (MTFA) scheme set up for this purpose, with €35.4 bn still available for further contingencies.

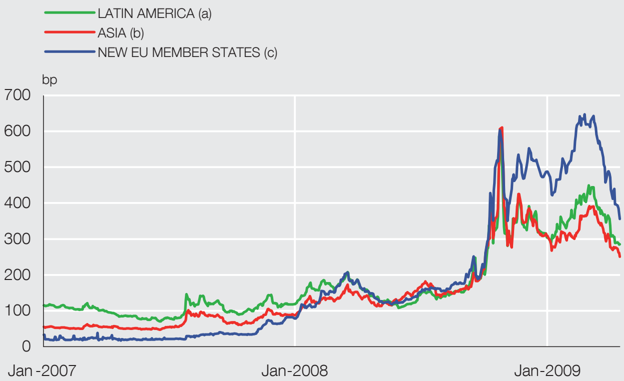
In short, against the backdrop of the global crisis, the combination of large external and internal imbalances and banking sector financial vulnerability have placed the new EU Member States in a particularly difficult position and one that will require considerable effort and economic adjustment. These countries will need to adopt firm economic policy commitments and to make progress in their structural reforms, to correct their current macroeconomic and financial imbalances. In this respect, the coordinated multilateral financial aid packages received by some of these countries and the related economic measures may constitute a starting point from which to redirect the present situation and find a way out of the crisis.

1. The new EU Member States to which we refer are all those that have not yet joined the euro area and that became EU members in May 2004 (the Czech Republic, Poland, Hungary, Estonia, Latvia and Lithuania) and January 2007 (Bulgaria and Romania). **2.** See E. Gordo and A. del Río (2009), "Las relaciones comerciales y financieras de la UEM con Europa central y del este", *Boletín Económico,* March, Banco de España, pp. 92-103.

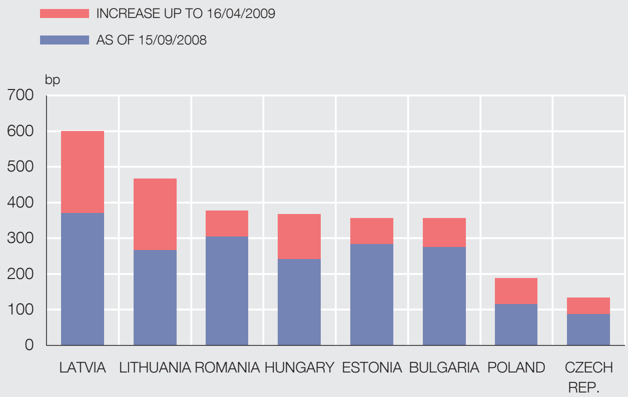
3. The EU envisages aid for these countries, directed at solving their balance of payment difficulties, in the form of Medium-Term Financial Assistance (MTFA) which has been doubled to up to €50 bn. In addition, the IMF, which has raised its funding capacity to $750 bn, the development banks and other multilateral financial bodies constitute another important pillar; specifically, the EBRD, the EIB and the World Bank have approved an injection of funds into the region totalling €24.5 bn until 2010. This external support is in addition to the more specific support measures provided by the neighbouring countries and by the European central banks, including the ECB.

THE IMPACT OF THE GLOBAL CRISIS ON THE NEW EU MEMBER STATES AND THE ECONOMIC POLICY RESPONSES (cont'd)

1 CDSs IN EMERGING REGIONS



2 CDSs IN NEW EU MEMBER STATES



3. VULNERABILITY OF THE NEW EU MEMBER STATES (d)

		LATVIA	ESTONIA	LITHUANIA	BULGARIA	ROMANIA	HUNGARY	POLAND	CZECH REP.
MONETARY POLICY STRATEGY									
Exchange rate regime		Fixed rate (±1%)	Currency board	Currency board	Currency board	Floating	Floating	Floating	Floating
Entry in ERM		Yes May-2005	Yes June-2004	Yes June-2004	No	No	No	No	No
Target		Exchange rate	Exchange rate	Exchange rate	Exchange rate	Inflation	Inflation	Inflation	Inflation
VULNERABILITY INDICATORS									
Real GDP (% y-o-y)	2008 (Q4)	-10.5	-9.7	-2.0	3.6	2.9	-2.3	2.9	0.7
	2009 (e)	-12.0	-10.0	-10.0	-2.0	-4.1	-3.3	-0.7	-3.5
GDP per capita in PPP (EU-27 = 100)	2008	55.2	64.2	60.5	39.7	44.8	61.6	55.1	83.0
HICP inflation (% y-o-y)	Mar-09	7.9	2.5	7.4	4.0	6.7	2.8	4.0	1.7
Current account balance (% of GDP)	2008 (f)	-14.0	-10.5	-12.4	-22.7	-12.7	-5.7	-3.7	-1.4
FDI (% of GDP)	2008 (f)	4.7	5.5	2.5	18.0	6.3	1.7	2.8	4.9
Gross external debt (% of GDP)	2008 (f)	124.4	108.5	67.7	93.1	n.a.	114.0	46.5	39.5
Reserves/Short-term external debt (%)	2008 (f)	38.5	39.3	82.2	107.7	n.a.	103.1	121.6	129.4
Private sector credit (% y-o-y)	2003-2008	44.7	31.0	45.3	43.4	55.1	20.3	16.7	15.9
	2009 (Jan)	11.0	6.0	16.0	30.0	34.1	23.0	36.0	15.0
Cross-border loans (% of GDP)	2008 (f)	63.7	56.9	35.7	31.5	24.5	33.1	13.7	16.6
S&P CREDIT RATING									
Foreign currency debt (LT/ST)		BB+/B	A/A-1	BBB/A-3	BBB/A-3	BB+/B	BBB-/A-3	A-/A-2	A/A-1
Outlook		negative	negative	negative	negative	negative	negative	stable	stable

4 INTERNATIONAL FINANCIAL SUPPORT FOR THE NEW EU MEMBER STATES (g)

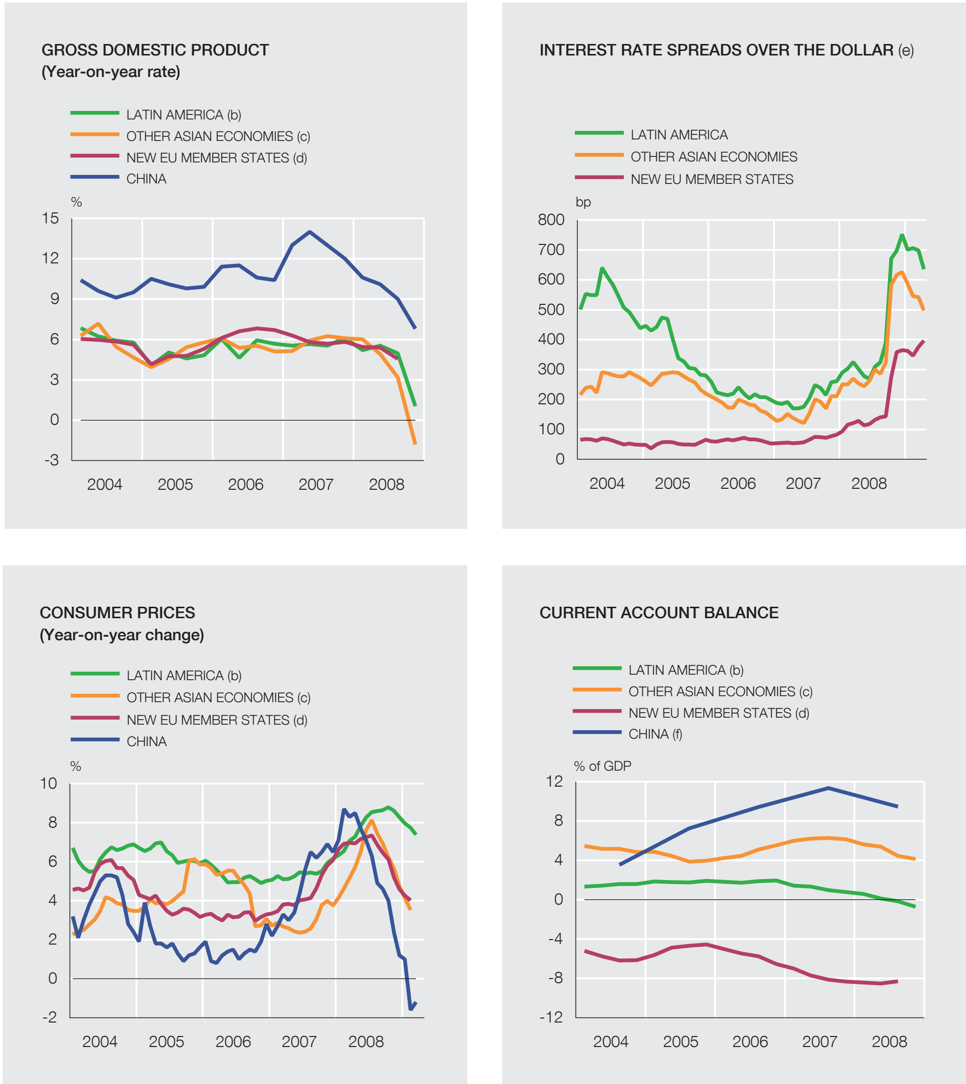
	DATE OF AGREEMENT	IMF	EU	WORLD BANK	OTHERS (h)	TOTAL
Hungary	October 2008	12.5	6.5	1.0	—	20.0
(% of total)		62.5%	32.5%	5.0%	—	
Latvia	December 2008	1.7	3.1	0.4	2.3	7.5
(% of total)		22.7%	41.3%	5.3%	30.7%	
Romania	March 2009 (i)	13.0	5.0	1.0	1.0	20.0
(% of total)		64.9%	25.1%	5.0%	5.0%	
Poland	Applied April 2009 (j)	20.5				20.5

SOURCES: Datastream, BIS, ECB, IMF, European Commission, Eurostat and Standard & Poors.

a. Brazil, Chile, Mexico, Colombia and Peru.
b. Malaysia, Indonesia, Hong Kong, China, India and Korea.
c. Poland, Czech Republic, Hungary, Bulgaria, Romania, Estonia, Latvia and Lithuania.
d. The highlighted figures represent high levels of vulnerability.
e. IMF forecasts (WEO, April 2009).
f. Moving average of the last four quarters, up to 2008 Q3.
g. Figures in €bn, except for Poland in $bn.
h. In Latvia, €1.8 bn corresponds to funds received from Sweden, Denmark, Finland and Norway, and €500 m to the Czech Republic, Poland, Estonia and the EBRD. In Romania, the EBRD participates together with other multilateral organisations.
i. Pending ratification in May.
j. Pending approval by the Board of the IMF.

EMERGING ECONOMIES:
MAIN MACROECONOMIC INDICATORS (a)

CHART 7



SOURCES: National statistics and JP Morgan.

a. The aggregate of the different areas has been calculated using the weight of the countries that make up these areas in the world economy, drawing on IMF information.
b. Argentina, Brazil, Chile, Mexico, Colombia, Venezuela and Peru.
c. Malaysia, Korea, Indonesia, Thailand, Hong Kong, Singapore, Philippines and Taiwan.
d. Poland, Hungary, Czech Republic, Estonia, Latvia, Lithuania, Bulgaria and Romania.
e. JP Morgan EMBI spreads. The data on the new EU Member States relate to Hungary and Poland. The aggregate for Asia does not include China.
f. Annual data.

majority of the most recent indicators continued to reflect a downturn, especially in the case of manufacturing industry. The correction also continued in the property market, despite an improvement in some indicators, and the decline in house prices seemed to stabilise in March around 16% year-on-year. Bank lending slowed again in Q1, with further tightening of credit conditions, the labour market deteriorated sharply (unemployment rose to 6.7% in February) and confidence remained at all-time lows. Nevertheless, signs of a possible easing in economic deterioration are beginning to emerge: the PMI indices improved significantly in March and according to the Bank of England's latest Credit Conditions Survey, credit institutions expect to offer more mortgage and corporate credit – although not consumer credit – in Q2. In this respect, under the Asset Protection Scheme (APS), the participating institutions have undertaken to increase the supply of credit available. Turning to prices, inflation fell by 0.3 pp to

2.9% in March and the Bank of England expects it to go below the 2% target in the second half of the year. At the April meeting, it held Bank rate unchanged at 0.5%; it also said it would continue with its quantitative easing strategy via asset, especially government debt, acquisitions. The fiscal budget for 2009 envisages a deficit of 12.4% of GDP; it includes no new stimulus packages, due to the limited room for manoeuvre in light of the significant increase in government debt.

In the new EU Member States that do not belong to the euro area, GDP decelerated sharply in Q4 and, on average, grew by 1.1% year-on-year, well short of the 4.3% recorded in Q3. GDP growth for 2008 was down to 4% from 5.9% in 2007. This performance is due to the adverse impact the financial crisis has had on credit conditions, heightening the domestic demand contraction, and to the gradual deterioration in external demand from the euro area countries. The higher-frequency indicators point to a more pronounced drop in industrial production and exports in early 2009. In March, the aggregate rate of inflation remained at 4.1% year-on-year because of the increase in Poland and the Czech Republic (due in both cases to the effects of the previous exchange rate depreciation), while it continued falling elsewhere. Virtually all the countries with floating exchange rates announced further interest rate cuts in the quarter. The financial difficulties that had dominated the economic situation until February faded slightly in March. Nevertheless, the rating agencies downgraded their credit ratings on Hungary, Latvia and Lithuania, whilst maintaining their negative outlook on this group of countries overall (Poland and the Czech Republic are the exceptions). In this setting, and as explained in Box 2, external financial support for the region increased.

In China, GDP rose by 6.1% year-on-year in Q1; this represents a decline of 0.7 pp compared with the previous quarter and is the lowest rate of the last ten years, due to significant deterioration in the external sector and to the ongoing adjustment in the real estate sector. Nonetheless, the fiscal and monetary stimulus packages would appear to be starting to bear fruit, as supply indicators such as industrial production and business confidence recovered in March and demand indicators, especially investment in fixed assets, gained momentum. The foreign trade surplus, while still high, fell considerably in Q1 due to the sharp decline in exports and despite the significant drop in imports. In the year overall, however, the current account surplus rose by 20% to stand at 10% of GDP. The decline in the trade surplus, the decrease in foreign direct investment and the outflow of speculative capital, possibly accompanied by valuation effects, meant that the accumulation of international reserves eased off considerably in the last quarter of the year, although they still almost reach the $2 trillion mark. Inflation recorded negative year-on-year rates (–1.6% in February and –1.2% in March) for the first time since 2002 and the decline in producer prices intensified due to a base effect. Nevertheless, the moderately lax monetary policy led to a sharp rebound in both the money supply and credit in the quarter. At the same time, policies were implemented to reduce dollar dependence in commercial transactions. As regards fiscal policy, the budget approved in March envisages an increase in the budget deficit to 3% of GDP in 2009, but no extension of the existing fiscal stimulus programme.

In the rest of Asia, GDP growth fell sharply in most of the region's economies in 2008 Q4, especially in South Korea, Hong Kong, Singapore, Malaysia and Thailand, and much more moderately in India, Indonesia and the Philippines, all in year-on-year terms. In general, the most recent indicators also reflect a sharp year-on-year decline in exports and industrial production, so we can expect to see a further slide in GDP growth in 2009 Q1. Inflation continued to decline throughout the region in the first quarter, falling to 10-year lows, as private consumption continued to moderate; in fact some countries (for example, Thailand) even recorded negative year-on-year rates. Against this backdrop, official interest rates were cut throughout the region in the quarter.

In Latin America, economic growth decreased significantly in 2008 Q4 in comparison with the previous quarter, taking year-on-year growth down to just 1%, from 5% in Q3. This economic slowdown, which was most noticeable in countries such as Brazil, Mexico and Chile, was a result of the credit crunch caused by the international financial crisis, which had a severe impact not only on domestic demand but also on imports and exports. Also contributing to this effect was the lack of momentum in the international economy and the decline in commodities prices. The latest activity indicators point to persistent economic deterioration in 2009 Q1. Inflation moderated further to 7.4% in February, 1.2 pp below the November figure. This enabled the region's central banks to make large-scale interest rate cuts: thus rates were cut by 650 bp in Chile, by a more moderate 250 bp in Brazil and Colombia, by 225 bp in Mexico and by 150 bp in Peru. Against a backdrop of lower exports and imports, the region's current account balances remained weak, but financial flows recovered somewhat and, in consequence, sales of international reserves fell back, save in the case of Mexico where strong depreciation pressure persisted. In any case, the authorities continued to take measures to supply dollar liquidity, and in this respect Mexico was particularly active, making use of the new IMF $47 bn Flexible Credit Line and of the $30 bn swap facility with the Federal Reserve designed to supply funds to the business sector. Colombia also requested $10.4 bn from the new IMF Flexible Credit Line, while in Argentina the central bank launched a mechanism to supply liquidity to the export sector. Several countries saw a significant deterioration in their fiscal position, as revenues declined, but both Chile and Peru launched fiscal expansion programmes, Brazil announced a housebuilding programme and Colombia designed a structural investment programme partly funded by the IDB. Moreover, in another positive development, especially in the present circumstances, Moody's upgraded its sovereign credit rating on Chile.

According to the latest available data on economic developments in the euro area, GDP again deteriorated significantly in the opening months of 2009. The European economy is being hit not only by the serious financial crisis, which continued to hamper activity due to tight credit standards and its repercussion on agents' confidence, but also by the sharp decline in world trade seen in 2008 Q4, which intensified at the beginning of 2009 (see Box 3). In the more medium term, economic prospects remain subject to an extraordinary level of uncertainty. The latest forecasts from private institutions and international organisations estimate that GDP in the euro area will continue to post negative growth rates throughout 2009, although the pace of decline should gradually lessen as signs of normalisation appear in the financial markets and as the effects of economic policy measures materialise. There would be no return to positive, albeit moderate, growth rates until 2010. Nevertheless, the synchronised global nature of the current recession poses new challenges for the euro area, as, in the past, cyclical recovery was driven by external demand.

Inflation continued to decline in the first months of 2009, to an all-time low since the creation of the euro area, as a result of base effects in commodities and food prices and, to a lesser extent, of sluggish domestic demand. Both factors will continue to weigh on prices in coming months, meaning that inflation could temporarily register negative rates in the summer. Into the medium term, inflation rates will foreseeably remain very moderate for a prolonged time period, in a context in which weak aggregate demand will contribute in coming quarters to a significant increase in the slack present in the product and labour markets.

As inflationary pressures have disappeared from the policy-relevant horizon, the ECB Governing Council decided to continue to ease its monetary policy stance, with further rate cuts in the January-March period that took the official interest rate to 1.25%, 300 bp below the September level. The ECB President also indicated that the Council intended to consider adopting new extraordinary monetary policy measures at its first meeting in May. At the same time, the Council reiterated that it was important, in the present circumstances, to anchor inflation expectations around the medium-term target of rates close to but below 2%, as an essential basis for sustainable growth and employment and to support financial stability.

In the absence of any sign of improvement in the economic situation, the economic authorities continued to support the financial system and activity. The Eurosystem continued with its generous funding policy – via fixed-rate tenders with full allotment and US dollar liquidity-providing operations – and governments continued to implement the financial system support measures approved in October, chiefly in the form of guarantees for new medium-term bank debt and public capital injections for financial institutions. In addition, under the European Economic Recovery Plan approved by the European Council at the end of 2008, the European and national authorities also adopted further stimulus measures to bolster demand. These measures, combined with the activation of the automatic stabilisers in a notably deteriorated economic setting, will entail a significant and generalised impairment of European public finances in 2009.

3.1 Economic developments

The second National Accounts estimate confirms the severe contraction in euro area activity in the closing months of 2008, as the financial crisis intensified and the global economy slowed. GDP fell by 1.6% in 2008 Q4, signifying a decline of 1.5% year-on-year, after the growth rates of –0.3% and +0.6%, respectively, in the period July-September (see Chart 8). In 2008 as a

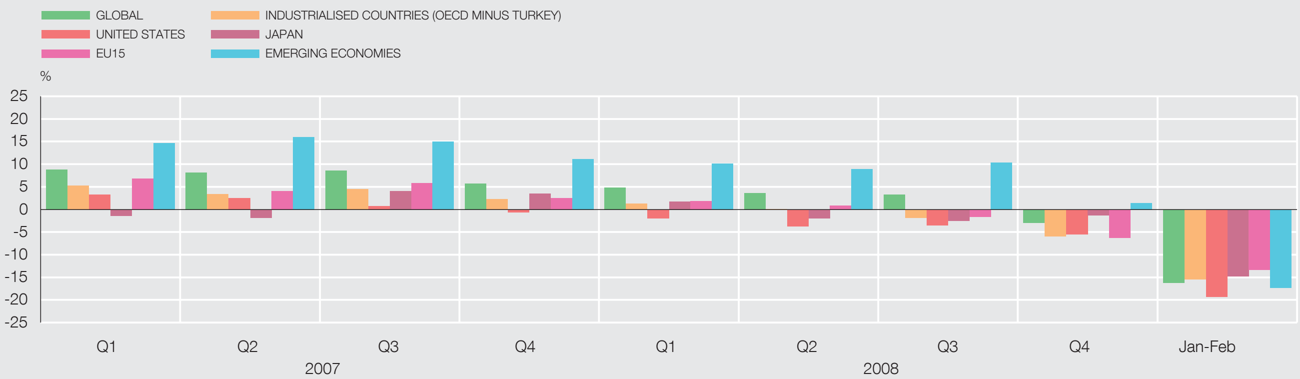
The notable contraction in activity in the euro area in 2008 Q4 was largely due to the poor performance of exports, in line with the collapse in global demand. Thus, imports of goods worldwide shrank in this period – for the first time since 2002 Q1 – at a rate of 2.9% year-on-year. On the data available, this trend worsened in early 2009, against the background of further deterioration of the global economic situation and tightening credit standards as a result of extreme risk aversion and deleveraging in the financial system (see Panel 1). Moreover, the decline in import demand has not only been confined, as was the case previously, to the developed countries, but has spread forcefully to the emerging economies in recent months. In fact, emerging market imports, which had slowed notably in 2008 Q4, fell sharply – by some 17% – in January-February, almost 2 pp more than the decline recorded by the industrialised countries. Among the latter group, US imports, which had been diminishing since 2007 Q4, fell by 19.2%, while in Japan and the euro area they contracted by 14.8% and 13.3%, respectively.

These developments in world markets heightened the rate of decline of euro area exports to all destinations, but especially exports outside the euro area, which fell by some 24% in January and February (approximately 3 pp more than exports within the euro area), due to the collapse in sales both to the developed economies – especially the United States – and the emerging markets. Among the latter, exports to China and Russia fell by more than 30% in January, while exports to south-east Asia and Latin America fell by around 20%.

All the euro area countries have seen a sharp decline in exports, although this has been especially true for Spain, France and Italy where exports have fallen by some 25% in nominal terms. In Germany, too, sales have fallen considerably, and this is having a major impact on economic activity, due to the significance the export sector has acquired in recent years.

The outlook for euro area exports, the driving force behind economic recovery in previous cycles, is not favourable. In the short term, European Commission surveys show that, in recent months, export firms' assessments of export order books have continued to decline, reaching an all-time low in March since the series was created in 1985. Meantime, export expectations, which are highly correlated with exports of goods and services, collapsed to unprecedented levels in 2009 Q1 (see Panel 2). These surveys also show that exporters believe their competitive position deteriorated in Q1, both within the euro area and beyond. In the more medium term, the latest IMF and OECD forecasts point to an overall decline in import demand in 2009, deeper in the developed countries but also persistent in many of the emerging markets (see Panel 3). In any case, even in those regions where import demand is likely to grow in 2009 – China, Latin America, Africa and the Middle East – the rate of growth will be much lower than in 2008.

1 IMPORTS OF GOODS BY REGION (a)



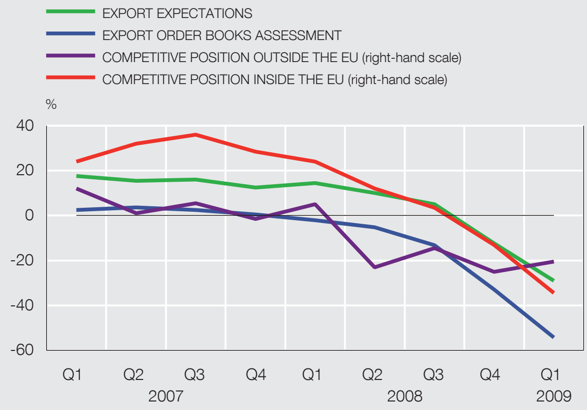
SOURCES: OECD Economic Outlook, European Commission and CPB Netherlands Bureau for Economic Policy Analysis.

a. Year-on-year growth rates.

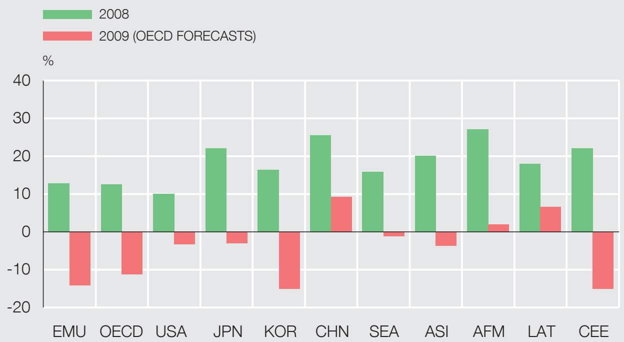
EURO AREA GOODS EXPORTS. BREAKDOWN BY AREA (VALUE) (a)

		2008				2009	
	WEIGHT	Q1	Q2	Q3	Q4	JAN	FEB
TOTAL		5.0	7.6	5.4	-6.8	-23.3	-22.6
Destination:							
Intra-Euro area	47.3	3.3	6.7	5.1	-8.5	-21.9	-21.4
Extra-Euro area	52.7	6.8	8.5	5.6	-5.0	-24.8	-23.9
United Kingdom	*12.4*	*-0.3*	*3.1*	*-3.4*	*-14.7*	*-28.7*	
Rest of EU (except UK)	*18.1*	*8.7*	*11.4*	*8.3*	*-7.8*	*-25.0*	
Canada	*1.2*	*3.5*	*1.2*	*0.4*	*-1.9*	*-20.1*	*-20.7*
Switzerland	*5.7*	*1.3*	*12.5*	*5.4*	*1.6*	*-7.8*	*-11.2*
Norway	*1.1*	*6.7*	*9.3*	*-4.3*	*-11.9*	*-26.7*	*-26.7*
Russia	*4.7*	*23.4*	*22.6*	*19.8*	*-1.0*	*-35.1*	*-35.4*
United States	*12.1*	*-1.6*	*-3.3*	*-5.0*	*-7.8*	*-26.5*	*-18.6*
Africa	*8.0*	*11,2*	*16.8*	*22.4*	*12.6*	*-10.0*	*-9.4*
Latin America	*5.1*	*5.5*	*9.0*	*16.0*	*11.9*	*-22.8*	*-20.3*
Japan	*2.4*	*-2.4*	*-2.4*	*-1.9*	*0.2*	*-22.6*	*-17.6*
South-east Asia	*3.1*	*10.7*	*4.1*	*8.0*	*-3.1*	*-18.5*	
China	*4.6*	*17.2*	*15.6*	*4.3*	*-0.8*	*-25.9*	*-17.0*
Origin:							
Germany	32.9	6.2	8.5	4.2	-6.1	-23.4	-23.2
France	13.2	6.5	5.2	4.6	-7.0	-23.7	-24.0
Italy	9.8	-0.1	4.8	3.7	-7.0	-25.8	-25.3
Spain	6.0	-1.8	3.5	3.8	-10.1	-25.9	-18.8
Ireland	3.4	-4.7	-7.4	-3.9	-3.4	-2.3	-4.5
Portugal	1.2	5.2	4.6	5.4	-11.0	-28.6	-31.3
Netherlands	14.0	10.3	12.3	12.3	-5.1	-21.6	-21.4

2 OPINION INDICATORS



3 NOMINAL IMPORTS OF GOODS AND SERVICES IN US DOLLARS (a) (b)

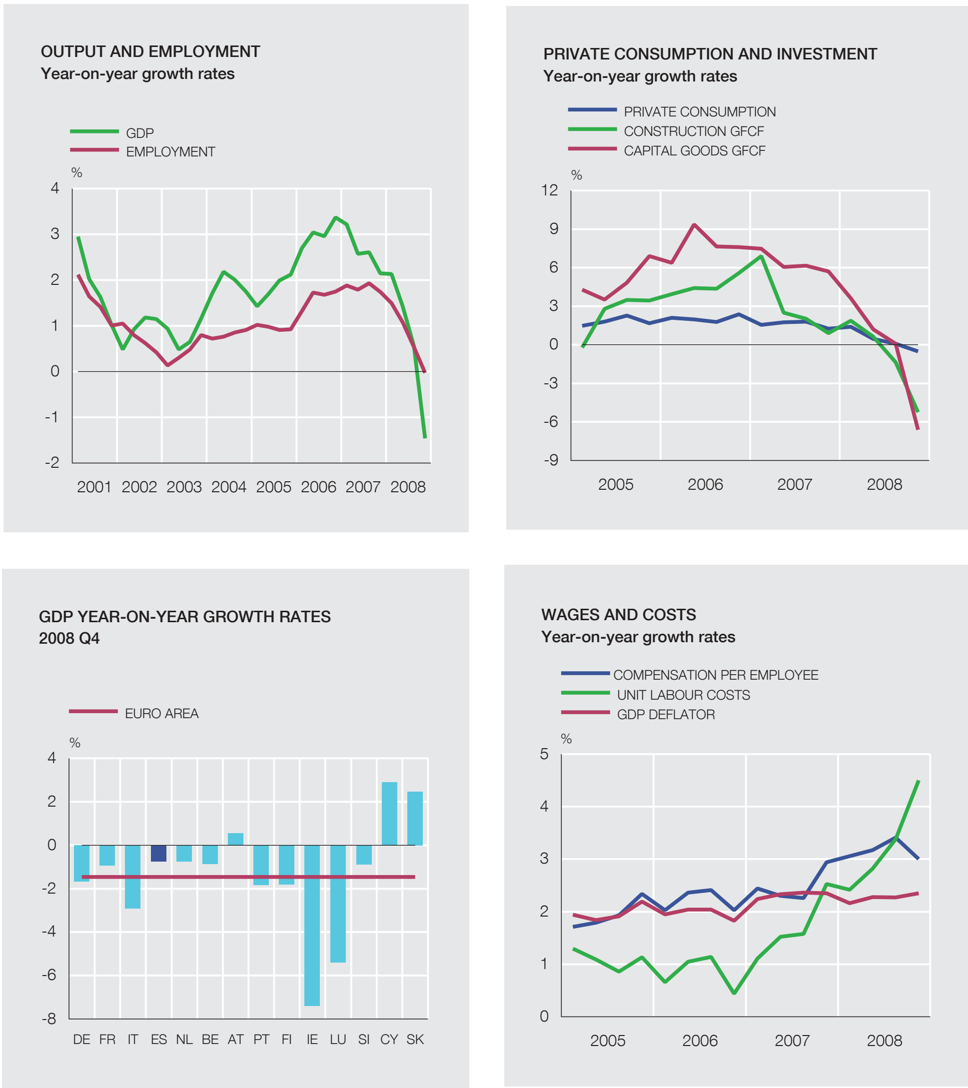


SOURCES: OECD Economic Outlook, European Commission and CPB Netherlands Bureau for Economic Policy Analysis.

a. Year-on-year growth rates, except for Panel 2.
b. JPN: Japan; KOR: Republic of Korea; CHN: China; AFM: Africa and Middle East; SEA: emerging Asia; ASI: Asia, excluding China and emerging Asia; LAT: Central and South America; CEE: Central and Eastern Europe.

EURO AREA NATIONAL ACCOUNTS

CHART 8



SOURCES: Eurostat and national statistics.

whole, GDP grew by 0.7%, almost 2 pp below the 2007 figure, mainly as a result of the deterioration in domestic demand.

As shown in Table 1, the sharp fall in GDP in the euro area in Q4 was largely due to the significant decline in gross fixed capital formation and exports. All investment components, but especially equipment investment, headed down as a result of the tighter credit standards and poor economic expectations. Moreover, the tighter financial conditions, along with the unfavourable employment performance and falling confidence, had an adverse impact on private consumption, while government consumption continued to grow, albeit at a slower pace than in the previous quarter. Thus, domestic demand, excluding inventories, subtracted 1 pp from the growth rate of GDP. Moreover, the worsening of the global economic situation weighed down the demand for euro area exports both in the developed and the emerging economies (see Box 3). Imports also fell, hit by weak domestic demand, though to a lesser extent than exports, meaning that the net external balance made a negative contribution to GDP growth similar to that of domestic demand. Lastly, changes in inventories maintained their positive contribution to GDP at 0.3 pp. The breakdown by branch of activity shows a decrease in value added most particularly in industry but also in construction and trade.

EURO AREA ECONOMIC INDICATORS (a) TABLE 1

	2007		2008				2009	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
NATIONAL ACCOUNTS (quarter-on-quarter growth, unless otherwise indicated)								
GDP	0.6	0.5	0.6	-0.2	-0.2	-1.6		
Private consumption	0.5	0.3	0.0	-0.3	0.1	-0.3		
Public consumption	0.5	0.3	0.4	0.9	0.6	0.4		
GFCF	0.9	0.9	1.0	-1.2	-0.7	-4.0		
Imports	1.9	-0.1	1.2	-0.6	1.2	-4.7		
Exports	1.7	0.7	1.5	-0.2	-0.3	-6.7		
Contributions to quarter-on-quarter GDP growth (pp)								
Domestic demand (excl. inventories)	*0.6*	*0.4*	*0.3*	*-0.3*	*0.0*	*-1.0*		
Changes in inventories	*0.1*	*-0.3*	*0.2*	*-0.1*	*0.3*	*0.3*		
Net foreign demand	*-0.1*	*0.3*	*0.2*	*0.1*	*-0.6*	*-0.9*		
GDP (annual growth)	2.6	2.2	2.2	1.5	0.6	-1.4		
ACTIVITY INDICATORS (quarterly average)								
IPI seasonally and working-day adjusted	0.6	1.1	1.5	-2.0	-2.6	-6.2	*-6.3*	
Economic sentiment	109.2	105.0	101.4	97.5	89.9	75.8	65.7	
Composite PMI (b)	56.5	54.0	52.1	50.8	47.6	40.2	37.6	*40.5*
Employment	0.4	0.3	0.4	0.1	-0.1	-0.3		
Unemployment rate	7.4	7.3	7.2	7.4	7.6	8.0	*8.4*	
PRICE INDICATORS (annual growth of end-period data)								
HICP	2.1	3.1	3.6	4.0	3.6	1.6	0.6	
PPI	2.7	4.6	5.7	7.7	7.6	1.1	*-1.7*	
Oil price (USD value)	78.2	91.5	104.3	132.0	98.1	40.5	46.8	*50.4*
FINANCIAL INDICATORS (end-period data)								
Euro area ten-year bond yield	4.4	4.4	4.2	4.9	4.5	3.8	4.1	*4.1*
US-euro area ten-year bond spread	0.15	-0.36	-0.69	-0.88	-0.88	-1.76	-1.31	*2.98*
Dollar/euro exchange rate	1.418	1.472	1.581	1.576	1.430	1.392	1.331	*1.323*
Appreciation/depreciation of the NEER-22 (c)	3.7	6.3	3.7	3.5	-0.6	2.7	-0.7	*-2.4*
Dow Jones EURO STOXX 50 index (c)	6.4	6.8	-17.5	-23.8	-30.9	-44.3	-15.5	*-5.4*

SOURCES: European Commission, Eurostat, Markit Economics, ECB and Banco de España.

a. Information available up to 24 April 2009. The information in italics does not cover a full quarter.
b. April data corresponds to the flash estimate.
c. Percentage change over the year.

GDP contracted notably in the main euro area economies in 2008 Q4, although the various demand components contributed differently. In particular, the 2.1% decline in GDP in Germany was due to the poor performance of external demand and, to a lesser extent, of investment, while changes in inventories continued to contribute positively. In Italy, the 1.9% drop in GDP was due, above all, to the reduction in domestic demand and, to a lesser extent, in net exports, whilst in France changes in inventories had the most impact on GDP, which fell by 1.1%.

Employment growth was negative in 2008 Q4 (–0.3%), giving a zero rate of change vis-à-vis the previous year for the euro area overall, although with significant differences across the member countries (see Chart 8 and Box 4). Since GDP decreased by more than employment, apparent labour productivity fell by 1.4%. This, together with the 3% growth in compensation per employee, resulted in an acceleration in unit labour costs (which rose by 4.5% year-on-year). As the GDP deflator recorded lower growth (+2.4%), unit margins shrank again in the closing months of the year.

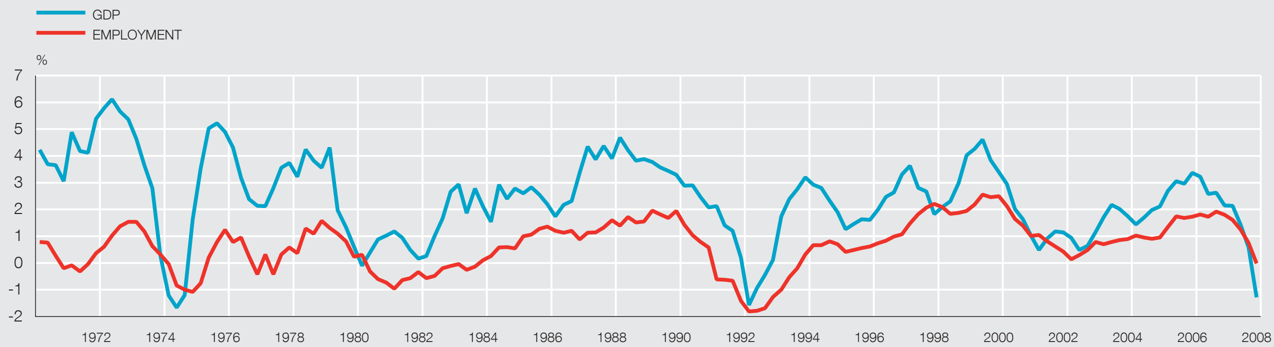
The latest conjunctural figures suggest that real activity in the euro area probably contracted again significantly in 2009 Q1. On the supply side, the first two months of the year saw a

Since mid-2008, employment in the euro area has posted negative quarter-on-quarter growth rates. Indeed, by the end of 2008, employment had returned to 2007 levels. Similarly to comparable periods in the past, the labour market adjustment has affected mostly male workers, younger workers and those on temporary contracts, and its immediate corollary has been a rebound in unemployment. In February 2009 the unemployment rate stood at 8.5%, 1.3 pp higher than a year earlier.

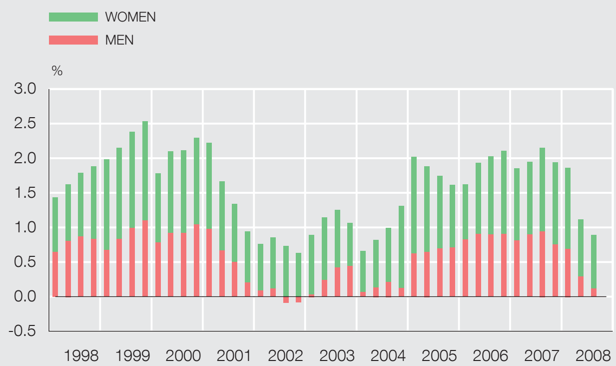
Nevertheless, to date the labour market adjustment in the euro area is proving much more contained – at least relative to the scale of the contraction in activity – than in most previous downturns, and is comparable only to the crisis of the early 1970s (see Panel 5). The uncertainties regarding the duration and intensity of the present recession would appear to have prompted firms to opt, at least initially, for labour hoarding.

Public policies in some euro area countries may also be contributing to this delayed response. Thus, for example, in Germany programmes have been launched or reinforced that encourage firms, via public subsidies, to reduce working hours (*kurzarbeit*) rather than make layoffs. These measures are reflected in the significant decrease in hours worked per person in Germany in 2008 Q4: –1.6%, in comparison with –0.1% in 2008 Q3. More recently, countries such as Belgium, Austria, France and the Netherlands have

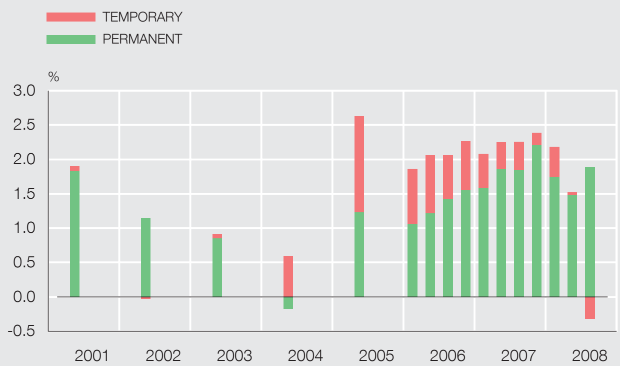
1 EMPLOYMENT AND GDP
Year-on-year growth rates



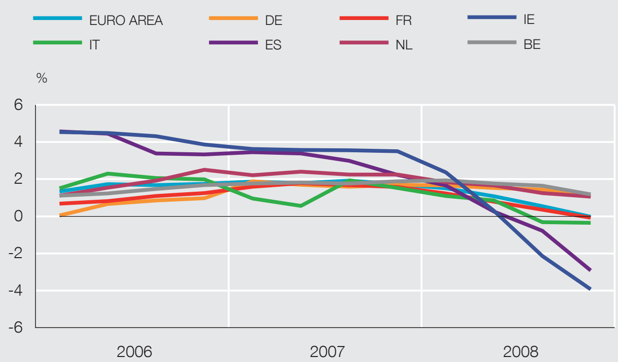
2 EMPLOYMENT GROWTH BY SEX



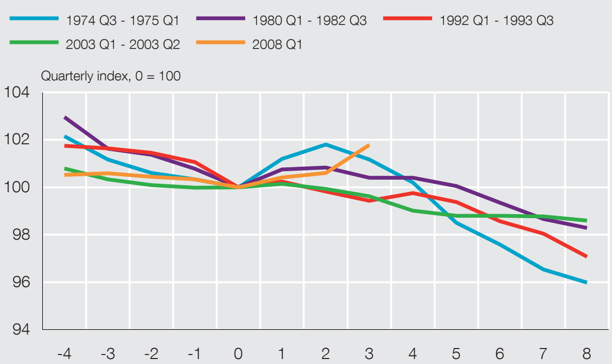
3 SALARIED EMPLOYMENT GROWTH: TEMPORARY VERSUS PERMANENT EMPLOYMENT



4 EURO AREA AND SEVERAL COUNTRIES: ASYNCHRONOUS EMPLOYMENT ADJUSTMENT



5 EMPLOYMENT/GDP



SOURCES: OECD and Eurostat.

introduced or extended the scope of similar programmes aimed at containing job destruction.[1]

Aggregate employment figures for the euro area mask highly differentiated behaviour across the member countries: whilst in Belgium, Germany and the Netherlands employment was still growing at a rate of more than 1% at the end of 2008, in Spain and Ireland, and to a lesser extent in Italy, employment started to fall in the second half of the year, declining in Spain and Ireland in Q4 by some 3%. Despite a relative degree of synchrony in the adjustment in activity, the differences in employment trends across the euro area countries may largely be attributed to the different weight of investment in residential building in the last cyclical upturn. This was the first sector to feel a relatively sharp correction in 2008, and it is precisely in those countries that had seen the most expansion in construction in the past – Spain and Ireland – where employment has been hardest hit. By contrast, in countries in which construction played a residual role in the recent upturn, such as Germany, Belgium and the Netherlands, employment creation remained relatively strong in 2008.

In the medium term, the outlook for employment is less favourable. The latest European Commission forecasts released in January 2009 pointed to a more severe correction ahead, envisaging a job destruction rate of 1.06% at the end of 2009 (in comparison with –0.4% forecast in November 2008), taking the unemployment rate to 8.7%. Since then the economic outlook has deteriorated significantly, pushing back in time the expectations of economic recovery and possibly offsetting the effects of the employment measures introduced, entailing an even sharper decrease in the employed labour force. Among the most recent forecasts by international organisations, the OECD's Interim Report published in March envisages a substantial rise in the unemployment rate, to 11.1% in 2009 and 11.9% in 2010.

1. Two countries – Germany and Austria – have also approved additional aid (reductions in social security contributions) for firms in the case of workers taking part at the same time in training programmes.

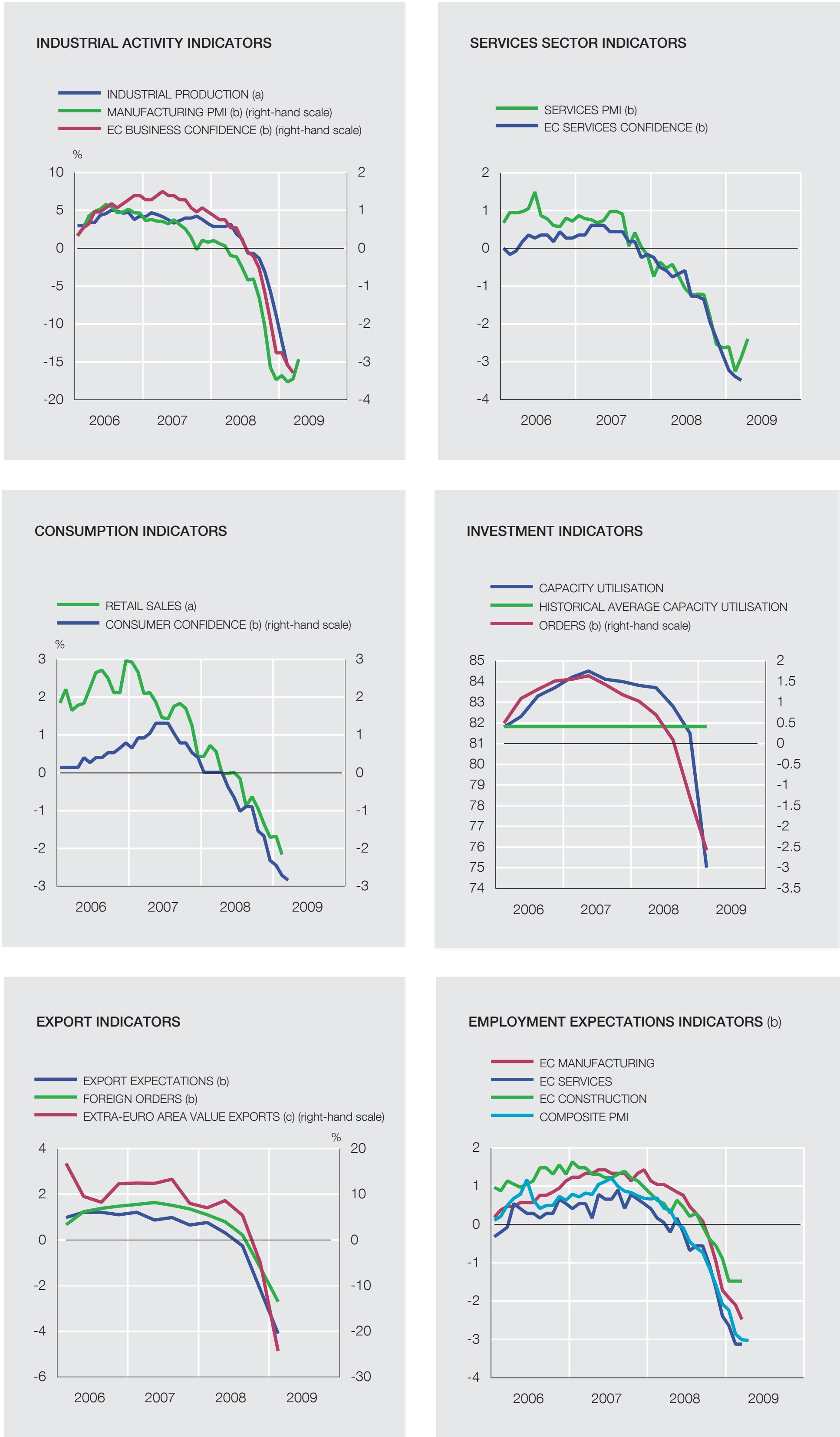
notable decline in industrial production and, to a lesser extent, in construction industry output and the industrial order book (see Chart 9). Moreover, European Commission and purchasing managers' surveys (PMI) recorded a further deterioration in confidence across all sectors in quarterly average terms, down to all-time lows in industry and services. The latest information available shows that labour market conditions also deteriorated: employment expectations indicators continued to decline in all sectors and the unemployment rate rose progressively, up to 8.5% in February.

On the demand side, the spending-related indicators augur no improvement in private consumption in 2009 Q1. Thus retail sales and new car registrations fell on figures up to February, despite the measures introduced – chiefly by the German government – to foster new car sales. Moreover, European Commission retail and consumer confidence indicators continued to decline in the period, with consumer confidence hitting an all-time low. As regards investment in capital goods, capacity utilisation according to the Commission's quarterly survey and assessment of order books both contracted in Q1. External demand data were also negative in the last few months; in particular, nominal trade balance data show that export sales fell significantly year-on-year in the first two months of 2009, while both average assessment of export order books and export expectations point to continued extreme weakness in external demand. Lastly, the latest Commission indicators available on the assessment of inventories suggest a downward adjustment in the first quarter of the year.

In short, the latest available data all signal a deterioration in GDP in the opening months of the year, potentially similar in extent to that seen in the last months of 2008, in an environment in which there is still no sign of a rapid solution to the global financial crisis and in which the synchronised global nature of the economic crisis is profoundly impacting external demand. In the more medium term the outlook remains highly uncertain, as it is extremely difficult to predict how the financial situation will unfold and how it will affect the real economy. The most recent projections of private analysts and various international organisations suggest that euro area GDP may contract by some 4% in annual average terms in 2009, ahead of a gradual recovery in 2010 (see Table 2).

EURO AREA. ACTIVITY, DEMAND AND EMPLOYMENT INDICATORS

CHART 9



SOURCES: European Commission, Eurostat and Markit Economics.

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

EURO AREA GDP AND HICP FORECASTS (a)

TABLE 2

	2009		2010	
	GDP	HICP	GDP	HICP
ECB (March 2009)	Between -3.2 and -2.2	Between 0.1 and 0.7	Between -0.7 and 0.7	Between 0.6 and 1.4
European Commission (January 2009)	-1.9	1.0	0.4	1.8
IMF (April 2009)	-4.2	0.4	-0.4	0.6
OECD (March 2009)	-4.1	0.6	-0.3	0.7
Consensus Forecast (April 2009)	-3.4	0.4	0.3	1.3
Eurobarometer (April 2009)	-3.2	0.5	0.3	1.2

SOURCES: European Commission, Consensus Forecast, Eurosystem, IMF, MJ Economics and OECD.

a. Year-on-year growth rates.

Turning to inflation, the HICP gradually decelerated in 2009 Q1, posting a year-on-year growth rate of 0.6% in March, 1 pp down on December (see Chart 10). This slowdown was largely due to base effects in the processed food and energy components, stemming from the high prices seen in 2008, and, to a lesser extent, to the slowdown in services prices (affected by calendar effects as the Easter holidays fell in March last year). Growth rates in the other sub-indices – unprocessed food and non-energy industrial goods – were more volatile throughout the quarter. Core inflation, measured by the overall index excluding unprocessed food and energy, declined by 0.6 pp between December and March to 1.5%. Producer prices turned negative year-on-year in the first two months of 2009, as energy and intermediate goods prices fell significantly.

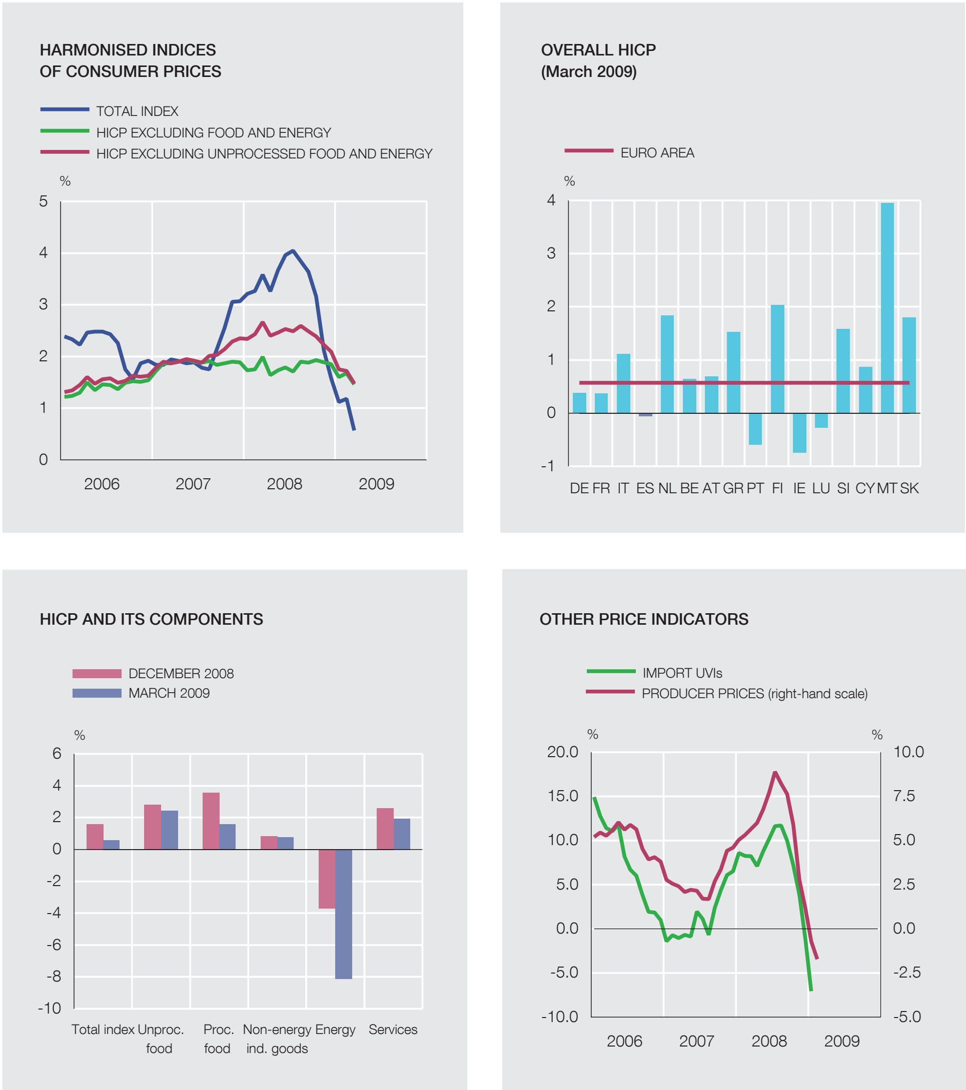
Inflation is expected to continue to decline in coming months, temporarily posting negative rates in the summer, mainly as a result of base effects in energy and food prices. In the medium term, price developments will depend on the extent to which the components most sensitive to demand, which so far are not clearly decelerating, respond to the emergence of a sizeable output gap. How wages will react is particularly uncertain, as so far they have been highly determined by wage agreements set in previous months, before neither the extent nor the duration of the economic slowdown became clear.

ECB figures show that the current account deficit stood at €18.2 bn in January 2009, up on the €14.7 bn deficit in the same month a year earlier, reflecting deterioration in all components with the exception of current transfers whose deficit declined. Thus, as exports fell by more than imports, the deficit on trade in goods widened, the services surplus narrowed and the income balance recorded a deficit, in comparison with a surplus a year earlier. In January, net capital outflows in the form of direct investment and portfolio investment amounted to €19.5 bn and €3.3 bn, respectively (in comparison with –€64.9 bn and €58.4 bn in 2008). Overall, the deficit on the basic balance, which aggregates these two sub-balances and the current account balance, rose by almost €20 bn to €41 bn (see Chart 13).

The demand stimulus measures introduced by most of the euro area countries since October, under the European Economic Recovery Plan approved by the European Council in December 2008, and the activation of the automatic stabilisers, which in Europe are relatively powerful, are having a major impact on public finances. In this context, the 2009 euro area budget deficit can be expected to exceed the Commission's 4% forecast issued in January this year. In fact the latest forecasts by other international organisations place it over 5%, which implies a significant deterioration in comparison with the deficit of 1.7% in 2008 (see Table 3).

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

CHART 10



SOURCES: Eurostat and ECB.

In recent months, most euro area countries have implemented the fiscal stimulus plans to boost demand that were ratified last year. Germany for its part approved a third raft of measures in January. Overall these measures are equivalent to close to 1% of euro area GDP.

In light of the deteriorating budget situation, in February 2009 the European Commission launched the excessive deficit procedure against all those countries whose deficit exceeded 3% of GDP in 2008: France, Spain, Ireland, Greece and Malta. In accordance with the margins of flexibility envisaged in the Stability and Growth Pact, the Council, on the Commission's recommendation, agreed to give France and Spain until 2012, and Ireland until 2013, to bring their deficits below 3%.

3.2 Monetary and financial developments

During the opening months of the year, the situation on the financial markets improved somewhat, in comparison with the extremely tense climate of late 2008, although credit standards remained very tight, in a context of high risk premia and volatility. On the interbank market, the yield spread between the EURIBOR and the secured interbank transactions interest rate (EUREPO) gradually narrowed to the levels seen before the collapse of Lehman Brothers in September last year. Although still quite high, corporate private debt spreads also narrowed,

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

TABLE 3

% of GDP

	BUDGET BALANCES (a)							
	2007	2008		2009			2010	
		SP (b)	EDP (c)	SP (b)	EDP (c)	EC (d)	SP (b)	EC (d)
Belgium	-0.3	0.0	-1.2	0.3	-3.4	-4.5	0.7	-6.1
Germany	-0.2	0.0	-0.1	-3.0	-2.9	-3.9	-4.0	-5.9
Greece	-3.8	-3.7	-5.0	-3.7	-3.7	-5.1	-3.2	-5.7
Spain	2.2	-3.4	-3.8	-5.8	-5.8	-8.6	-4.8	-9.8
France	-2.7	-2.9	-3.4	-3.9	-5.6	-6.6	-2.7	-7.0
Ireland	0.2	-6.3	-7.1	-9.5	-9.9	-12.0	-9.0	-15.6
Italy	-1.5	-2.6	-2.7	-3.7	-3.7	-4.5	-3.3	-4.8
Luxembourg	3.2	2.0	2.6	-0.6	-1.7	-1.5	-1.5	-2.8
Netherlands	0.3	1.2	1.0	-1.2	-3.3	-3.4	-2.4	-6.1
Austria	-0.5	-0.6	-0.4	-0.2	NA	-4.2	0.4	-5.3
Portugal	-2.7	-2.2	-2.6	-3.9	-3.9	-6.5	-2.9	-6.7
Slovenia	0.5	-0.9	-0.9	-0.6	-3.7	-5.5	0.0	-6.5
Finland	5.3	4.4	4.2	2.1	-1.9	-0.8	1.1	-2.9
Malta	-1.8	-3.3	-4.7	-1.5	-1.5	-3.6	-0.3	-3.2
Cyprus	3.5	0.5	0.9	0.5	-0.8	-1.9	0.7	-2.6
Slovakia	-2.0	-2.3	-2.2	-1.8	-2.1	-4.7	-0.8	-5.4
MEMORANDUM ITEM: Euro area (including Malta and Cyprus)								
Primary balance	2.3		1.1			-2.3		-3.3
Total balance	-0.7		-1.9			-5.3		-6.5
Public debt	66.1		69.3			77.7		83.8

SOURCES: European Commission and national stability programmes.

a. Deficit (–)/surplus (+). The deficits that exceed 3% of GDP have been shaded.
b. Stability Programmes' objectives (spring 2009).
c. Notification of Excessive Deficit Procedure (spring 2009).
d. European Commission forecasts (April 2009).

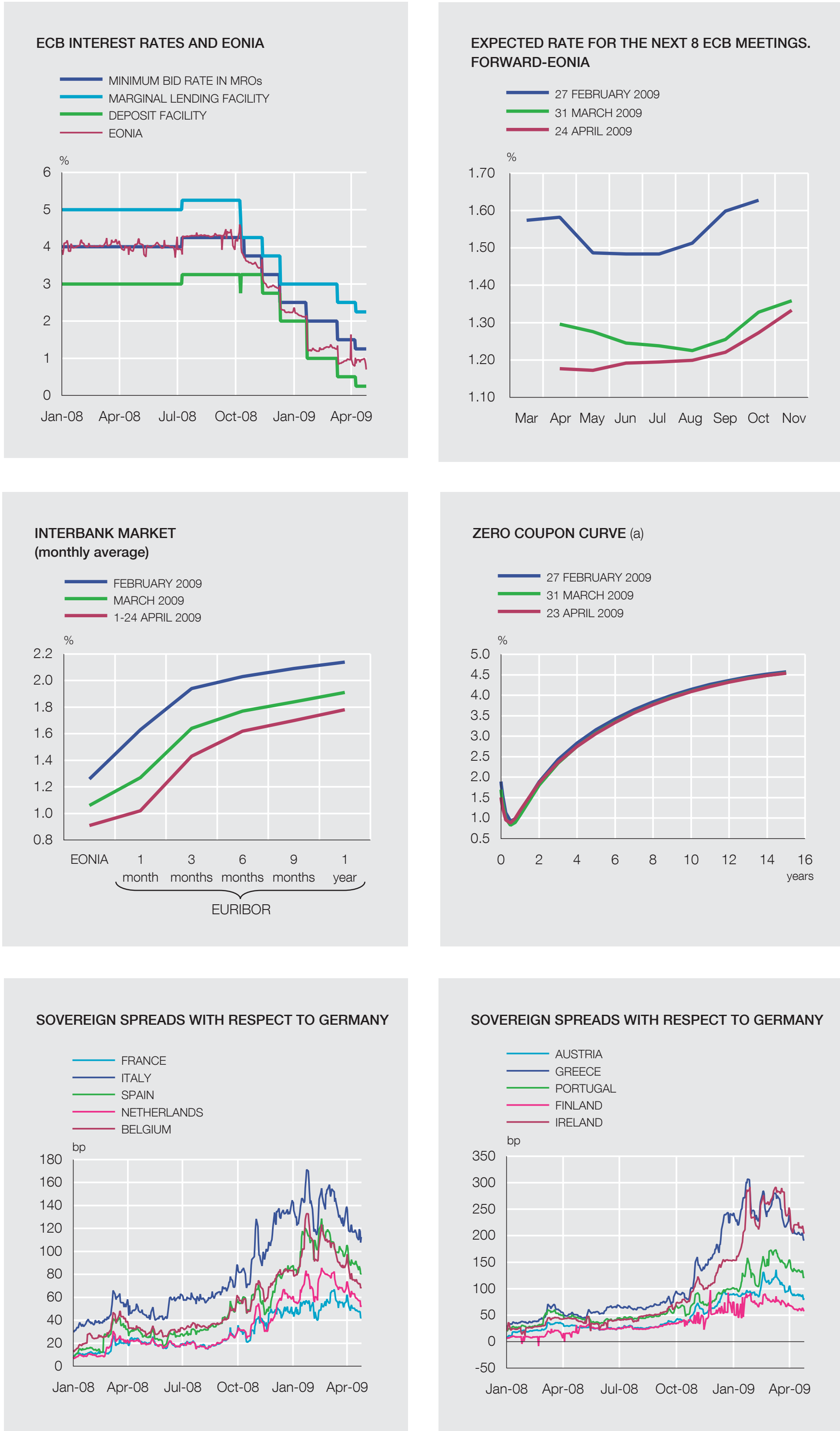
especially in the case of lower-rated bonds, and the European bourses headed upward again as from mid-March, driven by positive news from outside the euro area and, subsequently, by the success of the G20 summit.

The euro area governments continued to implement the financial system support programmes approved in October, mainly in the form of guarantees for new medium-term bank debt issues and public capital injections for financial institutions. For its part, the ECB continued to provide extensive market liquidity in Q1, with high volumes of funding through fixed-rate tenders with full allotment, both in weekly and more long-term operations, as well as US dollar liquidity-providing operations. In January, the ECB Governing Council decided to re-establish the 200 bp corridor of standing facilities, thus helping reduce the extensive use of the deposit facilities made by banks since October 2008. In March it was decided to continue the fixed-rate tenders with full allotment into 2010 and to extend the dollar liquidity provision agreement with the Federal Reserve until the end of June. In April a new extension of the currency agreement with other national central banks, once again including the Federal Reserve, was announced, to provide euro liquidity via swap agreements up to October 2009.

The decrease in inflationary pressures in the medium term as a result of the decline in commodities prices and the significant slowdown in activity enabled the ECB Governing Council to continue with its significant monetary policy easing in the opening months of 2009.

EURO AREA INTEREST RATES

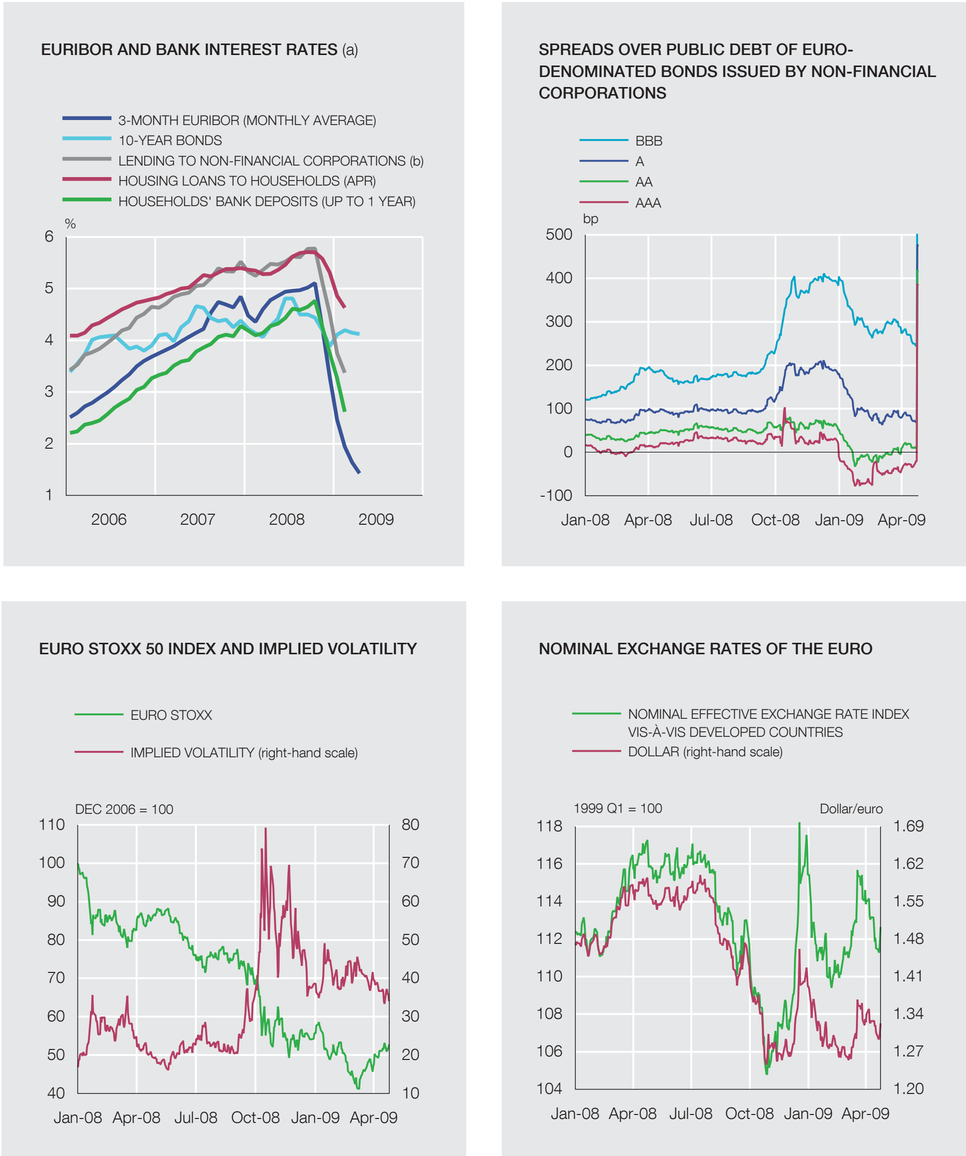
CHART 11



SOURCES: ECB and Banco de España.

a. Estimated by the ECB using swap market data.

EURO AREA INTEREST RATES, STOCK MARKET INDEX AND EXCHANGE RATE CHART 12



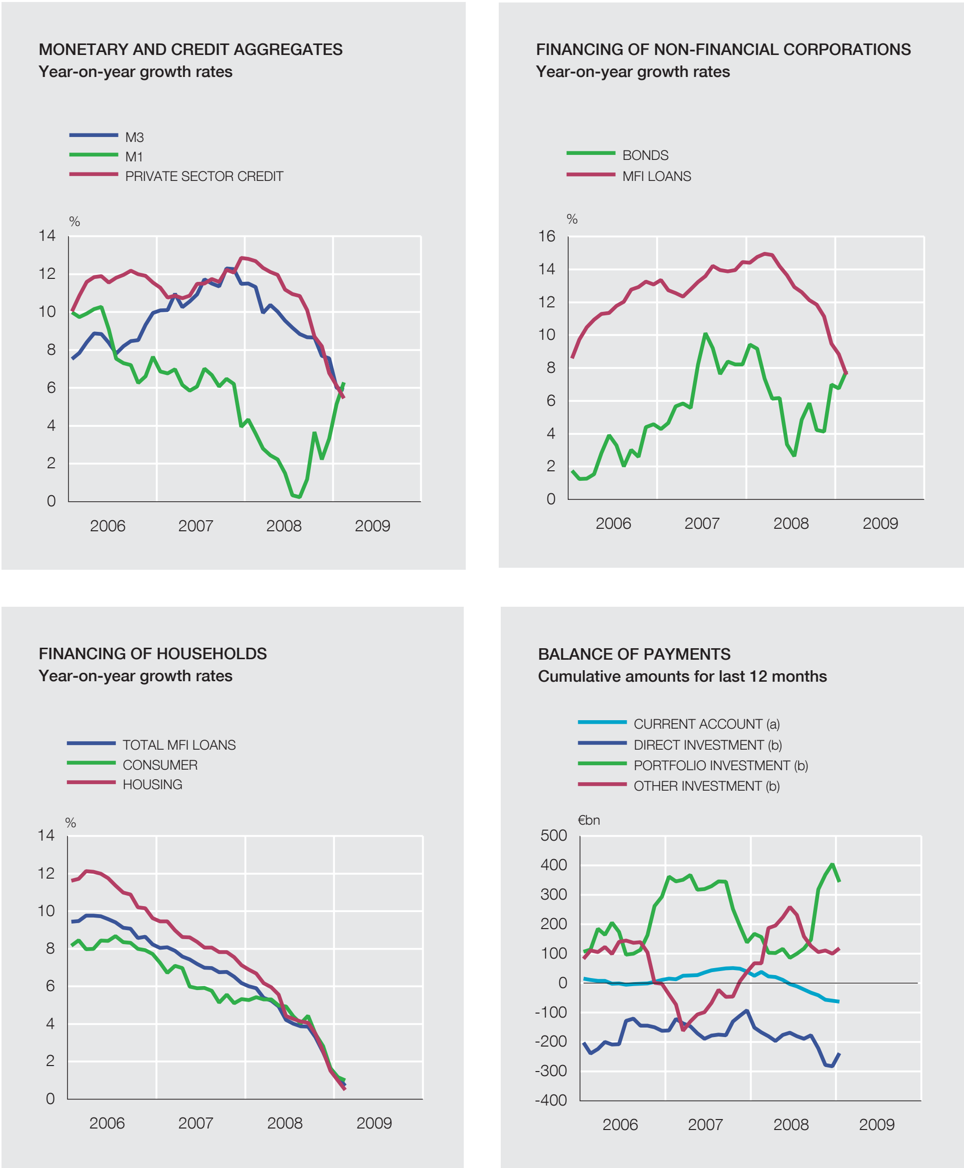
SOURCES: ECB and Banco de España.

a. For new operations.
b. Floating interest rates with initial rate fixation of up to 1 year.

The ECB cut official interest rates by 50 bp in January and then again in March, and by a further 25 bp in April, representing an overall rate cut of 300 bp since October 2008. Thus the main refinancing operations, deposit facility and marginal lending facility rates now stand at 1.25%, 0.25% and 2.25%, respectively (see Chart 11). Moreover, the Governing Council reiterated that it was important, in the present circumstances, to firmly anchor expectations around the medium-term target of inflation rates close to but below 2%, which is the most valuable contribution monetary policy can make to sustainable growth, employment and financial stability.

As a result of this monetary easing, and also, albeit to a lesser extent, of the steady decline in credit risk premia, interbank market rates at all terms gradually declined in the opening months of the year. In particular, 3-month and 1-year EURIBOR are now more than 125 bp below their end-December levels, at 1.4% and 1.8%, respectively (see Chart 12). This reduction was passed through – though only partially – to bank lending rates, which continued to

MONETARY AND CREDIT AGGREGATES AND BALANCE OF PAYMENTS CHART 13



SOURCES: ECB and Banco de España.

a. A positive (negative) sign indicates a current account surplus (deficit).
b. Capital inflows less capital outflows. A positive (negative) sign indicates a net capital inflow (outflow).

head downward in the period. In this respect, the Q1 bank lending survey showed further tightening of credit standards – chiefly through higher margins – and a contraction in loan demand, although in both cases to a lesser extent than in 2008 Q4. Lending standards became stricter both for households and firms, as a result of the deteriorating economic situation and the property market adjustment in some EU Member States. In this setting, bank credit to the private sector, which includes loans, stocks and shares, and other securities, continued to decelerate, to 5.4% year-on-year in February. Much of this was due to the significant slowdown in lending which, stripping out securitisations, grew by 5.9%, almost 1.5 pp less than in December. The lower rate of growth was seen in loans to both non-financial corporations and households, although the former continued to grow at a significantly higher pace than the latter (7.6% in comparison with 0.7% in February). A breakdown of household loans shows that all components lost momentum in the first two months of the year, with mortgage loans growing by 0.5%, loans for consumption by 1% and other loans by 1.5%, all in year-on-year terms.

After rebounding early in the year, 10-year government debt yields fell back again as from February, in line with the worsening of the economic outlook for the euro area and the preference of agents for safer assets. Thus, average euro area debt yields were 25 bp lower in March than at end-January, while spreads over Germany remained generally high, due to the high sovereign risk premia and, to a certain extent, to the greater preference for German debt liquidity. Greece, Spain and Portugal all saw their sovereign credit ratings downgraded in January, followed by Ireland in March. Spreads over US government debt yields, which were very volatile in the period, narrowed to around 120 bp.

Stock markets worldwide lost ground in the opening months of the year, with episodes of extreme volatility (see Chart 12), as a result of the delicate global economic situation and the difficulties facing the banking sector, especially in the United States and the United Kingdom. The Euro Stoxx 50 continued to head down until mid-March, but then rebounded on the news of profits at a number of US banks, the rescue plan for the US financial sector and the monetary stimulus programmes launched by various central banks outside the euro area. This positive trend was then reinforced by the agreements reached at the G20 summit in early April. Nonetheless, the rebound was not sufficient to offset the losses accumulated since the end of 2008, which amounted to almost 20%, and the index closed the period to date in 2009 down by more than 5%.

On the foreign exchange markets, the first months of 2009 were marked by extreme volatility. At the date of this Bulletin going to press, the euro was some 2.4% below its end-December level in nominal effective terms, as a result of the disparate performance of bilateral exchange rates. In particular, the euro appreciated against the yen but depreciated against both the pound sterling and the US dollar – by 1.7% and 4.9%, respectively – (see Chart 12).

The M3 monetary aggregate continued to decelerate in the first two months of 2009, to stand at 5.9% in February, 1.7 pp below the December figure, primarily due to the net decrease in term deposits, which slowed considerably. For its part M1, its most liquid component, continued to accelerate, driven by cash in circulation and, above all, by overnight deposits (see Chart 13).

On Quarterly National Accounts (QNA) estimates, GDP contracted sharply in 2008 Q4, posting year-on-year growth of –0.7%, down 1.8 pp on the previous quarter. The quarter-on-quarter rate was negative (–1%) for the second quarter running. The fall in activity in the closing months of 2008 was, in any event, less steep than in the euro area and in the OECD as a whole. The fall-off in GDP reflected the sharp weakening of national demand, particularly that of households. By contrast, the contribution of the external sector to GDP growth improved substantially by 1.2 pp to 2.3 pp, against a background in which imports slowed more than exports. On the supply side, value added fell in all branches of activity except services. This deterioration in activity was reflected in the behaviour of employment, which on QNA figures posted a year-on-year rate of change of –3.1%.

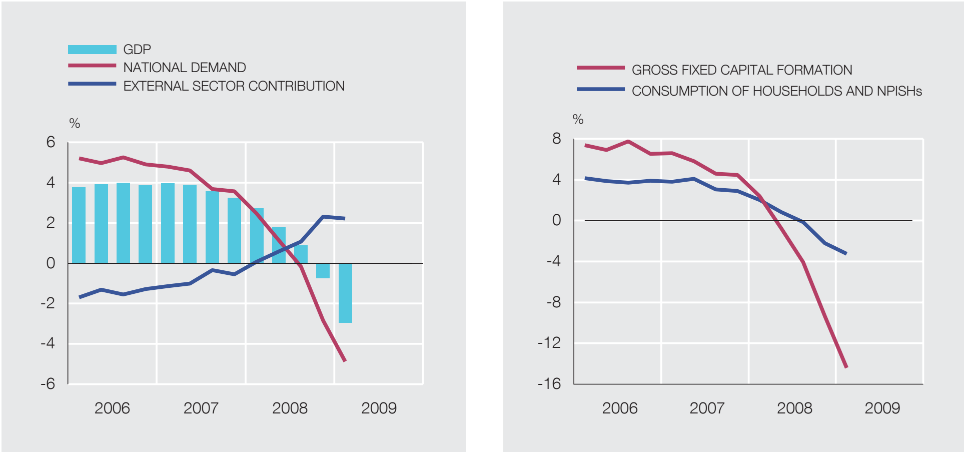
According to the available information, the fall in GDP quickened in the opening months of 2009, against a background of worldwide recession characterised by the deterioration of agents' confidence, the collapse of international trade and the persistence of strains, albeit somewhat muted, on financial markets. Specifically, the estimated year-on-year change in GDP in 2009 Q1 was –2.9%, down 2.2 pp on that observed in the closing months of 2008. In quarter-on-quarter terms, GDP is estimated to have slipped by –1.8%, which is 0.8 pp more than the fall in 2008 Q4. This behaviour seems to reflect above all the marked decrease in national demand, estimated to have fallen by 4.9% with respect to the same quarter a year earlier. The contribution to GDP growth from the external sector is estimated to have decreased slightly, but to have remained positive (2.2 pp), although the significant falls in world trade, which have considerably affected export and import flows, hamper this estimate enormously (see Chart 14). The value added of the market economy also seems to have decreased more sharply than in late 2008, moving similarly to the available labour market indicators, which point to a quickening of job destruction, with a fall in the employment growth rate of around 6% in year-on-year terms. Since the fall-off in GDP was comparatively smaller, productivity growth seems to have continued to rise, after various years of very low levels. Compensation per employee seems to have continued growing briskly, although less rapidly than in recent quarters, which, together with the step-up in productivity growth, meant that unit labour costs slowed. The year-on-year rate of change of GDP dropped substantially in the opening months of 2009 to a negative value (–0.1%) in March, and the inflation differential with the euro area again fell, standing at –0.7 pp in that month, the lowest value since the creation of the euro area.

4.1 Demand

The profile of marked slowdown in final consumption spending of households and NPISHs throughout 2008 continued in 2009 Q1 (see Chart 15). The various indicators show very negative rates of change, clearly indicating the sharpness of the contraction, although in some cases the observed rates are no worse than those in Q4. Among the quantitative indicators, the tax authorities' data on large corporations for January and February show some moderation in the rates of decline of sales, although consumer services fell more sharply than at end-2008. The retail trade index in real terms also posted a somewhat milder contraction, the same as purchases of consumer durables. In particular, new car registrations decreased by 38% on average in Q1, against a decline of 45% in the previous period. The synthetic indicator of goods and services consumption continued to fall at a rate similar to that at end-2008. Among the qualitative indicators, consumer confidence seemed to steady and retail confidence showed signs of a somewhat clearer improvement.

MAIN DEMAND AGGREGATES *(a)*

CHART 14

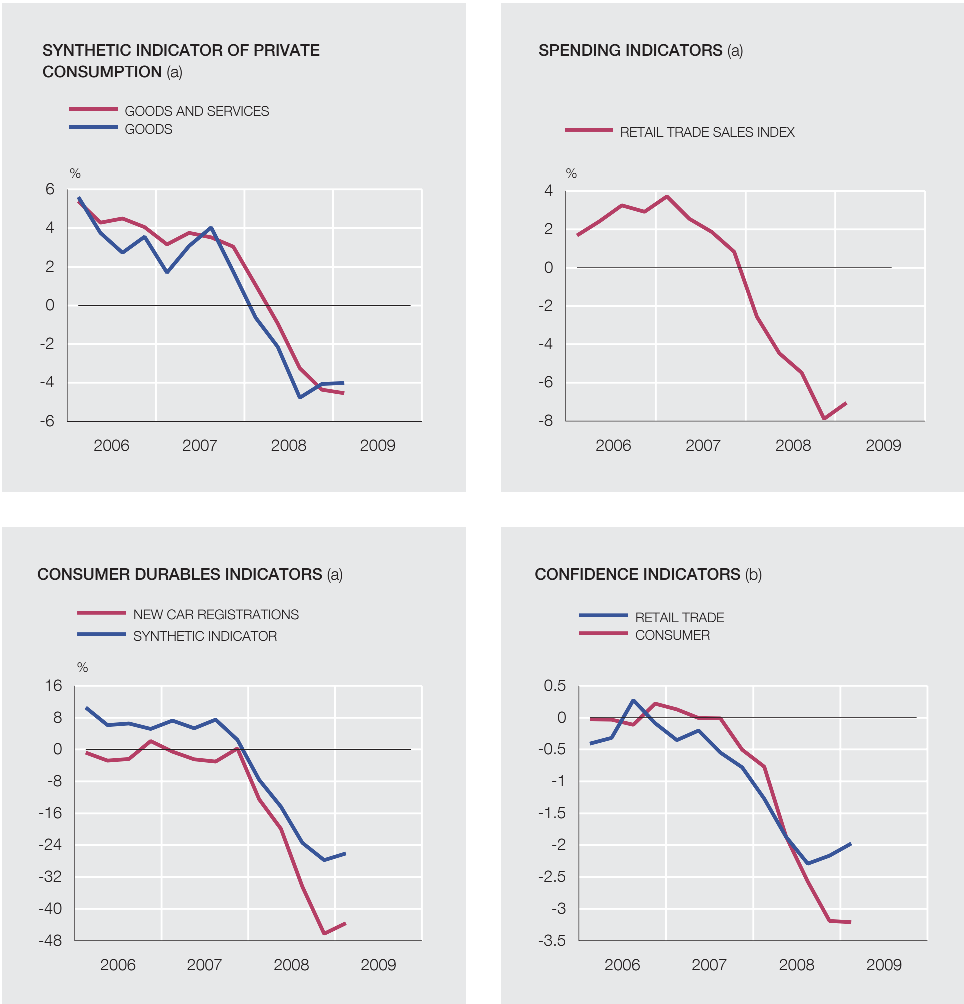


SOURCES: INE and Banco de España.

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

PRIVATE CONSUMPTION INDICATORS

CHART 15



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

a. Year-on-year percentage change based on the seasonally adjusted series.
b. Normalised indicators (deviation from the mean, divided by the standard deviation).

GROSS FIXED CAPITAL FORMATION

CHART 16

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

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

The weak household consumption in 2009 Q1 reflects the setting of high uncertainty in which household spending decisions were made, despite the positive tone of the marked decreases in inflation and interest rates. The job destruction contributed to reducing real income growth and the deterioration of the labour market eroded household confidence. Moreover, the sharp fall in stock market prices in 2008 and the decrease in house prices reduced household wealth in real terms, against a background of tighter credit conditions. All these factors are leading to a recovery in the household saving rate, which, according to the non-financial accounts of the institutional sectors, increased in 2008 to 13% of disposable income, 2.8 pp more than in 2007, and this trend will foreseeably continue in 2009.

General government final consumption seems to have kept growing substantially in 2009 Q1, albeit more slowly than in the preceding quarter, according to available information on net purchases of goods and services drawn from the State budget outturn.

According to available economic information, investment in capital goods again fell in early 2009 (see Chart 16). Business confidence, as reflected by indicators of industry confidence and of the order book of the capital goods sector, deteriorated further in Q1 as a whole.

Moreover, the indices of apparent investment in capital goods, although based on as-yet incomplete data, point to a sharp contraction. The fall in national and external demand and the tightening of bank credit conditions, along with the greater difficulty in raising funds by other means, continue to deter new investment projects by non-financial corporations, despite the interest rate cuts. These factors have given rise to a decrease in the sector's net borrowing, which stood at 7.5% of GDP in 2008, down 3.6 pp on 2007, according to the non-financial accounts of the institutional sectors. Also contributing in this respect was firms' higher saving, aided by a less negative contribution of net interest payments and by lower tax disbursements, although this last factor is, in part, of a temporary nature because it is related to the change in the VAT refund schedule.

In regard to total investment in construction, inputs indicators (apparent consumption of cement and domestic production of construction materials) decreased more in January and February than in 2008 Q4. Labour market coincident indicators also tended to be contractionary, with a decrease in the average number of Social Security registrations of nearly 25% year-on-year in 2009 Q1. Lastly, the construction sector confidence indicator compiled by the European Union deteriorated further in the first quarter of the year.

The adjustment of residential investment is estimated to have quickened in the quarter as a result of the significant decline in the number of housing starts in 2008 and the first few months of 2009 and of the completion of residential building work started earlier (see Box 5). Within the total housing starts, government subsidised housing continued to increase and it now accounts for around half of total housing starts. Recently there has been a steeper decline in house sales, according to data on transactions from associations of registrars and notaries public for 2008 Q4, and in the number of mortgages taken out. The demand for housing is being discouraged by the tougher financial conditions, the expectations of price falls and the worsening outlook for household income growth, and foreseeably non-residential construction will contract further in Q1, in step with the decrease in new project approvals in the recent past. Lastly, civil engineering works continued to be held back by the fall in government tendering, although they are expected to pick up again in Q2 when the projects financed by the State Fund for Local Investment start to be executed.

The information available for Q1, as yet incomplete, points to a slight decrease in the contribution of net external demand to GDP growth (down by 0.1 pp to 2.2 pp). This reflects the marked declines in both imports and exports, which, compared with Q4, were somewhat sharper in the case of exports (see Chart 17). The decrease in purchases from the rest of the world is in step with the negative trend shown by investment in capital goods and exports, which are the final demand components with the highest import content, and with the fall-off in industrial production. For their part, exports are being determined by the marked contraction in world trade, which has affected the markets of both the advanced economies (our main customers) and emerging countries.

On Customs data, real goods exports fell off markedly in the first two months of the year (by 22.1%). By product group, exports fell sharply across the board, except in food, where the drop was more moderate. The adjustments were somewhat more sizeable in the European Union markets than those of the rest of the world. The balance of payments figures to January show double-digit decreases in real exports of tourism and non-tourism services. Regarding the former, inbound tourists into Spain and the number of overnight stays in hotels fell appreciably in the period January-February, as did nominal spending by foreign visitors.

FOREIGN TRADE
Percentage change on year ago

CHART 17

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.

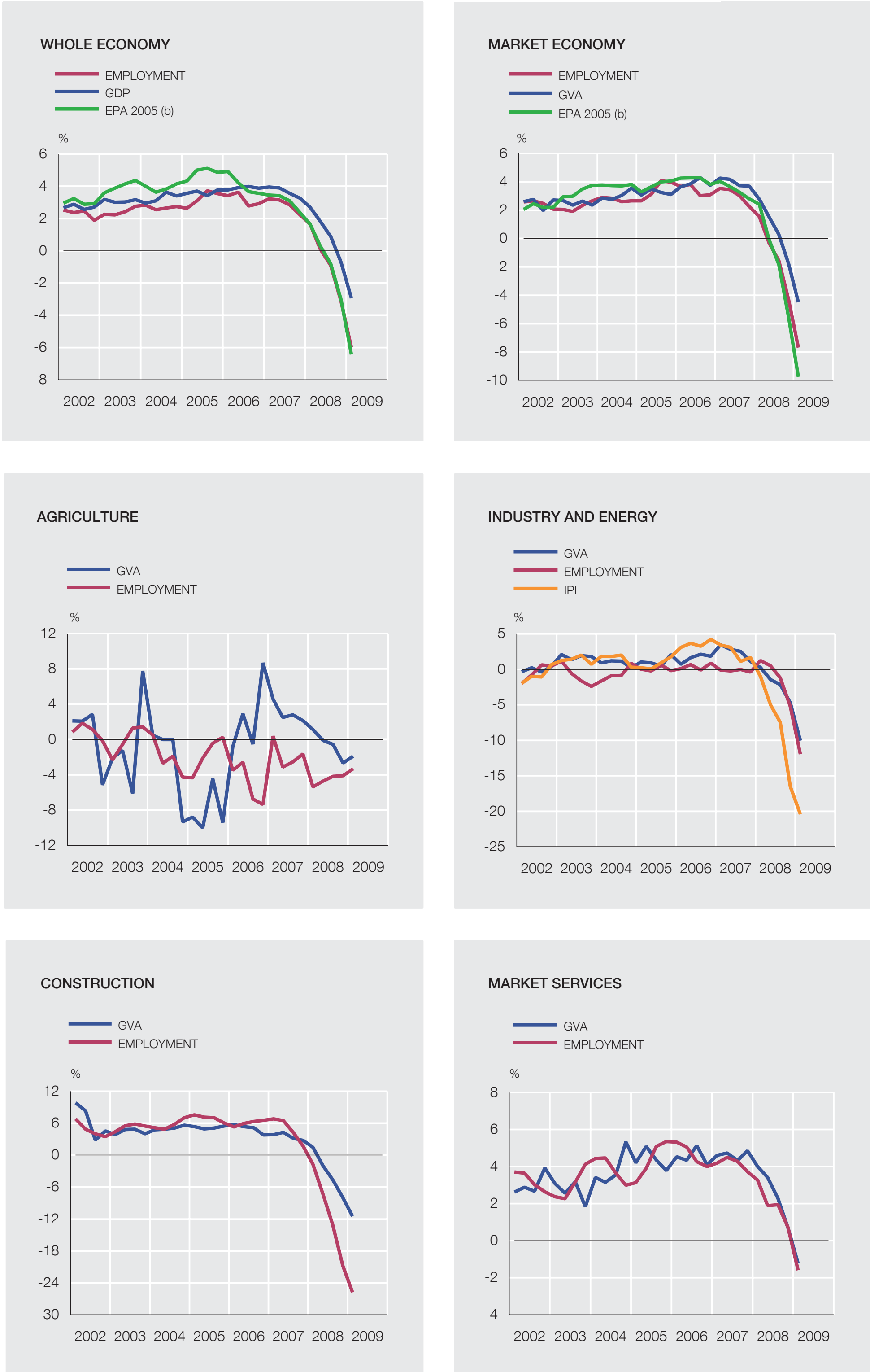
Real goods imports also fell off more quickly in 2009 Q1. In this respect, Customs data show that purchases of goods abroad in real terms decreased by 25.1% in the first two months of the year. By product group, the contraction was much sharper in capital and intermediate goods than in consumer goods. Notable among the latter was the much smaller fall, in comparable terms, seen in food (the least sensitive to the cycle), but which was also apparent in other goods. Real imports of services are estimated to have also declined notably faster in Q1, in line with the behaviour of expenditure on non-tourism services and of tourism imports in the balance of payments.

4.2 Output and employment

The year-on-year rate of change of the gross value added of the market economy as a whole decreased notably in Q1, and the quarter-on-quarter rate of contraction of 2.3% was more pronounced than in the closing months of 2008. This loss of vigour affected, to a greater or lesser extent, all market economy productive branches (see Chart 18).

Q1 as a whole will foreseeably show a sharp fall in the year-on-year rate of change of the value added of the industrial branches, which would be consistent with a quarter-on-quarter decline similar to that of 2008 Q4. The year-on-year growth rate of the industrial production index (IPI)

GROSS VALUE ADDED AND EMPLOYMENT BY BRANCH OF ACTIVITY (a) CHART 18



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

a. Year-on-year percentage rates based on seasonally adjusted series, except gross series 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 DG Economics, Statistics and Research on the basis of the control survey conducted using the methodology applied until 2004 Q4.

again fell in the January-February period, in line with the behaviour of the goods sales of large firms. By product type, the falls were across the board, being particularly sharp in the industries producing capital and non-energy intermediate goods. Labour market indicators , such as the number of Social Security registrations, also continued performing adversely. By contrast, some confidence indicators, such as the manufacturing Purchasing Managers Index, showed certain signs of moderation, albeit within their prevailing pessimistic tone.

Construction activity continued to deteriorate in the first quarter of the year, as reflected by the main coincident indicators (Social Security registrations, numbers of unemployed, consumption of cement and tax authorities' figures) and leading indicators (number of housing approvals). Activity in the agricultural and fisheries sectors remained contractionary, as reflected by the preliminary estimates of crop areas and yields made by the Ministry for the Environment and the Rural and Marine Environment.

The conjunctural information on the early months of 2009 points to an additional deterioration in the gross value added of market services. Thus Q1 brought sharper falls in the sales of large firms, expressed in real terms and seasonally adjusted, and in their turnovers. The indicators of employment in the sector also worsened with respect to the previous quarter. Thus in the first quarter of the year the number of Social-Security registered employees fell more sharply and the number of unemployed increased appreciably. By contrast, the European Commission's retail confidence indicators for retail trade and the activity index of the PMI for the services sector rose slightly in 2009 Q1. The confidence of the services sector, after having dropped to a record low in January, recovered slowly in the following two months.

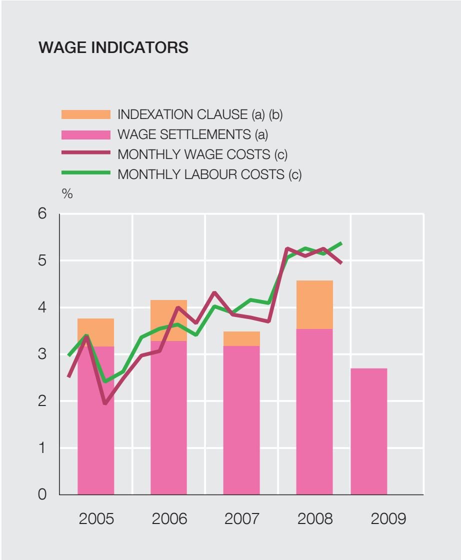
The labour market indicators available for the early months of 2009 all show that the pace of job destruction quickened. Specifically, the year-on-year fall in Social Security registrations in the first quarter was, on average, 5.9%, which was 2.5 pp less than in the previous quarter. Lastly, the Spanish Labour Force Survey for Q1 indicates a year-on-year fall in employment of –6.4%, down 3.4 pp on the previous period. The decrease in employment seems to have affected all sectors of the market economy, particularly construction (–25.9%) and industry (–12.5%).

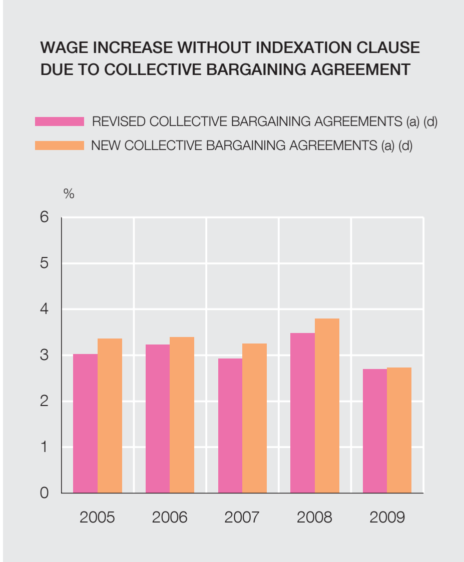
On Spanish Labour Force Survey data, the fall in employment affected both dependent employees, with a fall of 5.8%, and the self-employed (–9.4%). Job destruction was, for the first time, more pronounced among foreign workers (–9.3%), although employment in Spanish nationals also fell sharply (–5.9%). As regards contract duration, the year-on-year rate of decline in temporary wage-earners increased to –20.6% and this group remained at the forefront of the adjustment in employment, while permanent employment growth remained practically at zero (0.6%). As a result, the temporary employment ratio stood at 25.4%, nearly 5 pp less than a year earlier. Lastly, part-time hires decreased by 1.1%, which was less than the drop in full-time hires (–7.2%), and thus, as in the last few quarters, the part-time employment ratio rose, this time to 12.7%, against 12% a year earlier.

The growth rate of the labour force slowed to 2.3% in 2009 Q1 as a result of the deceleration of the population above 16 years of age, which increased by 1% (0.2 pp less than in the previous quarter) and of a year-on-year growth of the participation rate (0.8 pp) somewhat lower than in the last few quarters. In terms of the breakdown by gender, the increase in the labour force was due mainly to women (4.6%), since in the case of men the rise was more moderate (0.7%). Specifically, the female participation rate rose by 1.8 pp in year-on-year terms to 51.5%, while the male rate decreased slightly (–0.1 pp). By nationality, the growth rate of foreign nationals in the workforce slowed to 8.1%, mainly as a result of smaller immigrant inflows

WAGE INDICATORS AND LABOUR COSTS

CHART 19





SOURCES: INE and Ministerio de Trabajo e Inmigración.

a. The last year with information of collective bargaining agreements until March 2009.
b. Previous year's indexation clause.
c. ETCL (quartely labour costs survey). Year-on-year rates of change.
d. Revised: collective bargaining agreements with economic effects in the year but which were signed in previous years and are in force for more than one year. New: collective bargaining agreements with economic effects in the year, this being the first or only year they are in force.

(6.2%, against 8.4% in the previous quarter). Spanish nationals in the workforce grew by 1.3% (1.5% in Q1).

Finally, the sharp adjustment in employment, combined with the persisting dynamism of the labour force, resulted in marked growth in unemployment in the first quarter of the year of the order of 800,000 people compared with the previous quarter, bringing the total to more than 4 million unemployed. This raised the unemployment rate to 17.4%, up 3.5 pp on the previous quarter and nearly 8 pp higher than at the beginning of 2008.

4.3 Costs and prices

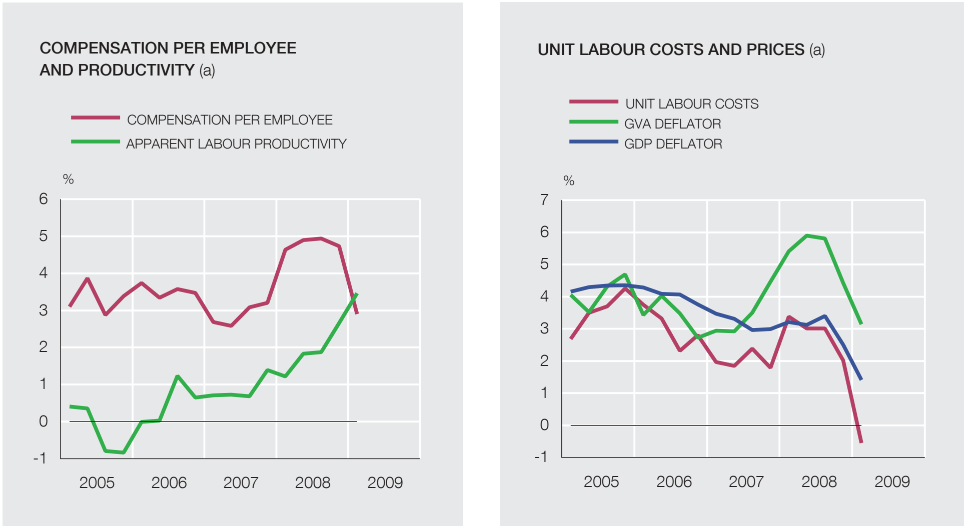
The information available on collective bargaining agreements registered to March 2009 suggests that the wage settlements this year have grown less than in 2008, with a wage increase of 2.7% for the 6.2 million workers covered by multi-year settlements signed in previous years. This figure is nearly 1 pp less than that agreed in 2008. Although the number of newly signed agreements is still small, so far they have not shown signs of sufficient adaptation to the cyclical situation. Moreover, it is estimated that the indexation clauses will not have effects on wage costs in 2009, given that inflation fell to 1.4% at the end-2008, which is below the threshold of 2% above which these clauses tend to apply.

Consequently, owing to the smaller wage settlements and to the absence of inflation deviation payments, 2009 Q1 will presumably see a decrease in the growth rate of compensation per employee. That said, it seems that wages will increase at a much higher rate than consumer prices. This would mean sharp real wage growth, despite the recession. However, the behaviour of nominal wages, combined with the estimated rise in productivity, will foreseeably lead to a deceleration in unit labour costs.

It is estimated that the rate of change of the GDP deflator also decreased in 2009 Q1, despite the deceleration of import prices, which were strongly affected by the drop in oil prices. The

PRICES AND LABOUR COSTS IN THE MARKET ECONOMY

CHART 20



SOURCES: INE and Banco de España.

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

deflators of the various components of national demand grew more slowly than in the previous quarter. This was particularly so for residential investment (its deflator, against a background of falling house prices, showed negative growth) and for private consumption.

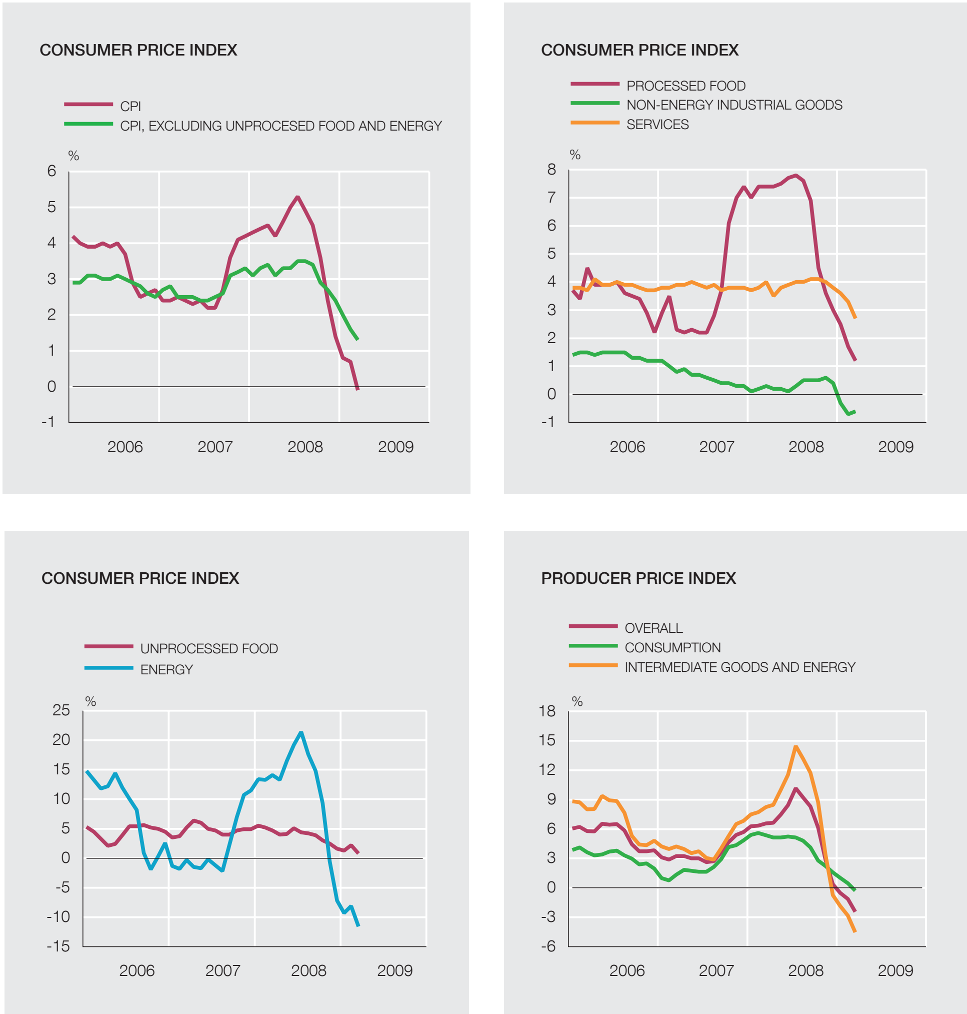
The growth rate of the main consumer price indicators continued to slow in the early months of 2009. Thus the year-on-year rate of change of the CPI was negative (–0.1%) in March for the first time since 1952, standing 1.5 pp below the figure for December 2008 (see Chart 21). The CPI excluding unprocessed food and energy – which historically has shown little sensitivity to changes in the economic cyclical, and particularly so in the case of services – increased in March by 1.3%, 1.1 pp less than the rise at end-2008. The deceleration extended to all components, and non-energy industrial goods even showed negative rates of change, despite price increases in domestically produced goods and in imported goods of this type. The rate of change of energy prices (11.6% in March) represented a negative contribution of 1.3 pp to the overall index. This fall can be explained by a base effect as a result of the large increases a year ago, a factor which prevailed over the fact that oil prices rose somewhat more than $6 from December 2008 to $46.8 per barrel in March on average, pushing the price of oil-related products upward. Unprocessed food prices also moderated.

Price adjustments in Spain are proving to be much sharper than in the euro area, so the inflation differential (as measured by the harmonised index of consumer prices – HICP) has been favourable to Spain for the fourth month running, standing at 7 pp in March, an unprecedented occurrence since the inception of the euro area. All the components showed rates of change below those of the euro area, except that of services, although this has decreased substantially since December, and, accordingly, the core inflation differential has been negative in the last two months.

The growth rate of the producer price index decreased to –2.4% in March. The moderation affected its various components, although it weighed most heavily on the prices of intermediate goods and energy products. In the euro area as a whole, the growth rate of producer prices slowed in the first two months of the year to a rate of –1.8%, which was a somewhat sharper deceleration than in Spain.

PRICE INDICATORS (a)
Spain

CHART 21



SOURCE: INE.

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

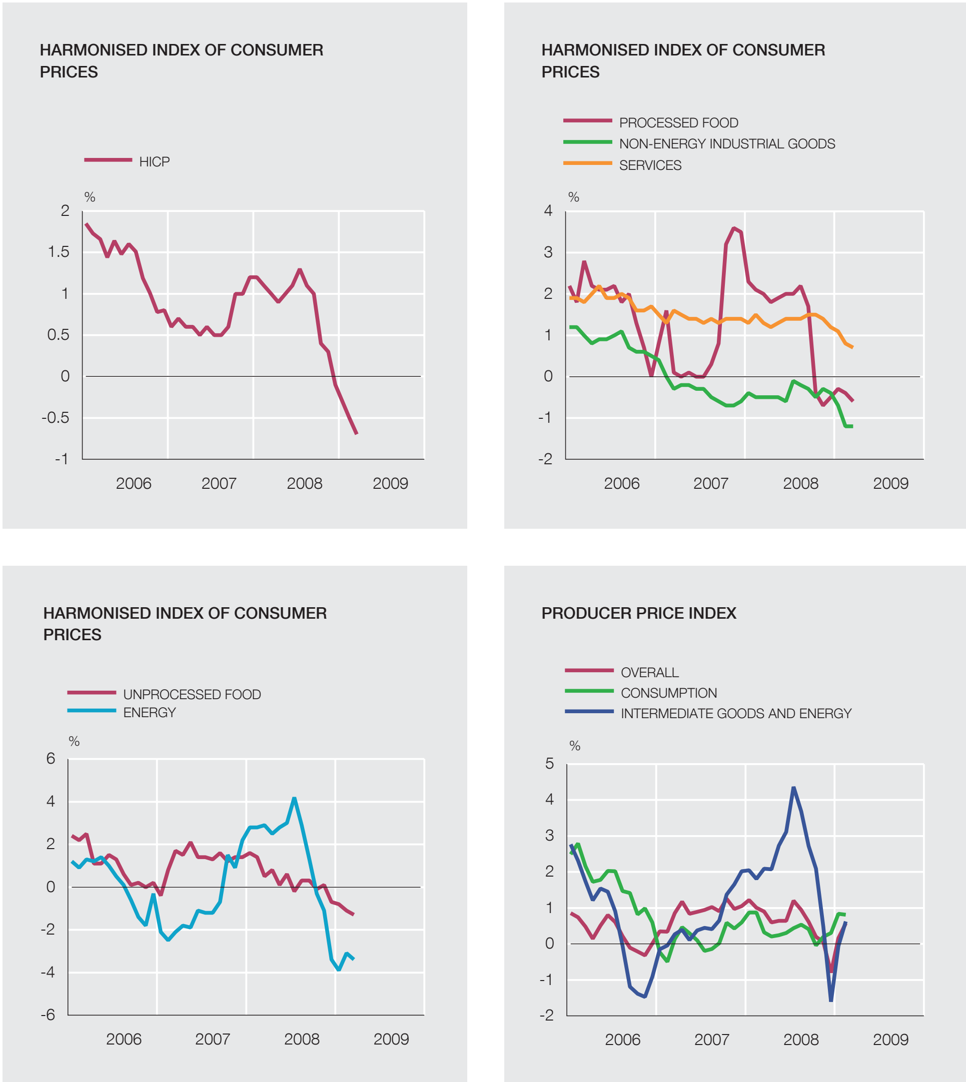
4.4 The State budget

According to the National Accounts methodology, the figures published on the State budget outturn show a substantial deterioration from a surplus of €9,466 million (0.9% of GDP) in February 2008 to a surplus of €5,325 million (0.5% of GDP) in the same period of 2009. This was basically due to a fall of 9.5% in resources, as against an increase of 5.3% in uses.

The cash-basis results to March show a deficit of €11,345 million in the State budget outturn, compared with a surplus of €1,272 million in the same period of 2008 (see Table 3). In these initial months, revenue decreased by 18.1%, while State expenditure increased by 15.5%. It should be kept in mind, however, that the figures for the early months of the year are very erratic and hardly representative of the behaviour of the balance in the ensuing months. Despite this, the data point to an additional deterioration in the budget with respect to the previous year, to which certain measures with budget effects will contribute still further. Among these, mention may be made of the inclusion in personal income tax withholdings of the housing deduction for certain taxpayers and the monthly VAT refunds, which will reduce net revenue, while the transfers of amounts owed to the State Fund for Local Investment will add to expenditure.

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

CHART 22



SOURCES: Eurostat and Banco de España.

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

For the description 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 regional and local governments. According to this information, revenue declined by 11.9% in Q1 compared with the same period a year earlier, due to the weakness of tax receipts. In direct taxes, however, this weakness is influenced by the differential impact on personal income tax of the up to €400 deduction in these initial months of 2009 (without any equivalent in the corresponding months of the previous year), which will only be offset, in part, in the second half of the year. However, the impact of the economic crisis was reflected in withholdings on earned income and, above all, in withholdings on investment fund gains, which decreased by 45.6%. Notable among the indirect taxes is the fall in VAT, down by –26.2% with respect to the first quarter of the previous year. In this case, the figures are affected not only by the fall in consumption and in real estate transactions, but also by the sharp increase in refunds and by the fall in imports from non-EU countries, which caused a decrease of 31.4% year-on-year in VAT on the latter. Excise duties decreased by 5.4%. The items aggregated under the "Other State revenue" heading showed relatively high growth due to the public debt issue premiums and the receipt

Beginning in the late 1990s, numerous industrialised economies saw property booms which led to high growth of house prices, expansion of the construction sector and increased household debt. In the present circumstances, where the international financial crisis has imposed a need for more drastic correction of the excesses accumulated in this sector, it is of interest to examine to what extent the different workings of the real estate markets and some of the features of those booms may lead to different adjustment paths. In Europe, the two main economies affected by this phenomenon, and which are a good example for illustrating it, are probably Spain and the United Kingdom. This Box presents a number of stylised features of the processes of correction taking place in the real estate sectors of the two countries.

In the expansionary phase, house prices followed a similar path in the United Kingdom and Spain, and these countries were among the European markets with the highest growth in that stage. In real terms, from 1997 to 2007 average house prices increased by 120% in Spain, against 140% in the United Kingdom, while average house prices in euro area markets rose by only 40% (see Chart 1). In 2008 and early 2009, the adjustment of the sector, together with the financial crisis, brought a sharp correction in the prices of residential assets. This correction is more severe in the United Kingdom than in Spain, although price comparisons should always be regarded with caution, given the methodological differences in price estimates. House prices in the British market have decreased in real terms in the past year, and the fall in real terms amounted to around 20% year-on-year in 2008 Q4. In Spain, according to Ministry of Housing statistics on appraisals, house prices in real terms fell by 5.7% year-on-year in 2008 Q4 and by 7.3% in 2009 Q1.

The behaviour of house prices reflects differing combinations of residential asset supply and demand in the two countries. Among the demand factors, demographic dynamism has been a salient feature of the Spanish economy, while population growth in the United Kingdom, although it has picked up in recent years, has been rather more modest. In addition, although in both countries short-term real interest rates followed a downward path in the expansionary phase and variable-rate loans predominated, this factor acted more strongly in Spain as a result of this country's entry into the euro area. The new regime of macroeconomic stability guaranteed by the euro area fuelled, moreover, expectations of improved income growth in Spain, which were probably not so strong in the United Kingdom. Other demand factors operated more similarly in the two countries. Thus both economies have seen significant changes in population structure which have raised demand for housing, basically due to the rising number of single-person households. Additionally, the increase in residential demand was made easier in both countries by the ready access to credit, partly linked in the United Kingdom to the extensive liberalisation of these markets and, in Spain, to the strong competition and to innovation in the mortgage segment. This ready access to credit led to rapid growth in household debt ratios in both economies, although in the United Kingdom this ratio reached a higher level (see Table 1).

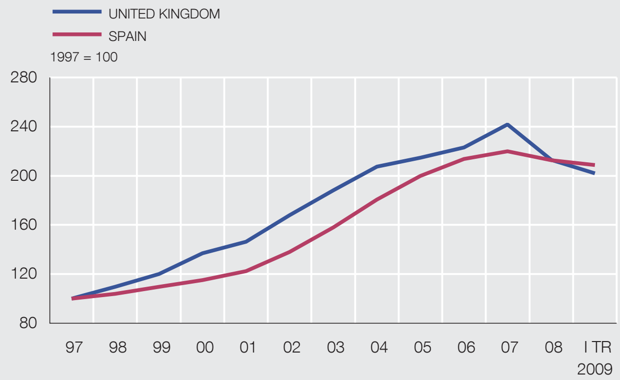
In real estate booms, the initial rigidity of supply makes it usual for the rising demand to put upward pressure on prices. However, the response to the supply of new houses depends on the characteristics of each country's housing market. Hence, in the latest expansionary cycle, the behaviour of residential investment is clearly different in Spain and the United Kingdom. Specifically, in 2007, i.e. at the peak of the cycle, the ratio of residential investment to GDP in Spain was 7.5%, much higher than in the United Kingdom (see Chart 2). In fact, the main distinguishing feature of the latest housing cycle in Spain is that the price rise was accompanied by a strong increase in supply, leading to an unprecedented level of activity in the sector. By contrast, the step-up in real estate activity in the British market was rather more limited. The reason for this lesser response can be attributed, in part, to UK urban planning and, more specifically, to constraints on the supply of land. These differences in the response of supply are reflected in the National Accounts figures. Thus, whereas in Spain the housing sector contributed around 0.5 pp to GDP growth on average in the period 1998-2007, its contribution in the United Kingdom was significantly smaller (0.1 pp) (see Chart 3).

The process of adjustment in Spain and the United Kingdom is shaped by these characteristics of the expansionary phase. In this respect, the correction of the housing sector in terms of quantities is proving to be much more significant in Spain than in the United Kingdom. According to National Accounts figures for 2008 and the projections for the coming years, the expected fall in residential investment in Spain will reduce the ratio of housing investment to GDP until 2010, in real terms, by more than 3 pp below the high reached in 2006-2007. Given that the ratio of housing investment to GDP was only 3.4% in the United Kingdom in 2007, the sector's lower activity will mean a smaller effect on GDP and employment growth in this country.

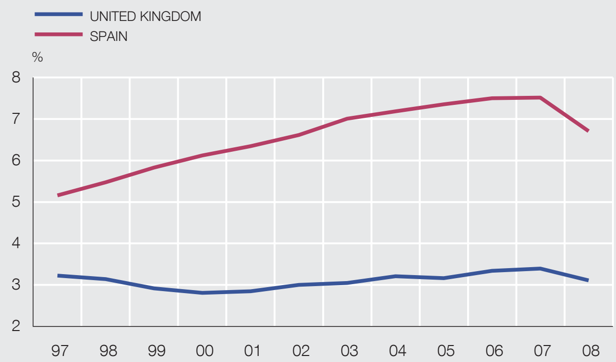
Having said this, the consequences of the real estate adjustment are not limited to the direct effects of the resizing of the sector, but also act through other channels. Particularly notable among the indirect effects are those relating to real estate wealth, since this is a factor which substantially affects household spending and saving decisions. Both economies have a high percentage of owner-occupancy in the total stock of houses, so wealth effects could be more significant than in other countries where the rental market is more developed. The initial evidence is that the price adjustment is proving to be sharper in the United Kingdom than in Spain, so that loss of wealth may have affected household spending more in the United Kingdom. Moreover, it is common in the United Kingdom to use the unrealised capital gains associated with house price rises in order to obtain consumer loans with mortgage security (see Chart 4). Private consumption during the boom was underpinned by this mechanism (also called “mortgage equity withdrawal”), while in the current circumstances it has been more adversely affected as a consequence of the lower equity release. The use of these instruments has put some households in a comparatively more vulnerable situation from the financial standpoint, which may constrain their spending decisions. This means of borrowing has scarcely been used in Spain, so this channel is not producing an additional contraction in household spending in the Spanish economy.

In regard to the adjustment of real estate activity, the strong increase in supply in the latter years of the boom and the sudden contraction of demand are leading to the emergence of a substantial stock of unsold houses which will have to be absorbed before new real estate investment projects can be undertaken. However, the decrease in prices and in mortgage interest rates will help to make houses more affordable in the coming years, thereby facilitating this absorption. Also, although the population is not showing the dynamism of the past decade, there still persist some demand factors (both demographic and those relating to Spain's status as a tourist destination) which shore up housing investment to some extent. In the United Kingdom, the over-supply was unquestionably smaller and there was less need for absorption of excess stock. By contrast, the adjustment depends largely on prices, which may give rise to a sharper increase in households' saving rate and to less buoyant investment by them, thereby hampering the recovery of activity.

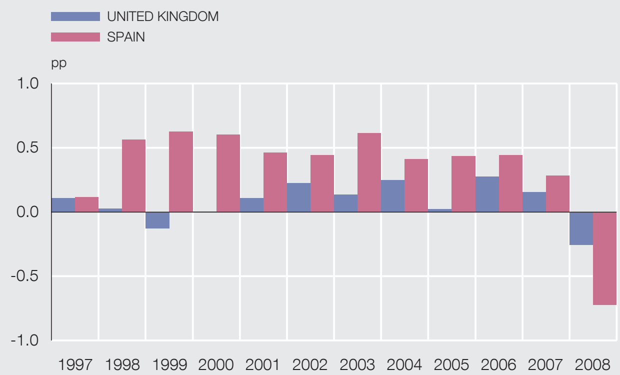
1 REAL HOUSE PRICES



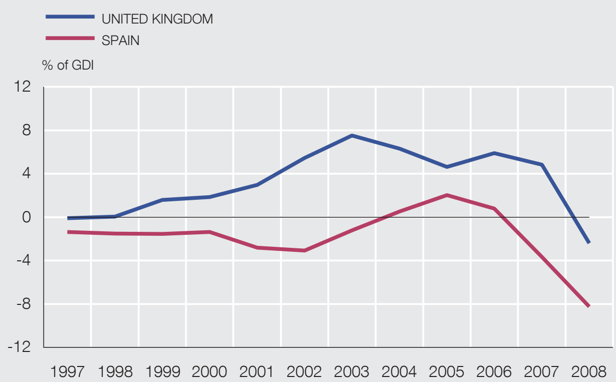
2 RATIO OF REAL HOUSING INVESTMENT TO GDP



3 CONTRIBUTION OF RESIDENTIAL INVESTMENT TO GDP GROWTH



4 MORTGAGE EQUITY WITHDRAWAL (a)



SOURCES: INE, Ministerio de Vivienda, Bank of England, Eurostat and Banco de España.

a. Calculated as the difference between lending for house purchase and nominal housing investment by households.

1 STYLISED FACTS

	United Kingdom	Spain
Weight of housing investment in GDP (%)	3.4	7.5
Cumulative change since 1998 (percentage points)	*0.3*	*2.0*
Number of housing starts (2005-2007 average) (thousands)	225	697
Increase in population (2005-2007 average) (thousands)	316	727
Percentage of owner-occupied houses (2000) (%)	71.0	85.0
Contribution of residential investment to GDP (1998-2007 average) (percentage points)	0.1	0.5
Contribution of construction to employment (1998-2007 average) (percentage points)	0.2	0.8
Household debt ratio (2007) (% of GDI)	160.2	130.9

SOURCES: INE, Ministerio de Vivienda, Bank of England, Eurostat and Banco de España.

STATE BUDGET OUTTURN

TABLE 4

EUR m and %

	Outturn 2008	Percentage change 2008/2007	Outturn projection 2009	Percentage change 2009/2008	Outturn 2008 JAN-MAR	Outturn 2009 JAN-MAR	Outturn Percentage change
	1	2	3	4 = 3/1	5	6	7 = 6/5
1 REVENUE	129,335	-19.1	141,110	9.1	38,181	31,269	-18.1
Direct taxes	74,096	-23.6	77,041	4.0	17,516	13,594	-22.4
Personal income tax	*43,413*	*-10.7*	*43,167*	*-0.6*	*15,112*	*11,678*	*-22.7*
Corporate income tax	*27,301*	*-39.1*	*30,085*	*10.2*	*1,511*	*1,023*	*-32.3*
Other (a)	*3,382*	*-4.2*	*3,789*	*12.1*	*893*	*894*	*0.1*
Indirect taxes	39,229	-19.0	50,202	28.0	17,371	12,567	-27.7
VAT	*24,923*	*-26.2*	*35,531*	*42.6*	*13,926*	*9,559*	*-31.4*
Excise duties	*11,220*	*-2.2*	*11,253*	*0.3*	*2,623*	*2,304*	*-12.2*
Other (b)	3,086	-4.3	3,418	10.8	822	703	-14.4
Other net revenue (c)	16,011	11.1	13,867	-13.4	3,294	5,108	55.1
2 EXPENDITURE	148,082	6.0	157,904	6.6	36,909	42,614	15.5
Wages and salaries	25,257	6.7	26,848	6.3	5,354	5,635	5.2
Goods and services	4,551	2.2	3,502	-23.1	953	905	-5.1
Interest payments	15,929	9.6	17,424	9.4	6,532	6,151	-5.8
Current transfers	82,765	6.5	85,754	3.6	19,558	22,143	13.2
Contingency fund and other unforseen expenditure	—	—	3,251	—	—	—	—
Investment	10,654	5.4	10,408	-2.3	2,578	2,787	8.1
Capital transfers	8,927	-3.5	10,717	20.1	1,933	4,994	158.3
3 CASH-BASIS BALANCE (3 = 1 – 2)	-18,747	—	-16,794	—	1,272	-11,345	—
MEMORANDUM ITEM: TOTAL TAXES (State plus share of regional and local governments)							
Personal income tax	71,341	-1.8	77,444	8.6	21,033	19,002	-9.7
VAT	48,015	-14.0	53,323	11.1	19,335	14,274	-26.2
Excise duties	19,570	-1.1	20,461	4.6	4,805	4,546	-5.4

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.
c. Includes charges and other revenues, current transfers, profits and dividends, capital transfers and other unclassified transactions.

of guarantee fees by the Fund for the Acquisition of Financial Assets (Royal Decree-Law 7/2008), which offset the falls in funds received from the European Union, especially the ERDF.

State cash-basis expenditure increased by 15.5%, notably above the budget forecast for the year as a whole (6.6%). Specifically, with the exceptions of personnel costs and interest payments, the other items showed higher growth rates than envisaged in the budget. Particularly notable was the strong growth in current transfers, mainly to other general government, which should decelerate in the coming months to rates in line with the budget. Also worthy of mention is the large increase in capital transfers owing to those made to local government in connection with the State Fund for Local Investment.

As regards the Social Security system, information is available on the number of social security registrations for the early months of the year, which kept falling in Q1, with a drop of 6.5% at end-March, and on the number of contributory pensions, which increased by 1.6% in that same period, in line with the increases seen in the closing months of the previous year, al-

BALANCE OF PAYMENTS: MAIN COMPONENTS (a) TABLE 5

EUR m

		JANUARY		RATE OF CHANGE 09/08 (b)
		2008	2009	
CREDITS	Current account	29,258	23,527	-19.6
	Goods	*15,374*	*11,444*	*-25.6*
	Services	*7,309*	*6,241*	*-14.6*
	— Tourism	2,756	2,389	-13.3
	— Other services	4,553	3,852	-15.4
	Income	*4,964*	*4,249*	*-14.4*
	Current transfers	*1,611*	*1,593*	*-1.1*
	Capital account	1,372	451	-67.1
	Current + capital accounts	30,630	23,978	-21.7
DEBITS	Current account	41,289	30,112	-27.1
	Goods	*23,991*	*15,560*	*-35.1*
	Services	*5,914*	*4,942*	*-16.4*
	— Tourism	1,112	939	-15.6
	— Other services	4,801	4,003	-16.6
	Income	*8,487*	*7,508*	*-11.5*
	Current transfers	*2,897*	*2,102*	*-27.5*
	Capital account	134	398	197.5
	Current + capital accounts	41,423	30,510	-26.3
BALANCES	Current account	-12,031	-6,584	5,447
	Goods	*-8,616*	*-4,116*	*4,500*
	Services	*1,395*	*1,299*	*-96*
	— Tourism	1,644	1,451	-193
	— Other services	-248	-152	97
	Income	*-3,524*	*-3,259*	*265*
	Current transfers	*-1,286*	*-508*	*778*
	Capital account	1,238	53	-1,186
	Current + capital accounts	-10,793	-6,532	4,261

SOURCE: Banco de España.

a. Provisional data.
b. Absolute changes for balances.

though somewhat above the average growth for 2008. According to National Public Employment Service figures, the growth of expenditure on unemployment benefits continued to accelerate in Q1, showing an increase of 65.4%. This acceleration reflects the growing rate of increase in the number of beneficiaries of these benefits, up 66.9% to February.

4.5 Balance of payments

Overall balance on current and capital account was a deficit of €6,532 million in January 2009, down 39% on the same month a year earlier. The current account deficit narrowed by 45% to €6,584 million. The main current account balances showing a deficit were partially corrected in January, including most notably the sharp decrease in the trade balance and, to a lesser extent, the decrease in current transfers and income. By contrast, the surplus on the services balance fell off moderately.

The deficit on the trade balance decreased by €4,500 million in January with respect to the same month a year earlier to stand a €4,160 million. This was a fall of 52%, a significantly higher rate of decrease than in 2008 Q4. Exports and, to a greater extent, imports fell more rapidly, against a backdrop of improvement in the real terms of trade. The improvement in the trade deficit reflected both the smaller energy bill and the less negative balance of other goods.

The deficit of €1,299 million on the services balance was 6.9% less than in January 2008. This was a result of the 12% decrease in the surplus on the tourism balance to €1,451 million, which offset the improvement in the deficit on other services. Nominal tourism receipts decreased by 13.3% in January 2009, making for a steeper fall than that of the closing months of 2008, while tourism expenditure was down by 15.6%. The decrease in expenditure on other services outstripped that in receipts (–17% and –15%, respectively).

The deficit on the income balance improved to €3,259 million, while the deficit of €508 million on the current transfers balance was less than that recorded in the same month a year earlier, with a fall in migrant remittance payments. Lastly, the surplus on capital account decreased to €53 million in January 2009 due to the lower receipts by general government, basically of ERDF structural funds.

5.1 Overview

The financial crisis and the progressive weakening of the economy and deterioration in growth prospects continued to affect the financial markets, in Spain and abroad, in 2009 Q1. Thus share prices continued to fall in January and February, especially in the case of financial sector stocks which lost slightly more than 20% of their value, while volatility also rose (see Chart 23). However, the situation improved in March and the first weeks of April, so that by 24 April the IBEX 35 was down 3.3% from its end-2008 level, a marginally smaller fall than those recorded by the Euro Stoxx 50 index of European companies (5.4%) and the S&P 500 for US companies (4.1%).

The downward revision of key ECB interest rate expectations, together with the decline in interbank risk premia, led to a further decrease in 1-year EURIBOR, to 1.76% as at 24 April, continuing its downward trend that began in mid-October. Nonetheless, despite this decrease, the spread over the cost of secured financing transactions (repos) at 1-year remained wide (86 bp).

The cut seen and expected in official interest rates prompted a decline in government debt yields at the shortest maturities. Thus, as at 24 April, Treasury bill yields were 78 bp below end-2008 levels. By contrast, 10-year bond yields rose by almost 20 bp, to around 4%. As German bund yields rose by slightly more, the spread between the two narrowed somewhat (by 11 bp) in the period overall, to 80 bp, although in February it reached more than 120 bp. Average credit risk premia at Spanish non-financial corporations listed on derivatives markets fell substantially (by almost 150 bp), after hitting all-time highs at the end of 2008.

In the property market, the latest data published by the Ministry of Housing, corresponding to 2009 Q1, show that the price of unsubsidised housing fell by 3% in the period, leading to a reduction in the year-on-year growth rate from –3.2% in 2008 to –6.8% in March 2009.

The latest figures on the cost of bank lending to households and firms, for February, record a significant decline in comparison with end-2008 levels, in line with the substantial drop in market yields since November. Nevertheless, the decline in interbank rates in recent months was not fully passed through to bank lending rates, meaning that the spreads between the two widened, especially in the higher risk segments. Traditionally, there is some delay before changes in market yields are passed through to bank lending rates, but in this case at least part of the recent spread widening may possibly not be temporary, given the higher risk perceived by the financial institutions in lending transactions and the higher premia they need to pay to finance themselves. The cost of both short- and long-term corporate fixed-income issuance and the cost of equity also fell in 2009 Q1. The April Bank Lending Survey (BLS) shows that credit institutions tightened their lending standards again in the opening months of 2009, although significantly less so than in previous quarters.[1] The latest data available, in this case for January, on other lending conditions (term, security required) also reflect less favourable conditions for borrowers. Accordingly, it seems that firms and households would have found it increasingly difficult to raise funds, even though any financing obtained would have been at a lower interest rate.

In this context, private-sector debt continued to move on a slowing path in 2009 Q1. The year-on-year rate of growth of household financing stood at 3% in February, down slightly more

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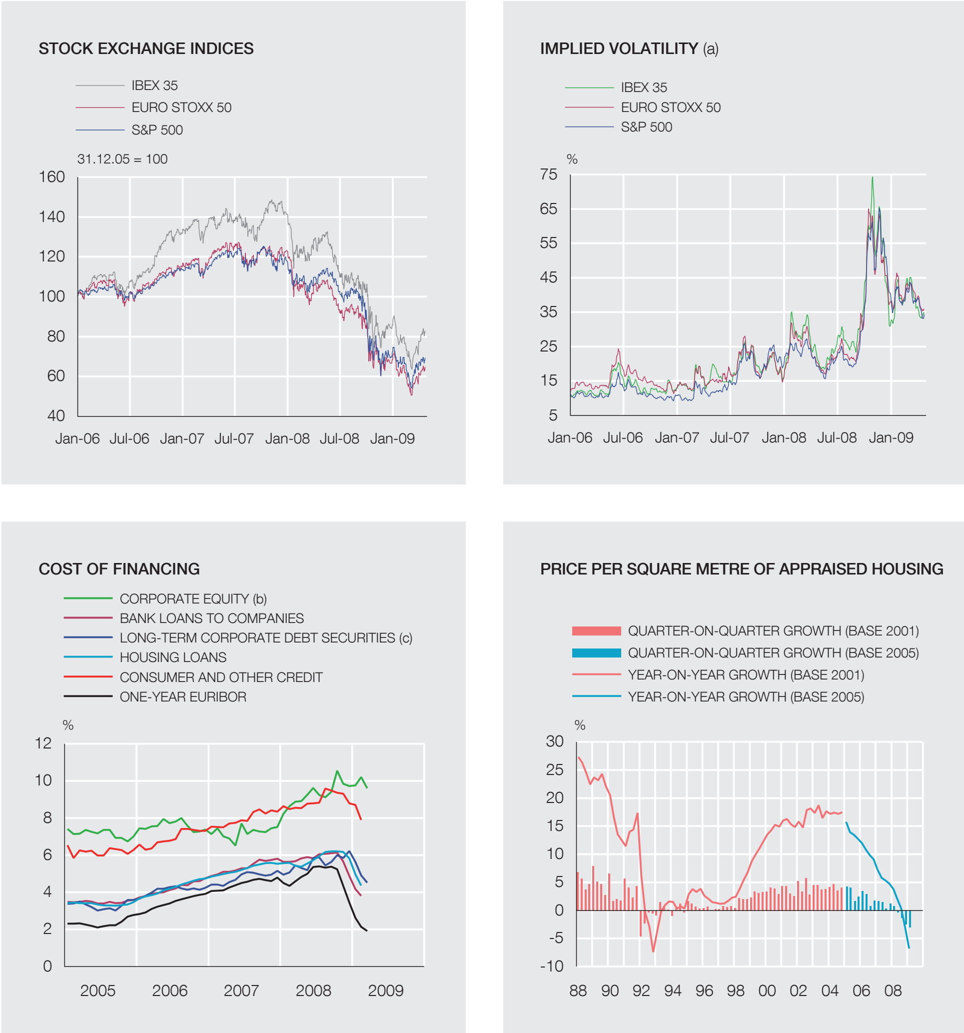
1. See the article entitled ”Encuesta sobre Préstamos Bancarios en España: abril de 2009”, by Jorge Martínez Pagés, published in the Boletín Económico, Banco de España, April 2009, for more details.

FINANCING CONDITIONS AND ASSET PRICES

CHART 23



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

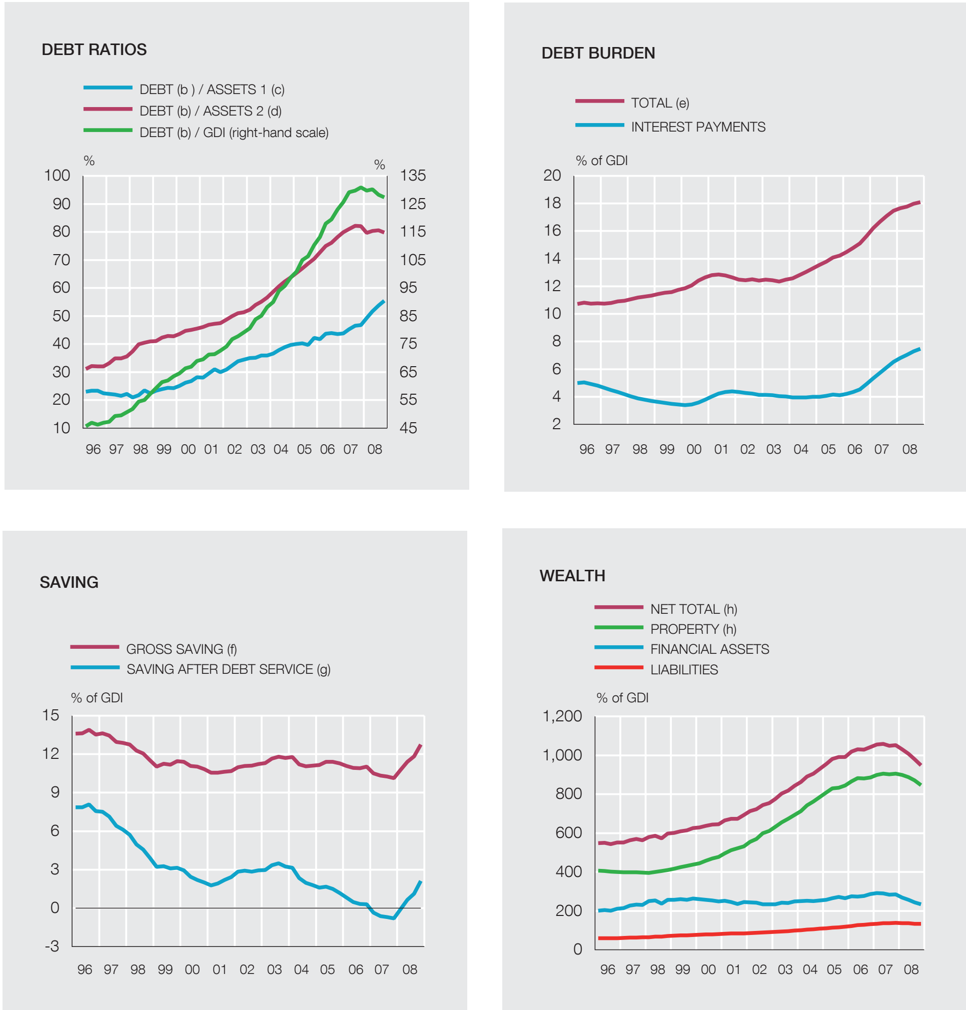
a. Five-day moving averages.
b. The cost of equity is based on a three-stage Gordon dividend discount model.
c. The cost of market-based long-term debt is calculated as the sum of the weighted average 5-year CDS premium for Spanish non-financial corporations and the 5-year euro swap rate.

than 1 pp from December, as a result of the lower momentum in housing loans and consumer and other credit, while the decrease in the rate of growth of loans to corporations was slightly less (0.6 pp), taking it just under 7%. The latest information on lending by purpose, relating to December 2008, shows a general deceleration across all the productive branches, albeit most pronounced in construction and real estate services; in fact in construction the rate of growth turned negative (–1%), while in non-real estate services and industry it moderated somewhat but remains high.

The deceleration in household borrowing helped bring down the sector's ratio of debt to gross disposable income (GDI) again in 2008 Q4 (see Chart 24). Despite this decrease, interest payments rose slightly in annual terms, as the average cost of on-balance-sheet liabilities was still higher than during the same period of 2007. Household net wealth relative to income decreased, due to the decline in value of both its components (property and financial assets). Household saving rates, after debt servicing, continued along the path of recovery. In line with these developments, for the first time in recent years, net financial transactions posted a

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

CHART 24



SOURCE: Banco de España.

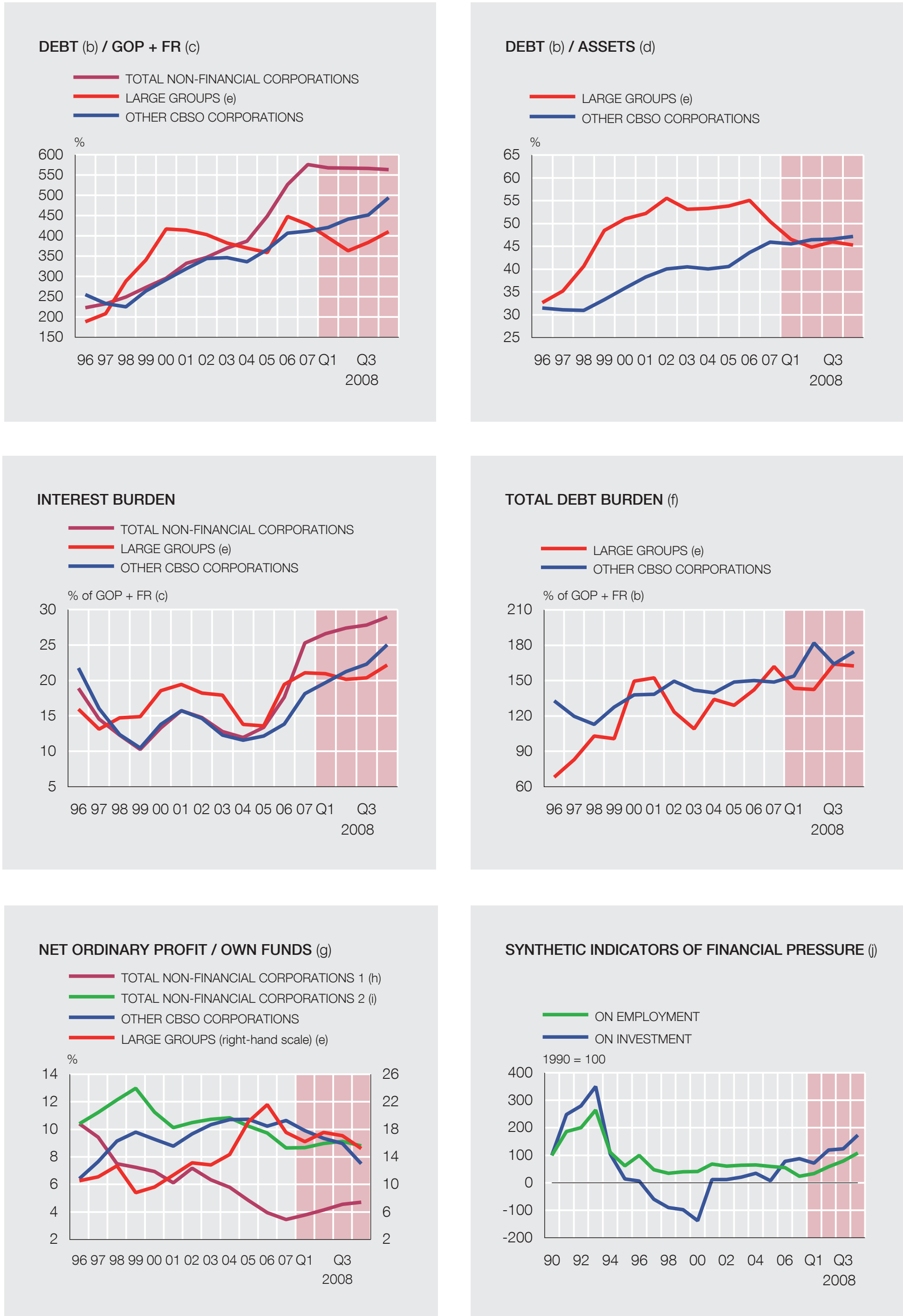
a. From 2000, the sectoral National Accounts data corrrespond to the CNE base 2000. For prior periods, an estimate consistent with this base is used.
b. Includes bank credit and off-balance-sheet securitised loans.
c. Assets 1 = Total financial assets less "Other".
d. Assets 2 = Assets 1 less shares less holdings in mutual funds.
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.

credit balance (albeit close to zero) at the end of 2008. The latest advance data indicate that these trends continued in the opening months of 2009.

In the case of corporations, the debt ratio fell slightly in 2008 Q4, while the debt burden ratio rose again (see Chart 25). The most recent data suggest that both ratios will have fallen in the opening months of 2009. The Financial Accounts reflect a decline in firms' borrowing requirements in the last part of 2008, down to around 7% of GDP in cumulative annual terms in December, 2.5 pp below the September figure. Moreover, despite the downturn, on the National Accounts estimate, gross operating surplus (GOS) in the sector rose by almost 10% in 2008, implying no drop in return on equity. Nevertheless, other data sources based on company accounts signal a less dynamic profit performance. Thus, for firms reporting to the quarterly survey of the Central Balance Sheet Data Office (CBQ), in which large firms predominate,

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

CHART 25



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 National Accounts (CNE and FASE). From 2000, the sector's income corresponds to the CNE base 2000. For prior periods, an estimate consistent with this base is used.
b. Interest-bearing borrowed funds.
c. Gross operating profit plus financial revenue.
d. Defined as total inflation-adjusted assets less non-interest-bearing liabilities.
e. Aggregate of all corporations reporting to the CBSO that belong to the Endesa, Iberdrola, Repsol and Telefonica groups. Adjusted for intra-group financing to avoid double-counting.
f. Includes interest plus interest-bearing short-term debt.
g. For total non-financial corporations, NOP = GOS plus interest and dividends received less interest paid less fixed capital consumption.
h. Equity at market price.
i. Equity calculated by accumulating flows as from 1996 balance.
j. Indicators estimated drawing on the CBA and CBQ surveys. A figure above (below) 100 denotes more (less) financial pressure than in the base year.

NET FINANCIAL TRANSACTIONS
Four-quarter data

TABLE 6

% of GDP	2003	2004	2005	2006	2007	2008			
					Q4	Q1	Q2	Q3	Q4
National economy	-2.9	-4.8	-6.5	-8.4	-9.7	-10.0	-10.0	-9.6	-9.1
Non-financial corporations, households and NPISHs	-3.8	-5.1	-8.4	-11.0	-13.8	-13.7	-12.3	-9.9	-6.9
Non-financial corporations	*-3.9*	*-4.5*	*-7.1*	*-9.4*	*-12.2*	*-12.6*	*-11.4*	*-9.4*	*-6.9*
Households and NPISHs	*0.1*	*-0.6*	*-1.3*	*-1.7*	*-1.6*	*-1.1*	*-0.9*	*-0.5*	*0.0*
Financial institutions	1.0	0.6	0.9	0.6	1.9	2.0	1.7	1.9	1.7
General government	-0.2	-0.4	1.0	2.0	2.2	1.7	0.5	-1.6	-3.8
MEMORANDUM ITEM:									
Financing gap of non-financial corporations (a)	-8.2	-8.7	-11.4	-17.1	-18.2	-18.9	-16.3	-14.4	-10.3

SOURCE: Banco de España.

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

gross operating profit fell by almost 6% in 2008 in comparison with a year earlier, signifying a decline in rates of return at these companies. These adverse developments in earnings were also reflected in an increase in debt and debt burden ratios. As a result of all the above, the synthetic indicators of financial pressure on investment and employment rose.

The growing level of financial pressure experienced by certain private-sector segments continued to be reflected in the increase in doubtful loans ratios for households and non-financial corporations. Thus, non-financial corporations posted a doubtful loans ratio of 3.7% at end-2008, up 0.9 pp on the previous quarter, with a particularly noticeable rise in the case of housing-related sectors, while households posted a doubtful loans ratio of 3%, up 0.6 pp.

The most recent Financial Accounts data show a slight reduction in the nation's net borrowing in 2008 Q4 (9.1% of GDP in cumulative 12-month terms, in comparison with 9.6% in September), as a result of the lower deficits recorded by households and non-financial corporations which offset the smaller surplus at financial institutions and the increase in general government borrowing (see Table 6). Funds raised abroad by sectors other than the Banco de España were insufficient to cover the nation's overspending relative to revenue, with the result that, once again, the Banco de España's net external assets were negative, in cumulative annual terms, although less so than in the previous quarter.

In short, the latest data continue to point to a decline in both the demand for and supply of credit, although the pace of tightening would appear to have started to slacken. At the same time, the financial position of some private-sector segments has continued to deteriorate. The cuts seen in recent months in the cost of borrowing will tend to be reflected in lower interest payments, thus helping alleviate the financial pressure on firms and households with debt, but the weak economic growth expected will have the opposite effect.

5.2 Households

The information available for 2009 Q1, to February, shows a significant reduction in the cost of borrowing for households. Thus interest rates on consumer and other credit fell by almost 90 bp, to 7.9%, while interest rates on housing loans fell by some 150 bp, to 4.4%. The continued decline in 1-year EURIBOR in March and in April to date, together with the habitual delay in these moves being passed through to interest rates, would indicate further reductions in the cost of credit for households during this period.

Nonetheless, the decline in interbank rates has not been fully passed through to new loans to households, meaning that spreads have widened, most notably, according to the latest Bank Lending Surveys, in higher risk transactions. In this respect, the latest figures show that, in recent months, the spreads between bank lending rates and the reference interbank rate widened further in consumer loans, which present higher default rates, than in housing loans. Thus, since the end of 2008, the housing loan spread, which had been stable in previous quarters, widened by 0.7 pp, while the consumer loan spread, which had already widened in the second half of 2008 (by 1.7 pp), rose by 0.4 pp. Similarly, according to the April BLS, credit standards tightened in 2009 Q1, although significantly less so than in the second half of 2008. The banks surveyed also pointed to a further decrease in demand, albeit more moderate than in the previous period, and envisaged that the supply of credit would tighten again somewhat in 2009 Q2.

Tightening credit standards and lower demand for loans have meant that the rate of growth of household debt has continued to moderate. Thus the year-on-year growth rate declined again to 3% in February, almost 1.5 pp less than at end-2008, reflecting the lower growth both in housing loans (which rose by around 3% year-on-year) and in consumer and other lending (which rose by 2% in the last 12 months). The seasonally-adjusted quarter-on-quarter growth rates reflect a lower momentum in annualised terms and, in the case of consumer loans, point to a negative rate of growth (below –2% in February) since the end of 2008.

The latest Financial Accounts data, for 2008 Q4, show that households' acquisition of financial assets fell again in this period, to 2.7% of GDP in cumulative 12-month terms, 1 pp below the September figure (see Table 7). This decrease was due to the lower contributions to term deposits (which nevertheless remained high at 6% of GDP), to shares and other equity and to mutual funds (which again recorded net redemptions). At the same time, holdings of cash and cash equivalents rose, although the cumulative annual flow remained negative (–0.5% of GDP, in comparison with –1.5% in September).

As a result of the moderate increase in household debt, the sector's debt ratio declined somewhat in 2008 Q4, to around 125% of GDI. However, interest payments rose slightly, in cumulative annual terms, as the average cost of on-balance-sheet liabilities remained higher than a year earlier, meaning that the debt burden remained at around 18% of GDI. Despite the climb in interest payments, gross saving rose significantly, as did saving not allocated to debt servicing, to stand at approximately 2% of GDI. Lastly, household net wealth relative to income continued to decline, due to the drop in value of both its components (property and financial assets). The latest advance data indicate that these trends will continue in the opening months of 2009.

The rise in the household debt burden and the unemployment rate led to an increase in the proportion of households with debt repayment difficulties; this increase was especially significant in the case of consumer and other loans, whose default rate rose to 5.2% in December, up 0.9 pp on the September figure, while in the case of housing loans the default rate rose by 0.5 pp to 2.4%.

5.3 Non-financial corporations

The latest data on interest rates on new bank loans, corresponding to February, show a decline in comparison with December, more notable in loans over €1 million (152 bp) than in smaller loans (116 bp). The cost of issuance of short- and long-term securities also declined

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

TABLE 7

% of GDP

	2005	2006	2007	2008 Q2	2008 Q3	2008 Q4
HOUSEHOLDS AND NPISHs:						
Financial transactions (assets)	10.4	10.9	7.5	5.4	3.8	2.7
Cash and cash equivalents	4.0	3.1	-1.0	-1.6	-1.5	-0.5
Other deposits and fixed-income securities (a)	1.6	5.8	7.8	8.3	7.9	7.0
Shares and other equity (b)	0.2	-1.0	0.7	0.9	0.4	0.0
Mutual funds	1.9	0.2	-1.2	-2.8	-3.5	-3.7
Insurance technical reserves	2.0	1.8	0.9	0.7	0.7	0.5
Of which:						
Life assurance	*0.7*	*0.6*	*0.2*	*0.1*	*0.1*	*-0.1*
Retirement	*1.0*	*0.9*	*0.6*	*0.4*	*0.4*	*0.5*
Other	0.6	1.1	0.3	-0.1	-0.3	-0.5
Financial transactions (liabilities)	11.7	12.6	9.2	6.2	4.3	2.7
Credit from resident financial institutions (c)	12.3	13.0	9.4	6.6	5.1	3.4
House purchase credit (c)	*10.2*	*9.9*	*7.0*	*4.6*	*3.7*	*2.7*
Consumer and other credit (c)	*2.2*	*3.1*	*2.2*	*1.8*	*1.4*	*0.8*
Other	-0.6	-0.4	-0.2	-0.4	-0.8	-0.6
NON-FINANCIAL CORPORATIONS:						
Financial transactions (assets)	18.1	22.6	12.8	6.6	5.4	3.6
Cash and cash equivalents	2.0	2.3	-0.4	-1.1	-0.6	-1.1
Other deposits and fixed-income securities (a)	1.2	1.6	2.4	2.7	2.1	2.2
Shares and other equity	7.3	10.9	6.7	2.3	2.1	2.3
Of which:						
Vis-à-vis the rest of the world	*3.9*	*7.7*	*5.5*	*3.5*	*4.0*	*2.9*
Other	7.6	7.8	4.1	2.8	1.8	0.1
Financial transactions (liabilities)	25.2	32.0	25.0	18.1	14.8	10.5
Credit from resident financial institutions (c)	12.9	17.6	13.9	9.3	7.1	5.5
Foreign loans	2.1	3.3	2.8	2.4	2.9	2.2
Fixed-income securities (d)	0.3	1.8	0.5	0.5	0.1	0.3
Shares and other equity	3.7	2.5	5.0	4.4	3.6	2.3
Other	6.2	6.7	2.8	1.5	1.1	0.2
MEMORANDUM ITEM: YEAR-ON-YEAR GROWTH RATES (%):						
Financing (e)	21.2	24.2	15.5	10.3	8.3	6.1
Households and NPISHs	20.9	19.6	12.5	8.4	6.5	4.4
Non-financial corporations	21.4	27.9	17.7	11.7	9.6	7.3

SOURCE: Banco de España.

a. Not including unpaid accrued interest, which is included under "other".
b. Excluding mutual funds.
c. Including off-balance-sheet securitised loans.
d. Including 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 2009 Q1 (by 183 bp and 172 bp, respectively), as did the cost of share issuance (by 13 bp).

In recent months, as in the case of households, bank rates on new loans to corporations declined by less than the reference interbank rate, as the credit institutions applied wider spreads. Since September 2008, these spreads have widened by 1.4 pp in smaller loans, but by only 0.5 pp in larger loans, possibly signalling greater contraction in lending to SMEs in comparison with large corporations, in line with the higher risk profile of these transactions. These increases are consistent with the BLS figures which indicate that in recent months the credit institutions have tightened their credit supply via higher spreads.

Moreover, according to the April BLS, credit standards tightened again for corporations in 2009 Q1, although significantly less so than in previous quarters. This tightening, which the credit institutions expect to continue throughout Q2, is estimated to have affected all companies alike, irrespective of size, but to have been felt most in longer-term loans. The intermediaries surveyed indicated that in this period the demand for loans from corporations also fell, chiefly as a result of the decline in fixed capital investment.

According to the business confidence index compiled by the Chambers of Commerce, the percentage of firms stating that they had difficulties obtaining credit as a factor limiting their activity rose in the second half of 2008 to over 20%; firms with between 10 and 250 employees and construction sector firms indicate the most difficulties in this respect.

In light of this tightening of credit supply and lower demand, corporate borrowing continued to lose momentum, growing by less than 7% year-on-year in February, a drop of slightly more than 0.5 pp from December. The seasonally-adjusted quarter-on-quarter and annualised rates were lower and have remained stable in recent months. The breakdown by instrument shows that this was chiefly due to a moderation in credit from resident institutions, which is the component with the most weight. By contrast, fixed-income securities, which represent a much lower percentage of total borrowing, accelerated.

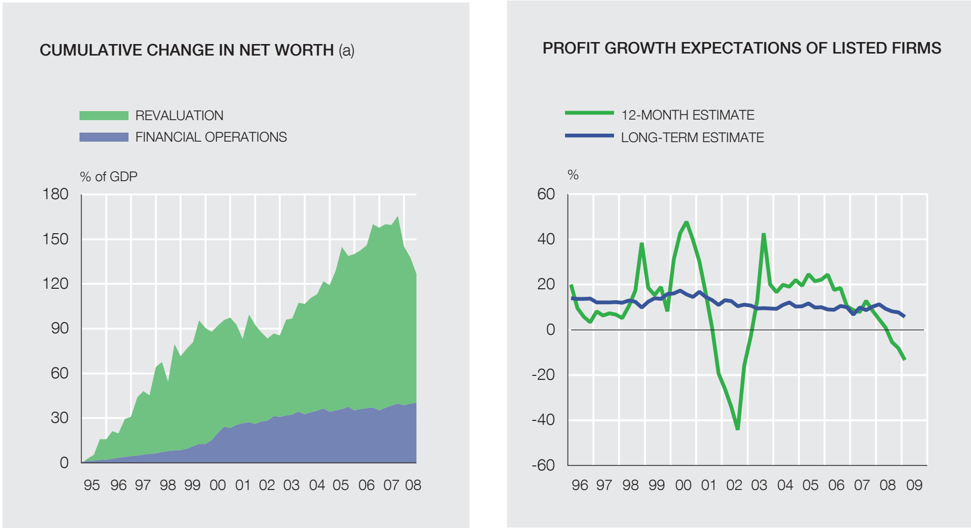
The latest information on the credit breakdown by productive activity, corresponding to the end of 2008, shows deceleration across all branches of activity, but most particularly in construction and real estate services. In fact in construction the rate of growth turned negative (–1%), down 5 pp in comparison with the previous quarter. In real estate services the rate of growth was in the order of 5%, while in industry and other services it remained high, albeit somewhat below the September figures, at 10% and 14%, respectively.

In line with the slowdown in corporate liabilities, the sector's borrowing decreased in 2008 Q4, according to the latest Financial Accounts data, to approximately 7% of GDP, 2.5 pp below the September figure. The financing gap – the indicator that approximates the funds required to bridge the difference between gross corporate saving and gross capital formation plus permanent foreign investment – recorded a much steeper decline (4.1 pp), to just over 10% of GDP, in keeping with the lower momentum of Spain's direct investment in the rest of the world.

As a result of these liabilities and income developments, in 2008 Q4 the corporate debt-to-earnings ratio fell slightly in comparison with September. This, together with the increase in the average cost of on-balance-sheet funds, led to a further rise in interest payments, to approximately 28% of gross operating profit plus financial revenue. Rates of return seem to have remained similar to September levels, assisted by good corporate earnings figures on National Accounts estimates. Nevertheless, other data sources point to a less dynamic profit performance. Thus CBQ data, based on a sample in which large corporations predominate, show that gross operating profit fell by almost 6% in 2008 in comparison with a year earlier. An analysis of the activities with most representation in the CBQ, which includes neither construction nor property development, shows a particularly notable decline in industry (–24%). As a result of all the above, ordinary return on equity (ROE) diminished. Moreover, the percentage of firms with negative ordinary ROE rose by 5 pp in comparison with the previous year. In this setting, analysts once again revised down earnings growth

OTHER FINANCIAL INDICATORS OF NON-FINANCIAL CORPORATIONS

CHART 26



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.

expectations for listed non-financial corporations for the next 12 months, which remain negative. The longer-term outlook has also deteriorated, although to a lesser extent (see Chart 26).

The debt and financial burden ratios of the sample of companies reporting to the CBQ rose, affected in part by the adverse income developments. The percentage of firms whose financial burdens have crossed the point at which, in accordance with the available estimates, this ratio starts to become a limiting factor on investment (see Box 6) also rose. Moreover, as a result of the combination of debt, financial burden and profit developments in the sector, the synthetic indicators of financial pressure on investment and employment based on CBQ data also rose, most particularly in the case of industry.

As the financial position of the most vulnerable companies worsened, as reflected in the CBQ and as is illustrated in more detail in Box 6, the sector's default ratio continued to rise towards the end of 2008, most notably in real estate services and construction which posted default ratios of 4.6% and 3.5%, respectively. However, in all other activities the default ratio was lower (1.9%).

5.4 General government

General government net borrowing rose significantly in 2008 Q4, up to 3.8% of GDP in cumulative four-quarter terms, 2.2 pp higher than in September (see Table 6 and Chart 27). The breakdown by instrument shows that the deficit was covered by issuing short-term, and especially medium- and long-term, securities, and by reducing the balance of deposits net of lending. Despite the recent increase in debt, the decrease in the average cost of funds held interest payments steady as a proportion of GDP at 1.6%.

5.5 The rest of the world

During the last three months of 2008, the debit balance of the nation's net financial transactions fell, in cumulative 12-month terms, to 9.1% of GDP (in comparison with 9.6% in September). By sector, this was due to lower borrowing by households and non-financial corporations, which offset the lower surplus at financial institutions and the larger general government deficit (see Table 6).

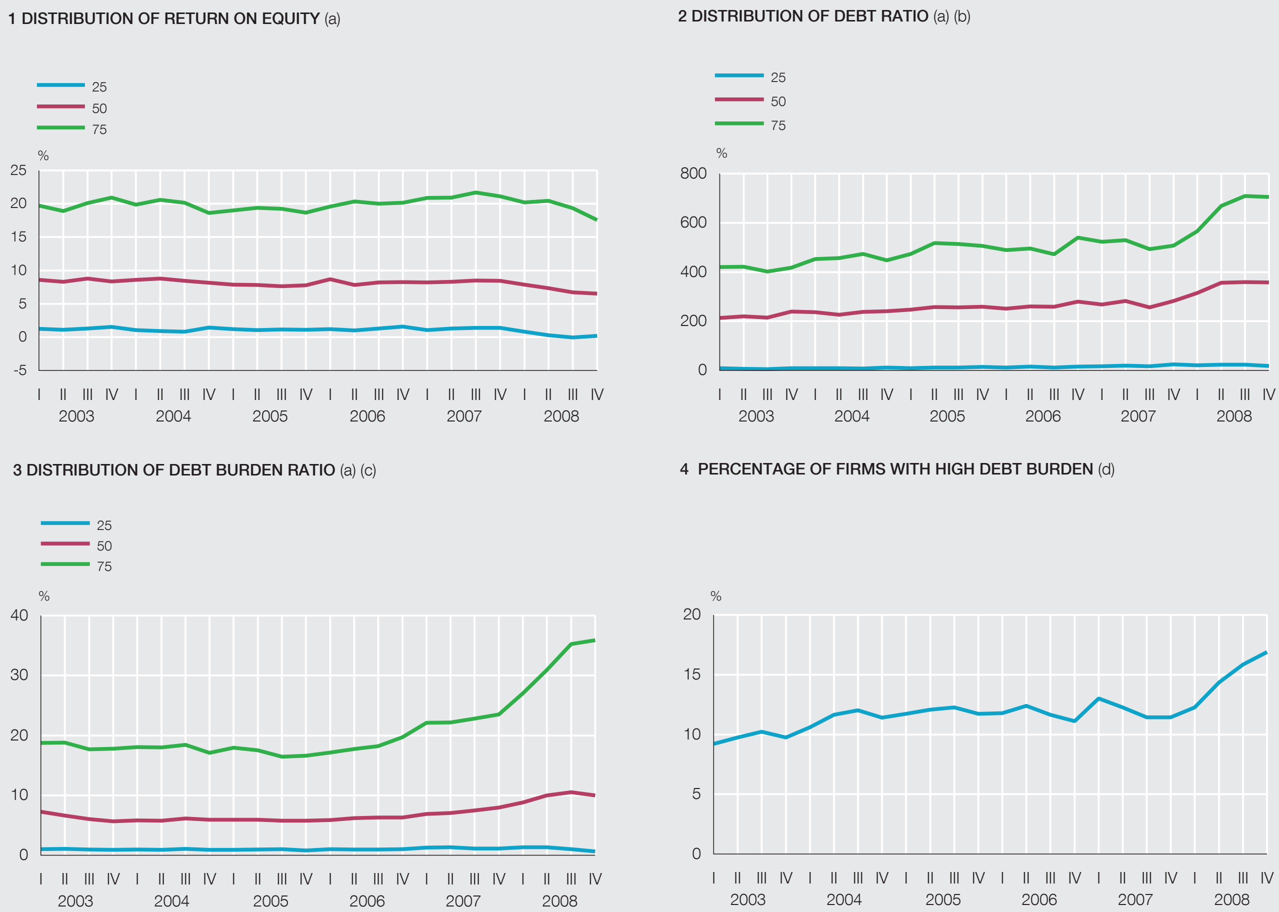
A firm's financial position conditions its hiring and spending decisions. Furthermore, there is evidence to suggest that the relationship between these two variables may be non-linear.[1] That is, a firm's financial position may have a more pronounced impact on the decision to undertake investment projects or to hire workers once a certain critical threshold has been crossed. For this reason, aggregate indicators offer a partial view of the degree of the system's financial soundness, as this may depend more on the position of the more vulnerable firms than on the corporate sector average. Accordingly, a disaggregated analysis of the financial position of the corporate sector is key to providing a correct assessment both of the macroeconomic outlook and the risks to financial stability.

To assess recent developments in the financial position of Spanish firms, this Box analyses the distribution of different financial indicators, using the individual data of the companies included in the quarterly database of the Banco de España's Central Balance Sheet Data Office for the period 2003-2008.

As Panel 1 shows, firms' return on equity was very stable in the period analysed. The panel also shows how the deterioration in the macroeconomic situation led to a general decline in corporate profits over the last year, throughout the cross-sectional distribution of the sample analysed. If anything, the decline is slightly more notable in the high percentiles, that is, among the most profitable firms.

1. See I. Hernando and C. Martínez-Carrascal (2008), "The impact of financial variables on firms' real decisions: evidence from Spanish firm-level data", Journal of Macroeconomics, 30 (1), pp. 543-561.

DISTRIBUTION OF THE FINANCIAL POSITION OF NON-FINANCIAL CORPORATIONS REPORTING TO THE CBQ



SOURCE: Banco de España.

a. The charts show the trends in different percentiles of the distribution of profit, debt and debt burden ratios for the sample corporations reporting to the CBQ.
b. Defined as the ratio between debt and the sum of gross operating profit and financial revenue.
c. Defined as the ratio between interest payments and the sum of gross operating profit and financial revenue.
d. Includes all firms whose ratio of interest plus short-term debt over gross operating profit plus financial revenue exceeds the 90th percentile of the distribution of this variable for the companies reporting to the CBA in the period 1985-2001.

The debt ratio, defined as the ratio between interest-bearing debt and the sum of gross operating profit and financial revenue, has risen in all the percentiles of the distribution, most notably in the last part of 2007 and in the first half of 2008 and in the higher bands of the distribution (see Panel 2). This is due in part to a slightly higher increase in debt at the most indebted firms, but above all to the widespread decline in profits which, all other factors being equal, tends to have a greater impact on debt ratios at firms with a higher relative volume of borrowing.

In the last part of the sample period analysed, the increase in the average cost of corporate liabilities helped raise the debt-burden ratio, measured as the ratio of interest payments to the sum of gross economic profit and financial revenue. As Panel 3 shows, the increase was most notable in the upper tail of the distribution, as higher interest rates and lower corporate profits have most impact on this ratio at firms that have most recourse to borrowing. Thus, for example, whilst the debt burden of the median firm rose by 2 pp in 2008, the increase was much higher (more than 12 pp) for firms in the 75th percentile.

These developments have led to a substantial increase in the percentage of firms with a higher debt burden,[2] up from 11% at the close of 2007 to 17% in 2008 Q4, but without reaching the levels over 20% seen in the previous downturn (see Panel 4). This rise in the share of firms that are facing greater difficulties, a priori, obtaining new loans, and whose spending decisions may, therefore, be more constrained, may affect the investment recovery. Sánchez et al (2008)[3] present the results of the re-estimation of the private productive investment equation of the Banco de España's Quarterly Model (MTBE) and find evidence that this variable, which approximates the degree of financial pressure borne by the corporate sector, exerts an adverse influence on gross capital formation.

This increase in the percentage of firms with a high debt burden has been consistent with the recent rise in the synthetic indicators of financial pressure on employment and investment which sum up the impact that changes in various financial variables – debt, profitability and financial burden – have on these macroeconomic aggregates. These indicators are constructed bearing in mind that, in accordance with the evidence available, spending is only constrained when the financial burden rises sufficiently so as to cross over a certain threshold (see Chart 25 in the main body of the text).

To sum up, analysis of the disaggregated data in the CBQ suggests that the deterioration in the economic situation, which has started to show through in a contraction of firms' profits, together with the rising cost of borrowing led, throughout 2008, to a more pronounced increase in financial pressure at firms that had a less favourable starting point than the median or than that reflected in the aggregate indicators. Accordingly, the proportion of firms bearing higher financial pressure, and therefore whose capacity to take on new investment projects may be limited, has increased.

In coming months, how firms' financial positions develop will depend on two opposing factors. On the one hand, analysts' expectations point to a notable reduction in the rate of growth of corporate earnings in the short term, in step with the downturn, which would tend to increase the proportion of firms having to face growing financial pressure and which may, therefore, postpone their spending decisions. On the other, the recent decline in interbank rates will foreseeably continue to pass through to the average cost of corporate lending, given the predominance of short-term or floating-rate loans,[4] thus helping alleviate the debt burden.

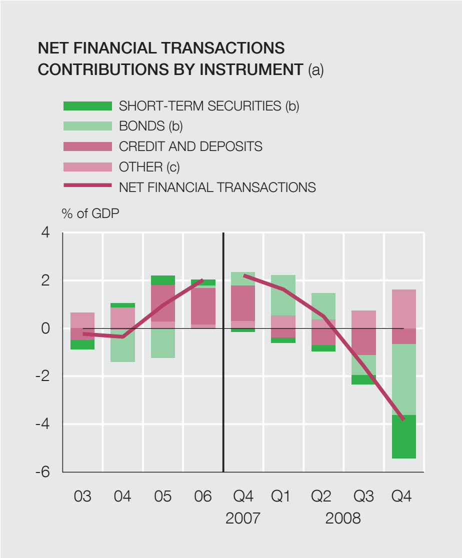
2. Firms are considered to have a high debt burden when this figure exceeds the level recorded for the 90th percentile in the distribution of this variable for the firms included in the Central Balance Sheet Data Office (CBSO) Annual Survey in the period 1985-2001. **3.** C. Sánchez, P. Sánchez and A. Urtasun (2008), "La inversión empresarial en España y la posición financiera de las empresas", *Boletín Económico,* December, Banco de España.

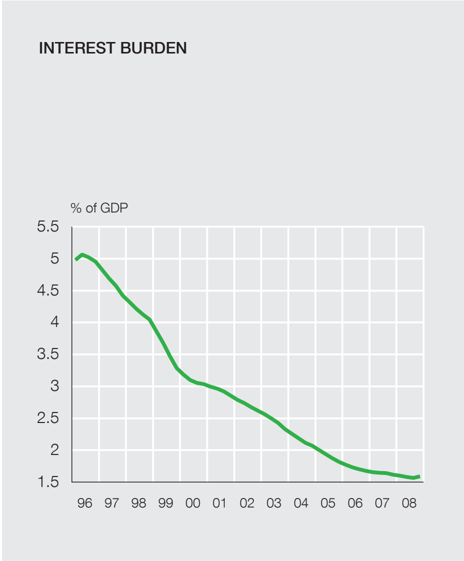
4. Thus, for example, in December 2008, 93% of the stock of loans to non-financial corporations corresponded to transactions with an initial rate fixation of less than one year.

The breakdown of financial transactions vis-à-vis the rest of the world by sector shows that, in cumulative four-quarter terms, in the closing months of 2008 the net capital inflows channelled through the financial system (excluding the Banco de España and institutional investors), which were largely interbank deposits, continued to decline as a proportion of GDP. By contrast, the volume of funds raised by general government rose, against a backdrop of larger public debt issues. Institutional investors, which continued to unwind positions in the rest of the world, also recorded positive net flows, as did the non-financial private sector, although in both cases these were somewhat lower than in 2008 Q3. But these funds were insufficient to cover the nation's overspending relative to revenue, meaning that the Banco de España's net assets vis-à-vis the external sector fell again (in cumulative 12-month terms, the net flows stood at 2.7% of GDP, in comparison with 3% in September; see Chart 28).

GENERAL GOVERNMENT
Four-quarter data

CHART 27



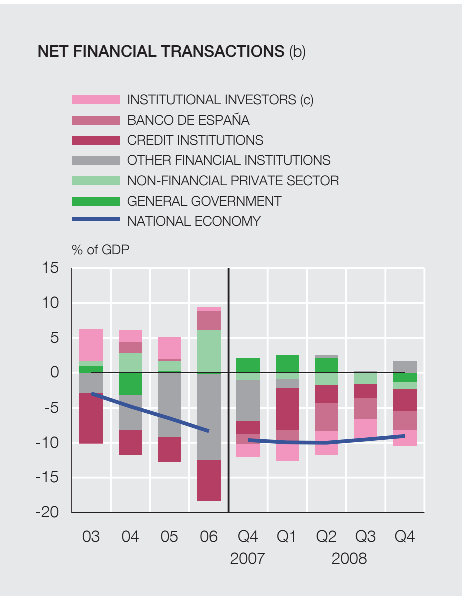


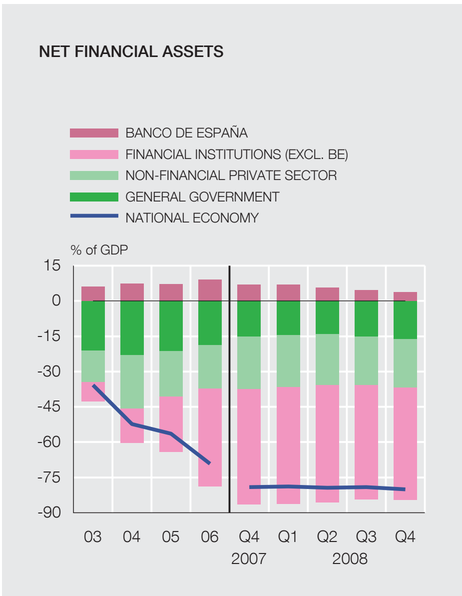
SOURCE: Banco de España.

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

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

CHART 28





SOURCE: Banco de España.

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

FINANCIAL TRANSACTIONS OF THE NATION
Four-quarter data

TABLE 8

% of GDP

	2005	2006	2007	2008		
				Q2	Q3	Q4
NET FINANCIAL TRANSACTIONS	-6.5	-8.4	-9.7	-10.0	-9.6	-9.1
FINANCIAL TRANSACTIONS (ASSETS)	18.5	17.7	13.5	7.1	7.5	3.1
Gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	2.2	5.2	2.1	1.6	1.3	-0.3
Of which:						
Interbank (a)	*3.1*	*3.4*	*4.2*	*4.6*	*2.1*	*-0.5*
Securities other than shares	8.7	-1.2	1.6	0.9	0.9	1.1
Of which:						
Credit institutions	*6.6*	*-2.1*	*1.8*	*1.7*	*1.6*	*1.4*
Institutional investors (b)	*2.3*	*0.6*	*-0.1*	*-0.5*	*-0.6*	*-0.4*
Shares and other equity	5.1	10.2	7.8	3.2	3.6	1.6
Of which:						
Non-financial corporations	*3.9*	*7.7*	*5.5*	*3.5*	*4.0*	*2.9*
Institutional investors (b)	*0.9*	*1.2*	*-1.0*	*-2.6*	*-2.1*	*-1.5*
Loans	1.1	2.1	1.2	1.8	1.7	0.8
FINANCIAL TRANSACTIONS (LIABILITIES)	25.0	26.1	23.1	17.1	17.0	12.2
Deposits	5.6	0.3	7.3	13.0	11.3	8.9
Of which:						
Interbank (a)	*7.2*	*0.6*	*6.7*	*10.7*	*8.6*	*6.2*
Securities other than shares	15.8	21.7	7.9	-3.4	-1.6	-2.4
Of which:						
General government	*0.2*	*1.3*	*-1.6*	*-1.9*	*0.1*	*1.4*
Credit institutions	*6.3*	*8.0*	*3.5*	*-1.1*	*-1.6*	*-2.2*
Other non-monetary financial institutions	*9.3*	*12.4*	*5.9*	*-0.4*	*-0.2*	*-1.6*
Shares and other equity	0.9	-0.1	4.3	4.8	4.5	3.6
Of which:						
Non-financial corporations	*1.0*	*-0.5*	*4.5*	*4.4*	*4.0*	*2.7*
Loans	2.3	3.5	3.1	2.4	2.8	2.1
Other, net (c)	-0.9	-0.8	-0.2	0.6	0.2	0.1
MEMORANDUM ITEMS						
Spanish direct investment abroad	3.7	8.5	9.6	8.1	7.7	4.8
Foreign direct investment in Spain	2.2	2.5	4.8	6.7	7.0	4.1

SOURCE: Banco de España.

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

The volume of capital inflows declined in the closing months of 2008 to slightly more than 12% of GDP in December, almost 5 pp down on September in cumulative four-quarter terms (see Table 8). This decrease affected all instruments, but especially investment in shares and other equity and deposits (particularly interbank deposits), although in net terms the funds received through this channel rose in comparison with the previous quarter. The net financing obtained from securities other than shares continued to post a negative balance, in excess of that recorded three months earlier (2.4% of GDP in comparison with 1.6%), and this despite the higher volume of funds obtained through general government securities. Relative to GDP, foreign direct investment in Spain declined by almost 3 pp to 4.1%.

Capital outflows in 2008 Q4 also declined, to slightly more than 3% of GDP in cumulative annual terms, more than 4 pp below the September figure (see Table 8). By instrument, acquisitions of shares and other equity by resident agents fell, as did Spanish direct investment abroad (down by almost 3 pp relative to GDP to just under 5%), in keeping with the above-mentioned decrease and the decline in related company financing. By contrast, investment in fixed-income securities in the rest of the world rose slightly.

As a result of cross-border financial flows and changes in asset prices and in the exchange rate, the Spanish economy's accumulated net debt vis-à-vis the rest of the world rose marginally above 80% of GDP, 1 pp higher than in September (see Chart 28). By sector, this was essentially the result of the increase in general government and non-financial private sector debt vis-à-vis non-residents and of the reduction in the credit balance of the Banco de España which was higher than the decrease in the debt balance of other financial institutions.

24.4.2009.

Spanish economic projections report

Summary

This report analyses the situation of and outlook for the Spanish economy. It has been prepared by the Directorate General Economics, Statistics and Research of the Banco de España, taking into account the information available to 13 March. The projections are against a background of great uncertainty, as they are made amid a serious financial and economic crisis worldwide, whose adverse consequences are difficult to determine. The projection time span covers the years 2009 and 2010.

The year 2008 saw a severe deterioration in Spanish economic activity which, though it had started earlier, gathered considerable momentum during the year. Indeed, following 14 uninterrupted years of expanding output, the Spanish economy posted two quarters of negative growth in the second half of 2008, against a much worse international backdrop, moving into a marked recessionary phase. Nonetheless, the growth rate for the year as a whole was still positive (1.2%), chiefly as a result of the contribution of net external demand to the GDP growth rate (at 1 pp), while national demand slowed substantially, with average growth flattening in 2008 after having increased by more than 4% in 2007.

The forecasts available for the main economies, made by various agencies and institutions, point to a significant contraction in activity in 2009 that would lead to a decline in world output for the first time in several decades. The projections in this report also point to a deepening in 2009 of the current recession in Spain, meaning activity would fall by 3% this year, with an incipient recovery in output in late 2010, although over that year as a whole growth would still be negative (–1%). The projections for 2009 suggest a continuation of the contractionary trends perceptible in the main indicators of national demand, with a strong deterioration in both household and corporate spending decisions (on consumption and housing, and in the form of productive investment, respectively). Exports will also be dented by the decline in international markets, although the fall-off in imports – which will foreseeably be greater – will mean that, in net terms, the contribution of the external sector to growth will improve.

The deterioration in agents' confidence accompanying the bleaker economic outlook, the diminished value of financial and real estate wealth, the financial constraints in place and the severe contraction in global trade and in activity in the main industrialised countries are the key factors behind the decline in demand. This outlook has been affecting activity with particular intensity in the closing months of 2008 and early 2009, but its effects will foreseeably abate and be progressively offset by the impact of the fiscal and monetary policy stimuli introduced in many countries, Spain among them. These projections reside on the assumption that, following the heightening of the financial crisis in the closing months of 2008, the planned support to the financial system internationally will progressively stabilise the situation, whereby the degree of credit constraint will be alleviated. The reduction in inflation will also contribute to improving agents' real income and, if the economic climate becomes less pessimistic, to boosting spending.

The most acute phase of the adjustment is expected to be behind by 2010. In fact, part of the decline in activity projected for 2010 is in response to the drag exerted by the negative rates estimated for the current year, since it is foreseen that output will stabilise and even begin to grow again (albeit at a very modest rate) in the second half of next year. National demand will still be running at a negative rate, though more moderately so, and, within this aggregate, private consumption is expected to show small increases once again. During 2010, moreover,

the improvement in the international economic climate, which is an assumption common to the projections of the various agencies and institutions, should boost exports.

In the case of inflation, the outlook has changed considerably since mid-2008. For 2008, the CPI averaged 4.1%, peaking at 5.3% in July, the result of the sharp rise in oil and other commodity prices. Since last summer, when the worsening of the international crisis drastically altered the global outlook, the rising trend of the prices of these products swiftly reversed, giving rise to continuous falls in the inflation rate, which ended the year at 1.4%. In recent months, lower commodity prices have combined with the impact of weakening demand, whereby the inflation rate has dropped further. On average in 2009, the private consumption deflator is forecast to stand at only 0.2%. In 2010, the inflation rate should rise again once the strong baseline effects recorded in 2009 have disappeared, although it is estimated that it will stabilise at a fairly moderate rate of around 1.5%.

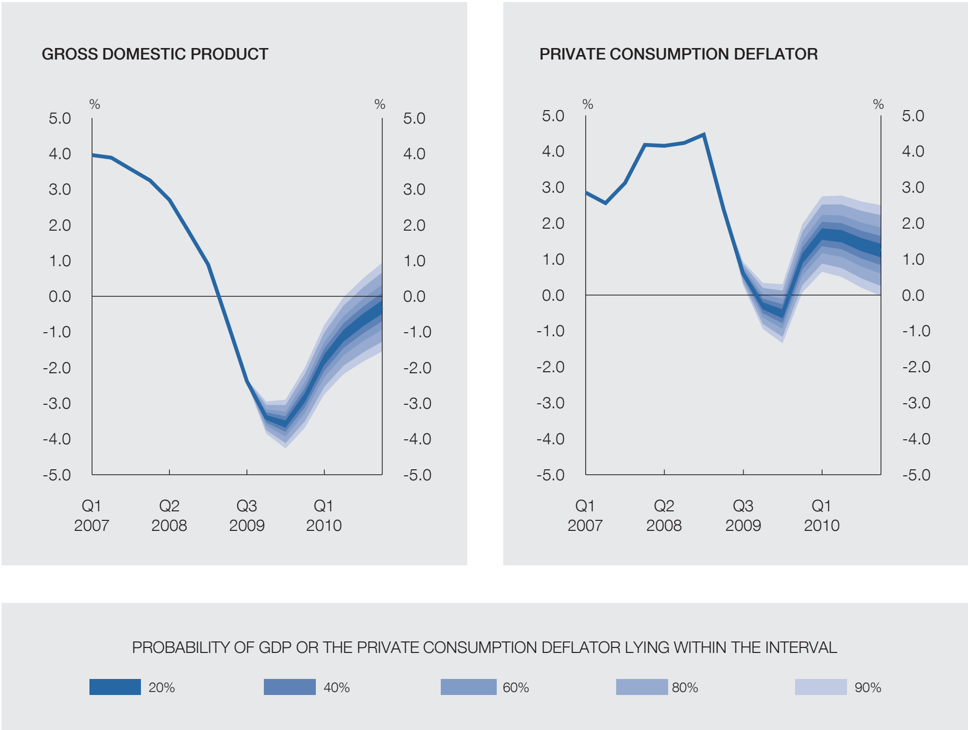
In any event, the marked sluggishness of domestic demand and, to a lesser extent, of economic activity forecast for the projection horizon will contribute to correcting some of the imbalances built up in the Spanish economy in recent years. That should draw the inflation rate closer to euro area levels, reducing the nation's net borrowing and cutting the private-sector debt ratios reached after many years' sharp growth in the credit granted to households and firms.

The degree of uncertainty that accompanies macroeconomic projections is, on this occasion, exceptionally high. The strong deterioration in economic prospects in recent months, the fact the current recession is across the board globally and the persistence of the international financial crisis, along with the equally forceful economic policy response, mean that powerful sources of uncertainty are simultaneously at play and will all affect a macroeconomic projection exercise performed at a time such as the present. One habitual means of representing this uncertainty is to calculate the forecasting errors made in the past and, on this basis, to show the bands around which each macroeconomic variable might trend to some degree of likelihood. This is the approach used to show the uncertainty surrounding the growth and inflation projections (see Chart 1). However, as it is based on past forecasting errors, this approach tends to understate the current degree of uncertainty, which is much higher than that prevailing in recent years which was taken as the basis for calculating these errors.

The substantial downward revision of the growth projections entails, among other things, acknowledgement of the fact that the downside risks identified in recent quarters have been progressively materialising. In the new scenario the projections cover there are, however, both downside and upside risks. These are probably balanced over the period, since although in the short run the risks of deviation are more biased downwards, in the medium term the likelihood of upside risks may prevail. On one hand, among the downside risks, it cannot be ruled out that the global recession will deepen, meaning that export markets will decline more sharply in 2009 and that their recovery in 2010 will be more muted. Likewise, financial instability may prove protracted, especially if the decline in activity were to have a feedback effect, exacerbating credit institutions' financial problems. The decline in the value of household financial and real estate wealth might also be more substantial than implied by these projections, depressing household demand. But, on the other, among the possibilities of upside risks, it should be stressed that the projections set out here are consistent with a strong increase in the household saving ratio in 2009 and 2010 which, were it somewhat lower, would entail a lesser negative contribution of private consumption to growth. Further, the extraordinary measures adopted by governments and central banks worldwide might also have a sharper or swifter impact in terms of resuming positive growth rates, both globally and in Spain, where the sensitivity of the household and corporate financial burden to interest rates is very high.

GROWTH AND INFLATION OUTLOOK FOR SPAIN

CHART 1



SOURCES: INE and Banco de España.

NOTE: The chart shows the uncertainty surrounding the central projection. The intervals have probabilities of 20%, 40%, 60%, 80% and 90%, respectively, based on past forecasting errors. It must be emphasised that current uncertainty is considerably higher than in the past.

Latest data: 2008 Q4.

In the case of inflation, the risks surrounding these projections also seem balanced. The weakness of spending has been considered a key factor in the deceleration of prices that had shown greater downward stickiness in the past, such as in services, while some easing in wages, in unit labour costs and in business margins is assumed. A stronger or more prolonged decline in activity, or a greater fall in commodity prices, might make these movements somewhat sharper, although it cannot be ruled out that the Spanish economy will retain some of the rigidity in price and cost formation that it has shown in the past.

In sum, the Spanish economy has undergone a very severe adjustment in the past year and the economic situation in 2009 and 2010 looks complicated, set against a deep recession which will foreseeably make way for an incipient resumption of growth in the final stretch of the projection horizon. The overcoming of the international crisis will play a fundamental role in setting the pace for the recovery. The correction of the imbalances induced by the strong adjustment in demand and activity will help restore growth conditions, but economic policy has a pivotal role to play in limiting the high costs that this adjustment is already prompting. The strong decline in spending justifies the use of demand-stimulating policies. Monetary policy in the euro area has adopted an openly expansionary stance that will have significant spending-stimulating effects. These will be progressively discernible as interest rate cuts feed through and the plans for the restructuring of the international financial system provide some relief from the tendency of credit to contract, with the foreseeable fall in inflation also contributing. Budgetary policy, too, has been used expansively in recent months, reinforcing the already substantial role of the automatic stabilisers. However, the room for manoeuvre available is limited, given the rapid increase in the budget deficit as a result of the high sensitivity of public revenue to certain features of the Spanish economy cycle and of the increase in public spending that the crisis and the measures adopted to combat it entail. In this respect, it should be borne in mind that the high budget deficits projected for 2009 and 2010, above 8% of GDP in both cases, are based on the assumption that no discretionary measures additional to those already approved will be adopted. In any event, the rapid deterioration in the budget deficit and public debt figures are highly illustrative of the importance of adopting budgetary consolidation plans that allow public finances to be guided onto a path of stability once positive growth in activity resumes. Beyond the use of demand-side policies, the intensity of the recovery and the Spanish economy's capacity for long-term growth will depend above all on the necessary structural adjustments being made to promote enhanced productivity in the long run and a change in direction in productive investment. In particular, given the highly negative projection made for the labour market, with the unemployment rate rising most substantially in 2009 and 2010 in the absence of measures, headway in reforms geared to containing the intensity and persistence of the employment adjustment acquires particular importance. In this connection, mechanisms must be set in place to help ensure that the adjustments are made to a greater extent through wages and employment conditions, and not through job destruction.

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

External assumptions underlying the projections

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

Exchange-rate, interest-rate and oil-price projections are based on the respective markets as at the time immediately before the projections were prepared.[1] It is assumed that the euro exchange rate will remain constant at its current value on the spot market in the reference period. In terms of the bilateral euro/dollar exchange rate, this means that the average value of the euro will depreciate by 14% in 2009 compared with the average for 2008 (see Table 1). The short-term interest rate path (measured by the three-month EURIBOR) is obtained from the expectations implicit in futures markets. On this information, the short-term interest rate is expected to average 1.7% in 2009, almost 3 pp less than in 2008, and 2% in 2010. The long-term interest rate path, which is approximated through market expectations about ten-year public debt yields, is quite stable: 4.3% in 2009 and 4.7% in 2010. Oil prices are expected to stand at US$46 and US$51 on average in 2009 and 2010, respectively, according to futures markets' expectations for this commodity in the reference period, making for a decline of more than 50% in 2009 relative to the previous year. As to house prices, negative rates of change are expected in 2009 and 2010, extending the recently observed path of decline.

As regards credit conditions, it is assumed that the spreads on market interest rates applied to loans will hold at similar levels to those observed in the most recent period and that the tightening of credit standards will continue, albeit at a lesser pace, easing progressively over the course of the projection horizon. However, the difficulties of incorporating the effects of financial restrictions into a projection exercise should be acknowledged, as their impact on agents' spending is subject to great uncertainty.

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

INTERNATIONAL ENVIRONMENT AND MONETARY AND FINANCIAL CONDITIONS (*) TABLE 1

Annual rates of change, unless otherwise indicated

							Projection	
	2003	2004	2005	2006	2007	2008	2009	2010
International environment								
World output	4.0	5.3	5.3	4.9	4.7	3.2	-0.6	2.1
Global markets	5.2	10.8	7.9	9.2	6.5	3.7	-6.5	1.8
Spain's export markets (a)	3.8	8.2	6.5	8.1	6.1	3.4	-4.6	1.2
Oil price in dollars (amount)	28.9	38.3	54.4	65.4	72.7	98.0	46.5	50.9
Competitors' export prices in euro (b)	-5.6	-0.5	3.5	3.1	0.2	2.3	0.7	0.6
Monetary and financial conditions								
Dollar/euro exchange rate (amount)	1.13	1.24	1.24	1.26	1.37	1.47	1.27	1.27
Short-term interest rate (3-month EURIBOR)	2.3	2.1	2.2	3.1	4.3	4.6	1.7	2.0
Long-term interest rate (10-year bond yield)	4.1	4.1	3.4	3.8	4.3	4.4	4.3	4.7

SOURCES: Banco de España and ECB.
(*) Projection cut-off date: 13/03/09.

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

Turning to the international environment, future developments in euro area foreign trade variables match those included in the Eurosystem macroeconomic projections presented in the March 2009 edition of the ECB Monthly Bulletin. World output is expected to contract in 2009, linked above all to the weakness in the industrialised countries, while it is estimated that the emerging countries will retain rates of expansion that are positive but far lower than those posted in recent years. The global recession is leading to a decline in Spanish export markets, which are expected to decline by 4.6% in 2009, 10 pp down on the estimate a year earlier. A modest recovery is expected in foreign markets in 2010, with an increase of 1.2%.

Finally, it should be stressed that these projections include the effects of the various budgetary measures approved in Spain in recent months, and which affect various items of public revenue (such as VAT, personal income tax and corporate income tax) and expenditure (public investment and unemployment benefits). By contrast, the effects of possible budgetary or other measures which may be adopted in future have not been considered.

Outlook for the Spanish economy

GDP growth stood at 1.2% in 2008, 1.2 pp less than projected in the March 2008 report, as a result of a more unfavourable performance of practically all the national demand components, except government consumption (see Table 2). Exports also performed worse than projected a year ago, although the sharp downward adjustment in imports meant that the positive contribution of net external demand (1 pp) was higher than foreseen.

In the first half of 2008, activity was still posting quarter-on-quarter growth rates that were positive, though more modest than those marking the strong expansion in output in the preceding years. The negative trend of household wealth, with falls in share prices and an ongoing slowdown in house prices, coupled with the start of the process of job destruction and a rising unemployment rate, began to impact household spending decisions, dampening consumption and depressing residential investment. Investment in equipment also showed signs of greater slackness, while exports held on a still-favourable trend. In the second half of 2008 the international and financial environment deteriorated severely, particularly with the heightening of the banking crisis in the United States and the spread of

PROJECTION OF THE MAIN MACROECONOMIC AGGREGATES OF THE SPANISH ECONOMY (*)

TABLE 2

Annual rate of change in volume terms and as a % of GDP

							Projection	
	2003	2004	2005	2006	2007	2008	2009	2010
GDP	3.1	3.3	3.6	3.9	3.7	1.2	-3.0	-1.0
Private consumption	2.9	4.2	4.2	3.9	3.5	0.1	-3.1	-0.4
Government consumption	4.8	6.3	5.5	4.6	4.9	5.3	3.5	2.1
Gross capital formation	5.9	5.1	7.0	7.1	5.3	-3.0	-15.1	-10.3
Investment in capital goods	*4.1*	*5.1*	*9.2*	*10.2*	*10.0*	*-1.1*	*-24.3*	*-12.6*
Investment in construction	*6.2*	*5.4*	*6.1*	*5.9*	*3.8*	*-5.3*	*-12.9*	*-11.6*
Exports of goods and services	3.7	4.2	2.5	6.7	4.9	0.7	-8.9	2.9
Imports of goods and services	6.2	9.6	7.7	10.3	6.2	-2.5	-15.1	-2.6
National demand (contribution to growth)	3.9	4.9	5.3	5.3	4.4	0.1	-5.6	-2.4
Net external demand (contribution to growth)	-0.8	-1.7	-1.7	-1.5	-0.8	1.0	2.5	1.4
Private consumption deflator	3.1	3.6	3.4	3.4	3.2	3.8	0.2	1.5
Unit labour costs	2.9	2.4	3.3	3.2	2.9	3.4	0.8	1.5
Compensation per employee	3.6	3.0	3.7	3.9	3.7	5.3	3.1	2.7
Apparent labour productivity	0.7	0.6	0.4	0.7	0.8	1.8	2.3	1.2
Employment (equivalent jobs)	2.4	2.7	3.2	3.2	2.9	-0.6	-5.2	-2.1
Unemployment rate (% of labour force)	11.1	10.6	9.2	8.5	8.3	11.3	17.1	19.4
Household saving rate and NPISHs	12.0	11.3	11.3	11.2	10.2	12.9	16.2	16.6
Nation's net lending (+) / net borrowing (–) (% of GDP)	-2.9	-4.8	-6.5	-8.4	-9.7	-9.1	-5.3	-4.4
General government net lending (+) / net borrowing (–) (% of GDP)	-0.2	-0.4	1.0	2.0	2.2	-3.8	-8.3	-8.7

SOURCES: Banco de España and INE.
(*) Projection cut-off date: 13/03/09.

Latest QNA data: 2008 Q4.

these tensions to the rest of the world. In Spain's case, these trends triggered a sharper adjustment in consumption and in investment, while the rapid contraction in the main world economies led to a substantial reduction in trade and in exports in the closing months of the year. The reflection of this was a decline in confidence levels to historical lows and a more restrictive stance by banks in their credit supply policies, which led the Spanish economy to experience a decline in activity in the second half of the year. The effects of these developments were clearly visible in household spending decisions, since although household disposable income increased fairly sharply in 2008 (by above 3%), due among other reasons to the fiscal impulse, consumption stagnated at 2007 levels, meaning that the household saving ratio rose significantly.

The recessionary trend observed in the past two quarters is projected to continue in 2009, whereby GDP is expected to fall by 3% over the course of the year, 5 pp down on the March 2008 projection. Such a substantial revision offers some idea of the abrupt turnaround in the world and Spanish economies in the past year. Although the start of the financial turmoil dates back to the summer of 2007, the outlook in early 2008 was for a gradual absorption of the effects of these tensions, with a limited impact on economies. However, events in recent months have given rise to a new phase of instability, which has turned into a severe banking and financial crisis, leading the world economy into a generalised recession. In Spain these effects have superimposed themselves on the adjustment already under way in the economy, especially in the real estate sector, making for a sharper contraction in the macroeconomic variables that had already begun to moderate and spreading the decline to other variables more sensitive to financial conditions and to the situation of the world economy. The abrupt change in economic projections in the past year in Spain and in other areas of the world is described in detail in Box 1.

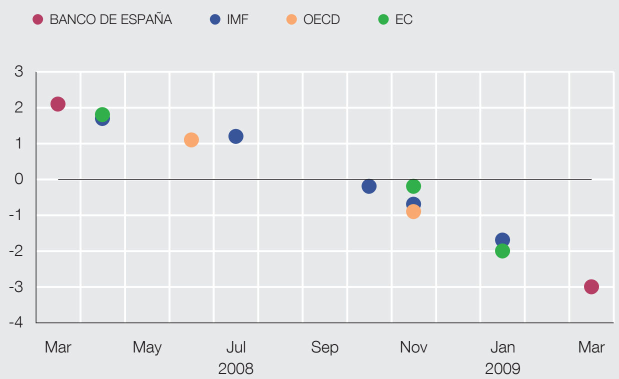
The macroeconomic projections made during the past year for the various economies in the world have undergone continual and substantial downward revisions in step with the ongoing exacerbation of the financial crisis and extension of the recession to different areas and markets. The projections report on the Spanish economy published by the Banco de España on 1 April 2008 also anticipated an expansion of GDP in the past year notably higher than actually occurred and, in addition, contained a much more favourable projection for 2009. Specifically, instead of the output expansion of 2.4% forecast for 2008, the year finally ended with a growth rate of 1.2%, according to the latest estimates of the Spanish National Statistics Institute. For the current year, the growth rate of 2.1% projected a year ago is 5 pp more than the present forecast. The large scale of this revision illustrates the considerable worsening of the outlook for the Spanish economy in the time elapsed since the publication of the previous projections report.

This deterioration is also manifest in the successive downward revisions of the forecasts of Spain's 2009 GDP growth by the major international institutions. The left-hand panel sets out the forecasts of this variable made in the past year by the European Commission, the International Monetary Fund and the OECD for 2009, along with the Banco de España's March 2008 and March 2009 projections. The change in the outlook since March last year is essentially due to two factors: the negative effects on economic agents' confidence and on their ability to finance their spending decisions, derived from the persistence of the international financial crisis; and the impact of that crisis on the world economy. This outlook worsened more quickly following the collapse of Lehman Brothers in September 2008, a circumstance which explains why, although the downward revisions of the Spanish economy's growth projections have been continual over the last 12 months, they became more pronounced from October.

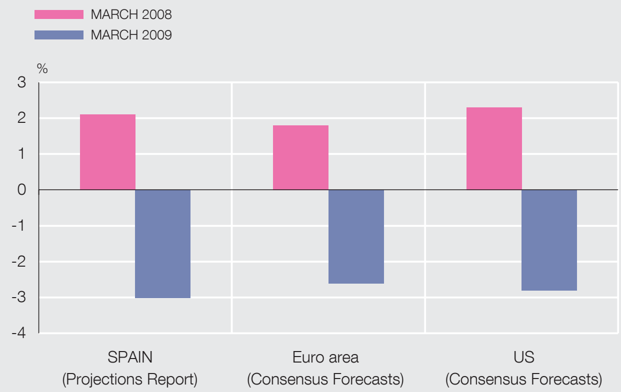
Moreover, as earlier mentioned, the effects of the financial and economic crisis have been global and have sharply affected all the world's economies. Hence, as in Spain, these have all seen their output growth forecasts revised substantially downwards by the various institutions. As an example, the right-hand panel compares the projection of Spain's 2009 GDP growth in this report with that published a year ago and with the forecasts released around that time for the euro area and the United States included in *Consensus Forecasts*, a publication which regularly collects the forecasts of diverse institutions and analysts for the world economy. As can be seen, on average the Banco de España's downward revision of the 2009 growth rate is not very different from the changes in analysts' forecasts for the euro area and for the United States in the past year. The considerable extent of these revisions to 2009 growth projections by institutions for the various economies underscores the unusually large size of the shock to world activity in 2008.

GDP GROWTH IN 2009

Projections for Spain made by various institutions (a)



Projections for the various geographical areas

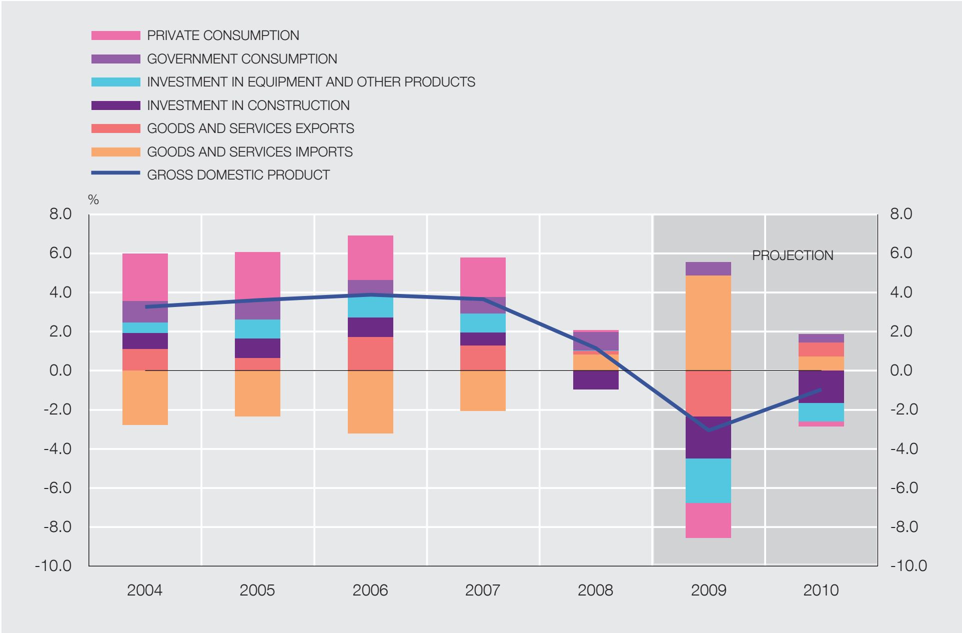


SOURCES: Banco de España, IMF, OECD and European Commission.

a. The x-axis shows when each projection was made.

CONTRIBUTIONS TO GDP GROWTH

CHART 2



SOURCES: INE and Banco de España.

Latest data: 2008 Q4.

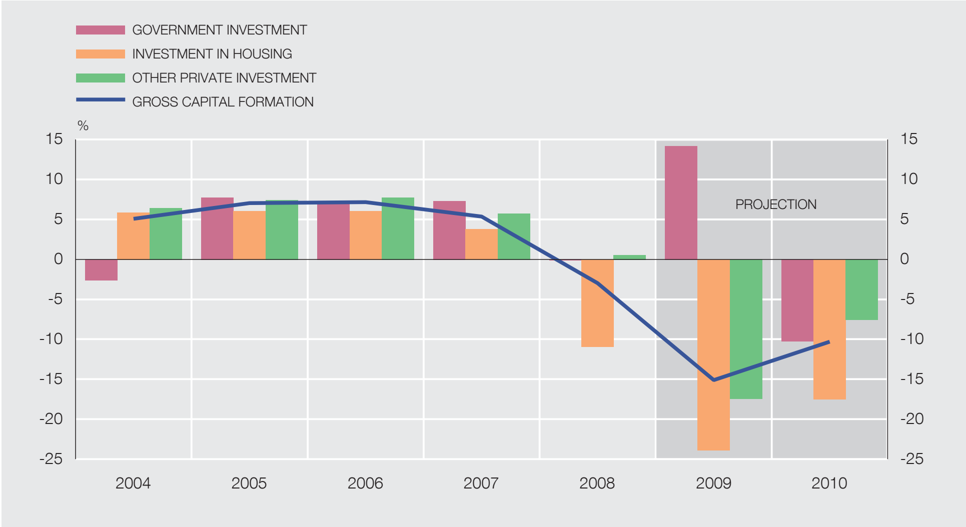
The fall in GDP in 2009 is based on the decline of all the components of national demand, except government consumption, with an impact on growth that is expected to be only partly cushioned by the improved contribution of the external sector to output, owing to the strong adjustment in the level of imports, which would offset the adverse effect of the substantial decline in world trade on Spanish exports (see Chart 2). Private consumption is estimated to decline by 3% in 2009 despite the slight increase projected in real disposable income. This increase is based on general government continuing to contribute positively to agents' income through higher benefits and lower taxes; on lower net interest payments, due to the fall in short-term interest rates; and on lower inflation, which will stand at around 0.2% for the year on average, thereby contributing favourably to upholding purchasing power. Against this background, the decline in consumption in 2009 is reflected, as was the case last year, in a pronounced increase in the household saving ratio to over 16%, which is a symptom of various factors: the high degree of uncertainty surrounding household decisions; the diminished value of their wealth; the need to reduce the debt built up in recent years; and, in sum, their caution in respect of spending decisions in the near future.

Residential investment will also fall substantially in 2009, posting a decline of over 20%, insofar as supply is adjusting rapidly to the fall-off in demand and to the surplus capacity in the sector (see Chart 3). Total investment in construction – comprising investment by companies and civil engineering works – will fall on a lesser scale, owing to the positive effect of the State Local Investment Fund to be set in train in the second quarter of the current year. On our estimates, the Fund could exert a positive effect of the order of 0.3 pp of GDP growth on average in 2009 and 2010. The sharpest contraction is expected to be in investment in capital goods, since the reduction of national and external demand, and the great uncertainty over the economic outlook, will depress the start-up of new investment projects.

For 2010 it is estimated that activity will continue falling, albeit at a more modest rate of 1%. This projection – which assumes that the cyclical trough will be in 2009 – is based on the ex-

BREAKDOWN OF INVESTMENT
Rates of change in real terms

CHART 3



SOURCES: INE and Banco de España.

Latest data: 2008 Q4.

pected pick-up in the external environment, with world growth somewhat above 2%, and on a gradual absorption of the most acute effects of the financial crisis. Actually, much of the decline in output projected for 2010 is in response to the drag entailed by the negative rates of the current year, since it is estimated that in the second half of next year activity will stabilise, and even begin to grow again. National demand is expected to continue shrinking this year, albeit at a lower rate, while exports should rise with the help of the recovery in world trade. Net external demand is expected to continue making a positive contribution to GDP growth, albeit one lower than that in 2009.

The decline in activity will lead to a significant reduction in employment, which is estimated to fall by 5.2% in 2009 and by 2.1% in 2010, placing the unemployment rate at 17% in 2009 and above 19% next year, if no measures are taken. The rising trend of apparent labour productivity that began in 2008, and which is linked to the rapid adjustment in labour, especially in construction, is projected to continue in 2009, up to a rate of 2.3% (against 1.8% in 2008). This rate should, however, moderate to 1.2% in 2010 once the bulk of job destruction in construction has taken place. It is estimated that the growth of economy-wide employee compensation will fall considerably in 2009 as a consequence, above all, of the lesser impact of indexation clauses, caused by the low inflation rates observed in late 2008. That said, employee compensation would still reflect a relatively high rate of around 3%, relatively inconsistent with the decline in activity and with the stagnation of consumer prices. A further fall in the increase in this variable, to 2.7%, is projected in 2010, signalling the modest impact of sluggish output on wage negotiations. In any event it should also be underscored that, in connection with employee compensation, wage developments in the private sector may show greater sensitivity to cyclical conditions than remuneration in the public sector.

The substantial decline in inflation projected for 2009 (to 0.2%, against 3.8% in 2008), measured by the private consumption deflator, is due above all to the strong fall in oil and other commodity prices in recent months, which is in contrast to the escalation seen in these prices up to summer last year. But it also reflects, in part, the easing off in prices prompted by the weakness of demand, and which is discernible in the reduction in the year-on-year rates of services and industrial goods prices. The baseline effects of oil and other commodity prices will be stripped out in 2010, entailing a rise in the annual inflation rate, although the slackness of demand should be conducive to the growth of the private consumption deflator holding at a moderate level of around 1.5%.

This recessionary scenario will see a reduction of some of the imbalances that the Spanish economy had built up during its previous long upturn. In particular, the contraction in private expenditure in 2009 and 2010 will lead to a reduction in this sector's indebtedness and in the nation's net borrowing. Net borrowing might fall by almost 4 pp of GDP in 2009 and by a further percentage point in 2010, dipping from above 9% of GDP in 2008 to 4.4% of GDP in 2010. The goods and services deficit is expected to be cut substantially in these two years, whereby the bulk of net borrowing at the end of the projection horizon would be determined by net interest payments (so-called *investment income),* which are in response to the sharp accumulation of net external liabilities arising from the high deficits recorded in recent years.

From the standpoint of sectoral net indebtedness, the improvement in the nation's net borrowing would be the outcome of the adjustment in spending by households and non-financial corporations, while it is estimated that the budget deficit will increase notably. In recent quarters, financing raised by households and firms has moved on a strongly decelerating path, which has been steeper in the case of companies in the construction and real estate development sectors, while lending to manufacturing and services companies was still advancing with some momentum in late 2008. This has largely been due to cyclical factors that have borne both on the demand for and the supply of funds, although other factors more directly linked to the international financial crisis have also had an influence. Such factors have been the greater difficulties in obtaining resources on the international markets to which Spanish companies had resorted to finance part of their activity, and market pressures to raise capital ratios.

The need to adjust the level of household and corporate debt, together with the macroeconomic weakness projected for the coming two years, suggests that the growth rate of financing raised by these sectors may continue to fall. That would lead to some decline in the aggregate debt ratios which, along with the expected cut in the average cost of outstanding debt, would see the associated financial burden fall off, favourably affecting the disposable income of these agents. This process will help redress the household and corporate financial position, providing for an expansion in spending in the medium term on more robust bases. Nonetheless, these developments could prove compatible with an increase in the degree of financial pressure on specific segments and, in particular, on those with a higher volume of borrowed funds and that are more affected by the economic recession. Further, household net wealth, which had fallen last year as a result of the unfavourable course of the value of financial and real estate assets, might continue declining in the light of the assumed fall in house prices incorporated into the macroeconomic projections, generating a negative wealth effect on consumption and investment in property.

The general government sector posted a deficit of 3.8% of GDP at the close of 2008, 6 pp worse than the previous year, and substantially greater than initially projected. The scale of the increase gives some idea of the strong impact the recession has had on public finances via the operation of the automatic stabilisers, although it is also the consequence of the various discretionary measures adopted to soften the effects of the crisis on demand and of the sharp drop in revenue which had a substantial transitory component, linked above all to the property boom. In 2009 a significant increase in the deficit is again projected, to over 8% of GDP, which is due to the adverse macroeconomic setting and to the expansionary measures approved to date. The higher deficit is expected to be the outcome, above all, of the rise in public spending as a percentage of GDP, increasing the funds assigned to unemployment benefits, investment and government consumption, against a background of declining GDP in nominal terms. The fiscal impulse indicators – which attempt to characterise the budgetary policy situation in relation to the economy's cyclical position – point to an expansionary stance in 2009. The deficit is expected to increase further in 2010. Finally, it is estimated the public debt ratio will stand at around 50% in 2009 and 60% in 2010. It should be recalled that this most substantial deterioration in public finances is based on the assumption that no new expansionary measures are adopted, which highlights the scant room for manoeuvre available to continue using budgetary policy as an instrument to boost demand and the importance of the budgetary consolidation plans to resume a path of stability in the medium term.

Risks to the projections

The projections presented in this report describe a sharp fall in GDP in 2009 and, to a somewhat lesser extent, in 2010, based on a contraction in national demand which is only softened by the improved contribution of external demand to economic growth. The year 2008 clearly marked the Spanish economy's entry into an adjustment phase which, in a critical financial and international setting, has resulted in a severe recession. Over the course of 2009 it is projected that agents will continue revising their consumption and investment spending decisions downwards and that the rate of increase of their debt will continue to ease, whereby national demand will decline at a sharp rate of over 5%. The strong adjustment already incorporated in 2009 and the ambitious demand-boosting economic policy measures adopted nationally and internationally mean that a very tenuous recovery may be projected for 2010, although over the year as a whole the growth rate would still be negative.

As discussed in Section 1, whether these projections actually materialise is subject to an exceptionally high degree of uncertainty. In the case of activity, many of the risks identified in the past have materialised, and have duly been incorporated into the central scenario projections. Looking ahead, the risks surrounding the current exercise are possibly more balanced than in the past, with a prevalence of downside risks in the more immediate terms and a greater probability of upside deviations at the end of the projection period. Undoubtedly, global economic activity – in the industrialised and emerging countries alike – may yet feel the impact of the international financial crisis to a greater extent than currently anticipated. There might also be a negative feedback loop between the economic crisis and the financial problems, further impairing credit institutions' ability to channel financial flows and help provide an exit from the recession. A bigger contraction in household and corporate spending might not be ruled out either given the deterioration in their financial position, worsening confidence and the poor economic outlook. Yet, at the same time, the stimulus provided by budgetary and monetary policies globally might lead to a brisker exit from the current recession, although this will most likely be in 2010. Furthermore, the various measures adopted to support financial systems might alleviate some of the financial restrictions in place in recent quarters. In Spain's case, moreover, the restructuring of household and corporate balance sheets might leave these agents better placed in 2010 to embark on new spending, although for this to happen it is vital that the current gloomy outlook should lift. A more resolute effort by the authorities to apply structural reforms that improve market regulation and foster productivity and competitiveness in the economy would also be of great help in improving confidence.

With regard to inflation, the risks are also balanced. Evidently, the short- and medium-term projections depend closely on oil and commodity market developments, which have shown great volatility in recent years. These projections reside on oil prices that increase slightly over the projection horizon in step with futures markets, but the greater or lesser slackness of unfolding world economic activity might evidently alter this assumption. The projections also incorporate a dampening effect of the weakness of spending on the price-setting process, in line with the greater sensitivity consumer prices have been showing in recent months to more fragile demand. Likewise, a sharper or more prolonged decline in activity might strengthen this downward pressure on prices, although certain rigidities present in the Spanish economy, manifest in the scant sensitivity of wages to productivity and the cycle, and in an insufficient degree of competition in certain sectors, such as services, might hamper this feed-through of the decline in demand to prices.

20.3.2009.

RESULTS OF NON-FINANCIAL CORPORATIONS TO 2008 Q4 AND SUMMARY YEAR-END DATA

Results of non-financial corporations to 2008 Q4 and summary year-end data

Overview[1]

The information gathered by the Central Balance Sheet Data Office Quarterly Survey (CBQ) to 2008 Q4 represents the preliminary results of changes in the year as a whole experienced by the aggregate of sample non-financial corporations. These preliminary results will be finalised in November 2009 with the data of corporations which report annually and constitute the Central Balance Sheet Data Office Annual Survey (CBA). The quarterly information provided by reporting non-financial corporations showed a gradual deceleration in the rate of productive activity as 2008 unfolded, turning negative for the year as a whole. Thus, gross value added (GVA), which in 2008 H1 reflected a moderate rise in activity, recorded declines in 2008 Q3 and, especially, in 2008 Q4. For the year as a whole, GVA fell –1.8%, representing a low in the CBQ time series since it began in 1994. This negative performance, which affected practically all sample sectors (except for energy for the reasons discussed below) particularly impacted corporations in the industry and wholesale and retail trade sectors, and is a reflection of the loss of momentum in 2008 in consumption and investment, which was also seen in other alternative sources of information.

The fall in productive activity was accompanied by a slowdown in the growth of personnel costs which increased by 3.9% in 2008, 0.8 pp lower than the related 2007 increase. This deceleration was a result of the moderation in growth of average compensation, mainly due to the impact on this variable of the drop in variable compensation at large firms in the sample and slacker job creation (the rate for the year as a whole decreased from 0.7% in 2007 to 0.4% in 2008). CBQ firms, in line with developments in productive activity, showed a slowing rate of job creation, which became more evident as 2008 progressed, and indeed posted a negative rate of change for Q4 (–1.4%) in the sample total. Although personnel costs grew more moderately, the contraction of productive activity fed through to gross operating profit (GOP) which posted a negative rate of change of –5.9% for 2008, considerably lower than the 5.6% increase in the previous year. This performance was much more accentuated at industrial corporations (where GOP fell 24.3% compared to a rise of 12.9% in 2007) and at wholesale and retail trade firms (where GOP decreased by 17.5%); energy firms, in keeping with growth of their activity, were the only ones whose surplus rose in 2008.

Financial costs and revenue grew less strongly than in 2007, especially revenue which increased 2.3% in 2008, as opposed to 34.6% in 2007. This notable decrease was due to the lower inflow of dividends from foreign subsidiaries, an item whose exceptionally positive performance in 2007, is difficult to maintain under the current conditions of the international economy. Financial costs grew 18.9% in 2008 in comparison with 37.5% in the previous year.

As a result of the combined performance of gross operating profit and financial costs and revenue, ordinary net profit (ONP) recorded a contraction of –15.4% in the year and the level of ratios measuring corporate profitability showed a significant decrease in 2008. Consequently, return on investment stood at 7.9% almost 1 pp lower than in 2007, and return on equity dropped to 10.7%, slightly more than 2 pp below the figure of 12.9% the previous year. The reduction in corporate profitability levels affected all the sectors of activity analysed in the accompanying tables; the comparison of current profitability levels with the historic references

1. The information which serves as a basis for this article is that sent by 737 corporations which, on average, reported their data to the Central Balance Sheet Data Office to 18 March 2009. The GVA generated by this aggregate accounts for 12% of the total GVA of non-financial corporations for the same period.

available in the CBQ series, reveals lows at industrial corporations and wholesale and retail trade corporations, as opposed to energy and transport and communications firms whose returns held at the average of the time series. The ratio which measures financial cost stood at 4.9% for the year as a whole, nearly 0.5 pp above the previous year. The decrease in the profitability ratio and the increase in the ratio which measures financial cost prompted the difference between the two to continue to narrow, as had occurred in previous quarters, to 3.0. This drop was particularly sharp for industrial and wholesale and retail trade corporations.

Finally, there was a significant reduction in extraordinary results in 2008 in comparison with the very high levels of a year earlier. Both extraordinary revenue and expenses fell (–61.9%), as did other extraordinary items, essentially portfolio provisions (–43.8%). It should be taken into account that in 2008 Q4 capital losses were recorded on certain financial investments which, due to their high amount, actually absorbed the capital gains arising in 2008 H1 from asset sales linked to the M&A activity in the electricity sector discussed in previous articles. Due to the foregoing, there was a negative trend in final profit which was similar to, and even slightly stronger than, that in ordinary surpluses. Thus, corporate profits dropped at a rate of –24.0% in 2008, in stark contrast to 12.0% growth in 2007. These developments are also reflected in the ratio between net profit and GVA, which fell from 37.9% in 2007 to 29.3% in 2008, although it still holds at relatively high levels.

In short, the data of CBQ firms show a gradual deterioration of their productive activity in 2008, which prompted strong contractions in all their surpluses, especially in the closing months of the year. Job creation, albeit still positive in terms of the annual average, also lost momentum as the year unfolded, until in 2008 Q4 jobs were destroyed in practically all sample sectors. These developments were accompanied by moderate increases in average compensation related to the drop in variable compensation linked to corporate results. The relative weight of financial costs in firms' profit and loss accounts continued to rise, while financial revenue could not keep up the pace of growth of previous periods. The foregoing led to non-financial corporations experiencing drastic declines in their ordinary surpluses in 2008, which affected their profitability levels and net profits although, given the initial levels involved, they still remained relatively high in 2008.

Activity

According to the information obtained from the firms which make up the CBQ sample, during 2008 business activity experienced a gradual decline which centred on a –1.8% reduction in GVA in comparison with 5.2% growth in the previous year (see Table 1 and Chart 1). The negative trend in activity became more evident as the year progressed; in comparison with 2008 H1, when growth in GVA was still moderate, in 2008 H2, and particularly in 2008 Q4, GVA reflected a sharper and more widespread decline.

In a more detailed sectoral analysis (see Table 2.a), it can be seen that the contraction of activity affected practically all aggregates, except for energy, the only one in which GVA held at a positive rate. Conversely, the industrial sector experienced the highest decreases in GVA in 2008, down –10.5% for the year as a whole, in sharp contrast to growth of 7.3% posted a year earlier. This negative trend is explained by the strong impact on firms in the industrial sector of the adjustment of investment in capital goods and the loss of momentum of industrial activities linked to the construction and car industries. GVA in the wholesale and retail trade sector decreased substantially, turning around from growth of 2.7% in 2007 to –4.0%, for the first time in the available CBQ time series. The turnaround in this case, is the result of the strong slowdown in consumption in 2008. The GVA of firms in the transport and communications sector also performed negatively, with rates of -1.3%, lower than those posted a year earlier (+5.8%). This behaviour is mainly accounted for, aside from the deterioration in consumption, by the

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 (a)		
DATABASES	2007	2006	2007	06 Q1-Q4/ 05 Q1-Q4	07 Q1-Q4/ 06 Q1-Q4	08 Q1-Q4/ 07 Q1-Q4
Number of corporations		9.255	8.165	829	846	737
Total national coverage		33,5%	30,5%	14,5%	14,4%	12,0%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including subsidies)	100.0	9.6	7.7	10.3	5.8	3.4
Of which:						
— Net amount of turnover and other operating income	*137.7*	*9.7*	*5.6*	*9.8*	*4.0*	*4.1*
2. INPUTS (including taxes)	69.0	10.3	8.5	12.2	6.1	5.9
Of which:						
— Net purchases	*40.6*	*12.4*	*7.8*	*14.2*	*3.5*	*5.6*
— Other operating costs	*28.3*	*7.7*	*8.6*	*5.7*	*7.8*	*4.9*
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	31.0	8.0	5.8	6.8	5.2	-1.8
3. Personnel costs	16.1	6.9	6.3	5.3	4.7	3.9
S.2. GROSS OPERATING PROFIT [S.1 – 3]	14.9	9.3	5.3	7.9	5.6	-5.9
4. Financial revenue	4.2	17.6	31.3	13.4	34.6	2.3
5. Financial costs	4.1	34.4	39.2	39.6	37.5	18.9
6. Depreciation and operating provisions	5.5	9.5	-0.3	2.0	0.1	0.2
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.6	5.3	6.8	4.9	9.5	-15.4
7. Extraordinary revenue and expenses	4.5	(b)	70.1	(b)	79.5	-61.9
8. Other (net provisioning and income tax)	5.8	46.3	43.0	91.7	60.0	-43.8
S.4. NET PROFIT [S.3 + 7-8]	8.2	18.4	9.2	10.2	12.0	-24.0
NET PROFIT/GVA (S.4/S.1)		24.9	26.4	35.7	37.9	29.3
PROFIT RATIOS	Formulas (c)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	9.0	8.9	9.3	8.8	7.9
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	4.0	4.8	3.9	4.5	4.9
R.3 Ordinary return on equity (before taxes)	S.3/E	13.2	12.5	14.2	12.9	10.7
R.4 ROI - cost of debt (R.1 – R.2)	R.1–R.2	4.9	4.1	5.4	4.3	3.0

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.
b. Rate not significant or not calculable because the relevant figures are of opposite sign.
c. The 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 (which is not specified in the table and is numbered as 5.1) and not commissions or cash discounts.
Note: in calculating rates, internal accounting movements have been edited out of items 4, 5 and 8.

negative impact of high fuel prices during 2008 on transport firms' costs. Lastly, the energy sector stands out as the only one, as discussed above, whose GVA continued to expand in 2008, rising by 4.3%, a higher rate than that recorded in 2007 (2.4%). This increase is due, firstly to a less negative performance in 2008 than in 2007 of companies in the refining sector. These firms, which were affected by volatile crude oil prices, saw their GVA fall by –9.3% in 2008 as a whole (solely due to the strong fall in prices in 2008 Q4), (see Chart 2), recording a fall which was less steep than a year earlier (–17.5%). The second contributing factor in the expansion of energy utilities' activity lies in the electricity, gas and water sub-sector (the other major aggregate of the energy sector), which saw its GVA increase by 6.2%, 0.5 pp down on a year previously. This change was due to the growth, throughout 2008, of firms in the gas sub-sector and, to a lesser degree, those in the electricity sector, against a backdrop of moderate growth in demand for electricity (0.9% for the year as a whole, according to data from Red Eléctrica) and a drop in production costs which benefited from higher rainfall. Lastly, it should be underlined that the external activity of sample firms in 2008 remained slightly expan-

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

CHART 1

REPORTING NON-FINANCIAL CORPORATIONS		2003	2004	2005	2006	2007	2008
Number of corporations	CBA	8,834	9,063	9,139	9,255	8,165	—
	CBQ	837	830	811	829	846	737
% of GDP of the sector non-financial corporations	CBA	29.9	32.3	32.8	33.5	30.5	—
	CBQ	15.0	15.0	14.6	14.5	14.4	12.0

SOURCE: Banco de España.

a. 2003, 2004, 2005, 2006 and 2007 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ).
b. Average of the four quarters of 2008 relative to the same period in 2007.

sive (see Table 3); industrial firms' net external demand (exports less imports) grew strongly in this period (77.5%), mainly due to the containment of imports in 2008.

Lastly, the analysis of the information in Chart 3, on the distribution of CBQ firms based on the performance of their GVA, irrespective of size and sector, indicates that the downturn in productive activity in 2008, has spread to a larger number of firms. Indeed, the chart indicates that the percentage of firms which recorded falls in their GVA during 2008 increased (48.9%, compared with 38.3% of firms which were in this situation the previous year) and that, furthermore, there was a gradual shift in the statistical distribution to more negative values: the percentage

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	9,139	9,255	8,165	—
	CBQ	837	830	811	829	846	737
% of GDP of the sector	CBA	29.9	32.3	32.8	33.5	30.5	—
non-financial corporations	CBQ	15.0	15.0	14.6	14.5	14.4	12.0

SOURCE: Banco de España.

a. 2003, 2004, 2005, 2006 and 2007 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ).
b. Average for the four quarters of 2008 in relation to the same period in 2007.

of firms whose GVA fell by more than 20% rose from 16.4% in 2007 to 23.7% for 2008 as a whole.

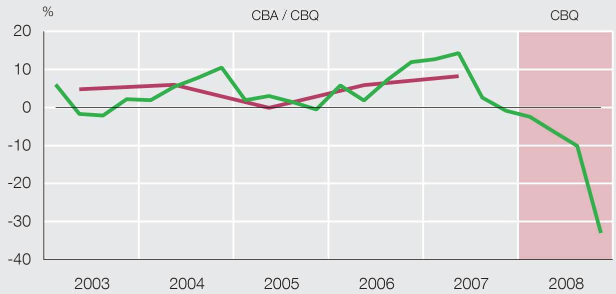
Employment and personnel costs

The rise of 3.9% in personnel costs in 2008 was 0.8 pp less than a year earlier, mainly due to the more moderate growth of average compensation in the four quarters of 2008, against a background of progressively worsening employment figures. The workforces of the sample corporations increased slightly in 2008 by 0.4%, 0.3 pp less than a year earlier (0.7%). However, the quarterly profile of the path of this variable shows a progressive deterioration as the year advanced, which gave rise to a decrease of –1.4% in the average number of employees

In 2008, the industrial firms reporting to the CBQ showed a considerable deterioration in their productive activity, evidenced by a decrease in GVA of -10.5% in this aggregate (the largest fall in industrial sector GVA in the whole of the CBQ series) and by a break in the six-year run of uninterrupted growth in the GVA of this aggregate. This loss of dynamism of industrial activity became more marked as the year progressed, also affecting an increasing number of sub-sectors, although, in 2008 as a whole, those most affected were the manufacture of glass, ceramics and metal products (with GVA falls of -23.8%), manufacture of transport equipment (-11.6%) and other manufacturing (-8.9%). The reasons for this fall-off lie mainly in the more sluggish investment in capital goods, the higher energy costs, the impact of the crisis in the construction sector on some related industrial activities and the fall in motor vehicle sales. By contrast, the manufacture of electrical and optical equipment was the only sub-sector to continue to expand in 2008, posting an increase in GVA which was higher than that of the previous year (12.8% compared with 2.8%). Personnel costs nudged up by 2.1%, a slightly lower increase than in 2007 (2.5%), mainly due to more moderate growth in average compensation in this aggregate (3.2% in 2008 as opposed to 3.9% in the previous year). As also applies for the total sample, the lower variable compensation than in 2007 earned at large industrial firms largely explains the above-mentioned performance. The employment data for this sector remained negative, showing a fall of -1.1%, similar to that of previous years, and a year-on-year trend towards progressively more negative rates, given that in 2008 Q4 the rate at which jobs were destroyed in this aggregate rose to -3.3%. Against this backdrop, there were strong reductions in gross operating profit and ordinary net profit for the year as a whole (-24.3% and -47.6%, respectively), resulting in a highly significant decrease in profitability levels. Thus, in 2008 return on investment stood at 6.2%, 3 pp less than in 2007, while return on equity dropped from 12.8% in 2007 to 7.2% in 2008. The ratio which measures the cost of debt continued to grow to 5.1% (0.6 pp up on 2007) and the spread between the return on investment and the cost of debt continued to narrow to 1.1 in 2008. In short, in 2008 the industrial sector recorded a strong fall-off in its productive activity which resulted in a reduction of its surpluses and profitability levels and a decrease in the average number of employees in this aggregate, a trend which stepped up as the year progressed.

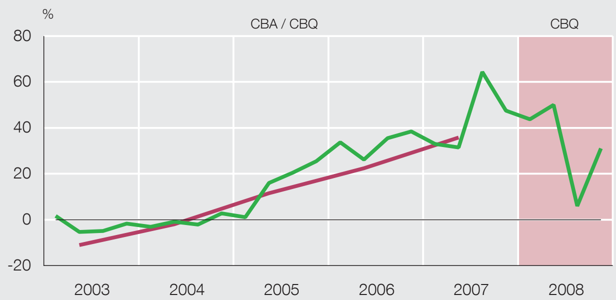
PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

GROSS VALUE ADDED AT FACTOR COST
Rate of change



EMPLOYMENT AND WAGES
Rate of change

FINANCIAL COSTS
Rate of change



RETURN ON INVESTMENT
Ratios

REPORTING INDUSTRIAL CORPORATIONS		2003				2004				2005				2006				2007				2008			
Number of corporations	CBA	2,624				2,530				2,475				2,464				2,155				—			
	CBQ	367	362	354	346	353	343	336	334	325	313	306	298	321	305	292	284	318	306	289	284	289	274	250	178
% of GDP of the sub-sector industrial corporations	CBA	27.1				28.8				28.4				29.6				25.8							
	CBQ	18.8	19.1	17.1	17.8	20.0	20.3	18.3	19.7	19.5	20.2	17.2	17.7	18.9	18.0	16.5	17.7	20.3	20.4	16.4	17.1	17.3	16.4	11.9	6.8

SOURCE: Banco de España.

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

TABLE 2.A

	GROSS VALUE ADDED AT FACTOR COST				EMPLOYEES (AVERAGE FOR PERIOD)				PERSONNEL COSTS				COMPENSATION PER EMPLOYEE			
	CBA		CBQ (a)		CBA		CBQ (a)		CBA		CBQ (a)		CBA		CBQ (a)	
	2006	2007	07 Q1-Q4	08 Q1-Q4	2006	2007	07 Q1-Q4	08 Q1-Q4	2006	2007	07 Q1-Q4	08 Q1-Q4	2006	2007	07 Q1-Q4	08 Q1-Q4
Total	8.0	5.8	5.2	-1.8	3.4	3.0	0.7	0.4	6.9	6.3	4.7	3.9	3.3	3.2	4.0	3.5
SIZE																
Small	4.0	3.3	—	—	0.1	-0.4	—	—	4.9	4.9	—	—	4.8	5.4	—	—
Medium	8.3	6.1	6.5	-0.4	2.1	1.8	1.5	-1.5	6.5	6.8	5.4	3.1	4.3	4.9	3.8	4.7
Large	8.1	5.9	5.2	-1.8	3.8	3.3	0.6	0.6	7.0	6.3	4.6	4.0	3.1	2.9	4.0	3.4
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	7.4	1.4	2.4	4.3	-1.0	0.2	-0.1	1.8	3.8	5.1	4.1	4.8	4.8	4.9	4.2	2.9
Industry	5.9	8.2	7.3	-10.5	-0.5	0.0	-1.3	-1.1	3.2	3.6	2.5	2.1	3.7	3.6	3.9	3.2
Wholesale and retail trade	7.8	6.1	2.7	-4.0	2.7	3.5	0.4	1.3	7.8	6.6	1.6	4.8	4.9	3.0	1.2	3.5
Transport and communications	3.9	7.0	5.8	-1.3	1.2	1.6	-0.2	-1.1	4.8	5.5	5.4	2.2	3.5	3.8	5.6	3.3

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

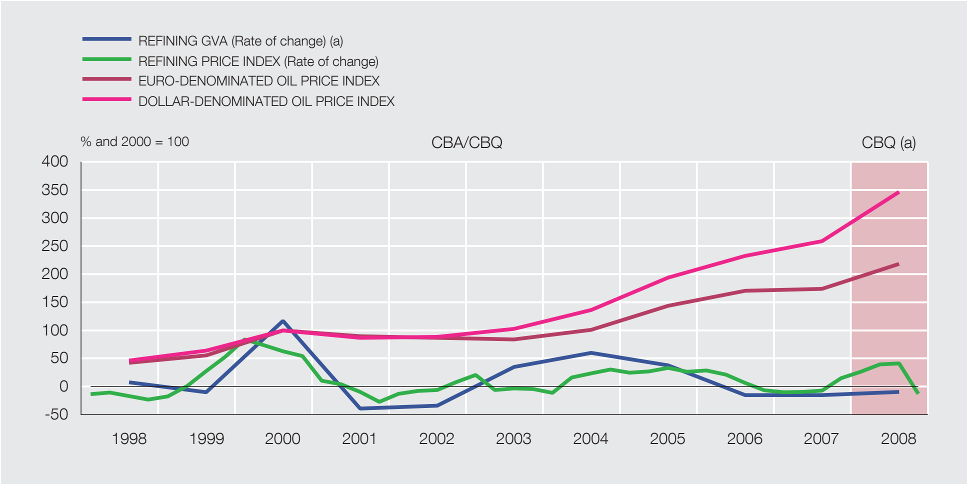
TABLE 2.B

		TOTAL CBQ CORPORATIONS 2008 Q1 - Q4	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations		737	407	330
PERSONNEL COSTS				
Initial situation 07 Q1-Q4 (€m)		25,763.9	12,779.0	12,984.9
Rate 08 Q1-Q4/ 07 Q1-Q4		3.9	8.8	-0.9
AVERAGE COMPENSATION				
Initial situation 07 Q1-Q4 (€)		45,543.0	45,436.3	45,648.4
Rate 08 Q1-Q4/ 07 Q1-Q4		3.5	3.3	3.7
NUMBER OF EMPLOYEES				
Initial situation 07 Q1-Q4 (000s)		566	281	284
Rate 08 Q1-Q4/ 07 Q1-Q4		0.4	5.3	-4.4
Permanent	Initial situation 07 Q1-Q4 (000s)	471	229	242
	Rate 08 Q1-Q4/ 07 Q1-Q4	0.5	4.1	-2.8
Non-permanent	Initial situation 07 Q1-Q4 (000s)	95	52	43
	Rate 08 Q1-Q4/ 07 Q1-Q4	-0.1	10.9	-13.5

SOURCE: Banco de España.

IMPACT OF OIL PRICES ON THE REFINING SECTOR

CHART 2



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

a. The 2008 data relate to the CBQ.

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

TABLE 3

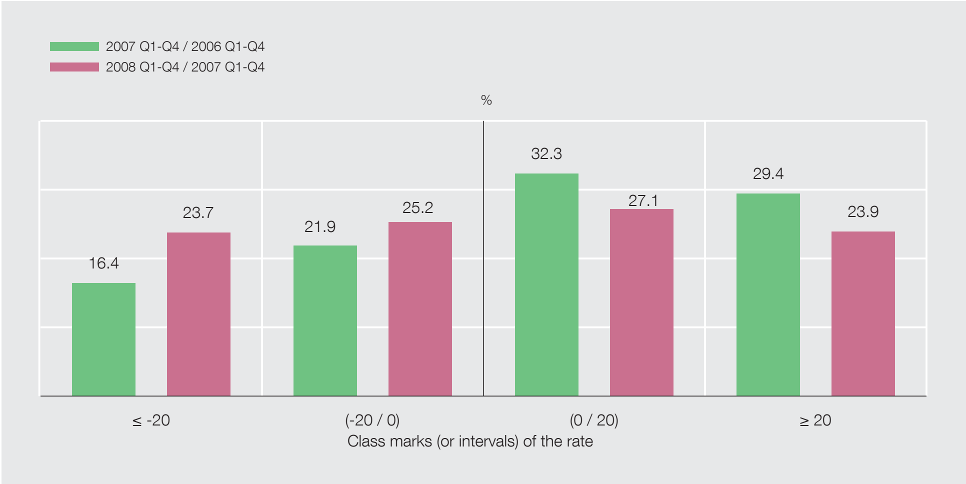
		CBA		CBQ (a)	
		2006	2007	07 Q1-Q4	08 Q1-Q4
Total corporations		8,165	8,165	737	737
Corporations reporting source/destination		8,165	8,165	690	690
Percentage of net purchases according to source	Spain	68.3	67.5	77.2	77.8
	Total abroad	31.7	32.5	22.8	22.2
	EU countries	*17.2*	*18.2*	*15.7*	*15.4*
	Third countries	*14.5*	*14.3*	*7.2*	*6.8*
Percentage of net turnover according to destination	Spain	84.4	84.7	91.2	90.4
	Total abroad	15.6	15.3	8.8	9.6
	EU countries	*10.3*	*10.4*	*6.3*	*7.0*
	Third countries	*5.2*	*4.9*	*2.5*	*2.6*
Change in net external demand (exports less imports), rate of change	*Industry*	*-10.2*	*-10.4*	*1.7*	*77.5*
	Other corporations	*-3.9*	*-7.0*	*-6.3*	*20.1*

SOURCE: Banco de España.

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

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

CHART 3



SOURCE: Banco de España.

in Q4, a trend shared by practically all economic sectors. Analysis of employment by type of contract (see Table 2.b) shows that the contraction affected temporary employment most significantly, as evidenced by the falls of 0.1% in the year as a whole and 6.1% in 2008 Q4. Industry and transport and communications were the sectors in which employment performed most negatively in 2008 as a whole, with decreases of –1.1%. In the case of industry, this performance affected practically all its sub-sectors (except for the manufacture of electrical and optical equipment).

The deterioration in transport and communications in 2008 was largely due to the significant staff reductions in recent years in some of the large firms in this sector. By contrast, wholesale and retail trade and energy posted positive employment rates in 2008. In the first case, the average number of employees in wholesale and retail trade grew by 1.3% in the year as a whole. This was despite the negative growth of productive activity as a direct result of long-term decisions on the opening of new shopping centres taken by some hypermarket chains, mainly in the first half of the year. Finally, energy firms saw staff numbers increase by 1.8%, basically due to the expansionary behaviour of oil refining firms, although a positive contribution was also made by the main electric utilities, which in 2008 seem to have concluded the process of adjustment under way during the last few years.

Average compensation in 2008 grew by 3.5%, 0.5 pp less than in the previous year. This containment of wage costs is largely due to the figure for 2008 Q4, a period which saw sharp falls in variable compensation in some large firms compared with the previous year. The nature of this compensation, generally linked to the achievement of certain targets and results by the end of each year, explains this behaviour, whose effects were noticeable in 2008 Q4. Wage behaviour was very similar and uniform across all economic sectors, with increases in wage costs ranging between 2.9% and 3.5% in all cases. Finally, Table 4 shows a rise in the number of firms which lowered their personnel costs (31.1% in 2008, against 27.7% in the previous year) and a significantly higher percentage of firms whose wage costs posted an increase below the inflation rate (up from 46.2% in 2007 to 49.6% 2008), confirming the more moderate behaviour of firms in this area.

Profits, rates of return and debt

The sharp deterioration in productive activity in 2008 progressively passed through to the other ordinary surpluses and, as a result, gross operating profit in this period fell by –5.9%, a

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

TABLE 4

	CBA			CBQ (a)		
	2005	2006	2007	06 Q1-Q4	07 Q1-Q4	08 Q1-Q4
Number of corporations	9,139	9,255	8,165	829	846	737
PERSONNEL COSTS	100	100	100	100	100	100
Falling	26.6	25.5	26.4	27.1	27.7	31.1
Constant or rising	73.4	74.5	73.6	72.9	72.3	68.9
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	30.9	30.9	31.3	39.4	37.4	44.6
Constant or rising	69.1	69.1	68.7	60.6	62.6	55.4
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	42.1	43.6	38.5	49.0	46.2	49.6
Higher or same growth (b)	57.9	56.4	61.5	51.0	53.8	50.4

SOURCE: Banco de España.

a. Weighted average of the relevant quarters for each column.
b. Year-on-year rate of the CPI in December of the year preceding the reference year.

sharp change of trend compared with the increase of 5.6% a year earlier (see Table 5). Financial costs again grew briskly in 2008 (by 18.9%) and gained relative weight in corporate cost structures, so that, at end-2008, they accounted for somewhat more than 7% with respect to production, 2 pp more than a year earlier. Also, the ratio which measures the interest burden (see Chart 4) confirms this trend, showing that the weight of financial costs relative to gross operating profit plus financial revenue (the denominator of this ratio) continued to increase. The 2008 rate, however, reveals a trend toward more moderate growth when compared with that of previous periods (37.5% in 2007 and 39.6% in 2006). The following table gives insight into the factors behind the behaviour of financial costs:

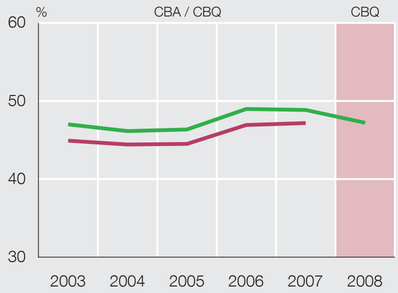
	08 Q1-Q4/07 Q1-Q4
Change in financial costs	**18.9%**
A. Interest on borrowed funds (1+2)	*18.4%*
1. Due to the cost (interest rate)	8.7%
2. Due to the amount of interest-bearing debt	9.7%
B. Commissions and cash discounts	*0.5%*

The above data show that the factors contributing to the growth of financial costs, practically in equal measure, were the increase in interest rates borne by firms in 2008 and the inflow of new external financing, although their impact in both instances has been waning compared with past periods. After several years of rising interest rates, which led the ratio measuring the cost of debt of the sample corporations to hold steady in 2008 at nearly 5%, it can be expected that, as interest rate cuts are passed through to corporate loans, the coming quarters will see a decrease in this cost in firms' profit and loss accounts. Furthermore, the change due to the amount of interest-bearing debt also became progressively less important, since in 2006 it accounted for increases in financial costs of more than 20 pp, while in 2008 it explained an increase of nearly 10 pp, thus confirming the lesser recourse by firms to additional financing. This analysis is completed by the picture offered by the ratios E1 and E2. The first (E1) shows that firms' level of debt has not changed substantially in the last two years, a slight downward trend being observed in 2008. Meanwhile, E2, which approximates the repayment ability of firms by expressing their debt as a proportion of GVA, continued to grow in 2008,

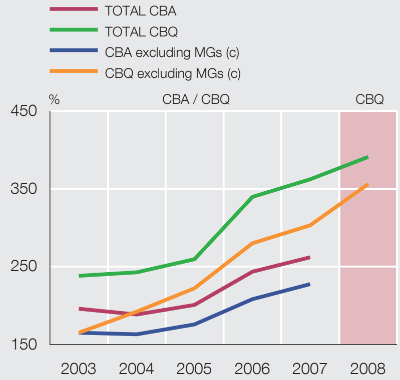
DEBT RATIOS

CHART 4

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



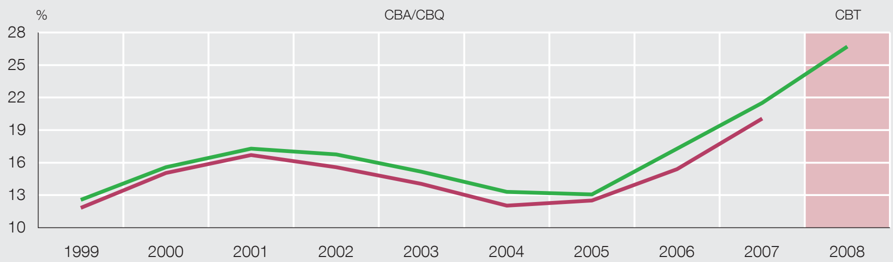
E2. INTEREST-BEARING BORROWING/GVA (b)
Ratios



	2003	2004	2005	2006	2007	2008
CBA	44.9	44.4	44.5	46.9	47.2	
CBQ	47.0	46.2	46.4	49.0	48.9	47.2

	2003	2004	2005	2006	2007	2008
CBA	195.8	188.4	200.9	243.6	262.2	
CBQ	238.2	242.8	259.4	339.6	362.3	390.7
CBA excl. MGs	165.0	163.0	176.0	208.5	227.6	
CBQ excl. MGs	165.3	192.1	222.3	280.2	303.1	356.2

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	15.4	20.1	
CBQ	12.6	15.6	17.3	16.8	15.2	13.3	13.1	17.3	21.5	26.7

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.

GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT AND ROI-COST OF DEBT (R.1 – R.2).
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS
Ratios and growth rates of the same corporations on the same period a year earlier

TABLE 5

	GROSS OPERATING PROFIT				ORDINARY NET PROFIT				RETURN ON INVESTMENT (R.1)				ROI-COST OF DEBT (R.1-R.2)			
	CBA		CBQ (a)		CBA		CBQ (a)		CBA		CBQ (a)		CBA		CBQ (a)	
	2006	2007	07 Q1-Q4	08 Q1-Q4	2006	2007	07 Q1-Q4	08 Q1-Q4	2006	2007	07 Q1-Q4	08 Q1-Q4	2006	2007	07 Q1-Q4	08 Q1-Q4
Total	9.3	5.3	5.6	-5.9	5.3	6.8	9.5	-15.4	9.0	8.9	8.8	7.9	4.9	4.1	4.3	3.0
SIZE																
Small	2.6	0.7	—	—	7.9	-1.8	—	—	6.8	7.3	—	—	2.7	2.4	—	—
Medium	10.9	5.2	7.9	-4.5	17.3	-2.6	2.4	-0.6	7.6	8.0	7.8	7.7	3.7	3.1	3.4	2.7
Large	9.3	5.4	5.6	-5.9	4.3	7.9	9.7	-15.8	9.1	9.0	8.8	7.9	5.1	4.2	4.3	3.0
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	8.5	0.4	2.0	4.2	2.2	-0.7	1.4	-2.4	9.9	8.7	9.0	8.3	6.2	4.4	4.8	3.6
Industry	9.7	14.2	12.9	-24.3	10.3	13.9	11.5	-47.6	9.0	10.1	9.0	6.2	4.8	4.9	4.5	1.1
Wholesale and retail trade	7.8	5.5	4.2	-17.5	12.5	2.7	-0.8	-11.6	11.3	10.8	7.2	5.4	6.8	5.9	2.5	1.1
Transport and communications	3.2	8.0	6.0	-3.6	-4.1	27.6	12.3	-2.9	7.9	9.9	12.1	11.6	3.9	5.4	7.8	7.0

SOURCE: Banco de España.

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

mainly due to the negative behaviour of gross value added (the denominator of the ratio) in this period.

Financial revenue grew by 2.3% in 2008. This was much less than in the previous year because the interest received had a lower impact on this item and, above all, because of the lesser dividends received from foreign subsidiaries, which were down by –5.3% after the exceptional increase in 2007. The changes described in financial costs and revenue accentuated the downward trend shown by GOP, giving rise to a fall of –15.4% in ONP. As a result, firms' rates of return on investment and equity also decreased significantly in 2008 to stand, in the case of return on investment, at 7.9% (against 8.8% in 2007) and in that of return on equity, at 10.7% (12.9% in 2007), this trend being equally apparent in all economic sectors. In this respect, Table 6, which presents the distribution of firms by level of return, shows a significant increase in the percentage of firms with lower returns. In particular, the segment of firms with a negative return on investment amounted to 27% in 2008, nearly 4 pp more than in the previous year. Meanwhile, the ratio which approximates the cost of borrowing held on its upward trend of recent years to stand at 4.9% (nearly half a percentage point more than in 2007). All this meant that the difference between the return on investment and the cost of debt narrowed to 3.0 in 2008.

Table 1 provides information on extraordinary revenue and expenses, inter alia, in the results (either positive or negative overall[2]) derived from asset disposals. Analysis of their behaviour in 2008 shows some significant changes which, however, largely offset each other. First, in 2008 there was a sharp decrease in revenue and expenses of this nature (–61.9%) due to the high level reached by this item in 2007 (in which period extraordinary revenue minus extraordinary expenses increased by 79.5%), despite some sizeable gains on financial asset sales in the first

2. In line with the information required under the new Spanish general chart of accounts (PGC-2007), this information is expressed net, which partially limits the study of these items. Nevertheless, analysis of the transactions detected in specific firms allows the reasons for changes in them to be analysed.

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

TABLE 6

		CBQ (a)			
		RETURN ON INVESTMENT (R.1)		ORDINARY RETURN ON EQUITY (R.3)	
		07 Q1-Q4	08 Q1-Q4	07 Q1-Q4	08 Q1-Q4
Number of corporations		846	737	846	737
Percentage of corporations by profitability bracket	R ≤ 0%	23.3	27.0	28.9	34.1
	0% < R ≤ 5%	19.9	21.7	13.7	14.3
	5% < R ≤ 10%	17.4	16.7	12.8	12.0
	10% < R ≤ 15%	10.6	9.1	8.8	7.9
	15% < R	28.8	25.5	35.8	31.7
MEMORANDUM ITEM: Average return		8.8	7.9	12.9	10.7

SOURCE: Banco de España.

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

half of 2008. These large gains in the first half of 2008 linked to corporate transactions in the electricity sector were offset by others of opposite sign in 2008 Q4 in the real estate and telephony sectors, due to losses arising from impairment of their financial investments. Second, portfolio provisions also decreased substantially in 2008 (–43.8%), again largely attributable to the strong growth of the previous year (60.0%).[3] As a result of all this, net profit was down by –24.0%, which was an even sharper fall than that of ONP, and very different from that recorded in 2007, when corporate profits grew by 12.0%. In any event, the aggregate level of net profit of the reporting non-financial corporations remained high, albeit on a downward path. Thus, net profit as a percentage of GVA decreased from 37.9% in 2007 to 29.3% in the current year.

20.3.2009.

3. Table 1 follows the format and terminology used in the 1990 chart of accounts because it includes information from the annual database, with information relating to 2007, to which the new chart of accounts does not yet apply. In November 2009, coinciding with the publication of the annual results for 2008 (first data under the PGC-2007), the structure, details and terminology of Table 1 will be adjusted to those defined in the PGC-2007. As regards losses of value of financial investments, the notion of losses derived from the securities portfolio provision will be replaced by that of impairment losses, to which reference is made in this article.

Introduction

The decline in global demand, which dragged down commodity prices, and the impact of the credit crunch, which spread to the emerging economies from mid-September, have brought growth in the Latin American economies grinding to a halt, interrupting one of the longest-lasting expansions (2002-2008) in their recent history. With a significant degree of synchronisation, activity in most of the Latin American economies posted negative quarterly rates in Q4, giving rise to a reduction in year-on-year growth from 5% in Q3 to 1% (see Table 1). In 2008 as a whole, GDP growth was 4.2%, a rate which, while the lowest for the past four years, reflects the buoyancy the Latin American economy enjoyed during the first three quarters of the year. However, more indicative of the current economic pulse is the convergence of the growth forecasts for 2009 towards negative rates, entailing a downward revision of more than 4 pp on the forecasts proffered just six months back (see Chart 1). This adjustment is not very different from that experienced by the other emerging regions (it is similar to that in Asia excluding China and India, and somewhat less than that in eastern Europe); but, seen in perspective, it contrasts with the resilience shown by activity in Latin America during the first year of the global financial turmoil.

Against this background, there has been a prompt economic policy response to the deterioration in the economic situation, with the dual aim of softening the adverse effects on activity arising from the credit crunch (see Box 1) and using all the available room for manoeuvre in respect of the countercyclical response. Significantly, most of the countries started from a favourable economic and financial situation, the outcome not only of the external environment but also of the macroeconomic stabilisation drive of recent years. This sound starting position meant that economic policies could offer some response, despite the difficulties of the global setting, which is in notable contrast to similar situations in the past. Exchange rate flexibility, the sizeable volume of reserves, the improved fiscal position and the reduction of financial vulnerabilities were the key props that provided for greater leeway. Although the economic policy response has not been sufficient to avert a far-reaching real and financial adjustment (similar to that in the other regions), arguably it has helped mitigate its effect.

It should be highlighted, in any event, that the channels through which the crisis has been transmitted to the various countries differ in terms of their relative significance, and that the room for manoeuvre has not been equal in all of them. Both circumstances help explain both the appreciable differences regarding the scale of the fiscal policy response and the growing convergence in the monetary policy area, as is analysed in section 4. Indeed, in many countries – though not in all – the reduction in financial vulnerabilities attained in recent years has provided for a more flexible use of the exchange rate as an initial external shock absorber, eliminating what was a significant constraint on monetary policy in the past and allowing it to bear the weight of many of the countercyclical policies in this period (see Chart 1). Conversely, the fiscal policy response (see Box 2) may have been limited by two types of constraints: on one hand, the fall in revenue and the decline in the primary surplus in some countries; and on the other, the external financial constraint, heightened by risk aversion, and which may hold in the medium term owing to the increase in bond (public or publicly backed) issues in the advanced countries.

Inflation, which was a constant concern in the first half of 2008, has become a secondary preoccupation in the last six months, since the weakness of demand and the fall in commodity prices have begun – slowly – to exert influence in moderating it and, more importantly, in tempering inflation expectations (see Chart 1). That said, consumer prices (which grew by

LATIN AMERICA: MAIN ECONOMIC INDICATORS

TABLE 1

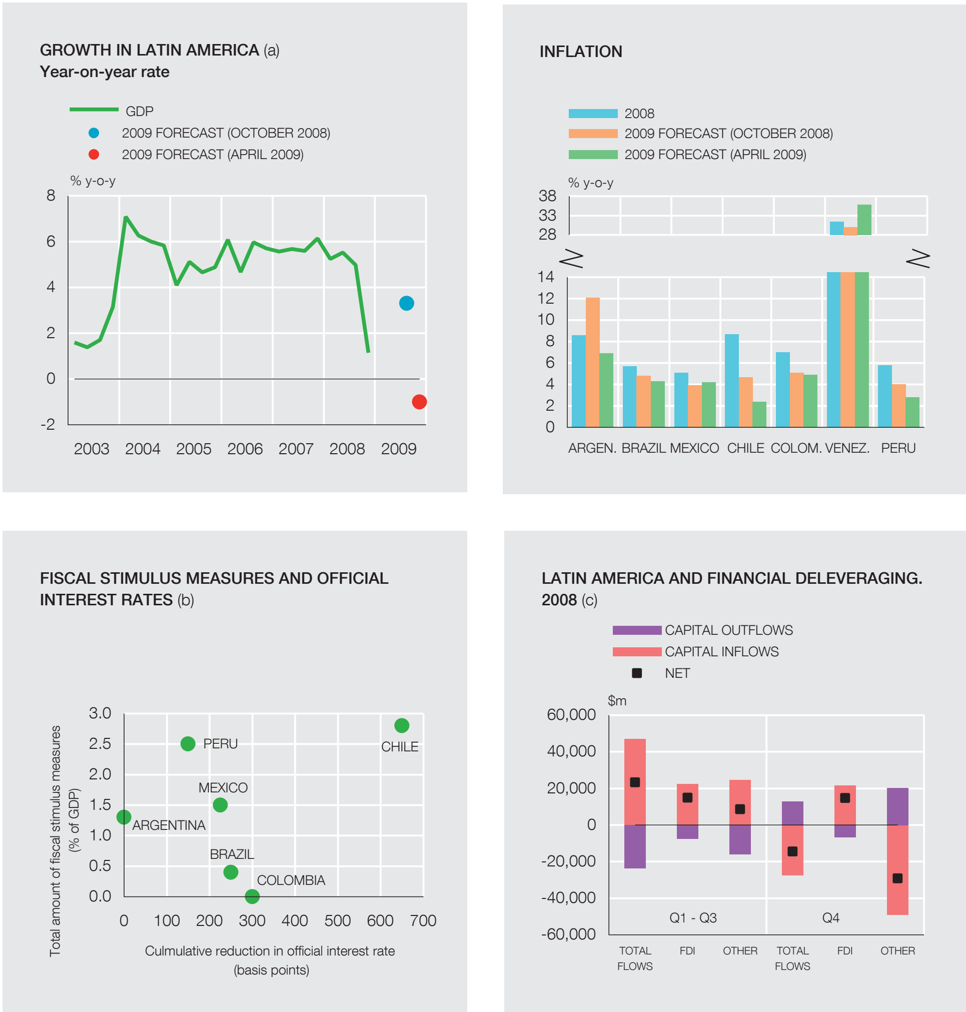
	2006	2007	2008	2007				2008				
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	March
GDP (year-on-year rate)												
Latin America (a)	5.6	5.7	4.2	5.2	5.5	5.7	6.3	5.2	5.5	5.0	1.0	
Argentina	8.5	8.7	7.0	8.0	8.6	8.8	9.1	8.5	7.8	6.9	4.9	
Brazil	3.7	5.4	5.1	4.4	5.4	5.6	6.2	6.1	6.2	6.8	1.3	
Mexico	4.9	3.2	1.3	2.5	2.6	3.4	4.2	2.6	2.9	1.7	-1.6	
Chile	4.6	4.7	3.2	5.9	5.5	3.6	3.8	3.4	4.6	4.6	0.2	
Colombia	6.9	7.5	2.5	8.5	8.0	6.5	8.0	4.1	3.9	2.9	-0.7	
Venezuela	10.3	8.4	4.8	8.8	7.6	8.6	8.5	5.0	7.3	4.1	3.2	
Peru	7.6	9.0	9.8	8.8	8.1	8.9	9.8	10.3	11.7	10.7	6.7	
Uruguay	7.0	7.8	12.1	6.6	3.9	9.6	9.5	9.8	16.0	13.2	9.5	
CPI (year-on-year rate)												
Latin America (a)	5.2	5.4	7.9	4.9	5.3	5.4	5.9	6.6	7.7	8.5	8.5	7.4
Argentina	10.9	8.8	8.6	9.5	8.8	8.6	8.5	8.5	9.1	8.9	7.8	6.3
Brazil	4.2	3.6	5.7	3.0	3.3	4.0	4.3	4.6	5.6	6.3	6.2	5.6
Mexico	3.6	4.0	5.1	4.1	4.0	4.0	3.8	3.9	4.9	5.5	6.2	6.0
Chile	3.4	4.4	8.7	2.7	2.9	4.8	7.2	8.0	8.9	9.3	8.6	5.0
Colombia	4.3	5.5	7.0	5.2	6.2	5.3	5.4	6.1	6.4	7.7	7.8	6.1
Venezuela	13.6	18.8	31.4	19.0	19.5	16.2	20.0	26.3	31.0	34.6	33.4	28.5
Peru	2.0	1.8	5.8	0.4	0.8	2.4	3.5	4.8	5.5	6.1	6.6	4.8
Uruguay	6.4	8.1	7.9	7.0	8.1	8.7	8.6	7.7	7.6	7.6	8.6	7.5
BUDGET BALANCE (% of GDP) (b)												
Latin America (a)	-0.7	-0.5	-0.3	-0.5	-0.2	-0.2	-0.2	0.0	-0.3	-0.1	-0.3	
Argentina	1.8	1.1	1.4	1.5	1.6	1.7	1.1	1.5	1.6	1.9	1.4	
Brazil	-2.9	-2.2	-1.6	-2.6	-2.1	-2.2	-2.2	-1.6	-1.8	-1.3	-1.6	
Mexico	0.1	0.0	-0.1	0.7	0.4	0.1	0.0	0.0	-0.3	0.0	-0.1	
Chile	8.0	8.7	5.0	7.9	8.6	8.7	8.7	9.2	7.2	6.1	5.0	
Colombia	-3.7	-3.3	-1.7	-3.2	-2.1	-2.4	-2.8	-2.2	-2.5	-2.4	-1.7	
Venezuela	0.0	3.0	—	-1.3	1.2	0.9	3.0	—	—	—	—	
Peru	1.4	1.1	2.2	1.5	1.2	1.7	1.8	2.3	3.1	2.1	2.2	
Uruguay	-0.6	-0.3	-1.5	-0.8	0.5	1.0	0.0	1.1	-0.3	-1.1	-1.5	
PUBLIC DEBT (% of GDP)												
Latin America (a)	39.1	33.7	29.9	38.1	37.4	33.9	33.7	31.7	31.0	29.6	29.9	
Argentina	64.2	55.5	44.6	61.5	59.1	55.8	55.5	52.4	50.5	46.0	44.6	
Brazil	44.7	42.7	35.8	44.7	43.9	43.2	42.7	40.8	40.1	37.8	35.8	
Mexico	23.2	21.1	24.5	23.3	23.9	21.2	21.1	21.0	20.7	20.8	24.5	
Chile	5.3	4.1	5.2	5.2	5.1	4.4	4.1	3.6	3.9	4.5	5.2	
Colombia	44.8	32.9	33.4	42.7	42.2	35.6	32.9	32.6	32.5	32.7	33.4	
Venezuela	41.9	22.7	13.5	31.7	29.9	21.2	22.7	20.9	13.6	12.6	13.5	
Peru	32.7	29.7	24.1	30.8	29.6	31.4	29.7	27.6	25.3	23.9	24.1	
Uruguay	70.9	70.5	57.8	62.6	67.6	68.7	70.6	70.1	68.1	62.5	57.5	
CURRENT ACCOUNT BALANCE (% of GDP) (b)												
Latin America (a)	2.0	0.8	-0.4	1.7	1.5	1.1	0.9	0.7	0.5	0.4	-0.4	
Argentina	3.6	2.7	2.3	3.5	3.3	2.8	2.7	2.8	2.0	2.8	2.3	
Brazil	1.3	0.1	-1.8	1.1	1.1	0.6	0.1	-0.6	-1.1	-1.5	-1.8	
Mexico	-0.2	-0.6	-1.4	-0.5	-0.7	-0.7	-0.6	-0.5	-0.5	-0.9	-1.4	
Chile	4.7	4.4	-2.0	5.9	5.7	5.0	4.4	3.1	1.9	0.0	-2.0	
Colombia	-1.8	-2.8	-2.8	-2.5	-2.8	-3.0	-2.9	-2.2	-2.1	-2.1	-2.8	
Venezuela	14.7	8.8	14.3	12.0	10.0	8.8	8.8	11.5	14.7	17.8	14.3	
Peru	3.0	1.4	-3.3	3.2	3.0	2.1	1.4	0.3	-1.2	-2.2	-3.3	
Uruguay	-2.0	-0.3	-3.9	-1.3	-0.7	-1.1	-1.0	-0.3	-3.2	-3.3	-3.9	
EXTERNAL DEBT (% of GDP)												
Latin America (a)	22.4	21.6	—	22.8	22.9	22.4	21.6	19.9	19.1	18.3	—	
Argentina	47.5	47.3	39.1	50.6	50.8	49.2	47.6	46.6	44.6	40.7	39.1	
Brazil	16.1	14.7	—	16.4	16.4	15.9	14.7	14.1	13.3	12.8	—	
Mexico	13.4	12.6		13.8	13.3	11.5	11.0	12.1	11.6	11.3	—	
Chile	32.0	34.0	37.6	32.3	33.0	33.9	34.0	33.4	35.1	37.5	37.6	
Colombia	29.5	26.0	—	24.9	25.5	25.3	25.9	18.9	19.0	19.1	—	
Venezuela	26.9	24.4	—	25.0	24.3	24.1	24.4	25.0	23.9	21.3	19.6	
Peru	28.2	28.7	27.1	28.9	29.5	29.7	29.8	31.6	30.1	28.2	27.1	
Uruguay	54.6	52.8	—	50.3	54.7	55.2	52.8	51.2	47.7	43.9	—	

SOURCE: National statistics.

a. Aggregate of the eight countries represented, except Uruguay.
b. Four-quarter moving average.

LATIN AMERICA: GROWTH AND INFLATION
Year-on-year rate of change

CHART 1



SOURCES: National statistics, G20, Consensus Forecats, Datastream and Banco de España.

a. Seven biggest economies.
b. G20 data for Argentina, Brazil and Mexico. National statistics for the rest.
c. A plus sign (+) denotes positive inflows. A negative sign (-) denotes positive outflows.

7.4% across the region in March 2009 compared with a year earlier) continued to show notable downward stickiness, more so than in other advanced and emerging economies, and the depreciation in exchange rates since September may slow the ongoing moderation of inflation rates.

In sum, neither the reduction in financial vulnerabilities nor limited net borrowing have afforded sufficient protection for the Latin American economies from the effects of an international financial crisis that has entailed a strong reduction in external demand, credit restrictions and an across-the-board fall in confidence (see Chart 1). In this setting, some of the region's traditional difficulties at times of financial volatility – such as access to external financing – have reappeared, and certain latent vulnerabilities during the boom period – such as the structural fragility of public finances – have resurfaced. However, so far no country has seen problems in its financial system of the scale and nature of those experienced in the industrialised countries. The question is whether the economic policy response will be sufficient or not – and whether any leeway is available – to stave off the risk of financial crisis. Against this background, the extension of bilateral and multilateral financial support may prove a key factor in restoring confidence.

CHANNELS OF TRANSMISSION OF THE FINANCIAL CRISIS TO LATIN AMERICA AND ECONOMIC POLICY RESPONSES

BOX 1

The financial crisis originating in the United States impacted Latin America following several years of extraordinarily favourable external conditions, in which the region was the recipient of sizeable financial flows from the rest of the world. This box analyses the channels of transmission of the crisis to Latin America and the economic policy responses adopted.[1]

After a first year in which the financial turmoil had a limited impact on Latin America, the international financial crisis that began in mid-September was felt with great intensity, through the start of a severe process of deleveraging. Initially and particularly virulently, this process affected the countries with a greater degree of financial integration, such as Chile, Mexico and, especially, Brazil. As Chart 1 shows, the withdrawal of short-term foreign capital in Brazil from October amounted to $32 billion. In Mexico, the related amount was $8.1 billion. That prompted a depreciation of these countries' currencies from their 2008 peak of around 40% against the dollar. In Argentina, the downward trend of the currency was more moderate, but non-financial private-sector capital outflows stepped up (almost $9 billion in the second half of 2008), and there was a concurrent increase in the proportion of dollar deposits to almost 19% of the total, compared with 14% in early September.

Thus, as a result of deleveraging and of the habitual funding markets (foreign credit lines, currency swaps) drying up, the period in particular from October to November saw an appreciable rise in the cost of financing in dollars for local financial intermediaries and a significant credit restriction in this currency, with a particular impact on trade financing. The effects of this restriction were exacerbated by the habitual increase in the public's preference for the dollar as a safe-haven currency, and – on this occasion – by specific factors such as the reversal of foreign exchange derivatives transactions by certain non-financial corporations, which experienced heavy losses (Mexico, Brazil), and uncertainty over the capacity of local banks to refinance their foreign credit lines (Chile, Mexico).

In this situation, central banks took a wide range of measures, aimed chiefly at the following objectives: to mitigate the depreciation of their currencies; to ease liquidity pressures and the credit restriction on dollars; and to counter the tightening of financing conditions in local currency.

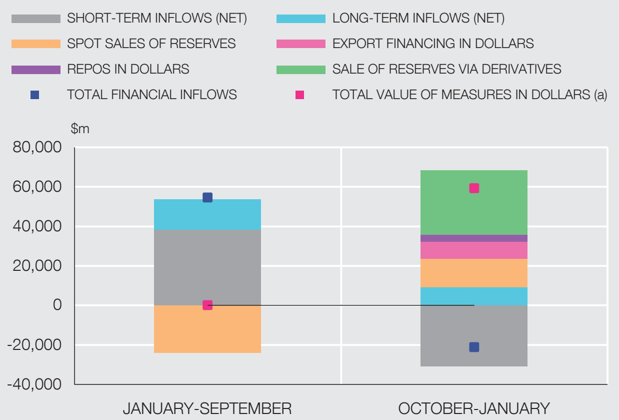
To mitigate the volatility of exchange rates, most central banks intervened selling reserves. In Brazil and Mexico, these sales totalled $15 billion and $19 billion, respectively, on the spot market, while intervention involving exchange rate swaps in Brazil amounted to $32 billion (see panel 2). A greater relative effort to sustain the currency was apparent in Peru, where the degree of exchange-rate flexibility is limited by the high level of financial dollarisation.

There were most considerable measures to increase liquidity in dollars in Brazil, where the central bank injected dollars into the interbank markets and conducted tenders of this currency to provide credit to the export sector and banking system. A mechanism – which has not yet been used – was also designed to provide for the refinancing of corporate-sector foreign-currency-denominated liabilities for an amount of up to $43 billion. In other countries financial inflows were encouraged by the reduction of foreign currency reserve requirements (Peru) and the elimination of taxes on financial inflows (Colombia). The Argentine and Chilean central banks also extended loans in dollars to commercial banks to facilitate foreign trade financing.

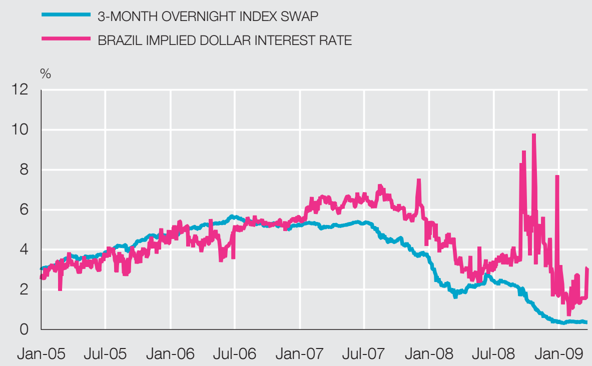
Overall, in respect of the measures aimed at alleviating local-currency funding difficulties, Brazil was also the most active country, given that a more severe risk of credit restriction was perceptible and there was greater room for manoeuvre. Reductions in bank reserve requirements have freed around 40% of the resources immobilised before the start of the crisis, equivalent to more than

1. An extensive country-by-country review of these measures can be found in: The reactions of Latin American and Caribbean governments to the international crisis: an overview of policy measures up to February 2009, ECLAC, 2009.

1 BRAZIL: FINANCIAL CRISIS, FINANCIAL FLOWS AND RESERVES



2 DOLLAR INTEREST RATES IN BRAZIL



SOURCES: Bloomberg and Banco Central do Brasil

a. The total value of measures in dollars includes repos in dollars, export financing in dollars, spot sales of reserves and sales of reserves via derivatives.

15% of banking system deposits, and changes have also been made to cash ratio arrangements to ease the transmission of liquidity in the interbank market. The authorities likewise attempted to support credit more directly, through injecting 100 billion reales (3% of GDP) into the public-sector development bank, and the approval of legislation allowing public-sector banks to acquire private banks. In Chile, the central bank allowed requirements in dollars to be covered by local currency. In Colombia bank reserve requirements were lowered, and the contractionary effect on liquidity of sales of reserves was offset by central bank public debt purchases, which were also resorted to in Chile. Argentina, Venezuela and Peru reduced reserve requirements in order to provide greater liquidity to the banking system. Mexico set in train a programme to increase short-term liquidity through interest rate swaps, the repurchase of government bonds and the extension of the eligible collateral for borrowing from the Bank of Mexico.

The measures adopted have met some of the objectives for which they were designed. Indeed, the use of international reserves has proved effective for addressing specific problems in foreign trade financing, for refinancing foreign-currency-denominated loans and for providing dollars to the financial system. Moreover, from a broader perspective, the fall-off in foreign financing has not resulted in a financial crisis in the region, which is a significant achievement. However, government intervention has not been able to counter more than partially the severe tightening of credit conditions, and in some countries it has not prevented a decline in credit, a situation which continues to worsen.

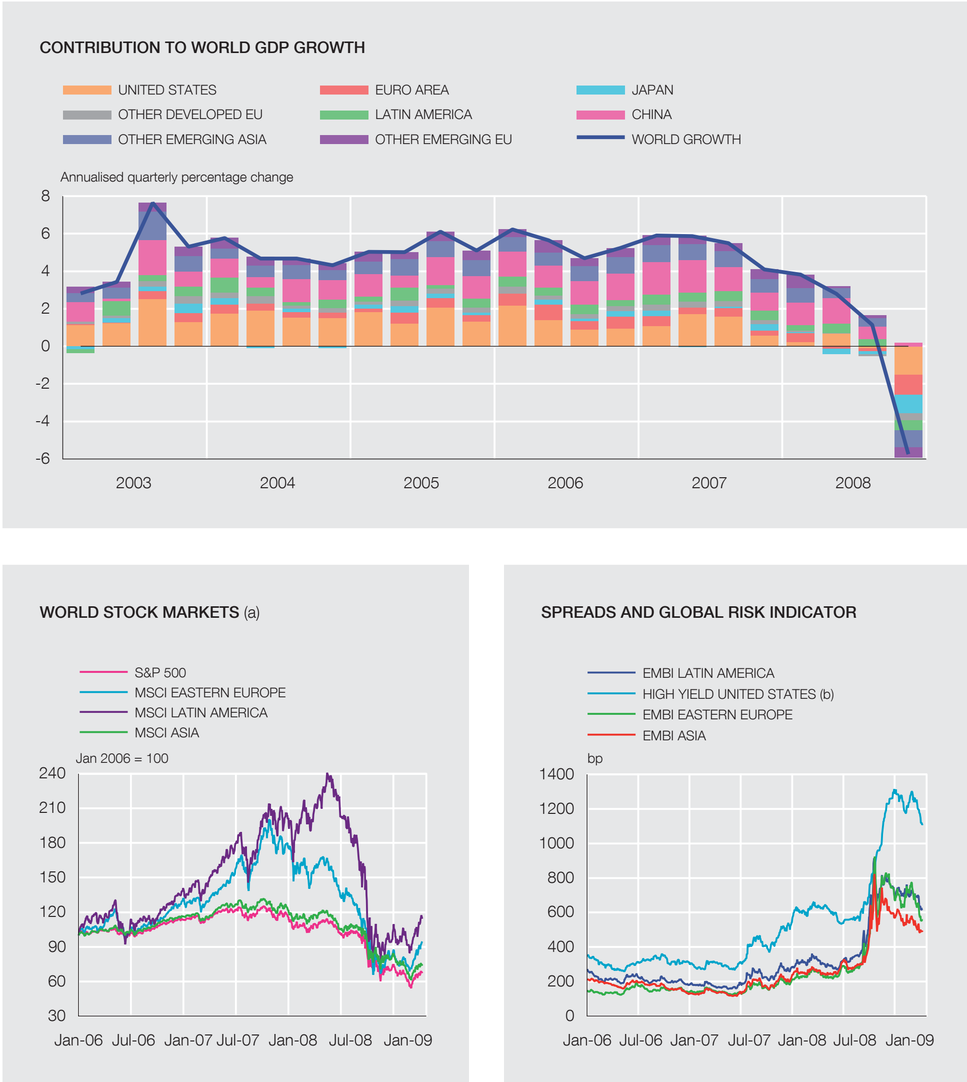
Economic and financial developments: external environment

In the last two quarters of 2008 – especially in Q4 – and at the start of 2009 there was a rapid deterioration in the world economy, which moved into what may be characterised as a global recession. Following the bout of extreme tension that broke out on the international financial markets in mid-September, the world economy saw an unprecedented collapse in activity and trade as a result of the impact of the financial crisis (see Chart 2). The annualised quarterly rate of GDP fell by 6.3% in the United States, by around 6% in Europe and by almost 13% in Japan. In the main emerging countries there was also a strong correction in activity, though on occasions not as sharp as in the industrialised countries. In China, too, growth in Q4 was far lower than in the previous quarters, and the foreign trade indicators showed a significant contraction. In the Asian economies more open to trade, both exports and industrial production collapsed at double-digit rates, while in eastern Europe the risk of a regional financial crisis increased in light of the scale of their external imbalances. Against this backdrop, the growth outlook worsened globally, giving rise to a further strong decline in commodity prices from October, of 40% in the case of oil and of 25% in that of metals, this being a key factor for Latin America.

The situation required resolute monetary and fiscal policy measures, with sizeable cuts in official interest rates in the main developed and emerging economies. The Federal Reserve lowered its official interest rates on three occasions, from 2% to a range of 0%-0.25%, moving towards a non-conventional monetary policy framework that entailed a most substantial increase in its balance sheet and, moreover, the announced acquisition of long-term government debt for an amount of up to $300 billion, with the aim of facilitating the decline in interest rates. The ECB changed its policy stance and cut its official rate on five occasions, to 1.5%. And the Bank of Japan lowered its official rate to 0.10%. The flight to quality led US 10-year yields to fall to historical lows of 2% in late 2008, although they subsequently stood in a range of between 2.5% and 3%. Heightening risk aversion and the search for quality were also reflected on the foreign exchange markets, as highlighted by the clearly rising trend of the dollar against most of the emerging and developed countries' currencies, which was only interrupted significantly in March. In this respect and for much of the period, the dollar appreciated particularly sharply against some of the main eastern European currencies (the Polish zloty, the Hungarian forint and the Russian rouble). But currencies such as the Mexican peso, the Brazilian real or the Korean won have depreciated by more than 30% since the publication of the October half-yearly Latin American report.

GLOBAL MACROECONOMIC AND FINANCIAL INDICATORS
Basis points and indices

CHART 2



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

a. Indices in dollars.
b. B1-rated bond.

While recently there has been some stability, the financial markets are far from having returned to normal. This stability has largely been due to the swift application of support measures in the area of liquidity provision, recapitalisation, the providing of public guarantees and the purchase of troubled assets, which have contributed to sustaining the basic functions of the financial system, but have not restored agents' confidence. In the case of the emerging economies, an influential factor in stabilising the markets was the simultaneous announcements in late October by the Federal Reserve and the IMF, respectively, of a liquidity swap facility to Brazil, Mexico, South Korea and Singapore, and of a non-conditional short-term liquidity facility for countries with sound fundamentals and policies, which was later replaced in March by a more flexible facility (see Box 1). Sovereign spreads, measured by the EMBI+, have returned to levels around 650 bp after reaching 860 bp in late October, a six-year high, while stock markets hovered around minimum levels after the slump from July to October (see Chart 2). Region by region, the EMBI stood at very similar levels in Latin America, eastern Europe and Asia, although the increase was greater in eastern Europe, where the stock market performance was also relatively worse.

Activity and demand

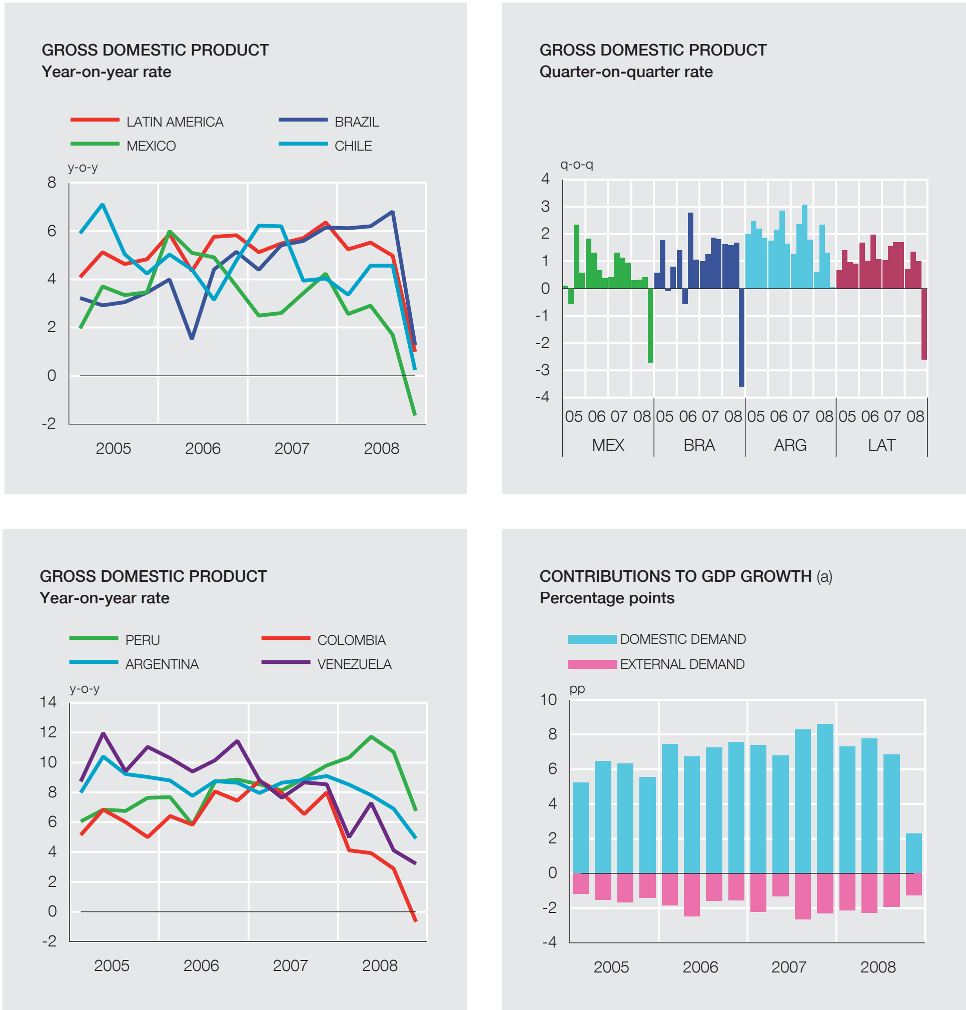
The aggregate national accounts data for the region as a whole show the strong impact of the crisis on Latin America during 2008 Q4, when the economy grew by only 1% year-on-year, compared with 5% in Q3 (see Chart 3). Until then, the financial turmoil and the notable slowdown in the developed countries had only had a limited effect on the region. However Mexico and, to a lesser extent, Colombia, which were both ahead in the regional business cycle, had already experienced an appreciable slowdown in previous quarters, attributable essentially to the tightening of their monetary policies and to the subsequent decline in external demand. Nonetheless, there were abrupt and synchronised quarter-on-quarter declines in practically all countries in the region (–2.6% on aggregate) in 2008 Q4 (see Chart 3). At the end of the year, then, Chile was technically in recession according to the definition of two consecutive quarters of negative growth, and the rest (except Peru) were on the verge of recession. Brazil, whose growth accounted for more than 2.5 pp of the region's overall year-on-year growth to Q3, saw its contribution decline to only 0.5 pp, while Mexico's contribution was negative for this same amount. The region's very moderate year-on-year growth in Q4 was thus based on the contribution of Argentina, Peru and Venezuela.

During the first year of turmoil, Latin America showed notable resilience. There was some consensus that this was based on very positive terms of trade, the reduction of financial vulnerabilities achieved in recent years and the reduced reliance on external financing, aspects which are interrelated to some extent. If this resilience was somewhat unexpected, so too was the abruptness of the current adjustment, which in some countries (Brazil and Peru) has entailed a decline in GDP growth of between 4 and 5 pp, in terms of the year-on-year rate, in only one quarter, and an even bigger fall in domestic demand. Conceivably, therefore, although the real channel was the dominant one for the transmission of the crisis from the start of the turbulence in most countries (including Argentina, Chile, Mexico, Peru and Colombia), its effect was slow and belated (in some cases a whole year) in filtering through to growth, owing to the soundness and to the inertia of domestic demand. However, from September, the sharp worsening in the international economic situation, the interaction of the financial transmission channel – through the credit crunch – with the real channel (in particular, the collapse of external demand and of commodity prices) and confidence effects have all resulted in a much more immediate and virulent impact on activity in only one quarter than in the whole of the previous year. It is illustrative here that the composition of GDP growth in the region in Q4, where the adjustment of domestic demand is on such a scale that it accounts for only 2.2 pp of year-on-year growth, compared with almost 7 pp in Q3 (see Chart 3). The negative contribution of external demand to growth was moderately corrected by the slowdown in imports (from 14.5% in Q3 to 2% in Q4), despite the strong decline in exports (–6.2% year-on-year), which is a further sign of the intensity of the adjustment.

Component by component, the biggest adjustment was in gross capital formation (which grew by 2.6% year-on-year, against 14.3% in Q3). This is the most cyclical component and is habitually affected most directly by changes in the availability and cost of financing. In addition, there was a fall in the price of commodities which, in the case of Latin America, are linked to a substantial portion of industrial investment (see Chart 4). This slowdown in investment was across the board, but particularly pronounced in the biggest South American economies (Argentina, Brazil and Chile), where this demand component had been more dynamic in recent years. However, perhaps the most salient development was the strong slowdown in private consumption (which increased by 1.7% year-on-year, compared with 5.3% in Q3), which was particularly evident in Mexico (posting negative rates), Brazil and Chile. The incipient deterioration in the labour market indicators, especially in Brazil and Mexico, the weakness of remittances flows, the change in the credit cycle, the worsening growth outlook and, in sum, the collapse of confidence are expected

LATIN AMERICAN GDP
Year-on-year and quarter-on-quarter rates, and percentage points.

CHART 3



SOURCE: National statistics.

a. Aggregate of the seven main economies.

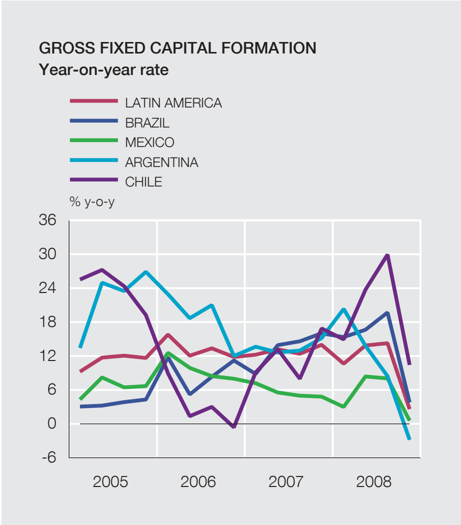
to make for an unfavourable outlook for consumption. Indeed, the higher-frequency indicators point to a possible intensification of the slowdown in 2009 Q1: industrial production was falling at a quarterly moving average rate of 10% in January, the biggest decline since 2002, while retail sales are slowing strongly and tax revenue is growing less than expected (see Chart 5).

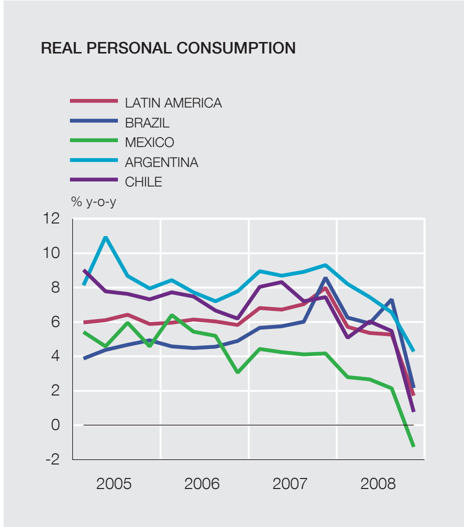
This means that the factors which might a priori help mitigate the weakness of domestic demand (the expected fall in inflation, the cut in official interest rates, the restoring of credit thanks to public-sector backing and an expansionary fiscal policy stance) do not so far seem to be sufficient. Indeed, interest rates on credit have been raised in many countries (incorporating higher risk premia), credit to the private sector is slowing and new credit it is falling in the countries for which data are available (see Chart 5).

One key factor behind this deterioration in the economic outlook was the parallel collapse in imports and exports in the second half of the year. This was due, in part, to the decline in commodity prices from July (around 60%) and to the high component of import recycling business in the exports of several countries (Mexico, among others). Imports, which grew at a rate of close to 40% on average for the region in the first half of 2008, posted a negative rate of over

PRIVATE CONSUMPTION AND INVESTMENT
Year-on-year rate

CHART 4





SOURCE: National statistics.

a. Seven biggest economies.

10%, while exports underwent a turnaround from growth of 25% to a negative rate of –20% (see Chart 6). The scale of such rates is evocative of the slowdown in foreign trade in commercially more open areas, such as emerging Asia. Consequently, the negative contribution to growth of external demand fell, albeit only moderately; only in countries such as Venezuela (greatly affected by the decline in oil prices and more dependent on imports) and Argentina did the negative contribution of the external sector to growth increase. Against this background, the current surplus for the region as a whole has disappeared, following the declining trend in train since a peak was reached two years back. Chart 6 shows that the external position of all the countries is in deficit, except in Argentina and Venezuela.

Financial markets and external financing

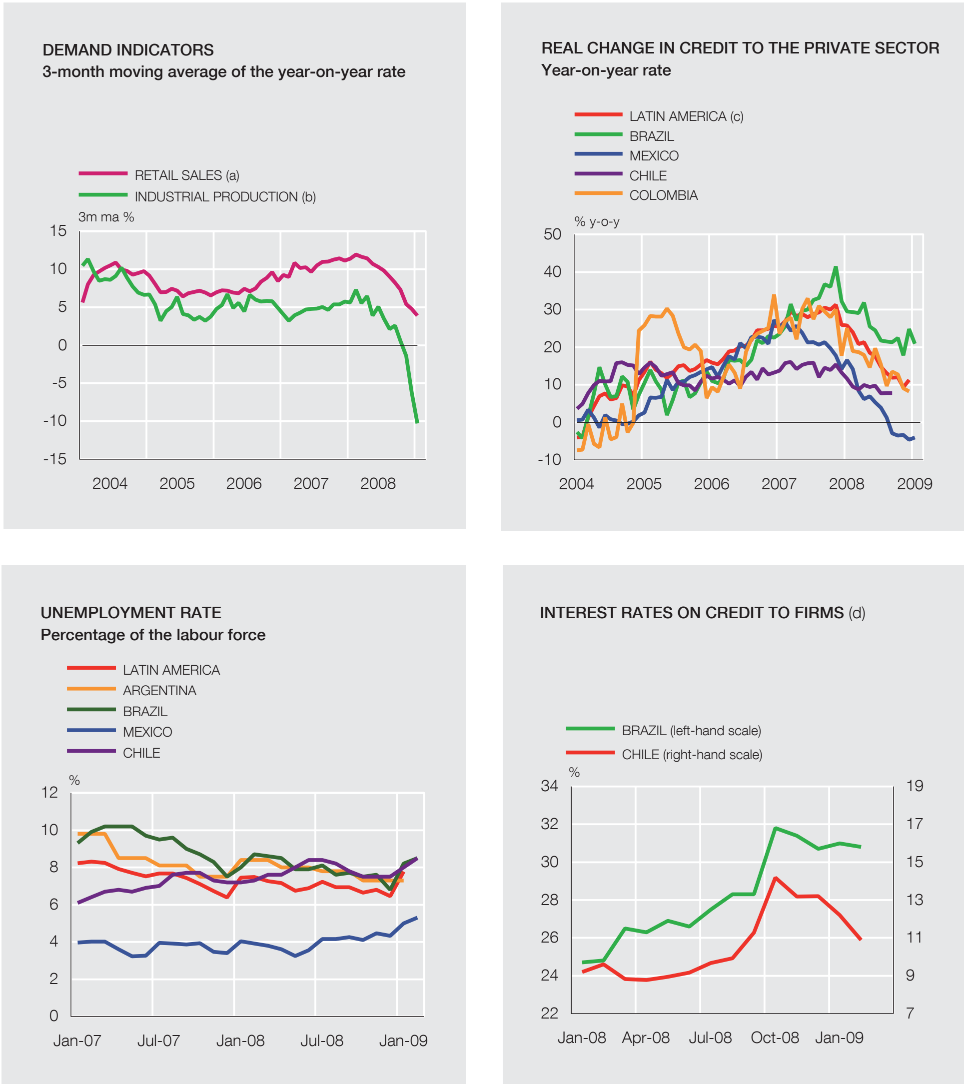
The global financial crisis in mid-September marked a key turning point for the region's financial markets. Although there had been a significant correction on stock markets and fixed-income markets since the summer, as a result of portfolio investment outflows, October and November saw bank flows and the usual funding sources practically dry up, along with a sizeable increase in the cost of bank and non-bank financing, and a sharp rise in the preference for the dollar. As Chart 1 shows, there was an abrupt reversal in Q4 in gross inflows in the region's four main economies (such inflows having amounted to more than $40 billion on average in the first three quarters of 2008). These turned into capital outflows of almost $30 billion, despite the more favourable and countercyclical behaviour of foreign direct investment, which partly offset the fall-off in "other flows" (around $50 billion).

In this setting, the currencies of the countries with the highest degree of financial integration (Brazil, Mexico and Chile) depreciated by close to 40% from their peak exchange rate in 2008 (see Chart 7). But their recent trajectory shows differentiated trends: the exchange rate of the Brazilian real has tended to stabilise, supported by central bank sales of reserves; the Chilean peso has appreciated (by 10% since mid-October); and the Mexican peso has fluctuated both ways, depreciating to mid-March (10%) and recovering thereafter. The downward movement was related to the vulnerability perceived in the Mexican economy owing to its ties to the United States and to doubts about its capacity to finance its current account deficit. Such doubts were alleviated from March further to the access to the IMF's new financing facility and to the Federal Reserve's swap facility. The Argentine peso, the exchange rate of which had held very stable since the start

DEMAND, CREDIT AND EMPLOYMENT INDICATORS

Year-on-year rates and their 3-month moving average and percentages

CHART 5



SOURCE: National statistics.

a. Argentina, Brazil, Mexico, Chile, Colombia and Venezuela.
b. Eight biggest economies.
c. Seven biggest economies.
d. Interest rates on credit to legal entities in Brazil; interest rates on trade credit in Chile.

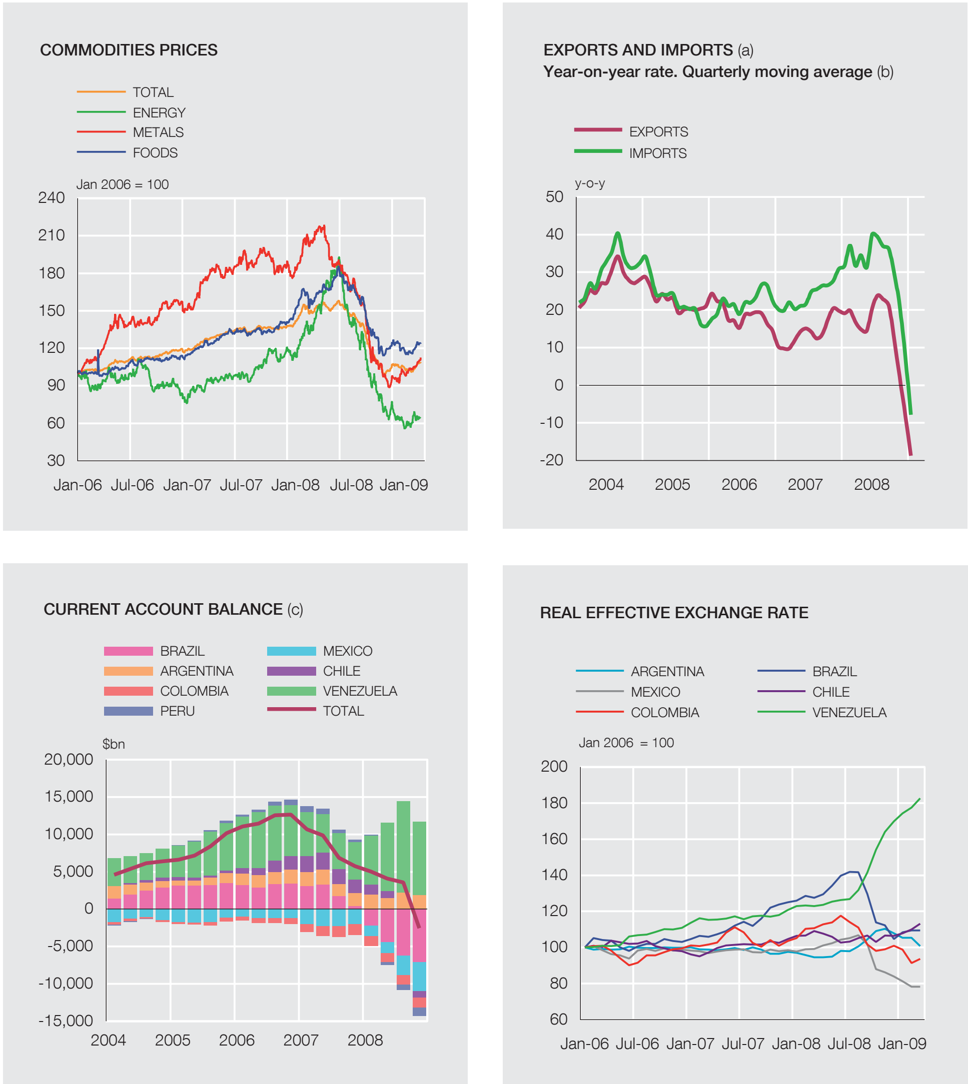
of the turmoil, trended gradually downwards from October, recording a cumulative depreciation of 12%. The recent depreciation of exchange rates, measured in real effective terms (see Chart 6), shows a relatively generalised correction in the strong appreciation accumulated in the previous years, except in the case of the Venezuelan bolivar. In the case of the Mexican peso, a significant depreciation from the levels of three years earlier can be seen.

Sovereign spreads and implied CDS premia, after widening most substantially from mid-September to mid-October, have trended unevenly from country to country, highlighting some risk discrimination by the market. Thus, the sovereign spreads and CDS of Argentina and Venezuela have continued widening and reached a high, discounting a high probability of default. In the remaining countries, although CDS premia remained high, there has been some narrowing from the levels reached after the bankruptcy of Lehman Brothers, standing at around 300 bp in Brazil, Mexico, Peru and Colombia, and closer to 200 bp

EXTERNAL ACCOUNTS AND DETERMINANTS

Year-on-year rates of change, indices and billions of US dollars

CHART 6



SOURCES: National statistics and Banco de España.

a. Customs data in dollars.
b. Aggregate of the seven biggest economies.
c. Four-quarter moving average.

in Chile, whose solvency was acknowledged with a further upgrading in March. In contrast, Argentina, Venezuela and Ecuador saw their ratings downgraded in this period (see Chart 7).

Finally, stock markets tended to stabilise and practically recover in full from late October, following the sharp declines (of around 40%) in the previous months. Hence, although volatility was marked, since October the main markets have picked up by around 15% in the cases of Brazil and Chile, but also in those of Venezuela and Peru. The Argentine, Colombian and Mexican markets held at levels closer to those in October.

Set against these developments, it is estimated that capital flows to Latin America in 2009 could fall most sharply: they would account for approximately one-third of net flows received in 2008 and eightfold less than in 2007, including a sizeable decline in foreign direct investment, habitually considered as the most stable source of financing (see Chart 8). Sovereign and corporate issues fell significantly in the second half of 2008 and in early 2009. However, one positive aspect is that issuers such as Brazil, Mexico, Peru and Colombia have maintained access to international markets in this period, and they might already have met their financing needs for 2009 (and part of 2010 in some cases). The perception of greater refinancing risk has focused on private-sector issues, whose substantial maturities in dollars this year (see Chart 8) might have to be rolled over, in part, on local – and habitually narrower – debt markets, or through resort to bank credit. In any event, this refinancing risk is estimated to be somewhat less than in other emerging regions and might be partly alleviated by multilateral (IDB, IMF and WB) and bilateral financial support.

Prices and macroeconomic policies

Following the sizeable increase in headline and core inflation rates from early 2007, running through well into 2008 (up to a peak of 8.8% year-on-year in October in terms of the regional aggregate), both indices have begun to ease off in recent months (7.4% in March), albeit only moderately and with substantial differences from one country to another (see Chart 9). In Chile, the inflation rate fell appreciably, by more than 4 pp from October 2008 to 5% year-on-year in March, after five months of negative figures. At the other extreme, inflation in Venezuela has shown downward stickiness and stood at 28.5% year-on-year in March, only slightly below its 2008 peak. At an intermediate point are countries such as Mexico (6% in March) and Brazil (5.6%), where inflation has begun to ease only slowly, despite the intensity of the financial and real shock they underwent.

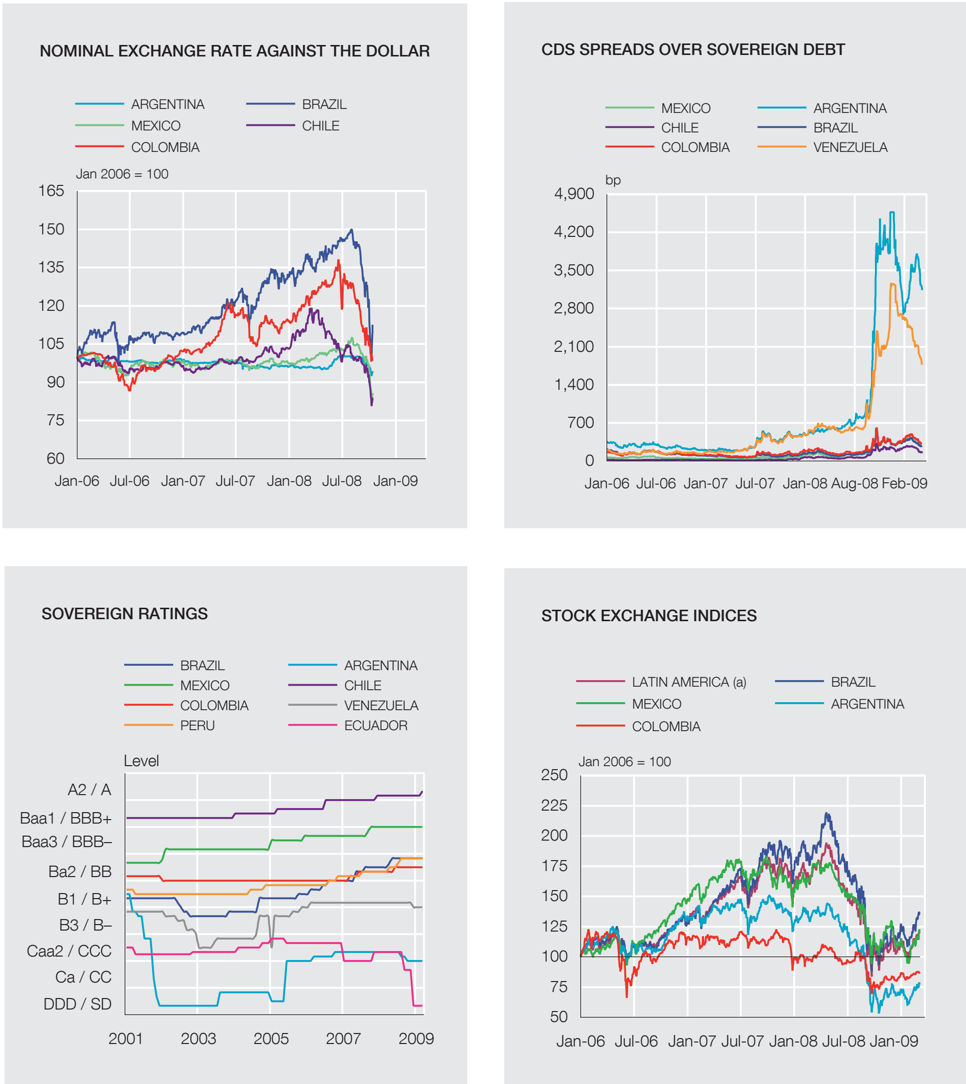
The fall in commodity prices is the main determinant of the easing in consumer prices in most of Latin America and, generally, worldwide, just as their acceleration in the previous phase was due to rising commodity prices. However, this easing off has been much more notable in the prices of energy than of food, which perhaps helps explain why the moderation in consumer prices has been slower in emerging economies, as in Latin America, where the weight of food in the CPI basket is greater and where the presence of energy consumption subsidies restricted the pass-through of the rise in oil prices to consumer prices (and now it should have prevented, in a symmetrical fashion, a clearer pass-through to a decline in the inflation rate) (see Chart 9). The existence of some market power in the setting of prices, as a determinant of their downward stickiness, has also been a concern in some countries.

Notwithstanding, the deterioration in the terms of trade and the effect on aggregate demand in Latin America as a commodity-exporting region make for a significant change in the outlook for inflation in the coming months. In this respect, though there are risks arising from the existence of pass-through effects given the sharp depreciation in exchange rates in recent months, so far there have been no discernible pressures on import prices, production or the consumer prices of unprocessed food (the odd exception aside) that give credence to a clear concernin this connection. Conceivably, therefore, the moderate improvement in inflation expectations in recent months in most countries – that should be attributed, above all, to the deterioration in the growth outlook and to the forecast of extensive output gaps in the coming quarters – should restrict to some extent the upside risks to prices.

In terms of interest-rate cuts the monetary policy response was very cautious until the end of the year, in contrast to that in the developed countries, in a context in which the evidence of a turnaround in inflation was insufficient (see Table 2). However, monetary policy in recent months has been characterised by its use of a broader range of instruments than the interest rate. Accordingly, in order to analyse the effort in easing monetary conditions, it may prove misleading to focus exclusively on interest-rate movements. In particular, in October and November, when the exogenous contraction of monetary and credit conditions became more acute, most central banks in the region (notably Brazil, but the others too) set in train a wide range of measures in order to mobilise available resources to mitigate the effects of the

CHART 7

CDS SPREADS OVER SOVEREIGN DEBT, STOCK MARKETS, DOLLAR EXCHANGE RATE AND SOVEREIGN RATINGS
Basis points, indices and level



SOURCE: Datastream.

a. MSCI Latin America Index, in local currency.

credit contraction, with particular emphasis on facilitating the provision of dollars. Without intending to be exhaustive, Box 1 reviews some of these measures. In addition to the use of reserves to moderate exchange-rate volatility, central banks took measures in many different areas, supplemented in some cases by action by finance ministries. These included most notably: export credit (Brazil and Argentina); the refinancing of banking or corporate sector liabilities through the provision of dollars (Brazil, Mexico and Chile); the extension of local-currency-denominated liquidity provision, through the lowering of reserve requirements (Argentina, Brazil, Peru, Colombia and Venezuela); broadening the range of collateral acceptable to the central bank (Mexico and Argentina); and the financial reinforcement of public-sector banks to promote credit (Brazil and Chile).

The cycle of official interest rate reductions in the region began only in December, when Colombia made its first cut (of 50 bp, to 9.50%), two months after the concerted reduction in interest rates by the Federal Reserve, the ECB and the Bank of Japan in October. Chile was next, with an unexpectedly strong cut of 100 bp in January. And Mexico and Brazil

EXTERNAL CAPITAL FLOWS AND REFINANCING
Billions of US dollars and percentage

CHART 8

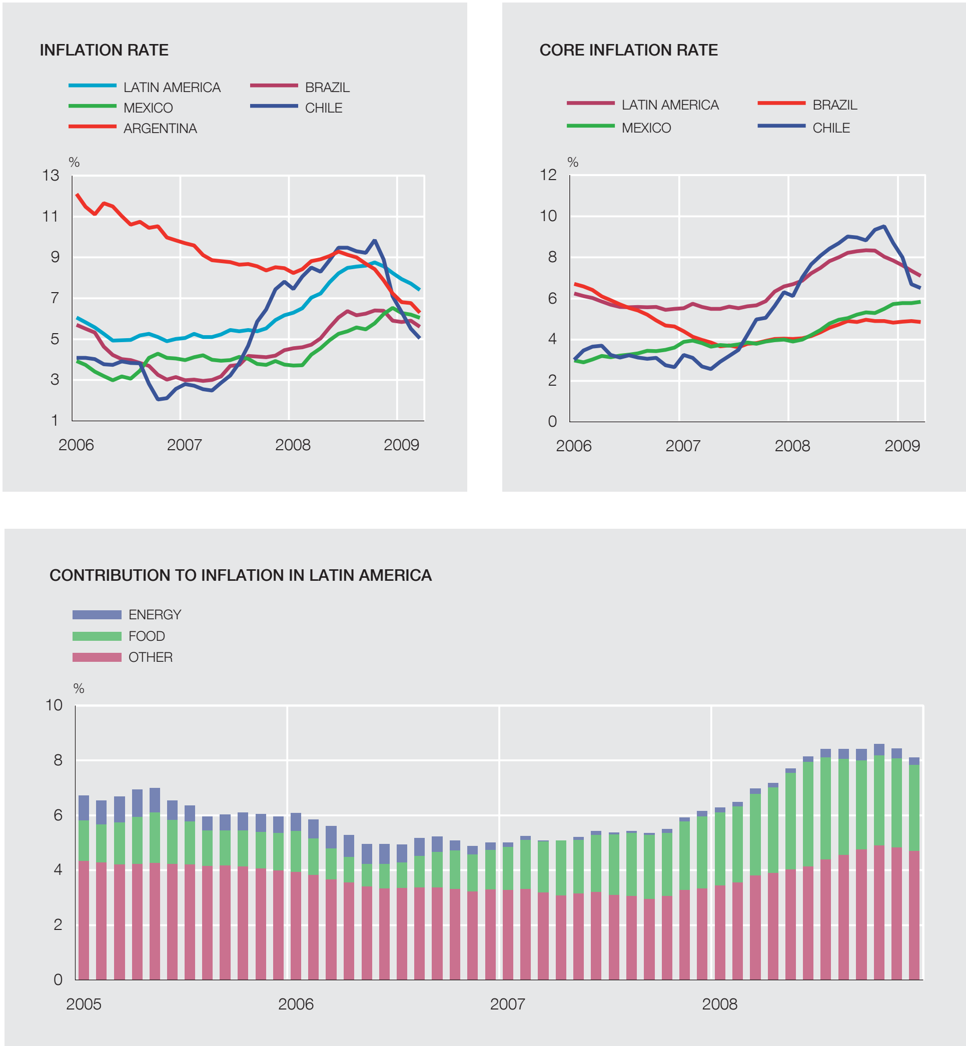
SOURCES: JP Morgan, IMF (GFSR) and national statistics.

a. 2009: Estimate.
b. IMF estimates for short-term private-sector and public debt issued in 2008 and long-term debt repayments in 2009.

followed suit, with cuts of 50 bp to 7.75% and 100 bp in February, respectively. Further cuts ensued, meaning that the cumulative decline to mid-April amounted to 650 bp in Chile and 250 bp in Brazil (in both cases entailing a complete reversal of the cycle of rises initiated in 2008 and, despite this, expectations remain on the downside), 300 bp in Colombia, 225 bp in Mexico and 150 bp in Peru. In this respect, it is worth highlighting the convergence ultimately seen among the countries pursuing inflation targets (firstly with Chile and Brazil, and after with Colombia, Mexico and Peru), as they have moved towards an acceleration of the cycle of interest-rate cuts as a monetary policy response, as opposed to a more gradualist approach, although in all cases inflation has stood to date above or in the upper range of the inflation targets (see Table 2). In this sense, Mexico and Peru, which appeared to have opted for a more gradual management of official interest rate cuts, changed their strategy. Mexico made a second cut of only 25 bp, but then took a surprise step with a third cut of 75 bp in March and a further 75 bp in April. Peru made a 100 bp cut in April, in light of the signs of the slowdown intensifying. Finally, in the countries not pursu-

INFLATION
Year-on-year rates of change

CHART 9



SOURCES: National statistics and Banco de España.

ing inflation targets (Argentina and Venezuela), monetary policy was steered by different considerations. The Argentine central bank held its interest rates unchanged despite some decline in the official measurement of inflation, although it implemented measures for greater liquidity provision, while the Bank of Venezuela shaved 2 pp off its reserve requirement in local currency and its regulated lending and deposit interest rates.

On the fiscal policy front, the key feature was the announcement of a series of relatively expansionary fiscal packages, as analysed in Box 2. In this respect, although revenue declined strongly in most countries at the start of the year, the fiscal indicators (fiscal balances, debt ratios, interest burden) continued to evidence until end-2008 a relatively favourable position. Nonetheless, the cyclical slowdown and the announced fiscal responses augur a clear deteriorating trend during 2009.

Other economic policies

During the second half of 2008 and the opening months of 2009, there was no substantial headway in structural reform, against a background in which policy measures were conditioned by the immediate response to the crisis. Brazil set up a sovereign wealth fund, equivalent to around 0.5% of GDP, which will be used to contain potential crises, to finance Brazilian

INFLATION TABLE 2
Year-on-year rates of change

Country	2007	2008			2009	
	Fulfillment	Target	Fulfillment	December	Target	Expectations (a)
Brazil	Yes	4.5 ±	Yes	5.9	4.5 ±	4.42
Mexic	Yes	3 ± 1	No	6.5	3 ± 1	4.05
Chile	No	3 ± 1	No	7.1	3 ± 1	2
Colombia	No	3.5 a 4.5	No	7.7	4.5 a 5.5	5
Peru	No	2 ± 1	No	6.7	2 ± 1	3

SOURCE: National statistics.

a. Inflation expectations for 2009 from the reports of central banks and private institutions.

companies' operations abroad and to guarantee government investments. In Venezuela, the nationalisation programme continued in the rice distribution sector, and fuel distribution in the country was granted on an exclusive basis to the State oil company. In Argentina the private management companies of pension funds were nationalised, with their resources being transferred to Social Security Funds. In Bolivia the new constitution, backing greater State intervention in the economy, was approved by referendum.

Trade integration processes were also affected by the new global economic context. In MERCOSUR, three of the four members announced the possible application of pre-import licences, or of measures protecting local industry. If implemented, such measures could reduce trade within the group. On the positive side, an initiative was launched for trade between Brazil and Argentina to be conducted in local currency. On 1 February, the Free Trade Agreement between Peru and the United States came into force, while Bolivia forwent the US trade preference arrangements granted under the ATPDEA programme.

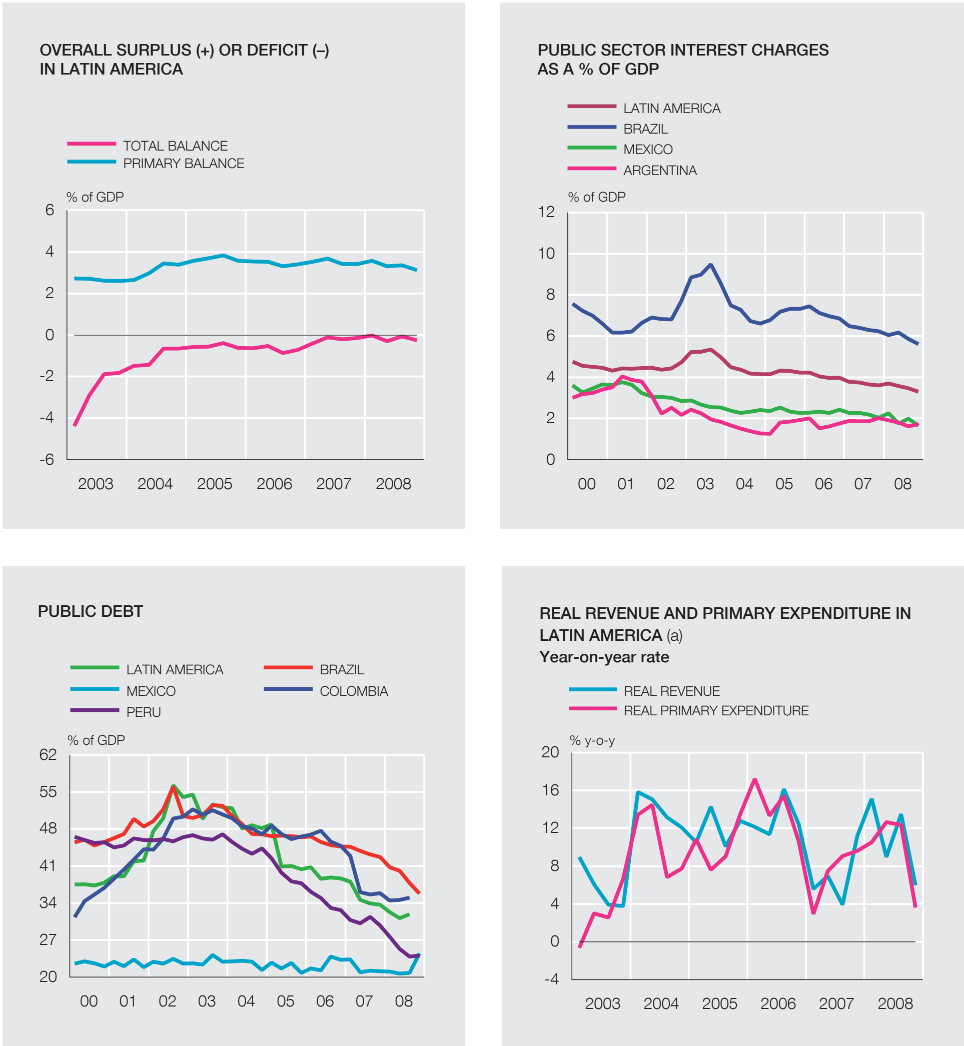
One particularly important area for international economic policy in recent months has been the G20 meetings, of which Argentina, Brazil and Mexico are part, and in which Spain has also participated. This forum has seen headway in international reform and cooperation, and means the region can better convey its interests at a time of difficulty such as the present. Its participation has contributed to the adoption of certain proposals conducive to the interests of the emerging economies, such as the increase in the IMF's financial capacity by up to $750 billion, the provision of funds for the reactivation of trade financing via multilateral banks and the creation of a new, more flexible lending facility, which Mexico and Colombia have already requested. Brazil and Peru have likewise acknowledged that they consider this facility useful, but have stated they do not intend to use it for the moment.

Countries

The Brazilian economy sustained a high growth rate in 2008 Q3 (6.8% year-on-year), but was severely affected by the deterioration in the international financial setting from mid-September. The economy contracted 3.6% in quarter-on-quarter terms in 2008 Q4, which entailed a notable decline in its year-on-year growth rate to 1.8%. However, growth for 2008 as a whole was 5.1%. The slowdown was principally due to domestic demand, the contribution of which to growth fell to only 3.2 pp from 9.2 pp in Q3, and particularly to investment (3.8% year-on-year, against 20% the previous quarter). Private consumption was also impacted, its year-on-year growth rate dipping to 2.2%, from 7.3% in Q3. Conversely, the negative contribution of external demand to growth fell slightly (to –1.8 pp from –2.4 pp of GDP in Q3), but there was a strong fall in exports (–7%) and a notable slowdown in imports (7.6%, against 22.8% in Q3). Against this background, the indicators for 2009 Q1 point to a continuation of the recession

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

CHART 10



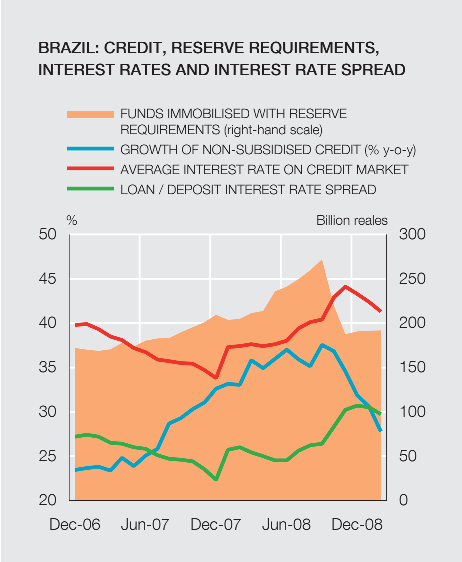
SOURCE: National statistics.

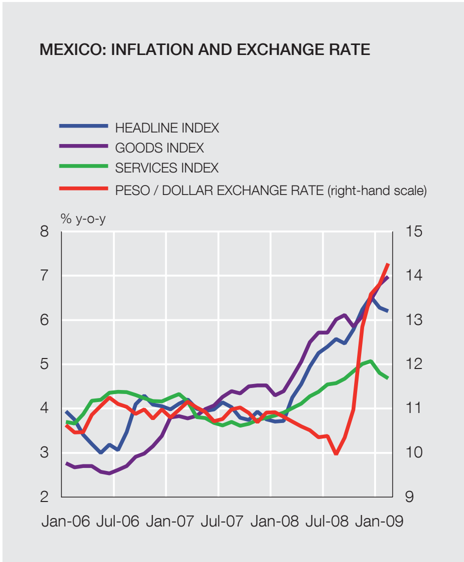
a. Deflated by the CPI.

and show clear signs of deterioration in the labour market. Along with diminished external demand, the chief impact of the crisis for the Brazilian economy has stemmed from the higher cost of and restricted access to credit, in particular to companies and for export (see Chart 11). Accordingly, the central bank intervened promptly, tempering the volatility of the exchange rate and providing liquidity in dollars and in local currency through various mechanisms. The measures adopted averted the collapse of credit to the export sector, although they were not sufficient to prevent a strong increase in the cost of financing and a reduction in the financial resources available. Turning to the external sector, the ongoing deterioration of the current account continued, with a worsening of the trade balance which, in part, was mitigated by the improvement in the income balance. There were also financial outflows from mid-September which led the central bank to intervene using substantial sales of reserves. Inflation remained high throughout the second half of 2008, close to the upper ceiling of the central bank's target (4.5% +/–2%), as a result of domestic demand pressures and food prices, although inflation expectations have tended to ease and to move closer to the mid-point of the range (4.5%). Consequently the central bank, despite the fact the inflation figures do not indicate a clear downward trend, opted to cut interest rates by 100 bp at its January meeting and by 150 bp at its March meeting, placing them at 11.25%. As regards fiscal policy, the year 2008 closed

BRAZIL AND MEXICO

CHART 11





SOURCES: Central banks of Brazil and Mexico.

with a surplus of 4.1% of GDP, higher than the target of 3.8% of GDP. In January, however, some deterioration in public finances was discerned. This is due in part to lower revenue, and partly to agreed increases in current expenditure. Unlike in other countries in the region, Brazil has not announced a large-scale fiscal plan, despite having selectively cut taxes and reduced its primary surplus target to 2.5% (see Box 2).

Activity in Mexico slowed strongly in the second half of 2008, given that GDP growth averaged zero in year-on-year terms, against 2.7% in the previous half-year period. In Q4 there was a strong adjustment in activity. GDP fell by 2.7% in quarter-on-quarter terms (7% year-on-year) owing to the contraction in private consumption (–1.3% year-on-year). International trade also felt the impact of the crisis, since exports fell at a year-on-year rate of 8.8%, and imports by 7.7%. Inflation increased by more than 2 pp during the second half of 2008 to 6.5% in December, a six-year high and 2.5 pp above the Bank of Mexico's maximum range. This was chiefly as a result of food price developments (see Chart 11), although second-round effects were also evident since the core inflation rate rose from 5.1% to 5.7% on a year earlier. Between January and March inflation declined slightly, although the rate (6.1%) is still far higher than target. In this setting, inflation expectations, measured by the Bank of Mexico's monthly survey, trended upwards, to over 4% (the upper limit of the target corridor) for 2009 and 2010. These indicators, combined with the notable depreciation of the peso, posed a monetary policy dilemma, in a setting in which activity and the international environment were worsening substantially. At the four monetary policy meetings held in 2009, official interest rate cuts were announced: 50 bp in January, 25 bp in February and 75 bp in March and April, to 6%, which appears to highlight the growing weight that the output gap has had in the authorities' reaction function. The measures taken, along with the agreement by pension funds to invest only in domestic securities in 2009, the possibility of access to the IMF's new flexible facility ($47 billion) and the announcement by the Federal Reserve of a liquidity swap facility, have been conducive to a considerable recovery by the exchange rate since mid-March. Regarding the external sector, the current-account deficit widened notably in the second half of the year, standing at 1.4% of GDP in 2008. This was due to the deterioration in the trade balance, arising in turn from a collapse in exports (led by fuel and automobiles), which had been relatively robust during the first nine months of the year. The adverse trend of remittances prompted a strong decline in transfers, while inward foreign

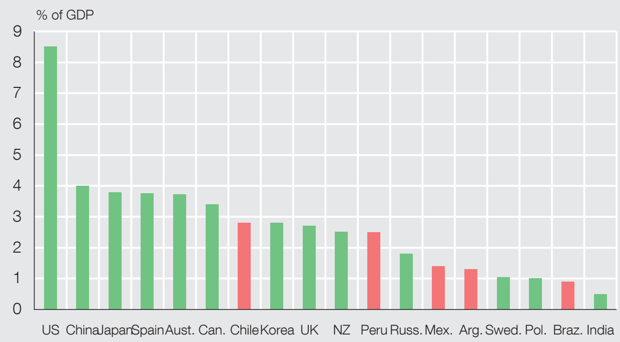
Latin American governments have responded to the global crisis not only with monetary and foreign exchange policy measures (see Box 1), but also with the implementation of fiscal plans, many of which contain measures involving financing to strategic sectors. This box seeks to examine three facets of this response: relative to the response provided by other economies; from a historical perspective; and across the other countries in the region. In addition, a summary of the main measures adopted in several of the region's economies is given.

Firstly, from an international perspective, the size of the fiscal packages announced in Latin America, measured as a percentage of GDP, is significantly below that observed in other regions (1.3% in average weighted terms for the five economies represented) (see accompanying panel), although in international comparisons such as this it is difficult to apply uniform concepts. Likewise, they are, on average, below the IMF's broad recommendation that fiscal expansions equivalent to 2% of GDP be implemented in those countries with the capacity to do so, although there are significant cross-country differences. For example, the amounts relating to the plans of two very open economies highly dependent on revenue from commodities (such as Chile and Peru) are above both the average and this recommendation. In this respect, one difference between the plans announced in Latin America and those of other countries is that the former focus their efforts on the current year (2009), while in the latter countries – especially in the developed economies – the announced stimulus is usually apportioned out over several years. In terms of composition, the measures announced in Latin America appear, by comparison, to have more features supportive of domestic consumption and to include a sizeable proportion of measures geared to financing companies and exporters (normally through the reinforcement of public-sector banks). This may be due, on one hand, to the general absence of automatic stabilisers in the region and, on the other, to the consideration of the export sector as strategic in most countries.

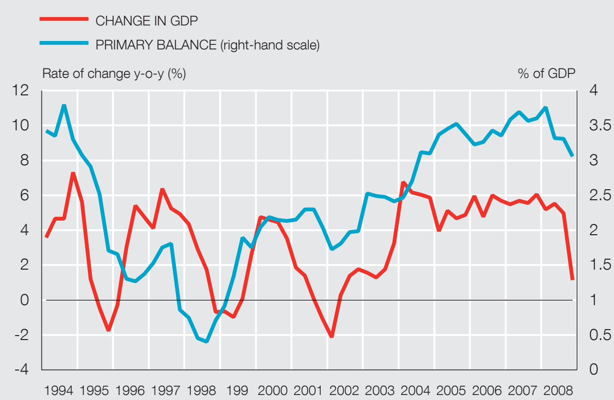
Secondly, from a time perspective, this is the first time that countries in the region are facing a crisis with some capacity to implement a countercyclical fiscal policy. As the accompanying panel shows, fiscal

1. Enrique Alberola and José Manuel Montero (2006), Debt Sustainability and Procyclical Fiscal Policies in Latin America, Documentos de Trabajo, no. 0611, Banco de España.

1 VOLUME OF FISCAL PACKAGES (a)

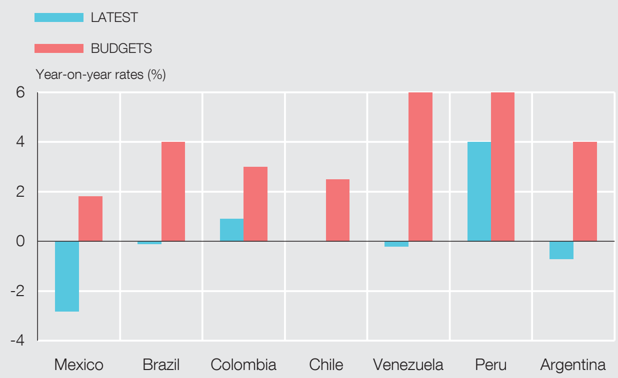


2 FISCAL STIMULUS IN LATIN AMERICA



3 VULNERABILITY INDICATORS

4 GROWTH FORECASTS



SOURCES: Banco de España and national statistics.

a. As % of GDP. Includes packages announced and/or approved, irrespective of the timing. Excludes all financial support measures.
b. Excluding Argentina.
c. In standardised bp.

policies, proxied by the primary balance as a percentage of GDP, have tended to be procyclical in the region. Following the Asian and Russian crisis (1998), or during the more recent phase of instability (2001-2002), the public-sector primary balance increased or held stable, denoting that fiscal policy was unable to exert a countercyclical effect, as a result of the high financial and fiscal vulnerability.[1] However, growth in the past cycle and the stabilisation policies pursued in the region in recent years have made for a more favourable starting position, reflected in lower external and public-sector vulnerability, which provides some leeway to pursue an expansionary policy in the current circumstances. The foregoing would also allow readier access to both domestic and external financing under relatively more favourable conditions, as the recent sovereign issues on international markets by Brazil, Mexico, Colombia and Peru would show.

In this respect, and from a regional perspective, the fiscal response of the Latin American countries to the crisis is far from uniform. Possibly, this diversity depends both on the intensity and nature of the shock each country has undergone and on the headroom for and limits to current borrowing capacity. Against this background, Chile is the only country which has been able to put a forceful countercyclical fiscal policy into practice, resorting to the prior saving in its Economic and Social Stabilisation Fund, which had accumulated up to 12% of GDP. As the accompanying table indicates, the announced plan in Chile would amount to $5.9 billion (3.6% of GDP), of which 2.8% of GDP might be considered fiscal policy in the strictest sense (tax cuts, spending on investment and transfers, and capitalisation of the State copper company, Codelco). The rest of the package comprises measures offering financial support to SMEs and exporters, and capitalisation of the State Bank. The programme is funded drawing on accumulated saving, although bond issues have also been authorised under the 2009 budget.

A similar case would be that of Peru, although its countercyclical responsiveness is considered to be somewhat less. A fiscal stimulus plan for approximately $3,850 million (3.4% of GDP) has been announced. It focuses on an increase in public spending (2.5% of GDP), although some measures were already included in the 2009 budget. Funding would be based partly on access to multilateral loans.

In Mexico, the room for manoeuvre is more limited owing to the lack of public-sector saving. But Mexico's access to international markets and to multilateral loans has enabled it to provide for fiscal stimulus on a considerable scale (1.4% of GDP). Mexico set out two plans: the first in October (the first plan submitted by an emerging economy) and the second at the beginning of the year, the main measures of which are an increase in public spending on infrastructure, a freeze on or reduction in energy charges, and an increase in public-sector employment.

Argentina has announced an expansionary fiscal policy ($3.5 billion, 1.3% of GDP). The fiscal package consists essentially of a public spending impulse (investment in infrastructure). In light of the lack of access to international markets, almost half the necessary funding would be from fixed-term deposits that had been held by the AFJP (the management companies of retirement and pension funds) – and which are now administered by Social Security Funds – and from the rollover of fixed-term funds and bills held by Social Security Funds.

Brazil and Colombia are two of the countries that have submitted more limited fiscal packages. This may be related to greater fiscal vulnerability, given their higher public debt and financial costs, and in Brazil's case with the fact that the credit restriction is the main problem facing it. Indeed, Brazil is the country in the region which has put forward the smallest stimulus in terms of GDP (excluding Ecuador), equivalent to 0.9% of GDP. However, Brazil has deployed sizeable resources to support the BNDES (National Development Bank) – 3.5% of GDP – and has recently reduced its primary surplus target for 2009 to 2.5% of GDP. To offset the effect of the fiscal package, the Treasury has announced a freeze on primary spending at 1.2% of GDP.

MAIN FISCAL AND FINANCIAL MEASURES IN LATIN AMERICA

	CHILE	PERU	MEXICO	ARGENTINA	BRAZIL
FISCAL PACKAGE AS % OF GDP	2.8%	2.5%	1.4%	1.3%	0.9%
TAX CUTS	- Financial transactions - Income tax - Corporate income tax	- Fuel tax - Customs duties	- Petrol prices frozen - Gas and electricity prices cut	- Sectoral tax - Income tax	- Financial transactions - Production taxes - Income tax
EXPENDITURE AND TRANSFERS	- Infrastructure - Housing - Social assistance - Sectoral subsidies	- Construction - Public investment - Social assistance	- Infrastructure - Temporary public employment - Energy subsidies - Social assistance	- Infrastructures	- Primary expenditure frozen at 1.2% of GDP
FINANCIAL SUPPORT	- Corporate capitalisation (CODELCO) - Recapitalisation BancoEstado - SMEs, exporters, housing	- SMEs and exporters	- Housing - Development bank - Pension funds (possibility of early withdrawal of funds)	- Tourism - Public transport	- Recapitalisation of public banking sector (3.5% of GDP) - Public banking sector support for sectors
FISCAL PACKAGE + FINANCIAL SUPPORT AS % OF GDP	3.6%	3.4%	—	—	4.5%

Finally, Venezuela acted chiefly to restrict the loss of revenue arising from the fall in oil prices, to uphold the public stimulus policy that sustained activity in 2008. In this respect, announcements have been made on a rise in the VAT rate, a 6.7% cut in administration expenses and a public-sector investment plan totalling $225 billion between 2009 and 2013 (11% of GDP each year), which is expected to be funded by international reserves and by a significant increase in domestic government debt issues.

In sum, most of the Latin American countries have been able to withstand the decline in activity with significant fiscal stimuli. That said, such stimuli have, on average, been on a lesser scale than in other emerging and developed economies, meaning that their fiscal policy might be moderately countercyclical in 2009, an unprecedented occurrence in the region. Nonetheless, beyond this initial reaction, the fiscal position is subject to notable limitations and risks. On one hand, there is a possibility that tax revenue has been overestimated in the budget, given the current economic slowdown. In this respect, the accompanying panel shows the difference between the growth forecasts in the respective budgets and the latest consensus forecasts released by analysts: there are notable differences in the cases of Mexico, Venezuela (exacerbated, moreover, by the projection of a $60 per barrel oil price, far above the present market price) and Brazil (the elasticity of whose revenue to the cycle is very high). On the other hand, from the standpoint of financing, the difficulties of global financial markets and the avalanche of issues by the industrialised countries to fund their own fiscal and financial plans might restrict the access of these countries to financing. Conversely, the IMF's new financial facilities may offer some support in this setting.

direct investment in the second half of the year fell by half. Public finances were virtually in balance (–0.1%) and the government devised two fiscal stimulus plans, which overall might be equivalent to 1.4% of GDP (see Box 2).

In Argentina the economy grew by 7% in 2008, the sixth consecutive year of growth. However, there was a significant slowdown during the year, especially in the final quarter, with growth running at a quarterly rate of –0.3% (and at an annual rate of 4.9%). There was a notable loss of momentum in investment, although private consumption also slowed. The negative contribution of external demand to growth increased once again in Q4, albeit without reaching the amount recorded in previous quarters. The volume of both exports and imports declined in that quarter. During 2008, the current account balance posted a surplus of 2.3% of GDP, only marginally below the related figure in 2007. The trade surplus widened by 21%, but was offset by a bigger deficit in the other items. Official measurement of the CPI revealed an easing of inflation during the year. The calculations by provinces or by private institutions indicate a similar moderating profile, but with higher inflation rates. Turning to public finances, the growth rate of tax revenue moderated in Q4 owing to the slowdown in activity and, especially, to the fall in agricultural commodity prices. Until Q4, the favourable trend of such prices (and the sale of stocks built up during the agricultural dispute) contributed to sustaining the government's primary surplus, despite the considerable increase in public spending, which was largely due to transfers to the private sector to contain prices in sectors such as energy, transport and food. To ease the redemptions and interest relating to public debt maturing in the period 2009-2011, the government carried out a debt conversion enabling capital maturities to be extended to 2014. The government further reformed retirement arrangements, eliminating the private pension system and transferring funds to the public pay-as-you-go system; a portion of these funds is being used by the government to reactivate credit to the private sector. The effects of the international crisis on Argentina were essentially manifest in a reduction in export prices, in a marked decline in share and bond prices (which had already been influenced by domestic uncertainty) and in the diminished supply of credit (even though an economy with relatively low levels of credit is involved here). In turn, the global financial crisis halted the government's plans to regain access to foreign credit by means of the cancellation of the Paris Club debt and the reopening of the government bond exchange programme launched in 2005. The government adopted several measures to face the crisis, including most notably the approval of legislation to promote the repatriation of funds held by residents abroad, the reduction of labour costs and a fiscal package focusing chiefly on investment in public works and equivalent to close to 2% of GDP (see Box 2). The central bank entered into a currency swap agreement with the Central Bank of China for an amount of 38 billion pesos, which will be in force for three years.

In Chile, the economy moved into recession in the second half of 2008, with negative quarter-on-quarter growth rates of 0.8% and 2.1% in Q3 and Q4, respectively. The authorities reacted to this situation with a forceful fiscal and monetary expansion. In Q4, year-on-year growth was scarcely 0.2%. This was the result of the collapse in domestic demand, which declined from double-digit growth to contraction at the end of the year, owing to the slump in private consumption and investment in machinery and equipment. Exports declined strongly and imports posted negative year-on-year growth rates, albeit on a lesser scale. The outcome was the emergence of trade deficits in the last two quarters of 2008, against the background of the worsening terms of trade and a current account deficit (around 2% of GDP in 2008), despite lower outflows in respect of factor income. The budget surplus trended in parallel with production and the price of copper, leading it to post a surplus of 5.2% of GDP in 2008, but in Q4 the budget surplus was zero. A high budget deficit is projected for 2009, since it is expected these trends will continue and – thanks to Chile's capacity to pursue a countercyclical fiscal policy – that a fiscal plan will be implemented for an amount close to 3% of GDP (see Box 2). This plan has been supplemented in recent weeks by measures to stimulate credit. Inflation was on the verge of 10% in year-on-year terms, far exceeding the central bank target (3%), but there was a turnaround from November, with notable declines in the year-on-year rate (which stood at 5% in March). The central bank reacted to the fall in inflation and to the decline in activity with greater-than-expected cuts in official interest rates, for a total of 650 bp at four meetings, placing the official interest rate at 2.25%. Finally, in this difficult global setting, it was most notable that Moody's should upgrade Chile's sovereign debt rating from A2 to A1, citing the economy's resilience in the face of external shocks and the solvency of its public sector.

In Colombia, the slowdown in the economy continued during 2008 Q3, with growth of 2.9% year-on-year. The deceleration steepened in Q4, and there was a contraction of 0.7%. The financial crisis had a notable impact on the country's financial conditions, giving rise to financial outflows and a strong depreciation in the currency. Although the central bank had eliminated the taxes it had introduced on short-term capital inflows and sold moderate amounts ($500 million in total) of reserves to control exchange rate volatility, the peso depreciated. Despite the slowdown in domestic demand, inflation remained high and above the central bank target in the second half of 2008, ending the year above 7% (the target was in the 3.5%-4.5% range). In any event, the gradual convergence of inflation expectations and core inflation towards the central bank target (5% +/–0.5%), in conjunction with the lower growth outlook, enabled the central bank to initiate a cycle of interest-rate cuts which, after two 50 bp cuts and one 100 bp reduction, placed the official rate at 8%. On the fiscal front, Colombia's reaction was much more limited than that of its neighbours (see Box 2), probably due to its worse public finances position. However, the authorities ensured the financing of Colombia's external debt for the current year (partly through market issues, and partly through multilateral agencies) and undertook a debt conversion that lengthened the attendant maturities, which has eased the risks in this field.

In Peru, activity slowed in 2008 Q4 to 6.8% compared with the same period a year earlier. Nonetheless, growth for 2008 as a whole was 9.8%, the highest rate in the region. The slowdown in Q4 was essentially due to the deceleration in domestic demand, since the negative contribution of the external sector held at around 3 pp, as in previous quarters. As regards the external accounts, the current account ran a deficit of 3.3% of GDP in 2008, compared with the surplus of 1.1% in 2007. The deficit was the result of the progressive deterioration in the trade balance, which recorded a deficit in Q4 for the first time since the beginning of 2002, owing to the slowdown in exports, the relative strength of imports and the deterioration in the terms of trade. And this despite the partial offsetting effect of lower profits at foreign companies, which repatriated fewer funds abroad. The rise in inflation continued in the second half of 2008, and this variable ended the year far above the central bank target, and began to ease only in early 2009. To face the international financial crisis, the central bank adopted a series of measures to increase liquidity in the financial system. Nonetheless, the Peruvian currency has depreciated gradually against the dollar in recent months. Moreover, at its meetings in February and March, the central bank cut its official interest rates by 25 bp, but the related cut in April was for 100 bp, to 5%. The budget surplus in 2008 was 2.1% of GDP, against 3.1% in 2007. In an attempt to withstand the slowdown in activity, a fiscal plan equivalent to around 2.5% of GDP (see Box 2) was approved.

In the second half of the year, Venezuela posted average growth of 3.7% year-on-year (4.1% and 3.2% in Q3 in Q4, respectively), marking a notable slowdown in growth in the first half of the year, weighed down by the collapse of oil prices. The current account posted a deficit of $4.5 billion in 2008 Q4, the biggest deficit in the time series, as a result of the fall in exports to one-third of their value. As to public finances, the growth of spending quickened substantially from Q2 and once again outpaced revenue. Despite the announcement of highly ambitious investment plans (see Box 2), it appears fiscal policy may be restricted in 2009, with a 6.7% cut in spending and a 3 pp rise in VAT. On the price front, the inflation rate reached 36% in October 2008, falling progressively thereafter to 28.5% in March. The price of food and beverages accounts for a large portion of these high rates. The abrupt deterioration in the current account balance and the fiscal policy stance underscore the fiscal dependence on oil in this economy and the difficulties it faces in the current circumstances.

17.4.2009.

A disaggregated view of the cyclical developments in euro area investment

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Introduction

Gross fixed capital formation is a key factor for economic growth from the standpoint of supply and demand. Thus, agents' decisions about the amount of investment net of depreciation determine the stock of capital built up by an economy and, therefore, affect production capacity, a growth driver. On the demand side, a considerable proportion of the resources generated by an economy is earmarked for gross fixed capital formation. In the specific case of the euro area, since the eighties investment has represented approximately one-fifth of GDP and its average annual growth rate, of approximately 2.3%, has been similar to that of GDP.

Any analysis of total gross fixed capital formation is highly complex, given the heterogeneity of its constituent parts. Firstly, total gross fixed capital formation can be used to replace that portion of capital which has been depreciated or to increase the existing stock of capital. Secondly, the volume of total investment is the sum of aggregating the decisions of different agents (corporations, households and public administration). Lastly, gross fixed capital formation includes various types of assets of a very different nature. For example, construction investment may be severely affected in the very near term by weather conditions and is characterised by long lead times, in contrast to the relative immediacy of equipment investment.

This article reviews the cyclical behaviour of euro area investment in relation to that of GDP since the nineties from a disaggregated viewpoint by purpose, the agent undertaking the investment and the type of asset in which the investment is made. To this end, the next section outlines the most notable features of developments in GDP and of total gross fixed capital formation in the euro area since the eighties; followed by a description of the recent behaviour of the various investment components; then a cyclical analysis is made of the various items of gross fixed capital formation, for which real data are available in relation to GDP, and, lastly, the main conclusions are presented.

Recent developments in GDP and total gross fixed capital formation

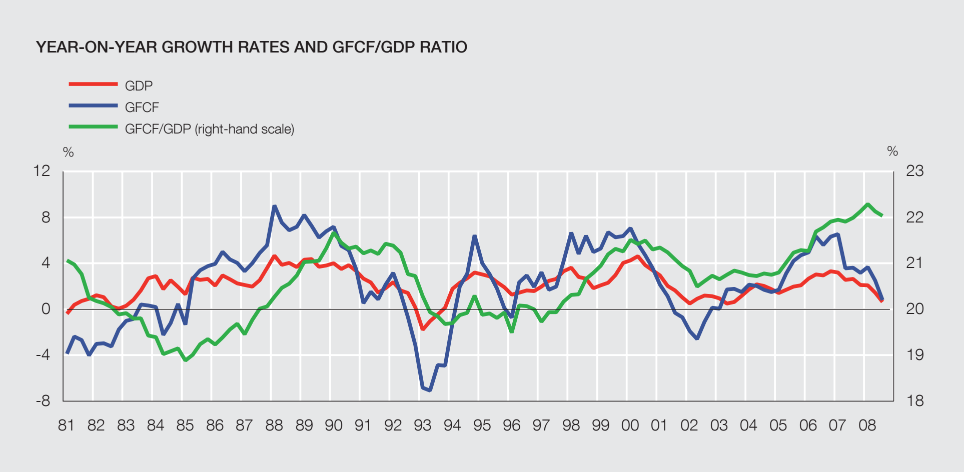
In the last thirty years, GDP and euro area investment have experienced several upturns and downturns. As seen in Chart 1, economic recovery at the beginning of the eighties was interrupted by the European ERM crisis and the disappearance of the fiscal stimulus following German reunification; in fact, investment fell by more than 6% year-on-year in 1993. From 1995, however, the improvement in the economy, the new technologies boom and the drop in the cost of capital resulted in a further acceleration of investment[1] which, although it did not reach the heights of the previous cycle, in 2000 Q1 it posted growth of 7.1%. The performance of gross fixed capital formation in subsequent years was largely determined by the trend in profits, activity and financial conditions.[2] In particular, 2001 marked the beginning of a new contractionary phase, albeit less sharp than the previous ones,[3] followed from mid-2002 by an upturn which lasted until 2007 Q1. Since then, investment has gradually slowed, a process which has been especially aggravated in recent quarters by the intensification of the financial crisis.

From Chart 1 two fundamental features of developments in gross fixed capital formation in relation to GDP are obvious: first, that investment is procyclical and second, that it acceler-

1. See European Central Bank (2003). **2.** See European Central Bank (2008). **3.** See Goldman Sachs (2008).

GDP AND INVESTMENT IN THE EURO AREA

CHART 1



SOURCE: Eurostat.

ates more than GDP in expansionary periods and slows more steeply during contractions. In fact, with data from the eighties, the volatility of the year-on-year growth rate of investment (measured by its standard deviation) is almost three times that of euro area GDP,[4] which explains why, in spite of the comparatively low relative weight of this item, it contributes notably to the fluctuations in the GDP growth rate. Both characteristics result in the procyclical behaviour of the investment-to-GDP ratio. Gross fixed capital formation as a proportion of GDP has ranged between approximately 19% and 22% in the last thirty years, albeit notably on a rising trend, which has led investment to play a gradually more important role.

The behaviour of investment from a disaggregated standpoint

Different breakdowns can be obtained from gross fixed capital formation depending on the classification method used: the purpose of the investment, the institutional sector undertaking the investment and the type of products in which the investment is made.

INVESTMENT BY PURPOSE

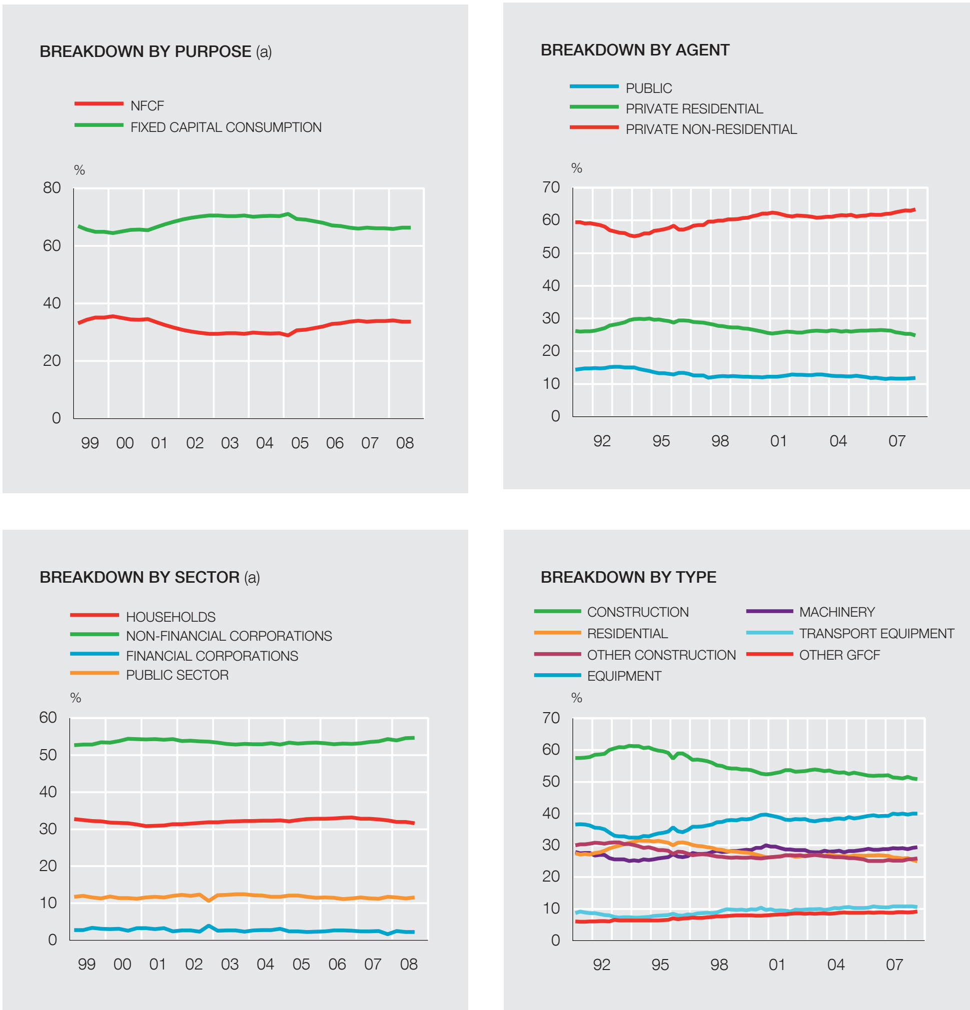
Total gross fixed capital formation can be used to replace the investment depreciated due to use or the passing of time (known as fixed capital consumption) or to increase the economy's capital stock (known as net fixed capital formation). According to available nominal data for the euro area,[5] at present approximately 66% of total investment is used to replace the depreciated capital stock, while the remaining 34% is earmarked for increasing it (see Chart 2). Although current proportions are very similar to those of 1999, there has been a gradual process of, first, a slight decline, and subsequently, a rise in the weight of net investment – and the opposite, naturally, for fixed capital consumption.

Given the relative stability of the weight and the year-on-year growth of fixed capital consumption, this component's contribution to the expansion of gross fixed capital formation has generally remained constant in recent years (see upper panel of Chart 3). On the contrary, the growth rate of net fixed capital formation has been highly variable, ranging between –12% and 22% since 1999. Thus, the item triggering the fluctuations in total gross fixed capital formation in recent years has been net investment.

4. Among the internal demand components, investment displays greater relative variability (2.8), since the fluctuations in private consumption are similar to those in GDP and the ratio for government consumption is 0.68. Regarding net external demand, the standard deviation of the year-on-year growth rate of exports and imports is 3.16 and 3.40 times that of GDP, respectively. **5.** The available data range from 1999 to 2008 Q3. Furthermore, these data have been seasonally adjusted using the TRAMO program.

RELATIVE WEIGHTS OF INVESTMENT COMPONENTS IN THE EURO AREA

CHART 2



SOURCES: Eurostat and OECD.

a. Nominal data.

INVESTMENT BY INSTITUTIONAL SECTOR

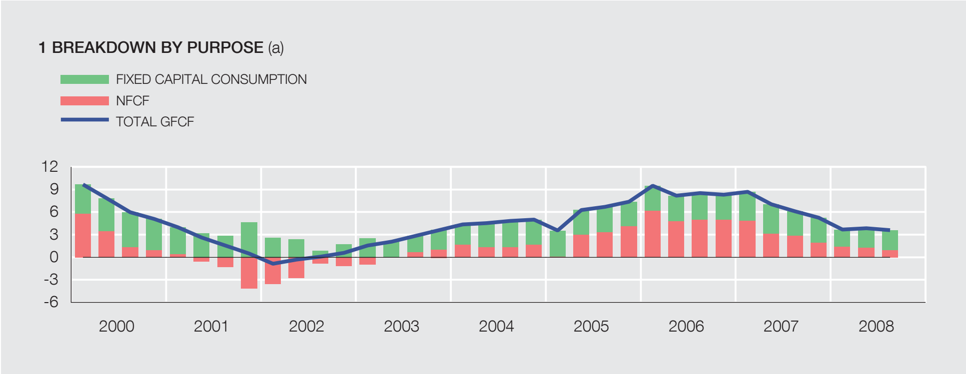
Expenditure on gross fixed capital formation is undertaken by the public sector or private agents, namely households and corporations. Chart 2 shows that, according to OECD data, since 1991 the private sector has taken on the bulk of total euro area investment, where non-residential investment is particularly important, while government investment has been less so. The relative weight of each component has varied slightly in these years. Thus, public investment and private residential investment have decreased since 1994 (to 12% and 25%, respectively, in 2008) in favour of private non-residential investment, which represents 63% of total gross fixed capital formation. For a greater level of disaggregation by agent of the private investment, only nominal data from 1999[6] is available. According to this information, non-financial corporations account for the highest percentage of private investment (around 61%), followed by households (36%) and, in last place, by financial corporations (3%).[7] These relative weights have hardly changed since 1999.

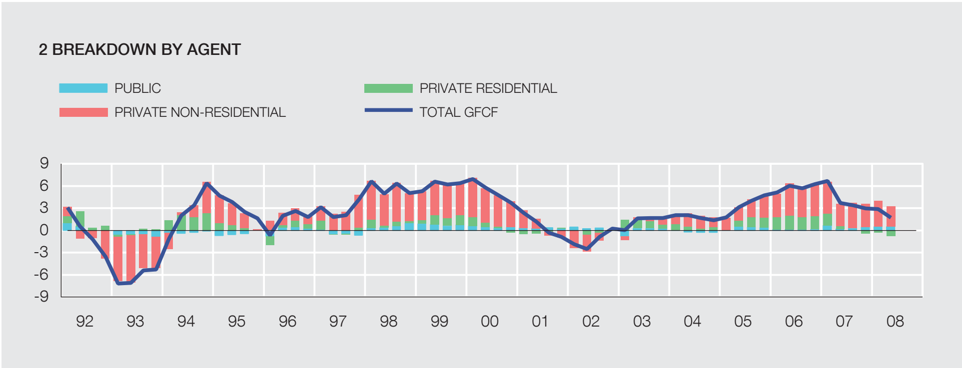
In keeping with its major role, the largest contributor to the growth of total gross fixed capital formation has been private non-residential investment, followed by private residential invest-

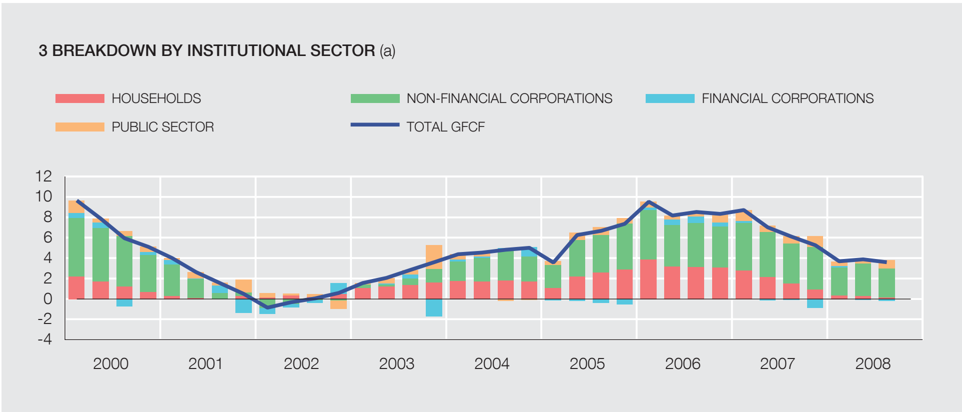
6. These data have been seasonally adjusted using the TRAMO program. **7.** The weight of private residential investment coincides generally with that of household investment since, on the one hand, most of the latter is earmarked for housing – and only a small share (that corresponding to small family firms) is earmarked for private non-residential investment – and, on the other, corporations hardly make residential investments.

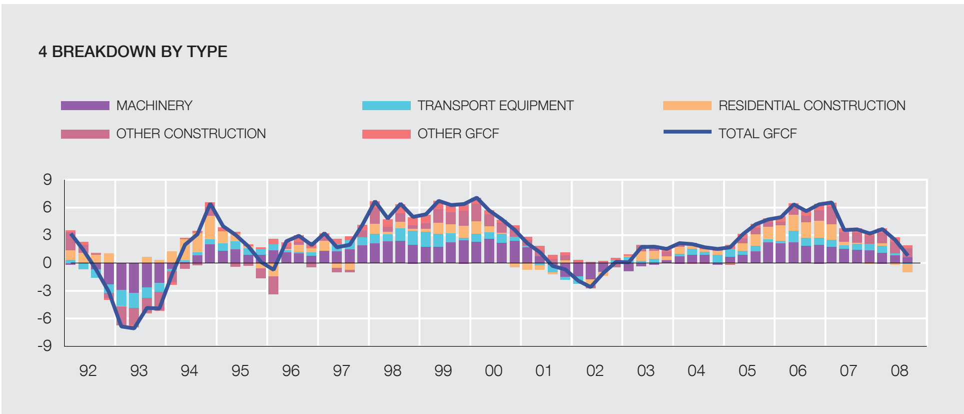
BREAKDOWN OF EURO AREA INVESTMENT. CONTRIBUTIONS TO YEAR-ON-YEAR GROWTH

CHART 3









SOURCES: Eurostat and OECD.

a. Nominal data.

ment and, to a smaller degree, by government investment (see Chart 3). In the most recent cycle and, in particular, from 2005 there has been a noteworthy increase in the role of private residential investment, bigger even than that seen during the upturn at the end of the nineties. In recent quarters, however, the slowdown of the property market in certain euro area countries has led to a downward correction of this item, which has even posted negative rates following the significant boom of previous years.

INVESTMENT BY PRODUCT TYPE

By product type, the distinction can be drawn between equipment investment, construction investment and other investment. Equipment investment includes acquisitions (less disposals) of machinery and transport equipment; construction investment covers acquisitions of housing and other buildings and structures; and other investment includes acquisitions (less disposals) of, on the one hand, cultivated assets (for example, trees or livestock), which are classified as investment in agriculture, and, on the other, intangible assets (such as computer software), which are classified as other.[8]

The real information available from 1991 included in the lower right-hand part of Chart 2 shows that, although there have not been any brusque changes in the components' relative weights, in the second half of the nineties, a slight decline in the role of construction investment in favour of equipment investment, especially machinery,[9] can be discerned. These developments were partly marked, on the one hand, by the high residential stock built up following reunification and the changes in housing policy in Germany and, on the other, the implementation of technological improvements in the telecommunications sector towards the end of the decade. In any event, construction investment currently remains the largest component of gross fixed capital formation, with a weight of slightly more than 50%, followed by equipment investment (approximately 40%) and other investment (around 10%). At a more disaggregated level, residential and non-residential investment are almost equally important (accounting for around 25% of the total), while, within equipment investment, that earmarked for machinery is the largest item, which represents almost 30% of total gross fixed capital formation, in comparison with investment in transport equipment, which only represents 10%.[10]

Equipment investment, firstly, and construction investment, secondly, have governed the behaviour of gross fixed capital formation over these years (see the lower part of Chart 3). In relation to previous cycles, in the latest cycle, however, the increased importance of construction investment is worth noting (in particular, that of residential investment) in comparison with investment in machinery and transport equipment.[11]

Cyclical analysis of investment components and GDP

Given the heterogeneity in the performance of its various components described in the previous section, a disaggregated analysis of the cyclical behaviour of investment with respect to that of GDP is presented here. In particular, these developments are studied on the basis of changes in: the relative variability of each component and GDP, the cyclical synchrony between the two and, lastly, the maximum amplitude and average relative duration of their upturns and downturns. The sub-components of gross fixed capital formation used correspond to the classifications by product type and institutional sector (public, private residential and private non-residential) since real data are available for these categories.

8. See European Commission (2007). **9.** At the beginning of the nineties, the relative weight of construction investment increased, boosted by the notable rise in housing investment in Germany after the reunification process. **10.** Given the overlap between the investment classifications by institutional agent and type, developments in the weight of residential investment have been similar, to a certain degree, to those in private residential investment and developments in the weight of equipment investment have been similar to those in private non-residential investment. **11.** In recent quarters, however, a notable adjustment has been seen in construction investment especially in residential construction.

The cyclical component of each variable has been extracted using a band-pass filter;[12] and, in order to avoid problems of scale when making comparisons, these components have been normalised by dividing them by their respective trends. Also, in order to identify the turning points of each series between the expansionary and contractionary periods,[13] the Markov regime switching methodology is used.[14] Chart 4 shows the developments in year-on-year rates of growth, the ratio of the cyclical component to the trend and the periods identified as downturns in accordance with the estimates of the Markov models for the main investment items.

RELATIVE VARIABILITY

Table 1 shows the standard deviation of each investment component with respect to that of GDP. In the 1991-2008 period, cyclical fluctuations in total gross fixed capital formation have been almost threefold that of GDP. Equipment investment showed the highest variability (especially, investment in transport equipment which is more than sixfold that in GDP), followed by other investment and construction investment. The smaller fluctuations in the construction component are probably related to the longer periods in general between the decision to undertake a project and its completion, as a result of which, faced with a change in the determinants, the project may be delayed or even cancelled. According to the classification by investor sector, the standard deviation of private non-residential investment (which largely includes equipment investment) is more than four times higher than that of GDP, while the fluctuations in public investment and private residential investment are approximately three times those of GDP.

These ratios, however, have not remained constant over time. In fact, if the sample period is divided into two, before and after the introduction of the euro, it can be seen that the relative variability of total gross fixed capital formation and practically all of its components (classified by type or sector) has fallen in the most recent period. In particular, the ratio of the standard deviation of total investment to that of GDP has decreased from 3.29 to 2.53. The most significant reductions were in government investment and investment in transport equipment.

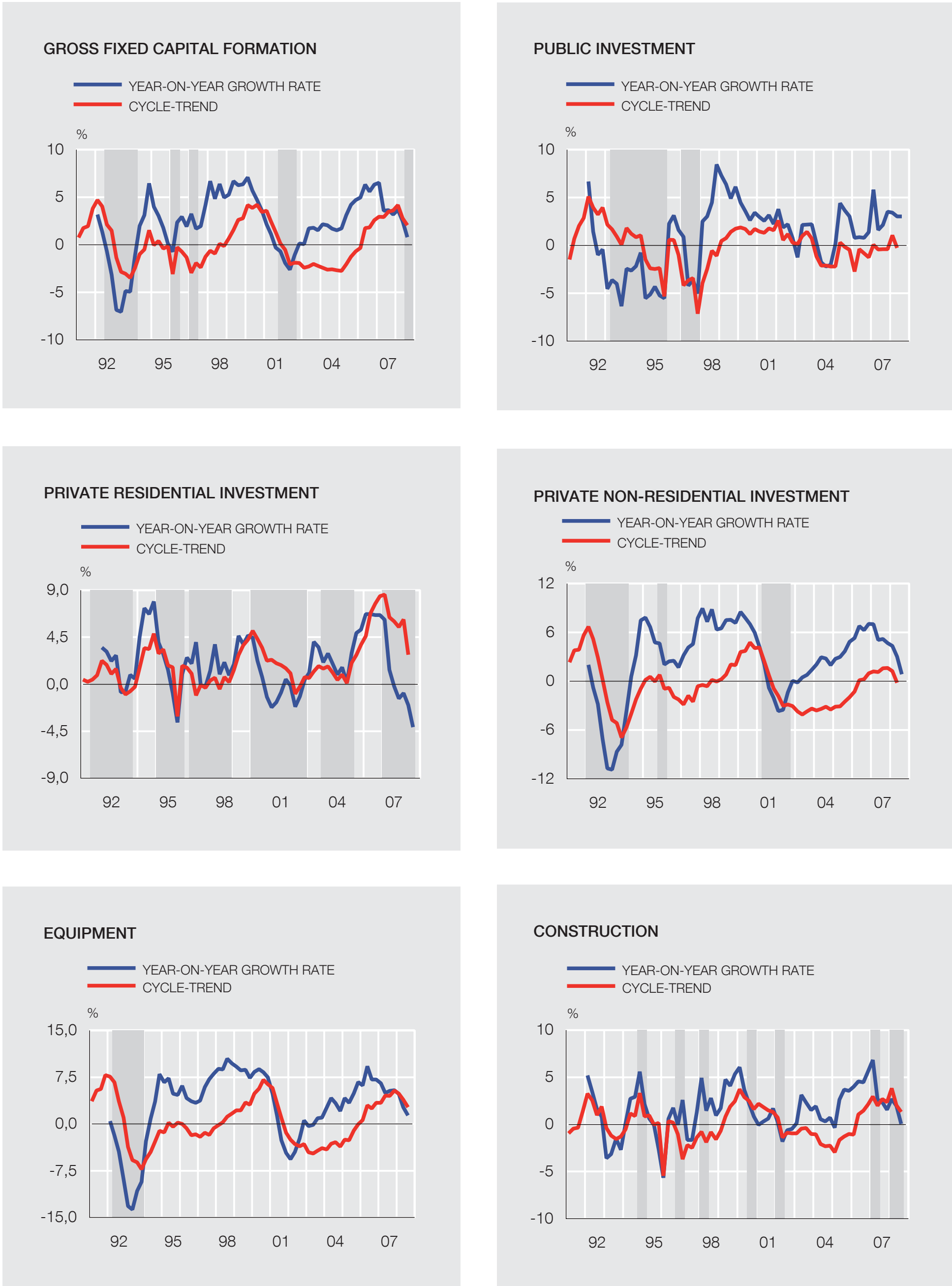
CYCLICAL SYNCHRONY: CORRELATION AND THE HARDING AND PAGAN INDEX

Another feature which can be studied in relation to the variables' cycles is their cyclical synchrony, namely, the degree of comovement between them. This section measures synchrony using a cross-correlation of investment (contemporaneous, lagging or leading by several quarters) with GDP and the Harding and Pagan index.

Table 2 shows that between 1991 and 2008 Q3, total gross fixed capital formation displays a high contemporaneous correlation coefficient in respect of GDP, of 0.86 points. Among the investment components, greater synchrony is shown, on the one hand, by contemporaneous construction investment and equipment investment lagged one period (i.e. equipment investment leads GDP) and, on the other, by contemporaneous private non-residential investment and private investment lagged two quarters. Against this, the comovement of other investment and public investment with GDP is considerably lower. Comparing the periods before and after the changeover to the euro, the correlation between the components of gross fixed capital formation and GDP in the euro area has increased, at the same time as a large number of investment items have switched from lagging to leading GDP. Thus, the maximum correlation of total investment rose from 0.80 contemporaneously to 0.96, lagging by two periods. The developments in investment in machinery, transport equipment and residential construction, by type, and those in private non-residential and residential invest-

12. The method used is that proposed in Gómez (1999 and 2001). In any event, the results of extracting the cyclical component of the series by applying a Hodrick-Prescott filter to the series are very similar. **13.** In general, such identification is by means of a monthly frequency indicator which is highly correlated to the variable in question since it allows better capturing of the switches of regime. However, the difficulty of finding indicators with these characteristics for each investment component prevents this methodology from being applied. **14.** See Hamilton (1994).

EURO AREA INVESTMENT. BREAKDOWN BY TYPE AND AGENT (a) CHART 4



SOURCES: Eurostat and Banco de España.

a. The shaded areas relate to periods identified as contractionary in accordance with the estimates of the Markov regime switching models.

ment by institutional sector were particularly noteworthy. Public investment, however, changed from contemporaneous to following the trajectory of GDP with a lag of four quarters and, moreover, with a higher correlation. In any event, the higher cyclical synchrony and the fact that investment has been leading GDP since the changeover to the euro may be related to the European Central Bank's credibility as a guarantor of price stability in the medium and long term and the achievement in these ten years of a moderate inflation environment. The two factors have enabled agents to better identify the changes in relative prices and, therefore, to assess more accurately current and future general economic conditions when taking their investment decisions, resulting in a more contemporaneous movement with GDP and, more specifically, with future GDP.

VARIABILITY OF EACH COMPONENT IN RELATION TO GDP (a) TABLE 1

	MAR 91 - SEP 08	MAR 91 - DEC 98	MAR 99 - SEP 08
TOTAL GFCF	2.77	3.29	2.53
INVESTMENT BY TYPE			
Equipment	4.47	6.08	3.78
Machinery	*4.15*	*5.17*	*3.74*
Transport	*6.21*	*9.50*	*4.63*
Construction	2.22	2.89	1.88
Residential	*2.39*	*2.94*	*2.09*
Other construction	*2.66*	*3.73*	*2.15*
Other GFCF	2.38	3.31	1.92
Agriculture	*14.87*	*25.62*	*6.21*
Other	*2.41*	*3.26*	*1.95*
INVESTMENT BY SECTOR			
Public	3.18	4.63	1.84
Private residential	3.42	2.56	3.37
Private non-residential	4.25	5.19	3.66

SOURCES: Eurostat and OECD.

a. Ratio of the standard deviation of the respective normalised cyclical components.

Another complementary measure of the level of synchrony of the developments in two variables' cycles is the Harding and Pagan concordance index,[15] which is defined as the number of periods in which two variables (x and y) are at the same time expanding and contracting, divided by the number of total periods:

$$C_{x,y} = \frac{\text{no. } t(x, y = \text{expansion}) + \text{no. } t(x, y = \text{contraction})}{n} \quad [1]$$

Since 1991, the expansionary or contractionary state of the cyclical component of GDP has coincided in almost 84% of the quarters with that of investment and, most notably, with equipment investment and private non-residential investment (see the lower part of Table 2). If the calculations are made for the period before and after the changeover to the euro, a fall can be seen in the concordance indices over time for a large number of investment subcomponents since, although their correlation with GDP has increased, these variables have changed from moving contemporaneously with GDP to leading it.

AVERAGE DURATION AND AMPLITUDE OF COMPLETE EXPANSIONARY AND CONTRACTIONARY CYCLES

Lastly, Table 3 includes information on the average duration and maximum amplitude of the expansions and contractions of each variable, in which the dates of the turning points between these phases come from an estimated Markov regime switching model.[16]

On average, GDP and all the subaggregates of gross fixed capital formation (except for public and private residential investment) have spent a considerably higher number of quarters in an

15. See Harding and Pagan (1999). **16.** The fact that only complete upturns or downturns are used implies that the quarters detected in the first and last phase have been removed from these calculations.

CYCLICAL SYNCHRONY OF INVESTMENT AND GDP IN THE EURO AREA (a) TABLE 2

		GFCF	INVESTMENT BY TYPE									INVESTMENT BY SECTOR		
			Equipment	*Machinery*	*Transport*	Construc-tion	*Residential*	*Other construc.*	Other GFCF	*Agriculture*	*Other*	Public	Private residential	Private non residential
CORRELATION INDICES (b) (c)														
MAR 91-SEP 08														
Lagging investment	T+4	0.10	0.04	0.13	-0.17	0.14	-0.15	0.39	0.13	-0.25	0.14	0.27	-0.27	0.01
	T+3	0.34	0.28	0.37	0.05	0.34	0.04	0.54	0.24	-0.21	0.26	0.29	-0.08	0.26
	T+2	0.56	0.49	0.58	0.24	0.52	0.24	0.66	0.37	-0.07	0.38	0.28	0.13	0.50
	T+1	0.74	0.66	0.74	0.40	0.68	0.45	0.74	0.47	0.04	0.46	0.29	0.34	0.66
	T	**0.86**	0.76	0.82	0.52	**0.81**	0.63	**0.78**	0.52	0.10	0.51	**0.33**	0.53	**0.75**
Leading investment	T-1	0.86	**0.77**	**0.83**	0.56	0.78	0.69	0.68	**0.54**	**0.11**	**0.53**	0.28	0.59	0.71
	T-2	0.80	0.72	0.74	**0.57**	0.72	**0.73**	0.55	0.53	0.04	0.53	0.28	**0.63**	0.61
	T-3	0.68	0.61	0.61	0.52	0.59	0.68	0.36	0.50	-0.01	0.52	0.24	0.60	0.45
	T-4	0.54	0.48	0.46	0.43	0.45	0.62	0.17	0.48	-0.01	0.52	0.20	0.54	0.27
MAR 91 - DEC 98														
Lagging investment	T+4	-0.16	-0.11	-0.10	-0.11	-0.18	-0.36	0.00	0.19	-0.18	0.18	0.17	-0.44	-0.05
	T+3	0.18	0.20	0.21	0.18	0.08	-0.13	0.22	0.26	-0.22	0.27	0.22	-0.16	0.26
	T+2	0.48	0.45	0.48	0.39	0.32	0.10	0.42	0.37	-0.09	0.35	0.23	0.14	0.52
	T+1	0.70	0.62	0.66	0.53	0.55	0.32	0.59	**0.43**	**0.01**	**0.38**	0.26	0.42	0.67
	T	**0.80**	**0.65**	**0.67**	**0.58**	**0.71**	**0.49**	**0.70**	0.32	0.00	0.26	**0.31**	**0.64**	**0.69**
Leading investment	T-1	0.67	0.59	0.60	0.55	0.53	0.39	0.51	0.24	-0.10	0.21	0.24	0.55	0.57
	T-2	0.47	0.41	0.38	0.45	0.37	0.34	0.30	0.08	-0.30	0.09	0.24	0.48	0.36
	T-3	0.17	0.16	0.12	0.22	0.12	0.18	0.04	-0.08	-0.45	-0.02	0.18	0.26	0.07
	T-4	-0.10	-0.12	-0.13	-0.10	-0.04	0.13	-0.16	-0.17	-0.43	-0.10	0.13	0.13	-0.22
MAR 99-SEP 08														
Lagging investment	T+4	0.26	0.14	0.26	-0.18	0.38	-0.02	0.69	0.20	-0.38	0.22	**0.61**	-0.25	0.13
	T+3	0.46	0.36	0.47	0.04	0.52	0.14	0.78	0.35	-0.27	0.37	0.53	-0.10	0.35
	T+2	0.62	0.56	0.65	0.23	0.65	0.31	0.85	0.48	-0.14	0.49	0.45	0.08	0.54
	T+1	0.77	0.72	0.80	0.40	0.77	0.49	**0.87**	0.57	0.02	0.57	0.40	0.27	0.70
	T	0.89	0.84	0.90	0.53	0.88	0.69	0.87	0.65	0.17	0.65	0.40	0.47	0.83
Leading investment	T-1	0.95	0.92	**0.95**	0.66	**0.91**	0.84	0.81	0.76	0.30	0.75	0.37	0.59	0.90
	T-2	**0.96**	**0.94**	0.94	0.77	0.90	0.92	0.72	0.85	0.36	0.84	0.36	0.69	**0.92**
	T-3	0.92	0.91	0.88	**0.82**	0.84	**0.92**	0.57	0.89	**0.36**	0.88	0.30	**0.72**	0.86
	T-4	0.83	0.84	0.77	0.84	0.71	0.86	0.38	**0.91**	0.34	**0.90**	0.19	0.69	0.75
HARDING AND PAGAN INDICES														
MAR 91-SEP 08		0.84	0.78	0.83	0.84	0.65	0.67	0.74	0.48	0.68	0.48	0.60	0.53	0.88
MAR 91-DEC 98		0.90	0.90	0.90	0.90	0.60	0.60	0.80	0.53	0.67	0.53	0.47	0.53	0.97
MAR 99-SEP 08		0.79	0.69	0.77	0.79	0.69	0.72	0.69	0.44	0.69	0.44	0.71	0.53	0.82

SOURCES: Eurostat and OECD.

a. Correlation between the standardised cyclical components of GDP and investment items.
b. The figures in bold indicate the maximum correlation.
c. The second column refers to periods in which investment is leading or lagging GDP in the calculation of the correlation.

upturn rather than in a downturn. For example, expansions of GDP have been twice as long as contractions, while for investment the proportion is even higher, of almost five to one. This ratio varies considerably among the various components of gross fixed capital formation, although the high proportion is worth underlining in the cases of construction (in particular residential construction), transport equipment and private non-residential investment.

Also, the average maximum amplitude of GDP, total investment and several of its components (including most notably residential construction investment) has been higher in expansions than in contractions, i.e. these variables have tended to grow more sharply in boom periods than the amount by which they slowed in downturns. Against this, other subaggregates (like investment in machinery or public investment) have shown a higher maximum fluctuation during contractions than expansions. Finally, the last two columns of the table show the ratio between the maximum amplitude of each variable and that of GDP. Thus, it can be seen that this proportion is higher than unity in most cases both in expansionary and contractionary

AVERAGE DURATION AND AMPLITUDE OF THE COMPLETE CYCLES OF GDP AND INVESTMENT IN THE EURO AREA (a) (b) TABLE 3

	AVERAGE DURATION		MAXIMUM AMPLITUDE		MAXIMUM AMPLITUDE RELATIVE TO GDP	
	Expansions	Contractions	Expansions	Contractions	Expansions	Contractions
GDP	12.00	6.00	2.20	-1.96	—	—
TOTAL GFCF	13.25	2.75	5.48	-3.05	2.49	1.56
INVESTMENT BY TYPE						
Equipment (c)	—	6.00	—	-13.97	—	7.14
Machinery	*9.25*	*3.00*	*3.77*	*-5.02*	*1.72*	*2.56*
Transport	*15.00*	*4.00*	*11.02*	*-11.65*	*5.02*	*5.96*
Construction	7.83	1.00	4.14	-0.15	1.89	0.08
Residential	*7.83*	*1.00*	*4.06*	*-1.91*	*1.85*	*0.97*
Other construction	*2.50*	*1.80*	*2.76*	*-3.29*	*1.26*	*1.68*
Other GFCF	4.67	1.50	3.62	-1.65	1.65	0.84
INVESTMENT BY SECTOR						
Public	2.00	5.00	3.07	-4.80	1.40	2.46
Private residential	3.71	5.83	3.98	-3.77	1.81	1.93
Private non-residential	14.50	4.00	7.67	-6.93	3.49	3.55

SOURCES: Eurostat, OECD and Banco de España.

a. The expansions and contractions are defined based on the estimates of Markov regime switching models.
b. The maximum amplitude is calculated on the standardised cyclical components.
c. For equipment investment, the expansive periods detected were at the beginning and the end of the sample. Consequently, no data are available for complete cycles.

periods, that is, the cyclical components of the investment items increase more than those of GDP in upturns and fall to a greater degree in downswings, in line with the results on relative variability. The higher fluctuations in investment in transport equipment and private non-residential investment are worth noting, which are more than five and three times higher than those in output. Total investment, residential construction and other investment exceed the cyclical developments in GDP to a greater degree during upturns than in downturns, while the opposite occurs for the other components and, especially, for investment in machinery and public investment.

Conclusions

This article has reviewed the recent cyclical developments in gross fixed capital formation in relation to that of GDP in the euro area from a disaggregated point of view, by purpose, the agent making the investment and the type of investment. Thus, available statistical information indicates that approximately 65% of total investment is used to replace the capital stock, that private investment represents almost 90% of the total and that, by asset type, construction and equipment investment account for around 50% and 40%, respectively. Furthermore, these proportions have hardly undergone any significant changes since the nineties.

The importance of investment lies in its role as a driver of growth and of the cyclical fluctuations in GDP. In fact, the indicators calculated to characterise the cyclical component of gross fixed capital formation and its subaggregates in relation to that of GDP corroborate, on the one hand, the procyclicality of investment and, on the other, its greater cyclical fluctuation with respect to that of GDP. Firstly, the variability of the cyclical component of GDP is nearly three times lower than that of total gross fixed capital formation. Among its components, this proportion is even higher in the case of private non-residential investment and investment in equipment and, to a lesser degree, in public investment and construction investment, in which budgetary restrictions, in the case of the former, and long lead times, in the case of the latter, could have played an important role. Secondly, the correlation between the cyclical component of GDP and those of the rest of the investment series (except for government investment and other investment) is considerably high and, in general, indicates contemporaneousness. Finally, the average maximum variation of the cyclical components of most of the investment series is higher than that of GDP, with investment in transport equipment and private non-residential investment proving especially notable.

The cyclical analysis distinguishing between the period before and after the changeover to the euro shows that for most of the investment components, in the most recent stage, the relative variability has fallen, the correlation with GDP has intensified, i.e. investment behaviour in recent years has been more in line with the related demand, and it has tended to lead that of GDP. Albeit only tentatively, given the absence of a causality analysis, these results could be related to the achievements of the common monetary policy over these ten years which, by ensuring a low inflation environment, has enabled agents to assess more clearly the movements in relative prices, promoting a better evaluation of the general economic situation and, consequently, allowing decisions more consistent with the current and expected developments in GDP to be taken. This would result in lower relative variability of investment and a higher correlation and greater lead to GDP.

15.4.2009.

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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.

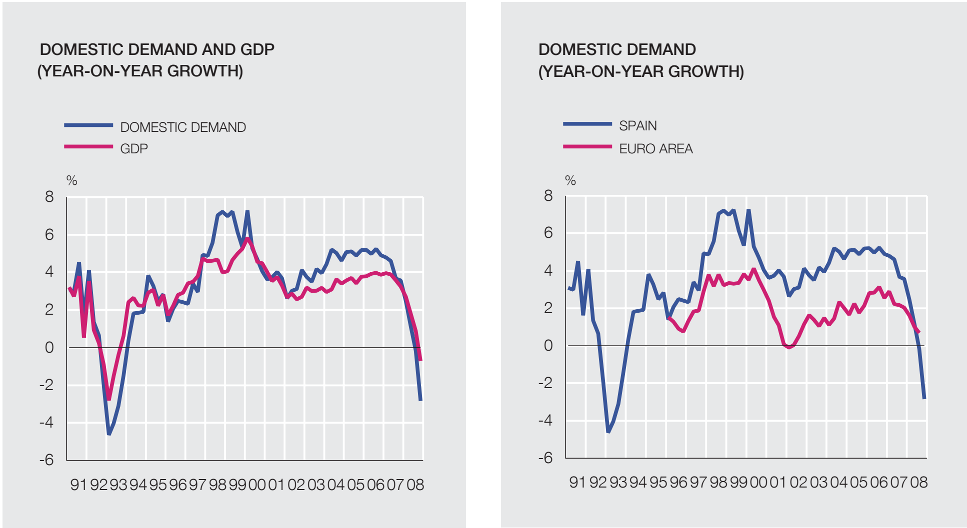
The limited data available on economic performance in 2009 to date point to a continuation of the same trends. Registered unemployment and Social Security contributions reveal the ongoing deterioration of the labour market.

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

EXTENDED PERIOD OF STRONG DOMESTIC DEMAND CHART 1



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

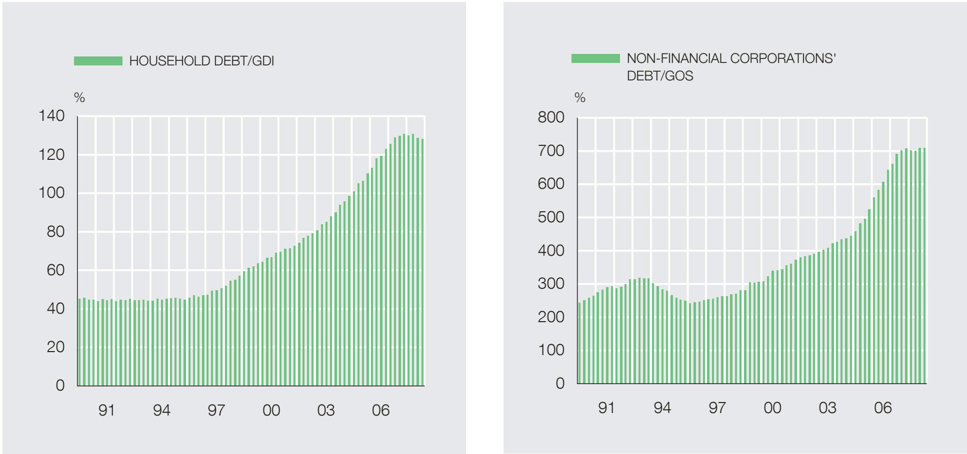
THE DOMESTIC COMPONENT OF THE CRISIS IS THE RESULT OF AN EXTENDED PERIOD OF EXCESSIVE DEMAND PRESSURE, LEADING TO AN INEVITABLE ADJUSTMENT

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

GROWING INDEBTEDNESS CHART 2



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.

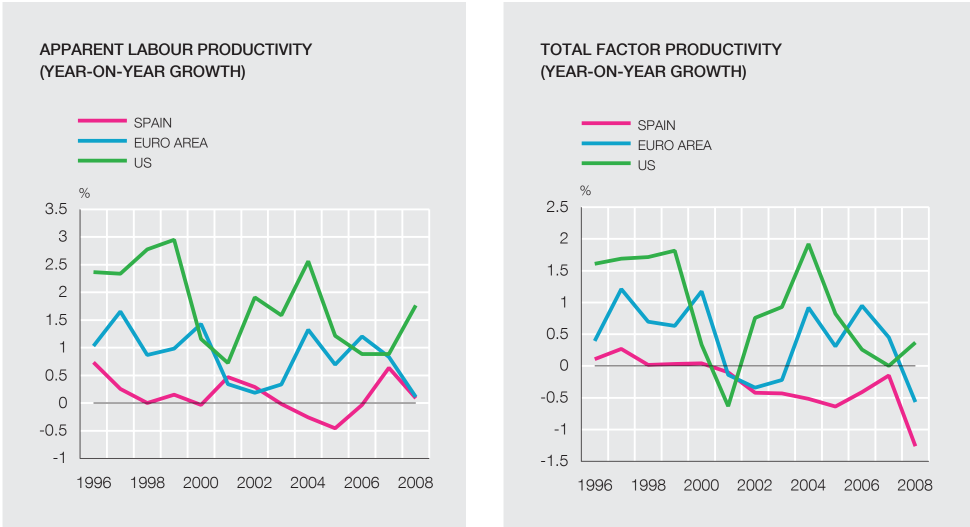
Much of the increase in indebtedness was justified by the sounder fundamentals of the Spanish economy and the new opportunities this produced. However, as is often the case in economics, the movement went too far, surpassing levels that can be explained by fundamentals. Various Banco de España estimates 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

INSUFFICENT PRODUCTIVITY GROWTH

CHART 3



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.

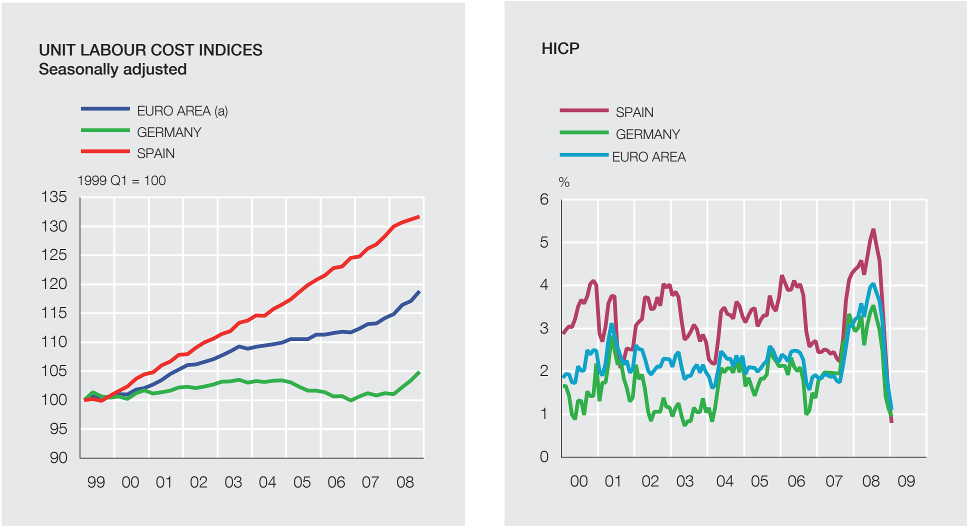
These wage formation and margin setting patterns reveal a lack of adaptation by economic agents to the requirements of euro area membership since, as the new currency is a common currency and devaluation is impossible, relative price adjustments are only possible by means of directly containing costs 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.

PERSISTENT PRICE AND COST DIFFERENTIALS

CHART 4



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.

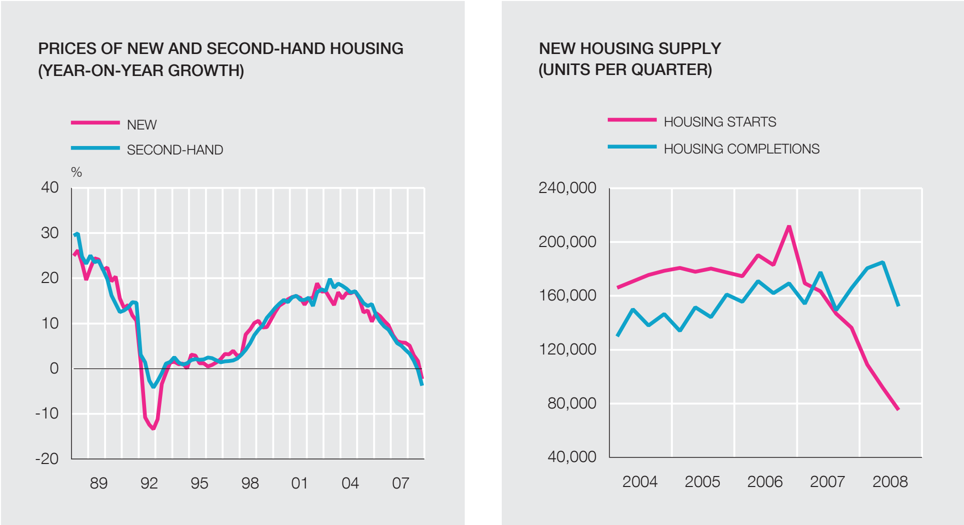
Nevertheless, the effects of the financial crisis are not confined to the degree of direct exposure to toxic financial products or practices; instead they have become global and systemic in nature, in a dual dimension that is having a profound impact on the Spanish crisis.

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

PROPERTY BOOM EXCESSES

CHART 5



SOURCE: Ministry of Housing.

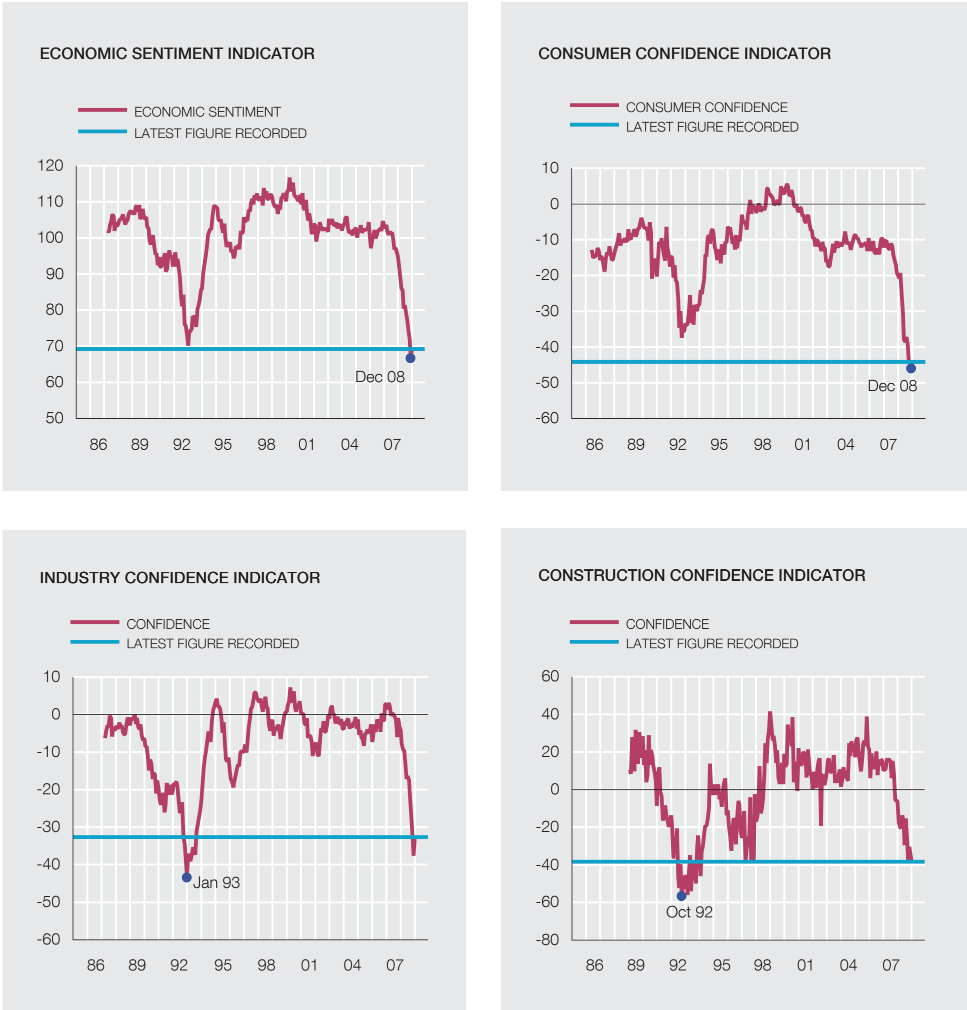
financial assets, raising many institutions' solvency risks. The crisis on the international financial markets has become a global credit crisis whose effects are now making it more difficult for both households and firms to obtain credit.

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.

SHARP REVERSAL IN CONFIDENCE INDICATORS CHART 6



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.

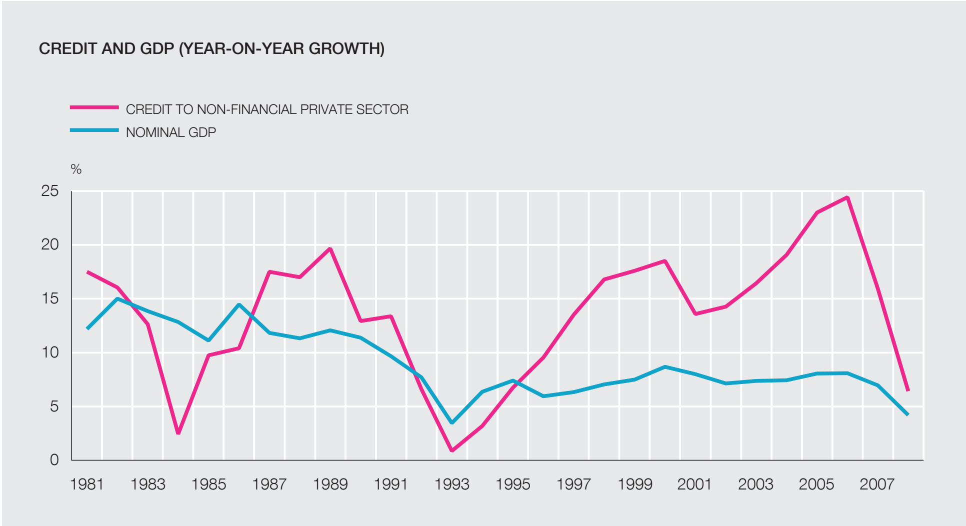
On this occasion the change is taking place against the backdrop of an unprecedented global credit crisis, so it is heightened by a series of factors: the sharp rise in the cost of borrowing; the dramatic reduction in borrowing demand as a result of the deterioration in both confidence and expectations; 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

REVERSAL OF CREDIT CYCLE

CHART 7



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

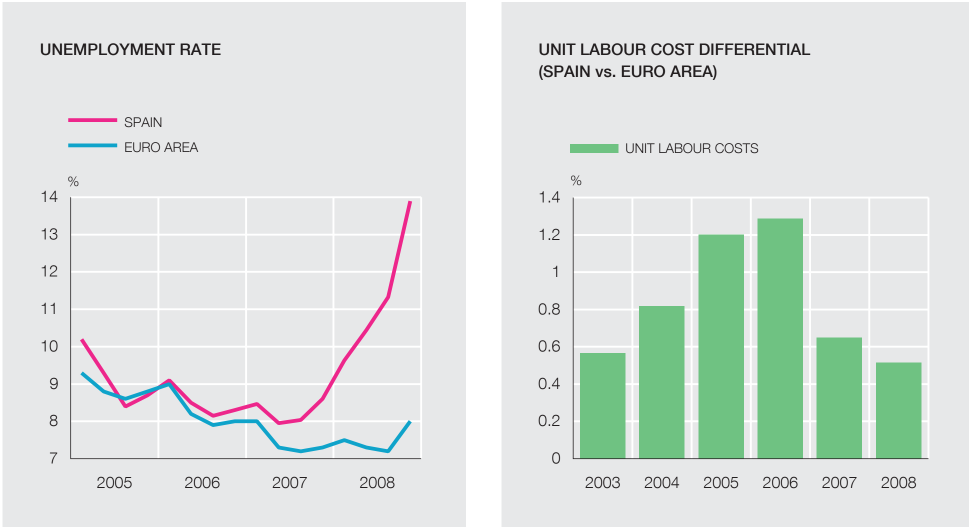
The most immediate effect of the international crisis has been the intensification of the correction in the real estate sector, as housing demand has slumped. This has coincided, as a result of the time delay in the housebuilding cycle, with a record number of housing completions. In 2008 the number 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-

LABOUR MARKET DEVELOPMENTS

CHART 8



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.

Financial regulation: 2009 Q1

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Introduction

A wide range of new financial legislation was published in 2009 Q1.

Within the sphere of the European System of Central Banks (ESCB) and the European Central Bank (ECB), several provisions have been implemented. In the field of monetary policy, the Banco de España has adopted the latest changes in instruments and procedures used in the Eurosystem, along with the eligibility criteria for collateral provided by counterparties to obtain liquidity from the Eurosystem. For its part, the ECB has extended its monetary, financial institutions and markets statistics to include assets and liabilities of special purpose vehicles, and in particular statistics relating to their securitisation operations. It has also made changes to the monetary financial institutions' (MFI) sector balance sheets and to the legal financial reporting and accounting regime in the ESCB.

In the European arena, the Community directive on deposit guarantee schemes was also amended, to raise the minimum deposit coverage in the European Union.

In Spain, the Spanish government was authorised to guarantee, during 2009, the liabilities deriving from the funding the Banco de España may extend to Caja de Ahorros de Castilla-La Mancha.

Several provisions were enacted in connection with securities markets. Firstly, the terms of government debt issues for 2009 and for January 2010 have been announced; secondly, the solvency rules for investment firms have been implemented in order to adapt them to the European Union regime; thirdly, new categories have been established for collective investment institutions based on their investment policy, partially replacing the categories in place to date. Finally, new accounting regulations have been established for secondary securities market operators (except for the Banco de España), venture capital entities and securitisation special-purpose vehicles, in order to update them and adapt them to the new general chart of accounts.

Further, specific aspects of the legal regime for financial advice firms have been implemented, and a new system of statistical and accounting documentation has been established for pension fund management companies.

Finally, a series of urgent tax, financial and insolvency measures has been published.

European Central Bank and Banco de España: amendment of the regulations on monetary policy instruments and procedures of the Eurosystem

Guideline ECB/2008/13 of 23 October 2008 (OJEU of 5 February 2009) and Guideline ECB/2009/1 of 20 January 2009 (OJEU of 5 February 2009) amended Guideline ECB/2000/7 of 31 August 2000 on monetary policy instruments and procedures of the Eurosystem. Further, the Banco de España Executive Commission Resolution of 22 January 2009 (BOE of 3 March 2009) amended that of 11 December 1998 approving the general clauses applicable to monetary policy operations in order to adopt Guideline ECB/2009/1.

The aim of the first guideline is to adapt the definition and implementation of monetary policy to recent market developments. In particular, it includes the changes in the risk control system and in the rules on the eligibility of collateral for Eurosystem credit operations, and the acceptance of non-euro-denominated collateral in specific cases.[1] Further, it includes the treatment of entities subject to the freezing of funds and/or other measures imposed by the European Community or by a Member State, and it addresses the harmonisation with new provisions on the application of minimum reserves.[2]

The second guideline specifies certain changes in the definition and implementation of monetary policy, in view of recent developments on the markets for asset-backed securities. In particular, the credit quality requirements for asset-backed securities are specified[3], and the use of certain types of asset-backed securities as collateral in Eurosystem lending operations is excluded, so as to ensure these operations are suitably protected.

The Eurosystem limits the use of uncovered bank bonds issued by an issuer or any entity with which the issuer has close links. Such uncovered bank bonds may only be used as collateral by a counterparty to the extent that the value assigned to such collateral by the Eurosystem after the application of haircuts does not exceed 10% of the total value of the collateral submitted by that counterparty. This limitation does not apply to uncovered bank bonds that are guaranteed by a public sector entity, or if the value after haircuts does not exceed €50 million.[4]

Guideline ECB/2008/13 came into force on 1 November 2008, Guideline ECB/2009/1 on 29 January 2009, and the Resolution of 22 January 2009 on 1 March 2009.

Banco de España: temporary amendment of the rules on collateral eligibility in monetary policy operations

Guideline ECB/2000/7 of 31 August 2000 on monetary policy instruments and procedures of the Eurosystem laid down, inter alia, the criteria for determining the eligibility of collateral held by a counterpart entity in order to obtain liquidity from the Eurosystem. In light of the international financial tensions, and in order to temporarily reinforce liquidity provision to counterpart entities in the Eurosystem's monetary policy operations, Guideline ECB/2018/80 of 21 November 2008[5] temporarily extended the criteria determining the eligibility of collateral provided to the Eurosystem by these entities to obtain liquidity.

To this end, the Executive Commission of the Banco de España has published the Resolution of 26 November 2008 (BOE of three January) on temporary changes in collateral eligibility criteria for Banco de España monetary policy operations, which adopts Guideline ECB/2008/18.

Accordingly, in the period from 1 December 2008 to 31 December 2009, the following shall also be eligible as collateral in Eurosystem monetary policy operations:

a) Marketable debt instruments denominated in US dollars, pounds sterling or Japanese yen, provided that they are issued and held/settled in the euro area and the issuer is established in the European Economic Area.

b) Syndicated loans, if they comply with the specific conditions laid down in Decision ECB/2008/15 of 14 November 2008 on the implementation of Regulation

1. See Guideline ECB/2018/18 of 21 November 2008 in "Financial regulation: 2008 Q4", *Economic Bulletin*, January 2009. **2.** See ECB Regulation 1745/2003 (ECB/2003/9) of 12 September 2003 on the application of minimum reserves. **3.** For asset-backed securities issued as from 1 March 2009, the Eurosystem's requirement for high credit standards is defined in terms of an "AAA" credit assessment at issuance with a minimum credit quality threshold over the life of the security set at the "single A" credit assessment level. **4.** Uncovered bank bonds submitted to the Eurosystem as collateral until 20 January 2009 are not subject to this limitation until 1 March 2010. **5.** See "Financial regulation: 2008 Q4", *Economic Bulletin*, January 2009, Banco de España, pp.138-139.

ECB/2008/11 of 23 October 2008 on temporary changes to the rules relating to eligibility of collateral. Currently, these loans are no longer eligible.

c) Debt instruments issued by credit institutions, which are traded on certain non-regulated markets as specified by the ECB.

d) Subordinated assets protected by acceptable collateral provided that a financially sound guarantor provides an unconditional and irrevocable guarantee, payable on first demand, on these assets.

e) Fixed-term remunerated deposits of counterparties in the National Central Bank (NCB) of the Member State in which the counterparty is established.

As in Guideline ECB/2008/18, a new BBB-equivalent credit assessment threshold granted by a specialised agency is established. It shall be applicable both to marketable and non-marketable assets, with the exception of asset-backed securities for which a credit assessment equal to or higher than A shall continue to be required.

The resolution is applicable from 1 December 2008 to 31 December 2009.

European Central Bank: statistics on assets and liabilities of financial vehicle corporations engaged in securitisation transactions

Regulation (EC) No 24/2009 of the European Central Bank (ECB/2008/30) of 19 December 2008 (OJEU of 20 January 2009) concerning statistics on the assets and liabilities of financial vehicle corporations[6] engaged in securitisation transactions,[7] and Guideline ECB/2008/31 of 19 December 2008 (OJEU of 26 February 2009) amending Guideline ECB/2007/9 of 1 August 2007 on monetary, financial institutions and markets statistics (recast) were published in order to make legal provision for statistics on the assets and liabilities of financial vehicle corporations.

The purpose of these legal provisions is to provide the ECB with statistics on the financial activities of FVCs in the participating Member States. Given the close links between the securitisation activities of FVCs and monetary financial institutions (MFIs), consistent, complementary and integrated reporting of MFIs and FVCs is required. The reporting approach of FVCs and MFIs aims at minimising the reporting burden for reporting agents and avoiding overlaps in the reporting of statistical information by FVCs and MFIs.

FVCs shall inform the relevant NCB of their existence within one week from the date on which they have taken up business and shall provide the relevant NCB with data on end-of-quarter outstanding amounts, financial transactions and write-offs/write-downs of their assets and liabilities on a quarterly basis. NCBs may exempt certain FVCs from their reporting obligations provided that their contribution to the quarterly aggregated assets/liabilities accounts for less than 5% of the total of FVCs' assets in each participating Member State or the relevant information can be obtained from other statistical data sources. FVCs may also be to exempted from reporting obligations that would cause unreasonably high costs compared to their statistical benefit.

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6. For the purposes of this Regulation, a financial vehicle corporation (FVC) is a company whose main activity is to engage in securitisation transactions. It is insulated from the risk of bankruptcy or any other default of the originator/transferor of the assets (normally, the issuer). FVCs issue securities, securitisation fund units, other debt instruments and/or financial derivatives, or they have assets underlying the issue of securities that are offered for sale to the public. MFIs and investment funds are excluded from the definition of FVCs. **7.** Securitisation is a transaction or scheme whereby an asset or pool of assets is transferred to an entity that is separate from the originator or whereby the credit risk of an asset or pool of assets, or part thereof, is transferred to the investors in the securities, securitisation fund units, other debt instruments or financial derivatives issued by an entity that is separate from the originator.

NCBs shall compile and report separate aggregated statistical information on assets and liabilities of FVCs distinguishing the following categories: (i) FVCs engaged in traditional securitisation;[8] (ii) FVCs engaged in synthetic securitisation;[9] and (iii) other FVCs.

NCBs shall collect data on loans purchased by FVCs that originated from and are serviced by euro area MFIs and broken down by maturity, sector and residency of debtors, distinguishing whether the originators of the securitised loans are MFIs resident in the same country as the FVC or whether they are resident in another euro area Member State.

Subsequently NCBs shall report quarterly to the ECB the data on outstanding amounts, financial transactions and write-offs/write-downs of FVCs' assets and liabilities.

NCBs shall apply certain quality standards to the information received on FVCs' assets and liabilities. The information may be drawn from a centralised database or other sources of statistics. If NCBs derive data on assets and liabilities of FVCs from supervisory data sources, the NCBs shall ensure that these sources are sufficiently aligned with the statistical concepts and definitions under the FVC reporting requirements. If data are obtained directly from FVCs, the quality of the data shall be checked by the NCBs on the basis of the information that is available from the annual financial statements. If the cross-checks show that high data quality standards are not met, NCBs shall take the necessary measures, including the possible direct collection of data.

Lastly, NCBs shall compile a list of FVCs for statistical purposes and report updates to this list to the ECB either when there are changes in the FVC sector, i.e. an institution joins the FVC sector or an FVC leaves the FVC sector, or when there is a change in an FVC's attributes.

The Regulation came into force on 9 February 2009 and the first reporting in accordance with the statistical reporting requirements shall begin with quarterly data from December 2009. The Guideline came into force on 18 March 2009.

European Central Bank: balance sheet of the monetary financial institutions sector

Regulation (EC) No 25/2009 of the European Central Bank (ECB/2008/32) of 19 December 2008 (OJEU of 20 January 2009) concerning the balance sheet of the IMF sector[10] repealed Regulation 2423/2001 of 22 November 2001, consolidating in a single text both earlier amendments and new changes for the sake of greater clarity and transparency.

New features include the statistical reporting requirements for loan securitisations and other loan transfers of MFIs, in terms of both flows and stocks. This requirement complements Regulation (EC) No 24/2009 of the European Central Bank of 19 December 2008 concerning statistics on the assets and liabilities of financial vehicle corporations engaged in securitisation transactions (ECB/2008/30), discussed in the previous section.

Exemptions from statistical reporting requirements may still be granted to small MFIs, provided that their combined contribution to the national MFI balance sheet in terms of stocks does not exceed 5 %;provided that their combined contribution to the balance sheet of. The exemp-

8. Traditional securitisation is that in which the transfer of risk is achieved by the economic transfer of the assets being securitised to the FVC. This is accomplished by the transfer of ownership of the securitised assets from the originator or through sub-participation. **9.** Synthetic securitisation is that in which the transfer of risk is achieved by the use of credit derivatives, guarantees or any similar mechanism. **10.** The ESCB requires, for the fulfilment of its tasks, the production of the consolidated balance sheet of the MFI sector. The principal purpose thereof is to provide the ECB with a comprehensive statistical picture of monetary developments in the participating Member States, which are viewed as one economic territory.

tions available to money market funds (MMFs)[11] and electronic money institutions are updated, and certain conditions have to be met. Also, certain exemptions are established in regard to the statistical reporting of loans transferred by means of a securitisation.

Lastly, the special procedures applicable to merger, division and reorganisation of MFIs remain unchanged in order to preserve compliance with the statistical reporting requirements stipulated by law.

The Regulation came into force on 9 February 2009 and shall be applicable from 1 July 2010. First reporting according to this Regulation shall begin with data for June 2010, except for specific exceptions.

European Central Bank: accounting and financial reporting in the ESCB

Guideline ECB/2008/21 of 11 December 2008 (OJEU of 5 February 2008) amended Guideline ECB/2006/16 of 10 November 2006[12] on the legal framework for accounting and financial reporting in the ESCB, in order to reclassify certain securities transactions to conform to recent EU legislation and to market developments.

Accordingly, certain securities are reclassified to other balance sheet items depending on the origin of the issuer, the currency denomination and on whether the securities are held-to-maturity.[13] Moreover, all financial instruments that are part of an earmarked portfolio[14] should be included under the item ‘Other financial assets’.

Specific rules are included on the accounting of forward interest rate swaps, foreign exchange futures and equity futures. They specify that forward interest rate swaps are to be accounted for in the same manner as ‘plain vanilla’ interest rate swaps, and that foreign exchange futures and equity futures are to be accounted for in the same manner as interest rate futures.

Lastly, the rules on equity instruments are updated in order to reflect the possibility to deal with marketable equities as part of the management of the ECB’s foreign reserves.

The Guideline came into force on 31 December 2008.

Amendment of the EU directive on deposit guarantee systems

Directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009 (OJEU 13 March 2009) amended Directive 94/19/EC of the European Parliament and Council of 30 May 1994[15] on deposit-guarantee schemes as regards the coverage level and the payout delay. The minimum coverage of the aggregate deposits of each depositor is raised from €20,000 to €50,000,[16] in order to maintain depositor confidence and improve financial market stability. The Directive envisages that, by 31 December 2010, harmonised coverage will reach €100,000, unless the Commission, in an assessment which must be issued by 31 December

11. MMFs are defined as those collective investment undertakings (CIUs) the shares/units of which are, in terms of liquidity, close substitutes for deposits and which primarily invest in money market instruments and/or in MMF shares/units and/or in other transferable debt instruments with a residual maturity of up to and including one year, and/or in bank deposits, and/or which pursue a rate of return that approaches the interest rates of money market instruments. **12.** See “Financial Regulation: 2006 Q4”, *Economic Bulletin*, January 2007, Banco de España, pp. 109-110. **13.** Held-to-maturity securities are securities with fixed or determinable payments and a fixed maturity, which the NCB intends to hold until maturity. **14.** The earmarked portfolio is a special investment held on the assets side of the balance sheet, consisting of securities, equity instruments, fixed-term deposits and current accounts, participating interests and/or investments in subsidiaries. It matches an identifiable item on the liabilities side of the balance sheet, irrespective of any legal or other constraints.’ **15.** See “Regulación financiera: segundo trimestre de 1994”, Boletín Económico, July-August 1994, Banco de España, pp. 97 and 98. **16.** Under Spanish law, Royal Decree 1642/2008 of 10 October increased the guaranteed amounts for depositors which had been set in Royal Decree 2606/1996 of 20 December 1996, raising them from €20,000 to €100,000 per depositor, whether an individual or a legal entity, and whatever the number and class of deposits of cash or of securities and financial instruments held by the depositor with the same institution.

2009, concludes that such an increase and such harmonisation are inappropriate and not financially viable for all Member States.

Also, the payout period delay is reduced. Thus, in cases where the payout is triggered by a determination of the competent authorities, the decision period of 21 days currently provided for is reduced to five working days. The competent authorities must, however, first be satisfied that a credit institution has failed to repay deposits which are due and payable. Similarly, the Directive shortens from three months (in certain cases extendable to nine months) to 20 working days the period for deposit guarantee schemes to make the guaranteed amounts available to depositors once the related legal decision or the aforementioned determination has been adopted. However, by 16 March 2011 at the latest, the Commission shall submit to the European Parliament and to the Council a report on the effectiveness and delays of the payout procedures assessing whether it would be practical to further reduce the delay of 20 working days to 10 working days.

Member States shall bring into force the Directive by 30 June 2009 at the latest, except for the laws, regulations and administrative provisions relating to the aforementioned reductions in delays, for which the transposition deadline is 31 December 2010.

Ministry of Economy and Finance: granting of guarantees

Royal Decree-Law 4/2009 of 29 March 2009 (BOE of 29 March 2009) authorises the central government to guarantee in 2009, for up to €9 billion, the obligations derived from the funding that may be granted by the Banco de España to Caja de Ahorros de Castilla-La Mancha.

In the event of guarantee enforcement, the Savings Bank Deposit Guarantee Fund shall pay to the Treasury the amount that results from multiplying the amount payable by the Treasury to the Banco de España by the ratio of the deposits guaranteed by the Fund to the claims on the institution.

In addition, the Resolution of 28 March 2009 of the Banco de España (BOE of 29 March 2009) made public the Resolution of the Executive Commission in relation to the Caja de Ahorros de Castilla-La Mancha, whereby the Board of Directors of the institution is provisionally replaced until such time as the Banco de España considers that the situation leading to replacement has been remedied.

State debt: terms of issuance for 2009 and January 2010

Law 2/2008 of 23 December 2008[17] on the State Budget for 2009 authorised the government to increase State debt in 2009, with the limitation that the outstanding balance thereof at 2008 year-end should not exceed the related balance as at 1 January 2009 by more than €50,247 million.

As usual at this time of year, Order EHA/3877/2008 of 29 December 2008 (BOE of 7 January 2009), providing for the creation of State debt during 2009 and January 2010, and two Resolutions of 21 January 2009 of the Directorate-General of the Treasury and Financial Policy (BOE of 29 and 31 January 2009), providing for specific issues of Treasury bills and of medium- and long-term government bonds and announcing the schedule of tenders for 2009 and for January 2010, have been published.

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

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17. See "Financial regulation: 2008 Q4", *Economic Bulletin*, January 2009, Banco de España, pp.138-139.

The most notable new developments were, first, that provision was made to exclude, for the purpose of calculating weighted average price and interest rate, any competitive bids for Treasury bills and medium- and long-term government bonds not considered to be representative of the market situation. Second, the maximum nominal value of the non-competitive bids which may be submitted by the various qualified investors[18] or any public-sector entity or government-owned company determined by the Treasury is raised from €100 million to €300 million. By contrast, neither the minimum competitive or non-competitive bid of €1,000 nor the upper limit of €1 million generally applicable for the sum of non-competitive bids by a single bidder have changed. Nor has there been any change in the requirement that all bids must be multiples of €1,000.

The arrangements for State debt issuance of previous years have been retained, namely through tenders (competitive[19] and non-competitive[20] bids), and any technique whatsoever which is considered suitable for the type of transaction in question. In particular, a portion or the full amount of an issue could be transferred at an agreed price to one or several financial institutions which can underwrite its placement. Similarly, outright sales or the sale under repos of newly issued securities or expanded existing issues that the Treasury might have in its securities account may be performed.

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

TREASURY BILLS

The changes from the previous year include most notably, first, the increase in the range of maturities and in the number of issues of Treasury bills to meet investor demand for shorter-term financial instruments. Thus, from February 2009 three-, six- and twelve-month Treasury bills will be auctioned regularly every month. Second, the date of allotment of tenders is brought forward from Wednesday to Tuesday, thereby increasing by one day the periods allowed for payment and for conducting the second round of tenders.

Tenders will, save exceptions, take place on the second Tuesday of each month for three- and six-month Treasury bills and on the following Tuesday for twelve-month bills. As regards other features, the procedure and allotment of tenders will be the same as in 2008, including the submission of bids in terms of the interest rate quoted on secondary markets, so as to make bidding easier for subscribers.

In competitive bids, the desired interest rate is indicated, and those that are accepted are allotted, in each case, at the price equivalent to the requested interest rate or to the weighted average, as applicable depending on the result of the tender.

Finally, as usual tenders will be followed by a second round reserved for those financial institutions that have acquired market-maker status in respect of Treasury bills. The second round will be conducted in accordance with the regulations governing market makers.

MEDIUM- AND LONG-TERM GOVERNMENT BONDS

The main new development is the provision for issues in which either principal or interest (or both) can be tied to an index, thereby adding to the types of debt. The issuance criteria and procedures are basically the same as those in force in 2008 and, as in the case of Treasury

18. The Wage Guarantee Fund, the Commercial Bank Deposit Guarantee Fund, the Savings Bank Deposit Guarantee Fund, the Credit Cooperative Deposit Guarantee Fund, the Social Security Reserve Fund and the Investment Guarantee Fund are not, therefore, subject to the general limit. **19.** Defined as those indicating the price, expressed as a percentage of the nominal value, that the bidder is willing to pay for the debt, or the percentage interest rate desired by the bidder. **20.** Those indicating neither price nor interest rate.

bills, the Resolution includes an annual schedule of tenders setting the tender dates and the bond maturities on the basis of the market conditions and of the response to issues during the year. The initial maturity of the two types of debt will be three and five years for medium-term bonds, and ten, fifteen and thirty years for long-term bonds, fifteen-year bond issuance being resumed this year. Also, it will still be possible to offer issues that are extensions of other previous issues, in order to ensure their liquidity on the secondary markets and to meet investor demand.

Tenders will, save exceptions, take place on the first Thursday for medium-term bonds and on the third Thursday for long-term bonds. The procedure and allotment of tenders will be the same as in 2008.

Amendment of regulations governing the solvency of investment firms and of their consolidable groups

CCNMV 12/2008 of 30 December 2008 (BOE of 4 February 2008) (hereafter "the Circular") on the solvency of investment firms (IFs)[21] and their consolidable groups, which adapts the solvency regime of these institutions to that in place in the European Union[22]. Also, the previous regulatory framework, set forth in CCNMV 6/1992 of 30 December 1992[23] on capital requirements of securities dealers and brokers and their consolidated groups is repealed.

Table 1 compares, in summary form, the main features of the Circular with their treatment in CCNMV 6/1992.

The Circular opts for similar rules regulating the solvency of credit institutions[24] and IFs, save certain exceptions attributable to the specific characteristics of these institutions, so as to avert regulatory arbitrage and make it easier for the various types of institutions to form part of the consolidable groups subject to supervision.

SCOPE OF APPLICATION AND GENERAL CAPITAL REQUIREMENTS

The Circular applies to IFs and their consolidable groups, although not to financial advice firms which, in regard to own funds, are subject to Royal Decree 217/2008 of 15 February 2008[25] on the legal regime of IFs and of other investment services entities.

The Circular defines the concept of own funds and of individual and consolidated capital requirements, the limits on their calculation, the deductions from them and the various categories of own funds. Specifically, original own funds (tier 1 capital) basically consist of share capital, reserves and income for the current financial year; additional own funds (tier 2 capital) consist basically of revaluation reserves, provisions covering the institution's overall risks, subordinated debt (of original maturity of not less than five years) and subordinated debt of undefined maturity; and tier 3 capital consists basically of short-term subordinated debt (of original maturity of not less than two years).

In regard to general capital requirements, IFs shall hold at all times own funds equal to or greater than the larger of the following four items: 1) the sum of capital requirements for trading

21. Investment firms comprise securities dealers and brokers, portfolio management companies and financial advice firms. They are regulated by Securities Market Law 24/1988 of 28 July 1988 amended by Law 47/2007 of 19 December 2007 and by Royal Decree 217/2008 of 15 February 2008 on the legal regime of IFs and of other investment services entities, partially amending the implementing regulations of CIIs Law 35/2003 of 4 November 2003 enacted by Royal Decree 1309/2005 of 4 November 2005. **22.** This Circular completes the transposition of Community directives 2006/49/EC of the European Parliament and of the Council of the EU of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast) and 2006/48/EC of the European Parliament and of the Council of 14 June 2006 on the taking up and pursuit of the business of credit institutions (recast), establishing a common framework, with limited exceptions, for investment firms and credit institutions. **23.** See «Regulación financiera: cuarto trimestre de 1992», Boletín Económico, January 1993, Banco de España, pp. 65-71. **24.** See CBE 3/2008 of 22 May 2008 of the Banco de España, to credit institutions, on the determination and control of minimum own funds. **25.** See "Financial regulation: 2008 Q1", *Economic Bulletin*, April 2008, Banco de España, pp.163-167.

SOLVENCY OF INVESTMENT FIRMS AND THEIR CONSOLIDABLE GROUPS

TABLE 1

CNMV Circular 6/1992 of 30 December 1992	CNMV Circular 12/2008 of 30 December 2008
Scope of application	
Securities dealers and brokers and their consolidable groups.	Investment firms (IFs) and their consolidable groups and subgroups. IFs are understood to include only securities brokers and dealers and portfolio management companies. They do not include financial advice firms.
Capital components	
Tier 1 capital	Tier 1 capital
Primarily capital, reserves and profit for the year.	No significant changes.
Tier 2 capital	Tier 2 capital
Primarily regularisation reserves, provisions for general risks, subordinated debt (with a minimum original term to maturity of five years) and subordinated debt with undefined maturity.	No significant changes.
Tier 3 capital	Tier 3 capital
Short-term subordinated debt (with a minimum original term to maturity of two years).	No significant changes.
General minimum capital requirements	
Own funds may not, at any time, be lower than the highest of the following: a) two thirds of the minimum share capital; b) the sum of the amounts resulting from application of the rules on covering trading portfolio, credit, exchange rate and gold position risks and, where appropriate, additional charges for risk concentration; and c) the amount resulting from application of the rules on covering capital requirements due to level of activity.	Own funds will at all times be equal to or exceed the largest of the following four items: 1) the sum of capital requirements to cover trading portfolio, credit, exchange rate, commodities and operational risks, and 8% of all the credit risk-weighted positions, with the exception of certain activities; 2) one quarter of annual overheads; 3) two thirds of the minimum capital required to form the type of invesment firm in question; and 4) 5‰ of the volume of the portfolios managed. Exceptions are established for certain IFs on the basis of size and activity.
Solvency requirements	
Risks linked to the securities trading portfolio. For fixed-income securities, the capital requirements to cover general and specific risks will be calculated separately for each currency. In the case of equities, the net position in each type of stock will be calculated, and net long positions, on the one hand, and net short positions, on the other, in shares and investments and their derivatives will be added together, separately for each currency. Capital requirements are established for other risks linked to the securities portfolio.	Risks linked to the trading portfolio: the capital requirements will be the sum of the own funds necessary to cover position risks relating to debt instruments, including convertible instruments, equities and CII positions held, and those necessary to cover credit and counterparty risks linked to the trading portfolio. Trading portfolios below a certain amount are exempt from these requirements.
Credit risk: the minimum capital requirements will be 8% of the asset items, after deduction of possible provisions, weighted according to the nature and characteristics of the risk.	Credit risk: the minimum capital requirements may be calculated using the standardised approach (the capital requirements to cover credit risk are determined by applying the corresponding weightings to the different risk exposures) or, with prior authorisation from the CNMV, the internal ratings-based approach (IRB).
Not envisaged.	Techniques to reduce credit risk are established, by means of personal guarantees, collateral or similar instruments, as well as cover by means of various instruments, such as credit derivatives.
Counterparty credit risk.	No significant changes.
Not envisaged.	Securitisation credit risk
Capital requirements for exchange rate risk will be 8% of the following positions: the net global foreign currency position; the net global gold position; and the net global positions in each of the instrumental currencies.	No significant changes.
Not envisaged.	Commodities position risk: calculation of these positions will be based on positions recorded both on and off the trading portfolio.

SOURCES: BOE and Banco de España.

SOLVENCY OF INVESTMENT FIRMS AND THEIR CONSOLIDABLE GROUPS (cont'd) TABLE 1

CNMV Circular 6/1992 of 30 December 1992	CNMV Circular 12/2008 of 30 December 2008
Solvency requirements (cont'd)	
Not envisaged.	Operational risk: to cover a series of contingencies that may result in losses for the investment firm. These contingencies are classified, and the methods of calculation of own funds to cover this risk are established.
Limits on large exposures: the value of all the exposures of an investment firm and its group to one individual or group shall not exceed 25% of their own funds. In certain cases this limit is reduced to 20%. Moreover, total large exposures shall not exceed 800% of own funds.	No significant changes.
Internal organisation, risk management and internal control	
Not envisaged.	Investment firms must have an organisational structure and internal control system suited to the nature, scale and complexity of the investment services they provide, with procedures that permit identification of the risks that the activities conducted involve or may involve for the IFs. They must also conduct internal capital adequacy assessments.
Disclosures	
Disclosures to the CNMV: various reports on capital requirements and large risk limits, on a monthly basis.	Disclosures to the CNMV: annual internal capital adequacy assessment reports, coinciding with presentation of the year-end solvency reports. Investment firms must also submit a series of accounting returns, as and when indicated in the regulations, on solvency, own funds and risk requirements.
Not envisaged.	Market disclosures: investment firms are obliged to issue an annual "solvency report", covering a wide variety of solvency-related aspects, ranging from their risk management policy and breakdown of own funds, including whether or not there is a shortfall in respect of the minimum capital requirements, to the capital required to cover the different market risks.

SOURCES: BOE and Banco de España.

book, credit, foreign exchange and commodity, and operational risk, and 8% of all credit risk-weighted positions except for trading book activities and non-liquid assets when deducted from own funds, for credit and dilution risk; one-quarter of overhead expenses for the current financial year; 3) two-thirds of the minimum capital required to set up the IF in question, and 4) 5‰ of the amount of the portfolios managed.

However, certain exceptions are set for small IFs and for those centred on certain business areas. Specifically, the CNMV might authorise lower capital requirements for portfolio management companies, securities dealers and brokers and specific IFs[26], as reflected in the provisions.

CAPITAL REQUIREMENTS FOR TRADING PORTFOLIO RISKS

The Circular details the general criteria relating to the trading portfolio, which are similar to the previous regime. The trading portfolio shall comprise all the positions in financial instruments and commodities that the entity maintains with the intention of trading[27] or for the purposes of hedging other items of the trading portfolio.

26. Those, inter alia, acting on their own account or that do not hold customers' cash or securities. **27.** "Trading intent" is deemed to exist when positions are maintained with a view to realising them in the short run or to benefiting from the real or expected short-term differences between the buy and sell prices, or from other changes in prices or interest rates.

The novel aspect here is that entities may, further to authorisation from the CNMV, use their own (in-house) models when calculating their capital requirements vis-à-vis position risk, foreign exchange risk and commodities positions, instead of the methods described in the Circular. Also, a series of requirements are specified in respect of the in-house models, including having a risk management system which is suited to the volume and complexity of the risks assumed, and which is valid and representative.

CAPITAL REQUIREMENTS FOR CREDIT RISK

To calculate credit requirements for credit risk, specialised credit institutions and their groups can use either the standardised approach, or, on prior authorisation from the CNMV, the internal-ratings based (IRB) approach, as provided by CBE 3/2008 of 22 May 2008 on determination and control of minimum own funds,[28] which is the main new development in this field with respect to the previous system.

Under the standardised approach,[29] the Circular specifies the weights applicable to the various risk exposures, except for those deducted from own funds. The risk weights will be applied on the basis of their position category[30] and of their credit quality. As with credit institutions, credit quality may be determined by reference to the credit assessments of external credit assessment institutions (ECAIs)[31] or to the credit assessments of export credit agencies (ECAs).[32] The risk weights of the various positions range from 0% to 150% depending on the level of credit quality.

Provision is made for credit risk mitigation techniques in the form of guarantees, collateral or similar instruments and for hedging by different types of instruments, such as credit derivatives. Their minimum eligibility requirements and the risk mitigation calculation methods are defined.

The capital requirements for counterparty credit risk[33] of derivative instruments, repurchase transactions, securities lending and certain financing transactions are addressed. Various methods for calculating this type of risk are established: mark-to-market method, original exposure method, standardised method (only for OTC derivatives instruments and in long settlement transactions) and internal models on prior approval from the CNMV.

As regards securitisation credit risk, a distinction is made between the risk exposure of the originator (or sponsor) and that of the investor in these instruments, as well as the most usual tranches of securitisations, insofar as they involve greater or lesser risk exposures, giving emphasis to the support to these products.[34] A distinction is also made between traditional and so-called synthetic securitisation, the latter being constructed through the use of recently de-

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28. For the purpose of application of the IRB approach as provided in Banco de España Circular 3/2008 of 22 May 2008 to credit institutions on determination and control of minimum own funds, the references to credit institutions or their groups shall be taken as references to investment firms or their groups, the references to the Banco de España shall be taken as to the CNMV, except those references to assumptions in respect of loss given default (LGDs) or exposure at default (EAD), which shall be those stated expressly in Banco de España Circular 3/2008. **29.** Under the standardised approach, capital requirements for credit risk are determined by applying the weights of the various risk exposures. **30.** A risk weight scale from 0% to 150 % is established. The latter weight is used for positions more than 90 days past-due or positions belonging to high-risk categories (such as, for example, investments in venture capital companies and in unquoted shares). **31.** External credit assessments may only be used to determine the risk weight of a position when the ECAI issuing them is recognised as eligible by the CNMV. For this purpose, ECAIs must provide assurance that their assessment methodology meets the requirements of objectivity, independence, ongoing review and transparency and that the resulting credit ratings meet the requirements of credibility and transparency. **32.** Credit assessments issued by export credit agencies (ECAs) may be used to determine the risk weight of a position vis-à-vis central government or central banks when they come from Compañía Española de Crédito a la Exportación or an agency recognised by the CNMV as meeting certain conditions. **33.** This is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. **34.** Support to securitisation: any support which the originator or sponsor provides beyond its contractual obligations with a view to reducing potential or actual losses to investors.

veloped credit derivatives. In both cases, the cases in which there is effective transfer of risk are specified. The methods applicable to calculate the risk-weighted positions held in a securitisation shall be the standardised approach and the IRB approach, and credit risk mitigation techniques will be applicable to all the tranches resulting from the securitisation. The methods that can be used under the IRB approach include techniques subject to administrative authorisation from the CNMV.

CAPITAL REQUIREMENTS FOR FOREIGN EXCHANGE RISK

There are no major changes in the treatment of foreign exchange risk with respect to the previous circular. Entities shall calculate their capital requirements by the method described in the Circular, although they may replace it with internal models for all or some foreign exchange positions.

Entities must have appropriate policies and procedures and their board or similar body must set clearly defined limits on the foreign exchange risks assumed. In particular, they must have measurement and reporting systems commensurate with their activity to enable them to manage, control and monitor such risks.

CAPITAL REQUIREMENTS FOR COMMODITIES RISK

To calculate a commodities position, account shall be had of both positions in the trading book and those in the non-trading book. Also, positions in commodities or commodity derivatives, including precious metals but excluding gold,[35] shall be expressed in terms of the standard unit of measurement.

The Circular sets out the capital requirements for this risk and establishes a general calculation method, a maturity system (using a separate maturity ladder for each commodity), a simplified approach[36] and an extended maturity ladder approach, the latter subject to prior authorisation from the CNMV.

Finally the Circular addresses capital requirements for certain specific instruments, such as commodity futures, forward commitments to buy or sell individual commodities, commodity swaps and options, and warrants relating to commodities.

CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

One of the main changes introduced by the Circular is the new capital requirement for operational risk designed to cover certain contingencies to which all entities are subject due to the activity in which they engage, for which a detailed classification of the different types of loss events under this type of risk is established. The Circular provides three methods for calculating capital requirements for operational risk: the basic indicator approach, the standardised approach based on business lines and the advanced approach. It also permits the use of combined approaches under exceptional circumstances and within a timetable agreed with the CNMV.

Also, IFs may take out insurance to cover operational risk events, subject to the conditions set out in the Circular, and make use of other mechanisms to transfer operational risk if they can demonstrate to the satisfaction of the CNMV that a noticeable risk mitigating effect is achieved through those mechanisms.

LIMITS ON LARGE EXPOSURES

The limits on concentration of positions are set similarly to under the previous regime, although the requirements for IFs have become more flexible because certain positions vis-à-vis clear-

35. Positions in gold or gold derivatives shall be considered as being subject to foreign exchange risk. **36.** The capital requirement shall be calculated as the sum of 15% of the net position, long or short, multiplied by the spot price for the commodity, and 3% of the gross position, long plus short, multiplied by the spot price for the commodity.

ing and settlement systems no longer have to be taken into account. IFs must have suitable administrative and accounting procedures and internal control mechanisms to enable them to identify and record all large exposures, which must be reported to the CNMV quarterly along with the solvency returns.

Large exposures are subject to the following limits: a) IFs and their groups may not incur exposures totalling more than 25% of their own funds vis-à-vis a single person or group, or not more than 20% if the exposures are to persons with whom there is a relationship of control, and b) IFs and their groups may not incur large exposures the cumulative amount of which exceeds 800% of their own funds. Also, certain exceptions are defined to the limits on exposures with a weight of zero.

However, if exceptionally the exposures do exceed these limits, SCIs have to inform the CNMV and present a programme of measures to return to compliance.

NON-COMPLIANCE WITH SOLVENCY RULES

When an IF or its consolidated group does not reach the minimum level of own funds, the CNMV shall be immediately informed and a programme presented to it specifying the plans for returning to compliance with solvency requirements. If there is a shortfall of own funds in excess of 20% of the minimum requirements, the net profit or surplus must be taken in full to reserves. If the shortfall is equal to or less than 20%, the distribution of profits shall be subject to authorisation by the CNMV, which will set the minimum percentage to be taken to reserves, taking into account the plan presented for returning to compliance with solvency requirements. This minimum percentage may not be less than 50% of the net profit or surplus.

INTERNAL ORGANISATION, RISK MANAGEMENT AND INTERNAL CONTROL

Another major new feature of the Circular is that it sets general criteria for the internal organisation, control procedures and internal assessment procedures of IFs and other institutions providing these services. Thus the Circular sets organisational and internal control requirements appropriate for and proportionate to the nature, scale and complexity of the investment services provided. Also required are minimum procedures for enabling institutions to ascertain the risks to which they are or may be subject due to their activity.

Also, institutions should carry out an internal capital adequacy assessment procedure. This process should form part of a set of sound, exhaustive strategies and procedures enabling them to assess and continuously maintain the amounts, types and distribution of their internal capital and their own funds, which they consider to be well justified and suitable for their risk profile and operating environment.

REPORTING OBLIGATIONS

There are also new requirements for IFs’ disclosures to the CNMV and the markets. IFs have to submit a yearly *internal capital adequacy assessment report*[37] at the time they submit their year-end solvency returns. Also, they have to send, with the periodicity stipulated in the Circular, certain accounting statements on the solvency, own funds and requirements for the various risk exposures. Regarding market disclosures, a document called the *solvency report* has to be made public by IFs yearly. This report shall include a wide range of solvency disclosures required of entities, including the risk management policy, the own funds breakdown, specifying whether there is a shortfall with respect to the minimum requirements, and the capital required to cover the various market risks, all for the purpose of improving transparency in the sector.

The Circular will come into force on 30 June 2009.

37. The report shall include a summary of disclosures on strategies and procedures relating to internal organisation and to internal capital adequacy assessment.

Categories of collective investment institutions based on investment policy

Under the mandate emanating from Law 35/2003 of 4 November 2003[38] on CIIs, *CCNMV 1/2009 of 4 February 2003* (BOE of 18 February 2003) established the various CII categories based on investment policy. It reduced the number of existing investment policies and qualified the definitions of the remaining ones to adapt them to the current situation of the sector. Additionally, the Circular contains diverse provisions designed to provide investors with clear, concise information on CIIs' investment policies.

The Circular includes a number of criteria for deciding to which investment policy category each CII belongs and provides that, when a CII can be classified in two investment policy categories, it shall be deemed to belong to that entailing the higher risk. To the information furnished on investment policy shall be added that on the risk profile and, where appropriate, that on the nature of CIIs which invest mainly in other CIIs. If a CII does not have a category in the new classification, the CNMV will, ex officio, assign it to a new investment policy category.

The adaptation of CII prospectuses as a result of the new investment policy categories will take place as and when CII management companies or investment firms apply to update their prospectus for some other reason. This will not apply to funds with a money market investment strategy, which will have three months from the entry into force of the Circular to adapt their prospectuses to the new definition or, where appropriate, to change their investment policy. Nor will it apply to CIIs included in the international equity investment strategy that invest primarily in a specific geographical area or a specific economic sector, which will have nine months to adapt their CII category.

The new investment policies are as follows:

Money market: Absence of exposure to equity securities, foreign exchange risk and subordinated debt. Average maturity of the portfolio of less than six months.

Euro bond: Absence of exposure to equity securities and the CII has not been classified in the above investment policy category. Maximum 10% exposure to foreign exchange risk.

International bond: Absence of exposure to equity securities. The exposure to foreign exchange risk may be higher than 10%.

Euro mixed bond: Lower than 30% exposure to equity securities. The sum of investments in equity securities issued by entities located outside the euro area and the exposure to foreign exchange risk shall not exceed 30%.

International mixed bond: Lower than 30% exposure to equity securities. The sum of investments in equity securities issued by entities located outside the euro area and the exposure to foreign exchange risk may exceed 30%.

Euro mixed equity: Between 30% and 75% equity exposure. The sum of investments in equity securities issued by entities located outside the euro area and the exposure to foreign exchange risk shall not exceed 30%.

International mixed equity: Between 30% and 75% equity exposure. The sum of investments in equity securities issued by entities located outside the euro area and the exposure to foreign exchange risk may exceed 30%.

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38. See "Financial regulation: 2003 Q4", in Economic Bulletin, January 2004, Banco de España, pp. 84-87.

Euro equity: More than 75% equity exposure. At least 60% exposure to equity securities issued by entities located in the euro area. Maximum 30% exposure to foreign exchange risk.

International equity: More than 75% equity exposure and the CII has not been classified as euro equity.

Passive management CII: CIIs which replicate or reproduce an index, including quoted funds, and CIIs with a specific non-guaranteed return target.

Guaranteed fixed return: CIIs backed by the guarantee of a third party and which guarantee the investment plus a fixed return.

Guaranteed variable return: CIIs backed by the guarantee of a third party and which guarantee the recovery of the initial investment plus a possible amount fully or partly linked to the performance of equity instruments, foreign currency or other asset.

Partially guaranteed: CIIs with a specific held-to-maturity return target linked to the performance of equity instruments, foreign currency or other asset, for which there is a guarantee of a third party and which guarantee the recovery of a percentage -- less than 100% -- of the initial investment.

Absolute return: CIIs which are managed with the objective (not guaranteed) of achieving a certain periodic return/exposure.

Global: CIIs whose investment policy does not fit into any of the above investment policy categories.

The Circular came into force on 1 April 2009.

Secondary market governing companies: accounting rules

CNMV Circular 9/2008 of 10 December 2008 (BOE of 5 January 2009) relates to accounting rules, confidential and public returns and annual accounts of official secondary market governing companies (excluding the Banco de España), multilateral trading facilities (MTFs), the system operator, the central counterparties, the Sociedad de Bolsas, the companies controlling all the shares of the secondary market governing companies and multilateral trading facilities, and any other market clearing and settlement systems that may be established under the provisions of Securities Market Act 24/1988 of 28 July 1988,[39] amended by Act 47/2007 of 19 December 2007.[40]

The Circular regulates the specific accounting rules, the formats for the confidential and public financial statements and the public annual accounts of the companies or entities that control or govern securities market infrastructures, whether related to trading or post-trading, with the exception of the public-debt book-entry market, to update and adapt them to the new accounting framework established in the new general chart of accounts approved by Royal Decree 1514/2007 of 16 November 2007,[41] the previous legal framework being repealed.[42]

The Circular establishes as the general accounting criteria those contained in the new general chart of accounts, setting out certain specific criteria for these market governing companies,

39. See "Regulación financiera: 1988 Q3", Boletín Económico, October 1988, Banco de España, pp. 61-62. **40.** See "Financial regulation: 2007 Q4", Economic Bulletin, January 2008, Banco de España, pp. 182-189. **41.** See "Financial regulation: 2007 Q4", Economic Bulletin, January 2008, Banco de España, pp. 196-199. **42.** CNMV Circulars 1/1990 of 31 January 1990, 3/1990 of 23 May 1990, 2/1992 of 15 July 1992 and 4/1992 of 21 October 1992.

such as: a) the accounting treatment that must be applied for recognition and valuation of cash deposits, guarantees, pledges, collateral or insurance contracts received as surety and to guarantee positions; b) the accounting procedure for recognition and valuation of daily balances pending settlement relating to options transactions and changes in futures margins; c) the recording of transactions involving derivative instruments in which an operator acts as the central counterparty; d) the recording of fee income for certain services rendered.

The Circular includes the formats for the confidential individual and consolidated returns that must be submitted to the CNMV, stipulating the frequency and submission deadlines. It also details the rules on preparation and completion of the confidential returns, including clarifications on how the information must be presented deriving from application of the specific accounting rules.

These confidential returns include certain peculiarities of the operations of these market governing companies and certain requirements for disclosures to be made to the CNMV relating to its supervisory functions, such as an additional financial reporting statement and an activity report on the market or system managed by the companies. The Circular also includes the formats for the interim public financial statements that must be submitted to the CNMV, stipulating the frequency and submission deadlines and certain instructions relating to their preparation and completion.

In the case of the public annual accounts, the Circular includes the balance sheet and income statement formats, with the headings reflecting the financial information deriving from the specific operations of these market companies.

The confidential and public financial statements shall be presented via the CIFRADOC/CNMV system, approved by the CNMV board of directors on 15 September 2006, or by any other similar system that may be introduced in the future, in accordance with the technical requisites established by the CNMV at any time.

The regulations and the new financial statements shall apply, retrospectively, to all financial years commencing as from 1 January 2008.

Venture capital firms: accounting rules and returns

CNMV Circular 11/2008 of 30 December 2008 (BOE of 14 January 2009), on accounting rules, annual accounts and confidential reporting statements of venture capital firms (VCFs),[43] was issued to adapt their accounting system to the new general chart of accounts, the previous legal framework being repealed.[44]

The Circular first addresses the accounting definitions and principles, the general accounting and recognition criteria, and the classification and valuation of financial assets. Among these latter, three asset categories are particularly noteworthy, namely *available-for-sale financial assets, originated loans and receivables, and financial assets held for trading,* with the first such category considered to be the most appropriate assets for financial investment by VCFs.

Available-for-sale assets shall initially be valued at fair value;[45] any subsequent changes that may arise shall be recorded directly in net worth until such time as the financial asset is re-

43. Venture capital firms (VCFs) were regulated in Act 25/2005, of 24 November 2005, on venture capital firms and their management companies. This Act empowered the Minister for Economic Affairs and Finance and, with the latter's express authorisation, the CNMV, following a report by the Accounting and Audit Institute, to establish and modify the accounting rules and formats to be used by VCFs and their management companies for their annual accounts. **44.** CNMV Circular 5/2000 of 19 September 2000. **45.** Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value shall be determined without any deduction for transaction costs that may be incurred. Fair value shall not, in any circumstances, be the result of a forced transaction, involuntary liquidation or distress sale.

moved from the balance sheet or becomes impaired, at which point the amount thus recognised shall be included in the income statement.

Originated loans and receivables shall initially be valued at fair value, and subsequently at amortised cost, while financial assets held for trading (basically those included in the VCFs' freely available assets) shall be valued at fair value with any changes recorded in the income statement. Any derivative financial instruments held by the VCFs, with certain exceptions, shall be valued in the same way.

All investments by the VCFs in group, multigroup or associate companies shall initially be valued at cost, equivalent to the fair value of the consideration given, plus any directly attributable transaction costs. Subsequently these investments shall be valued at cost, less the amount of any valuation adjustments due to impairment.

Moreover, given the need to value the VCFs' total assets and to calculate their net asset value, off-balance-sheet accounts must be presented recording latent capital gains net of tax, which shall be determined by comparison between the cost of the investment and fair value.

Another noteworthy aspect of the Circular is that it specifies the methods to be used to determine fair value, particularly for unquoted equity instruments which will be the VCFs' most characteristic investments. The fair value of these instruments shall be calculated on the basis of arm's length transactions between willing parties. In the absence of any such transactions, the fair value of these investments shall be deemed to be the underlying book value, corrected for any tacit capital gains and losses.

The Circular also establishes general recognition and valuation criteria for property, plant and equipment, financial liabilities and equity instruments and for determination of results.

In addition, it includes the formats for the confidential and public returns that the VCFs must submit to the CNMV annually. These firms are also obliged to send, together with their audit report, a special-purpose audit report on the qualifications due to the limitations on scope resulting from the lack of sufficient evidence on the fair value of the investments.

The confidential and public financial statements shall be presented via the CIFRADOC/CNMV system.

The Circular came into force on 15 January 2009 but shall be applied, retrospectively, as from 1 January 2008. Any corrections that must be made shall be included in a reserve, save in the event that, in accordance with the criteria established, they should be included under any other heading. Thus, the first confidential and public financial statements using the formats and prepared in accordance with the criteria contained in the Circular shall be those corresponding to December 2008.

Securitisation funds: accounting rules and statements

CNMV Circular 2/2009 of 25 March 2009 (BOE of 31 March 2009) on accounting rules, annual accounts, public financial statements and confidential statistical returns of securitisation funds aims to make these funds more transparent for the market and achieve better monitoring of asset securitisation structures at the European level. It covers mortgage and asset securitisation funds.

The Circular regulates the information contained in securitisation funds' annual accounts, public financial statements and confidential statistical returns. It sets out the general accounting criteria applicable, in line with those laid down in the new general chart of accounts, along with a series of specific rules addressing the singular legal and operating structure of these funds.

Confidential returns must be prepared quarterly. The Circular establishes the statistical reporting forms that fund managers must submit to the CNMV, in line with ECB initiatives for enhanced control and supervision of securitisation funds.

The key change in the annual accounts is the inclusion of the new statement of recognised income and expenses which, in light of the legal status of securitisation funds, replaces the traditional statement of changes in equity, to form a complete unit together with the balance sheet, income statement, statement of cash flows and notes to financial statements. The Circular also establishes the public financial reporting forms, the frequency and deadlines for electronic submission to the CNMV and the rules on preparation and completion of these statements, which include tables providing a detailed breakdown of the assets securitised and the liabilities issued by the funds, and information on credit enhancements.

Each securitisation fund will also have to prepare a management report containing a faithful account of its business development and position, together with a description of the main risks and uncertainties it faces and a forecast of cash inflows and outflows up to the maturity of its assets and liabilities, based on an update, as at the date of close of the annual accounts, of the hypotheses assumed in connection with doubtful and impaired assets and early redemption of the securitised assets.

Other noteworthy aspects include auxiliary accounting regulations and internal fund management control, establishing, inter alia, records of inflows and outflows for management control, appropriate risk appraisal (credit, interest rate, market, exchange rate, liquidity and concentration risk) and the criteria to be used to determine the fair value of financial instruments.

The Circular came into force on 31 March 2009 but shall be applicable retrospectively as from 1 January 2008, save in the case of the management report and certain aspects of the annual accounts, which shall be applicable in 2009.

Financial advice firms: development of certain aspects of their legal system

CNMV Circular 10/2008 of 30 December 2008 (BOE of 14 January 2009) on financial advice firms[46] has been enacted. These firms are understood to provide investment advice,[47] on a habitual and professional basis, exclusively on one or more transactions relating to financial instruments, as well as certain auxiliary services.[48] These firms may not be agents of other investment firms or credit institutions, nor may they hire agents to perform their functions.

The requisites and time periods for authorisation, registration and operation of financial advice firms,[49] the minimum financial requirements,[50] their corporate organisation, refusal and revocation of authorisation and their cross-border activity were all regulated in the Securities Market Act 24/1988, of 28 July 1988, and Royal Decree 217/2008, of 15 February 2008. The Circular

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46. For further background details, see Act 47/2007, of 19 December 2007, which amended the Securities Market Act 24/1988, of 28 July 1988, and Royal Decree 217/2008, of 15 February 2008, on the legal system of investment firms and other firms providing investment services. **47.** Not including general, non-individual recommendations made in the framework of the sale of securities or financial instruments. **48.** Namely advice to firms on capital structure, industrial strategy and related matters, along with advice and other services connected with corporate mergers and acquisitions, and preparation of investment reports and financial research or other general recommendations relating to transactions involving financial instruments. **49.** Both the authorisation and registration of these firms correspond to the CNMV. **50.** Financial advice firms that are legal entities must have: a) initial capital of €50,000; or b) professional civil liability insurance for at least €1 million for damages claims and €1.5 million per annum for all claims; or c) a combination of both. Individuals acting as financial advice firms must have the professional civil liability insurance envisaged in point b).

simply develops, inter alia, the organisational requisites applicable and the documentation that must be submitted to the CNMV for authorisation and registration as a financial advice firm, and clarifies a number of provisions applicable for some of the modifications subsequent to registration with the CNMV.

In this respect, financial advice firms must have: technical and human resources with the appropriate knowledge and experience to provide these services and protect their clients; a risk control and audit function, if and as appropriate in light of the nature, scale and complexity of their operations; internal control and communication procedures and bodies to identify and prevent money-laundering operations; and an internal code of conduct and a code of conduct for client protection.

The Circular came into force on 15 January 2009.

Pension fund management companies: statistical and accounting documentation

Order EHA/251/2009 of 6 February 2009 (BOE of 16 February 2009) approves the new system of statistical and accounting documentation for pension fund management companies, repealing the previous regulations[51] to adapt them to the new chart of accounts and to take into account the new regulatory aspects, market developments and demands relating to statistical and accounting data seen in Europe in recent years.

The balance sheet and income statement forms are modified and a new statement of changes in pension funds' equity is created, in line with the provisions of the new chart of accounts.

The data to be included in the statistical and accounting documentation modules to be submitted to the Statistical Office of the European Communities (Eurostat) are amplified, as required by Regulation (EC) No 295/2008 of the European Parliament and of the Council, of 11 March 2008, concerning structural business statistics. A common framework is thus established for the collection, compilation, transmission and evaluation of Community statistics on the structure, activity, competitiveness and performance of the pension fund sector at the national, Community and international level.

In addition, in accordance with the provisions of the Pension Fund and Pension Scheme Regulations,[52] the statistical and accounting data modules are adapted to collect, inter alia, information on sub-schemes in occupational pension schemes, sub-schemes within a single scheme that are assigned to different funds and other complementary social welfare schemes such as employee social insurance schemes and insured provision-for-retirement schemes.

Lastly, the Order includes statistical and accounting data on pension funds of other European Economic Area Member States operating in Spain. In this respect it establishes, on an annual basis, the data relating to occupational pension schemes subject to Spanish social and labour legislation that are assigned to pension schemes of other Member States.[53]

The Order came into force on 17 February 2009 and shall apply to the annual statistical and accounting data corresponding to the 2008 close, save for the quarterly data which shall first

51. The Order repeals the Order of 12 March 1996 which approved the system of statistics and accounting data for pension fund management companies. **52.** Approved by Royal Decree 304/2004, of 20 February 2004, amended by Royal Decrees 439/2007, of 30 March 2007, and 1684/2007, of 14 December 2007. **53.** In accordance with the regulations on cross-border activity of occupational pension funds contained in the Revised Text of the Pension Fund and Pension Scheme Act approved by Royal Legislative Decree 1/2002, of 29 November 2002, which was introduced by Act 11/2006, of 16 May 2006, which adapted Spanish legislation to the System of Cross-Border Activity regulated in Directive 2003/41/EC of the European Parliament and of the Council, of 3 June 2003, on the activities and supervision of institutions for occupational retirement provision.

be required in 2009 Q3. The first year for completion of the annual data modules corresponding to Spanish occupational pension schemes that are part of pension funds of other Member States shall be 2009.

Urgent tax, financial and insolvency measures in the face of the economic situation

Royal Decree Law 3/2009 of 27 March 2009 (BOE of 31 March) has been enacted, addressing urgent tax, financial and insolvency measures in the face of the unfolding economic situation. The Law came into force on 1 April 2009. It includes, inter alia, the following financial, tax and insolvency aspects.

Both the legal interest rate of money and the default interest rate were reduced for the rest of 2009 from 5.5% to 4% and from 7% to 5%, respectively.

The Spanish Insurance Compensation Consortium has been authorised to engage in credit reinsurance and suretyship, given the difficulties in the international reinsurance market. Accordingly, it may accept as the reinsurer the risks assumed by those private insurance institutions authorised to operate in the credit insurance and suretyship branches that so request it and that subscribe and adhere to the related agreement with the Consortium.

In the event of the realisation of the guarantees granted under Royal Decree Law 7/2008 of 13 October 2008 addressing urgent economic and financial measures relating to the Concerted Action Plan of the Euro Area Countries, it is laid down that the State shall pay compensation to the holders of the securities guaranteed. The amount of such compensation shall be that resulting from applying the EONIA interest rate published by the Banco de España, or the rate that, where appropriate, the Ministry of Economy and Finance should determine, to the payment the realisation of the guarantee involves.

In connection with corporate income tax, the time limit governing the deductibility of specific investments in R+D+i, which was set until 2012, has been eliminated. The time horizon of the tax incentives for these activities has duly been extended.

Lastly, in relation to insolvency, provision is made for the refinancing of companies that may be beset by financial difficulties that do not make a situation of insolvency unavoidable. Moreover, procedural formalities are simplified, processing costs are reduced and the legal position of the workers of the companies facing insolvency proceedings who are affected by collective procedures is improved. This will be applicable for insolvency proceedings which, as of the date of entry into force of this Royal Decree Law, have not been filed.

3.4.2009.

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/estadise.htm).

1. IMF Special Data Dissemination Standard (SDDS).

INTEREST RATES AND EXCHANGE RATES

1. IMF Special Data Dissemination Standard (SDDS).

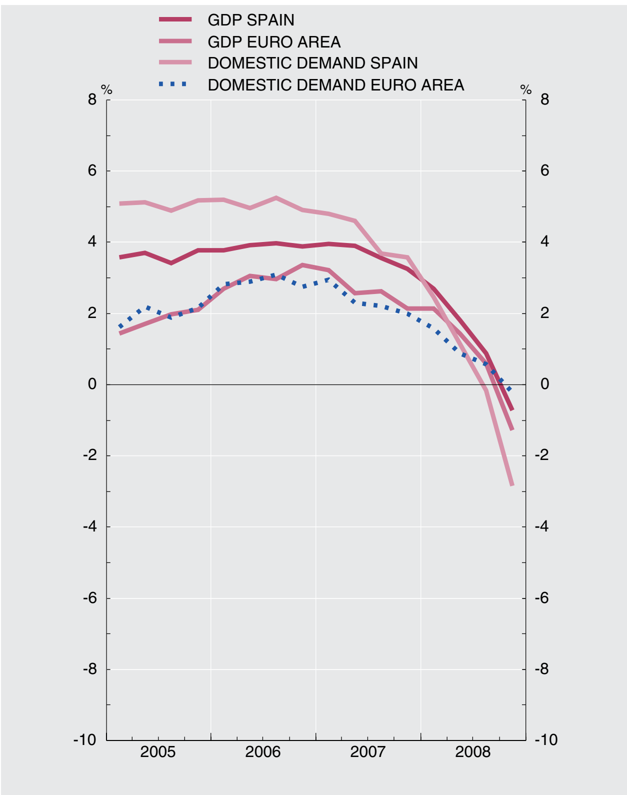
1.1. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES, REFERENCE YEAR 2000=100. DEMAND COMPONENTS. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

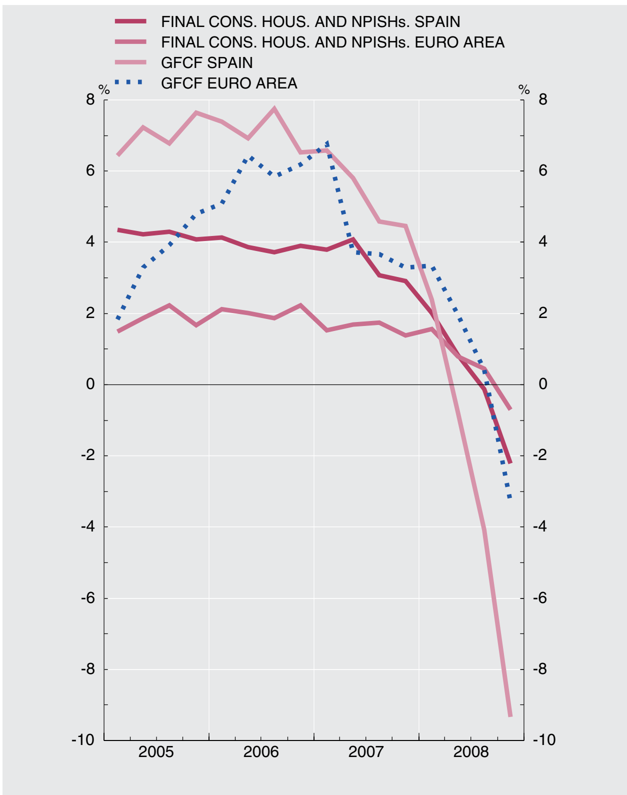
Annual percentage changes

		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
06	P	3.9	3.0	3.9	2.1	4.6	1.8	7.1	5.9	5.1	2.9	6.7	8.5	10.3	8.4	982	8 514
07	P	3.7	2.6	3.5	1.6	4.9	2.2	5.3	4.4	4.2	2.4	4.9	5.9	6.2	5.3	1 051	8 941
08	P	1.2	0.7	0.1	0.5	5.3	2.0	-3.0	0.6	0.2	0.7	0.7	1.7	-2.5	1.7	1 095	9 206
06 *Q1*	P	3.8	2.7	4.1	2.1	4.9	2.3	7.4	5.1	5.2	2.7	6.7	9.1	11.2	9.8	239	2 085
Q2	P	3.9	3.1	3.9	2.0	4.3	1.5	6.9	6.4	5.0	3.1	7.4	8.6	10.4	8.4	243	2 120
Q3	P	4.0	3.0	3.7	1.9	4.6	1.8	7.8	5.9	5.2	3.0	5.6	7.0	9.6	7.5	248	2 141
Q4	P	3.9	3.4	3.9	2.2	4.5	1.9	6.5	6.2	4.9	3.4	7.2	9.2	10.0	7.8	252	2 168
07 *Q1*	P	4.0	3.2	3.8	1.5	5.3	2.2	6.6	6.8	4.8	3.2	3.3	6.6	6.1	6.0	257	2 201
Q2	P	3.9	2.6	4.1	1.7	5.0	2.2	5.8	3.7	4.6	2.6	3.9	5.8	6.2	5.2	261	2 225
Q3	P	3.6	2.6	3.1	1.7	4.8	2.3	4.6	3.7	3.7	2.6	8.2	7.1	7.6	6.2	264	2 249
Q4	P	3.2	2.1	2.9	1.4	4.4	2.1	4.5	3.3	3.6	2.1	4.0	4.1	4.9	3.8	268	2 265
08 *Q1*	P	2.7	2.1	2.0	1.6	3.7	1.6	2.4	3.3	2.5	2.1	4.8	5.5	3.6	4.3	272	2 295
Q2	P	1.8	1.4	0.8	0.8	5.0	2.2	-0.8	2.0	1.2	1.4	4.4	4.4	1.8	3.2	274	2 308
Q3	P	0.9	0.6	-0.1	0.4	6.1	2.5	-4.1	0.4	-0.2	0.6	1.5	2.5	-2.0	2.5	276	2 313
Q4	P	-0.7	-1.3	-2.2	-0.7	6.3	1.7	-9.3	-3.3	-2.8	-1.3	-7.9	-5.6	-13.2	-3.2	273	2 290

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



DEMAND COMPONENTS. SPAIN AND EURO AREA
Annual percentage changes



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

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

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

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

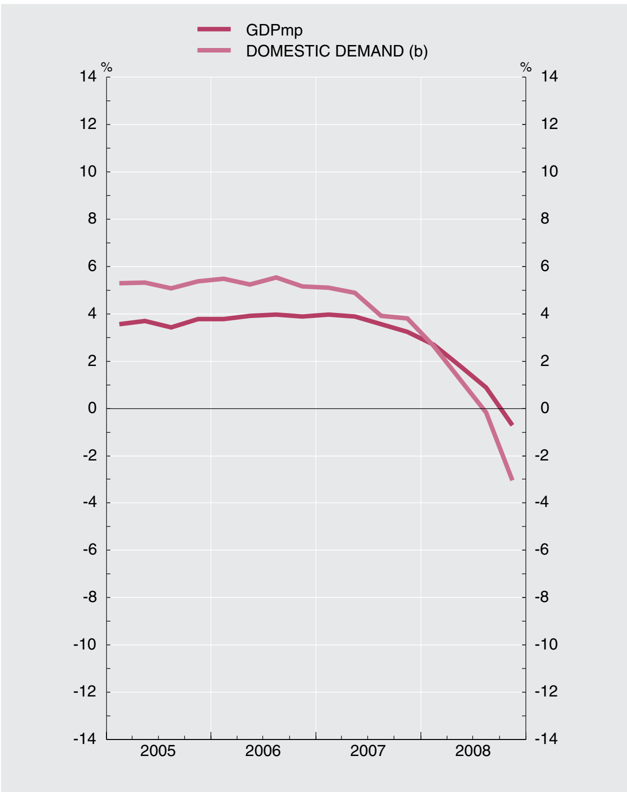
1.2. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES. REFERENCE YEAR 2000=100. DEMAND COMPONENTS. SPAIN: BREAKDOWN (a)

■ Series depicted in chart.

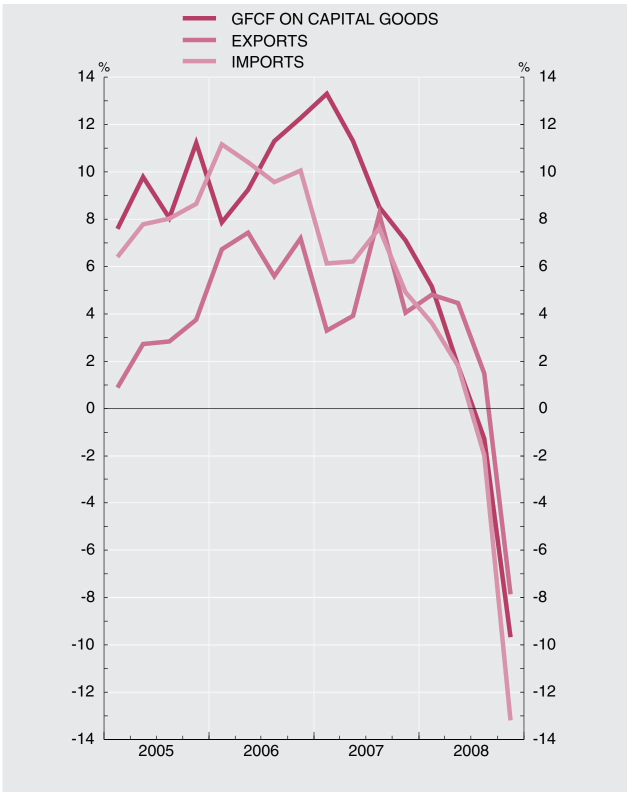
Annual percentage changes

		Gross fixed capital formation					Exports of goods and services				Imports of goods and services				Memorandum items:	
		Total	Capital goods	Construc-tión	Other products	Change in Stocks (b)	Total	Goods	Final con-sumption of non-resi-dents in economic territory	Services	Total	Goods	Final consumption of residents in the rest of the world	Services	Domestic demand (b) (c)	GDP
		1	2 ■	3	4	5 ■	6	7	8	9	10 ■	11	12	13	14 ■	15 ■
06	P	7.1	10.2	5.9	7.1	0.2	6.7	6.7	1.6	12.2	10.3	10.3	5.9	11.2	5.3	3.9
07	P	5.3	10.0	3.8	3.9	-0.1	4.9	4.3	0.1	11.9	6.2	4.8	7.2	12.8	4.4	3.7
08	P	-3.0	-1.1	-5.3	1.9	0.0	0.7	0.9	-4.9	4.6	-2.5	-2.7	-4.5	-1.2	0.2	1.2
06 *Q1*	P	7.4	7.9	6.7	9.0	0.0	6.7	7.3	2.7	8.7	11.2	11.1	3.5	12.9	5.5	3.8
Q2	P	6.9	9.2	6.1	6.4	0.2	7.4	7.7	2.8	10.9	10.4	10.0	6.9	13.3	5.2	3.9
Q3	P	7.8	11.3	6.1	8.4	0.5	5.6	6.2	1.0	7.6	9.6	10.6	7.6	5.3	5.5	4.0
Q4	P	6.5	12.3	4.7	4.6	0.2	7.2	5.6	0.0	21.6	10.0	9.5	5.6	13.7	5.2	3.9
07 *Q1*	P	6.6	13.3	5.1	2.4	-0.1	3.3	2.5	0.3	9.6	6.1	5.3	10.0	9.2	5.1	4.0
Q2	P	5.8	11.3	4.2	3.7	-0.1	3.9	4.0	-0.4	7.7	6.2	4.9	8.2	12.0	4.9	3.9
Q3	P	4.6	8.5	3.3	3.6	-0.1	8.2	6.0	-0.1	26.2	7.6	5.7	6.1	17.8	3.9	3.6
Q4	P	4.5	7.1	2.9	6.0	-0.0	4.0	4.6	0.4	5.2	4.9	3.5	4.5	12.1	3.8	3.2
08 *Q1*	P	2.4	5.2	0.2	5.9	0.1	4.8	4.9	-1.1	9.7	3.6	4.1	2.8	1.5	2.6	2.7
Q2	P	-0.8	1.8	-3.1	3.2	0.1	4.4	5.3	-2.1	6.8	1.8	2.0	-4.7	2.0	1.2	1.8
Q3	P	-4.1	-1.3	-7.3	2.5	0.0	1.5	3.4	-4.6	-0.7	-2.0	-2.4	-3.9	0.2	-0.2	0.9
Q4	P	-9.3	-9.7	-10.9	-3.7	-0.0	-7.9	-10.0	-11.8	3.6	-13.2	-14.4	-12.1	-8.1	-3.0	-0.7

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.

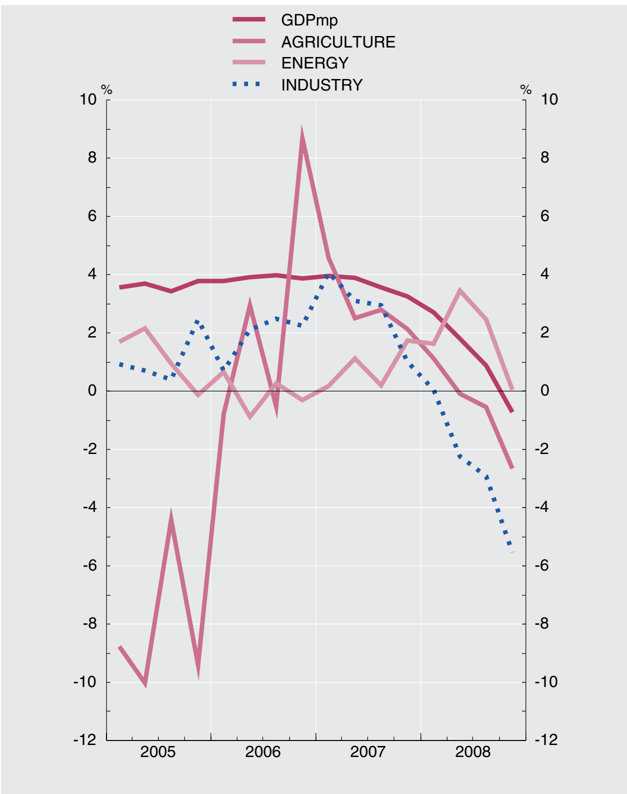
1.3. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES. REFERENCE YEAR 2000=100. BRANCHES OF ACTIVITY. SPAIN (a)

■ Series depicted in chart.

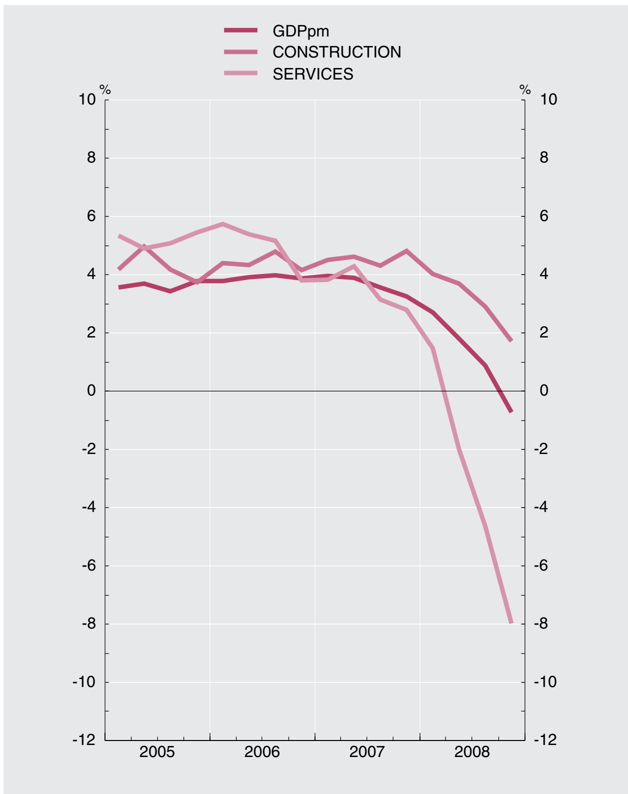
Annual percentage changes

		Gross domestic product at market prices	Agriculture and fisheries	Energy	Industry	Construction	Services: Total	Services: Market services	Services: Non-market services	VAT on products	Net taxes linked to imports	Other net taxes on products
		1 ■	2 ■	3	4 ■	5 ■	6 ■	7	8	9	10	11
06	P	3.9	2.5	-0.1	1.9	5.0	4.4	4.5	4.0	4.2	6.9	2.8
07	P	3.7	3.0	0.8	2.8	3.5	4.6	4.6	4.4	2.8	3.3	-2.3
08	P	1.2	-0.6	1.9	-2.7	-3.3	3.1	2.6	4.8	0.6	-10.4	-0.5
06 *Q1*	P	3.8	-0.8	0.7	0.7	5.7	4.4	4.5	3.9	5.2	11.3	3.2
Q2	P	3.9	2.9	-0.9	2.1	5.4	4.3	4.3	4.3	4.2	7.1	3.4
Q3	P	4.0	-0.5	0.3	2.5	5.2	4.8	5.1	3.6	3.9	4.7	-0.4
Q4	P	3.9	8.7	-0.3	2.2	3.8	4.2	4.1	4.4	3.7	4.8	4.9
07 *Q1*	P	4.0	4.6	0.2	4.1	3.8	4.5	4.6	4.2	3.3	2.7	-0.9
Q2	P	3.9	2.5	1.1	3.1	4.3	4.6	4.7	4.3	3.3	2.8	-1.4
Q3	P	3.6	2.8	0.2	2.9	3.1	4.3	4.3	4.3	2.6	5.4	-0.1
Q4	P	3.2	2.1	1.7	1.0	2.8	4.8	4.8	4.7	1.9	2.2	-6.6
08 *Q1*	P	2.7	1.1	1.6	0.0	1.5	4.0	4.0	4.0	1.6	-1.3	-1.0
Q2	P	1.8	-0.1	3.5	-2.2	-2.0	3.7	3.4	4.7	1.2	-5.1	-0.9
Q3	P	0.9	-0.5	2.5	-2.9	-4.6	2.9	2.3	5.1	0.2	-14.3	0.2
Q4	P	-0.7	-2.7	0.0	-5.5	-8.0	1.7	0.7	5.5	-0.8	-20.9	-0.3

GDP. BRANCHES OF ACTIVITY
Annual percentage changes



GDP. BRANCHES OF ACTIVITY
Annual percentage changes



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

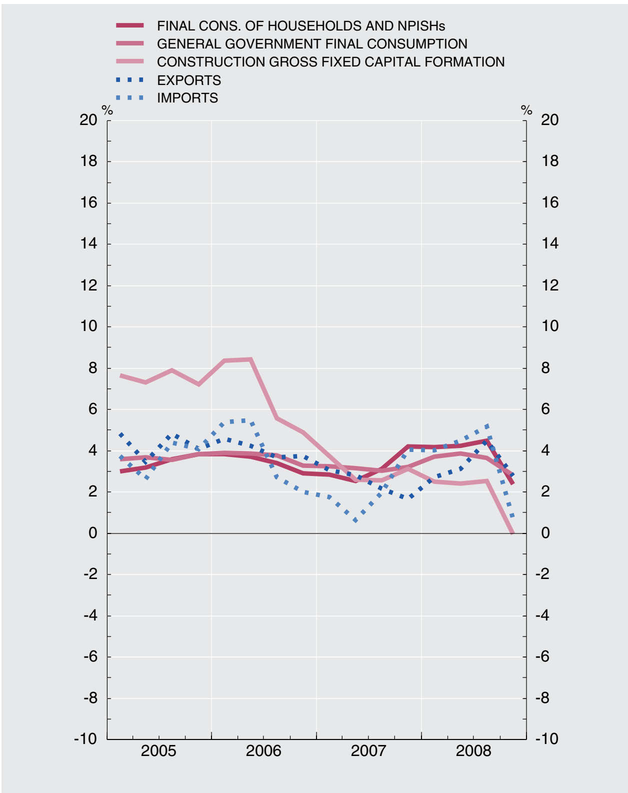
1.4. GROSS DOMESTIC PRODUCT. IMPLICIT DEFLATORS. SPAIN (a)

■ Series depicted in chart.

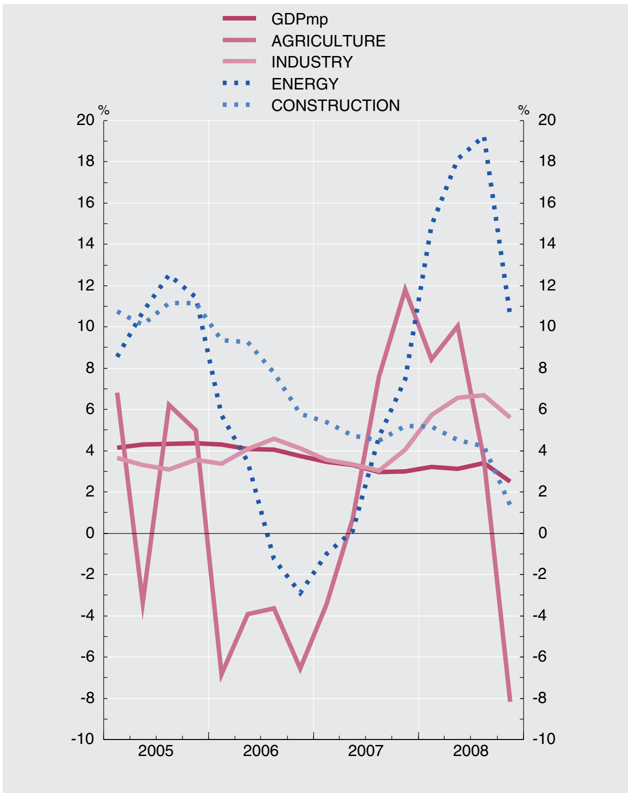
Annual percentage changes

		Demand components: Final consumption of households and NPISHs (b)	Demand components: General government final consumption	Gross fixed capital formation: Capital goods	Gross fixed capital formation: Construction	Gross fixed capital formation: Other products	Exports of goods and services	Imports of goods and services	Gross domestic product at market prices	Branches of activity: Agriculture and fisheries	Energy	Industry	Construction	Of which: Services	Of which: Market services
		1 ■	2 ■	3	4 ■	5	6 ■	7 ■	8 ■	9 ■	10 ■	11 ■	12 ■	13	14
06	P	3.4	3.7	2.0	6.7	4.9	4.0	3.8	4.0	-5.3	1.2	4.1	8.0	3.1	2.8
07	P	3.2	3.2	1.7	3.0	3.2	2.4	2.1	3.2	4.2	2.8	3.5	4.9	3.3	3.1
08	P	3.8	3.5	1.7	1.8	1.4	3.3	3.6	3.0	3.1	15.7	6.1	3.8	4.8	5.1
06 *Q1*	P	3.8	3.9	2.7	8.3	5.2	4.6	5.4	4.3	-6.8	5.7	3.4	9.3	2.9	2.7
Q2	P	3.7	3.9	2.4	8.4	5.5	4.2	5.5	4.1	-3.9	3.5	4.1	9.3	3.5	3.4
Q3	P	3.4	3.8	1.7	5.6	5.0	3.7	2.7	4.1	-3.7	-1.2	4.6	7.8	3.1	2.9
Q4	P	2.9	3.3	1.4	4.9	4.1	3.7	2.0	3.8	-6.6	-2.9	4.1	5.8	2.8	2.5
07 *Q1*	P	2.9	3.2	1.9	3.7	3.7	3.0	1.7	3.5	-3.5	-1.0	3.6	5.4	3.0	2.8
Q2	P	2.6	3.1	1.7	2.6	2.7	2.8	0.7	3.3	0.7	0.1	3.3	4.7	2.9	2.7
Q3	P	3.1	3.0	1.3	2.6	2.7	2.1	2.0	3.0	7.6	4.7	3.0	4.5	3.3	3.1
Q4	P	4.2	3.2	2.1	3.1	3.5	1.7	4.1	3.0	11.8	7.5	4.0	5.2	3.9	3.9
08 *Q1*	P	4.2	3.7	2.4	2.5	2.5	2.7	4.0	3.2	8.4	14.9	5.7	5.2	4.5	4.8
Q2	P	4.2	3.9	1.8	2.4	1.5	3.1	4.5	3.1	10.0	18.1	6.6	4.5	4.9	5.2
Q3	P	4.5	3.6	2.2	2.5	1.1	4.5	5.2	3.4	3.6	19.2	6.7	4.2	4.9	5.4
Q4	P	2.4	2.8	0.7	-0.0	0.5	2.8	0.7	2.5	-8.2	10.5	5.6	1.4	4.7	5.2

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).

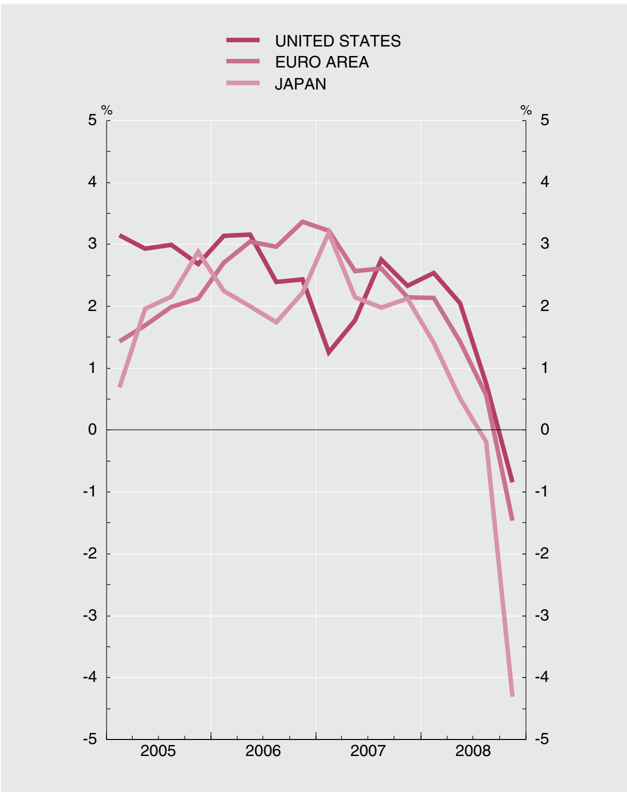
b. Final consumption expenditure may take place on the domestic territory or abroad (ESA95, 3.75). It therefore includes residents' consumption abroad, which is subsequently deducted in Imports of goods and services.

2.1. INTERNATIONAL COMPARISON. GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

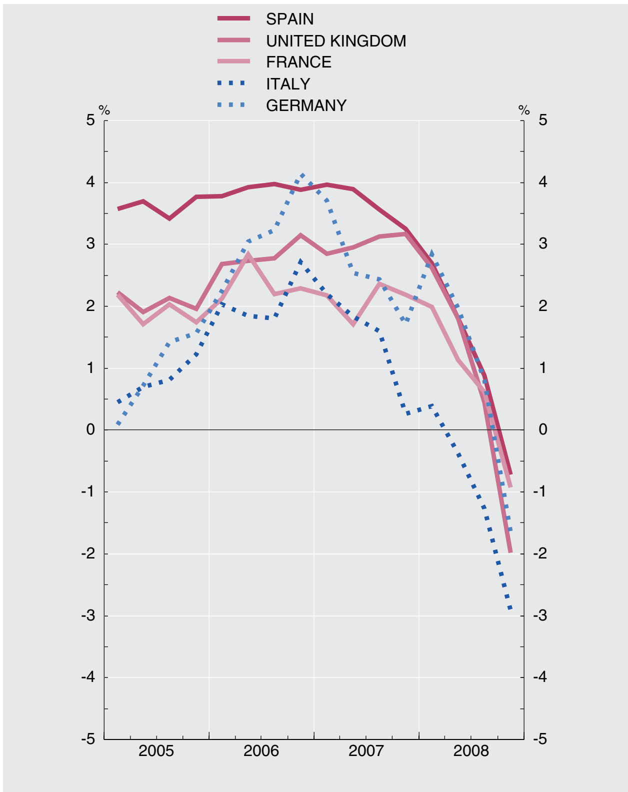
■ Series depicted in chart. *Annual percentage changes*

	OECD 1	EU-27 2	Euro area 3 ■	Germany 4 ■	Spain 5 ■	United States 6 ■	France 7 ■	Italy 8 ■	Japan 9 ■	United Kingdom 10 ■
06	3.1	3.2	3.0	3.2	3.9	2.8	2.4	2.1	2.1	2.8
07	2.7	2.9	2.6	2.6	3.7	2.0	2.1	1.5	2.4	3.0
08	...	0.8	0.7	1.0	1.2	1.1	0.7	-1.0	-0.7	0.7
05 *Q4*	2.9	2.3	2.1	1.6	3.8	2.7	1.7	1.2	2.9	2.0
06 *Q1*	3.2	2.9	2.7	2.2	3.8	3.1	2.1	2.0	2.2	2.7
Q2	3.3	3.2	3.0	3.0	3.9	3.2	2.8	1.8	2.0	2.7
Q3	2.9	3.2	3.0	3.2	4.0	2.4	2.2	1.8	1.7	2.8
Q4	3.0	3.5	3.4	4.1	3.9	2.4	2.3	2.7	2.2	3.2
07 *Q1*	2.6	3.3	3.2	3.7	4.0	1.3	2.2	2.2	3.2	2.8
Q2	2.5	2.8	2.6	2.5	3.9	1.8	1.7	1.8	2.1	3.0
Q3	2.9	2.9	2.6	2.4	3.6	2.8	2.4	1.6	2.0	3.1
Q4	2.7	2.6	2.1	1.7	3.2	2.3	2.2	0.3	2.1	3.2
08 *Q1*	2.6	2.4	2.1	2.8	2.7	2.5	2.0	0.4	1.4	2.6
Q2	1.8	1.7	1.4	2.0	1.8	2.1	1.1	-0.4	0.5	1.8
Q3	0.8	0.7	0.6	0.8	0.9	0.7	0.6	-1.3	-0.2	0.4
Q4	...	-1.4	-1.5	-1.6	-0.7	-0.8	-0.9	-2.9	-4.3	-2.0

GROSS DOMESTIC PRODUCT
Annual percentage changes



GROSS DOMESTIC PRODUCT
Annual percentage changes



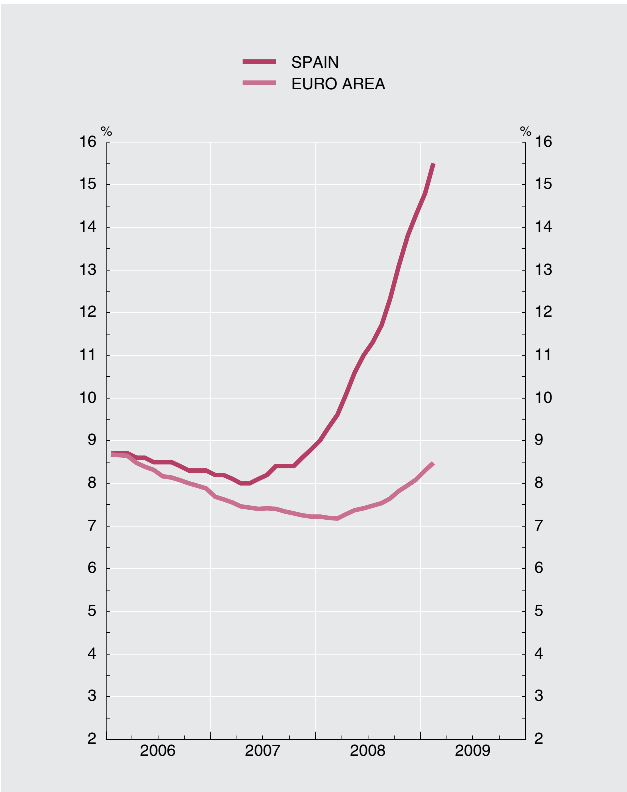
Sources: ECB, INE and OECD.
Note: The underlying series for this indicator are in Table 26.2 of the BE Boletín Estadístico.

2.2. INTERNATIONAL COMPARISON. UNEMPLOYMENT RATES

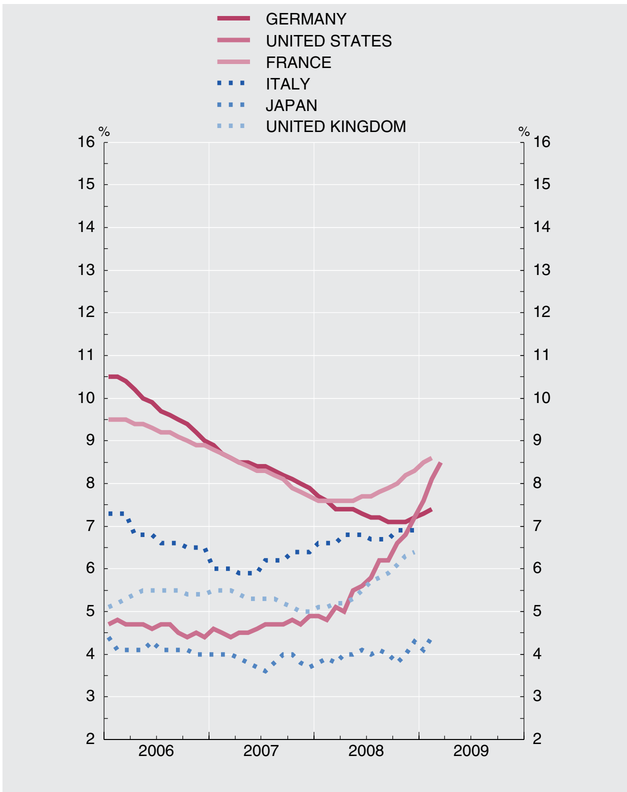
■ Series depicted in chart. *Percentages*

	OECD	EU-27	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	1	2	3 ■	4 ■	5 ■	6 ■	7 ■	8 ■	9 ■	10 ■
06	6.2	8.2	8.3	9.8	8.5	4.6	9.2	6.8	4.1	5.4
07	5.7	7.1	7.4	8.4	8.3	4.6	8.3	6.1	3.9	5.3
08	6.1	7.0	7.5	7.3	11.3	5.8	7.8	6.8	4.0	5.6
07 *Sep*	5.7	7.0	7.3	8.2	8.4	4.7	8.1	6.2	4.0	5.2
Oct	5.7	6.9	7.3	8.1	8.4	4.8	7.9	6.4	4.0	5.1
Nov	5.6	6.9	7.3	8.0	8.6	4.7	7.8	6.4	3.8	5.0
Dec	5.6	6.8	7.2	7.9	8.8	4.9	7.7	6.4	3.7	5.0
08 *Jan*	5.6	6.8	7.2	7.7	9.0	4.9	7.6	6.6	3.8	5.1
Feb	5.6	6.8	7.2	7.6	9.3	4.8	7.6	6.6	3.9	5.1
Mar	5.7	6.7	7.2	7.4	9.6	5.1	7.6	6.6	3.8	5.2
Apr	5.7	6.8	7.3	7.4	10.1	5.0	7.6	6.8	4.0	5.2
May	5.9	6.9	7.4	7.4	10.6	5.5	7.6	6.8	4.0	5.3
Jun	5.9	6.9	7.4	7.3	11.0	5.6	7.7	6.8	4.1	5.5
Jul	6.0	7.0	7.5	7.2	11.3	5.8	7.7	6.7	4.0	5.7
Aug	6.2	7.0	7.5	7.2	11.7	6.2	7.8	6.7	4.1	5.8
Sep	6.2	7.1	7.6	7.1	12.3	6.2	7.9	6.7	4.0	5.9
Oct	6.4	7.3	7.8	7.1	13.1	6.6	8.0	6.9	3.8	6.1
Nov	6.6	7.4	8.0	7.1	13.8	6.8	8.2	6.9	4.0	6.3
Dec	6.8	7.6	8.1	7.2	14.3	7.2	8.3	6.9	4.3	6.4
09 *Jan*	7.0	7.7	8.3	7.3	14.8	7.6	8.5	...	4.1	...
Feb	7.3	7.9	8.5	7.4	15.5	8.1	8.6	...	4.4	...

UNEMPLOYMENT RATES



UNEMPLOYMENT RATES



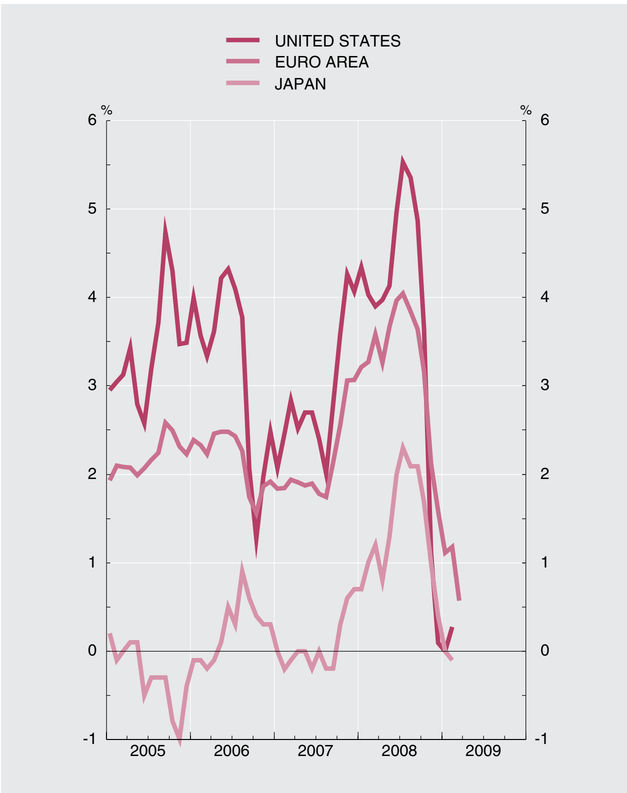
Sources: ECB and OECD.

2.3. INTERNATIONAL COMPARISON. CONSUMER PRICES (a)

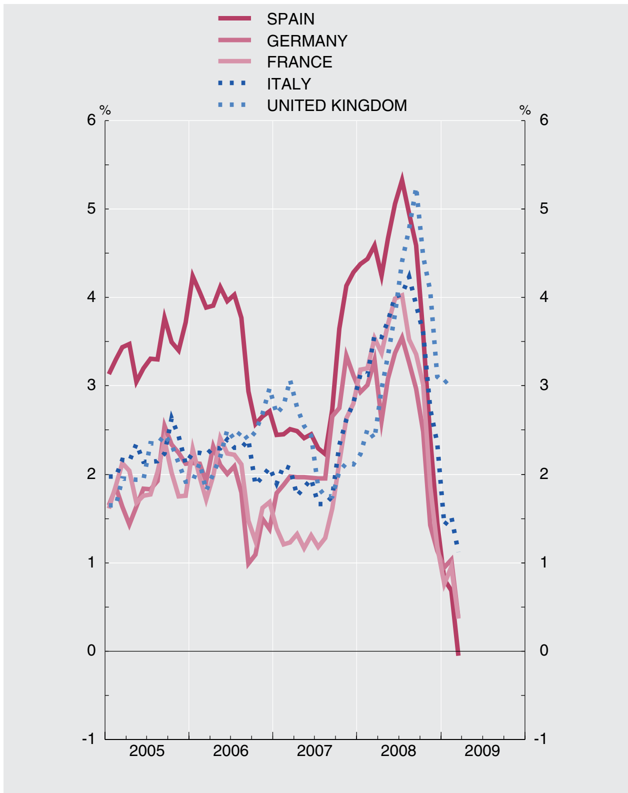
■ Series depicted in chart. *Annual percentage changes*

	OECD 1	EU-27 2	Euro area 3 ■	Germany 4 ■	Spain 5 ■	United States 6 ■	France 7 ■	Italy 8 ■	Japan 9 ■	United Kingdom 10 ■
05	2.6	2.3	2.2	1.9	3.4	3.4	1.9	2.2	-0.3	2.1
06	2.6	2.3	2.2	1.8	3.6	3.2	1.9	2.2	0.2	2.3
07	2.5	2.4	2.1	2.3	2.8	2.9	1.6	2.0	0.1	2.3
08	3.7	3.7	3.3	2.8	4.1	3.8	3.2	3.5	1.4	3.6
07 *Oct*	2.9	2.7	2.6	2.7	3.6	3.6	2.1	2.3	0.3	2.0
Nov	3.5	3.1	3.1	3.3	4.1	4.3	2.6	2.6	0.6	2.1
Dec	3.4	3.2	3.1	3.1	4.3	4.1	2.8	2.8	0.7	2.1
08 *Jan*	3.6	3.4	3.2	2.9	4.4	4.3	3.2	3.1	0.7	2.2
Feb	3.5	3.5	3.3	3.0	4.4	4.0	3.2	3.1	1.0	2.5
Mar	3.6	3.7	3.6	3.3	4.6	3.9	3.5	3.6	1.2	2.4
Apr	3.5	3.6	3.3	2.6	4.2	4.0	3.4	3.6	0.8	3.0
May	3.9	4.0	3.7	3.1	4.7	4.1	3.7	3.7	1.3	3.3
Jun	4.5	4.2	4.0	3.4	5.1	5.0	4.0	4.0	2.0	3.8
Jul	4.9	4.4	4.0	3.5	5.3	5.5	4.0	4.0	2.3	4.4
Aug	4.6	4.3	3.8	3.3	4.9	5.4	3.5	4.2	2.1	4.8
Sep	4.4	4.2	3.6	3.0	4.6	4.9	3.4	3.9	2.1	5.2
Oct	3.8	3.7	3.2	2.5	3.6	3.6	3.0	3.6	1.7	4.5
Nov	2.2	2.8	2.1	1.4	2.4	1.1	1.9	2.7	1.0	4.1
Dec	1.6	2.2	1.6	1.1	1.5	0.1	1.2	2.4	0.4	3.1
09 *Jan*	1.3	1.7	1.1	0.9	0.8	-	0.8	1.4	-	3.0
Feb	1.3	1.8	1.2	1.0	0.7	0.3	1.0	1.5	-0.1	3.1
Mar	...	1.3	0.6	0.4	-0.1	...	0.4	1.1	...	...

CONSUMER PRICES
Annual percentage changes



CONSUMER PRICES
Annual percentage changes



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

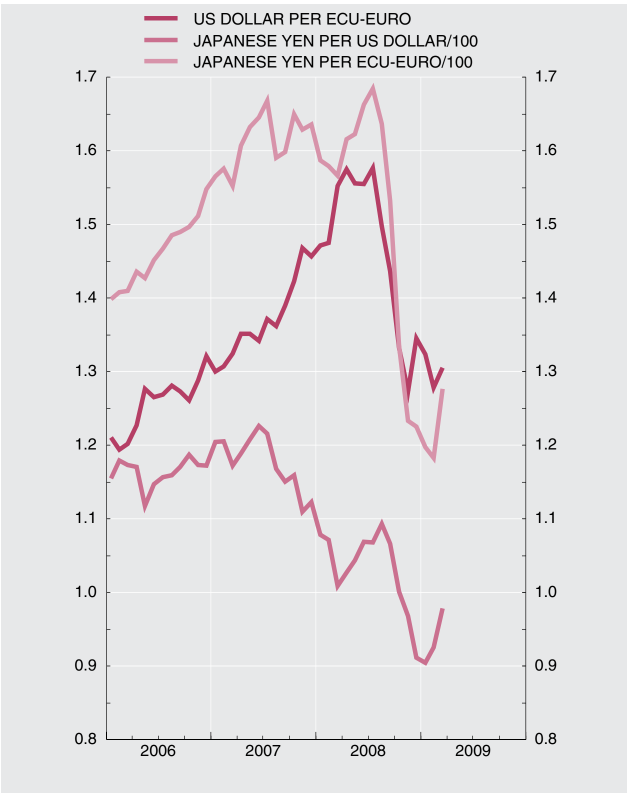
2.4. BILATERAL EXCHANGE RATES AND NOMINAL AND REAL EFFECTIVE EXCHANGE RATE INDICES FOR THE EURO, US DOLLAR AND JAPANESE YEN

■ Series depicted in chart.

Average of daily data

	Exchange rates			Indices of the nominal effective exchange rate vis-à-vis the (a) developed countries 1999 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
06	1.2561	146.09	116.32	103.7	86.7	93.6	105.0	94.8	76.5	103.2	96.4	77.3
07	1.3710	161.26	117.74	107.9	82.2	88.7	109.0	90.9	70.8	107.1	92.7	72.0
08	1.4707	152.31	103.36	113.0	78.2	99.5	113.6	87.5	77.7	110.0	90.6	79.3
08 *J-M*	1.5003	157.74	105.23	113.0	75.8	95.5	113.8	84.9	75.0	111.4	87.5	76.1
09 *J-M*	1.3032	122.02	93.63	111.9	85.8	118.0	112.3	94.3	94.1	105.8	95.5	97.4
08 *Jan*	1.4718	158.68	107.81	112.2	77.0	94.0	113.0	86.2	74.2	110.6	88.3	75.3
Feb	1.4748	157.97	107.12	112.0	76.6	94.4	112.5	85.6	74.0	110.6	88.0	75.4
Mar	1.5527	156.59	100.88	114.8	74.0	98.1	115.6	82.9	76.8	113.0	86.0	77.6
Apr	1.5751	161.56	102.66	116.3	74.3	96.2	117.0	83.5	74.8	114.0	86.4	75.7
May	1.5557	162.31	104.34	115.8	74.6	94.9	116.5	83.9	73.9	113.0	87.8	74.3
Jun	1.5553	166.26	106.91	115.8	75.4	92.7	116.4	85.2	72.0	112.4	89.0	72.5
Jul	1.5770	168.45	106.83	116.2	74.9	92.2	116.6	85.0	71.6	112.3	89.2	72.5
Aug	1.4975	163.63	109.28	113.9	78.1	92.6	114.1	88.2	72.2	110.2	91.6	73.7
Sep	1.4370	153.20	106.62	112.0	79.3	96.9	112.1	89.3	75.5	108.1	93.8	76.9
Oct	1.3322	133.52	100.11	107.9	83.6	107.8	108.3	93.5	84.4	104.2	96.4	86.4
Nov	1.2732	123.28	96.82	107.1	86.0	114.2	107.6	94.9	89.6	103.2	97.1	92.6
Dec	1.3449	122.51	91.16	112.4	83.9	119.3	112.9	92.0	93.9	107.9	93.4	97.8
09 *Jan*	1.3239	119.73	90.42	111.9	84.1	121.1	112.3	93.1	94.9	106.5	94.6	97.9
Feb	1.2785	118.30	92.54	110.4	86.2	120.1	110.8	95.5	93.3	104.4	96.6	96.9
Mar	1.3050	127.65	97.84	113.3	87.1	112.9	113.6	...	...	106.4	...	...

EXCHANGE RATES



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

Sources: ECB and BE.

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

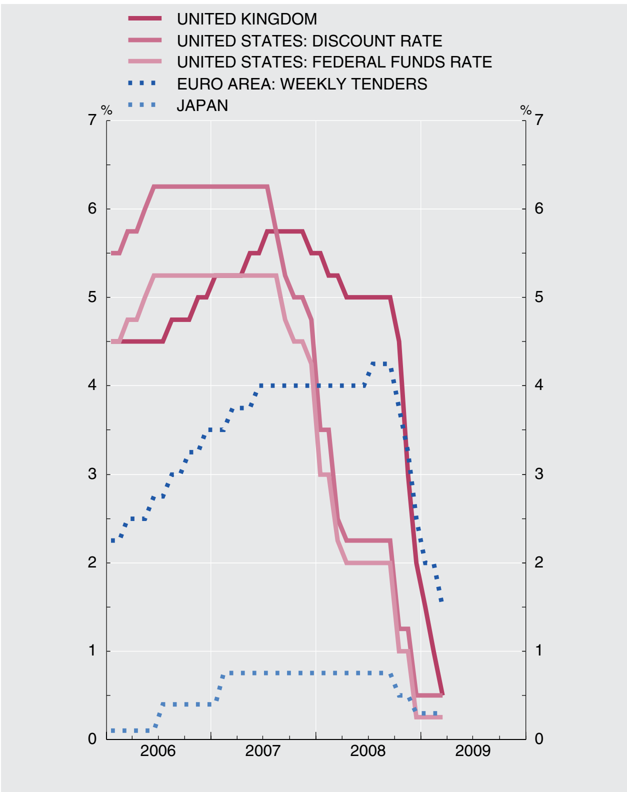
b. Obtained by multiplying the relative prices of each area/country (relation betwen its price index and the price index of the group) by the nominal effective exchange rate. A decline in the index denotes a depreciation of the real effective exchange rate and, may be interpreted as an improvement in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

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

■ Series depicted in chart. *Percentages*

	Official intervention interest rates					3-month interbank rates									
	Euro area	United States		Japan	United Kingdom	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
		Discount rate	Federal funds rate												
	(a)	(b)		(c)	(d)										
	1 ■	2 ■	3 ■	4 ■	5 ■	6	7	8 ■	9	10	11 ■	12	13	14 ■	15 ■
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
08	2.50	0.50	1.87	0.30	2.00	3.45	4.75	4.63	-	-	3.07	-	-	0.77	5.41
07 *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
Jul	4.25	2.25	2.00	0.75	5.00	3.53	5.08	4.96	-	-	2.92	-	-	0.78	5.76
Aug	4.25	2.25	2.00	0.75	5.00	3.52	5.07	4.97	-	-	2.91	-	-	0.77	5.70
Sep	4.25	2.25	2.00	0.75	5.00	3.72	5.13	5.02	-	-	3.35	-	-	0.77	5.79
Oct	3.75	1.25	1.00	0.50	4.50	4.23	5.25	5.11	-	-	4.53	-	-	0.80	6.06
Nov	3.25	1.25	1.00	0.50	3.00	3.08	4.23	4.24	-	-	2.80	-	-	0.73	4.18
Dec	2.50	0.50	0.25	0.30	2.00	2.35	3.26	3.29	-	-	2.05	-	-	0.72	3.04
09 *Jan*	2.00	0.50	0.25	0.30	1.50	1.66	2.41	2.46	-	-	1.28	-	-	0.53	2.15
Feb	2.00	0.50	0.25	0.30	1.00	1.53	1.95	1.94	-	-	1.42	-	-	0.54	1.94
Mar	1.50	0.50	0.25	0.30	0.50	1.35	1.63	1.64	-	-	1.34	-	-	0.44	1.65

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.

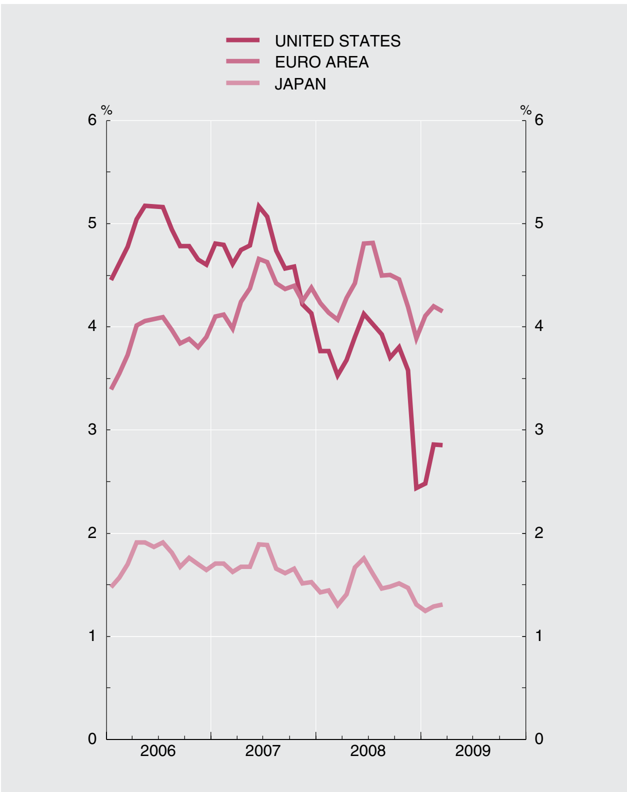
2.6. 10-YEAR GOVERNMENT BOND YIELDS ON DOMESTIC MARKETS

■ Series depicted in chart.

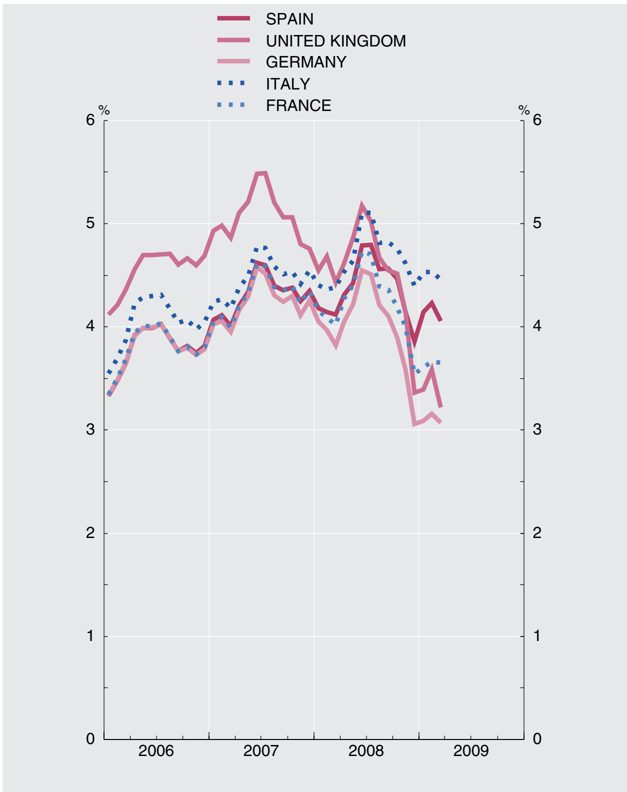
Percentages

	OECD 1	EU-15 2	Euro area 3 ■	Germany 4 ■	Spain 5 ■	United States 6 ■	France 7 ■	Italy 8 ■	Japan 9 ■	United Kingdom 10 ■
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
08	3.63	4.33	4.36	4.00	4.36	3.69	4.24	4.66	1.49	4.55
07 *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
Jul	3.98	4.79	4.81	4.51	4.80	4.03	4.70	5.10	1.61	5.02
Aug	3.79	4.49	4.50	4.22	4.56	3.92	4.39	4.82	1.46	4.67
Sep	3.67	4.43	4.50	4.11	4.57	3.71	4.36	4.82	1.49	4.54
Oct	3.66	4.31	4.46	3.90	4.47	3.80	4.19	4.76	1.51	4.52
Nov	3.46	4.06	4.20	3.59	4.15	3.58	4.00	4.61	1.47	4.14
Dec	2.77	3.61	3.89	3.06	3.86	2.44	3.54	4.40	1.31	3.36
09 *Jan*	2.81	3.72	4.11	3.09	4.15	2.48	3.61	4.53	1.25	3.39
Feb	3.01	3.81	4.20	3.16	4.23	2.86	3.66	4.53	1.29	3.59
Mar	2.97	3.70	4.15	3.07	4.06	2.85	3.65	4.46	1.31	3.22

10-YEAR GOVERNMENT BOND YIELDS



10-YEAR GOVERNMENT BOND YIELDS



Sources: ECB, Reuters and BE.

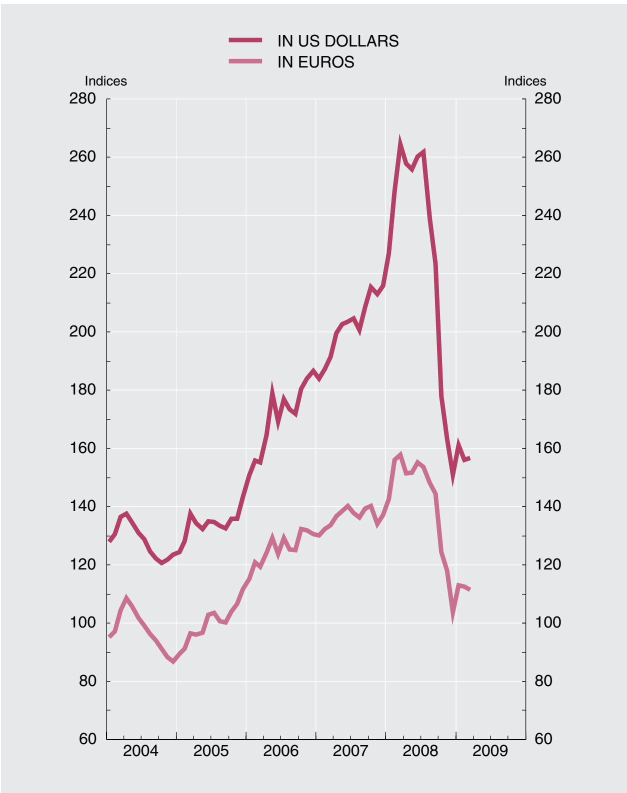
2.7 INTERNATIONAL MARKETS. NON-ENERGY COMMODITIES PRICE INDEX. CRUDE OIL AND GOLD PRICE.

■ Series depicted in chart.

Base 2000 = 100

	Non-energy commodity price index (a)						Oil		Gold		
	Euro index	US dollar index					Index (b)	Brent North sea	Index (c)	US dollars per troy ounce	Euro per gram
	General	General	Food	Industrial products				US dollars per barrel			
				Total	Non-food agricul-tural products	Metals					
	1 ■	2 ■	3 ■	4 ■	5	6	7 ■	8	9 ■	10	11
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
08	142.2	227.4	232.4	221.0	176.0	245.5	343.7	97.2	312.5	871.7	19.07
08 *J-M*	152.1	246.6	245.8	247.6	188.6	279.9	338.3	97.5	332.3	926.9	19.86
09 *J-M*	112.3	158.1	185.9	122.2	111.4	127.7	...	44.4	325.4	907.7	22.41
08 *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	434.8	123.0	318.6	888.7	18.39
Jun	155.2	260.3	266.2	252.6	204.1	279.2	465.8	132.0	318.8	889.5	18.39
Jul	153.6	261.8	265.3	257.2	203.4	286.7	469.5	133.0	336.9	939.8	19.17
Aug	148.0	239.0	243.8	232.9	190.6	256.0	405.8	114.2	300.8	839.0	18.00
Sep	144.3	223.4	228.3	217.0	181.0	236.7	351.7	98.1	297.5	829.9	18.56
Oct	124.4	178.1	185.7	168.2	141.3	183.0	257.5	72.0	289.1	806.6	19.48
Nov	118.1	163.2	178.9	143.0	127.5	151.4	191.4	52.7	272.7	760.9	19.20
Dec	103.6	151.0	176.1	118.6	108.7	124.0	147.1	40.5	292.5	816.1	19.54
09 *Jan*	113.0	161.1	190.0	123.8	114.9	128.0	155.5	42.9	307.8	858.7	20.85
Feb	112.6	156.2	184.8	119.2	111.2	123.2	147.9	43.3	338.1	943.2	23.72
Mar	111.3	156.8	182.7	123.3	108.2	131.5	...	46.8	331.5	924.6	22.78

NON-ENERGY COMMODITY PRICE INDEX



PRICE INDICES FOR NON-ENERGY COMMODITIES, OIL AND GOLD

Sources: The Economist, IMF, ECB and BE.

a. The weights are based on the value of the world commodity imports during the period 1999-2001.

b. Index of the average price in US dollars of various medium, light and heavy crudes.

c. Index of the London market's 15.30 fixing in dollars.

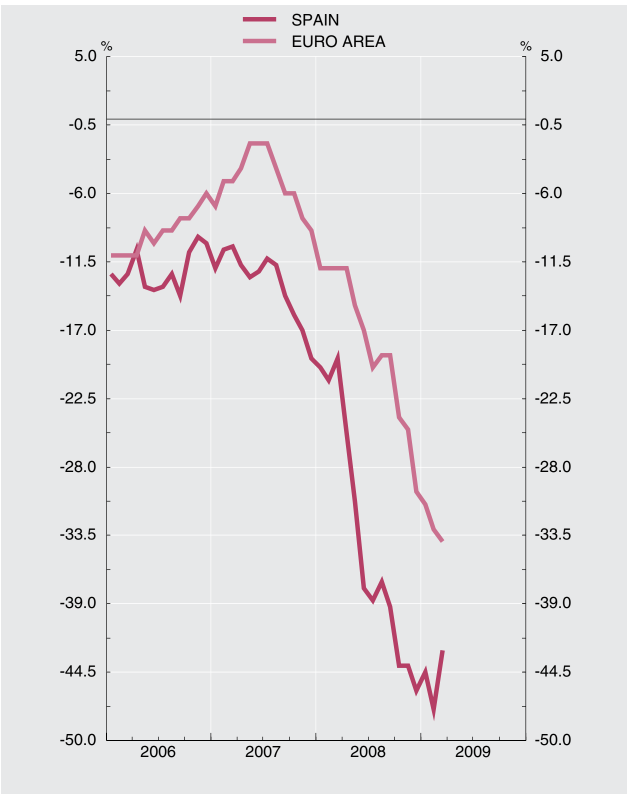
3.1 INDICATORS OF PRIVATE CONSUMPTION. SPAIN AND EURO AREA

■ Series depicted in chart.

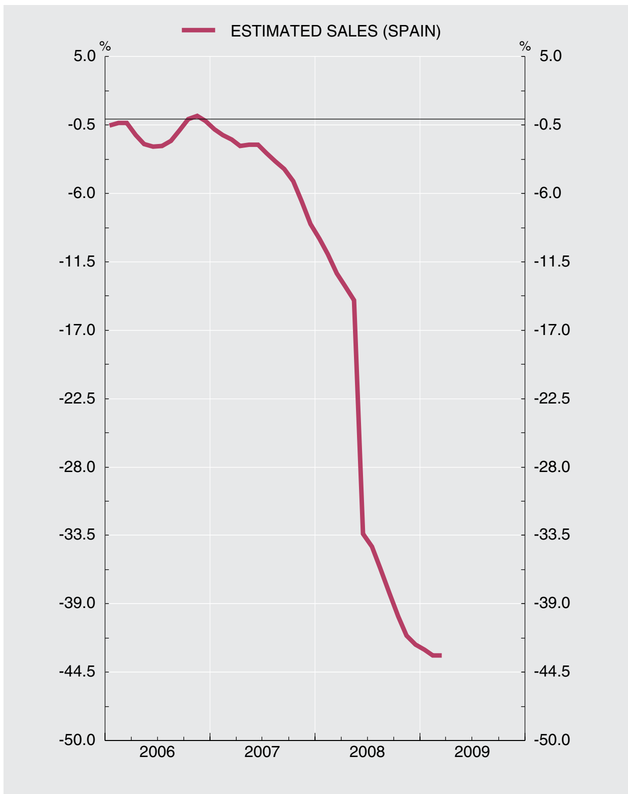
Annual percentage changes

		Opinion surveys (net percentages): Consumers: Confidence index ■	Opinion surveys: Consumers: General economic situation: anticipated trend	Opinion surveys: Consumers: Household economic situation: anticipated trend	Opinion surveys: Retail trade confidence index	Opinion surveys: Memorandum item: euro area: Consumer confidence index ■	Opinion surveys: Memorandum item: euro area: Retail trade confidence index	New car registrations and sales: Registrations	New car registrations and sales: of which: Private use	New car registrations and sales: Estimated sales ■	New car registrations and sales: Memorandum item: euro area: Registrations	Retail trade indices (2005=100) (Deflated indices): General retail trade index	Retail trade indices: General index without petrol stations: Total	General index without petrol stations: of which: Food	General index without petrol stations: Large retail outlets	General index without petrol stations: Large chain stores	General index without petrol stations: Small chain stores	General index without petrol stations: Single-outlet retailers	General index without petrol stations: Memorandum item: euro area (a)
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
06		-12	-12	-3	-9	-9	1	-1.0	-0.8	-0.9	3.6	13.8	...	...	...	...	...	...	2.0
07		-13	-12	-4	-13	-5	1	-1.6	-2.2	-1.2	-0.8	3.2	2.5	1.3	1.9	6.4	3.4	0.7	1.0
08	A	-34	-33	-21	-27	-18	-7	-27.5	-30.0	-28.1	-8.1	-5.2	-6.1	-2.3	-5.6	0.7	-9.0	-8.4	-0.7
08 *J-M*	P	-20	-19	-10	-21	-12	-0	-16.1	-20.7	-15.3	-0.7	-2.6	-3.7	-0.6	-2.7	3.2	-4.9	-6.9	0.5
09 *J-M*	A	-45	-46	-26	-28	-33	-19	-43.6	-37.0	-43.1	...	...	...	...	...	...	...	...	...
08 *Apr*	P	-25	-23	-15	-34	-12	-5	1.4	-1.4	1.5	1.7	0.4	-1.0	1.3	-2.4	5.9	-2.1	-3.4	-1.0
May	P	-31	-31	-17	-23	-15	-1	-24.0	-28.1	-24.3	-6.6	-4.5	-5.9	-	-2.5	3.4	-10.0	-9.9	0.8
Jun	P	-38	-38	-25	-25	-17	-4	-30.5	-33.5	-30.8	-8.8	-9.2	-10.6	-6.6	-11.6	-6.2	-13.1	-11.3	-1.9
Jul	P	-39	-38	-28	-26	-20	-9	-26.5	-28.6	-27.4	-8.5	-4.2	-5.4	-1.0	-4.7	1.1	-6.6	-8.3	-0.7
Aug	P	-37	-39	-24	-35	-19	-10	-39.7	-40.0	-41.3	-5.8	-7.6	-8.5	-4.0	-7.5	-2.8	-12.4	-10.1	-1.0
Sep	P	-39	-36	-25	-33	-19	-8	-31.7	-31.8	-32.2	-11.4	-5.6	-6.3	-3.1	-5.7	1.1	-10.7	-8.8	-0.3
Oct	A	-44	-44	-30	-30	-24	-13	-39.0	-38.6	-40.0	-14.4	-6.9	-7.4	-2.9	-6.9	-0.2	-11.7	-9.7	-1.7
Nov	A	-44	-42	-26	-26	-25	-13	-48.7	-47.9	-49.6	-18.2	-10.0	-10.2	-5.4	-8.1	-3.0	-16.0	-12.1	-2.4
Dec	A	-46	-44	-26	-34	-30	-20	-47.3	-45.6	-49.9	-23.2	-7.5	-6.4	-3.8	-9.3	-0.1	-10.4	-6.6	-2.0
09 *Jan*	A	-45	-43	-25	-29	-31	-20	-42.2	-39.2	-41.6	-20.5	-6.3	-5.0	-2.2	0.5	2.7	-10.3	-9.0	-1.4
Feb	A	-48	-48	-30	-29	-33	-19	-49.3	-41.2	-48.8	-12.7	-11.7	-10.8	-8.8	-11.7	-7.2	-12.8	-10.7	-3.6
Mar	A	-43	-47	-22	-27	-34	-18	-39.0	-30.3	-38.7	...	...	...	...	...	...	...	...	...

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. Data adjusted by working days.

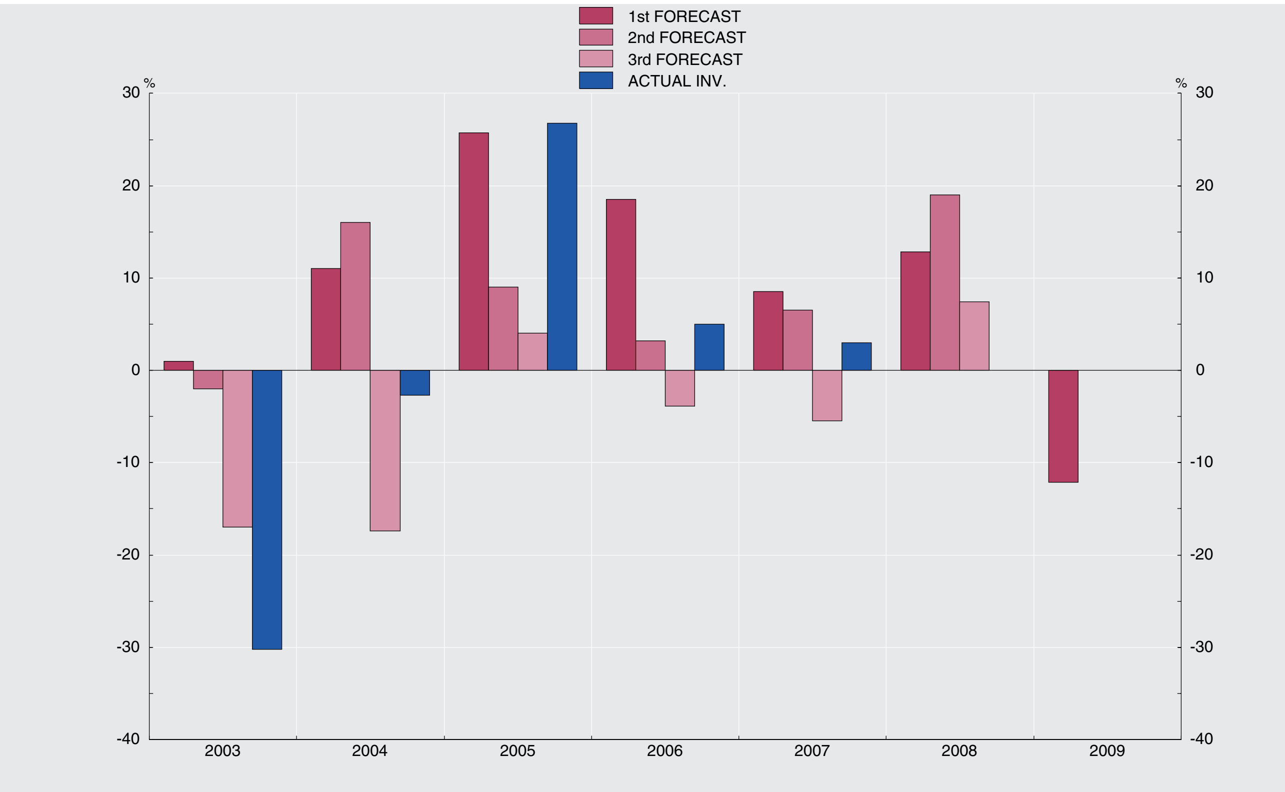
3.2. INVESTMENT IN INDUSTRY (EXCLUDING CONSTRUCTION): OPINION SURVEYS. SPAIN

■ Series depicted in chart.

Annual percentage changes at current prices

	ACTUAL INV. 1 ■	1st FORECAST 2 ■	2nd FORECAST 3 ■	3rd FORECAST 4 ■
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	7
09	...	-12	...	...

INVESTMENT IN INDUSTRY
Annual rates of change



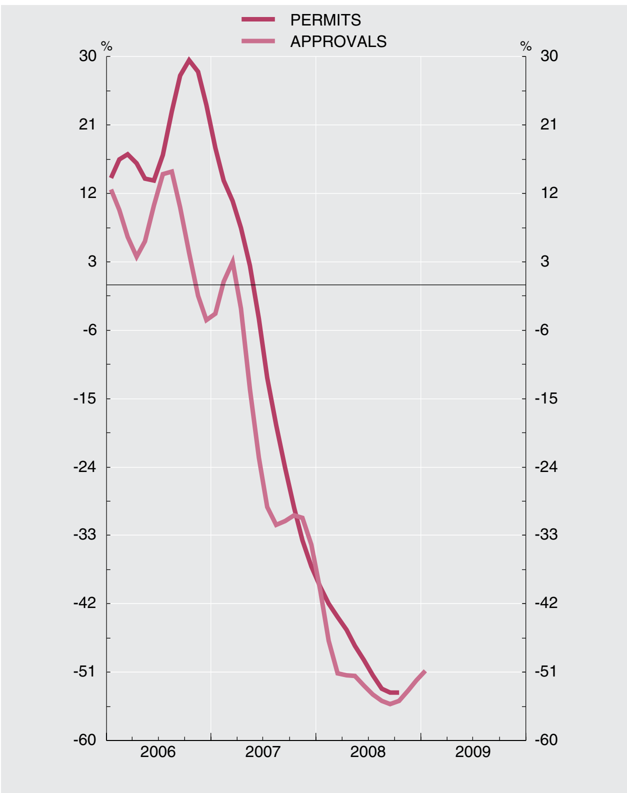
Source: Ministerio de Industria, Turismo y Comercio.
Note: The first forecast is made in the autumn of the previous year and the second and third ones in the spring and autumn of the current year, respectively; the information relating to actual investment for the year t is obtained in the spring of the year t+1.

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

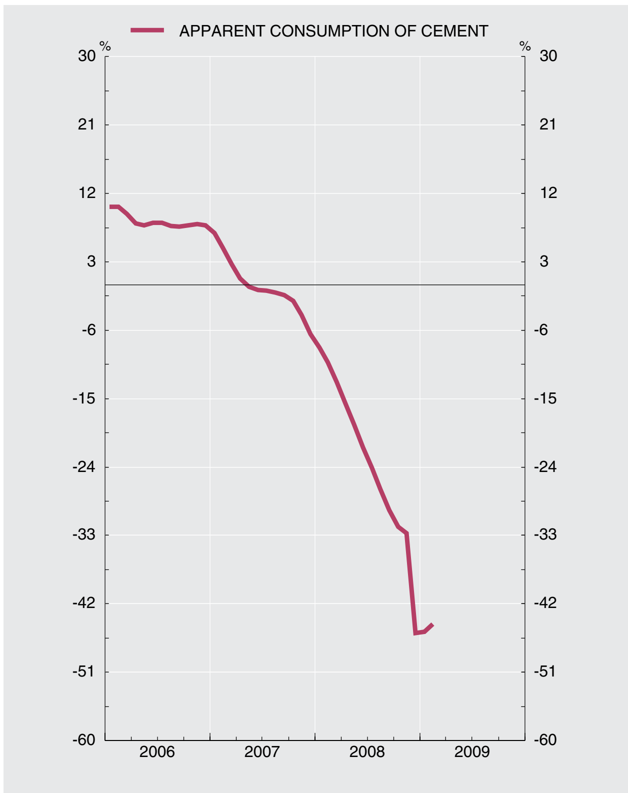
■ Series depicted in chart. *Annual percentage changes*

		Permits: buildable floorage				Approvals: buildable floorage		Government tenders (budget)							Apparent consumption of cement
			of which				of which	Total		Building					
		Total	Residential	Housing	Non-residential	Total	Housing	For the month	Year to date	Total	Residential	of which Housing	Non-residential	Civil engineering	
		1 ■	2	3	4	5 ■	6	7 ■	8	9	10	11	12	13	14 ■
06		22.0	20.1	20.4	31.9	14.2	16.5	31.3	31.3	26.8	61.7	57.0	15.8	33.3	8.5
07	P	-10.9	-13.1	-13.3	-0.5	-22.3	-25.2	-15.0	-15.0	-17.7	-46.5	-33.3	-5.0	-13.9	0.2
08	P	...	...	...	...	-52.1	-56.6	3.3	3.3	-7.3	8.9	13.4	-11.3	7.6	-23.6
08 *J-F*	P	-40.9	-47.6	-48.1	-2.4	-41.5	-47.2	4.7	4.7	-1.6	-0.9	10.4	-1.7	8.0	-6.4
09 *J-F*	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-48.9
07 *Nov*	P	-34.9	-38.1	-38.7	-20.3	-24.6	-25.8	-38.8	-13.4	-39.6	-41.1	-55.7	-39.3	-38.5	-0.5
Dec	P	-38.2	-48.9	-48.8	15.7	-26.4	-36.2	-28.2	-15.0	-24.5	-60.3	-2.0	2.9	-29.3	-11.4
08 *Jan*	P	-42.5	-48.8	-47.9	-5.4	-43.8	-47.4	-2.3	-2.3	46.9	35.4	71.2	49.6	-19.1	-7.8
Feb	P	-39.3	-46.4	-48.4	0.4	-39.3	-46.9	15.1	4.7	-39.9	-32.9	-40.5	-41.3	65.4	-5.1
Mar	P	-50.6	-51.3	-53.9	-48.3	-67.3	-70.5	70.5	27.7	-33.9	-52.0	-64.0	-27.2	135.8	-25.2
Apr	P	-33.5	-38.7	-40.1	-10.0	-38.6	-40.6	71.9	37.6	109.1	61.0	3.4	126.9	56.5	-2.2
May	P	-54.8	-59.6	-60.2	-35.3	-55.5	-58.7	-66.8	12.3	-80.3	-70.7	-68.0	-82.5	-61.4	-21.1
Jun	P	-45.5	-51.8	-51.0	-12.5	-52.3	-59.2	-66.7	-2.2	-58.2	43.8	-47.3	-69.1	-70.3	-33.1
Jul	P	-49.4	-55.6	-56.2	-20.5	-52.0	-54.5	-10.5	-3.5	5.2	-37.9	27.6	15.7	-13.9	-21.3
Aug	P	-62.3	-69.6	-69.7	-27.0	-60.3	-64.5	10.5	-2.4	67.2	250.5	484.0	33.7	-9.6	-30.5
Sep	P	-49.4	-50.3	-50.0	-47.4	-50.7	-57.5	41.7	0.0	18.7	30.7	230.2	15.4	50.9	-24.6
Oct	P	-53.5	-59.2	-59.9	-28.2	-56.8	-62.1	-12.4	-1.1	-35.4	-53.2	29.0	-29.8	-3.7	-34.9
Nov	P	...	...	...	...	-57.9	-63.6	29.6	1.0	46.0	229.6	377.2	4.7	22.8	-41.0
Dec	P	...	...	...	...	-44.5	-46.3	24.9	3.3	-13.9	-14.8	-44.3	-13.6	37.2	-36.2
09 *Jan*	P	...	...	...	...	-55.9	-63.5	-20.6	-20.6	-28.9	30.5	-49.8	-41.3	-15.5	-51.9
Feb	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-46.0

CONSTRUCTION
Trend obtained with TRAMO-SEATS



CONSTRUCTION
Trend obtained with TRAMO-SEATS



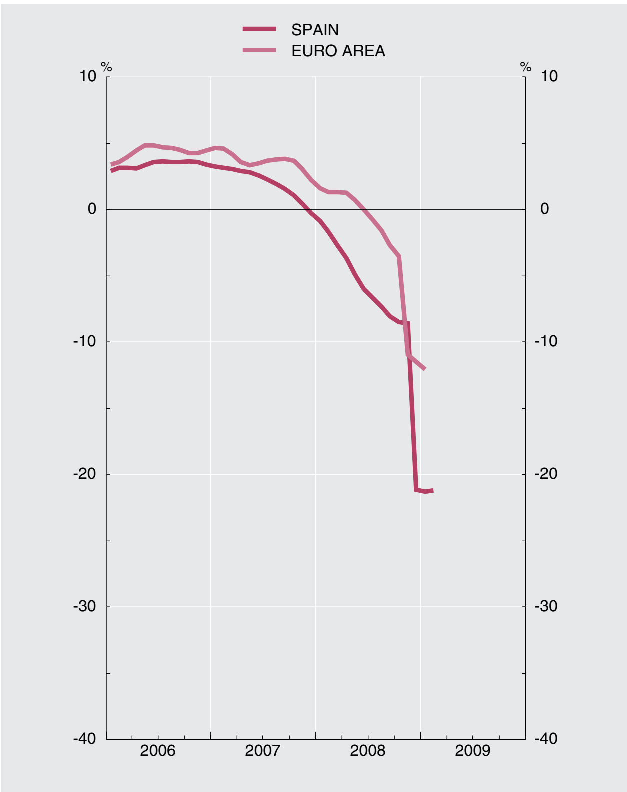
Sources: Ministerio de Fomento and Asociación de Fabricantes de Cemento de España.
Note: The underlying series for this indicator are in Tables 23.7, 23.8, and 23.9 of the BE Boletín estadístico.

3.4. INDUSTRIAL PRODUCTION INDEX. SPAIN AND EURO AREA (a)

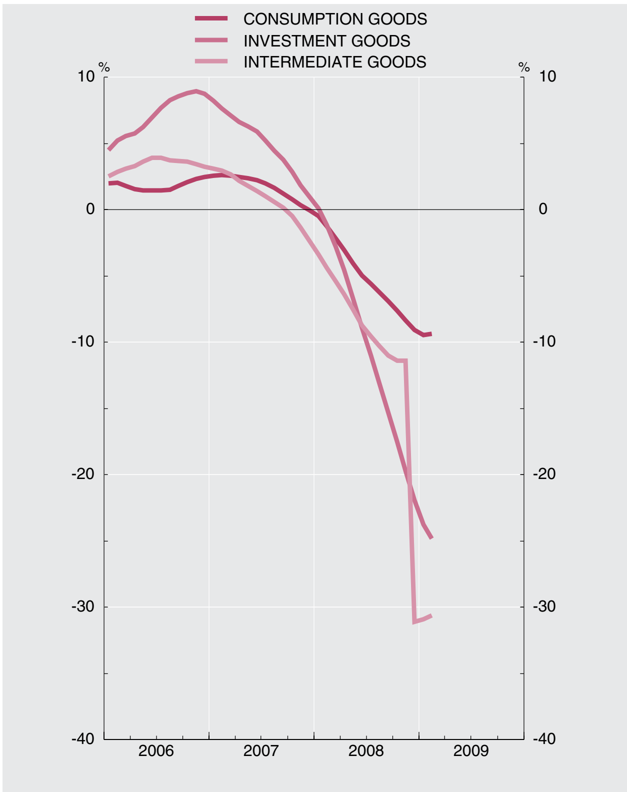
■ Series depicted in chart. *Annual percentage changes*

		Overall Index		By end-use of goods				By branch of activity (NACE 2009)			Memorandum item: euro area				
		Total		Consumer goods	Capital goods	Inter-mediate goods	Energy	Mining and quarrying	Manufac-turing	Electrity and gas supply	Total	of which	By end-use of goods		
		Original series	12-month %change 12									Manufac-turing	Consumer goods	Capital goods	Inter-mediate goods
		1	2 ■	3 ■	4 ■	5 ■	6	7	8	9	10 ■	11	12	13	14
06	M P	103.7	3.7	2.1	7.7	3.6	0.9	2.9	4.0	0.6	4.3	4.4	3.0	5.9	4.8
07	M P	106.2	2.4	2.2	5.0	1.6	0.8	0.9	2.5	2.0	3.8	4.1	2.6	6.7	3.7
08	M P	98.6	-7.1	-4.6	-8.7	-11.0	1.6	-13.7	-7.8	1.1	-1.7	-2.0	-1.5	-0.4	-3.3
08 *J-F*	M P	107.9	1.5	3.4	2.8	-2.2	5.5	1.7	1.1	4.6	3.5	3.1	1.9	6.4	2.4
09 *J-F*	M P	81.9	-24.1	-15.4	-33.0	-32.2	-6.4	-33.4	-25.8	-6.9	...	...	...	...	...
07 *Nov*	P	111.3	-0.8	-1.7	-2.1	-2.0	8.3	-0.9	-2.0	13.2	3.2	2.3	1.1	5.3	2.0
Dec	P	95.6	0.2	0.5	0.1	-1.6	4.3	-9.6	-0.2	6.2	1.5	1.5	-0.2	3.6	-0.4
08 *Jan*	P	106.9	-0.8	2.5	-0.3	-4.5	1.4	-2.8	-1.0	1.1	3.7	3.2	2.6	7.0	2.4
Feb	P	108.8	3.8	4.4	5.8	0.1	10.2	6.3	3.3	8.5	3.2	2.9	1.2	5.8	2.5
Mar	P	98.7	-15.3	-16.9	-18.4	-17.7	3.2	-15.2	-16.7	1.9	1.5	-0.2	-0.8	2.9	0.5
Apr	P	111.4	12.0	15.0	16.6	9.2	5.1	11.8	12.4	6.0	4.8	4.8	1.5	8.3	2.7
May	P	105.4	-8.4	-8.7	-9.6	-9.9	-0.9	-20.1	-9.0	0.2	-0.7	-0.3	-3.7	1.8	-0.9
Jun	P	100.6	-10.9	-10.3	-13.2	-13.6	1.8	-22.1	-11.8	1.3	-0.5	-0.3	-0.5	0.7	-1.0
Jul	P	110.5	-1.9	0.6	-1.9	-5.5	3.9	-10.2	-2.1	3.1	-1.0	-1.2	-0.7	-0.7	-1.4
Aug	P	69.1	-11.5	-11.4	-17.9	-14.3	0.9	-24.5	-13.3	4.3	-0.8	-0.8	-3.3	0.4	-0.0
Sep	P	99.8	-4.7	-1.6	-5.7	-8.0	-0.1	-16.7	-4.8	-1.1	-2.3	-2.5	-2.3	-1.5	-3.7
Oct	P	100.9	-12.2	-7.1	-18.0	-16.2	-0.1	-18.6	-12.9	-3.4	-5.9	-5.7	-3.6	-5.6	-8.1
Nov	P	90.9	-18.3	-12.5	-22.3	-25.0	-3.4	-29.0	-19.4	-5.1	-9.1	-8.9	-4.7	-8.9	-12.7
Dec	P	80.3	-16.0	-6.7	-18.7	-28.3	-1.6	-18.0	-17.8	-2.3	-12.3	-13.6	-3.7	-11.5	-21.4
09 *Jan*	P	80.9	-24.3	-17.2	-33.9	-32.7	-3.5	-32.6	-26.5	-3.4	-16.0	...	-6.3	-22.1	-22.1
Feb	P	82.8	-23.9	-13.5	-32.2	-31.7	-9.6	-34.2	-25.0	-10.7	...	...	...	...	...

INDUSTRIAL PRODUCTION INDEX
Trend obtained with TRAMO-SEATS



INDUSTRIAL PRODUCTION INDEX
Trend obtained with TRAMO-SEATS



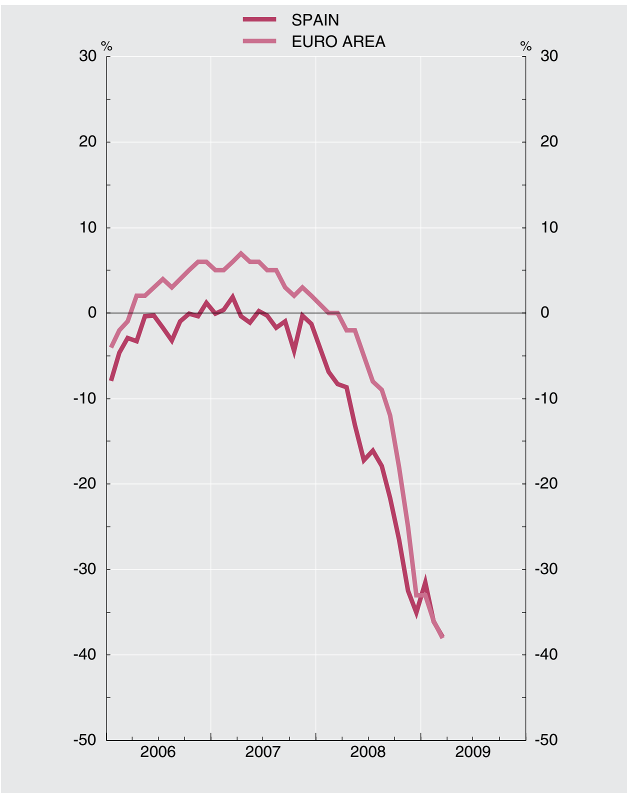
Sources: INE and BCE.
Note: The underlying series for this indicator are in Table 23.1 of the BE Boletín estadístico.
a. Spain 2005 = 100; euro area 2000 = 100.

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							Trend		Industry, excluding construction		
		Business climate indi-cator- (a) 1 ■	Produc-tion over the last three months 2	Trend in pro-duction (a) 3	Total orders (a) 4	Foreign orders 5	Stocks of finished products (a) 6	Con-sum-ption (a) 7	In-vest-ment (a) 8	In-ter-me-diate goods (a) 9	Other sec-tors (a) 10	Business climate indicator 11 ■	Produc-tion 12	Orders 13	Produc-tion 14	Orders 15	Business climate indicator 16 ■	Order Book 17	Construc-tion climate indicator 18 ■
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	-0
08	M	-17	-16	-8	-24	-21	20	-11	-8	-28	-6	-22	-0	-19	-16	-16	-9	-15	-14
08 *J-M*	M	-6	-6	1	-6	-8	15	-5	5	-15	-7	-17	-2	-14	-5	-4	0	-1	-7
09 *J-M*	M	-35	-50	-24	-54	-53	28	-20	-33	-51	-13	-38	-19	-29	-21	-21	-36	-56	-31
07 *Dec*		-1	-1	7	-2	-5	10	-3	11	-7	-1	-7	10	-1	-10	13	2	-	-4
08 *Jan*		-4	-2	5	-4	-8	13	-3	7	-12	-4	-9	4	-2	-2	3	1	-1	-6
Feb		-7	-10	1	-6	-7	15	-5	3	-15	-6	-22	-3	-18	-5	1	-	-2	-7
Mar		-8	-6	-2	-7	-10	16	-5	4	-17	-11	-20	-6	-21	-9	-17	-	-1	-8
Apr		-9	-4	-0	-11	-10	15	-6	2	-17	-4	-18	4	-18	-23	-13	-2	-5	-11
May		-13	-6	-7	-16	-13	17	-7	-3	-24	-5	-11	23	-10	-9	-26	-2	-5	-8
Jun		-17	-10	-9	-20	-19	23	-12	-2	-29	-3	-11	13	-15	-4	-27	-5	-9	-11
Jul		-16	-16	-5	-29	-19	14	-10	-7	-25	-7	-25	-8	-21	-26	-26	-8	-13	-14
Aug		-18	-10	-8	-25	-20	21	-13	-8	-25	-7	-17	-6	-15	-3	-6	-9	-13	-12
Sep		-22	-20	-11	-33	-27	21	-16	-7	-35	-3	-24	-9	-8	-1	-38	-12	-20	-15
Oct		-27	-20	-16	-37	-32	27	-16	-25	-38	0	-44	-37	-38	-11	-27	-18	-26	-20
Nov		-33	-40	-20	-47	-38	31	-19	-23	-49	-19	-30	4	-27	-50	-8	-25	-36	-23
Dec		-35	-47	-23	-53	-48	29	-22	-33	-50	-3	-34	20	-31	-43	-4	-33	-47	-27
09 *Jan*		-32	-41	-22	-47	-44	26	-17	-27	-47	-4	-40	19	-27	-29	-2	-33	-49	-30
Feb		-36	-54	-24	-56	-57	29	-22	-33	-53	-4	-39	-38	-26	-24	-36	-36	-57	-32
Mar		-38	-55	-28	-58	-60	28	-21	-39	-52	-31	-36	-37	-35	-11	-26	-38	-61	-32

INDUSTRIAL BUSINESS CLIMATE
Percentage balances



CONSTRUCTION BUSINESS CLIMATE
Percentage balances

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

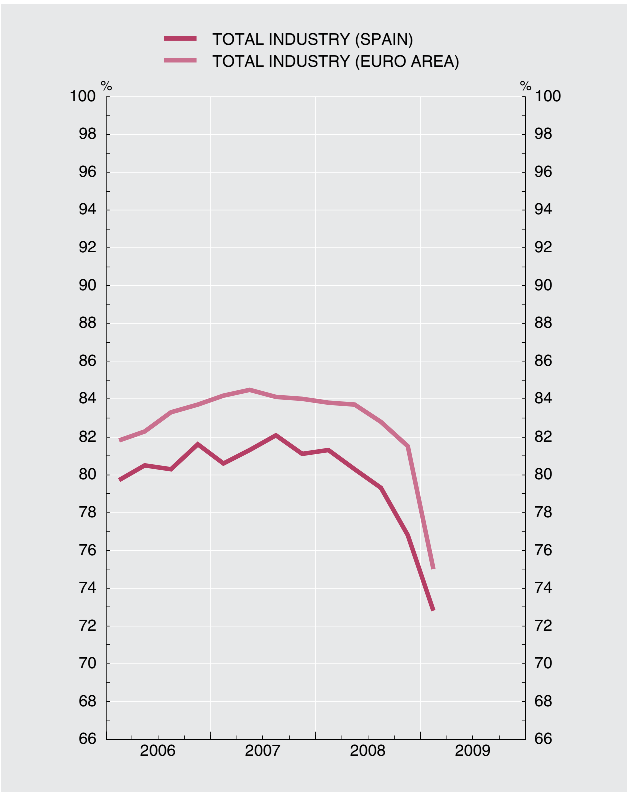
3.6. BUSINESS SURVEY: CAPACITY UTILISATION. SPAIN AND EURO AREA

■ Series depicted in chart.

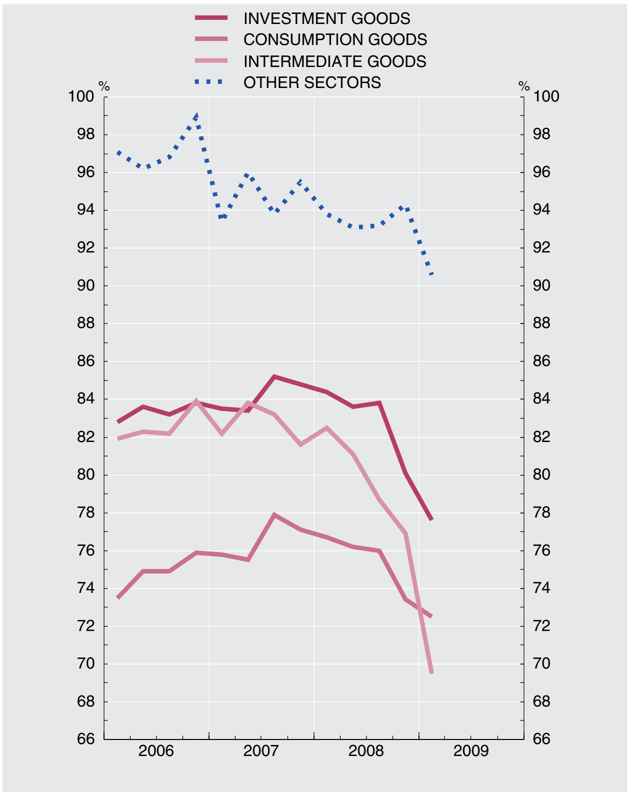
Percentages and percentage balances

	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 ■
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	-	82.8
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
08	79.4	79.8	8	75.6	76.7	9	83.0	82.8	4	79.8	79.8	9	93.6	94.1	-0	83.0
08 *Q1-Q1*	81.3	82.1	5	76.7	77.8	9	84.4	85.8	5	82.5	82.9	3	93.8	94.9	-	83.8
09 *Q1-Q1*	72.8	72.4	20	72.5	71.9	9	77.6	75.6	16	69.5	69.9	32	90.6	92.4	-	75.0
06 *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	-	83.3
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	-	83.7
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	-	84.5
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	-	83.8
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	-	83.7
Q3	79.3	79.5	7	76.0	76.5	11	83.8	83.6	4	78.7	79.0	7	93.2	93.0	-	82.8
Q4	76.8	75.9	14	73.4	73.9	10	80.1	78.3	6	76.9	75.0	23	94.3	94.8	-0	81.5
09 *Q1*	72.8	72.4	20	72.5	71.9	9	77.6	75.6	16	69.5	69.9	32	90.6	92.4	-	75.0

CAPACITY UTILISATION. TOTAL INDUSTRY
Percentages



CAPACITY UTILISATION. BY TYPE OF GOOD
Percentages



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

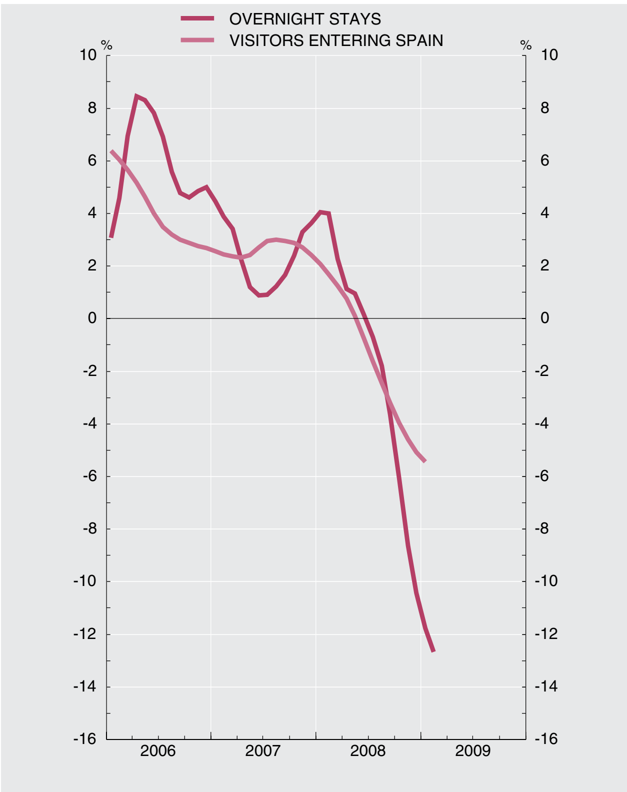
3.7. TOURISM AND TRANSPORT STATISTICS. SPAIN

■ Series depicted in chart.

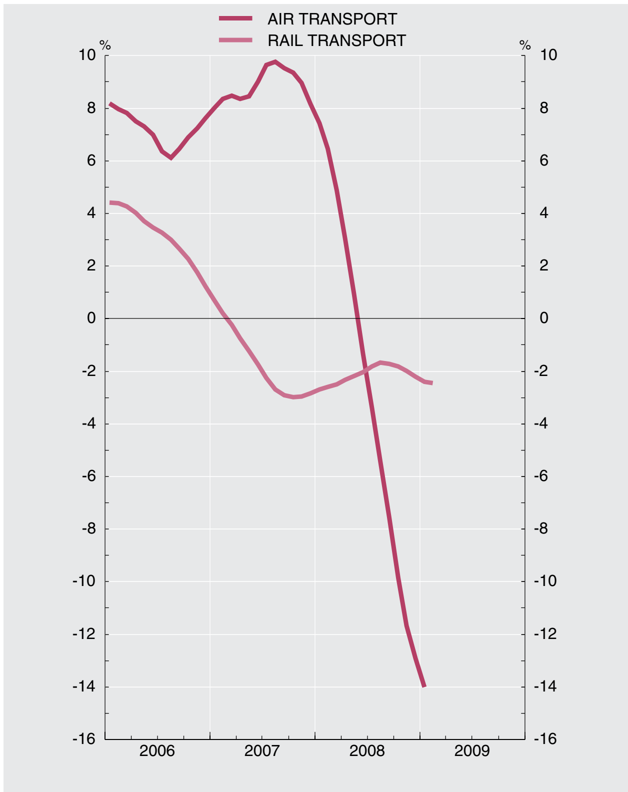
Annual percentage changes

		Hotel stays (a)		Overnight stays		Visitors entering Spain			Air transport				Maritime transport		Rail transport	
									Passengers							
		Total	Foreig-ners	Total	Foreig-ners	Total	Tourists	Day-trip-pers	Total	Domestic flights	Interna-tional flights	Freight	Passen-gers	Freight	Passen-gers	Freight
		1	2	3 ■	4	5 ■	6	7	8 ■	9	10	11	12	13	14 ■	15
06	P	5.8	6.1	6.2	6.5	3.6	4.1	3.0	6.7	6.7	6.8	-4.5	10.2	4.9	2.0	-3.1
07	P	3.1	4.0	1.7	2.1	2.6	1.3	4.6	9.1	9.0	9.2	4.2	5.2	4.7	-1.7	-1.5
08	P	-1.7	0.1	-1.2	0.2	-1.3	-2.6	0.7	-3.0	-7.5	0.3	0.0	-1.5	-2.1	-1.1	-10.3
08 *J-F*	P	6.2	7.6	6.3	6.9	2.8	3.9	1.6	8.6	8.4	8.8	1.1	3.9	7.0	-0.3	-0.4
09 *J-F*	P	-14.1	-16.6	-13.9	-14.5	...	...	...	...	...	...	...	...	...	-8.7	...
07 *Nov*	P	8.2	9.3	7.1	6.1	4.8	4.8	4.8	10.4	8.0	12.6	-2.0	13.8	9.1	-3.0	-6.2
Dec	P	2.1	10.3	1.6	7.1	-0.5	0.7	-1.7	7.6	4.9	10.0	-0.5	-1.4	-0.2	-4.6	-5.9
08 *Jan*	P	4.1	6.5	2.9	4.1	-0.0	0.9	-1.0	6.9	6.8	7.1	-1.9	4.8	13.2	-2.2	-4.1
Feb	P	8.0	8.6	9.4	9.6	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	2.3	-5.3	7.9	-0.3	7.3	-1.1	-4.5	-13.8
Jun	P	-2.6	-0.7	-2.3	-1.4	0.9	-0.7	3.9	-1.6	-6.2	1.5	8.9	0.3	1.7	-4.4	-9.7
Jul	P	0.6	2.0	0.9	2.9	-4.4	-8.0	2.2	-3.5	-9.0	0.0	3.5	-5.0	0.0	1.3	-2.9
Aug	P	-0.7	0.1	-0.6	1.1	-0.2	-1.8	1.8	-2.4	-9.7	2.3	5.6	-1.5	-5.1	4.1	-16.9
Sep	P	-3.3	-2.3	-2.8	-2.3	-5.5	-6.0	-4.5	-8.8	-15.9	-4.3	-1.4	-8.2	-6.1	-2.6	-2.5
Oct	P	-6.6	-3.3	-5.1	-2.8	-5.6	-5.4	-6.0	-10.9	-18.3	-5.8	-2.7	-1.1	-5.7	0.5	-14.2
Nov	P	-11.8	-11.3	-10.6	-8.7	-8.0	-11.6	-3.3	-14.3	-19.5	-9.6	-6.5	-4.6	-15.0	0.3	-26.8
Dec	P	-9.6	-12.6	-10.6	-10.9	-10.7	-13.8	-7.4	-13.7	-16.2	-11.4	-13.3	-5.4	-14.1	-2.9	-27.8
09 *Jan*	P	-13.3	-14.8	-12.0	-11.6	-5.2	-10.1	0.3	-17.1	-23.1	-11.9	-15.0	...	...	-6.5	-38.7
Feb	P	-14.7	-18.1	-15.5	-17.2	...	...	...	...	...	...	...	...	...	-10.8	...

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

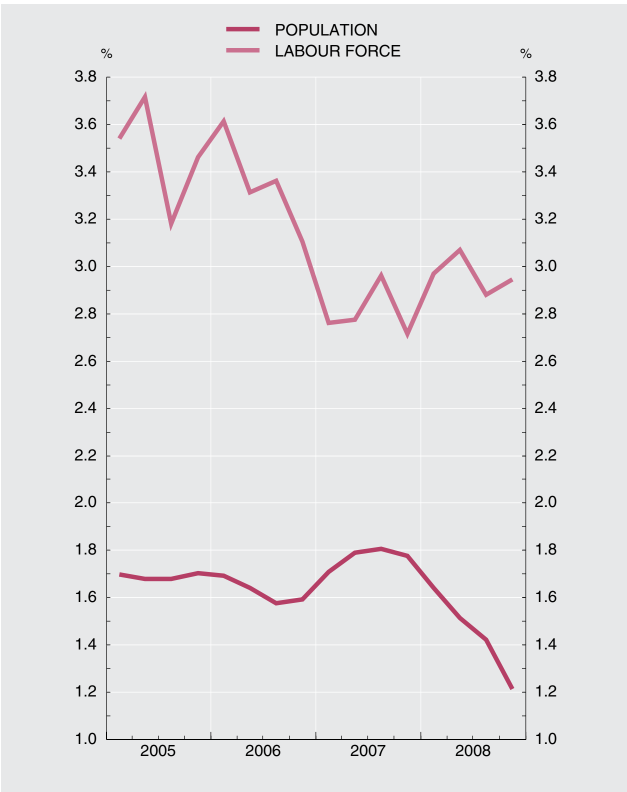
4.1. LABOUR FORCE. SPAIN

■ 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 partici- pation 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-Q4* M	37 663	655	1.8	58.92	22 190	2 421	1 544	877	2.8
08 *Q1-Q4* M	38 208	545	1.4	59.80	22 848	2 633	1 303	1 330	3.0
06 *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
Q2	38 162	570	1.5	59.76	22 807	679	340	339	3.1
Q3	38 271	537	1.4	59.95	22 945	643	322	321	2.9
Q4	38 357	460	1.2	60.13	23 065	660	276	384	2.9

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.

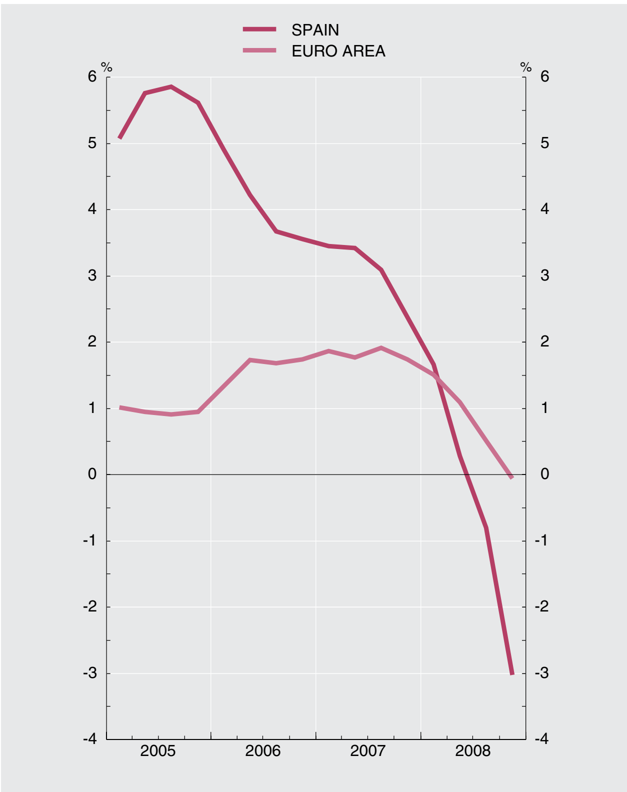
4.2. EMPLOYMENT AND WAGE-EARNERS. SPAIN AND EURO AREA

■ Series depicted in chart.

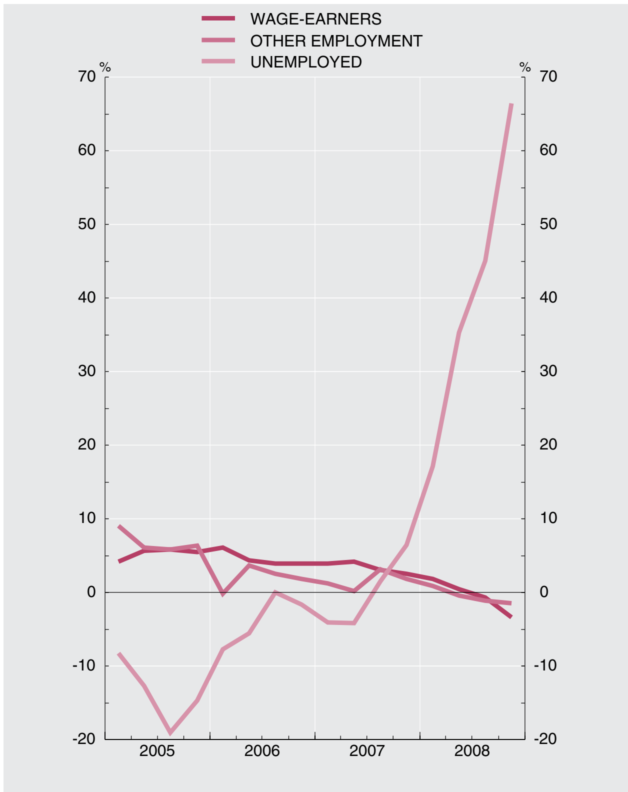
Thousands and annual percentage changes

	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	Unem-ployment rate (a)	Employ-ment 4-quarter % change	Unem-ployment 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	1.0	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	8.29
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	7.43
07 *Q1-Q4* 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	7.43
08 *Q1-Q4* M	20 258	-98	-0.5	16 681	-79	-0.5	3 576	-20	-0.5	2 591	757	41.3	11.33	0.8	7.50
06 *Q2*	19 693	798	4.2	16 112	671	4.3	3 582	127	3.7	1 837	-108	-5.5	8.53	1.7	8.40
Q3	19 896	705	3.7	16 366	616	3.9	3 530	88	2.6	1 765	-	-	8.15	1.7	8.14
Q4	20 002	688	3.6	16 466	625	3.9	3 536	63	1.8	1 811	-31	-1.7	8.30	1.7	7.95
07 *Q1*	20 069	669	3.4	16 515	626	3.9	3 555	44	1.2	1 856	-80	-4.1	8.47	1.9	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	1.8	7.44
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	7.39
Q4	20 477	475	2.4	16 877	410	2.5	3 600	65	1.8	1 928	117	6.5	8.60	1.7	7.25
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	7.21
Q2	20 425	58	0.3	16 853	74	0.4	3 572	-16	-0.4	2 382	622	35.3	10.44	1.1	7.38
Q3	20 346	-164	-0.8	16 746	-124	-0.7	3 600	-41	-1.1	2 599	807	45.0	11.33	0.5	7.53
Q4	19 857	-620	-3.0	16 308	-568	-3.4	3 549	-52	-1.4	3 208	1 280	66.4	13.91	-0.1	7.89

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.

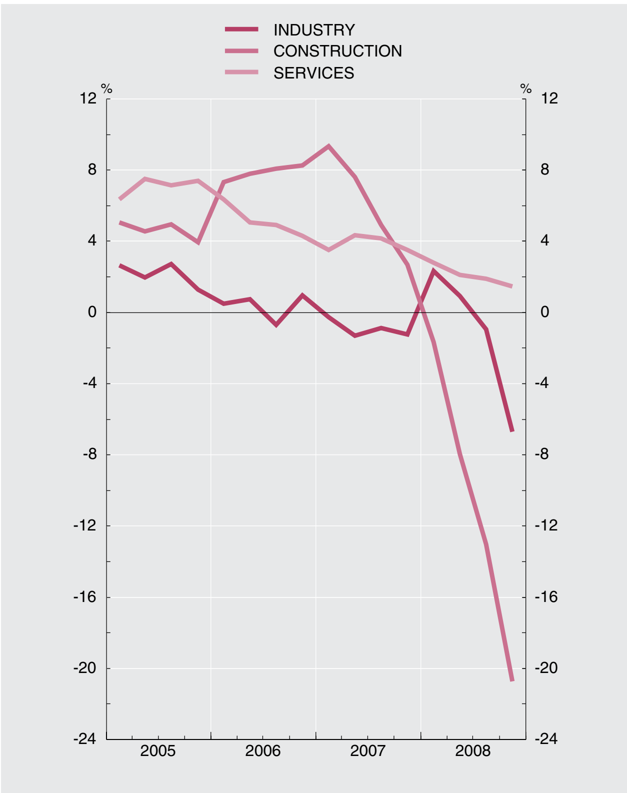
4.3. EMPLOYMENT BY BRANCH OF ACTIVITY. SPAIN (a)

■ Series depicted in chart.

Annual percentage changes

	Total			Agriculture			Industry			Construction			Services			Memorandum item:
	Employ-ment	Wage-earners	Propor-tion of tempora ry em-ploy-ment	Employ-ment	Wage-earners	Propor-tion of tempora ry em-ploy-ment	Employ-ment	Wage-earners	Propor-tion of tempora ry em-ploy-ment	Employ-ment	Wage-earners	Propor-tion of tempora ry em-ploy-ment	Employ-ment	Wage-earners	Propor-tion of tempora-ry em-ployment	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-Q4* M	3.1	3.4	-7.0	-2.0	2.3	-0.8	-0.9	-0.7	-6.6	6.1	6.8	-3.4	3.9	3.9	-9.4	2.6
08 *Q1-Q4* M	-0.5	-0.5	-7.6	-5.0	-4.3	-5.3	-1.1	-1.2	-8.6	-10.9	-12.6	-9.6	2.1	2.2	-5.0	-3.0
06 *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	58.7	2.3	3.1	22.0	-1.7	-2.1	51.8	2.8	2.7	27.0	2.1
Q2	0.3	0.4	29.4	-4.4	-5.0	54.4	0.9	1.0	21.6	-7.9	-9.3	50.3	2.1	2.4	26.7	0.5
Q3	-0.8	-0.7	29.5	-4.1	-4.5	52.9	-1.0	-1.1	20.7	-13.0	-14.7	49.4	1.9	2.2	27.6	-0.7
Q4	-3.0	-3.4	27.9	-4.7	0.8	56.8	-6.7	-7.7	18.8	-20.7	-24.4	46.3	1.5	1.6	26.2	-3.0

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.

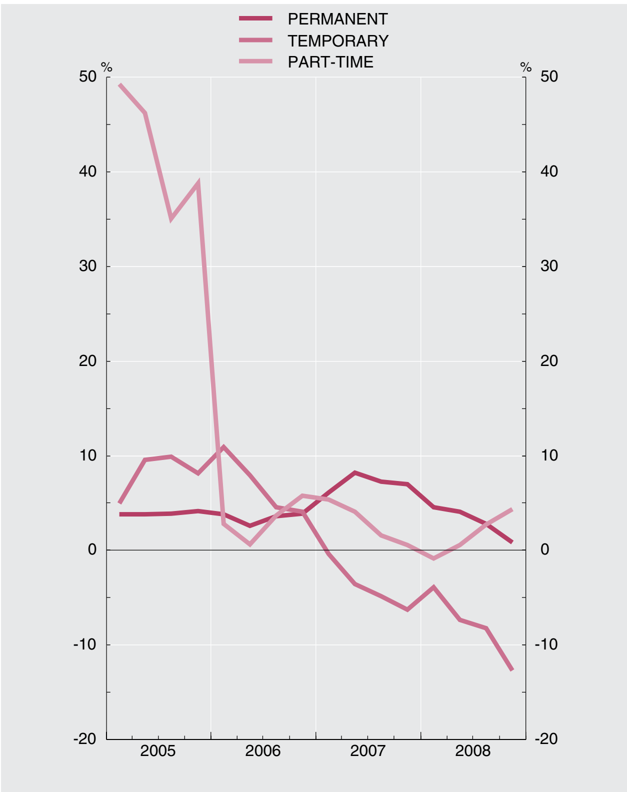
4.4. WAGE-EARNERS BY TYPE OF CONTRACT AND UNEMPLOYMENT BY DURATION. SPAIN. (a)

■ Series depicted in chart.

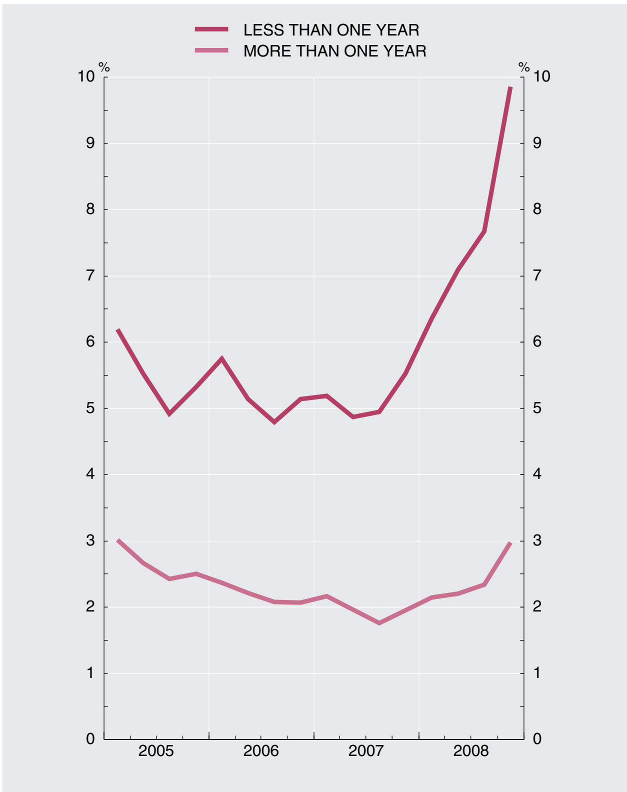
Thousands, annual percentage changes and %

	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-Q4* M	762	7.1	-210	-3.8	31.67	399	2.8	57	2.9	12.07	5.14	1.5	1.96	-7.6
08 *Q1-Q4* M	348	3.0	-426	-8.0	29.25	-656	-4.4	33	1.6	12.33	7.75	55.5	2.41	27.0
06 *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
Q2	465	4.1	-391	-7.3	29.39	62	0.4	11	0.5	12.36	7.09	50.0	2.20	15.7
Q3	320	2.8	-444	-8.2	29.53	-175	-1.2	52	2.7	11.72	7.67	59.5	2.34	36.3
Q4	96	0.8	-664	-12.7	27.93	-656	-4.4	88	4.3	12.92	9.86	83.6	2.97	56.8

WAGE-EARNERS
Annual percentage changes



UNEMPLOYMENT
Unemployment rate



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

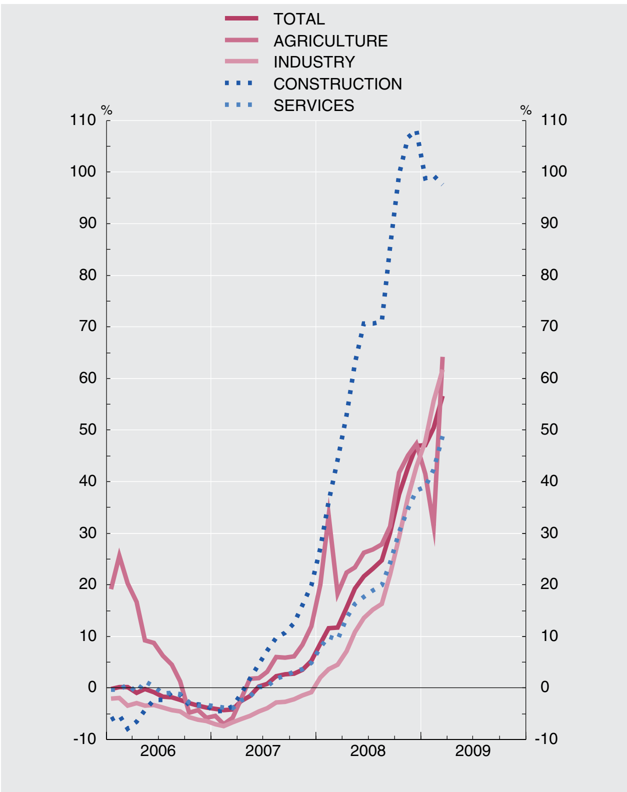
4.5. REGISTERED UNEMPLOYMENT BY BRANCH OF ACTIVITY. CONTRACTS AND PLACEMENTS. SPAIN

■ Series depicted in chart.

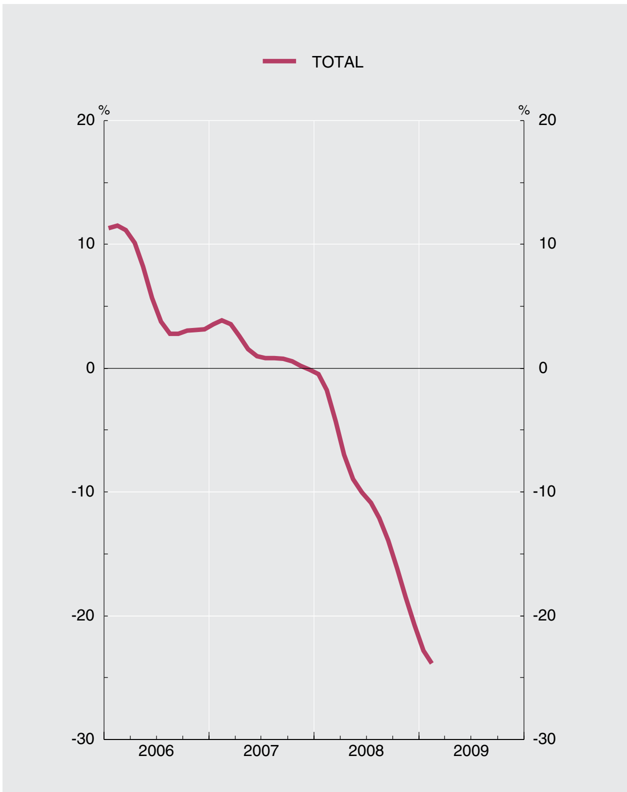
Thousands, annual percentage changes and %

		Registered unemployment: Total: Thousands	Registered unemployment: Total: Annual change Thousands	Registered unemployment: Total: 12 month % change	Registered unemployment: First time job-seekers(a): 12 month % change	Previously employed (a): 12-month % change: Total	Previously employed (a): 12-month % change: Agriculture	Previously employed (a): 12-month % change: Branches other than agriculture: Total	Previously employed (a): 12-month % change: Branches other than agriculture: Industry	Previously employed (a): 12-month % change: Branches other than agriculture: Construction	Previously employed (a): 12-month % change: Branches other than agriculture: Services	Contracts: Total: Thousands	Contracts: Total: 12 month % change	Contracts: Percentage of total: Permanent	Contracts: Percentage of total: Part time	Contracts: Percentage of total: Temporary	Placements: Total: Thousands	Placements: Total: 12 month % change
		1	2	3 ■	4	5	6 ■	7	8 ■	9 ■	10 ■	11	12	13	14	15	16	17 ■
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
08	M	2 540	501	24.6	7.9	26.6	30.6	26.5	17.0	71.1	20.1	1 383	-10.9	11.39	25.61	88.61	1 358	-9.8
08 *J-M*	M	2 293	220	10.6	-0.1	12.0	23.9	11.5	3.4	35.7	9.1	1 431	-7.2	12.85	22.68	87.15	1 409	-4.4
09 *J-M*	M	3 472	1 179	51.4	16.4	54.3	45.7	54.6	55.1	98.6	43.4	1 068	-25.4	11.13	25.13	88.87	...	...
08 *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
Jul		2 427	457	23.2	5.6	25.4	26.8	25.3	15.2	70.7	18.9	1 626	-7.3	9.86	26.45	90.14	1 580	-6.8
Aug		2 530	502	24.7	8.1	26.7	27.8	26.7	16.3	71.0	19.9	1 050	-18.4	9.29	24.35	90.71	1 030	-17.5
Sep		2 625	608	30.1	12.2	32.4	31.4	32.4	22.0	85.6	24.3	1 502	-5.9	11.55	28.59	88.45	1 508	-4.8
Oct		2 818	769	37.6	20.9	39.5	41.7	39.4	29.2	99.5	30.2	1 585	-17.1	11.37	30.44	88.63	1 570	-16.0
Nov		2 989	895	42.7	22.3	45.1	45.1	45.1	37.1	106.7	34.7	1 163	-27.0	11.11	28.35	88.89	1 135	-26.3
Dec		3 129	999	46.9	22.7	49.6	47.3	49.7	42.8	108.1	38.3	1 118	-11.4	9.22	27.44	90.78	1 093	-10.6
09 *Jan*		3 328	1 066	47.1	10.6	50.1	41.5	50.4	47.8	98.9	39.0	1 126	-28.8	10.59	23.69	89.41	1 112	-27.6
Feb		3 482	1 167	50.4	14.5	53.4	31.4	54.1	55.7	99.3	42.4	1 017	-28.8	11.38	25.22	88.62	999	-30.3
Mar		3 605	1 304	56.7	23.9	59.5	64.2	59.4	61.7	97.6	48.8	1 061	-17.5	11.42	26.47	88.58	...	...

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.
a. To December 2008, NACE 1993; from January 2009, NACE 2009.

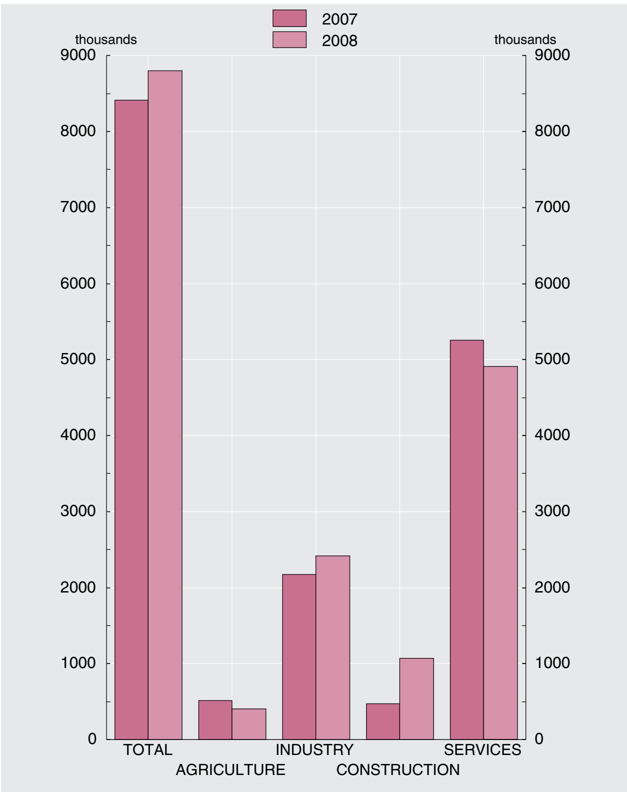
4.6. COLLECTIVE BARGAINING AGREEMENTS

■ Series depicted in chart.

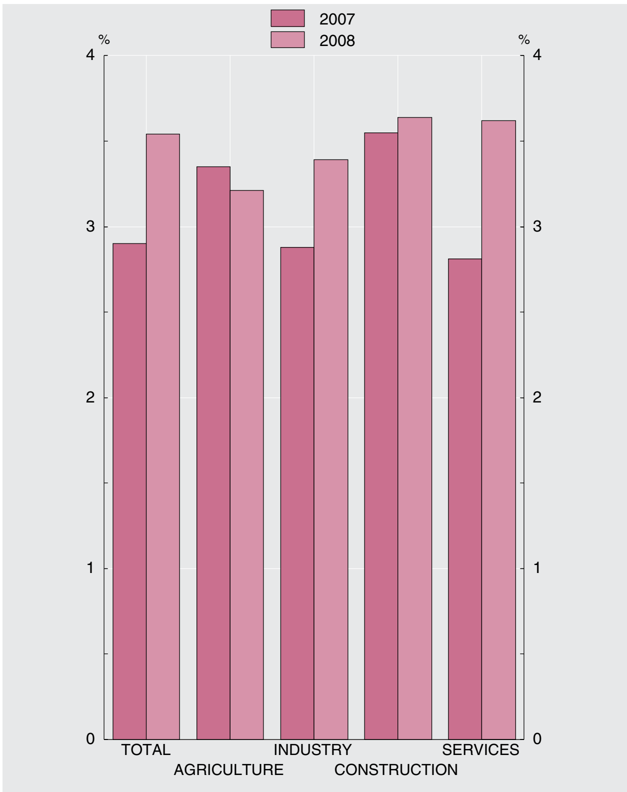
Thousands and %

	As per month economic effects come into force(a)		As per month recorded														
			Employees affected (a)								Average wage settlement (%)						
	Em-ployees affec-ted	Average wage settle-ment (b)	Automa-tic adjust-ment	Newly-signed agree-ments	Total	Annual change	Agricul-ture (c)	Indus-try (c)	Construc-tion (c)	Services (c)	Auto-matic adjust-ment	Newly signed agree-ments	Total	Agricul-ture (c)	Indus-try (c)	Construc-tion (c)	Services (c)
	1	2	3	4	5 ■	6	7 ■	8 ■	9 ■	10 ■	11	12	13 ■	14 ■	15 ■	16 ■	17 ■
06	11 119	3.59	6 765	2 156	8 921	540	656	2 445	1 072	4 748	3.21	3.35	3.24	3.94	3.26	2.97	3.20
07	11 377	4.22	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	10 088	3.56	7 069	1 733	8 802	390	406	2 419	1 070	4 907	3.48	3.80	3.54	3.21	3.39	3.64	3.62
07 *Oct*	11 359	4.20	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	11 374	4.22	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	11 377	4.22	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*	9 535	3.48	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	9 544	3.48	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	9 584	3.48	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	9 870	3.53	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	9 876	3.53	6 568	408	6 975	2 208	339	1 975	830	3 831	3.43	4.09	3.47	3.10	3.40	3.68	3.49
Jun	9 924	3.53	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
Jul	9 930	3.53	6 825	641	7 466	1 513	381	2 061	895	4 130	3.43	3.88	3.47	3.11	3.40	3.67	3.49
Aug	9 930	3.53	6 844	809	7 653	1 271	393	2 082	964	4 214	3.43	3.96	3.49	3.17	3.41	3.65	3.52
Sep	10 050	3.55	6 911	1 079	7 990	949	405	2 133	1 013	4 439	3.43	4.01	3.51	3.20	3.40	3.65	3.56
Oct	10 087	3.56	6 951	1 416	8 367	801	408	2 317	1 022	4 620	3.47	3.80	3.52	3.21	3.37	3.64	3.60
Nov	10 087	3.56	7 028	1 557	8 585	375	405	2 367	1 056	4 757	3.47	3.82	3.53	3.21	3.37	3.64	3.61
Dec	10 088	3.56	7 069	1 733	8 802	390	406	2 419	1 070	4 907	3.48	3.80	3.54	3.21	3.39	3.64	3.62
09 *Jan*	6 103	2.72	3 494	0	3 494	-1 014	115	1 104	813	1 462	2.93	4.50	2.93	2.93	2.70	3.54	2.77
Feb	6 106	2.72	5 977	6	5 983	689	189	1 827	841	3 125	2.68	1.86	2.68	2.81	2.52	3.59	2.53
Mar	6 107	2.72	6 215	19	6 234	610	193	1 862	939	3 240	2.70	2.73	2.70	2.85	2.52	3.58	2.55

EMPLOYEES AFFECTED
January-December



AVERAGE WAGE SETTLEMENT
January-December



Source: Ministerio de Trabajo e Inmigración (MTIN), Estadística de Convenios Colectivos de Trabajo. Avance mensual.
a. Cumulative data.
b. Includes revisions arising from indexation clauses, except in 2009.
c. To December 2008, NACE 1993; from January 2009, NACE 2009.

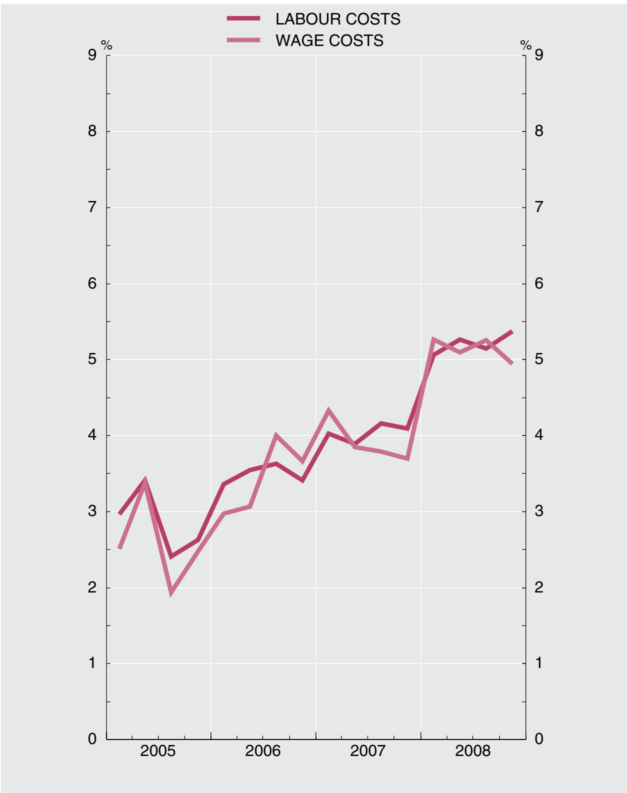
4.7. QUARTERLY LABOUR COSTS SURVEY

■ Series depicted in chart.

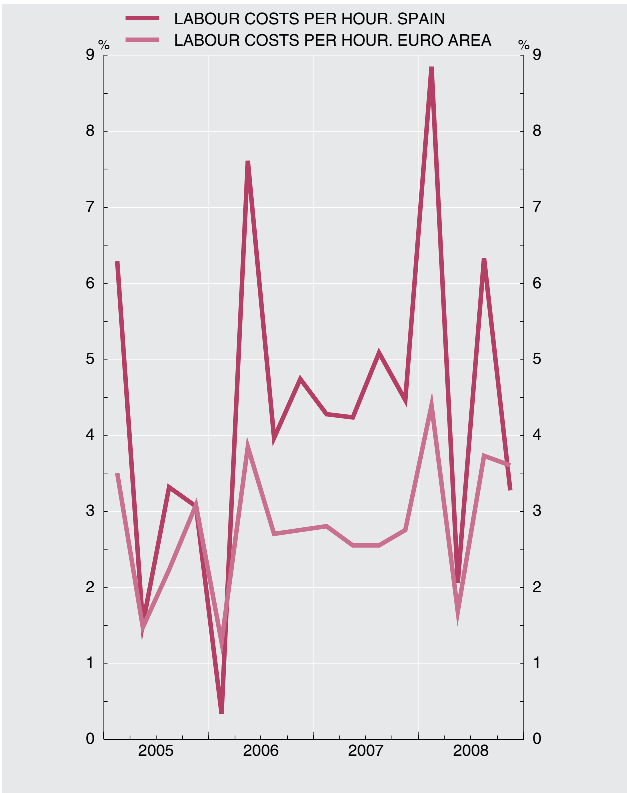
Annual percentage change

	Labour costs					Wage costs					Other costs per worker and month	memorandum item: euro area total hourly labour costs (a)
	Monthly earnings				Per hour worked	Monthly earnings				Per hour worked		
	Total	Industry	Construction	Services		Total	Industry	Construction	Services			
	1 ■	2	3	4	5 ■	6 ■	7	8	9	10	11	12 ■
05 M	2.9	3.1	2.8	3.1	3.5	2.6	2.7	2.3	2.9	3.2	3.6	2.6
06 M	3.5	3.7	4.0	3.6	4.2	3.4	3.6	3.7	3.7	4.2	3.6	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	2.7
07 *Q1-Q4* M	4.0	3.3	5.0	4.3	4.5	3.9	3.0	4.8	4.2	4.4	4.4	2.7
08 *Q1-Q4* M	5.2	5.1	6.5	5.1	5.0	5.1	5.1	5.8	5.0	4.9	5.5	3.3
06 *Q2*	3.5	3.5	3.9	3.8	7.6	3.1	3.1	3.1	3.4	7.1	4.9	3.8
Q3	3.6	3.6	4.1	3.8	4.0	4.0	4.1	4.2	4.3	4.4	2.6	2.7
Q4	3.4	3.4	3.7	3.7	4.7	3.7	3.6	3.9	4.0	5.0	2.6	2.8
07 *Q1*	4.0	4.2	5.0	4.0	4.3	4.3	3.7	5.5	4.5	4.6	3.2	2.8
Q2	3.9	2.7	4.4	4.4	4.2	3.8	3.1	3.9	4.3	4.2	4.0	2.6
Q3	4.2	3.0	5.4	4.5	5.1	3.8	2.3	4.8	4.2	4.6	5.2	2.6
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	4.4
Q2	5.3	5.9	6.1	5.0	2.1	5.1	5.1	6.5	4.8	1.9	5.7	1.7
Q3	5.1	4.8	6.0	5.1	6.3	5.3	4.8	5.8	5.3	6.5	4.9	3.7
Q4	5.4	5.4	7.8	5.0	3.3	4.9	4.9	6.2	4.7	2.8	6.7	3.6

PER WORKER AND MONTH
Annual percentage change



PER HOUR WORKED
Annual percentage change



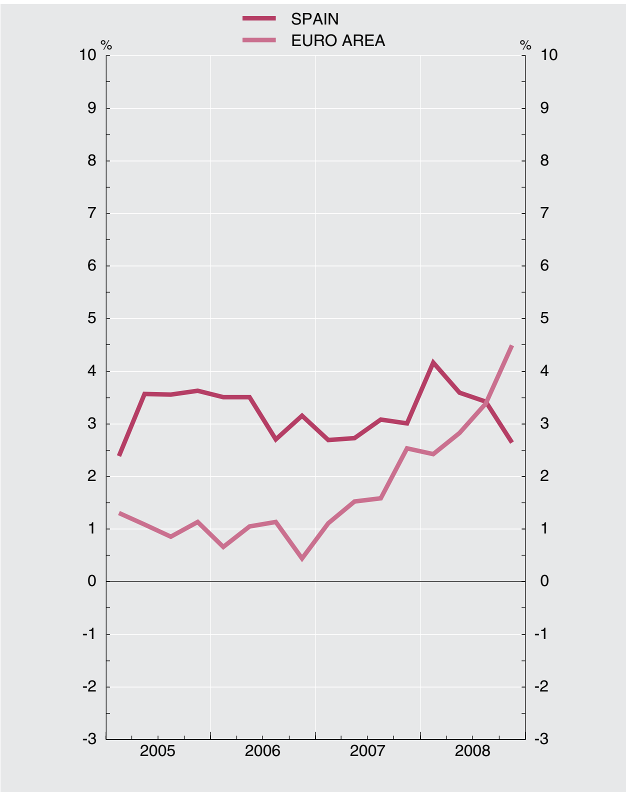
Sources: INE (Quarterly labour costs survey) and Eurostat.
Note: The underlying series for this indicator are in Tables 24.25, 24.26 and 24.27 of de BE Boletín estadístico.
a. Whole economy, excluding the agriculture, public administration, education and health sectors

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

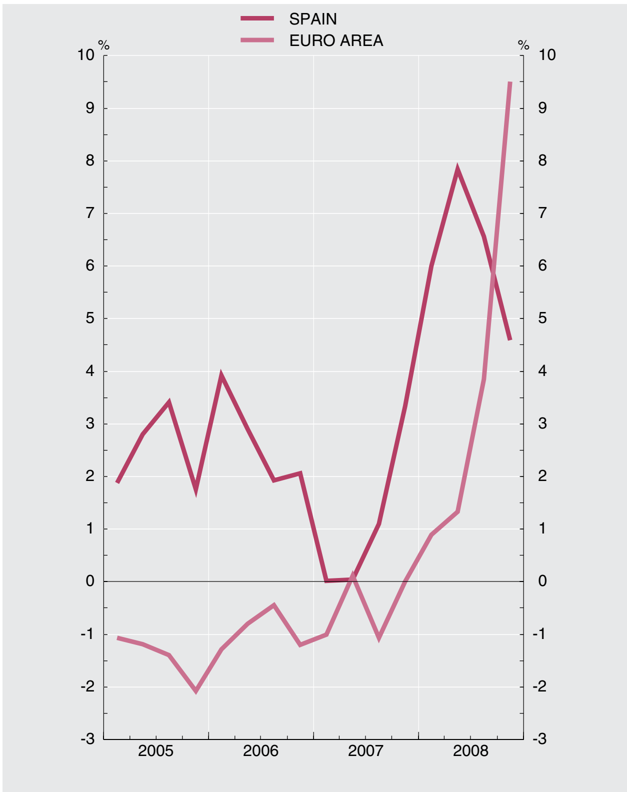
■ Series depicted in chart. *Annual percentage changes*

		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 (d)
		1 ■	2 ■	3	4	5	6	7	8	9	10	11 ■	12 ■
06	P	3.2	0.8	3.9	2.2	0.7	1.4	3.9	3.0	3.2	1.6	2.7	-0.9
07	P	2.9	1.7	3.7	2.5	0.8	0.8	3.7	2.6	2.9	1.8	1.1	-0.5
08	P	3.4	3.3	5.2	3.2	1.8	-0.1	1.2	0.7	-0.6	0.8	6.2	3.9
06 *Q1*	P	3.5	0.7	3.9	2.0	0.3	1.4	3.8	2.7	3.4	1.3	3.9	-1.3
Q2	P	3.5	1.0	3.8	2.4	0.3	1.3	3.9	3.0	3.6	1.7	2.9	-0.8
Q3	P	2.7	1.1	3.9	2.4	1.2	1.3	4.0	3.0	2.8	1.7	1.9	-0.4
Q4	P	3.2	0.4	4.1	2.0	0.9	1.6	3.9	3.4	2.9	1.8	2.1	-1.2
07 *Q1*	P	2.7	1.1	3.4	2.4	0.7	1.3	4.0	3.2	3.2	1.9	0.0	-1.0
Q2	P	2.7	1.5	3.5	2.3	0.7	0.8	3.9	2.6	3.2	1.8	0.0	0.1
Q3	P	3.1	1.6	3.8	2.3	0.7	0.7	3.6	2.6	2.9	1.9	1.1	-1.1
Q4	P	3.0	2.5	4.1	2.9	1.0	0.4	3.2	2.1	2.2	1.7	3.3	0.0
08 *Q1*	P	4.2	2.4	5.2	3.1	1.0	0.6	2.7	2.1	1.7	1.5	6.0	0.9
Q2	P	3.6	2.8	5.4	3.2	1.7	0.3	1.8	1.4	0.1	1.1	7.8	1.3
Q3	P	3.4	3.4	5.3	3.4	1.8	0.0	0.9	0.6	-0.9	0.5	6.6	3.8
Q4	P	2.6	4.5	5.2	3.0	2.5	-1.4	-0.7	-1.5	-3.1	-0.1	4.6	9.5

UNIT LABOUR COSTS: TOTAL
Annual percentage changes



UNIT LABOUR COSTS: MANUFACTURING
Annual percentage changes

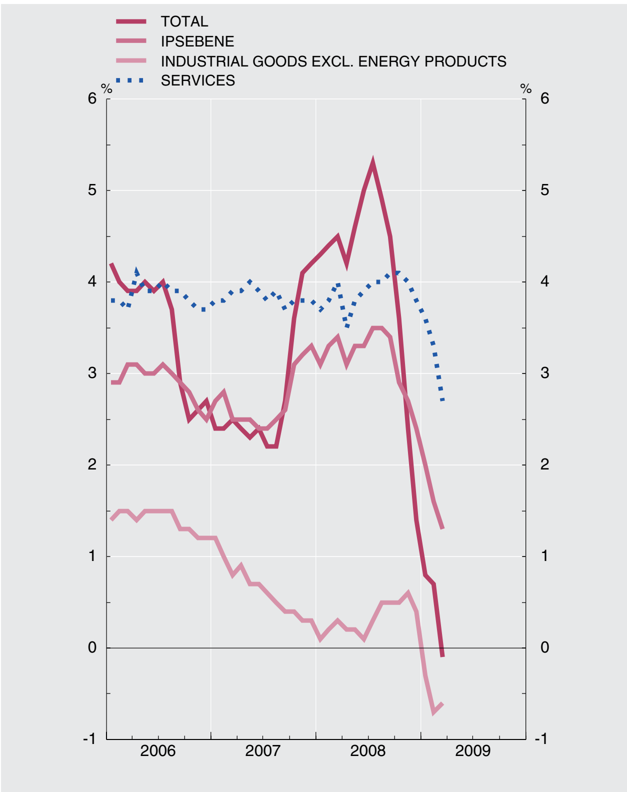


5.1. CONSUMER PRICE INDEX. SPAIN (2006=100)

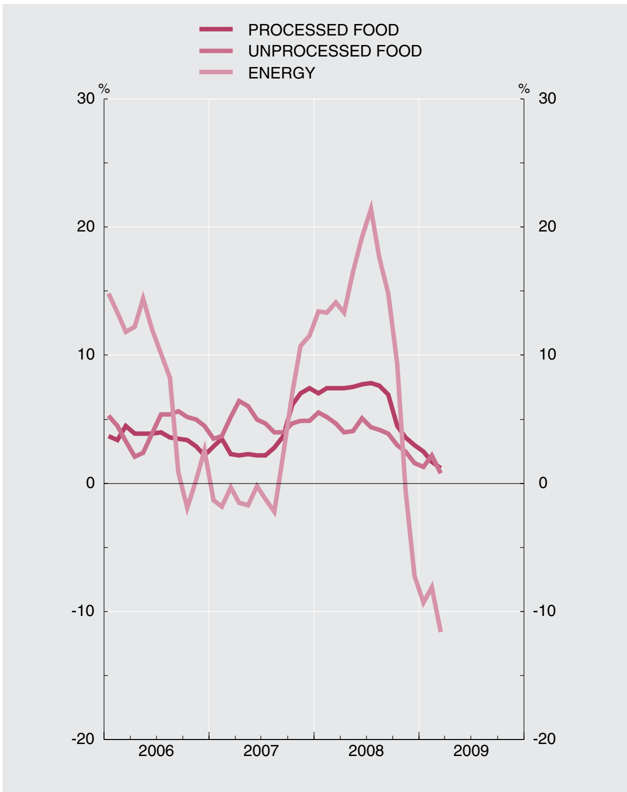
■ Series depicted in chart. *Indices and annual percentage changes*

	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
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
08 M	107.0	_	4.1	1.4	4.0	6.5	0.3	12.1	3.9	3.2	118.8	2.9
08 *J-M* M	105.2	0.2	4.4	-0.2	5.1	7.3	0.2	13.6	3.8	3.3	124.6	9.7
09 *J-M* M	105.7	-0.3	0.5	-1.2	1.4	1.8	-0.5	-9.7	3.2	1.6	...	...
07 *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	126.3	8.6
Jul	107.8	-0.5	5.3	2.3	4.4	7.8	0.3	21.4	4.0	3.5	121.0	14.1
Aug	107.6	-0.2	4.9	2.1	4.2	7.6	0.5	17.6	4.0	3.5	115.4	6.9
Sep	107.5	-	4.5	2.0	3.9	6.9	0.5	14.8	4.1	3.4	110.1	-2.3
Oct	107.9	0.3	3.6	2.4	3.0	4.5	0.5	9.3	4.1	2.9	106.4	-8.2
Nov	107.5	-0.4	2.4	2.0	2.5	3.6	0.6	-0.5	4.0	2.7	110.4	-11.4
Dec	106.9	-0.5	1.4	1.4	1.6	3.0	0.4	-7.2	3.8	2.4	113.7	-9.7
09 *Jan*	105.6	-1.2	0.8	-1.2	1.3	2.5	-0.3	-9.3	3.6	2.0	...	...
Feb	105.6	-	0.7	-1.2	2.2	1.7	-0.7	-8.1	3.3	1.6	...	...
Mar	105.8	0.2	-0.1	-1.1	0.8	1.2	-0.6	-11.6	2.7	1.3	...	...

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)

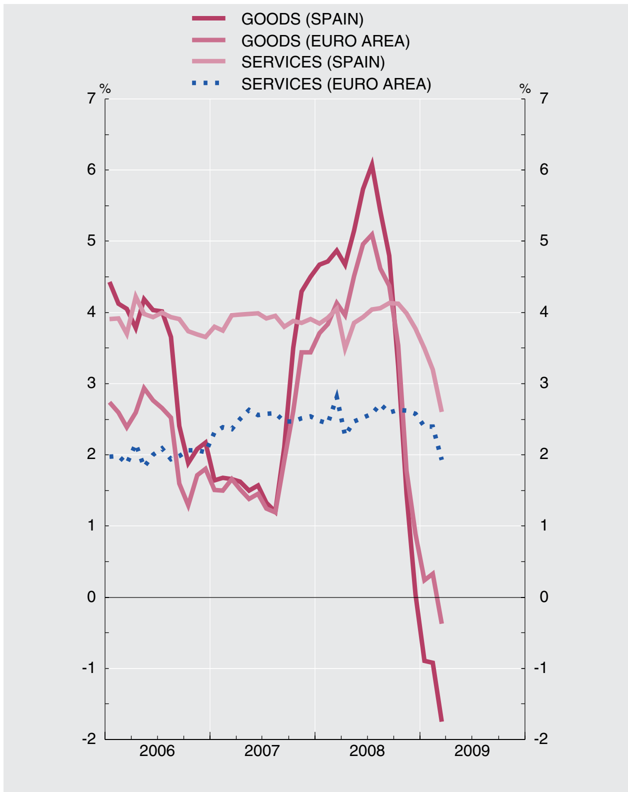
■ Series depicted in chart.

Annual percentage changes

		Total: Spain 1 ■	Total: Euro area 2 ■	Goods: Spain 3 ■	Goods: Euro area 4 ■	Goods: Food: Total: Spain 5	Goods: Food: Total: Euro area 6	Goods: Food: Processed: Spain 7	Goods: Food: Processed: Euro area 8	Goods: Food: Unprocessed: Spain 9	Goods: Food: Unprocessed: Euro area 10	Goods: Industrial: Spain 11	Goods: Industrial: Euro area 12	Goods: Industrial: Non-energy: Spain 13	Goods: Industrial: Non-energy: Euro area 14	Goods: Industrial: Energy: Spain 15	Goods: Industrial: Energy: Euro area 16	Services: Spain 17 ■	Services: Euro area 18 ■
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
08	M	4.1	3.3	4.2	3.8	5.7	5.1	7.4	6.1	3.9	3.5	3.3	3.1	0.4	0.8	11.9	10.3	3.9	2.6
08 *J-M*	M	4.5	3.4	4.7	3.9	6.6	5.2	8.5	6.4	4.6	3.5	3.7	3.2	0.3	0.8	13.6	10.7	3.9	2.6
09 *J-M*	M P	0.5	1.0	-1.2	0.1	1.7	2.4	1.7	2.1	1.7	2.8	-2.7	-1.1	-0.4	0.7	-9.6	-6.1	3.1	2.2
07 *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		5.1	4.0	5.7	5.0	6.8	5.8	9.0	7.0	4.6	4.0	5.0	4.5	0.2	0.8	19.1	16.1	3.9	2.5
Jul		5.3	4.0	6.1	5.1	6.7	6.1	9.2	7.2	4.2	4.4	5.7	4.6	0.4	0.5	21.3	17.1	4.0	2.6
Aug		4.9	3.8	5.4	4.6	6.5	5.6	9.0	6.8	4.0	3.7	4.8	4.2	0.5	0.7	17.5	14.6	4.1	2.7
Sep		4.6	3.6	4.8	4.4	5.9	5.2	7.9	6.2	3.9	3.6	4.2	4.0	0.6	0.9	14.8	13.5	4.1	2.6
Oct		3.6	3.2	3.2	3.5	4.0	4.4	4.7	5.1	3.3	3.4	2.8	3.1	0.5	1.0	9.3	9.6	4.1	2.6
Nov		2.4	2.1	1.5	1.8	3.2	3.7	3.5	4.2	2.9	2.8	0.4	0.8	0.6	0.9	-0.4	0.7	4.0	2.6
Dec		1.5	1.6	-	0.9	2.6	3.3	3.0	3.5	2.1	2.8	-1.5	-0.3	0.4	0.8	-7.1	-3.7	3.8	2.6
09 *Jan*		0.8	1.1	-0.9	0.2	2.1	2.7	2.4	2.7	1.8	2.6	-2.5	-1.0	-0.2	0.5	-9.2	-5.3	3.5	2.4
Feb		0.7	1.2	-0.9	0.3	1.9	2.5	1.6	2.0	2.2	3.3	-2.4	-0.7	-0.5	0.7	-8.0	-4.9	3.2	2.4
Mar	P	-0.1	0.6	-1.7	-0.4	1.0	1.9	1.0	1.6	1.1	2.4	-3.3	-1.5	-0.4	0.8	-11.5	-8.1	2.6	1.9

HARMONISED INDEX OF CONSUMER PRICES. TOTAL
Annual percentage changes

HARMONISED INDEX OF CONSUMER PRICES. COMPONENTS
Annual percentage changes



Source: Eurostat.

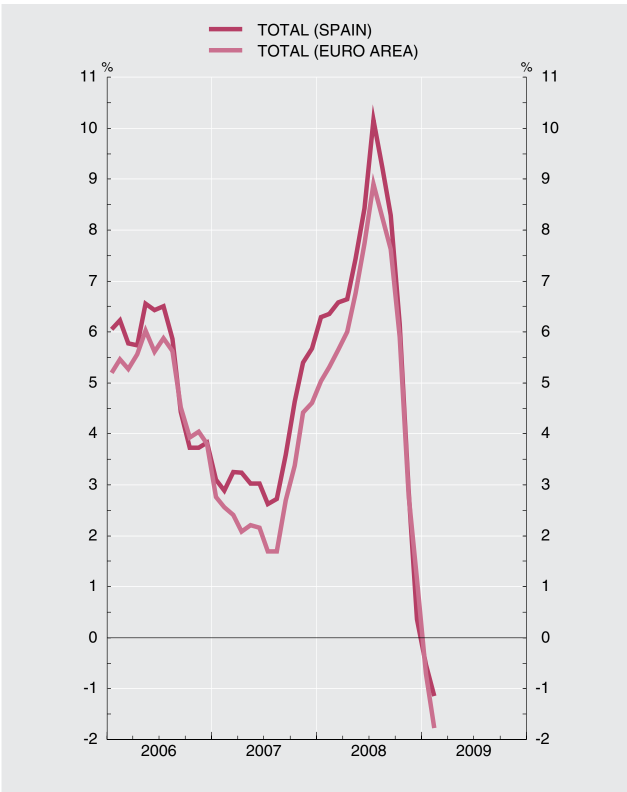
a. Compliance with the Regulation on the treatment of price reductions is now complete with the inclusion of sales prices in the Italian and Spanish HICP. The Spanish HICP has included a new basket of goods and services since January 2001. In accordance with the related regulations,the series for the 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 (2005 = 100)

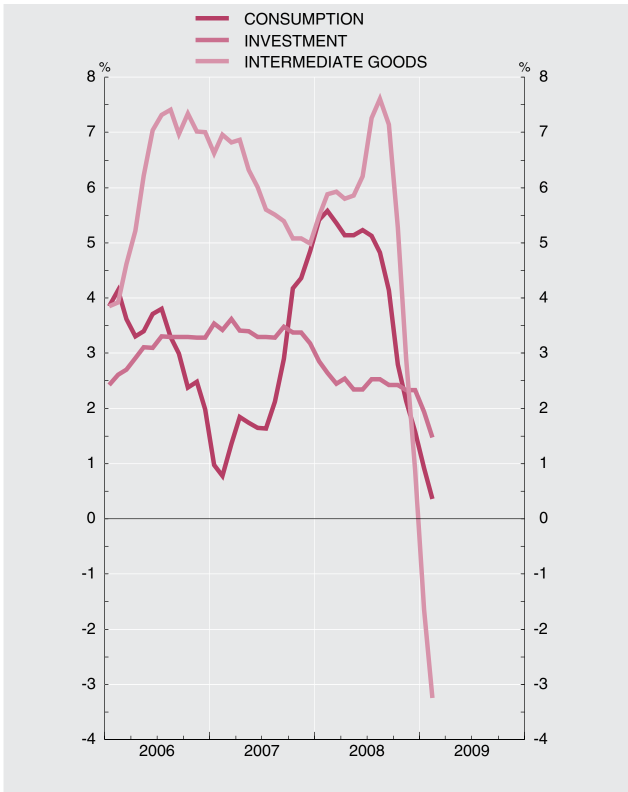
■ Series depicted in chart. *Annual percentage changes*

		Total			Consumer goods		Capital goods		Intermediate goods		Energy		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 12-month % change	Consumer goods 12-month % change	Capital goods 12-month % change	Intermediate goods 12-month % change	Energy 12-month % change
		1	2	3 ■	4	5 ■	6	7 ■	8	9 ■	10	11	12 ■	13	14	15	16
06	M P	105.4	_	5.4	_	3.2	_	3.1	_	6.2	_	9.1	5.1	1.6	1.6	4.6	13.1
07	M P	109.2	_	3.6	_	2.4	_	3.4	_	5.9	_	1.6	2.7	2.2	2.2	4.6	1.3
08	M P	116.3	_	6.5	_	4.4	_	2.5	_	5.5	_	14.3	5.9	4.0	2.1	4.1	13.5
08 *J-F*	M P	113.6	_	6.3	_	5.5	_	2.8	_	5.7	_	11.1	5.2	4.6	1.7	4.0	10.5
09 *J-F*	M P	112.6	_	-0.8	_	0.6	_	1.7	_	-2.5	_	-2.0	-1.2	-0.2	1.8	-2.2	-3.7
07 *Nov*	P	111.3	0.6	5.4	0.2	4.4	0.1	3.4	0.1	5.1	2.5	9.0	4.4	3.9	1.7	3.7	8.0
Dec	P	111.7	0.4	5.7	0.5	4.8	-	3.2	-	5.0	1.0	10.2	4.6	4.2	2.3	3.6	8.3
08 *Jan*	P	113.2	1.3	6.3	0.9	5.4	0.9	2.9	1.4	5.5	1.9	11.1	5.0	4.5	1.7	3.8	10.2
Feb	P	113.9	0.6	6.3	0.6	5.6	0.3	2.6	1.5	5.9	-0.3	11.0	5.3	4.7	1.6	4.2	10.9
Mar	P	114.9	0.9	6.6	0.3	5.4	0.2	2.5	0.7	5.9	2.3	12.4	5.6	5.0	1.6	4.1	12.0
Apr	P	115.6	0.6	6.6	0.3	5.1	0.2	2.5	0.6	5.8	1.6	13.3	6.0	4.9	1.7	3.9	13.5
May	P	117.0	1.2	7.4	0.1	5.1	0.1	2.3	0.6	5.9	4.5	17.4	6.8	4.9	1.9	4.0	16.7
Jun	P	118.3	1.1	8.4	0.2	5.2	0.1	2.3	0.5	6.2	3.6	21.1	7.7	4.9	2.1	4.5	19.6
Jul	P	120.4	1.8	10.2	0.1	5.1	0.3	2.5	1.1	7.3	5.9	27.4	8.9	4.7	2.2	5.6	23.0
Aug	P	119.6	-0.7	9.2	0.1	4.8	0.1	2.5	0.4	7.6	-3.5	23.2	8.2	4.3	2.4	5.6	20.6
Sep	P	118.9	-0.6	8.3	-0.1	4.1	0.1	2.4	-0.2	7.1	-2.2	19.9	7.6	3.7	2.3	5.7	18.4
Oct	P	117.4	-1.3	6.1	-0.4	2.8	0.1	2.4	-1.4	5.3	-2.8	14.9	5.9	2.8	2.7	4.3	13.5
Nov	P	114.5	-2.5	2.9	-0.5	2.1	-	2.3	-2.2	2.9	-6.9	4.3	2.8	1.9	2.6	2.6	4.0
Dec	P	112.1	-2.1	0.4	-0.1	1.6	-	2.3	-2.0	0.9	-6.7	-3.7	1.1	1.3	2.1	1.2	-0.1
09 *Jan*	P	112.6	0.4	-0.5	0.3	0.9	0.5	1.9	-1.1	-1.6	3.5	-2.2	-0.7	0.1	1.9	-1.3	-3.0
Feb	P	112.6	-	-1.1	0.1	0.4	-0.2	1.5	-0.2	-3.2	0.1	-1.9	-1.8	-0.5	1.7	-3.1	-4.4

PRODUCER PRICE INDEX. TOTAL
Annual percentage changes



PRODUCER PRICE INDEX. COMPONENTS
Annual percentage changes



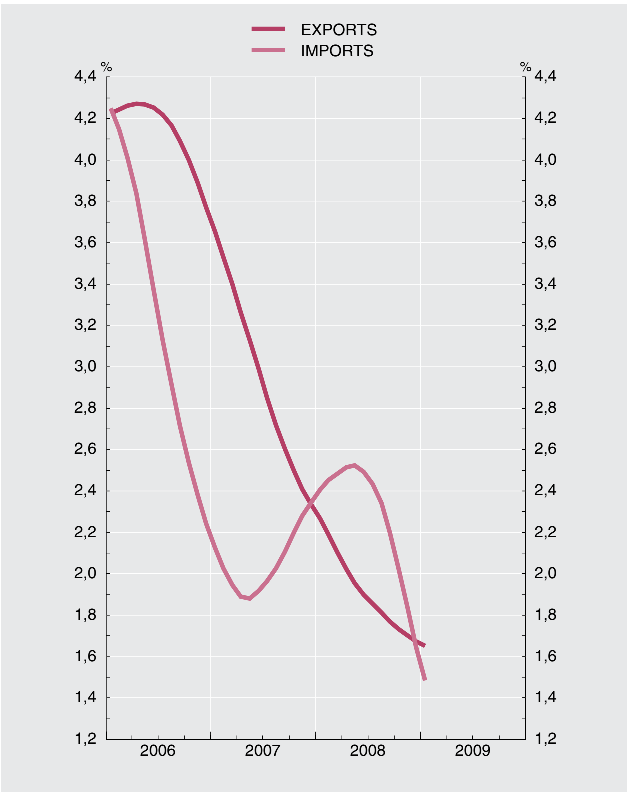
5.4. UNIT VALUE INDICES FOR SPANISH FOREIGN TRADE

■ Series depicted in chart.

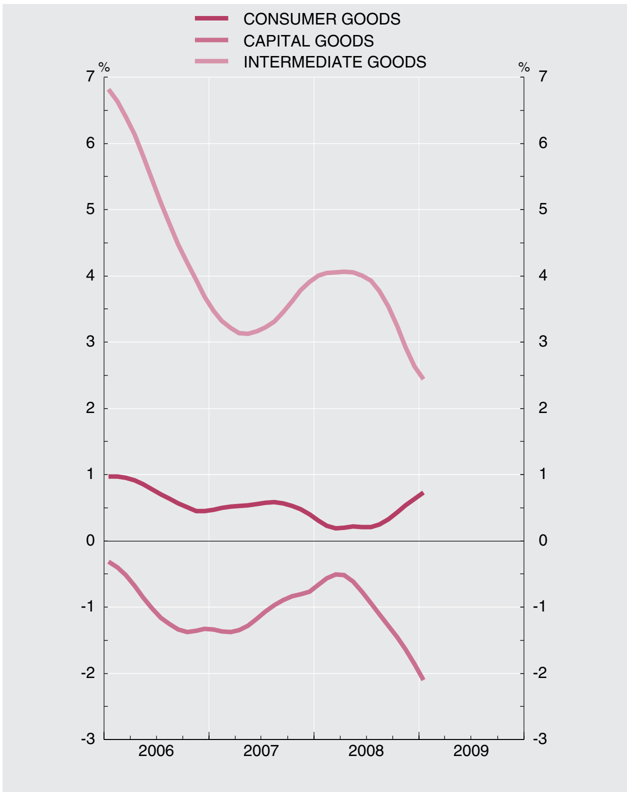
Annual percentage changes

	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
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
08	1,9	0,7	1,7	2,7	30,9	0,1	3,8	0,1	1,9	5,7	21,3	-0,7
08 *J-J*	3,8	7,0	2,5	1,7	21,3	0,2	5,4	-0,4	3,4	8,0	25,5	0,1
09 *J-J*	-2,8	-0,5	-6,9	-4,0	-7,0	-4,1	-7,4	2,9	-7,7	-11,9	-27,4	-4,9
07 *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
May	0,5	-1,4	3,4	1,3	43,8	-1,6	6,4	4,0	3,5	7,8	38,5	-0,3
Jun	0,9	-2,4	3,8	2,5	42,1	-1,4	3,1	-0,5	-0,8	4,9	31,3	-4,8
Jul	2,4	-0,1	2,3	4,2	46,6	-0,3	4,9	-3,8	-3,6	9,8	29,9	0,1
Aug	2,7	1,9	2,4	3,4	18,4	1,0	7,6	-2,5	2,2	13,1	32,0	3,3
Sep	1,1	-1,0	3,9	2,3	23,7	-0,9	4,5	-4,2	-3,3	9,7	24,9	3,0
Oct	0,1	1,1	-16,4	2,6	21,7	0,5	3,6	2,3	-0,1	4,8	14,5	0,2
Nov	3,2	1,7	9,2	3,3	20,3	1,0	0,6	2,3	0,6	-0,0	-3,2	-1,5
Dec	1,2	-3,1	7,2	2,9	11,6	1,7	1,9	12,8	4,0	-2,9	-15,6	0,9
09 *Jan*	-2,8	-0,5	-6,9	-4,0	-7,0	-4,1	-7,4	2,9	-7,7	-11,9	-27,4	-4,9

EXPORT AND IMPORT UNIT VALUE INDICES (a)



IMPORT UNIT VALUE INDICES BY PRODUCT GROUP (a)



Sources: ME and BE.
Note: The underlying series for this indicator are in the Tables 18.6 and 18.7 of the Boletín Estadístico.
a. Annual percentage changes (trend obtained with TRAMO-SEATS).

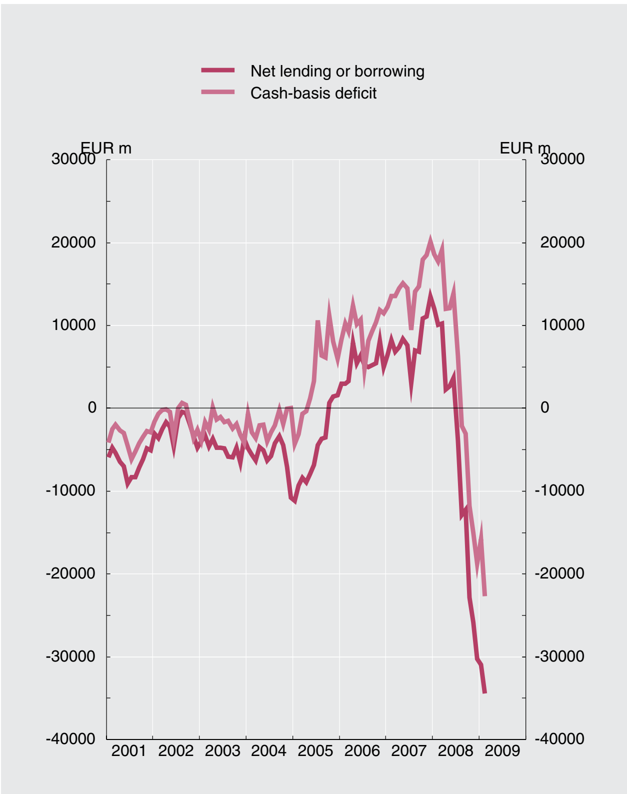
6.1. STATE RESOURCES ANS USES ACCORDING TO THE NACIONAL ACCOUNTS. SPAIN

■ Series depicted in chart.

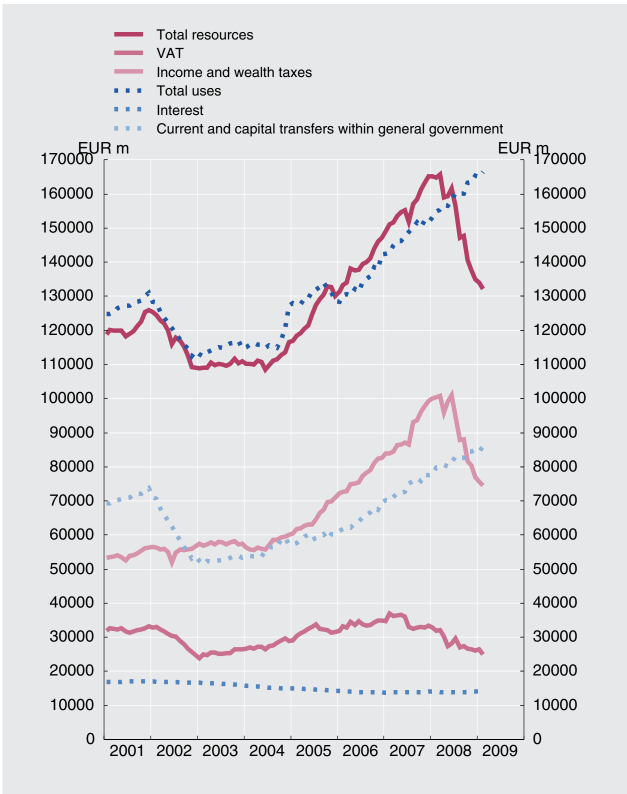
EUR millions

			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	5 005	147 220	34 929	11 331	5 328	82 528	13 104	142 215	16 839	13 820	69 588	5 808	36 160	11 471	141 847	130 375
07	P	13 525	165 179	33 332	12 938	6 857	99 257	12 795	151 654	18 109	14 002	77 436	5 338	36 769	20 135	159 840	139 704
08	A	-30 248	135 060	26 065	12 715	6 824	76 955	12 501	165 308	19 356	14 134	85 076	5 868	40 874	-18 747	129 336	148 082
08 *J-F*	A	9 474	31 338	13 706	2 138	544	14 413	537	21 864	2 634	2 260	12 165	99	4 706	3 831	31 635	27 803
09 *J-F*	A	5 313	28 349	12 663	2 012	643	12 064	967	23 036	2 749	2 535	13 073	186	4 493	-70	28 656	28 726
08 *Jun*	A	-7 316	6 606	816	990	297	2 832	1 671	13 922	2 495	1 134	6 926	54	3 313	-5 250	5 701	10 951
Jul	A	-5 358	11 008	3 014	1 382	323	5 781	508	16 366	1 425	1 193	10 458	612	2 678	-8 488	11 139	19 628
Aug	A	-4 667	5 873	-6 329	1 098	413	10 126	565	10 540	1 385	1 190	5 506	255	2 204	-4 484	4 824	9 308
Sep	A	1 068	12 892	3 662	1 168	604	6 240	1 218	11 824	1 426	1 176	6 228	158	2 836	2 027	11 978	9 950
Oct	A	4 995	20 009	5 997	1 045	251	12 024	692	15 014	1 447	1 263	8 270	757	3 277	6 191	19 074	12 883
Nov	A	-5 483	8 163	1 052	1 088	290	4 885	848	13 646	1 425	1 200	7 477	212	3 332	-4 220	7 510	11 730
Dec	A	-16 234	10 158	290	915	2 045	4 034	2 874	26 392	2 732	1 303	9 588	2 302	10 467	-7 708	9 186	16 894
09 *Jan*	A	722	10 009	-585	1 164	383	9 303	-256	9 287	1 377	1 335	4 865	75	1 635	-2 358	10 377	12 735
Feb	A	4 591	18 340	13 248	848	260	2 761	1 223	13 749	1 372	1 200	8 208	111	2 858	2 288	18 279	15 991

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



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



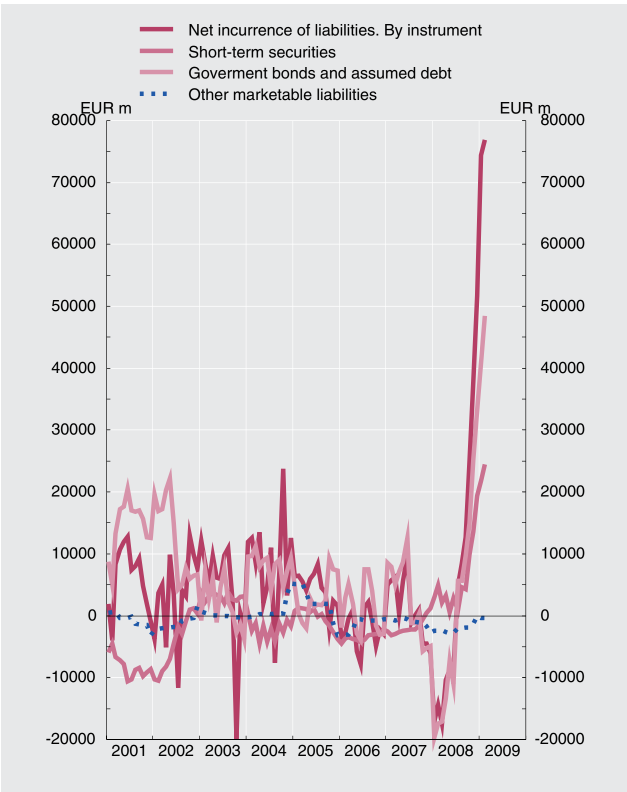
Source: Ministerio de Economía y Hacienda (IGAE).

6.2. STATE FINANCIAL TRANSACTIONS. SPAIN

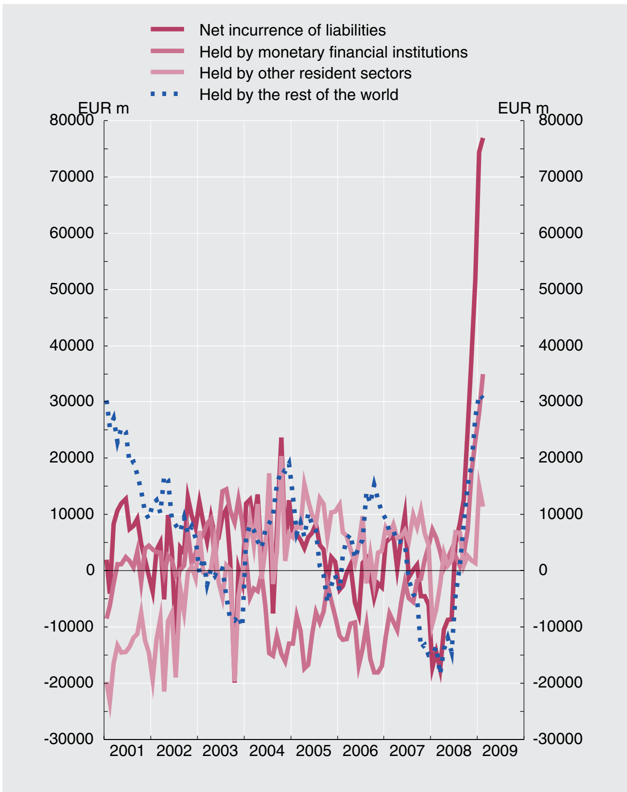
■ Series depicted in chart. *EUR millions*

		Net lending (+) or net borrowing(-)	Net acquisition of financial assets: Total	Net acquisition of financial assets: Of which: Deposits at the Banco de España	Net incurrence of liabilities: Total	Of which: In currencies other than the peseta/euro	By instrument: Short-term securities	By instrument: Goverment bonds and assumed debt	By instrument: Banco de España loans	By instrument: Other marketable liabilities (a)	By instrument: Other accounts payable	By counterpart sector: Held by resident sectors: Total	Held by resident sectors: Monetary financial institutions	Held by resident sectors: Other resident sectors	Rest of the world	Net incurrence of liabilities (excluding other accounts payable)
		1	2	3	4 ■	5	6 ■	7 ■	8	9 ■	10	11	12 ■	13 ■	14 ■	15
99		-7 303	4 217	4 574	11 520	209	-6 629	19 592	-499	-446	-498	-10 505	-7 605	-2 900	22 026	12 018
00		-6 330	4 542	5 690	10 872	1 162	-8 683	17 127	-499	283	2 644	-22 051	-10 117	-11 934	32 924	8 228
01		-5 076	-5 942	-20 141	-866	803	-8 616	12 521	-499	-3 101	-1 171	-10 072	4 424	-14 496	9 206	305
02		-4 780	2 826	-95	7 606	-888	346	6 655	-486	1 488	-396	1 816	3 148	-1 331	5 790	8 002
03		-3 692	-5 832	0	-2 140	-135	3 146	-3 761	-486	-281	-758	7 835	8 524	-689	-9 975	-1 381
04		-10 762	1 804	-0	12 566	-1 600	-1 688	9 416	-486	5 204	120	-6 409	-12 978	6 569	18 975	12 446
05		1 590	3 241	0	1 651	-1 910	-3 771	7 276	-486	-3 180	1 812	2 409	-8 026	10 435	-758	-161
06	P	5 005	2 076	-200	-2 929	175	-2 198	-2 976	-486	-536	3 266	-13 286	-16 867	3 582	10 357	-6 195
07	P	13 525	7 525	65	-6 000	-120	1 206	-4 916	-519	-2 701	929	9 026	4 393	4 633	-15 026	-6 930
08	A	-30 248	21 433	4 337	51 681	2 243	19 355	33 275	-520	-48	-381	24 480	23 105	1 375	27 201	52 062
08 *J-F*	A	9 474	1 726	34	-7 748	15	2 273	-9 209	-	297	-1 109	-9 877	1 162	-11 040	2 129	-6 640
09 *J-F*	A	5 313	22 757	5 498	17 444	3	7 398	5 957	-	-37	4 125	11 940	12 957	-1 018	5 504	13 318
08 *Jun*	A	-7 316	-2 489	98	4 827	7	-426	2 792	-	38	2 423	5 705	3 472	2 233	-878	2 404
Jul	A	-5 358	-926	-0	4 432	275	126	1 562	-	21	2 722	1 692	-4 451	6 142	2 740	1 710
Aug	A	-4 667	-5 404	-100	-737	3	2 061	1 022	-	19	-3 840	-3 077	-1 939	-1 138	2 340	3 102
Sep	A	1 068	11 063	82	9 995	-2	2 330	8 060	-	-18	-378	593	5 459	-4 866	9 402	10 373
Oct	A	4 995	4 108	14 815	-887	-260	4 371	-7 440	-	-1	2 183	283	856	-573	-1 170	-3 069
Nov	A	-5 483	12 225	2 008	17 708	-156	6 513	13 052	-	-1	-1 856	13 073	14 087	-1 013	4 635	19 564
Dec	A	-16 234	-609	-12 503	15 625	2	4 714	10 602	-	257	52	9 730	7 833	1 897	5 895	15 573
09 *Jan*	A	722	14 431	3 998	13 709	3	5 821	-7 170	-	-24	15 082	9 494	5 253	4 241	4 215	-1 373
Feb	A	4 591	8 325	1 500	3 734	-0	1 577	13 127	-	-13	-10 956	2 445	7 704	-5 259	1 289	14 691

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).

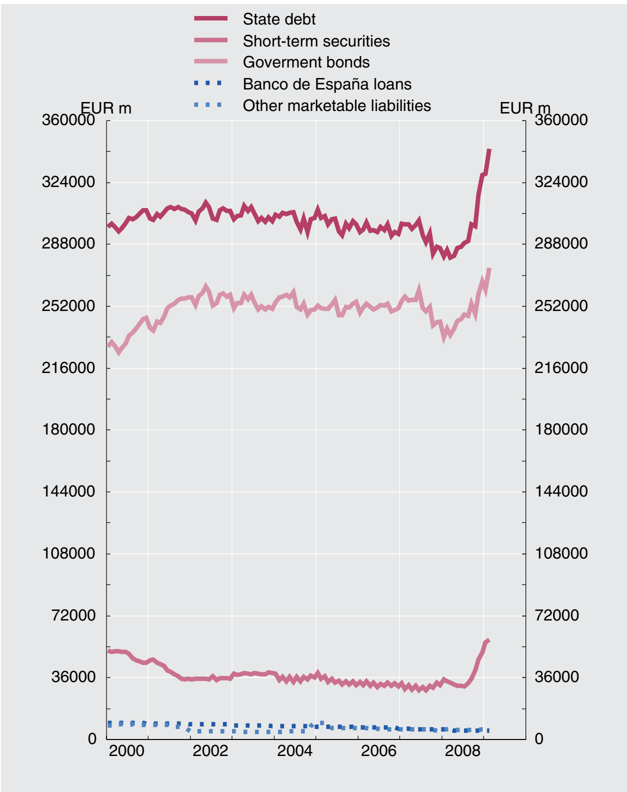
6.3. STATE: LIABILITIES OUTSTANDING. SPAIN

■ Series depicted in chart.

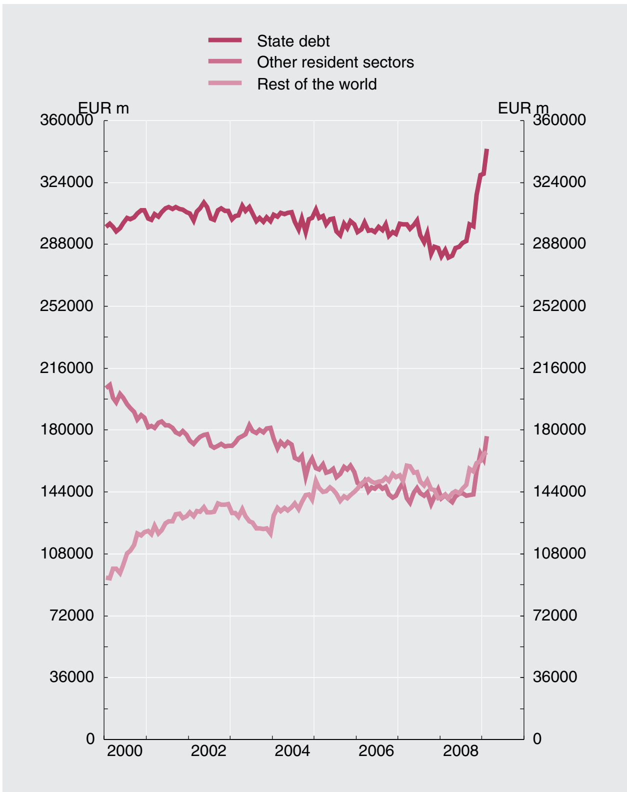
EUR millions

		Liabilities outstanding (excluding other accounts payable)										Memorandum item:	
		State debt according to the metodolofy of the excessive deficit procedure	of which: In currencies other than the peseta/euro	By instrument: Short-term securities	By instrument: Government bonds and assumed debt	By instrument: Banco de España loans	By instrument: Other marketable liabilities (a)	By counterpart sector: Held by resident sectors: Total	By counterpart sector: Held by resident sectors: General government	By counterpart sector: Held by resident sectors: Other resident sectors	By counterpart sector: Rest of the world	Deposits at the Banco de España	Guarantees given (contingent liabilities). Outstanding level
		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	P	285 688	355	31 644	243 246	5 832	4 965	170 996	25 551	145 445	140 243	165	6 162
08 *Jun*	A	286 435	76	31 123	244 522	5 249	5 541	172 265	29 243	143 022	143 413	200	5 918
Jul	A	288 953	76	30 928	247 215	5 249	5 562	175 609	32 395	143 214	145 739	200	6 332
Aug	A	290 047	75	32 910	246 308	5 249	5 581	175 411	33 457	141 954	148 093	99	6 613
Sep	A	299 654	76	35 516	253 327	5 249	5 563	175 541	33 342	142 199	157 455	182	7 614
Oct	A	298 500	76	40 024	247 665	5 249	5 562	174 335	31 915	142 420	156 080	14 997	7 790
Nov	A	316 677	72	46 663	259 204	5 249	5 561	187 931	31 971	155 959	160 718	17 005	8 416
Dec	A	328 242	63	50 790	266 385	5 249	5 818	200 921	34 458	166 463	161 779	4 502	8 152
09 *Jan*	A	329 187	67	56 556	261 588	5 249	5 794	198 748	35 558	163 190	165 997	8 500	8 051
Feb	A	343 647	67	58 211	274 413	5 249	5 774	211 585	35 226	176 359	167 288	10 000	15 106

STATE. LIABILITIES OUTSTANDING
By instrument



STATE. LIABILITIES OUTSTANDING
By counterpart sector



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

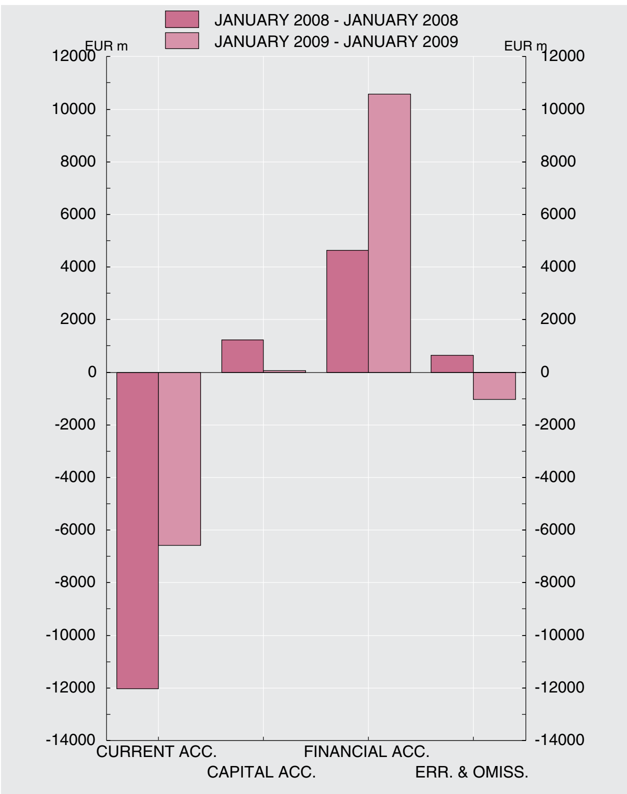
7.1. SPANISH BALANCE OF PAYMENTS VIS-à-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. CURRENT ACCOUNT

■ Series depicted in chart.

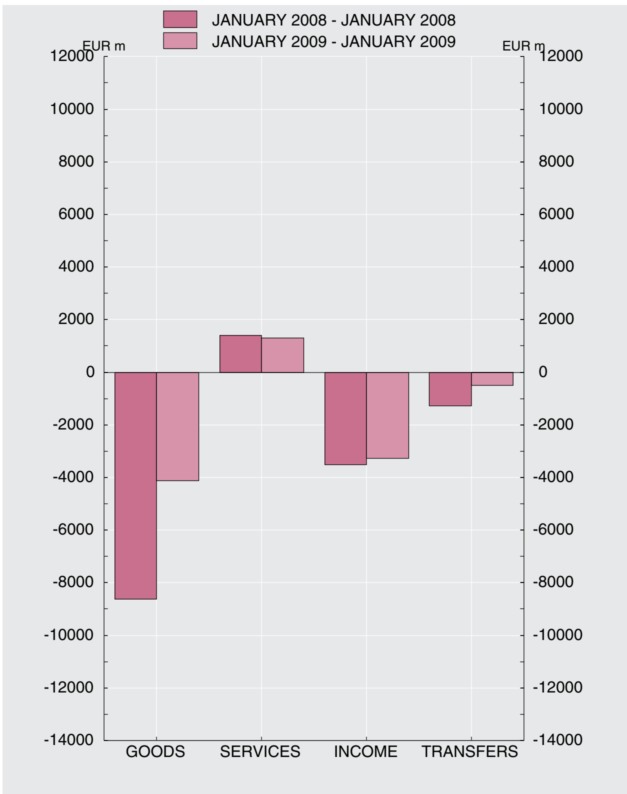
EUR millions

		Current account (a)													Capital account	Current account plus capital account	Financial account	Errors and omission
			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) ■
06		-88 313	-83 246	175 808	259 054	22 235	84 761	40 715	62 525	13 266	-20 799	47 701	68 500	-6 503	6 194	-82 118	85 624	-3 506
07		-105 378	-91 246	192 613	283 859	23 076	93 234	42 061	70 158	14 360	-30 142	56 827	86 969	-7 067	4 578	-100 800	101 066	-265
08	P	-104 454	-87 654	193 899	281 553	26 504	97 547	41 901	71 043	13 834	-34 054	60 928	94 982	-9 249	5 556	-98 899	94 910	3 989
08 *J-J*	P	-12 031	-8 616	15 374	23 991	1 395	7 309	2 756	5 914	1 112	-3 524	4 964	8 487	-1 286	1 238	-10 793	10 139	654
09 *J-J*	P	-6 584	-4 116	11 444	15 560	1 299	6 241	2 389	4 942	939	-3 259	4 249	7 508	-508	53	-6 532	7 557	-1 025
07 *Oct*		-9 077	-8 612	17 867	26 478	2 438	8 825	4 010	6 387	1 350	-1 736	5 320	7 056	-1 167	849	-8 228	8 881	-653
Nov		-10 447	-7 698	17 488	25 186	1 139	7 117	2 794	5 978	1 230	-2 984	4 007	6 991	-904	293	-10 154	10 179	-25
Dec		-8 758	-9 108	13 800	22 908	809	7 143	2 402	6 334	1 076	-2 923	6 523	9 446	2 465	1 160	-7 598	3 892	3 706
08 *Jan*	P	-12 031	-8 616	15 374	23 991	1 395	7 309	2 756	5 914	1 112	-3 524	4 964	8 487	-1 286	1 238	-10 793	10 139	654
Feb	P	-8 964	-7 557	17 148	24 705	1 102	6 811	2 441	5 710	1 200	-818	5 371	6 189	-1 690	626	-8 338	9 865	-1 527
Mar	P	-11 314	-8 974	16 374	25 347	1 307	6 774	2 975	5 467	1 031	-2 241	4 878	7 118	-1 407	370	-10 944	8 684	2 260
Apr	P	-9 143	-7 433	18 528	25 961	1 315	7 181	2 613	5 866	1 025	-2 069	4 768	6 837	-955	264	-8 879	8 355	524
May	P	-9 201	-7 428	17 130	24 558	2 577	7 745	3 533	5 169	820	-3 617	5 669	9 286	-733	976	-8 225	9 148	-922
Jun	P	-7 918	-8 101	15 929	24 030	3 024	9 115	4 115	6 090	1 299	-2 604	5 466	8 070	-237	250	-7 669	9 130	-1 462
Jul	P	-7 752	-7 419	17 689	25 108	3 942	10 562	5 143	6 619	1 320	-3 784	6 549	10 333	-492	318	-7 434	7 523	-89
Aug	P	-7 118	-7 214	12 464	19 679	3 986	9 691	5 398	5 706	1 454	-3 107	3 245	6 352	-782	414	-6 703	7 267	-564
Sep	P	-8 083	-6 719	17 825	24 543	2 585	9 027	4 461	6 443	1 313	-3 061	4 241	7 302	-888	379	-7 704	7 353	351
Oct	P	-7 718	-6 091	17 194	23 285	2 496	8 942	3 852	6 446	1 298	-3 052	5 327	8 379	-1 072	212	-7 506	7 166	341
Nov	P	-8 620	-5 522	14 738	20 260	1 779	7 083	2 512	5 305	1 038	-3 703	4 169	7 872	-1 174	251	-8 369	7 947	422
Dec	P	-6 593	-6 580	13 506	20 086	996	7 306	2 102	6 310	924	-2 475	6 281	8 756	1 466	259	-6 334	2 333	4 000
09 *Jan*	P	-6 584	-4 116	11 444	15 560	1 299	6 241	2 389	4 942	939	-3 259	4 249	7 508	-508	53	-6 532	7 557	-1 025

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).

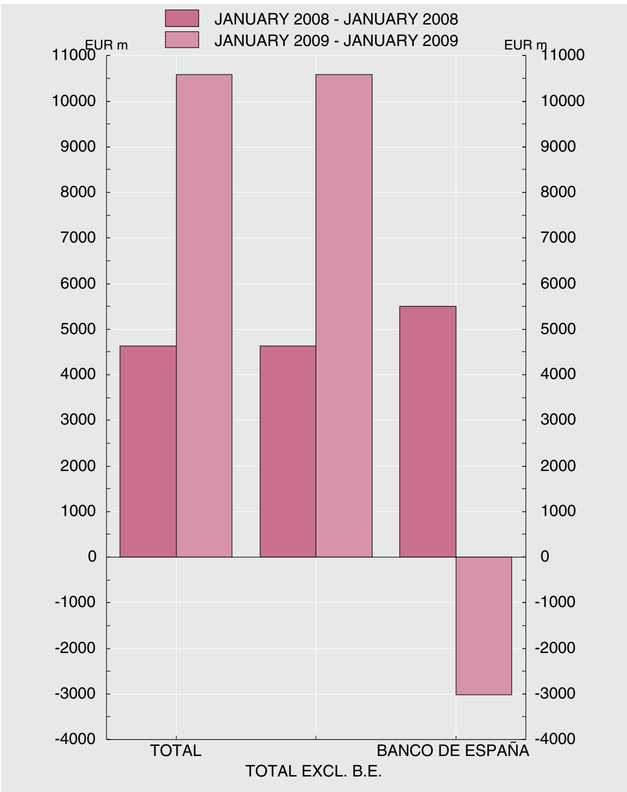
7.2. SPANISH BALANCE OF PAYMENTS VIS-à-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. FINANCIAL ACCOUNT (a)

■ Series depicted in chart.

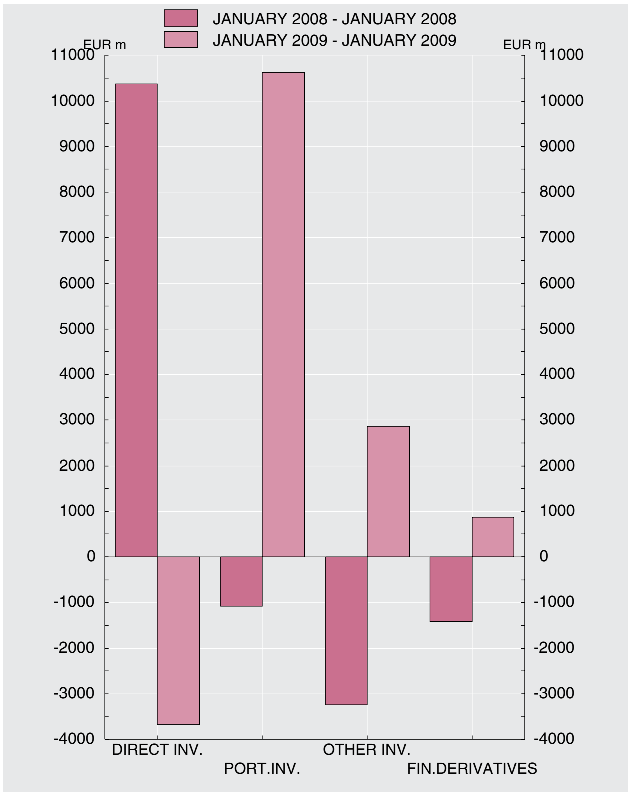
EUR millions

		Financial account (NCL-NCA) 1=2+13 ■	Total, excluding Banco de España: Total (NCL-NCA) 2=3+6+9+12 ■	Direct investment: Balance (NCL-NCA) 3=5-4 ■	Direct investment: Spanish investment abroad (NCA) 4	Direct investment: Foreign investment in Spain (NCL) (b) 5	Portfolio investment: Balance (NCL-NCA) 6=8-7 ■	Portfolio investment: Spanish investment abroad (NCA) 7	Portfolio investment: Foreign investment in Spain (NCL) (c) 8	Other investment (d): Balance (NCL-NCA) 9=11-10 ■	Other investment (d): Spanish investment abroad (NCA) 10	Other investment (d): Foreign investment in Spain (NCL) 11	Net financial derivatives (NCL-NCA) 12 ■	Banco de España: Balance (NCL-NCA) 13=14+15+16 ■	Banco de España: Reserves (e) 14	Banco de España: Net claims with the Eurosystem (e) 15	Banco de España: Other net assets (NCL-NCA) 16
06		85 624	111 425	-58 547	83 100	24 554	199 615	-3 928	195 687	-31 647	66 093	34 446	2 003	-25 800	-480	-12 327	-12 993
07		101 066	86 743	-50 902	101 191	50 289	104 779	-8 601	96 178	37 025	57 196	94 221	-4 159	14 322	-164	28 329	-13 843
08	P	94 910	64 773	-8 040	52 783	44 742	4 268	-21 841	-17 573	76 229	15 007	91 236	-7 683	30 137	-645	31 713	-931
08 *J-J*	P	10 139	4 637	10 369	4 909	15 279	-1 075	-12 995	-14 070	-3 241	34 207	30 966	-1 416	5 502	123	5 483	-104
09 *J-J*	P	7 557	10 578	-3 673	4 012	340	10 629	-7 187	3 442	2 858	7 593	10 450	764	-3 021	-16	-2 439	-566
07 *Oct*		8 881	7 432	-3 470	27 347	23 878	-15 221	-4 804	-20 025	29 165	-2 492	26 672	-3 042	1 448	-111	3 692	-2 132
Nov		10 179	2 983	-1 510	4 221	2 711	5 339	-4 846	493	-3 105	20 675	17 569	2 259	7 195	35	7 757	-596
Dec		3 892	1 429	-4 908	14 536	9 628	-2 875	-1 675	-4 549	11 650	-23 898	-12 248	-2 439	2 464	-71	2 268	266
08 *Jan*	P	10 139	4 637	10 369	4 909	15 279	-1 075	-12 995	-14 070	-3 241	34 207	30 966	-1 416	5 502	123	5 483	-104
Feb	P	9 865	9 664	-1 024	3 583	2 559	-11 800	9 899	-1 902	24 100	12 326	36 426	-1 611	201	-36	61	177
Mar	P	8 684	15 700	-4 322	3 507	-815	-16 628	3 346	-13 283	36 736	-40 348	-3 612	-86	-7 016	22	-7 297	259
Apr	P	8 355	-7 698	-95	3 140	3 044	1 329	-2 789	-1 460	-7 175	16 631	9 456	-1 757	16 053	47	15 869	137
May	P	9 148	11 635	-2 900	4 320	1 420	17 178	-2 114	15 064	1 258	9 897	11 155	-3 901	-2 487	61	-3 443	894
Jun	P	9 130	10 419	5 772	6 140	11 913	9 456	-2 081	7 375	-3 912	14 538	10 626	-898	-1 289	87	-2 056	681
Jul	P	7 523	-327	-648	4 146	3 498	8 547	-745	7 802	-6 245	1 828	-4 417	-1 980	7 850	-184	8 024	10
Aug	P	7 267	1 785	-3 966	3 406	-561	8 855	-107	8 748	-3 724	9 980	6 256	620	5 482	-146	5 621	7
Sep	P	7 353	9 465	-1 494	5 004	3 511	4 132	-4 325	-193	6 660	-11 901	-5 240	167	-2 112	-100	-1 569	-444
Oct	P	7 166	15 223	-4 454	6 714	2 260	-10 876	-10 177	-21 053	30 570	-12 187	18 383	-17	-8 057	-28	-5 640	-2 389
Nov	P	7 947	303	-1 927	3 490	1 562	-2 817	-430	-3 247	1 656	-6 242	-4 586	3 392	7 643	-318	8 131	-171
Dec	P	2 333	-6 033	-3 352	4 424	1 072	-2 031	678	-1 354	-455	-13 723	-14 178	-195	8 366	-172	8 528	10
09 *Jan*	P	7 557	10 578	-3 673	4 012	340	10 629	-7 187	3 442	2 858	7 593	10 450	764	-3 021	-16	-2 439	-566

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.

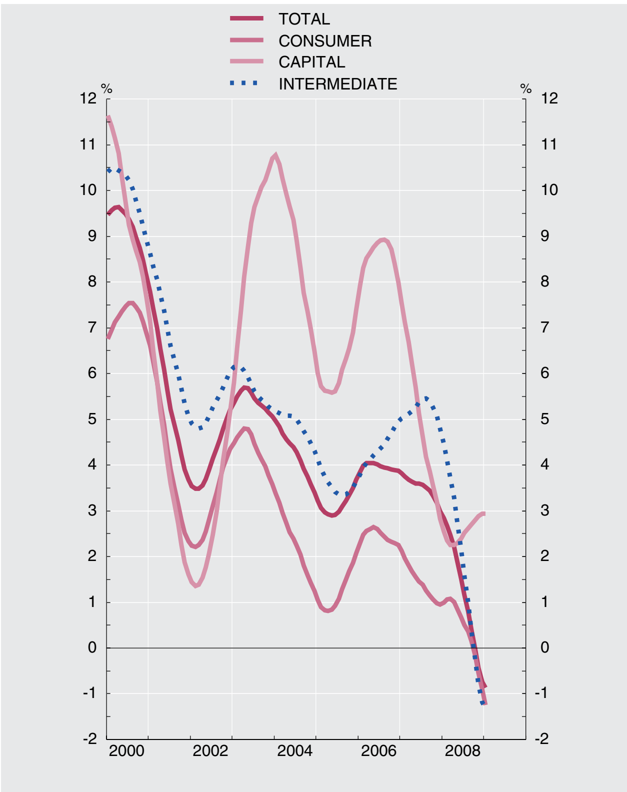
7.3. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD EXPORT AND DISPATCHES

■ Series depicted in chart.

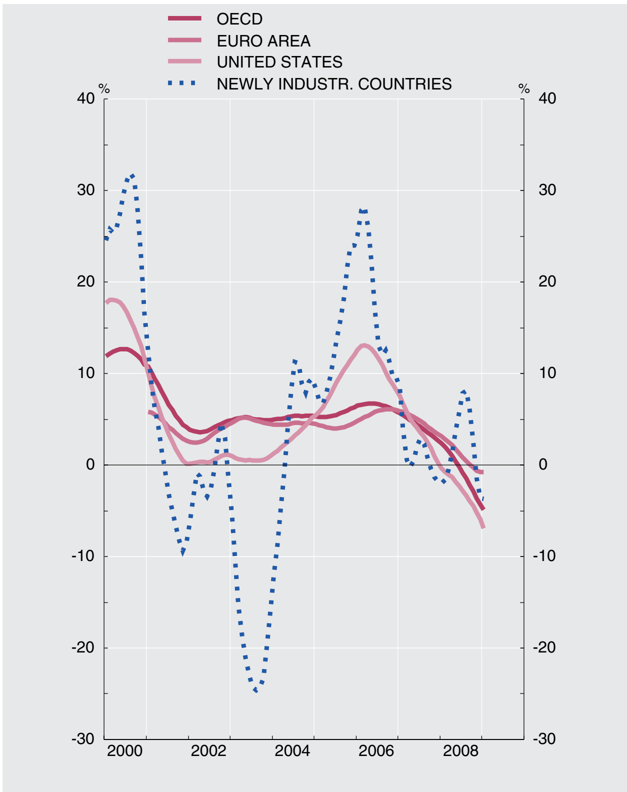
Eur millions and annual percentage changes

		Total: EUR millions	Total: Nominal	Total: Deflated (a)	By product (deflated data) (a): Consumer	By product: Capital	By product: Intermediate: Total	Intermediate: Energy	Intermediate: Non-energy	By geographical area (nominal data): EU 27: Total	EU 27: Euro Area	OECD: Total	OECD: of which: United States	OPEC	Other American countries	China	Newly industrialised countries
		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	-4.9	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	5.0	5.9	2.0	11.0	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	2.3	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	7.8	8.4	17.7	4.2	34.5	12.8	16.5
07		185 023	8.6	5.9	3.3	5.2	7.8	8.6	7.7	8.0	8.4	7.0	-1.1	22.4	-12.5	23.5	-0.8
08	P	188 184	3.9	1.8	4.0	-2.7	1.1	22.3	0.5	1.9	1.4	1.8	3.0	31.3	-2.1	8.0	2.7
07 *Dec*	P	14 196	-2.4	-2.8	-11.6	-16.8	7.2	-15.8	8.7	4.6	2.5	1.1	-29.1	-7.3	-49.7	-10.0	7.1
08 *Jan*	P	14 928	6.9	3.0	-2.6	7.3	6.5	30.3	5.6	5.6	5.2	5.7	-7.4	8.5	-13.5	58.3	-17.5
Feb	P	16 621	11.9	7.3	9.7	-9.9	8.7	1.7	9.1	14.0	11.3	12.5	-5.7	26.2	-31.9	20.8	11.6
Mar	P	15 882	-2.6	-3.2	-1.8	-10.3	-3.1	44.6	-4.8	-2.2	-4.0	-4.6	-15.5	8.7	-3.7	1.7	-18.5
Apr	P	17 964	24.8	22.7	21.2	4.5	27.2	49.5	26.3	21.2	19.8	23.8	33.7	30.8	-16.6	45.2	8.8
May	P	16 621	3.8	3.2	4.9	1.3	2.4	18.8	1.8	2.3	2.3	1.0	12.0	50.5	-15.4	-1.5	4.2
Jun	P	15 464	-4.0	-4.8	-7.6	-12.2	-1.8	38.8	-3.3	-4.0	-2.9	-6.2	-25.4	11.9	-32.5	20.8	0.6
Jul	P	17 189	12.2	9.5	6.0	19.7	10.2	48.0	8.5	3.5	3.1	5.1	16.6	74.3	37.3	16.2	23.9
Aug	P	12 122	-0.0	-2.7	-6.1	-4.9	-0.7	4.8	-1.1	-3.3	-6.7	-2.3	-1.8	24.8	7.1	-0.4	18.8
Sep	P	17 290	16.0	14.8	29.4	-1.1	8.0	38.5	6.6	18.7	17.6	16.1	0.1	42.9	39.8	-10.5	18.8
Oct	P	16 672	-0.2	-0.3	-1.3	10.5	-1.5	9.7	-2.0	-2.8	-3.0	-2.4	-4.3	53.0	-8.7	-24.8	6.2
Nov	P	14 289	-13.8	-16.5	-5.3	-30.9	-21.1	-7.0	-21.8	-15.5	-14.2	-14.2	13.9	-15.0	-10.6	-28.5	-14.1
Dec	P	13 142	-7.4	-8.6	3.9	-0.3	-17.8	-10.1	-18.2	-13.1	-10.7	-11.6	19.1	56.4	20.8	-0.2	-9.8
09 *Jan*	P	11 092	-25.7	-23.6	-16.4	-31.5	-27.3	-16.5	-27.8	-25.5	-22.6	-25.7	-21.1	-2.3	-30.2	-46.1	-19.9

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.

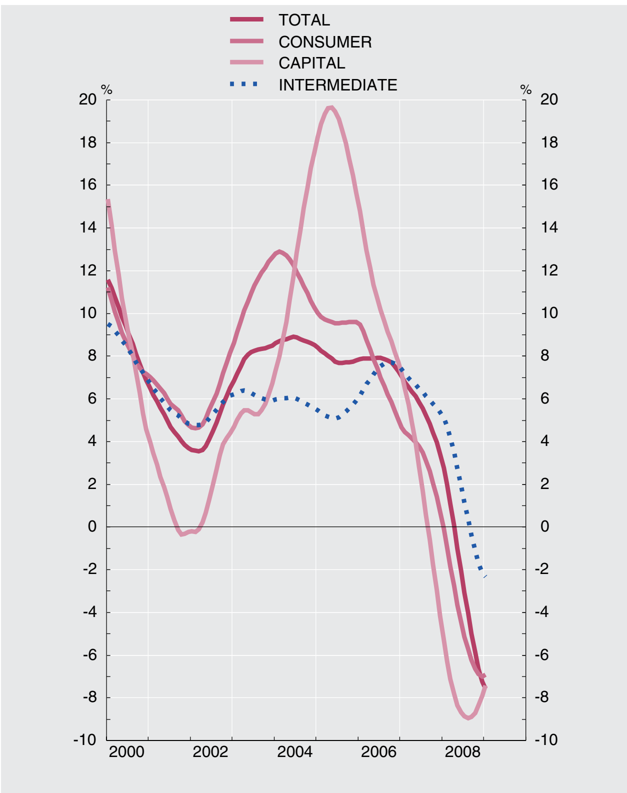
7.4. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD IMPORTS AND ARRIVALS

■ Series depicted in chart.

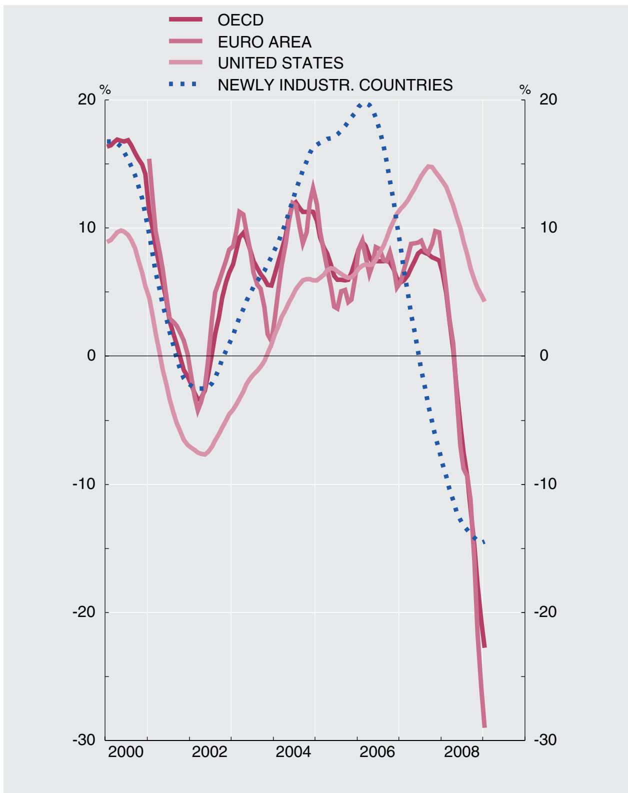
Eur millions and annual percentage changes

	Total: EUR millions	Total: Nominal	Total: Deflated (a)	By product (deflated data) (a): Consumer	Capital	Intermediate: Total	Intermediate: Energy	Intermediate: Non-energy	By geographical area (nominal data): EU 27: Total	EU 27: Euro Area	OECD: Total	OECD of which: United States	OPEC	Other American countries	China	Newly industrialised countries
	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	-0.5	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	13.4	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	39.2	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	8.0	8.5	14.7	24.9	24.1	22.7	28.6
07	285 038	8.5	7.4	6.8	7.5	7.5	4.1	8.3	10.5	11.0	9.8	16.4	-4.8	-6.8	28.7	-3.7
07 *Dec* P	24 030	14.8	17.3	16.3	24.9	16.5	32.0	13.0	18.5	19.7	15.1	-2.3	13.2	-4.3	4.8	-1.6
08 *Jan* P	24 080	11.5	5.8	-2.6	-18.3	14.1	33.7	9.6	1.7	0.8	6.4	32.5	50.5	7.7	24.3	-8.8
Feb P	24 695	13.5	10.6	8.8	-4.1	13.6	1.5	16.5	13.3	13.9	12.9	36.2	14.9	-14.5	23.7	-9.9
Mar P	25 484	5.7	4.8	-8.8	-23.4	16.7	57.2	8.2	-5.5	-6.5	-5.5	29.7	42.1	0.7	-2.8	-26.1
Apr P	26 012	17.9	13.0	3.2	-6.6	20.5	29.3	18.6	11.3	11.0	10.0	13.5	40.9	42.0	34.7	6.9
May P	24 585	2.7	-3.5	-6.5	-22.4	0.9	-4.0	2.0	-3.0	-1.6	-3.5	12.3	52.9	29.5	6.7	-24.6
Jun P	24 126	-1.2	-4.2	-16.2	-19.5	3.7	17.0	1.0	-13.2	-14.3	-11.1	24.2	56.9	24.6	13.5	-24.3
Jul P	25 201	5.1	0.1	-4.0	-7.8	3.0	22.2	-1.2	-5.4	-7.4	-5.6	22.5	35.5	31.6	15.8	-17.9
Aug P	19 719	-1.1	-8.1	-12.6	-28.1	-3.4	5.0	-5.8	-10.4	-10.9	-10.2	-1.4	47.2	3.2	-0.7	-7.9
Sep P	24 723	6.0	1.5	3.1	-14.0	3.1	18.3	-0.0	0.4	-1.4	-1.7	2.5	40.9	5.8	17.8	-11.1
Oct P	23 317	-10.4	-13.5	-19.6	-20.9	-9.3	-1.0	-11.2	-15.1	-15.6	-15.1	-18.3	30.1	-20.3	-7.6	-10.6
Nov P	20 237	-19.9	-20.4	-17.9	-39.1	-17.9	0.4	-21.6	-22.8	-23.7	-22.3	-12.0	13.3	-9.4	-26.3	-21.3
Dec P	20 072	-16.5	-18.0	-14.0	-25.7	-18.4	-4.3	-22.1	-24.1	-27.4	-19.2	24.4	-4.3	-4.0	9.3	-29.4
09 *Jan* P	15 591	-35.3	-30.1	-16.4	-32.3	-34.8	-32.9	-35.3	-32.5	-31.1	-33.8	-28.9	-50.0	-31.6	-28.0	-34.8

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



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



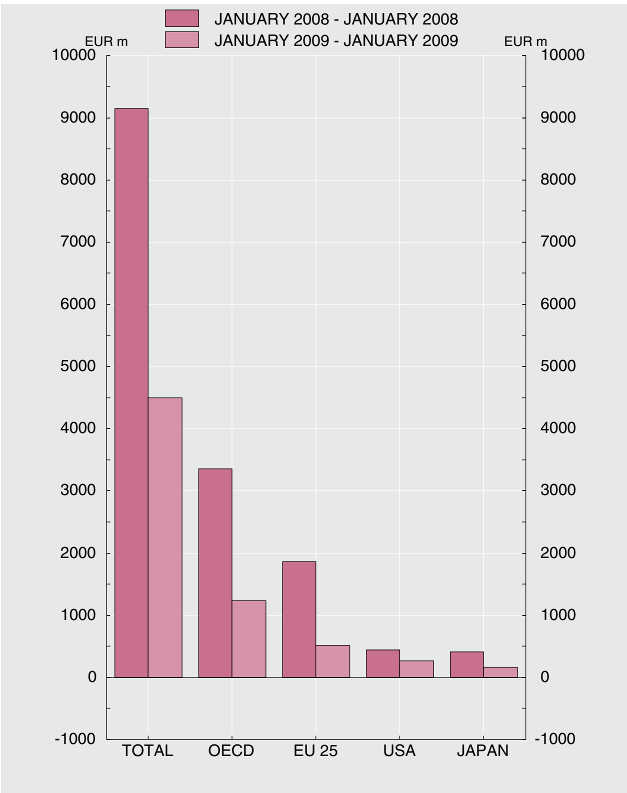
Sources: ME y BE.
Note: The underlying series for this indicator are in Tables 18.2 and 18.3 of the Boletín estadístico.
The monthly series are provisional data, while the annual series are the final foreign trade data.
a. Series deflated by unit value indices .

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

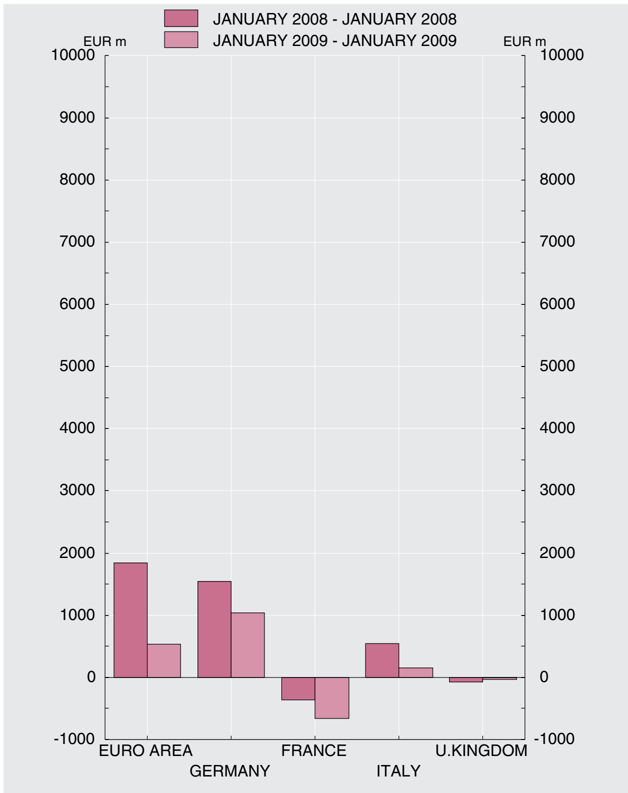
EUR millions

		World total	European Union (EU 27)								OECD			OPEC	Other American coun-tries	China	Newly indus-trialised countries
			Total	Euro area				Other EU 27									
				Total	Of which:			Total	Of which:		Total	Of which:					
					Germany	France	Italy		United Kingdom			United States	Japan				
		1	2=3+7	3	4	5	6	7	8		9	10	11	12	13	14	15
03		-46 995	-19 057	-19 120	-13 731	-3 239	-3 517	63	1 035		-27 616	-1 170	-3 855	-8 146	-1 467	-5 629	-2 600
04		-61 486	-25 991	-25 267	-16 282	-3 353	-5 671	-724	472		-36 990	-1 692	-4 583	-9 321	-1 784	-7 369	-3 104
05		-77 950	-30 703	-29 422	-16 749	-3 112	-6 938	-1 281	-210		-41 592	-1 092	-4 769	-14 136	-3 089	-10 182	-3 411
06		-92 249	-33 547	-32 172	-18 689	-1 625	-7 184	-1 375	294		-45 357	-1 062	-4 652	-18 576	-3 316	-12 647	-4 564
07		-100 015	-40 176	-38 176	-23 752	-214	-8 375	-2 000	133		-53 745	-2 555	-4 779	-16 423	-3 477	-16 366	-4 347
08	P	-94 067	-25 314	-25 188	-20 054	3 865	-6 350	-125	418		-38 121	-3 479	-3 626	-22 158	-5 061	-17 903	-3 321
07 *Dec*	P	-9 835	-4 800	-4 557	-2 212	-720	-878	-244	-66		-5 665	-190	-317	-1 701	-335	-1 163	-386
08 *Jan*	P	-9 152	-1 863	-1 845	-1 546	367	-542	-18	73		-3 358	-438	-406	-2 216	-509	-1 711	-339
Feb	P	-8 074	-2 587	-2 894	-2 110	46	-608	306	335		-3 824	-376	-361	-1 393	-273	-1 513	-279
Mar	P	-9 602	-2 251	-2 345	-1 716	174	-574	93	220		-3 579	-468	-437	-1 905	-447	-1 156	-251
Apr	P	-8 048	-2 673	-2 657	-2 022	335	-650	-16	130		-3 427	-279	-378	-1 656	-387	-1 396	-302
May	P	-7 963	-2 153	-2 315	-2 116	553	-490	163	160		-3 458	-304	-365	-1 973	-516	-1 405	-257
Jun	P	-8 662	-2 064	-2 052	-1 726	366	-417	-12	-40		-3 386	-310	-378	-2 558	-523	-1 467	-373
Jul	P	-8 012	-2 061	-2 044	-1 736	477	-769	-17	-5		-2 895	-266	-179	-1 769	-488	-1 783	-234
Aug	P	-7 597	-2 121	-2 093	-1 091	-199	-472	-28	-6		-2 933	-195	-150	-2 174	-379	-1 578	-196
Sep	P	-7 433	-1 262	-1 349	-1 489	604	-446	86	93		-2 222	-262	-250	-1 972	-590	-1 861	-279
Oct	P	-6 645	-1 780	-1 800	-1 622	492	-408	20	9		-2 633	-185	-242	-1 910	-336	-1 454	-278
Nov	P	-5 948	-1 939	-1 780	-1 372	441	-541	-159	-145		-2 682	-126	-200	-1 285	-406	-1 291	-293
Dec	P	-6 930	-2 559	-2 015	-1 508	210	-434	-544	-404		-3 724	-269	-282	-1 347	-208	-1 288	-241
09 *Jan*	P	-4 498	-511	-531	-1 034	662	-154	20	33		-1 235	-265	-166	-917	-343	-1 265	-199

CUMULATIVE TRADE DEFICIT



CUMULATIVE TRADE DEFICIT



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

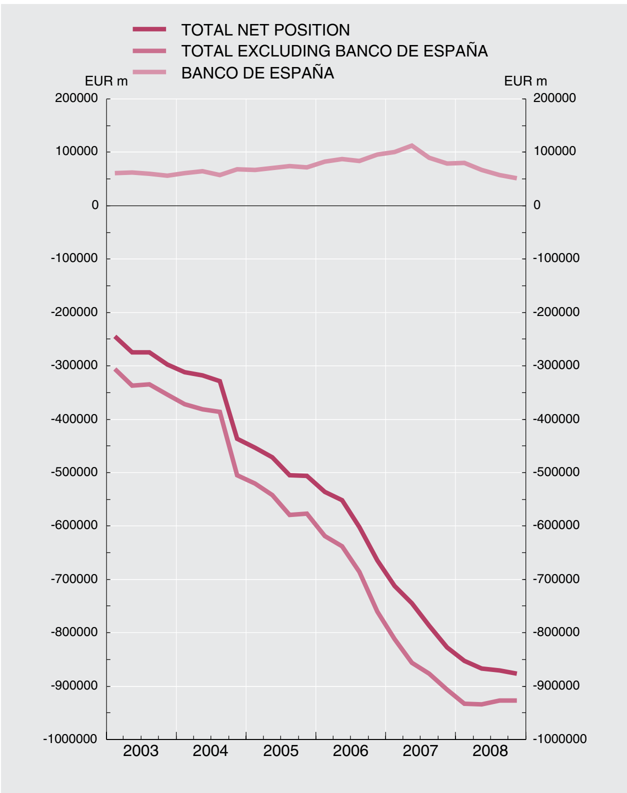
7.6. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-à-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD SUMMARY

■ Series depicted in chart.

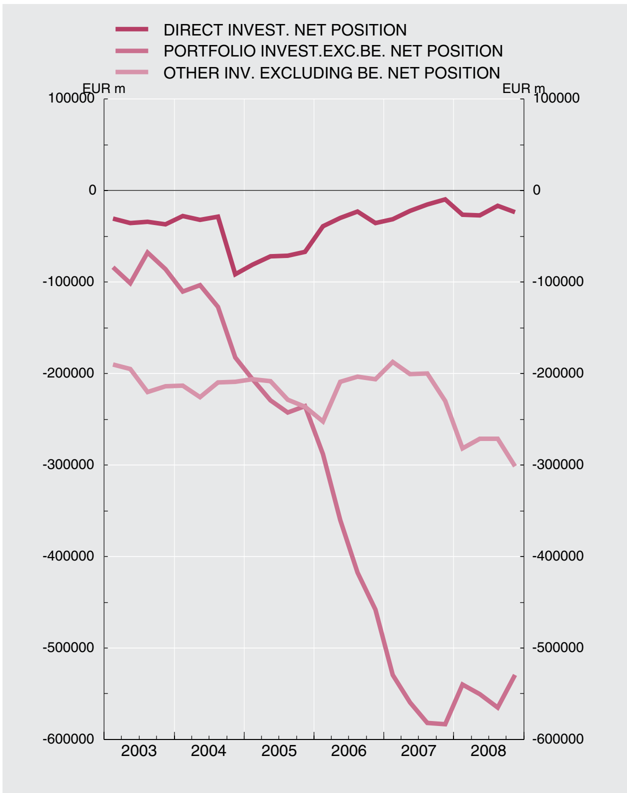
End-of-period stocks in EUR billions

	Net international investment position (assets-liabil.)	Total excluding Banco de España											Banco de España			
		Net position excluding Banco de España (assets - liabil.)	Direct investment			Portfolio investment			Other investment			Financial derivatives Net position (assets-liabil.)	Banco de España Net position (assets-liabil.)	Reserves	Net assets vis-à-vis the Euro-system	Other net assets (assets-liabil.)
			Net position (assets-liabil.)	Spanish invest-ment abroad (assets)	Foreign invest-ment in Spain (liabil.)	Net position (assets-liabil.)	Spanish invest-ment abroad (assets)	Foreign invest-ment in Spain (liabil.)	Net position (assets-liabil.)	Spanish invest-ment abroad (assets)	Foreign invest-ment in Spain (liabil.)					
	1=2+13 ■	2=3+6+9+12 ■	3=4-5 ■	4	5	6=7-8 ■	7	8	9=10-11 ■	10	11		13=14to16 ■	14	14	15
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	-436.4	-504.5	-91.9	207.2	299.1	-203.2	359.3	562.5	-209.4	222.2	431.6	...	68.1	14.5	31.9	21.7
05 *Q4*	-505.5	-577.2	-67.1	258.9	326.0	-273.6	454.7	728.4	-236.5	268.2	504.7	...	71.7	14.6	17.1	40.1
06 *Q1*	-535.9	-618.3	-38.9	287.0	325.9	-327.1	476.7	803.8	-252.4	284.8	537.2	-	82.4	15.4	26.8	40.3
Q2	-551.2	-638.5	-30.3	302.2	332.5	-399.2	444.3	843.5	-209.0	299.4	508.5	-	87.3	14.6	32.2	40.5
Q3	-602.4	-685.8	-23.4	319.6	343.0	-459.1	447.7	906.8	-203.3	313.1	516.4	-	83.4	15.0	25.4	43.0
Q4	-664.6	-760.3	-35.7	314.1	349.7	-508.9	455.7	964.6	-206.1	324.8	530.9	-9.6	95.7	14.7	29.4	51.6
07 *Q1*	-712.0	-812.4	-31.2	319.6	350.8	-582.4	461.0	1 043.3	-187.5	358.4	545.9	-11.3	100.4	14.0	31.9	54.5
Q2	-744.1	-856.3	-22.5	350.7	373.2	-617.2	471.0	1 088.2	-200.6	361.8	562.4	-15.9	112.1	12.9	40.7	58.5
Q3	-787.0	-876.6	-15.2	360.2	375.4	-643.4	455.2	1 098.6	-200.1	383.5	583.6	-17.9	89.6	12.5	14.8	62.4
Q4	-827.7	-906.6	-9.9	401.2	411.1	-647.6	443.3	1 090.8	-230.3	378.6	608.9	-18.8	78.9	12.9	1.1	64.9
08 *Q1*	-852.5	-933.1	-26.3	401.6	427.9	-604.1	418.9	1 023.0	-281.9	379.7	661.6	-20.7	80.6	13.0	2.8	64.8
Q2	-867.4	-934.6	-27.0	417.1	444.2	-612.5	403.0	1 015.5	-271.6	416.3	687.9	-23.4	67.2	12.7	-7.5	62.0
Q3	-870.3	-927.3	-16.8	435.2	452.0	-627.6	387.7	1 015.4	-271.2	421.5	692.7	-11.7	57.0	13.8	-19.6	62.8
Q4	-876.1	-927.0	-23.7	432.5	456.1	-595.3	364.3	959.6	-301.6	384.5	686.1	-6.4	50.9	14.5	-30.6	66.9

INTERNATIONAL INVESTMENT POSITION



COMPONENTS OF THE POSITION



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

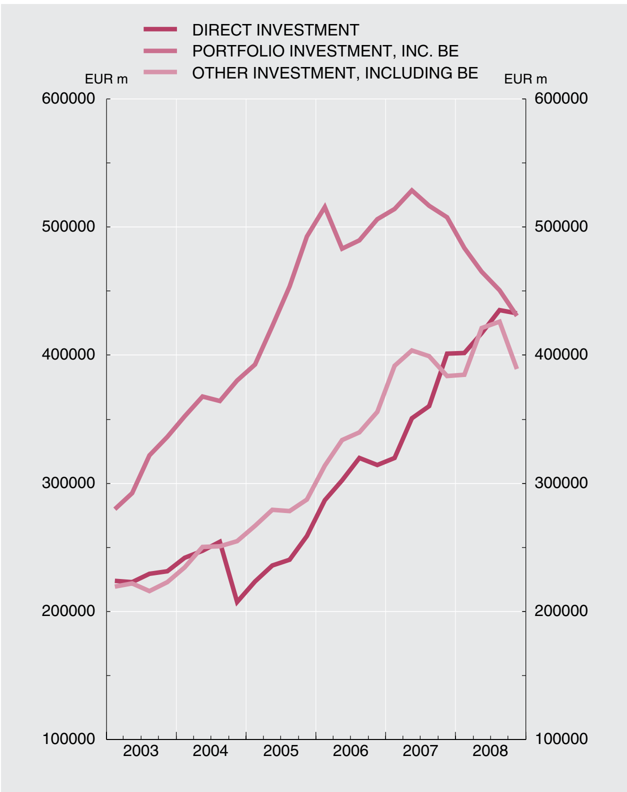
7.7. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-à-VIS OTHER EURO AREA RESIDENTES AND THE REST OF THE WORLD BREAKDOWN BY INVESTMENT

■ Series depicted in chart.

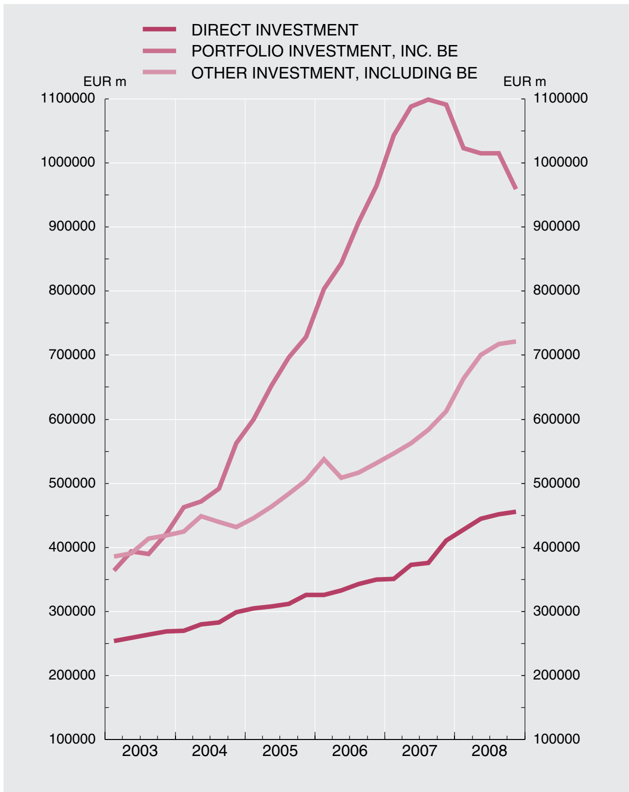
End-of-period stocks in EUR millions

	Direct investment				Portfolio investment, including Banco de España				Other investment, including Banco de España		Financial derivatives including BE	
	Spanish investment abroad		Foreign investment in Spain		Spanish investment abroad		Foreign investment in Spain		Spanish investment abroad	Foreign investment in Spain	Spanish investment abroad	Foreign investment in Spain
	Shares and other equities	Intercompany debt transactions	Shares and other equities	Intercompany debt transactions	Shares and mutual funds	Debt securities	Shares and mutual funds	Debt securities				
	1	2	3	4	5	6	7	8	9 ■	10 ■	11	12
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	189 622	17 627	231 649	67 501	78 053	302 067	183 211	379 279	254 992	431 651	-	-
05 *Q4*	236 769	22 133	250 641	75 322	104 157	388 472	197 347	531 035	287 551	504 831	-	-
06 *Q1*	267 995	18 982	252 144	73 727	119 452	395 944	214 645	589 149	313 779	537 733	-	-
Q2	279 692	22 503	259 325	73 149	122 047	361 127	206 547	636 951	333 633	508 820	-	-
Q3	298 024	21 606	263 985	79 015	126 170	363 383	232 494	674 271	339 954	516 710	-	-
Q4	290 841	23 210	270 481	79 240	133 193	373 001	245 683	718 897	355 591	531 203	32 973	42 569
07 *Q1*	298 434	21 166	272 215	78 614	140 704	373 512	256 533	786 784	391 805	546 227	33 197	44 487
Q2	335 026	15 681	287 726	85 488	153 730	374 852	269 506	818 657	403 851	562 822	39 921	55 856
Q3	338 735	21 453	292 596	82 779	142 095	374 617	273 560	825 065	399 382	583 861	44 181	62 069
Q4	374 492	26 694	319 672	91 400	134 762	372 789	286 207	804 620	383 853	612 479	44 642	63 487
08 *Q1*	374 349	27 243	340 553	87 379	104 137	379 311	240 114	782 899	384 627	663 476	53 297	74 001
Q2	388 794	28 349	354 110	90 077	99 162	365 889	221 001	794 520	421 052	700 183	58 579	82 016
Q3	404 427	30 743	355 071	96 941	84 106	366 347	204 374	810 980	426 240	716 930	70 066	81 757
Q4	400 903	31 553	356 214	99 910	64 833	365 631	174 265	785 306	389 295	721 366	108 226	114 023

SPANISH INVESTMENT ABROAD



FOREIGN INVESTMENT IN SPAIN



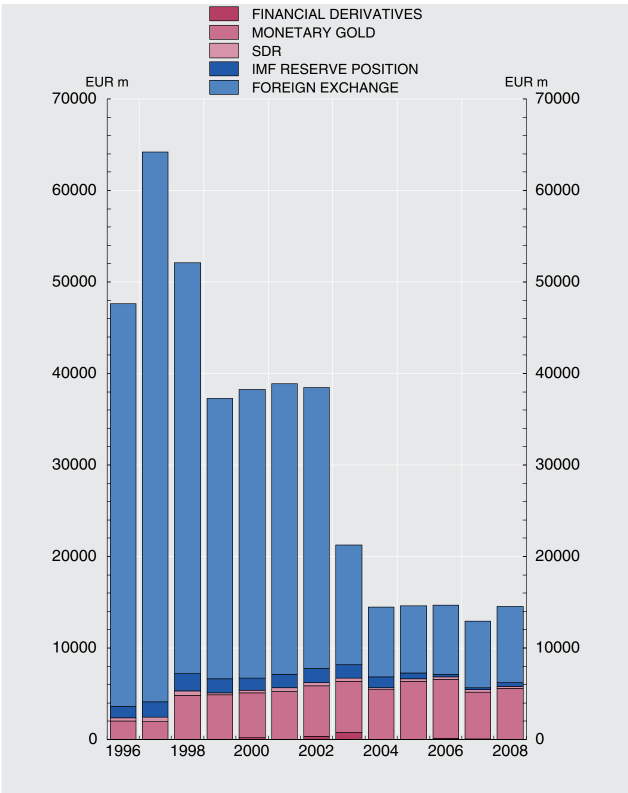
Source: BE.
Note: See footnote to Indicator 7.6

7.8. SPANISH RESERVE ASSETS

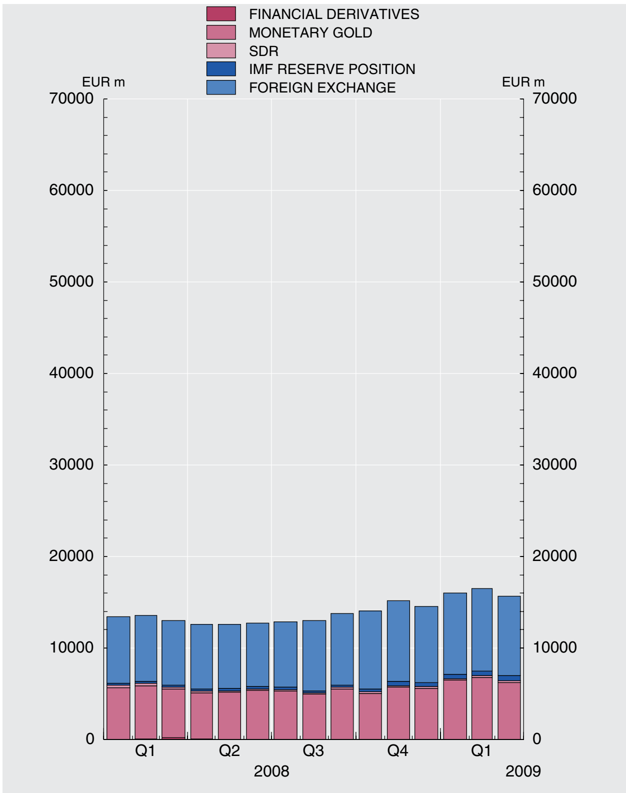
■ Series depicted in chart. *End-of-period stocks in EUR millions*

	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
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	12 946	7 285	218	252	5 145	46	9.1
07 *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
Jul	12 887	7 169	234	172	5 314	-1	9.1
Aug	12 987	7 638	233	155	5 128	-168	9.1
Sep	13 806	7 857	238	159	5 678	-126	9.1
Oct	14 037	8 546	256	170	5 201	-135	9.1
Nov	15 150	8 796	449	168	5 797	-60	9.1
Dec	14 546	8 292	467	160	5 627	-	9.1
09 *Jan*	16 033	8 889	492	173	6 479	-	9.1
Feb	16 519	9 040	490	173	6 816	-	9.1
Mar	15 663	8 691	556	167	6 249	-	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. SPANISH EXTERNAL DEBT VIS-À-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. SUMMARY

End-of-period positions *EUR millions*

	Total	General government						Other monetary financial institutions				
		Total	Short-term		Long-term			Total	Short-term		Long-term	
			Money market instru-ments	Loans	Bonds and notes	Loans	Trade credits		Money market instru-ments	Deposits	Bonds and notes	Deposits
	1	2	3	4	5	6	7	8	9	10	11	12
04 *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*	1 238 524	214 081	4 628	14	191 300	18 137	-	589 544	1 003	295 793	193 633	99 115
Q2	1 258 482	213 347	3 620	348	191 381	17 998	-	580 931	2 186	268 495	208 797	101 453
Q3	1 308 122	214 181	6 070	1 472	188 569	18 070	-	602 379	5 274	267 227	225 647	104 232
Q4	1 370 268	215 585	4 836	665	191 871	18 213	-	622 836	6 252	277 193	236 038	103 352
07 *Q1*	1 461 175	219 414	4 901	40	195 781	18 692	-	658 096	11 331	295 528	252 211	99 027
Q2	1 522 320	215 159	5 446	444	190 503	18 767	-	684 742	11 316	294 402	269 682	109 341
Q3	1 541 887	207 167	4 820	1 326	182 455	18 566	-	707 016	15 079	308 889	273 907	109 140
Q4	1 561 412	197 858	4 505	875	173 414	19 064	-	723 951	20 039	327 391	262 222	114 300
08 *Q1*	1 590 024	194 361	6 329	553	167 692	19 786	-	768 529	20 424	380 522	256 302	111 281
Q2	1 643 660	196 520	5 594	157	170 922	19 848	-	794 086	22 729	399 932	258 374	113 051
Q3	1 681 871	212 775	9 722	489	182 155	20 410	-	792 491	21 269	400 051	258 393	112 778
Q4	1 662 458	227 246	12 330	2 086	191 643	21 188	-	766 196	11 966	400 648	249 410	104 172

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

End-of-period positions *EUR millions*

	Monetary authority		Other residents sectors								Direct investment		
	Total	Short-term	Total	Short-term			Long-term				Total	Vis-à-vis	
		Deposits		Money market instru-ments	Loans	Other liabilities	Bonds and notes	Loans	Trade credits	Other liabilities		Direct investors	Subsidia-ries
	13	14	15	16	17	18	19	20	21	22	23	24	25
04 *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	322 722	2 905	19 500	408	195 679	102 731	360	1 139	111 642	46 426	65 216
Q2	328	328	351 165	4 283	18 432	330	226 684	100 123	352	961	112 712	47 702	65 010
Q3	316	316	374 105	4 641	22 224	830	244 071	101 073	348	918	117 140	51 141	65 999
Q4	281	281	411 399	4 786	22 967	694	275 114	106 946	338	555	120 168	49 588	70 581
07 *Q1*	322	322	455 179	5 303	21 638	541	317 258	109 172	334	932	128 164	49 961	78 203
Q2	423	423	481 155	5 418	27 016	1 058	336 291	110 018	331	1 022	140 841	50 395	90 446
Q3	277	277	494 467	2 153	21 840	846	346 652	121 643	339	994	132 960	52 076	80 884
Q4	3 550	3 550	491 740	201	20 006	285	344 239	125 986	331	692	144 312	54 961	89 351
08 *Q1*	1 855	1 855	481 630	927	19 514	409	331 224	127 939	320	1 296	143 650	56 095	87 555
Q2	12 326	12 326	491 771	6 397	20 823	1 263	330 504	131 347	317	1 120	148 957	61 182	87 775
Q3	24 276	24 276	498 367	18 093	22 926	1 067	321 348	133 786	323	824	153 961	62 257	91 705
Q4	35 233	35 233	477 997	12 711	19 638	2 303	307 246	134 954	322	824	155 786	64 482	91 304

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 institu-tions
		Main refinan-cing opera-tions	Longer-term refinan-cing opera-tions	Fine-tuning reverse opera-tions (net)	Structu-ral re-verse opera-tions (net)	Marginal lending facility	Deposit facility	Total	Bank-notes	Deposits to general govern-ment	Gold and net as-sets 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 *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
Jul	458 121	166 956	292 400	-634	-	56	657	250 649	683 700	63 596	374 744	121 903	207 473
Aug	462 440	163 524	300 014	-1 000	-	90	188	247 021	686 797	58 194	376 096	121 875	215 420
Sep	471 362	166 660	305 321	6 584	-	2 284	9 487	241 752	682 161	55 504	392 028	103 885	229 611
Oct	534 868	272 768	444 976	-34 226	-	15 549	164 198	308 820	713 519	80 454	524 301	-39 148	226 049
Nov	579 941	329 562	457 732	-3 978	-	4 612	207 988	365 023	727 623	95 385	572 539	-114 554	214 918
Dec	613 857	256 810	565 508	-5 976	-	2 644	205 129	379 866	749 344	110 732	587 525	-107 316	233 990
09 *Jan*	580 046	224 907	598 376	-8 568	-638	2 646	236 676	365 644	746 945	98 051	571 542	-92 189	214 402
Feb	592 161	212 759	498 364	-6 449	-	2 227	114 740	370 902	739 970	96 499	526 691	-61 125	221 259
Mar	607 356	232 617	451 005	-5 038	-	1 146	72 373	388 329	745 155	133 214	498 652	-8 613	219 027

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 institu-tions
		Main refinan-cing opera-tions	Longer-term refinan-cing opera-tions	Fine-tuning reserve opera-tions (net)	Struc-tural reserve opera-tions (net)	Margi-nal lending facility	Deposit facility	Target	Rest	Total	Bank-notes	Deposits to general govern-ment	Gold and net assets in foreign curren-cy	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 *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
Jul	49 384	15 745	33 727	-77	-	0	11	18 770	-4 787	11 374	79 782	16 554	12 134	72 828	24 027
Aug	46 741	12 338	34 467	-62	-	0	1	20 634	-4 787	6 400	78 759	13 276	12 171	73 465	24 495
Sep	49 144	10 689	38 695	204	-	50	493	21 118	-4 787	5 006	76 660	14 077	11 885	73 846	27 807
Oct	52 692	21 520	56 729	-6 008	-	379	19 929	11 844	-4 787	20 175	79 383	29 728	15 099	73 837	25 459
Nov	58 218	33 238	58 454	-764	-	210	32 921	15 379	-4 787	21 135	79 783	34 089	18 251	74 485	26 490
Dec	63 598	25 688	67 106	-1 780	-	56	27 471	28 274	-4 787	13 156	81 432	23 611	17 972	73 916	26 955
09 *Jan*	57 488	22 338	63 324	-1 721	-	19	26 472	29 076	-5 265	8 734	80 105	19 644	20 871	70 144	24 942
Feb	74 090	20 781	57 578	-614	-	60	3 716	38 001	-5 265	14 731	78 492	23 060	16 857	69 964	26 622
Mar	72 831	19 357	55 412	-629	-	22	1 331	38 675	-5 404	14 016	78 828	24 848	17 420	72 240	25 543

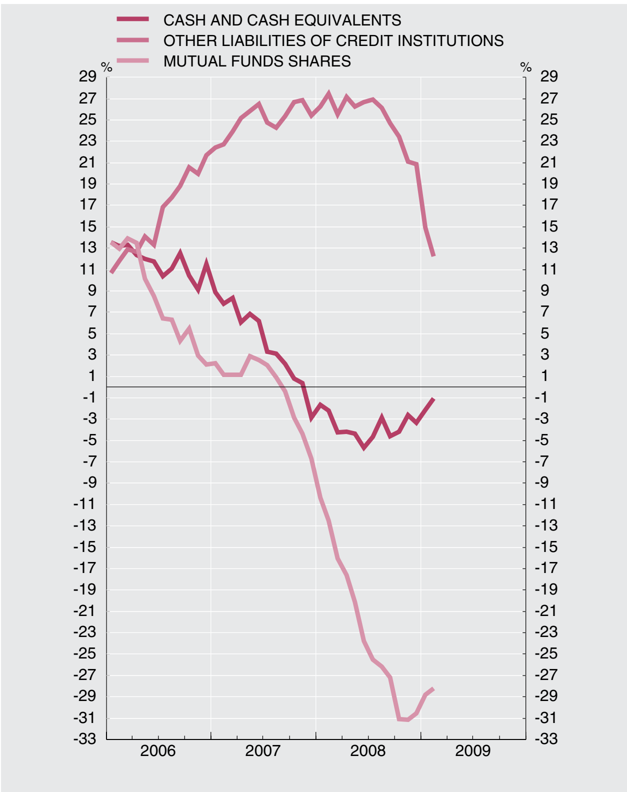
Sources: ECB for Table 8.1.a and BE for Table 8.1.b.

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

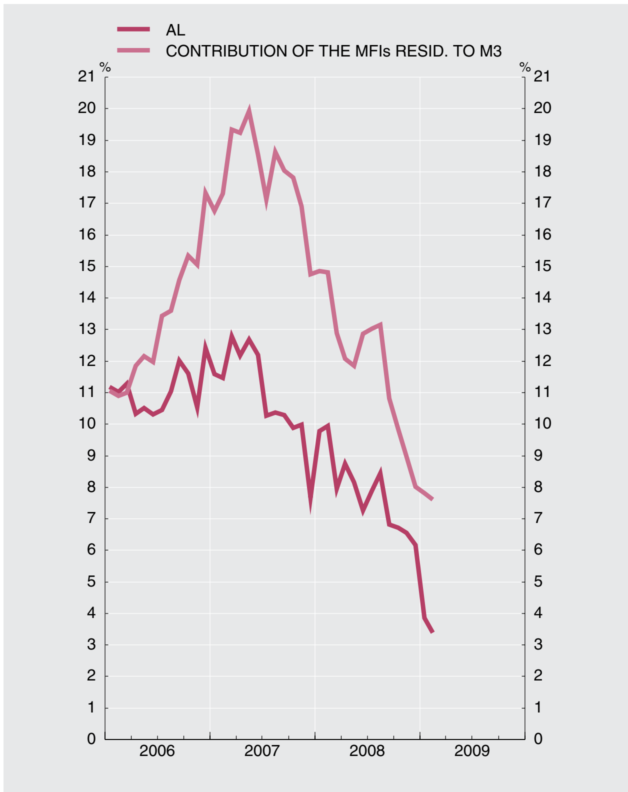
■ Series depicted in chart. *EUR millions and %*

		Cash and cash equivalents				Other liabilities of credit institutions					Mutual funds shares				Memorandum items	
		Stocks	12-month % change	12-m. % change		Stocks	12 month % change	12-month % change			Stocks	12-month % change	12-month % change		12-month % change	
				Cash	Deposits (b)			Other deposits (c)	Repos + credit institutions' securities	Deposits in branches abroad			Fixed income in EUR (d)	Other	AL (e)	Contribution of the MFIs resid. to M3
		1	2 ■	3	4	5	6 ■	7	8	9	10	11 ■	12	13	14 ■	15 ■
06		512 581	11.5	9.9	11.9	365 983	21.7	22.8	21.6	0.9	224 851	2.1	-10.1	13.5	12.4	17.3
07		497 887	-2.9	2.3	-4.1	458 998	25.4	29.8	7.5	-10.7	209 767	-6.7	-3.9	-8.8	7.7	14.7
08	P	481 161	-3.4	-0.0	-4.2	554 623	20.8	25.6	-8.2	-8.9	145 733	-30.5	-15.5	-42.2	6.2	8.0
07 *Nov*		487 996	0.4	3.8	-0.4	449 423	26.8	30.0	13.5	1.1	214 662	-4.4	-3.6	-5.0	10.0	16.9
Dec		497 887	-2.9	2.3	-4.1	458 998	25.4	29.8	7.5	-10.7	209 767	-6.7	-3.9	-8.8	7.7	14.7
08 *Jan*		482 361	-1.7	1.8	-2.5	471 975	26.3	30.0	10.5	-6.7	202 202	-10.3	4.1	-20.6	9.8	14.9
Feb		480 296	-2.2	1.4	-3.1	484 715	27.4	31.2	11.1	-7.4	197 714	-12.5	2.6	-23.1	9.9	14.8
Mar		480 567	-4.2	-0.4	-5.2	492 264	25.5	29.7	9.3	-15.4	192 015	-16.1	-0.1	-27.6	7.9	12.9
Apr		470 910	-4.2	-0.7	-5.0	504 042	27.1	31.6	7.1	-10.7	188 789	-17.6	-1.2	-29.3	8.7	12.1
May		476 959	-4.3	-1.5	-5.0	510 473	26.3	31.5	4.4	-19.6	184 113	-20.1	-3.3	-31.9	8.2	11.9
Jun		487 531	-5.7	-2.8	-6.3	524 078	26.7	30.7	7.2	2.5	175 162	-23.7	-6.9	-35.6	7.3	12.9
Jul		479 386	-4.7	-3.2	-5.0	528 236	26.9	31.7	5.2	-9.5	169 786	-25.5	-8.9	-37.3	7.9	13.0
Aug		477 621	-2.9	-3.7	-2.7	534 595	26.2	31.8	-1.5	-7.3	167 975	-26.2	-11.6	-37.1	8.4	13.1
Sep		478 142	-4.6	-4.2	-4.7	536 362	24.7	29.6	0.6	-11.7	162 715	-27.2	-13.4	-37.8	6.8	10.8
Oct	P	465 039	-4.2	0.7	-5.4	543 262	23.4	27.5	4.7	-18.8	151 861	-31.1	-15.3	-42.8	6.7	9.8
Nov	P	475 252	-2.6	0.4	-3.4	544 353	21.1	25.8	-2.4	-24.5	147 835	-31.1	-15.8	-42.7	6.6	9.0
Dec	P	481 161	-3.4	-0.0	-4.2	554 623	20.8	25.6	-8.2	-8.9	145 733	-30.5	-15.5	-42.2	6.2	8.0
09 *Jan*	P	472 158	-2.1	0.4	-2.8	542 505	14.9	19.9	-14.8	-23.7	143 966	-28.8	-20.3	-36.7	3.9	7.8
Feb	P	475 265	-1.0	0.5	-1.4	543 941	12.2	16.9	-17.0	-22.3	141 938	-28.2	-19.0	-36.9	3.4	7.6

NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHs
Annual percentage change



NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHs
Annual percentage change



Source: BE.

a. This concept refers to the instruments included in the headings of the table, issued by resident credit institutions and mutual funds. The exception is column 9, which includes deposits in Spanish bank branches abroad.

b. Current accounts, savings accounts and deposits redeemable at up to 3 months' notice.

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

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

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

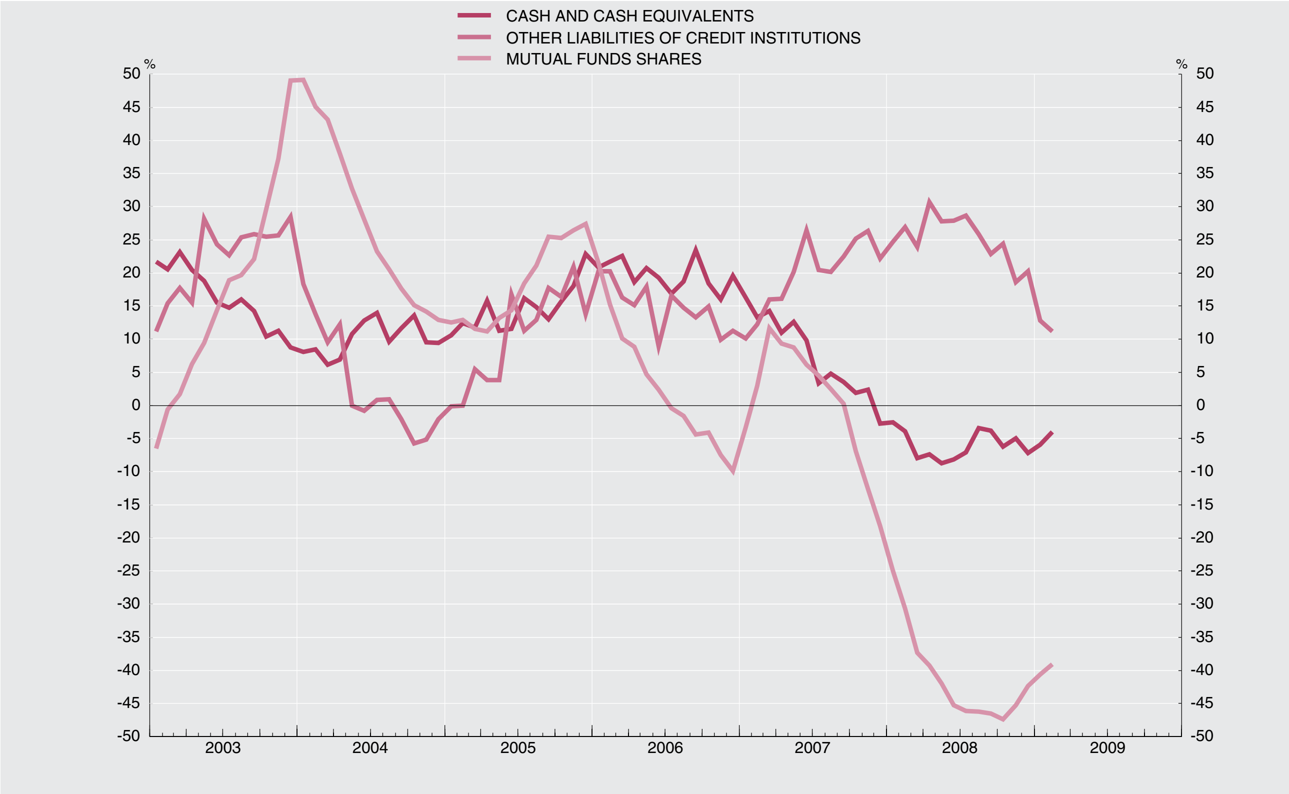
8.3 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF NON-FINANCIAL CORPORATIONS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

EUR millions and %

		Cash and cash equivalents (b)		Other liabilities of credit institutions				Mutual funds shares			
		Stocks	Annual growth rate	Stocks	Annual growth rate	Annual growth rate		Stocks	Annual growth rate	Annual growth rate	
						Other deposits (c)	Repos + credit instit.' securit.+ dep. in branches abroad			Fixed income in EUR (d)	Other
		1	2 ■	3	4 ■	5	6	7	8 ■	9	10
06		137 357	19.6	79 008	11.3	17.4	2.8	26 523	-9.9	-15.9	-5.0
07		133 623	-2.7	96 500	22.1	37.4	-2.1	21 692	-18.2	-15.7	-20.0
08	P	124 007	-7.2	116 022	20.2	26.4	6.5	12 503	-42.4	-26.7	-54.5
07 *Nov*		129 238	2.4	95 114	26.3	37.4	7.1	23 169	-12.6	-11.8	-13.1
Dec		133 623	-2.7	96 500	22.1	37.4	-2.1	21 692	-18.2	-15.7	-20.0
08 *Jan*		125 515	-2.6	96 889	24.7	36.2	4.3	20 835	-25.0	-11.4	-34.6
Feb		124 705	-3.9	99 740	26.9	38.6	5.2	20 024	-30.7	-17.2	-40.2
Mar		123 864	-8.0	102 160	23.9	35.6	2.5	19 083	-37.3	-23.9	-47.1
Apr		119 348	-7.4	105 753	30.7	44.4	4.5	18 113	-39.3	-24.4	-49.9
May		121 938	-8.7	107 927	27.8	43.1	-0.2	16 996	-41.9	-25.7	-53.3
Jun		126 150	-8.1	114 983	27.9	35.7	12.8	15 587	-45.3	-28.0	-57.4
Jul		119 261	-7.1	111 546	28.6	38.1	10.6	14 913	-46.2	-29.7	-57.9
Aug		121 928	-3.4	113 257	25.9	38.2	3.6	14 573	-46.2	-31.9	-56.9
Sep		127 508	-3.8	113 097	22.9	30.6	8.1	13 946	-46.6	-33.4	-56.6
Oct	P	117 833	-6.2	115 914	24.4	28.9	14.9	13 022	-47.4	-32.3	-58.6
Nov	P	122 873	-4.9	112 779	18.6	23.1	8.5	12 678	-45.3	-30.0	-56.8
Dec	P	124 007	-7.2	116 022	20.2	26.4	6.5	12 503	-42.4	-26.7	-54.5
09 *Jan*	P	118 063	-5.9	109 276	12.8	20.1	-4.1	12 362	-40.7	-31.8	-49.2
Feb	P	119 755	-4.0	110 872	11.2	17.5	-4.2	12 198	-39.1	-29.6	-48.4

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.

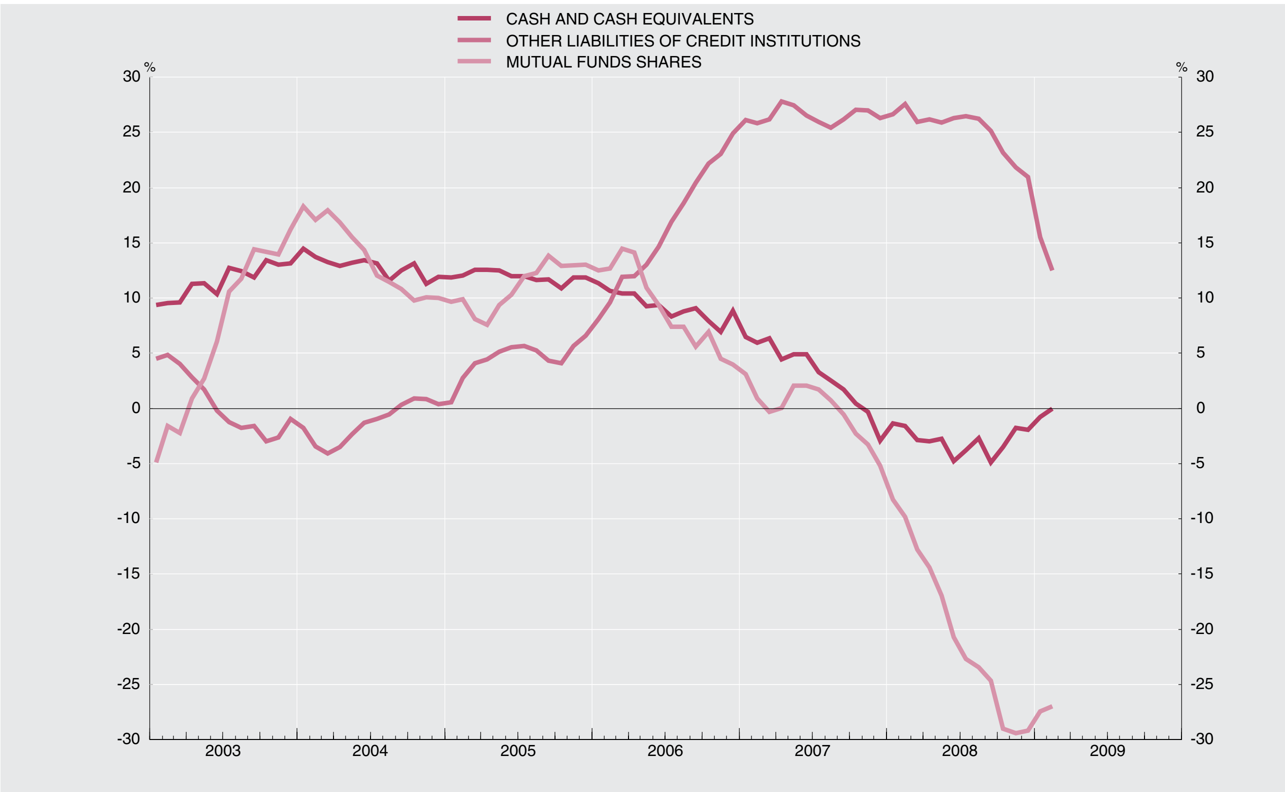
8.4 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ 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
06	375 224	8.9	9.2	8.8	286 975	24.9	23.8	34.4	198 328	4.0	-9.3	16.5
07	364 264	-2.9	2.8	-4.6	362 497	26.3	28.4	9.6	188 075	-5.2	-2.3	-7.3
08 P	357 154	-2.0	0.4	-2.7	438 601	21.0	25.4	-21.1	133 230	-29.2	-14.3	-40.7
07 *Nov*	358 757	-0.3	4.2	-1.7	354 309	27.0	28.6	14.3	191 494	-3.3	-2.5	-3.9
Dec	364 264	-2.9	2.8	-4.6	362 497	26.3	28.4	9.6	188 075	-5.2	-2.3	-7.3
08 *Jan*	356 846	-1.4	2.3	-2.5	375 086	26.7	28.8	9.4	181 366	-8.3	6.3	-18.6
Feb	355 591	-1.6	2.0	-2.6	384 975	27.6	29.8	9.5	177 690	-9.8	5.5	-20.6
Mar	356 702	-2.9	0.1	-3.8	390 104	26.0	28.5	6.0	172 932	-12.8	3.5	-24.6
Apr	351 563	-3.0	-0.2	-3.9	398 289	26.2	29.2	3.0	170 675	-14.4	2.2	-26.3
May	355 020	-2.7	-1.0	-3.3	402 546	25.9	29.3	-0.3	167 116	-17.0	-0.1	-28.8
Jun	361 381	-4.8	-2.2	-5.6	409 095	26.3	29.6	1.1	159 574	-20.7	-4.0	-32.5
Jul	360 125	-3.8	-2.6	-4.2	416 690	26.5	30.4	-4.2	154 873	-22.7	-6.1	-34.5
Aug	355 693	-2.7	-3.1	-2.5	421 338	26.2	30.5	-8.0	153 402	-23.5	-8.8	-34.4
Sep	350 634	-4.9	-3.6	-5.3	423 265	25.2	29.4	-10.5	148 769	-24.7	-10.7	-35.3
Oct P	347 206	-3.5	1.1	-5.0	427 348	23.2	27.2	-12.6	138 840	-29.0	-13.1	-40.8
Nov P	352 379	-1.8	0.8	-2.6	431 574	21.8	26.3	-19.4	135 156	-29.4	-14.1	-41.0
Dec P	357 154	-2.0	0.4	-2.7	438 601	21.0	25.4	-21.1	133 230	-29.2	-14.3	-40.7
09 *Jan* P	354 096	-0.8	0.8	-1.3	433 229	15.5	19.9	-26.4	131 604	-27.4	-19.0	-35.3
Feb P	355 510	-0.0	0.9	-0.3	433 069	12.5	16.8	-28.9	129 740	-27.0	-17.8	-35.6

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.

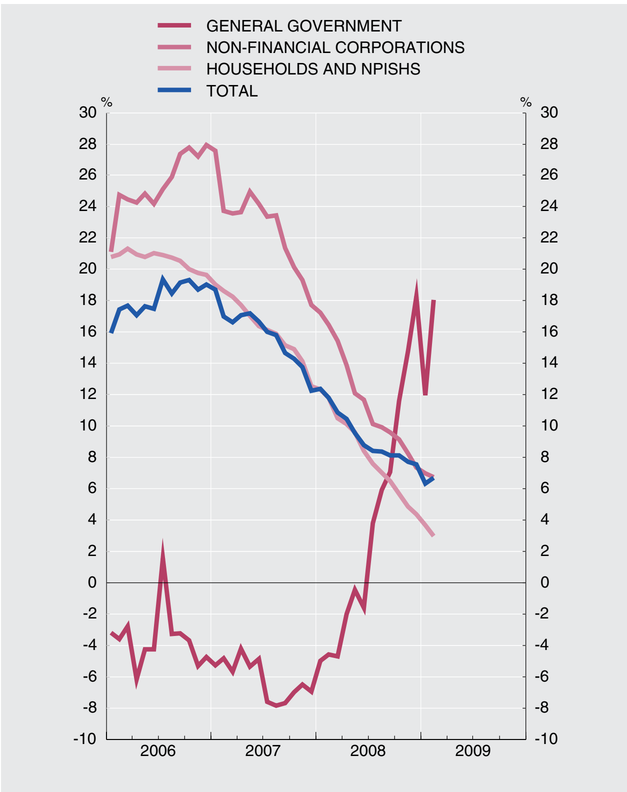
8.5. FINANCING OF NON-FINANCIAL SECTORS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

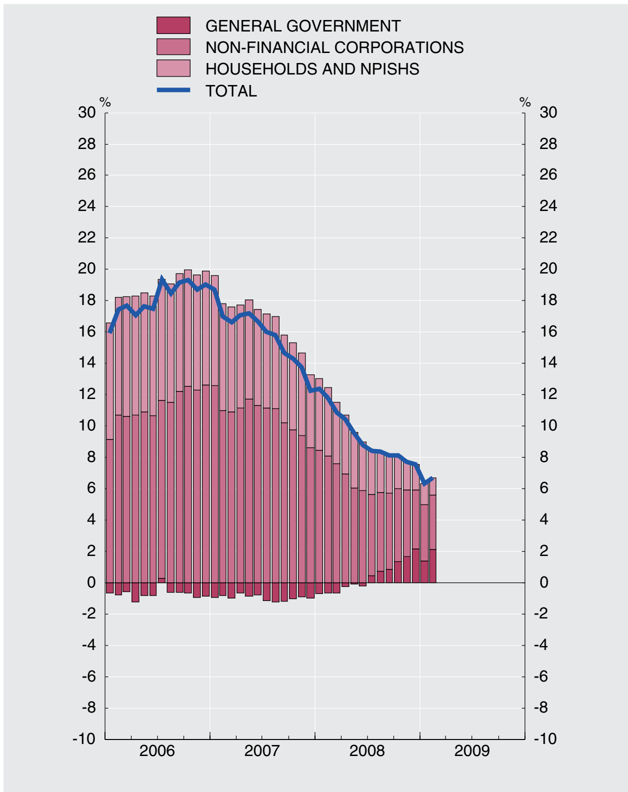
EUR millions and %

	Total: Stocks	Total: Effective flow	Total: Annual growth rate	Annual growth rate: General government (b)	Annual growth rate: Non-financial corp. and households and NPISHs	Annual growth rate: By sectors: Non-financial corporations	Annual growth rate: By sectors: Households and NPISHs	Annual growth rate: By instruments: Credit institutions' loans & securit. funds	Annual growth rate: By instruments: Securities other than shares	Annual growth rate: By instruments: External loans	Contribution to col. 3: General government (b)	Contribution to col. 3: Non-financial corp. and households and NPISHs	Contribution to col. 3: By sectors: Non-financial corporations	Contribution to col. 3: By sectors: Households and NPISHs	Contribution to col. 3: By instruments: Credit institutions' loans & securit. funds	Contribution to col. 3: By instruments: Securities other than shares	Contribution to col. 3: By instruments: External loans
	1	2	3 ■	4 ■	5	6 ■	7 ■	8	9	10	11 ■	12	13 ■	14 ■	15	16	17
06	2 103 406	335 822	19.0	-4.7	24.2	27.9	19.6	24.4	134.2	15.9	-0.8	19.9	12.6	7.2	17.0	1.0	1.9
07	2 368 926	258 245	12.3	-6.9	15.5	17.7	12.5	15.9	18.4	12.3	-1.0	13.3	8.6	4.6	11.6	0.3	1.4
08	P 2 542 553	178 657	7.5	18.2	6.1	7.3	4.4	5.6	12.1	8.6	2.2	5.4	3.8	1.6	4.2	0.2	1.0
07 *Nov*	2 340 554	24 820	13.8	-6.5	17.1	19.3	14.1	17.6	21.7	12.9	-0.9	14.7	9.4	5.3	12.8	0.3	1.5
Dec	2 368 926	24 688	12.3	-6.9	15.5	17.7	12.5	15.9	18.4	12.3	-1.0	13.3	8.6	4.6	11.6	0.3	1.4
08 *Jan*	2 376 331	9 265	12.4	-5.0	15.1	17.2	12.4	15.4	18.6	13.1	-0.7	13.0	8.5	4.6	11.2	0.3	1.5
Feb	2 392 183	14 512	11.8	-4.6	14.5	16.5	11.8	14.9	14.2	11.8	-0.6	12.5	8.1	4.4	10.9	0.2	1.4
Mar	2 406 022	13 431	10.9	-4.7	13.3	15.5	10.5	13.6	11.0	12.0	-0.6	11.5	7.6	3.9	9.9	0.2	1.4
Apr	2 409 001	3 480	10.5	-2.0	12.3	13.9	10.1	12.6	15.4	9.8	-0.3	10.7	6.9	3.8	9.3	0.2	1.2
May	2 433 077	22 095	9.6	-0.4	11.0	12.1	9.6	11.6	17.4	6.6	-0.1	9.6	6.1	3.6	8.6	0.3	0.8
Jun	2 459 887	27 525	8.8	-1.6	10.3	11.7	8.4	10.2	18.0	9.9	-0.2	9.0	5.9	3.1	7.5	0.3	1.2
Jul	2 469 538	14 585	8.4	3.8	9.1	10.1	7.6	8.9	10.1	9.8	0.5	8.0	5.2	2.8	6.7	0.2	1.2
Aug	2 482 387	11 741	8.4	5.9	8.7	9.9	7.0	8.4	10.0	10.3	0.7	7.7	5.0	2.6	6.3	0.2	1.2
Sep	2 498 566	13 997	8.1	7.1	8.3	9.6	6.5	7.8	6.9	11.9	0.9	7.3	4.9	2.4	5.8	0.1	1.4
Oct	P 2 508 335	8 353	8.1	11.6	7.7	9.1	5.7	7.4	6.7	9.6	1.3	6.8	4.7	2.1	5.6	0.1	1.1
Nov	P 2 525 652	17 518	7.7	14.8	6.8	8.3	4.9	6.4	12.4	8.8	1.7	6.0	4.2	1.8	4.8	0.2	1.0
Dec	P 2 542 553	22 155	7.5	18.2	6.1	7.3	4.4	5.6	12.1	8.6	2.2	5.4	3.8	1.6	4.2	0.2	1.0
09 *Jan*	P 2 523 907	-18 503	6.3	12.0	5.6	7.0	3.7	4.9	17.8	8.4	1.4	5.0	3.6	1.4	3.7	0.3	1.0
Feb	P 2 547 292	23 682	6.7	18.1	5.2	6.7	3.0	4.2	21.9	9.2	2.1	4.6	3.5	1.1	3.1	0.3	1.1

FINANCING OF NON-FINANCIAL SECTORS
Annual percentage change



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



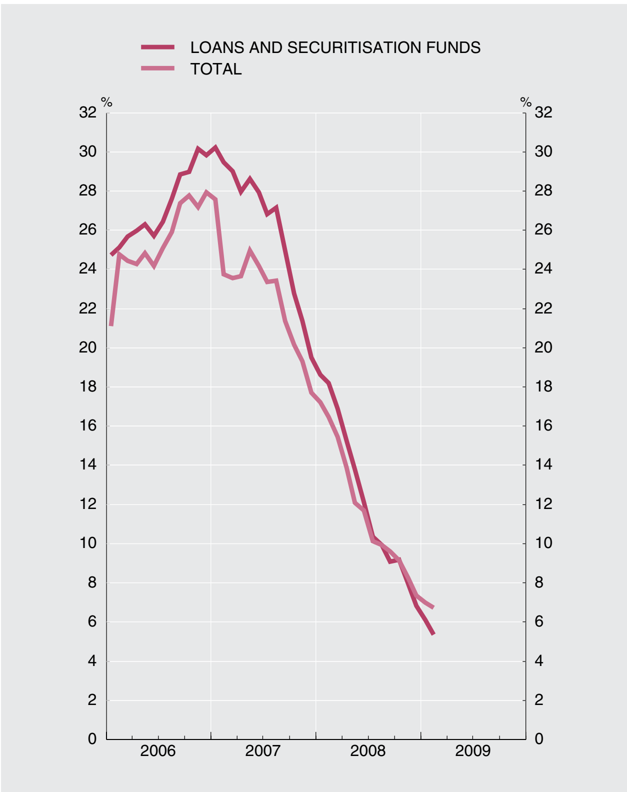
Source: BE.
GENERAL NOTE: Tables 8.2 to 8.7 were revised in September 2000, to take into account the criteria used to compile the Financial Accounts of the Spanish economy in accordance with ESA 95 (see the box appearing in the article "Evolución reciente de la economía española" in the September 2000 edition of the Boletín Económico).
a. The annual percentage changes are calculated as the effective flow of the period / the stock at the beginning of the period.
b. Total liabilities (consolidated) less deposits. Inter-general government liabilities are deduced.

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

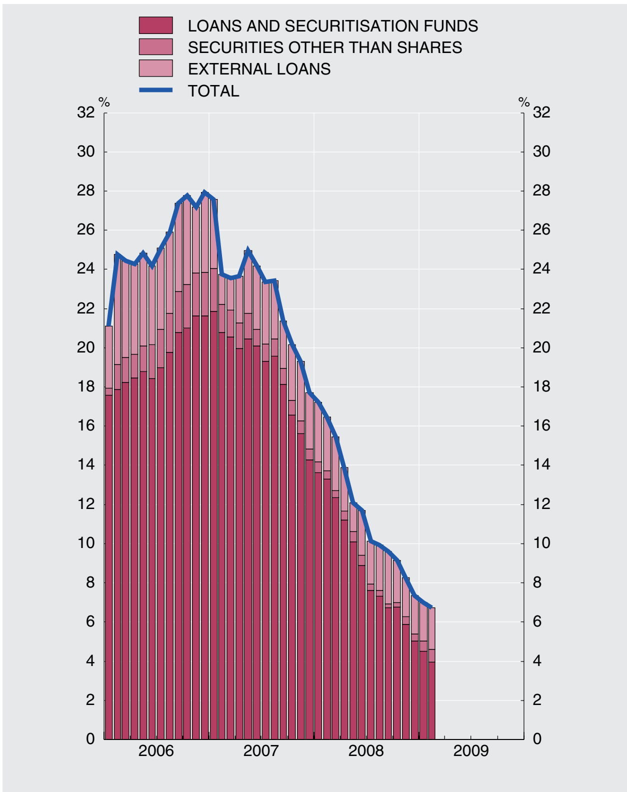
■ Series depicted in chart. *EUR millions and %*

	Total			Resident credit institutions' loans and off-balance-sheet securitised loans			Securities other than shares (b)				External loans			Memorandum items: off-balance-sheet securitised loans
	Stocks	Effective flow	Annual growth rate	Stocks	Annual growth rate	Contribution to col.3	Stocks	of which: Issues by resident financ. subsid.	Annual growth rate	Contribution to col.3	Stocks	Annual growth rate	Contribution to col.3	
	1	2	3 ■	4	5 ■	6 ■	7	8	9	10 ■	11	12	13 ■	14
06	1 024 589	222 911	27.9	750 137	29.8	21.6	30 934	19 370	134.2	2.2	243 518	15.9	4.1	3 230
07	1 214 901	181 572	17.7	895 668	19.5	14.3	36 636	23 056	18.4	0.6	282 597	12.1	2.9	2 678
08	P 1 301 358	89 235	7.3	954 130	6.8	5.0	41 076	25 648	12.1	0.4	306 152	8.4	2.0	2 060
07 *Nov*	1 197 089	12 572	19.3	884 462	21.4	15.6	36 654	23 234	21.7	0.7	275 973	12.7	3.0	2 816
Dec	1 214 901	13 590	17.7	895 668	19.5	14.3	36 636	23 056	18.4	0.6	282 597	12.1	2.9	2 678
08 *Jan*	1 221 416	8 406	17.2	902 146	18.6	13.6	36 709	22 872	18.6	0.6	282 561	12.8	3.0	2 632
Feb	1 226 751	3 924	16.5	906 447	18.2	13.3	36 632	22 667	14.2	0.4	283 672	11.4	2.7	2 552
Mar	1 235 032	7 450	15.5	914 494	16.9	12.4	35 920	22 587	11.0	0.3	284 619	11.6	2.8	2 489
Apr	1 242 719	8 143	13.9	919 170	15.3	11.2	36 787	22 573	15.4	0.5	286 762	9.5	2.2	2 461
May	1 251 797	6 934	12.1	924 039	13.8	10.1	38 228	24 195	17.4	0.5	289 530	6.2	1.5	2 500
Jun	1 266 559	15 127	11.7	931 984	12.1	8.9	39 409	25 408	18.0	0.5	295 166	9.6	2.3	2 422
Jul	1 277 173	15 505	10.1	941 095	10.4	7.6	39 536	25 433	10.1	0.3	296 542	9.5	2.2	2 351
Aug	1 276 981	-1 381	9.9	939 387	9.9	7.3	39 486	25 439	10.0	0.3	298 108	10.0	2.3	2 205
Sep	1 289 717	10 230	9.6	946 651	9.1	6.7	38 937	24 751	6.9	0.2	304 129	11.6	2.7	2 187
Oct	P 1 299 115	7 820	9.1	952 803	9.2	6.8	39 275	25 132	6.7	0.2	307 037	9.3	2.2	2 103
Nov	P 1 302 125	3 066	8.3	952 583	8.0	5.9	41 199	26 580	12.4	0.4	308 344	8.6	2.0	2 075
Dec	P 1 301 358	4 011	7.3	954 130	6.8	5.0	41 076	25 648	12.1	0.4	306 152	8.4	2.0	2 060
09 *Jan*	P 1 305 884	4 544	7.0	954 548	6.1	4.5	43 259	27 875	17.8	0.5	308 078	8.4	1.9	1 944
Feb	P 1 307 063	1 280	6.7	952 387	5.4	4.0	44 672	29 995	21.9	0.7	310 004	9.2	2.1	1 900

FINANCING OF NON-FINANCIAL CORPORATIONS
Annual percentage change



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



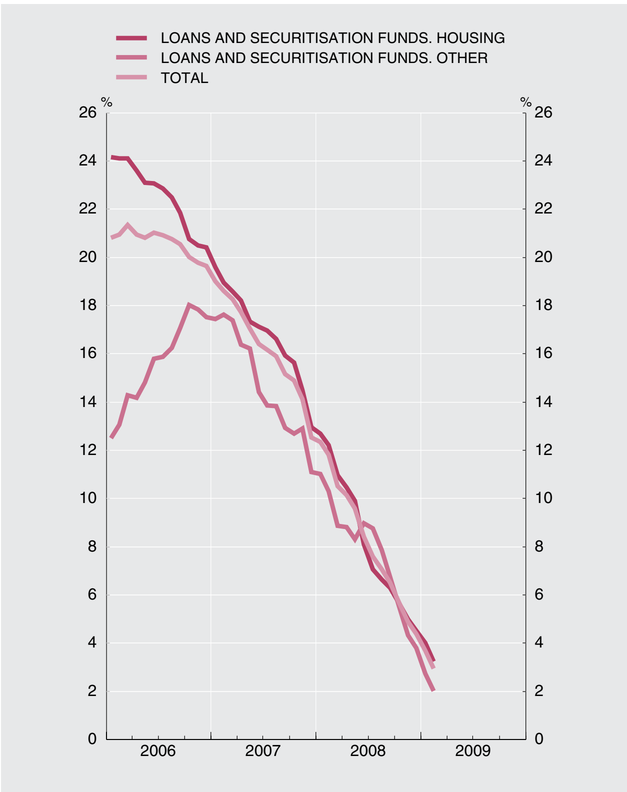
Source: BE.
GENERAL NOTE: Tables 8.2 to 8.7 were revised in September 2000, to take into account the criteria used to compile the Financial Accounts of the Spanish economy in accordance with ESA 95 (see the box appearing in the article "Evolución reciente de la economía española" in the September 2000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

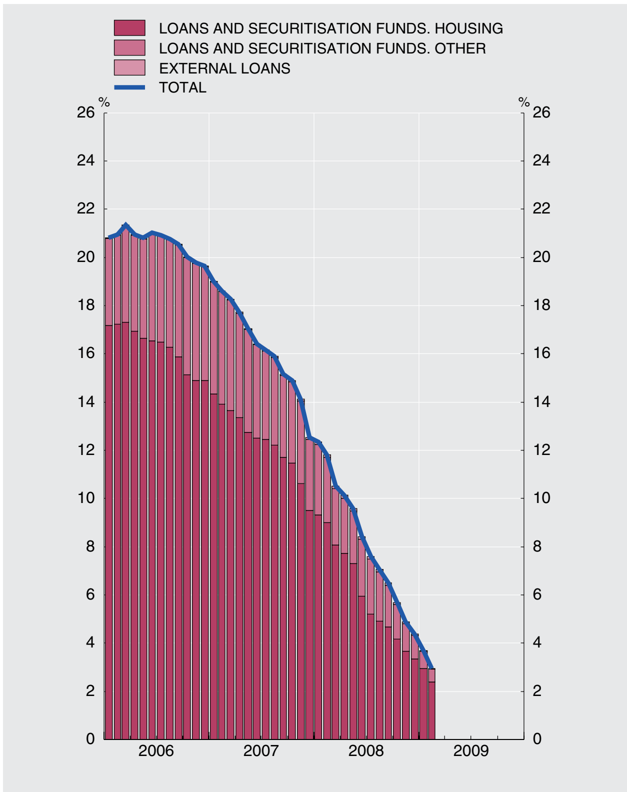
■ Series depicted in chart. *EUR millions and %*

		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
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		874 405	97 497	12.5	644 787	13.0	9.5	227 839	11.1	2.9	1 778	51.4	0.1	26 576	5 625
08	P	910 550	38 397	4.4	673 153	4.5	3.3	235 016	3.8	1.0	2 380	33.9	0.1	23 304	4 436
07 *Nov*		874 957	12 387	14.1	642 745	14.5	10.6	230 547	12.9	3.4	1 665	47.0	0.1	26 738	5 939
Dec		874 405	-14	12.5	644 787	13.0	9.5	227 839	11.1	2.9	1 778	51.4	0.1	26 576	5 625
08 *Jan*		877 796	3 360	12.4	647 765	12.7	9.3	227 848	11.0	2.9	2 183	86.0	0.1	26 185	5 547
Feb		882 251	4 525	11.8	651 849	12.2	9.0	228 214	10.3	2.7	2 188	85.4	0.1	25 885	5 492
Mar		886 183	4 355	10.5	655 757	11.0	8.1	228 195	8.9	2.3	2 232	80.6	0.1	25 595	5 496
Apr		892 677	6 538	10.1	660 265	10.5	7.7	230 165	8.8	2.3	2 248	80.0	0.1	25 308	5 495
May		897 841	5 327	9.6	663 535	9.9	7.3	232 025	8.3	2.2	2 281	77.4	0.1	25 026	5 325
Jun		906 874	9 382	8.4	665 070	8.1	5.9	239 510	9.0	2.4	2 294	76.3	0.1	24 823	5 298
Jul		907 208	378	7.6	667 768	7.1	5.2	237 132	8.8	2.3	2 308	68.0	0.1	24 407	5 685
Aug		906 862	-264	7.0	669 041	6.6	4.9	235 513	7.9	2.0	2 308	57.1	0.1	23 942	5 444
Sep		907 457	920	6.5	670 802	6.3	4.7	234 337	6.7	1.7	2 318	52.5	0.1	24 041	4 830
Oct	P	909 436	2 142	5.7	672 182	5.6	4.2	234 899	5.5	1.4	2 355	47.3	0.1	23 427	4 617
Nov	P	915 357	6 065	4.9	673 685	5.0	3.7	239 306	4.3	1.1	2 366	42.1	0.1	23 515	4 540
Dec	P	910 550	-4 331	4.4	673 153	4.5	3.3	235 016	3.8	1.0	2 380	33.9	0.1	23 304	4 436
09 *Jan*	P	907 736	-2 688	3.7	673 014	4.0	2.9	232 291	2.7	0.7	2 431	11.4	0.0	23 179	4 319
Feb	P	905 760	-1 781	3.0	672 288	3.2	2.4	230 991	2.0	0.5	2 481	13.4	0.0	22 933	4 196

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.

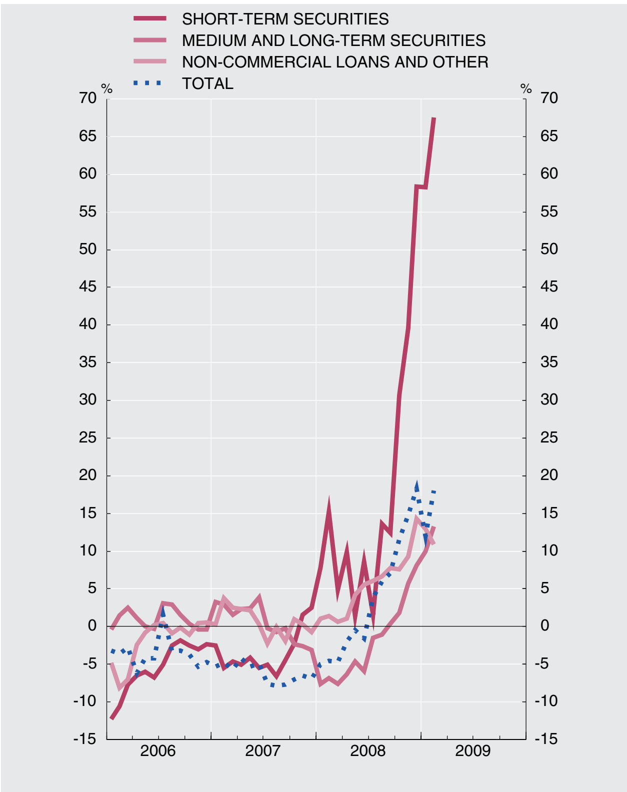
8.8. NET FINANCING OF SPAIN'S GENERAL GOVERNMENT

■ Series depicted in chart.

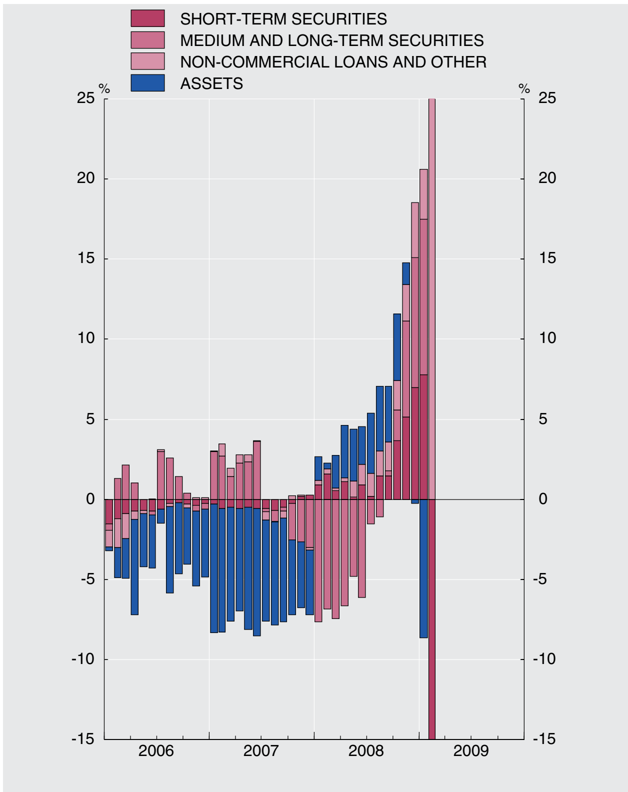
EUR millions and %

	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	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 ■
05	315 420	-8 728	-2.7	2 652	-4 042	7 366	-673	-695	12 075	0.7	-10.8	2.6	-1.0	17.7	-1.2	2.3	-0.2	-3.5
06	P 300 445	-14 975	-4.7	-1 635	-770	-1 217	352	1 780	11 560	-0.4	-2.3	-0.4	0.5	17.6	-0.2	-0.4	0.1	-4.2
07	P 279 620	-20 825	-6.9	-8 657	823	-9 001	-479	2 973	9 195	-2.2	2.5	-3.1	-0.7	13.7	0.3	-3.0	-0.2	-4.0
08	A 330 646	51 026	18.2	51 788	19 481	22 677	9 629	740	22	13.6	58.3	8.1	14.3	0.8	7.0	8.1	3.4	-0.3
07 *Sep*	P 281 518	-269	-7.7	5 705	2 589	2 791	325	-72	6 046	-0.9	-4.5	-0.2	-1.9	22.7	-0.5	-0.2	-0.4	-6.5
Oct	P 268 647	-12 871	-7.0	-10 578	-1 178	-10 087	688	1 512	781	-1.7	-2.3	-2.3	1.0	14.0	-0.3	-2.3	0.2	-4.6
Nov	P 268 508	-139	-6.5	3 494	2 868	841	-215	-2 152	5 785	-1.8	1.6	-2.6	0.3	11.7	0.2	-2.6	0.1	-4.1
Dec	P 279 620	11 112	-6.9	-705	-1 497	-778	1 570	-468	-11 349	-2.2	2.5	-3.1	-0.7	13.7	0.3	-3.0	-0.2	-4.0
08 *Jan*	A 277 119	-2 501	-5.0	-5 735	3 506	-9 094	-147	7	-3 240	-4.8	7.9	-7.6	1.1	-4.3	0.9	-7.6	0.2	1.5
Feb	A 283 181	6 062	-4.6	4 894	-956	4 588	1 263	1 046	-2 213	-3.7	15.2	-6.9	1.4	-1.0	1.6	-6.8	0.3	0.3
Mar	A 284 806	1 625	-4.7	-4 007	-708	-3 606	308	-328	-5 304	-5.1	4.9	-7.6	0.6	-6.3	0.6	-7.4	0.1	2.1
Apr	A 273 605	-11 201	-2.0	2 244	-1 286	3 632	-102	4 682	8 764	-3.8	9.9	-6.3	1.1	-8.1	1.1	-6.6	0.3	3.3
May	A 283 439	9 834	-0.4	5 468	-321	4 808	982	-411	-3 955	-2.7	1.4	-4.7	4.2	-8.4	0.2	-4.8	1.0	3.2
Jun	A 286 455	3 016	-1.6	2 179	-476	1 571	1 084	120	-956	-2.9	8.6	-6.0	5.6	-6.5	0.9	-6.1	1.3	2.4
Jul	A 285 158	-1 297	3.8	1 775	-241	3 126	-1 110	-6 793	9 865	0.1	1.5	-1.5	6.1	-9.1	0.2	-1.5	1.5	3.7
Aug	A 298 543	13 386	5.9	683	1 873	-899	-291	-230	-12 473	1.4	13.6	-1.1	6.7	-11.2	1.5	-1.1	1.5	4.0
Sep	A 301 391	2 848	7.1	10 411	2 531	6 856	1 024	-45	7 608	2.6	12.4	0.3	7.7	-9.1	1.5	0.3	1.8	3.5
Oct	A 299 783	-1 608	11.6	-731	4 530	-5 917	656	12 964	-12 086	5.3	30.7	1.8	7.6	-10.2	3.7	1.9	1.9	4.2
Nov	A 308 170	8 387	14.8	19 536	6 851	11 820	865	2 126	9 024	9.4	39.6	5.7	9.3	-3.2	5.1	6.0	2.3	1.4
Dec	A 330 646	22 476	18.2	15 069	4 179	5 792	5 098	12 397	4 990	13.6	58.3	8.1	14.3	0.8	7.0	8.1	3.4	-0.3
09 *Jan*	A 310 287	-20 359	12.0	-386	5 540	-4 872	-1 054	6 810	13 163	15.2	58.3	9.9	13.0	24.5	7.8	9.7	3.1	-8.6
Feb	A 334 316	24 030	18.1	15 958	1 822	14 147	-11	3 922	-11 994	18.0	67.6	13.2	10.9	17.6	-31.6	-47.5	75.0	22.2

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.

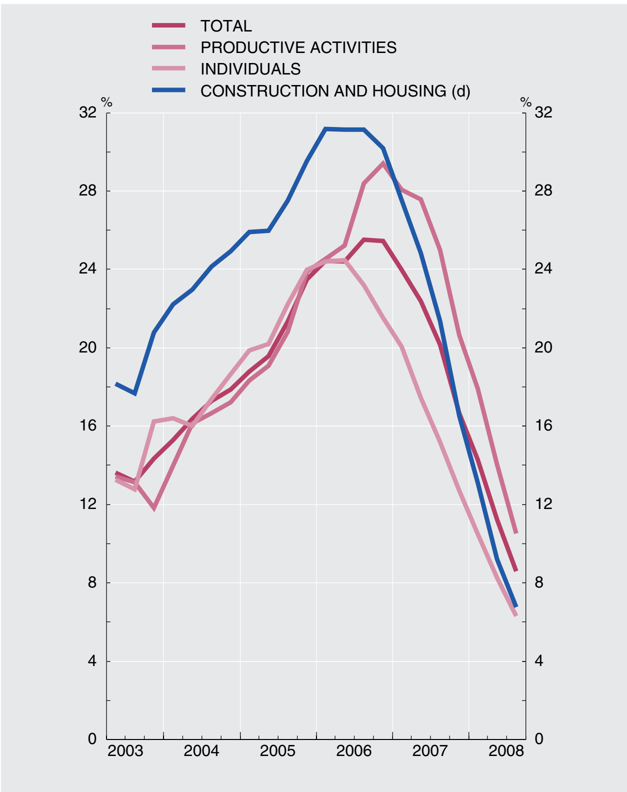
8.9 LENDING BY CREDIT INSTITUTIONS TO OTHER RESIDENT SECTORS. BREAKDOWN BY END-USE.

■ 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
04 *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*	1 793 356	962 331	25 003	143 816	154 237	639 275	311 272	802 258	630 161	601 958	57 357	114 740	5 804	22 962	1 095 670
Q2	1 838 174	991 307	25 727	148 218	155 600	661 762	313 176	817 074	640 247	611 447	57 726	119 101	5 952	23 840	1 109 023
Q3	1 852 560	1 005 670	26 593	155 481	156 363	667 233	315 444	816 752	646 761	617 904	55 859	114 132	6 063	24 075	1 118 568
Q4	1 869 882	1 016 948	26 244	156 141	151 911	682 652	318 032	819 412	649 850	621 326	54 176	115 386	6 091	27 431	1 119 793

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.

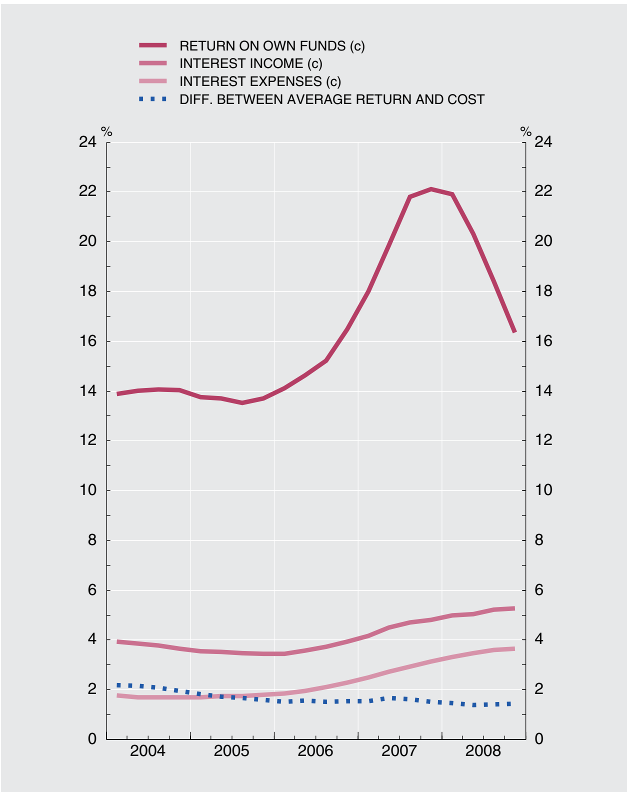
d. Including: construction, real estate activities and home purchases and improvements

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

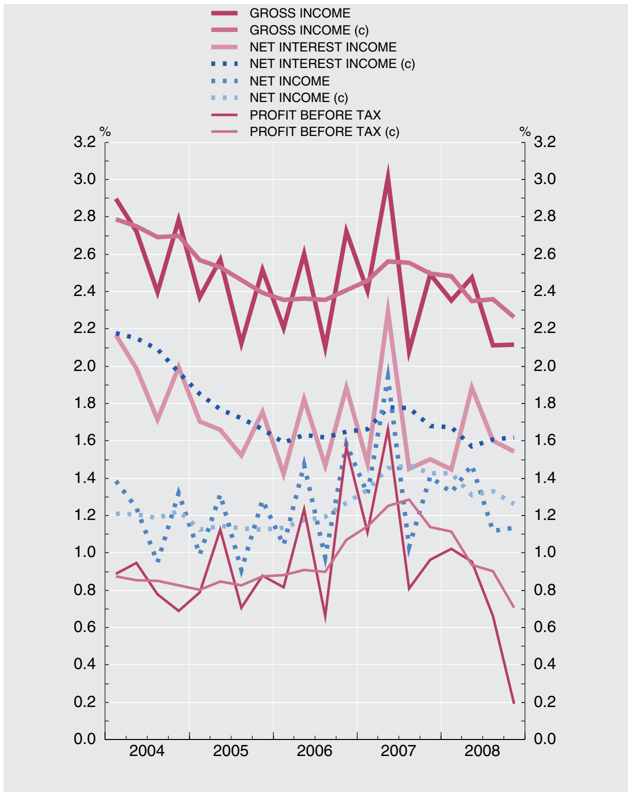
■ Series depicted in chart.

	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 ■	Average 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	14.4	3.7	2.1	1.6
06	4.5	2.6	1.9	0.8	2.7	1.1	0.7	1.6	-0.4	1.6	19.4	4.2	2.6	1.6
07	5.0	3.5	1.5	1.0	2.5	1.1	0.7	1.4	-1.0	1.0	20.7	5.1	3.6	1.5
05 *Q4*	3.6	1.8	1.8	0.8	2.5	1.2	0.8	1.3	-0.2	0.9	14.4	3.7	2.1	1.6
06 *Q1*	3.4	2.0	1.4	0.8	2.2	1.2	0.7	1.0	-0.2	0.8	14.8	3.6	2.1	1.5
Q2	4.0	2.2	1.8	0.8	2.6	1.1	0.7	1.5	-0.2	1.2	15.9	3.8	2.2	1.6
Q3	3.9	2.4	1.5	0.6	2.1	1.1	0.7	1.0	-0.3	0.7	15.8	3.9	2.4	1.5
Q4	4.5	2.6	1.9	0.8	2.7	1.1	0.7	1.6	0.3	1.6	19.4	4.2	2.6	1.6
07 *Q1*	4.3	2.8	1.5	0.9	2.4	1.1	0.7	1.3	-0.2	1.1	20.9	4.4	2.8	1.5
Q2	5.3	3.0	2.3	0.7	3.0	1.1	0.7	1.9	-0.3	1.7	23.3	4.8	3.1	1.7
Q3	4.7	3.2	1.5	0.6	2.1	1.0	0.6	1.0	-0.2	0.8	23.6	5.0	3.3	1.6
Q4	5.0	3.5	1.5	1.0	2.5	1.1	0.7	1.4	-0.3	1.0	20.7	5.1	3.6	1.5
08 *Q1*	5.0	3.5	1.4	0.9	2.4	1.0	0.6	1.3	-0.3	1.0	20.1	5.3	3.8	1.5
Q2	5.5	3.6	1.9	0.6	2.5	1.0	0.6	1.5	-0.4	1.0	16.9	5.3	3.9	1.4
Q3	5.4	3.8	1.6	0.5	2.1	1.0	0.6	1.1	-0.4	0.7	16.0	5.5	4.1	1.4
Q4	5.2	3.6	1.5	0.6	2.1	1.0	0.6	1.1	-0.8	0.2	12.5	5.6	4.2	1.4

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.

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.

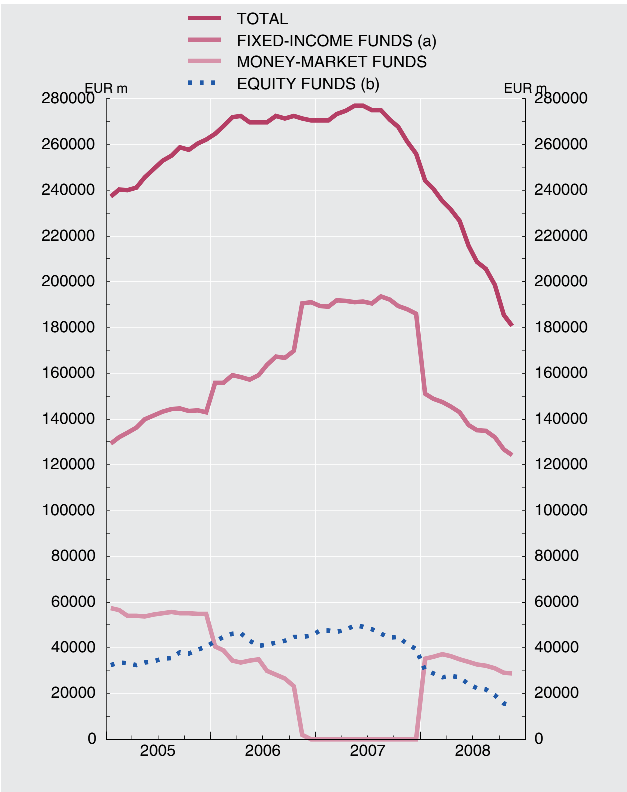
8.11. MUTUAL FUNDS RESIDENT IN SPAIN

■ 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 *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	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
May	226 535	-5 187	-5 542	-1.3	35 029	-1 400	-1 590	...	142 921	-2 590	-2 562	1.0	27 159	-464	-627	-12.0	21 427
Jun	215 574	-10 961	-7 355	-2.8	33 849	-1 180	-1 569	...	137 444	-5 476	-3 950	0.4	24 008	-3 150	-753	-19.1	20 273
Jul	208 593	-6 982	-7 186	-2.4	32 589	-1 260	-1 628	...	135 012	-2 433	-2 798	0.7	22 309	-1 699	-1 354	-19.0	18 683
Aug	205 707	-2 886	-7 138	-1.8	32 125	-464	-549	...	134 723	-289	-711	0.8	21 922	-388	-5 444	-17.6	16 938
Sep	198 665	-7 042	-5 892	-3.3	30 927	-1 198	-1 176	...	131 932	-2 791	-2 863	0.3	19 242	-2 680	-972	-24.7	16 564
Oct	185 428	-13 237	-11 680	-5.2	29 165	-1 762	-1 796	...	126 590	-5 342	-7 323	-0.2	15 756	-3 486	-959	-36.5	13 917
Nov	180 835	-4 593	-4 363	-4.6	28 810	-355	-427	...	124 111	-2 479	-2 854	0.1	14 708	-1 048	-496	-36.5	13 207

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.

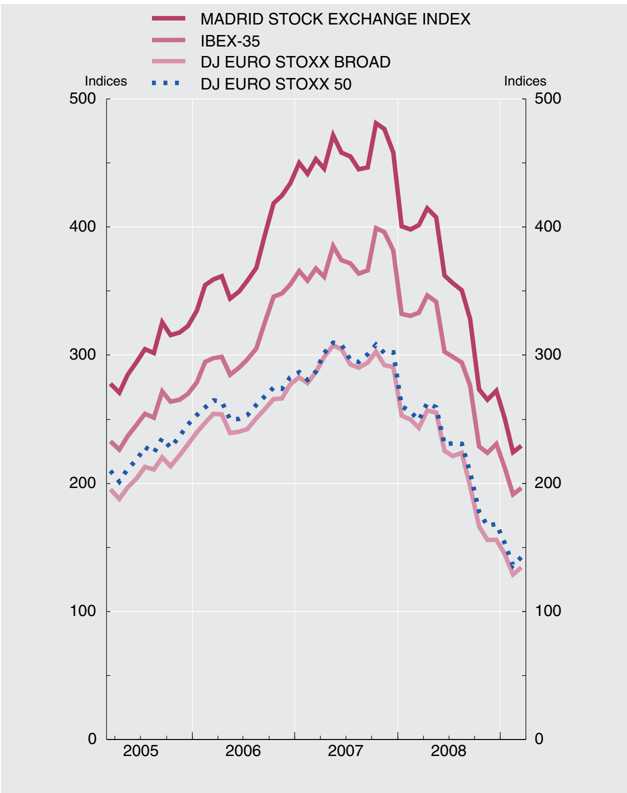
8.12. SHARE PRICE INDICES AND TURNOVER ON SECURITIES MARKETS. SPAIN AND EURO AREA

■ Series depicted in chart.

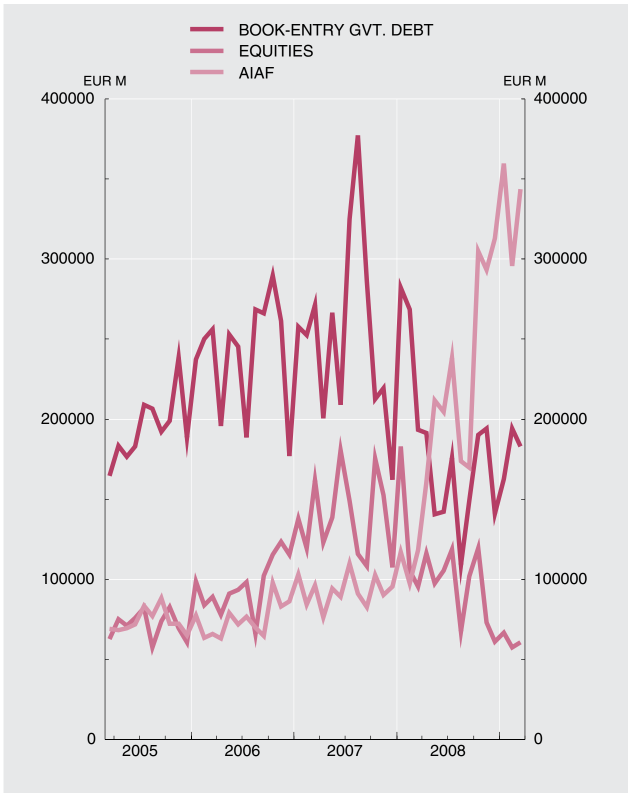
Indices, EUR millions and thousands of contracts

		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
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		1 262.61	11 738.25	309.67	3 277.70	1 245 129	79 578	2 178 310	2 403 160	-	19 146	-	7 605
09	A	842.11	7 973.47	194.66	2 098.73	184 964	19 161	540 084	998 677	-	8 178	-	1 402
07 *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		1 297.87	12 046.20	321.61	3 352.81	105 483	6 745	142 121	204 624	...	2 196	...	649
Jul		1 276.51	11 881.30	315.84	3 367.82	118 682	7 359	175 967	238 332	...	1 361	...	691
Aug		1 256.93	11 707.30	319.45	3 365.63	67 466	7 081	109 103	173 832	...	728	...	557
Sep		1 175.14	10 987.50	282.61	3 038.20	102 011	6 220	149 233	169 860	...	1 953	...	771
Oct		978.13	9 116.00	237.67	2 591.76	119 483	7 707	190 268	305 089	...	1 732	...	765
Nov		950.75	8 910.60	222.34	2 430.31	73 259	6 525	194 344	293 279	...	1 979	...	512
Dec		975.97	9 195.80	222.81	2 451.48	61 062	5 536	141 215	312 823	...	2 854	...	455
09 *Jan*		898.03	8 450.40	207.09	2 236.98	66 689	6 020	162 791	359 649	...	2 541	...	437
Feb		803.92	7 620.90	184.27	1 976.23	57 487	7 863	194 144	295 515	...	1 817	...	443
Mar	P	820.67	7 815.00	191.62	2 071.13	60 788	5 277	183 150	343 513	...	3 820	...	522

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)

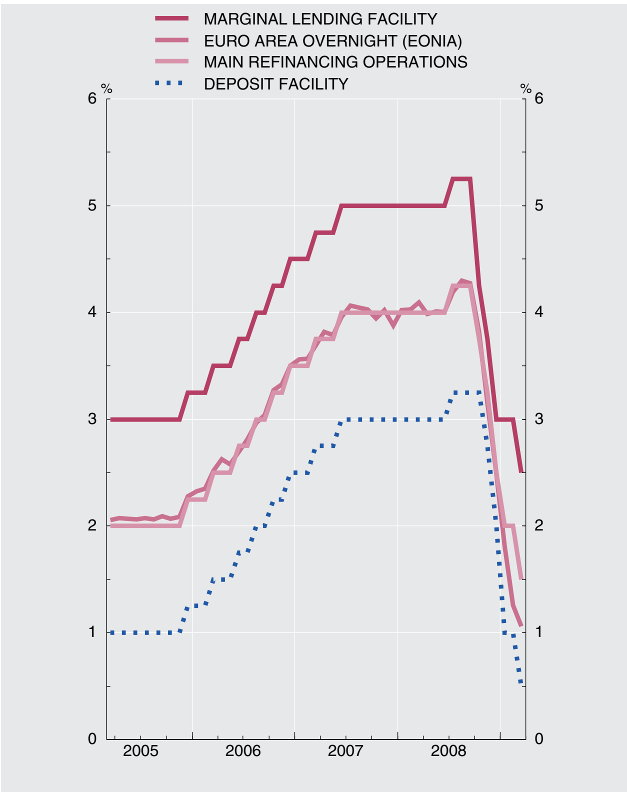
9.1. INTEREST RATES. EUROSYSTEM AND MONEY MARKET. EURO AREA AND SPAIN

■ Series depicted in chart.

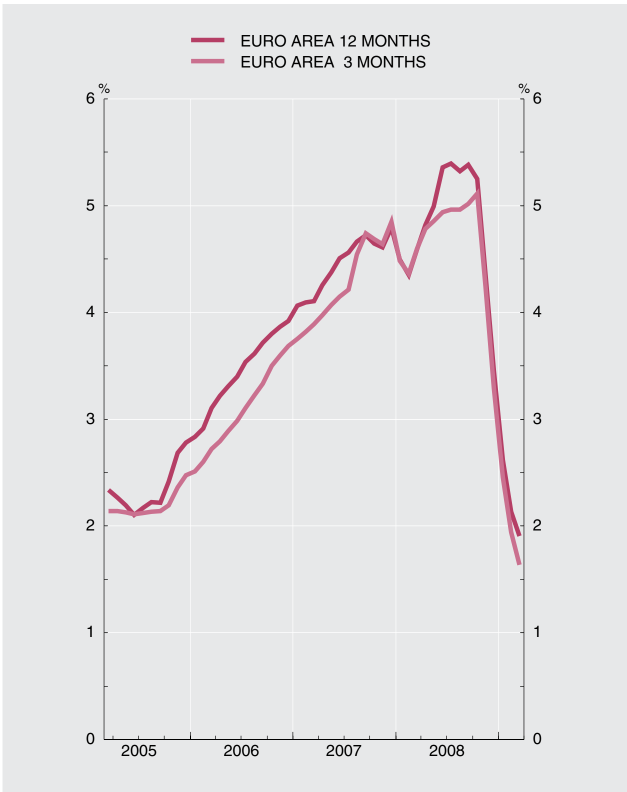
Averages of daily data. Percentages per annum

	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					Govermment-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
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	2.50	2.50	3.00	2.00	3.863	4.27	4.63	4.72	4.81	3.85	4.26	4.62	4.66	4.78	3.71	3.74	3.71	3.47
09 A	1.50	1.50	2.50	0.50	1.381	1.68	2.01	2.12	2.22	1.35	1.78	1.99	2.03	2.15	1.23	1.16	1.11	1.15
07 *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	4.55	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	4.007	4.47	4.94	5.09	5.36	3.99	4.43	4.94	5.02	5.29	3.98	4.08	4.18	-
Jul	4.25	4.70	5.25	3.25	4.191	4.47	4.96	5.15	5.39	4.17	4.45	4.95	5.05	5.34	4.12	4.25	4.30	-
Aug	4.25	4.60	5.25	3.25	4.299	4.49	4.97	5.16	5.32	4.27	4.47	4.94	5.09	5.26	4.28	4.31	4.34	4.46
Sep	4.25	4.36	5.25	3.25	4.273	4.66	5.02	5.22	5.38	4.27	4.60	4.99	5.15	5.30	4.13	4.24	4.25	-
Oct	3.75	3.75	4.25	3.25	3.820	4.83	5.11	5.18	5.25	3.88	4.82	5.13	5.23	5.28	3.22	3.34	3.29	-
Nov	3.25	3.25	3.75	2.75	3.150	3.84	4.24	4.30	4.35	3.17	3.93	4.18	4.19	4.42	2.74	2.69	2.49	2.21
Dec	2.50	2.50	3.00	2.00	2.486	2.99	3.29	3.37	3.45	2.41	3.08	3.33	3.32	3.46	2.22	2.12	1.92	-
09 *Jan*	2.00	2.00	3.00	1.00	1.812	2.14	2.46	2.54	2.62	1.75	2.25	2.37	2.27	2.38	1.60	1.50	1.37	-
Feb	2.00	2.00	3.00	1.00	1.257	1.63	1.94	2.03	2.14	1.27	1.76	1.98	2.05	2.18	1.16	1.13	1.04	1.18
Mar	1.50	1.50	2.50	0.50	1.062	1.27	1.64	1.78	1.91	1.03	1.33	1.62	1.77	1.89	0.93	0.86	0.91	1.13

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

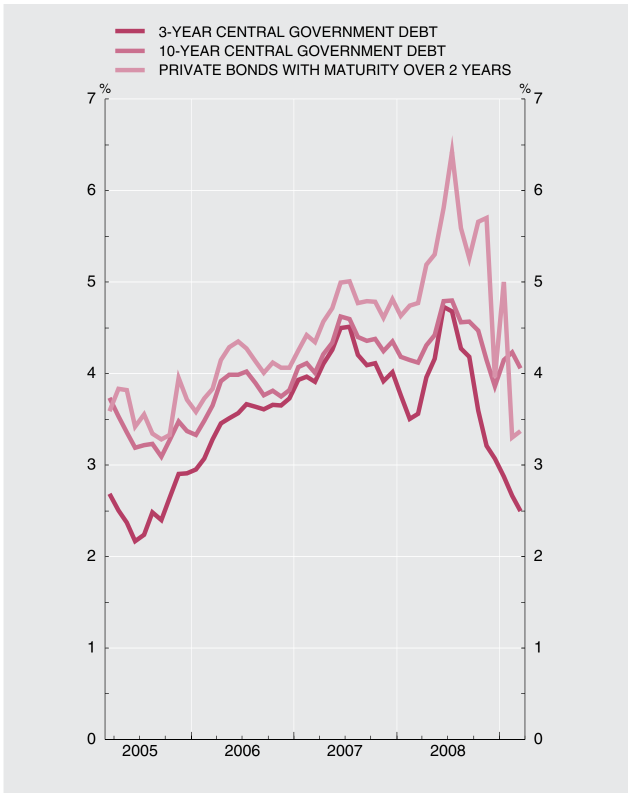
9.2. INTEREST RATES: SPANISH SHORT-TERM AND LONG-TERM SECURITIES MARKETS

■ 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 ■
07	4.11	4.07	4.46	4.49	4.00	4.16	4.24	-	4.49	4.13	4.31	4.67
08	3.78	3.71	4.82	4.89	3.93	4.10	4.48	4.92	4.76	3.89	4.36	5.25
09 A	1.35	1.32	2.28	2.34	2.65	3.24	4.04	4.50	4.92	2.68	4.14	3.91
07 *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	5.30	5.36	-	-	4.84	-	-	4.73	4.79	5.81
Jul	4.46	4.49	5.36	5.33	4.96	4.86	4.76	-	-	4.68	4.80	6.42
Aug	4.38	4.37	5.31	5.31	-	-	-	-	-	4.27	4.56	5.59
Sep	4.34	4.23	5.32	5.44	4.35	-	4.62	4.92	-	4.18	4.57	5.26
Oct	3.40	3.18	5.17	5.35	-	4.42	-	-	5.12	3.60	4.47	5.66
Nov	2.54	2.40	4.52	4.63	3.41	4.07	3.96	-	-	3.21	4.15	5.70
Dec	2.23	2.09	3.72	3.73	2.96	3.35	-	-	4.20	3.07	3.86	3.96
09 *Jan*	1.45	1.46	2.67	2.78	3.10	3.44	-	4.50	4.85	2.87	4.15	5.00
Feb	1.30	1.25	2.14	2.24	2.45	3.50	3.84	-	4.96	2.67	4.23	3.30
Mar	1.30	1.23	2.01	1.99	2.52	3.01	4.22	-	4.96	2.49	4.06	3.37

PRIMARY MARKET

SECONDARY MARKET



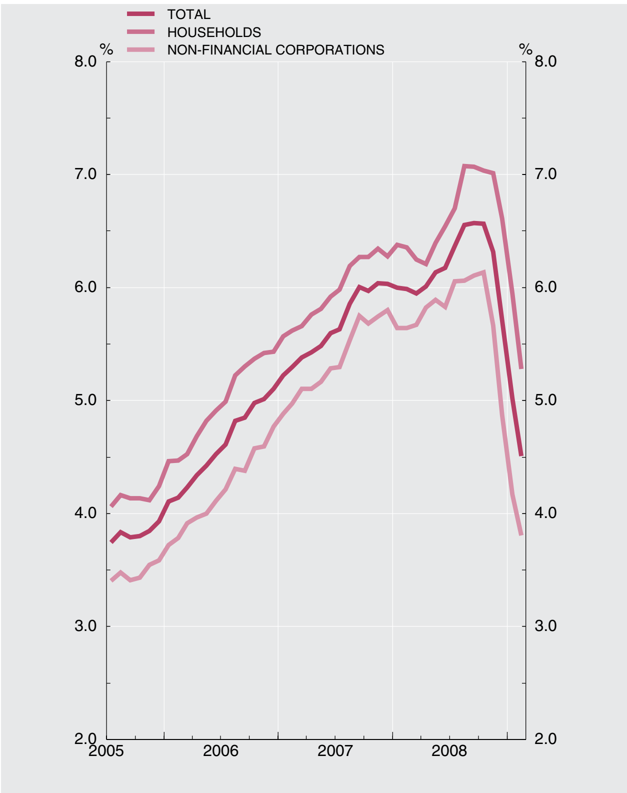
Sources: Main issuers (column 3); AIAF (columns 4 and 12).

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

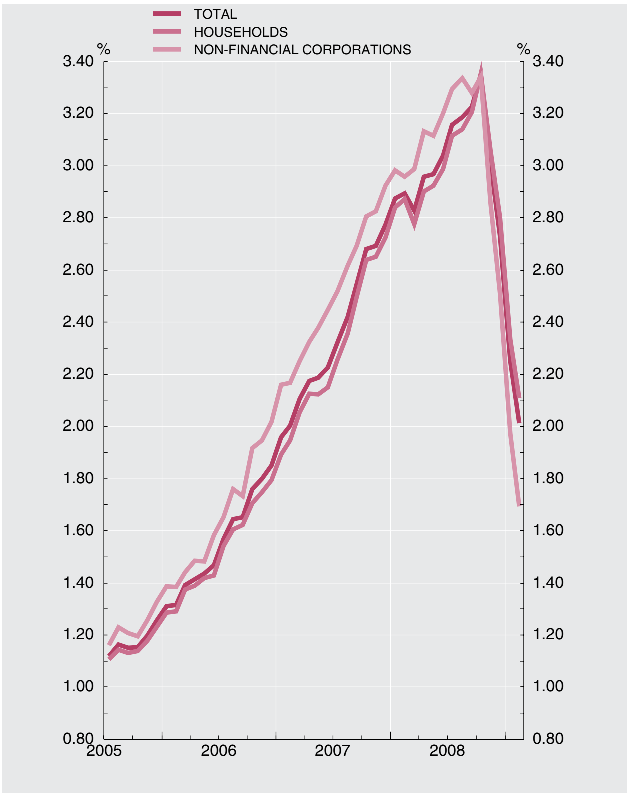
■ Series depicted in chart. *Percentages*

	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
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	5.71	6.61	5.83	8.79	4.87	5.91	4.42	2.73	2.80	0.69	4.18	2.20	2.51	1.77	3.47	2.29
09 A	4.51	5.28	4.35	7.90	3.80	5.06	3.15	2.01	2.11	0.60	3.12	1.14	1.69	1.27	2.30	1.18
07 *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	5.98	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	6.13	6.39	5.54	8.78	5.89	6.45	5.50	2.97	2.92	0.78	4.50	3.84	3.11	1.97	4.51	4.06
Jun	6.17	6.54	5.72	8.78	5.83	6.50	5.50	3.04	2.99	0.75	4.64	3.88	3.20	2.04	4.59	4.07
Jul	6.37	6.70	5.94	8.82	6.06	6.64	5.71	3.16	3.11	0.78	4.79	4.04	3.29	2.09	4.71	4.24
Aug	6.55	7.07	6.18	9.58	6.06	6.67	5.74	3.19	3.14	0.79	4.78	4.08	3.34	2.20	4.65	4.34
Sep	6.57	7.07	6.21	9.48	6.11	6.70	5.70	3.22	3.21	0.80	4.84	4.07	3.28	2.13	4.71	4.21
Oct	6.57	7.03	6.21	9.35	6.14	6.97	5.66	3.35	3.35	0.77	5.04	3.34	3.34	2.25	4.67	3.42
Nov	6.31	7.01	6.18	9.31	5.66	6.56	5.11	3.01	3.06	0.73	4.60	2.72	2.86	2.00	3.98	2.88
Dec	5.71	6.61	5.83	8.79	4.87	5.91	4.42	2.73	2.80	0.69	4.18	2.20	2.51	1.77	3.47	2.29
09 *Jan*	5.02	5.95	4.97	8.71	4.17	5.40	3.60	2.25	2.33	0.61	3.47	1.56	1.97	1.39	2.75	1.59
Feb P	4.51	5.28	4.35	7.90	3.80	5.06	3.15	2.01	2.11	0.60	3.12	1.14	1.69	1.27	2.30	1.18

LOANS
SYNTHETIC RATES



DEPOSITS
SYNTHETIC RATES



Source: BE.

a. APRC: annual percentage rate of charge. 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.

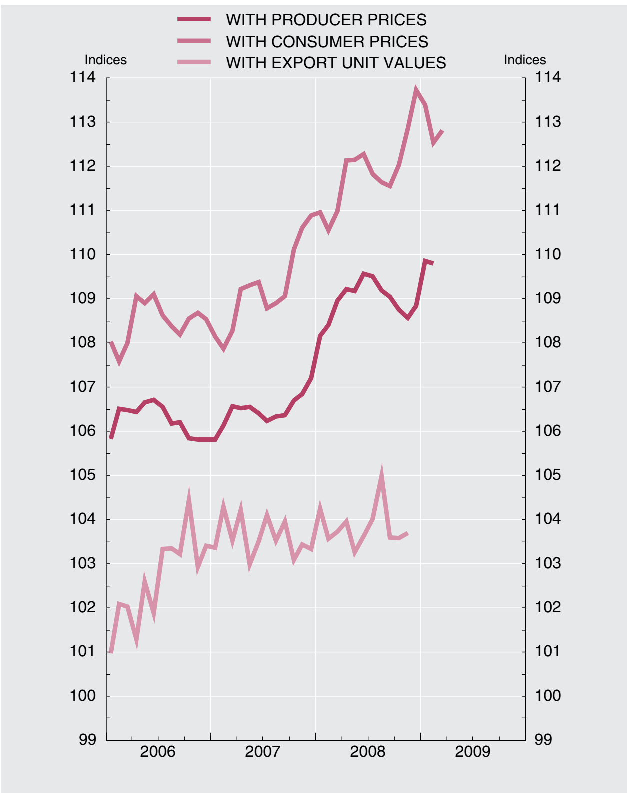
c. The synthetic rates of loans and deposits are obtained as the average of the interest rates on new business weighted by the euro-denominated stocks included in the balance sheet for all the instruments of each sector.

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

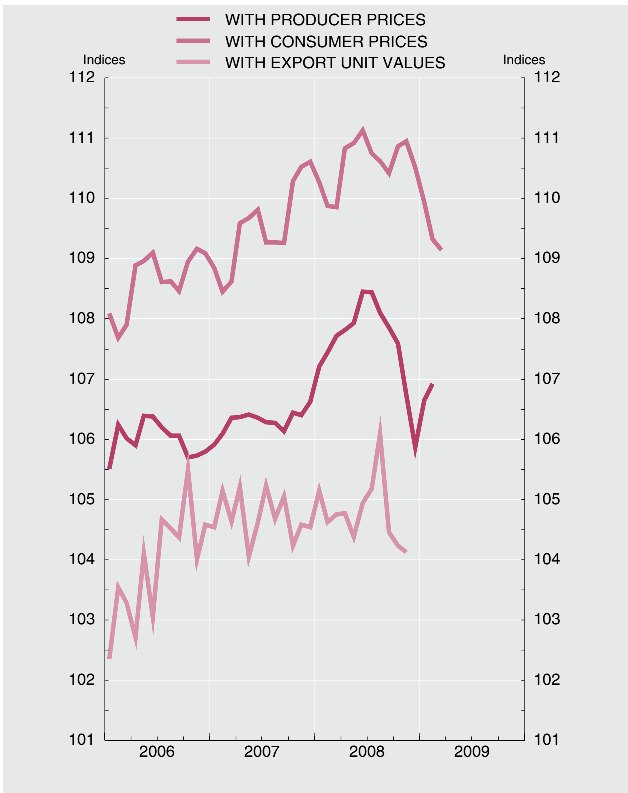
■ Series depicted in chart. *Base 1999 QI = 100*

	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 ■
06	106.2	108.5	108.9	102.6	100.0	106.3	108.5	108.9	102.7	106.0	108.6	110.2	117.1	103.9
07	106.5	109.2	110.0	103.6	99.9	106.6	109.3	110.1	103.7	106.3	109.5	111.5	119.0	104.7
08	109.0	111.9	112.1	...	101.5	107.3	110.2	110.5	...	107.6	110.6	112.0	123.6	...
07 *Q1*	106.2	108.1	109.2	103.7	99.7	106.5	108.4	109.5	104.0	106.1	108.6	110.8	118.3	104.8
Q2	106.5	109.3	109.8	103.6	99.8	106.7	109.5	109.9	103.7	106.4	109.7	111.3	117.4	104.6
Q3	106.3	108.9	110.1	103.9	99.8	106.5	109.1	110.3	104.0	106.2	109.3	111.7	119.2	105.0
Q4	106.9	110.5	110.8	103.3	100.3	106.6	110.3	110.5	103.0	106.5	110.5	111.9	120.9	104.4
08 *Q1*	108.5	110.8	112.5	103.8	101.0	107.5	109.8	111.4	102.8	107.5	110.0	112.9	123.4	104.8
Q2	109.3	112.2	112.7	103.6	101.4	107.9	110.7	111.2	102.2	108.1	111.0	112.7	124.9	104.7
Q3	109.3	111.7	112.0	104.2	101.3	107.8	110.2	110.5	102.8	108.1	110.6	112.1	122.9	105.3
Q4	108.7	112.9	111.4	...	102.3	106.3	110.3	108.9	...	106.7	110.8	110.1	123.3	...
08 *Jun*	109.6	112.3	...	103.6	101.3	108.2	110.8	...	102.3	108.4	111.1	...	...	104.9
Jul	109.5	111.8	...	104.0	101.3	108.2	110.4	...	102.7	108.4	110.7	...	...	105.2
Aug	109.2	111.6	...	105.0	101.3	107.8	110.2	...	103.7	108.1	110.6	...	...	106.1
Sep	109.0	111.5	...	103.6	101.5	107.5	109.9	...	102.1	107.9	110.4	...	...	104.5
Oct	108.8	112.0	...	103.6	101.5	107.2	110.4	...	102.1	107.6	110.9	...	...	104.2
Nov	108.6	112.9	...	103.7	102.2	106.2	110.4	...	101.5	106.7	110.9	...	...	104.1
Dec	108.8	113.7	...	...	103.3	105.3	110.0	...	...	105.9	110.5	...	...	...
09 *Jan*	109.9	113.4	...	...	103.7	106.0	109.4	...	...	106.6	109.9	...	...	...
Feb	109.8	112.5	...	...	103.5	106.1	108.8	...	...	106.9	109.3	...	...	...
Mar	...	112.8	...	...	103.9	...	108.6	...	...	...	109.1	...	...	...

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.

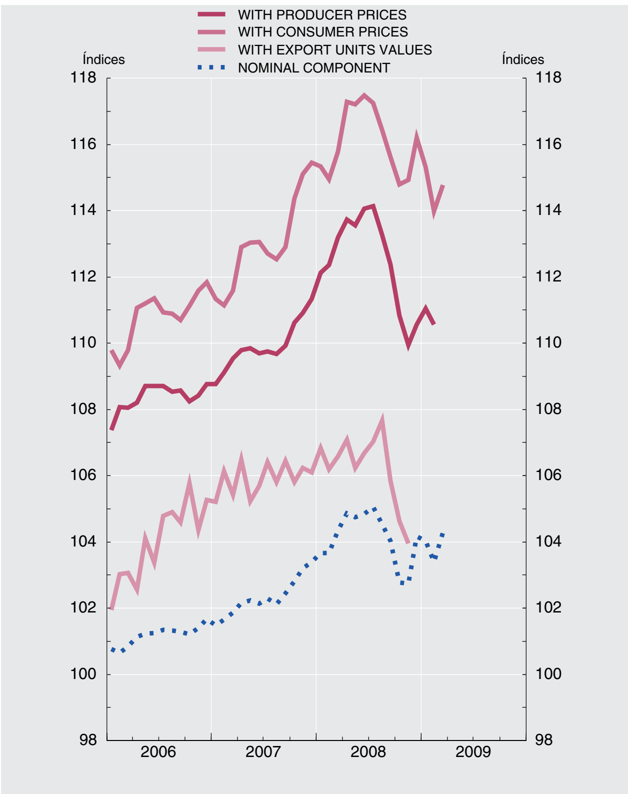
9.5 INDICES OF SPANISH COMPETITIVENESS VIS-à-VIS THE DEVELOPED COUNTRIES AND INDUSTRIALISED COUNTRIES

■ Series depicted in chart.

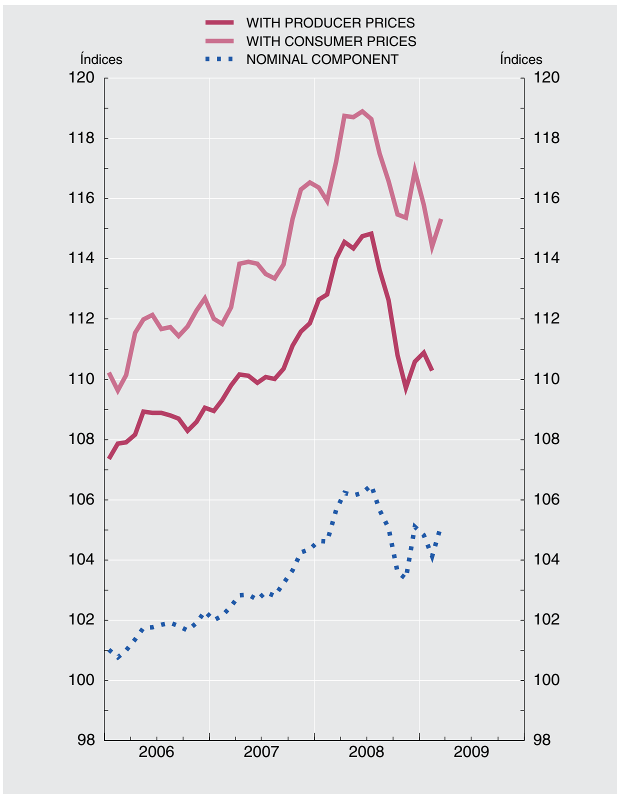
Base 1999 QI = 100

	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
06	108.4	110.8	119.3	104.0	101.2	107.1	109.5	117.9	102.8	108.5	111.4	101.6	106.8	109.7
07	109.9	113.0	122.3	105.9	102.3	107.4	110.5	119.5	103.5	110.3	113.9	103.0	107.0	110.6
08	112.5	116.1	129.6	...	104.1	108.1	111.5	124.5	...	112.9	117.2	105.2	107.3	111.4
07 *Q1*	109.1	111.4	120.4	105.6	101.7	107.3	109.5	118.5	103.8	109.4	112.1	102.2	107.0	109.7
Q2	109.8	113.0	120.7	105.8	102.2	107.4	110.6	118.1	103.6	110.1	113.9	102.8	107.1	110.8
Q3	109.8	112.7	122.6	106.2	102.3	107.3	110.2	119.8	103.8	110.1	113.6	103.0	107.0	110.3
Q4	111.0	115.0	125.5	106.0	103.1	107.6	111.5	121.7	102.8	111.5	116.1	104.1	107.1	111.5
08 *Q1*	112.6	115.4	129.0	106.5	103.9	108.3	111.0	124.2	102.5	113.2	116.5	105.0	107.8	111.0
Q2	113.8	117.3	131.9	106.7	104.8	108.6	111.9	125.8	101.8	114.5	118.8	106.2	107.9	111.9
Q3	113.3	116.4	129.4	106.9	104.5	108.3	111.4	123.8	102.2	113.7	117.6	105.7	107.5	111.2
Q4	110.4	115.3	128.1	...	103.2	107.0	111.7	124.1	...	110.4	115.9	104.0	106.1	111.4
08 *Jun*	114.1	117.5	...	106.7	104.8	108.8	112.1	...	101.8	114.7	118.9	106.2	108.0	111.9
Jul	114.1	117.2	...	107.0	105.1	108.6	111.6	...	101.9	114.8	118.7	106.5	107.8	111.4
Aug	113.3	116.4	...	107.7	104.5	108.4	111.4	...	103.0	113.6	117.5	105.7	107.5	111.2
Sep	112.4	115.6	...	105.8	104.0	108.0	111.1	...	101.7	112.6	116.6	105.1	107.2	111.0
Oct	110.8	114.8	...	104.6	102.8	107.8	111.7	...	101.8	110.8	115.5	103.6	107.0	111.5
Nov	109.9	114.9	...	104.0	102.7	107.0	111.9	...	101.2	109.7	115.4	103.4	106.1	111.6
Dec	110.6	116.2	...	...	104.2	106.1	111.6	...	...	110.6	116.9	105.1	105.2	111.3
09 *Jan*	111.1	115.3	...	...	104.0	106.7	110.9	...	...	110.9	115.8	104.8	105.8	110.5
Feb	110.6	114.0	...	...	103.4	106.9	110.3	...	...	110.3	114.4	104.1	105.9	109.9
Mar	...	114.8	...	...	104.3	...	110.0	...	...	...	115.3	105.1	...	109.7

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.

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