1 Introduction

Financial developments were influenced by accommodative economic policies, a recessionary environment and a gradual improvement in international financial markets, which was interrupted in the first few months of 2010

From the beginning of 2009, financial developments in the Spanish economy were influenced by a gradual improvement in financial markets and by the effects of accommodative economic policies and a recessionary macroeconomic environment. During the course of the year, the ECB began to withdraw some of its exceptional monetary policy measures (see Chapter 4), the severity of the recession progressively eased and a necessary fiscal consolidation process was initiated (see Chapter 5). In the first few months of 2010, the normalisation of markets was interrupted by the public finance problems in Greece, which eventually led to a serious fiscal crisis in the Greek economy (see Chapter 4). Those countries that had suffered the largest deteriorations in their public finances and that had the poorest growth prospects were worst affected by the strains.

Private-sector financing costs have reached low levels, although there have been no signs of any easing in other credit conditions until very recently

After following a downward trend from late 2008, the financing costs of households and firms are currently at low levels (see Chart 6.1). These developments have reflected the decline in interbank yields, albeit with some lag and incompletely, with larger increases in the premiums required in the higher risk segments (financing for consumption and SMEs). By contrast, according to the results of the Bank Lending Survey, credit conditions other than interest rates remained very restrictive; after tightening severely they have only very recently (2010 Q1) begun to show the first signs of easing.

Despite the sharp slowdown in lending to the private sector, which reached negative annual growth rates and was mainly a result of cyclical factors, ...

The growth rate of the indebtedness of the non-financial private sector has slowed continuously from its cyclical peak in 2006, falling from over 20% into negative territory. However, while corporate debt has continued to contract, household debt seems to have stabilised in recent months (see Chart 6.1). As argued in greater detail in Chapter 1, this was the result of a wide range of factors. The gradual adjustment that had started before the crisis, owing to the change in the monetary policy cycle against a background of high household and corporate debt ratios and an oversized real estate sector, was exacerbated by the international crisis itself, which led to strong contractionary pressures on both demand and supply. Loan applications thus showed some moderation —as a result of the deterioration in confidence and high uncertainty— against a background of sluggish economic activity and large rises in unemployment, while the high level of private sector debt, along with the poor macroeconomic outlook, has led credit institutions to consider a larger proportion of such applications unprofitable.

... there were no substantial reductions in household and corporate debt ratios owing to sluggish household and corporate income

In the case of firms, their poor results were reflected in a decline in their profitability indicators and a rise in their debt ratios, despite the contraction in the volume of their debt. However, their debt burden was significantly reduced as a result of the decline in financing costs.

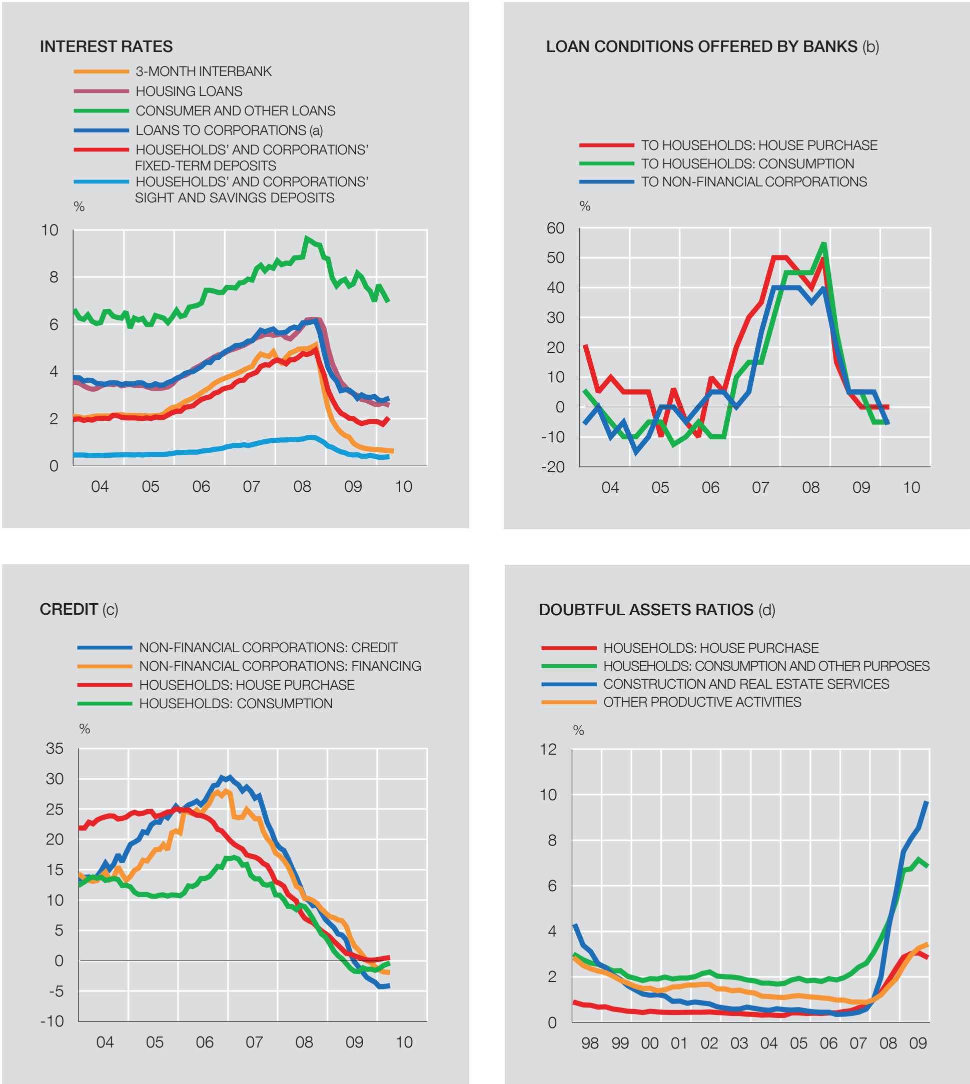
The decline in the debt burden has not prevented doubtful assets ratios from continuing to rise, which put pressure on credit institutions' income statements

Despite the decline in the private sector's debt burden, some segments of the sector are currently experiencing a higher degree of financial pressure, reflected in rises in the doubtful assets ratio. Although the latter is rising less sharply in recent months, it still does not appear to have reached its cyclical peak (see Chart 6.1).

This increase in the doubtful assets ratio is having negative effects on the results of Spanish financial intermediaries, reducing their capacity to respond to further deterioration in their as-

INTEREST RATES, LOAN CONDITIONS, CREDIT AND DOUBTFUL ASSETS RATIOS

CHART 6.1



SOURCES: ECB and Banco de España.

a. Calculated as a weighted average of the interest rates of various operations grouped according to their volume. For loans over €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 these expenses.
b. Cumulative changes in the diffusion index so a positive sign denotes tightening.
c. Year-on-year rates.
d. Calculated as doubtful credit/total credit.

sets. The financial system as a whole remains sound, although the position of individual financial institutions varies, both in terms of their exposure to impaired assets and in terms of their capacity to make the necessary provisions. This, along with the fact that the sector is too large, as the crisis has shown, highlights the need for institutions – especially those that pursued more risky strategies during the boom – to restructure.

Exceptional mechanisms have been set up to mitigate financial strains and promote an orderly restructuring of the financial sector

In addition to the measures taken in 2008, which provided exceptional mechanisms to alleviate the difficulties institutions were having obtaining wholesale financing, through the Fund for the Acquisition of Financial Assets and the granting of government guarantees, a strategy was implemented in 2009 to promote an orderly restructuring of those institutions potentially most affected by the crisis, by means of the creation of the Fund for the Orderly Restructuring of the

Banking Sector (FROB). The provisions of the FROB began to be activated in Spring 2010 with the approval of some processes for the restructuring and merger of savings banks (see Box 6.1).

In any case, market recovery and the use of government guarantees for securities issuance enabled institutions to raise a positive net amount of funds on the primary securities markets once again. This helped to boost activity in these markets, although the latter was primarily determined by the behaviour of general government.

The strong fiscal expansion has led to a significant increase in public debt ...

The fall in tax revenues, automatic stabilisers and the fiscal stimulus packages designed to offset the contraction in private spending have led to a deterioration of public finances and a significant increase in public debt. This, along with the decline in GDP, has led to a rapid increase in the debt-to-GDP ratio and in the interest burden.

... partly offsetting the significant decline in private sector net borrowing

The rise in the general government deficit has partly offset the increase in household net lending and the reduction in corporate net borrowing. Even so, there has been a significant decline in the nation's net borrowing.

Fiscal consolidation is essential to ensure the sustainability of public debt

The consequences of rapid growth in general government debt and in the general government debt burden are being exacerbated by the heightened sensitivity of markets to the state of public finances, as shown recently by the strains that arose as a consequence of the Greek fiscal crisis. In this situation, the adoption of an ambitious and credible budget consolidation strategy is essential to avoid the risks to the long-term sustainability of public finances.

The process of household and corporate deleveraging and financial system restructuring are essential if the recovery in lending is not to be hindered

The decline in financing costs has alleviated the private sector's debt burden. However, the recessionary environment is contributing to an increase in the financial pressure on certain segments of this sector. Along with the high level of household and corporate debt and the need to restructure the financial system, this will tend to curb the recovery in financing. The latter will start sooner and on a firmer footing the faster and more orderly the rebuilding of household and corporate balance sheets and the restructuring of banks.

2 The Spanish financial markets

2.1 THE PRIMARY MARKETS

The net issuance of marketable securities has recovered somewhat since March 2009, primarily driven by general government activity ...

The Spanish securities markets have progressively stabilised since March 2009, reflecting the improvement in agents' expectations, albeit with certain episodes of instability, the one associated with the Greek public finance crisis in the first few months of 2010 having been especially intense. In the primary markets there has been significant growth in activity, mainly as a result of the expansionary behaviour of general government.

The net issuance of bonds by resident sectors totalled €193 bn, up from €131 bn in 2008 (see Chart 6.1). Around two thirds of this amount corresponded to general government operations, reflecting the higher net borrowing of this sector. By type of instrument, medium and long-term debt continued to be the main means of raising funds. However, the significant growth in Treasury bill issuance led to a slight reduction in the average life of public debt, to 6.4 years (from 6.6 at the end of 2008).

Monetary financial institutions issued, directly or through resident and non-resident subsidiaries, around €27 bn. This was assisted by the improvement in the markets, by the granting of government guarantees for the bond issues of credit institutions – the amounts guaranteed totalling, in gross terms, €48 bn – and by the ECB's covered bond purchase programme (see Chapter 4) – almost €30 bn of covered bonds were issued in net terms –. Issuance by non-monetary financial institutions fell significantly as a consequence of the decline in securitisation activity, against a background in which, although asset-backed securities had continued

MEASURES TO SUPPORT SPANISH CREDIT INSTITUTIONS IN THE CONTEXT OF THE INTERNATIONAL FINANCIAL CRISIS

BOX 6.1

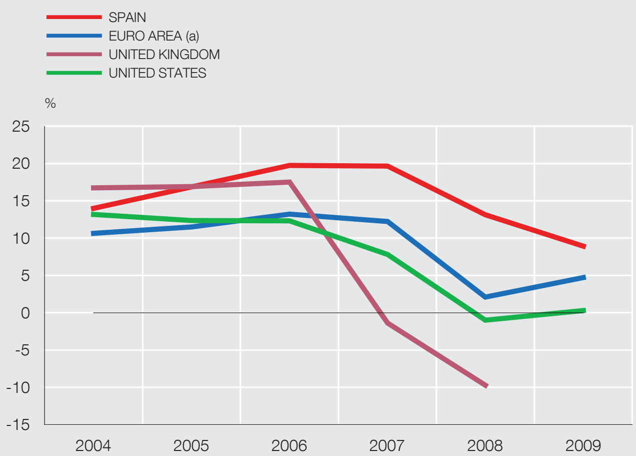
The financial turmoil which broke out during summer 2007 prompted a sudden fall in the value of a wide range of financial instruments and a drastic contraction in liquidity in many international markets, which caused some of them to actually freeze up. Globally, this first phase of the crisis was therefore financial and, in those countries caught up in it, the institutions most affected were those with greater exposure to so-called "toxic assets" or with larger short-term refinancing needs.

As the financial crisis progressed a negative feedback loop developed between the financial sector and the real economy, which led to a severe global recession. This second phase of the crisis, in which macroeconomic aspects have been combined with the purely financial ones, has had a greater effect on the banking sector's traditional business in a number of economies, chiefly as a result of the deterioration in credit portfolios. This explains why its impact on income statements has been more gradual, since loan defaults take longer to materialise than losses in a portfolio of financial instruments.

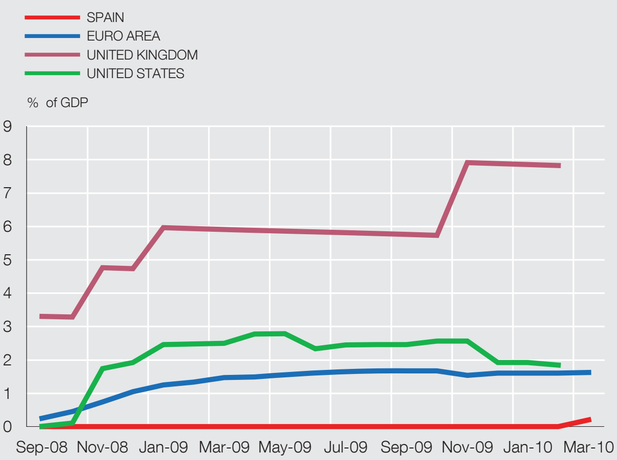
Furthermore, the resultant rapid repricing of risk meant financial and non-financial agents' debt levels were perceived as excessively high and triggered widespread deleveraging worldwide.

The impact of all these developments on banking systems has highlighted sizeable divergences between countries and, even in the same country, not all institutions have been affected to the

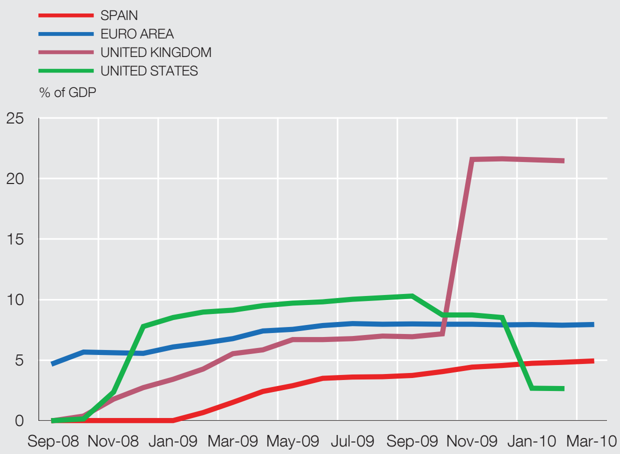
1 ROE



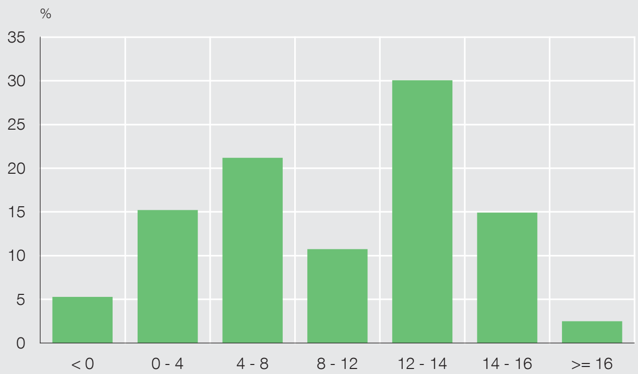
2 PUBLIC CAPITAL INJECTIONS (b)



3 COLLATERAL AND GUARANTEES (c)



4 DISTRIBUTION OF TOTAL ASSETS OF CREDIT INSTITUTIONS BY ROE INTERVAL (DECEMBER 2009)



SOURCES: FDIC Quarterly Income Profile Spreadsheets, ECB and Banco de España.

a. The 2009 figure is for the first six months.
b. United States: includes TARP capital injections and the recapitalisation of the mortgage securitisation agencies. United Kingdom: includes the recapitalisation of Royal Bank of Scotland and Lloyds-HBOS, and financing from the Deposit Guarantee Fund received by institutions subject to supervisory intervention. Spain: includes the announced subscription of preference shares by the Fund for the Orderly Restructuring of the Banking Sector as part of the savings bank merger and consolidation plans approved in March, and which is pending disbursement.
c. United States: includes the Temporary Liquidity Guarantee Program and the Asset Guarantee Program. United Kingdom: includes the Credit Guarantee Scheme and the Asset Protection Scheme. In the case of the euro area, the collateral and guarantees include both collateral for debt issued by financial institutions and guarantees for assets on the balance sheets of banks and their subsidiaries.

same extent. This heterogeneity can be explained by a number of factors, such as differences in business models or in the buffers available for absorbing shocks, and has led to governments adopting differing response strategies and financial support measures.

In the case of the Spanish economy, the markedly retail-oriented banking model meant the presence of toxic assets in banks' portfolios had been kept to a minimum, while more stringent regulation had prevented the creation of off-balance sheet investment vehicles. Consequently, the impact of the first phase of the financial crisis in Spain was very limited (see Panel 1). Moreover, banks' high provisioning and earnings levels made for strong lines of defence. The funding difficulties in the wholesale markets had a considerable impact, but they were overcome thanks to a financing structure with a large weight of long-term liabilities, to an increase in deposit-taking made possible by extensive branch networks and to the issuance of short-term securities, a segment that had been affected less severely by the turmoil.

By contrast, the first phase of the financial crisis severely affected the profitability of banks in other developed countries, among them the United States, the United Kingdom and some euro area countries (see Panel 1), in many cases resulting in substantial losses due to high exposure to the most affected assets.

A wide range of extraordinary measures were duly implemented. During the last few months of 2008, the governments of the United Kingdom, the United States and several euro area countries made injections of public capital into a number of banks and set up programmes to guarantee debt securities issued by banks. In some cases, they also started developing plans to purchase or protect impaired assets (see Panels 2 and 3). Meanwhile, in October 2008 the Spanish government adopted a series of measures as part of concerted action with the other euro area countries, although their use was more limited than in the other cases mentioned above, given the lesser impact of the first phase of the crisis on the Spanish banking system.[1] Out of this came the creation of a fund for the acquisition of financial assets (FAFA) of high quality – a notable difference compared with funds in other countries –, which was deployed by means of tender operations involving potentially interested institutions; an agreement to provide government guarantees for debt issued by banks, although they were not used until January 2009; and authorisation for the government acquisition of securities to bolster institutions' own resources, which was never used (however, the management of a small institution whose solvency had deteriorated considerably was taken over).

The second phase of the crisis, nonetheless, has affected the Spanish banking system to a greater extent. In particular, the rapid rise in unemployment and the large weight of the real estate sector in the Spanish economy contributed to a surge in doubtful assets, putting more pressure on institutions' income statements. Although the buffers in place – as a result of the regulation on countercyclical provisioning requirements – have helped cushion the impact, the progressive worsening of the macroeconomic situation has substantially reduced their size. Moreover, the effects vary within the sector, as demonstrated by the sizeable differences between institutions' doubtful assets ratios and in their capacity to generate earnings (see Panel 4). Under these circumstances it became necessary to adopt a strategy to prompt and support an orderly restructuring of the sector to pave the way for its downsizing, given the prospect of a lower degree of leverage in the private sector in the future, and to boost its robustness to ensure that institutions would be capable of providing the necessary funding as the economy recovered.

In this context, the creation of the Fund for the Orderly Restructuring of the Banking Sector (FROB) was approved in June 2009 as an instrument designed to help see through the necessary adjustment in the banking sector. Its design took into account the particularities of the Spanish financial system – such as the existence of savings banks, with their unique governance structure – and benefited from the considerable supervisory experience and advantages of the tried and tested institutional model in place, which was adapted to the new situation.

The operational framework of the FROB allows different courses of action to be followed depending on the specific situation of the institution in question. It supports two kinds of process: the restructuring of institutions with weaknesses that may affect their future viability, and the consolidation of institutions, with the aim of improving their efficiency in the medium term. The first type involves a staggered approach, whereby an institution submits a viability plan to the Banco de España, which may include different measures (a strengthening of the capital base and capital adequacy, consolidation with other institutions, or a total or partial transfer of business), for which it can request financial assistance. If this approach is unsuccessful, control is taken of the bank and the FROB is appointed as provisional administrator. A restructuring plan then has to be devised with the aim of arranging the institution's merger or acquisition, or the total or partial transfer of its assets and liabilities.

In the case of consolidation, institutions are required to submit a plan showing efficiency improvements and a restructuring of their capacity. The FROB may temporarily acquire preference shares convertible to ordinary shares, non-voting equity units or share capital contributions. To date, the Banco de España has approved three consolidation plans submitted by savings banks which, together, have involved the FROB subscribing for preference shares convertible to non-voting equity units in the resulting institutions with a total value of €2,155 million,[2] and has replaced the directors of one institution.

1. For a more detailed review of the measures introduced by financial authorities, see the Financial Stability Report and the Report on Banking Supervision in Spain.

2. The Fund for the Orderly Restructuring of the Banking Sector has an initial provision of €9 billion and can raise ten times this amount in external funding subject to the authorisation of the Spanish Ministry of Economy and Finance.

MEASURES TO SUPPORT SPANISH CREDIT INSTITUTIONS IN THE CONTEXT OF THE INTERNATIONAL FINANCIAL CRISIS (cont´d) BOX 6.1

This approach has considerable advantages. First, it allows the adoption of different solutions, depending on institutions' needs and, more particularly, it permits different treatment of those institutions that are viable, which receive support tailored to their circumstances, and those that are not, which are placed under official administration. Second, the FROB is structured in such a way that it prioritises preventive action, whereby the initiative stems from the institutions themselves and they retain responsibility for risk management.

In short, the different channel through which the financial crisis affected the Spanish banking system (a deterioration of credit portfolios associated with the unique characteristics of the Spanish economic crisis rather than the fall in value of financial instruments) and different timing (later and more gradual) compared with other developed countries explains the distinct design of the government support to the financial system in Spain. The FROB can thus contribute to the necessary restructuring of the system, if it is used with greater purpose, to address in a speedily and orderly manner the challenges the system faces. In the first instance, institutions have to take the initiative, but recourse to the fund will prepare them to perform their intermediation function efficiently once the economy embarks on a path of recovery.

to be issued after the start of the crisis, these had been purchased by the originator institutions. The net issuance of bonds by non-financial corporations – basically through resident subsidiaries – exceeded €18 bn, which accounted for around one third of the outstanding amount of these instruments and was in marked contrast to the €6 bn issued on average in the period 2006-08.

Issuance of new equity securities totalled €10 bn, which implied a less sharp reduction than in 2008. This was the result of a decline in issues by financial institutions and growth in those of non-financial corporations. Since the second half of 2009, against a background of market recovery, there have been four public offerings, by companies newly listed on the Spanish Alternative Stock Market, although their total amount was small (€0.2 bn).

2.2 SECONDARY MARKET ACTIVITY

... while trading on the secondary markets varied notably across segments

Activity in the secondary markets in 2009, as in 2008, varied significantly across segments (see Table 6.2). In the AIAF fixed-income market, the volume traded reached almost €3,700 bn, which implies year-on-year growth of 54%, covered bonds and asset-backed bonds being the instruments that grew most. As in 2008, sell/buy-back agreements with the Treasury or Banco de España (Eurosystem loans to Spanish credit institutions) as counterparts were prominent.

By contrast, trading on the public debt market decreased by 7%, mainly as a result of the 9% fall in repo and sell/buy-back transactions, which more than offset the 12% increase in spot transactions. Stock market trading of private fixed income and equities also recorded falls, of 6% and 28% respectively, which in the latter case reflects declines in both the number of transactions and in the average prices. Likewise, the volume of derivatives trading decreased by 34%, primarily as a consequence of the decline in contracts on the IBEX 35 index.

2.3 SECONDARY MARKET PRICES

Stock markets recovered and their volatility declined, although both these trends were interrupted at the beginning of 2010 by the Greek fiscal crisis

By March 2009 the IBEX 35 index had fallen by more than 57% from its peak in November 2007, in line with the EURO STOXX 50 index of euro area stock markets and the S&P 500 index of US markets (see Chart 6.2). Thereafter stock markets gradually recovered, while volatility declined. By the end of the year volatility had reached similar levels to those of the months preceding the intensification of the international financial crisis in autumn 2008. However, these trends were interrupted by the Greek fiscal crisis in the first few months of 2010, a period in which the Spanish index recorded larger falls than the euro area benchmark index.

ISSUANCE AND PUBLIC OFFERINGS OF MARKETABLE SECURITIES TABLE 6.1

€ bn

	2006	2007	2008	2009
NET ISSUANCE BY RESIDENTS	231.6	268.3	145.9	203.1
FIXED INCOME	223.9	222.4	131.1	192.9
Monetary financial institutions	97.2	78.2	-26.9	39.5
Other financial intermediaries	128.5	146.5	104.6	24.9
Of which:				
Financial vehicle corporations	*69.7*	*106.9*	*94.4*	*14.9*
Subsidiaries of monetary financial institutions	*39.4*	*42.6*	*21.0*	*-9.1*
Subsidiaries of non-financial corporations	*10.9*	*5.7*	*1.6*	*16.0*
Non-financial corporations	1.0	2.0	1.9	0.7
Central government	-4.8	-4.7	50.2	119.4
Regional and local government	2.1	0.4	1.4	8.4
EQUITIES	7.8	46.0	14.8	10.2
Monetary financial institutions	3.0	12.0	10.0	3.0
Other financial intermediaries	0.1	3.5	1.4	0.4
Non-financial corporations	4.6	30.5	3.4	6.8
PUBLIC OFFERINGS	2.5	2.1	0.0	0.2
MEMORANDUM ITEMS				
Net issuance by foreign subsidiaries	-8.5	9.5	12.9	-2.0
Financial institutions	*-2.6*	*8.2*	*14.3*	*-3.4*
Non-financial corporations	*-6.0*	*1.3*	*-1.4*	*1.5*

SOURCE: Banco de España.

Following the decreases in the second half of 2008, public debt yields have fluctuated within a narrower range, while remaining at historically low levels, especially in the case of short-term instruments. From 2009 Q2 the yield on Treasury bills stood below 1%, while from the end of 2008 that on 10-year bonds stood at around 4%. After peaking in February 2009, the spread between this yield and that of the German 10-year bund tended to decline. However this trend was interrupted in the first few months of 2010 by the strains arising from the Greek fiscal crisis, which have been reflected in an increase in this indicator and in high volatility. In this period the spread reached higher levels than those recorded in early 2009.

The credit default swap (CDS) spreads of financial firms and, especially, non-financial firms fell very steeply from the highs reached at the end of 2008, to stand at the levels prevailing prior to the intensification of the crisis in the autumn of that year. The financial market instability in the first few months of 2010 caused CDS spreads, like public debt yields, to rise, especially in the case of financial securities, which were partly affected by their exposure to sovereign risks.

3 Spanish financial intermediaries

3.1 CREDIT INSTITUTIONS

Credit institutions are being severely affected by the recessionary environment

Spanish credit institutions were hardly affected by the initial stages of the international financial crisis, owing to their retail banking model, the absence of toxic assets and off-balance sheat investment vehicles, and the Spanish system of countercylical provisioning. In addition, they were initially able to avoid the difficulties in the wholesale financing markets owing to the structure of their liabilities, which are concentrated at the longer maturities, an increase in their deposits, which was assisted by their extensive branch networks, and greater issuance of commercial paper. However, subsequently the macroeconomic environment has been particularly weak in Spain owing to the sharp rise in unemployment and the adjustment in the real estate sector. These factors are increasing doubtful assets and putting pressure on credit institutions' income statements, especially in the case of those intermediaries that assumed greater risks during the expansionary phase.

TURNOVER ON SECONDARY AND DERIVATIVES MARKETS

TABLE 6.2

€ bn

	2006	2007	2008	2009
Public-debt book-entry market (a)	22,615	22,664	19,944	18,566
Spot	2,903	3,177	2,202	2,471
Repos and sell/buy-back agreements	*19,385*	*19,193*	*17,477*	*15,945*
Forward	327	294	265	150
AIAF fixed-income market	900	1,108	2,401	3,692
Commercial paper	482	555	577	529
Covered bonds and asset-backed securities	329	460	1,740	2,849
Other	90	93	83	314
Stock exchange: fixed-income	93	90	80	75
Stock exchange: equities	1,156	1,670	1,245	898
MEFF derivatives markets	934	1,451	1,073	710
Ibex 35	*883*	*1,384*	*989*	*622*
Stock options	*23*	*27*	*23*	*43*
Stock futures	*28*	*41*	*61*	*45*

SOURCES: Bolsas y Mercados Españoles, Federation of European Stock Exchanges and Banco de España.

a. Only includes transactions in State securities.

Against this background, the total volume of credit granted fell for the first time in many years, and total assets stagnated, with nil growth, according to the individual statements, and -0.4% growth at the consolidated level (see Table 6.3), as against increases of 8.6% and 9.5%, respectively, in 2008. Only foreign operations displayed a positive rate of change (8.6%), partly as a result of the acquisition of new foreign institutions by a large Spanish one.

Although funding on the securities markets has recovered

On the liabilities side, the granting of government guarantees and the progressive recovery of investor demand on the primary securities markets, along with the lower need for fresh funds due to the stagnation of activity, helped to reduce the pressure. Institutions were able to issue new medium- and long-term securities, and significantly less new funding was raised on the interbank market and at the central bank compared with the previous year. Net lending by the Eurosystem has thus stabilised at around 2% of total assets since August.

the strong competition to attract deposits...

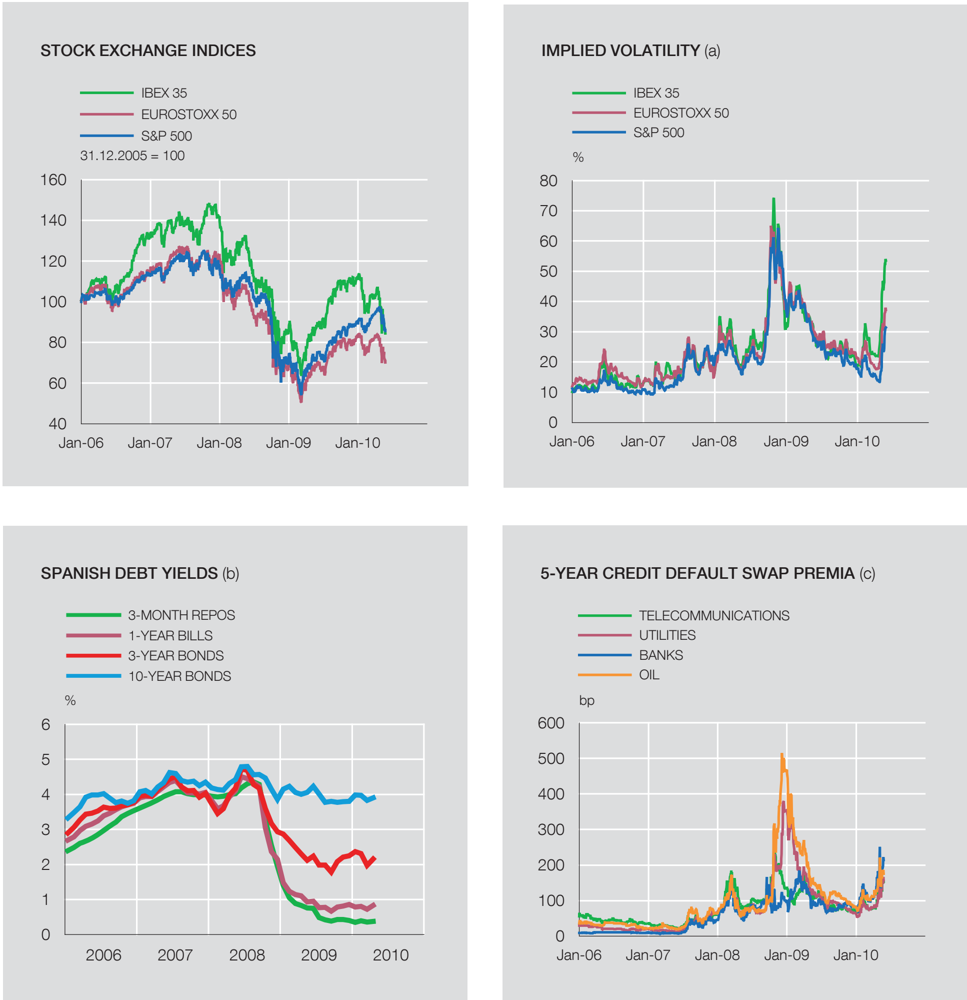
The fierce competition to attract retail deposits continued, however, pushing the average interest rate on new customer operations up to levels generally above the interbank market rate for the same maturity, which has not prevented the overall cost of funds from falling for institutions. In any event, the funds raised from households and non-financial companies in Spain grew by only 3%, clearly slower than in the previous year.

and the rise in doubtful assets continues to put pressure on income statements

After-tax profit decreased by around 25% (see Table 6.3), a performance similar to that recorded in the previous year. Consequently, the consolidated return on equity decreased further to 9%, although it still compares favourably with that of other banking systems. However, looking forward, there are downside risks to net interest income, relating to the tailing off – and possible reversal – of the positive effect on this variable of the decline in the cost of funds. Write-downs and provisions rose sharply again, in line with the increase in doubtful assets, although the rate of growth of the latter has moderated somewhat since March 2009. The reduction in the provisions buffer and the persistence of a scenario of weak economic growth for the coming quarters will mean that this component will continue to put pressure on Spanish credit institutions' income statements.

FINANCIAL MARKET PRICES

CHART 6.2



SOURCES: Sociedad de Bolsas, Bloomberg, Credit Trade, Datastream and Banco de España.

a. Five-day moving average.
b. Monthly averages.
c. Average asset-weighted premia.

... restricting credit institutions' room for manoeuvre, although the financial position of the sector as a whole is solid

As a whole, Spanish credit institutions have a solid financial position. This should have been further strengthened by the increase in equity and the accumulation of a significant volume of liquid assets (fixed-income securities) available for use in the event of financing problems. However, their room for manoeuvre has declined from previous years, as a consequence of the fall in profits and the downside risks to which they are subject. In addition, there is significant variation across institutions in the amount of risk incurred, in the ability to generate profit and in the degree of solvency. This heterogeneity explains the design of the various measures adopted to support the banking system and, in particular, the creation of the FROB, an instrument that is intended to facilitate the necessary streamlining of the Spanish banking system, taking into account the diverse circumstances of the various institutions (see Box 6.1).

3.2 INSTITUTIONAL INVESTORS

The sector's adjustment is slowing ...

The net funds raised by collective investment institutions (CIIs) remained negative in 2009, but substantially less so than in the previous period (see Chart 6.3). Against a background of declining short-term interest rates and an improving financial market outlook, the net withdrawal of funds from the sector was concentrated among those funds that constitute the most direct substitutes for deposits (money market and short-term securities funds). By contrast, insur-

CREDIT INSTITUTIONS
BALANCE SHEET AND INCOME STATEMENT

TABLE 6.3

	CONSOLIDATED			INDIVIDUAL		
	Dec 2008	Dec 2009	Y-o-y rate (%)	Dec 2008	Dec 2009	Y-o-y rate (%)
MAIN BALANCE SHEET ITEMS (% of TA)						
TOTAL ASSETS (€bn)	3,713.0	3,697.2	-0.4	3,142.4	3,142.4	0.0
Credit	67.3	64.8	-4.1	63.2	61.5	-2.7
Of which: resident private sector in Spain				*57.8*	*56.1*	*-3.0*
Debt securities	10.5	13.5	27.7	10.3	13.2	29.1
Other capital instruments and equity interests	2.9	3.1	7.2	5.4	5.6	4.4
Other assets	19.3	18.6	-4.1	21.1	19.6	-7.1
LIABILITIES						
Banco de España and other central banks	3.6	3.2	-12.1	3.7	3.6	-4.0
Interbank deposits	13.0	13.5	3.1	17.3	17.6	1.9
Customer deposits	48.9	50.1	2.1	51.1	50.5	-1.3
Of which: households and non-fin.corps. res. in Spain				*28.4*	*29.3*	*3.0*
Marketable securities	18.1	17.2	-5.9	11.8	12.5	6.5
Other liabilities	14.4	13.1	-9.4	14.1	13.4	-5.3
Equity	5.6	6.2	9.4	5.7	6.0	5.5
INCOME STATEMENT (% of ATA)						
(+) Interest income	5.75	4.03	-22.5	4.91	3.42	-27.3
(–) Interest expense	3.93	2.09	-41.3	3.67	1.97	-43.9
Net interest income	1.82	1.94	18.2	1.25	1.45	21.6
Return on equity instruments and investees	0.23	0.14	-33.6	0.40	0.25	-35.2
(+) Net commissions	0.70	0.61	-3.7	0.46	0.41	-5.4
(+) Profits on financial operations	0.25	0.27	22.6	0.19	0.13	-30.6
(+) Other operating income (net)	0.02	0.00	-78.7	0.03	0.01	-38.3
Gross margin	3.01	2.96	8.8	2.32	2.26	1.5
(–) Operating expenses	1.37	1.28	3.3	1.04	0.98	-1.2
(–) Write-downs of and provisions for financial assets	0.84	1.03	35.8	0.68	0.91	39.3
Operating profit	0.81	0.66	-9.9	0.60	0.37	-36.6
(+) Other income (net)	0.03	-0.05	—	0.10	0.11	11.5
(–) Taxes	0.15	0.08	-43.7	0.07	0.05	-30.7
After-tax profit	0.77	0.53	-24.0	0.63	0.42	-29.8
Group net profit	0.73	0.49	-25.3			
RATIOS (%)						
Net interbank position/TA (a)	-8.3	-8.8		-8.7	-9.4	
Solvency	11.3	12.2				
Doubtful assets/TA	2.2	3.1		2.1	3.1	
Coverage of doubtful assets	71.3	60.7		69.5	57.6	
Foreign operations/TA	22.1	24.1				
Efficiency (OE/GI)	46.2	43.2		45.1	43.7	
ROE	13.1	8.9		11.2	7.2	

SOURCE: Banco de España.

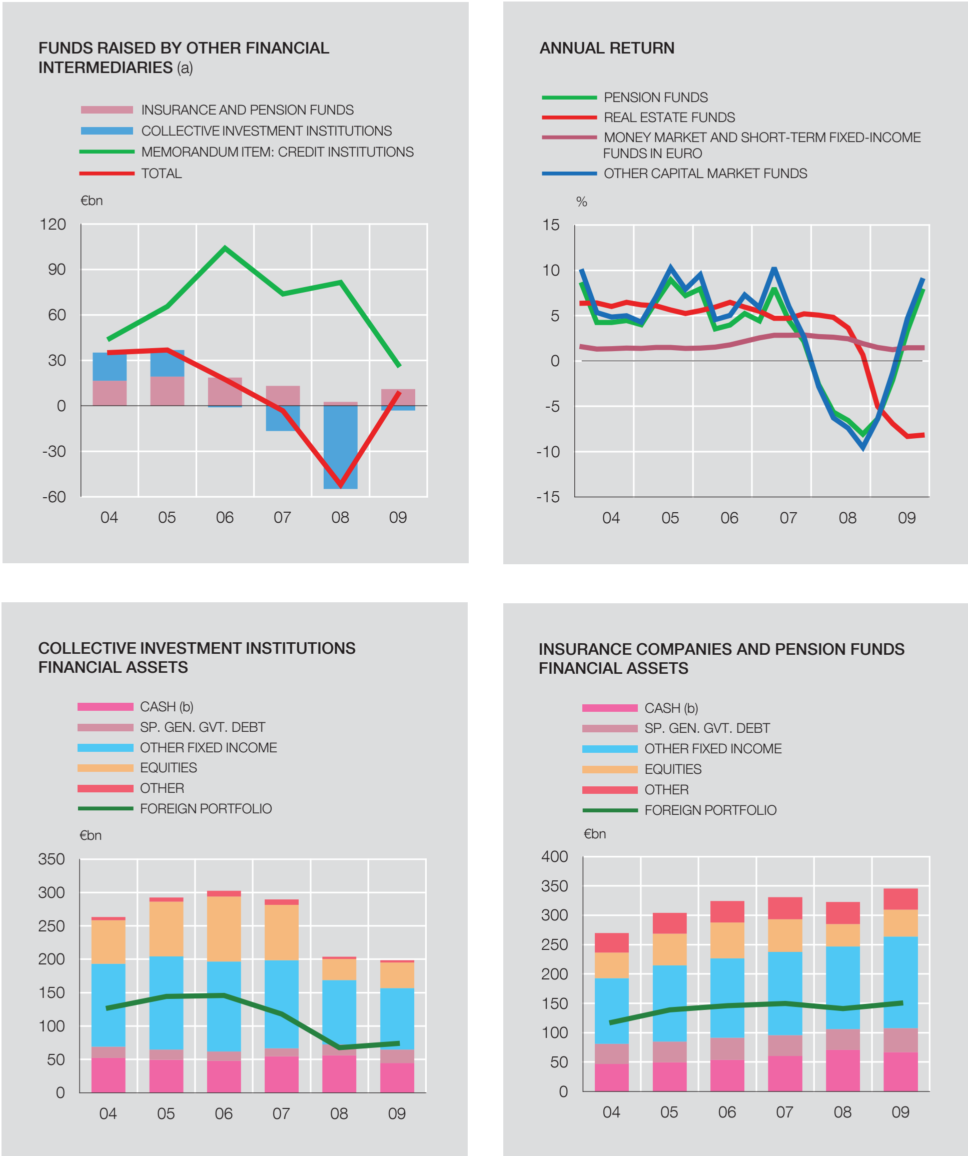
a. Includes net assets with central banks.

ance and pension funds were, as in the recent past, more stable and raised a net positive amount of funds, which was similar to that recorded two years previously.

... with the most intense adjustment occurring among less traditional instruments

Less traditional instruments – such as hedge funds, real estate funds and venture capital funds – generally continued to adjust more strongly. However, from mid-2009, the former recovered somewhat. In the case of real estate funds, the existence of significant volumes of outstanding redemption requests continued to weigh heavily on their performance and asset valuations carried on adjusting. This could complicate the possibilities for the immediate development of

INSTITUTIONAL INVESTORS CHART 6.3



SOURCES: CNMV, Banco de España, Asociación de Instituciones de Inversión Colectiva y Fondos de Pensiones, Investigación Cooperativa entre Entidades Aseguradoras, Asociación Española de Capital-Riesgo and Dirección General de Seguros y Fondos de Pensiones.

a. Shares and other equity in CIIs and reserves of insurance companies and pension funds. In the case of credit institutions, deposits and repos of households and non-financial corporations.
b. Includes cash, deposits and repos.

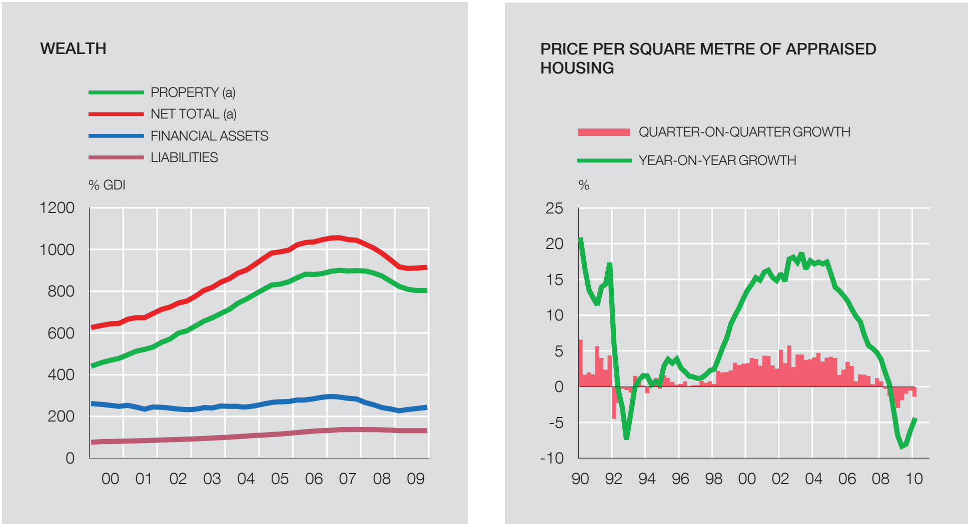
Spanish real estate investment trusts, which are regulated by Law 11/2009 and intended to be a new way for investors to gain access to the returns on a diversified portfolio of rented property. Finally, the main problem for venture capital funds continued to be the difficulty of obtaining external finance, so that a significant part of their activity was sustained by public-sponsared funds, who are mainly active in the low-value transactions segment.

A conservative investment structure persists ...

In any event, these non-traditional instruments continued to represent a minor part of a sector that was still characterised by a high degree of conservatism in its investment policy (see the lower panels of Chart 6.3). Although the relative weight of equities increased slightly – largely as a consequence of price revaluation – it remained low (19.2% in CIIs and 13.2% in insurance companies and pension funds in December 2009). Also, according to the CNMV, illiquid assets (primarily fixed-income securities issued by financial institutions) represented only 8.7% of

HOUSEHOLD WEALTH AND HOUSE PRICES

CHART 6.4



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

a. Calculated on the basis of the estimated changes in the stock of housing, in the average area per housing unit and in the price per square metre.

the total assets of financial CIIs at the end of last year. Notable too was the increase of €9 bn in the holdings of Spanish public debt by institutional investors as a whole.

... which is conducive to sustainable results

The notable resilience of the profits of Spanish insurance companies, against a background of intense economic slowdown, appears to have been the result of this conservative structure of the investment portfolio. Also, the assets managed by other institutional investors recorded price revaluations again during 2009, following the falls observed in preceding periods (see Chart 6.3).

4 The financial flows and balance sheet position of the non-financial sector

4.1 HOUSEHOLDS

The sharp slowdown in household debt took its growth rate to around zero

Household debt has slowed sharply during the last three years. The growth rate of household debt stood close to zero at the beginning of 2010, 20 pp down from the peak levels recorded in late 2006. This was the result of very modest growth in financing for house purchase and a slight contraction in that for consumption and other purposes (see Chart 6.1).

The moderation in household income has meant that the slowdown in debt has been translated into a limited decline in the sector's debt ratio. The high level of this ratio limits the possibility that spending can be financed by means of further recourse to credit (see Box 6.2). This, along with the economy's cyclical position, reduces the likelihood of a recovery in the sector's financing in the short term.

The decline in interest rates has relieved the financial pressure on indebted households and the uncertainty has led to very high levels of saving

The decline in the cost of financing has meant that, since the end of 2008, the household debt burden has fallen. In this context, the notable fall in household spending has caused the sector's gross saving to reach historical highs and has led to significant increases in the sector's net lending, to 5.4% of GDP in 2009 (up 5.1 pp from 2008), and saving, after the deduction of debt service payments (see Chart 2 of Box 6.2).

The rate of decline in household wealth is moderating, thanks to the smaller decrease in house prices and the price revaluation of financial assets ...

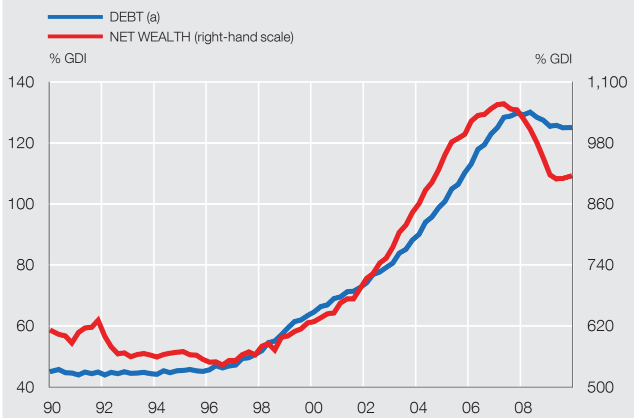
The downward path displayed by household net wealth from the second half of 2008, following the sharp growth in the latter stages of the upturn, has slowed since mid-2009 (see Chart 6.4). The deceleration of the decline in house prices (between June and March its year-on-year rate of fall decreased by almost 4 pp, to 4.7%) and the increase in the value of the financial portfolio, driven by the increase in stock prices and the recovery in net investment (acqui-

The financial position of households and firms is a major determinant of the Spanish economy's capacity to recover, given its influence on expenditure decisions. This box aims to assess this position from a historical perspective.

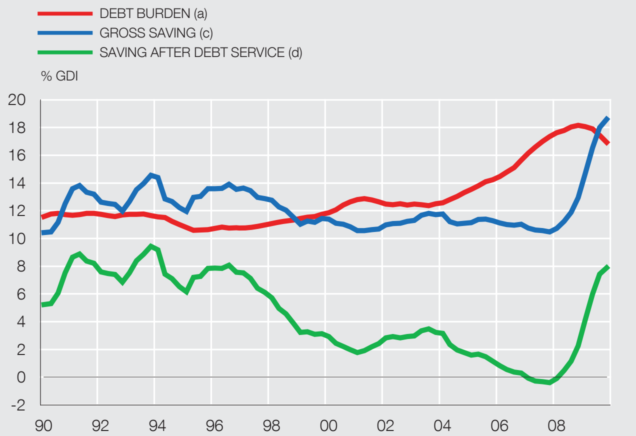
The rapid growth in household borrowing during the period 1995-2007, driven partly by the structural changes accompanying euro area membership, pushed the sector's debt ratio to very high levels (see Panel 1). The subsequent moderation in lending brought about a small correction in this indicator, although it currently remains high in historical terms. The ratio of debt to gross disposable income (GDI) in the sector stood in 2009 at around 125%, 80 pp higher than in the mid-1990s. This steep rise was the result of considerable increases both in the proportion of the population servicing debts and in the average value of their liabilities. Since 1996, the percentage of persons over 18 years old with bank loans and the average value of their debts in relation to the average gross wage have risen by around 20 pp and 100 pp, respectively.[1] The high level of indebtedness suggests that the scope for basing a pick-up in household spending levels on increased borrowing is narrower than in the past. At the same time, households have earmarked a large portion of the debt incurred over recent years to financing investments, particularly in real estate. Consequently, despite the substantial increase in such debt, the net wealth of the sector also increased significantly between 1995 and 2007, contracting somewhat thereafter on account of the fall in

1. Based on surveys of households by the European Community Household Panel and the Spanish Survey of Household Finances for the period 1994-2005, the rise in the proportion of economic agents with debts has occurred across income brackets, but is particularly pronounced in middle-income households. That said, there is still a clear positive relationship between indebtedness and income level.

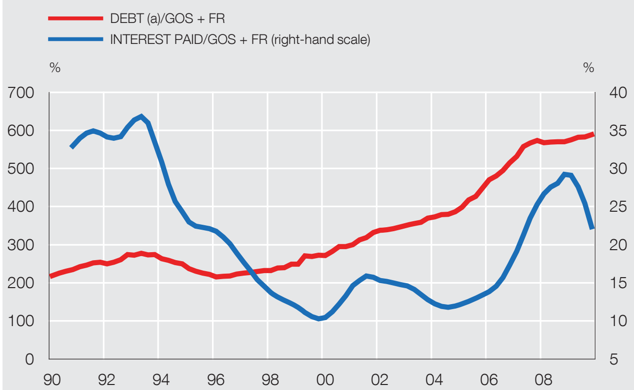
1 DEBT RATIO AND WEALTH: HOUSEHOLDS



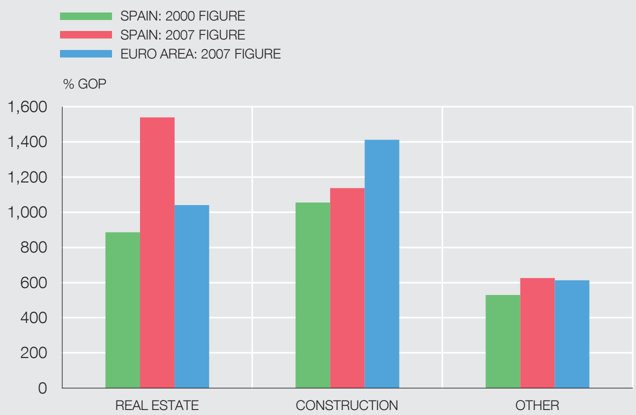
2 DEBT BURDEN AND SAVING: HOUSEHOLDS



3 DEBT RATIO AND DEBT BURDEN: FIRMS



4 DEBT RATIO: FIRMS BY SECTOR (e)



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

a. Includes bank credit and off-balance sheet securitised loans.
b. Estimated interest payments plus debt repayments.
c. Balance of use of disposable income account.
d. Gross saving less estimated debt repayments.
e. Calculated on the basis of the firms included in the BACH database. In the case of the euro area, includes firms in Germany, France, Italy and Portugal. Debt includes non-cost-bearing liabilities.

the price of property (the main asset). The result was that in 2009 the wealth/GDI ratio stood at around 360 pp above its 1995 level. Households are therefore wealthier and, in principle, this would allow their precautionary saving to be less than in the past.

As a result of the sizeable increase in household indebtedness, and notwithstanding the fact that it was accompanied by a reduction in borrowing costs and by longer repayment periods, the regular payments associated with debt repayment currently absorb a larger share of household income, to the detriment of the share available for other uses (see Panel 2). In this connection, once obligations associated with liabilities have been taken into account, in 2009 households' ability to save stood at around mid-1990s levels, even though in recent quarters gross saving – i.e. prior to deducting debt repayments – was 4 pp above its previous high, recorded during the recession of the early 1990s.

The volume of borrowing by firms also rose considerably between the late 1990s and 2007. However, unlike the case of households, less favourable developments in income have prevented their debt ratio from falling during the economic crisis. Accordingly, in relation to income generated (gross operating profit – GOP – plus financial revenue), these liabilities stood at close to 600% in 2009, around 315 pp higher than in the late 1990s (see Panel 3). This aggregate position is, nevertheless, consistent with a wide sectoral dispersion. More specifically, immediately before the onset of the crisis, the real estate services sector had some of the highest levels of borrowing. While this debt is partly attributable to structural differences, it is also the consequence of the rapid growth of these firms' liabilities during the years of the real estate boom, which pushed the ratio far above the average level in the other euro area countries (see Panel 4). In other sectors, the differences between Spain and the rest of the euro area were not as marked in 2007 (in construction the ratio was actually lower), although increases were also recorded during the upturn. More recently, the drop in corporate earnings associated with the economic crisis has increased the financial burden on firms with outstanding debts, the more so the higher their leverage.

In spite of the substantial increase in corporate sector debt, the fall in the cost of borrowing has meant that the share of income absorbed by interest payments is over 10 pp lower than in the early 1990s. Recent interest rates cuts have, in particular, contributed to alleviating the financial burden of the sector, in a context of unfavourable profit developments. According to the Central Balance Sheet Data Office Annual Survey, whereas the percentage of firms with negative GOP was higher in 2008 than during the 1992-1993 recession, the share of firms with negative ordinary net profit (the result of GOP minus costs incurred through capital repayments, plus financial income) and the share of firms with short-term financial obligations (interest plus short-term debt) that exceeded their income were also lower than in the early 1990s. The scope for the financial component to continue exerting a positive impact on corporate earnings is small, however, given the level of interest rates. Therefore, in a context of rising interest rates, its contribution to developments in net earnings in the corporate sector can be expected to have an unfavourable influence.

Overall, the profound transformation undergone by corporate and household balance sheets over the last 15 years has placed these sectors in a less sound financial position than in the past. The high level of indebtedness (in the case of firms, especially in the real estate sector) means that, unlike after the recession in the early 1990s, their capacity to base a recovery in their expenditure on an increase in their liabilities is now more limited. Similarly, the decline in borrowing costs in recent years, which has contributed to softening the impact of higher levels of debt on financial costs, has brought them down to very low levels. Consequently, households and firms are unlikely to obtain further reductions in their debt burdens without reducing their liabilities.

sitions less sales) in financial instruments. The latter, after the lows reached in 2008, rose by 1.4 pp of GDP in 2009, to 4.2%. By instrument, there were notable increases in sight deposits and investment funds (although the latter still recorded a slight negative flow), to the detriment of term deposits, which accounted for a large volume of funds in 2008, when yields were high.

... but the degree of financial pressure on households is increasing

Despite the decrease in the debt burden, the macroeconomic deterioration and, in particular, the rise in unemployment, the degree of financial pressure on certain segments of the sector has continued to increase. This has been reflected once again in increases in the doubtful assets ratio (although it has slowed since mid-2009), which reached 3.7% at the end of last year, 2.9 pp up from the beginning of 2007.

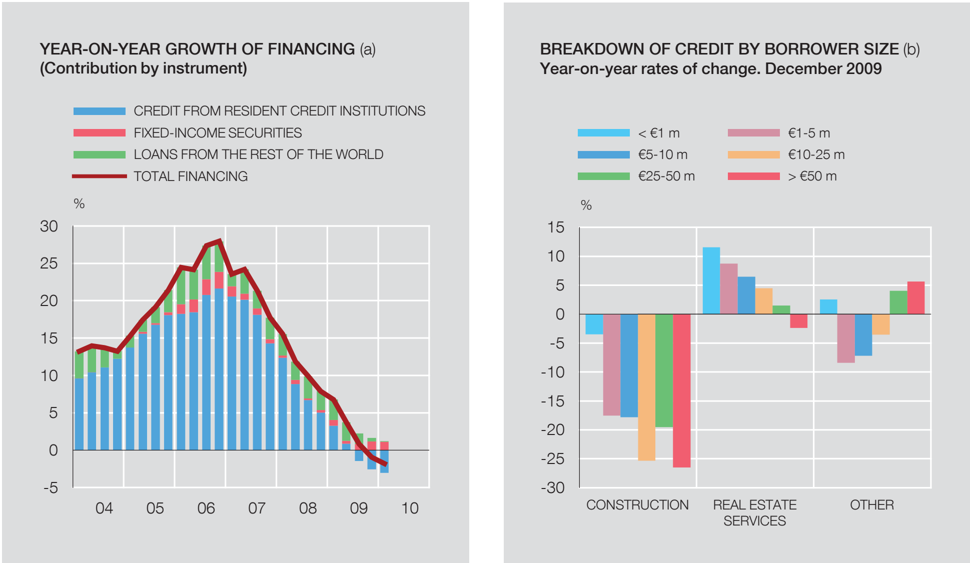
4.2 FIRMS

Corporate debt is contracting...

The sharp slowdown in financing raised by firms since the beginning of 2007 has brought its growth rate down to negative levels. At the beginning of 2010 it was around -2%, 30 pp below its end-2006 level.

FINANCING OF NON-FINANCIAL CORPORATIONS

CHART 6.5

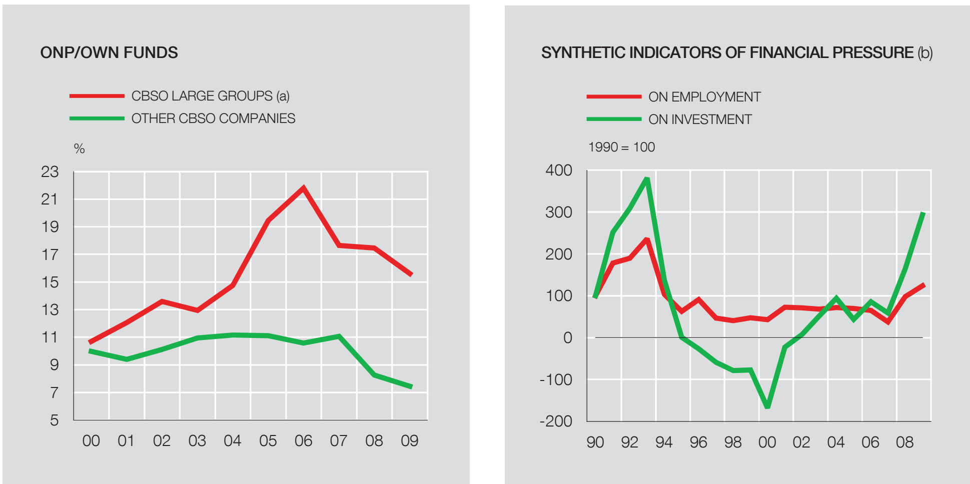


SOURCE: Banco de España.

a. Includes off-balance sheet securitised credit.
b. Proxied by data from the Central Credit Register. Fiirms are classified by size according to the total volume of their debt recorded in the Central Credit Register as of December 2008. The new debtors which appeared in 2009 are classified according to their total debt level at end-2009.

INDICATORS OF PROFITABILITY AND FINANCIAL PRESSURE FOR NON-FINANCIAL CORPORATIONS

CHART 6.6



SOURCE: Banco de España.

a. Aggregate of all the firms reporting to the CBSO belonging to the groups Endesa, Iberdrola, Repsol and Telefónica. Adjusted for intra-group financing to avoid double counting.
b. Indicators estimated on the basis of CBSO annual and quarterly survey data. A value of more (less) than 100 indicates higher (lower) financial pressure than in the base year.

...albeit with differences by instrument, sector and size category

Behind this slowdown lies differences in behaviour by instrument, size category and sector. First, while credit granted by Spanish credit institutions slowed very sharply, credit from the rest of the world and the issuance of fixed-income securities, used basically by larger firms, were more dynamic. This was partly related to the better outlook for larger firms, some of which are expanding internationally (see left-hand panel of Chart 6.5). Similarly, there was a larger contraction in financing granted by resident credit institutions to SMEs (compared with that granted to larger companies) in sectors other than construction and real estate services. This develop-

GENERAL GOVERNMENT

CHART 6.7

Source: Banco de España.

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

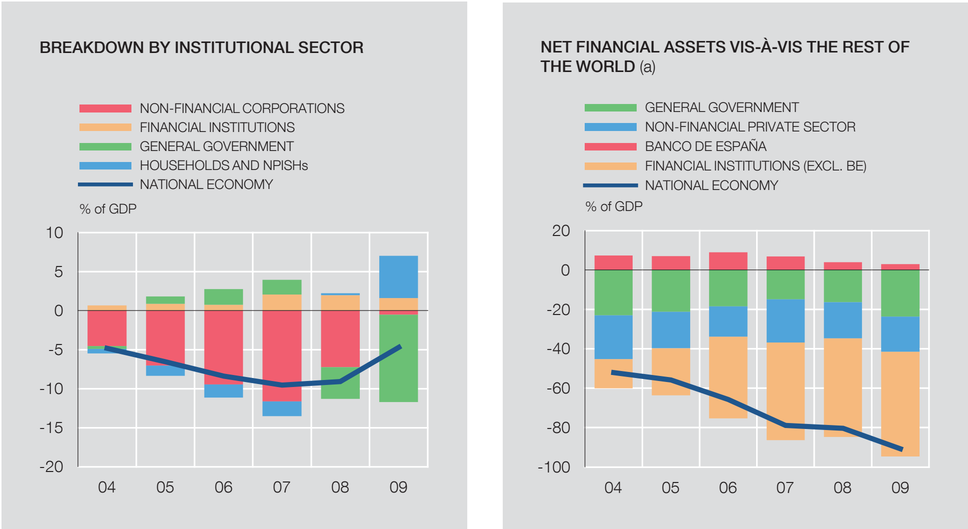
ment was probably a consequence of the more negative behaviour of their profits and of their more problematic financial situation, which would have contributed to further depressing their demand for funds and to increasing the risks associated with lending, against a background of stricter control over credit institutions' exposure. Finally, there was also significant heterogeneity across sectors. Credit granted to real estate services increased slightly (which could partly be explained by the fact that the falling rate of sale of real estate means that related financing has to be maintained over a longer period), while that granted to the construction and agriculture sectors contracted significantly, as did that to other services (although to a lesser extent).

The sector's net borrowing declined, largely owing to the fall in corporate investment

The strong slowdown in corporate investment led to a rapid correction in the sector's net borrowing. At the end of 2009 the latter amounted to 0.5% of GDP, 11 pp less than in 2007. The financing gap, which also includes permanent investment abroad, fell even more over this period (by almost 15 pp), in line with the significant fall in Spain's direct investment in the rest of the world, to stand at the end of 2009 at 1.2% of GDP. There was also a significant decrease in the outstanding amount of trade credit (sharper than that recorded in the recession of the early 1990s), possibly owing to the fact that activity was less buoyant and to the greater reluctance of firms to grant this type of financing.

NET FINANCIAL TRANSACTIONS
(Changes in and contributions of components)

CHART 6.8



SOURCE: Banco de España.

a. Unsectorised assets and liabilities not included.

The contraction in economic activity was reflected in corporate income

The contraction in economic activity was also reflected in corporate income. In the sample of firms reporting to the Central Balance Sheet Data Office Quarterly Survey (CBQ), in which large firms predominate, the percentage of firms recording negative ordinary net profit increased again in 2009. According to the information available for 2008 from the mercantile registries and the Central Balance Sheet Data Office, the deterioration of results was more acute among smaller firms, except in construction and real estate services, where the decline was more uniform across size categories. However, the latest CBQ data available, for 2009 Q4, would suggest that this deterioration in corporate income has been checked. Likewise, analysts estimate that the profits of listed companies will only decline slightly over the next twelve months, which means that the estimates of previous quarters have been revised upwards.

... which has prevented the decline in firms' liabilities from leading to a correction in their debt ratio ...

The unfavourable trend in income meant that, despite the contraction in the sector's liabilities, the ratio of its debt to income remained on a rising trend, to reach almost 600% (see Charts 3 and 4 of Box 6.2). Notwithstanding this, the reduction in firms' financing costs enabled the associated debt burden to fall to close to 22.5% of income, down 6.9 pp from a year earlier, when it stood at a historic high. Looking forward, as in the case of households, it is unlikely, given their low level, that financing costs can continue to contribute to alleviating the financial pressure on the sector (see Box 6.2).

... and the proportion of firms having difficulty paying their debts increased

As a result of the deterioration in firms' balance sheets, the indicators of financial pressure on investment and employment have increased significantly, to stand at around the levels observed in the previous recession, although the most recent data point to a moderation in this tendency (see Chart 6.6).

Also, the number of insolvent firms and the doubtful assets ratio have increased. The firms in greatest financial difficulty continue to be those in construction and real estate services, whose doubtful assets ratio stood in December at 9.6%, practically three times as high as that for other sectors (see Chart 6.1).

4.3 GENERAL GOVERNMENT

Expansionary fiscal policy resulted in a marked increase in the budget deficit ...

Expansionary fiscal policy led to a marked deterioration in public finances. The general government budgetary position moved from a surplus of close to 2% of GDP in 2007 to a deficit of

FINANCIAL TRANSACTIONS OF THE NATION
Cumulative four-quarter data

TABLE 6.4

% GDP

	2006	2007	2008	2009
NET FINANCIAL TRANSACTIONS	-8.4	-9.6	-9.1	-4.7
FINANCIAL TRANSACTIONS (ASSETS)	18.1	14.8	2.5	1.0
Gold and SDRs	0.0	0.0	0.0	0.0
Cash and deposits	5.2	2.1	-0.3	-1.8
Of which:				
Interbank (a)	*3.4*	*4.2*	*-0.5*	*-1.7*
Securities other than shares	-1.2	1.6	1.3	0.0
Of which:				
Credit institutions	*-2.0*	*1.8*	*1.6*	*1.3*
Institutional investors	*0.7*	*0.0*	*-1.3*	*-0.5*
Shares and other equity	10.8	8.8	1.9	1.5
Of which:				
Non-financial corporations	*8.3*	*6.6*	*3.1*	*0.0*
Institutional investors	*1.2*	*-1.1*	*-1.6*	*0.3*
Loans	2.1	1.2	0.8	0.7
FINANCIAL TRANSACTIONS (LIABILITIES)	26.5	24.3	11.6	5.7
Deposits	0.3	7.3	9.0	0.9
Of which:				
Interbank (a)	*0.6*	*6.7*	*6.2*	*0.7*
Securities other than shares	21.3	8.1	-2.6	3.8
Of which:				
General government	*1.0*	*-1.3*	*1.2*	*5.1*
Credit institutions	*8.0*	*3.6*	*-1.9*	*1.1*
Other non-monetary financial institutions	*12.3*	*5.8*	*-1.9*	*-2.4*
Shares and other equity	0.5	4.6	3.3	0.9
Of which:				
Non-financial corporations	*0.1*	*4.7*	*2.4*	*0.1*
Loans	3.5	3.1	2.7	1.0
Other, net (b)	-0.4	0.3	0.4	-1.5
MEMORANDUM ITEMS:				
Spanish direct investment abroad	8.4	9.5	4.7	1.1
Foreign direct investment in Spain	2.5	4.5	4.6	1.0

SOURCE: Banco de España.

a. These correspond to credit institutions only, and include repos.
b. Includes, along with other items, the asset-side caption showing insurance technical reserves and the net flow of trade credit.

11.2% in 2009 (see Chart 6.7). By sub-sector the deterioration was more intense in central government and also, although to a lesser extent, in the regional (autonomous) governments. The Social Security System continued to run a surplus, albeit a smaller one than in previous years.

... which was largely financed through the issuance of fixed-income securities

The large borrowing requirement and the increase in asset holdings were basically covered through the issuance of securities, at short and especially medium and long maturities. The funds raised by this type of instrument amounted to almost 90% of total funds obtained and, in net terms, were equivalent to 3.2% and 9.4% of GDP, in the case of short-term and medium and long-term securities, respectively, a much larger volume than in preceding years. On the assets side deposits increased, partly reflecting the transfers made to the FROB, while the acquisition of securities fell.

The sector's debt exceeded 50% of GDP, up 17 pp from 2006

The rapid growth of public debt, which increased by more than 45% in two years, along with the decline in GDP, translated into a notable increase in the debt-to-GDP ratio, which rose by 13.5 pp in 2009, to 53%, 18 pp above the low level reached in 2008 Q1. The issuance of fixed-income securities by general government has moderated in the first few months of 2010, although the rate remains high.

However, the impact on the debt burden was reduced by the decline in financing costs

The decline in average financing costs mitigated the impact of the substantial increase in public debt on interest payments. The latter increased by 10%, year-on-year, to represent 1.8% of GDP, only 0.2 pp more than in 2008.

5 External investment and financing of the Spanish economy

The nation's net borrowing fell

In 2009 there was a notable reduction in the net borrowing of the nation as a whole, to 4.7% of GDP, in cumulative 12-month terms, well below the levels of close to 9% of GDP observed between 2006 and 2008 (see Chart 6.8). This improvement was a result of the recovery in households' net lending and the lower net borrowing of firms (reflecting their severely restrained spending plans), which more than offset the rise in the general government deficit (and the lower saving by financial institutions) (see Chapter 5).

Capital inflows were mainly channelled through instruments issued by general government

Capital inflows maintained the trend decline displayed since the beginning of the crisis, falling to 5.7% of GDP, approximately half their level in 2008 (see Table 6.4). Also, there were notable changes in their composition. The bulk of financing was channelled through general government debt issues, which represented more than 5% of GDP. The net funds raised through the fixed-income securities of credit institutions amounted to 1% of GDP, as compared with -1.9% the previous year, reflecting a certain improvement in wholesale financing markets and the fact that issues of guaranteed securities were well received. By contrast, the net position in the interbank market fell to 2.4% of GDP, from 6.7% the previous year. The inflows arising from the acquisition of shares and other equity by non-residents also declined, to around 1% of GDP, in line with the fall in foreign direct investment in Spain, which also stood at 1% of GDP.

Following sharp falls in the preceding two years, capital outflows decreased slightly (by 1 pp), to 1% of GDP. This decline affected both fixed-income securities and equity. In particular, the acquisition of equity by non-financial corporations fell, to practically zero, from 3.1% of GDP in 2008. In line with this development, Spanish direct investment abroad contracted to 1.1% of GDP, extending the downward trend from the level of 9.5% reached in 2007.

The negative balance of the international investment position increased

As a consequence of the investment flows and changes in asset prices, the nation's net liabilities at the end of 2009 represented somewhat more than 90% of its GDP, which is more than 10 pp higher than in the preceding year. Somewhat more than 7 pp of this increase correspond to the rise in the net amount of public debt held by the rest of the world (see Chart 6.8)[1]

1. For further details see the publication The Spanish Balance of Payments and International Investment Position.