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**BANCO DE ESPAÑA**  
Eurosistema







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## ABBREVIATIONS

AIAF	Association of Securities Dealers	GNP	Gross national product
BCBS	Basel Committee on Banking Supervision	GVA	Gross value added
BE	Banco de España	HICP	Harmonised Index of Consumer Prices
BIS	Bank for International Settlements	IADB	Inter-American Development Bank
CBSO	Central Balance Sheet Data Office	ICT	Information and communications technology
CCR	Central Credit Register	ICO	Official Credit Institute
CEBS	Committee of European Banking Supervisors	IGAE	National Audit Office
CEIPOS	Committee of European Insurance and Occupational Pensions Supervisors	IMF	International Monetary Fund
CEMLA	Center for Latin American Monetary Studies	INE	National Statistics Institute
CEPR	Centre for Economic Policy Research	INEM	National Public Employment Service
CESR	Committee of European Securities Regulators	MFIs	Monetary financial institutions
Clls	Collective Investment Institutions	MiFID	Markets in Financial Instruments Directive
CNE	Spanish National Accounts	MMFs	Money market funds
CNMV	National Securities Market Commission	MROs	Main refinancing operations
CPI	Consumer Price Index	MTBE	Banco de España quarterly macroeconomic model
DGSFP	Directorate General of Insurance and Pension Funds	NAIRU	Non-accelerating-inflation rate of unemployment
ECB	European Central Bank	NCBs	National central banks
ECCO	ECB External Communications Committee	NPISHs	Non-profit institutions serving households
ECOFIN	Council of the European Communities (Economic and Financial Affairs)	OECD	Organisation for Economic Co-operation and Development
EDP	Excessive Deficit Procedure	OPEC	Organisation of Petroleum Exporting Countries
EMU	Economic and Monetary Union	PPP	Purchasing power parity
EONIA	Euro overnight index average	QNA	Quarterly National Accounts
EPA	Official Spanish Labour Force Survey	RoW	Rest of the World
ESA 79	European System of Integrated Economic Accounts	SCLV	Securities Clearing and Settlement Service
ESA 95	European System of National and Regional Accounts	SDRs	Special Drawing Rights
ESCB	European System of Central Banks	SEPA	Single European Payments Area
EU	European Union	SGP	Stability and Growth Pact
EUROSTAT	Statistical Office of the European Communities	SIVs	Structured investment vehicles
FAFA	Fund for the Acquisition of Financial Assets	SMEs	Small and medium-sized enterprises
FASE	Financial Accounts of the Spanish Economy	TARGET	Trans-European Automated Real-time Gross settlement Express Transfer system
FDI	Foreign direct investment	TFP	Total factor productivity
FROB	Fund for the Orderly Restructuring of Banks	ULCs	Unit labour costs
GDI	Gross disposable income	VAT	Value Added Tax
GDP	Gross domestic product	WTO	World Trade Organisation
GFCF	Gross fixed capital formation	XBRL	Extensible Business Reporting Language

## 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 (Estonian 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 <sup>9</sup> ).
m	Millions.
bp	Basis points.
pp	Percentage points.
...	Not available.
—	Nil, non-existence of the event considered or insignificance of changes when expressed as rates of growth.
0.0	Less than half the final digit shown in the series.

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TESTIMONY BY THE GOVERNOR BEFORE THE PARLIAMENTARY BUDGET COMMITTEE  
IN RELATION TO THE DRAFT STATE BUDGET FOR 2011

## Testimony by the Governor before the Parliamentary Budget Committee in relation to the draft State Budget for 2011

I appear before this Committee in connection with Parliament's discussion of the State Budget for 2011. In my view, this Budget will be crucial for Spain's economic future and it will be subject, more than on any other occasion, to in-depth analysis and close scrutiny not only by Spanish society as a whole but also by the main supranational agencies, by our European partners and by the international financial markets on which Spanish households, firms and governments obtain the funds they need to finance much of their activity.

As is known, Spanish budgetary policy responded most forcefully to the global economic and financial crisis, in step with the support programmes for the financial sector, coordinated at European level, and with the firm, resolute action by the European Central Bank, which drastically cut its interest rates and implemented a wide range of conventional and non-conventional measures to prevent liquidity tensions from ultimately shutting down the European financial system.

The fiscal policy response undoubtedly contributed to softening the adverse effects of the crisis on the Spanish economy. Set against this, however, the surplus on public finances rapidly turned into a burgeoning deficit and public debt moved into an accelerating dynamic which, had it not departed from relatively comfortable levels, would have also placed the debt ratio at excessively high levels.

Such was the position of our public finances when the Greek fiscal crisis broke, leading investors to rapidly take stock of the potential problems of unsustainability implicit in Greek deficit and debt dynamics and to begin to closely examine the possible existence of similar risks in other Member States. The upshot was that the instability on sovereign risk markets spread to the European economies evidencing the greatest vulnerabilities, whether because of the speed of the recent deterioration in their public finances or because of the scale of the macroeconomic imbalances that had built up before the crisis.

True, the financial tensions in recent months in Europe, in general, and in our country, in particular, were largely due to an overreaction by the financial markets, which were unable to appreciate the strengths of our economy and of our public finances.

But it would be a serious error to attribute the bouts of exceptional tension witnessed during these months solely to the gregarious behaviour of the financial markets. Indeed, the tensions were amplified by the weaknesses of European institutional arrangements and by the prevailing doubts over the willingness and ability of national governments to tackle the structural and budget deficit problems of their economies.

Evidently, the Greek crisis highlighted the incapacity of the Stability and Growth Pact and, more generally, of the European economic governance framework to prevent the excessive build-up of imbalances and to pursue timely corrective action. As you know, the European authorities have reacted to this need by initiating a deep-seated review of European governance mechanisms, some of the results of which are already coming to light. It can thus be said that as a result of this crisis, economic policies and, in particular, the fiscal policy of the EU Member States, will be subject henceforth to closer and more detailed control by the European institutions so as to anticipate and forestall inconsistencies and imbalances. Any



build-up of the latter will ultimately entail major costs not only for the countries concerned, but also for the European single currency project.

Further, attributing events exclusively to market excesses would mean ignoring the importance of the effects of the decline in activity and employment, of the deterioration in public finances and of financial systems on the possibilities of recovery, and the major economic policy challenges posed thereby, most particularly in the fiscal realm and in the field of structural financial reform.

From this perspective, it is easy to understand how the Spanish economy was subjected to singular pressure. The deterioration in its public finances was evident not only because the budget deficit had climbed to an excessive level, but also because of the rapid increase in the public debt ratio, despite the fact that general government debt remained substantially lower than that in other European economies facing similar pressures.

But there were also other factors amplifying the vulnerability of the Spanish economy in such exceptional circumstances. Firstly, the dysfunctionalities of our labour market, which heightened the impact of the shock on employment, giving rise to a surge in the unemployment rate that called into question the possibility of reversing the course of public spending in the absence of reforms that would enable a significant and lasting reduction in unemployment. As I stated before this Committee a year ago, the viability of any credible budgetary consolidation strategy would require the adoption of labour market reforms providing for far-reaching change in employment behavioural patterns.

At the same time, the Spanish economy's high reliance on external funding made it particularly sensitive to any loss of confidence blocking access to such financial resources, in particular access for credit institutions, which channel the bulk of these resources to households and firms.

All these factors contributed to the contagiousness of the sovereign debt crisis and to the serious external funding difficulties experienced from May to July. Had this situation continued, it would have jeopardised the soundness of the financial system and the vital funding of the economy.

In order to break the dangerous dynamic unleashed and to restore confidence in the Spanish economy, which had become the main objective, it was vital to set new bearings for economic policy through the adoption of substantial fiscal, labour and financial measures.

I previously had the opportunity to inform you of the numerous financial measures pursued to oversee the necessary restructuring of the Spanish banking system, an essential condition for the sound and sustainable recovery of the economy. Allow me today to refer to the role played by the stress tests of the banking system in late July. These are a marker of the progress made in restructuring and, above all, they have provided for an exercise in transparency, allowing us to break the vicious circle of lack of confidence that was building up on the basis of relatively unfounded assumptions and expectations.

As you will recall, when I presented the Banco de España Annual Report for 2009 in June, I set out our intention to publish the stress tests of all Spanish banks and savings banks. This initiative was assumed at European level by the European Council under Spain's presidency, and the results of the exercise, harmonised by the Committee of European Banking Supervisors, were published on 23 July. In Spain's case, the stress tests covered virtually its entire financial system and were conducted in great detail and with a high degree of transparency, providing

extensive information on exposure to the principal asset classes. The results showed the system as a whole to be sound, whereby their publication undoubtedly contributed to dispelling the doubts over our financial system.

The final piece in the far-reaching reform of the financial system has been the savings bank legislation approved by this House. In opening up savings banks to private capital, the legislation will not only allow savings banks to move ahead without having to request assistance from taxpayers, but it will also enable them to meet the demanding capital requirements set under the new international financial regulation known as Basel III.

In the budgetary domain, the government reinforced and accelerated the implementation of the fiscal consolidation programme which, in compliance with Community commitments, it had announced in January. To this end, it approved a new raft of measures on 20 May entailing spending cuts of somewhat over €15 billion to be made between 2010 and 2011 (around 1.5% of GDP), on top of the previously approved spending cuts and tax rises. The new deficit target path was thus set at 9.3% of GDP in 2010, 6% in 2011, 4.4% in 2012 and 3% of GDP in 2013, which would steady the public debt ratio at a level slightly below 75% of GDP as from 2012.

Adopting a package of adjustment measures to come into force immediately, for a significant amount, in sufficient and specific detail, and affecting items as sensitive as public-sector wages, welfare benefits and public investment, gave credibility to the commitment to reduce the budget deficit. Also contributing to this was the bringing forward of the fiscal adjustment targets, whereby almost two-thirds of the adjustment envisaged by 2013 would be completed in 2011.

Finally, having noted the failed negotiations between the trade unions and employers' associations, the government approved a labour market reform on 16 June aimed at encouraging permanent hires and increasing internal flexibility at companies, two of our labour market's most serious shortcomings.

The adoption of these measures, along with the publication of the banking stress test results, saw the tensions on financial markets abate. There was a significant reduction in funding costs for the Treasury and a reopening of funding channels for credit institutions.

Yet this does not mean that the period of instability is over, as the tensions still bearing down on other European countries show. Accordingly, following this initial response it is essential to maintain the credibility earned without losing sight of the fact that for a long time we will be subjected to very close scrutiny, and that episodes likely to spread suspicion and a lack of confidence may arise.

This is the particular juncture we have reached and at which we are discussing this Budget. And these are the reasons why the recovery of the Spanish economy and employment will depend, more so than on past occasions, on a suitable budgetary policy mix and on its interplay with other economic policy tools, most particularly with supply-side and structural reform policies geared to improving employment-generation capacity, smoothing the switch to other productive activities and increasing the economy's effectiveness and productivity.

The cyclical juncture at which the Budget for 2011 has been drawn up is marked by the muted start of a phase of recovery which became discernible in the opening months of 2010 and which will foreseeably continue over the coming year. Nonetheless, exceptional domestic and external factors of uncertainty are clouding the outlook.

So far, the recovery is proving very subdued and dependent on temporary stimuli linked to the government plans supporting spending and to the possible bringing forward of consumption and residential investment decisions by households and firms in the face of the rise in indirect taxes on 1 July. Moreover, funding conditions remain restrictive and both the public and private sectors have a pressing need to restore health to their financial position.

In these circumstances it will be difficult for domestic demand to post the same figures it did in the first half of the year. The rate of increase of household consumption, one of the most dynamic items in that period, will foreseeably slacken, in line with the diminished growth rate of earnings and the lower contribution of other sources of income, in particular those stemming from general government measures. The response of consumption is expected to be consistent with a declining trajectory of the saving ratio, in step with the changes observed since the start of the year, after almost two years of successive increases in this ratio. It is very likely the other domestic demand components will continue to reflect the weakness of their main determinants. In the case of investment in equipment, this will be due to the excess capacity built up during the crisis and the still-prevailing uncertainty over financing conditions; and in that of residential investment, to the need to complete the adjustment set in train back in 2006.

In contrast, net external demand is expected to be more buoyant once the high growth rates of imports of the previous quarters ease, rates which were linked largely to the bringing forward of certain spending decisions, and exports continue on their rising course. For this to occur, perseverance will be needed in anchoring the cost- and price-competitiveness improvements obtained in recent quarters and entrenching them with genuine productivity gains.

In sum, the outlook for the Spanish economy is one of gradual recovery which will take some time to attain the dynamism proper to an expansionary phase with sufficient capacity to generate employment. The restoration of confidence, the positive effects of fiscal consolidation on agents' expectations and the lessening of uncertainty in the labour market, further to the reform under way, will need to be the essential ingredients of any sustained recovery. The private sector must take up the baton from the public sector in support of activity, and net external demand should play a predominant role.

The success of the fiscal consolidation programme is a centrepiece of this strategy. Correcting the budget deficit has become an unavoidable priority for Spanish economic policy.

The budget outturn data currently available suggest the targets set for 2010 will be met, at least as far as central government conduct is concerned. On this basis, it is therefore vital to design a budget for 2011 that is fully consistent with meeting the budget deficit target of 6% of GDP for that year.

To ensure no deviations arise, monitoring and surveillance procedures for the budget outturn must be reinforced and, should deviations be detected, corrective measures must be rapidly applied. The availability of contingency plans designed sufficiently in advance would contribute greatly to the success of these measures.

The draft State Budget details appropriately the revenue- and spending-side measures that should allow compliance with the State target set. In terms of its composition, moreover, the draft Budget has most of the adjustment falling on public spending. And this, on past experience, raises the effectiveness of the consolidation strategy.

Yet the presence of risks threatening the attainment of these targets should not be understated. The Budget is based on a macroeconomic scenario of significant recovery which, if not confirmed, might lead to a revenue path worse than projected. As I said, if this were the case, offsetting measures should immediately be applied.

But perhaps the biggest risk to general government meeting its targets stems from the potential deviations that may arise at the regional and local government level. As known and reiterated on many occasions, the high decentralisation of public spending in Spain means that the collaboration of the regional and local governments is essential for achieving budgetary stability. At the end of this year it will be possible to make a full assessment of the consolidation drive made by the regional budgets, but my impression is that, as matters stand today, the measures announced by most regional and local governments far from respond to the reduction in public spending needed.

I therefore believe formulas must be sought to strengthen regional and local government commitment to budgetary stability and to encourage compliance. In this respect, we should not rule out a revision and strengthening of the national budgetary framework, in particular in the case of regional and local governments, a framework that resides essentially on the Budgetary Stability Law. Such action would be in line with the recommendations recently made by the European Council for all European countries in the framework of the review of governance in Europe.

A key element of the Budgetary Stability Law for achieving fiscal discipline is transparency. The dissemination of data relating to the non-financial activity of the State is abundant, detailed and released with a relatively small lag. This is regrettably not the case for regional or local governments, which curtails the ability to control their activity in time and accountability. In my view, these shortcomings must urgently be redressed. At a time such as the present, a lack of transparency may lead to a lack of market confidence that takes the form of a further premium on the cost of financing.

Given the circumstances, all available instruments should be used to ensure compliance with the targets set. In particular, authorisation for regional and local governments to issue new debt should be conditional upon compliance with consolidation plans. A spending ceiling might even be considered for these governments, an instrument which has proven enormously useful in strengthening budgetary discipline in the case of the State.

Along the same lines, medium-term planning necessitating analysis of the structural dynamics of the various public revenue and spending items and enabling those areas where the scope for rationalisation and adjustment are greater to be detected may prove appropriate, especially when adjustment measures going beyond a temporary correction of imbalances are required.

In this setting, the reform of the pension system currently under discussion is especially important. Indeed, it goes beyond the major goal of ensuring the long-term sustainability of our pensions system in the face of the challenge of population ageing. This reform may also have significant and beneficial short-term effects on the credibility of the authorities' commitment to budgetary discipline and the ability to see through far-reaching structural reforms and favourably influence the risk premia on public debt.

The promptness and ambitiousness of the reform are essential. A suitable combination of changes in certain parameters of the system, raising the legal retirement age, the minimum

number of years necessary to qualify for a pension and the period over which the pension is calculated would help ease substantially the pressure on future public spending on pensions and resolve one of the Spanish economy's major outstanding problems.

Fiscal consolidation is an essential condition for ensuring future economic growth. The effort will no doubt be rewarded because it will place the Spanish economy in a sounder position to anchor the recovery. Its long-term effects will in any event prove more forceful if accompanied by structural reforms that raise the economy's growth potential. The elements interconnecting both policies are on an enormous scale: potential growth influences the sustainability of public finances, while an appropriate distribution of adjustment efforts across the various spending and revenue items is conducive to activity and has expansionary effects on output and employment. Harnessing these links is particularly important for absorbing high unemployment and correcting the imbalances built up during the boom years.

Economic policy action geared to strengthening growth foundations is of vital importance, particularly the reforms promoting job creation. Such action makes possible the achievement of gains in competitiveness and enhances the economy's long-term efficiency and productivity. And it is also essential for boosting the external sector and providing for the rapid reallocation of resources towards potentially dynamic goods and services branches.

As I have reiterated on many occasions, labour market reform is pivotal here. Indeed, significant progress has been made with the recent approval of the legislation on urgent labour market reform measures. Among the changes made that may contribute to improving the functioning of our labour market, I feel it is important to stress the greater possibilities available to firms to adjust working and wage conditions to the changes arising in demand or in supply-side innovations, thereby limiting the impact of these shocks on employment. It is now for employers and employees to take full advantage of the new opportunities provided by labour reform so that the necessary gains in competitiveness can be had as soon as possible, swiftly ushering in a new phase of economic dynamism and job creation. Slowness in harnessing the internal flexibility offered by the reform would but hamper recovery and delay the generation of new jobs.

It is important to take advantage of the conditions in place so that the wage moderation begun in the first half of the year may take root in the coming quarters, and so that ailing companies may maintain employment and ensure their survival by drawing on the new avenues of flexibility offered to them, through negotiations with their workers. The austerity measures adopted in the public sector, which include wage cuts, will help bring about the adjustments the private sector needs to entrench its competitiveness. On top of wage restraint in those companies that need it to restore competitiveness, there should be genuine productivity gains based on greater efficiency, since so far their expansionary behaviour chiefly reflects the severity of the employment adjustment.

A further key ingredient to ensure gains in structural competitiveness is the continuation of the current low-inflation scenario once the recovery firms. The return of the core inflation rate to its low level before the VAT rise, once the base effects are stripped out in the second half of next year, would be a good indicator that cost- and price-setting processes are moving in the right direction and are capable of surviving comfortably within an area of price stability. The absence of indexation clauses in wage bargaining for 2011, as stipulated in the agreement in force, will help prevent the rise in VAT from exerting second-round and inflation-inertia effects. This experience is another example of the advantages to be had from abandoning

indexation clauses, which are no more than a legacy of inflationary habits from a past firmly behind us, but whose continuing use has been a source of problems, as the Banco de España has reiterated.

Improving our economy's productivity in the medium and long run will require seeing through other, deeper structural reforms, including most notably sectoral liberalisation, the rationalisation of the public sector's role in economic activity and improvements to the education system. These are reforms whose introduction needs time and whose effects will be deployed over a lengthy period; but the resolve to adopt them also has positive effects in the short run by improving expectations about our economy's economic growth, which is particularly welcome in these testing times.



## 1 Overview

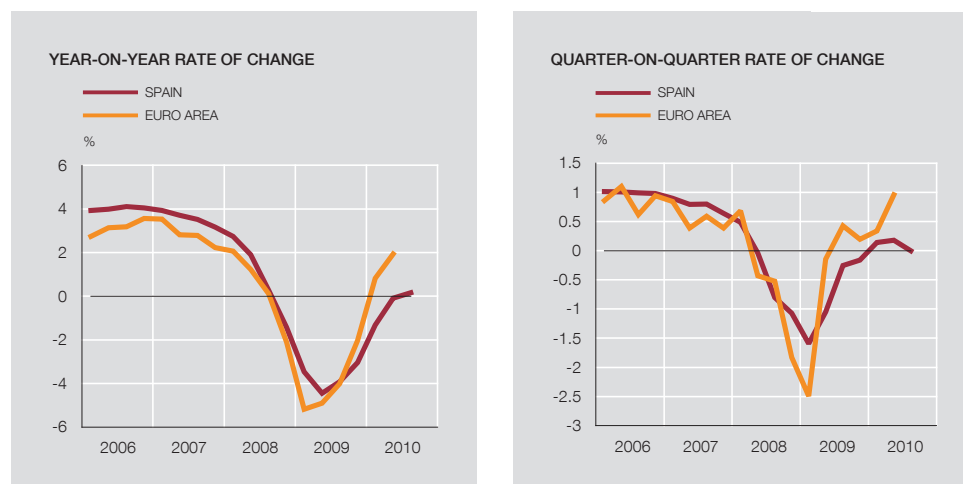
The slow recovery in the Spanish economy that had begun in the opening months of 2010 continued in Q2, posting a quarter-on-quarter rate of increase in GDP of 0.2%, although the year-on-year figure resulted in a decline of 0.1%. On the expenditure side the fall in national demand slackened markedly (-0.4% year-on-year), influenced by temporary factors that led some spending decisions to be brought forward, while the positive contribution of net external demand fell to 0.4 pp of GDP.

The information available for Q3 suggests a transitory weakening in economic activity, due largely to the tailing off of certain expansionary factors. These include most notably the end on 30 June of the so-called Plan 2000E, a direct public aid programme for car purchases, and the reversal of the effect of the spending brought forward in the first half of the year, as the rise in VAT took effect from 1 July. Compounding this further will be the impact on the public components of national demand of the budgetary austerity measures approved in May. Under these circumstances, the estimates made on the basis of the conjunctural information available indicate that GDP is expected to have stabilised at the levels of the previous quarter, registering a zero quarter-on-quarter rate of change, which nonetheless entails a 0.2% year-on-year increase in output, following seven consecutive quarters of declines. On the expenditure side, growth is estimated to have been underpinned by the contribution of net external demand, adding 1.2 pp to the increase in output, while the decline in national demand intensified to -1%. From the supply-side perspective, construction and services felt the impact of the loss of momentum in domestic expenditure, and employment continued to show no signs of recovery, although a very sharp cut in the rate of job destruction is observable when the calculation is made in year-on-year terms. According to the EPA figures, employment fell by 1.7% in year-on-year terms, as compared to -2.5% in the previous quarter, and the unemployment rate fell 0.3 pp to 19.8% in a context in which the labour force picked up. Inflation rose during the quarter, placing the year-on-year rate of change in the CPI at 2.1% in September (1.5% in June), chiefly the result of the pass-through of the VAT rise in July to final prices. The pass-through is estimated to be on a lesser scale than in previous episodes involving changes in indirect taxation. The rise in prices extended to core inflation, which rose to 1.1% in September, and impacted the inflation differential with the euro area, which widened slightly to 0.3 pp that month.

On the international economic front, there was an easing in the bout of financial instability experienced by the European countries in Q2 further to the spread of the effects of the Greek fiscal crisis. Tensions on sovereign debt markets abated in a relatively generalised fashion as a result of the firm action by the European authorities, the ECB and the governments of the countries most affected. That said, there was subsequently the odd bout of instability centred in particular on the sovereign debt issued by the Irish and Portuguese governments. The banking system saw its wholesale funding markets restored to normal working order, and the substantial volatility that stock markets had shown during the spring was corrected. There were, however, considerable tensions on foreign exchange markets. These resulted in a sizable depreciation of the dollar against the main currencies, set against growing discrepancies between the prospects for recovery of the different geographical areas and significant divergences in the monetary and fiscal policy stances applied.

The pick-up in the world economy continued to be led by the emerging countries, particularly the Asian nations. Meanwhile, the cyclical situation in the developed countries was marked by greater moderation, especially in the United States, where the economic outlook worsened,





SOURCES: ECB, INE and Banco de España.

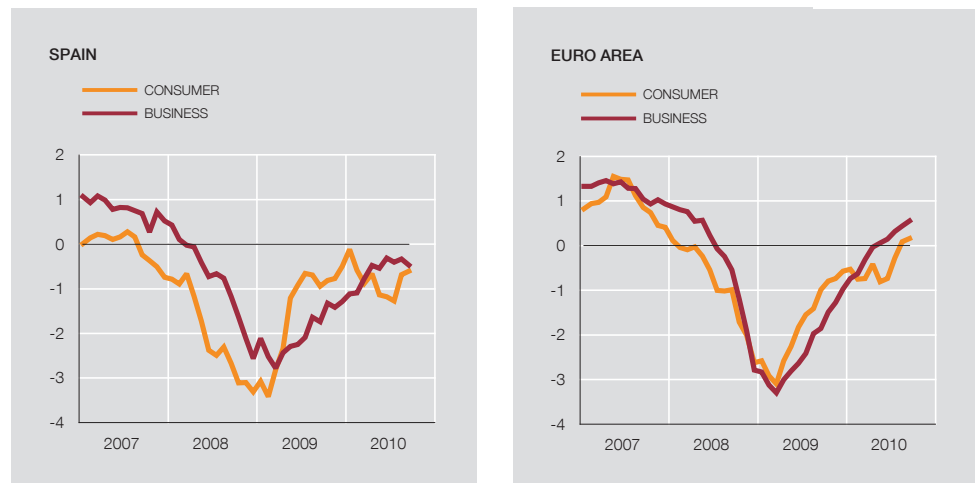
a. Seasonally adjusted series.

leading the Federal Reserve to announce a new phase of monetary expansion. Inflation generally remained low, while commodities prices increased across the board.

Economic activity in the euro area continued to trend favourably after the summer, albeit at a somewhat lower rate of expansion than in the previous quarter, driven by the strength of the German economy. The lesser momentum of the external sector, the disappearance of certain temporary factors and the progressive withdrawal of the economic policy stimuli are at the root of this slower pace. The absence of inflationary pressures in the medium term, against the background of gradual recovery described, meant that the monetary policy stance remained accommodative. At its September, October and November meetings, the ECB Governing Council decided to leave official interest rates unchanged at their all-time low of 1% for the main refinancing operations, and at 1.75% and 0.25%, respectively, for the marginal lending and deposit facilities.

The ECB took steps towards defining its strategy for the gradual withdrawal of the extraordinary measures introduced during the financial crisis, although it continued with the policy of abundant liquidity provision it had been pursuing. Specifically, at the September meeting, it announced that it would retain its fixed-rate tender procedure with full allotment, at least until the end of 2010, although in the case of three-month loans it said that the rate would be adjusted on the basis of the average MRO rate. Further, the Securities Markets Programme it introduced in May to restore the normal functioning of the debt markets remained in place.

In the fiscal realm, budget deficits in the euro area are expected to hold at high levels in 2010, similar to those of the previous year, despite the implementation of adjustment programmes by the countries with the biggest deficits. As part of the discussions on how to improve economic governance in the euro area, major steps were taken including, inter alia, the introduction of mechanisms to reinforce EU countries' commitment to budgetary stability. The most notable headway in defining this reform was seen in the proposals submitted by the task force set up at the April European Summit, in which the EC, the ECB and the European Commission all participate, which were approved by the Heads of State and of Government on 28 October. In fiscal terms these proposals call for a significant reform of the SGP that will accord greater



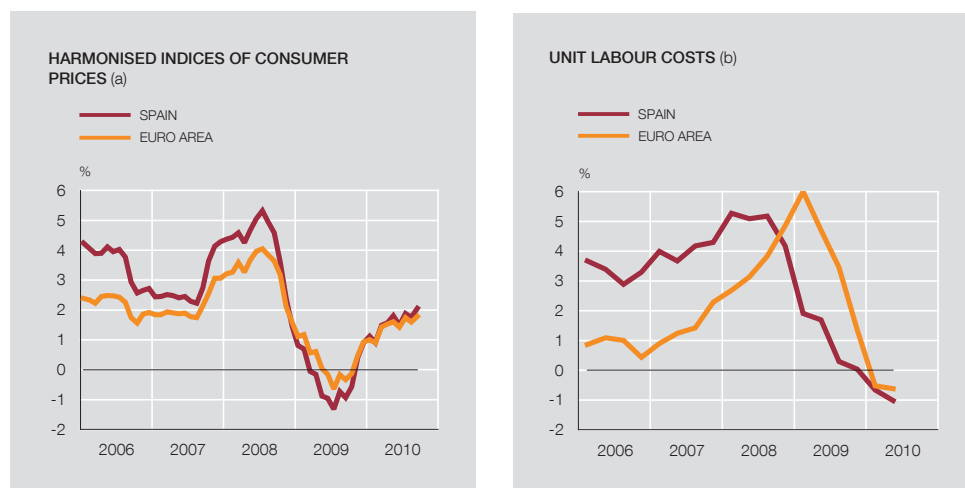
SOURCE: European Commission.

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

significance to the public debt criterion when assessing countries' fiscal positions, and they advocate a more extensive and transparent sanctions regime. The task force also proposes a new mechanism to head off and, where appropriate, correct the build-up of macroeconomic imbalances that might compromise the Economic Union project, and the strengthening of the euro area economic policy coordination and surveillance mechanisms. Finally, the Heads of State and of Government agreed to set up a permanent crisis mechanism to safeguard financial stability across the euro area, which will entail a limited amendment to the EU Treaty. The design of the mechanism will be specified over the remainder of this year (see Box 3 for greater details in this connection).

Progress was made in the design and implementation of supervisory and financial assistance mechanisms at the European level. On 22 September the European Parliament approved the reform of the European framework of financial system supervision, placing particular emphasis on macro-prudential aspects so as to detect in advance potential practices that might entail major risks for the financial sector and result in a new crisis. The agreement envisages the creation, from January 2011, of the European Systemic Risk Board and of the three European Supervisory Authorities, which will seek to ensure the sound functioning of the banking, insurance, pensions and securities sectors. The European Financial Stability Facility (EFSF) became fully operational once the Member States committed themselves to guaranteeing over 90% of the vehicle's total funding. The Basel III accord on new capital requirements for financial institutions was a further step forward in the reform of the international financial system.

Against this backdrop, Spain managed to decouple itself from the countries most affected by the sovereign debt crisis in the euro area. It did so thanks to the measures agreed in the European arena and, above all, to the Spanish government's measures in May and June relating to budgetary consolidation, labour market reform and financial system restructuring. The publication in July of the stress tests of EU credit institutions reinforced confidence in the solvency of the Spanish financial system and contributed to a more realistic view of the Spanish economy's situation and an appreciation of the economic policy efforts deployed. Stock market prices duly rose while volatility diminished (the IBEX 35 was around 17% up over the course of



SOURCES: Eurostat, ECB and INE.

a. Year-on-year rate of change.

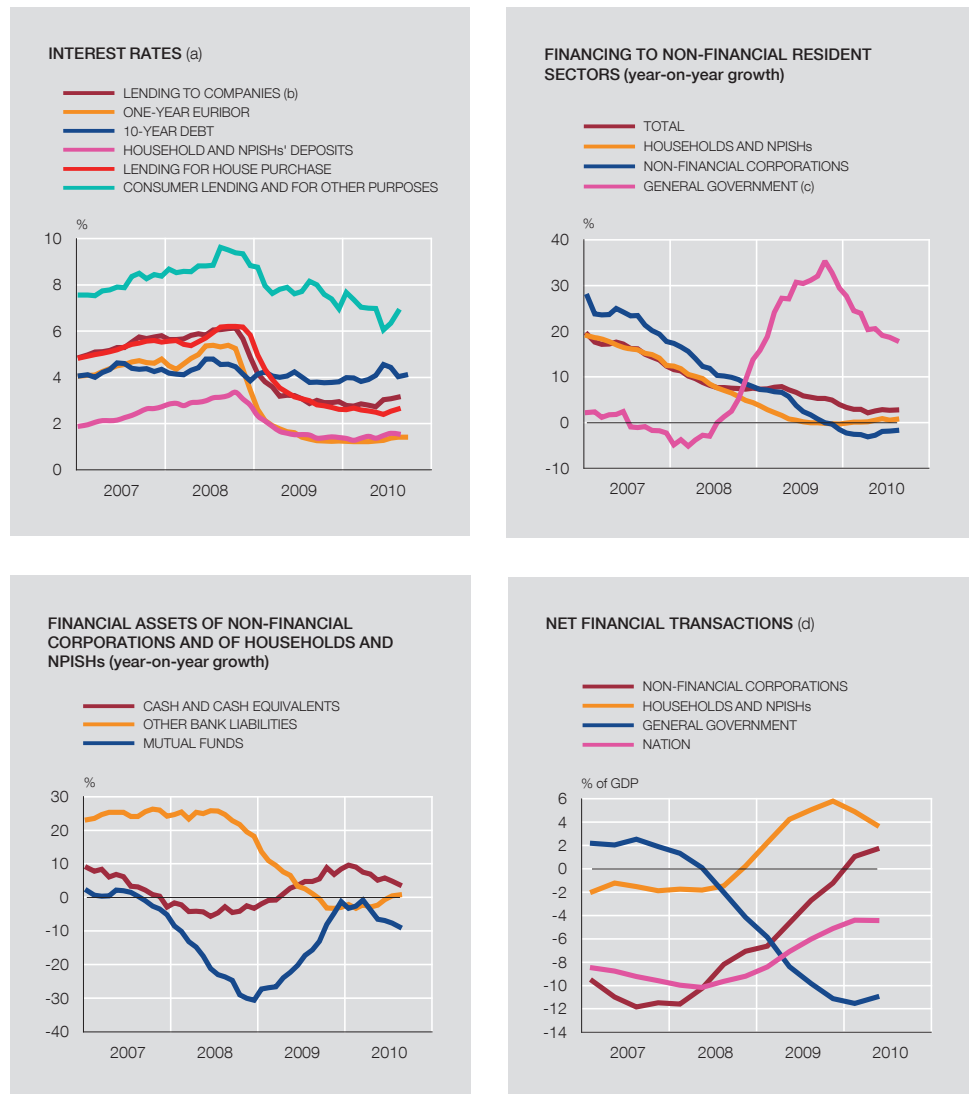
b. Per unit of output. Year-on-year rate of change calculated on the basis of seasonally adjusted series.

the quarter), and the risk premia on both public- and private-sector bonds fell. Indeed, Spanish 10-year government bond yields declined more than they did on the German Bund, and the spread between both narrowed to stand at end-October at 165 bp, having risen to some extent in the opening days of November. In the real estate market, according to the latest figures published by the Ministry of Housing, property prices continued on a downward course in Q3, taking the related year-on-year rate of change to -3.4% (-3.7% in Q2), confirming the less pronounced slowing path observable in recent quarters.

In sum, the serious financial constraints brought about by international investors' loss of confidence in the Spanish economy were overcome during the quarter. This improvement allowed some easing in market borrowing conditions for public and private agents, although the cost of funds raised by institutions remains higher than that prevailing prior to the sovereign debt crisis.

Under the conditions described, the recovering trajectory of household consumer spending seen in previous quarters was interrupted, and there was an estimated quarter-on-quarter decline that would place the quarterly rate of change in this variable at around 1%. The end of the government scheme involving direct assistance for car purchases, combined with the VAT rise, contributed to reining back household consumption following the bringing forward of durables purchases seen in the previous months. Once these effects – which have altered the profile of consumption throughout the year – have petered out, household purchases of goods and services may be expected to resume a course of gradual recovery, within the foreseeably limited perimeters marked by disposable income and wealth developments. Offsetting this effect, households may pursue their spending plans by drawing on the still-high saving ratio. As a result, the decline in this variable since the start of the year, down 2 pp from its 2009 high to 16.2% of disposable income in 2010 Q2 on four-quarter cumulated figures, which is still far above its historical average, might further intensify.

The ongoing adjustment of residential investment continued, with an estimated fall of 16.1% year-on-year (-19.3% in the previous quarter). During the quarter there was once again a rise in certain housing demand indicators. This would be attributable, once the effects of the bring-



SOURCE: Banco de España.

a. In June 2010 the statistical requirements relating to interest rates applied by credit institutions to their customers were amended, potentially causing breaks in the attendant series. Of particular significance was the change in the interest rates on consumer credit and other loans, as a result of which, from that month, operations transacted using credit cards have not been included.

b. 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.

c. Consolidated financing: net of securities and loans that are general government assets.

d. Four-quarter cumulated data.

ing forward of spending due to the rise in indirect tax are stripped out, to the improvement in the affordability indicators and to property-purchase decisions being brought forward in light of the partial elimination in January 2011 of personal income tax deductions for purchase of the principal residence.

In this context of expenditure containment, the outstanding balance of household debt held stable, posting a year-on-year rate of change of 0.7% in August. The reasons for this were the moderate increase in lending for house purchases (1%) and the maintenance of lending for consumption and other purposes at similar levels to those in 2009. Given the sluggish pace of income, the household debt ratio is expected to hold at a similar level to that prevailing mid-year.

Business investment fell further in a setting in which the relative strength of exporting firms' demand for capital goods was unable to offset the plethora of factors that continue to weigh on the start-up of new investment projects. These included the slackness of domestic demand and uncertainty over the intensity of the recovery, in a situation in which capacity utilisation remains at a relatively low level, along with the process of financial deleveraging in which the sector remains immersed, which should continue in the coming months. In addition, the end of the plan to boost commercial vehicle sales, which had sustained business spending over the past year, also influenced the quarter-on-quarter reduction in investment in equipment, following four quarters of positive rates of increase. And further, the cut in investment in infrastructure, which is being carried out to some extent with private-sector participation, might have begun to have a bearing on the component of investment in other construction.

This pattern of business spending was accompanied by an increase in saving, meaning that, drawing on information from the non-financial accounts of the institutional sectors, non-financial corporations reduced their net borrowing, which stood at -0.7 pp of GDP in Q2 on four-quarter cumulated figures. This was consistent with a further contraction in credit extended to companies (-2.2% year-on-year in August), albeit on a far lower scale than in the previous months.

Turning to foreign trade, the positive contribution of net external demand in Q3 rose substantially (adding 1.2 pp to the increase in GDP, in year-on-year terms). This was the outcome of the rise in exports and the decline in imports. The latter corrected the unusual rise in the first half of the year in imports, which was linked to the pick-up in certain domestic demand components, in particular purchases of durable goods, owing to the above-mentioned temporary factors. Exports, for their part, grew robustly once more, due to the strength of growth in the emerging economies and to the recovery in the euro area, as well as to the favourable behaviour of competitiveness in terms of relative prices and costs. Trade in tourist services held on the recovering path initiated at the start of 2010, with the strength of the exports component particularly to the fore, while non-tourist services remained most sluggish.

Despite these developments, the reduction in the trade deficit this year has been checked. While the deterioration in the energy component lies behind this, the trajectory of the non-energy deficit has also ceased moving downwards, prompting a slowdown in the correction of the nation's net borrowing, which stood at -4.4% of GDP in Q2 (-5.1% in 2009) according to the sectoral non-financial accounts. Further headway must therefore be made in correcting the trade deficit, whereby perseverance will be required to entrench the improved competitiveness attained in recent months and to reduce the high dependence on imported energy, which sets a limit on how far the deficit can be cut.

General government conduct began to reflect the impact of the austerity plans set out in the first half of the year. In addition to their effect on household income, the measures adopted also bore down on government consumption and public investment. The strength of revenue and the incipient downturn in expenditure (which should be pursued further over the rest of the year) are in principle compatible with the deficit target laid down in the draft State budget for 2010 (9.3% of GDP), at least for the State, for which information is available.

Into 2011, the draft budget cuts the deficit target to 6% of GDP for the overall general government sector, stemming from deficit balances for the State, regional government and local government (of 2.3%, 3.3% and 0.8%, respectively), and a surplus balance for the Social Security system (0.4%). A further increase is foreseen in the public debt/GDP ratio, from an estimated 62.8% in 2010 to 68.7% in 2011. The tight fiscal policy stance envisaged in the budg-

et should see progress towards meeting the commitments entered into at the European level. But the programmed budgetary consolidation path is not free from risks. Strict compliance with it requires monitoring and rigorous control of the revenue shortfalls and expenditure overruns that might arise in the various general government sub-sectors and, where necessary, additional consolidation measures should be applied.

From the supply-side standpoint, value added in the market economy held at a similar level to that of the previous quarter. This was as a result of the decline in construction activity, which was influenced by the weakness of residential investment and the impact of the budgetary austerity measures, and the estimated slowdown in market services, which were affected by the slackness of consumption. Employment showed no signs of picking up, and a slight decline in this variable is estimated, of a similar magnitude to that in the previous quarter.

Labour costs are expected to have continued on the moderating path on which they embarked at the beginning of the year, driven by the cuts in public-sector wages; in contrast, average private-sector wage settlements held at 1.3%, a similar rate to March and still above the recommended ceiling for new collective bargaining agreements under the multi-year pact entered into by the social agents last February. Wage increases negotiated in collective agreements may be expected to fall further in the rest of the year, all the more so if employers and employees make use of the provisions offered by Law 35/2010 of 17 September 2010 on urgent labour market reform measures, which includes the possibility of companies in a vulnerable economic situation resorting to wage opt-out clauses. Foreseeably, unit labour costs will continue to fall as a result of developments in productivity, which will still be reflecting the intensity of job destruction over the course of this cyclical phase.

As indicated, inflation rose and averaged 2% in Q3 (1.6% in Q2), reflecting the impact of the rise in VAT on final prices. As Box 4 shows, it is estimated that the increase in indirect tax accounts for between 0.4 and 0.6 pp of this rise, meaning the degree of pass-through has not been more than 50%, below what occurred in previous episodes of VAT tax changes, probably as a result of the weakness of domestic spending. It is to be expected and would be desirable that, once the base effects linked to this regulatory change disappear, in the second half of next year, core inflation should return to the low level it showed before the rise in VAT. The absence of indexation clauses in collective bargaining in 2011, as established in the above-mentioned pact, will help prevent the impact of the VAT tax rise from exerting second-round and inflation-inertia effects.

Finally, it is expected that the stagnation of the Spanish economy in Q3 will be temporary and, now the effects of the shift in spending decisions to the first half of the year in anticipation of the VAT rise have run their course, that economic activity will resume the path of mild recovery initiated at the start of the year. Nonetheless, if the recovery is to gain the force needed to create jobs, a continuing positive contribution by net external demand will be necessary. And so too will a progressively more dynamic private sector, underpinned by sound finances and by the improvement in agents' expectations that an ambitious range of structural reforms should foster.

## 2. The external environment of the euro area

There was a significant change in Q3 in the catalysts of global economic and financial developments, which generally had a positive influence on the behaviour of the international financial markets. After the fears surrounding the European sovereign debt crisis, which dominated in Q2, concern during the summer was centred on the uncertainty regarding the recovery in the developed economies, in particular in the United States. The increasing divergence in recovery rates across regions, with much greater dynamism in the emerging economies, has led to large differences in economic policy stances, which have given rise to increasing exchange rate tensions in the last month and a half, against a background of falling long-term interest rates in the developed economies. The main cause of these tensions has been the prospect of a new phase of monetary expansion in the United States. The Federal Reserve has shown itself to be increasingly open to the possibility, basing its change of position on the weakness of economic growth and on the low levels of inflation, when the scope for fiscal action is limited for economic reasons and by the proximity of the elections. Although the effectiveness of a new wave of extraordinary measures is uncertain, the markets are already discounting further quantitative easing, which has prompted a general depreciation of the dollar and an increase in tensions on the foreign exchange markets. Although China has increased the rate of appreciation of the renminbi against the dollar, this is still insufficient to bring about an appreciation of its currency in effective terms. Against this background, many countries have had to withstand strong upward pressures on their exchange rates, which they have done in several different ways: by interrupting the cycle of official interest rate rises (as in certain emerging economies); by accumulating larger volumes of reserves; by intervening directly on the foreign exchange markets (Japan); or by strengthening capital controls (e.g. Brazil).

As regards developments in the various different financial markets, stock markets posted widespread losses in August, with an increase in volatility, owing to the uncertainty regarding the US economic recovery. However, in September and October these losses were reversed and credit markets improved, partly on account of the expectations of greater monetary stimulus from the Federal Reserve and, in the case of the financial sector, the increase in confidence stemming from the approval of Basel III and the positive assessment of the effects of US financial reform. For their part, the public debt yields of the main economies fell at all maturities, especially at the long ones, the segment on which monetary expansion measures are expected to be focused. In the foreign exchange markets, the dollar has depreciated against the main currencies by 5-10% in the last three months, while the Chinese renminbi has appreciated by little more than 2% against the dollar. In the emerging markets the improved economic outlook and favourable interest rate spreads led to growing capital inflows, which, in turn, generated strong stock market gains, a narrowing of sovereign spreads and upward exchange-rate pressures. At the same time, commodity prices experienced widespread gains, following the falls of the previous quarter. Metal prices rose by 16% and food prices 13%, Brent crude is currently trading at around \$80-85 per barrel, some \$10 above its level at the beginning of July, while the price of gold was above \$1,300 per ounce. These rises are connected with the depreciation of the dollar and the fall in interest rates.

In the United States, the Q3 GDP growth estimate was an annualised quarter-on-quarter growth rate of 2% (3.1% year-on-year), as against 1.7% in Q2 (3% year-on-year). The acceleration was primarily due to the positive contributions of private consumption and the change



in inventories. However, the latest indicators have intensified the doubts regarding the recovery, given the pronounced labour market weakness, the stagnation of the residential housing market (analysed in Box 1), the slackness of consumption and the concerns over the strength of investment. Specifically, retail sales slowed during the quarter, despite the pick-up recorded in September, while consumer sentiment worsened. At the same time, the job creation data remained very disappointing, with the unemployment rate remaining at 9.6% of the labour force. The residential housing market indicators fell sharply following the withdrawal of tax credits for house purchases at the end of April, despite the slight rise in sales and in housing starts in September. As for inflation, annual CPI inflation in September stood at the same level as in June (1.1%), while underlying inflation fell to 0.8%, its lowest level for fifty years. Against this background, the Federal Reserve left its official interest rate unchanged (between 0% and 0.25%) and reiterated that it would keep it at exceptionally low levels for an extended period. It showed more concern about the downside risks to activity and prices, confirming its desire to carry out, if necessary, further bond purchases to stimulate the economy, thereby anticipating a new round of quantitative easing (QE2).

In Japan, quarter-on-quarter GDP growth stood at 0.4% (2.4% year-on-year) in Q2, down from 1.2% in the previous quarter (4.7% year-on-year), owing to the stagnation of consumption, the negative contribution of inventory accumulation and a larger contraction in public investment. The latest data point to a decline in industrial output, linked to a reduction in exports, against a background of decelerating global demand and yen appreciation, and a deterioration in business and consumer sentiment, which points to a more pronounced decline in activity at the end of the year. However, in the labour market the unemployment rate fell by 0.3 percentage points during the quarter, to 5% of the labour force, with a marked recovery in employment. At the same time, the rate of decline in consumer prices accelerated, to -0.6% year-on-year in September, and underlying inflation remained at -1.5%. In this setting of greater concern about the rate of recovery and the upward trend in the yen, the Bank of Japan intervened in the foreign exchange markets in mid-September selling an amount of yen estimated at 0.4% of GDP. In October, it reduced the official rate of interest to the range 0%-0.1% and approved a fund of ¥5 billion (1.1% of GDP) to purchase assets, in order to reduce longer term rates.

In the United Kingdom, the initial estimate of GDP growth in Q3 was 0.8% quarter-on-quarter (2.8% year-on-year), below the Q2 rate of 1.2% (1.7% year-on-year). Likewise, the highest frequency data suggest a moderation in growth from Q3, given the slackness of business sentiment and private consumption and the weakness of the external sector. In the labour market, the unemployment rate fell by 0.1 percentage points to 7.7% of the labour force, with a good rate of job creation. However, the recovery in the real-estate market in mid-2009 seems to have come to a halt, with a weakening of demand that has led to further price stagnation. As for consumer prices, the CPI remained at 3.1% year-on-year in September and underlying inflation moderated to 2.7%. Against this background, the Bank of England at its October meeting held the official interest rate unchanged at 0.5%, without modifying its asset purchase programme.

The non-euro area EU Member States that joined the EU in 2004 or 2007 recorded year-on-year GDP growth of 1.8% in Q2, up from 0.5% in Q1, driven by the buoyancy of exports to the euro area, while domestic demand remained weak, except in Poland. The Q3 indicators show a growing improvement in industrial production and signs of recovery of private consumption in some countries. However, the recovery is very uneven across countries, being more pronounced in Poland, the Czech Republic and Estonia, while year-on-year growth rates are still negative in Latvia, Bulgaria and Romania. In the latter case the deterioration of the economic



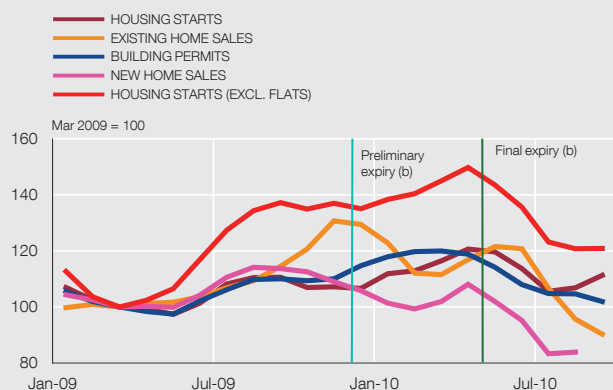
The housing market has been at the epicentre of the US economic and financial crisis. Not only was mortgage financing the proximate trigger of the financial turbulence that initiated the crisis, but also adjustment in the real-estate sector was one of the factors responsible for the economy's entry into recession, with particularly strong effects on the labour market and the financial position of households. From September 2008, the US authorities implemented a substantial battery of public measures in order to normalise the market. However, their partial withdrawal, against a background of economic and financial fragility, has shown that private demand is still insufficient to underpin real-estate activity. This box analyses the recent developments in the US housing market, identifying the factors feeding the risks of a relapse, in the absence of additional public assistance and given the restricted scope for further fiscal support.

The recent adjustment in the housing market has been very severe by historical standards. The correction began at the beginning of 2006,

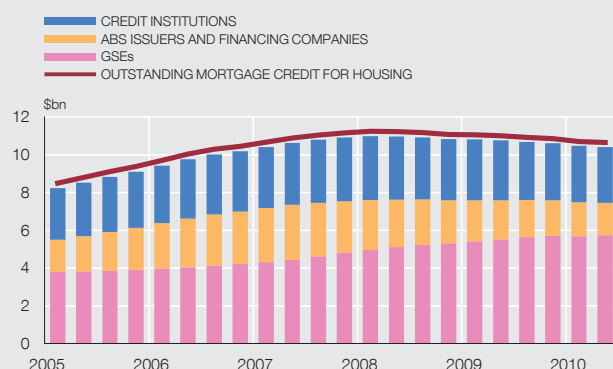
establishing the conditions that would give rise to the subprime mortgage crisis in mid-2007, and, in September 2008, the real-estate adjustment intensified with the financial collapse. Housing starts fell from 2.3 million, at the peak of the cycle, to 477,000 at the trough (beginning of 2009), while existing home sales fell from 7.1 million to 4.5 million over the same period (see Panel 1). Prices, as measured by the Case-Shiller index for the 20 main urban areas, fell by 32% (see Panel 2). In response to the collapse in the market, public support measures,<sup>1</sup> which commenced with the placement into conservatorship of Fannie Mae and Freddie Mac, in September 2008, were decisive in stabilising the market. On one hand, with the support of the purchase of a large proportion of their asset-backed securities by

1. For a detailed study of the fiscal and monetary support for the mortgage market, see Cuadro-Sáez, Romo and Rubio (2010), "El mercado hipotecario residencial en Estados Unidos. Evolución, estructura e interrelación con la crisis", *Boletín Económico*, June, Banco de España

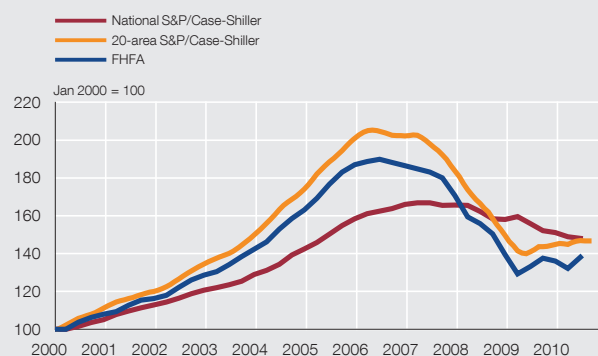
### 1 HOUSING STARTS, PERMITS AND SALES (a)



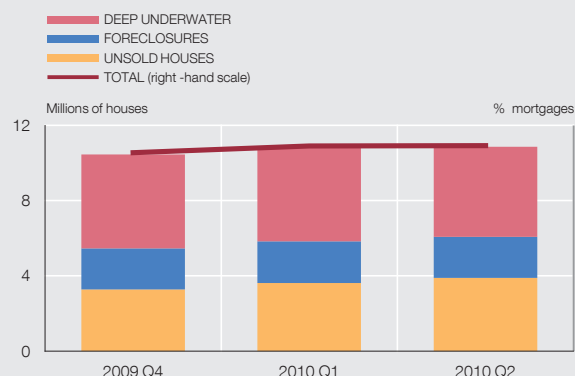
### 3 ROLE OF GSEs IN THE MORTGAGE MARKET (outstanding amount)



### 2 HOUSE PRICES



### 4 HOUSES TO BE SOLD: CURRENT AND POTENTIAL VALUE (c)



SOURCES: National Association of Realtors, Bureau of the Census, Federal Housing Finance Agency, S&P Case Shiller, Federal Reserve Board (Flow of Funds) and First American Corelogic.

- a. For simplicity of presentation, the series are represented as a three-month moving average.  
 b. Reference dates for the tax credit for new house purchasers.  
 c. "Deep underwater" includes those mortgages with a loan-to-value ratio of over 125%.

the Federal Reserve, these government sponsored entities that have been taken under federal government control increased the volume of low-cost financing, while tax credits were established for new house purchasers, which proved to be decisive in reactivating the market (see Panel 3). On the other hand, measures were taken to prevent avoidable foreclosures, through programmes to modify troubled mortgages and to refinance mortgages with stringent conditions, and funds were set up for the stabilisation of areas particularly affected by foreclosures. This battery of measures, along with the stabilisation of economic activity, successfully reversed the downward trend in the market; between spring and autumn 2009 housing starts and sales increased by more than 20% and house prices stabilised.

Although the withdrawal of the tax credits for house purchases<sup>2</sup>, initially planned for October 2009, was postponed until April 2010, given the doubts surrounding the capacity of private demand to reactivate the market, it led to a significant slowdown in real estate activity, confirming that the recovery in the market had been based on the public support. Housing starts and building permits for houses other than flats contracted by 20% between April and September, and sales of both new and existing homes fell by 25% over the same period. At the same time the stock of unsold houses has increased significantly relative to monthly sales. In short, the real estate market indicators are once again standing at around the historically low levels of spring 2009, the renewed labour market weakness from the summer being one of the contributory factors.

The outlook for the real estate market is negative and the risks are biased to the downside, owing to the weakness of private demand and the restricted scope to introduce new government measures to support this market in the near future. At the same time, the persistent weakness in the labour market may result in more mortgage foreclosures, increasing the already large stock of unsold houses and putting downward pressure on prices, which could lead to an increase in the number of houses whose price is below the outstanding mortgage debt, i.e. with a loan-to-value ratio of more than 100% (so-called underwater mortgages). Panel 4 presents an estimate of the number of houses that could come onto the market, obtained as the sum of the stock of unsold houses, those in the process of foreclos-

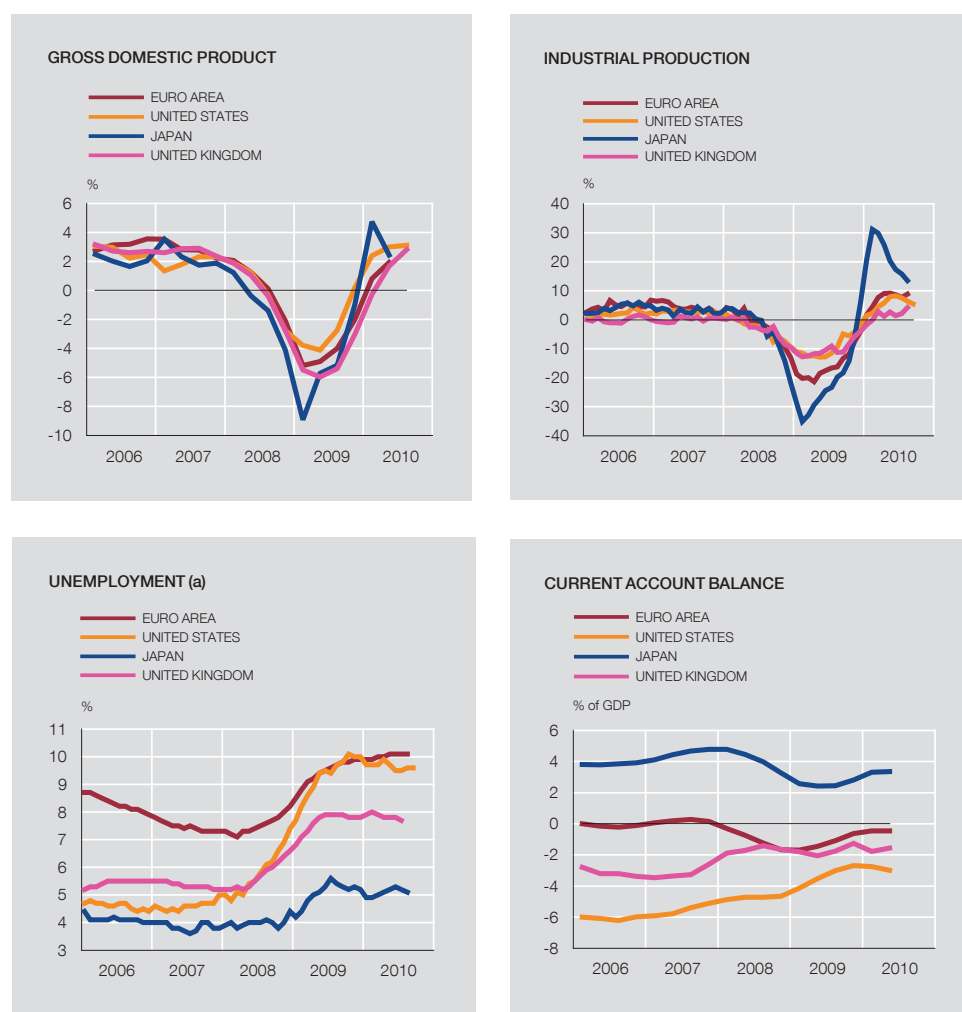
ure and those subject to mortgages with loan-to-value ratios of over 125% (deep underwater mortgages); in total, 10% of all mortgages. This is a very high proportion, although it should be seen as an upper limit, since these three categories overlap.<sup>3</sup> Moreover, it should be noted that households with underwater mortgages seem reluctant to abandon their homes, which is what usually happens in the United States when mortgages cannot be paid, as the borrower's liability under the mortgage extends in most cases solely to the mortgaged property. However, the difficulty of knowing whether they would obtain a sufficient volume of financing to purchase a house with similar characteristics is now discouraging such abandonment.

Another element of uncertainty and risk is the pending reform of Fannie Mae and Freddie Mac, which were taken over by the government and are a source of losses, but at the same time are a key element for the support of the mortgage market (see the article cited in Footnote 1). In fact, the reform of these agencies, which will foreseeably restrict their activities, has been delayed owing to the possible negative impact on the market of the consequent more limited access to financing through this channel. The restructuring of these government sponsored enterprises, the broad outline of which is still to be defined, will not begin to be discussed until 2011. Finally, the irregularities recently detected in the documentation for securitised mortgages have led some banks to halt foreclosure procedures. This has generated losses for some holders of asset-backed securities and may have significant consequences for the securitisation entities, if they are eventually obliged to repurchase some of these issues.

To sum up, housing market activity in the United States has been largely sustained by public support, and private demand on its own has not been capable of replacing it following its partial withdrawal. This has led to a significant deterioration in the outlook for this market. The renewal of certain non-standard monetary policy measures (bond purchases by the Federal Reserve System) may help to sustain the mortgage market, against a background of very limited scope for fiscal measures. However, factors such as labour market weakness, which could lead to a further increase in the volume of unsold houses, and the uncertainty surrounding pending mortgage market reform may continue to hold back prospects in the coming months.

2. These tax credits were equivalent to a deduction from net tax payable of 10% of the value of the house, subject to certain restrictions which meant that the actual deduction was much lower than 10%, approximately 3.7% of the average price.

3. In fact, a recent study by the Federal Reserve shows that significant strategic defaults do not occur until the loan-to-value ratio reaches 150%, and only from 162% do half of debtors make a strategic default. See Bhutta et al. (2010), *The Depth of Negative Equity and Mortgage Default Decisions*.

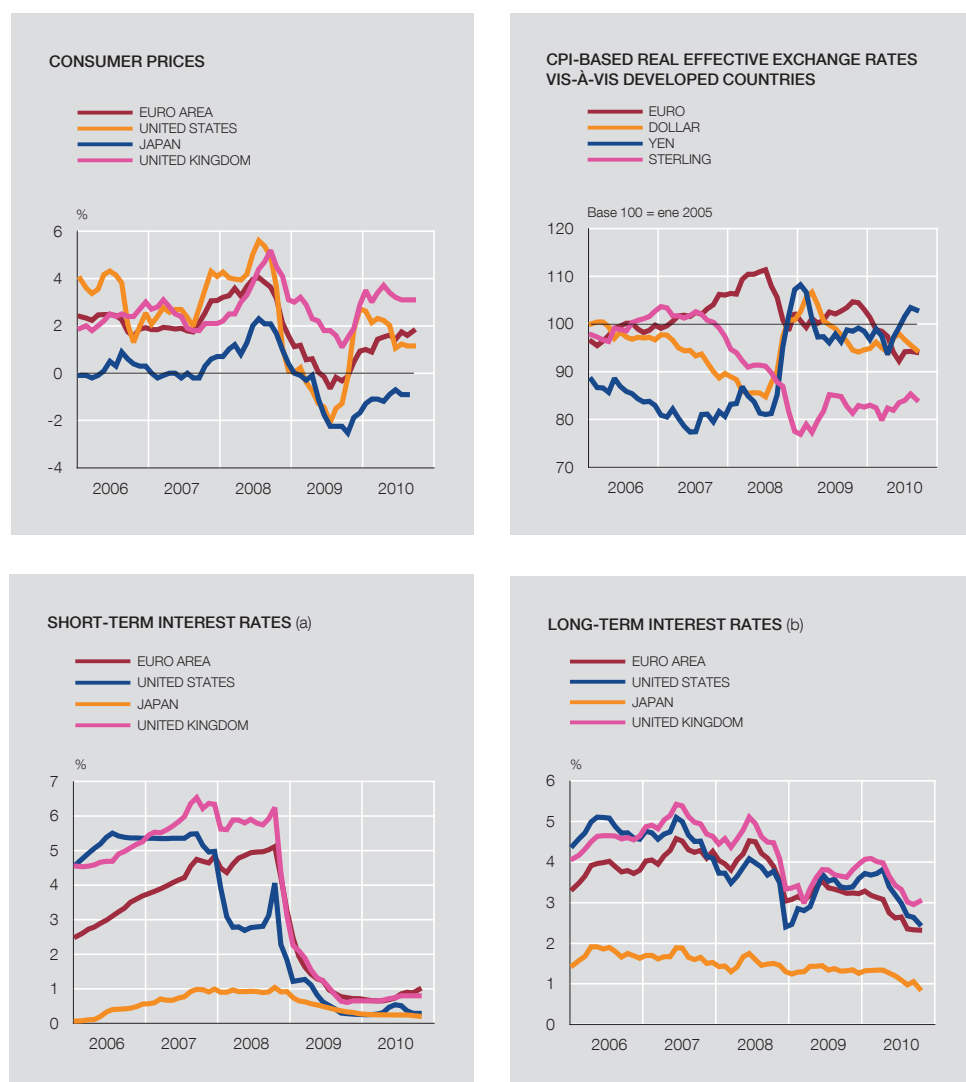


SOURCES: Banco de España, national statistics and Eurostat.

a. Percentage of labour force.

situation is notable, owing to the severe fiscal adjustment measures implemented. During the quarter, inflation followed a slightly upward path, but remained at moderate levels; in September it stood on average in the region at 3.4% year-on-year. Against this background, official interest rates were held unchanged.

In China, activity decelerated slightly in Q3, in year-on-year terms (GDP grew by 9.6%, as against 10.3% in Q2), mainly as a result of a less favourable base effect. This figure suggests that the economy was more buoyant than in the preceding quarter, underpinned by the solidity of investment and private consumption, which offset the smaller boost from public investment and the recent moderation in exports. Despite the slowdown in exports, China had a large trade surplus in Q3, fuelling the international pressure for the value of its currency to be appreciated at a faster rate. As for prices, the inflation rate rose slightly to 3.6%. Against this backdrop, the central bank raised its key policy rate by 25 bp in October, having previously temporarily increased the reserve ratio for the country's main banks. Since it became more flexible in mid-June the renminbi has appreciated against the dollar by little more than 2%, most of which has taken place since the beginning of September. In the rest of Asia, the main economies of the region remained very buoyant in Q2 (GDP grew, on average, by 8.4% year-



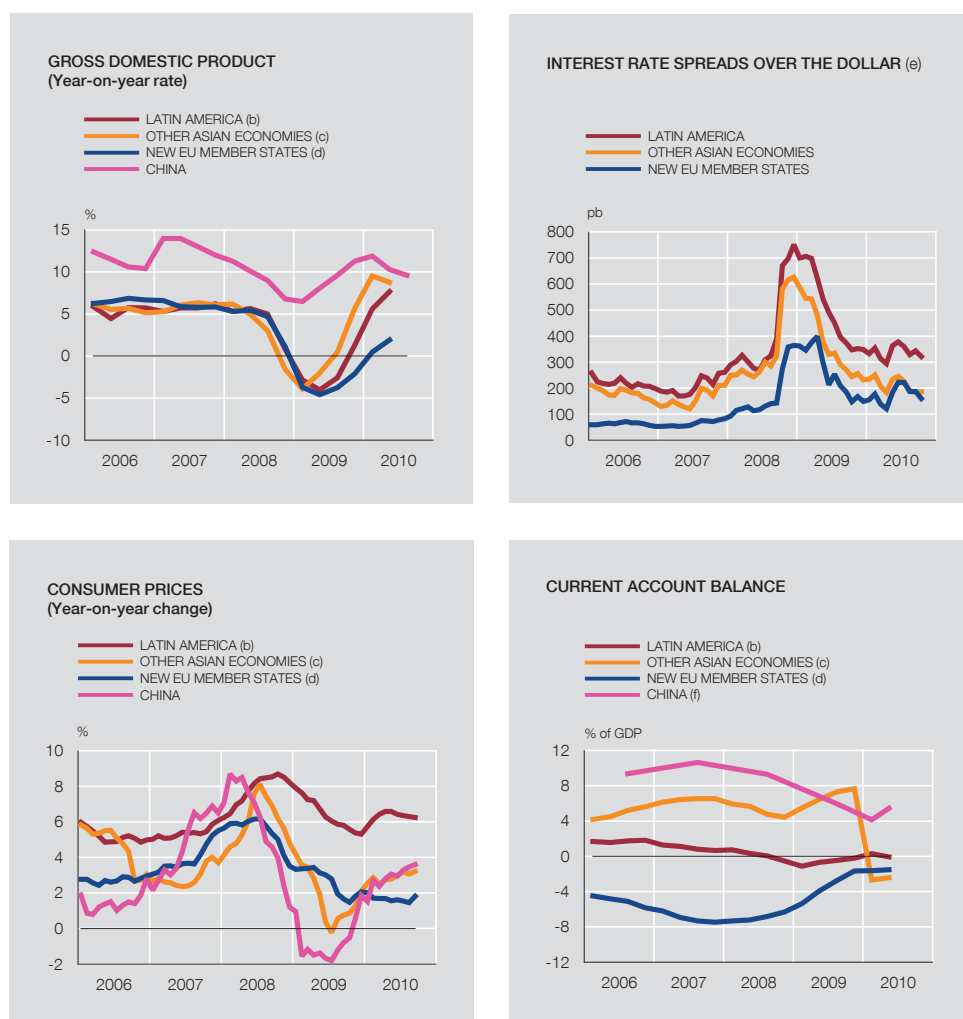
SOURCE: Banco de España.

a. Three-month interbank market interest rates.

b. Ten-year government debt yields.

on-year, as against 8.7% in Q1), although the latest indicators show a certain deceleration in activity. At the same time, the year-on-year inflation rate rose in South Korea and fell in Thailand, India, Indonesia and the Philippines. Against this background, and given the upward pressures on exchange rates, there were hardly any changes in monetary policy, with the exception of the increase in official rates in Thailand and India, and the widening of the Singapore dollar's fluctuation band.

In Latin America, year-on-year GDP growth was 7.7% in Q2 (5.6% in the previous quarter), the highest rate since the beginning of the 1970s, although this high figure is partly explained by the base effects following previous adjustment. The acceleration in activity took place across the region, except in Brazil which, nonetheless maintained a high growth rate (8.8%, after 9% in Q1). This buoyancy stemmed from the thrust of domestic demand, which contributed around 10 pp, and of investment in particular. However, the Q3 indicators generally point to a mild slowdown in activity, except in Chile and Venezuela. Inflation dropped by 0.1 pp in September, to 6.3% on average, with divergence across countries. The region contin-



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, Slovakia, 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 until 2009

used to record large inflows of portfolio and direct investment, while the issuance of public and private debt rose to record levels in certain countries, such as Mexico, where the Treasury placed the region's first 100-year bond. Against this background, conducive to exchange rate appreciation, some central banks stopped withdrawing their monetary stimulus (Brazil, Peru), while the central bank of Chile continued to raise interest rates (by 25 bp in October), although at a slower rate than in previous months (50 bp in the preceding four months). The central banks continued to accumulate reserves, so that in all the countries, except Colombia and Venezuela, they reached historic highs. In Brazil, the rate of the financial operations tax for inflows of investment in fixed income was raised on two occasions.

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

Following some months of very moderate growth, economic activity in the euro area picked up in 2010 Q2 as a result of, on the one hand, the strong boost from the external sector and, on the other, certain extraordinary factors centred largely on the German economy which had a positive influence on domestic demand. The most recent information available for Q3 indicates that the recovery continued, albeit at a more subdued rate. The slowdown in growth was due, in addition to the disappearance of transitory factors, to the lower momentum of the external sector and the gradual petering out of economic policy stimuli. In the medium term, the most recently published forecasts of international agencies broadly confirm the latest ECB projections of moderate growth until end-2011, so it will be some time before GDP reaches its pre-crisis levels. Furthermore, this scenario of a slow recovery remains subject to a high degree of uncertainty and downside risks, largely stemming from the external sector, which may have intensified as a result of the recent appreciation of the nominal effective exchange rate of the euro.

The strains on sovereign bond markets, which seemed to have abated at the beginning of summer, resurfaced at end-August, although on this occasion their impact across the area was more limited. The difficulties of redressing Portuguese public finances and uncertainty about the financial solvency of the Irish banking system once again pushed Portuguese and Irish spreads over the German bond higher. Meanwhile, Italy and Spain, which had been affected by contagion from the Greek debt crisis in May, albeit to a varying degree, managed to decouple themselves: their rates were more stable and their spreads were narrower (see Box 2). Despite the more limited impact, the fresh bout of instability on sovereign debt markets is a reminder of the scale of the challenges facing the euro area. It is essential for countries with exceptional difficulties, including Ireland and Portugal, to unequivocally show their determination to undertake the fiscal and structural reforms needed to guarantee the sustainability of their public finances and their long-term growth. As for improving European economic governance (see Box 3), although the report of the Task Force chaired by Van Rompuy represents progress, which in some cases is significant, greater ambition from euro area governments is still lacking. Additionally, during Q3 further headway was made regarding the design of the new European financial architecture with the creation of the European Systemic Risk Board and three more supervisory authorities, and the implementation of the European Financial Stability Facility.

Against this backdrop of a fragile economic recovery and the containment of inflationary pressures, the ECB's monetary policy stance continued to be accommodative. Thus, official interest rates remained at very low levels and non-conventional measures to support credit remained in place; including, most notably, the fixed-rate tender procedure with full allotment in regular liquidity-providing operations and the Securities Market Programme whereby public and private debt is purchased on secondary markets. Nevertheless, the gradual normalisation of financial markets prompted a rise in interbank rates, particularly, at the shorter-dated terms, faced with the prospects of the gradual unwinding of extraordinary monetary policy measures.

#### 3.1 *Economic developments*

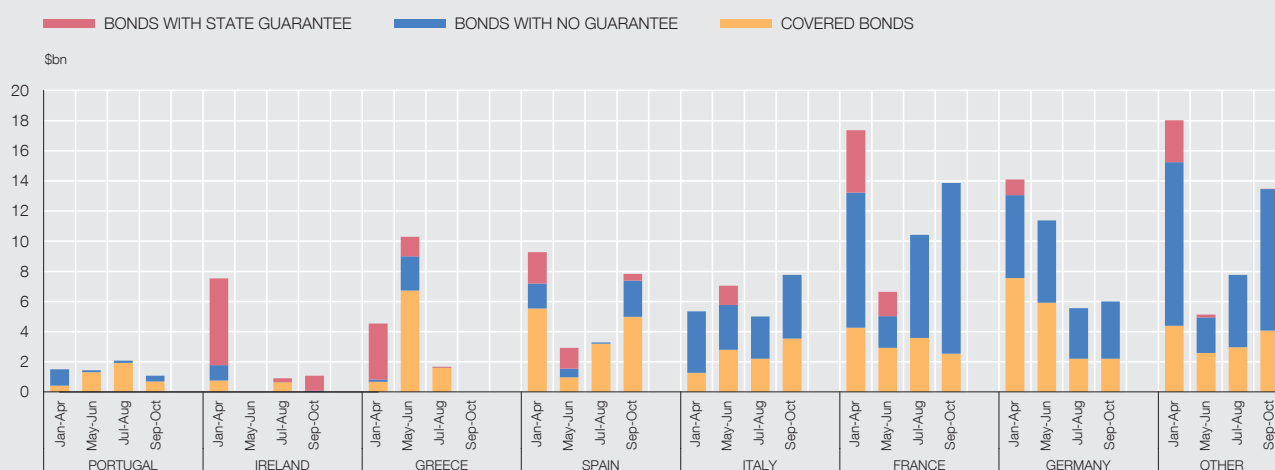
According to the first National Accounts estimate for 2010 Q2, euro area GDP rose by 1% in quarter-on-quarter terms, 0.7 pp up on the figure posted in the January-March period (see Table 1). The increase in GDP was chiefly attributable to strong export and investment growth, while private and public consumption increased more moderately (see Chart 8). As a result,

The economic and financial crisis has prompted high yield spreads between the various sovereign bonds in the euro area, particularly those of Member States with weaker fiscal positions. In May this year, government debt markets experienced spells of extreme instability as a result of the Greek fiscal crisis which turned into a crisis of confidence affecting the euro area as a whole. These tensions filtered through, in turn, to the banking sector which was hit in particular by distrust in the sustainability of public finances. On the one hand, government debt prices, potentially implied high losses, and, on the other, the deterioration of public finances called into question the value of the explicit and implicit guarantees Member States had given to their domestic banks against a backdrop of growing uncertainty regarding banks' net worth position. This was reflected, as shown in Panel 1 by a substantial contraction in medium and long-term debt issuance by banks.

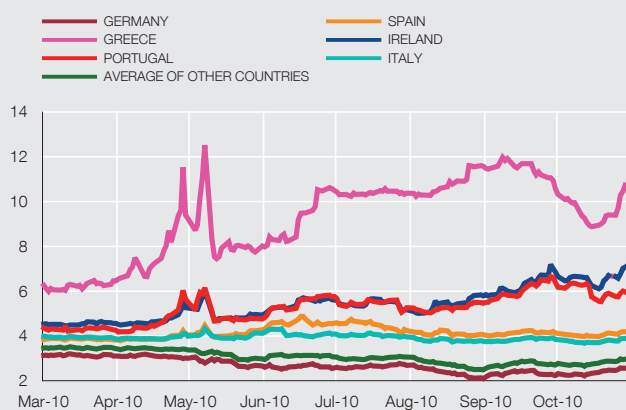
As a result of the emergency measures adopted during the spring by the ECB and EU governments in collaboration with the IMF,<sup>1</sup> the instability tended to decrease in July. This improvement was strengthened, furthermore, by the publication at end-July of the results of the stress tests of EU banks, which enabled an easing of the conditions in which banks access funding markets. However, towards the end of the summer, the tensions returned, this time focusing on the Portuguese and Irish government debt markets, at the same time as the yield on Greek debt held at very high levels and only began to fall off to any great extent in September, following the positive assessment of the implementation of its economic programme. This favourable assessment made possible a fresh disbursement of funds as part of

1. For more details, see Box 3 of the Economic Bulletin of the Banco de España, July 2010.

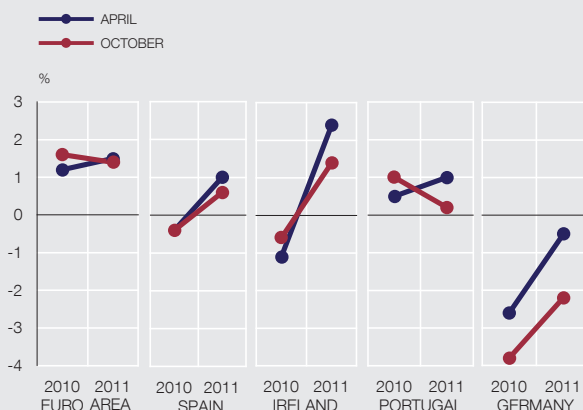
GROSS ISSUANCE OF MEDIUM AND LONG-TERM BONDS OF FINANCIAL CORPORATIONS. EURO AREA (a)



TEN-YEAR GOVERNMENT DEBT YIELDS



GDP GROWTH PROJECTION FOR 2010 AND 2011  
Consensus Forecast



SOURCES: Consensus Forecast, Dealogic and Banco de España.

a. The monthly average was used.

the loan package agreed by the IMF and euro area countries. The further outbreak of uncertainty pushed the German ten-year Bund to minimum levels of 2.1% (see Panel 2), while ten-year Irish and Portuguese bonds climbed, to above 7% in the case of the former, and since summer Ireland's credit rating has been downgraded again by S&P, Moody's and Fitch.

One important difference with respect to events in the first half of the year is that on this occasion the tensions did not spread to countries such as Italy and, especially, Spain, whose performance differed. In the Spanish case, the reason why its sovereign spread performed more favourably lies in the progress made on three fronts: fiscal consolidation, structural reforms and restructuring of the financial system. These advances were boosted further by the exercise in transparency involving the publication of banks' stress tests in a shared format for EU countries as a whole, with a far superior coverage and degree of detail for Spain. These factors were decisive in dispelling the excessive uncertainty which had built up about the sector's soundness. In fact, the gradual narrowing of the yield spread over Germany was coupled with an improvement in banks' access to funding markets, which remained very limited in the case of Portugal, Ireland and Greece.

In the case of Ireland and Portugal, however, the markets did not perceive as strongly this determination to adopt resolute action in terms of economic policy with the two-fold objective of, firstly, safeguarding financial stability in the medium term and, secondly, promoting sustainable growth. This left their government debt highly exposed to an accumulation of bad news about the respective economies. Thus, in the case of Ireland, the widening of the sovereign spread was linked to growing uncertainty about the fiscal implications of the negative outlook for its domestic banking sector, which was subject to a long, far-reaching restructuring process and received a large volume of public aid which, nevertheless, seemed insufficient. In the case of Portugal, the deterioration was also caused by an increase in the risk surrounding public finances, which could have been further fuelled by Irish debt tensions. The downward revision of economic growth for 2011, illustrated in Panel 3, and the relatively unfavourable developments in the budget outturn, threatened the

achievement of the budget deficit targets and substantially raised the effort required to re-join the originally planned path of consolidation.

In this context, the Irish and Portuguese authorities tried to dispel existing uncertainty with their respective announcements at end-September. For instance, Ireland published revised estimates of projected losses and a higher need for capital (foreseeably State-funded), that were going to arise from the nationalised Anglo Irish Bank (which had been excluded from the stress tests of EU banks) and from NAMA's<sup>2</sup> asset purchase programme. As a result, the impact on the government deficit of the aid in the form of capital to banks during 2010, some of which had already been given, would amount to an estimate of 20% of GDP. Pending the fiscal adjustments which will be announced in November, the Irish Government's initiatives managed to temporarily contain the deterioration of debt, although the spread against German debt once again exceeded 450 bp at end-October. On 30 September Portugal announced new adjustment measures for 2010 and additional proposals for the budget for 2011, which (pending the specification of the outstanding structural reforms) also contributed to a temporary respite in debt tensions.

In short, recent developments in euro area sovereign debt markets illustrate the importance of national economic policies prioritising fiscal consolidation in conjunction with restructuring of the banking sector and ambitious structural reforms to promote growth, in those countries with specific difficulties.

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2. The National Asset Management Agency (NAMA) was created to acquire impaired loans (mainly from property developers) and to restructure the balance sheets of five Irish banks, which represent a very large share of the domestic banking system. NAMA exchanges loans for bonds (guaranteed by the Irish State) and a small portion of the loans are exchanged for subordinated securities, issued by NAMA for this purpose. NAMA completed the acquisition of two tranches in April and August 2010, applying an overall haircut of 52% to the book value of the loans, which is considerably higher than the government's initial estimate of 30%. The total loan portfolio it will acquire has a book value of €77 billion, more than 45% of GDP. NAMA is a financial vehicle which is not classified as belonging to the general government sector and, consequently, the repercussion on public finances is in the form of contingent liabilities due to the State guarantee of its bonds.

domestic demand and the external sector contributed 0.5 pp and 0.2 pp, respectively, to GDP growth, since the significant rise in exports was offset by buoyant imports. Stockbuilding added 0.3 pp to GDP growth. The sectoral breakdown shows that value added increased in most sectors, particularly in industry and, to a lesser degree in services. In year-on-year terms, the seasonally adjusted rate of change in GDP stood at 1.9%, compared with 0.8% for the previous quarter.

By country, there was a strong recovery of activity in Germany, where GDP grew 2.2% in Q2 (0.5% in the early months of the year). This quickening was triggered by the same factors mentioned above for the euro area. Thus, to the momentum of the external sector was added



The global crisis has highlighted the considerable shortcomings in the ability of the Stability and Growth Pact (SGP) to sustain fiscal policy discipline and the fact that it is necessary to enlarge the scope of multilateral supervision beyond public finances in order to monitor and correct the build-up of imbalances which can ultimately pose a serious threat for the stability of the euro area. Consequently, European institutions are undertaking an in-depth review of the mechanisms for economic policy coordination and supervision in the euro area.

The most important progress made in specifying this governance reform was the presentation of the report by the Van Rompuy Task Force, a working group created in March within the European Council with the involvement of the EC, the ECB and the EU Member States. The report included the Task Force's specific proposals for reform, approved by the Heads of State and Government on 28 October, and its conclusions complement the proposals for legislative reform which the European Commission had presented on 29 September. In the fiscal realm, these proposals suggest a significant reform of the SGP which will attribute greater importance to the government debt criterion when evaluating the fiscal position of the various countries, at the same time as they defend a broader and more transparent system of sanctions which would be imposed earlier on in the process and with a degree of automaticity, albeit higher than in the past, still subject to the qualified majority procedure governing Council decisions in accordance with the Treaty. This is complemented with a recommendation to set minimum compulsory requirements for national fiscal frameworks. Also, a new mechanism is proposed for detecting, preventing and correcting the build-up of macroeconomic imbalances which might jeopardise the common project of Monetary Union. Furthermore, there is a recommendation for deeper coordination of economic policies – in the shape of the so-called “European semester”, which was already approved by Ecofin in September – and the creation of a crisis management mechanism, approved by the Heads of State and Government on 28 October as well as the strengthening of European institutions.

Specifically, *reforming the preventive arm* of the SGP maintains the requirement of convergence on the medium-term budgetary objectives<sup>1</sup> (MTBO), but proposes the need for swifter convergence if government debt exceeds 60% of GDP. In case of a significant deviation from the adjustment path, which is not corrected, a procedure will begin that will start with the Commission issuing an early warning, it may continue with a recommendation from the Council after one month and conclude five months later, if the appropriate actions are not adopted, with the imposition of a sanction in the form of a non-interest-bearing deposit.

As for the *corrective arm of the SGP*, if the government debt/GDP ratio is higher than 60% and is not decreasing in a way considered

satisfactory, in accordance with criteria and methodology yet to be defined, this would be reason enough for launching an excessive deficit procedure (EDP) or for preventing the latter from closing, even if the government deficit has been reduced to below 3%, following a diagnosis by the Commission of the determinants underlying the changes in the debt. The initiation of an EDP will imply that, if the country in question has already been sanctioned with the imposition of an interest-bearing deposit, the latter will no longer bear interest. If the country has not been sanctioned with the imposition of an interest-bearing deposit, the commencement of the EDP will give rise to a recommendation from the Council for action that must be taken before a deadline. In both cases, if the appropriate actions are not taken to reduce the excessive deficit, a fine would be imposed as a result. Persistent failure to implement the recommendations will give rise to a larger fine, that will include a variable component related to the level of the deficit, which already appears in the SGP as it currently stands. Notably, the latter is the only sanction proposed that would require a qualified majority of the Council. The new sanctions fiscally speaking, and those relating to the prevention of macroeconomic imbalances, will be imposed, by contrast, automatically as proposed by the Commission, unless the Council decides otherwise by a qualified majority within a deadline of ten days. However, it should also be pointed out that in the stage prior to the imposition of sanctions (for example, the assessment of whether or not the deviations are significant) the relevant decisions are still the responsibility of the Council to be adopted by qualified majority. Noteworthy also is that all the new sanctions would only apply initially to euro area member countries.

The Task Force's last proposal referring to fiscal matters defends the need to guarantee minimum requirements which must be met by national financial institutions before the end of 2013 in the following areas: public accounting systems and statistics, numerical rules consistent with the design of the SGP, forecasting systems, medium-term budgetary planning and adequate follow-up of all levels of general government. Furthermore, an improvement is proposed in the quality of statistics.

The new regulation for the prevention and correction of macroeconomic imbalances and divergences in competitiveness will set up an alert system comprising a series of economic and financial indicators which have yet to be defined. Should the Commission consider that a Member State's economic policy may pose a threat for the stability of the area as a whole, it may issue an early warning. At a subsequent stage (in case of a particularly serious threat), the Council will decide whether it declares that Member State to be in an “excessive imbalance position”. As with fiscal matters, the launching of this procedure means that the policies of such countries will be subject to strict monitoring by European institutions and they may ultimately have sanctions imposed, if they persistently fail to comply with recommendations.

In order to increase policy consistency and coordination, all these surveillance arrangements will be included in the “European semester” approved by the Ecofin on 7 September, which will come into operation in January 2011. The “semester” will begin in January

1. These MTBO are included in the Stability and Convergence Programmes that Member States must present, expressed as a percentage of GDP in structural terms. The countries which have not achieved their MTBO must converge towards them at an annual rate of 0.5% of GDP.

each year when the Commission prepares an annual growth report, which will analyse macroeconomic and fiscal developments and progress in achieving the targets of the Europe 2020 strategy. Based on this report, in March the European Council will identify the main economic challenges and will issue economic policy recommendations for the euro area as a whole and for the EU, which will be considered by Member States during April in the preparation of their Stability and Convergence Programmes and their National Reform Programmes. Lastly, in June and July the Council will publish fresh country-specific guidance which must be taken into account by countries in the design of their budgets and economic policy and reform programmes.

Overall, the Working Group's Report to the Council represents progress in the process of improving European governance and is in line with the European Commission's proposals, although some aspects of the report are less clearly defined and, sometimes, are less

ambitious than the latter. Nevertheless, the Eurosystem has raised well-founded concerns about whether the ambition shown by governments suffices to cope with the scale of the challenges facing the euro area as a whole. Accordingly, there are two areas which would require particular attention: first, setting up clear procedures based on rules which minimise as much as possible governments' discretionality and, second, strengthening these procedures by creating a committee of experts or independent fiscal agencies to provide the European institutions with greater technical capacity and independence in the supervision of policies and national statistics.

Lastly, on 28 October the Heads of State or Government agreed to set up a permanent crisis mechanism to safeguard financial stability in the euro area as a whole, which will involve a limited change to the EU Treaty. The design of this mechanism as regards conditionality and the participation of the IMF or the private sector will be spelt out between now and the end of the year.

the recovery of domestic demand, mainly underpinned by certain temporary factors, such as the improvement in the weather and increased purchases of household durable goods. In the other major euro area economies, the pick-up in activity was considerably lower. In particular, GDP climbed 0.7% in France, owing to the strength of all domestic demand components and, especially, to stockbuilding, while in Italy, where GDP moved 0.5% higher, the net external balance was the largest contributor to growth, although government consumption and gross capital formation also expanded.

Based on National Accounts data, for the second consecutive quarter the numbers employed did not change in the April-June period and, consequently, the year-on-year rate of change remained in negative territory at -0.7%. These developments are consistent with the customary lag in employment with respect to the recovery of activity. The hours worked by employees increased slightly which suggests that, at present, faced with uncertainty about the sustainability of the recovery, in order to satisfy rising demand, companies have preferred to use the existing labour force more intensively rather than to resort to new hires. Also, the substantial upsurge of apparent labour productivity in Q2, driven by the notable increase in GDP together with the decline of employment in year-on-year terms, resulted in a further drop in unit labour costs since growth in compensation per employee remained moderate. These developments and the rise in the GDP deflator enabled business margins to expand for the second consecutive quarter (see Chart 8).

The latest conjunctural data generally suggest that activity decelerated in the second half of the year (see Chart 9). On the supply front, in July and August industrial production and orders slowed and production in the construction sector contracted. Industrial and service sector confidence indicators based on purchasing managers' surveys stood at below their June levels in October, although those compiled by the European Commission improved over the same period. On the labour front, the unemployment rate remained unchanged at 10% in Q3 and the qualitative indicators for employment expectations continued to recover between

	2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NATIONAL ACCOUNTS (Quarter-on-quarter rates of change, unless otherwise indicated)								
GDP	-2,5	-0,1	0,4	0,2	0,3	1,0		
Private consumption	-0,5	0,0	-0,1	0,2	0,2	0,2		
Public consumption	0,7	0,6	0,5	-0,1	0,2	0,5		
GFCF	-5,2	-2,3	-1,1	-1,2	-0,3	1,5		
Imports	-7,5	-2,8	2,2	1,2	4,2	4,0		
Exports	-8,0	-1,3	2,4	2,0	2,5	4,3		
Contributions to quarter-on-quarter GDP growth (pp)								
<i>Domestic demand (excl. stocks)</i>	-1,3	-0,4	-0,1	-0,1	0,1	0,5		
<i>Change in stocks</i>	-1,0	-0,3	0,5	0,0	0,8	0,3		
<i>Net external demand</i>	-0,2	0,5	0,0	0,2	-0,6	0,2		
GDP (year-on-year rate of change)	-5,2	-4,9	-4,0	-2,0	0,8	1,9		
ACTIVITY INDICATORS (quarterly average)								
IPI seasonally and working-day adjusted	-9,2	-1,7	2,7	1,3	2,3	2,4	0,9	
Economic sentiment	71,5	75,6	84,1	91,9	96,6	99,3	102,2	
Composite PMI	37,6	43,2	49,5	53,6	54,4	56,6	55,7	53,4
Employment	-0,9	-0,6	-0,5	-0,2	0,0	0,0		
Unemployment rate	8,8	9,4	9,7	9,9	9,9	10,1	10,1	
PRICE INDICATORS (year-on-year change in end-of-period data)								
HICP	0,6	-0,1	-0,3	0,9	1,4	1,4	1,8	
PPI	-3,3	-6,6	-7,7	-2,9	0,9	3,1	3,6	
Oil price (USD value)	46,8	68,8	67,7	74,4	78,8	75,0	78,4	83,2
FINANCIAL INDICATORS (end-of-period data)								
Euro area ten-year bond yield	4,1	4,2	3,8	4,0	4,0	3,7	3,5	3,4
US-euro area ten-year bond spread	-1,31	-0,63	-0,47	-0,17	-0,08	-0,72	-1,01	-0,85
Dollar/euro exchange rate	1,331	1,413	1,464	1,441	1,348	1,227	1,365	1,393
Appreciation/ depreciation of the NEER-21 (b)	-0,6	-0,9	0,2	-1,0	-4,5	-10,3	-6,3	-4,9
Dow Jones EURO STOXX 50 index (b)	-15,5	-2,0	17,2	21,0	-1,2	-13,2	-7,4	-3,1

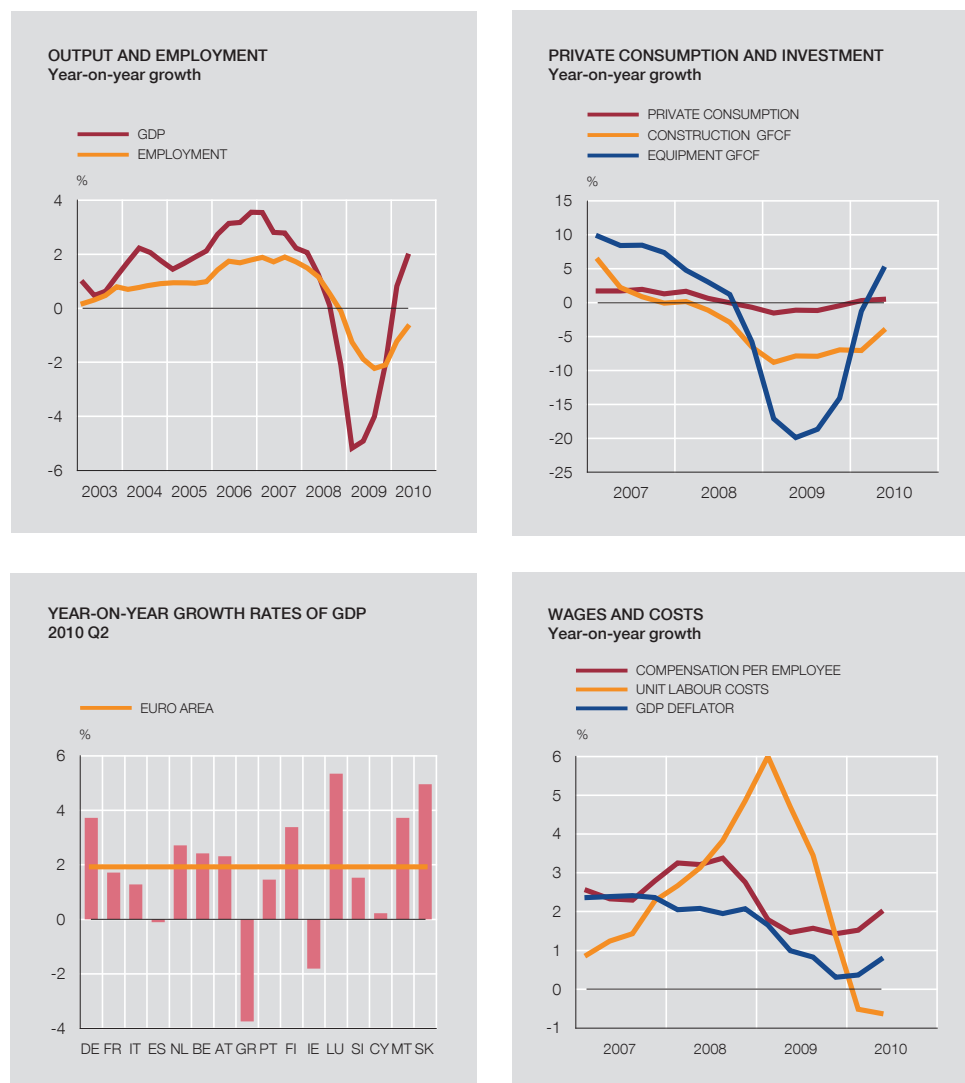
SOURCES: European Commission, Eurostat, Markit Economics, ECB and Banco de España.

a. Information available up to 29 October 2010.

b. Percentage change over the year.

June and October for all sectors, with the exception of services in the purchasing managers' survey which declined.

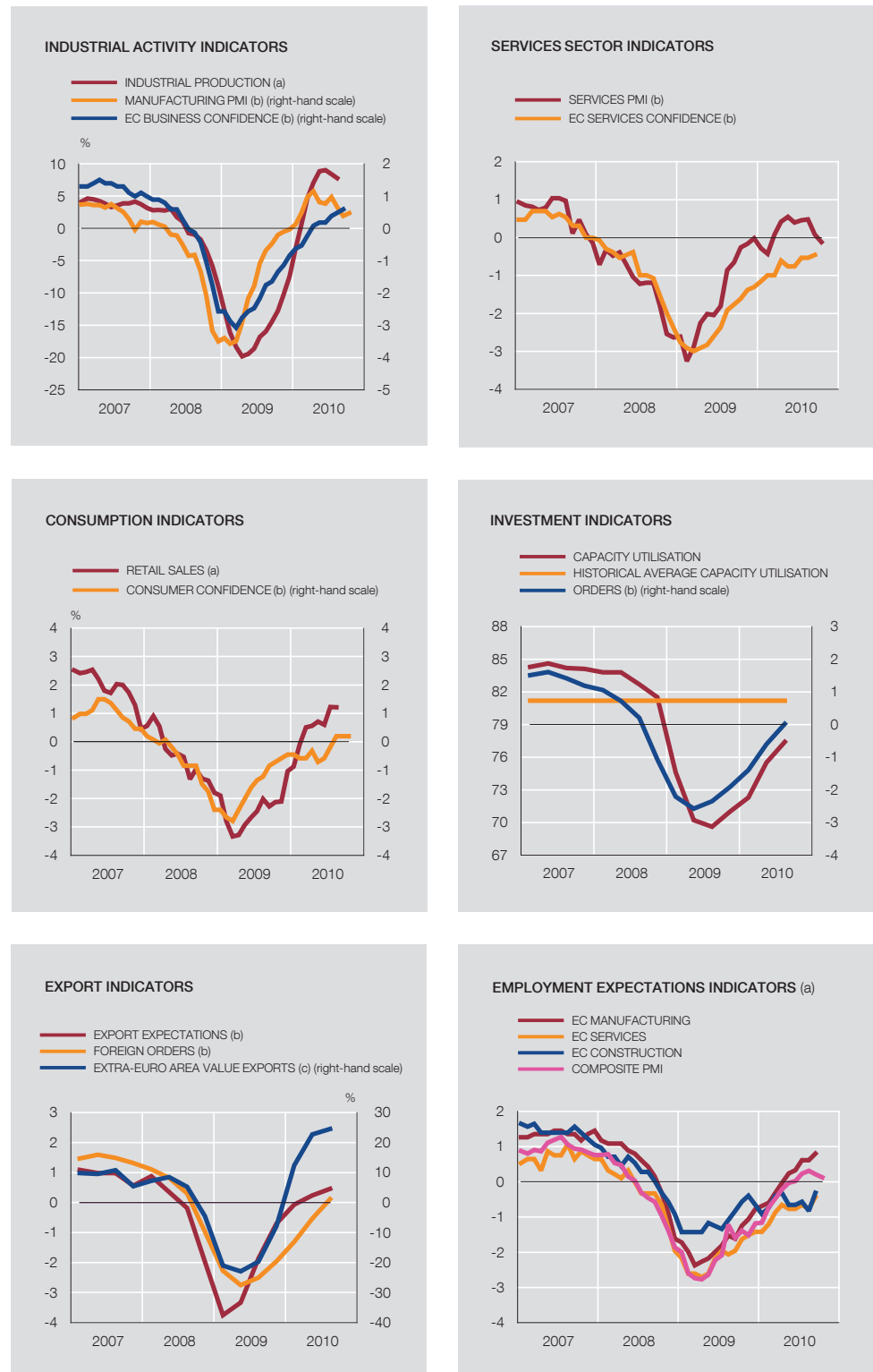
The most recent demand-related indicators are also consistent with the slowdown in output in the second half of the year. Thus, in Q3, retail sales edged up only slightly – on data to August – and new car registrations fell off, albeit at a considerably lower rate than in the two previous quarters. This indicator shows considerable cross-country dissimilarities, which largely reflect timing differences in the introduction and withdrawal of car scrapping schemes. Furthermore, consumer confidence remained flat in October for the third consecutive month. As for the European Commission's indicators of investment in capital goods, in the second half of the year the level of capacity utilisation continued to improve – despite remaining below its long-term average – and the assessment of industrial order books increased. On balance of payments data, exports flagged in July and August compared with the previous quarter, export expectations continued to rise in the second half of the year and the assessment of export order books continued to increase between June and October. Lastly, according to the European Commission's industrial stock level assessment indicator, this component's contribution to GDP growth may have remained flat in Q3 and increased slightly in Q4.



SOURCES: Eurostat and national statistics.

In short, the most recent economic information confirms the slowdown of activity in the second half of the year, following the upturn in Q2. It is estimated that the factors behind this moderation of growth are the slowdown of momentum in the external sector, the disappearance of temporary domestic factors which mainly affected the German economy and the weakening of economic policy stimuli. Thus, domestic demand should remain on a path of slow recovery with the weak labour market and the fiscal consolidation measures adopted in most countries weighing on private consumption and with investment, affected by the tightening of bank lending standards and the low utilisation of installed production capacity, remaining sluggish. In the medium term, the outlook continues to be one of modest growth underpinned by international demand, accommodative monetary policy and a widespread improvement in the functioning of financial markets encouraged by the economic policy measures adopted.

In any event, this scenario is surrounded by a high degree of uncertainty in conjunction with predominantly downside risks. For instance, tensions on sovereign bond markets, which seemed to have eased at the beginning of the summer, resurfaced at end-August with a widening of the spreads of Irish and Portuguese government debt, reflecting the current fragile fiscal

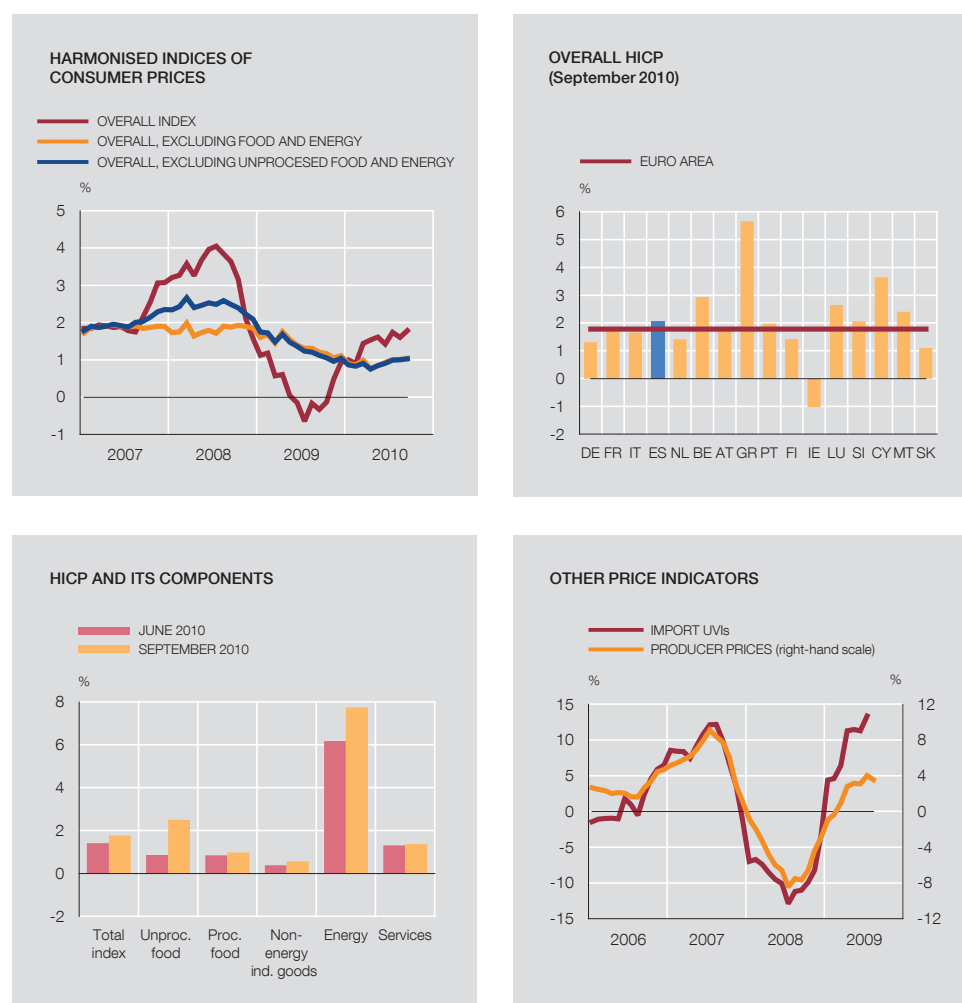


SOURCES: European Commission, Eurostat and Markit Economics.

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

b. Normalised data.

c. Original series year-on-year rates. Quarterly average.



SOURCES: Eurostat and ECB.

and financial situation of the euro area (see Box 2). Furthermore, the business sector is immersed in a process of balance sheet restructuring which, were it to last too long, could ultimately weaken domestic demand by restraining investment plans and wages. Additionally, in the short and medium term in order to ensure that there is a sustained improvement in activity, it is vital that employment recovers firmly and drives domestic demand. Finally, the strong appreciation of the exchange rate in recent months could prevent euro area exports from fully benefiting from the momentum of global economic recovery.

The 12-month inflation rate stood at 1.8% in September, 0.4 pp up on the June figure, essentially driven by changes in unprocessed food prices, while the energy component continued to expand at very high rates driven by its substantial base effect. Thus, core inflation, as measured by the CPI, excluding energy and unprocessed food prices, the most volatile items, remained relatively stable at 1% (see Chart 10). Industrial prices also posted a higher growth rate in the summer months, climbing to 3.8% in August, and there was a particularly significant rise in energy prices also stemming from a strong base effect. In the next few months, as envisaged by various international agencies, there will foreseeably be further rises in commodities prices or increases in indirect taxes and administered prices will only partially feed through to inflation due to the ongoing high economic slack (see Table 2). Against this backdrop, long-term inflation expectations remained modest.

According to information published by the ECB, the euro area current account balance ran a deficit of €52 billion (0.9% of GDP) between January and August 2010, which was slightly down on the €57 billion posted in the same period of the previous year (1% of GDP). This improvement in the total balance was the result of a higher surplus on the services sub-balance and a smaller deficit on the income sub-balance. As for the financial account in the same period, there were more net capital outflows in the form of direct investment which amounted to €89 billion compared with €55 billion in 2009, while net portfolio investment inflows dropped by €64 billion to €112 billion. As a result, the basic balance which is the sum of these two types of investment and the current account balance decreased from a surplus of €63 billion in the January-August period of 2009 to a deficit of –€30 billion in the same period of 2010 (see Chart 11).

The most recent data on budget outturn and certain governments' estimates indicate that, in the euro area as a whole, public deficits will remain practically stable in 2010 at very high levels similar to those of the previous year and in line with the European Commission's forecasts of last Spring (see Table 3). The impact on the deficit of consolidation measures introduced by some economies in recent months was offset by the effect of the automatic stabilisers and, to a lesser degree, by the fiscal stimulus measures that countries such as Germany and France implemented for 2010. There was also a slight rise in interest payments.

At a disaggregated level, the budget outturn in Germany was better than expected at the beginning of the year due to the strength of its economic recovery and the French Ministry of Public Finance slightly reduced its forecast for the general government deficit. In Greece, Eurostat expressed a reservation about the figures for 2009 – which will be published mid-November – although, in any event, the latest available information published by the Ministry of Finance on 20 September points to a notable improvement in public finances in 2010, which has been accompanied by significant progress in the implementation of structural reforms that include, most notably, the restructuring and rationalisation of the public sector and the reform of the pension system.

By contrast, in Ireland public finances have deteriorated notably because they include the aid granted to several financial institutions, which would put the deficit at around 32% of GDP in 2010. However, according to Irish government estimates, if this aid is excluded, the deficit posted in 2010 would be close to the target of 11.6% of GDP set in the stability programme, given the various consolidation measures adopted by the government since December 2008. The government has repeated its commitment for future years of meeting the deficit targets set in the stability programme and has announced that in early November it will present its budget plans for the next four years, with measures amounting to close to €15 billion to take the deficit to 3% of GDP in 2014. In Portugal, the results in terms of the budget outturn indicated certain difficulties in achieving the target of 7.3% in 2010. For this reason, at its cabinet meeting on 30 September, the Portuguese government approved a set of fiscal consolidation measures in addition to those included in the plan presented in May, which will affect the budget for 2011 and will contribute to strengthening the budget outturn for the remainder of the year.

Overall, the improvement in the macroeconomic scenario and the widespread implementation of consolidation measures have curbed the deterioration in public finances in the euro area, although there is still considerable uncertainty about the final impact of plans to help the financial sector. Accordingly, budgets for 2011, which are still being prepared, should move ahead with the introduction of clearly defined and credible consolidation measures that place more emphasis on spending cuts. Likewise, pension reform is a priority which is already underway in many countries as is health reform, given the imminent pressure from the ageing of the population. At EU level, it is necessary to resolutely see through the reform of fiscal and macroeconomic supervisory frameworks already begun in previous months (see Box 3).

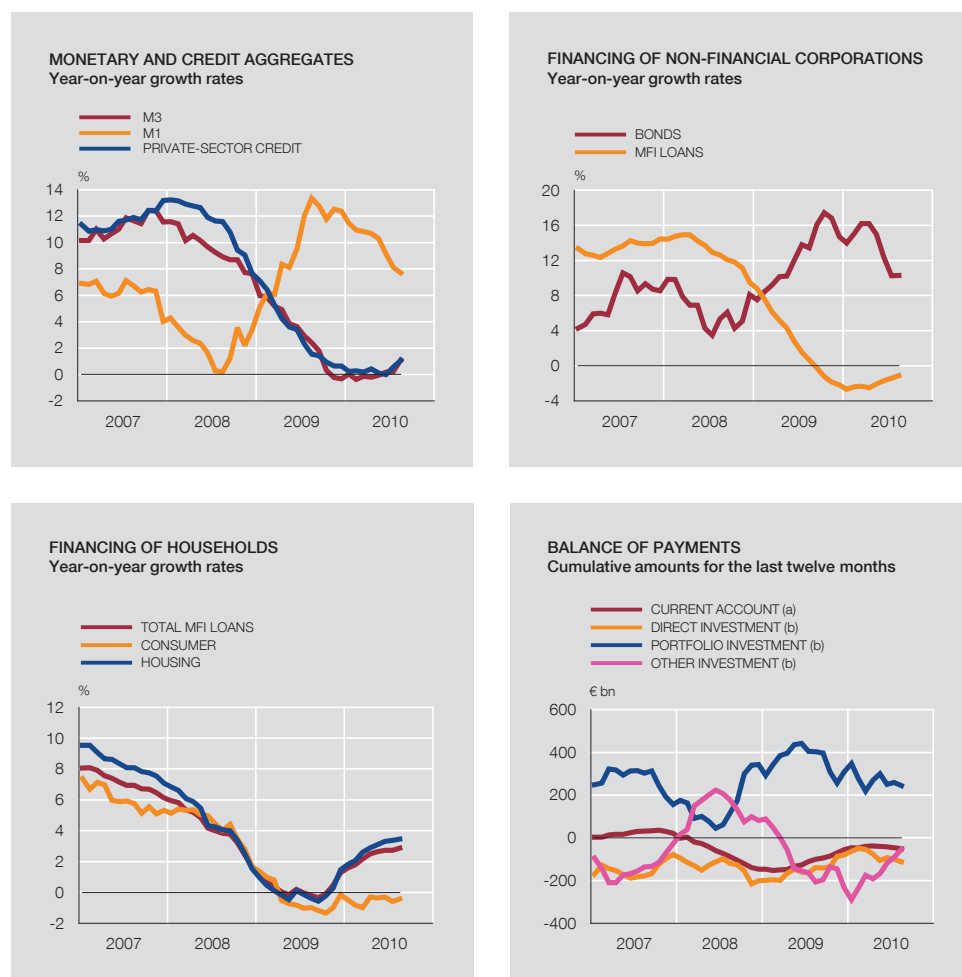
	2010		2011	
	GDP	HICP	GDP	HICP
ECB (September 2010)	1.4-1.8	1.5-1.7	0.5-2.3	1.2-2.2
European Commission (September 2010)	1.7	1.4		
IMF (October 2010)	1.7	1.6	1.5	1.5
OECD (May 2010)	1.2	1.4	1.8	1.0
Consensus Forecast (October 2010)	1.6	1.5	1.4	1.6
Eurobarometer (October 2010)	1.6	1.5	1.4	1.4

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

a. Annual growth rates.

## MONETARY AND CREDIT AGGREGATES AND BALANCE OF PAYMENTS

CHART 11



SOURCES: ECB and Banco de España.

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



	% of GDP					
	BUDGET BALANCE (a)					
	2008	2009	2010		2011	
		EDP (b)	EDP (b)(e)	IMF (d)	EC (c)	IMF (d)
Belgium	-1.2	-6.0	-4.8	-4.8	-5.0	-5.1
Germany	0.0	-3.0	-4.0	-4.5	-4.7	-3.7
Greece	-7.7	-15.4	-9.3	-7.9	-9.9	-7.3
Spain	-4.1	-11.1	-9.3	-9.3	-8.8	-6.9
France	-3.3	-7.5	-7.7	-8.0	-7.4	-6.0
Ireland	-7.3	-14.2	-32.0	-17.7	-12.1	-11.2
Italy	-2.7	-5.3	-5.0	-5.1	-5.0	-4.3
Luxembourg	2.9	-0.7	-2.2	-3.8	-3.9	-3.1
Netherlands	0.7	-5.4	-5.8	-5.9	-5.1	-5.1
Austria	-0.5	-3.5	-4.5	-4.8	-4.6	-4.1
Portugal	-2.9	-9.3	-7.3	-7.3	-7.9	-5.2
Finland	4.2	-2.5	-3.3	-3.4	-2.9	-1.8
Slovenia	-1.7	-5.8	-5.6	-5.7	-5.2	-4.3
Cyprus	0.9	-6.0	-5.9	-6.0	-7.7	-5.6
Malta	-4.5	-3.8	-3.9	-3.8	-3.6	-3.6
Slovakia	-2.3	-7.9	-7.8	-8.0	-5.4	-4.7
PRO MEMORIA: Euro area (including Cyprus, Slovakia and Malta)						
Primary balance	1.0	-3.4			-2.9	
Total balance	-2.0	-6.3	-6.6	-6.5	-6.1	-5.1
Public debt	69.4	74.2	79.5	84.1	88.5	87.0

SOURCES: European Commission, Eurostat and IMF.

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

b. Autumn 2010 Excessive Deficit Procedure notification.

c. European Commission forecasts (spring 2010).

d. IMF forecasts (October 2010).

e. In the case of Greece they are the European Commission's spring forecasts since Eurostat has expressed a reservation about the EDP data for autumn 2010.

### 3.2 Monetary and financial developments

Following a slight stabilisation of euro area sovereign debt markets, due to the deployment of emergency measures by governments and European institutions, together with the IMF, and to the publication of the results of the stress tests of EU banks, tensions resurfaced at the end of the summer although this time they were more localised, with Irish and Portuguese debt being the most clearly affected. The bonds of other countries hit by the sovereign debt crisis in spring 2010 remained relatively isolated from this turmoil, such as Italian and Spanish bonds, and Greek bonds, due to strict compliance with its economic programme. Unlike the sovereign debt crisis in May, the instability did not have major repercussions on the other financial markets in the euro area or on banks' access to financing (except in Portugal and Ireland), which also resulted in lower recourse to Eurosystem liquidity. In fact, financial conditions improved slightly from end-July, since the risk premia on private-sector credit tended to contract, stock prices appreciated and bank credit showed signs of some improvement, despite weak demand and the ongoing restrictive credit conditions.

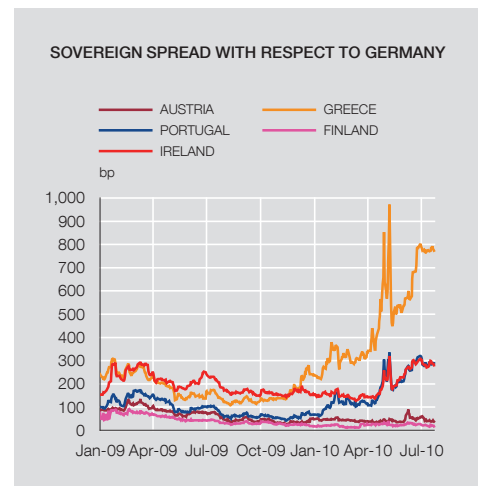
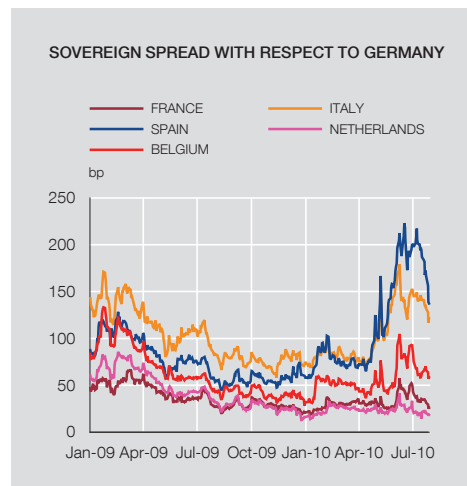
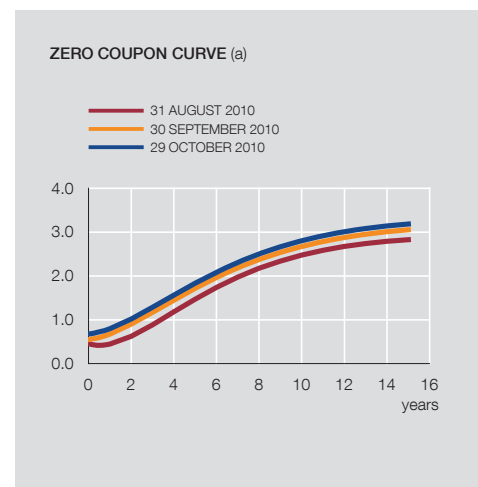
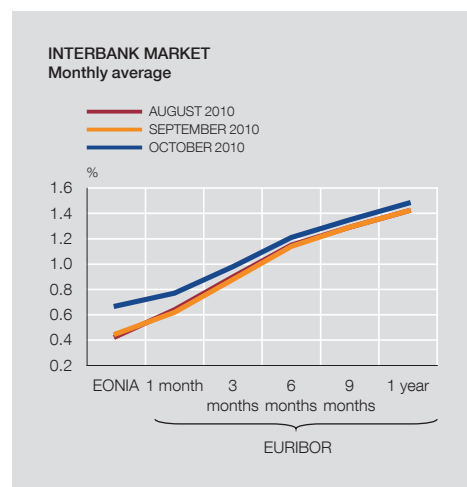
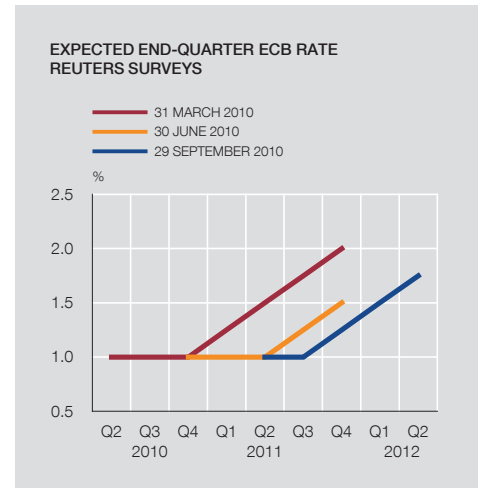
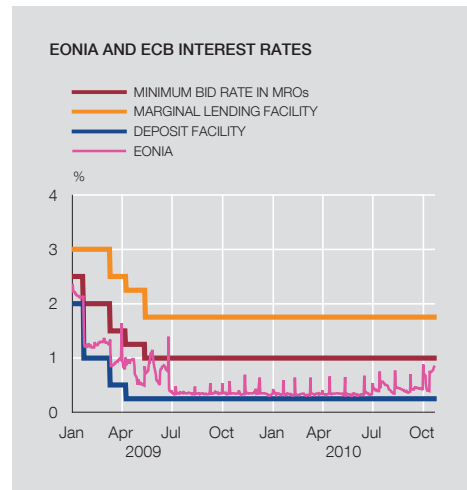
Set against the prevalent fragile economic recovery, in which inflationary pressures continued to be contained and medium-term inflation expectations held at levels compatible with the price stability target, the monetary policy stance remained accommodative. Thus, the Governing Council of the ECB decided to leave official interest rates unchanged at historically low levels at its September, October and November meetings. Rates remained at 1% for the main refinancing

operations and at 1.75% and 0.25%, respectively, for the credit and deposit facilities (see Chart 12). At the same time, the ECB retained the non-conventional credit support measures hitherto in place. As part of these measures, the ECB continued to provide liquidity through fixed-rate tenders with full allotment. At its September meeting, it announced that it will maintain this type of tender until at least the end of 2010, although, in the case of three-month loans, the rate will be adjusted on the basis of the average rate of the main operations. The Securities Market Programme (sterilised debt purchases on secondary markets) remained operational. The ECB's purchases of securities, which had been non-existent in the central weeks of August, recommenced with the renewed tensions on certain government debt markets. However, the very small amounts involved raised the value of the total securities purchased to just over €63 billion. In the three weeks immediately before the cut-off date for this article, purchases once again fell to zero.

In the last quarter, progress was also made with the design and implementation of the previously mooted supervision and financial assistance mechanisms at European level. As a result, on 22 September the European Parliament approved the reform of the European supervisory framework of the financial system, which places particular emphasis on macroprudential aspects as an early-warning system for possible practices which may pose major risks for the financial sector and result in a fresh crisis. The agreement envisages the creation from January 2011 of the European Systemic Risk Board and three European supervisory authorities which will monitor the proper functioning of the bank, insurance and pensions, and securities sectors. The European Financial Stability Facility (EFSF), which had been approved in May by the Ecofin Council, has been operational since the beginning of August when the guarantee commitments approved by the Member States represented more than 90% of the total amount. The EFSF, furthermore, has received the top "triple A" rating from the three main agencies (Standard & Poor's, Moody's and Fitch), although this is contingent upon compliance with certain conditions related to the guarantees offered. In the international arena, the Basel III Accord on the new capital requirements for financial institutions was also a further step forward in the reform of the international financial system.

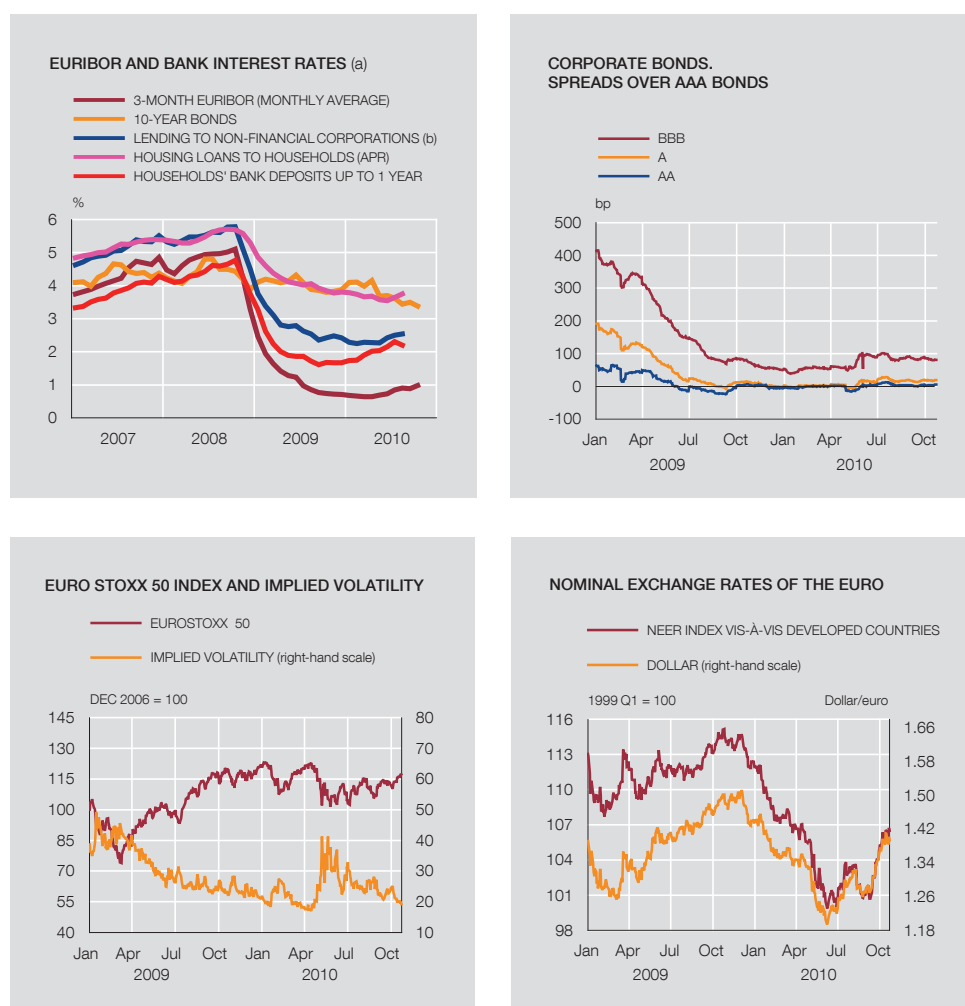
Interest rates on the interbank market generally remained stable between July and September (see Chart 13). However, from October rates rose, particularly short-term ones, partly due to the gradual normalisation of the interbank market and the progressive withdrawal of excessive liquidity as the longer-term Eurosystem loans matured. Thus, at the cut-off date of this bulletin, the EONIA stood at 0.7% and the 3-month and 1-year EURIBOR was at 1.1% and 1.5%, respectively. As explained in greater detail in Box 2, government debt markets were once again subject to tensions at the end of summer, particularly in Ireland and Portugal, where the sovereign bond yield spread over the ten-year Bund rose to more than 460 bp and 410 bp, respectively, at the end of September (see Chart 12). The measures announced by the Irish and Portuguese governments corrected this deterioration temporarily and only partially. In Greece, the long-term government bond yield remained at very high levels and its spread over the German bond reached more than 900 bp, although since the end of September it has dropped substantially thanks to the IMF's positive assessment of the progress of budget consolidation measures and structural reforms. Against this, in Italy and Spain, the sovereign spread over Germany has remained relatively stable since July. Lastly, the rate on US debt has contracted to a greater degree than that in Germany since July – by approximately 30 bp compared with 10 bp in Germany – which led to a narrowing of the positive spread between the two.

The risk premia on private fixed-income markets have not experienced significant changes since June. As for lending, the cost of bank loans extended to the private sector increased in July and August, especially those granted to households for purposes other than house purchase or consumption. Furthermore, the standards for the approval of new loans to house-



SOURCES: ECB and Banco de España.

a. ECB estimate using swap market data.



SOURCES: ECB and Banco de España.

a. On new operations.

b. Floating interest rates and up to 1 year initial rate fixation.

holds and corporations did not ease in Q3 nor will they foreseeably be eased by banks for the remainder of the year according to the Bank Lending Survey. Demand for loans only experienced a slight improvement, although it remains very weak. In this context, bank loans to non-financial corporations posted negative year-on-year rates of change in Q3, although the rate of contraction is lower than in the first half of the year and stood at around 1% in September. Loans to households continued to improve somewhat, posting year-on-year growth of approximately 3% in September, due to the increases in funds granted for house purchase and other purposes, while lending for consumption continued to contract.

Stock markets have picked up since July, especially after the publication of banks' stress tests and the easing of tensions on sovereign debt markets. Although stock market indices posted the occasional decline in August, the EUROSTOXX 50 index has gained approximately 3.8% since end-July. Following its depreciation throughout August, the euro exchange rate has gradually appreciated since September as confidence in financial markets recovered and the Federal Reserve gave signs of possibly easing its monetary policy further (see Chart 13). Thus, since July the common currency has appreciated by 2.6% in nominal effective terms and by 6.4% against the dollar. Lastly, the M3 monetary aggregate, which until July had remained sluggish, picked up notably in Q3, reaching, nonetheless, moderate year-on-year growth rates of 1% in September.

## 4 The Spanish economy

On QNA estimates, the slow recovery in economic activity continued in 2010 Q2, with a quarter-on-quarter increase in real GDP of 0.2% (as against 0.1% in Q1). National demand increased by 0.7%, buoyed by the strength of private consumption and investment in capital goods, and this was partly translated into higher import growth, which caused net external demand to make a negative contribution to growth. In year-on-year terms, the rate of contraction of GDP moderated significantly, with a decline of 0.1%, as against -1.3% in Q1. This smaller year-on-year decline in activity was passed through to employment, so that productivity continued to grow at a high rate.

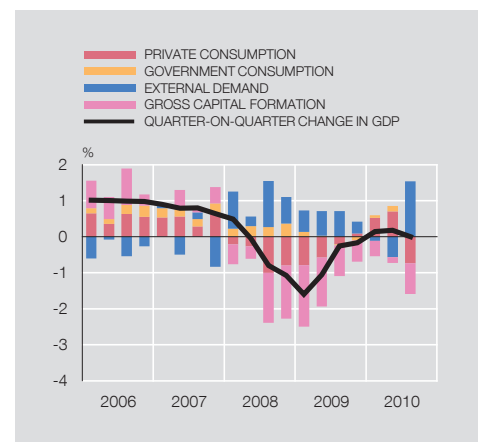
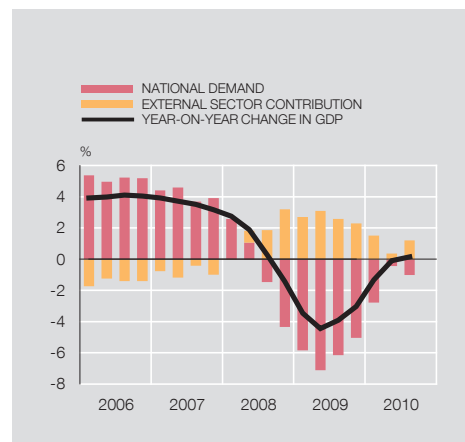
On the available information, the process of recovery in activity came to a halt in Q3, given the estimate of nil quarter-on-quarter GDP growth, against a background characterised by factors with opposite signs. On the one hand, the progressive recovery in the world economy boosted activity, while on the other, the reversal of some of the effects on which demand growth was temporarily based in the first half of the year (linked to the rise in VAT rates and the vehicle purchase incentives) and the entry into force of fiscal consolidation measures had a negative effect on spending. Thus, unlike in Q2, national demand declined, at a quarter-on-quarter rate of 1.5%, while the contribution of net external demand to growth was similar, but with the opposite sign (see Chart 14). In year-on-year terms, GDP is estimated to have grown by 0.2% in Q3, 0.3 pp more than in Q2, following seven consecutive quarters of negative growth.

On the supply side, the latest indicators also point to a stagnation in activity in Q3, with a slightly larger quarter-on-quarter decline in employment than in Q2. Year-on-year, the decline in employment moderated by more than GDP, to a rate of -1.7%, as reflected in a slowdown in apparent labour productivity, which stood at somewhat less than 2%. At the same time compensation per employee slowed again primarily due to the effect of the public sector wage cut, which, given productivity developments, enabled unit labour costs to continue to fall. Finally the year-on-year rate of change in the CPI rose in Q3 to 2.1% in September, mainly as a consequence of the increase in VAT rates in July, although the degree of pass-through to prices estimated for this tax did not exceed 50%.

### 4.1 Demand

In 2010 Q3 private consumption declined rather sharply quarter-on-quarter, following three quarters of positive growth, with a moderation of 1 pp in its year-on-year growth rate (see Chart 15). As mentioned above, these consumption figures should be contrasted with the buoyancy observed in the first half of the year; when the first three quarters of 2010 are considered together, household consumption displays a gradual increase from the end of last year. Purchases of cars and other durable goods, the category most affected by the withdrawal of vehicle purchase subsidies and by the possible bringing forward of spending in response to the rise in VAT, posted negative year-on-year growth rates in Q3, of around -25% in the case of cars. Also, retail sales and the sales of large firms, supplied by the tax authorities, posted significant year-on-year falls. In line with these indicators, retail confidence declined on average in the quarter, while consumer confidence, which should not be affected by these temporary changes in spending patterns, improved slightly.

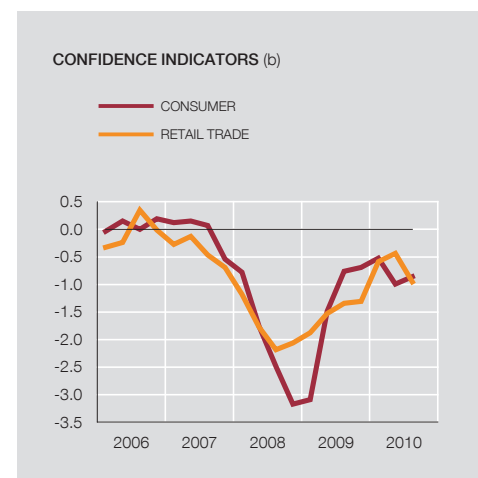
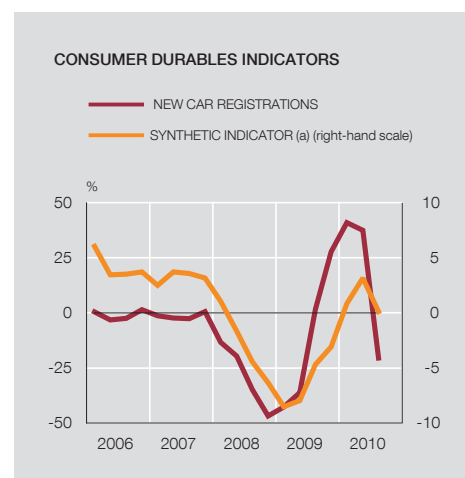
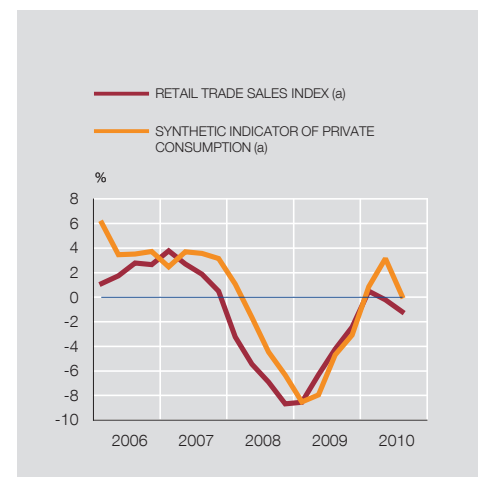
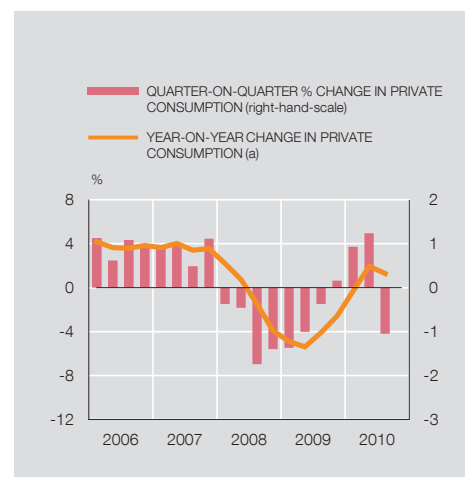
According to the financial accounts of the institutional sectors, household disposable income contracted by 0.4% in nominal terms in 2010 Q2, as a result of a fall in labour income and the smaller contribution from general government benefits net of taxes. The decline in disposable income and the buoyancy of consumption in Q2 caused the saving rate to decline to 16.2%,



SOURCES: INE and Banco de España.

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

## PRIVATE CONSUMPTION



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

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

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

down 1.5 pp from the preceding quarter. Beyond shifts in consumption decisions which may have taken place between the first half of the year and Q3, it is estimated that the smooth recovery in household spending will continue in the immediate future, based on the scope provided by the still high saving rate, although it will continue to be affected by the uncertain developments in the labour market and in income, the downward trend in house prices, the maintenance of relatively restrictive credit conditions and the negative effects on disposable income arising from the greater budgetary constraint.

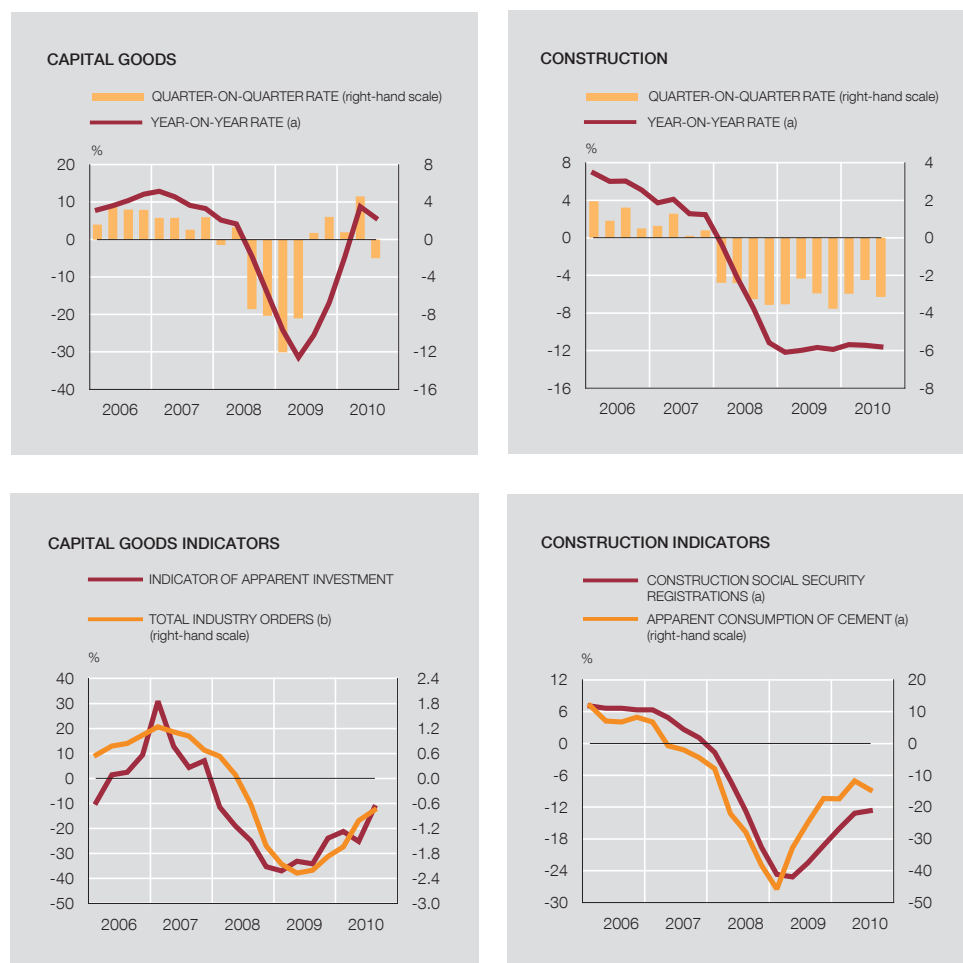
General government final consumption is estimated to have grown at a relatively low year-on-year rate in Q3, similar to the one observed in the previous quarter. According to the budget outturn data, the developments in expenditure on goods and services and wages and salaries would have contributed to this performance.

On the available indicators, investment in capital goods fell in 2010 Q3, in quarter-on-quarter terms, following four quarters of positive growth. Year-on-year, growth remained positive, although lower than in the preceding quarter (see Chart 16). Among the conjunctural data, commercial vehicle registrations (which were also boosted by government incentives for vehicle purchase) contracted sharply in Q3. Also, the year-on-year rates of decline in sales of capital goods by large firms and in the industrial production of these goods intensified in Q3. Only imports of capital goods remained somewhat buoyant in the summer. Among the qualitative indicators, the confidence of capital goods producers rose in Q3, although production expectations deteriorated. Capacity utilisation continued to rise, but is still well below its historical average, which suggests that there is scope for expansion of activity without the need for an immediate expansion of installed capital.

The ongoing uncertainty surrounding the strength of the recovery, along with the prolonging of restrictive bank credit conditions, may be holding back new investment projects by non-financial corporations. In fact, according to cumulative four-quarter data from the non-financial accounts of the institutional sectors, non-financial corporations reduced their investment and increased their saving until Q2, which enabled them to reduce their borrowing. As a result, companies would appear to be rebuilding their balance sheets, reducing their debt and endeavouring to improve their profit prospects.

Also, construction investment is estimated to have contracted in 2010 Q3, so prolonging the adjustment that has been taking place since early 2008. Input indicators for the sector as a whole (such as apparent consumption of cement and the index of industrial production of construction materials) showed an intensification of the contractionary year-on-year trends, while the employment indicators (such as social security registrations) showed slightly more moderate year-on-year falls than in the previous quarter. In addition, business survey indicators for the construction sector reflected a worsening during the summer months in employers' perceptions of the sector's performance and prospects.

As regards the different types of construction, residential investment is estimated to have continued to fall, although the decline in the flow of completed housing is bringing this variable into line with housing starts, indicating that the fall in housing investment will slow during the coming quarters. On the side of the demand for housing, there has been a notable recovery in purchases in recent months, which could be related to the improvement in affordability indicators, as well as the temporary boost stemming from certain tax-related factors, such as the rise in July in VAT and, in certain autonomous regions, in transfer tax, and the partial elimination of tax deductions for house purchases in January next year. There was a significant moderation in the rate of contraction of non-residential building permits in Q3. Finally, investment in



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

a. Year-on-year percentage change based on the seasonally adjusted series, except in the case of social security registrations, the rates for which are based on the original series.

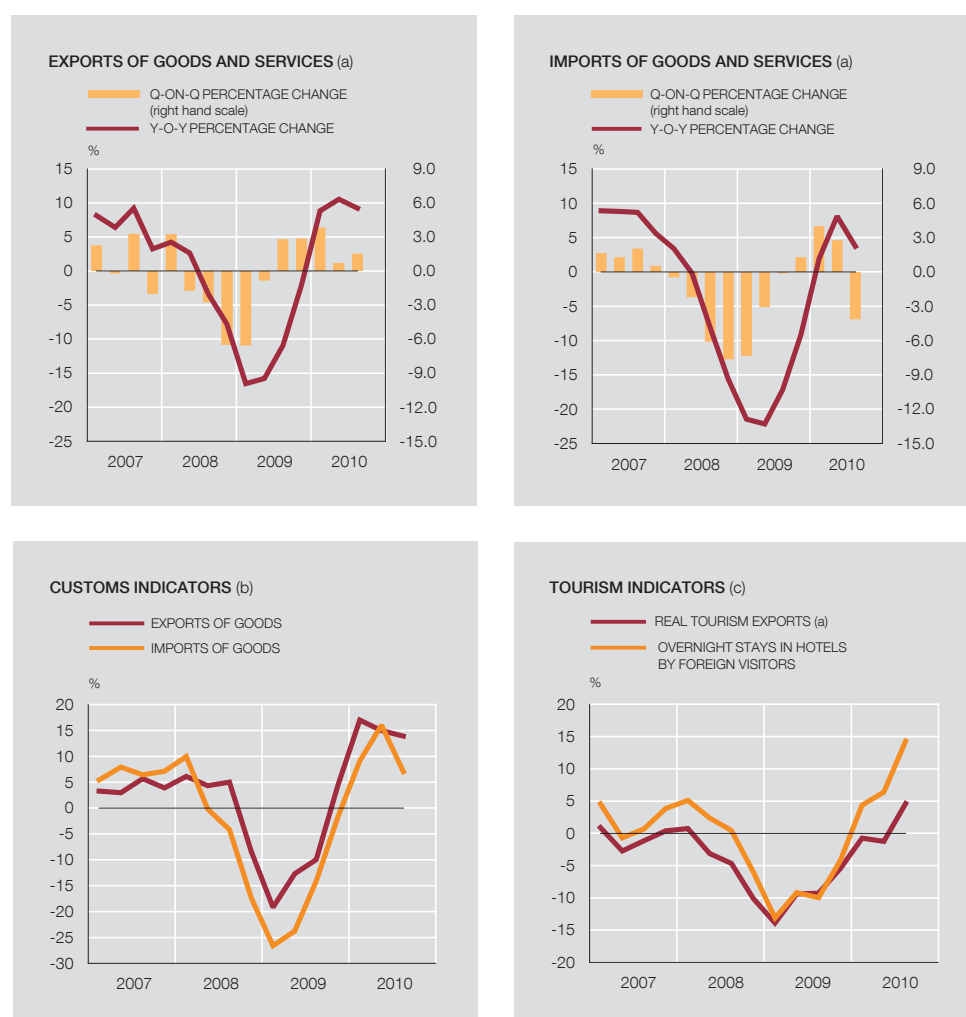
b. Normalised indicator (difference between the indicator and its mean value, divided by the standard deviation).

public works is expected to deteriorate on account of the budget consolidation commitments that will affect both central government and regional and local government.

As regards foreign trade, the latest data available point to a significant increase in the positive contribution of net external demand to quarter-on-quarter GDP growth in 2010 Q3, to around 1.5 pp, up from -0.6 pp in the previous quarter, as a result of the rise in exports and the decline in imports (see Chart 17). The moderation in imports, following the increases in previous quarters, is in line with the loss of momentum in national demand described above. By contrast, exports remained notably strong in this quarter, against an international background characterised by sustained growth in the emerging economies and the firming of the recovery in the euro area. On average in Q3, the indicators of price competitiveness vis-à-vis the developed countries improved, although in September and in the first few days of October the euro has been appreciating against the main currencies.

On customs data, real goods exports increased on average by 13.5% year-on-year in July and August, down slightly from the Q2 rate of 14.9%. The products that contributed most to the buoyancy of exports in Q3 were inputs and equipment. Exports of consumer durables de-





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

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

clined on average by 5.3% year-on-year in July and August, in contrast to the positive rates observed in the first half of the year, partly due to the ending of the direct subsidies for the purchase of vehicles that had been available in some of the main European countries. Exports outside the euro area were somewhat more dynamic, especially those to China and other emerging economies.

As for real exports of tourism services, the data for the summer months point to an improvement in this item in Q3, following the slightly negative trend in Q2 (influenced by the volcanic ash crisis). In particular, overnight hotel stays by non-resident visitors increased by 13.6% year-on-year (4.3% in Q2), while foreign tourist inflows increased by 4.2%, in contrast to the decline of 3.1% in Q2, with a notable recovery to slightly positive rates in the main countries of origin of Spain's tourists (United Kingdom and Germany). Also, nominal spending by foreign visitors, according to the tourism expenditure survey (EG-ATUR), reached year-on-year growth of 4.3% in Q3, as against a fall of 1.2% in the previous quarter.

Turning to imports, the July and August data suggest that real imports of goods slowed in 2010 Q3. On customs data, real goods imports grew by 8.7% on average in July and August, down from 16.6% in Q2. By product group, the strength of imports of inputs and equipment were notable in this period, as in the case of exports. Imports of durable consumer goods, after increasing by 37% year-on-year in Q2, declined by 15% on average in July and August, an indication of the strong fall in household demand for these goods. Finally, real imports of services appear to have slowed in 2010 Q3, as a result of the lower tourism payments and the weakness of imports of non-tourism services.

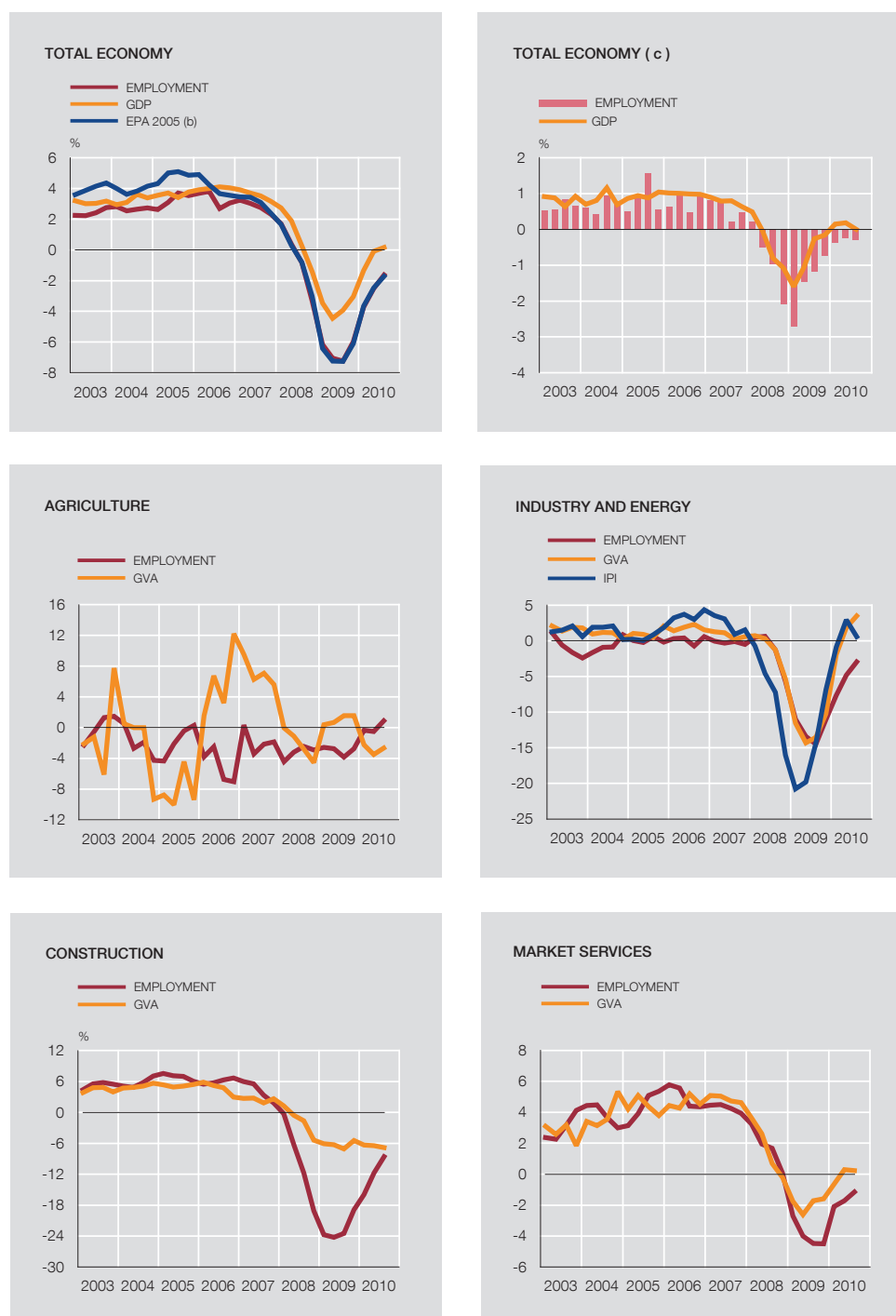
## **4.2 Production and employment**

In Q3, the gross value added of the total market economy contracted slightly in quarter-on-quarter terms, owing to the decline in construction activity and the estimated slowdown in market services, while buoyancy in industry and energy may have been at a similar level to that in Q2 (see Chart 18).

As regards industry, the path of slow recovery in the industrial production index (IPI) that commenced in Q2 was extended. The employment indicators displayed a similar fall to that seen in Q2, in quarter-on-quarter terms, while the sector's sentiment indicators showed a very slight improvement on average in Q3, in the case of the European Commission's survey, but deteriorated, especially in September, in the case of the PMI. In construction, it is estimated that value added contracted more sharply than in Q3, as a consequence of the weakness of residential investment and the impact of the budget austerity plans on infrastructure. Finally, the value added of market services is estimated to have hardly risen in Q3, in quarter-on-quarter terms, partly due to the lower buoyancy of trade activities, which have a significant weight in this sector and which were affected negatively by the slackness of private consumption mentioned above. Among the indicators available for this sector, the figures for average social security registrations in the sector showed a loss of dynamism in quarter-on-quarter terms, while both the index of activity of the services sector and the sales of services by large companies posted more unfavourable year-on-year changes than in Q2. The sentiment indicators for the quarter as a whole highlighted the weakness of the sector: the PMI for services stood once again below the benchmark level of 50, following the rise recorded in the previous quarter, while the opinion-based survey of the European Commission continued to show a deterioration in confidence on average in Q3.

In the labour market, the various conjunctural indicators available point to a moderation in the year-on-year rate of decline in employment in Q3. The average number of social security registrations decreased by 1.6% year-on-year, a slowdown of 0.3 pp with respect to the decline in the previous quarter. However, in quarter on quarter terms, the decline in the number of registrations intensified to 0.4%. The year-on-year growth in INEM-registered hires moderated in Q3 (to 2.6%, from 4.2% in the previous period), the deceleration being similar for permanent and temporary contracts.

The Labour Force Survey for Q3 shows a year-on-year fall in employment of 1.7%, 0.8 pp less than in the previous quarter. The smaller year-on-year decline in employment was apparent in all sectors of the market economy, especially agriculture, where the year-on-year rate even turned positive. The slowdown in the rate of decline in employment only affected dependent employees, whose numbers fell by 1.2%, as against 2.4% in Q2, while the decline in the numbers of self-employed accelerated, from 3% in Q2 to 4%. By nationality, the intensity of job destruction slowed to a greater extent among foreign workers, whose employment fell by 2.1%, although this was still greater than the fall in employment among Spanish workers (-1.7%). With regard to contract duration, the year-on-year rate of decline of temporary workers eased again (-2.4%), although this was still a higher rate of adjustment than in the case of



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

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

workers with permanent contracts, whose numbers decreased by 0.8%. As a result, the proportion of temporary to total employees increased slightly to 25.6%, 0.7 pp more than in the preceding quarter, but still slightly down on a year earlier (25.9%). Finally, part-time employment continued on the path of growth initiated at the beginning of the year, with an increase of 2.4%, while full-time workers decreased by 2.3%. This left the ratio of part-time to full-time workers at 12.8%, as against 12.3% a year earlier.

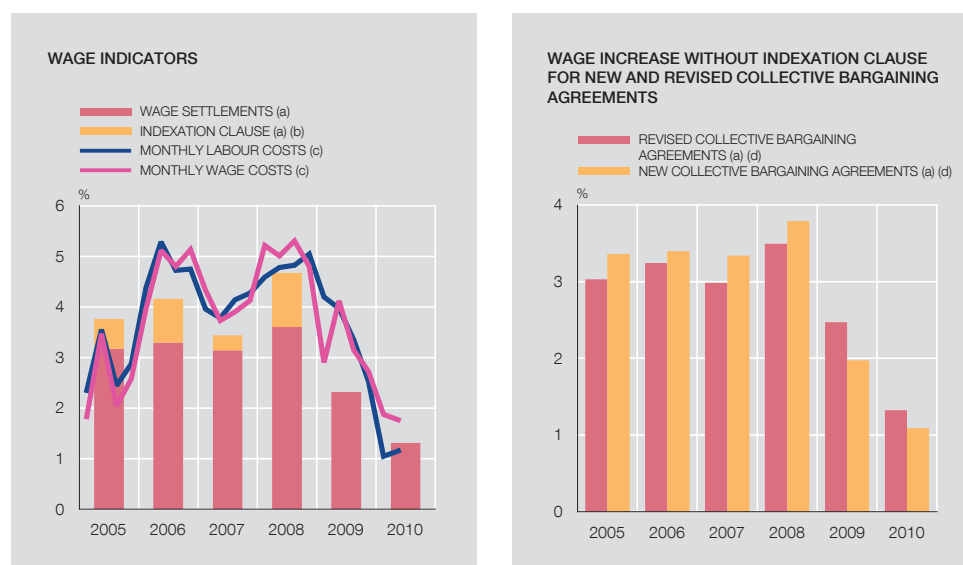
The rate of growth of the labour force accelerated, with year-on-year growth of 0.6%, against a background of stability in the population over 16 years of age (0.1%) and a rise in the participation rate, to 60.1%, up from 59.8% in the same quarter of the previous year. By sex, the female labour force increased slightly in Q2, while the male labour force continued to decline, although at a slower rate (-0.9% in Q2 to -0.4% in Q3). By nationality, the foreign labour force grew by 0.4%, although the foreign population continued to decline, by 4.4% in year-on-year terms. As a result, the participation rate of this group increased to 77.2%. The labour force of Spanish nationality increased by 0.6%, and its participation rate held unchanged at 57.7%.

Finally, total unemployment fell by around 70,000 with respect to Q2, to stand at 4.57 million. In year-on-year terms, the growth in unemployment moderated to a year-on-year rate of 11%, down from 12.3% in the preceding quarter. The rate of unemployment fell by 0.3 pp in Q3, to 19.8% of the labour force. Unemployment as registered by the INEM (National Public Employment Service) also posted a slowdown in its year-on-year growth rate in 2010 Q3, to 9.3% from 12.6% in Q2.

#### **4.3 Costs and prices**

Collective bargaining in recent months has confirmed the path of greater wage moderation seen since the beginning of the year. These developments have been favoured by the low level of inflation in 2009 (0.8% in December), which meant that the wage indexation clauses were not activated, and by the multi-year agreement signed by the social partners in February. However, as yet, the public sector wage cut has had no discernible additional moderating effect on wage growth in the private sector. The agreements signed in the period to Q3 were relatively few, affecting only 5.1 million workers (one-third less than in the same period of 2009). Almost all these agreements are revised agreements from previous years, which incorporate a wage settlement of 1.3% for 2010, more than 1 pp below that agreed in the previous year (see Chart 19), while newly signed agreements contain on average somewhat lower settlements, in line with the upper limit of 1% established in the wage agreement signed in February for the period 2010-2012. In the final part of the year, the wage settlements included in agreements may be somewhat more restrained, following the approval of Law 35/2010 of 17 September 2010 on urgent measures to reform the labour market, which includes the possibility of firms that are in a vulnerable financial situation resorting to get-out clauses. In short, an additional fall in the rate of increase in compensation per employee is to be expected in Q3, both in the market economy and in the non-market economy. Despite the moderation in productivity growth, this wage behaviour would allow unit labour costs in the market economy to continue to adjust (see Chart 20).

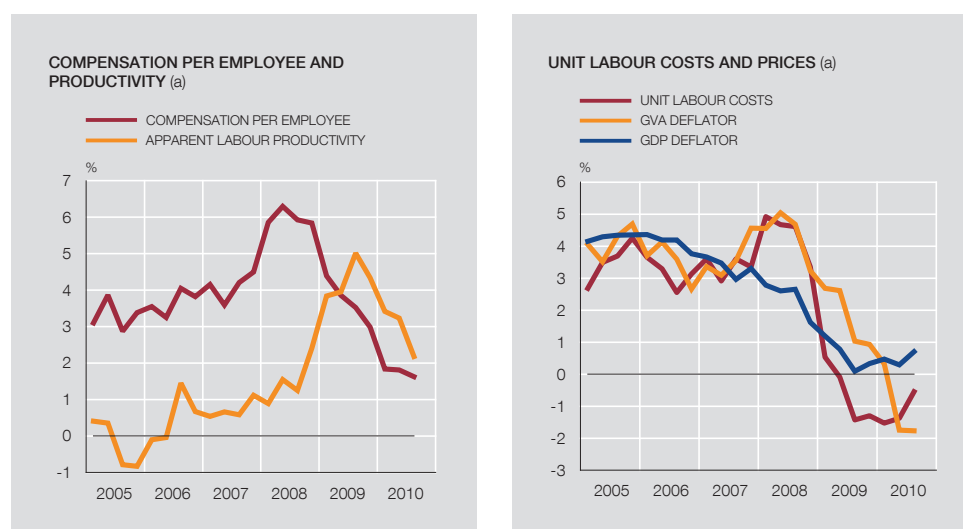
The final demand deflator is estimated to have accelerated modestly in Q3, since both the rate of growth of the internal component of inflation (measured by the GDP deflator) and that of the import deflator appear to have increased slightly in relation to the previous quarter. The rise in import prices would basically stem from the increase in commodity prices. By final demand component, the growth rate of the deflator of total gross fixed capital formation seems to have remained unchanged, unlike the private consumption and export deflators, which seem to have risen in Q3.



SOURCES: INE and Ministerio de Trabajo e Inmigración.

- a. The last year, with information from collective bargaining agreements to September 2010.  
b. Previous year's indexation clause.  
c. ETCL (quarterly 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 signed and with economic effects in the year, this being the first or only year they are in force.

## PRICES AND LABOUR COSTS IN THE MARKET ECONOMY



SOURCES: INE and Banco de España.

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

## TAX RATES

The increase in value added tax rates approved in the 2010 State budget came into force on 1 July. The standard rate was raised by 2 pp to 18% and the reduced rate by 1 pp to 8%, while the super-reduced rate remained at 4%. This box presents an estimate of the effects of this increase in indirect taxation on consumer prices, using a partial approach based on the analysis of price developments during the three months that have passed since this measure came into force. Obviously, any increase in indirect taxation affects the decisions of the different private agents (households and firms) and public agents in various ways, which may, in turn, generate second round effects on prices, but these have not been considered here.

From a theoretical viewpoint, the degree of pass-through of changes in indirect taxation to consumer prices depends on many factors, which have different effects in different product markets. These factors include the degree of competition, the elasticity of consumer demand, firms' cost structures and the role of expectations in price formation processes. The difficulty of this quantification also relates to the timing of the pass-through, since firms may decide to change their prices before the entry into force of the rate increase, at the time it takes place or in a later period. In practice, measurement of the impact of changes in indirect taxation and their distribution over time is hampered by the difficulty of separating a change in the actual CPI into that part which genuinely reflects a pass-through of tax from that which is attributable to normal seasonal changes or to changes in the proximate determinants of consumer prices (for example, industrial prices and the price of oil).

In any event, the hypothesis of complete pass-through of the tax change enables us to put an upper limit on the impact of the rise in taxes on prices. According to the harmonised index of consumer prices at constant taxes (HICP-CT) published by the INE, the maximum effect of the tax change would be 1.1 pp.

To estimate the impact of VAT, three different approaches have been used. Each approach has its advantages and disadvantages, so that to estimate the impact it is advisable to consider the range of results obtained. Also, it should be noted that the pass-through has probably still not been completed, so that the estimates presented should be treated with due caution. The first two methods considered are unconditional, which is to say that they only use consumer price data, while the third is conditional, insofar as quantitative models are used to remove the effect of the changes in the proximate determinants of consumer prices.

Specifically, the first method is based on the following procedure: the change in consumer prices in July, August and September 2010 has been broken down for each of the 126 sub-indices of the CPI (e.g. fresh fish) into a normal seasonal component (corresponding to the month-on-month rates recorded in the same months of 2009)<sup>1</sup> and a residual term, associated with the increase in VAT. In addition, this residual term has been edited to avoid the estimate for any particular sub-index implying a pass-through of the VAT increase of less than zero or of more than one hundred percent. The results have been aggregated subsequently using the weights of each of the sub-indices in the CPI. The second method uses, for each sub-index of the CPI, a univariate model with intervention analysis,<sup>2</sup> to try to identify extraordinary changes during these months that may be attributable to the rise in VAT, and applies the same editing and aggregation procedures as the first method. The third procedure is a conditional estimate, which strips out that part of the change in the actual CPI that reflects a change in its proximate determinants (e.g. industrial prices)

1. Alternatively, estimates have been made defining the normal seasonal component as the average of the month-on-month rates of these same months in the period 2005-2009. This box presents only the estimate obtained using the growth in 2009 as reference, since it was a year with similar characteristics to 2010. 2. For simplicity, these univariate models with intervention analysis have been specified automatically.

## ESTIMATED EFFECTS OF THE RISE IN VAT ON THE CPI

	ESTIMATED IMPACT (pp)			IMPACT WITH FULL PASS-THROUGH	ACTUAL PASS-THROUGH (%)		
	Method 1 (a)	Method 2 (b)	Method 3 (c)		Method 1 (a)	Method 2 (b)	Method 3 (c)
Overall index	0.57	0.41	0.44	1.10	52.0	37.1	39.6
Unprocessed food	0.25	0.07	0.00	0.49	51.6	14.9	0.0
Processed food	0.30	0.10	0.00	0.77	38.5	12.4	0.0
Non-energy industrial goods	0.77	0.76	0.61	1.37	56.5	55.8	44.7
Energy	0.83	0.83	0.83	1.72	48.1	48.1	48.1
Services	0.51	0.21	0.44	0.97	53.0	22.0	45.4

SOURCES: INE and Banco de España.

a. Unconditional estimation.

b. Estimation based on disaggregated univariate models.

c. Conditional estimation based on models to forecast the main groups.

## TAX RATES (cont'd)

using econometric models of the five main components of the CPI that are usually considered.

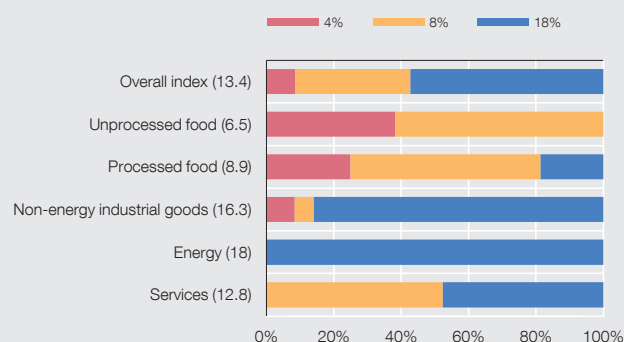
The adjoining table presents the estimates for the whole period July-September.<sup>3</sup> Taken together these procedures would indicate that the increase in VAT may explain 0.4-0.6 percentage points of the change in the CPI in July, August and September, the bulk of the impact having occurred in July. The largest effects were recorded in the non-energy industrial goods and services components, the im-

pact on food prices being very limited, reflecting to some extent the fact that some of them are subject to the super-reduced VAT rate, which has not been changed, and almost all the rest to the reduced rate, which has only been increased by 1 pp (see Panel 1). In fact, for processed and unprocessed foods it is not statistically possible to reject the null hypothesis for the increase in VAT.

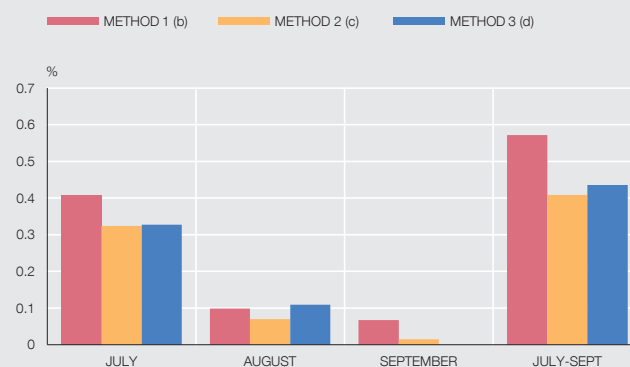
The estimated degree of pass-through is between 40% and 50% of the total potential impact. This pass-through is smaller than that estimated in other episodes of VAT rises (such as in 1992 and 1995), reflecting the acute weakness of household spending, which would have led firms to absorb part of the tax increase in their margins. Additional lagged effects in October – or even later – cannot be ruled out, but they can be expected to be small.

3. The energy component requires a different treatment, since electricity and gas prices are regulated and fuel prices are strongly affected by oil price fluctuations. Specifically, full pass-through has been assumed for electricity and gas prices and partial pass-through for fuel prices.

1 DISTRIBUTION OF VAT RATES BY CPI COMPONENTS (a)



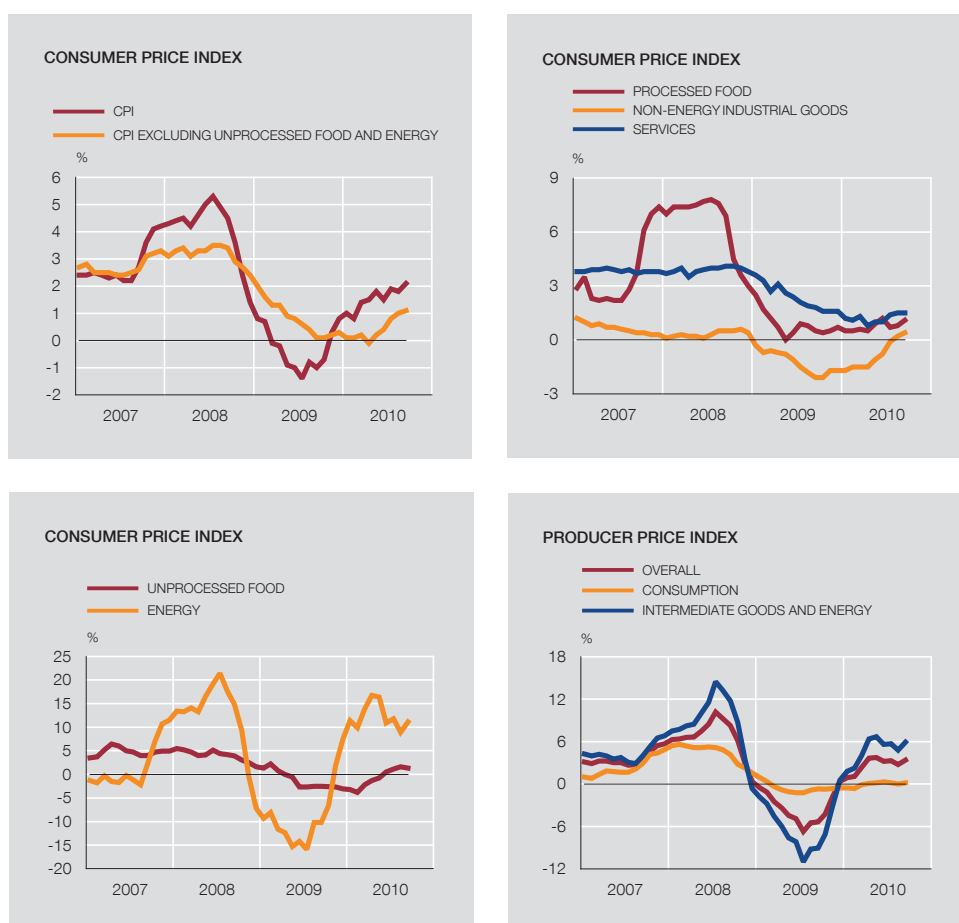
2 ESTIMATED EFFECTS OF THE RISE IN VAT ON THE CPI



SOURCES: INE and Banco de España.

- a. In brackets, average rate of VAT (%).
- b. Unconditional estimation.
- c. Estimation based on disaggregated univariate models.
- d. Conditional estimation based on models to forecast the main groups.

In fact, the main consumer price indicators accelerated in Q3, largely due to the rise in VAT rates in July, as explained in detail in Box 4. Over the course of the quarter, the CPI grew by 2%, as against 1.6% in the period April-June (see Chart 21). By component, the rise in the overall index took place across the board, with the exception of energy. Specifically, during these three months, unprocessed food prices rose significantly, leaving behind the negative rates of previous quarters. In addition, the prices of non-energy industrial goods rose to 0.1%, from -1.1% in the previous quarter, this being partly linked to the increase in car prices. Also, services prices accelerated again, following the slowdown in previous quarters, to an average rate of 1.5%. In contrast, the growth of energy prices slowed by 4 pp to 10.6%, owing to the large price increases recorded a year earlier. As a result, the CPI excluding energy and unprocessed food prices rose by 0.7 pp to an average year-on-year rate of 0.9% in Q3, extending the upward path of the last few quarters.



SOURCE: INE.

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

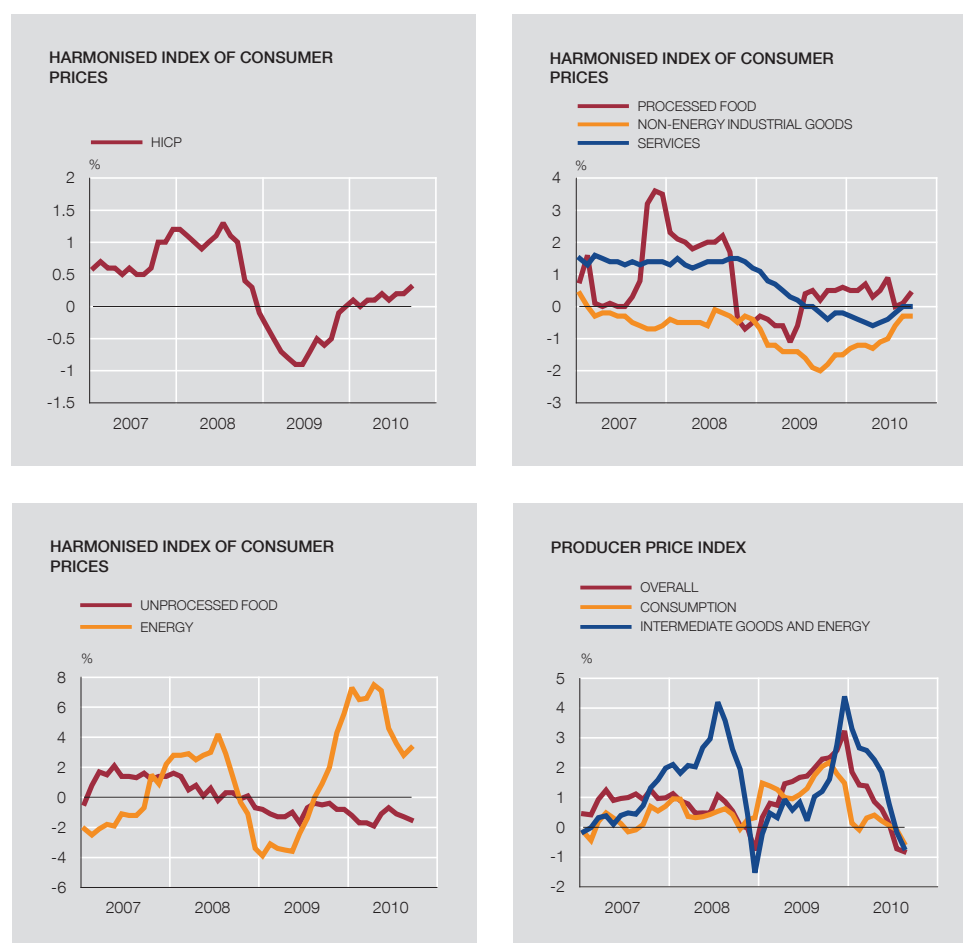
Inflation in Q3, as measured by the harmonised index of consumer prices (HICP), rose by 0.3 pp in Spain and by 0.2 pp in the euro area, so that the differential widened by 0.1 pp to 0.2 pp (see Chart 22). Inflation was lower in Spain than in the euro area in services, non-energy industrial goods and unprocessed food. As a result, the core inflation differential remained favourable to Spain, although it narrowed by 0.5 pp with respect to the previous quarter, to -0.1 pp. The year-on-year rate of the leading indicator of the HICP for October rose by 0.1 pp, to 2.2%, a similar rate to that estimated for the euro area, whose HICP would have risen to 1.9%.

The rate of growth of the producer price index fell to 3.1% in Q3, down 0.4 pp from the previous quarter. This decline stemmed from the fall in the year-on-year growth rate of energy prices and the fall in the prices of non-durable goods. In contrast, the prices of consumer durables, inputs and equipment accelerated. Finally, the growth rates of the import and export price indices eased, to rates of 8.5% and 5.3% respectively in August.

#### 4.4 The State budget

At the Council of Ministers meeting on 24 September the government approved the draft State budget for 2011, setting an overall general government deficit target of 6% of GDP, which confirmed the budgetary stability targets approved in June. The breakdown by sub-sector envisages a central government deficit of 2.3% of GDP, down 3.6 pp from 2010, an improve-





SOURCES: Eurostat and Banco de España.

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

ment of 0.2 pp of GDP in the social security system's surplus, taking it to 0.4%, and a deterioration of 0.4 pp in the deficit of regional and local governments, which would take it to 4.1% of GDP.

On the revenue side, the 2011 budget includes a rise of 1 pp in the state tranche of personal income tax for ordinary tax bases over €120,000 (up to 22.5%) and of 2 pp for those above €175,000 (up to 23.5%), as well as the elimination of the tax credit for the purchase of a principal residence, for taxpayers with a taxable base of more than €24,170.20, and the tax relief for the birth or adoption of children.

On the expenditure side, the measures announced in May this year (such as an average 5% cut in the salaries of public sector employees and a significant reduction in public investment), along with cuts in other budget items, have made it possible to set the ceiling on State spending at €150,056 million in 2011, around 6% down from the 2010 budget (or 5%, when comparing with the outturn projection for that year), once the distortion caused by the new system for financing the regional (autonomous) governments has been eliminated. In terms of its composition, a fall of 3.2% has been budgeted for State current primary spending (excluding the transfers to the regional (autonomous) governments), with respect to the outturn projection, an increase in the debt burden of almost 25% and a reduction in public investment of around 31%.

€m and %

	Outturn 2009	Percentage change 2009/2008	Budget outturn projection	Percentage change 2010/2009	Outturn			
					Outturn Jan- Jun. Percentage change 2010/2009	2009 Jan-Sep	2010 Jan-Sep	Percentage change
	1	2	3	4 = 3/1	5	6	7	8 = 7/6
1 REVENUE	102,038	-21.1	121,551	19.1	19.5	70,701	92,676	31.1
Direct taxes	54,096	-27.0	58,270	7.7	11.1	37,833	42,320	11.9
<i>Personal income tax</i>	30,432	-29.9	39,950	31.3	21.4	20,739	28,090	35.4
<i>Corporate income tax</i>	20,188	-26.1	14,648	-27.4	-14.5	14,404	11,334	-21.3
<i>Other (a)</i>	3,476	2.8	3,672	5.7	6.1	2,690	2,896	7.6
Indirect taxes	28,664	-26.9	48,769	70.1	60.6	20,159	40,131	99.1
VAT	15,784	-36.7	35,032	121.9	94.8	10,742	30,090	180.1
<i>Excise duties</i>	10,141	-9.6	10,884	7.3	8.9	7,349	7,818	6.4
<i>Other (b)</i>	2,739	-11.2	2,853	4.1	5.8	2,068	2,223	7.5
Other net revenue	19,277	20.4	14,511	-24.7	-28.5	12,709	10,225	-19.5
2 EXPENDITURE	189,319	27.8	183,654	-3.0	3.6	133,501	130,616	-2.2
Wages and salaries	26,570	5.3	26,973	1.5	2.4	18,918	19,420	2.7
Goods and services	4,860	7.2	4,409	-9.3	3.3	2,893	2,827	-2.3
Interest payments	17,650	10.8	22,237	26.0	23.0	15,317	16,712	9.1
Current transfers	112,412	35.8	105,297	-6.3	7.3	77,090	74,875	-2.9
Investment	10,468	-1.6	8,458	-19.2	-6.2	6,916	6,157	-11.0
Capital transfers	17,360	94.1	16,280	-6.2	-22.7	12,367	10,624	-14.1
3 CASH-BASIS BALANCE (3 = 1 - 2)	-87,281	—	-62,103	—	—	-62,800	-37,939	—
MEMORANDUM ITEM: TOTAL TAXES (State plus share of regional and local governments)								
TOTAL	116,779	-15.9	133,578	14.4	13.3	84,971	101,785	19.8
Personal income tax	63,857	-10.5	67,601	5.9	3.6	46,839	49,453	5.6
VAT	33,573	-30.1	45,625	35.9	31.4	23,816	37,410	57.1
Excise duties	19,349	-1.1	20,352	5.2	7.2	14,316	14,923	4.2

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.

Also, the budget envisages a general government deficit of 9.3% of GDP in 2010. By sub-sector, central government is projected to record a deficit of 5.9% of GDP this year (-9.4% in 2009), while the social security funds surplus is projected to fall by almost 0.6 pp, to 0.2% of GDP, and the regional and local government deficit is projected to worsen by 1.2 pp, to -3.7% of GDP.

According to the outturn projection included in the State budget, the State will post a deficit in cash terms of €62.1 billion in 2010, which is slightly below the level initially projected in the budget for 2010, owing to a small improvement in revenue and a cut in spending. The budget outturn to September was a deficit of €37.9 billion, notably lower than the €62.8 billion deficit recorded in the same period of the previous year (by contrast, the outturn for the social security system shows a reduction in the surplus, as detailed in Box 5). In Q3 the strength of revenue increased, with an increase of 31.1% in cumulative terms, while expenditure continued to slow, to reach a negative rate of -2.2% in cumulative terms to September, down from 3.6% in the first half of the year.

The Social Security System posted a non-financial surplus of €6,931 million to August 2010, down 32% on the same period of the previous year. The rate of decline in non-financial revenues continued to moderate, albeit very gradually, to reach -0.4% in the period to August, as against the fall of 3.4% projected in the budget. Payments grew by 4.2%, as against the 1.9% growth budgeted for the year as a whole, with a slight acceleration in the last month, in step with contributory pensions, the main item of spending.

By component, revenue from social security contributions contracted slightly in the period to August, by 0.1%, reflecting the trend in employment and social security registrations. Spending on contributory pensions maintained a relatively stable trend, rising by 5.1% to August, in line with the growth in the number of pensions. Spending on sickness benefits declined at a rate of 5%, less sharply than was projected in the budget.

With respect to the National Public Employment Service (SPEE, by its Spanish abbreviation), the data for which are not included in the adjoining table, the contributions received have been growing slightly in recent months. As regards expenditure, the rebates on contributions in respect of employment-promoting contracts have also accelerated recently, while the bulk of spending on unemployment benefits continued to slow to September, in line with the trends in unemployment, so that a substantial moderation is to be expected in 2010 as a whole, with respect to 2009. Despite these developments in total spending, the slowdown in the number of unemployment benefit recipients has been checked and they grew by slightly more than 11% year-on-year in August, in line with non-agricultural registered unemployment. As a result, the coverage rate fell only slightly, to stand at 79%, which was still higher than a year earlier. The latest information available indicates an additional moderation in the rise in registered unemployment in September.

#### SOCIAL SECURITY SYSTEM (a)

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

EUR m and %

	Budget			Outturn JAN-AUG		
	2009	2010	% change	2009	2010	% change
	1	2	3 = 2/1	4	5	6 = 5/4
1 REVENUE	123,726	119,481	-3.4	80,150	79,793	-0.4
1.1 Social security contributions	113,324	108,358	-4.4	71,155	71,115	-0.1
1.2 Current transfers	7,439	8,357	12.3	6,127	6,120	-0.1
Other	2,963	2,765	-6.7	2,868	2,558	-10.8
2 EXPENDITURE	114,476	116,601	1.9	69,917	72,863	4.2
2.1 Wages and salaries	2,453	2,483	1.2	1,571	1,547	-1.5
2.2 Goods and services	1,995	2,032	1.9	1,031	1,020	-1.1
2.3 Current transfers	109,465	111,557	1.9	66,939	70,166	4.8
Contributory pensions	93,339	95,320	2.1	57,519	60,466	5.1
Sickness	8,144	7,373	-9.5	3,703	3,516	-5.0
Other	7,982	8,864	11.0	5,717	6,184	8.2
2.4 Other	563	529	-6.1	376	130	-65.4
3 BALANCE	9,250	2,880	-68.9	10,232	6,931	-32.3

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

a. Only data relating to the System, not to the entire Social Security Funds sector are given.

EUR m		January-August		RATE OF CHANGE 2010/2009 (b)
		2009	2010	
CREDITS	Current account	198,526	215,505	8.6
	<i>Goods</i>	103,120	120,467	16.8
	<i>Services</i>	59,279	61,402	3.6
	— Tourism	26,117	26,830	2.7
	— Other services	33,162	34,573	4.3
	<i>Income</i>	26,630	24,180	-9.2
	<i>Current transfers</i>	9,497	9,455	-0.4
	Capital account	4,267	5,845	37.0
	Current + capital accounts	202,792	221,350	9.2
DEBITS	Current account	238,001	250,125	5.1
	<i>Goods</i>	131,604	151,467	15.1
	<i>Services</i>	41,339	42,351	2.4
	— Tourism	7,763	8,038	3.5
	— Other services	33,576	34,313	2.2
	<i>Income</i>	48,933	39,421	-19.4
	<i>Current transfers</i>	16,125	16,886	4.7
	Capital account	1,460	1,103	-24.4
	Current + capital accounts	239,461	251,228	4.9
BALANCES	Current account	-39,476	-34,620	4,856
	<i>Goods</i>	-28,484	-31,000	-2,515
	<i>Services</i>	17,940	19,052	1,111
	— Tourism	18,354	18,792	437
	— Other services	-414	260	674
	<i>Income</i>	-22,303	-15,241	7,062
	<i>Current transfers</i>	-6,629	-7,431	-803
	Capital account	2,807	4,742	1,935
	Current + capital accounts	-36,669	-29,878	6,791

SOURCE: Banco de España.

a. Provisional data.

b. Absolute changes for balances.

Overall, direct tax revenues are being boosted by a certain recovery in tax bases, but above all by the impact of certain discretionary measures. Among the latter should be highlighted the elimination of the deduction of up to €400, which is already affecting the withholdings of personal income tax this year, and the rise in the investment income tax rates. As regards indirect taxes, VAT continued to post the sharpest increases in revenue, which rose by 57.1% in the first three quarters of 2010, after a notable acceleration in Q3. This was mainly a consequence of the sharp decline in rebates applied for by firms, which was largely attributable to the new system of monthly rebates introduced in 2009, which entailed an extraordinary, and temporary, volume of rebates that year. Also, revenues may have been affected by a certain bringing forward of consumption in the months preceding the rise in VAT rates in early July and by the rise in rates itself. Excise duties, for their part, grew by 4.2%.

#### 4.5 The balance of payments

In the first eight months of 2010, the combined current and capital account balance was a deficit of €29.9 billion, 19% lower than in the same period of the previous year. Most of this correction is basically attributable to the reduction in the income deficit and, to a lesser extent, the increase in the services surplus, which offset the rise in the current transfers deficit and, in

particular, in the trade deficit. At the same time, the surplus on capital transactions increased substantially.

The trade deficit increased by almost 9% year-on-year in the period January-August, to reach €31 billion. Between January and August 2010, goods exports and goods imports both grew significantly, by 17% and 15% respectively. The rise in the deficit was due to the notable increase in its energy component, affected by the rise in oil prices, which increased by 31% over the period, while the non-energy deficit fell by 17%. The services balance posted a surplus of €19 billion, 6% more than in the same period of 2009, as a consequence of the notable improvement in the non-tourism services balance and the increase in the tourism surplus. The income deficit fell by 32% year-on-year in the period January-August 2010, with payments falling much more sharply than income (by 19% and 9% respectively). The current transfers deficit rose by 12% year-on-year in the first eight months of the year, with a slight decline in income and an increase in payments (of 0.4% and 5% respectively).

## 5 Financial developments

### 5.1 Highlights

International investor confidence in the Spanish economy recovered in 2010 Q3 in response to the progress made in fiscal consolidation, in structural reforms (most notably in the labour market) and in financial system restructuring. Additionally, the exercise in transparency represented by the publication in July, at the Banco de España's initiative, of the results of the stress tests conducted on euro area credit institutions enhanced the effects of the reforms, improving the perception of soundness of the Spanish financial system (see Box 6). Against this background, stock market prices rose, their volatility decreased and the risk premiums on fixed-income securities issued by the public and private sectors declined (see Chart 23). Thus at the end of October the IBEX 35 had climbed by 16.7% from its end-June level, compared with increases of 10.6% in the EURO STOXX 50 and of 14.8% in the S&P 500. This reduced the cumulative fall in the year so far to 9.4% for the Spanish index and 4.1% for the European one, while the US index was up by 6.1%.

The yield on Spanish 10-year government bonds with respect to the end of June decreased more sharply than that on German bonds with the same maturity (39 bp, compared with 2 bp), and, as a result, the interest rate spread between them narrowed by 36 bp to 165 bp at the end of October, after which it edged up somewhat in early November. At the end of September, the credit rating of the Kingdom of Spain's long-term debt was reduced by one level (from AAA) by Moody's. This downgrade, which was in line with market expectations and thus did not have a significant impact on prices, brought Moody's rating into line with those of other agencies which had already revised their ratings similarly. Q3 brought an improvement in credit institutions' access to wholesale funding, as illustrated by the increased activity in the markets which had been most affected by the tensions of the preceding months (particularly the fixed-income and repo markets), although the yield spreads remained high. Interest rates on interbank loans again rose, albeit moderately, and pushed 12-month Euribor at the end of the period to 1.54%, up 23 bp on June.

In the real estate market, the latest data published by the Ministry of Housing indicate that unsubsidised housing prices continued to fall in 2010 Q3. In this period, the quarter-on-quarter rate of decline held slightly below 1%, which resulted, in year-on-year terms, in a somewhat smaller drop than that seen three months earlier (3.4% or 0.3 pp less than in June).

Between June and September 2010, the cost of bank borrowing by households and firms moved upward in line with the benchmark market rates, so that the spreads between the two did not generally show significant changes (see Chart 23). Also, the cost of short-term fixed-income security issuance by firms increased, while that of long-term securities decreased and that of equity held at levels similar to those that at mid-year. In accordance with the October bank lending survey, credit standards remained unchanged in 2010 Q3, thus contrasting with the slight tightening which institutions expected to apply in this period.<sup>1</sup> This was probably due mainly to the significant improvement in access to wholesale funding sources. According to this survey, demand by firms and households (particularly for house purchase) decreased. For the last few months of 2010, institutions envisaged a slight tightening in corporate lending and no change in that to households.

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1. For more details, see the article "Bank Lending Survey in Spain: October 2010" by Maristela Mulino, in this Economic Bulletin.

In 2010 Q2 the Spanish markets were among those most affected by the European sovereign debt crisis, and this was reflected in the greater cost and difficulty of financing for public and private sector issuers (see Box 7 of the “Quarterly Report on the Spanish Economy” in the July *Economic Bulletin* of the Banco de España). However, since the end of June there have been some signs that international investor confidence in the Spanish economy is recovering. And that situation has continued in subsequent months despite further tensions, which this time did not affect Spain. The creation of the European Financial Stabilisation Mechanism and of the European Financial Stability Facility helped to dissipate the tension. However, the different behaviour of Spanish sovereign risk in this period evidences the positive effects of the measures taken at national level in three complementary areas: fiscal consolidation, structural reform (particularly in the labour market) and financial system restructuring, notably focused on savings banks. Against this background, the publication at the end of July, at the initiative of the Banco de España, of the stress tests on credit institutions was an exercise in transparency which proved very useful in improving the perception of soundness of the Spanish financial system.

In the last four months the Spanish government debt market has been characterised by declining yields: from 4.9% in mid-June to around 4.2% at end-October in the case of 10-year bonds (see Chart 1).<sup>1</sup> The yield spread vis-à-vis German bonds of the same maturity narrowed in that time from 220 bp to 165 pp, widening somewhat in early November. This improvement is particularly significant if it is taken into account that it took place in a period in which fresh outbreaks of financial tensions pushed up interest rates on the debt of

countries such as Ireland, Portugal and Greece. The recovery of international investor confidence in Spain can also be clearly appreciated in the flows of investment by non-residents in government debt, which turned positive again from June, following the disinvestments of the preceding two months (see Chart 2).

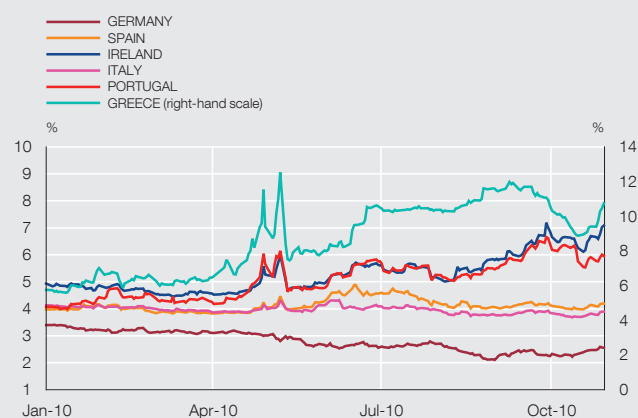
The improved perception of sovereign risk and the sounder financial system have made it easier for financial institutions to obtain funding from non-residents through repo transactions, a market which in Q2 was severely affected because the high correlation between the risk of these two sectors reduced the value of the collateral provided (government debt securities). Additionally, the access of some Spanish institutions to the international clearing houses (LCH in London and Eurex Repo in Frankfurt), either as members or through intermediaries, and the acceptance of Spanish securities in the LCH have added to the ways in which they can raise funds through these transactions.

The primary debt markets of financial institutions have also recouped their activity following the subdued levels of May. As a result, these intermediaries have again been raising funds in net terms since July (see Charts 3 and 4). The increased funding opportunities in the markets have been reflected in a decrease in the net loan from the Eurosystem to resident institutions in recent months, which in October stood below the levels prior to the sovereign debt crisis (see Chart 5).

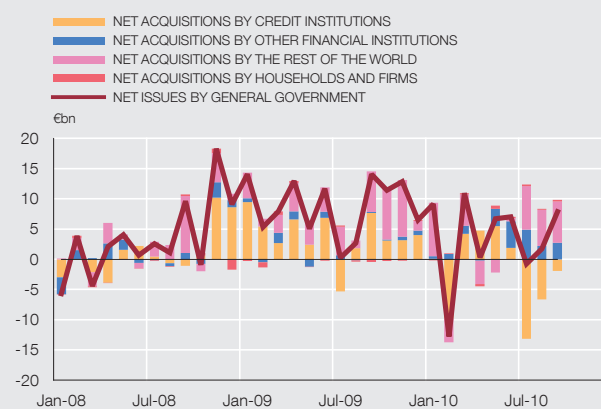
The resumption of capital flows from non-residents has reduced the risk of contraction of credit in Spain. Nevertheless, the risk premiums set by the market on Spanish securities continued to be high compared with the levels prior to the sovereign debt crisis (see Chart 6), which adds an element of pressure on deposit funding costs. If this situation persists, it could end up feeding through to lending interest rates.

1. At the end of September Moody's downgraded by one notch the credit rating of Spanish long-term government debt, falling into line with what had already been done by the other two main agencies. This movement had already been discounted by the market, so it barely affected prices.

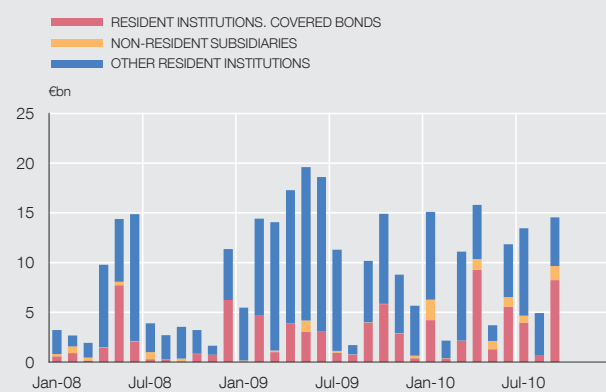
## 1 10-YEAR GOVERNMENT DEBT YIELD



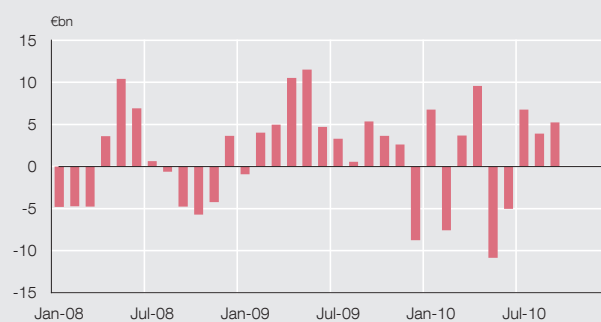
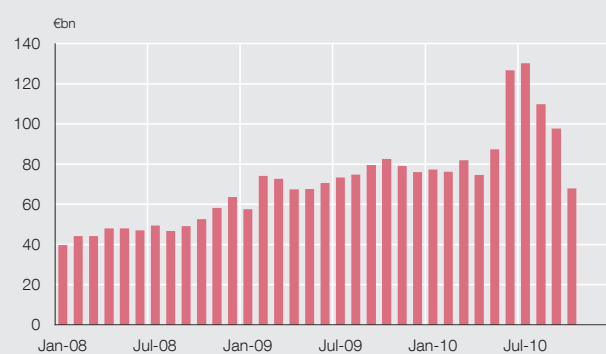
## 2 ISSUES AND ACQUISITIONS OF GOVERNMENT DEBT SECURITIES



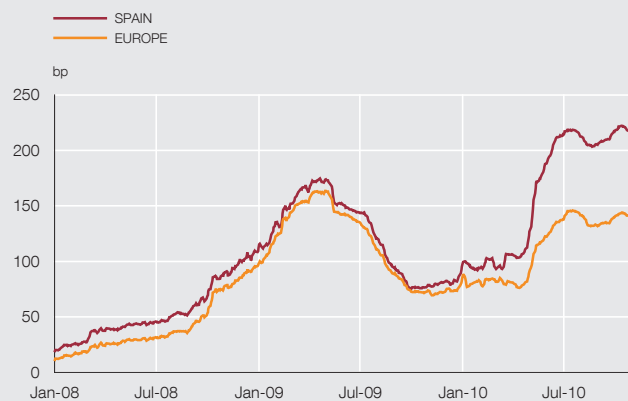
## 3 GROSS ISSUANCE OF MEDIUM- AND LONG-TERM FIXED-INCOME SECURITIES BY CREDIT INSTITUTIONS AND THEIR SUBSIDIARIES (a)



## 4 NET ISSUANCE OF MEDIUM- AND LONG-TERM FIXED-INCOME SECURITIES BY CREDIT INSTITUTIONS AND THEIR SUBSIDIARIES (a)

5 EUROSISTEM NET LOAN TO RESIDENT CREDIT INSTITUTIONS  
Monthly average of daily data

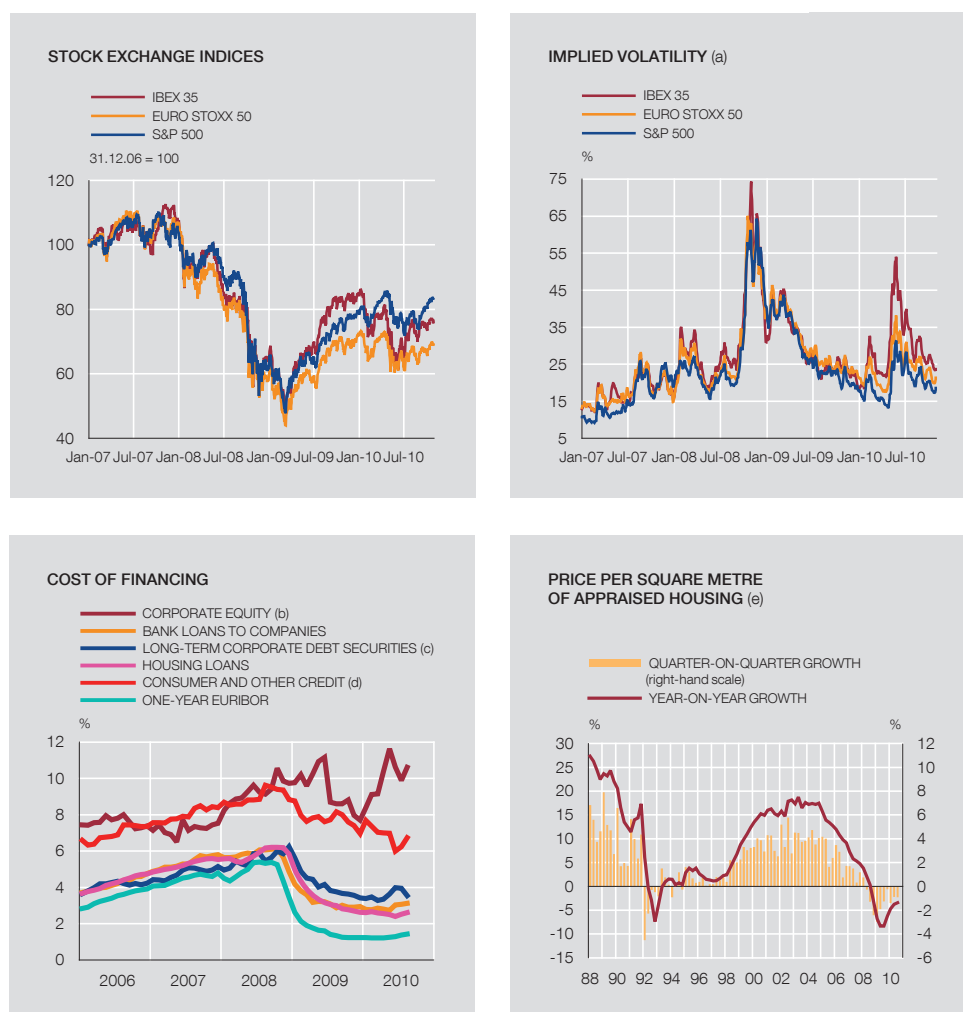
## 6 COVERED BONDS BETWEEN 5 AND 7 YEAR MATURITIES, ASSET SWAP SPREAD (b)



SOURCES: Reuters, Bloomberg, Datastream and Banco de España.

a. September figure is provisional.  
b. 5-day moving average.





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

a. Five-day moving averages.

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

c. The cost of market-based long-term debt is calculated as the sum of the average 5-year CDS premium for Spanish non-financial corporations and the 5-year euro swap rate.

d. In June 2010 the statistical requirements relating to the interest rates applied by credit institutions to customers were changed, potentially causing breaks in the time series. Particularly significant was the change in the interest rate on consumer credit and other lending, as a result of which from that month onwards it does not include credit card transactions.

e. The base year is 2001 until December 2004, after which it is 2005.

The latest information available on credit to the private sector, which relates to August, shows few changes in the momentum of household and corporate debt. Thus credit to households continues to expand slowly at rates below 1%, while, the contraction of corporate borrowing remained at nearly 2%. The most recent provisional data indicate that in September the growth rate of household liabilities decreased slightly and that the fall in banks' corporate lending moderated further.

The modest rise in household liabilities between March and June 2010, along with the stability of income, led to a slight increase in the debt to gross disposable income (GDI) ratio. The debt burden continued to fall due to the lower average cost of outstanding debt. However, as in the opening months of the year, there were also decreases in the gross savings ratio and in household's saving after debt service. The provisional information on Q3 points to a continuation of the previous trends, except for the debt ratio, which remained steady.

% GDP									
	2005	2006	2007	2008	2009			2010	
					Q2	Q3	Q4	Q1	Q2
National economy	-6.5	-8.4	-9.6	-9.2	-7.1	-6.0	-5.1	-4.4	-4.4
Non-financial corporations and households and NPISHs	-8.4	-11.1	-13.4	-6.8	-0.4	2.4	4.6	6.0	5.4
<i>Non-financial corporations</i>	-7.1	-9.5	-11.5	-7.1	-4.6	-2.7	-1.2	1.0	1.7
<i>Households and NPISHs</i>	-1.3	-1.7	-1.9	0.2	4.2	5.1	5.8	4.9	3.7
Financial institutions	0.9	0.7	1.9	1.8	1.7	1.5	1.4	1.2	1.1
General government	1.0	2.0	1.9	-4.2	-8.4	-9.8	-11.1	-11.5	-11.0
MEMORANDUM ITEM:									
Financing gap of non-financial corporations (a)	-11.4	-17.8	-15.9	-11.9	-6.7	-3.9	-1.3	1.3	2.0

SOURCE: Banco de España.

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

In the case of firms, the debt ratio scarcely varied between March and June, while the debt burden continued to decrease, although more slowly, as a result of the drop in the average cost of outstanding debt. On the provisional data available, these same trends seem to have continued in subsequent months. For the sample of firms responding to the quarterly Central Balance Sheet Data Office survey (CBQ), among which the biggest have a considerable weight, the data for 2010 Q2 show that profitability recovered.

Doubtful loans continued to rise, although less quickly than in previous months. Since debt remained steady, this meant that the doubtful assets ratio continued upward. Specifically, for other resident sectors as a whole (which, in addition to households and firms, include financial intermediaries other than credit institutions), this indicator stood at 5.6% in August, up 0.3 pp on June.

The slowdown in general government debt continued, although the rate of expansion remained very high (17.9% in August, against 20.5% in May). This buoyancy in the raising of funds, along with the weak GDP growth, was reflected in fresh increases in the sector's debt ratio, which stood at nearly 57% of GDP in June 2010, and also represented an increase, albeit more moderate, in the associated debt burden.

The latest Financial Accounts information, relating to 2010 Q2, shows that the downward path since mid-2008 in the nation's net borrowing was interrupted in this period, in which it held steady at 4.4% of GDP in cumulative 12-month terms (see Table 6).

The sectoral breakdown of financial transactions vis-à-vis non-residents reflects the difficulty in raising funds abroad in this period. Thus, between March and June only general government managed to raise funds in net terms from the rest of the world, although the amount was lower than in the previous half. Accordingly, since the funds raised by this sector were insufficient to cover the excess of the nation's spending over revenue, the net assets of the Banco de España vis-à-vis non-residents underwent a significant reduction. The incomplete balance of payments information for Q3 indicates that this pattern seems to have reversed in summer, reflecting the improved access to funding from the rest of the world.

In short, in 2010 Q3 international investors regained confidence in the Spanish economy. This allowed the credit conditions of public and private agents to ease somewhat, thereby reducing the risk that these shocks would end up producing a significant contraction in lending to households and firms. Nevertheless, the risk premiums that institutions have to pay to obtain funds continue to be higher than before the sovereign debt crisis, so if this situation continues it could ultimately lead to an increase in the cost of bank borrowing. These developments are set against a background of some stabilisation in the indicators of financial pressure on the private sector, mainly as a consequence of the scant momentum of net borrowing and of the improved macroeconomic situation. However, the weakness of revenue is preventing a reduction in debt to income ratios, which are remaining at high levels. In the case of general government, its liabilities have continued to rise briskly, although more moderately than in the previous months.

## **5.2 Households**

Between June and September 2010 the cost of bank borrowing by households increased (by 26 bp in house purchase loans and 67 bp in consumer credit and other lending, this latter segment showing more variable interest rates, partly due to seasonal factors). However, according to the October bank lending survey, credit standards seem to have remained unchanged in 2010 Q3, thus contrasting with the slight tightening envisaged by institutions. This seems to have been mainly due to improved access to wholesale funding sources and will, according to the survey respondents, persist in the last few months of the year. Meanwhile, household demand for finance, particularly that for house purchase, seems to have fallen, in line with what financial institutions expected in July.

Against this background, household debt increased slightly between June and August. Its year-on-year growth held slightly below 1%, as a result of that of house purchase funds remaining at around 1%, and of the slight decrease in that of lending for consumer and other purposes, which became zero, compared with slightly positive figures (0.3%) at the end of H1.

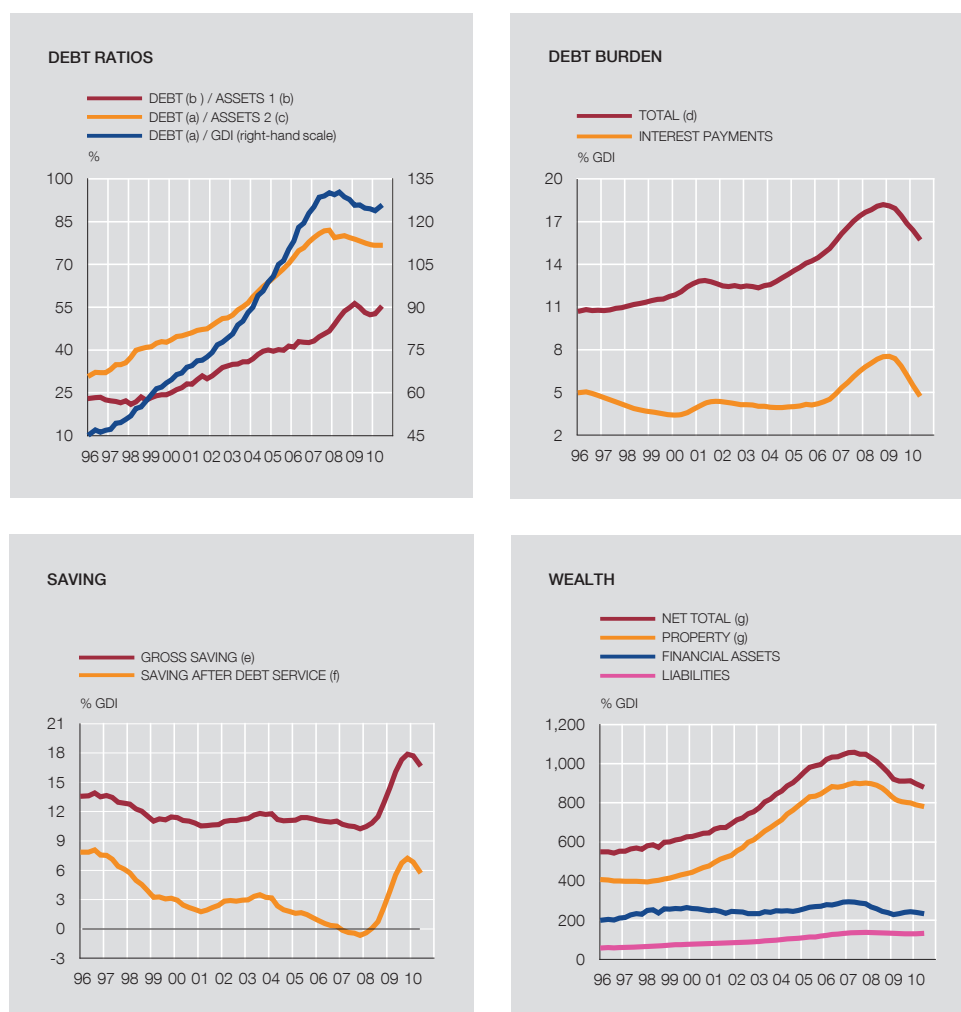
The slight growth in liabilities of the sector, taken together with the steadiness of income, led to a mild increase in the debt ratio between March and June, to 127% of GDI (see Chart 24). By contrast, the debt burden ratio kept falling (this time by 0.5 pp) to stand slightly below 16% of GDI, due to the decline in the average cost of outstanding loans. The sector's saving after debt service and its net lending again fell for the second consecutive quarter (see Table 6). In this period net household wealth fell off slightly as a result of the decrease in the real estate component (associated with the fall in house prices) and the loss of value of financial assets in the midst of stock market price falls.

Turning to portfolio decisions, the latest Financial Accounts information, relating to 2010 Q2, shows that household investment in financial assets, measured in cumulative annual terms and as a percentage of GDP, increased slightly with respect to March (up 0.3 pp to 4.2% of GDP; see Table 7). Analysis by instrument showed most notably a fall-off in the flow of cash and cash equivalents which, in GDP terms, decreased by 1.5 pp, with a corresponding rise in other deposits (the interest rate on which increased) and shares.

The latest data on the household doubtful assets ratio, for 2010 Q2, show a slight decrease; the factors which may have contributed to this are an easing of the debt burden and a slower rate of job destruction. Thus this indicator decreased in the case of both house purchase loans (down 0.14 pp to 2.6%) and consumer credit and other lending (down 0.32 pp to 6.89%).

## **5.3 Non-financial corporations**

Between June and September 2010 the cost of bank borrowing by firms for loans below €1 million increased by 14 bp, while it remained unchanged for loans exceeding this amount. There was also an increase in the cost of short-term fixed-income security issuance by firms



SOURCE: Banco de España.

- a. Includes bank credit and off-balance-sheet securitised loans.  
 b. Assets 1 = total financial assets - "other".  
 c. Assets 2 = assets 1 - shares (excluding mutual fund shares) - shares in FIM.  
 d. Estimated interest payments plus debt repayments.  
 e. Balance of households' use of disposable income account.  
 f. Gross saving less estimated debt repayments.  
 g. 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.

(54 bp), while that of longer-dated terms decreased by 50 bp, after a significant rise in the preceding months. By contrast, the cost of share issuance remained similar to that at the end of Q2. In line with the October bank lending survey, banks' credit standards in their corporate lending seemed to hold steady in summer, while firms' demand for funds seemed to decrease, thereby departing from the stability seen in the previous three quarters and from the expectations of expansion expressed by banks. In the last few months of 2010, banks envisage a slight tightening in the supply of credit to this sector.

Corporate debt continued to shrink, as its year-on-year growth remained at -1.8% in August, the same as in July. However, behaviour differed across instruments. Thus the moderating path of the rate of decline in lending by resident banks initiated in May (2.2%, against 2.9% in June) persisted, while the funds raised through fixed-income securities, an alternative used basically by large firms and which accounts for a small proportion of total borrowings, slowed significantly to a rate of expansion of 26.6%, against 43.9% at mid-year.

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

TABLE 7

% GDP						
	2006	2007	2008	2009	2010	
				Q4	Q1	Q2
<b>HOUSEHOLDS AND NPISHs:</b>						
Financial transactions (assets)	11.1	7.2	2.7	4.5	3.9	4.2
Cash and cash equivalents	3.1	-1.0	-0.4	4.1	3.3	1.7
Other deposits and fixed-income securities (a)	5.9	7.5	6.8	-1.2	-0.8	0.3
Shares and other equity (b)	-1.1	0.5	-0.2	1.2	1.0	1.5
Mutual funds	0.2	-1.1	-3.4	0.0	0.0	-0.4
Insurance technical reserves	1.8	0.9	0.2	1.0	0.9	0.7
<i>Of which:</i>						
Life assurance	0.6	0.2	-0.2	0.6	0.5	0.3
Retirement	1.0	0.4	0.3	0.3	0.4	0.4
Other	1.1	0.4	-0.3	-0.5	-0.4	0.3
Financial transactions (liabilities)	12.7	9.1	2.4	-1.3	-1.0	0.4
Credit from resident financial institutions (c)	13.0	9.4	3.4	-0.5	-0.1	0.6
House purchase credit (c)	10.0	7.1	2.7	0.1	0.3	0.7
Consumer and other credit (c)	3.0	2.1	0.8	-0.4	-0.2	0.1
Other	-0.2	-0.3	-1.0	-0.8	-0.8	-0.1
<b>NON-FINANCIAL CORPORATIONS:</b>						
Financial transactions (assets)	25.1	14.3	5.1	-7.3	-5.0	1.6
Cash and cash equivalents	2.3	-0.4	-1.1	-0.2	0.1	1.0
Other deposits and fixed-income securities (a)	2.3	2.0	2.3	-0.5	-0.5	-0.5
Shares and other equity	11.3	7.8	3.2	-0.6	-0.5	0.1
<i>Of which:</i>						
Vis-à-vis the rest of the world	8.3	6.6	3.1	0.0	0.2	0.6
Trade and intercompany credit	8.3	3.4	0.1	-6.3	-3.8	1.3
Other	0.9	1.5	0.6	0.3	-0.3	-0.3
Financial transactions (liabilities)	34.5	25.8	12.1	-6.1	-6.0	0.0
Credit from resident financial institutions (c)	17.6	13.8	5.5	-3.0	-3.7	-2.7
Foreign loans	3.3	2.8	2.8	-0.1	-0.9	-1.8
Fixed-income securities (d)	1.8	0.5	0.3	1.3	1.3	1.7
Shares and other equity	2.9	4.8	2.6	1.3	1.0	1.1
Trade and intercompany credit	8.4	4.3	-0.1	-6.3	-3.8	1.3
Other	0.6	-0.5	1.0	0.7	0.1	0.3
<b>MEMORANDUM ITEM: YEAR-ON-YEAR GROWTH RATES (%):</b>						
Financing (e)	24.2	15.5	6.4	-1.0	-1.5	-0.8
Households and NPISHs	19.6	12.5	4.4	-0.3	0.1	0.9
Non-financial corporations	27.9	17.7	7.9	-1.5	-2.6	-2.0

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.

The latest breakdown of credit by type, relating to 2010 Q2, reflects a moderation in the fall-off of bank lending to most sectors (real estate services was the only exception, since its year-on-year rate of decline remained at nearly 0.5%, similar to that three months earlier). The largest contraction was once again in construction, the year-on-year growth rate of which stood at -8% (3.9 pp above that in March), while non-real estate services were the only sector to show positive growth compared with the same period a year earlier (1.8%, against -1.1% in March).

In line with this picture, the Financial Accounts information for 2010 Q2 shows that the outstanding balance of net financial transactions by the non-financial corporations sector became positive again, accounting, in cumulative 12-month terms, for a value equivalent to 1.7% of GDP, up 0.7 pp on March. Similarly, the financing gap, an indicator which proxies the funds needed to cover the difference between firms' gross saving and gross capital formation plus permanent investment abroad, also again posted a negative amount, this time somewhat higher in absolute terms than in June (2%, against 1.3% in March).

The latest National Accounts estimates of business surpluses, for 2010 Q2, show that these surpluses remained, in cumulative 12-month terms, at levels similar to those in March. As a result of this behaviour of revenue, and the steadiness, in quarter-on-quarter terms, of the sector's liabilities, the corporate debt ratio scarcely altered (see Chart 25). Nonetheless the fall in the average cost of debt on-balance-sheet was once again reflected in a decline in the debt burden ratio.

The data for 2010 Q2 on the sample of corporations reporting to the CBQ, among which the biggest have a notable weight, shows a continuation of the pattern of income recovery which began at the end of 2009. Thus in 2010 H1 the ordinary net profit of these firms grew by 9.3% with respect to the same period of the previous year, contrasting with the contraction of more than 25% in the first six months of the previous year. In line with these developments, the return on equity increased (particularly notably in industry) to 7%, up 0.6 pp on June 2009, and the percentage of firms for which this ratio was negative decreased by more than 5 pp. These events were accompanied by a moderate rise in debt levels, so the debt ratio was up slightly, despite which the debt burden decreased. The overall result of these changes was that the indicators of financial pressure on investment and employment fell (in the case of the former, for the third quarter running), this fall being particularly sharp in industry. According to analysts, the outlook is that this positive performance of income will continue in the coming months, since their expectations for the short-term, and more importantly the long-term, path of listed firms' profits have been revised upward (see Chart 26).

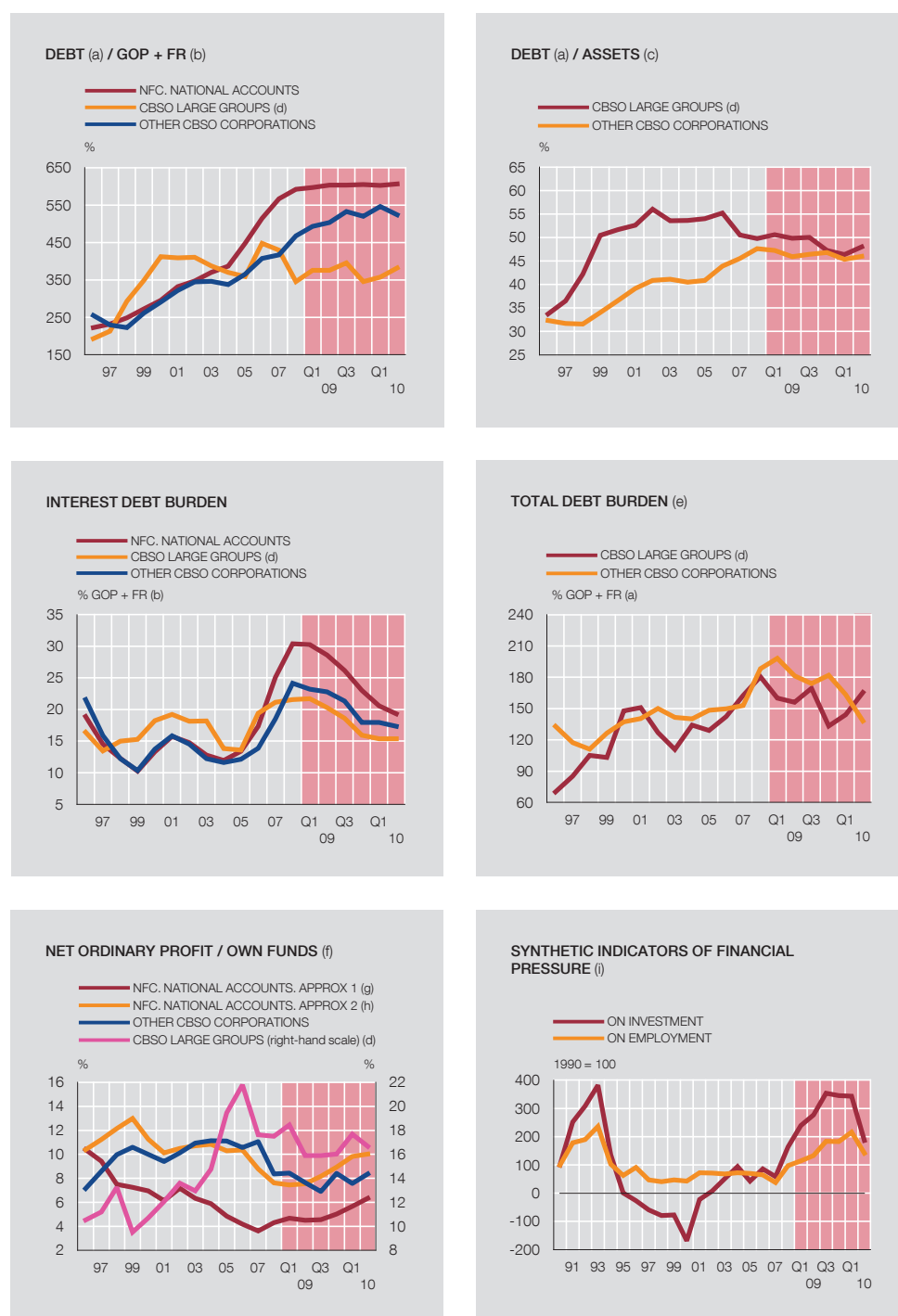
The doubtful assets ratio of non-financial corporations continued to rise in 2010 Q2. This increase is explained by the behaviour of credit to construction and real estate services companies, whose ratio rose by 27 bp to 10.8%, and to firms in other sectors, for which this indicator increased by 12 bp to 3.8%.

#### **5.4 General government**

In 2010 Q2 general government net borrowing decreased slightly in cumulative annual terms to stand at 11% of GDP, down 0.5 pp on March (see Table 6).

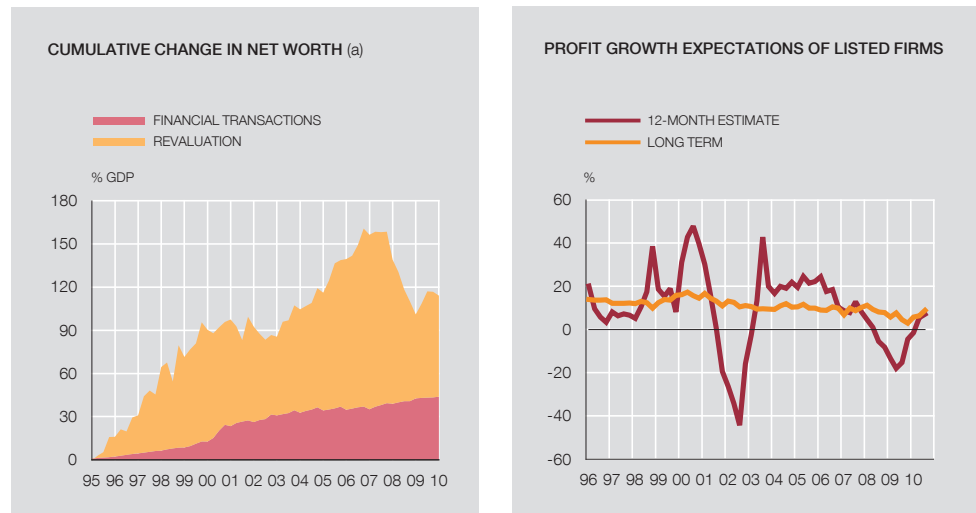
The main means of financing the general government deficit continued to be through the issuance of fixed-income securities, as a result of which a net volume of funds equivalent to 9% of GDP (see Chart 27) was raised in 2010 Q2 in cumulative annual terms. Once again, the bulk of these placements was in securities maturing at over one year, while the relative weight of short-term bonds fell once again. The funds obtained through loans continued to account for a modest amount, slightly above that in the previous quarter (somewhat more than 0.7% of GDP). On the assets side, deposit flows again decreased in year-on-year terms.

Although the growth rate of general government indebtedness eased, it remains high (17.9% in August). This, along with the scant momentum of output, made for a further increase in the debt/GDP ratio, which was somewhat below 57% in June, up 2 pp on March. Nonetheless, the lower level of borrowing costs helped to contain the increase in the debt burden associated with these liabilities, which stood at around 1.9% of GDP at mid-year.



SOURCES: INE and Banco de España.

- a. Interest-bearing borrowed funds.
- b. Gross operating profit plus financial revenue.
- c. Defined as total inflation-adjusted assets less non-interest-bearing liabilities.
- d. 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.
- e. Includes interest plus interest-bearing short-term debt.
- f. NOP, using National Accounts data, is defined as GOS + interest and dividends received - interest paid - fixed capital consumption.
- g. Own funds valued at market prices.
- h. Own funds calculated by accumulating flows from the 1996 stock onwards.
- i. Indicators estimated drawing on the CBA and CBQ surveys. A value above (below) 100 denotes more (less) financial pressure than in the base year.

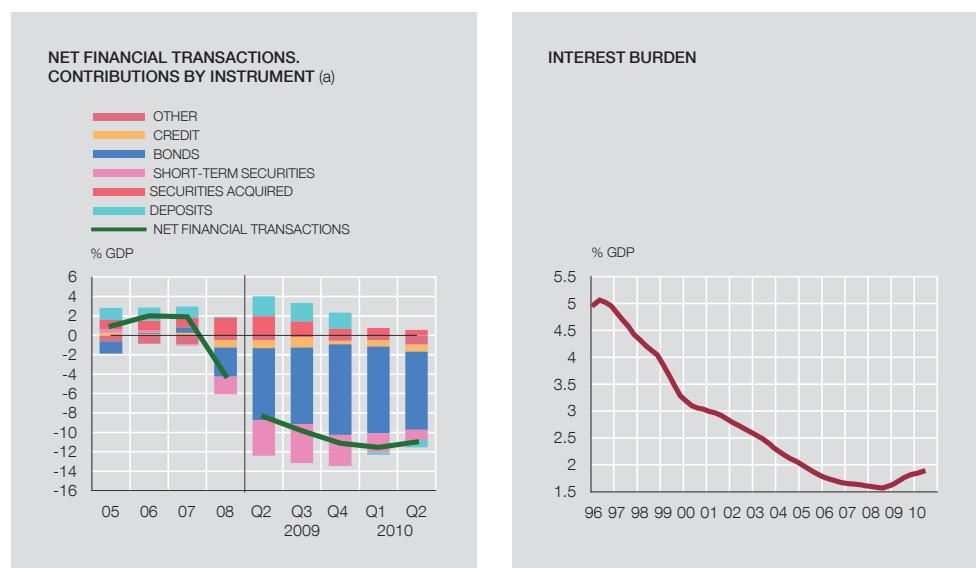


SOURCES: I/B/E/S and Banco de España.

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

## GENERAL GOVERNMENT Four-quarter data

CHART 27



SOURCE: Banco de España.

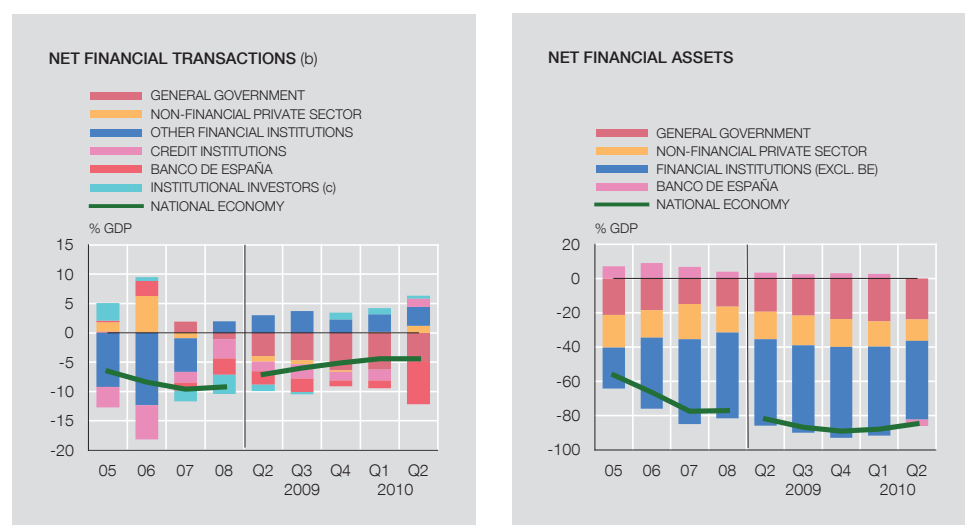
a. A positive (negative) sign denotes an increase (decrease) in assets or a decrease (increase) in liabilities.

### 5.5 The rest of the world

2010 Q2 brought an end to the downward course of the nation's net borrowing since mid-2008, which held at 4.4% of GDP in cumulative 12-month terms. This development was due to an increase in the credit balance of non-financial corporations and a decrease in the debit position of general government, which were offset by the decrease in household net lending, while that of financial institutions scarcely changed.

The sectoral breakdown of financial transactions vis-à-vis the rest of the world shows that in 2010 Q2 only general government managed, in net cumulative 12-month terms, to raise funds abroad, albeit for a low amount than in the previous half (see Chart 28). By contrast,





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.

credit institutions, which have traditionally channelled funds from the rest of the world to the Spanish economy, had great difficulty in raising capital on international markets as a result of the tensions derived from the sovereign debt crisis, and their net financial transactions vis-à-vis non-residents changed to a credit balance equivalent to 1.5% of GDP. Hence, since the funds raised by general government were insufficient to cover the nation's excess of spending over revenue, the net assets of the Banco de España vis-à-vis the rest of the world decreased significantly by the equivalent of 7.2% of GDP (in cumulative 12-month terms), the largest fall recorded since the time series became available (mid-1990s). On the incomplete information for Q3 drawn from the balance of payments (which covers up to August), this trend is estimated to have reversed in subsequent months, against a background of recovery of international investor confidence in the Spanish economy.

The information on financial flows vis-à-vis the external sector for 2010 Q2 shows that the Spanish economy found it difficult to raise funds in the rest of the world in this period in which significant tensions erupted in the markets. Thus capital inflows barely amounted to 2.3% of GDP (in cumulative 12-month terms), 2 pp less than three months earlier (see Table 8). By instrument, the bulk of these funds was channelled through deposits, specifically by credit institutions' recourse to the Eurosystem, which accounted for an annual flow of 6.7% of GDP, thereby offsetting the drop in funding from the interbank market. Along the same lines, foreign direct investment in Spain took on a slightly negative value equal to 0.3% of GDP, signifying a fall of 1 pp with respect to March.

Capital outflows were again negative in cumulative 12-month terms, amounting to -2.1% of GDP (against -0.1% in March). Most notable in the breakdown by instrument was the net disinvestment in fixed income securities for an amount equal to 3.9% of GDP. The flows of Spanish foreign direct investment were also negative, as in the previous quarter, and of similar amount (-0.7% of GDP).

% GDP						
	2006	2007	2008	2009	2010	
				Q4	Q1	Q2
NET FINANCIAL TRANSACTIONS	-8.4	-9.6	-9.2	-5.1	-4.4	-4.4
FINANCIAL TRANSACTIONS (ASSETS)	18.1	14.7	2.4	-0.2	-0.1	-2.1
Gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	5.2	2.1	-0.3	-1.8	-1.5	-0.7
Of which:						
Interbank (a)	3.4	4.2	-0.5	-1.7	-1.6	-1.0
Securities other than shares	-1.2	1.6	1.3	0.0	-0.3	-3.9
Of which:						
Credit institutions	-2.0	1.8	1.6	1.3	0.7	-2.0
Institutional investors (b)	0.7	0.0	-1.3	-0.4	-0.1	-1.0
Shares and other equity	10.8	8.8	1.9	1.5	1.3	1.7
Of which:						
Non-financial corporations	8.3	6.6	3.1	0.0	0.2	0.6
Institutional investors (b)	1.2	-1.1	-1.6	0.3	0.7	1.0
Loans	2.1	1.2	0.8	0.2	0.0	-0.7
FINANCIAL TRANSACTIONS (LIABILITIES)	26.5	24.3	11.6	4.9	4.3	2.3
Deposits	0.3	7.3	9.0	0.9	0.6	2.2
Of which:						
Interbank (a)	0.6	6.7	6.2	0.7	-0.6	-4.8
Securities other than shares	21.3	8.1	-2.6	3.8	3.3	0.6
Of which:						
General government	1.0	-1.3	1.2	5.1	5.5	4.1
Credit institutions	8.0	3.6	-1.9	1.1	0.9	-0.4
Other non-monetary financial institutions	12.3	5.8	-1.9	-2.4	-3.0	-3.2
Shares and other equity	0.5	4.6	3.3	0.9	1.4	0.9
Of which:						
Non-financial corporations	0.1	4.7	2.4	0.1	0.4	0.4
Loans	3.5	3.1	2.7	0.3	-0.5	-1.2
Other, net (c)	-0.4	0.3	0.5	-0.8	-1.0	-1.5
MEMORANDUM ITEMS						
Spanish direct investment abroad	8.4	9.5	4.7	0.6	-0.9	-0.7
Foreign direct investment in Spain	2.5	4.5	4.6	0.5	0.7	-0.3

SOURCE: Banco de España.

a. Correspond only to credit institutions and include repos.

b. Insurance corporations and portfolio investment institutions.

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

As a result of the developments in financial flows with the rest of the world and of the changes in asset prices and in the exchange rate, the value of net liabilities incurred by the Spanish economy amounted to 85% of GDP in June 2010, down 3 pp on March (see Chart 28). By institutional sector, this change was basically due to the decrease in the debit balance vis-à-vis non-residents of financial institutions (excluding the Banco de España), of the non-financial private sector and of general government, which was offset only partly by the decrease of 6.4 pp in the credit position, which became a debit balance, of the Banco de España.

29.10.2010.

## RESULTS OF NON-FINANCIAL CORPORATIONS TO 2010 Q2

### Overview<sup>1</sup>

In the first six months of 2010, there was a recovery in the productive activity of the sample firms of the Central Balance Sheet Data Office Quarterly Survey (CBQ). This recovery was reflected in 6.4% growth of gross value added (GVA), in contrast to the sharp decline in this surplus a year earlier (-13.7%). The recovery in activity extended to virtually all productive sectors, which benefited from the pick-up in private consumption and investment in capital goods and also from the recovery in external activity.

Personnel costs fell by 1.6% in the first half of 2010, a slightly higher rate than a year earlier (-1.3%). This was the consequence of greater wage restraint and a continuation of the decline in employment, which, although slower than in 2009, continued to involve a majority of firms. Thus, the data on average numbers of workers confirm that the firms continued to reduce their workforces during the first half of 2010 (-2.7%), although at a slower rate than in the same period of the previous year (-3.1%). Analysing these developments in terms of the type of contract, the 2010 data show that the brunt of the labour adjustment was borne by temporary employment, which continued to record the most negative rates of change (-8.1%), although the pace of decline eased as the year progressed. Conversely, permanent employment deteriorated in the first half of 2010, recording a decline of 1.8%, which was well above the rate of the first half of 2009 (-0.6%). All sectors of activity, without exception, cut their average workforce levels, the most severe job losses being in industry (-3.9%). Average compensation was very restrained during the first half of 2010, rising by 1.1%, 0.7 pp less than in the same period of 2009 (1.8%).

As a result of the recovery in productive activity and the decline in personnel costs, gross operating profit (GOP) rose by 14% in the first six months of 2010, in striking contrast to the sharp fall in this surplus in the same period of 2009 (-23.1%). Financial revenue and financial costs continued to fall in the first half of 2010, although the former did so more sharply (-13.6% and -3.8%, respectively). In the case of financial revenue the decline was similar to that in the first half of 2009 (-12.1%) and was attributable to the lower dividends received by the firms and, especially, the decrease in the interest received on loans granted by them. This decrease reflects the lower interest rates and also the cancellation of certain multinational group transactions, which have reduced the outstanding balance of loans. The lower interest rates also explain the lower amount of financing costs, although their impact on this item has been diminishing progressively in recent quarters, so that the fall in financial costs in 2010 (-3.8% as mentioned) was significantly smaller than that recorded in 2009 (30% over the entire year). Indebtedness remained practically unchanged and did not significantly affect financial costs.

The overall effect of these developments in financial revenues and costs was to make ordinary net profit (ONP) grow at a somewhat slower rate than GOP (9.3% in the first six months of 2010). This represented a significant improvement on a year earlier, when this surplus contracted sharply (-25.6%). The growth of ONP slightly raised firms' profit ratios compared with the previous year. The return on investment stood at 5.3% in the first half of 2010, up 0.3 pp from the previous year, while the return on equity rose to 7%, from 6.4% in the first half of 2009. At the same time, the ratio that approximates the cost of financing continued to fall in this period, to

1. The data that serve as a basis for this article come from the 731 corporations that had sent their quarterly information to the Central Balance Sheet Data Office (CBSO) as at 15 September 2010. In terms of GVA, this sample of firms represents a coverage of 13.1% of the total GVA of non-financial corporations.

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

TABLE 1

	CBA STRUCTURE	CBA		CBQ (a)		
DATABASES	2008	2007	2008	09 Q1-Q4/ 08 Q1-Q4 (a)	09 Q1-Q2/ 08 Q1-Q2	10 Q1-Q2/ 09 Q1-Q2
Number of corporations		9,243	9,384	787	813	731
Total national coverage		33.7%	29.9%	12.4%	12.6%	13.1%
<b>PROFIT AND LOSS ACCOUNT</b>						
1 VALUE OF OUTPUT (including subsidies)	100.0	8.0	0.2	-11.7	-19.1	16.1
<i>Of which:</i>						
— Net amount of turnover and other operating income	147.9	5.9	1.4	-12.9	-18.4	15.0
2 INPUTS (including taxes)	67.4	8.7	1.7	-13.1	-22.0	21.9
<i>Of which:</i>						
— Net purchases	95.1	4.4	1.1	-20.7	-35.2	40.6
— Other operating costs	21.5	8.9	1.6	-3.8	-4.1	5.9
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	32.6	6.4	-2.8	-8.9	-13.7	6.4
3 Personnel costs	18.5	6.9	3.7	-1.5	-1.3	-1.6
S.2 GROSS OPERATING PROFIT [S.1 – 3]	14.1	5.9	-10.2	-14.9	-23.1	14.0
4 Financial revenue	5.5	19.4	4.9	-8.0	-12.1	-13.6
5 Financial costs	5.0	38.1	15.0	-30.0	-24.9	-3.8
6 Net depreciation, impairment and operating provisions	6.3	-0.2	14.6	-4.1	-2.0	8.0
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	8.2	4.2	-25.3	-6.5	-25.6	9.3
7 Gains (losses) from disposals and impairment (c)	-2.0	-34.2	(b)	(b)	-28.6	-9.8
7' As a percentage of GVA (7/S.1)		2.7	-6.3	2.1	13.5	11.5
8. Changes in fair value and other gains (losses) (c)	-1.1	39.1	-53.0	(b)	10.0	-7.7
8' As a percentage of GVA (8/S.1)		-1.6	-3.3	-4.6	-0.6	-0.7
9 Corporate income tax	0.7	-15.3	-66.8	7.6	-25.8	40.8
S.4 NET PROFIT [S.3 + 7 + 8 – 9]	4.5	8.6	-50.8	5.4	-26.8	-2.6
S.4' As a percentage of GVA (S.4/S.1)		25.5	13.7	29.5	40.2	36.9
<b>PROFIT RATIOS</b>						
	Formulas (d)					
R.1 Return on investment (before taxes)	(S.3 + 5.1)/NA	8.9	7.4	6.2	5.0	5.3
R.2 Interest on borrowed funds/interest-bearing borrowing	5.1/IBB	4.8	5.1	3.4	3.6	3.3
R.3 Ordinary return on equity (before taxes)	S.3/E	12.5	9.5	8.7	6.4	7.0
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	4.1	2.4	2.8	1.5	2.0

SOURCE: Banco de España.

NB: In calculating rates, internal accounting movements have been edited out of items 4, 5 and 7.

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

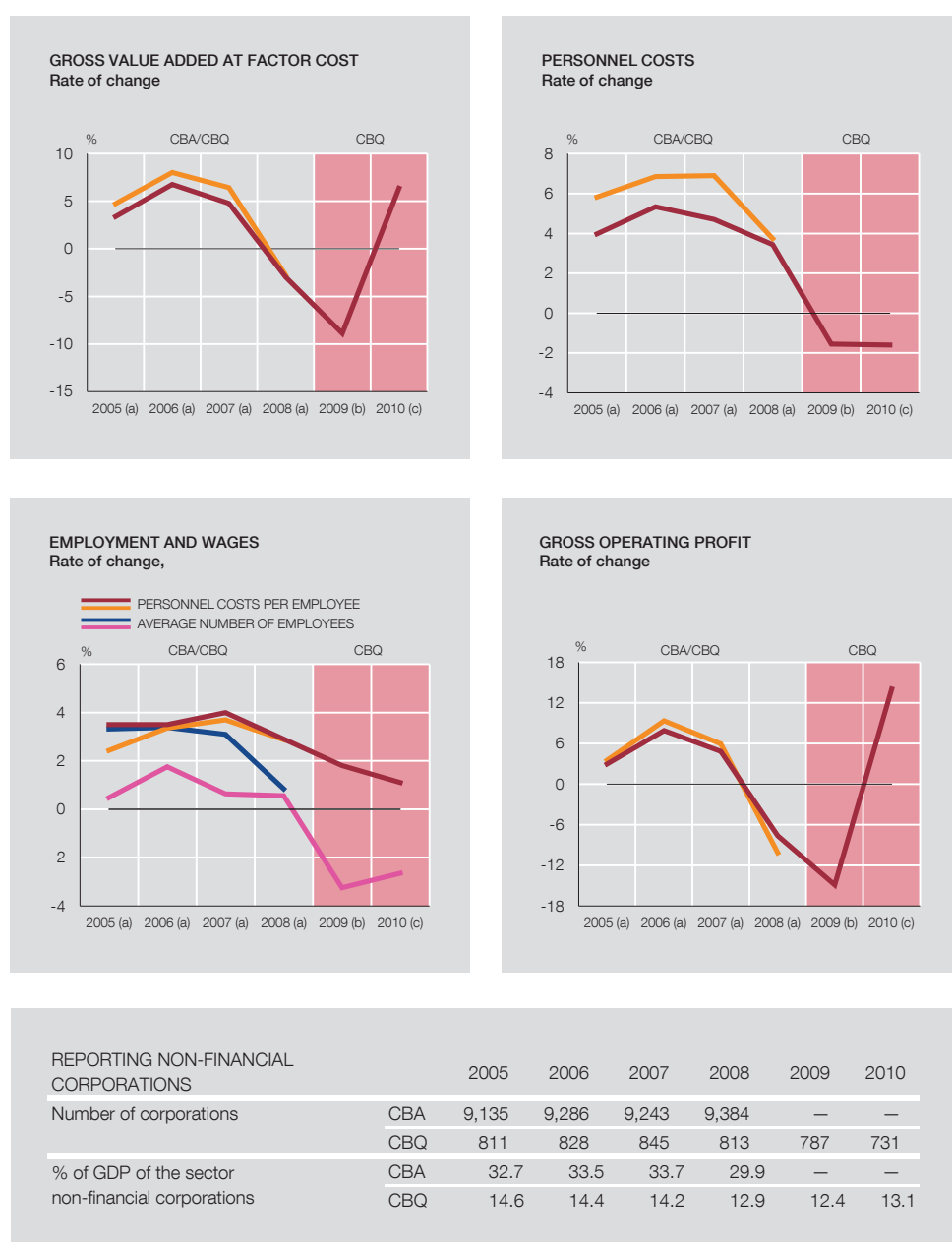
b. Rate not significant or not calculable because the relevant figures are of opposite sign.

c. New P&L headings resulting from application of the new General Chart of Accounts (PGC 2007)

d. 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 the portion of financial costs that is interest on borrowed funds (5.1) and not other financial costs (5.2)

stand at 3.3%, 0.3 pp less than in the same period of the previous year. However, this decline was more moderate than in previous periods and is unlikely to be sustained by means of further cuts in financing costs, given their low current level. Finally, given the increase in the return on investment and the decline in the cost of debt, the difference between these two ratios remained positive in the first half of 2010 and was slightly larger than a year earlier (2, as against 1.5).

Lastly, in relation to extraordinary costs and revenues, the most notable development in 2010 was a sharp decline in extraordinary revenues, which stemmed from the large capital gains obtained from the disposal of fixed assets and shares in 2009, given the absence of significant transactions of this nature in 2010. In addition, the growth of taxes differed in these two half years: they grew strongly (40.8%) due to the increase in ordinary



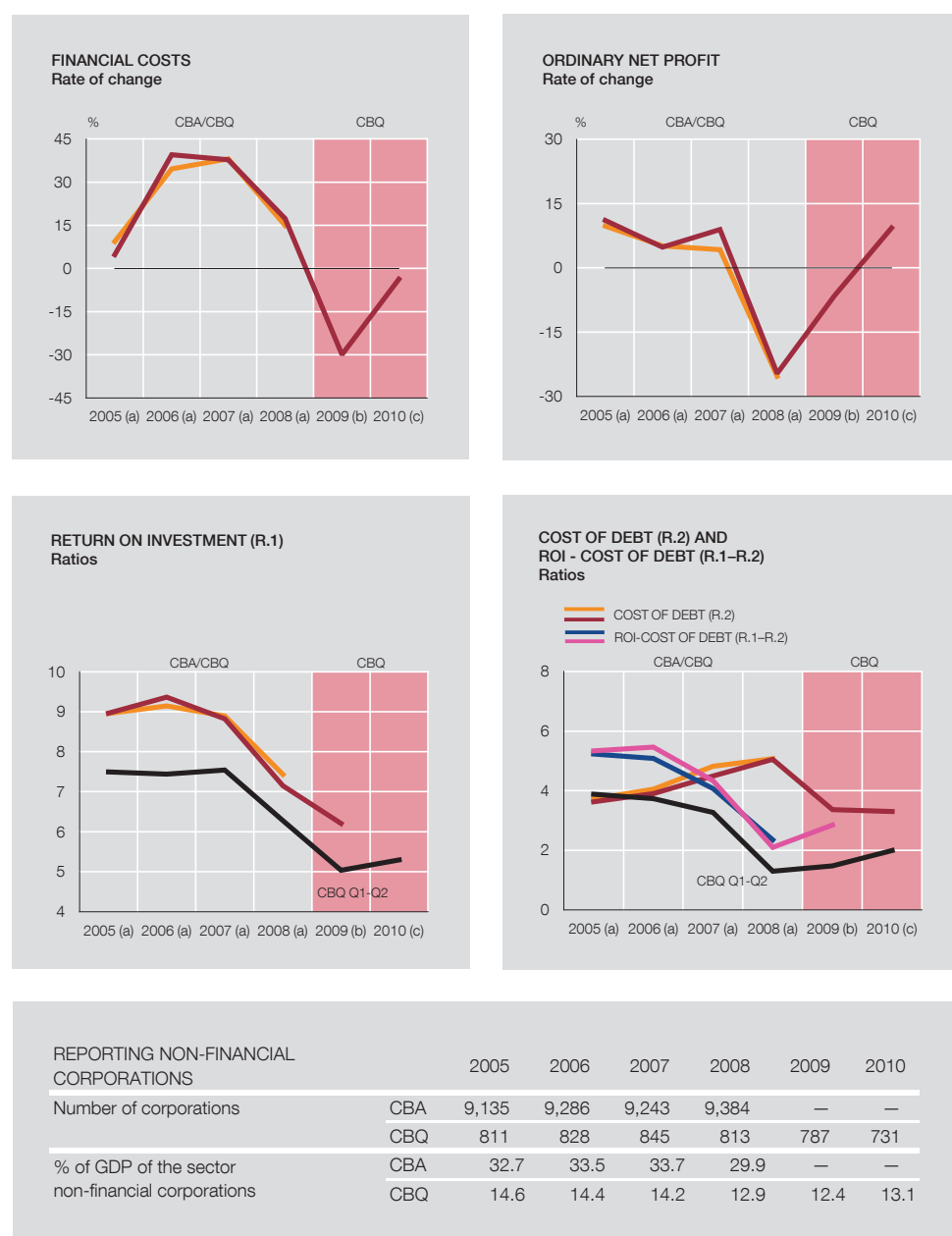
SOURCE: Banco de España.

a. 2005, 2006, 2007 and 2008 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 2009 relative to the same period in 2008.

c. Average of the first two quarters of 2010 relative to the same period in 2009.

profit in the first half of 2010, following an exceptional fall in the first half of 2009 (-25.8%), owing to the sharp contraction in ordinary profit and the fiscal impact, in that period, of the capital gains and extraordinary transactions, which were not subject to tax. All this led to a slightly negative performance by net profit, which fell by 2.6% in the first half of 2010, and to a decrease in the ratio of net profit to GVA. Specifically, net profit stood at 36.9% of GVA in the first half of 2010. Admittedly this is still a high level, but it is somewhat more than three percentage points down from the 40.2% level recorded in the first half of 2009.



SOURCE: Banco de España.

a. 2005, 2006, 2007 and 2008 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 2009 relative to the same period in 2008.

c. Average of the first two quarters of 2010 relative to the same period in 2009.

To sum up, in the first half of 2010 the CBQ firms remained on the path of recovery in activity that they had embarked upon in the preceding quarters. This recovery, along with the reduction in personnel costs, against a background of wage restraint, was conducive to growth in gross operating profit and in ordinary net profit, and to a rise in profit ratios relative to 2009. However, net profit, although still high, was slightly lower than in the previous period, owing to the influence of extraordinary transactions. The positive profit developments did not translate into any improvement in employment or investment, which continued to decline in net terms in the first half of 2010, although somewhat more moderately than in the preceding year.

## **Activity**

In the first half of 2010, the firms' productive activity continued to grow, in line with the recovery in previous quarters. GVA increased by 6.4% in the first half of 2010 (see Table 1 and Chart 1), in sharp contrast to the decline of 13.7% a year earlier. The greater vigour of productive activity was also apparent in the strong increase in both the value of output, which grew by 16.1% in the period analysed (as against the decline of 19.1% in the previous year), and inputs, which increased by 21.9% (-22% in the same period of 2009). Finally, external activity also reflected a significant change of trend in the first six months of 2010, with substantial increases in both exports (32.3%) and imports (44.3%), in marked contrast to the same half of 2009 (-23.8% and -38.8% respectively).

A sectoral analysis (see Table 2.A) shows that the recovery in productive activity extended to all sectors of activity, with the sole exception of information and communication. This sector recorded a fall in GVA of 4.6% during the first half of 2010, when telecommunications firms were operating against a background of fierce competition and a margin squeeze. In relation to the other sectors, the recovery in industry stands out, with a strong increase in GVA (26.4%), following the sharp fall recorded in 2009 (-35.8%) (see Box 1). The wholesale and retail trade and hotels and restaurants sector also posted notable growth in GVA in the first six months of 2010 (8.5%), a rate that, as in the other sectors, contrasts with the negative performance of a year earlier (-10.2%). The growth in this sector is mainly explained by the positive developments in private consumption during the period analysed, which may have been boosted by the bringing forward of spending decisions that, according to other sources and indicators, occurred in the first half of 2010, given the imminent rise in VAT. At the same time the GVA of the energy sector increased by 11.7% during the first half of 2010, as compared with a fall of 14.1% in the same period of 2009, thanks to the positive performance of the manufacture of refined petroleum products and electricity, gas and water supply. In the case of refined petroleum products, the increase in GVA was 21.5% and was related to the increases in output and in the prices of refined products, which rose by somewhat more than 36% in the period analysed, enabling the growth in costs as a result of the higher crude oil prices, with respect to those existing in 2009, to be absorbed (see Chart 2). Electricity, gas and water supply posted an increase in GVA of 10.6% (as against a fall of 5.4% in the first half of 2009), primarily as a result of the increase in the demand for electricity (which, according to Red Eléctrica, grew by 3.6% in the first half of 2010) and the lower costs of electricity producers, who, thanks to the higher rainfall in 2010, were able to make greater use of hydroelectric power stations than other sources of electricity generation (especially coal). Finally, the aggregate that includes all other activities also posted a positive performance in the first half of 2010, with an increase in GVA of 4.1%, as against a contraction of 7.8% in the same period of 2009.

Finally, Chart 3 shows how the sample firms, irrespective of their size, are distributed by rate of change of GVA. The main development to be observed is the notable decline in the first half of 2010 in the percentage of firms whose GVA fell by more than 20%: while in 2009 38.5% of the firms were in this segment, in 2010 only 20.7% were. In contrast, the percentage of firms posting increases in GVA rose substantially, both in the segment of growth of less than 20%, which included a further 8% of the firms in 2010, and in that of higher increases, which contains 26.3% of the sample firms, ten percentage points more than in 2009. All this goes to confirm that the recovery in activity in the first half of 2010 extended to a majority of the firms and that activity was increasing in more firms than a year earlier.

## **Employment and personnel costs**

In the first half of 2010, personnel costs fell by 1.6%, 0.3 percentage points more than in the same period of 2009. This greater containment of personnel costs was a consequence of the growth in wage costs in the first six months of the year (1.1%), which was 0.7 pp less than a year earlier (1.8%), and of the developments in employment, which continued to decline, by



**VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND PERSONNEL COSTS PER EMPLOYEE.  
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS**  
Rates of change 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				PERSONNEL COSTS PER EMPLOYEE			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2008	09 Q1- Q4	09 Q1- Q2	10 Q1- Q2	2008	09 Q1- Q4	09 Q1- Q2	10 Q1- Q2	2008	09 Q1- Q4	09 Q1- Q2	10 Q1- Q2	2008	09 Q1- Q4	09 Q1- Q2	10 Q1- Q2
Total	-2.8	-8.9	-13.7	6.4	0.8	-3.2	-3.1	-2.7	3.7	-1.5	-1.3	-1.6	2.9	1.8	1.8	1.1
SIZE:																
Small	-8.3	—	—	—	-3.7	—	—	—	2.1	—	—	—	6.1	—	—	—
Medium	-4.1	-14.0	-15.5	4.6	-1.3	-6.2	-5.9	-3.8	3.8	-5.4	-5.0	-2.4	5.2	0.9	1.0	1.4
Large	-2.5	-8.7	-13.7	6.4	1.3	-3.1	-2.9	-2.6	3.8	-1.3	-1.1	-1.6	2.5	1.8	1.8	1.1
BREAKDOWN BY ACTIVITY:																
Energy	3.1	-8.1	-14.1	11.7	3.7	-0.3	0.2	-2.5	6.3	1.1	2.7	-0.4	2.5	1.4	2.5	2.1
Industry	-9.3	-23.0	-35.8	26.4	-1.4	-6.3	-6.3	-3.9	1.7	-6.9	-7.7	-2.0	3.1	-0.6	-1.5	2.0
Wholesale and retail trade and hotels and restaurants	-1.6	-6.8	-10.2	8.5	1.2	-5.7	-5.8	-2.3	3.7	-4.8	-5.4	-1.7	2.4	1.0	0.4	0.7
Information and communication	0.8	-6.6	-7.5	-4.6	1.8	-0.9	-0.2	-2.1	3.5	1.0	1.6	0.1	1.6	1.9	1.8	2.2
Other activities	-2.4	-5.5	-7.8	4.1	1.1	-0.9	-0.6	-2.6	4.7	1.2	2.0	-2.3	3.5	2.2	2.6	0.3

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 2010 Q1 - Q2	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations	731	334	397
PERSONNEL COSTS:			
Initial situation 09 Q1-Q2 (€m)	14,631.7	4,799.4	9,832.3
Rate 10 Q1-Q2/09 Q1-Q2	-1.6	1.5	-3.1
AVERAGE COMPENSATION			
Initial situation 09 Q1-Q2 (€m)	22,896.1	25,469.4	21,810.8
Rate 10 Q1-Q2/09 Q1-Q2	1.1	-1.8	2.2
NUMBER OF EMPLOYEES			
Initial situation 09 Q1-Q2 (000s)	639	188	451
Rate 10 Q1-Q2/09 Q1-Q2	-2.7	3.4	-5.2
Permanent			
Initial situation 09 Q1-Q2 (000s)	549	161	387
Rate 10 Q1-Q2/09 Q1-Q2	-1.8	2.6	-3.6
Non-permanent			
Initial situation 09 Q1-Q2 (000s)	91	27	64
Rate 10 Q1-Q2/09 Q1-Q2	-8.1	7.8	-14.9

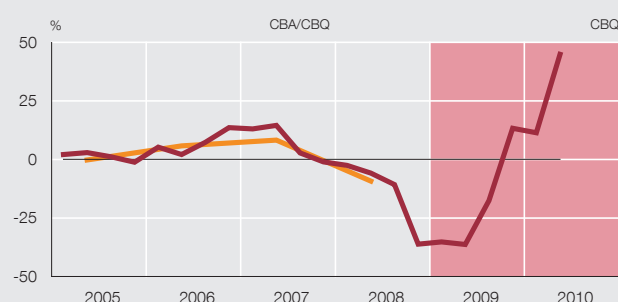
SOURCE: Banco de España.

The CBQ data for the first half of 2010 show a significant improvement in the productive activity of the industrial sector in this period, following the severe contraction of GVA in the first half of 2009 (-35.8%). In the first half of 2010 this surplus grew by 26.4%, as a result of the improvement in capital goods investment and the greater buoyancy of external activity, which was evident in the strong growth in both industrial imports and exports. This positive performance occurred without exception in all the industrial sub-sectors, which saw their rates of change of GVA improve with respect to 2009. However, while in some sub-sectors, such as the manufacture of mineral and metal products and chemicals, strong GVA growth was recorded (90.7% and 43.4%, respectively), in others, such as computer and electronic products, electrical material and equipment, and food drink and tobacco, small contractions in GVA were still being recorded, although, as already mentioned, these represented an improvement on the previous year. Personnel

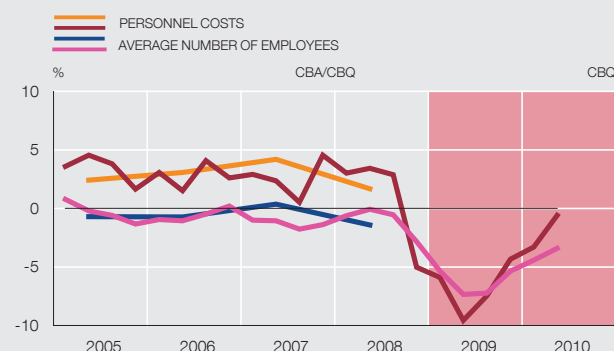
costs fell by 2% in the first two quarters of the year, a much milder fall than a year earlier, when these costs fell by 7.7%. This was attributable to the combined effect of average compensation and employment. First, there was a significant change in personnel costs per employee in 2010: having fallen by 1.5% in 2009, as a consequence of the strong decline in variable compensation in that period, they grew by 2% in the first half of 2010, in line with the wage developments in other sectors of the sample. Second, the employment data, although continuing to decline, with a fall of 3.9% in the first half of 2010, improved somewhat in comparison with the rate of the same period a year earlier, when employment in industrial firms declined by 6.3%. The recovery in activity and the fall in personnel costs led a strong rise in GOP, which reversed (at least in part) the deterioration of the previous two years. In turn, the decline in financial costs, of 9.1% in the first half of 2010, led to a further acceleration in ordinary net profit (ONP) and, consequently,

## PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

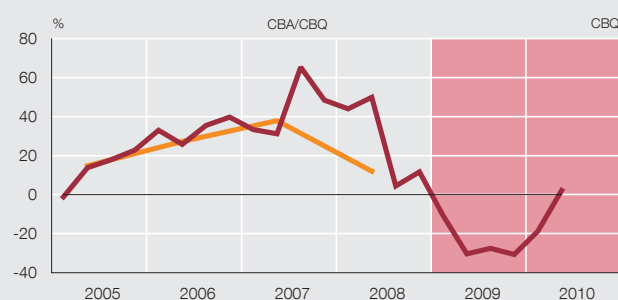
**GROSS VALUE ADDED AT FACTOR COST**  
Rate of change



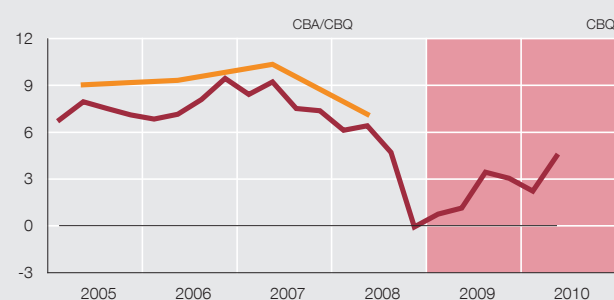
**EMPLOYMENT AND WAGES**  
Rate of change



**FINANCIAL COSTS**  
Rate of change



**RETURN ON INVESTMENT**  
Ratios



**REPORTING INDUSTRIAL CORPORATIONS**

REPORTING INDUSTRIAL CORPORATIONS		2005					2006					2007					2008					2009					2,010		
Number of corporations	CBA	2,410					2,397					2,356					2,366					—					—		
	CBQ	320	309	302	294	314	299	287	278	308	298	284	279	283	272	258	246	247	243	237	219	218	175	—	—				
% of GDP of the sub-sector industrial corporations	CBA	28.2					28.8					29.7					24.1					12					—		
	CBQ	19.1	19.6	16.9	17.1	18.4	17.5	16.2	17.4	19.4	19.5	16.6	17.0	16.2	16.2	12.7	9.0	10.7	10.8	11.9	11.1	10.5	11.0	—	—				

SOURCE: Banco de España.

a rise in profitability. The ratio that measures the return on investment increased in the first half of 2010 to 3.6%, three times as high as a year earlier (1.2%). Likewise, the return on equity also improved significantly, to reach 3.5% in the first half of 2010, having been negative in the same period of 2009 (-1.3%). As a result of the positive behaviour of the return on investment, the spread between this ratio and the cost of debt, which remained at similar levels to those of 2009 in the industrial sector, showed clear improvement in comparison with its value a year earlier (-2.5), al-

though it remained in negative territory, albeit only just, in the first half of 2010 (-0.1). In short, there was a notable improvement in the productive activity of the industrial firms in the first half of 2010. This, along with the favourable behaviour of personnel and financial costs, enabled these firms to increase their capacity to generate surpluses and their profit ratios. However, this positive performance has still not extended to every industrial sub-sector, nor has it prevented employment in this aggregate from continuing to decline, these being the negative aspects of the recovery scenario discussed.

2.7% in the six months to June 2010, although this was a slight improvement compared to the previous year (-3.1%).

The job losses were highest among temporary employees, whose numbers dropped by 8.1%, although that reduction was less than half the one recorded a year earlier (-16.3%). Conversely, although permanent employment fell less sharply than temporary employment (-1.8%), this performance was more negative than in the first half of 2009, when such employment fell by 0.6%. An analysis by sector (see Table 2.A) shows that the average number of workers declined in all sectors of activity. The largest decline was in industry (-3.9%), although this fall was much smaller than the one recorded a year earlier (-6.3%). The average decline in employment in other sectors was slightly above 2% (-2.5% in energy, -2.3% in wholesale and retail trade and hotels and restaurants, -2.1% in information and communication and -2.6% in other activities) with little variation across them. Finally, the information contained in Table 4 confirms that, although a majority of the sample firms continued to reduce their employment in 2010 (57.8%), this percentage is 3.4 pp lower than a year earlier (61.2%).

Lastly, average compensation grew moderately in the first half (1.1%), continuing the trend of recent quarters. This growth was 0.7 pp less than a year earlier. Although wage growth moderated in all sectors other than industry, the sectors can be divided into two groups. First, there are the energy, industrial and information and communication sectors, which recorded increases in average remuneration of around 2%. And then there are the wholesale and retail trade and hotels and restaurants, and the aggregate of other activities, in which wage costs stabilised, growing at a lower rate than the average for the whole sample, specifically by 0.7% and 0.3% respectively. In the case of the aggregate comprising other activities, the strong fall in average compensation with respect to 2009 (from 2.6% to 0.3%) was affected by the cuts in the second quarter in certain firms in the air transport sector. Finally, the information in Table 2.B enables the growth of remuneration to be analysed on the basis of the distinction between firms that maintained or increased their average workforce levels and firms that shed labour. It shows that the general scenario of wage moderation applied to both groups, although, as usual, the behaviour of those that reduced their average number of workers differed from that of those that did not. In the former wage costs grew by 2.2%, and in the latter they fell by 1.8%.

### ***Profits, rates of return and debt***

The recovery in activity, along with the decline in personnel costs, led to a 14% increase in gross operating profit in the first half of 2010, in strong contrast to the deterioration in this surplus in the first half of 2009, when it contracted by 23.1%. At the same time, financial costs continued to fall

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

TABLE 3

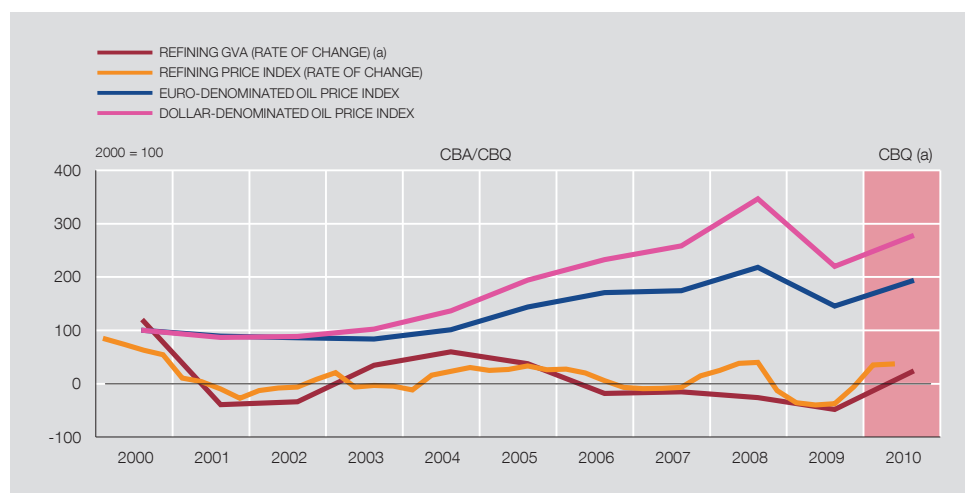
		CBA	CBQ (a)	
		2008	09 Q1-Q2	10 Q1-Q2
Total corporations		9,384	731	731
Corporations reporting source/destination		9,384	690	690
Percentage of net purchases by source	Spain	65.6	85.1	83.5
	Total abroad	34.4	14.9	16.5
	<i>EU countries</i>	17.4	9.9	11.1
	<i>Third countries</i>	17.0	5.0	5.4
Percentage of net purchases by source	Spain	85.0	92.2	90.9
	Total abroad	15.0	7.8	9.1
	<i>EU countries</i>	10.2	5.1	6.3
	<i>Third countries</i>	4.7	2.7	2.9
Rate of change in net external demand (exports less imports)	<i>Industry</i>	-21.9	79.4	-56.7
	<i>Other corporations</i>	-5.3	47.8	42.7

SOURCE: Banco de España.

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

**IMPACT OF OIL PRICES ON THE REFINING SECTOR**

CHART 2

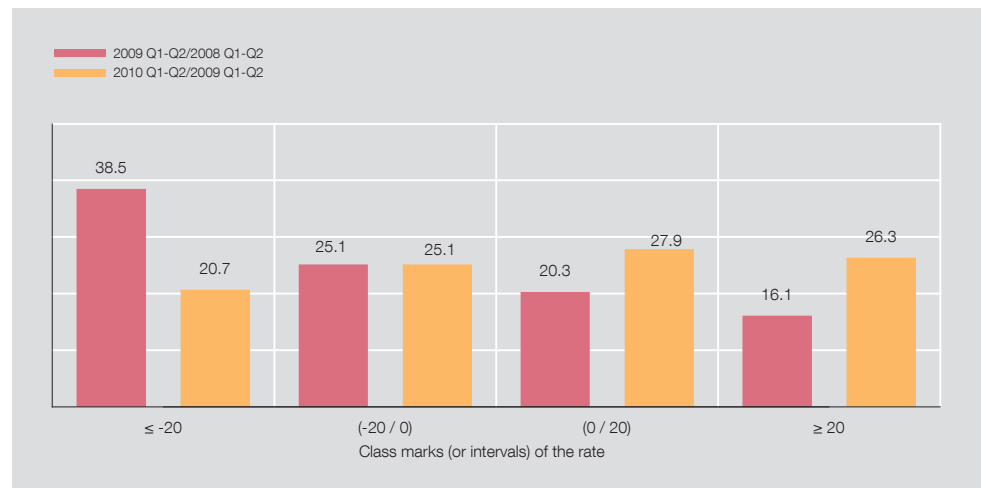


SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (Informe mensual de precios).

a. 2009 data relate to the CBQ.

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

CHART 3



SOURCE: Banco de España.

## PERSONNEL COSTS AND AVERAGE NUMBER OF EMPLOYEES Percentage of corporations in specific situations

TABLE 4

	CBA		CBQ (a)			
	2007	2008	08 Q1 - Q4	09 Q1 - Q4	09 Q1 - Q2	10 Q1 - Q2
Number of corporations	9,243	9,384	813	787	813	731
PERSONNEL COSTS	100	100	100	100	100	100
Falling	26.0	32.1	33.4	56.8	56.7	53.7
Constant or rising	74.0	67.9	66.6	43.2	43.3	46.3
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	31.4	42.0	46.2	62.4	61.2	57.8
Constant or rising	68.6	58.0	53.8	37.6	38.8	42.2

SOURCE: Banco de España.

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

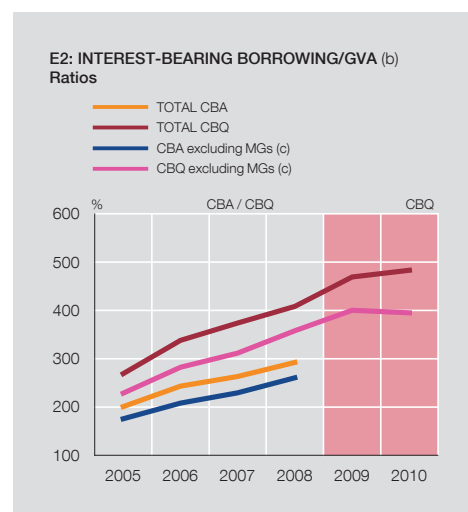
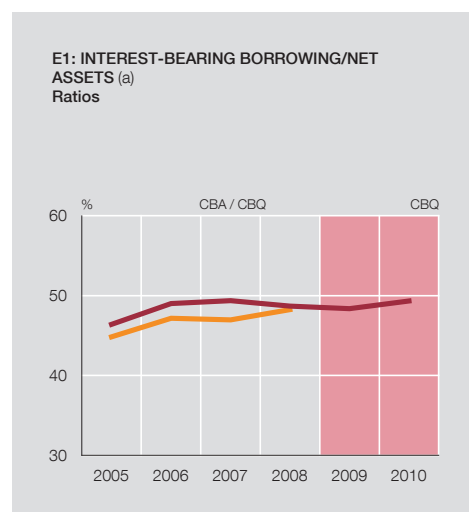
(by -3.8% in the period analysed), although much less strongly than in the previous year, when they fell by 24.9%. This fall has meant that the weight of financial costs in the firms' structure of costs has continued to decline, thereby alleviating their debt burden (see Chart 4). The following table provides information on the main determinants of changes in financial costs:

	<u>10 Q1-Q2/09 Q1-Q2</u>
<b>Change in financial costs</b>	<b>-3.8%</b>
A. <i>Interest on borrowed funds (1 + 2)</i>	-3.7%
1 Due to the cost (interest rate)	-7.7%
2 Due to the amount of interest-bearing debt	4.0%
B. <i>Commissions and cash discounts</i>	-0.1%

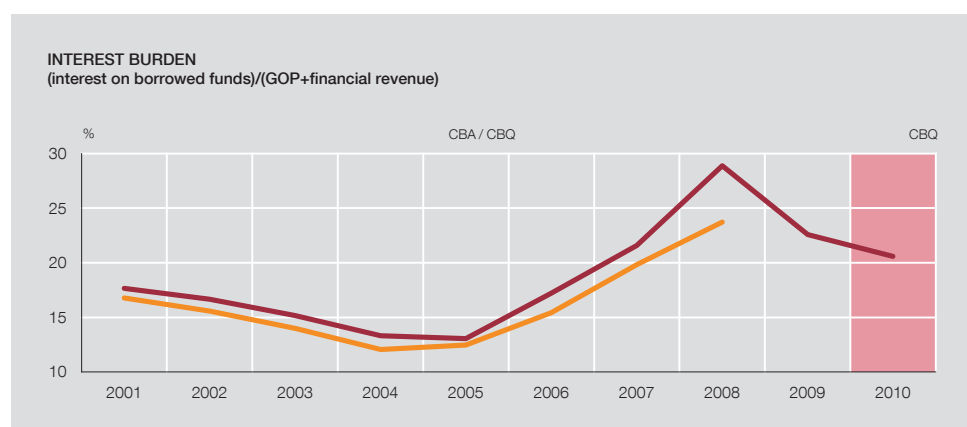
This table confirms that the decline in financial costs was exclusively attributable to the lower interest rates paid by the firms, the effect of which was partially offset by slight growth

# DEBT RATIOS

CHART 4



	2005	2006	2007	2008	2009	2010
CBA	200.7	243.5	263.5	292.3		
CBQ	269.4	337.9	373.6	408.6	469.3	483.4
CBA excl. MGs	175.8	208.6	229.2	260.7		
CBQ excl. MGs	228.7	282.8	311.9	357.9	400.5	394.9



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CBA	16.8	15.6	14.0	12.1	12.5	15.4	19.8	23.7		
CBQ	17.7	16.7	15.2	13.3	13.0	17.2	21.6	28.9	22.6	20.6

SOURCE: Banco de España.

a. Ratio calculated from final balance sheet figures. Net assets 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 are sample corporations belonging to the main reporting multinational groups. These do not include the large construction companies.

**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)		
	2008	09 Q1 - Q4	09 Q1 - Q2	10 Q1 - Q2	2008	09 Q1 - Q4	09 Q1 - Q2	10 Q1 - Q2	2008	09 Q1 - Q4	09 Q1 - Q2	10 Q1 - Q2	2008	09 Q1 - Q4	09 Q1 - Q2	10 Q1 - Q2
Total	-10.2	-14.9	-23.1	14.0	-25.3	-6.5	-25.6	9.3	7.4	6.2	5.0	5.3	2.4	2.8	1.5	2.0
SIZE:																
Small	-26.4	—	—	—	-49.4	—	—	—	4.4	—	—	—	0.2	—	—	—
Medium	-15.4	-25.5	-29.4	15.6	-32.3	-38.2	-45.7	26.0	5.9	4.3	3.9	5.5	1.2	0.7	0.1	2.9
Large	-9.3	-14.6	-22.9	14.0	-24.3	-5.5	-25.0	8.9	7.6	6.2	5.1	5.3	2.5	2.9	1.5	2.0
BREAKDOWN BY ACTIVITY:																
Energy	1.6	-10.7	-18.2	15.5	-3.9	-1.5	-13.0	-4.3	7.9	7.1	6.1	5.7	2.9	3.7	2.5	2.3
Industry	-22.4	-48.9	-69.7	(b)	-33.1	-54.6	-95.5	(b)	7.2	2.6	1.2	3.6	2.0	-1.2	-2.5	-0.1
Wholesale and retail trade and hotels and restaurants	-9.6	-10.5	-19.2	31.1	-27.6	-15.3	-37.5	97.2	7.9	4.8	4.0	5.6	2.7	1.4	0.4	2.1
Information and communication	-0.4	-8.6	-10.0	-6.3	5.8	-15.8	-15.7	-8.3	21.9	28.2	28.5	28.5	16.3	23.3	23.5	24.4
other activities	-17.6	-19.6	-26.6	20.6	-61.8	(b)	-26.9	6.3	5.8	5.0	3.8	3.9	0.7	1.9	0.4	0.7

SOURCE: Banco de España.

- a. All the data in these columns have been calculated as a weighted average of the quarterly data.  
b. Rate not significant or not calculable because the relevant figures are of opposite sign.

in external sources of financing. Following the successive interest rate cuts (which have therefore been passed through to non-financial firms), the ratio that measures the cost of debt stood in the first half of 2010 at 3.3%, down 0.3 pp from its level in the first half of 2009. However, this fall in the cost of debt tended to decelerate during the first six months of 2010, indicating that there is little scope for financial costs to be further reduced through this channel. Debt in the first half was practically unchanged, against a background of slack investment. In fact, the data obtained by the CBQ to approximate business investment show a decline of 6.9% in this item in the first six months of 2010, although the quarterly profile of the series shows an improvement in the second quarter of the year. Finally, this analysis may be supplemented by a study of the E1 and E2 ratios (debt and ability to repay) (see Chart 4). The former shows that the level of business debt stabilised, standing at practically the same level in 2010 as a year earlier. Meanwhile, the E2 ratio also remained very stable in the first six months of 2010, ending the upward trend that dates back to 2004 and confirming the beneficial effect on this ratio of the positive growth in GVA (the denominator of the ratio) this year.

Financial revenue also fell in the first half of 2010 (-13.6%), at a similar rate to a year earlier (-12.1%). This decline is explained by the lower dividends received and, above all, by the decline of 23.4% in interest, as a consequence of the cancellation of loans granted to subsidiaries by large Spanish groups and of the reduction in interest rates mentioned above. The larger decline in financial revenue than in financial costs together with the growth in depreciation and provisions (+8%) led to a slight reduction in the growth of ONP, relative to that of GOP, its rate of change in the first half of 2010 being 9.3%. Even so, this growth in ordinary net profit was a big improvement on 2009, when it fell by 25.6%. At the sector level, as in the case of GVA and GOP, ONP grew in all sectors in the period to June 2010 (see Table 5), ex-

		CBQ (a)			
		RETURN ON INVESTMENT (R.1)		ORDINARY RETURN ON EQUITY (R.3)	
		09 Q1-Q2	10 Q1-Q2	09 Q1-Q2	10 Q1-Q2
Number of corporations		813	731	813	731
Percentage of corporations by profitability bracket	R ≤ 0%	34.1	29.6	39.0	33.7
	0% < R ≤ 5%	24.4	26.3	17.3	19.1
	5% < R ≤ 10%	15.7	15.3	11.7	11.4
	10% < R ≤ 15%	6.1	6.4	5.7	7.7
	15% < R	19.7	22.5	26.3	28.1
MEMORANDUM ITEM: Average return		5.0	5.3	6.4	7.0

SOURCE: Banco de España.

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

cept in the information and communication and energy sectors, which recorded declines of 8.3% and 4.3%, although in both cases these rates represent an improvement on the figures recorded a year earlier. The combined performance of ONP and financial costs (the numerator of the ordinary profit ratios) has enabled the firms to post slightly higher levels of profitability than in 2009. The ratio that measures the return on investment (R.1) stood at 5.3% in the first half of 2010, 0.3 pp higher than a year earlier, while the return on equity (R.3) rose to 7%, from 6.4% in 2009. The increase in profitability, along with the decline in the cost of debt (R.2), allowed the difference between these two ratios to continue to widen. It stood at 2 in the first half of 2010, half a percentage point more than in the same period of 2009. This improvement in the difference between the return on investment and the cost of debt occurred in all the sectors analysed. Moreover, they all recorded positive differentials, except industry, the only sector of activity whose differential, although slightly negative (-0.1), was significantly better than in the first half of 2009 (-2.5%).

Finally, an analysis of extraordinary costs and revenue shows a significant decline in extraordinary revenue in the year to date, since the significant capital gains generated by the disposals of fixed assets and shares in 2009 have not been repeated. This reduction in revenue was accompanied by an increase in tax due on profits to June 2010 (+40.8%), which is a consequence of the growth in ordinary profit following its fall in the previous year, as mentioned above, and of the fiscal effect associated with the existence in 2009 of certain extraordinary tax-exempt operations. All this led to a slight fall in net profit (-2.6%), and also in net profit as a percentage of GVA (to 36.9%, from 40.2% in the first half of 2009). That said, the level of profits obtained by the aggregate of firms that make up the CBQ sample remained high relative to GVA.

17.9.2010.





## Introduction

During the first half of 2010, economic recovery firmed in Latin America with a higher-than-expected growth rate, the result of buoyant domestic demand in most of the countries. In the region as a whole<sup>1</sup>, year-on-year growth of 5.6% was posted in Q1, rising to 7.7% in Q2. Although this year-on-year growth is influenced by a favourable base effect, average quarter-on-quarter growth was 1.7%, above what had been seen during the first half of 2008, before the crisis. There were hardly any exceptions to this broad trend and, in fact, only Venezuela remained in recession, while Mexico is lagging somewhat in the current phase of recovery. Domestic demand contributed 10 pp to the aggregate year-on-year growth in the region in Q2, and external demand deducted 2.3 pp, which translated into a widening of the current account deficit to 0.3% of GDP. Nonetheless, this external imbalance was less than might have been expected in view of the strength of the demand for imports, due in part to the high level of commodities prices, which in turn contributed to the robustness of the recovery (see Chart 1 and Table 1).

Prices also trended relatively favourably. The average inflation rate stabilised at just over 6%, after rising in early 2010 to 6.6%. While this development masks sizeable differences across countries, inflation has significantly converged towards target in most of the countries with inflation targeting arrangements, and this despite the closing of output gaps. This relative easing has, moreover, ultimately fed through to expectations, albeit with differing intensity from one country to another.

The soundness of these results helps explain why neither the turbulence arising from the fiscal and sovereign crisis in certain euro area countries, between April and June, nor the subsequent fears that a further slowdown would begin in the United States have had a lasting impact on Latin American financial markets, or worsened the growth outlook for 2010 and 2011. The contrary is rather the case. Growth forecasts have continued to be revised upwards, which is indicative of the resilience the region is showing. Among other factors, Latin America has benefited from the re-directing of its trade towards Asia, associated with the strong demand for commodities from this region. In the circumstances, the credit ratings of five countries (Chile, Colombia, Uruguay, Ecuador and Argentina) were revised upwards. Against this clearly favourable backdrop, with positive interest rate spreads over the industrialised economies, and in a setting of extraordinary and potentially growing monetary stimulus in the United States, capital inflows (chiefly portfolio inflows) have picked up in recent weeks and are beginning to pose difficulties for macroeconomic management in several countries, mainly owing to their impact on exchange rates, domestic liquidity and monetary policy. So far, a buffer against these pressures is being provided by a bigger build-up of reserves, and some countries have imposed administrative measures (Brazil and Peru).

From the economic policy standpoint, some countries began in the last six months to partly reverse the monetary stimulus deployed during the crisis. In May and June, respectively, the Peruvian and Chilean central banks initiated the cycle of official interest rate rises on which Brazil had earlier embarked in April. In contrast, Colombia and Mexico held their key interest rates unchanged, and Argentina continued to apply an expansionary monetary policy. Recently, the process of rises has been interrupted in Brazil and Peru, while the rate at which the

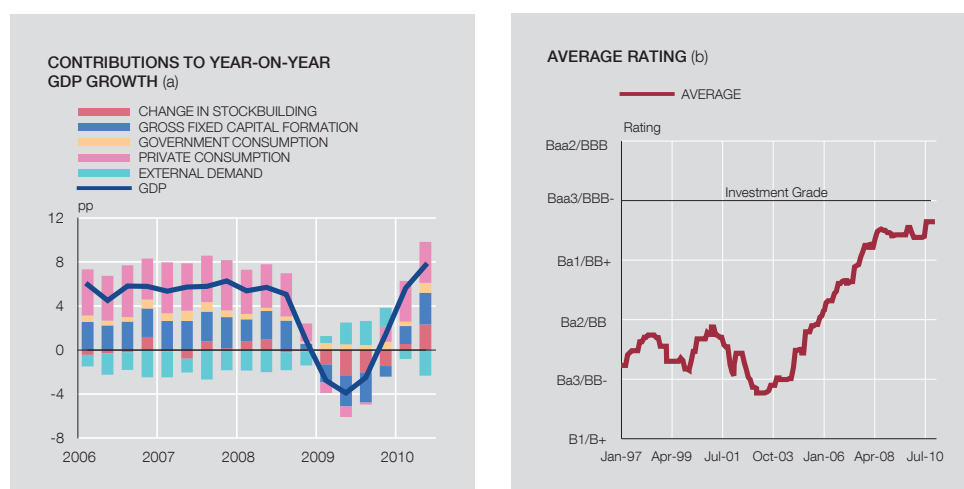
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1. The average data to which this report refers are calculated using the information on seven countries: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

## CONTRIBUTIONS TO GDP AND DEBT CREDIT RATINGS

### Percentage

CHART 1



SOURCES: National statistics, Datastream and Banco de España.

a. Seven biggest economies.

b. Average ratings of the three major agencies, weighted by each country's GDP in PPPs.

official interest rate is rising has eased in Chile, a development which may have been influenced by the aforementioned upward pressure on exchange rates. In the fiscal policy realm, the budget balance as a percentage of GDP showed few changes in relation to the previous six months, at the regional level, posting a deficit of around 2.5% of GDP. However, in several countries there was an improvement in primary balances, attributable almost exclusively to the effect of the cycle. From a more structural perspective, mention should be made of the execution of a second debt swap in Argentina, which marks progress in the normalisation of its default situation (pending the resolution of its outstanding debt with the Paris Club), and the presentation by the Colombian government of a fiscal rule designed to manage the revenue expected as a result of the boom in the mineral/energy sector in the coming decade.

The outlook for Latin America is broadly favourable, although some slowing is expected in the second half of 2010 owing, partly, to the moderate tightening of monetary policies. External conditions, marked by a very lax monetary policy that has been pursued for longer than expected in the United States and by strong growth in Asia, are looking very expansionary for the region, in the face of which national policies should adopt a more restrictive stance. Indeed, the main discernible risk is, probably, that economic policies may not respond suitably and may ultimately adopt a procyclical bias. Specifically, the dilemma facing the authorities is to act more resolutely to prevent their economies overheating or, conversely, to adopt a less active position to protect themselves from the risk of a slump in the world economy and to avoid measures, especially in the monetary area, that may stimulate even greater capital flows.

### **Economic and financial developments: external environment**

Following a first quarter in which the world economy showed considerable dynamism, growing at a year-on-year rate of 4.5%, signs of weakness in the developed economies began to emerge as from the end of Q2, more markedly so in the US economy. The signs of fragility were to some extent expected, since the recovery had been largely underpinned by re-stocking and, moreover, sizeable doubts remained over the capacity of private demand to take up the slack once the expansionary effects of the fiscal stimuli that had previously sustained activity progressively tailed off. US growth was checked from an annualised quarter-on-quarter growth rate of 3.7% in Q1 to 1.7% in Q2, while economic activity in Japan also slowed to

	2007	2008	2009	2008		2009				2010		September
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
GDP (year-on-year rate)												
Latin America (a)	5.8	4.2	-2.0	5.0	0.8	-2.9	-4.0	-2.5	1.4	5.6	7.7	
Argentina	8.7	6.8	0.9	6.9	4.1	2.0	-0.8	-0.3	2.6	6.8	11.8	
Brazil	6.1	5.1	-0.2	7.1	0.8	-2.1	-1.6	-1.2	4.3	9.0	8.8	
Mexico	3.3	1.5	-6.5	1.6	-1.1	-7.9	-10.0	-6.1	-2.3	4.3	7.6	
Chile	4.6	3.7	-1.5	5.2	0.7	-2.1	-4.5	-1.4	2.1	1.5	6.5	
Colombia (d)	6.9	2.7	0.8	3.1	-1.5	-0.4	-0.2	0.9	3.0	4.2	4.5	
Venezuela	8.1	4.8	-3.3	3.8	3.5	0.5	-2.6	-4.6	-5.8	-5.2	-1.9	
Peru	8.9	9.8	0.9	10.9	6.5	1.9	-1.2	-0.6	3.4	6.1	10.1	
Uruguay	7.5	8.5	2.9	9.4	7.6	2.6	1.1	2.8	4.7	8.8	10.4	
CPI (year-on-year rate)												
Latin America (a)	5.4	7.8	6.4	8.5	8.5	7.6	6.7	5.9	5.4	6.1	6.6	6.3
Argentina	8.8	8.6	6.3	8.9	7.8	6.6	5.5	5.9	7.1	9.0	10.6	11.1
Brazil	3.6	5.7	4.9	6.3	6.2	5.8	5.2	4.4	4.2	4.9	5.1	4.7
Mexico	4.0	5.1	5.3	5.5	6.2	6.2	6.0	5.1	4.0	4.8	4.0	3.7
Chile	4.4	8.7	0.4	9.3	8.6	4.8	1.8	-1.9	-3.0	-0.3	1.2	1.9
Colombia	5.5	7.0	4.2	7.7	7.8	6.6	4.8	3.2	2.4	2.0	2.1	2.3
Venezuela	18.8	31.4	28.6	34.6	33.4	29.5	28.2	28.7	28.1	27.4	31.9	28.5
Peru	1.8	5.8	2.9	6.1	6.6	5.6	4.0	1.9	0.4	0.7	1.1	2.4
Uruguay	8.1	7.9	7.1	7.6	8.6	8.2	6.7	7.1	6.3	6.7	6.9	6.3
BUDGET BALANCE (% of GDP)												
Latin America (a) (c)	-0.4	-0.5	-2.6	-0.2	-0.5	-1.5	-2.0	-2.8	-2.6	-2.6	-2.5	
Argentina	1.1	1.4	-0.6	1.9	1.4	1.0	0.0	-1.0	-0.6	-0.8	-0.4	
Brazil	-2.7	-1.9	-3.3	-1.8	-2.0	-2.8	-3.1	-4.2	-3.3	-3.4	-3.4	
Mexico	0.0	-0.1	-2.3	0.0	-0.1	-1.4	-1.7	-2.4	-2.3	-1.8	-2.3	
Chile	8.6	5.0	-4.6	6.1	5.0	1.3	-1.5	-3.9	-4.6	-3.8	-1.0	
Colombia	-2.8	-1.8	-4.3	-2.3	-1.8	-2.8	-3.0	-3.3	-3.8	-3.6	-4.3	
Venezuela	3.1	-1.2	-5.4	0.9	-1.2	-2.2	-1.4	-1.3	-0.6	-	-	
Peru	1.8	2.2	-2.0	2.1	2.2	1.4	0.1	-0.7	-1.8	-1.3	-1.0	
Uruguay	0.0	-1.5	-1.7	-1.0	-1.5	-2.1	-2.2	-2.2	-1.7	-2.0	-1.1	
PUBLIC DEBT (% of GDP)												
Latin America (a)	33.8	30.8	35.0	30.4	30.8	31.4	33.1	34.6	34.9	34.6	34.5	
Argentina	52.6	44.7	47.9	45.8	44.7	41.9	44.2	46.1	48.0	48.0	47.1	
Brazil	45.1	38.4	42.8	40.0	38.4	39.1	41.2	43.2	42.8	42.0	41.4	
Mexico	21.0	24.5	28.2	20.8	24.5	25.4	26.7	28.4	28.2	28.5	28.7	
Chile	4.1	5.2	6.1	4.5	5.2	5.0	4.9	5.8	6.1	6.8	7.4	
Colombia	32.9	33.4	35.5	32.8	33.4	36.8	35.2	33.6	35.1	34.6	35.4	
Venezuela	22.8	13.6	22.6	12.6	13.2	13.5	18.1	20.4	22.6	22.6	26.8	
Peru	29.8	24.1	26.7	23.9	24.1	24.8	26.1	26.9	26.7	25.0	23.5	
Uruguay	68.1	52.9	68.9	57.8	52.6	56.7	60.5	67.3	69.1	65.4	58.6	
CURRENT ACCOUNT BALANCE (% of GDP)												
Latin America (a) (b)	0.7	-0.5	-0.3	0.4	-0.5	-0.7	-0.7	-0.7	-0.2	-0.1	-0.3	
Argentina	2.8	2.1	3.7	2.8	2.2	2.0	3.3	3.6	3.7	3.0	2.4	
Brazil	0.1	-1.7	-1.5	-1.5	-1.7	-1.5	-1.2	-1.2	-1.5	-1.8	-2.2	
Mexico	-0.8	-1.5	-0.6	-0.9	-1.4	-1.5	-1.4	-1.4	-0.7	-0.5	-0.5	
Chile	4.5	-1.5	2.6	0.6	-1.4	-2.0	-1.4	0.7	2.6	2.6	1.6	
Colombia	-2.9	-2.8	-2.2	-2.1	-2.8	-2.9	-2.8	-2.7	-2.1	-2.1	-2.3	
Venezuela	7.9	12.0	2.3	15.9	11.7	7.6	2.9	-0.5	2.4	5.0	6.1	
Peru	1.3	-3.7	0.2	-2.4	-3.7	-3.3	-1.9	-0.8	0.2	0.1	-0.2	
Uruguay	-0.9	-4.8	0.7	-4.3	-4.8	-3.6	-1.1	-0.2	0.7	0.6	0.9	
EXTERNAL DEBT (% of GDP)												
Latin America (a) (b)	19.9	17.6	20.5	18.2	17.4	18.7	19.6	21.0	20.6	19.9	19.7	
Argentina	47.8	38.3	38.0	40.6	39.2	37.4	38.2	38.9	38.0	37.4	-	
Brazil	14.1	12.1	12.6	12.3	11.8	12.2	13.3	14.1	12.4	12.1	11.6	
Mexico	12.1	11.5	18.6	11.3	11.4	14.8	15.9	17.8	18.6	18.2	17.7	
Chile	34.0	38.0	44.7	37.5	37.6	40.0	42.1	45.3	45.0	42.2	42.2	
Colombia	21.4	19.1	23.2	18.7	19.1	19.9	19.7	21.9	22.9	18.8	19.4	
Venezuela	24.6	19.4	19.7	20.1	18.9	18.8	18.6	19.3	19.7	21.1	24.5	
Peru	30.6	27.3	28.0	28.2	27.3	27.5	28.0	28.4	28.0	27.2	25.4	
Uruguay	51.0	38.5	44.7	40.5	38.2	39.2	40.9	45.4	44.5	40.7	36.7	

SOURCE: National statistics.

a. Aggregate of eight represented countries, except Uruguay.

b. Four-quarter moving average.

c. Excluding Venezuela.

d. Seasonally adjusted series.

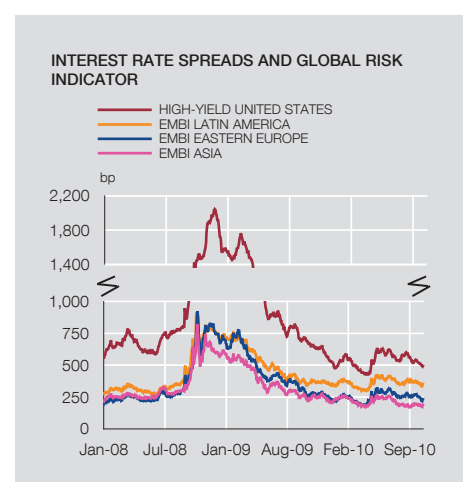
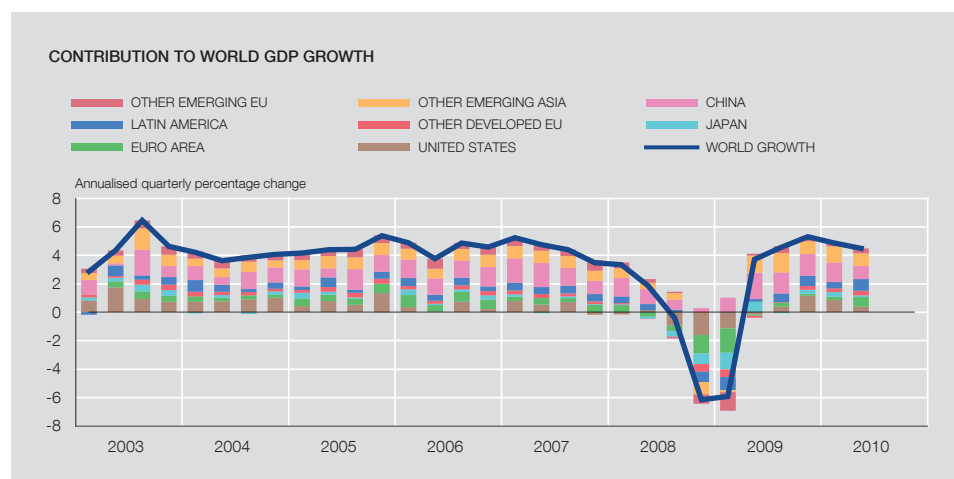
1.5%, after having expanded at a rate of 5% in Q1. In contrast, the pattern was different in the euro area, which grew by 3.9% in Q2, up on 0.8% in Q1, owing to Germany's momentum. However, there were also signs of slowing in the euro area at the start of Q3.

On the whole the emerging economies remained substantially buoyant during this period, China and India most notably so, but also Brazil. In any event, the signs of deceleration were more in response to policy measures aimed at avoiding an excessive rate of expansion (see Chart 2). Some measures aimed at cooling the real estate market in China had an effect, and led economic indicators to resume more sustainable – though still-high – rates. As a result, the pattern of distribution of world economic growth, with Asia to the fore, was conducive to high and relatively stable commodities prices during the last six months, which was in turn a significant boost for Latin America as an exporting region. Crude oil prices moved in a narrow range of \$70-80 for most of the last six months, although they rose above these levels towards the end of the period. Metal prices drew close to their highs for the year and agricultural commodity prices also rose after the summer, partly as a result of the trade restrictions imposed by Russia.

Against this background, the recovery seen on international financial markets in the opening months of the year has been checked in the past six months. From May to June, the predominant factor was the uncertainty over the fiscal situation in the euro area. The publication of the stress tests of European banks in July led to some improvement, but the focus of attention shifted shortly after to doubts over the sustainability of the current recovery in the developed economies. This situation translated into greater volatility and risk-aversion on the markets and flight towards safer assets. And while this movement has eased subsequently, some focal points of fiscal vulnerability in Europe remain active.

Turning to monetary policy, the main central banks kept their official interest rates close to zero. Nonetheless, set against the expectations prevailing only six months ago about a possible start of an exit strategy from the exceptional measures applied, the weakening of the economies has entailed a delay in expectations that interest rate levels will resume a normal footing. And it has even recently led the Bank of Japan to adopt further exceptional measures, while the possibility of extending quantitative easing is being considered in the United States and the United Kingdom. Against this backdrop, US ten-year interest rates, which had tended to normalise (upwards) in the period to April, declined considerably in the subsequent months (more than 150 bp, to close to 2.50%), despite the heavy volume of sovereign issues. On the foreign exchange markets, the dollar initially acted as a safe haven and strengthened against the euro until July, given the growing uncertainty associated with the sovereign debt of certain European economies. However, part of the rise in the dollar was corrected from August owing to the doubts over US growth and the increasing likelihood of further monetary stimuli. In September, the strength of the yen prompted the first intervention by the Bank of Japan on the foreign exchange markets for more than five years. This intervention highlights the growing sensitivity of many countries, including certain developed economies, to the risk of exchange rate overvaluation. It also shows the greater activism afoot to mitigate such overvaluation, through the build-up in reserves and, increasingly extensively, through the setting of capital controls in the emerging economies.

The emerging markets broadly trended in line with global markets and, although they were not insulated from the episodes of volatility and greater risk-aversion during the six-month period, they did show relatively greater resilience. Sovereign spreads, approximated by the EMBI+, widened moderately during the bout of turbulence generated by the fiscal situation in Europe, narrowing subsequently to around 280 bp, very close to the low for the year and at the level at which this spread stood before the global financial crisis.



SOURCES: National statistics and Datastream.

a. Indices in dollars.

Across the different regions, the Asian EMBI performed somewhat better than its Latin American and Eastern European counterparts. Stock markets, approximated by the dollar-denominated MSCI indices, tended to stabilise in the period to August, but rose substantially in September and in October. The Eastern European stock market index nonetheless performed worse than the other regions and remains further off the levels prior to the 2008 crisis than those of the other areas. Despite the fact the dollar acted as a safe-haven currency during some bouts of instability during the six-month period, the currencies of the emerging regions tended to pick up and ended the period at levels of appreciation close to the highs for the year. The Chinese renminbi appreciated very gradually (by over 2%) against the dollar, despite the June announcement of greater flexibility for the currency.

### Financial markets and external financing

The highlights on Latin American financial markets over the past six months included, initially, their notable resilience in the face of the tensions arising, firstly, due to the doubts over the sustainability of certain European countries' sovereign debt and, subsequently, to the weakening of the US economy. Despite this resilience, Latin American markets were not completely immune and saw some increase in volatility between May and June, accompanied by a moderate depreciation of certain currencies (in particular the Brazilian real, the Colombian peso and the Chilean peso, which had previously been appreciating forcefully), by a widening of

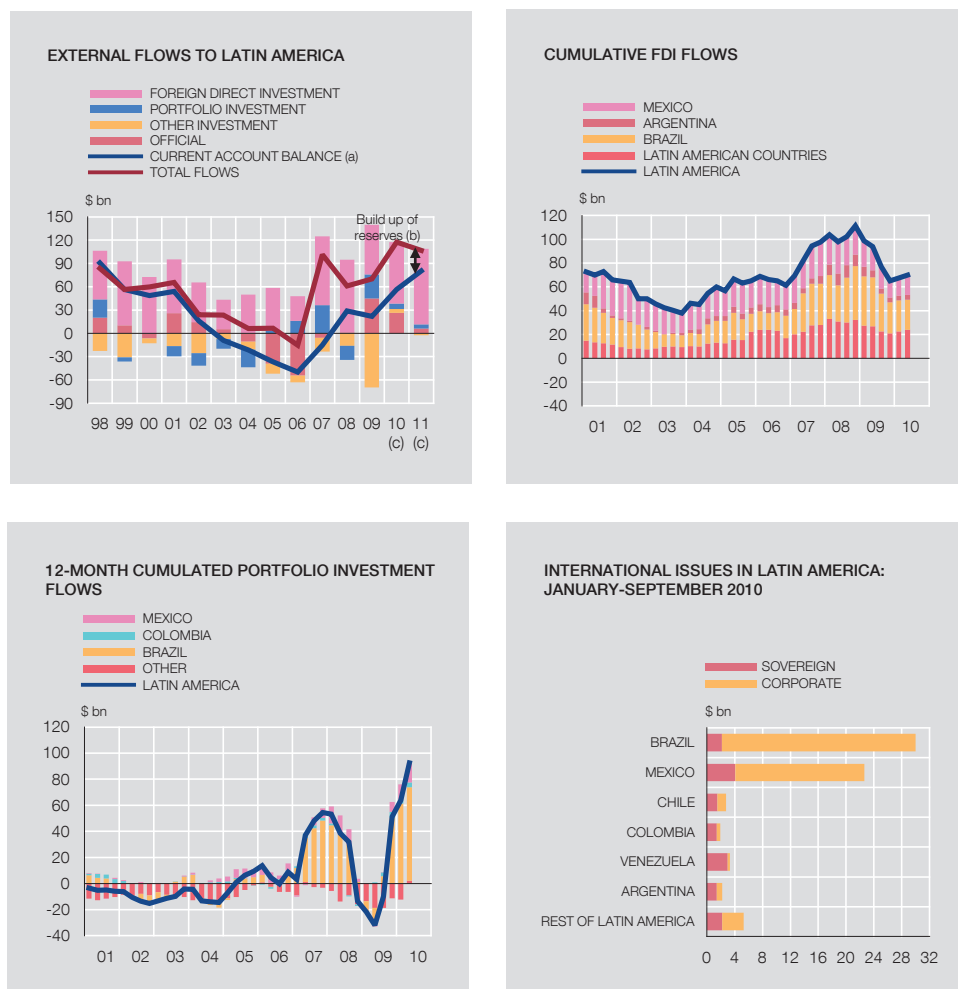
sovereign spreads and by stock market declines. From July, the markets resumed an upward course which has intensified in all segments (stock market, bonds, foreign exchange markets) in recent weeks, in particular following the intervention by the Bank of Japan on the foreign exchange markets, in mid-September, and coinciding with the rising expectations over further monetary easing in the United States.

In fact, in recent months the structure of capital flows has changed to some extent, in two directions. First, towards the emerging markets, in particular those with a favourable growth outlook and positive interest-rate spreads, as is the case in Latin America. And further, in favour of portfolio flows and, with some lag, of foreign direct investment which, though it has picked up since the depth of the crisis, is still far below pre-crisis levels. Significantly, portfolio investment flows over the past 12 months in Latin America stood in Q2 (the latest figure available) at an all-time high (close to \$100 billion), concentrated in the main in Brazil. However, direct investment flows in cumulative terms, likewise to Q2, stood at somewhat over \$60 billion, with a more proportional distribution between Brazil, Mexico and the rest of Latin America (see Chart 3). There has also been a strong increase in the volume of both public and private international issues, following the temporary closure of the markets during the spring months.

The exchange rates of most of the Latin American currencies (but especially the Brazilian real, the Colombian peso and the Chilean peso), which had tended to strengthen as from the summer, appreciated more sharply, standing in October at levels close to their 2008 highs. Since the start of the year, the Colombian peso has appreciated by more than 15% against the dollar. The appreciation of the Chilean peso, the Brazilian real and the Peruvian sol has been somewhat more moderate but, if calculated from their low in 2008, the figure exceeds 40% in Brazil and 30% in Chile and Colombia (see Chart 4). In contrast, the Mexican peso has held relatively stable throughout the period (except at the time instability was at its height in Europe, when it tended to appreciate) and the Argentine peso has continued on its gradual but constant depreciating course (20% in cumulative terms since mid-2008, 5% in the year to date).

The appreciation of exchange rates, in parallel with the rise on stock markets and the narrowing of sovereign spreads, has once again given rise to discussions in the countries concerned about the risks posed by the strong increase in capital inflows and the excessive appreciation of exchange rates. There are also talks about how to manage them, mainly after the unsuccessful discussions in this connection at the IMF meetings. Against this background, Brazil raised its tax on financial transactions from 2% to 4% in October, subsequently increasing it to 6% for fixed-income investment flows, a measure equivalent to the introduction of capital controls via prices. Peru likewise introduced various capital controls and even countries such as Chile, traditionally inclined not to intervene on the foreign exchange market, left the door open to considering such controls, as a last resort. The build-up of reserves has thus continued, meaning they are at an all-time high, and some countries are easing the pace at which they are raising their official interest rates (Brazil, Peru and Chile).

Key developments in respect of credit default swaps (CDSs) were their stability in Brazil, Mexico and Chile (moving in a narrow range between 100 bp and 150 bp in the two former countries, and below 100 bp in the latter) and, in contrast, the strong widening seen in risk premia in Venezuela and in Argentina (where CDSs widened to 1400 bp in June, strongly affected by the European sovereign crisis). In Argentina, risk premia recently moved back towards their low for the last five years (500 bp), a trend that began following the resolution of the unpaid debt swap in June. However, in Venezuela the economic downturn, elections and the foreign exchange market restrictions led CDSs to hold at levels close to their all-time high until very



SOURCES: JP Morgan, IMF and national statistics.

- a. A positive sign denotes a current account deficit.  
b. Difference between investment flows and the current account balance (-).  
c. WEO forecasts (October 2010) for 2010-2011.

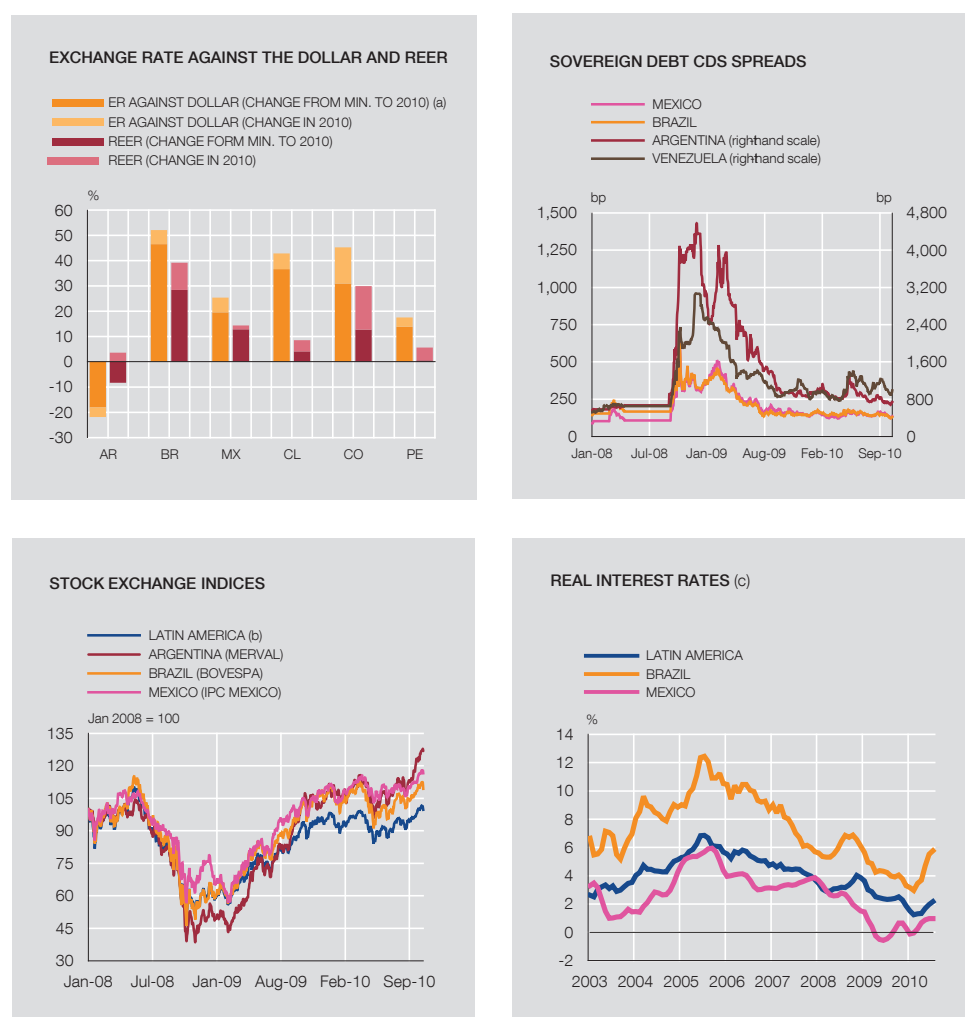
recently. As regards developments on stock markets, the Argentine, Mexican and Brazilian bourses fell by 15% between May and June, but recovered gradually thereafter, to stand once more in September at highs for the year, an all-time high in the case of Argentina. That said, the stock markets that posted the biggest gains were those of Chile and Colombia (more than 30% in the year to date).

### Activity and demand

Economic growth was surprisingly high in most of the Latin American economies in the first half of the year. At the same time, the contribution of domestic demand to the region's year-on-year growth progressively increased, exceeding 10 pp (albeit with a sizeable contribution from stocks), while external demand subtracted more than 2 pp in Q2. This mirrored the pattern prior to the crisis, although much more markedly so.

All the economies – with the exceptions of Mexico and, above all, Venezuela, which remains in recession – showed strong dynamism in the first half of the year. In Q1 there was a strong increase in the region's year-on-year growth rate of more than 4 pp to 5.6%, which was to some extent biased upwards owing to a base effect (the quarter-on-quarter rate was 1.1%). However, the acceleration in activity was clearer in Q2, with quarter-on-quarter growth of 2.3%,





SOURCES: Datastream and JP Morgan.

- a. Minimum value since the bankruptcy of Lehman Brothers (15.9.2008). The value as at that specific date is taken from Argentina.
- b. MSCI Latin America Index in local currency.
- c. Short-term interest rate less inflation rate.

raising the rate on a year earlier to 7.7%. The Brazilian economy was notably dynamic, growing at a year-on-year rate of close to 9% in both quarters, underpinned by the strength of domestic demand (see Chart 5), and providing a boost to its closest trading partners: Argentina (which posted year-on-year growth of 11.8% in Q2) and Uruguay (10.4%), something not habitual in the past (see Box 1). In recent months, however, some easing has been seen in Brazil (mainly in the industrial sector, affected by the discontinuation of certain tax exemptions for investment), though it has sustained high growth rates, given the strong labour market (the unemployment rate stood at a low of 6.7% of the labour force in August), the continuing momentum of lending by public-sector banks (which is growing at a year-on-year rate of 30%) and favourable business and consumer confidence indicators.<sup>2</sup> In Chile (where growth in Q2 stood at 6.5% year-on-year) and Peru (10.1%), economic activity posted very high rates, chiefly as a result of the pick-up in domestic demand and, most specifically, in investment.

2. However, for the moment the easing has been taken as a factor for justifying the interruption in late August of the cycle of interest-rate rises in Brazil, in addition to other structural reasons.



SOURCE: National statistics.

a. Aggregate of the seven main economies.

Conversely, the recovery in Mexico continued to be very sluggish, dependent on the foreign sector and tied to the US business cycle, and with a scant contribution from domestic demand. In this setting, and although activity grew substantially in Q2 (2.3% quarter-on-quarter, and 7.6% year-on-year), part of it can be attributed to a base effect and to a relatively considerable build-up in stocks (see the final section in this report on country-by-country economic developments).

Analysis of the composition of GDP on the demand side identifies the drivers of growth at the regional level: on one hand, the strong recovery in gross capital formation (which posted growth of close to 17% year-on-year in Q2) and, on the other, the expansion of private consumption (5.8% year-on-year) (see Chart 6), the behaviour of whose main determinants remained, with few exceptions, very positive throughout the period. Investment was spurred on by the improved growth outlook (which has given rise to an upward revision of the business confidence indicators), the rise in commodities prices, the decline in real interest rates and the greater availability of financing (external and internal alike, with credit on a gradually recovering trend). These factors broadly allowed the halt in investment decisions between late 2008 and end-2009 to be overcome. Even so, investment as a proportion of GDP remains on average some 3 pp below the highs reached in early 2008, set against the gradual closure of output gaps. In addition,

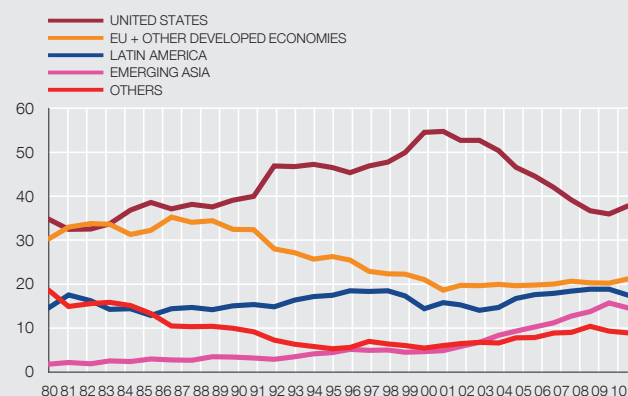
The external integration of the Latin American economies has in recent years undergone a significant reorientation, in particular as regards their trade.<sup>1</sup> Since the end of the 1980s, and especially in the second half of the current decade, the region has recorded an increase in its openness to trade (as measured by the sum of exports and imports divided by GDP), which reached 46% in 2010, accompanied by greater diversification in its export destination countries, as shown by the sharp decline in the Herfindahl indices measuring the concentration of foreign trade.<sup>2</sup>

1. This box refers to trade integration. The region's financial integration, measured by its foreign assets and liabilities, has remained practically unchanged since 2000 (rising from 98% of GDP in 2000 to 102% of GDP in 2009). 2. These indices are lower than, for example, those calculated for Spain (around 10 for exports and 7.5 for imports).

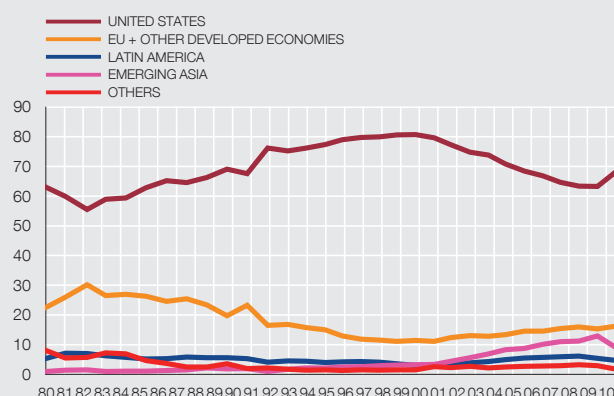
The main trends in the reorientation of the region's foreign trade are presented in Panel 1 and the accompanying table. As can be seen, the United States continues to be Latin America's main trading partner, although its relative importance has substantially diminished over the last decade. In particular, the share of exports and imports corresponding to the United States has fallen from 55% in 2000 to 38% in 2010. This space has largely been occupied by the emerging Asian economies, whose share rose from 4.9% to 14.7% during the same period and, among the latter, by China, whose share increased from 1.3% of the region's foreign trade to 9.3%. Between these dates, intra-regional trade rose from 14.4% to 17.6%. These overall results are influenced, however, by the figures of Mexico, the region's largest exporter and importer, which in the 1980s already had strong ties with the United States (63% of exports and imports) and weak ties with the rest of Latin America

## THE REORIENTATION OF LATIN AMERICAN TRADE

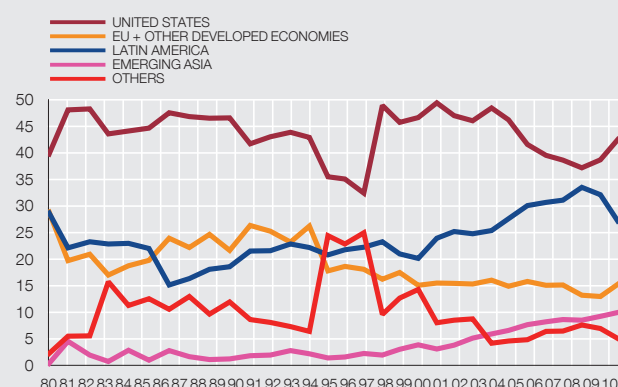
LATIN AMERICA: TRADE INTEGRATION (a)



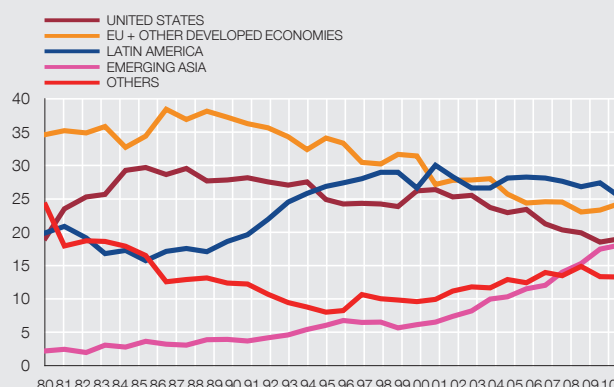
MEXICO: TRADE INTEGRATION (a)



CENTRAL AMERICA AND CARIBBEAN (b): TRADE INTEGRATION (a)



SOUTH AMERICA (c): TRADE INTEGRATION (a)



SOURCES: Datastream and Banco de España.

a. Percentage of all exports and imports corresponding to each country/block depicted.

b. Dominican Republic, Guatemala, Costa Rica, Honduras, El Salvador, Nicaragua, Jamaica, Haiti and Bahamas.

c. Argentina, Brazil, Uruguay, Colombia, Chile, Peru, Venezuela and Ecuador.

## TRADE REORIENTATION: MAIN PARTNERS

TABLE 1

													HERFINDAHL INDEX (a)		% OF GDP	
EXPORTS						IMPORTS						EXP.	IMP.	EXP.	IMP.	
Argentina																
1980-1990	US	11.8	Netherlands	10.0	Brazil	8.2	US	20.3	Brazil	13.9	Germany	10.2	4.1	8.9	9.0	6.2
2006-2010	Brazil	19.0	China	8.0	Chile	7.7	Brazil	32.5	US	12.8	China	10.7	6.3	14.0	23.7	19.0
Brazil																
1980-1990	US	25.0	Netherlands	6.6	Japan	6.4	US	18.8	Iraq	10.7	Argentina	9.5	8.2	7.2	10.1	7.9
2006-2010	US	14.3	Argentina	8.7	China	8.6	US	15.6	China	11.3	Argentina	8.4	4.7	5.9	13.2	12.1
Mexico																
1980-1990	US	62.2	Spain	6.7	Japan	6.4	US	64.7	Germany	5.2	Japan	5.0	39.9	42.6	16.6	13.6
2006-2010	US	81.5	Canada	2.9	Germany	1.5	US	50.1	China	10.9	Japan	5.4	66.5	27.1	28.1	29.7
Chile																
1980-1990	US	19.4	Japan	11.8	Germany	10.7	US	21.2	Japan	9.0	Brazil	8.6	7.9	7.5	27.2	26.5
2006-2010	China	15.0	US	12.5	Japan	9.9	US	18.8	China	11.6	Argentina	10.0	6.5	7.7	44.0	33.8
Colombia																
1980-1990	US	35.5	Germany	14.2	Netherlands	5.2	US	35.2	Japan	9.9	Germany	6.7	15.8	15.0	14.9	13.9
2006-2010	US	36.1	Venezuela	15.6	Ecuador	4.2	US	29.1	China	9.6	Mexico	8.4	16.3	11.3	17.3	21.2
Venezuela																
1980-1990	US	40.8	Canada	5.0	Neth. Ant.	4.5	US	46.0	Germany	7.0	Japan	6.4	17.9	23.0	27.5	22.2
2006-2010	US	38.9	Neth. Ant.	8.1	China	3.7	US	26.5	Colombia	13.1	Brazil	9.9	16.2	10.9	29.2	22.3
Peru																
1980-1990	US	30.0	Japan	12.5	UK	5.1	US	31.5	Japan	7.7	Germany	7.1	11.7	12.2	16.7	16.2
2006-2010	US	20.2	China	14.1	Canada	8.7	US	22.1	China	10.6	Brazil	8.5	8.5	8.6	27.2	22.4
Ecuador																
1980-1990	US	51.4	Japan	3.9	Panama	3.8	US	32.5	Japan	11.4	Germany	7.9	27.0	13.6	25.6	24.7
2006-2010	US	43.3	Peru	9.5	Chile	6.0	US	23.2	Colombia	10.6	Venezuela	9.8	21.0	9.2	35.7	36.6
Uruguay																
1980-1990	Brazil	19.4	US	10.8	Germany	8.9	Brazil	20.4	Argentina	12.3	US	9.3	7.4	8.4	21.8	19.6
2006-2010	Brazil	17.4	China	8.2	Argentina	7.5	Argentina	19.7	Brazil	17.8	China	9.9	6.1	10.1	28.4	30.0
Latin America																
1980-1990	US	36.6	Japan	5.9	Germany	4.6	US	36.6	Germany	6.7	Japan	6.3	14.7	15.1	14.5	12.0
2006-2010	US	43.2	China	5.4	Brazil	2.7	US	33.1	China	10.6	Brazil	5.3	19.6	13.3	22.4	21.1
Latin America excluding Mexico																
1980-1990	US	27.6	Japan	5.7	Germany	5.7	US	26.2	Germany	7.3	Japan	6.8	9.3	9.2	13.6	11.3
2006-2010	US	20.8	China	8.1	Brazil	3.8	US	18.9	China	10.3	Brazil	8.3	6.2	6.7	20.1	17.7

SOURCES: IMF and Banco de España.

a. Sum of the square of the shares of each trading partner in each country's or region's total foreign trade. The bounds of the index are therefore between 0 and 100.

(5.8%). Its dependence on the United States increased following the signing of the North American Free Trade Agreement in 1995 (to reach 81.5% in the case of its exports in 2010).<sup>3</sup> The countries of Central America and the Caribbean are in a similar situation. Their trade dependence on the United States rose to 49.2% in 2000, and rose further following the signature of various free trade agreements with the northern neighbour, which supplement the set of treaties contained in CAFTA + DR.<sup>4</sup> Nonetheless, even in these countries the weight of emerging Asia – and specifically China – has grown substantially in recent years, although it is still at relatively low levels (4.6% of the total). By contrast, foreign trade devel-

opments in the main South American countries show how intra-regional trade has increased and the extent of the diversification towards Asia, to the point that since 2004 Latin America has been the main source and destination for the exports and imports of South America, and the share of emerging Asia (basically China) rose from 6.5% in 2000 to 18% in 2010.

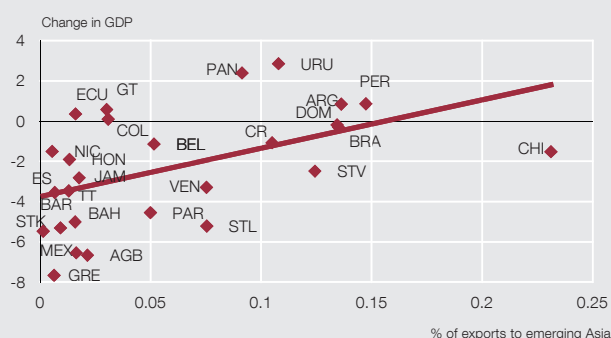
The factors driving this reorientation have been, on one hand, the strengthening, with progress and setbacks, of the most advanced regional trade agreements, such as MERCOSUR<sup>5</sup>, along with the new strategy of seeking bilateral trade agreements with the Pacific basin followed by certain Andean countries, such as Chile, Peru and,

3. When Mexico is removed from the analysis the trends described above become even clearer: the United States represents 19% of the foreign trade of the region without Mexico, a similar share to that of emerging Asia (18%), and behind those of intra-regional trade (25.6%) and the EU (24.2%). 4. Dominican Republic-Central America Free Trade Agreement.

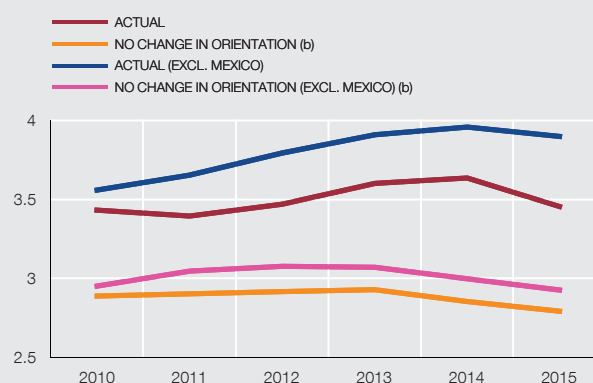
5. The increase in intra-regional trade has been based fundamentally on manufactures (and among the latter, medium-technology consumer goods, such as cars), which may explain the decline in the share of the region since the start of the crisis in 2008.

## TRADE REORIENTATION: OUTLOOK AND RISKS

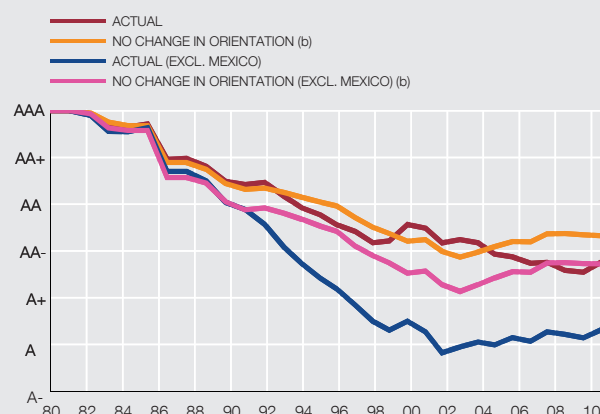
LATIN AMERICA: CHANGE IN GDP AND FOREIGN TRADE



LATIN AMERICA: TRADE PARTNERS' GDP GROWTH (c)



LATIN AMERICA: WEIGHTED RISK OF TRADE PARTNERS (a)



RELATIONSHIP BETWEEN GDP GROWTH AND IMPORT GROWTH



SOURCES: Datastream and Banco de España.

- a. Ratings of the region's trade partners weighted by their share in trade.
- b. Keeping the trade structure of the 1980s and 1990s for the whole period.
- c. Growth of GDP of the region's trade partners weighted by their share in trade.

to a lesser extent, Colombia; and on the other hand, the strong and prolonged increase in the demand for (and prices of) commodities (the main export of a large part of Latin America)<sup>6</sup> worldwide, but especially in Asia and, in particular, China. The entry of the latter into primary product markets has made it the main world importer of agricultural (17.4% of total world imports) and metal commodities (20.7%), and the third largest importer of oil (6.7% of the total, behind only the United States and Japan).<sup>7</sup> The commodities boom since 2003 has also raised the value of commodities in total exports (from 25% to 34.1% or, in the case of the Andean countries, from 55.6% to 64.4%), which therefore explains a large part of the increase in the region's openness.<sup>8</sup> In this context, China has significant further potential to develop, despite the sharp increase in its share of Latin American trade, since no country in the region has yet signed an extensive free trade agreement with the Asian giant.<sup>9</sup>

This reorientation of foreign trade has been to the region's advantage during the international financial crisis, since the revival of external demand, once world trade (especially in Asia) had begun to grow again and commodity prices had recovered from their collapse, has contributed to the rapid recovery in activity. The geographical structure of external trade would also partially explain the heterogeneity of the impact of the crisis in the region. On the one hand, Mexico and Central America, the countries most dependent on trade with the

United States, have experienced recessions without precedent since the 1930s, while on the other hand, those countries that have increased their trade with Asia have had relatively small declines in GDP in comparison with the past (see Chart 2).

Looking ahead, the new structure of foreign trade may help strengthen the external demand of Latin America, given that the reorientation has been towards more dynamic economies that are predicted to be the engines of world trade in the coming years. Chart 2 presents an estimate of GDP growth in the countries with which the region trades, which may be an indicator of the potential growth of Latin American export markets until the year 2015. According to these estimates, if the Latin American countries had maintained their 1980s structure of trade, the growth in GDP of their trading partners between 2010 and 2015 would on average be 0.6 pp lower than with the current structure. If Mexico is excluded from this calculation, the difference is even greater, at close to 0.8 pp on average. In addition, these new trading partners of Latin America have a higher import elasticity of GDP growth than the rest of the world (see Chart 2), and need almost double the amount of energy that the developed countries need to generate \$1,000 of GDP, energy products being one of the areas in which Latin American countries are specialised.

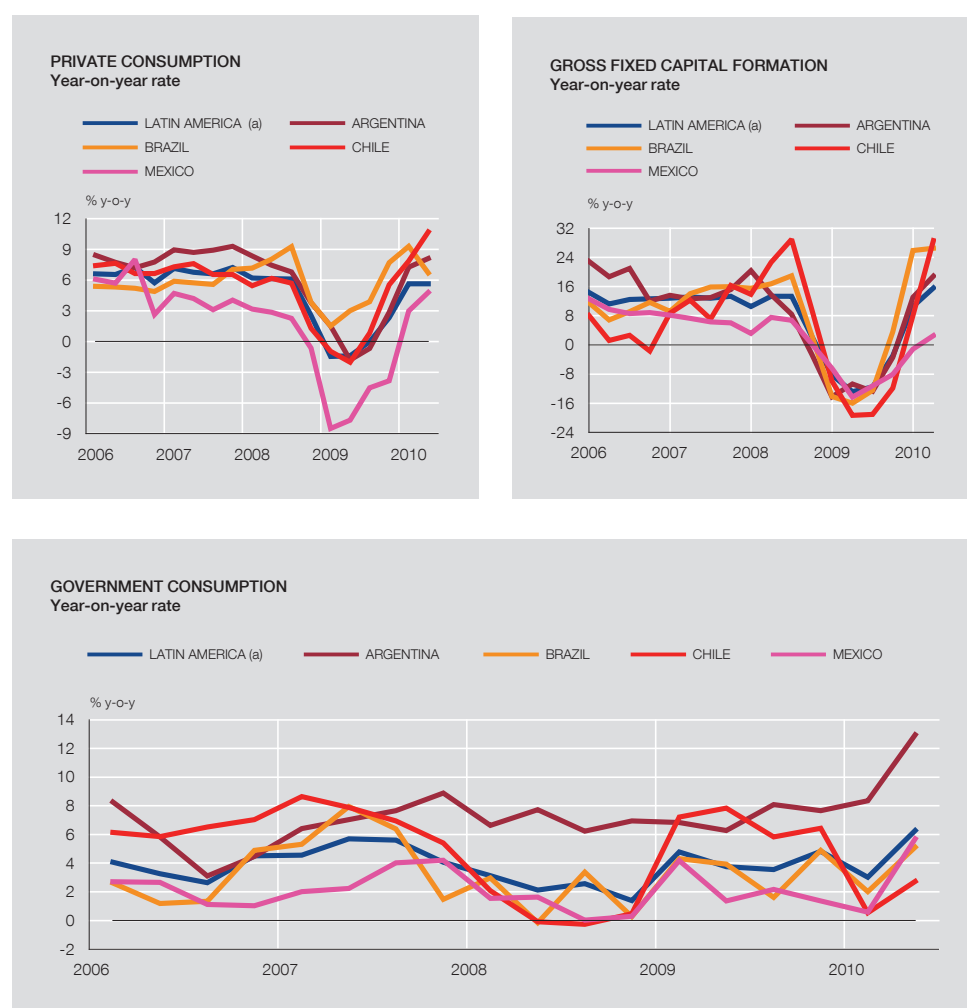
On the other hand, the new structure of foreign trade also entails a somewhat higher risk, as seen in Chart 2. The average sovereign rating (weighted by the countries' shares in foreign trade) of the group of countries with which Latin America trades is lower than it would be if the region had maintained the same geographical structure of exports and imports as in the 1980s. That said, the risk is still low and, in the wake of the crisis, the risk outlook for the Asian countries has improved relative to that of the advanced countries. Another element of weakness that should be highlighted is that all these trends may strengthen a commodities-based export model, which history shows can, in some cases, be detrimental to the development of other more dynamic sectors and, ultimately, limit growth potential. Bucking this trend will be one of the main challenges for this region in the coming years.

6. Brazil is the ninth largest world exporter of agricultural commodities and the fifth largest exporter of food products; Venezuela is the ninth largest exporter of fossil fuels and Chile the fifth largest exporter of metals. 7. With regard to bilateral trade in primary products, China is Brazil's main trading partner (accounting for 20.9% of its total commodities exports in the last five years, as against 8.9% of all its exports); in Argentina, China is the main destination for exports of soya oil (30.9% of the total), soya beans (79.2%), oil (42.85) and leather (35%); in Peru, more than 87% of trade with China is in commodities, and China is the main trading partner in most metals, such as copper (38% of the total) and lead (60% of the total); in Chile, 43% of all copper exports go to China. 8. ECLAC (2010), *Latin America and the Caribbean in the World Economy 2009-2010*. 9. Chile, in 2005, and Peru and Costa Rica, in 2010, have been the pioneers in seeking such an agreement.

there were specific shocks in some countries (the record harvest and the boost to manufacturing exports to Brazil in Argentina, and the earthquake in Chile and the subsequent rebound in investment) which help explain much of the pattern of investment in these countries.

Turning to developments in private consumption, the significant resilience of this variable in most countries was notable, and may be related to the better behaviour of labour markets compared with previous crises, to the lack of a decline in real wages and probably, too, to the rapid recovery in confidence. In this respect, although significant differences were observed from one country to another, the elasticity of the unemployment rate to the change in GDP was notably less than in previous recessions.<sup>3</sup> Secondly, although there was a reduction in private

3. See World Bank (2010), *From Global Collapse to Recovery*, in the section devoted to labour markets in Latin America.



SOURCE: National statistics.

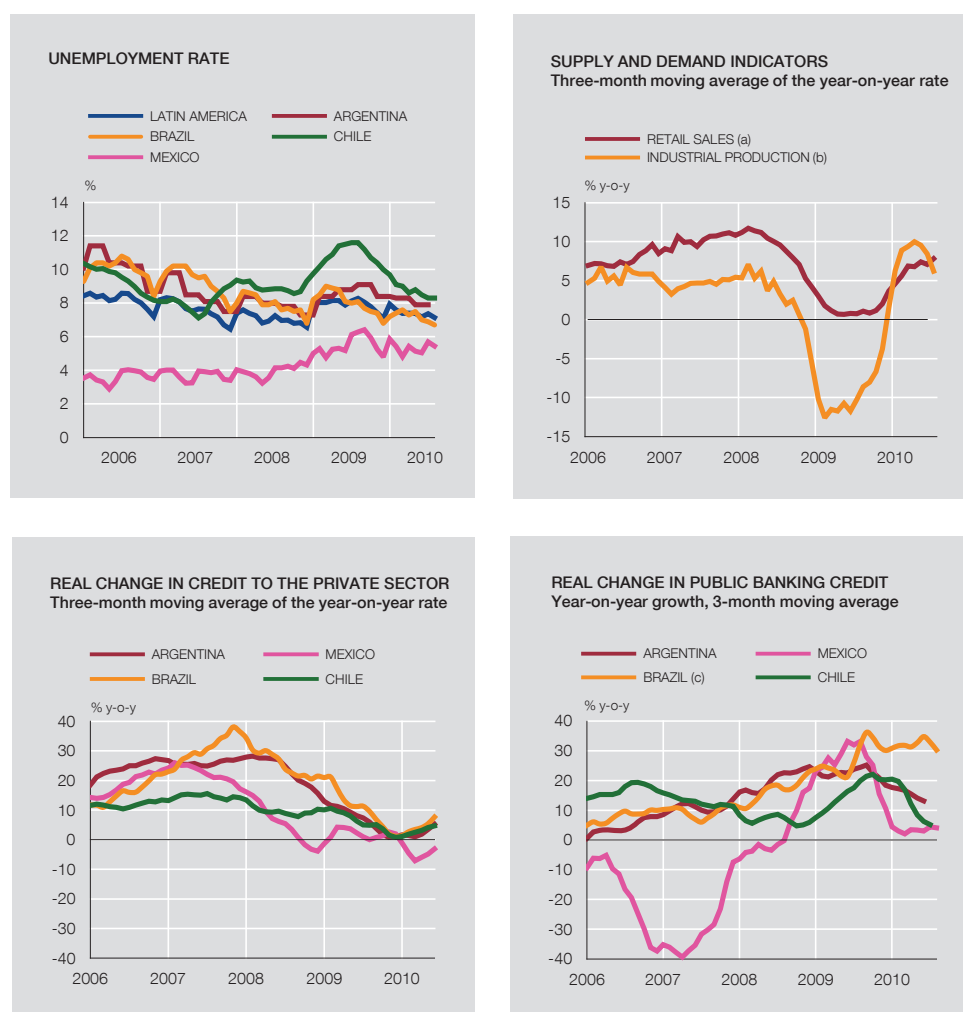
a. Seven biggest economies.

dependent employment and a rise in self-employment and non-remunerated family work (thereby interrupting the ongoing relative reduction in the shadow economy observed in prior years), there was no generalised precariousness in dependent employment<sup>4</sup> (a notable exception will be Mexico). One crucial explanatory factor is that many of the governments in the region were able to implement countercyclical macroeconomic policies, while in previous crises they were obliged to adopt adjustment policies. A part of these policies had a favourable impact on employment, e.g. increases in public investment, emergency employment programmes (temporary job creation for the unemployed in socially useful infrastructure maintenance or construction), job preservation programmes, social protection policies (extension of the duration of unemployment insurance), etc. Further, unlike in previous crises, real wages did not fall, given the low inflation and the downward stickiness of nominal wages. In this respect, and with some delay in relation to the recovery in activity, credit to the private sector is picking up in most of the countries (see Chart 7), despite the withdrawal of public banking (except in Brazil). In Mexico, however, the main determinants of consumption continued to show significant weakness: peso-denominated remittance revenues are below their level one year ago, con-

4. See ILO (2010), *Panorama Laboral 2009. América Latina y el Caribe*.

**EMPLOYMENT, DEMAND AND CREDIT INDICATORS**  
**Year-on-year rate and its three-month moving average, and percentages**

CHART 7



SOURCE: National statistics.

a. Argentina, Brazil, Mexico, Chile, Colombia and Venezuela.

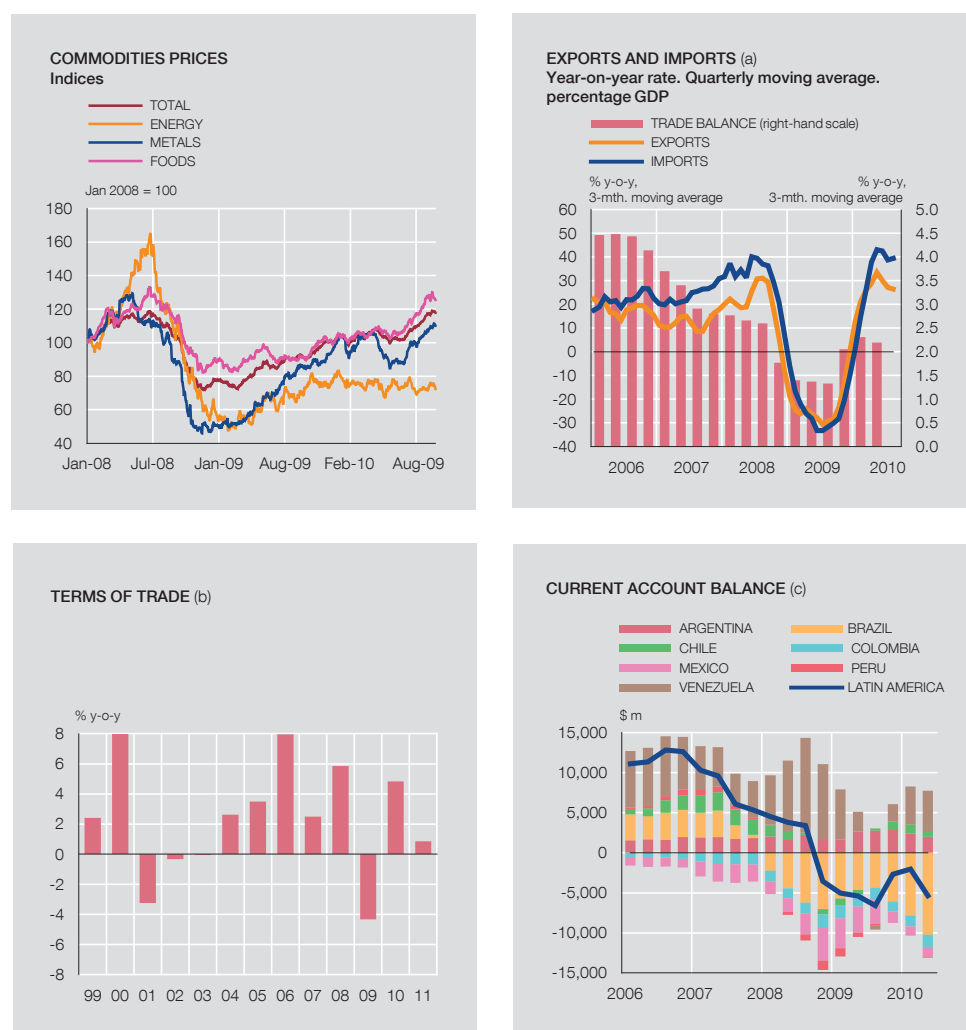
b. Eight biggest economies.

c. BNDES.

sumer credit continued to decline and formal employment held below its October 2008 level, against a background of continuous growth in shadow-economy employment.

The negative contribution of external demand to growth is another significant feature of the last six-month period. Admittedly, exports increased substantially in value, by close to 30% year-on-year, largely as a result of the rise in commodities prices, linked in turn to the robustness of Asian demand; but the buoyancy of domestic demand tended to translate into a deterioration in the aggregate trade balance, given that the growth of imports exceeded 45% in June, easing off subsequently. The trade balance has thus retained a surplus of slightly more than 2% of regional GDP thanks to the favourable impact of the terms of trade (although the balance is in deficit in Brazil and, to a lesser extent, in Mexico). Despite the poorer performance of the deficit on incomes and services, the current deficit remains very low (0.3% of GDP at the regional level in Q2). Country by country, there is a clear difference between those running a relatively comfortable current surplus (mainly Venezuela and Argentina) and those running a deficit (especially Brazil, whose current deficit of 2.2% of GDP is once again at a level unseen since 2002, following the worsening in recent quarters) (see Chart 8). In any event, in the region as





SOURCES: National statistics, IIF, central banks and Banco de España.

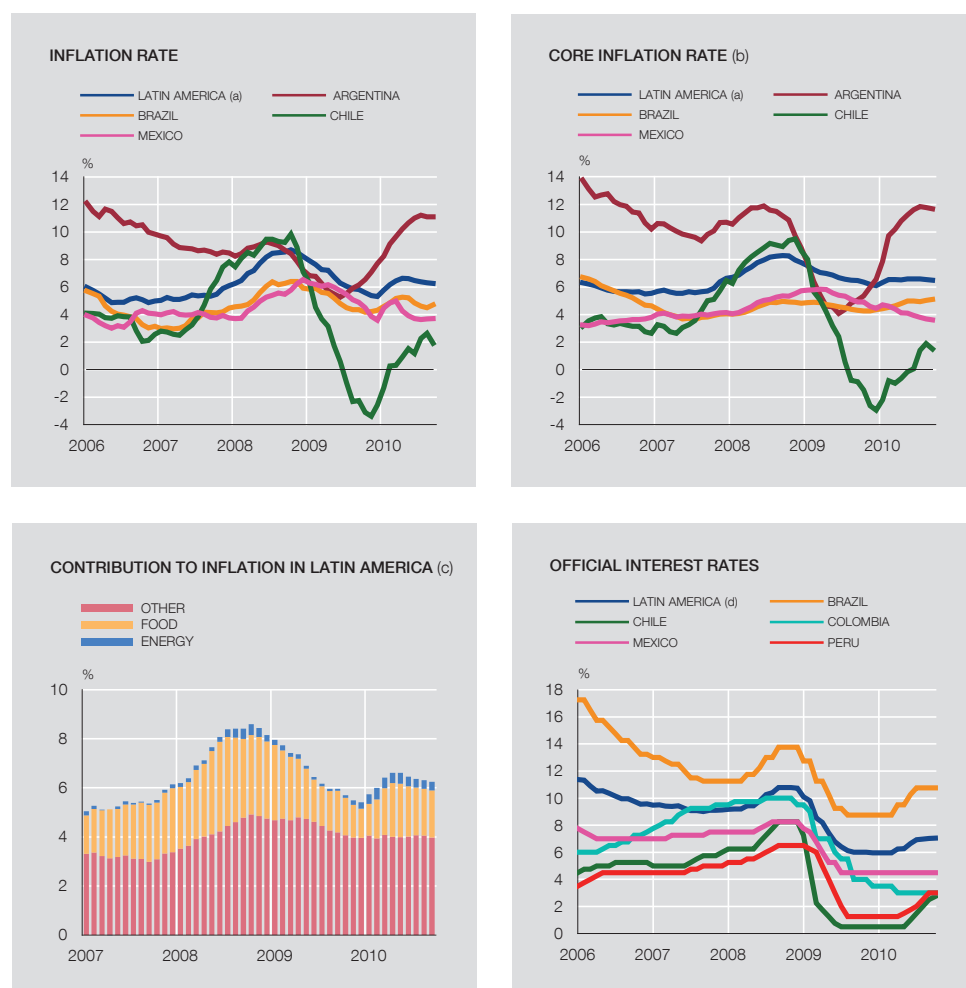
a. Customs data in dollars, aggregate of the seven biggest economies.  
b. IIF data and estimates.  
c. Four-quarter moving average.

a whole the sharp inflow of capital is allowing the current deficit to be comfortably financed and, moreover, it is accentuating the build-up in reserves.

The higher frequency indicators for Q3 point to some slowing in activity at the regional level, partly as a result of a less favourable base effect, but also due to the moderate tightness of monetary policy in certain countries. Accordingly, the cyclical peak in year-on-year growth rates might already have been reached in Q2. Chile (where the impulse of post-earthquake reconstruction has yet to be felt) and Venezuela (where rates could turn positive) would be the main exceptions to this general trend.

## Prices and macroeconomic policies

After having risen in the period to Q2, average inflation for the region tended to stabilise at a year-on-year rate of 6.3% in August and September, generally performing better than expected, though with significant differences from one country to another. This stabilisation reflected the easing in the growth of food and, to a lesser extent, of energy prices, and the maintenance of the prices of other components (which would be a proxy for core inflation)



SOURCES: National statistics and Banco de España.

- a. Aggregate of the seven main economies.  
b. Official rates.  
c. In-house calculation stripping out the food and energy indices from the overall index.  
d. Weighted average of the official rates of the five countries with inflation targets.

(see Chart 9). In the main economies with inflation targets (Brazil and Mexico), consumer prices converged towards the central bank targets; in Brazil inflation stood at 4.7% year-on-year in September, having slipped by 0.5 pp in relation to the start of the year, and in Mexico at 3.7% year-on-year, 1.3 pp down on the level at the start of the year. The main difference between both is that in Mexico core inflation also fell and, by contrast, in Brazil it held stable, although relatively high. In Chile, Peru and Colombia, prices moved on a more uneven path (upwards in the first two countries, and downwards in the latter), but the three countries also held in their target ranges (see Table 2). Only in Argentina was there an appreciable acceleration in the official inflation rate, to over 11% year-on-year (other measures place inflation far above this level), while in Venezuela inflation remained very high at around 30%.

Against this background, three of the region's central banks with inflation targets raised their official interest rates. Brazil initiated the cycle of rises in April, raising rates by 200 bp to August (up to 10.75%). It was followed by Peru in May (which shaved 175 bp off to September, when it initiated a pause) and by Chile in June (225 bp). In Mexico and Colombia, official rates held stable against the backdrop of more accommodating output gaps.

The global economic and financial crisis affected Latin America through various channels, giving rise, *inter alia*, to a sharp contraction in credit to the private sector during 2008 Q4. This contraction proved, however, relatively limited in time and tended to ease off over the course of 2009 and 2010. One of the factors behind this favourable development was the increased activity of public banks (and, in particular, of development banks), on which most of the credit-stimulus measures adopted by Latin American governments were centred. This box compares the role of public banks in Brazil, Chile and Mexico, the Latin American countries where they were most relevant in terms of the provision of credit to the private sector during the crisis.<sup>1</sup> Following a brief review of the stimulus measures, public banks' activity is compared with that of domestic and foreign private banks during the crisis. Some conclusions are then drawn from the com-

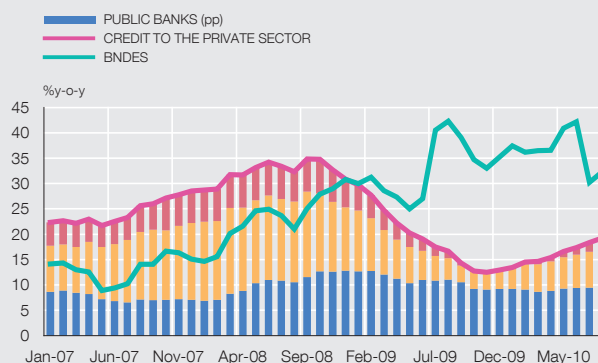
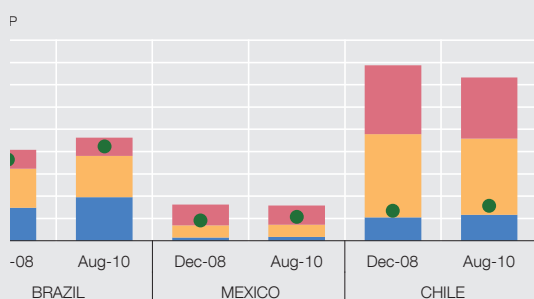
parison and some of the main risks looking ahead are considered.

Firstly, it should be stressed that the countercyclical action of public banks in Latin America was possible thanks to their significant presence in the countries under study (see Panel 1). But there are considerable differences across the countries in this respect. The presence of public banking has traditionally been greater in Brazil, where credit to the private sector granted by the development bank BNDES and the two major public commercial banks (Banco do Brasil and Caixa Econômica Federal) accounted before the crisis for 36% of the total credit to the private sector (15% of GDP). In Mexico and Chile, the significance of public banking has been relatively more limited, although prior to the crisis public banks accounted for no small part of the total credit to the private sector, 9% and 13% (equivalent to 1.5% and 10.5% of GDP), respectively.

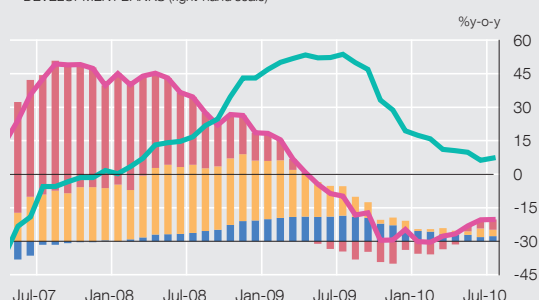
1. Other countries, such as Argentina and Venezuela, also have a significant public banking sector, but their function in providing credit to the private sector was less significant during the crisis.

Of the three countries, it is Brazil where public banking was of most importance in sustaining credit to the private sector during the crisis. In the period from late 2008 to early 2009, the resources of the devel-

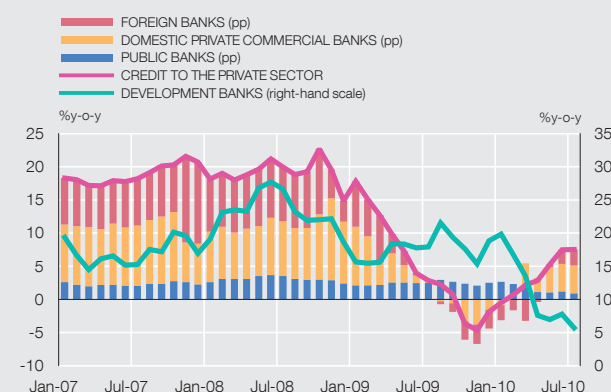
PUBLIC BANKS  
CREDIT FROM PUBLIC BANKS/TOTAL CREDIT



FOREIGN BANKS (pp)  
DOMESTIC COMMERCIAL BANKS (pp)  
PUBLIC BANKS (pp)  
CREDIT TO THE PRIVATE SECTOR  
DEVELOPMENT BANKS (right-hand scale)



4 CHILE



Banco Central de Brasil, Comisión Nacional Bancaria y de Valores de México, Superintendencia de Bancos e Instituciones de Chile and Banco de España.

opment bank BNDES were increased by 100 billion reales (3.2% of GDP), followed by an additional equivalent contribution of 2.3% of GDP in the first half of 2010. The increase in resources, in both cases through extraordinary contributions by the Treasury<sup>2</sup>, allowed the size of the bank to practically double, thereby reinforcing its habitual activities (the granting of long-term credit, commercial loans to SMEs, and investment in capital goods and exports). Throughout 2008 Q4 and 2009 Q1, measures were also adopted to boost the activity of the public commercial banks. As a result, the growth rate of credit from development banks to the private sector exceeded 30% year-on-year during 2009, with highs in excess of 50% (see Panel 2). As it coincided with a period in which other banks' provision of credit eased off significantly, more than 80% of the credit to the private sector in late 2009 was extended by public banks, while private commercial banks cut their contribution strongly and the contribution of foreign banks fell to zero. As a result, thanks to the contribution of public banks, and although total credit to the private sector slowed (from a very high rate of over 30% year-on-year before the crisis), it did not actually contract and held at a positive growth rate of around 10% year-on-year in early 2009, before picking up again.

The significance of development banks also increased in Mexico during the crisis (see Panel 3). From June to August 2009, credit to the private sector extended by development banks posted a most considerable rate of expansion of close to 60% year-on-year. However, given their lesser importance in the Mexican banking system, development banks' contribution was more limited in sustaining aggregate credit. The increase in activity derived from two stimulus plans: one in October 2008 and the other in January 2009. These included increases in resources (in particular to Nacional Financiera and Bancomext) to support credit and ease credit constraints on specific productive sectors that had faced difficulties in gaining access to funding, such as SMEs, the agricultural sector, housing and infrastructure. The positive growth rates exhibited by public banks are in contrast to the contraction in credit from foreign banks and the stagnation in credit from domestic private banks, but their lesser weight was unable to prevent total credit to the private sector from declining from a year-on-year growth rate of 25% before the crisis to a rate close to 0% during 2009.

Finally, the countercyclical fiscal and monetary policies pursued in Chile exerted greater effects during the crisis, although the role of development banks proved less decisive. Of note, however, was the reinforcement of the role of the CORFO (Chile's Production Develop-

ment Corporation) and, in particular, the \$500 million capital increase at the development bank BancoEstado approved in November 2008, and completed during 2009 (the equivalent to a capital increase of 50%) which, as in Brazil and in Mexico, enabled credit to preferential sectors (SMEs, exporters, housing<sup>3</sup>) to be increased. Further to these measures, credit from development banks to the private sector posted growth of around 20% year-on-year, in clear contrast to developments at private commercial banks (both domestic and foreign), which recorded notable declines. Nonetheless, as in Mexico, this boost translated into a relatively small contribution to credit growth at the height of the crisis, which did not manage to prevent a significant contraction in total credit to the private sector (see Panel 4).

In sum, in the three countries under study, and as a result of the stimulus measures adopted, public banks took on a leading role after the global economic and financial crisis. Their dynamism coincided with a significant easing off of the activity of private commercial banks and, in particular, of foreign banks. One notable difference between Brazil (on one hand) and Mexico and Chile (on the other) regarding the behaviour of development banks concerns their size and, therefore, their capacity to impact credit to the private sector, and this capacity was far greater in Brazil than in the other two countries. The other essential difference lies in the fact that whereas in Mexico and Chile public banks' activity may be considered strictly countercyclical, since it accelerated during the financial crisis and eased as credit from private banks picked up, in Brazil it maintained its pace of activity throughout 2010, despite monetary tightening by the central bank, the strong expansion in the economy and the pick-up in credit from private banks. In this respect, although the role played by public banks during the crisis should be viewed positively, their activity poses risks and questions in a setting in which economic activity resumes a normal footing. One such risk is the potential increase in bad debts arising from a rapid growth in credit. Others will be the risks of competition with private commercial banks, the possibility of credit market segmentation and, in some cases, greater inefficiency. In Brazil's case, where development banks' activity has been more extended over time, potential risks of procyclicality and of conflict with monetary policy conduct arise, in addition to the growing quasi-fiscal cost derived from the subsidised nature of the credit.<sup>4</sup> Lastly, the reaffirmation of the role of public banking after its favourable impact during the crisis once again highlights the problems generally associated with this type of activity.

2. Traditionally, the main source of resources for BNDES has been the unemployment fund (FAT by its Portuguese acronym). However, the extraordinary contribution by the Treasury, by means of public debt issues, has converted it into the main source of funding.

3. Development banking also played a relevant role in the initiative, unveiled in March 2009, to boost bank and non-bank credit. 4. The injection of resources into the BNDES creates a fiscal cost for the Treasury, which might amount to around 0.3 pp of GDP per annum. Treasury resources are remunerated at a long-term interest rates that stands at 6%, and the average cost of the Treasury's internal debt is around 11% at present.

Country	2010			2011	
	Target	September	Expectations (a)	Target	Expectations (a)
Brazil	4.5 ± 2	4.7	5.3	4.5 ± 2	5.0
Mexico	3 ± 1	3.7	4.6	3 ± 1	3.9
Chile	3 ± 1	1.9	3.7	3 ± 1	3.2
Colombia	3 ± 1	2.3	3.1	3 ± 1	3.8
Peru	2 ± 1	2.4	2.7	2 ± 1	2.5

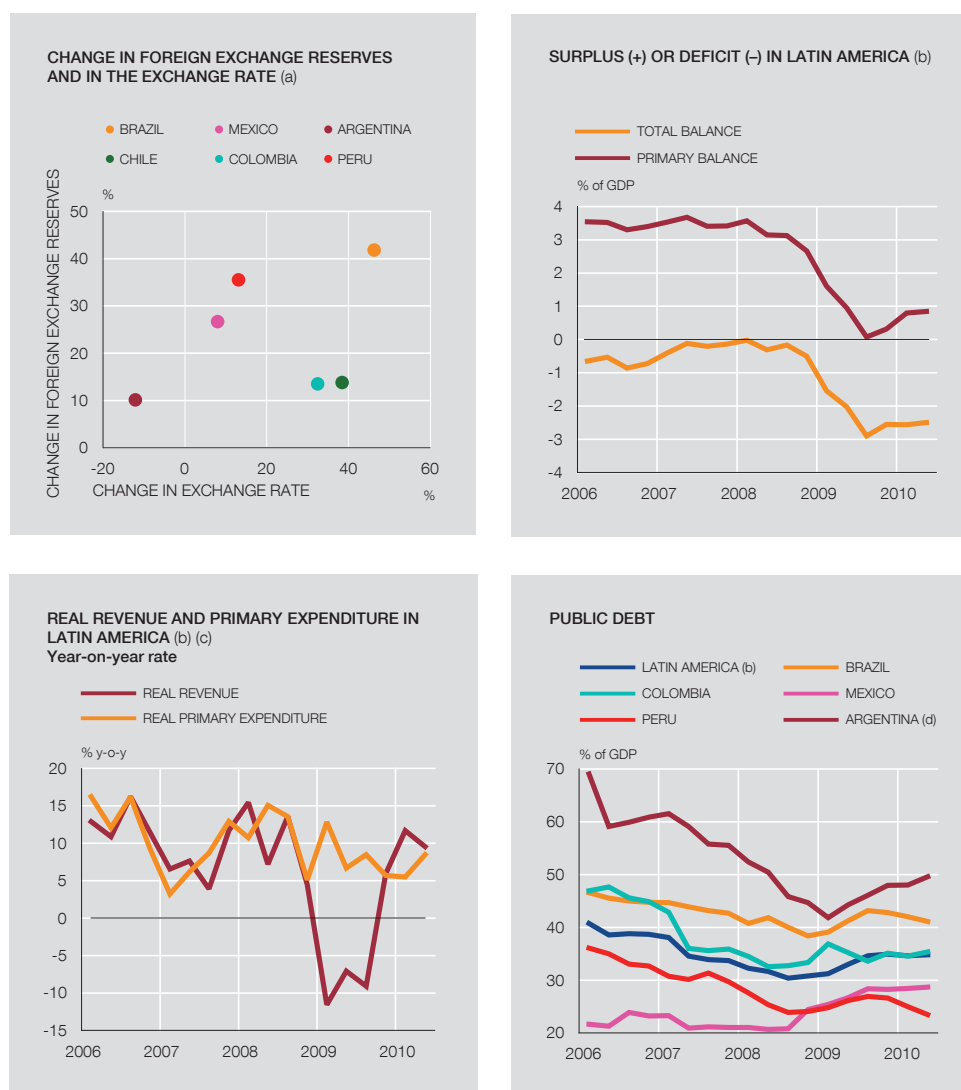
SOURCES: National statistics and Consensus Forecasts.

a. Consensus Forecasts September 2010 expectations for the end of the year, as for target.

Both the improvement in the inflation performance as from April in Brazil and the tightening of monetary policy in Brazil, Chile and Peru contributed to improving inflation expectations in these countries, following the deterioration in the first half of the year. However, from a longer-term perspective, recent price developments give rise to several considerations. First, it should be stressed that inflation has generally been moderate, at a time of high growth and progressive closing of output gaps. Further, commodities prices, which are traditionally a major determinant of consumer price pressures in Latin America given its status as an exporting region, have not prompted greater tensions in this period, despite their rising trend (more than 25% since the start of the year in the case of the food price index, and 20% in that of the overall commodities prices index). Admittedly, these increases pass through with some delay to consumer prices and may have been partly contained by the rising trend of the Brazilian, Chilean and Colombian currencies, but perhaps not in their entirety. Moreover, fiscal and quasi-fiscal policies (e.g. public credit) have not adopted, in practically any of the countries, a clearly restrictive stance (see Box 2). Finally, despite the tightening of monetary policy in the three countries, real interest rates have remained extraordinarily low in historical terms, and even lower in Mexico and Colombia. All these factors would suggest that, despite the favourable recent performance, the risks to inflation might be on the upside in most other countries, against the background of pressures on the domestic demand side. Nonetheless, given that expectations have remained relatively well-anchored, consideration has been given in Brazil – as it might also be in other countries in the region, such as Chile and Peru – to the possibility that there has been a structural change that allows inflation-free growth with lower real interest rates than in the past.<sup>5</sup> The concerns over the appreciation of the exchange rate and over the expansionary effects of short-term capital inflows act as a deterrent to any further tightening of monetary policy, all the more so when US real interest rates have remained so low.

In the economies without inflation targets, monetary policies continued to evidence an expansionary bias, which translated into persistently high inflation rates. The Argentine central bank relaxed its monetary targets in August, despite the overheating economy. It raised its growth target for M2 by more than 10 pp, to 29.4% at the end of the year, which in practice entails

5. There is great uncertainty surrounding the neutral real interest rate, given its non-observable nature, but the central bank highlights the reduction in the real interest rates over recent years (currently at around 5%) and various structural changes in the Brazilian economy that would point to a reduction in this variable. These changes include most notably the increase in domestic saving in the economy, through the reduction of debt by means of primary surpluses, and the economy's greater attractiveness to external saving, owing to the reduction in sovereign risk. Also of note is the development of financial markets and the improvement in monetary policy transmission.



SOURCE: National statistics.

- a. Change in reserves from December 2008 to September 2010. Change in the exchange rate between the minimum recorded in 2008 Q4 and the average rate for September 2010.  
b. Seven biggest economies  
c. Deflated by the CPI.  
d. Excludes untendered debt in the debt swap offer of 2005

accommodating a higher level of inflation. In Venezuela, the January devaluation translated into a further quickening in inflation, to 32%.

Turning to fiscal policy, probably the key aspect has been the improvement in the primary balance in the region as a whole, reversing the trend of the two previous years. This is the result of the pick-up in public revenue (see Chart 10), since the growth rate of expenditure generally remained very high. This was the case for Argentina, Brazil (despite the pre-election freeze on expenditure amounting to 0.3 pp of GDP), Chile and Peru (which also set spending ceilings). One exception is Mexico, where the budget deficit widened to 2.3% of GDP (the primary deficit was 0.1%), against the background of widespread sluggishness in revenue (except oil-related receipts) as a result of the cycle, and despite the moderation in spending. That said, and unlike the other countries, Mexico's fiscal policy stance remains moderately restrictive in the budget for 2011.

## **Trade integration and structural policies**

The highlight of trade integration processes in Latin America in 2010 to date – in a setting of prolonged stagnation – has been the agreement to finalise the drafting of the common customs code in Mercosur, following more than four years of delay, and a timeframe for the elimination of the double charge under the Common External Tariff. The Andean Community (CAN) continues to face serious obstacles, insofar as one of its members (Venezuela) might join Mercosur; a further two members (Peru and Colombia) have kept up their strategy of re-orienting their foreign trade, especially towards the Pacific basin, using bilateral agreements; and the remaining members (Ecuador and Bolivia) did not join negotiations with the United States and the EU. During the period under study, Peru initiated talks with South Korea, Japan and Panama; and further, on 1 March the agreement entered into with China in late 2009 came into force. Peru and Colombia reached a free trade agreement with the European Union in early March 2010, which was ratified at the joint May summit. Colombia, meantime, initiated negotiations with Korea and ratified an agreement with Canada, pending approval by the US Congress of the free trade treaty between both countries. Chile signed a free trade agreement with Thailand, and Costa Rica reached agreements with Singapore and China. Finally, in mid-August Mexico announced an increase in various tariffs on US imports, in response to the suspension of an agreement for the provision of Mexican transport services in the United States.

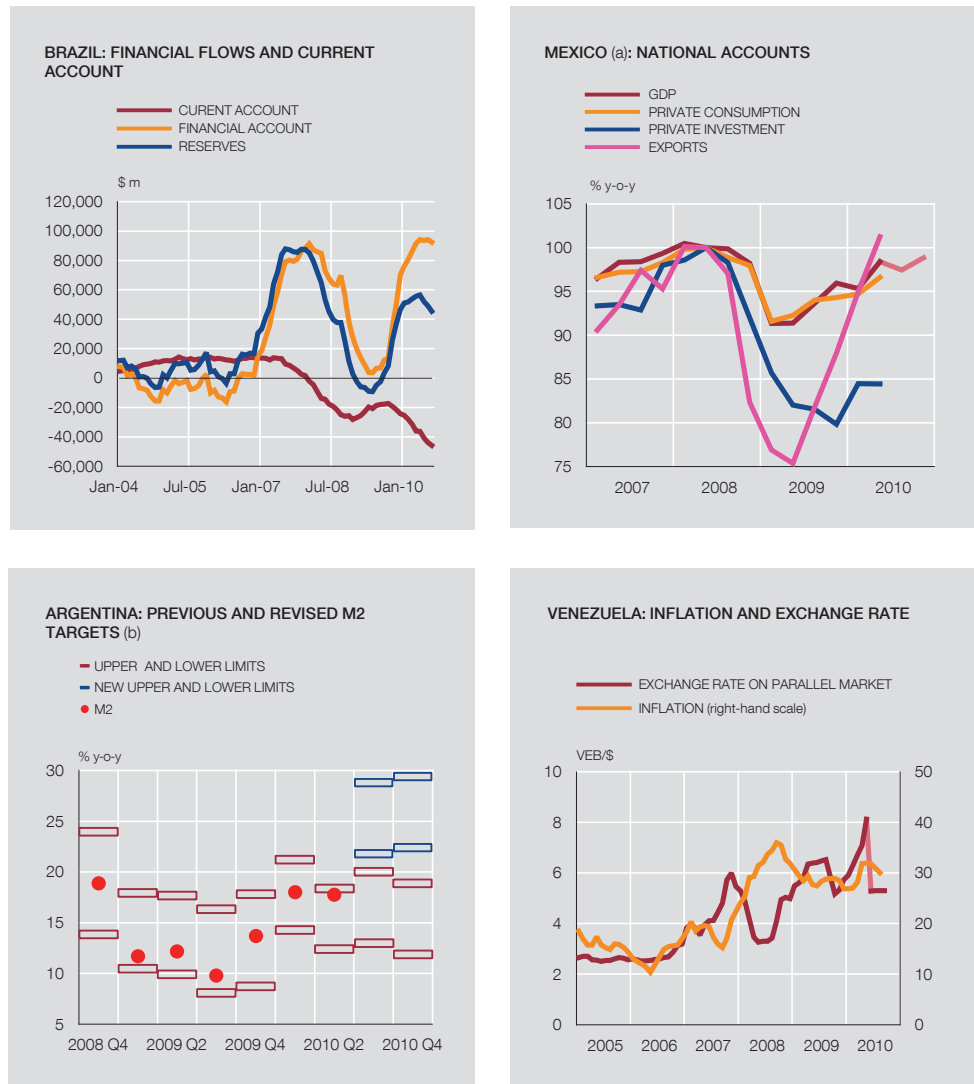
As regards structural reforms, a fiscal rule was approved in Colombia whose aim is to reduce debt to levels consistent with an investment grade credit rating (28% of GDP within 10 years), in addition to successfully pursuing a fiscal policy insulated from the business cycle and managing the foreseeable expansion in the oil sector in the coming years, easing its macroeconomic and fiscal effects, and reflecting inter-generational equity considerations. To achieve the first goal a structural primary balance target was set for the public sector at 0.6% of GDP between 2010 and 2020. Further, an implicit target was set for structural saving from oil revenues, which will be geared to reducing debt, and may be the basis for a future saving fund.

Along the same lines, Chile set up an advisory committee to amend the calculation methodology on which the structural fiscal rule is based. The committee's recommendations (basically, not to adjust on the basis of discretionary measures applied by the authorities and not to adjust the valuation of public assets for cyclical changes) will be incorporated into the 2011 budget.

In Venezuela, the government maintained its policy of expropriations and approved, at the tail end of the legislature, several laws changing the *modus operandi* of the country's financial system, granting greater discretionality to the public sector and providing for the financing of its projects. Finally, Ecuador passed new hydrocarbons legislation entailing the replacement of contracts with private oil corporations, which become service providers, in a similar fashion to what occurred in the Bolivian gas industry.

## **Economic developments by country**

In *Brazil*, the high rate of expansion in the economy in 2010 Q1 stepped up to 2.7% in quarter-on-quarter terms, driven by the strong growth of domestic demand, and in particular of investment. There was a significant slowdown in Q2 but, even so, GDP posted a growth quarter-on-quarter growth rate of 1.2%. Thus, after five quarters of strong expansion, the economy grew at a year-on-year rate of 8.8% in Q2, only 0.2 pp down on Q1. The latest economic indicators point to some moderation in the pace of expansion in the second half of the year, although rates should remain high, in a setting of accommodative fiscal and credit policies and a buoyant labour market. In the light of this dynamism, and of the increase in inflation to May (5.2% compared with the same month a year earlier), the central bank continued with the tightening of monetary policy initiated in April; it raised the official interest rate by 75 bp and 50 bp at its June and July meetings, placing it at 10.75%, a rate that held unchanged at its August and



SOURCES: INEGI MEXICO, Banco Central de Venezuela, and Banco Central de Argentina.

a. 2008Q2 = 100. The dotted line is the forecast of the Banco de México's August 2010 survey.

b. Quarterly targets setting a range for the average levels of total M2 for the last month of each quarter.

c. The market closed on 18 May, to reopen on 9 June.

September meetings, following three months of moderation in price growth. The central bank justified this pause on the basis of the possible reduction in the neutral interest rate (that consistent with target inflation) in recent years and of the recent slowdown in activity, although the appreciation of the country's currency might also partly explain this decision. The financial capacity of the BNDES development bank was further strengthened, and its interest rate was moreover held at 6%. In the fiscal realm, the gradual and slight improvement in the public-sector primary surplus continued, thanks to the higher growth of central government revenue in relation to spending, giving rise to a cumulative 12-month primary surplus of 2% of GDP in July. Nonetheless, this figure remains below the official target of a primary surplus of 3.3% in 2010, despite the economy's dynamism, from which a procyclical stance may be inferred. The primary surplus target for 2011 is 3.2%. The strong dynamism of domestic demand has led to a deterioration in the trade balance which, combined with the widening deficit on incomes and services, has given rise to a bigger current deficit (see Chart 11), placing it at 2.3% of GDP in the 12 months to August. Sizeable capital inflows were also recorded in recent months,



largely in the form of portfolio investment, translating into a notable appreciation by the exchange rate to a high for the year. In this setting the build-up in reserves – the stock of which totalled 261.3 billion in August – continued, the tax on financial transactions was raised from 2% to 4% and subsequently to 6% for fixed-income investment inflows in October, and the Brazilian sovereign wealth fund was authorised to make foreign-currency-denominated asset purchases.<sup>6</sup> The PT candidate (Dilma Rouseff) won the first round of the presidential elections in early October, with a programme that retains the guiding principles of the economic policy of recent years.

In *Mexico*, activity grew at a high rate in year-on-year terms in the first half of 2010, posting rates of 4.3% and 7.6%, respectively, in the first two quarters of the year. Notwithstanding, much of the growth may be attributed chiefly to a statistical effect arising from very low levels of comparison in the first half of 2009, in a setting in which the main national accounts variables remained below pre-crisis levels (see Chart 11). Indeed, in Q1 the quarter-on-quarter change was negative (- 0.6%) and in Q2, although growth was much higher (3.2% quarter-on-quarter), it was largely due to the inventory cycle. Mexico was the only country in which external demand made a positive contribution to growth in the two quarters, although this contribution was small (0.4 pp). This was a consequence of the fact that, although imports posted high growth rates, exports rose even more. The higher frequency data published in 2010 Q3 would suggest a slight slowdown in the economy as a result of the deceleration in the manufacturing sector and in exports to the US market. Set against this persistently high negative output gap, the inflation rate, which had risen to a high of 5% in March 2010 as a result of the rise in VAT, eased substantially and dipped to 3.7% in September. Core inflation had been declining for a few months previously, and posted a rate of 3.6% in September. The central bank held its official interest rates at 4.5% and the yield curve is not discounting movements in the coming quarters. Public finances worsened slightly in the first half of the year compared with the same period a year earlier as a result of the decline in non-tax revenue (owing to the stripping out of the profits transferred in April 2009 by the central bank to the Treasury further to the exchange rate depreciation and the revenue arising on the hedging of oil prices). It was not possible to offset this decline with the increase in tax revenue arising from VAT takings. The budget for 2011 maintains the austerity characterising 2010, with a 2.3% increase in expenditure and a deficit of 0.3%, although no fiscal reform is included. Regarding the external sector, the current account balance in the first half of 2010 posted a deficit equivalent to 0.2% of GDP, lower than in the first half of 2009. The financial account ran a surplus, in which inward foreign direct investment and portfolio investment, mainly in the form of bonds, were prominent. To address the return of portfolio flows, the monthly auctioning of dollar sale options was maintained, for an amount of 600 million, this instrument being reactivated last February. As a result, international reserves reached a high of \$108 billion in late September. Finally, fluid access to the international markets was maintained, and in the first week of October Mexico successfully placed \$1 billion in a 100-year bond (the first country in the region to do so) at a relatively low cost.

Economic activity in *Argentina* exhibited similar growth rates to those prior to the financial crisis during the first half of 2010, despite the fact that the output gap was already considered to have closed. Quarter-on-quarter growth thus stood at around 3% in both quarters, and the related year-on-year rate rose to 11.8% in Q2. Of note was the growth in domestic demand (13.6% in Q2), the result of strong growth in investment (especially in capital goods) and of buoyant private and government consumption. The contribution of the external sector once again turned negative, especially in 2010 Q1 (2.9 pp). This sound behaviour of

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6. Although this is not specified, the sovereign wealth fund will issue local-currency-denominated debt to finance these acquisitions, so as to make its interventions similar to the sterilised central bank interventions involving dollar purchases.

economic activity is the consequence of the pick-up in agricultural yields in 2010, of the growth in Brazil (especially for the automobile industry) and of the expansionary stance of monetary and fiscal policy. The higher frequency indicators suggest that growth will moderate in the second half of the year. The cumulated 12-month primary public surplus rose progressively, up to 1.7% of GDP in Q2, owing to the increase in revenue, since public spending continued to rise at a higher rate (of around 30%). Inflation has remained on an unfavourable course, increasing strongly in recent months. Indeed, although official inflation stands at around 11% in September (a 5-year high), wage settlements are coming in at around 25%, and the government raised the intervals of the different tax brackets by 20%. In addition, the central bank pursued a more expansionary monetary policy, updating the monetary programme targets for the second half of 2010 (see Chart 11), given the higher nominal growth expected for the economy. Further evidence that monetary policy has been more expansionary is the downward trend of real interest rates, since nominal rates have held stable despite the inflationary rebound. In the financial arena, a swap involving a portion of the public debt in default since 2001 was carried out in late June, 66% of it being taken up (\$12 billion of the \$18.3 million eligible). With this swap and that in 2005, 92.4% of the debt declared in default in 2001 has been covered, which has prompted a notable reduction in the probability of default of public debt (obtained from the prices implicit in Argentine financial assets) and the upgrading of the Argentine government's foreign-currency-denominated sovereign debt rating by two credit rating agencies, although the rating is still far off investment grade. A further notable development was the announcement by the government of the creation of a Federal Disindebtedness Programme, which will entail significant financial relief for the provinces, which will discontinue payment of their debts to the central government until end-2011 and may reschedule them with 20-year maturities. Despite the fact that a portion of the reserves was used to service foreign-currency-denominated debt, low private-sector capital outflows together with the favourable behaviour of the current account allowed international reserves (sterilised with Treasury bill issues by the central bank) to be built up to a historical high, while the exchange rate of the peso against the dollar held on a slightly depreciating trend.

In *Chile*, activity picked up more quickly than foreseen following the earthquake in late February. During Q2, GDP increased by 4.3% in quarter-on-quarter terms (after having declined by 1.5% the previous quarter) and by 6.5% year-on-year (1.5% in Q1). There was an exceptional increase in domestic demand, which expanded in Q2 at a year-on-year rate of 19.4%, from an already-high figure of 11.8% in Q1. This growth was particularly due to investment (specifically in capital goods), although private consumption also expanded forcefully. Investment in construction is expected to rise in the coming quarters, owing to reconstruction work following the earthquake. The contribution of the external sector to growth turned negative in the first half of the year and, moreover, reached a high level (over 10 pp in each quarter). This was a result both of the strong growth in imports and of the adverse trend of exports, although the latter tended to pick up in Q2 following several quarters of decline. This performance also contributed to the virtual elimination of the current account surplus (0.1% in Q2). The higher frequency indicators suggest that the high growth was maintained in Q3. Turning to the fiscal area, revenue increased by 46% year-on-year in real terms during the first half of the year, the result of the buoyancy of domestic demand and of the increase in copper prices, which led to a notable reduction in the budget deficit. The new government reported that the structural fiscal deficit in 2009 was not 1.2% of GDP, but 3.1%, further to certain corrections in the calculation methodology proposed by the Structural Balance Sheet Advisory Committee, set up to improve the functioning of the Chilean fiscal rule. Accordingly, fiscal policy in the coming years will be more restrictive than previously thought, and the new government has renounced attaining a balanced budget in terms of the structural

balance of the end of its mandate. Inflation continued to increase (2.6% in August), albeit at a lower than expected pace and with its underlying components trending favourably. Despite this relatively benign trajectory, the central bank embarked on a process of official interest rate rises (225 bp, to 2.75%, following the September monetary policy meeting), with the aim of lessening the looseness of monetary policy after the 775 bp reduction in 2009. Further, as part of its financing strategy for the reconstruction programme, the Chilean government issued dollar-denominated 10-year bonds on international markets, for the first time since 2004, along with peso-denominated bonds, this being the first issue by the Chilean state in local currency on international financial markets. In recent months the peso has appreciated significantly in nominal terms against the dollar, a development linked to the increase in copper prices, to the rise in official interest rates, to the greater relative surprises in growth, to the funds flowing into the country further to the reconstruction drive, and probably also to global factors. Lastly, in June Moody's raised the rating of Chilean foreign-currency-denominated sovereign debt a notch higher.

Recovery firmed in the *Colombian* economy in the first half of 2010, with year-on-year growth of 4.3%, driven by the acceleration in all domestic demand components except investment, which continued growing at a similar rate to that in the second half of 2009. The favourable trend of stockbuilding was another of the explanatory factors. The notable buoyancy of imports, especially in Q2, accounts for the negative contribution (2.9 pp) of the external sector, despite the fact that exports continued to pick up, as shown by the quarter-on-quarter growth of over 5% during the first two quarters of 2010. This recovery in activity has come about in a benign environment for inflation, which has held at close to 2%, the lower limit of the central bank's target range for this year (2%-4%). In this setting of gradual inflation-free recovery, the central bank held its interest rate constant at 3%, following the last cut in April. In respect of fiscal policy, the government revised its forecast for the non-financial public-sector deficit downwards, to 3.6% of GDP in 2010, and it foresees a further reduction in the deficit in 2011 to 3%, due in part to the higher economic growth expected. A fiscal rule was unveiled to manage oil resources countercyclically, anticipating a boom in the sector in the coming years. On the side of the external sector, there was a notable improvement in the trade balance, against a background of higher nominal growth in exports compared with imports, thanks largely to an improvement in the terms of trade. This improvement will foreseeably continue in light of the resumption of diplomatic relations with Venezuela. Central bank interventions on the foreign exchange market in Q2 totalled \$20 million daily, as part of a framework of competitive auctions introduced in April. This mechanism was resumed in September, amid concerns by the authorities about the appreciation of the Colombian peso. Indeed, during the half-year period, the exchange rate continued on a rising trend (10% from late April), standing at around 1,800 pesos per dollar. Lastly, Standard & Poor's upgraded the country's sovereign debt rating a notch to "investment grade".

In 2010 Q2, GDP in *Peru* increased at a quarter-on-quarter rate of 3.1%, following the rise of 1.6% recorded in Q1, extending the sound recovery initiated in the second half of 2009. In year-on-year terms, GDP increased at a rate of 10.1% in Q2, compared with the rise of 6.1% in the previous quarter. Of note was the 11.1% growth of domestic demand during the first half of the year compared with the same period a year earlier. This dynamism is a reflection of the pick-up in private consumption, of the growth in investment and of stockbuilding at similar rates to those recorded prior to the international financial crisis, and of higher growth in consumption and in public investment. The higher frequency indicators continue to show high growth in economic activity in Q3, albeit at somewhat lower rates. The contribution of the external sector to GDP growth turned negative (close to 3 pp) during the half-year period owing to the strength of imports and to the practically zero growth of exports in real terms. Nonethe-

less, the nominal increase in exports was greater than that in imports and close to 40%, year-on-year, thanks to the improved terms of trade. During the first half of the year the current account deficit stood at 1.1% of GDP, since the trade surplus and greater remittances from abroad were more than offset by the deficit on the services and incomes balances, as the profits of foreign-held companies increased. Inflation touched bottom in December 2009 and has continued increasing (2.3% in August), give the greater dynamism of domestic demand, the disappearance of the base effect and supply-side factors, such as the prices of certain foods and, to a lesser extent, of energy products. The central bank increased the official interest rate at all its monetary policy meetings from May to September. This rate was thus raised by 175 bp to 3%. However, at the October monetary policy meeting, a pause was decided on. These increases in the official interest rate were accompanied by a series of measures that raised reserve requirements, both in national and in foreign currency. Meantime, credit continued to pick up, growing by 16.9% in August in real year-on-year terms. The fiscal impulse is holding in 2010 at a similar amount to that in 2009, although the budget deficit is declining in view of higher tax revenue and of the ceilings on public spending set by the government in order to meet its fiscal targets for 2010. In recent months, the central bank has used various instruments to check the pressures pushing the peso up against the dollar: capital controls (raising the requirements imposed on foreign loans at less than two years), dollar purchases since June (reserves increased by more than \$9 billion to September) and an increase in the proportion that pension funds may invest abroad.

In the first half of 2010, *Venezuela* was the only country in the region to record an economic contraction, of 3.5% on average compared with the related period in 2009. It picked up in Q2 when GDP grew at a quarter-on-quarter rate of 3.7% (-1.9% year-on-year). On the demand side, government consumption was once again the most dynamic component, and private consumption and investment posted negative year-on-year growth rates, but on a lesser scale than in previous quarters. After having contributed 15.7 pp to GDP growth in 2010 Q1, external demand subtracted 0.7 pp in Q2, owing to the strong contraction in exports. On the positive side, the energy crisis eased, some of the restrictions on electricity consumption were eliminated and the real monthly growth rates of credit turned positive once more in June and July, in particular credit to manufacturing companies. Inflation remained on a very unfavourable course (see Chart 11), and the rate increased substantially from January to May 2010, rising to 32% in the latter month, as a result of the devaluation of the bolivar in early January, given that bigger rises in prices were observed in food, most of which are imported. Subsequently, the inflation rate fell off slightly to 28.5% in September. As regards monetary policy, a key development was the shutdown of the parallel exchange rate market in May, so as to avoid a greater depreciation of the bolivar (which had climbed to 8.6 bolivar per dollar, compared with 5.3 under the new exchange rate system, controlled by the central bank). On the fiscal front, in the face of the proximity of general elections last September, the government raised the growth rates of public spending. Turning to the external sector, there was a reduction in the current account balance in 2010 Q2, further to the strong rise in imports. Meantime, FDI outflows remained negative for the fifth quarter running. In the general elections, the parties supporting the government obtained a majority, but not one sufficient to amend fundamental laws or to grant special powers enabling the president to govern by decree.

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## A POSSIBLE ROLE FOR ASYMMETRIC STANDING FACILITIES IN LIQUIDITY MANAGEMENT

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### Introduction

The Eurosystem's liquidity management policy was designed in such a way that money markets play a central role in distributing and reallocating the reserves injected by the central bank. Not surprisingly, therefore, the negative effects of the financial crisis, which commenced in August 2007, on the functioning of these markets led the monetary authority to modify its liquidity management policy, exploiting the opportunities provided by an operational framework designed to have a notable degree of flexibility. Given the origin of these changes, the need for them is naturally being reconsidered as normality returns to the money and financial markets. However, the experience gained in the meantime in the functioning of these modifications may be useful both for the design of the time-sequence of their withdrawal and for preparing responses in the event that some of the changes that have taken place as a consequence of the crisis prove to be more permanent in nature.

In particular, the process of recovery of market confidence in the solvency of credit institutions is proving complicated, although the recent publication of the results of stress tests has had a notable accelerator effect. The normalisation of the money markets is thus taking place rather gradually. Moreover, it is unlikely that the assessment of risk, in general, and of liquidity risk in particular, that the banks eventually make at the end of the crisis will be at pre-crisis levels. Both considerations make it reasonable to assume that the Eurosystem will continue over the coming months – and perhaps a longer period – to face a higher demand for reserves than before the crisis.

The ongoing provision of large volumes of reserves poses challenges not only in the area of the management of this liquidity (e.g. the maturities it is provided at), but also, for example, in the management of the risks associated with the collateral that the institutions provide for the Eurosystem liquidity loans and in terms of the financial market distortions that may arise if collateral requirements lead banks to demand some types of assets more than others, because the latter are not accepted by the central bank in its monetary policy operations. However, the extent of these challenges will depend crucially on the duration and scope of this greater demand.

Against this background, this article analyses the role that the standing facilities provided for in the Eurosystem's operational framework (the marginal lending facility and the deposit facility) could play in regulating institutions' demand for reserves. The analysis is performed in three stages. First, the role of standing facilities within the context of the operational framework for the implementation of monetary policy and liquidity management is briefly described. Then, the main changes made to this framework in response to the crisis are highlighted. Finally, a theoretical framework is constructed in which a change in the interest rates on the standing facilities to make an asymmetric corridor around the policy rate may reduce the demand for reserves.<sup>1</sup>

### Standing credit and deposit facilities

The operational framework of monetary policy in the euro area consists of all the instruments and procedures that the Eurosystem has at its disposal to achieve price stability. A basic ele-

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1. This article is a summary of Banco de España Working Paper No 1004 *Asymmetric Standing Facilities: An Unexploited Monetary Policy Tool*, by Gabriel Pérez Quirós and Hugo Rodríguez Mendizábal.

ment of these arrangements is the control of short-term interest rates. There are numerous references describing both the tools to control interest rates [see ECB (2008) for a general description of the operational framework] and their eventual repercussions on prices and real activity [see, for example, the papers on the Monetary Transmission Network, summarised in ECB (2002), Angeloni et al. (2003) and ECB (2010)].

The mechanisms for controlling interest rates include standing facilities: the marginal lending facility and the deposit facility. Banks with excess reserves can deposit their excess reserves and obtain a return, which is set by the monetary authorities, normally at below market rates and below the policy interest rate. The interest rate on this facility currently stands 75 basis points below the interest rate on main refinancing operations. Likewise, banks that require reserves can have recourse to the marginal lending facility and obtain financing by paying an interest rate above the market rate and the policy rate (currently 75 bp above the interest rate on main refinancing operations).

Obviously, the Eurosystem could have complete control over short-term market interest rates by reducing the width of the corridor formed by the interest rates on its standing facilities to zero: no bank would pay a higher rate in the market than that on the lending facility, nor would any bank be prepared to lend its surplus cash at a lower rate than that on the deposit facility). But the operational framework of the Eurosystem is designed with a “market” orientation, insofar as the interbank market itself determines the level of short-term interest rates, the task of the central bank being to provide liquidity to ensure that the interbank interest rate is sufficiently close to the interest rate on the main refinancing operations.

Given that the return obtained on the deposit facility is lower than that obtained from interbank market lending, even with collateral, it is costly for banks to build up reserves in deposit facilities. Accordingly, the use of these facilities is an indication of the degree of confidence of the latter in money markets as a source of liquidity. Before August 2007, the limited use of standing facilities showed that credit institutions could find liquidity much more easily in the interbank market and were also easily able to find counterparties for any cash surpluses. Moreover, most transactions were carried out at the end of the maintenance period when the bank knew its liquidity requirements quite accurately and, although the law of one price did not strictly hold – among other reasons, because each bank normally had various counterparties [see Gaspar, Pérez Quirós and Rodríguez Mendizábal (2008)] – the rate differentials between one bank and another and between the types of transactions without collateral and those on the collateralised market (repos) were small. The problems of excess demand or supply that arose at times were associated with technicalities in the functioning of the market, not with fundamental failures of confidence on the part of the banks in their ability to satisfy their liquidity requirements in the markets.

### ***The financial crisis and liquidity management***

From August 2007, the progressive loss of confidence among financial intermediaries reduced the ability of the interbank market to redistribute the liquidity injected by the Eurosystem to practically zero. The difference between the interest rates on uncollateralised and collateralised operations rose to completely unprecedented levels (see Chart 1) reflecting the reluctance of banks to lend to each other in the absence of security. In the face of a crisis of confidence of this magnitude, the market fragmented very easily and rapidly.

The Eurosystem responded to this situation by making some important changes to its arsenal of monetary policy and liquidity management instruments. On 8 October 2008, in addition to lowering the interest rates on the main refinancing operations, the ESCB reduced the width of





SOURCE: ECB.

the corridor between the lending and deposit facility rates from 200 to 100 bp<sup>2</sup> and decided that the main refinancing operations would be at a fixed rate and with full allotment.

As a result of these changes the Eurosystem not only assumed the role of liquidity provider of last resort, but also the role of redistributing liquidity, which was previously performed by the market. Banks needing liquidity began to make heavy use of main refinancing operations in order to secure their reserves, while those with a long position in liquid funds resorted to the deposit facility in order to obtain a return on such reserves. As can be seen in Chart 2, at the end of September 2008 the use of the deposit facility as a percentage of reserve requirements had increased from levels of close to zero to fluctuate at around 100%, with highs of over 180%.

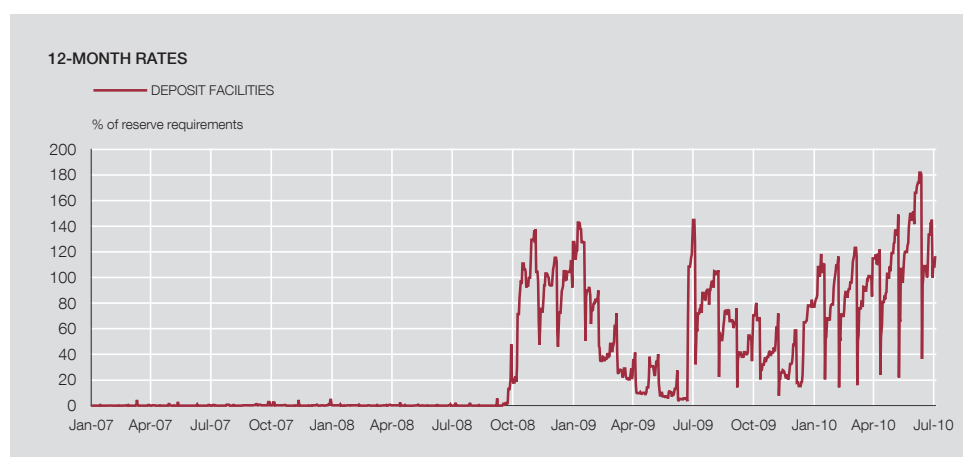
### ***Standing facilities and the demand for reserves***

Having briefly reviewed both the role of standing facilities and the strains in the money markets since the start of the crisis, this section outlines a scheme that reproduces the fundamental elements of the operational framework of monetary policy to enable the role performed by the interest rates on standing facilities in credit institutions' demand for reserves to be analysed.

This scheme consists of a set of credit institutions and a central bank with three instruments. The first instrument is a reserve requirement: the amount of reserves held by the credit institutions in their current accounts at the central bank cannot be negative at the end of the day and, over a specific period (known as the "maintenance period"), their cumulative amount cannot fall below a certain amount determined beforehand. The second instrument is the main refinancing operations (MROs), by means of which the central bank injects reserves into the system. In this scheme, the MROs are conducted at a fixed rate and with full allotment (i.e. all the reserves that the banks demand are supplied, at a single fixed interest rate determined by the central bank). To simplify the analysis, without any effect on the results, it can be assumed that there is only one main refinancing operation, which is conducted at the beginning of the maintenance period and matures at the end of the period. Likewise, the overall behaviour of the credit institutions can be assumed to reproduce that

2. This decision was revoked on 15 January 2009, when the Governing Council decided to return to a 200 bp corridor. For further details on these and other measures introduced in response to the crisis, see Millaruelo (2009).





SOURCE: ECB.

of a single representative bank. Finally, the third instrument of the monetary authority consists of standing facilities. More specifically, there is a marginal lending facility under which the representative bank can apply to borrow reserves at a lower interest rate than the one on main refinancing operations. There is also a deposit facility, under which the same bank can deposit reserves at a higher interest rate than the one on MROs. Since the start of Stage Three of EMU, the interest rate on MROs has always been in the middle of the corridor defined by the interest rates on the standing facilities. However, as will be seen below, the demand for reserves depends not only on the width of the corridor, but also on whether or not the corridor is symmetric with respect to the rate on MROs.

To explain the behaviour of the demand for reserves, in the presence of a reserve requirement, two shocks that affect the liquidity needs of the representative bank are considered. The first one is associated with normal banking business and results in increases or decreases in the balance sheet.<sup>3</sup> When the number of banks is sufficiently large, the law of large numbers guarantees that this shock will not have effects at the aggregate level and is limited to adding idiosyncratic risk to each bank. The second source of uncertainty is designed to capture the effect of the crisis of confidence after the summer of 2007, representing each bank's subjective perception of the possibility of encountering difficult market liquidity conditions. More specifically, it is assumed that the banks assign a certain probability to the existence of a certain amount of aggregate exogenous liquidity withdrawal. Both shocks arise after the MRO has been conducted.

In these circumstances, the problem the representative bank of this simplified economy faces is what amount of reserves to demand from the central bank in each MRO in order to comply with the reserve requirement and to protect itself against liquidity shocks at the lowest possible cost. Generally, the bank will demand reserves until the marginal cost of such reserves is equal to their marginal expected value. Since we assume open market operations with full allotment at a fixed interest rate, the marginal cost is equal to the central bank's key policy rate.

As regards the marginal expected value that the bank assigns to the reserves, it is important to observe that it must combine two possible results: that the amount of liquidity obtained in

3. This shock is modelled as a random variable independently distributed among banks as a normal variable with mean 0 and a strictly positive standard deviation.

the MRO enables it to comply precisely with the reserve requirement at the end of the maintenance period or that this amount is lower (higher) than required, in which case it will have to resort to the marginal lending (deposit) facility and pay (or receive) the related interest rate. Thus, the value of a unit of additional reserves (opportunity cost) is equal to the interest rate on the marginal lending facility when it does not satisfy the reserve requirement. By contrast, the value of a marginal unit of reserves is equal to the interest rate on the deposit facility when the bank has excess reserves at the end of the maintenance period.

Ex ante, at the time of bidding in the main refinancing operation, banks do not know whether they will comply with the reserve requirement at the end of the maintenance period. The marginal expected value will then be equal to the interest rate on the marginal lending facility multiplied by the probability of not satisfying the reserve requirement at the end of the maintenance period plus the interest rate on the deposit facility multiplied by the probability (consistent with the previous one) of having excess reserves at the end of the maintenance period.

At this point, it is important to stress that the marginal expected value of the reserves decreases as the amount of reserves demanded in the MRO rises. The larger the amount of reserves the bank has, the greater the probability of having excess reserves at the end of the period and the greater the weight of the deposit facility interest rate, which is lower than that on the MRO. In particular, the marginal expected value will be close to the interest rate on the marginal lending facility when the demand for reserves is close to zero and will decrease to the rate of interest on the deposit facility when such demand is high. Given that the rate of interest on the MRO is inside the corridor defined by the rates of interest on the standing facilities, there is a level of demand for reserves which equates their marginal cost with their marginal expected value.

Using this analytical scheme it is easy to generate the type of behaviour observed in the current financial crisis, i.e. autonomous increases in the demand for reserves in the MRO, which are deposited in the deposit facility. Starting from an initial equilibrium situation (marginal expected value equal to the MRO rate), if an increase occurs in the probability of an aggregate withdrawal of reserves, the probability of having to access the marginal lending facility at the end of the maintenance period increases and, thus, so does the marginal expected value of reserves. If the MRO interest rate does not change, the banks bring the marginal cost of reserves back into line with their marginal expected value by increasing their demand for reserves in the MRO. These reserves are deposited in the deposit facility and remain there until the shock (which results in an aggregate withdrawal of liquidity) occurs.

One way of reducing this excess demand for reserves would be to set the interest rates on the standing facilities in such a way that they form an asymmetric corridor around the MRO interest rate. Following the above reasoning, when the probability of an aggregate withdrawal increases, the marginal expected value of the reserves can be reduced by lowering the interest rate on standing facilities, while keeping the MRO interest rate unchanged.<sup>4</sup> If the objective is to bring the demand for reserves down to the level prior to the change in the banks' perception, the asymmetry of the rate corridor can be adjusted in this way. The higher the perceived level of risk, the closer the rate on the marginal lending facility must be to the MRO rate.

### ***Final comments***

The present crisis is having clear expansionary effects on the demand for reserves in the Eurosystem's main refinancing operations. As long as credit institutions continue to perceive an

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4. Alternatively, the interest rate on the marginal lending facility could be reduced on its own, although this would reduce the width of the corridor. In less simplified schemes than the one used here, that may have other effects.

elevated risk of negative liquidity shocks with effects that could not be covered in the money markets, this excess demand will not subside. This poses a number of challenges for the monetary authority's liquidity management policy.

One possible way of regulating an excess demand for reserves without the need to change the operational framework of monetary policy is to set the interest rates on standing facilities in such a way that they form an asymmetric corridor around the level of the interest rates on the main refinancing operations. As explained in this article, autonomous increases in the demand for reserves that are not desired by the Eurosystem may be counteracted by moving the upper limit of this corridor closer to the policy interest rate (and reducing the lower limit by the same amount, if it is desired to keep the width of the corridor unchanged). Intuitively, an asymmetric corridor of this type makes it relatively cheaper to use the marginal lending facility at the same time as it penalises the use of the deposit facility. In this way, the excessive demand for reserves is discouraged, reducing the risk of an undesired accumulation of reserves.

This instrument could enable the monetary policy stance to be more clearly separated from liquidity management and may also be adjusted continually to any change in market conditions. For example, in the present circumstances, in which the exceptional liquidity providing measures introduced during the crisis are gradually being withdrawn, it may be useful to limit during the transition the extent of possible episodes of excessive reserve accumulation and their possible undesired effects on short-term market rates, although it should be pointed out that this transition raises a broader set of challenges, which may have different implications from those considered here. The analysis of these challenges goes well beyond the scope of the objectives of this article.

8.9.2010

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### Introduction

In 2010 Q3 relatively few new financial provisions were promulgated in comparison with previous periods.

Notable in the field of credit institution regulation are the new legal regime for savings banks, the new legal provisions on solvency and liquidity to bolster credit institutions' own funds and the fiscal legislation applicable to the credit institutions resulting from restructuring processes. In addition, certain amendments were made to financial reporting rules and to reporting on credit institutions' agents and agreements to provide financial services.

With regard to the securities market, the Regulations on the Securities Registration, Clearing and Settlement Systems Management Company (also known as the Systems Company or IBERCLEAR) were updated, and certain amendments were made to securities market and audit legislation. Also, a circular regulating the confidential information which investment firms have to report to the CNMV was issued, and the legislation on identification numbers of securities and other financial instruments was updated.

In the EU, the legislation applicable to undertakings for collective investment in transferable securities (UCITS) as regards fund mergers, master-feeder structures and notification procedures was supplemented by implementing provisions.

Finally, new measures to combat delinquency in inter-company loans and in loans to the public sector were set in place and recast legislation on share capital companies were promulgated.

### New legal regime for savings banks

*Royal Decree-Law 11/2010 of 9 July 2010* (BOE of 13 July 2010)<sup>1</sup> on governing bodies and other aspects of the legal regime of savings banks amended Law 13/1985 of 25 May 1985<sup>2</sup> on the investment ratios, own funds and reporting obligations of financial intermediaries in respect of equity units and Law 31/1985 of 2 August 1985<sup>3</sup> on regulation of the basic rules on governing bodies of savings banks.

The Royal Decree-Law has various purposes: to improve savings banks' possibilities of raising capital by reforming the legal regime for equity units, to promote the professionalisation of their governing bodies, to adapt certain aspects of institutional protection schemes (IPs) formed by savings banks and to design a new organisational model of savings bank financial activity.

Table 1 compares, in summary form, the main aspects of the Royal Decree-Law and of the previous legislation.

#### AMENDMENT OF LEGISLATION ON EQUITY UNITS

The main new development is the recognition, in addition to dividend rights, of voting rights attaching to equity units (hereinafter "units"). Voting rights are manifested in three main ways: 1) right of unit-holders to be represented in the governing bodies of savings

1. The Royal Decree-Law was recognised by a resolution passed by Spanish Congress on 21 July 2010. 2. See "Regulación financiera: segundo trimestre de 1985", *Boletín Económico*, July-August 1985, Banco de España, pp. 51 and 52. 3. See "Regulación financiera: tercer trimestre de 1985", *Boletín Económico*, October 1985, Banco de España, pp. 61 and 62.

Equity units	
LAW 13/1985 OF 25 MAY 1985	ROYAL DECREE-LAW 11/2010 OF 9 JULY 2010
The volume of outstanding equity units may not exceed 50% of a savings bank's equity.	No significant changes.
The freely distributable surplus of a savings bank is distributed on the basis of the ratio of the volume of outstanding equity units to its equity plus outstanding equity units.	No significant changes.
Not envisaged.	The following voting rights are recognised: 1) right to be represented in governing bodies; 2) right to challenge resolutions adopted by the General Assembly and by the Board of Directors, and 3) general right to information.
Nobody may directly or indirectly hold equity units for an amount exceeding 5% of the total outstanding units. If this limit is exceeded, all the dividend rights of the units acquired by the person or economic group will be suspended.	The limit is removed. However, unit-holders will be subject to the regime for qualifying holdings in credit institutions.
Not envisaged.	Unrestricted issuance of units is expressly permitted without need for prior administrative authorisation.
Treasury stock: the direct acquisition of units by the savings bank or its economic group is prohibited. Indirect acquisition is permitted, provided that the holding does not exceed 5% of the outstanding units.	Continues to be prohibited. If this limit is exceeded, the savings bank has to dispose of or redeem the excess within a maximum of three months. As an exception, this limit does not apply when the units are purchased by the central entity of the IPS to which the issuing savings bank belongs.
In the event of merger, the issuing savings bank shall grant unit-holders a minimum of one month so that they can, if they wish, sell their units to the savings bank.	Same treatment as that of shares of public limited companies, i.e. the units to be cancelled are exchanged for units of the post-merger entity so that the economic value of their dividend rights is unchanged.
Not envisaged.	The remuneration of units shall not require any administrative authorisation in the area of credit regulation, save that which may correspond to the Banco de España in the exercise of its functions.
Governing bodies	
LAW 31/1985 OF 2 AUGUST 1985	ROYAL DECREE-LAW 11/2010 OF 9 JULY 2010
Governing bodies: General Assembly, Board of Directors and Control Committee.	To the previously existing ones are added the Chief Executive Officer, the Compensation and Appointments Committee and the Welfare Projects Committee.
Not envisaged.	Specific provisions are introduced to adapt the governing bodies and collective representation mechanisms to those cases in which savings banks indirectly conduct their business through a commercial bank.
Not envisaged.	Voting rights of unit-holders in governing bodies are based on the ratio of their equity units to the total net equity of the savings bank.
Not envisaged.	Membership of a savings bank governing body is incompatible with holding an elected political position or a senior post in general government or in public or private law public sector entities that are related to or are investees of general government agencies.
The presence of general government and public-sector entities and corporations in the governing bodies of savings banks may not exceed 50% of the total voting rights.	Lowered from 50% to 40%.
The number of members of the Board of Directors may not exceed 17. The duration of their mandate may not exceed 12 years.	The limit on the number of directors is raised to 20 for those cases in which the Board includes representatives of unit-holders' interests. Their mandate may not exceed 12 years, except that directors designated by unit-holders may serve indefinitely.
Not envisaged.	Savings banks have to make public an annual corporate governance report.
Indirect exercise of financial activity and the regime governing transformation of savings banks	
Not envisaged.	Savings bank may indirectly pursue their through a commercial bank, to which they shall transfer all their financial operations. If the savings bank reduces its holding below 50% of the voting rights in the commercial bank, it has to give up its authorisation to operate as a credit institution and transform itself into a "special foundation".
Not envisaged.	A savings bank may decide to separate its financial activity from its welfare activity. To do so it shall transfer all the assets and liabilities used in its financial activity to another credit institution in exchange for shares of the latter and transform itself into a "special foundation".

SOURCES: BOE and Banco de España.

banks (General Assembly, Board of Directors and Control Committee) in proportion to the share of the units in the savings bank's equity, subject to a maximum limit of 50% of that equity;<sup>4</sup> 2) right to challenge resolutions adopted by the General Assembly and by the Board of Directors on the same terms and conditions as shareholders may contest the corporate resolutions of a public limited company; and 3) general right to information on any matter of interest to the unit-holders representing 5% or more of the total outstanding units.

The Royal Decree-Law lays down the principle of unrestricted issuance of units without need for prior administrative authorisation and stipulates that listing in secondary markets is compulsory when an issue is targeted at the general public.

Any limit on the units that can be held by a single person or group is removed (previously nobody could directly or indirectly hold units for an amount exceeding 5% of the total outstanding units), although they will not be subject to the regime governing takeover bids.<sup>5</sup> However, unit-holders will be subject to the regime for qualifying holdings<sup>6</sup> in credit institutions established by Law 26/1988 of 29 July 1988<sup>7</sup> on credit institution discipline and intervention.

The acquisition of its own units in the primary market by the savings bank itself or its economic group continues to be prohibited. Acquisition of own units in the secondary market<sup>8</sup> is permitted, provided that the holding does not exceed 5% of the outstanding units. The new Royal Decree-Law provides that, if this limit is exceeded, the savings bank has to dispose of or redeem the excess within a maximum of three months. As an exception, this limit does not apply when the units are purchased by the central entity of the IPS<sup>9</sup> to which the issuing savings bank belongs.

The treatment of units in mergers is made equal to that of shares of public limited companies, i.e. the exchange for units of the post-merger entity without alteration of their economic value.

Lastly, it is stipulated that the annual remuneration of units and the distribution thereof must be approved by the General Assembly, which has to take into account the savings bank's solvency ratio when making that distribution. Without prejudice to the powers of the Banco de España, this distribution shall not require any administrative authorisation in the area of credit regulation.

#### GOVERNING BODIES OF SAVINGS BANKS

In respect of savings bank governing bodies, to the General Assembly, the Board of Directors and the Control Committee, are added the Chief Executive Officer<sup>10</sup> and two committees, namely the Compensation and Appointments (previously simply "Compensation") Committee and the Welfare Projects Committee.

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4. The volume of outstanding units may not exceed 50% of a savings bank's equity, the same as under the previous legislation. 5. Takeover bids are regulated in Chapter V of Title IV of Securities Market Law 24/1988, the implementing regulations of which are contained in Royal Decree 1066/2007 of 27 July 2007 on takeover bids. This legal regime makes it compulsory, inter alia, to make a takeover bid when control of a company is achieved, whether it be in a direct, or in an indirect or incidental, manner. 6. From a quantitative standpoint, a qualifying holding is defined as at least 10% or more of the institution's capital or voting rights or when a notable influence can be exercised in the acquired entity. 7. See "Regulación financiera: tercer trimestre de 1985", *Boletín Económico*, October 1988, Banco de España, pp. 56-58. 8. That is to say, the purchase by a savings bank of its own units (treasury stock). 9. IPSs are regulated by Royal Decree-Law 6/2010 on measures to promote economic recovery and employment. IPSs are set up in common by various credit institutions in order to obtain the status of consolidatable groups of credit institutions. Among other things, there must be a central credit institution that is responsible for complying with IPS regulatory requirements on a consolidated basis and establishing a binding business strategy, and a contractual agreement which must include a mutual commitment on solvency and liquidity between the institutions composing the IPS. 10. Under the previous legislation, the Chief Executive Officer was strictly limited to a professional and management role, his relationship with the savings bank's representative and decision-making bodies being clearly defined.

Greater importance is given to the required commercial and professional integrity of members of savings bank governing bodies. Expressly excluded from holding such posts are, inter alia, those persons with a police record for deliberate crimes and those disqualified from holding public office or financial institution management positions. It is also expressly specified that membership of a savings bank governing body is incompatible with holding an elected political position or a senior post in general government or in public or private law public sector entities that are related to or are investees of general government agencies.

Along the same lines, the ceiling on the presence of general government and public-sector entities and corporations in the governing bodies of savings banks is lowered, such that, overall, they may not now exceed 40% of the total voting rights (previously 50%). The possible participation of regional (autonomous) governments in savings bank governing bodies shall be through members designated solely by regional parliament and whose standing and professionalism are generally acknowledged.

A new power conferred on the General Assembly is that of decision-making in the event of indirect exercise of a savings bank's financial activity through a commercial bank or the transformation of the savings bank into a "special" foundation. Approval in such cases shall require qualified quorums, specifically the attendance of a majority of voting members (general assembly members and unit-holders) and the vote in favour of two-thirds of those present.

Officers of other credit institutions may be appointed as general assembly members of a savings bank provided that such appointment is not as a representative of the savings bank or sponsored by it. This compatibility is conceived for those cases in which the savings bank operates indirectly through a commercial bank or forms part of an IPS.

Regarding the Board of Directors, the limit on the number of directors is raised to 20 (previously 17) for those cases in which the Board includes representatives of unit-holders' interests. The maximum duration of the mandate of Board members remains unchanged at 12 years. However, as a new development, directors designated by unit-holders may serve indefinitely.

The main new developments regarding the Control Committee are, in addition to the inclusion of representatives of unit-holders, the removal of the representative elected by regional (autonomous) governments.

The technical training and experience required to hold the post of general manager are increased, and the retirement age is raised from 65 to 70 years of age.

The Compensation and Appointments Committee represents a broadening of the scope of the former Compensation Committee to encompass other functions relating to the control of appointments. It will be formed by five Board members elected by the General Assembly.

The Welfare Projects Committee is entrusted primarily with ensuring that welfare projects are carried out properly, irrespective of the savings bank's business model. The Committee shall consist of the members nominated by the General Assembly and may include representatives of the regions in which the savings bank has its registered office and in which it has obtained at least 10% of its total deposits.

Certain special features of the governing bodies of savings banks which carry on their financial activity indirectly through a commercial bank are defined. In this case the savings bank's governing bodies shall be only the General Assembly, the Board of Directors and the Control



Committee. Also, it is expressly stipulated that the savings bank may designate its representatives on the commercial bank's Board of Directors, taking into account for such purposes the representation of the different groups on its own Board.

Further, as in credit institutions, a compulsory annual corporate governance report to be submitted to the CNMV, the Banco de España and the competent regional authorities is introduced to strengthen savings bank transparency and market discipline. The report's content and structure should be such as to provide a detailed explanation of the structure and workings of the savings bank's corporate governance system. It should include a reference to any possible conflicts of interest between members of the savings bank's governing bodies and its welfare function.

Lastly, the rules on savings bank mergers are amended to provide that mergers may only be rejected through a reasoned decision when the resulting entity might fail to meet the objective requirements set out in regional legislation.

#### SAVINGS BANK INSTITUTIONAL PROTECTION SCHEMES

In general, the existing regulation for credit institutions whereby IPSs are structured around a central credit institution remains unchanged. Responsibility for the regulatory requirements being met by the IPS on a consolidated basis lies with this central credit institution.

The most significant new development in IPSs composed of savings banks is that the central entity must necessarily be at least 50%-owned by the member savings banks and be a public limited company. This arrangement ensures that the legal status of the savings banks forming the IPS is not indirectly impaired through loss of control of their central entity. In the cases in which the savings banks forming an IPS could lose their 50% share of the central entity, the savings banks have to transform themselves into a "special foundation" and transfer their banking operations.

Another new development is the strengthening of the IPS members' commitment to a long-term presence and stability.<sup>11</sup> For this purpose, the Banco de España is empowered to carry out an assessment before an IPS member withdraws to ascertain whether the member individually and the scheme as a whole will be viable after the envisaged withdrawal.

#### NEW ORGANISATIONAL MODEL OF SAVINGS BANKS

A new organisational model additional to that in place is introduced. It is based on an alternative between: 1) the indirect exercise of the savings bank's financial activity through a commercial bank or 2) the transformation of the savings bank into a "special foundation" and transfer of its business to another credit institution.

In the indirect exercise of financial activity, savings banks may pursue their declared purpose as a credit institution through a commercial bank to which they transfer all their financial operations. Also, they may transfer all or part of their non-financial assets to it. In its company name and in its activity, the recipient bank may use expressions which indicate that it is acting as a financial vehicle, including the names reserved to the savings bank which controls it.

As in IPSs, if the savings bank reduces its holding below 50% of the voting rights in the commercial bank, it has to give up its authorisation to operate as a credit institution and transform itself into a "special foundation".

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<sup>11</sup> Institutions must remain in the IPS for a minimum period of 10 years and give at least 2 years' notice of their intention to leave it upon expiry of that period. The contractual agreement must include a system of penalties for withdrawal from the IPS which encourages the continued presence and stability of institutions in the IPS.

This same exercise of indirect activity is also allowed in those savings banks which jointly carry on their financial activity through the central entity of an IPS.

A savings bank which transforms itself into a “special foundation” shall do so by separating its financial activity from its welfare activity. It shall transfer the assets and liabilities used in its financial activity to another credit institution in exchange for shares of the latter and transform itself into a “special foundation”, forfeiting its credit institution status.

The foundation shall focus its activity on attending to and carrying out its welfare projects, for which purpose it may engage in the management of its securities portfolio. The foundation must allocate to its social welfare purpose the revenue from the funds, holdings and investments owned by it.

***Credit institutions: new solvency, liquidity and fiscal provisions***

*Royal Decree-Law 11/2010 of 9 July 2010*, referred to above, introduces new provisions on credit institution solvency and liquidity,<sup>12</sup> as well as the fiscal rules applicable to the entities resulting from restructuring processes.

To avoid potential liquidity imbalances or tensions which may impair an institution's financial position or put it at risk, the Royal Decree-Law makes it compulsory to hold a minimum amount of liquid assets to cater for potential outflows of funds derived from liabilities and commitments, including in situations of stress, and, furthermore, to have in place an appropriate funding structure and a suitable maturity structure of assets, liabilities and commitments.

Also, an upper limit is set on leverage, i.e. the ratio of an institution's own funds to the total value of its exposure to the risks derived from its activity. The regulations implementing these new requirements have yet to be enacted.

Further, it is provided that the Fund for the Orderly Restructuring of the Banking System (FROB) may purchase securities issued by individual credit institutions that, although solvent and viable, may not be sufficiently resilient in situations significantly more adverse than the current one. Their capital is thereby strengthened and market confidence in them increased.

These purchases will be dependent on the formulation of a recapitalisation plan the objectives, measures and commitments of which have to coincide with those set out in Royal Decree-Law 9/2009 of 26 June 2009 on bank restructuring and strengthening of own funds of credit institutions. The plan must be approved by the Banco de España, which will place particular emphasis on the institution's ability to achieve its stated objectives without having to merge with other entities.

The credit institutions resulting from restructuring processes shall be subject to the special fiscal regime established in the Corporate Income Tax Law<sup>13</sup> for asset and liability transfers carried out in the framework of such restructurings. This allows, inter alia, the deferral of tax on gains arising from such transfers, even if the transactions involved are not those specified in that special fiscal regime, provided that the economic result is equivalent.

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<sup>12</sup> These new measures stem from the decisions taken by the Basel Committee on Banking Supervision, also known as Basel III, which, among other things, establishes a quantitative framework for liquidity risk measurement and coverage in the form of a short-term ratio (Liquidity Coverage Ratio), the purpose of which is to ensure that institutions have highly liquid assets to cover their liquidity needs in a possible situation of stress lasting 30 days, and a long-term ratio (Net Stable Funding), of a more structural nature, to cover the institution's liquidity needs with more stable sources of funding, the basic purpose of which is to avoid the short-term financing of long-term assets. Also, provision is made to introduce a leverage ratio as a supplementary measure to the Basel II solvency ratio. <sup>13</sup> Specifically, in Chapter VIII of Title VII of the consolidated text of the Corporate Income Tax Law enacted by Legislative Royal Decree 4/2004 of 5 March 2004 regulating the special regime for mergers, divisions, asset contributions, share exchanges and change of registered office of a European firm or a European cooperative from one Member State to another in the European Union.

Also, this deferral regime is extended to the gains on asset and liability transfers carried out in compliance with an IPS's agreements. Thus, the exchange of these assets or liabilities is permitted between the credit institutions belonging to an IPS, subject to the condition that each acquiring institution values, for fiscal purposes, the acquired items at the same value that they had previously in the transferring institution. This valuation shall serve to determine the gains to which those items may subsequently give rise.

In the specific case of savings banks, the relevant legal amendments are made to ensure the neutral tax treatment of welfare projects regardless of the organisational model adopted.

The Royal Decree Law came into force on 14 July 2010.

***Credit institutions: public and confidential financial reporting rules and formats***

*CBE 3/2010 of 29 June 2010* (BOE of 13 July 2010) amended *CBE 4/2004 of 22 December 2004*<sup>14</sup> on public and confidential financial reporting rules and formats. The most notable features of the Circular as set out below.

UPDATE OF POLICIES  
AND PROCEDURES  
FOR THE GRANTING OF LOANS

The Circular broadens the policies, methods and procedures to be applied by credit institutions in the granting of loans and in the identification of their impairment and calculation of the amount needed for credit risk allowances and provisions.

In addition to meeting the stipulations of *CBE 4/2004*, credit standards must primarily be attuned to borrowers' ability to pay, as and when required, all their financial obligations out of their regular income. Only secondarily shall guarantors, sureties or collateral be used as a means of recovery when this first financial claim fails.

There must be a loan repayment schedule with regular due dates attuned to borrowers' primary sources of income generation and, if appropriate, to the useful life of collateral. In lending to individuals, the repayment schedules should ensure that debt servicing (including all recurring payments on loans from the entity and on other debt) is as closely attuned as possible to the recurring disposable income of borrowers. In no case may the disposable income remaining after debt service be such as to manifestly limit the ability to cover the living expenses of borrowers' families.

In loans collateralised by real estate, entities shall use their own professional judgement, assessing the degree of potential liquidity of real estate assets. However, they should exercise extreme prudence in how appraisal values and any other external professional services are used in loans collateralised by real estate. Also, banks should establish a minimum frequency for reviewing loan collateral and update the appraisals by linking them to changes in the market for the asset received as collateral or, where applicable, acquired in payment of debt.

Finally, among other things, banks should also have in place the credit conditions of real estate development projects and a debt restructuring policy approved by their most senior governing body.

AMENDMENT OF CRITERIA  
FOR DOUBTFUL ASSETS

The different provisioning schedules<sup>15</sup> for assets classified as doubtful due to customer arrears are unified in a single schedule. The new schedule substantially shortens the pe-

<sup>14</sup>. See "Financial Regulation: 2004 Q4", Economic Bulletin, January 2005, Banco de España, pp. 3-7. <sup>15</sup>. The previous circular established three provisioning schedules: the first, for unsecured transactions, sets various provisioning percentages depending on whether the customer is a firm or otherwise; the second is for first mortgages on completed houses; and the third is for other secured transactions.

riod of time for provisioning loans, such that credit risk must be fully provisioned once 12 months have elapsed from the date of the first missed payment that remains unpaid on any single transaction.<sup>16</sup> This scale shall also apply from the date of the oldest missed payment that remains unpaid, or that of the classification of the assets as doubtful, whichever is earlier.

Within real estate mortgage loans, certain criteria are established for estimating the impairment of financial assets classified as doubtful.<sup>17</sup> They vary according to the type of asset subject to the right in rem, provided that this derives from a first mortgage:

For completed housing constituting the borrower's principal residence, the estimated value of the security interest shall, at a maximum, be 80% of the lower of the cost of the completed house and its appraised value in its current condition.

For other completed housing (not the borrower's principal residence), this percentage is lowered to 60%.

In rural property in use and completed multi-purpose offices and commercial and industrial premises, this percentage shall, at a maximum, be 70% of the lower of the cost of the rural property or multi-purpose building and its appraised value in its current condition.

In land parcels, building plots and other real estate assets, this percentage is lowered to 50%.

ASSETS FORECLOSED  
OR RECEIVED IN PAYMENT  
OF DEBT

New rules are introduced on assets foreclosed or received in payment of debt. Their aim is to encourage banks to look for management solutions for these assets which release the funds invested in them to the benefit of credit institutions' core activities.

The value of these assets shall be the lower of the carrying amount of the financial assets applied, taking into account the estimated impairment (a minimum of 10%), and the appraised market value of the asset received less estimated costs to sell (a minimum of 10% of the appraised value). The net amount of the two items shall be deemed to be the initial cost of the asset received.

Save in exceptional circumstances, the receipt of assets in payment of debt shall not give rise to recognition of gains or to the reversal of any allowances recorded for financial assets if these had previously been classified as doubtful assets.

Banks have to take into account the impairment of assets received in payment of debt, for which purpose they have establish a provisioning schedule based on the time the assets remain on the balance sheet. The impairment recorded shall in no case be less than 10% and shall rise to 30% for assets remaining on the balance sheet for 24 months. For the assets that remain on the balance sheet for more than 24 months, the entities shall have procedures to ensure that the appraised market values used are adjusted to reflect actual market conditions in the area in which the assets are located.

The Circular came into force on 30 September 2010.

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<sup>16</sup> Under the previous circular, full provisioning of credit risk was reached at 24 months in arrears for unsecured loans and at six years for loans secured by a first mortgage on completed houses. <sup>17</sup> Previously, collateral was indirectly taken into account by applying the the two existing schedules.

**Credit institutions: agents and agreements for the provision of financial services**

CBE 4/2010 of 30 July 2010 (BOE of 4 August 2010) replaces and repeals CBE 6/2002 of 20 December 2002<sup>18</sup> on information about the agents of credit institutions and the agreements entered into for the regular provision of financial services. The Circular updates the previous circular in view of the regulatory changes since that date, by specifying more clearly the agreements and agents subject to the reporting requirement, particularly if these belong to the networks of other supervised institutions. In addition, it clarifies various matters relating to the names and activities of agents.

As before, a credit institution has a period of 15 calendar days to report to the Banco de España information on those persons to whom it has granted powers to arrange, in the name and for the account of the institution, all or any of the services provided by it, including investment services. This communication shall not include: correspondents; persons granted power of attorney for a single specific transaction; persons employed by the institution; persons empowered only to attract business but not to negotiate or execute transactions; or the representatives, attorneys-in-fact or employees of legal entities that are agents.

As a new development, the Circular now excludes natural or legal persons forming part of the commercial networks of investment firms, of collective investment institution (CII) management companies, or of pension funds or insurance companies declared to be agents of credit institutions, provided that such persons are already registered as agents of the investment firm or CII management company in the registers of the CNMV or as agents of the pension fund or insurance company in the registers of the Directorate General of Insurance and Pension Funds.

The time period for notifying the cancellation of powers to act as representatives or any change in previously communicated data remains at 15 days.

The Circular adds the obligation for Spanish credit institutions and for the branches in Spain of foreign credit institutions to communicate to the Banco de España, as at the last day of each calendar half, the natural and legal persons designated to carry out professionally, on a regular basis and in the name and for the account of the institution, the activities of promotion and marketing of transactions or services typical of the business of credit institutions, including investment and ancillary services provided by the institution.

The Circular removes the specific obligation to submit periodically a list of agents in an annex to the annual accounts, since institutions already have to submit it to the Banco de España under CBE 4/2004 of 22 December 2004 on public and confidential financial reporting rules and formats. In any event, the public nature of the information submitted to the Banco de España remains in place.

With regard to the disclosure of agreements between Spanish and foreign credit institutions for the regular provision of financial services, whether it be in Spain in the name of the latter or the converse, the new Circular retains the same obligations on the same terms as under the repealed circular. Thus, Spanish credit institutions which have entered into agreements with foreign credit institutions for the regular provision in Spain of financial services to customers, in the name and for the account of the foreign institution, shall so notify the Banco de España within a period of one month.

In the case of agreements with foreign credit institutions for the mutual provision of financial services, the powers granted to the foreign institution to act in the name and for the account

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18. See "Financial Regulation: 2003 Q1", *Economic Bulletin*, April 2003, Banco de España, pp. 84 and 85.

of the Spanish institution must be reported by the same procedure and within the same time period as stipulated for agents (maximum of 15 days). Those granted to the Spanish institution to operate in Spain in the name and for the account of the foreign institution have to be reported in the same way as agreements with foreign institutions (maximum of one month).

Regarding the recruitment of agents, the Circular requires credit institutions to introduce appropriate control measures to promote the professional abilities of agents and ensure they meet legal requirements in their dealings with customers. Further, it is clarified that the notarial execution of powers shall, without prejudice to the requirements of any other applicable legal provisions, be optional for the credit institution.

Lastly, it is specified that exclusivity in the agent relationship shall only prevent the establishment of similar relationships with other credit institutions, but not with other entities, including regulated ones, unless prohibited by the sectoral legislation applicable to them. Nevertheless, credit institutions shall take care that the other activities carried on by their agents do not conflict with the proper performance of the representation role entrusted to them.

The Circular will come into force on 4 November 2010.

***Amendment  
of the Regulations on the  
Securities Registration,  
Clearing and Settlement  
Systems Management  
Company***

*Ministerial Order EHA/2054/2010 of 26 May 2010* (BOE of 29 July 2010) amended the Regulations on the Securities Registration, Clearing and Settlement Systems Management Company (IBERCLEAR) adopted by Ministerial Order ECO/689/2003 of 27 March 2003.<sup>19</sup>

The Ministerial Order adds two new chapters to the Regulations: 1) settlement and registration of transactions in securities admitted to stock-exchange trading that are executed outside the computerised trading system (SIBE), and 2) the conclusion of agreements with entities engaging in similar functions, central counterparties, regulated market operators, multilateral trading facilities and other similar systems or entities.

IBERCLEAR will provide the members of the Securities Clearing and Settlement System ("SCLV" by its Spanish initials) with settlement and registration services for those purchases and sales of securities admitted to trading on stock exchanges which are made outside stock exchange markets. Among other things, the Ministerial Order also sets out: the principles under which settlement services will be provided (bilateral settlement principles, delivery versus payment and financial neutrality) and the transaction settlement terms and notification periods.

IBERCLEAR may also provide these services to central counterparties and to any other entities performing similar functions with which it has entered into an agreement. To do so it will require the approval of the CNMV. The main aspects regulated by CNMV include: 1) how the central counterparty accesses such services; 2) the specific reporting, assessment and risk management procedures aimed at enabling the actions of the Systems Company to be duly coordinated, and 3) the procedures applicable by central counterparties or entities offering equivalent guarantee mechanisms which may intervene in the transactions being settled and registered.

The Ministerial Order regulates other agreements which IBERCLEAR may enter into with entities performing similar functions<sup>20</sup> so as to carry out certain activities, such as: the opening and

<sup>19</sup>. See "Financial Regulation: 2003 Q1", *Economic Bulletin*, April 2003, Banco de España, pp. 85 and 86. <sup>20</sup>. Central counterparties, regulated market operators, multilateral trading facilities and other similar systems or entities.

keeping of accounts, or other activities and services of the Systems Company, including the settlement of all or part of the transactions arranged in securities and financial instrument trading markets and systems. Settlement may take place through the procedures established or designed for the purpose by IBERCLEAR, which may include versus-payment or free-of-payment processes, with settlement in euro or other currencies.

The conclusion of these agreements shall be subject to the prior approval of the CNMV, having regard to certain considerations such as the timeliness of the service in question, the general interest of the markets and reciprocity by the other entity.

Also, IBERCLEAR shall prepare the provisions required for properly regulating matters relating to the scope of these agreements and the procedure for drafting them, which shall also be subject to the prior authorisation of the CNMV.

The Ministerial Order came into force on 18 August 2010.

***Amendment of securities  
market and audit  
legislation***

*Law 12/2010 of 30 June 2010* (BOE of 1 July 2010) amended Audit Law 19/1988 of 12 July 1988,<sup>21</sup> Securities Market Law 24/1988 of 28 July 1988<sup>22</sup> and the consolidated text of the Public Limited Companies Law enacted by Legislative Royal Decree 1564/1989 of 22 December 1989 to adapt them to Community law.

SECURITIES MARKET

As established, listed public limited companies must comply with their disclosure obligations by any technical, IT or electronic means, without prejudice to shareholders' right to request the information in print. For this purpose, they must have a website to meet these disclosure obligations and to disseminate significant information.

As a new requirement, a company's website must now include an electronic shareholders' forum to which both individual shareholders and any voluntary associations set up to expedite communication can gain access before general meetings are held. The forum can publish proposals intended to be submitted as supplementary items to the agenda announced in the notice of meeting, calls to support such proposals, initiatives to gather sufficient votes to reach the percentage required to exercise minority rights envisaged in law, and voluntary proxy offers or solicitations.

The shareholders of listed companies are allowed to set up specific voluntary associations to exercise their rights and better protect their common interests. The regulations forming a legal regime for shareholders' associations shall be promulgated. They shall include at least the requirements for and limits on the creation of such associations, specifications for their organisational structure, operating rules, and their rights and obligations, particularly vis-à-vis the listed company.

Lastly, the provisions relating to audit committees (which must be present in all entities issuing securities admitted to trading on official secondary securities markets) are brought into line with Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006<sup>23</sup> on statutory audits of annual accounts and consolidated accounts. Specifically: 1) the powers of audit committees and the rules governing their functioning are broadened in accordance with

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21. See "Regulación financiera: tercer trimestre de 1988", *Boletín Económico*, October 1988, Banco de España, p. 63. 22. See "Regulación financiera: tercer trimestre de 1988", *Boletín Económico*, October 1988, Banco de España, pp. 61 and 62. 23. Directive 2006/43/EC amended Council Directives 78/660/EEC and 83/349/EEC and repealed Council Directive 84/253/EEC of 10 April 1984 on the approval of persons responsible for carrying out the statutory audits of accounting.



Community law, and 2) it is stipulated that at least one member of the audit committee shall be independent and shall be appointed on the basis of his/her knowledge and experience of accounting and/or auditing.

#### STATUTORY AUDIT

Audit Law 19/1988 of 12 July 1988 was amended to adapt it to Directive 2006/43/EC. At the same time, certain aspects of the regulation contained in that Law were amended to incorporate, first, the changes to corporate legislation introduced by Law 16/2007<sup>24</sup> of 4 July 2007 on reform and adaptation of accounting-related corporate law for international harmonisation according to European Union law and, second, the technical improvements considered advisable in light of the experience and practice since it came into force.

The definition of statutory audit is updated to take account of the new accounting statements included in financial statements pursuant to Law 16/2007, namely the statement of changes in equity and the cash flow statement, since these must also be audited.

The minimum content of the audit report is adjusted to that adopted by Directive 2006/43/EC, so as to make it more readily comparable in the international economic environment. Among other things, express mentions in the audit opinion to compliance with the consistency principle and to the circumstances which generally affect the going concern principle are discontinued, although they may be included in certain situations.

The period of public consultation to which proposed audit standards are subject before publication by the Spanish Accounting and Audit Institute is reduced from six to two months.

Certain changes are made to the regime governing infringements and penalties. New infringements are defined, such as non-compliance with the obligation to duly keep the documentation relating to each audit; failure to follow up the recommendations or requirements which may be made in the exercise of quality control; failure to publish, or to publish correctly, the annual transparency report by the auditors or audit firms of public-interest entities or by third-country auditors or audit firms; and the failure to apply internal quality control systems by auditors or audit firms.

Certain aspects of the penalty regime are changed to correct undesired effects of the current regime. To do this, special rules are introduced for those cases in which a public-interest entity is being audited. Also, penalties are set for the newly defined infringements, which should be duly made public.

In accordance with Directive 2006/43/EC, the scope and purpose of the activity of statutory auditing are delimited. The Spanish Accounting and Audit Institute is authorised to publish the action plans, the supervision system activity reports and the general results achieved in the exercise of quality control.

The system of supervision shall be accompanied by effective cooperation with third-country authorities and the Spanish Accounting and Audit Institute's powers of control over third-country auditors and audit firms shall be regulated, provided always that there is reciprocity and the regulatory agreements so require.

Lastly, stricter requirements are established for the auditors of public-interest entities. Specifically, there are required to publish an annual transparency report and higher penalties are set for infringements concerning the audit of a public-interest entity.

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24. See "Financial Regulation: 2007 Q3", *Economic Bulletin*, October 2007, Banco de España, pp. 149-151.



The Law, save certain exceptions, came into force on 2 July 2010.

**Confidential reporting  
by investment firms**

*CNMV Circular 1/2010 of 28 July 2010* (BOE of 16 August 2010) regulates confidential reporting by investment firms<sup>25</sup> to this supervisory body.<sup>26</sup>

Its scope of application includes all Spanish and foreign (EU and non-EU) entities authorised to provide investment services either through branches or under the freedom to provide services.

The confidential reporting formats comprise returns T1 to T15<sup>27</sup> included in the annex to the Circular. They have to be submitted online to the CNMV yearly in the first two months of the following financial year.

Also, certain specific points are clarified. Thus the Circular opts not to require the submission of all confidential returns by certain entities. In the case of investment firms, the Circular excludes certain returns which are similar to others that already have to be submitted to the CNMV. Financial advice firms only have to submit the return relating to the provision of investment advice services and that relating to the profiles of customers the suitability of which has been assessed.

The Circular came into force on 17 August 2010.

**Identification numbers  
and numbering  
procedures for securities  
and other financial  
instruments**

*CNMV Circular 2/2010 of 28 July 2010* (BOE of 30 September 2010) replaces and repeals CNMV Circular 6/1998 of 16 December 1998 on identification numbers and numbering procedures for securities and other financial instruments.<sup>28</sup> The Circular introduces the new financial instruments and practices arising since the previous circular was issued.

Within the financial instruments qualifying for an identification number, the limit on the shares of public limited companies has been removed (previously, for shares to qualify for an identification number, the companies had to have share capital exceeding €150,000). Also, Treasury bills are added to the list of financial instruments qualifying for an identification number and the CNMV retains its power to include any other instrument which, in view of its characteristics and significance, requires an identification number for processing purposes.

Regarding the assignment of identification numbers to new securities issues or to existing un-numbered ones, the Circular updates the type of entities which can request a number from the CNMV. Also, to the entities listed in the previous circular<sup>29</sup> are added the remaining investment firms (portfolio management companies and financial advice firms) and venture capital companies.

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25. The entities that may provide investment services are: investment firms, credit institutions and CII management companies. Investment firms include securities brokers and dealers, portfolio management companies and financial advice firms. 26. Under the powers granted by Royal Decree 1820/2009 of 27 November 2009. 27. Returns T1 to T3 request descriptive data about the entity and contact persons, as well as information about the number of customers of the entity, broken down by investment or ancillary service, by business segment and by risk profile; Returns T4 and T5 gather information about the entity's gross income broken down by investment service; Returns T6 to T10 require detailed information about discretionary portfolio management services, investment advice, placement of financial instruments and the reception, transmission and execution of client orders. Finally, Returns T11 to T15 collect diverse information regarding, inter alia, distribution channels, number of complaints lodged, transactions that might constitute market abuse and the significance of third-country investment services provided through branches established in Spain. 28. Royal Decree 1310/2005 of 4 November 2005, which implements Securities Market Law 24/1988 of 28 July 1988 in respect of the admission to trading of securities on official secondary markets, public and subscription offerings and the prospectus required for such purposes, assigned to the CNMV the task of numbering marketable securities, specifying that it has sole competence in this respect. 29. The issuing entity, credit institutions, securities brokers and dealers, securities clearing and settlement services and collective investment institutions.

Concerning the reassignment and deregistration of fixed-income securities identification numbers, the Circular addresses the case of a change in the central securities depository, distinguishing between physical securities and book-entry securities. If the instruments involved were physical securities, and new securities were issued to be exchanged for the old ones, they would be assigned new identification numbers, although the previous ones would be retained until the outstanding transactions had been settled. In book-entry securities, the identification numbers would not be changed.

The Circular came into force on 1 October 2010.

***Undertakings for collective investment in transferable securities (UCITS):<sup>30</sup> implementing directives***

*Commission Directive 2010/42/EU of 1 July 2010* (OJ L of 10 July 2010) implementing certain provisions of Directive 2009/65/EC<sup>31</sup> of the European Parliament and of the Council of 13 July 2009<sup>32</sup> on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (recast) as regards mergers between UCITS, master-feeder structures and the notification procedure was adopted.

Also adopted was *Commission Directive 2010/43/EU of 1 July 2010* (OJ L of 10 July 2010) implementing certain provisions of Directive 2009/65/EC of as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company.

FUND MERGERS

General rules are set regarding the content of information to be furnished to unit-holders. This information must take into account certain requirements, including the following: 1) it must be written in a concise manner that enables unit-holders to make an informed judgement of the impact of the proposed merger on their investment; 2) it must include details of any differences in the rights of unit-holders of the merging UCITS before and after the proposed merger takes effect; 3) it must compare all charges, fees and expenses for both UCITS, based on the amounts disclosed in their respective key investor information; and 4) it must explain whether the management or investment company of the merging UCITS intends to undertake any rebalancing of the portfolio before the merger takes effect.

That information aims to enable unit-holders to make an informed judgement about whether they want to continue investing or request redemption, where a UCITS is either part of a merger, converts into a feeder UCITS or changes the master UCITS. The information should be personally addressed to unit-holders either on paper or in another durable medium such as e-mail.

MASTER-FEEDER STRUCTURES

Another part of Directive 2010/42/UE sets out rules on master-feeder structures, specifying the content of the agreement between master UCITS and feeder UCITS.<sup>33</sup> It must set out, inter alia, how and when the master UCITS provides the feeder UCITS with 1) a copy of its fund rules or instruments of incorporation, prospectus and key investor information or any amendment thereof; 2) internal operational documents, such as its risk management process and its compliance reports; and 3) information about the feeder UCITS's actual exposure to financial derivative instruments, where these are used by it.

Other matters also have to be indicated, as follows: 1) procedures to ensure enquiries and complaints from unit-holders are handled appropriately; 2) the basis of investment and divest-

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<sup>30</sup>. Similar to Spanish collective investment institutions. <sup>31</sup>. Directive 2009/65/EC replaced Council Directive 85/611/EEC of 20 December 1985 and the subsequent amendments thereto. <sup>32</sup>. See "Financial Regulation: 2009 Q4", *Economic Bulletin*, January 2010, Banco de España, pp. 158-162. <sup>33</sup>. A feeder UCITS invests at least 85% of its assets in the master UCITS.

ment by the feeder UCITS, including the terms on which any initial or subsequent transfer of assets in kind may be made from the feeder UCITS to the master UCITS;<sup>34</sup> and 3) the law applicable to the agreement, which may be either that of the Member State in which the feeder UCITS is established or that of the master UCITS. In any event, both parties agree to the exclusive jurisdiction of the courts of the Member State whose law they have stipulated to be applicable to the agreement.

The Directive specifies the applicable procedures and notification deadlines in cases of liquidation, merger or division of the master UCITS. In any of these cases, the feeder UCITS must be liquidated unless the competent authorities of the feeder UCITS's home Member State authorises other options. Thus, in the case of liquidation of the master UCITS, the feeder UCITS may be authorised to invest at least 85 % of its assets in units of another master UCITS or to amend its fund rules or instrument of incorporation so that it can convert into a UCITS that is not a feeder UCITS.

In cases of merger or division of the master UCITS, the home Member State of the feeder UCITS can authorise the latter to continue to be a feeder UCITS of the same master UCITS, or to become a feeder UCITS of another master UCITS resulting from the merger or division of the master UCITS, or to invest at least 85 % of its assets in units of another master UCITS not resulting from the merger or division, or to amend its fund rules or instrument of incorporation so that it can convert into a UCITS that is not a feeder UCITS.

The Directive stipulates the content of the information-sharing agreement either between depositaries or between the auditor of the master UCITS and the auditor of the feeder UCITS to enable the latter to receive all the relevant information and documents needed for it to meet its obligations.

Special mention is made of the reporting by the depositary of the master UCITS of any irregularities which it detects in the performance of its functions and which may have a negative impact on the feeder UCITS. Such reporting shall be immediate, indicate possible solutions to the irregularities and how they were remedied.

Lastly, with regard to UCITS which market their units in Member States other than those in which they are established, the Directive stipulates the scope and detailed content of the information to be furnished to investors, ensuring that it is available remotely and by electronic means. Also, a procedure is established for electronically informing the competent authorities of the UCITS's home Member State of any changes in that information.

MANAGEMENT COMPANIES:  
ORGANISATIONAL  
REQUIREMENTS, CONFLICTS  
OF INTEREST, CONDUCT OF  
BUSINESS AND RISK  
MANAGEMENT

Commission Directive 2010/43/EU implements Directive 2009/65/EC as regards organisational requirements, conflicts of interest, conduct of business and risk management of management companies.<sup>35</sup>

Management companies may make arrangements for third parties to carry out some of their activities. The third party has to fulfil all the organisational and conflicts of interest requirements in relation to the activity to be carried out and, in addition, have all the skills and knowledge needed to perform those functions. For its part, the management company has to verify that

<sup>34</sup>. Unless this is prohibited under national law or incompatible with the fund rules or instruments of incorporation of either the master UCITS or the feeder UCITS. <sup>35</sup>. A management company is any company the regular business of which is the management of UCITS in the form of unit trusts/common funds and/or of investment companies. Investment companies which have not designated a management company are subject to the same rules of conduct and provisions regarding conflicts of interest and risk management as management companies.

the third party has taken the appropriate measures in order to comply with said requirements and monitor effectively the compliance by the third party with these requirements.

Directive 2009/65/EC requires management companies to have a well-documented organisational structure that clearly assigns responsibilities and ensures good flows of information between all parties involved. Management companies should also establish systems to safeguard information and ensure business continuity and which are sufficient to allow them to discharge their obligations in cases where their activities are performed by third parties.

Management companies shall be required to adopt, apply and maintain an effective and adequate strategy for the exercise of voting rights attached to the financial instruments held by the UCITS they manage. Information related to the strategy and its application shall be freely available to investors, including via a website.

When executing orders on behalf of a UCITS, management companies shall take all reasonable steps to obtain the best possible result for the UCITS, taking into account price, costs, speed, likelihood of execution and settlement, size and nature of the order or any other consideration relevant to the execution of the order.

Regarding cross-border activities, the Directive spells out the main elements of the agreement between the UCITS' depositary and the management company, where that management company is established in a Member State other than the UCITS' home Member State, setting out certain precepts to provide for conflict of law.

To ensure that a management company has an adequate control mechanism, a permanent compliance function and an internal audit function are necessary. The compliance function should be designed in such a way as to ensure that it may detect any risk of failure by the management company to comply with its obligations under Directive 2009/65/EC. The audit function should aim at verifying and evaluating the different control procedures and administrative arrangements the management company has put in place.

Pursuant to Directive 2009/65/EC, criteria are established for assessing the adequacy of a management company's risk management process. The organisation of the risk management policy should be adequate and proportionate to the nature, scale and complexity of the management company's activities and of the UCITS it manages.

As an essential element in the criteria for assessing the adequacy of risk management processes, proportionate and effective risk measurement techniques should be adopted by management companies in order to measure at any time the risks which the UCITS they manage are or might be exposed to.

Accordingly, certain parameters are introduced to ensure that the risk management system is designed so that the investment limits set by Directive 2009/65/EC, such as limits on global exposure and exposure to counterparty risk, are respected by the management companies. In laying down such criteria, the Directive clarifies how the global exposure can be calculated, including by using the commitment approach, the value at risk approach or advanced risk measurement methodologies.

Also laid down are the main elements of the methodology according to which the management company should calculate the counterparty risk. In applying those rules, account should be taken of the conditions under which those methodologies are used, including the principles to be applied to such collateral arrangements to reduce the UCITS' exposure to counterparty

risk as well as the use of the hedging and netting arrangements, as developed by competent authorities working within the Committee of European Securities Regulators.

In accordance with Directive 2009/65/CE, detailed rules are set on how management companies have to calculate the value of over-the-counter (OTC) derivatives and of those instruments which expose UCITS to valuation risks equivalent to those raised by OTC derivatives.

Also, management companies have to provide the relevant competent authorities with information on the types of derivative instruments in which a UCITS has been invested, the underlying risks posed, applicable quantitative limits and methods chosen for estimating the risks associated with such transactions.

Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with both Directives by 30 June 2011, except for certain precepts of Directive 2010/42/EU, which shall be applied by 31 December 2013.

***Measures to combat late payment in commercial transactions: amendment of legislation***

*Law 15/2010 of 5 July 2010* (BOE of 6 July 2010) amended *Law 3/2004 of 29 December 2004*<sup>36</sup> on measures to combat late payment in commercial transactions and *Law 30/2007 of 30 October 2007* on public sector contracts.

As explained in the preamble to this law, it aims to correct imbalances and take advantage of firms' conditions to foster competitiveness and achieve balanced growth of the Spanish economy, in line with a strategic view of the sustainable economy.

In the public sector, the maximum term for payment of debts is reduced from 60 to 30 days. Once this period has elapsed, contractors can demand in writing that the contracting government honour its payment obligation and, where applicable, can claim interest for late payment. Also, an effective and flexible procedure is set in place for payment of public authorities' debts and transparency mechanisms are established regarding compliance with payment obligations, this being done through regular reports at all government levels and the creation of a new invoice register in local government. For the application of the aforementioned term, the Law establishes a transition period which will end on 1 January 2013.<sup>37</sup>

A maximum period of 60 days is set for payments by firms to their suppliers (previously agreements between the parties prevailed). This payment term cannot be extended by agreement between the parties giving rise to unjustified increases in the payment term. Similarly, a transition period is established which will end on 1 January 2013.<sup>38</sup>

Lastly, the right to be compensated when debtors default is strengthened, it is made simpler for associations to file complaints against abusive practices on behalf of their members and the adoption of codes of good business practice is fostered in respect of payments.

The Law came into force on 7 July 2010.

***Share capital companies***

*Legislative Royal Decree 1/2010 of 2 July 2010* (BOE of 3 July 2010) enacted the consolidated text of the Share Capital Companies Law. This consolidated text replaces Private Limited

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<sup>36</sup>. See "Financial Regulation: 2004 Q4", *Economic Bulletin*, January 2005, Banco de España, pp. 138 and 139. <sup>37</sup>. Thus, between 1 January 2011 and 31 December 2011, the term will be 50 days; between 1 January 2012 and 31 December 2012, it will be 40 days; and from 1 January 2013, it will be 30 days. <sup>38</sup>. Thus, between 7 July 2010 and 31 December 2011, the term will be 85 days; between 1 January 2012 and 31 December 2012, it will be 75 days; and from 1 January 2013, it will be 60 days.

Companies Law 2/1995 of 23 March 1995,<sup>39</sup> Legislative Royal Decree 1564/1989 of 22 December 1989 enacting the consolidated text of the Public Limited Companies Law, Title X of Securities Market Law 24/1988 of 28 July<sup>40</sup> relating to listed companies, and Book II, Title I, Section 4 of the Commercial Code enacted by decree of 22 August 1885.

The Legislative Royal Decree takes the actions envisaged in the seventh final provision of Law 3/2009 of 3 April 2009 on structural changes to companies, which empowers the government, within a period of twelve months, to consolidate in a single text entitled *Share Capital Companies Law*, the legislation on limited stock partnerships, public limited companies, private limited companies and listed public limited companies.

The consolidated text contains the whole of the legislation which has been recast, although it unifies and updates the terminology and resolves those problems of interpretation posed by the legislation before it was recast.

Also, the consolidated text generalises or extends the solutions which were originally conceived for only one type of share capital company. This harmonisation is particularly necessary regarding the determination of the powers of the general meeting and, above all, regarding the winding up and liquidation of share capital companies.

The regulation of listed companies is systematised by this consolidated text addressing eminently corporate economic matters and the Securities Market Law 24/1988 of 28 July 1988, which regulates the financial side of these companies, basically guided by the principle of transparency to ensure that markets function smoothly and investors are protected.

The Legislative Royal Decree came into force on 1 September 2010, except for Article 515 on when clauses that limit voting rights are null and void,<sup>41</sup> which will apply from 1 July 2011.

5.10.2010.

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<sup>39</sup>. See "Regulación financiera: primer trimestre de 1995", *Boletín Económico*, April 1995, Banco de España, pp. 77 and 78. <sup>40</sup>. See footnote 22. <sup>41</sup>. The Legislative Royal Decree stipulates that a clause in the articles of association of listed public limited companies is null and void if it directly or indirectly fixes on a general basis the maximum number of votes that can be cast by a single shareholder or by companies belonging to the same group.

## ECONOMIC INDICATORS

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1. IMF Special Data Dissemination Standard (SDDS).

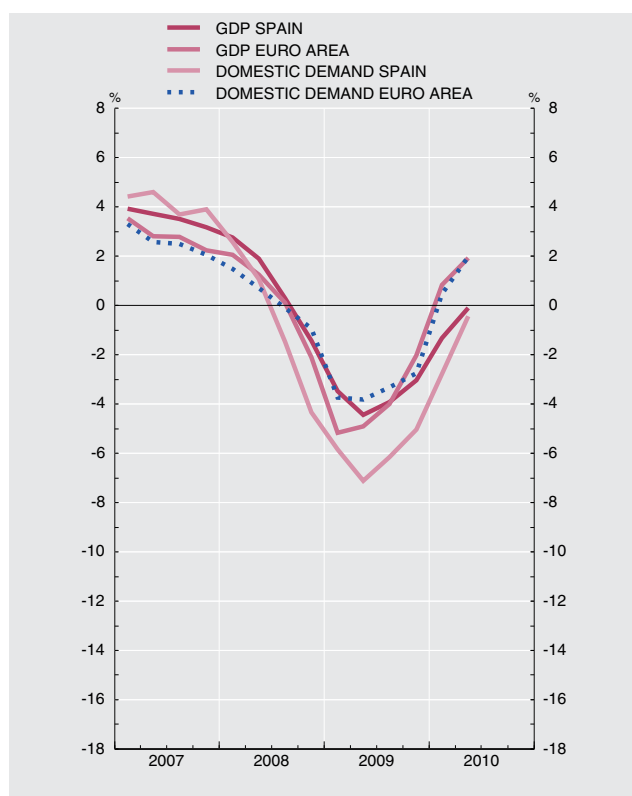
# 1.1. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES, REFERENCE YEAR 2000=100. DEMAND COMPONENTS. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

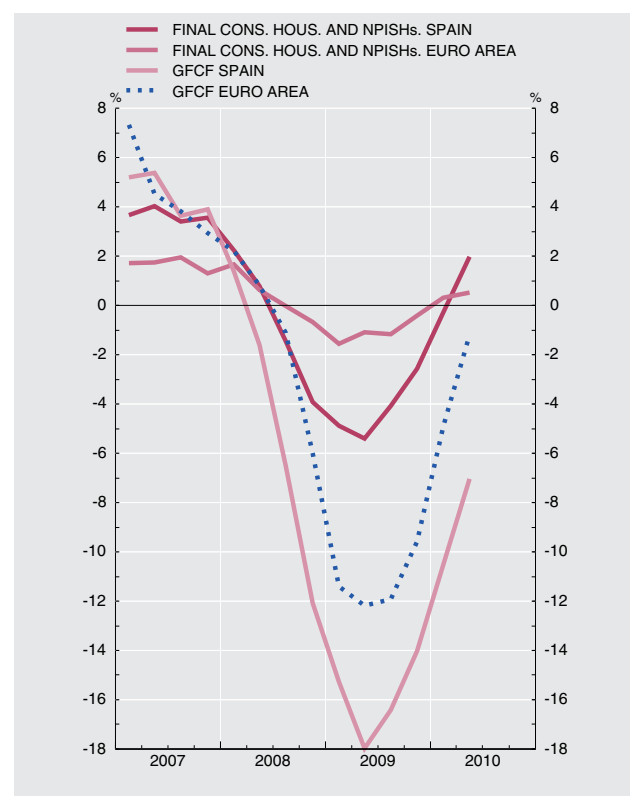
Annual percentage changes

	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
07	3.6	2.8	3.7	1.7	5.5	2.2	4.5	4.6	4.1	2.6	6.7	6.3	8.0	5.8	1 054	9 022
08	0.9	0.3	-0.6	0.4	5.8	2.3	-4.8	-1.0	-0.5	0.3	-1.1	0.8	-5.3	0.7	1 088	9 239
09	-3.7	-4.0	-4.2	-1.1	3.2	2.4	-16.0	-11.3	-6.0	-3.4	-11.6	-12.9	-17.8	-11.7	1 054	8 952
07 Q3	3.5	2.8	3.4	1.9	5.6	2.2	3.6	3.8	3.7	2.5	9.2	7.1	8.7	6.5	265	2 268
Q4	3.2	2.2	3.6	1.3	5.4	2.3	3.9	2.9	3.9	2.1	3.3	4.4	5.6	4.0	269	2 287
08 Q1	2.8	2.1	2.2	1.7	5.2	1.8	1.4	2.2	2.6	1.5	4.2	5.6	3.4	4.2	272	2 316
Q2	1.9	1.2	0.8	0.6	5.7	2.5	-1.6	0.8	1.1	0.7	2.6	3.7	-0.2	2.5	273	2 320
Q3	0.3	0.1	-1.5	-0.0	6.0	2.5	-6.5	-1.1	-1.5	-0.1	-3.4	0.9	-8.2	0.4	273	2 316
Q4	-1.4	-2.1	-3.9	-0.7	6.4	2.5	-12.1	-6.0	-4.3	-0.9	-7.8	-7.1	-15.6	-4.4	270	2 287
09 Q1	-3.5	-5.2	-4.9	-1.6	5.9	2.9	-15.3	-11.4	-5.8	-3.7	-16.5	-16.1	-21.5	-13.0	266	2 233
Q2	-4.4	-4.9	-5.4	-1.1	4.4	2.5	-18.0	-12.2	-7.1	-3.8	-15.8	-16.6	-22.2	-14.4	263	2 229
Q3	-3.9	-4.0	-4.1	-1.2	2.7	2.5	-16.4	-11.9	-6.1	-3.3	-11.0	-13.7	-17.2	-12.3	262	2 242
Q4	-3.0	-2.0	-2.6	-0.4	0.2	1.7	-14.0	-9.6	-5.0	-2.8	-2.1	-5.2	-9.2	-7.0	263	2 248
10 Q1	-1.3	0.8	-0.3	0.3	-0.2	1.2	-10.5	-4.9	-2.8	0.5	8.8	5.6	2.0	4.8	263	2 260
Q2	-0.1	1.9	2.0	0.5	0.4	1.1	-7.0	-1.2	-0.4	2.0	10.5	11.6	8.1	12.1	264	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.

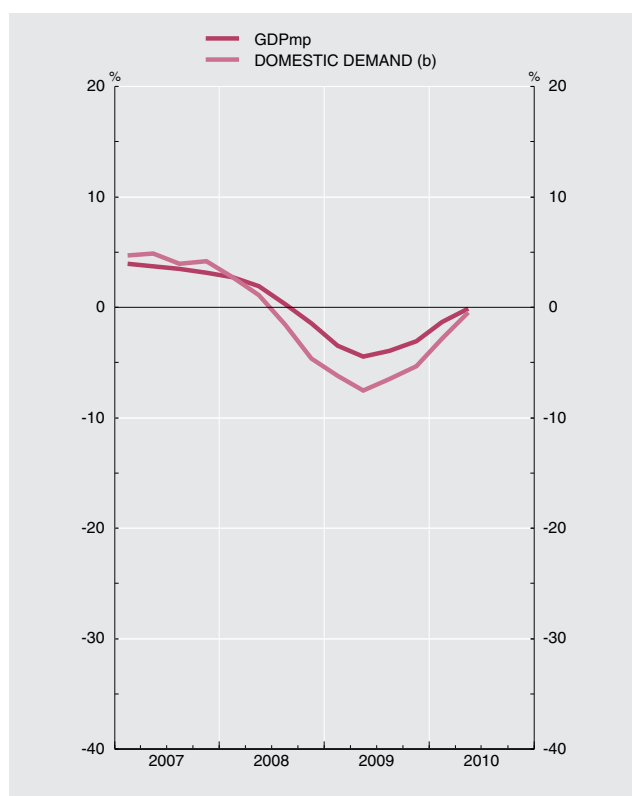
## 1.2. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES. REFERENCE YEAR 2000=100. DEMAND COMPONENTS. SPAIN: BREAKDOWN (a)

■ Series depicted in chart.

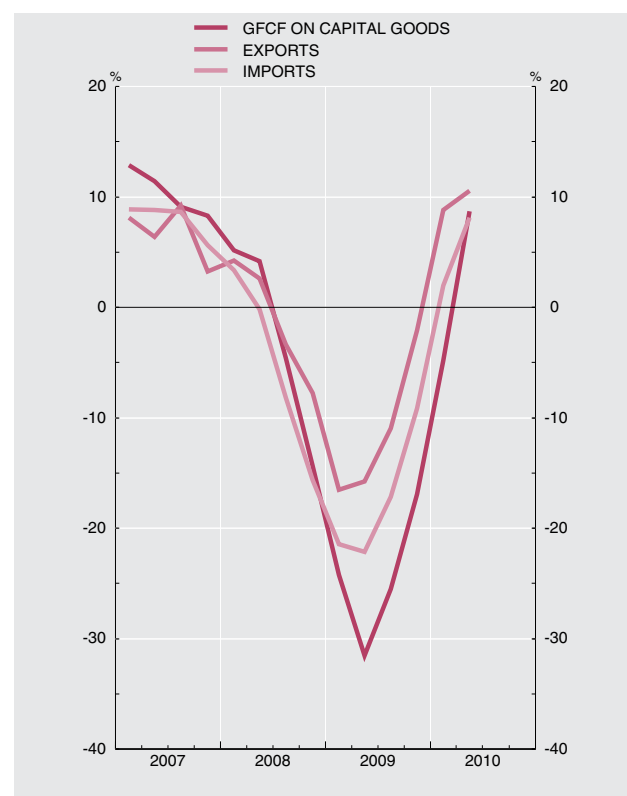
Annual percentage changes

		Gross fixed capital formation					Exports of goods and services				Imports of goods and services				Memorandum items:	
		Total	Capital goods	Construction	Other products	Change in Stocks (b)	Total	Goods	Final consumption of non-residents in economic territory	Services	Total	Goods	Final consumption of residents in the rest of the world	Services	Domestic demand (b) (c)	GDP
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
07	P	4.5	10.4	3.2	0.8	-0.1	6.7	7.5	-0.7	10.6	8.0	7.7	7.2	9.4	4.4	3.6
08	P	-4.8	-2.5	-5.9	-4.1	0.1	-1.1	-1.9	-4.3	4.6	-5.3	-6.0	-6.0	-1.6	-0.6	0.9
09	P	-16.0	-24.8	-11.9	-16.2	-0.0	-11.6	-12.5	-9.6	-10.0	-17.8	-19.2	-13.4	-12.5	-6.4	-3.7
07	Q3	P	3.6	9.1	2.6	-0.4	9.2	8.7	-1.2	21.6	8.7	7.8	6.4	13.4	3.9	3.5
	Q4	P	3.9	8.3	2.5	-0.1	3.3	3.9	0.4	3.2	5.6	6.0	2.7	4.1	4.2	3.2
08	Q1	P	1.4	5.2	-0.6	2.7	4.2	3.9	0.8	8.7	3.4	3.7	3.6	2.0	2.7	2.8
	Q2	P	-1.6	4.2	-4.3	-1.1	0.2	2.6	2.2	-3.1	-0.2	0.2	-2.6	-1.6	1.1	1.9
	Q3	P	-6.5	-4.5	-7.5	-6.0	0.2	-3.4	-2.8	-4.7	-4.2	-9.3	-11.6	-2.2	-1.6	0.3
	Q4	P	-12.1	-14.4	-11.1	-11.7	0.1	-7.8	-10.6	-10.1	-15.6	-18.0	-13.1	-4.6	-4.6	-1.4
09	Q1	P	-15.3	-24.2	-12.2	-12.1	-16.5	-20.0	-13.9	-5.3	-21.5	-23.7	-19.5	-11.1	-6.2	-3.5
	Q2	P	-18.0	-31.5	-12.0	-16.9	-0.0	-15.8	-18.4	-9.4	-10.9	-22.2	-24.4	-18.3	-7.5	-4.4
	Q3	P	-16.4	-25.5	-11.7	-18.7	-0.0	-11.0	-11.5	-9.3	-10.2	-17.2	-18.4	-13.5	-6.5	-3.9
	Q4	P	-14.0	-16.9	-11.9	-17.2	-0.1	-2.1	2.1	-5.4	-13.3	-9.2	-8.3	-5.6	-5.3	-3.0
10	Q1	P	-10.5	-4.8	-11.4	-15.4	0.0	8.8	14.4	-0.8	-1.4	2.0	-0.5	-4.2	-2.8	-1.3
	Q2	P	-7.0	8.7	-11.4	-12.4	0.1	10.5	16.0	-1.3	2.1	8.1	3.0	3.7	-0.5	-0.1

**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.

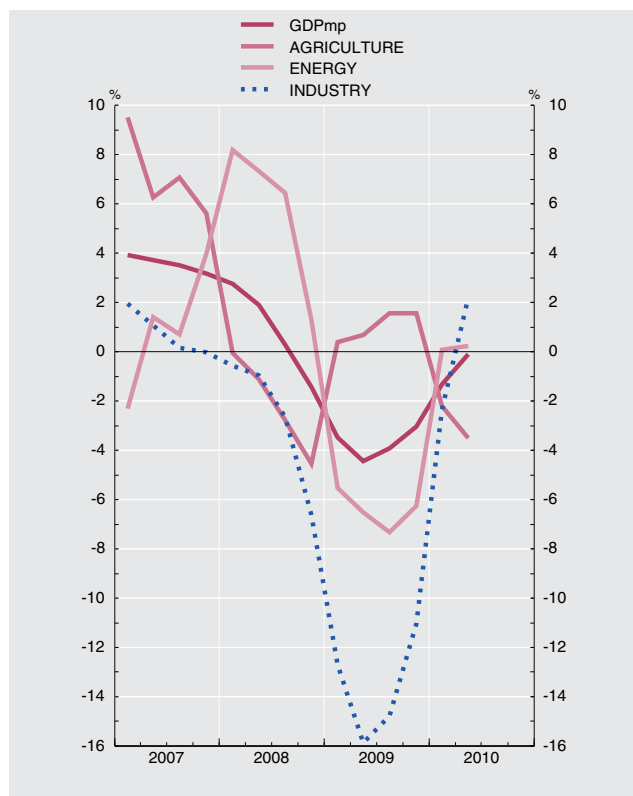
### 1.3. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES. REFERENCE YEAR 2000=100. BRANCHES OF ACTIVITY. SPAIN (a)

■ Series depicted in chart.

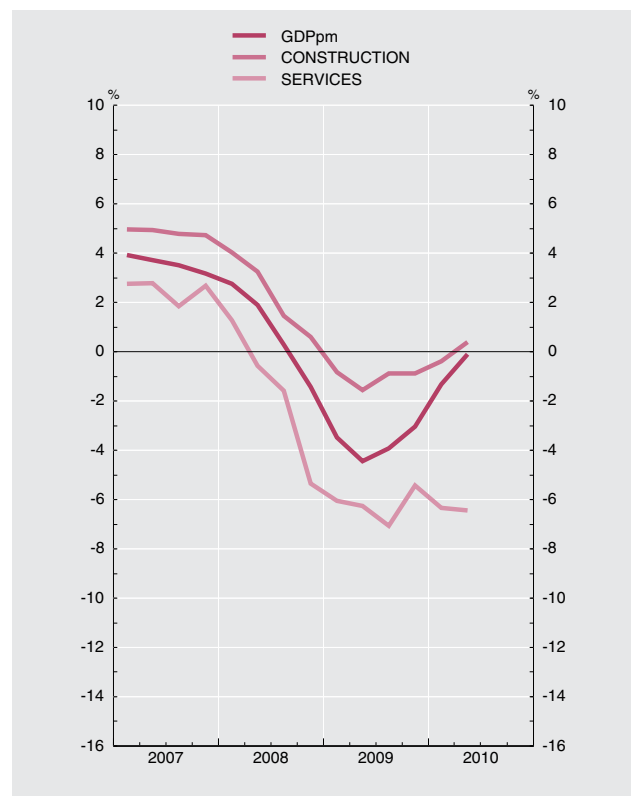
Annual percentage changes

		1	2	3	4	5	Services			9	10	11	
							6	7	8				
		Gross domestic product at market prices	Agriculture and fisheries	Energy	Industry	Construction	Total	Market services	Non-market services	VAT on products	Net taxes linked to imports	Other net taxes on products	
07	P	3.6	7.1	0.9	0.8	2.5	4.8	4.9	4.8	2.8	3.3	-2.0	
08	P	0.9	-2.1	5.8	-2.7	-1.6	2.3	1.7	4.7	-1.3	-1.0	-0.7	
09	P	-3.7	1.0	-6.4	-13.6	-6.2	-1.0	-1.9	2.1	-5.0	-9.9	-7.4	
07	Q3	P	3.5	7.1	0.7	0.2	1.8	4.8	4.7	4.9	2.8	4.3	1.1
	Q4	P	3.2	5.6	4.0	-0.0	2.7	4.7	4.6	5.1	1.9	3.8	-7.1
08	Q1	P	2.8	-0.1	8.2	-0.6	1.3	4.0	3.6	5.4	0.6	4.4	0.3
	Q2	P	1.9	-1.1	7.3	-1.0	-0.6	3.3	2.6	5.6	-0.2	1.6	-0.6
	Q3	P	0.3	-2.8	6.4	-2.6	-1.6	1.5	0.7	4.3	-2.0	-3.1	-1.2
	Q4	P	-1.4	-4.6	1.3	-6.6	-5.4	0.6	-0.2	3.6	-3.6	-6.7	-1.3
09	Q1	P	-3.5	0.4	-5.5	-12.7	-6.1	-0.8	-1.8	2.5	-4.8	-10.6	-7.2
	Q2	P	-4.4	0.7	-6.5	-15.9	-6.3	-1.6	-2.6	2.2	-6.0	-12.3	-8.1
	Q3	P	-3.9	1.6	-7.3	-14.8	-7.1	-0.9	-1.7	2.0	-5.2	-10.7	-8.4
	Q4	P	-3.0	1.6	-6.3	-11.0	-5.4	-0.9	-1.6	1.6	-4.0	-5.7	-6.1
10	Q1	P	-1.3	-2.2	0.1	-2.3	-6.3	-0.4	-0.7	0.6	-2.5	1.6	0.6
	Q2	P	-0.1	-3.5	0.2	2.2	-6.4	0.4	0.3	0.7	-0.0	9.4	3.9

**GDP. BRANCHES OF ACTIVITY**  
Annual percentage changes



**GDP. BRANCHES OF ACTIVITY**  
Annual percentage changes



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

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

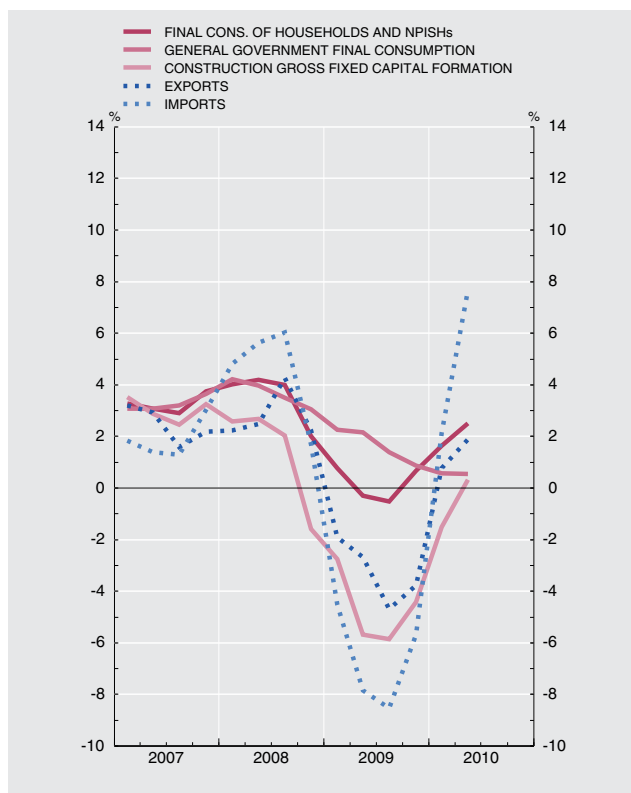
#### 1.4. GROSS DOMESTIC PRODUCT. IMPLICIT DEFLATORS. SPAIN (a)

■ Series depicted in chart.

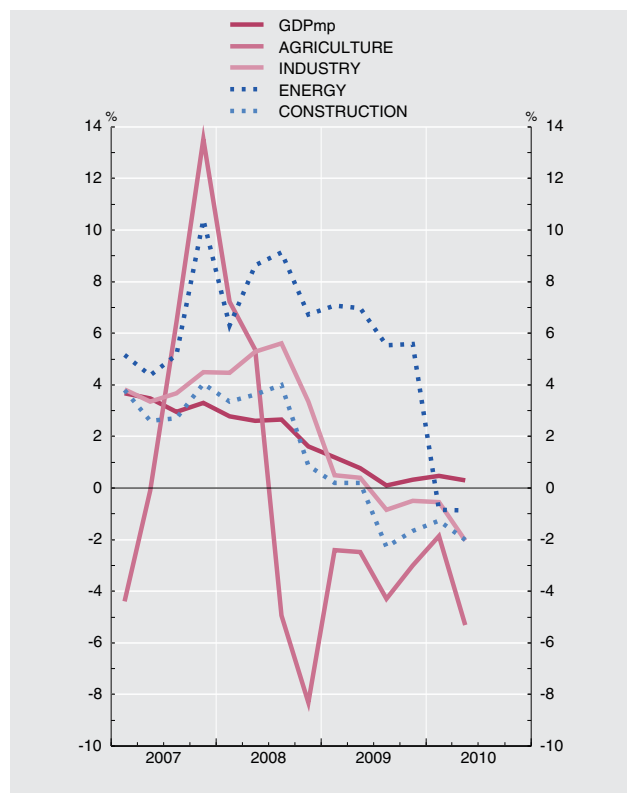
Annual percentage changes

		Demand components							Branches of activity						
		Final consumption of households and NPISHs  (b)	General government final consumption	Gross fixed capital formation			Exports of goods and services	Imports of goods and services	Gross domestic product at market prices	Agriculture and fisheries	Energy	Industry	Construction	Of which	
				Capital goods	Construction	Other products								Services	Market services
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
07	P	3.3	3.3	1.6	3.0	3.2	2.5	1.9	3.4	3.8	6.3	3.8	3.3	3.6	3.5
08	P	3.5	3.7	0.9	1.4	1.4	2.8	4.5	2.4	-0.5	7.7	4.7	2.9	4.5	4.7
09	P	0.1	1.7	-0.8	-4.7	-2.9	-3.3	-6.7	0.6	-3.0	6.3	-0.1	-0.9	2.8	2.8
07 Q3 Q4	P	2.9	3.2	1.4	2.5	2.7	1.6	1.3	3.0	6.4	5.2	3.7	2.7	3.6	3.5
	P	3.8	3.7	2.3	3.2	2.7	2.2	3.0	3.3	13.5	10.4	4.5	4.0	4.0	4.0
08 Q1 Q2 Q3 Q4	P	4.0	4.2	1.6	2.6	2.4	2.2	4.8	2.8	7.2	6.3	4.5	3.3	4.5	4.6
	P	4.2	4.0	1.4	2.7	1.5	2.5	5.6	2.6	5.3	8.6	5.3	3.6	4.9	5.1
	P	4.0	3.5	0.7	2.0	1.5	4.3	6.0	2.6	-4.9	9.1	5.6	4.0	4.6	4.9
	P	2.0	3.1	0.3	-1.6	0.1	2.2	1.7	1.6	-8.3	6.7	3.4	0.9	4.0	4.1
09 Q1 Q2 Q3 Q4	P	0.8	2.3	-0.0	-2.8	-2.5	-1.9	-4.5	1.2	-2.4	7.1	0.5	0.2	3.4	3.8
	P	-0.3	2.2	-1.0	-5.7	-3.4	-2.7	-7.8	0.8	-2.5	7.0	0.4	0.2	3.6	3.6
	P	-0.5	1.4	-1.3	-5.9	-4.0	-4.7	-8.5	0.1	-4.3	5.5	-0.8	-2.3	2.3	2.2
	P	0.6	0.9	-0.9	-4.4	-1.9	-3.8	-5.7	0.3	-3.0	5.6	-0.5	-1.7	1.8	1.7
10 Q1 Q2	P	1.6	0.6	0.3	-1.5	0.6	0.8	2.1	0.5	-1.9	-0.9	-0.5	-1.3	0.9	1.0
	P	2.5	0.5	1.9	0.3	4.0	1.9	7.7	0.3	-5.3	-0.9	-2.0	-2.0	-1.2	-1.5

GDP. IMPLICIT DEFLATORS  
Annual percentage changes



GDP. IMPLICIT DEFLATORS  
Annual percentage changes



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

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

b. Final consumption expenditure may take place on the domestic territory or abroad (ESA95, 3.75). It therefore includes residents' consumption abroad, which is subsequently deducted in Imports of goods and services.

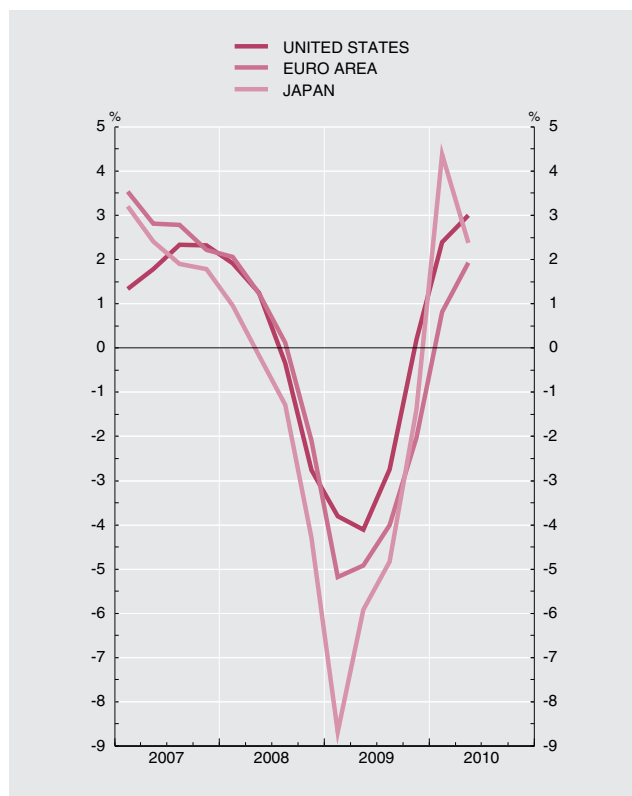
## 2.1. INTERNATIONAL COMPARISON. GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

■ Series depicted in chart.

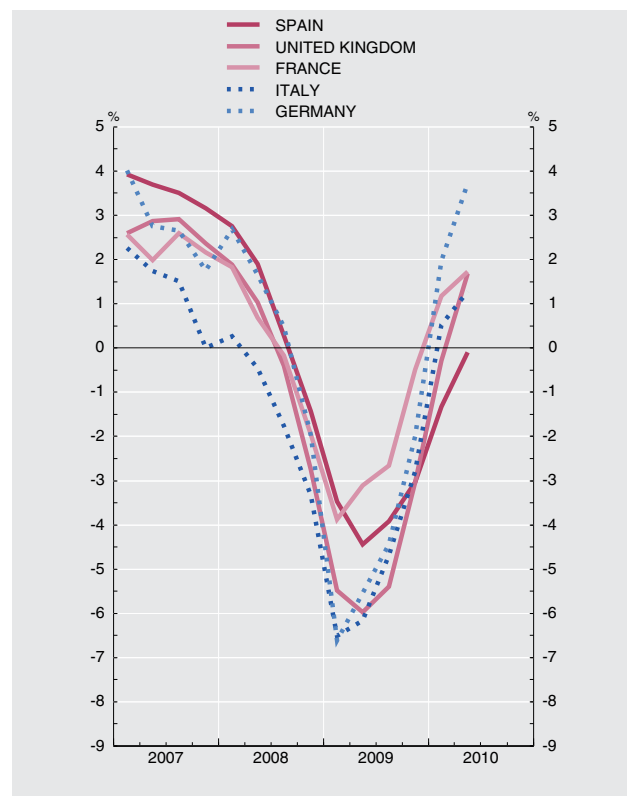
Annual percentage changes

	OECD	EU-27	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	1	2	3	4	5	6	7	8	9	10
<b>07</b>	2.7	3.0	2.8	2.8	3.6	1.9	2.3	1.4	2.3	2.7
<b>08</b>	0.3	0.4	0.3	0.7	0.9	-	0.1	-1.3	-1.2	-0.1
<b>09</b>	-3.4	-4.2	-4.0	-4.7	-3.7	-2.6	-2.5	-5.1	-5.2	-5.0
<b>07 Q2</b>	2.6	2.9	2.8	2.7	3.7	1.8	2.0	1.7	2.4	2.9
<b>Q3</b>	2.8	2.9	2.8	2.7	3.5	2.3	2.6	1.5	1.9	2.9
<b>Q4</b>	2.6	2.5	2.2	1.8	3.2	2.3	2.2	0.0	1.8	2.4
<b>08 Q1</b>	2.2	2.2	2.1	2.7	2.8	1.9	1.8	0.3	1.0	1.9
<b>Q2</b>	1.3	1.4	1.2	1.7	1.9	1.2	0.7	-0.5	-0.2	1.0
<b>Q3</b>	0.1	0.3	0.1	0.5	0.3	-0.3	-0.2	-1.8	-1.3	-0.4
<b>Q4</b>	-2.5	-2.1	-2.1	-2.0	-1.4	-2.8	-2.0	-3.3	-4.3	-2.7
<b>09 Q1</b>	-5.0	-5.1	-5.2	-6.6	-3.5	-3.8	-3.9	-6.5	-8.7	-5.5
<b>Q2</b>	-4.6	-5.1	-4.9	-5.5	-4.4	-4.1	-3.1	-6.2	-5.9	-6.0
<b>Q3</b>	-3.4	-4.3	-4.0	-4.4	-3.9	-2.7	-2.7	-4.7	-4.8	-5.4
<b>Q4</b>	-0.6	-2.2	-2.0	-2.0	-3.0	0.2	-0.5	-2.8	-1.4	-3.0
<b>10 Q1</b>	2.4	0.7	0.8	2.0	-1.3	2.4	1.2	0.5	4.4	-0.3
<b>Q2</b>	...	2.0	1.9	3.7	-0.1	3.0	1.7	1.3	2.4	1.7

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.

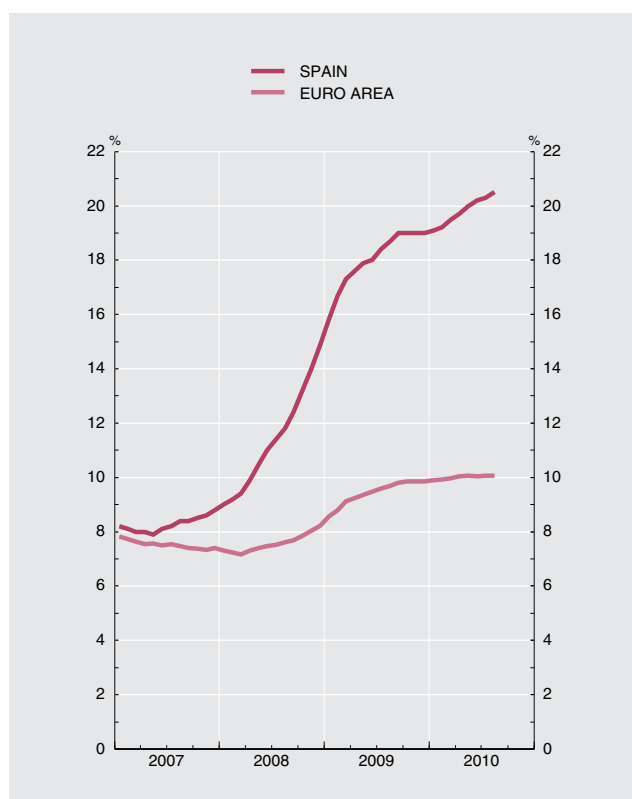
## 2.2. INTERNATIONAL COMPARISON. UNEMPLOYMENT RATES

■ Series depicted in chart.

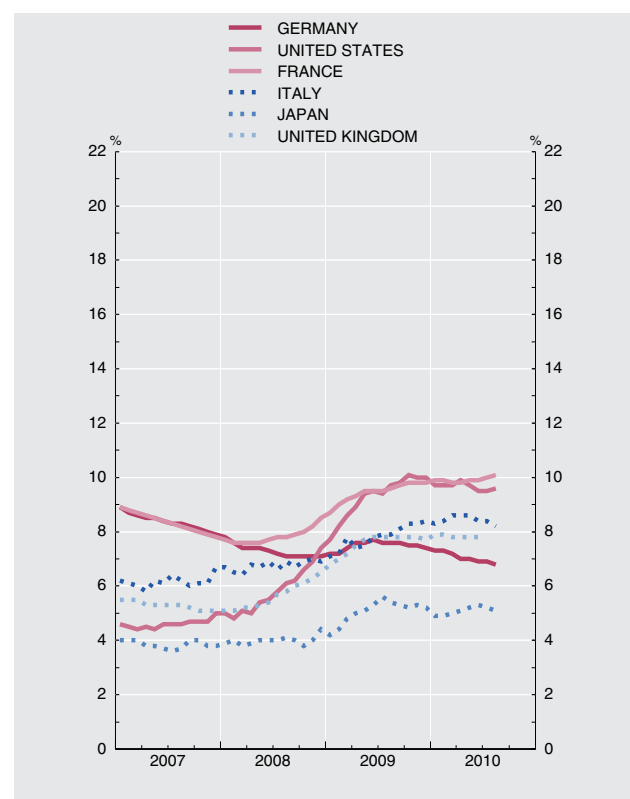
Percentages

	OECD	EU-27	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	1	2	3	4	5	6	7	8	9	10
<b>07</b>	5.8	7.2	7.5	8.4	8.3	4.6	8.3	6.2	3.8	5.3
<b>08</b>	6.1	7.0	7.6	7.3	11.4	5.8	7.8	6.8	4.0	5.6
<b>09</b>	8.3	8.9	9.4	7.5	18.0	9.3	9.5	7.8	5.1	7.6
<b>09 Mar</b>	7.9	8.5	9.1	7.4	17.3	8.6	9.2	7.8	4.8	7.2
<b>Apr</b>	8.1	8.7	9.2	7.6	17.6	8.9	9.3	7.4	5.0	7.5
<b>May</b>	8.4	8.9	9.4	7.6	17.9	9.4	9.5	7.5	5.1	7.7
<b>Jun</b>	8.5	9.0	9.5	7.7	18.0	9.5	9.5	7.8	5.3	7.8
<b>Jul</b>	8.5	9.1	9.6	7.6	18.4	9.4	9.5	7.9	5.6	7.8
<b>Aug</b>	8.6	9.2	9.7	7.6	18.7	9.7	9.6	7.9	5.4	7.8
<b>Sep</b>	8.7	9.3	9.8	7.6	19.0	9.8	9.7	8.1	5.3	7.8
<b>Oct</b>	8.8	9.4	9.8	7.5	19.0	10.1	9.8	8.3	5.2	7.8
<b>Nov</b>	8.7	9.4	9.9	7.5	19.0	10.0	9.8	8.3	5.3	7.8
<b>Dec</b>	8.7	9.4	9.9	7.4	19.0	10.0	9.8	8.4	5.2	7.7
<b>10 Jan</b>	8.7	9.5	9.9	7.3	19.1	9.7	9.9	8.3	4.9	7.9
<b>Feb</b>	8.6	9.6	9.9	7.3	19.2	9.7	9.9	8.4	4.9	7.9
<b>Mar</b>	8.6	9.6	10.0	7.2	19.5	9.7	9.8	8.6	5.0	7.8
<b>Apr</b>	8.7	9.6	10.0	7.0	19.7	9.9	9.8	8.6	5.1	7.8
<b>May</b>	8.6	9.6	10.1	7.0	20.0	9.7	9.9	8.6	5.2	7.8
<b>Jun</b>	8.6	9.6	10.1	6.9	20.2	9.5	9.9	8.4	5.3	7.8
<b>Jul</b>	8.6	9.6	10.1	6.9	20.3	9.5	10.0	8.4	5.2	...
<b>Aug</b>	8.5	9.6	10.1	6.8	20.5	9.6	10.1	8.2	5.1	...

UNEMPLOYMENT RATES



UNEMPLOYMENT RATES



Source: OECD.



## 2.3. INTERNATIONAL COMPARISON. CONSUMER PRICES (a)

■ Series depicted in chart.

Annual percentage changes

	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	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
09	0.5	1.0	0.3	0.2	-0.2	-0.3	0.1	0.8	-1.4	2.2
09 Apr	0.6	1.3	0.6	0.8	-0.2	-0.7	0.1	1.2	-0.1	2.3
May	0.1	0.8	0.0	-	-0.9	-1.3	-0.3	0.8	-1.1	2.2
Jun	-0.1	0.6	-0.1	-	-1.0	-1.4	-0.6	0.6	-1.8	1.8
Jul	-0.5	0.2	-0.6	-0.7	-1.3	-2.0	-0.8	-0.1	-2.2	1.7
Aug	-0.3	0.6	-0.2	-0.1	-0.7	-1.5	-0.2	0.1	-2.2	1.5
Sep	-0.3	0.3	-0.3	-0.5	-0.9	-1.3	-0.4	0.4	-2.2	1.1
Oct	0.3	0.5	-0.1	-0.1	-0.6	-0.2	-0.2	0.3	-2.5	1.5
Nov	1.4	1.0	0.5	0.3	0.4	1.8	0.5	0.8	-1.9	1.9
Dec	1.9	1.5	0.9	0.8	0.9	2.8	1.0	1.1	-1.7	2.8
10 Jan	2.1	1.7	1.0	0.8	1.1	2.7	1.2	1.3	-1.3	3.4
Feb	1.9	1.5	0.9	0.5	0.9	2.1	1.4	1.1	-1.1	3.0
Mar	2.1	1.9	1.4	1.2	1.5	2.3	1.7	1.4	-1.1	3.4
Apr	2.1	2.1	1.5	1.0	1.6	2.2	1.9	1.6	-1.2	3.7
May	2.0	2.0	1.6	1.2	1.8	2.0	1.9	1.6	-0.9	3.3
Jun	1.5	1.9	1.4	0.8	1.5	1.1	1.7	1.5	-0.7	3.2
Jul	1.6	2.1	1.7	1.2	1.9	1.2	1.9	1.8	-0.9	3.1
Aug	1.5	2.0	1.6	1.0	1.8	1.2	1.6	1.8	-0.9	3.1
Sep	...	2.2	1.8	1.3	2.1	...	1.8	1.6	...	3.0

CONSUMER PRICES  
Annual percentage changes



CONSUMER PRICES  
Annual percentage changes



Sources: OECD, INE and Eurostat.

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

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

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

■ Series depicted in chart.

Average of daily data

	Exchange rates			Indices of the nominal effective exchange rate vis-à-vis the (a) developed countries 1999 Q1=100			Indices of the real effective exchange rate vis-à-vis the developed countries (b) 1999 Q1=100					
	US dollar per ECU/euro	Japanese yen per ECU/euro	Japanese yen per US dollar	Euro	US dollar	Japanese yen	Based on consumer prices			Based on producer prices		
							Euro	US dollar	Japanese yen	Euro	US dollar	Japanese yen
	1	2	3	4	5	6	7	8	9	10	11	12
07	1.3710	161.26	117.74	106.4	82.2	88.0	106.8	90.1	70.2	103.7	92.5	68.4
08	1.4707	152.31	103.36	110.6	78.2	98.4	110.1	86.6	77.0	105.6	90.4	74.9
09	1.3940	130.30	93.57	111.7	81.2	112.4	110.6	89.5	86.6	104.1	93.0	85.4
09 J-S	1.3656	129.50	94.85	111.0	82.8	112.3	110.1	91.2	86.8	103.6	94.4	85.7
10 J-S	1.3157	117.85	89.54	104.8	79.9	119.0	103.2	88.8	88.9	97.2	94.2	86.7
09 Jul	1.4088	133.09	94.47	111.6	80.2	110.3	110.5	88.9	84.6	104.0	92.1	83.8
Aug	1.4268	135.31	94.84	111.7	78.9	108.8	110.6	87.4	83.5	104.1	91.5	82.1
Sep	1.4562	133.14	91.44	112.9	77.6	111.8	111.6	86.0	85.8	105.1	89.7	84.7
Oct	1.4816	133.91	90.38	114.3	76.3	112.0	112.8	84.6	85.5	106.4	88.5	84.2
Nov	1.4914	132.97	89.16	114.0	75.8	113.1	112.5	84.1	86.1	105.7	88.6	84.8
Dec	1.4614	131.21	89.81	113.0	76.6	113.4	111.2	84.8	86.1	104.4	89.5	84.9
10 Jan	1.4272	130.34	91.32	110.8	77.4	112.5	108.9	86.2	85.3	102.4	91.2	83.5
Feb	1.3686	123.46	90.21	108.0	79.1	116.2	106.1	87.8	87.7	100.0	92.5	86.3
Mar	1.3569	123.03	90.68	107.4	78.9	115.9	105.7	87.6	87.4	99.4	93.0	85.5
Apr	1.3406	125.33	93.49	106.1	79.3	112.6	104.5	87.8	84.7	98.5	93.3	82.7
May	1.2565	115.83	92.15	102.8	82.4	118.1	101.4	91.3	88.8	95.4	97.2	86.4
Jun	1.2209	110.99	90.92	100.7	83.1	121.0	99.4	92.0	91.0	93.6	97.7	88.5
Jul	1.2770	111.73	87.50	102.5	80.7	123.0	101.1	89.4	92.2	95.2	94.9	89.7
Aug	1.2894	110.04	85.33	102.1	79.7	125.3	100.6	88.3	94.0	94.9	93.7	91.1
Sep	1.3067	110.26	84.38	102.5	78.8	125.8	101.0	...	...	95.3	...	...

### EXCHANGE RATES



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



Sources: ECB and BE.

a. Geometric mean calculated using a double weighting system based on (1995-1997), (1998-2000), (2001-2003), and (2004-2006) manufacturing trade of changes in the spot price of each currency against the currencies of the other developed countries. A fall in the index denotes a depreciation of the currency against those of the other developed countries.

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

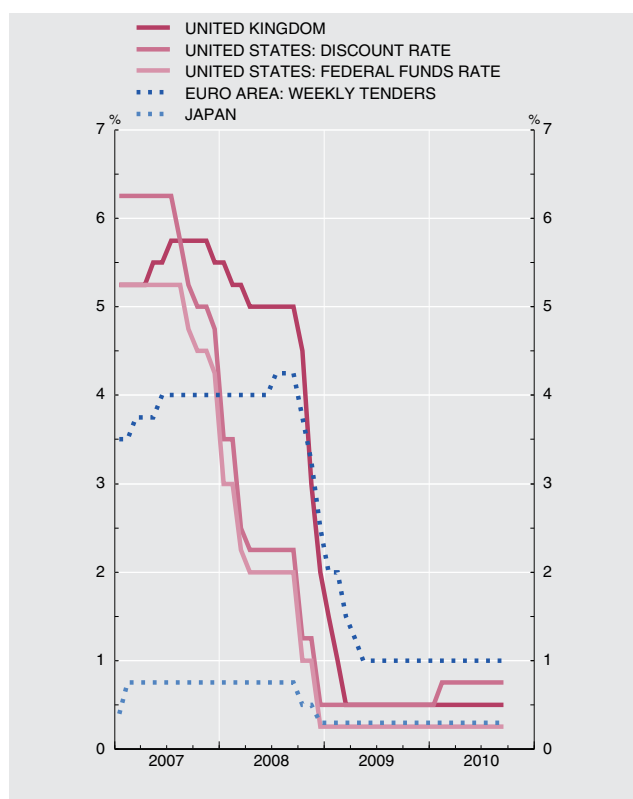
## 2.5. OFFICIAL INTERVENTION INTEREST RATES AND SHORT-TERM INTEREST RATES

■ Series depicted in chart.

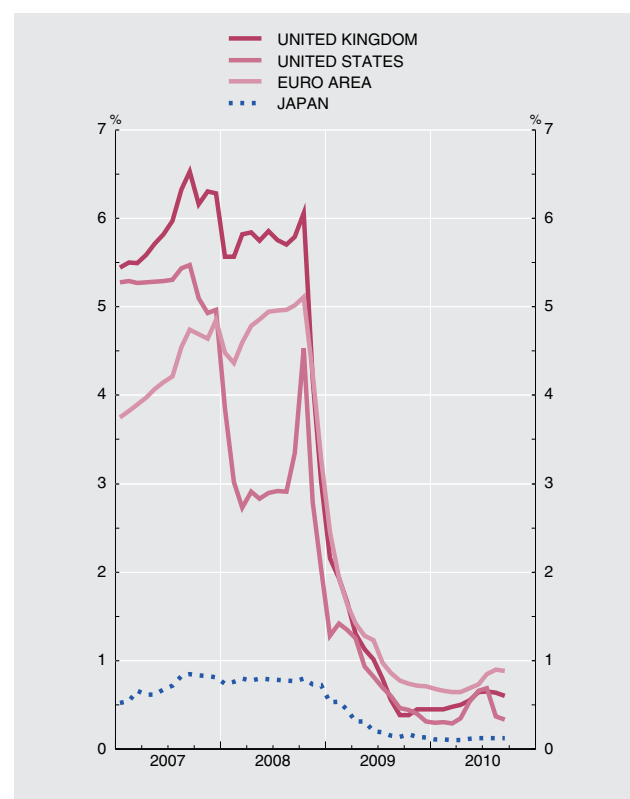
Percentages

	Official intervention interest rates					3-month interbank rates									
	Euro area	United States		Japan	United Kingdom	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
		Discount rate (b)	Federal funds rate												
	(a)	(b)	(c)	(d)											
07	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
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
09	1.00	0.50	0.25	0.30	0.50	0.93	1.19	1.22	-	-	0.83	-	-	0.27	1.01
09 Apr	1.25	0.50	0.25	0.30	0.50	1.19	1.40	1.42	-	-	1.25	-	-	0.31	1.30
May	1.00	0.50	0.25	0.30	0.50	0.99	1.26	1.28	-	-	0.94	-	-	0.31	1.13
Jun	1.00	0.50	0.25	0.30	0.50	0.90	1.19	1.23	-	-	0.82	-	-	0.21	1.01
Jul	1.00	0.50	0.25	0.30	0.50	0.75	0.94	0.98	-	-	0.70	-	-	0.18	0.80
Aug	1.00	0.50	0.25	0.30	0.50	0.66	0.81	0.86	-	-	0.60	-	-	0.15	0.55
Sep	1.00	0.50	0.25	0.30	0.50	0.56	0.71	0.77	-	-	0.46	-	-	0.14	0.39
Oct	1.00	0.50	0.25	0.30	0.50	0.56	0.68	0.74	-	-	0.44	-	-	0.16	0.38
Nov	1.00	0.50	0.25	0.30	0.50	0.53	0.67	0.72	-	-	0.40	-	-	0.14	0.45
Dec	1.00	0.50	0.25	0.30	0.50	0.50	0.67	0.71	-	-	0.31	-	-	0.13	0.45
10 Jan	1.00	0.50	0.25	0.30	0.50	0.48	0.64	0.68	-	-	0.30	-	-	0.11	0.45
Feb	1.00	0.75	0.25	0.30	0.50	0.48	0.62	0.66	-	-	0.30	-	-	0.11	0.45
Mar	1.00	0.75	0.25	0.30	0.50	0.48	0.61	0.65	-	-	0.29	-	-	0.10	0.48
Apr	1.00	0.75	0.25	0.30	0.50	0.51	0.62	0.65	-	-	0.35	-	-	0.10	0.50
May	1.00	0.75	0.25	0.30	0.50	0.61	0.66	0.69	-	-	0.54	-	-	0.11	0.55
Jun	1.00	0.75	0.25	0.30	0.50	0.70	0.74	0.73	-	-	0.66	-	-	0.12	0.64
Jul	1.00	0.75	0.25	0.30	0.50	0.75	0.83	0.85	-	-	0.69	-	-	0.12	0.65
Aug	1.00	0.75	0.25	0.30	0.50	0.64	0.86	0.90	-	-	0.37	-	-	0.12	0.64
Sep	1.00	0.75	0.25	0.30	0.50	0.63	0.84	0.88	-	-	0.33	-	-	0.13	0.60

### OFFICIAL INTERVENTION INTEREST RATES



### 3-MONTH INTERBANK RATES



Sources: ECB, Reuters and BE.

a. Main refinancing operations.

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

c. Discount rate.

d. Retail bank base rate.

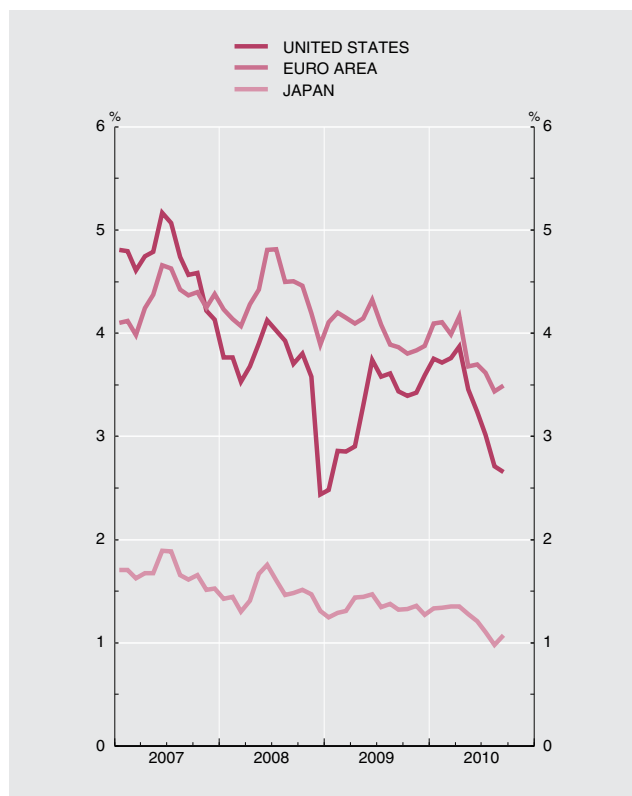
## 2.6. 10-YEAR GOVERNMENT BOND YIELDS ON DOMESTIC MARKETS

■ Series depicted in chart.

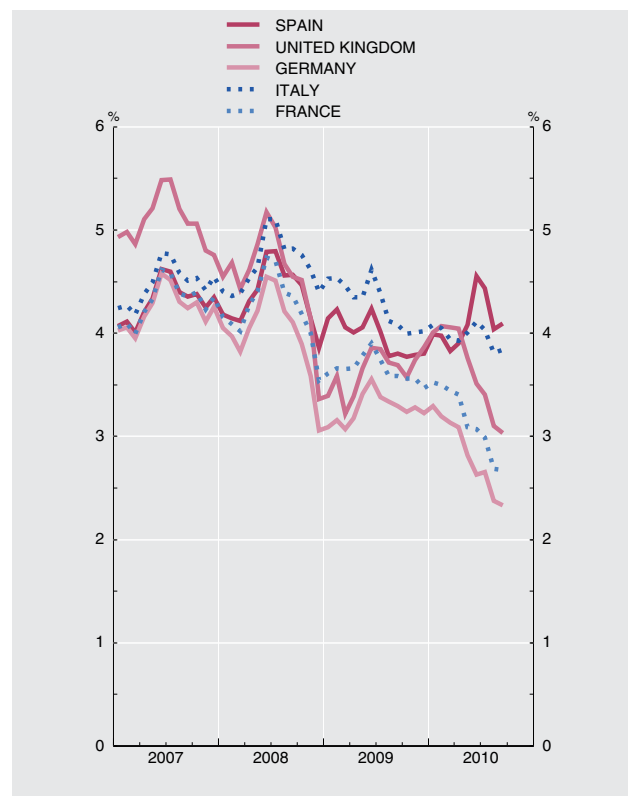
Percentages

	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	1	2	3	4	5	6	7	8	9	10
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
09	3.18	3.74	4.03	3.27	3.97	3.27	3.65	4.28	1.35	3.63
09 Apr	3.03	3.72	4.09	3.18	4.01	2.90	3.66	4.35	1.44	3.38
May	3.26	3.85	4.14	3.41	4.05	3.30	3.79	4.35	1.45	3.66
Jun	3.52	4.02	4.32	3.56	4.24	3.74	3.90	4.62	1.47	3.86
Jul	3.36	3.85	4.09	3.38	4.01	3.58	3.74	4.38	1.35	3.85
Aug	3.32	3.69	3.89	3.34	3.78	3.61	3.59	4.12	1.38	3.72
Sep	3.23	3.67	3.86	3.30	3.80	3.44	3.59	4.08	1.32	3.69
Oct	3.20	3.61	3.80	3.24	3.77	3.40	3.56	3.99	1.33	3.57
Nov	3.23	3.65	3.83	3.28	3.79	3.42	3.56	4.01	1.36	3.74
Dec	3.28	3.65	3.88	3.23	3.80	3.59	3.47	4.02	1.27	3.86
10 Jan	3.40	3.75	4.10	3.30	3.99	3.75	3.53	4.08	1.34	4.01
Feb	3.36	3.73	4.11	3.19	3.98	3.71	3.50	4.05	1.34	4.07
Mar	3.36	3.65	3.99	3.14	3.83	3.76	3.45	3.94	1.35	4.05
Apr	3.42	3.67	4.16	3.09	3.90	3.87	3.41	3.93	1.35	4.05
May	3.16	3.49	3.68	2.82	4.08	3.46	3.09	4.01	1.28	3.76
Jun	3.05	3.49	3.70	2.63	4.56	3.24	3.07	4.11	1.21	3.51
Jul	2.92	3.45	3.62	2.65	4.43	3.01	2.99	4.03	1.10	3.41
Aug	2.67	3.18	3.44	2.38	4.04	2.71	2.69	3.81	0.98	3.10
Sep	2.67	3.21	3.50	2.33	4.09	2.65	2.67	3.84	1.07	3.03

10-YEAR GOVERNMENT BOND YIELDS



10-YEAR GOVERNMENT BOND YIELDS



Sources: ECB, Reuters and BE.

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

■ Series depicted in chart.

Base 2000 = 100

	Non-energy commodity price index (a)						Oil		Gold		
	Euro index	US dollar index					Index (b)	Brent North sea	Index (c)	US dollars per troy ounce	Euro per gram
	General	General	Food	Industrial products				US dollars per barrel			
				Total	Non-food agricultural products	Metals					
	1	2	3	4	5	6	7	8	9	10	11
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
09	120.8	182.3	198.0	162.2	136.0	176.4	219.2	61.7	348.8	973.0	22.42
09 J-S	118.5	175.2	195.4	149.1	126.1	161.6	203.0	57.3	333.3	929.8	21.91
10 J-S	150.7	214.4	206.3	225.0	204.4	236.3	272.8	77.5	422.0	1 177.3	28.88
09 Aug	126.4	194.7	202.0	185.1	144.0	207.6	253.7	73.0	340.3	949.4	21.41
Sep	121.2	190.7	195.0	185.0	145.8	206.5	242.2	67.7	357.2	996.6	22.01
Oct	122.4	196.3	199.6	192.1	153.5	213.2	262.4	73.2	373.9	1 043.2	22.62
Nov	126.1	202.6	206.2	198.1	165.5	215.8	274.7	76.9	404.0	1 127.0	24.28
Dec	134.4	210.9	211.6	212.6	177.2	231.9	265.2	74.4	406.8	1 134.7	24.90
10 Jan	139.8	216.4	211.3	223.0	185.8	243.3	273.1	76.4	400.6	1 117.7	25.19
Feb	140.6	208.9	204.6	214.5	190.8	227.4	264.6	74.1	392.7	1 095.4	25.75
Mar	144.3	211.7	197.2	230.6	202.0	246.1	280.9	78.8	399.1	1 113.3	26.37
Apr	150.6	218.7	197.0	246.7	219.3	261.7	298.1	84.5	411.8	1 148.7	27.52
May	151.9	206.7	195.0	222.0	210.7	228.1	267.6	75.8	432.1	1 205.4	30.96
Jun	152.4	201.1	193.9	210.5	206.2	212.9	264.7	75.0	442.0	1 232.9	32.45
Jul	150.4	208.1	205.4	211.4	198.1	218.7	263.8	76.4	427.6	1 193.0	30.01
Aug	159.6	222.9	220.2	226.4	203.5	238.9	268.9	77.9	435.8	1 215.8	30.31
Sep	166.1	235.2	231.7	239.6	223.0	248.8	...	78.4	455.0	1 269.3	31.25

### NON-ENERGY COMMODITY PRICE INDEX



### PRICE INDICES FOR NON-ENERGY COMMODITIES, OIL AND GOLD



Sources: The Economist, IMF, ECB and BE.

a. The weights are based on the value of the world commodity imports during the period 1999-2001.

b. Index of the average price in US dollars of various medium, light and heavy crudes.

c. Index of the London market's 15.30 fixing in dollars.

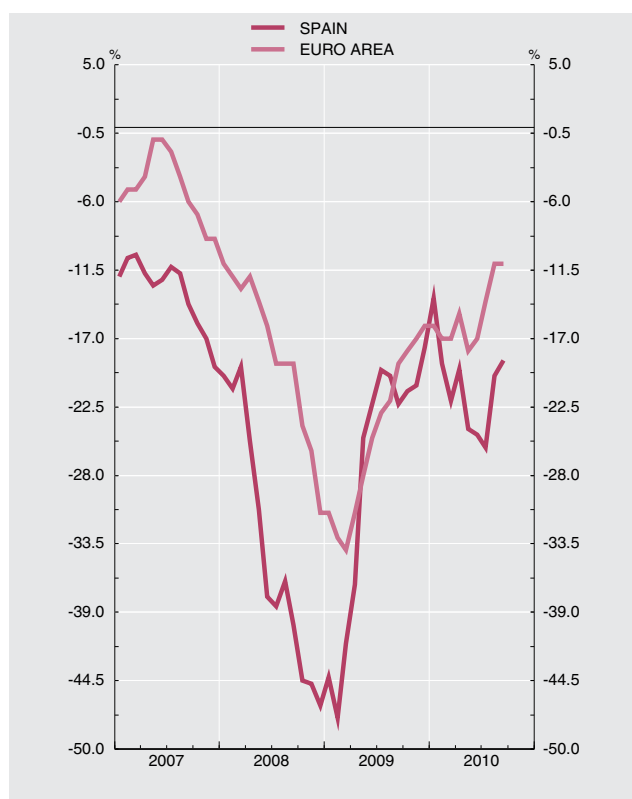
### 3.1 INDICATORS OF PRIVATE CONSUMPTION. SPAIN AND EURO AREA

■ Series depicted in chart.

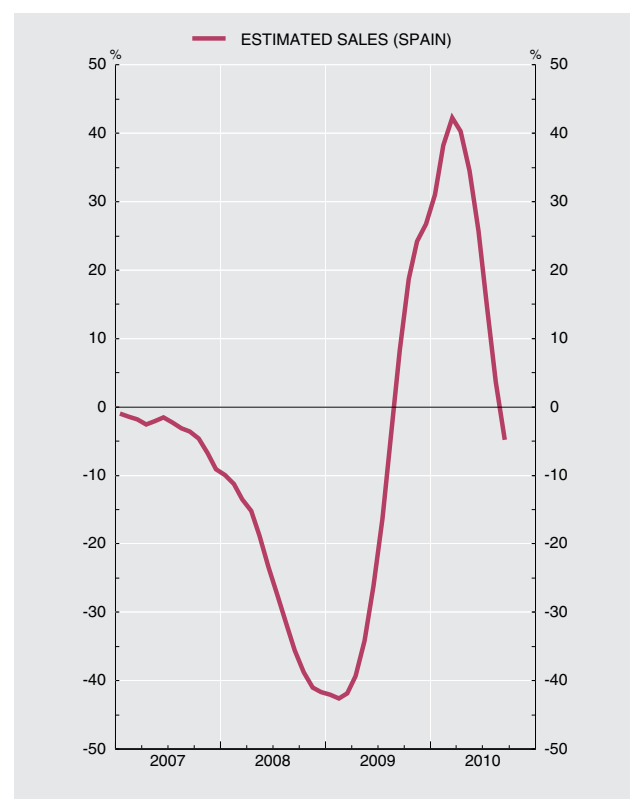
Annual percentage changes

	Opinion surveys (net percentages)						New car registrations and sales				Retail trade indices (2005=100, NACE 2009) (Deflated indices)								
	Consumers			Retail trade confidence index (a)	Memorandum item: euro area		of which			Memorandum item: euro area	General retail trade index	General index without petrol stations							
												Total	Food	Large retail outlets	Large chain stores	Small chain stores	Single-outlet retailers	Memorandum item: euro area (b)	
	Confidence index	General economic situation: anticipated trend	Household economic situation: anticipated trend		Consumer confidence index	Retail trade confidence index (a)	Registrations	Private use	Estimated sales										Registrations
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	
07		-13	-12	-4	-13	-5	1	-1.6	-2.2	-1.2	-0.4	2.8	2.4	1.3	1.8	6.2	3.2	0.5	1.9
08		-34	-33	-21	-27	-18	-7	-27.4	-30.0	-28.1	-6.7	-5.7	-5.7	-2.3	-5.2	1.1	-8.6	-8.0	-0.8
09	P	-28	-26	-13	-24	-25	-15	-18.1	-10.7	-17.9	5.3	-5.7	-5.8	-3.4	-6.0	-1.6	-7.1	-7.2	-1.9
09 J-S	P	-31	-30	-16	-25	-27	-17	-28.8	-21.8	-28.6	-0.2	-6.4	-6.8	-4.2	-6.9	-2.5	-8.5	-8.3	-2.3
10 J-S	P	-21	-18	-10	-15	-15	-4	16.3	9.7	16.2	-6.4	...	...	...	...	...	...	...	...
09 Oct	P	-21	-15	-7	-21	-18	-15	26.4	28.6	26.7	10.9	-4.3	-3.9	-1.6	-3.6	-0.1	-5.0	-5.1	-0.6
Nov	P	-21	-14	-7	-22	-17	-11	37.5	37.3	37.3	34.3	-4.8	-3.5	-2.3	-7.4	-	-2.3	-3.8	-1.6
Dec	P	-18	-12	-4	-24	-16	-10	26.6	30.4	25.1	19.8	-1.2	-0.1	0.2	0.9	3.4	-1.5	-3.0	0.2
10 Jan	P	-14	-8	-4	-20	-16	-5	17.4	16.6	18.1	8.3	-4.5	-3.2	-3.1	-2.3	-0.8	-5.6	-4.7	-0.3
Feb	P	-19	-11	-5	-11	-17	-8	47.0	33.0	47.0	2.9	-0.9	0.2	0.9	1.6	4.2	-5.2	-1.4	0.6
Mar	P	-22	-17	-9	-12	-17	-6	64.2	53.4	63.1	10.3	3.6	5.3	4.9	7.3	9.6	1.5	2.1	2.3
Apr	P	-20	-13	-9	-9	-15	-1	40.7	38.3	39.3	-10.0	-2.4	-1.2	-2.5	-2.7	-0.3	-3.8	-1.3	-0.2
May	P	-24	-27	-12	-15	-18	-6	44.5	39.9	44.6	-13.1	-1.6	-0.6	-0.7	-3.3	0.6	-2.2	-1.4	1.2
Jun	P	-25	-25	-14	-14	-17	-6	24.7	22.1	25.6	-8.8	1.0	1.5	-1.1	0.2	0.8	2.6	1.9	1.7
Jul	P	-26	-27	-16	-21	-14	-4	-23.9	-31.0	-24.1	-24.3	-2.2	-2.0	1.5	-2.2	3.9	-4.4	-4.2	1.6
Aug	P	-20	-18	-12	-21	-11	-3	-22.9	-25.5	-23.8	-10.5	-1.2	-1.1	-0.8	-5.3	1.1	-0.8	2.1	1.1
Sep	P	-19	-15	-8	-13	-11	-1	-27.1	-27.3	-27.3	-12.0	...	...	...	...	...	...	...	...

#### 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. To April 2010, NACE 1993. From May 2010, NACE 2009.

b. Data adjusted by working days.

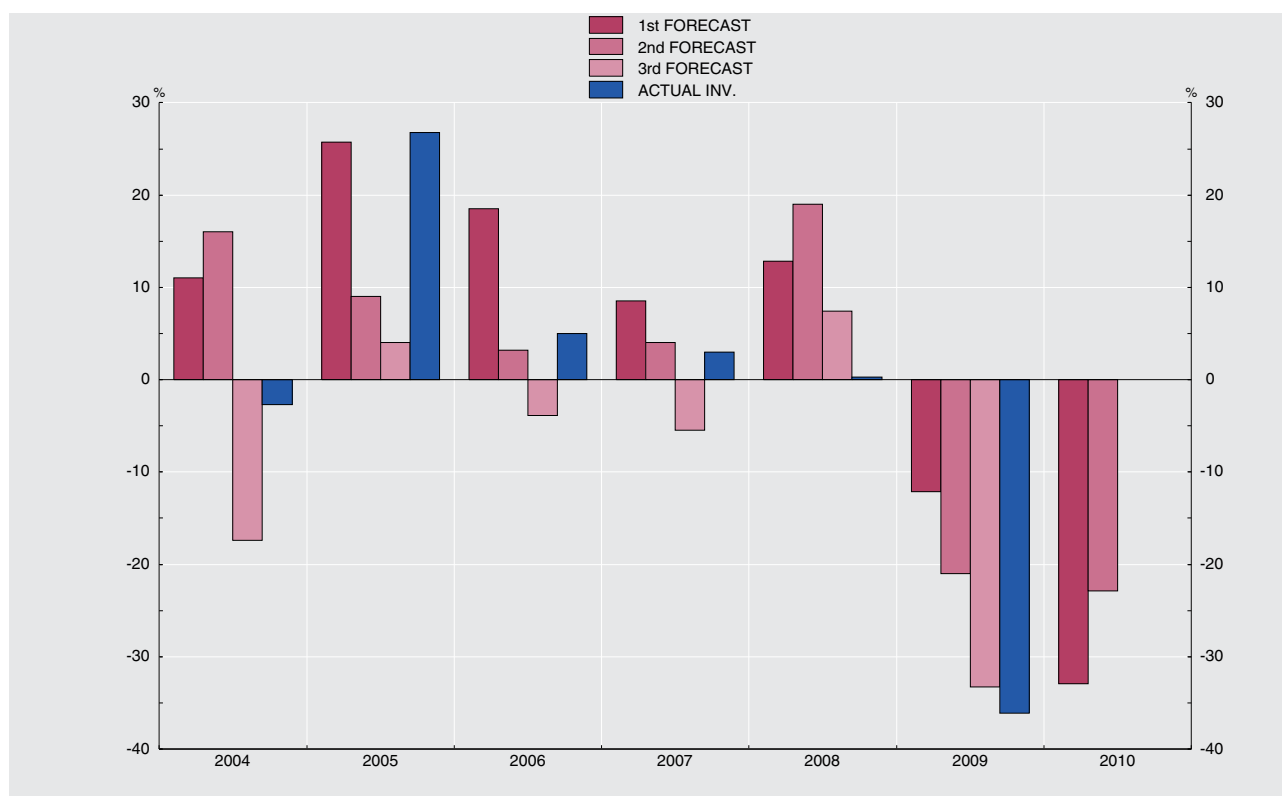
### 3.2. INVESTMENT IN INDUSTRY (EXCLUDING CONSTRUCTION): OPINION SURVEYS. SPAIN

■ Series depicted in chart.

Annual percentage changes at current prices

	1	2	3	4	
	ACTUAL INV.	1st FORECAST	2nd FORECAST	3rd FORECAST	
04	■		■	■	
05		-3	11	16	-17
06		27	26	9	4
07		5	19	3	-4
08		3	9	4	-6
09		0	13	19	7
10		-36	-12	-21	-33
		...	-33	-23	...

#### INVESTMENT IN INDUSTRY Annual rates of change



Source: Ministerio de Industria, Turismo y Comercio.

Note: The first forecast is made in the autumn of the previous year and the second and third ones in the spring and autumn of the current year, respectively; the information relating to actual investment for the year t is obtained in the spring of the year t+1.

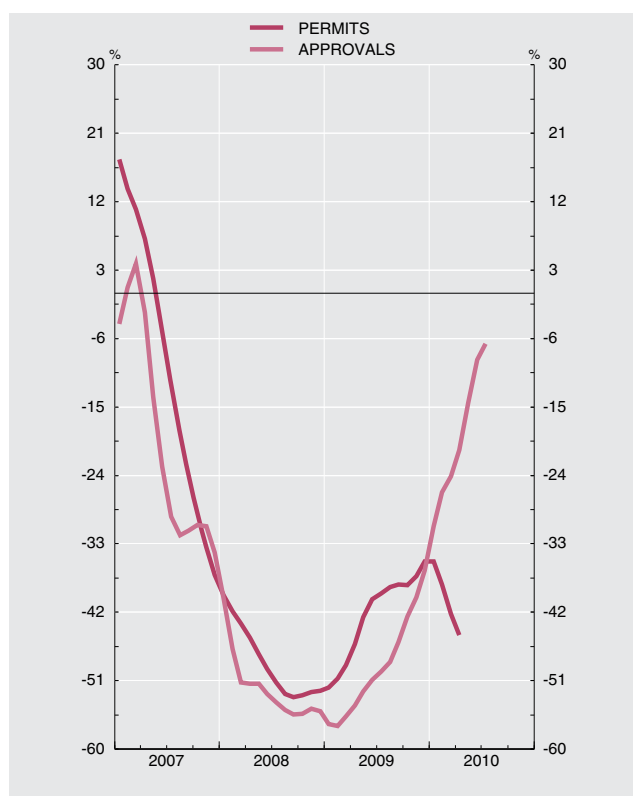
### 3.3. CONSTRUCTION. INDICATORS OF BUILDING STARTS AND CONSUMPTION OF CEMENT. SPAIN

■ Series depicted in chart.

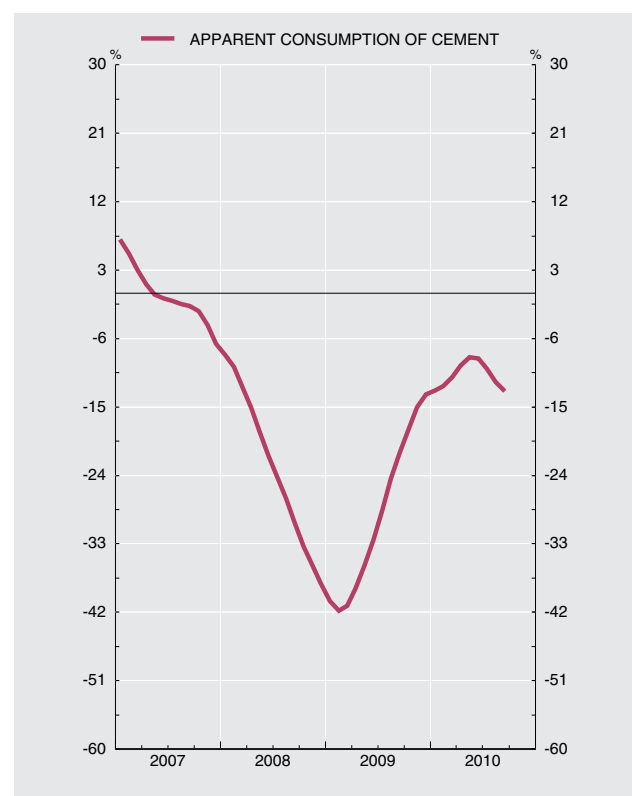
Annual percentage changes

		Permits: buildable floorage				Approvals: buildable floorage		Government tenders (budget)							Apparent consumption of cement	
		Total	of which		Non-residential	Total	of which		Total		Building					Civil engineering
			Residential	Housing			For the month	Year to date	Total	Residential	of which		Non-residential			
											Housing					
1		2	3	4	5	6	7	8	9	10	11	12	13	14		
07		-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	-48.5	-53.1	-53.8	-29.8	-52.1	-56.6	3.0	3.0	-7.5	8.5	13.4	-11.5	7.3	-23.8	
09	P	-43.4	-49.3	-49.2	-27.2	-51.4	-56.8	-8.2	-8.2	1.1	3.7	-19.9	0.3	-11.5	-32.1	
09 J-S	P	-44.0	-51.1	-51.0	-24.1	-54.0	-59.4	-5.1	-5.1	7.2	10.5	-7.2	6.2	-9.7	-35.8	
10 J-S	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-14.6	
09 Jun	P	-22.2	-42.9	-44.1	38.1	-52.3	-57.5	94.3	-6.5	87.3	-14.1	49.0	138.4	98.4	-19.3	
Jul	P	-47.8	-49.1	-51.0	-44.6	-46.2	-51.2	-0.5	-5.7	41.5	360.0	256.7	-0.5	-12.0	-29.6	
Aug	P	-36.5	-46.9	-46.6	-15.5	-52.7	-54.6	8.1	-4.4	-13.8	-33.6	-51.3	-4.3	22.6	-20.0	
Sep	P	-29.6	-40.5	-43.1	-5.4	-47.0	-52.5	-12.8	-5.1	-7.5	-44.8	-68.0	4.2	-14.5	-21.6	
Oct	P	-53.0	-55.0	-54.4	-48.0	-42.4	-45.6	-35.1	-7.6	-8.6	-13.3	-24.7	-7.7	-41.8	-21.1	
Nov	P	-30.8	-34.4	-31.8	-22.2	-37.1	-39.7	-32.3	-9.9	-35.3	-35.3	-96.7	-35.3	-30.9	-9.3	
Dec	P	-36.3	-35.0	-37.2	-39.1	-42.4	-50.7	5.2	-8.2	-5.6	45.0	55.0	-19.7	7.4	-20.0	
10 Jan	P	-10.0	-9.7	-13.0	-10.6	-29.5	-40.6	-55.0	-55.0	-46.4	-63.0	-48.2	-39.3	-59.3	-15.6	
Feb	P	-42.5	-34.0	-34.1	-56.5	-20.9	-24.0	-54.7	-54.8	-38.5	-54.9	-50.8	-36.1	-61.5	-24.0	
Mar	P	-42.4	-39.3	-39.2	-48.3	-24.5	-11.6	-42.7	-50.5	-11.3	93.8	80.6	-28.6	-56.6	-21.9	
Apr	P	-48.7	-53.1	-53.4	-37.8	-23.7	-23.7	-8.9	-43.3	7.9	-67.3	-64.8	38.6	-16.3	-10.4	
May	P	...	...	...	...	-15.1	-14.4	0.8	-38.1	27.9	-12.5	-41.0	42.8	-10.6	-10.1	
Jun	P	...	...	...	...	3.0	9.0	-22.3	-36.0	-39.2	-33.2	-9.9	-40.3	-12.6	-9.4	
Jul	P	...	...	...	...	-15.0	-19.2	-51.8	-38.4	-26.9	-54.3	-62.8	-10.2	-62.7	-15.1	
Aug	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-10.4	
Sep	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-15.1	

CONSTRUCTION  
Trend obtained with TRAMO-SEATS



CONSTRUCTION  
Trend obtained with TRAMO-SEATS



Sources: Ministerio de Fomento and Asociación de Fabricantes de Cemento de España.  
Note: The underlying series for this indicator are in Tables 23.7, 23.8, and 23.9 of the BE Boletín estadístico.



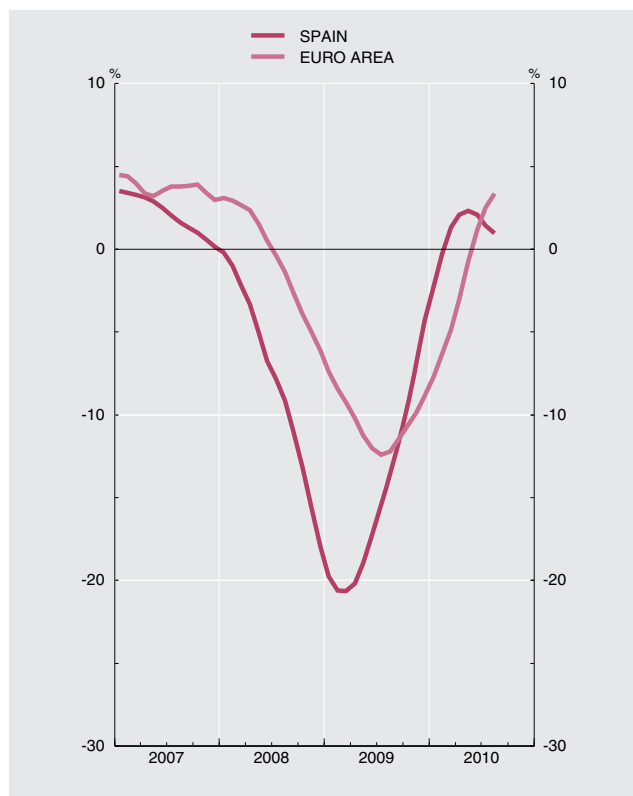
### 3.4. INDUSTRIAL PRODUCTION INDEX. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

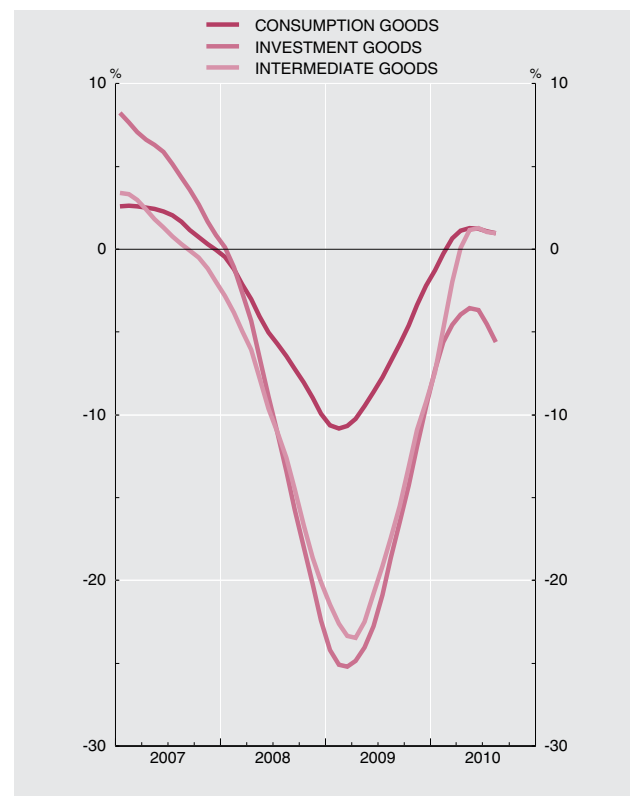
Annual percentage changes

		Overall Index		By end-use of goods				By branch of activity (NACE 2009)			Memorandum item: euro area				
		Total		Consumer goods	Capital goods	Intermediate goods	Energy	Mining and quarrying	Manufacturing	Electricity and gas supply	of which		By end-use of goods		
		Original series	12-month % change 12								Total	Manufacturing	Consumer goods	Capital goods	Intermediate goods
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
07	MP	106.2	2.4	2.2	5.0	1.6	0.8	0.9	2.5	2.0	3.7	4.1	2.4	6.6	3.8
08	MP	98.6	-7.1	-4.6	-8.7	-11.0	1.6	-13.7	-7.8	1.1	-1.8	-1.9	-2.0	-0.2	-3.5
09	MP	82.6	-16.2	-8.8	-22.5	-21.4	-8.6	-24.3	-17.0	-7.6	-14.8	-15.9	-5.0	-20.7	-19.2
09 J-A	MP	81.3	-19.9	-11.3	-26.9	-26.5	-8.7	-28.2	-21.0	-8.0	-17.8	-19.0	-6.2	-23.6	-23.7
10 J-A	MP	82.4	1.5	1.5	-2.7	4.0	1.5	6.5	1.3	2.4	7.0	7.3	3.6	6.6	10.8
09 May	P	81.9	-22.3	-12.8	-28.7	-28.4	-12.5	-27.7	-23.2	-11.0	-17.8	-18.7	-5.1	-23.0	-23.6
Jun	P	86.2	-14.3	-4.1	-23.0	-18.8	-7.8	-15.4	-15.2	-5.4	-16.8	-17.8	-5.4	-22.2	-22.0
Jul	P	91.8	-16.9	-10.7	-25.2	-20.5	-6.7	-28.6	-17.9	-5.1	-15.8	-16.8	-4.4	-22.8	-20.1
Aug	P	61.8	-10.6	-5.7	-11.1	-16.9	-6.7	-16.9	-11.5	-3.5	-15.0	-16.1	-5.8	-21.6	-19.6
Sep	P	87.1	-12.7	-5.3	-17.5	-17.7	-7.1	-16.3	-13.6	-4.0	-12.6	-13.1	-3.1	-18.1	-15.5
Oct	P	88.0	-12.8	-9.8	-16.4	-14.9	-8.0	-20.3	-13.2	-6.3	-11.1	-11.8	-4.7	-17.1	-12.3
Nov	P	87.3	-4.0	1.3	-8.0	-3.7	-10.2	-4.3	-3.3	-9.8	-6.8	-7.1	-2.2	-12.9	-5.7
Dec	P	79.1	-1.5	0.9	-8.4	4.8	-8.1	-20.9	-0.4	-6.8	-3.6	-4.1	-0.7	-10.8	0.1
10 Jan	P	76.7	-5.0	-5.1	-7.0	-3.3	-5.7	-7.1	-5.1	-3.5	1.8	1.8	1.5	-0.9	4.7
Feb	P	80.8	-1.9	-3.1	-3.5	1.1	-3.6	4.1	-2.5	2.6	4.2	4.4	2.2	3.1	7.2
Mar	P	91.2	6.8	8.5	2.0	8.0	7.7	7.8	6.4	11.0	7.7	8.0	5.8	4.8	11.9
Apr	P	82.2	3.0	4.4	-4.8	8.4	-0.3	7.7	2.9	4.0	9.2	9.3	2.7	8.7	15.6
May	P	86.1	5.1	4.0	0.7	9.7	2.0	15.4	5.0	3.8	9.8	9.6	4.3	9.0	14.5
Jun	P	89.0	3.2	2.1	1.9	4.6	4.1	7.4	3.6	-0.3	8.2	8.8	4.3	8.8	11.9
Jul	P	89.7	-2.3	-3.2	-5.8	-2.4	5.7	3.0	-2.7	2.1	7.2	7.6	4.0	9.0	9.6
Aug	P	63.8	3.2	5.4	-8.1	6.5	3.6	14.1	3.4	1.0	7.9	8.8	4.4	11.2	10.8

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 (NACE 2009)

■ Series depicted in chart.

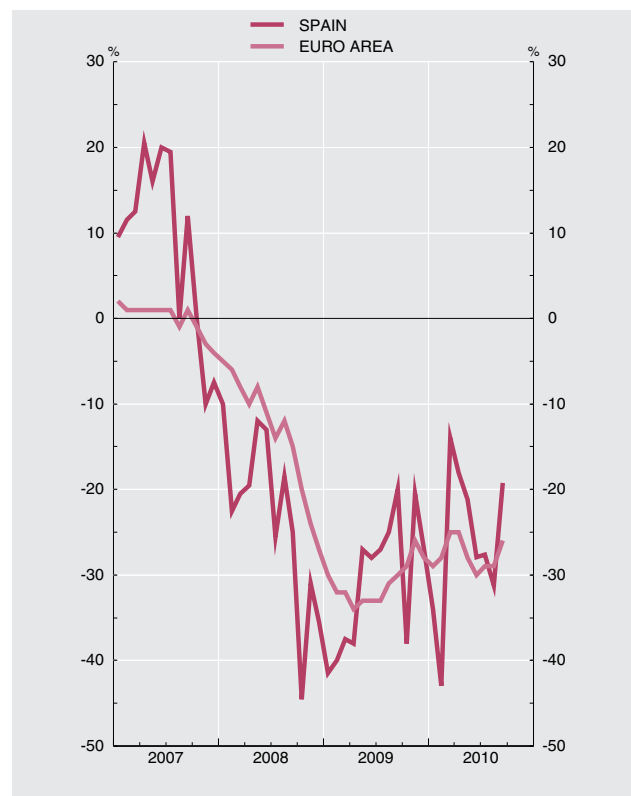
Percentage balances

		Industry, excluding construction										Construction					Memorandum item: euro area (b)		
		Business climate indicator	Production over the last three months	Trend in production	Total orders	Foreign orders	Stocks of finished products	Business climate indicator				Business climate indicator	Production	Orders	Trend		Industry, excluding construction		Construction climate indicator
		(a)		(a)	(a)		(a)	Consumption (a)	Investment (a)	Intermediate goods (a)	Other sectors (a)				Production	Orders	Business climate indicator	Order Book	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
07	M	-0	7	6	3	-0	9	-2	6	-2	-1	9	20	11	18	21	5	5	-
08	M	-18	-16	-8	-24	-17	21	-12	-8	-28	-3	-23	-2	-20	-16	-16	-9	-15	-13
09	M	-29	-34	-11	-54	-52	23	-19	-26	-37	-44	-31	-20	-32	-13	-19	-28	-56	-31
09 J-S	M	-31	-39	-14	-56	-53	25	-20	-28	-41	-38	-32	-23	-32	-9	-20	-32	-58	-32
10 J-S	M	-17	-9	-1	-40	-32	12	-11	-16	-20	-51	-26	-16	-27	-16	-27	-7	-29	-28
09 Jun		-32	-28	-12	-58	-55	27	-19	-24	-45	-60	-28	-27	-38	-3	-34	-32	-63	-33
Jul		-28	-27	-4	-57	-56	23	-19	-30	-33	-34	-27	-23	-24	-15	-21	-29	-61	-33
Aug		-25	-30	-1	-56	-50	20	-17	-20	-29	-38	-25	-26	-24	-7	-3	-25	-56	-31
Sep		-26	-26	-6	-53	-45	20	-20	-23	-27	-55	-20	-22	-27	9	-23	-24	-55	-30
Oct		-24	-20	-3	-51	-47	17	-16	-18	-27	-54	-38	-23	-47	-24	-21	-21	-53	-29
Nov		-24	-20	-2	-51	-49	18	-16	-20	-29	-73	-21	-15	-23	-32	-13	-19	-51	-26
Dec		-24	-22	-4	-50	-49	17	-13	-24	-29	-60	-27	2	-29	-23	-20	-16	-47	-28
10 Jan		-22	-25	1	-51	-47	16	-15	-24	-23	-56	-34	-48	-26	-40	-26	-14	-44	-29
Feb		-22	-26	-1	-48	-44	15	-13	-24	-26	-54	-43	-35	-41	-36	-41	-13	-42	-28
Mar		-19	-21	1	-44	-36	13	-13	-16	-20	-56	-14	-57	-20	12	-28	-10	-38	-25
Apr		-16	-9	3	-40	-30	11	-11	-13	-17	-53	-18	9	-25	6	-12	-7	-32	-25
May		-17	-4	-1	-38	-33	13	-12	-12	-21	-52	-21	11	-27	-8	-7	-6	-28	-28
Jun		-15	-1	1	-36	-27	11	-10	-17	-14	-54	-28	9	-39	-26	-37	-6	-26	-30
Jul		-15	7	-0	-35	-29	11	-9	-9	-18	-55	-28	0	-30	-6	-4	-4	-21	-29
Aug		-16	1	-4	-34	-22	10	-6	-14	-17	-58	-31	1	-18	-46	-47	-3	-18	-29
Sep		-15	1	-5	-34	-22	8	-8	-12	-20	-23	-19	-34	-21	-2	-43	-2	-16	-26

**INDUSTRIAL BUSINESS CLIMATE**  
Percentage balances



**CONSTRUCTION BUSINESS CLIMATE**  
Percentage balances



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

a. Seasonally adjusted.

b. To April 2010, NACE 1993; from May 2010, NACE 2009.

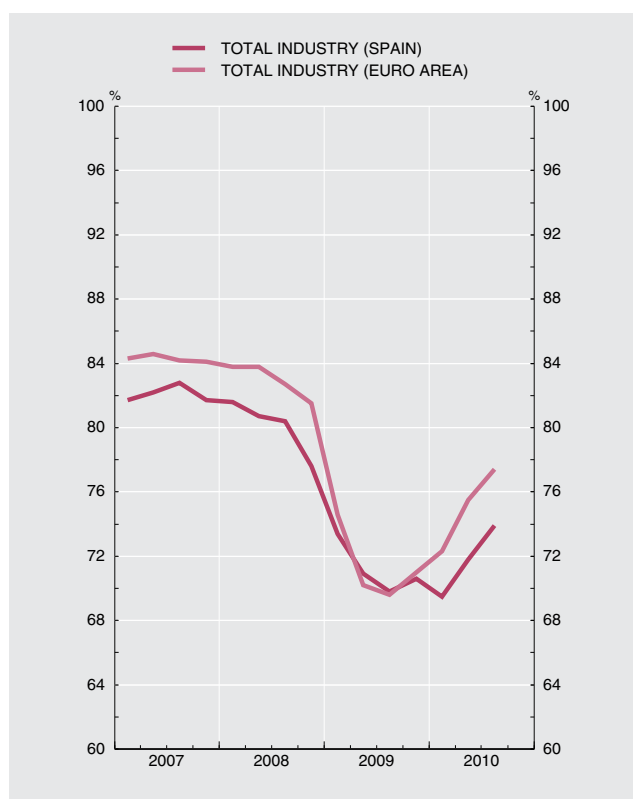
### 3.6. BUSINESS SURVEY: CAPACITY UTILISATION. SPAIN AND EURO AREA (NACE 2009)

■ Series depicted in chart.

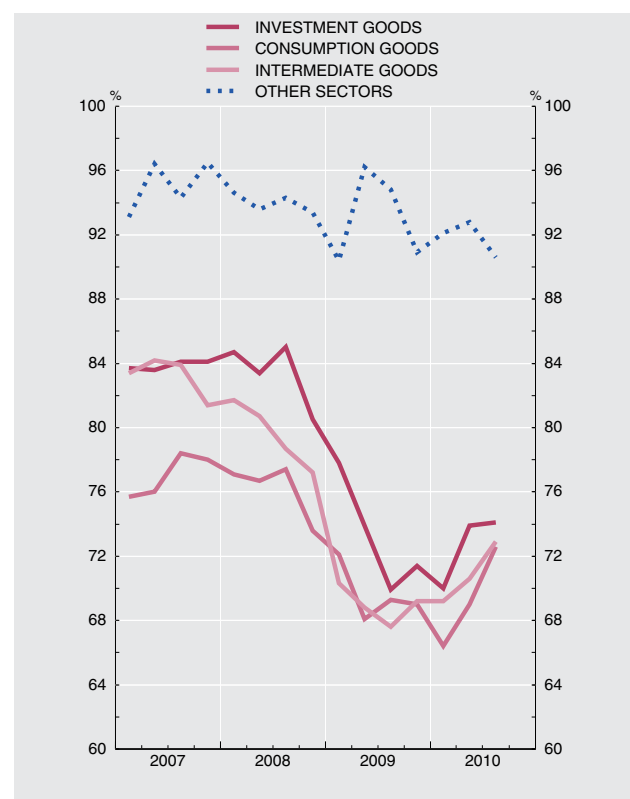
Percentages and percentage balances

	Total industry			Consumer goods			Investment goods			Intermediate goods			Other sectors (a)			Memo- randum item: euro area capacity utilisa- tion  (b)  (%)
	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	
	Over last three months	Forecast		Over last three months	Forecast		Over last three months	Forecast		Over last three months	Forecast		Over last three months	Forecast		
	(%)	(%)	(Per- centage balan- ces)	(%)	(%)	(Per- centage balan- ces)	(%)	(%)	(Per- centage balan- ces)	(%)	(%)	(Per- centage balan- ces)	(%)	(%)	(Per- centage balan- ces)	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
07	82.1	83.3	1	77.0	78.6	3	83.9	84.8	-0	83.2	84.5	1	95.1	96.0	-	84.3
08	80.1	80.4	7	76.2	77.3	8	83.4	83.3	6	79.6	79.7	7	94.0	94.5	-0	83.0
09	71.2	71.4	26	69.6	70.7	18	73.3	73.6	25	69.0	68.5	34	93.1	94.3	1	71.4
09 Q1-Q3	71.4	71.7	26	69.8	70.8	16	73.9	73.6	26	68.9	69.1	35	93.8	95.1	1	71.5
10 Q1-Q3 P	71.7	73.1	20	69.3	70.3	16	72.7	73.3	22	70.9	73.0	24	91.8	92.4	0	75.1
08 Q1	81.6	82.6	4	77.1	78.6	5	84.7	86.2	7	81.7	82.1	3	94.6	95.5	-	83.8
Q2	80.7	81.8	5	76.7	79.0	6	83.4	83.3	4	80.7	81.7	5	93.6	94.1	-	83.8
Q3	80.4	80.8	6	77.4	78.1	11	85.0	84.7	5	78.7	79.3	4	94.3	94.1	-	82.7
Q4	77.6	76.5	12	73.6	73.5	12	80.5	78.8	7	77.2	75.6	16	93.4	94.1	-0	81.5
09 Q1	73.4	72.9	22	72.1	71.8	9	77.8	76.2	17	70.3	70.1	36	90.4	92.7	-	74.6
Q2	70.9	71.4	26	68.1	69.8	20	73.9	73.9	22	68.8	68.7	35	96.2	96.7	-	70.2
Q3	69.8	70.7	30	69.3	70.8	19	69.9	70.6	38	67.6	68.4	36	94.8	95.8	3	69.6
Q4	70.6	70.4	24	69.0	70.4	23	71.4	73.7	22	69.2	66.7	28	90.9	91.9	-	71.0
10 Q1	69.5	70.7	25	66.4	67.1	20	70.0	71.0	26	69.2	70.9	30	92.1	92.8	0	72.3
Q2	71.8	73.9	21	69.0	70.1	19	73.9	74.3	22	70.6	74.3	24	92.8	93.6	-	75.5
Q3 P	73.9	74.6	15	72.6	73.6	10	74.1	74.5	19	72.9	73.8	18	90.6	90.9	0	77.4

**CAPACITY UTILISATION. TOTAL INDUSTRY**  
Percentages



**CAPACITY UTILISATION. BY TYPE OF GOOD**  
Percentages



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

a. Includes mining and quarrying, manufacture of coke and refined petroleum products, and nuclear fuels.

b. To April 2010, NACE 1993; from May 2010, NACE 2009.

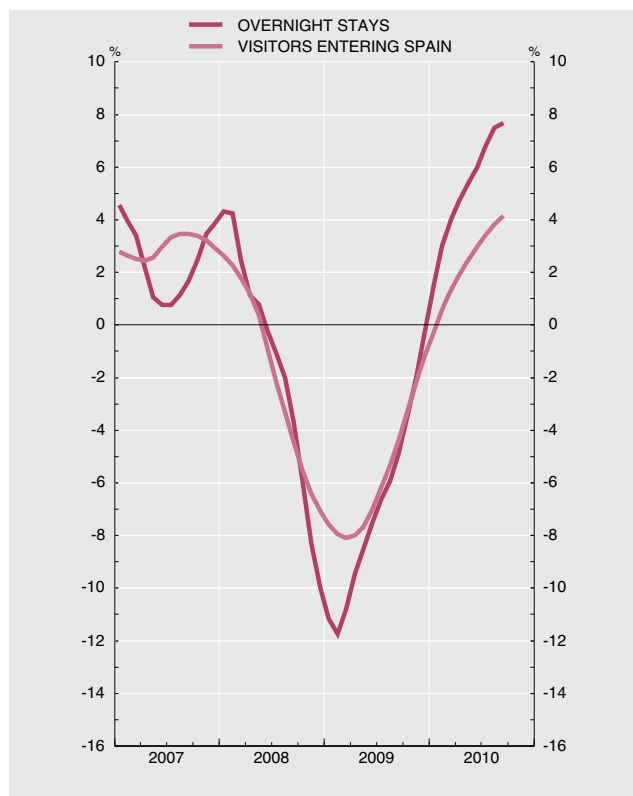
### 3.7. TOURISM AND TRANSPORT STATISTICS. SPAIN

■ Series depicted in chart.

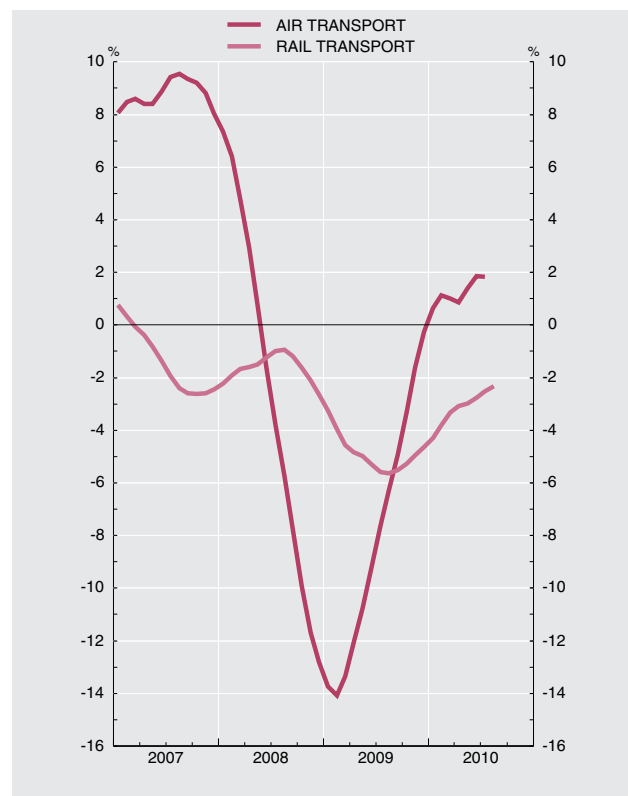
Annual percentage changes

		Hotel stays (a)		Overnight stays		Visitors entering Spain			Air transport				Maritime transport		Rail transport	
		Total	Foreigners	Total	Foreigners	Total	Tourists	Day-trippers	Passengers			Freight	Passengers	Freight	Passengers	Freight
									Total	Domestic flights	International flights					
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
07		3.1	4.0	1.7	2.1	2.9	1.1	5.5	9.1	9.0	9.2	4.2	5.2	4.7	-1.3	-1.5
08		-1.7	-0.1	-1.2	0.2	-1.3	-2.5	0.6	-3.0	-7.5	0.3	0.0	-1.5	-2.1	-0.7	-10.3
09	P	-7.0	-10.4	-6.7	-9.4	-5.9	-8.8	-1.9	-8.0	-8.0	-8.0	-9.6	-2.2	-12.9	-5.8	-24.8
09 J-S		-8.2	-11.4	-7.6	-10.0	-7.5	-10.0	-4.0	-9.9	-10.6	-9.5	-15.0	-3.5	-15.6	-6.2	-29.6
10 J-S	P	6.2	11.2	6.2	8.5	2.5	0.8	4.7	...	...	...	...	...	...	...	...
09 Jun		-8.2	-10.7	-6.6	-7.6	-9.2	-10.0	-7.9	-8.7	-9.2	-8.4	-21.4	-2.6	-12.9	-5.9	-28.1
Jul		-5.9	-10.3	-5.9	-10.0	-2.9	-5.5	1.3	-4.8	-2.5	-6.1	-9.4	4.0	-15.9	-8.3	-29.4
Aug		-5.5	-11.9	-5.0	-10.8	-4.3	-8.4	0.5	-5.4	-1.4	-7.7	-10.4	-10.3	-11.4	-5.9	-28.3
Sep		-6.5	-10.0	-6.9	-9.1	-7.6	-9.7	-4.0	-5.1	-1.3	-7.3	-2.9	-3.6	-10.8	-5.8	-19.1
Oct	P	0.1	-3.8	-1.7	-5.4	1.7	-3.6	10.5	-2.7	-0.2	-4.1	0.1	4.3	-10.4	-6.9	-27.6
Nov	P	-2.9	-3.8	-3.6	-5.6	-0.1	-3.1	3.4	-0.8	1.2	-2.3	4.0	5.4	-0.5	-2.3	-3.4
Dec	P	2.2	-0.5	0.0	-2.5	0.7	-3.6	5.0	2.1	3.8	0.6	17.9	-0.4	-1.2	-4.3	22.0
10 Jan	P	1.4	1.7	0.3	-1.5	2.4	1.1	3.7	3.3	6.4	1.0	13.6	25.6	4.8	-6.5	7.7
Feb	P	4.0	7.0	4.3	4.8	-0.1	-3.8	4.1	1.4	1.8	1.1	19.5	-5.5	-1.7	-4.1	-14.0
Mar	P	7.5	6.9	7.5	5.9	8.1	3.2	14.4	5.5	5.4	5.6	29.8	10.7	1.9	-3.2	-9.2
Apr	P	3.6	8.4	1.0	0.1	-5.4	-13.3	6.2	-8.6	-3.3	-12.4	40.7	-5.3	2.7	3.6	2.3
May	P	5.8	9.4	5.7	6.1	-1.3	1.1	-4.9	3.2	1.9	4.1	30.6	3.6	3.6	-4.2	10.7
Jun	P	6.9	9.2	5.4	5.4	4.5	1.7	9.4	3.4	1.0	4.9	17.6	4.5	3.5	-3.6	4.7
Jul	P	8.8	16.0	7.2	11.1	2.9	4.5	0.6	3.8	-1.6	7.0	10.0	...	...	-3.4	5.3
Aug	P	7.0	15.6	9.3	16.3	2.8	4.0	1.4	...	...	...	...	...	...	-1.6	...
Sep	P	7.1	15.0	8.3	13.5	8.0	4.2	14.1	...	...	...	...	...	...	...	...

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. Information from hotel directories. Since January 2006, the frequency of data collection has been increased to every day of the month.

#### 4.1. LABOUR FORCE. SPAIN

■ Series depicted in chart.

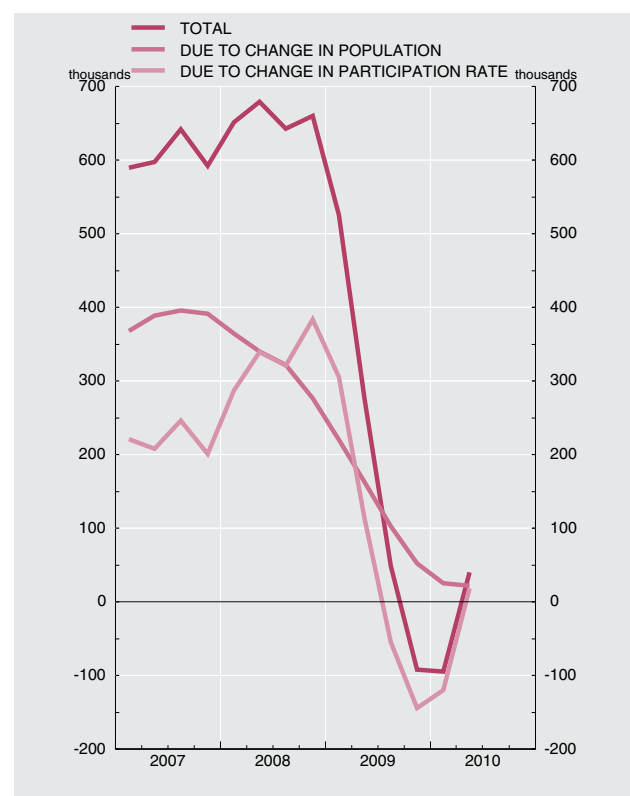
Thousands and annual percentage changes

Population over 16 years of age					Labour force					
		Thousands	Annual change	4-quarter % change	Participation rate (%) (a)	Thousands (a)	Annual change (b)			4-quarter % change
							Total	Due to change in population over 16 years of age	Due to change in participation rate	
		1	2	3	4	5	6	7	8	9
07	M	37 663	655	1.8	58.92	22 190	605	386	219	2.8
08	M	38 208	545	1.4	59.80	22 848	658	326	333	3.0
09	M	38 432	224	0.6	59.95	23 037	189	134	55	0.8
09	Q1-Q2M	38 420	318	0.8	60.11	23 092	801	383	418	1.8
10	Q1-Q2M	38 459	39	0.1	59.97	23 065	-55	47	-101	-0.1
07	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
09	Q1	38 409	366	1.0	60.15	23 102	525	220	305	2.3
	Q2	38 432	271	0.7	60.06	23 082	276	162	113	1.2
	Q3	38 443	172	0.4	59.81	22 994	48	103	-54	0.2
	Q4	38 443	87	0.2	59.76	22 973	-92	52	-144	-0.4
10	Q1	38 451	42	0.1	59.83	23 007	-95	25	-120	-0.4
	Q2	38 468	36	0.1	60.11	23 122	40	22	18	0.2

LABOUR FORCE SURVEY  
Annual percentage change



LABOUR FORCE  
Annual changes



Source: INE (Labour Force Survey: 2005 methodology).

a. the new definition of unemployment applies from 2001 Q1 onwards, entailing a break in the series. (See [www.ine.es](http://www.ine.es)).

b. Col.7 = (col.5/col.1) x annual change in col.1. Col. 8 = (annual change in col.4/100) x col.1(t-4).

General note to the tables: As a result of the change in the population base (2001 Census), all the series in this table have been revised as from 1996. In addition, since 2005 Q1 the new obligatory variables referred to in Regulation (EC) 2257/2003 (on the adaptation of the list of labour force survey characteristics) have been included, a centralised procedure for telephone interviews has been set in place and the questionnaire has been modified. Thus, in 2005 Q1, there is a break in the series of some variables. For further information, see [www.ine.es](http://www.ine.es)

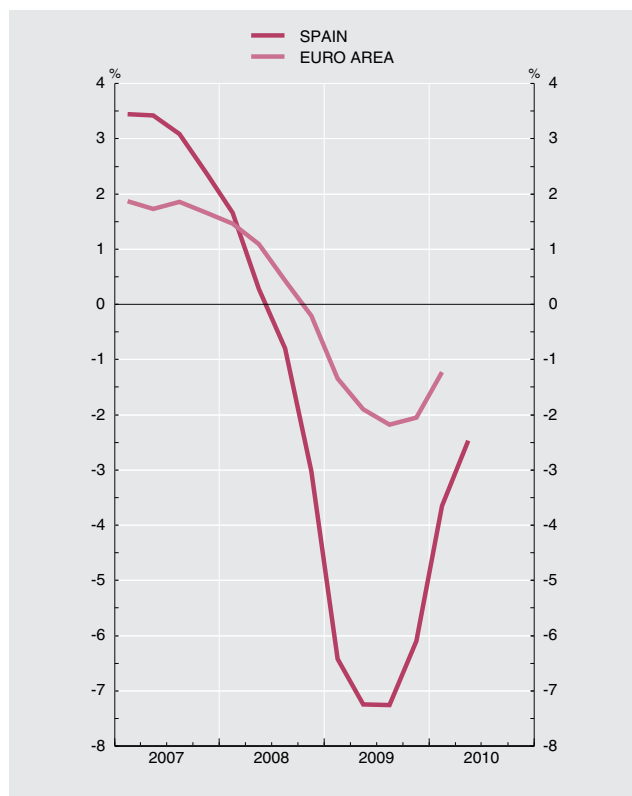
## 4.2. EMPLOYMENT AND WAGE-EARNERS. SPAIN AND EURO AREA

■ Series depicted in chart.

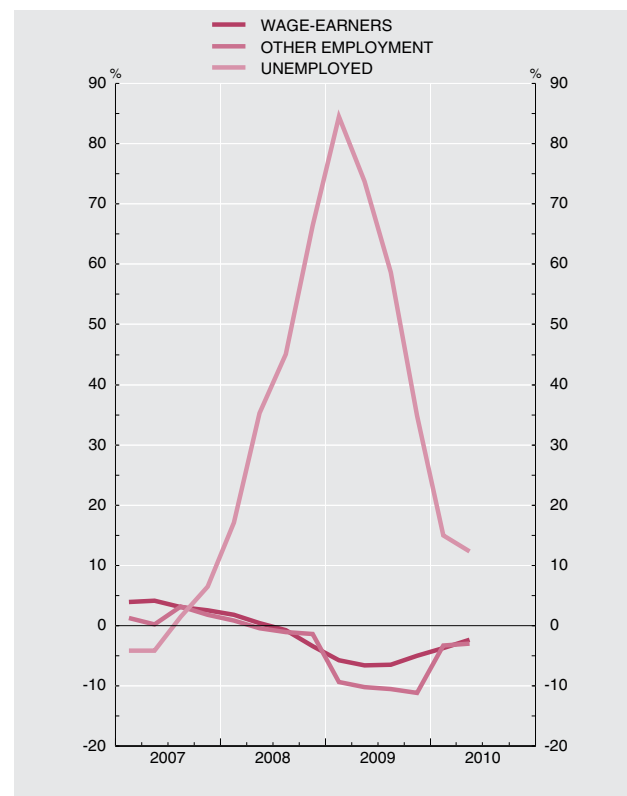
Thousands and annual percentage changes

		Employment									Unemployment			Memorandum item: euro area		
		Total			Wage-earners			Other								
		Thousands	Annual change	4-quarter % change	Thousands	Annual change	4-quarter % change	Thousands	Annual change	4-quarter % change	Thousands	Annual change	4-quarter % change	Unemployment rate	Employment 4-quarter % change	Unemployment rate
		1	2	3	4	5	6	7	8	9	(a)	11	12	(a)	14	15
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	7.52
08	M	20 258	-98	-0.5	16 681	-79	-0.5	3 576	-20	-0.5	2 591	757	41.3	11.33	0.7	7.57
09	M	18 888	-1 370	-6.8	15 681	-1 001	-6.0	3 207	-369	-10.3	4 150	1 559	60.2	18.01	-1.9	9.43
09	Q1-Q2M	19 018	-1 396	-6.8	15 790	-1 045	-6.2	3 228	-351	-9.8	4 074	1 796	78.9	17.64	-1.6	9.09
10	Q1-Q2M	18 436	-582	-3.1	15 308	-482	-3.1	3 127	-101	-3.1	4 629	555	13.6	20.07	...	9.99
07	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	7.37
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	7.24
	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	7.40
	Q3	20 346	-164	-0.8	16 746	-124	-0.7	3 600	-41	-1.1	2 599	807	45.0	11.33	0.4	7.60
	Q4	19 857	-620	-3.0	16 308	-568	-3.4	3 549	-52	-1.4	3 208	1 280	66.4	13.91	-0.2	8.05
09	Q1	19 091	-1 312	-6.4	15 843	-974	-5.8	3 248	-337	-9.4	4 011	1 837	84.5	17.36	-1.3	8.82
	Q2	18 945	-1 480	-7.2	15 737	-1 116	-6.6	3 208	-364	-10.2	4 138	1 756	73.7	17.92	-1.9	9.36
	Q3	18 870	-1 476	-7.3	15 650	-1 096	-6.5	3 220	-380	-10.6	4 123	1 525	58.7	17.93	-2.2	9.70
	Q4	18 646	-1 211	-6.1	15 493	-816	-5.0	3 153	-395	-11.1	4 327	1 119	34.9	18.83	-2.0	9.85
10	Q1	18 394	-697	-3.6	15 253	-590	-3.7	3 141	-107	-3.3	4 613	602	15.0	20.05	-1.2	9.93
	Q2	18 477	-468	-2.5	15 363	-373	-2.4	3 113	-95	-3.0	4 646	508	12.3	20.09	...	10.05

**EMPLOYMENT**  
Annual percentage changes



**LABOUR FORCE: COMPONENTS**  
Annual percentage changes



Sources: INE (Labour Force Survey: 2005 methodology), and ECB.

a. the new definition of unemployment applies from 2001 Q1 onwards, entailing a break in the series. (See [www.ine.es](http://www.ine.es)).

General note to the tables: As a result of the change in the population base (2001 Census), all the series in this table have been revised as from 1996. In addition, since 2005 Q1 the new obligatory variables referred to in Regulation (EC) 2257/2003 (on the adaptation of the list of labour force survey characteristics) have been included, a centralised procedure for telephone interviews has been set in place and the questionnaire has been modified. Thus, in 2005 Q1, there is a break in the series of some variables. For further information, see [www.ine.es](http://www.ine.es).

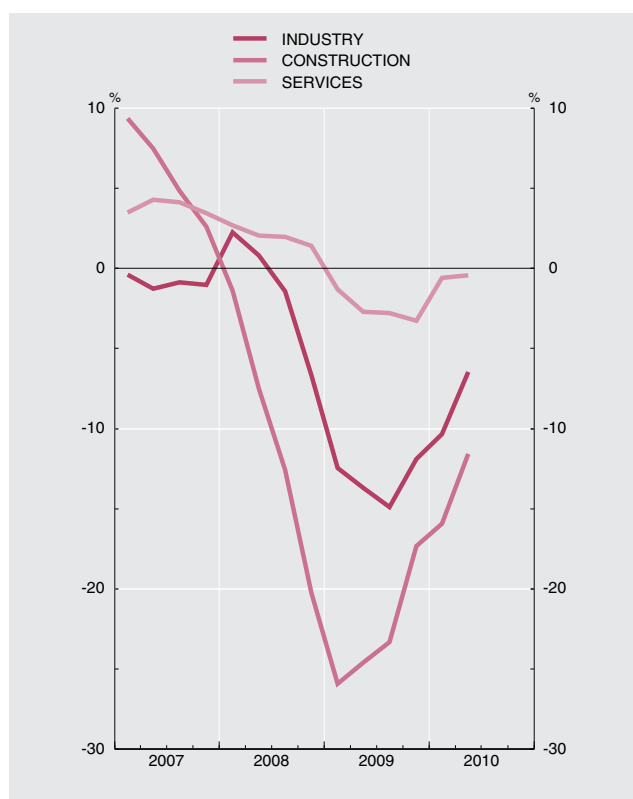
#### 4.3. EMPLOYMENT BY BRANCH OF ACTIVITY. SPAIN (a)

■ Series depicted in chart.

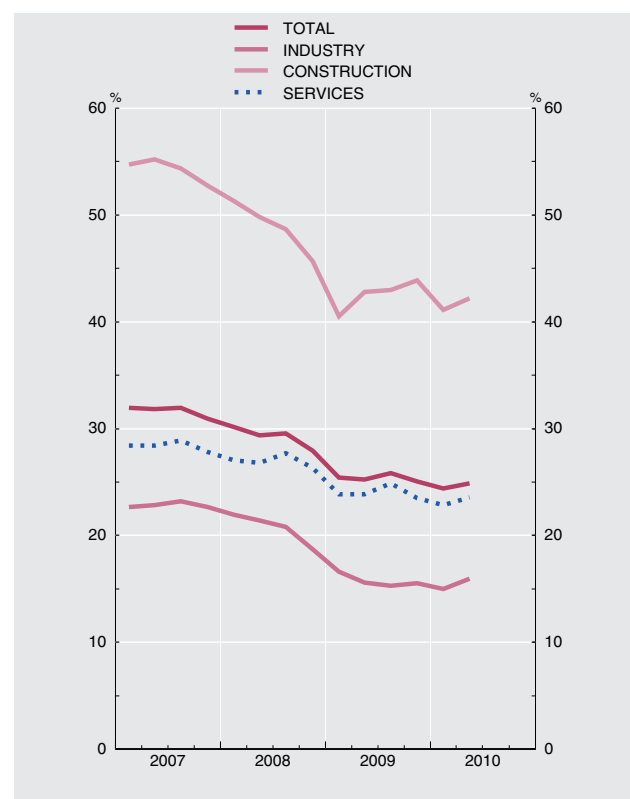
Annual percentage changes

		Total			Agriculture			Industry			Construction			Services			Memorandum item:
		Employment	Wage-earners	Proportion of temporary employment	Employment	Wage-earners	Proportion of temporary employment	Employment	Wage-earners	Proportion of temporary employment	Employment	Wage-earners	Proportion of temporary employment	Employment	Wage-earners	Proportion of temporary employment	Employment in branches other than agriculture
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
07	M	3.1	3.4	31.7	-2.0	2.0	58.6	-0.9	-0.5	22.8	6.0	6.7	54.3	3.8	3.8	28.4	3.3
08	M	-0.5	-0.5	29.2	-5.1	-8.0	58.0	-1.3	-1.3	20.7	-10.4	-12.2	48.9	2.0	2.3	27.0	-0.3
09	M	-6.8	-6.0	25.4	-4.0	-0.1	59.0	-13.3	-13.1	15.8	-23.0	-25.0	42.6	-2.5	-1.3	24.0	-6.9
09	Q1-Q2M	-6.8	-6.2	25.3	-3.6	2.1	60.0	-13.1	-13.0	16.1	-25.3	-28.2	41.7	-2.0	-0.8	23.9	-7.4
10	Q1-Q2M	-3.1	-3.1	24.6	-0.7	1.8	59.9	-8.4	-8.3	15.5	-13.8	-16.0	41.7	-0.5	-0.4	23.2	-2.5
07	Q4	2.4	2.5	30.9	-1.8	0.0	57.1	-1.0	-0.4	22.7	2.6	2.8	52.7	3.5	3.1	27.8	2.6
08	Q1	1.7	1.8	30.1	-6.4	-10.2	61.3	2.3	3.1	21.9	-1.4	-2.0	51.3	2.7	2.8	27.0	2.0
	Q2	0.3	0.4	29.4	-4.4	-8.7	56.6	0.8	1.1	21.4	-7.5	-8.8	49.8	2.0	2.5	26.8	0.5
	Q3	-0.8	-0.7	29.5	-4.6	-9.5	54.2	-1.4	-1.6	20.8	-12.6	-14.1	48.7	2.0	2.4	27.7	-0.6
	Q4	-3.0	-3.4	27.9	-4.8	-3.4	59.8	-6.7	-7.7	18.7	-20.2	-23.8	45.7	1.4	1.7	26.3	-3.0
09	Q1	-6.4	-5.8	25.4	-3.0	3.3	63.0	-12.5	-12.0	16.6	-25.9	-29.9	40.5	-1.3	0.0	23.9	-6.6
	Q2	-7.2	-6.6	25.2	-4.2	0.8	57.1	-13.7	-14.0	15.6	-24.6	-26.4	42.8	-2.7	-1.6	23.9	-7.4
	Q3	-7.3	-6.5	25.9	-6.4	-3.5	56.9	-14.9	-15.0	15.3	-23.3	-24.5	43.0	-2.8	-1.7	24.9	-7.3
	Q4	-6.1	-5.0	25.1	-2.6	-1.5	59.2	-11.9	-11.4	15.5	-17.3	-17.6	43.9	-3.3	-1.8	23.5	-6.2
10	Q1	-3.6	-3.7	24.4	-0.3	2.4	62.7	-10.4	-10.9	15.0	-15.9	-17.2	41.1	-0.6	-0.5	22.8	-3.8
	Q2	-2.5	-2.4	24.9	-1.1	1.1	57.1	-6.4	-5.6	15.9	-11.6	-14.8	42.2	-0.4	-0.2	23.6	-2.5

EMPLOYMENT  
Annual percentage changes



TEMPORARY EMPLOYMENT  
Percentages



Source: INE (Labour Force Survey: 2005 methodology).

a. Series re-calculated drawing on the transition matrix to NACE 2009 published by INE. The underlying series of this indicator are in Tables 24.4 and 24.6 of the BE Boletín Estadístico.

General note to the tables: As a result of the change in the population base (2001 Census), all the series in this table have been revised as from 1996. In addition, since 2005 Q1 the new obligatory variables referred to in Regulation (EC) 2257/2003 (on the adaptation of the list of labour force survey characteristics) have been included, a centralised procedure for telephone interviews has been set in place and the questionnaire has been modified. Thus, in 2005 Q1, there is a break in the series of some variables. For further information, see [www.ine.es](http://www.ine.es).

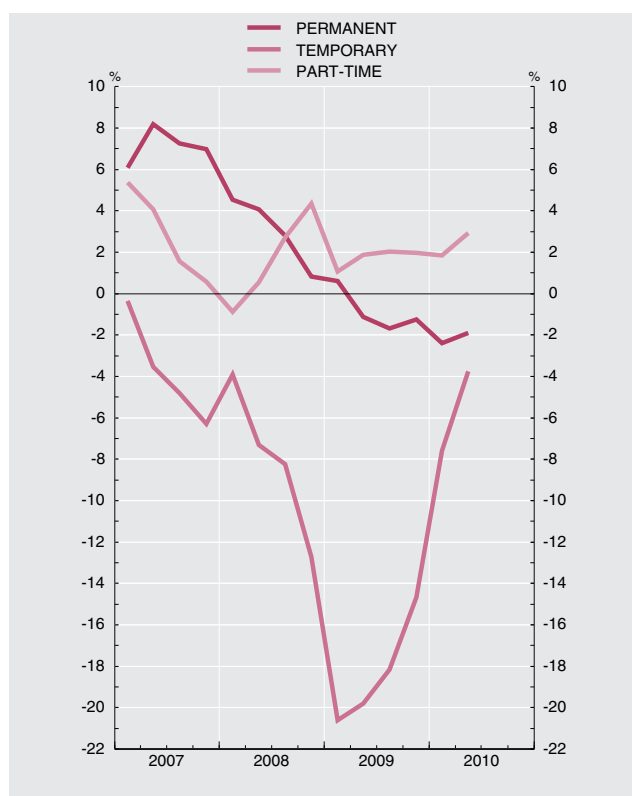
#### 4.4. WAGE-EARNERS BY TYPE OF CONTRACT AND UNEMPLOYMENT BY DURATION. SPAIN. (a)

■ Series depicted in chart.

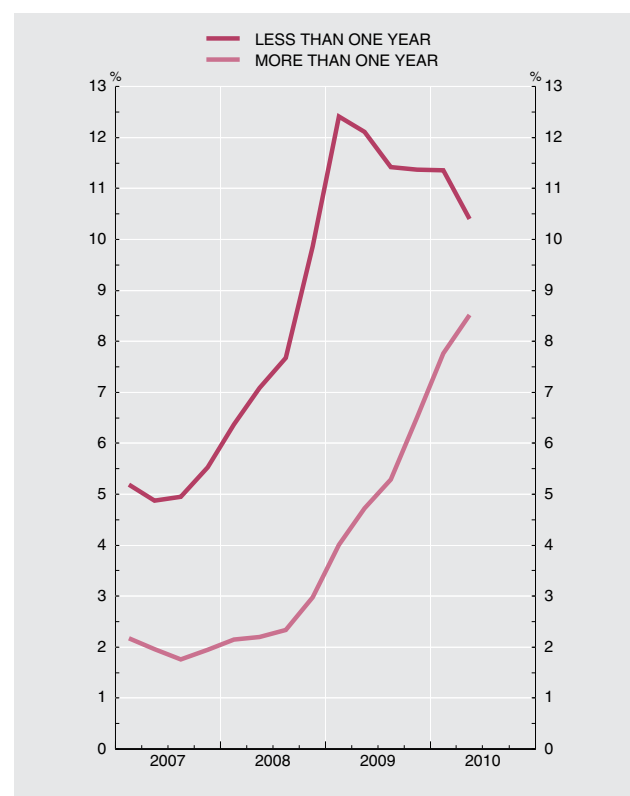
Thousands, annual percentage changes and %

		Wage-earners										Unemployment			
		By type of contract					By duration of working day					By duration			
		Permanent		Temporary			Full-time		Part-time			Less than one year		More than one year	
Annual change	4-quar-ter % change	Annual change	4-quar-ter % change	Proportion of tempo-rary em-ployment	Annual change	4-quar-ter % change	Annual change	4-quar-ter % change	As % for wage earners	Unem-ployment rate	4-quar-ter % change	Unem-ployment rate	4-quar-ter % change		
Thousands		Thousands			Thousands		Thousands				(a)		(a)		
1		2		3	4	5	6	7	8	9	10	11	12	13	14
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
08	M	348	3.0	-426	-8.0	29.25	-112	-0.8	33	1.6	12.33	7.75	55.5	2.41	27.0
09	M	-102	-0.9	-898	-18.4	25.40	-1 036	-7.1	36	1.7	13.34	11.83	53.8	5.13	114.0
09	Q1-Q2M	-33	-0.3	-1 013	-20.2	25.32	-1 155	-7.8	30	1.5	13.35	12.26	85.5	4.37	104.3
10	Q1-Q2M	-254	-2.2	-227	-5.7	24.63	-436	-3.2	50	2.4	14.10	10.88	-11.4	8.14	86.3
07	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
09	Q1	70	0.6	-1 045	-20.6	25.41	-996	-6.8	22	1.1	13.22	12.42	99.7	4.01	91.0
	Q2	-135	-1.1	-981	-19.8	25.24	-1 155	-7.8	39	1.9	13.48	12.11	72.9	4.72	117.2
	Q3	-197	-1.7	-899	-18.2	25.85	-1 136	-7.7	40	2.0	12.79	11.42	49.2	5.29	127.2
	Q4	-148	-1.3	-668	-14.7	25.08	-857	-6.0	42	2.0	13.87	11.37	14.8	6.50	117.8
10	Q1	-285	-2.4	-305	-7.6	24.39	-628	-4.6	39	1.8	13.99	11.36	-8.9	7.77	93.0
	Q2	-224	-1.9	-149	-3.8	24.88	-436	-3.2	62	2.9	14.21	10.40	-14.0	8.51	80.0

**WAGE-EARNERS**  
Annual percentage changes



**UNEMPLOYMENT**  
Unemployment rate



Source: INE (Labour Force Survey: 2005 methodology).

a. The new definition of unemployment applies from 2001 Q1 onwards, entailing a break in the series. (See [www.ine.es](http://www.ine.es)).

General note to the tables: As a result of the change in the population base (2001 Census), all the series in this table have been revised as from 1996. In addition, since 2005 Q1 the new obligatory variables referred to in Regulation (EC) 2257/2003 (on the adaptation of the list of labour force survey characteristics) have been included, a centralised procedure for telephone interviews has been set in place and the questionnaire has been modified. Thus, in 2005 Q1, there is a break in the series of some variables. For further information, see [www.ine.es](http://www.ine.es).



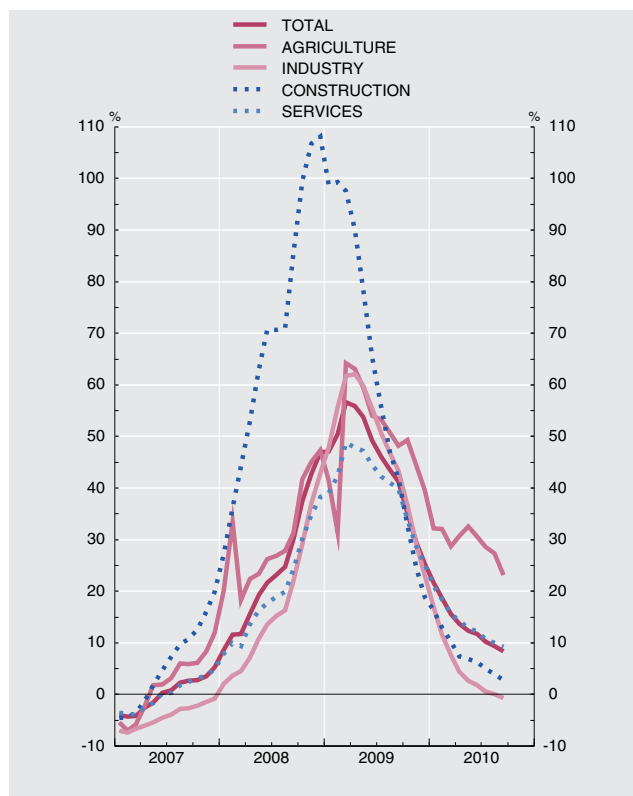
#### 4.5. REGISTERED UNEMPLOYMENT BY BRANCH OF ACTIVITY. CONTRACTS AND PLACEMENTS. SPAIN

■ Series depicted in chart.

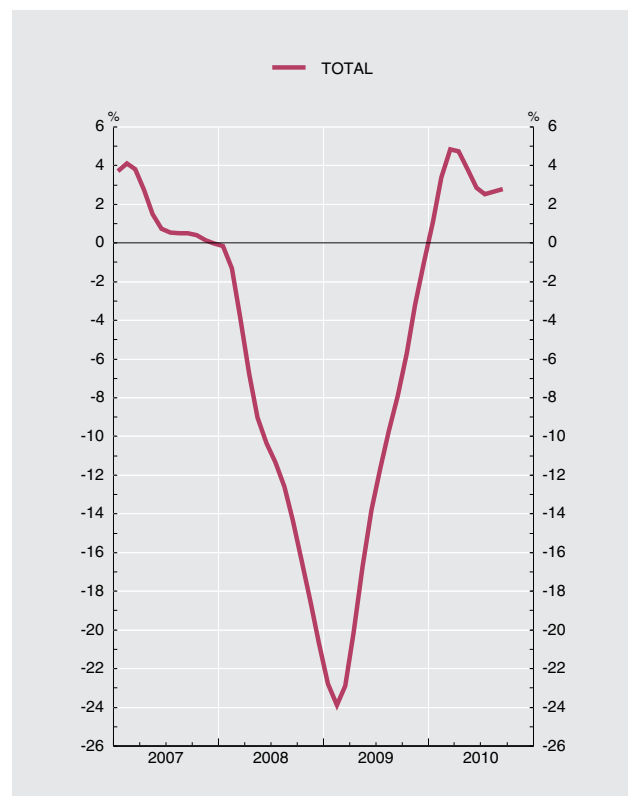
Thousands, annual percentage changes and %

		Registered unemployment										Contracts					Placements	
		Total			First time job-seekers(a)	Previously employed (a)					Total		Percentage of total			Total		
		Thousands	Annual change	12 month % change		12 month % change	12-month % change						Thousands	12 month % change	Perma-nent	Part time	Tempo-rary	Thousands
Thousands	Total		Agri-culture	Branches other than agriculture														
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
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
09	M	3 644	1 104	43.5	35.7	45.3	49.9	45.2	47.7	62.5	40.0	1 168	-15.5	9.41	27.97	90.59	1 165	-14.2
09 J-S	M	3 570	1 176	49.1	32.2	50.7	51.8	50.7	53.7	74.9	43.6	1 147	-19.0	9.68	27.18	90.32	1 145	-17.6
10 J-S	M	4 048	478	13.4	38.8	11.7	29.5	11.2	5.0	8.0	13.8	1 180	2.9	8.59	28.76	91.41	1 177	2.8
09 Aug		3 629	1 099	43.4	46.2	43.2	50.7	43.0	46.7	46.9	40.9	945	-10.0	7.27	26.95	92.73	963	-6.5
Sep		3 709	1 084	41.3	45.3	41.0	48.2	40.8	43.3	41.8	39.9	1 355	-9.8	9.48	30.88	90.52	1 398	-7.3
Oct		3 808	990	35.1	43.6	34.5	49.4	34.1	36.6	32.8	33.9	1 358	-14.3	9.32	32.90	90.68	1 380	-12.1
Nov		3 869	880	29.4	46.2	28.2	44.4	27.8	29.1	24.5	28.6	1 204	3.6	8.92	29.75	91.08	1 189	4.8
Dec		3 924	795	25.4	49.0	23.9	39.6	23.4	23.1	18.9	25.2	1 138	1.8	7.54	28.34	92.46	1 106	1.1
10 Jan		4 048	721	21.7	53.8	19.7	32.2	19.4	16.9	16.3	21.0	1 050	-6.7	9.01	25.01	90.99	1 030	-7.3
Feb		4 131	649	18.6	50.9	16.6	32.0	16.2	11.6	13.0	18.4	1 028	1.1	9.84	26.74	90.16	1 024	2.5
Mar		4 167	561	15.6	44.3	13.7	28.8	13.2	7.6	10.3	15.6	1 189	12.1	9.92	28.08	90.08	1 178	12.5
Apr		4 142	498	13.7	40.0	11.8	30.8	11.3	4.5	7.4	14.3	1 079	4.6	9.55	28.66	90.45	1 069	3.7
May		4 066	446	12.3	36.1	10.6	32.6	10.0	2.7	6.9	12.8	1 182	6.5	9.16	28.97	90.84	1 198	7.9
Jun		3 982	417	11.7	35.3	9.9	30.6	9.3	1.8	6.3	12.2	1 298	1.8	7.61	29.42	92.39	1 244	-1.2
Jul		3 909	364	10.3	32.3	8.6	28.6	8.0	0.5	5.0	10.8	1 397	-0.4	6.86	31.51	93.14	1 386	0.3
Aug		3 970	341	9.4	30.1	7.8	27.3	7.2	0.0	3.9	10.0	1 010	6.9	6.62	28.59	93.38	1 021	6.0
Sep		4 018	308	8.3	26.3	6.9	23.1	6.4	-0.7	2.8	9.2	1 390	2.6	8.78	31.88	91.22	1 442	3.1

**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.

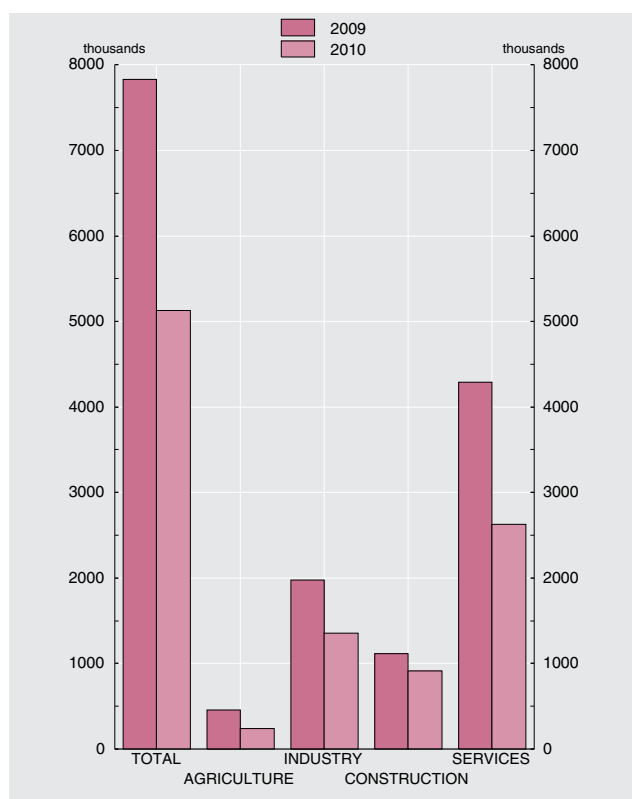
#### 4.6. COLLECTIVE BARGAINING AGREEMENTS

■ Series depicted in chart.

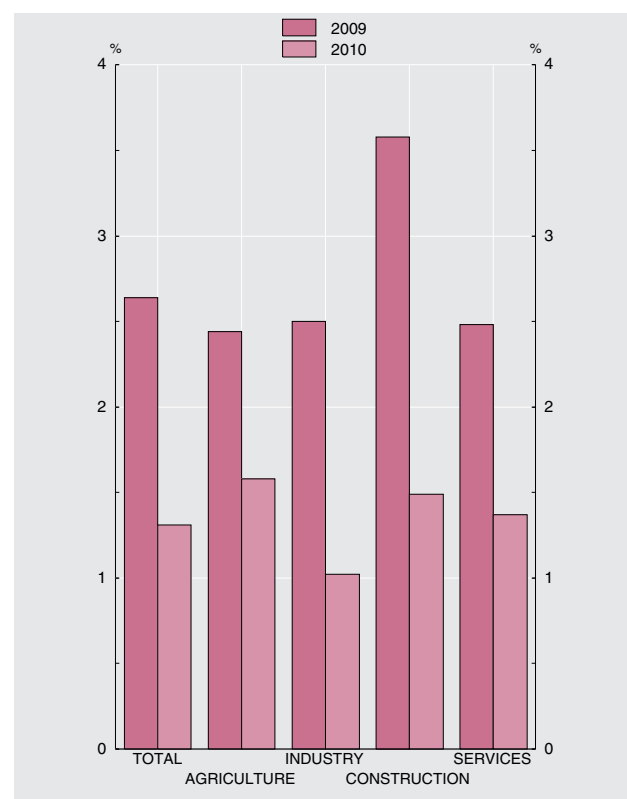
Thousands and %

	As per month economic effects come into force(a)		As per month recorded														
			Employees affected (a)								Average wage settlement (%)						
	Em- ployees af- fected	Average wage settle- ment (b)	Auto- matic ad- just- ment	Newly- signed agree- ments	Total	Annual change	Agricul- ture	Indus- try	Construc- tion	Services	Auto- matic ad- just- ment	Newly signed agree- ments	Total	Agricul- ture	Indus- try	Construc- tion	Services
	1	2	3	4	5	6	7 (c)	8 (c)	9 (c)	10 (c)	11	12	13	14 (c)	15 (c)	16 (c)	17 (c)
07	11 606	4.21	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	11 968	3.60	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	10 632	2.31	7 611	1 064	8 676	-126	483	2 063	1 158	4 971	2.62	2.35	2.59	2.39	2.48	3.57	2.43
09 Apr	10 458	2.34	6 711	63	6 774	181	208	1 883	994	3 689	2.68	2.05	2.67	2.77	2.51	3.57	2.50
May	10 464	2.34	6 836	162	6 998	23	278	1 893	995	3 832	2.67	3.10	2.68	2.70	2.51	3.57	2.53
Jun	10 492	2.33	7 042	343	7 385	135	440	1 913	1 114	3 918	2.66	2.99	2.67	2.45	2.51	3.56	2.52
Jul	10 499	2.33	7 069	367	7 436	-30	445	1 939	1 114	3 939	2.66	2.92	2.67	2.44	2.51	3.58	2.52
Aug	10 500	2.33	7 070	376	7 446	-207	447	1 942	1 114	3 944	2.66	2.90	2.67	2.45	2.51	3.58	2.52
Sep	10 624	2.31	7 350	478	7 828	-162	455	1 973	1 114	4 287	2.64	2.65	2.64	2.44	2.50	3.58	2.48
Oct	10 631	2.31	7 491	895	8 386	19	480	2 005	1 146	4 755	2.63	2.30	2.59	2.40	2.48	3.58	2.42
Nov	10 631	2.31	7 537	1 052	8 589	4	481	2 038	1 158	4 913	2.63	2.35	2.60	2.40	2.48	3.57	2.44
Dec	10 632	2.31	7 611	1 064	8 676	-126	483	2 063	1 158	4 971	2.62	2.35	2.59	2.39	2.48	3.57	2.43
10 Jan	4 912	1.31	1 154	-	1 154	-2 340	131	241	4	778	1.62	-	1.62	1.30	1.12	1.96	1.82
Feb	4 916	1.31	1 393	0	1 393	-4 590	151	337	39	866	1.52	1.54	1.52	1.20	1.18	0.90	1.73
Mar	4 952	1.31	1 754	126	1 879	-4 355	152	366	40	1 321	1.38	1.04	1.36	1.20	1.15	0.90	1.45
Apr	5 106	1.31	2 625	156	2 781	-3 993	224	715	40	1 802	1.29	1.04	1.27	1.46	0.94	0.90	1.39
May	5 109	1.31	2 890	194	3 083	-3 915	234	831	41	1 978	1.33	1.06	1.31	1.59	1.04	0.90	1.40
Jun	5 129	1.31	3 396	208	3 604	-3 781	234	1 060	81	2 229	1.31	1.06	1.30	1.59	1.00	1.76	1.39
Jul	5 129	1.31	3 548	224	3 771	-3 665	235	1 100	66	2 371	1.30	1.13	1.29	1.58	1.02	1.41	1.38
Aug	5 129	1.31	3 766	290	4 056	-3 391	236	1 319	66	2 435	1.29	1.10	1.28	1.58	1.01	1.41	1.39
Sep	5 130	1.31	4 786	344	5 130	-2 698	238	1 354	910	2 628	1.32	1.09	1.31	1.58	1.02	1.49	1.37

**EMPLOYEES AFFECTED**  
January-September



**AVERAGE WAGE SETTLEMENT**  
January-September



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 2010.

c. To December 2008, NACE 1993; from January 2009, NACE 2009.

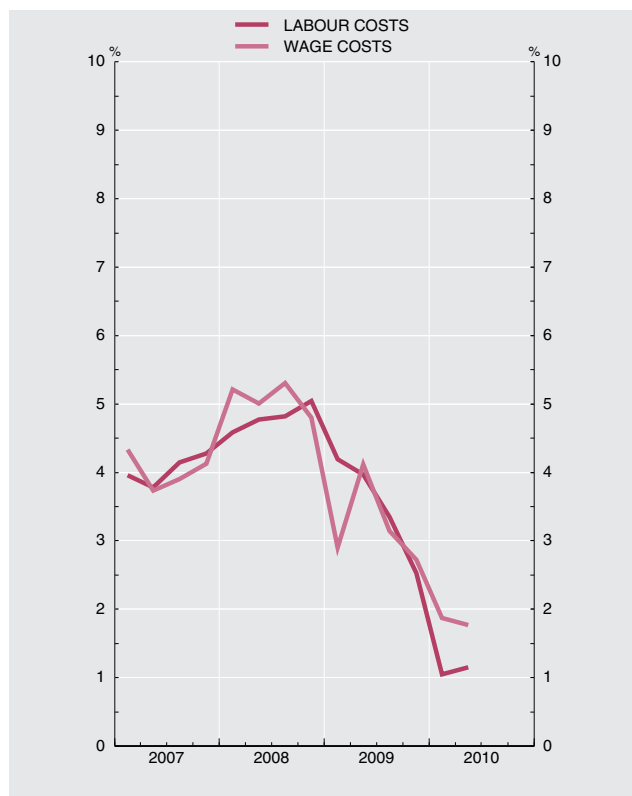
#### 4.7. QUARTERLY LABOUR COSTS SURVEY

■ Series depicted in chart.

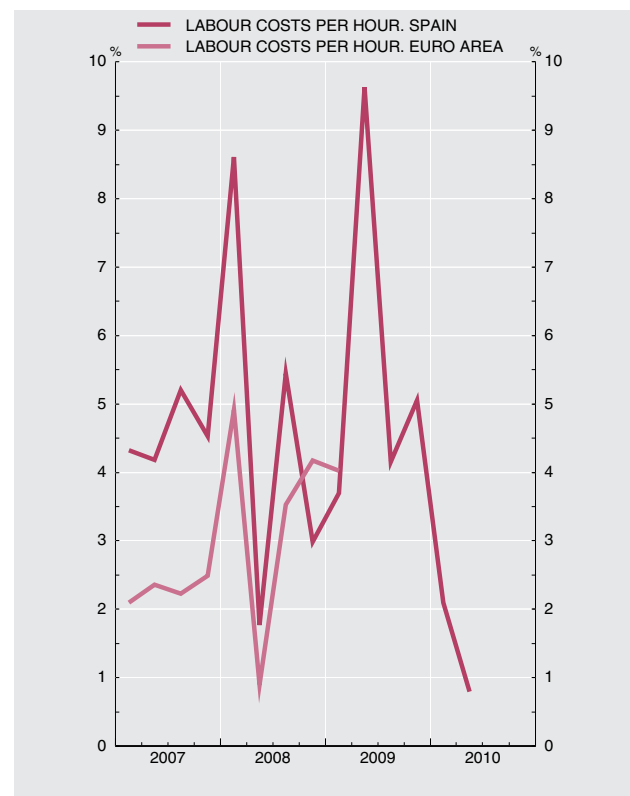
Annual percentage change

		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
07	M	4.0	3.6	4.9	4.1	4.6	4.0	3.4	4.6	4.2	4.5	4.1	2.3
08	M	4.8	4.4	6.3	4.9	4.6	5.1	4.8	6.3	5.0	4.9	4.1	3.3
09	M	3.5	3.1	5.4	3.5	5.6	3.2	2.1	5.2	3.2	5.3	4.3	...
09	Q1-Q2M	4.1	3.4	6.4	4.1	6.7	3.5	1.8	5.2	3.7	6.1	5.6	...
10	Q1-Q2M	1.1	2.3	0.5	1.1	1.4	1.8	2.9	1.6	1.6	2.1	-0.9	...
07	Q4	4.3	3.8	5.3	4.3	4.5	4.1	3.4	5.4	4.1	4.4	4.7	2.5
08	Q1	4.6	3.6	5.4	4.9	8.6	5.2	5.3	5.5	5.1	9.3	2.9	4.9
	Q2	4.8	5.5	6.0	4.6	1.8	5.0	4.9	7.1	4.7	2.0	4.1	0.9
	Q3	4.8	3.9	5.7	5.2	5.4	5.3	4.6	6.1	5.4	6.0	3.5	3.5
	Q4	5.0	4.6	7.9	5.0	3.0	4.8	4.5	6.6	4.7	2.7	5.8	4.2
09	Q1	4.2	3.8	6.5	4.1	3.7	2.9	1.2	4.6	3.0	2.4	7.8	4.0
	Q2	4.0	3.1	6.3	4.1	9.6	4.1	2.4	5.8	4.3	9.8	3.5	...
	Q3	3.4	2.9	5.0	3.5	4.2	3.1	2.0	4.9	3.2	3.9	3.9	...
	Q4	2.5	2.7	4.1	2.5	5.1	2.7	2.5	5.3	2.5	5.3	1.9	...
10	Q1	1.0	2.1	0.7	1.0	2.1	1.9	2.8	1.9	1.6	2.9	-1.1	...
	Q2	1.2	2.5	0.4	1.1	0.8	1.8	3.0	1.4	1.6	1.4	-0.6	...

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

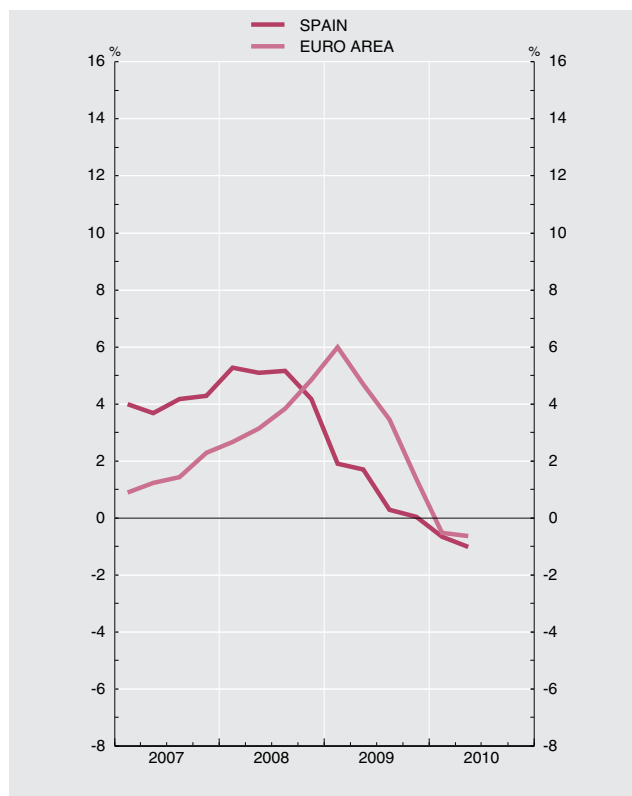
#### 4.8. UNIT LABOUR COSTS. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

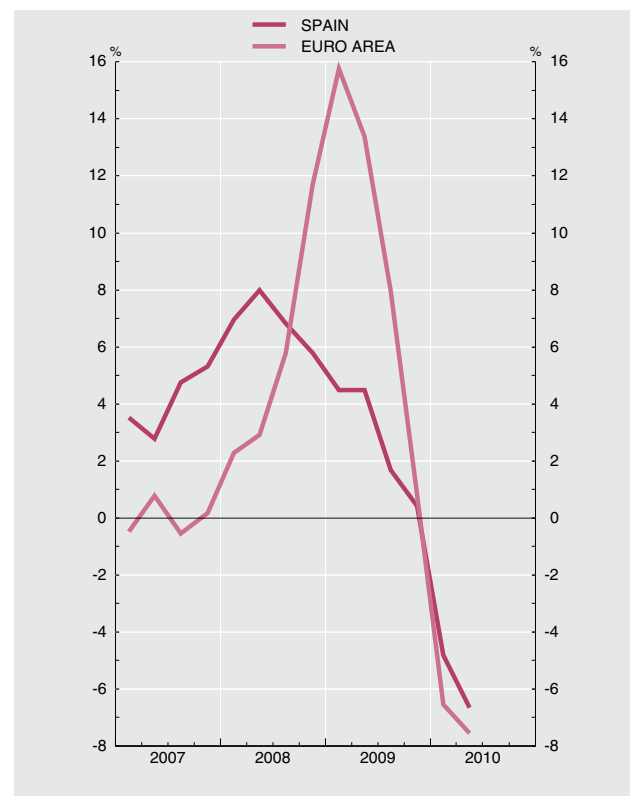
Annual percentage changes

		Whole-economy unit labour costs		Compensation per employee		Productivity						Memorandum item: unit labour costs in manufacturing	
		Spain	Euro area	Spain (b)	Euro area	Spain	Euro area	Output		Employment		Spain (c)	Euro area (d)
								Spain	Euro area	Spain (b)	Euro area		
1	2	3	4	5	6	7	8	9	10	11	12		
07	P	4.0	1.5	4.8	2.5	0.7	1.0	3.6	2.8	2.8	1.8	4.1	-0.0
08	P	4.9	3.6	6.4	3.2	1.4	-0.3	0.9	0.3	-0.5	0.7	6.9	5.7
09	P	1.0	3.9	4.1	1.6	3.1	-2.2	-3.7	-4.0	-6.6	-1.9	2.8	9.5
07	Q3	4.2	1.4	4.9	2.3	0.7	0.8	3.5	2.8	2.8	1.9	4.8	-0.5
Q4	P	4.3	2.3	5.2	2.8	0.8	0.5	3.2	2.2	2.3	1.7	5.3	0.2
08	Q1	5.3	2.7	6.3	3.2	1.0	0.7	2.8	2.1	1.7	1.5	7.0	2.3
Q2	P	5.1	3.1	6.7	3.2	1.5	0.2	1.9	1.2	0.4	1.1	8.0	2.9
Q3	P	5.2	3.8	6.3	3.4	1.1	-0.2	0.3	0.1	-0.8	0.4	6.8	5.8
Q4	P	4.2	4.8	6.2	2.8	2.0	-1.8	-1.4	-2.1	-3.3	-0.2	5.8	11.7
09	Q1	1.9	6.0	4.8	1.8	2.9	-3.9	-3.5	-5.2	-6.2	-1.3	4.5	15.8
Q2	P	1.7	4.7	4.5	1.5	2.8	-3.1	-4.4	-4.9	-7.1	-1.9	4.5	13.4
Q3	P	0.3	3.4	3.9	1.6	3.6	-1.9	-3.9	-4.0	-7.2	-2.2	1.7	7.9
Q4	P	0.0	1.4	3.2	1.4	3.1	-0.0	-3.0	-2.0	-6.0	-2.0	0.4	0.8
10	Q1	-0.7	-0.5	1.8	1.5	2.5	1.9	-1.3	0.8	-3.7	-1.2	-4.8	-6.6
Q2	P	-1.0	-0.6	1.4	2.0	2.5	...	-0.1	1.9	-2.5	...	-6.6	-7.5

UNIT LABOUR COSTS: TOTAL  
Annual percentage changes



UNIT LABOUR COSTS: MANUFACTURING  
Annual percentage changes



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

a. Spain: prepared in accordance with ESA95. SEASONALLY- AND WORKING-DAY-ADJUSTED SERIES (see economic bulletin April 2002).

b. Full-time equivalent employment.

c. Industry.

d. Industry and energy.

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

■ Series depicted in chart.

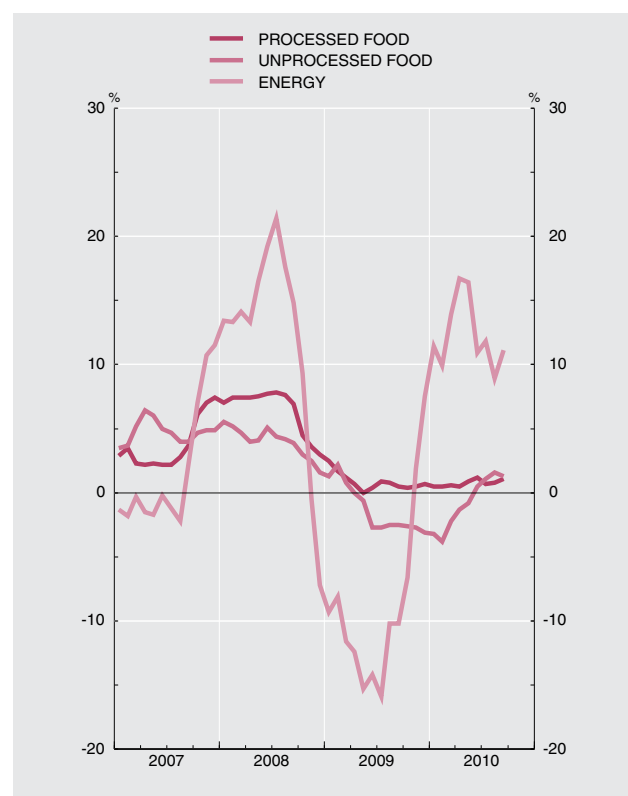
Indices and annual percentage changes

		Total (100%)				Annual percentage change (12-month % change)						Memorandum item:prices for agricultural products (2005=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
07	M	102.8	—	2.8	4.2	4.8	3.7	0.7	1.8	3.8	2.7	103.8	5.7
08	M	107.0	—	4.1	1.4	4.0	6.5	0.3	12.1	3.9	3.2	107.0	3.1
09	M	106.7	—	-0.3	0.8	-1.3	0.9	-1.3	-8.7	2.4	0.8	94.9	-11.3
09 J-S	M	106.4	-0.0	-0.4	-0.5	-0.8	1.0	-1.1	-11.9	2.6	1.0	96.6	-11.9
10 J-S	M	108.0	0.1	1.5	0.2	-0.7	0.8	-0.8	12.4	1.2	0.4	...	...
09	Jun	107.2	0.4	-1.0	0.3	-2.7	0.4	-1.1	-14.2	2.4	0.8	93.7	-17.2
	Jul	106.3	-0.9	-1.4	-0.5	-2.7	0.9	-1.5	-15.9	2.1	0.6	83.3	-17.9
	Aug	106.7	0.3	-0.8	-0.2	-2.5	0.8	-1.8	-10.2	1.9	0.4	84.2	-14.8
	Sep	106.4	-0.2	-1.0	-0.4	-2.5	0.5	-2.1	-10.2	1.8	0.1	90.4	-14.0
	Oct	107.2	0.7	-0.7	0.3	-2.6	0.4	-2.1	-6.6	1.6	0.1	91.4	-12.2
	Nov	107.8	0.5	0.3	0.8	-2.7	0.5	-1.7	1.9	1.6	0.2	92.2	-9.3
	Dec	107.8	-	0.8	0.8	-3.1	0.7	-1.7	7.5	1.6	0.3	95.0	-5.5
10	Jan	106.7	-1.0	1.0	-1.0	-3.2	0.5	-1.7	11.4	1.2	0.1	95.4	-5.5
	Feb	106.5	-0.2	0.8	-1.2	-3.8	0.5	-1.5	9.9	1.1	0.1	103.9	1.0
	Mar	107.3	0.7	1.4	-0.5	-2.2	0.6	-1.5	13.9	1.3	0.2	111.4	5.6
	Apr	108.4	1.1	1.5	0.6	-1.3	0.5	-1.5	16.7	0.8	-0.1	110.9	2.8
	May	108.7	0.2	1.8	0.8	-0.8	0.9	-1.1	16.4	1.0	0.2	115.8	13.7
	Jun	108.9	0.2	1.5	1.0	0.5	1.2	-0.8	10.9	1.0	0.4	101.8	8.6
	Jul	108.4	-0.4	1.9	0.6	1.1	0.7	-0.1	11.8	1.4	0.8	...	...
	Aug	108.6	0.3	1.8	0.8	1.6	0.8	0.2	8.9	1.5	1.0	...	...
	Sep	108.7	0.1	2.1	0.9	1.3	1.1	0.4	11.1	1.5	1.1	...	...

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.

Note: The underlying series for this indicator are in Tables 25.2 and 25.8 of the BE Boletín estadístico.

a. For annual periods: average growth for each year on the previous year.

b. For annual periods: December-on-December growth rate.

c. Index of non-energy processed goods and service prices.

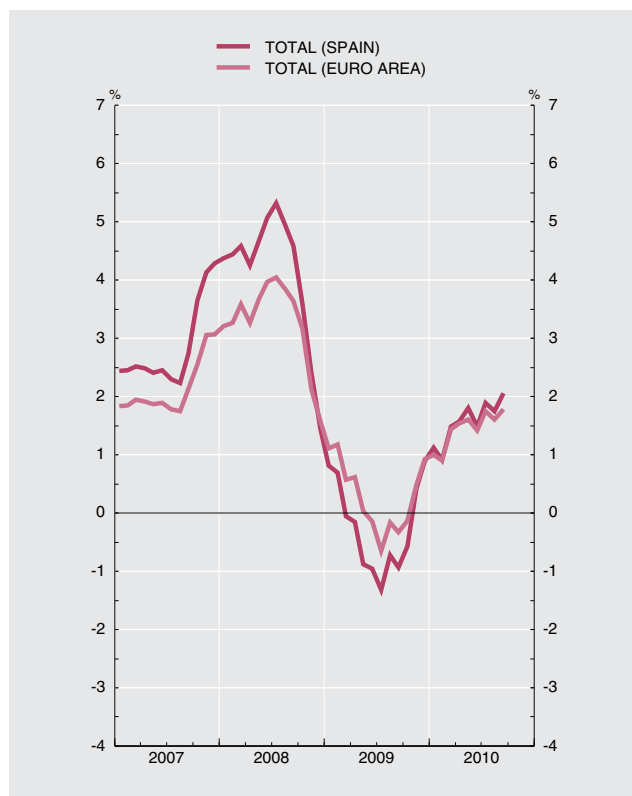
## 5.2. HARMONISED INDEX OF CONSUMER PRICES. SPAIN AND EURO AREA (2005=100) (a)

■ Series depicted in chart.

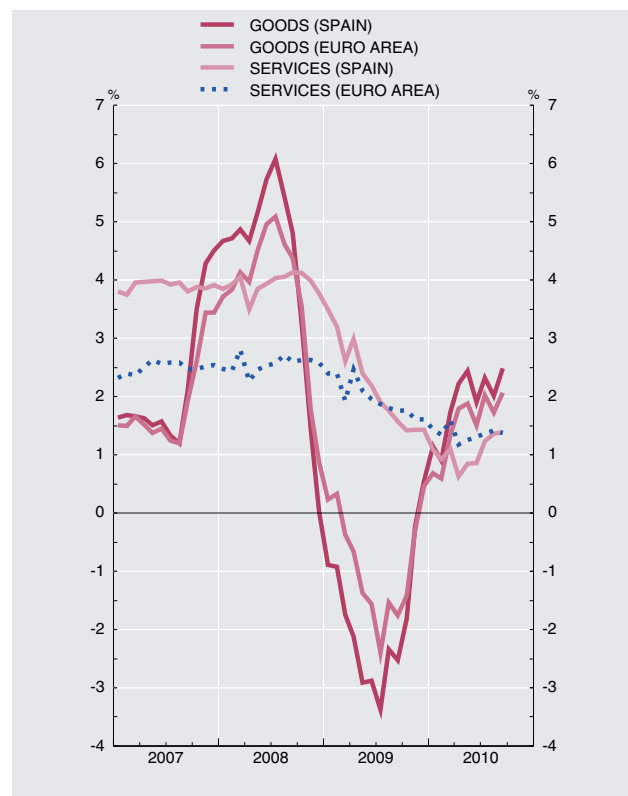
Annual percentage changes

		Total		Goods														Services		
		Spain	Euro area	Spain	Euro area	Food						Industrial						Spain	Euro area	
						Total		Processed		Unprocessed		Spain	Euro area	Non-energy		Energy				
						Spain	Euro area	Spain	Euro area	Spain	Euro area			Spain	Euro area	Spain	Euro area			
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	
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	
09	M	-0.2	0.3	-1.8	-0.9	0.2	0.7	1.0	1.1	-0.7	0.2	-2.9	-1.7	-0.9	0.6	-9.0	-8.1	2.2	2.0	
09	J-S	M	-0.4	0.2	-2.2	-1.0	0.4	1.1	1.0	1.3	-0.2	0.8	-3.7	-2.1	-0.8	0.6	-11.9	-9.6	2.4	2.1
10	J-S	MP	1.6	1.4	1.9	1.5	0.3	0.7	1.2	0.8	-0.7	0.7	2.7	1.9	-0.6	0.3	12.2	6.8	1.0	1.4
09	Jun		-1.0	-0.1	-2.9	-1.6	-0.6	0.7	0.5	1.1	-1.7	-	-4.3	-2.7	-0.8	0.6	-14.1	-11.7	2.2	2.0
	Jul		-1.3	-0.6	-3.4	-2.4	-0.3	-	1.2	0.8	-1.8	-1.1	-5.1	-3.6	-1.1	0.5	-15.8	-14.4	1.9	1.9
	Aug		-0.7	-0.2	-2.3	-1.5	-0.2	-0.1	1.1	0.6	-1.6	-1.2	-3.5	-2.3	-1.3	0.6	-10.2	-10.2	1.8	1.8
	Sep		-0.9	-0.3	-2.5	-1.8	-0.5	-0.2	0.7	0.5	-1.8	-1.3	-3.7	-2.6	-1.5	0.5	-10.1	-11.0	1.6	1.8
	Oct		-0.6	-0.1	-1.8	-1.4	-0.5	-0.4	0.8	0.3	-2.0	-1.6	-2.6	-1.9	-1.5	0.3	-6.5	-8.5	1.4	1.8
	Nov		0.4	0.5	-0.2	-0.3	-0.5	-0.1	1.0	0.5	-2.1	-1.3	-0.2	-0.4	-1.2	0.3	1.9	-2.4	1.4	1.6
	Dec		0.9	0.9	0.5	0.5	-0.5	-0.2	1.3	0.7	-2.4	-1.6	1.1	0.8	-1.1	0.4	7.4	1.8	1.4	1.6
10	Jan		1.1	1.0	1.1	0.7	-0.6	-0.1	1.1	0.6	-2.5	-1.3	2.0	1.1	-1.2	0.1	11.3	4.0	1.1	1.4
	Feb		0.9	0.9	0.9	0.6	-0.9	-0.1	1.1	0.6	-2.9	-1.2	1.8	0.9	-1.1	0.1	9.8	3.3	0.9	1.3
	Mar		1.5	1.4	1.7	1.3	-0.3	0.3	1.2	0.5	-1.8	-0.1	2.8	1.8	-1.1	0.1	13.8	7.2	1.1	1.6
	Apr		1.6	1.5	2.2	1.8	-0.1	0.7	0.9	0.6	-1.2	0.7	3.5	2.3	-1.1	0.2	16.6	9.1	0.6	1.2
	May		1.8	1.6	2.4	1.9	0.4	0.7	1.4	0.9	-0.7	0.4	3.6	2.5	-0.8	0.3	16.3	9.2	0.8	1.3
	Jun		1.5	1.4	1.9	1.5	1.0	0.9	1.8	0.9	0.2	0.9	2.4	1.8	-0.6	0.4	10.8	6.2	0.9	1.3
	Jul		1.9	1.7	2.3	2.0	0.8	1.3	0.9	0.9	0.8	1.9	3.1	2.4	-0.1	0.5	11.7	8.1	1.2	1.4
	Aug		1.8	1.6	2.0	1.7	1.1	1.5	1.1	1.0	1.1	2.4	2.5	1.8	0.1	0.4	8.9	6.1	1.4	1.4
	Sep	P	2.1	1.8	2.5	2.1	1.2	1.6	1.4	1.0	1.0	2.5	3.1	2.3	0.3	0.6	11.0	7.7	1.4	1.4

HARMONISED INDEX OF CONSUMER PRICES. TOTAL  
Annual percentage changes



HARMONISED INDEX OF CONSUMER PRICES. COMPONENTS  
Annual percentage changes



Source: Eurostat.

a. Compliance with the Regulation on the treatment of price reductions is now complete with the inclusion of sales prices in the Italian and Spanish HICP. The Spanish HICP has included a new basket of goods and services since January 2001. In accordance with the related regulations, the series for the year 2001 have been revised. More detailed methodological notes can be consulted on the Eurostat Internet site ([www.europa.eu.int](http://www.europa.eu.int)).

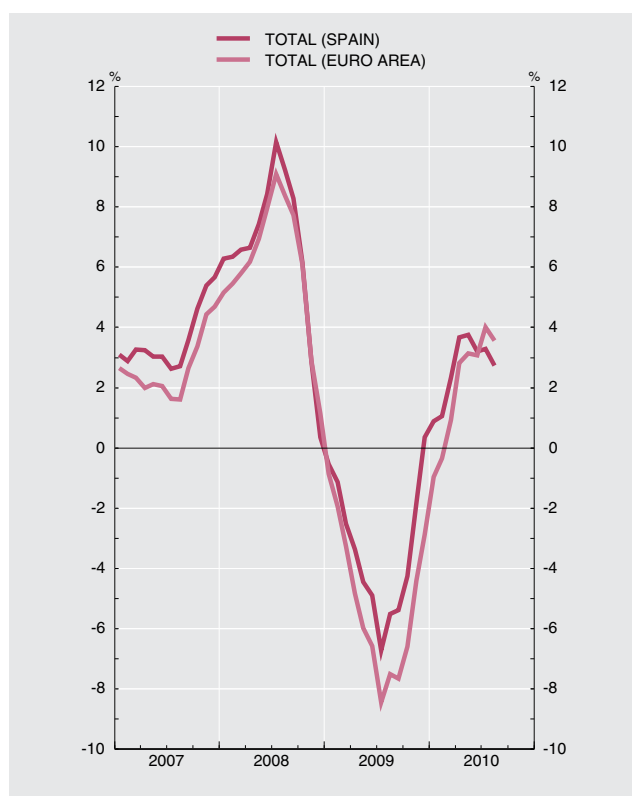
### 5.3. PRODUCER PRICE INDEX. SPAIN AND EURO AREA (2005 = 100)

■ Series depicted in chart.

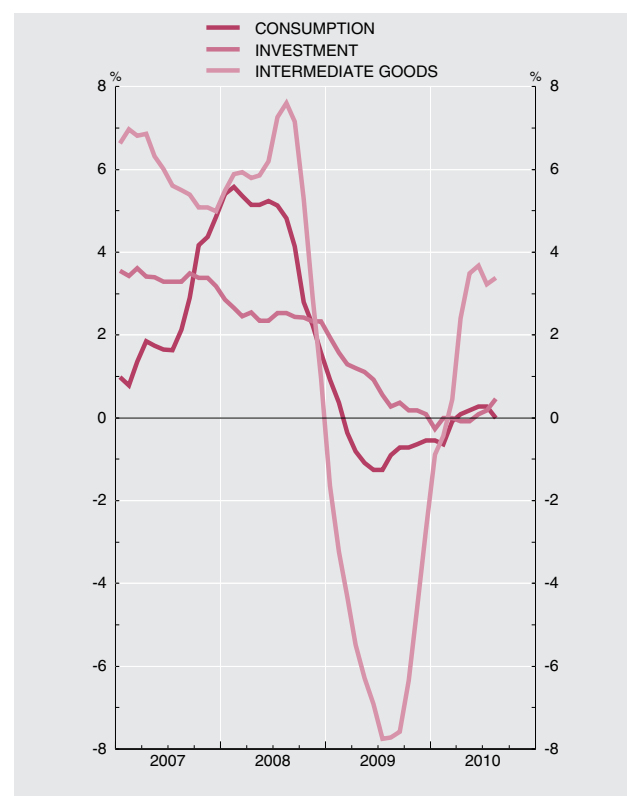
Annual percentage changes

		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	Consumer goods	Capital goods	Intermediate goods	Energy
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
07	MP	109.2	—	3.6	—	2.4	—	3.4	—	5.9	—	1.6	2.7	2.2	2.2	4.6	1.2
08	MP	116.3	—	6.5	—	4.4	—	2.5	—	5.5	—	14.3	6.1	3.9	2.1	3.9	14.3
09	MP	112.4	—	-3.4	—	-0.6	—	0.8	—	-5.4	—	-6.8	-5.1	-2.1	0.5	-5.2	-11.5
09 J-A	MP	112.3	—	-3.7	—	-0.6	—	1.1	—	-5.5	—	-8.2	-4.9	-1.8	0.9	-5.1	-11.6
10 J-A	MP	115.3	—	2.6	—	-0.1	—	0.0	—	1.9	—	9.2	2.0	-0.1	0.0	2.4	5.0
09 May	P	111.8	0.1	-4.4	-0.2	-1.1	-	1.1	-0.3	-6.3	1.1	-9.8	-6.0	-2.0	0.6	-5.8	-14.3
Jun	P	112.5	0.6	-4.9	-	-1.3	-0.1	0.9	-0.2	-6.9	3.2	-10.1	-6.6	-2.4	0.4	-6.5	-15.3
Jul	P	112.3	-0.2	-6.7	0.1	-1.3	-0.1	0.5	0.2	-7.8	-1.0	-16.0	-8.4	-2.6	0.1	-7.6	-20.2
Aug	P	113.0	0.6	-5.5	0.5	-0.9	-0.2	0.3	0.4	-7.7	1.6	-11.5	-7.5	-2.6	-0.1	-7.5	-17.1
Sep	P	112.5	-0.4	-5.4	0.1	-0.7	0.2	0.4	-0.1	-7.6	-2.2	-11.5	-7.7	-2.8	-0.4	-7.4	-17.5
Oct	P	112.4	-0.1	-4.3	-0.4	-0.7	-0.1	0.2	-0.1	-6.3	0.6	-8.4	-6.6	-2.9	-0.6	-6.5	-14.5
Nov	P	112.4	-	-1.8	-0.3	-0.6	-	0.2	-0.4	-4.6	0.8	-0.7	-4.4	-2.4	-0.6	-4.9	-8.7
Dec	P	112.5	0.1	0.4	-0.1	-0.5	-0.1	0.1	0.1	-2.7	0.2	6.3	-2.9	-2.0	-0.5	-3.5	-5.0
10 Jan	P	113.6	1.0	0.9	0.3	-0.5	0.2	-0.3	0.6	-0.9	3.2	6.3	-1.0	-0.7	-0.6	-1.5	-1.5
Feb	P	113.8	0.2	1.1	-	-0.6	0.2	-	0.3	-0.4	0.4	6.8	-0.4	-0.5	-0.5	-0.4	-0.5
Mar	P	114.6	0.7	2.3	0.1	-0.1	-0.1	-	0.4	0.4	2.2	10.1	0.9	-0.4	-0.3	0.8	3.1
Apr	P	115.8	1.0	3.7	-	0.1	-	-0.1	1.3	2.4	2.4	13.1	2.8	-0.3	-0.0	2.7	7.9
May	P	116.0	0.2	3.8	-0.1	0.2	-	-0.1	0.8	3.5	0.2	12.0	3.1	-0.0	0.3	3.9	7.4
Jun	P	116.1	0.1	3.2	0.1	0.3	0.1	0.1	-	3.7	0.2	8.7	3.1	0.2	0.4	4.3	6.2
Jul	P	116.0	-0.1	3.3	0.1	0.3	-	0.2	-0.3	3.2	-	9.8	4.0	0.4	0.6	4.5	9.7
Aug	P	116.1	0.1	2.7	0.2	-	0.1	0.5	0.6	3.4	-1.1	7.0	3.6	0.5	0.5	4.7	7.5

**PRODUCER PRICE INDEX. TOTAL**  
Annual percentage changes



**PRODUCER PRICE INDEX. COMPONENTS**  
Annual percentage changes



Sources: INE and ECB.

Note: The underlying series for this indicator, for Spain, are in Table 25.3 of the BE Boletín estadístico.

a. For annual periods: average growth for each year on the previous year.

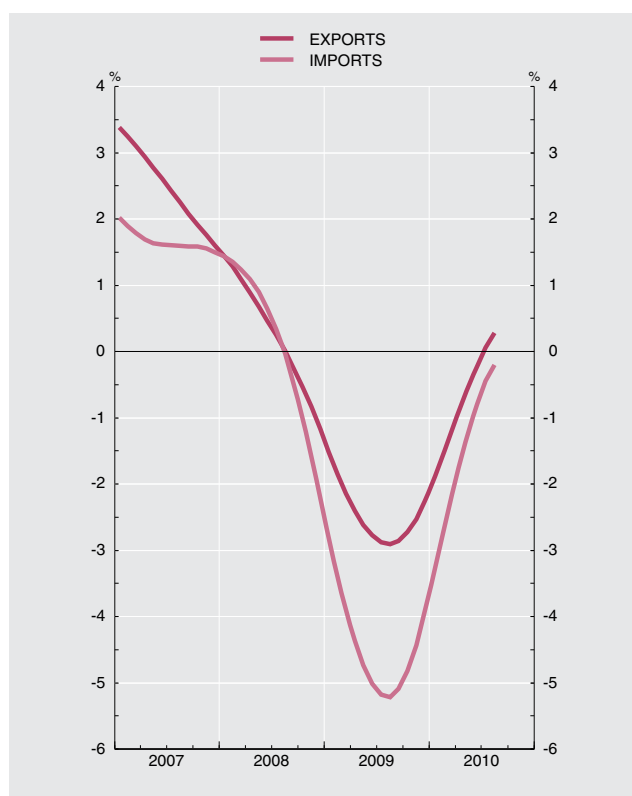
#### 5.4. UNIT VALUE INDICES FOR SPANISH FOREIGN TRADE

■ Series depicted in chart.

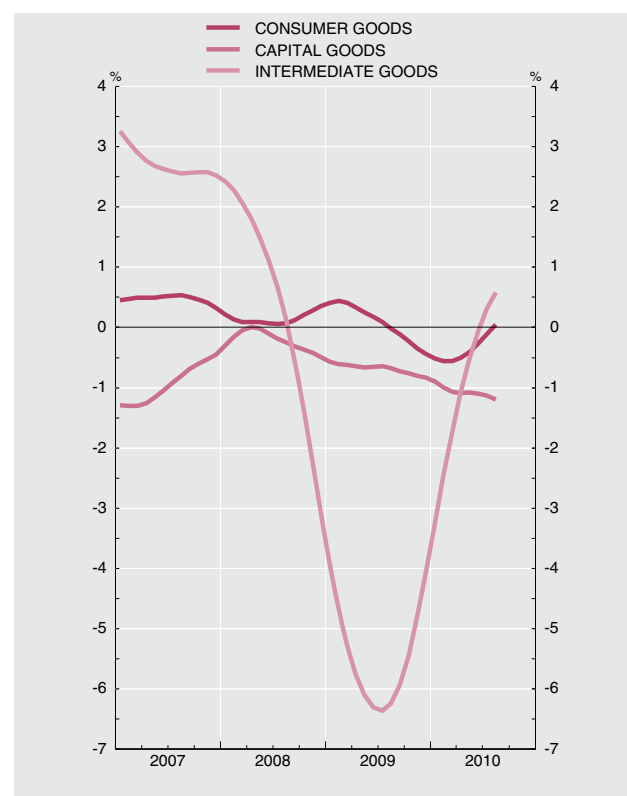
Annual percentage changes

	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
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
09	-6,8	-2,8	-6,3	-9,6	-29,8	-7,0	-10,6	-3,2	-5,1	-14,4	-27,5	-8,9
09 J-A	-6,4	-2,2	-6,4	-9,2	-27,1	-6,9	-10,2	-0,4	-3,2	-15,1	-31,9	-8,2
10 J-A	1,4	0,9	-7,3	3,3	9,7	3,1	3,4	-1,7	0,7	6,0	25,5	1,4
09 Mar	-4,6	-4,4	-5,9	-4,7	-20,7	-2,6	-7,6	4,9	2,0	-14,3	-31,0	-5,4
Apr	-5,1	-0,4	-9,6	-7,9	-23,2	-6,0	-8,6	-0,7	0,3	-13,0	-32,1	-6,2
May	-8,3	-3,5	0,2	-12,9	-34,4	-11,2	-10,1	1,4	-6,4	-15,2	-36,6	-8,6
Jun	-5,7	1,9	-8,2	-10,3	-30,2	-7,7	-10,7	-1,8	0,1	-15,2	-35,2	-6,5
Jul	-7,2	-1,0	-6,2	-11,7	-39,8	-7,5	-13,2	-5,5	5,2	-17,8	-33,6	-10,2
Aug	-11,2	-5,1	-8,5	-14,9	-42,1	-10,2	-16,4	-11,3	-15,0	-18,7	-29,7	-12,8
Sep	-8,6	-2,4	-16,6	-11,5	-37,8	-7,7	-12,9	-0,5	-17,6	-17,8	-31,3	-12,0
Oct	-6,6	-4,7	11,8	-10,7	-38,5	-7,6	-13,8	-12,1	-4,4	-15,8	-26,0	-11,7
Nov	-8,6	-5,7	-4,4	-11,4	-37,4	-7,9	-12,5	-14,5	-9,8	-12,0	-15,8	-9,8
Dec	-6,7	-2,5	-15,2	-7,9	-26,7	-5,3	-7,2	-8,0	-4,6	-7,3	-2,3	-7,6
10 Jan	-2,9	-3,1	-6,2	-2,3	-8,1	-1,3	-1,5	-6,3	4,5	0,2	14,6	-3,7
Feb	-1,8	1,8	-7,7	-3,1	-3,7	-2,2	-0,8	-8,0	-6,7	4,3	24,9	0,3
Mar	-1,9	1,6	-13,5	-2,3	0,6	-2,3	-1,2	-8,6	-9,9	4,1	26,5	-1,1
Apr	0,3	-4,3	2,2	3,1	13,8	2,4	1,1	-5,3	-5,9	4,6	30,2	-2,0
May	4,1	3,0	-15,0	8,8	19,0	8,6	5,2	-7,3	4,8	10,7	38,4	4,5
Jun	2,7	1,5	-10,2	6,1	11,4	6,2	6,5	0,6	-2,0	9,5	30,5	3,8
Jul	3,8	2,6	-8,0	6,9	17,6	6,0	5,1	7,6	1,3	4,0	17,9	0,6
Aug	6,8	4,3	0,2	8,8	26,1	6,9	12,2	13,4	18,5	10,9	21,2	8,8

EXPORT AND IMPORT UNIT VALUE INDICES (a)



IMPORT UNIT VALUE INDICES BY PRODUCT GROUP (a)



Sources: ME and BE.

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

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



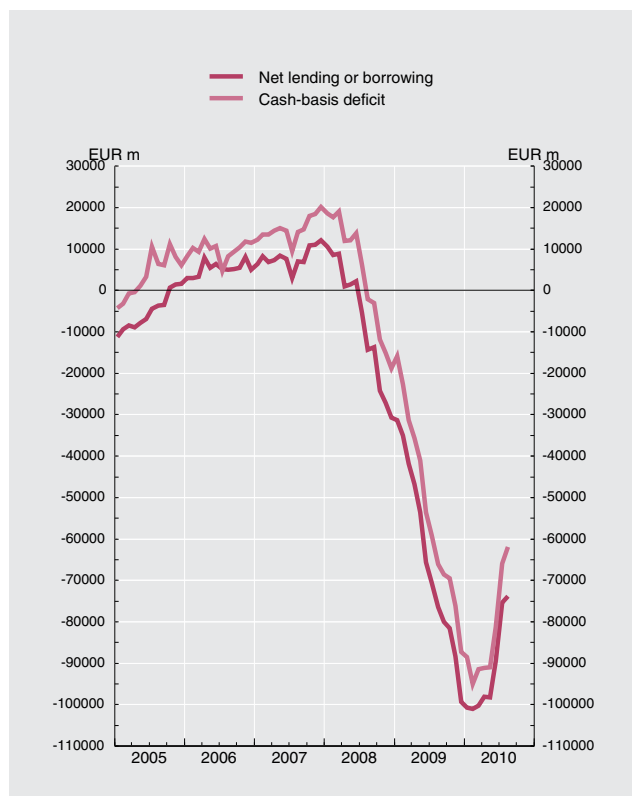
## 6.1. STATE RESOURCES AND USES ACCORDING TO THE NATIONAL ACCOUNTS. SPAIN

■ Series depicted in chart.

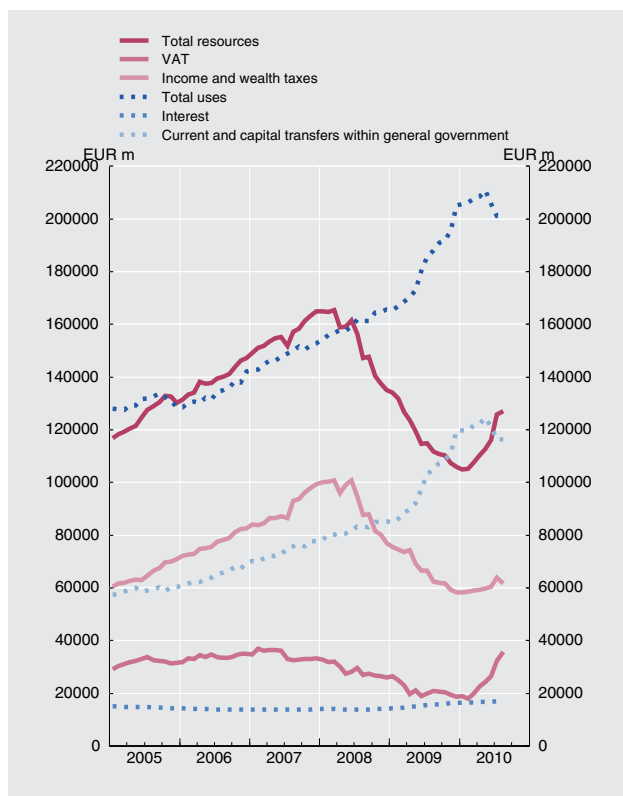
EUR millions

	Net lending (+) or borrowing (-)	Current and capital resources						Current and capital uses						Memorandum item: cash-basis deficit		
		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
		2=3+7	3	4	5	6	7	8=9+13	9	10	11	12	13	14=15-16	15	16
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	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	12 098	165 010	33 332	12 938	6 645	99 240	12 855	152 912	18 006	14 024	77 833	6 092	36 957	20 135	159 840	139 704
08	-30 642	135 104	26 065	12 715	7 006	76 927	12 391	165 746	19 179	14 147	85 333	5 911	41 176	-18 747	129 336	148 082
09	P -99 258	105 827	18 767	11 563	8 144	58 234	9 119	205 085	20 141	16 318	119 693	5 988	42 945	-87 281	102 038	189 319
09 J-A	P -60 325	60 582	9 826	7 308	4 032	35 368	4 048	120 907	12 936	10 768	73 396	1 385	22 422	-62 452	59 181	121 633
10 J-A	A -34 950	81 851	26 755	7 737	3 957	38 775	4 627	116 801	12 970	11 600	69 974	967	21 290	-37 054	78 930	115 984
09 Aug	P -10 510	2 610	-5 428	1 066	404	6 081	487	13 120	1 441	1 373	7 627	190	2 489	-11 506	1 424	12 930
Sep	P -2 484	11 871	3 495	1 142	370	5 644	1 220	14 355	1 426	1 335	8 504	189	2 901	-347	11 521	11 868
Oct	P 3 461	19 609	5 791	1 163	180	11 866	609	16 148	1 511	1 418	9 401	445	3 373	5 198	18 816	13 618
Nov	P -12 224	5 132	-19	1 020	198	2 447	1 486	17 356	1 476	1 371	9 796	602	4 111	-10 907	5 575	16 482
Dec	P -27 686	8 633	-326	930	3 364	2 909	1 756	36 319	2 792	1 426	18 596	3 367	10 138	-18 773	6 946	25 719
10 Jan	A -719	9 217	-496	1 006	330	9 477	-1 100	9 936	1 418	1 453	4 921	120	2 024	-3 590	10 725	14 315
Feb	A 3 971	18 302	12 454	945	220	2 946	1 737	14 331	1 451	1 259	8 322	98	3 201	-4 169	16 805	20 974
Mar	A -11 940	4 278	562	697	1 220	2 690	-891	16 218	1 479	1 430	10 651	18	2 640	-7 787	5 229	13 016
Apr	A 2 976	17 362	5 097	1 099	439	10 181	546	14 386	1 602	1 408	8 517	405	2 454	3 153	16 801	13 648
May	A -13 172	2 529	710	914	264	-229	870	15 701	1 521	1 479	9 877	88	2 736	-10 485	1 746	12 231
Jun	A -10 910	5 090	787	1 108	416	597	2 182	16 000	2 695	1 464	8 690	-57	3 208	-7 916	4 080	11 996
Jul	A 3 928	21 121	9 606	993	546	9 346	630	17 193	1 395	1 568	11 471	187	2 572	1 114	20 944	19 831
Aug	A -9 084	3 952	-1 965	975	522	3 767	653	13 036	1 409	1 539	7 525	108	2 455	-7 374	2 599	9 973

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



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



Source: Ministerio de Economía y Hacienda (IGAE).

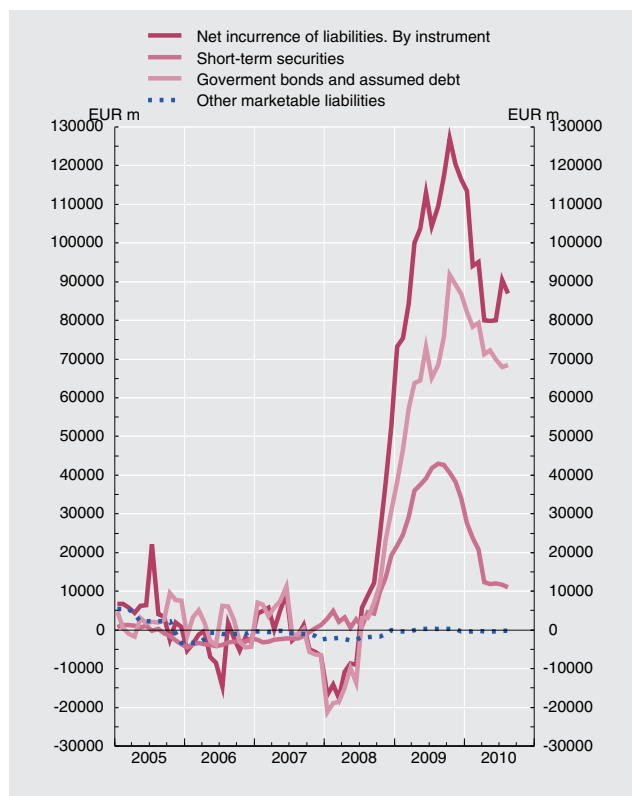
## 6.2. STATE FINANCIAL TRANSACTIONS. SPAIN

■ Series depicted in chart.

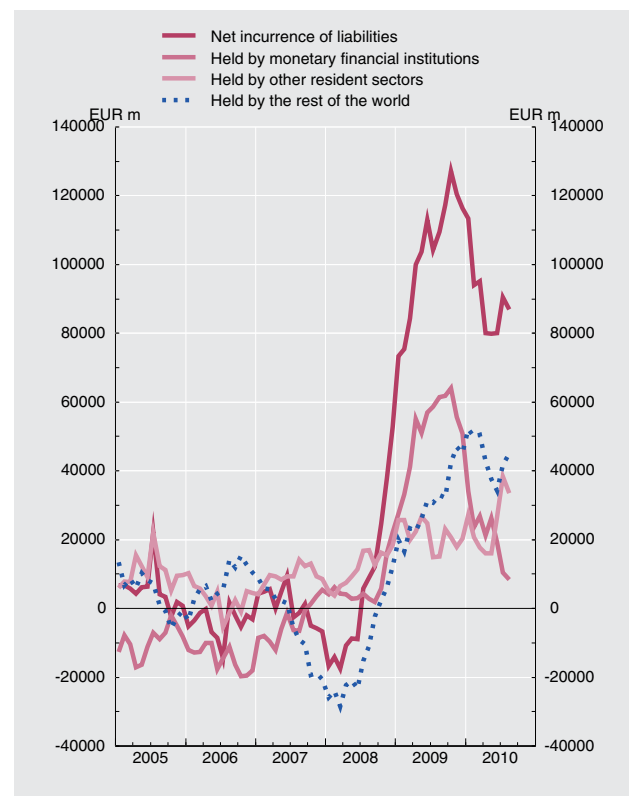
EUR millions

	Net lending (+) or net borrowing(-)	Net acquisition of financial assets		Net incurrence of liabilities										Net incurrence of liabilities (excluding other accounts payable)	
		Of which		Total	Of which	By instrument					By counterpart sector				
		In currencies other than the peseta/euro	Short-term securities			Government bonds and assumed debt	Banco de España loans	Other marketable liabilities (a)	Other accounts payable	Held by resident sectors			Rest of the world		
										Total	Monetary financial institutions	Other resident sectors			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
05	1 590	2 292	0	702	-1 910	-3 771	7 526	-486	-3 411	844	1 460	-8 257	9 717	-758	-142
06	5 005	1 917	-200	-3 088	-1 197	-2 198	-4 348	-486	-418	4 361	-13 445	-18 000	4 555	10 357	-7 449
07	12 098	5 382	65	-6 716	-120	1 206	-6 477	-519	-2 495	1 569	13 867	5 342	8 525	-20 582	-8 285
08	-30 642	22 314	4 337	52 956	1 175	19 355	30 817	-520	-40	3 344	40 724	22 233	18 490	12 232	49 612
09	P -99 258	17 133	-4 197	116 391	1 503	34 043	86 813	-535	-412	-3 519	71 089	50 763	20 326	45 302	119 910
09 J-A	P -60 325	5 222	-4 401	65 547	781	24 957	45 537	-535	-11	-4 401	47 631	34 123	13 508	17 916	69 948
10 J-A	A -34 950	1 208	195	36 158	-884	1 970	27 185	-544	202	7 345	18 437	-8 170	26 607	17 721	28 813
09 Aug	P -10 510	-5 083	6	5 427	2	3 089	4 367	-	16	-2 045	2 943	1 093	1 849	2 484	7 472
Sep	P -2 484	15 477	3 900	17 961	1 714	2 076	15 354	-	-30	561	8 760	5 383	3 376	9 202	17 400
Oct	P 3 461	12 369	5 996	8 908	-997	2 409	8 047	-	-27	-1 521	1 764	3 633	-1 869	7 144	10 428
Nov	P -12 224	-910	-2 563	11 314	2	4 190	10 655	-	-1	-3 530	2 270	4 977	-2 708	9 044	14 844
Dec	P -27 686	15 025	-7 129	12 661	2	411	7 221	-	-343	5 372	10 665	2 647	8 018	1 996	7 289
10 Jan	A -719	6 902	1 176	7 621	3	-591	-11 818	-	16	20 014	-1 236	-11 267	10 030	8 857	-12 393
Feb	A 3 971	-10 984	-1 280	-14 955	2	-2 128	9 925	-	-17	-22 734	-10 983	-3 947	-7 036	-3 972	7 780
Mar	A -11 940	479	-2	12 419	-62	947	12 489	-	22	-1 039	7 294	9 085	-1 791	5 125	13 458
Apr	A 2 976	4 329	-100	1 353	-15	-3 070	3 173	-544	-32	1 826	5 222	2 523	2 699	-3 869	-472
May	A -13 172	-4 889	100	8 283	2	597	7 886	-	4	-205	10 464	5 910	4 554	-2 181	8 487
Jun	A -10 910	3 090	20	14 000	2	1 222	9 090	-	19	3 668	13 414	1 581	11 833	586	10 332
Jul	A 3 928	9 391	257	5 463	-818	2 500	-8 528	-	175	11 316	-1 737	-11 106	9 369	7 200	-5 853
Aug	A -9 084	-7 110	23	1 974	2	2 495	4 967	-	13	-5 500	-4 001	-949	-3 052	5 975	7 474

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 methodology of the excessive deficit procedure	of which  In currencies other than the peseta/euro	By instrument				By counterpart sector			Deposits at the Banco de España	Guarantees given (contingent liabilities). Outstanding level	
				Short-term securities	Government bonds and assumed debt	Banco de España loans	Other marketable liabilities (a)	Held by resident sectors					Rest of the world
								Total	General government	Other resident sectors			
1	2	3	4	5	6	7	8	9	10	11	12		
05		299 656	2 154	31 647	254 442	6 902	6 666	178 476	22 810	155 666	143 990	300	6 020
06		294 419	515	31 060	250 702	6 416	6 242	163 799	21 897	141 902	152 517	100	5 794
07		286 090	355	31 644	243 246	5 832	5 367	171 398	25 551	145 847	140 243	165	6 162
08		327 938	63	50 788	266 334	5 249	5 567	200 670	34 511	166 159	161 779	4 502	8 152
09	Aug	P 388 058	68	74 823	303 013	4 665	5 557	244 614	46 213	198 401	189 657	1 001	47 191
	Sep	P 403 704	66	76 918	316 594	4 665	5 527	251 983	46 282	205 701	198 003	4 001	47 882
	Oct	P 414 027	67	79 370	324 492	4 665	5 500	254 998	46 222	208 776	205 250	9 997	48 134
	Nov	P 426 897	66	83 552	333 181	4 665	5 498	258 770	46 495	212 275	214 622	7 434	53 565
	Dec	P 433 058	68	84 302	338 935	4 665	5 155	262 957	46 140	216 818	216 241	305	58 854
10	Jan	A 424 900	69	83 695	331 368	4 665	5 172	245 942	46 140	199 803	225 098	1 481	60 667
	Feb	A 429 472	67	81 304	338 347	4 665	5 155	256 776	48 420	208 356	221 116	201	61 278
	Mar	A 440 341	0	82 275	348 223	4 665	5 177	263 708	49 568	214 140	226 200	200	61 326
	Apr	A 440 036	0	79 231	351 578	4 082	5 145	269 388	51 683	217 705	222 331	99	62 765
	May	A 446 803	0	79 921	357 651	4 082	5 150	278 836	52 179	226 657	220 147	199	64 284
	Jun	A 453 839	0	80 074	364 514	4 082	5 169	287 771	54 615	233 157	220 683	219	65 418
	Jul	A 453 147	0	81 656	362 064	4 082	5 344	280 603	54 658	225 945	227 202	476	63 794
	Aug	A 454 878	0	83 080	362 359	4 082	5 357	280 649	58 987	221 662	233 216	500	64 760

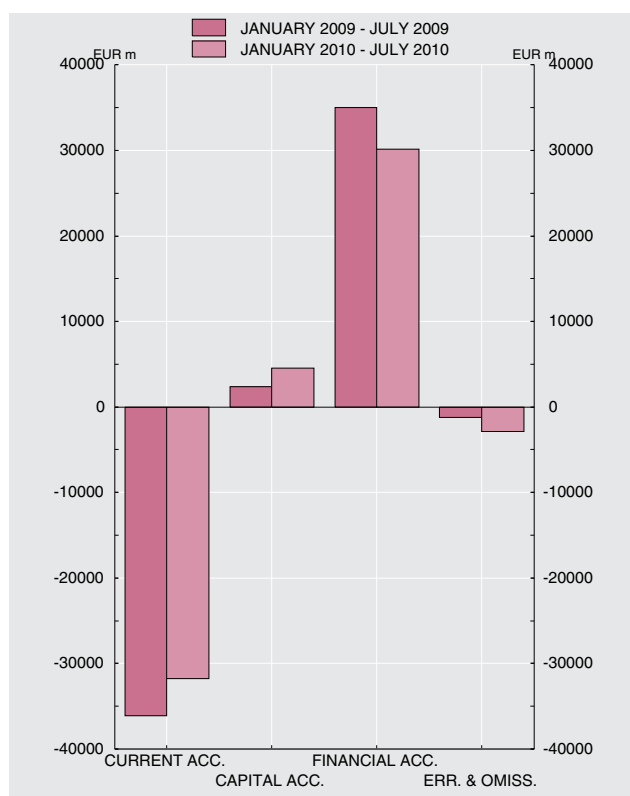
## 7.1. SPANISH BALANCE OF PAYMENTS VIS-À-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. CURRENT ACCOUNT

■ Series depicted in chart.

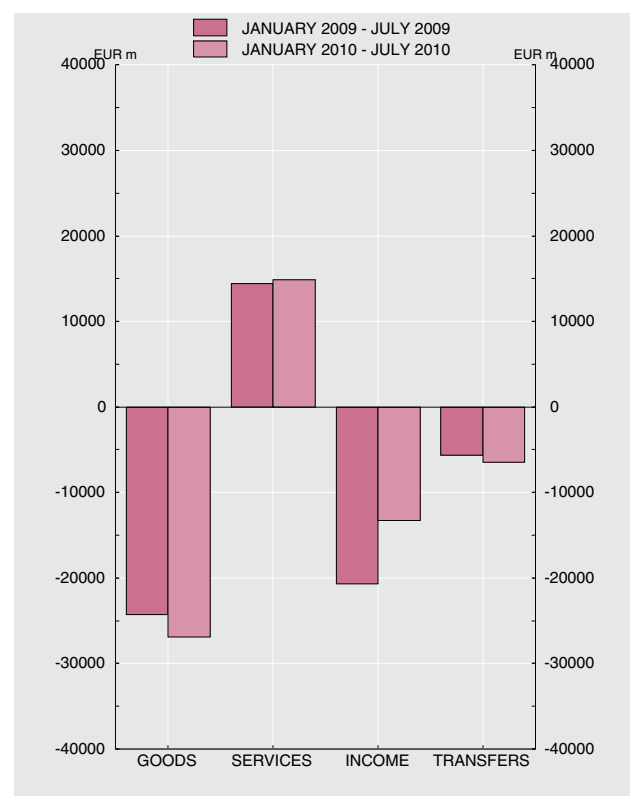
EUR millions

	Current account (a)													Capital account (balance)	Current account plus capital account	Financial account (balance) (b)	Errors and omission (17=-(15+16))
	Total (balance)	Goods			Services					Income			Current transfers (balance)				
		Balance	Receipts	Payments	Balance	Receipts		Payments		Balance	Receipts	Payments					
						Of which		Of which									
						Total	Travel	Total	Travel								
1=2+5+10+13	2=3-4	3	4	5=6-8	6	7	8	9	10=11-12	11	12	13	14	15=1+14	16	17=	
07	-105 266	-91 116	192 685	283 801	23 051	93 306	42 061	70 255	14 360	-30 055	57 961	88 016	-7 146	4 577	-100 689	101 004	-315
08	P -105 973	-86 724	192 740	279 464	26 144	97 437	41 901	71 293	13 834	-36 034	54 034	90 067	-9 360	5 474	-100 499	101 975	-1 477
09	P -58 299	-45 111	160 546	205 657	25 328	88 057	38 125	62 729	12 086	-30 536	40 679	71 215	-7 980	4 057	-54 241	57 580	-3 339
09 J-J	P -36 132	-24 248	92 914	117 163	14 405	50 741	21 211	36 335	6 484	-20 653	24 411	45 064	-5 636	2 377	-33 755	34 997	-1 242
10 J-J	P -31 731	-26 870	107 475	134 346	14 907	52 274	21 560	37 367	6 660	-13 293	22 181	35 474	-6 474	4 509	-27 223	30 126	-2 903
09 Apr	P -4 482	-3 162	13 405	16 567	1 551	6 641	2 519	5 090	836	-1 815	2 872	4 687	-1 055	937	-3 545	2 954	591
May	P -4 065	-2 857	13 052	15 909	2 610	7 123	3 182	4 513	640	-3 354	3 937	7 291	-464	152	-3 913	3 805	108
Jun	P -3 477	-2 805	14 033	16 838	2 707	7 921	3 741	5 214	1 143	-2 941	3 366	6 307	-438	150	-3 326	5 427	-2 101
Jul	P -2 056	-2 820	14 659	17 479	3 573	9 629	4 709	6 056	1 230	-2 388	4 561	6 949	-420	162	-1 895	2 947	-1 053
Aug	P -3 344	-4 236	10 206	14 442	3 535	8 539	4 906	5 004	1 280	-1 650	2 218	3 869	-992	431	-2 913	3 330	-417
Sep	P -4 671	-4 981	14 051	19 033	2 489	7 942	4 006	5 453	1 222	-1 472	3 263	4 734	-706	69	-4 602	4 951	-349
Oct	P -4 923	-3 499	15 211	18 710	2 302	7 928	3 595	5 626	1 131	-2 006	2 650	4 657	-1 720	-4	-4 927	6 415	-1 489
Nov	P -5 166	-4 437	14 316	18 753	1 218	6 132	2 365	4 914	1 020	-2 637	2 438	5 076	690	396	-4 770	5 531	-761
Dec	P -4 063	-3 710	13 847	17 557	1 379	6 777	2 041	5 397	951	-2 117	5 698	7 815	384	789	-3 274	2 355	919
10 Jan	P -5 330	-4 097	12 237	16 334	1 237	6 312	2 433	5 075	877	-1 116	3 078	4 193	-1 354	1 293	-4 037	3 239	798
Feb	P -6 260	-3 009	14 193	17 202	1 148	6 089	2 087	4 941	910	-2 054	2 217	4 270	-2 345	253	-6 007	6 549	-540
Mar	P -4 665	-3 723	16 864	20 588	1 540	7 182	2 552	5 642	899	-1 803	2 513	4 316	-679	350	-4 315	7 159	-2 844
Apr	P -5 504	-4 434	14 819	19 253	1 391	6 512	2 400	5 121	860	-1 409	3 639	5 048	-1 052	132	-5 373	3 292	2 080
May	P -4 493	-3 609	16 424	20 033	2 598	7 843	3 236	5 245	660	-2 954	3 792	6 746	-528	1 816	-2 677	4 885	-2 209
Jun	P -3 582	-4 066	16 484	20 549	2 779	8 546	3 846	5 767	1 207	-2 385	3 135	5 520	90	125	-3 457	2 972	485
Jul	P -1 897	-3 932	16 454	20 387	4 213	9 790	5 006	5 576	1 246	-1 572	3 808	5 380	-606	539	-1 358	2 031	-673

### 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).

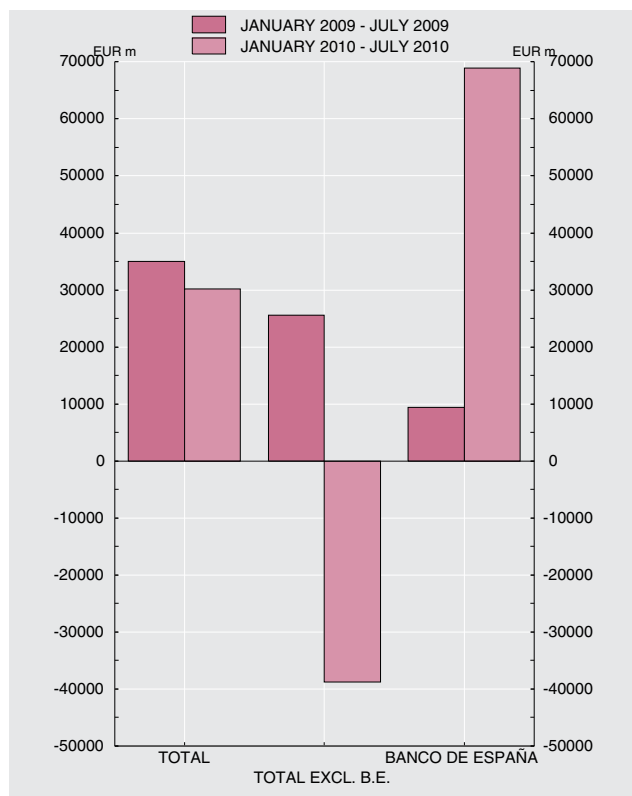
## 7.2. SPANISH BALANCE OF PAYMENTS VIS-À-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. FINANCIAL ACCOUNT (a)

■ Series depicted in chart.

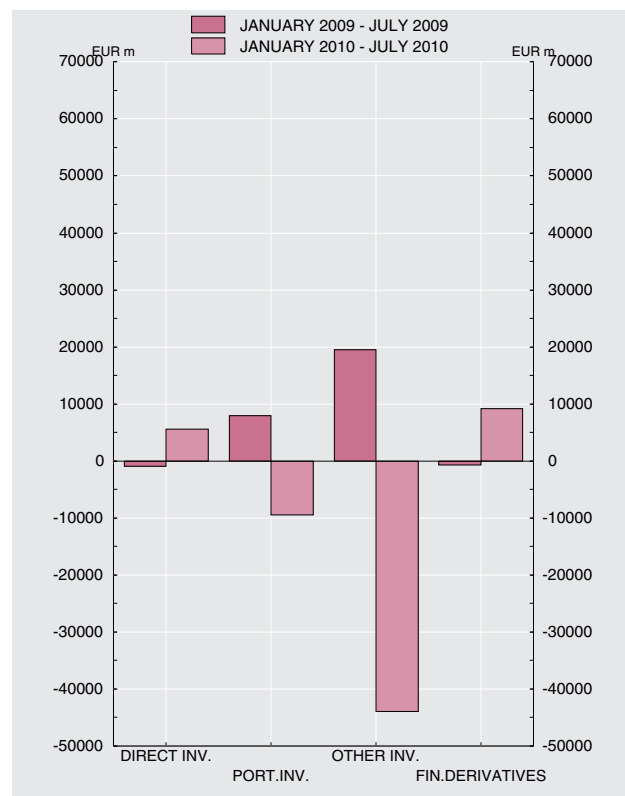
EUR millions

		Financial account  (NCL-NCA)  1= 2+13	Total, excluding Banco de España											Banco de España			
			Total  (NCL-NCA)  2=3+6+ 9+12	Direct investment			Portfolio investment			Other investment (d)			Net financial derivatives (NCL-NCA)  12	Balance  (NCL-NCA)  13=14+ 15+16	Re-serves  (e)  14	Net claims with the Euro-system  (e)  15	Other net assets  (NCL-NCA)  16
				Balance (NCL-NCA)  3=5-4	Spanish investment abroad (NCA)  4	Foreign investment in Spain (NCL) (b)  5	Balance (NCL-NCA)  6=8-7	Spanish investment abroad (NCA)  7	Foreign investment in Spain (NCL) (c)  8	Balance (NCL-NCA)  9=11-10	Spanish investment abroad (NCA)  10	Foreign investment in Spain (NCL)  11					
07		101 004	86 682	-53 181	100 135	46 954	104 264	-8 746	95 517	39 693	56 134	95 827	-4 094	14 322	-164	28 329	-13 843
08	P	101 975	71 757	-1 067	51 102	50 036	378	-21 928	-21 550	78 903	12 781	91 684	-6 457	30 218	-645	31 713	-850
09	P	57 580	47 116	-1 103	6 227	5 124	44 921	4 580	49 501	8 964	797	9 761	-5 666	10 464	-1 563	6 146	5 882
09 J-J	P	34 997	25 566	-904	8 855	7 951	7 969	1 252	9 222	19 494	-20 244	-750	-994	9 432	-939	4 286	6 084
10 J-J	P	30 126	-38 756	5 618	-3 589	2 029	-9 508	-33 341	-42 848	-43 975	5 839	-38 135	9 108	68 882	-592	60 931	8 543
09 Apr	P	2 954	8 040	1 175	302	1 477	1 360	-566	794	2 572	-1 423	1 150	2 933	-5 087	-19	-6 379	1 311
May	P	3 805	1 510	-598	0	-597	-3 001	5 121	2 120	5 688	-4 909	779	-579	2 295	-120	1 177	1 237
Jun	P	5 427	-3 659	9 348	-799	8 549	-6 096	6 837	741	-5 542	7 273	1 731	-1 370	9 086	-187	8 321	952
Jul	P	2 947	-584	-1 464	480	-984	8 838	-3 707	5 131	-6 639	-7 852	-14 492	-1 319	3 531	-348	4 015	-136
Aug	P	3 330	-2 828	1 903	695	2 597	6 568	-144	6 424	-9 186	7 093	-2 093	-2 112	6 158	-220	6 099	279
Sep	P	4 951	3 295	1 379	-858	521	3 304	4 008	7 311	-399	7 165	6 766	-988	1 657	6	2 001	-351
Oct	P	6 415	12 607	403	-416	-13	11 916	-321	11 595	448	-383	65	-160	-6 191	-38	-6 159	6
Nov	P	5 531	16 834	-2 395	2 628	233	15 453	848	16 301	4 747	-6 885	-2 139	-971	-11 302	71	-11 663	289
Dec	P	2 355	-8 357	-1 489	-4 677	-6 165	-289	-1 063	-1 352	-6 139	14 051	7 911	-441	10 712	-444	11 581	-425
10 Jan	P	3 239	6 558	-1 244	-11	-1 255	13 698	-3 283	10 415	-6 251	7 243	992	355	-3 319	-2	-3 730	413
Feb	P	6 547	1 858	8 239	-7 269	970	-20 636	-702	-21 338	13 575	-12 348	1 227	680	4 689	-113	4 298	504
Mar	P	7 159	5 383	1 066	441	1 507	817	3 806	4 623	928	-2 557	-1 629	2 572	1 776	1	1 603	172
Apr	P	3 292	10 325	1 314	-1 491	-177	4 711	-8 407	-3 695	3 751	714	4 464	549	-7 032	-6	-7 566	540
May	P	4 885	-35 052	-2 727	3 864	1 137	-9 773	-6 870	-16 643	-23 566	10 438	-13 128	1 013	39 937	-413	42 402	-2 051
Jun	P	2 972	-32 123	-893	-711	-1 604	-4 885	-9 313	-14 198	-28 946	3 127	-25 819	2 601	35 096	-9	27 477	7 627
Jul	P	2 031	4 296	-137	1 587	1 450	6 559	-8 572	-2 013	-3 464	-778	-4 242	1 338	-2 265	-52	-3 552	1 338

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 EXPORTS AND DISPATCHES

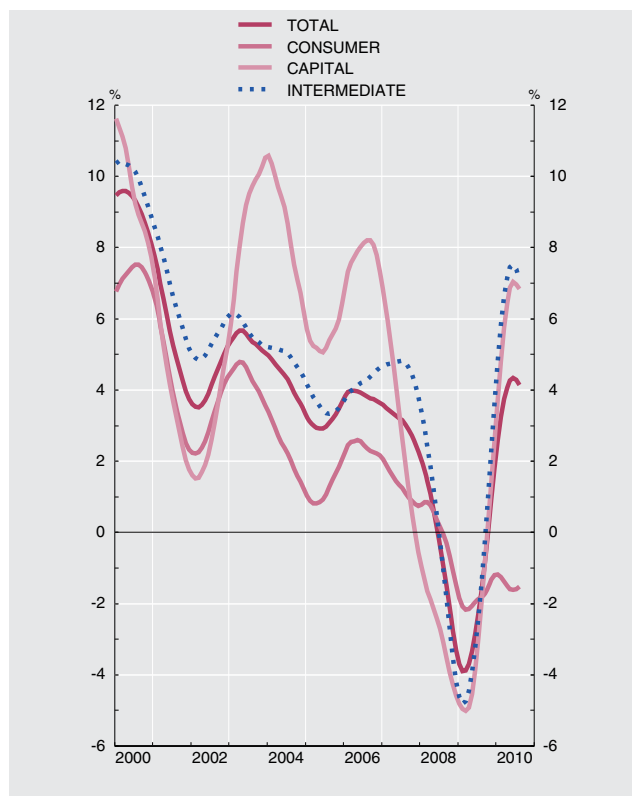
■ Series depicted in chart.

Eur millions and annual percentage changes

		Total			By product (deflated data) (a)					By geographical area (nominal data)								
		EUR millions	Nom- inal	De- flated (a)	Con- sumer	Capital	Intermediate			EU 27		OECD		OPEC	Other Amer- ican coun- tries	China	Newly indus- trialised coun- tries	
							Total	Energy	Non- energy	Total	Euro Area	of which:						
												Total	United States					
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
03		138 119	3.6	5.2	4.2	11.9	4.8	24.7	3.9	4.5	5.1	3.8	-1.7	-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		189 228	2.3	0.5	2.2	-6.6	0.5	17.0	-0.2	-0.1	-0.5	-0.4	1.4	29.1	1.0	1.2	4.2	
09		159 890	-15.5	-9.4	-4.1	-13.3	-12.5	-21.0	-12.1	-15.5	-13.2	-15.2	-24.4	...	-17.9	-7.7	8.5	
09	Jul	P	14 475	-15.8	-9.3	-0.1	-10.0	-15.2	-36.2	-13.9	-13.0	-12.2	-12.6	-11.4	-21.1	-20.3	-15.6	-19.7
	Aug	P	10 072	-16.9	-6.4	2.2	-5.8	-11.3	-23.0	-10.4	-13.5	-8.5	-15.2	-40.9	-21.3	-20.5	-14.2	-22.0
	Sep	P	13 871	-19.8	-12.2	-17.4	-1.4	-10.1	-22.1	-9.3	-18.9	-15.8	-18.4	-37.0	-24.8	-27.6	2.2	-16.4
	Oct	P	14 918	-10.5	-4.2	0.1	-18.2	-4.4	-5.8	-4.4	-9.3	-7.0	-8.7	-27.0	-29.7	-18.4	16.9	-8.6
	Nov	P	14 068	-1.5	7.7	7.7	-4.8	9.7	-10.9	11.0	1.7	3.0	0.1	-32.1	-26.3	-7.3	37.6	8.4
	Dec	P	13 661	4.0	11.4	10.8	9.6	12.2	-11.2	13.5	4.4	5.0	1.8	-29.0	-23.7	-8.0	13.0	200.9
10	Jan	P	12 092	9.0	12.3	5.1	1.8	19.6	-1.6	20.8	8.7	7.1	7.9	-24.8	-5.3	29.5	47.9	43.6
	Feb	P	13 986	12.8	14.8	1.5	16.6	25.6	-16.6	27.6	11.8	13.0	11.7	-3.7	-20.0	30.1	41.2	168.8
	Mar	P	16 652	21.4	23.8	0.0	42.2	42.3	28.9	42.9	19.3	21.8	19.9	11.4	15.5	22.2	46.8	12.4
	Apr	P	14 623	10.8	10.5	-8.9	24.9	24.3	29.9	24.0	7.1	4.6	9.0	10.0	9.5	13.5	18.9	17.0
	May	P	16 213	25.7	20.7	-4.1	88.7	30.7	10.2	31.8	22.9	23.4	23.2	3.3	-13.5	25.1	24.4	35.5
	Jun	P	16 203	16.6	13.5	-4.4	40.3	23.3	2.5	24.2	14.1	13.5	16.1	17.0	8.8	52.2	15.2	36.0
	Jul	P	16 379	13.2	9.0	-8.3	-4.5	25.6	38.8	25.0	11.2	12.8	12.7	5.3	1.7	32.3	48.3	47.9
	Aug	P	12 874	27.8	19.7	3.0	31.2	29.5	39.5	28.9	23.4	19.4	25.4	48.6	25.7	61.8	69.1	38.7

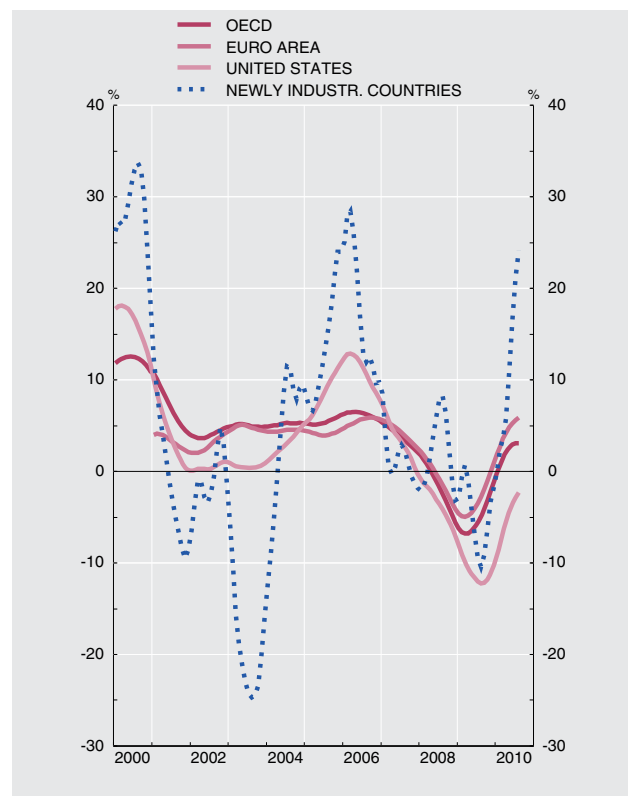
#### BY PRODUCT

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



#### BY GEOGRAPHICAL AREA

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



Sources: ME y BE.

Note: The underlying series for this indicator are in Tables 18.4 and 18.5 of the Boletín estadístico.

The monthly series are provisional data, while the annual series are the final foreign trade data.

a. Series deflated by unit value indices.

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

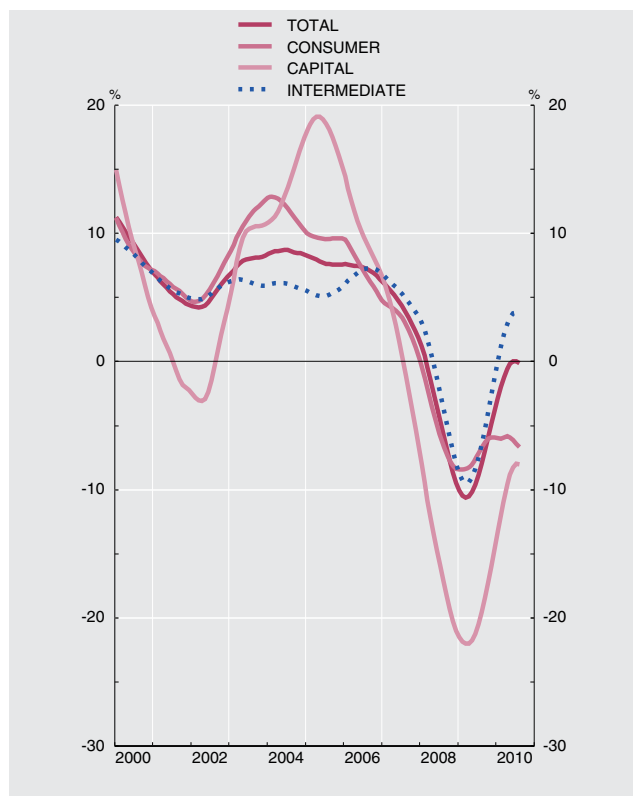
■ Series depicted in chart.

Eur millions and annual percentage changes

		Total			By product (deflated data) (a)					By geographical area (nominal data)							
		EUR millions	Nom- inal	De- flat- (a)	Con- sumer	Capital	Intermediate			EU 27		OECD		OPEC	Other Amer- ican coun- tries	China	Newly indus- trialised coun- tries
							Total	Energy	Non- energy	Total	Euro Area	Total	of which: United States				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16		
03		185 114	5.6	7.1	9.6	12.9	4.8	1.0	5.7	5.8	5.3	5.8	-4.8	-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
08		283 388	-0.6	-4.1	-7.4	-13.7	-1.1	8.2	-2.9	-8.2	-8.8	-7.4	12.9	28.6	16.6	10.8	-16.1
09		206 116	-27.3	-18.6	-12.4	-32.0	-19.1	-13.4	-20.7	-23.8	-25.6	-24.6	-25.1	...	-31.1	-29.5	-31.6
09 Jul	P	17 706	-29.7	-19.1	-9.1	-37.2	-20.8	-19.2	-21.2	-23.4	-26.1	-24.3	-43.6	-37.0	-42.9	-36.9	-13.9
Aug	P	14 595	-26.0	-11.4	2.2	-15.9	-16.3	-13.4	-17.2	-19.3	-20.2	-21.5	-34.9	-43.3	-29.9	-29.8	-34.1
Sep	P	19 303	-21.9	-10.4	-2.0	-14.0	-13.3	-15.3	-12.8	-14.7	-17.4	-16.6	-24.0	-37.4	-14.2	-32.6	-37.9
Oct	P	18 828	-19.3	-6.4	6.5	-25.1	-8.9	-7.0	-9.3	-14.5	-17.5	-15.7	-11.3	-34.0	-32.4	-20.8	-31.1
Nov	P	18 923	-6.5	6.8	11.1	-5.3	6.8	0.6	8.4	-4.9	-6.7	-5.5	-5.5	-14.5	-20.8	-10.2	-28.2
Dec	P	17 733	-11.7	-4.8	-6.0	-18.2	-1.7	-16.3	3.0	-7.6	-7.7	-12.3	-34.2	-15.8	-6.3	-10.8	-21.7
10 Jan	P	16 601	6.5	8.1	-9.1	-10.3	19.4	8.0	22.7	7.9	3.2	6.0	-12.0	28.7	-3.6	0.0	-6.0
Feb	P	17 548	-3.9	-3.2	-24.5	-2.6	8.2	-18.5	17.4	-8.6	-15.0	-9.1	-31.6	4.5	4.0	8.5	-2.8
Mar	P	20 945	20.6	22.0	2.9	8.3	33.8	11.2	40.2	17.0	12.6	15.6	6.1	40.0	36.4	47.0	47.2
Apr	P	19 628	16.6	15.4	-0.2	11.1	23.6	6.7	28.4	8.6	5.9	9.9	-1.8	57.7	25.2	22.9	13.0
May	P	20 378	26.1	19.9	11.8	9.2	25.4	1.0	32.4	19.3	10.1	19.9	17.2	19.3	64.3	52.6	8.4
Jun	P	20 914	22.1	14.7	-2.4	19.4	22.7	13.8	24.9	12.1	10.0	13.3	10.1	56.9	41.1	44.1	26.7
Jul	P	20 666	16.7	11.0	-13.4	15.8	22.9	9.9	26.4	9.1	10.5	11.3	49.5	39.3	35.1	44.2	-18.2
Aug	P	17 334	18.8	5.8	-11.9	11.1	14.3	-0.4	19.2	8.2	8.1	7.9	21.8	30.4	57.5	41.8	4.0

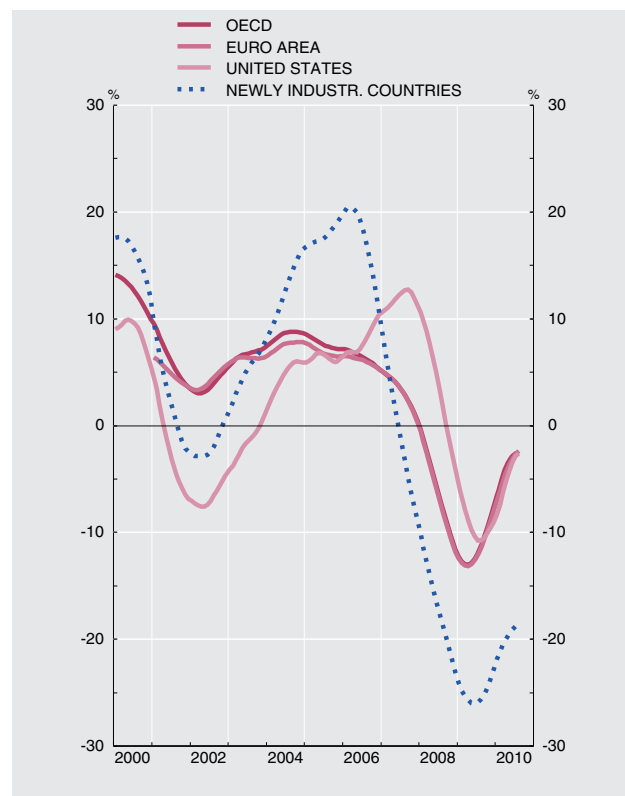
### BY PRODUCTS

Annual percentage changes (trend obtained with TRAMO SEATS method)



### BY GEOGRAPHICAL AREA

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



Sources: ME y BE.

Note: The underlying series for this indicator are in Tables 18.2 and 18.3 of the Boletín estadístico.

The monthly series are provisional data, while the annual series are the final foreign trade data.

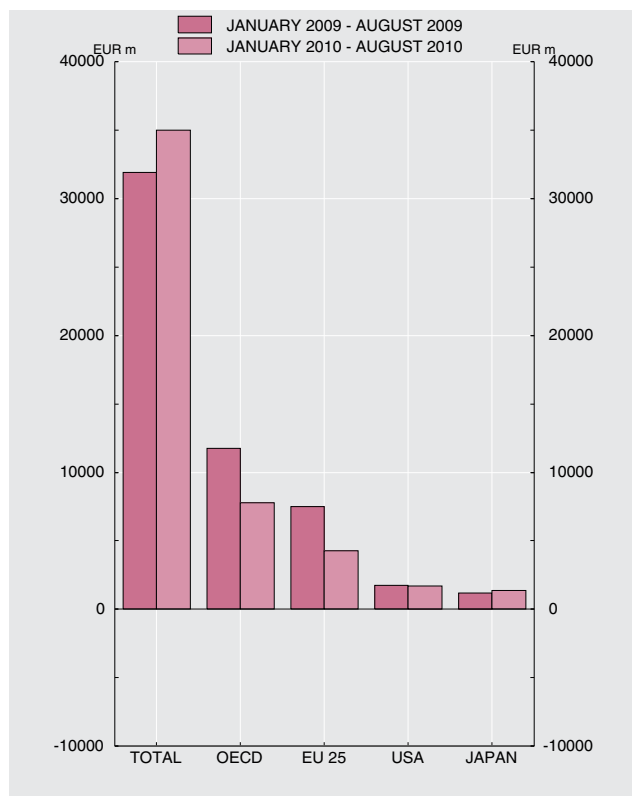
a. Series deflated by unit value indices.

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

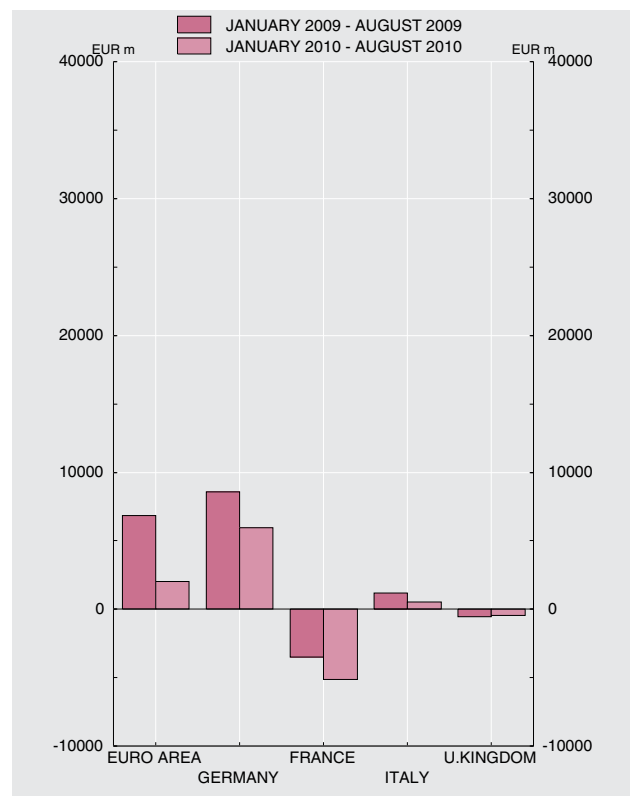
EUR millions

		World total	European Union (EU 27)						OECD				OPEC	Other American countries	China	Newly industrialised countries
			Total	Euro area				Other EU 27		Of which:						
				Of which:				Of which:		Total	United States	Japan				
				Total	Germany	France	Italy	Total	United Kingdom							
1	2=3+7	3	4	5	6	7	8	9	10	11	12	13	14	15		
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		-94 160	-26 262	-26 264	-19 612	3 019	-6 608	1	356	-39 284	-3 739	-3 663	-21 099	-4 971	-18 340	-3 296
09		-46 227	-9 068	-6 762	-9 980	6 787	-1 847	-2 306	187	-15 547	-2 742	-1 958	...	-2 641	-12 471	-1 532
09 Jul	P	-3 231	-420	-270	-799	670	-200	-150	116	-672	110	-161	-990	-139	-1 080	-212
Aug	P	-4 523	-1 389	-985	-765	109	-252	-404	-14	-1 862	-160	-137	-1 100	-226	-1 085	-111
Sep	P	-5 432	-1 590	-963	-1 187	429	-29	-627	-282	-2 101	-277	-152	-1 161	-574	-1 196	-140
Oct	P	-3 909	-939	-533	-839	497	-146	-406	-94	-1 311	-269	-209	-1 227	-149	-1 083	-153
Nov	P	-4 855	-1 202	-902	-879	389	-308	-299	47	-1 910	-294	-213	-1 177	-259	-1 101	-159
Dec	P	-4 071	-1 341	-978	-879	338	-285	-363	20	-1 865	-140	-142	-1 191	-205	-1 104	129
10 Jan	P	-4 510	-489	-292	-656	540	-59	-198	44	-1 141	-293	-187	-1 314	-239	-1 218	-128
Feb	P	-3 562	-393	-15	-713	874	-89	-378	50	-757	-195	-157	-1 324	-109	-1 172	133
Mar	P	-4 292	-242	75	-874	808	-77	-317	57	-813	-263	-225	-1 434	-534	-1 279	-239
Apr	P	-5 004	-1 040	-868	-891	665	-201	-172	69	-1 665	-234	-181	-1 570	-368	-1 094	-169
May	P	-4 165	-620	42	-652	757	78	-662	-119	-1 030	-229	-221	-1 252	-430	-1 257	-114
Jun	P	-4 711	-728	-372	-859	753	-48	-356	114	-1 089	-225	-177	-1 599	-291	-1 330	-128
Jul	P	-4 288	-258	-121	-760	567	-118	-137	240	-596	-151	-111	-1 610	-201	-1 551	-75
Aug	P	-4 460	-510	-460	-553	156	8	-50	-18	-688	-106	-133	-1 457	-342	-1 503	-74

**CUMULATIVE TRADE DEFICIT**



**CUMULATIVE TRADE DEFICIT**



Source: ME.

Note: The underlying series for this indicator are in Tables 18.3 and 18.5 of the Boletín Estadístico.

The monthly series are provisional data, while the annual series are the final foreign trade data.



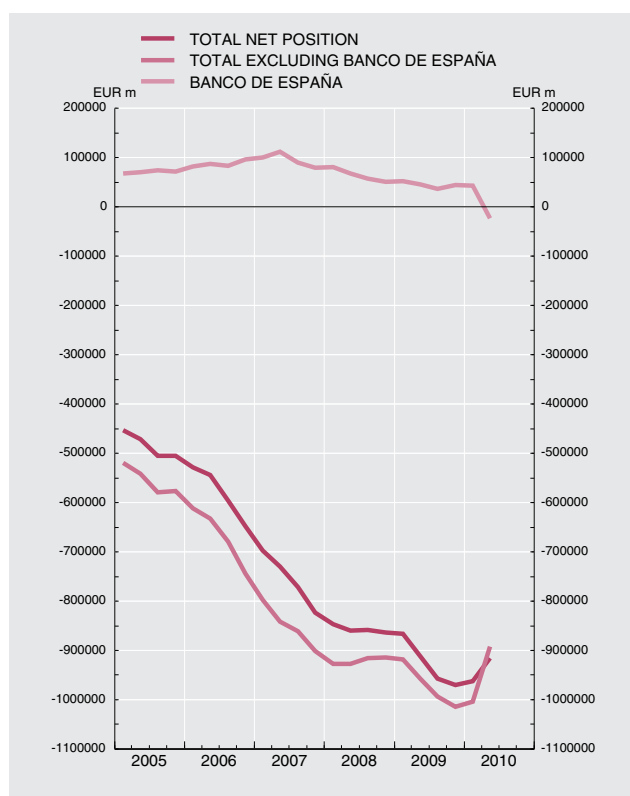
## 7.6. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-À-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD SUMMARY

■ Series depicted in chart.

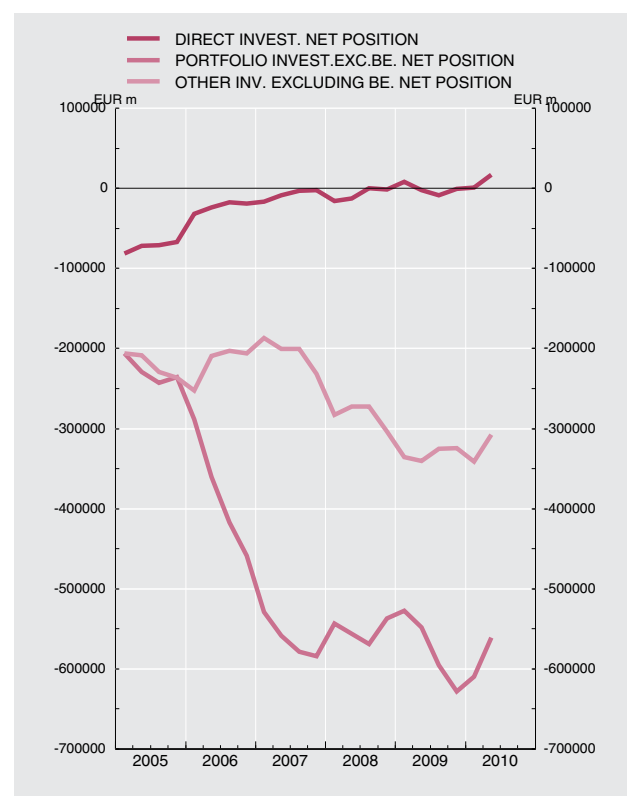
End-of-period stocks in EUR billions

		Net international investment position (assets-liabil.)	Total excluding Banco de España											Banco de España			
			Net position excluding Banco de España (assets -liabil.)	Direct investment			Portfolio investment			Other investment			Financial derivatives Net position (assets-liabil.)	Banco de España Net position (assets-liabil.)	Reserves	Net assets vis-à-vis the Euro-system	Other net assets (assets-liabil.)
				Net position (assets-liabil.)	Spanish investment abroad (assets)	Foreign investment in Spain (liabil.)	Net position (assets-liabil.)	Spanish investment abroad (assets)	Foreign investment in Spain (liabil.)	Net position (assets-liabil.)	Spanish investment abroad (assets)	Foreign investment in Spain (liabil.)					
1=2+13	2=3+6+9+12	3=4-5	4	5	6=7-8	7	8	9=10-11	10	11	12	13=14 to 16	14	15	16		
02	R	-303.1	-363.7	-89.2	156.0	245.2	-105.7	256.8	362.5	-168.9	197.4	366.3	...	60.6	38.4	22.7	-0.4
03		-354.3	-410.3	-93.9	175.0	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		-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		-648.2	-743.9	-19.3	331.1	350.4	-508.9	455.7	964.6	-206.1	324.9	530.9	-9.6	95.7	14.7	29.4	51.6
07	Q2	-729.5	-841.6	-9.0	359.4	368.4	-616.0	469.5	1 085.5	-200.7	362.8	563.5	-15.9	112.1	12.9	40.7	58.5
	Q3	-771.4	-861.1	-2.8	364.4	367.2	-640.1	453.7	1 093.9	-200.3	384.5	584.8	-17.9	89.6	12.5	14.8	62.4
	Q4	-822.8	-901.7	-2.6	395.4	398.0	-648.5	438.4	1 086.9	-231.8	379.5	611.3	-18.8	78.9	12.9	1.1	64.9
08	Q1	-846.5	-927.1	-16.2	393.8	409.9	-607.6	414.2	1 021.9	-282.6	381.2	663.8	-20.7	80.6	13.0	2.8	64.8
	Q2	-859.8	-927.0	-12.3	408.4	420.7	-618.4	395.7	1 014.1	-272.8	417.0	689.8	-23.4	67.2	12.7	-7.5	62.0
	Q3	-859.1	-916.1	0.1	423.2	423.1	-631.8	382.3	1 014.1	-272.7	422.9	695.6	-11.7	57.0	13.8	-19.6	62.8
	Q4	-863.8	-914.8	-1.6	423.3	425.0	-603.0	355.1	958.0	-303.8	386.6	690.3	-6.4	50.9	14.5	-30.6	67.0
09	Q1	-866.4	-918.6	8.0	433.5	425.5	-590.8	343.1	933.9	-335.9	374.6	710.5	0.0	52.3	15.7	-27.4	64.0
	Q2	-912.0	-957.4	-2.2	439.2	441.4	-608.1	364.3	972.3	-340.0	370.6	710.6	-7.3	45.4	15.1	-30.5	60.7
	Q3	-957.2	-994.1	-8.4	435.7	444.1	-655.7	378.1	1 033.8	-325.1	364.7	689.8	-4.9	36.9	18.3	-42.6	61.2
	Q4	-970.6	-1 014.8	-0.9	437.3	438.3	-688.3	381.1	1 069.4	-324.6	370.4	695.0	-1.0	44.1	19.6	-36.4	60.9
10	Q1	-961.9	-1 004.2	0.8	441.9	441.1	-669.6	387.5	1 057.1	-341.2	363.9	705.2	5.7	42.4	20.9	-38.5	60.0
	Q2	-915.5	-892.2	17.2	458.9	441.7	-614.1	361.0	975.1	-307.3	368.4	675.6	12.0	-23.4	24.4	-100.8	53.1

### 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.

a. See note b to table 17.21 of the Boletín Estadístico.

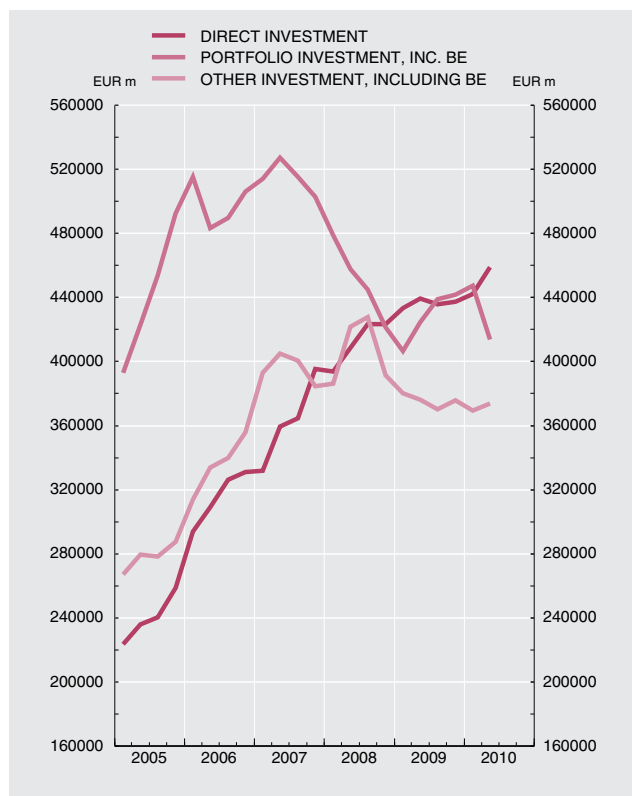
## 7.7. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-À-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD BREAKDOWN BY INVESTMENT

■ Series depicted in chart.

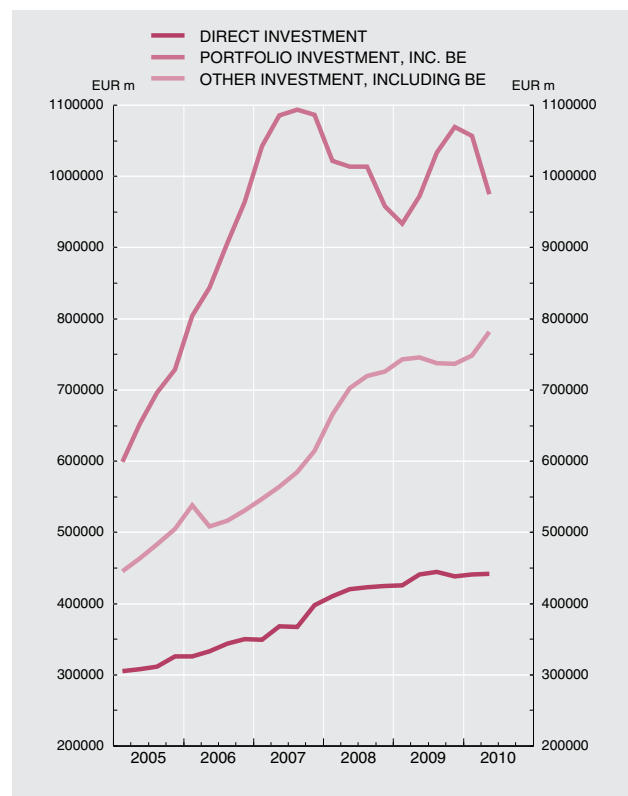
End-of-period stocks in EUR millions

		Direct investment				Portfolio investment, including Banco de España				Other investment, including Banco de España		Financial derivatives including BE	
		Spanish investment abroad		Foreign investment in Spain		Spanish investment abroad		Foreign investment in Spain		Spanish investment abroad	Foreign investment in Spain (a)	Spanish investment abroad	Foreign investment in Spain
		Shares and other equities	Intercompany debt transactions	Shares and other equities	Intercompany debt transactions	Shares and mutual funds	Debt securities	Shares and mutual funds	Debt securities				
		1	2	3	4	5	6	7	8				
<b>02</b>	R	139 178	16 815	194 711	50 456	50 712	206 581	116 967	245 492	220 483	367 646	-	-
<b>03</b>		160 519	14 477	207 096	61 828	62 677	273 344	147 878	274 166	222 670	418 202	-	-
<b>04</b>		189 622	17 627	231 649	67 501	78 053	302 067	183 211	379 279	254 992	431 651	-	-
<b>05</b>		236 769	22 133	250 641	75 322	104 157	388 472	197 347	531 035	287 551	504 831	-	-
<b>06</b>		307 902	23 206	271 313	79 125	133 193	373 001	245 683	718 897	355 621	531 211	32 973	42 569
<b>07</b>	Q2	343 686	15 742	282 940	85 477	153 730	373 421	266 845	818 657	404 872	563 954	39 921	55 856
	Q3	342 733	21 695	284 973	82 250	142 096	373 186	269 798	824 065	400 443	585 099	44 181	62 069
	Q4	368 306	27 086	307 278	90 696	132 955	369 758	282 331	804 609	384 714	614 829	44 642	63 487
<b>08</b>	Q1	367 154	26 624	322 384	87 559	103 793	374 981	235 984	785 876	386 110	665 607	53 297	74 001
	Q2	380 787	27 597	329 361	91 363	97 664	360 046	216 631	797 428	421 832	702 168	58 579	82 016
	Q3	392 496	30 670	324 109	98 941	82 946	362 029	200 218	813 893	427 684	719 855	70 066	81 757
	Q4	392 315	31 020	321 296	103 680	63 402	357 842	170 236	787 812	391 377	725 579	108 278	114 027
<b>09</b>	Q1	400 889	32 598	320 727	104 740	55 233	351 435	142 238	791 674	380 060	743 003	111 670	111 538
	Q2	407 986	31 218	320 304	121 058	62 932	361 619	177 744	794 571	376 066	746 172	92 879	100 032
	Q3	407 222	28 491	325 598	118 536	74 300	364 469	219 037	814 718	370 196	737 338	85 194	90 098
	Q4	408 869	28 480	325 938	112 326	81 642	360 049	223 266	846 100	375 829	736 388	77 449	78 498
<b>10</b>	Q1	414 054	27 879	329 354	111 739	92 397	354 900	199 928	857 137	369 384	748 825	93 867	88 286
	Q2	431 162	27 772	330 829	110 873	90 718	323 144	174 698	800 369	373 811	781 517	118 303	106 528

### SPANISH INVESTMENT ABROAD



### FOREIGN INVESTMENT IN SPAIN



Source: BE.

Note: See footnote to Indicator 7.6

a. See note b to table 17.21 of the Boletín Estadístico.

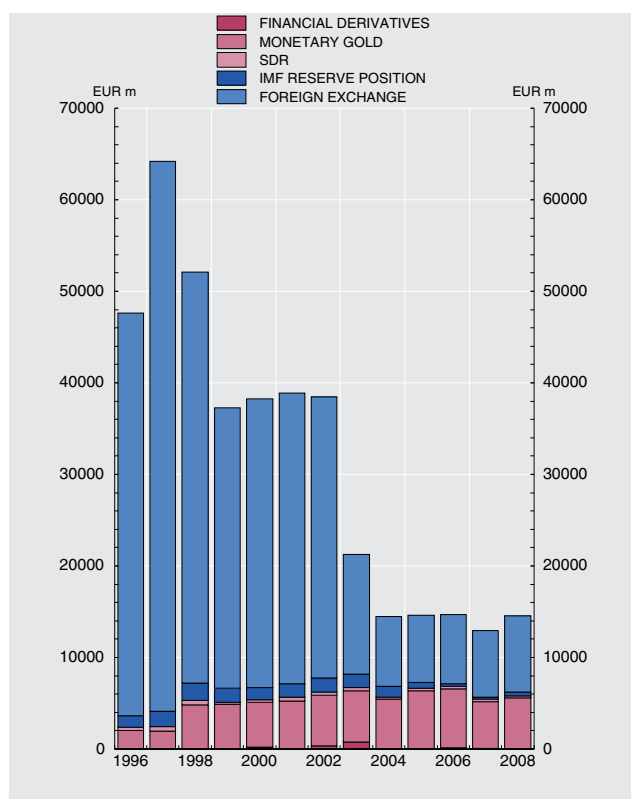
## 7.8. SPANISH RESERVE ASSETS

■ Series depicted in chart.

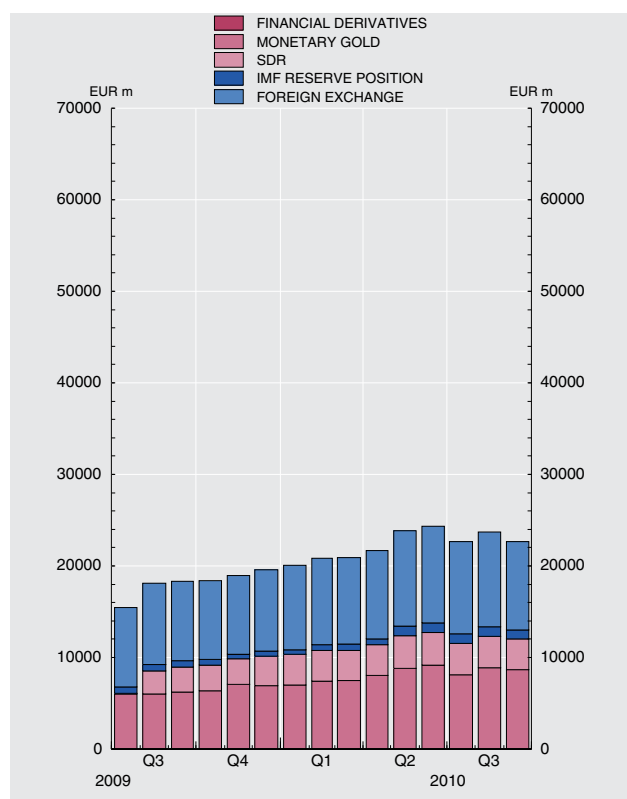
End-of-period stocks in EUR millions

	Reserve assets						Memorandum item: gold
	Total	Foreign exchange	Reserve position in the IMF	SDRs	Monetary gold	Financial derivatives	Millions of troy ounces
	1	2	3	4	5	6	7
<b>04</b>	14 505	7 680	1 156	244	5 411	15	16.8
<b>05</b>	14 601	7 306	636	281	6 400	-21	14.7
<b>06</b>	14 685	7 533	303	254	6 467	127	13.4
<b>07</b>	12 946	7 285	218	252	5 145	46	9.1
<b>08</b>	14 546	8 292	467	160	5 627	-	9.1
<b>09 Apr</b>	15 490	8 713	560	168	6 050	-	9.1
<b>May</b>	15 225	8 180	632	156	6 257	-	9.1
<b>Jun</b>	15 142	8 372	693	48	6 028	-	9.1
<b>Jul</b>	15 454	8 693	693	51	6 017	-	9.1
<b>Aug</b>	18 106	8 860	692	2 531	6 023	-	9.1
<b>Sep</b>	18 301	8 644	682	2 785	6 191	-	9.1
<b>Oct</b>	18 402	8 578	678	2 767	6 379	-	9.1
<b>Nov</b>	18 946	8 570	533	2 761	7 083	-	9.1
<b>Dec</b>	19 578	8 876	541	3 222	6 938	-	9.1
<b>10 Jan</b>	20 047	9 177	554	3 296	7 020	-	9.1
<b>Feb</b>	20 859	9 456	662	3 344	7 396	-	9.1
<b>Mar</b>	20 918	9 473	661	3 332	7 452	-	9.1
<b>Apr</b>	21 657	9 627	644	3 352	8 034	-	9.1
<b>May</b>	23 870	10 444	1 078	3 509	8 839	-	9.1
<b>Jun</b>	24 353	10 555	1 091	3 537	9 169	-	9.1
<b>Jul</b>	22 626	10 029	1 055	3 412	8 130	-	9.1
<b>Aug</b>	23 717	10 368	1 018	3 466	8 865	-	9.1
<b>Sep</b>	22 641	9 629	995	3 320	8 697	-	9.1

RESERVE ASSETS  
END-OF-YEAR POSITIONS



RESERVE ASSETS  
END-OF-MONTH POSITIONS



Source: BE.

Note: From January 1999 the assets denominated in euro and other currencies vis-à-vis residents of other euro area countries are not considered reserve assets. To December 1998, data in pesetas have been converted to euro using the irrevocable euro conversion rate. Since January 1999, all reserve assets are valued at market prices. As of January 2000 reserve assets data have been compiled in accordance with the IMF's new methodological guidelines published in the document 'International Reserves and Foreign Currency Liquidity Guidelines for a Data Template', October 2001 (<http://dsbb.imf.org/Applications/web/sddsguide>). Using this new definition, total reserve assets as at 31.12.99 would have been EUR 37835 million instead of the amount of EUR 37288 million published in this table.

## 7.9. 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 instruments	Loans	Bonds and notes	Loans	Trade credits		Money market instruments	Deposits	Bonds and notes	Deposits	
1	2	3	4	5	6	7	8	9	10	11	12		
06 Q2	1 258 491	213 347	3 620	348	191 381	17 998	-	580 931	2 186	268 495	208 797	101 453	
Q3	1 308 130	214 181	6 070	1 472	188 569	18 070	-	602 379	5 274	267 227	225 647	104 232	
Q4	1 370 277	215 585	4 836	665	191 871	18 213	-	622 836	6 252	277 193	236 038	103 352	
07 Q1	1 462 506	219 394	4 901	40	195 781	18 672	-	658 096	11 331	295 528	252 211	99 027	
Q2	1 523 843	215 134	5 446	443	190 503	18 742	-	684 742	11 316	294 402	269 682	109 341	
Q3	1 542 085	207 145	4 820	1 329	182 455	18 541	-	707 016	15 079	308 889	273 907	109 140	
Q4	1 563 730	197 835	4 653	878	173 266	19 038	-	724 116	21 248	327 391	261 177	114 300	
08 Q1	1 596 258	200 163	6 329	558	173 668	19 607	-	768 529	20 424	380 522	256 302	111 281	
Q2	1 650 936	202 266	5 594	162	177 009	19 501	-	794 086	22 729	399 932	258 374	113 051	
Q3	1 689 698	217 754	9 722	494	187 624	19 914	-	792 491	21 269	400 051	258 393	112 778	
Q4	1 671 533	233 763	12 480	2 099	198 366	20 818	-	766 311	12 224	400 691	249 210	104 187	
09 Q1	1 694 286	242 477	15 801	480	204 659	21 537	-	783 746	15 198	411 446	248 405	108 696	
Q2	1 721 495	255 956	21 125	978	211 201	22 652	-	784 190	14 200	409 692	250 957	109 341	
Q3	1 734 282	275 063	31 005	708	219 327	24 023	-	768 456	14 217	391 123	256 689	106 426	
Q4	1 766 691	298 947	44 479	532	229 481	24 456	-	781 478	14 873	384 509	260 047	122 049	
10 Q1	1 787 836	317 694	51 915	117	240 280	25 382	-	788 184	16 642	392 162	257 003	122 377	
Q2	1 765 093	295 589	40 717	194	228 348	26 330	-	732 574	12 157	357 344	240 875	122 198	

## 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					Vis-à-vis	
		Deposits		Money market instruments	Loans	Other liabilities	Bonds and notes	Loans	Trade credits	Other liabilities	Total	Direct investors	Subsidiaries
	(a)	14	15	16	17	18	19	20	21	22	23	24	25
<b>06 Q2</b>	328	328	351 173	4 283	18 432	338	226 684	100 123	352	961	112 712	47 702	65 010
<b>Q3</b>	316	316	374 113	4 641	22 224	838	244 071	101 073	348	918	117 140	51 141	65 999
<b>Q4</b>	281	281	411 407	4 786	22 967	702	275 114	106 946	338	555	120 168	49 588	70 581
<b>07 Q1</b>	322	322	456 149	5 303	21 653	550	317 258	109 572	334	1 479	128 544	50 040	78 504
<b>Q2</b>	423	423	482 312	5 418	27 035	1 066	336 291	110 523	331	1 647	141 233	50 464	90 769
<b>Q3</b>	277	277	494 727	2 553	22 020	854	345 252	122 021	339	1 688	132 920	52 206	80 714
<b>Q4</b>	3 550	3 550	493 937	701	20 981	314	343 564	126 473	331	1 573	144 292	55 165	89 128
<b>08 Q1</b>	1 855	1 855	480 937	927	19 625	473	328 226	129 235	320	2 132	144 774	56 001	88 773
<b>Q2</b>	12 326	12 326	490 919	6 217	20 613	1 465	327 505	132 753	317	2 047	151 339	61 219	90 120
<b>Q3</b>	24 276	24 276	499 227	18 093	22 846	1 342	318 792	135 965	323	1 865	155 950	62 435	93 515
<b>Q4</b>	35 233	35 233	478 085	13 329	21 037	2 668	302 204	136 703	322	1 821	158 142	65 042	93 100
<b>09 Q1</b>	32 491	32 491	475 963	20 066	17 553	3 275	287 545	144 842	356	2 327	159 610	69 882	89 727
<b>Q2</b>	35 596	35 596	465 002	18 962	15 982	2 416	278 126	146 565	349	2 601	180 752	90 757	89 994
<b>Q3</b>	47 538	47 538	460 999	13 242	14 738	2 322	280 237	147 346	383	2 731	182 226	89 910	92 316
<b>Q4</b>	41 400	41 400	460 663	17 975	12 403	2 052	279 244	145 744	383	2 860	184 203	92 605	91 598
<b>10 Q1</b>	43 673	43 673	456 411	14 634	13 064	2 895	276 663	145 225	389	3 540	181 874	87 952	93 922
<b>Q2</b>	105 881	105 881	447 842	12 995	15 671	4 033	265 277	145 930	397	3 540	183 207	89 462	93 744

Source: BE.

a. See note b to table 17.21 of the Boletín Estadístico.

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

Average of daily data, EUR millions

	Net lending in euro						Counterparts						
Total	Open market operations				Standing facilities		Autonomous factors					Actual reserves of credit institutions	
	Main refinancing operations	Longer-term refinancing operations	Fine-tuning reverse operations (net)	Structural reverse operations (net)	Marginal lending facility	Deposit facility	Total	Bank-notes	Deposits to general government	Gold and net assets in foreign currency	Other assets (net)		
	1=2+3+4+5+6-7	2	3	4	5	6	7	8=9+10-11-12	9	10	11		12
09 Apr	629 124	241 479	430 873	-4 722	-	876	39 381	401 450	755 635	142 817	519 780	-22 778	227 674
May	602 531	235 969	406 653	-5 146	-	229	35 175	394 929	758 300	139 329	497 607	5 093	207 602
Jun	615 980	254 069	416 844	-2 632	-	2 197	54 498	391 872	761 763	145 461	468 695	46 656	224 107
Jul	603 864	99 510	705 934	-11 999	-	359	189 939	379 226	768 836	133 472	435 791	87 291	224 638
Aug	568 759	78 661	660 858	-11 350	-	313	159 724	359 004	770 627	121 583	428 744	104 462	209 755
Sep	583 939	83 418	607 221	-8 868	-	453	98 285	366 742	767 611	138 331	423 839	115 361	217 196
Oct	586 961	58 731	637 669	-7 713	-	250	101 977	373 107	770 074	146 353	416 440	126 880	213 854
Nov	580 453	52 295	604 677	-9 113	-	698	68 104	367 577	772 428	148 924	409 556	144 220	212 876
Dec	575 400	58 968	623 882	-5 640	-	349	102 159	355 555	794 597	128 705	402 181	165 567	219 846
10 Jan	541 473	61 899	664 650	-12 329	-	406	173 153	334 353	789 929	118 932	427 124	147 384	207 120
Feb	534 339	72 624	647 446	-13 528	-	930	173 132	319 842	783 511	116 580	426 226	154 023	214 497
Mar	521 898	79 925	644 676	-12 804	-	500	190 400	303 560	788 465	109 183	429 090	164 999	218 338
Apr	518 251	72 798	663 740	-13 286	-	183	205 184	306 870	795 902	117 289	457 309	149 012	211 381
May	518 635	97 546	692 289	-24 199	-	1 178	248 178	293 449	803 187	117 440	461 565	165 612	225 187
Jun	496 616	129 940	713 202	-58 607	-	304	288 223	275 553	808 910	133 527	463 359	203 525	221 063
Jul	447 504	197 804	418 108	-43 633	-	261	125 035	245 431	817 565	103 637	543 196	132 575	202 074
Aug	428 464	156 847	436 311	-69 674	-	569	95 589	220 146	817 554	81 380	543 363	135 425	208 318
Sep	447 722	154 228	432 260	-67 794	-	547	71 520	223 098	813 964	97 492	543 285	145 074	224 624

# 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									Actual reserves of credit institutions
Total	Open market operations				Standing facilities		Intra-ESCB		Autonomous factors							
	Main refinancing operations	Longer-term refinancing operations	Fine-tuning reserve operations (net)	Structural reserve operations (net)	Marginal lending facility	Deposit facility	Target	Rest	Total	Bank-notes	Deposits to general government	Gold and net assets in foreign currency	Other assets (net)			
	14=15+16+17+18+19-20	15	16	17	18	19	20	21	22	23=24+25-26-27	24	25	26	27	28	
09 Apr	67 434	20 482	48 530	-314	-	-	1 264	29 462	-5 447	16 532	80 098	27 400	19 354	71 611	26 887	
May	67 668	23 171	46 028	-509	-	-	1 022	26 575	-5 447	21 139	79 163	31 162	18 427	70 759	25 400	
Jun	70 703	29 661	46 695	-118	-	-	5 535	29 962	-5 447	19 221	79 275	27 795	16 672	71 177	26 966	
Jul	73 283	14 765	78 806	-940	-	-	19 347	31 501	-5 447	21 655	80 103	27 471	15 336	70 583	25 574	
Aug	74 820	10 000	78 007	-845	-	2	12 345	42 474	-5 447	11 760	79 228	18 251	15 110	70 609	26 033	
Sep	79 591	11 743	72 170	-722	-	4	3 604	48 155	-5 447	10 457	77 716	18 261	15 040	70 481	26 427	
Oct	82 534	5 940	82 025	-579	-	-	4 852	44 070	-5 447	16 653	77 235	23 601	14 900	69 283	27 257	
Nov	79 011	6 453	74 472	-755	-	-	1 159	32 264	-5 447	27 120	76 566	40 008	14 921	74 533	25 073	
Dec	76 105	2 801	78 640	-495	-	-	4 841	33 623	-5 447	21 154	78 779	33 805	14 918	76 513	26 775	
10 Jan	77 318	591	88 649	-1 383	-	3	10 543	38 790	-5 447	17 774	78 093	31 878	16 160	76 037	26 201	
Feb	76 269	1 118	87 564	-1 254	-	2	11 161	40 278	-5 447	15 831	76 555	32 241	16 195	76 770	25 607	
Mar	81 881	1 504	88 688	-759	-	0	7 552	47 978	-5 447	13 216	76 922	30 454	16 266	77 895	26 134	
Apr	74 603	1 351	89 436	-861	-	-	15 323	41 475	-5 447	12 505	76 714	30 938	17 390	77 757	26 070	
May	85 618	7 984	97 566	-1 785	-	2	18 150	53 407	-5 447	10 853	76 313	30 862	17 638	78 683	26 805	
Jun	126 300	30 119	106 371	-607	-	55	9 638	92 411	-5 447	13 914	76 968	31 662	17 802	76 914	25 422	
Jul	130 209	31 057	108 960	-305	-	-	9 503	102 620	-5 447	8 311	78 104	21 305	20 533	70 565	24 725	
Aug	109 793	15 500	110 128	-5 902	-	-	9 933	88 651	-5 447	3 398	77 088	17 100	20 528	70 262	23 191	
Sep	97 682	7 334	104 423	-5 454	-	-	8 620	77 026	-5 447	-368	75 443	15 414	20 479	70 746	26 471	

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

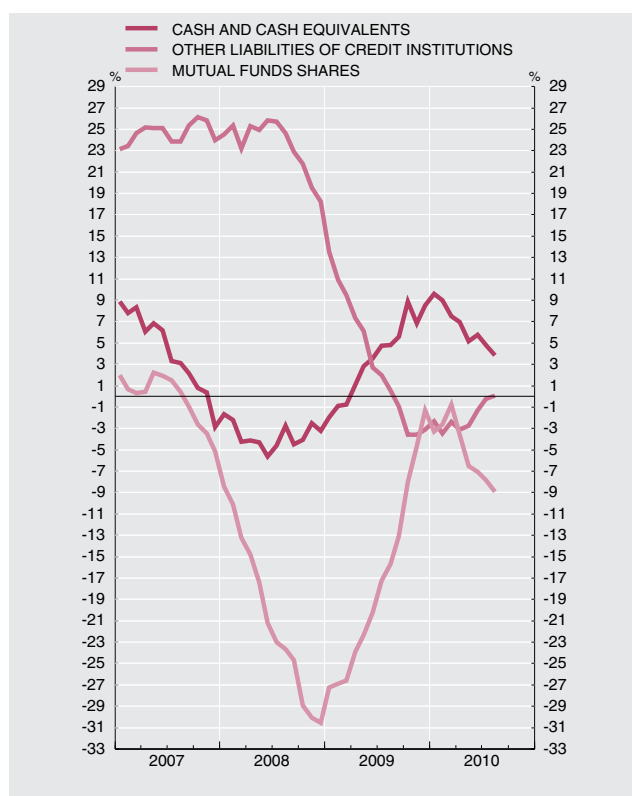
## 8.2 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

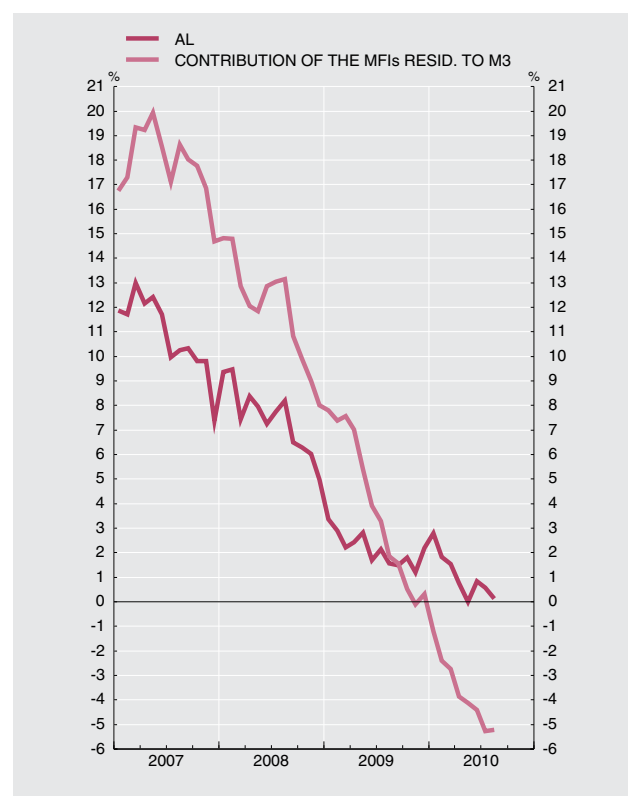
EUR millions and %

	Cash and cash equivalents				Other liabilities of credit institutions					Mutual funds shares				Memorandum items	
	Stocks	12-month % change	12-m. % change		Stocks	12-month % change	12-month % change			Stocks	12-month % change	12-month % change		12-month % change	
			Cash	Deposits (b)			Other deposits (c)	Repos + credit institutions' securities	Deposits in branches abroad			Fixed income in EUR (d)	Other	AL (e)	Contribution of the MFIs resid. to M3
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
<b>07</b>	497 886	-2.9	2.3	-4.1	461 588	24.0	29.8	-0.0	-10.7	213 263	-5.2	-2.3	-7.3	7.4	14.7
<b>08</b>	481 724	-3.2	0.6	-4.2	545 685	18.2	24.3	-19.7	-8.9	148 107	-30.6	-16.7	-41.3	5.0	8.0
<b>09</b>	522 693	8.5	0.5	10.6	528 639	-3.1	-1.3	-14.6	-39.8	146 214	-1.3	0.5	-3.2	2.2	0.3
<b>09 May</b>	490 533	2.8	3.2	2.7	540 705	6.1	9.7	-16.7	-25.5	146 944	-22.3	-15.1	-29.4	2.8	5.4
<b>Jun</b>	505 261	3.6	3.2	3.7	537 139	2.7	7.2	-20.4	-48.7	143 622	-20.2	-14.5	-26.0	1.7	3.9
<b>Jul</b>	502 568	4.8	3.8	5.0	538 216	2.0	5.8	-19.9	-41.4	144 507	-17.2	-11.0	-23.6	2.1	3.3
<b>Aug</b>	501 010	4.8	3.9	5.0	537 822	0.5	4.2	-20.7	-42.0	145 748	-15.7	-9.7	-21.9	1.6	1.9
<b>Sep</b>	505 291	5.6	3.8	6.0	532 364	-0.9	2.6	-24.0	-35.2	145 654	-13.0	-5.9	-20.5	1.5	1.6
<b>Oct</b>	506 846	8.9	-0.5	11.4	523 052	-3.6	-0.3	-27.0	-31.2	144 387	-8.0	-2.5	-13.9	1.8	0.5
<b>Nov</b>	508 253	6.8	-0.0	8.6	522 691	-3.6	-1.4	-20.7	-28.2	144 514	-4.7	-0.1	-9.7	1.2	-0.1
<b>Dec</b>	522 693	8.5	0.5	10.6	528 639	-3.1	-1.3	-14.6	-39.8	146 214	-1.3	0.5	-3.2	2.2	0.3
<b>10 Jan</b>	518 415	9.6	1.0	11.9	525 317	-2.3	-1.2	-10.3	-29.8	144 932	-3.3	-3.2	-3.4	2.8	-1.2
<b>Feb</b>	519 032	9.0	0.8	11.1	519 711	-3.4	-2.2	-11.7	-38.5	143 869	-2.6	-5.4	0.7	1.8	-2.4
<b>Mar</b>	512 629	7.5	1.0	9.2	525 488	-2.4	-1.4	-7.0	-40.3	143 517	-0.7	-7.5	7.3	1.5	-2.7
<b>Apr</b>	509 239	7.0	-0.2	8.9	523 648	-3.1	-1.8	-13.2	-30.2	142 177	-3.6	-10.4	4.5	0.7	-3.9
<b>May</b>	P 515 854	5.2	0.4	6.4	525 990	-2.7	-0.1	-24.1	-40.7	137 385	-6.5	-13.2	1.4	0.0	-4.1
<b>Jun</b>	P 534 480	5.8	0.9	7.0	530 017	-1.3	1.4	-26.4	-22.1	133 512	-7.0	-16.4	3.9	0.8	-4.4
<b>Jul</b>	P 526 775	4.8	0.4	5.9	536 936	-0.2	2.7	-27.1	-30.8	133 220	-7.8	-20.9	7.7	0.6	-5.3
<b>Aug</b>	P 520 180	3.8	-0.2	4.8	538 193	0.1	2.7	-24.6	-29.3	132 781	-8.9	-22.6	7.6	0.1	-5.2

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.

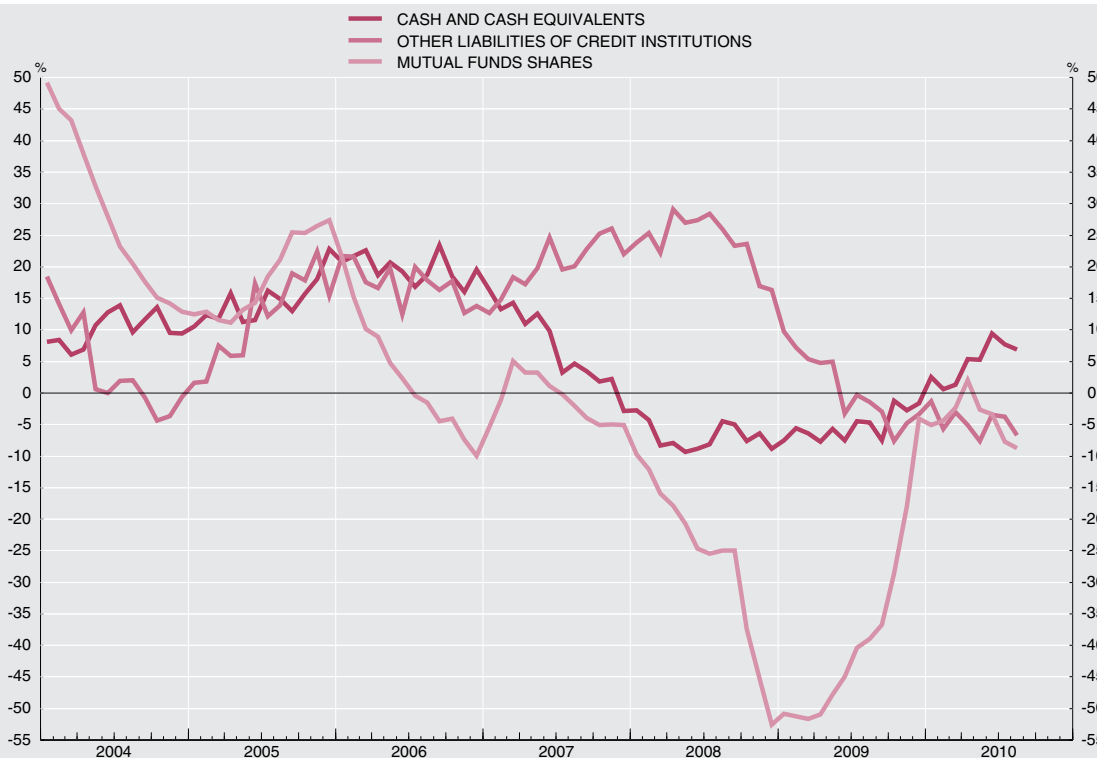
### 8.3 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF NON-FINANCIAL CORPORATIONS RESIDENT IN SPAIN (a)

■ 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
07	133 469	-2.8	101 411	22.0	37.4	0.4	25 188	-5.0	-2.2	-7.1
08	121 745	-8.8	117 997	16.4	25.1	-0.4	11 959	-52.5	-42.7	-60.1
09	119 726	-1.7	114 042	-3.4	9.2	-33.5	11 475	-4.0	-6.4	-1.4
09 May	114 096	-5.7	117 139	5.0	11.8	-10.9	11 500	-47.8	-44.0	-51.5
Jun	115 592	-7.6	114 300	-3.3	8.2	-27.5	11 252	-44.9	-42.7	-47.2
Jul	112 721	-4.4	115 542	-0.3	12.6	-27.4	11 760	-40.4	-36.5	-44.4
Aug	114 818	-4.7	116 943	-1.4	12.3	-30.0	11 860	-38.9	-34.7	-43.4
Sep	116 502	-7.5	115 961	-3.0	13.2	-34.6	11 847	-36.8	-31.1	-42.6
Oct	114 609	-1.2	111 927	-7.6	7.9	-39.3	11 265	-28.6	-27.0	-30.4
Nov	117 538	-2.7	111 374	-4.7	9.3	-35.9	11 304	-18.0	-17.2	-18.8
Dec	119 726	-1.7	114 042	-3.4	9.2	-33.5	11 475	-4.0	-6.4	-1.4
10 Jan	118 653	2.5	109 969	-1.3	9.6	-30.4	11 443	-5.1	-8.8	-0.8
Feb	118 059	0.6	105 402	-5.7	4.9	-35.5	11 376	-4.4	-10.8	3.3
Mar	116 816	1.3	108 697	-3.0	6.3	-31.4	11 368	-2.4	-12.5	10.2
Apr	115 274	5.4	108 985	-5.1	4.0	-31.9	11 585	2.0	-2.4	6.9
May	120 155	5.3	108 208	-7.6	3.4	-39.9	11 195	-2.7	-8.3	3.8
Jun	126 544	9.5	110 317	-3.5	5.9	-33.4	10 880	-3.3	-11.8	6.3
Jul	121 376	7.7	111 200	-3.8	6.9	-38.6	10 858	-7.7	-20.7	7.7
Aug	122 743	6.9	109 052	-6.7	2.6	-38.0	10 822	-8.7	-22.5	7.6

#### 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.

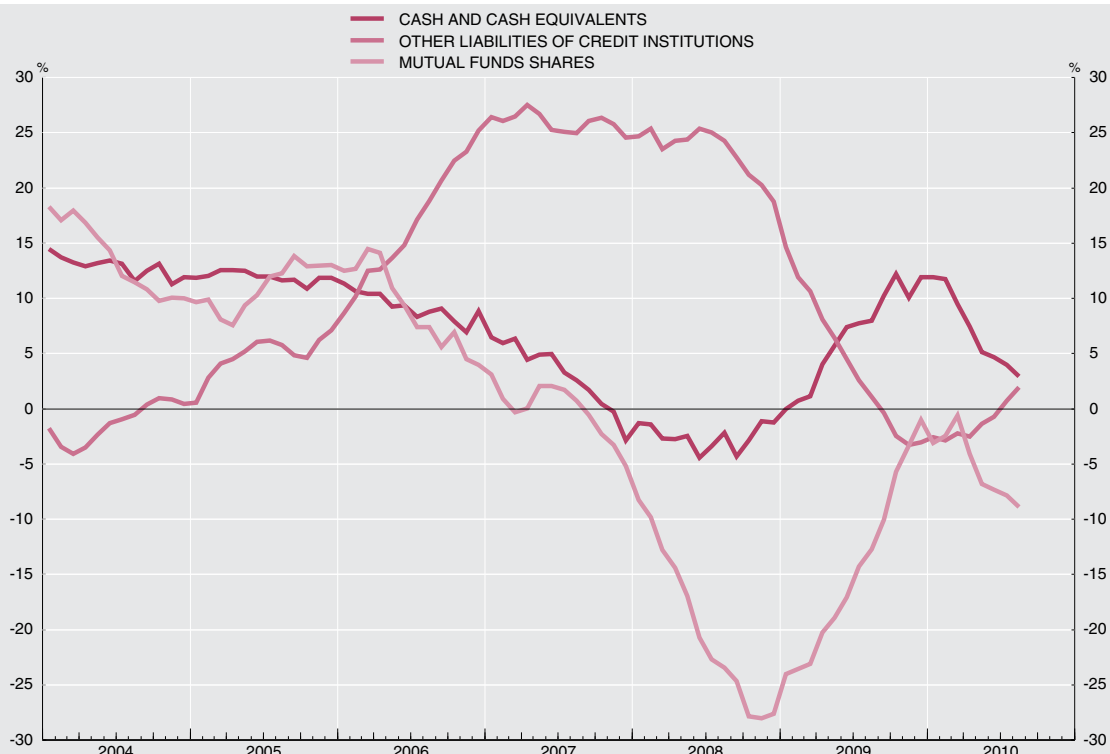
#### 8.4 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ 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
<b>07</b>	364 417	-2.9	2.9	-4.6	360 177	24.6	28.4	-4.5	188 075	-5.2	-2.3	-7.3
<b>08</b>	359 979	-1.2	3.4	-2.7	427 687	18.7	24.2	-36.9	136 148	-27.6	-13.3	-38.7
<b>09</b>	402 968	11.9	2.1	15.3	414 598	-3.1	-3.5	5.0	134 738	-1.0	1.1	-3.4
<b>09 May</b>	376 437	5.7	5.6	5.7	423 566	6.4	9.3	-25.6	135 444	-19.0	-11.3	-26.5
<b>Jun</b>	389 669	7.4	5.4	8.0	422 839	4.5	7.0	-23.3	132 370	-17.0	-10.8	-23.4
<b>Jul</b>	389 847	7.8	5.9	8.4	422 674	2.6	4.4	-19.2	132 747	-14.3	-7.8	-20.9
<b>Aug</b>	386 192	8.0	5.9	8.7	420 880	1.1	2.5	-17.7	133 888	-12.7	-6.5	-19.1
<b>Sep</b>	388 789	10.2	5.6	11.7	416 403	-0.4	0.5	-13.0	133 807	-10.1	-2.8	-17.7
<b>Oct</b>	392 237	12.2	1.3	16.0	411 125	-2.4	-2.0	-8.9	133 122	-5.7	0.2	-12.1
<b>Nov</b>	390 715	10.1	1.6	13.0	411 317	-3.2	-3.5	1.4	133 210	-3.3	1.6	-8.8
<b>Dec</b>	402 968	11.9	2.1	15.3	414 598	-3.1	-3.5	5.0	134 738	-1.0	1.1	-3.4
<b>10 Jan</b>	399 762	11.9	2.4	15.1	415 348	-2.6	-3.3	12.5	133 489	-3.1	-2.7	-3.6
<b>Feb</b>	400 973	11.8	2.1	15.0	414 309	-2.9	-3.6	12.4	132 493	-2.5	-4.9	0.4
<b>Mar</b>	395 813	9.5	2.3	11.9	416 791	-2.2	-3.0	13.2	132 148	-0.6	-7.0	7.1
<b>Apr</b>	393 966	7.4	0.9	9.6	414 663	-2.5	-3.0	5.6	130 592	-4.1	-11.0	4.3
<b>May</b>	395 699	5.1	1.4	6.3	417 782	-1.4	-0.9	-9.8	126 190	-6.8	-13.6	1.2
<b>Jun</b>	407 936	4.7	1.8	5.6	419 700	-0.7	0.4	-18.0	122 632	-7.4	-16.8	3.7
<b>Jul</b>	405 399	4.0	1.2	4.9	425 737	0.7	1.8	-15.6	122 362	-7.8	-20.9	7.7
<b>Aug</b>	397 438	2.9	0.5	3.7	429 141	2.0	2.8	-11.2	121 959	-8.9	-22.6	7.6

**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.



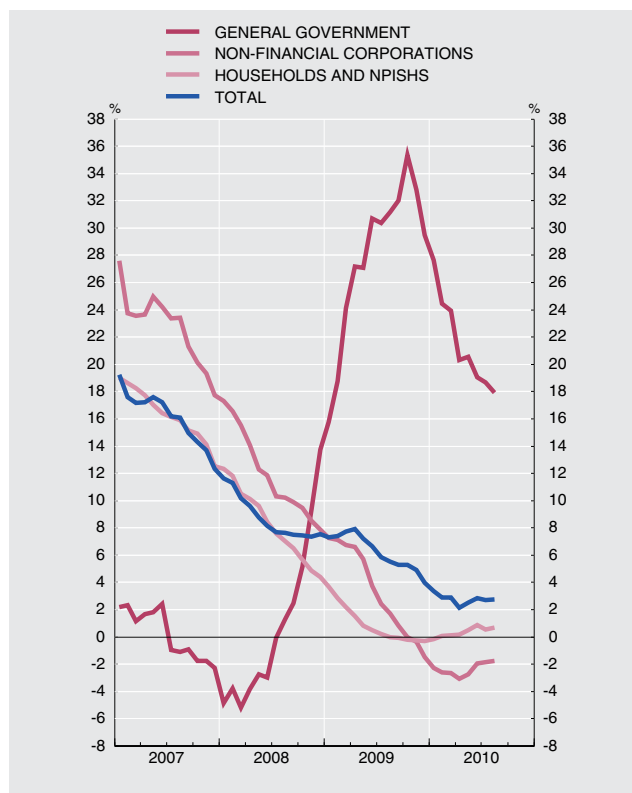
## 8.5. FINANCING OF NON-FINANCIAL SECTORS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

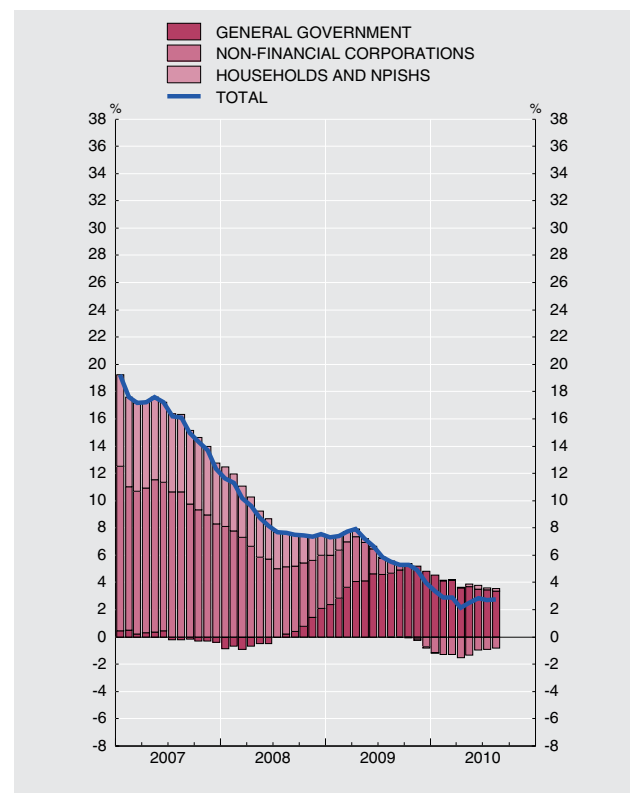
EUR millions and %

	Total			Annual growth rate							Contribution to col. 3						
	Stocks	Effective flow	Annual growth rate	General government (b)	Non-financial corp. and households and NPISHs						General government (b)	Non-financial corp. and households and NPISHs					
					By sectors		By instruments					By sectors		By instruments			
					Non-financial corporations	Households and NPISHs	Credit institutions' loans & securit. funds	Securities other than shares	External loans	Non-financial corporations		Households and NPISHs	Credit institutions' loans & securit. funds	Securities other than shares	External loans		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
07	2 470 505	270 478	12.3	-2.3	15.5	17.7	12.5	15.9	18.4	12.4	-0.4	12.7	8.3	4.4	11.1	0.3	1.4
08	2 649 433	186 684	7.6	13.7	6.4	7.9	4.4	5.6	12.1	10.9	2.1	5.4	3.9	1.6	4.0	0.2	1.3
09	2 773 605	105 432	4.0	29.5	-1.0	-1.5	-0.3	-2.0	37.0	-0.3	4.8	-0.8	-0.7	-0.1	-1.4	0.6	-0.0
09 May	2 711 953	1 830	7.2	27.1	3.7	5.7	0.8	2.1	17.7	11.3	4.1	3.1	2.8	0.3	1.5	0.3	1.3
Jun	2 735 135	14 151	6.6	30.7	2.4	3.7	0.5	0.8	12.6	10.5	4.6	2.0	1.8	0.2	0.6	0.2	1.2
Jul	2 736 485	-2 362	5.8	30.4	1.5	2.4	0.2	-0.0	25.9	7.7	4.6	1.3	1.2	0.1	-0.0	0.4	0.9
Aug	2 728 888	-8 095	5.5	31.1	1.0	1.7	-0.0	-0.6	25.1	7.4	4.7	0.8	0.9	-0.0	-0.4	0.4	0.9
Sep	2 741 593	16 749	5.3	32.0	0.5	0.8	-0.1	-1.0	26.6	6.2	4.9	0.4	0.4	-0.0	-0.7	0.4	0.7
Oct	2 754 714	11 076	5.3	35.3	-0.1	-0.0	-0.2	-1.5	29.2	4.8	5.4	-0.1	-0.0	-0.1	-1.1	0.4	0.6
Nov	2 774 166	20 177	4.9	32.8	-0.3	-0.3	-0.2	-1.7	33.6	3.9	5.2	-0.3	-0.2	-0.1	-1.2	0.5	0.5
Dec	2 773 605	-5 711	4.0	29.5	-1.0	-1.5	-0.3	-2.0	37.0	-0.3	4.8	-0.8	-0.7	-0.1	-1.4	0.6	-0.0
10 Jan	2 759 214	-16 125	3.4	27.7	-1.4	-2.3	-0.1	-2.3	33.5	-1.1	4.5	-1.2	-1.1	-0.0	-1.6	0.5	-0.1
Feb	2 763 720	4 920	2.9	24.5	-1.5	-2.6	0.1	-2.2	29.8	-2.0	4.1	-1.2	-1.3	0.0	-1.5	0.5	-0.2
Mar	2 779 141	18 218	2.9	23.9	-1.5	-2.6	0.1	-2.1	32.7	-3.0	4.2	-1.3	-1.3	0.0	-1.4	0.6	-0.4
Apr	P 2 786 092	3 478	2.2	20.3	-1.8	-3.1	0.2	-2.3	39.9	-4.3	3.6	-1.5	-1.5	0.1	-1.6	0.7	-0.5
May	P 2 800 027	12 001	2.5	20.5	-1.4	-2.7	0.5	-2.0	43.1	-4.3	3.7	-1.2	-1.3	0.2	-1.4	0.7	-0.5
Jun	P 2 820 860	23 816	2.9	19.1	-0.8	-2.0	0.9	-1.0	43.9	-5.4	3.5	-0.7	-0.9	0.3	-0.7	0.7	-0.7
Jul	P 2 814 083	-5 890	2.7	18.7	-0.9	-1.8	0.5	-1.0	25.9	-4.2	3.4	-0.7	-0.9	0.2	-0.7	0.5	-0.5
Aug	P 2 805 412	-7 922	2.7	17.9	-0.7	-1.7	0.7	-0.8	26.7	-4.6	3.3	-0.6	-0.8	0.2	-0.5	0.5	-0.6

FINANCING OF NON-FINANCIAL SECTORS  
Annual percentage change



FINANCING OF NON-FINANCIAL SECTORS  
Contributions to the annual percentage change



Source: BE.

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). Inter-general government liabilities are deduced.

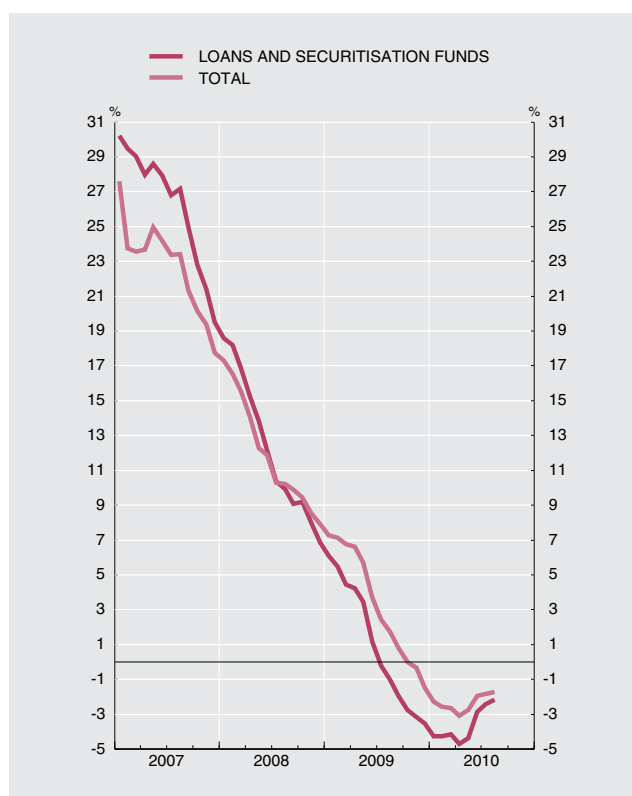
## 8.6. FINANCING OF NON-FINANCIAL CORPORATIONS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

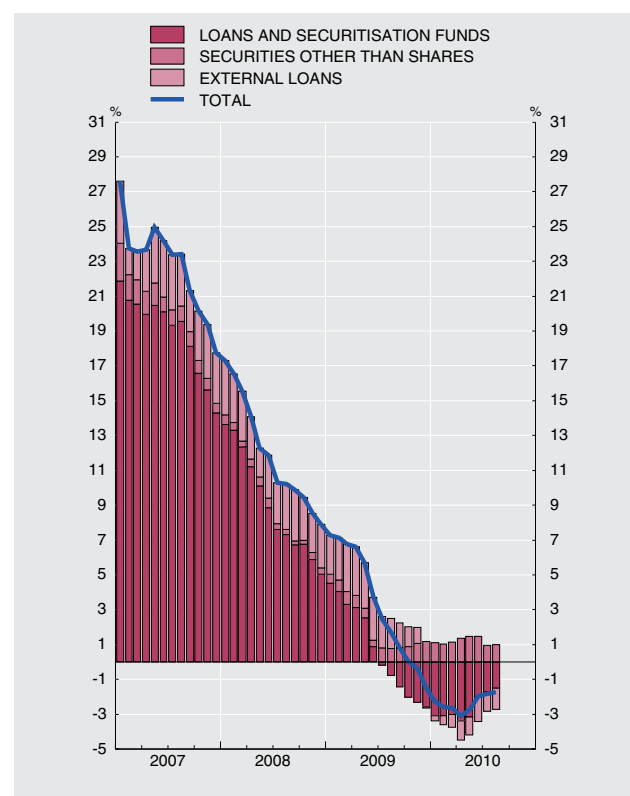
EUR millions and %

	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	of which		Annual growth rate	Contribution to col.3	Stocks	Annual growth rate	Contribution to col.3	
	1	2	3	4	5	6	Stocks	Issues by resident financ. subsid.	9	10	11	12	13	14
<b>07</b>	1 215 441	181 829	17.7	895 668	19.5	14.3	36 636	23 056	18.4	0.6	283 137	12.2	2.9	2 678
<b>08</b>	1 306 593	95 981	7.9	954 134	6.8	5.0	41 063	25 648	12.1	0.4	311 396	10.8	2.5	2 060
<b>09</b>	1 312 349	-19 452	-1.5	916 361	-3.5	-2.6	56 259	40 095	37.0	1.2	339 729	-0.3	-0.1	1 256
<b>09 May</b>	1 322 462	-3 600	5.7	953 207	3.5	2.5	45 001	31 520	17.7	0.5	324 255	11.3	2.6	2 476
<b>Jun</b>	1 325 383	-9 108	3.7	940 241	1.2	0.9	44 370	31 731	12.6	0.4	340 772	10.5	2.5	1 560
<b>Jul</b>	1 326 070	-994	2.4	936 124	-0.2	-0.2	49 779	35 958	25.9	0.8	340 167	7.7	1.8	1 487
<b>Aug</b>	1 317 297	-9 530	1.7	926 641	-1.0	-0.8	49 400	35 444	25.1	0.8	341 256	7.3	1.7	1 465
<b>Sep</b>	1 315 320	-890	0.8	924 951	-1.9	-1.4	49 278	35 363	26.6	0.8	341 091	6.1	1.4	1 447
<b>Oct</b>	1 313 398	-1 998	-0.0	922 856	-2.8	-2.0	50 739	35 330	29.2	0.9	339 803	4.8	1.1	1 406
<b>Nov</b>	1 311 693	-1 302	-0.3	918 859	-3.1	-2.3	55 029	39 262	33.6	1.1	337 805	3.8	0.9	1 418
<b>Dec</b>	1 312 349	-7 795	-1.5	916 361	-3.5	-2.6	56 259	40 095	37.0	1.2	339 729	-0.3	-0.1	1 256
<b>10 Jan</b>	1 303 513	-8 496	-2.3	909 624	-4.3	-3.1	57 629	41 388	33.5	1.1	336 259	-1.2	-0.3	1 220
<b>Feb</b>	1 301 746	-1 632	-2.6	908 079	-4.3	-3.1	57 872	41 445	29.8	1.0	335 794	-2.1	-0.5	1 187
<b>Mar</b>	1 304 793	2 836	-2.6	907 617	-4.2	-3.0	60 140	43 128	32.7	1.1	337 036	-3.1	-0.8	1 140
<b>Apr</b>	P 1 307 641	1 530	-3.1	904 876	-4.7	-3.4	63 913	45 871	39.9	1.4	338 551	-4.4	-1.1	1 187
<b>May</b>	P 1 310 960	1 124	-2.7	906 048	-4.4	-3.1	64 408	46 656	43.1	1.5	340 504	-4.3	-1.1	1 351
<b>Jun</b>	P 1 313 254	1 260	-2.0	907 766	-2.9	-2.0	63 835	46 356	43.9	1.5	341 654	-5.4	-1.4	1 860
<b>Jul</b>	P 1 313 097	420	-1.8	907 380	-2.4	-1.7	62 660	45 521	25.9	1.0	343 057	-4.3	-1.1	1 799
<b>Aug</b>	P 1 304 768	-7 904	-1.7	900 351	-2.2	-1.5	62 570	45 824	26.7	1.0	341 847	-4.7	-1.2	1 721

FINANCING OF NON-FINANCIAL CORPORATIONS  
Annual percentage change



FINANCING OF NON-FINANCIAL CORPORATIONS  
Contributions to the annual percentage change



Source: BE.

a. The annual percentage changes are calculated as the effective flow of the period / the stock at the beginning of the period.

b. Includes issues of resident financial subsidiaries of non-financial corporations, insofar as the funds raised in these issues are routed to the parent company as loans. The issuing institutions of these financial instruments are classified as Other financial intermediaries in the Boletín Estadístico and in the Financial Accounts of the Spanish Economy.

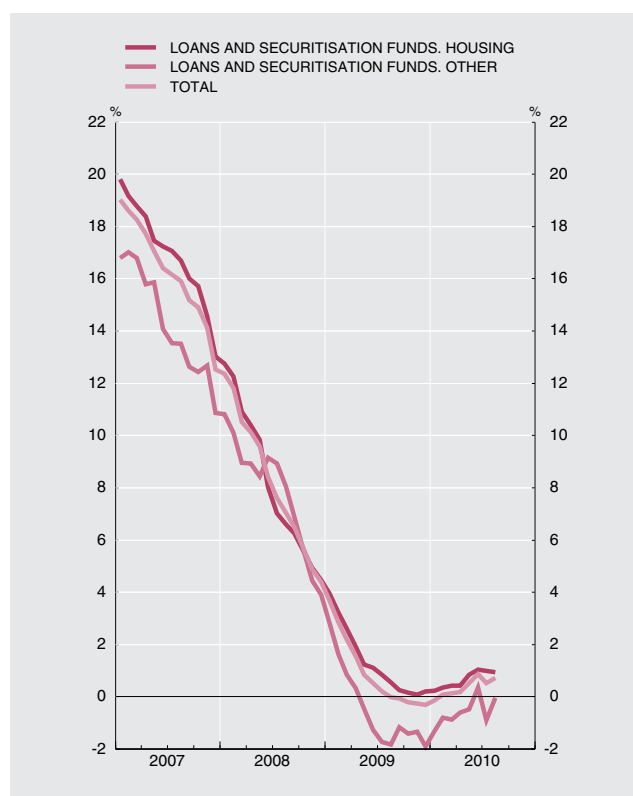
## 8.7. FINANCING OF HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

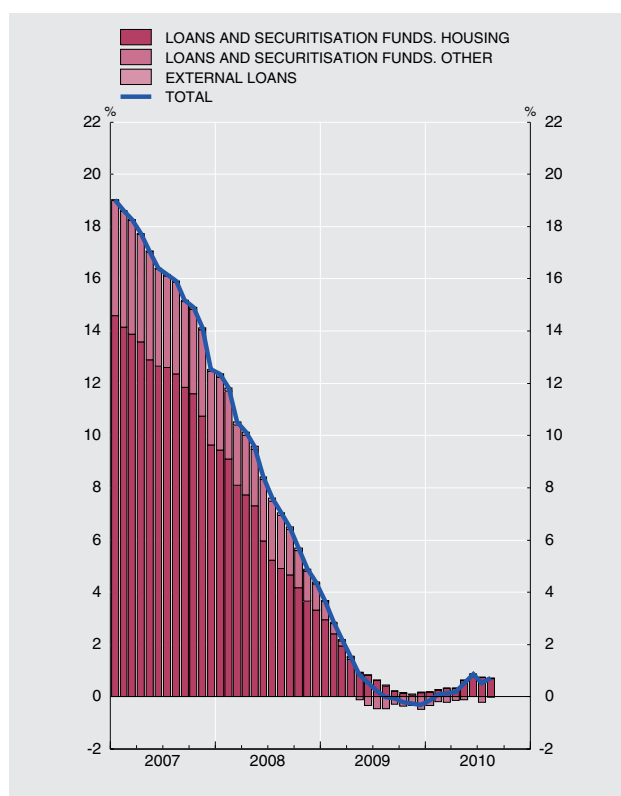
EUR millions and %

	Total			Resident credit institutions' loans and off-balance-sheet securitised loans. Housing			Resident credit institutions' loans and off-balance-sheet securitised loans. Other			External loans			Memorandum items: off-balance-sheet securitised loans	
	Stocks	Effective flow	Annual growth rate	Stocks	Annual growth rate	Contribution to col.3	Stocks	Annual growth rate	Contribution to col.3	Stocks	Annual growth rate	Contribution to col.3	Housing	Other
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
<b>07</b>	874 405	97 497	12.5	650 116	13.0	9.6	222 510	10.9	2.8	1 778	51.4	0.1	26 576	5 625
<b>08</b>	910 537	38 386	4.4	678 448	4.5	3.3	229 712	3.9	1.0	2 376	33.6	0.1	23 304	4 436
<b>09</b>	903 013	-2 726	-0.3	678 552	0.2	0.1	221 824	-1.9	-0.5	2 637	11.0	0.0	23 986	2 986
<b>09 May</b>	902 440	-996	0.8	675 976	1.2	0.9	223 883	-0.5	-0.1	2 581	13.1	0.0	24 130	4 116
<b>Jun</b>	908 465	6 624	0.5	676 651	1.1	0.8	229 223	-1.3	-0.3	2 591	12.9	0.0	25 087	3 674
<b>Jul</b>	905 593	-2 505	0.2	677 543	0.8	0.6	225 447	-1.7	-0.4	2 603	12.7	0.0	24 756	3 537
<b>Aug</b>	903 012	-2 323	-0.0	676 883	0.5	0.4	223 520	-1.8	-0.5	2 610	13.0	0.0	24 599	3 424
<b>Sep</b>	902 898	543	-0.1	676 739	0.3	0.2	223 538	-1.2	-0.3	2 621	13.0	0.0	24 305	3 310
<b>Oct</b>	903 451	884	-0.2	677 498	0.2	0.1	223 319	-1.4	-0.4	2 634	12.2	0.0	24 155	3 210
<b>Nov</b>	908 760	5 631	-0.2	678 402	0.1	0.1	227 716	-1.3	-0.3	2 641	12.0	0.0	24 623	3 040
<b>Dec</b>	903 013	-4 790	-0.3	678 552	0.2	0.1	221 824	-1.9	-0.5	2 637	11.0	0.0	23 986	2 986
<b>10 Jan</b>	901 658	-1 085	-0.1	678 682	0.2	0.2	220 331	-1.3	-0.3	2 645	5.8	0.0	23 798	2 894
<b>Feb</b>	900 584	-795	0.1	678 908	0.4	0.3	219 020	-0.8	-0.2	2 656	5.3	0.0	23 564	2 784
<b>Mar</b>	899 004	-1 058	0.1	678 919	0.4	0.3	217 407	-0.9	-0.2	2 678	4.6	0.0	23 445	2 705
<b>Apr</b>	P 900 188	1 512	0.2	678 955	0.4	0.3	218 546	-0.6	-0.1	2 687	4.6	0.0	23 175	2 603
<b>May</b>	P 901 950	2 023	0.5	680 525	0.8	0.6	218 728	-0.5	-0.1	2 697	4.5	0.0	22 777	2 488
<b>Jun</b>	P 910 622	9 948	0.9	680 331	1.0	0.8	227 584	0.3	0.1	2 707	4.5	0.0	19 891	2 407
<b>Jul</b>	P 904 598	-5 714	0.5	680 862	1.0	0.7	221 019	-0.9	-0.2	2 717	4.4	0.0	19 931	2 323
<b>Aug</b>	P 903 569	-705	0.7	679 862	0.9	0.7	220 981	-0.0	-0.0	2 727	4.5	0.0	19 959	2 236

FINANCING OF HOUSEHOLDS AND NPISHs  
Annual percentage change



FINANCING OF HOUSEHOLDS AND NPISHs  
Contributions to the annual percentage change



Source: BE.

a. The annual percentage changes are calculated as the effective flow of the period / the stock at the beginning of the period.

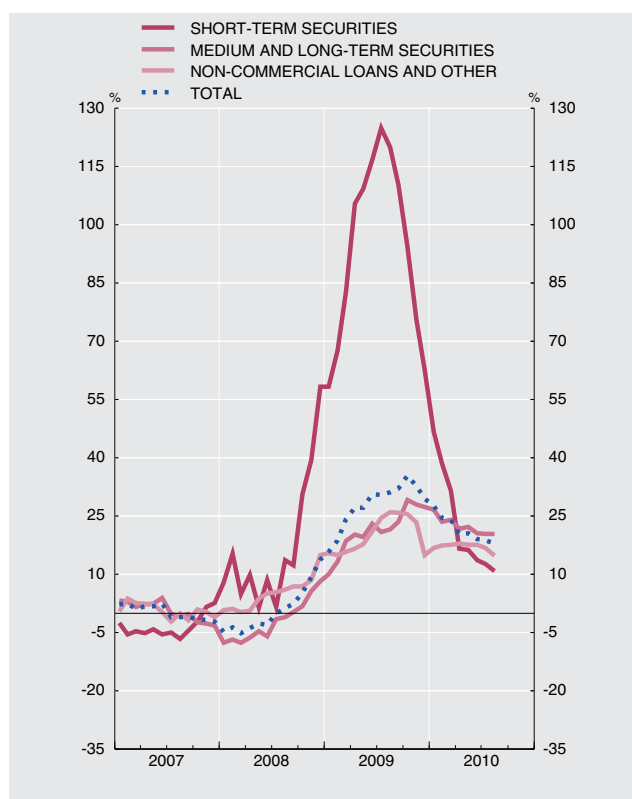
## 8.8. GROSS FINANCING OF SPAIN'S GENERAL GOVERNMENT

■ Series depicted in chart.

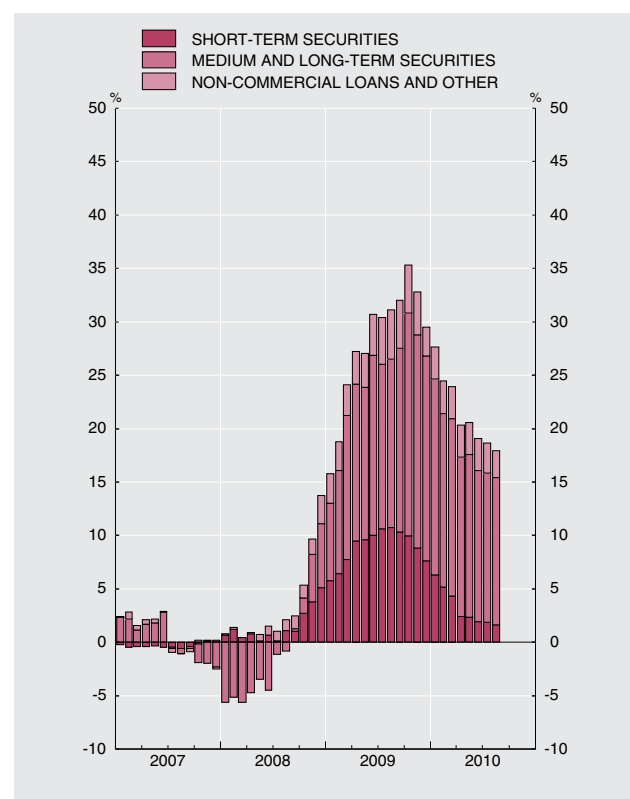
EUR millions and %

	Gross financing			Short-term securities				Medium and long term securities				Non Commercial Loans and Others (b)			
	EDP Debt (a)	Monthly change	12 month % change	Total	Monthly change	12 month % change	Contribution to 12-month % change	Total	Monthly change	12 month % change	Contribution to 12-month % change	Total	Monthly change	12 month % change	Contribution to 12-month % change
	1=4+8+12	2=5+9+13	3	4	5	6	7	8	9	10	11	12	13	14	15
<b>06</b>	389 507	-1 575	-0.4	32 574	-770	-2.3	-0.2	288 873	-1 217	-0.4	-0.3	68 061	412	0.6	0.1
<b>07</b>	380 660	-8 847	-2.3	33 397	823	2.5	0.2	279 872	-9 001	-3.1	-2.3	67 392	-669	-1.0	-0.2
<b>08</b>	432 978	52 318	13.7	52 876	19 479	58.3	5.1	302 656	22 784	8.1	6.0	77 446	10 055	14.9	2.6
<b>09</b>	P 560 587	127 609	29.5	86 001	33 125	62.6	7.7	385 528	82 872	27.4	19.1	89 058	11 612	15.0	2.7
<b>09 Mar</b>	P 466 220	15 189	24.1	64 405	4 118	82.8	7.8	322 309	10 244	18.6	13.5	79 506	827	15.8	2.9
<b>Apr</b>	P 480 625	14 405	27.2	69 740	5 335	105.4	9.5	330 996	8 687	20.2	14.7	79 889	382	16.6	3.0
<b>May</b>	P 487 050	6 426	27.1	70 361	621	109.2	9.6	334 867	3 871	19.5	14.3	81 822	1 934	17.8	3.2
<b>Jun</b>	P 503 685	16 635	30.7	71 807	1 446	116.6	10.0	346 566	11 699	23.0	16.8	85 313	3 490	21.0	3.8
<b>Jul</b>	P 504 822	1 137	30.4	74 012	2 206	124.9	10.6	344 464	-2 102	20.9	15.4	86 346	1 034	24.5	4.4
<b>Aug</b>	P 508 579	3 757	31.1	76 512	2 499	119.9	10.8	345 105	641	21.5	15.8	86 963	617	26.0	4.6
<b>Sep</b>	P 525 676	17 096	32.0	78 475	1 963	110.3	10.3	359 130	14 025	23.5	17.2	88 071	1 108	25.8	4.5
<b>Oct</b>	P 537 866	12 191	35.3	81 327	2 852	94.3	9.9	367 858	8 729	29.1	20.9	88 681	610	25.5	4.5
<b>Nov</b>	P 553 713	15 847	32.8	85 522	4 195	75.6	8.8	379 901	12 043	28.0	20.0	88 290	-391	23.4	4.0
<b>Dec</b>	P 560 587	6 874	29.5	86 001	480	62.6	7.7	385 528	5 627	27.4	19.1	89 058	768	15.0	2.7
<b>10 Jan</b>	P 554 043	-6 544	27.7	85 770	-231	46.8	6.3	377 628	-7 900	26.7	18.3	90 645	1 587	16.8	3.0
<b>Feb</b>	P 561 390	7 347	24.5	83 532	-2 238	38.6	5.2	385 480	7 852	23.5	16.3	92 378	1 733	17.4	3.0
<b>Mar</b>	P 577 830	16 440	23.9	84 642	1 111	31.4	4.3	399 755	14 274	24.0	16.6	93 432	1 054	17.5	3.0
<b>Apr</b>	A 578 265	436	20.3	81 352	-3 290	16.7	2.4	402 690	2 936	21.7	14.9	94 223	790	17.9	3.0
<b>May</b>	A 587 119	8 854	20.5	81 749	397	16.2	2.3	409 119	6 428	22.2	15.2	96 252	2 029	17.6	3.0
<b>Jun</b>	A 599 728	12 609	19.1	81 614	-135	13.7	1.9	417 829	8 711	20.6	14.1	100 285	4 033	17.5	3.0
<b>Jul</b>	A 599 132	-596	18.7	83 399	1 785	12.7	1.9	414 964	-2 865	20.5	14.0	100 769	485	16.7	2.9
<b>Aug</b>	A 599 787	655	17.9	84 805	1 406	10.8	1.6	415 212	248	20.3	13.8	99 771	-999	14.7	2.5

**GROSS FINANCING OF GENERAL GOVERNMENT**  
Annual percentage changes



**GROSS FINANCING OF GENERAL GOVERNMENT**  
Contributions to the annual percentage change



FUENTE: BE.

a. Debt according to Excessive Deficit Procedure (EDP). Consolidated nominal gross debt.

b. Including coined money and Caja General de Depósitos

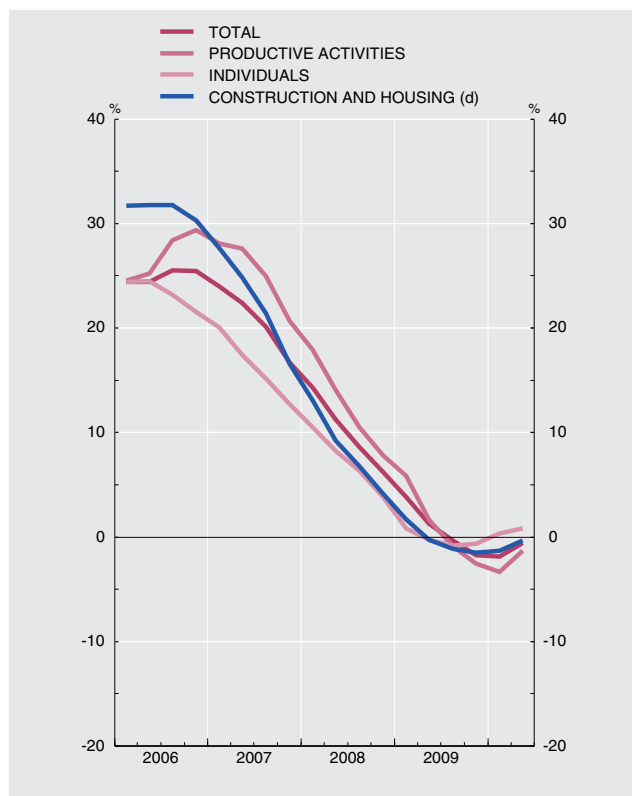
## 8.9 LENDING BY CREDIT INSTITUTIONS TO OTHER RESIDENT SECTORS. BREAKDOWN BY END-USE.

■ Series depicted in chart.

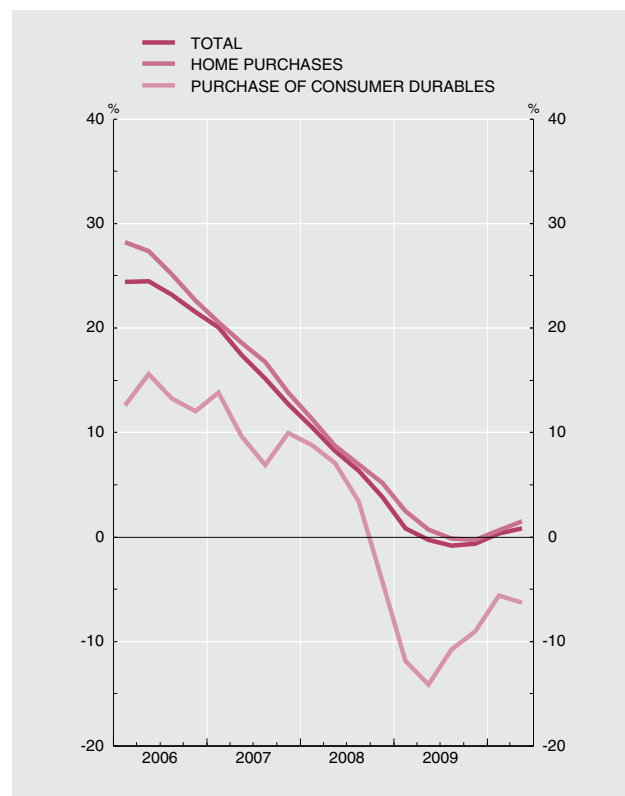
EUR millions and percentages

	Financing of productive activities							Financing of individuals					Financing of private non-profit institutions	Unclassified	Memo-randum item: construction and housing (d)
	Total (a)	Total	Agriculture and fisheries	Industry excluding construction	Construction	Services		Total	Home purchases and improvements	Purchases of consumer durables	Other (b)				
						Total	Of which								
												Real estate activities			
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
07	1 760 213	943 086	25 245	141 571	153 453	622 818	303 514	789 250	623 540	595 929	56 576	109 133	6 089	21 788	1 080 507
08	1 869 882	1 016 948	26 244	156 141	151 848	682 716	318 032	819 412	655 145	626 620	54 176	110 092	6 091	27 431	1 125 024
09	1 837 038	991 363	23 123	152 199	130 438	685 602	322 984	813 939	654 566	624 755	49 273	110 101	5 523	26 213	1 107 988
06 Q1	1 265 755	637 277	21 213	105 687	106 183	404 195	181 491	604 878	475 038	452 318	46 320	83 520	4 788	18 813	762 711
Q2	1 350 190	681 307	21 946	109 856	116 195	433 311	198 998	642 697	502 002	478 158	49 161	91 535	5 109	21 077	817 195
Q3	1 419 973	728 058	22 460	115 266	127 420	462 911	216 642	666 972	523 184	498 793	50 552	93 236	5 359	19 584	867 247
Q4	1 508 626	781 644	23 014	119 488	134 317	504 825	244 050	700 294	548 740	523 595	51 461	100 094	5 704	20 983	927 107
07 Q1	1 569 169	816 098	23 436	121 148	137 836	533 678	264 653	726 179	570 989	545 190	52 713	102 477	5 743	21 149	973 479
Q2	1 652 352	869 174	24 294	132 145	144 552	568 184	282 081	754 726	593 655	567 062	53 898	107 174	5 955	22 497	1 020 287
Q3	1 706 126	910 001	25 085	140 332	150 341	594 243	292 599	768 197	609 791	582 505	54 035	104 371	6 106	21 822	1 052 731
Q4	1 760 213	943 086	25 245	141 571	153 453	622 818	303 514	789 250	623 540	595 929	56 576	109 133	6 089	21 788	1 080 507
08 Q1	1 793 356	962 331	25 003	143 816	154 237	639 275	311 272	802 258	635 010	606 807	57 357	109 891	5 804	22 962	1 100 519
Q2	1 838 174	991 307	25 727	148 218	155 600	661 762	313 176	817 074	645 286	616 487	57 726	114 062	5 952	23 840	1 114 062
Q3	1 852 563	1 005 670	26 593	155 481	156 363	667 233	315 444	816 755	651 958	623 101	55 859	108 938	6 063	24 075	1 123 765
Q4	1 869 882	1 016 948	26 244	156 141	151 848	682 716	318 032	819 412	655 145	626 620	54 176	110 092	6 091	27 431	1 125 024
09 Q1	1 861 734	1 018 902	24 472	158 905	143 515	692 011	324 222	808 715	651 495	621 811	50 560	106 660	5 125	28 991	1 119 231
Q2	1 861 005	1 007 492	23 732	158 800	134 690	690 271	324 664	815 068	651 564	620 920	49 583	113 922	5 382	33 063	1 110 917
Q3	1 846 010	996 650	23 576	153 070	134 045	685 959	324 439	810 149	652 434	622 122	49 840	107 875	5 457	33 754	1 110 918
Q4	1 837 038	991 363	23 123	152 199	130 438	685 602	322 984	813 939	654 566	624 755	49 273	110 101	5 523	26 213	1 107 988
10 Q1	1 827 087	985 197	22 791	149 368	126 464	686 574	322 820	811 242	655 474	625 856	47 716	108 053	5 372	25 276	1 104 758
Q2	1 850 230	994 341	23 347	152 301	123 948	694 745	322 685	821 708	660 436	630 104	44 812	116 459	5 840	28 340	1 107 069

**CREDIT BY END-USE**  
Annual percentage changes (c)



**CREDIT TO INDIVIDUALS BY END-USE**  
Annual percentage changes (c)



SOURCE: BE.

a. Series obtained from information in the accounting statement established for the supervision of resident institutions. See the changes introduced in the October 2001 edition of the Boletín estadístico and Tables 4.13, 4.18 and 4.23 of the Boletín estadístico, which are published at [www.bde.es](http://www.bde.es).

b. Includes loans and credit to households for the purchase of land and rural property, the purchase of securities, the purchase of current goods and services not considered to be consumer durables (e.g. loans to finance travel expenses) and for various end-uses not included in the foregoing.

c. Asset-backed securities brought back onto the balance sheet as a result of the entry into force of Banco de España Circular BE 4/2004 have caused a break in the series in June 2005. The rates depicted in the chart have been adjusted to eliminate this effect.

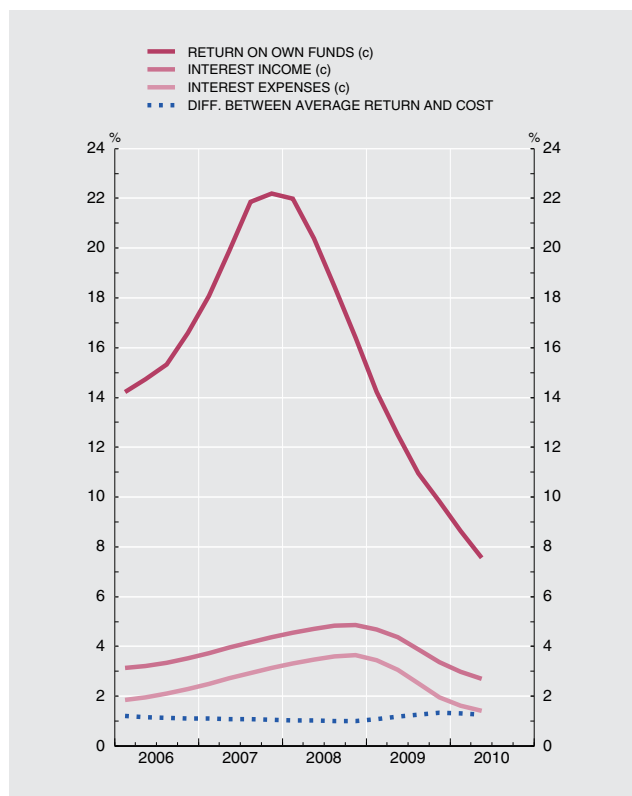
d. Including: construction, real estate activities and home purchases and improvements

## 8.10. PROFIT AND LOSS ACCOUNT OF BANKS, SAVINGS BANKS AND CREDIT CO-OPERATIVES RESIDENT IN SPAIN

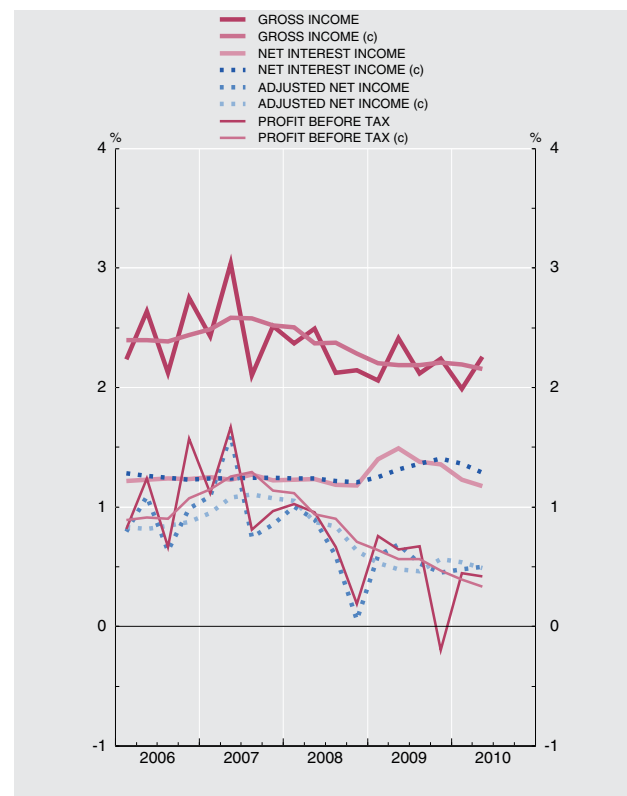
■ Series depicted in chart.

	As a percentage of the adjusted average balance sheet											Percentages			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Interest income	Interest expenses	Net interest income	Return on equity instruments and non interest income	Gross income	Operating expenses:	Of which: Staff costs	Other operating income	Adjusted net income	Other net income	Profit before tax	Average return on own funds (a)	Average return on lending operations (b)	Average cost of borrowing operations (b)	Difference (12-13)
<b>07</b>	4.7	3.5	1.2	1.3	2.5	1.1	0.7	0.6	0.9	0.4	1.0	20.8	4.6	3.6	1.0
<b>08</b>	4.8	3.6	1.2	1.0	2.1	1.0	0.6	1.1	0.1	0.3	0.2	12.5	5.1	4.2	1.0
<b>09</b>	2.8	1.4	1.4	0.9	2.2	1.0	0.6	0.8	0.5	0.8	-0.2	8.0	3.6	2.3	1.3
<b>07 Q2</b>	4.3	3.0	1.2	1.8	3.0	1.1	0.7	0.4	1.6	0.1	1.7	23.3	4.2	3.1	1.1
<b>Q3</b>	4.5	3.2	1.3	0.8	2.1	1.1	0.6	0.3	0.7	0.1	0.8	23.7	4.4	3.3	1.1
<b>Q4</b>	4.7	3.5	1.2	1.3	2.5	1.1	0.7	0.6	0.9	0.4	1.0	20.8	4.6	3.6	1.0
<b>08 Q1</b>	4.8	3.5	1.2	1.1	2.4	1.0	0.6	0.3	1.0	0.0	1.0	20.1	4.8	3.8	1.0
<b>Q2</b>	4.9	3.6	1.2	1.3	2.5	1.0	0.6	0.6	0.9	0.1	1.0	16.9	5.0	3.9	1.0
<b>Q3</b>	5.0	3.8	1.2	0.9	2.1	1.0	0.6	0.5	0.6	0.1	0.7	16.1	5.1	4.1	1.0
<b>Q4</b>	4.8	3.6	1.2	1.0	2.1	1.0	0.6	1.1	0.1	0.3	0.2	12.5	5.1	4.2	1.0
<b>09 Q1</b>	4.1	2.7	1.4	0.7	2.1	0.9	0.6	0.5	0.6	0.3	0.8	11.4	5.0	3.9	1.1
<b>Q2</b>	3.5	2.1	1.5	0.9	2.4	0.9	0.6	0.8	0.7	0.2	0.6	10.0	4.7	3.5	1.2
<b>Q3</b>	3.0	1.6	1.4	0.7	2.1	0.9	0.6	0.6	0.5	0.3	0.7	9.9	4.2	2.9	1.3
<b>Q4</b>	2.8	1.4	1.4	0.9	2.2	1.0	0.6	0.8	0.5	0.8	-0.2	8.0	3.6	2.3	1.3
<b>10 Q1</b>	2.5	1.3	1.2	0.8	2.0	0.9	0.6	0.6	0.5	0.1	0.4	6.6	3.2	1.9	1.3
<b>Q2</b>	2.5	1.3	1.2	1.1	2.3	0.9	0.6	0.8	0.5	0.2	0.4	5.7	2.9	1.6	1.3

**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 average return and cost.

c. Average of the last four quarters.

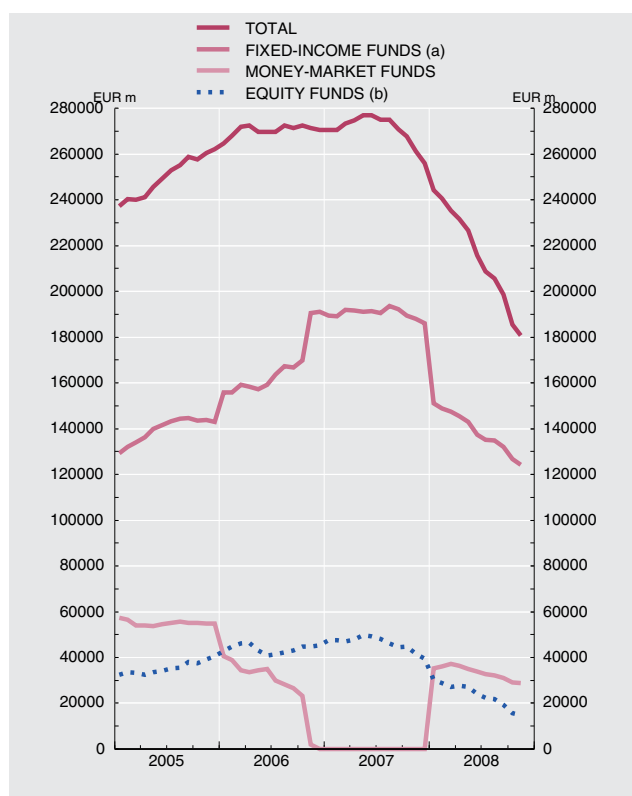
## 8.11. MUTUAL FUNDS RESIDENT IN SPAIN

■ Series depicted in chart.

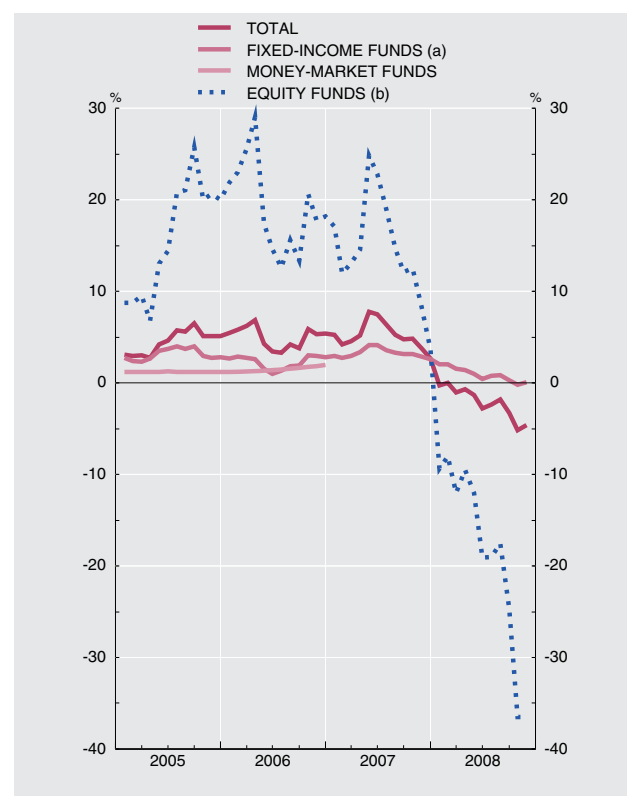
EUR millions

	Total				Money-market funds				Fixed-income funds (a)				Equity funds (b)				Others funds (c)
	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
<b>05</b>	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
<b>06</b>	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
<b>07</b>	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
<b>07 Aug</b>	275 016	-19	-242	5.3	-	-	-	...	193 565	3 073	2 697	3.3	46 136	-2 060	-1 421	14.7	35 314
<b>Sep</b>	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
<b>Oct</b>	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
<b>Nov</b>	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
<b>Dec</b>	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
<b>08 Jan</b>	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
<b>Feb</b>	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
<b>Mar</b>	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
<b>Apr</b>	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
<b>May</b>	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
<b>Jun</b>	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
<b>Jul</b>	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
<b>Aug</b>	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
<b>Sep</b>	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
<b>Oct</b>	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
<b>Nov</b>	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.

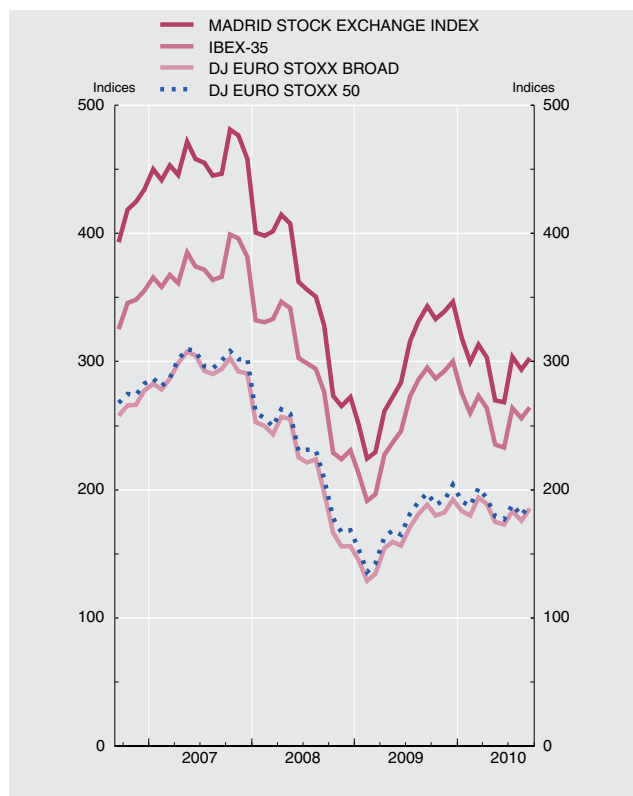
## 8.12. SHARE PRICE INDICES AND TURNOVER ON SECURITIES MARKETS. SPAIN AND EURO AREA

■ Series depicted in chart.

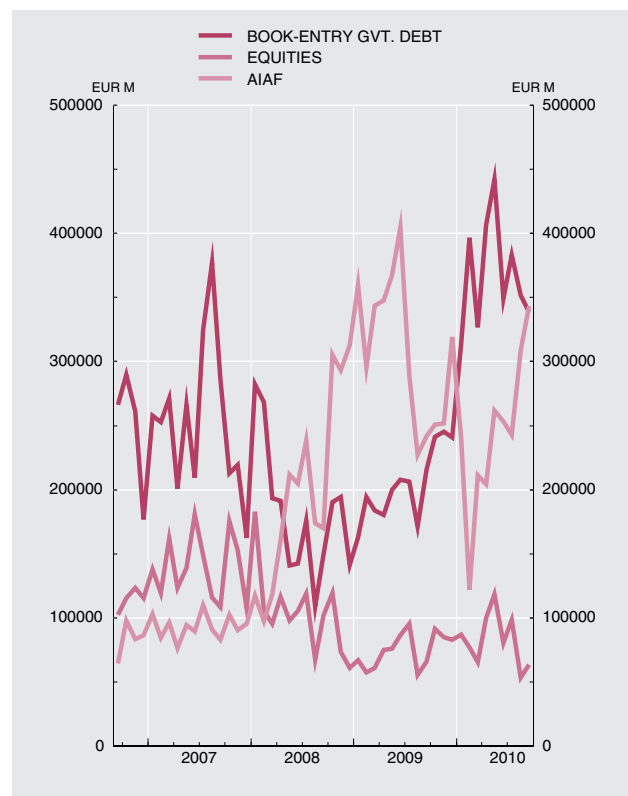
Indices, EUR millions and thousands of contracts

	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
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		1 055.69	10 107.91	235.02	2 529.03	898 195	75 103	2 448 490	3 699 008	-	33 946	-	5 752
10	A	1 064.37	10 275.70	259.86	2 727.92	743 872	47 779	3 308 340	2 186 598	-	27 080	-	5 134
09 Jun		1 016.66	9 787.80	223.02	2 401.69	86 272	5 753	207 861	404 790	...	3 984	...	531
Jul		1 131.04	10 855.10	243.92	2 638.13	95 572	5 654	206 118	289 376	...	2 363	...	516
Aug		1 187.30	11 365.10	257.84	2 775.17	55 638	4 336	171 127	227 500	...	2 090	...	423
Sep		1 229.35	11 756.10	269.14	2 872.63	65 772	7 226	215 553	241 874	...	4 438	...	469
Oct		1 194.17	11 414.80	256.63	2 743.50	91 389	6 713	241 093	250 942	...	3 648	...	495
Nov		1 215.11	11 644.70	260.35	2 797.25	84 933	5 151	245 345	251 937	...	1 455	...	475
Dec		1 241.72	11 940.00	274.78	2 966.24	82 938	6 319	240 634	319 010	...	3 727	...	423
10 Jan		1 140.57	10 947.70	261.87	2 776.83	86 985	5 193	313 732	240 235	...	3 461	...	482
Feb		1 074.18	10 333.60	256.81	2 728.47	76 836	9 121	396 603	121 869	...	3 158	...	545
Mar		1 123.08	10 871.30	277.00	2 931.16	65 520	4 485	326 695	211 340	...	3 283	...	528
Apr		1 086.68	10 492.20	269.34	2 816.86	100 108	5 352	406 736	204 246	...	2 088	...	667
May		966.64	9 359.40	249.82	2 610.26	118 350	4 176	442 094	261 511	...	3 036	...	872
Jun		960.79	9 263.40	246.38	2 573.32	80 641	5 013	349 054	253 096	...	3 866	...	642
Jul		1 088.62	10 499.80	261.65	2 742.14	98 411	4 761	383 009	242 812	...	2 610	...	532
Aug		1 052.73	10 187.00	251.15	2 622.95	53 667	4 420	351 521	308 542	...	2 280	...	415
Sep	P	1 085.03	10 514.50	264.43	2 747.90	63 353	5 259	338 896	342 945	...	3 296	...	450

SHARE PRICE INDICES  
JAN 1994 = 100



TURNOVER ON SECURITIES MARKETS



Sources: Madrid, Barcelona, Bilbao and Valencia Stock Exchanges (columns 1, 2, 5 and 6); Reuters (columns 3 and 4); AIAF (column 8) and Spanish Financial Futures Market (MEFFSA) (columns 9 to 12)



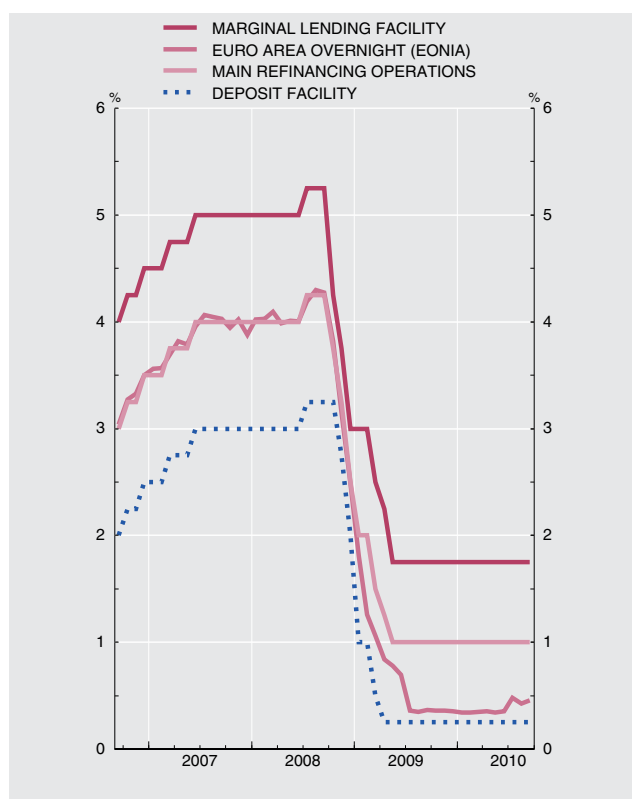
## 9.1. INTEREST RATES. EUROSISTEM AND MONEY MARKET. EURO AREA AND SPAIN

■ Series depicted in chart.

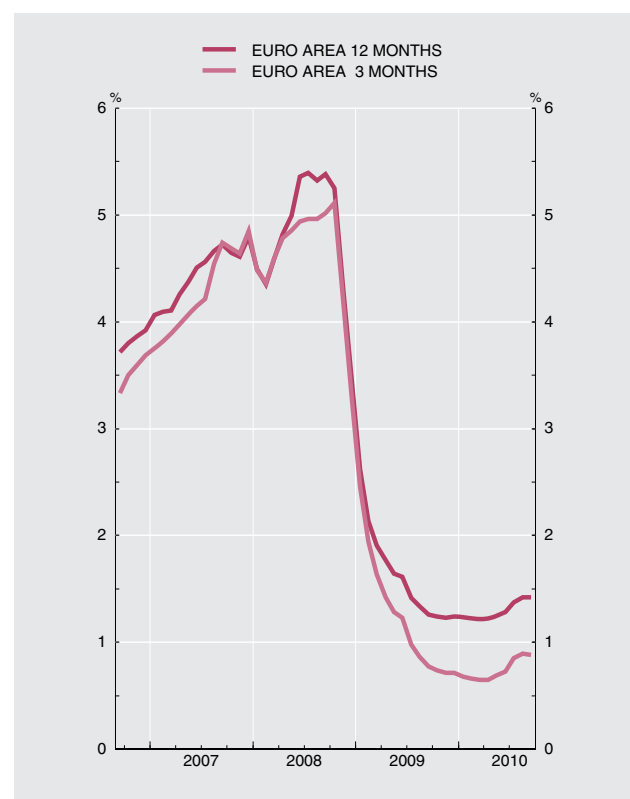
Averages of daily data. Percentages per annum

	Eurosistem monetary policy operations				Money market													
	Main refinancing operations: weekly tenders	Longer term refinancing operations: monthly tenders	Standing facilities		Euro area: deposits (Euribor) (a)					Spain								
			Marginal lending	Deposit	Over-night (EONIA)	1-month	3-month	6-month	1-year	Non-transferable deposits					Government-securities repos			
										Over-night	1-month	3-month	6-month	1-year	Over-night	1-month	3-month	1-year
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
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	1.00	1.00	1.75	0.25	0.714	0.89	1.22	1.43	1.62	0.67	0.94	1.23	1.41	1.62	0.61	0.63	0.67	0.84
10	1.00	1.00	1.75	0.25	0.383	0.49	0.74	1.03	1.29	0.39	0.60	0.82	1.00	1.30	0.32	0.47	0.61	0.98
09 Jun	1.00	1.00	1.75	0.25	0.698	0.91	1.23	1.44	1.61	0.66	0.91	1.26	1.45	1.51	0.66	0.70	0.72	-
Jul	1.00	1.00	1.75	0.25	0.358	0.61	0.97	1.21	1.41	0.30	0.59	0.95	1.18	1.41	0.26	0.36	0.45	0.55
Aug	1.00	1.00	1.75	0.25	0.347	0.51	0.86	1.12	1.33	0.30	0.52	0.86	1.10	1.34	0.26	0.29	0.41	-
Sep	1.00	1.00	1.75	0.25	0.363	0.46	0.77	1.04	1.26	0.32	0.51	0.80	1.08	1.26	0.29	0.30	0.38	0.74
Oct	1.00	1.00	1.75	0.25	0.359	0.43	0.74	1.02	1.24	0.30	0.43	0.75	1.00	-	0.27	0.29	0.42	0.81
Nov	1.00	1.00	1.75	0.25	0.362	0.44	0.72	0.99	1.23	0.33	0.44	0.72	0.97	1.23	0.31	0.34	0.41	0.82
Dec	1.00	1.00	1.75	0.25	0.355	0.48	0.71	1.00	1.24	0.32	0.50	0.70	0.96	1.24	0.27	0.32	0.40	0.70
10 Jan	1.00	1.00	1.75	0.25	0.344	0.44	0.68	0.98	1.23	0.30	0.42	0.67	0.98	1.23	0.26	0.29	0.31	0.81
Feb	1.00	1.00	1.75	0.25	0.341	0.42	0.66	0.97	1.23	0.31	0.42	0.65	0.94	1.33	0.27	0.31	0.36	0.80
Mar	1.00	-	1.75	0.25	0.348	0.41	0.64	0.95	1.22	0.32	0.40	0.61	0.87	1.17	0.26	0.29	0.36	-
Apr	1.00	1.00	1.75	0.25	0.353	0.40	0.64	0.96	1.23	0.32	0.42	0.64	0.84	1.21	0.26	0.27	0.33	0.79
May	1.00	1.00	1.75	0.25	0.344	0.42	0.69	0.98	1.25	0.38	0.46	0.69	0.97	-	0.30	0.38	0.50	-
Jun	1.00	1.00	1.75	0.25	0.354	0.45	0.73	1.01	1.28	0.55	0.80	1.07	1.00	1.27	0.42	0.72	0.97	-
Jul	1.00	1.00	1.75	0.25	0.481	0.58	0.85	1.10	1.37	0.48	0.77	1.12	1.10	1.39	0.41	0.78	0.99	-
Aug	1.00	1.00	1.75	0.25	0.426	0.64	0.90	1.15	1.42	0.38	0.85	1.00	1.16	1.43	0.33	0.65	0.87	1.50
Sep	1.00	1.00	1.75	0.25	0.454	0.62	0.88	1.14	1.42	0.44	0.87	0.93	1.14	1.41	0.37	0.55	0.82	-

EUROSISTEM: MONETARY POLICY OPERATIONS AND EURO AREA OVERNIGHT DEPOSITS



INTERBANK MARKET: EURO AREA 3-MONTH AND 1-YEAR RATES



Source: ECB (columns 1 to 8).

a. To December 1998, synthetic euro area rates have been calculated on the basis of national rates weighted by GDP

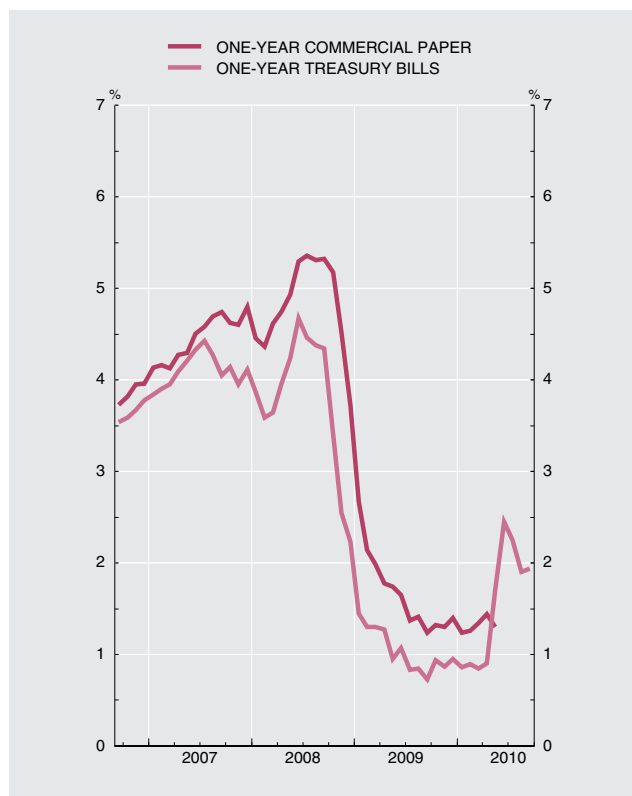
## 9.2. INTEREST RATES: SPANISH SHORT-TERM AND LONG-TERM SECURITIES MARKETS

■ Series depicted in chart.

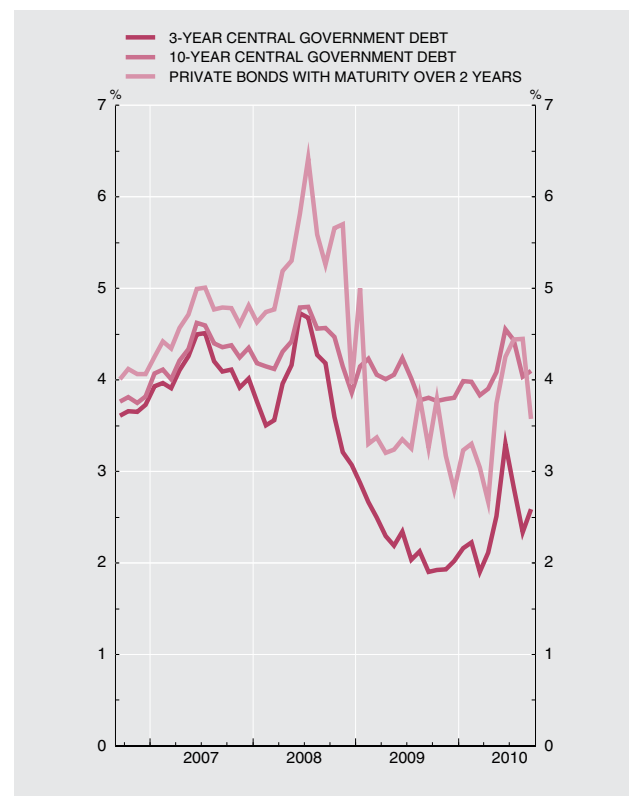
Percentages per annum

	Short-term securities				Long-term securities								
	One-year Treasury bills		One-year commercial paper		Central Government debt							Private bonds with a maturity of over two years traded on the AIAF	
	Marginal rate at issue	Secondary market: outright spot purchases between market members	Rate at issue	Secondary market: outright spot purchases	Marginal rate at issue					Secondary market. Book-entry debt. Outright spot purchases between market members			
					3-year bonds	5-year bonds	10-year bonds	15-year bonds	30-year bonds	At 3-years	At 10-years		
	1	2	3	4	5	6	7	8	9	10	11	12	
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		1.04	0.99	1.67	1.67	2.30	2.98	3.99	4.45	4.86	2.23	3.97	3.46
10	A	1.53	1.44	1.32	1.46	2.59	3.11	4.22	4.80	5.09	2.44	4.10	3.63
09	Jun	1.07	0.96	1.65	1.65	-	3.06	4.42	-	4.92	2.34	4.24	3.35
	Jul	0.84	0.83	1.37	1.48	-	3.11	-	4.51	-	2.04	4.01	3.25
	Aug	0.85	0.79	1.42	1.38	2.06	2.39	-	-	-	2.12	3.78	3.82
	Sep	0.73	0.78	1.24	1.32	1.53	2.80	3.88	-	4.70	1.90	3.80	3.26
	Oct	0.94	0.86	1.32	1.25	2.28	2.87	3.88	-	-	1.92	3.77	3.79
	Nov	0.87	0.85	1.30	1.24	-	2.76	-	4.26	-	1.93	3.79	3.17
	Dec	0.95	0.88	1.40	1.19	2.15	-	3.90	-	-	2.02	3.80	2.80
10	Jan	0.86	0.81	1.24	1.15	-	2.86	4.10	-	4.86	2.16	3.99	3.23
	Feb	0.90	0.83	1.26	1.17	2.66	-	-	-	4.81	2.23	3.98	3.30
	Mar	0.85	0.74	1.34	1.17	-	2.84	3.86	-	4.77	1.90	3.83	3.04
	Apr	0.90	1.08	1.44	1.18	2.03	-	-	4.45	-	2.11	3.90	2.67
	May	1.70	1.58	1.30	1.24	-	-	4.08	-	-	2.51	4.08	3.74
	Jun	2.45	2.27	-	1.32	3.39	-	4.91	-	5.94	3.30	4.56	4.25
	Jul	2.25	2.10	-	1.92	-	3.73	-	5.15	-	2.82	4.43	4.44
	Aug	1.90	1.73	-	1.89	2.31	-	-	-	-	2.34	4.04	4.45
	Sep	1.94	1.79	-	2.05	-	3.00	4.17	-	5.08	2.59	4.09	3.57

### PRIMARY MARKET



### SECONDARY MARKET



Sources: Main issuers (column 3); AIAF (columns 4 and 12).

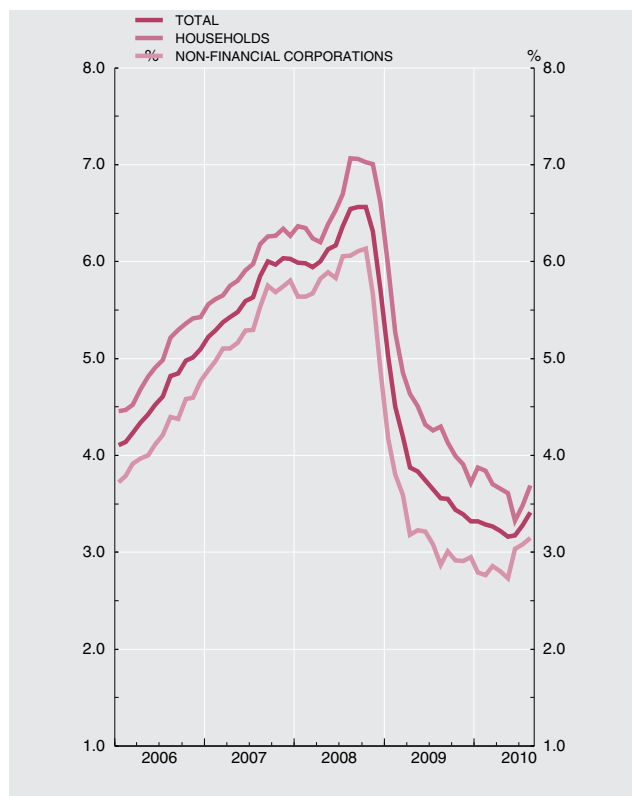
### 9.3. INTEREST RATES ON NEW BUSINESS. CREDIT INSTITUTIONS. (CBE 4/2002) SDDS (a)

■ Series depicted in chart.

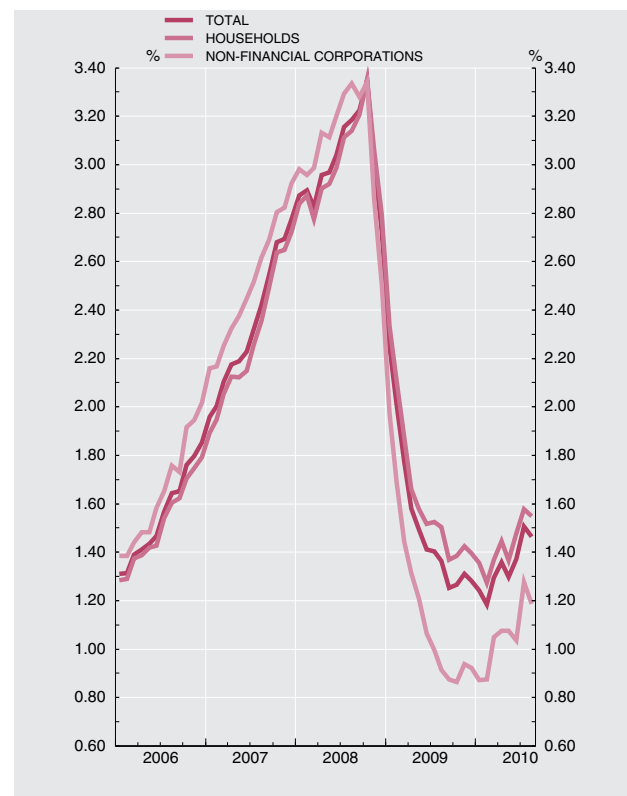
Percentages

	Loans (APRC) (b)							Deposits (NDER) (b)									
	Syn- thetic rate (d)	Households and NPISH			Non-financial corporations			Syn- thetic rate (d)	Households and NPISH				Non-financial corporations				
		Syn- thetic rate	House pur- chase	Con- sump- tion and other	Syn- thetic rate	Up to EUR 1 million	Over EUR 1 million (c)		Syn- thetic rate	Over- night and re- deema- ble at notice	Time	Repos	Syn- thetic rate	Over- night	Time	Repos	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16		
08		5.70	6.61	5.83	8.83	4.87	5.91	4.42	2.72	2.79	0.69	4.18	2.20	2.50	1.77	3.47	2.29
09		3.32	3.71	2.62	6.96	2.95	4.24	2.47	1.28	1.39	0.36	2.21	0.33	0.92	0.55	1.44	0.41
10	A	3.41	3.69	2.64	6.86	3.15	4.27	2.62	1.46	1.55	0.30	2.50	0.43	1.19	0.55	1.97	0.43
09 Jan		5.02	5.94	4.97	8.77	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		4.50	5.27	4.35	7.97	3.80	5.06	3.15	2.01	2.11	0.60	3.12	1.14	1.69	1.27	2.30	1.18
Mar		4.19	4.85	3.91	7.63	3.59	4.84	2.97	1.77	1.87	0.55	2.76	0.89	1.44	1.01	2.03	0.94
Apr		3.87	4.63	3.55	7.82	3.18	4.69	2.56	1.58	1.66	0.49	2.46	0.74	1.31	0.87	1.90	0.76
May		3.84	4.51	3.36	7.90	3.23	4.62	2.57	1.49	1.58	0.46	2.38	0.64	1.21	0.79	1.77	0.70
Jun		3.74	4.32	3.16	7.62	3.22	4.69	2.67	1.41	1.52	0.42	2.34	0.67	1.06	0.65	1.60	0.70
Jul		3.65	4.26	3.07	7.72	3.08	4.56	2.48	1.40	1.52	0.41	2.37	0.35	1.00	0.62	1.50	0.33
Aug		3.56	4.30	2.99	8.16	2.87	4.44	2.26	1.36	1.50	0.42	2.31	0.35	0.91	0.64	1.31	0.28
Sep		3.55	4.13	2.82	8.01	3.01	4.60	2.27	1.25	1.37	0.37	2.13	0.37	0.88	0.54	1.34	0.32
Oct		3.44	3.99	2.78	7.59	2.91	4.50	2.21	1.26	1.39	0.35	2.19	0.34	0.86	0.54	1.30	0.28
Nov		3.39	3.91	2.70	7.40	2.91	4.39	2.26	1.31	1.42	0.40	2.22	0.33	0.94	0.58	1.42	0.35
Dec		3.32	3.71	2.62	6.96	2.95	4.24	2.47	1.28	1.39	0.36	2.21	0.33	0.92	0.55	1.44	0.41
10 Jan		3.32	3.87	2.60	7.68	2.79	4.36	2.08	1.24	1.35	0.31	2.18	0.29	0.87	0.53	1.34	0.27
Feb		3.29	3.84	2.67	7.37	2.76	4.29	2.06	1.18	1.27	0.31	2.04	0.30	0.88	0.54	1.33	0.31
Mar		3.27	3.70	2.60	7.04	2.86	4.21	2.27	1.30	1.37	0.31	2.19	0.33	1.05	0.57	1.68	0.25
Apr		3.22	3.66	2.55	7.00	2.80	4.22	2.11	1.36	1.45	0.29	2.34	0.32	1.08	0.59	1.70	0.34
May		3.16	3.61	2.50	6.98	2.73	4.33	2.07	1.30	1.37	0.27	2.21	0.39	1.08	0.57	1.74	0.40
Jun		3.18	3.32	2.39	6.05	3.03	4.08	2.56	1.37	1.48	0.28	2.43	0.57	1.04	0.53	1.71	0.48
Jul		3.28	3.48	2.54	6.34	3.08	4.25	2.59	1.51	1.58	0.29	2.57	0.62	1.28	0.58	2.12	0.54
Aug	P	3.41	3.69	2.64	6.86	3.15	4.27	2.62	1.46	1.55	0.30	2.50	0.43	1.19	0.55	1.97	0.43

#### LOANS SYNTHETIC RATES



#### DEPOSITS SYNTHETIC RATES



Source: BE.

a. This table is included among the IMF's requirements to meet the Special Data Dissemination Standards (SDDS)

b. APRC: annual percentage rate of charge. NEDR: narrowly defined effective rate, which is the same as the APRC without including commissions.

c. Calculated by adding to the NEDR rate, which does not include commissions and other expenses, a moving average of such expenses.

d. 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.

e. Up to the reference month May 2010, this column includes credit granted through credit cards (see the 'Changes' note in the July-August 2010 Boletín Estadístico).

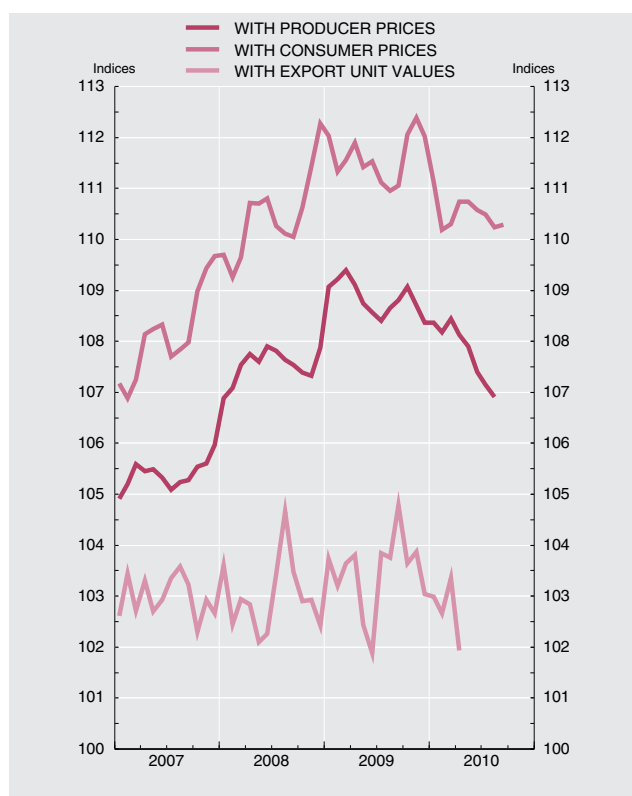
## 9.4 INDICES OF SPANISH COMPETITIVENESS VIS-À-VIS THE EU-27 AND THE EURO AREA

■ Series depicted in chart.

Base 1999 Q1 = 100

	Vis-à-vis the EU-27									Vis-à-vis the euro area				
	Total (a)				Nominal component (b)	Price component (c)				Based on producer prices	Based on consumer prices	Based on total unit labour costs	Based on manufactu ring 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	
07	105.4	108.1	110.8	103.0	100.0	105.4	108.2	110.8	103.1	105.9	109.1	113.0	120.8	104.4
08	107.5	110.5	113.8	103.0	101.3	106.1	109.0	112.3	101.8	107.1	110.2	114.6	123.7	104.4
09	108.8	111.6	112.2	103.5	103.2	105.4	108.1	108.6	100.3	107.1	109.6	110.9	115.4	104.8
08 Q3	107.7	110.1	113.8	103.9	101.0	106.6	109.0	112.6	102.9	107.5	110.1	114.9	124.1	105.4
Q4	107.5	111.4	112.9	102.7	102.2	105.3	109.1	110.6	100.7	106.5	110.3	112.7	117.7	103.6
09 Q1	109.2	111.7	112.6	103.5	103.7	105.4	107.7	108.6	99.9	107.0	109.0	110.6	112.8	104.6
Q2	108.8	111.6	112.1	102.7	103.2	105.4	108.1	108.6	99.6	107.2	109.6	110.9	114.8	104.1
Q3	108.6	111.0	111.5	104.1	102.8	105.6	108.0	108.4	101.3	107.3	109.5	110.9	116.4	105.6
Q4	108.7	112.2	112.4	103.5	103.2	105.3	108.7	108.8	100.4	107.1	110.2	111.3	117.6	105.1
10 Q1	108.3	110.6	111.0	103.0	102.8	105.3	107.5	107.9	100.3	107.2	109.2	110.4	116.1	104.9
Q2	107.8	110.7	110.4	...	102.4	105.3	108.1	107.8	...	107.2	109.8	110.5	114.7	...
09 Dec	108.4	112.0	...	103.0	103.2	105.0	108.6	...	99.9	106.9	110.2	...	...	104.7
10 Jan	108.4	111.1	...	103.0	102.9	105.3	108.0	...	100.2	107.1	109.8	...	...	105.0
Feb	108.2	110.2	...	102.7	102.7	105.3	107.3	...	100.0	107.1	109.0	...	...	104.5
Mar	108.4	110.3	...	103.4	102.9	105.4	107.2	...	100.5	107.2	108.9	...	...	105.3
Apr	108.1	110.7	...	101.9	102.5	105.5	108.0	...	99.5	107.3	109.7	...	...	104.2
May	107.9	110.7	...	...	102.5	105.3	108.1	...	...	107.2	109.8	...	...	...
Jun	107.4	110.6	...	...	102.2	105.1	108.3	...	...	107.0	110.0	...	...	...
Jul	107.2	110.5	...	...	102.2	104.8	108.1	...	...	106.7	109.9	...	...	...
Aug	106.9	110.2	...	...	102.0	104.8	108.1	...	...	106.7	109.9	...	...	...
Sep	...	110.3	...	...	102.1	...	108.0	...	...	...	109.8	...	...	...

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), (1998-2000), (2001-2003), and (2004-2006) 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 Q1 = 100

	Vis-à-vis developed countries									Vis-à-vis industrialised countries				
	Total (a)				Nominal component (b)	Prices component (c)				Total (a)		Nominal component (b)	Prices component (c)	
	Based on producer prices	Based on consumer prices	Based on manufacturing unit labour costs (d)	Based on export unit values		Based on producer prices	Based on consumer prices	Based on manufacturing unit labour costs (d)	Based on export unit values	Based on producer prices	Based on consumer prices		Based on producer prices	Based on consumer prices
	1	2	3	4		6	7	8	9	10	11		13	14
<b>07</b>	109.7	112.4	124.7	105.5	101.8	107.8	110.4	122.5	103.7	110.5	113.7	102.8	107.5	110.6
<b>08</b>	112.2	115.3	130.1	105.7	103.4	108.5	111.5	125.8	102.3	113.0	116.7	104.8	107.8	111.3
<b>09</b>	111.7	114.9	122.5	105.2	103.7	107.8	110.8	118.2	101.5	112.1	115.8	104.8	107.0	110.5
<b>08 Q3</b>	112.9	115.6	131.1	106.8	103.8	108.8	111.4	126.4	103.0	113.7	117.0	105.2	108.0	111.2
<b>Q4</b>	110.5	114.7	123.6	104.3	102.7	107.6	111.7	120.4	101.7	110.6	115.2	103.4	106.9	111.4
<b>09 Q1</b>	111.3	114.0	119.7	104.6	103.3	107.8	110.4	115.9	101.3	111.4	114.4	104.0	107.1	110.0
<b>Q2</b>	111.6	114.8	122.3	104.3	103.5	107.8	110.9	118.2	100.8	111.8	115.5	104.5	107.0	110.6
<b>Q3</b>	111.9	114.8	123.2	106.2	103.7	107.9	110.7	118.8	102.5	112.5	115.9	105.1	107.1	110.3
<b>Q4</b>	112.0	116.0	124.8	105.7	104.1	107.6	111.4	119.8	101.5	112.6	117.2	105.6	106.6	111.0
<b>10 Q1</b>	111.0	113.7	121.6	104.5	103.1	107.6	110.3	117.9	101.4	110.7	114.1	103.9	106.6	109.8
<b>Q2</b>	109.6	112.9	118.4	...	101.7	107.8	111.0	116.4	...	108.6	112.4	101.7	106.8	110.6
<b>09 Dec</b>	111.5	115.8	...	105.2	104.0	107.3	111.4	...	101.2	111.9	116.9	105.3	106.3	110.9
<b>10 Jan</b>	111.3	114.6	...	104.8	103.5	107.6	110.8	...	101.3	111.3	115.3	104.6	106.5	110.2
<b>Feb</b>	110.7	113.2	...	104.1	102.9	107.6	110.1	...	101.2	110.3	113.5	103.6	106.5	109.6
<b>Mar</b>	110.9	113.3	...	104.7	103.0	107.7	110.1	...	101.7	110.4	113.5	103.5	106.7	109.6
<b>Apr</b>	110.6	113.8	...	103.2	102.6	107.8	110.9	...	100.7	110.0	113.7	102.9	106.8	110.5
<b>May</b>	109.6	112.8	...	...	101.7	107.8	111.0	...	...	108.4	112.2	101.5	106.8	110.5
<b>Jun</b>	108.7	112.2	...	...	100.9	107.7	111.2	...	...	107.4	111.4	100.6	106.7	110.7
<b>Jul</b>	108.8	112.5	...	...	101.3	107.4	111.1	...	...	107.8	112.0	101.3	106.4	110.5
<b>Aug</b>	108.7	112.3	...	...	101.1	107.4	111.0	...	...	107.7	111.9	101.2	106.4	110.5
<b>Sep</b>	...	112.4	...	...	101.3	...	110.9	...	...	...	111.9	101.4	...	110.4

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), (1998-2000), (2001-2003), and (2004-2006) manufacturing foreign trade figures.

c. Relationship between the price indices of Spain and of the group.

d. The index obtained drawing on Manufacturing Labour Costs has been compiled using base year 2000 National Accounts data.

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