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ABBREVIATIONS

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

COUNTRIES AND CURRENCIES

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

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

CONVENTIONS USED

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

CONTENTS

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

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

The performance of the Spanish economy referred to in the annual report of the Banco de España forming the subject-matter of this appearance before Parliament is, as you know, set against a background of financial and economic crisis which is worldwide and without precedent for many decades.

The origin of the crisis – which dates back to the summer of 2007 – was eminently financial and its propagation was hastened by the globalisation of financial activity. The activity of the international financial markets suffered severely, practically coming to a standstill in some of them. The financial tension reached its peak in October 2008 and, although it has ebbed in recent months, still remains at relatively high levels.

The seriousness of the financial shocks prompted a deep real crisis which affected the world economy with unheard-of intensity and simultaneity, pushing most developed countries into recession at the end of 2008. From 2008 Q4 contractions were seen in the activity of many countries and in world trade, which worsened in the first quarter of this year. However, activity may have already bottomed in that period, since the most recent indicators suggest that, although production will probably continue to decline, it will do so more moderately, which seems to indicate that the risk of a recessionary spiral in the world economy is more remote.

The dimensions of this crisis and the multiplicity of its ramifications mean that a response on various fronts is required to prevent it from recurring. It is evident that the financial crisis has revealed numerous shortcomings in financial regulation, which must be dealt with promptly. Moreover, it is necessary to analyse why the structural weaknesses of economies and of financial systems were not detected or corrected in time, thereby permitting a contagion of considerable size to be triggered. With the benefit of hindsight, it seems clear that the economic policies of past years were generally too permissive of the imbalances generated by the growing indebtedness during the high-growth stage.

It is therefore essential for the authorities to examine critically the institutional and regulatory frameworks of their economies and financial systems and design mechanisms to reinforce them, so that mechanisms can be set in place to prevent a crisis like this one from being repeated.

That review should encompass various basic areas. I will leave for later those concerned with financial regulation and supervision policies and will now focus on the need for examining the role of macroeconomic policies. This examination should assess the part played by them in the gestation of the crisis and analyse how their design can be optimised to make it more suitable for correcting imbalances such as those seen in recent years. In the fiscal policy sphere, the lack of a more powerful stabilising role in the high-growth years was noted with regret, since it would have balanced the momentum of private spending and helped to keep public finances on a more sustainable path in the medium and long term. In regard to monetary policy, more attention must be paid to the role of central banks in stability strategies.

Many of the measures adopted by economic and monetary authorities in recent months were based on common principles agreed jointly in the framework of different international fora. In the case of the European Central bank, unprecedented expansionary measures were set in train to alleviate the contractionary trends apparent both in the real economy and in the finan-

cial sector. The provision of liquidity was made more flexible from the very summer of 2007, although it was from October 2008 when the changes became more substantial, since institutions' requests for liquidity began to be met in full and the range of financial assets eligible as collateral for those operations was widened. Since summer 2008, the policy interest rate has fallen by 325 basis points to stand, following the meeting last May, at a historical low of 1%. In the field of exceptional measures, mention should be made, among others, of the lengthening of the periods for which liquidity is provided, which now extend up to 12 months, and the recent decision to admit the outright acquisition of mortgage covered bonds.

Governments have also adopted numerous measures to combat the financial crisis. They fall into two broad groups: those intended to support the financial systems and those designed to boost spending. The first group includes a wide variety of instruments ranging from the extension of bank deposit guarantees, through the granting of State guarantees for bank securities issues, to the injection of government capital in some institutions and the purchase of problem assets forming part of bank portfolios. Of the measures to stimulate demand, mention should be made of the operation of automatic fiscal stabilisers, which are very important in the European economies, and of the specific government spending or tax cutting measures to support the groups or sectors hardest hit by the crisis.

The measures by the Spanish authorities generally follow these same lines. Thus in Spain they are as follows: deposit guarantees were extended, a Fund for the Acquisition of Financial Assets was set up to purchase high-quality assets from Spanish institutions; guarantees are being granted for the issuance of bank bonds; the opening of diverse lines of special financing through the ICO was approved; new personal income tax credits were introduced; and the so-called State Fund for Local Investment and the Special State Fund to Invigorate the Economy came into operation. More recently, new measures to spur demand (such as car purchase assistance) have been announced, and the finishing touches are being put to a Bank Restructuring and Organisation Fund, which will serve as a tool for revamping the Spanish financial system.

Let me now focus my attention on the situation of the Spanish economy. The international crisis came at a particularly delicate time for Spain, since the economy was already undergoing the adjustment of certain imbalances which had accumulated during the long stage of high growth from the mid-1990s. The imbalances in Spain had some points in common with those detected at global level, but also some specific features.

As in other countries, the buoyancy of private sector spending in Spain was based on a rapid increase in household and corporate debt, spurred by low initial levels of debt and by favourable financial conditions arising from a monetary policy stance which during that period was too lax for the conditions of the Spanish economy. The financial laxity also led to an excessive concentration of economic and financial resources in the real estate sector, and this subsequently added to the severity of the adjustment phase. For its part, fiscal policy undertook a significant process of consolidation, but its contribution to the moderation of domestic demand was not sufficient to offset the effects of the monetary laxity.

As you are well aware, the Spanish economy underwent a very severe adjustment in the second half of 2008: GDP showed negative quarter-on-quarter growth rates from Q3 onwards, increasingly so until 2009 Q1, in which activity decreased by 1.9% with respect to the previous quarter, this coming on top of the fall-off of 1% in the fourth quarter of last year. This contraction led to a year-on-year fall of 3% in GDP in 2009 Q1. The economic data for Q2 are not yet conclusive, but in any event suggest that activity is not contracting as quickly as in the previous quarter.

In the Spanish recession, the strong impact of the international financial crisis was superimposed on the real estate adjustment, which had begun to have an effect some time before. The size of the resulting shock was substantial and it deeply affected the confidence of agents and depressed spending decisions and employment behaviour.

A notable development in 2008 was the sharp decrease in household spending, which hit both consumption and residential investment. But the worsening of the financial crisis from summer onwards and the deterioration of the macroeconomic outlook meant that other items were also affected, for instance corporate investment. This sharp fall in domestic demand brought a substantial decrease in imports and, as a result, the contribution of net external demand to GDP improved, dampening the fall-off in activity.

The contraction of private spending meant that some of the imbalances accumulated in previous years began to be adjusted. Net lending by households increased, with a notable rise in the rate of saving, and net borrowing by firms decreased. All this was reflected in a fall in the nation's net borrowing, the rate of which has gradually quickened over the last few quarters.

The weakness in activity gradually spread to all productive sectors, with decreases in employment, initially in construction but subsequently in industry and, finally, services. There was thus widespread job destruction, which became extremely intense in late 2008 and early 2009, and a very substantial increase in the unemployment rate to 17.4% in 2009 Q1.

While the recession in Spain in terms of GDP growth is less serious than in other European countries, the sharp increase in the unemployment rate is a characteristic feature of Spain which is particularly harmful and reveals a basic weakness of its institutional structure which must be corrected.

One of the problems of the workings of the labour market relates to the insensitivity of labour costs to the particular conditions of each firm or to changes in the business cycle. Specifically, in 2008 labour costs increased markedly, a development which reflected the deteriorating inflation owing to the sharp oil price rises in the first half of the year. Although pressure from wage costs seems to have begun to ease in 2009, their rate of change is insufficient with respect to the path of inflation and to the recession currently besetting the economy, and, accordingly, the resulting real wage growth will not be conducive to job creation.

In recent months it has become apparent that the current recession, which is sharply affecting household consumption, is also causing downward revision of prices and margins. Thus in May the year-on-year rate of change of the CPI was -0.9%, the lowest level since the mid-1900s, 0.9 pp below the euro area inflation rate. Although by the end of the year these year-on-year rates will foreseeably turn positive again once the statistical effect linked to the oil price rises in the early months of 2008 peters out, it was nonetheless notable that May saw year-on-year decreases in food and industrial goods prices. Also, in services, which is traditionally the most inflationary component of the Spanish economy, a gradual moderation is taking place. This price behaviour is in the appropriate vein for improving the competitiveness of the economy, reducing the costs of the recession and initiating a solid recovery.

The outlook for the Spanish economy is that GDP may continue contracting for the rest of the year. The resulting fall for 2009 as a whole will be very substantial, although probably less than in other European countries, more affected by the slump in world trade in recent months. Although GDP may continue to fall in 2010 in annual average terms, it will do so at a less pronounced rate, since the wide range of measures taken should gradually moderate the inten-

sity of the shocks constraining activity. However, given the extent of the adjustments bearing on employment, the unemployment rate may yet remain on an upward path.

It is true that some imbalances accumulated during the expansion are being corrected. As just mentioned, the inflation differential with respect to the euro area is now favourable to Spain, while the external deficit is falling sharply in a trend which will foreseeably continue, such that, as a ratio of GDP, in 2010 it will fall to less than half its value in 2007. Although Spain should insist on reabsorbing these imbalances, it is undeniable that the improvements obtained are linked to an abrupt contraction in demand, with highly negative effects on the unemployment rate and the productive system. It is thus essential to change certain aspects of Spain's institutional framework to prevent these losses of jobs and productive capacity from becoming entrenched and hindering recovery and to ensure that the imbalances of recent years do not reappear when demand starts to grow again.

In the recovery of the Spanish economy, as in the case of the world economy, a major contribution will be made by the special measures adopted in demand-side (monetary and fiscal) policies and in financial system support. However, in Spain, where domestic demand is very much affected by the need to strengthen the financial position of the private sector and by the impact of the high unemployment rate, reliance will have to be placed on the recovery of external demand as the principal driver of spending. To capitalise on the improvement in external demand when it comes, firms will have to be able to offer competitive products, and to do this they will have to increase their productivity and adjust their costs, margins and prices flexibly.

The substantial cuts in official rates of central banks throughout the world in the past year have prompted a significant drop in the cost of financing. In Spain the resulting expansionary stimulus is particularly powerful because of the predominance of variable-rate financing. This boost will be particularly notable in certain sectors, such as residential construction, in which the combination of lower interest rates and price adjustments will make houses more affordable for households.

As in other countries, fiscal policy in Spain also contributed to cushioning the decrease in activity, through both the action of automatic stabilisers and the adoption of diverse discretionary measures. This fiscal effort, of considerable size, generally exceeds that of other EU countries. Moreover, in Spain, the loss of revenue due to weaker spending came on top of the drying-up of the wind-fall revenues made possible by the housing boom of the past decade. All this meant that the general government balance worsened considerably, swinging from a surplus of more than 2% of GDP in 2007 to a deficit which, according to the latest figures announced by the government, may stand at nearly 10% of GDP in the current year.

These developments have exhausted the possibilities of expansionary fiscal policy action. The fiscal imbalance has reached a level at which a corrective strategy is required, and this strategy must be credible so that agents trust that budgetary stability will be maintained in the medium run. In this respect, the government has just announced the budgetary stability targets for the period 2010-2012 committing it to an enormous effort in fiscal consolidation. It aims to cut the deficit from the nearly 10% of GDP that may be reached in 2009 to 3% in 2012, thereby complying with the guidelines set for Spain by the European Council in respect of compliance with the Stability and Growth Pact. The size of the envisaged correction in such a short space of time calls for a strict budget outturn and the adoption of energetic measures. The recent increase in some indirect taxes is an initial step in this direction, although past experience shows that for fiscal consolidation processes to be successful, they must focus on cutting government spending, particularly that which is unproductive. In this respect, the re-

gional governments, given their share of government spending, will have to contribute actively to getting the country back onto the path of fiscal consolidation and budgetary stability.

In any event, although monetary and fiscal policies have played an extremely important role in offsetting the huge contractionary forces bearing on economies, this policy support cannot continue to be relied on once the recovery commences. Governments and central banks have to design "exit strategies" for terminating the current extraordinary fiscal and monetary policy action, so as to prevent future processes of economic instability from taking root. For this purpose, the policy effort will have to concentrate on reforms aimed at improving the productivity and performance of the factor and product markets. Unlike in the field of demand-side policies, here the room for action is ample and, in addition, its potential effects are significant.

As noted above, one of the main problems of the Spanish economy lies in the labour market. The current crisis has caused the unemployment rate to surge once again, reminding us that adjustment in the Spanish economy basically takes place through job destruction. Action is needed to prevent the higher numbers of unemployed from becoming a permanent phenomenon and their level of employability from deteriorating rapidly. Action is also needed to enable the rapid reallocation of resources across sectors, so that the slack in real estate activity can be smoothly taken up by other productive sectors.

The labour reform is unavoidable and must address different areas. In the field of collective bargaining, it seems that labour and remuneration conditions have to adjust more flexibly to the economic situation, particularly that currently being faced by firms or specific productive sectors. It is also vital to make changes to the recruitment systems and to improve the labour market intermediation systems and the mobility and training of the unemployed, so that workers who have lost their jobs can find new opportunities promptly. These reforms would not only improve the medium-term growth outlook of the Spanish economy, but would also help to prevent deterioration of the productive system.

Obviously, although the labour market is important, it is not the only area calling for reform by the Spanish authorities. Closely linked to the labour market is the issue of human capital and education, where it bears repeating that, although the returns are primarily in the medium term, the need for reform is urgent. Finally, in Spain it is essential to establish a much more solid competitive environment, in which firms can operate more efficiently and on an equal footing with those of other countries. Services play a key role in this environment since they account for a growing share of industrial activities. Furthermore, the lack of liberalisation of some segments may be limiting their expansion. This is particularly pernicious because the services sector encompasses some of the most dynamic activities with the greatest capacity to generate employment. In this respect, the government's recently proposed initiative to implement the Services Directive through a draft law involving action in numerous areas must be applied resolutely, and, for this purpose, regional and local government will have to cooperate in their areas of competence. Also, fomenting competition in the network industries would enable inputs to be supplied to other productive activities under more competitive conditions.

To conclude, let me briefly review the situation of the Spanish banking system.

The distinguishing feature of the situation in Spain is that this crisis found Spanish credit institutions in a relatively strong position. Their business model was the traditional one, focused on the retail segment and evolving separately from those more sophisticated models which have seriously damaged the institutions – and even the entire financial systems – of other countries. This explains why the weight of toxic assets in the balance sheets of Spanish institutions is

insignificant. Also, the Banco de España helped to strengthen the starting position of Spanish institutions vis-à-vis the crisis, since it required anticyclical provisions to be set up to lessen the pressure in tougher times and it defined sufficiently wide scopes of consolidation for banking groups to enable accurate valuation of the risks assumed.

These strong starting conditions enabled the Spanish financial system to withstand the first wave of the financial crisis and to continue channelling the necessary inflow of foreign saving, although by different routes, since the paralysis of the securitised asset markets meant that alternative sources, such as short-term paper issuance and ECB loans, had to be tapped. Deposits gained in relative weight during the first phase of the tensions.

However, the transformation of the financial crisis in recession gave rise to a second wave of risks for financial stability, this time of an eminently macroeconomic nature. Although the Spanish financial system faces this second wave with the relative advantage of having been less damaged by the first, the deterioration of the Spanish economy unquestionably puts pressure on bank income statements in a number of ways.

Specifically, job destruction is impairing some households' ability to pay, while the decline in activity is being particularly noticed in the real estate sector, which required abundant financing and had acquired a high relative weight in the balance sheets of some institutions. Hence, after a long period of economic expansion in which doubtful assets ratios fell to historical lows, since 2008 they have been rising significantly and foreseeably the pressure has not yet run its course. In addition, lending activity has slowed substantially as a result of both demand-side and supply-side factors, and lending can be expected to grow more slowly than GDP in the coming months, as has occurred in other similar cycles.

These two factors – slower banking business growth and rising bad debts – put pressure on Spanish banks' income statements in 2008. However, the traditional banking model, much less dependent on financial market performance, along with the still-favourable rates at which spreads were holding, allowed earnings to remain positive despite the difficult economic situation.

However, this pressure on Spanish institutions' income can be expected to continue in the future due to the foreseeable increase in bad debts and, in the more medium term, to the downward pressure that the competition for funding will put on operating margins, against a background of deleverage of the financial sector and, in general, of the economy, which is taking place both in Spain and globally and which cannot be considered a temporary phenomenon.

I am convinced that the Spanish financial system can overcome these challenges, although, as I have repeated on various occasions, banks will not be immune to the crisis and not all of them start from the same position when it comes to confronting this difficult stage, since they followed different credit policies in the past and managed their risks in different ways. In any event, banks necessarily have to adapt to the new circumstances, and so have to rationalise their operating cost structures and correct the excess capacity of the sector.

The financial system plays a central role in any economy, since it is fundamental in the allocation of financial resources. This role explains why the State, like other governments, has shown its readiness to provide capital to the viable credit institutions that need it. These contributions of capital must not, of course, be unconditional, but rather subject to the restructuring of the institutions that receive those public funds, so as to seek both the lowest cost for taxpayers and maximum efficiency of the system. It should be noted that, moreover, this approach is

fully in line with the common principles agreed in international fora and expressly backed by this Parliament with a broad consensus. I trust that these principles and this spirit of cooperation in matters of general interest related to the stability and strength of the Spanish financial system can soon be manifested in a set of legal provisions which will strengthen the capacity to take action as and when problems arise, in line with the tradition of the Banco de España and in accordance with the specificity of the serious tensions now being faced.

1 Overview

During 2009 Q1, the pace of the contraction in the Spanish economy intensified, in a highly unfavourable international environment and a financial setting marked by substantial tension. GDP fell by 3% in year-on-year terms and its quarter-on-quarter rate stood at –1.9%. The fall-off in economic activity was due to the collapse of national demand (by 5% year-on-year), since the contribution of net external demand to GDP continued to be positive at 2.3 pp, as a result of a slump in imports which exceeded the likewise marked weakening in exports.

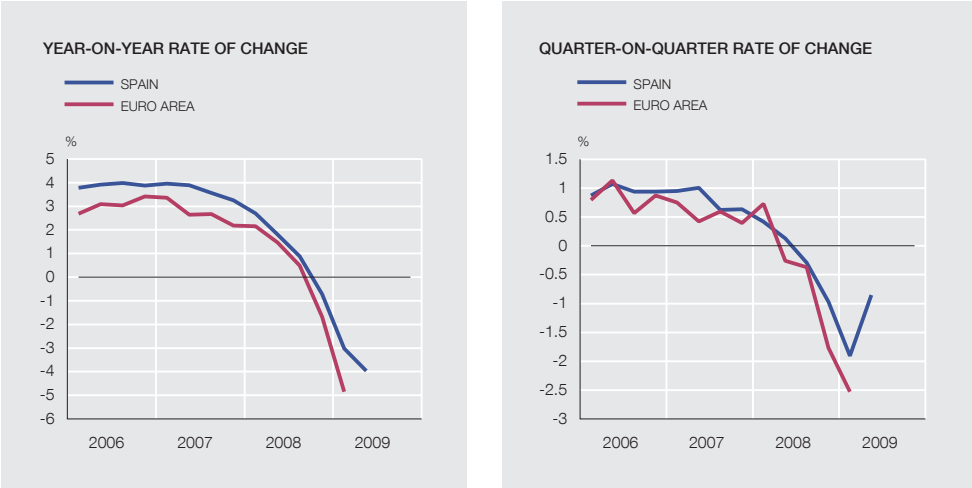
The indicators available for Q2 augur a prolongation of the contractionary trends, albeit at a more contained pace, in an environment marked by some normalisation of financial markets and less severe external conditions. The estimates made drawing on the as yet incomplete conjunctural information available point to a quarter-on-quarter decline in GDP of 0.9% (less pronounced than in the two preceding quarters), although the year-on-year rate, subject by definition to greater inertia, is expected to have continued trending down, posting a decline of 4%. On the expenditure side, there was a further reduction in national demand, with a year-on-year rate of change of –6%, while net external demand showed a slight increase, contributing 2.4 pp to GDP. On the supply side, the bulk of the adjustment fell once again on the manufacturing industry and construction branches, although in this latter case the rate of decline of activity moderated owing to the effects of the start-up of the civil engineering projects included in the State Fund for Local Investment. In the labour market, the rate of decline of employment slowed somewhat, in line with the information provided by the EPA for Q2, which shows a decline of 7.2% year-on-year and a fresh increase – albeit at a lesser pace than in previous quarters – in the unemployment rate to 17.9%, and the rate of increase of compensation per employee once again outpaced inflation. Finally, the rate of change of the CPI fell substantially in the period from April to June, posting a figure of –1% in this latter month, meaning the differential with the euro area was once again negative (–0.9 pp), for the seventh month running.

On the international economic front, the tension on financial markets furthered the correction initiated in March, although global funding conditions remained restrictive, and the sharp declines in trade flows seen in previous months slackened. In these circumstances, GDP in the developed economies is estimated to have fallen once more in Q2, albeit on a somewhat lesser scale than in Q1, and the slowdown in the emerging economies is expected to have moderated in the face of the recovery in the Chinese economy, in response to the large-scale fiscal stimulus and liquidity expansion plans pursued. Global inflation continued to fall, with negative figures being posted in the United States, Japan, the euro area and some emerging economies. Oil and, to a lesser extent, other commodities prices rose notably, though they have eased in recent weeks.

The diminished contraction in activity and the signs of stabilisation on international financial markets have brought the trajectory of continuous downward revisions to growth projections for the world economy to a halt, although the diagnosis of the – foreseeably lengthy – duration of the recession and the – prospectively very gradual – exit therefrom has not substantially altered.

In the period under study, governments and central banks extended the macroeconomic stimulus and financial support and restructuring measures set in train in the previous months. In the United States, the government unveiled a plan for the regulatory reform of the financial

GROSS DOMESTIC PRODUCT (a) CHART 1



SOURCES: ECB, INE and Banco de España.

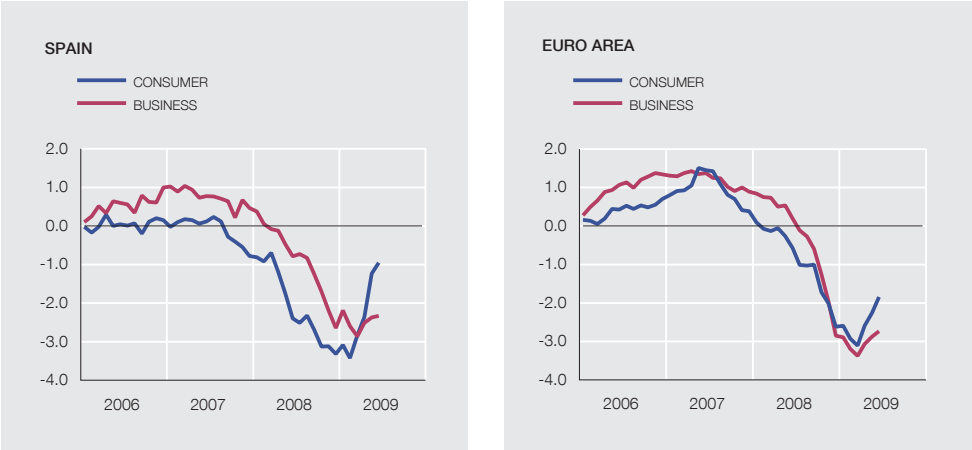
a. Seasonally adjusted series.

system; among other aspects, it will increase the supervisory powers of the Federal Reserve and will provide for tighter control of the risk in complex financial assets. In Europe, the pursuit of bank guarantee and recapitalisation schemes continued, and certain proposals for the restructuring of banks' assets began to take specific shape. On 27 June the Spanish government approved the creation of the Fund for Orderly Bank Restructuring (FROB by its Spanish acronym) with the aim of extending and reinforcing the instruments with which to develop a bank restructuring strategy that will allow for an increase in the resilience and solvency of the Spanish financial system in the face of the potential effects of the recession.

Over the course of the quarter, public finances have deteriorated considerably and globally as a result of the operation of the automatic stabilisers, the discretionary measures to stimulate aggregate demand and the actions to support the financial system. The scale of the change has shifted the economic policy debate towards the need to ensure the compatibility of the stimulus measures with credible fiscal consolidation strategies that will guarantee the sustainability of public finances in the medium term.

Meanwhile, central banks continued to provide an unlimited supply of liquidity and, in some cases, they made further cuts to intervention rates, from what were already very low starting levels, following the forceful cuts made in the preceding months. The US Federal Reserve held its official interest rate in a range of 0% to 0.25% and continued to conduct extraordinary monetary policy operations (essentially through asset purchases), although it began to reduce the amount and frequency of some of them. The Bank of England did not alter the level of its official rate, which has held at 0.5% since January, and continued to pursue its government bond purchase programme. Finally, the ECB Council cut its main refinancing operations (MRO) rate by 25 bp in May, to 1%, while its deposit and marginal lending facility rates were set at 0.25% and 1.75%, respectively. Accordingly, the current MRO rate stands 325 bp below its October 2008 level. In parallel, the ECB reinforced its policy of abundant liquidity provision, establishing a longer-term financing operation maturing at 12 months (the first of these was conducted on 24 June, with somewhat more than €440 billion being allotted). In addition, it began in July to apply extraordinary monetary policy measures that it had earlier announced in May. These involve a programme to purchase guaranteed bonds and covered bonds issued in the euro area.

CONFIDENCE INDICATORS (a) CHART 2



SOURCE: European Commission.

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

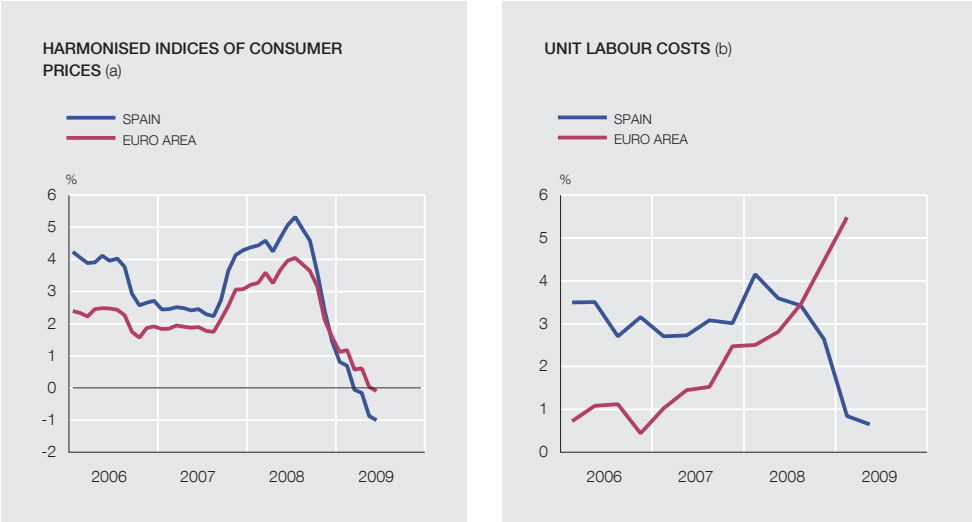
This raft of measures has meant that, during Q2, the improvement in the financial stress indicators dating back to March has continued, in a climate of lessening uncertainty which, in prior months, had begun to stimulate the demand for higher-risk assets. Interbank market interest rates continued to fall, substantially narrowing the spread between these and rates on guaranteed bank transactions. Risk premia on credit derivatives markets also declined notably and, on equity markets, stock market prices continued on the upward trajectory on which they embarked in March, evidencing notably diminished volatility. Finally, on the government debt markets, there was a generalised rise in yields on sovereign bonds, chiefly as a consequence of the return of financial flows towards higher-risk assets and of the greater caution elicited by the increase in public debt.

In the euro area, the conjunctural indicators available also point to some moderation in the rate of decline of activity as a result of a smaller fall in private consumption, a somewhat less negative contribution of external demand and lower destocking. The inflation rate continued to fall in Q2, posting a negative figure in June (–0.1%) for the first time in the history of EMU. The reduction in the inflation rate was essentially in response to base effects in energy prices and, to a lesser extent, to the slowdown in services prices, linked partly to the slackness of demand. The decline in core inflation was much more moderate, standing at 1.3% in June.

Overall, then, the external environment of the Spanish economy has become less contractionary and financing conditions, though they remain restrictive, are showing signs of some improvement. On one hand, the decline in interbank yields continued feeding through to private-sector bank financing costs, unevenly across the different segments; on the other, financial institutions further tightened their lending standards, albeit to a lesser extent than in previous quarters. Elsewhere, the positive trajectory of stock market prices helped to offset the declines recorded in the opening months of the year (the IBEX posted gains of close to 13% in this period) and to recuperate to some extent this component of financial wealth. Conversely, the 1.9% fall in property prices in Q2 (–8.3% in year-on-year terms) led to further declines in the value of private-sector wealth.

Against this background, household spending fell off once more in Q2, although it is estimated that the rate of decline of final consumption will slow, potentially to a year-on-year rate of

PRICES AND COSTS CHART 3



SOURCES: Eurostat, ECB and INE.

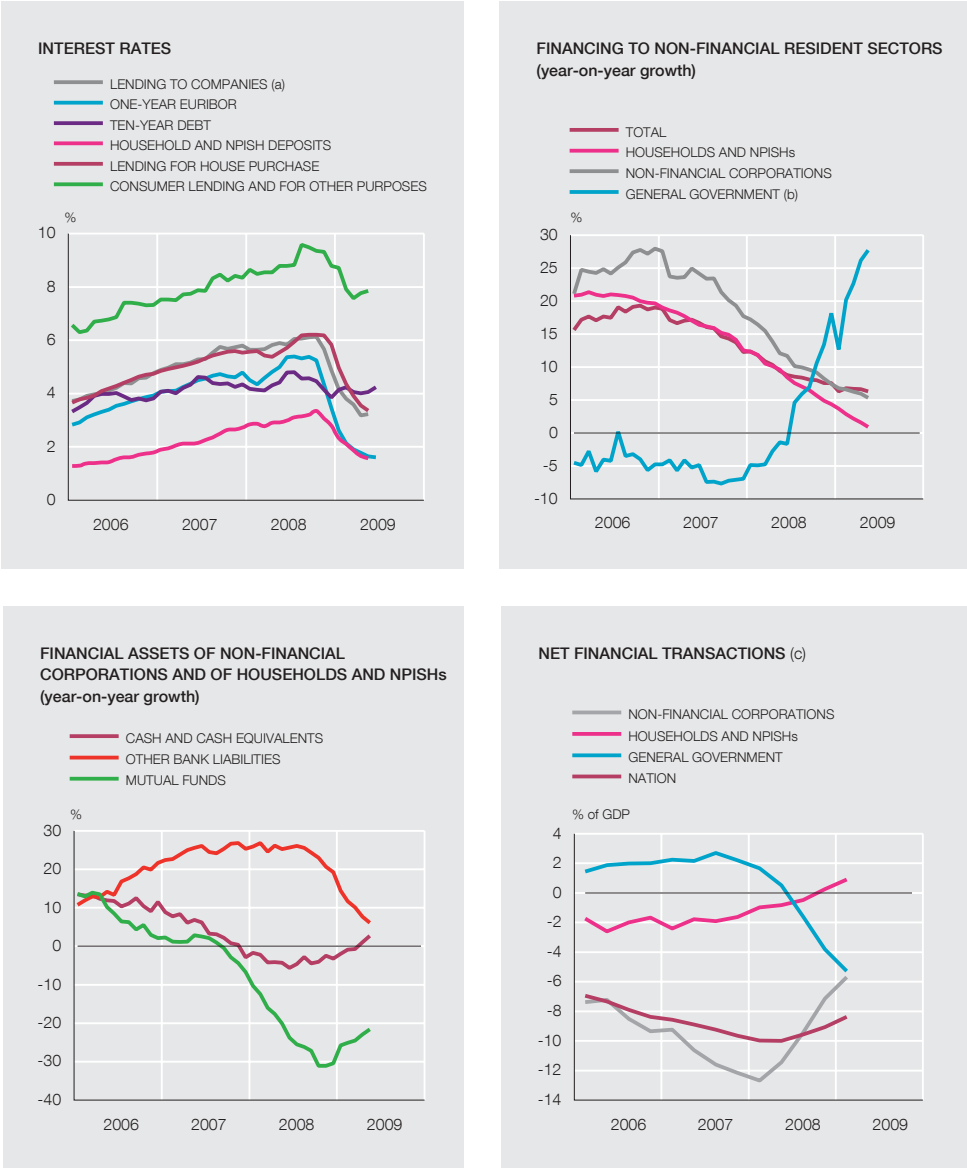
a. Year-on-year rate of change.
b. Per unit of output. Year-on-year rate of change calculated on the basis of seasonally adjusted series.

–4.6% (–4% in the previous three months). Consumption decisions continued to be highly influenced by the generalised weakening of the attendant main determinants (disposable income and wealth), although agents' confidence improved substantially during the quarter after having been very depressed since the start of the financial crisis. Developments in disposable income were determined by the deterioration in earnings, as a result of the unfavourable labour market situation. The scale of this effect could not be countered by the impact of general government (through higher social benefits and lower taxes), the decline in interest payments (which, according to the quarterly non-financial accounts, began to be observable already in the previous quarter) and the substantial cut in inflation. The reduction in wealth also continued, above all as a result of developments in its real estate component, as earlier indicated. Consequently, a further increase in the household saving rate is expected, following its rise in Q1 to 14.1% of disposable income in four-quarter cumulated flows, a figure 4 pp up on the same period a year earlier.

On the contrary, the weakness of residential investment intensified, influenced by expectations of falling prices, uncertainty over income growth prospects and continuing restrictive financing conditions globally. That said, some signs of improved access to financing are becoming discernible. Overall, a year-on-year decline in residential investment of around 25% is expected for Q2. The downward revision of household spending plans, along with continuing restrictive financing conditions, drove the slowdown in debt, the growth of which in year-on-year terms stood below 1%, affecting both loans for house purchases and consumer credit and other lending. This, in turn, provided for a slight reduction in the debt/GDI ratio.

Turning to business investment, spending on capital goods contracted once more. That is consistent with the sluggishness of demand, in both its domestic and external components, with continuing restrictive financing conditions (despite the cut in interest rates) and with uncertain prospects concerning economic recovery and very negative earnings expectations. However, it is estimated that other private productive investment fell somewhat less markedly owing to the impulse that is being given to certain infrastructure development plans, as reflected in the National Accounts figures for Q1. The fall in business investment and the restric-

FINANCIAL INDICATORS OF THE SPANISH ECONOMY CHART 4



SOURCE: Banco de España.

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

tiveness of the supply of bank funds meant that borrowing by non-financial corporations continued to slow, to a rate of 5%, compared with the same period in 2008. The sector's borrowing needs diminished once again in Q1 to 6.4% of GDP, in terms of four-quarter cumulated flows, 4.6 pp down on a year earlier.

Set against the decline in the various components of private domestic demand, the general government sector contributed to sustaining expenditure by means of sizeable net transfers to households and through public investment, with the start-up of the projects included in the State Fund for Local Investment. The government announced new measures to support economic activity, which will come into force in 2009 and 2010. These include most notably direct

assistance with car purchases (Plan 2000E), given their greater potential impact on the industry in the short term. In this connection, and despite the fact a fresh cut in State spending was also approved, general government spending has increased notably in the year to date, while the declining course of tax revenue has steepened, with very negative rates of change. The interplay of all these factors led to a further deterioration in public finances, prompting the government to raise the projected deficit in 2009 and to announce an adjustment path that might involve posting a budget deficit of 3% in 2012, in line with the guidelines laid down for Spain by the European Council regarding compliance with the Stability and Growth Pact (see Box 1).

As regards the external sector, net external demand once again alleviated the effect of the fall in domestic spending on economic activity, with a positive contribution to GDP growth of 2.4 pp, slightly up on that in Q1. With the phase of the maximum contraction in international trade flows behind, the positive contribution of net exports was mainly due to the reduction in imports, which were more than 20% down, the decline being induced by the collapse in final demand and by industrial production. In any event, exports fell again, albeit less than in Q1, despite the more favourable behaviour of the price-competitiveness indices vis-à-vis the developed countries. This situation spread to some extent to trade in services, with the decline in services revenue easing, particularly in the case of tourist services, although expenditure continued on a declining course.

In step with these developments, the nation's net borrowing once again fell significantly in Q1 to 8.4% of GDP, in terms of four-quarter cumulated flows, 1.6 pp down on a year earlier according to data from the non-financial accounts of the institutional sectors. The Balance of Payments figures to April confirm this trend, as they show a decline in the deficit of almost 40% year-on-year, the result of the intensifying adjustment of the trade deficit, which fell over this period by 51% and, to a lesser extent, of the balances on current transfers and on services, while the incomes deficit widened.

On the supply side, following the substantial deterioration seen in Q1, value added in the market economy contracted in Q2 but, as in the case of GDP, at a somewhat less pronounced rate. The decline in activity was across all the productive branches, except agriculture and fisheries, which showed a recovery. In the construction sector, the slowdown in the rate of deterioration of value added was due to the effects of the start-up of the projects included in the State Fund for Local Investment, which are boosting the civil engineering component; conversely, there is no evidence of the contractionary trends in the residential sector easing. Industrial activity continued to fall, and services, which are generally posting more contained declines, showed no signs of stabilising, beyond what might be related to purely seasonal activities. Against this backdrop the employment adjustment continued in Q2, albeit with somewhat less intensity than in the two previous quarters, in particular in the construction sector, for the reasons stated earlier. Overall, the increases in apparent labour productivity are expected to have held at a relatively high level (3.2%), similar to that in the opening months of the year, chiefly reflecting the decline in employment.

The rate of increase of labour costs fell moderately, though less than might be expected in the face of the severe weakening in the labour market. Moreover, there are some signs that wage restraint might be coming to a halt. For one thing, the wage rates arising from collective bargaining show increases that are practically unchanged since the start of the year (with rates of 2.7% to June), stemming from the fact that, under bargaining, newly signed agreements are registering higher increases than those in revised agreements (2.9% and 2.7%, respectively). For another, the existence of positive wage drift this year, linked to the effects induced by job

THE EXCESSIVE DEFICIT PROCEDURE IN SPAIN

BOX 1

Maintaining sound public finances is a necessary condition for sustainable economic growth and for the proper functioning of the Economic and Monetary Union (EMU). Under these tenets, the Maastricht Treaty laid down various provisions with the aim of ensuring the disciplined fiscal behaviour of the Member States. In particular, members must avoid "excessive public deficits", which are assessed in relation to the reference values of 3% and 60% of GDP for the deficit and for public debt, respectively. Further, the Treaty envisages a "procedure" geared to ensuring the prompt correction of excessive deficits, should these arise. The Stability and Growth Pact (SGP), approved by the EU Member States in 1997 and reformed in 2005, establishes a set of "preventive measures" so that excessive deficits should not arise, along with "corrective measures" aimed at ensuring the rapid and rigorous application of the excessive deficit procedure, including the possible imposition of sanctions.

During 2008, the euro area's fiscal policy was influenced by the economic crisis, which strongly impacted the member countries' public finances and led to the adoption of fiscal stimulus measures by the economic authorities. In February 2009, the European Commission decided to initiate the excessive deficit procedure for those countries whose deficit exceeded the Treaty reference value of 3% of GDP in 2008: France, Spain, Ireland, Greece and Malta. In Spain's case, this will be the first time this procedure has been initiated since it joined EMU. This Box summarises how the procedure has unfolded to date and its consequences for Spanish fiscal policy in the coming years.

In January 2009, the Spanish government submitted an update of the Stability Programme (SP). According to the estimate in this update, the general government deficit would have exceeded 3%

Percentages

	2007	2008	2009	2010	2011	2012
REAL GDP (% change)						
Stability Programme (January 2009)	3.7	1.2	-1.6	1.2	2.6	…
Interim Commission Forecasts (January 2009)	3.7	1.2	-2.0	-0.2	…	…
Commission Forecasts (spring 2009)	3.7	1.2	-3.2	-1.0	…	…
Budgetary Stability Objectives (June 2009)	3.7	1.2	-3.6	-0.3	1.8	2.7
OUTPUT GAP (% of potential GDP)						
Stability Programme (January 2009)	1.4	0.3	-2.7	-3.7	-3.6	
Interim Commission Forecasts (January 2009)	1.5	0.8	-2.3	-3.4	…	…
Commission Forecasts (spring 2009)	1.4	0.9	-2.6	-3.7	…	…
Budgetary Stability Objectives (June 2009)	…	…	…	…	…	…
GENERAL GOVERNMENT BALANCE (% of GDP)						
Stability Programme (January 2009)	2.2	-3.4	-5.8	-4.8	-3.9	
Interim Commission Forecasts (January 2009)	2.2	-3.4	-6.2	-5.7	…	…
Commission Forecasts (spring 2009)	2.2	-3.8	-8.6	-9.8	…	…
Budgetary Stability Objectives (June 2009)	2.2	-3.8	…	-7.9	-5.2	-3.0
GENERAL GOVERNMENT STRUCTURAL BALANCE (% of GDP)						
Stability Programme (January 2009)	1.6	-3.5	-4.6	-3.2	-2.3	
Interim Commission Forecasts (January 2009)	1.6	-3.3	-4.6	-4.2	…	…
Commission Forecasts (spring 2009)	1.6	-3.9	-6.8	-8.2	…	…
Budgetary Stability Objectives (June 2009)	…	…	…	…	…	…
GENERAL GOVERMENT DEBT (% of GDP)						
Stability Programme (January 2009)	36.2	39.5	47.3	51.6	53.7	
Interim Commission Forecasts (January 2009)	36.2	39.8	46.9	53.0	…	…
Commission Forecasts (spring 2009)	36.2	39.5	50.8	62.3	…	…
Budgetary Stability Objectives (June 2009)	…	…	…	…	…	…

SOURCES: Stability Programme 2008-2011, Budgetary Stability Objectives 2010-2012 and European Commission.

of GDP in 2008[1] (see accompanying table). Accordingly, the European Commission (EC) decided to initiate the excessive deficit procedure, drafting the mandatory report in February 2009. This report analysed the reasons behind the breach of the 3% threshold and, in particular, it assessed whether this breach could be considered as close to the reference value of 3% of GDP, temporary and due to exceptional circumstances, factors which, should they arise in conjunction, prevent deficits above 3% being considered "excessive". The EC argued that the breaching of the 3% reference value in Spain's case could not be considered exceptional, given that it had not come about from a severe economic downturn that year. Indeed, on the EC estimates available at the time of the report being drafted, GDP had posted growth of 1.2% in 2008, compared with 3.7% the previous year, meaning that the estimated output gap remained positive and close to 1% of GDP. Nor is it considered that the breach could be temporary, given that the deficit will continue widening in 2009. On the basis of this report and of the subsequent opinion of the Economic and Financial Committee and of the EC itself, the European Council came to a decision on 27 April 2009 on the existence of an excessive deficit in Spain.

In parallel, the Council adopted a recommendation[2] with a view to bringing to an end the situation of an excessive public deficit in Spain, setting a deadline for its correction. As a general rule, the SGP establishes that excessive deficits should be corrected in the year following that of the Council's decision as to its existence, unless exceptional circumstances prevail. In this case, the Council considered that there were exceptional circumstances in Spain and has extended the correction deadline to 2012.[3] Moreover, the Council indicated that Spain should rigorously apply the budgetary targets specified in the SPG to 2011 and make an additional budgetary effort in 2012 to reduce the deficit to below 3% in that year.[4] Specifically, Spain should make an annual average fiscal effort equivalent to at least 1.25% of GDP, as submitted in the Stability Programme[5], which should commence in 2010. The Council set a period of six months, to 27 October 2009, in which the Spanish authorities should apply effective budgetary adjustment measures.[6] Finally, it highlighted the importance of achieving the medium-term objectives (a balanced budget in structural terms) once the excessive deficit has been corrected. At the same time it called for the consolidation process to be compatible with an improvement in the quality of public finances, and that the sustainability of public finances be reinforced with the application of further pension system reforms.

Compliance with the European Council's recommendations will require a very great consolidation effort, especially if it is taken into account that a deterioration in the budgetary situation in 2009 greater than that projected in the SP has been forecast. Also, real GDP in the Spanish economy is expected to trend more adversely both in 2009 and in 2010. In this connection, on 8 July 2009 the Spanish Parliament approved the Budgetary Stability Objectives for the three-year period 2010-2012 along with the State non-financial spending ceiling for 2010. The Budgetary Stability Objectives foresee a rise in the public deficit to 7.9% of GDP in 2010 and a subsequent progressive reduction to 3% of GDP in 2012, in line with the guidelines laid down by the European Council. As to State non-financial spending for 2010, the year in which the fiscal consolidation process should commence according to the recommendations of the European Council, the ceiling has been set in cash-basis terms at €182,439 million, up 13.9% on the ceiling approved for 2009. Implicitly, however, the government considers there will be an upward deviation in budgetary spending in 2009[7], meaning that the ceiling approved for 2010 would involve a 4.5% reduction relative to the final budget estimated for 2009.

Compliance with the adjustment path described is very important for retaining agents' confidence in the maintenance of budgetary stability in the medium run. In this respect, the scale of the correction projected in such a short space of time requires a very strict budget outturn and the adoption of ambitious measures. Attention must also be given not only to the scale of the adjustment but also to its composition. Experience shows that for fiscal consolidation processes to be successful, they must include cuts in public spending and, in particular, in unproductive spending. Finally, it is important that all tiers of general government and, given their share in public spending, regional governments in particular, should contribute actively to restoring the path of fiscal consolidation and budgetary stability.

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1. At that time the public deficit estimate for 2008 was 3.4% of GDP. Subsequently, at 3.8% of GDP, the deficit exceeded this estimate by 0.4 pp. **2.** On the basis of a prior recommendation by the EC. **3.** These circumstances are, first, the considerable deterioration expected in the economy for 2009 and 2010 which, on Commission estimates, will be accompanied by a reduction in potential growth and a significant decline in the output gap; and, second, the size of the fiscal adjustment, in excess of 3% of GDP, which would require reducing the deficit to below the reference value in 2010. **4.** Moreover, given that in its assessment of the Stability Programme it had identified risks to compliance with budgetary targets, in particular associated with the growth assumptions contained in this Programme's macroeconomic scenario and with the absence of any description of specific deficit-correcting measures, the Council indicated that fiscal efforts additional to those described in the Stability Programme might prove necessary if these risks were to materialise.

5. The fiscal effort is measured drawing on the change in the structural budget balance. **6.** Assessment of the effectiveness of the measures will take into account economic developments compared with those projected by the Commission in its January 2009 interim forecasting exercise. **7.** The upward deviation in spending in 2009 compared with the initial forecast would, according to these estimates, be around €32 billion (3% of GDP), which could be explained by the approval of various measures during 2009 to combat the economic crisis.

destruction in low-paid industries, cannot be ruled out. Bearing in mind all these factors, compensation per employee in the market economy is expected to rise by 3.3% in Q2, and although there might be some further slowdown in the second half of the year, this will involve a significant rise in labour costs in real terms. Economy-wide the estimated increase is somewhat higher, owing to the upward effect exerted by public-sector wages in the current circumstances.

The correction initiated in inflation in the closing months of 2008 proceeded more sharply, with increasingly negative figures in the January-June period. In this latter month the CPI posted a year-on-year rate of change of –1%. As was foreseeable, a very significant portion of this adjustment was due to the marked decline in energy prices on a year earlier. But beyond these base effects, the weakening of inflationary pressures spread to the other components, including services, whereby core inflation slowed to 1% on average during the quarter, 2 pp down on the same period a year earlier. Price adjustments in Spain are proving more acute than in the euro area, which is shaping an outlook free from inflationary pressures and one of negative price differentials with the euro area that it is necessary to preserve in order to entrench a degree of competitive advantage that may underpin the recovery.

2 External environment of the euro area

During 2009 Q2, international financial markets continued on the recovering trend begun in March, moving away from the extreme situation that had previously characterised them. The generalised improvement in confidence made for some increase in the appetite for risk, for less restrictive financial conditions and for a pick-up in international financial flows, from which the emerging countries (especially those with higher credit ratings) also benefited. The sharp fall in the two previous quarters in the macroeconomic indicators eased off and tended to stabilise, although the improvement was more evident in the indicators of expectations than in the coincident indicators. In any event, there was a notable and rapid pick-up in the Chinese economy (see Box 2). However, in general terms the transfer of risks from financial institutions to the public sector has continued and the deterioration in the fiscal position has deepened, as a result of the implementation of stimulus plans and of the decline in economic activity.

The signs of activity stabilising were favourably interpreted by the financial markets and there was a perceptible improvement in the situation of US financial institutions. Significant in this latter respect was the effect of the publication of the results of the stress tests conducted by supervisors on the main institutions in early May, and the favourable results posted by some of the leading banks. Indeed, several US banks managed to raise equity from the private sector and were even able to return some of the aid received from the public sector. Against this background, the Federal Reserve began to redeploy some of its liquidity-providing and financing instruments, though these could be instantly reactivated. In addition, major regulatory reforms in the United States and in the United Kingdom were announced.

During Q2, interbank and credit market spreads narrowed considerably, while private-sector debt issuance increased. The stock markets were less volatile and there was an across-the-board increase in prices, though this was checked in June as optimism over the onset and strength of economic recovery fell off in part. Long-term government debt yields generally rose, set against some recovery in the demand for higher-risk assets, concern over the stability of public finances and, to a lesser extent, something of a rise in long-term inflation expectations. On the foreign exchange markets the dollar depreciated against the main currencies, of developed and emerging countries alike. The performance of the emerging markets during the quarter was even more favourable than that of the developed countries in some segments, as illustrated by the substantial stock market gains and the narrowing of sovereign spreads. On the commodities markets, oil, whose price in March was around $50 per barrel of Brent, climbed in June to $70, although subsequently it resumed a level around $60. The same was the case for the prices of the main industrial metals, in a setting of improved expectations about economic recovery. Food prices held at similar levels to those at the end of the previous quarter.

In the United States, the final GDP estimate for 2009 Q1 showed a decline of 5.5% in annualised quarterly terms, owing essentially to the strong contraction in fixed capital investment and rapid destocking, which was partially offset by the positive contributions of private consumption and of the external sector. The higher-frequency indicators have offered signs of stabilisation in recent months, although the labour market remains immersed in a deep contraction. On the demand side, the consumer confidence indices rose forcefully in Q2, though they eased off in July, while the consumer spending and retail sales indicators continue to suggest a degree of stabilisation. In the real estate market, indicators of sales and housing starts appear to confirm that the decline in the previous quarter has been checked and, at the same time, the

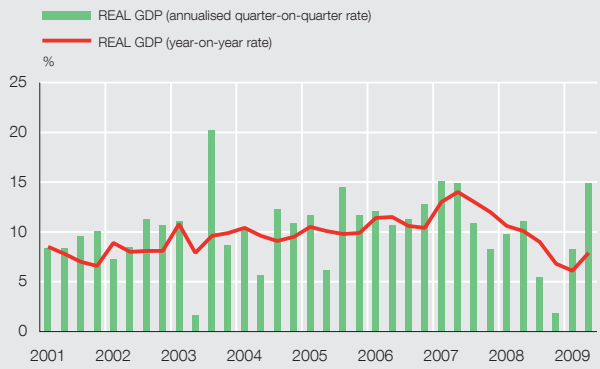
The Chinese economy has proven most resilient in the face of the adverse International economic and financial environment, and it has also been one of the first to show generalised signs of recovery. This relatively favourable behaviour – despite its close trade links with the global economy – might initially be explained by its low degree of financial development and its relative isolation from the international financial system. Also, following the heightening of the international crisis, the Chinese authorities responded with speed and firmness, assisted by the sound cyclical position of China's public finances (despite their contingent liabilities) and its room for manoeuvre in monetary policy. Even so, real GDP growth eased to 9% in 2008, against 13% in 2007. Activity slowed abruptly in year-on-year terms in 2008 Q4, and more sharply in 2009 Q1, down to 6.1%, marking the weakest year-on-year growth in a decade. However, it picked up markedly in Q2 (see Panel 1 and the main body of the text) to 7.9% year-on-year, above all due to the effect induced by the economic policies applied.

The slowdown in activity was not only a reflection of the collapse in international trade; it also stemmed from the notable adjustment in the domestic real estate sector – which accounts for around 10% of GDP and which had expanded markedly until early 2008 – and from the effects induced on agents' confidence. Indeed, the influence of the trade channel on Chinese growth is less than it is habitually considered to be: although exports account for around one-third of GDP, almost half is produced with imported goods. Accordingly, the contribution of net external demand averaged 1.4 pp between 2002 and 2008, i.e. only 12% of GDP growth in this period, which stood at 10.5% per annum. Nonetheless, National Accounts figures underestimate the actual weight of foreign trade in the economy, as they do not consider either its indirect effect on investment, employment and consumer spending, or its role in the productive transformation of the Chinese economy.

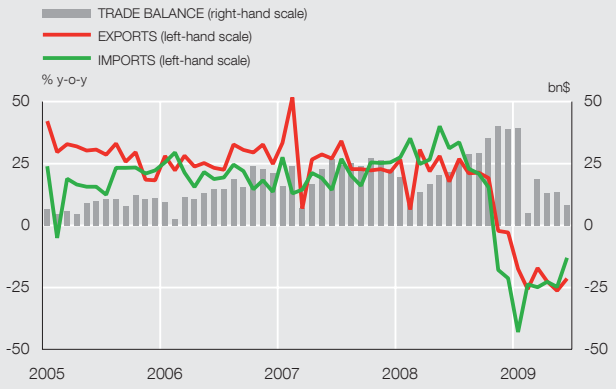
In any event, the trade surplus has diminished considerably due to the strong contraction in exports, despite the most significant fall in prices and import volumes (see Panel 2). The financial transmission channel has so far been the least relevant; however, China has not been immune to the external turmoil, which has translated into high volatility in short-term capital flows and into a reduction in direct investment inflows, which entailed a temporary slowdown in the build-up of international reserves.

The economic policy stance turned expansive as early as the summer of 2008. The first set of measures applied was geared to the export sector to mitigate the effect of the recession that was already

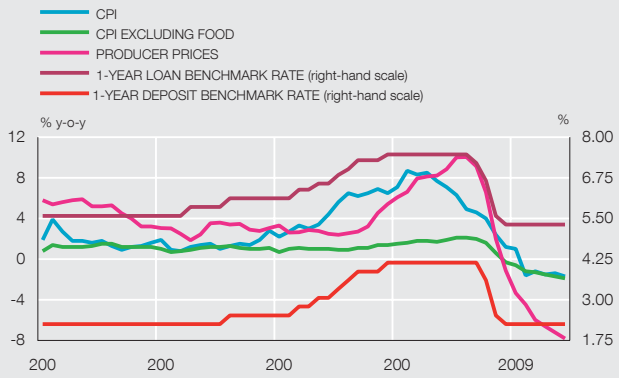
1 REAL GDP GROWTH



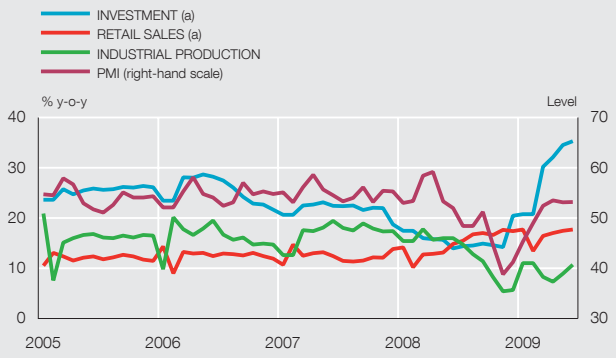
2 INTERNATIONAL TRADE



3 INFLATION AND INTEREST RATES



4 ECONOMIC ACTIVITY AND BUSINESS CONFIDENCE INDICATORS



SOURCES: CEIC, JP Morgan and Datastream.

a. In real terms.

affecting many developed economies. From July 2008, the appreciation of the renminbi against the dollar was halted, coinciding with the appreciation of the US currency. Export VAT rebates also increased on low-value-added and labour-intensive products (which entails an implicit improvement in their competitiveness). These rebates were extended after September, when the contraction in trade spread sharply to consumer durables. The second pillar was the monetary impulse, which was activated on the same day as the bankruptcy of Lehman Brothers in mid-September, adopting a moderately loose stance to promote economic growth in an environment of gradually declining inflation (see Panel 3), which has been in clearly negative territory since early 2009. This policy was implemented by means of an accelerated cycle of cuts in lending and deposit benchmark rates. Although real rates have not fallen, owing to the rapid correction in inflation, the removal of credit controls to make for ready access to financing – especially by households, the rural sector and SMEs – has translated into very marked growth in lending. This rise concerns the authorities given the excessive concentration on public-sector projects and the foreseeable increase in non-performing loans. The third pillar is fiscal policy, the last and most ambitious to be applied. In November a fiscal stimulus plan was announced, whose impulse is estimated to be of the order of 3.1% of GDP in 2009 and 2.7% in 2010. The aim of the plan is to infuse domestic demand with dynamism and restore confidence. The range of measures announced is extensive, though they are essentially geared to infrastructure development, support to the real estate sector and the subsidy of consumer durables, although in March they were re-directed towards social spending. As regards financing, around one-third will be defrayed through the central government budget, and the rest through local government bond issues and bank credit.

The recovery seen in recent months has been based almost exclusively on the effect induced by government policies, since the dynamism of actual private-sector demand has been limited and external demand has been lacklustre (see Panel 4 and the main body of the text). In any event, the main economic institutions foresee a relatively softer landing than initially expected and have revised their growth projections upwards for 2009 and 2010 to 7.5% and 8.4%, respectively, on average. If the policies remain effective, domestic demand might grow vigorously in the second half of this year, against a background of weakness in the external sector. However, the key variable for sustaining the recovery will be private domestic demand in the medium term. As to external demand, it is extremely uncertain what its contribution to growth will be, given the parallel fall in exports and imports; that said, there is not likely to be an abrupt reduction in the trade surplus. Exports will foreseeably fall off less than international trade (for which international organisations project a decline of over 10%), since Chinese products have scope to continue gaining share in export markets, albeit at a diminishing rate. As to imports, there are at least two opposing effects: the substitution of domestic output for imports, and greater external demand for commodities and capital goods following the measures to boost infrastructure. In the financial arena, and despite China's inherent weakness, the impact will be limited owing to the low external exposure of Chinese banks, the low dependence of households and firms on external financing in the short and long run, and financial underdevelopment (a most substantial portion of investment is financed through companies' retained earnings and the wealth effects are estimated to be less than in other emerging economies). It is possible, in any case, that financial stability may be dented – through an increase in non-performing loans – in a setting of weak economic growth, a phenomenon exacerbated by the high dependence on credit to fund the stimulus plan.

In sum, the global crisis has confirmed China's dependence on demand from the developed economies, which goes beyond to the external sector's contribution to growth. Against this background, it is uncertain whether private-sector demand can take up the baton once the public-sector impulse has been exhausted. Accordingly, in the medium term the Chinese economy will require a re-balancing of its growth model towards domestic demand, specifically towards private consumption, given the high weight of investment (45% of GDP). In this process, structural policies in the agricultural, social and financial areas will be pivotal, but so too will foreign exchange policy, which has been a fundamental pillar in China's development strategy in the past decade.

rate of decline of prices has moderated, although the house/sales ratios suggest that part of the adjustment in this market has still to take place. As to economic activity, the ISM indices show lower rates of contraction and, in fact, some of their components have gone above the expansion threshold. Industrial production continued falling during Q2, although durable goods orders increased in April and May. In the labour market, net job destruction declined in Q2, although the pace of this variable remains very high since 1.3 million jobs were lost during the quarter and the rate of unemployment increased to 9.5% (7.2% at end-2008). Prices, meanwhile, continued to post negative year-on-year rates (–1.4% in June), although core inflation remained in positive territory (1.7% in June). As regards the external sector, the correction of the trade deficit continued, standing at $26 billion in May. Against this backdrop, the Federal Reserve kept its target federal funds rate in a range of 0-0 .25% and retained its asset purchase objectives.

In Japan, following a particularly marked collapse in economic activity in Q1 (GDP shrank by 14.2% in annualised quarter-on-quarter terms), the higher-frequency indicators showed improvements in the following months. Yet it is still exports and, stemming from these, industrial production which are posting the biggest recoveries; indeed, this latter variable has registered three consecutive months of improvement. The consumption indicators evidenced some weakness at the beginning of Q2, but there are signs that the fiscal stimulus programme has managed to boost household spending. Prices continued to move on a declining trend: year-on-year inflation in May was -1.1%, and, stripping out the contribution of food and energy, the rate was –0.5%. The current account surplus continued widening, given the dynamism of exports, especially to China. The Bank of Japan held its official interest rate at 0.1% at its meeting on 16 June, and extended the period in which it will retain a series of extraordinary measures such as the purchase of commercial paper and corporate bonds, and operations to facilitate financing to companies.

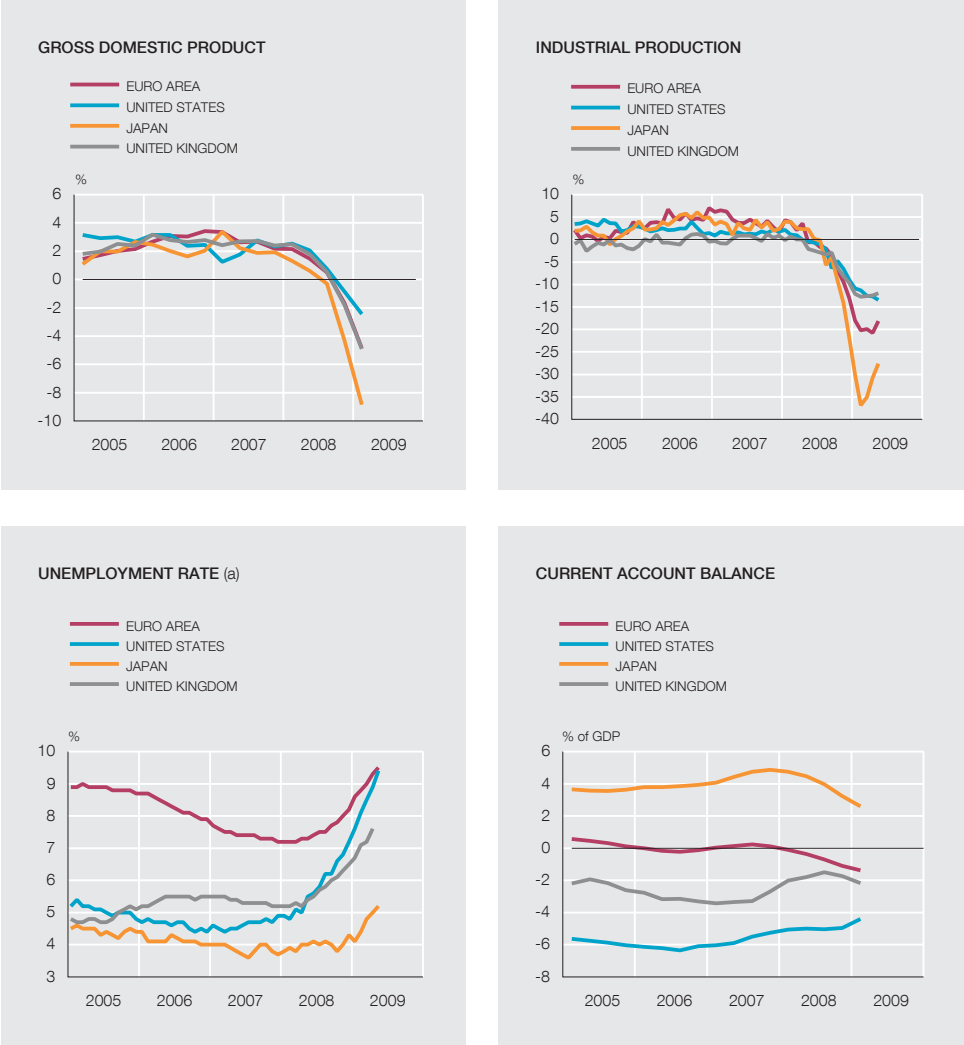
In the United Kingdom, the final GDP estimate for 2009 Q1 showed a strong contraction in activity (9.3% in annualised quarter-on-quarter terms), essentially owing to the decline in domestic demand. In Q2, and as suggested by the higher-frequency indicators, the fall in activity was less than in the previous quarter (3.1% in annualised quarter-on-quarter terms according to the preliminary estimate), although the year-on-year rate stood at –5.6%. The PMI indices for June had already pointed to a mild recovery in economic activity, and this was confirmed by other surveys in July. However, labour market conditions continued to worsen in Q2 and, although the fall in sales and consumer confidence has been checked, a rapid recovery is not yet in sight. There were signs of some stabilisation in the real estate market, with lower year-on-year falls in house prices and some recovery in demand, although there has been no improvement in mortgage credit. In general, credit activity remained weak, despite some improvement in credit availability, offset by still-restrictive access conditions. In this environment, inflation stood at 1.8% in June compared with the same month a year earlier, below the Bank of England target. The central bank held its official interest rate at 0.5% and made no changes to its asset purchase programme.

In the new EU Member States not belonging to the euro area, a sharp and abrupt slowdown across the board in GDP was confirmed in 2009 Q1. On average, GDP fell by 3.6% year-on-year, compared with growth of 0.9% in Q4, though there were marked differences between the 13% year-on-year contraction in the Baltic States and the 0.8% growth in Poland. This negative performance was the result of the deep adjustment in domestic demand, particularly in the Baltic States, compounded by the deterioration in external demand, especially that from the euro area. The industrial production and retail sales indicators for Q2 continued to show a pronounced decline in activity, while current account balances for Q1 improved notably, due above all to the collapse in imports. Over the course of the quarter, the aggregate inflation rate held on a declining path, and in June it stood at 3.6% a year-on-year, which prompted further cuts in official interest rates in all countries. On the financial front, the depreciation pressures on the Latvian lats eased following the Parliamentary approval of new fiscal containment measures. The IMF approved the new pre-emptive Flexible Credit Line (FCL) for Poland, for an amount of $20 billion.

In China, GDP accelerated most sharply in Q2 to a year-on-year rate of 7.9%, 1.8 pp up on the previous quarter. This was due essentially to the impulse provided by macroeconomic policies on domestic demand, as detailed in Box 2. Turning to the supply-side indicators, industrial production accelerated progressively during the quarter and business confidence moved into clearly expansionary territory. The domestic demand indicators have trended favourably in the quarter: investment in fixed assets rose sharply in light of the fiscal stimulus

MAIN MACROECONOMIC INDICATORS
Year-on-year rate of change

CHART 5



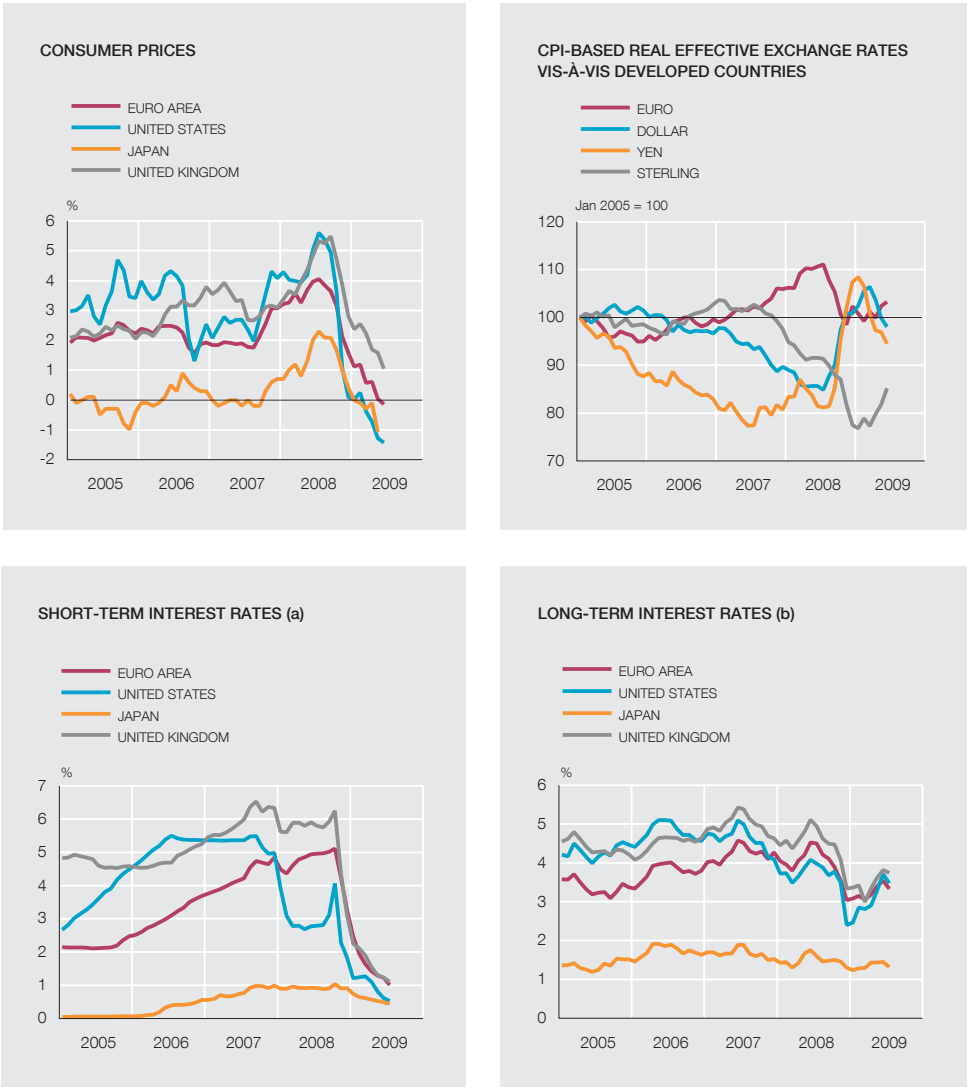
SOURCES: Banco de España, national statistics and Eurostat.

a. Percentage of labour force.

plan and there are even signs of recovery in real estate investment; and retail sales held relatively firm. As to external demand, the trade surplus narrowed substantially, although there are signs that the decline in exports and imports might have touched bottom. Despite this reduction in the trade surplus and in foreign direct investment inflows, the build-up in international reserves – now in excess of $2 trillion – was very sharp, and might suggest an intensification of short-term capital inflows. Year-on-year inflation was in even more negative territory in Q2 (–1.7% in June), owing essentially to the base effect and despite the ongoing and marked rise in credit and in the money supply. Of note in the policy-making realm was the bias of the fiscal stimulus plan towards domestic products and services, and the new measures to lessen dependence on the dollar in Chinese trade transactions.

In 2009 Q1, GDP in the rest of Asia grew at a year-on-year rate of 0.8%, notably down on the figure of 2.2% the previous quarter. There was notable growth in the less open economies – India and Indonesia posted growth rates of 5.8% and 4.4%, respectively – while the other countries saw a contraction in their GDP on a year earlier. In Q2, industrial production and exports continued to show year-on-year declines, although in monthly terms greater dynamism began

PRICES, REAL EXCHANGE RATE AND INTEREST RATES CHART 6



SOURCE: Banco de España.

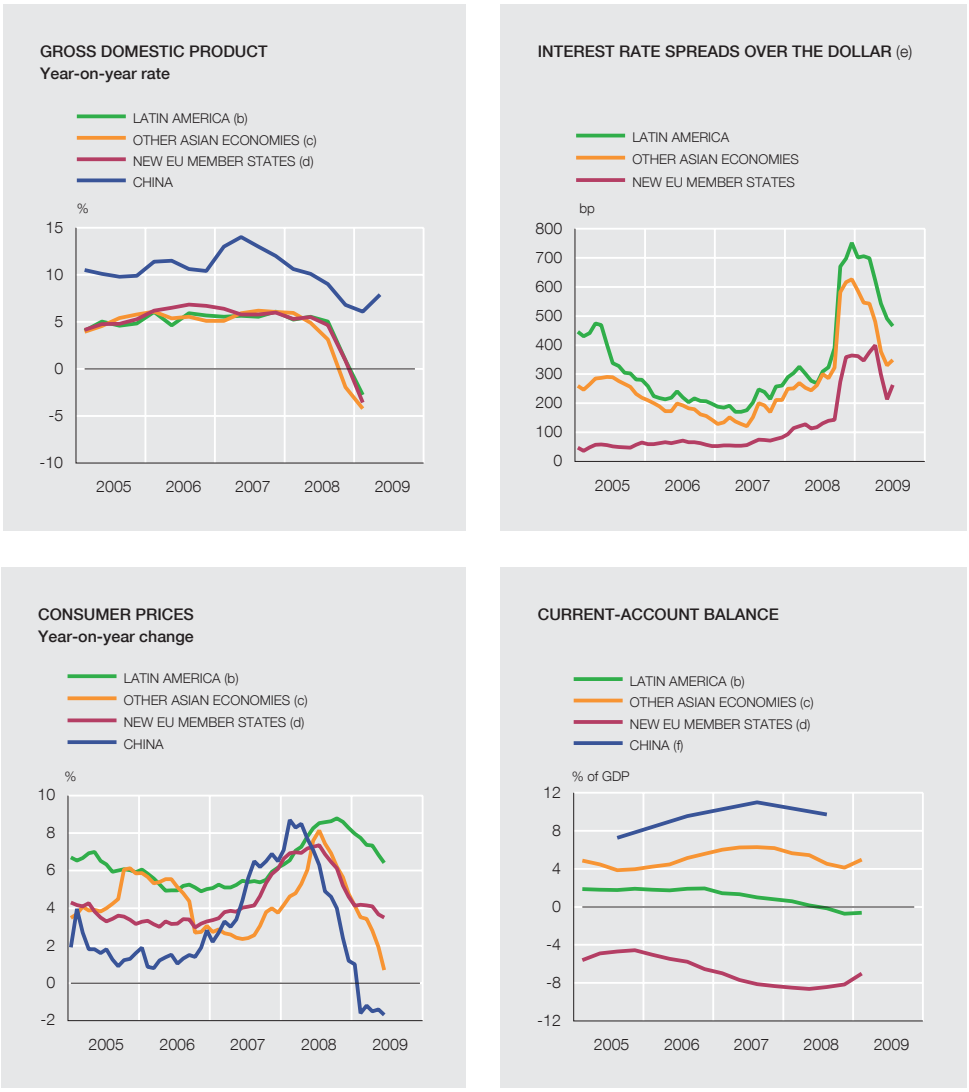
a. Three-month interbank market interest rates.
b. Ten-year government debt yields.

to be discernible in both variables. Inflation continued falling appreciably in Q2, in a setting in which most central banks cut their official interest rates, albeit by a lesser amount than in previous quarters.

Set against growth of 0.9% in 2008 Q4, GDP in Latin America contracted by 2.8% in 2009 Q1 compared with the same period a year earlier, the worst fall since quarterly statistical records began. The contraction was due to the slowdown in domestic demand (which subtracted 3.5 pp from growth), while the contribution of external demand turned positive, adding 0.7 pp, the consequence of the contraction in imports outpacing that in exports. The indicators of activity in 2009 Q2 point to weak growth in most countries in the area, although in Brazil activity is expected to have regained some dynamism. Inflation continued to ease, standing at 6.5% in June, 0.9 pp down on March. In combination with extensive output gaps, this led central banks with inflation targets to continue cutting interest rates at each of the meetings held during Q2. Argentina and Venezuela also relaxed their monetary conditions. Against the background of reduced imports owing to the collapse in domestic demand and price increases in

EMERGING ECONOMIES:
MAIN MACROECONOMIC INDICATORS (a)

CHART 7



SOURCES: National statistics and JP Morgan.

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

certain commodities, there was an improvement in trade balances. Along with some recovery in financial inflows, the improved trade balances gave rise to currency appreciations (which were limited in some cases owing to central bank intervention), except in the cases of Argentina and Venezuela. The IMF approved the granting of the new FCL facility to Colombia (after having previously done so with Mexico), for an amount of $10.5 billion. Finally, there was a notable change, in opposing directions, in the rating agencies' outlook for Brazil (upwards) and Mexico (downwards).

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

In 2009 Q2, economic activity in the euro area continued to worsen, although at a much more subdued rate than in the previous two quarters. This easing in the rate of decline, together with signs of stabilisation on the financial markets (see Box 3) and the relative recovery – based particularly on the expectations component – in agents' confidence indicators (see Box 4) might indicate that a turning point has been reached in the deep economic recession which started in 2008 Q2. However, most of the forecasts available agree in showing a main scenario in which, helped by a more positive international environment and the continued action of economic policies supporting aggregate demand, positive quarter-on-quarter growth rates may be expected to return only in the course of 2010.

This slow upturn scenario continues to be subject to uncertainty and contains significant weak elements. First, the intensity and duration of the recession will put to the test the functioning of the labour market and developments in employment in the coming quarters that so far – supported by temporary measures – have shown themselves to be relatively resilient in the euro area as a whole. Second, public finances have considerably deteriorated as a result of the operation of the automatic stabilisers, discretionary measures to stimulate aggregate demand and action to support the financial system. To underpin the effectiveness of this extraordinary fiscal impulse, it is essential that governments guarantee its compatibility with a strategy of medium-term fiscal consolidation that ensures the sustainability of public finances. And, third, the international financial crisis and the economic recession have severely affected the banking system, which partly depends on support from the public sector and in which leveraging tendencies persist. To make sure that this unfavourable situation does not translate into an episode of contraction of the credit supply beyond what cyclical circumstances would warrant is one of the main challenges facing economic policymakers.

The rate of inflation continued to decline throughout the quarter and turned negative in June (-0.1%) for the first time in the history of EMU. This development responded mainly to the base effects in energy prices and, to a lesser extent, to the slowdown in services prices, resulting partly from very weak demand. According to most experts and analysts, inflation will foreseeably return to positive though very moderate levels towards the end of the year, and would run over a prolonged period in a context in which the high level of slack in productive capacity will tend to limit possible inflationary pressures. In these circumstances, the Governing Council of the ECB again eased its monetary policy stance with a further cut in official interest rates in May, to 1%, i.e. 325 basis points below the October 2008 level. In addition, the ECB strengthened its generous liquidity supply policy to the banking system by establishing a longer-term financing operation with one-year maturity, twice the six-month maximum time span in force until then, and has recently embarked on a programme of acquiring covered bonds and other guaranteed bonds issued in the euro area.

3.1 Economic developments

The second National Accounts estimate confirmed the marked decline in economic activity in the euro area in 2009 Q1. Thus, after the quarter-on-quarter fall of 1.8% in 2008 Q4, the current year started with a sharper-than-envisaged slowdown, (-2.5%, see Box 1). This new fall in activity largely reflects the decline in gross fixed capital formation and in exports, as in the previous quarter, as well as destocking (see Chart 8). Private consumption fell back to a lesser degree, despite the ongoing job destruction, while government consumption was the sole aggregate to post a positive rate of increase. However, domestic demand, excluding stocks, cut 1.1% from GDP growth. The external sector continued to contribute negatively to activity,

SIGNS OF STABILISATION ON THE FINANCIAL MARKETS

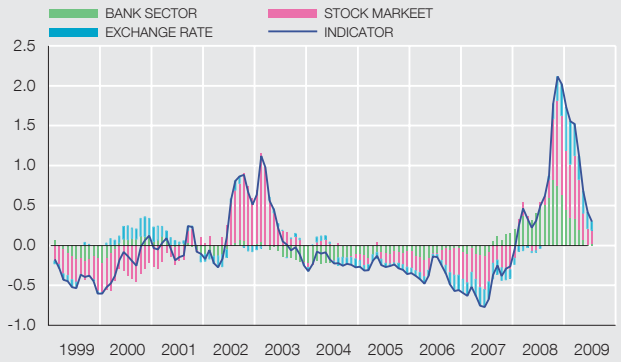
The stabilisation of the financial markets is essential to an efficient allocation of resources in the economy and, in the current economic climate, to the recovery in economic activity. Moreover, markets need to function properly if the impulses from monetary policy are to be effectively transmitted. To assess the degree of easing of tension in the markets since the episode in September 2008 and to identify the financial risks to the macroeconomic scenario, it is useful to construct a synthetic indicator which sums up the not always coincident trend of a set of relevant financial variables.

To this end, a synthetic indicator of financial tension in the euro area is shown in this box, following a similar approach to that proposed by the IMF[1] (see Box 1). This indicator consists of three sub-indices, which respectively refer to the stock exchanges, the banking sector and foreign exchange market (Panels 2 – 4), with each being calculated as an average of a set of previously standardised relevant variables, and available for a sufficiently long period. In the first case, the level (sign reversed) is included and the implied volatility of a stock exchange index and, as a risk assessment measure, the yield spread between private bonds with a BBB credit rating and those with the highest rating, AAA. The banking indicator, shown in Panel 2, consists of the (inverted) price of a sectoral stock exchange index, the slope of the yield curve (sign reversed) and a measure of the counterparty risk in the sector that is calculated as the additional cost of interbank financing without collateral (EURIBOR) in respect of the public government debt. Finally, the third sub-index relating to the foreign exchange market includes the volatility of the euro–dollar exchange rate.

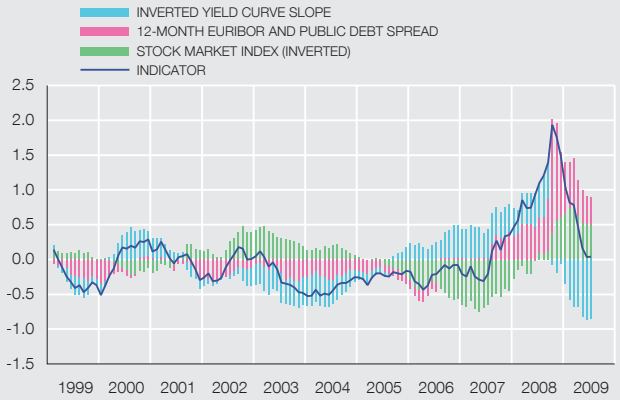
The movement in this synthetic indicator confirms a notable easing of tensions compared with the height of the crisis in September 2008, and has been supported by a broad deployment of measures, some unprecedented in nature and volume, by governments and monetary authorities worldwide, and also by signs that the economic slowdown was starting to abate. The breakdown into components shows that the signs of financial stabilisation starting in March have been reflect-

1. R. Cardarelli, S. Elekdag and S. Lall (2009), *Financial Stress, Downturns, and Recoveries*, WP/09/100, IMF.

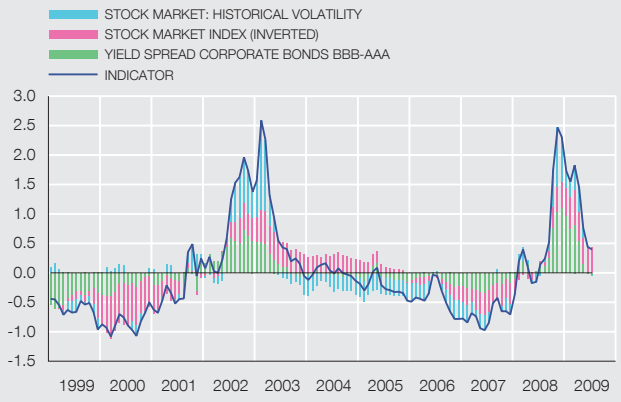
1 FINANCIAL STRESS INDICATOR OF EURO AREA AND CONTRIBUTION OF ITS COMPONENTS



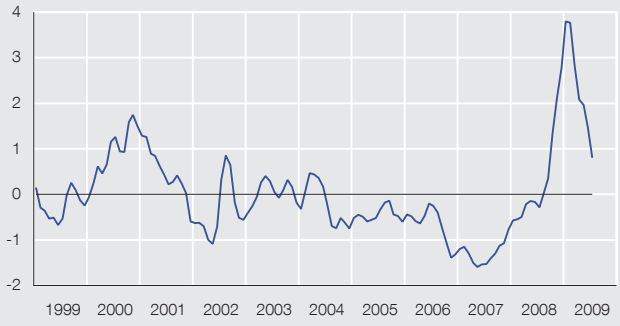
2 FINANCIAL STRESS INDICATOR OF BANK SECTOR AND CONTRIBUTION OF ITS COMPONENTS



3 FINANCIAL STRESS INDICATOR OF SECURITIES MARKET AND CONTRIBUTION OF ITS COMPONENTS



4 DOLLAR/EURO EXCHANGE RATE: HISTORICAL VOLATILITY



SOURCES: Datastream, Bloomberg and Banco de España.

a. The composition of the index follows that of the IMF (see footnote 1) and is constructed as an average of previously normalised financial variables.

ed, above all, in a generalised fall in volatility, which had reached very high levels, and in a reduction in risk premia, both in the non-financial sector and, notably, in the financial sector. In addition, the decline in the banking stress indicator largely reflects the increase in the yield curve, which tends to push up the net interest income of credit institutions[2] – which traditionally take short-term liabilities (e.g. deposits) and convert them into long-term loans. Finally, the improvement was boosted by the rise in stock market indices, although, after the lows of the past decade reached in March, they were still at levels far from those prevailing before the crisis.

Despite the notable fall, the financial tension indicator remains at historically high levels which still point to a situation of relative financial weakness with a high level of uncertainty. It is worth remembering in this context that corporate earnings worsened in Q1 and one-year profit expectations continue to suggest falls, even though they have recovered over longer horizons. With regard to the banks, they have incurred substantial losses, mainly due to structured assets. And problems relating to liquidity, shortage of capital and medium-term financing have been eased by the actions of the monetary authorities and governments. Nevertheless, the wholesale funding markets have not resumed their activities and the pronounced macroeconomic weakness poses additional risks for banks' loan portfolios.

In conclusion, since the start of the year, and especially since March, there has been a reduction in financial tensions, linked in all likelihood with the unprecedented measures taken by governments and central banks, and with evidence that the economic slowdown seems to be losing force. However, tension remains high and far from the pre-crisis levels in mid-2007. Some confirmation in the coming months of the current expectations of economic recovery will be critical in restoring the normal functioning of the financial system.

2. Nevertheless, this effect will depend notably on the term structure of companies' balance sheets and, for example, will be less significant the greater the weight of floating-rate loans on the assets side.

since exports contracted more strongly than imports. Finally, as regards the breakdown by sector, the adjustment was predominantly in industry and services, while construction was down less than in the previous quarter.

The contraction in activity was a common feature of the main economies of the euro area. However, the strength of the downturn varied greatly. Activity fell in Germany in 2009 Q1 by 3.8%, while in France it was down 1.2%, 0.2 pp less than in 2008 Q4. Italy, for its part, posted negative growth of 2.6%, in line with the average for the whole of the euro area. Despite these differences, the items which most impacted economic activity in the three countries were the same: gross fixed capital formation, specifically capital goods and exports. Government consumption and private consumption expanded, except in the case of Italy, contributing positively to GDP.

The decline in employment intensified in 2009 Q1, falling by 0.8%. Given that GDP slowed to a greater extent, apparent labour productivity growth fell to -1.7%. Also, the adjustment observed in employment in the euro area is the result of very different behaviour across the member countries. Thus, while the pace of job destruction in Germany and France stands at 0.3% and 0.8%, respectively, in countries such as Spain and Ireland the slowdown is more acute and in 2009 Q1 posted rates of 3.1% and 3.8%, respectively. The marked fall in productivity resulted in a sharp increase in unit labour costs, even though the growth in compensation per employee moderated (see Chart 8). In addition, the increase in the GDP deflator was more contained, and business margins contracted sharply.

The latest economic data indicate a further decline in activity in 2009 Q2, albeit one more moderate than in Q1. Thus, on the supply side, industrial production fell in April and May to a slower pace than in Q1, a pattern also evident in new industrial orders (see Chart 9). The confidence indicators produced by the European Commission and the PMI industry and services surveys have, after reaching lows in February and March, been recording steady advances, underpinned mainly by the expectations component (see Box 4), although they are still at lev-

THE ASSESSMENT OF THE ACTUAL AND EXPECTED ECONOMIC SITUATION IN CONFIDENCE SURVEYS, AND DEVELOPMENTS IN ECONOMIC ACTIVITY IN THE EURO AREA

BOX 4

The confidence indicators cover the results of surveys of private agents on their perception of the economic situation. Their prompt availability and capacity to anticipate turning points in the business cycle make them very relevant as monitors of the economy.[1] Lately, most indicators for the euro area have recorded considerable improvements which suggest that in recent months there has been a marked slowdown in the worsening of economic activity.

The surveys include questions on the economic situation or on production or demand trends at the time of the respective survey, while others focus on the expectations of respondents in respect of these variables. The components related to the current or recent situation usually show a coincident or even lagged correlation to economic activity, while the indicators of expectations usually show a weaker relationship with the real variables, but of a leading nature. The latter indicators, however, tend to change more frequently, so their short-term movements have to be treated with caution since they can change back more easily.

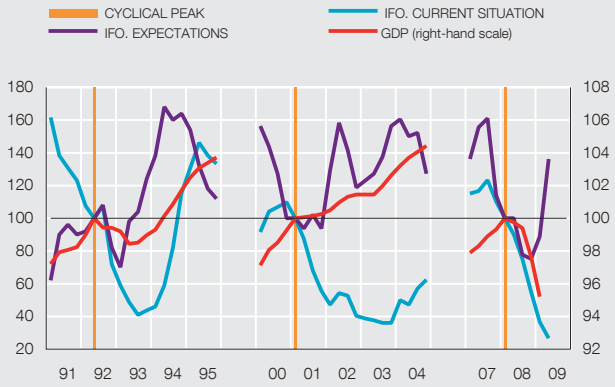
The panels depict developments during the current recession broken down into assessments of the current and expected economic situation taken from some of the main confidence indicators in the euro area, together with the economic variable with which a stronger relationship in each case may be expected. Moreover, for comparative purposes, the same variables in the recession of the early 1990s[2] are included. That recession spread in a generalised way to the euro area countries, although with less force than the current one, like in the period of low economic growth in the euro area between 2001 and 2003.

As the panels illustrate, the expectation indicators have recorded generalised increases in the most recent period, while those referring to the current situation have either continued to deteriorate – in the case of the IFO surveys and the European Commission's consumer surveys – or have shown more moderate improvements – like the EC's business confidence and the services PMI surveys. These developments are in line with the experience of the two previous phases, when initially there was a rise in expectations, whereas assessments of the present showed a smaller improvement or continued to worsen. Yet, while in the early 1990s the rise in prospects was continuous and was followed, with a

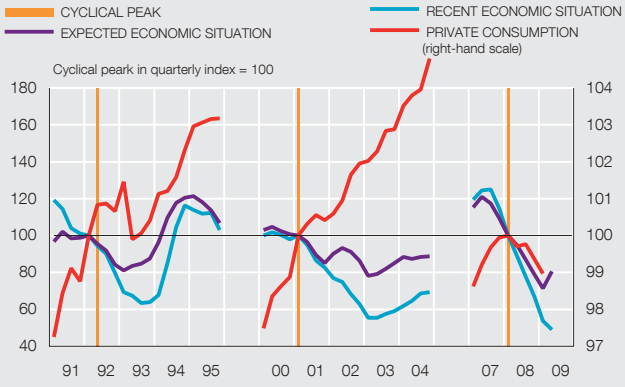
1. See ECB (2004), "Opinion surveys on activity, prices and labour market developments in the euro area: features and uses", Monthly Bulletin, January, and Cuenca and Millaruelo (2006), "Las encuestas de opinión y el análisis de coyuntura de la actividad real de la UEM", Boletín Económico, January, Banco de España.

2. With the exception of the confidence indicators in the services sector, for which there are no data for this period.

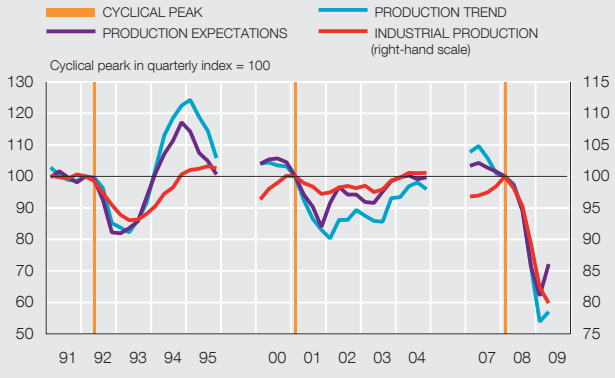
1 IFO SURVEY FOR EURO AREA AND GDP



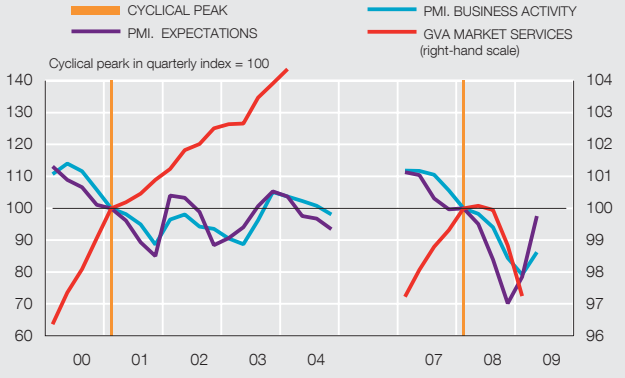
2 EC CONSUMER AND PRIVATE CONSUMPTION SURVEY



3 EC INDUSTRY AND INDUSTRIAL PRODUCTION SURVEY



4 PMI SERVICES AND GVA MARKET SERVICES



SOURCES: European Commission, Eurostat and Markit Economics.

certain lag, by a strengthening of real variables and of the assessment of the economic situation, in the low-growth period at the start of this decade the improved expectations in early 2002 regarding the future went into reverse after a short time and were not accompanied by a pick-up in activity, which remained weak. Subsequently, in 2003, the improvement in expectations was followed by a more optimistic assessment of the situation and by a higher growth rate.

In conclusion, the most recent improvement in confidence in the euro area so far has been based essentially on indicators that include the expectations of economic agents. On the limited evidence available, this behaviour, although reassuring, does not necessarily mean a quick pick-up in activity, as it is fairly common for rises in these indicators to be short-lived. If the favourable responses to the questions on future developments continue in the coming months and feed through to a more positive assessment of the economic situation, it could give greater weight to a recovery scenario. In any event, the comparison with previous situations must be made very carefully given the exceptionally strong nature of the current recession.

els significantly below those associated with positive growth in activity. On the labour front, the unemployment rate has continued to worsen throughout the quarter, while the declining trend of the employment indicators turned round in many cases, although they remain at very low levels in historical terms.

On the demand side, household spending indicators show a lesser deterioration in private consumption. Retail sales were down on average to levels somewhat below those of Q1 this year, while car registrations – boosted by support schemes by various governments – and consumer confidence indicators, after the low in March, continued to progress. As regards investment in capital goods, both the degree of capacity utilisation and the assessment of order books according to the Commission's quarterly survey declined again in Q2. Data relating to external demand have, by contrast, been less negative than in recent months. Thus, the trade balance nominal data show on average a more moderate contraction in exports in April and May, and export expectations drawn from the EC's quarterly industrial opinion survey progressed slightly in Q2. However, the average assessment of order books continued to decline over that period. Finally, the European Commission's stock valuation indicator suggests a slower pace of destocking.

In sum, the recent movements in the economic indicators, which despite the improvement remain at very low levels, point to a further contraction in activity in Q2, but a more limited one than in the opening months. Into the medium term, private analysts and international organisations place the decline in GDP at around 4.5%, with a gradual recovery to positive rates at the end of 2010 (see Box 2). Nevertheless, although uncertainty about the economic prospects has eased slightly, downside risks to this slow recovery scenario exist, mainly due to the degree of normalisation of the financial system and the worsening situation in the labour market.

Euro area inflation slowed gradually in Q2 to a negative year-on-year growth rate of -0.1% in June (see Chart 10). This slowdown was essentially in response to the energy base effects arising from last year's high prices and, to a lesser extent, from the deceleration in services prices, stemming partly from sluggish demand. The growth rate of unprocessed food prices continued its downward trend, as did that of processed food prices, although the latter fell at a slower pace than in the previous quarters. Inflation in non-energy industrial goods was, however, stable throughout the quarter. Thus, core inflation, as measured by the overall index excluding unprocessed food and energy, was much more subdued, falling by only 0.2 pp between March and June to 1.3%. Industrial prices continued their sharp contraction, with a

EURO AREA ECONOMIC INDICATORS (a) TABLE 1

	2007	2008				2009		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
NATIONAL ACCOUNTS (quarter-on-quarter rate of change, unless otherwise indicated)								
GDP	0.4	0.7	-0.3	-0.4	-1.8	-2.5		
Private consumption	0.3	0.1	-0.3	0.0	-0.4	-0.5		
Government consumption	0.4	0.4	0.9	0.5	0.4	0.2		
GFCF	1.0	1.0	-1.3	-1.1	-4.1	-4.1		
Imports	-0.1	1.5	-1.0	0.9	-5.2	-7.6		
Exports	0.7	1.7	-0.3	-0.6	-7.3	-8.8		
Contributions to quarter-on-quarter GDP growth (pp)								
Domestic demand (excl. stocks)	*0.4*	*0.4*	*-0.3*	*-0.2*	*-1.1*	*-1.1*		
Change in stocks	*-0.4*	*0.2*	*-0.2*	*0.4*	*0.3*	*-0.9*		
Net foreign demand	*0.4*	*0.1*	*0.3*	*-0.6*	*-1.0*	*-0.5*		
GDP (year-on-year rate of change)	2.2	2.2	1.5	0.5	-1.7	-4.9		
ACTIVITY INDICATORS (quarterly average)								
IPI seasonally and working-day adjusted	1.0	1.8	-2.2	-2.8	-6.2	-7.4	*-2.7*	
Economic sentiment	105.0	101.4	97.7	89.9	75.6	65.7	70.3	
Composite PMI	54.0	52.1	50.8	47.6	40.2	37.6	43.2	
Employment	0.3	0.4	0.1	-0.2	-0.4	-0.9		
Unemployment rate	7.3	7.2	7.4	7.6	8.0	8.8	*9.4*	
PRICE INDICATORS (year-on-year change in end-period data)								
HICP	3.1	3.6	4.0	3.6	1.6	0.6	-0.1	
PPI	4.6	5.6	7.7	7.6	1.2	-2.9	*-5.7*	
Oil price (USD value)	91.5	104.3	132.0	98.1	40.5	46.8	68.8	*63.2*
FINANCIAL INDICATORS (end-period data)								
Euro area 10-year bond yield	4.4	4.2	4.9	4.5	3.8	4.1	4.2	*4.1*
US-euro area 10-year bond spread	-0.36	-0.69	-0.88	-0.88	-1.76	-1.31	-0.63	*-0.37*
Dollar/euro exchange rate	1.472	1.581	1.576	1.430	1.392	1.331	1.413	*1.423*
Appreciation/ depreciation of the NEER-22 (b)	6.3	3.7	3.5	-0.6	2.7	-0.7	-1.1	*-1.1*
Dow Jones EURO STOXX 50 index (b)	6.8	-17.5	-23.8	-30.9	-44.3	-15.5	-2.0	*5.5*

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

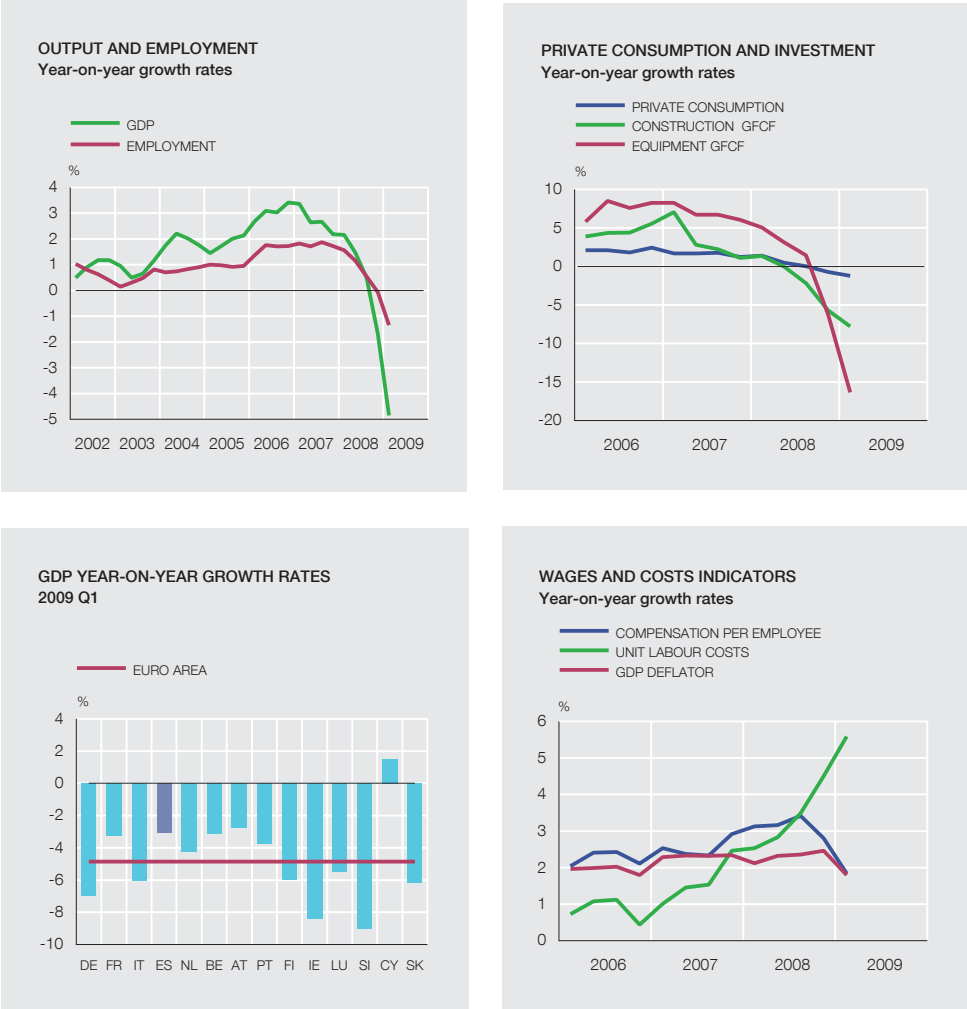
a. Information available to 23 July 2009. The information in italics does not cover the full quarter.
b. Percentage change for year to date.

year-on-year drop of 5.8% in May. This marked decline was essentially due to the fall in the prices of energy, non-energy intermediate goods and non-durable consumer goods, but also to the lower growth in the prices of capital goods and consumer durables.

In the coming months, mainly as a result of energy and food price base effects, inflation is expected to hold at a negative rate. However, this base effect will foreseeably wane in the second half of 2009 and positive, albeit moderate, inflation rates may be reached in the final months of the year and should continue in 2010. That inflation is expected to stabilise around 1% next year reflects the high degree of slack in production capacity building up in Europe's economy in the face of weak aggregate demand.

According to information published by the ECB, the euro area current account deficit totalled €65 billion (1.7% of GDP) between January and May 2009, €19 billion more than over the same period last year. The other components, except for the income balance, whose deficit fell slightly, performed less well. Thus, the trade surplus on goods became a deficit, as exports declined more than imports, the services trade surplus narrowed and the deficit on current transfers continued to widen. By contrast, in respect of the financial account, net capital outflows in the form of direct investment rose to €37 billion between January and May, while portfolio investment amounted to net inflows of €224 billion, three times higher than in the

EURO AREA NATIONAL ACCOUNTS CHART 8



SOURCES: Eurostat and national statistics.

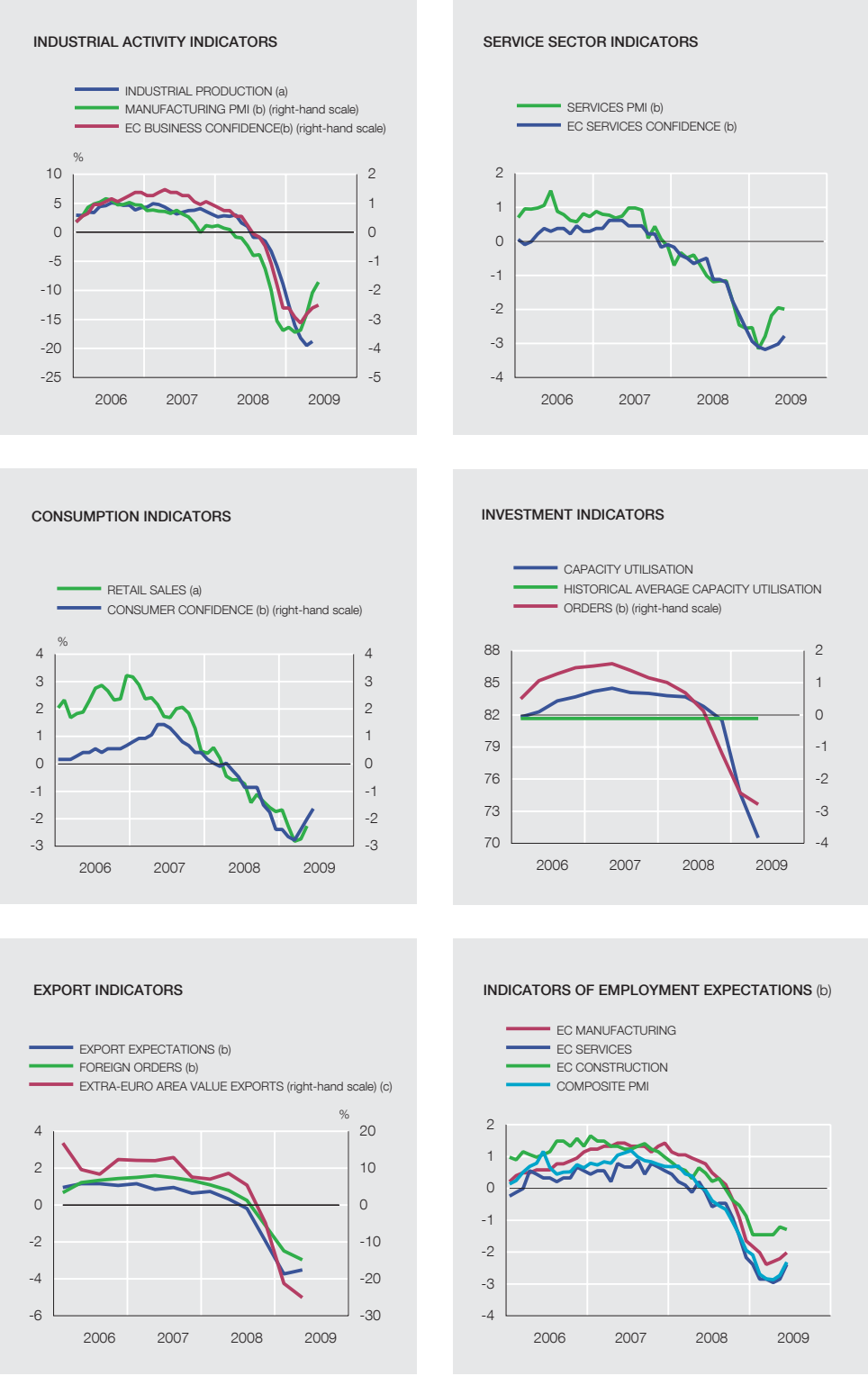
same four-month period of the preceding year. Accordingly, in the opening months of the year, the basic balance, which aggregates the current account balance and these two kinds of investment, was positive to the tune of €123 billion, contrasting with the deficit of €78 billion between January and May 2008 (see Chart 11).

In recent months several countries in the euro area have started to discuss both the budgets for next year, updating the estimates available for 2009, and the medium-term budgetary projections. In general, these new figures reflect the impact of the crisis on public revenues and specifically on corporate income tax takings, given the severe cut in profits. Government spending grew at a strong pace, boosted by the dynamism of the automatic stabilisers, such as unemployment benefits, and by discretionary measures that seek to promote economic activity and limit job destruction. These measures included most notably the income transfers associated with schemes in some countries to shorten the working day.

Specifically, for the year 2009, the European Commission estimates that the general government budget deficit will amount to 5.3% of GDP, compared with 1.9% the previous year (see Table 3). Almost two-thirds of this fiscal impulse, approximated by the change in the deficit between the two years, would be explained by the activation of the automatic stabilisers, while the remaining third, 1.1 pp, would be linked to the discretionary measures to

EURO AREA. ACTIVITY, DEMAND AND EMPLOYMENT INDICATORS

CHART 9



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.

GDP AND HICP PROJECTIONS FOR THE EURO AREA (a)

TABLE 2

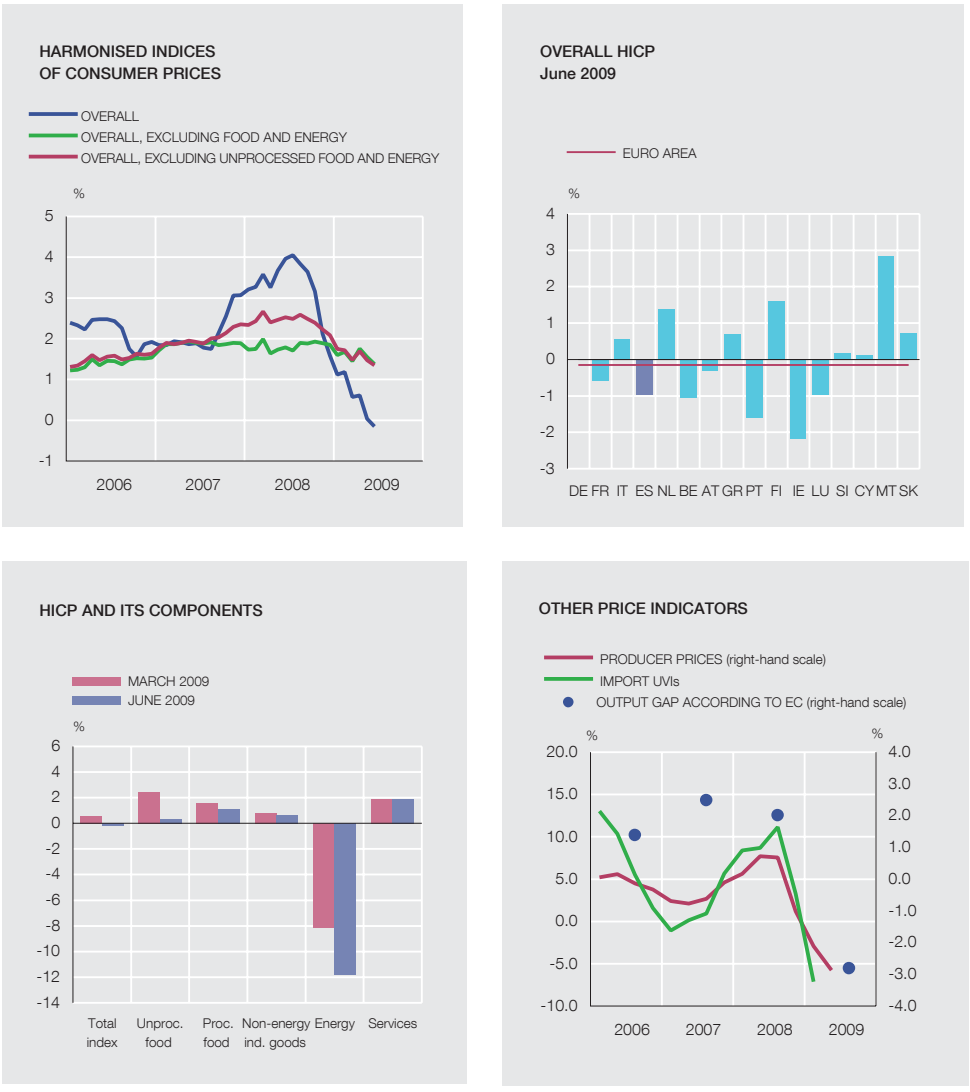
	2009		2010	
	GDP	HICP	GDP	HICP
ECB (June 2009)	-4.6	0.3	-0.3	1.0
European Commission (May 2009)	-4.0	0.4	-0.1	1.2
IMF (July 2009) (b)	-4.8	0.4	-0.3	0.6
OECD (June 2009)	-4.8	0.5	0.0	0.7
Consensus Forecast (July 2009)	-4.4	0.4	0.4	1.2
Eurobarometer (July 2009)	-4.5	0.4	0.4	1.2

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

a. Year-on-year rates of change.
b. The inflation data relate to the April projection.

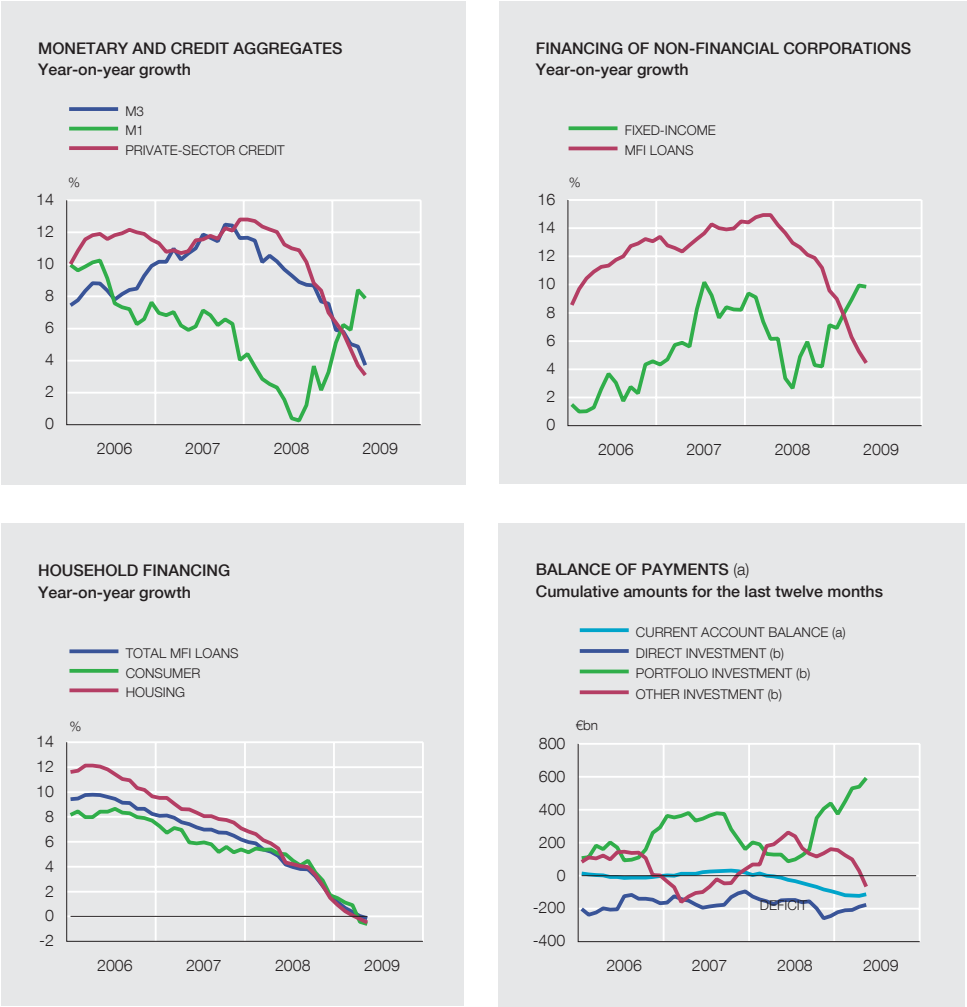
EURO AREA. PRICE INDICATORS
Year-on-year rates of change

CHART 10



SOURCES: Eurostat and ECB.

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).

stimulate demand agreed under the framework of the European Economic Recovery Plan.

The European Council approved last April the excessive deficit procedure for those Member States – France, Spain, Ireland and Greece – whose deficits exceeded the reference value of 3% of GDP in 2008, and, in June, the European Commission relaunched the procedure for Malta and other EU members. This group of countries could become considerably larger in the coming months since, according to the latest Commission forecasts shown in Table 3, virtually all the members of the euro area will have budget deficits above the 3%-of-GDP ceiling laid down in the Stability and Growth Pact.

Public debt could approach 80% of GDP in 2009, as a result of the high budget deficits and the financial system support measures applied by governments. This increase in debt poses a major challenge for the euro area countries in the next few years, for it adds to the costs which an ageing population will generate. Thus, the latest estimates by the European Commission are for an increase in public spending resulting from the inversion of the age pyramid over the medium term. By 2060 it might amount to 5.2% of the euro area's GDP, mainly due to spend-

EURO AREA GENERAL GOVERNMENT BUDGET BALANCES (a) TABLE 3

% of GDP

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

SOURCES: European Commission and national stability programmes.

a. Deficit (–)/surplus (+). Cells in which the deficit exceeds 3% of GDP have been shaded.
b. Stability programme objectives submitted in spring 2009.
c. Spring 2009 notification of Excessive Deficit Procedure.
d. European Commission April 2009 projections.

ing on pensions, health care and long-term care. In this context, countries need to draw up a credible fiscal consolidation strategy without withdrawing fiscal stimulus measures that might contribute to the economic recovery at too early a stage. In view of the looming high debt levels, the members should set medium-term objectives that are more ambitious than in the past and commit themselves accordingly to achieving the compromises needed to achieve them as soon as possible.

3.2 Monetary and financial developments

After the extreme tension of recent months, the international financial markets showed signs of stabilising in Q2. As Box 3 illustrates, the improvements in the financial tension indicators have been notable and fairly generalised across markets, although they have still not attained levels which could be described as normal. The greater degree of confidence brought about an unwinding of flight-to-quality investments, in particular into government debt, and a stronger preference for higher-risk assets. These movements pushed up sovereign bond yields, while stock prices rose significantly, and risk premia in bond markets and particularly in the interbank market narrowed. Although the cost of credit continued to fall, reflecting the more accommodating monetary policy stance, financing for the private sector continued its marked decline, only partly offset by some pick-up in bonds issued by non-financial corporations.

The financial markets have been further stabilised by the actions taken by governments and the measures taken by the monetary authorities. The euro area governments continued to draw up

plans to support and restructure the financial sector. Thus, according to the latest figures from the European Commission, the effective aid given between June 2008 and April 2009 would be equivalent to almost 12% of the euro area's GDP, around one-half of the maximum package envisaged in the plans. In the last few months, in addition to the ongoing bank guarantee and recapitalisation schemes, various proposals to consolidate banks' assets have started to take shape. The initiatives, some of which are still under parliamentary review, notably include the creation of a public agency in Ireland (the National Asset Management Agency, NAMA), which will buy loans to developers from Irish banks, and the legislative amendment which will permit German banks to create 'bad banks' for illiquid and non-strategic assets.

The ECB maintained its ample liquidity supply policy, meeting all requests for funds for open market operations, and amended its operational framework. First, it established longer-term refinancing operations with a maturity of 12 months, doubling the maximum period of six months in force until then. In the first auction on 24 June, the ECB lent a record amount of more than €440 billion, which resulted in a sharp increase in the deposit facility, remunerated at a rate of 0.25%. Moreover, in July, the ECB embarked on a purchase programme for covered bonds issued in the euro area. This initiative was announced in May and aims to improve the funding of banks and, ultimately, to make access to credit easier for the rest of the economy. It will last until June 2010 and involves outright purchases, both in the primary and secondary markets, of up to €60 billion. Finally, it should be emphasised that the ECB extended its currency arrangements with the Federal Reserve and other central banks until 30 October 2009 as well as the validity of the broader list of eligible collateral until the end of 2010, and it also included the European Investment Bank as a counterparty for the Eurosystem's monetary policy operations.

In a similar vein, the Governing Council again eased the ECB monetary policy stance with a reduction in its official rates of 25 bp in May, bringing the overall cut since October 2008 to 325 bp. Thus, the rate for the main refinancing operations stood at 1%, while those for the deposit and marginal credit facilities were at 0.25% and 1.75%, respectively (see Chart 12). Furthermore, the Governing Council reiterated throughout the quarter that medium and long-term expectations remain anchored, in line with the inflation rate objective of below, but close to, 2%, pointing out that the negative rates expected in the coming months largely reflect temporary base effects.

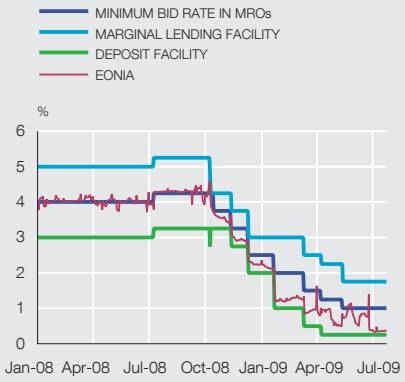
Against this background, the interbank interest rates continued to fall in Q2, mainly due to the reduction in the risk premia. The EURIBOR fell in July to below 1% and to 1.4% for maturities of between three months and one year, respectively, the lowest levels since the start of monetary union (see Chart 13). Movements in short-term rates continued to fed through to the cost of bank funding. The strongest falls occurred in variable-rate loans, which are prevalent in corporate financing, and also in home loans in some countries. However, the interest rate for consumer credit remained at relatively high levels.

Despite the decline in the cost of financing, the predominance of stricter lending standards, as indicated in the July Bank Lending Survey, and the contraction in demand continued to make for a sharp slowdown in euro area bank lending. The year-on-year growth rate of loans to companies stood at 4.4% in May, compared with 9% at end-2008, while in the case of households, slight falls were posted in year-on-year terms in finance for both housing and consumption (figures which might be biased downwards by the sale of loans via securitisation). In the case of companies, the slower pace of bank loans was partly offset by a substantial increase in debt issuance, particularly long-term instruments, the year-on-year increase in which stood in May at over 16%.

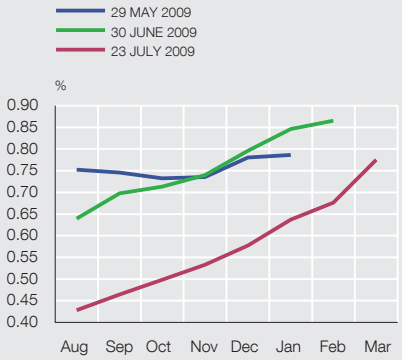
EURO AREA INTEREST RATES

CHART 12

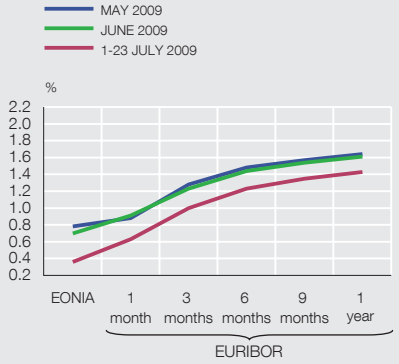
ECB INTEREST RATES AND EONIA



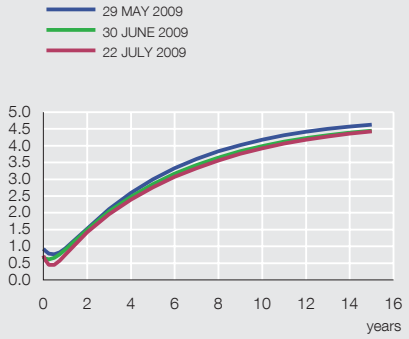
EXPECTED RATE FOR THE NEXT 8 ECB MEETINGS. FORWARD-EONIA



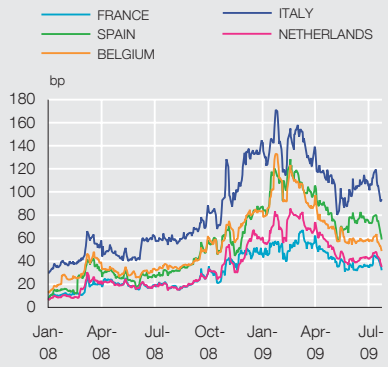
INTERBANK MARKET
Monthly average



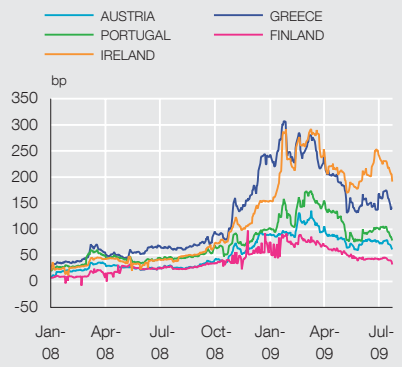
ZERO COUPON CURVE (a)



SOVEREIGN SPREADS WITH RESPECT TO GERMANY



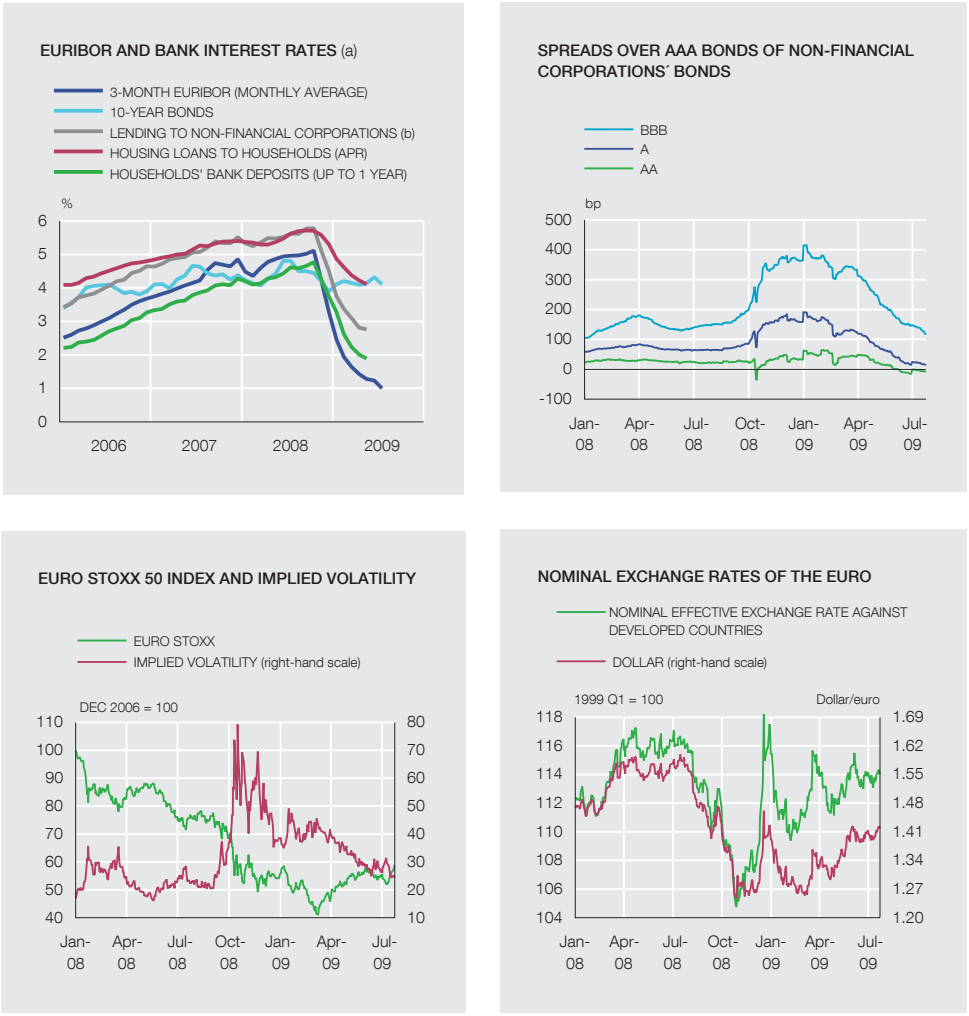
SOVEREIGN SPREADS WITH RESPECT TO GERMANY



SOURCES: ECB and Banco de España.

a. Estimated by the ECB using swap market data.

EURO AREA INTEREST RATES, STOCK MARKET INDEX AND EXCHANGE RATE CHART 13



SOURCES: ECB and Banco de España.

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

In the government debt markets, long-term interest rates started to rise, essentially reflecting the impact of the reversal of the shifts towards this safe-haven asset made at the height of the instability. The turnaround took place in mid-June, whereby long-term rates stood at 4.2% on average between April and June, a level very similar to that of the previous quarter. In the United States, despite the purchases of government debt by the Federal Reserve, the greater appetite for risk had an upward impact on benchmark rates. The yield on US sovereign bonds averaged 3.3% on average in Q2, which entailed a narrowing of the spread vis-à-vis that of the euro area. The decline in risk premia as from March, which exerted downward pressure on long rates in the euro area, was reflected in a fall in the yield spreads of the sovereign debt of various euro area countries with respect to the German benchmark. Nevertheless, this decline ended in May and risk premia remained at high levels, evidencing wide cross-country disparity.

The improvement in confidence was also apparent in a contraction in the risk premia in the private fixed-income markets, both for financial and non-financial corporations, and in a more marked way for lower-graded securities. In the same way, risk spreads in the covered bond market fell considerably after the ECB's purchase programme was announced.

The signs of stabilisation became clearer in the international equity markets, where prices started to rise across the board, particularly bank stocks, and entailed in the case of the EURO STOXX 50 index a gain of almost 25%, offsetting the declines in the first two months of the year. In addition, the reduced uncertainty contributed to the decline in volatility in Q1, steepening as from March, although it remains at high levels from a historical perspective (see Chart 13).

In the foreign exchange markets, the euro rose by 7.2% against the dollar between the end of March and the date this Bulletin went to press, until it stabilised at around $1.40 (see Chart 13). However, in nominal effective terms, the euro remained relatively stable throughout Q2, since its appreciation vis-à-vis the dollar was offset by its depreciation against other currencies, such as sterling.

Finally, the growth rate of the broad monetary aggregate M3 continued to decline, to less than 4% year-on-year in May. Lower rates of interest and the steeper slope of the yield curve led to investment switching out of M3 towards better rates of return, a move reflected in the redemption of fixed-term deposits and of marketable securities. At the same time, the fall in the opportunity cost also supported a shift in assets included in M3 towards M1 (currency and deposits).

4 The Spanish economy

On Quarterly National Accounts (QNA) estimates, the rate of contraction of Spanish economic activity intensified in 2009 Q1, with real GDP posting a decline of 3%, compared with a fall of 0.7% in 2008 Q4. The quarter-on-quarter rate was negative for the third consecutive quarter at –1.9%, down 0.9 pp on the previous quarter. The fall-off in economic activity reflected the sharp contraction in national demand, which declined by 5% in year-on-year terms. By contrast, net external demand continued to make a positive contribution to GDP growth (2.3 pp), against a background in which both imports and exports of goods and services declined considerably. On the supply side, value added fell across all branches of activity, including market services. In line with this deterioration in activity, the pace of job destruction quickened, posting a year-on-year rate of change of –6% on QNA figures, taking productivity growth to 3.1%.

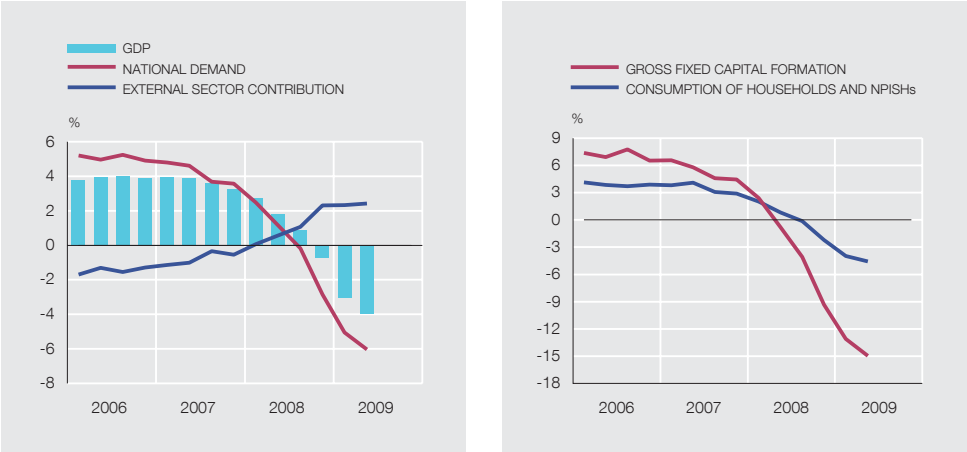
According to the available information, the Spanish economy continued to shrink in 2009 Q2, although at a more moderate pace, against a background marked by a certain degree of normalisation on the financial markets and a slightly less adverse macroeconomic outlook at an international level. Specifically, the estimated year-on-year change in GDP in 2009 Q2 was –4%, down by more than 1 pp on that seen in 2009 Q1 (see Chart 14). In quarter-on-quarter terms, GDP is estimated to have declined by –0.9%, as opposed to –1.9% in Q1. This would reflect the contraction in national demand, which is estimated to have fallen by 6% in comparison with the same quarter a year earlier. The contribution to GDP growth from the external sector is estimated to have risen slightly, to 2.4 pp, although the intense fluctuations in world trade, with a sharp fall in the previous quarters and a better performance more recently, continue to severely hamper this estimate.

Also on the supply side, the most recent indicators point to a degree of slowdown in the rate of decline of GDP and in the rate of labour market adjustment. On these estimates, employment growth could drop by some 6.8% in year-on-year terms, while apparent labour productivity growth – due, fundamentally, to extensive job destruction – seems to have stabilised at a high level, following the sharp rebound seen since the start of 2008. Compensation per employee continued to rise at a much higher pace than inflation, with only a minor decrease in the rate of change of unit labour costs. Lastly, turning to inflation, the year-on-year rate of change in the CPI fell substantially in the period between April and June, standing at –1% at end-June. This prompted further narrowing of the inflation differential with the euro area, which stood at –0.9 pp at the end of H1, the lowest value since the start of monetary union.

4.1 Demand

The slowdown in final consumption spending of households and NPISHs seen in previous quarters continued in 2009 Q2 (see Chart 14). The various indicators continued to record sharp declines, although at a more moderate pace than in the opening months of the year (see Chart 15). Among the qualitative indicators, consumer confidence made a partial recovery in the last few months, after posting an all-time low in February; retail confidence also improved in Q2. In the case of the quantitative indicators, the tax authorities' data on large corporations for April and May recorded further sharp declines in year-on-year terms in domestic sales of consumer goods and services, while the rate of contraction of the retail trade index moderated somewhat in April-May. Lastly, the positive impact of the government's Plan 2000E on car purchases by individuals in June is noteworthy, as although new car registrations declined by 15.9% year-on-year in the month, this was the most moderate drop since May 2008.

MAIN DEMAND AGGREGATES (a) CHART 14



SOURCES: INE and Banco de España.

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

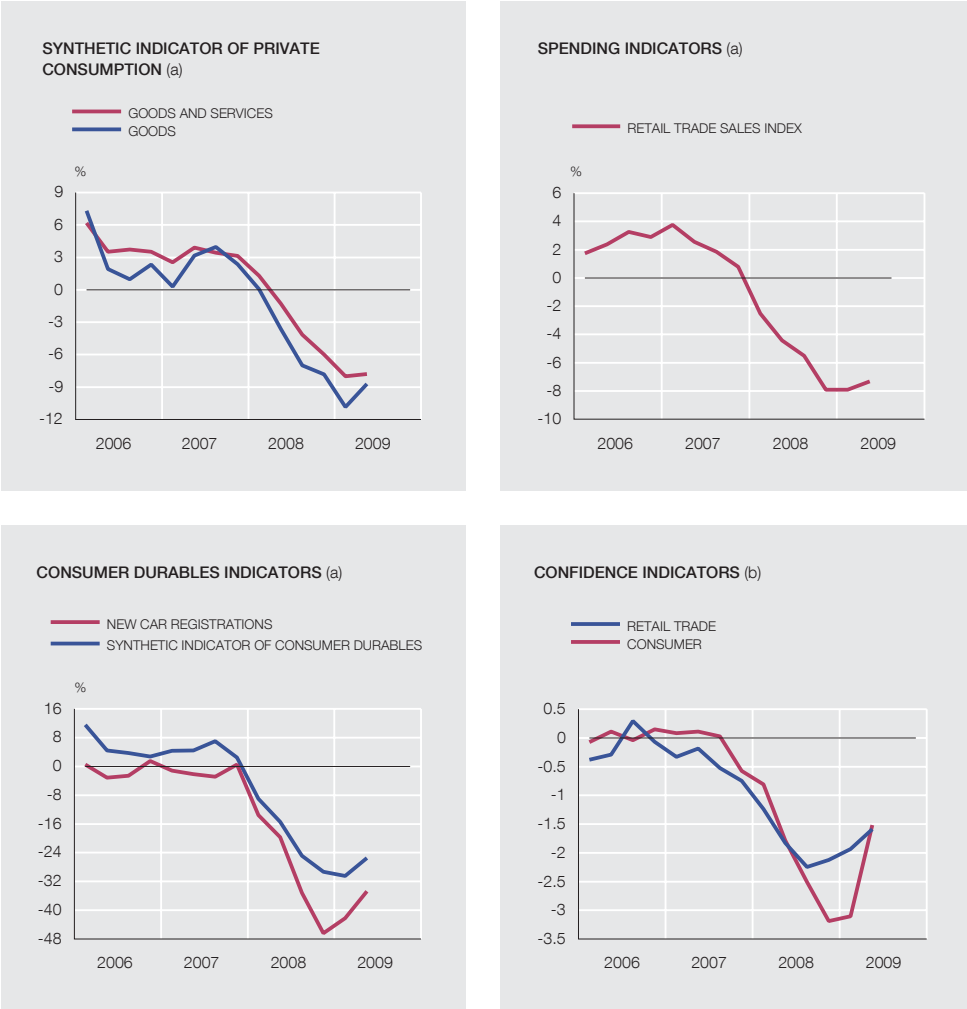
Weak household consumption spending reflects the significant deterioration in the labour market, the high economic uncertainty and the continued tight credit conditions, although the latter may have been offset to some extent by the cut in bank interest rates. Household wage income has decreased as a result of job losses, offsetting the positive impact that lower tax payments and higher welfare-related benefits have had on household disposable income. Financial wealth was boosted in 2009 Q2 by the recovery in the stock markets, recording gains on end-2008, although real estate wealth, which is the most important component of household wealth, continued to be adversely affected by falling house prices. According to the latest data of the non-financial accounts of the institutional sectors, the household saving rate rose again in 2009 Q1 to 14.1% of disposable income in cumulative four-quarter data, an increase of 1.1 pp on end-2008 and of 4 pp on a year earlier.

General government final consumption continued to grow substantially in 2009 Q2, albeit more slowly than in the previous quarter, according to available information on net purchases of goods and services drawn from the State budget outturn.

On the available economic information, the decline in investment in capital goods quickened in 2009 Q2 (see Chart 16). In this respect, apparent investment in capital goods and new commercial vehicle registrations continued to contract sharply. Business confidence, in industry overall and, in particular, in the capital goods sector, remained very low, despite a minor rebound, especially in the component reflecting future production expectations. The decline in both national and external demand, the uncertain economic recovery outlook and the persistently tight bank credit conditions continued to deter non-financial corporations from undertaking new investment projects, despite the interest rate cuts. According to the non-financial accounts of the institutional sectors, the decline in business investment prompted a decrease in the sector's net borrowing in 2009 Q1, down to 6.4% of GDP in cumulative four-quarter data (1.1 pp less than in 2008 Q4). Firms' higher saving, driven by lower net interest payments and lower tax disbursements, also contributed in this respect, although to a lesser extent.

The rate of decline of investment in construction moderated in 2009 Q2, although it remained very high (see Chart 16). Labour market indicators in this branch (Social Security registrations and registered unemployment) and input indicators (apparent consumption of cement and domestic production of construction materials) all fell in the quarter at a more moderate pace

PRIVATE CONSUMPTION INDICATORS CHART 15



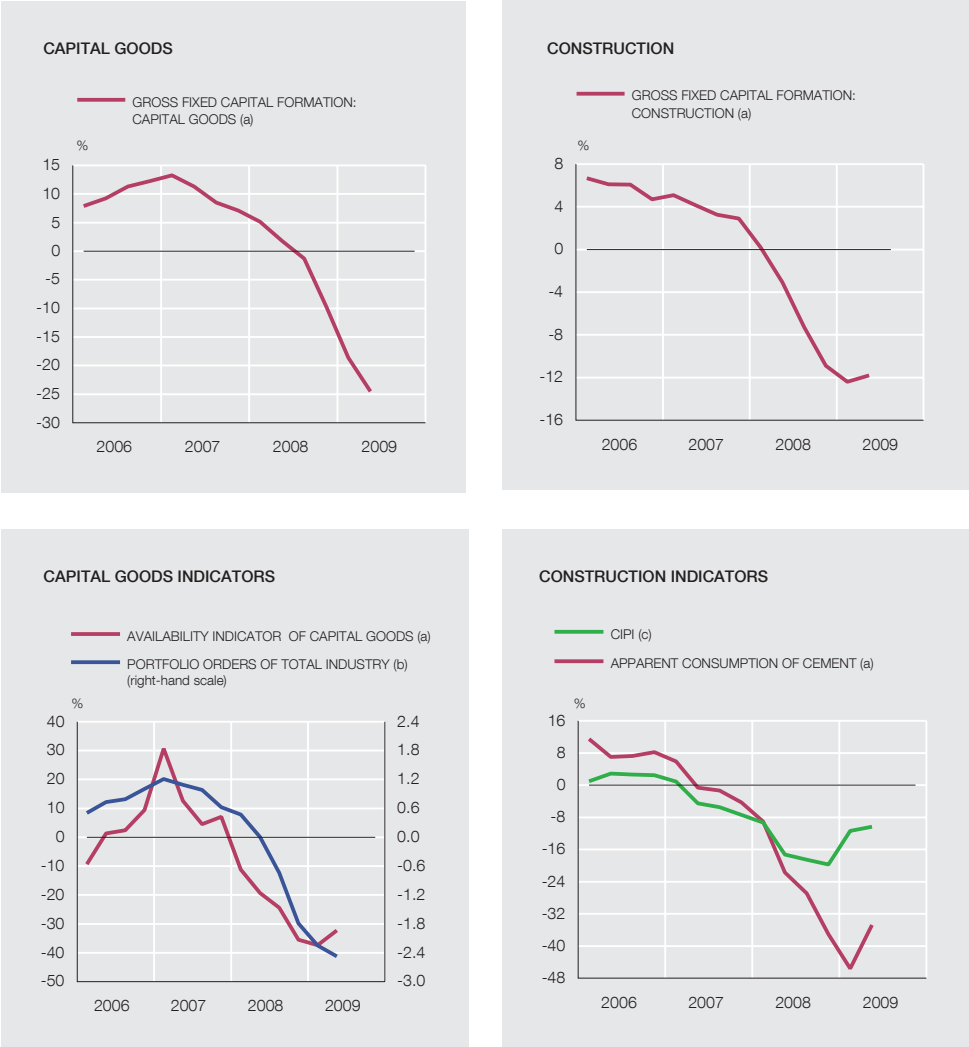
SOURCES: INE, European Commission, ANFAC and Banco de España.

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

than in previous months, while construction firms' qualitative indicators showed some improvement in confidence.

This pattern of investment in construction overall in 2009 Q2 reflected a disparate performance by component, as the rebound in investment in civil engineering projects offset the heightened slowdown in residential investment. In fact the adjustment in residential investment seems to have accentuated in 2009 Q2, as a result of the significant decline in the number of housing starts in previous quarters and, possibly, of the increase in lead times of work already under way. This reflects the behaviour of unsubsidised housing starts, as the number of subsidised housing starts has risen and these now account for almost half of the total. On the demand side, in recent months there has been a certain slowdown in the rate of decline of property transactions, in accordance with transactions figures and the number of mortgages granted. As in previous quarters, the continuing tight credit conditions, the expectations of price falls and the worsening outlook for household income growth are all acting as a deterrent to housing demand, although the drop both in prices and interest rates has meant that affordability indicators have improved. The data on new project approvals reflect further contraction in non-residential construction, while civil engineering

GROSS FIXED CAPITAL FORMATION CHART 16



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

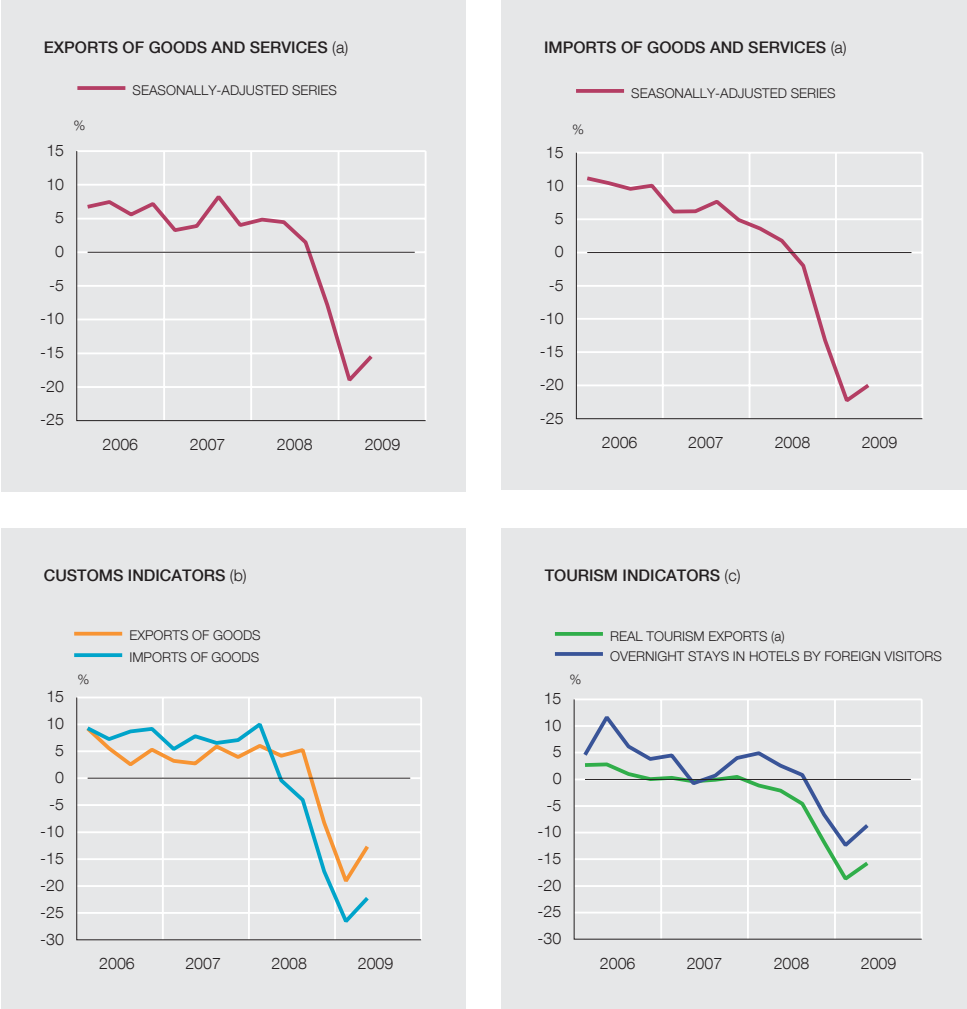
a. Year-on-year percentage change based on the seasonally-adjusted series.
b. Normalised indicator (deviation from the mean, divided by the standard deviation).
c. Construction input price index (Eurostat). Year-on-year percentage change based on the original series.

works rebounded significantly due to the increase in rail works – in light of the tenders issued in 2008 – and of local government investments linked to the State Fund for Local Investment.

In light of the latest information available for Q2, as yet incomplete, the contribution of net external demand to GDP growth could possibly be up slightly on the previous quarter, continuing in the positive tone seen since the start of 2008. This reflects the marked declines in year-on-year terms both in imports and exports, although both seem to have moderated somewhat when compared with Q1 (see Chart 17). The fall in imports was in step with the poor performance of consumption, investment in capital goods and exports and with the sharp adjustment in industrial production. For their part, exports continued to record high rates of decline in year-on-year terms, against a backdrop of continued notable weakness in world trade, although most recently there appear to be some signs of recovery. In any case it should be noted that the decline in relative prices in 2009 H1 resulted in improvements in the price-competitiveness indices vis-à-vis the developed countries.

FOREIGN TRADE
Year-on-year percentage change

CHART 17



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

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

On Customs data, real goods exports fell by almost 20% year-on-year in April and May, very much in line with the decline seen in 2009 Q1. By product group, exports fell across the board, but especially exports of intermediate products, consumer durables and capital goods. By geographical area, the decline was equally pronounced in real exports to the rest of the EU and to the rest of the world. As regards real services exports, the balance of payments figures to April point to a more moderate decline in the rate of fall of tourism services. This is backed up by real tourism indicators, which include numbers of tourists entering Spain and numbers of overnight hotel stays, whose rate of decline fell in 2009 Q2, as did that of nominal spending by foreign visitors. By contrast, also on balance of payments figures, non-tourism services exports may have deteriorated further in Q2.

In the case of imports, Customs data show that purchases of goods abroad fell by around 24% year-on-year in the period April-May, slightly less than in Q1. By product group, the biggest decreases, approaching 30%, were in capital goods and non-energy intermediate goods, while food imports – which are less sensitive to the cycle – continued to record more moderate declines. Lastly, real imports of services continued to fall in 2009 Q2, at a pace similar to that seen in Q1.

4.2 Output and employment

The year-on-year rate of decline of the gross value added of the market economy as a whole quickened in 2009 Q2, although, as in the case of GDP, the quarter-on-quarter rate of contraction was less pronounced than in the opening months of 2009. This was seen in all branches of activity, with the exception of construction, which contracted at a lower year-on-year rate, and agriculture, which posted positive year-on-year rates in the period April-June (see Chart 18).

The value added of industry as a whole is expected to fall significantly year-on-year in Q2. The industrial production index (IPI) contracted in April-May, at a rate similar to that seen in Q1. By product type, decreases were seen across the board, but especially in the industries producing capital goods and non-energy intermediate goods. Labour market indicators, such as Social Security registrations, continued to decline year-on-year, although at a more moderate pace. At the same time, the main industry sentiment indicators, such as the manufacturing PMI and the business confidence index, showed minor signs of improvement, despite remaining close to the lows recorded at the start of the year (which were, in turn, close to the all-time lows).

Construction activity declined at a slightly more moderate pace in 2009 Q2, as reflected by the information available from the main coincident indicators. As mentioned earlier, it is estimated that this minor slowdown in the rate of contraction in this branch is connected with the projects implemented under the State Fund for Local Investment.

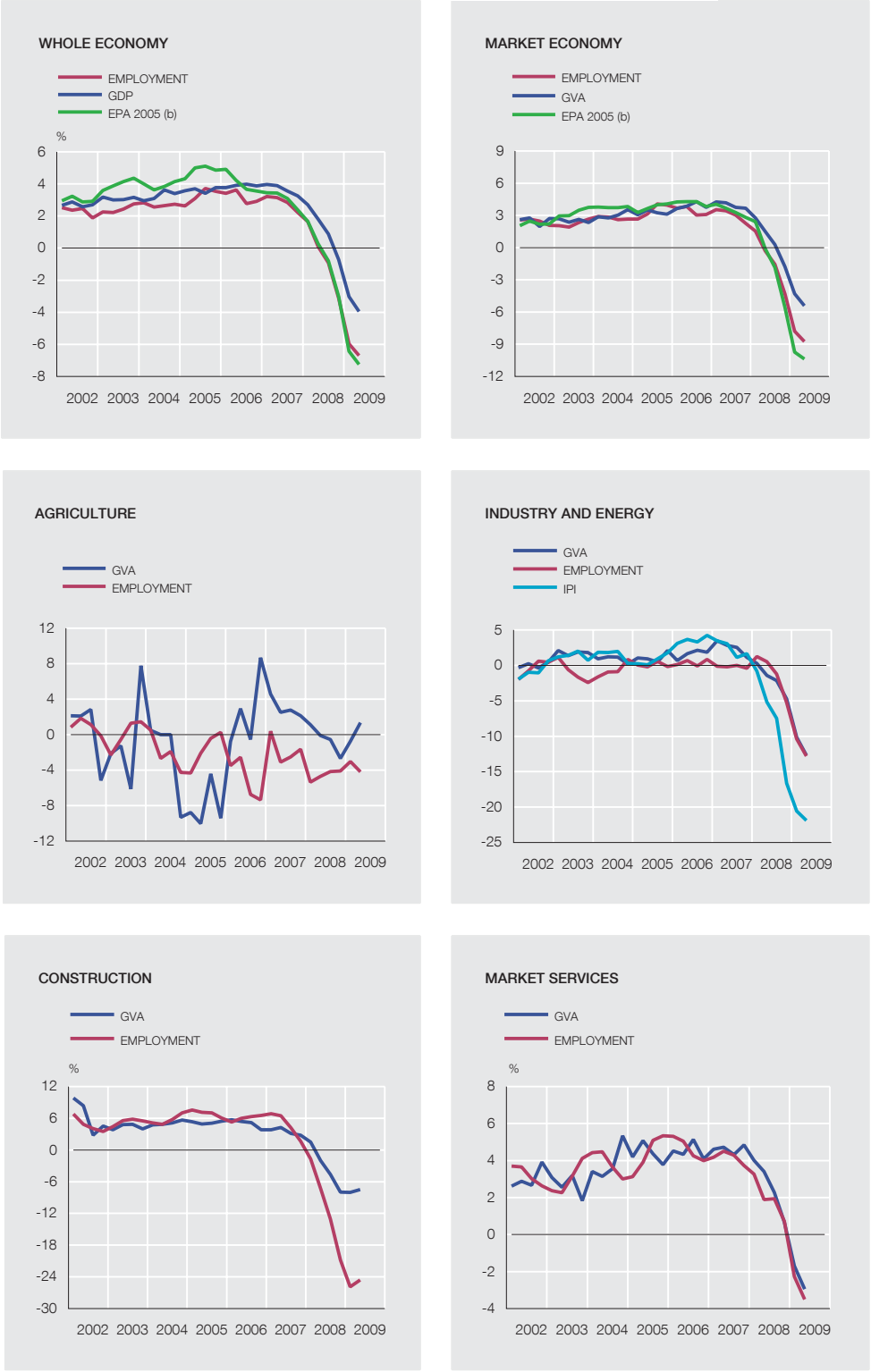
In the case of the services sector, the latest conjunctural information available points to a sharper year-on-year decline in 2009 Q2 than in the previous quarter, although the various indicators record different behaviour. Thus, among the quantitative indicators, the rate of decline of turnover moderated slightly in May, but sales of large corporations worsened somewhat, both in real and seasonally-adjusted terms, in comparison with the previous quarter, while employment indicators continued weak. In terms of sentiment indicators, services sector confidence remained at the low level seen in Q1, while the retail confidence indicator and the PMI indicator both gave signs of a minor improvement. By branch of activity, the deterioration was across the board, but most especially in transport and business services, while retail fell at a similar rate to that seen in Q1 and IT and communications services showed less weakness.

The labour market indicators available point to a deceleration in the pace of job destruction in 2009 Q2. Specifically, although the year-on-year rate of change in Social Security registrations declined by a further 0.8 pp, to –6.7%, this decrease was less pronounced than in the two previous quarters. The monthly changes, according to the seasonally-adjusted series, were also lower than in previous months. Moreover, the year-on-year decline in hires drawing on INEM (National Public Employment Service) figures was less pronounced in April-May than in Q1 (–19.9% and –25.4%, respectively). Lastly, the Spanish Labour Force Survey for Q2 indicates a year-on-year fall in employment of –7.2%, down 0.8 pp on the previous period. The decrease in employment seems to have affected all branches of the market economy, especially industry (–13.7%) and construction (–24.6%), although in the case of the latter, the sharp year-on-year rate of decline moderated somewhat, most likely as a result of the activities connected with the State Fund for Local Investment.

On Spanish Labour Force Survey data, the decline in employment affected not only dependent employees (– 6.6%) but also the self-employed (–10.3%). As in Q1, job destruction was most pronounced among foreign workers (–9.2%), although employment among Spanish nationals also fell sharply (–6.9%). As regards contract duration, the year-on-year rate of decline among temporary employees moderated slightly (–19.8%), although this group continued to account for almost all the labour market adjustment, while the year-on-year rate of change among permanent workers turned negative (–1.1%). As a result, the temporary employment

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

CHART 18



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

a. Year-on-year rates based on seasonally-adjusted series, except for the EPA which is based on crude 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 Banco de España's DG Economics, Statistics and Research on the basis of the control survey conducted using the methodology applied up to 2004 Q4.

WAGE INDICATORS AND LABOUR COSTS CHART 19

SOURCES: INE and Ministerio de Trabajo e Inmigración.

a. The last year, with information of collective bargaining agreements until June 2009.
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.

ratio stood at 25.2%, some 4 pp less than a year earlier. Lastly, part-time hires increased slightly, in contrast to the sharp reduction in full-time hires, so that, as in the last few quarters, the part-time employment ratio rose, to 12.9% from 12% a year earlier.

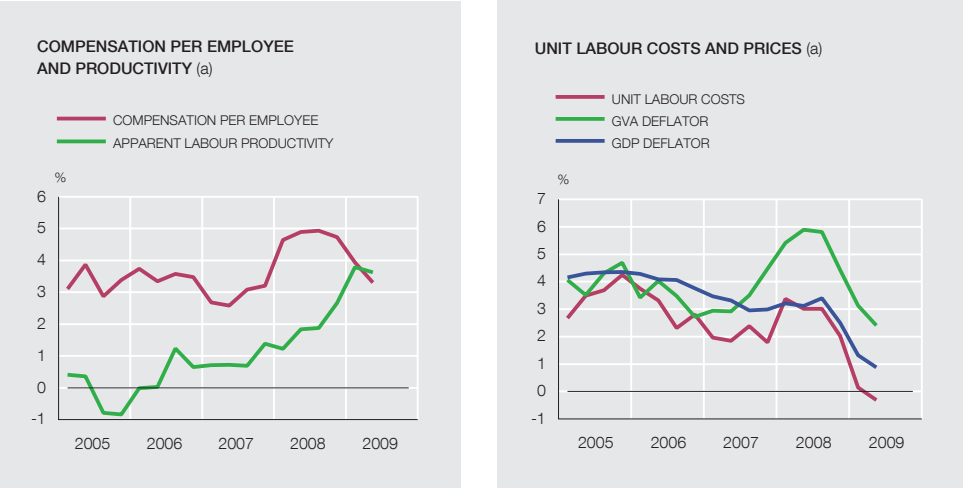
The slowdown in the rate of growth of the labour force first seen in 2009 Q1 quickened in Q2, to 1.2% year-on-year, almost 1 pp less than at the start of the year. This was due to the deceleration in the rate of growth of the population over 16 years of age, which rose by 0.7% (0.3 pp less than in the previous quarter) and to the sharp drop in the year-on-year rate of growth of the participation rate (0.3 pp less than in the last few quarters). This moderation was seen in both the male and female workforce, although the female segment continued to record strong momentum (3.4%), while the male segment recorded slightly negative figures (–0.4%). By nationality, the growth rate of foreign nationals in the workforce slowed to 5.3%, mainly as a result of smaller immigrant inflows (4.2%, in comparison with 6.3% in Q1). The rate of growth of Spanish nationals in the workforce also moderated, rising by 0.5% year-on-year (against 1.3% in Q1).

Lastly, unemployment rose again in 2009 Q2, although at a slower pace than in previous quarters. The ranks of the unemployed swelled by 126,000 people in Q2, bringing the year-on-year rate of growth down to 73.7% as a result of the lower momentum in job destruction and the slowdown in the rate of growth of the labour force. Nevertheless, the unemployment rate rose again, to 17.9%, up 0.5 pp on the previous quarter. The INEM registered unemployment figures rose by 52.9% on average in Q2, above the increase recorded in Q1, although the rate of growth of the numbers of registered employed has moderated somewhat in recent months.

4.3 Costs and prices

The data available on collective bargaining agreements registered to June 2009 show an average increase in wage settlements of 2.7% in 2009 H1, as opposed to the 3.6% increase in wage settlements in 2008 (following compilation of the data received subsequent to the 2008 close) (see Chart 19). These agreements affect some 7.5 million workers (almost 70% of the

PRICES AND LABOUR COSTS IN THE MARKET ECONOMY CHART 20



SOURCES: INE and Banco de España.

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

numbers affected in 2008). However, it is estimated that the indexation clauses will have no effect on wage costs in 2009, as inflation stood at 1.4% at end-2008, below the 2% threshold above which these clauses generally come into effect.

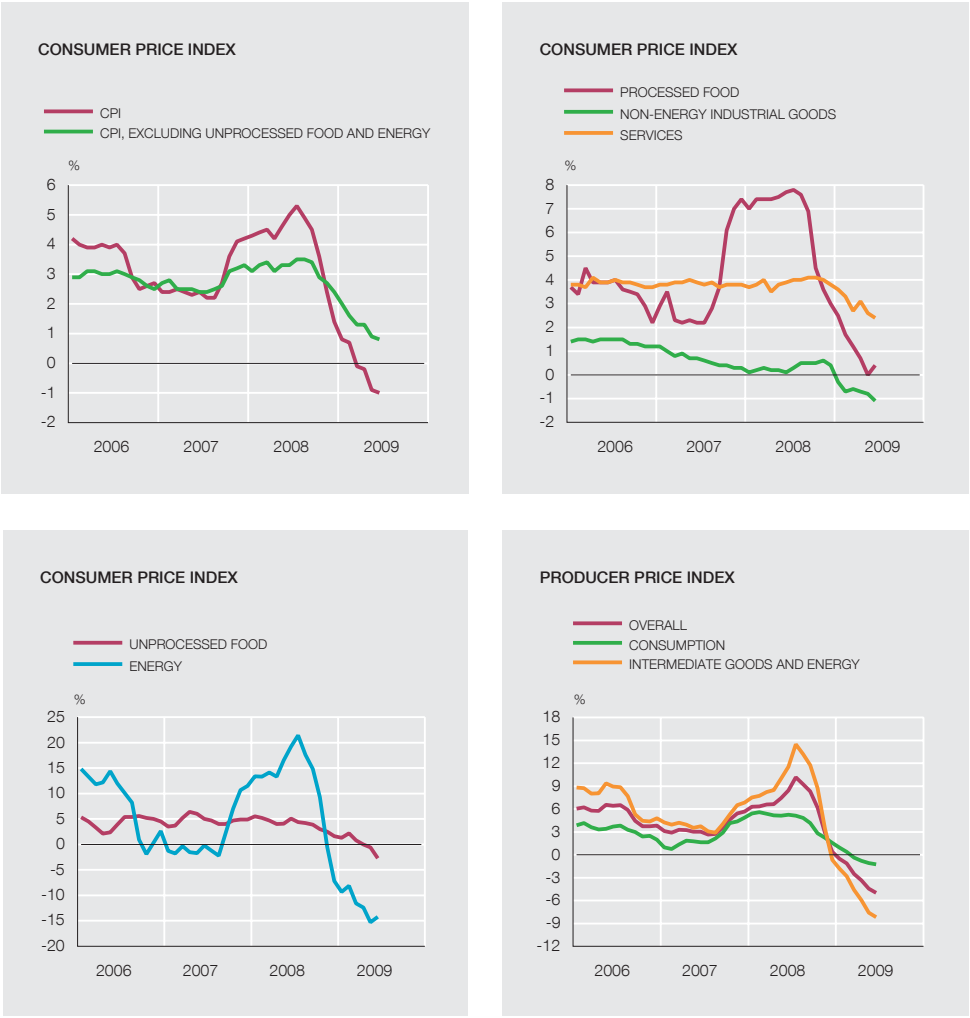
Consequently, owing to the smaller wage settlements and to the absence of inflation deviation payments, QNA figures for 2009 Q1 recorded a decrease in the rate of growth of compensation per employee: specifically, compensation rose by 4% year-on-year in Q1 in the economy as a whole, and by 3.9% in the market economy, down 1.2 pp and 0.8 pp, respectively, on 2008 Q4. The rate of growth of compensation per employee is expected to decline slightly again in 2009 Q2, albeit while continuing to rise considerably faster than prices. This slightly lower rate of growth estimated for nominal wages in Q2, together with stabilisation of the rate of growth of productivity, should lead to a minor deceleration in unit labour costs (see Chart 20).

The domestic component of inflation (measured by the GDP deflator) is expected to have grown at a slower pace in 2009 Q2, while import prices are expected to have fallen, affected, inter alia, by the fluctuations in the oil price. Both factors would have made a major contribution to the significant reduction in the year-on-year rate of change of the final demand deflator. By component, the decline in the goods exports deflator is expected to have quickened, while the rate of growth of the various components of national demand is expected to have fallen. The residential investment deflator is expected to have fallen sharply – in line with house prices – while the private consumption deflator will foreseeably record a negative rate of change.

In effect, consumer prices continued to decelerate notably in Q2. Thus, the year-on-year rate of change of the CPI, which turned negative in March, declined further, recording a rate of –0.7% on average in the quarter and of –1% in June 2009 (see Chart 21). Inflationary pressures weakened across the board. Especially significant in June was the decline in the prices of energy goods, which fell by 14.2%, a decrease of almost 3 pp more than that recorded at end-March. This was a result of the lower oil prices on the international markets, although the depreciation in year-on-year terms of the euro against the dollar continued to moderate the impact on domestic prices. The prices of non-energy industrial goods and unprocessed food also recorded negative rates of change at the end of Q2 (–1.1% and –2.7%, respectively), while processed food prices continued to post positive rates of change (0.4% in June), albeit

PRICE INDICATORS (a)
Spain

CHART 21



SOURCE: INE.

a. Year-on-year percentage change based on the original series.

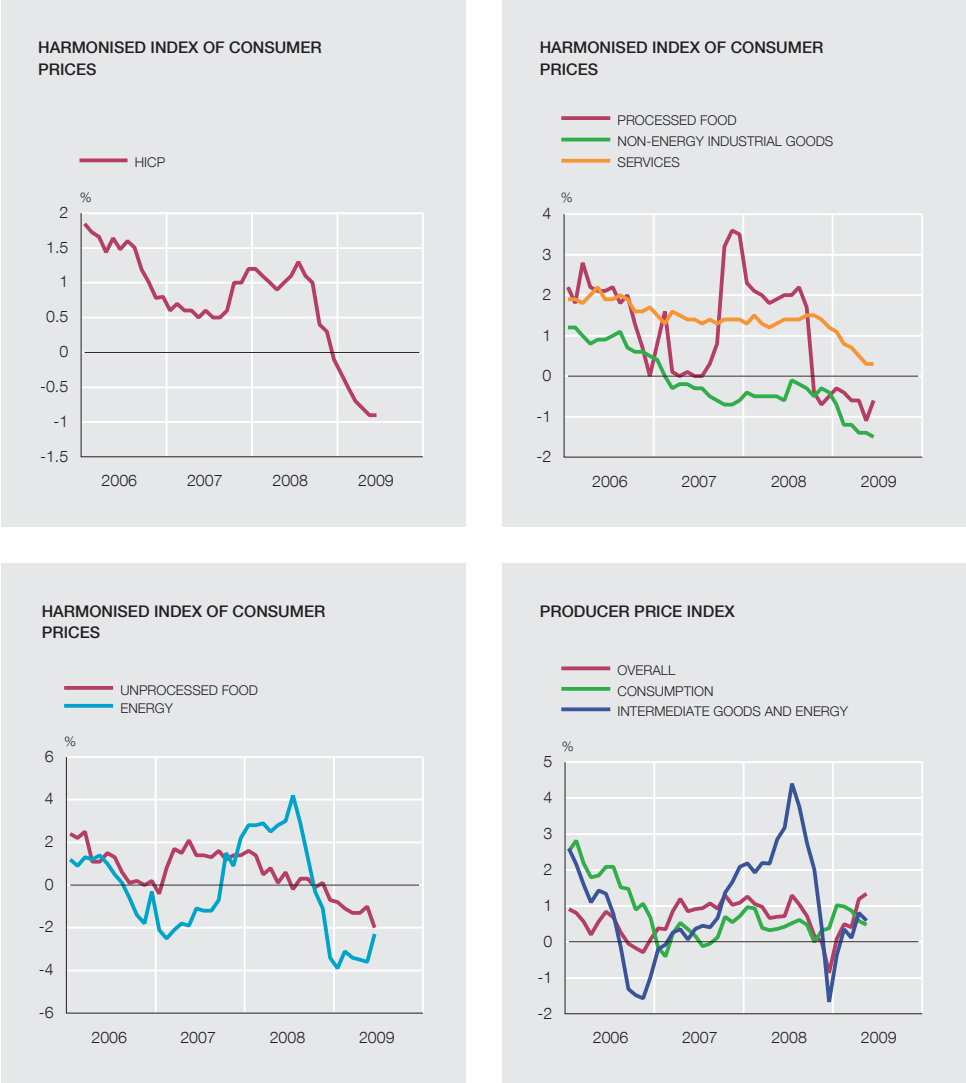
significantly lower than those seen at the start of the year. Lastly, services prices, which have traditionally shown little sensitivity to cyclical changes, decelerated significantly, to 2.4% in June. As a result, the CPI excluding unprocessed food and energy prices continued in the downward pattern first seen at the end of 2008, closing the quarter at a year-on-year rate of 0.8%, 0.5 pp below the end-March figure.

Price adjustments in Spain are proving more intense than in the euro area. Thus, since December 2008, the inflation differential – as measured by the harmonised index of consumer prices (HICP) – has been negative for the first time since the start of monetary union, and it has continued to widen, standing at –0.9 pp in June (see Chart 22). All the components showed rates of change below those of the euro area, with the exception of services, although this differential has also narrowed substantially since December (see Box 5 for comments on the latest regulatory changes in connection with the services sector). In light of these developments, Spanish core inflation was lower than that of the euro area for the second consecutive quarter.

The rate of growth of the producer price index moderated further in 2009 Q2, standing at –5% in June (2.5 pp down on March), thus continuing in the deflationary pattern first seen in sum-

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

CHART 22



SOURCES: Eurostat and Banco de España.

a. Year-on-year percentage change based on the original series.

mer 2008. The moderation in the index in Q2 affected its various components, although the slowdown in prices of energy goods was particularly notable. Prices also fell in all other product groups, with the sole exception of capital goods. To May, the rate of growth of producer prices in the euro area as a whole decelerated more sharply than in Spain, widening the positive differential. The rate of decline of trade price indices intensified for both imports and exports, chiefly as a result of the behaviour of intermediate and energy goods.

4.4 The State budget

The cash-basis figures for 2009 H1 show an amplified State deficit of €36,819 million, as opposed to a deficit of €2,065 million in 2008 H1 (see Table 4). This deterioration is due: on the one hand, to the sharp fall (29.4%) in tax receipts, reflecting not only the impact of the economic slowdown on tax revenue but also the effect of the measures approved by the government (relating primarily to withholdings on earned income and VAT); and on the other, to strong expenditure growth (22.9%) in comparison with the same period a year earlier, driven by the impact of the transfers to the State Fund for Local Investment. In light of the income and expenditure patterns seen, and of the outlook for H2, significant differences may be expected for

LIBERALISATION OF THE SERVICES SECTOR IN SPAIN IN THE CONTEXT OF TRANSPOSITION OF THE SERVICES DIRECTIVE

BOX 5

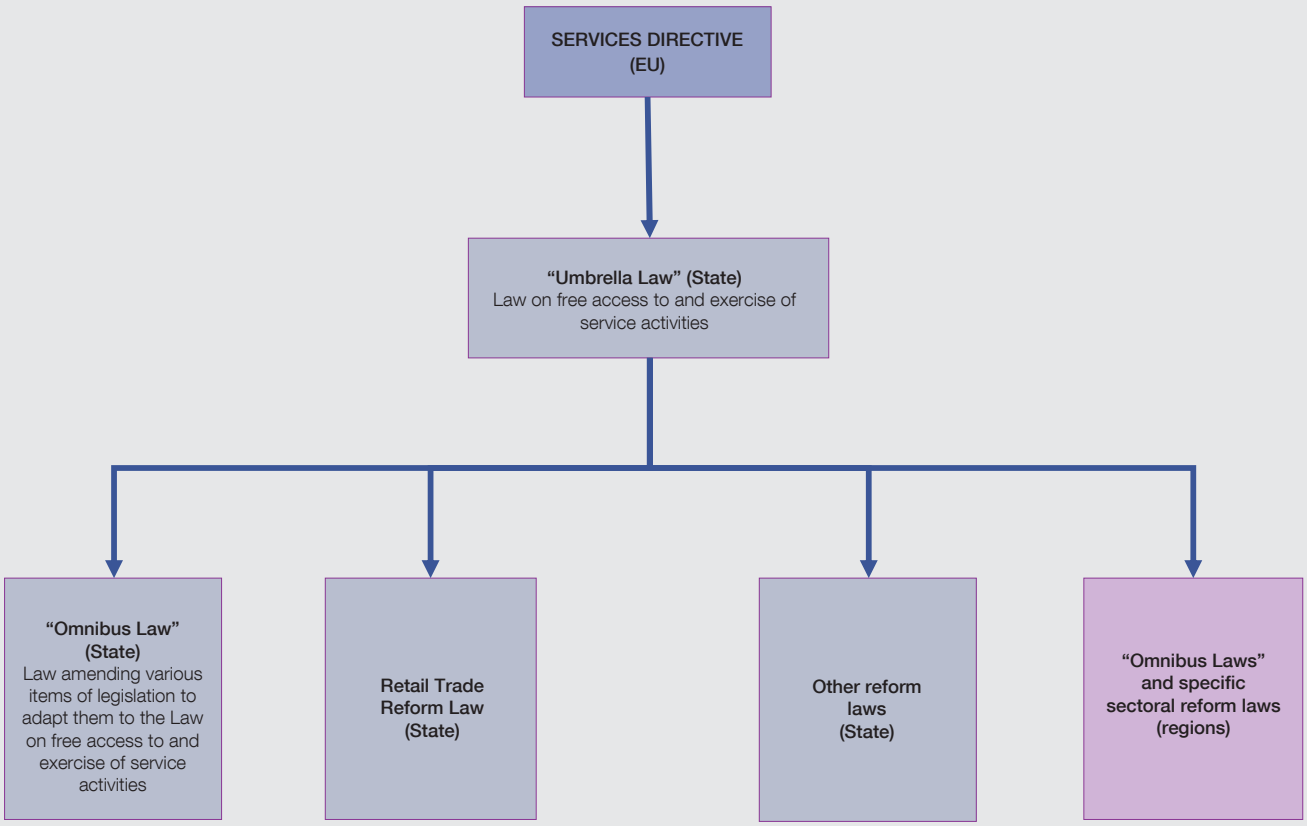
On 12 December 2006, the European Parliament and Council approved Directive 2006/123/EC on services in the internal market, in response to the concern that over-regulation of markets for services could be creating barriers to entry in the different sectors and could, therefore, be reducing competition in the European economies. The Directive[1] aims to liberalise market services in the EU, by reducing administrative burdens and removing conditions on entry for new firms, particularly conditions connected with restrictions on companies becoming established on grounds of nationality.

Correct transposition of the Services Directive is essential for enhanced competition and liberalisation of sectors that represent a very high proportion of value added (44%) and employment (42%) in the Spanish economy (albeit still below the figures seen in the more highly-developed economies) and that include particularly dynamic activities in terms of job creation. Moreover, this sector constitutes the core of inflationary pressure in the Spanish economy.

The process of transposition of the Directive in Spain is particularly complex, as it involves reform of both State and regional legislation (see adjoining diagram).On 27 March 2009, the Council of Ministers approved the draft law on free access to and exercise of service activities. This draft law, known as the "Umbrella Law", reflects the Directive's "generic" liberalisation mandate, laying the foundations for more specific reforms at sectoral level. The essential contents of the draft bill are threefold. First, it sets out the general principle of freedom of establishment, which may only be limited on grounds of "general interest", proposing a review of all the conditions and authorisations required in Spain for establishment of new competitors. Second, it simplifies the administrative procedures in general, for example, backing the introduction of online contact with the administration and of "points of single contact". Third, it encourages cooperation between administrations, both at national and international level, to improve their relationship with the services sector and achieve effective communication of information on the exceptions to the free establishment of companies.

In addition to this general liberalisation, transposition of the Directive will require reform of specific sectoral legislation. Some of these reforms will affect State legislation, while many others will

1. The Directive must be transposed into national law, by 28 December 2009 at the latest, before it can affect firms and consumers.



SOURCE: Banco de España.

affect regional legislation, in accordance with the distribution of powers. The main package of State legislation reforms is contained in the "Omnibus Law", whose draft, approved by the Council of Ministers on 12 June, amends 47 existing laws on matters as wide-ranging as patent registrations and the sale of hydrocarbons.

The draft "Omnibus Law" introduces a number of "horizontal measures" that affect firms in all sectors and are closely connected with the general objectives of the draft "Umbrella Law". Thus, inter alia, the Law regulating the Bases of Local Government is amended, to introduce a (virtual) "point of single contact" for companies and permit online contact with local authorities. The Law on Online Access to Public Services for the Public is amended likewise. For its part, Law 30/1992 on General Government and the Common Administrative Procedure is amended to extend the scope of deemed authorisations owing to the absence of a negative decision ("affirmative administrative silence"). The Law on Professional Institutions and the Law on Professional Associations are also amended, removing restrictions on advertising of professional services, together with some of the existing limitations on the joint exercise of several professions and the fee schedule guidelines. Furthermore, a ceiling is placed on professional association membership costs, which may not exceed the costs associated with processing of the inscription. For the time being, however, membership of the corresponding professional institution or association and obtaining of the corresponding licence remain obligatory. These two aspects will be dealt with at a later date in further legislation, once the "Omnibus Law" has been passed.

Also under the draft "Omnibus Law", 16 authorisation processes are abolished and another 32 are replaced by less restrictive conditions, such as "prior notice" of start-up of an activity or "responsible statements". In these cases, administrative control over the activity conducted becomes ex post rather than ex ante.

It should be stressed that the "Omnibus Law" does not cover all the reforms of State legislation affected by the Directive, as some, owing to their complexity, require specific reform measures. For example, retail trade legislation; in this case, the Council of Ministers approved another draft law on 10 July[2] which, in accordance with the provisions of the Directive, establishes that the regional (autonomous) governments may no longer cite economic grounds as the basis for refusal to grant permission for new openings of certain retail formats. However, the draft law does not abolish the authorisation process, which has, in fact, become stricter in recent years,[3] and includes the possibility of it being tightened on "grounds of general interest", with no limitation on the scope of this concept.

In general, the above-mentioned draft laws contain elements that should facilitate access to service activities and reduce the administrative burdens borne by companies, in particular in connection with removal, not only of the need for authorisation for access to and exercise of a service activity, but also of the obstacles hindering the free movement of services by providers with no permanent establishment in Spain. However, the success of the reform, in terms of greater liberalisation of services, will depend on its correct application in key sectors, such as professional services or retail trade, where the current barriers to entry may be especially restrictive of competition, and on strict delimitation of the exceptions permitted, for which purpose the regional (autonomous) and local governments will have to work in their respective areas of responsibility. In the case of retail trade, the draft law amending the Retail Trade Law may prove insufficient to bring about a significant change in the present systems of authorisation in the retail sector approved by the regional (autonomous) governments and which restrict competition.

2. Draft law amending Retail Trade Law 7/1996, of 15 January 1996. **3.** M. Ll. Matea and J. S. Mora (2009), "*La evolución de la regulación del comercio minorista en España y sus implicaciones macroeconómicas",* Working Paper no.0908, Banco de España.

the whole of 2009 between projected and actual tax revenue. The Social Security budget outturn also worsened, as described in Box 6.

For the description of revenue, information is available on total takings under the main taxes, for the portion assigned to the State and for that relating to the ordinary-regime regional governments. On this information, revenue declined by 19.1% in Q2 compared with the same period a year earlier, due to the weakness of tax receipts. However, in the case of direct taxes, this weakness is influenced by the differential impact on personal income tax, in 2009 H1, of the rebate of up to €400 (without any equivalent in the corresponding period of the previous year) and which will be offset, in part, in H2, and by the impact of the reduction of 2 pp in the rate of withholding tax on mortgage expenses for persons earning less than €30,000 introduced in 2009. Nevertheless, the impact of the economic crisis was reflected in withholdings on earned income and, above all, in withholdings on gains from mutual funds, which fell by 45.1%. Notable among the indirect taxes is the fall in VAT (–35.8% in comparison with 2008 Q2); in this

STATE BUDGET OUTTURN TABLE 4

€m and %	Outturn 2008	Percentage change 2008/2007	Outturn projection 2009	Percentage change 2009/2008	Outturn 2008 JAN-MAR	Outturn 2009 JAN-MAR	Percentage change
	1	2	3	4 = 3/1	5	6	7 = 6/5
1 REVENUE	129,335	-19.1	141,110	9.1	65,624	46,352	-29.4
Direct taxes	74,096	-23.6	77,041	4.0	33,398	21,941	-34.3
Personal income tax	*43,413*	*-10.7*	*43,167*	*-0.6*	*24,378*	*14,626*	*-40.0*
Corporate income tax	*27,301*	*-39.1*	*30,085*	*10.2*	*7,368*	*5,548*	*-24.7*
Other (a)	*3,382*	*-4.2*	*3,789*	*12.0*	*1,651*	*1,767*	*7.0*
Indirect taxes	39,229	-19.0	50,202	28.0	24,989	15,218	-39.1
VAT	*24,923*	*-26.2*	*35,531*	*42.6*	*18,192*	*9,202*	*-49.4*
Excise duties	*11,220*	*-2.2*	*11,253*	*0.3*	*5,243*	*4,655*	*-11.2*
Other (b)	*3,086*	*-4.3*	*3,418*	*10.8*	*1,554*	*1,361*	*-12.4*
Other net revenue (c)	16,010	11.1	13,867	-13.4	7,237	9,194	27.0
2 EXPENDITURE	148,082	6.0	157,904	6.6	67,689	83,171	22.9
Wages and salaries	25,266	6.7	26,848	6.3	12,601	13,196	4.7
Goods and services	4,553	2.2	3,502	-23.1	1,906	1,881	-1.3
Interest payments	15,929	9.6	17,424	9.4	7,519	7,414	-1.4
Current transfers	82,755	6.5	85,754	3.6	38,111	46,309	21.5
Contingency fund and other unforeseen expenditure	—	—	3,251	—	—	—	—
Investment	10,656	5.4	10,408	-2.3	4,452	4,909	10.3
Capital transfers	8,923	-3.5	10,717	20.1	3,101	9,462	—
3 CASH-BASIS BALANCE (3 = 1 – 2)	-18,747	—	-16,794	—	-2,065	-36,819	—
MEMORANDUM ITEM: TOTAL TAXES (State plus share of regional and local governments)							
Personal income tax	71,341	-1.8	77,444	8.6	36,220	29,276	-19.2
VAT	48,015	-14.0	53,323	11.1	29,011	18,632	-35.8
Excise duties	19,570	-1.1	20,461	4.6	9,609	9,138	-4.9

SOURCE: Ministerio de Economía y Hacienda.

a. Includes revenue from the tax on the income of non-residents.
b. Includes taxes on insurance premiums and tariffs.
c. Includes charges and other revenues, current transfers, profits and dividends, capital transfers and other unclassified transactions.

case, the figures are affected not only by the decline in consumption and in real estate transactions, but also by the increase in monthly refunds in light of the new rules. In turn, excise duties decreased by 4.9%, largely due to the decline in the tax on hydrocarbons, which would have continued to reflect the impact of the low level of activity on transport and the collapse of the automobile market. The items aggregated under the "Other State revenue" heading recorded high growth, primarily due to "charges, public prices and other receipts", especially those relating to surcharges and default interest.

State cash-basis expenditure increased by 22.9%, well above the budget forecast for the year as a whole (6.6%). In fact, with the exception of personnel costs and interest payments, all the other items continued to record higher rates of change than envisaged in the budget. Particularly notable was the strong growth in current transfers, mainly to other tiers of general government, which accelerated considerably throughout Q2. Also worthy of mention is the large increase in capital transfers, owing to those made to local government for the State Fund for Local Investment.

4.5 Balance of payments

The overall balance on current and capital account in the first four months of 2009 was a deficit of €23,889 million, down 39% on the same period a year earlier (see Table 5). This is primarily due to the lower trade deficit and, to a much lesser extent, to the im-

SOCIAL SECURITY BUDGET OUTTURN

BOX 6

The Social Security system posted a non-financial surplus of €10,420 million to May 2009, down 19.7% on the same period of 2008. Non-financial revenue fell by 1.1% to May in comparison with the figure a year earlier, while expenditure rose by 5.5% (see accompanying table).

Revenue from Social Security contributions declined by 2.4% to May, in sharp contrast to the increase of 7.8% budgeted for the year as a whole. This decrease is a direct reflection of the adverse employment performance, which has resulted in a continued decline in Social Security registrations since June 2008; in 2009 Q2 as a whole, Social Security registrations fell, on average, by 6.7%.

Turning to expenditure, that earmarked for contributory pensions rose by 6.8% to May, below the figure budgeted for 2009 as a whole. However, in the first six months of the year, the number of contributory pensions rose faster than in the previous year (1.7%, as opposed to 1.4% for 2008 as a whole). Expenditure on sickness benefits fell by 27.9% to May, meaning that, to date, this item is also below the figure budgeted for the year as a whole.

As regards the National Public Employment Service (SPEE, by its Spanish abbreviation), the deficit rose considerably, standing at €2,816 million at May 2009, as opposed to a deficit of €41 million for the same period a year earlier. Revenue rose by 27.1% but expenditure by 56.9%, due to the poor labour market performance. Accordingly, the growth of expenditure earmarked for unemployment benefits accelerated sharply in 2009 H1, increasing by 68.5% year-on-year to June. Also at June, the coverage ratio stood at 73.6%, approximately 1.5 pp above that recorded in June 2008. On data to April, the number of beneficiaries rose by 66.7% on the same month a year earlier, while to June, registered unemployment grew by 55.4% year-on-year.

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

€m and %

	Budget	Budget		Outturn JAN-MAY		
	2008	2009	% change	2008	2009	% change
	1	2	3=2/1	5	6	7=6/5
1 REVENUE	114,113	123,726	8.4	50,066	49,534	-1.1
1.1 Social Security contributions	105,107	113,324	7.8	45,379	44,269	-2.4
1.2 Current transfers	6,796	7,439	9.5	3,419	3,810	11.4
1.3 Other	2,209	2,963	34.1	1,267	1,455	14.8
2 EXPENDITURE	106,080	114,476	7.9	37,089	39,114	5.5
2.1 Wages and salaries	2,390	2,453	2.7	901	946	5.0
2.2 Goods and services	1,996	1,995	-0.1	686	608	-11.3
2.3 Current transfers	101,095	109,465	8.3	35,400	37,305	5.4
Contributory pensions	*86,041*	*93,339*	*8.5*	*29,872*	*31,901*	*6.8*
Sickness benefits	*7,716*	*8,144*	*5.6*	*2,724*	*1,964*	*-27.9*
Other	*7,339*	*7,982*	*8.8*	*2,804*	*3,440*	*22.7*
2.4 Other	599	563	-6.0	102	254	148.7
3 BALANCE	8,033	9,250	15.2	12,977	10,420	-19.7

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. This is because the figures for other Social Security funds are not available until October 2008.
b. Transfers from the ISM to the regional governments to finance transferred health-care and social services have been distributed among the various expenditure captions on the basis of the percentages obtained from the general government accounts for 1997.

provement in the current transfers and services balances, while the income deficit widened.

In the period January-April 2009, the deficit on the trade balance declined by 51% year-on-year, to €16,058 million, signifying considerable quickening of the rate of adjustment. Exports and, to a greater extent, imports decreased more rapidly, as the real terms of trade improved. The improvement in the trade deficit reflected both the lower energy bill, stemming from the drop in real net imports of energy goods and the sharp decline in oil prices, and the decrease in the non-energy trade deficit.

BALANCE OF PAYMENTS: MAIN COMPONENTS (a) TABLE 5

€m

		JANUARY-APRIL		RATE OF CHANGE 2009/2008 (b)
		2008	2009	
CREDITS	Current account	120,325	99,649	-17.2
	Goods	*67,424*	*51,982*	*-22.9*
	Services	*28,075*	*25,825*	*-8.0*
	— Tourism	10,785	9,524	-11.7
	— Other services	17,290	16,301	-5.7
	Income	*19,979*	*17,299*	*-13.4*
	Current transfers	*4,846*	*4,543*	*-6.3*
	Capital account	2,919	2,346	-19.6
	Current + capital accounts	123,244	101,995	-17.2
DEBITS	Current account	161,776	125,402	-22.5
	Goods	*100,004*	*68,040*	*-32.0*
	Services	*22,957*	*20,346*	*-11.4*
	— Tourism	4,368	3,613	-17.3
	— Other services	18,589	16,733	-10.0
	Income	*28,632*	*27,804*	*-2.9*
	Current transfers	*10,184*	*9,211*	*-9.6*
	Capital account	421	482	14.4
	Current + capital accounts	162,198	125,884	-22.4
BALANCES	Current account	-41,452	-25,753	15,699
	Goods	*-32,580*	*-16,058*	*16,522*
	Services	*5,119*	*5,479*	*360*
	— Tourism	6,417	5,911	-507
	— Other services	-1,299	-432	867
	Income	*-8,652*	*-10,505*	*-1,853*
	Current transfers	*-5,338*	*-4,667*	*671*
	Capital account	2,498	1,864	-634
	Current + capital accounts	-38,954	-23,889	15,065

SOURCE: Banco de España.

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

The surplus of €5,479 million on the services balance in the first four months of 2009 was 7% more than in the same period of 2008, as a result of the sharp decrease in the deficit on non-tourism services (67%), offsetting the deterioration of the tourism surplus, which fell by 8% to €5,911 million. Nominal tourism receipts decreased by 11.7% in the first four months of the year. In other services, both receipts (–5.7%) and, in particular, expenditure (–10%) decreased in the period.

The deficit on the income balance grew by 21% in the first four months of the year, while the deficit on the current transfers balance decreased by 12.5%, in a setting in which remittance payments sent abroad fell more sharply than those received. Lastly, in the first four months of the year the surplus on capital account declined by 25% in comparison with the same period of 2008, to €1,864 million, reflecting the decline in general government receipts from Community funds.

5 Financial developments

5.1 Overview

There was a certain degree of normalisation on domestic and international financial markets in 2009 Q2. Stock market indices rose and market volatility continued to decline, returning to the levels seen before the collapse of Lehman Brothers exacerbated the crisis. At the date of this report going to press, the IBEX 35 was up 32.7% on end-March, while the EURO STOXX 50 index of European companies was up 24.8% and the S&P 500 for US companies 22.4%. Thus, in 2009 to date, the Spanish index has gained 12.8%, ahead of both the S&P 500 (8.1%) and the EURO STOXX 50 (5.5%) (see Chart 23).

On the interbank market, risk premia continued to decline. Thus, the spread between 12-month EURIBOR and the cost of secured financing operations (repos) at the same maturity narrowed by 29 bp between end-March and the date of this report going to press, although, at 67 bp, it remains quite wide. During this period, 12-month interest rate expectations barely changed, meaning that 12-month interbank market yields declined by a similar amount. Moreover, long-term fixed-income issuance by credit institutions showed some signs of recovery (see Box 7), reflecting the more favourable credit conditions.

Public debt yields performed differently by maturity. Thus, the return on Spanish Treasury bills fell from 1.4% at end-March to 0.8% at the date of this report going to press, in line with the official rate cuts in the Eurosystem's main refinancing operations. However, the return on ten-year bonds fell by barely 3 bp, remaining at around 4%. This pattern, which was also seen on the main sovereign debt markets worldwide, was basically due to the reversal of the flight to quality that occurred at the peak of the crisis. In line with the recovery in investor confidence, long-term yield spreads between euro area sovereign bonds and the German bund narrowed; in the case of Spanish bonds, the spread stood at 56 bp, down 41 bp on the Q1 close. Credit risk premia for Spanish non-financial corporations traded on the derivatives markets also fell (by 110 bp on average, standing at 91 bp).

On the real estate market, according to the latest data available from the Ministry of Housing corresponding to 2009 Q2, the price of unsubsidised housing fell by 1.9% in the quarter, bringing the year-on-year rate of growth to –8.3% in June, as opposed to –6.8% in March (see Chart 23).

The drop in interbank yields continued to pass through to the cost of bank credit to the private sector, although unevenly in the different segments (see Chart 23). Thus, between March and May, spreads between bank and market rates widened on new loans to households for consumption and other purposes (62 bp) and on new loans to corporations of less than €1 million (13 bp), which are those generally deemed to entail the most risk, while in the case of housing loans to households and new loans to corporations of more than €1 million, spreads narrowed by 19 bp and 5 bp, respectively. This seems to confirm that the latest increase in spreads is not only due to the delay in pass-through of market rates to bank rates, but that there is also a permanent component connected with the higher risk perceived by the financial institutions in their lending activities. The cost of financing for corporations via issuance of fixed-income securities also fell in 2009 Q2, while the cost of equity rose. In addition, according to the July Bank Lending Survey (BLS), the banks' approval criteria tightened slightly (to a lesser extent than was expected in April) and are expected to remain relatively stable over the next three months, in contrast to the sharp tightening of credit standards seen throughout 2008.[2] Other

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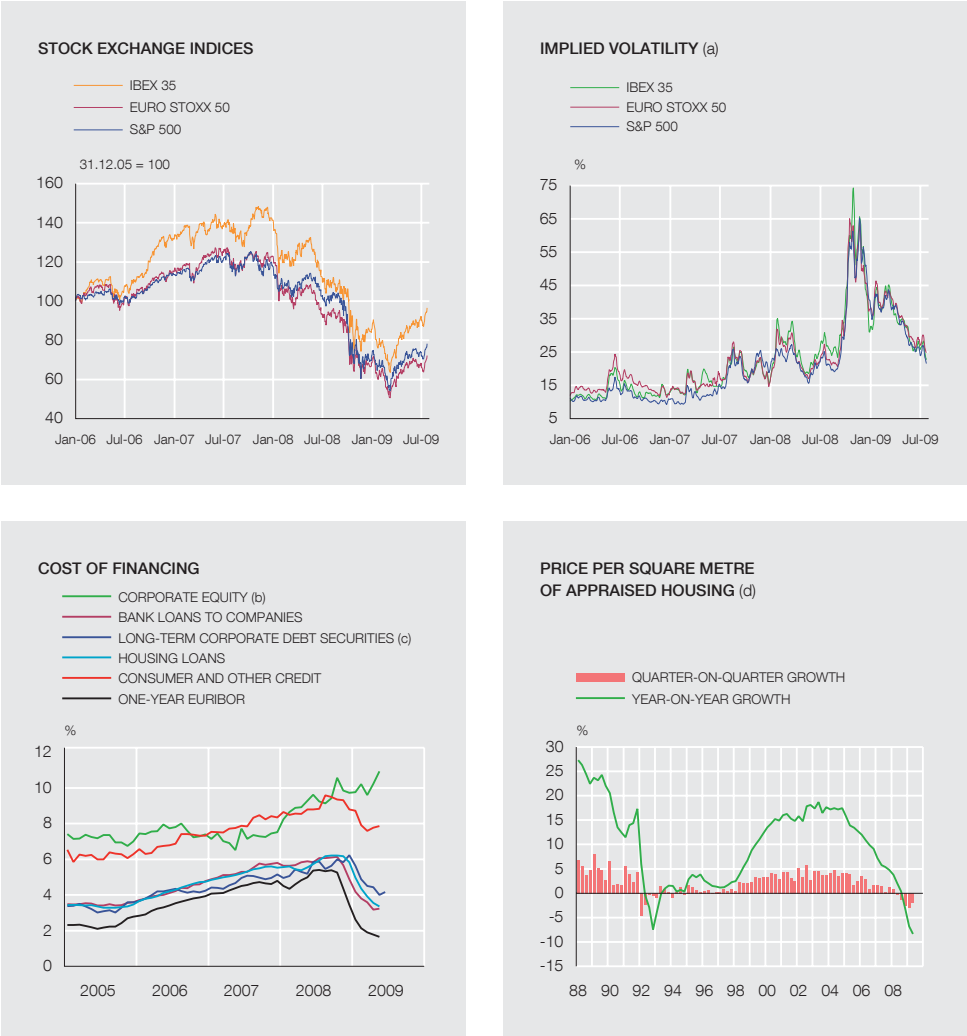
2. For more details, see the article entitled "Encuesta sobre Préstamos bancarios en España: julio de 2009", by Jorge Martínez Pagés, in *Boletín Económico*, July-August 2009, Banco de España.

FINANCING CONDITIONS AND ASSET PRICES CHART 23



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

a. Five-day moving averages.
b. The cost of equity is based on the three-stage Gordon dividend discount model.
c. The cost of long-term debt is calculated as the sum of the weighted average 5-year CDS spread for Spanish non-financial corporations and the 5-year euro swap rate.
d. Base 2001 until December 2004; base 2005 from that date.

lending conditions (term, security required) were seemingly somewhat less favourable than in the previous quarter.

In line with the credit supply pattern and the lower demand for external funds, private sector debt continued to moderate in 2009 Q2. The year-on-year growth rate of household financing dropped below 1% in May, 1.5 pp less than two months earlier. This lower momentum was seen both in housing loans and consumer and other credit. In turn, corporate borrowing grew by 5% relative to the same period of 2008, almost 1 pp down on March. The latest data on lending by purpose, corresponding to March, shows a widespread slowdown, but especially in construction (where credit fell by 8% in the previous 12 months), while bank loans in industry and non-real estate services continued to grow by more than 10% year-on-year.

The moderation in household credit led to a minor decrease in the ratio of debt to gross disposable income (GDI) in 2009 Q1, even though the debt burden in annual terms remained

RECENT DEVELOPMENTS IN ISSUES OF MARKETABLE SECURITIES BY SPANISH FINANCIAL INSTITUTIONS

The onset of financial turmoil in the summer of 2007, and its subsequent intensification and globalisation, made it far more difficult for financial institutions to access medium- and long-term financing on the wholesale markets. Spanish credit institutions had had frequent recourse to these markets during the last cyclical upturn, to finance the notable expansion in lending.

The international securitisation markets, which were at the heart of the financial crisis, were those most severely affected. In Spain, both gross and net issues of asset-backed securities have remained high since mid-2007 (see the accompanying table), but the bulk of these securities have stayed in the banking sector, to be used as collateral in liquidity-providing operations with the ECB. In fact, the volume of asset-backed securities held outside bank portfolios has decreased continuously since 2007 Q3.

Although to a somewhat lesser extent, the problems of confidence that arose in the wake of the financial crisis also hindered the functioning of the other medium- and long-term financing markets. Thus, as the accompanying table shows, issues of fixed-income securities with maturities of more than one year, which were, to that date, the main alternative to deposits as a source of funds, decreased considerably as from mid-2007, both in gross and net terms.

In light of the difficulties in obtaining long-term funding on the wholesale markets, credit institutions turned instead to the short-term funding markets. Thus, from 2007 Q3 to mid-2008, the volume of net funding obtained via issues of fixed-income securities with maturities of no more than one year exceeded that obtained from issues with longer maturities. During this period, subsidiaries, and specifically

€bn

	SHORT-TERM FIXED INCOME (a)				LONG-TERM FIXED INCOME (excluding ABS)		ASSET-BACKED SECURITIES		SUBORDINATED BONDS AND PREFERENCE AND LISTED SHARES	
	Gross issues		Net issues		Gross issues	Net issues	Gross issues	Net issues	Gross issues	Net issues
	Total	Non-resident subsidiaries	Total	Non-resident subsidiaries	Total	Total			Total	Total
2006 Q1	76.9	0.0	2.9	-0.5	55.0	47.7	18.6	7.6	2.2	1.9
2006 Q2	75.1	0.2	2.6	-0.1	37.9	28.9	30.8	20.0	1.8	1.5
2006 Q3	86.9	0.0	7.3	0.0	29.7	23.0	16.9	6.0	2.1	1.6
2006 Q4	89.9	2.5	3.8	1.9	30.1	16.2	45.1	36.3	3.7	3.5
2007 Q1	118.1	2.3	9.9	0.0	43.1	36.1	41.2	28.6	1.2	0.8
2007 Q2	104.0	1.4	3.3	-0.5	41.8	32.5	39.6	27.6	1.0	-0.7
2007 Q3	132.6	8.6	25.3	6.9	19.7	4.1	18.6	7.2	0.0	0.0
2007 Q4	113.9	11.1	7.8	3.1	22.3	4.5	55.4	43.8	0.4	0.2
2008 Q1	128.8	38.0	16.6	22.0	7.9	-12.4	23.9	15.6	0.2	0.0
2008 Q2	124.4	28.1	12.8	0.4	39.7	22.7	37.8	27.4	0.0	-0.1
2008 Q3	114.8	18.8	-8.3	-6.0	9.6	-6.0	14.2	4.5	0.6	-0.8
2008 Q4	128.9	50.6	-22.6	6.0	15.3	-6.9	62.9	46.9	8.4	7.6
2009 Q1	118.8	32.7	4.2	-2.0	30.9	5.4	27.9	14.8	3.0	2.8
FEB-MAY 08	160.2	45.7	17.8	15.7	28.9	6.2	46.8	34.5	0.2	-0.1
FEB-MAY 09	148.3	46.7	2.2	0.5	59.9	26.2	44.2	24.3	1.0	0.4
AUG 08	32.3	4.9	1.8	-3.1	2.5	-1.7	3.8	1.5	0.2	0.1
SEP 08	30.6	3.3	-12.3	-1.2	3.5	-3.9	2.5	-0.7	0.0	-0.7
OCT 08	41.8	15.7	-8.5	2.4	3.0	-5.6	7.1	1.8	0.1	0.0
NOV 08	49.6	22.1	1.6	8.9	1.6	-4.5	32.1	25.5	7.6	7.4
DEC 08	37.5	12.8	-15.7	-5.3	10.6	3.2	23.7	19.6	0.6	0.2
JAN 09	39.8	10.3	-1.6	-3.1	3.1	-2.8	2.4	-2.0	2.4	2.4
FEB 09	38.4	11.5	-3.8	-3.8	13.8	3.0	13.0	9.2	0.6	0.6
MAR 09	40.6	11.0	9.6	4.8	14.0	5.2	12.4	7.7	0.0	-0.1
APR 09	33.9	10.0	-4.1	-1.8	17.3	10.7	9.6	4.3	0.0	0.0
MAY 09	35.4	14.2	-4.2	1.3	14.8	7.2	9.2	3.1	0.4	0.0

SOURCE: Banco de España.

a. Only credit institutions. Includes issues by resident and non-resident subsidiaries.

non-resident subsidiaries, played an important part in raising this funding.

The collapse of Lehman Brothers in September 2008 signified a qualitative change in the international financial landscape and the perceived risk of a systemic collapse rose considerably (see left-hand panel). In this setting, it became notably more difficult for financial institutions to access funding, as the risk premia borne by them rose significantly. As a result, from mid-2008 to January 2009, net funding via both short-and long-term fixed-income securities was negative; in the case of those with maturities of less than one year, this may also have been related to the changes made in spring 2008 in the Eurosystem's framework for monetary policy implementation and, specifically, to the inclusion of 6-month liquidity-providing operations, which broadened the range of financing possibilities open to credit institutions. There was also an increase in subordinated bond and share issues in the last three months of 2008 and January 2009, in response to the financial institutions' aim to bolster their capital adequacy ratios, in line with market demand, against a backdrop of high uncertainty regarding the strength of financial institutions' balance sheets worldwide and high risk aversion.

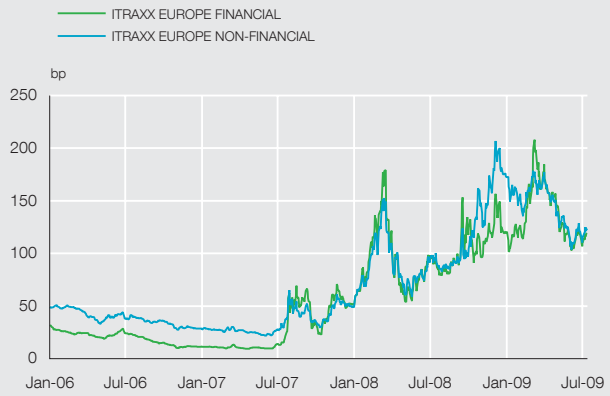
Since February 2009, the situation on the financial markets has improved considerably, thanks to the brighter investor outlook, reflected in lower risk premia, and to the financial system support measures introduced. Accordingly, long-term fixed-income issues have regained momentum, becoming positive again in net terms after posting a negative balance throughout most of 2008. The granting of State guarantees for new bank debt issues, a measure adopted by various EU countries to alleviate the refinancing difficulties facing their banking systems, is one of the key factors behind the higher placement volume of these issues in recent months. Thus, as at 10 July 2009, 40 Spanish financial institutions had launched issues backed by State guarantee, amounting to some €38 billion in total.[1]

Funding via mortgage covered bonds, one of the main sources of funding used by Spanish financial institutions in the years of strong credit expansion, has also recovered somewhat in recent months. Thus, between February and April, the number of mortgage covered bond issues – mainly low-volume private placements – rose. Following the ECB announcement in May on the purchase of covered bonds issued by banks in the euro area, a number of issues have been launched in the market, as the spreads borne by these instruments have fallen sharply (see right-hand panel). By contrast, net issues of short-term fixed-income securities have remained very limited, possibly as a result of the favourable conditions under which liquidity may be obtained within the Eurosystem. Lastly, the securitisation markets remain frozen, with all operations recorded being retained in full by the originators.

In short, the latest data show a certain degree of normalisation on the wholesale markets, with the exception of the securitisation markets. This is due not only to the more favourable outlook, reflected in the easier conditions for access to funding by the financial institutions, but also to the financial system support measures – especially the granting of State guarantees for fixed-income issues, which have been very well received by the market – and to the announcement by the ECB that it would purchase covered bonds issued by banks in the euro area, which seems to have encouraged activity in this market.

1. Between February and May, 52% of all gross issues of long-term fixed-income securities made were backed by State guarantee.

1 5-YEAR CDS SPREADS

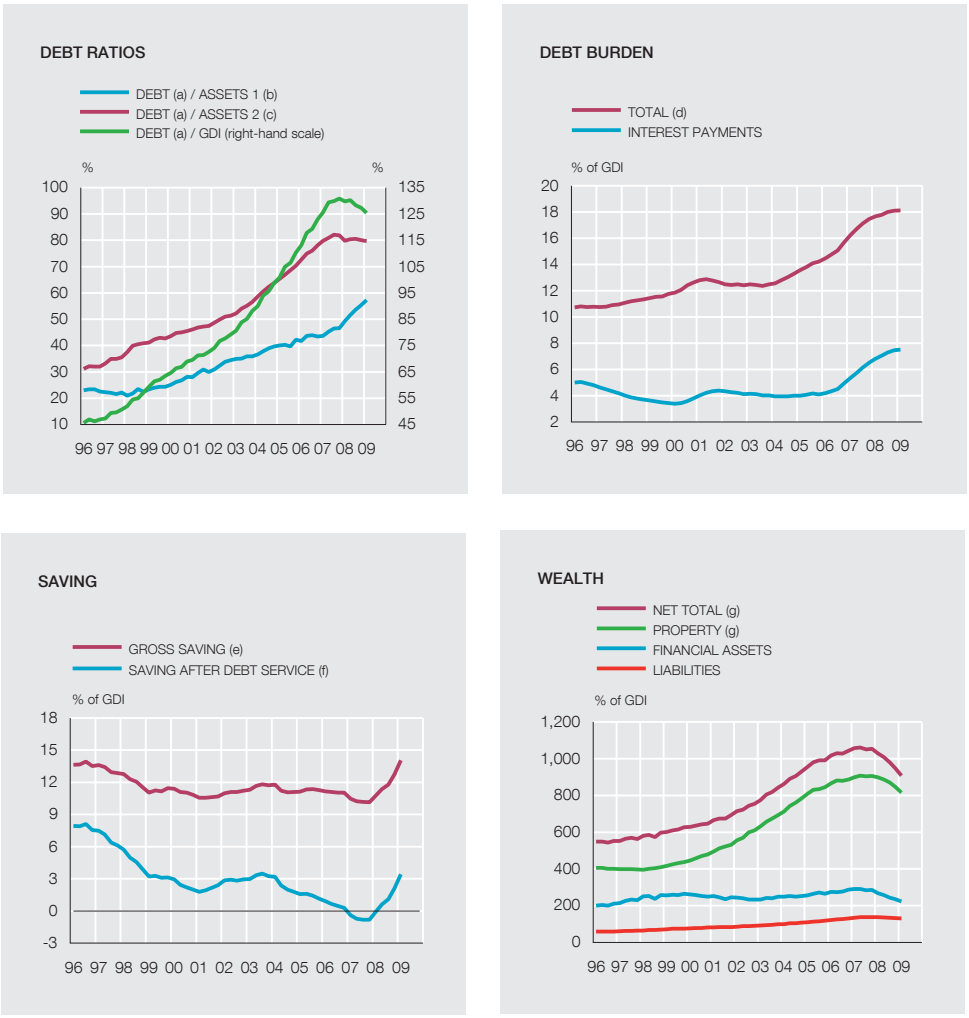


2 EUROPEAN MORTGAGE COVERED BOND ASSET SWAP SPREAD (a)

SOURCE: Datastream.

a. Spread between yields on covered bonds (which include Spanish mortgage covered bonds) in the index and returns on swap curve rates, weighted by portfolio duration.

INDICATORS OF THE FINANCIAL POSITION OF HOUSEHOLDS AND NPISHs CHART 24



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

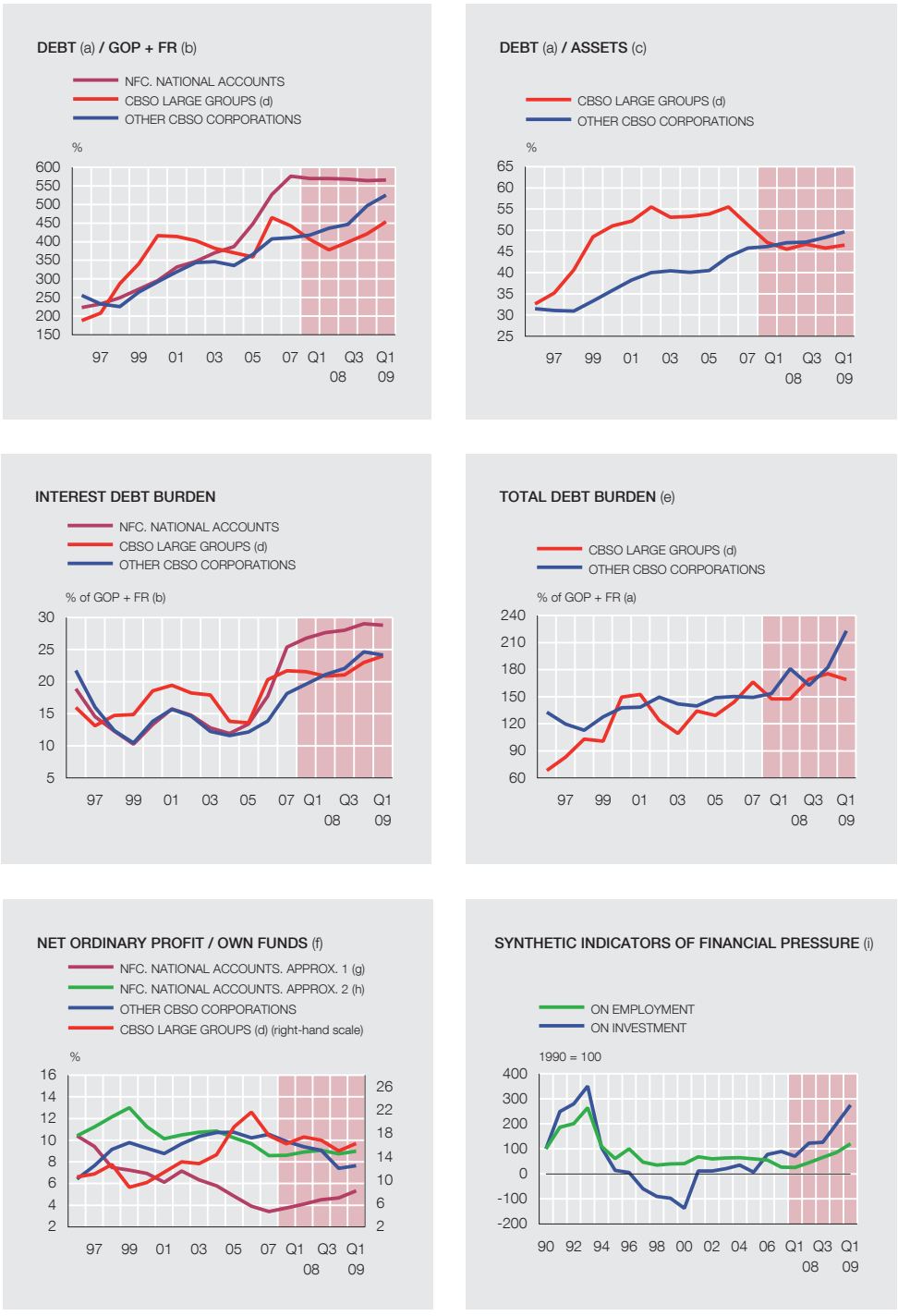
a. Includes bank credit and off-balance-sheet securitised loans.
b. Assets 1 = total financial assets less "Other".
c. Assets 2 = assets 1 less shares less holdings in mutual funds.
d. Estimated interest payments plus debt repayments.
e. Balance of households' use of disposable income account.
f. Gross 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.

stable, as the average cost of on-balance-sheet liabilities was similar to that recorded in the same period a year earlier (see Chart 24). Moreover, the ability to save, after debt servicing, rose, largely due to the recovery in the sector's gross saving ratio. It should be noted that all these ratios were also affected by the loss of momentum in GDI. In line with these developments, the Financial Accounts reflect an increase of 0.6 pp, in cumulative four-quarter terms, in the sector's net borrowing, to 0.9% of GDP. For its part, household net wealth continued to contract relative to GDI, as the prices of financial and real estate assets headed down. The latest preliminary estimates indicate that debt, the debt burden and net wealth will all have declined in 2009 Q2.

Turning to firms, in 2009 Q1 both the debt and the debt burden ratio continued at similar levels to those seen at end-2008 (see Chart 25). However, the latest preliminary estimates available point to a decline in the debt burden in Q2. According to the Financial Accounts data for Q1, the sector's net borrowing was equivalent to 5.7% of GDP in cumulative 12-month terms,

INDICATORS OF THE FINANCIAL POSITION OF NON-FINANCIAL CORPORATIONS

CHART 25



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 les non-interest-bearing liabilities.
d. Aggregate of all corporations reporting to the CBSO that belong to the Endesa, Iberdrola, Repsol and Telefónica 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 plus interest and dividends received less interest paid less fixed capital consumption.
g. Own funds at market price.
h. Own funds calculated by accumulating flows as from the 1996 balance.
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.

NET FINANCIAL TRANSACTIONS
Four-quarter data

TABLE 6

% of GDP

	2004	2005	2006	2007	2008				2009
					Q1	Q2	Q3	Q4	Q1
National economy	-4.8	-6.5	-8.4	-9.7	-10.0	-10.0	-9.6	-9.1	-8.4
Non-financial corporations and households and NPISHs	-5.1	-8.4	-11.0	-13.8	-13.7	-12.3	-9.9	-6.9	-4.8
Non-financial corporations	*-4.5*	*-7.1*	*-9.4*	*-12.2*	*-12.7*	*-11.4*	*-9.4*	*-7.2*	*-5.7*
Households and NPISHs	*-0.6*	*-1.3*	*-1.7*	*-1.6*	*-1.0*	*-0.8*	*-0.5*	*0.3*	*0.9*
Financial institutions	0.6	0.9	0.6	1.9	2.0	1.7	1.9	1.7	1.7
General government	-0.4	1.0	2.0	2.2	1.7	0.5	-1.6	-3.8	-5.3
MEMORANDUM ITEM:									
Financing gap of non-financial corporations (a)	-8.7	-11.4	-17.4	-15.4	-19.8	-17.1	-15.2	-10.8	-8.7

SOURCE: Banco de España.

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

1.5 pp below the end-2008 figure. According to the latest National Accounts estimates, also as at March 2009, profits recorded a further slowdown; thus, although the year-on-year rate of growth was still quite high, the quarter-on-quarter rate of growth of the seasonally-adjusted series was close to zero. Similarly, the information from the Central Balance Sheet Data Office Quarterly Survey (CBQ), based on a sample in which large corporations predominate, shows that most firms reported a deterioration in profits in 2009 Q1, helping drive up debt ratios and interest payments. As a result of all these developments, the indicators of financial pressure on investment and employment rose once again.

The deteriorating economic situation prompted a further increase in the financial pressure borne by certain private-sector agents. This was reflected in the widespread increase in doubtful asset ratios, which for the other resident sectors as a whole (including, in addition to households and corporations, financial intermediaries other than credit institutions) stood at 4.6% in May, 0.4 pp higher than in March and 1.3 pp higher than in December 2008.

The most recent Financial Accounts data (see Table 6) show that the nation's net borrowing declined again in 2009 Q1 (to 8.4% of GDP in cumulative annual terms, from 9.1% in December). This decrease was lower than that recorded by the non-financial private sector, which was partly offset by the sharp increase in the general government deficit (up 1.5 pp at 5.3% of GDP). The funds required to cover the external deficit were raised, in part, by the general government (3.1% of GDP) and, to a lesser extent than in previous quarters, by credit institutions and institutional investors (1.2% and 1.5%, respectively, of GDP). However, these funds were insufficient to cover the nation's overspending relative to revenue, with the result that, once again, the Banco de España's net asset flows vis-à-vis non-residents were negative, in an amount equivalent, in cumulative 12-month terms, to slightly less than 3% of GDP.

In short, the cost of borrowing for households and firms continued to decline throughout the quarter, although other credit conditions continued to tighten, albeit less so than since the start of the crisis. The macroeconomic deterioration and the decline in value of real estate assets (the main component of household wealth) were again reflected in a worsening of the aggregate financial position of the private sector; this will naturally have had most impact on the

agents most exposed to these developments, raising the financial pressure borne by some segments.

5.2 Households

According to the latest data (relating to May) on interest rates on new loans, interest rates on housing loans fell by 56 bp relative to March, while those on consumer and other loans, which are more volatile, rose by 28 bp. This is a drop of some 280 bp and 170 bp, respectively, from the highs recorded in the summer of 2008 and is, in both cases, short of the fall in market rates. Spreads between bank interest rates and the reference interbank rate widened, in particular, in consumer loans, which are, a priori, higher risk.

The latest data available also show that lending conditions other than interest rates, such as security required (which has increased) or maturities (which have shortened), continued to tighten. Thus, the respondents to the latest BLS, compiled in July, confirmed that spreads widened slightly in 2009 Q2 and that repayment periods and the ratio between the principal and the value of collateral decreased. However, lending standards were only marginally more demanding than in 2009 Q1, and less demanding than was anticipated in the previous BLS.

In this setting, household debt continued to decelerate, growing by less than 1% year-on-year in May, almost 1.5 pp lower than in March. This slowdown was seen across the board: thus, housing loans rose by 1% in May relative to the same period a year earlier, while consumer and other loans were flat in 12-month terms. In fact, in seasonally-adjusted quarter-on-quarter terms, growth rates were negative, both for household borrowing as a whole and for its two components, each of which was close to –2% in annualised terms.

According to the latest Financial Accounts data (for 2009 Q1), investment in financial assets continued to decline (see Table 7), amounting, in cumulative annual terms, to approximately 1% of GDP, almost 1.5 pp below the end-2008 level. This was mainly a result of the decline in investment in time deposits (from 6.6% to 3.9% of GDP), which was only partly offset by the lower net outflows from mutual funds (–3.1% of GDP, against –3.7% in December) and by the increase in holdings of cash and cash equivalents (0.3% in March, against –0.5% three months earlier).

In 2009 Q1, the household debt ratio dropped slightly, to around 125% of GDI. By contrast, the debt burden ratio seems to have remained close to 18% of GDI, as the average cost of on-balance-sheet liabilities was quite similar to that recorded a year earlier. The moderation in debt servicing payments, together with the slowdown in household consumption, is the reason behind the increase in households' saving, net of the expenses associated with their liabilities. The sector's net wealth decreased again as a percentage of GDI, as the prices of financial assets, and especially of real estate assets, fell. The latest preliminary estimates indicate that debt, the debt burden and net wealth will all have declined in 2009 Q2. It is important to note that these ratios have also been affected by the loss of momentum in their respective denominators.

Despite the moderation in the household debt burden, the worsening economic conditions – especially the surge in the unemployment rate – contributed to the increase in the proportion of households facing difficulties in servicing their debts. Thus, in 2009 Q1, the percentage of persons with past due loans rose by 1 pp to 5.7%. As a result, during the same period the doubtful asset ratio for households rose by 0.6 pp to 3.6%. By type of loan, both the ratio and the rate of increase are higher in the case of consumer and other loans (6.6%, from 5.2% in December) than in the case of housing (purchase and refurbishment) loans (2.8%, up 0.4 pp on the 2008 close).

TRANSACTIONS OF HOUSEHOLDS, NPISHs AND NON-FINANCIAL CORPORATIONS TABLE 7
Four-quarter data

% of GDP

	2005	2006	2007	2008		2009
				Q3	Q4	Q1
HOUSEHOLDS AND NPISHs						
Financial transactions (assets)	10.4	10.9	7.4	3.8	2.8	1.3
Cash and cash equivalents	4.0	3.1	-1.0	-1.5	-0.5	0.3
Other deposits and fixed-income securities (a)	1.6	5.8	7.8	7.9	6.6	3.9
Shares and other equity (b)	0.2	-1.1	0.6	0.4	0.1	0.2
Investment funds	1.9	0.2	-1.2	-3.5	-3.7	-3.1
Insurance technical reserves	2.0	1.8	0.9	0.7	0.5	0.5
Of which:						
Life assurance	*0.7*	*0.6*	*0.2*	*0.1*	*-0.1*	*0.0*
Retirement	*1.0*	*0.9*	*0.6*	*0.4*	*0.5*	*0.4*
Other	0.6	1.1	0.3	-0.2	-0.2	-0.4
Financial transactions (liabilities)	11.7	12.6	9.0	4.3	2.5	0.4
Credit from resident financial institutions (c)	12.3	13.0	9.4	5.1	3.4	1.6
House purchase credit (c)	*10.2*	*9.9*	*7.0*	*3.7*	*2.7*	*1.5*
Consumer and other credit (c)	*2.2*	*3.1*	*2.2*	*1.4*	*0.8*	*0.3*
Other	-0.6	-0.4	-0.4	-0.8	-0.9	-1.2
NON-FINANCIAL CORPORATIONS						
Financial transactions (assets)	18.1	23.4	13.5	6.1	3.9	3.4
Cash and cash equivalents	2.0	2.3	-0.4	-0.6	-1.1	-0.7
Other deposits and fixed-income securities (a)	1.2	2.0	2.1	1.9	2.0	1.0
Shares and other equity	7.3	11.4	7.7	3.0	2.7	2.7
Of which:						
Vis-à-vis the rest of the world	*3.9*	*8.0*	*6.3*	*4.8*	*3.1*	*2.7*
Other	7.6	7.8	4.1	1.8	0.4	0.3
Financial transactions (liabilities)	25.2	32.8	25.7	15.6	11.1	9.1
Credit from resident financial institutions (c)	12.9	17.6	13.9	7.1	5.5	3.7
Foreign loans	2.1	3.3	2.8	2.9	2.2	2.5
Fixed-income securities (d)	0.3	1.8	0.5	0.1	0.3	0.7
Shares and other equity	3.7	2.9	5.3	3.6	2.3	1.9
Other	6.2	7.2	3.2	1.8	0.7	0.2
MEMORANDUM ITEMS, YEAR-ON-YEAR GROWTH RATES (%):						
Financing (e)	21.2	24.2	15.5	8.3	6.1	4.6
Households and NPISHs	20.9	19.6	12.5	6.5	4.4	2.2
Non-financial corporations	21.4	27.9	17.7	9.6	7.4	6.3

SOURCE: Banco de España.

a. Not including unpaid accrued interest, which is included under "Other".
b. Excluding mutual funds.
c. Including off-balance-sheet securitised loans.
d. Including issues of resident financial subsidiaries.
e. Defined as the sum of bank credit extended by resident credit institutions, foreign loans, fixed-income securities and financing through securitisation special purpose entities.

5.3 Non-financial corporations

The latest available data on interest rates on new loans to corporations, corresponding to May, show a decline in comparison with March, both in loans under €1 million (21 bp) and over €1 million (40 bp). Since the cost of credit began to fall in September 2008, the larger loans have seen the biggest cut in interest rates (312 bp, as opposed to a cut of 207 bp for the smaller loans that are generally more common among SMEs). The cost of borrowing via issuance of fixed-income securities also declined, both in short-term securities (by 23 bp relative to March) and long-term securities (by 49 bp in the same period), while in contrast, return on equity demanded by the market rose by 133 bp.

However, the July BLS shows that all other credit conditions applied by the banks were less favourable than in 2009 Q1, and that lending standards also tightened, albeit marginally and to a lesser extent than was envisaged in the April BLS. The decline in the rate of contraction was similar in lending to SMEs and to large corporations, being slightly more noticeable in short-term rather than long-term loans. Moreover, according to the BLS, credit institutions envisaged no changes in their credit standards in the following three months.

According to the business confidence index compiled by the Chambers of Commerce, the percentage of firms pointing to difficulties obtaining credit as a factor limiting their activity rose again (to 30%) in 2009 Q1. Moreover, the survey on access to financing for SMEs, also compiled by the Chambers of Commerce, showed an increase, in April and May, in the number of firms with fewer than 250 employees that had seen their credit supply squeezed (43% in May, up from 27% in March), while 88% of SMEs had faced higher demands in terms of collateral and guarantees.

In this setting, corporate borrowing continued to lose momentum, growing by some 5% year-on-year in May, down almost 1 pp on March. Credit from resident institutions, which is the main source of financing for corporations, rose at a slower pace (around 3% year-on-year, and close to 0% in annualised quarter-on-quarter terms). By contrast, other sources of financing (credit from non-residents and fixed-income securities), which are mainly used by the larger corporations, showed greater momentum.

The latest data on credit breakdown by productive activity, relating to 2009 Q1, show widespread deceleration save in industry, where bank liabilities grew by around 10% year-on-year, virtually the same as three months earlier. Construction and agriculture posted the sharpest fall year-on-year, with negative growth rates of –8% and –2%, respectively, while the rate of growth of credit to real estate sector firms (4% in March 2009, down from 5% at end-2008) and to other services (down from 14% to 12% in the same period) also moderated.

Against this backdrop, and according to the Financial Accounts for 2009 Q1, the sector's net borrowing fell by more than 1.5 pp, to slightly less than 6% of GDP, while the *financing gap*, the indicator that approximates the funds required to bridge the difference between gross corporate saving and gross capital formation plus permanent foreign investment, also fell (by 2 pp), to slightly less than 9% of GDP.

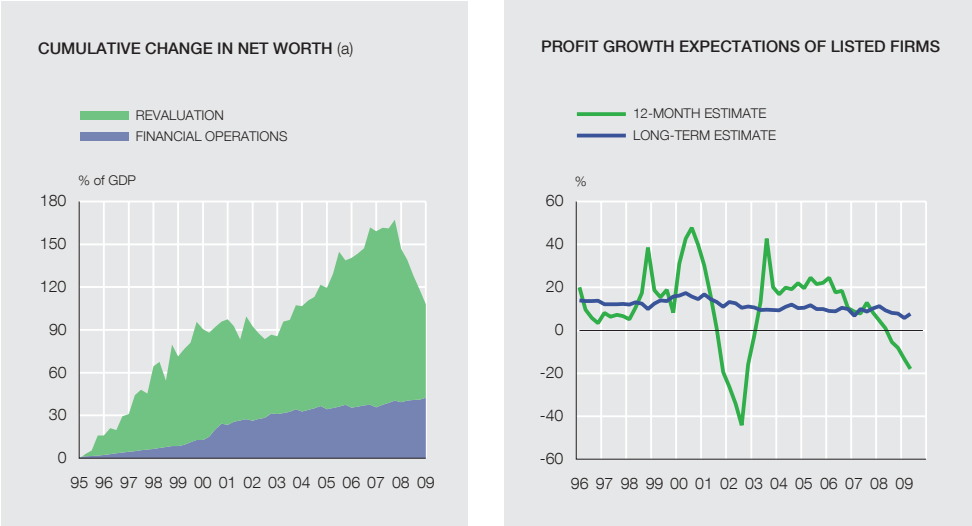
Despite the moderation in the rate of growth of sector liabilities, the corporate debt-to-earnings ratio was stable in 2009 Q1, due to the poor earnings performance. Interest payments relative to profit were also virtually unchanged on end-2008 at around 29%. However, the latest preliminary estimates available point to a decline in the debt burden in Q2, in line with the decline in the cost of lending. In turn, the latest National Accounts earnings estimates, corresponding to March 2009, point to a further slowdown. Thus, although the year-on-year rate of growth was still relatively high, the quarter-on-quarter rate of the seasonally-adjusted series was practically flat.

In addition, analysts again downgraded their earnings growth expectations for listed non-financial corporations for the next 12 months (see Chart 26), although they raised their preliminary earnings forecasts for the longer term, for the first time since end-2007.

The Central Balance Sheet Data Office Quarterly Survey (CBQ) information for 2009 Q1, based on a sample in which large corporations predominate, shows a sharp contraction (of around 30%) in ordinary profits in 2009 Q1 in comparison with the same period a year earlier; this is

OTHER FINANCIAL INDICATORS OF NON-FINANCIAL CORPORATIONS

CHART 26

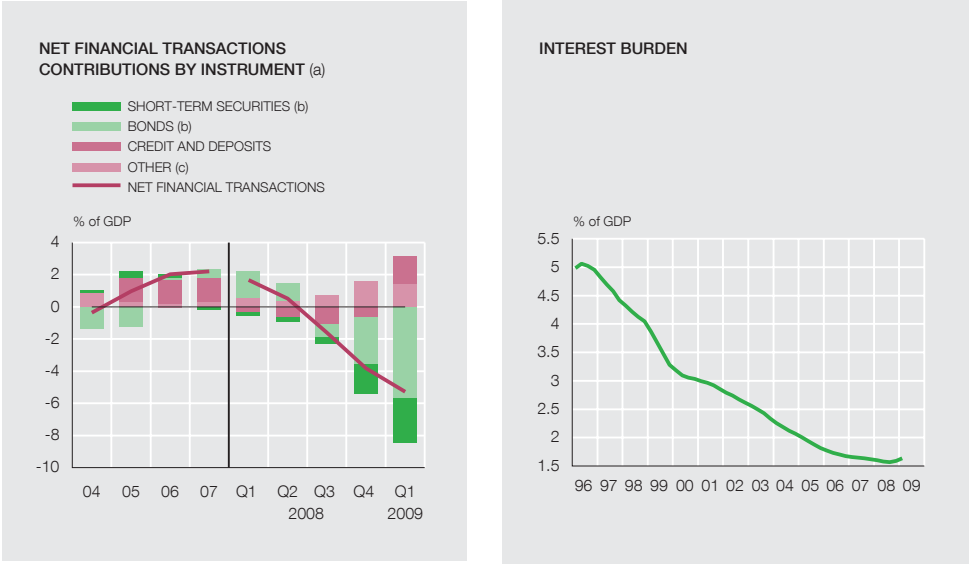


SOURCES: I/B/E/S and Banco de España.

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

GENERAL GOVERNMENT
Four-quarter data

CHART 27

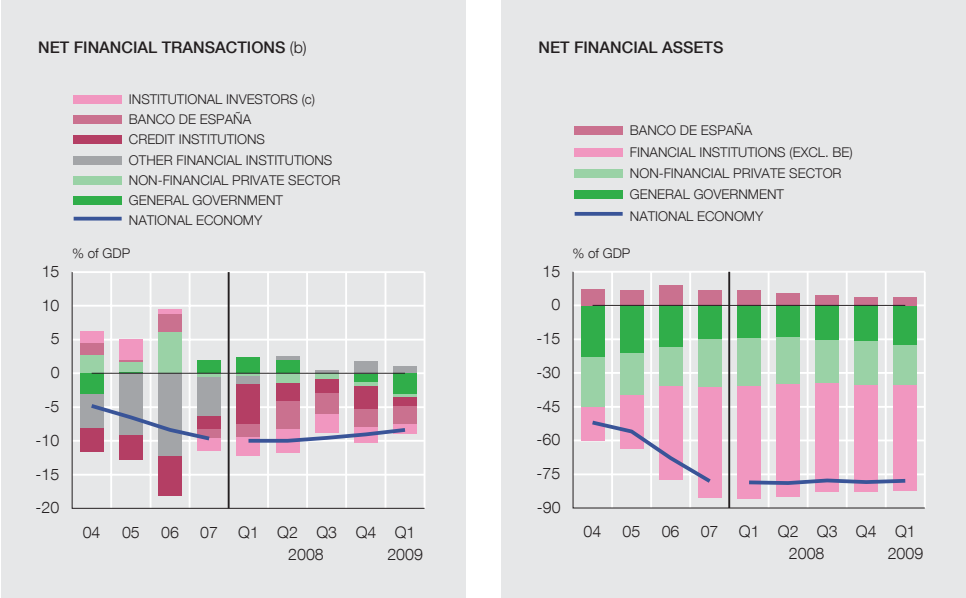


SOURCE: Banco de España.

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

the most negative change in this variable throughout the CBQ series. Analysis of the activities with most representation in the CBQ, which includes neither construction nor property development, shows that, once again, the decline was particularly notable in industry (–68%) and, in line with this decline, industry was the sector that posted the sharpest drop in ordinary return on equity (ROE). This, together with the growth in liabilities, was reflected in an increase both in the debt and the debt burden ratio. As a consequence of all these developments, the synthetic indicators of financial pressure on investment and employment rose once again.

NET FINANCIAL TRANSACTIONS AND NET FINANCIAL ASSETS VIS-À-VIS THE REST OF THE WORLD (a) CHART 28



SOURCE: Banco de España.

a. Four-quarter data for transactions. End-period data for stocks. Unsectorised assets and liabilities not included.

b. A negative (positive) sign denotes that the rest of the world grants (receives) financing to (from) the counterpart sector.

c. Insurance companies and collective investment institutions.

Non-financial corporations' doubtful asset ratios rose in Q1, standing at 4.8% in March, up 1.1 pp on end-2008, continuing to reflect the adverse earnings performance. Real estate services and construction firms, with an overall doubtful asset ratio of 7.3% at the end of 2009 Q1, in comparison with 5.7% at end-2008, experienced the greatest difficulties in servicing their debts, while in all other branches of activity the ratio rose to a lesser extent (from 1.9% to 2.6%) in the period.

5.4 General government

General government net borrowing rose significantly in 2009 Q1, to 5.3% of GDP in cumulative 12-month terms, an increase of 1.5 pp on end-2008 (see Table 6 and Chart 27). The breakdown by instrument shows that the deficit was covered by issuing short-term, and especially medium- and long-term, securities. In contrast to the previous year, the balance of deposits net of lending increased. Moreover, despite the higher debt, the drop in the average cost of funds held interest payments steady as a proportion of GDP at 1.6%.

5.5 The rest of the world

The debit balance of the nation's net financial transactions fell, in cumulative 12-month terms, in 2009 Q1 to 8.4% of GDP, from 9.1% in December. This moderation was accompanied by a restructuring by institutional sector, as firms and households (the latter, posting a positive balance for the second consecutive quarter) recorded lower borrowing, while the general government deficit rose (see Table 6).

The breakdown of financial transactions vis-à-vis the rest of the world by sector shows that net capital inflows channelled through the general government rose substantially in 2009 Q1, representing, in cumulative 12-month terms, 3.1% of GDP, against a backdrop of high public debt issues. By contrast, the funds raised by credit institutions, institutional investors and non-financial corporations decreased, although in all three cases they remained positive (equivalent to 1.2%, 1.5% and 0.7%, respectively, of GDP). At the same time, the other non-financial institu-

FINANCIAL TRANSACTIONS OF THE NATION TABLE 8
Four-quarter data

% of GDP

	2005	2006	2007	2008		2009
				Q3	Q4	Q1
NET FINANCIAL TRANSACTIONS	-6.5	-8.4	-9.7	-9.6	-9.1	-8.4
FINANCIAL TRANSACTIONS (ASSETS)	18.5	17.7	13.9	7.5	3.2	0.5
Gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	2.2	5.2	2.1	1.3	-0.3	-2.1
Of which:						
Interbank (a)	*3.1*	*3.4*	*4.2*	*2.1*	*-0.5*	*-2.3*
Securities other than shares	8.7	-1.2	1.6	1.1	1.3	-0.2
Of which:						
Credit institutions	*6.6*	*-2.1*	*1.8*	*1.7*	*1.5*	*0.7*
Institutional investors (b)	*2.3*	*0.6*	*-0.1*	*-0.6*	*-0.4*	*-0.9*
Shares and other equity	5.1	10.5	8.6	4.3	1.9	2.5
Of which:						
Non-financial corporations	*3.9*	*8.0*	*6.3*	*4.8*	*3.1*	*2.7*
Institutional investors (b)	*0.9*	*1.2*	*-1.0*	*-2.1*	*-1.5*	*-0.8*
Loans	1.1	2.1	1.2	1.7	0.9	1.0
FINANCIAL TRANSACTIONS (LIABILITIES)	25.0	26.1	23.6	17.1	12.3	8.8
Deposits	5.6	0.3	7.3	11.3	9.0	4.3
Of which:						
Interbank (a)	*7.2*	*0.6*	*6.7*	*8.6*	*6.2*	*2.0*
Securities other than shares	15.8	21.4	8.1	-1.5	-2.2	0.5
Of which:						
General government	*0.2*	*1.0*	*-1.3*	*0.2*	*1.4*	*2.6*
Credit institutions	*6.3*	*8.0*	*3.6*	*-1.4*	*-1.9*	*-1.1*
Other non-monetary financial institutions	*9.3*	*12.4*	*5.8*	*-0.3*	*-1.7*	*-1.0*
Shares and other equity	0.9	0.2	4.5	4.4	3.4	1.9
Of which:						
Non-financial corporations	*1.0*	*-0.2*	*4.7*	*4.0*	*2.5*	*1.2*
Loans	2.3	3.5	3.1	2.8	2.1	2.5
Other, net (c)	-0.9	-0.5	0.1	1.1	0.5	0.3
MEMORANDUM ITEMS:						
Spanish direct investment abroad	3.7	8.5	9.6	7.7	5.0	4.8
Foreign direct investment in Spain	2.2	2.5	4.8	7.0	4.4	2.9

SOURCE: Banco de España.

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

tions, including securitisation SPEs, once again recorded negative flows. Despite the decrease in the nation's net borrowing, funds raised abroad by sectors other than the Banco de España were insufficient to cover it, with the result that, once again, the Banco de España's net asset flows vis-à-vis non-residents were negative, amounting to 2.8% of GDP in cumulative annual terms (see Chart 28).

Capital inflows fell in 2009 Q1 to 8.8% of GDP, in cumulative 12-month terms, a decrease of 3.5 pp on December (see Table 8). By instrument, there was a notable drop in purchases of shares and other equity by non-residents (1.9% of GDP, down 1.5 pp on three months earlier) and in deposits (particularly interbank deposits: 2% of GDP, down 4.2 pp on end-2008). Net

financing obtained through this channel recorded a more moderate decline (2.4 pp). This contrasted with the growth in net financing obtained from securities other than shares, which had been negative in previous periods, due especially to the increase in funds obtained through securities issued by general government. Relative to GDP, foreign direct investment in Spain declined again, by 1.5 pp to 2.9%.

Capital outflows fell to 0.5% of GDP, in cumulative 12-month terms, in 2009 Q1, a decrease of 2.7 pp on December 2008 (see Table 8). By instrument, investment in fixed-income securities declined, while net acquisitions of shares and other equity showed greater momentum (2.5% of GDP, up 0.6 pp on three months earlier). However, Spanish direct investment abroad fell slightly, going below 5% of GDP.

As a result of cross-border financial flows and of changes in asset prices and the exchange rate, the Spanish economy's accumulated net debt vis-à-vis the rest of the world remained at around 80% of GDP (see Chart 28). By sector, this was essentially the result of the improvement in the debit positions of the financial institutions and the non-financial private sector, which was offset by the increase in general government liabilities.

24.7.2009.

Results of non-financial corporations in 2009 Q1

Overview[1]

Productive activity at the non-financial corporations reporting their data to the Central Balance Sheet Data Office Quarterly Survey (CBQ) contracted sharply in 2009 Q1, bringing gross value added (GVA) down 13%. This negative rate of growth contrasts with the increase of 2.3% recorded in 2008 Q1 (see Table 1 and Chart 1)[2] and is higher than the decline seen in 2008 overall (–2.6%). It is, however, consistent with the events of the closing months of the year. This negative performance affected all sectors of the sample, although the most negative rates were seen at corporations in the wholesale and retail trade and industrial sectors, against a backdrop of declining consumption and investment in capital goods. The contribution of the external sector to non-financial corporations' results improved in 2009 Q1 as opposed to a year earlier, due to the notable decrease in imports, which was more acute than the decline in exports, against the backdrop of a collapse in international trade.

Personnel costs fell slightly (–0.2%) in 2009 Q1, in comparison with a 4.3% increase a year earlier, as headcount reductions intensified (–2.8%) and growth in average compensation moderated (2.6% against 3.4% in 2008 Q1; see Table 2.A). The decline in the average number of employees affected only temporary contracts, which were down 16.2% at firms reporting to the CBQ. The number of employees with permanent contracts remained unchanged, although this also represents deterioration on a year earlier (+0.7%). Employment fell across all sectors, with the exception of energy. Among the firms reporting to the CBQ, employment fell most notably in industry and in the wholesale and retail trade (–5% and –8.6%, respectively), in line with their weak productive activity figures. The energy sector was the only one to see its average headcount rise (+1.7%), although to a lesser extent than in 2008 Q1 (+2.1%). The contained growth in average compensation of 2.6%, almost 1 pp lower than a year earlier, is a result of the lower wage rises negotiated in the latest collective bargaining agreements, against the backdrop of the economic crisis and the falling rate of inflation (1.4% at end-2008). In fact average compensation even declined in some sectors: in industry, for example, where wage costs recorded a negative rate of change (–0.2%). The rate of growth of personnel costs per employee also decelerated considerably in the wholesale and retail trade in 2009 Q1, standing at 0.2%; this figure may be connected with the sharp cut in performance-related variable compensation at large corporations.

The decline in personnel costs offset only a minimum part of the negative rate of change of GVA; this thus passed through to gross operating profit (GOP), which fell by 22% in 2009 Q1, in comparison with growth of 0.8% a year earlier, reflecting the extent of the impact of the slowdown in activity on earnings at Spanish non-financial corporations. By contrast, financial costs declined at a rate of 5.3% in 2009 Q1, representing a turnaround in comparison with previous quarters. This improvement is a result of the lower interest rate scenario, as debt levels rose slightly, due to a number of corporate restructuring operations via purchase and sale of shares that entailed extra financing. On the whole, however, investment activity was sluggish in the quarter. Financial revenue fell sharply in 2009 Q1 (–10.3%), as firms received fewer dividends in the period, in contrast to the exceptional growth seen in this heading in

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1. The information which serves as a basis for this article is that sent by the 656 corporations that had reported their quarterly data to the Central Balance Sheet Data Office as at 17 June. The GVA generated by this aggregate accounts for 11% of the total GVA of non-financial corporations. **2.** These rates, obtained from the figures supplied directly by the non-financial corporations in their accounting statements, are affected by the fact that Easter fell in Q2 in 2007 and 2009 but in Q1 in 2008.

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		
DATABASES	2007	2006	2007	08 Q1-Q4/ 07 Q1-Q4 (a)	08 Q1/ 07 Q1	09 Q1/ 08 Q1
Number of corporations		9.280	8.947	782	852	656
Total national coverage		33.6%	33.0%	12.2%	14.0%	11.0%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including subsidies)	100.0	9.5	7.5	3.0	8.1	-20.2
Of which:						
— Net amount of turnover and other operating income	*139.0*	*9.7*	*5.8*	*3.3*	*7.2*	*-19.6*
2. INPUTS (including taxes)	68.9	10.2	8.0	5.6	11.1	-23.8
Of which:						
— Net purchases	*39.9*	*12.3*	*6.9*	*4.4*	*16.1*	*-32.0*
— Other operating costs	*29.4*	*7.8*	*8.5*	*5.4*	*4.0*	*-2.7*
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	31.1	8.1	6.4	-2.6	2.3	-13.0
3. Personnel costs	16.4	6.9	6.9	3.6	4.3	-0.2
S.2. GROSS OPERATING PROFIT [S.1 – 3]	14.8	9.5	5.9	-7.3	0.8	-22.0
4. Financial revenue	4.0	17.0	23.2	2.7	20.2	-10.3
5. Financial costs	4.0	34.3	39.0	16.4	24.0	-5.3
6. Net depreciation, impairment and operating provisions	5.2	9.9	0.0	0.7	-0.6	-8.4
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.5	5.1	4.8	-16.5	-1.4	-30.5
7. Gains (losses) from disposals and impairment (c)	-1.0	82.0	(b)	(b)	(b)	(b)
7'. As a percentage of GVA (7/S.1)		5.6	-3.1	-3.3	-1.2	5.8
8. Changes in fair value and other gains (losses) (c)	1.2	54.9	(b)	56.1	96.5	(b)
8'. As a percentage of GVA (8/S.1)		-2.9	4.0	-3.9	-0.2	-3.0
9. Corporate income tax	1.9	36.9	-14.9	-68.6	13.2	-30.3
S.4. NET PROFIT [S.3 + 7 + 8 – 9]	7.8	28.3	8.6	-28.5	-4.2	-21.5
S.4'. As a percentage of GVA (S.4/S.1)		24.3	25.1	25.9	27.4	25.0
PROFIT RATIOS	Formulas (d)					
R.1 Ordinary return on investment (before taxes)	(S.3 + 5.1)/NA	9.1	8.9	7.7	5.7	5.1
R.2 Interest on borrowed funds/interest-bearing borrowing	5.1/IBB	4.1	4.8	4.9	4.7	4.1
R.3 Ordinary return on equity (before taxes)	S.3/E	13.5	12.5	10.2	6.6	6.0
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	5.1	4.1	2.8	1.0	1.0

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.
b. Rate not significant or not calculable because the relevant figures are of opposite sign.
c. New P&L headings resulting from application of the new general chart of accounts (PGC 2007). Box 2 reports on the scope of the changes made. Data assimilated for 2007 and previous.
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).
NB: In calculating rates, internal accounting movements have been edited out of items 4, 5 and 7.

2008 Q1. As financial revenue declined by more than financial costs, ordinary net profit (ONP) fell somewhat more sharply than GOP, recording a negative rate of change of –30.5% in 2009 Q1. This is the highest decline seen in this figure throughout the CBQ's data series.

As activity contracted sharply, and with it the main corporate surpluses, ordinary returns also headed down again in 2009 Q1. Thus, return on investment (ROI) stood at 5.1%, down slightly more than 0.5 pp on 2008 Q1 (5.7%), and return on equity (ROE) at 6%, down 0.6 pp on a year earlier (6.6%). The decline in the ratio that measures the cost of debt borne by firms reflects the lower interest rates: the ratio stood at 4.1% in 2009 Q1, in comparison with 4.7% a year earlier, offsetting the decline in returns. Accordingly, the differential between ROI and the cost of debt remained positive (albeit marginally, at 1 pp) across the entire sample, unchanged

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

CHART 1

REPORTING NON-FINANCIAL CORPORATIONS		2004	2005	2006	2007	2008	2009
Number of corporations	CBA	9,065	9,137	9,280	8,947	—	—
	CBQ	830	811	829	847	782	656
% of GDP of the sector non-financial corporations	CBA	32.3	32.5	33.6	33.0	—	—
	CBQ	15.0	14.6	14.5	14.3	12.2	11.0

SOURCE: Banco de España.

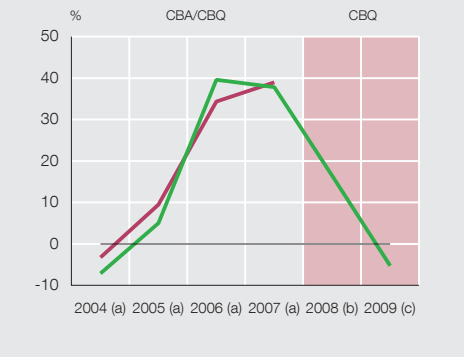
a. 2004, 2005, 2006 and 2007 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ).
b. Average of the four quarters of 2008 relative to the same period of 2007.
c. Data for 2009 Q1 relative to the same period of 2008.

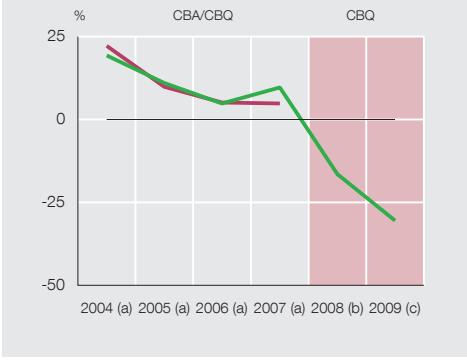
on a year earlier. Returns declined in all sectors, although most notably in industry, which posted a negative differential with the cost of debt (–2.3), evidencing the extent of deterioration of the financial position at industrial firms.

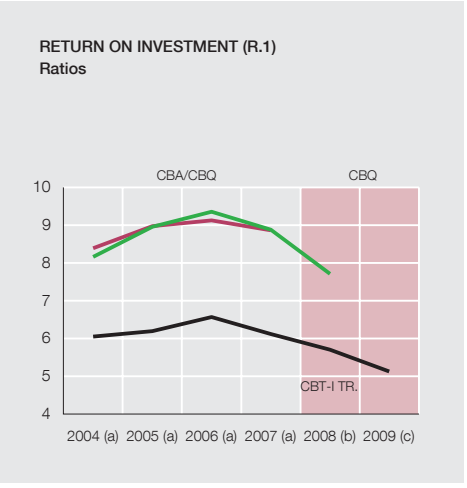
Lastly, extraordinary transactions virtually offset each other in 2009 Q1 and thus had little impact on profit for the period, although they did mean that this surplus declined somewhat less than ONP. Accordingly, the firms in the sample saw their profits fall by 21.5% in 2009 Q1. However, as GVA also fell, when profit is expressed as a percentage of GVA the decline in

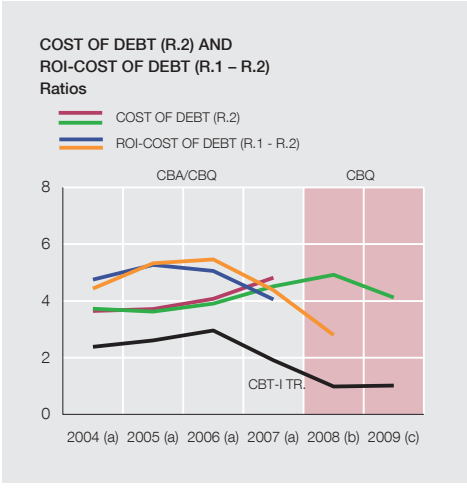
NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE (cont'd)

CHART 1









REPORTING NON-FINANCIAL CORPORATIONS		2004	2005	2006	2007	2008	2009
Number of corporations	CBA	9,065	9,137	9,280	8,947	—	—
	CBQ	830	811	829	847	782	656
% of GDP of the sector non-financial corporations	CBA	32.3	32.5	33.6	33.0	—	—
	CBQ	15.0	14.6	14.5	14.3	12.2	11.0

SOURCE: Banco de España.

a. 2004, 2005, 2006 and 2007 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ).
b. Average of the four quarters of 2008 relative to the same period of 2007.
c. Data for 2009 Q1 relative to the same period of 2008.

comparison with 2008 Q1 was little more than 2 pp (from 27.4% to 25%) and the ratio remained relatively high.

To sum up, productive activity at non-financial corporations contracted sharply in 2009 Q1, prompting major reductions in all ordinary surpluses and job losses, as the average number of workers with temporary contracts declined. This adverse performance affected all sectors of activity, but most especially industry and wholesale and retail trade which were directly influenced by consumption and investment, both of which showed strong signs of recession in the

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

TABLE 2.A

	GROSS VALUE ADDED AT FACTOR COST				EMPLOYEES (AVERAGE FOR PERIOD)				PERSONNEL COSTS				COMPENSATION PER EMPLOYEE			
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	2007	08 Q1-Q4 (a)	08 Q1	09 Q1	2007	08 Q1-Q4 (a)	08 Q1	09 Q1	2007	08 Q1-Q4 (a)	08 Q1	09 Q1	2007	08 Q1-Q4 (a)	08 Q1	09 Q1
Total	6.4	-2.6	2.3	-13.0	3.1	0.4	0.9	-2.8	6.9	3.6	4.3	-0.2	3.7	3.2	3.4	2.6
SIZE																
Small	3.4	—	—	—	-0.4	—	—	—	4.8	—	—	—	5.2	—	—	—
Medium	5.6	-0.3	1.8	-14.0	1.7	-1.5	-0.2	-5.2	6.6	3.0	4.9	-4.7	4.8	4.6	5.1	0.5
Large	6.6	-2.7	2.3	-12.9	3.4	0.5	1.0	-2.6	7.0	3.6	4.3	0.0	3.4	3.1	3.3	2.7
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	1.4	4.1	10.9	-13.8	0.2	2.0	2.1	1.7	5.0	4.5	4.5	3.5	4.8	2.5	2.3	1.7
Industry	8.4	-12.4	-2.5	-29.5	0.3	-1.1	-0.9	-5.0	4.2	1.7	2.7	-5.2	3.8	2.8	3.6	-0.2
Wholesale and retail trade	7.1	-6.4	-1.5	-14.5	3.5	1.3	2.0	-8.6	7.0	4.5	3.6	-8.5	3.4	3.2	1.6	0.2
Transport and communications	6.9	-1.8	1.2	-7.6	1.8	-0.9	-0.9	-1.4	5.6	1.8	3.2	1.8	3.7	2.7	4.1	3.3

SOURCE: Banco de España.

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

EMPLOYMENT AND PERSONNEL COSTS
Breakdown based on changes in staff levels

TABLE 2.B

		TOTAL CBQ CORPORATIONS 2009 Q1	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations		656	270	386
PERSONNEL COSTS				
Initial situation 2008 Q1 (€m)		6,461.3	2,259.2	4,202.1
Rate 2009 Q1 / 2008 Q1		-0.2	7.4	-4.3
AVERAGE COMPENSATION				
Initial situation 2008 Q1 (€)		11,625.1	13,360.5	10,866.2
Rate 2009 Q1 / 2008 Q1		2.6	1.3	2.5
NUMBER OF EMPLOYEES				
Initial situation 2008 Q1 (000s)		556	169	387
Rate 2009 Q1 / 2008 Q1		-2.8	6.0	-6.6
Permanent	Initial situation 2008 Q1 (000s)	462	132	330
	Rate 2009 Q1 / 2008 Q1	0.0	5.3	-2.2
Non-permanent	Initial situation 2008 Q1 (000s)	94	37	57
	Rate 2009 Q1 / 2008 Q1	-16.2	8.5	-32.1

SOURCE: Banco de España.

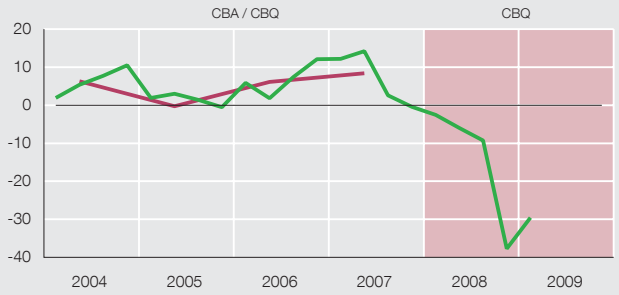
ANALYSIS OF THE INDUSTRIAL SECTOR

BOX 1

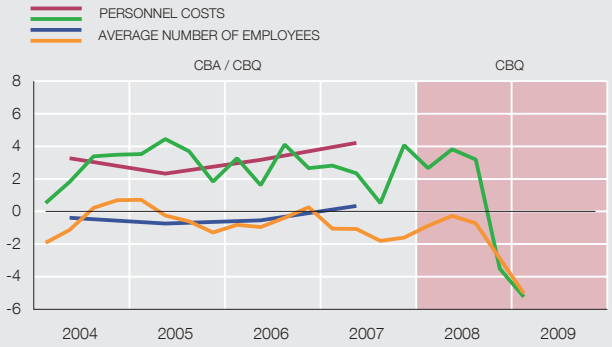
Activity contracted sharply at the industrial firms in 2009 Q1, reflected in the decline of –29.5% in their GVA. This is the largest decline in this sector in the quarterly series that began in 1994, confirming the significant impact that the decline in exports and in investment in capital goods has had on industrial firms, and the impact the deterioration in construction activity has had on auxiliary industry. Thus, although all industrial aggregates saw their GVA decrease significantly, the sharpest declines were in glass, ceramic and metal products (–54%), chemical industries (–32%) and other manufacturing industries (–25.8%). Net external demand (exports less imports) performed favourably, making a positive contribution as imports declined more than exports, against a backdrop of notable sluggishness in international trade. The deterioration in industrial activity led to a deterioration in employment: the average number of employees in the sector fell at a rate of –5% in 2009 Q1, which is, as in the case of activity, the largest decline in this aggregate since the launch of the CBQ's data series. Personnel costs per employee recorded a very moderate performance, practically flat (–0.2%) in 2009 Q1, as opposed to growth of 3.6% a year earlier. This moderation in average compensation is due to the lower wage increases set in collective bargaining agreements, against a backdrop of uncertainty and low inflation rates, and to the sharp cuts seen in performance-related variable compensation. In fact, average personnel costs even declined in some sub-sectors: –2% in food, beverages and tobacco; –2.5% in glass, ceramic and metal products; and –3.5% in other manufacturing industries. As a result of the performance of employment and average compensation, personnel costs fell at a rate of –5.2% in 2009 Q1, but this was insufficient to prevent a major adjustment in gross operating profit (–60.6%), reflecting the sharp contraction in industrial activity in the period. In contrast to the rest of the sample, the industrial sector saw its financial revenue and financial expenses increase in 2009 Q1. However this was due, in both cases, to one-offs (new borrowings, on the expenses side, and receipt of dividends, on the

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

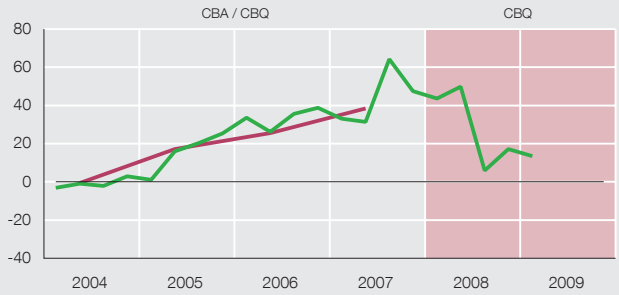
GROSS VALUE ADDED AT FACTOR COST
Rates of change



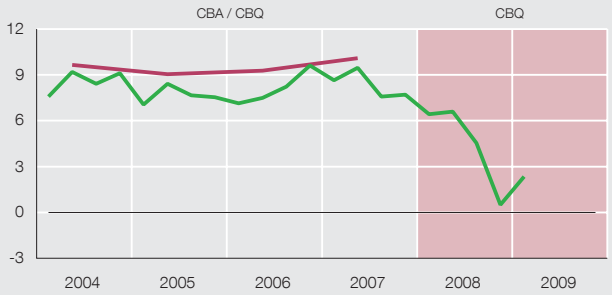
EMPLOYMENT AND WAGES
Rates of change



FINANCIAL COSTS
Rates of change



RETURN ON INVESTMENT
Ratios



REPORTING INDUSTRIAL CORPORATIONS		2004				2005				2006				2007				2008				2009			
Number of corporations	CBA	2,538				2,476				2,471				2,345				—				—			
	CBQ	353	343	336	334	325	313	306	298	321	305	292	283	316	305	290	286	291	276	254	234	207	—	—	—
% of GDP of the sub-sector industrial corporations	CBA	29.4				28.8				31.5				33.0				—				—			
	CBQ	20.0	20.3	18.3	19.7	19.5	20.2	17.2	17.7	18.9	18.0	16.5	17.6	19.8	19.9	16.4	17.2	17.3	16.5	12.1	8.2	8.4	—	—	—

SOURCE: Banco de España.

revenue side), with no significant impact on the declining profit trajectory. Accordingly, ordinary net profit fell sharply (–68.2%), at a similar rate to gross operating profit. Return on investment and return on equity also fell considerably: ROI declined by 4 pp to 2.3% in 2009 Q1, while ROE dropped to 0.3%, well below the 7.9% recorded a year earlier. As in the rest of the sample, the ratio that measures the cost of debt reversed, down to 4.6% in 2009 Q1 (0.3 pp lower than in 2008 Q1), as a result of the lower interest rates. Nevertheless, this decrease was not sufficient to prevent the differential between ROI and the cost of debt from turning negative (–2.3), for the first time in this aggregate since 1996 when interest rates were considerably higher (around 10%). This confirms and sums up the difficult situation faced by the industrial sector, which has been more directly affected than other aggregates by the adverse international developments and the general climate of uncertainty and which has seen contraction in its activity and its returns, along with a marked decrease in its capacity to generate profit and create jobs.

quarter. The resultant decline in ordinary returns was accompanied by a decline in the cost of debt, which offset the impact on the differential between the two (ROI – cost of debt), although this differential remains very narrow.

Activity

In 2009 Q1, productive activity at the non-financial firms reporting to the CBQ declined significantly, continuing in the adverse pattern seen in the closing months of 2008 and leading to a decline of 13% in gross value added (GVA) in the period, in comparison with growth of 2.3% a year earlier (see Table 1 and Chart 1). The sharp decline in intermediate consumption and production (–23.8% and –20.2%, respectively) is further evidence of how the contraction in activity heightened in 2009 Q1. The contribution of the external sector improved as net external demand (exports net of imports) rose (see Table 3), as a result of the sharp deceleration in imports, which was more acute than that of exports, against the backdrop of a severe downturn in world trade.

A more detailed breakdown by sector (see Table 2.A) shows, first, that GVA contracted in all the aggregates, although with a varying degree of intensity. Thus, the wholesale and retail trade and industrial sectors posted the most negative rates of change in productive activity. Industrial firms' GVA fell at a rate of –29.5% in 2009 Q1, primarily as a result of the decline in investment in capital goods and another poor performance from the sub-sectors most closely connected to the construction industry. Activity also declined considerably in the wholesale and retail trade sector, with GVA falling at a rate of –14.5%, as a result of weak consumption against a backdrop of great uncertainty. In the transport and communications sector, GVA fell at a rate of –7.6% in 2009 Q1, in comparison with growth of 1.2% a year earlier. Within this aggregate, telecoms and air traffic, which are the sub-sectors most directly affected by the present downturn, recorded the most negative performance. Lastly the energy sector saw its GVA fall at a rate of –13.8% in 2009 Q1, in comparison with growth of 10.9% a year earlier. In this case, GVA declined sharply in the two main sub-sectors, that is, in electricity, gas and water utilities and, especially, in refining. Thus GVA fell at a rate of –30.8% in the oil refining companies, due largely to shrinking corporate margins as oil prices headed sharply downwards (see Chart 2). In the utilities sub-sector, GVA fell at a rate of –8.8%, in comparison with growth of 5.9% a year earlier, mainly as a result of the fall-off in demand (demand for electricity declined by 6.5% in 2009 Q1, according to data from Red Eléctrica).

Finally Chart 3, which depicts the distribution of corporations by rate of change in GVA, irrespective of their size or economic sector, shows a very significant increase in the percentage of corporations posting a decline in this variable in the period analysed, in comparison with a

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

TABLE 3

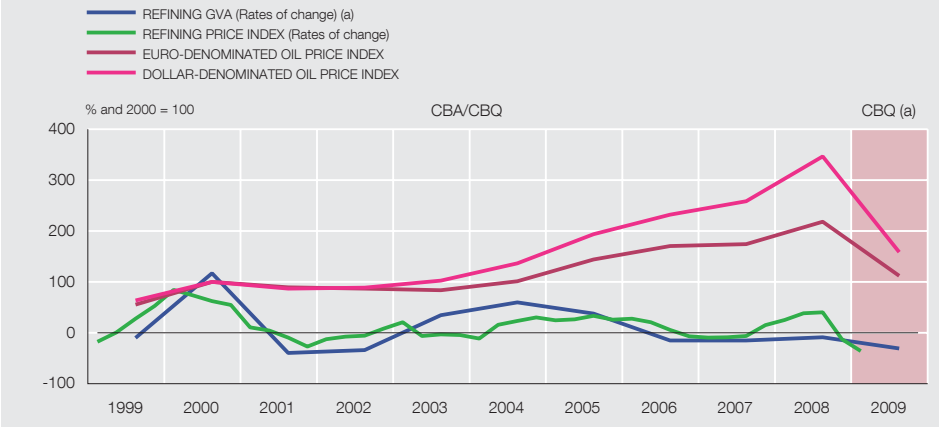
		CBA	CBQ (a)		
		2007	08 Q1-Q4 (a)	08 Q1	09 Q1
Total corporations		8,947	782	656	656
Corporations reporting source/destination		8,947	732	615	615
Percentage of net purchases according to source	Spain	67.1	77.5	79.0	81.9
	Total abroad	32.9	22.5	21.0	18.1
	EU countries	*19.2*	*15.6*	*14.3*	*13.0*
	Third countries	*13.8*	*6.9*	*6.7*	*5.2*
Percentage of turnover according to destination	Spain	84.8	90.2	91.5	90.8
	Total abroad	15.2	9.8	8.5	9.2
	EU countries	*10.5*	*6.9*	*6.5*	*6.5*
	Third countries	*4.7*	*2.8*	*2.0*	*2.7*
Net external demand (exports less imports), rate of change	Industry	-10.5	65.1	73.1	(b)
	Other corporations	-6.3	23.2	5.0	60.3

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

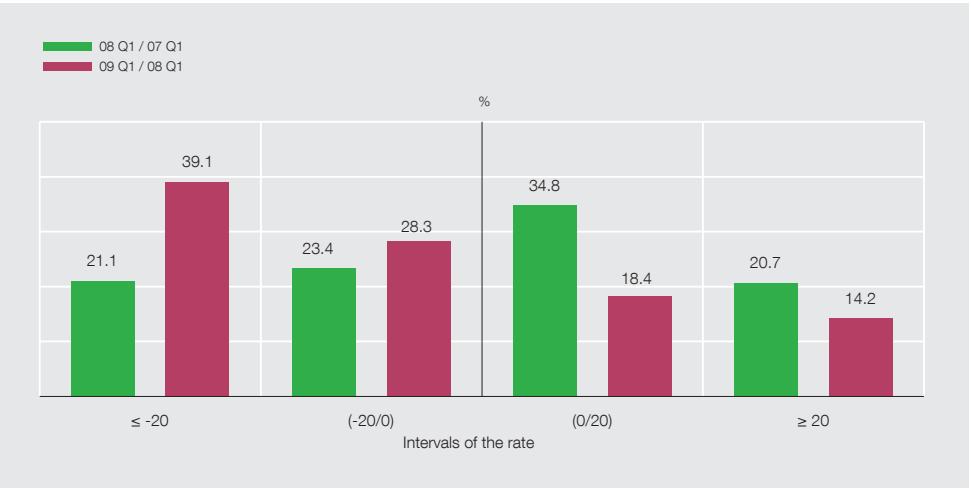


SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (Informe mensual de precios).

a. 2009 data relate to the CBQ.

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

CHART 3



SOURCE: Banco de España.

year earlier. This signifies that the decline in activity has intensified and spread to the majority of corporations in the sample. Thus, while 44.5% of corporations recorded contraction in GVA in 2008 Q1, this figure rose to 67.4% in 2009 Q1. Furthermore, there is a clear increase in the percentage of corporations recording a decline in GVA in excess of 20%: 39.1% in 2009 Q1 as opposed to 21.1% in 2008 Q1.

Employment and personnel costs

In 2009 Q1 personnel costs fell at a rate of –0.2%, against an increase of 4.3% in 2008 Q1; this is due to the negative employment performance and to the greater moderation seen in average compensation growth in 2009 Q1.

In effect, average employment at CBQ sample firms fell at a rate of –2.8% in 2009 Q1, as opposed to growth of 0.9% in 2008. The deterioration in productive activity was seen in temporary employment, which bore the brunt of workforce restructuring, declining at a rate of –16.2% (see Table 2.B). Permanent employment was unchanged, although this represents deterioration on a year earlier when it grew by 0.7%. The sectoral breakdown (see Table 2.A) shows that employment figures worsened overall, although the industry and wholesale and retail trade aggregates reflect the most job destruction, in line with their extremely weak productive activity figures. Thus, the average number of employees in the industrial firms in the CBQ sample fell at a rate of –5%, accentuating the pattern of job destruction seen in 2008 in this aggregate (–0.9% in 2008 Q1 and –1.1% in the full year). Workforce restructuring was more severe in the wholesale and retail trade sector, as the average number of employees fell at a rate of -8.6%, as opposed to an increase of 2% a year earlier (although the comparison is affected by the retail outlet openings seen in 2008). The transport and communications sector also destroyed employment in 2009 Q1 (–1.4%, marginally higher than the –0.9% recorded a year earlier). In fact the energy sector was the only one that created employment (+1.7%), although the rate of growth was short of that seen in 2008 Q1 (+2.1%). Lastly, Table 4 shows how job destruction has spread to most of the sample firms: the average number of employees fell in 61% of these firms in 2009 Q1, in comparison with 39.8% in 2008 Q1.

Average compensation grew at a contained pace in 2009 Q1, rising by 2.6% as opposed to 3.4% a year earlier. A certain degree of wage cost moderation was seen in general across all the sample sectors, as the downturn and extremely low inflation rates prompted lower in-

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

	CBA		CBQ			
	2006	2007	07 Q1-Q4 (a)	08 Q1-Q4 (a)	08 Q1	09 Q1
Number of corporations	9,280	8,947	847	782	852	656
PERSONNEL COSTS	100	100	100	100	100	100
Falling	25.4	26.1	28.8	32.8	26.3	54.3
Constant or rising	74.6	73.9	71.2	67.2	73.7	45.7
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	30.9	31.4	38.7	45.8	39.8	61.0
Constant or rising	69.1	68.6	61.3	54.2	60.2	39.0
AVERAGE COMPENSATION PER EMPLOYEE RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	38.5	38.1	44.8	48.7	48.1	50.9
Higher or same growth (b)	61.5	61.9	55.2	51.3	51.9	49.1

SOURCE: Banco de España.

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

creases in wage bargaining agreements. Table 4 confirms this development, showing that the percentage of corporations in which the rate of change of compensation per employee was below inflation rose in 2009 Q1 to 50.9%, from 48.1% a year earlier. By sector, industry and the wholesale and retail trade saw the most intense slowdown in average compensation growth (in fact the industrial sector posted negative rates of change (–0.2%)), primarily as a result of the sharp reductions in performance-related variable compensation at some large corporations. Lastly Table 2.B, which distinguishes between corporations that have maintained or raised their average number of employees and those that have destroyed employment, shows that, as is customary, the firms that created employment were those with the most contained growth in average compensation (+1.3%). It also shows that the firms that destroyed employment recorded more contained wage cost growth (+2.5%) than in the past.

Profits, rates of return and debt

Despite the decline in personnel costs, the sharp contraction in productive activity meant that gross operating profit fell at a rate of –22% in 2009 Q1, in comparison with minor growth of 0.8% a year earlier. Financial costs also declined in 2009 Q1, at a rate of –5.3%, in this case for the first time since 2004. As shown in Chart 4, which depicts the ratio of interest to GOP plus financial revenue, this enabled firms to ease their debt burden somewhat (down to 27%, a drop of 0.7 pp in comparison with 2008 Q1), even though the ratio's denominator also declined. The table below permits analysis of the reasons behind the decline in financial costs in 2009:

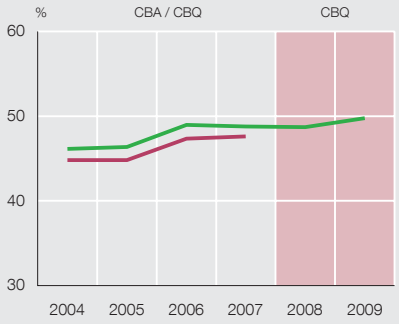
	09/08 Q1
Change in financial costs	**–5.3%**
A. Interest on borrowed funds (1 + 2)	*–4.8%*
1. Due to the cost (interest rate)	–16.6%
2. Due to the amount of interest-bearing debt	11.8%
B. Commissions and cash discounts	*–0.5%*

The table shows that these costs declined as a result of the interest rate cuts that were gradually passed through to firms' financial costs. This decline was partially offset by the change due to the amount of debt, which rose moderately in 2009 Q1, although this aggregate change was due to

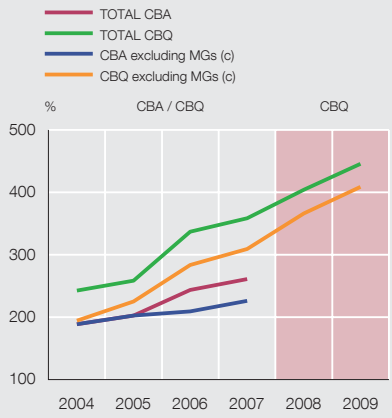
DEBT RATIOS

CHART 4

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



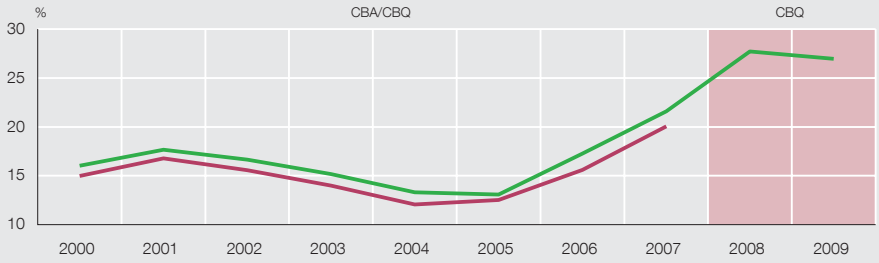
E2. INTEREST-BEARING BORROWING / GVA (b)
Ratios



	2004	2005	2006	2007	2008	2009
CBA	44.8	44.8	47.3	47.6		
CBQ	46.2	46.4	49.0	48.8	48.7	49.8

	2004	2005	2006	2007	2008	2009
CBA	188.6	202.3	243.4	261.2		
CBQ	242.6	258.5	337.0	358.6	404.2	445.7
CBA excl. MGs	188.6	202.3	209.0	226.0		
CBQ excl. MGs	194.1	225.1	283.6	309.3	366.3	408.6

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



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
CBA	15.0	16.8	15.6	14.0	12.1	12.5	15.6	20.0		
CBQ	16.0	17.7	16.7	15.2	13.3	13.1	17.3	21.6	27.7	27.0

SOURCE: Banco de España.

a. Ratio calculated from final balance sheet figures. Own funds include an adjustment to current prices.
b. Ratio calculated from final balance sheet figures. Interest-bearing borrowing includes an adjustment to eliminate intragroup debt (approximation of consolidated debt).
c. MGs: Sample corporations belonging to the main reporting multinational groups. These do not include the large construction sector companies.

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

TABLE 5

	GROSS OPERATING PROFIT				ORDINARY NET PROFIT				RETURN ON INVESTMENT (R.1)				ROI-COST OF DEBT (R.1-R.2)			
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	2007	08 Q1 - Q4 (a)	08 Q1	09 Q1	2007	08 Q1 - Q4 (a)	08 Q1	09 Q1	2007	08 Q1 - Q4 (a)	08 Q1	09 Q1	2007	08 Q1 - Q4 (a)	08 Q1	09 Q1
Total	5.9	-7.3	0.8	-22.0	4.8	-16.5	-1.4	-30.5	8.9	7.7	5.7	5.1	4.1	2.8	1.0	1.0
SIZE																
Small	1.1	—	—	—	-1.5	—	—	—	7.4	—	—	—	2.5	—	—	—
Medium	4.4	-4.2	-2.0	-25.5	-3.9	-2.5	-6.5	-42.0	8.0	7.7	6.8	4.1	3.2	1.7	2.1	0.3
Large	6.1	-7.4	0.9	-21.9	5.8	-16.9	-1.2	-30.2	9.0	7.7	5.7	5.1	4.1	2.8	1.0	1.0
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	0.4	4.0	12.5	-17.7	1.1	-0.7	6.9	-19.2	8.9	8.2	7.5	5.4	4.6	3.5	3.0	1.7
Industry	14.0	-28.4	-8.2	-60.6	13.6	-52.8	-37.1	-68.2	10.1	5.4	6.4	2.3	5.0	0.4	1.5	-2.3
Wholesale and retail trade	7.3	-23.1	-7.3	-22.8	4.0	-22.7	-1.5	-37.7	10.9	4.9	9.6	6.2	6.0	0.6	5.0	1.8
Transport and communications	7.8	-4.2	-0.2	-14.2	23.7	-4.3	1.4	-23.0	10.3	10.7	10.1	8.4	5.8	6.0	5.6	4.6

SOURCE: Banco de España.

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

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

TABLE 6

		CBQ			
		RETURN ON INVESTMENT (R.1)		ORDINARY RETURN ON EQUITY (R.3)	
		08 Q1	09 Q1	08 Q1	09 Q1
Number of corporations		852	656	852	656
Percentage of corporations by profitability bracket	R ≤ 0%	24.4	36.6	32.5	42.8
	0% < R ≤ 5%	23.4	25.8	14.4	18.1
	5% < R ≤ 10%	17.6	14.3	13.6	9.1
	10% < R ≤ 15%	10.2	4.7	8.9	5.8
	15% < R	24.4	18.6	30.5	24.1
MEMORANDUM ITEM: Average return		5.7	5.1	6.6	6.0

SOURCE: Banco de España.

certain large share transactions made within the framework of a restructuring process in the energy sector that entailed additional borrowing by the firms involved. In any case, the rate of growth of debt moderated in general; this is consistent with the sluggish investment conditions in the sample firms and the uncertainty that prompted most firms to postpone their investment decisions. The data compiled by the CBQ to approximate business investment show a decline of –7.8% in 2009 Q1. The E1 ratio (see Chart 4) reflects a minor increase in debt levels in 2009 Q1, as net equity (which forms part of the denominator, together with borrowed funds) remained virtually unchanged and interest-bearing borrowing (the numerator) rose slightly. The E2 ratio, which approximately measures the debt burden relative to firms' repayment capacity, continued to head upward, as in previous quarters, driven by the minor increase in interest-bearing debt and, above all, by the decline in ordinary revenue.

CHANGES IN THE PROFIT AND LOSS ACCOUNT UNDER THE NEW CHART OF ACCOUNTS (PGC 2007) BOX 2

As a result of the entry into force of the new chart of accounts (PGC 2007) in 2008 Q1, the non-financial corporations have had to apply new valuation criteria including, in particular, "fair value" accounting for a number of financial assets. The Central Balance Sheet Data Office (CBSO) has regularly informed of the potential impact of this change on the quarterly data reported by the CBQ sample firms,[1] although to date this impact has been limited. With a view to reducing the reporting burden, as from 2008 the CBSO has been collecting information from the CBQ reporting corporations via a questionnaire that is fully adapted to the new chart of accounts, entailing changes in the data breakdown. As a result of these changes, adjustments have had to be made to the profit and loss account in Table 1 of this article and to the time data series published in Chapter XV of the Banco de España's *Boletín Estadístico*. This is the first time these adjustments are included, now that two consecutive observations (2008 Q1 and 2009 Q1) are available under the new format.

As the accompanying table shows, the change in format only affects the extraordinary profit and loss headings. The table also shows the highest level of detail available in the questionnaires that serve as a basis for the data, to reflect the content and the analytical limitations of these new data, as noted below. The following aspects of these changes should be highlighted:

— As indicated above, the changes only affect the extraordinary profit and loss headings; accordingly, ordinary net profit (ONP), the heading on which the CBSO's profit analysis is fundamentally based, is not significantly different from the data obtained previously. Nevertheless, when the time series were reviewed, it was decided to include amortisation of capital grants in ONP, to enhance its calculation: hereafter, ONP includes fixed asset depreciation net of capital grants, a change that does not represent a break in the series. The change means that returns increase by a few decimal points throughout the data series.

1. This impact has been quantified in successive quarterly articles on results of non-financial corporations, the first published in the *Economic Bulletin* of July 2008 relating to 2008 Q1 (see Box 1: "Implementation of the new Spanish general chart of accounts. Effects on corporations' accounting data").

CBQ QUESTIONNAIRE HEADINGS UNDER PGC 1990

	Sign	Absolute values (€m)		% GVA	Rate
		07 Q1-Q4	08 Q1-Q4		
7. Extraordinary revenue and expenses		15,322	5,841	9.7	-61.9
1. Capital gains and extraordinary revenue	+	20,408	11,883	19.7	-41.8
2. Capital losses and extraordinary expenses	–	5,087	6,042	10.0	18.8
8. Other headings (provisions and taxes)		18,191	10,220	16.9	-43.8
1. Provisioning expense (net)	+/–	14,498	8,577	14.2	-40.8
2. Corporate income tax	–	3,693	1,643	2.7	-55.5

CBQ QUESTIONNAIRE HEADINGS UNDER PGC 2007

	Sign	Absolute values (€m)		% GVA	Rate
		08 Q1	09 Q1		
7. Gains (losses) from disposals and impairment		46	788	5.8	(a)
1. Fixed assets	+/–	128	-25	-0.2	(a)
2. Financial instruments	+/–	-82	814	6.0	(a)
8. Changes in fair value and other gains (losses)		-118	-401	-3.0	(a)
1. Change in fair value of financial instruments	+/–	252	-120	-0.9	(a)
2. Overprovisioning	+	31	64	0.5	105.2
3. Exchange differences	+/–	-28	-181	-1.3	(a)
4. Severance pay	–	138	157	1.2	13.4
5. Other extraordinary gains (losses)	+/–	-235	-7	0.0	97.1
9. Corporate income tax	–	1,313	916	6.8	-30.3

SOURCE: Banco de España.

a. Rate impossible to calculate

— Extraordinary revenue and expenses, which are not included under this name in the new chart of accounts, are no longer booked separately (capital losses and extraordinary expenses, on the one hand, and capital gains and extraordinary revenue, on the other), but as a net amount (revenue less expenses). This presentation option, defined in the PGC 2007, affects the explanatory power of the rates of change and makes them more volatile, as it adds together positive and negative headings in the numerators and denominators. In fact there will be many cases in which it will be impossible to calculate the rates of change (when the headings go from negative to positive or vice versa, as in the case of the 2009 Q1 data), and others in which the rates of change go beyond double-digit, as they are calculated on the basis of very low (net) figures, and thus lose all their analytical value. For this reason, Table 1 of this article will hereafter include not only the rates of change but also the structure of these headings relative to GVA.

— The accompanying table sets out the items contained in the summary headings included in Table 1, and their relative importance in 2009 Q1:

a) Heading 7, "Gains (losses) from disposals and impairment", is identical to the same heading in the profit and loss account under the new chart of accounts. It includes gains and losses from the sale of fixed assets and financial instruments and impairment, that is, the valuation adjustment made at the end of the period for reversible deterioration in these asset balances. This heading totalled 5.8% of GVA in 2009 Q1.

b) Heading 8, "Changes in fair value and other gains (losses)", is a group of extraordinary items created by the CBSO for analytical purposes, including severance pay, exchange differences, overprovisioning income, other extraordinary gains (losses) and, lastly, changes in fair value.

c) The key new feature here is precisely the presence of "Changes in fair value of financial instruments", which records changes in the value of financial assets that may be fair value accounted. For 2009 Q1, the combined impact of exchange differences and fair value adjustments was negative and limited (–1.3% and –0.9% of GVA, respectively). Nevertheless, this valuation should be reviewed when the data for full-year 2008 become available (in November 2009) and, in future years, when the new valuation procedure is more established and the doubts expressed by some firms regarding its application have been settled.

Financial revenue fell sharply in 2009 Q1 (–10.3%), as firms received fewer dividends (these fell at a rate of –24.3% in the period analysed, although the comparison is based on exceptionally high dividend revenue in 2008 Q1). Accordingly, the decline in ordinary net profit (ONP) heightened, falling at a rate of –30.5%, an unprecedented figure in a first quarter throughout the CBQ's data series and the result of generalised deterioration across all areas of activity (see Table 5). The combined performance of ONP and financial costs meant that ordinary returns were notably lower than in previous quarters. Thus, return on investment (ROI) stood at 5.1% in 2009 Q1, down slightly more than 0.5 pp on 2008 Q1, and return on equity (ROE) stood at 6%, down 0.6 pp on a year earlier (6.6%). Financial costs borne by firms (the R.2 ratio) also declined in 2009, with average financial costs down from 4.7% a year earlier to 4.1%, due to the impact of the interest rate cuts. Accordingly, the differential between ROI and financial costs remained positive (albeit marginally, at 1 pp) and virtually unchanged on 2008. The differential narrowed across all sectors of activity (from 5 to 1.8 in wholesale and retail trade), but most noticeably in industry where it turned negative (–2.3).

To conclude, analysis of the extraordinary or non-recurrent items[3] shows that no changes in 2009 Q1 had a significant impact on profit for the period. Capital gains obtained on asset sale transactions within the framework of reorganisation of some energy sector firms and the substantial drop in corporate income tax (–30.3%) both added to profit for the period, but share portfolio impairment charges detracted from firms' book profit. The combined impact of these

3. The profit and loss account format has been adapted to the new general chart of accounts. This has affected presentation of these extraordinary items, which include, as key new features since 2008 Q1, changes in fair value and net recording of extraordinary revenue and expenses. This makes analysis of these rates of change more difficult, given their increased volatility. The impact of these changes is analysed in more detail in Box 2.

impairment charges and capital gains (items which, under the new general chart of accounts, are reported together) was positive (5.8% in terms of GVA structure), while changes in equity due to fair value accounting and other extraordinary items were negative (representing –3% relative to GVA). In any case, as indicated above, the net effect of these changes on profit was negligible, meaning that profit for the period continued to decline sharply (–21.5%), in line with, although slightly less marked than, the decline in ONP. Lastly, the ratio between profit for the period and GVA also fell, from 27.4% in 2008 to 25% in 2009 Q1, although it remained quite high since GVA, which is the denominator, also declined in the period.

17.6.2009.

THE FUNCTIONING OF THE LABOUR MARKET AND UNEMPLOYMENT GROWTH IN SPAIN

The functioning of the labour market and unemployment growth in Spain

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Introduction

The unemployment rate is proving to be the key manifestation of the severity of the crisis affecting the Spanish economy. According to EPA (Spanish Labour Force Survey) data, the unemployment rate rose from 9.6% at the beginning of 2008 to 17.9% in 2009 Q2, topping the 4 million mark.[1] The rate of job destruction is higher than in other developed countries, even taking into account some of the singularities of the Spanish case. Thus, in countries facing a similar contraction in activity, but with a lower rate of growth in the labour force and with no comparable construction sector expansion, the unemployment rate has risen only slightly since the start of 2008 (for example, in France, by 1.3 pp according to Eurostat) or has even remained stable (for example, in Germany), although unemployment will foreseeably rise in these countries in coming quarters. However, when compared with countries that share similar characteristics in terms of property market developments and demographic trends, such as the United States, the United Kingdom and Ireland, Spain's unemployment growth continues to stand out: the unemployment rate has risen by "just" 4 pp in the United States, slightly more than in the United Kingdom, and by 6.4 pp in Ireland, as opposed to more than 8 pp in Spain.

This suggests that the Spanish labour market's mechanisms for adjustment in the face of adverse shocks are not functioning correctly, as employment is bearing the brunt of the adjustment and this entails a high cost, in terms of long-term economic growth and social well-being. Moreover, these distortions are not only seen in periods of recession, but also in economic expansion phases, in the form of highly temporary and precarious employment, low productivity and real wage growth and an unemployment rate that has failed to converge with that of the euro area countries. These shortcomings in the functioning of the labour market reflect, inter alia, a lack of adaptation of the institutional framework. When it comes to determining how the labour market functions and its capacity to adjust in the face of serious macroeconomic shocks, there are four key labour market institutions: unemployment protection schemes, understood in the broadest sense (including unemployment benefits and severance payments); wage-setting mechanisms (the collective bargaining system); active labour market policies (designed to raise the employability of the labour force); and labour market intermediation mechanisms (the agencies that help match persons looking for work with firms offering work).

The fact that employment is bearing the brunt of the adjustment is probably chiefly due to the first two of these institutions, i.e. the unemployment protection schemes and the wage-setting mechanisms.[2] Moreover, several studies have demonstrated that the interaction between these two institutions is also key to understanding the labour market's reaction to shocks:[3] in fact it is clear that protection systems may affect the result of collective bargaining, and vice versa, that the degree of wage adjustment in light of a shock makes it essential for unemploy-

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1. To give an idea of the magnitude of the problem, it should be noted that, in like-for-like terms, the all-time high for Spanish unemployment was 18.2% in 1994 Q3, although as it was then calculated, the unemployment rate reached 24.5%. **2.** This does not mean that the role of the other two institutions is insignificant. In fact Denmark is the most paradigmatic example of the effectiveness of powerful active and well-designed labour market policies and of the important role public and private employment services can play to prevent the unemployed from becoming stigmatised. **3.** Blanchard and Wolfers (2000) analyse the importance of the interaction between labour market institutions and different economic shocks for analysis of labour market behaviour.

ment protection schemes to come into play. In this respect, the reasons that warrant the existence of these labour market institutions should not be forgotten: they provide guaranteed income for workers (who are thus able to maintain a more stable spending profile over time), they transfer part of the risk from individuals to firms, they oblige firms to assume the social cost of worker dismissals, they enable the unemployed to find work more suited to their skills and they balance the bargaining power of workers and firms, inter alia. All this explains why these institutions must be well designed, to ensure that labour market adjustments are efficient and entail the lowest possible social and economic cost. However, it should also be borne in mind that for these design improvements to yield optimum results, firms will have to operate in a more competitive environment on the product markets, to ensure that the consequent decline in corporate margins is passed through to final consumers.

Accordingly, the next two sections of this article contain an overview of the existing unemployment protection and wage-setting institutions in Spain, placing them in an international context and aiming to identify their main shortcomings. There follows a review of some of the labour market reforms undertaken in other European countries that may serve as a reference framework for Spain. In particular, Germany and Austria made extensive changes to the design of their unemployment protection schemes in the 1990s and are, for the time being, demonstrating considerable resilience to unemployment growth, while Sweden is a paradigmatic example of how a collective bargaining system mid-way between past excessive centralisation and wage bargaining at company level may have an adverse impact on unemployment. Finally, the last section summarises the main conclusions.

Employment protection in Spain. The effects of excessive labour market segmentation

Most developed countries operate a combination of two basic mechanisms to ensure that workers receive income throughout their working lives and to enable them, if made redundant, to secure a new job that matches their skills, namely severance pay and unemployment benefits. In Spain, the Workers' Statute contains the regulations on severance pay following termination of a permanent employment contract. In simplified terms, there are two channels that firms may use to dismiss individual employees: objective reasons (Articles 52 and 53 of the Statute) or disciplinary grounds (Articles 54 and 55). In either case, if an appeal is filed, an employment tribunal may declare the dismissals to be fair, unfair or null and void. In the case of dismissals for objective reasons, firms must give employees one month's notice and severance pay amounting to 20 days' salary per year worked, up to a maximum of 12 months' pay; if the dismissal is subsequently declared to be unfair, employees will be entitled to 45 days' salary per year worked, up to a maximum of 42 months' pay. In 1997 this was reduced to 33 days' salary per year worked, up to a maximum of 24 months' pay, for certain groups of workers via the creation of the permanent employment-promoting contract. Dismissals on disciplinary grounds are effective immediately and grant no entitlement to severance pay if they are considered fair; if they are deemed unfair by the tribunal, in this case also employees will be entitled to 45 days' salary per year worked, up to a maximum of 42 months' pay.[4] Lastly, should the tribunal rule that the workers have been discriminated against and that the dismissals, whether for objective reasons or on disciplinary grounds, are null and void, the employees must be readmitted.

To place these figures in an international context, the data compiled by the World Bank for its Doing Business Index is used, given the uniformity between countries.[5] In these statistics, the

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4. By contrast to the case of dismissals for objective reasons, the permanent employment-promoting contracts brought no changes in these conditions. **5.** Specifically, one of the components of this Index reflects the cost of termination for economic reasons (corresponding to termination for objective reasons in the Spanish system) of the contract of a 42-year old, full-time, non-management employee, with 20 years' service, earning the national average wage, in a company with 201 employees, in the manufacturing industry, which is subject to a collective bargaining agreement (even if it takes no direct part in the bargaining process).

SEVERANCE PAYMENTS IN OECD COUNTRIES TABLE 1

	Severance pay (weeks' salary)		Severance pay (weeks' salary)
Denmark	0	United Kingdom	22
New Zealand	0	Greece	24
United States	0	Ireland	24
Austria	2	Finland	26
Australia	4	Sweden	26
Japan	4	Canada	28
Italy	11	France	32
Iceland	13	Hungary	35
Norway	13	Mexico	52
Poland	13	**Spain**	**56**
Slovakia	13	Germany	69
Switzerland	13	Korea	91
Belgium	16	Turkey	95
Netherlands	17	Portugal	95
Czech Republic	22		
OECD	25.8		

SOURCE: Doing Business (World Bank).

cost of dismissal in Spain in 2008 was 56 weeks' pay, based on fair dismissal, for objective reasons, of an employee with 20 years' service. As Table 1 shows, this sum is more than double the average for the countries of the OECD (25.8 weeks). In fact, only four developed countries top this figure: Germany, Portugal, Korea and Turkey. Nevertheless, these figures may possibly not be an adequate reflection of effective severance payments in Spain, as most terminations of contracts are made, not for objective reasons that are considered fair, but on disciplinary grounds that are subsequently considered unfair. In this case, for the employee considered in the World Bank's Index, the cost of dismissal would be 128 weeks' pay, far higher than that of any of the other countries analysed.

Unfortunately in Spain there is no accurate information available on final rulings on terminations of contracts. However, from a number of approximations it is possible to affirm that the great majority of permanent contracts terminated in Spain grant entitlement to maximum severance (45 days' pay per year worked). In fact, combining the information on individuals accessing unemployment benefits by source of entitlement with the judicial statistics on worker dismissals, it may be seen that firms acknowledge from the outset that dismissals are unfair[6] in slightly more than 70% of cases, and that of the cases that go to employment tribunals (the remaining 30%), approximately 30% result in agreed settlements and more than 20% in rulings favourable to the workers. Accordingly, the proportion of permanent contracts terminated in Spain that grant entitlement to the maximum severance pay established in the Workers' Statute may be close to 90%.[7]

In any case, it is important to note that this legislation only affects employees with permanent contracts, who represent approximately 70% of Spanish dependent employees. By contrast,

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6. Under Law 45/2002, firms are no longer obliged to pay wages between the date of dismissal and the date of the conciliation hearing, in cases in which they acknowledge that dismissal on disciplinary grounds, as of the date thereof, is unfair and they grant the workers the corresponding severance pay. **7.** There is no detailed information on severance payments made in the case of redundancy programmes; however, even in the present circumstances, these programmes affect only a very small percentage of workers.

UNEMPLOYMENT BENEFITS TABLE 2

	Replacement ratio (% of salary)		Replacement ratio (% of salary)
Turkey	48	Italy	66
Greece	48	Slovakia	68
Australia	48	Canada	68
New Zealand	48	**Spain**	**69**
United Kingdom	51	Norway	69
Korea	53	Netherlands	70
Ireland	54	Finland	70
Hungary	55	Sweden	72
Poland	61	Germany	73
United States	62	France	74
Japan	62	Denmark	74
Belgium	62	Switzerland	81
Iceland	62	Portugal	85
Czech Republic	63	Luxembourg	86
Austria	64		
OECD	64.3		

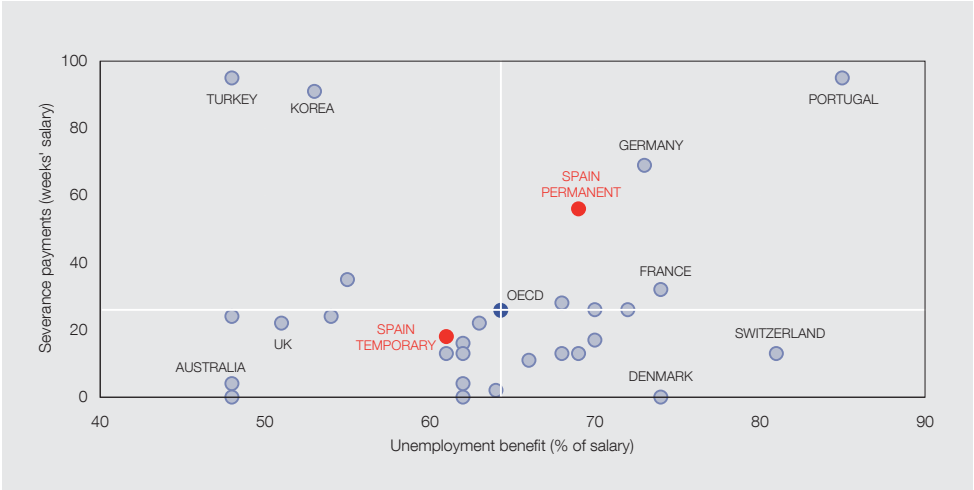
SOURCE: OECD.

employees with casual contracts or with contracts for specific tasks or services that are not renewed are entitled to just eight days' pay per year worked, or 22 weeks' pay in the terms of the World Bank's Index (were it possible for a temporary employee to have 20 years' service in one company). Employees with other types of temporary contracts (around 20% of the total or 1.2 million people) have no entitlement to severance pay when their contracts end. This would place all employees without permanent contracts below the OECD average, in a comparable position to all dependent employees in the Czech Republic or the United Kingdom, where workers without permanent contracts account for just 9% and 6%, respectively, of the total.

In most countries, unemployment benefits, the second institution providing income for workers who lose their jobs, are managed by the public sector and financed by firms' and workers' contributions. They are generally defined by two parameters: their maximum duration and the percentage of salary they represent. However, the system is generally somewhat more complex, as there are floors and ceilings on the benefits effectively received, the benefits may decline over time and certain groups of workers may be entitled to unemployment assistance when their unemployment insurance is exhausted. Given these complexities, to place Spain among the developed countries, Table 2 shows the average percentage of salary that unemployment benefits represent for persons who were earning 67%, 100% and 150% of the average wage in the economy before becoming unemployed and who have been unemployed for less than a year.

From the table, Spain looks to be one of the OECD countries with the most generous unemployment benefits in relative terms, almost 5 pp above the OECD average. However, as in the case of severance payments, these figures may be misleading as a result of labour market segmentation. In effect, as temporary workers become unemployed more often, they accumulate fewer rights, and this drives down the effective replacement ratio. Taking this into account, Spanish temporary workers rank below the OECD average, with a level of protection slightly below that of the United States.

SEVERANCE PAYMENTS AND UNEMPLOYMENT BENEFITS CHART 1



SOURCES: World Bank, OECD and Banco de España.

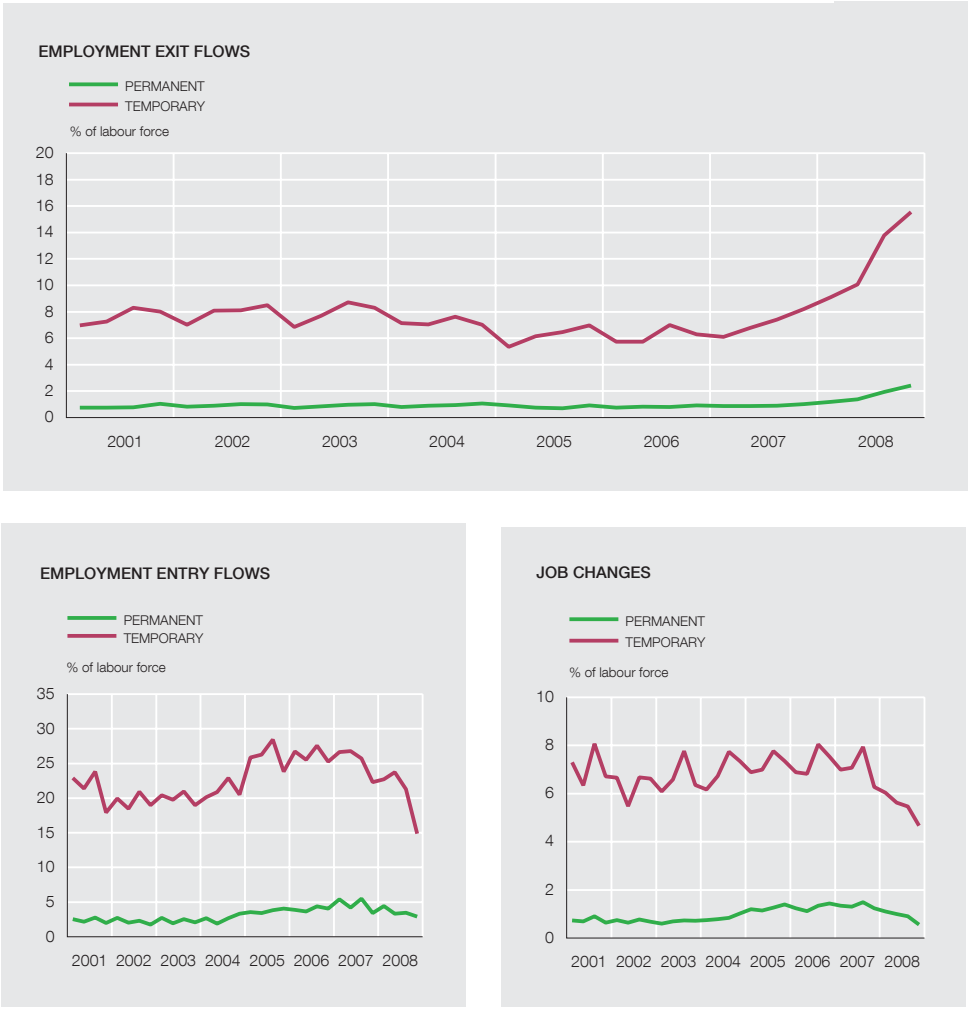
Thus, combining the data contained in Tables 1 and 2 and adding in the disaggregation between permanent and temporary workers in the case of Spain, the developed countries may be plotted in the four quadrants shown in Chart 1, according to the different combinations of these two institutions for worker protection. The chart clearly illustrates the duality in the Spanish labour market, as Spain appears in two opposing quadrants: on the one hand, Spanish workers with temporary contracts appear among the countries with severance pay and unemployment benefits below the OECD average, along with all the Anglo-Saxon countries, while Spanish workers with permanent contracts appear among the countries with severance pay and unemployment benefits above the OECD average, along with Portugal and Germany, inter alia. In the other two quadrants, the Nordic countries (specifically, Denmark and Norway) stand out, as unemployment benefits are above average but severance pay has virtually been eliminated, as do Turkey and Korea, for the opposite reason, as severance pay is high but unemployment benefits are low.

This excessive segmentation of the labour market is a result of the introduction, in 1984, of the temporary contract allowing unrestricted dismissal. Very likely this was the only way, without modifying the terms of stable contracts, to encourage job creation by reducing severance payments – in fact they were almost eliminated completely – for new hires, at a time when the unemployment rate was rising sharply and the majority of those who had lost their jobs were facing long-term unemployment. This reform helped reduce the numbers of long-term unemployed and helped new groups of workers enter the labour market. It also increased labour mobility, permitting reallocation of workers, from sectors in decline to up-and-coming sectors, at a time of large-scale restructuring of numerous industrial sectors. However, the continued coexistence of two forms of employment contracts with such big differences in terms of employment protection has resulted in excessive labour market segmentation and this is having an adverse effect on the functioning of the labour market, especially because, in the face of any kind of economic shock, it passes the burden of adjustment by firms on to employment, and particularly temporary employment.[8]

Thus, as Chart 2 shows, labour mobility is concentrated, almost exclusively, on workers with temporary contracts. Accordingly, even at times of economic expansion, these workers are

8. In fact, the aim of almost all the labour reforms introduced in recent years (most notably in 1997, 2001 and 2006) has been precisely to reduce the duality in the labour market, endeavouring to encourage permanent hires.

EMPLOYMENT FLOWS BY CONTRACT TYPE CHART 2



SOURCE: INE.

much more likely to become unemployed than permanent workers (in fact approximately 8% of temporary workers in one quarter become unemployed in the next). In turn, the unemployed who find work are most likely to be offered temporary contracts. In addition, it is very rare for workers with permanent contracts to change jobs, thus limiting the potential productivity gains stemming from labour mobility. This concentration of flexibility on a specific group of workers also leads to excessive turnover, as temporary workers combine very short periods of work with repeat episodes of unemployment, thus further detracting from productivity.[9] Finally, in the face of a crisis such as the present one, and as the chart also shows, the intense employment adjustment experienced in the Spanish economy is restricted almost exclusively to temporary workers, whose employment exit rates have doubled in recent quarters, while those of permanent workers have barely changed. Although it is highly probable that more permanent employees will eventually be dismissed, the workers with the most precarious employment conditions and who, in addition, are less well protected against this eventuality, are bearing the bulk of the adjustment.

Overall, therefore, as it stands, the labour market presents serious operating inefficiencies that amplify the effect of economic shocks – however short-lived – as too much of the impact is passed through to employment levels. As Table 3 shows, this results in higher employment

9. See, for example, Blanchard and Landier (2002) for theoretical models of these effects.

VOLATILITY RATIOS RELATIVE TO GDP AND CORRELATIONS (a) TABLE 3

	US	Germany	France	UK	Italy	Spain	Sweden
				Volatility relative to GDP			
Total hours worked	0.96	0.75	1.25	1.46	0.82	1.67	1.01
Employment	0.71	0.78	0.70	1.06	0.86	1.41	1.01
				Correlations with GDP			
Total hours worked	0.88	0.81	0.39	0.72	0.32	0.70	0.84
Employment	0.85	0.70	0.81	0.72	0.32	0.89	0.78
Hours per capita	0.70	0.19	-0.07	0.50	-0.03	-0.11	0.14
Wage per capita	0.52	0.42	0.21	0.11	0.27	-0.27	0.01
Hourly wage	0.19	0.39	0.21	-0.19	0.24	-0.14	-0.05

SOURCES: Eurostat and Banco de España.

a. Correlations and volatilities are calculated on the cyclical component of each series.

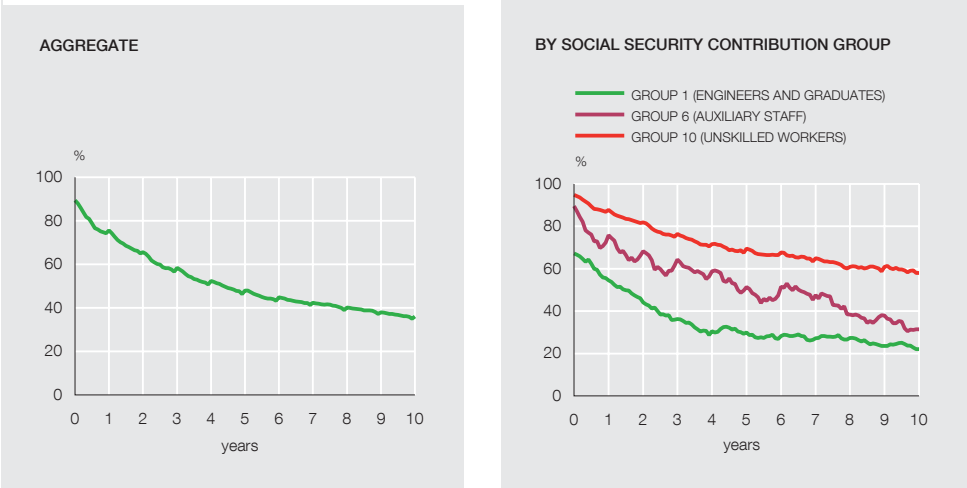
volatility relative to GDP in Spain in comparison with other developed countries. This tends to amplify economic fluctuations and is a consequence, in part, of the scant sensitivity of real wages to cyclical economic conditions. In fact, as the table shows, Spain is the only country in which, on average, real wages per capita tend to rise in recessions and fall in growth phases, exacerbating the employment adjustment in the event of a demand shock. Moreover, Spain is also the only country in which the correlation between hours worked and the cyclical component of activity is lower than the correlation between employment and said cyclical component, suggesting that fewer hours are worked per capita in growth phases and more hours per capita in recessions, which goes against the aim of achieving stable employment.

This recourse to external flexibility, rather than internal flexibility in the form of adjustments in the number of hours worked or in wages, has a major impact on the pattern of economic adjustment in the face of a shock of any kind, as it immediately results in changes in numbers employed and, therefore, in unemployment. This has an evident social cost for those who lose their jobs and for society as a whole, but it also has a significant impact on agents' confidence, as unemployment is the key determinant of household expectations.

Moreover, from a long-term view, this segmentation of the labour market has a negative impact on incentives for workers to accumulate human capital and for firms to provide training. This is vital, as workers' human capital, that is, their training and skills, are clearly their best protection in the event of economic slowdown. It is common knowledge that the most highly-trained segments of the population enjoy not only higher wages but also lower unemployment, even though they represent a higher proportion of the participation rate. The link between labour market segmentation and investment in human capital stems from the fact that temporary workers currently lack the necessary incentives to acquire company-specific knowledge in the firms in which they work, considering the high probability that in a few months' time they may have changed or lost their jobs. Firms are likewise reluctant to invest in effective training for temporary workers, in light of the risk that this training may benefit their competitors.[10] Moreover, in some cases this may also have an adverse impact on permanent workers, for whom the

10. Albert et al (2005) show that temporary workers are less likely to obtain employment in firms that offer training to their employees, and that those who do so are less likely to receive this training. Also in this respect, Dolado and Stuchi (2008) find that temporary employment has an adverse effect on productivity growth, especially in firms that employ a high proportion of temporary workers.

PERCENTAGE OF TEMPORARY WORKERS BY WORK EXPERIENCE CHART 3



SOURCE: Ministerio de Trabajo e Inmigración.

fact of being seemingly protected from fluctuations in activity may reduce the incentives for them to undertake on-the-job training.

Lastly, the duality in the Spanish labour market is particularly damaging for certain groups of workers, fundamentally new market entrants such as young people, women and immigrants. This causes significant problems of equity, as these workers bear the brunt of market adjustments. This would be less of a problem if temporary workers soon became permanent workers, that is, if temporary employment was a gateway into the labour market, ahead of transition to improved employment conditions. However, the evidence shows that this transition is very slow, and that a considerable percentage of temporary workers remain trapped. In effect, as Chart 3[11] shows, more than 80% of workers start their working lives with a temporary contract. This percentage declines over time, but very slowly. Thus, after ten years in the labour market, 40% of workers still have temporary contracts. This appears to be the consequence of the huge difference between severance pay in temporary and permanent contracts, which becomes a decisive factor in firms' decisions to offer permanent contracts to temporary workers.

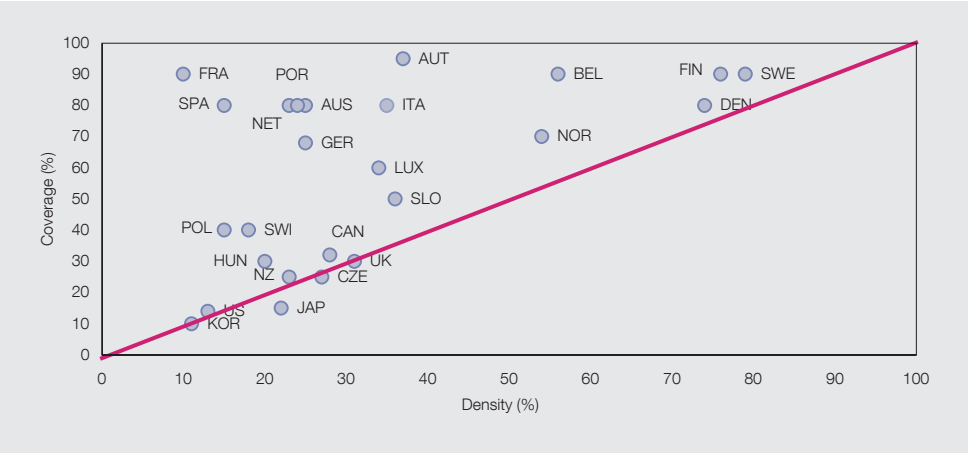
Clearly this does not affect all workers alike; in effect, it is the less-privileged and less-skilled workers who endure precarious employment conditions for longer. As the right-hand side of Chart 3 shows, the higher the level of educational attainment, the lower the probability of starting out with a temporary contract. Furthermore, the transition period is much longer for workers with a lower level of educational attainment, although in no case is the move to permanent employment particularly quick. And it is a considerable problem, as even in the case of engineers and graduates, 20% still have temporary contracts ten years after starting work.[12]

Collective bargaining in Spain. The effects of the predominance of intermediate bargaining levels

The economic literature generally uses three indicators to assess the economic impact of collective bargaining on the labour market: coverage, degree of coordination and level of centralisation. Union density, that is, the proportion of workers with trade union affiliation, is the most straightforward approximation to coverage, as workers are formally represented by trade unions in the collective bargaining process. However, there are reasons to believe that this

11. Compiled using data on the working lives of men who started work in 1986. **12.** Toharia and Cebrián (2008) conduct a highly detailed analysis of the problem of the temporary employment trap for different groups of workers. Their results show that a high percentage of the population (approximately one third) remain in this trap for some time, with disastrous consequences, for example, for Social Security contribution levels, as temporary employment goes hand in hand with frequent episodes of unemployment.

UNION DENSITY AND COLLECTIVE BARGAINING COVERAGE CHART 4



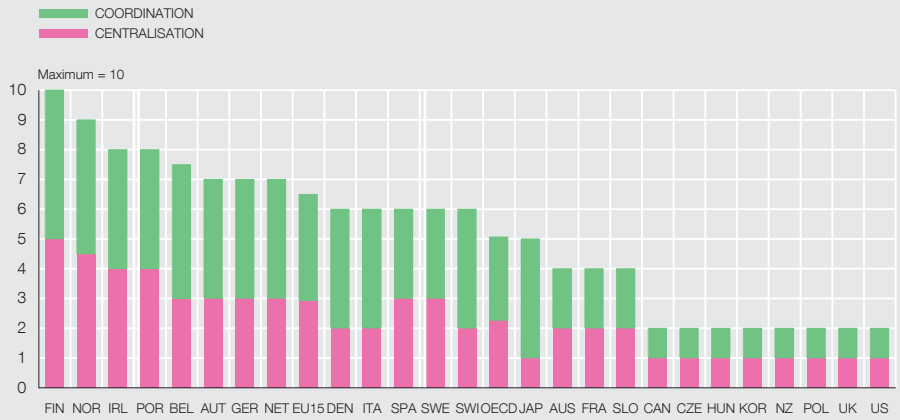
SOURCE: OECD.

approximation underestimates coverage, due to the existence (as in Spain) of legal mechanisms that extend these agreements to workers or their representatives who have not necessarily taken part in the bargaining process. Accordingly, collective bargaining coverage, which measures the proportion of workers whose wages are set by the process, is generally used as an additional yardstick.

As Chart 4 illustrates, Spain, together with France, is one of the economies with the lowest union density and the highest collective bargaining coverage (between 80% and 90% of Social Security registrations since 1990), and thus with the biggest difference between the number of active participants in the bargaining process and the number of workers finally affected by it. By contrast, there are no such differences in the Nordic countries (where both indicators lie between 80% and 90%) or in the Anglo-Saxon countries (in the United Kingdom the indicators barely rise above 30%). The situation in Spain is a consequence of two fundamental principles of the collective bargaining process: the *automatic general effectiveness* of the agreements reached, meaning that all agreements that are not company-specific must be applied in all firms and to all workers in the corresponding geographical area and industry, irrespective of whether or not they have taken part in the bargaining process; and the *legitimacy for bargaining,* based on electoral majorities to determine the worker representatives forming part of the bargaining committees (companies, for their part, are represented by the majority employer associations). The problem here is that there are groups of workers (temporary workers, the unemployed, etc.) and firms (the smallest ones) that are under-represented in the bargaining process, which thus tends to be less "sensitive" to their special needs. In addition, another singular feature of the Spanish system is that the opt-out clauses, which define the circumstances in which firms in difficulties may choose not to apply the terms of a sectoral collective agreement, are generally highly restrictive, preventing their application even in extremely difficult circumstances for firms.

Just as important as content and coverage, in terms of economic impact, is the level of centralisation and coordination of the collective bargaining process, although these concepts are difficult to specify and even more difficult to quantify. According to OECD indicators, the level of centralisation and coordination of the collective bargaining process in Spain has declined since the mid-1980s and is currently at an intermediate level (see Chart 5), similarly to most other European economies (Germany, Denmark, France, Italy and Sweden, inter alia). The remaining Nordic economies (Finland and Norway), Ireland, Portugal and Belgium have the highest levels of coordination and centralisation, while the eastern European economies (the Czech

CENTRALISATION AND COORDINATION OF COLLECTIVE BARGAINING CHART 5



SOURCE: OECD.

COLLECTIVE BARGAINING COVERAGE TABLE 4

Percentage of workers affected

		Sector			
	Firm	Total	Provincial	Regional	National
2000	15.2	84.8	58.1	11.3	15.5
2001	12.8	87.2	53.8	7.6	25.8
2002	11.5	88.5	54.8	9.5	24.2
2003	11.5	88.5	54.4	10.4	23.6
2004	10.8	89.2	54.7	10.2	24.4
2005	11.8	88.2	52.7	10.2	25.3
2006	12.1	87.9	52.3	10.0	25.6
2007	12.8	87.2	52.8	7.9	26.5
2008	10.6	89.4	54.6	6.8	28.0

SOURCE: Ministerio de Trabajo e Inmigración.

Republic, Hungary and Poland) and the Anglo-Saxon countries (Canada, the United States, New Zealand and the United Kingdom) are the most decentralised.

Spain's position in these two indicators is firstly a result of the principle of the automatic general effectiveness of collective bargaining agreements, together with the fact that the regulations on conflicts between different agreements significantly restrict the possibility of lower-level agreements amending the terms of higher-level ones. This means that company-specific agreements are the minority, even though collective agreements may be negotiated at this level. As Table 4 shows, most collective agreements signed in Spain are sectoral agreements at a provincial level; nationwide sectoral agreements represent a quarter of the total, while regional and company-level agreements each account for some 10%. Moreover, this structure has remained relatively stable since the beginning of the decade. This suggests an intermediate level of centralisation of collective bargaining, which, in accordance with economic theory, is more prejudicial to the level of structural unemployment and wage growth than if the system was fully centralised (as in the Nordic countries) or decentralised (as in the Anglo-Saxon countries), as demonstrated by Calmfors and Drifill (1988) at a theoretical level, and by Izquierdo et al (2003) empirically for Spain.

This institutional framework for collective bargaining means that wages are highly inflexible in Spain, hindering adjustment to different kinds of economic shocks. Thus, from an aggregate

WAGE SETTING AND INFLATION TABLE 5

Percentage of workers affected

	Spain	Euro area	France	Italy	Belgium
Automatic link to past inflation	38.4	16.3	8.9	1.2	98.2
Automatic link to expected inflation	16.4	4.1	2.0	0.5	0.0
Indirect connection with past inflation	10.9	9.7	21.2	2.6	0.0
Indirect connection with expected inflation	5.0	5.5	8.0	1.5	0.0
No inflation link	29.3	64.4	59.9	94.2	1.8

SOURCES: Banco de España and Druant et al (2008).

standpoint, wages in Spain have a low level of sensitivity to economic conditions and a high level of indexation to past inflation. In this respect, the results of a fairly uniform survey conducted in most European countries on the wage-setting process corroborate, in general, the high level of indexation in the Spanish collective bargaining system and the lower level of sensitivity to the prevailing economic conditions. These results, presented in Table 5, show that some 70% of Spanish firms apply wage policies that take direct or indirect account of inflation. This figure is much higher than in most other European countries.[13] In fact, for 54% of the Spanish firms there is a direct and automatic link to either past or expected inflation, as opposed to the euro area average of approximately 20%. This high wage indexation clearly has an impact on wage adjustment mechanisms in the face of different shocks; for example, it makes it more difficult for external shocks, such as an oil price rise, to be absorbed. In addition, the process is asymmetrical, as it comes into effect only when actual inflation is higher than forecast inflation, but not when it is lower.

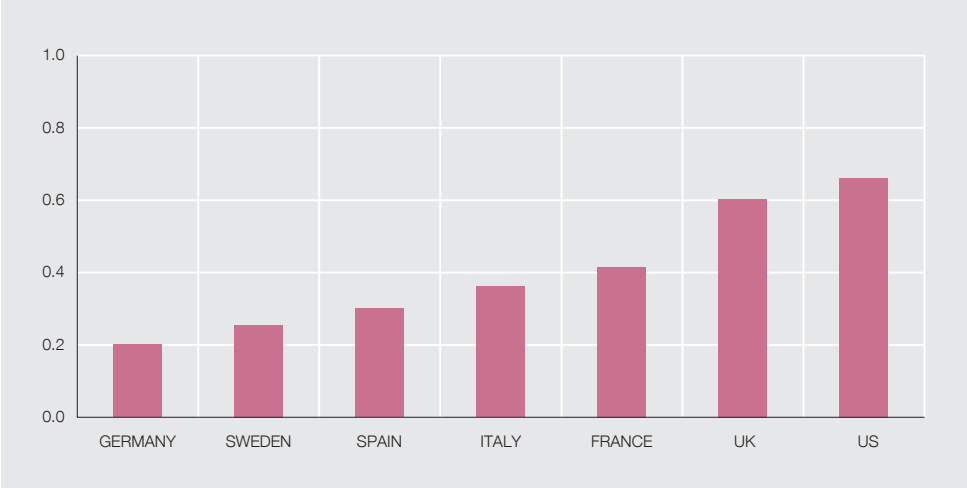
Regarding rigidities in labour cost adjustment, the Banco de España (2008) showed the low level of sensitivity displayed by wages set via the collective bargaining process to the economic situation, measured in terms of the unemployment rate. In addition, a very high percentage of collective bargaining agreements span several years and are, therefore, even less influenced by economic conditions. From an international perspective, the results of the survey mentioned above show, for example, that Spanish firms have much less room for manoeuvre than their peers in other countries when it comes to adjusting costs; for example, in the face of an increase in the cost of an input, only 45% of Spanish firms say that they adjust their labour costs, in comparison with more than 70% for the European aggregate.

However, the Spanish collective bargaining system not only causes aggregate rigidity in the time dimension of real and nominal wages, but also a lack of transverse flexibility, that is, insufficient connection between wages and other matters subject to collective bargaining agreements and the specific circumstances of firms and sectors. In effect, wage growth is highly uniform between sectors, meaning, for example, that the correlation between real wage growth and total factor productivity (TFP) for the different branches of activity is one of the lowest of the developed countries. As Chart 6 shows, Spain is one of the countries with the lowest correlation between wage growth at sector level and TFP growth, typical of countries with more centralised collective bargaining systems, and far removed from the Anglo-Saxon countries with decentralised systems. This signifies that relative wages across sectors are a poor indicator of the reallocation of resources that is required of an economy in the event of shocks, providing further backing to the view that, in the case of Spain, the adjustment may be a more painful and a lengthier process.

13. See Druant et al (2008), although comparison of the firms' responses between countries may be affected, to some extent, by their different institutional frameworks.

SECTORAL CORRELATION BETWEEN REAL WAGE GROWTH AND TOTAL FACTOR PRODUCTIVITY

CHART 6



SOURCES: EU-KLEMS and Banco de España.

Recent labour market reforms in Europe

This section presents a brief overview of some of the most notable labour market reforms introduced in Europe in recent years. It should be noted, however, that as a consequence of the crisis, most countries have implemented measures connected with the labour market, designed to support employment through temporary programmes, subsidised, in full or in part, by the public sector, and to sustain the income levels of groups affected by job losses. In this respect, Spain too has introduced a number of measures, primarily aimed at raising the protection for certain groups of workers (those affected by redundancy programmes) and at getting people back into work.

Over the past decade, various European countries have introduced important labour market reforms, aiming to achieve greater economic competitiveness and dynamism within the framework of the Lisbon Agenda.[14] In this respect, numerous policies have been implemented to provide markets with more flexibility and to raise the degree of utilisation of the labour factor, in line with the recommendations contained in the Agenda. Below, three very specific cases are highlighted by virtue of their significance, although it should be noted that, in general, many reforms have been introduced in Europe, tending, by various means, to provide firms with greater room for manoeuvre for adjustment in adverse circumstances, without having to resort to dismissing workers or to not renewing their contracts. This is the case, for example, of countries such as the Netherlands or France, which have made their labour legislation more flexible, encouraging firms to use part-time contracts and to adjust their working hours.

EMPLOYMENT PROTECTION SYSTEM REFORMS: GERMANY AND AUSTRIA

Germany is the country that has undertaken the most radical and extensive transformation of its labour market institutions and social protection system in recent years, through the *Hartz* reforms, implemented successively between 2003 and 2005.[15] The three main objectives behind these reforms were: to improve the public employment services, modernising their organisation and functioning; to encourage active job-seeking by the unemployed, reforming the social protection system, based on a new balance between rights and duties; and to increase labour demand, removing restrictions from the labour market via a reduction in the level of protection in the temporary employment segment.[16]

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14. For a more in-depth analysis of labour market reforms in Europe between 2000 and 2006, see Moral and Vacas (2009). **15.** *Hartz I* and *II,* on 1 January 2003, *Hartz III,* on 1 January 2004, and *Hartz IV,* on 1 January 2005. **16.** For a more in-depth analysis of the *Hartz* reforms and of their effects in Germany, see Jacobi and Kluve (2006) and Ward-Warmedinger et al (2008).

The placement system for the unemployed was improved by introducing market-based competition elements into the public employment services. The placement agencies were set quantitative targets and were given greater discretion regarding the choice of appropriate active policies for the unemployed, made on the basis of personal interviews between the unemployed and the placement counsellors assigned to them. The active policies for the unemployed now depend on the likelihood of their finding work. The active programmes were also redesigned and are now subject to rigorous and continuous assessment. Moreover, if the public employment service fails to offer an unemployed person a job within a period of six weeks, this person may decide to go to a private employment service, which will receive public subsidies based on its placement rate. Training courses may also be given by private agencies via subsidies.

Regarding the incentives for active job-seeking, the German system is now based on the principle of "rights and duties". In this respect, access to benefits largely depends on willingness to work. The unemployed are entitled to unemployment benefit for a period of between 6 and 12 months; the benefit received depends on the contributions made. Thereafter they receive only means-tested benefit, which is subject to penalisation in the event that they fail to demonstrate willingness to look for work. To encourage private-sector hiring, two new types of employment contracts were created – "Minijobs" and "Midijobs" – targeting lower-paid workers[17] and entailing lower Social Security contributions (the lower the wage, the lower the contribution). Moreover, to encourage firms to hire workers over 50, the State subsidises half the difference between their new and former pay packets throughout the period during which they would have been entitled to unemployment benefit.

Lastly, restrictions were removed from the labour market, liberalising temporary hires, which had been tightly regulated since 1972, and obliging temporary employment agencies to ensure that collective bargaining agreements were applicable to temporary agency workers, to prevent them being discriminated against in comparison with permanent workers. A public agency was also created to help provide temporary employment for groups of workers that were particularly difficult to place, and firms with fewer than ten employees were made exempt from statutory severance payments.[18] The different reviews of this reform seem to show that it has been instrumental in cutting the unemployment rate and raising the employment rate [Jacobi and Kluve (2006)].

In addition to this new regulatory framework, other measures were introduced to reduce the impact of the present crisis on employment. This has meant that, to date, a great many firms have been able to adjust to declining demand without having to resort to more redundancies, helped by wage moderation and by the enhanced incentives for short-time working arrangements *(kurzarbeit).* Thus, instead of laying off workers, firms may decide to cut working hours, partially or completely, for up to a maximum of six months, during which time the State pays workers 67% of their former wage. In general, firms may implement *kurzarbeit,* provided that their works councils accept the decision and that it involves a reduction of at least 10% in working hours for at least one-third of the employees. The German government's second anti-crisis package, implemented as from February of this year, extended these measures, which no longer need apply to at least one-third of employees and which may now last for up to a maximum of two years. In addition, firms receive a 50% allowance in workers' Social Security contributions, rising to 100% in the event that training programmes are conducted. Although

17. The first, for jobs paying less than €400 per month; the second, for jobs paying between €400 and €800 per month. **18.** This exemption was previously for firms with fewer than five employees. It should be noted that the data contained in Table 1 refer to a firm with 201 employees.

this instrument is similar, in formal terms, to the Spanish temporary redundancy programmes, it has traditionally been much less used in Spain.[19] This may be due to a variety of factors, in particular the easier it is in Spain for firms to adjust worker numbers by cutting temporary contracts. This relieves firms from the need to pay severance and shields permanent workers from the prospect of job losses; however, it is these workers who are chiefly represented in the bargaining process with employers for introduction of temporary redundancy programmes, which will, in any case, entail a drop in earnings.

Austria has also introduced a significant labour market reform, in this case of the unemployment protection system. In June 2002, the Austrian parliament approved a legislative change in severance pay applicable to all contracts terminated as from January 2003, with the exception of all contracts in force as at that date which would continue to be governed by the previous system. Under that system, only workers with more than three years' service who were unfairly dismissed were entitled to receive severance pay,[20] which rose in line with the number of years' service, up to a maximum of 12 months' pay after 25 years in the same firm.[21] This was, therefore, considerably less than the severance currently payable in Spain to permanent workers, as an employee with 25 years' service would receive total severance of 37.5 months' pay. The reform was considered necessary because, as the system stood, many workers who lost their jobs had no entitlement to any benefits whatsoever and it discouraged labour mobility and investment in human capital, reducing the rate of growth of productivity of the productive system overall.

Under the new rules, firms must contribute 1.53% of employees' gross monthly wages, as from the second month of employment and up to termination of the corresponding contract. These contributions are held in a fund in the employee's name and may be withdrawn, at no fiscal cost, when a firm decides to terminate the contractual relationship, provided in all cases that the worker has been employed for more than three years. Workers who are never made redundant throughout their working lives may withdraw the funds upon retirement. Workers who decide to leave their present employer will not be entitled to withdraw the funds in cash, but they will maintain full rights over them and may continue to accumulate cash from contributions from a future employer. This system, which is still pending evaluation, has, in any case, been instrumental in ensuring that all workers have rights in the event of dismissal as from the day on which they are hired. The system also enables them to preserve these rights even if they change jobs voluntarily, and this should encourage worker mobility between firms.

COLLECTIVE BARGAINING SYSTEMS: SWEDEN

Although there have been no far-reaching reforms of collective bargaining systems in Europe over the past decade, there has been a tendency towards greater decentralisation (especially at company level). This has been evident in the eastern European countries, where bargaining was predominantly centralised, and in Germany, where the use of opt-out clauses, enabling firms in difficulties to opt out of sectoral agreements, has become more widespread. There have also been some changes in wage indexation systems, to reduce their high inertia; for example, in Slovenia, where the system now takes into account expected, rather than past, inflation, and in Greece, where the indexation clauses have been abolished [Du Caju et al (2008)].

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19. Clearly, there are other differences between the two institutions that may encourage this reduced level of use. In Spain, temporary redundancy programmes must be approved by the corresponding regional government, or by the national government in the case of firms that operate in more than one region, after consultation with the union representatives. During the period of inactivity, workers receive unemployment benefits (70% or 60% of their former salary). Firms may apply for these programmes provided they affect at least 10 workers (firms with fewer than 100 workers), 10% of the workforce (firms with between 100 and 300 workers) or 30% of the workforce (firms with more than 300 workers). **20.** Save in the event of unfair dismissal, workers were only entitled to severance pay when they retired (and then only if they had more than ten years' service). **21.** Each year firms were obliged to make annual provision for at least 50% of potential severance pay for all their employees. Severance pay was taxed at 6%.

All these changes aim to help firms survive in adverse macroeconomic conditions, without having to sacrifice the long-term allocation of productive resources in a free market environment. Sweden is a paradigmatic example: the problems caused by centralised bargaining prompted increased decentralisation at sector level, but the crisis of the early 1990s showed that an intermediate level of centralisation was not the answer, revealing the need for nationwide agreements on earnings in the face of difficult circumstances.

With union density verging on 80% in Sweden, wages were traditionally set via centralised collective bargaining without active government participation, even though government measures affected union strategy.[22] All in all, this system resulted in extremely high wage compression, together with wage moderation that prevented unemployment from rising significantly.[23] Nevertheless, low wage dispersion began to have an adverse impact on Swedish firms' capacity to attract highly-skilled workers, and on investment in human capital by Swedish workers. The system became slightly more decentralised as from 1983:[24] this had positive effects in the shape of high productivity and real wage growth, it raised the incentives for reallocation of productive resources towards higher-quality sectors and it enhanced the educational returns [Edin and Topel (1997)].

However, the crisis of the 1990s revealed the problems caused by this intermediate level of decentralisation, as wage demands achieved in some industries took no account of the associated costs in others, meaning that, on aggregate, wage increases were excessive in light of the crisis. This prompted the government to demand a return to centralisation and, despite its history of non-intervention, a commission (the Rehnberg Group) was created to track the bargaining process. The government also proposed a ceiling on wage growth resulting from collective bargaining, which proved quite credible as the government enjoyed sufficient parliamentary support. This strategy was successful in achieving wage moderation during the early 1990s, leading to a significant reduction in the unemployment rate, but the collateral cost was enormous. Public finances were severely damaged and the government was forced to cut a number of public programmes, at the same time as it raised taxes. In this setting, it was clear that workers would not be prepared to accept further cuts in real wages, and accordingly, as from 1995, high sector-wide wage rises again became the norm, moderating the rate of decline of unemployment.

Accordingly, the Swedish experience shows that decentralisation of the collective bargaining process was positive in the long term, thanks to the incentives it generated in terms of reallocation of resources to higher quality industries and enhanced incentives for human capital formation. However, from a short-term view, as the bargaining process remained mid-way between total centralisation and negotiations at company level, it proved insufficient, at a time of crisis, to halt the deterioration in the labour market, making it essential to resort to an income agreement to moderate growth in margins and wages, to make a significant contribution to economic recovery.

Conclusions

Comparison of the main characteristics of the Spanish employment protection and wage-setting systems with those of other countries demonstrates the excessive degree of segmen-

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22. Traditionally in Sweden the unions defended wage moderation, supported by tax cuts or higher welfare-related benefits that ensured that net earnings were not adversely affected [Mares (2006)]. **23.** The main aim of wage concentration, in what was known as the Rehn-Meidner model, was to increase the costs of less productive firms until they were forced out of the market, forcing their employees into more productive employment. The model worked, in part, although it also prompted extensive internal migration from the north of Sweden, where the productive system was more traditional, to the south of the country. **24.** When the industrial union Metall and the engineering industry employer association Verkstads Förening, which represented large corporations such as Volvo, Saab and ABB, signed an agreement separate from the centralised bargaining process.

tation of the Spanish labour market, which combines very high protection for permanent workers with very limited severance terms for workers with a wide range of temporary contracts, resulting in a labour market with an extremely high temporary employment ratio (in fact the highest in Europe). This imbalance in labour market flexibility has adverse consequences for the functioning of the labour market, and for the Spanish economy in general, in terms of both efficiency and equity. Possibly the clearest reflection of this is the intensity of the employment adjustment in the face of the present crisis, as this adjustment is proving significantly more far-reaching than in other countries and is concentrated on temporary workers, whose numbers fell by more than 20% in 2009 Q1. This adjustment also entails higher unemployment: the jobless figures have risen by more than 1.8 million in one year and the unemployment rate by 9 pp, recording the highest level of all the OECD countries. As indicated above, this labour market segmentation also has adverse effects on both training decisions and productivity.

Moreover, the present collective bargaining system tends to exacerbate some of the implications of this labour market segmentation, resulting, as has been seen above, in a labour market marked by a high level of indexation to inflation and scant wage sensitivity to cyclical conditions. Furthermore, it is an intermediate level bargaining system, which encourages highly uniform wage rises that take little or no account of company-specific economic conditions, and which makes it impossible for relative wages to act as a mechanism for reallocation of resources to sectors with greater future potential.

Overall, therefore, a more appropriate design of the labour market institutions could enhance the capacity for reallocation of resources between sectors, firms or regions, permitting a more rapid exit from the ranks of the unemployed for the large numbers currently in this position. Improvements in this respect would be vital to establish the bases for sound economic recovery, to ensure that when demand recovers it does not lead solely to an increase in inflation and limited and precarious employment growth. Moreover, the design of the labour market is possibly the key factor in bringing about a change in the productive model that was prevalent throughout the last economic cycle. If the labour market institutions are designed so that they encourage firms and workers to take the appropriate training decisions, so that they represent a correct pointer for allocation of resources, so that they facilitate labour mobility between firms and sectors and so that they enhance the capacity for adjustment in the face of different economic shocks, then a new more sustainable economic specialisation profile may be achieved, more quickly and at lower cost.

In this context, reference to the experience of other countries that have undertaken labour market reforms, aimed at achieving more efficient adjustment to aggregate shocks and encouraging human capital formation, becomes even more relevant. The design of the labour market institutions must be oriented towards attainment of these two objectives. For this purpose, hiring mechanisms should permit an appropriate combination of employment protection for workers and flexibility for firms, to ensure that the labour market can adjust, more efficiently and more equitably, to different economic shocks. This would also result in greater incentives for investment in human capital, and consequently in productivity growth. The collective bargaining system should also be designed to ensure that wage growth and all aspects connected with work organisation and worker training are better adapted to the specific circumstances of individual firms and sectors, and to ensure greater flexibility in terms of timing of the agreements reached.

15.7.2009.

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Pros and cons of various fiscal measures to stimulate the economy

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Introduction[1]

Policy makers in the euro area and worldwide have intervened substantially to mitigate the economic and social disruptions of the present crisis and to stimulate recovery through various (conventional or unconventional) tools of monetary and fiscal policy.

As regards fiscal policy, there is certainly a strong consensus that government rescue plans for the banking sector were needed to avoid a systemic crisis and restore confidence. A wealth of studies by the EC, IMF, OECD and also national bodies have supported this line of action, also in view of the experience of past banking crises , most notably in Japan, Korea and the Nordic countries.

At the same time, fiscal measures to stimulate the economy in the short-run have been advocated by several voices within the economic profession, including international organizations and certain governments, and implemented in many countries of the euro area and worldwide. On this front, though, the whatever-it-takes approach that might be valid for financial rescue plans is usually not fully applicable for demand-oriented discretionary fiscal policy actions.[2]

First, the need for discretionary fiscal policy measures has to be assessed in conjunction with the counter-cyclical stimulus of fiscal policy built into tax and spending systems, i.e. automatic stabilization. Automatic stabilizers are those elements of fiscal policy that operate without any explicit government action, and thus are not affected by the implementation lags of discretionary policy. In this regard, a direct comparison of the "appropriate" discretionary stimulus in the EU and the US would be difficult, given the larger size of public sectors in the EU, with more progressive tax systems and more responsive social expenditure (in particular unemployment benefits).

Second, the affordability of a fiscal stimulus plan depends primarily on an economy's existing fiscal conditions or the degree of fiscal stress, either proxied by a high existing level of government debt, a rapid debt increase, or the extent of other long-term risks (such as aging costs). It is also likely to depend on the size of its external imbalances, particularly in the case of emerging economies. Hence, a country with a high level of foreign debt and/or confronting balance of payments problems is likely to have less room for fiscal expansion.

Third, even in the event that indeed discretionary packages were to be implemented, some questions remain open to debate: How should they be designed to maximize the impact on the economy (fiscal multipliers)? How should measures be tailored, communicated and implemented in order to bolster consumers' and firms' confidence and help reduce aggregate uncertainty in the economy? In the event of the crisis lasting longer than envisaged, some additional questions could be posed: Would fiscal measures increase the probability of ending a recession in addition to mitigating the slump? Would they instead delay the recovery?

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1. The views expressed in the paper are those of the authors and do not necessarily represent the views of the ECB or the NCBs involved. The authors would like to thank the participants at the ESCB Working Group on Public Finance meeting of 3-4 March 2009, Frankfurt am Main, Germany. In particular, we would like to thank Karsten Wendorff, Ad van Riet and Richard Morris for their comments on previous drafts of this paper. **2.** See European Central Bank (2009), Freedman et al. (2009), Barrell et al. (2009), OECD (2009), Elmendorf and Furman (2008), or Spilimbergo et al. (2008).

This paper reviews the main pros and cons of discretionary fiscal packages trying to unveil what we can learn from the existing theoretical and empirical literature on the effects of discretionary fiscal policies, while at the same time drawing lessons for the actual packages recently put forward in some EU countries. The paper shows that it is extremely difficult to elaborate an unambiguous catalogue of measures defining an "optimal" fiscal package, though much attention has been paid in the policy debate to the requirement that measures taken should be "timely, targeted and temporary" (TTT). As regards the duration of measures, both temporary and more persistent measures may be defended depending on the proportion of liquidity-constrained agents in the economy, the reaction of long-term interest rates, and the expected duration of the adverse shocks hitting the economy. Targeting measures to some specific agents may be difficult in practice, given the uncertainty surrounding fiscal multipliers and the difficulties of designing well-targeted fiscal stimulus packages. Timeliness is the least controversial criterion in the current situation.

Beyond the discussion on TTT, the literature suggests that the structure of a fiscal stimulus plan should take into account several factors, such as: (i) a proper balance between the expected short-term positive effects (mainly demand-side) with the costs that might be expected from the measures (mainly linked to the longer-term, and the supply side, but also to the short-term via financial markets); (ii) the expected size of fiscal multipliers of various tools available; (iii) the degree of openness of the economy; (iv) the need to minimise distortions in market mechanisms and, in the case of EU countries, the compliance with single market rules.

The effectiveness of fiscal packages: short-run benefits and potential costs

SHORT-RUN BENEFITS ON AGGREGATE OUTPUT

Discretionary fiscal policy measures are usually advocated based on the claim that there are short-run benefits in the event of a crisis/recession situation. Indeed, several recent studies seem to provide evidence that additional government spending and/or tax cuts have a positive effect on aggregate output in the short-term in such a situation. What remains to be determined is the size of the fiscal multipliers, and the sign and size of the disaggregated impact on private consumption and private investment.

Private consumption, the biggest component of aggregate demand, has received most of the attention. The current consensus holds that private consumption will increase after a positive government spending shock or after temporary tax cuts due to the increase in disposable income.[3]

The most popular argument usually advocated is that the consumption of *liquidity-constrained* or myopic agents reacts strongly to tax reductions or government spending increases. For example, Gali et al. (2007) find that, conditional on having a large enough fraction of rule-of-thumb consumers[4] (in their benchmark solutions 50% of the population), and a high degree of price stickiness (average duration of about four quarters), a government spending shock in the US generates an increase in aggregate consumption even if the latter is not very persistent. Otherwise, the negative wealth effect of the expected higher taxation would offset the expansionary impact, a standard result in models without liquidity constraints or price and wage stickiness.[5] Inverting the previous

3. See, for example, Gali et al. (2007), Blanchard and Perotti (2002), Fatas and Mihov (2001), Perotti (2005, 2007), Mountford and Uhlig (2002), Caldara and Kamps (2008) or Afonso and Sousa (2009). At the same time, some papers suggest the consumption response to temporary tax cuts may be modest. In this respect, see Shapiro and Slemrod (1995, 2001), Parker (1999) and Souleles (1999, 2002). Finally, the findings that government spending shocks cause private consumption to rise is not unchallenged, e.g. Ramey and Shapiro (1998), Edelberg et al. (1999), Burnside et al. (2004), or Ramey (2008). See Perotti (2007) for a critical discussion of this latter strand of the literature. Most of the papers referred to in this footnote analyze the US case. **4.** By rule-of-thumb (or liquidity constrained or hand-to-mouth) consumers the literature refers to individuals that do not have access to financial markets, and thus consume all of their current disposable income each period. **5.** Standard "neoclassical" models predict that an exogenous increase in government spending will decrease private lifetime wealth (given that agents anticipate that increases in spending today will have to be financed in the future), hence normal goods consumption and leisure declines (hours worked will increase to compensate for the negative wealth effect caused). The seminal paper most quoted in this respect is Barro (1974). See also Baxter and King (1993). For recent examples of simulation models that incorporate this theoretical structure in an otherwise standard "neo-Keynesian" framework see Coenen and Straub (2005) or Coenen et al. (2007).

argument on the fraction of constrained/unconstrained agents in the economy, several studies that analyse the *non-Keynesian effects* of fiscal policies claim that fiscal consolidations might have expansionary effects on the economy if the fraction of unconstrained agents is high enough.[6, 7]

Tagkalakis (2008) analyses the link between the fraction of constrained/unconstrained agents and the state of the economy. He develops a model to illustrate that the fraction of credit-constrained consumers is likely to increase in *bad times*, and hence a fiscal expansion is more likely to have a positive and stronger effect on consumption in economic downturns. This hypothesis is validated in a panel data set of OECD countries for the period 1970-2002.[8]

An alternative argument in the literature that rationalizes why private consumption might react positively to an increase in government consumption is based on the assumption that public and private consumption are *complements* or, similarly, that they are imperfect substitutes with sufficiently low elasticity of substitution. In both cases the rise in government consumption increases the marginal utility of private consumption so that the negative wealth effect on consumption is counteracted.[9] Examples of public spending which substitutes private spending include defence, public order and justice, while public spending in education or health might be perceived as complements for private sector provided services.

Private investment, a much more cyclically volatile component of output, may also be influenced by tax and government spending. The incentive to invest is responsive to *tax policy* and is likely to be more responsive when tax measures are perceived to be temporary (in this respect see for example Auerbach and Hassett, 2002). The rationale is the following. Firms and investors are sensitive to changes over the coming period in the tax-adjusted price of new capital goods, and may be motivated to accelerate purchases into this year if a favourable tax environment is expected to become less favourable. This might be particularly the case in the presence of capital stock adjustment costs, as expectations of future changes in the incentive to use capital in production lead to immediate changes in investment so as to minimize the adjustment costs incurred in closing the gap between the current and future desired capital stocks. Thus, temporary tax credits may have more than proportional impact on the user cost of capital.

Most empirical studies on *temporary investment incentives* find that they tend to be only moderately effective (see, for example, CBO, 2008, and the literature cited there). This may be due to the fact that investment projects often require long planning phases and, consequently, only projects that have already been planned can be implemented in the short term.

Standard models without liquidity constraints or price and wage stickiness would predict a boost in investment after a government *spending shock* given that, to compensate for the negative wealth effect caused, agents might decide to work more, which in turn will raise the return to capital. Nevertheless, other arguments would signal that a positive government

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6. On the assumption of credit market imperfections and the link to constrained and unconstrained individuals, see Attanasio (1999), Perotti (1999), Giavazzi and Pagano (1990, 1996) or Giavazzi, Jappeli and Pagano (2000). Also on the issue of the "non-Keynesian" effects of fiscal policies see Schclarek (2007) and the references quoted therein. **7.** Monacelli and Perotti (2008) exploit an alternative channel. They set up a standard business cycle model, except for the presence of price rigidity, and find a positive response of private consumption to a government spending shock for preferences consistent with an arbitrarily small positive wealth effect on labour supply, that counterbalances the standard wealth effect. This effect is linked to the degree of complementarity between consumption and hours. See also Ravn, Schmitt-Grohé and Uríbe (2006). **8.** This adds to the usual argument that expansionary fiscal policy is more efficient when the output gap is negative because otherwise it could only boost inflation (see Henry et al., 2004). **9.** See for example Fiorito and Kollintzas (2004) and Ganelli and Tervala (2009) for theoretical justifications and empirical evidence on the complementarities argument, and Linneman and Schabert (2004) for the imperfect substitution one. At the end of the day, the issue of whether private and public consumption are complements or substitutes is an empirical one.

spending shock might lead to a situation in which private investment is *crowded out* by higher public debt issuance, if the latter raises the interest rate (this will depend on current and future monetary policy).[10] In addition, if the government spending shock is implemented through the *public sector wage bill*, upward wage pressures may appear in the economy, leading to a reduction in profits and thus private investment (see Alesina et al. 2002, Lane and Perotti, 2003, and Ardagna, 2007, for theory and empirics supporting this claim).

LONG-RUN COSTS, SHORT-RUN COSTS AND OTHER CONSIDERATIONS

The implementation of discretionary fiscal packages is not without risks. The main costs usually spelled out in the literature as regards short-term policies are long-run costs. These are usually framed against the dangers that strong discretionary actions may generate for the sustainability of public finances.[11]

In addition, if long-run costs are perceived by private agents to be relevant in a given historical episode, then precautionary savings may increase and investment may decrease or remain muted, provided that agents perceive that a fiscal consolidation might be needed once the economic crisis is over (or even before, if the slump turns out to be enduring). This perception is likely to depend on the existing degree of "fiscal stress", either proxied by high existing levels of government debt, a rapid debt increase, or the extent of the long-term risks perceived (such as aging costs or implicit liabilities related to government guarantees e.g. for financial institutions). These factors might severely limit the short-term impact of fiscal measures.

Discretionary fiscal actions can also have short-run costs. Bearing in mind default risk, increasing or perceived-as-unsustainable government debt can lead to a *risk premium* being charged on the interest on government debt, leading to a crowding-out of private investment. A credible one-off increase in government spending could – given a sufficient number of rule-of-thumb consumers in the economy – bring about positive fiscal multipliers. However, if economic agents do not believe that the fiscal stimulus is a one-off (or if it truly is a permanent stimulus), the risk premiums could increase accordingly because unconstrained Ricardian households want compensation for potential future income losses. This would generate a negative fiscal multiplier (see for example Giavazzi and Pagano, 1990, or Alesina and Perotti, 1997).

An additional short-run consideration pertains to the link between fiscal policy and uncertainty. Automatic stabilizers, to the extent that they operate properly, can lower volatility and uncertainty in the economy, without introducing new policy uncertainties (Auerbach and and Hassett, 2002, Andrés et al., 2008). This is not necessarily the case as regards discretionary fiscal policy actions. In this respect, random fiscal policies could increase the overall economic uncertainty, and thus damage economic activity.[12] As the impact of different measures might depend on expectations about the future, fiscal stimulus packages announced clearly and credibly are likely to be more effective.[13] Without a credible strategy, the government may only increase the uncertainty in the system and induce firms and households to postpone their spending decisions (see Dixit and Pindyck, 1994). A related issue is the anticipation of fiscal measures by private agents. Hoon and Phelps (2008) show that under imperfect competition an unanticipated temporary labor tax cut to be effective on a given future date financed by future cuts in spending is neutral for output in a Ricardian world but contractionary in a non-Ricardian world. They also show that a sudden expectation of future labour tax cuts without a

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10. From an empirical point of view, Blanchard and Perotti (2002) find in a SVAR framework for the US a negative impact on private investment of a government spending shock. **11.** See for example Afonso et al. (2009). For the trade-off between automatic stabilisation and the long-run fiscal positions of governments see Hiebert et al. (2009). **12.** See Furceri (2008). **13.** For example, if agents face a signal extraction problem as regards the prevailing and the expected fiscal regime. See Keen (2008), Eusepi and Preston (2008) or Davig (2004) in this respect.

sunset provision, with spending gradually adjusting to ensure fiscal sustainability, is expansionary in a Ricardian world but (for small tax changes) contractionary in the time period before implementation in a non-Ricardian world.[14] Thus, even if ex-post multipliers were positive, the final impact of the labour tax cuts would have to be weighted against the ex-ante losses.

The effectiveness of fiscal packages is also likely to depend on the openness of the economy and external linkages. In a small and open economy, the share of additional consumption demand resulting from a short-term increase in transfers that is going into imports is conceivably high. Therefore, unless fiscal stimulus packages are perfectly coordinated internationally (everyone spends), more open economies may be inclined to prefer public investment programs, in which they are better able to direct the demand impact towards domestic goods and services and thus raise employment. IMF (2008) simulations show that, in general, fiscal multipliers tend to be lower in smaller and more open economies. However, in terms of the different fiscal tools, the multipliers for labour taxes fall by less (maybe not always be the case if also large openness of the labour market, see case of Luxembourg), followed by government investment, while the highest relative decline is found for transfers.

In addition, the impact of income tax changes on labour supply and output depends on institutional factors of the labour market, such as the degree of unionisation and other features of the wage-setting process. Other factors, such as corruption and preparedness of the government institutions (efficiency of spending line-ministries versus tax collection agencies; availability of resources for public institutions and capacity to implement large scale investment programs), could conceivably influence the effectiveness of spending versus tax measures, most notably in developing countries.

An argument that is sometimes absent from theoretical studies, and certainly from empirical ones, is that the effectiveness of fiscal packages depends crucially on the way they are financed. The literature signals that fiscal packages are not generally self-financing. For example, the impact of an increase in government spending depends on whether it is financed by a future tax rise (or a future spending cut) or by a more persistent increase in government debt (the latter being the case of most packages currently announced in the EU), as private agents respond differently. As an example, Leeper and Yang (2008) find that the expansionary effects of a tax cut (in the long-run, but also in the transition to a new steady-state) depend crucially on the choice of which fiscal instrument adjusts and on the magnitude of the adjustment in response to a deteriorating budget. The stronger is the response to the deteriorating budget, the less debt accumulates, and the more favourable are the expansionary effects of a tax cut.[15] Thus, especially in countries with high levels of public debt, this strand of the literature tends to suggest that a given package should be accompanied by a related set of reverting measures, also in view of sustainability issues.

Another consideration is the consistency of fiscal packages with monetary policy. Monetary policy *reaction* plays a key role in the effectiveness of a fiscal stimulus,[16] the output re-

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14. On different grounds, and from a purely empirical point of view, Ramey (2008) incorporates the timing of the news about future increases in government war spending, while Blanchard and Perotti (2002) incorporate future values of the fiscal shocks. Both empirical studies find a larger and longer positive response of output to the fiscal stimulus than found in studies using actual spending. Such controls can capture the behavioural change from the moment the fiscal stimulus has been credibly announced or approved to the moment of the actual implementation. The response of private consumption to fiscal shocks once the anticipation effects are taken into account is still controversial in the literature. **15.** For additional illustrations, in a different modelling framework, see Ardagna (2007). **16.** It is also a crucial assumption in simulation models and, if omitted, it may be an important source of bias in estimating the size of fiscal multipliers in regression analyses. By type of fiscal tools, recent IMF simulation work (IMF, 2008) shows that the output response to labour tax cuts is less affected by monetary accommodation in comparison with other tools (e.g. government investment, consumption taxes or transfers), due to the impact on labour supply.

sponse being considerably higher and more persistent in the case of *monetary accommodation*. Ideally, monetary and fiscal policies are consistent in the short run so that their impact on aggregate demand is cumulative and not offsetting. In the current situation of expansionary monetary and fiscal policies, risks may arise that the impact of one policy forces the other to adjust in the medium term, thus limiting its margin of manoeuvre and desirable design. For instance, if private debt remains high and public debt keeps on increasing due to stimulus and rescue plans, interest rates might be pushed up in the medium term.

Finally, expansionary policies might be difficult to reverse. An inadequate timing in the reversal of the policy mix could endanger growth and inflation developments in the medium term. For example, if expansionary policies are reversed too late European economies may have to face excess liquidity (maybe implying new bubbles in other asset prices), unsustainable public finances, and lack of confidence among private agents, which could endanger the recovery of consumption, investment and output in the medium term. The opposite might be also true: if expansionary policies are reversed too early, this could choke off an incipient recovery.

The effectiveness of fiscal packages and their design

TARGETED, TIMELY AND TEMPORARY?

The above review of the literature indicates that the design of fiscal measures may have a significant influence on their effectiveness. Taking this into account, policy institutions have called for stimulus measures to be timely (enacted rapidly), temporary and targeted (directed where the multipliers are larger). Example is the "European Economic Recovery Plan" (EERP). Meanwhile, in the United States, government officials have argued that a "speedy, substantial and sustained" fiscal stimulus should fit better, given the intensity and expected duration of the current crisis.

As regards timeliness, important lags can result between the diagnosis of the economic situation and the decision and implementation of fiscal policies (inside lags). Given these "inside lags" and the time needed for the measure to influence aggregate demand ("outside lags"), the impact of stimulus measures could come too late, when the cyclical position of the economy has already begun to improve[17]. This implies favouring simple measures instead of radical departures from current tax and expenditure structures, which may incur large lags associated with the process of political discussion and approval of new measures. In the particular case of public investment, the pressure to introduce timely measures may result in inefficient projects with little impact on short- and long-term output growth.

The effects of discretionary fiscal measures depend also on their expected duration (temporary vs permanent/sustained measures). As discussed above, the theoretical and empirical literature is controversial. Rule-of-thumb consumers would react to temporary measures, given that they spend all their current income. However, if the fraction of unconstrained agents is high enough then temporary increases in income will not lead to significant increases in consumption, as they only affect permanent income marginally. In this latter case, on the contrary, persistency measures may result in higher multipliers if agents optimize over a finite number of periods.[18]

The preference for temporary measures is designed to allay concerns about fiscal sustainability in the long term. A permanent or persistent stimulus could raise doubts about the long-run

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17. Although, the diagnosis might be easier in the current crisis and therefore the inside lag shorter. **18.** But even in this case, private agents may adopt some consumption smoothing when there are fiscal rules that limit the government debt and deficit ratios. For example, if the fiscal deficit is close to the threshold established by the rule, private agents may adjust their saving behaviour anticipating the fiscal adjustment.

fiscal position, resulting in the crowding out of private investment through higher interest rates. Moreover, the literature on the quality of public finances, by stressing the negative relationship between government size and economic growth, at least beyond a certain minimal size, adds weight to the argument that spending increases should be temporary (EC, 2008). Finally, transitory measures can also work by affecting the relative prices of present and future consumption and investment. For example, a temporary reduction in VAT rates reduces the price of present consumption relative to future spending, boosting demand in the current period (but depressing it afterwards).

Focusing the stimulus on sectors with higher multipliers and towards agents with a higher propensity to spend current income, would raise its impact (targeted).[19] However, deciding which agents are eligible is controversial, especially when diverse sectors of the economy are affected, as in the current crisis. There is a risk that measures would be directed towards prominent sectors of the economy, on the basis of their visibility and political clout, rather than on the effective stimulus to demand. Moreover, national assistance to some specific sectors could distort competition rules and the functioning of the European single market. In addition, in a situation where fiscal multipliers are uncertain, it could be more prudent to rely on a diversified set of measures[20]. For example, against a background of uncertainty and tight credit conditions, firms might not undertake risky investments, even if corporate tax cuts reduce capital costs.

COORDINATION VS. COUNTRY ACTIONS

Given that the current fiscal packages aim at counteracting an aggregate shock that affects most economies, a majority of institutions has also stressed that coordinated actions would be desirable to reinforce individual national actions by reducing concerns about leakages through imports that are not compensated by the induced demand of fiscal packages in trade partners. Trade spillovers and trade multipliers could potentially amplify the impact of fiscal stimulus. At the same time, large scale actions by a broad set of governments, especially in the euro area, might lead to competition in the bond market, and increased borrowing costs, especially for non-core EU countries.

THE EFFECTIVENESS OF FISCAL PACKAGES: WHAT DO WE KNOW ABOUT TAX AND SPENDING MULTIPLIERS?

Apart from theoretical arguments and the empirical evidence supporting alternative theories, it is important to be able to quantify the multipliers associated with alternative fiscal measures to assess the degree of effectiveness of fiscal activism[21]. The literature (mainly focused on the US case) suggests that fiscal multipliers are on average positive, but many studies find that they are quite low, and are typically estimated with a high uncertainty. This pertains to both expenditure and revenue stimulus measures.[22] In this respect, the size of the (short- and medium-term) multipliers attached to different types of measures remains an open empirical question.

Nevertheless, some general conclusions could be drawn from the literature, presented in Tables 1, 2 and 3, and are summarized below.

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19. Notice that throughout this note we are ignoring measures aimed specifically at the financial system, which, in the current situation, could be a prominent example of well-targeted discretionary measures. Another usually quoted example is transfers to low-income households, that despite an expected short-term impact if they are well targeted (and if the target group is large enough), may have a negative impact on longer term growth by creating distortions in the allocation of resources (Obstfeld and Peri, 1998, Checherita, Nickel and Rother, 2009). **20.** Targeting might still be more appropriate in very specific cases (i.e. lower income households). **21.** It is important to mention at this stage that the authors have developed a much more detailed version of this paper with country specific files that describe impact of the largest recently adopted fiscal stimulus measures on different economic variables. Unfortunately, due to the confidentiality reasons these results cannot be presented in this paper. However, feel free to contact the country specific author for the country specific data. **22.** In some cases multipliers could turn out to be negative. Take the example of a small open economy with fiscal sustainability problems. In this case, fiscal activism could be damaging for short-term aggregate output, and hurt fiscal sustainability.

EFFECTS OF FISCAL POLICY FROM VAR STUDIES

TABLE 1

	GDP				Multiplier	
Quarters	1st	4th	12th	20th	Short Term	Medium Term
Expenditure shock						
United States						
Blanchard and Perotti (2002) 1947-1997	+*	+	+*	+*	0.84-0.9	0.66-0.97
Perotti (2002) 1961-2000	+*	+	+*	+*	0.4	1.0
Perotti (2002) 1980-2000	+	+	–	–*	0.1	-1.3
Neri (2001) 1965-1996	+*	+*	–	–		
Mountford and Uhlig (2009) 1955-2000	+	+	+	+	0.4	-0.1
Fatás and Mihov (2001) 1960-1996	+*	+*	+*	+*		
Edelberg et al. (1998) 1948-1996	+*	+*	+*			
Ramey (2008) 1947-2003	+*	+*	+	–		
Romer and Bernstein (2009) 2009-2014					1.05/1.44	1.6
Germany						
Perotti (2002) 1961-2000	+*	+*	–	+*	1.3	0.9
Perotti (2002) 1980-2000	+	–*	–	–	0.8	-0.7
Marcellino (2002) 1981-2001	+*	+*				
France						
Marcellino (2002) 1981-2001	–	–				
Italy						
Marcellino (2002) 1981-2001	+	+				
Spain						
Marcellino (2002) 1981-2001	–	–				
de Castro and Hernández de Cos (2008)	+*	+*	+	–*		
United Kingdom						
Perotti (2002) 1960-2000	+*	–	+	+	0.30	0.06
Japan						
Kuttner and Posen (2002)	+*	+*	+		0.84/1.05	3.5
Pool of countries						
WEO (2008) 1970-2007b					0.1	-0.1
Advanced economies					0.2	0.5
Emerging economies					0.1	-0.2
Revenue shock						
United States						
Blanchard and Perotti (2002) 1947-1997	+*	+*	+*	+	0.69-0.70	0.22-1.29
Perotti (2002) 1960-2000	+*	+*	+*	+*	0.26-0.47	0.5
Perotti (2002) 1980-2000	+*	–*	–*	+	0.17-0.49	0.1
Neri (2001) 1965-1996	+*	+*	+*	+*		
Mountford and Uhlig (2009) 1995-2000	+*	+*	+*	+	0.2	1.3
Romer and Romer (2007) 1947-2005	+	+*	+*		0.2	3.0
Romer and Bernstein (2009) 2009-2014					0.00/0.66	1.0
Germany						
Perotti (2002) 1961-2000	+*	+*	+*	+	0.2	0.2
Perotti (2002) 1980-2000	–	+*	+	+*	0.0	0.4
Marcellino (2002) 1981-2001	+*	+*				
France						
Marcellino (2002) 1981-2001	–	–				
Italy						
Marcellino (2002) 1981-2001	–*	–*				
Spain						
Marcellino (2002) 1981-2001	–	–				
de Castro and Hernández de Cos (2008)	–	–	–	+*		
United Kingdom						
Perotti (2002) 1960-2000	–*	–	–*	–*	-0.1	-0.2
Japan						
Kuttner and Posen (2002)	+	+*	+*		0.16/1.58	4.8
Pool of countries						
WEO (2008) 1947-2007b					0.10	0.1
Advanced economies					0.0	0.4
Emerging economies					0.1	0.2

SOURCE: Prepared by the authors, with input from Henry et al (2004) and De Castro and Hernández de Cos (2008).
* Significance at the 95% level.

EFFECTS OF FISCAL POLICY FROM SIMULATION MODELS. EXPENDITURE SHOCKS TABLE 2

Simulation		Multiplier	
		Short Term	Medium Term
Expenditure shock			
United States			
Dalsgaard et al. (2001) (a)	Increase in Gov. Cons.	1.1	0.1
OECD (2009) (b)	Increase in Gov. Cons.	0.7	0.8
	Increase in Gov. Invest.	0.9	1.1
	Increase in transfers to household	0.5	0.8
Euro Area			
Dalsgaard et al. (2001) (a)	Increase in Gov. Cons.	1.2	0.1
Hunt and Laxton (2003) (c)	Increase in Gov. Cons.	1.5	0.0
Fagan and Morgan (2005) (d)	Increase in Gov. Cons.	1.3	1.6
Straub and Tchakarov (2007) (e)	Increase in Gov. Cons.	1.1	1.0
	Increase in Gov. Invest.	1.2	1.1
Germany			
Dalsgaard et al. (2001) (a)	Increase in Gov. Cons.	1.1	-0.2
Roeger and in't Veld (2004) (f)	Increase in Gov. Cons.	0.9	0.0
Hunt and Laxton (2003) (c)	Increase in Gov. Cons.	1.3	0.0
Al-Eyd and Barrell (2005) (g)	Transfers to individuals	0.5	0.1
Fagan and Morgan (2005) (d)	Increase in Gov. Cons.	1.2	0.7
Perotti (2004) (h)	Increase in Gov. Cons.	0.8	1.2
	Increase in Gov. Invest.	3.7	3.7
OECD (2009) (b)	Increase in Gov. Cons.	0.4	0.5
	Increase in Gov. Invest.	0.8	1.0
	Increase in transfers to household	0.3	0.5
France			
Dalsgaard et al. (2001) (a)	Increase in Gov. Cons.	0.6	0.2
Roeger and in't Veld (2004) (f)	Increase in Gov. Cons.	0.9	0.0
Hunt and Laxton (2003) (c)	Increase in Gov. Cons.	1.3	0.0
Al-Eyd and Barrell (2005) (g)	Transfers to individuals	0.2	0.1
Fagan and Morgan (2005) (d)	Increase in Gov. Cons.	1.1	0.8
	Increase in Gov. Cons.	0.6	0.7
	Increase in Gov. Invest.	0.8	1.0
	Increase in transfers to household	0.4	0.7
Italy			
Dalsgaard et al. (2001) (a)	Increase in Gov. Cons.	0.9	0.0
Roeger and in't Veld (2004) (f)	Increase in Gov. Cons.	0.9	0.0
Hunt and Laxton (2003) (c)	Increase in Gov. Cons.	1.3	0.0
Al-Eyd and Barrell (2005) (g)	Transfers to individuals	0.1	0.1
Fagan and Morgan (2005) (d)	Increase in Gov. Cons.	1.2	1.2
OECD (2009) (b)	Increase in Gov. Cons.	0.6	0.7
	Increase in Gov. Invest.	0.8	1.0
	Increase in transfers to household	0.4	0.7
Spain			
Al-Eyd and Barrell (2005) (g)	Transfers to individuals	0.1	0.1
Fagan and Morgan (2005) (d)	Increase in Gov. Cons.	1.2	0.9
OECD (2009) (b)	Increase in Gov. Cons.	0.5	0.6
	Increase in Gov. Invest.	0.8	1.0
	Increase in transfers to household	0.4	0.6
United Kingdom			
Dalsgaard et al. (2001) (a)	Increase in Gov. Cons.	0.2	-0.1
Roeger and in't Veld (2004) (f)	Increase in Gov. Cons.	1.0	0.0
Al-Eyd and Barrell (2005) (g)	Transfers to individuals	0.1	0.2
Perotti (2004) (h)	Increase in Gov. Cons.	0.7	0.7
	Increase in Gov. Invest.	0.0	-0.4
OECD (2009) (b)	Increase in Gov. Cons.	0.5	0.6
	Increase in Gov. Invest.	0.8	1.0
	Increase in transfers to household	0.4	0.6

SOURCE: Prepared by the authors.

a. OECD INTERLINK model. Nominal exchange rates and real interest rates are assumed fixed.
b. DSGE Model. Luxembourgish figures provided by the OECD INTERLINK model are not presented in a very transparent way and therefore one should be very cautious when interpreting these. According to the latest available information, Luxembourg and Belgium were modelled as a single country.
c. MULTIMOD model.
d. National Central Banks' models.
e. NAWM (New Area-Wide model).
f. QUEST model.
g. NIGEM model.
h. VAR model.

EFFECTS OF FISCAL POLICY FROM SIMULATION MODELS. EXPENDITURE SHOCKS (cont'd) TABLE 2

	Simulation	Multiplier	
		Short Term	Medium Term
Expenditure shock			
Japan			
Dalsgaard et al. (2001) (a)	Increase in Gov. Cons.	1.7	0.5
OECD (2009) (b)	Increase in Gov. Cons.	0.7	0.8
	Increase in Gov. Invest.	0.9	1.1
	Increase in transfers to household	0.5	0.8
Belgium			
Fagan and Morgan (2005) (d)	Increase in Gov. Cons.	1.0	0.9
OECD (2009) (b)	Increase in Gov. Cons.	0.3	0.4
	Increase in Gov. Invest.	0.7	0.9
	Increase in transfers to household	0.2	0.4
Luxembourg			
Fagan and Morgan (2005) (d)	Increase in Gov. Cons.	0.6	0.3
OECD (2009) (b)	Increase in Gov. Cons.	0.3	0.4
	Increase in Gov. Invest.	0.7	0.9
	Increase in transfers to household	0.2	0.4
Austria			
Fagan and Morgan (2005) (d)	Increase in Gov. Cons.	1.3	1.3
OECD (2009) (b)	Increase in Gov. Cons.	0.3	0.4
	Increase in Gov. Invest.	0.7	0.9
	Increase in transfers to household	0.2	0.4
Portugal			
Fagan and Morgan (2005) (d)	Increase in Gov. Cons.	1.2	1.0
OECD (2009) (b)	Increase in Gov. Cons.	0.4	0.5
	Increase in Gov. Invest.	0.8	1.0
	Increase in transfers to household	0.3	0.5
Finland			
Fagan and Morgan (2005) (d)	Increase in Gov. Cons.	1.2	0.0
OECD (2009) (b)	Increase in Gov. Cons.	0.4	0.5
	Increase in Gov. Invest.	0.8	1.0
	Increase in transfers to household	0.3	0.5
Netherlands			
Fagan and Morgan (2005) (d)	Increase in Gov. Cons.	1.1	0.8
OECD (2009) (b)	Increase in Gov. Cons.	0.3	0.4
	Increase in Gov. Invest.	0.7	0.9
	Increase in transfers to household	0.2	0.4
Greece			
Fagan and Morgan (2005) (d)	Increase in Gov. Cons.	0.7	1.4
OECD (2009) (b)	Increase in Gov. Cons.	0.5	0.6
	Increase in Gov. Invest.	0.8	1.0
	Increase in transfers to household	0.4	0.6
Ireland			
Fagan and Morgan (2005) (d)	Increase in Gov. Cons.	1.1	0.9
OECD (2009) (b)	Increase in Gov. Cons.	0.3	0.4
	Increase in Gov. Invest.	0.7	0.9
	Increase in transfers to household	0.2	0.4

SOURCE: Prepared by the authors.

a. OECD INTERLINK model. Nominal exchange rates and real interest rates are assumed fixed.
b. DSGE Model. Luxembourgish figures provided by the OECD INTERLINK model are not presented in a very transparent way and therefore one should be very cautious when interpreting these. According to the latest available information, Luxembourg and Belgium were modelled as a single country.
c. MULTIMOD model.
d. National Central Banks' models.
e. NAWM (New Area-Wide model).
f. QUEST model.
g. NIGEM model.
h. VAR model.

EFFECTS OF FISCAL POLICY FROM SIMULATION MODELS. REVENUE SHOCKS

TABLE 3

		Multiplier	
	Simulation	Short Term	Medium Term
Revenue shock			
United States			
Dalsgaard et al. (2001) (a)	Sustained cut in PIT (Personal Income Tax)	0.6	0.3
OECD (2009) (b)	Cut in PIT	0.3	0.5
	Cut in Indirect Tax	0.2	0.3
Euro Area			
Dalsgaard et al. (2001) (a)	Sustained cut in PIT	0.5	0.2
	Cut in Indirect Tax	0.1	0.2
Germany			
Dalsgaard et al. (2001) (a)	Sustained cut in PIT	0.5	0.3
Al-Eyd and Barrell (2005) (c)	Indirect taxes	0.5	0.2
	Corporate tax	0.3	1.3
	Direct personal taxes	0.7	0.2
OECD (2009) (b)	Cut in PIT	0.2	0.3
	Cut in Indirect Tax	0.1	0.2
France			
Al-Eyd and Barrell (2005) (c)	Indirect taxes	0.3	0.2
	Corporate tax	0.2	0.5
	Direct personal taxes	0.3	0.2
OECD (2009) (b)	Cut in PIT	0.2	0.4
	Cut in Indirect Tax	0.2	0.2
Italy			
Al-Eyd and Barrell (2005) (c)	Indirect taxes	0.2	0.2
	Corporate tax	0.2	0.6
	Direct personal taxes	0.1	0.2
OECD (2009) (b)	Cut in PIT	0.2	0.4
	Cut in Indirect Tax	0.2	0.2
Spain			
Al-Eyd and Barrell (2005) (c)	Indirect taxes	0.2	0.1
	Corporate tax	0.2	0.3
	Direct personal taxes	0.2	0.1
OECD (2009) (b)	Cut in PIT	0.2	0.4
	Cut in Indirect Tax	0.1	0.2
United Kingdom			
Al-Eyd and Barrell (2005) (c)	Indirect taxes	0.3	0.2
	Corporate tax	0.1	0.6
	Direct personal taxes	0.2	0.2
OECD (2009) (b)	Cut in PIT	0.2	0.4
	Cut in Indirect Tax	0.2	0.2
Japan			
Dalsgaard et al. (2001) (a)	Sustained cut in PIT	0.4	0.4
OECD (2009) (b)	Cut in PIT	0.3	0.5
	Cut in Indirect Tax	0.2	0.3
Belgium			
OECD (2009) (b)	Cut in PIT	0.1	0.2
OECD (2009) (b)	Cut in Indirect Tax	0.1	0.1
Luxembourg			
OECD (2009) (b)	Cut in PIT	0.1	0.2
	Cut in Indirect Tax	0.1	0.1
Austria			
OECD (2009) (b)	Cut in PIT	0.1	0.3
	Cut in Indirect Tax	0.1	0.2
Portugal			
OECD (2009) (b)	Cut in PIT	0.2	0.3
	Cut in Indirect Tax	0.1	0.2

SOURCE: Prepared by the authors.

a. OECD INTERLINK model. Nominal exchange rates and real interest rates are assumed fixed.
b. DSGE Model. Luxembourgish figures provided by the OECD INTERLINK model are not presented in a very transparent way and therefore one should be very cautious when interpreting these. According to the latest available information, Luxembourg and Belgium were modelled as a single country.
c. NIGEM model.

EFFECTS OF FISCAL POLICY FROM SIMULATION MODELS. REVENUE SHOCKS (cont'd) TABLE 3

	Simulation	Multiplier	
		Short Term	Medium Term
Revenue shock			
Finland			
OECD (2009) (b)	Cut in PIT	0.2	0.3
	Cut in Indirect Tax	0.1	0.2
Netherlands			
OECD (2009) (b)	Cut in PIT	0.1	0.2
	Cut in Indirect Tax	0.1	0.1
Greece			
OECD (2009) (b)	Cut in PIT	0.2	0.4
	Cut in Indirect Tax	0.1	0.2
Ireland			
OECD (2009) (b)	Cut in PIT	0.1	0.2
	Cut in Indirect Tax	0.1	0.1

SOURCE: Prepared by the authors.

a. OECD INTERLINK model. Nominal exchange rates and real interest rates are assumed fixed.
b. DSGE Model. Luxembourgish figures provided by the OECD INTERLINK model are not presented in a very transparent way and therefore one should be very cautious when interpreting these. According to the latest available information, Luxembourg and Belgium were modelled as a single country.
c. NIGEM model.

GOVERNMENT SPENDING MULTIPLIERS VS. TAX MULTIPLIERS

Many empirical studies find that spending multipliers are higher than tax multipliers in the short term. This result could be rationalized as being consistent with the theoretical prediction that part of the higher disposable income from a tax cut is saved, while government purchases of goods and services affect aggregate demand directly.[23]

The cumulative effect of tax measures usually grows with time, but the evidence that tax cuts are more effective than spending increases is mixed, especially when tax changes are temporary. Nevertheless, IMF (2008) shows evidence from a wide panel of fiscal policy responses to economic downturns suggesting that revenue-based policies, including temporary ones, were associated with higher subsequent growth and even faster recoveries, the latter particularly in emerging economies. On balance, it seems that there is more evidence, especially from recent narrative studies and simulation exercises that tax multipliers may be high – and higher than spending multipliers – in the longer run.

BEYOND AGGREGATE "GOVERNMENT SPENDING OR TAX SHOCKS"

Increases in government purchases of goods and services are found to work faster than other spending components, particularly in times of recession and low capacity utilisation, as they induce an immediate positive impact on aggregate demand. However, in the longer term, the distortions induced in the economy are likely to result in a negative or, at best, insignificant impact (as shown by most simulation exercises).

Government capital spending is generally considered to have a smaller short-term impact due to the long lags associated with the approval and implementation of new projects, but a larger long-term impact by raising the capital stock and potential output (Roeger and in't Veld, 2004). Capital spending on maintenance works has the potential for a fast impact on demand

23. See, among others, Blanchard and Perotti (2002) for the US, Perotti (2002) who found this was the case during 1961-2000, but not for 1980-2000, Kuttner and Posen (2002) for Japan, IMF (2008) for advanced economies. Burriel et al. (2009) for the euro area aggregate, Dalsgaard, André and Richardson (2001) for the US, euro area, Germany and Japan, de Castro and Hernandez de Cos (2008) for Spain, Giordano et al. (2007) for Italy, and Heppke-Falk, Tenhofen and Wolf (2007) for Germany.

and a positive medium-term impact on the supply side. Despite the variety of results across countries, regions, sectors, or periods of time, the predominant view in the empirical literature is that public capital has a positive impact on long-term growth. However, this impact may be nonlinear (with lower returns after a certain threshold is reached), and thus it may have receded in recent years compared to earlier decades (Romp and DeHaan, 2005).

Coming to the impact of different measures aiming at affecting private sector income, income tax cuts are generally found to be more efficient in the long term by eliminating distortions in the labour market and raising labour supply. In simulations, Coenen, McAdam and Straub (2007) find that the short-term output impact is larger for a government spending shock than for a transfer shock, while the positive long-term impact of cuts in the tax wedge is sizably larger than the impact of both government consumption and transfers. Al-Eyd and Barrell (2005) conclude that personal income taxes have a larger impact than transfers in both the short and the medium term.

On the spending side, investment tax credits show high multipliers, as shown in, for example Roeger and in 't Veld (2004) and Auerbach and Hassett (2002).

As regards the fiscal multipliers associated with other tax instruments, the comparable empirical literature is scarcer. Al-Eyd and Barrell (2005) find that personal income taxes have the largest short-term multiplier in Germany and France, corporate taxes in Italy, while indirect (consumption) taxes have a very large short-term multiplier in the UK. Corporate taxes have the largest medium-term multiplier across all countries under study. Similarly, in the long term, Arnold (2008) finds that corporate taxes have the largest impact on output per capita, followed by personal income tax and consumption tax.

OTHER ISSUES: FISCAL MULTIPLIERS IN HIGH DEBT COUNTRIES, AND IN GOOD AND BAD TIMES

Two final issues are worth mentioning. First, as signalled in IMF (2008), fiscal multipliers tend to be lower in countries with high public debt burdens and high indebtedness vis-à-vis the rest of the world, along the lines of the theoretical considerations discussed above.

Second, almost all empirical studies implicitly impose symmetry, in the sense that they are performed for complete samples that encompass both upturns (with fiscal tightening) and downturns (with fiscal stimulus) together. This implies that estimated multipliers are averages over episodes that could potentially be dramatically different (as the literature on "non-Keynesian" effects of fiscal policies shows). In addition, standard linear techniques might not capture accurately potential non-linearities arising for these reasons. Two remarkable exceptions point in different directions. On the one hand, the above-mentioned work by Tagkalakis (2008) models good and bad times explicitly, finding that a fiscal expansion is more likely to have a positive and stronger effect on consumption in economic downturns, with average "OECD spending multipliers" significantly above 1. On the other hand, IMF (2008) only look at downturns, and find that fiscal activism always makes them worse (and all the more so if public debt is high).

Evaluation of specific fiscal measures to stimulate the economy

CRITERIA FOR EVALUATING DIFFERENT FISCAL POLICY MEASURES

In the light of the discussion of previous sections, this section focuses on the evaluation of concrete fiscal measures that have been implemented or are under discussion in the context of the current recession in EU member states. As a yardstick against which these measures are assessed some of the criteria developed in previous sections (and widely acknowledged in the literature) are used. As mentioned before: (i) timely: Is the measure effective by the time a stimulus to the economy is needed most? In this respect the time lags involved in decision-making, implementation and impact on the economy are important; (ii) temporary: Does the measure create an expansive fiscal impulse only for as long as the production potential is underutilized?; (iii) targeted: Does the measure have a relatively strong multiplier effect?

In addition to these "TTT-criteria" it is also important that the respective measure does not conflict with other economic policy objectives (e.g. fiscal sustainability, long-term economic growth, functioning of the market mechanism, desired income and wealth redistribution). This should also be taken into account when assessing the stimulus measures.

EVALUATION OF MAIN FISCAL MEASURES IMPLEMENTED IN THE CURRENT CONTEXT

As discussed above, the suitability of a specific fiscal measure to stimulate economic activity in a severe recession depends on its precise form and on a number of other specific factors. For example, a measure that usually has a high multiplier effect can have a low or even negative impact on economic activity if fiscal sustainability is already severely impaired to begin with. Other country-specific circumstances like institutional factors and the capacity utilisation in different sectors of the economy also play an important role. Here instead the focus is only on general characteristics of some more important fiscal measures.

Since not all specific measures taken by EU countries can be covered here – the EU identified more than 350 government actions by the end of January 2009 – only those measures that have a large size and/or have been adopted by a number of member states are considered. On the revenue side, this is mainly the case for permanent reductions of personal income tax and frontloading of VAT refunds, while the main expenditure measures include increases in government investment, subsidies for purchases of consumer durables, per-capita transfers/ tax rebates and higher benefits connected to temporary working time reductions.

1 *Permanent reductions of personal income tax*[24] have been taken or announced by a number of countries recently, namely Germany, Spain, Denmark, Sweden, Finland or Malta. They may be implemented in a timely manner although adjusting withholding tax payments might take some time on the side of employers and some time might elapse before private households increase consumption (outside lag). However, this measure is not temporary and thus the expansionary effect would not be limited to the period of the downturn. A permanent reduction is especially costly from a fiscal perspective and implies a large deterioration of the long-term sustainability of public finances. The multiplier effect of this measure is low in general, because a large part of personal income tax is paid by households with a relatively low marginal propensity to consume. It could, however, be increased somewhat by targeting the cut to households with lower incomes (e.g. by increasing individual tax allowances or cutting rates only for lower tax brackets).

2 *Frontloading of VAT refunds:* The effectiveness of this measure depends crucially on the capability of tax authorities to advance the payment of VAT returns. If payment lags can indeed be shortened, additional liquidity would be provided to firms. The multiplier effect therefore hinges on the share of credit-constrained firms in the economy, likely to be high in the current circumstances. If this share is small the expansionary impact on the economy may be rather limited as the gains from interest savings will be marginal in most cases. In countries facing a severe credit crunch, however, some expansionary impact seems likely. Public finances will deteriorate only temporarily. In fact, the deficit would not be affected at all in case of a strict accrual recording. However, a permanent detrimental effect on the government balance could arise if there is an increase in the number of firms that receive refunds but become insolvent before final tax settlements are

24. Note that permanent reduction of personal income tax is not necessarily a crisis measure but has been used by some countries as it was already planned before the crisis.

paid. Measures of this type have been adopted in a number of countries, in particular France, Italy and Spain.

3 Many governments have decided to *increase government capital spending*, among them Germany, Spain, France, Portugal, Luxembourg and Italy. Government investment spending, particularly on maintenance works, has the potential for a relatively high short-term multiplier as the state directly creates demand and there are therefore no leakages in the form of saving, at least initially. Moreover, the import ratio for construction projects is likely to be comparatively low. In addition, this instrument is appealing because there appears to be no conflict with long-run growth objectives as potential growth might even be increased.[25] However, a major drawback is that such measures involve long lags associated with deciding, planning and implementing additional investment projects (especially infrastructure), so that the multiplier is usually higher in the medium to longer term jeopardising the timeliness of the effects. Even for projects that have already been planned and approved, the construction phase often lasts several quarters. Therefore, there is a danger of partially procyclical effects unless the additional investment is restricted to moveable capital goods and small construction projects (maintenance investment) which can be completed in the short run and the downturn is expected to be protracted. In addition, there is a risk of price increases if sizeable government demand leads to capacity constraints in the respective sector. Finally, an efficient public administration is needed to avoid investment in projects that are wasteful from a welfare perspective. In federal countries in particular, an effective coordination between different layers of government is necessary.

4 *Temporary subsidies for consumer durables* might bring forward private demand during a recession and therefore can have a particularly high multiplier. The time limit on the subsidy strengthens the effect as it lowers the price of current as opposed to future consumption. While free-rider effects – payments to consumers who would have purchased the product at the time anyway – are inevitable, they still have some effect as disposable income is increased in these cases as well.[26] However, consumer durables (e.g. cars) tend to have a relatively high import ratio. Moreover, unwanted price reactions instead of the desired volume effects become more likely with narrower subsidised product groups, higher subsidy and higher capacity utilisation in the industry concerned. While the measure is timely and temporary it leads to relative price distortions and associated welfare losses. Moreover, subsidies for a specific industry might prevent necessary structural adjustments, and lead to increased pressures from lobbying groups to introduce additional distortions affecting the playing field for international competition. Measures to support certain industries, like the car industry, have been adopted in a number of countries, among which are Germany, France, Spain, Luxembourg and Italy.

5 *Per-capita transfers/tax rebates*: Depending on the specific form that this instrument takes it can have quite different effects. For example, whereas in Spain all

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25. However, it can be argued that in the absence of distortions introduced by the political decision-making process the optimal amount of public investment was already planned before the downturn and that therefore any additional investment is likely to be welfare decreasing. According to this reasoning in the long run the level of public investment should not be increased and only the timing of this investment should be adapted to cyclical conditions (advance expenditure to period of recession). **26.** While we are not aware of any studies on how car subsidies (eg scrapping subsidies) affect the savings ratio and GDP growth with regard to the automobile sector there is some evidence that the sector is stimulated in the short run but then experiences a downturn (Licandro and Sampayo, 2005, and Adla and Cooper 1997).

labour income recipients will receive a transfer for an unspecified number of years, in Germany the transfer is of a one-off nature and limited to households with children. In Italy it is limited to low-income families with children. In general, the effectiveness of the transfers increases with the degree of concentration on credit-constrained households with a low savings ratio. Evidence for the US (Agarwal, Liu, Souleles 2007 and Johnson, Parker and Souleles 2006) suggests a limited size of the multiplier of tax rebates. The timeliness of the implementation of the transfer depends on administrative issues. In the US in 2001 it took around ten weeks for tax rebates to be distributed. In case of a one-off transfer the impact of the measure is strictly temporary.

6 *Higher benefits connected to temporary working time reductions*, like the ones made in Germany or the Netherlands, can be implemented in a timely manner but outside lags – as with all measures aiming to support purchasing power of households – can delay the impact on the economy. Given that temporary working time reductions are highly cyclical, the impact is likely to be concentrated on the period of the economic downturn. Moreover, the multiplier could be rather high as employees eligible for this transfer could have a high marginal propensity to consume. However, if the benefits accrue mainly to firms then any short-term impact on economic activity is likely to be smaller. The measure might reduce firing and (re-)hiring costs of firms and prevent a loss of firm-specific human capital but also help to avoid or alleviate the hysteresis phenomenon (structural unemployment). However, in the absence of market failure it remains unclear why an additional incentive by the government is needed since a profit-maximising firm can be expected to take these costs into account anyhow. Moreover, subsidised temporary working-time reductions imply the risk that necessary structural adjustments are postponed as employees are locked into industries with structural overcapacity.

Conclusions

This paper has reviewed the theoretical and empirical literature on the effects of discretionary fiscal policies in order to distinguish pros and cons of fiscal policy in stimulating the economy. It shows that it is extremely difficult to elaborate an unambiguous catalogue of measures defining an "optimal" fiscal package.

Discretionary fiscal policy measures are usually advocated based on the claim that they have short-run benefits in the event of a crisis. Indeed, several recent studies seem to provide evidence that additional government spending and/or tax cuts have a positive effect on aggregate output in the short term. The most popular argument relies on the presence of liquidity-constrained agents, whose consumption reacts strongly to tax reductions or government spending increases and whose share in total households may rise in times of financial turmoil. Another explanation relates to the complementarity between public and private goods.

Short-term costs of discretionary fiscal measures stem, first and foremost, from increasing sovereign risk premia: bearing in mind default risk, increasing or perceived-as-unsustainable government debt can lead to a risk premium being charged on the interest on government debt to compensate for higher default risk crowding out private investment. An additional short-run consideration pertains to the link between fiscal policy and uncertainty. Automatic stabilizers, to the extent that they operate properly, can lower volatility and uncertainty in the economy, without introducing new policy uncertainties. This may not be the case for discretionary fiscal policy. In this respect, random fiscal policies could increase economic uncertainty, and thus damage economic activity. As the impact of different measures might depend

on expectations about the future, fiscal stimulus packages announced clearly and credibly are likely to be more effective.

Among the requirements that fiscal measures should be "timely, targeted and temporary" (TTT), the implementation of the first one—timeliness— is the least controversial criterion in the current situation. As regards the duration of measures, both temporary and more persistent measures may be defended depending on the proportion of liquidity-constrained agents in the economy, the reaction of long-term interest rates, and the expected duration of the adverse shocks hitting the economy. Targeting measures to some specific agents may be difficult in practice, given the uncertainty surrounding fiscal multipliers and the challenge of designing well-targeted fiscal stimulus packages.

The structure of a fiscal stimulus plan should take into account several factors, such as: (i) a proper balance between the expected short-term positive effects (mainly demand-side) with anticipated costs (mainly longer-term supply side); (ii) the expected size of fiscal multipliers of various tools available; (iii) the degree of openness of the economy; (iv) the need to minimise distortions in the market mechanisms and, in the case of EU countries, the compliance with the EU single market rules.

On balance, empirical studies find that spending multipliers are higher than tax multipliers in the short term. This result could be rationalized as being consistent with the theoretical prediction that part of the higher disposable income from a tax cut is saved, while government purchases of goods and services affect aggregate demand directly in the longer term. The cumulative effect of tax measures usually grows with time, but the evidence that tax cuts are more effective than spending increases is mixed, especially when tax changes are temporary. Increases in government purchases of goods and services are found to work faster than other spending components, particularly in times of recession and low capacity utilisation, as they induce an immediate positive impact on aggregate demand. However, in the longer term, the distortions induced by these measures may result in a negative or, at best, insignificant impact.

In addition to general factors, country specific features are also of major importance in assessing the suitability of fiscal packages. While a given fiscal package may be deemed appropriate for a country with a low debt ratio and a structural budget surplus, the same package could easily lead to rising risk premia on interest rates and other detrimental effects in a country with an unfavourable starting fiscal position. The openness of the economy should be considered as well. A crucial aspect in this regard is the exit strategy of the adopted fiscal policy line. A strategy that preserves long-term fiscal sustainability by embedding expansionary fiscal measures in a credible medium-term consolidation framework is less likely to invoke adverse expectation effects than a strategy based on permanent and uncompensated deficit increasing measures which violates fiscal rules.

From a European perspective, the neglect of the European fiscal framework could even lead to negative spill-over effects on other EU member states if the credibility of the framework is damaged by individual member states' actions.

3.9.2009.

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Survey of non-financial corporations on conditions of access to credit

Introduction

After a long phase of strong expansion, the rate of growth of bank lending to the private sector began to moderate in 2006. Since 2007 H2 this trend has intensified, as a result of the international financial crisis and its impact on economic activity. The year-on-year rate of growth of credit to non-financial corporations stood at slightly less than 5% in March 2009, against 30% in December 2006.

There are various factors behind this development, on the supply and the demand side, and determination of these factors would be extremely useful for an accurate diagnosis of the situation of the credit markets. Unfortunately, there are only a limited number of tools that enable a distinction to be drawn between the supply and the demand side. In this respect, the Bank Lending Survey (BLS), conducted quarterly in Spain in coordination with the other euro area Member States,[1] is a highly valuable tool, as it provides a qualitative approximation of credit institutions' opinions on credit developments, both for households and firms. On the demand side, a number of regular surveys include questions on the extent to which the financial situation represents a barrier to corporate growth (for example, those conducted by the Chambers of Commerce and the Ministry of Industry). However, in these surveys, the "financial situation" generally includes not only the ease with which external financing may be obtained, but also other matters such as the internal liquidity position, making it impossible to isolate the factors that are directly related to access to credit. Recently, the Chambers of Commerce began to conduct a regular survey (numbering six to date) which, although directed exclusively at SMEs, includes a wide range of questions that permit analysis of various aspects relating to access to bank credit.[2]

In this setting, the Banco de España has commissioned a survey of a representative sample of non-financial corporations, to obtain significant qualitative data on conditions of access to credit. The fieldwork was conducted between 18 March and 3 April and the final selection comprises 1,384 firms, broken down by size and sector as shown in Table 1.[3] The survey included questions on the situation in the last six months and on the outlook for the next six months. The survey's main added value, relative to the BLS, is that it provides the view from the demand side. In comparison with the Chambers of Commerce survey on access to credit, which is also directed at firms but only SMEs, it has the advantage of a broader scope, and it also permits analysis of how the replies differ according to a wider range of characteristics. Thus, in addition to size and sector of activity, it includes variables relating to financial position (profit performance and level of indebtedness).

The following section analyses the extent to which the sample firms had to resort to credit lines and other bank lending, broken down by firm type and financial position. The next section presents the results of the credit applications made, and the following section, the implications for the firms and the outlook for conditions of access to new lending. This is followed by a series of conclusions. The full text of the survey questions, together with the aggregate replies, is presented at Annex 1.

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1. For detailed comments on the results of the latest Bank Lending Survey in Spain, relating to July, see *Boletín Económico,* July-August, Banco de España. For a description of the BLS, see J. Martínez and L. A. Maza (2003), "Resultados de la Encuesta sobre Préstamos Bancarios en España", *Boletín Económico,* May, Banco de España. **2.** Results available at: https://www.camaras.org/publicado/estudios/publicaciones_SE.jsp. **3.** The sectoral breakdown was made considering the weight of each sector in the total GVA of the economy, excluding the Education and the Healthcare, veterinary care and social services sectors in which most activity is linked to general government. As there are no data on GVA breakdown by firm size, the firms were distributed, within each sector, on the basis of the relative weight of each of the five size groups in total sector employment (source: DIRCE).

SURVEY OF FIRMS ON ACCESS TO CREDIT, FINAL SAMPLE TABLE 1

Sectors	Number of firms	Grouped by size within sector					Percentage by sector
		Average number of employees					
		Fewer than 10	10 to 49	50 to 199	200 to 499	500 or more	
A.1 Agriculture, hunting and forestry	44	13	12	9	6	4	3.2%
A.2 Fishing	6	2	3	1	0	0	0.4%
A.3 Mining and quarrying	7	1	3	2	0	1	0.5%
A.4.1 Food, beverages and tobacco industries	43	4	16	7	8	8	3.1%
A.4.2 Oil refining	12	3	2	2	2	3	0.9%
A.4.3 Chemical industry	30	1	7	5	9	8	2.2%
A.4.4 Glass, ceramics and building materials	24	2	12	5	3	2	1.7%
A.4.5 Metallurgy and manufacture of metal products; manufacture of machinery and equipment; electrical, electronic and optical materials and equipment	101	13	43	21	11	13	7.3%
A.4.6 Manufacture of transport equipment	32	1	4	4	5	18	2.3%
A.4.7 Other manufacturing industries	86	12	35	21	8	10	6.2%
A.5 Production and distribution of electricity, gas and water	34	2	4	6	8	14	2.5%
A.6 Construction	211	37	101	35	18	20	15.2%
A.7 Wholesale and retail trade and repair services	190	51	61	24	12	42	13.7%
A.8 Hotels and restaurants	135	31	44	17	20	23	9.8%
A.9 Transport, storage and communication	117	16	33	17	9	42	8.5%
A.11.1 Real estate activities	118	53	35	11	13	6	8.5%
A.11.2 Other business services	127	18	29	12	16	52	9.2%
A.12 Other services	67	15	17	15	5	15	4.8%
ALL SECTORS	1,384	275	461	214	153	281	
Percentage by size	100.0%	19.9%	33.3%	15.5%	11.1%	20.3%	

Credit applications and use of credit lines

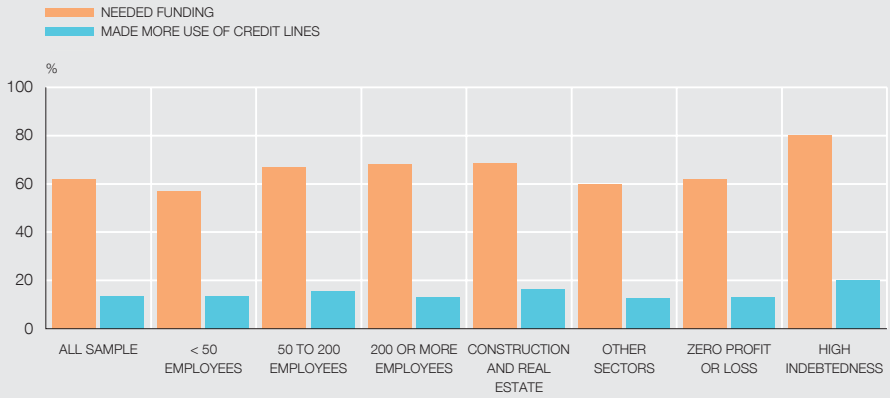
As Chart 1 shows, 62% of the firms surveyed indicated that they had needed bank lending (whether credit renewals or new lending) in the past six months. This figure includes not only firms that actually submitted a credit application, but also firms that did not do so, despite needing credit, because they did not expect it to be granted. Accordingly, a high percentage of the respondents (38%) signalled that they had had no need of bank lending in the previous six months. The largest firms, and especially those with higher debt levels (measured in terms of debt-to-equity), were those that had had most need of bank credit. The economic position of the firms surveyed also helps explain the reply to this question, as although there are no significant differences between the firms that reported a loss (or virtually zero profit) in 2008 and the remainder, the proportion of respondents that needed external financing was higher among firms that reported a drop in profits in comparison with the previous year, than among those that reported higher or virtually flat profit. Lastly, by sector, real estate and construction companies had most need of bank credit, irrespective of size and financial position.

In addition to approaching banks for new lending or credit renewals, firms may also raise their borrowings by making more use of the balance available on credit lines already open with financial institutions, an area that was also covered by the survey. Thus, the results show that, during the previous six months, 62% of the respondents had access to financing via credit lines; this percentage increased as company size increased; it was also higher among construction firms (73%). Of the firms with access to this type of financing, 43% (i.e. 27% of the total sample) signalled that they had made more use than normal of the credit lines available in the previous six months, indicating a variety of reasons for this. Thus, 14% of all the respondents made more use of credit lines due to higher borrowing requirements (see Chart 1). In this

FUNDING NEEDS

CHART 1

PERCENTAGE OF FIRMS THAT NEEDED BANK LENDING OVER THE PAST SIX MONTHS AND PERCENTAGE OF THOSE THAT MADE MORE USE OF CREDIT LINES DUE TO FUNDING NEEDS, OF THE TOTAL SAMPLE

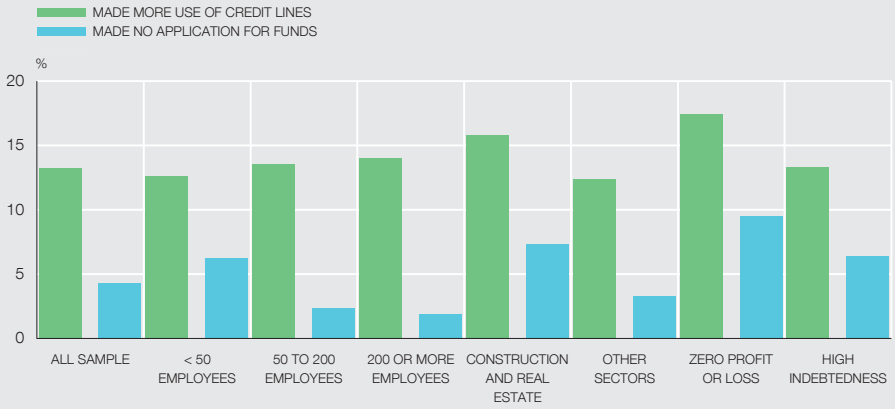


SOURCE: Banco de España.

FUNDING DIFFICULTIES

CHART 2

PERCENTAGE OF FIRMS THAT DECIDED TO MAKE MORE USE OF CREDIT LINES DUE TO PROBLEMS WITH ALTERNATIVE FUNDING, OR THAT DID NOT APPLY FOR FUNDING AS THEY DID NOT EXPECT TO RECEIVE ANY, OF THE TOTAL SAMPLE



SOURCE: Banco de España.

case, there is no clear link between this percentage and company size, but the figure is higher among firms with most debt, among those that reported greatest earnings deterioration in 2008 and among construction and real estate services sector firms.

In turn, 13% of the respondents made more use than normal of the credit lines available as a result of difficulties in obtaining funding from other sources or of the higher cost of this alternative funding (see Chart 2). The percentage of firms signalling these reasons was higher in the real estate sector, understood in the broadest sense of the term, and among firms reporting a loss.[4]

---

4. Greater use of credit lines by firms, for whatever reason, follows a cyclical path, as is evident from the fact that there is now less and less undrawn credit on bank balance sheets (see Box 6 in "Quarterly report on the Spanish economy", *Economic Bulletin,* January 2009).

APPLICATIONS FOR BANK LENDING CHART 3

SOURCE: Banco de España.

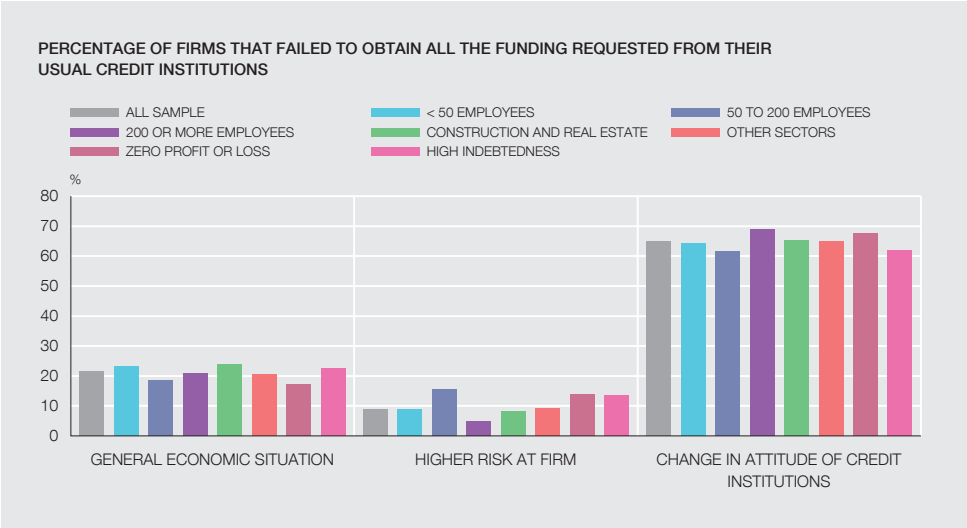
These difficulties in obtaining funding also explain why not all corporations that needed funds turned to banks. Thus, as Chart 2 also shows, around 4% of the sample firms did not apply for funding because they did not expect to receive any. Once again, the figure is higher in the real estate and construction sector and among firms reporting a loss; it is also higher in firms with fewer than 50 employees and in those with most debt.

Results of credit applications in the past six months

Approximately half the firms that applied for bank credit in the previous six months declared that they had received all the funds requested from the usual credit institutions (see Chart 3). Around 30% obtained only part of the funding requested, or had to apply to other credit institutions to obtain it in full, while the remainder (slightly less than 20%) declared that they were unable to obtain funding, either because their requests were refused or because the credit terms offered were too onerous for them.

As to be expected, these figures are more negative (i.e. there is a higher proportion of rejected applications and of firms that failed to obtain all the funding desired) among those companies

MAIN REASON FOR NOT OBTAINING ALL FUNDING CHART 4



SOURCE: Banco de España.

whose earnings fell in 2008, relative to a year earlier, and among those whose financial position had become more compromised (lower profit and/or higher debt levels) at year-end.

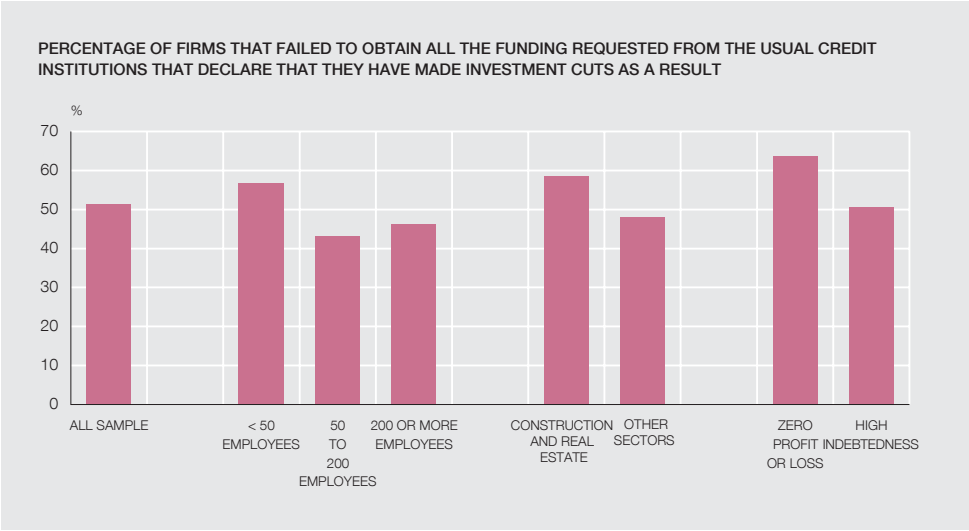
In any case, even controlling for their financial position, the proportion of firms that were unable to obtain the funding requested was, in general, higher among smaller firms and construction and real estate services sector firms (see bottom panel of Chart 3). In the case of the smaller firms, this is a structural characteristic, seen in various studies and linked to the lower level of collateral that is normally available to these firms. However, although it is impossible to be certain due to the lack of an appropriate time comparison, the possibility that there may also be a conjunctural component in this higher degree of contraction in credit supply to SMEs, connected with the present financial tension, should not be ruled out. This would be consistent with the evidence supplied by the BLS and with the lower rate of growth, in recent months, in smaller loans in comparison with loans of more than €1 million.[5]

The difference between construction and real estate sector firms and the rest of the sample may be explained by the fact that credit institutions view the future prospects of these two branches of activity less positively. Thus, respondents to the BLS indicate that specific company or sector risks are an important factor behind the contraction in credit supply to non-financial corporations. Accordingly, comparing firms in a similar financial position, credit institutions would tend to be more cautious about granting funds to those connected, in some way, to the real estate sector. The results of the questionnaire (see Chart 3) show that, even considering only firms reporting profit and with a debt-to-equity ratio below 20%, the percentage of credit rejections is 2.4 times higher (26% against 11%) among construction and real estate sector firms. However, this difference disappears when comparing the sample firms whose financial position is more compromised (35% in both cases).

Most firms that were unable to obtain all the funding requested from their usual credit institutions (65%) indicated that the main reason for this was a change in criteria by the banks (see Chart 4). However, a significant percentage declared that the funding difficulties were con-

5. According to Eurosystem harmonised interest rate and new customer loan statistics. It seems reasonable to assume that the bulk of loans to SMEs will be for less than €1 million.

EFFECTS ON INVESTMENT AT FIRMS CHART 5



SOURCE: Banco de España.

nected with the general economic situation (22%) and with greater corporate risk (9%). In general, no key differences were detected in the replies to this question according to firm size or sector, although real estate and construction firms with more than 200 employees were those that most cited a change in institutions' credit standards as the reason for this (85%). Lastly, among firms with higher debt and lower profit levels, there was a greater tendency to attribute funding difficulties to their higher risk.

Consequences and outlook

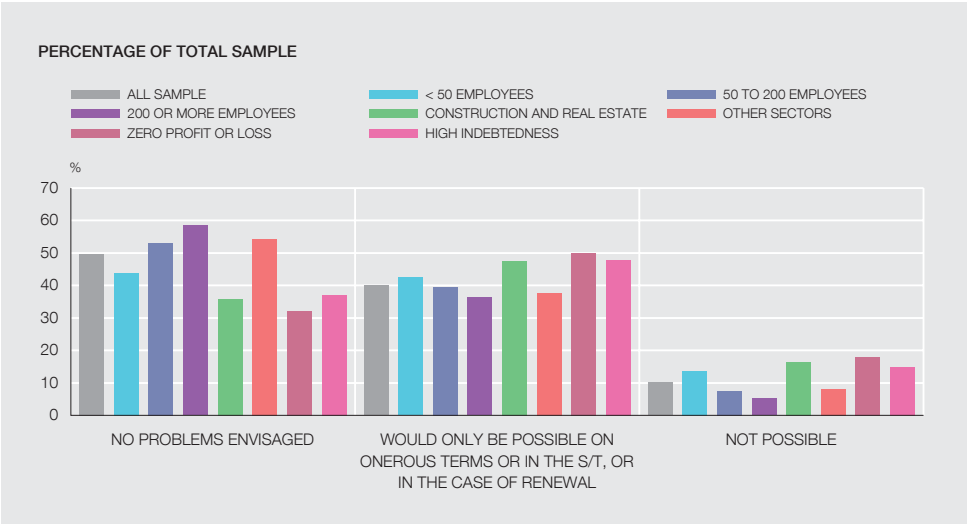
Most firms that failed to obtain all the funding requested from their usual credit institutions declared that, as a result, they had had to take alternative steps (with more than one alternative step possible by firm). The most common measure adopted was to cut projected investment: thus, around half the sample firms in this position (see Chart 5), equivalent to some 15% of the total sample, did just that, while 40% resorted to alternative sources of financing or available credit lines, 21% resorted to raising new funds from shareholders and 13% made asset disposals.

The more difficult a firm's financial position, the lower the degree of recourse to alternative sources of financing and the higher the degree of recourse to contributions from shareholders, asset disposals and investment cuts. By way of example, 64% of corporations that reported a loss in 2008 and that were unable to obtain all the funding requested from their usual credit institutions made investment cuts; this figure is significantly above the average, reflecting the fact that these corporations have fewer internal funds with which to offset the lack of external financing. This figure was also higher among smaller firms and construction and real estate firms, irrespective of their financial position. Asset disposals were most common among real estate services firms (31%), irrespective of whether they reported a profit (21%) or not (38%) in 2008.

The survey also included questions on firms' expectations regarding access to credit as at the date of the survey and over the next six months. Slightly less than half the sample firms indicated that they would not expect to have any difficulty in obtaining funding were they to need it as at the date of the survey, while 10% declared that it would be impossible to obtain funding (see Chart 6). The remainder expected that they would only be able to obtain funding on very onerous terms, that it would only be short-term funding and/or secured credit, or that it would only be possible via renewal of existing credit lines. Once again, smaller firms, real estate and

EXPECTATIONS REGARDING THE POSSIBILITY OF OBTAINING FUNDING AT THE PRESENT DATE

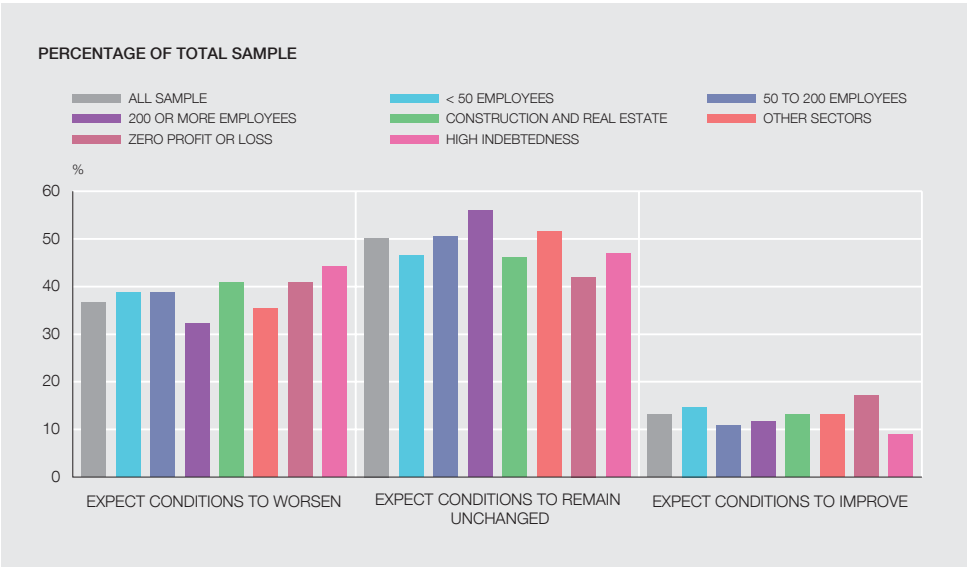
CHART 6



SOURCE: Banco de España.

EXPECTATIONS FOR CONDITIONS OF ACCESS TO CREDIT OVER THE NEXT SIX MONTHS

CHART 7



SOURCE: Banco de España.

construction firms and those whose financial position was more compromised expected to encounter the most difficulties.

Lastly, as Chart 7 shows, 37% of firms expected their access to credit to worsen over the next six months, while just 13% expected it to improve. The difference between these two views was slightly smaller among corporations with more than 200 employees and in branches of activity not connected with the real estate sector. By contrast, the percentage of firms expecting their access to credit to improve was higher among firms reporting a loss or zero profit (18%) and among firms with higher debt levels (15%), probably because they were already encountering greater difficulties in this respect.

Conclusions

In short, the results of the survey commissioned by the Banco de España show that firms whose financial position is more compromised, smaller firms and real estate and construction firms are encountering the most difficulties in accessing credit. As the questionnaire reflects recent credit standards, rather than how these standards have changed, it does not permit analysis of the extent to which these differences stem from structural or conjunctural factors. As regards the differences according to firm size, it seems reasonable to assume that these are, in part, due to structural factors, in line with the pattern identified in numerous empirical studies. In any case, the evidence provided by financial institutions through the BLS seems to suggest that an important part are also due to the current financial tension. The greater difficulties in accessing bank lending encountered by construction and real estate firms exceed those that may be warranted by their more compromised present financial position, meaning that they must be connected with a less positive view, on the part of credit institutions, of the future outlook for these branches of activity. A high proportion of firms that have faced difficulties in accessing credit have had to cut their spending plans; however, considering that a significant proportion of firms had no need to turn to the credit market for funding in the previous six months, this figure is lower as a percentage of the total sample.

13.5.2009.

ANNEX 1

Survey of Spanish non-financial corporations on conditions of access to credit (18.3.2009-3.4.2009)

SECTION 1: FIRM'S ECONOMIC POSITION

Q.1 Did your firm report a net profit or loss in 2008? (If the 2008 accounts have not yet been closed, please indicate whether you expect to report a net profit or loss at end-2008.)

— Profit	902
— Virtually zero profit	147
— Loss	318
— Don't know/No answer	17

Q.2 In comparison with the previous year, did your firm's profits improve, remain virtually unchanged or worsen in 2008?

— Improve	329
— Remain virtually unchanged	325
— Worsen	719
— Don't know/No answer	11

Q.3 What was the ratio of interest-bearing debt to equity at your firm at end-2008? Please include the interest-bearing debt owed to group companies, if any.

— Up to 20%	519
— Over 20% and up to 50%	390
— Over 50% and up to 100%	135
— Over 100% and up to 200%	48
— Over 200% and up to 400%	21
— Over 400%	14
— No debt	141
— Don't know/No answer	116

SECTION 2: RELATIONS WITH CREDIT INSTITUTIONS

2.1 Credit lines available

Q.4 Do you have a credit line available with a credit institution, or have you had one available in the last six months?

— Yes		862
— No	→ Go to Q.7	519
— Don't know/No answer		3

Only if the answer to Q.4 was "Yes":

Q.5 In the last six months, did your firm make more than usual use of your credit line(s)?

— Yes		373
— No	→ Go to Q.7	492
— Don't know/No answer		5

Only if the answer to Q.5 was "Yes":

Q.6 What was the main reason for your firm making more than usual use of your credit line(s)?

— Impossible to obtain funding through other channels	140
— Lower funding cost than through alternative channels	45
— Past-dues	64
— Growth/Investment	27
— Lower sales/Adverse situation	37
— Need for cash	39
— Other	23
— Don't know/No answer	0

2.2 New lending

To all

Q.7.a Over the last six months, did you renew any existing funding that matured?

— Yes	576
— No, it wasn't necessary	678
— No, it wasn't possible	124
— Don't know/No answer	6

Q.7.b Over the last six months, did you apply to a credit institution for any new funding?

— Yes	563
— No, we didn't need any	723
— No, we weren't able to or we didn't expect to obtain any	91
— Don't know/No answer	7

Only if the answer to Q.7.a or Q.7.b was "Yes":

Q.8 What was the result of applications made for new lending or credit renewals over the last six months?

—	Impossible with any credit institution at any cost	107
—	Impossible with any credit institution on terms that were not too onerous for the firm	41
—	Obtained in part, i.e. not in the full amount or for a shorter term than requested, but not from the usual credit institutions	33
—	Obtained in part, i.e. not in the full amount or for a shorter term than requested, from the usual credit institutions	139
—	Obtained in full, but not from the usual credit institutions	55
—	Obtained in full from the usual credit institutions → Go to Q.11	384
—	Don't know/No answer	37

Q.9 What do you think was the *main reason* for your not obtaining all the funding from your usual credit institution(s)?

—	General economic situation	84
—	Firm's higher economic risk	33
—	Change in credit institutions' attitude	255
—	Less competition between credit institutions	1
—	Other	20
—	Don't know/No answer	25

Q.10 What kind of unexpected measures have you had to take as a result of your not obtaining all the funding from your usual credit institution(s)? (Where appropriate, please mark several options.)

—	Greater recourse to undrawn balances in existing credit lines	43
—	Recourse to other sources of borrowing (eg. trade credit, intercompany loans)	110
—	Recourse to funds from shareholders	78
—	Asset disposals	48
—	Cuts in projected investment	207
—	Other	69
—	None	54
—	Don't know/No answer	9

To all

Q.11 If you were to need new funding now, or if you had to renew existing funding that had matured, which of the following statements would be most appropriate to your firm's position?

—	It would be totally impossible	136
—	It would only be possible on highly onerous terms for the firm	205
—	It would only be possible in the short term and/or via secured lending	185
—	It would be impossible to obtain new funding, but it would be possible to renew existing funding upon maturity	149
—	No difficulties in obtaining funding are envisaged, although the terms could be less favourable than in previous years	670
—	Don't know/No answer	39

D.1 Sector of activity

A.1	Agriculture, hunting and forestry		44
A.2	Fishing		6
A.3	Mining and quarrying		7
A.4			
	A.4.1	Food, beverages and tobacco industries	43
	A.4.2	Oil refining	12
	A.4.3	Chemical industry	30
	A.4.4	Glass, ceramics and building materials	24
	A.4.5	Metallurgy and manufacture of metal products; manufacture of machinery and equipment; electrical, electronic and optical materials and equipment	101
	A.4.6	Manufacture of transport equipment	32
	A.4.7	Other manufacturing industries	86
A.5	Production and distribution of electricity, gas and water		34
A.6	Construction		211
A.7	Wholesale and retail trade and repair services		190
A.8	Hotels and restaurants		135
A.9	Transport, storage and communication		117
A.11			
	A.11.1	Real estate activities	118
	A.11.2	Other business services	127
A.12	Other services		67

D.2 Size of firm

— Fewer than 10 workers	275
— Between 10 and 49 workers	461
— Between 50 and 199 workers	214
— Between 200 and 499 workers	153
— 500 or more workers	281

The economic and financial crisis, policy responses and their impact on public finances. A global perspective.

The authors of this article are Enrique Alberola and Fernando Gutiérrez del Arroyo, of the Associate Directorate General International Affairs.[1]

Introduction

The worsening of the economic and financial situation since summer 2007 and, especially, its drastic intensification from September last year are having far-reaching consequences on the public finances of the main developed economies and, to a lesser degree, on those of developing countries.

The deterioration of public finances reflects the strong economic policy response through fiscal stimulus plans and measures to support the financial system, though it also increasingly mirrors the severe decline in economic and financial activity. The economic policy response has involved not only the tax authorities but also central banks and other public entities – such as deposit guarantee funds and public and semi-public financial institutions. Chart 1 provides a simplified representation of the quickening and growing involvement of US authorities by quantifying the support provided by the Federal Reserve and the Treasury to the financial system as well as the fiscal stimulus measures. Between summer 2007 and March 2008, the effects of the financial turmoil on activity were still relatively moderate and their scope was limited to the United States and a growing number of developed economies. In that period, financial support was based, essentially, on increasing the liquidity provided by central banks and on occasional bail-outs of specific entities. Furthermore, an initial fiscal stimulus package was implemented in the United States in February 2008. From March 2008 (with the Bear Stearns bail-out), the deepening of the financial problems led to a stepping-up of support which remained centred on providing liquidity. In mid-September, however, there was a quantitative and qualitative leap in the economic policy response in all advanced economies and, to a lesser extent and slightly later, in emerging economies. On the one hand, the spectrum of financial support measures was extended significantly (to include, in addition to practically unlimited liquidity, direct financing of financial institutions and other sectors, capital injections, asset purchases and guarantees for bank assets and liabilities); and on the other, fiscal stimulus plans were introduced in an increasing number of countries. The amounts committed in the financial and economic sphere have multiplied since last summer. For example, in the United States – excluding guarantees – they have increased sixfold and already account for half of its gross domestic product (see Chart 1).

All these measures are resulting in a sharp increase in government deficits and in public debt ratios and a strong deterioration in the long-term fiscal outlook. However, it is difficult *a priori* to assess the fiscal cost of the crisis. First, a substantial amount of committed government financial support has not yet been used or does not represent an actual upfront outlay (as in the case of guarantees) or, even if it does, it may be partially recovered *a posteriori* (as in the case of asset purchases or lending). Second, a large share of government support, undertaken by central banks or other financially independent bodies, falls, in principle, outside the scope of the budget; however, a portion of these amounts could ultimately have a potentially large budgetary impact. Third, the crisis is still ongoing, which makes it difficult not only to evaluate its fiscal impact but even to make an up-to-date calculation of the amounts invested.

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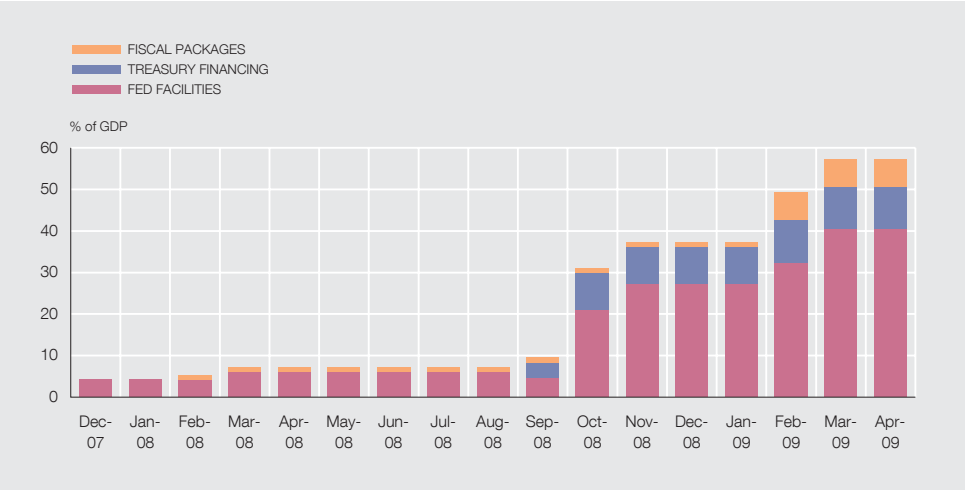
1. This article has benefited from the collaboration of other members of the Directorates General International Affairs, Economics, Statistics and Research, and Operations, and, in particular, of Lucía Cuadro and Ana del Río, in order to make the data from various sources uniform and consistent.

INCREASING FINANCIAL AND FISCAL SUPPORT IN THE US (a) CHART 1



SOURCES: Federal Reserve, US Treasury and Banco de España.

a. Excluding pre-crisis liquidity facilities, guarantees and swap lines.

In this context, the purpose of this article is to assess from a quantitative, qualitative and comparative standpoint the channels through which the financial and economic crisis and the economic policy response to it are affecting public finances, adopting a global and, insofar as is possible, homogenous perspective, covering both advanced and emerging economies. To this end, it is necessary to establish a framework of analysis which makes it possible to differentiate, on the one hand, between the impact related to the financial crisis and that linked to the economic recession; and, on the other, between the direct impact of the crisis connected with the adjustment of economic and financial activity, and that arising from economic policy measures. In this framework, first, the financial sector support measures adopted by various economic authorities will be analysed in some detail, drawing a distinction between the various consequences that they may have on public finances at different time horizons. Second, the fiscal stimulus plans and the direct impact of the crisis on government revenue and expenditure, fiscal balances and government debt will be studied. Similarly, the medium-term impact on public finances and, especially, on the expected debt dynamic is examined. From the whole analysis, it is concluded that public finances will be in a delicate situation over the next few years. This deterioration poses notable challenges for economic authorities, including, inter alia, those of taking steps so that the fragile situation in itself does not limit the effectiveness of the measures adopted and reaffirming the long-term commitment to fiscal discipline.

Framework of the analysis

Two different strands underpin the conceptual framework for analysing the effect of the crisis on public finances. The first refers to scope, either financial or more strictly economic; the second makes it possible to distinguish between the direct impact, arising from developments in economic and financial activity, and the indirect impact, resulting from the reaction of economic policies, i.e. the discretionary support measures for the financial system and the fiscal stimulus plans. The implications for public finances differ depending on the authority implementing the measures: ministries of economic affairs and finance, central banks or other public or semi-public entities such as deposit guarantee funds or public financial institutions.

On the basis of these two strands, Table 1 summarises the various channels and their potential effect on the deficit and public debt, differentiating in the case of the latter between the short-term impact and the potential medium- and long-term impact. The direct impact of the real

FRAMEWORK OF ANALYSIS (a) TABLE 1

			BUDGET DEFICIT	DEBT	
				CURRENT	FUTURE (b)
ECONOMIC SPHERE	Automatic stabilisers		✓	✓	
	Fiscal stimulus packages		✓	✓	
FINANCIAL SPHERE	Financial support	Capital injections	✓?/+	✓	+
		Asset purchases and financing by Treasury	✓?/+	✓	+
		Central bank financial support			✓
		— Of which: with Treasury backing	✓?	✓	+
		Guarantees	+		✓
	Financial crisis	Profits, dividends and revenue	✓	✓	

SOURCE: Banco de España.

a. ✓ = Unfavourable impact; + = Actual or possible favourable impact; ? = Depends on implementation and accounting criteria.
b. Indicates a future contingent (new or additional) impact on debt. A plus sign indicates a (partial or total) reversion of the future impact with respect to the immediate one.

contraction accompanying the crisis – the first row of the table – represents the loss of revenue – direct and indirect tax receipts – and increased expenditure through automatic stabilisers. Another direct and negative effect on public finances stems from the sharp adjustment of the financial sector – included in the last row of Table 1 – which may represent a sizeable reduction of tax revenue and, therefore, an increase in the deficit and debt. It is estimated that this loss would mainly be triggered by the decrease in financial institutions' profits and dividends, and lower receipts arising from adjustments in the value of financial and real estate assets (financial losses).

As for the impact of economic policy measures, a distinction should be drawn between fiscal measures to support demand or productive activity – the second block in the table – and the financial sector support measures, the following block. There are certain measures which fall within a grey area (in particular, financing for productive sectors), which in many cases are channelled through the financial system and, although they often tend to be announced as part of fiscal stimulus packages, should be considered as financial support measures.

The purely fiscal measures are confined to those affecting government spending and revenue, such as investment, tax cuts and fiscal incentives for households and firms. All these measures entail, in principle, a reduction in the fiscal balance resulting in higher debt in the short term. The financial support measures are more varied and increasingly diverse as new support strategies are created. In this article they have been grouped into four categories, based on their immediate or actual impact on public finances which, in turn, depends on the institution implementing the measure. Table 2 links the type of measure to the institution which implements it:

1) *Capital injections for banks and other financial institutions* through preference, ordinary or other shares, such as subordinated debt, undertaken in general by the Treasury. These are included in individual bail-outs and general plans.

INSTITUTIONS PROVIDING FINANCIAL SUPPORT AND MEASURES IMPLEMENTED TABLE 2

	Capital injections	Asset purchases	Financing	Liquidity	Guarantees
Treasury	X	X	X (a)		X
Central bank		X	X (a)	X	X
Other public institutions		X	X		X

SOURCE: Banco de España.

a. Treasury financing for central bank measures is attributed to the latter but is broken down separately in Chart 2.

2) *Asset purchases and financing by the Treasury*. Asset purchases cover bonds and other financial instruments – which are illiquid and, in certain cases, troubled – and include transactions with a repurchase option. Treasury financing is targeted at the financial sector and other ailing productive sectors (automobiles, housing, exports, etc.).

3) *Central bank financial support*. This category includes, first, the provision of liquidity (including the facilities or windows created or extended after the turmoil began). As more and more measures were rolled out and the maturities of the operations and the collateral were extended, the boundary between the provision of liquidity and financing – which in current circumstances is somewhat arbitrary – has become blurred, especially insofar as certain central banks have acted with the explicit objective of restoring the flow of credit on various markets. Similarly, a growing number of central banks have embarked on operations to purchase assets and on providing guarantees. In certain countries, a portion of these measures was backed with Treasury financing – which we shall consider as a sub-category – although the recent trend is towards central banks and other agencies increasingly taking responsibility for implementing financial measures, to the detriment of the Treasuries, due largely to the fact that the financial position of the latter is increasingly compromised.

4) *Guarantees* which back financial institutions' liabilities and, more recently, their assets. The liabilities guaranteed mainly comprise new debt, in order to make it easier to issue and to cut its cost in a period in which it is difficult to tap the markets. Although guarantees for bank deposits are widespread, they have not been included because it is difficult to calculate and compare them across countries.[2] Guaranteeing assets is a trend which began in 2009 and affects the troubled assets of ailing entities. In fact, it is worth underlining the interplay between the guarantee system and other types of support, such as asset purchases or capital injections.

The financial impact of these measures is included in the third block of Table 1. In general, they do not necessarily have an immediate impact on fiscal balances, although a broad range of situations may arise, and there are exceptions depending on each country's accounting crite-

2. In the European Union guarantees are provided for deposits of up to €100,000, but in certain countries this figure is higher and in others there is no limit.

ria.[3] Capital injections and debt guarantees can even generate revenue in the short term – as shown by the plus sign – arising from the dividends committed, in the case of the capital injections or the fees required to gain access to the guarantees. Capital injections, asset purchases and Treasury financing involve upfront loading as the funds committed are used and, therefore, result in an increase in government debt in the short term. Lastly, central bank financial support and guarantees do not involve a parallel increase in government debt, although there are exceptions such as the provisions for guarantees set up in some countries or the above-mentioned Treasury backing of central banks.

Short-term effects on debt may differ from the long-term effects. In the case of asset purchases and capital injections, the outcome will depend on how the value of the asset and of the capital performs (in addition to the cumulative flow of returns). In particular, it cannot be ruled out that part of the outlay may be recovered (as indicated by the plus sign in the last column of Table 2) once the financial stress has been overcome, partly reversing the previous increase in debt, so that the outcome (when the positions are unwound) is less negative for public finances than its initial impact. The opposite might also occur, posing an additional burden. In the case of guarantees, the cost would only be incurred if the guarantees had to be called. As for central bank support measures and Treasury financing, these institutions would incur a financial loss if the lending were not repaid or, in the case of facilities with collateral, if the value of the collateral were lower than the amount of the loan.

In short, in the case of financial support measures there are three important aspects for assessing their impact on public finances: the initial outlay, the proportion recovered ex post and the possible contingent losses of other types of measures which do not involve an initial outlay.

Using this framework it is possible to describe the fiscal and financial support measures, examine how they are recorded and make cross-country and cross-regional comparisons. This exercise is subject to numerous caveats, since it is difficult to address and compare on a consistent basis the broad spectrum of measures with varying characteristics and particular features inherent to each country. There are three important considerations when assessing this exercise:

i) Certain important measures to stabilise the system, such as the above-mentioned deposit guarantees, are not included in the calculation. Nor does it consider monetary and exchange rate policy measures (interest rate reductions, the use of reserves or recent purchases of government assets by certain central banks),[4] which, to a certain extent, have also served to bolster the financial sector, nor other types of measures which have been important for maintaining international financing flows, such as currency swaps and the external support packages of multilateral and regional financial bodies.

ii) The figures presented are obtained by adding together measures of a very varied nature and with different fiscal implications, as described above. Therefore, their extrapolation to fiscal aggregates and the cross-country comparison must be undertaken with the utmost caution.

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3. In the United States and the United Kingdom a large amount of the financial support is included in the deficit. **4.** Public asset purchases have been announced as part of some countries' financial support plans. However, insofar are they are aimed at affecting long-term interest rates, they fit better in the monetary policy sphere. Also, in terms of accounting, their consolidated net effect on the public sector is nil. For these reasons, unlike the IMF's analysis, they are excluded from our calculations unless otherwise indicated.

iii) The amount committed is adopted as the criterion for recording the measures, which generally represents an intermediate point between the actual outlay and that announced. This generates certain difficulties, due to the lack of precise data or the reformulation of certain measures (as occurred with TARP, the first US financial programme), the classification difficulties in other cases (the above-mentioned distinction between liquidity and financing) and, in general, comparability problems arising from the different strategies for responding to the crisis.

The time span of the analysis is from the beginning of 2008 (which includes practically all the measures adopted) until April 2009. The main reference document is the recent IMF paper (2009), which is supplemented by contributions from the OECD (2009), the ECLAC (2009) and the European Commission (2009). The aim is to achieve the greatest possible consistency across countries and regions, based on up-to-date information. The sample covers the principal developed and emerging economies in the G20+ (which includes Spain), which represent approximately 75% of world GDP. The G20+ group of advanced economies will be considered and, unless stated otherwise, the four main emerging economies (the BRICs: Brazil, Russia, India and China), to represent the emerging countries. For each country the figures are in relation to the GDP in 2008 and, if successive years are analysed, to the GDP of each year; the data updating limit is mid-May.

Financial support measures

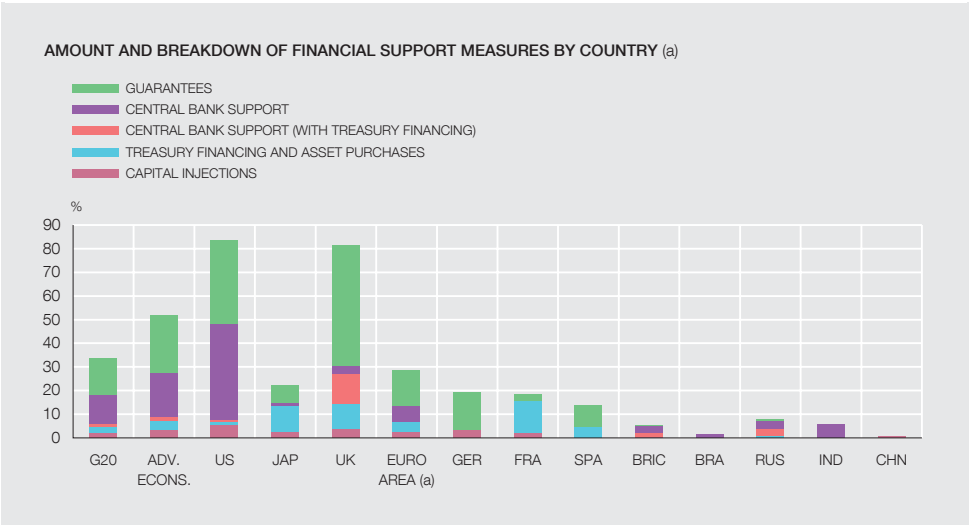
The upper panel of Chart 2 reflects the amount committed in the financial system support measures, according to the categorisation described in the previous section, for the principal countries and areas analysed. The funds committed amount, in aggregate, to almost one-third of their GDP (a figure equivalent to the GDP of the United States in the G20). The largest portions relate to guarantees for bank assets and liabilities (46% of the total, 15% of the GDP of the G20+) and to central bank financial support (two-fifths of the total, i.e. 13% of GDP), a small part of which is financed in turn by the Treasury. Accounting for a smaller fraction are asset purchases and direct Treasury financing, on the one hand, and capital injections, on the other: 7.4% and 6.9% of the total, equivalent to 2.5% and 2.3% of the GDP of the G20+, respectively.

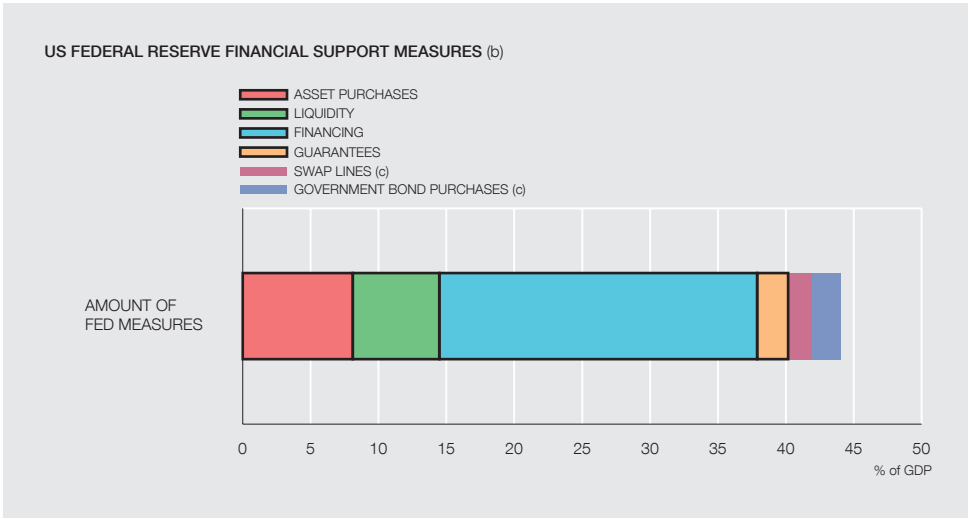
Although all the countries analysed have adopted measures of some type, there are pronounced differences between regions and countries. The most striking difference is that observed between the developed and the emerging economies. Thus, committed financial support amounts to 50% of GDP in the advanced economies, where guarantees play a relatively larger role, but it only represents around 5% of GDP in the BRICs, where central bank support is dominant.

There are important differences in the scale of financial support in the advanced economies. The United States and the United Kingdom stand out from the rest because of the amount committed – 83% and 82% of their respective GDP – and because they are the countries which have taken the initiative and set the pace in this sphere.

In the United States approximately half of the amount of the measures adopted relates to the financial backing of the Federal Reserve, which has acted on numerous and diverse fronts (see the bottom panel of Chart 2). Only a small portion of the Fed's support (slightly more than 14%) stems from its more traditional activity (providing liquidity) since it is considered that the facilities which have been set up since last September constitute credit facilities. These facilities, in exchange for collateral, in particular, have been designed to prop up various segments: the commercial paper market (CPFF), the money markets (MMIFF) and other securitisation markets

FINANCIAL SECTOR SUPPORT MEASURES AND BREAKDOWN (a) CHART 2





SOURCES: IMF (2009a), Federal Reserve and Banco de España.

a. In the case of the euro area, "central bank support" refers to the ECB and only appears in the euro area aggregate.
b. The measures included under "central bank support" are outlined in black.
c. Government bond purchases and swap lines are not included in the analysis of Chart 2.

paralysed by the crisis, through the term asset-backed securities loan facility (TALF).[5] The credit facilities made available amount to 24% of GDP and represent more than half of the Fed's total support. The Federal Reserve has also embarked on purchases of mortgage-backed securities (MBS) to prop up this market, for a maximum amount of nearly 10% of GDP, and has furnished guarantees for some banks' assets, amounting to 2.1% of GDP. Lastly, there

5. Only liquidity facilities arranged between summer 2007 and September 2008 are included. In order to distinguish between liquidity and financing the timing criterion is used, because since October the authorities' explicit concern was to restore the funding of troubled markets and this was the context in which new facilities were designed. Thus, the CPFF was aimed at unclogging the commercial paper market, which is essential for short-term lending in the United States, and the MMIFF was set up to overcome problems on the money markets stemming from very low interest rates. The TALF is more general and, although it has not been used much to date, is an important element in the strategy of market normalisation. The amount of these funding facilities is very high: $1,800 bn (CPFF), $900 bn (TALF) and $540 bn (MMIFF), which is nearly 20% of US GDP. However, until the beginning of May, only a small portion had been used: $245 bn. The Fed has also provided funding to support and bail out specific entities, such as the investment bank Bear Stearns ($23 bn) and the insurance company AIG ($90 bn).

are two measures adopted by the Federal Reserve which, as mentioned above, are not included in our calculation: the purchase of Treasury bonds ($300 bn committed, 2.1% of GDP) and currency swap lines with a number of countries, $250 bn of which had been utilised.

The remaining US financial support is made up of action by the Treasury and guarantees. Direct action by the Treasury has centred on injecting capital into numerous banks through the TARP (approved amount: $700 bn), into the insurance company AIG and into the government-sponsored enterprises Fannie Mae and Freddie Mac, which account for half of the capital injections. The plan to purchase troubled assets also includes a contribution of up to $100 bn of public capital. Overall, the total amount committed for capital injections is more than $800 bn (5.6% of GDP). Asset purchases by the Treasury, which constituted the initial strategy for action after September (the TARP was going to be used for this purpose), have so far been restricted to the acquisition of MBS ($50 bn, less than half a percentage point of GDP). Lastly, the funding provided has also been marginal ($30 bn for automobile companies), although, it is necessary to consider, as mentioned above, the support financing to the Fed. Finally, the guarantees – excluding those backed by the Fed – represent 43% of the total amount committed (36 pp of GDP). Noteworthy among the guarantees is that for new bank debt, amounting to $1,450 bn (10% of GDP), backed by the US Federal Deposit Insurance Company (FDIC); the temporary guarantee for money market funds created by the Treasury ($3,000 bn), and the new private-public investment programme for purchase of troubled assets and loans which will be implemented over the coming months and will also be guaranteed (by the FDIC) for an undetermined amount which may exceed $500 bn.[6]

Although the range of financial support measures adopted in the United Kingdom is similar to that of the United States, the breakdown is different, with guarantees clearly predominating (more than 60% of the total, 50% of GDP). These guarantees are subdivided into those for new debts and securitised assets and those for the assets of financial institutions through the Asset Protection Scheme (APS). The Bank of England's participation is channelled through one main facility (the Special Liquidity Scheme (SLS)), financed by the Treasury, as seen in Chart 2, and through purchases of up to £50 bn of financial assets in the form of commercial paper and other private assets.[7] In addition, capital injections have been made into banks (4% of GDP) and some have been bailed out, involving substantial financing (10% of GDP).

In other advanced economies, less support has been provided, although it has gradually been increased. In Japan it now exceeds 20% of GDP and is provided mainly through government agencies authorised to purchase assets, particularly commercial paper and shares. Support in euro area countries amounts to nearly 30% of euro area GDP. Here guarantees are the predominant type of measure, representing around two-thirds of the total. Support from the central bank[8] consists of long-term liquidity operations [and will include the recently approved purchase of €60 billion of covered bonds (0.7% of GDP)]. There are notable differences in financial support between the countries of the euro area. The Netherlands, Belgium and Austria, small economies where bank capital injections have been relatively large, are considerably

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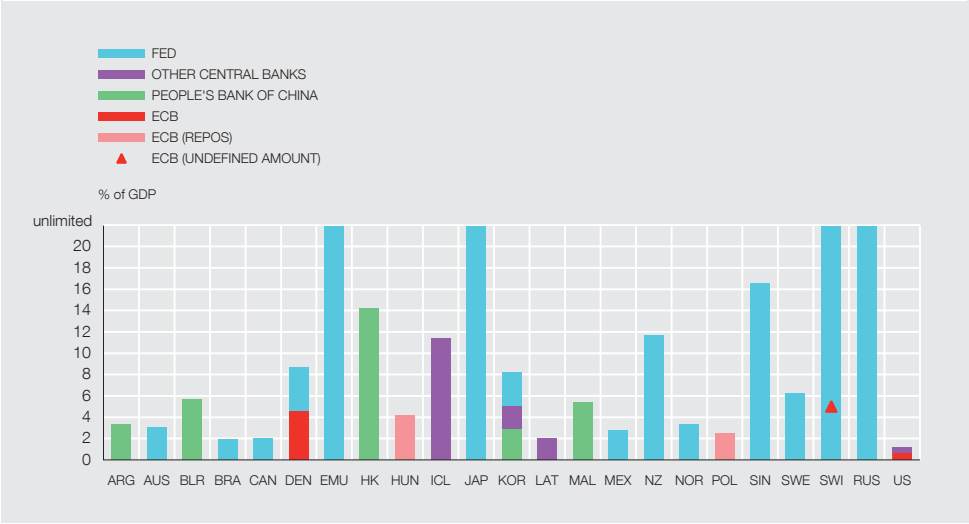
6. The plan to buy troubled assets and loans (legacy assets and loans) was announced in March and consists of a joint initiative between the public and private sector (hence the Private Public Investment Program) to help clean up banks' balance sheets. This programme combines several of the categories considered: FDIC guarantees, Treasury financing and even indirect Federal Reserve support through the use of loans acquired as collateral under the TALF. **7.** Asset purchases by the Bank of England (Asset Purchase Facility) are for up to 150 billion pounds sterling, although they include the acquisition of up to 100 billion pounds sterling (7% of GDP) of government bonds which have not been included in our calculations for the reasons given in footnote 5. **8.** Unlike the Federal Reserve or the Bank of England, the ECB has not set up new facilities, but has made the existing ones more flexible. For this reason, the increase in the ECB balance sheet is included under this heading. Moreover, in the euro area countries analysed in Chart 2, the category "Support from the central bank" is not included because it is centralised in the ECB.

CURRENCY REPOS AND SWAP LINES (a) CHART 3



SOURCE: IMF (April).

above the average, as is Ireland, which, moreover, opted to guarantee in full its bank assets, the committed support being more than twice its GDP. The support committed in France and Germany is around 20% of GDP. The financial support committed in Spain is about 13% of GDP (€150 billion); moreover, Spain is one of the few countries among the advanced economies that has not carried out capital injections.

The emerging economies have devoted ten times fewer resources than the advanced economies, in terms of their respective GDP, to supporting the financial sector. This notable contrast with the advanced countries may be attributed partly to the differing nature, intensity and transmission channels of the financial crisis in the two areas, which has required different responses. Having said that, it should be noted that the capacity of these economies to respond to the crisis is, with some exceptions, more limited in an environment of difficult access to international financing.

Specifically, the main response in the emerging economies has been to supply foreign currency financing to the financial system and to the corporate sector and, in many cases, to reduce exchange rate volatility through the use of international reserves, particularly in 2008 Q4. Against this background, the support of other central banks – particularly the Federal Reserve, but also the European Central Bank, the Bank of Japan and the central banks of Switzerland and China, under foreign currency swap agreements – has been a key factor in mitigating the uncertainty in numerous countries, making for smoother provision of foreign currencies to domestic financial agents and companies. These agreements, which have been utilised only partially, are set out in Chart 3, which also includes those of the Federal Reserve with other developed economies and, in the last column, reciprocal agreements of the main central banks with the United States.[9]

Lastly, a growing number of emerging economies have turned to international financial organisations for financing and guarantees. In the case of the new EU member countries, sup-

9. The ECB, apart from the swaps with members of the ERM II and with other developed countries, has offered repo-type loans to other EU members, such as Hungary and Poland. Notably the Federal Reserve itself also has a swap facility with major economies (blue bars), reflecting the distortions persisting in the foreign exchange markets.

IMF FINANCIAL SUPPORT AND PROGRAMS SINCE SEPTEMBER 2008 TABLE 3

Agreements approved	Type (a)	Amount ($m)	Amount (% of GDP)	Date of approval
Ukraine	SBA	16,500	11.65	5.11.2008
Hungary	SBA	15,700	11.35	6.11.2008
Iceland	SBA	2,100	10.38	19.11.2008
Pakistan	SBA	7,600	5.29	24.11.2008
Latvia	SBA	2,350	8.65	23.12.2008
Belarus	SBA	2,500	5.58	12.1.2009
Serbia	SBA	3,968	9.96	16.1.2009
El Salvador	SBA (P)	791	3.88	16.1.2009
Mongolia	SBA	225	5.79	1.4.2009
Costa Rica	SBA (P)	724	2.76	10.4.2009
Mexico	FCL (P)	48,505	4.74	17.4.2009
Guatemala	SBA P(P)	951	2.82	22.4.2009
Romania	SBA	17,100	10.00	4.5.2009
Colombia	FCL (P)	10,397	5.00	11.5.2009
Poland	FCL (P)	21,062	4.99	Pending
TOTAL		150,573		

SOURCE: IMF.

a. SBA = Stand-by agreement; FCL = Flexible credit line; (P) = Preventive agreement.

port has been offered jointly by the international financial organisations, the EU itself and some European development banks. Table 3 shows that the support packages – through traditional stand-by or preventive agreements, through new facilities (such as the flexible credit line (FCL)) – have multiplied in the last six months. In this period the agreements approved have totalled more than $150 billion and the outstanding loans have returned to the levels of early 2006. The increase in financing to the IMF, approved at the April G20 summit, for an amount of $500 billion, thus represents a key source of financial support to the emerging economies, which are less able to mobilise domestic funds.

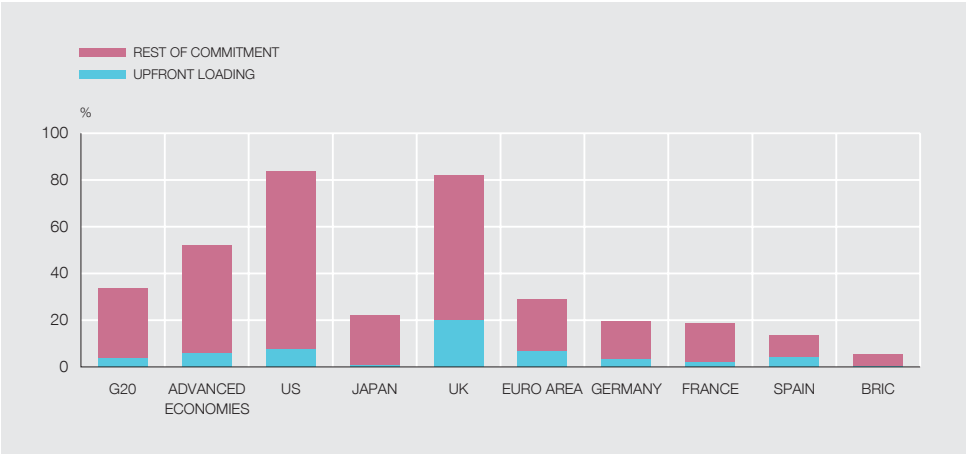
As regards the expected fiscal impact of all these financial support measures, it should first be pointed out that the calculations mentioned above do not reflect the impact of financial support on public finances in either the short or the long term. The high figures for support commitments (expressed as a percentage of GDP) should be qualified, since to a large extent no financial cost is involved, for three main reasons:

— First, the support committed has *only been partially utilised*. Moreover, this process is gradual and, in some cases, such as the guarantees, it is very likely that the maximum limit will not be reached. The level of utilisation also varies widely across the different categories, tending to be higher in capital injections and asset purchases than in guarantees. For the United States, it is estimated that around 30% of the total commitments have been used; however, in the United Kingdom the level of utilisation amply exceeds 60%, while in the euro area the level of utilisation is around 25%. In Spain, the percentage utilised was about 40% in mid-May.

— The second reason derives from the *distinction between the amount committed and the amounts to be disbursed* (upfront loading), and therefore having a budgetary impact, when the facilities are utilised. The relationship between these two variables is shown in Chart 4. As mentioned when the analysis framework was

FINANCIAL SUPPORT: UPFRONT LOADING AS A PERCENTAGE OF THE AMOUNTS COMMITTED

CHART 4



SOURCES: IMF (2009b) and Banco de España.

explained, generally only capital injections, loans and asset purchases by the Treasury, which are a small part of the total support, involve an immediate effective cost with a budgetary impact. It is possible that some of the other measures may have an immediate cost (depending on how they are carried out and on their accounting treatment), but, in any event, according to these criteria and taking certain specific adjustments into account, it may be estimated that for the G20+ as a whole only 12% of the amounts committed involve actual ex ante outlay, i.e. nearly 4% of the GDP of the G20. The proportion is similar in the advanced economies, although for these it represents around 6% of GDP: among the latter, in the United States it amounts to 7.5% of GDP (although it is only 9% of the total commitment) and in the United Kingdom to 20% of GDP.[10] In Spain it is estimated that this figure will exceed 4% of GDP (slightly above one-third of the total, due to the relative importance of asset purchases), somewhat more than in the euro area as a whole. By contrast, the proportion in the BRICs is even lower (6%) and, therefore, the amounts to be disbursed are very small, around 0.3% of GDP.

— Finally, *some of the amounts invested will foreseeably be recovered*. It should not be overlooked that most of the measures have been taken to stabilise the financial system and smooth the way to normalisation and subsequent recovery. In this respect, all measures are intended to be temporary and it is assumed that a substantial portion of the amounts committed and disbursed will eventually be recovered. It is, however, very difficult to determine in advance the amount that will be recovered, given the depth of the crisis, its early stage of development and the uncertainty as to its duration and final impact. In any event, the empirical evidence [see Laeven and Valencia (2008)] shows that the fiscal costs of financial crises can be very high, depending on the circumstances, although there are also cases, such as that of Sweden, in which the amount of bank bailouts exceeded 4% of GDP and the final cost was very small, while in some developed economies, such as Japan, they exceeded 13% of GDP and the rate of recovery was very low [Laeven and Valencia (2008)].

10. In the United Kingdom the percentage of upfront loading is higher than elsewhere (one-quarter of the total), due to the financing of the SLS by the Treasury.

These considerations drastically reduce the expected cost of financial support. However, it should be borne in mind that a portion of the committed amounts not entailing an immediate cost (mainly guarantees and central bank financing) may end up generating an effective cost; although this financing is backed by assets, the widening of eligible collateral to less secure assets entails a greater risk. Nor is it possible, in this case, to make estimates in this respect. Even the indicators which might serve as a guide – credit default swaps (CDSs) of institutions whose liabilities are backed by guarantees, which theoretically reflect the probability of non-payment assigned by the markets – show high volatility in the current circumstances and their information value is arguable.[11]

In any event, the depth and persistence of the crisis and the growing range of measures being taken by central banks and Treasuries unquestionably expose public finances to additional costs which may turn out to be potentially very high.

Fiscal stimulus plans, business cycle and other factors

The second way in which economic policy responds to the crisis is in the form of fiscal stimulus packages aimed at sustaining aggregate demand. Apart from exceptions such as the United States or Spain, these plans were announced as from October and have been progressively implemented – and extended – in the ensuing months. Also in this case the accounting treatment is complicated by the different items contained in some announcements (particularly financing, which, as noted above, is considered to form part of financial support) and by the inter-period allocation, since some measures are annual, some are multi-year and some have no specific time horizon.

The top panel of Chart 5 sets out the amount of the packages announced by countries for 2008 to 2010.[12] The aggregate annual average of the G20+ is 1.4% of GDP and, in this case, the commitments are slightly higher in the emerging economies (1.4%) than in the advanced economies (1.25%), since in recent months the former have made an additional effort, against a backdrop in which market conditions have tended to stabilise. In any event, the available data indicate that the announced fiscal effort is more sustained in the developed economies, where the peak (1.6% of GDP) will be reached next year, whereas in the emerging economies it will be reached this year, at 2.4% of GDP, after which it will fall off.

There are, in any event, notable differences between countries. Again, the United States stands out in regard to the funds provided, particularly in the plan approved at the beginning of this year for $787 billion, 5.5% of GDP, of which some $200 billion (1.3% of GDP) will be utilised as from 2011. When added to the plan approved in February 2008, this amounts to nearly 1.7% of the average annual GDP of the three years in question, and next year will exceed 2.7% of GDP. Also notable is the recent Japanese tax stimulus, expanded by the extraordinary April budget, which this year will reach 2.4% of GDP (1.5% of the average total stimulus in the three years). In the United Kingdom, the budget envisages a significant expansion this year (1.6% of GDP), but a negative stimulus next year, which will leave the annual average for the three years at just 0.6% of its GDP. The euro area is also among the lower rankings, with an average stimulus of barely half-a-percentage-point of its GDP. Within the euro area, Spain's fiscal stimulus is fairly significant: 1.25% of GDP on average and concentrated in 2009 (1.9% of GDP). Lastly, two emerging economies have the highest fiscal stimuli: Russia (1.8% of GDP on average for the three years), making use of its financial reserves

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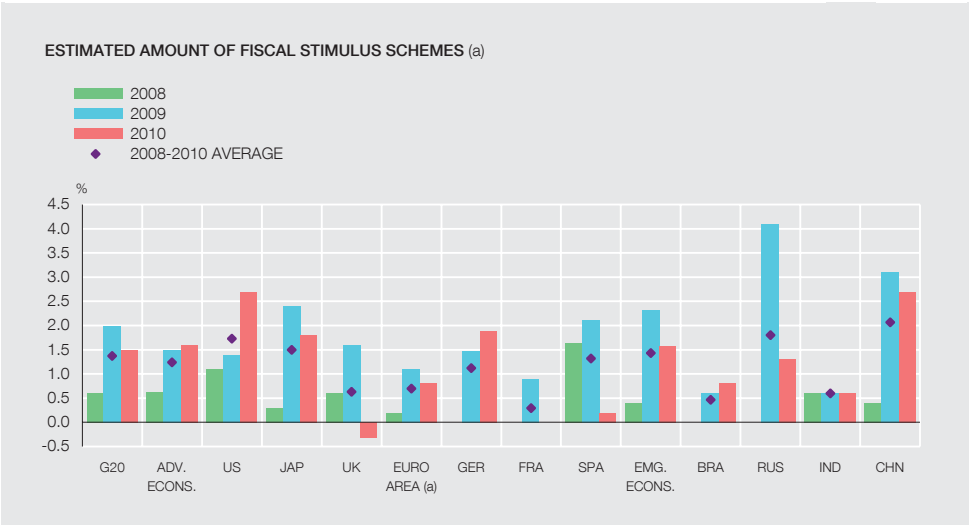
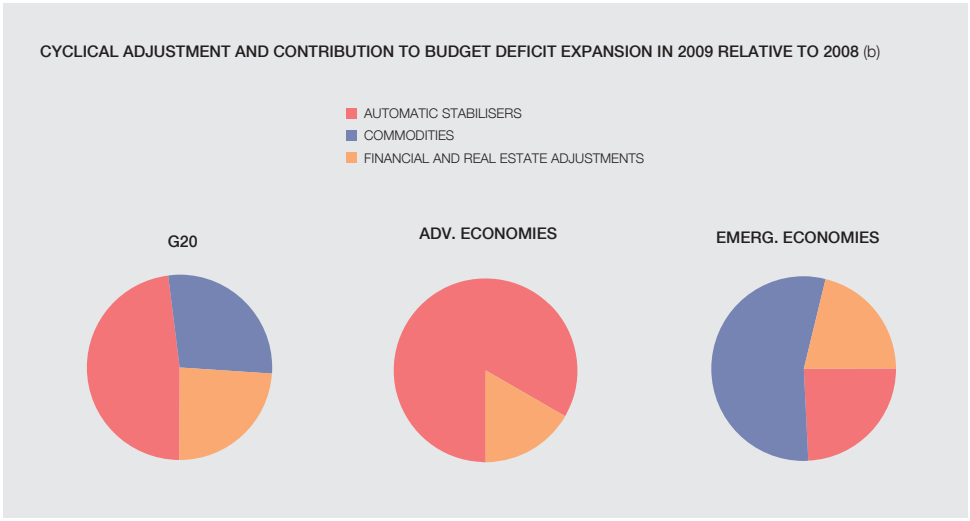
11. For example, five-year CDSs of the major US banks exceeded 500 basis points (bp) in October and then fluctuated between 200 bp and 400 bp. These fluctuations reflect relatively high probabilities of default, but these numbers are not very reliable due to the distortion of this market and the fact that the volumes are notional. **12.** Most of the figures are IMF projections and are consistent with its *World Economic Outlook* (2009b), but some have been updated using the latest-known plans. For Spain the Banco de España projections (2009) have been used.

FISCAL STIMULUS PACKAGES AND COMPONENTS OF CYCLICAL ADJUSTMENT CHART 5





SOURCES: IMF (April), UK Treasury and Banco de España.

a. The euro area aggregate comprises Germany, France, Italy and Spain.
b. Update based on the latest IMF forecasts.

derived from oil, and China (2.1% of GDP), whose response capability does not depend on external financing.

Fiscal plans are generally biased towards measures based on public expenditure, particularly on infrastructure. On the revenue side, the tax cut focused on direct taxes and rebates, while the indirect tax cuts were merely symbolic. The higher proportion of public spending measures (around 60% of the total) may be explained by the private sector's lower marginal propensity to consume and invest, against a backdrop of economic and financial fragility and of negative outlook, thus making tax cuts less effective. However, the lag in implementing the expenditure, at a time when urgent action is needed to stimulate demand, may constrain its effectiveness in the short term.

To assess the impact of the crisis on public finances, in addition to the discretionary measures to boost demand, account must be taken of the automatic stabilisers operating through government revenue and expenditure. Given the expected contraction of activity, the impact of

these automatic stabilisers on fiscal balances may be notable, to the point of affecting the amount of the fiscal stimulus plans. In general, it is considered that the fiscal balance of continental European countries exhibits a greater elasticity with respect to the business cycle than that of the United Kingdom or the United States, while in the emerging countries, where the social protection networks are less developed and the fiscal structures are less solid, the stabilisers are less powerful. However, in some developing economies that are commodity exporters, the slowdown in global activity is having a strong impact on fiscal accounts through the fall in prices and export volumes of these products, which provide a significant portion of fiscal revenue. Lastly, as explained in Section 2, the loss of revenue derived from the financial adjustment (lower profits, dividends and asset values), which is not normally considered when making cyclical adjustments to fiscal balances, must be taken into account. This impact will depend on the taxation of these tax bases and will be more marked in those economies in which the financial sector has a greater weight, such as the United States, Switzerland or the United Kingdom.

The bottom panel of Chart 5 provides estimates of the relative impact on the deficit in 2009 of the non-discretionary factors related to the fall in activity.[13] Automatic stabilisers are estimated to be responsible for approximately half of the non-discretionary increase in the deficit in the G20+ as a whole, for three-quarters in the advanced economies and for barely 20%-25% in the emerging countries. In the latter, the main contribution derives from the loss of revenue associated with the adjustment of commodities (more than half the total, as compared with zero in the developed countries). The adjustment of financial asset and real estate prices contributes to a similar extent in all the groups considered, accounting for around one-quarter of the total.

Fiscal balances, government debt and debt dynamics in the medium term

Now that the various channels through which the crisis and the economic policy response affect fiscal balances and government debt have been assessed, their overall impact on public finances may be analysed. The top panels of Chart 6 show the projected increases in the deficit for 2009 and 2010 with respect to 2007, which resulted in all cases in the drastic widening of budget deficits. Numerous countries may reach double-digit deficits in terms of GDP, thereby dissipating the gradual recovery of fiscal balances which had been under way in most countries in the last 15 years. Some countries, such as the United States, will record deficits not seen since the end of the Second World War.

Thus, with respect to the year before the crisis (2007), the projections indicate that the deficit will increase by 7.6 percentage points (pp) of GDP in 2009, from 1% to 8%, and will fall only to 6.9% in 2010 in the G20+ as a whole. In the advanced economies the increase is even larger, from 2% to 10% in 2009, falling to 7.7% of GDP in 2010. In the four major emerging economies (BRICs), the deterioration is somewhat less, since an aggregate balanced budget in 2007 gives way to a deficit of 4.5% of GDP in 2010. By country, the deficits as a proportion of GDP are higher in the United States (13.6% in 2009, down to 9.7% in 2010), Japan, the United Kingdom (near to 10% and 9%, respectively, in the coming years), India (above 10% in 2009) and Spain (8.3% in 2009 and 8.7% in 2010). In fact Spain, along with Russia, is the economy in the sample recording the largest increase in deficit since 2007, exceeding 10 pp of GDP, having started out from an ample surplus (2.2% in 2007). At the opposite extreme is Brazil, where the projected deficit is lower by 2% of GDP.

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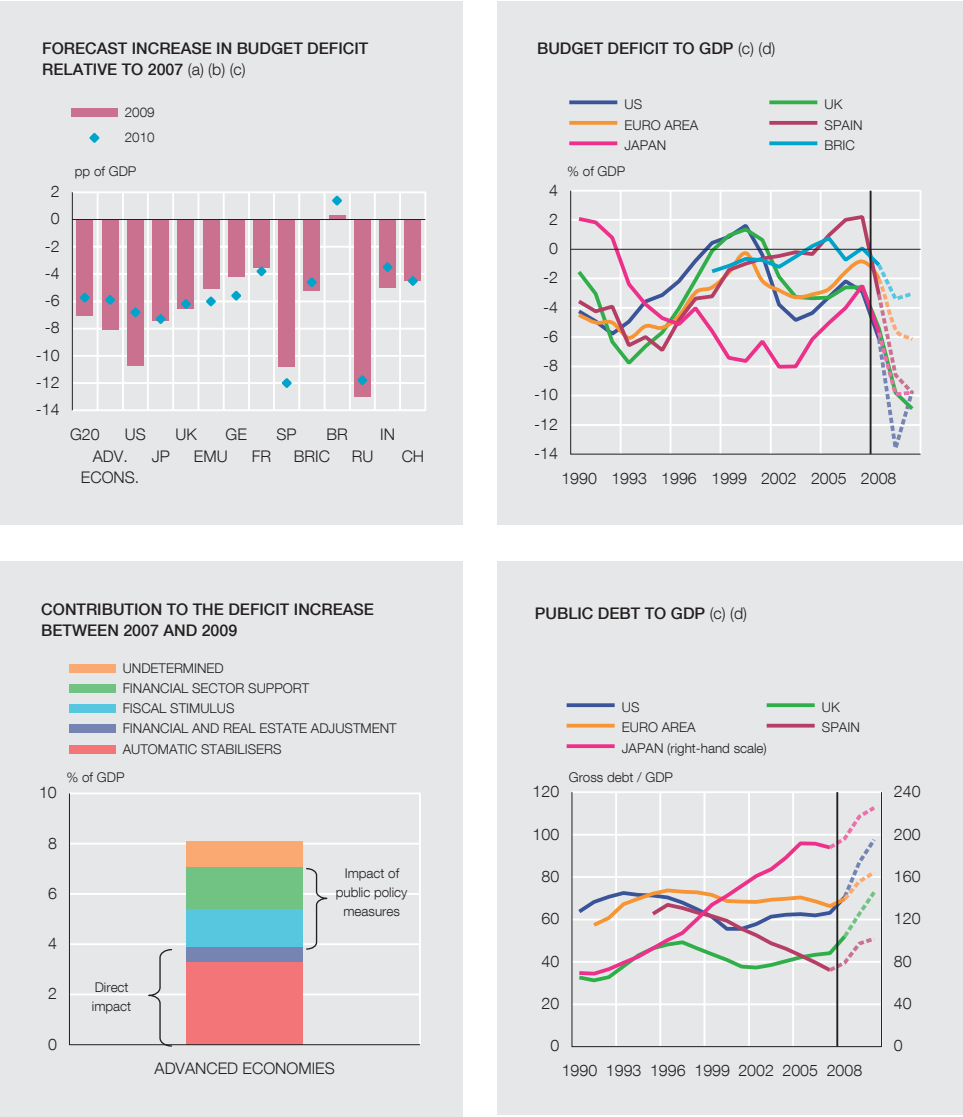
13. See IMF (2009b). It should be borne in mind that the initial calculations took into account the projections made in 2009 Q1. The worsening of these projections since then and the possible change in behaviour of commodity and financial asset prices have modified slightly the calculations, which should be regarded with caution.

BUDGET DEFICIT AND PUBLIC DEBT

CHART 6



SOURCES: IMF, ECB, European Commission, CEIC, INE and Banco de España.

a. The euro area aggregate comprises Germany, France, Italy and Spain.
b. The advanced economies aggregate comprises the US, the UK, Japan, Korea, Australia, Canada, Germany, France, Italy and Spain.
c. The 2006-2010 data come from the IMF (2009b), except for Spain (Banco de España).
d. The vertical line marks the beginning of forecast estimates.

To approximate the weight with which each factor analysed in the above sections contributes to the increase in the deficit, the left-hand panel of Chart 6 sets out a (necessarily approximate) breakdown of that contribution in the advanced economies for the current year (8 pp of GDP, as stated above), distinguishing between discretionary measures (fiscal and financial support) and the impact derived from the fall in economic and financial activity.[14] First, the impact of financial support measures on the deficit is relatively small (1.7 pp of GDP, i.e. barely 20% of the total), although the estimate depends on the accounting criteria adopted, since a large part of

14. The breakdown is carried out by taking the deficit and structural balance projections of the IMF World Economic Outlook. The difference between them gives the impact of the automatic stabilisers. The fiscal impulse is derived from the figures in Chart 7 and the financial support from the country figures and the estimate published by the IMF in March [IMF (2009b)]. This estimate is the one used to derive the impact of financial and real estate adjustments, which is presented in terms of contribution in Chart 8.

the actual outlay affects debt rather than the deficit. Second, the fiscal stimulus packages amount to 1.5 pp of GDP, contributing 18% of the increase in the deficit. The fall in financial activity adds at least 0.6 pp of GDP, which leaves the automatic stabilisers as the main factor determining the increase in the deficit (3.3 pp, or 41% of the total). Accordingly, it is estimated that the direct impact of the crisis contributes half (4 pp of GDP) of the increase in the deficit, while the contribution of the policy response is somewhat smaller (3 pp). One percentage point of the increase in the deficit could not be assigned to any category.

Debt shows similar behaviour (Chart 6, bottom right panel) to that of the deficit, since the net borrowing associated with the fiscal and financial support plans is producing a substantial increase in government debt issuance and in the ratios with respect to GDP in practically all the advanced economies. According to the uniform criterion used by the IMF, the debt of the United States will approach 100% of GDP in 2010, while that of Japan – where the ratio was already very high – will amply exceed 200% of GDP. The increases in Europe are also substantial. British government debt will approach 80% of GDP and that of the euro area as a whole will exceed this level. Spain, with a lower initial debt ratio, will approach 60%, after falling below 40% in 2007. In many cases these figures represent increases in government debt equal to or higher than 50% of GDP. In Japan and the United States these debt ratios represent a return to post-war levels, while in Europe they signify a reversal of the progress made in the last few decades and a fresh departure from the reference limit of 60% of GDP in nearly all countries. By contrast, the IMF projections for the major emerging countries are that in 2009 the debt ratio will stabilise at around 35% of GDP, although this projection is somewhat difficult to reconcile with the economic and financial projections.

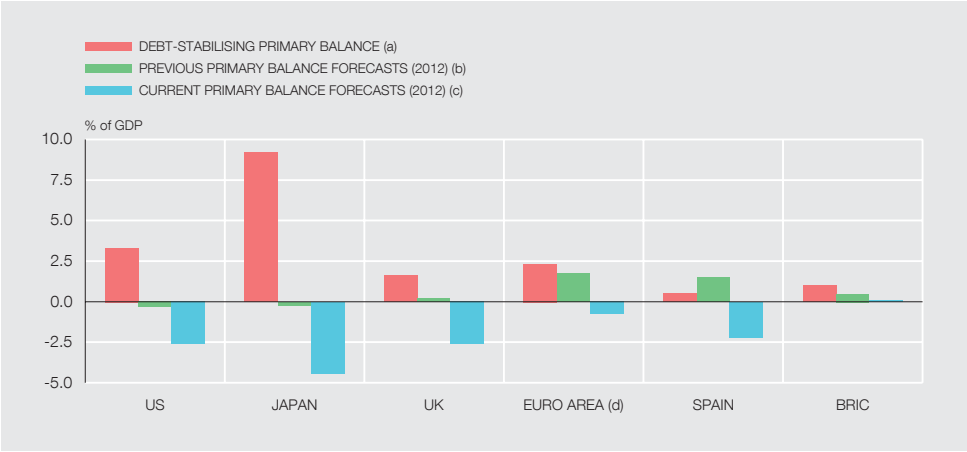
The sharp rise in debt ratios poses questions as to the sustainability of public finances in many countries and as to how to put them on a sounder basis. Although this lies outside the scope of this article, a basic idea may be obtained by examining the foreseeable dynamics of public debt, described by the following equation, where the fiscal variables are expressed in terms of GDP:

$$\text{Increase in debt} = [\text{Real cost of debt} - \text{GDP growth}] \times \\ \times \text{Debt at start of period} - \text{Primary balance}$$

This expression indicates that the debt dynamics have worsened generally, in various ways: first, there has been a jump in initial debt, derived from the financial support measures and from the increase in deficits; second, the increase in budget deficits is also reflected in a sharp deterioration of primary balances (i.e. net of interest payments), as shown in Chart 7, which will be long-lasting. Lastly, it is to be expected that debt dynamics will exert a negative influence, after a long period in which they behaved very favourably. First, because projected GDP growth is negative for this year and very low for next year and there is a likelihood that growth will not return on a sustained basis to the rates seen before the crisis; and second, because the real cost of financing the debt in the medium term may tend to rise as the financial and economic situation normalises and the factors responsible for the current downward pressure on government debt yields cease to operate or do so less strongly.

Based on the equation set out, it is possible to derive a relatively simple indicator to assess to what extent the debt dynamics have worsened. This indicator, shown in Chart 7, compares the primary balance that would be needed to stabilise the debt ratio at a certain sustainable level (see the footnote to Chart 7), in the long term, with the expected primary balance. Both the debt-stabilising balance and the primary deficit projections have increased markedly in all countries, meaning that the gap that has opened between the two variables is very wide (more

WORSENING OF PRIMARY BALANCE AND DEBT DYNAMICS CHART 7



SOURCE: IMF.

a. The outcome of the exercise depends on the initial debt ratio. If the ratio falls below 60% (as in Spain and, among the BRICs, in China and Russia), it would be the balance that stabilises debt in 2027. If the ratio is above 60% (as in the US, the UK and the three main European economies), the estimates refer to the balance required to return the debt level to that ratio. In the case of Japan, it would be the balance required to halve the current debt level.
b. IMF, October 2008.
c. IMF, March 2009.
d. The euro area aggregate comprises Germany, France, Italy and Spain.

than 5 pp of GDP in the United States and the United Kingdom, and 13 pp in Japan).[15] The size of the gap in the euro area economies is also notable, albeit smaller (around 3 pp), while in Spain it scarcely exceeds 2 pp, although this is because it starts out from a ratio below 60%. By way of comparison with the previous situation, the chart also shows the primary balance projected for 2012 before the crisis (October 2007), which was close to zero in all the countries.[16]

In sum, government debt has entered into a negative dynamic and the debt ratio will tend to move on a rising trend in the coming years which, given the inertia inherent to this dynamic and the expectations about its determinants, will be difficult to reverse.

Outlook and conclusions

The economic and financial crisis is requiring a strong economic policy response which, combined with the very gravity of the situation, has placed public finances in a delicate situation, especially in some developed economies. The improvement in fiscal positions attained in recent decades, by virtue of perseverance and fiscal discipline, has allowed for greater leeway in the current conjuncture. But this progress has been eroded in just a few short months: fiscal deficits have risen rapidly and government debt is projected to reach ratios relative to GDP unprecedented in recent decades. This deterioration, moreover, will be persistent, since debt has entered into an unfavourable dynamic that will be difficult to reverse. The increases in debt and in primary deficits will foreseeably combine with less favourable developments than in the past in long-term interest rates and in the pace of growth, even after this acute phase of economic recession and financial crisis.

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15. The exercise (see IMF (2009b)) also imposes that the difference between the cost of financing and GDP growth (the term in brackets in the debt dynamics equation) is equal to 1 for the long-term projection period. **16.** This comparison is partial, since the other component of the gap would also have to be considered, i.e. the primary balance that was stabilising the debt in October 2007 and that has also grown since, owing to the increase in debt and to the deterioration in its determinants.

Other risks may be added to this negative outlook, such as the potential actual outlay of the funds committed which have not yet been used (and which, therefore, do not appear in the deficit or debt figures) and the possibility that more fiscal or financial support will be needed to overcome the crisis, putting further pressure on public finances. Conversely, it is also possible that a relatively rapid reversal of the economic and financial situation may allow some of the amounts invested or committed to be recovered, partly alleviating the public finances position. In addition to these risks, there are structural factors that were already weighing on public finances in the long run, such as population ageing in many developed countries, which may further complicate the future management of countries' fiscal and financial policies.

All these considerations frame what is a difficult outlook for public finances in most developed countries in the coming years. This will feed through to the emerging countries, not only because of the direct effect of the crisis on their fiscal balances, but also because greater competition among sovereign issuers may make it more difficult and more costly for them to access financing for their debt.

Turning to the private sector, the persistent increase in public sector net borrowing poses two significant risks which, in the current conjuncture, are only latent. The first is the crowding-out effect, through upward pressure on long-term interest rates and financial costs. This effect might be partly mitigated in the short and medium term by the expected increase in global private saving, as agents rebuild their financial positions. The second is that agents may anticipate the need for higher taxes in the future to redress the fiscal situation, and may adapt their current behaviour accordingly, reducing the marginal propensity to consume. This reaction would offset the effects of the fiscal stimuli, adversely affecting the outlook for recovery of private demand.

All these considerations point to major challenges for the economic authorities in the coming years and to some economic policy conclusions. The first is that, given the delicate current position, the fiscal room for manoeuvre is very limited and, should further stimuli or support prove necessary, these should be designed with the utmost care, to optimise their efficiency and minimise their cost and duration. Second, the prospect of public finances deteriorating should be countered as far as possible by a credible commitment to fiscal discipline in the medium term. This should be made effective through countercyclical policies, once the situation of economic emergency has passed, and sufficiently ambitious structural policies. However, this commitment should be reconciled with the sustaining of private demand in the short term and the restructuring of the financial sector. In particular, the premature withdrawal of the fiscal stimulus or insufficient bank restructuring measures might lead to a false exit from the crisis, as has occurred in some cases (in Japan in particular).

22.5.2009.

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(Endnotes)

Financial regulation: 2009 Q2

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Introduction

2009 Q2 saw new legal provisions of some importance in different areas of the financial system.

The European Central Bank (ECB) has revised the general selection criteria for eligible counterparties in monetary policy operations and, as a result of that update, has amended the general clauses relating to harmonised conditions for participation in the trans-European automated real-time gross settlement express transfer system (TARGET2). Also, the statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non-financial corporations have been reformed.

Within the EU, the directives on settlement finality in payment and securities settlement systems and on financial collateral arrangements have been amended.

In the field of financial institutions, the legal regime governing significant holdings was reformed so as to adapt it to EU legislation, a model for bank restructuring and the strengthening of credit institutions' capital was approved, and the regulations on the preparation and presentation of mutual guarantee companies' accounting information were updated to adapt them to the principles and criteria in the current accounting framework.

In the terrain of the securities market, certain matters relating to notification of significant information were addressed, and the content and format of the half-yearly reports to be submitted by the depositaries of collective investment institutions to the Spanish National Securities Market Commission (CNMV) were defined.

Further, mortgage market regulations and other mortgage and financial system rules were amended and the provision of mortgage loans and other financial intermediation services by non-financial corporations to consumers was regulated.

European Central Bank: amendment of provisions on monetary policy instruments and procedures of the Eurosystem

Guideline ECB/2009/10 of 7 May 2009 (OJ L of 19 May 2009) amended Guideline ECB/2000/7 of 31 August 2000 on monetary policy instruments and procedures of the Eurosystem, and the *Resolution of 21 May 2009* (BOE of 3 June 2009) of the Banco de España Executive Commission, amending that of 11 December 1998, laid down the general clauses applicable to Banco de España monetary operations in order to adapt them to Guideline ECB/2009/10.

The purpose of these provisions is to update the general selection criteria for counterparties to allow access to monetary policy operations (Eurosystem open market operations and standing facilities) by certain entities[1] in view of their specific institutional nature under Community law. These entities, while not strictly credit institutions under Community law,[2] are subject to scrutiny of a standard comparable to supervision by competent national authorities.

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1. The first institution to start operating as a counterparty under these provisions will be the European Investment Bank (EIB) from 8 July 2009. See ECB press release of 7 May 2009. **2.** Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast)

Both provisions came into force on 11 May 2009.

Update of the legal provisions governing the TARGET2 system

Guideline ECB/2009/9 of 7 May 2009 (OJ L of 19 May 2009) amended Guideline ECB/2007/2 of 26 April 2007 on TARGET2. Also, the *Resolution of 21 May 2009* (BOE of 3 June 2009) of the Banco de España Executive Commission, amending that of 20 July 2007, approved the general clauses on the harmonised conditions for participation in TARGET2 in order to adapt them to Guideline ECB/2009/10.

First, access to TARGET2 is allowed to certain credit institutions which, while not strictly credit institutions, are subject to scrutiny of a standard comparable to supervision by competent national authorities, within the meaning of Guideline ECB/2009/10 of 7 May 2009 referred to in the preceding section.

Second, the definition of "cross-system settlement"[3] is included in Annex IV "Settlement procedures for ancillary systems" and certain sections of this annex are updated, including those relating to relations between central banks, ancillary systems (AS), settlement banks, settlement procedures and payment instructions flowing between AS.

Both legal provisions came into force on 11 May 2009.

Monetary financial institutions: interest rate statistics

Regulation 290/2009 of the European Central Bank (ECB/2009/7) of 31 March 2009 (OJ L of 8 April 2009) amended Regulation 63/2002 (ECB/2001/18) concerning statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non-financial corporations.

The new developments in this Regulation are as follows:

1. General breakdown of new loans, identifying separately the interest rates applied to and the volumes of those that are secured with collateral and/or guarantees.

2. Breakdown by size of new loans to non-financial corporations in order to provide further information on the financing of small and medium-sized enterprises (SMEs).

3. Breakdown by initial period of interest rate fixation for new loans with an increased number of period of fixation categories.

4. Separate reporting of interest rates charged on credit card debt.

5. Additional category of new loans to sole proprietors to provide further information on the financing of unincorporated businesses.

6. Additional reporting of new loans to non-financial corporations according to maturity.

7. Clarification and redefinition of revolving loans and overdrafts.

Lastly, the Regulation adopts clearer rules in respect of stratification and selection of reporting agents by the national central banks (NCBs) and specifies the right of the Governing Council to check such procedures,

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3. "Cross-system settlement" means the real-time settlement of debit instructions under which payments are executed from a settlement bank of one AS to a settlement bank of another AS using the same settlement procedure.

The Regulation came into force on 29 April 2009.

Amendment of the directive on settlement finality in payment and securities settlement systems and of the directive on financial collateral arrangements

Directive 2009/44/EC of the European Parliament and of the Council of 6 May 2009 (OJ L of 10 June 2009) amending Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems and Directive 2002/47/EC of the European Parliament and of the Council of 6 June 2002 on financial collateral arrangements as regards linked systems and credit claims.

The main change with respect to Directive 98/26/EC derives from the growing number of linkages between systems, which, at the time when Directive 98/26/EC was drafted, used to operate almost exclusively on a national and independent basis. The new directive defines the concept of an interoperable system and the responsibility of system operators. Thus, "interoperable systems" are defined as two or more systems whose system operators have entered into an arrangement with one another that involves cross-system execution of transfer orders.

The moment of entry into the interoperable systems shall be determined in the rules on each system. In order to limit systemic risk, national competent authorities or supervisors should ensure that the rules on the moment of entry into an interoperable system are coordinated insofar as possible and necessary in order to avoid legal uncertainty in the event of default of a participating system.

Member States may provide that the opening of insolvency proceedings against a participant or a system operator of an interoperable system shall not prevent funds or securities available on the settlement account of that participant from being used to fulfil that participant's obligations in the system or in an interoperable system on the business day of the opening of the insolvency proceedings. Member States may also provide that such a participant's credit facility connected to the system be used against available, existing collateral security to fulfil that participant's obligations in the system or in an interoperable system.

The new directive broadens the scope of Directive 2002/47/EC to include credit claims as an eligible type of financial collateral.[4] Member States may provide that the inclusion in a list of claims submitted in writing, or in a legally equivalent manner, to the collateral taker is sufficient to identify the credit claim and to evidence the provision of the claim provided as financial collateral against the debtor or third parties.[5]

To facilitate the use of credit claims, when they are provided as financial collateral, Member States shall not require that they be dependent on the performance of any formal act such as the registration or the notification of the debtor of the credit claim in question. Also, Member States shall ensure that debtors of the credit claims may validly waive, in writing or in a legally equivalent manner: 1) their rights of set-off vis-à-vis the creditors of the credit claim and vis-à-vis persons to whom the creditor assigned, pledged or otherwise mobilised the credit claim as collateral, and 2) their rights arising from banking secrecy rules that would otherwise prevent or restrict the ability of the creditor of the credit claim to provide information on the credit claim or the debtor for the purposes of using the credit claim as collateral.

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4. The directive defines credit claims as "pecuniary claims arising out of an agreement whereby a credit institution grants credit in the form of a loan". **5.** Member States may exclude from the scope of this Directive credit claims where the debtor is a consumer or a micro or small enterprise, save where the collateral taker or the collateral provider of such credit claims is a national central bank, the ECB, the Bank for International Settlements or a multilateral development bank.

Member States shall adopt and publish the laws, regulations and administrative provisions necessary to comply with the directive by 30 December 2010 at the latest and shall apply those measures from 30 June 2011.

Amendment of the regime governing significant holdings in financial institutions

Amendment of the legal regime governing significant holdings in financial institutions

Law 5/2009 of 29 June 2009 (BOE of 30 June 2009) amended certain financial legislation[6] so as to reform the legal regime governing significant holdings in financial institutions (credit institutions, investment firms and insurance companies). It was enacted to transpose partially to Spanish law Directive 2007/44/EC of the European Parliament and of the Council of 5 September 2007 amending certain EU directives[7] as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector. The implementing regulations of this law will be enacted later on.

The main new features of this Law are as follows: the design of a new, clearer assessment procedure with more appropriate time periods; the establishment of the criteria the analysis of which may be used by the financial supervisors' as the basis for opposing the proposed acquisitions; and the strengthening of cooperation between the supervisor of the acquirer and that of the acquiree during the assessment procedure.

Table 1 below summarises the main new developments in the Law.

From a quantitative standpoint, a holding is deemed to be significant when it reaches 10% or more of the institution's capital or voting rights (previously this percentage was 5%), although the qualitative criterion, whereby there is deemed to be a significant holding if a notable influence can be exercised in the acquired entity, remains in place.

A new obligation is established to notify the supervisor of holdings which, albeit not significant, mean that the threshold of 5% of capital or voting rights is reached or exceeded (this new obligation does not trigger the assessment procedure until the threshold of 10% is reached, but it enables supervisors to obtain information on holdings of this type.

The Law simplifies the various thresholds triggering the obligation to notify of increases or decreases in significant holdings: 20%, 30% or 50%, as compared with the previous ones of 10%, 15%, 20%, 25%, 33%, 40%, 50%, 66% and 75%.

A series of new features is introduced in the assessment process of the potential acquirer of the significant holding. A specific list has been drawn up of the strictly prudential criteria that supervisors[8] must take into account when appraising the potential acquirer's suitability either for acquiring a significant holding, or for exceeding the above-mentioned thresholds with its

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6. Law 26/1988 of 29 July 1988 on the discipline and intervention of credit institutions, Law 24/1988 on the securities market and the consolidated text of the Private Insurance Law enacted in Legislative Royal Decree 6/2004 of 29 October 2004. **7.** Council Directive 92/49/EEC of 18 June 1992 on the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance; Directive 2002/83/EC of the European Parliament and of the Council of 5 November 2002 concerning life assurance, Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments, amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC; Directive 2005/68/EC of the European Parliament and of the Council of 16 November 2005 on reinsurance, amending Council Directives 73/239/EEC and 92/49/EEC and Directives 98/78/EC and 2002/83/EC of the European Parliament and of the Council; and Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast). **8.** The supervisors are the Banco de España, the National Securities Market Commission (CNMV) and the Directorate General of Insurance and Pension Funds, according to the nature of the acquiree.

REFORM OF THE LEGAL REGIME GOVERNING SIGNIFICANT HOLDINGS IN FINANCIAL INSTITUTIONS TABLE 1

Previous regime (a)	Current regime (b)
Definition	
Quantitative limit: A significant holding is deemed to be one in which at least 5% of the capital or voting rights of an institution is held either directly or indirectly.	Quantitative limit: When at least 10% of the capital or of the voting rights of the institution is reached.
Quantitative limit: A significant holding is deemed to be one which, although not reaching the specified percentage, makes it possible to exercise a notable influence in the institution.	No change.
Notification of supervisor of increases or decreases in holdings	
No provision for notification of non-significant holdings.	When the threshold of 5% of the capital or voting rights (non-significant holding) is reached or exceeded. This new obligation does not trigger the assessment procedure until the holding reaches 10%.
When 5% (significant holding) is reached or exceeded and when there are the following increases or decreases in significant holdings: 10%, 15%, 20%, 25%, 33%, 40%, 50%, 66% and 75%.	When 10% (significant holding) is reached or exceeded and when there are the following increases or decreases in significant holdings: 20%, 30% or 50%.
Procedure for assessment of the acquirer of a significant holding	
Not envisaged.	An explicit list of prudential criteria is established which supervisors must take into account when appraising the suitability of the acquirer.
The supervisors have a maximum of three months to carry out their assessment. The assessment period may be interrupted without specifying how long the interruption will last.	The supervisors have a maximum of sixty working days to carry out their assessment. The running of the aforementioned assessment period may be interrupted only once for a maximum of 20 working days in the event that the supervisor requests additional information.
To be consulted with the supervisor of the acquirer.	Cooperation is strengthened between the supervisor of the acquirer and that of the acquiree, both within Spain and between supervisors in the various EU Member States.

SOURCES: BOE and Banco de España.

a. Law 26/1988 of 29 July 1988 (credit institutions), Law 24/1988 of 28 July 1988 (investment firms) and Legislative Royal Decree 6/2004 of 29 October 2004 (insurance companies).
b. Law 5/2009 of 29 June 2009.

new holding. The most important criteria are, *inter alia*, the following: the acquirer's reputation and financial soundness; the reputation of the persons who will direct the entity's business in the future; the entity's ability and financial soundness to fulfil applicable legal obligations, and that there are no reasonable grounds to suggest money laundering or terrorist financing.[9]

The supervisors may only oppose an acquisition or an increase of a significant holding on the basis of these criteria or if the information provided is incomplete.

Clearer and more transparent periods are established in the assessment process. Thus, the supervisors shall have a maximum of 60 working days in total (previously three months) to complete their assessment and to provide notification of such opposition, the system of positive administrative silence prevailing. This maximum period may only be interrupted once, if the

9. In order to obtain an appropriate assessment of this last criterion, the mandatory request for a report from the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences is introduced.

supervisor requests additional information to appropriately assess the proposed acquisition. The process may be interrupted for this reason during the period between the date on which additional information is requested and the date it is received, with a maximum duration of twenty working days.[10] Upon completion of the procedure, the possibility has been introduced of the supervisor, at the request of the potential acquirer or *ex officio*, making public the reasons justifying its decision (whether or not it opposes the acquisition), provided that the information disclosed does not affect those who are not parties to the transaction.

Cooperation between the supervisor of the acquirer entity and that of the entity acquired within Spain and between supervisors of different Member States of the European Union is strengthened substantially. The main aim is for competent authorities to work in close collaboration when attempting to verify the suitability of a potential acquirer, be it an authorised entity in another Member State or a regulated entity in another sector of activity in Spain.

Lastly, Collective Investment Institutions Law 35/2003 of 4 November 2003 was amended to include the new regime for significant holdings in management companies.

The Law came into force on 1 July 2009.

Bank restructuring and the strengthening of credit institutions' capital

Royal Decree-Law 9/2009 of 26 June 2009 (BOE of 27 June 2009), on bank restructuring and the strengthening of credit institutions' capital ("the Royal Decree-Law") was published with the aim of strengthening solvency and the functioning of credit institutions which are in difficulty or whose medium-term viability is compromised.

The structure of the bank restructuring model included in the Royal Decree-Law is based on credit institutions' Deposit Guarantee Funds (DGFs) and the use of a new institution created for this purpose: the Fund for the Orderly Restructuring of Banks (FROB).

THE FUND FOR THE ORDERLY RESTRUCTURING OF BANKS (FROB)

The FROB's legal regime is similar to that of the DGFs,[11] and it basically has two functions: the management of credit institutions' restructuring processes and the strengthening of capital in certain merger processes. The Fund has been endowed with €9 bn, €2.25 bn will be contributed by the DGFs[12] and the remaining €6.75 bn will be charged to the State Budget. It may raise borrowed funds on securities and credit markets, with a guarantee of the State, for not more than €27 bn (three times the initial amount assigned). However, the Ministry of the Economy and Finance may authorise this limit to be exceeded after 1 January 2010, although under no circumstances may the FROB's borrowed funds represent more than €90 bn (10 times the initial amount assigned).

The FROB is governed and administered by a *steering committee* comprising eight members: five are proposed by the Banco de España (one of them, the Bank's Deputy-Governor, is Chair) and three correspond to each of the DGFs. All of them are appointed by the Ministry of the Economy and Finance and have a four-year renewable mandate. The grounds for their termination are the same as those for the members of the DGFs. Likewise, a representative of the National Audit Office, appointed by the Ministry of the Economy and Finance upon proposal by the Auditor General, will attend the meetings of the steering committee with the right to speak but not to vote. This committee will submit a four-monthly report about management

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10. It may be prolonged for up to 30 days in the cases determined by the Law. **11.** See Royal Decree 2606/1996 of 20 December 1996 on the Credit Institutions' Deposit Guarantee Fund. **12.** This amount will be distributed between the DGF for Banking Establishments, the DGF for Savings Banks and the DGF for Credit Co-operatives based on the deposits existing at the entities covered by each DGF at 2008 year-end as a percentage of the total deposits at credit institutions as of that date.

of the FROB to the Ministry of the Economy and Finance. As for parliamentary control, every three months, the State Secretary for Economic Affairs will appear before the Parliamentary Committee on Financial Affairs, to report on overall credit developments, the situation of the banking sector and the FROB's activities.

CREDIT INSTITUTIONS' RESTRUCTURING PROCESSES

A credit institution (or a consolidable group or subgroup of credit institutions) must undertake a restructuring process if it shows weaknesses in its economic and financial situation which might jeopardise its functioning. The process is basically designed in two phases: 1) finding a solution (an action plan) at the institution's initiative or *ex officio* by Banco de España and, if it were not viable, 2) commencing a restructuring process of the institution with the intervention of the FROB.

In the initial phase the institution must submit to the Banco de España, within one month, an *action plan* specifying the steps envisaged for overcoming the financial weakness which must ensure the institution's viability. The plan may envisage three steps: strengthening the institution's equity and solvency, its merger or takeover and the full or partial transfer of the business or of business units. If, one month after the action plan has been submitted, there has been no specific opinion given thereon, it will be deemed to have been approved, although the Banco de España may modify it as considered necessary.

The corresponding DGF[13] will support the plan submitted by the institution in question and adopt the preventive and reorganisation methods it deems suitable. Similarly, the FROB may grant financing, on an arm's-length basis, to the DGF so that it may provide financial support to the credit institution's action plans.

The second phase of the restructuring process involves the FROB and begins if the institution's situation of weaknesses continues and, specifically, if any of the following occurs: a) the credit institution affected did not submit the above-mentioned action plan or had not notified the Banco de España that it was impossible to find a viable solution to its situation; b) the plan submitted was not viable in the Banco de España's opinion, or it was subject to the involvement of a DGF in terms not accepted by the latter; c) the credit institution failed to meet the deadline or to fulfil the specific measures envisaged in the plan thus jeopardising the achievement of its objectives, and d) the credit institutions failed to fulfil any of the specific measures envisaged in one of the programmes referred to in Article 75 of Royal Decree 216/2008 of 15 February 2008 on the own funds of financial institutions, thus jeopardising the achievement of its objectives. In this phase, the institution's directors will be replaced by the Banco de España, which will appoint the FROB as provisional administrator. The latter must prepare a status report and submit a *restructuring plan* for approval by the Banco de España within a period of one month, which may be extended up a maximum of six months.

The aim of the restructuring plan is either to merge the institution or to fully or partially transfer the business through the global or partial assignment of assets and liabilities through procedures ensuring competition (among others, the auction system). While the restructuring plan is being prepared, the FROB could temporarily provide the financial support required in accordance with the principle of the most efficient use of public funds.

The restructuring plan will provide details of the FROB's support measures, which may include the following, among others:

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13. The DGF for banks, savings banks or credit co-operatives, according to the type of institution.

a) Financial support measures, which may comprise, among others, the granting of guarantees, loans under favourable conditions, subordinated debt, acquisition of any type of assets on the institution's balance sheet, subscription or acquisition of equity securities and any other financial support to facilitate mergers with or takeovers by other sound institutions or the full or partial transfer of the business to another institution by procedures ensuring competition.

b) Management measures which improve the institution's organisation, procedures and internal control systems.

Investments made by the FROB as a result of the implementation of a restructuring plan will not be subject to established legal restrictions or obligations that are also applicable to aid for which the DGFs are responsible.[14]

The acquisition of savings banks' shares or non-voting equity units by the FROB will require the elimination of the preferential subscription right of shareholders or holders of non-voting equity units when the decision to increase capital or to issue non-voting equity units is adopted. The FROB will also be entitled to representation at the General Assembly which is equivalent to its holding as a percentage of the issuing savings bank's equity and which will continue solely for the duration of its ownership of these securities but cannot be transferred to subsequent purchasers.

If the FROB subscribes capital contributions of credit co-operatives, its voting right at the co-operative's Assembly will be proportional to the amount of these contributions as a percentage of the credit co-operative's capital.

As for specific mergers of credit institutions due to takeovers, through the creation of a new credit institution or the full or partial spin-off of assets and liabilities, no administrative authorisation will be required in respect of credit, apart from the authorisations required by competition law.

Prior to approval of the plan, the Banco de España will request a report from the Ministry of the Economy and Finance (for banks) or from the competent bodies of the regions (Autonomous Communities) where the savings banks and the credit co-operatives involved are domiciled.

Strengthening of capital

In addition to its function regarding restructuring processes, the Royal Decree-Law envisages the possibility of the FROB supporting merger processes between credit institutions which are aimed at improving their medium-term efficiency. Accordingly, the FROB may acquire securities issued by credit institutions resident in Spain[15] which, although they are not in a situation requiring a restructuring process, need to strengthen their capital solely for the purpose of merger processes. The institutions involved in such processes must draw up a merger plan including, among other items, efficiency improvements, rationalisation of their administration and management and the restructuring of their production capacity to improve their future outlook. This plan must be approved by the Banco de España according to the principle of the most efficient use of public funds.

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14. Specifically, the FROB will not be subject to the following restrictions: by-law restrictions arising form the right to attend Shareholders' Meetings or the voting rights in respect of the shares acquired or subscribed by the FROB; the limitations arising from the holding of non-voting equity units established in Law 13/1985 of 25 May 1985; the limitations on the acquisitions of credit co-operatives' capital contributions by legal persons; those which the Law establishes in the eligibility of equity in respect of the securities acquired or subscribed by the FROB and those arising from the obligation to present a takeover bid pursuant to securities market regulations. **15.** They may be preference shares which can be converted into shares (banks); non-voting equity units (savings banks) or capital contributions (credit co-operatives).

The issuance of securities is considered exceptional and must be undertaken in conditions in which, in any event, the following are taken into consideration: the duration and the risk of the operation, the need to avoid the risk of distorting competition and to ensure that such an acquisition facilitates and encourages the implementation and fulfilment of the merger plan.

The issuers must undertake to repurchase them as soon as they can in the terms of the merger plan. If five years elapse from when the disbursement was made and the preferential holdings have not been repurchased by the institution, the FROB could request that they be converted into shares (banks), non-voting equity units (savings banks) or capital contributions (credit co-operatives). Nevertheless, convertibility at the initiative of the FROB will be envisaged in the issuance agreement if, before five years pass, the Banco de España were to consider that it was unlikely for them to be repurchased during that period.

The FROB will divest the securities subscribed through their repurchase by the issuer or sale to third parties. In the latter case, the transaction must be performed through procedures ensuring competition and within a period of no more than five years from the date the integration plan was fulfilled.

The Royal Decree-Law envisages specific mechanisms for following-up and monitoring the implementation of the integration plans. Thus, every three months, the entity designated by the institutions involved in the integration process or, if appropriate, the institution resulting from such process, will send a report to the Banco de España on the level of compliance with the measures envisaged in the integration plan that has been approved. If the integration plan could not be complied with initially, the institution may ask the FROB for a modification of the terms of the process which would include, among other aspects, an extension of the repurchase period by up to another two years. Ultimately, if it were not viable, the restructuring process described in the previous section would apply.

OTHER PROVISIONS

The Royal Decree-Law includes a provision on insolvency law whereby the competent court will not render judgement on petitions for an insolvency order referring to a credit institution with financial difficulties if it has submitted an action plan aimed at ensuring its viability to the Banco de España. Only the FROB will have the legal standing to petition for an insolvency order.

The Royal Decree-Law contains several final provisions, most notably the amendment to Law 13/1985 of 25 May 1985 on investment ratios, own funds and reporting requirements for financial intermediaries which includes two important aspects: firstly, the FROB is added (as occurred with the DGF) to the institutions which may exceed the 5% limit on non-voting equity units issued by a savings bank in exceptionally serious situations. Furthermore, in these cases the limit on the volume of non-voting equity units in circulation, such that they may not exceed 50% of the savings bank's assets, will not be applicable either. Secondly, the power to agree to the issuance of non-voting equity units is extended to the provisional administrators appointed by the Banco de España in the cases of restructuring envisaged in this Royal Decree-Law.[16]

Finally, Law 26/1988 of 29 July 1988 on the discipline and intervention of credit institutions was amended to include, as a very serious infringement, the failure by a credit institution's directors to send the action plan, envisaged in this Royal Decree-Law to guarantee the institution's viability, to the Banco de España.

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16. The General Assembly was specified as the competent body for agreeing to each issuance of non-voting equity units and it could delegate this power to the savings bank's Board of Directors.

The Royal Decree-Law came into force on 28 June 2009.

The accounting information of mutual guarantee companies

According to the prerogatives established in Royal Decree 2345/1996 of 8 November 1996[17] on administrative authorisation rules and solvency requirements for mutual guarantee companies (MGCs),[18] *Ministerial Order EHA/1327/2009 of 26 May 2009* (BOE of 28 May 2009), on special rules for the preparation, documentation and presentation of MGCs' accounting information was published to adapt them to the principles and criteria in the current accounting framework.[19] Similarly, the Order of 12 February 1998, which included the previous rules, was repealed.

Like its predecessor, the Order contains two sections: on the one hand, valuation rules, the presentation of public financial statements and confidential returns and the content of the notes to the financial statements, and, on the other, the accounting statements which must be prepared by the MGCs and sent to the Banco de España.

MEASUREMENT BASES AND CONTENT OF THE NOTES TO THE FINANCIAL STATEMENTS

The criteria are established for recording guarantees, technical provisions, coverage of specific credit risk exposures, assets acquired or awarded in payment of debts, capital and repayable funds received to cover credit risk.

Granting guarantees is the basic activity of these companies, and the recognition and measurement criteria are similar to those envisaged in accounting rules for credit institutions.[20] The financial guarantee contracts[21] will be measured initially at their fair value, which will be the commission or premium received plus the present value of the commissions or premiums which will be received, in the absence of evidence to the contrary. The value of the premiums not yet received will be recognised as a credit under assets. Subsequently, the value of these contracts not classified as doubtful, will be the amount initially recorded under liabilities less the amount taken to the income statement. The other guarantees will be treated in the same way for the purposes of measurement and presentation as the financial guarantees, although with certain specific features.

The technical provisions will comprise the amount set aside by the company and the non-refundable and similar contributions received to cover specific credit risk exposures and all its operations, the measurement criteria and accounting basis of which are detailed in the Order.

As for the coverage of specific risk exposures, the same criteria will be applied as those established in the accounting regulations of credit institutions for insolvency risk, with the specific refinements therein.

Assets acquired or awarded in payment of debts (foreclosed assets) are those which the MGC receives from its debtors for the full or partial settlement of their debts, irrespective of the way

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17. See "Regulación financiera: cuarto trimestre de 1996", Boletín Económico, January 1997, Banco de España, pp. 109 and 110. **18.** Under Article 4 of Royal Decree 2345/1996 MGCs will bring their accounting information into line with the principles of the Spanish General Chart of Accounts, with the adaptations established by the Order of the Ministry of the Economy and Finance. **19.** Law 16/2007 of 4 July 2007 on reform and adaptation of accounting-related corporate law for international harmonisation according to European Union law and Royal Decree 1514/2007 of 16 November 2007 approving the Spanish General Chart of Accounts. **20.** See Banco de España Circular CBE 6/2008, of 26 November 2008, amending CBE 4/2004, of 22 December 2004, on public and confidential financial reporting rules and formats. **21.** Financial guarantee contracts are contracts under which the issuer is required to make specific payments to reimburse the holder for the loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. This concept includes guarantees directly or indirectly guaranteeing debts such as credits, loans, financial lease transactions and payment deferral of all manner of debts.

in which ownership is acquired. Foreclosed assets will be classified and presented on the balance sheet taking into consideration the purpose for which they are used.

Capital will solely comprise the contributions made by members when the MGC has an unconditional right to reject its repayment due to legal or bylaw prohibitions. The amount of the contributions which cannot be recorded as capital will be recorded as a financial liability.

The funds received to guarantee all operations, which are repayable to the individuals and institutions that have contributed them, if they are not necessary to cover such operations, will be recorded as bonds and deposits. These bonds and deposits will not be derecognised until they are returned to the parties that contributed them, such parties relinquish collection thereof from the guarantee company or they are used to remove the asset corresponding to the risk that they covered because it has been written off.

Lastly, in addition to the measurement bases which are detailed in the format created in the Spanish general chart of accounts, those specific to the operations of these companies should be indicated in the notes to financial statements.

PRESENTATION OF THE PUBLIC FINANCIAL STATEMENTS AND CONFIDENTIAL RETURNS

The MGCs will present their accounting information through their annual accounts, confidential returns and year-end financial statements.

The annual accounts will comprise the five financial statements included in the Spanish national chart of accounts: the balance sheet, income statement, statement of changes in equity (which comprises two parts: the statement of comprehensive income and the statement of changes in equity), the cash-flow statement and the notes to annual accounts. They will be sent to the Banco de España within 15 business days of their approval by the General Assembly and will be accompanied by the related audit report and other supplementary documents that are filed at the Mercantile Registry.

The confidential returns will comprise the confidential balance sheet, the confidential income statement, the coverage of credit risk exposures and the classification of the guarantees. Similarly, the year-end financial statements are the statement of comprehensive income, the statement of changes in equity and the cash-flow statement as of 31 December which are included in the annual accounts.

The Banco de España may also require MGCs in general, or particular ones, to provide all such information it may need to clarify and expand upon the data in the documents sent.

The Order came into force on 29 May 2009, although its criteria will be applied retroactively to the annual accounts for 2008 and to the statements that must be submitted at 2008 year-end. However, the deadline for sending the confidential returns and the statements for the year ending 31 December 2008 to the Banco de España has been extended from 31 March 2009 to 30 June 2009.

Mortgage market: amendment of rules

Royal Decree 716/2009 of 24 April 2009 (BOE of 2 May 2009), implements several aspects of Law 2/1981, of 25 March 1981, on mortgage market regulation and other mortgage and financial system rules, reformed by Law 41/2007 of 7 December 2007[22] ("the Royal Decree"). It

22. See the comments on Law 41/2007, of 7 December 2007, which amended Law 2/1981, of 25 March 1981, on mortgage market regulation and other mortgage and financial system rules, regulating reverse mortgages and dependency insurance, and establishing a specific tax regulation, in "Financial regulation: 2007 Q4", *Economic Bulletin,* January 2008, Banco de España, pp. 177-182.

replaces Royal Decree 685/1982 of 17 March 1982 which also implemented several aspects of Law 2/1981 and which is thus repealed.

The following sections detail the reforms introduced by the Royal Decree in the mortgage market. Table 2 compares, in summary form, the main elements envisaged in the Royal Decree with their treatment under Royal Decree 685/1982.

PARTICIPANT INSTITUTIONS IN THE MORTGAGE MARKET

Participant institutions in the Spanish mortgage market include, not only Spanish credit institutions, but also branches in Spain of credit institutions authorised in other EU Member States, whose capacity to issue collateralised mortgage bonds linked to loans and credits granted by them, secured by mortgages on property in Spain, is recognised de facto.

CONDITIONS OF MORTGAGE LOANS AND CREDITS

Regarding the conditions that mortgage loans and credits must meet to serve as a basis for the issue of mortgage market securities (covered bonds, bonds and collateralised mortgage bonds), the following new features are introduced:

The requirement relating to the purpose of mortgage loans and credits that may be used to secure issues of bonds and covered bonds is eliminated (see Table 2).

The conditions that mortgage loans and credits granted by credit institutions must meet to be eligible to serve as coverage for issues of mortgage securities are determined. These conditions include, in particular, a tighter ratio (reduced from 70% to 60%) between the loan and the appraisal value of the mortgaged asset (loan-to value ratio), save in the case of mortgage loans and credits for construction, refurbishment or purchase of housing, in which case the maximum LTV ratio remains at 80% as previously.

This figure may be raised to 95% if the mortgage loan is backed by a bank guarantee issued by a credit institution other than the creditor institution, or if it is covered by credit insurance. The credit institution will be solely responsible for payment of said guarantee or insurance; this payment may not, in any case, correspond, directly or indirectly, to the mortgagor.

The conditions that must be met by loans and credits secured by property in other countries of the European Union in order to be considered equivalent to the Spanish mortgage guarantee regime, and thus form part of the pool of collateral for mortgage securities issued in the Spanish market, are specified.

A number of adjustments are also made, to include in these regulations the latest new features contained in Ministerial Order ECO/805/2003 of 27 March 2003 on rules for the valuation of real estate and specific entitlements for certain financial purposes. Specifically, mortgaged properties must be valued by the appraisal services of the lending institution, or by institutions authorised therefor, before mortgage securities are issued. Furthermore, technical appraisal reports must be signed by specific professional experts, in accordance with the nature of the property appraised. Lastly, the Ministry of Economy and Finance is authorised to establish, inter alia, the appraisal criteria and the minimum content of the appraisal reports and corresponding certificates.

The mortgagor's obligation to provide additional collateral, in the event that the mortgaged asset depreciates in value by more than 20% relative to the initial appraisal, is maintained, but a new condition is added, namely that in the case of a mortgagor who is a natural person, the depreciation in value must have continued for one year before said person may be obliged to increase said collateral.

MODIFICATION OF MORTGAGE MARKET REGULATIONS

TABLE 2

Royal Decree 685/1982 of 17 March 1982	Royal Decree 716/2009 of 24 April 2009
Participant institutions in the mortgage market	
Credit institutions.	Credit institutions, and branches in Spain of credit institutions authorised in other EU Member States.
Conditions of mortgage loans and credits	
Purpose of mortgage loans: to finance construction, refurbishment and purchase of housing, urban development work and institutional building, construction of agricultural, tourism, industrial and commercial buildings, and any other work or activity.	Disappears.
The ratio between the mortgage loan and the appraisal value of the mortgaged asset (the LTV ratio) is 70%, save in the case of financing for construction, refurbishment or purchase of housing, when it may reach 80%.	No significant changes, save that the ratio between the mortgage loan and the appraisal value of the mortgaged asset (the LTV ratio) goes from 70% to 60%.
Not envisaged.	It may rise from 80% to 95% if the mortgage loan is backed by a bank guarantee issued by a credit institution other than the creditor institution, or if it is covered by credit insurance.
Not envisaged.	The conditions that loans and credits secured by property in other countries of the European Union must meet in order to form part of the pool of collateral for mortgage securities issued in the Spanish market are specified.
Provision of additional collateral in the event that the mortgaged asset depreciates in value by more than 20% relative to the initial appraisal.	Provision of additional collateral in the event that the mortgaged asset depreciates in value by more than 20% relative to the initial appraisal. However, if the mortgagor is a natural person, the depreciation in value must have continued for one year before said person may be obliged to increase the collateral provided.
Conditions of mortgage securities	
Guarantees for holders of mortgage securities: earmarking of mortgage loans and credits specified in a public deed, without prejudice to the issuer's unlimited liability.	Guarantees for holders of mortgage securities: in addition to those cited, substitute assets, similarly earmarked in a public deed, and the economic flows generated by financial derivatives linked to each issue, are added.
Requirement that issues of securities be published in the BOE and that a marginal note be made in the Property Register to earmark mortgage loans or credits to bond issues.	Disappears.
Not envisaged.	Regulation of the special accounting register of mortgage loans and credits, of the substitute assets backing covered and mortgage bonds, and of the financial derivatives linked to them.
Limits on issuance of mortgage bonds: ceiling of 90% of the outstanding capital of the earmarked credits.	Limits on issuance of mortgage bonds: the updated value of the mortgage bonds must be at least 2% lower than the updated value of the mortgage loans and credits earmarked to the issue.
Limits on issuance of covered bonds: ceiling of 90% of the sum of the outstanding capital of all the mortgage credits of the institution's pool that are eligible to act as coverage.	Limits on issuance of covered bonds: ceiling of 80% of the sum of the outstanding capital of all the eligible mortgage loans and credits of the institution's pool.
Fiscal and financial regime: mortgage market securities are exempt from transfer tax and stamp tax and are deemed appropriate for investment by certain regulated investment regime institutions.	No significant changes.
Secondary market: mortgage market securities may be transferred by any means permitted by law, and with no need for intervention by a public authenticating official or for notification to the mortgagor.	Secondary market: no change from previous regime. A new added feature is that they may be admitted to listing on regulated markets or in multilateral trading facilities.
Issuing institutions' transactions with own securities. Institutions may trade their own securities. The securities may be early redeemed, provided that at least a year has elapsed from the issuance date. The volume of own mortgage securities that may be held in portfolio, for an unlimited period, may not exceed 5% of the total issued.	Issuing institutions' transactions with own securities, similar to the previous regime. The securities may be early redeemed, even if less than a year has elapsed from the issuance date. The institutions may hold own mortgage securities in portfolio; in the case of issues distributed among the public, up to a maximum of 50% of each issue.

SOURCES: BOE and Banco de España.

CONDITIONS OF MORTGAGE SECURITIES

The regulations introduce a series of improvements, described below, enhancing investor protection and granting greater flexibility to institutions when it comes to designing the conditions of issue of mortgage securities.

The guarantees previously enjoyed by holders of these securities, owing to their being earmarked to mortgage loans and credits, are maintained. Moreover, substitute assets, similarly earmarked, are added, along with the economic flows generated by financial derivatives linked to each issue,[23] without prejudice to the issuer's unlimited liability, explicitly determined in the regulations.

The requirement that issues of securities be published in the BOE, and that a marginal note be made in the Property Register earmarking mortgage loans or credits to bond issues, are dispensed with.

The regulations on the special accounting register[24] to be kept by institutions granting mortgage loans and credits are implemented, along with those on the substitute assets backing covered and mortgage bonds and on the financial derivatives linked thereto. The main objectives of this register are to enhance legal protection in the event of insolvency proceedings, to provide greater transparency regarding the quality of the securities and to increase supervisory efficiency in this market.

The limits on the issuance of covered and mortgage bonds are tightened up (see Table 2) and several obligations are imposed on the issuing institutions to ensure that they take the necessary steps to prevent any imbalances between the flows from the pool of collateral and those necessary to meet the payments to the holders of covered and mortgage bonds.

Several clarifications are made in the collateralised mortgage bond regime. Thus, credit institutions issuing these bonds transfer all the risk of the part of the credit ceded, and each such bond represents a holding in a specific credit, rather than in a group of credits.

OTHER MATTERS

Regarding the fiscal and financial regime, as under the previous regulations, mortgage market securities are exempt from transfer tax and stamp tax and are deemed appropriate for investment by certain regulated investment regime institutions.

As for the secondary market, the securities may be transferred by any means permitted by law, and with no need for intervention by a public authenticating official or for notification to the mortgagor. A new feature is added, namely that they may be admitted to listing on regulated markets or in multilateral trading facilities, in accordance with the provisions of the Securities Market Law.[25]

Under the new regulations, issuing institutions may still operate with own mortgage securities, although the transparency requisites have been raised. The securities may be early redeemed, without a year having to have elapsed from the issuance date as envisaged in the previous regime. They may also be held in portfolio, the new feature being that, in the case of issues distributed among the public, the ceiling is raised from 5% to 50% of each issue.[26] Advance

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23. Envisaged in Law 2/1981 of 25 March 1981 amended by Law 41/2007 of 7 December 2007. The substitute assets backing issues of covered or mortgage bonds will do so up to the established limit (maximum of 5% or 10%, respectively, of the principal of each issue); they must be linked to a specific issue when each issue is made and identified in the special accounting register. **24.** Envisaged in Law 2/1981 of 25 March 1981 amended by Law 41/2007 of 7 December 2007. **25.** Securities Market Law 24/1988 of 28 July 1988, amended by Law 47/2007 of 19 December 2007. **26.** Under the previous regulations, the ceiling on the volume of own mortgage securities that these institutions could hold in portfolio, for an unlimited period, was 5% of the total issued.

notice must be given to the market of any acquisitions to be made for this purpose; moreover, this shall be considered significant information.

The supervisory regime of the mortgage securities market is updated, specifying the respective areas of competence of the Banco de España and the CNMV, to prevent any overlap in this respect. The Banco de España is responsible, inter alia, for control and inspection of the conditions required of mortgage loans and credits, and of the related collateral, and of all other assets that may be used as coverage for issues of mortgage securities, including control and inspection of the accounting register in which they must be recorded and of compliance with the rules on appraisal. In turn, the CNMV is responsible for supervision of the conditions required of public offerings of mortgage securities, and for aspects relating to the secondary market in the case of mortgage securities traded in official markets.

The additional provisions contain two key clarifications. First, they clarify the regime applicable to mortgage transfer certificates,[27] which are considered a transfer of credit, similarly to collateralised mortgage bonds, but which are not strictly defined as mortgage market securities, since there is no guarantee of minimum quality. They may be issued purely for placement among professional investors, or to be grouped in securitisation special purpose vehicles (SPVs); under no circumstances may they be prejudicial to the interests of the mortgagor.

Second, they make a number of adjustments to the mortgage loan subrogation regime envisaged in Law 2/1994 of 30 March 1994[28] on subrogation and novation of mortgage loans. Specifically, financial institutions that are willing to become subrogated must include the binding offer accepted by the mortgagor in the notice given to the creditor institution. In turn, the creditor institution exercising its right to render the subrogation null and void must appear, duly represented, before the Notary Public who gave the notice, indicating its binding decision to amend the conditions of the mortgage loan or credit with the mortgagor, to equal or better those of the binding offer. In addition, said institution must also, and to this effect, submit to the mortgagor, within ten business days, a binding offer, in writing, that effectively equals or betters the financial conditions of the other institution.

The Royal Decree came into force on 3 May 2009.

Securities market: notice of significant information

Ministerial Order EHA/1421/2009 of 1 June 2009 (BOE of 2 June 2009), implements Article 82 of Securities Market Law 24/1988 of 28 July 1988[29] on significant information.[30]

The Ministerial Order specifies certain aspects relating to notice of significant information that were pending implementation in Law 24/1988. Thus, the criteria are established for identifying facts, decisions or circumstances that warrant the description of significant information. In this respect, the CNMV is authorised to draw up an illustrative, but by no means exhaustive, list of the events that may be deemed to constitute significant information; this may be done by type

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27. Mortgage transfer certificates were regulated by Law 3/1994 of 14 April 1994 which adapts Spanish law on credit institutions to the Second Banking Coordination Directive. **28.** See "Financial regulation: 1994 Q2", *Boletín Económico,* July-August 1994, Banco de España, pp. 96-97. **29.** See "Financial regulation: 1988 Q3", *Boletín Económico,* October 1988, Banco de España, pp. 61-62. **30.** EU regulations on insider dealing and market abuse are contained in Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation, and in Commission Directive 2003/124/EC of 22 December 2003 on the definition and public disclosure of insider information and the definition of market manipulation, which were transposed into Spanish law by Financial System Reform Law 44/2002, of 22 November 2002; Royal Decree 1333/2005 of 11 November 2005 implementing Securities Market Law 24/1988 of 28 July 1988 on market abuse (amended by Royal Decree 364/2007 of 16 March 2007), and Ministerial Order ECO/3722/2003 of 26 December 2003 on the annual corporate governance report and other informative instruments of listed public limited companies and other entities.

of financial instrument. This list may include, inter alia, events connected with strategic agreements and mergers and acquisitions, information relating to the reporting entity's financial statements or those of its consolidated group, information on notices of call and official matters, and information on significant changes in factors connected with the activities of the reporting entity and its group.

The principles to be followed and conditions to be met by entities when they publish and report significant information are laid down, along with the requisites as regards the content of the notice issued and the conditions applicable in cases in which the significant information is connected with accounting, financial or operational projections, forecasts or estimates. The reporting entity must designate at least one interlocutor whom the CNMV may consult or from whom it may request information relating to dissemination of the significant information.

Lastly, some of the circumstances in which it is considered that an entity is failing to comply with the duty to publish and report significant information are described. These include, inter alia, cases in which significant information is disseminated at meetings with investors or shareholders or at presentations to analysts or to media professionals, but is not communicated, at the same time, to the CNMV.

The Ministerial Order came into force on 3 June 2009.

Collective investment institutions: half-yearly depositary reports

CNMV Circular 3/2009 of 25 March 2009 (BOE of 20 April 2009) on the content of the half-yearly reports on performance of the monitoring and supervisory function of CII depositaries.[31]

CII depositaries shall prepare half-yearly reports on the results of their monitoring and supervisory functions.[32] These reports are divided into four sections, plus a further section for any additional information, set out as annexes to the Circular. In the first four sections, depositaries shall report any incidents in the valuation of assets, any conciliation differences between securities and balances, any other incidents regarding net asset value and any non-compliance with legal limits and ratios, ether settled or pending settlement as at the last day of the corresponding half-year period. These reports shall be completed for each CII, save in the case of CIIs that are divided into investment compartments, in which case the information shall be provided for each such compartment.

The section on additional information shall include the depositaries' contact details, so that the CNMV has up-to-date information to facilitate its supervisory tasks. The half-yearly reports must be submitted online, using the CIFRADOC/CNMV service, prior to the last calendar day of the second month following the period to which the reports relate.

The Circular also includes two clarifications relating to the depositaries' monitoring and supervisory functions described in Ministerial Order EHA/596/2008 of 5 March 2008 which regulates certain aspects of the legal regime of CII depositaries. First, regarding verification of the accuracy, quality and sufficient nature of the periodic public information, this function shall only be understood to have been performed when depositaries have checked that the cash and

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31. Pursuant to the provisions of Royal Decree 1309/2005 of 4 November 2005 approving the implementing regulations of Collective Investment Institutions Law 35/2003 of 4 November 2003 authorising the CNMV to determine the content and format of the half-yearly reports that must be submitted by CII depositaries, along with details on the time and manner in which they must be sent. **32.** Without prejudice to their obligation to inform the CNMV, in writing and as promptly as possible, of any significant anomaly detected, in the performance of their monitoring and supervisory functions, in the management or administration of any CIIs (whether financial or real estate CIIs).

investment portfolios coincide with their internal records, and when they have checked the content of the significant events, the fees and commissions established and the information on transactions between the management company and the depositary.

Second, the scope of the concept of *significant anomalies* is adjusted. Thus, these shall include, among others, anomalies that might have a considerable impact on the net asset value of units of mutual funds and of shares of investment companies, along with certain specific acts or omissions described in detail in the Circular, provided they correspond to the depositaries' monitoring and supervisory functions.

The Circular came into force on 1 July 2009; the first information to be sent will be that relating to 2009 H2.

Mortgage loans and credits and other financial intermediation services provided by non-financial corporations

Law 2/2009 of 31 March 2009 (BOE of 1 April 2009) regulating mortgage loans and credits and other financial intermediation services provided by non-financial corporations to consumers, to enhance consumer protection.

The Law extends to natural and legal persons (hereinafter firms) that offer mortgage credit or loan agreements, other than credit institutions, obligations that were to date exclusive to the latter. In particular, it establishes a series of transparency rules and a specific legal regime applicable to all firms that conduct financial intermediation services, including credit or loan consolidation.

SCOPE OF APPLICATION

The Law shall apply to all firms other than credit institutions (as the latter are already subject to organisational and disciplinary rules on credit and are supervised by the Banco de España) that conduct the following professional activities with consumers:[33]

a) Granting of mortgage loans or credits under the deferred payment formula, of credit facilities or of any other equivalent means of credit, without prejudice to the specific regulations on certain products such as consumer credit or hire purchase.

b) Provision of financial intermediation services for loan or credit agreements for any purpose, including, where appropriate, making said agreements available to consumers for signing.

CONDITIONS TO BE MET BY FIRMS FOR EXERCISE OF THIS ACTIVITY

Before being inscribed in the official registers created for this purpose, firms must take on civil liability insurance or obtain a bank guarantee to cover any liabilities that may be incurred vis-à-vis consumers relating to any damages deriving from the provision of financial intermediation services or the granting of mortgage loans or credits.

Furthermore, prior to start-up of their activity, they must be inscribed in the register held in the Spanish region in which they have their registered office. Firms conducting these activities in Spain that have no registered office in the country shall be inscribed in the State Register to be created at the National Consumer Institute (INC).[34]

The State Register, which shall include the information supplied by the regional (autonomous) governments and the inscriptions of foreign firms, shall be accessible online, free of charge,

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33. Consumers are understood to be natural and legal persons acting, in the agreements to which the Law refers, independently of any business or professional capacity. **34.** The Law envisages creation of this Register, within the six months following its entry into force.

and shall contain, inter alia, data identifying the firms, information on the activity conducted and the geographical area covered, data identifying the insurance company with which the necessary civil liability policy is held or the credit institution supplying the necessary bank guarantee, along with all other details set out in the respective regulations.

GENERAL TRANSPARENCY OBLIGATIONS FOR FIRMS

The Law envisages a number of transparency obligations relating to the agreements signed and prices charged. In the case of the agreements, firms shall make the general contractual conditions used by them available to consumers, free of charge. This pre-contractual information shall also appear on their websites, if such websites exist, and shall be available in the premises open to the public or offices in which the firms provide their services. As regards prices, firms shall be free to set their fees and commission charges, conditions and expenses chargeable to consumers, within certain legal limits; these prices shall be set out in a prospectus to be sent by the firms to the registers in which they are inscribed prior to application thereof. Firms may not charge any amounts over and above those deriving from the corresponding rates. Moreover, the fees and commission charges and chargeable expenses shall correspond to services effectively rendered or expenses incurred. Fees and commission charges and expenses may only be charged for services firmly and expressly accepted or requested by consumers.

All premises open to the public shall have a permanent notice board, set in a clearly visible place, with all the information that must be made available to consumers, as envisaged in the Law.

In addition, the burden of proof of compliance with the obligations established in the Law shall lie with the firms providing the services. The Law also regulates access to procedures for settling disputes out of court and for injunctions, in the event of any unlawful conduct that might harm general or collective consumer interests.

Regarding the penalty regime, any failure to comply with their obligations constitutes a consumer offence, penalised by the corresponding authorities in accordance with the provisions of the respective regional legislation.

MORTGAGE LOANS AND CREDITS

In any marketing material and advertising that refer to the amount of loans or credit offered, to the interest rate or to any figures connected with the related cost, firms must include mention of the typical APR (annual percentage rate) and of all other aspects determined in the respective regional legislation.

In the case of marketing material that refers to loan or credit consolidation, clear, concise and visible information must be given on expenses of any kind that may be incurred. Moreover, any reference to cutting monthly repayments is prohibited if not accompanied by express mention of the increase in the amount of the capital outstanding and of the repayment period of the new loan or credit.

Furthermore, firms must provide consumers, free of charge, with an informative leaflet clearly indicating, at minimum, the expenses involved in preparing the consolidation, relating to aspects such as advisory, appraisal, verification of inscriptions in the Property Register and others that may be charged to the consumer even if the loan or credit is not granted.

The Law also sets out the information that firms must provide to consumers, free of charge and at least five days prior to agreements being signed. Firms are also obliged to make a binding loan or credit offer to consumers, or, as appropriate, to inform them that their loan or

credit application has been denied. These binding offers shall be valid for at least ten business days as from the date of delivery thereof.

Mortgage loan or credit agreements granted by firms shall comply with all the conditions envisaged in the Ministerial Order of 5 May 1994[35] on transparency of the financial conditions of mortgage loans, with all the specifications established therein.

FINANCIAL INTERMEDIATION ACTIVITY

As regards financial intermediation activity, the Law regulates the legal regime of transparency of the firms' financial intermediation agreements.[36]

In any marketing material and advertising that refer to interest rates or to figures connected with the cost of the loans or credits to be taken out using the financial intermediation services offered, the advertising must meet the conditions established in the legislation applicable to the loan or credit in question. Furthermore, firms must specify the range of services offered, indicating whether they operate exclusively with one or more credit institutions or as independent brokers. Any marketing material that refers to loan or credit consolidation must also indicate the expenses connected therewith.

The Law also specifies the information that firms must provide to consumers, free of charge and at least fifteen days prior to agreements being signed, on the firm itself, the service offered and the financial intermediation agreement. This prior information includes essential aspects, such as the existence of the right of withdrawal, within the fourteen calendar days following the date of formalisation of the agreement, with no need to give any reason and with no penalisation.

Independent brokers shall be obliged to select, from the products available on the market, those best suited to the needs expressed by consumers, presenting them with at least three binding offers from credit institutions and advising them on the legal and financial conditions of each such offer.

Lastly, a transitional regime is set up for adaptation to the conditions established in this Law as from its entry into force on 2 April 2009.

15.7.2009.

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35. See "Financial regulation: 1994 Q2", *Boletín Económico,* July-August 1994, Banco de España, pp. 96-97. **36.** But the Law does not address the legal regime of the agreements brokered. Thus, for example, consumer loans brokered will continue to be subject to the provisions of Consumer Credit Law 7/1995 of 23 March 1995.

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

1. IMF Special Data Dissemination Standard (SDDS).

INTEREST RATES
AND EXCHANGE RATES

1. IMF Special Data Dissemination Standard (SDDS).

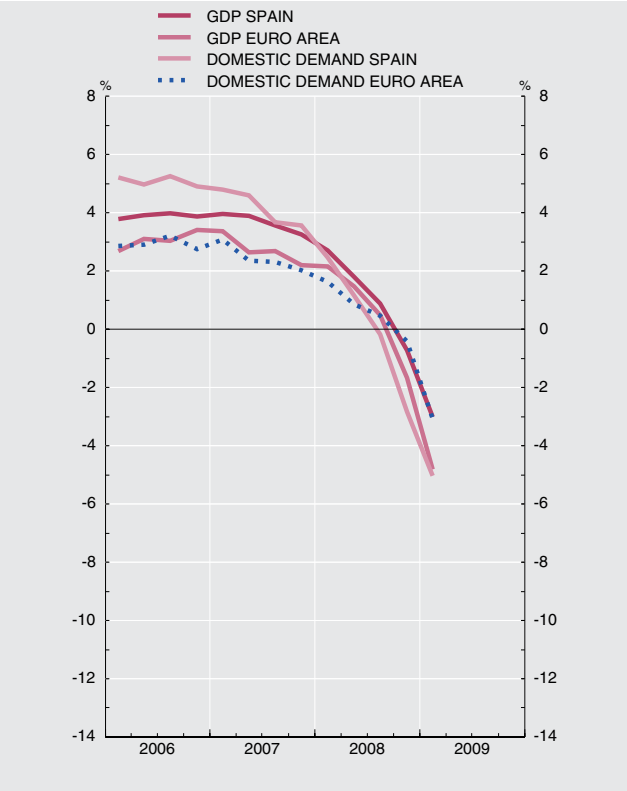
1.1. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES, REFERENCE YEAR 2000=100. DEMAND COMPONENTS. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

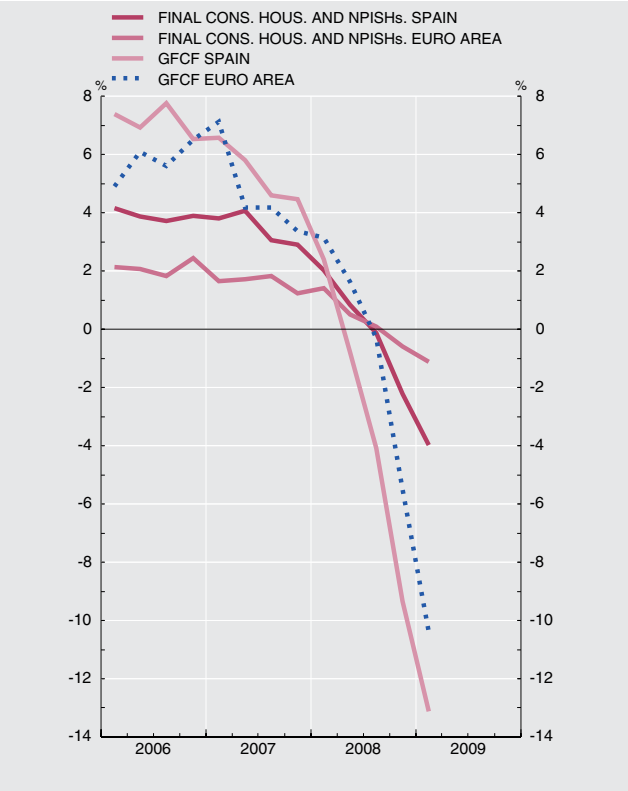
Annual percentage changes

		GDP		Final consumption of households and NPISHs		General government final consumption		Gross fixed capital formation		Domestic demand		Exports of goods and services		Imports of goods and services		Memorandum item: GDPmp (current prices) (g)	
		Spain	Euro area	Spain (b)	Euro area (c)	Spain	Euro area (d)	Spain	Euro area	Spain (e)	Euro area	Spain	Euro area (f)	Spain	Euro area (f)	Spain	Euro area
		1 ■	2 ■	3 ■	4 ■	5	6	7 ■	8 ■	9 ■	10 ■	11	12	13	14	15	16
06	P	3.9	3.1	3.9	2.1	4.6	1.9	7.1	5.8	5.1	2.9	6.7	8.5	10.3	8.4	982	8 558
07	P	3.7	2.7	3.5	1.6	4.9	2.2	5.3	4.7	4.2	2.4	4.9	5.9	6.2	5.3	1 051	8 999
08	P	1.2	0.6	0.1	0.4	5.3	1.9	-3.0	-0.3	0.2	0.6	0.7	0.9	-2.5	1.0	1 095	9 266
06 *Q2*	P	3.9	3.1	3.9	2.1	4.3	1.5	6.9	6.1	5.0	3.1	7.4	8.6	10.4	8.3	243	2 130
Q3	P	4.0	3.0	3.7	1.8	4.6	1.5	7.8	5.6	5.2	3.0	5.6	7.0	9.6	7.6	248	2 152
Q4	P	3.9	3.4	3.9	2.4	4.5	2.3	6.5	6.5	4.9	3.4	7.2	9.4	10.0	7.9	252	2 181
07 *Q1*	P	4.0	3.4	3.8	1.6	5.3	2.2	6.6	7.1	4.8	3.4	3.3	6.8	6.1	6.2	257	2 216
Q2	P	3.9	2.6	4.1	1.7	5.0	2.3	5.8	4.2	4.6	2.6	3.9	6.0	6.2	5.4	261	2 238
Q3	P	3.6	2.7	3.1	1.8	4.8	2.4	4.6	4.2	3.7	2.7	8.2	6.9	7.6	6.1	264	2 262
Q4	P	3.2	2.2	2.9	1.2	4.4	2.0	4.5	3.4	3.6	2.2	4.0	3.9	4.9	3.5	268	2 283
08 *Q1*	P	2.7	2.2	2.0	1.4	3.7	1.5	2.4	3.1	2.5	2.2	4.8	5.1	3.6	3.9	272	2 312
Q2	P	1.8	1.5	0.8	0.5	5.0	2.0	-0.8	1.6	1.2	1.5	4.4	3.8	1.8	2.4	274	2 325
Q3	P	0.9	0.5	-0.1	0.1	6.1	2.0	-4.1	-0.3	-0.2	0.5	1.5	1.4	-2.0	1.4	276	2 328
Q4	P	-0.7	-1.7	-2.2	-0.6	6.3	2.1	-9.3	-5.5	-2.8	-1.7	-7.9	-6.5	-13.2	-3.7	273	2 301
09 *Q1*	P	-3.0	-4.8	-4.0	-1.1	5.4	1.7	-13.1	-10.4	-5.0	-4.8	-19.0	-15.5	-22.3	-11.7	267	2 239

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



DEMAND COMPONENTS. SPAIN AND EURO AREA
Annual percentage changes



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

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

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

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

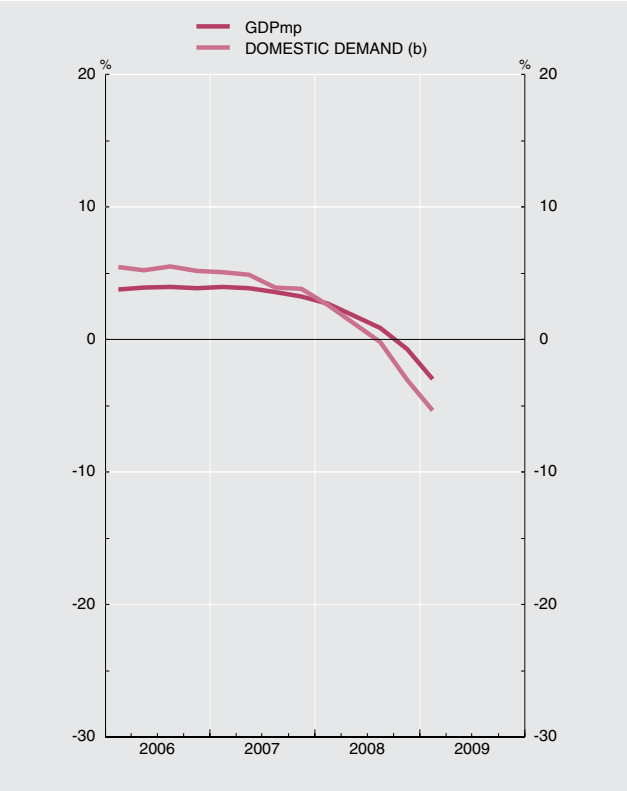
1.2. GROSS DOMESTIC PRODUCT. VOLUME CHAIN-LINKED INDICES. REFERENCE YEAR 2000=100. DEMAND COMPONENTS. SPAIN: BREAKDOWN (a)

■ Series depicted in chart.

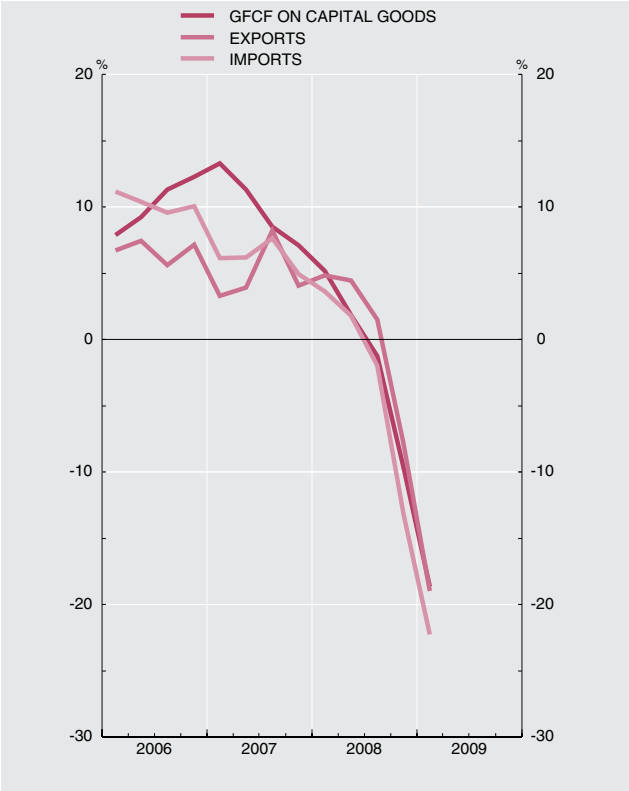
Annual percentage changes

		Gross fixed capital formation				Change in Stocks (b)	Exports of goods and services				Imports of goods and services				Memorandum items:	
		Total	Capital goods	Construc-tión	Other products		Total	Goods	Final con-sumption of non-resi-dents in economic territory	Services	Total	Goods	Final consumption of residents in the rest of the world	Services	Domestic demand (b) (c)	GDP
		1	2 ■	3	4	5 ■	6	7	8	9	10 ■	11	12	13	14 ■	15 ■
06	P	7.1	10.2	5.9	7.1	0.2	6.7	6.7	1.6	12.2	10.3	10.3	5.9	11.2	5.3	3.9
07	P	5.3	10.0	3.8	3.9	-0.1	4.9	4.3	0.1	11.9	6.2	4.8	7.2	12.8	4.4	3.7
08	P	-3.0	-1.1	-5.3	1.9	0.0	0.7	0.9	-4.9	4.6	-2.5	-2.7	-4.5	-1.2	0.2	1.2
06 *Q2*	P	6.9	9.2	6.1	6.4	0.2	7.4	7.7	2.8	10.9	10.4	10.0	6.9	13.3	5.2	3.9
Q3	P	7.8	11.3	6.1	8.4	0.5	5.6	6.2	1.0	7.6	9.6	10.6	7.6	5.3	5.5	4.0
Q4	P	6.5	12.3	4.7	4.6	0.2	7.2	5.6	0.0	21.6	10.0	9.5	5.6	13.7	5.2	3.9
07 *Q1*	P	6.6	13.3	5.1	2.4	-0.1	3.3	2.5	0.3	9.6	6.1	5.3	10.0	9.2	5.1	4.0
Q2	P	5.8	11.3	4.2	3.7	-0.1	3.9	4.0	-0.4	7.7	6.2	4.9	8.2	12.0	4.9	3.9
Q3	P	4.6	8.5	3.3	3.6	-0.1	8.2	6.0	-0.1	26.2	7.6	5.7	6.1	17.8	3.9	3.6
Q4	P	4.5	7.1	2.9	6.0	-0.0	4.0	4.6	0.4	5.2	4.9	3.5	4.5	12.1	3.8	3.2
08 *Q1*	P	2.4	5.2	0.2	5.9	0.1	4.8	4.9	-1.1	9.7	3.6	4.1	2.8	1.5	2.6	2.7
Q2	P	-0.8	1.8	-3.1	3.2	0.1	4.4	5.3	-2.1	6.8	1.8	2.0	-4.7	2.0	1.2	1.8
Q3	P	-4.1	-1.3	-7.3	2.5	0.0	1.5	3.4	-4.6	-0.7	-2.0	-2.4	-3.9	0.2	-0.2	0.9
Q4	P	-9.3	-9.7	-10.9	-3.7	-0.0	-7.9	-10.0	-11.8	3.6	-13.2	-14.4	-12.1	-8.1	-3.0	-0.7
09 *Q1*	P	-13.1	-18.6	-12.4	-7.4	-0.1	-19.0	-20.5	-18.7	-13.6	-22.3	-23.9	-21.7	-14.7	-5.3	-3.0

GDP. DOMESTIC DEMAND
Annual percentage changes



GDP. DEMAND COMPONENTS
Annual percentage changes



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

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

b. Contribution to GDPmp growth rate.

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

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

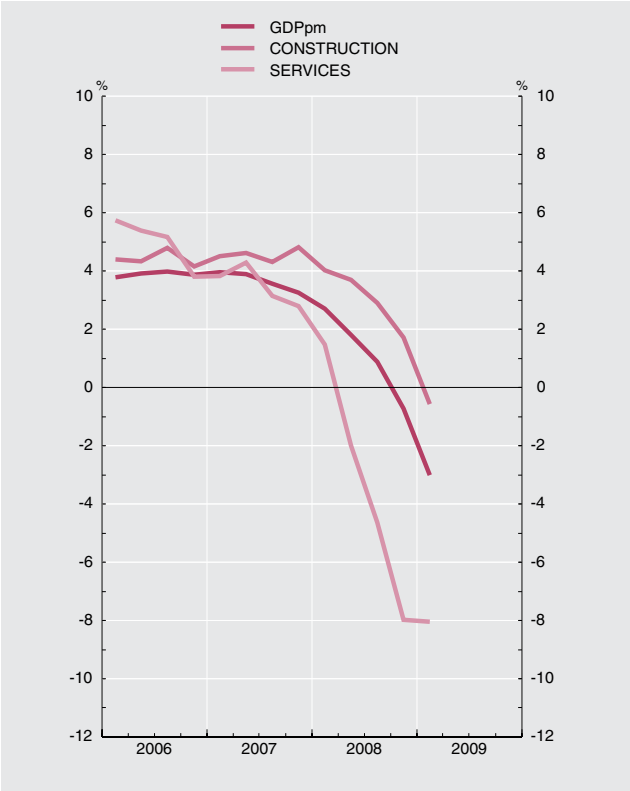
■ Series depicted in chart.

Annual percentage changes

			Gross domestic product at market prices	Agriculture and fisheries	Energy	Industry	Construction	Services			VAT on products	Net taxes linked to imports	Other net taxes on products
								Total	Market services	Non-market services			
			1 ■	2 ■	3	4 ■	5 ■	6 ■	7	8	9	10	11
06		P	3.9	2.5	-0.1	1.9	5.0	4.4	4.5	4.0	4.2	6.9	2.8
07		P	3.7	3.0	0.8	2.8	3.5	4.6	4.6	4.4	2.8	3.3	-2.3
08		P	1.2	-0.6	1.9	-2.7	-3.3	3.1	2.6	4.8	0.6	-10.4	-0.5
06	*Q2*	P	3.9	2.9	-0.9	2.1	5.4	4.3	4.3	4.3	4.2	7.1	3.4
	Q3	P	4.0	-0.5	0.3	2.5	5.2	4.8	5.1	3.6	3.9	4.7	-0.4
	Q4	P	3.9	8.7	-0.3	2.2	3.8	4.1	4.1	4.4	3.7	4.8	4.9
07	*Q1*	P	4.0	4.6	0.2	4.1	3.8	4.5	4.6	4.2	3.3	2.7	-0.9
	Q2	P	3.9	2.5	1.1	3.1	4.3	4.6	4.7	4.3	3.3	2.8	-1.4
	Q3	P	3.6	2.8	0.2	2.9	3.1	4.3	4.3	4.3	2.6	5.4	-0.1
	Q4	P	3.2	2.1	1.7	1.0	2.8	4.8	4.8	4.7	1.9	2.2	-6.6
08	*Q1*	P	2.7	1.1	1.6	0.0	1.5	4.0	4.0	4.0	1.6	-1.3	-1.0
	Q2	P	1.8	-0.1	3.5	-2.2	-2.0	3.7	3.4	4.7	1.2	-5.1	-0.9
	Q3	P	0.9	-0.5	2.5	-2.9	-4.6	2.9	2.3	5.1	0.2	-14.3	0.2
	Q4	P	-0.7	-2.7	0.0	-5.5	-8.0	1.7	0.7	5.5	-0.8	-20.9	-0.3
09	*Q1*	P	-3.0	-0.7	-5.7	-11.0	-8.0	-0.6	-1.7	3.5	-2.1	-21.7	0.7

GDP. BRANCHES OF ACTIVITY
Annual percentage changes

GDP. BRANCHES OF ACTIVITY
Annual percentage changes



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

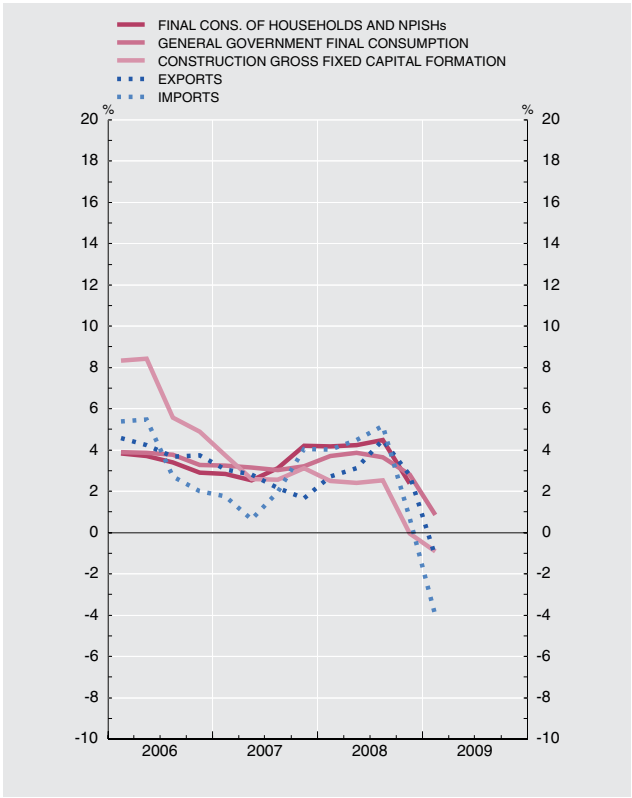
1.4. GROSS DOMESTIC PRODUCT. IMPLICIT DEFLATORS. SPAIN (a)

■ Series depicted in chart.

Annual percentage changes

			Demand components								Branches of activity					
					Gross fixed capital formation					Gross domestic product at market prices					Of which	
			Final consumption of households and NPISHs (b)	General government final consumption	Capital goods	Construction	Other products	Exports of goods and services	Imports of goods and services		Agriculture and fisheries	Energy	Industry	Construction	Services	Market services
			1 ■	2 ■	3	4 ■	5	6 ■	7 ■	8 ■	9 ■	10 ■	11 ■	12 ■	13	14
06		P	3.4	3.7	2.0	6.7	4.9	4.0	3.8	4.0	-5.3	1.2	4.1	8.0	3.1	2.8
07		P	3.2	3.2	1.7	3.0	3.2	2.4	2.1	3.2	4.2	2.8	3.5	4.9	3.3	3.1
08		P	3.8	3.5	1.7	1.9	1.4	3.3	3.6	3.0	3.1	15.7	6.1	3.8	4.8	5.1
06	*Q2*	P	3.7	3.9	2.4	8.4	5.5	4.2	5.5	4.1	-3.9	3.5	4.1	9.3	3.5	3.4
	Q3	P	3.4	3.8	1.7	5.6	5.0	3.7	2.7	4.1	-3.7	-1.2	4.6	7.8	3.1	2.9
	Q4	P	2.9	3.3	1.4	4.9	4.1	3.7	2.0	3.8	-6.6	-2.9	4.1	5.8	2.8	2.5
07	*Q1*	P	2.9	3.2	1.9	3.7	3.7	3.0	1.7	3.5	-3.5	-1.0	3.6	5.4	3.0	2.8
	Q2	P	2.6	3.1	1.7	2.6	2.7	2.8	0.7	3.3	0.7	0.1	3.3	4.7	2.9	2.7
	Q3	P	3.1	3.0	1.3	2.6	2.7	2.1	2.0	3.0	7.6	4.7	3.0	4.5	3.3	3.1
	Q4	P	4.2	3.2	2.1	3.1	3.5	1.7	4.1	3.0	11.8	7.5	4.0	5.2	3.9	3.9
08	*Q1*	P	4.2	3.7	2.4	2.5	2.5	2.7	4.0	3.2	8.4	14.9	5.7	5.2	4.5	4.8
	Q2	P	4.2	3.9	1.8	2.4	1.4	3.1	4.5	3.1	10.0	18.1	6.6	4.5	4.9	5.2
	Q3	P	4.5	3.6	2.2	2.5	1.1	4.5	5.2	3.4	3.6	19.2	6.7	4.2	4.9	5.4
	Q4	P	2.4	2.8	0.7	-0.0	0.5	2.8	0.7	2.5	-8.2	10.5	5.6	1.4	4.7	5.2
09	*Q1*	P	0.7	0.9	0.6	-0.9	0.4	-1.1	-4.0	1.3	-0.7	8.3	2.8	0.7	3.3	3.7

GDP. IMPLICIT DEFLATORS
Annual percentage changes



GDP. IMPLICIT DEFLATORS
Annual percentage changes

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

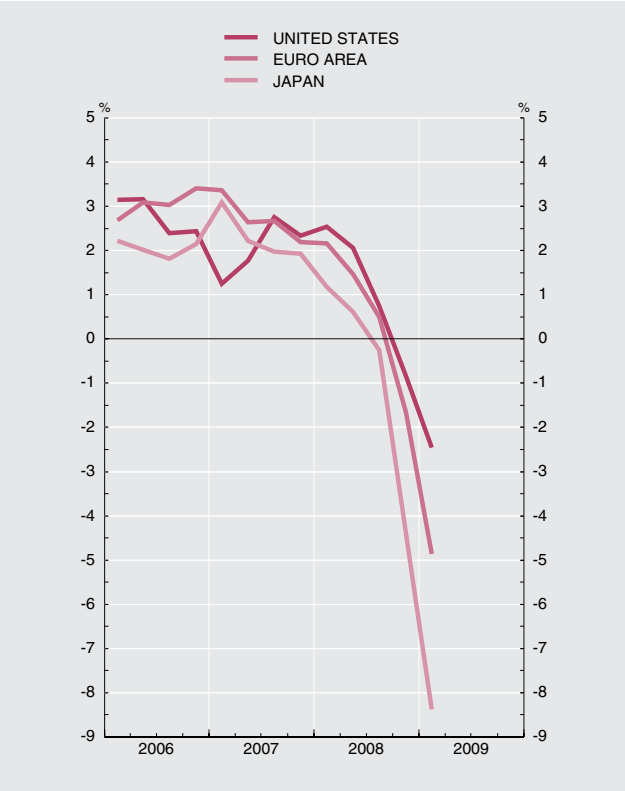
2.1. INTERNATIONAL COMPARISON. GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

■ Series depicted in chart.

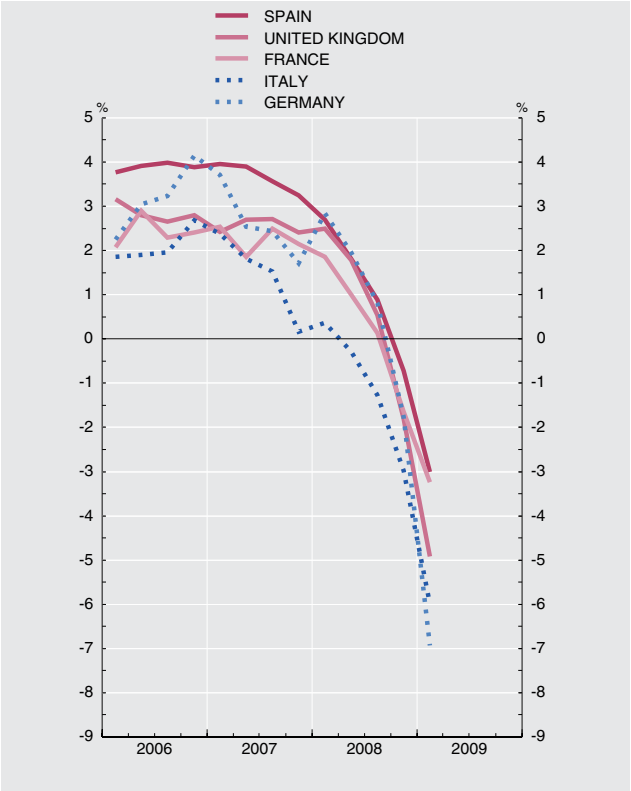
Annual percentage changes

	OECD 1	EU-27 2	Euro area 3 ■	Germany 4 ■	Spain 5 ■	United States 6 ■	France 7 ■	Italy 8 ■	Japan 9 ■	United Kingdom 10 ■
06	3.1	3.2	3.1	3.2	3.9	2.8	2.4	2.1	2.0	2.9
07	2.7	2.8	2.7	2.6	3.7	2.0	2.3	1.5	2.3	2.6
08	0.9	0.8	0.6	1.0	1.2	1.1	0.3	-1.0	-0.7	0.7
06 *Q1*	3.2	3.0	2.7	2.2	3.8	3.1	2.1	1.9	2.2	3.2
Q2	3.4	3.3	3.1	3.0	3.9	3.2	2.9	1.9	2.0	2.8
Q3	2.9	3.2	3.0	3.2	4.0	2.4	2.3	2.0	1.8	2.7
Q4	3.0	3.5	3.4	4.1	3.9	2.4	2.4	2.7	2.1	2.8
07 *Q1*	2.7	3.3	3.4	3.7	4.0	1.3	2.5	2.4	3.1	2.4
Q2	2.5	2.8	2.6	2.5	3.9	1.8	1.9	1.8	2.2	2.7
Q3	2.9	2.8	2.7	2.4	3.6	2.8	2.5	1.5	2.0	2.7
Q4	2.7	2.4	2.2	1.7	3.2	2.3	2.2	0.2	1.9	2.4
08 *Q1*	2.6	2.4	2.2	2.8	2.7	2.5	1.9	0.4	1.2	2.5
Q2	1.8	1.7	1.5	2.0	1.8	2.1	1.0	-0.3	0.6	1.8
Q3	0.7	0.7	0.5	0.8	0.9	0.7	0.1	-1.3	-0.3	0.5
Q4	-1.7	-1.6	-1.7	-1.8	-0.7	-0.8	-1.7	-3.0	-4.4	-1.8
09 *Q1*	...	-4.7	-4.9	-6.9	-3.0	-2.5	-3.2	-6.0	-8.4	-4.9

GROSS DOMESTIC PRODUCT
Annual percentage changes



GROSS DOMESTIC PRODUCT
Annual percentage changes



Sources: ECB, INE and OECD.
Note: The underlying series for this indicator are in Table 26.2 of the BE Boletín Estadístico.

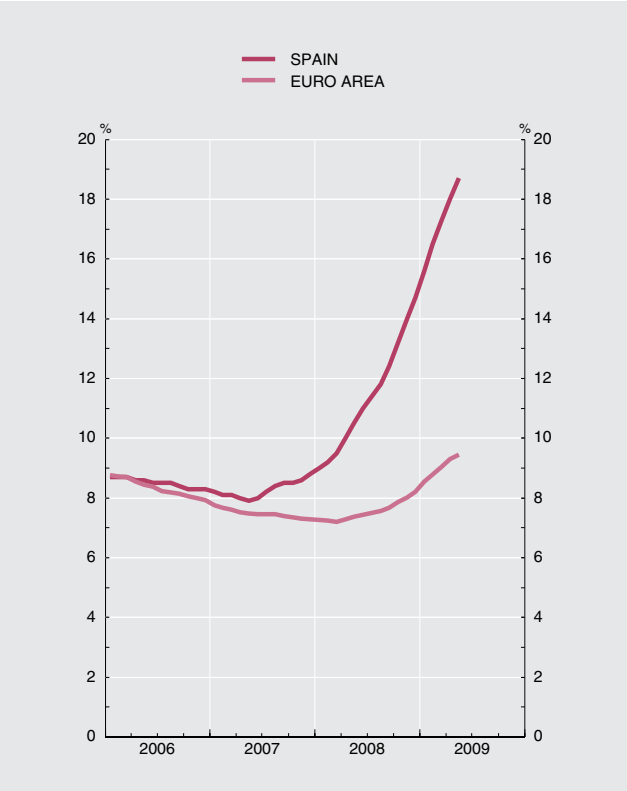
2.2. INTERNATIONAL COMPARISON. UNEMPLOYMENT RATES

■ Series depicted in chart.

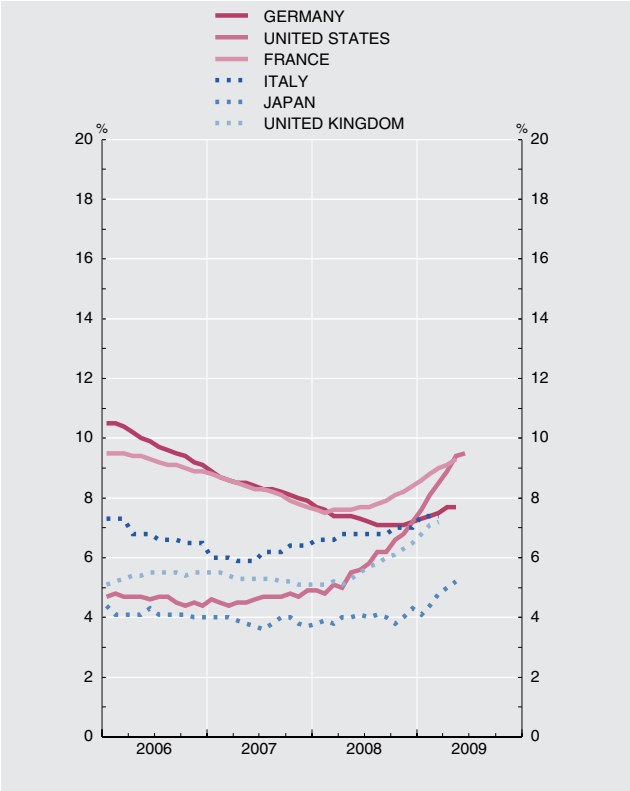
Percentages

	OECD (1)	EU-27 (2)	Euro area (3) ■	Germany (4) ■	Spain (5) ■	United States (6) ■	France (7) ■	Italy (8) ■	Japan (9) ■	United Kingdom (10) ■
06	6.2	8.2	8.3	9.8	8.5	4.6	9.2	6.8	4.1	5.4
07	5.7	7.1	7.5	8.4	8.3	4.6	8.3	6.1	3.9	5.3
08	6.0	7.0	7.6	7.3	11.4	5.8	7.8	6.8	4.0	5.6
07 *Dec*	5.6	6.9	7.3	7.9	8.8	4.9	7.7	6.4	3.7	5.1
08 *Jan*	5.6	6.8	7.3	7.7	9.0	4.9	7.6	6.6	3.8	5.1
Feb	5.6	6.7	7.2	7.6	9.2	4.8	7.5	6.6	3.9	5.1
Mar	5.6	6.7	7.2	7.4	9.5	5.1	7.6	6.6	3.8	5.2
Apr	5.6	6.8	7.3	7.4	10.0	5.0	7.6	6.8	4.0	5.1
May	5.8	6.8	7.4	7.4	10.5	5.5	7.6	6.8	4.0	5.3
Jun	5.9	6.9	7.4	7.3	11.0	5.6	7.7	6.8	4.1	5.5
Jul	6.0	7.0	7.5	7.2	11.4	5.8	7.7	6.8	4.0	5.7
Aug	6.2	7.0	7.6	7.1	11.8	6.2	7.8	6.8	4.1	5.8
Sep	6.2	7.1	7.7	7.1	12.4	6.2	7.9	6.8	4.0	6.0
Oct	6.4	7.3	7.9	7.1	13.2	6.6	8.1	7.0	3.8	6.1
Nov	6.6	7.5	8.0	7.1	14.0	6.8	8.2	7.0	4.0	6.3
Dec	6.9	7.6	8.2	7.2	14.7	7.2	8.4	7.0	4.3	6.5
09 *Jan*	7.2	8.0	8.6	7.3	15.6	7.6	8.6	7.4	4.1	6.8
Feb	7.5	8.3	8.8	7.4	16.5	8.1	8.8	7.4	4.4	7.1
Mar	7.8	8.5	9.0	7.5	17.3	8.5	9.0	7.4	4.8	7.2
Apr	8.0	8.7	9.3	7.7	18.0	8.9	9.1	...	5.0	...
May	8.3	8.9	9.5	7.7	18.7	9.4	9.3	...	5.2	...

UNEMPLOYMENT RATES



UNEMPLOYMENT RATES



Sources: ECB and OECD.

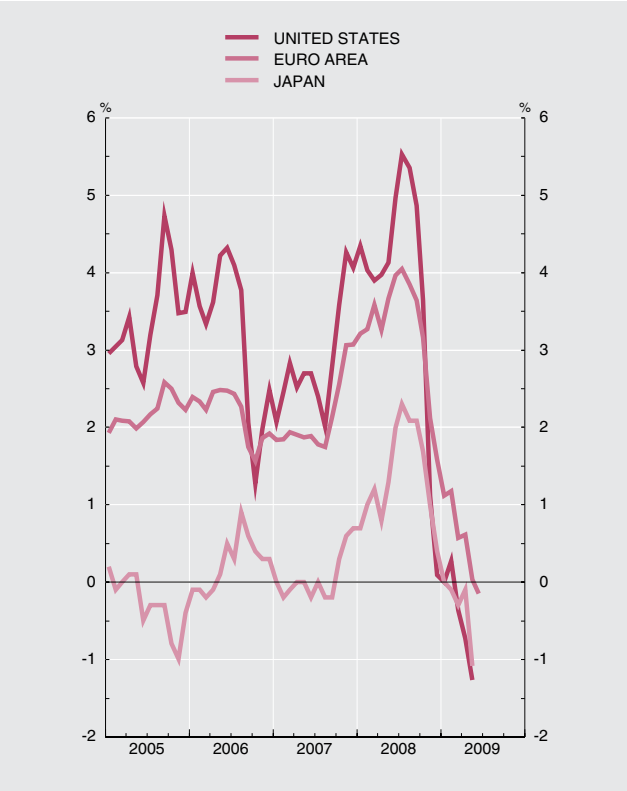
2.3. INTERNATIONAL COMPARISON. CONSUMER PRICES (a)

■ Series depicted in chart.

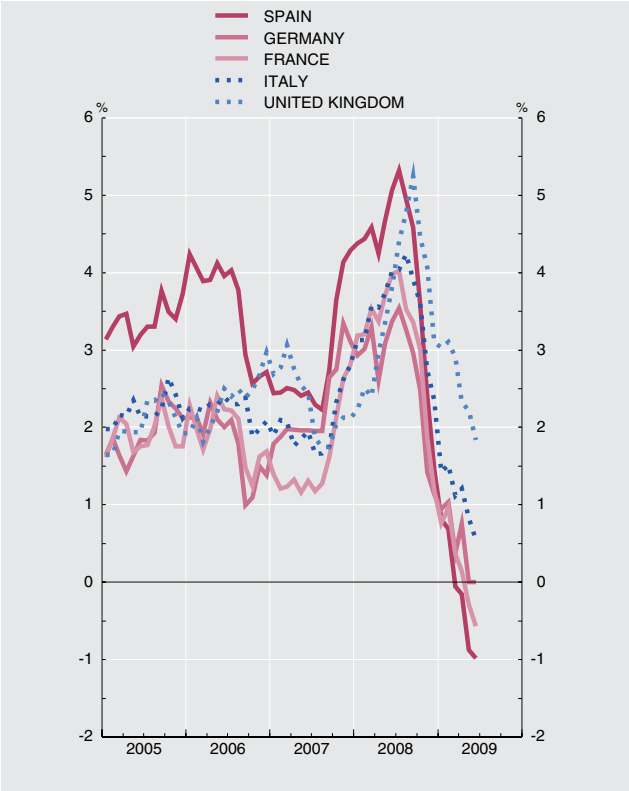
Annual percentage changes

	OECD (1)	EU-27 (2)	Euro area (3) ■	Germany (4) ■	Spain (5) ■	United States (6) ■	France (7) ■	Italy (8) ■	Japan (9) ■	United Kingdom (10) ■
05	2.6	2.3	2.2	1.9	3.4	3.4	1.9	2.2	-0.3	2.1
06	2.6	2.3	2.2	1.8	3.6	3.2	1.9	2.2	0.2	2.3
07	2.5	2.4	2.1	2.3	2.8	2.9	1.6	2.0	0.1	2.3
08	3.7	3.7	3.3	2.8	4.1	3.8	3.2	3.5	1.4	3.6
08 *Jan*	3.6	3.4	3.2	2.9	4.4	4.3	3.2	3.1	0.7	2.2
Feb	3.5	3.5	3.3	3.0	4.4	4.0	3.2	3.1	1.0	2.5
Mar	3.6	3.7	3.6	3.3	4.6	3.9	3.5	3.6	1.2	2.4
Apr	3.5	3.6	3.3	2.6	4.2	4.0	3.4	3.6	0.8	3.0
May	3.9	4.0	3.7	3.1	4.7	4.1	3.7	3.7	1.3	3.3
Jun	4.5	4.2	4.0	3.4	5.1	5.0	4.0	4.0	2.0	3.8
Jul	4.9	4.4	4.0	3.5	5.3	5.5	4.0	4.0	2.3	4.4
Aug	4.6	4.3	3.8	3.3	4.9	5.4	3.5	4.2	2.1	4.8
Sep	4.4	4.2	3.6	3.0	4.6	4.9	3.4	3.9	2.1	5.2
Oct	3.8	3.7	3.2	2.5	3.6	3.6	3.0	3.6	1.7	4.5
Nov	2.2	2.8	2.1	1.4	2.4	1.1	1.9	2.7	1.0	4.1
Dec	1.6	2.2	1.6	1.1	1.5	0.1	1.2	2.4	0.4	3.1
09 *Jan*	1.2	1.7	1.1	0.9	0.8	-	0.8	1.4	-	3.0
Feb	1.3	1.8	1.2	1.0	0.7	0.3	1.0	1.5	-0.1	3.1
Mar	0.8	1.4	0.6	0.4	-0.1	-0.4	0.4	1.1	-0.3	2.9
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	...	0.6	-0.1	-	-1.0	...	-0.6	0.6	...	1.8

CONSUMER PRICES
Annual percentage changes



CONSUMER PRICES
Annual percentage changes



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

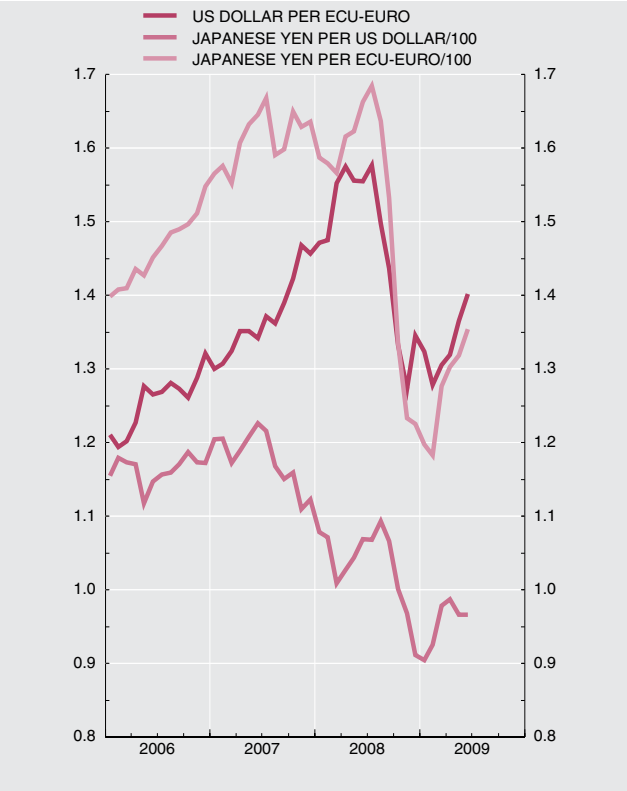
2.4. BILATERAL EXCHANGE RATES AND NOMINAL AND REAL EFFECTIVE EXCHANGE RATE INDICES FOR THE EURO, US DOLLAR AND JAPANESE YEN

■ Series depicted in chart.

Average of daily data

	Exchange rates			Indices of the nominal effective exchange rate vis-à-vis the (a) developed countries 1999 QI=100			Indices of the real effective exchange rate vis-à-vis the developed countries (b) 1999 QI=100					
							Based on consumer prices			Based on producer prices		
	US dollar per ECU/euro	Japanese yen per ECU/euro	Japanese yen per US dollar	Euro	US dollar	Japanese yen	Euro	US dollar	Japanese yen	Euro	US dollar	Japanese yen
	1 ■	2 ■	3 ■	4	5	6	7 ■	8 ■	9 ■	10	11	12
06	1.2561	146.09	116.32	103.7	86.7	93.6	105.0	94.8	76.5	103.9	97.4	74.3
07	1.3710	161.26	117.74	107.9	82.2	88.7	109.0	90.9	70.8	107.8	93.8	69.0
08	1.4707	152.31	103.36	113.0	78.2	99.5	113.6	87.5	77.7	110.8	91.8	75.7
08 *J-J*	1.5311	160.55	104.93	114.5	75.3	95.1	115.2	84.5	74.3	113.1	88.7	71.9
09 *J-J*	1.3328	127.28	95.48	112.5	84.3	114.1	112.8	94.3	89.4	108.0	97.0	88.7
08 *Apr*	1.5751	161.56	102.66	116.3	74.3	96.2	117.0	83.5	74.8	114.7	87.6	72.5
May	1.5557	162.31	104.34	115.8	74.6	94.9	116.6	83.9	73.9	113.8	89.0	71.1
Jun	1.5553	166.26	106.91	115.8	75.4	92.7	116.4	85.2	72.0	113.4	90.3	69.1
Jul	1.5770	168.45	106.83	116.2	74.9	92.2	116.6	85.0	71.6	113.3	90.5	69.0
Aug	1.4975	163.63	109.28	113.9	78.1	92.6	114.1	88.2	72.2	111.0	92.9	70.3
Sep	1.4370	153.20	106.62	112.0	79.3	96.9	112.1	89.3	75.5	108.9	95.1	73.3
Oct	1.3322	133.52	100.11	107.9	83.6	107.8	108.3	93.5	84.4	105.2	97.7	82.3
Nov	1.2732	123.28	96.82	107.1	86.0	114.2	107.5	94.9	89.6	104.2	98.4	88.6
Dec	1.3449	122.51	91.16	112.4	83.9	119.3	112.8	92.0	93.9	109.2	94.6	93.7
09 *Jan*	1.3239	119.73	90.42	111.9	84.1	121.1	112.3	93.1	94.9	108.1	95.9	93.5
Feb	1.2785	118.30	92.54	110.4	86.2	120.1	110.6	95.5	93.3	106.3	98.0	92.5
Mar	1.3050	127.65	97.84	113.3	87.1	112.9	113.4	96.5	87.7	108.8	98.5	87.4
Apr	1.3190	130.25	98.74	112.5	85.8	110.8	112.8	95.2	85.9	107.8	97.6	85.4
May	1.3650	131.85	96.61	113.0	82.3	110.8	113.3	91.3	85.6	108.1	94.9	85.0
Jun	1.4016	135.39	96.60	114.0	80.5	109.1	114.2	...	...	108.9	...	...

EXCHANGE RATES



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

Sources: ECB and BE.

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

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

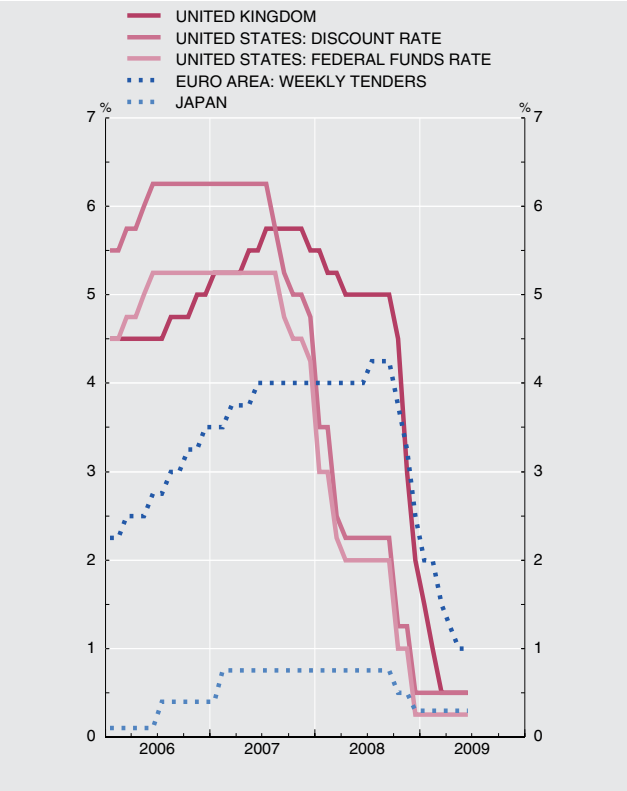
2.5. OFFICIAL INTERVENTION INTEREST RATES AND SHORT-TERM INTEREST RATES

■ Series depicted in chart.

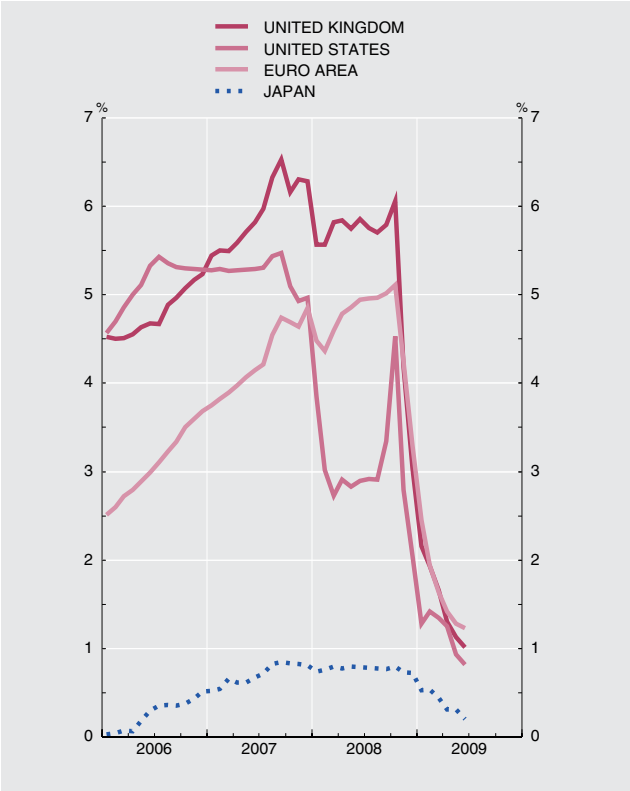
Percentages

	Official intervention interest rates					3-month interbank rates									
	Euro area	United States		Japan	United Kingdom	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	(a)	Discount rate (b)	Federal funds rate	(c)	(d)										
	1 ■	2 ■	3 ■	4 ■	5 ■	6	7	8 ■	9	10	11 ■	12	13	14 ■	15 ■
06	3.50	6.25	5.02	0.40	5.00	3.61	3.32	3.08	-	-	5.13	-	-	0.26	4.78
07	4.00	4.75	5.00	0.75	5.50	4.23	4.51	4.28	-	-	5.24	-	-	0.71	5.93
08	2.50	0.50	1.87	0.30	2.00	3.45	4.75	4.63	-	-	3.07	-	-	0.77	5.41
08 *Jan*	4.00	3.50	3.00	0.75	5.50	3.74	4.64	4.48	-	-	3.85	-	-	0.74	5.56
Feb	4.00	3.50	3.00	0.75	5.25	3.38	4.54	4.36	-	-	3.02	-	-	0.76	5.57
Mar	4.00	2.50	2.25	0.75	5.25	3.36	4.78	4.60	-	-	2.73	-	-	0.80	5.82
Apr	4.00	2.25	2.00	0.75	5.00	3.49	4.93	4.78	-	-	2.91	-	-	0.77	5.84
May	4.00	2.25	2.00	0.75	5.00	3.46	4.98	4.86	-	-	2.83	-	-	0.79	5.75
Jun	4.00	2.25	2.00	0.75	5.00	3.53	5.07	4.94	-	-	2.90	-	-	0.79	5.85
Jul	4.25	2.25	2.00	0.75	5.00	3.53	5.08	4.96	-	-	2.92	-	-	0.78	5.76
Aug	4.25	2.25	2.00	0.75	5.00	3.52	5.07	4.97	-	-	2.91	-	-	0.77	5.70
Sep	4.25	2.25	2.00	0.75	5.00	3.72	5.13	5.02	-	-	3.35	-	-	0.77	5.79
Oct	3.75	1.25	1.00	0.50	4.50	4.23	5.25	5.11	-	-	4.53	-	-	0.80	6.06
Nov	3.25	1.25	1.00	0.50	3.00	3.08	4.23	4.24	-	-	2.80	-	-	0.73	4.18
Dec	2.50	0.50	0.25	0.30	2.00	2.35	3.26	3.29	-	-	2.05	-	-	0.72	3.04
09 *Jan*	2.00	0.50	0.25	0.30	1.50	1.66	2.41	2.46	-	-	1.28	-	-	0.53	2.15
Feb	2.00	0.50	0.25	0.30	1.00	1.53	1.95	1.94	-	-	1.42	-	-	0.54	1.94
Mar	1.50	0.50	0.25	0.30	0.50	1.35	1.63	1.64	-	-	1.34	-	-	0.44	1.65
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

OFFICIAL INTERVENTION INTEREST RATES



3-MONTH INTERBANK RATES



Sorces: ECB, Reuters and BE.

a. Main refinancing operations.

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

c. Discount rate.

d. Retail bank base rate.

2.6. 10-YEAR GOVERNMENT BOND YIELDS ON DOMESTIC MARKETS

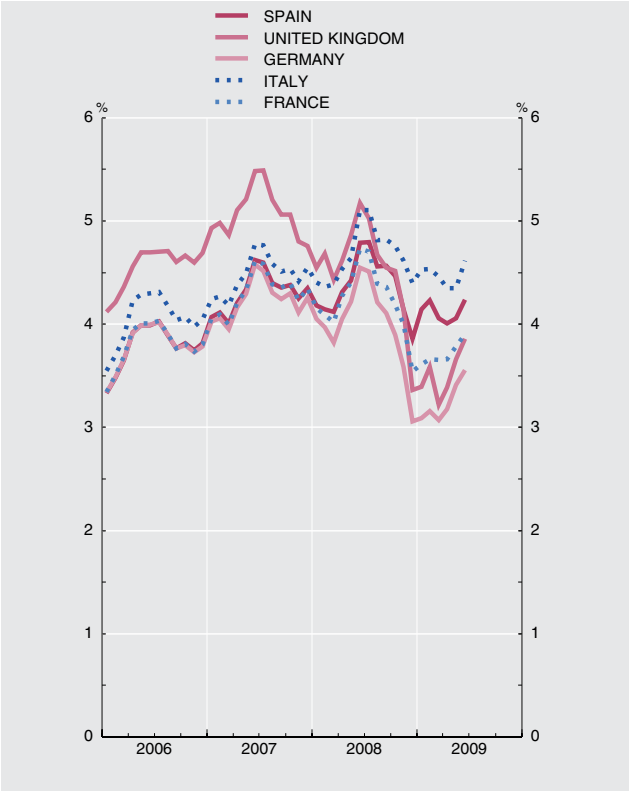
■ Series depicted in chart.

Percentages

	OECD 1	EU-15 2	Euro area 3 ■	Germany 4 ■	Spain 5 ■	United States 6 ■	France 7 ■	Italy 8 ■	Japan 9 ■	United Kingdom 10 ■
06	3.99	3.95	3.86	3.78	3.79	4.85	3.80	4.05	1.75	4.55
07	4.12	4.44	4.33	4.23	4.31	4.68	4.30	4.48	1.68	5.08
08	3.63	4.33	4.36	4.00	4.36	3.69	4.24	4.66	1.49	4.55
08 *Jan*	3.63	4.24	4.23	4.05	4.18	3.76	4.16	4.41	1.43	4.55
Feb	3.63	4.21	4.14	3.97	4.14	3.76	4.09	4.36	1.45	4.68
Mar	3.46	4.13	4.07	3.82	4.12	3.53	4.02	4.39	1.31	4.43
Apr	3.63	4.33	4.28	4.05	4.31	3.68	4.27	4.54	1.41	4.62
May	3.82	4.48	4.42	4.22	4.42	3.90	4.40	4.64	1.67	4.86
Jun	4.07	4.83	4.81	4.55	4.79	4.13	4.73	5.11	1.75	5.17
Jul	3.98	4.79	4.81	4.51	4.80	4.03	4.70	5.10	1.61	5.02
Aug	3.79	4.49	4.50	4.22	4.56	3.92	4.39	4.82	1.46	4.67
Sep	3.67	4.43	4.50	4.11	4.57	3.71	4.36	4.82	1.49	4.54
Oct	3.66	4.31	4.46	3.90	4.47	3.80	4.19	4.76	1.51	4.52
Nov	3.46	4.06	4.20	3.59	4.15	3.58	4.00	4.61	1.47	4.14
Dec	2.77	3.61	3.89	3.06	3.86	2.44	3.54	4.40	1.31	3.36
09 *Jan*	2.81	3.72	4.11	3.09	4.15	2.48	3.61	4.53	1.25	3.39
Feb	3.01	3.81	4.20	3.16	4.23	2.86	3.66	4.53	1.29	3.59
Mar	2.97	3.70	4.15	3.07	4.06	2.85	3.65	4.46	1.31	3.22
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

10-YEAR GOVERNMENT BOND YIELDS

10-YEAR GOVERNMENT BOND YIELDS



Sources: ECB, Reuters and BE.

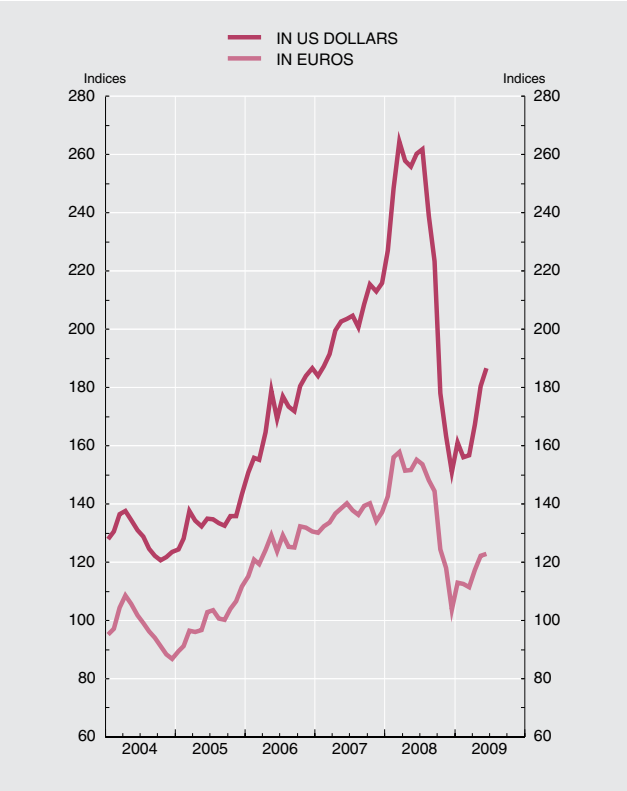
2.7 INTERNATIONAL MARKETS. NON-ENERGY COMMODITIES PRICE INDEX. CRUDE OIL AND GOLD PRICE.

■ Series depicted in chart.

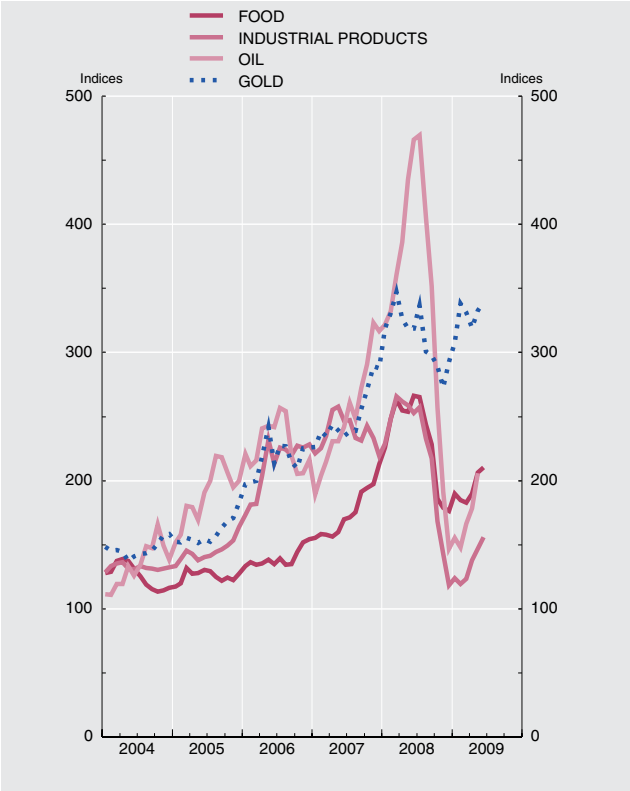
Base 2000 = 100

	Non-energy commodity price index (a)						Oil		Gold		
	Euro index	US dollar index						Brent North sea			
	General	General	Food	Industrial products			Index (b)	US dollars per barrel	Index (c)	US dollars per troy ounce	Euro per gram
				Total	Non-food agricultural products	Metals					
	1 ■	2 ■	3 ■	4 ■	5	6	7 ■	8	9 ■	10	11
04	97.4	128.3	125.5	132.2	131.5	130.7	133.8	38.3	146.7	409.2	10.58
05	100.0	134.0	125.5	144.8	131.2	152.1	189.2	54.2	159.5	445.1	11.53
06	125.6	170.8	139.3	211.6	147.3	246.4	227.8	64.9	216.7	604.6	15.45
07	136.4	202.3	175.1	237.4	162.4	278.4	252.1	73.0	249.8	696.7	16.32
08	142.2	227.4	232.4	221.0	176.0	245.5	343.7	97.2	312.5	871.7	19.07
08 *J-J*	152.5	252.3	252.0	252.7	193.5	285.1	383.6	109.4	326.7	911.4	19.15
09 *J-J*	116.6	168.2	194.1	134.6	118.6	143.2	...	51.6	327.9	914.7	22.08
08 *May*	151.7	255.9	253.7	258.7	199.3	291.2	434.8	123.0	318.6	888.7	18.39
Jun	155.2	260.3	266.2	252.6	204.1	279.2	465.8	132.0	318.8	889.5	18.39
Jul	153.6	261.8	265.3	257.2	203.4	286.7	469.5	133.0	336.9	939.8	19.17
Aug	148.0	239.0	243.8	232.9	190.6	256.0	405.8	114.2	300.8	839.0	18.00
Sep	144.3	223.4	228.3	217.0	181.0	236.7	351.7	98.1	297.5	829.9	18.56
Oct	124.4	178.1	185.7	168.2	141.3	183.0	257.5	72.0	289.1	806.6	19.48
Nov	118.1	163.2	178.9	143.0	127.5	151.4	191.4	52.7	272.7	760.9	19.20
Dec	103.6	151.0	176.1	118.6	108.7	124.0	147.1	40.5	292.5	816.1	19.54
09 *Jan*	113.0	161.1	190.0	123.8	114.9	128.0	155.5	42.9	307.8	858.7	20.85
Feb	112.6	156.2	184.8	119.2	111.2	123.2	147.9	43.3	338.1	943.2	23.72
Mar	111.3	156.8	182.7	123.3	108.2	131.5	166.3	46.8	331.3	924.3	22.78
Apr	117.4	167.3	189.9	138.0	120.0	147.8	178.1	50.2	319.1	890.2	21.70
May	122.3	180.5	206.4	147.1	128.7	157.1	205.8	57.5	332.9	928.6	21.87
Jun	122.9	186.7	210.4	155.9	128.4	170.9	...	68.8	339.2	946.2	21.71

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.

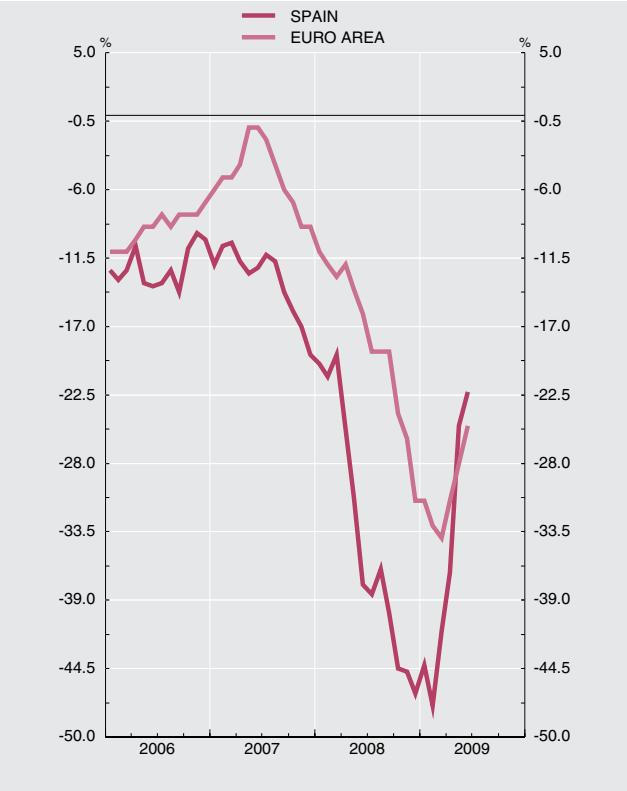
3.1 INDICATORS OF PRIVATE CONSUMPTION. SPAIN AND EURO AREA

■ Series depicted in chart.

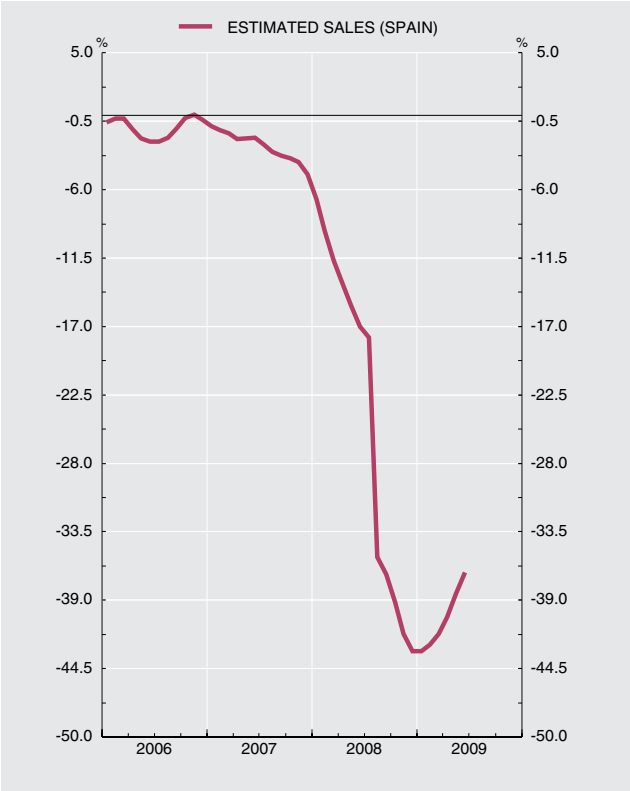
Annual percentage changes

		Opinion surveys (net percentages)						New car registrations and sales				Retail trade indices. (2005=100). (Deflated indices)							
		Consumers			Retail trade confidence index	Memorandum item: euro area		of which			Memorandum item: euro area	General retail trade index	General index without petrol stations						
													of which		Large retail outlets	Large chain stores	Small chain stores	Single-outlet retailers	Memorandum item: euro area (a)
		Confidence index	General economic situation: anticipated trend	Household economic situation: anticipated trend		Consumer confidence index	Retail trade confidence index	Registrations	Private use	Estimated sales	Registrations		Total	Food					
		1 ■	2	3	4	5 ■	6	7	8	9 ■	10	11	12	13	14	15	16	17	18
06		-12	-12	-3	-9	-9	1	-1.0	-0.8	-0.9	3.6	1.6	1.8	0.9	...	...	1.2	-0.8	2.5
07		-13	-12	-4	-13	-5	1	-1.6	-2.2	-1.2	-0.8	3.2	2.5	1.3	1.9	6.4	3.4	0.7	1.7
08	A	-34	-33	-21	-27	-18	-7	-27.5	-30.0	-28.1	-8.1	-5.2	-6.1	-2.3	-5.6	0.7	-9.0	-8.4	-0.8
08 *J-J*	P	-26	-25	-15	-24	-13	-2	-17.8	-21.5	-17.6	-2.6	-3.5	-4.8	-1.2	-4.1	2.1	-6.7	-7.6	-0.2
09 *J-J*	A	-36	-38	-20	-26	-30	-18	-38.7	-32.8	-38.3	...	...	...	...	...	...	...	...	...
08 *Jul*	P	-39	-38	-28	-26	-19	-9	-26.5	-28.6	-27.4	-8.5	-4.2	-5.4	-1.0	-4.7	1.1	-6.6	-8.3	-1.3
Aug	P	-37	-39	-24	-35	-19	-10	-39.7	-40.0	-41.3	-5.9	-7.6	-8.5	-4.0	-7.5	-2.8	-12.4	-10.1	-1.3
Sep	P	-40	-36	-25	-33	-19	-8	-31.7	-31.8	-32.2	-11.3	-5.6	-6.3	-3.1	-5.7	1.1	-10.7	-8.8	-0.7
Oct	A	-45	-44	-30	-30	-24	-13	-39.0	-38.6	-40.0	-14.4	-6.9	-7.4	-2.9	-6.9	-0.2	-11.7	-9.7	-2.0
Nov	A	-45	-42	-26	-26	-26	-13	-48.7	-47.9	-49.6	-18.3	-10.0	-10.2	-5.4	-8.1	-3.0	-16.0	-12.1	-2.0
Dec	A	-47	-44	-26	-34	-31	-20	-47.3	-45.6	-49.9	-23.2	-7.5	-6.4	-3.8	-9.3	-0.1	-10.2	-6.6	-1.3
09 *Jan*	A	-44	-43	-25	-29	-31	-20	-42.2	-39.2	-41.6	-20.6	-6.3	-5.0	-2.1	0.4	2.7	-10.4	-9.0	-1.9
Feb	A	-48	-48	-30	-29	-33	-19	-49.3	-41.2	-48.8	-12.7	-11.7	-10.8	-8.9	-11.8	-7.2	-12.5	-10.9	-4.1
Mar	A	-42	-47	-22	-27	-34	-17	-39.0	-30.3	-38.7	-5.8	-7.6	-6.1	-6.0	-10.7	-3.6	-6.3	-4.5	-2.6
Apr	A	-37	-42	-18	-29	-31	-20	-46.0	-42.4	-45.6	-3.7	-8.5	-6.8	-3.1	-5.1	-0.2	-9.9	-8.7	-1.8
May	A	-25	-23	-12	-22	-28	-14	-38.8	-33.0	-38.7	5.6	-7.8	-6.5	-6.5	-7.8	-2.6	-7.9	-6.2	-2.7
Jun	A	-22	-23	-10	-22	-25	-16	-15.7	-7.9	-15.9	...	...	...	...	...	...	...	...	...

CONSUMER CONFIDENCE INDEX



CAR SALES
Trend obtained with TRAMO-SEATS



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

a. Data adjusted by working days.

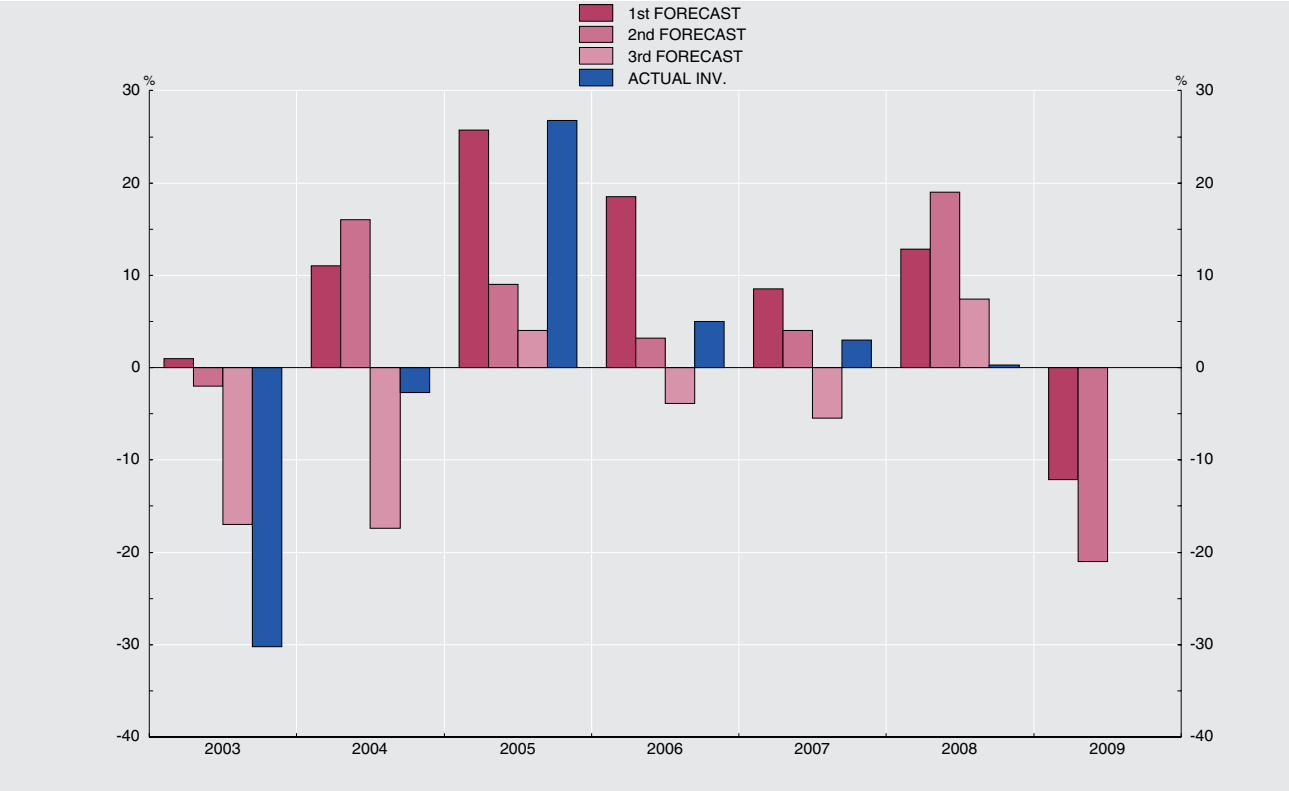
3.2. INVESTMENT IN INDUSTRY (EXCLUDING CONSTRUCTION): OPINION SURVEYS. SPAIN

■ Series depicted in chart.

Annual percentage changes at current prices

	ACTUAL INV. 1 ■	1st FORECAST 2 ■	2nd FORECAST 3 ■	3rd FORECAST 4 ■
03	-30	1	-2	-17
04	-3	11	16	-17
05	27	26	9	4
06	5	19	3	-4
07	3	9	4	-6
08	0	13	19	7
09	...	-12	-21	...

INVESTMENT IN INDUSTRY
Annual rates of change



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

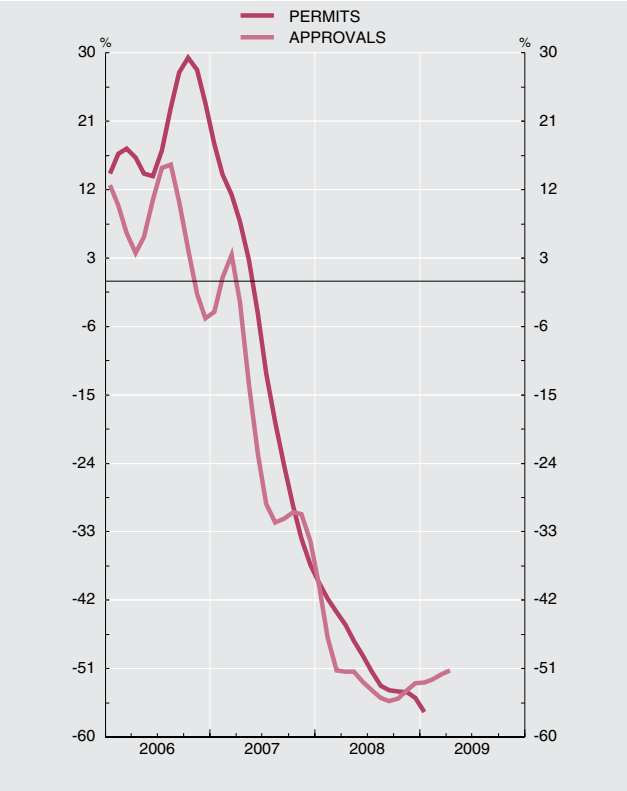
3.3. CONSTRUCTION. INDICATORS OF BUILDING STARTS AND CONSUMPTION OF CEMENT. SPAIN

■ Series depicted in chart.

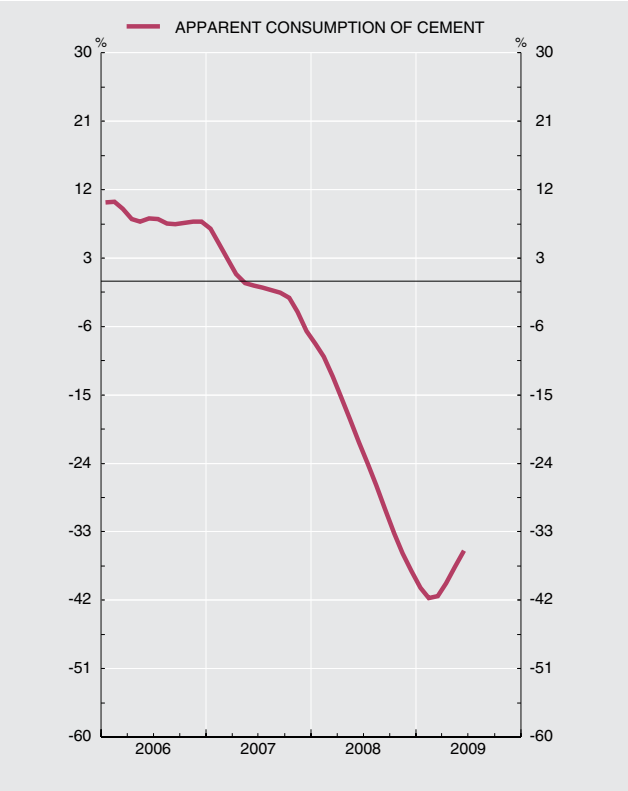
Annual percentage changes

		Permits: buildable floorage				Approvals: buildable floorage		Government tenders (budget)							Apparent consumption of cement
			of which				of which	Total		Building				Civil engineering	
		Total	Residential	Housing	Non-residential	Total	Housing	For the month	Year to date	Total	of which: Residential	of which: Housing	Non-residential		
		1 ■	2	3	4	5 ■	6	7 ■	8	9	10	11	12	13	14 ■
06		22.0	20.1	20.4	31.9	14.2	16.5	31.3	31.3	26.8	61.7	57.0	15.8	33.3	8.5
07		-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		-48.5	-53.1	-53.8	-29.8	-52.1	-56.6	3.0	3.0	-7.4	8.6	13.4	-11.4	7.3	-23.8
08 *J-J*		-45.3	-50.1	-50.9	-23.1	-51.0	-55.5	-2.2	-2.2	-17.6	-12.2	-28.3	-18.9	5.2	-16.5
09 *J-J*	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-40.5
08 *Mar*		-50.6	-51.3	-53.9	-48.3	-67.3	-70.5	70.5	27.7	-33.9	-52.0	-64.0	-27.2	135.8	-25.2
Apr		-33.5	-38.7	-40.1	-10.0	-38.6	-40.6	71.9	37.6	109.1	61.0	3.4	126.9	56.5	-2.2
May		-54.8	-59.6	-60.2	-35.3	-55.5	-58.7	-66.8	12.3	-80.3	-70.7	-68.0	-82.5	-61.4	-21.1
Jun		-45.5	-51.8	-51.0	-12.5	-52.3	-59.2	-66.7	-2.2	-58.2	43.8	-47.3	-69.1	-70.3	-33.1
Jul		-49.4	-55.6	-56.2	-20.5	-52.0	-54.5	-10.5	-3.5	5.2	-37.9	27.6	15.7	-13.9	-21.3
Aug		-62.3	-69.6	-69.7	-27.0	-60.3	-64.5	10.5	-2.4	67.2	250.5	484.0	33.7	-9.6	-30.5
Sep		-49.4	-50.3	-50.0	-47.4	-50.7	-57.5	41.3	0.0	17.5	30.7	230.2	13.9	50.9	-24.6
Oct		-53.5	-59.2	-59.9	-28.2	-56.8	-62.1	-12.4	-1.2	-35.4	-53.2	29.0	-29.8	-3.7	-34.1
Nov		-58.0	-61.7	-62.7	-44.9	-57.9	-63.6	29.5	1.0	45.7	227.9	377.2	4.7	22.8	-41.1
Dec		-41.3	-41.8	-42.4	-40.4	-44.5	-46.3	22.0	3.0	-14.7	-18.0	-44.3	-13.7	33.8	-39.6
09 *Jan*	P	-61.6	-63.1	-63.4	-56.9	-55.9	-63.5	-20.9	-20.9	-30.2	21.7	-60.9	-41.0	-15.1	-51.9
Feb	P	...	...	...	...	-56.2	-65.3	57.3	13.8	87.3	28.1	30.0	101.0	47.4	-45.2
Mar	P	...	...	...	...	-42.0	-57.4	-26.7	-5.1	49.4	7.5	8.5	59.7	-40.1	-36.5
Apr	P	...	...	...	...	-59.0	-66.5	-47.5	-17.0	-55.8	-39.2	-21.7	-60.2	-43.0	-45.2
May	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-39.1
Jun	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-20.6

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.

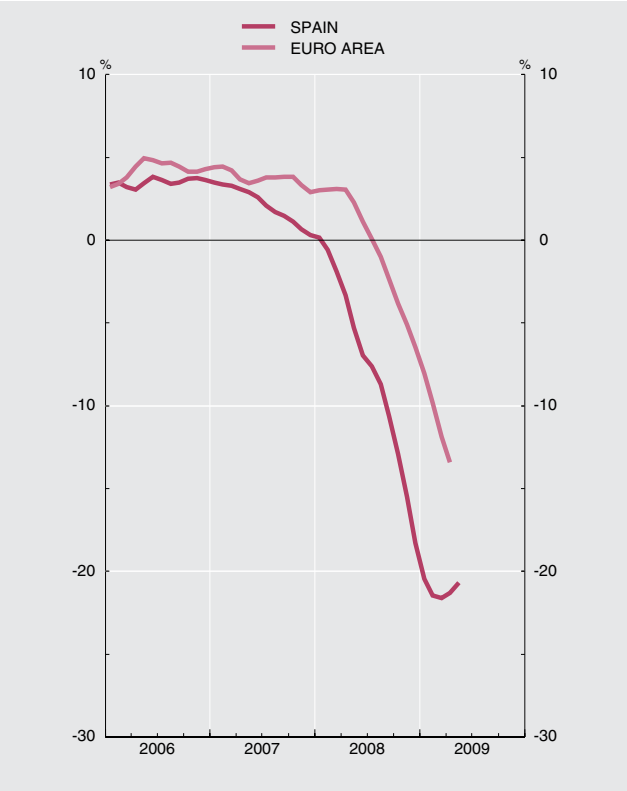
3.4. INDUSTRIAL PRODUCTION INDEX. SPAIN AND EURO AREA (a)

■ 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
06	MP	103.7	3.7	2.1	7.7	3.6	0.9	2.9	4.0	0.6	4.2	4.4	2.9	5.9	4.9
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	6.7	3.8
08	MP	98.6	-7.1	-4.6	-8.7	-11.0	1.6	-13.7	-7.8	1.1	-1.8	-2.0	-2.0	-0.2	-3.4
08 *J-M*	MP	106.2	-2.3	-1.4	-2.0	-5.1	3.7	-4.9	-2.8	3.5	2.4	2.0	-0.4	5.3	1.4
09 *J-M*	MP	82.0	-22.8	-13.7	-29.4	-30.5	-9.4	-32.1	-24.0	-9.5	-18.4	...	-6.9	-23.8	-25.2
08 *Feb*	P	108.8	3.8	4.4	5.8	0.1	10.2	6.3	3.3	8.5	3.5	3.3	0.7	6.3	2.6
Mar	P	98.7	-15.3	-16.9	-18.4	-17.7	3.2	-15.2	-16.7	1.9	1.2	0.9	-1.9	3.2	0.7
Apr	P	111.4	12.0	15.0	16.6	9.2	5.1	11.8	12.4	6.0	4.5	4.1	0.2	8.5	3.1
May	P	105.4	-8.4	-8.7	-9.6	-9.9	-0.9	-20.1	-9.0	0.2	-0.8	-0.7	-3.2	1.6	-1.4
Jun	P	100.6	-10.9	-10.3	-13.2	-13.6	1.8	-22.1	-11.8	1.3	-0.6	-0.4	-0.8	0.9	-1.3
Jul	P	110.5	-1.9	0.6	-1.9	-5.5	3.9	-10.2	-2.1	3.1	-1.2	-1.1	-1.7	-0.6	-1.2
Aug	P	69.1	-11.5	-11.4	-17.9	-14.3	0.9	-24.5	-13.3	4.3	-0.9	-0.9	-2.7	0.6	-0.7
Sep	P	99.8	-4.7	-1.6	-5.7	-8.0	-0.1	-16.7	-4.8	-1.1	-2.4	-2.5	-2.4	-1.6	-4.2
Oct	P	100.9	-12.2	-7.1	-18.0	-16.2	-0.1	-18.6	-12.9	-3.4	-5.9	-6.0	-4.5	-5.7	-7.5
Nov	P	90.9	-18.3	-12.5	-22.3	-25.0	-3.4	-29.0	-19.4	-5.1	-8.9	-9.3	-4.9	-8.8	-12.7
Dec	P	80.3	-16.0	-6.7	-18.7	-28.3	-1.6	-18.0	-17.8	-2.3	-12.2	-13.2	-4.8	-11.5	-21.5
09 *Jan*	P	80.7	-24.5	-17.8	-33.9	-32.7	-3.5	-32.7	-26.8	-3.4	-16.6	-18.7	-6.3	-22.1	-23.8
Feb	P	82.4	-24.3	-14.1	-33.0	-31.8	-9.7	-35.8	-25.5	-10.9	-19.2	-21.1	-8.6	-25.2	-25.7
Mar	P	85.4	-13.5	-0.9	-16.8	-21.6	-12.1	-24.3	-13.6	-11.7	-18.7	-20.2	-7.5	-22.5	-25.9
Apr	P	79.8	-28.4	-20.8	-33.6	-36.4	-11.2	-38.3	-29.5	-13.2	-20.5	-21.8	-7.3	-26.8	-27.0
May	P	81.9	-22.3	-13.1	-28.4	-28.9	-11.0	-28.0	-23.4	-9.0	-17.0	-18.3	-5.0	-22.1	-23.4

INDUSTRIAL PRODUCTION INDEX
Trend obtained with TRAMO-SEATS



INDUSTRIAL PRODUCTION INDEX
Trend obtained with TRAMO-SEATS

Sources: INE and BCE.
Note: The underlying series for this indicator are in Table 23.1 of the BE Boletín estadístico.
a. Spain 2005 = 100; euro area 2000 = 100.

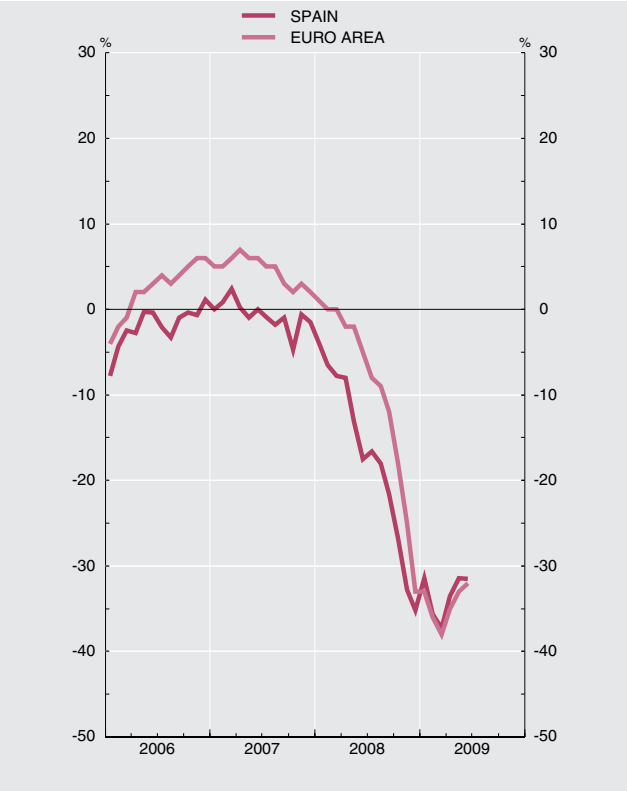
3.5. MONTHLY BUSINESS SURVEY: INDUSTRY AND CONSTRUCTION. SPAIN AND EURO AREA

■ Series depicted in chart.

Percentage balances

		Industry, excluding construction										Construction					Memorandum item: euro area		
		Business climate indicator (a)	Production over the last three months	Trend in production (a)	Total orders (a)	Foreign orders	Stocks of finished products (a)	Business climate indicator				Business climate indicator	Production	Orders	Trend		Industry, excluding construction		Construction climate indicator
								Consumption (a)	Investment (a)	Intermediate goods (a)	Other sectors (a)				Production	Orders	Business climate indicator	Order Book	
		1 ■	2	3	4	5	6	7	8	9	10	11 ■	12	13	14	15	16 ■	17	18 ■
06	M	-2	7	6	-1	-11	12	-3	1	-3	-1	15	27	22	23	15	2	-0	1
07	M	-1	7	6	2	-5	10	-2	6	-3	-3	9	21	12	18	21	5	5	-0
08	M	-17	-16	-8	-24	-21	20	-11	-8	-28	-6	-22	-0	-19	-16	-16	-9	-15	-14
08 *J-J*	M	-9	-6	-1	-11	-11	17	-7	3	-19	-5	-15	6	-14	-9	-13	-1	-4	-9
09 *J-J*	M	-33	-44	-18	-55	-55	27	-20	-31	-46	-32	-34	-21	-33	-11	-22	-35	-59	-33
08 *Mar*		-8	-6	-0	-7	-10	16	-5	5	-17	-11	-20	-6	-21	-9	-17	-	-1	-8
Apr		-8	-4	1	-10	-10	15	-6	4	-16	-3	-18	4	-18	-23	-13	-2	-5	-11
May		-13	-6	-6	-16	-13	17	-7	-2	-25	-6	-11	23	-10	-9	-26	-2	-5	-8
Jun		-18	-10	-10	-20	-19	23	-13	-2	-29	-3	-11	13	-15	-4	-27	-5	-9	-11
Jul		-17	-16	-7	-29	-19	14	-10	-9	-25	-7	-25	-8	-21	-26	-26	-8	-13	-14
Aug		-18	-10	-8	-25	-20	21	-13	-8	-25	-7	-17	-6	-15	-3	-6	-9	-13	-12
Sep		-22	-20	-11	-33	-27	21	-16	-6	-35	-3	-24	-9	-8	-1	-38	-12	-20	-15
Oct		-27	-20	-17	-37	-32	27	-16	-27	-38	0	-44	-37	-38	-11	-27	-18	-26	-20
Nov		-33	-40	-21	-47	-38	31	-19	-26	-49	-19	-30	4	-27	-50	-8	-25	-36	-23
Dec		-35	-47	-23	-53	-48	29	-22	-34	-50	-3	-34	20	-31	-43	-4	-33	-47	-27
09 *Jan*		-31	-41	-21	-47	-44	26	-17	-27	-47	-4	-40	19	-27	-29	-2	-33	-49	-30
Feb		-36	-54	-23	-55	-57	29	-22	-31	-53	-4	-39	-38	-26	-24	-36	-36	-57	-32
Mar		-37	-55	-26	-58	-60	28	-21	-38	-52	-31	-36	-37	-35	-11	-26	-38	-61	-32
Apr		-34	-42	-16	-59	-58	27	-21	-33	-43	-47	-37	-17	-38	-3	-15	-35	-60	-34
May		-31	-41	-13	-56	-57	25	-21	-31	-39	-51	-25	-26	-37	2	-18	-33	-61	-34
Jun		-32	-32	-11	-57	-54	26	-18	-25	-43	-58	-26	-24	-35	-3	-34	-32	-63	-34

INDUSTRIAL BUSINESS CLIMATE
Percentage balances



CONSTRUCTION BUSINESS CLIMATE
Percentage balances

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

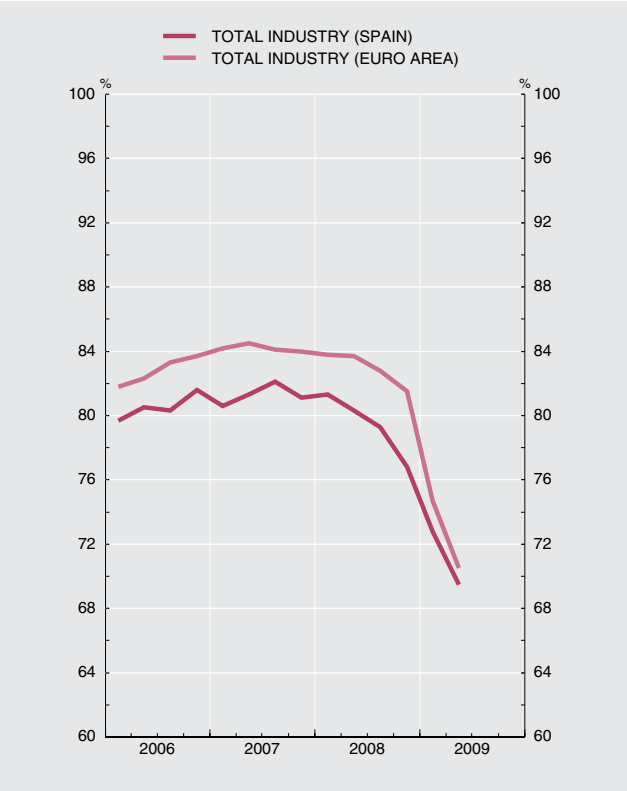
3.6. BUSINESS SURVEY: CAPACITY UTILISATION. SPAIN AND EURO AREA

■ Series depicted in chart.

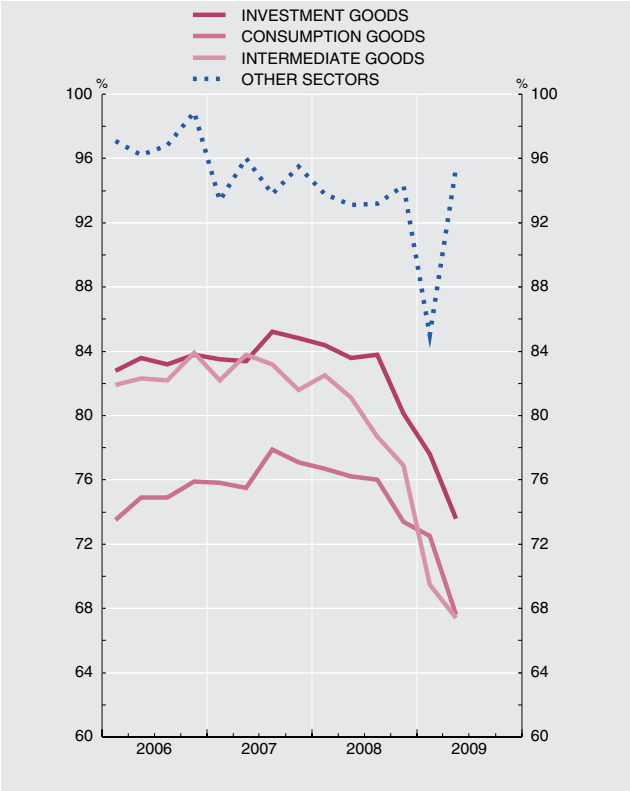
Percentages and percentage balances

	Total industry			Consumer goods			Investment goods			Intermediate goods			Other sectors			Memo-ramdum item: euro area capacity utilisa-tion
	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	Capacity utilisation		Installed capacity	
	Over last three months (%)	Forecast (%)	(Per-centage balan-ces)	Over last three months (%)	Forecast (%)	(Per-centage balan-ces)	Over last three months (%)	Forecast (%)	(Per-centage balan-ces)	Over last three months (%)	Forecast (%)	(Per-centage balan-ces)	Over last three months (%)	Forecast (%)	(Per-centage balan-ces)	(%)
	1 ■	2	3	4 ■	5	6	7 ■	8	9	10 ■	11	12	13 ■	14	15	16 ■
06	80.5	81.6	4	74.8	76.5	4	83.4	83.8	7	82.6	83.5	4	97.3	97.5	-	82.8
07	81.3	82.6	3	76.6	78.2	5	84.2	85.0	-0	82.7	84.2	2	94.7	95.5	-	84.2
08	79.4	79.8	8	75.6	76.7	9	83.0	82.8	4	79.8	79.8	9	93.6	94.1	-0	83.0
08 *Q1-Q2*	80.8	81.8	5	76.5	78.2	9	84.0	84.7	4	81.8	82.5	3	93.5	94.2	-	83.8
09 *Q1-Q2*	71.2	71.1	24	70.1	70.3	13	75.6	74.4	19	68.5	68.6	35	90.2	91.1	-	72.6
06 *Q4*	81.6	82.4	2	75.9	76.5	3	83.8	84.8	5	83.9	84.8	-0	98.9	98.4	-	83.7
07 *Q1*	80.6	81.7	2	75.8	77.2	4	83.5	83.8	1	82.2	83.4	1	93.4	95.9	-	84.2
Q2	81.3	82.8	3	75.5	78.1	6	83.4	84.0	2	83.8	85.2	2	96.0	95.3	-	84.5
Q3	82.1	83.3	1	77.9	79.4	5	85.2	86.5	-7	83.2	84.2	1	93.8	94.6	-	84.1
Q4	81.1	82.5	5	77.1	77.9	6	84.8	85.6	4	81.6	83.9	6	95.5	96.2	-	84.0
08 *Q1*	81.3	82.1	5	76.7	77.8	9	84.4	85.8	5	82.5	82.9	3	93.8	94.9	-	83.8
Q2	80.3	81.5	5	76.2	78.5	9	83.6	83.5	3	81.1	82.1	4	93.1	93.5	-	83.7
Q3	79.3	79.5	7	76.0	76.5	11	83.8	83.6	4	78.7	79.0	7	93.2	93.0	-	82.8
Q4	76.8	75.9	14	73.4	73.9	10	80.1	78.3	6	76.9	75.0	23	94.3	94.8	-0	81.5
09 *Q1*	72.8	72.4	20	72.5	71.9	9	77.6	75.6	16	69.5	69.9	32	85.0	86.1	-	74.7
Q2	69.5	69.7	27	67.6	68.6	18	73.6	73.2	23	67.4	67.3	39	95.4	96.0	-	70.5

CAPACITY UTILISATION. TOTAL INDUSTRY
Percentages



CAPACITY UTILISATION. BY TYPE OF GOOD
Percentages



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

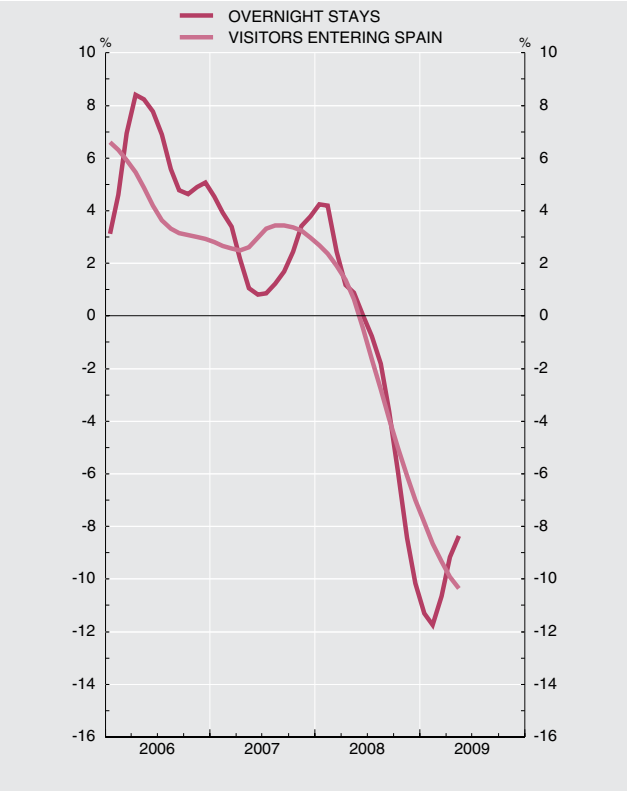
3.7. TOURISM AND TRANSPORT STATISTICS. SPAIN

■ Series depicted in chart.

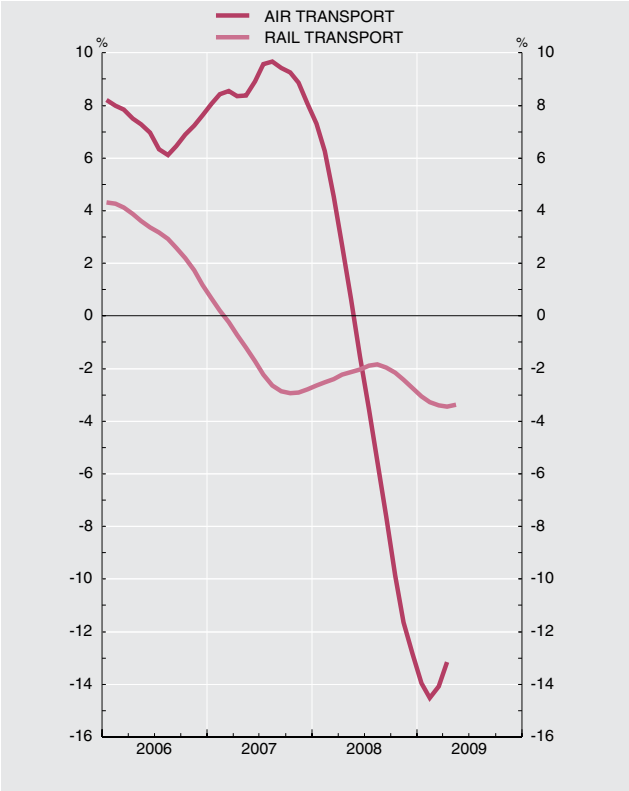
Annual percentage changes

		Hotel stays (a)		Overnight stays		Visitors entering Spain			Air transport				Maritime transport		Rail transport	
									Passengers							
		Total	Foreigners	Total	Foreigners	Total	Tourists	Day-trippers	Total	Domestic flights	International flights	Freight	Passengers	Freight	Passengers	Freight
		1	2	3 ■	4	5 ■	6	7	8 ■	9	10	11	12	13	14 ■	15
06		5.8	6.1	6.2	6.5	3.9	3.7	4.1	6.7	6.7	6.8	-4.5	10.2	4.9	2.0	-3.1
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	-1.7	-1.5
08	P	-1.6	0.1	-1.1	0.3	-1.1	-2.4	0.7	-3.0	-7.5	0.3	0.0	-1.5	-2.1	-1.1	-10.3
08 *J-M*	P	2.5	5.0	2.9	4.2	4.1	3.3	5.3	4.3	1.8	6.3	1.8	3.3	4.4	-1.7	-5.3
09 *J-M*	P	-10.9	-13.4	-10.2	-11.5	-9.8	-11.8	-7.0	...	...	...	...	...	...	-6.3	...
08 *Feb*		8.0	8.6	9.4	9.6	5.9	6.3	5.3	10.2	9.9	10.5	4.2	2.9	1.0	1.6	3.6
Mar		7.5	5.6	10.3	3.9	6.6	6.5	6.7	6.8	2.4	10.6	-2.4	27.2	0.3	-6.6	-18.4
Apr	P	-10.0	-1.1	-11.0	-1.7	-2.8	-2.2	-3.5	-2.4	-2.0	-2.7	9.9	-19.2	9.6	4.1	7.7
May	P	6.2	7.2	6.7	6.3	9.7	4.7	18.5	2.3	-5.3	7.9	-0.3	7.3	-1.1	-4.5	-13.8
Jun	P	-2.6	-0.7	-2.3	-1.4	1.7	0.8	3.2	-1.6	-6.2	1.5	8.9	0.3	1.7	-4.4	-9.7
Jul	P	0.6	2.0	0.9	2.9	-4.2	-7.1	1.0	-3.5	-9.0	0.0	3.5	-5.0	0.0	1.3	-2.9
Aug	P	-0.7	0.1	-0.6	1.1	-0.1	-2.7	3.2	-2.4	-9.7	2.3	5.6	-1.5	-5.1	4.1	-16.9
Sep	P	-3.3	-2.3	-2.8	-2.3	-5.8	-5.4	-6.5	-8.8	-15.9	-4.3	-1.4	-8.2	-6.1	-2.6	-2.5
Oct	P	-6.6	-3.3	-5.1	-2.8	-5.8	-4.9	-7.2	-10.9	-18.3	-5.8	-2.7	-1.1	-5.7	0.5	-14.2
Nov	P	-11.8	-11.3	-10.6	-8.7	-7.9	-11.5	-3.5	-14.3	-19.5	-9.6	-6.5	-4.6	-15.0	0.3	-26.8
Dec	P	-9.6	-12.6	-10.6	-10.9	-10.3	-12.9	-7.6	-13.7	-16.2	-11.4	-13.3	-5.4	-14.1	-2.9	-27.8
09 *Jan*	P	-13.3	-14.8	-12.0	-11.6	-5.2	-9.8	-0.0	-17.1	-23.1	-11.9	-15.0	-5.1	-23.1	-6.5	-38.7
Feb	P	-14.7	-18.1	-15.5	-17.2	-11.8	-15.9	-6.6	-18.5	-20.8	-16.4	-19.8	5.5	-13.6	-10.8	-32.9
Mar	P	-19.4	-19.6	-18.9	-15.1	-17.3	-20.8	-12.5	-19.0	-18.2	-19.5	-13.0	-27.2	-14.0	-4.2	-12.6
Apr	P	-1.2	-8.3	2.0	-5.9	-2.6	-1.7	-3.9	-5.0	-9.3	-1.6	-23.0	23.5	-19.6	-6.1	-40.5
May	P	-8.2	-10.4	-8.9	-10.2	-11.1	-11.7	-10.3	...	...	...	...	...	...	-3.8	...

TOURISM
Trend obtained with TRAMO-SEATS



TRANSPORT
Trend obtained with TRAMO-SEATS



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

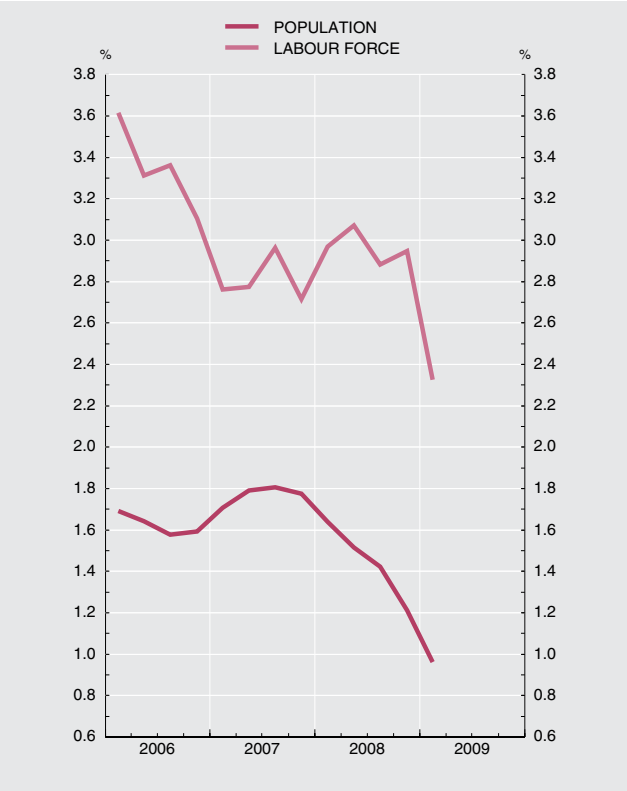
4.1. LABOUR FORCE. SPAIN

■ Series depicted in chart.

Thousands and annual percentage changes

		Population over 16 years of age				Labour force				
							Annual change (b)			
		Thousands	Annual change	4-quarter % change	Participation rate (%) (a)	Thousands (a)	Total	Due to change in population over 16 years of age	Due to change in participation rate	4-quarter % change
		1	2	3 ■	4	5	6 ■	7 ■	8 ■	9 ■
06	M	37 008	592	1.6	58.33	21 585	699	345	354	3.3
07	M	37 663	655	1.8	58.92	22 190	605	386	219	2.8
08	M	38 208	545	1.4	59.80	22 848	658	326	333	3.0
08 *Q1-Q1*	M	38 043	614	1.6	59.35	22 577	651	364	287	3.0
09 *Q1-Q1*	M	38 409	366	1.0	60.15	23 102	525	220	305	2.3
06 *Q3*		37 065	575	1.6	58.44	21 661	705	336	368	3.4
Q4		37 236	583	1.6	58.58	21 812	657	342	315	3.1
07 *Q1*		37 429	629	1.7	58.58	21 925	589	368	221	2.8
Q2		37 592	661	1.8	58.86	22 127	597	389	208	2.8
Q3		37 734	669	1.8	59.10	22 303	642	395	246	3.0
Q4		37 897	661	1.8	59.12	22 405	592	391	201	2.7
08 *Q1*		38 043	614	1.6	59.35	22 577	651	364	287	3.0
Q2		38 162	570	1.5	59.76	22 807	679	340	339	3.1
Q3		38 271	537	1.4	59.95	22 945	643	322	321	2.9
Q4		38 357	460	1.2	60.13	23 065	660	276	384	2.9
09 *Q1*		38 409	366	1.0	60.15	23 102	525	220	305	2.3

LABOUR FORCE SURVEY
Annual percentage change



LABOUR FORCE
Annual changes

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

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

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

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

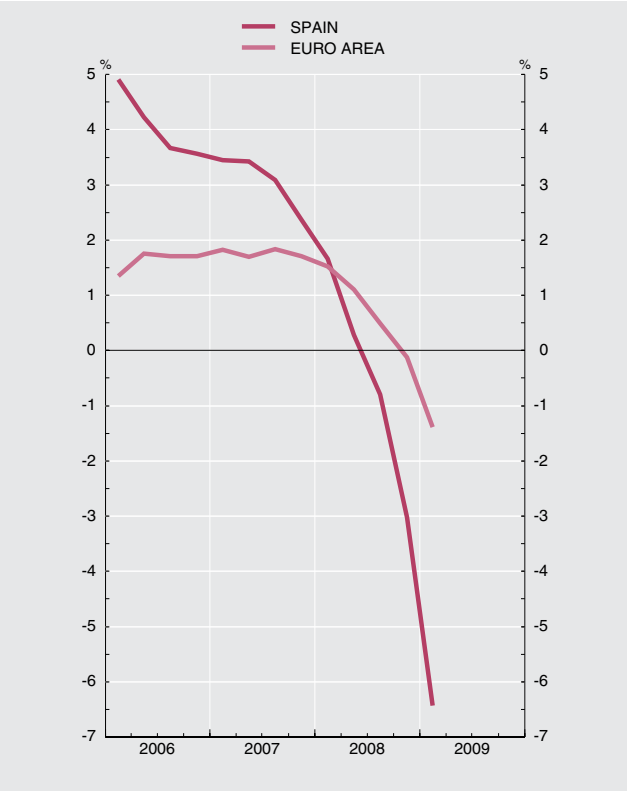
4.2. EMPLOYMENT AND WAGE-EARNERS. SPAIN AND EURO AREA

■ Series depicted in chart.

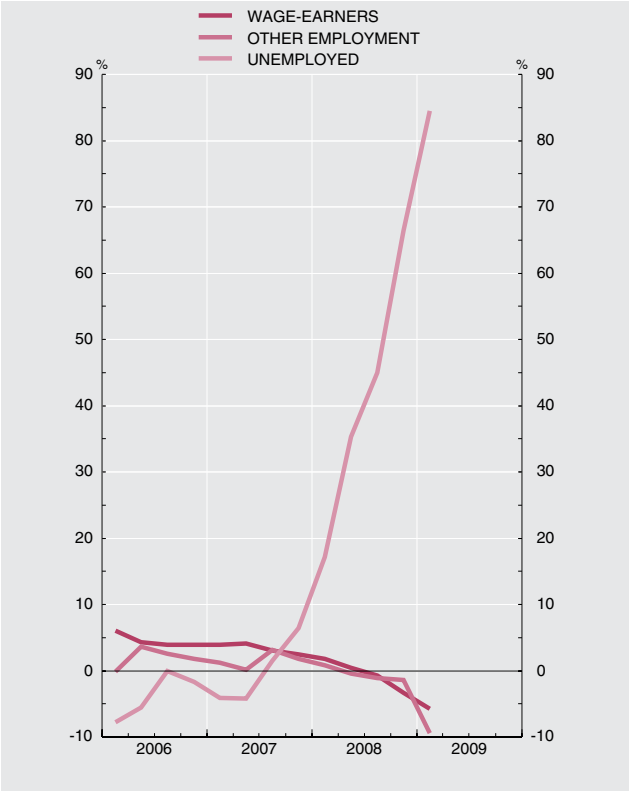
Thousands and annual percentage changes

		Employment									Unemployment				Memorandum item: euro area	
		Total			Wage-earners			Other								
		Thousands	Annual change	4-quarter % change	Thousands	Annual change	4-quarter % change	Thousands	Annual change	4-quarter % change	Thousands (a)	Annual change	4-quarter % change	Unemployment rate (a)	Employment 4-quarter % change	Unemployment rate
		1	2	3 ■	4	5	6 ■	7	8	9 ■	10	11	12 ■	13	14	15
06	M	19 748	774	4.1	16 208	706	4.6	3 540	68	2.0	1 837	-75	-3.9	8.51	1.6	8.34
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	7.48
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	7.56
08	*Q1-Q1* M	20 402	333	1.7	16 817	303	1.8	3 585	30	0.8	2 174	318	17.1	9.63	1.5	7.24
09	*Q1-Q1* M	19 091	-1 312	-6.4	15 843	-974	-5.8	3 248	-337	-9.4	4 011	1 837	84.5	17.36	-1.4	8.80
06	*Q3*	19 896	705	3.7	16 366	616	3.9	3 530	88	2.6	1 765	-	-	8.15	1.7	8.19
	Q4	20 002	688	3.6	16 466	625	3.9	3 536	63	1.8	1 811	-31	-1.7	8.30	1.7	7.99
07	*Q1*	20 069	669	3.4	16 515	626	3.9	3 555	44	1.2	1 856	-80	-4.1	8.47	1.8	7.68
	Q2	20 367	674	3.4	16 779	668	4.1	3 588	6	0.2	1 760	-77	-4.2	7.95	1.7	7.48
	Q3	20 511	615	3.1	16 870	504	3.1	3 641	111	3.1	1 792	27	1.5	8.03	1.8	7.44
	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	7.32
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	7.37
	Q3	20 346	-164	-0.8	16 746	-124	-0.7	3 600	-41	-1.1	2 599	807	45.0	11.33	0.5	7.59
	Q4	19 857	-620	-3.0	16 308	-568	-3.4	3 549	-52	-1.4	3 208	1 280	66.4	13.91	-0.1	8.03
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	-1.4	8.80

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).
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.

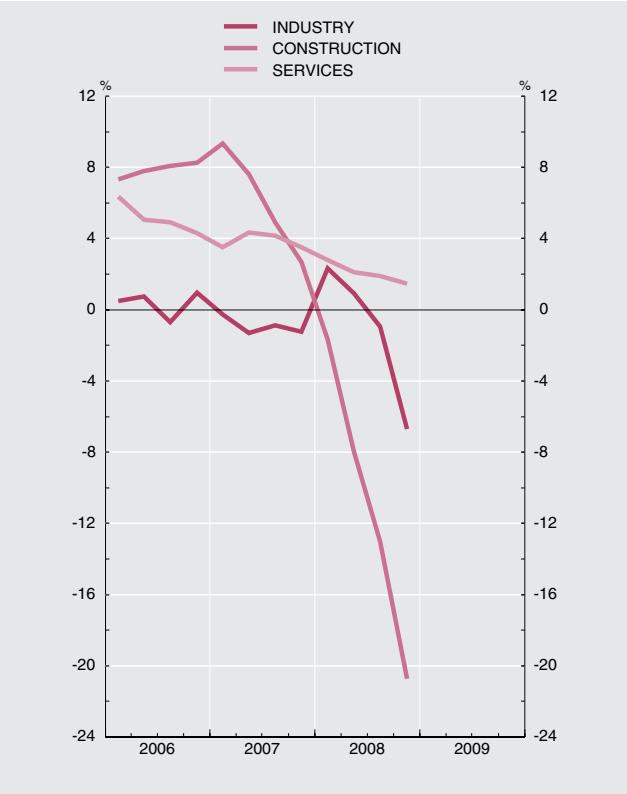
4.3. EMPLOYMENT BY BRANCH OF ACTIVITY. SPAIN (a)

■ 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
06	M	4.1	4.6	34.0	-5.6	-1.2	59.0	0.4	0.5	24.5	8.0	8.1	56.2	5.0	5.3	31.3	4.6
07	M	3.1	3.4	31.7	-2.0	2.0	58.6	-0.9	-0.5	22.8	6.0	6.7	54.2	3.8	3.9	28.4	3.3
08	M	-0.5	-0.5	29.2	-5.1	-8.0	58.0	-1.2	-1.2	20.7	-10.5	-12.2	48.9	2.0	2.3	27.0	-0.3
08	*Q1-Q1* M	1.7	1.8	30.1	-6.4	-10.2	61.3	2.3	3.2	21.9	-1.5	-2.0	51.3	2.7	2.8	27.0	2.0
09	*Q1-Q1* M	-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
06	*Q3*	3.7	3.9	34.6	-7.9	-5.8	57.2	-0.9	-0.7	25.0	8.3	8.5	56.6	4.8	4.8	32.0	4.3
	Q4	3.6	3.9	33.8	-8.4	-7.1	59.0	0.8	0.9	24.2	8.1	8.0	56.1	4.3	4.5	31.0	4.2
07	*Q1*	3.4	3.9	32.0	0.5	7.2	63.1	-0.4	-0.2	22.7	9.3	10.0	54.7	3.5	3.8	28.4	3.6
	Q2	3.4	4.1	31.8	-3.8	0.3	58.6	-1.2	-0.8	22.8	7.5	8.9	55.2	4.3	4.7	28.4	3.8
	Q3	3.1	3.1	31.9	-3.1	0.3	55.6	-0.9	-0.7	23.2	4.8	5.3	54.4	4.1	3.7	28.9	3.4
	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	3.3	27.8	2.6
08	*Q1*	1.7	1.8	30.1	-6.4	-10.2	61.3	2.3	3.2	21.9	-1.5	-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	0.9	1.1	21.4	-7.6	-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	-1.5	20.8	-12.6	-14.2	48.7	1.9	2.4	27.7	-0.6
	Q4	-3.0	-3.4	27.9	-4.8	-3.4	59.8	-6.6	-7.6	18.7	-20.3	-23.9	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

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.

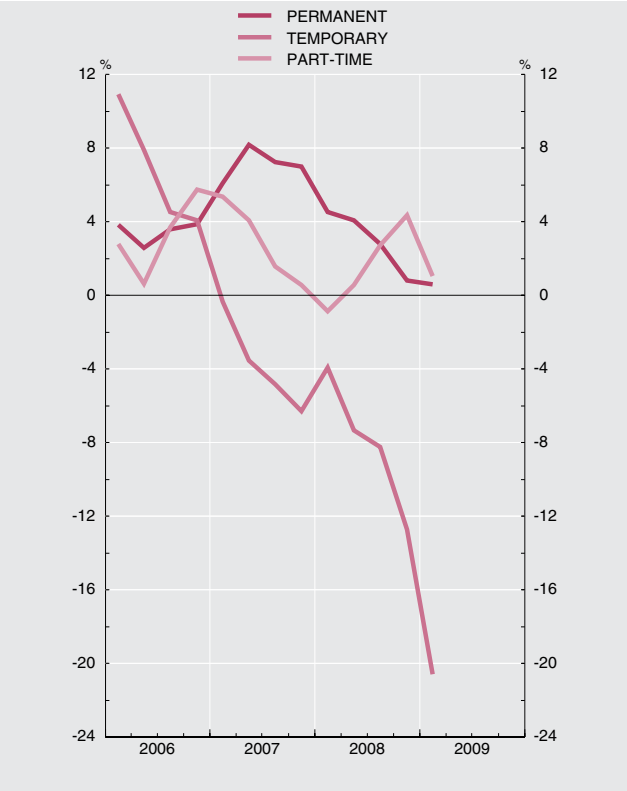
4.4. WAGE-EARNERS BY TYPE OF CONTRACT AND UNEMPLOYMENT BY DURATION. SPAIN. (a)

■ Series depicted in chart.

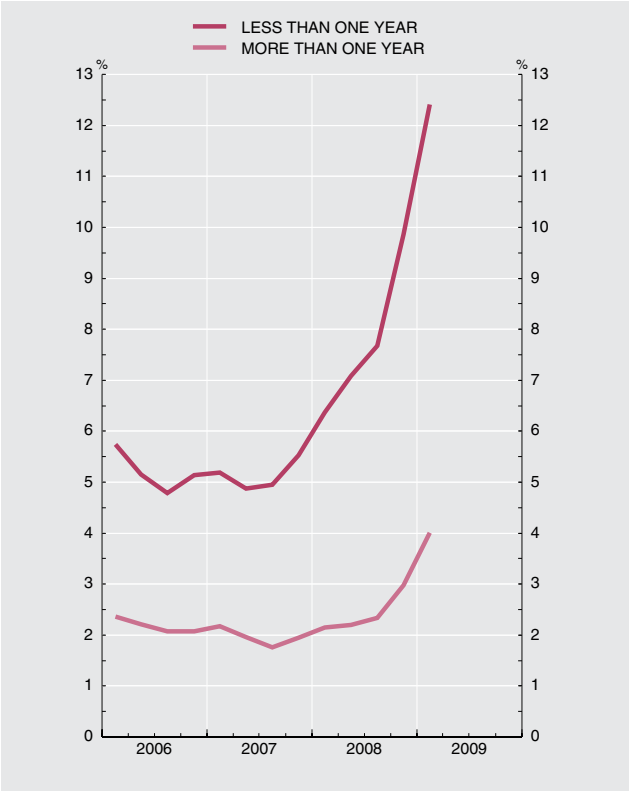
Thousands, annual percentage changes and %

		Wage-earners										Unemployment			
		By type of contract					By duration of working day					By duration			
		Permanent		Temporary			Full-time		Part-time			Less than one year		More than one year	
		Annual change (Thousands)	4-quarter % change	Annual change (Thousands)	4-quarter % change	Proportion of temporary employment	Annual change (Thousands)	4-quarter % change	Annual change (Thousands)	4-quarter % change	As % for wage earners	Unemployment rate (a)	4-quarter % change	Unemployment rate (a)	4-quarter % change
		1	2 ■	3	4 ■	5	6	7	8	9 ■	10	11 ■	12	13 ■	14
06	M	358	3.5	348	6.7	34.03	645	4.7	61	3.2	12.13	5.20	-2.0	2.18	-14.9
07	M	762	7.1	-210	-3.8	31.67	495	3.5	57	2.9	12.07	5.14	1.5	1.96	-7.6
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
08	*Q1-Q1* M	509	4.5	-207	-3.9	30.15	321	2.2	-18	-0.9	12.33	6.36	26.2	2.15	2.1
09	*Q1-Q1* M	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
06	*Q3*	371	3.6	245	4.5	34.59	549	3.9	67	3.7	11.49	4.79	0.6	2.08	-11.5
	Q4	406	3.9	218	4.1	33.82	515	3.7	109	5.8	12.19	5.14	-0.5	2.07	-14.5
07	*Q1*	645	6.1	-19	-0.4	31.95	519	3.7	107	5.4	12.66	5.19	-7.2	2.17	-5.8
	Q2	865	8.2	-197	-3.6	31.85	587	4.2	81	4.1	12.34	4.87	-2.6	1.96	-8.9
	Q3	777	7.3	-273	-4.8	31.94	475	3.3	29	1.6	11.32	4.95	6.4	1.76	-12.6
	Q4	761	7.0	-350	-6.3	30.92	399	2.8	11	0.6	11.96	5.53	10.5	1.95	-3.3
08	*Q1*	509	4.5	-207	-3.9	30.15	321	2.2	-18	-0.9	12.33	6.36	26.2	2.15	2.1
	Q2	465	4.1	-391	-7.3	29.39	62	0.4	11	0.5	12.36	7.09	50.0	2.20	15.7
	Q3	320	2.8	-444	-8.2	29.53	-175	-1.2	52	2.7	11.72	7.67	59.5	2.34	36.3
	Q4	96	0.8	-664	-12.7	27.93	-656	-4.4	88	4.3	12.92	9.86	83.6	2.97	56.8
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

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).
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.

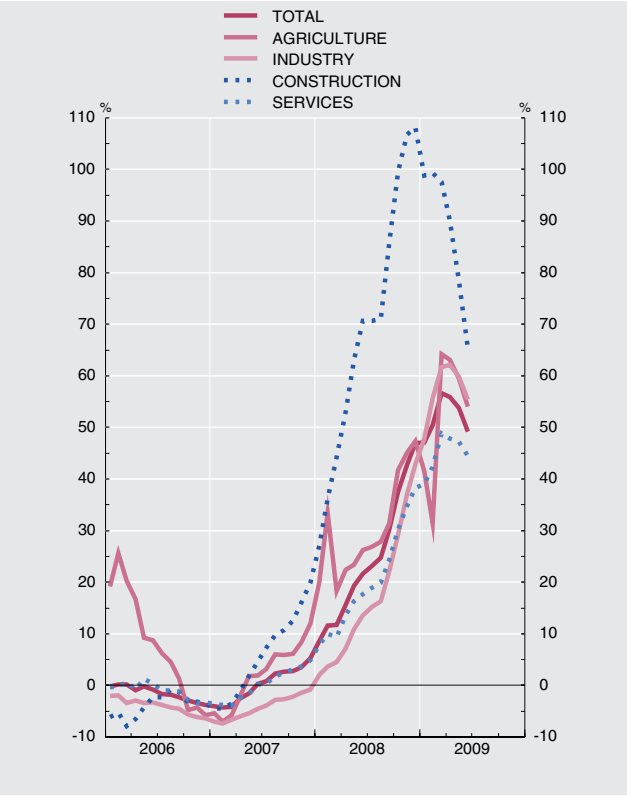
4.5. REGISTERED UNEMPLOYMENT BY BRANCH OF ACTIVITY. CONTRACTS AND PLACEMENTS. SPAIN

■ Series depicted in chart.

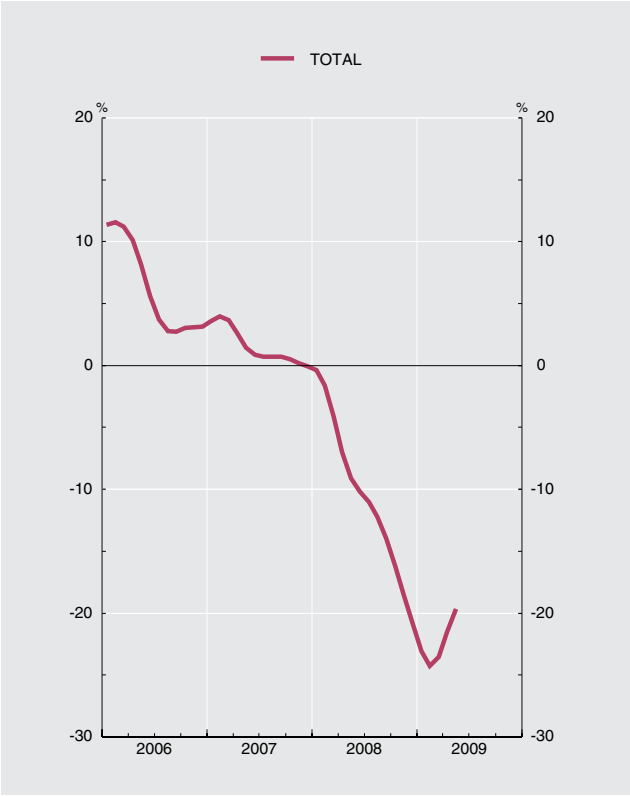
Thousands, annual percentage changes and %

		Registered unemployment										Contracts					Placements	
		Total			First time job-seekers(a)	Previously employed (a)						Total		Percentage of total			Total	
						12-month % change												
		Thousands	Annual change Thousands	12 month % change	12 month % change	Total	Agriculture	Branches other than agriculture				Thousands	12 month % change	Permanent	Part time	Temporary	Thousands	12 month % change
								Total	Industry	Construction	Services							
		1	2	3 ■	4	5	6 ■	7	8 ■	9 ■	10 ■	11	12	13	14	15	16	17 ■
06	M	2 039	-30	-1.5	-0.6	-1.6	7.4	-1.9	-4.0	-4.0	-1.0	1 544	7.9	11.77	23.39	88.23	1 475	6.0
07	M	2 039	-0	-0.0	-0.7	0.1	1.9	-0.0	-4.3	5.7	-0.0	1 552	0.5	11.88	23.90	88.12	1 505	2.0
08	M	2 540	501	24.6	7.9	26.6	30.6	26.5	17.0	71.1	20.1	1 383	-10.9	11.39	25.61	88.61	1 358	-9.8
08 *J-J*	M	2 327	297	14.6	0.8	16.4	24.0	16.1	6.9	48.7	12.4	1 426	-7.2	12.38	23.62	87.62	1 397	-5.8
09 *J-J*	M	3 541	1 214	52.2	26.1	54.3	52.3	54.4	57.1	88.3	45.0	1 103	-22.7	10.41	26.13	89.59	...	...
08 *May*		2 354	380	19.3	2.3	21.5	23.4	21.4	10.9	63.0	16.3	1 385	-14.8	11.88	24.30	88.12	1 358	-14.4
Jun		2 390	425	21.6	3.2	24.0	26.2	23.9	13.5	70.7	17.7	1 419	-10.3	10.85	25.09	89.15	1 381	-9.7
Jul		2 427	457	23.2	5.6	25.4	26.8	25.3	15.2	70.7	18.9	1 626	-7.3	9.86	26.45	90.14	1 580	-6.8
Aug		2 530	502	24.7	8.1	26.7	27.8	26.7	16.3	71.0	19.9	1 050	-18.4	9.29	24.35	90.71	1 030	-17.5
Sep		2 625	608	30.1	12.2	32.4	31.4	32.4	22.0	85.6	24.3	1 502	-5.9	11.55	28.59	88.45	1 508	-4.8
Oct		2 818	769	37.6	20.9	39.5	41.7	39.4	29.2	99.5	30.2	1 585	-17.1	11.37	30.44	88.63	1 570	-16.0
Nov		2 989	895	42.7	22.3	45.1	45.1	45.1	37.1	106.7	34.7	1 163	-27.0	11.11	28.35	88.89	1 135	-26.3
Dec		3 129	999	46.9	22.7	49.6	47.3	49.7	42.8	108.1	38.3	1 118	-11.4	9.22	27.44	90.78	1 093	-10.6
09 *Jan*		3 328	1 066	47.1	10.6	50.1	41.5	50.4	47.8	98.9	39.0	1 126	-28.8	10.59	23.69	89.41	1 112	-27.6
Feb		3 482	1 167	50.4	14.5	53.4	31.4	54.1	55.7	99.3	42.4	1 017	-28.8	11.38	25.22	88.62	999	-30.3
Mar		3 605	1 304	56.7	23.9	59.5	64.2	59.4	61.7	97.6	48.8	1 061	-17.5	11.42	26.47	88.58	1 047	-16.8
Apr		3 645	1 306	55.9	33.3	57.7	63.1	57.6	62.1	90.0	47.8	1 031	-29.3	10.81	27.08	89.19	1 031	-27.2
May		3 620	1 267	53.8	38.4	55.1	59.5	55.0	59.8	78.5	47.2	1 110	-19.8	9.83	26.62	90.17	1 110	-18.2
Jun		3 565	1 174	49.1	35.7	50.3	54.0	50.1	55.3	65.3	44.5	1 275	-10.2	8.45	27.70	91.55	...	...

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.

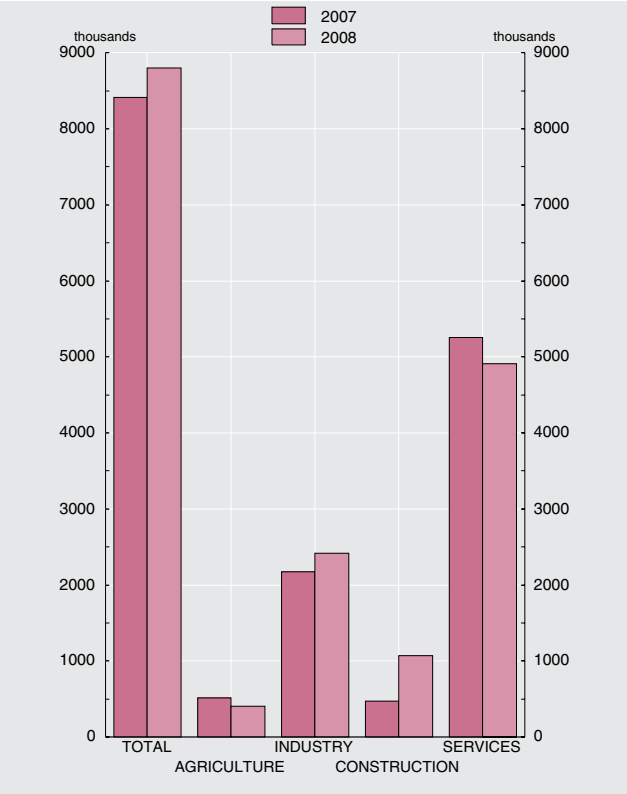
4.6. COLLECTIVE BARGAINING AGREEMENTS

■ Series depicted in chart.

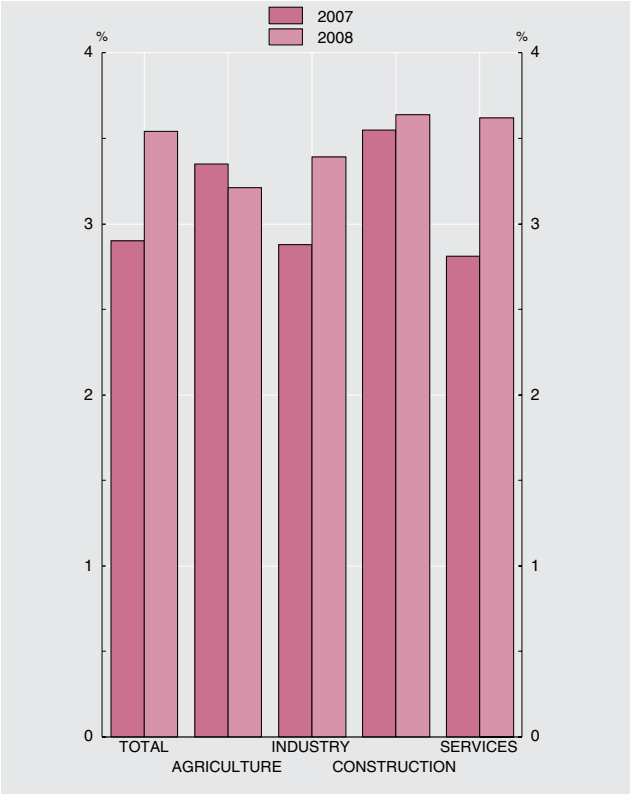
Thousands and %

	As per month economic effects come into force(a)		As per month recorded														
	Employees affected (a)										Average wage settlement (%)						
	Employees affected	Average wage settlement (b)	Automatic adjustment	Newly-signed agreements	Total ■	Annual change	Agriculture (c) ■	Industry (c) ■	Construction (c) ■	Services (c) ■	Automatic adjustment	Newly signed agreements	Total ■	Agriculture (c) ■	Industry (c) ■	Construction (c) ■	Services (c) ■
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
06	11 119	3.59	6 765	2 156	8 921	540	656	2 445	1 072	4 748	3.21	3.35	3.24	3.94	3.26	2.97	3.20
07	11 606	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	10 916	3.58	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
08 *Jan*	10 335	3.51	4 503	5	4 508	1 263	270	1 331	161	2 746	3.27	4.59	3.27	2.91	3.32	3.61	3.27
Feb	10 363	3.51	5 281	12	5 293	1 271	293	1 462	487	3 052	3.36	3.77	3.36	2.92	3.32	3.83	3.35
Mar	10 405	3.51	5 601	24	5 624	889	298	1 612	530	3 184	3.38	4.20	3.39	2.94	3.41	3.77	3.35
Apr	10 691	3.55	6 352	241	6 593	1 851	299	1 954	690	3 650	3.39	4.47	3.43	2.94	3.39	3.72	3.43
May	10 697	3.55	6 568	408	6 975	2 208	339	1 975	830	3 831	3.43	4.09	3.47	3.10	3.40	3.68	3.49
Jun	10 747	3.55	6 790	459	7 250	1 662	381	2 028	875	3 966	3.43	4.07	3.47	3.11	3.40	3.67	3.49
Jul	10 754	3.55	6 825	641	7 466	1 513	381	2 061	895	4 130	3.43	3.88	3.47	3.11	3.40	3.67	3.49
Aug	10 755	3.55	6 844	809	7 653	1 271	393	2 082	964	4 214	3.43	3.96	3.49	3.17	3.41	3.65	3.52
Sep	10 877	3.57	6 911	1 079	7 990	949	405	2 133	1 013	4 439	3.43	4.01	3.51	3.20	3.40	3.65	3.56
Oct	10 913	3.58	6 951	1 416	8 367	801	408	2 317	1 022	4 620	3.47	3.80	3.52	3.21	3.37	3.64	3.60
Nov	10 914	3.58	7 028	1 557	8 585	375	405	2 367	1 056	4 757	3.47	3.82	3.53	3.21	3.37	3.64	3.61
Dec	10 916	3.58	7 069	1 733	8 802	390	406	2 419	1 070	4 907	3.48	3.80	3.54	3.21	3.39	3.64	3.62
09 *Jan*	7 247	2.68	3 494	0	3 494	-1 014	115	1 104	813	1 462	2.93	4.50	2.93	2.93	2.70	3.54	2.77
Feb	7 253	2.68	5 977	6	5 983	689	189	1 827	841	3 125	2.68	1.86	2.68	2.81	2.52	3.59	2.53
Mar	7 254	2.68	6 215	19	6 234	610	193	1 862	939	3 240	2.70	2.73	2.70	2.85	2.52	3.58	2.55
Apr	7 380	2.67	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	7 380	2.67	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	7 381	2.67	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

EMPLOYEES AFFECTED
January-December



AVERAGE WAGE SETTLEMENT
January-December



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

a. Cumulative data.

b. Includes revisions arising from indexation clauses, except in 2009.

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

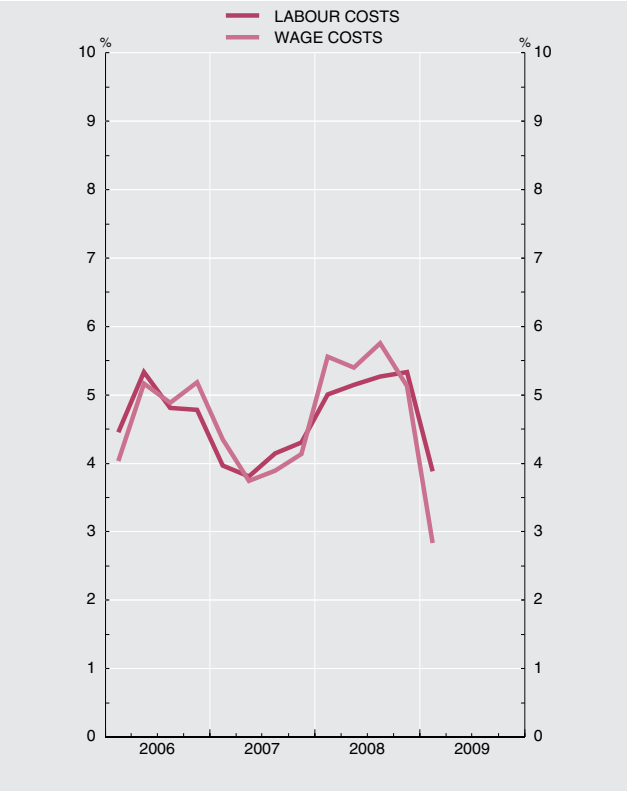
4.7. QUARTERLY LABOUR COSTS SURVEY

■ Series depicted in chart.

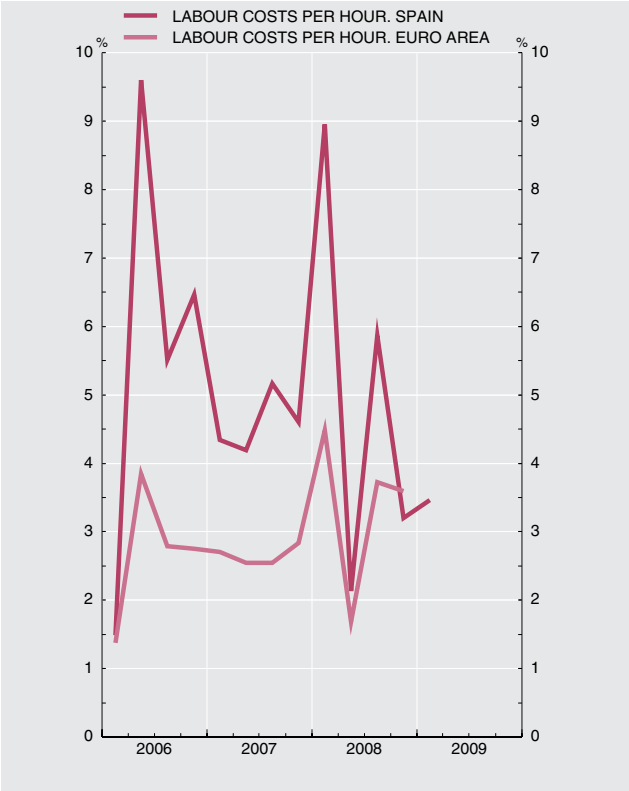
Annual percentage change

		Labour costs					Wage costs					Other costs per worker and month	memoram-dum item: euro area total hourly labour costs (a)
		Monthly earnings				Per hour worked	Monthly earnings				Per hour worked		
		Total	Industry	Construction	Services		Total	Industry	Construction	Services			
		1 ■	2	3	4	5 ■	6 ■	7	8	9	10	11	12 ■
06	M P	4.8	3.8	3.1	6.3	5.8	4.8	3.5	2.5	6.3	5.8	4.9	2.7
07	M P	4.1	3.6	4.8	4.1	4.6	4.0	3.4	4.5	4.2	4.6	4.1	2.7
08	M P	5.2	5.1	6.3	5.1	4.9	5.4	5.6	6.3	5.1	5.1	4.5	3.3
08 *Q1-Q1*	M P	5.0	4.3	5.6	5.1	9.0	5.6	6.1	5.4	5.2	9.6	3.5	4.5
09 *Q1-Q1*	M P	3.9	3.8	6.2	3.7	3.5	2.8	1.1	4.3	2.9	2.5	6.8	...
06 *Q3*	P	4.8	3.7	3.4	6.2	5.5	4.9	3.7	3.6	6.1	5.6	4.6	2.8
Q4	P	4.8	3.4	2.5	6.5	6.5	5.2	3.4	2.0	7.0	6.8	3.6	2.7
07 *Q1*	P	4.0	4.2	4.7	3.9	4.3	4.4	4.0	4.9	4.5	4.7	2.9	2.7
Q2	P	3.8	2.6	4.2	4.1	4.2	3.7	3.5	3.6	3.9	4.2	4.0	2.5
Q3	P	4.1	3.7	4.9	4.2	5.2	3.9	2.9	4.0	4.2	5.0	4.8	2.5
Q4	P	4.3	3.9	5.3	4.3	4.6	4.1	3.3	5.4	4.1	4.4	4.8	2.8
08 *Q1*	P	5.0	4.3	5.6	5.1	9.0	5.6	6.1	5.4	5.2	9.6	3.5	4.5
Q2	P	5.1	6.2	6.0	4.8	2.1	5.4	5.6	7.0	4.9	2.3	4.4	1.7
Q3	P	5.3	4.5	5.7	5.6	5.9	5.8	5.2	6.1	5.8	6.3	3.9	3.7
Q4	P	5.3	5.2	7.8	5.0	3.2	5.1	5.3	6.6	4.8	3.0	6.0	3.6
09 *Q1*	P	3.9	3.8	6.2	3.7	3.5	2.8	1.1	4.3	2.9	2.5	6.8	...

PER WORKER AND MONTH
Annual percentage change



PER HOUR WORKED
Annual percentage change



Sources: INE (Quarterly labour costs survey) and Eurostat.
Note: The underlying series for this indicator are in Tables 24.25, 24.26 and 24.27 of de BE Boletín estadístico.
a. Whole economy, excluding the agriculture, public administration, education and health sectors

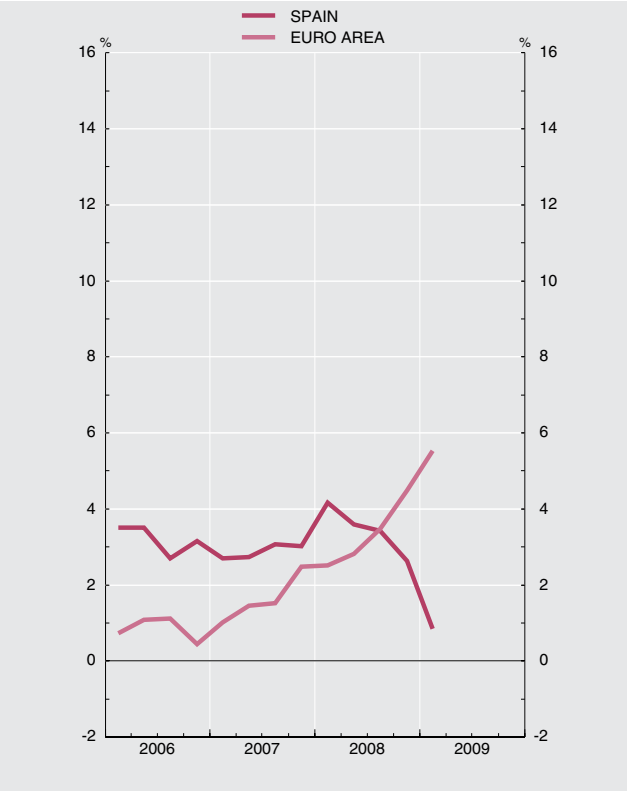
4.8. UNIT LABOUR COSTS. SPAIN AND EURO AREA (a)

■ Series depicted in chart.

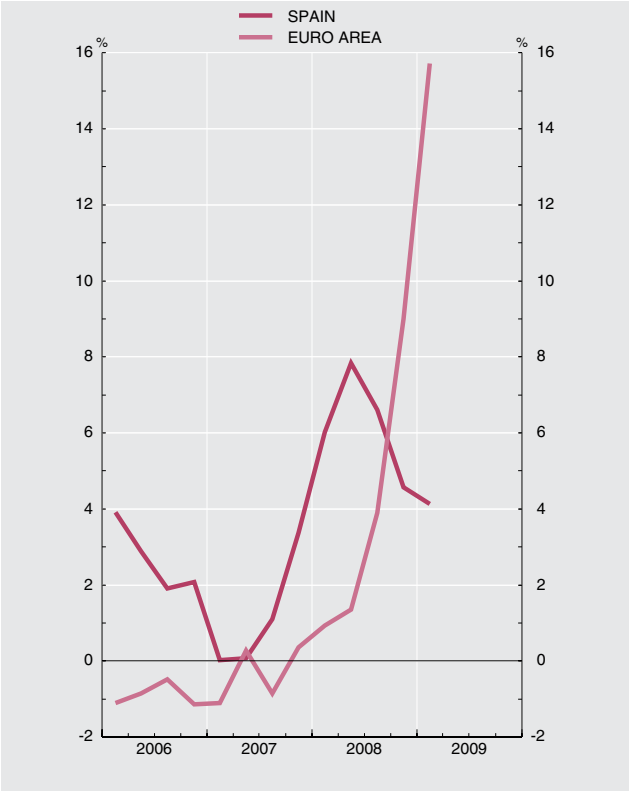
Annual percentage changes

		Whole-economy unit labour costs		Compensation per employee		Productivity						Memorandum item: unit labour costs in manufacturing	
								Output		Employment			
		Spain	Euro area	Spain (b)	Euro area	Spain	Euro area	Spain	Euro area	Spain (b)	Euro area	Spain (c)	Euro area (d)
		1 ■	2 ■	3	4	5	6	7	8	9	10	11 ■	12 ■
06	P	3.2	0.8	3.9	2.2	0.7	1.4	3.9	3.1	3.2	1.6	2.7	-0.9
07	P	2.9	1.6	3.7	2.5	0.8	0.9	3.7	2.7	2.9	1.8	1.1	-0.3
08	P	3.4	3.3	5.3	3.1	1.8	-0.2	1.2	0.6	-0.6	0.7	6.2	3.8
06 *Q2*	P	3.5	1.1	3.8	2.4	0.3	1.3	3.9	3.1	3.6	1.8	2.9	-0.9
Q3	P	2.7	1.1	3.9	2.4	1.2	1.3	4.0	3.0	2.8	1.7	1.9	-0.5
Q4	P	3.2	0.4	4.1	2.1	0.9	1.7	3.9	3.4	2.9	1.7	2.1	-1.1
07 *Q1*	P	2.7	1.0	3.4	2.5	0.7	1.5	4.0	3.4	3.2	1.8	0.0	-1.1
Q2	P	2.7	1.5	3.5	2.4	0.7	0.9	3.9	2.6	3.2	1.7	0.1	0.3
Q3	P	3.1	1.5	3.8	2.3	0.7	0.8	3.6	2.7	2.8	1.8	1.1	-0.9
Q4	P	3.0	2.5	4.1	2.9	1.0	0.4	3.2	2.2	2.2	1.7	3.4	0.4
08 *Q1*	P	4.2	2.5	5.2	3.1	1.0	0.6	2.7	2.2	1.6	1.5	6.0	0.9
Q2	P	3.6	2.8	5.4	3.2	1.7	0.3	1.8	1.5	0.1	1.1	7.8	1.4
Q3	P	3.4	3.5	5.3	3.4	1.8	-0.1	0.9	0.5	-0.9	0.5	6.6	3.9
Q4	P	2.6	4.5	5.2	2.8	2.5	-1.6	-0.7	-1.7	-3.1	-0.1	4.6	9.0
09 *Q1*	P	0.8	5.5	4.0	1.8	3.1	-3.6	-3.0	-4.9	-6.0	-1.4	4.1	15.7

UNIT LABOUR COSTS: TOTAL
Annual percentage changes



UNIT LABOUR COSTS: MANUFACTURING
Annual percentage changes



Sources: INE (Quarterly National Accounts of Spain. Base year 2000) and ECB.
a. Spain: prepared in accordance with ESA95. SEASONALLY- AND WORKING-DAY-ADJUSTED SERIES (see economic bulletin April 2002).
b. Full-time equivalent employment.
c. Industry.
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 (2000=100)	
		Original series	Month-on-month % change	12-month % change (a)	Cumulative % change during year (b)	Unprocessed food	Processed food	Industrial goods excl. energy products	Energy	Services	IPSEBENE (c)	Original series	12-month % change
		1	2	3 ■	4	5 ■	6 ■	7 ■	8 ■	9 ■	10 ■	11	12
06	M	100.0	_	3.5	2.7	4.4	3.6	1.4	8.2	3.9	2.9	108.9	-0.9
07	M	102.8	_	2.8	4.2	4.8	3.7	0.7	1.8	3.8	2.7	115.5	6.0
08	M	107.0	_	4.1	1.4	4.0	6.5	0.3	12.1	3.9	3.2	118.8	2.9
08 *J-J*	M	106.4	0.5	4.5	1.0	4.8	7.4	0.2	15.0	3.8	3.3	127.5	10.3
09 *J-J*	M	106.3	0.1	-0.1	-0.6	0.1	1.1	-0.7	-11.9	2.9	1.3	...	...
08 *Mar*		105.8	0.9	4.5	0.4	4.7	7.4	0.3	14.1	4.0	3.4	127.4	10.5
Apr		107.0	1.1	4.2	1.5	4.0	7.4	0.2	13.3	3.5	3.1	130.6	8.5
May		107.7	0.7	4.6	2.2	4.1	7.5	0.2	16.5	3.8	3.3	133.9	15.2
Jun		108.3	0.6	5.0	2.8	5.1	7.7	0.1	19.2	3.9	3.3	126.3	8.6
Jul		107.8	-0.5	5.3	2.3	4.4	7.8	0.3	21.4	4.0	3.5	121.0	14.1
Aug		107.6	-0.2	4.9	2.1	4.2	7.6	0.5	17.6	4.0	3.5	115.4	6.9
Sep		107.5	-	4.5	2.0	3.9	6.9	0.5	14.8	4.1	3.4	110.1	-2.3
Oct		107.9	0.3	3.6	2.4	3.0	4.5	0.5	9.3	4.1	2.9	106.4	-8.2
Nov		107.5	-0.4	2.4	2.0	2.5	3.6	0.6	-0.5	4.0	2.7	110.4	-11.4
Dec		106.9	-0.5	1.4	1.4	1.6	3.0	0.4	-7.2	3.8	2.4	113.7	-9.7
09 *Jan*		105.6	-1.2	0.8	-1.2	1.3	2.5	-0.3	-9.3	3.6	2.0	...	...
Feb		105.6	-	0.7	-1.2	2.2	1.7	-0.7	-8.1	3.3	1.6	...	...
Mar		105.8	0.2	-0.1	-1.1	0.8	1.2	-0.6	-11.6	2.7	1.3	...	...
Apr		106.8	1.0	-0.2	-0.1	-	0.7	-0.7	-12.4	3.1	1.3	...	...
May		106.8	-	-0.9	-0.1	-0.6	-	-0.8	-15.3	2.6	0.9	...	...
Jun		107.2	0.4	-1.0	0.3	-2.7	0.4	-1.1	-14.2	2.4	0.8	...	...

CONSUMER PRICE INDEX. TOTAL AND COMPONENTS
Annual percentage changes

CONSUMER PRICE INDEX. COMPONENTS
Annual percentage changes

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

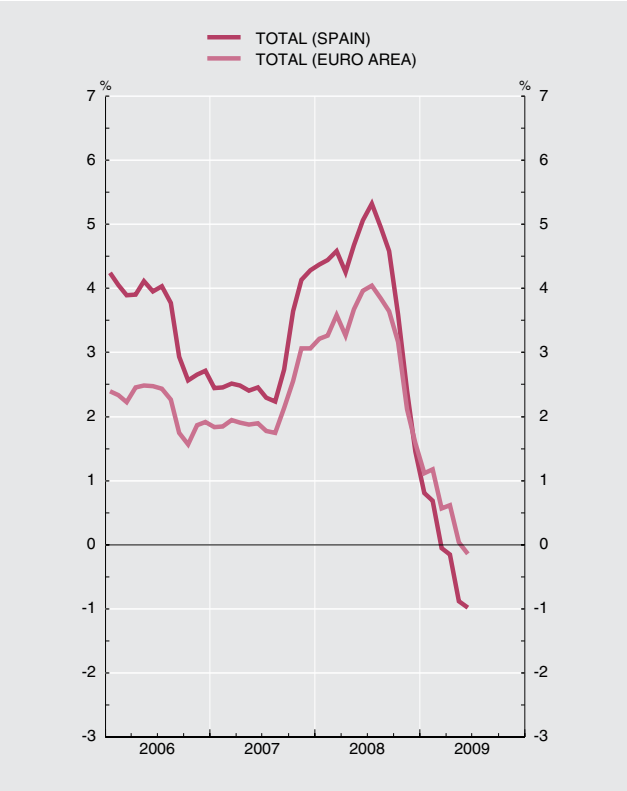
5.2. HARMONISED INDEX OF CONSUMER PRICES. SPAIN AND EURO AREA (2005=100) (a)

■ Series depicted in chart.

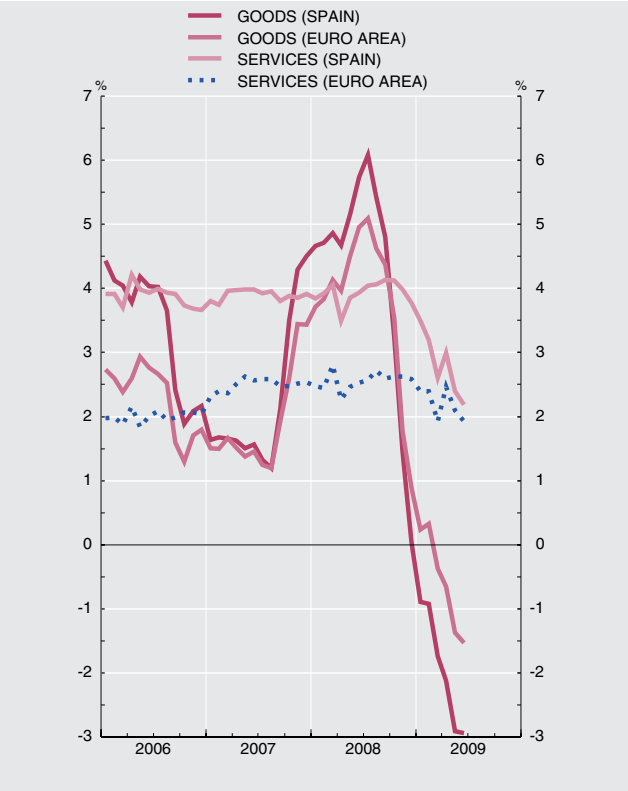
Annual percentage changes

		Total		Goods														Services	
						Food						Industrial							
						Total		Processed		Unprocessed									
		Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Non-energy Spain	Non-energy Euro area	Energy Spain	Energy Euro area	Spain	Euro area
		1 ■	2 ■	3 ■	4 ■	5	6	7	8	9	10	11	12	13	14	15	16	17 ■	18 ■
06	M	3.6	2.2	3.4	2.3	3.9	2.4	3.9	2.1	3.9	2.8	3.1	2.3	1.5	0.6	8.0	7.7	3.9	2.0
07	M	2.8	2.1	2.2	1.9	4.1	2.8	3.9	2.8	4.3	3.0	1.0	1.4	0.7	1.0	1.7	2.6	3.9	2.5
08	M	4.1	3.3	4.2	3.8	5.7	5.1	7.4	6.1	3.9	3.5	3.3	3.1	0.4	0.8	11.9	10.3	3.9	2.6
08 *J-J*	M	4.6	3.5	5.0	4.2	6.6	5.5	8.7	6.7	4.4	3.6	4.0	3.6	0.3	0.8	15.0	12.2	3.8	2.5
09 *J-J*	MP	-0.1	0.6	-1.9	-0.6	0.8	1.7	1.0	1.6	0.6	1.8	-3.5	-1.7	-0.5	0.7	-11.8	-8.5	2.8	2.2
08 *Mar*		4.6	3.6	4.9	4.1	6.6	5.6	8.8	6.8	4.3	3.8	3.9	3.4	0.4	0.9	14.1	11.2	4.1	2.8
Apr		4.2	3.3	4.7	4.0	6.3	5.4	8.8	7.0	3.9	3.1	3.6	3.2	0.3	0.8	13.3	10.8	3.5	2.3
May		4.7	3.7	5.2	4.5	6.4	5.8	8.8	6.9	4.0	3.9	4.3	3.9	0.2	0.7	16.5	13.7	3.8	2.5
Jun		5.1	4.0	5.7	5.0	6.8	5.8	9.0	7.0	4.6	4.0	5.0	4.5	0.2	0.8	19.1	16.1	3.9	2.5
Jul		5.3	4.0	6.1	5.1	6.7	6.1	9.2	7.2	4.2	4.4	5.7	4.6	0.4	0.5	21.3	17.1	4.0	2.6
Aug		4.9	3.8	5.4	4.6	6.5	5.6	9.0	6.8	4.0	3.7	4.8	4.2	0.5	0.7	17.5	14.6	4.1	2.7
Sep		4.6	3.6	4.8	4.4	5.9	5.2	7.9	6.2	3.9	3.6	4.2	4.0	0.6	0.9	14.8	13.5	4.1	2.6
Oct		3.6	3.2	3.2	3.5	4.0	4.4	4.7	5.1	3.3	3.4	2.8	3.1	0.5	1.0	9.3	9.6	4.1	2.6
Nov		2.4	2.1	1.5	1.8	3.2	3.7	3.5	4.2	2.9	2.8	0.4	0.8	0.6	0.9	-0.4	0.7	4.0	2.6
Dec		1.5	1.6	-	0.9	2.6	3.3	3.0	3.5	2.1	2.8	-1.5	-0.3	0.4	0.8	-7.1	-3.7	3.8	2.6
09 *Jan*		0.8	1.1	-0.9	0.2	2.1	2.7	2.4	2.7	1.8	2.6	-2.5	-1.0	-0.2	0.5	-9.2	-5.3	3.5	2.4
Feb		0.7	1.2	-0.9	0.3	1.9	2.5	1.6	2.0	2.2	3.3	-2.4	-0.7	-0.5	0.7	-8.0	-4.9	3.2	2.4
Mar		-0.1	0.6	-1.7	-0.4	1.0	1.9	1.0	1.6	1.1	2.4	-3.3	-1.5	-0.4	0.8	-11.5	-8.1	2.6	1.9
Apr		-0.2	0.6	-2.1	-0.7	0.5	1.4	0.6	1.2	0.3	1.6	-3.6	-1.7	-0.6	0.8	-12.3	-8.8	3.0	2.5
May		-0.9	-	-2.9	-1.4	-0.2	0.9	-0.1	1.0	-0.3	0.7	-4.5	-2.5	-0.6	0.8	-15.2	-11.6	2.4	2.1
Jun	P	-1.0	-0.1	-2.9	-1.5	-0.6	0.8	0.5	1.1	-1.7	0.3	-4.4	-2.7	-0.9	0.6	-14.1	-11.8	2.2	1.9

HARMONISED INDEX OF CONSUMER PRICES. TOTAL
Annual percentage changes



HARMONISED INDEX OF CONSUMER PRICES. COMPONENTS
Annual percentage changes



Source: Eurostat.

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

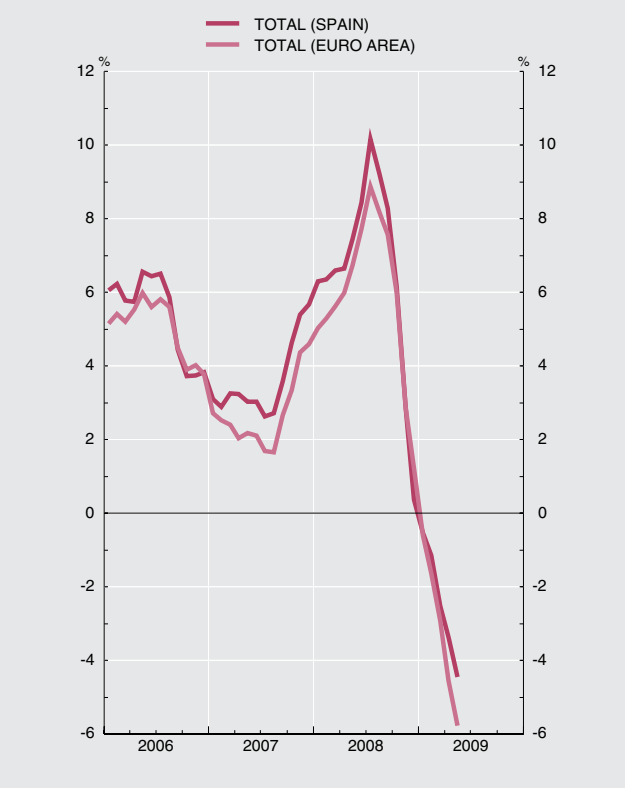
5.3. PRODUCER PRICE INDEX. SPAIN AND EURO AREA (2005 = 100)

■ Series depicted in chart.

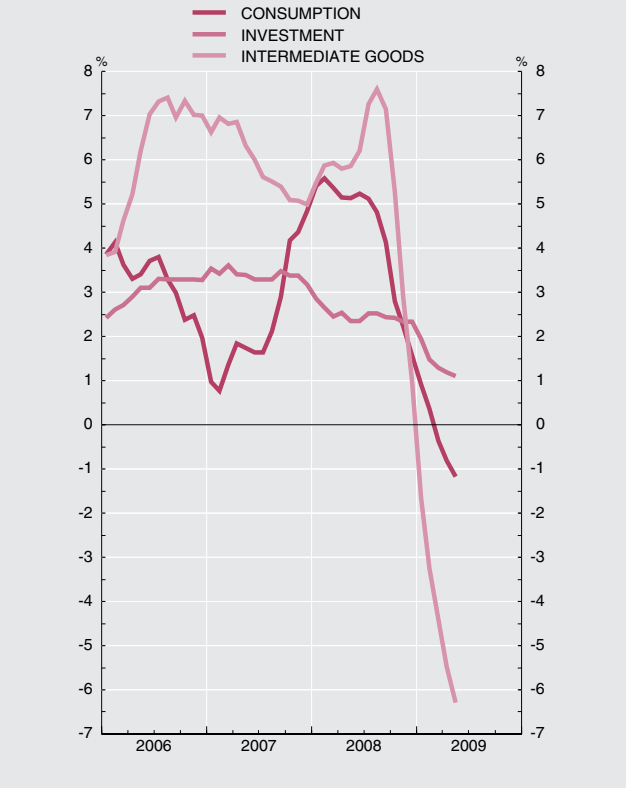
Annual percentage changes

			Total			Consumer goods		Capital goods		Intermediate goods		Energy		Memorandum item: euro area				
			Original series	Month-on-month % change	12-month % change	Month-on-month % change	12-month % change	Month-on-month % change	12-month % change	Month-on-month % change	12-month % change	Month-on-month % change	12-month % change	Total	Consumer goods	Capital goods	Intermediate goods	Energy
														12-month % change	12-month % change	12-month % change	12-month % change	12-month % change
			1	2	3 ■	4	5 ■	6	7 ■	8	9 ■	10	11	12 ■	13	14	15	16
06		MP	105.4	_	5.4	_	3.2	_	3.1	_	6.2	_	9.1	5.0	1.5	1.6	4.6	13.5
07		MP	109.2	_	3.6	_	2.4	_	3.4	_	5.9	_	1.6	2.7	2.1	2.2	4.6	1.3
08		MP	116.3	_	6.5	_	4.4	_	2.5	_	5.5	_	14.3	5.9	3.9	2.1	4.0	13.8
08	*J-M*	MP	114.9	_	6.7	_	5.3	_	2.6	_	5.8	_	13.1	5.7	4.7	1.7	3.8	12.7
09	*J-M*	MP	112.1	_	-2.4	_	-0.2	_	1.4	_	-4.2	_	-5.2	-3.1	-1.0	1.5	-3.9	-7.5
08	*Feb*	P	113.9	0.6	6.3	0.6	5.6	0.3	2.6	1.5	5.9	-0.3	11.0	5.3	4.6	1.5	4.0	10.9
	Mar	P	114.9	0.9	6.6	0.3	5.4	0.2	2.5	0.7	5.9	2.3	12.4	5.6	5.0	1.5	3.9	12.1
	Apr	P	115.6	0.6	6.6	0.3	5.1	0.2	2.5	0.6	5.8	1.6	13.3	6.0	4.8	1.7	3.7	13.7
	May	P	117.0	1.2	7.4	0.1	5.1	0.1	2.3	0.6	5.9	4.5	17.4	6.7	4.8	2.0	3.8	16.7
	Jun	P	118.3	1.1	8.4	0.2	5.2	0.1	2.3	0.5	6.2	3.6	21.1	7.7	4.8	2.2	4.3	19.9
	Jul	P	120.4	1.8	10.2	0.1	5.1	0.3	2.5	1.1	7.3	5.9	27.4	8.9	4.6	2.3	5.4	23.4
	Aug	P	119.6	-0.7	9.2	0.1	4.8	0.1	2.5	0.4	7.6	-3.5	23.2	8.2	4.2	2.4	5.4	21.0
	Sep	P	118.9	-0.6	8.3	-0.1	4.1	0.1	2.4	-0.2	7.1	-2.2	19.9	7.6	3.7	2.2	5.5	18.9
	Oct	P	117.4	-1.3	6.1	-0.4	2.8	0.1	2.4	-1.4	5.3	-2.8	14.9	6.0	2.8	2.8	4.1	14.1
	Nov	P	114.5	-2.5	2.9	-0.4	2.2	-	2.3	-2.2	2.9	-6.9	4.3	2.9	1.9	2.7	2.5	4.5
	Dec	P	112.1	-2.1	0.4	-0.2	1.6	-	2.3	-1.9	1.0	-6.5	-3.4	1.2	1.2	2.1	1.2	0.6
09	*Jan*	P	112.6	0.4	-0.5	0.3	0.9	0.5	1.9	-1.2	-1.6	3.2	-2.2	-0.6	-0.1	1.9	-1.2	-2.1
	Feb	P	112.6	-	-1.1	0.1	0.4	-0.2	1.5	-0.2	-3.2	-	-1.9	-1.6	-0.6	1.9	-3.0	-3.6
	Mar	P	112.0	-0.5	-2.5	-0.5	-0.4	-	1.3	-0.5	-4.4	-0.9	-5.0	-2.9	-1.2	1.6	-4.0	-6.7
	Apr	P	111.7	-0.3	-3.4	-0.2	-0.8	0.1	1.2	-0.5	-5.5	-0.3	-6.8	-4.6	-1.4	1.2	-5.2	-10.9
	May	P	111.8	0.1	-4.4	-0.3	-1.2	-	1.1	-0.3	-6.3	1.2	-9.7	-5.8	-1.7	0.6	-5.9	-14.0

PRODUCER PRICE INDEX. TOTAL
Annual percentage changes



PRODUCER PRICE INDEX. COMPONENTS
Annual percentage changes



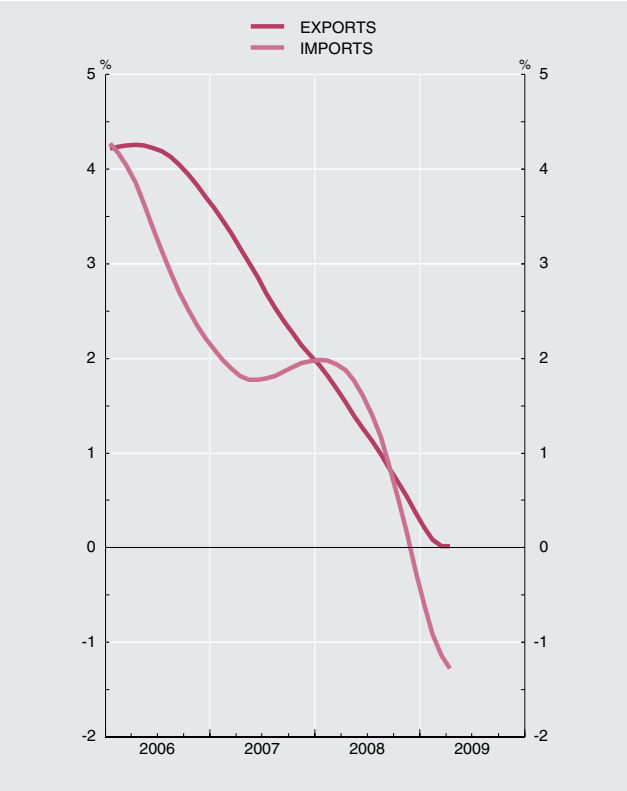
5.4. UNIT VALUE INDICES FOR SPANISH FOREIGN TRADE

■ Series depicted in chart.

Annual percentage changes

	Exports/dispatches						Imports/arrivals					
	Total	Consumer goods	Capital goods	Intermediate goods			Total	Consumer goods	Capital goods	Intermediate goods		
				Total	Energy	Non-energy				Total	Energy	Non-energy
	1 ■	2	3	4	5	6	7 ■	8 ■	9 ■	10 ■	11	12
06	4,8	3,7	3,0	6,1	18,0	5,6	3,4	-0,1	-1,7	6,1	21,5	2,1
07	2,5	2,4	-0,8	3,3	2,0	3,3	1,0	1,2	-2,3	1,6	-1,0	2,9
08	1,9	0,7	1,7	2,7	30,9	0,1	3,8	0,1	1,9	5,7	21,3	-0,7
08 *J-A*	2,6	2,9	1,4	2,5	35,6	0,2	3,3	-2,4	5,1	5,4	25,7	-2,2
09 *J-A*	-4,6	-2,5	-7,1	-5,8	-17,3	-4,7	-7,7	3,6	-2,3	-13,4	-30,0	-6,9
07 *Nov*	1,5	1,0	-4,4	3,0	17,0	1,0	6,5	5,3	5,0	7,3	23,0	3,5
Dec	0,4	4,8	-6,3	-0,7	27,2	-2,1	-2,1	-10,9	-14,3	4,5	13,3	-0,1
08 *Jan*	3,8	7,0	2,5	1,7	21,3	0,2	5,4	-0,4	3,4	8,0	25,5	0,1
Feb	4,2	3,9	0,7	5,0	46,2	2,9	2,7	-4,6	4,8	5,5	28,8	0,1
Mar	0,6	1,5	-0,1	0,2	37,2	-2,9	0,9	-4,6	0,2	3,0	25,0	-7,4
Apr	1,7	-1,0	2,4	3,2	38,5	0,6	4,4	-0,0	12,3	4,9	23,7	-1,7
May	0,5	-1,4	3,4	1,3	43,8	-1,6	6,4	4,0	3,5	7,8	38,5	-0,3
Jun	0,9	-2,4	3,8	2,5	42,1	-1,4	3,1	-0,5	-0,8	4,9	31,3	-4,8
Jul	2,4	-0,1	2,3	4,2	46,6	-0,3	4,9	-3,8	-3,6	9,8	29,9	0,1
Aug	2,7	1,9	2,4	3,4	18,4	1,0	7,6	-2,5	2,2	13,1	32,0	3,3
Sep	1,1	-1,0	3,9	2,3	23,7	-0,9	4,5	-4,2	-3,3	9,7	24,9	3,0
Oct	0,1	1,1	-16,4	2,6	21,7	0,5	3,6	2,3	-0,1	4,8	14,5	0,2
Nov	3,2	1,7	9,2	3,3	20,3	1,0	0,6	2,3	0,6	-0,0	-3,2	-1,5
Dec	1,2	-3,1	7,2	2,9	11,6	1,7	1,9	12,8	4,0	-2,9	-15,6	0,9
09 *Jan*	-2,8	-0,5	-6,9	-4,0	-7,0	-4,1	-7,4	2,9	-7,7	-11,9	-27,4	-4,9
Feb	-5,9	-4,8	-5,9	-6,7	-18,5	-6,2	-7,1	7,7	-3,7	-14,3	-29,6	-11,6
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

EXPORT AND IMPORT UNIT VALUE INDICES (a)



IMPORT UNIT VALUE INDICES BY PRODUCT GROUP (a)

Sources: ME and BE.

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

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

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

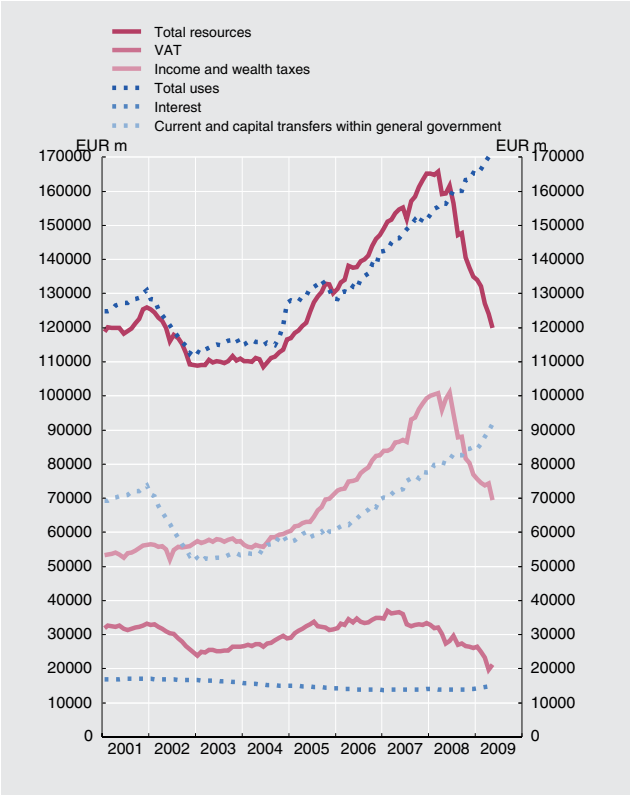
■ Series depicted in chart.

EUR millions

			Current and capital resources						Current and capital uses						Memorandum item: cash-basis deficit		
		Net lending (+) or borrowing (-)	Total	Value added tax (VAT)	Other taxes on products and imports	Interest and other income on property	Income and wealth taxes	Other	Total	Compensation of employees	Interest	Current and capital transfers within general government	Investment grants and other capital transfers	Other	Cash-basis deficit	Revenue	Expenditure
		1=2-8 ■	2=3 a 7 ■	3 ■	4	5	6 ■	7	8=9 a13 ■	9	10 ■	11 ■	12	13	14=15-16 ■	15	16
99		-7 303	109 643	29 002	16 408	6 059	46 909	11 265	116 946	15 013	16 958	60 249	3 750	20 976	-6 354	110 370	116 724
00		-6 330	118 005	31 566	17 171	5 419	52 671	11 178	124 335	12 881	16 817	68 917	4 336	21 384	-2 431	118 693	121 124
01		-5 076	126 032	33 160	17 838	7 335	56 312	11 387	131 108	12 890	17 031	73 716	4 269	23 202	-2 884	125 193	128 077
02		-4 780	109 142	24 701	11 431	5 614	56 616	10 780	113 922	13 526	16 652	53 800	4 596	25 348	-2 626	108 456	111 082
03		-3 692	111 008	26 542	10 918	5 089	57 398	11 061	114 700	13 966	15 890	53 259	4 009	27 576	-4 132	109 655	113 787
04		-10 762	116 577	28 947	10 991	4 730	60 054	11 855	127 339	14 831	15 060	57 177	8 760	31 511	59	114 793	114 734
05		1 590	130 171	31 542	11 068	4 401	70 986	12 174	128 581	15 665	14 343	60 311	5 122	33 140	6 022	128 777	122 755
06		5 005	147 220	34 929	11 331	5 328	82 528	13 104	142 215	16 839	13 820	69 588	5 808	36 160	11 471	141 847	130 375
07	P	13 525	165 179	33 332	12 938	6 857	99 257	12 795	151 654	18 109	14 002	77 436	5 338	36 769	20 135	159 840	139 704
08	P	-30 248	135 060	26 065	12 715	6 824	76 955	12 501	165 308	19 356	14 134	85 076	5 868	40 874	-18 747	129 336	148 082
08 *J-M*	P	2 982	60 404	17 563	5 029	2 348	31 033	4 431	57 422	7 021	5 677	30 617	1 394	12 713	3 185	59 923	56 738
09 *J-M*	A	-19 552	45 358	12 686	4 564	2 486	23 453	2 169	64 910	7 319	6 583	37 405	917	12 686	-19 102	45 680	64 782
08 *Sep*	P	1 068	12 892	3 662	1 168	604	6 240	1 218	11 824	1 426	1 176	6 228	158	2 836	2 027	11 978	9 950
Oct	P	4 995	20 009	5 997	1 045	251	12 024	692	15 014	1 447	1 263	8 270	757	3 277	6 191	19 074	12 883
Nov	P	-5 483	8 163	1 052	1 088	290	4 885	848	13 646	1 425	1 200	7 477	212	3 332	-4 220	7 510	11 730
Dec	P	-16 234	10 158	290	915	2 045	4 034	2 874	26 392	2 732	1 303	9 588	2 302	10 467	-7 708	9 186	16 894
09 *Jan*	A	722	10 009	-585	1 164	383	9 303	-256	9 287	1 377	1 335	4 865	75	1 635	-2 358	10 377	12 735
Feb	A	4 591	18 340	13 248	848	260	2 761	1 223	13 749	1 372	1 200	8 208	111	2 858	2 288	18 279	15 991
Mar	A	-12 907	2 039	-1 328	687	1 020	2 205	-545	14 946	1 516	1 335	8 835	168	3 092	-11 275	2 614	13 888
Apr	A	1 034	14 788	2 532	938	580	10 014	724	13 754	1 555	1 325	7 972	221	2 681	2 878	14 613	11 735
May	A	-12 992	182	-1 181	927	243	-830	1 023	13 174	1 499	1 388	7 525	342	2 420	-10 635	-202	10 433

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).

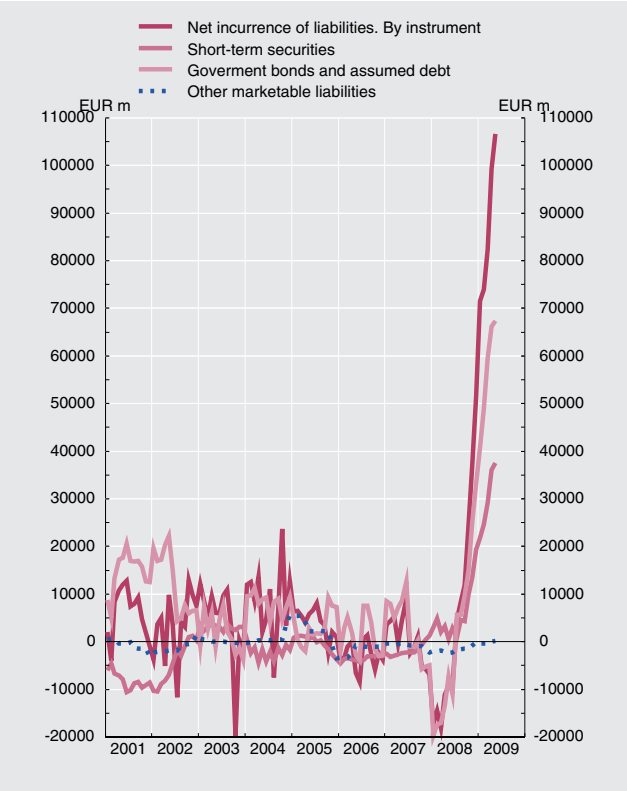
6.2. STATE FINANCIAL TRANSACTIONS. SPAIN

■ Series depicted in chart.

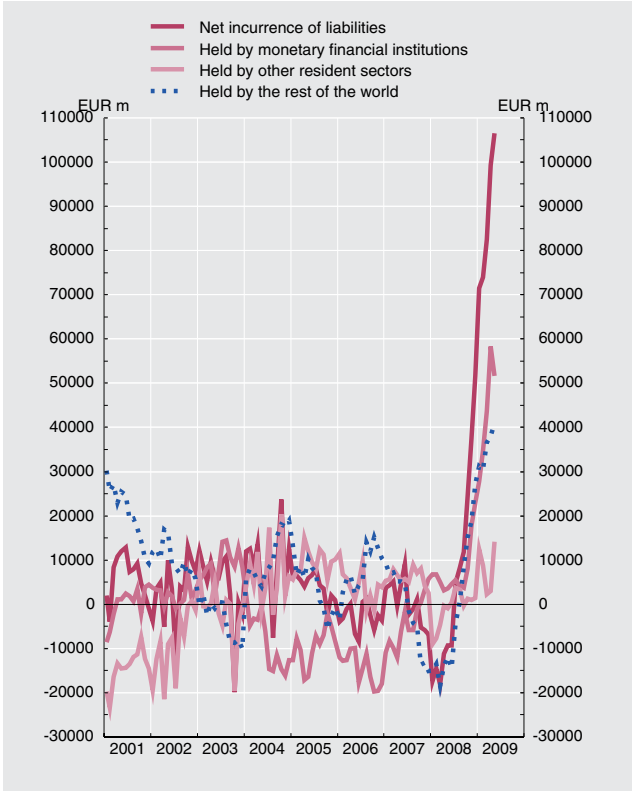
EUR millions

			Net lending (+) or net borrowing(-)	Net acquisition of financial assets		Net incurrence of liabilities										Net incurrence of liabilities (excluding other accounts payable)
				Of which		Of which		By instrument					By counterpart sector			
													Held by resident sectors			Rest of the world
				Total	Deposits at the Banco de España	Total	In currencies other than the peseta/euro	Short-term securities	Goverment bonds and assumed debt	Banco de España loans	Other marketable liabilities (a)	Other accounts payable	Total	Monetary financial institutions	Other resident sectors	
			1	2	3	4 ■	5	6 ■	7 ■	8	9 ■	10	11	12 ■	13 ■	14 ■	15
99			-7 303	4 212	4 574	11 515	209	-6 629	19 592	-499	-446	-503	-10 511	-7 605	-2 905	22 026	12 018
00			-6 330	4 584	5 690	10 914	1 162	-8 683	17 127	-499	283	2 686	-22 009	-10 117	-11 892	32 924	8 228
01			-5 076	-5 973	-20 141	-897	803	-8 616	12 521	-499	-3 101	-1 202	-10 103	4 424	-14 527	9 206	305
02			-4 780	2 783	-95	7 563	-888	346	6 655	-486	1 488	-439	1 773	3 148	-1 374	5 790	8 002
03			-3 692	-5 850	0	-2 158	-135	3 146	-3 761	-486	-254	-803	7 817	8 551	-734	-9 975	-1 354
04			-10 762	1 866	-0	12 628	-1 600	-1 688	9 416	-486	5 486	-100	-6 347	-12 696	6 349	18 975	12 728
05			1 590	2 607	0	1 017	-1 910	-3 771	7 276	-486	-3 411	1 409	1 775	-8 257	10 032	-758	-392
06			5 005	1 293	-200	-3 712	175	-2 198	-2 976	-486	-418	2 365	-14 069	-17 968	3 899	10 357	-6 077
07		P	13 525	6 712	65	-6 813	-120	1 206	-4 916	-519	-2 236	-348	8 214	5 698	2 515	-15 026	-6 465
08		P	-30 248	21 339	4 337	51 587	2 243	19 355	33 275	-520	-48	-476	24 386	23 013	1 373	27 201	52 062
08	*J-M*	P	2 982	3 371	-63	389	2 374	-335	3 625	-520	-363	-2 018	-3 848	-1 825	-2 023	4 237	2 406
09	*J-M*	A	-19 552	35 814	8 498	55 366	773	17 866	37 660	-583	-87	511	37 509	26 748	10 761	17 930	54 855
08	*Sep*	P	1 068	11 063	82	9 995	-2	2 330	8 060	-	-18	-378	593	4 396	-3 803	9 402	10 373
	Oct	P	4 995	4 108	14 815	-887	-260	4 371	-7 440	-	-1	2 183	283	1 518	-1 234	-1 170	-3 069
	Nov	P	-5 483	12 225	2 008	17 708	-156	6 513	13 052	-	-1	-1 856	13 073	13 174	-101	4 635	19 564
	Dec	P	-16 234	-489	-12 503	15 745	2	4 714	10 602	-	257	172	9 850	7 484	2 366	5 895	15 573
09	*Jan*	A	722	11 610	3 998	10 888	3	5 821	-7 170	-	-24	12 260	6 673	5 024	1 648	4 215	-1 373
	Feb	A	4 591	8 313	1 500	3 722	2	1 714	13 701	-	-11	-11 682	2 433	7 552	-5 119	1 289	15 404
	Mar	A	-12 907	-1 923	-3 498	10 984	780	3 916	11 559	-	-56	-4 435	7 335	6 981	353	3 723	15 420
	Apr	A	1 034	18 677	13 478	17 643	-14	5 475	11 321	-583	-6	1 437	12 898	7 650	5 247	4 745	16 206
	May	A	-12 992	-863	-6 980	12 129	2	940	8 248	-	10	2 931	8 171	-459	8 631	3 958	9 198

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



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



Source: BE.

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

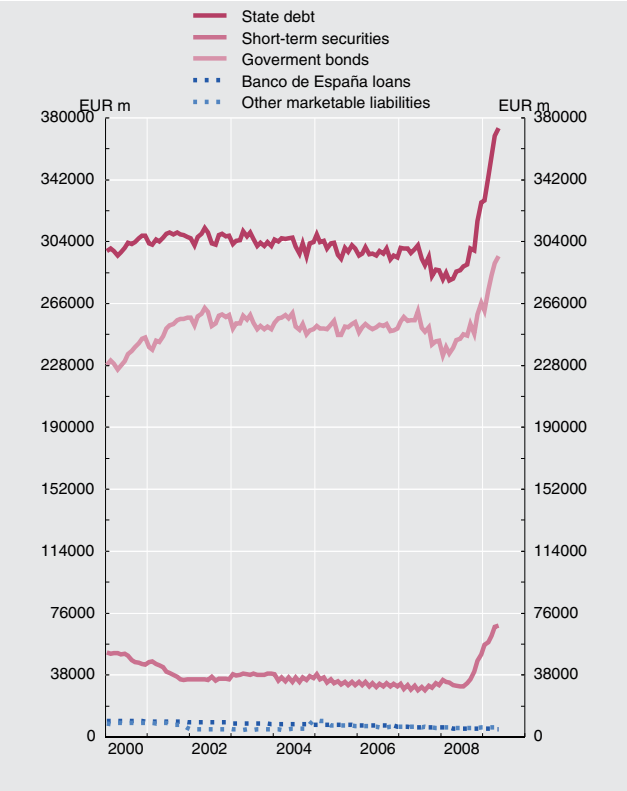
6.3. STATE: LIABILITIES OUTSTANDING. SPAIN

■ Series depicted in chart.

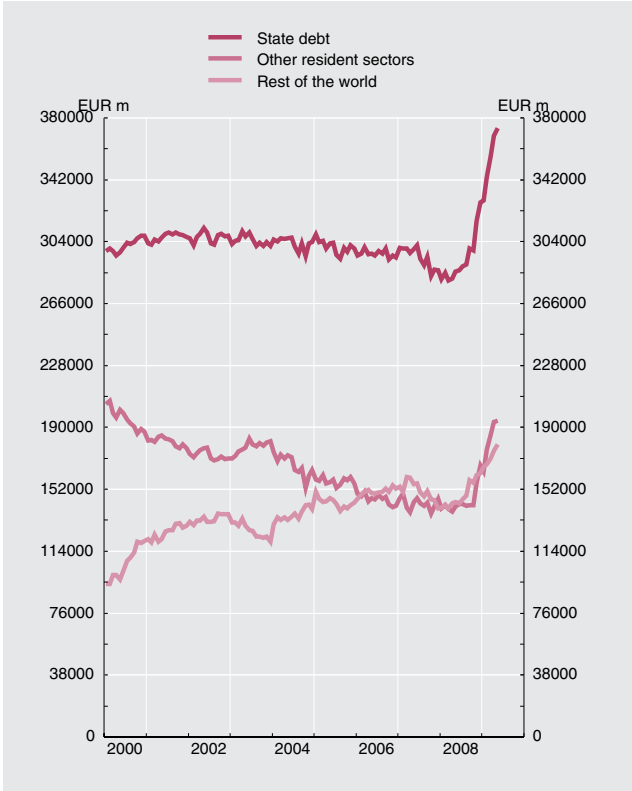
EUR millions

			Liabilities outstanding (excluding other accounts payable)										Memorandum item:	
			State debt according to the metodolofy of the excessive deficit procedure	of which: In currencies other than the peseta/euro	By instrument: Short-term securities	By instrument: Government bonds and assumed debt	By instrument: Banco de España loans	By instrument: Other marketable liabilities (a)	By counterpart sector: Held by resident sectors: Total	By counterpart sector: Held by resident sectors: General government	By counterpart sector: Held by resident sectors: Other resident sectors	By counterpart sector: Rest of the world	Deposits at the Banco de España	Guarantees given (contingent liabilities). Outstanding level
			1 ■	2	3 ■	4 ■	5 ■	6 ■	7	8	9 ■	10 ■	11	12
95			232 754	19 362	71 070	132 463	11 050	18 171	180 408	385	180 023	52 731	9 379	6 059
96			263 972	20 434	81 084	152 302	10 814	19 772	210 497	529	209 969	54 003	15 195	8 185
97			274 176	23 270	71 730	180 566	10 578	11 303	211 538	445	211 093	63 083	9 829	7 251
98			284 161	30 048	59 939	205 189	10 341	8 691	215 207	305	214 902	69 258	10 273	6 412
99			298 384	7 189	53 142	227 157	9 843	8 243	207 465	150	207 315	91 070	14 846	5 310
00			307 726	8 197	44 575	245 255	9 344	8 552	188 488	1 187	187 301	120 424	20 536	5 430
01			306 895	7 611	35 413	257 192	8 845	5 445	179 123	2 018	177 105	129 791	395	5 460
02			307 610	5 823	35 459	258 877	8 359	4 914	177 561	6 831	170 730	136 880	300	6 819
03			301 503	5 105	38 702	250 337	7 873	4 591	192 426	10 952	181 474	120 029	300	6 821
04			303 563	3 267	35 996	250 125	7 388	10 055	183 276	19 412	163 863	139 700	300	7 186
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		P	286 349	355	31 644	243 246	5 832	5 626	171 657	25 551	146 106	140 243	165	6 162
08	*Sep*	P	299 654	76	35 516	253 327	5 249	5 563	175 541	33 342	142 199	157 455	182	7 614
	Oct	P	298 500	76	40 024	247 665	5 249	5 562	174 335	31 915	142 420	156 080	14 997	7 790
	Nov	P	316 677	72	46 663	259 204	5 249	5 561	187 931	31 971	155 959	160 718	17 005	8 416
	Dec	P	328 242	63	50 790	266 385	5 249	5 818	200 921	34 458	166 463	161 779	4 502	8 152
09	*Jan*	A	329 187	67	56 556	261 588	5 249	5 794	198 748	35 558	163 190	165 997	8 500	8 051
	Feb	A	343 656	67	58 211	274 413	5 249	5 783	211 602	35 226	176 376	167 280	10 000	15 106
	Mar	A	356 551	64	62 154	283 421	5 249	5 727	221 812	36 178	185 633	170 918	6 502	22 453
	Apr	A	368 887	67	67 566	290 935	4 665	5 720	232 785	39 564	193 221	175 666	19 980	34 048
	May	A	373 821	69	68 521	294 904	4 665	5 731	236 208	42 059	194 149	179 672	13 000	39 874

STATE. LIABILITIES OUTSTANDING
By instrument



STATE. LIABILITIES OUTSTANDING
By counterpart sector



Source: BE.

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

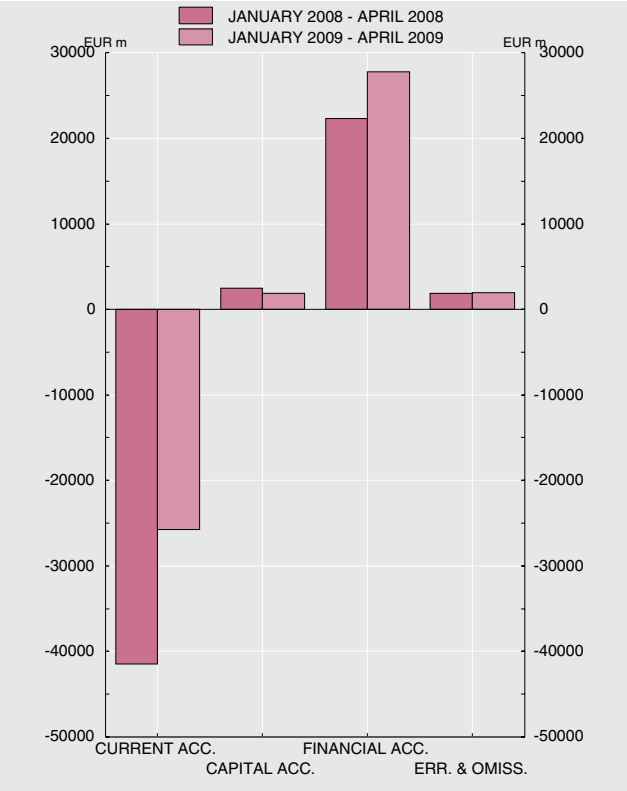
7.1. SPANISH BALANCE OF PAYMENTS VIS-à-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. CURRENT ACCOUNT

■ Series depicted in chart.

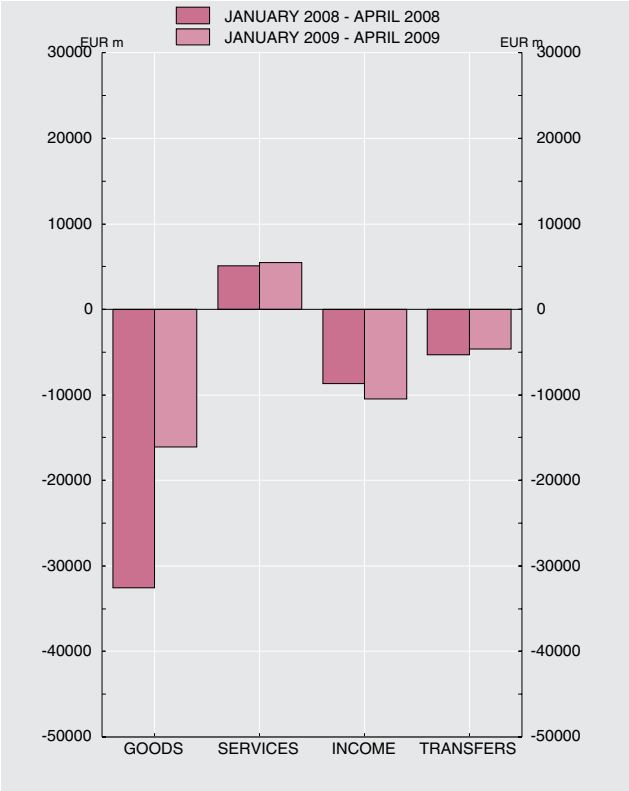
EUR millions

		Current account (a)													Capital account	Current account plus capital account	Financial account	Errors and omissions
			Goods			Services					Income			Current transfers				
		Total (balance)	Balance	Receipts	Payments	Balance	Receipts		Payments		Balance	Receipts	Payments	(balance)	(balance)		(balance) (b)	
							Total	Of which: Travel	Total	Of which: Travel								
		1=2+5+10+13 ■	2=3-4 ■	3	4	5=6-8 ■	6	7	8	9	10=11-12 ■	11	12	13 ■	14 ■	15=1+14	16 ■	17=-(15+16) ■
06		-88 313	-83 246	175 808	259 054	22 235	84 761	40 715	62 525	13 266	-20 799	47 701	68 500	-6 503	6 194	-82 118	85 624	-3 506
07		P -105 378	-91 246	192 613	283 859	23 076	93 234	42 061	70 158	14 360	-30 142	56 827	86 969	-7 067	4 578	-100 800	101 066	-265
08		P -104 412	-87 660	193 899	281 559	26 265	97 513	41 901	71 248	13 834	-33 782	60 991	94 773	-9 235	5 506	-98 906	95 471	3 435
08	*J-A*	P -41 452	-32 580	67 424	100 004	5 119	28 075	10 785	22 957	4 368	-8 652	19 979	28 632	-5 338	2 498	-38 954	37 043	1 910
09	*J-A*	P -25 753	-16 058	51 982	68 040	5 479	25 825	9 524	20 346	3 613	-10 505	17 299	27 804	-4 667	1 864	-23 889	21 938	1 951
08	*Jan*	P -12 031	-8 616	15 374	23 991	1 395	7 309	2 756	5 914	1 112	-3 524	4 964	8 487	-1 286	1 238	-10 793	10 139	654
	Feb	P -8 964	-7 557	17 148	24 705	1 102	6 811	2 441	5 710	1 200	-818	5 371	6 189	-1 690	626	-8 338	9 865	-1 527
	Mar	P -11 314	-8 974	16 374	25 347	1 307	6 774	2 975	5 467	1 031	-2 241	4 878	7 118	-1 407	370	-10 944	8 684	2 260
	Apr	P -9 143	-7 433	18 528	25 961	1 315	7 181	2 613	5 866	1 025	-2 069	4 768	6 837	-955	264	-8 879	8 355	524
	May	P -9 201	-7 428	17 130	24 558	2 577	7 745	3 533	5 169	820	-3 617	5 669	9 286	-733	976	-8 225	9 148	-922
	Jun	P -7 918	-8 101	15 929	24 030	3 024	9 115	4 115	6 090	1 299	-2 604	5 466	8 070	-237	250	-7 669	9 130	-1 462
	Jul	P -7 752	-7 419	17 689	25 108	3 942	10 562	5 143	6 619	1 320	-3 784	6 549	10 333	-492	318	-7 434	7 523	-89
	Aug	P -7 118	-7 214	12 464	19 679	3 986	9 691	5 398	5 706	1 454	-3 107	3 245	6 352	-782	414	-6 703	7 267	-564
	Sep	P -8 083	-6 719	17 825	24 543	2 585	9 027	4 461	6 443	1 313	-3 061	4 241	7 302	-888	379	-7 704	7 353	351
	Oct	P -7 707	-6 093	17 194	23 286	2 503	8 964	3 852	6 461	1 298	-3 042	5 267	8 310	-1 075	212	-7 495	7 160	335
	Nov	P -8 555	-5 523	14 738	20 261	1 687	6 986	2 512	5 298	1 038	-3 547	4 265	7 812	-1 173	251	-8 304	7 933	372
	Dec	P -6 626	-6 583	13 506	20 090	843	7 349	2 102	6 506	924	-2 368	6 309	8 677	1 482	209	-6 417	2 914	3 503
09	*Jan*	P -6 193	-4 114	11 444	15 559	1 460	6 558	2 486	5 098	948	-3 054	4 642	7 696	-484	340	-5 853	6 259	-407
	Feb	P -9 417	-5 490	12 785	18 275	1 236	6 311	2 077	5 076	890	-3 002	3 251	6 254	-2 160	238	-9 179	5 505	3 674
	Mar	P -6 649	-3 227	14 139	17 366	1 335	6 470	2 441	5 135	829	-3 850	4 359	8 209	-906	374	-6 275	7 917	-1 642
	Apr	P -3 494	-3 227	13 614	16 841	1 448	6 486	2 520	5 038	946	-598	5 047	5 645	-1 117	912	-2 582	2 257	325

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).

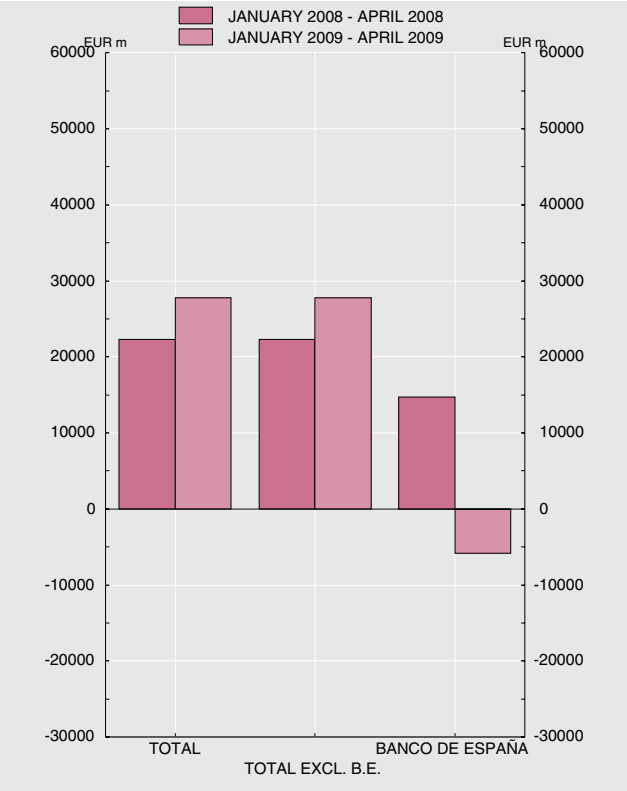
7.2. SPANISH BALANCE OF PAYMENTS VIS-à-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD. FINANCIAL ACCOUNT (a)

■ Series depicted in chart.

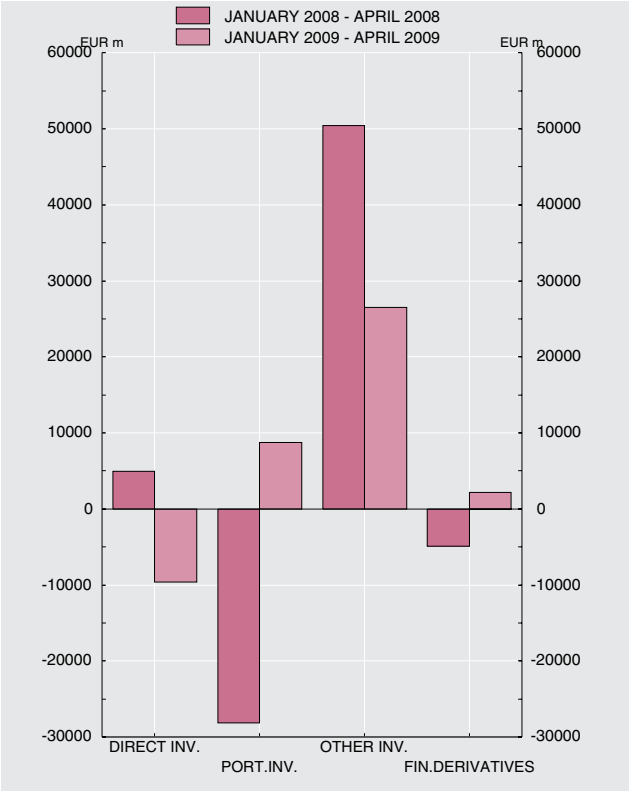
EUR millions

		Financial account	Total, excluding Banco de España										Banco de España			
			Total	Direct investment			Portfolio investment			Other investment (d)			Net financial derivatives	Balance	Reserves	Net claims with the Eurosystem	Other net assets
				Balance	Spanish investment abroad	Foreign investment in Spain	Balance	Spanish investment abroad	Foreign investment in Spain	Balance	Spanish investment abroad	Foreign investment in Spain					
		(NCL-NCA)	(NCL-NCA)	(NCL-NCA)	(NCA)	(NCL) (b)	(NCL-NCA)	(NCA)	(NCL) (c)	(NCL-NCA)	(NCA)	(NCL)	(NCL-NCA)	(NCL-NCA)	(e)	(e)	(NCL-NCA)
		1=2+13 ■	2=3+6+9+12 ■	3=5-4 ■	4	5	6=8-7 ■	7	8	9=11-10 ■	10	11	12 ■	13=14+15+16 ■	14	15	16
06		85 624	111 425	-58 547	83 100	24 554	199 615	-3 928	195 687	-31 647	66 093	34 446	2 003	-25 800	-480	-12 327	-12 993
07	P	101 066	86 743	-50 902	101 191	50 289	104 779	-8 601	96 178	37 025	57 196	94 221	-4 159	14 322	-164	28 329	-13 843
08	P	95 471	65 334	-6 913	54 662	47 749	3 763	-21 869	-18 106	76 284	14 822	91 106	-7 800	30 137	-645	31 713	-931
08 *J-A*	P	37 043	22 302	4 928	15 139	20 067	-28 176	-2 539	-30 715	50 420	22 817	73 236	-4 870	14 741	156	14 116	469
09 *J-A*	P	21 938	27 747	-9 638	11 927	2 288	8 726	-7 451	1 275	26 541	-13 903	12 639	2 119	-5 809	-284	-9 227	3 702
08 *Jan*	P	10 139	4 637	10 369	4 909	15 279	-1 075	-12 995	-14 070	-3 241	34 207	30 966	-1 416	5 502	123	5 483	-104
Feb	P	9 865	9 664	-1 024	3 583	2 559	-11 800	9 899	-1 902	24 100	12 326	36 426	-1 611	201	-36	61	177
Mar	P	8 684	15 700	-4 322	3 507	-815	-16 628	3 346	-13 283	36 736	-40 348	-3 612	-86	-7 016	22	-7 297	259
Apr	P	8 355	-7 698	-95	3 140	3 044	1 329	-2 789	-1 460	-7 175	16 631	9 456	-1 757	16 053	47	15 869	137
May	P	9 148	11 635	-2 900	4 320	1 420	17 178	-2 114	15 064	1 258	9 897	11 155	-3 901	-2 487	61	-3 443	894
Jun	P	9 130	10 419	5 772	6 140	11 913	9 456	-2 081	7 375	-3 912	14 538	10 626	-898	-1 289	87	-2 056	681
Jul	P	7 523	-327	-648	4 146	3 498	8 547	-745	7 802	-6 245	1 828	-4 417	-1 980	7 850	-184	8 024	10
Aug	P	7 267	1 785	-3 966	3 406	-561	8 855	-107	8 748	-3 724	9 980	6 256	620	5 482	-146	5 621	7
Sep	P	7 353	9 465	-1 494	5 004	3 511	4 132	-4 325	-193	6 660	-11 901	-5 240	167	-2 112	-100	-1 569	-444
Oct	P	7 160	15 217	-4 593	6 993	2 400	-11 047	-10 171	-21 218	30 865	-12 481	18 384	-8	-8 057	-28	-5 640	-2 389
Nov	P	7 933	289	-1 696	4 006	2 310	-2 881	-458	-3 339	1 629	-6 558	-4 928	3 236	7 643	-318	8 131	-171
Dec	P	2 914	-5 452	-2 316	5 508	3 192	-2 302	673	-1 629	-669	-13 298	-13 967	-165	8 366	-172	8 528	10
09 *Jan*	P	6 259	9 280	-5 468	5 379	-88	10 473	-6 929	3 544	3 938	7 708	11 647	337	-3 021	-16	-2 439	-566
Feb	P	5 505	314	-461	1 741	1 280	-3 665	-1 599	-5 264	4 841	-11 613	-6 772	-401	5 191	-84	4 972	303
Mar	P	7 917	10 604	-3 363	3 018	-345	1 968	1 687	3 655	13 048	-7 274	5 774	-1 049	-2 687	-165	-5 382	2 859
Apr	P	2 257	7 549	-346	1 788	1 442	-50	-610	-661	4 714	-2 725	1 990	3 232	-5 292	-19	-6 379	1 106

FINANCIAL ACCOUNT (NCL-NCA)



FINANCIAL ACCOUNT, EXCLUDING BANCO DE ESPAÑA. Breakdown. (NCL-NCA)



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

a. Changes in assets (NCA) and changes in liabilities (NCL) are both net of repayments. A positive (negative) sign in NCA columns indicates an outflow (inflow) of foreign financing. A positive (negative) sign in NCL columns implies an inflow (outflow) of foreign financing.

b. This does not include direct investment in quoted shares, but does include portfolio investment in unquoted shares.

c. This includes direct investment in quoted shares, but does not include portfolio investment in unquoted shares. d. Mainly, loans, deposits and repos.

e. A positive (negative) sign indicates a decrease (increase) in the reserves and/or claims of the BE with the Eurosystem.

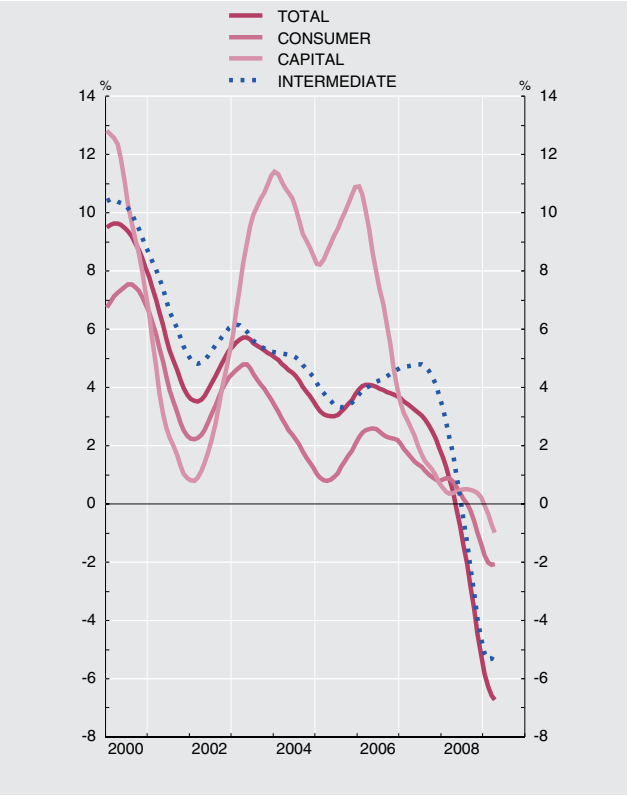
7.3. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD
EXPORT AND DISPATCHES

■ Series depicted in chart.

Eur millions and annual percentage changes

		Total			By product (deflated data) (a)					By geographical area (nominal data)								
		EUR millions	Nominal	Deflated (a)	Consumer	Capital	Intermediate			EU 27		OECD			OPEC	Other American countries	China	Newly industrialised countries
							Total	Energy	Non-energy	Total	Euro Area	of which: Total	of which: United States					
		1	2	3 ■	4 ■	5 ■	6 ■	7	8	9	10 ■	11 ■	12 ■	13	14	15	16 ■	
03		138 119	3.6	5.2	4.2	11.9	4.8	24.7	3.9	4.5	5.1	3.8	-1.7	-4.9	2.2	38.2	-23.4	
04		146 925	6.4	5.3	2.2	13.1	6.6	10.2	6.4	5.0	5.0	5.9	2.0	11.0	3.3	5.6	4.7	
05		155 005	5.5	0.8	-0.9	5.3	1.4	-8.9	2.0	2.6	2.3	4.2	10.2	10.4	11.8	31.4	14.5	
06		170 439	10.0	5.0	3.0	12.5	5.1	-5.0	5.6	8.1	7.8	8.4	17.7	4.2	34.5	12.8	16.5	
07		185 023	8.6	5.9	3.3	5.2	7.8	8.6	7.7	8.0	8.4	7.0	-1.1	22.4	-12.5	23.5	-0.8	
08	P	188 184	3.9	1.8	4.0	-2.7	1.1	22.3	0.5	1.9	1.4	1.8	3.0	31.3	-2.1	8.0	2.7	
08 *Mar*	P	15 882	-2.6	-3.2	-1.8	-10.3	-3.1	44.6	-4.8	-2.2	-4.0	-4.6	-15.5	8.7	-3.7	1.7	-18.5	
Apr	P	17 964	24.8	22.7	21.2	4.5	27.2	49.5	26.3	21.2	19.8	23.8	33.7	30.8	-16.6	45.2	8.8	
May	P	16 621	3.8	3.2	4.9	1.3	2.4	18.8	1.8	2.3	2.3	1.0	12.0	50.5	-15.4	-1.5	4.2	
Jun	P	15 464	-4.0	-4.8	-7.6	-12.2	-1.8	38.8	-3.3	-4.0	-2.9	-6.2	-25.4	11.9	-32.5	20.8	0.6	
Jul	P	17 189	12.2	9.5	6.0	19.7	10.2	48.0	8.5	3.5	3.1	5.1	16.6	74.3	37.3	16.2	23.9	
Aug	P	12 122	-0.0	-2.7	-6.1	-4.9	-0.7	4.8	-1.1	-3.3	-6.7	-2.3	-1.8	24.8	7.1	-0.4	18.8	
Sep	P	17 290	16.0	14.8	29.4	-1.1	8.0	38.5	6.6	18.7	17.6	16.1	0.1	42.9	39.8	-10.5	18.8	
Oct	P	16 672	-0.2	-0.3	-1.3	10.5	-1.5	9.7	-2.0	-2.8	-3.0	-2.4	-4.3	53.0	-8.7	-24.8	6.2	
Nov	P	14 289	-13.8	-16.5	-5.3	-30.9	-21.1	-7.0	-21.8	-15.5	-14.2	-14.2	13.9	-15.0	-10.6	-28.5	-14.1	
Dec	P	13 142	-7.4	-8.6	3.9	-0.3	-17.8	-10.1	-18.2	-13.1	-10.7	-11.6	19.1	56.4	20.8	-0.2	-9.8	
09 *Jan*	P	11 092	-25.7	-23.6	-16.4	-31.5	-27.3	-16.5	-27.8	-25.5	-22.6	-25.7	-21.1	-2.3	-30.2	-46.1	-19.9	
Feb	P	12 401	-25.4	-20.7	-17.8	1.9	-26.3	-15.0	-26.7	-29.5	-27.0	-28.0	-22.1	27.3	-19.6	-27.0	2.9	
Mar	P	13 714	-13.6	-9.5	2.1	-16.3	-16.7	-35.9	-15.6	-17.5	-16.1	-15.0	-4.4	18.9	8.1	-7.4	36.8	
Apr	P	13 192	-26.6	-22.6	-13.8	-28.5	-27.6	-45.2	-26.7	-23.8	-21.1	-25.7	-34.3	-6.3	-26.7	-26.5	-3.6	

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.

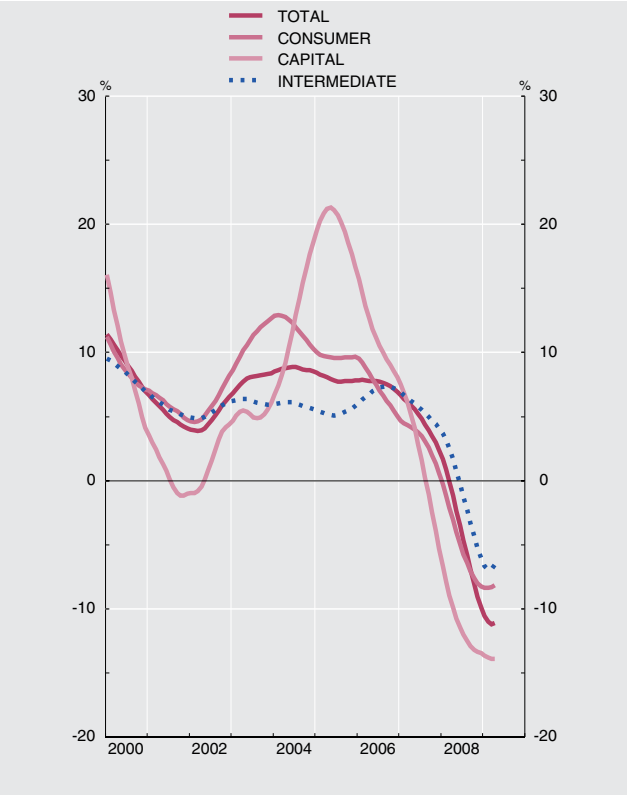
7.4. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD
IMPORTS AND ARRIVALS

■ Series depicted in chart.

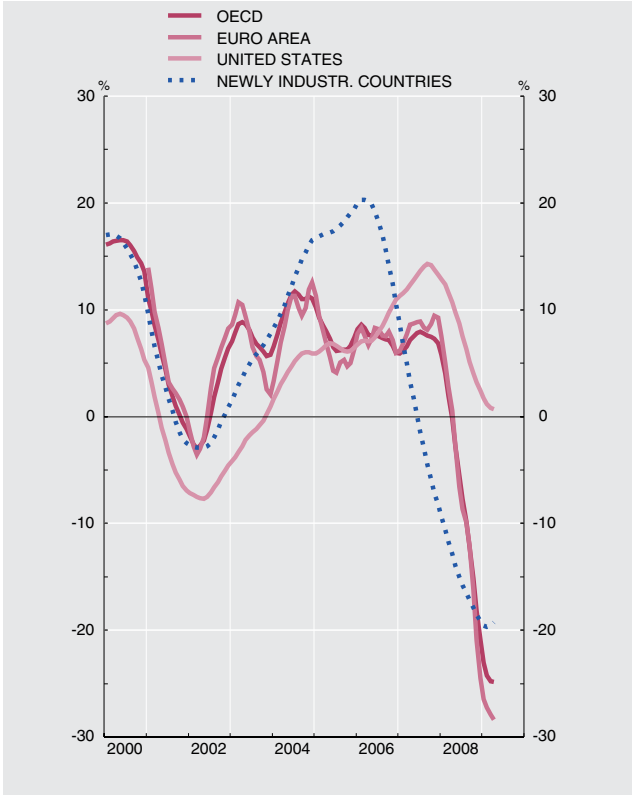
Eur millions and annual percentage changes

			Total			By product (deflated data) (a)					By geographical area (nominal data)							
								Intermediate			EU 27		OECD					
			EUR millions	Nominal	Deflated (a)	Consumer	Capital	Total	Energy	Non-energy	Total	Euro Area	Total	of which: United States	OPEC	Other American countries	China	Newly industrialised countries
			1	2	3 ■	4 ■	5 ■	6 ■	7	8	9	10 ■	11 ■	12 ■	13	14	15	16 ■
03			185 114	5.6	7.1	9.6	12.9	4.8	1.0	5.7	5.8	5.3	5.8	-4.8	-0.5	12.9	16.6	1.1
04			208 411	12.6	9.9	13.5	14.4	7.3	10.6	6.5	9.9	10.0	11.3	9.3	13.4	7.9	26.8	14.6
05			232 954	11.8	6.4	8.4	17.6	3.4	10.9	1.5	5.6	5.3	6.1	-0.1	39.2	29.3	37.3	11.2
06			262 687	12.8	9.2	7.4	5.9	10.6	4.8	12.2	8.4	8.0	8.5	14.7	24.9	24.1	22.7	28.6
07			285 038	8.5	7.4	6.8	7.5	7.5	4.1	8.3	10.5	11.0	9.8	16.4	-4.8	-6.8	28.7	-3.7
08	*Mar*	P	25 484	5.7	4.8	-8.8	-23.4	16.7	57.2	8.2	-5.5	-6.5	-5.5	29.7	42.1	0.7	-2.8	-26.1
	Apr	P	26 012	17.9	13.0	3.2	-6.6	20.5	29.3	18.6	11.3	11.0	10.0	13.5	40.9	42.0	34.7	6.9
	May	P	24 585	2.7	-3.5	-6.5	-22.4	0.9	-4.0	2.0	-3.0	-1.6	-3.5	12.3	52.9	29.5	6.7	-24.6
	Jun	P	24 126	-1.2	-4.2	-16.2	-19.5	3.7	17.0	1.0	-13.2	-14.3	-11.1	24.2	56.9	24.6	13.5	-24.3
	Jul	P	25 201	5.1	0.1	-4.0	-7.8	3.0	22.2	-1.2	-5.4	-7.4	-5.6	22.5	35.5	31.6	15.8	-17.9
	Aug	P	19 719	-1.1	-8.1	-12.6	-28.1	-3.4	5.0	-5.8	-10.4	-10.9	-10.2	-1.4	47.2	3.2	-0.7	-7.9
	Sep	P	24 723	6.0	1.5	3.1	-14.0	3.1	18.3	-0.0	0.4	-1.4	-1.7	2.5	40.9	5.8	17.8	-11.1
	Oct	P	23 317	-10.4	-13.5	-19.6	-20.9	-9.3	-1.0	-11.2	-15.1	-15.6	-15.1	-18.3	30.1	-20.3	-7.6	-10.6
	Nov	P	20 237	-19.9	-20.4	-17.9	-39.1	-17.9	0.4	-21.6	-22.8	-23.7	-22.3	-12.0	13.3	-9.4	-26.3	-21.3
	Dec	P	20 072	-16.5	-18.0	-14.0	-25.7	-18.4	-4.3	-22.1	-24.1	-27.4	-19.2	24.4	-4.3	-4.0	9.3	-29.4
09	*Jan*	P	15 591	-35.3	-30.1	-16.4	-32.3	-34.8	-32.9	-35.3	-32.5	-31.1	-33.8	-28.9	-50.0	-31.6	-28.0	-34.8
	Feb	P	18 268	-26.0	-20.3	-3.5	-35.4	-24.9	10.6	-32.3	-26.0	-25.4	-26.1	-3.4	-7.5	-22.4	-26.2	-34.0
	Mar	P	17 372	-31.8	-26.2	-9.0	-26.3	-32.3	-35.6	-31.3	-28.0	-28.1	-26.8	-21.5	-36.9	-7.8	-22.4	-22.5
	Apr	P	16 828	-35.3	-29.2	-17.1	-37.6	-32.5	-21.3	-35.1	-31.8	-32.0	-32.1	-22.9	-38.6	-29.6	-35.2	-33.6

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



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



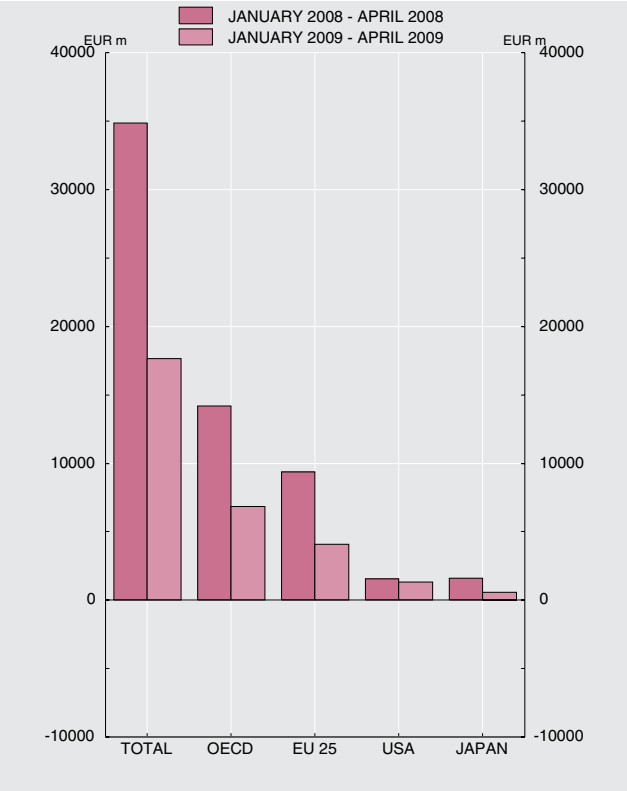
Sources: ME y BE.
Note: The underlying series for this indicator are in Tables 18.2 and 18.3 of the Boletín estadístico.
The monthly series are provisional data, while the annual series are the final foreign trade data.
a. Series deflated by unit value indices .

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

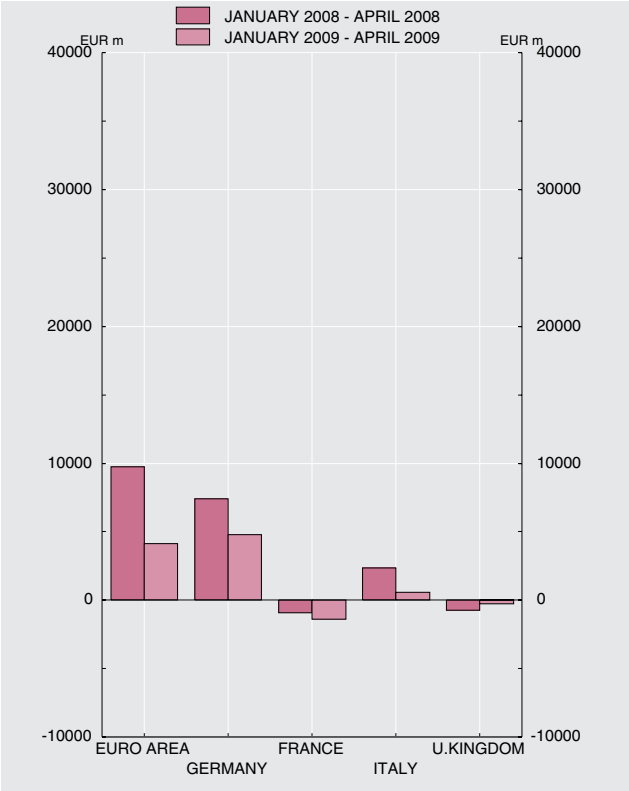
EUR millions

		World total	European Union (EU 27)							OECD			OPEC	Other American countries	China	Newly industrialised countries
			Total	Euro area				Other EU 27		Of which:						
				Total	Of which:			Total	Of which:	Total	United States	Japan				
					Germany	France	Italy		United Kingdom							
		1	2=3+7	3	4	5	6	7	8	9	10	11	12	13	14	15
03		-46 995	-19 057	-19 120	-13 731	-3 239	-3 517	63	1 035	-27 616	-1 170	-3 855	-8 146	-1 467	-5 629	-2 600
04		-61 486	-25 991	-25 267	-16 282	-3 353	-5 671	-724	472	-36 990	-1 692	-4 583	-9 321	-1 784	-7 369	-3 104
05		-77 950	-30 703	-29 422	-16 749	-3 112	-6 938	-1 281	-210	-41 592	-1 092	-4 769	-14 136	-3 089	-10 182	-3 411
06		-92 249	-33 547	-32 172	-18 689	-1 625	-7 184	-1 375	294	-45 357	-1 062	-4 652	-18 576	-3 316	-12 647	-4 564
07		-100 015	-40 176	-38 176	-23 752	-214	-8 375	-2 000	133	-53 745	-2 555	-4 779	-16 423	-3 477	-16 366	-4 347
08	P	-94 067	-25 314	-25 188	-20 054	3 865	-6 350	-125	418	-38 121	-3 479	-3 626	-22 158	-5 061	-17 903	-3 321
08 *Mar*	P	-9 602	-2 251	-2 345	-1 716	174	-574	93	220	-3 579	-468	-437	-1 905	-447	-1 156	-251
Apr	P	-8 048	-2 673	-2 657	-2 022	335	-650	-16	130	-3 427	-279	-378	-1 656	-387	-1 396	-302
May	P	-7 963	-2 153	-2 315	-2 116	553	-490	163	160	-3 458	-304	-365	-1 973	-516	-1 405	-257
Jun	P	-8 662	-2 064	-2 052	-1 726	366	-417	-12	-40	-3 386	-310	-378	-2 558	-523	-1 467	-373
Jul	P	-8 012	-2 061	-2 044	-1 736	477	-769	-17	-5	-2 895	-266	-179	-1 769	-488	-1 783	-234
Aug	P	-7 597	-2 121	-2 093	-1 091	-199	-472	-28	-6	-2 933	-195	-150	-2 174	-379	-1 578	-196
Sep	P	-7 433	-1 262	-1 349	-1 489	604	-446	86	93	-2 222	-262	-250	-1 972	-590	-1 861	-279
Oct	P	-6 645	-1 780	-1 800	-1 622	492	-408	20	9	-2 633	-185	-242	-1 910	-336	-1 454	-278
Nov	P	-5 948	-1 939	-1 780	-1 372	441	-541	-159	-145	-2 682	-126	-200	-1 285	-406	-1 291	-293
Dec	P	-6 930	-2 559	-2 015	-1 508	210	-434	-544	-404	-3 724	-269	-282	-1 347	-208	-1 288	-241
09 *Jan*	P	-4 498	-511	-531	-1 034	662	-154	20	33	-1 235	-265	-166	-917	-343	-1 265	-199
Feb	P	-5 868	-2 335	-2 316	-1 289	-718	-271	-18	10	-3 071	-475	-125	-1 124	-199	-1 119	-130
Mar	P	-3 657	-395	-571	-1 242	773	-109	175	188	-1 110	-274	-169	-919	-344	-870	-124
Apr	P	-3 636	-832	-725	-1 236	659	-63	-107	20	-1 424	-293	-133	-831	-256	-884	-155

CUMULATIVE TRADE DEFICIT



CUMULATIVE TRADE DEFICIT



Source: ME.

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

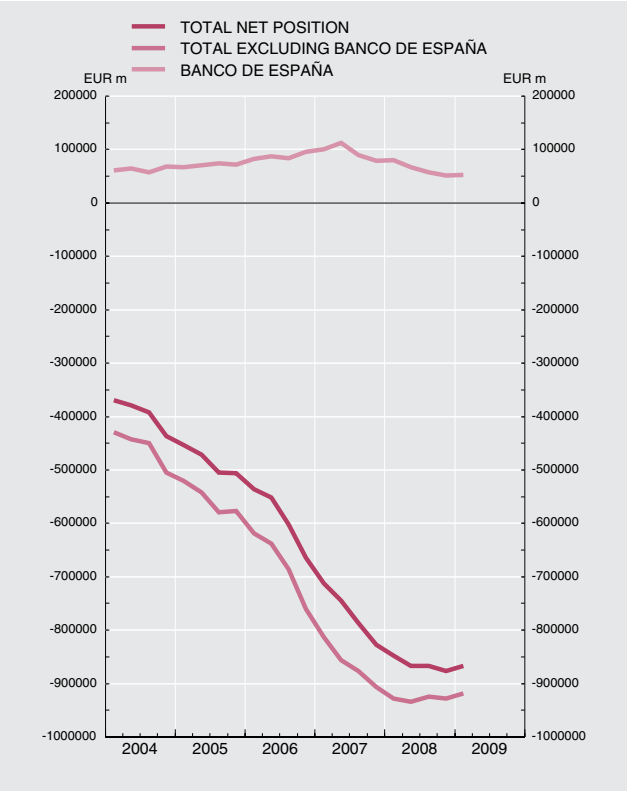
7.6. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-à-VIS OTHER EURO AREA RESIDENTS AND THE REST OF THE WORLD SUMMARY

■ Series depicted in chart.

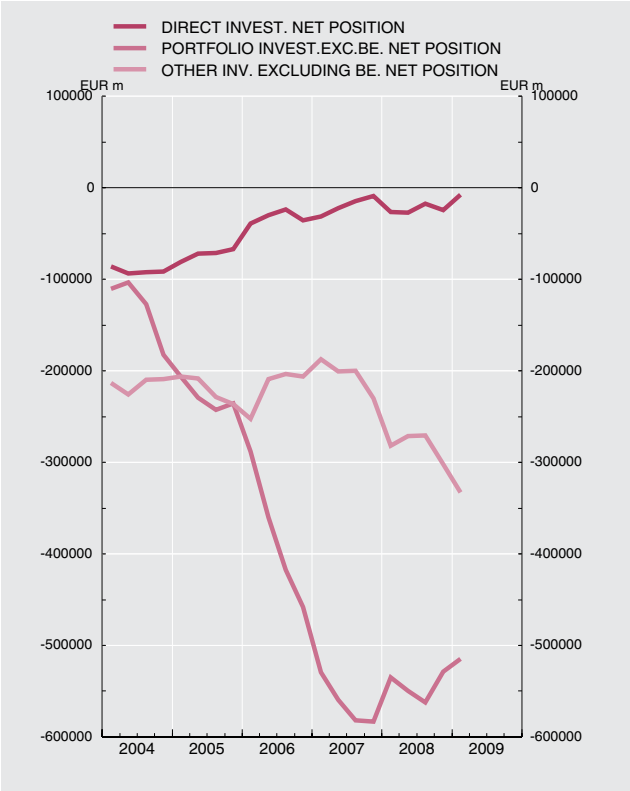
End-of-period stocks in EUR billions

		Net international investment position (assets-liabil.)	Total excluding Banco de España											Banco de España			
			Net position excluding Banco de España (assets - liabil.)	Direct investment			Portfolio investment			Other investment			Financial derivatives Net position (assets-liabil.)	Banco de España Net position (assets-liabil.)	Reserves	Net assets vis-à-vis the Eurosystem	Other net assets (assets-liabil.)
				Net position (assets-liabil.)	Spanish investment abroad (assets)	Foreign investment in Spain (liabil.)	Net position (assets-liabil.)	Spanish investment abroad (assets)	Foreign investment in Spain (liabil.)	Net position (assets-liabil.)	Spanish investment abroad (assets)	Foreign investment in Spain (liabil.)					
		1=2+13 ■	2=3+6+9+12 ■	3=4-5 ■	4	5	6=7-8 ■	7	8	9=10-11 ■	10	11		13=14 to 16 ■	14	14	15
01		-242.5	-311.0	-38.2	162.9	201.1	-100.4	232.6	333.1	-172.3	172.5	344.8	...	68.5	38.9	29.2	0.4
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	*Q1*	-535.9	-618.4	-38.9	287.0	325.9	-327.1	476.7	803.8	-252.3	284.9	537.2	-	82.4	15.4	26.8	40.3
	Q2	-551.2	-638.5	-30.3	302.2	332.5	-399.2	444.3	843.5	-209.0	299.5	508.5	-	87.3	14.6	32.2	40.5
	Q3	-602.4	-685.8	-23.4	319.6	343.0	-459.1	447.7	906.8	-203.3	313.1	516.4	-	83.4	15.0	25.4	43.0
	Q4	-664.4	-760.1	-35.6	314.0	349.6	-508.9	455.7	964.6	-206.1	324.9	530.9	-9.6	95.7	14.7	29.4	51.6
07	*Q1*	-712.3	-812.7	-31.4	320.5	351.8	-582.4	461.0	1 043.3	-187.6	358.4	546.1	-11.3	100.4	14.0	31.9	54.5
	Q2	-744.6	-856.7	-22.7	351.5	374.2	-617.2	471.0	1 088.2	-200.8	361.7	562.6	-15.9	112.1	12.9	40.7	58.5
	Q3	-786.5	-876.2	-14.7	361.0	375.7	-643.4	455.2	1 098.6	-200.1	383.7	583.8	-17.9	89.6	12.5	14.8	62.4
	Q4	-827.2	-906.2	-9.4	401.3	410.6	-647.6	443.3	1 090.8	-230.4	378.8	609.2	-18.8	78.9	12.9	1.1	64.9
08	*Q1*	-847.7	-928.4	-26.4	401.7	428.1	-599.6	420.7	1 020.3	-281.6	380.3	661.9	-20.7	80.6	13.0	2.8	64.8
	Q2	-866.5	-933.7	-27.2	417.1	444.3	-611.5	401.2	1 012.8	-271.6	416.6	688.1	-23.4	67.2	12.7	-7.5	62.0
	Q3	-867.4	-924.4	-17.3	435.2	452.5	-624.9	387.7	1 012.6	-270.6	422.3	692.9	-11.7	57.0	13.8	-19.6	62.8
	Q4	-877.0	-927.8	-24.4	434.9	459.3	-595.2	362.2	957.4	-301.9	385.4	687.3	-6.4	50.9	14.5	-30.6	66.9
09	*Q1*	-866.7	-918.9	-7.9	453.2	461.1	-578.5	352.5	930.9	-332.5	374.1	706.7	0.0	52.2	15.7	-27.4	63.9

INTERNATIONAL INVESTMENT POSITION



COMPONENTS OF THE POSITION



Source: BE.

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

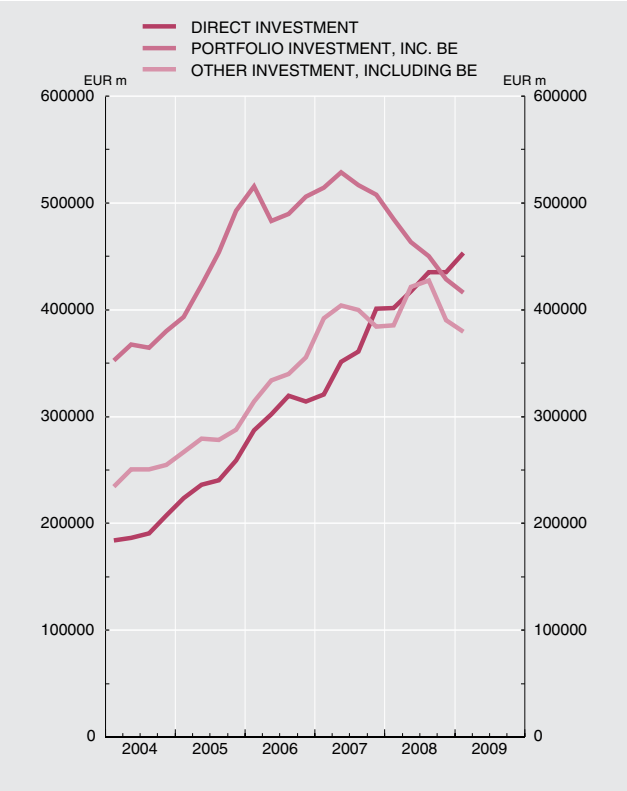
7.7. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-à-VIS OTHER EURO AREA RESIDENTES AND THE REST OF THE WORLD BREAKDOWN BY INVESTMENT

■ Series depicted in chart.

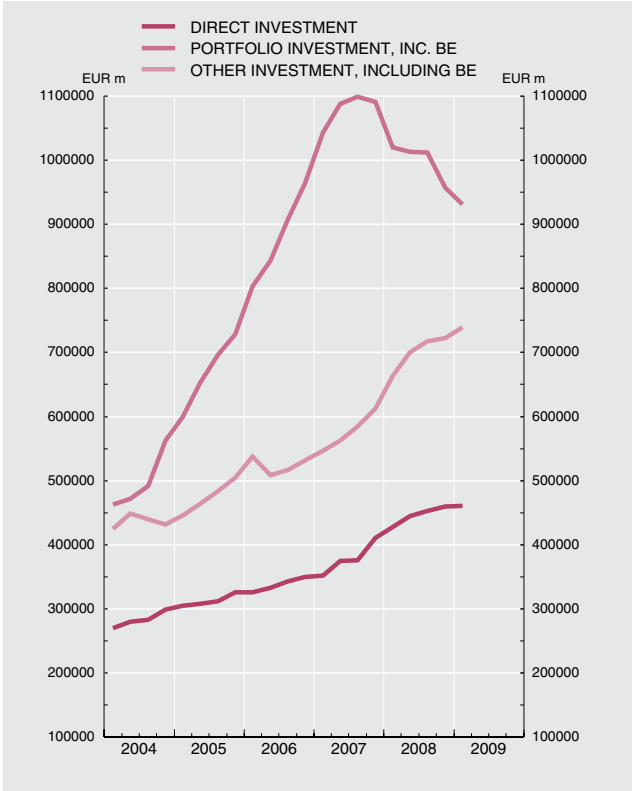
End-of-period stocks in EUR millions

		Direct investment				Portfolio investment, including Banco de España				Other investment, including Banco de España		Financial derivatives including BE	
		Spanish investment abroad		Foreign investment in Spain		Spanish investment abroad		Foreign investment in Spain					
		Shares and other equities	Intercompany debt transactions	Shares and other equities	Intercompany debt transactions	Shares and mutual funds	Debt securities	Shares and mutual funds	Debt securities	Spanish investment abroad	Foreign investment in Spain	Spanish investment abroad	Foreign investment in Spain
		1	2	3	4	5	6	7	8	9 ■	10 ■	11	12
01		142 688	20 231	164 360	36 768	74 596	158 052	144 151	188 925	202 099	344 845	...	...
02	R	139 178	16 815	194 711	50 456	50 712	206 581	116 967	245 492	220 483	367 646	-	-
03		160 519	14 477	207 096	61 828	62 677	273 344	147 878	274 166	222 670	418 202	-	-
04		189 622	17 627	231 649	67 501	78 053	302 067	183 211	379 279	254 992	431 651	-	-
05		236 769	22 133	250 641	75 322	104 157	388 472	197 347	531 035	287 551	504 831	-	-
06	*Q1*	267 995	18 980	252 144	73 779	119 452	395 944	214 645	589 149	313 799	537 742	-	-
	Q2	279 692	22 501	259 325	73 179	122 047	361 127	206 547	636 951	333 653	508 828	-	-
	Q3	298 024	21 608	263 985	79 063	126 170	363 383	232 494	674 271	339 974	516 719	-	-
	Q4	290 841	23 206	270 481	79 125	133 193	373 001	245 683	718 897	355 621	531 211	32 973	42 569
07	*Q1*	299 321	21 139	273 061	78 768	140 704	373 512	256 533	786 784	391 843	546 396	33 197	44 487
	Q2	335 868	15 665	288 590	85 654	153 730	374 852	269 506	818 657	403 805	563 003	39 921	55 856
	Q3	339 394	21 633	293 476	82 274	142 095	374 617	273 560	825 065	399 573	584 058	44 181	62 069
	Q4	374 419	26 861	319 861	90 777	134 762	372 789	286 207	804 620	383 993	612 706	44 642	63 487
08	*Q1*	374 132	27 555	341 161	86 941	105 912	379 311	239 395	780 900	385 209	663 720	53 297	74 001
	Q2	388 437	28 687	354 781	89 554	98 479	364 805	220 273	792 495	421 356	700 447	58 579	82 016
	Q3	404 074	31 131	356 162	96 305	84 523	365 861	203 600	808 962	427 107	717 182	70 066	81 757
	Q4	403 625	31 323	359 678	99 651	64 794	363 565	174 373	783 004	390 233	722 556	108 228	114 023
09	*Q1*	420 426	32 773	360 122	101 018	57 269	358 747	145 316	785 632	379 576	739 143	111 632	111 519

SPANISH INVESTMENT ABROAD



FOREIGN INVESTMENT IN SPAIN



Source: BE.
Note: See footnote to Indicator 7.6

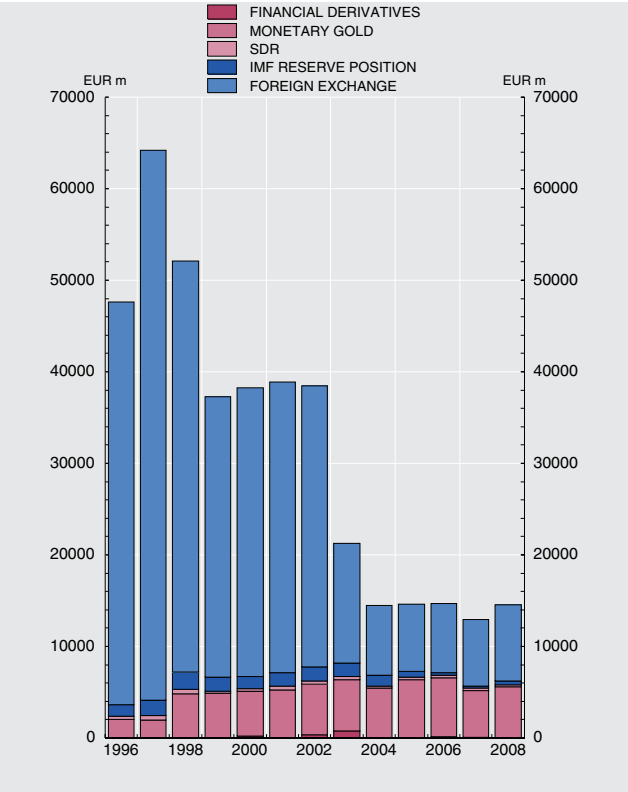
7.8. SPANISH RESERVE ASSETS

■ Series depicted in chart.

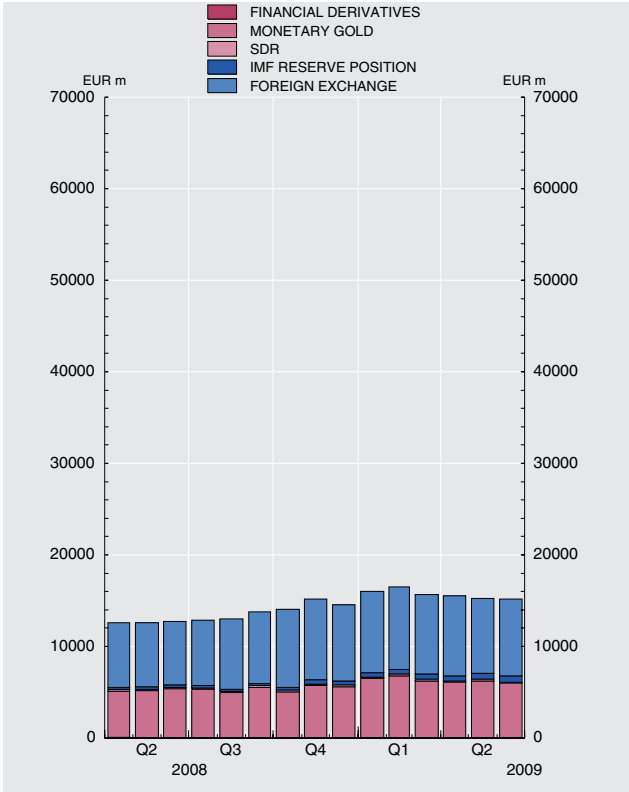
End-of-period stocks in EUR millions

	Reserve assets						Memorandum item: gold
	Total	Foreign exchange	Reserve position in the IMF	SDRs	Monetary gold	Financial derivatives	Millions of troy ounces
	1	2 ■	3 ■	4 ■	5 ■	6 ■	7
03	21 229	13 073	1 476	328	5 559	793	16.8
04	14 505	7 680	1 156	244	5 411	15	16.8
05	14 601	7 306	636	281	6 400	-21	14.7
06	14 685	7 533	303	254	6 467	127	13.4
07	12 946	7 285	218	252	5 145	46	9.1
08 *Jan*	13 450	7 316	218	255	5 630	31	9.1
Feb	13 586	7 222	216	253	5 795	101	9.1
Mar	12 976	7 021	211	189	5 367	189	9.1
Apr	12 568	7 045	204	190	5 070	59	9.1
May	12 598	7 029	245	176	5 166	-18	9.1
Jun	12 709	6 921	233	175	5 357	23	9.1
Jul	12 887	7 169	234	172	5 314	-1	9.1
Aug	12 987	7 638	233	155	5 128	-168	9.1
Sep	13 806	7 857	238	159	5 678	-126	9.1
Oct	14 037	8 546	256	170	5 201	-135	9.1
Nov	15 150	8 796	449	168	5 797	-60	9.1
Dec	14 546	8 292	467	160	5 627	-	9.1
09 *Jan*	16 033	8 889	492	173	6 479	-	9.1
Feb	16 519	9 040	490	173	6 816	-	9.1
Mar	15 663	8 691	556	167	6 249	-	9.1
Apr	15 490	8 713	560	168	6 050	-	9.1
May	15 225	8 180	632	156	6 257	-	9.1
Jun	15 142	8 372	693	48	6 028	-	9.1

RESERVE ASSETS
END-OF-YEAR POSITIONS



RESERVE ASSETS
END-OF-MONTH POSITIONS



Source: BE.

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

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

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

End-of-period positions — *EUR millions*

	Total	General government						Other monetary financial institutions				
		Total	Short-term		Long-term			Total	Short-term		Long-term	
			Money market 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
05 *Q1*	958 055	204 834	2 513	1 024	183 038	18 259	-	460 500	467	202 197	125 535	132 301
Q2	1 038 214	213 939	2 110	437	194 059	17 333	-	490 258	587	232 191	139 670	117 810
Q3	1 080 328	213 370	3 088	1 424	191 719	17 139	-	517 879	400	264 976	150 727	101 776
Q4	1 144 447	213 412	2 465	65	192 798	18 085	-	548 891	981	276 566	164 457	106 887
06 *Q1*	1 238 533	214 081	4 628	14	191 300	18 137	-	589 544	1 003	295 793	193 633	99 115
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*	1 461 842	219 413	4 901	40	195 781	18 692	-	658 096	11 331	295 528	252 211	99 027
Q2	1 523 014	215 158	5 446	443	190 503	18 766	-	684 742	11 316	294 402	269 682	109 341
Q3	1 542 186	207 169	4 820	1 329	182 455	18 566	-	707 016	15 079	308 889	273 907	109 140
Q4	1 561 759	197 861	4 505	878	173 414	19 064	-	723 951	20 039	327 391	262 222	114 300
08 *Q1*	1 588 487	194 208	6 329	549	167 692	19 637	-	768 529	20 424	380 522	256 302	111 281
Q2	1 642 142	196 206	5 594	152	170 922	19 538	-	794 086	22 729	399 932	258 374	113 051
Q3	1 680 102	212 325	9 722	485	182 155	19 964	-	792 491	21 269	400 051	258 393	112 778
Q4	1 661 730	227 201	12 330	2 089	191 968	20 815	-	766 316	12 214	400 693	249 210	104 200
09 *Q1*	1 683 347	235 620	15 801	470	198 385	20 964	-	781 797	15 198	411 446	246 447	108 706

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

End-of-period positions — *EUR millions*

	Monetary authority		Other residents sectors								Direct investment		
	Total	Short-term	Total	Short-term			Long-term				Total	Vis-à-vis	
		Deposits		Money market instruments	Loans	Other liabilities	Bonds and notes	Loans	Trade credits	Other liabilities		Direct investors	Subsidiaries
	13	14	15	16	17	18	19	20	21	22	23	24	25
05 *Q1*	0	0	194 559	4 274	20 471	787	98 620	69 232	387	788	98 161	39 449	58 712
Q2	71	71	232 928	3 839	19 803	1 569	133 435	73 111	384	788	101 020	41 447	59 573
Q3	42	42	244 638	3 401	19 164	1 636	142 932	76 503	356	646	104 399	42 506	61 893
Q4	126	126	273 437	3 380	17 817	996	166 955	83 404	358	527	108 581	43 547	65 034
06 *Q1*	535	535	322 731	2 905	19 500	417	195 679	102 731	360	1 139	111 642	46 426	65 216
Q2	328	328	351 173	4 283	18 432	338	226 684	100 123	352	961	112 712	47 702	65 010
Q3	316	316	374 113	4 641	22 224	838	244 071	101 073	348	918	117 140	51 141	65 999
Q4	281	281	411 407	4 786	22 967	702	275 114	106 946	338	555	120 168	49 588	70 581
07 *Q1*	322	322	455 348	5 303	21 641	550	317 258	109 329	334	932	128 663	50 034	78 629
Q2	423	423	481 337	5 418	26 985	1 066	336 291	110 223	331	1 022	141 355	50 486	90 868
Q3	277	277	494 661	2 153	21 864	854	346 652	121 804	339	994	133 063	52 229	80 834
Q4	3 550	3 550	491 964	201	20 050	314	344 239	126 136	331	692	144 433	55 142	89 291
08 *Q1*	1 855	1 855	480 029	927	19 573	430	329 226	128 257	320	1 296	143 867	56 287	87 579
Q2	12 326	12 326	490 324	6 397	20 880	1 368	328 479	131 763	317	1 120	149 201	61 386	87 815
Q3	24 276	24 276	497 052	18 093	22 983	1 205	319 331	134 294	323	824	153 958	62 351	91 607
Q4	35 233	35 233	476 809	12 955	20 866	2 442	304 328	135 073	322	824	156 170	64 600	91 570
09 *Q1*	32 491	32 491	474 868	19 521	17 319	3 270	290 280	143 099	356	1 023	158 572	65 894	92 678

Source: BE.

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

Average of daily data, EUR millions

	Net lending in euro							Counterparts					
	Total	Open market operations				Standing facilities		Autonomous factors					Actual reserves of credit institutions
		Main refinancing operations	Longer-term refinancing operations	Fine-tuning reverse operations (net)	Structural reverse operations (net)	Marginal lending facility	Deposit facility	Total	Banknotes	Deposits to general government	Gold and net assets in foreign currency	Other assets (net)	
	1=2+3+4+5+6-7	2	3	4	5	6	7	8=9+10-11-12	9	10	11	12	13
08 *Jan*	438 306	191 905	268 486	-21 373	-	199	911	245 582	658 002	52 664	354 557	110 527	192 724
Feb	443 028	175 548	268 494	-762	-	158	410	238 533	651 786	52 814	348 531	117 537	204 496
Mar	470 375	198 667	268 696	3 286	-	196	470	254 680	659 638	68 872	341 404	132 425	215 695
Apr	458 583	166 978	292 729	-676	-	111	558	258 599	662 688	74 650	360 191	118 549	199 984
May	462 508	171 819	291 841	-1 068	-	172	256	255 055	670 599	65 643	370 568	110 619	207 453
Jun	460 645	182 477	278 839	-667	-	304	308	245 546	674 406	64 832	376 972	116 720	215 099
Jul	458 121	166 956	292 400	-634	-	56	657	250 649	683 700	63 596	374 744	121 903	207 473
Aug	462 440	163 524	300 014	-1 000	-	90	188	247 021	686 797	58 194	376 096	121 875	215 420
Sep	471 362	166 660	305 321	6 584	-	2 284	9 487	241 752	682 161	55 504	392 028	103 885	229 611
Oct	534 868	272 768	444 976	-34 226	-	15 549	164 198	308 820	713 519	80 454	524 301	-39 148	226 049
Nov	579 941	329 562	457 732	-3 978	-	4 612	207 988	365 023	727 623	95 385	572 539	-114 554	214 918
Dec	613 857	256 810	565 508	-5 976	-	2 644	205 129	379 866	749 344	110 732	587 525	-107 316	233 990
09 *Jan*	580 046	224 907	598 376	-8 568	-638	2 646	236 676	365 644	746 945	98 051	571 542	-92 189	214 402
Feb	592 161	212 759	498 364	-6 449	-	2 227	114 740	370 902	739 970	96 499	526 691	-61 125	221 259
Mar	607 356	232 617	451 005	-5 038	-	1 146	72 373	388 329	745 155	133 214	498 652	-8 613	219 027
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

8.1.b BALANCE SHEET OF THE BANCO DE ESPAÑA. NET LENDING TO CREDIT INSTITUTIONS AND ITS COUNTERPARTS

Average of daily data, EUR millions

	Net lending in euro							Counterparts							
	Total	Open market operations				Standing facilities		Intra-ESCB		Autonomous factors					Actual reserves of credit institutions
		Main refinancing operations	Longer-term refinancing operations	Fine-tuning reserve operations (net)	Structural reserve operations (net)	Marginal lending facility	Deposit facility	Target	Rest	Total	Banknotes	Deposits to general government	Gold and net assets in foreign currency	Other assets (net)	
	14=15+16+17+18+19-20	15	16	t 17	18	19	20	21	22	23=24+25-26-27	24	25	26	27	28
08 *Jan*	39 645	28 261	14 356	-2 957	-	22	37	4 993	-4 787	18 104	82 646	18 048	11 174	71 416	21 336
Feb	44 170	24 201	20 086	-115	-	1	3	7 985	-4 787	18 829	80 774	19 962	9 836	72 071	22 143
Mar	44 173	21 534	22 480	161	-	-	2	6 549	-4 787	18 842	81 638	19 314	9 313	72 798	23 569
Apr	47 940	18 749	29 240	-27	-	-	23	12 728	-4 787	17 878	80 339	20 191	9 608	73 045	22 121
May	47 981	20 386	27 966	-373	-	3	0	9 119	-4 787	19 386	79 609	22 623	10 697	72 149	24 263
Jun	47 077	19 627	27 534	-59	-	27	51	8 300	-4 787	19 006	79 207	23 987	11 228	72 960	24 559
Jul	49 384	15 745	33 727	-77	-	0	11	18 770	-4 787	11 374	79 782	16 554	12 134	72 828	24 027
Aug	46 741	12 338	34 467	-62	-	0	1	20 634	-4 787	6 400	78 759	13 276	12 171	73 465	24 495
Sep	49 144	10 689	38 695	204	-	50	493	21 118	-4 787	5 006	76 660	14 077	11 885	73 846	27 807
Oct	52 692	21 520	56 729	-6 008	-	379	19 929	11 844	-4 787	20 175	79 383	29 728	15 099	73 837	25 459
Nov	58 218	33 238	58 454	-764	-	210	32 921	15 379	-4 787	21 135	79 783	34 089	18 251	74 485	26 490
Dec	63 598	25 688	67 106	-1 780	-	56	27 471	28 274	-4 787	13 156	81 432	23 611	17 972	73 916	26 955
09 *Jan*	57 488	22 338	63 324	-1 721	-	19	26 472	29 076	-5 265	8 734	80 105	19 644	20 871	70 144	24 942
Feb	74 090	20 781	57 578	-614	-	60	3 716	38 001	-5 265	14 731	78 492	23 060	16 857	69 964	26 622
Mar	72 709	19 233	55 363	-600	-	21	1 308	38 496	-5 406	13 986	78 839	24 844	17 455	72 242	25 633
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

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

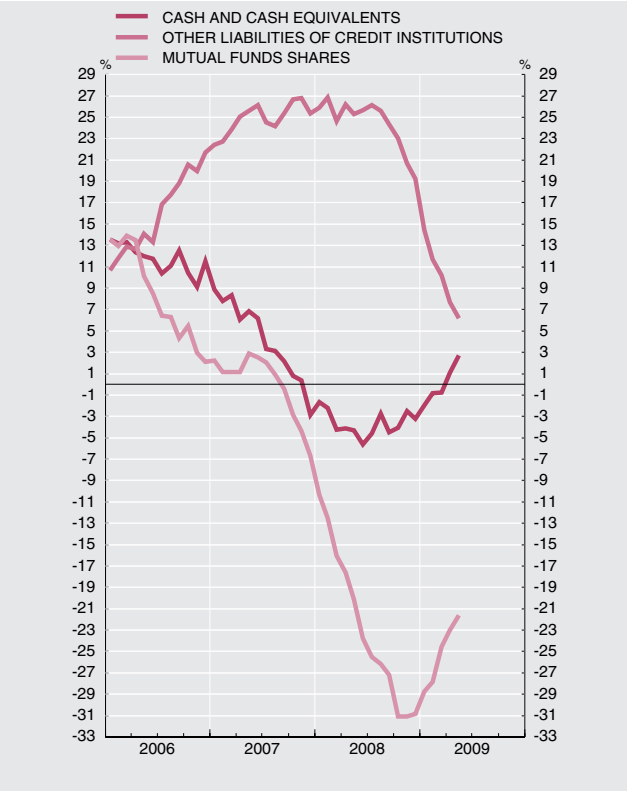
8.2 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

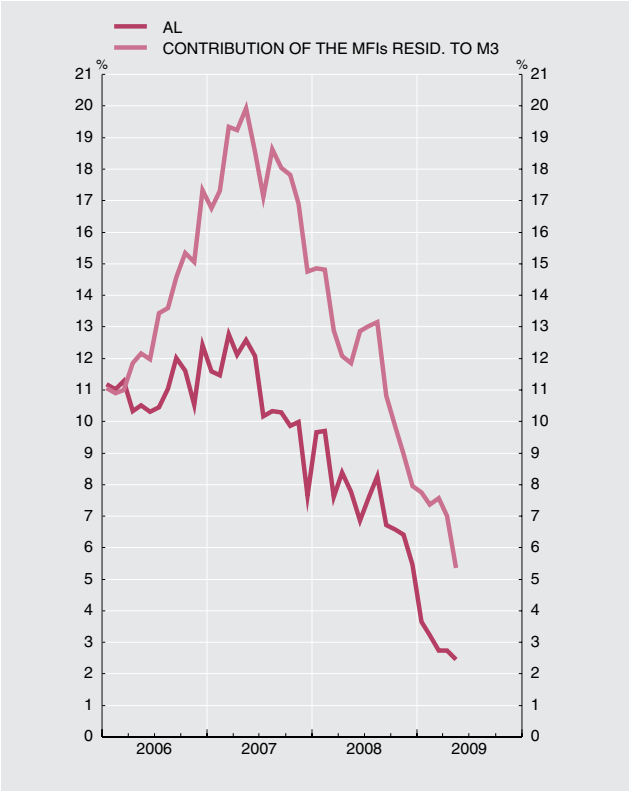
EUR millions and %

		Cash and cash equivalents				Other liabilities of credit institutions					Mutual funds shares				Memorandum items	
		Stocks	12-month % change	12-m. % change		Stocks	12 month % change	12-month % change			Stocks	12-month % change	12-month % change		12-month % change	
				Cash	Deposits (b)			Other deposits (c)	Repos + credit institutions' securities	Deposits in branches abroad			Fixed income in EUR (d)	Other	AL (e)	Contribution of the MFIs resid. to M3
		1	2 ■	3	4	5	6 ■	7	8	9	10	11 ■	12	13	14 ■	15 ■
06		512 581	11.5	9.9	11.9	365 983	21.7	22.8	21.6	0.9	224 851	2.1	-10.1	13.5	12.4	17.3
07		497 887	-2.9	2.3	-4.1	458 887	25.4	29.8	7.3	-10.7	209 767	-6.7	-3.9	-8.8	7.7	14.7
08		481 725	-3.2	0.6	-4.2	547 234	19.3	24.3	-12.7	-8.9	145 099	-30.8	-16.2	-42.2	5.5	8.0
08	*Feb*	480 343	-2.2	1.5	-3.1	482 232	26.8	31.2	6.3	-7.4	197 714	-12.5	2.6	-23.1	9.7	14.8
	Mar	480 671	-4.2	-0.3	-5.2	488 556	24.7	29.7	2.5	-15.4	192 015	-16.1	-0.1	-27.6	7.6	12.9
	Apr	471 030	-4.1	-0.6	-5.0	499 700	26.2	31.6	-0.3	-10.7	188 789	-17.6	-1.2	-29.3	8.4	12.1
	May	477 157	-4.3	-1.3	-5.0	505 476	25.3	31.5	-3.3	-19.6	184 113	-20.1	-3.3	-31.9	7.8	11.9
	Jun	487 821	-5.6	-2.5	-6.3	518 447	25.7	30.7	-0.7	2.5	175 162	-23.7	-6.9	-35.6	6.9	12.9
	Jul	479 771	-4.6	-2.8	-5.0	523 983	26.1	31.7	-1.2	-9.5	169 786	-25.5	-8.9	-37.3	7.6	13.0
	Aug	478 080	-2.8	-3.2	-2.7	531 720	25.6	31.8	-6.0	-7.3	167 975	-26.2	-11.6	-37.1	8.2	13.1
	Sep	478 656	-4.5	-3.7	-4.7	534 820	24.3	29.6	-2.1	-11.7	162 715	-27.2	-13.4	-37.8	6.7	10.8
	Oct	465 576	-4.1	1.2	-5.4	541 397	23.0	27.5	1.2	-18.8	151 857	-31.1	-15.4	-42.7	6.6	9.8
	Nov	475 795	-2.5	0.9	-3.4	542 175	20.7	25.8	-6.4	-24.5	147 925	-31.1	-15.8	-42.7	6.4	9.0
	Dec	481 725	-3.2	0.6	-4.2	547 234	19.3	24.3	-12.7	-8.9	145 099	-30.8	-16.2	-42.2	5.5	8.0
09	*Jan* P	473 030	-1.9	1.3	-2.8	538 749	14.5	19.9	-19.5	-23.7	144 119	-28.7	-20.9	-36.0	3.7	7.8
	Feb P	476 275	-0.8	1.4	-1.4	538 668	11.7	16.8	-22.1	-22.3	142 710	-27.8	-18.9	-36.2	3.2	7.4
	Mar P	477 051	-0.8	2.0	-1.4	538 244	10.2	15.5	-26.3	-21.3	144 862	-24.6	-17.6	-31.5	2.7	7.6
	Apr P	476 061	1.1	2.9	0.6	538 225	7.7	11.8	-20.4	-26.4	145 422	-23.0	-15.3	-30.6	2.7	7.0
	May P	490 150	2.7	2.8	2.7	536 603	6.2	9.8	-18.4	-25.5	144 326	-21.6	-19.3	-23.9	2.5	5.3

NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHs
Annual percentage change



NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHs
Annual percentage change



Source: BE.

a. This concept refers to the instruments included in the headings of the table, issued by resident credit institutions and mutual funds. The exception is column 9, which includes deposits in Spanish bank branches abroad.

b. Current accounts, savings accounts and deposits redeemable at up to 3 months' notice.

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

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

e. Defined as cash and cash equivalents, other liabilities of credit institutions and Fixed income mutual funds shares in euros.

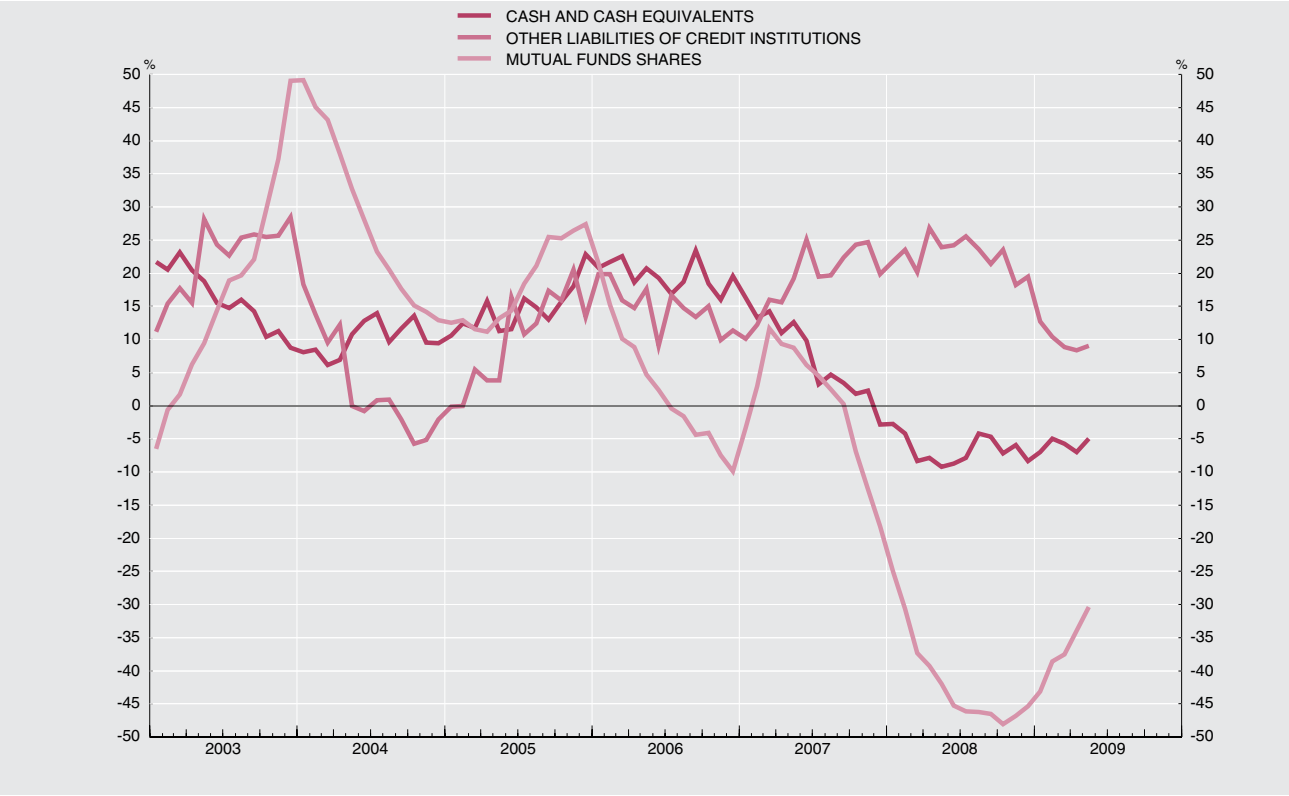
8.3 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF NON-FINANCIAL CORPORATIONS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

EUR millions and %

		Cash and cash equivalents (b)		Other liabilities of credit institutions				Mutual funds shares			
		Stocks	Annual growth rate	Stocks	Annual growth rate	Annual growth rate		Stocks	Annual growth rate	Annual growth rate	
						Other deposits (c)	Repos + credit instit.' securit.+ dep. in branches abroad			Fixed income in EUR (d)	Other
		1	2 ■	3	4 ■	5	6	7	8 ■	9	10
06		137 357	19.6	78 769	11.3	17.4	2.8	26 523	-9.9	-15.9	-5.0
07		133 469	-2.8	94 413	19.9	37.4	-8.2	21 692	-18.2	-15.7	-20.0
08		122 377	-8.3	112 786	19.5	25.1	5.9	11 854	-45.4	-33.6	-54.5
08	*Feb*	124 315	-4.2	96 821	23.5	38.6	-4.6	20 024	-30.7	-17.2	-40.2
	Mar	123 351	-8.3	98 807	20.2	35.6	-8.3	19 083	-37.3	-23.9	-47.1
	Apr	118 718	-7.8	101 892	26.9	44.4	-7.5	18 113	-39.3	-24.4	-49.9
	May	121 193	-9.2	103 551	24.0	43.1	-12.0	16 996	-41.9	-25.7	-53.3
	Jun	125 284	-8.7	110 055	24.2	35.7	1.0	15 587	-45.3	-28.0	-57.4
	Jul	118 279	-7.8	107 692	25.6	38.1	1.0	14 913	-46.2	-29.7	-57.9
	Aug	120 854	-4.2	110 438	23.7	38.2	-3.2	14 573	-46.2	-31.9	-56.9
	Sep	126 336	-4.6	111 310	21.4	30.6	3.6	13 946	-46.6	-33.4	-56.6
	Oct	116 473	-7.2	113 948	23.6	28.9	11.9	12 858	-48.0	-34.1	-58.3
	Nov	121 399	-6.0	110 632	18.2	23.1	6.7	12 333	-46.8	-33.8	-56.6
	Dec	122 377	-8.3	112 786	19.5	25.1	5.9	11 854	-45.4	-33.6	-54.5
09	*Jan* P	116 487	-7.0	106 356	12.7	20.1	-6.0	11 845	-43.1	-37.6	-48.4
	Feb P	118 191	-4.9	106 928	10.4	16.8	-6.9	12 302	-38.6	-29.3	-47.6
	Mar P	116 255	-5.8	107 570	8.9	16.7	-12.3	11 915	-37.6	-32.8	-42.5
	Apr P	110 400	-7.0	110 411	8.4	11.7	-1.9	11 962	-34.0	-29.7	-38.6
	May P	115 192	-5.0	112 876	9.0	12.0	-0.1	11 836	-30.4	-32.0	-28.6

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.

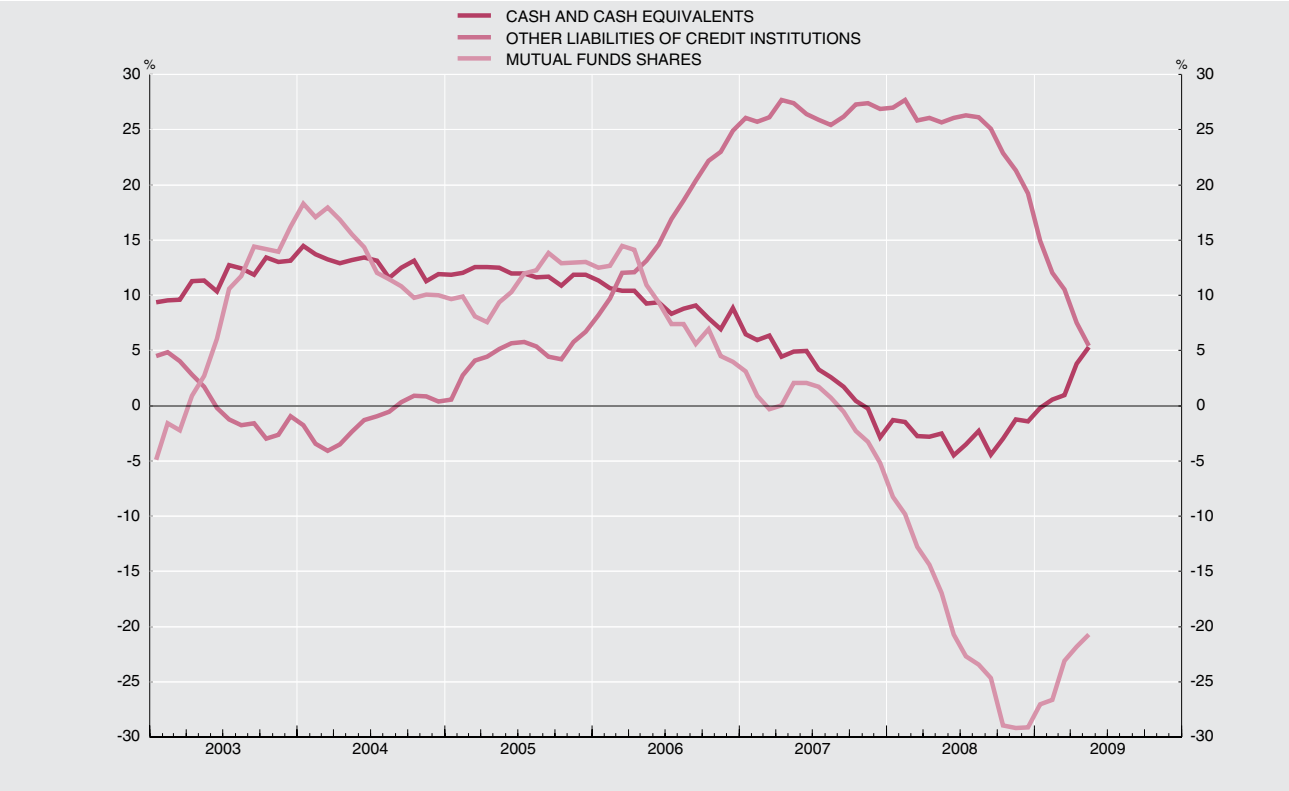
8.4 CASH AND CASH EQUIVALENTS, OTHER LIABILITIES OF CREDIT INSTITUTIONS AND MUTUAL FUNDS SHARES OF HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ 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
06		375 224	8.9	9.2	8.8	287 214	24.9	23.8	34.1	198 328	4.0	-9.3	16.5
07		364 418	-2.9	2.9	-4.6	364 474	26.9	28.4	15.0	188 075	-5.2	-2.3	-7.3
08		359 348	-1.4	2.7	-2.7	434 448	19.2	24.2	-25.8	133 245	-29.2	-14.2	-40.7
08	*Feb*	356 028	-1.5	2.4	-2.6	385 412	27.7	29.8	10.5	177 690	-9.8	5.5	-20.6
	Mar	357 320	-2.7	0.8	-3.8	389 750	25.8	28.5	4.9	172 932	-12.8	3.5	-24.6
	Apr	352 312	-2.8	0.6	-3.9	397 809	26.0	29.2	1.5	170 675	-14.4	2.2	-26.3
	May	355 965	-2.5	0.1	-3.3	401 925	25.6	29.3	-2.2	167 116	-17.0	-0.1	-28.8
	Jun	362 537	-4.5	-1.0	-5.6	408 392	26.1	29.6	-1.0	159 574	-20.7	-4.0	-32.5
	Jul	361 492	-3.5	-1.2	-4.2	416 292	26.3	30.4	-5.8	154 873	-22.7	-6.1	-34.5
	Aug	357 226	-2.3	-1.5	-2.5	421 281	26.1	30.5	-8.7	153 402	-23.5	-8.8	-34.4
	Sep	352 319	-4.4	-1.8	-5.3	423 510	25.1	29.4	-10.6	148 769	-24.7	-10.7	-35.3
	Oct	349 103	-3.0	3.1	-5.0	427 449	22.9	27.2	-14.5	138 999	-28.9	-13.0	-40.8
	Nov	354 396	-1.3	3.0	-2.6	431 543	21.3	26.3	-22.6	135 593	-29.2	-13.7	-41.0
	Dec	359 348	-1.4	2.7	-2.7	434 448	19.2	24.2	-25.8	133 245	-29.2	-14.2	-40.7
09	*Jan* P	356 543	-0.2	3.3	-1.3	432 393	14.9	19.8	-30.7	132 274	-27.1	-18.9	-34.6
	Feb P	358 084	0.6	3.3	-0.3	431 740	12.0	16.7	-33.0	130 408	-26.6	-17.8	-34.9
	Mar P	360 796	1.0	3.6	0.1	430 674	10.5	15.2	-34.9	132 947	-23.1	-15.9	-30.3
	Apr P	365 661	3.8	4.4	3.6	427 815	7.5	11.8	-34.8	133 460	-21.8	-13.7	-29.8
	May P	374 959	5.3	4.1	5.7	423 727	5.4	9.3	-33.3	132 490	-20.7	-17.9	-23.5

HOUSEHOLDS AND NPISH
Annual percentage change



Source: BE.

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

b. Current accounts, savings accounts and deposits redeemable at up to 3 months' notice.

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

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

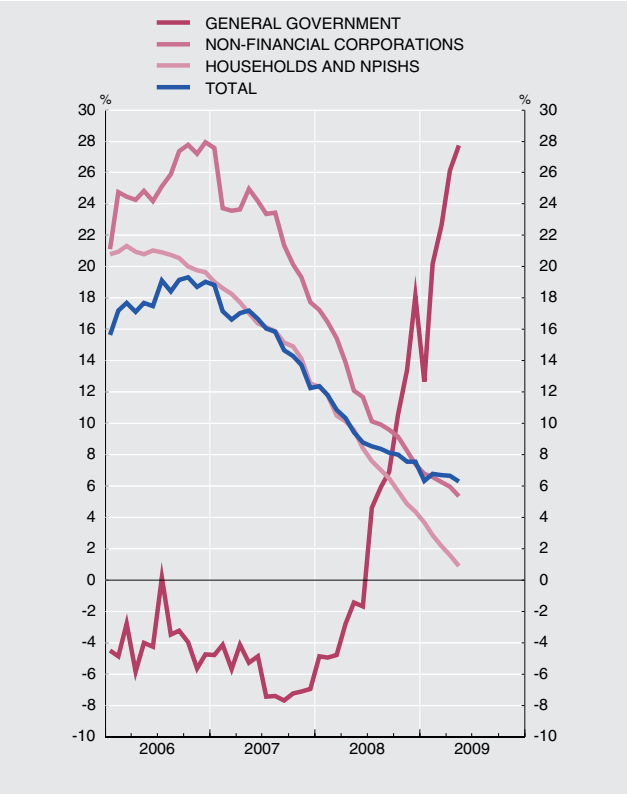
8.5. FINANCING OF NON-FINANCIAL SECTORS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

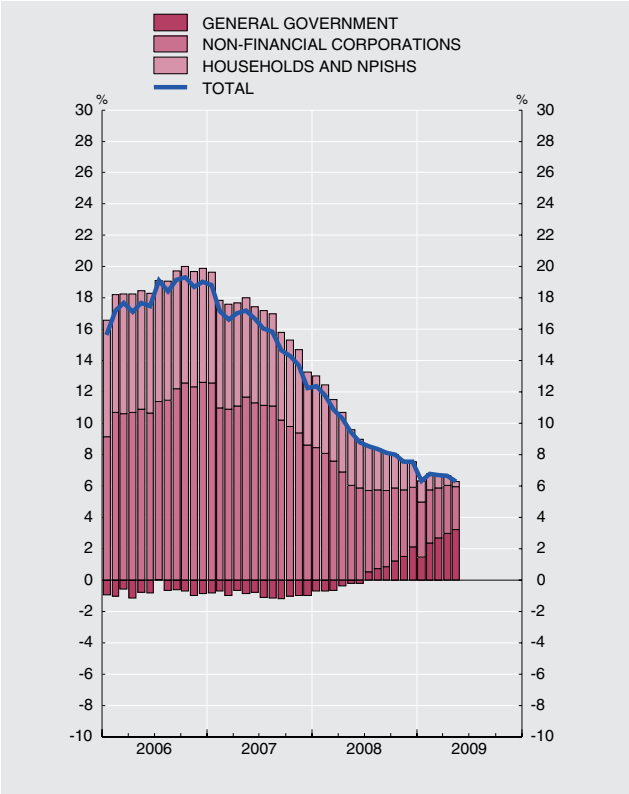
EUR millions and %

		Total			Annual growth rate							Contribution to col. 3						
		Stocks	Effective flow	Annual growth rate	General government (b)	Non-financial corp. and households and NPISHs						General government (b)	Non-financial corp. and households and NPISHs					
							By sectors		By instruments					By sectors		By instrumentss		
							Non-financial corporations	Households and NPISHs	Credit institutions' loans & securit. funds	Securities other than shares	External loans			Non-financial corporations	Households and NPISHs	Credit institutions' loans & securit. funds	Securities other than shares	External loans
		1	2	3 ■	4 ■	5	6 ■	7 ■	8	9	10	11 ■	12	13 ■	14 ■	15	16	17
06		2 103 406	335 822	19.0	-4.7	24.2	27.9	19.6	24.4	134.2	15.9	-0.8	19.9	12.6	7.2	17.0	1.0	1.9
07		2 368 926	258 245	12.3	-6.9	15.5	17.7	12.5	15.9	18.4	12.3	-1.0	13.3	8.6	4.6	11.6	0.3	1.4
08		2 544 009	179 144	7.6	18.1	6.1	7.4	4.4	5.6	12.1	8.8	2.1	5.4	3.8	1.6	4.2	0.2	1.1
08	*Feb*	2 389 555	12 045	11.8	-4.9	14.5	16.5	11.8	14.9	14.2	11.8	-0.7	12.5	8.1	4.4	10.9	0.2	1.4
	Mar	2 405 873	16 420	10.9	-4.8	13.3	15.5	10.5	13.6	11.0	12.0	-0.7	11.5	7.6	3.9	9.9	0.2	1.4
	Apr	2 411 268	5 294	10.3	-2.8	12.3	13.9	10.1	12.6	15.4	9.8	-0.4	10.7	6.9	3.8	9.3	0.2	1.2
	May	2 433 092	19 736	9.4	-1.4	11.0	12.1	9.6	11.6	17.4	6.6	-0.2	9.6	6.1	3.5	8.6	0.3	0.8
	Jun	2 459 635	27 965	8.8	-1.7	10.3	11.7	8.4	10.2	18.0	9.9	-0.2	9.0	5.9	3.1	7.5	0.3	1.2
	Jul	2 469 493	14 532	8.5	4.6	9.1	10.1	7.6	8.9	10.1	9.8	0.5	8.0	5.2	2.8	6.7	0.2	1.2
	Aug	2 484 988	14 392	8.4	5.9	8.7	9.9	7.0	8.4	10.0	10.3	0.7	7.6	5.0	2.6	6.3	0.2	1.2
	Sep	2 498 177	11 262	8.1	6.9	8.3	9.6	6.5	7.8	6.9	11.9	0.8	7.3	4.9	2.4	5.8	0.1	1.4
	Oct	2 501 885	1 702	8.0	10.6	7.7	9.2	5.7	7.4	6.7	9.6	1.2	6.8	4.7	2.1	5.6	0.1	1.1
	Nov	2 516 612	15 018	7.6	13.4	6.8	8.3	4.9	6.4	12.4	8.8	1.5	6.1	4.2	1.8	4.8	0.2	1.0
	Dec	2 544 009	32 176	7.6	18.1	6.1	7.4	4.4	5.6	12.1	8.8	2.1	5.4	3.8	1.6	4.2	0.2	1.1
09	*Jan* P	2 526 956	-20 016	6.3	12.7	5.5	6.8	3.7	4.9	17.9	7.6	1.5	4.9	3.5	1.4	3.7	0.3	0.9
	Feb P	2 550 678	24 044	6.8	20.2	5.0	6.6	2.8	4.2	22.0	8.2	2.4	4.4	3.4	1.1	3.1	0.3	1.0
	Mar P	2 563 679	15 293	6.7	22.7	4.6	6.3	2.2	3.3	26.5	9.6	2.7	4.0	3.2	0.8	2.5	0.4	1.1
	Apr P	2 567 720	4 357	6.7	26.2	4.1	6.0	1.6	2.9	24.4	9.4	3.0	3.7	3.1	0.6	2.2	0.4	1.1
	May P	2 580 108	12 746	6.3	27.7	3.5	5.3	0.9	2.2	18.0	9.9	3.2	3.1	2.8	0.3	1.6	0.3	1.2

FINANCING OF NON-FINANCIAL SECTORS
Annual percentage change



FINANCING OF NON-FINANCIAL SECTORS
Contributions to the annual percentage change



Source: BE.

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a. The annual percentage changes are calculated as the effective flow of the period / the stock at the beginning of the period.

b. Total liabilities (consolidated) less deposits. Inter-general government liabilities are deducted.

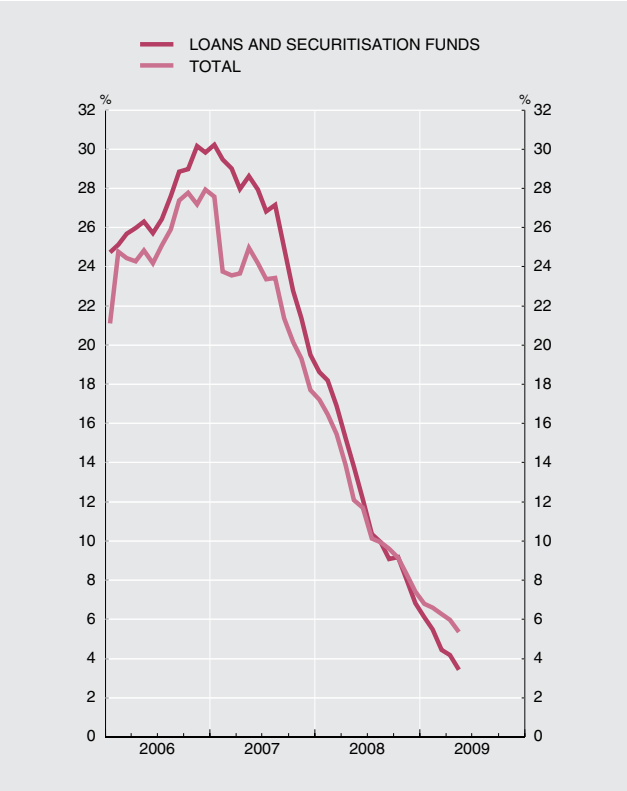
8.6. FINANCING OF NON-FINANCIAL CORPORATIONS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

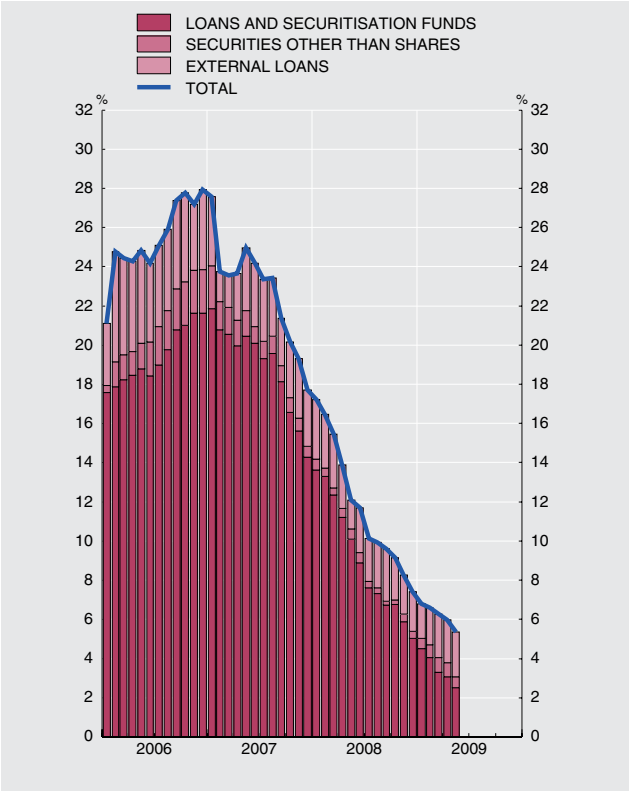
EUR millions and %

	Total			Resident credit institutions' loans and off-balance-sheet securitised loans			Securities other than shares (b)				External loans			Memorandum items: off-balance-sheet securitised loans
							of which							
	Stocks	Effective flow	Annual growth rate	Stocks	Annual growth rate	Contribution to col.3	Stocks	Issues by resident financ. subsid.	Annual growth rate	Contribution to col.3	Stocks	Annual growth rate	Contribution to col.3	
	1	2	3 ■	4	5 ■	6 ■	7	8	9	10 ■	11	12	13 ■	14
06	1 024 589	222 911	27.9	750 137	29.8	21.6	30 934	19 370	134.2	2.2	243 518	15.9	4.1	3 230
07	1 214 901	181 572	17.7	895 668	19.5	14.3	36 636	23 056	18.4	0.6	282 597	12.1	2.9	2 678
08	1 303 097	90 003	7.4	954 134	6.8	5.0	41 076	25 648	12.1	0.4	307 887	8.7	2.0	2 060
08 *Feb*	1 227 261	3 930	16.5	906 447	18.2	13.3	36 632	22 667	14.2	0.4	284 182	11.4	2.7	2 552
Mar	1 235 032	7 450	15.5	914 494	16.9	12.4	35 920	22 587	11.0	0.3	284 619	11.6	2.8	2 489
Apr	1 243 320	8 143	13.9	919 170	15.3	11.2	36 787	22 573	15.4	0.5	287 363	9.5	2.2	2 461
May	1 252 505	6 933	12.1	924 039	13.8	10.1	38 228	24 195	17.4	0.5	290 238	6.2	1.5	2 500
Jun	1 266 559	15 127	11.7	931 984	12.1	8.9	39 409	25 408	18.0	0.5	295 166	9.6	2.3	2 422
Jul	1 277 434	15 505	10.1	941 095	10.4	7.6	39 536	25 433	10.1	0.3	296 803	9.5	2.2	2 351
Aug	1 277 235	-1 383	9.9	939 387	9.9	7.3	39 486	25 439	10.0	0.3	298 362	10.0	2.3	2 205
Sep	1 289 717	10 230	9.6	946 651	9.1	6.7	38 937	24 751	6.9	0.2	304 129	11.6	2.7	2 187
Oct	1 299 825	7 940	9.2	952 803	9.2	6.8	39 275	25 132	6.7	0.2	307 747	9.4	2.2	2 103
Nov	1 302 658	2 979	8.3	952 583	8.0	5.9	41 199	26 580	12.4	0.4	308 877	8.6	2.0	2 075
Dec	1 303 097	4 741	7.4	954 134	6.8	5.0	41 076	25 648	12.1	0.4	307 887	8.7	2.0	2 060
09 *Jan*	P 1 307 648	1 450	6.8	954 548	6.1	4.5	43 266	27 882	17.9	0.5	309 834	7.6	1.8	1 944
Feb	P 1 309 251	1 735	6.6	953 408	5.5	4.0	44 679	30 002	22.0	0.7	311 164	8.1	1.9	1 900
Mar	P 1 311 725	4 059	6.3	952 532	4.4	3.3	45 423	30 788	26.5	0.8	313 770	9.6	2.2	1 788
Apr	P 1 316 312	4 877	6.0	954 694	4.2	3.1	45 773	31 893	24.4	0.7	315 844	9.4	2.2	2 688
May	P 1 315 911	-286	5.3	952 893	3.4	2.5	45 100	31 520	18.0	0.5	317 918	9.8	2.3	2 393

FINANCING OF NON-FINANCIAL CORPORATIONS
Annual percentage change



FINANCING OF NON-FINANCIAL CORPORATIONS
Contributions to the annual percentage change



Source: BE.

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a. The annual percentage changes are calculated as the effective flow of the period / the stock at the beginning of the period.

b. Includes issues of resident financial subsidiaries of non-financial corporations, insofar as the funds raised in these issues are routed to the parent company as loans. The issuing institutions of these financial instruments are classified as Other financial intermediaries in the Boletín Estadístico and in the Financial Accounts of the Spanish Economy.

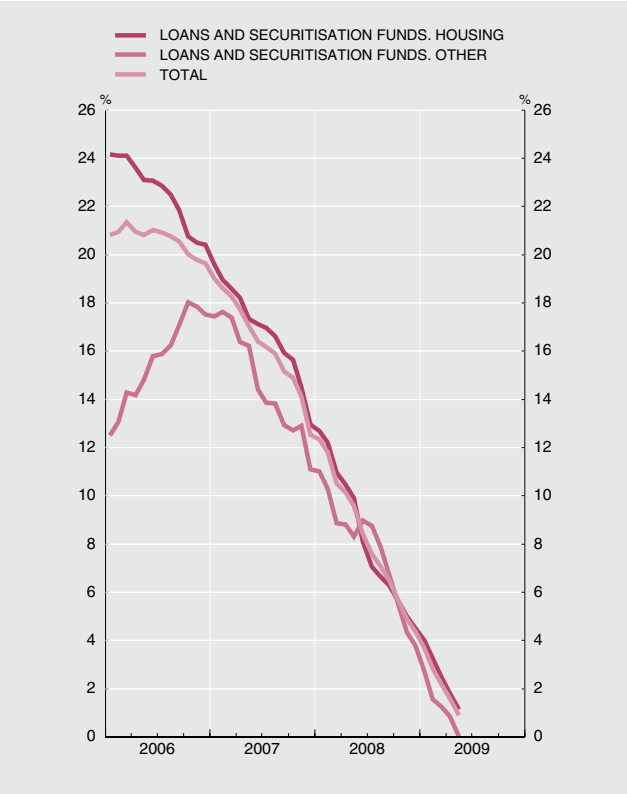
8.7. FINANCING OF HOUSEHOLDS AND NPISHS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

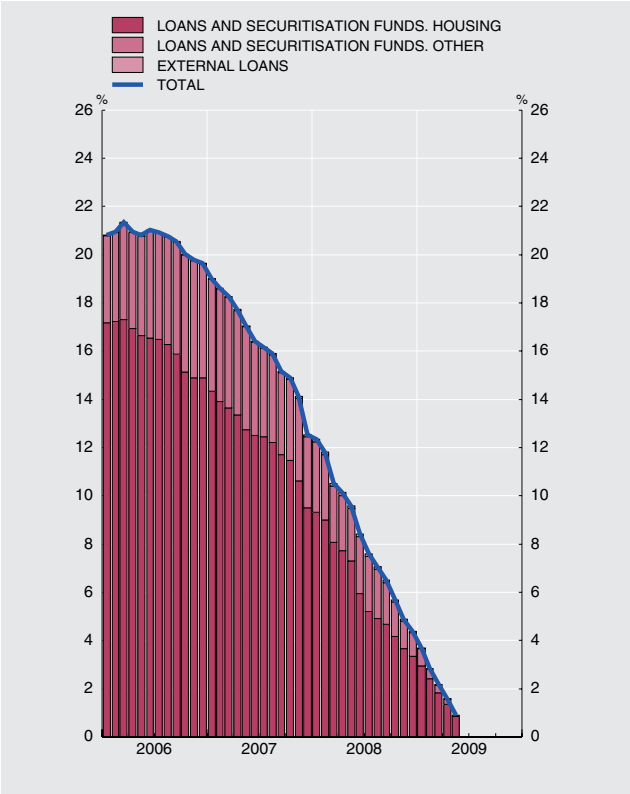
EUR millions and %

		Total			Resident credit institutions' loans and off-balance-sheet securitised loans. Housing			Resident credit institutions' loans and off-balance-sheet securitised loans. Other			External loans			Memorandum items: off-balance-sheet securitised loans	
		Stocks	Effective flow	Annual growth rate	Stocks	Annual growth rate	Contribution to col.3	Stocks	Annual growth rate	Contribution to col.3	Stocks	Annual growth rate	Contribution to col.3	Housing	Other
		1	2	3 ■	4	5 ■	6 ■	7	8 ■	9 ■	10	11	12 ■	13	14
06		778 372	127 886	19.6	571 325	20.4	14.9	205 872	17.5	4.7	1 175	26.7	0.0	26 937	3 421
07		874 405	97 497	12.5	644 787	13.0	9.5	227 839	11.1	2.9	1 778	51.4	0.1	26 576	5 625
08		910 545	38 394	4.4	673 154	4.5	3.3	235 007	3.8	1.0	2 384	34.1	0.1	23 304	4 436
08	*Feb*	882 251	4 525	11.8	651 849	12.2	9.0	228 214	10.3	2.7	2 188	85.4	0.1	25 885	5 492
	Mar	886 183	4 355	10.5	655 757	11.0	8.1	228 195	8.9	2.3	2 232	80.6	0.1	25 595	5 496
	Apr	892 678	6 538	10.1	660 265	10.5	7.7	230 165	8.8	2.3	2 248	80.0	0.1	25 308	5 495
	May	897 841	5 328	9.6	663 535	9.9	7.3	232 025	8.3	2.2	2 281	77.5	0.1	25 026	5 325
	Jun	906 874	9 382	8.4	665 070	8.1	5.9	239 510	9.0	2.4	2 294	76.3	0.1	24 823	5 298
	Jul	907 208	378	7.6	667 768	7.1	5.2	237 132	8.8	2.3	2 308	68.0	0.1	24 407	5 685
	Aug	906 863	-264	7.0	669 041	6.6	4.9	235 513	7.9	2.0	2 309	57.2	0.1	23 942	5 444
	Sep	907 457	920	6.5	670 802	6.3	4.7	234 337	6.7	1.7	2 318	52.6	0.1	24 041	4 830
	Oct	909 437	2 142	5.7	672 182	5.6	4.2	234 899	5.5	1.4	2 356	47.3	0.1	23 427	4 617
	Nov	915 358	6 065	4.9	673 685	5.0	3.7	239 306	4.3	1.1	2 367	42.2	0.1	23 515	4 540
	Dec	910 545	-4 336	4.4	673 154	4.5	3.3	235 007	3.8	1.0	2 384	34.1	0.1	23 304	4 436
09	*Jan* P	907 824	-2 583	3.7	673 014	4.0	2.9	232 301	2.7	0.7	2 509	14.9	0.0	23 179	4 319
	Feb P	904 847	-2 787	2.8	672 388	3.3	2.4	229 935	1.6	0.4	2 523	15.3	0.0	23 054	4 217
	Mar P	902 740	-1 401	2.2	671 335	2.5	1.8	228 846	1.2	0.3	2 559	14.7	0.0	25 356	4 497
	Apr P	904 144	1 430	1.6	671 546	1.8	1.3	230 012	0.8	0.2	2 586	15.0	0.0	25 015	4 798
	May P	903 021	-879	0.9	670 397	1.2	0.9	230 011	0.0	0.0	2 613	14.5	0.0	24 000	4 480

FINANCING OF HOUSEHOLDS AND NPISHs
Annual percentage change



FINANCING OF HOUSEHOLDS AND NPISHs
Contributions to the annual percentage change



Source: BE.

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a. The annual percentage changes are calculated as the effective flow of the period / the stock at the beginning of the period.

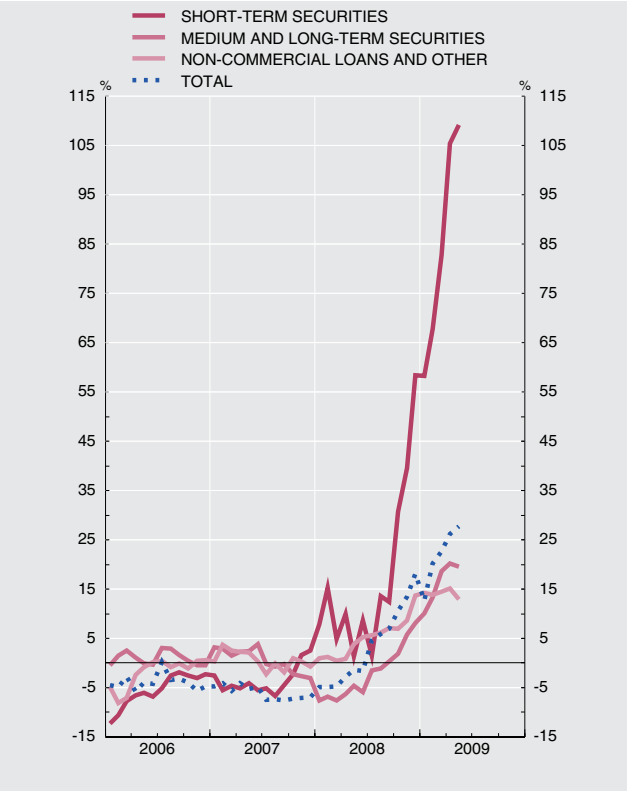
8.8. NET FINANCING OF SPAIN'S GENERAL GOVERNMENT

■ Series depicted in chart.

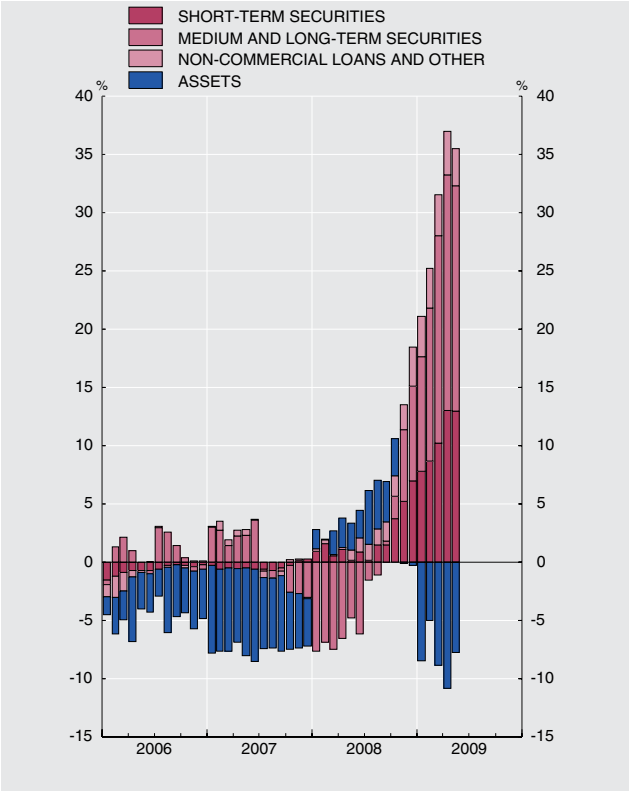
EUR millions and %

		Net financing			Monthly change in stocks						12-month % change in stocks					Contribution to 12-month % change in net stocks of liabilities			
					Liabilities (a)				Assets		Liabilities					Liabilities			
		Net stock of liabilities	Monthly change (columns 4-8-9)	12-month % change of col. 1	Total	Securities		Non-commercial loans and other (b)	Deposits at the Banco de Espana	Other deposits	Total	Securities		Non-commercial loans and other (a)	Assets	Securities		Non-commercial loans and other (a)	Assets
						Short-term	Medium and long-term					Short-term	Medium and long-term			Short-term	Medium and long-term		
		1	2	3 ■	4	5	6	7	8	9	10	11 ■	12 ■	13 ■	14	15 ■	16 ■	17 ■	18 ■
05		315 420	-9 037	-2.8	2 343	-4 042	7 366	-982	-695	12 075	0.6	-10.8	2.6	-1.4	17.7	-1.2	2.3	-0.3	-3.5
06		P 300 445	-14 975	-4.7	-1 635	-770	-1 217	352	1 780	11 560	-0.4	-2.3	-0.4	0.5	17.6	-0.2	-0.4	0.1	-4.2
07		P 279 620	-20 825	-6.9	-8 657	823	-9 001	-479	2 973	9 195	-2.2	2.5	-3.1	-0.7	13.7	0.3	-3.0	-0.2	-4.0
08		A 330 367	50 747	18.1	51 566	19 481	22 835	9 251	740	79	13.5	58.3	8.2	13.7	0.8	7.0	8.2	3.3	-0.3
07	*Dec*	P 279 620	16 339	-6.9	-705	-1 497	-778	1 570	-5 695	-11 349	-2.2	2.5	-3.1	-0.7	13.7	0.3	-3.0	-0.2	-4.0
08	*Jan*	A 276 454	-3 166	-4.9	-5 786	3 506	-9 094	-197	621	-3 240	-4.8	7.9	-7.6	1.0	-4.6	0.9	-7.7	0.2	1.6
	Feb	A 280 043	3 589	-4.9	4 847	-956	4 588	1 215	3 471	-2 213	-3.7	15.2	-6.9	1.2	-0.2	1.6	-6.9	0.3	0.1
	Mar	A 284 657	4 614	-4.8	-4 058	-708	-3 606	257	-3 368	-5 304	-5.1	4.9	-7.6	0.4	-6.3	0.6	-7.4	0.1	2.1
	Apr	A 275 270	-9 387	-2.8	2 210	-1 286	3 632	-136	2 833	8 764	-3.8	9.9	-6.3	0.8	-6.5	1.1	-6.5	0.2	2.5
	May	A 282 746	7 475	-1.4	5 433	-321	4 808	946	1 913	-3 955	-2.7	1.4	-4.7	3.8	-6.2	0.2	-4.8	0.9	2.3
	Jun	A 286 202	3 456	-1.7	2 145	-476	1 571	1 050	-355	-957	-3.0	8.6	-6.0	5.2	-6.5	0.9	-6.1	1.2	2.4
	Jul	A 284 851	-1 351	4.6	1 729	-241	3 126	-1 156	-6 785	9 865	-0.0	1.5	-1.5	5.6	-11.0	0.2	-1.6	1.4	4.6
	Aug	A 300 890	16 039	5.9	637	1 873	-899	-337	-2 929	-12 473	1.3	13.6	-1.1	6.2	-11.9	1.5	-1.1	1.4	4.1
	Sep	A 301 002	113	6.9	10 367	2 531	6 856	980	2 646	7 608	2.5	12.4	0.3	7.1	-9.1	1.5	0.3	1.7	3.5
	Oct	A 292 622	-8 380	10.6	-727	4 530	-5 917	659	19 739	-12 086	5.2	30.7	1.8	7.0	-7.5	3.7	1.9	1.8	3.2
	Nov	A 298 596	5 974	13.4	19 540	6 851	11 820	869	4 542	9 024	9.3	39.6	5.7	8.7	0.3	5.2	6.1	2.2	-0.1
	Dec	A 330 367	31 771	18.1	15 230	4 179	5 950	5 101	-21 588	5 047	13.5	58.3	8.2	13.7	0.8	7.0	8.2	3.3	-0.3
09	*Jan*	A 311 484	-18 883	12.7	1 033	5 540	-4 659	152	6 810	13 105	15.6	58.3	10.1	14.3	23.7	7.8	9.9	3.5	-8.4
	Feb	A 336 580	25 096	20.2	17 024	1 871	14 068	1 084	3 922	-11 994	18.6	67.7	13.3	13.8	14.1	8.7	13.1	3.4	-5.0
	Mar	A 349 215	12 634	22.7	15 098	4 118	10 244	735	-2 259	4 722	23.9	82.8	18.6	14.5	27.6	10.2	17.8	3.5	-8.8
	Apr	A 347 265	-1 950	26.2	14 311	5 335	8 687	289	11 305	4 955	26.9	105.4	20.2	15.1	29.0	13.0	20.2	3.8	-10.8
	May	A 361 176	13 911	27.7	3 985	621	3 781	-417	-9 383	-544	26.2	109.2	19.5	13.0	21.8	13.0	19.3	3.2	-7.8

NET FINANCING OF GENERAL GOVERNMENT
Annual percentage changes



NET FINANCING OF GENERAL GOVERNMENT
Contributions to the annual percentage change



Source: BE.
a.Consolidated: deducted securities and loans held by other General Government units.
b.Including coined money and Caja General de Depositos.

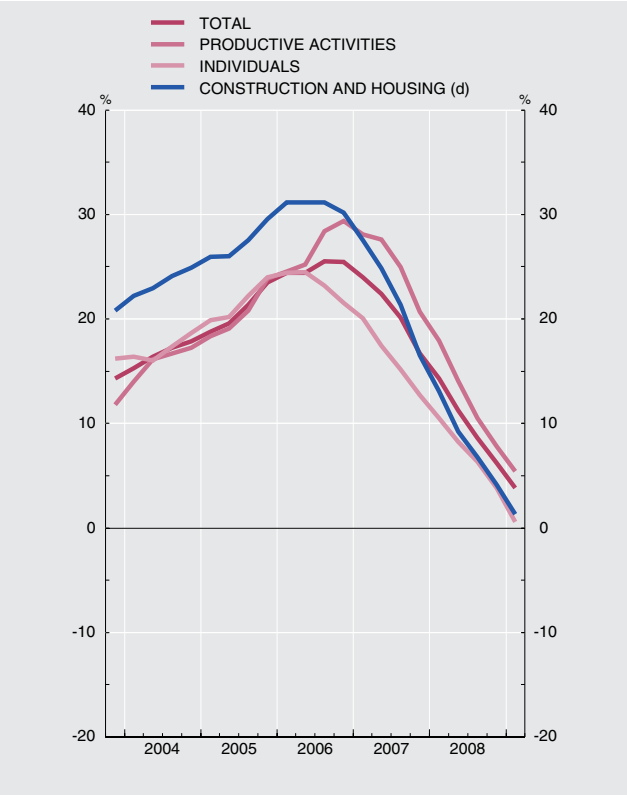
8.9 LENDING BY CREDIT INSTITUTIONS TO OTHER RESIDENT SECTORS. BREAKDOWN BY END-USE.

■ Series depicted in chart.

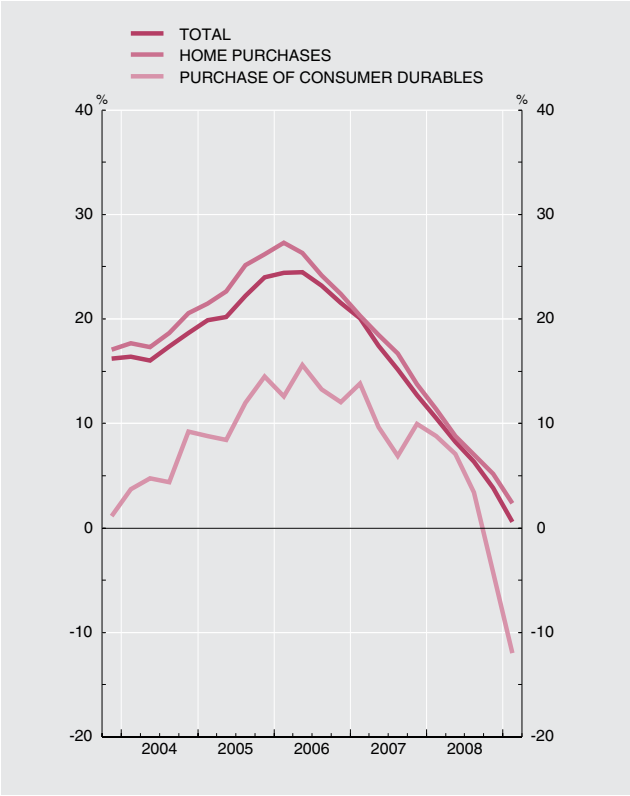
EUR millions and percentages

	Total (a)	Financing of productive activities							Financing of individuals					Financing of private non-profit institutions	Unclassified	Memorandum item: construction and housing (d)
		Total	Agriculture and fisheries	Industry excluding construction	Construction	Services			Total	Home purchases and improvements		Purchases of consumer durables	Other (b)			
						Total	Of which: Real estate activities			Total	Of which: Purchases					
	1 ■	2 ■	3	4	5	6	7		8 ■	9	10 ■	11 ■	12	13	14	15 ■
06	1 508 625	781 644	23 014	119 488	134 317	504 825	244 050		700 294	544 389	519 244	51 461	104 445	5 704	20 983	922 756
07	1 760 213	943 086	25 245	141 571	153 453	622 818	303 514		789 250	618 212	590 600	56 576	114 462	6 089	21 788	1 075 179
08	1 869 882	1 016 948	26 244	156 141	151 848	682 716	318 032		819 412	649 850	621 326	54 176	115 386	6 091	27 431	1 119 730
04 *Q4*	945 697	482 984	18 104	90 487	78 372	296 020	112 165		441 443	333 826	317 268	38 379	69 238	3 677	17 594	524 363
05 *Q1*	989 196	507 089	18 188	93 815	83 421	311 665	121 444		462 910	351 757	334 224	39 375	71 778	3 548	15 649	556 622
Q2	R1 085 320	544 048	19 501	99 393	89 806	335 349	135 483		516 384	394 989	375 523	42 531	78 864	4 200	20 687	620 277
Q3	1 131 241	567 022	20 182	101 716	94 411	350 714	144 811		541 346	419 032	398 498	44 644	77 670	4 355	18 518	658 253
Q4	1 202 628	604 061	20 738	104 695	100 761	377 867	162 087		576 253	445 972	424 238	45 928	84 354	4 666	17 648	708 819
06 *Q1*	1 265 755	637 277	21 213	105 687	106 183	404 195	181 491		604 878	471 966	449 246	46 320	86 592	4 788	18 813	759 639
Q2	1 350 191	681 307	21 946	109 856	116 195	433 311	198 998		642 698	498 248	474 404	49 161	95 289	5 109	21 077	813 441
Q3	1 419 973	728 058	22 460	115 266	127 420	462 911	216 642		666 972	519 130	494 739	50 552	97 291	5 359	19 584	863 192
Q4	1 508 625	781 644	23 014	119 488	134 317	504 825	244 050		700 294	544 389	519 244	51 461	104 445	5 704	20 983	922 756
07 *Q1*	1 569 169	816 098	23 436	121 148	137 836	533 678	264 653		726 179	566 341	540 541	52 713	107 125	5 743	21 149	968 830
Q2	1 652 352	869 174	24 294	132 145	144 552	568 184	282 081		754 726	588 694	562 101	53 898	112 135	5 955	22 497	1 015 326
Q3	1 706 126	910 001	25 085	140 332	150 341	594 243	292 599		768 197	604 623	577 337	54 035	109 539	6 106	21 822	1 047 563
Q4	1 760 213	943 086	25 245	141 571	153 453	622 818	303 514		789 250	618 212	590 600	56 576	114 462	6 089	21 788	1 075 179
08 *Q1*	1 793 356	962 331	25 003	143 816	154 237	639 275	311 272		802 258	630 161	601 958	57 357	114 740	5 804	22 962	1 095 670
Q2	1 838 174	991 307	25 727	148 218	155 600	661 762	313 176		817 074	640 247	611 447	57 726	119 101	5 952	23 840	1 109 023
Q3	1 852 560	1 005 670	26 593	155 481	156 363	667 233	315 444		816 752	646 761	617 904	55 859	114 132	6 063	24 075	1 118 568
Q4	1 869 882	1 016 948	26 244	156 141	151 848	682 716	318 032		819 412	649 850	621 326	54 176	115 386	6 091	27 431	1 119 730
09 *Q1*	1 861 747	1 014 668	24 492	158 707	141 308	690 161	322 960		806 995	645 979	616 312	50 493	110 523	5 125	34 958	1 110 246

CREDIT BY END-USE
Annual percentage changes (c)



CREDIT TO INDIVIDUALS BY END-USE
Annual percentage changes (c)



SOURCE: BE.

a. Series obtained from information in the accounting statement established for the supervision of resident institutions. See the changes introduced in the October 2001 edition of the Boletín estadístico and Tables 4.13, 4.18 and 4.23 of the Boletin estadístico, which are published at www.bde.es.

b. Includes loans and credit to households for the purchase of land and rural property, the purchase of securities, the purchase of current goods and services not considered to be consumer durables (e.g. loans to finance travel expenses) and for various end-uses not included in the foregoing.

c. Asset-backed securities brought back onto the balance sheet as a result of the entry into force of Banco de España Circular BE 4/2004 have caused a break in the series in June 2005. The rates depicted in the chart have been adjusted to eliminate this effect.

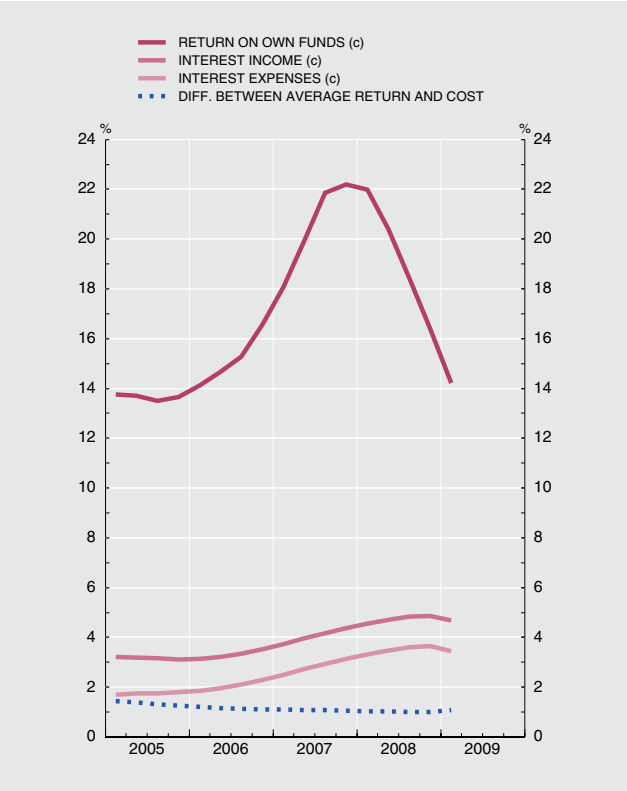
d. Including: construction, real estate activities and home purchases and improvements

8.10. PROFIT AND LOSS ACCOUNT OF BANKS, SAVINGS BANKS AND CREDIT CO-OPERATIVES RESIDENT IN SPAIN

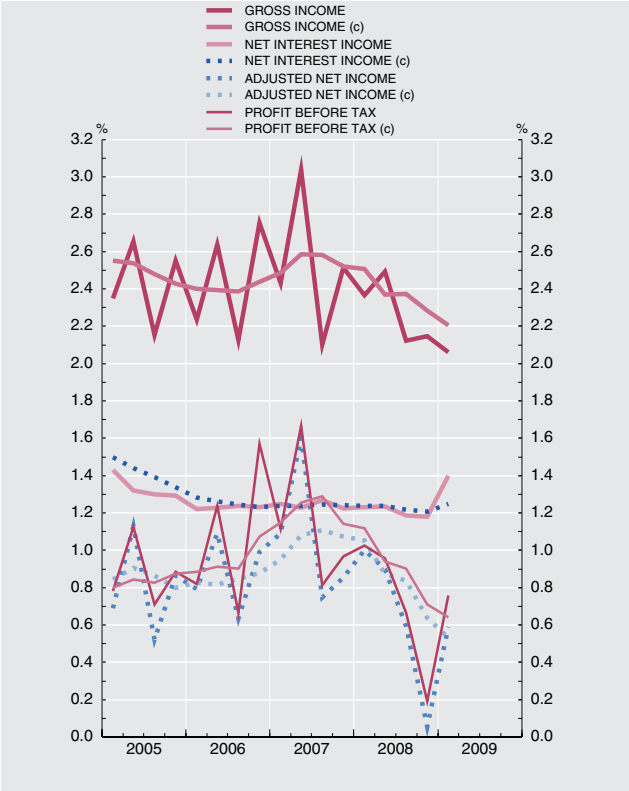
■ Series depicted in chart.

	As a percentage of the adjusted average balance sheet											Percentages			
	Interest income	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)
	1 ■	2 ■	3 ■	4	5 ■	6	7	8	9 ■	10	11 ■	12 ■	13	14	15 ■
06	3.8	2.6	1.2	1.5	2.8	1.2	0.7	0.6	1.0	0.6	1.6	19.5	3.7	2.6	1.1
07	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
08	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
06 *Q1*	3.2	2.0	1.2	1.0	2.2	1.2	0.7	0.3	0.8	0.0	0.8	14.9	3.3	2.1	1.2
Q2	3.4	2.2	1.2	1.4	2.6	1.2	0.7	0.4	1.1	0.2	1.2	16.0	3.4	2.2	1.2
Q3	3.6	2.4	1.2	0.9	2.1	1.1	0.7	0.4	0.6	0.0	0.7	15.9	3.5	2.4	1.1
Q4	3.8	2.6	1.2	1.5	2.8	1.2	0.7	0.6	1.0	0.6	1.6	19.5	3.7	2.6	1.1
07 *Q1*	4.1	2.8	1.2	1.2	2.4	1.1	0.7	0.2	1.1	0.0	1.1	20.9	3.9	2.8	1.1
Q2	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
Q3	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
Q4	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
08 *Q1*	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
Q2	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
Q3	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
Q4	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
09 *Q1*	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

PROFIT AND LOSS ACCOUNT
Percentages of the adjusted average balance sheet and returns



PROFIT AND LOSS ACCOUNT
Percentages of the adjusted average balance sheet



Source: BE.
Note: The underlying series for this indicator are in Table 4.36 of the BE Boletín estadístico.
a. Profit before tax divided by own funds.
b. Only those financial assets and liabilities which respectively give rise to financial income and costs have been considered to calculate the averge return and cost.
c. Average of the last four quarters.

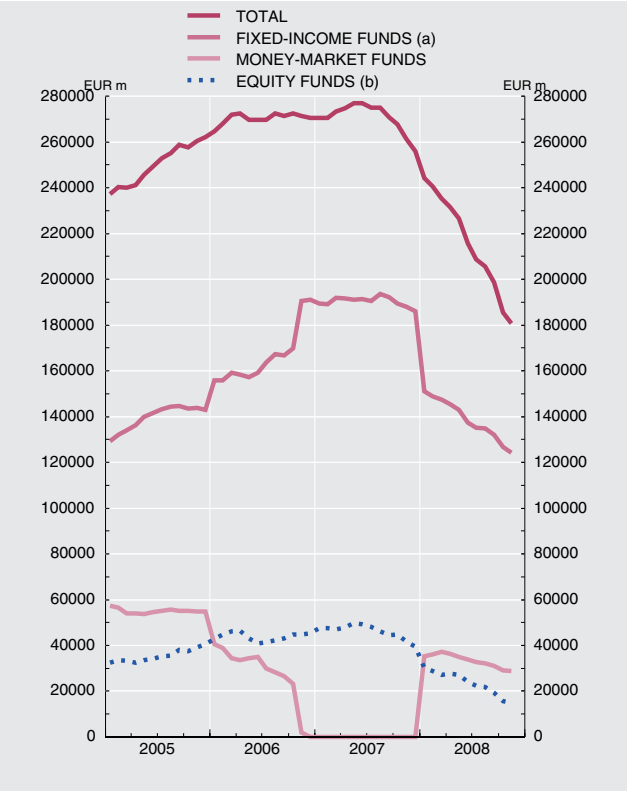
8.11. MUTUAL FUNDS RESIDENT IN SPAIN

■ Series depicted in chart.

EUR millions

	Total				Money-market funds				Fixed-income funds (a)				Equity funds (b)				Others funds (c)
		Of which				Of which				Of which				Of which			
	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value
	1 ■	2	3	4 ■	5 ■	6	7	8 ■	9 ■	10	11	12 ■	13 ■	14	15	16 ■	17
05	262 201	26 113	14 270	5.1	54 751	-3 237	-3 881	1.2	143 047	15 312	12 061	2.8	40 672	8 649	2 303	20.0	23 730
06	270 407	8 206	-10 861	5.4	106	-54 645	-55 113	2.0	191 002	47 954	39 212	2.8	45 365	4 693	-2 189	18.2	33 934
07	256 055	-14 352	-22 008	2.6	-	-106	-106	...	185 963	-5 039	-8 287	2.6	39 449	-5 916	-7 179	3.6	30 643
07 *Aug*	275 016	-19	-242	5.3	-	-	-	...	193 565	3 073	2 697	3.3	46 136	-2 060	-1 421	14.7	35 314
Sep	270 736	-4 279	-5 439	4.8	-	-	-	...	192 289	-1 277	-1 624	3.1	44 560	-1 576	-1 877	12.1	33 887
Oct	267 586	-3 151	-6 069	4.8	-	-	-	...	189 387	-2 902	-3 907	3.1	44 816	255	-1 196	12.5	33 383
Nov	261 331	-6 255	-4 310	3.8	-	-	-	...	188 057	-1 330	-1 536	2.9	41 620	-3 196	-1 640	8.3	31 654
Dec	256 055	-5 276	-4 537	2.6	-	-	-	...	185 963	-2 094	-1 919	2.6	39 449	-2 171	-1 417	3.6	30 643
08 *Jan*	244 286	-11 769	-6 863	-0.3	35 111	35 111	1 027	...	151 093	-34 870	531	2.0	30 184	-9 265	-5 341	-9.4	27 898
Feb	240 462	-3 824	-4 123	0.0	36 169	1 058	-10	...	148 946	-2 147	-1 376	2.0	28 813	-1 371	-1 319	-8.0	26 534
Mar	235 174	-5 288	-3 933	-1.1	37 340	1 171	-369	...	147 530	-1 415	-1 658	1.5	27 214	-1 599	-906	-12.0	23 090
Apr	231 723	-3 451	-5 458	-0.7	36 428	-912	-909	...	145 511	-2 019	-2 512	1.4	27 622	409	-839	-9.5	22 161
May	226 535	-5 187	-5 542	-1.3	35 029	-1 400	-1 590	...	142 921	-2 590	-2 562	1.0	27 159	-464	-627	-12.0	21 427
Jun	215 574	-10 961	-7 355	-2.8	33 849	-1 180	-1 569	...	137 444	-5 476	-3 950	0.4	24 008	-3 150	-753	-19.1	20 273
Jul	208 593	-6 982	-7 186	-2.4	32 589	-1 260	-1 628	...	135 012	-2 433	-2 798	0.7	22 309	-1 699	-1 354	-19.0	18 683
Aug	205 707	-2 886	-7 138	-1.8	32 125	-464	-549	...	134 723	-289	-711	0.8	21 922	-388	-5 444	-17.6	16 938
Sep	198 665	-7 042	-5 892	-3.3	30 927	-1 198	-1 176	...	131 932	-2 791	-2 863	0.3	19 242	-2 680	-972	-24.7	16 564
Oct	185 428	-13 237	-11 680	-5.2	29 165	-1 762	-1 796	...	126 590	-5 342	-7 323	-0.2	15 756	-3 486	-959	-36.5	13 917
Nov	180 835	-4 593	-4 363	-4.6	28 810	-355	-427	...	124 111	-2 479	-2 854	0.1	14 708	-1 048	-496	-36.5	13 207

NET ASSET VALUE



RETURN OVER LAST 12 MONTHS

SOURCES: CNMV and Inverco.

a. Includes short and long-term fixed-income funds in euros and international, mixed fixed-income funds in euros and international and guaranteed funds.

b. Includes equity funds and mixed equity funds in euros, national and international.

c. Global funds.

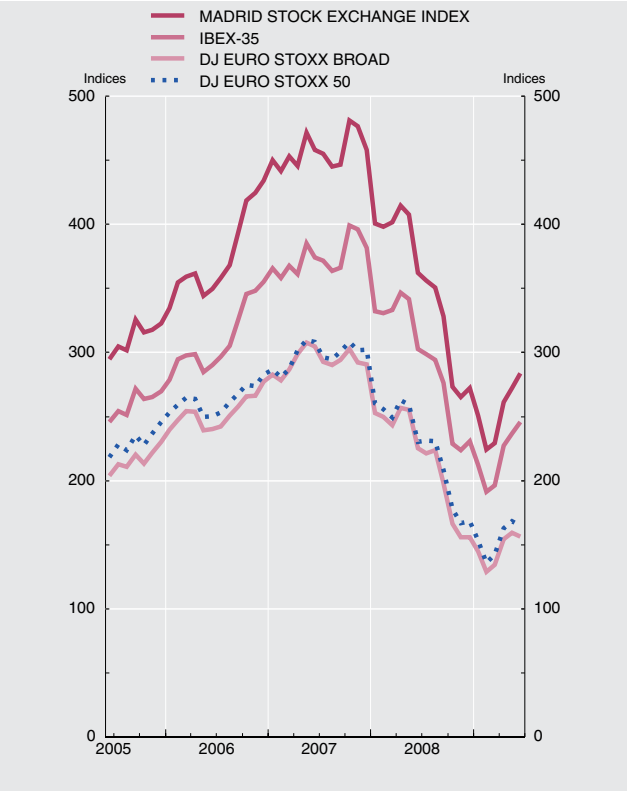
8.12. SHARE PRICE INDICES AND TURNOVER ON SECURITIES MARKETS. SPAIN AND EURO AREA

■ Series depicted in chart.

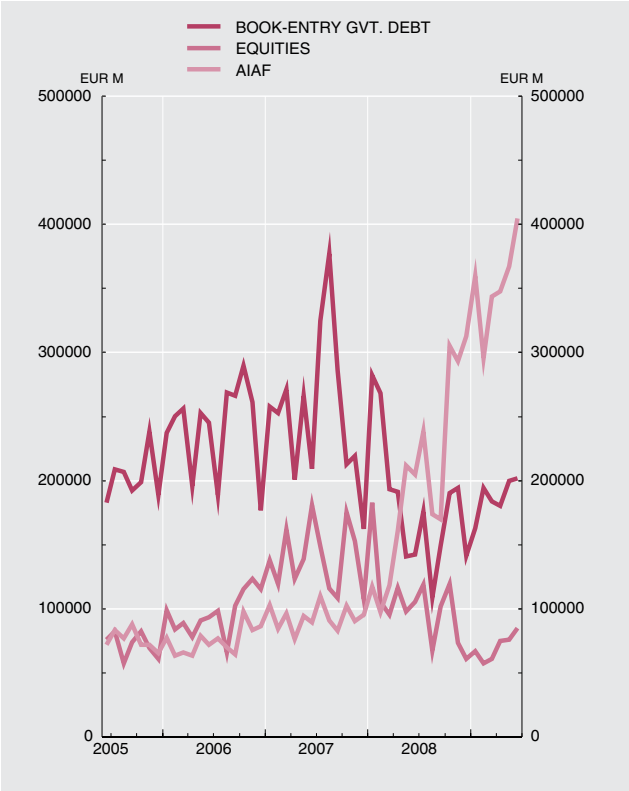
Indices, EUR millions and thousands of contracts

		Share price indices				Turnover on securities markets							
		General Madrid Stock Exchange	IBEX 35	Dow Jones EURO STOXX indices		Stock market		Book-entry government debt	AIAF fixed-income market	Financial options (thousands of contracts)		Financial futures (thousands of contracts)	
				Broad	50	Equities	Bonds			Fixed-income	Shares and other equities	Fixed-income	Shares and other equities
		1 ■	2 ■	3 ■	4 ■	5 ■	6	7 ■	8 ■	9	10	11	12
07		1 637.50	14 899.46	419.02	4 344.48	1 670 178	89 600	3 040 244	1 115 708	-	14 161	-	8 722
08		1 262.61	11 738.25	309.67	3 277.70	1 245 129	79 578	2 178 310	2 403 160	-	19 146	-	7 605
09	A	909.46	8 699.12	209.23	2 255.17	420 475	39 705	1 122 480	2 118 370	-	16 226	-	2 952
08 *Mar*		1 439.06	13 269.00	346.99	3 628.06	95 384	5 646	193 445	118 222	...	1 466	...	633
Apr		1 485.01	13 798.30	366.23	3 825.02	116 192	7 223	191 286	160 603	...	1 544	...	563
May		1 460.74	13 600.90	364.68	3 777.85	97 678	5 904	140 822	211 806	...	799	...	515
Jun		1 297.87	12 046.20	321.61	3 352.81	105 483	6 745	142 121	204 624	...	2 196	...	649
Jul		1 276.51	11 881.30	315.84	3 367.82	118 682	7 359	175 967	238 332	...	1 361	...	691
Aug		1 256.93	11 707.30	319.45	3 365.63	67 466	7 081	109 103	173 832	...	728	...	557
Sep		1 175.14	10 987.50	282.61	3 038.20	102 011	6 220	149 233	169 860	...	1 953	...	771
Oct		978.13	9 116.00	237.67	2 591.76	119 483	7 707	190 268	305 089	...	1 732	...	765
Nov		950.75	8 910.60	222.34	2 430.31	73 259	6 525	194 344	293 279	...	1 979	...	512
Dec		975.97	9 195.80	222.81	2 451.48	61 062	5 536	141 215	312 823	...	2 854	...	455
09 *Jan*		898.03	8 450.40	207.09	2 236.98	66 689	6 020	162 791	359 649	...	2 541	...	437
Feb		803.92	7 620.90	184.27	1 976.23	57 487	7 863	194 144	295 515	...	1 817	...	443
Mar		820.67	7 815.00	191.62	2 071.13	60 788	5 780	183 641	343 513	...	3 820	...	522
Apr		935.85	9 038.00	220.27	2 375.34	74 828	7 017	180 362	347 866	...	2 310	...	563
May		975.73	9 424.30	227.48	2 451.24	75 889	7 271	199 822	367 038	...	1 754	...	457
Jun	P	1 016.66	9 787.80	223.02	2 401.69	84 794	5 753	201 721	404 790	...	3 984	...	531

SHARE PRICE INDICES
JAN 1994 = 100



TURNOVER ON SECURITIES MARKETS



Sources: Madrid, Barcelona, Bilbao and Valencia Stock Exchanges (columns 1, 2, 5 and 6); Reuters (columns 3 and4); AIAF (column 8) and Spanish Financial Futures Market (MEFFSA) (columns 9 to 12)

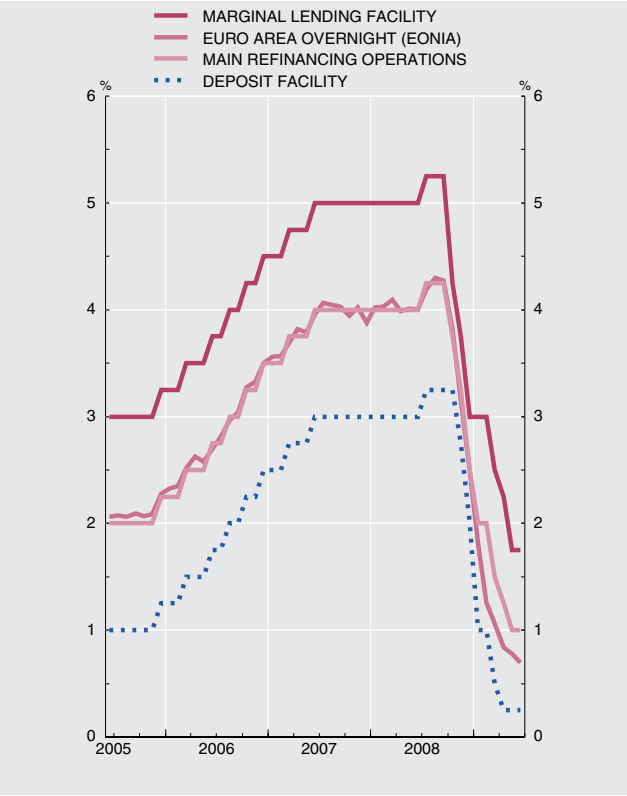
9.1. INTEREST RATES. EUROSYSTEM AND MONEY MARKET. EURO AREA AND SPAIN

■ Series depicted in chart.

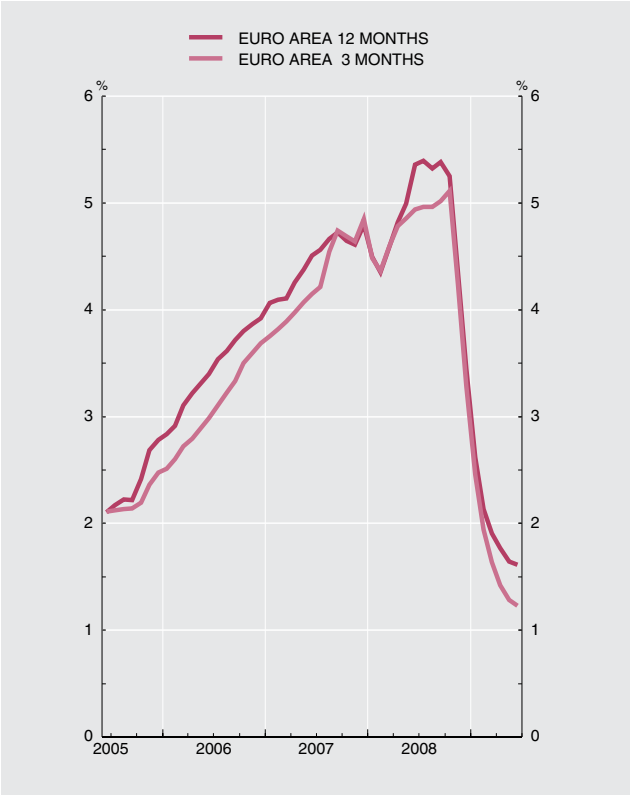
Averages of daily data. Percentages per annum

		Eurosystem monetary policy operations				Money market													
		Main refinancing operations: weekly tenders	Longer term refinancing operations: monthly tenders	Standing facilities		Euro area: deposits (Euribor) (a)					Spain								
											Non-transferable deposits					Government-securities repos			
				Marginal lending	Deposit	Overnight (EONIA)	1-month	3-month	6-month	1-year	Overnight	1-month	3-month	6-month	1-year	Overnight	1-month	3-month	1-year
		1 ■	2	3 ■	4 ■	5 ■	6	7 ■	8	9 ■	10	11	12	13	14	15	16	17	18
07		4.00	4.00	5.00	3.00	3.866	4.09	4.28	4.35	4.45	3.85	4.08	4.27	4.33	4.44	3.78	3.85	3.90	4.11
08		2.50	2.50	3.00	2.00	3.863	4.27	4.63	4.72	4.81	3.85	4.26	4.62	4.66	4.78	3.71	3.74	3.71	3.47
09	A	1.00	1.00	1.75	0.25	1.076	1.31	1.66	1.81	1.95	1.04	1.39	1.66	1.77	1.94	0.96	0.94	0.93	1.15
08	*Mar*	4.00	4.44	5.00	3.00	4.091	4.30	4.60	4.59	4.59	4.07	4.28	4.58	4.57	4.58	4.01	3.99	3.94	-
	Apr	4.00	4.55	5.00	3.00	3.987	4.37	4.78	4.80	4.82	3.99	4.33	4.76	4.77	4.76	3.97	3.98	3.98	-
	May	4.00	4.51	5.00	3.00	4.010	4.39	4.86	4.90	4.99	4.00	4.36	4.82	4.85	4.95	3.99	3.98	4.00	-
	Jun	4.00	4.50	5.00	3.00	4.007	4.47	4.94	5.09	5.36	3.99	4.43	4.94	5.02	5.29	3.98	4.08	4.18	-
	Jul	4.25	4.70	5.25	3.25	4.191	4.47	4.96	5.15	5.39	4.17	4.45	4.95	5.05	5.34	4.12	4.25	4.30	-
	Aug	4.25	4.60	5.25	3.25	4.299	4.49	4.97	5.16	5.32	4.27	4.47	4.94	5.09	5.26	4.28	4.31	4.34	4.46
	Sep	4.25	4.36	5.25	3.25	4.273	4.66	5.02	5.22	5.38	4.27	4.60	4.99	5.15	5.30	4.13	4.24	4.25	-
	Oct	3.75	3.75	4.25	3.25	3.820	4.83	5.11	5.18	5.25	3.88	4.82	5.13	5.23	5.28	3.22	3.34	3.29	-
	Nov	3.25	3.25	3.75	2.75	3.150	3.84	4.24	4.30	4.35	3.17	3.93	4.18	4.19	4.42	2.74	2.69	2.49	2.21
	Dec	2.50	2.50	3.00	2.00	2.486	2.99	3.29	3.37	3.45	2.41	3.08	3.33	3.32	3.46	2.22	2.12	1.92	-
09	*Jan*	2.00	2.00	3.00	1.00	1.812	2.14	2.46	2.54	2.62	1.75	2.25	2.37	2.27	2.38	1.60	1.50	1.37	-
	Feb	2.00	2.00	3.00	1.00	1.257	1.63	1.94	2.03	2.14	1.27	1.76	1.98	2.05	2.18	1.16	1.13	1.04	1.18
	Mar	1.50	1.50	2.50	0.50	1.062	1.27	1.64	1.78	1.91	1.03	1.33	1.62	1.77	1.89	0.93	0.86	0.91	1.13
	Apr	1.25	1.25	2.25	0.25	0.842	1.01	1.42	1.61	1.77	0.82	1.12	1.47	1.61	1.76	0.73	0.79	0.81	-
	May	1.00	1.00	1.75	0.25	0.782	0.88	1.28	1.48	1.64	0.71	0.96	1.30	1.49	...	0.67	0.70	0.73	-
	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	-

EUROSYSTEM: MONETARY POLICY OPERATIONS AND EURO AREA OVERNIGHT DEPOSITS



INTERBANK MARKET: EURO AREA 3-MONTH AND 1-YEAR RATES



Source: ECB (columns 1 to 8).

a. To December 1998, synthetic euro area rates have been calculated on the basis of national rates weighted by GDP

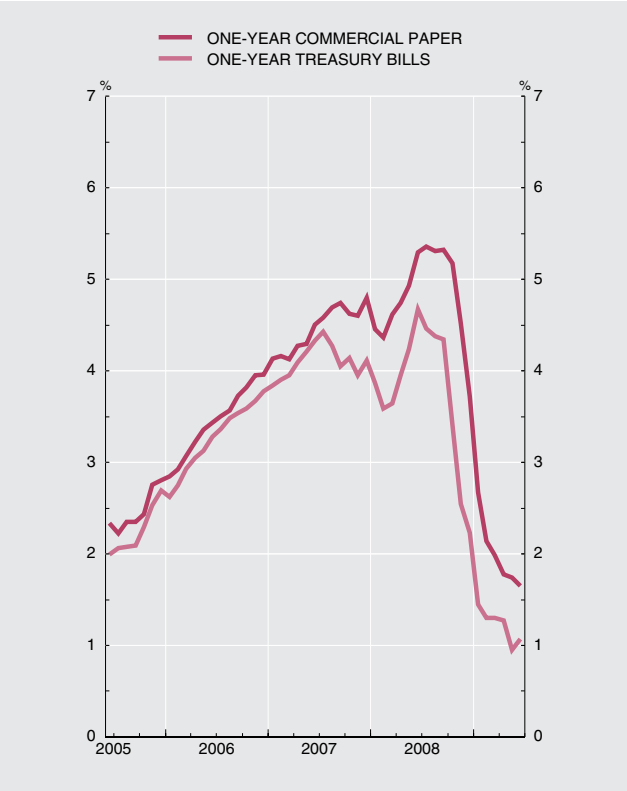
9.2. INTEREST RATES: SPANISH SHORT-TERM AND LONG-TERM SECURITIES MARKETS

■ Series depicted in chart.

Percentages per annum

		Short-term securities				Long-term securities							
		One-year Treasury bills		One-year commercial paper		Central Government debt							Private bonds with a maturity of over two years traded on the AIAF
		Marginal rate at issue	Secondary market: outright spot purchases between market members	Rate at issue	Secondary market: outright spot purchases	Marginal rate at issue					Secondary market. Book-entry debt. Outright spot purchases between market members		
						3-year bonds	5-year bonds	10-year bonds	15-year bonds	30-year bonds	At 3-years	At 10-years	
		1 ■	2	3 ■	4	5	6	7	8	9	10 ■	11 ■	12 ■
07		4.11	4.07	4.46	4.49	4.00	4.16	4.24	-	4.49	4.13	4.31	4.67
08		3.78	3.71	4.82	4.89	3.93	4.10	4.48	4.92	4.76	3.89	4.36	5.25
09	A	1.22	1.16	1.99	2.03	2.53	3.14	4.06	4.51	4.90	2.48	4.12	3.58
08 *Mar*		3.64	3.71	4.62	4.62	-	-	-	-	-	3.56	4.12	4.77
Apr		3.95	3.98	4.74	4.84	3.90	3.96	-	-	4.79	3.96	4.31	5.19
May		4.24	4.18	4.93	5.02	3.99	4.07	-	-	4.92	4.16	4.42	5.30
Jun		4.67	4.55	5.30	5.36	-	-	4.84	-	-	4.73	4.79	5.81
Jul		4.46	4.49	5.36	5.33	4.96	4.86	4.76	-	-	4.68	4.80	6.42
Aug		4.38	4.37	5.31	5.31	-	-	-	-	-	4.27	4.56	5.59
Sep		4.34	4.23	5.32	5.44	4.35	-	4.62	4.92	-	4.18	4.57	5.26
Oct		3.40	3.18	5.17	5.35	-	4.42	-	-	5.12	3.60	4.47	5.66
Nov		2.54	2.40	4.52	4.63	3.41	4.07	3.96	-	-	3.21	4.15	5.70
Dec		2.23	2.09	3.72	3.73	2.96	3.35	-	-	4.20	3.07	3.86	3.96
09 *Jan*		1.45	1.46	2.67	2.78	3.10	3.44	-	4.50	4.85	2.87	4.15	5.00
Feb		1.30	1.25	2.14	2.24	2.45	3.50	3.84	-	4.96	2.67	4.23	3.30
Mar		1.30	1.23	1.99	1.99	2.52	3.01	4.22	-	4.96	2.49	4.06	3.37
Apr		1.27	1.11	1.77	1.82	2.52	3.05	4.08	4.53	-	2.29	4.01	3.20
May		0.95	0.95	1.74	1.73	2.05	2.88	3.72	-	4.80	2.19	4.05	3.24
Jun		1.07	0.96	1.65	1.65	-	3.06	4.42	-	4.92	2.34	4.24	3.35

PRIMARY MARKET



SECONDARY MARKET

Sources: Main issuers (column 3); AIAF (columns 4 and 12).

9.3. INTEREST RATES ON NEW BUSINESS. CREDIT INSTITUTIONS. (CBE 4/2002)

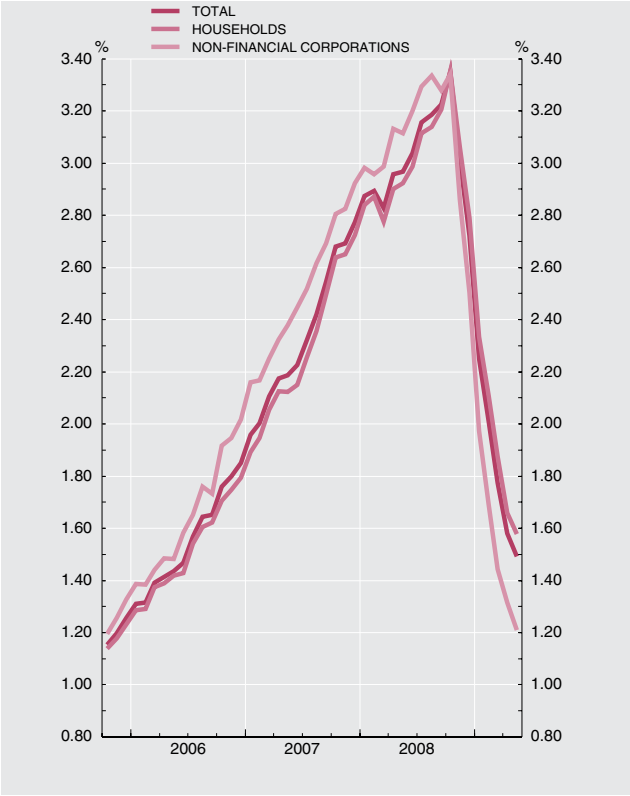
■ Series depicted in chart.

Percentages

		Loans (APRC) (a)							Deposits (NDER) (a)							
		Synthetic rate (c)	Households and NPISH			Non-financial corporations			Synthetic rate (c)	Households and NPISH				Non-financial corporations			
			Synthetic rate	House purchase	Consumption and other	Synthetic rate	Up to EUR 1 million	Over EUR 1 million (b)		Synthetic rate	Overnight and redeemable at notice	Time	Repos	Synthetic rate	Overnight	Time	Repos
		1 ■	2 ■	3	4	5 ■	6	7	8 ■	9 ■	10	11	12	13 ■	14	15	16
07		6.03	6.28	5.53	8.34	5.80	6.32	5.50	2.77	2.72	0.70	4.41	3.72	2.92	1.94	4.42	3.92
08		5.71	6.61	5.83	8.79	4.87	5.91	4.42	2.72	2.79	0.69	4.18	2.20	2.50	1.77	3.47	2.29
09	A	3.85	4.53	3.36	7.86	3.23	4.62	2.58	1.49	1.58	0.46	2.38	0.64	1.21	0.79	1.77	0.70
07 *Oct*		5.97	6.27	5.57	8.24	5.68	6.21	5.27	2.68	2.64	0.71	4.31	3.81	2.80	1.82	4.24	3.97
Nov		6.04	6.35	5.59	8.41	5.74	6.22	5.33	2.69	2.65	0.71	4.29	3.81	2.82	1.87	4.22	4.02
Dec		6.03	6.28	5.53	8.34	5.80	6.32	5.50	2.77	2.72	0.70	4.41	3.72	2.92	1.94	4.42	3.92
08 *Jan*		6.00	6.38	5.56	8.64	5.64	6.24	5.23	2.87	2.84	0.72	4.52	3.77	2.98	1.96	4.43	3.94
Feb		5.98	6.35	5.59	8.49	5.64	6.13	5.23	2.89	2.87	0.74	4.51	3.81	2.96	1.97	4.27	4.02
Mar		5.95	6.25	5.43	8.55	5.67	6.17	5.28	2.83	2.78	0.76	4.31	3.84	2.99	1.92	4.36	4.04
Apr		6.01	6.21	5.38	8.54	5.82	6.35	5.42	2.96	2.90	0.77	4.47	3.82	3.13	1.97	4.55	4.02
May		6.13	6.40	5.55	8.78	5.89	6.45	5.50	2.97	2.92	0.78	4.50	3.84	3.11	1.97	4.51	4.06
Jun		6.17	6.54	5.72	8.78	5.83	6.50	5.50	3.04	2.99	0.75	4.64	3.88	3.20	2.04	4.59	4.07
Jul		6.37	6.70	5.94	8.82	6.06	6.64	5.71	3.16	3.11	0.78	4.79	4.04	3.29	2.09	4.71	4.24
Aug		6.55	7.07	6.18	9.58	6.06	6.67	5.74	3.19	3.14	0.79	4.78	4.08	3.34	2.20	4.65	4.34
Sep		6.57	7.07	6.21	9.48	6.11	6.70	5.70	3.22	3.21	0.80	4.84	4.07	3.28	2.13	4.71	4.21
Oct		6.57	7.03	6.21	9.35	6.14	6.97	5.66	3.35	3.35	0.77	5.04	3.34	3.34	2.25	4.67	3.42
Nov		6.31	7.01	6.18	9.31	5.66	6.56	5.11	3.01	3.06	0.73	4.60	2.72	2.86	2.00	3.98	2.88
Dec		5.71	6.61	5.83	8.79	4.87	5.91	4.42	2.72	2.79	0.69	4.18	2.20	2.50	1.77	3.47	2.29
09 *Jan*		5.02	5.95	4.97	8.71	4.17	5.40	3.60	2.25	2.33	0.61	3.47	1.56	1.97	1.39	2.75	1.59
Feb		4.51	5.28	4.35	7.91	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	4.86	3.91	7.58	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		3.88	4.65	3.55	7.77	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	P	3.85	4.53	3.36	7.86	3.23	4.62	2.58	1.49	1.58	0.46	2.38	0.64	1.21	0.79	1.77	0.70

LOANS
SYNTHETIC RATES

DEPOSITS
SYNTHETIC RATES



Source: BE.

a. APRC: annual percentage rate of charge. NEDR: narrowly defined effective rate, which is the same as the APRC without including commissions.

b. Calculated by adding to the NDER rate, which does not include commissions and other expenses, a moving average of such expenses.

c. The synthetic rates of loans and deposits are obtained as the average of the interest rates on new business weighted by the euro-denominated stocks included in the balance sheet for all the instruments of each sector.

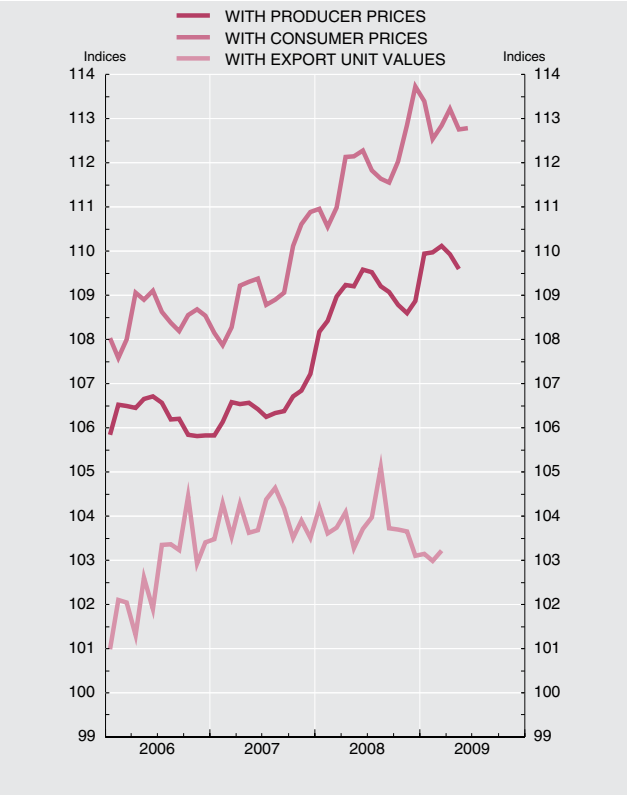
9.4 INDICES OF SPANISH COMPETITIVENESS VIS-à-VIS THE EU-27 AND THE EURO AREA

■ Series depicted in chart.

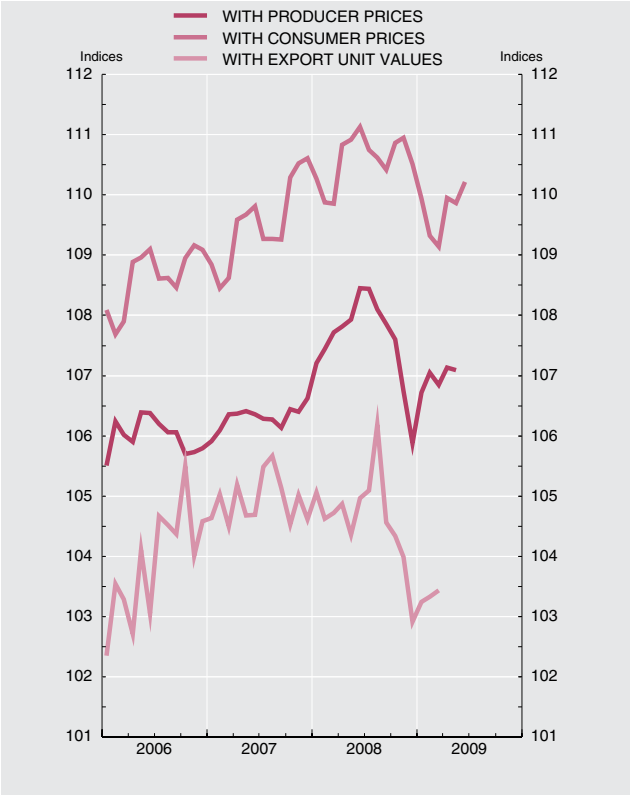
Base 1999 QI = 100

	Vis-à-vis the EU-27									Vis-à-vis the euro area				
	Total (a)				Nominal component (b)	Price component (c)								
	Based on producer prices	Based on consumer prices	Based on total unit labour costs	Based on 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 manufacturing unit labour costs (d)	Based on export unit values
	1 ■	2 ■	3	4 ■	5	6	7	8	9	10 ■	11 ■	12	13	14 ■
06	106.3	108.5	108.9	102.6	100.0	106.3	108.5	108.9	102.7	106.0	108.6	110.1	118.2	103.9
07	106.5	109.2	110.0	103.9	99.9	106.6	109.3	110.1	104.0	106.3	109.5	111.5	120.2	104.9
08	109.0	111.9	112.0	103.8	101.5	107.4	110.2	110.3	102.3	107.6	110.6	111.9	122.6	104.6
07 *Q2*	106.5	109.3	109.8	103.9	99.8	106.7	109.5	110.0	104.0	106.4	109.7	111.3	118.6	104.9
Q3	106.3	108.9	110.1	104.4	99.8	106.5	109.1	110.3	104.6	106.2	109.3	111.8	120.3	105.4
Q4	106.9	110.5	110.9	103.6	100.3	106.7	110.3	110.6	103.4	106.5	110.5	112.0	122.1	104.7
08 *Q1*	108.5	110.8	112.5	103.8	101.0	107.5	109.8	111.4	102.8	107.5	110.0	112.9	124.6	104.8
Q2	109.3	112.2	112.7	103.7	101.4	107.9	110.7	111.2	102.3	108.1	111.0	112.7	125.8	104.7
Q3	109.3	111.7	111.8	104.3	101.3	107.8	110.2	110.3	102.9	108.1	110.6	111.9	123.5	105.3
Q4	108.8	112.9	111.0	103.5	102.3	106.3	110.3	108.5	101.1	106.7	110.8	109.9	116.4	103.7
09 *Q1*	110.0	112.9	111.6	103.1	103.7	106.1	108.9	107.7	99.5	106.9	109.5	109.2	116.6	103.3
08 *Sep*	109.1	111.5	...	103.7	101.5	107.5	109.9	...	102.2	107.9	110.4	...	...	104.6
Oct	108.8	112.0	...	103.7	101.5	107.2	110.4	...	102.2	107.6	110.9	...	...	104.3
Nov	108.6	112.9	...	103.6	102.2	106.3	110.4	...	101.4	106.7	110.9	...	...	104.0
Dec	108.9	113.7	...	103.1	103.3	105.3	110.0	...	99.8	105.9	110.5	...	...	102.9
09 *Jan*	109.9	113.4	...	103.2	103.7	106.1	109.4	...	99.5	106.7	109.9	...	...	103.2
Feb	110.0	112.5	...	103.0	103.5	106.3	108.8	...	99.5	107.0	109.3	...	...	103.3
Mar	110.1	112.8	...	103.2	103.9	106.0	108.6	...	99.3	106.8	109.1	...	...	103.4
Apr	109.9	113.2	...	...	103.5	106.2	109.4	...	...	107.1	110.0	...	...	...
May	109.6	112.8	...	...	103.2	106.2	109.2	...	...	107.1	109.9	...	...	...
Jun	...	112.8	...	...	103.0	...	109.5	...	...	...	110.2	...	...	...

INDICES OF SPANISH COMPETITIVENESS VIS À VIS THE EU-27



INDICES OF SPANISH COMPETITIVENESS VIS À VIS THE EURO AREA



Source: BE.

a. Outcome of multiplying nominal and cost/price components. A decline in the index denotes an improvement in the competitiveness of Spanish products.

b. Geometric mean calculated using a double weighting system based on 1995-1997 (until 1999) and 1999-2001 (since 1999) manufacturing foreign trade figures.

c. Relationship between the price indices of Spain and of the group.

d. The index obtained drawing on Manufacturing Labour Costs has been compiled using base year 2000 National Accounts data.

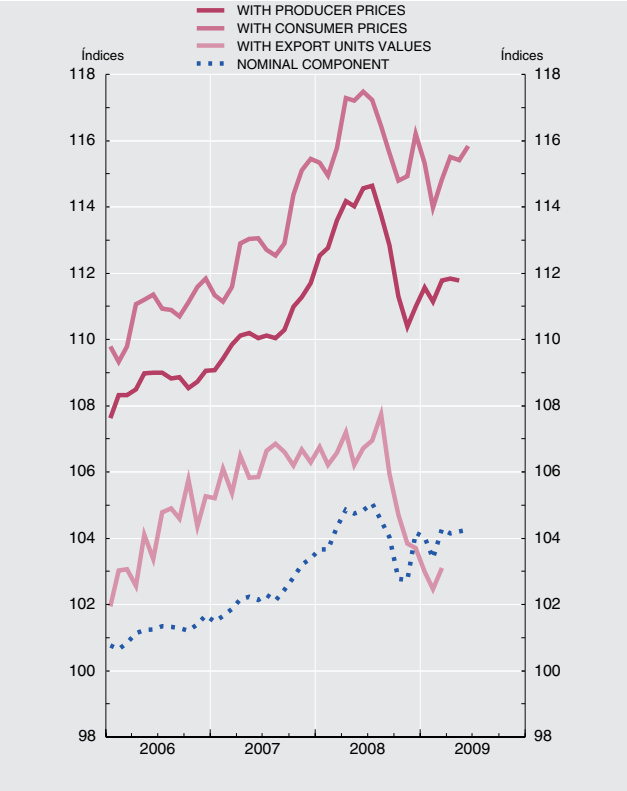
9.5 INDICES OF SPANISH COMPETITIVENESS VIS-à-VIS THE DEVELOPED COUNTRIES AND INDUSTRIALISED COUNTRIES

■ Series depicted in chart.

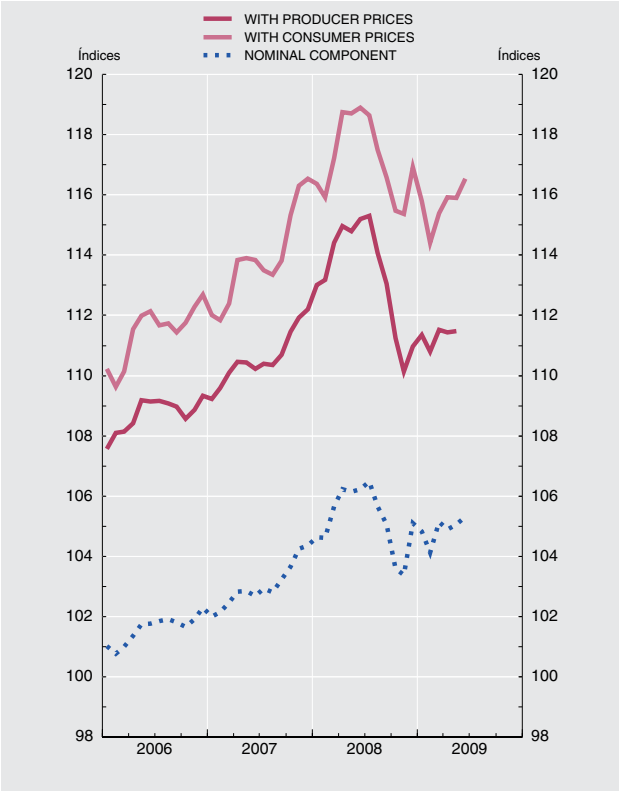
Base 1999 QI = 100

	Vis-à-vis developed countries									Vis-à-vis industrialised countries				
	Total (a)				Nominal component (b)	Prices component (c)				Total (a)		Nominal component (b)	Prices component(c)	
	Based on producer prices	Based on consumer prices	Based on manufac - turing unit labour costs (d)	Based on export unit values		Based on producer prices	Based on consumer prices	Based on manufac - turing unit labour costs (d)	Based on export unit values	Based on producer prices	Based on consumer prices		Based on producer prices	Based on consumer prices
	1 ■	2 ■	3	4 ■	5 ■	6	7	8	9	10 ■	11 ■	12 ■	13	14
06	108.6	110.8	120.8	104.0	101.2	107.4	109.5	119.4	102.8	108.7	111.4	101.6	107.0	109.7
07	110.3	113.0	123.7	106.2	102.3	107.8	110.5	120.9	103.8	110.6	113.9	103.0	107.4	110.6
08	113.0	116.1	128.8	106.0	104.1	108.5	111.5	123.7	101.8	113.4	117.2	105.2	107.7	111.4
07 *Q2*	110.1	113.0	122.1	106.1	102.2	107.8	110.6	119.5	103.8	110.4	113.9	102.8	107.4	110.8
Q3	110.1	112.7	123.8	106.7	102.3	107.7	110.2	121.0	104.3	110.5	113.6	103.0	107.3	110.3
Q4	111.3	115.0	127.0	106.4	103.1	107.9	111.5	123.1	103.1	111.9	116.1	104.1	107.5	111.5
08 *Q1*	113.0	115.4	130.4	106.5	103.9	108.7	111.0	125.5	102.5	113.5	116.5	105.0	108.2	111.0
Q2	114.3	117.3	132.9	106.7	104.8	109.0	111.9	126.8	101.8	115.0	118.8	106.2	108.3	111.9
Q3	113.8	116.4	130.2	106.9	104.5	108.8	111.4	124.6	102.2	114.2	117.6	105.7	108.0	111.2
Q4	110.9	115.3	121.8	104.1	103.2	107.4	111.7	118.0	100.8	110.8	115.9	104.0	106.5	111.4
09 *Q1*	111.5	114.7	123.1	102.9	103.9	107.3	110.4	118.5	99.0	111.2	115.2	104.7	106.2	110.0
08 *Sep*	112.8	115.6	...	105.9	104.0	108.5	111.2	...	101.8	113.1	116.6	105.1	107.6	111.0
Oct	111.3	114.8	...	104.7	102.8	108.3	111.7	...	101.9	111.3	115.5	103.6	107.4	111.5
Nov	110.4	114.9	...	103.8	102.7	107.4	111.9	...	101.1	110.1	115.4	103.4	106.5	111.6
Dec	111.0	116.2	...	103.7	104.2	106.6	111.6	...	99.6	111.0	116.9	105.1	105.6	111.3
09 *Jan*	111.6	115.3	...	103.0	104.0	107.2	110.9	...	99.0	111.3	115.8	104.8	106.2	110.5
Feb	111.1	114.0	...	102.5	103.4	107.5	110.2	...	99.1	110.8	114.4	104.1	106.4	109.9
Mar	111.8	114.8	...	103.1	104.3	107.2	110.1	...	98.9	111.5	115.4	105.1	106.1	109.7
Apr	111.8	115.5	...	...	104.1	107.4	110.9	...	...	111.4	115.9	104.9	106.2	110.5
May	111.8	115.4	...	...	104.2	107.3	110.7	...	...	111.5	115.9	105.1	106.1	110.3
Jun	...	115.8	...	...	104.3	...	111.1	...	...	...	116.5	105.3	...	110.7

INDICES OF SPANISH COMPETITIVENESS VIS-À-VIS THE DEVELOPED COUNTRIES



INDICES OF SPANISH COMPETITIVENESS VIS-À-VIS THE INDUSTRIALISED COUNTRIES



Source: BE.

a. Outcome of multiplying nominal and cost/price components. A decline in the index denotes an improvement in the competitiveness of Spanish products.

b. Geometric mean calculated using a double weighting system based on 1995-1997 (until 1999) and 1999-2001 (since 1999) manufacturing foreign trade figures.

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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