ECONOMIC BULLETIN

10/2011

BANCO DE ESPAÑA
Eurosistema

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ABBREVIATIONS

AIAF	Association of Securities Dealers
BCBS	Basel Committee on Banking Supervision
BE	Banco de España
BIS	Bank for International Settlements
BLS	Bank Lending Survey
BOE	Official State Gazette
BRICs	Brazil, Russia, India and China
CBSO	Central Balance Sheet Data Office
CCR	Central Credit Register
CDSs	Credit default swaps
CEBS	Committee of European Banking Supervisors
CEIPOS	Committee of European Insurance and Occupational Pensions Supervisors
CESR	Committee of European Securities Regulators
CEMLA	Center for Latin American Monetary Studies
CEPR	Centre for Economic Policy Research
CNE	Spanish National Accounts
CNMV	National Securities Market Commission
CPI	Consumer Price Index
ECB	European Central Bank
ECOFIN	Council of the European Communities (Economic and Financial Affairs)
EDP	Excessive Deficit Procedure
EFF	Spanish Survey of Household Finances
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
EMU	Economic and Monetary Union
EONIA	Euro overnight index average
EPA	Official Spanish Labour Force Survey
ESA 79	European System of Integrated Economic Accounts
ESA 95	European System of National and Regional Accounts
ESCB	European System of Central Banks
ESFS	European System of Financial Supervisors
ESRB	European Systemic Risk Board
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 the Orderly Restructuring of the Banking Sector
FSB	Financial Stability Board
FSF	Financial Stability Forum
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
IASB	International Accounting Standards Board
ICO	Official Credit Institute
IFRSs	International Financial Reporting Standards
IGAE	National Audit Office
IMF	International Monetary Fund
INE	National Statistics Institute
SPEE	National Public Employment Service
LTROs	Longer-term refinancing operations
MFIs	Monetary financial institutions
MMFs	Money market funds
MROs	Main refinancing operations
MTBDE	Banco de España quarterly macroeconomic model
NAIRU	Non-accelerating-inflation rate of unemployment
NCBs	National central banks
NPISHs	Non-profit institutions serving households
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of Petroleum Exporting Countries
PPP	Purchasing power parity
QNA	Quarterly National Accounts
SCLV	Securities Clearing and Settlement Service
SDRs	Special Drawing Rights
SEPA	Single Euro Payments Area
SGP	Stability and Growth Pact
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
WTO	World Trade Organisation
XBRL	Extensible Business Reporting Language

COUNTRIES AND CURRENCIES

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

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

CONVENTIONS USED

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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

1 OVERVIEW

As the year has unfolded, the Spanish economy has progressively weakened following the subdued recovery on which it had embarked in 2010. On Quarterly National Accounts (QNA) figures, the quarter-on-quarter rate of GDP growth slowed in Q2 to 0.2 %, placing the year-on-year rate at 0.7 %. Behind this lies an acceleration in the decline in national demand (-0.4 % in terms of the quarter-on-quarter rate), offset only in part by the improved contribution (to 0.6 pp) of net external demand to output.

The information available for Q3 suggests this pattern of weakening continued mid-year, against a background marked by the worsening euro area sovereign debt crisis. Estimates made on the basis of the as yet partial and incomplete conjunctural information indicate that GDP is expected to have posted a quarter-on-quarter rate of change of zero in Q3, placing its year-on-year rate at 0.7 %. However, these rates should be interpreted with more than the habitual caution owing to the statistical differences that may arise with the re-basing of National Accounts. The GDP flash estimates to be published by INE in November will be prepared with the new 2008 base (see Box 4). Domestic demand is estimated to have slipped further in Q3 (with a contribution to GDP of -0.8 pp relative to the April-June period), reflecting the contraction in the government components of spending and the still-declining trajectory of residential investment, while household consumption and business investment showed small increases. In contrast, net external demand remained the chief underpinning of the economy, and its contribution to GDP growth rose (to 0.8 pp) owing to the buoyancy of goods exports and tourism.

On the supply side, employment showed no signs of improvement compared with the first half of the year. It shrank in net terms by more than in the previous quarter (by 2.1 % year-on-year according to EPA figures). This decline in employment prompted an increase in the unemployment rate, which stood at 21.5 % in Q3, against the background of the stabilisation of the labour force. Finally, the declining trend in inflation seen in the previous months eased, owing to price rises in processed food and energy which offset the slowdown in the prices of the remaining components further to the stripping out of the base effects linked to the VAT increase the previous year. As a result of these opposing movements, the year-on-year rate of change in the CPI stood at 3.1 % in September. That said, the behaviour of inflation was more contained than in the euro area, as a result of which the price spread narrowed in the past quarter to the point of being cancelled out in September.

In the international economic arena, there was a further deterioration in the economic and financial situation worldwide in Q3 as a result of the deepening sovereign debt crisis in Europe and the worsening growth outlook globally. Despite the agreements reached at the Summit of Heads of State and Government on 21 July and progress in the financial assistance programmes in Ireland and Portugal, the instability on the euro area's sovereign debt markets continued over the summer months. In August the tensions passed through to larger economies, such as Spain and Italy and, in September, to Belgium and France, albeit to a lesser extent. The tensions likewise spread to other financial markets, where there was an increase in the demand for safe-haven assets, a most marked rise in interbank market risk premia, heavy falls on stock markets and growing difficulties for the European banking system in obtaining funds on money and capital markets.

YEAR-ON-YEAR RATE OF CHANGE
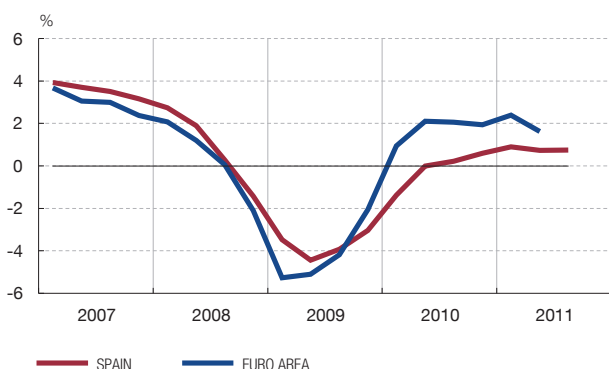
QUARTER-ON-QUARTER RATE OF CHANGE

SOURCES: ECB, INE and Banco de España.

a Seasonally adjusted series.

At the root of this marked instability are, first, the heightening difficulties relating to the fiscal adjustment in Greece, in a highly adverse macroeconomic setting; further, the political and legal problems accompanying the application of the resolutions adopted at the Summit on 21 July, in particular in connection with the reform of the European Financial Stability Facility, which is key to containing contagion processes; and finally, greater uncertainty over the exposure of the European banking system to ailing countries.

The euro area response to this worsening of the sovereign debt crisis is taking shape at different levels. On one hand, the ECB resumed its Securities Market Programme as from 5 August, to ensure the correct functioning of the monetary policy transmission mechanism. It also ensured unlimited liquidity provision through the extension in August and September of various non-conventional measures, and in October it set in place a new covered bonds purchase programme, scheduled to run between November 2011 and October 2012. In turn, the European Council, the European Parliament and the European Commission came to a final agreement on 11 September concerning the reform of governance. This marks a significant step towards reinforcing the framework for the monitoring, prevention and correction of macroeconomic imbalances, a step much-needed to minimise the risk of future crises. Finally, the Summit of Heads of State and Government of the euro area countries in late October has seen significant headway in the design of a sufficiently comprehensive strategy to restore and reinforce the financial stability of the area. Although certain specific details have still to be resolved, the agreement addresses the main weaknesses detected and provides for ambitious measures in four areas. First, a new financial aid programme for Greece, which draws on private-sector participation and which should ensure that Greek finances become sustainable again, lowering the public debt ratio to around 120 % of GDP by 2020. Second, the maximisation of efficiency in the use of the available funds of the European Financial Stability Facility (EFSF), enabling it to increase its capacity by up to fivefold and thus establishing an effective mechanism to halt contagion. Third, a plan aimed at restoring confidence in the banking system has been set in place, using on one hand an EU-coordinated programme of guarantees to provide financing for the sector and, on the other, a recapitalisation of the main banks, which will be required to comply with a core tier 1 capital ratio of 9 % by June 2012. Fourth and finally, governments renewed their commitment to continue adopting the measures needed to ensure the sustainability of their public finances and to boost economic growth, observing the approved fiscal targets and pushing through structural reforms. The Heads of State

SPAIN

EURO AREA
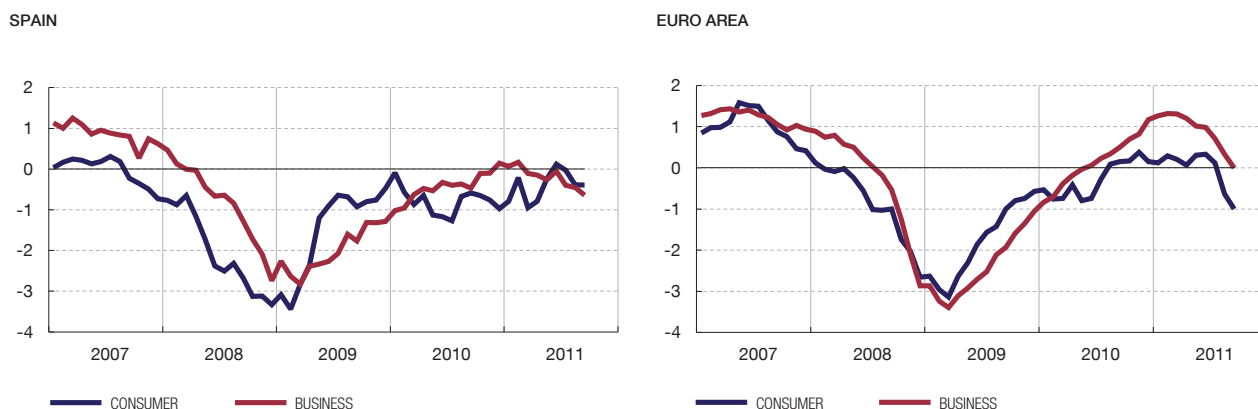
SOURCE: European Commission.

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

and Government also agreed on additional steps in the reform of governance and in the integration of the euro area to strengthen the economic convergence needed in a monetary union (see Section 3 and Box 3 of this report for more details).

The Member States, for their part, approved new adjustment measures in August, September and October. Italy adopted a budgetary consolidation programme with the intention of bringing forward one year its aim to achieve a balanced budget and, at the Summit at the end of October, it unveiled measures to strengthen competitiveness and liberalise the economy, which are pending application. In Spain, a reform of the Constitution was approved[1], setting limits on the general government structural deficit and on the public debt ratio in line with the provisions of the Treaty on the European Union. This measure legally enshrines the obligation for all tiers of government to adjust their conduct to the principle of budgetary stability, which is particularly appropriate given the high degree of fiscal decentralisation in place. Although this reform will only come into force in relation to the budget deficit and public debt targets in 2020, it does unquestionably reinforce the principle of budgetary stability. In addition, so as to restrict the risks of deviations from budgetary targets, a new fiscal adjustment package[2] was adopted, with an estimated reducing effect on the budget deficit of 0.5 % of GDP in 2011 and, regarding the labour market[3], changes were made to the regulation of training contracts and some of the restrictions on temporary hires were lifted. Lastly, the government approved a reform of the Deposit Guarantee Fund in October.[4]

The climate of financial instability prevailing in Q3 prompted a slowdown in the pace of economic recovery across the board, particularly impacting most of the advanced economies and, especially, the euro area, where the increase in activity was brought to a halt following the buoyancy seen in the first half of the year. It also gave rise to a downward

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1   The Official State Gazette of 27 September 2011 published the reform of article 135 of the Spanish Constitution.
2   Royal Decree-Law 9/2011 of 19 August 2011 on measures improving the quality and cohesion of the national health system, contributing to fiscal consolidation and raising the maximum amount of State guarantees for 2011.
3   Royal Decree-Law 10/2011 of 26 August 2011 on urgent measures for promoting youth employment, fomenting job stability and retaining vocational re-training arrangements for people whose unemployment protection has run out.
4   Royal Decree-Law of 14 October 2011 creating the Deposit Guarantee Fund of Credit Institutions.

HARMONISED INDICES OF CONSUMER PRICES (a)

UNIT LABOUR COSTS (b)

SPAIN   EURO AREA

SPAIN   EURO AREA
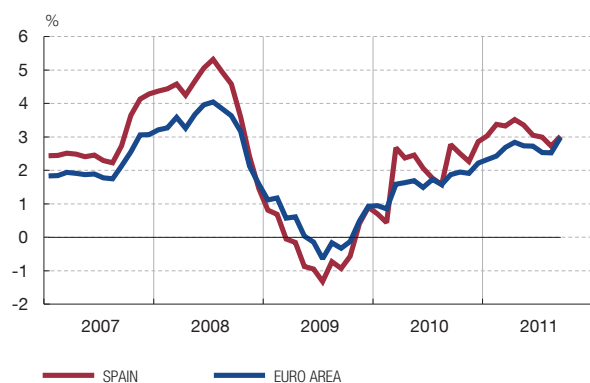
SOURCES: Eurostat, ECB and INE.

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.
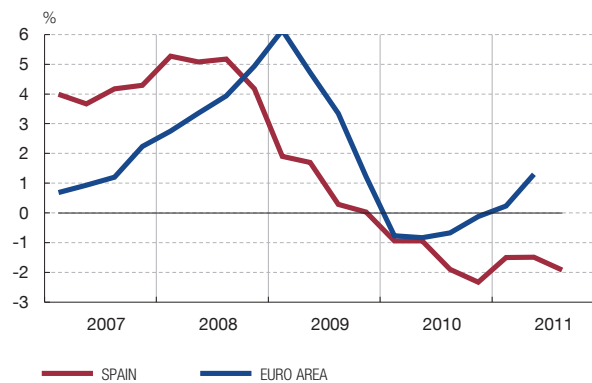
revision by international agencies and private analysts of the medium-term growth out-look. In the euro area the absence of inflationary tensions on the relevant monetary policy horizon led the ECB Governing Council to hold interest rates at its August, September and October meetings, leaving them unchanged at 1.5 % for the main refinancing operations, and at 2.25 % and 0.75 %, respectively, for the marginal lending and deposit facilities.

In Spain, the worsening of the sovereign debt crisis ramped up financial tensions, which took the form of an increase in credit risk premia on both general government and private-sector fixed-income securities issues, declines in stock market indices and growing diffi-culties for banks in obtaining funds on wholesale markets. The reactivation of the Securi-ties Market Programme by the ECB in early August, along with the measures adopted, led the yield on Spanish 10-year bonds, which exceeded 6 % in early August, to fall subse-quently and stabilise at a level slightly above 5 %, albeit following a highly volatile trajec-tory. In the days following the above-mentioned Summit, the spread over German debt stood at around 310 bp. On the equity markets, share prices were also very volatile and fell markedly. Despite the modest rally in indices in the opening weeks of October, the forego-ing developments have entailed losses of 15 % in the IBEX 35 since end-June (10.4 % since the start of the year).

On the real estate market, and according to information released by the Spanish Ministry of Development, the rate of decline of house prices quickened in Q3 to a year-on-year rate of 5.6 %. This means there has been a cumulative decline of 18 % in nominal terms (23 % in real terms) from the peak reached in the first half of 2008.

Against this backdrop, financing conditions for the private sector tightened further, since the higher costs incurred by financial institutions in raising funds were reflected in higher interest rates on the loans granted to households and firms. Based on the information in the latest Bank Lending Survey, the various lending criteria established by banks held stable in respect of interest rates, following successive episodes of tightening since 2007.

In these circumstances, household spending decisions were sluggish overall. It is esti-mated that household consumption has risen marginally in quarter-on-quarter terms, in a

INTEREST RATES (a)

- LENDING TO COMPANIES (b)
- 10-YEAR DEBT
- ONE-YEAR EURIBOR
- HOUSEHOLD AND NPISHs' DEPOSITS
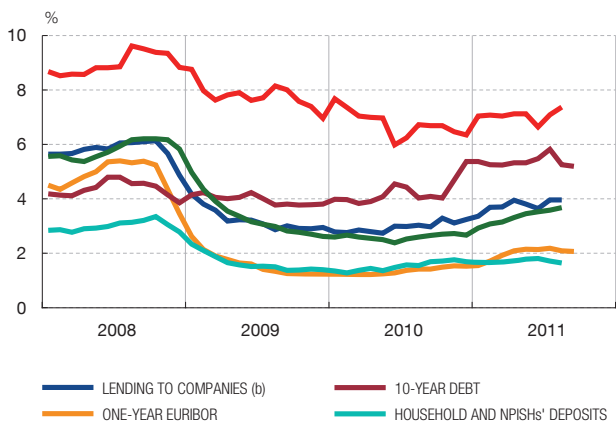
FINANCING TO NON-FINANCIAL RESIDENT SECTORS (year-on-year growth)

- TOTAL
- HOUSEHOLDS AND NPISHs
- NON-FINANCIAL CORPORATIONS
- GENERAL GOVERNMENT (c)
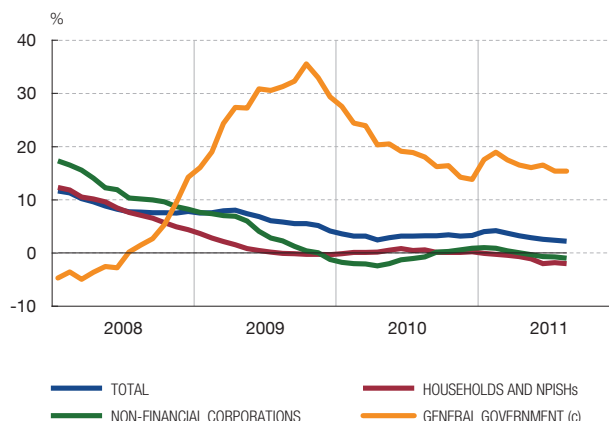
FINANCIAL ASSETS OF NON-FINANCIAL CORPORATIONS AND OF HOUSEHOLDS AND NPISHs (year-on-year growth)

- CASH AND CASH EQUIVALENTS
- OTHER BANK LIABILITIES
- MUTUAL FUNDS

NET FINANCIAL TRANSACTIONS (d)

- NON-FINANCIAL CORPORATIONS
- HOUSEHOLDS AND NPISHs
- GENERAL GOVERNMENT
- NATION

SOURCE: Banco de España.

a In June 2010 the statistical requirements relating to interest rates applied by credit institutions to their customers were amended, potentially causing breaks in the attendant series. Of particular signifcance was the change in 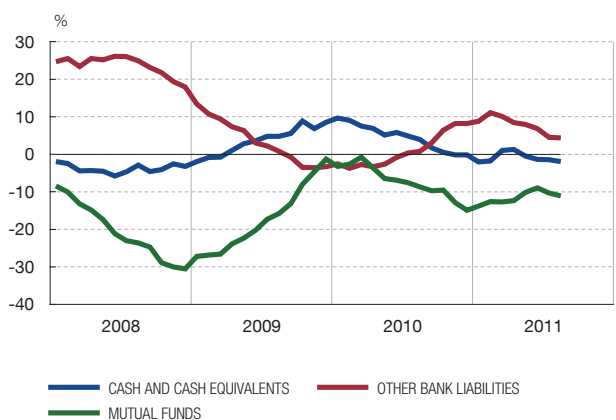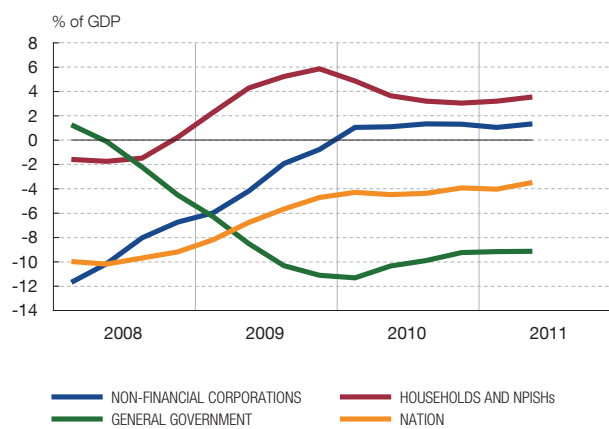the interest rates on consumer credit and other loans, as a result of which, from that month, operations transacted using credit cards have not been included. APR for loans (includes commissions and other expenses) and NDER for deposits.
b Weighted average of interest rates on various transactions grouped according to their volume. For loans exceeding €1 million, the interest rate is obtained by adding to the NDER (Narrowly Defined Effective Rate), which does not include commission and other expenses, a moving average of such expenses.
c Consolidated financing: net of securities and loans that are general government assets.
d Four-quarter cumulated data.

setting marked by the unfavourable labour market performance, heightened uncertainty, the loss of purchasing power due to continuing relatively high inflation rates and the reduction in the value of wealth, in both its financial and real estate components. Information on the accounts of the institutional sectors, available to Q2[5], appears to confirm the turnaround in nominal household disposable income seen in Q1, since its rate of decline is estimated to have slowed once more, virtually stabilising in cumulated four-quarter terms. All told, households had to resort to saving to smooth their pattern of consumption, as has

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5   The data on the financial accounts of the sectors for 2011 Q2 have been published in keeping with the new base 2008 National Accounts, which has entailed some revision in the time series in, inter alia, the imbalances between saving and investment of the various sectors of the economy.

been the case since late 2009. As a result, there was a further decline in the saving ratio to 12.8 % of disposable income in cumulated four-quarter terms. This trend might run to the end of the current year.

Residential investment shrank by a similar magnitude to that of the previous quarter in terms of its quarter-on-quarter rate, meaning that the residential investment/GDP ratio is estimated to have fallen by around 5 pp of GDP[6] from its peak in 2007. That gives some idea of the scale of the adjustment already made. That said, the demand for residential assets continued to move on a declining path which is delaying the absorption of the supply overhang that has built up in the sector in past years.

Overall, household consumption and investment decisions in Q2 were compatible with the maintenance of a net lending capacity in the sector at levels similar to those of previous quarters (3.5 % of GDP in cumulated four-quarter terms), albeit on a mildly declining trajectory. Households once again reduced their financial liabilities in Q3, at a similar rate (2 % year-on-year) to the preceding months, the result of a contraction that was greater in loans for consumption and other purposes (5 %) than in house purchase loans (1.1 %). It is estimated that this contraction in debt will have provided for a slight reduction in the debt/gross disposable income ratio and for the resumption of the gradual deleveraging process households are undertaking.

Business investment trended similarly to the previous quarter, posting moderately positive figures. It was underpinned by the buoyancy of exports, which offset the deterioration in the economic outlook as the sovereign debt crisis heightened. Looking ahead, however, the continuation of the current climate of uncertainty and lack of confidence might lead to a reduction in business investment. In Q2, non-financial corporations' net lending once again increased, according to figures from the non-financial accounts of the institutional sectors, to 1.5 % of GDP in cumulated four-quarter terms. That might be in response to companies' aim to clean up their balance sheets or to strengthen their self-financing capacity in the face of tighter funding conditions. Companies continued to reduce their indebtedness, to a rate of 1.1 % year-on-year in September, prompting a further decline in the sector's debt ratio.

Turning to foreign trade, the rise in goods and services exports explains the increase in the contribution of net external demand to GDP growth, since the rate of decline of imports eased. Sales abroad were once again underpinned by the expansion still discernible in international trade, by the continuity of the ongoing gradual correction of the losses in price-competitiveness built up during the expansionary phase and by the buoyancy of tourism. Nonetheless, the outlook for the final stretch of the year has worsened owing to the slowdown in the world economy. While goods and services imports turned downwards somewhat less than in the April-May period, their contraction is in line with the sluggishness shown by domestic consumption and business investment.

The correction in net borrowing began to operate again in Q2, taking this variable to 3.5 % of GDP in cumulated four-quarter terms (3.9 % in 2010), according to information provided by the non-financial accounts of the institutional sectors. More recent balance of payments data show that behind this development is the improvement in the non-energy

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6 Note that this percentage will change following the re-basing of the National Accounts, since part of the investment that was included under investment and other products (such as real estate development, notary services, etc.) in the previous base will be considered as residential investment in the 2008 base.

goods balance, which posted a surplus of 0.2 % of GDP in the January-July period, and in the services balance, which ran a surplus of 3 % of GDP. Conversely, the deficit on the energy goods trade balance and the incomes balance widened.

On the supply side, the slackness of activity in Q3 was due to the steeper contractionary profile of construction, mainly in its public works component, and non-market services. These productive branches are particularly feeling the impact of the budgetary consolidation plans. In contrast, industry rebounded in Q3, once supply conditions and the habitual distribution channels of industrial products were restored, following the interruption in the wake of the Japanese earthquake in March, and against a background of buoyant exports. Market services, which had shown a less hesitant pattern since the recovery began, posted a moderate growth rate, backed by the momentum of tourist services. There are nevertheless doubts about the continuity of this expansion in industry and in market services, given the scaling back in business prospects recently evidenced by the main survey-based indicators. Economy-wide employment fell off once again and is expected to have posted a more significant decline than that of the previous quarter (-1.8 % year-on-year), with a more negative contribution of employment in non-market services, in step with the aforementioned budgetary adjustments. The rate of decline of employment in the market economy also stepped up (-1.9 %), whereby productivity increased substantially.

Labour costs adjusted partially to this weak labour market setting, with economy-wide compensation per employee holding at a rate of increase below 1 % in the first half of the year. However, this moderation largely reflects the effect of the cuts in public-sector wages in 2010 and their subsequent stabilisation, set against the somewhat more inertia-bound behaviour of private-sector wages. For the latter, an increase of around 1 % in Q3 is estimated, similar to that in Q2. If confirmed, that would provide for a further fall in unit labour costs. Once the effect of the reduction in public-sector wages has run its course, prolonging this trend will require collective bargaining – which showed a high increase in wage rates (2.6 %) to September as a result of the prevalence of multi-year agreements being signed – to move on a more clearly defined slowing trend. Cost and price moderation is decisive for entrenching the gains in competitiveness accompanying the severe adjustment being made in the Spanish economy, all the more so against the background of a world economy likely to lose momentum that will no doubt affect our export markets.

The weakness of domestic demand and of activity has affected the rate of reduction of the fiscal imbalance. On the revenue side, the information available on tax takings to September shared by central government and regional and local government, on one hand, and the Social Security system, on the other, indicates that the growth of tax revenue is below the budgetary projection, in particular in the case of social security contributions and of excise duties. On the expenditure side, the information available for the overall general government sector, which is somewhat more lagged (to June in National Accounts terms, according to the new 2008 base), shows a slowdown in spending, albeit one less than projected in the last Stability Programme, given the greater inertia of goods and services purchases in the first half of the year.

The budget outturn has not yet reflected, however, the extraordinary budgetary consolidation measures taken in August (which will see a rise in corporate income tax revenue, reduce health spending and increase revenue by the amount resulting from the tendering of the rights of use of the public domain radio spectrum). Nonetheless, the prevailing trends point to risks that there will be a deviation from the deficit target of 6 % of GDP in 2011, owing to the weakness of tax revenue and to the inertia of spending, chiefly in the re-

gional governments. On the information available as this report was going to press, the scale of the deviation lies within margins that may be corrected by means of proper management of the budget outturn over the rest of the year. In any event, if the budget outturn data for the coming months were to indicate the possibility of these risks materialising, further measures would forcibly have to be adopted in keeping with the unconditional nature of the commitment assumed by the government to comply with the fiscal targets, and in light of the close monitoring to which public finances will be subject during the current sovereign debt crisis. Along these same lines, in the State budget for 2012, which will be approved with some delay as a result of the electoral calendar, the necessary effort should be made to ensure the deficit target for 2012 of 4.4 % of GDP is met.

2   THE EXTERNAL ENVIRONMENT OF THE EURO AREA

In the past quarter, economic and financial developments in the external environment of the euro area took a sharp turn for the worse. Contributing to this were: the escalation of the sovereign crisis in the euro area, the marked loss of tone of economic activity, the fragility of the financial systems of some economies, the perception of scant room for policy response and (as a corollary of all the foregoing) a notable loss of confidence of economic agents. This bout of instability has spread widely and affected the emerging economies significantly. To mitigate the impact of this instability on the financial system and on confidence, the stance of economic –mainly monetary– policies was changed and in some countries turned more expansionary. This was particularly noticeable in the United States and United Kingdom (see Box 1), where full advantage is being taken of all the additional freedom of action available.

The international financial markets reflected this situation markedly. The deepening of the sovereign debt crisis in Europe was the main focus of tension, magnified by the loss of vigour of the recovery and the uncertainties surrounding economic policy. The financial sector was particularly affected and financial institutions' funding problems worsened in terms of both cost and ability to place new issues, while the stock market slumped generally, with particularly sharp falls in bank share prices. In mid-September the US Treasury bond yield hit a low for the last fifty years (around 1.7%) amidst a flight by investors to safer assets. The growing aversion to risk also affected the foreign exchange markets, where some safe-haven currencies appreciated notably. In particular, the dollar appreciated against the euro and traded at the lowest levels since the beginning of the year, standing at $1.31 per euro in early October. The yen and the Swiss franc appreciated, leading the authorities to intervene in the foreign exchange markets; Switzerland set a minimum parity for the Swiss franc at 1.20 francs per euro. In the emerging markets, the flight to quality was reflected in a sustained rise in risk premia from the first week of August, to levels not seen since 2009 Q2. September brought, moreover, outflows from emerging debt funds, a segment which until then had withstood the turmoil prevailing since the beginning of 2011, and the practical paralysis of fixed-income issuance on the international markets. The search for liquidity led to the unwinding of carry-trade positions in the deepest markets and gave rise to sharp depreciation of currencies against the dollar. All these trends reversed partly in October, although without recouping the previous losses. Meanwhile, commodity prices fell sharply and their volatility rose considerably from August, more markedly in industrial metals than in food or energy. The drop in Brent oil prices was more moderate and from the beginning of August they have fluctuated within a band between $105 and $115 per barrel, compared with an average of $118 in July.

In the United States, the final estimate of GDP in Q2 showed annualised quarterly growth of 1.3%. The array of negative data in the last few months points to weakness in Q3, although the latest indicators are more favourable. Thus industrial production advanced again in September and the business confidence indicators grew moderately in both services and manufacturing. However, consumption remained stagnant, in line with the deterioration of disposable income and the low level of consumer confidence. The tone of the labour market improved in September, with significant net job creation, although the unemployment rate held at 9.1%. Residential real estate market activity remained depressed due to the weak demand, the stagnation of supply, the uncertainty surrounding prices – which continue their downward adjustment– and the tight credit conditions. Inflation, as

THE RECENT SHIFT IN THE MONETARY POLICY STANCE OF THE UNITED STATES AND THE UNITED KINGDOM: BOX 1
REASONS AND IMPLICATIONS

Following the first signs of recovery and the appearance of infla-
tionary pressure during the past year and at the beginning of
this year, some central banks began to withdraw the monetary
stimuli introduced in response to the crisis and others began to
consider an exit strategy from those measures. However, in re-
cent quarters the ongoing deterioration in economic and finan-
cial conditions globally has prompted an accommodative shift
in the monetary policy stance of both developed and emerging
countries. This U-turn has been accompanied by a reduction in
the expected official interest rates generally, although most no-
ticeably in the developed economies, where they are projected
to remain low for a prolonged period (see Charts 1 and 2). The
concern for designing exit strategies from the expansionary
measures has given way to a search for methods to stimulate
demand in a setting of pre-programmed fiscal adjustment and
of interest rates which in some cases are near zero. The emerg-

ing countries, some of which had initiated an upward interest
rate cycle in 2010 to forestall overheating of their economies,
stopped increasing official rates and, in some cases, such as
Brazil, Indonesia and Turkey, even decided to cut them. Among
the developed countries, similar movements were seen in Swe-
den, while the ECB reactivated its government debt purchase
operations (SMP, Securities Market Programme) and adopted
new, unconventional liquidity-providing measures. However, the
central banks which resumed their unconventional strategies
most strongly were those of the United States and the United
Kingdom.

In the United States the Open Market Committee of the Federal
Reserve (FOMC) took a first step towards a more accommodative
monetary policy in its August 2011 meeting, announcing its com-
mitment to maintaining the current low interest rates over an

UNITED STATES

JULY 2011   AUGUST 2011
SEPTEMBER 2011   OCTOBER 2011

UNITED KINGDOM

JULY 2011   AUGUST 2011
SEPTEMBER 2011   OCTOBER 2011

UNITED STATES

OTHER GOVERNMENT DEBT SECURITIES (a)   LONG-TERM GOVERNMENT DEBT
SHORT-TERM GOVERNMENT DEBT   OTHER
TOTAL LIQUIDITY FACILITIES   OTHER LIQUIDITY FACILITIES
SWAPS WITH CENTRAL BANKS   COMMERCIAL PAPER
TERM AUCTION FACILITIES

UNITED KINGDOM

SHORT-TERM OPEN MARKET TRANSACTIONS
GOVERNMENT CREDIT FACILITY
OTHER ASSETS (INCLUDING LOAN TO THE APF)
LONG-TERM REPOS
OTHER MARKET TRANSACTIONS

SOURCES: Federal Reserve and Bank of England.

a   Debt and debt guaranteed by the federal agencies: Fannie Mae, Freddie Mac and Ginnie Mae.

explicit time horizon (at least until mid-2013). The following month, the FOMC decided to undertake a strategy to re-weight its debt portfolio, known as Operation Twist, under which it will replace short-term Treasury bonds with longer-term government securities,[1] so as to lengthen the average maturity of its Treasuries portfolio without need for further increasing in the size of its balance sheet. Specifically, before June 2012, $400 billion of Treasury debt with matur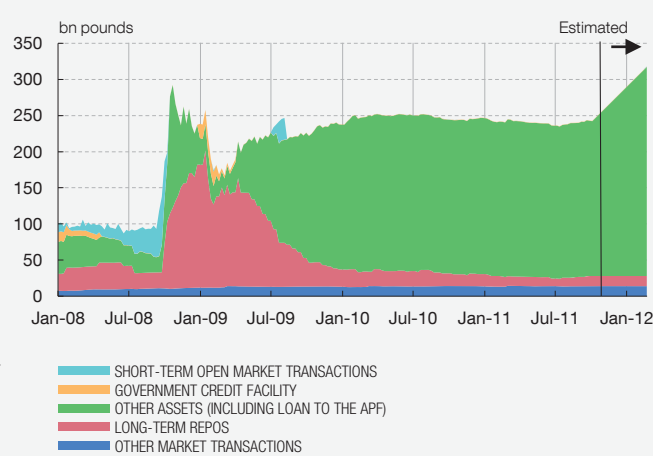ities below three years will be sold and the same amount of bonds with residual maturities betweeen six and thirty years will be purchased (see Chart 3). Also, the FOMC decided to change its policy on reinvestment of funds received from the redemption of debt and agency securitisations (MBS) in its portfolio, which will now be used to purchase new MBS (instead of Treasury bonds as in the past year), in order to ease mortgage market conditions.

For its part, the Monetary Policy Committee (MPC) of the Bank of England initiated a second round of quantitative easing (QE).[2] Specifically, the MPC decided to increase the size of its asset purchase programme, known as the Asset Purchase Facility (APF) by 75 billion pounds sterling (around 5% of GDP), after having kept it steady at 200 billion pounds sterling since February 2010 (see Chart 4). The purchases will take place over a four-month period up to February 2012 and will focus on UK government debt (gilts) with maturities above three years.[3]

With these actions, the Federal Reserve and the Bank of England aim to lower interest rates on long-term debt and improve general credit conditions, so as to help re-direct savings flows from

government bonds to other assets. In the UK, the greater liquidity in alleviate bank funding problems, facilitating an increase in credit at a time of high tension in European funding markets. As shown by the charts, the Federal Reserve's measures will not significantly increase its balance sheet, while those of the Bank of England will result in a level above that in 2008 Q4.

It is difficult to say what economic impact these strategies will have. In any event, the effect on the government debt market should be significant, considering the planned volume of purchases. In the US, this volume is approximately 25% of the Treasury's net issuance in 2010. In the UK, it will be equivalent to 62% of total net issance up to March 2012 and to 45% of issuances planned for the fiscal year. The Federal Reserve estimates that Operation Twist may have a significant impact, reducing long-term interest rates by around 20 basis points (bp). As regards the UK, the Bank of England estimates that the previous QE phase pushed gilt yields down by about 100 bp. A linear extrapolation of the size of the new round of QE points to an effect of roughly 35 bp. Generally speaking, however, there is high uncertainty about the final impact these measures will have on the real economy, since the economic and financial circumstances in which they will be implemented differ from those previously prevailing and a considerable amount of stimulus had already been provided.

Hence the actual impact may be limited in the present environment, characterised by a process of private-sector deleverage, credit restrictions and a highly uncertain economic outlook for both households and firms. It is therefore possible that the extraordinary monetary stimuli may avoid the most extreme risks, but prove to be ineffective in driving economic recovery. This circumstance would be exacerbated if certain problems, such as those derived from the European sovereign debt crisis, persist, since they would limit even more the effect of these unconventional measures.

Furthermore, from a longer-term perspective, it cannot be ruled out that these unconventional strategies may end up causing inflation expectations to rise and new bubbles to form. Also, the strong pressure on public finances may push up long-term interest rates in both countries. Although these risks seem minor in the current setting of high uncertainty and economic weakness, the monetary authorities must remain vigilant.

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1   Other options are still being discussed by the FOMC: reducing the interest rate on remunerated reserves; changing the communication policy so as to give more information to the public on its objectives and decisions; and the possibility of a third round of monetary expansion through additional purchases of Treasury bonds.

2   The MPC also discussed various alternative the system should lead structuring the Bank of England's balance sheet, reducing the official interest rate and establishing a path marking the future behaviour of the official interest rate.

3   The structure and modus operandi of the APF will remain intact, i.e. they will be implemented v to an increase in bank deposits and thus s. These included re ia weekly auctions and financed through the issuance of bank reserves, securities quoted on the secondary market will be purchased, and the possible losses on the portfolio will be borne by the UK Treasury.

GROSS DOMESTIC PRODUCT
Year-on-year rate of change

EURO AREA   UNITED STATES   JAPAN   UNITED KINGDOM
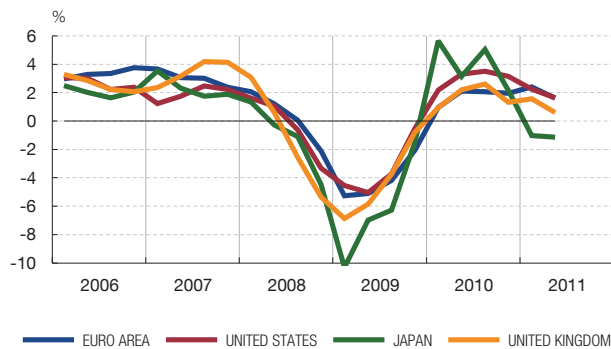
INDUSTRIAL PRODUCTION
Year-on-year rate of change

EURO AREA   UNITED STATES   JAPAN   UNITED KINGDOM

UNEMPLOYMENT (a)

EURO AREA   UNITED STATES   JAPAN   UNITED KINGDOM

CURRENT ACCOUNT BALANCE

EURO AREA   UNITED STATES   JAPAN   UNITED KINGDOM
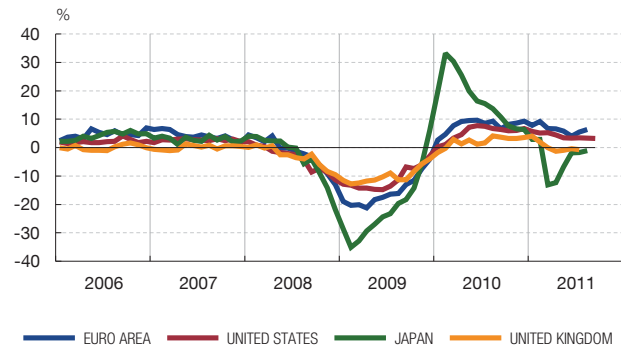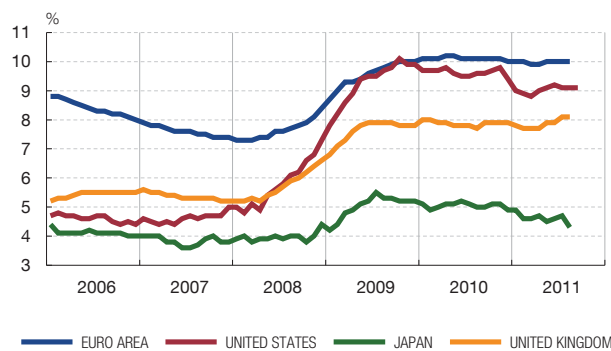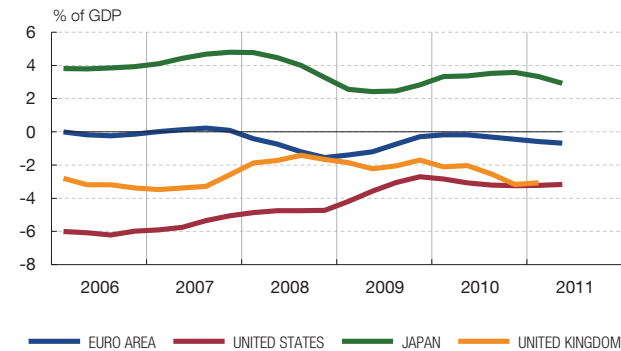
SOURCES: Datastream and Banco de España.

a Percentage of labour force.

measured by the CPI, increased uninterruptedly and reached 3.9% year-on-year in September, while underlying inflation stood at 2%. In this setting of economic and financial fragility, the Federal Reserve strengthened its expansionary monetary policy stance by committing itself to holding interest rates at the current low levels until mid-2013 and by adopting, in September, a strategy of re-weighting its government debt portfolio towards longer maturities (the so-called "Operation Twist"). Also, it decided to reinvest the mortgage-backed securities (MBS) on its balance sheet in that same type of assets to sustain the real estate market. In the fiscal area, the White House proposed a new $447 billion support plan focused on employment, the approval of which is uncertain.

In Japan, GDP contracted in Q2 by -0.5% quarter-on-quarter (-1.1% year-on-year), mainly due to the negative contribution of external demand. The first indicators of Q3 pointed to a rapid recovery underpinned by the normalisation of production lines and an improvement in household and corporate sentiment. However, that initial spurt has lost momentum recently: manufacturing activity slowed in the summer due to energy restrictions, and the PMI index points to a fall in September due to the slackening world demand and the appreciation of the yen. Consumption weakened in August as a result of the end of the temporary support measures. On the external front, the trade balance was in deficit during the quarter, since the strength of imports amply offset the recovery of exports. In the labour market, the unemployment rate fell by 0.4 pp in August to 4.3%, although employment decreased for the second month running. The inflation rate was 0.2% in that month,

CONSUMER PRICES
Year-on-year rate of change

EURO AREA   UNITED STATES   JAPAN   UNITED KINGDOM
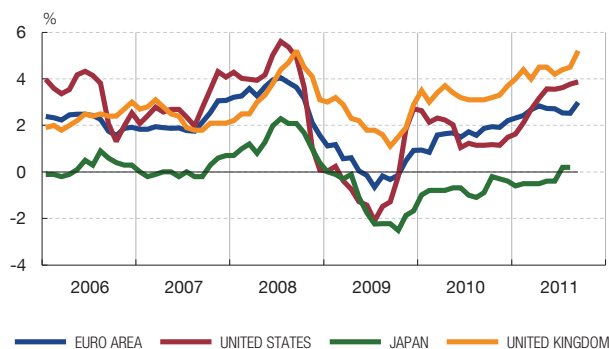
CPI-BASED REAL EFFECTIVE EXCHANGE RATES
VIS-À-VIS DEVELOPED COUNTRIES

EURO   DOLLAR   YEN   STERLING

SHORT-TERM INTEREST RATES (a)

EURO AREA   UNITED STATES   JAPAN   UNITED KINGDOM

LONG-TERM INTEREST RATES (b)

EURO AREA   UNITED STATES   JAPAN   UNITED KINGDOM
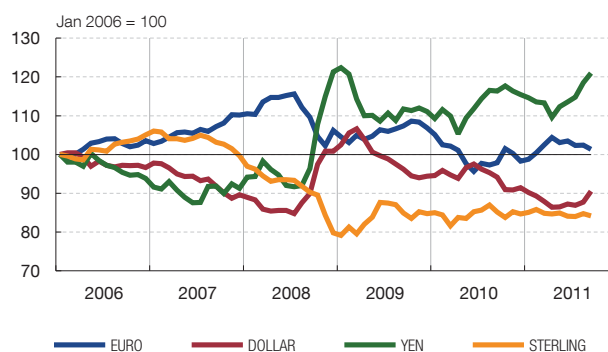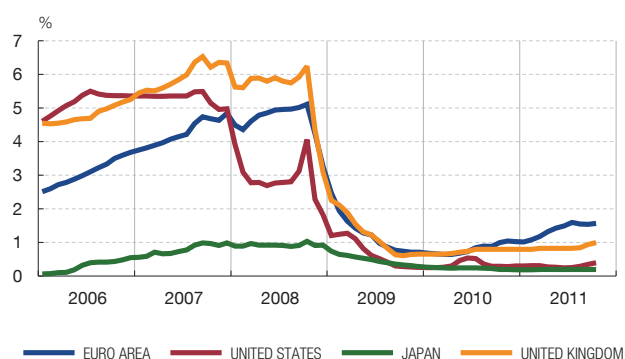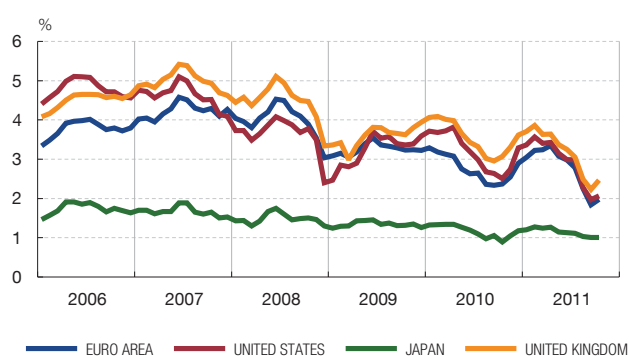
SOURCE: Datastream and Banco de España.

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

although underlying inflation remained negative. Against this background, the Bank of Japan held its official interest rate in the range 0-0.1% and extended its asset purchase programme. Finally, the government prepared a third supplementary budget of 12 trillion yen (2.5% of GDP) to finance reconstruction costs.

In the United Kingdom, GDP grew by 0.1% quarter-on-quarter (0.6% year-on-year) in Q2, fuelled by government consumption and investment, while private consumption and external demand contributed negatively to growth against a background of across-the-board falls in trade flows. The recent indicators point to a further weakening of activity in Q3, particularly in the manufacturing sector, which was prejudiced by the fall in export orders. Moreover, the labour market showed signs of weakness: the loss of vigour of private-sector employment between June and August meant that it was not possible to offset the public-sector job cuts, so the unemployment rate rose to 8.1%, the highest since 1996. Retail sale figures point to a fresh fall in private consumption, in line with the low level of confidence of households and their loss of purchasing power, against a backdrop of high inflaction. Thus the recent increase in the price of household energy supply services pushed inflation up to 5.2% in September, although the core rate remained at 3.3%. The ongoing deterioration in economic and financial conditions led the Bank of England to reactivate its quantitative expansion strategy, despite the high inflation; its October meeting approved new government debt purchases for €75 billion, to be completed in February 2012.

GROSS DOMESTIC PRODUCT
Year-on-year rate

%

LATIN AMERICA (b)
OTHER ASIAN ECONOMIES (c)
NEW EU MEMBER STATES (d)
CHINA
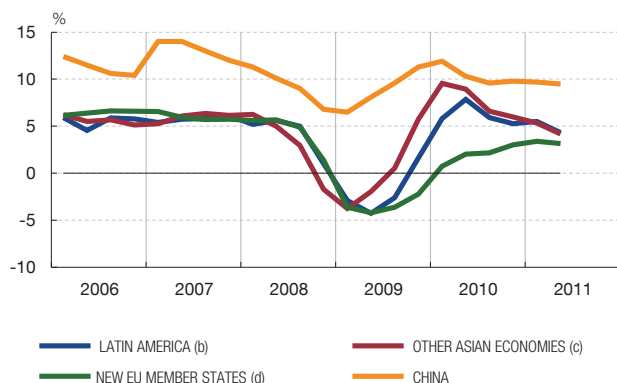
INTEREST RATE SPREADS OVER THE DOLLAR (e)

bp

LATIN AMERICA (EMBI +)
OTHER ASIAN ECONOMIES (EMBI Global)
NEW EU MEMBER STATES (EMBI Global)

CONSUMER PRICES
Year-on-year rate

%

LATIN AMERICA (b)
OTHER ASIAN ECONOMIES (c)
NEW NON-EURO AREA EU MEMBER STATES (d)
CHINA

CURRENT ACCOUNT BALANCE

% of GDP

LATIN AMERICA (b)
OTHER ASIAN ECONOMIES (c)
NEW NON-EURO AREA EU MEMBER STATES (d)
CHINA (f)
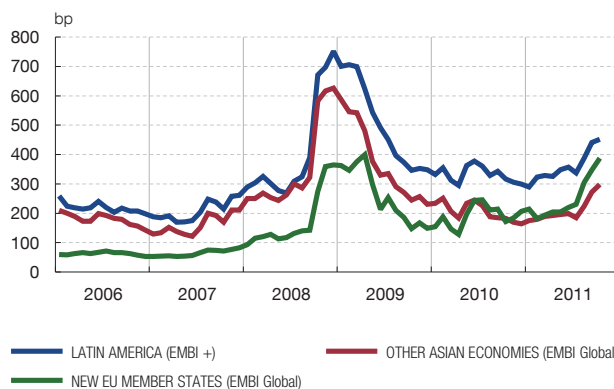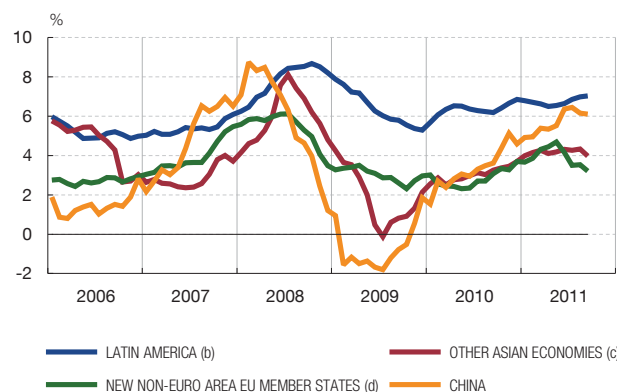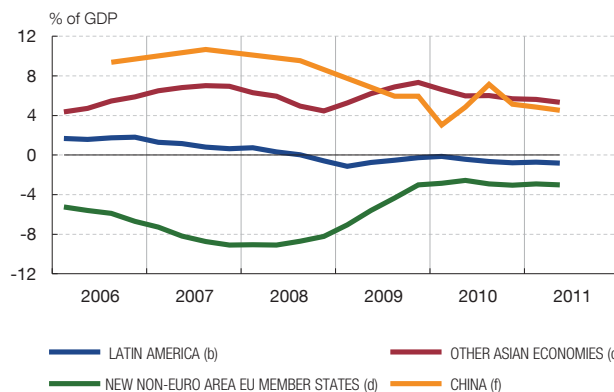
SOURCES: Datastream, Banco de España, IMF and JP Morgan.

a   The aggregate of the different areas has been calculated using the weight of the countries that make up these areas in the world economy, drawing on IMF
     information.
b   Argentina, Brazil, Chile, Mexico, Colombia, Venezuela and Peru.
c   Malaysia, Korea, Indonesia, Thailand, Hong Kong, Singapore, Philippines and Taiwan.
d   Poland, Hungary, Czech Republic, Slovak Republic, Latvia, Lithuania, Bulgaria and Romania.
e   JP Morgan EMBI spreads. Latin America includes Argentina, Brazil, Colombia, Ecuador, Mexico, Panama, Peru and Venezuela. Asia includes China, Indonesia,
     Irak, Kazajistan, Malaysia, Pakistan, Philippines, Sri Lanka and Vietnam. The data on the new EU Member States relate to Hungary and Poland.
f   Annual data until 2009.

The dynamism of the exports and industrial production of the new EU Member States
not belonging to the euro area moderated in Q3. Furthermore, there were no signs of
recovery of domestic demand in most countries, given the fragility of the labour market
and the commitment to fiscal consolidation. Throughout the quarter, inflation fell practi-
cally across-the-board due to smaller food price rises, leaving the aggregate inflation
rate at 3.3% year-on-year in September. The heightened uncertainty as to whether the
recovery will continue, along with a foreseeable period of more moderate inflation,
meant that official interest rates were held unchanged. In the financial sphere, mention
should be made of the law passed by the Hungarian Parliament in mid-September,
which allows early repayment of mortgages in foreign currency at an exchange rate well
below the market rate, with banks bearing the losses arising from exchange differences.
It is estimated that 20% of these mortgages will be settled, so total bank losses would
be around 0.6% of GDP.

In China, GDP was up by 9.1% year-on-year in Q3 (9.5% in the previous quarter), the lowest rate in two years. The outlook is uncertain, owing both to the weak external demand and, above all, to domestic factors (decrease in bank credit quality and doubts about the sustainability of real estate asset prices), although the baseline scenario continues to be one of mild slowdown. Also, although inflation moderated to 6.1% in September, it continues to be well above the target (4%). In this line, the central bank tightened its monetary policy in July, raising the official rate by 25 bp and the bank reserve ratio by 50 bp, although, in the current climate of uncertainty, fresh restraints are not expected. In the rest of emerging Asia, industrial production slowed appreciably in most countries in Q3 and the strong export growth rate moderated, pointing to an additional slowdown in activity. The inflationary pressures persisted due to higher food and energy prices. Despite this, official interest rates were only raised in two countries (Thailand and India, by 25 bp), while in the others they were held steady due to the fear of a fresh slowdown in the advanced economies, and in Indonesia they were even cut by 25 bp in October.

In Latin America the higher frequency indicators point to a moderate slowdown in activity in nearly all countries in Q3. Growth forecasts for the coming quarters were revised downward as the external environment worsened. Inflation rose by 0.4 pp in the quarter to 7% in September. Among the economies with inflation targets, the inflation rate exceeded the upper limit of the target range in Brazil and Peru, although inflation expectations remain anchored. Against this backdrop, the central bank of Brazil cut rates by 50 bp in each of its meetings in August and October, leaving the official interest rate at 11.5%. The central banks of Chile, Mexico and Peru indicate they may cut rates in their coming meetings, depending on international developments. Argentina, Brazil and Peru sold dollars in the foreign exchange markets to ease the downward pressure on their currencies in the second half of September, while Colombia did not renew its programme of daily dollar purchases and announced that it would hold auctions in the spot market if the exchange rate fluctuates by more than 2% from the average in the previous ten days. Finally, Argentina held presidential and legislative elections, in which the current president was re-elected.

3 THE EURO AREA AND THE MONETARY POLICY OF THE EUROPEAN CENTRAL BANK

In the third quarter, the euro area sovereign debt crisis entered a new phase, characterised by the heightening and spreading of tensions across financial markets. During this period, the problems were not confined to countries under financial assistance programmes, whose sovereign differentials continued to widen; in August, they also affected larger economies, such as Spain and Italy, and in September, Belgium and France, although to a lesser extent. Also, the tensions spread to other markets, with particularly severe effects on the European banking system, which was exposed to the debt of the countries in difficulty. Thus, the cost of borrowing for banks rose above the levels reached in 2009, and it became more difficult for them to obtain funds on the money markets. All this led to a significant decline in confidence indicators and a tightening of agents' financing conditions, in an adverse domestic and international macroeconomic setting (see Box 2).

Against this background of financial instability, the latest information available points to very modest activity growth during the summer months, following the rise that occurred in the first half of the year. This weakening of economic indicators, along with the smaller impetus from the external sector, the impact on domestic demand of fiscal consolidation measures and the implications of a resurgence of financial tensions, has led international organisations and private analysts to revise their medium-term economic projections downwards. In addition, they consider that this scenario is subject to a high degree of uncertainty, with a predominance of downside risks, largely relating to the situation of instability on the financial markets, both in the euro area and at the global level.

The absence of inflationary pressures over the relevant horizon for monetary policy led the ECB Governing Council to hold interest rates unchanged at its August, September and October meetings. However, the impact of the financial turmoil on the functioning of certain markets prompted the ECB Governing Council to revive certain non-standard measures to ensure an adequate amount of liquidity and to help restore the correct transmission of monetary policy. Notable in this respect were the reactivation of the securities market programme and operations to boost the provision of liquidity in dollars (in coordination with other central banks), and in euro, in the latter case through supplementary longer-term refinancing operations.

The summit of euro area Heads of State and Government held at the end of October constituted a significant step in the design of a sufficiently global strategy to regain and strengthen financial stability in the area. Although certain details have still to be resolved, the agreement addresses the main weaknesses detected and takes the form of ambitious action in four areas. First, a new financial assistance programme for Greece, which increases private sector participation and which must ensure that the country's finances return to a situation of sustainability, with a public debt ratio of around 120% of GDP in 2020. Second, the maximisation of efficiency in the use of the funds available from the European Financial Stability Facility (EFSF), which will permit an increase of up to five times in its capacity to act, thereby making it an effective mechanism to halt contagion. For this purpose two leveraging options are envisaged. These would not be mutually exclusive and their details are to be specified next month: the first consists in granting insurance or a partial guarantee for new issues of sovereign bonds by Member States in difficulty; and the second involves the creation of a special purpose vehicle specifically to attract investment from private and public financial institutions. In addition, cooperation

During the summer the euro area sovereign debt crisis entered a new phase of heightened tensions. These spread beyond the three countries under programmes, to have a severe impact on larger countries, such as Italy and Spain, and to a lesser extent, Belgium and France. Sovereign debt spreads reached record highs since the creation of the single currency, of close to 400 bp in the cases of Italian and Spanish bonds (see Panel 1).

The turmoil had a singular effect on the European banking system, which was highly exposed to the debt of the beleaguered countries. Thus, banks saw their credit risk premia exceed the levels reached in the wake of the collapse of Lehman Brothers (see Panel 2), while the difficulty obtaining funds on the money and wholesale funding markets (particularly in dollars) increased. As in past episodes, the tension was reflected in an increase in the spreads

1 TEN-YEAR SOVEREIGN SPREADS. DAILY DATA
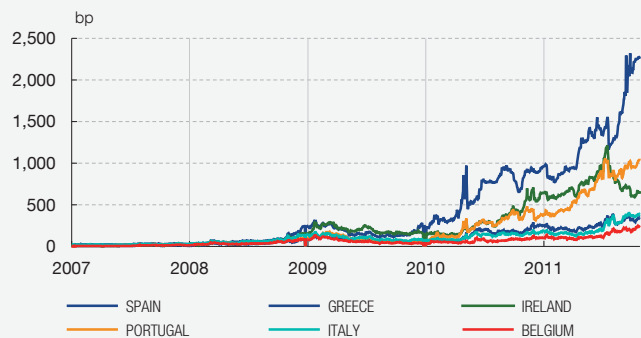
2 FIVE-YEAR TERM ITRAXX INDICES FOR EUROPE (a)

3 EURIBOR-REPO SPREAD

4 USE OF THE ECB's DEPOSIT FACILITY
Average of 30 calendar years

5 GROSS DEBT ISSUANCE BY THE FINANCIAL SECTOR IN THE EURO AREA (b)
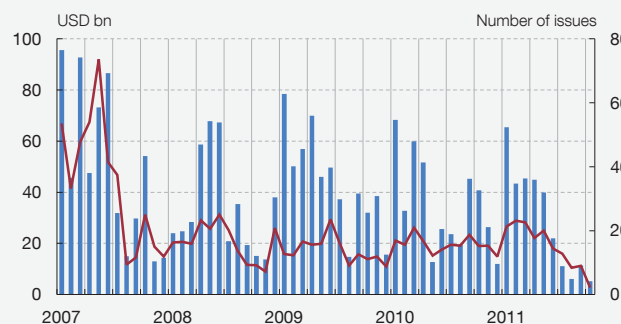
6 BROAD EURO STOXX AND BANKING SECTOR

SOURCE: ECB, Dealogic, Eurosystem, IMF, Markit Economics and Banco de España.

a Traded index of basket of CDS for debt issued by 25 financial institutions.
b Gross issuance of medium and long-term bonds. Covered bonds are not included.

between rates on secured and unsecured deposits (see Panel 3) and an increase in the recourse to Eurosystem financing, which coexists with heavy use of the ECB's deposit facility (see Panel 4). Meanwhile, bank debt issuance clearly declined and institutions that succeeded in issuing debt did so at high rates, while banks based in countries under programmes have had virtually no access to financing on this market since July (see Panel 5).

The financial instability also spread to stock markets (see Panel 6), which, against a background of very high volatility, suffered significant falls. Thus, both the broad EURO STOXX index and the selective EURO STOXX index stood, at the end of October, at comparable levels to those prevailing at the end of 2008, and the losses in 2011 have exceeded 20% in both cases. Bank stocks fell even further, so that the EURO STOXX banking sector index was 39% lower at the end of October than at the beginning of 2011.

The impact on key elements of the monetary policy transmission mechanism required intervention at the beginning of August by the ECB, which reactivated its programme of sovereign debt purchases on the secondary markets. The ECB Governing Council also decided to step up the provision of liquidity in dollars (in coordina-

tion with other central banks) and in euro, in the latter case through the conduct of supplementary longer-term refinancing operations, using the fixed-rate full allotment tender procedure. In addition, a new covered bond purchase programme was launched.

In short, the behaviour of financial stress indicators in Q3 illustrates the systemic nature and gravity of the crisis affecting the euro area. The deterioration of the situation in Greece, the slow implementation of the agreements reached at the European summit of 21 July and market doubts regarding the sufficiency of the countries' financial commitments have exacerbated risk aversion and volatility, affecting agents' confidence at a particularly complicated time, when the process of economic recovery has lost momentum and most governments lack leeway to adopt aggregate demand stimulation policies. It is therefore essential at this juncture that the necessary mechanisms be put in place to permit the risk of a perverse dynamic of negative feedback between sovereign risk, banking risk and loss of economic momentum to be minimised. In this respect, the summit of Heads of State and Government at the end of October set out a global strategy to ensure the financial stability of the area, which attempts to address the weaknesses revealed during the crisis (see the introduction).

with the IMF will be strengthened to boost the financial capacity of the facility. Third, a plan has been established to restore confidence in the banking sector through, on one hand, a programme of guarantees coordinated at the EU level to facilitate the sector's funding and, on the other, recapitalisation of the main banks which will be required to meet a tier 1 capital ratio of 9% by the end of June 2012. Finally, the governments renewed their commitment to continue adopting the measures needed to ensure the sustainability of their public finances and to promote economic growth, while respecting the approved fiscal objectives and accelerating structural reforms.

The Heads of State and Government also agreed further steps in the process of governance reform and euro area integration to promote the economic convergence necessary in a monetary union. The countries of the area noted that the recent approval of the governance reform initiated in 2010 has been an important step in addressing some of the weaknesses detected in the euro area's institutional framework (see Box 3). However, a definitive solution requires more decisive progress towards economic integration, which could require limited reform of the EU Treaty. Accordingly, the Heads of State and Government have charged the president of the Council, in collaboration with the presidents of the European Commission and of the Eurogroup, with studying new initiatives for further progress, in time for the December meeting, and with issuing a report by the end of March 2012.

3.1 Economic developments

On the third national accounts estimate for 2011 Q2, euro area GDP increased by 0.2% quarter-on-quarter, down 0.6 pp from Q1 (see Table 1). The slowdown in output largely reflected the decline in consumption and in construction investment and other investment, while investment in capital goods and external demand performed favourably (see Chart

	2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NATIONAL ACCOUNTS (quarter-on-quarter growth, unless otherwise indicated)								
GDP	0.3	0.9	0.4	0.3	0.8	0.2		
Private consumption	0.4	0.2	0.3	0.3	0.2	-0.2		
Government consumption	-0.4	0.2	0.0	0.0	0.4	-0.1		
GFCF	-0.7	2.2	0.0	-0.2	1.8	0.1		
Imports	3.8	3.9	1.5	1.1	1.6	0.2		
Exports	3.0	4.2	1.8	1.2	1.4	0.7		
Contributions to quarter-on-quarter change in GDP (pp)								
Domestic demand, excluding stocks	0.0	0.6	0.2	0.1	0.5	-0.1		
Stockbuilding	0.6	0.2	0.1	0.1	0.3	0.1		
Net foreign demand	-0.2	0.2	0.2	0.2	0.0	0.3		
GDP (year-on-year rate of change)	0.9	2.1	2.1	1.9	2.4	1.6		
ACTIVITY INDICATORS (quarterly average)								
IPI seasonally and working-day adjusted	2.7	2.7	0.8	1.7	1.1	0.6	1.5	
Economic sentiment	96.4	99.2	102.3	105.7	107.4	105.7	98.8	
Composite PMI	54.4	56.6	55.7	54.9	57.6	55.6	50.3	47.2
Employment	0.0	0.1	0.0	0.1	0.1	0.3		
Unemployment rate	10.1	10.2	10.2	10.1	10.0	10.0	10.0	
PRICE INDICATORS (year-on-year change in end-period data)								
HICP	1.6	1.5	1.9	2.2	2.7	2.7	3.0	
PPI	0.9	3.1	4.3	5.4	6.8	5.9	5.8	
Oil price (USD value)	78.8	75.0	78.4	92.3	115.4	114.9	114.8	110.8
FINANCIAL INDICATORS (end-period data)								
Euro area ten-year bond yield	4.0	3.7	3.5	4.1	4.6	4.4	4.0	4.3
US-euro area ten-year bond spread	-0.1	-0.7	-1.01	-0.78	-1.14	-1.30	-2.06	-2.08
Dollar/euro exchange rate	1.348	1.227	1.365	1.336	1.421	1.445	1.350	1.393
Appreciation/depreciation of the NEER-20 (b)	-4.5	-10.3	-6.3	-8.2	3.5	3.9	0.7	1.9
Dow Jones EURO STOXX 50 index (b)	-1.2	-13.2	-7.4	-5.8	4.2	2.0	-22.0	-16.4

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

a Information to 26 October 2011.
b Percentage change in year to date.

8). Thus, the negative contribution of domestic demand to the change in GDP (-0.1 pp) was offset by the contribution of external demand, which reached 0.3 pp, as a consequence of a sharper slowdown in imports than in exports. For its part, stockbuilding added 0.1 pp to GDP growth. The sector breakdown shows a significant slowdown in the value added of industry and construction, while that of non-market services continued to grow at the same rate. Year-on-year, the seasonally adjusted rate of change of GDP stood at 1.6%, as against 2.4% in the preceding quarter.

By country, the sharp deceleration in GDP in Q2 in Germany and in France, by 1.2 pp and 0.9 pp, respectively, to practically zero growth rates in both cases, was notable. This behaviour was a result of the same factors mentioned above for the euro area, although Germany recorded a negative contribution from external demand and a larger positive contribution from stockbuilding. In Italy, output grew by 0.3%, up 0.2 pp on the previous two quarters, thanks to the expansion of gross fixed capital formation and the large positive contribution from the net external balance, as a consequence of the marked contraction in imports.

On 4 October, the EU Council approved five immediately applicable regulations and a directive that must be transposed by the end of 2012. This legislation incorporates the progress agreed by governments and European authorities in relation to governance reform. The process now culminating was initiated in 2010 with the establishment of the so-called "Van Rompuy task force", which agreed on an initial proposal for reform in October 2010. At the end of March 2011 the European Council endorsed the general principles of this proposal, and a process of tripartite negotiations was initiated between the Council, the European Parliament and the European Commission, with the participation of the ECB.

Taken together, the reforms approved entail a strengthening of the Stability and Growth Pact, to increase control over budget policies. More emphasis is placed on instruments of prevention and harsher sanctioning instruments are established for when commitments are not fulfilled. The supervision is also extended to other macroeconomic and structural policies, with the introduction of a new formal procedure for the surveillance of internal and external macroeconomic imbalances. This will attempt to avoid the emergence of imbalances, such as the excessive growth of private indebtedness and divergences in competitiveness, which have been so damaging to the development of the euro area.

In the fiscal sphere, the reform first strengthens the preventive component of the Pact. Along with the need to make progress towards compliance with the medium-term budgetary objective (generally consisting in achieving a structural balance close to zero), there is now a limit on public spending, the growth of which may not exceed GDP growth in the medium-term.

Second, greater relevance is given to the debt criterion throughout the fiscal supervision process. Thus, with regard to prevention, the structural adjustment required in the process of moving towards the medium-term objectives will be greater for those countries with a debt ratio of more than 60% of GDP. As regards the corrective arm, the possibility of initiating an excessive deficit procedure against countries with debt ratios of more than 60% of GDP is increased, even when the deficit is below 3%, with the specification of a numerical benchmark for what is considered "a satisfactory adjustment of debt". In any event, implementation of the debt criterion is still less automatic than that of the deficit one, since a broad range of factors affecting the dynamics of public debt will be taken into consideration when an EDP is initiated on the basis of the debt criterion. The reform also introduces a three year transition period before this criterion will be fully operational.

Third, in order to strengthen compliance with commitments, a set of sanctions has been introduced, which will be applied at an earlier stage of the process, generally by means of a reverse voting procedure, in which the proposals of the European Commission are considered adopted unless the Council decides otherwise within ten days by qualified majority. The revenue obtained from these fines will go to the European Financial Stability Facility.

Finally, the fiscal frameworks directive introduces the requirement to establish multiannual budgetary programmes, to improve the quality and availability of fiscal statistics and an obligation on countries to transfer the fiscal rules and commitments acquired within the euro framework to their respective national legal systems. In the area of statistics, it should be mentioned that the new regulation of the preventive arm also specifies certain requirements to make national statistical institutes more independent, which come on top of the measures approved previously to increase the Eurostat's capacity to audit the figures supplied by national authorities.

The framework for the surveillance of macroeconomic imbalances consists in turn of a preventive arm, the alert mechanism, and a corrective arm, in the form of an excessive imbalance procedure. The alert mechanism is made up of a set of economic, financial and structural indicators, which will be regularly reviewed, in order to take into consideration the changing nature of imbalances. Symmetric quantitative limits are established to detect deviations that may be excessive, but exceeding such limits will not automatically lead to the initiation of a procedure, since the specific circumstances of each economy (e.g. the possible existence of real convergence processes) will be taken into consideration. The corrective arm, meanwhile, establishes an obligation to submit to the Commission and to the Council a plan of action to correct imbalances. The council must decide if this plan is sufficient and establish the deadlines for adopting the measures. In the event of repeated failure to comply with these commitments, the process may terminate in the imposition of a fine.

All in all, this reform may not be sufficiently ambitious to eliminate the cracks in the euro project that have emerged during the crisis. That has been the opinion of the Eurosystem, which has demanded greater automatism in the application of all these procedures, so as to reduce the degree of political interference. It has also demanded less symmetry in the application of the excessive imbalance procedure, considering that a current account surplus does not have the same implications as a deficit. The negotiations in the European Parliament concluded with a compromise that somewhat increases the degree of automatism, with respect to the initial proposal of the Van Rompuy task force, while maintaining the symmetry in the application of the excessive imbalance regulation.

Without a doubt the reforms adopted amount to progress towards greater sharing of responsibility and coordination in the design and surveillance of fiscal and structural policies, which may contribute to avoiding the emergence of imbalances. However, the summit of Heads of State and Government at the end of October emphasised the need to make further progress in economic integration in the euro area to promote the necessary convergence within the union. For this purpose it charged the president of the Council, in collaboration with the presidents of the Commission and of the Eurogroup, with studying new initiatives for further progress, in time for the December meeting, without ruling out the possibility of limited treaty reform, and with issuing a report by the end of March 2012.

OUTPUT AND EMPLOYMENT
Year-on-year growth
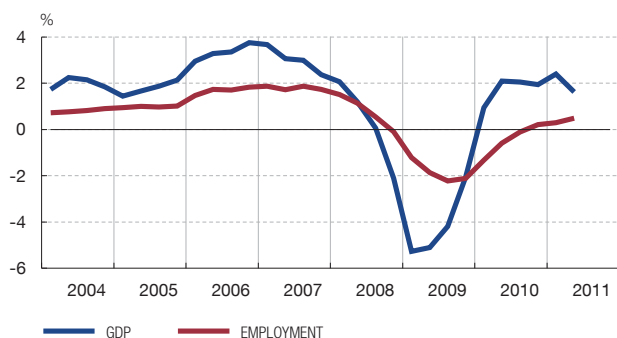
PRIVATE CONSUMPTION AND INVESTMENT
Year-on-year growth
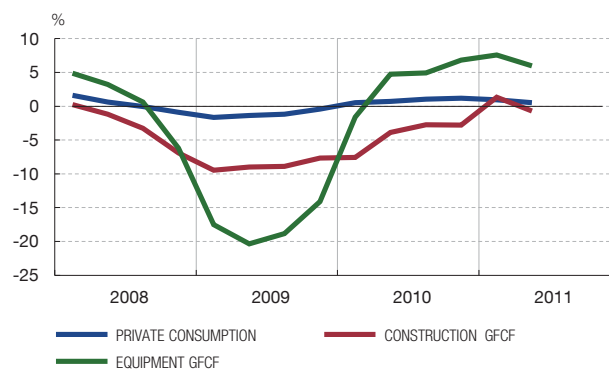
YEAR-ON-YEAR GROWTH RATES OF GDP
2011 Q2
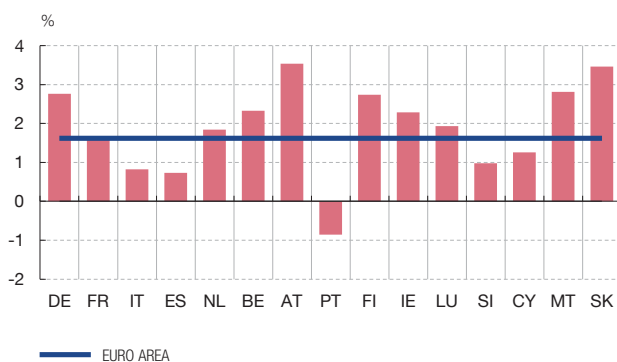
WAGE AND COST INDICATORS
Year-on-year growth
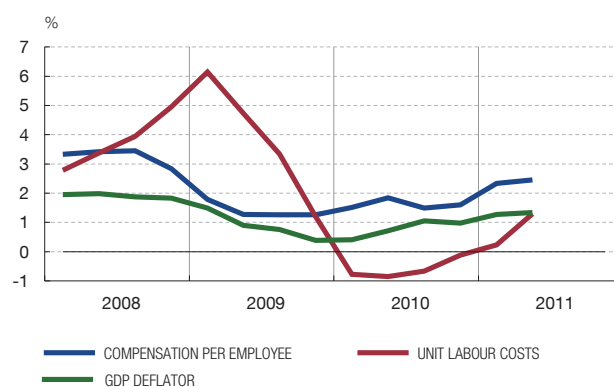
SOURCES: Eurostat and national statistics.

On national accounts data the number of persons employed in the euro area grew by 0.3% in Q2, which increased the year-on-year rate to 0.5%. This behaviour was a result of more buoyant activity in Q1, which tends to be passed through to employment with a certain lag. At the same time, the slowdown in apparent labour productivity in Q2, to 1.1%, and further growth in compensation per employee led to higher growth in unit labour costs. Since the GDP deflator grew at the same rate as unit labour costs, profit margins remained relatively stable (see Chart 8).

The latest conjunctural information generally shows very modest growth in Q3 (see Chart 9). On the supply side, industrial production and order books accelerated between June and August, although this trend should be assessed with caution since these months are charac-terised by a high degree of volatility. For its part, construction output contracted. The confi-dence indicators for the industrial and services sectors compiled by the European Commis-sion and those based on surveys of purchasing managers stood well below their June levels in September and, in practically all cases, below their historical average levels. In the labour market, the rate of unemployment remained unchanged at 10% in Q3, while the survey-based indicators of employment expectations fell between June and September in all sectors.

Demand related indicators are also showing signs of weakness in the second half of the year. In Q3, retail sales were stagnant (on data to August) and new car registrations de-

CHART 9

INDUSTRIAL ACTIVITY INDICATORS

INDUSTRIAL PRODUCTION (a)
EC BUSINESS CONFIDENCE(b) (right-hand scale)
MANUFACTURING PMI (b) (right-hand scale)
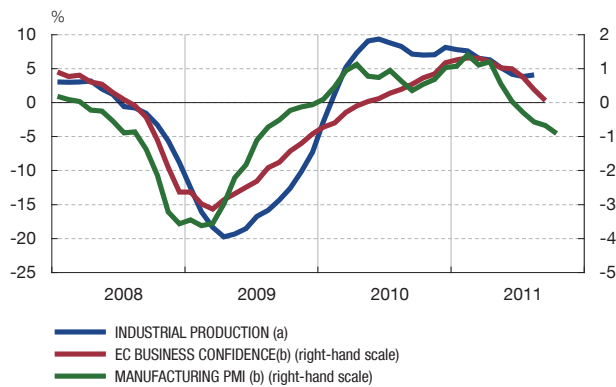
SERVICES SECTOR INDICATORS
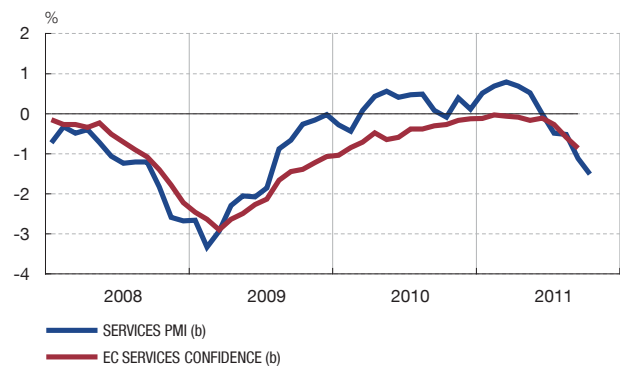
SERVICES PMI (b)
EC SERVICES CONFIDENCE (b)

CONSUMPTION INDICATORS

RETAIL SALES (a)
CONSUMER CONFIDENCE (b) (right-hand scale)

INVESTMENT INDICATORS

CAPACITY UTILISATION (b)
ORDERS (b)
DEMAND FOR CREDIT FOR FIXED INVESTMENT (right-hand scale) (c)

EXPORT INDICATORS

EXPORT EXPECTATIONS (b)
FOREIGN ORDERS (b)
EXTRA-EURO AREA VALUE EXPORTS (right-hand scale) (d)
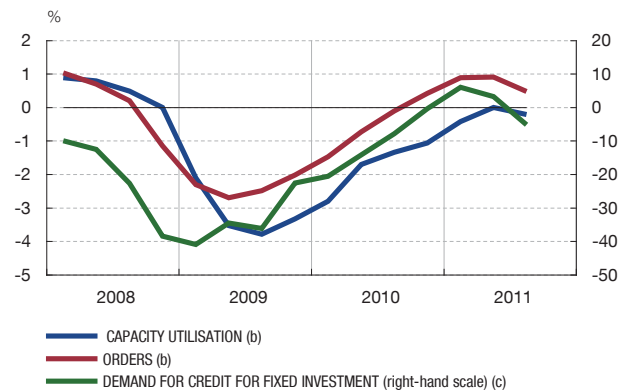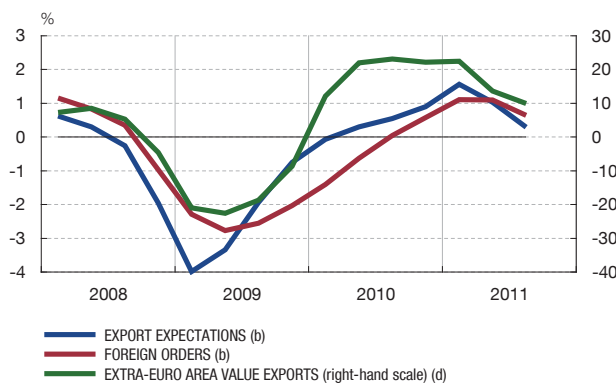
EMPLOYMENT EXPECTATIONS INDICATORS (b)

EC MANUFACTURING   EC SERVICES
EC CONSTRUCTION   COMPOSITE PMI
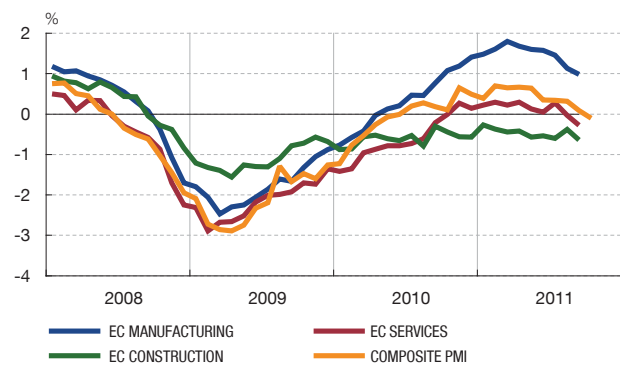
SOURCES: European Commission, Eurostat and Markit Economics.

a Non-centred annual percentage changes, based on the quarterly moving average of the seasonally adjusted series.
b Normalised data.
c Bank Lending Survey. Indicator = percentage of banks reporting a considerable increase + percentage of banks reporting some increase x 0.5 - percentage of banks reporting some decrease x 0.5 - percentage of banks reporting a considerable decrease. A positive value denotes an increase.
d Year-on-year rates of the original series. Quarterly average.

clined, while consumer confidence dropped substantially between July and October, to well below its long-term average levels. With regard to the European commission's indicators of investment in capital goods, capacity utilisation declined in Q3, following two years of improvement, and the assessment of industrial order books fell. On balance of payments data, exports increased in July and August from the previous quarter, although export expectations and the assessment of export order books deteriorated in Q3. Finally, according to the developments in the European Commission's industrial stock level assessment indicator, the contribution of this component to GDP growth may have declined in Q3.

In short, the latest conjunctural information confirms a deterioration in the economic situation over the summer months, following the buoyancy of the first half of the year (see Table 1). Among the factors that, potentially at least, underlie this moderation in growth, it should be recalled that this quarter was characterised by a heightening of tensions on sovereign debt markets, which were passed through to other financial markets and, in particular, to the banking sector, and that this was accompanied by a sharp rise in volatility and uncertainty, as well as a tightening of financing conditions. Also notable were the slowdown in external demand, the increase in commodity prices and the impact of fiscal consolidation measures. For all these reasons international organisations and private analysts have revised downwards their growth outlook for the second half of 2011 and 2012, so that it now involves a prolonged period of slackness. This scenario, moreover, appears to be surrounded by a high degree of uncertainty, with a predominance of downside risks. Notable among the latter are further intensification of tensions in certain segments of euro area financial markets and at the global level, as well as a more pronounced impact of such tensions on agents' spending decisions (see Box 2).

The annual inflation rate stood at 3% in September, 0.3 pp higher than in June, largely due to transitory factors, such as the end of the sales period, which had a larger impact owing to the methodological change in the treatment of seasonal products introduced at the beginning of the year, rises in indirect taxes in Italy, Greece and Portugal, and the depreciation of the euro. Thus, the energy component contributed to the inflation surge, despite the fact that the dollar price of energy commodities did not change significantly. Core inflation, as measured by the CPI excluding unprocessed food and energy, increased by 0.2 pp, to 2%, mainly due to the rise in the prices of non-energy industrial goods, and in particular to the clothing and footwear-related items, on which the change in the treatment of seasonal products had most impact (see Chart 10). The growth rate of industrial prices moderated during the summer months, to stand at 5.9% in August, with a small rise in energy prices. In the medium term, the risks to inflation are generally considered to be balanced, since although further increases in commodity prices or increases in indirect taxes and administered prices cannot be ruled out, these would only be partially passed through to inflation, owing to the poor activity outlook (see Table 2). Against this background, long-term inflation tensions remain anchored.

According to the information published by the ECB, the euro area current account posted a deficit of €59.4 billion (0.9% of GDP) between January and August 2011, which was somewhat higher than the €38 billion recorded in the same period of the previous year (0.6% of GDP). This worsening was mainly due to the change in sign of the goods balance, which moved into deficit, while the services balance improved. Within the financial account in the same period there was a smaller net capital outflow in the form of direct investment (€38 billion, as against €103 billion in 2010) while net inflows of portfolio investment increased by €105 billion to €299 billion. Thus, the basic balance, which combines

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

CHART 10

HARMONISED INDICES
OF CONSUMER PRICES

OVERALL INDEX
HICP EXCLUDING FOOD AND ENERGY
HICP EXCLUDING UNPROCESED FOOD AND ENERGY
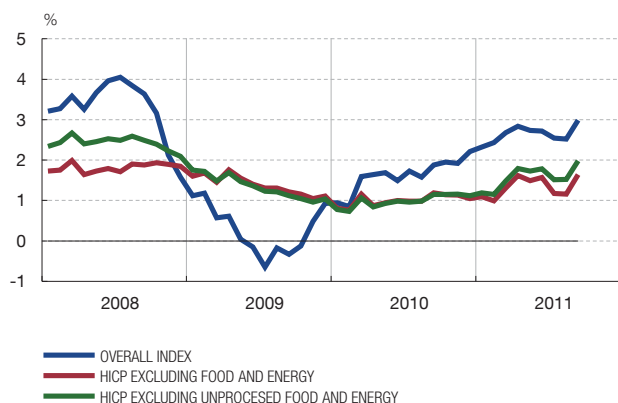
OVERALL HICP
September 2011

EURO AREA

HICP AND ITS COMPONENTS

JUNE 2011   SEPTEMBER 2011

OTHER PRICE INDICATORS

IMPORT UVIs   PRODUCER PRICES (right-hand scale)
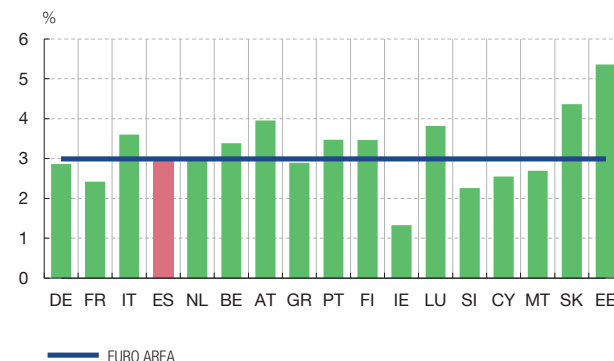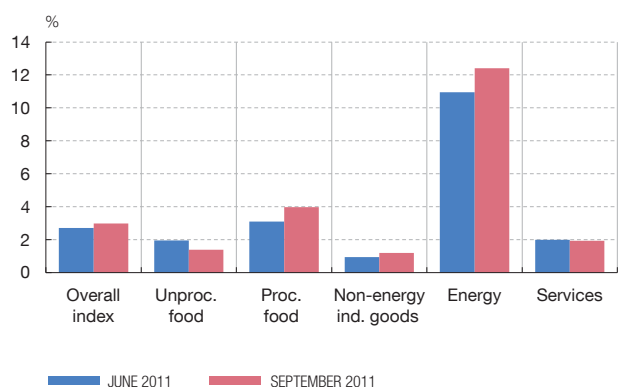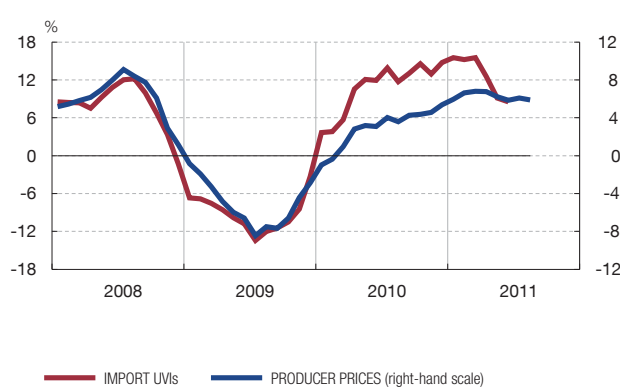
SOURCES: Eurostat and ECB.

GDP AND HICP FORECASTS FOR THE EURO AREA (a)

TABLE 2

	2011		2012	
	GDP	HICP	GDP	HICP
ECB (September 2011)	1.4-1.8	2.5-2.7	0.4-2.2	1.2-2.2
European Commision (May 2011)	1.6	2.6	1.8	1.8
Interim update (September 2011)	1.6	2.5		
IMF (September 2011)	1.6	2.5	1.1	1.5
OECD (May 2011)	2.0	2.6	2.0	1.6
Consensus Forecast (October 2011)	1.6	2.6	0.6	1.8
Eurobarometer (October 2011)	1.6	2.6	0.6	1.7

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

a Year-on-year rate of change.

MONETARY AND CREDIT AGGREGATES
Year-on-year growth

M3 ——— M1 ——— PRIVATE-SECTOR CREDIT
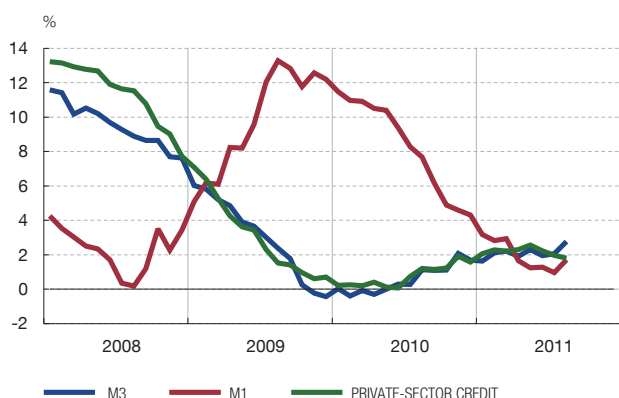
FINANCING OF NON-FINANCIAL CORPORATIONS
Year-on-year growth

MFI LOANS ——— BONDS

FINANCING OF HOUSEHOLDS
Year-on-year growth

TOTAL MFI LOANS ——— CONSUMER
HOUSING

BALANCE OF PAYMENTS
(Cumulative amounts for the last twelve months)

CURRENT ACCOUNT BLANCE (a) ——— DIRECT INVESTMENT (b)
PORTFOLIO INVESTMENT (b) ——— OTHER INVESTMENT (b)
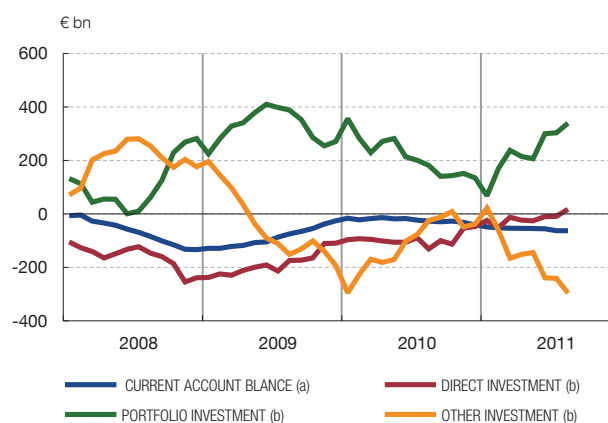
SOURCES: ECB and Banco de España.

a A positive (negative) sign denotes a surplus (deficit) on the current account balance.
b Capital inflows minus outflows. A positive (negative) sign denotes a net capital inflow (outflow).

these two types of investment with the current account balance, moved from deficit (-€47 billion) in the period January-August 2010 into surplus (€202 billion) in the same period in 2011 (see Chart 11).

With regard to fiscal policy, the information available on the budget outturn and government estimates suggest that, in the euro area as a whole, the clear contractionary stance is being maintained in 2011, in line with the European Commission projections of last spring (see Table 3). The impact on the deficit of fiscal consolidation measures introduced in certain countries in recent months has been offset by the effect of automatic stabilisers and the rise in interest payments, which was especially notable in those economies under most pressure in the sovereign debt markets.

At a disaggregated level, public finances in Germany have performed better than expected and the government is currently projecting a deficit of close to 1.5% of GDP, below the reference value of 3% two years before the deadline established by the Council within the framework of the excessive deficit procedure. By contrast, France, in view of less favour-

% of GDP

	2009	2010	2011			2012	
		EDP (b)	EC (d)	IMF (c)	EDP (b)	EC (d)	IMF (c)
Belgium	-5.9	-4.1	-3.7	-3.5	-3.5	-4.1	-3.5
Germany	-3.0	-4.3	-2.0	-1.7	-1.3	-3.3	-1.1
Estonia	-1.7	0.2	-0.6	-0.1	0.2	0.1	-2.1
Ireland	-14.3	-31.3	-10.5	-10.3	-10.0	-8.8	-8.6
Greece	-15.4	-10.6	-9.5	-8.0	-8.6	-9.3	-6.9
Spain	-11.1	-9.3	-6.3	-6.1	-6.0	-5.3	-5.2
France	-7.5	-7.1	-5.8	-5.9	-5.7	-5.3	-4.6
Italy	-5.4	-4.6	-4.0	-4.0	-3.9	-3.2	-2.4
Cyprus	-6.0	-5.3	-5.1	-6.6	-6.5	-4.9	-4.5
Luxembourg	-0.9	-1.1	-1.0	-0.7	-0.6	-1.1	-1.2
Malta	-3.7	-3.6	-3.0	-2.9	-2.8	-3.0	-2.9
Netherlands	-5.5	-5.1	-3.7	-3.8	-4.2	-2.3	-2.8
Austria	-4.1	-4.4	-3.7	-3.5	-3.6	-3.3	-3.2
Portugal	-10.1	-9.8	-5.9	-5.9	-5.9	-4.5	-4.5
Slovenia	-6.0	-5.8	-5.8	-6.2	-5.5	-5.0	-4.7
Slovakia	-8.0	-7.7	-5.1	-4.9	-5.8	-4.6	-3.8
Finland	-2.6	-2.5	-1.0	-1.0	-1.1	-0.7	0.3
MEMORANDUM ITEM: euro area							
Primary balance	-3.5		-1.3	-1.5		-0.4	-0.3
Total balance	-6.3	-6.2	-4.3	-4.1	-4.0	-3.5	-3.1
Public debt	79.3	85.6	87.7	88.6	87.6	88.5	90.0

SOURCES: European Commission, Eurostat and IMF.

a Deficit (–)/surplus (+). The deficits that exceed 3% of GDP have been shaded.
b EDP notification (autumn 2011).
c IMF forecasts (September 2011).
d European Commission forecasts (spring 2011).

able growth prospects, decided to adopt additional fiscal adjustment measures for 2011 and 2012 (amounting to approximately 0.5% of GDP), involving an increase in excise duties and taxes on companies, real estate and top incomes. Italy also introduced a set of measures in mid-September with the aim of achieving budget balance by the end of 2013, thus bringing forward one year the initial objective of 2014. Most of the adjustment comes from greater tax revenues and only around one third stems from primary expenditure. Among the measures to be applied immediately in 2011, the increase in VAT and excise duties was notable, while a reform of the tax system and health will be applied in 2012, the effects of which on the accounts are subject to a high degree of uncertainty. At the summit at the end of October it strengthened its commitment, presenting additional measures to improve competitiveness and liberalise the economy that are yet to be implemented.

As for the three euro area countries under financial assistance programmes, the new Portuguese government acted rapidly to introduce various adjustment measures to cover budget deviations that have arisen in certain regions and the risks that the worsening of the economic situation may have generated. Specifically, a temporary increase in personal and corporate income taxes, an increase in VAT on gas and electricity consumption and the transfer of pension funds from private banks to the Social Security system were approved. For the following years (2012-15), wage moderation, public sector employment

reductions and a privatisation plan are envisaged. No additional fiscal measures were approved in Ireland, but, as in the case of Portugal, it received a positive assessment from the Troika (IMF, EC and ECB) in the respective quarterly reviews of the conditionality inherent in the financial assistance programmes.

In Greece, by contrast, the intensity of the economic recession (which led to a decline of 3.4% in public revenues in cash terms to August, as against the target 5.6% annual increase) and the delay in the effective implementation of some of the more structural measures approved, such as privatisations and the reduction in public-sector employment, led the government to acknowledge the impossibility of complying with its 2011 budget commitments. In order to correct these deviations, the Greek government presented at the end of September another set of fiscal adjustment proposals, which was subsequently expanded, in addition to the consolidation measures contained in the so-called "medium-term fiscal strategy". These measures comprised an increase in VAT on certain items, such as restaurants (from 13% to 23%), the introduction of a solidarity tax on all citizens and an extraordinary tax on the owners of high-value housing, in addition to a further reduction in public-sector wages, cuts in certain pension brackets and a new structural reform and privatisation plan. In mid-October the Troika reported favourably on the extension of the sixth tranche of aid under the assistance plan agreed in May 2010. Also, the summit of Heads of State and Government made progress in establishing the details of the second financial assistance programme, which consists of the contribution of a further €100 billion of official financing and an expansion of the private-sector participation agreed on 1 July, in an attempt to bring Greek public debt down to 120% of GDP in 2012.

As a whole, the implementation of additional fiscal consolidation measures in certain countries has slowed the deterioration that was taking place in euro area public finances, although there is still much uncertainty regarding the impact on public finances of the deterioration in the macroeconomic scenario and of the ultimate effects of these measures. In this respect, countries that have seen a larger deterioration in their public finances in the past or that have high levels of debt must continue to press ahead with consolidation in their budgets for 2012, which are still in preparation, adopting a well specified and credible strategy that puts greater emphasis on cutting expenditure. Countries that have posted a less adverse economic performance and that have healthier public finances have greater leeway to establish counter-cyclical fiscal policies against a background of global economic deterioration.

3.2 Monetary and financial developments

The financial turmoil subsided slightly following the agreement at the summit of the euro area Heads of State and Government on 21 July, which approved Greece's second bail-out programme and greater flexibility for the European Financial Stability Facility, but flared up again at the beginning of August. Among other factors, this renewed outbreak was a result of the deterioration of the situation in Greece, slow implementation of the agreements of 21 July and doubts regarding the sufficiency of the financial commitments assumed by the governments. All this affected agents' confidence at a particularly complicated time, just as the economic recovery was losing momentum and when the leeway to adopt expansionary demand policies was for most governments very limited (such leeway is indeed still very limited). Thus, the euro area sovereign debt crisis spread beyond the countries under programmes, to affect larger economies, such as Italy and Spain (and even France), causing the banking system's financing conditions to deteriorate (see Box 2).

Given the absence of significant inflationary pressures and the fact that medium-term inflation expectations were at levels compatible with the objective of price stability, the ECB

EURO AREA INTEREST RATES

CHART 12

EONIA AND ECB INTEREST RATES

- MINIMUM BID RATE IN MROs
- MARGINAL LENDING FACILITY
- DEPOSIT FACILITY
- EONIA
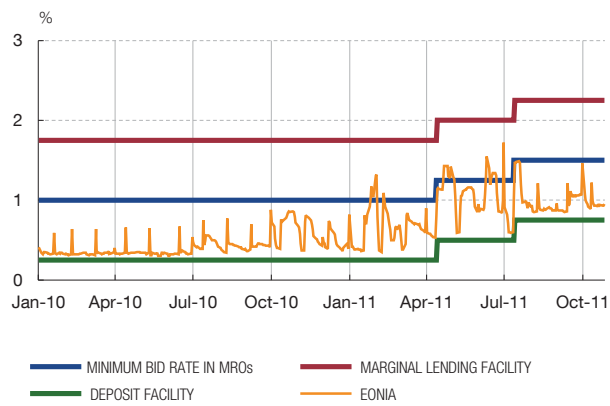
EXPECTED END-QUARTER ECB RATE. REUTERS SURVEYS
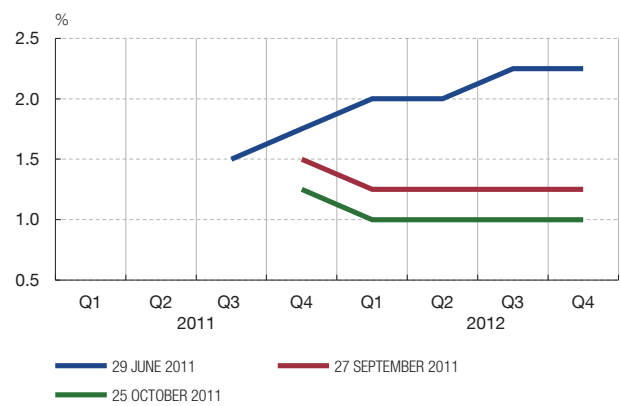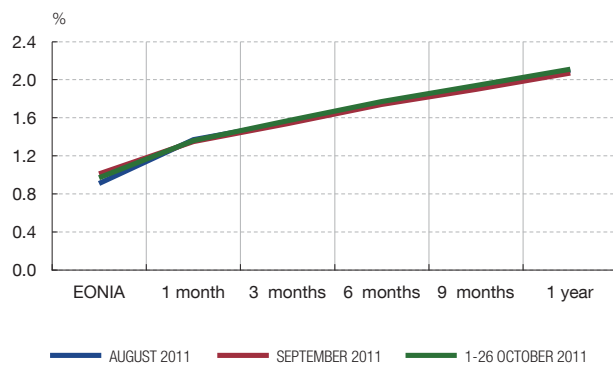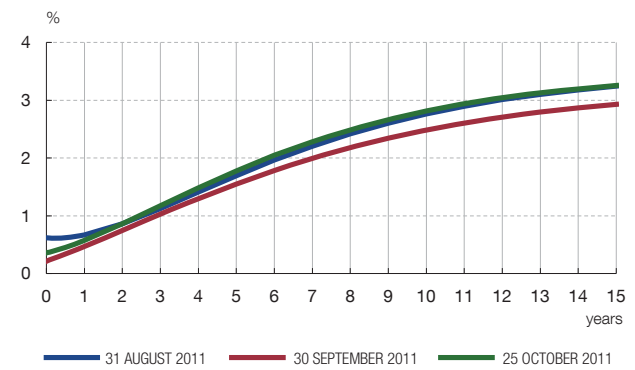
- 29 JUNE 2011
- 27 SEPTEMBER 2011
- 25 OCTOBER 2011

INTERBANK MARKET

- AUGUST 2011
- SEPTEMBER 2011
- 1-26 OCTOBER 2011

ZERO COUPON CURVE (a)

- 31 AUGUST 2011
- 30 SEPTEMBER 2011
- 25 OCTOBER 2011

SOVEREIGN SPREADS OVER GERMANY

- FRANCE
- ITALY
- SPAIN
- NETHERLANDS
- BELGIUM

SOVEREIGN SPREADS OVER GERMANY

- AUSTRIA
- GREECE
- PORTUGAL
- FINLAND
- IRELAND
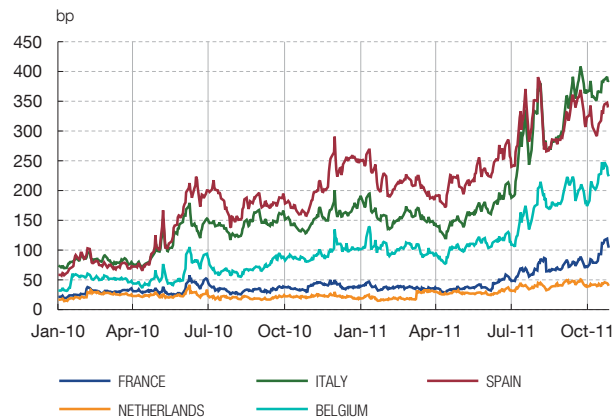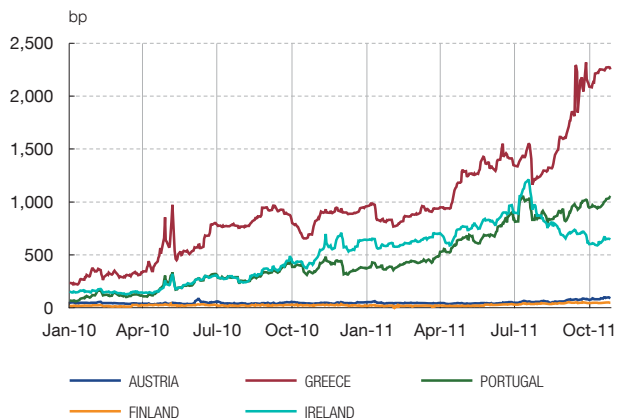
SOURCES: ECB and Banco de España.

a ECB estimate using swap market data.

Governing Council decided at its August, September and October meetings to leave its official interest rates unchanged at 1.5% for main refinancing operations and at 2.25% and 0.75%, respectively, for the credit and deposit facilities (see Chart 12). However, the impact of the financial turmoil on the functioning of certain markets led the ECB Governing Council to revive certain non-standard measures in order to ensure an adequate level of liquidity. Thus, in August, the Governing Council re-activated the Securities Market Pro-

CHART 13

EURIBOR AND BANK INTEREST RATES (a)
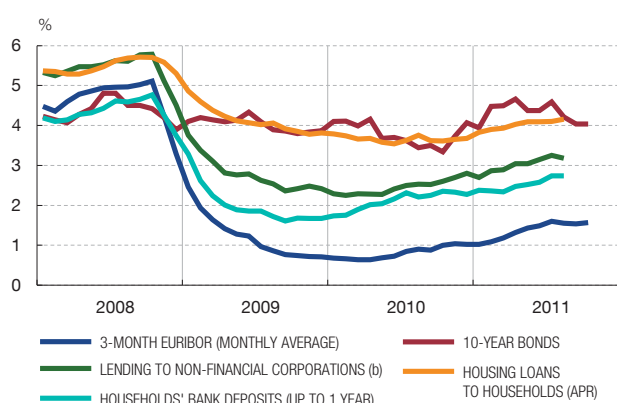
CORPORATE BOND YIELD SPREADS OVER SWAP ASSETS

3-MONTH EURIBOR (MONTHLY AVERAGE)
LENDING TO NON-FINANCIAL CORPORATIONS (b)
HOUSEHOLDS' BANK DEPOSITS (UP TO 1 YEAR)
10-YEAR BONDS
HOUSING LOANS TO HOUSEHOLDS (APR)

INDUSTRIALS
FINANCIALS

EURO STOXX 50 INDEX AND VOLATILITY

NOMINAL EXCHANGE RATES OF THE EURO

EURO STOXX
IMPLIED VOLATILITY (right-hand scale)

NOMINAL EFFECTIVE EXCHANGE RATE AGAINST DEVELOPED COUNTRIES
DOLLAR (right-hand scale)

SOURCES: ECB and Banco de España.

a   On new business.
b   Floating interest rates and up to 1 year initial rate fixation.

gramme, stepped up the provision of dollar liquidity (in coordination with other central banks) and conducted a supplementary six-month refinancing operation in euro. In addition, use of the fixed-rate full-allotment tender procedure for all operations was extended in August and again in October, to mid-2012. Also in October, two more supplementary refinancing operations, with maturities of 12 and 13 months, to be conducted in October and December, respectively, and a new €40 billion covered bond purchase programme, to be executed between November 2011 and October 2012, were announced. Finally, the Governing Council highlighted the interaction between the problems arising from the deterioration of sovereign risk and the situation of the banking sector, emphasising the need for the banks to strengthen their balance sheets and recapitalise. Where necessary, the banks may obtain financing from governments in order to do so, and the latter, following the reform approved in July, will be able to obtain loans for such purpose from the European Financial Stability Facility.

Interbank market interest rates were relatively stable between July and September (see Chart 13). EONIA and three-month and one-year EURIBOR stood, respectively, at around 0.9%, 1.6% and 2.1% in October. By contrast, the repo rate declined, probably reflecting expectations of future cuts in official interest rates, which were not passed through to EU-

RIBOR owing to the renewed outbreak of financial tensions. The spread between the repo rate and EURIBOR therefore widened sharply, to 158 bp at the end of September, although it has narrowed slightly in October. In the public debt markets the interest rate on the German bund continued to decline, to stand below 1.7% in September (although it has increased since), owing to the perception of this asset as a safe haven, while other countries were affected to a greater or lesser extent by the turmoil. Among those countries under an assistance programme, from July Greece experienced the largest increase in the spread on its sovereign bonds over the 10-year German bund (more than 900 bp), which reached more than 2,200 bp in October, while the Portuguese spread rose by 197 bp and the Irish one fell significantly (by 257 bp). In Spain and in Italy the spread continued to widen, although the latter did so more sharply, so that the Italian spread exceeded the Spanish one for the first time since the start of the tension (see Chart 12). Belgium and France also saw their spreads increase, by 110 bp and 54 bp, respectively, over this period. Finally, from the beginning of August the interest rate on US debt fell by more than that on German debt, so that the positive differential between these two countries has practically disappeared.

In relation to financing of the private sector, the amount of debt issued by non-financial firms increased again in July, albeit still at a moderate rate, of 4.8% year-on-year. There was no significant change in the growth rate of bank loans to companies and households during the quarter, the year-on-year rate standing in June at 1.6% and 3%, respectively. By contrast, the decline in financing for consumption moderated in August, to -1.6% year-on-year. Against this background, according to the bank lending survey, the criteria for approving new loans to households and companies were tightened in Q3. Banks, for their part, perceived a further decline in the demand for loans from non-financial corporations, while the demand from households improved slightly.

As regards financing costs, risk premiums increased sharply, especially those on financial sector securities and in the countries most affected by the sovereign debt crisis. In relation to credit, the cost of bank loans to the private sector continued to display an upward trend, the interest rate on new lending to non-financial corporations standing at 3.2% in July.

The financial turmoil also spread to stock markets, which showed a clear deterioration up to the end of September, although they recovered part of their losses in October. Thus, since the end of July the EURO STOXX 50 index has declined by around 13% and the banking sector index by more than 27%.

The euro exchange rate was also affected by the financial market turmoil in the area and the loss of investor confidence led to a depreciation in Q3 of 3% in nominal effective terms and 6.6% against the dollar (see Chart 13), against a background of heightened volatility, this movement being partly reversed in October. Finally, the growth rate of M3 increased, to reach 2.8% year-on-year in August, on account of the acceleration in negotiable instruments.

According to the information available, economic activity is estimated to have stagnated in Q3, with zero quarter-on-quarter growth of GDP (see Chart 14). National demand declined more sharply than in Q2, by 0.7% in quarter-on-quarter terms, weighed down by the contraction in construction investment and by the sharp decline in government consumption. By contrast the positive contribution of net external demand to GDP growth increased, to 0.8 pp, which was 0.2 pp higher than in the previous quarter, thanks to the boost from goods and tourism exports. Year-on-year, output grew by 0.7% in 2011 Q3, the same rate as in Q2. These estimates should be treated with greater caution than usual on account of the statistical differences that may arise from the switch to Spanish National Accounts, base year 2008 (SNA 2008), which was used by the INE when preparing its Q3 GDP estimates.

Employment fell in Q3 by more than in Q2, at a rate of 1.8% year-on-year. Given the estimated output and employment developments, apparent labour productivity growth remained high, at around 2.5%. On the cost side, compensation per employee is estimated to have increased modestly in the economy as a whole, so that unit labour costs continued to fall in year-on-year terms. Finally, the downward trend in consumer prices in previous months moderated in Q3. Annual CPI inflation stood at 3.1% in September, barely 0.1 pp down from June, and the CPI excluding unprocessed food and energy stood at 1.7% at the end of the quarter. The trend slowdown in prices is expected to continue over the coming months, as the comparison affects arising from the rise in oil prices last autumn and the increase in tobacco taxes in December 2010 drop out of the index.

4.1 Demand

Private consumption was somewhat slack in 2011 Q3, growing by 0.1% quarter-on-quarter (see Chart 15). This weakness is explained by an environment that is hardly conducive to household spending, on account of unfavourable labour market developments, relatively tight credit conditions, the decline in wealth and the loss in purchasing power on account of inflation rates that remain high. By component, there was a certain recovery in car purchases by individuals in Q3, in quarter-on-quarter terms, while purchases of other consumer durables declined. The indicators of services consumption were positive, although it is very likely that this reflects the buoyancy of foreign tourism more than the spending decisions of residents. Quantitative indicators, meanwhile, such as the European Commission's consumer and retailer confidence indices, were stable in the quarter on average, although they displayed a significant decline during the quarter, which may have been related to the intensification of the sovereign debt crisis during the summer months. Consumption recovered significantly in year-on-year terms, because in 2010 Q3, the quarter used for the comparison, consumption was notably weak as a result of the rise in VAT rates in July of that year.

The rate of decline in household income eased to -0.1% year-on-year in Q2, according to cumulative four-quarter non-financial account data. This stabilisation of household income was the result of a smaller decline in employee compensation and a larger increase in the gross surplus of self-employed workers. By contrast, the positive contribution of general government towards sustaining household income continued to decrease, while the net contribution of property income remained negative. Households once again posted a higher rate of growth of consumption than of income, so that the saving rate continued to fall, to stand at 12.8% of disposable income on four-quarter cumulative data, down 1.1 pp from the rate in 2010. It should be noted that the sectoral non-financial accounts data

MAIN DEMAND AGGREGATES. CONTRIBUTION TO GDP GROWTH

CHART 14

NATIONAL DEMAND
EXTERNAL SECTOR CONTRIBUTION
YEAR-ON-YEAR CHANGE IN GDP

EXTERNAL DEMAND
PRIVATE CONSUMPTION
QUARTER-ON-QUARTER CHANGE IN GDP
GOVERNMENT CONSUMPTION
GROSS CAPITAL FORMATION
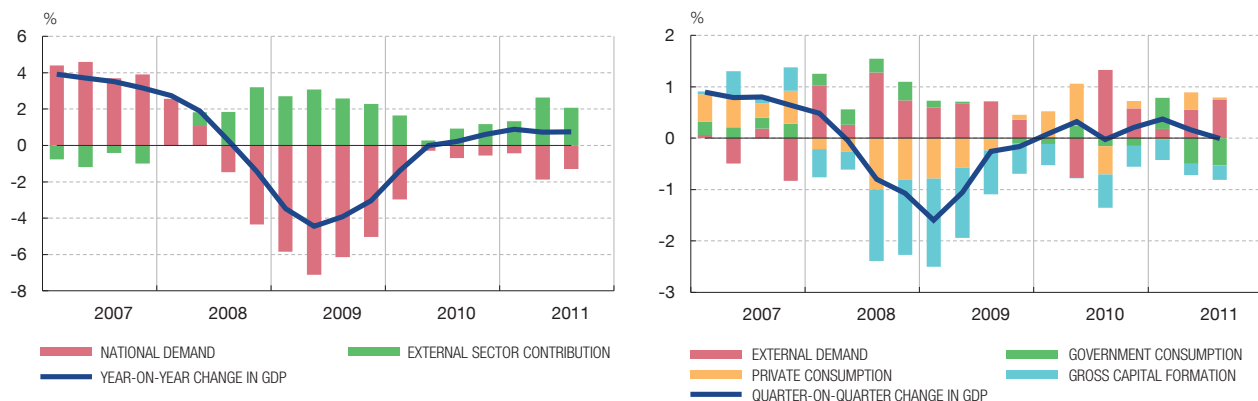
SOURCES: INE and Banco de España.

PRIVATE CONSUMPTION

CHART 15

PRIVATE CONSUMPTION (QNA)

QUARTER-ON-QUARTER RATE OF CHANGE (right-hand scale)
YEAR-ON-YEAR RATE OF CHANGE (a)

PRIVATE CONSUMPTION INDICATORS (a)

RETAIL TRADE SALES INDEX
PRIVATE CONSUMPTION SYNTHETIC INDICATOR

DURABLE CONSUMPTION INDICATORS (a)

NEW CAR REGISTRATIONS
SYNTHETIC INDICATOR OF DURABLE CONSUMPTION
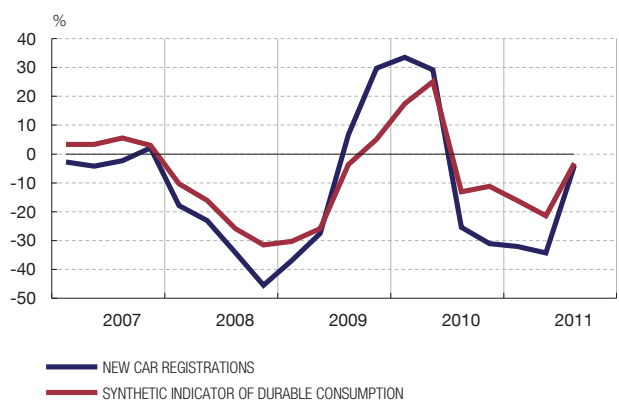
CONFIDENCE INDICATORS (b)

CONSUMER
RETAIL TRADE

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

a   Year-on-year percentage change based on the seasonally adjusted series.
b   Normalised confidence indicators (difference between the indicator and its mean value, divided by the standard deviation).

CHART 16

CAPITAL GOODS

CONSTRUCTION

QUARTER-ON-QUARTER RATE (right-hand scale) — YEAR-ON-YEAR RATE (a)

QUARTER-ON-QUARTER RATE (right-hand scale) — YEAR-ON-YEAR RATE (a)
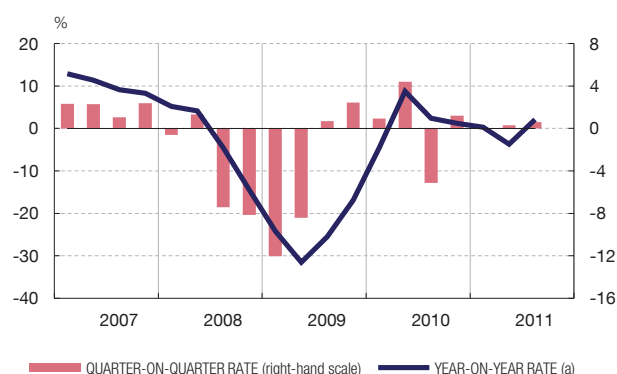
CAPITAL GOODS INDICATORS

CONSTRUCTION INDICATORS (a)

INDICATOR OF APPARENT INVESTMENT IN CAPITAL GOODS (a) — TOTAL INDUSTRY ORDERS (b) (right-hand scale)

CONSTRUCTION SOCIAL SECURITY REGISTRATIONS — APPARENT CONSUMPTION OF CEMENT (right-hand scale)
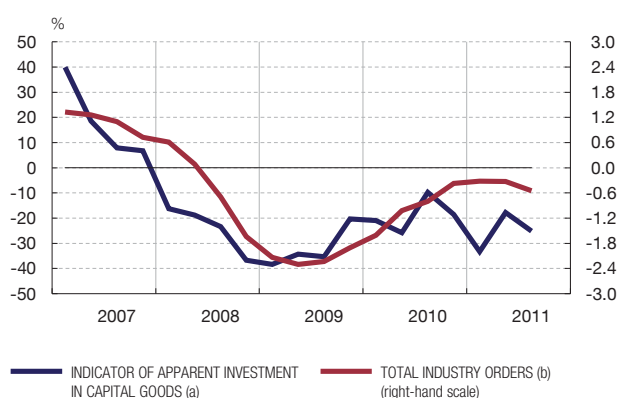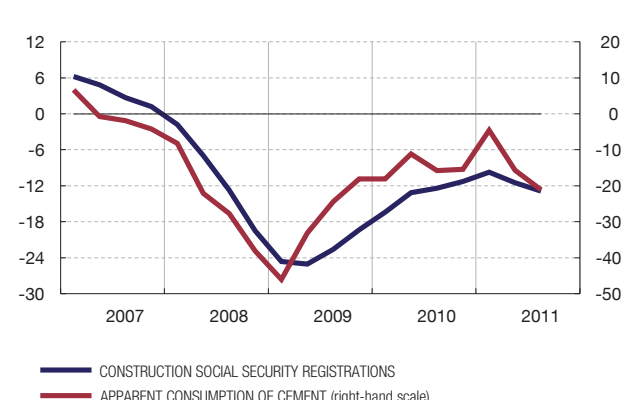
SOURCES: INE, European Commission, Ministerio de Fomento, OFICEMEN, SPEE and Banco de España.

a Year-on-year percentage change based on the seasonally adjusted series, except for social security registrations, which are based on the original series.
b Normalised indicator (difference between the indicator and its mean, divided by the standard deviation).

published for 2011 Q2 are based on the new SNA 2008, which has entailed some revisions to the historical series (see Box 4). In the case of the household saving rate, there has been an upward revision of around 1 pp in recent quarters.

Investment in capital goods grew slightly in Q3, at a quarter-on-quarter rate of 0.6%, while the year-on-year rate increased to 2.1%, as against a decline of 3.7% in Q2 (see Chart 16). Production of capital goods increased in July and August, although it is estimated that a portion of this increase in output was exported. Commercial vehicle registrations also behaved favourably in the quarter as a whole. Looking ahead, it is important to stress the deterioration in business confidence (both in industry as a whole and in the capital goods sector), which may be reflected in a deterioration in business investment in the coming quarters. Likewise, capacity utilisation in manufacturing declined, following several quarters of mild increases, which would suggest a certain slowdown in the rate of recovery of investment.

On non-financial account data for the institutional sectors, the net lending of non-financial corporations increased again in 2011 Q2, to 1.5% of GDP, in cumulative four-quarter terms (which was almost 1 pp more than in 2010). This improvement was based on an expansion of the profit margin, which appears to have been used primarily to rebuild balance sheets and to strengthen self-financing capacity, given the tightening of financing conditions.

On 14 October the National Statistics Institute (INE) published, for the first time, estimates based on the Spanish National Accounts, base year 2008 (SNA 2008), as part of the regular updates to ensure that the National Accounts provide an accurate estimate of economic reality. These accounts continue to be governed by the principles and rules of the European System of National and Regional Accounts 1995 (ESA 95). On this occasion, the revision of the SNA involves methodological changes stemming from the adoption of new classifications of activities and products. Also, as is normal when the base year is changed, statistical changes have been introduced that arise from changes in the statistical sources and in the estimation procedures.[1] Adaptation to new classifications of activities and products is currently taking place in all EU Member States, pursuant to a Commission Regulation approved in 2010. In the case of Spain, this process will take place progressively, during the months of October and November 2011. For the time being, the INE has published the annual accounts of the main macroeconomic aggregates, with base year 2008, as well as the

quarterly non-financial accounts of the institutional sectors. Finally, it should be noted that some of the changes in the historical series, especially in recent years, arise from the revisions usually made once a year (normally in August) when new structural surveys of previous years are available. In the case of 2011, these had still to be made.

The adoption of the new classifications of activities (Spanish National Classification of Economic Activities 2009) and products (Classification of Products by Activity 2008) entails a more detailed sectoral breakdown, which principally affects the services sector. However, there is no direct correspondence between the old classification and the new one; for example, real estate activities, which were previously included in the market services sector, are now divided up between the construction sector (which includes those corresponding to development and related legal services) and the new real estate activities sector, which includes, inter alia, the activity of real estate agencies. Another important change is that the new classification ignores the market or non-market status of a particular activity. Therefore, the non-market services sector disappears. This sector previously included the activity of general government,

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1 Further details of these changes can be found in Instituto Nacional de Estadística, *Contabilidad Nacional de España Base 2008. Características metodológicas,* October 2011.

INVESTMENT IN DWELLINGS
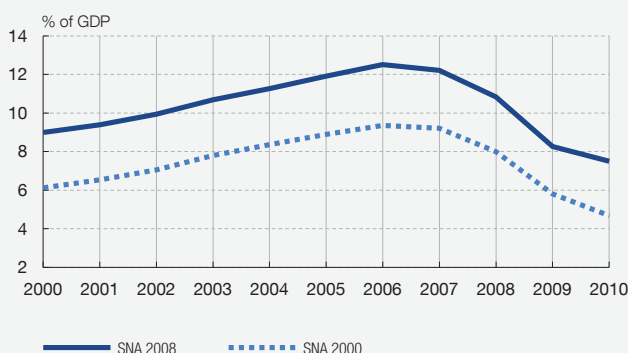
INVESTMENT IN OTHER BUILDINGS AND STRUCTURES
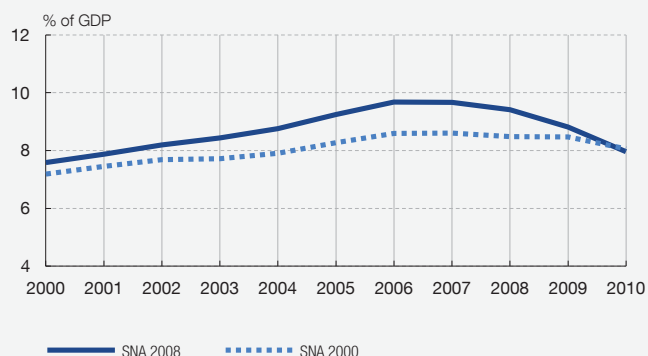
INVESTMENT IN TRANSPORT EQUIPMENT AND OTHER MACHINERY AND EQUIPMENT
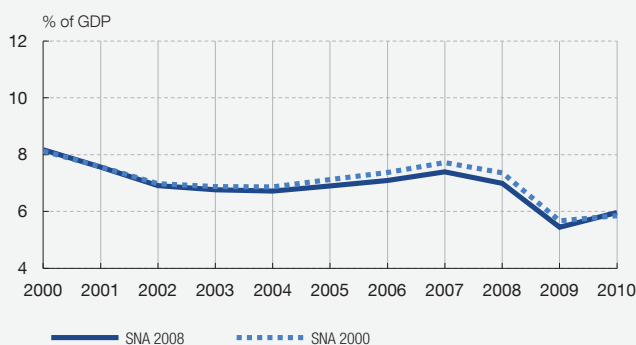
OTHER GROSS FIXED CAPITAL FORMATION
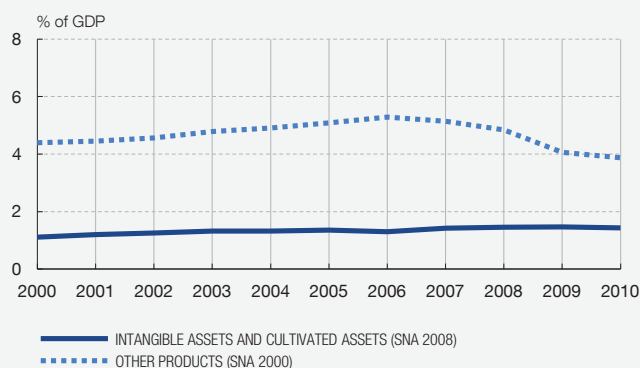
SOURCE: INE.

which is now included in a new sector, namely public administration and defence; compulsory social security; education; human health and social work activities. This new sector includes the activities of this type that are carried out by both public and private agents. As a consequence of all this, in the case of the quarterly accounts, the new SNA 2008 has eleven sectors instead of six.

The introduction of the new classifications also means that the breakdown of gross fixed capital formation, which was previously based on products (equipment, buildings and other construction, and other products), is now based on the type of assets, so that, for example, the equipment incorporated into a house would now be included under investment in dwellings. The SNA 2008 distinguishes, at a first level, between tangible and intangible assets (mainly software). Tangible assets are, in turn, classified under: dwellings, other buildings and structures, transport equipment, other machinery and equipment, and cultivated assets. As in the case of the sectoral classification, there is no direct correspondence between the old and new categories, although the names of the assets appear to be similar.[2] This new classification of gross capital formation is the most quantitatively important change entailed by SNA 2008, since it involves a redistribution of the components of investment, which affects their nominal and real values throughout the series, as well as their weight in GDP (see the first set of panels). In particular, the weight of investment in dwellings in GDP increases by 2-3 pp, as does that of investment in other buildings and structures, although to a lesser extent. The former equipment component, by contrast, has a similar share in GDP to that of transport equipment and other machinery and equipment, which is the most similar category in SNA 2008.

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2 Thus, the new definition of housing investment includes, apart from the value of this type of building, real-estate development expenditure, notary expenses and other legal costs relating to house purchase, which were previously included as investment in other products.

Among the changes of a statistical nature, the most notable are those affecting the general government accounts. The first relates to the timing of gross capital formation during the year. Under the SNA 2000, gross capital formation was recorded at the time the expenditure obligation was recognised by general government, which generally occurred in the fourth quarter of each year. Under SNA 2008, the accounting data have been brought closer into line with actual economic developments, and this has smoothed the amplitude of the year-on-year pattern of gross capital formation in this sector (see the second set of panels), and also in the non-financial corporations sector, in the capital account of which the investment was recorded until the public-sector agents recognised the obligation to pay for the expenditure. A second aspect that has been modified in SNA 2008 relates to the time at which taxes are recorded, which is brought closer into line with economic accrual. Under SNA 2000, receipts from general government taxes were recorded at the time at which the obligation on taxpayers to pay was recognised in the budget. In SNA 2008 this timing has been corrected in order to bring it closer into line with the period of economic accrual. These changes affect general government net borrowing, making its seasonal pattern smoother than it was under SNA 2000 (see the right-hand panel of the second set of panels).

The effect of all these changes on the rate of change of GDP in real terms has been minimal (see the table below). Also, the growth rates of most of the macroeconomic aggregates, except those relating to investment, have been subject to only very small revisions during the period 2000-08, while the changes have been more significant in the last two years. Thus, the change in private consumption has been revised downwards in 2009 and 2010, while the growth of government consumption is higher under SNA 2008. As for gross capital formation, there have been upward revisions to the rate of investment in machinery and transport equipment, and to the rate of housing investment, which now decreases to a lesser extent than under SNA 2000. By contrast, there is now a sharper contraction in other buildings and structures. For its part, the net contribution of external de-

GENERAL GOVERNMENT GROSS CAPITAL FORMATION
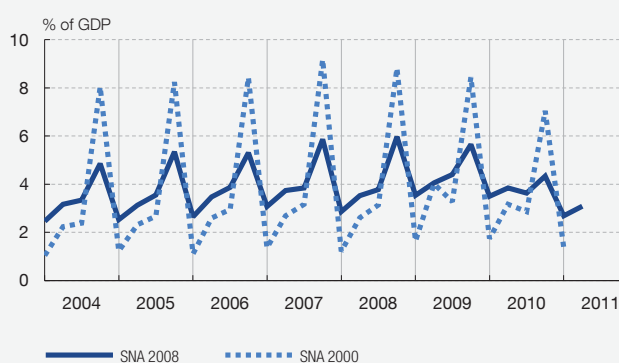
GENERAL GOVERNMENT NET LENDING (+)/NET BORROWING (-)
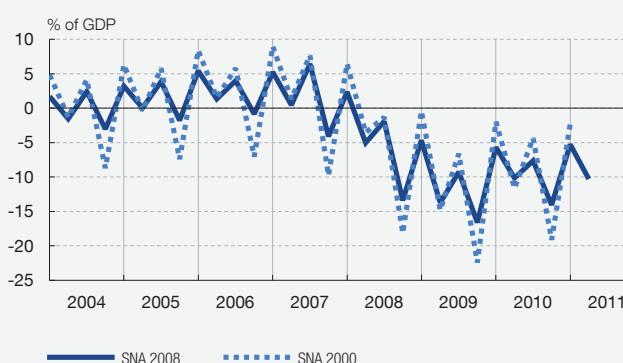
SOURCE: INE.

mand remains practically unchanged, with higher growth rates for both exports and imports. The sectoral saving-investment imbalances have also been slightly modified. The household saving rate in recent years has been increased and is almost one

percentage point higher in 2010 than under SNA 2000. As for prices, the private consumption and GDP deflators in 2009 and 2010 have been revised downwards, so that nominal GDP is now lower than previously estimated.

CHANGES IN VOLUME

REVISION OF RATES OF CHANGE (SNA 2008 - SNA 2000)

1. National final consumption expenditure	0.2	-0.1	0.0	0.0	-0.1
1.1 National final consumption of households and NPISHs	0.2	-0.1	0.0	-0.1	-0.5
1.2 General government final consumption expenditure	0.0	0.0	0.1	0.5	0.9
2. Gross capital formation	-0.2	-0.1	0.1	-0.6	0.9
2.1 Transport equipment and other machinery and equipment (equipment, SNA 2000)	-0.6	-0.8	-0.7	1.9	3.4
2.2 Construction	0.7	-0.8	0.1	-3.4	0.9
Dwellings	0.4	-1.0	1.7	2.4	6.9
Other buildings and structures	1.0	-0.4	-0.8	-7.6	-3.2
2.3 Intangible assets and cultivated assets (Other products, SNA 2000)	-4.4	11.3	7.6	13.5	3.8
3. NATIONAL DEMAND (1+2)	0.1	-0.1	0.0	-0.1	0.2
4. Exports of goods and services	0.0	0.0	0.1	1.2	3.2
4.1 Goods	0.0	0.0	0.0	1.6	0.4
4.2 Services	0.0	0.0	0.2	0.2	8.4
5. Imports of goods and services	0.0	0.0	0.1	0.6	3.4
5.1 Goods	0.0	0.0	0.0	0.5	5.1
5.2 Services	0.0	0.0	0.4	0.6	-1.9
Contribution of net external demand	0.0	0.0	0.0	0.1	-0.1
6. GROSS DOMESTIC PRODUCT	0.1	-0.1	0.0	0.0	0.1
MEMORANDUM ITEM					
National net lending (+)/net borrowing (-) (% of GDP)	0.0	0.0	0.0	0.4	-0.1
General government net lending (+)/net borrowing (-) (% of GDP)	0.4	0.0	-0.3	0.0	-0.1
Household saving rate	-0.9	-0.3	0.1	0.5	0.8
GDP deflator	0.0	-0.1	0.0	-0.5	-0.6
Private consumption deflator	0.1	-0.1	0.0	-1.3	-0.4
Total employment (full-time equivalent jobs)	0.2	0.1	0.3	0.2	-0.3
Compensation per employee	-0.2	-0.1	-0.3	0.2	-0.7
Unit labour cost	0.0	0.1	0.0	0.4	-1.0

SOURCE: INE.

Construction investment remained contractionary, as in recent quarters, and may even have become somewhat more so in Q3, given the combination of adjustment processes in the residential segment and fiscal consolidation in the area of civil engineering works (see Chart 16). In more recent months, the indicators for the sector as a whole relating to the use of inputs and to employment displayed quarter-on-quarter falls that were sharper than those in Q2. Also, in Q3 the negative perception of the sector's employers intensified, according to the European Commission's survey indicator, which in September reached its lowest level since 1990.

By type of work, it is estimated that residential investment continued to decline at a similar quarter-on-quarter rate to that of Q2. However, this type of investment is expected to become less contractionary in the coming quarters, as the gap between housing completions and starts is reduced. On the side of the demand for residential assets, transfers of new dwellings in Q2 were somewhat higher than in Q1, although this did not affect their decline in cumulative four-quarter terms. For its part, permits for non-residential construction to July continued to contract sharply in terms of surface area, as did government civil engineering tenders.

Finally, general government spending is estimated to have contracted significantly in Q3, in terms of both final consumption and investment, in line with the budget austerity plans. The fall in government consumption would appear to reflect the cut in public employment and, above all, in expenditure on goods and services, according to the information available on the State budget outturn.

According to the latest information on net external demand, its contribution to quarter-on-quarter GDP growth was 0.8 pp, up 0.2 pp from the previous quarter, while in year-on-year terms the contribution decreased, although it remained large (2.1 pp). This behaviour reflects the expansion of exports, while the quarter-on-quarter rate of decline of imports eased (see Chart 17). Exports continued to be underpinned by the growth of international trade and the cumulative cost-competitiveness gains of recent years, although the outlook for the final quarter of the year has worsened owing to the world economic slowdown. The increase in exports involved a rise in the share of Spanish goods on world markets in the first half of 2011.

On customs data, real goods exports grew by 12.6% year-on-year during the period July-August, a higher rate than in 2011 Q2 (see Chart 17). By product group, the buoyancy was practically across the board, with notable rises in exports of capital goods and of non-energy intermediate goods. Exports of consumer goods slowed slightly, although sales of cars continued to grow at a high rate. By geographical area, notable in the EU were the favourable performance of exports to the United Kingdom, to the countries that joined the EU in 2004 and 2007 and to France, while those to Portugal decelerated. As for the rest of the world, the buoyancy of exports to OPEC members and to Russia was notable.

With regard to exports of tourism services, the information available indicates strong growth in the summer months. This can be seen in the buoyancy of tourist inflows and overnight hotel stays, which in Q3 as a whole increased at a year-on-year rate of 8.5% and 12.9%, respectively. The geopolitical instability in North Africa and the Middle East is prompting changes in the composition of tourist inflows, with a recovery in the number of British tourists and highly buoyant inflows of Dutch, Nordic and East European tourists. As for the nominal expenditure of tourists, the EGATUR (tourism expenditure survey) data available for July and August show a year-on-year increase of 8.7% in these two months. Meanwhile, the year-on-year growth of exports of non-tourism services moderated slightly.

Imports, on customs data, fell in July and August at a similar rate to that of Q2 (-0.5%). By product group this decline was concentrated in capital goods and energy products. Imports of consumer goods and non-energy intermediate goods remained practically unchanged at their levels of a year earlier. Among consumer goods, the rise in car imports was notable. Finally real imports of services continued to decline, with decreases in imports of both non-tourism and tourism services.

EXPORTS OF GOODS AND SERVICES (a)

IMPORTS OF GOODS AND SERVICES (a)

QUARTER-ON-QUARTER RATE (right-hand scale)
YEAR-ON-YEAR RATE

QUARTER-ON-QUARTER RATE (right-hand scale)
YEAR-ON-YEAR RATE
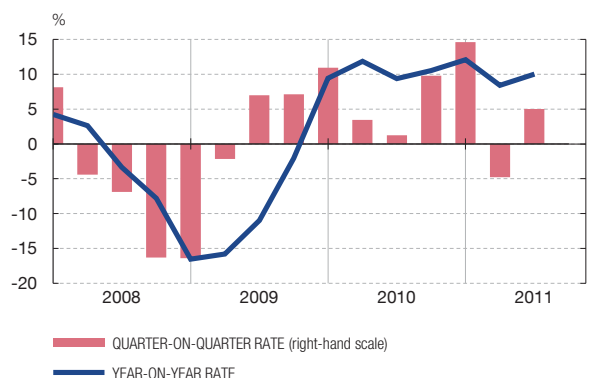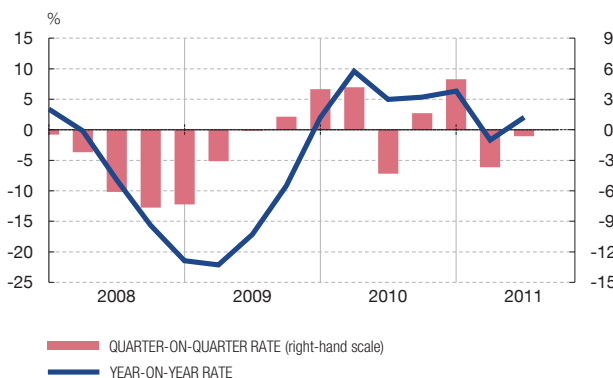
CUSTOMS INDICATORS (b)

TOURISM INDICATORS (c)

EXPORTS OF GOODS
IMPORTS OF GOODS

NOMINAL TOURISM RECEIPTS (a)
OVERNIGHT STAYS IN HOTELS BY FOREIGN VISITORS
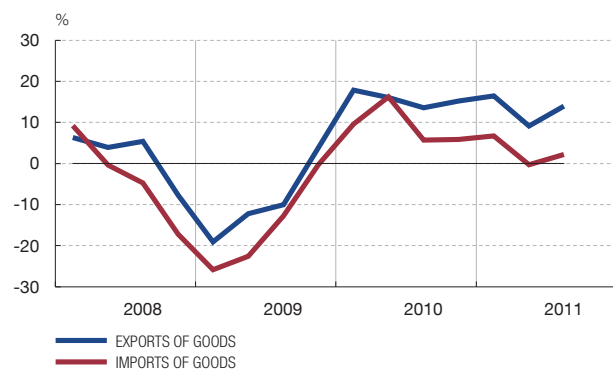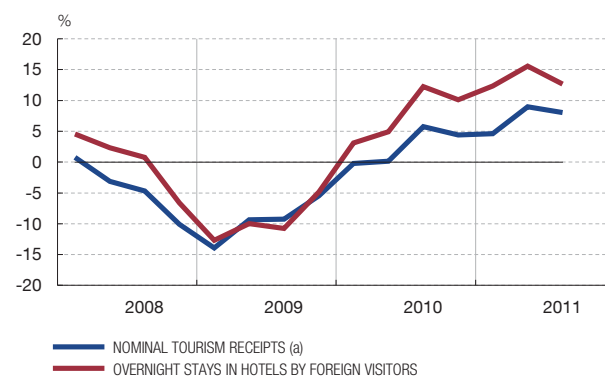
SOURCES: INE, Ministerio de Economía y Hacienda and Banco de España.

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

4.2 Output and employment

In Q3, gross value added in the market economy grew modestly in quarter-on-quarter terms, with mixed developments across sectors. The information available points to a slight increase in industry and energy, in comparison with the previous quarter, and a slight positive rate of growth of value added in market services, while the contraction in construction appears to have intensified (see Chart 18). That said, there are doubts regarding the continuity of the expansion in industry and market services over the coming quarters, given the deterioration in the business outlook according to the recent behaviour of the main survey indicators.

Industrial activity improved in Q3, following the decline in the previous period. The industrial production index increased in the period July-August; in particular there was an increase in the production of capital goods and, to a lesser extent, in that of consumer goods. However, Social Security registrations fell significantly, indicating that employment has adjusted by more than activity. Also the qualitative indicators for the industrial sector showed a clear deterioration in this period. Specifically, the manufacturing PMI declined in Q3, to well below 50, the level that is interpreted as marking the border between a contraction and an expansion. This deterioration, which was broadly based, since it extended to domestic and foreign orders and the employment outlook, suggests that the rise in industrial activity in Q3 may have been transitory, with no sustained recovery in this sector discernible in the short term.
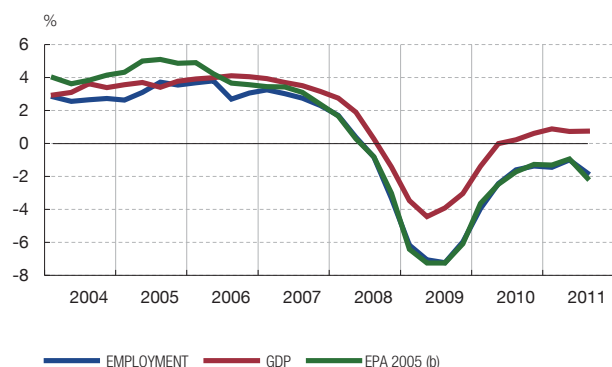
CHART 18

WHOLE ECONOMY

%

EMPLOYMENT   GDP   EPA 2005 (b)

WHOLE ECONOMY (c)

%

EMPLOYMENT   GDP

AGRICULTURE

%

EMPLOYMENT   GVA

INDUSTRY AND ENERGY

%

EMPLOYMENT   GVA   IPI

CONSTRUCTION

%

EMPLOYMENT   GVA

MARKET SERVICES

%
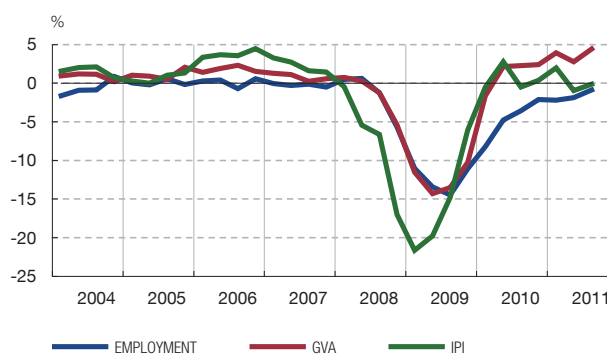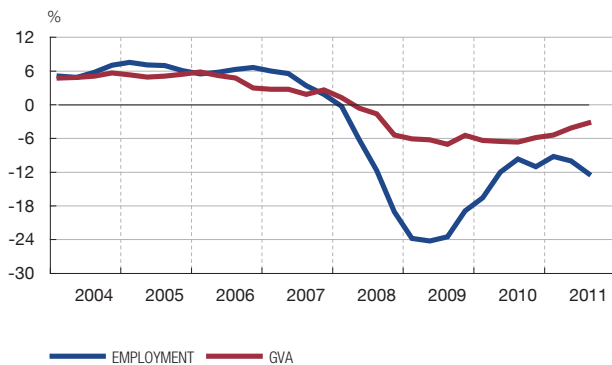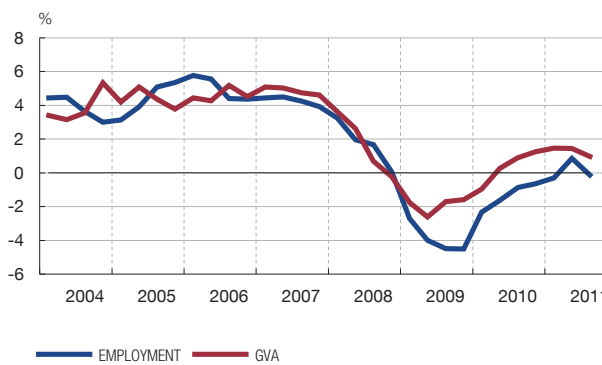
EMPLOYMENT   GVA

SOURCES: INE and Banco de España.

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

The available market services indicators point to mild quarter-on-quarter growth in the gross value added of this sector in 2011 Q3. Both the index of services sector activity and the sales of large firms, on information to August in both cases, reflect modest year-on-year growth. As in the case of manufacturing, there was a significant deterioration in the outlook for services, according to the European Commission's survey indicators and sur-

veys of purchasing managers. Specifically, the services PMI fell below 50, to stand at its late 2009 levels. These unfavourable developments in confidence in the sector extended to employment, so that, following several months of timid growth, Social Security registrations stagnated in Q3.

In the labour market, monthly indicators showed an intensification of employment destruction in Q3. Specifically, Social Security registrations declined by 1.2% with respect to the same period a year earlier, a fall that was 0.2 pp higher than the one in Q2. On quarter-on-quarter terms, registrations declined by 0.5%, as against a decline of 0.3% in Q2. At the same time, new hires registered at the National Public Employment Service (SPEE by its Spanish abbreviation) were very slack in Q3, with a year-on-year growth rate of 0.2%, following the 3.1% increase in the preceding period. This slowdown was a consequence of the reduced buoyancy of temporary contracts in the summer of 2011 and the intensification of the decline in permanent contracts, driven in this period by a contraction in conversions, following the growth observed since the end of 2010. The weight of permanent contracts in total hiring fell, as is usual in the summer, to 6.9% in Q3, down more than one percentage point from its level a year earlier.

The EPA figures for Q3 show a year-on-year decline in employment of 2.1%, a 1.2 pp larger fall than in the previous quarter. With the exception of industry, the year-on-year performance of all sectors was worse than in Q2, with a notable year-on-year decline in services employment. This deterioration took place both in market services, where the employment creation of recent quarters was interrupted, and in non-market activities, which posted zero year-on-year growth. The intensification of the fall in employment occurred both among the self-employed (-3.8%) and especially among dependent employees, for whom the rate of decline rose by 1.3 pp to -1.8%. By nationality, job destruction also affected both groups, with a decline of 8.6% among foreigners and of 1.1% among Spaniards. As regards contract duration, the growth rate of temporary employment came to a halt in this quarter, while the year-on-year decline in permanent employment intensified by 1.1 pp to 2.4%. As a result, the ratio of temporary to total employment increased to 26.0%. Finally, the rate of growth of part-time hiring moderated (to 1.1%), while full-time employment fell by 2.6%, 0.9 pp more than in the previous quarter. As a result of these developments the part-time ratio stood at 13.2%, as against 12.8% a year earlier.

The labour force grew at a slow rate, similar to that of the previous quarter (0.1%), against a background of zero growth in the population over the age of 16, so that the participation rate stabilised at 60.1%. The breakdown by gender shows that the gap between the growth rates for men and women narrowed by several tenths of a percentage point: the female labour force grew by 1.6%, down 0.5 p from Q2, while the male labour force declined by 1.2%, 0.3 pp less than in the previous quarter. By nationality, the decline in the foreign labour force and in the foreign participation rate intensified. The foreign labour force declined by 2.3% (-2% in the previous quarter), while the foreign participation rate fell at a year-on-year rate of 4%, as against -2.2% in Q2. The Spanish-national labour force, by contrast, increased by 0.8%, and the Spanish participation rate rose slightly, to 57.9%.

Finally, the total number of persons unemployed rose by 144,700, from 2011 Q2, to 4,978,300. In year-on-year terms, the rate of growth of unemployment more than doubled, to 8.8%. At the same time, the rate of unemployment rose sharply in Q3, to 21.5% of the labour force, a worsening of 0.6 pp compared with the previous quarter. The year-on-year growth rate of unemployed persons registered with the SPEE rose to 4.6%, which

CHART 19

WAGE INDICATORS
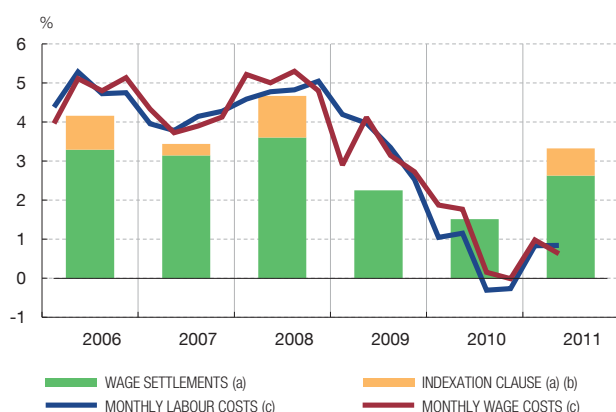
WAGE INCREASE WITHOUT INDEXATION CLAUSE FOR NEW AND REVISED
COLLECTIVE BARGAINING AGREEMENTS

WAGE SETTLEMENTS (a)   INDEXATION CLAUSE (a) (b)   REVISED AGREEMENTS (a) (d)   NEW AGREEMENTS (a) (d)
MONTHLY LABOUR COSTS (c)   MONTHLY WAGE COSTS (c)
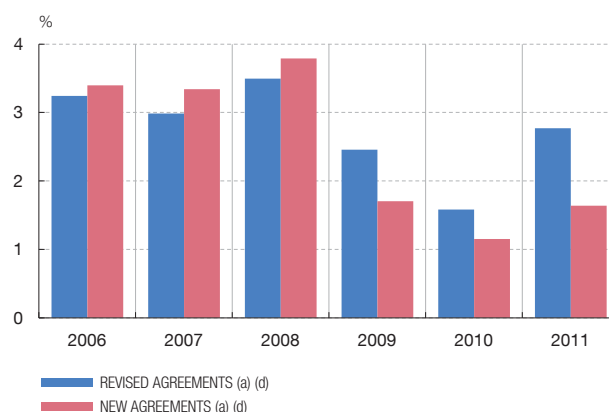
SOURCES: INE and Ministerio de Trabajo e Inmigración.

a Latest year, with information on collective bargaining agreements to September 2011.
b Previous year's indexation clause.
c Quarterly labour costs survey (ETCL). Year-on-year rates of change.
d Revised: agreements with economic effects for the current year, but which were entered into in previous years, and are in force for more than one year. New: agreements entered into during the year with economic effects in the same year, this being the first or only year in which they are applicable.

interrupted the moderation in unemployment growth that had been recorded since the second half of 2009.

4.3   Costs and prices

The average wage settlement negotiated in collective agreements in the period January to September was 2.6%, barely 0.1 pp lower than in the period to June. The pace of negotiations remains slow, so that the number of workers affected to September (5.1 million) is the lowest figure for this month in the last 15 years. It should be taken into account, however, that almost all the agreements registered to date correspond to revisions of multi-year agreements signed in previous years, in which the settlements (2.8%) are largely linked to the annual increase in the CPI in December 2010, which was 3%. Meanwhile, the average settlement in newly signed agreements is 1.6%, in line with the mid-point of the wage band recommended by the Agreement on Employment and Collective Bargaining (AENC by its Spanish initials) of February 2010 (see the right-hand panel of Chart 19). Insofar as bargaining over the coming months is concentrated on this second type of agreement, one may expect the average wage settlement agreed to date to moderate in the final quarter of the year. The slowdown in inflation and perhaps the effects of the collective bargaining reform approved in June would contribute to such a development. The effect of wage indexation clauses linked to 2010 inflation, payable in 2011, is estimated to be 0.7 pp. These wage developments contrast with the greater moderation displayed by other indicators, such as the quarterly wage cost survey (ETCL by its Spanish initials), which showed a 0.8% year-on-year increase in 2011 Q2 (see left-hand panel of Chart 19). In 2011 Q3 the year-on-year increase in compensation per employee in the market economy is projected to stabilise at around 1% (see Chart 20). Given that productivity is estimated to have increased by around 3% year-on-year, unit labour costs continued to decline in Q3 at a significant rate.

In 2011 Q3, the deflators of most of the components of demand recorded somewhat lower year-on-year growth than in Q2. The moderation in the growth rates of the deflators was largely a result of the developments in domestic producer prices (as measured by the GDP deflator), the rate of growth of which declined by 0.3 pp with respect to Q2, but also of the developments in the prices of imported goods, which displayed somewhat less vigorous growth.

PRICES AND LABOUR COSTS IN THE MARKET ECONOMY

CHART 20

COMPENSATION PER EMPLOYEE AND PRODUCTIVITY (a)

- COMPENSATION PER EMPLOYEE
- APPARENT LABOUR PRODUCTIVITY
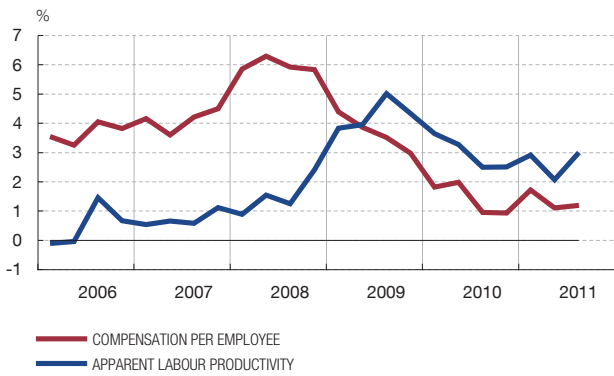
UNIT LABOUR COSTS AND PRICES (a)

- UNIT LABOUR COSTS
- GDP DEFLATOR
- GVA DEFLATOR

SOURCES: INE and Banco de España.

a Year-on-year rates based on seasonally adjusted QNA series.

PRICE INDICATORS (a)
Spain

CHART 21

CONSUMER PRICE INDEX

- CPI
- CPI, EXCLUDING UNPROCESSED FOOD AND ENERGY

CONSUMER PRICE INDEX

- PROCESSED FOOD
- NON-ENERGY INDUSTRIAL GOODS
- SERVICES

CONSUMER PRICE INDEX

- UNPROCESSED FOOD
- ENERGY

PRODUCER PRICE INDEX

- OVERALL
- CONSUMPTION
- INTERMEDIATE GOODS AND ENERGY
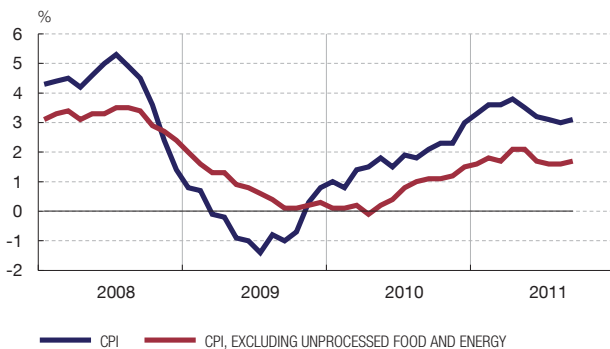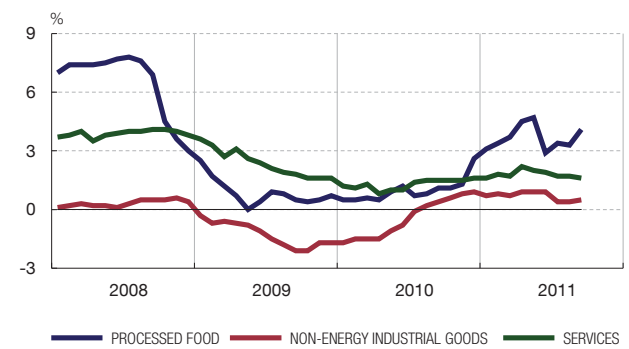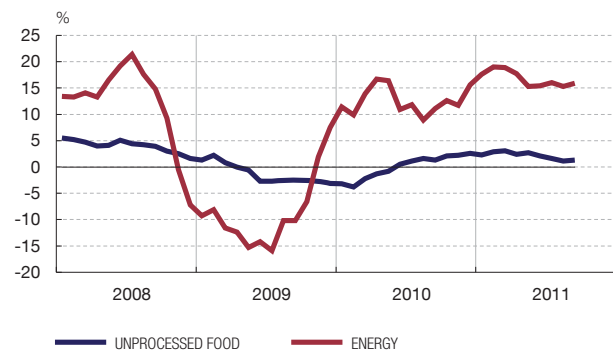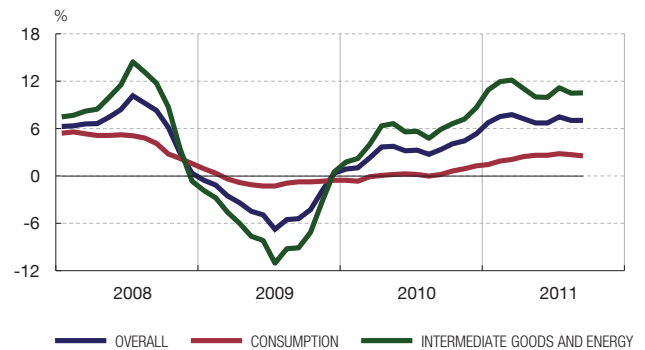
SOURCE: INE.

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

In 2011 Q3, the declining trend in the main consumer price indicators seen in previous months moderated. The annual rate of CPI inflation was 3.5% in September, down 0.1 pp from June (see Chart 21), while the change with respect to the same month of the previous year in the CPI excluding unprocessed food and energy was 1.7%, the same rate as in June. This stability is the result of mixed behaviour across its main components. Thus, processed food prices were driven in September by the rise in the price of tobacco, which offset previous declines. By contrast, the growth rate of the prices of non-energy industrial goods fell, from 0.9% in June to 0.5% in September, despite the higher prices of domestically produced and imported non-energy industrial goods, reflecting the dropping out of the base effect of last year's VAT rate increases. Services prices moderated for the same reason, to 1.6% in September, 0.3 pp down from the June rate. The year-on-year growth rate of the energy component increased by 0.5 pp with respect to June, affected by the depreciation of the euro against the dollar, which raised the price of oil in euro, while the growth rate of unprocessed food prices decreased during the quarter.

The stability of inflation in Spain (as measured by the harmonised index of consumer prices (HICP)) was in contrast to its rise in the euro area, so that the differential decreased between June and September by 0.3 pp, to zero (see Chart 22). The differential in terms of the CPI excluding unprocessed food and energy was negative (-0.5 pp). The services differential, which stood at -0.4 pp in September, was notable. By contrast, the differential in energy price growth remained considerable, partly on account of the larger increases in gas and electricity prices in Spain, but also because fuel prices increased to a greater extent in Spain. Also, there was a larger increase in unprocessed food prices in Spain than in the euro area.

The producer price index rose in Q3, to reach a year-on-year rate of change of 7.1% in September, up 0.4 pp from June. This is attributable to the rise in the price of energy products, which grew by 18.4% in September. The prices of consumer industrial goods and capital goods increased at similar year-on-year rates to those of the previous quarter (2.5% in the first case and 1.2% in the latter), while intermediate goods prices slowed by almost 1 pp, to 5.6% year-on-year in September. For their part, the import and export price indices for industrial products accelerated, to reach year-on-year rates of 8.9% and 5.4% in August, respectively. In both cases the prices of energy products also displayed very high rates of change. On the other hand, the UVIs for exports and imports for August displayed less expansionary growth.

4.4 The State budget

The latest statistical information available for the general government sector as a whole relates to 2011 Q2. This information is based on the new SNA 2008, which introduces changes into the general government accounts, such as a closer approximation to the accrual principle for certain taxes and a more even distribution of public investment expenditure over the year (for further details see Box 4). However, more recent information is available on the budget outturns of the State and of the Social Security system for the periods to September and to August, respectively.

In national accounts terms, on budget outturn data for the period January to September, the State recorded a deficit of €37 billion, as against a deficit of €44.5 billion in the same period of 2010. In cash basis terms, the State posted a deficit between January and September 2011 of €31 billion, an improvement of 18% on the deficit recorded a year earlier (see Table 4). Expenditure fell by 17.3% during the 12 months to September, which in general terms is consistent with the government's target for the State for the year as a whole. The decline observed in the deficit for the period January-September largely reflects the smaller transfers to the regional governments, as a consequence of the new fi-

HARMONISED INDEX OF CONSUMER PRICES

HICP

HARMONISED INDEX OF CONSUMER PRICES

PROCESSED FOOD — NON-ENERGY INDUSTRIAL GOODS — SERVICES

HARMONISED INDEX OF CONSUMER PRICES

UNPROCESSED FOOD — ENERGY

PRODUCER PRICE INDEX

OVERALL — CONSUMPTION — INTERMEDIATE GOODS AND ENERGY
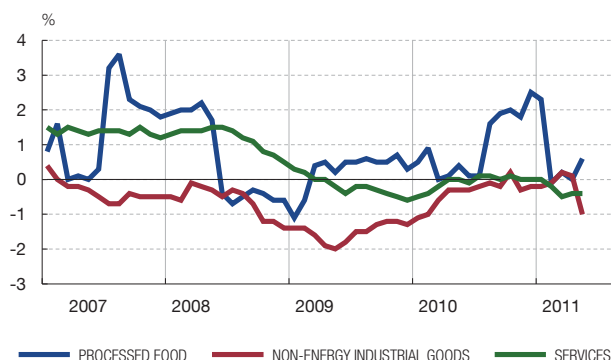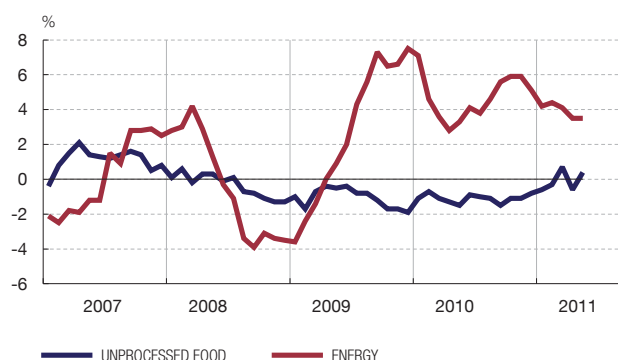
SOURCES: Eurostat and Banco de España.

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

nancing system. As regards the other items, expenditure on wages and salaries increased by 0.9%, expenditure on goods and services was reduced by 10% and interest payments increased by 5.7%, well below the growth rate projected for 2011 as a whole, of close to 40%. It should also be taken into account that the figures to September do not incorporate the impact of the measures adopted in July and August, in particular the revenue obtained from the tender for the public domain radio spectrum and the modification of the partial payments of corporate income tax.

In terms of total tax revenues, which include those obtained by the State and regional and local governments, the receipts from excise duties and corporate income tax continued to grow at rates well below the budget targets (-3% and -12.3%, respectively, in the period January to September, as against the rates of 5.1% and -1.2% budgeted for 2011), although in the case of corporate income tax an increase in receipts is expected in the final quarter of the year as a result of the changes to the timing of partial payments. VAT receipts continued to perform better than budgeted for the year as a whole, although their rate of growth continued to moderate (1.9% to September), as the base effect associated with the rise in rates in July 2010 dropped out of the comparison. Finally, personal income tax receipts remained weak, with a growth rate of 4.1% in the period to September, which was below the rate budgeted for the year as a whole (7.1%).

	Outturn 2010	Percentage change 2010/2009	Initial budget	Percentage change 2011/2010	Outturn Jan-Jun. Percentage change 2011/2010	Outturn		
						2010 Jan-Sep	2011 Jan-Sep	Percentage change
	1	2	3	4 = 3/1	5	6	7	8 = 7/6
1 REVENUE	127,337	24.8	106,020	-16.7	-17.5	92,676	74,082	-20.1
Direct taxes	59,262	9.5	55,239	-6.8	-19.9	42,320	36,157	-14.6
Personal income tax	39,326	29.2	35,494	-9.7	-22.4	28,090	23,701	-15.6
Corporate income tax	16,198	-19.8	16,008	-1.2	-15.6	11,334	9,941	-12.3
Other (a)	3,738	7.5	3,737	-0.0	-6.2	2,896	2,515	-13.1
Indirect taxes	51,825	80.8	36,142	-30.3	-21.1	40,131	27,274	-32.0
VAT	38,486	143.8	24,968	-35.1	-17.9	30,090	20,039	-33.4
Excise duties	10,338	1.9	8,179	-20.9	-39.2	7,818	4,993	-36.1
Other (b)	3,001	9.5	2,995	-0.2	3.0	2,223	2,242	0.8
Other net revenue	16,251	-15.7	14,639	-9.9	4.7	10,225	10,650	4.2
2 EXPENDITURE	179,572	-5.1	150,056	-16.4	-19.7	130,616	105,163	-19.5
Wages and salaries	26,975	1.5	26,982	0.0	0.5	19,420	19,595	0.9
Goods and services	4,632	-4.7	3,384	-26.9	-8.5	2,827	2,542	-10.1
Interest payments	19,638	11.3	27,421	39.6	-2.0	16,712	17,665	5.7
Current transfers	104,656	-6.9	74,598	-28.7	-25.8	74,875	54,005	-27.9
Contingency fund	—	—	2,668	—	—	—	—	—
Investment	8,782	-16.1	5,793	-34.0	-26.8	6,157	4,502	-26.9
Capital transfers	14,890	-14.2	9,208	-38.2	-36.6	10,624	6,854	-35.5
3 CASH-BASIS BALANCE (3 = 1 - 2)	-52,235	—	-44,036	—	—	-37,939	-31,081	—
MEMORANDUM ACCOUNT: TOTAL TAXES (State plus share of regional and local governments								
TOTAL	**135,862**	**16.3**	**141,538**	**4.2**	**6.0**	**101,785**	**104,094**	**2.3**
Perconal income tax	66,977	4.9	71,761	7.1	6.5	49,453	51,483	4.1
VAT	49,079	46.2	48,952	-0.3	9.4	37,410	38,136	1.9
Excise duties	19,806	2.4	20,825	5.1	-4.0	14,923	14,476	-3.0

SOURCES: 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.

In the case of the regional governments, the outturn data for 2011 Q2 showed a deficit in budgetary accounting terms of 1.2% of GDP (see Table 5). These data point to risks of deviation from the annual target for the sub-sector, although these are difficult to quantify, given that no information is available on the budget outturn for the second half of the year, in which the adjustment measures announced by most regional governments would be concentrated.

The latest budget outturn figures available for the Social Security system are for August 2011 (see Table 6). These figures show a surplus of €3.9 billion, which was €3 billion less than the surplus in the period January-August 2010. On the revenue side, Social Security contributions fell by 1.1%, a significantly worse performance than projected, as a consequence of the unfavourable behaviour of Social Security registrations. Expenditure increased by 3.1%, owing to the 5% rise in spending on contributory pensions, which was partly offset by the reduction in other current transfers. As regards the State Public Employment Service, the data available to August 2011 indicate a decline in unemployment benefit payments of 8.6%, in line with the decline in the number of beneficiaries of the

REGIONAL GOVERNMENT BUDGET OUTTURN

TABLE 5

EUR m and %

	Outturn 2010	Percentage change 2010/2009	Initital budget 2011	Percentage change 2011/2010 (a)	Outturn Jan-Mar. Percentage change 2011/2010	Outturn		
						2010 Jan-Jun	2011 Jan-Jun	Percentage change (b)
	1	2	3	4 = 3/1	5	6	7	8 = 7/6
1 REVENUE	134,318	44.2	138,087	2.8	-2.2	—	60,966	-3.6
Current revenue	127,134	45.9	128,870	1.4	-1.4	—	59,198	-3.8
Direct taxes	29,477	50.0	40,382	37.0	42.5	—	20,211	41.6
Indirect taxes	33,730	46.6	51,050	51.3	45.0	—	23,797	40.1
Charges, prices and other revenue	5,551	44.6	4,942	-11.0	-19.4	—	2,206	-15.8
Current transfers	57,962	39.9	32,006	-44.8	-56.2	—	12,762	-53.6
Interest and dividends	413	45.3	489	18.5	151.5	—	222	40.4
Capital	7,184	19.2	9,217	28.3	-27.2	—	1,768	3.1
Disposal of investments	287	4.5	1,960	583.3	8.0	—	89	1.5
Capital transfers	6,897	23.1	7,257	5.2	-29.1	—	1,679	3.2
2 EXPENDITURE	157,183	48.3	153,170	-2.6	5.4	—	74,032	0.5
Current expenditure	134,812	50.6	130,366	-3.3	5.6	—	65,933	0.3
Wagens and salaries	58,795	50.6	56,311	-4.2	-3.3	—	28,474	-3.7
Goods and services	28,011	50.9	27,076	-3.3	22.8	—	13,788	8.7
Interest payments	2,999	44.3	4,554	51.8	75.6	—	2,019	68.0
Current transfers	45,007	51.2	42,309	-6.0	3.9	—	21,652	-3.0
Contingenty fund	—	—	—	—	—	—	—	—
Capital	22,371	35.5	22,804	1.9	4.2	—	8,100	2.3
Investment	9,685	35.3	10,015	3.4	11.3	—	3,538	-4.5
Capital transfers	12,686	35.7	12,789	0.8	-2.0	—	4,562	8.4
3 BALANCE (3 = 1 - 2)	-22,866	86.6	-15,083	-34.0	—	—	-13,066	—

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

a The initial budget data for 2011 were obtained taking into acount the initial appropriations of the 2010 budget of the Balearic government, since it has extended them.
b These rates published by the Ministry of Economic Affairs and Finance have not been released for 2010 Q2.

SOCIAL SECURITY SYSTEM BUDGET OUTTURN

TABLE 6

EUR m and %

	Initital budget 2010	Percentage change 2010/2009	Initital budget 2011	Percentage change 2011/2010	Outturn Jan-Jun. Percentage change 2011/2010	Outturn		
						2010 Jan-Aug	2011 Jan-Aug	Percentage change 2011/2010
	1	2	3	4 = 3 / 1	5	6	7	8 = 7 / 6
1 REVENUE	119,481	-3.4	123,405	3.3	-0.2	79,793	79,016	-1.0
Social security contributions	108,358	-4.4	111,778	3.2	-0.9	71,115	70,345	-1.1
Current transfers	8,357	12.3	8,154	-2.4	5.3	6,120	6,141	0.3
Other revenue	2,765	-6.7	3,473	25.6	12.2	2,558	2,530	-1.1
2 EXPENDITURE	116,601	1.9	118,826	1.9	3.0	72,863	75,107	3.1
Wagens and salaries	2,483	1.2	2,378	-4.2	-2.5	1,547	1,522	-1.6
Goods and services	2,032	1.9	1,719	-15.4	-2.6	1,020	958	-6.0
Current transfers	111,557	1.9	114,279	2.4	3.2	70,166	72,513	3.3
Contributory pensions	95,320	2.1	99,090	4.0	5.0	60,466	63,501	5.0
Sickness	7,373	-9.5	7,009	-4.9	-11.8	3,516	3,184	-9.5
Other	8,864	11.0	8,181	-7.7	-4.9	6,184	5,828	-5.8
Other expenditure	529	-6.1	450	-15.0	-22.7	130	113	-13.2
3 BALANCE (3 = 1 - 2)	2,880	—	4,579	—	—	6,931	3,909	—

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

BALANCE OF PAYMENTS: MAIN COMPONENTS (a)

TABLE 7

EUR m

		January-July		Rate of change
		2010	2011	2011/2010 (b)
CREDITS	Current account	192,750	213,519	10.8
	Goods	108,440	127,710	17.8
	Services	53,151	56,623	6.5
	Tourism	21,617	23,722	9.7
	Other services	31,534	32,901	4.3
	Income	22,434	20,802	-7.3
	Current transfers	8,725	8,383	-3.9
	Capital account	5,213	3,772	-27.7
	Current + capital accounts	197,964	217,291	9.8
DEBITS	Current account	224,832	242,438	7.8
	Goods	136,416	151,054	10.7
	Services	38,082	37,895	-0.5
	Tourism	6,660	6,565	-1.4
	Other services	31,422	31,329	-0.3
	Income	35,763	38,977	9.0
	Current transfers	14,571	14,512	-0.4
	Capital account	1,035	746	-27.9
	Current + capital accounts	225,867	243,184	7.7
BALANCES	Current account	-32,082	-28,919	3,163
	Goods	-27,976	-23,344	4,632
	Services	15,069	18,729	3,660
	Tourism	14,957	17,157	2,200
	Other services	112	1,572	1,459
	Income	-13,329	-18,174	-4,845
	Current transfers	-5,846	-6,129	-283
	Capital account	4,178	3,025	-1,153
	Current + capital accounts	-27,904	-25,894	2,010

SOURCE: Banco de España.

a Provisional data.
b Absolute changes for balances.

unemployment insurance system. The coverage rate fell by six percentage points over the period December 2010 to August 2011.

4.5 The balance of payments

During the first seven months of 2011, there was an overall deficit on current and capital account of €25.9 billion, 7% down on the same period of 2010 (see Table 7). This decline is explained by the narrowing of the current account deficit, while the capital account surplus decreased. The reduction in the current account imbalance reflected the fall in the trade deficit and the increase in the services surplus. These developments offset the increases in the current transfers deficit and, above all, in the income deficit.

In the first seven months of 2011, the trade deficit decreased by 17%, to €23.3 billion, owing to the notable correction of the non-energy balance, which offset the increase in the energy bill. The services surplus increased by 24% to €18.7 billion, thanks to the tourism and other services balances. By contrast, the income deficit widened by 36%, to stand at €18.2 billion and the current transfers deficit increased by 5%, to €6.1 billion. Finally, the capital account surplus decreased by 28%, to €3 billion.

5 FINANCIAL DEVELOPMENTS

5.1 Overview

In 2011 Q3 financial developments in the Spanish economy were marked by the heightening of tensions on the international financial markets. These tensions were reflected in further increases in yield spreads on euro area government securities, which reached record highs since the creation of the euro, and extended to other markets and geographical areas. Thus in Spain the credit risk premia on debt securities issued by both public and private sectors increased, stock market indices fell significantly and banks found it more difficult to obtain wholesale funding.

The renewed tensions on European sovereign debt markets led, in early August, to the reactivation of the securities market programme by the ECB. This action, together with the economic policy measures adopted by the Spanish government, allowed the yields on Spanish ten-year bonds, which had nudged above 6%, to ease back and stabilise at around 5%, albeit against a background of high volatility (see Chart 23). At the end of September they stood at 5.14%, down 37 basis points (bp) from the levels at the close of the first half. However, despite this fall, the spread over the German bund rose by 70 bp in the same period to 323 bp due to the larger fall in the interest rate on the German securities of the same term habitually used as a safe haven in bouts of uncertainty. There was also an increase in the risk premia of private-sector debt securities issued by both financial and non-financial corporations. In the part of October leading up to the cut-off date of this report,[1] the yield on ten-year Spanish government bonds, the credit rating of which was revised downward by the three main risk assessment agencies in this period, increased by 36 bp and the spread over the German bond of the same term was up by 19 bp.

Against this backdrop, credit institutions encountered major difficulties in raising funds on the wholesale markets, especially on the unsecured fixed-income and interbank markets. Net issuance on fixed-income markets was negative (according to the information available up to August), as had already occurred following the bankruptcy of Lehman Brothers, with the first tensions derived from the Greek crisis in mid-2010 and subsequently with the Irish crisis at the end of that year. The interbank market also saw substantial tension, as evidenced by the significant increase in this period in the spread between twelve-month euribor and twelve-month eurepo. Thus, although the former decreased by 8 bp in Q3 to 2.08%, this drop was much more moderate than that in the cost of collateralised transactions of the same term (eurepo), which widened the spread between the two to 153 bp, the highest level since end-2008. Financial institutions thus turned to the Eurosystem and to the secured interbank markets (and, specifically, to transactions with central counterparties) to meet their liquidity needs in this period. The measures announced by the ECB in early October (reactivation of the covered bond purchase programme and reintroduction of one-year liquidity tenders) will foreseeably contribute to softening the impact of money market tensions.

In the stock markets, prices fell and volatility rose. Specifically, the IBEX 35 lost 17.5% in Q3, a fall which was smaller than that of the EURO STOXX 50 (23.5%), but larger than that of the S&P 500 (14.3%). However, in October the share prices of the main international markets recovered somewhat and the losses accumulated by the Spanish index so far in 2011 lessened to 10.4%, compared with losses of 16.4% and 1.2% by the European and US indices, respectively.

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1 26 October 2011.

STOCK EXCHANGE INDICES

31.12.07 = 100

IBEX 35 — EURO STOXX 50 — S&P 500

10-YEAR GOVERNMENT BONDS

%   bp

INTEREST RATE — SPREAD OVER GERMANY (right-hand scale)

COST OF FINANCING

%

CORPORATE EQUITY (a)
LONG-TERM CORPORATE DEBT SECURITIES (b)
CONSUMER AND OTHER CREDIT (c)
BANK LOANS TO COMPANIES
HOUSING LOANS
ONE-YEAR EURIBOR
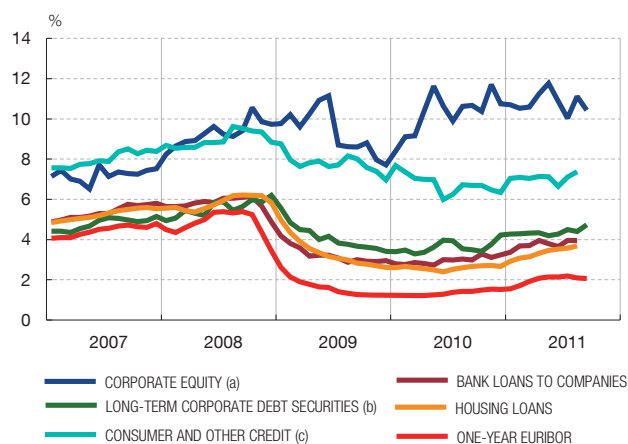
PRICE PER SQUARE METRE OF APPRAISED HOUSING (d)

%   %

QUARTER-ON-QUARTER GROWTH (right-hand scale)
YEAR-ON-YEAR GROWTH
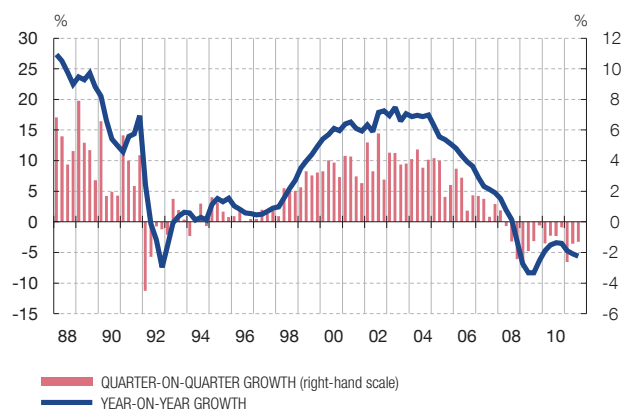
SOURCES: Bloomberg, Reuters, Datastream, MSCI Blue Book, Ministerio de la Vivienda and Banco de España.

a The cost of equity is based on the three-stage Gordon dividend discount model.
b The cost of market-based long-term debt is calculated as the sum of the average 5-year CDS premium for Spanish non-financial corporations and the 5-year euro swap rate.
c In June 2010 the statistical requirements relating to the interest rates applied by credit institutions to their customers were changed, which may cause breaks in the series. Particularly significant was the change in the interest rate on consumer credit and other lending, since, as a result, from that month it no longer includes credit card transactions.
d Base 2001 to December 2004; base 2005 thereafter.

In the real estate market, the downward movement in the price of open-market housing persisted during 2011 Q3, according to the latest figures published by the Ministry of Infrastructure and Transport. Thus the year-on-year rate of decrease stood at 5.6% in September, compared with a fall of 5.2% at the end of Q1. In quarter-on-quarter terms, the decrease was very similar to that of June (1.3%). As a result, the market value of this asset has now fallen by 18% in total since end-2007 (23% in real terms).

The cost of bank financing to firms and households increased moderately between June and August 2011 (latest figure available). The bulk of this increase relates, in most segments, to a widening of the spreads applied by banks over the benchmark interbank yields, against a background of significant difficulties and higher fund-raising costs for financial institutions in the wholesale markets. Also in Q3 (on information to September), the cost of debt issuance by firms rose, while that of equity issuance decreased.

Based on the results of the October Bank Lending Survey (BLS), the resurgence of the financial tensions did not give rise to a tightening of the credit standards applied to firms, which held steady overall for the fifth successive quarter.[2] The credit standards applied in consumer credit and other lending did not change either, whereas in house purchase loans banks reported a slight tightening, identical to that in July. Meanwhile, according to the same BLS, loan applications from firms and households decreased. For the closing months of the year, the surveyed banks expect that requests for funds will decrease further and that credit conditions will remain steady in all segments.

Against this background, the latest available data on private-sector financing, which relate to August, show a rate of decline similar to that at the end of Q2 in the case of households and somewhat sharper for firms. In the household sector, the contraction of liabilities held, in year-on-year terms, at 2% as a result of the scant changes in the decline of consumer credit and other lending and of house purchase loans. Borrowing by firms decreased by 1.1%, which was 0.4 pp more than in June. There were, however, significant differences among instruments. Thus, the rate of contraction of loans from resident institutions sharpened somewhat, while other types of debt (those used basically by large firms) continued to show more expansionary behaviour. The most recent data on lending by purpose, which relate to 2011 Q2, show a slowdown in all sectors, since all of them recorded a drop in the outstanding balance of bank loans, although to a varying extent. The provisional information for September indicates that the year-on-year rate of decrease of lending by resident financial institutions to households eased somewhat, while that of lending to firms scarcely changed.

As a result of the stagnation in quarter-on-quarter terms of household liabilities and income in Q2, the ratio of debt to gross disposable income (GDI) scarcely changed (see Chart 24). This, along with a steady average cost of debt, meant that the debt burden indicator held at levels similar to those of three months earlier. For their part, the gross savings ratio and the saving after debt service of households seem to have held on the downward path prevailing since early 2010. That was, however, compatible with an increase in the sector's net lending. The net wealth of these agents continued to decrease in this period, basically as a result of the fall in the real estate component. The provisional information relating to Q3 suggests that between June and September the debt ratio, debt burden and wealth of households fell moderately.

As regards firms, the contraction in liabilities, along with the moderate increase in their income, made for a fresh decrease in the debt ratio. As a result of this and of the slight increase in the average cost of financing, the debt burden remained steady in this period (see Chart 25). Simultaneously, the net lending of this sector rose. For the sample of corporations reporting to the CBQ, among which the biggest have a notable weight, the growth of ordinary profit in 2011 H1 (less than in the same months of 2010) was insufficient to prevent a slight fall in the return on investment with respect to 2010. Analysts consider that the earnings of listed companies will continue to worsen in the next twelve months (see Chart 26). The provisional information for Q3 points to a further fall in the sector's debt ratio and a slight rise in the associated debt burden.

General government debt continued to slow, although its rate of expansion remained very high (15.4% in August, against 16.5% in June). The increase in government debt, along with the weak growth of GDP, was reflected in a fresh rise in the sector's debt ratio, which

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2   For more details, see the article "Encuesta sobre Préstamos Bancarios en España: octubre de 2011" by Maristela Mulino, in the October 2011 *Boletín Económico* (only in Spanish).

DEBT RATIOS

DEBT (a) / ASSETS 1 (b)   DEBT (a) / ASSETS 2 (c)
DEBT (a) / GDI (right-hand scale)

DEBT BURDEN

INTEREST PAYMENTS   TOTAL (d)

SAVING

SAVING AFTER DEBT SERVICE (f)   GROSS SAVING (e)

WEALTH

NET TOTAL (g)   FINANCIAL ASSETS
LIABILITIES   PROPERTY (g)
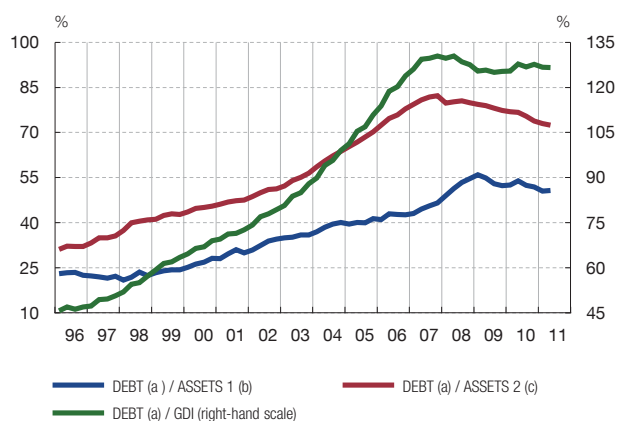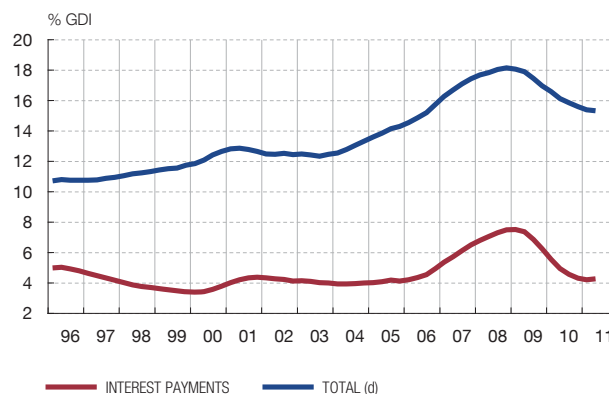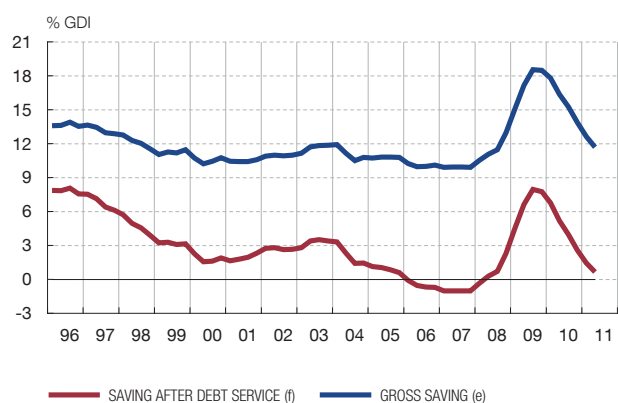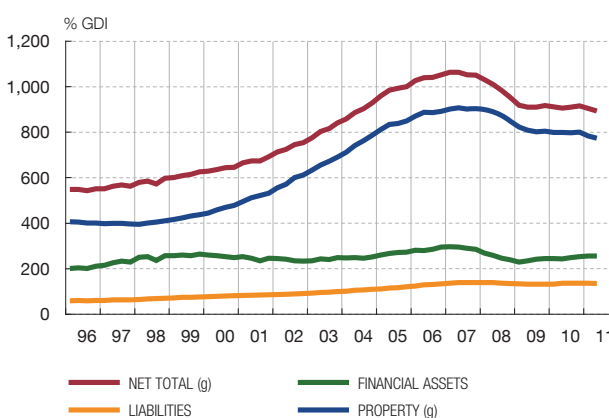
SOURCES: Ministerio de Vivienda, INE and Banco de España.

a Includes bank credit and off-balance-sheet securitised loans.
b Assets 1 = total financial assets - "other".
c Assets 2 = assets 1 - shares (excluding mutual fund shares) - shares in FIM.
d Estimated interest payments plus debt repayments.
e Balance of households' use of disposable income account.
f Gross saving less estimated debt repayments.
g Calculated on the basis of the estimated changes in the stock of housing, in the average area per house and in the price per square metre.

in June stood at 65% of GDP, and also, taken in combination with a slightly higher cost of debt, gave rise to an increase in the associated debt burden to 2.3% of GDP (see Chart 27).

Meanwhile the volume of doubtful assets continued to rise. This, along with the decrease in lending to other resident sectors as a whole, resulted in an increase in the doubtful assets ratio, which in August (the latest figure available) reached 7.1%, up 0.45 pp on June.

The most recent Financial Accounts information, relating to June, shows that the nation's net borrowing decreased further by 3.5% of GDP in twelve-month cumulated terms, 0.6 pp less than in March (see Table 8). Sectorally, this contraction resulted from the increase in net saving by households and non-financial corporations, which offset the slight decrease in the credit balance of financial institutions, while the debt position of general government scarcely changed. The bulk of the funds raised abroad in Q2 were channelled through credit institutions in the interbank market. Contrastingly, the net financial transactions of general government with the rest of the world switched to a credit balance, basically as a result of divestment

INDICATORS OF THE FINANCIAL POSITION OF NON-FINANCIAL CORPORATIONS

CHART 25

DEBT (b) / GOP + FR (c)

%

650
550
450
350
250
150

96 97 98 99 00 01 02 03 04 05 06 07 08 09 Q1 Q2 Q3 Q4 Q1 Q2
                                              2010   2011

— NFC. NATIONAL ACCOUNTS
— CBSO LARGE GROUPS (e)
— OTHER CBSO CORPORATIONS

DEBT (b) / ASSETS (d)

%

65
55
45
35
25

96 97 98 99 00 01 02 03 04 05 06 07 08 09 Q1 Q2 Q3 Q4 Q1 Q2
                                              2010   2011

— CBSO LARGE GROUPS (e)
— OTHER CBSO CORPORATIONS

INTEREST DEBT BURDEN

% GOP + FR (c)

35
30
25
20
15
10
5

96 97 98 99 00 01 02 03 04 05 06 07 08 09 Q1 Q2 Q3 Q4 Q1 Q2
                                              2010   2011

— NFC. NATIONAL ACCOUNTS
— CBSO LARGE GROUPS (e)
— OTHER CBSO CORPORATIONS

TOTAL DEBT BURDEN (f)

% GOP + FR (c)

270
240
210
180
150
120
90
60

96 97 98 99 00 01 02 03 04 05 06 07 08 09 Q1 Q2 Q3 Q4 Q1 Q2
                                              2010   2011

— CBSO LARGE GROUPS (e)
— OTHER CBSO CORPORATIONS

NET ORDINARY PROFIT / OWN FUNDS (g)

%   %

16   22
14   20
12   18
10   16
8   14
6   12
4   10
2   8

96 97 98 99 00 01 02 03 04 05 06 07 08 09 Q1 Q2 Q3 Q4 Q1 Q2
                                              2010   2011

— NFC. NATIONAL ACCOUNTS. APPROX. 1 (h)
— NFC. NATIONAL ACCOUNTS. APPROX. 2 (i)
— OTHER CBSO CORPORATIONS
— CBSO LARGE GROUPS (right-hand scale) (e)
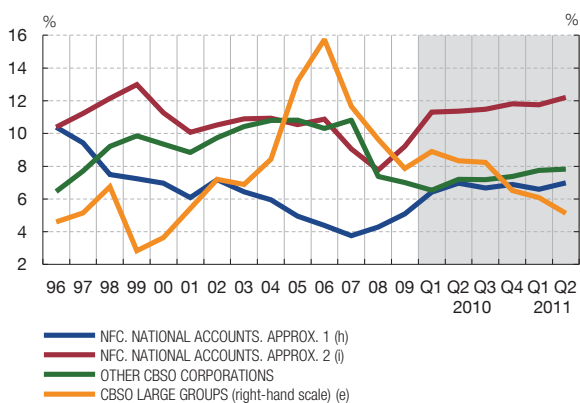
SYNTHETIC INDICATORS OF FINANCIAL PRESSURE (j)

1990 = 100

500
400
300
200
100
0
-100
-200

91 93 95 97 99 01 03 05 07 09 Q1 Q2 Q3 Q4 Q1 Q2
                                    2010   2011

— ON INVESTMENT
— ON EMPLOYMENT

SOURCES: INE and Banco de España.

a The indicators calculated from the CBSO sample were constructed until 2009 using CBA information; thereafter they have been extrapolated using CBQ information.
b Interest-bearing borrowed funds.
c Gross operating profit plus financial revenue.
d Defined as total inflation-adjusted assets less non-interest-bearing liabilities.
e Aggregate of all corporations reporting to the CBSO that belong to the Endesa, Iberdrola, Repsol and Telefonica groups. Adjusted for intra-group financing to avoid double counting.
f Includes interest plus interest-bearing short-term debt.
g NOP, using National Accounts data, is defined as GOS + interest and dividends received - interest paid - fixed capital consumption.
h Own funds valued at market prices.
i Own funds calculated by accumulating flows from the 1996 stock onwards.
j 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 8

% of GDP

	2006	2007	2008	2009	2010			2011	
					Q2	Q3	Q4	Q1	Q2
National economy	-8.4	-9.6	-9.2	-4.7	-4.5	-4.4	-3.9	-4.0	-3.5
Non-financial corporations and households and NPISHs	-11.5	-13.4	-6.5	5.1	4.7	4.5	4.4	4.3	4.9
Non-financial corporations	-9.8	-11.5	-6.7	-0.8	1.1	1.3	1.3	1.1	1.3
Households and NPISHs	-1.7	-1.9	0.2	5.9	3.6	3.2	3.1	3.2	3.5
Financial institutions	0.7	1.9	1.8	1.3	1.1	1.0	0.9	0.9	0.8
General government	2.4	1.9	-4.5	-11.1	-10.3	-9.9	-9.2	-9.2	-9.1
MEMORANDUM ITEM:									
Financing gap of non-financial corporations (a)	-17.8	-15.9	-11.9	-8.9	1.3	-0.2	-0.7	-1.5	-1.1

SOURCE: Banco de España.

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

OTHER FINANCIAL INDICATORS OF NON-FINANCIAL CORPORATIONS

CHART 26

CUMULATIVE CHANGE IN NET WORTH (a)
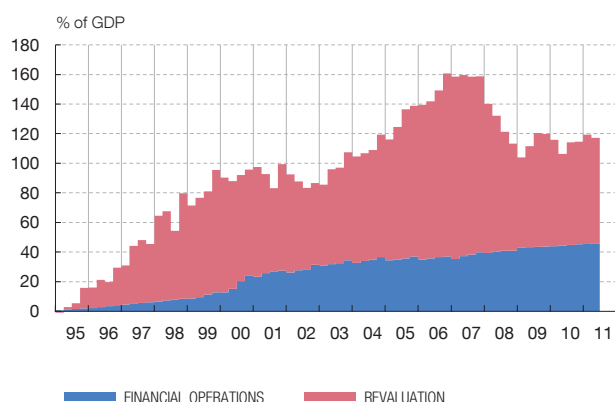
PROFIT GROWTH EXPECTATIONS OF LISTED FIRMS

FINANCIAL OPERATIONS   REVALUATION

LONG TERM   12-MONTH ESTIMATE

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.

by non-residents of fixed income securities. The net funds raised in the rest of the world by sectors other than the Banco de España were insufficient to cover the borrowing requirements of the nation, so the balance on financial transactions net of the latter vis-à-vis the rest of the world again posted a debit, this time equal to 2% of GDP. The balance of payments information relating to July shows that, in that month, the financing of the Spanish economy was channelled basically through the latter, while the net capital inflows through instruments issued by monetary financial institutions and general government were negative.

In short, during 2011 Q3 financial developments in Spain were marked by the heightening of financial market tensions, which resulted in a significant worsening of the wholesale funding conditions faced by financial institutions. For the time being, these developments seem to have had a moderate impact on the supply of credit, against a background of weak demand (due to the unfavourable income prospects and the need for deleveraging firms and house-

NET-FINANCIAL TRANSACTIONS
CONTRIBUTIONS BY INSTRUMENT (a)

% of GDP
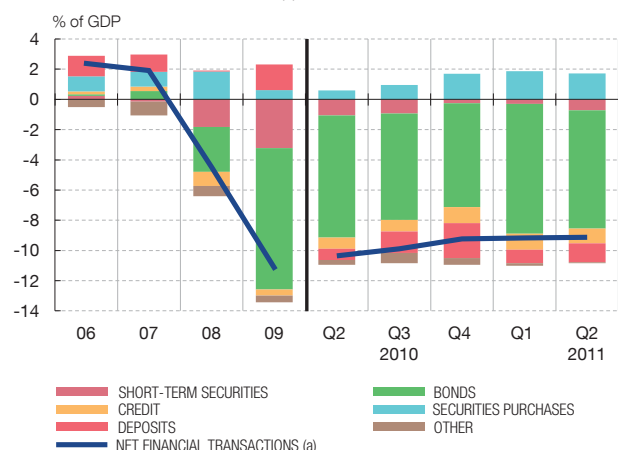
INTEREST BURDEN AND DEBT RATIO

% of GDP   %

SHORT-TERM SECURITIES
CREDIT
DEPOSITS
NET FINANCIAL TRANSACTIONS (a)
BONDS
SECURITIES PURCHASES
OTHER

INTEREST BURDEN
DEBT/GDP (right-hand scale)
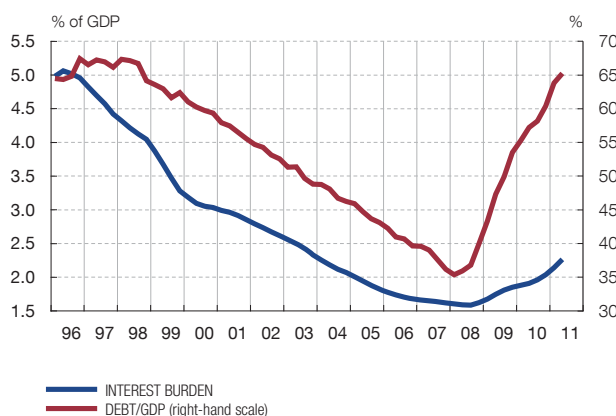
SOURCE: lBanco de España.

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

holds) and of strict initial credit standards, following the progressive tightening since 2007 (see Box 5). In any event, if the difficulties in accessing the wholesale markets persist for a prolonged period of time, it could result in a quickening of the rate of credit contraction.

5.2 Households

Between June and August the cost of bank financing to households increased, both in the case of real estate purchase loans (15 bp) and in the case of consumer credit and other lending (74 bp; see Chart 23). The credit standards for the latter seem to have remained steady in 2011 Q3 according to the October BLS, while banks report a slight tightening in those for the former, identical to that in July. The higher financing costs and the lower availability of funds for loan extension were again the main factors holding back supply in this segment. According to this BLS, applications for both types of loans decreased, more sharply in the case of house purchase loans, and the contraction seems to have been larger than in Q2. For the closing months of the year, the respondent banks anticipate a further decrease in applications for funds and unchanged credit conditions in both cases.

Against this background, household debt decreased again. In August (the latest figure available) the decline remained, in year-on-year terms, at 2%, as a result of scant variations in the contraction of consumer credit and other lending and of house purchase loans, which fell by 5% and 1.1%, respectively. For both components, the annualised quarter-on-quarter change shows falls which are more marked but somewhat smaller than in June.

As a result of the stagnation of income and of liabilities, in 2011 Q2 household debt held around the same level as in March (see Chart 24). This, together with the unchanged average cost of debt, meant that the debt burden ratio scarcely varied. Meanwhile, the gross saving rate and saving after debt service of households seem to have held on the downward path prevailing since the beginning of 2010. However, the net lending of the sector increased by 0.3 pp between March and June to 3.5% of GDP. Household net wealth dropped again in this period, basically as a result of the decrease in its real estate component.

Since the start of the sovereign debt crisis in Europe (in spring 2010), the premium Spanish credit institutions must pay to raise resources on wholesale funding markets has risen substantially, clearly exceeding the levels reached in the months following the bankruptcy of Lehman Brothers in September 2008 (see Panel 1). Indeed, at specific points in time, the possibilities of obtaining funds on the markets at acceptable terms were notably limited for all or most institutions. Panel 2 shows how in several episodes Spanish credit institutions' net issues were negative: first, following the bankruptcy of Lehman Brothers; then, in May-June 2010 with the first Greek crisis; later, in November-December that same year with the Irish crisis, and finally in summer this year with the heightening of tensions on euro area sovereign debt markets.

Notwithstanding this and the importance wholesale funding has acquired in Spanish credit institutions' business in recent years, the evidence available suggests that the effects on the volume and cost of credit will, to date, have been moderate. Thus, while recently the pace of funds extended to households and companies has tended to diminish, according to the equations available at the Banco de España, this pattern does not differ significantly from what might be inferred from the observed behaviour in the fundamental variables that have traditionally determined their growth (among which none reflecting the existence of these tensions are explicitly included). The interest rates applied have tended to rise slightly more than might be inferred from the historical pattern of behaviour; but, once again, the deviations appear to have been

1 CDS PREMIUM AND SPREAD OVER MORTGAGE COVERED BONDS

CDS (a)   MORTGAGE COVERED BONDS (b)
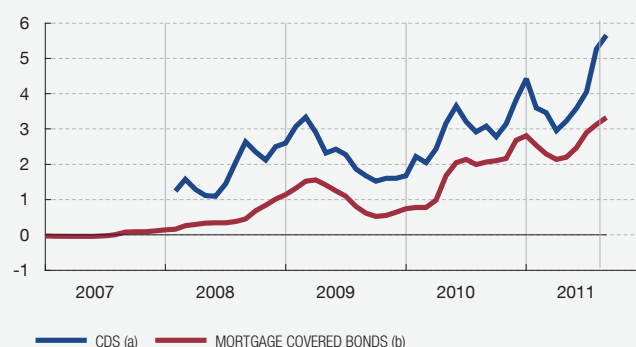
2 CREDIT INSTITUTIONS' FIXED-INCOME SECURITIES (c)

GROSS ISSUES   REDEMPTIONS   NET ISSUES
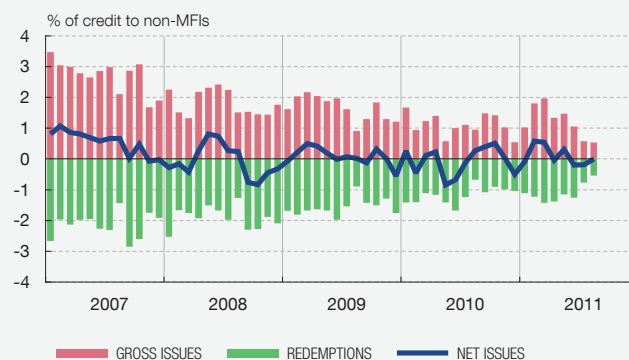
3 FINANCING OF FUNDS EXTENDED TO NON-MFIs. SPANISH CREDIT INSTITUTIONS
Contributions to year-on-year growth

OTHER (d)
DEPOSITS OF HOUSEHOLDS, CORPORATIONS AND GENERAL GOVERNMENT (e)
DEBT SECURITIES, SECURITISATION AND OTHER DEPOSITS (f)
NET INTERBANK FINANCING (g)
TOTAL FINANCING (f)
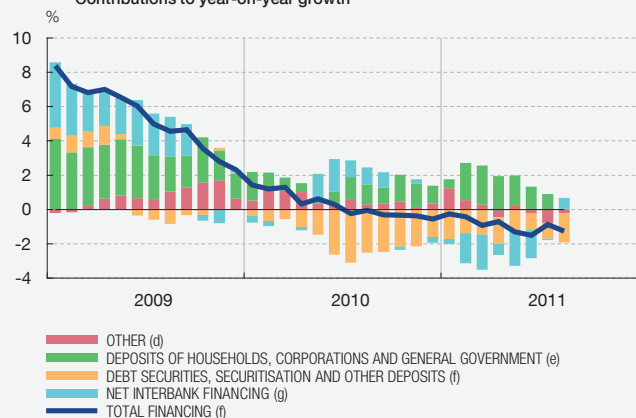
4 BANK LENDING SURVEY. CHANGE IN SUPPLY OF AND DEMAND FOR LOANS IN SPAIN (h)

SUPPLY
DEMAND
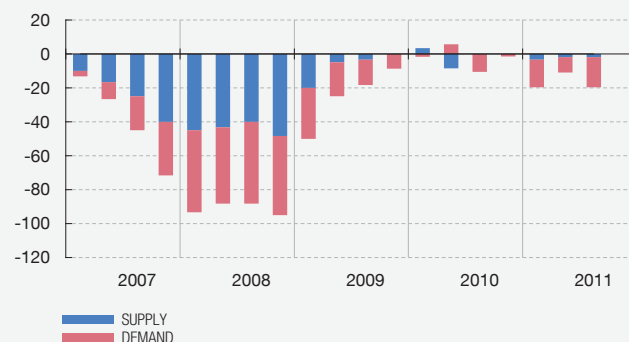
SOURCES: Datastream and Banco de España.

a Five-year CDSs. Average of seven institutions.
b Average asset swap spread at three-five years.
c Includes resident subsidiaries' issues. Subordinated and preferential issues not included.
d Own funds net of cash, equities, fixed assets and other assets and liabilities.
e Resident in Spain.
f Includes off-balance sheet securitisations.
g Liabilities less claims on MFIs, including Banco de España. Includes the net balance of operations with central counterparties.
h Negative values denote a net reduction in supply or demand. The indicators shown are calculated as the average (for loans to corporations, loans to households for house purchases and to households for consumption and other purposes) of the net percentage of institutions that eased their lending standards in the quarter (supply) and the net percentage of institutions that signaled an increase in demand (demand). In the calculation of net percentages, "considerable changes" are weighted by 1 and "certain changes" by 1/2.

minor. Likewise, based on the replies of the Spanish institutions participating in the Bank Lending Survey (BLS), there have been no significant changes since mid-2010 in the standards for approving new loans (see Panel 4).

The factors that might account for these moderate effects of the financial tensions on bank lending in Spain relate essentially to the existence of buffers and alternative sources of financing on the part of Spanish credit institutions. Of note, first, is the fact that the average term of maturity of outstanding securities issued by Spanish institutions, before the crisis, was relatively high, which would have meant that the monthly repayments institutions had to withstand were not very sizeable. Furthermore, despite the tensions, there has at all times been some volume of issuance, meaning that although the contribution of wholesale resources (debt securities, securitisations and other deposits) to the growth of the financing of the funds granted to non-MFIs has been negative since early 2010 (see Panel 3), this negative contribution has at no point exceeded 3 pp in year-on-year terms. These declines were partly offset by the growth of resident customers' deposits which, while not very high, remain positive as from December 2009, driven mainly by household deposits (which account for more than 70% of the total). At specific points in time, at the height of the tensions, the resort to the pledging of available liquid assets, as collateral for interbank market operations (either with the central bank or with other institutions), would also have contributed to some extent to offsetting the negative net issues of debt securities. Lastly, it should further be taken into account that, during this period, set against the slackness of the economy and private-sector deleveraging needs, households' and companies' demand for funds has been relatively scant, thereby limiting the potential contractionary effects of the tensions on lending, as highlighted in the replies by Spanish banks to the BLS (see Panel 4).

In any event, even bearing in mind the long average life of outstanding securities and the slackness of the demand for credit, the protracted continuation of a situation of difficulty for institutions in raising funds on the markets would tend to deplete the leeway available to counter these effects. For one thing, the possibility of higher growth in customer deposits - or the placement with customers of tradeable securities - is limited by the level of saving of Spanish households and companies and the scope of the potential shifts between assets within these same agents' portfolios. In this respect, in the last eight quarters to 2011 Q2, Spanish households earmarked 70% (60%) of their gross (net) saving to the acquisition of Spanish credit institutions' deposits, while investment funds, the main alternative asset, saw their value fall by 45% from the peak attained in June 2007. Accordingly, a significant acceleration in the rate at which new funds are raised through this channel is complicated and would undoubtedly see the cost of new funds rise.

Furthermore, the volume of liquid assets available for sale or supply as collateral for loans, in July 2011, is estimated to stand at around 9% of Spanish credit institutions' total balance sheet, a figure clearly higher than the average for the years 2005-2007 (5.6%), but one which already reflects the decline from the peak of 11.7% reached in March this year. However, the option of selling these assets to obtain liquidity might not be feasible (not without incurring high losses) for a substantial portion of such assets. The alternative of using them as collateral to obtain funds on the interbank market, in an environment marked by a lack of confidence and by the difficulties of gaining access to wholesale funding, entails an interest-rate and refinancing risk which, given the amounts in question, is not negligible.

In sum, although the tensions on euro area sovereign debt markets do not appear so far to have translated into a significant further tightening of credit supply by Spanish credit institutions, the prolonged continuation of the current situation would tend to exhaust the leeway available to these institutions to counter these effects. While the recent liquidity support measures adopted by the Eurosystem are a substantial help, a scenario of continuing tensions would ultimately see the rate of contraction of credit step up.

On the latest Financial Accounts information, household investment in financial assets decreased by 1.8 pp between March and June to 1.7% of GDP in four-quarter cumulated terms (see Table 9). By instrument, household investment in fixed-income securities posted the largest fall and the flow became negative, equal to 0.6% of GDP. Households also saw, during the past twelve months, a decline in their holdings of shares and mutual fund shares, although the divestment of the latter was somewhat more moderate than in the previous quarter. By contrast, the sector's stock of time deposits increased again, in line with the events three months earlier.

Finally, Q2 did not bring any major changes in the sector's doubtful assets ratios, which stood around 2.52% for house purchase loans and at 6.43% for consumer credit and other lending.

% of GDP

	2007	2008	2009	2010 Q4	2011 Q1	2011 Q2
HOUSEHOLDS AND NPISHs						
Financial transactions (assets)	7.2	2.5	4.6	3.8	3.4	1.7
Cash and cash equivalents	-1.1	-0.4	4.2	-0.1	0.0	-0.3
Other deposits and fixed-income securities (a)	7.5	6.8	-1.3	3.2	3.3	2.3
Shares and other equity (b)	0.6	-0.2	1.3	0.5	0.4	-0.3
Mutual funds	-1.1	-3.4	0.0	-1.7	-1.5	-1.3
Insurance technical reserves	0.9	0.2	0.9	0.7	0.7	0.9
Of which:						
Life assurance	*0.2*	*-0.2*	*0.6*	*0.3*	*0.4*	*0.5*
Retirement	*0.4*	*0.3*	*0.3*	*0.4*	*0.2*	*0.4*
Other	0.3	-0.4	-0.4	1.3	0.7	0.4
Financial transactions (liabilities)	9.1	2.3	-1.2	0.8	0.2	-1.9
Credit from resident financial institutions (c)	9.4	3.4	-0.5	0.0	-0.5	-1.6
House purchase credit (c)	7.1	2.7	0.1	0.5	-0.1	-0.7
Consumer and other credit (c)	2.1	0.8	-0.4	-0.3	-0.4	-1.0
Other	-0.3	-1.1	-0.7	0.7	0.7	-0.2
NON-FINANCIAL CORPORATIONS						
Financial transactions (assets)	13.4	1.7	-8.3	7.0	6.0	4.1
Cash and cash equivalents	-0.4	-1.1	-0.3	-0.1	0.4	-0.5
Other deposits and fixed-income securities (a)	2.0	2.3	-0.6	1.3	1.8	2.0
Shares and other equity	8.1	2.9	-0.4	2.6	2.6	1.5
Of which:						
Vis-à-vis the rest of the world	*6.6*	*3.1*	*0.3*	*2.2*	*2.4*	*2.0*
Trade and intercompany credit	2.1	-3.2	-7.3	3.1	1.0	0.3
Other	1.5	0.7	0.3	0.0	0.2	0.8
Financial transactions (liabilities)	24.9	8.4	-7.6	5.7	4.9	2.8
Credit from resident financial institutions (c)	13.8	5.5	-3.0	-0.9	-1.4	-2.4
Foreign loans	2.8	3.0	-0.1	0.7	1.2	1.2
Fixed-income securities (d)	0.5	0.3	1.3	0.7	0.6	0.6
Shares and other equity	5.3	2.3	1.6	1.8	2.6	2.6
Trade and intercompany credit	3.3	-3.3	-7.0	3.3	1.1	0.3
Other	-0.8	0.6	-0.5	0.1	0.9	0.4
MEMORANDUM ITEM: YEAR-ON-YEAR GROWTH RATES (%):						
Financing (e)	15.4	6.6	-0.8	0.6	0.1	-1.2
Households and NPISHs	12.5	4.4	-0.3	0.2	-0.5	-2.0
Non-financial corporations	17.7	8.2	-1.2	0.9	0.4	-0.7

SOURCE: Banco de España.

a Not including unpaid accrued interest, which is included under "other".
b Excluding mutual funds.
c Including derecognised securitised loans.
d Includes the 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

Between June and August 2011 the interest rates on bank financing to firms increased by 6 bp and 28 bp for transactions of less than and more than €1 million, respectively. This increase basically reflects a widening of the spreads applied by financial institutions over the interbank benchmark rates. In line with this development, banks indicated in the latest BLS (October 2011) that in 2011 Q3 the margins applied to new loans to this sector had increased slightly, although the standards for approving those loans remained unchanged. According to this BLS, firms' applications for bank financing dropped in these months. In Q3 the cost of issuing short- and long-term fixed-income securities increased (20 bp and 46 bp, respectively), while that of equity issuance decreased by 45 bp.

Q3 saw a quickening of the rate of contraction of the debt of non-financial corporations, which in August stood, in year-on-year terms, at 1.1%, 0.4 pp more than in June. These are, however, significant differences between instruments. Thus the year-on-year rate of fall of loans by resident institutions quickened to 3.4%, compared with 2.7% at the end of Q1, although in quarter-on-quarter terms the decrease moderated slightly. By contrast, for fixed-income securities and loans from abroad (the means used basically by large companies), the more expansionary behaviour continued. The latest information on lending by loan type, relating to 2011 Q2, reflects an across-the-board deceleration in all sectors, as a result of which all of them showed a contraction in the outstanding balance of bank financing. Once again, the year-on-year fall was particularly sharp in construction (15%) and in real estate services (4.2%), and comparatively more moderate in other services (0.4%). In industry it was 3.9%, against 2.4% in March.

On Financial Accounts information, the credit balance of the corporate sector's net financial transactions increased slightly in 2011 Q2 to 1.3% of GDP in twelve-month cumulated terms, up 0.3 pp on March. This increase was similar to that in the financing gap, which approximates the funds required to bridge the difference between gross corporate saving and gross capital formation plus permanent foreign investment, which posted a negative balance equivalent to 1.1% of GDP, compared with -1.5% in the first three months of the year.

The containment of corporate debt, along with the improved corporate surpluses shown by the National Accounts for 2011 Q2, meant that the sector's debt ratio decreased again. The cumulative fall is now somewhat more than 10% from the high reached in 2009. As a result of this fall-off and of the slight rise in the average cost of financing, the debt burden held steady in this period (see Chart 25). Also, the improvement in income allowed the return on equity to increase. For the sample of CBQ reporting firms, among which the biggest have a notable weight, the data available for 2011 H1 show that gross operating profit (GOP) decreased between January and June by 1.6% with respect to the same period of 2010. Despite this fall in GOP, the notable growth in financial revenue allowed the ordinary net profit of these firms to increase in this period, albeit less than in the same months of 2010 (3.5%, against 8% in 2010), but did not prevent the return on investment dropping, by 0.3 pp with respect to 2010, to 5%. This fall was in all sectors, especially those in which productive activity slumped most, such as wholesale and retail trade, accommodation and food service activities, and information and communication. In 12-month cumulated terms, income held at similar levels to those in March, as did liabilities, so the debt ratio of these firms scarcely changed in Q2. This, along with the higher interest rates, nudged the debt burden up slightly. Nonetheless, the synthetic indicator of financial pressure on investment underwent no significant change, while that of employment decreased slightly. As far as the coming quarters are concerned, analysts revised downward the long-term growth expectations for the profits of listed companies and the same applies even more so to short-term expectations (see Chart 26).

The doubtful assets ratio of non-financial corporations grew again in 2011 Q2, more sharply in lending to construction and real estate services firms (the ratio of which increased by 2.3 pp to 17%) than in other companies (the ratio of which was up by 0.3 bp to 4%).

5.4 General government   The Financial Accounts show that in 2011 Q2 general government borrowing scarcely changed, standing, in cumulated annual terms, at 9.1% of GDP, down 0.1 pp from March (see Table 8). Once again, the main way of raising funds was bond issuance, thought

NET FINANCIAL TRANSACTIONS (b)
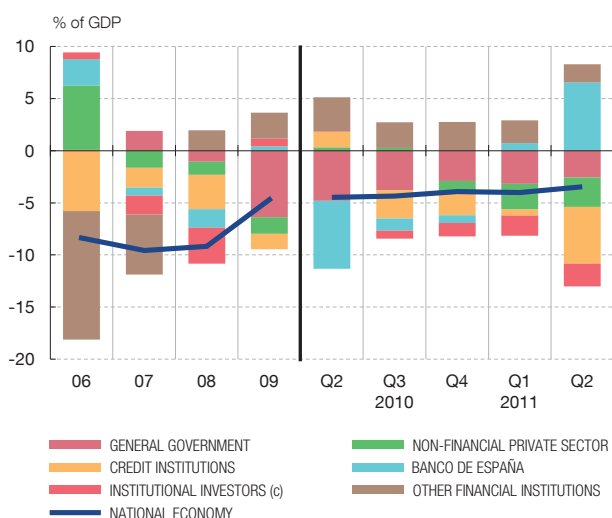
NET FINANCIAL ASSETS
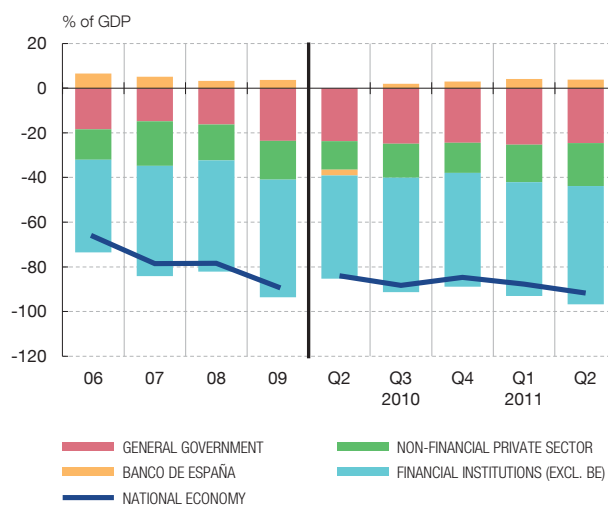
SOURCE: Banco de España.

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

which funds equivalent to 7.8% of GDP were obtained, down 0.8 pp from March (see Chart 27). Loans and short-term debt securities contributed another 1.7% of GDP (0.3% more than in Q1) while, on the asset side, net acquisitions of securities decreased slightly to 1.7% of GDP and the stock of deposits dropped by the equivalent of 1.3% of GDP. From the sectoral standpoint, resident financial institutions acquired the largest volume of general government securities, while the rest of the world reduced its holdings of these assets.

The growth rate of general government debt continues to be high (15.4% in August), although it has moderated further (1.1 pp less than in June). The increase in liabilities, along with the weak GDP growth, has been reflected in a fresh rise in the sector's debt ratio, which was up to 65% of GDP at the end of 2011 H1, 1.4 pp more than in March. This, together with the slight rise in the average cost of borrowing, meant that the associated debt burden rose to 2.3% of GDP.

5.5 **The rest of the world**

The nation's net borrowing fell back again in 2011 Q2 to 3.5% of GDP in 12-month cumulated terms, down 0.6 pp from the figure in March, according to the Financial Accounts (see Table 8). This decrease was due to the higher net saving of households and non-financial corporations, which offset the slight fall in the credit balance of financial institutions, while the debit position of general government scarcely changed.

The sectoral breakdown of financial transactions with the rest of the world shows that between March and June 2011 the bulk of external financing was channelled through credit institutions, the net volume being equivalent to 5.4% of GDP (a figure similar to that for the whole of the past twelve months; see Chart 28), which represents an increase compared with the previous three months. There was also a rise in the capital inflows associated with the activity of institutional investors, which continued to reduce their holdings of foreign assets. By contrast, the other sectors saw a decline in these flows, particularly

% of GDP

	2007	2008	2009	2010	2011	
				Q4	Q1	Q2
NET FINANCIAL TRANSACTIONS	-9.6	-9.2	-4.7	-3.9	-4.0	-3.5
Financial transactions (assets)	14.1	0.7	-0.2	-3.4	-1.2	1.7
Gold and SDRs	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	1.4	-1.3	-3.2	-1.4	0.7	0.5
Of which:						
Interbank - credit institutions	*4.2*	*-0.5*	*-1.7*	*-1.3*	*0.5*	*0.2*
Securities other than shares	1.6	1.3	0.0	-6.9	-7.1	-4.7
Of which:						
Credit institutions	*1.8*	*1.5*	*1.2*	*-3.0*	*-2.4*	*-0.4*
Institutional investors	*0.0*	*-1.3*	*-0.5*	*-2.8*	*-3.2*	*-2.7*
Shares and other equity	8.8	1.7	1.5	2.4	3.0	3.1
Of which:						
Non-financial corporations	*6.6*	*3.1*	*0.3*	*2.2*	*2.4*	*2.0*
Institutional investors	*-1.1*	*-1.8*	*0.0*	*1.2*	*0.8*	*0.4*
Loans	1.2	0.8	0.2	0.3	0.4	1.1
Financial transactions (liabilities)	23.7	9.9	4.5	0.5	2.8	5.2
Deposits	6.7	8.0	-0.5	-0.5	-1.3	0.7
Of which:						
Interbank - credit institutions (a)	*6.7*	*6.2*	*0.7*	*-7.3*	*-7.7*	*-1.7*
Repos - credit institutions (b)	*0.1*	*0.2*	*0.1*	*5.7*	*6.1*	*8.2*
Interbank - BE (intra-system position)	*-0.3*	*1.9*	*-0.8*	*0.2*	*-1.1*	*-6.5*
Securities other than shares	8.1	-2.7	3.7	-1.7	-0.4	0.1
Of which:						
General government	*-1.3*	*1.1*	*5.2*	*2.1*	*2.7*	*2.3*
Credit institutions	*3.6*	*-1.9*	*1.1*	*-1.3*	*-1.0*	*-0.5*
Other non-monetary financial institutions	*5.8*	*-1.9*	*-2.5*	*-2.5*	*-2.1*	*-1.7*
Shares and other equity	4.6	3.2	1.0	0.9	2.4	2.3
Of which:						
Non-financial corporations	*4.7*	*2.4*	*0.3*	*1.3*	*2.4*	*2.3*
Loans	3.1	2.9	0.3	1.2	1.5	1.6
Other, net (c)	0.2	0.2	-1.4	-1.6	-1.3	-1.3
MEMORANDUM ITEMS						
Spanish direct investment abroad	9.5	4.7	0.7	1.5	2.9	3.5
Foreign direct investment in Spain	4.5	4.8	0.6	1.7	2.1	2.4

SOURCE: Banco de España.

a Includes bilateral repos.
b Including transactions with central counterparty clearing houses.
c Includes, in addition to other items, the asset-side caption reflecting insurance technical reserves and the net flow of trade credit.

sharp in the case of general government. The net funds raised abroad by agents other than the Banco de España were insufficient to cover the nation's borrowing requirement, so the Banco de España's net financial transactions with the rest of the world again showed a debit balance, equivalent to 2% of GDP. The July balance of payments information shows that the financing of the Spanish economy in that month was covered mainly by this latter means and, to a lesser extent, by the net funds raised in the rest of the world by "other resident sectors" (which include households, non-financial institutions and non-monetary financial institutions), while, by contrast, the net flow of funds obtained by monetary finan-

cial institutions and by general government was negative, basically due to non-residents' divestments of bonds issued by these sectors.

The breakdown by instrument shows that the bulk of capital inflows between March and June was channelled through the interbank market (including transactions with central counterparties), which, in net terms, allowed credit institutions to raise funds for an amount equivalent to 15.5% of GDP (6.2% of GDP in 12-month cumulated terms; see Table 10). By contrast, the flow associated with fixed-income securities fell significantly to the point that it became negative by an amount equivalent to 7.8% of GDP (in four-quarter cumulated terms it was, however, slightly positive at 0.1% of GDP). The divestment by non-residents of securities issued by Spanish agents affected all sectors. Also down were the funds raised through shares and other equity, which showed a negative sign, and foreign direct investment in Spain, although in the period July 2010-June 2011 the latter increased to 2.4% of GDP, up 0.3 pp on March.

Capital outflows increased in 2011 Q2 to 5.6% of GDP (1.7% in four-quarter cumulated terms). Analysis by instrument shows, once again, a divestment by residents of fixed-income securities issued by the rest of the world, albeit less than in the first quarter of the year, an increase in the stock of loans to the rest of the world and a fall in net purchases of shares and other equity. Also down was Spanish foreign direct investment, which stood at 3% of GDP, although in the period July 2010-June 2011 it rose by 0.6 pp to 3.5% of GDP.

These developments in capital inflows and outflows, in asset prices and in exchange rates meant that the value of the Spanish economy's net liabilities to the rest of the world were equivalent to 91.7% of GDP in 2011 Q2, up 4 pp on March (see Chart 28). This increase was due to the rise of 5.8 pp in the debit balance of the non-financial private sector and of financial institutions (excluding the Banco de España) with non-residents, which offset the decline in the net external debt of general government. For its part, the Banco de España's credit position vis-à-vis the rest of the world decreased slightly.

28.10.2011

RESULTS OF NON-FINANCIAL CORPORATIONS IN 2011 Q2

RESULTS OF NON-FINANCIAL CORPORATIONS IN 2011 Q2

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Overview[1]

The information compiled by the Central Balance Sheet Data Office up to 2011 Q2 reveals a contraction of 0.7% in the gross value added (GVA) of the sample of reporting firms in the first half, relative to the same period of the previous year, which means that the slowdown observed in Q1 intensified. However, it should be noted that this year-on-year rate was affected by the bringing forward of spending decisions by consumers in 2010 Q2, in response to the announcement that VAT was going to be raised on 1 July 2010, which resulted in an extraordinary increase in activity in that period.

Personnel costs grew by 0.3%, after falling by almost 1 pp in the first half of 2010. This was a consequence of a 1% fall in employment, which was offset by an increase of 1.3% in average compensation. The decline in employment is, however, smaller than the 2.1% fall observed a year earlier. By type of contract, it was temporary employment that continued to absorb the impact of workforce reductions, with a decline of 8.7%, while permanent employment was practically unchanged. The rise in average compensation was very similar to that seen in the same period of 2010 (1.2%).

Gross operating profit (GOP) fell by 1.6%, having grown by 13.1% in the same period of 2010. There was an increase in both financial costs (6.6%) and, especially, in financial revenue (23.4%), due to the impact of rising interest rates in recent months and also, in the case of revenue, as a consequence of the higher dividends received, mainly from foreign subsidiaries. The notable growth in this item enabled ordinary net profit (ONP) to grow by 3.5%, which was nonetheless lower than the rate observed a year earlier (8%). This rise in ONP was insufficient to sustain the profit ratios, so that the return on investment fell by 0.3 pp, from its 2010 level, to 5%. This decline affected all sectors, and especially those in which the decline in productive activity was most pronounced, such as wholesale and retail trade and accommodation and food service activities and information and communication. However, this aggregate performance was compatible with a certain shift in the distribution of individual profit ratios towards higher levels, which would suggest that the deterioration in the aggregate data is basically due to the performance of the largest firms. At the same time, the indicator that measures the cost of borrowing for firms rose slightly to 3.5%, up 0.2 pp from a year earlier. As a result, the difference between the return on investment and the cost of debt remained positive, at 1.5%, although that was half a percentage point lower than in 2010.

Finally, there were significant extraordinary losses in the first half of 2011, in comparison with the same period of 2010. The sharp decline, by 70.9%, in the item reflecting gains (losses) from disposals and impairment was notable, owing to the large amount recorded under this heading in the first half of 2010 (the period of comparison), as a consequence of significant capital gains. This meant that net profit actually fell in the first half of 2011, by 18.1%.

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1 This article was prepared on the basis of the information obtained from the 742 firms that reported their quarterly data to the Central Balance Sheet Data Office. This sample of firms accounts for 12.4% of the value added generated by the entire non-financial corporations sector in Spain.

In short, the GVA of the firms reporting to the Central Balance Sheet Data Office contracted slightly in the first half of 2011, against a background of slack domestic spending, which was partially offset by buoyant external demand, although the latter has been losing momentum this year. Employment at these firms continued to decline, albeit at a lower rate than in previous years, while average compensation continued to grow. As a result, and despite the significant growth in financial revenue, the firms did not manage to generate sufficient surpluses to maintain their ordinary net profit, against a background of a slight rise in the cost of borrowing. The uncertainty regarding corporate earnings over the coming quarters is high and has recently increased, as a consequence of the financial market strains and the weakness of growth in some of the more developed economies.

Activity

The GVA of the firms reporting quarterly data to the Central Balance Sheet Data Office contracted by 0.7% in the first half of 2011, relative to the same period in 2010 (see Table 1 and Chart 1), when it grew by 6.1%. The slowdown in activity observed in the Q1 data, thus appears to have intensified in Q2, with a 2% year-on-year fall in GVA. This negative performance occurred against the background of slackness in domestic demand and, especially, in private consumption, which affected some productive sectors, such as wholesale and retail trade and information and communication, more than others. Conversely, external demand remained highly buoyant, leading to an increase in the weight of exports, to 14% of total sales, as against 12.3% a year earlier (see Table 2). That said, it should be noted that the year-on-year rates of change in GVA in the first half of 2011 are affected by the bringing forward of spending decisions by consumers in 2010 Q2, in response to the announcement that VAT was going to be raised on 1 July 2010.

At the sector level there was a worsening in the performance of activity across the board (see Table 3). This worsening was most severe in wholesale and retail trade and accommodation and food service activities and in information and communication, both of which recorded declines in GVA in the first half of 2011. As already mentioned, these sectors were adversely affected by the weakness of private consumption. Thus, the GVA of the firms in the wholesale and retail trade and accommodation and food service activities sector fell by 4.3% in the first six months of 2011, when in 2010 it had increased by 8.3%. In the information and communication sector GVA decreased by 3.5%, partly due to the squeezing of the mark-ups of telecommunications firms, as a result of the strong competition currently existing in this sub-sector. By contrast, GVA increased by 1.6% in energy and by 6.2% in industry, although in both cases these rates were lower than those recorded a year earlier. In energy, the modest rise in GVA basically stemmed from the behaviour of electricity, gas and water supply companies, whose GVA grew by 1.8%, although this was lower than the rate a year earlier (of 10%). The GVA of oil refining companies (the other large energy sub-sector) decreased by 2.6%, owing to the reductions in their mark-ups, especially in Q2, against a background in which oil prices remained above their 2010 levels (see Chart 2). GVA in industry rose by 6.2%, although this was lower than the rate in the first half of 2010 (18.2%). The growth in industrial activity is largely explained by the momentum of exports which, as already mentioned, remained highly buoyant in the first half of the year. Within this sector, the highest increases in GVA were recorded in transport equipment (18.5%), mineral and metal products (7.2%) and chemicals and chemical products (5.8%). Finally, there was a 1.3% fall in the GVA of the aggregate that covers the rest of the firms, as compared with an increase of 5.1% in 2010.

Lastly, the data in Chart 3 show that the lower growth of GVA was basically concentrated in the upper part of the distribution of firms based on the growth of this variable,

PROFIT AND LOSS ACCOUNT. PROFIT RATIOS
Growth rates of the same corporations on the same period a year earlier

TABLE 1

DATABASES	CBA Structure	CBA		CBQ (a)		
	2009	2008	2009	2010 Q1-Q4/ 2009 Q1-Q4	2010 Q1-Q2/ 2009 Q1-Q2	2011 Q1-Q4/ 2010 Q1-Q4
Number of corporations		9,639	9,626	801	830	742
Total national coverage		31.6%	30.4%	13.1%	13.9%	12.4%
PROFIT AND LOSS ACCOUNT						
1 VALUE OF OUTPUT (including subsidies)	100.0	-0.1	-13.3	8.2	11.5	11.1
Of which:						
Net amount of turnover and other operating income	*147.1*	*1.3*	*-13.6*	*9.2*	*12.9*	*12.4*
2 INPUTS (including taxes)	65.0	1.2	-16.0	11.0	14.7	17.3
Of which:						
Net purchases	*89.1*	*0.8*	*-19.0*	*15.6*	*22.4*	*25.1*
Other operating costs	*22.7*	*2.2*	*-6.6*	*8.6*	*7.7*	*0.5*
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	35.0	-2.7	-7.7	3.1	6.1	-0.7
3 Personnel costs	21.3	3.9	-3.4	-1.3	-0.9	0.3
S.2 GROSS OPERATING PROFIT [S.1 – 3]	13.7	-10.1	-13.7	7.4	13.1	-1.6
4 Financial revenue	5.0	8.2	-17.1	-4.3	-15.5	23.4
5 Financial costs	4.3	13.7	-29.2	5.1	-2.3	6.6
6 Depreciation and operating provisions	6.3	7.5	-5.0	4.3	4.5	4.2
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	8.0	-20.9	-11.9	3.0	8.0	3.5
7 Capital gains and extraordinary revenue (b)	1.6	—	—	—	44.0	-70.9
7' As a percentage of GVA (7 / S.1)		-6.7	4.6	-2.1	13.1	4.0
8 Changes in fair value and other gains (losses) (b)	-1.8	—	-3.0	59.5	—	4.4
8' As a percentage of GVA (8/ S.1)		-4.3	-5.0	-3.3	-2.1	-1.9
9 Other (net provisioning and income tax)	0.9	-66.5	39.9	22.8	52.0	-19.8
S.4 NET PROFIT [S.3 + 7 + 8 - 9]	7.0	-56.8	50.2	-9.8	6.5	-18.1
S. 4' As a percentage of GVA (S.4 / S.1)		12.4	20.0	24.5	36.5	30.1
NET PROFIT/GVA (S.4/S.1)	Formulas (c)					
R.1 Return on investment (before taxes)	(S.3 + 5.1) / AN	7.7	6.2	6.2	5.3	5.0
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1 / RAC	5.2	3.6	3.4	3.3	3.5
R.3 Ordinary return on equity (before taxes)	S.3 / PN	9.9	8.6	8.7	7.1	6.3
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	2.5	2.6	2.8	2.0	1.5

SOURCE: Banco de España.

a All the data in these columns have been calculated as the weighted average of the quarterly data.
b New P&L headings resulting from application of the new General Chart of Accounts (PGC 2007).
c NA = Net assets (net of non-interest-bearing borrowing); NW = Net worth; IBB = Interest-bearing borrowing; NA = NW + IBB. The financial costs in the numeratiors of ratios R.1 y R.2 only include the portion of financial costs that is interest on borrowed funds (5.1) and not other financial costs (5.2).

NOTE: In calculating rates, internal accounting movements have been edited out of items 4, 5, 7 and 8.

which includes the companies whose activity is most buoyant. Thus, the 75th percentile (which indicates the level of growth of GVA below which the GVA growth of 75% of the sample of firms lies) stood at 16.5% in the first half of 2011, somewhat more than 4 pp below the level a year earlier. By contrast, in the lower part of the distribution there was a slight improvement (the 25th percentile rose from -14.5% to -13.8%). Finally, the contraction in GVA at the aggregate level was compatible with positive median growth (1.8%), although this was lower than the median rate in the same period of 2010 (2.4%).

CHART 1

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

GROSS VALUE ADDED AT FACTOR COST
Rate of change

PERSONNEL COSTS
Rate of change
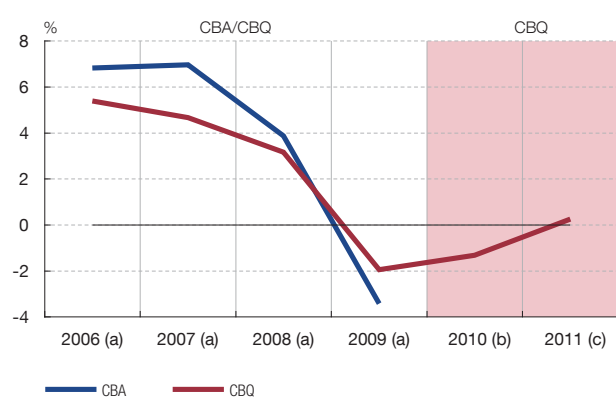
EMPLOYMENT AND WAGES
Rate of change
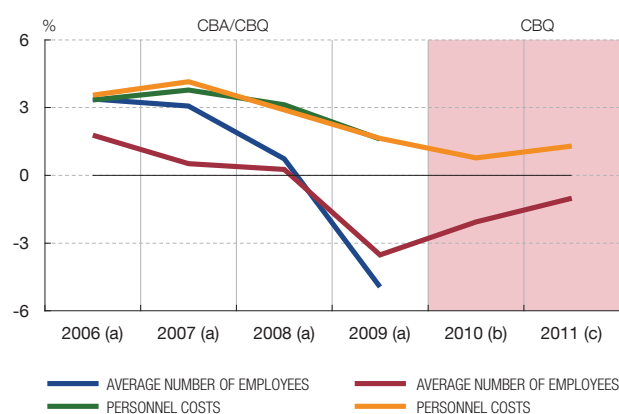
GROSS OPERATING PROFIT
Rate of change
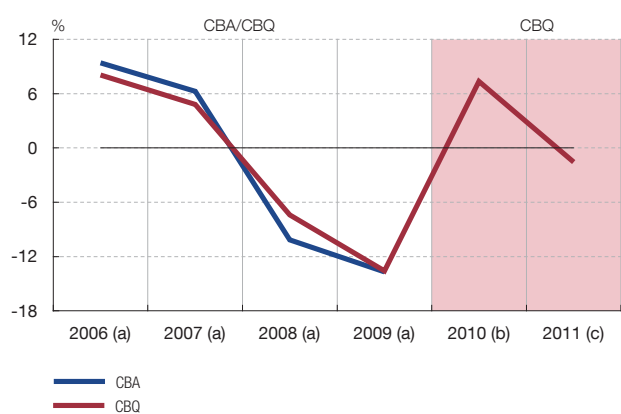
NON-FINANCIAL CORPORATIONS		2006	2007	2008	2009	2010	2011
Number of corporations	CBA	9,276	9,321	9,639	9,626	—	—
	CBQ	830	849	816	805	801	742
% of GDP of the sector non-financial corporations	CBA	33.5	33.9	31.6	30.4	—	—
	CBQ	14.6	14.3	13.1	12.8	13.1	12.4

SOURCE: Banco de España.

a 2006, 2007, 2008 and 2009 data are the average data of the four quarters of each year (CBQ) in relation to the previous year for the corporations reporting to the annual survey (CBA).
b Average of the four quarters of 2010 relative to the same period in 2009.
c Data up to 2011 Q2 vis-à-vis the same period in 2010.

FINANCIAL COSTS
Rate of change
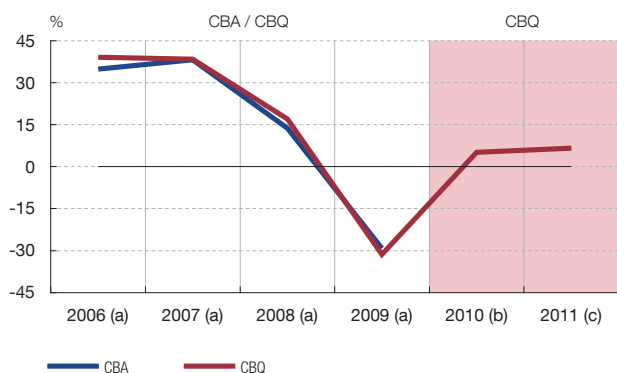
ORDINARY NET PROFIT
Rate of change
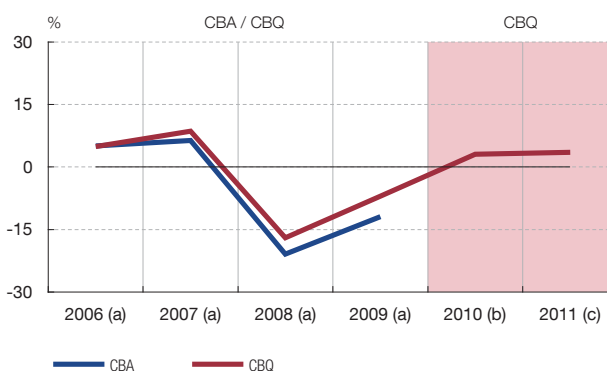
RETURN ON INVESTMENT (R.1)
Ratios
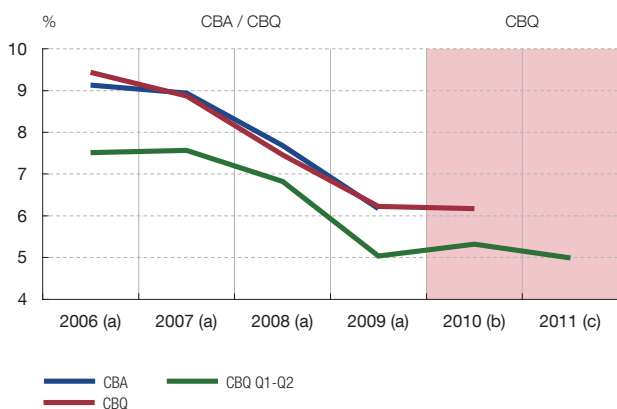
COST OF DEBT (R.2) AND
ROI - COST OF DEBT (R.1–R.2)
Ratios
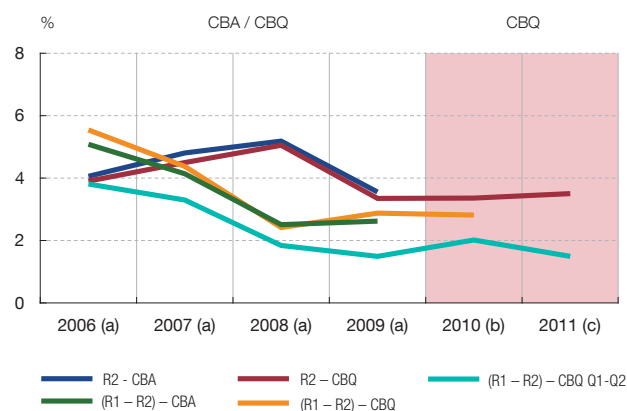
NON-FINANCIAL CORPORATIONS		2006	2007	2008	2009	2010
Number of corporations	CBA	9,276	9,321	9,639	9,626	—
	CBQ	830	849	816	805	801
% of GDP of the sector non-financial corporations	CBA	33.5	33.9	31.6	30.4	—
	CBQ	14.6	14.3	13.1	12.8	13.1

SOURCE: Banco de España.

a 2006, 2007, 2008 and 2009 data are the average data of the four quarters of each year (CBQ) in relation to the previous year for the corporations reporting to the annual survey (CBA).
b Average of the four quarters of 2010 relative to the same period in 2009.
c Data up to 2011 Q2 vis-à-vis the same period in 2010.

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

<div style="text-align: right">TABLE 2</div>

		CBA	CBQ (a)	
		2009	2010 Q1-Q2	2011 Q1-Q2
Total corporations		9,626	742	742
Corporations reporting source/destination		9,626	708	708
Percentage of net purchases according to source	Spain	68.9	81.1	81.8
	Total abroad	31.1	18.9	18.2
	EU countries	16.7	14.2	13.8
	Third countries	14.3	4.7	4.3
Percentage of net turnover according to destination	Spain	85.0	87.7	86.1
	Total abroad	15.0	12.3	13.9
	EU countries	10.0	8.6	10.2
	Third countries	5.0	3.7	3.7
Change in net external demand (exports less imports), rate of change	Industry	21.2	-44.7	69.1
	Other corporations	39.3	-3.5	86.7

SOURCE: Banco de España.

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

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

<div style="text-align: right">TABLE 3</div>

	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2
TOTAL	**-7.7**	**3.1**	**6.1**	**-0.7**	**-4.9**	**-2.1**	**-2.1**	**-1.0**	**-3.4**	**-1.3**	**-0.9**	**0.3**	**1.6**	**0.8**	**1.2**	**1.3**
SIZE:																
Small	-11.4	—	—	—	-7.2	—	—	—	-6.2	—	—	—	1.0	—	—	—
Medium	-8.9	3.6	3.9	7.1	-5.9	-3.4	-4.0	-0.9	-4.2	-1.5	-2.3	1.1	1.8	1.9	1.7	2.0
Large	-7.5	3.1	6.2	-1.0	-4.8	-2.0	-2.0	-1.0	-3.2	-1.3	-0.9	0.2	1.6	0.7	1.1	1.3
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	-6.3	7.6	11.9	1.6	-1.9	-2.1	-2.2	-1.5	0.8	-0.3	0.2	0.2	2.8	1.8	2.4	1.8
Industry	-16.1	18.5	18.2	6.2	-7.1	-2.7	-3.3	0.1	-6.8	-1.2	-1.4	3.1	0.3	1.6	1.9	2.9
Wholesale & retail trade & accommodation & food service activities	-6.3	3.2	8.3	-4.3	-5.1	-0.8	-2.4	1.8	-3.8	0.2	-0.9	2.5	1.3	1.0	1.6	0.6
Information and communication	-4.6	-5.6	-5.1	-3.5	-3.0	-1.8	-2.1	-0.3	-1.1	0.4	-0.1	2.7	1.9	2.3	2.0	3.0
Other activites	-4.6	1.6	5.1	-1.3	-4.6	-2.8	-1.5	-3.4	-2.5	-2.8	-1.3	-2.6	2.2	0.0	0.2	0.8

SOURCE: Banco de España.

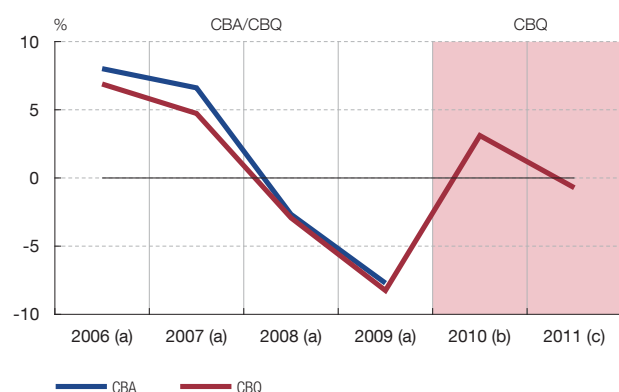a All the data in these columns have been calculated as the weighted average of the quarterly data.

IMPACT OF OIL PRICES ON THE REFINING SECTOR

CHART 2

2000 = 100   CBA / CBQ   CBQ (a)

- REFINING GVA (Rate of change) (a)
- EURO-DENOMINATED OIL PRICE INDEX
- REFINING PRICE INDEX (Rate of change)
- DOLLAR-DENOMINATED OIL PRICE INDEX
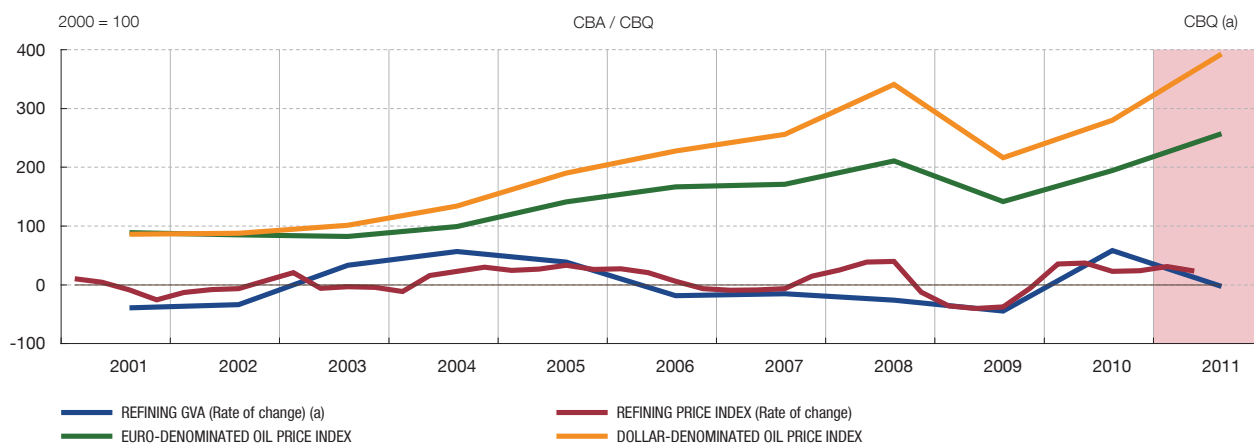
SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (monthly report on prices).

a   2011 data relate to the CBQ.

PERCENTILES OF THE DISTRIBUTION OF CORPORATIONS BY RATE OF CHANGE IN GVA

CHART 3

- 2010 Q1-Q2
- 2011 Q1-Q2
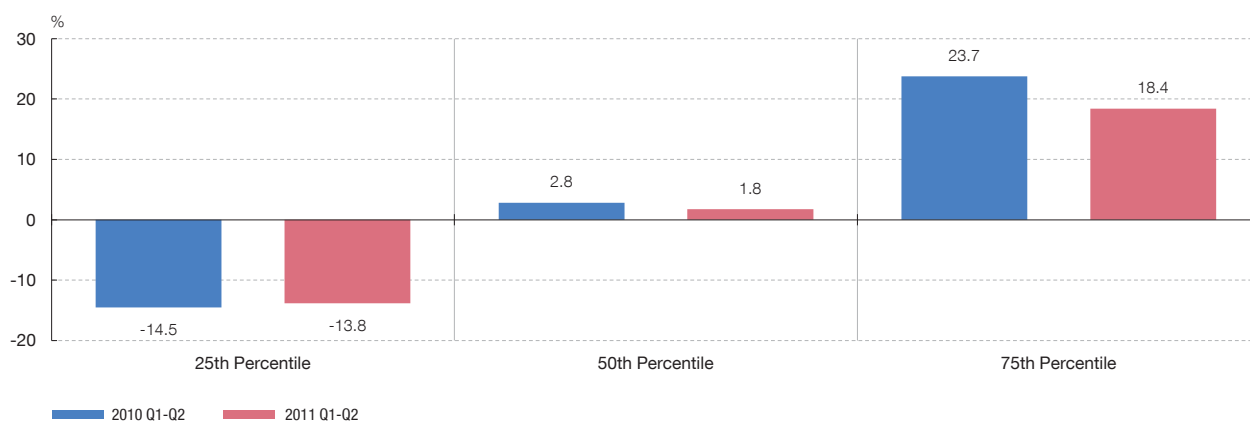
SOURCE: Banco de España.

Employment and personnel costs

Personnel costs grew in the first half of 2011 (by 0.3% year-on-year), after falling by 0.9% a year earlier. This was a consequence of the increase in average compensation to June, of 1.3%, which was partly offset by the 1% decline in employment in the same period.

In fact, during the first six months of 2011 employment in the CBQ sample of firms continued to decline, for the third consecutive year, although the year-on-year growth rate of -1% (see Table 3) was less negative than in the two preceding years (-3.4% and -2.1%, respectively). By type of contract, once again the adjustment was basically concentrated in temporary employment, with falls of almost 9%, while permanent employment barely changed (rising by 0.2%; see Table 4). The sector breakdown shows an improvement in all sectors with respect to the trends observed in 2010, except in the one that includes other activities, the only one in which the data for the first half of 2011 (fall of 3.6%) were worse than in the same period of the preceding year (decline of 1.5%), which is largely explained by the poor performance of the construction firms included in this group. Among the other

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 4

		Total CBQ corporations 2011 Q1 - Q2	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
NUMBER OF CORPORATIONS		742	373	369
PERSONNEL COSTS				
Initial situation 2010 Q1-Q2 (€m)		14,991.4	7,194.0	7,797.3
Rate 2011 Q1-Q2/ 2010 Q1-Q2		0.3	4.6	-3.8
AVERAGE COMPENSATION				
Initial situation 2010 Q1-Q2 (€)		22,423.3	21,249.8	23,631.2
Rate 2011 Q1-Q2/ 2010 Q1-Q2		1.3	0.1	3.1
NUMBER OF EMPLOYEES				
Initial situation 2010 Q1-Q2 (000s)		669	339	330
Rate 2011 Q1-Q2/ 2010 Q1-Q2		-1.0	4.5	-6.7
Permanent	Initial situation 2010 Q1-Q2 (000s)	577	294	283
	Rate 2011 Q1-Q2/ 2010 Q1-Q2	0.2	3.9	-3.7
Non-permanent	Initial situation 2010 Q1-Q2 (000s)	92	45	47
	Rate 2011 Q1-Q2/ 2010 Q1-Q2	-8.7	8.3	-24.8

SOURCE: Banco de España.

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

TABLE 5

	CBA		CBQ (a)			
	2008	2009	2009 Q1 - Q4	2010 Q1 - Q4	2010 Q1 - Q2	2011 Q1 - Q2
NUMBER OF CORPORATIONS	9,639	9,626	805	801	830	742
PERSONNEL COSTS	100	100	100	100	100	100
Falling	32.1	57.4	57.4	49.9	52.1	48.3
Constant or rising	67.9	42.6	42.6	50.1	47.9	51.7
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	42.1	54.5	62.6	55.8	57.2	53.5
Constant or rising	57.9	45.5	37.4	44.2	42.8	46.5

SOURCE: Banco de España.

a Weighted average of the relevant quarters for each column.

sectors, wholesale and retail trade and accommodation and food service activities stands out as the one with the highest employment growth rate (1.8%), as against a fall of 2.4% in the first half of 2010. The change in employment in industrial companies was virtually zero (0.1%), this being the first time since 2005 that employment did not decline in this sector in the first half of the year. In energy and in information and communication the number of workers decreased by 1.6% and 0.3%, respectively, these falls being more moderate than those recorded a year earlier. Finally, the data in Table 5 show that, in the first half of 2011, in most of the firms of the sample (53.3%) workforce adjustments con-

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

	2006	2007	2008	2009	2010	2011
CBA	46.7	46.7	48.0	47.4		
CBQ	49.1	49.7	47.3	47.3	47.4	47.1
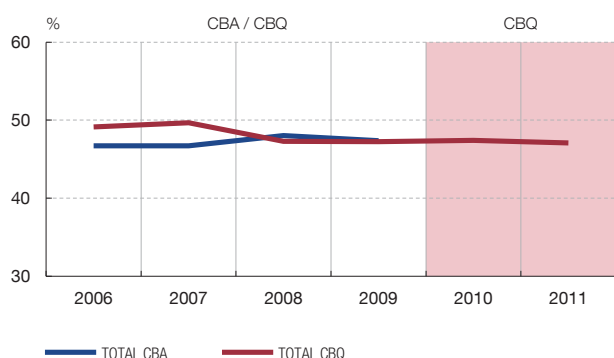
E2. INTEREST-BEARING BORROWING / (GOP+FR) (b)
Ratios

	2006	2007	2008	2009	2010	2011
CBA	418.0	429.4	488.9	564.3		
CBQ	551.0	553.8	611.5	710.4	714.2	687.8

INTEREST BURDEN
(Interest on borrowed funds) / (GOP + FR)
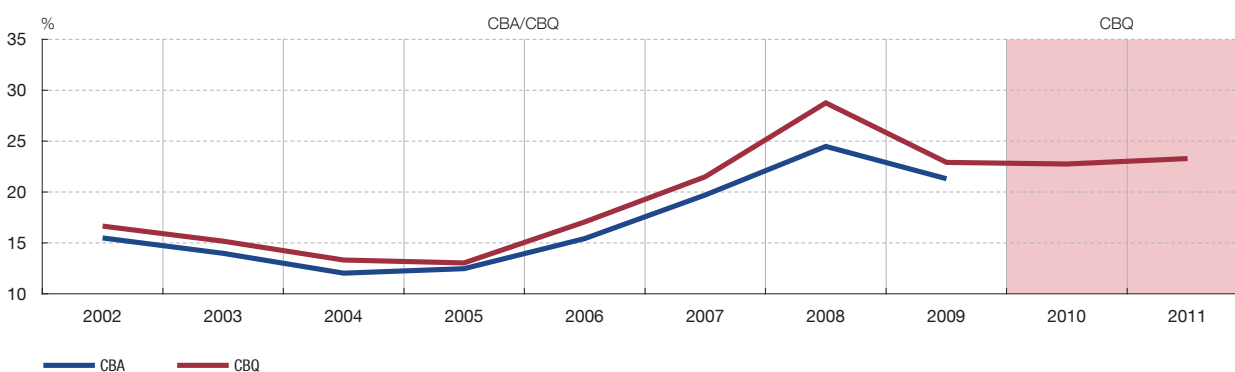
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CBA	15.5	14.0	12.0	12.5	15.4	19.7	24.5	21.3		
CBQ	16.7	15.2	13.3	13.0	17.1	21.5	28.7	22.9	22.7	23.3

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).

tinued to take place. However, this percentage is almost 4 pp lower than in the same period of 2010.

Average compensation grew by 1.3%, a very similar rate to that recorded in the first half of 2010 (1.2%), although it was 0.5 pp higher than the average increase recorded for 2010 as a whole. Across sectors developments were mixed, the increases being most pronounced in industry and in information and communication (2.9% and 3%, respectively). In other sectors behaviour was less expansionary, with average growth of around 2% in energy and barely 0.5% in the wholesale and retail trade. Finally, as can be seen in Table 4, wage costs per employee grew less fast in firms that created employment (0.2%) than

	Gross operating profit				Ordinary net profit				Return on investment (R.1)				ROI-cost of debt (R.1-R.2)			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2
TOTAL	**-13.7**	**7.4**	**13.1**	**-1.6**	**-11.9**	**3.0**	**8.0**	**3.5**	**6.2**	**6.2**	**5.3**	**5.0**	**2.6**	**2.8**	**2.0**	**1.5**
SIZE:																
Small	-24.0	—	—	—	-42.9	—	—	—	3.7	—	—	—	-0.9	—	—	—
Medium	-17.2	12.2	15.3	16.0	-22.6	31.2	26.0	35.7	4.7	5.6	4.9	6.6	0.9	2.5	2.1	3.7
Large	-13.2	7.2	13.1	-2.0	-10.7	2.4	7.7	2.7	6.3	6.2	5.3	5.0	2.7	2.8	2.0	1.5
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	-9.6	10.0	15.5	2.0	-9.6	-5.0	-5.3	1.4	6.9	6.3	5.6	5.5	3.3	3.1	2.3	2.2
Industry	-30.5	76.9	77.9	12.1	-52.7	149.1	-	90.9	3.8	4.6	4.0	3.3	0.2	0.7	0.3	-0.7
Wholesale & retail trade & accommodation & food service activities	-10.6	8.9	27.6	-15.5	-3.7	16.2	68.1	-17.7	7.0	5.7	6.1	5.0	3.3	2.3	2.9	1.5
Information & communication	-6.5	-7.5	-6.8	-5.9	-13.3	-11.0	-9.8	-8.2	20.4	27.5	27.6	25.3	15.6	22.8	22.7	20.2
Other activities	-10.3	12.4	22.1	1.9	31.5	23.5	32.4	32.7	5.2	5.1	3.9	3.7	1.8	1.8	0.7	0.2

SOURCE: Banco de España.

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

in those that destroyed jobs (3.1%), a phenomenon that has also been detected in previous years.

Profits, rates of return and debt

The slight contraction in productive activity in the first half of 2011 fed through to GOP, meaning that this latter variable also declined (by 1.6%) in this period, a development in contrast, however, to the growth of 13.1% recorded the previous year.

	2011 Q1-Q2 / 2010 Q1-Q2
Change in financial costs	**+6.6%**
A. Interest on borrowed funds	*+6.9%*
1 Due to the cost (interest rate)	+6.2%
2 Due to the amount of interest-bearing debt	+0.7%
B. Other financial costs	**-0.3%**

In this setting, financial costs grew by 6.6%. As can be seen in the accompanying table, this increase arose essentially from the rise in the average cost of financing, which climbed to 3.5% (0.2 pp up on a year earlier). The impact associated with changes in debt has been virtually zero since, against a background of less dynamic investment (which contracted by 12% year-on-year), the resort to new borrowed funds by corporations in the sample scarcely increased. Along with the stability of the size of balance sheets, this led to the virtually unchanged maintenance of the debt/net assets ratio (E1), while the increase in GOP plus financial revenue (the denominator of the E2 ratio) allowed for a slight improvement in the ability to repay this debt (see Chart 4). Nonetheless, as a result of the growing profile of the cost of funds, the proportion of income earmarked for interest payments increased somewhat.

The use of the Central Balance Sheet Data Office's (CB) individual data provides for the extension and deepening of analyses based on aggregate variables. Thus, for instance, identifying the number of corporations that are in a less favourable financial position is a valuable source of information, especially in periods of economic crisis. One useful indicator in this respect is that which measures the percentage of companies whose financial costs exceed the profit generated by ordinary activity (gross operating profit plus financial revenue).

The accompanying panels show developments in this indicator for the four sectors best represented in the CB (energy, industry, the wholesale and retail trade and accommodation and food service activities, and communications). More specifically, the series presented have been generated drawing on three complementary approaches. First, use has been made of the so-called CBI, the result of merging the Central Balance Sheet Data Office Annual Survey (CBA) with information from the filings by companies with the Mercantile Registers (CBB). The CBA includes data from the compa-

CORPORATIONS IN A LESS FAVOURABLE FINANCIAL POSITION (a)

1 ENERGY

PERCENTAGE OF CBQ CORPORATIONS WITH A NEGATIVE INDICATOR
PERCENTAGE OF CBA CORPORATIONS WITH A NEGATIVE INDICATOR
PERCENTAGE OF CBI CORPORATIONS WITH A NEGATIVE INDICATOR
WEIGHT IN THE VALUE OF OUTPUT OF THE SECTOR OF CBA CORPORATIONS
WITH A NEGATIVE INDICATOR
WEIGHT IN THE VALUE OF OUTPUT OF THE SECTOR OF CBI CORPORATIONS
WITH A NEGATIVE INDICATOR

2 INDUSTRY

PERCENTAGE OF CBQ CORPORATIONS WITH A NEGATIVE INDICATOR
PERCENTAGE OF CBA CORPORATIONS WITH A NEGATIVE INDICATOR
PERCENTAGE OF CBI CORPORATIONS WITH A NEGATIVE INDICATOR
WEIGHT IN THE VALUE OF OUTPUT OF THE SECTOR OF CBA CORPORATIONS
WITH A NEGATIVE INDICATOR
WEIGHT IN THE VALUE OF OUTPUT OF THE SECTOR OF CBI CORPORATIONS
WITH A NEGATIVE INDICATOR

3 WHOLESALE AND RETAIL TRADE AND ACCOMMODATION AND FOOD
SERVICE ACTIVITIES

PERCENTAGE OF CBQ CORPORATIONS WITH A NEGATIVE INDICATOR
PERCENTAGE OF CBA CORPORATIONS WITH A NEGATIVE INDICATOR
PERCENTAGE OF CBI CORPORATIONS WITH A NEGATIVE INDICATOR
WEIGHT IN THE VALUE OF OUTPUT OF THE SECTOR OF CBA CORPORATIONS
WITH A NEGATIVE INDICATOR
WEIGHT IN THE VALUE OF OUTPUT OF THE SECTOR OF CBI CORPORATIONS
WITH A NEGATIVE INDICATOR

4 INFORMATION AND COMMUNICATIONS

PERCENTAGE OF CBQ CORPORATIONS WITH A NEGATIVE INDICATOR
PERCENTAGE OF CBA CORPORATIONS WITH A NEGATIVE INDICATOR
PERCENTAGE OF CBI CORPORATIONS WITH A NEGATIVE INDICATOR
WEIGHT IN THE VALUE OF OUTPUT OF THE SECTOR OF CBA CORPORATIONS
WITH A NEGATIVE INDICATOR
WEIGHT IN THE VALUE OF OUTPUT OF THE SECTOR OF CBI CORPORATIONS
WITH A NEGATIVE INDICATOR

SOURCE: Banco de España.

a Corporations whose indicator (GOP - Financial revenue - Financial costs) is negative. The CBQ series have been calculated as an average of the quarterly data of each year, except for 2011, in which the average of the last four quarters (to 2011 Q2) was calculated.

nies that report voluntarily to the CB annually and contains around 9,000 records per year, with a certain bias towards large and medium-sized corporations. The CBB has an average volume of more than 600,000 companies, mostly small and medium-sized. Accordingly, the advantage of the CBI is its high level of representativeness, which confers great analytical value upon it. However, it is not possible with the CBI to make comparisons with previous cycles, since information on a significant number of companies has only been available since 1995. Consequently, the indicator has also been constructed drawing, exclusively, on the CBA, which allows analysts to go back to the early 1990s. In both cases, nonetheless, the latest observations refer to 2009. Therefore, in order to assess developments since that date, the indicator finally considered is that obtained from the quarterly CB survey (CBQ) which, although it contains a smaller number of - predominantly large - corporations (around 900 at most), allows data up to 2011 Q2 to be used.

As can be seen in the accompanying panels, in the three samples analysed the indicator constructed as the percentage of companies in which financial costs exceed the profits generated by ordinary activity shows a clear cyclical behaviour, which is particularly marked in the industrial sector and in the wholesale and retail trade and accommodation and food service activities sector. In line with this dynamic, it is detected how, during the recent crisis, the downturn in the financial position of the companies has been most intense in these two branches, which is in response to the fact that their activity has been more affected by the change in cycle, as suggested by the strong slowdown in their gross operating profit (GOP) in 2008 and 2009. The reduction in interest rates during this latter year (with the subsequent relief in financial costs) did not suffice to offset the impact of the contraction in GOP in that year. Thus, in 2009 the variable analysed reached similar levels to the peaks recorded during the 1992-1993 recession.

At the corporations in the energy and information and communications branches, the indicator rose to a lesser extent during 2008 and 2009. That reflects the less unfavourable performance of the GOP during this period, which in 2009 even saw the energy sector undergo some improvement associated with the positive impact that the decline in interest rates had on these companies, which have comparatively high levels of debt.

The panels likewise depict two broken lines which show the weight, in each of the sectors considered, in terms of the value of output, of the CBA and CBI corporations whose financial costs exceed the profit generated by ordinary activity. It is first detected that, throughout the period analysed, these series are generally below those relating to the number of companies in a situation of greater vulnerability, indicating that the smallest companies tend to show a comparatively more unfavourable position than that of the bigger corporations. Further, it can be seen how, during the crisis in recent years, and unlike the case with the indicator calculated as the percentage of corporations in a less favourable financial position, the variable expressed in terms of the value of output has not managed to reach the peaks recorded during the 1992-1993 recession in the two productive branches most adversely affected by the change in economic circumstances (industry, and wholesale and retail trade and accommodation and food service activities). This suggests that, in the most recent period, the downturn has affected the biggest corporations to a lesser extent compared with what was observed in the early 1990s.

The latest CBQ data show a clear improvement in the financial position of companies in those sectors most affected by the crisis (industry, and wholesale and retail trade and accommodation and food service activities) during 2010, in line with the recovery in the GOP that year. Conversely, the partial preliminary data available for 2011 suggest something of a generalised downturn across the productive branches, which is consistent with the loss of momentum in activity and with the rise in the cost of financing.

In conclusion, the analysis conducted in this box illustrates how, during 2008 and 2009, there was a notable increase in the number of corporations in a less favourable financial position in industry and in the wholesale and retail trade and accommodation and food service activities sector, while in the other best represented activities in the CB the changes in this indicator were less significant during this period. The latest information points to a clear improvement in the two branches most affected by the crisis during 2010, an improvement which, according to the provisional preliminary data for 2011, is not expected to have continued in 2011 to date.

Financial revenue grew strongly (23.4%) in the first half of this year, after having fallen by 15.5% the previous year. This increase was due both to higher interest received for loans extended and to the increase in dividends, mainly from foreign subsidiaries. Thanks to this, ONP posted a year-on-year increase of 3.5%, a figure nevertheless down on the figure of 8% the previous year. The increase in ordinary profits was not enough to avoid a worsening of the levels of ordinary profitability. Thus, ROI (R1) stood at 5% in the first half of 2011, compared with 5.3% a year earlier, and ROE fell by almost 1 pp to 6.3%. A reduction in these indicators was discernible across all the sectors in comparison with the figures post-

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

TABLE 7

		CBQ (a)			
		Return on investment (R.1)		Ordinary return on equity (R.3)	
		2010 Q1-Q2	2011 Q1-Q2	2010 Q1-Q2	2011 Q1-Q2
Number of corporations		830	742	830	742
Percentage of corporations by profitability bracket	R <= 0	30.4	29.2	34.1	32.8
	0 < R <= 5	25.4	23.2	17.9	16.4
	5 < R <= 10	14.9	16.8	11.2	11.7
	10 < R <= 15	6.6	8.1	7.4	9.1
	15 < R	22.7	22.6	29.5	30.0
MEMORANDUM ITEM: Average return		5.3	5.0	7.1	6.3

SOURCE: Banco de España.

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

ed in the same period of the previous year (see Table 6), proving more acute in those sectors in which activity most contracted (wholesale and retail trade, and information and communications). A similar pattern is evident on observing how, in 2011 to date, the percentage of corporations in a less favourable financial position increased slightly, following the recovery detected in 2010 in some productive branches such as industry or wholesale and retail trade and accommodation and food service activities (see Box 1). Nonetheless, these developments at the aggregate level of corporations were compatible with some shift in the distribution of individual levels of profitability from levels below 5% towards segments with higher values (see Table 7). The declining course of profitability, along with the rise in the cost of debt, translated into a reduction in the difference between both variables which, though it held positive at 1.5%, was 0.5 pp below the figure recorded a year earlier.

Lastly, an analysis of extraordinary gains (losses) shows that during the first half of this year the significance of these items declined strongly, given the absence of relevant related operations. Specifically, the item reflecting gains (losses) from disposals and impairment fell by 70.9%, given that in the first half of 2010 sizeable capital gains were generated on certain financial assets sale transactions which, on this occasion, did not take place. That led to an 18.1% reduction in the profit for the year to June 2011. If this profit is expressed as a percentage of GVA, the same declining trend is observable, standing at 30.1% for the period under study, compared with 36.5% a year earlier.

15.9.2011.

REPORT ON THE LATIN AMERICAN ECONOMY. SECOND HALF OF 2011

Introduction

The international environment underwent a change during the summer, with a notable downturn in the prospects of recovery in the main economies and a heightening of the crisis in the euro area. This has ultimately affected the Latin American economies, which had to date largely remained on the sidelines of events on international markets.

In addition to the more immediate impact on financial asset prices, the change has been two-pronged. On one hand there has been a turnaround in economic prospects, reflected in the growth projections of several of the main economies in the region, which are beginning to post downward revisions of some size for 2011 and 2012 (see Chart 1). On the other, the economic policy mix has begun to be re-balanced: monetary policy is adapting to a more uncertain environment, despite the fact that inflationary pressures have not so far shown clear signs of abating, while fiscal policy has not adopted a resolutely restrictive stance. In this respect, the upward cycle of official interest rates begun in 2010 has come to a halt, and the Brazilian central bank has eased its monetary policy stance.

National Accounts figures continued to show robust economic growth in the first half of 2011 in Latin America as a whole, albeit lower than in 2010, when most countries managed to close the negative output gaps that arose during the crisis. The year-on-year growth rate eased from 5.5% in Q1 to 4.3% in Q2 owing to the impact of the slowdown in Brazil and Mexico (partly due to base effects) and an easing in domestic demand practically across the board. Country by country, developments were not fully homogeneous, since while in Brazil and in Mexico the weakness of the industrial sector was a conditioning factor (against the background of an appreciation in the exchange rate, in the first instance, and of the sluggishness of the US economy, in the latter case), in Argentina, Chile, Peru and Colombia growth remained much more robust. Inflation rose to a year-on-year rate of 7% in September for the region on average, somewhat up on the start of the year.

In this setting, the ongoing re-balancing of economic policies can be interpreted in several ways. Most immediately, in the face of the risk of a strong slowdown and even a global recession, concern for the effects on activity in the region has come to the fore, relegating the possibility of an inflationary surge which, moreover, would be mitigated in the context of falling commodities prices. In this respect, monetary policy is conceivably adopting, at least in some countries, a pre-emptive approach (taking as its reference the experience in 2008), though not one exempt from risks to its credibility given the underlying inflationary pressures. A second and not necessarily exclusive interpretation is that the prior economic policy mix – in particular the tightening of monetary policy – was sub-optimal, insofar as it was imposing excessive upward pressure on exchange rates owing to the interest rate spread and, at the same time, it was easing domestic monetary conditions via the massive inflow of short-term capital. A phase of greater risk aversion would thus contribute to mitigating these problems and the monetary policy dilemmas. If the first interpretation is correct, inflation should be contained over the coming months. The risk would lie, however, in the credibility of monetary policy being undermined were this containment not to come about.

In the short run, the downside risks have increased substantially. The intensification of risk aversion on financial markets in recent weeks, the perceived fragility of the developed countries' banking systems, the fall in commodities prices to which Latin America is sensitive, and the downturn in the world economic growth outlook augur less growth in Latin

CHART 1

GDP FORECAST 2011
Year-on-year rates

INFLATION FORECAST 2011
Year-on-year rates

LATIN AMERICA   BRAZIL   MEXICO

LATIN AMERICA   BRAZIL   MEXICO
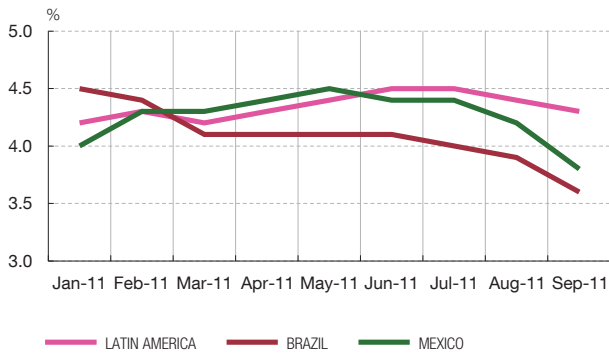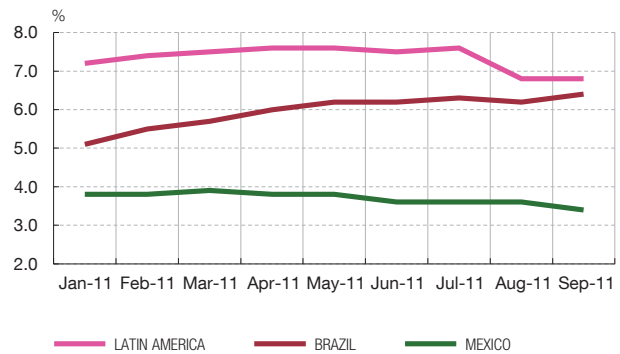
GDP FORECAST 2012
Year-on-year rates

INFLATION FORECAST 2012
Year-on-year rates

LATIN AMERICA   BRAZIL   MEXICO

LATIN AMERICA   BRAZIL   MEXICO
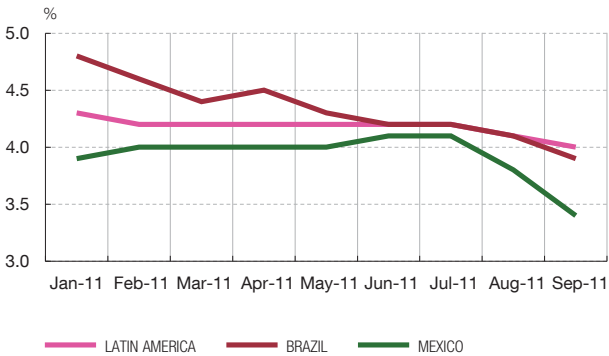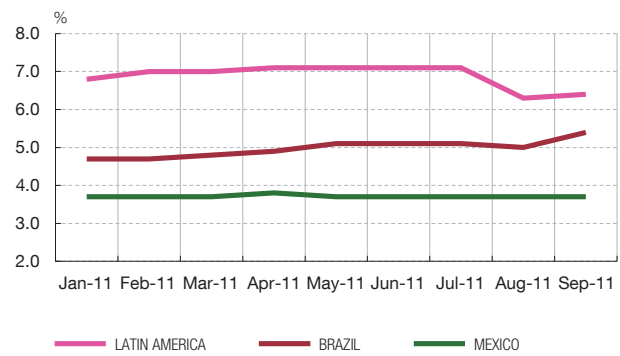
America in the second half of 2011, suggesting that domestic demand will only partly off-set the effect of the external shock. This would not necessarily be negative in all the countries, in light of overheating. Moreover, external positions have worsened in the present expansionary phase, making the region more vulnerable to the current economic situation. Conversely, the build-up in reserves and the perception of soundness following the 2008 shock would mitigate this potential vulnerability. The countries of South America are today less dependent than in the past on growth in the United States and in the industrialised countries, and more so on Asia, where the slowdown is so far very limited. However, the deceleration could step up if the developed economies were to go into recession, given their high proportion of intermediate trade. Against this backdrop, and bearing in mind that the region's economic policies appear to be adapting swiftly to the changing situation, growth might stand at a rate close to trend in the coming quarters in most of the countries, in the absence of greater instability in the euro area.

Economic and financial developments: external environment

In recent months global economic and financial developments have been marked by the substantial worsening of tensions on international financial markets further to the heightening of the euro area sovereign debt crisis and the bleaker outlook for world – and especially US – economic growth.

In June and July financial tensions mounted in the euro area in the face of the inability to agree on a new aid programme for Greece and the discrepancies surrounding the partici-

CONTRIBUTION TO WORLD GDP GROWTH

Annualised quarterly percentage change

■ UNITED STATES	■ EURO AREA	■ JAPAN
■ CHINA	■ LATIN AMERICA	■ OTHER DEVELOPED ECON.
■ OTHER EMERGING ASIA	■ OTHER EMERGING ECON.	— WORLD GROWTH

US INTEREST RATES

%

— OFFICIAL FEDERAL FUNDS RATE
— 10-YEAR TREASURY BOND

WORLD STOCK MARKETS (a)

Jan 2011 = 100

— MSCI LATIN AMERICA	— MSCI EASTERN EUROPE
— MSCI ASIA	— S&P 500
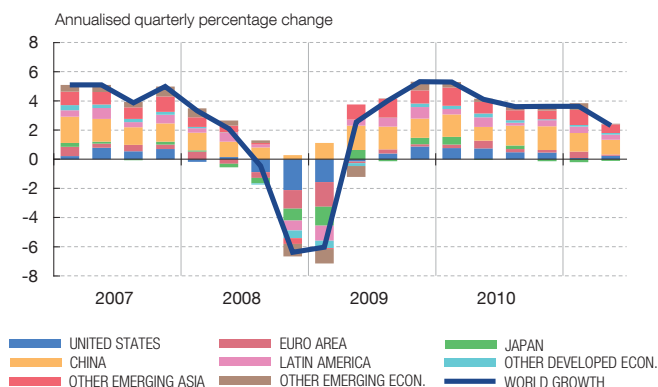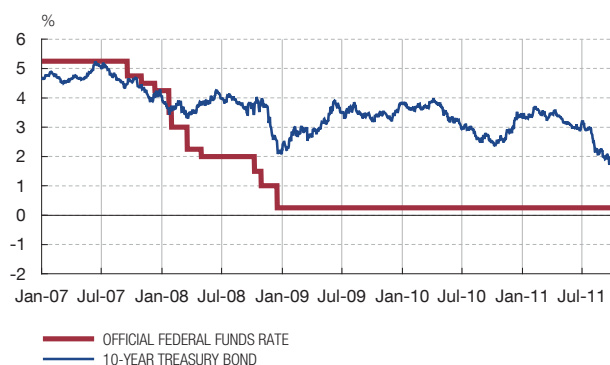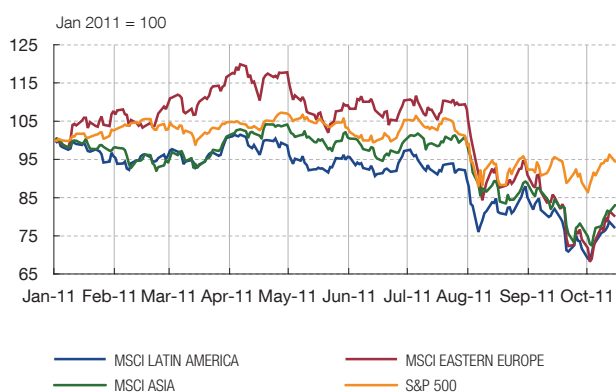
INTEREST RATE SPREADS AND GLOBAL RISK INDICATOR

bp

— EMBI LATIN AMERICA	— EMBI EASTERN EUROPE
— EMBI ASIA	— GLOBAL RISK INDICATOR (right-hand scale) (b)
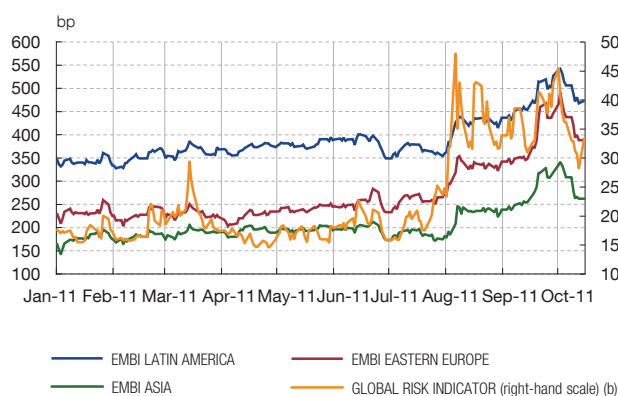
SOURCES: National statistics and Datastream.

a Indices in dollars.
b VIX.

pation of private investors in the programme. The agreements reached at the European summit of Heads of State or Government on 21 July – which, along with the second bailout package for Greece, included more ambitious measures for reducing the risk of contagion – did not manage to avoid a prolongation of the instability, which only began to abate from the second week in August, following the ECB Governing Council's decision to reactivate its Securities Market Programme. In any event, this reversal proved transitory, since in September volatility levels once again rose in the face of uncertainty over the disbursement of a fresh aid tranche for Greece and, ultimately, in light of the lack of a conclusive solution to the European sovereign debt problem.

Economic activity slowed appreciably in Q2 (see Chart 2) in the developed economies and, according to the leading indicators, this is expected to have continued in Q3. In principle, this slowdown was associated with temporary factors, such as the interruption of production chains in the wake of the earthquake in Japan or the prevalence of high commodities prices stemming, in part, from supply-side problems. Nonetheless, the notion that the lack of momentum of activity in the developed countries is due to structural fragilities has gradually gained currency. In this respect, the scant leeway available for fresh fiscal and

monetary stimuli and the need for private-sector deleveraging pose serious obstacles to recovery. Compounding these factors is the sharp downturn in agents' confidence, which is bearing down on private consumption and investment. In any event, the central scenario does not envisage another recession, but rather a slower-than-expected recovery and one not free from ups and downs. Along these lines, growth projections for the advanced economies have been revised downwards for 2011 and 2012, to below 2% as opposed to the 3.1% growth posted in 2010, and the balance of risks has shifted significantly onto the downside. In a setting of growing concern over growth, and set against the scenario of the withdrawal of monetary and fiscal stimuli anticipated some months back, the markets are now discounting that official interest rates in the main economies will hold at very low levels for a prolonged period, and in recent weeks several central banks in advanced economies have extended the application of non-conventional measures. In the fiscal arena, despite the major challenges public finances face in the advanced economies (reflected in the downgrading of credit ratings not only in euro area countries but also in the United States and Japan), it has been put forward in recent months that those countries with fiscal headroom should delay the consolidation process, without renouncing the attainment of sustainable public finances in the medium and long run.

In Q2 the emerging economies continued to post rates of expansion that were high, albeit more moderate than in the preceding quarters. The slowdown is expected to advance gradually, aided by the withdrawal of monetary stimuli and by the slowing of the developed economies. The growth rate of the emerging countries is thus expected to stand between 6% and 6.5% in 2011 and 2012, compared with 7.3% in 2010. However, a sharper slowdown cannot be ruled out if the advanced economies go into recession. Of particular concern in this connection is the increasing risk of an abrupt slowdown in the Chinese economy, more for its potential effect on the world economy than for the likelihood of such an acute adjustment taking place.

Turning to prices, inflation in the developed economies remains at a moderate level, while inflationary pressures (along with other signs of overheating such as high credit growth or asset price developments) remain in place in some emerging economies. Notwithstanding, these economies have interrupted the cycle of official interest rate rises and certain central banks (such as Brazil and Turkey) have even made cuts in light of the severe weakening of the global environment. Against this background, the international financial markets worsened considerably, as reflected in the widening of sovereign debt yield spreads in the euro area to all-time highs since the creation of the single currency. These tensions spread to other markets, particularly in Europe but also in other developed and emerging economies. Heavy corrections in stock market indices ensued, with a substantial increase in volatility (see Chart 2), higher credit risk premia on securities issued by the private sector and greater difficulties in obtaining funds on interbank markets, especially for European banks in the case of dollars. As a result, the raising of wholesale funding by credit institutions became particularly complex.

The increase in international investors' risk aversion prompted a search for safe-haven assets, which took the form of heavy outflows from emerging stock markets (close to $18 billion between August and September). Along with the downturn in growth prospects, this led to a decline in long-term debt yields in several developed economies, in particular in the United States and Germany, to historically low levels. The Japanese yen and the Swiss franc also acted as safe-haven assets in this period. Indeed, in the face of the strong upward pressures on these currencies, both countries intervened on the foreign exchange markets and approved exceptional measures to check this appreciation. Brent oil prices

SOVEREIGN SPREADS
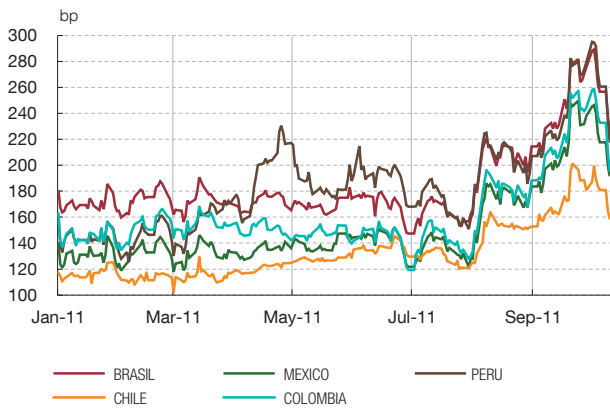
bp

BRASIL
MEXICO
PERU
CHILE
COLOMBIA

STOCK EXCHANGE INDICES

Jan 2011 = 100

ARGENTINA (MERVAL)
BRAZIL (BOVESPA)
MEXICO (IPC MEXICO)
LATIN AMERICA (a)

EXCHANGE RATE AGAINST THE DOLLAR

%

Argentina   Brazil   Mexico   Chile   Colombia   Peru

CHANGE FROM 1 JANUARY-30 JULY 2011
CHANGE FROM 1 AUGUST-12 OCTOBER 2011

SOVEREIGN RATINGS (b)

Level

AAA
AA+
AA
AA-
A+
A
A-
BBB+
BBB
BBB-
BB+
BB

Jan-10   Jun-10   Nov-10   Apr-11   Sep-11

BRAZIL (c)
CHILE
COLOMBIA
PERU
EUROPEAN UNION (d)
UNITED STATES
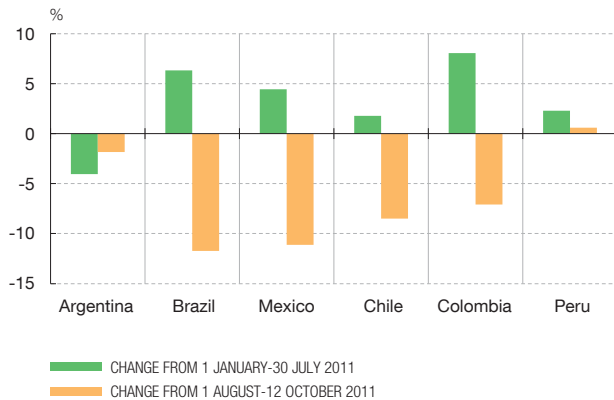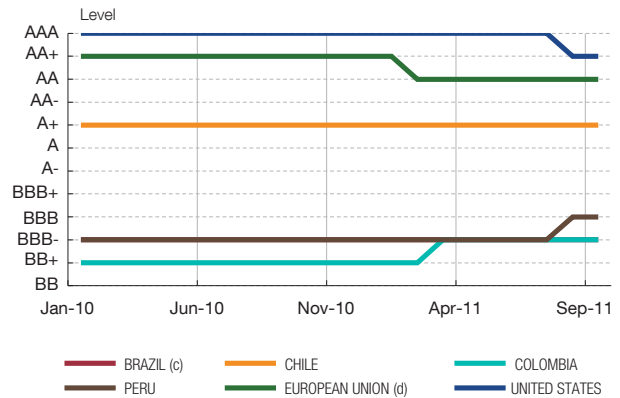
SOURCES: Datastream and JP Morgan.

a MSCI Latin America Index in local currency.
b Standard & Poor's scale.
c Brazil stands throughout the period under study at BBB- and Chile at A+ according to the Standard & Poor's scale. Other agencies raised the rating of these countries during the period.
d Aggregate of 11 countries weighted according to their weight in world GDP: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal and Spain.

moved in a relatively narrow range (between $110 and $120 per barrel), even though political tensions in various Middle East countries remained unabated; however, in recent weeks oil prices have fallen below $105, against a backdrop of generalised falls in commodities prices and relatively sluggish demand.

Financial markets and external financing

Developments on Latin-American financial markets over the past six months can be divided into two phases. In the first, from April to end-July, the chain of global events with a potentially adverse impact mentioned in the previous section scarcely affected the region's credit risk indicators. Given the soundness of fundamentals, the markets attributed the emerging economies – Latin American countries among them – with a significant decoupling capacity in respect of the global economy's problems. The sovereign spread, measured by the Latin America Global EMBI, held stable around 360 bp until end-July, in contrast with previous episodes of turbulence. Further, the stability of the aggregate spread was the consequence of the increase in the spreads in two of the countries considered riskiest, mainly Argentina and Venezuela, while in Colombia, Brazil and Peru spreads actually narrowed (by around 20 bp) (see Chart 3).

12-MONTH CUMULATED FDI FLOWS
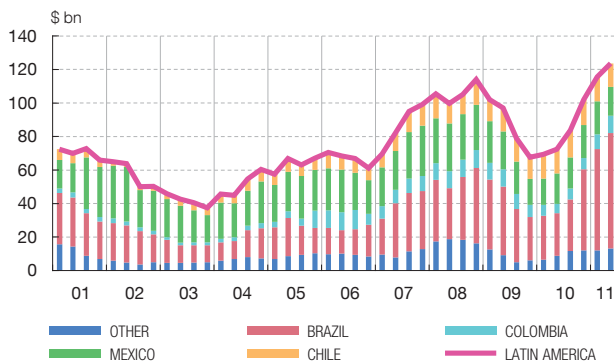
12-MONTH CUMULATED PORTFOLIO INVESTMENT FLOWS
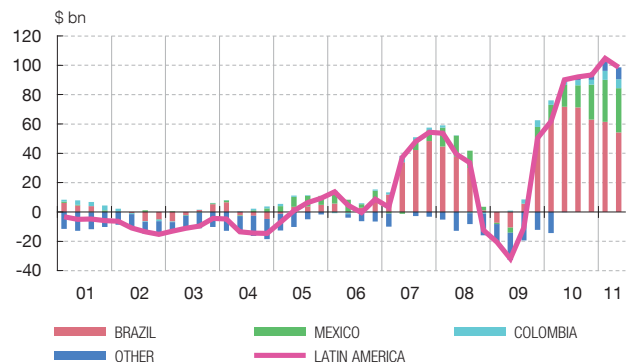
INTERNATIONAL ISSUES IN LATIN AMERICA: FROM APRIL TO OCTOBER 2011
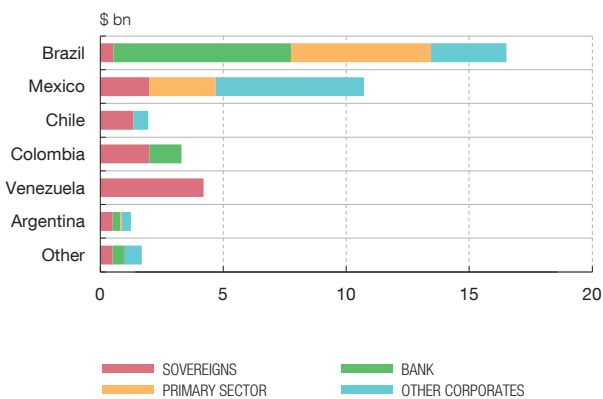
EXTERNAL FLOWS TO LATIN AMERICA
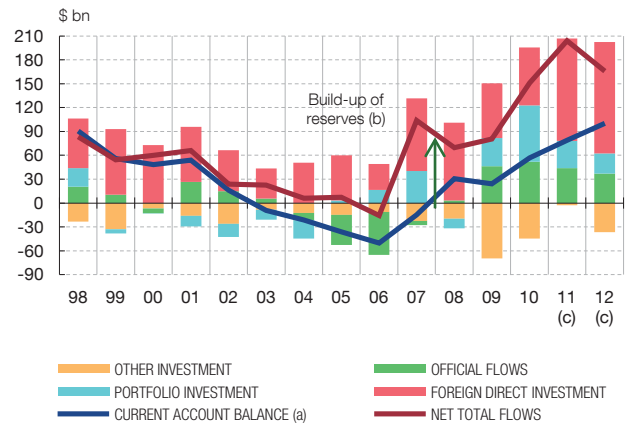
SOURCES: Dealogic, JP Morgan, IMF and national statistics.

a   A positive sign denotes a current account deficit.
b   Difference between investment flows and the current account deficit (-).
c   WEO forecasts (September 2011) for 2011-2012.

Default risk premia behaved similarly, meaning that in late July those for Brazil, Chile, Colombia and Mexico stood far below the weighted average of the five countries most affected by the euro area crisis. This initial resilience of the Latin American economies was reflected in the upgrading of credit ratings or their outlook in four countries, Brazil, Colombia, Chile and Peru, and there was also a positive feedback effect from this phenomenon (see Chart 3).

All these developments proved conducive to maintaining capital inflows at close to their highs in the region. Direct investment in the period from July 2010 to June 2011 was $125 billion, while portfolio investment stood at $97 billion, although there was a change in the composition of this latter variable, with inflows into debt and outflows from stock markets, which helps explain why stock market indices have held on a declining trend (see Chart 4). Bond issues on international markets continued apace, led by the Brazilian banking sector (18% of total issues in the region). This placed Brazil and Mexico as the biggest and third-biggest issuers among the emerging economies in this period. Issues by companies in the region on international markets reached monthly highs in January and May 2011, driven by Brazil. Companies that had not previously resorted to these placements did so, although this characteristic is not exclusive to the region (see Box 1).

This box analyses emerging economies' bond issues from a long-term perspective, highlighting some of the benefits and potential risks of the strong increase seen in the past two years. Emerging economies' issues totalled $219 billion in the first nine months of 2011, the second-biggest annual amount recorded. This figure is without the year having ended and despite the fact that, from September, global financial tensions have entailed a virtual freeze on such placements. The biggest issuers at present are the Latin American and Asian countries, with the issues of each of these regions accounting for around one-third of the total bonds issued by the emerging economies in 2011 to date (see Panel 1.1). In the past two years monthly issues were very high, even at times at which global risk was increasing (see Panel 1.2), and in some cases (the corporate sector in Mexico or the banking sector in Brazil) all-time highs were posted in the first half of the current year.

1.1 ISSUES ON INTERNATIONAL MARKETS
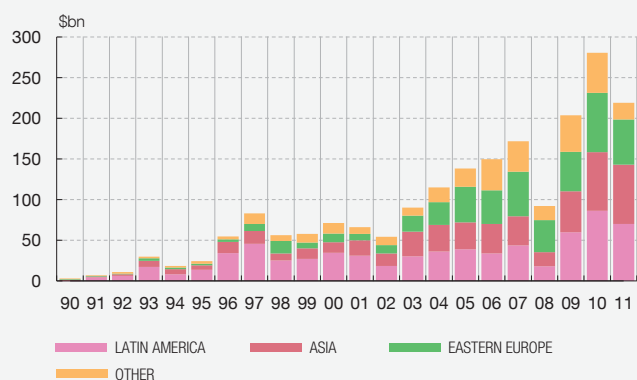
1.2 RECENT DEVELOPMENTS IN ISSUES AND RISK INDICATOR
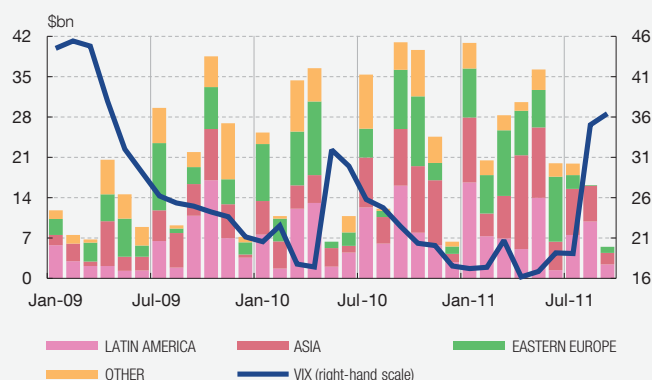
1.3 GROWTH OF ISSUES, VOLUME IN 2009-2011 AND RANKING
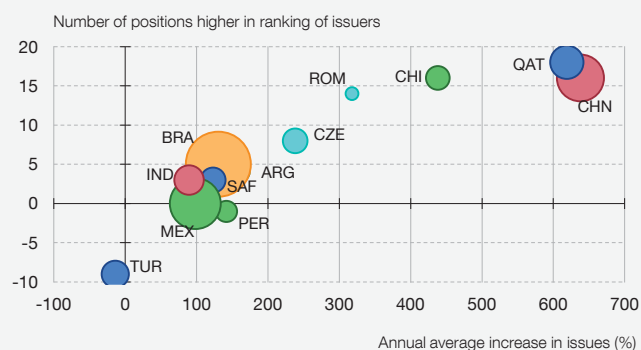
1.4 SOVEREIGN AND CORPORATE ISSUES
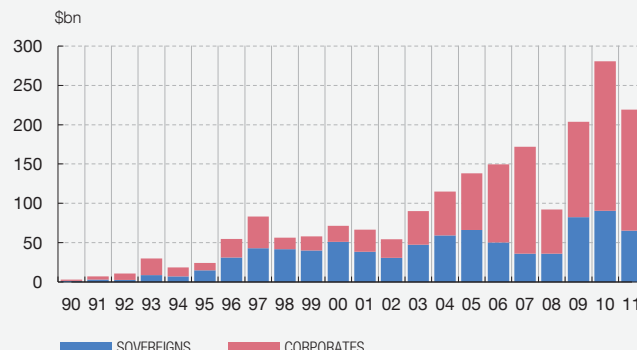
1.5 SOVEREIGN ISSUES BY REGION
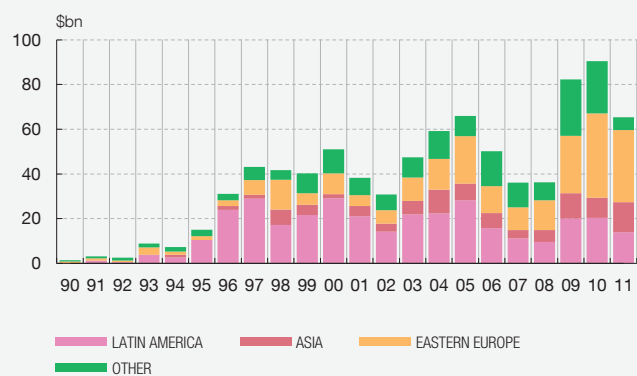
1.6 CORPORATE ISSUES BY REGION
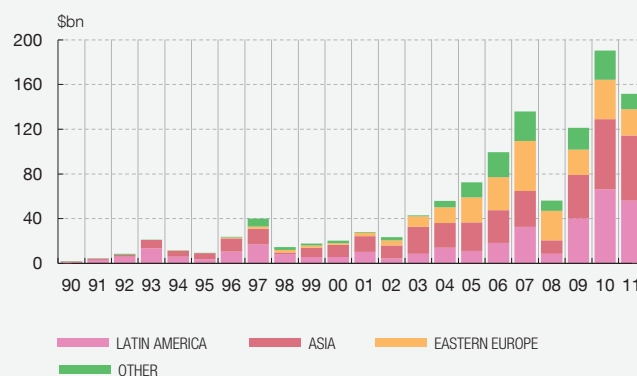
SOURCES: Dealogic, Datastream and IIF.

In the past three years, the value of emerging countries' issues was somewhat over $690 billion on international markets, which marks an annual average increase of over 73% compared with issues in the period 2003-2007. However, this increase has only been slightly higher than that of the advanced economies' issues, meaning that the weight of emerging countries' placements relative to total world issues has only risen from 9.3% in 2003-2007 to 10.6% in 2009-2011. Panel 1.3 shows the increase in annual average issues between both periods, along with the ranking of the various countries among world issuers in the period 2009-2011, while the size of the bubble represents the volume of issues placed in these three years. Significantly, some emerging economies have already taken on a major role as bond issuers on international markets. Brazil and China, previously ranked 20th and 40th among issuers (emerging and developed alike) in the period 2003-2007, have climbed to 15th and 24th position in the past three years.

Access by the emerging economies to international financial markets has clear advantages, such as the possibility of undertaking projects which, otherwise, would be limited by their thin domestic credit markets. But it also poses risks from the standpoint of financial stability.

An initial risk hinges on the nature of the issuer: if most of the issues have been conducted by the public sector, they might in principle pose fewer risks given their greater capacity to withstand debts or ease shocks affecting their ability to pay. Indeed, corporate bond spreads, measured by the CEMBI, have held above sovereign spreads (by 35 bp on average in 2010 and 2011). Panel 1.4 shows how the corporate sector is responsible for the increase in issues in recent years, accounting for almost 70% of the total, when at the start of the last decade they represented around 45%, which would entail to some extent a greater relative risk for holders of these assets at present compared with the sovereign alternative, although in both cases the spread has narrowed compared with the past. By region, Eastern Europe has taken up the baton from Latin America as the area in which the biggest volume of sovereign issues is concentrated, as a result of the volume issued by Russia and Poland (see Panel 1.5). By contrast, the strong increase in corporate issues on international markets in the past three years has been due, above all, to Latin American companies (see Panel 1.6).

The second risk would be associated with the economic sector undertaking the corporate issues. Given that most of the issues on international markets are denominated in foreign currency, an increase in issues entails balance sheet mismatch risks similar to those experienced in recent emerging economy crises (which amplified the effects of exchange rate devaluations on activity), especially in those companies for which most earnings are in local currency, as is the case of the banking sector. If issues are concentrated in the real estate sector, the risks will be more on the side of the possible formation of bubbles and, if both sectors (real estate and banking alike) are closely connected, the risks will multiply. Conversely, if issues are concentrated in the export sector (e.g. primary-sector companies), exchange rate risk will be lower, as corporate revenue will be mainly in foreign currency. Panels 2.1 to 2.5 offer this breakdown, at aggregate level and by region. It can firstly be seen that the relative weight of the different sectors in total issues has held relatively constant, meaning that it is issues included under the heading "other corporates" (basically public utility industrial and services companies) that continue to account for most of the market, albeit with a growing weight of the banking sector.

In Latin America it is primary-sector companies that have dominated issues since the 2008 crisis, reflecting in part the changes in their productive specialisation and the strong increase in the sector's profitability following the rise in commodities prices as from 2003 (see Panel 2.2). Nonetheless, a notable increase in issues by banks in the region (specifically Brazilian banks) is also perceptible, and in 2011 to date they have already issued more than they raised in 2010 as a whole. The presence of real estate companies is also very limited in respect of issues in Latin America, though not so in Asia - and in particular in China - where these companies have issued around $20 billion in 2010 and 2011, climbing from 0.1% of the region's total issues to 17% in the past two years (see Panel 2.3).

Another significant feature of the emerging economies' bond issues on international markets is the growing use of local currency. If the issue is made in local currency, the risks to holders would arise from exchange-rate changes and from the possible loss of value of the assets due to inflation, while the borrower would be protected in respect of the first factor and would benefit from the second. Traditionally, the emerging economies have been obliged to finance themselves in foreign currency (a consequence of the so-called "original sin"[1]), but in recent years they have increased local-currency-denominated issues. As can be seen in Panel 2.4, local-currency issues peaked in 2010 and 2011, although they continue to account for a minority share. This type of placement has increased mainly in Asia, and, thus, in the real-estate and non-financial corporate sectors, issues in local currency as a proportion of total issues have exceeded 25% in the first nine months of 2011, climbing to more than 42% in the case of sovereign issues (12% and 25% in the years 2009 to 2011). In the banking sector it is Eastern European - and, specifically, Russian - banks that have been most active in this segment, while in Latin America the biggest recent local-currency issues have been in other corporate sectors (more than 10% of the total).

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1   The so-called "original sin" of the emerging economies refers to the impossibility of them raising funding on international markets in their own currency, and the only variable that is correlated to this impossibility is the size of the country. Thus, transaction costs, the externalities of using the vehicular currencies of international trade and the imperfections of capital markets would be the determinants of this problem, more so than the individual countries' macroeconomic policies. See B. Eichengreen, R. Hausmann and U. Panizza (2003b), *Currency Mismatches, Debt Intolerance, and Original Sin: Why They Are Not The Same and Why It Matters*, NBER Working Paper, 10036.

2.1 CORPORATE ISSUES BY TYPE OF COMPANY
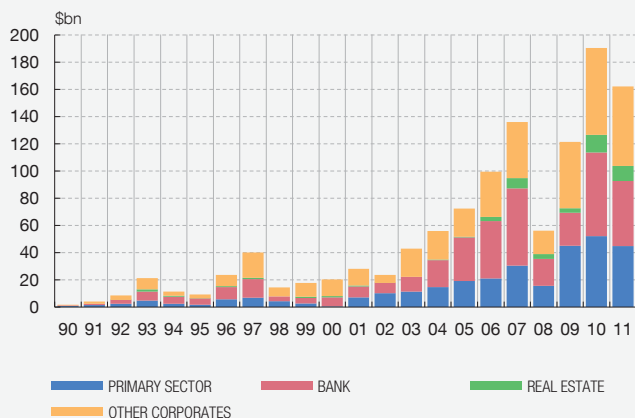
2.2 CORPORATE ISSUES BY TYPE OF COMPANY: LATIN AMERICA
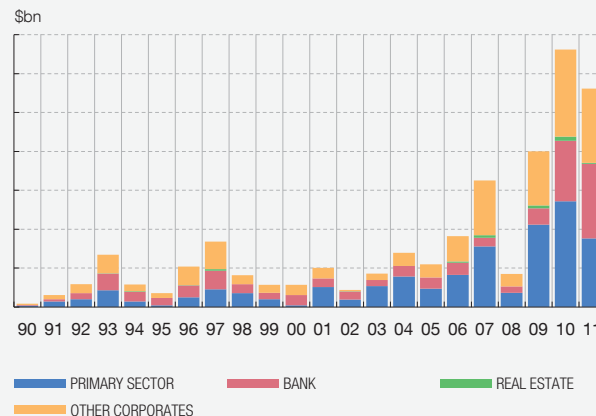
2.3 CORPORATE ISSUES BY TYPE OF COMPANY: ASIA
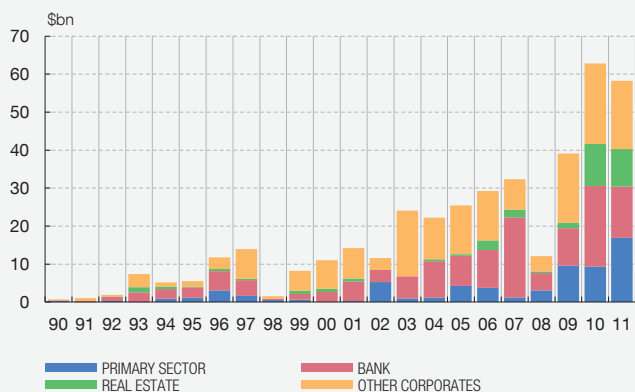
2.4 ISSUES ON INTERNATIONAL MARKETS: BY TYPE OF CURRENCY
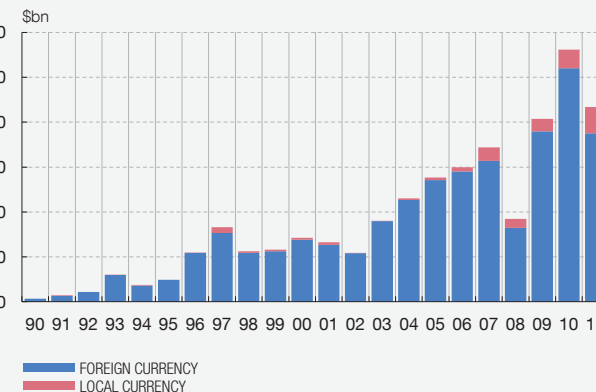
2.5 SOVEREIGN ISSUES: PERCENTAGE OF ISSUES IN LOCAL CURRENCY
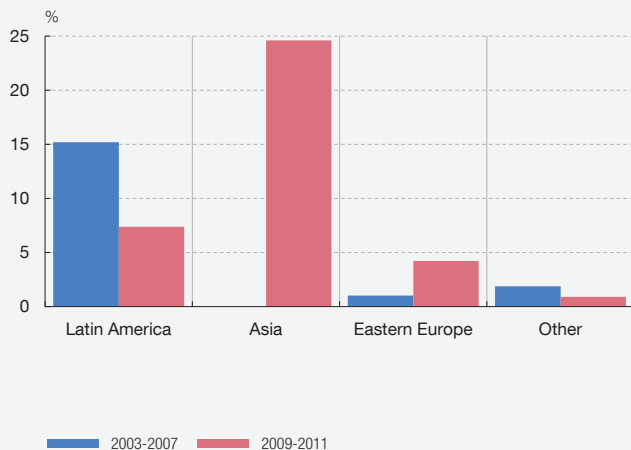
2.6 CORPORATE ISSUES: PERCENTAGE OF ISSUES IN LOCAL CURRENCY
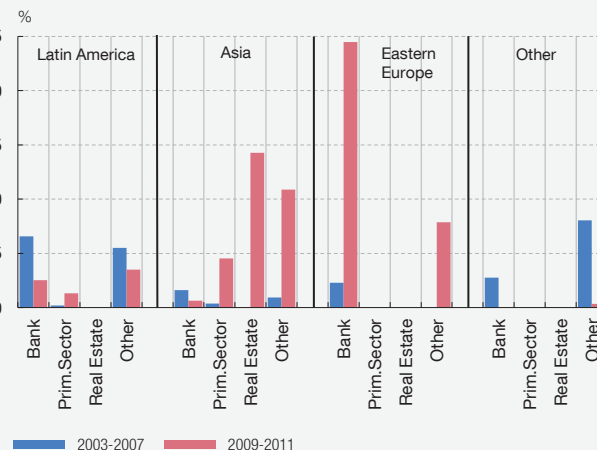
SOURCES: Dealogic, Datastream and IIF.

Finally, the increase in placements may be due to new firms entering the market, on which there is less information regarding solvency, or to companies whose presence on international markets is already consolidated. The years 2010 and 2011 have seen a rise in the number of companies in emerging economies - mainly in Asia, and particularly in China - that are gaining access for the first time to international markets. The increase in the number of issuing companies has been accompanied by a decline in the average rating of the issues (see Panel 3.1), which still stands, however, at investment grade. The average maturity of the issues also declined slightly as new firms entered the market, and the average spread charged rose, standing in both cases in a more unfavour-

able position than the previous high for the entry of new firms, in 2006 (see Panel 3.2).

In sum, there has been a notable increase in emerging economies' issues on international financial markets in the past three years. Undoubtedly, that has proven propitious for the financing of profitable projects which, in the absence of this channel, might not have been undertaken given the thinness of local markets. However, some of the characteristics of this process - the greater weight of corporate issues, of local-currency-denominated issues and of those issued by companies tapping the international markets for the first time - entail some increase in the risks for investors in these markets.

3.1 ISSUES: FIRST-TIME ISSUERS AND AVERAGE RATING
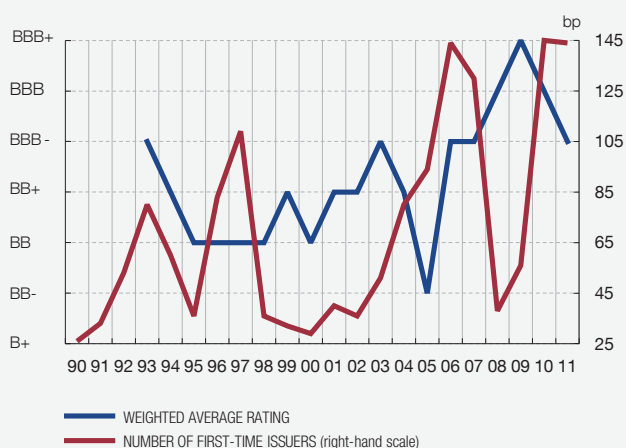
3.2 ISSUES: AVERAGE MATURITIES AND WEIGHTED AVERAGE SPREAD

WEIGHTED AVERAGE RATING
NUMBER OF FIRST-TIME ISSUERS (right-hand scale)

WEIGHTED AVERAGE MATURITY
WEIGHTED AVERAGE SPREAD (right-hand scale)

SOURCES: Dealogic, Datastream and IIF.
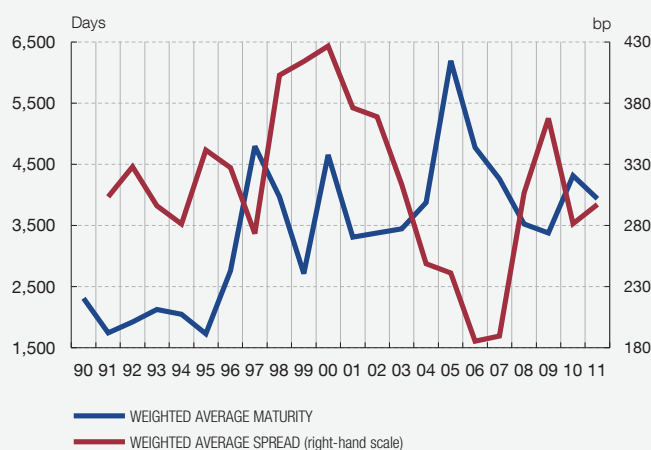
From April to July, capital inflows fuelled exchange-rate rises against the dollar which, along with the increase in inflation, increased the misalignment of real effective exchange rates, which stood in July at historical highs or close to them. To tackle capital inflows, countries had to resort once again to various macroprudential measures, such as foreign currency reserve requirements (Peru), capital controls (Brazil) or central bank intervention in the form of currency purchases.

In July, however, the picture changed substantially. As mentioned in the previous section, the heightening of the sovereign debt crisis in the euro area and the weaker growth outlook, chiefly in the United States, triggered a severe worsening on international financial markets, characterised by a substantial increase in risk aversion. Against this backdrop, there was a notable decline in risk-bearing asset prices (among them emerging economies' exchange rates, stock markets and bonds) given the perception that the emerging economies would hardly remain immune to a new global shock. The emerging debt markets – which had until then withstood the downturn in global conditions, with inflows of close to $2 billion and issues in August totalling more than $15 billion, including very long-

GROSS DOMESTIC PRODUCT
Quarter-on-quarter rate
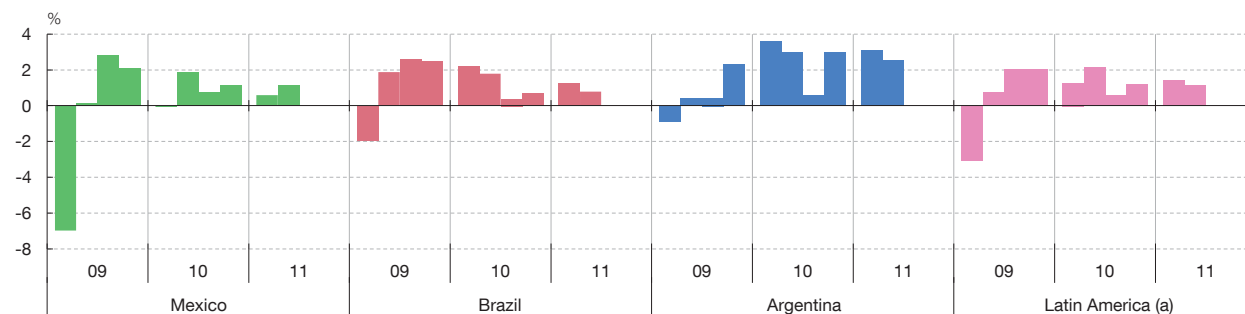
GROSS DOMESTIC PRODUCT
Year-on-year rate
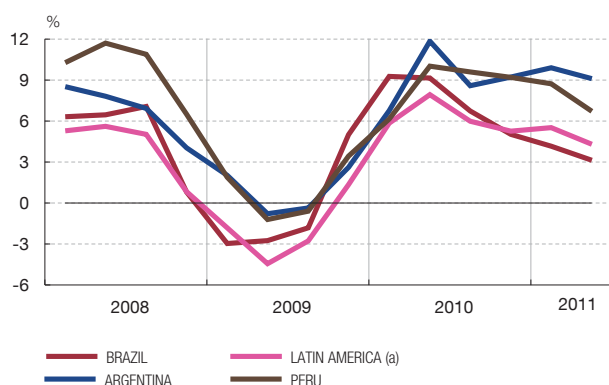
GROSS DOMESTIC PRODUCT
Year-on-year rate
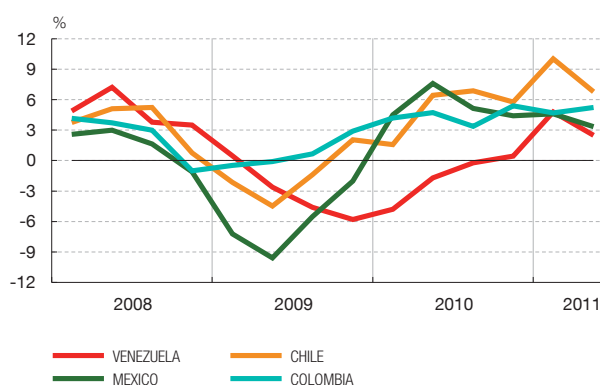
SOURCE: National statistics.

a Aggregate of the seven main economies.

term operations (a 100-year bond in Mexico) – were finally affected in mid-September by major capital outflows and the grinding to a halt of bond issues.

In this setting, financial indicators deteriorated across the board. From July stock markets fell by 18% in Latin America and sovereign spreads widened (the Latin America Global EMBI increased by 121 bp). The stock markets that most fell were Argentina (-30%), Peru (-17%) and Chile (-12%), while sovereign spreads increased particularly in Mexico (by 86 bp to 245 bp). Finally, there was a strong depreciation in exchange rates towards the end of September (see Chart 4), of more than 10% in Chile and close to 15% in Mexico and Brazil. This was a similar depreciation to that in other major emerging currencies, such as the South African rand (-18%) or the Russian rouble (-14%), and may be largely explained by the cancellation of carry trade at a time of worsening tensions which proved conducive to flows towards safe-haven assets. These developments led the Peruvian and Brazilian central banks to intervene selling reserves, while Colombia altered its foreign exchange intervention arrangements, making purchases of reserves less automatic.

Activity and demand

Growth remained robust in Latin America in the first half of 2011. Quarter-on-quarter rates of 1.4% and 1.1% were respectively posted in Q1 and Q2 (see Chart 5). The main drivers of growth were the commodities-exporting economies. In year-on-year terms, however,

there was an across-the-board slowdown in activity, from 5.5% at the start of the year to 4.3% in Q2, about 2 pp below the related 2010 figures.

The main explanatory factor behind this easing in activity was the diminished dynamism of domestic demand which, even so, remained relatively robust and contributed 5.9 pp to growth (see Chart 6), while the negative contribution of external demand lessened to 1.6 pp in Q2. Set against the tightening of monetary policy virtually across the board in the first half of the year, and with relatively few changes in respect of the external factors affecting growth in the region (capital flows and commodities prices), the slowdown should be attributed to a resumption of growth rates more compatible with potential, following the strong rebound in 2010 after the crisis (see Chart 7). Indeed, a trend-cycle calculation shows that, at the end of 2010, most of the Latin American economies were posting growth rates far higher than trend, with the output gap closing. Also, from early 2011 relatively rapid convergence began towards rates that were more sustainable and even below trend in some cases (Brazil). The only exceptions would be Mexico and, above all, Venezuela, where the recession has been more protracted. Argentina is expected in 2011 to be the economy that is most overheating.

In terms of components, demand is showing a regional pattern very similar to that in 2010, albeit with a lesser contribution of inventories and greater balance between domestic and external demand. Private consumption has continued to be the main engine of growth, posting a year-on-year rate of 6% in Q2, underpinned by the favourable labour market situation, the increase in real wages in most of the countries and the pick-up in credit (see Chart 6). In fact, the unemployment rate across the region continued to fall, down to 6.8% of the labour force at the end of Q2, which was close to the historical lows in several South American countries. In Mexico, the situation is different insofar as the pre-crisis unemployment rate has not been reached, and employment has been resilient partly owing to the increase in informal-economy jobs. Gross capital formation, though it eased from its very high rate in early 2010, has continued growing at a pace of over 9% year-on-year. With perspective, however, it appears that investment measured as a percentage of GDP has not taken off in all the countries, something which might have been expected given the favourable economic outlook and the widespread availability of financing (see Chart 7). The contribution of stockbuilding to growth declined, while government consumption quickened in some countries (Argentina) and tended to moderate in others (markedly so in Mexico). Finally, the slowdown in exports in real terms (6.7% year-on-year) and the continuing strength of imports (14.7% year-on-year) explain why external demand has continued contributing negatively to growth.

Across the various countries, the moderation in growth is also partly due to specific causes. In Brazil it has been concentrated in the industrial sector, a fact linked to the exchange-rate appreciation. Indeed, industrial production in Brazil posted a year-on-year growth rate that was negative in July, and only moderately positive in August, especially in the capital and intermediate goods sectors, while employment in industry showed signs of weakness despite the general momentum of the labour market, with an unemployment rate at a historical low (6%). These trends are also discernible in business confidence indices, which have likewise trended downwards since virtually the beginning of 2011 (see Chart 8). However, the indicators of domestic demand (consumption, imports, retail sales and lending) continue to rise at a dynamic pace, outstripping the supply-side indicators (see Chart 8). Higher growth in domestic demand as opposed to in supply is a trend common to a greater or lesser degree to the other commodities-exporting countries (Chile, Peru and Argentina; see the section "Economic developments by country"). In Mexico, the slowdown

BREAKDOWN OF GDP AND INVESTMENT

CHART 6

CONTRIBUTIONS TO YEAR-ON-YEAR GDP GROWTH (a)

pp

- EXTERNAL DEMAND
- GOVERNMENT CONSUMPTION
- PRIVATE CONSUMPTION
- GROSS FIXED CAPITAL FORMATION
- STOCKBUILDING
- GDP
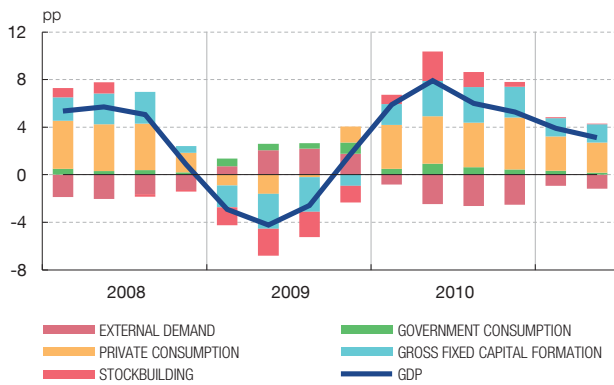
PRIVATE CONSUMPTION
Year-on-year rate

% y-o-y

- ARGENTINA
- BRAZIL
- MEXICO
- CHILE
- LATIN AMERICA (a)

GROSS FIXED CAPITAL FORMATION

% y-o-y

- ARGENTINA
- BRAZIL
- MEXICO
- CHILE
- LATIN AMERICA (a)

PRIVATE INVESTMENT

% GDP

- AVERAGE IN 1980s
- AVERAGE IN 1990s
- AVERAGE 2003-2010
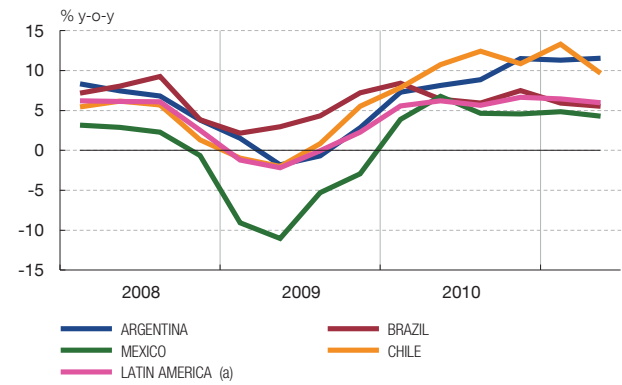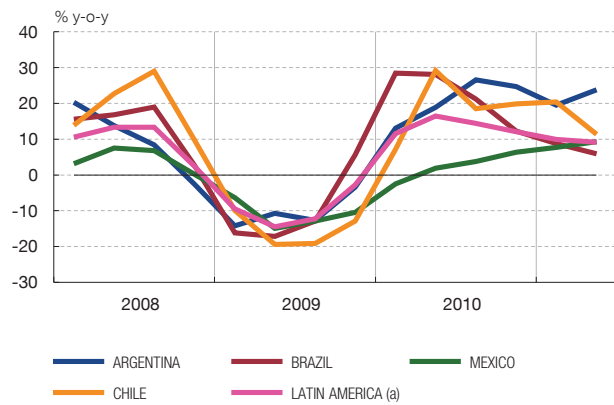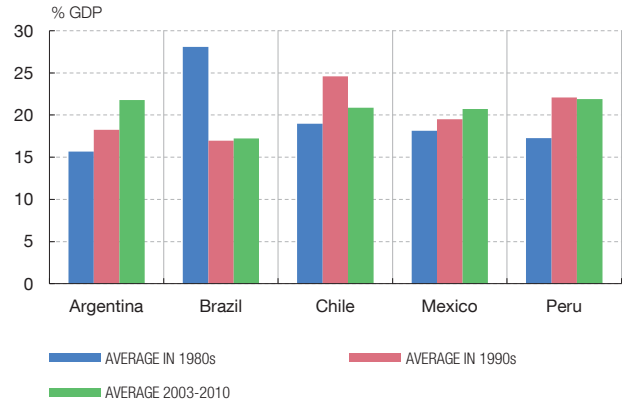
SOURCES: National statistics and IMF.

a Seven biggest economies.

CHANGES IN THE OUTPUT GAP

CHART 7

OUTPUT GAP (b)

%

- ARGENTINA
- BRAZIL
- MEXICO
- LATIN AMERICA (a)

OUTPUT GAP (b)

%

- CHILE
- COLOMBIA
- VENEZUELA
- PERU
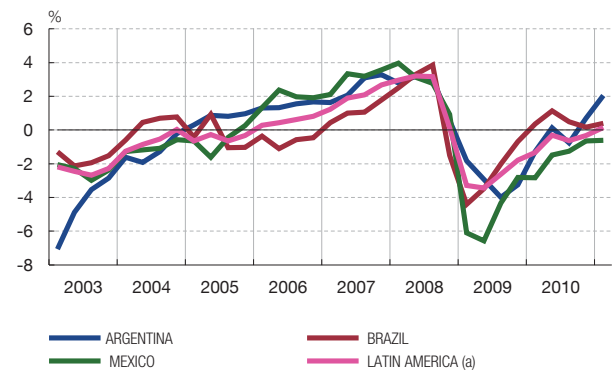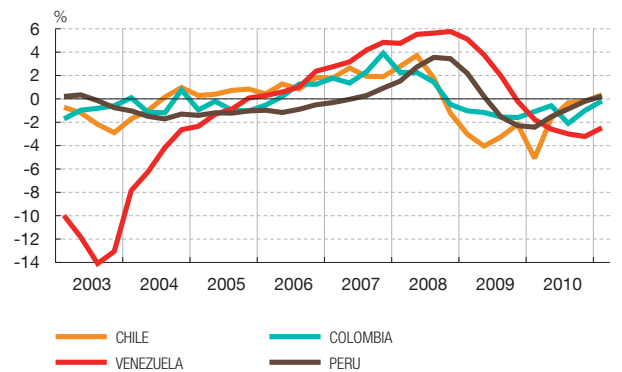
SOURCE: Devised drawing on IMF data.

a Aggregate of the seven main economies.
b Calculated using a HP filter with lambda = 1,600 on quarterly GDP data.

TABLE 1

	2008	2009	2010	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	
GDP (year-on-year rate)												
Latin America (a)	4.3	-2.0	6.3	-2.6	1.7	5.8	7.9	5.9	5.3	5.5	4.3	
Argentina (b)	6.8	0.9	9.2	-0.3	2.6	6.8	11.8	8.6	9.2	9.9	9.1	
Brazil	5.2	-0.6	7.5	-1.8	5.0	9.3	9.2	6.7	5.0	4.2	3.1	
Mexico	1.5	-6.1	5.5	-5.5	-2.0	4.5	7.6	5.1	4.4	4.6	3.3	
Chile	3.7	-1.7	5.2	-1.4	2.1	1.7	6.4	6.9	5.8	10.0	6.8	
Colombia (c)	3.5	1.5	4.3	1.1	2.9	3.7	4.7	3.4	5.4	4.7	5.2	
Venezuela	4.8	-3.3	-1.4	-4.6	-5.8	-4.8	-1.7	-0.2	0.5	4.8	2.5	
Peru	9.8	0.9	8.8	-0.6	3.4	6.2	10.0	9.6	9.2	8.7	6.7	
CPI (year-on-year rate)												
Latin America (a)	7.8	6.4	6.4	5.9	5.4	6.1	6.5	6.2	6.6	6.7	6.6	7.0
Argentina (b)	8.6	6.3	10.5	5.9	7.1	9.0	10.6	11.1	11.0	10.1	9.7	9.9
Brazil	5.7	4.9	5.0	4.4	4.2	4.9	5.1	4.6	5.6	6.1	6.6	7.3
Mexico	5.1	5.3	4.2	5.1	4.0	4.8	4.0	3.7	4.2	3.5	3.3	3.1
Chile	8.7	0.4	1.4	-1.9	-3.0	-0.3	1.2	2.2	2.5	2.9	3.3	3.3
Colombia	7.0	4.2	2.3	3.2	2.4	2.0	2.1	2.3	2.7	3.3	3.0	3.7
Venezuela	31.4	28.6	29.0	28.7	28.1	27.4	31.9	29.8	27.3	29.1	24.6	26.7
Peru	5.8	2.9	1.5	1.9	0.4	0.7	1.1	2.2	2.1	2.4	3.1	3.7
BUDGET BALANCE (% of GDP) (d)												
Latin America (a) (e)	-0.5	-2.9	-2.2	-3.1	-2.8	-2.7	-2.5	-2.0	-2.2	-1.8	-1.6	
Argentina	1.4	-0.6	0.2	-1.0	-0.6	-0.8	-0.3	0.2	0.2	0.2	0.0	
Brazil	-2.0	-3.3	-2.6	-4.2	-3.3	-3.4	-3.3	-2.3	-2.6	-2.3	-2.2	
Mexico	-0.1	-2.3	-2.8	-2.3	-2.1	-1.8	-2.2	-2.4	-2.7	-2.8	-2.8	
Chile	5.0	-4.6	-0.3	-3.9	-4.6	-3.9	-1.1	0.0	-0.3	1.0	1.5	
Colombia	-1.8	-3.8	-3.6	-3.2	-3.8	-3.4	-4.0	-3.6	-3.5	-2.9	-1.6	
Venezuela	-1.2	-5.1	—	-3.9	-5.1	-4.8	-3.8	-3.5	—	—	—	
Peru	2.2	-1.8	0.0	-0.7	-1.8	-1.3	-0.9	-0.3	0.0	0.3	0.3	
PUBLIC DEBT (% of GDP)												
Latin America (a)	30.7	34.7	33.7	34.5	34.2	34.1	33.3	33.5	33.1	33.5	—	
Argentina	44.7	47.9	44.6	46.4	45.8	47.9	40.5	43.3	41.3	44.3	—	
Brazil	38.5	42.8	40.4	43.3	42.8	41.9	40.9	40.3	40.2	39.9	39.7	
Mexico	24.3	28.0	27.4	27.5	26.3	27.7	27.7	27.4	26.0	27.1	26.9	
Chile	5.2	6.2	9.2	5.8	6.1	6.9	7.5	8.7	9.2	9.6	10.1	
Colombia	33.2	34.7	34.8	33.6	35.1	34.3	35.0	34.7	34.7	34.8	33.1	
Venezuela	13.6	22.6	28.4	20.4	22.6	19.0	22.4	26.1	28.4	26.9	—	
Peru	24.2	27.3	23.9	27.2	27.3	25.5	23.7	23.2	23.5	22.5	21.8	
CURRENT ACCOUNT BALANCE (% of GDP) (d)												
Latin America (a)	-0.6	-0.3	-0.7	-0.7	-0.2	-0.1	-0.4	-0.6	-0.8	-0.9	-0.8	
Argentina	2.0	3.6	1.0	3.5	3.4	2.9	2.3	1.4	0.8	0.7	0.3	
Brazil	-1.7	-1.5	-2.3	-1.2	-1.5	-1.8	-2.1	-2.4	-2.3	-2.3	-2.1	
Mexico	-1.5	-0.7	-0.5	-1.4	-0.6	-0.4	-0.5	-0.3	-0.5	-0.7	-0.8	
Chile	-1.9	1.6	1.9	0.7	2.6	2.4	1.8	1.6	1.9	0.9	0.6	
Colombia	-2.8	-2.2	-3.1	-2.7	-2.1	-2.1	-2.2	-2.8	-3.1	-3.2	-3.4	
Venezuela	12.0	2.6	6.1	-0.6	2.6	6.0	6.8	6.3	6.0	6.5	8.4	
Peru	-4.2	0.2	-1.5	-1.0	0.2	0.0	-0.2	-0.9	-1.5	-1.5	-2.1	
EXTERNAL DEBT (% of GDP)												
Latin America (a)	17.5	20.6	20.7	20.8	19.8	19.7	19.1	20.4	20.6	20.5	19.8	
Argentina	38.3	37.9	34.9	39.2	36.3	36.9	31.5	34.2	32.3	33.5	27.4	
Brazil	12.0	12.4	12.2	14.0	12.2	11.9	12.0	12.3	12.3	12.6	12.3	
Mexico	11.5	18.5	18.2	17.0	16.8	17.9	17.8	18.4	19.0	18.5	18.4	
Chile	38.0	45.9	42.3	45.3	45.0	42.8	42.2	43.4	42.5	42.6	42.6	
Colombia	19.1	22.7	22.6	21.9	22.9	18.8	19.3	21.5	22.5	20.6	20.9	
Venezuela	19.4	22.6	35.5	21.4	22.6	23.8	25.1	31.1	35.8	34.4	35.0	
Peru	27.3	28.1	26.1	28.6	28.1	27.3	25.4	26.6	26.4	26.1	25.6	

SOURCES: National statistics.

a Aggregate of the 7 countries represented.
b Official figures.
c Seasonally adjusted.
d Four-quarter moving average.
e As from 2010 Q4, the budget balance aggregate does not include Venezuela.

UNEMPLOYMENT RATE
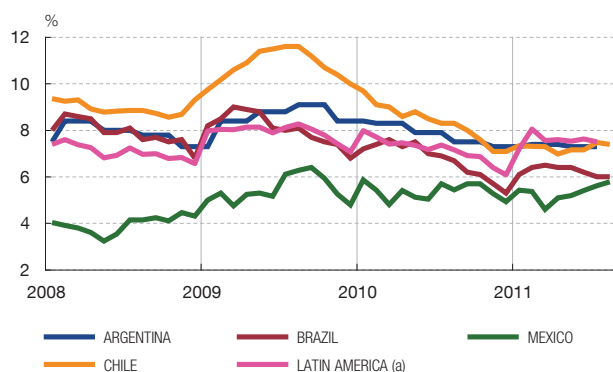
REAL CHANGE IN CREDIT TO THE PRIVATE SECTOR
3-month moving average of the year-on-year rate
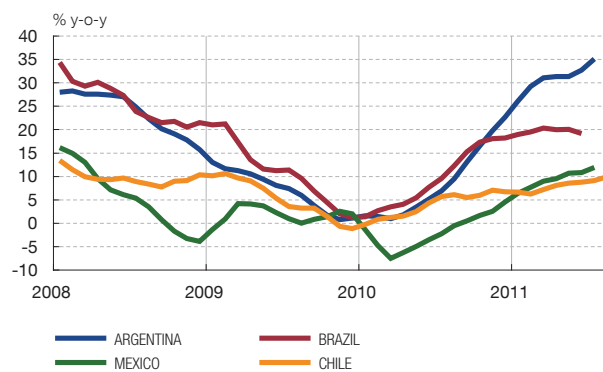
CONSUMER AND BUSINESS CONFIDENCE INDICES
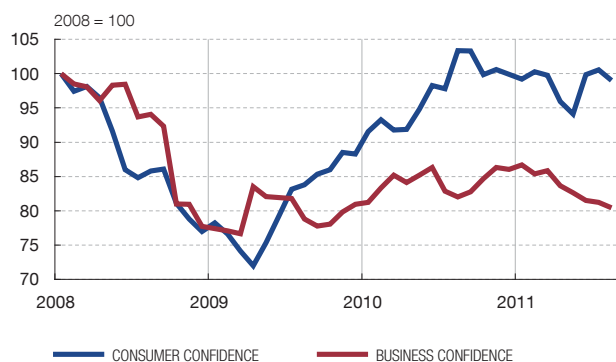
DEMAND INDICATORS
3-month moving average of the year-on-year rate
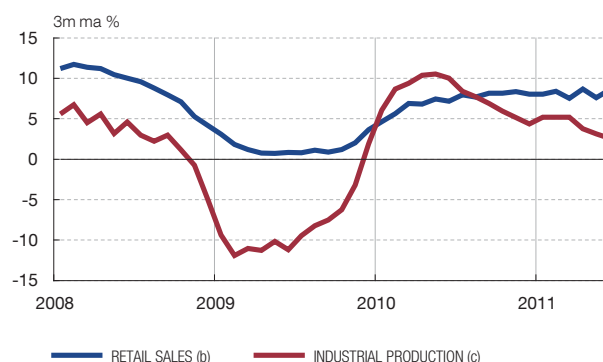
SOURCE: National statistics.

a Seven biggest economies.
b Argentina, Brazil, Mexico, Chile, Colombia and Venezuela.
c Eight biggest economies.

during the first half of the year has coincided with the downturn in the US industrial cycle in recent months. This suggests that, despite the pick-up in recent quarters, Mexican domestic demand is not generating sufficiently self-sustained growth as to mitigate high external dependency.

Against this background, credit to the private sector continued to increase at a rate of close to 20% (see Chart 8) in real terms in August in the region as a whole, with some easing observable in certain countries (in Brazil, for example, further to its monetary tightening measures) and an acceleration in others (Argentina, or Chile and Mexico, departing from much more moderate rates). One of the main factors that has pushed such growth upwards in recent quarters has been the increase in net capital flows. In fact, the episodes of increasing capital inflows are one of the main determinants of the excessive expansion in credit.[1] This risk has been perceived as potentially significant in Brazil, given the greater size and liquidity of its financial markets, and the possibility that the availability of financing might provide for an easing of lending standards, or the formation of bubbles in the prices of certain assets. In this respect, although excessive growth in some segments cannot be

1 *WEO*, October 2011, chapter 1, and *BIS Quarterly Report* (2011).

COMMODITIES PRICES
Indices

January 2008 = 100

OVERALL — FOOD
ENERGY — METALS

EXPORTS AND IMPORTS (a)
Year-on-year rate. Quarterly moving average. Percentage of GDP

% y-o-y, 3-month moving average   % of GDP, 4-quarter moving average

TRADE BALANCE (right-hand scale) — EXPORTS
IMPORTS

CURRENT ACCOUNT BALANCE (b)

BRAZIL   ARGENTINA   PERU   MEXICO   CHILE   COLOMBIA   VENEZUELA   — LATIN AMERICA
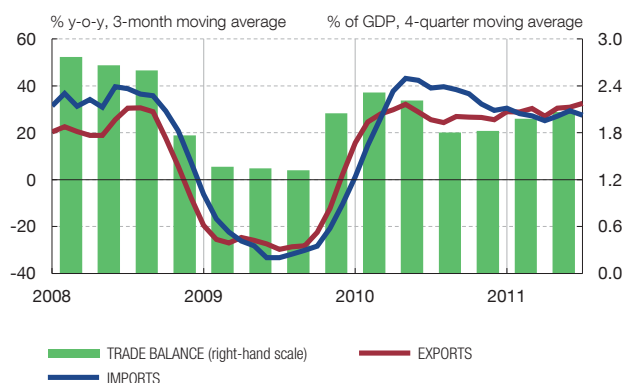
SOURCES: National statistics, central banks and Banco de España.

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

ruled out, the risk of a bout of generalised overexpansion seems low. Mortgage lending still accounts for only 4.2% of GDP in Brazil, despite its recent dynamism, and it is in the main directed[2], the consequence of the stimulus policies in this sector. Public credit is decelerating, and the recent slowdown in capital inflows should also temper in part this expansion. The acceleration in this variable is also a concern in Argentina, although it is from a very low base, in a setting in which uncertainty over the elections appears to be reflected in deposits, dollarisation and capital outflows.

Finally, developments in the external sector in Latin America were determined to August by the prevalence of high commodities prices and of capital flows. Thus, as a result of some easing in the growth of imports in nominal terms and of the continuing robust increase in exports (above all due to the price effect), the trade surplus in the region increased slightly, to 2.2% of GDP (see Chart 9). Meantime, the current account deficit stabilised at somewhat below 1% of regional GDP, largely due to the worsening of the incomes balance (owing to the habitual repatriation of dividends from the commodities-exporting economies). This situation is expected to have changed in September, although the trade balance figures are

2   The stock of mortgage lending is 155.7 billion reales, 146 billion of which relate to directed lending.

INFLATION RATE

%

12
10
8
6
4
2
0
-2
-4

2008   2009   2010   2011

——— ARGENTINA   ——— BRAZIL   ——— MEXICO
——— CHILE   ——— LATIN AMERICA (a)

CORE INFLATION RATE (b)

%

12
10
8
6
4
2
0
-2
-4

2008   2009   2010   2011

——— ARGENTINA   ——— BRAZIL   ——— MEXICO
——— CHILE   ——— LATIN AMERICA (a)
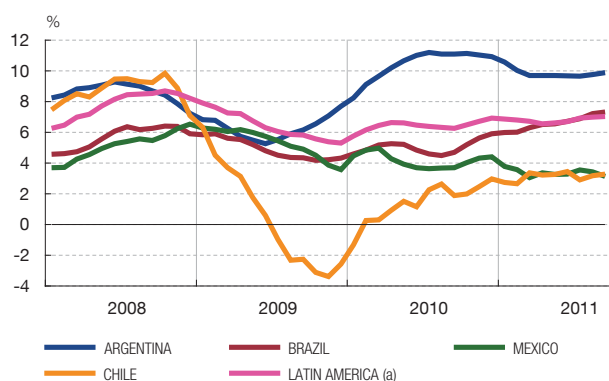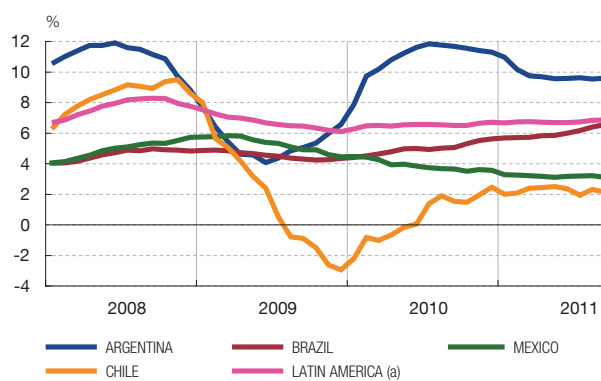
CONTRIBUTION TO INFLATION IN LATIN AMERICA (c)

%

10
8
6
4
2
0

2008   2009   2010   2011

——— OTHER   ——— FOOD   ——— ENERGY

OFFICIAL INTEREST RATES

%

16
14
12
10
8
6
4
2
0

2008   2009   2010   2011

——— BRAZIL   ——— MEXICO   ——— CHILE
——— COLOMBIA   ——— PERU   ——— LATIN AMERICA (d)
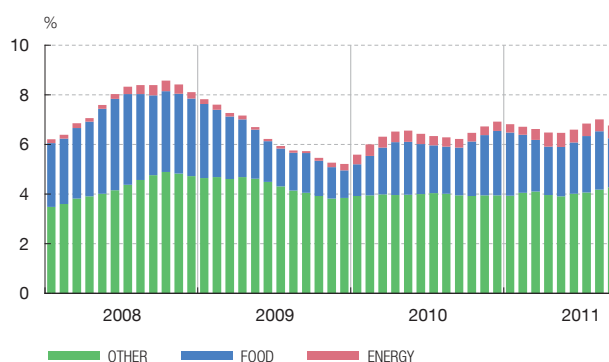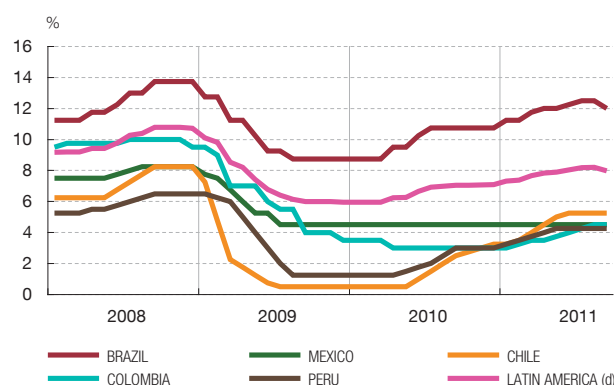
SOURCES: National statistics and Banco de España.

a Aggregate of the seven main economies.
b Official rates.
c Banco de España calculations stripping out the food and energy indices from the overall index.
d Weighted average of the official rates of the five countries with inflation targets.

not yet available, in light of the collapse in the prices (in some cases up to 20%) of the region's main commodities. It should also be stressed that practically all the countries saw their current account deficit widen or their surpluses narrow during the six-month period, this being offset only by the substantial widening of the current surplus in Venezuela to 8.4% of GDP. In respect of the capital account, foreign direct investment continued comfortably to finance the current deficit, although in circumstances such as the present in which there is a change in market sentiment, the external position – which was a strength at the start of the crisis given its surplus situation – might now prove to be a weakness in some countries (chiefly Colombia and Brazil). This vulnerability, however, would be partly compensated for by the increase in central bank foreign exchange reserves, which have reached far higher levels in all the countries than those in place pre-crisis.

Prices and macroeconomic policies

Far from stabilising, inflation in Latin America rebounded in the period of 2011 under study, placing the year-on-year rate of the aggregate for the region at 7% in September, 0.5 pp up on the end-2010 figure. As in the previous six-month period, much of this rise was due to the behaviour of prices in Brazil, where annual inflation rose to 7.3% in September (far above the upper target band). That said, Peru, too, among the countries pursuing inflation targets, posted an above-target rise in prices (see Chart 10). By contrast, in Chile,

Country	2010			2011		2012
	Target	December	Fulfillment	September	Expectations (a)	Expectations (a)
Brazil	4.5 ± 2	5.9	Yes	7.3	6.4	5.4
Mexico	3 ± 1	4.4	No	3.1	3.4	3.7
Chile	3 ± 1	3.0	Yes	3.3	3.4	3.0
Colombia	3 ± 1	3.2	Yes	3.7	3.4	3.4
Peru	2 ± 1	2.1	Yes	3.7	3.4	2.6

SOURCES: National statistics and Consensus Forecast.

a September 2011 Consensus Forecast for the end of the year.

Colombia and Mexico, inflation tended to stand within the central bank target range (see Table 2). The increase in food prices at the start of the year continues to explain part of the rise in the overall indices, although core inflation pressures have been observed in some countries, particularly in Brazil, where it stood at a six-year high of 6.7% year-on-year, owing to the rise in services prices. Yet in the other countries with inflation targets, core inflation performed better. In Mexico, for instance, it held stable against a background of ample output, low growth in labour costs and an appreciating currency to June. In Argentina, inflation stood at around 10% (while wage increases are running at 20%/25%, the range in which the unofficial inflation measures stand), and in Venezuela it climbed to 26.5%.

Against this background, the cycle of interest rate rises in which four of the five countries with an inflation target in the region since 2010 were immersed continued during the first seven months of the year. In Brazil, the official rate climbed to 12.5% in July, after three 25 bp rises; in Chile and Colombia there were five consecutive increases totalling 200 bp, also to July; and in Peru the benchmark rate increased by 250 bp to May. The upshot was a considerable tightening of monetary conditions, and at the same time this increased the incentives for carry trade and exchange rate appreciation. Indeed, to contain the pressure on exchange rates, the first eight months of the year saw a build-up of reserves of more than $100 billion in the region (an increase of 18%), mainly in Brazil and Mexico. This trend was reversed in September in the face of downward pressure on the currencies.

In late August, however, the Brazilian central bank unexpectedly cut its official interest rate by 50 bp, highlighting in its communiqué the change in the international scenario, which involved a significant increase in the risks to the Brazilian economy through various channels, such as trade flows, external investment and confidence effects. This shift in the global scenario would in principle entail a more favourable balance of risks in respect of containing inflation, allowing for convergence on the target of 4.5% in 2012, a perception strengthened by the prospect of greater fiscal restriction, announced during the summer. Nonetheless, survey-based inflation expectations for 2011 have tended to rise moderately in recent months, and this trend has continued despite the cut in rates. In the remaining countries in the region, the upward interest rate cycle has been interrupted, and in some cases (Chile, Mexico) there has been some indication of the possibility of a cut in rates. Yield curves, which retained a very positive slope until late July, incorporating expectations of a rise, have become inverted and are currently discounting declines which, in some cases, are very significant (more than 100 bp before the end of the year in Brazil, more than 50 bp in Chile and 25 bp in Mexico). All these developments point to a further change in the interest rate cycle in the region.

GENERAL GOVERNMENT BALANCE

% GDP

2011 (p)-2008 REVENUE (DIFFERENCE)
2011 (p)-2008 EXPENDITURE (DIFFERENCE) (a)
2011 (p)-2008 FISCAL BALANCE (DIFFERENCE)
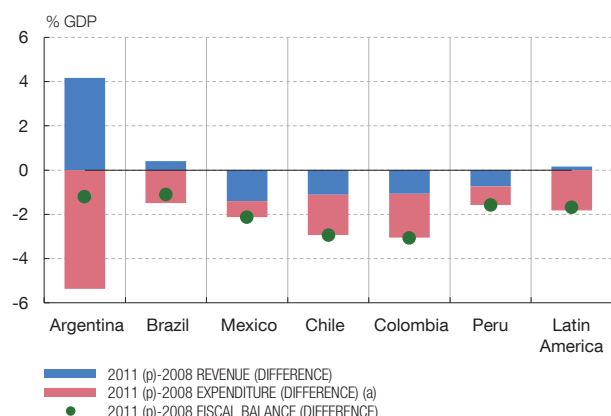
SURPLUS (+) OR DEFICIT (–) IN LATIN AMERICA (b)

% of GDP

TOTAL BALANCE
PRIMARY BALANCE
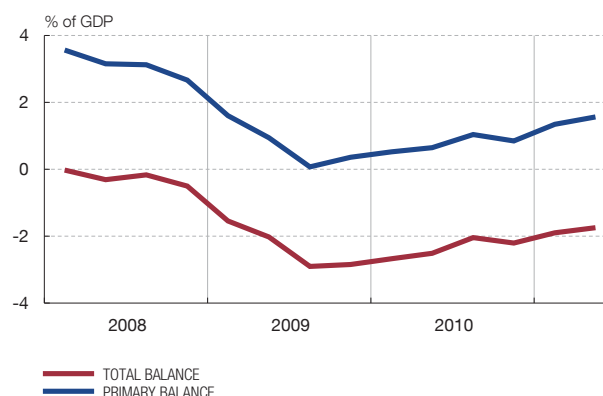
REAL PRIMARY REVENUE AND EXPENDITURE IN LATIN AMERICA (b) (c)
Index

2008 Q1 = 100. Four-quarter moving average

REAL PRIMARY EXPENDITURE
REAL REVENUE

PUBLIC DEBT

% of GDP

ARGENTINA (d)   MEXICO
BRAZIL   PERU
COLOMBIA   LATIN AMERICA (b)
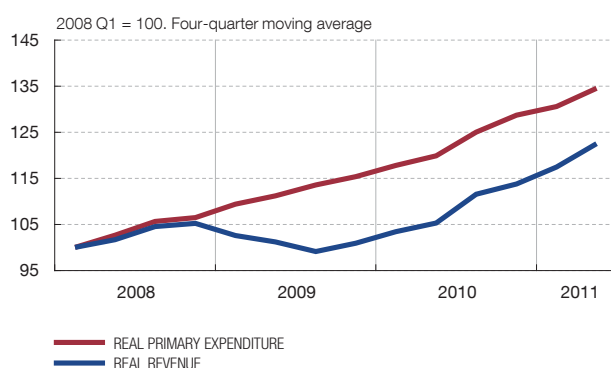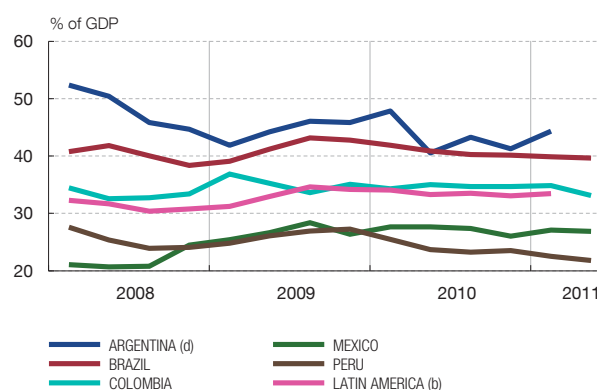
SOURCES: IMF Fiscal Monitor September 2011 and national statistics.

a A negative sign denotes an increase in general government spending between 2008 and 2011.
b Seven biggest economies.
c Deflated by the CPI.
d Excludes untendered debt in the debt swap offers of 2005 and 2010.

In the fiscal policy realm there were no notable new developments during the six-month pe-
riod, except perhaps the announcement by Brazil of an increase in its primary surplus for
2011. This was interpreted as a sign of greater fiscal restriction. However, it should be borne
in mind that the strength of revenue provided for an improvement in public finances at the
regional level (with some exceptions, such as Argentina; see the section "Economic develop-
ments by country"), despite the fact that public spending continued to grow at a rate far
above that of the economy's nominal growth. Other countries, such as Peru, defined moder-
ately expansionary fiscal policy measures after the elections. One key question worth asking
is how fiscal policies in Latin America should react in the event of a significant slowdown in
global growth, and if there would be headroom, as in 2008-2009, to apply countercyclical
policies. In this respect, although at the regional level the primary public balance has in-
creased to 2% of GDP in 2011 (see Chart 11), this is considerably below the level of 4%
reached in 2008. By contrast, developments in structural primary balances – the change in
which is habitually taken as an indicator of the fiscal impulse[3] – appeared to show that in
several countries fiscal policy has been countercyclical both in 2010, when negative output

3   Increases (reductions) in the structural primary balance entail contractionary (expansionary) fiscal impulses.

gaps were accompanied by an expansionary fiscal impulse, and in 2011, when positive gaps and contractionary fiscal impulses prevailed, though in some countries, given the boom in their domestic demand, it might have been so to a greater extent. This highlights the potential usefulness of fiscal rules (see Box 2), which will help endow fiscal policy with a more markedly countercyclical nature in the long run.

Trade integration processes and structural policies

The main headway made in regional integration processes and the external integration of the Latin American countries was the approval in October of the free trade treaty between the United States and Colombia by the US Congress (along with the free trade treaties with Korea and Panama), which had been signed five years earlier, following Colombia's acceptance of an amendment in the protection to employed nationals, and the Republicans' acceptance of an extension of the subsidies to US employees affected by these agreements. Conversely, there was no significant progress in the negotiation of the agreement between Mercosur and the EU, and the EU proposed amending the tariff preferences granted to developing countries, which would adversely affect Argentina and Brazil.

Protectionist tensions arose once more in Mercosur, warranted in part by a strong appreciation of the attendant currencies that detracts from competitiveness. The Brazilian authorities launched non-automatic import licences for automobiles and their parts, something which affects almost 40% of Argentine exports to Brazil, and also bears on the sector on which the development of the bloc was originally based. Likewise, Brazil proposed that each member should raise its tariffs individually against third countries in the face of sudden increases in imports, which would deactivate, de facto, the Common External Tariff, while Argentina suggested that the aim of the bloc was the replacement of imports at the regional level. Peru furthered its strategy to re-orient its trade through bilateral treaties, and entered into agreements with Costa Rica and Panama, along with an Economic Complementation Agreement with Brazil and Argentina (which will allow the entry of almost 100% of Peruvian products into these two countries from 2012), and with Mexico. Finally, Ecuador, in light of the expiry in February of the ATPDA tariffs granted by the United States, announced a compensation programme for affected exporters in the form of tax rebates.

In terms of structural reforms, progress was scant. In the main, such reforms were aimed at increasing the States' fiscal resources. In Argentina, a project was submitted to amend the central bank's organic charter, which requires the central bank to "co-ordinate its mission with the government", obliging it to finance social activities and programmes, i.e. converting it into something closer to a development bank. In Venezuela, legislation was approved to raise the tax burden for the oil sector, the prohibition on PDVSA having government members as directors was repealed, and the nationalisation of gold mining was approved, which sets a maximum 45% holding for foreign companies in such concerns and prohibits the export of the metal, in addition to raising royalties from 3% to 13% and subjecting contracts to national jurisdiction. In Peru, the new government reached an agreement with mining companies to set in place a new tax regime, which would provide additional revenue for the State equivalent to 0.7% of GDP per annum. In Mexico, the end of the congressional sessions period in the run-up to the July 2012 elections prevented approval of the political and labour reforms proposed in 2010. In Chile, however, the government unveiled 50 so-called Competitive Impulse Agenda measures aimed at improving competitiveness with the goal of growth at a rate of 6% per annum. It should be stressed, lastly, that, following the agreement on the integration of the stock markets of Colombia, Peru and Chile in late April, the volume of transactions has been minimal, and the plans to merge the stock markets of Colombia and Peru have been discontinued.

Since 1994 a growing number of countries around the world (approximately 80 at present) have adopted fiscal rules.[1] The severe fiscal deterioration in the developed countries has provided fresh impetus for adopting or reinforcing fiscal rules (including at the constitutional level, as recently seen in Spain) in order to strengthen fiscal credibility and ensure the sustainability of public debt.[2] The advisability of having fiscal rules stems from the well-documented fact that fiscal policies show a bias towards deficit. This bias may be explained by: i) the common ownership of public resources; ii) typical principal-agent problems (information is asymmetrical and the interests of elected representatives do not always coincide with those of voters), and iii) time-inconsistency problems (the fiscal position reflects not only the business cycle, but also the political cycle).

Adding to these broad considerations in Latin America is the specific feature whereby fiscal policy has always been notably procyclical, partly owing to the exposure of the regions' countries to market economic fluctuations resulting from changes in the terms of trade and in the ability to raise financing abroad. Thus, it has often been difficult for governments in this region to commit them-

selves credibly to saving extraordinary revenue (arising from the cycle or from the rise in commodities prices) in good times, owing to the pressures to increase public spending in democratic but very unequal societies. Accordingly and traditionally, "sufficient fiscal space" was not created to counter the shortage of financing in bad times, or to prevent the rapid changes in investor sentiment and ease the vulnerability to financial crises. In this respect, instead of offsetting cyclical shocks, discretionary fiscal policy may have contributed to increasing macroeconomic volatility and fiscal vulnerability in the region. Against this background, and to promote greater economic stability and to achieve the sustainability of public debt, the biggest countries in the region have in recent years adopted fiscal rules. The purpose of this Box is to review their characteristics and to show the main differences and similarities. Panel 1 summarises the main characteristics of the fiscal rules in Argentina, Brazil, Chile, Colombia, Mexico and Peru.[3]

Fiscal rules are usually defined as commitments specified as numerical targets for certain key fiscal variables: budget balance, public revenue, public spending and public debt, among others, so as to establish a framework for fiscal policy that is independent of the political cycle. While discretionary fiscal policy may be advisable in some circumstances (for instance, in the presence of unexpected shocks that require a rapid political response), there is growing evidence that such discretionality tends to lead to a sub-

1 New Zealand was the pioneer in setting fiscal rules. See IMF (2009), *Fiscal rules anchoring expectations for sustainable public finances*, Fiscal Affairs Department.

2 For Spain's case see, for example, the article "The reform of the fiscal framework in Spain: constitutional limits and the new public spending growth rule", published in the October 2011 edition of the Banco de España's *Economic Bulletin*.

3 In Venezuela the fiscal ruled has frequently been changed or suspended in recent years.

Country	Original law	Latest amendment	Stabilisation instrument?	Level of government (a)	Numerical target?	Related institution(s)	Golden rule?	**Exceptions to the rule?**
Argentina	Law 25.152 on Fiscal Solvency (1999)	Law 25.917, General Fiscal Responsibility Regime (2004)	No	CG, SNG (agreement with CG)	Yes	FCRF (Federal Council for Fiscal Responsibility)	Yes	**Yes**
Brazil	Law on Fiscal Responsibility and Municipal Public Finances (2000)		No	NFPS (without Petrobras)	In separate legislation	Fonfo Soberano do Brasil (Brazil Sovereign Fund)	Yes	**Yes**
Chile	Law 20.128 on Fiscal Responsibility (2006)		Yes	CG	Yes (set by government)	Economic and Social Stability Fund/Pensions Reserve Fund	No	**No**
Colombia	Law 358 (1997)	Law 1473 (2011)	Yes	CG	Yes	Consultative Committee for the Fiscal Rule, Saving Fund and Fiscal and Macroeconomic Stabilisation	No	**Yes**
Mexico	Federal Budget and Fiscal Responsibility Law (2006)		No	CG	Yes	Stabilisation Fund	No	**Yes**
Peru	Law 27.245 on Prudence and Fiscal Transparency (1999)		No	NFPS	Yes	Stabilisation Fund	Yes	**Yes**

SOURCES: National laws and references cited in the text.

a CG = Central Government; NFPS = Non-Financial Public Sector; SNG = Sub-National Governments.

optimal result, taking the form of the above-mentioned bias towards deficit, or to the application of procyclical and, therefore, destabilising fiscal policies.[4]

Numerical fiscal rules take various forms in the region and pursue different non-exclusive objectives. An initial group of fiscal rules focuses on the attainment of fiscal sustainability. This is the case of Argentina, Brazil, Mexico and Peru, who set limits on various variables such as budget balances (primary or total), total public spending or specific categories thereof, the servicing of public debt or public debt per se (expressed as a percentage of GDP, as a growth rate or as a total volume). In most cases the so-called "golden rule" is applied, whereby spending on public investment is excluded from the ceilings on public spending so as to prevent public investment from being the item subject to adjustment. In all these cases, too, limits on the financing that the central bank may grant to the public sector are included.[5] The advantages of this type of fiscal rule are, chiefly, that they are simple, transparent and easily controllable. Among the possible drawbacks is the lack of flexibility imposed on fiscal policy, although in almost all countries "escape clauses" have been added for extreme circumstances, such as serious economic crises or natural disasters. Another potentially adverse element is that a certain degree of "creative accounting" might be encouraged in order to ensure fulfilment of the targets.

A second group of fiscal rules has as a priority to preserve cyclical stabilisation capacity (by allowing the operation of the automatic stabilisers), though without forgetting the commitment to fiscal sustainability. These types of rules are usually based on: i) a budget balance target over the course of a business cycle, or ii) numerical targets for the structural balance (adjusted by the business cycle and/or commodities prices) for each year. In this connection, these rules seem particularly appropriate for addressing the challenges that uncertain and volatile revenues (depending in many cases on commodities prices) pose to fiscal management in many Latin American countries. Set against the greater flexibility of these types of rules is their greater complexity and the inevitable degree of arbitrariness of the techniques used in estimating output gaps, long-term commodities prices and budgetary elasticities. At present, only the Chilean government follows a rule of this type, which sets a target on the structural budget balance (isolating the effect of the business cycle and of copper and molybdenum prices from public revenue).[6] In the coming years, fiscal policy in Colombia will also follow a similar outline, since regulations are currently being implemented on the basis of the law approved in July.

This second type of fiscal rule is habitually associated with the setting up of stabilisation funds, generated on the basis of the fiscal surpluses in economic boom times, which allow public spending to be funded during recessions. Thus, for instance, Chile maintains its Economic and Social Stabilisation Fund[7] which, in addition to acting as an automatic stabiliser, has allowed the Chilean government to apply countercyclical measures in the recent financial crisis (making withdrawals from the Fund for an amount equal to 5.7% of GDP in 2009). In any event, it should be stressed that all the other countries in the region have these types of stabilisation funds to lessen the impact of recessions or sharp declines in commodities prices, although only in Peru is the fund of a significant size (close to 3.4% of GDP in August 2011).

In all the countries in the region except in Chile, the application of fiscal rules is not confined to central government but also encompasses

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4   G. Kopits (2001), *Fiscal rules: useful policy framework or unnecessary ornament?*, IMF Working Paper 01/145.
5   The legal instruments used may be constitutional provisions or other high-level rules, ordinary legislation or simply a broad policy guideline. The legislation also usually includes sanctions relating to non-compliance (at the institutional or individual level).

6   The rule might be reviewed in the coming months following the guidelines offered by an advisory committee set up to this end.
7   Likewise, the Pension Reserve Fund receives contributions to meet future obligations of the public pension system.

GENERAL GOVERNMENT CYCLICALLY ADJUSTED PRIMARY BALANCE

% of GDP

2008   2010   2011 (p)
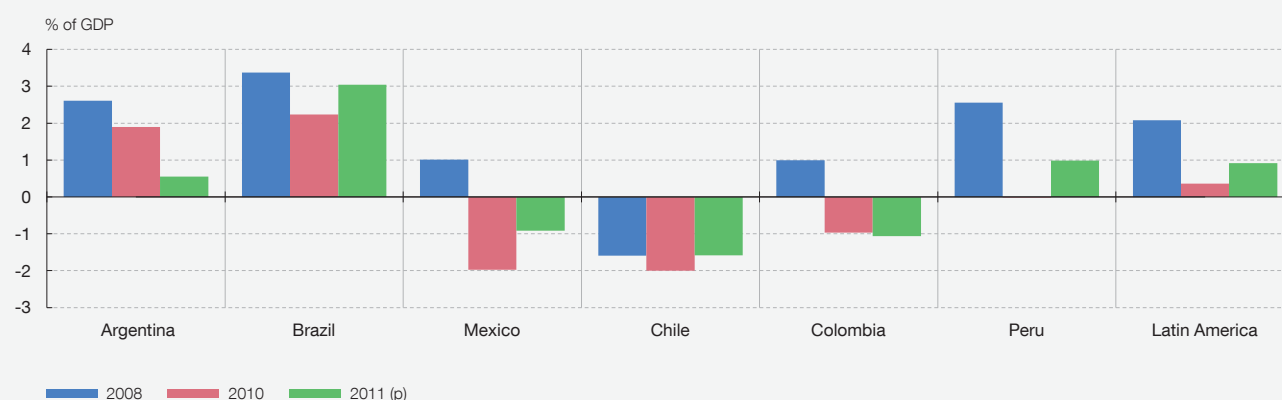
SOURCE: IMF, Fiscal Monitor.

other tiers of government. When there are several levels of government, the risk of some of these sub-national governments failing to be fiscally accountable multiplies. The provisions governing sub-national fiscal behaviour may be adopted following a top-down or a bottom-up approach. In the first case, the central authority establishes a series of numerical rules for the sub-national governments. This type of approach can be seen in countries with a federal structure, in experiences involving the bail-out of sub-national governments (Brazil), or in fiscally more centralised countries in which the Constitution gives the central government power to legislate in all areas and to decide which fiscal resources it delegates to the sub-national governments (Colombia and Peru). However, it is much more difficult to set consistent fiscal rules through a bottom-up approach, i.e. when sub-national governments voluntarily adopt binding rules (Argentina). In any event, fiscal rules for sub-national governments are particularly useful in cases in which market discipline does not function correctly.

A fiscal rule is better accepted politically and socially if an independent fiscal monitoring agency is entrusted with its application, since it is considered that this significantly reduces the risks of manipulation of the rule for political motives. This is especially the case for rules based on structural budget balances. However, only in Argentina is there a body of these characteristics, although its functions focus more on the monitoring of sub-national governments.[8]

Assessing the effects of fiscal rules on fiscal performance is not straightforward, partly because in some cases the rules have been in force for very few years, and above all because there are sample-selection and identification problems (since in some countries fiscal rules are part of a broader macroeconomic policy framework) that mean that the econometric analysis is prone to certain limitations.[9] However, numerous fiscal indicators show that the region faced the recent global financial crisis in a more favourable fiscal position than in the past, which is partly a reflection of the efforts made in previous years.[10] Thus, unlike in previous episodes, during the global financial crisis almost all the countries in the region were able to pursue a countercyclical fiscal policy to a greater or lesser extent: as the panel shows, as activity was weakening the structural primary balance declined, suggesting the existence of an expansionary fiscal impulse. Further, fiscal policy retained its countercyclical nature as output gaps closed in 2010 in nearly all the countries and as the fiscal impulse turned contractionary in several of them.

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8   The report of the advisory committee for the design of a second-generation structurally balanced fiscal policy for Chile recommends the creation of this type of body.

9   The empirical studies available suggest that fiscal consolidation processes were already under way before the introduction of fiscal rules, although these might have served to reaffirm and institutionalise these processes. See, for example, C. Caceres, A. Corbacho and L. Medina (2010), *Structural breaks in fiscal performance: did fiscal responsibility laws have anything to do with them?*, IMF Working Paper 10/248.

10   C. Daude, A. Melguizo and A. Neut (2010), *Fiscal policy in Latin America: countercyclical and sustainable of last?*, OECD Development Centre Working Paper no. 291.

Economic developments by country

The *Brazilian* economy slowed in Q2, posting a quarter-on-quarter growth rate of 0.8%, compared with 1.2% in Q1. As a result, year-on-year growth continued to ease, albeit more markedly so than envisaged (to 3.1% in Q2). And judging by the monthly GDP indicators, this trend appears to be sharper in Q3. Accounting for this lesser dynamism is the slowdown in domestic demand, which contributed 4.3 pp to GDP growth, due above all to the lower growth of investment, since private consumption remained strong (5.5% year-on-year). The slowdown in investment may be attributable to the strength of the exchange rate (and its effect on industry), but also to the closing of the output gap or to structural factors (such as the tax level, or the cost of access to credit). The labour market continues to trend favourably, with a very low unemployment rate (6% in August), and with notable growth in real wages. Inflation has performed poorly, posting year-on-year rates of over 6.5% since April (above the central bank's target range, whose mid-point is at 4.5% with bands of +/-2%), and climbing to 7.3% year-on-year in September, evidencing demand pressures. Nonetheless, the central bank cut its official interest rate by 50 bp at its August meeting and by 50 bp in October, lowering it to 11.5%, after respective 25 bp increases at its April, June and July meetings. The central bank stressed that this change in stance was due to the worsening of the external environment. Domestic lending to the private sector held at a high growth rate, of around 20% year-on-year in real terms in the period under study, despite the numerous measures adopted in the preceding months in an attempt to temper it. Directed lending was more buoyant, although it slowed to a rate of 23% in July.

On the fiscal front, the primary surplus accumulated over the 12 months to July increased to 3.8% of GDP (in 2010 as a whole it was 2.8%), and the deficit after interest payments dipped to 1.9% of GDP, from 2.6% at the close of 2010. Net debt fell to 39.4% of GDP, largely owing to the effect of growth. These positive fiscal results are associated with the favourable trend of revenue, which in the case of central government increased at a year-on-year rate of 20% to August, compared with the 11% increase in expenditure. Against this background, the government announced an increase in the consolidated public sector primary surplus target in 2011 of between 0.25% and 0.3% of GDP, raising it to 3.35% of GDP; that said, the increase does not entail any long-term commitment. The first draft budget for 2012 was unveiled, setting a primary surplus target of 3.1% of GDP, on the basis of assumptions as to GDP and inflation which are now considered overly optimistic. Turning to the external sector, the current account deficit widened, since the higher trade balance surplus (driven by the increase in exports) was more than offset by the widening of the incomes deficit. Heavy financial inflows continued, most notably in the case of foreign direct investment. Over the past 12 months to August this year, financial inflows totalled $87 billion, and foreign direct investment inflows $54 billion, with both comfortably financing the current account deficit (see Chart 12). In these circumstances the central bank maintained its reserves accumulation policy for most of the six-month period, although in late September it sold dollars on the futures market to resolve the dollar-liquidity problems and the abrupt depreciation in the real. Moody's upgraded the Brazilian sovereign debt rating, placing it a notch above investment grade.

In the first half of 2011, year-on-year growth continued to fall in *Mexico*, declining to a rate of 3.3% in Q2. GDP thus resumed its maximum pre-crisis level in 2011 Q1, marking a relatively sluggish recovery. Indeed, Mexico, along with Venezuela, would be the only country whose output gap continues to be negative according to the exercise conducted. Notable in the breakdown on the demand side is the positive contribution of the external sector to GDP growth in the first half of the year (0.7 pp), Mexico being the only country in the region where this is seen, owing to a strong slowdown in the growth of imports, probably linked to the deceleration in private consumption. Conversely, private investment, especially in capital goods, quickened somewhat. That may be due to the recovery of the US industrial cycle, although also to the statistical effect following two years of decline. By contrast, public investment posted a negative growth rate, as did government consumption. Accordingly, domestic demand slowed, growing at a rate of 2.9% in 2011 Q2. The data released for 2011 Q3 and the leading indicators (see Chart 12) point to a further slowdown in activity, partly as a result of the lower growth recorded in the United States, which shows the limitations of the Mexican economy in generating domestic demand-led self-sustained growth. In the labour market, formal employment grew at a year-on-year rate of 4.5%, with temporary employment proving more buoyant. In this setting, inflation continued to perform favourably, standing at 3.1% in September, slightly above the mid-point of the target range (3%). Core inflation held at a rate of between 3.1% and 3.3% in the first eight months of the year. Slack output, low growth in labour costs and the appreciation of the currency, at least until July, contributed to maintaining this benign inflation picture. The central bank held its benchmark rate at 4.5%, although its latest communiqué paved the way for possible cuts if global conditions were to continue worsening. Bank lending to the private sector continued to accelerate, to a year-on-year growth rate in real terms of slightly over 10%, with a higher rate for consumer credit. In the fiscal arena, public finances worsened slightly over the six-month period. Excluding investment by the State-held company PEMEX, the deficit stood at 1.1% of GDP in annualised terms, 0.4 pp up on 2010. This was the result of the increase in public revenue to a real year-on-year rate of 4.6%, thanks to the rise in oil-related revenue, and in public spending to 5.3%. One of the

BRAZIL: FDI AND CURRENT ACCOUNT DEFICIT
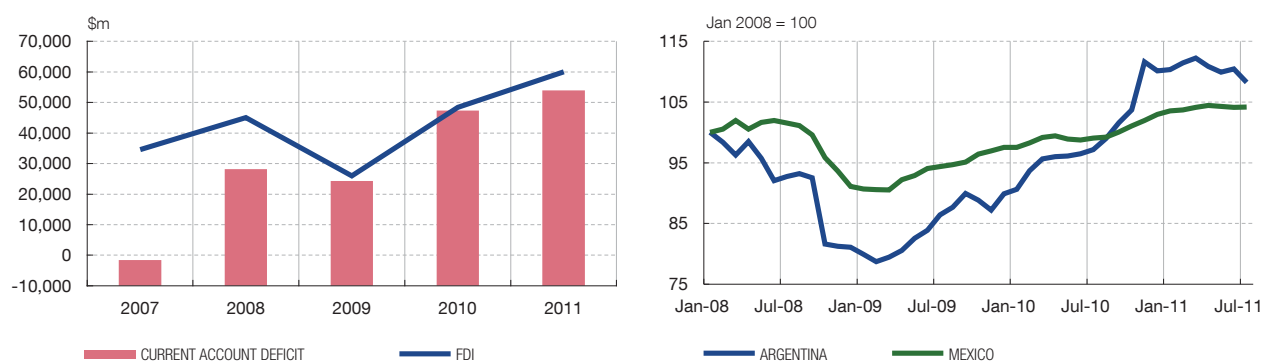
SOURCES: National statistics and Bank of Brazil.

incipient risks is that relating to the financing of the federal states, given that their debt has risen by 1 pp of GDP to 2.5%, since 2008, and three of them are in a difficult position with debts exceeding 50% of their revenue. Accordingly, in mid-August the Finance Ministry announced a programme of guarantees for issues by the federal states that need to refinance their liabilities or increase investment in infrastructure. The current account balance posted a deficit of 0.6% of GDP in the first half of the year as a result of the increase in the deficit on the balance of services and on that of incomes, while the financial account ran a surplus of 4.1% of GDP, due both to the higher surplus under the foreign direct investment heading (although that received by Mexico declined, there was a practical freeze on Mexican direct investment abroad) and, especially, to portfolio investment for bond purchases (close to 2.8% of GDP). The central bank retained the mechanism for reducing volatility in the exchange rate appreciation and for building up reserves, which climbed to $138 billion at end-October, i.e. 11.4% of GDP. The government launched several local-currency and foreign-currency issues, including the re-opening of the 100-year bond for a value of $1 billion in the first week of August, amid the turbulence on global financial markets.

Economic activity in *Argentina* remained notably buoyant. GDP grew at a quarter-on-quarter rate of 2.5% in Q2 (3.1% in Q1), and at a year-on-year rate of 9.1% (9.9% the previous quarter). Domestic demand grew by 12% year-on-year in the first half of the year, with all its components quickening somewhat in Q2. The growth of investment (23.8% year-on-year) was particularly notable, owing to the prevalence of very negative real interest rates, and to the thrust of private consumption and also of durable goods imports from Brazil. Imports climbed by almost 25% that quarter leading, along with the notable slowdown in exports, which grew by scarcely 0.5%, to an increase in the negative contribution of the external sector, placing it at 3.1 pp (compared with 1.9 pp in Q1). The indicators for 2011 Q3 suggest some easing in activity, as do the leading indicators (see Chart 12). Unlike in previous years, the trade surplus is narrowing against the background of the firmness of the prices of Argentine commodities exports, the slowdown in the Brazilian economy and the strong increase (38%) in imports in the first eight months of the year, a situation which might be exacerbated if the fall in the price of soya beans since September should persist. Moreover, in 2011 Q2 the current account posted a far lower surplus than that attained four quarters earlier, as a result both of the narrowing of the trade surplus and of the increase in the deficit on the incomes balance. The financial account ran a deficit of $2.32 billion in the first half of 2011, compared with the surplus of 464 million recorded in the same period in 2010, and the formation of net external assets

in the non-financial private sector (an approximate measure of capital outflows) stood at $5.4 billion, a similar figure to that in the same period of the previous year. Foreign direct investment received by Argentina amounted to only $290 million in 2011 Q2. These trends became sharper in Q3, and this, combined with the increase in the volatility of global financial markets, led the central bank to sell dollars (the payment of external debt coupled with interventions saw reserves decline by $4.5 million from the annual peak in January) in order to maintain the peso/dollar rate at a level close to 4.20. As a result of high inflation, the peso has continued to appreciate in real terms. In the fiscal area, government revenue grew by 31.7% in the first eight months of the year (including major transfers arising from central bank profits), and expenditure by 36.3%, whereby the cumulative primary surplus fell by one-third compared with the same period in 2010. Bank lending to the private sector has continued to quicken and, in August, its year-on-year growth rate was over 50%, although its low level measured in terms of GDP should be borne in mind. Also of note is the increase in the dollarisation of deposits that has taken place in the past few weeks and the recent rise in the interest rates on these deposits. In the presidential elections held on 23 October the current incumbent was re-elected, meaning continuity in economic policies is expected.

In *Chile*, the buoyancy of economic activity held up in a setting of benign financial conditions, a labour market with low unemployment and high growth in wages, and favourable terms of trade. The economy thus grew at a year-on-year rate of 6.8% in Q2, with quarter-on-quarter changes of 1.5% in the first two quarters of the year. Growth continued to be led by domestic demand which, however, is showing signs of easing in all its components, especially in government consumption and investment. The negative contribution of external demand fell to 4.3 pp in Q2 (when it had stood at 12.2 pp in 2010), due especially to the slowdown in imports. The data on economic activity in Q3 point to a greater-than-expected slowdown which is due, in part, to mining strikes. Inflation has stood in recent months at around 3%, the central bank target, while medium-term expectations are once again within the central bank's target range, in parallel with the sound performance of core inflation. Against this backdrop, the central bank brought the cycle of rises to an end in July, following five consecutive monthly increases. Notable on the fiscal side is the low level of outturn of public spending in the first half of the year. In June, bank lending to the private sector grew by 10% in real terms, with credit to companies and households moving fairly uniformly.

Activity in *Colombia* quickened notably in 2011 Q2, with quarter-on-quarter growth of 2.1%, following the relative sluggishness in Q1. Domestic demand was notably buoyant, largely driven by investment, which increased by 14.8%. Conversely, external demand detracted 5.5 pp from growth during the quarter, Colombia being the country in the region with the highest negative contribution. The indicators of activity point to continuing buoyancy in the economy in Q3, against a propitious labour market background and favourable conditions of access to credit. Inflation held within the central bank target range (2%-4%). And core inflation stood below 3% in the first half of the year. The central bank kept its official interest rate unchanged in August and September, after raising it to 4.5% in the five previous meetings. On the fiscal front, legislation was approved for the implementation of a structural fiscal rule. Under this rule a structural deficit of 2.5% of GDP is set for 2014, which will fall to 1.8% in 2018 and to 1% in 2022. In light of this fiscal discipline, Moody's and Fitch upgraded the sovereign debt rating by a notch to investment grade, thereby following the lead of Standard & Poor's, who had done likewise in March. The authorities took measures to reduce external vulnerability, including the renewal of the flexible credit line (FCL) with the IMF.

In Peru, GDP grew at a year-on-year rate of 6.7% in 2011 Q2, down on the figure of 8.7% the previous quarter. There was also a modest slowdown in quarter-on-quarter terms, with the respective rates dipping from 1.6% to 1.3%. These developments were marked by the low growth of government consumption and investment, influenced by the legal ceilings on public spending that are set in the run-up period to elections. In the first half of the year the current account ran a deficit of -2.3% of GDP, above that recorded in the same period in 2010, mainly due to the widening of the deficit on the incomes account. Inflation moved throughout the year on a rising trend (up to 3.7% in September), standing from March above the upper limit of the central bank target range (1%-3%). This performance was in response, above all, to the deterioration in the non-core inflation segment, which was exacerbated in June by the reduction in petrol price subsidies. The central bank held its official rate unchanged at 4.25% from May and, to August, it intervened on the foreign exchange market purchasing dollars. However, in late September it made several direct dollar sales to withstand the downward pressure on the currency. For the coming months, the new government has approved a fiscal stimulus package. Further, the Congress has approved the proposed reform of the mining tax regime whereunder royalties will increase and the government expects to boost public revenue by an amount close to 0.7% of GDP. In a setting in which the new government's commitment to adopt orthodox economic policies is palpable, Standard & Poor's upgraded Peru's credit rating from BBB- to BBB, one notch above investment grade.

In the first half of 2011 there was an expansion in economic activity in *Venezuela* of 3.6% on average, compared with the 0.1% increase in the second half of 2010. On the supply side the relative loss of weight of oil activity has continued, dipping from 20% of GDP to close to 12% in the period from 1997 to 2011. In Q2, the re-emergence of the energy crisis bore down on activity, leading in June to the announcement of saving measures to reduce the country's high electricity consumption. Bank lending continued to grow at a rate close to that of inflation, which held at around 25% in the period under study. Monetary policy retained the fixed exchange rate as a nominal anchor. The latest anti-inflationary policy measure announced by the government was new price-control legislation that enables prior control mechanisms to be set in place in the case of companies whose profits are considered excessive relative to their costs. In the first half of the year the current account surplus increased by more than $8 billion compared with the same period in 2010, running a bigger surplus in the first six months of 2011 than the whole of 2010. The improvement stemmed chiefly from the increase in the value of oil exports, which accounted for 94.9% of the total. Standard & Poor's downgraded the country's sovereign debt to B+ from BB- in application of their new methodology, which assigns greater importance to political risk. Lastly, it was announced in August that Venezuela's international monetary and gold reserves ($9 billion and $19 billion, respectively) will be moved from developed countries' institutions to countries such as Brazil, Russia and China.

24.10.2011.

THE ROLE OF CENTRAL BANKS IN THE FINANCIAL CRISIS:
LESSONS FOR THE FUTURE

THE ROLE OF CENTRAL BANKS IN THE FINANCIAL CRISIS: LESSONS FOR THE FUTURE

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Introduction

In summer 2007 a relatively minor financial development –an increase in non-performing loans in the high-risk mortgage segment in the United States– triggered a financial crisis which, as it subsequently gathered speed as a result of the bankruptcy of the US investment bank Lehman Brothers, reached unprecedented proportions and geographical extension. True to the behaviour pattern identified by Carmen Reinhart and Kenneth Rogoff (see Reinhart and Rogoff, 2009), this financial crisis eventually led to a crisis in the real sector whose effects became apparent in late 2008 and were particularly severe in the following year, when the world economy underwent the sharpest contraction seen since the end of the Second World War.

At the time of writing of this article, this situation is far from having returned to normal, particularly in Europe, where the sovereign debt markets continue to be subject to strong tensions and three euro area countries (Greece, Ireland and Portugal) are under financial support programmes of the European Union and the International Monetary Fund. Despite this, the world economy has taken a path of progressive, although bumpy, recovery which is being clearly led by the emerging economies, and the general conditions in the international financial markets seem to be tending towards a gradual return to normality, within a climate of enormous uncertainty associated with the serious sovereign debt crisis afflicting the euro area and with the risk of falling back into recession which, although unlikely, has not been sufficiently ruled out. All in all, the most likely scenarios for the coming years suggest that the world economy has managed to circumvent the serious danger of repeating an episode similar to the Great Depression of the 1930s.

The path of the world economy would unquestionably have been very different if economic policy had not responded rapidly and forcefully to apply the lessons in macroeconomic thinking learnt from the mistakes committed in the 1930s. The recourse to expansionary demand policies and to the activation of financial rescue mechanisms managed to detain the process of feedback between tensions in the real and financial sectors usually seen in crises of this size and which began to feature dangerously in the world economy from the closing months of 2008. More specifically, governments widely adopted discretionary measures to stimulate spending and quickly designed and put into practice plans to support their respective financial systems and restore investor confidence. These actions, moreover, were carried out following common basic principles decided at world level in the G20. It is important to realise that, like the crisis itself, the attempt at widescale international coordination of economic policy responses was historically unprecedented. It thus comes as no surprise that its undeniable virtues were tempered by shortcomings and hesitancy.

The action of governments was accompanied by a no less timely and forceful reaction from central banks, which led to a relaxation of the general monetary policy stance in the

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1 This article is the authors' contribution to the forthcoming report "Mecanismos de prevención y gestión de futuras crisis bancarias" coordinated by Fundación de Estudios Financieros, where the original Spanish version can be found.

3 MONTHS

bp

1 YEAR

bp

SOURCES: European Central Bank and Datastream.

main economic areas and to changes in scope in their respective operational frameworks. In fact, given the greater flexibility with which monetary policy can act, it was the reaction of central banks that took the leadership in operations and was instrumental in dealing with the risk of widespread liquidity crises, which, had it materialised, would have triggered a dangerous contractionary vicious circle which other branches of economic policy could have done little or nothing to combat. This article seeks precisely to analyse in detail this reaction of the monetary authorities, comprehend their contribution to overcoming the tensions and draw the appropriate lessons from this experience. More specifically, our work focuses above all on the actions of the European Central Bank (ECB) and the US Federal Reserve (Fed). The singular geographical pattern of this crisis, centred on this occasion on the advanced economies, and the importance of the United States and the euro area in this context justify this selective approach which, moreover, allows a comparison of the European and US experiences. As will be seen below, this comparison will allow us to extract some important teachings on the design of monetary policy strategy and operational framework. This does not imply that experiences of great interest are not to be found in the specific reaction of other central banks or that all the cases fit one of these two patterns, although it is true that debate has polarised around these two models. For this purpose, after this introduction we review the measures adopted by the ECB and the Fed from the outbreak of the crisis (Section II), consider the main challenges and possible lessons to be learned (Section III) and close with a brief set of conclusions (Section IV).

The reaction of central banks to the crisis

The effects of the financial crisis which erupted in summer 2007 were quickly felt in the European and US money markets, thus impacting a key link in the monetary policy transmission mechanism. A commonly accepted indicator for calibrating the level of tension in these markets is the spread between the EURIBOR interest rate on a deposit in the interbank market and the rate on an overnight interest swap (OIS) of the same maturity.[2] Chart 1 shows this spread for terms of three and 12 months. It can be seen that risk levels rose considerably from August of that year. They then remained relatively steady until the bank-

2 In both cases the underlying transactions are between financial institutions operating in the money markets, but while in the first the risks affect both the interest and the principal of the transaction, in the second there is no principal risk since the transaction is only a swap of interest rates of different maturities. Given the greater relative weight of principal risk in a short-term interbank deposit, the changes in this yield spread are a good approximation of the behaviour of general counterparty risks in the money market.

ruptcy of Lehman Brothers in autumn of the following year triggered a fresh, sharper surge in tensions.

In the case of both the ECB and the Fed, the liquidity provided by the central bank to the financial system via its open market operations is subsequently redistributed among institutions, precisely through the money markets. Consequently, when the market tensions began to obstruct this task of liquidity redistribution, both monetary authorities took measures to mitigate their effects. Eventually, these measures led them to progressively take on that liquidity redistribution function which, under normal conditions, is carried out by the money markets.

At first, the two monetary authorities reacted fairly similarly. However, unlike in the case of fiscal and financial sector support policies, here one cannot speak of *ex ante* coordination between independent central banks or between these and governments, although it is true that, *ex post*, the actions taken by all of them tended to reinforce each other. In this initial phase, the actions taken by the ECB and the Fed were limited to liquidity management and did not, therefore, change their monetary policy stance, the size of their balance sheets or key aspects of their balance sheet composition.

More specifically, the ECB reacted by implementing a more generous liquidity policy, initially through more numerous fine tuning operations (four of them took place in the second week of August 2007) and, afterwards, through higher allotment volumes in its regular monetary policy operations.[3] This higher liquidity provision did not, however, lead to higher net volumes of liquid funds in circulation, since a substantial portion of the funds initially provided was reabsorbed by the ECB itself subsequently through its deposit facility, in which institutions placed a part of the liquidity that they had requested, not so much on the basis of their true needs, but as a precaution due to their lack of confidence in the proper functioning of the money markets. In fact, when the money markets function properly, the central bank, which is the ultimate supplier of the liquid funds required by banks, limits itself to meeting the net demand of the system, which is subsequently redistributed among banks through the money markets. By contrast, when the money markets are unable to efficiently intermediate between individual banks, the central bank receives the gross demands of each. To avoid friction, the solution is first to satisfy this gross demand and subsequently withdraw the related excesses through some other instrument.

Additionally, the ECB lengthened the average term of its monetary policy loans by increasing the relative weight of longer-term refinancing operations (LTROs) at the expense of main refinancing operations (MROs), the maturity of which is one week. More specifically, it increased the number of three-month LTROs and introduced new six-month operations in spring 2008. It also changed the distribution of the volumes provided by MROs over the maintenance period of the minimum reserve ratio. It increased the volume of MROs executed in the opening weeks of the maintenance period at the expense of those executed in the closing weeks of that period (frontloading), thus accommodating the desire of institutions to assure relatively early compliance with the requirements derived from that ratio.

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3 Regular monetary policy operations include weekly liquidity providing operations with a maturity of one week (main refinancing operations) and monthly liquidity providing operations with three-month maturity (longer-term refinancing operations). Fine-tuning operations are not regular and may be either liquidity providing or liquidity draining. Readers interested in this topic can find a detailed description of the operational framework of euro area monetary policy in ECB (2011).

In short, with these measures the ECB accommodated the change that took place in the pattern of demand for liquidity from the central bank as a result of banks' progressive loss of confidence in the capacity of the money market to meet their needs and of a growing uncertainty as to their liquidity flows. It should be noted, moreover, that the ECB managed to make these changes without having to revise or reform the operational framework in place, which thus evidenced a notable degree of flexibility.

The Fed also exploited the room for manoeuvre offered by its operational framework[4] by lengthening, for example, the maturity of the loans offered through its discount facility. However, the limitations of this framework promptly became evident and, to accommodate a similar change to the European one in the liquidity demand pattern of its banks, it had to introduce new instruments not previously envisaged. In December 2007 it created the Term Auction Facility and, in March 2008, the Primary Dealer Credit Facility to enable it to make monetary regulation loans more flexibly. Additionally, it instituted mechanisms to increase the assets held by banks eligible for use as collateral in their bids and, therefore, to increase their ability to raise liquid funds from the Fed. More specifically, the Fed started up a facility to lend US Treasury bills, which are liquid assets discountable in monetary policy operations, in exchange for other ineligible illiquid assets such as those from mortgage securitisation transactions (mortgage backed securities).

In short, these tools share the common goal of facilitating direct access to the Fed by a larger number of banks and enabling these to use a wider range of collateral. Hence the changes in the Fed's operational framework tended to make it more similar to that of the ECB, which since inception has, for diverse reasons including historical ones, admitted a wide range of counterparties and collateral.[5]

To conclude the review of this first phase, and as further evidence of the similarities that tended to predominate in it, mention should be made of the agreement concluded between the Fed, the ECB and other central banks to open currency swap lines with each other for the basic purpose of ensuring appropriate provision of dollar- or euro-denominated liquidity to credit institutions not resident in the United States or the euro area. That new instrument enabled each central bank to provide its counterparties with funds not only in its own currency, but also to cater for their current flows of income and payments in other currencies.

The bankruptcy of Lehman Brothers in September 2008 marked a qualitative leap in the evolution of the crisis. Tensions accelerated in the financial markets, including the money markets, as is clearly reflected in Chart 1. Moreover, the financial crisis began to also affect the real sector of the world economy. Thus the actions being taken to expedite and increase the provision of liquidity, which continued to be necessary, had to be supplemented in two ways. This was done, firstly, through an easing of monetary policy stance to accommodate it to a sudden cyclical change which fuelled deflationary risks and was sharper in the United States than on this side of the Atlantic. And secondly, through a fresh set of non-standard measures broadly designed to repair financial market segments which lie outside the money markets but are also important for the normal functioning of the monetary policy transmission mechanism.

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4   For more details of the operational framework of the Fed's monetary policy, see Ennis and Keister (2008).

5   For example, the diversity of the assets eligible as collateral is not unrelated to the need, when the euro area was created, to assimilate the previous lists of eligible assets of the various national central banks.

In the field of liquidity management policies, the ECB was more proactive than the Fed. In October 2008 MROs and LTROs ceased to be executed through variable-rate tenders (at a minimal interest rate in the case of the former) and were changed to a fixed-rate full allotment procedure. This step consummated the progressive replacement of the money market's intermediary role by a mechanism based on a direct relationship between banks and the ECB.[6] Also, a new liquidity providing operation was created with a maturity coinciding with the minimum reserve maintenance period, so any banks that so desired could ensure, at the beginning of that maintenance period, the availability of the total volume of liquidity needed to meet their reserve requirements. Also, the list of assets eligible as collateral in monetary policy operations was extended temporarily to ensure that banks would not be constrained in their requests in this respect and, in May 2009, the average maturity of monetary policy operations was further lengthened through the inclusion of a special new operation with a 12-month maturity, also carried out under the fixed-rate full allotment procedure. The swap lines for the provision of US dollar liquidity were re-opened and strengthened.

The Fed's most significant action in this area was perhaps the decision to remunerate the reserves held by banks. This initiative, which represented an additional step in approximating the operational framework of US monetary policy to that of the ECB, permitted a clearer and more effective separation between decisions merely relating to liquidity management and those aimed at changing monetary policy stance.

Precisely with regard to changes in monetary policy stance, on 8 October 2008 the ECB and the Fed (in conjunction with other central banks such as those of the UK and Japan) cut 50 basis points from their respective official interest rates in coordinated action. This interest rate reduction marked the beginning of a period of progressive easing of monetary policy stance. By the end of the year the federal funds rate had dropped to 0-0.25%[7] from a value of 2% before the bankruptcy of Lehman Brothers. The process was even more drawn out in the case of the ECB, which also started from a higher level in line with its different cyclical position in autumn of that year. Between September 2008 and May 2009 the minimum interest rate on MROs dropped from 4.25% to 1%. In any event, both institutions set their official policy rates effectively, or in practice, at a short distance from the absolute minimum possible, thereby exhausting the room for policy response available under conventional measures.

The closely parallel course of the actions of the two central banks described above did not, however, extend to non-conventional measures. As argued by Lenza et al. (2010), the divergences are largely attributable to structural differences between the financial systems on one and the other side of the Atlantic: the European system based on a central role of credit institutions as intermediaries in the financial flows of the economy, and the US system, by contrast, much less dependent on banks and with a leading role played by markets. But it is also likely that the divergences observed in the use of non-conventional monetary policy tools reflect a differing perception and assessment of the risks assumed by the central bank in actions of this type.

In May 2009 the ECB started a programme to purchase covered bonds for a total amount of €60 billion. This measure aimed to improve the liquidity of this market segment, which

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6   The movement was supplemented by the narrowing of the corridor formed by the interest rates on the ECB marginal lending and deposit facilities, which went from 200 to 100 basis points symmetrically distributed around the fixed interest rate of the MRO tenders.

7   From December 2008 the Fed started to set its target for this type of funds in the form of a range.

had traditionally played a major role as a supplier of wholesale funds to European banks and had been strongly affected by the crisis. It is evident from the size of the programme that the ECB did not in this case intend to replace this market, but rather to promote its recovery, pre-empting the possibility that its blockage might adversely affect the volume and cost of bank loans and consequently the satisfactory transmission of monetary policy.

A year later, the outbreak of the sovereign debt crisis in the euro area as a result of the Greek fiscal crisis made it necessary for the ECB to resort to a new asset purchase programme: the Securities Market Programme. The strong tensions then prevailing in euro area sovereign debt markets were manifested in the high spreads between the debt of the various countries, which, although partly reflecting certain vulnerabilities and risks to the sustainability of public finances in some member countries, also stemmed from investors' doubts as to whether the euro area's institutional architecture would be able to cope with the risks to the stability of the area as a whole, which, if not remedied, might spawn self-fulfilling expectations. These processes, which left to develop according to their own dynamic tended to spread the contagion to other euro area economies whose respective fundamentals were relatively independent, represented a serious threat to the monetary policy transmission mechanism, since they tended to upset the required minimum uniformity in the euro area. In those exceptional circumstances, when the crisis resolution mechanisms were in their incipient and complex processes of discussion, only the intervention of the ECB in the secondary debt markets was able to halt the destructive potential of the processes of contagion and stabilise the situation. Note that, unlike in the US model, these interventions did not seek to influence the yield curve so as to enhance the expansionary nature of monetary intervention, but simply to prevent the instability from spreading throughout the group of countries which combine national sovereignty in their public finances with a shared currency, since this would have seriously eroded the effectiveness of the single monetary policy.

The recourse to this programme represented the adoption of the non-conventional measure furthest removed from the ECB's usual operational framework, although it was, as noted above, intended to restore the conditions needed for proper transmission of monetary policy to the euro area as a whole. It was not an instrument for quantitative expansion of the monetary base. In fact, the effects that the purchases made under this programme had on the liquidity provided by the ECB were subsequently sterilised by liquidity-absorbing fine-tuning operations so as not to affect the net volume provided.

In the first few months of the programme, the purchases amounted to around €60 billion. The pace then slowed substantially and, from spring 2011, the balance remained steady at slightly above €76 billion. Subsequently, in summer 2011, when, owing to the need for a second Greek rescue, tensions flared up again in the debt markets and contagion spread to economies such as Italy and Spain and even affected other economies with an undisputed record of stability, it was necessary to reactivate the programme and make fresh purchases for the same purpose, although with the specific requirements derived from the greater size and depth of the debt markets affected by this fresh bout of instability. The reforms designed to strengthen euro area economic governance already envisaged the need for an institution able to carry out tasks to stabilise these markets. The agreements adopted made provision for the European Financial Stability Facility to carry out that function, but at that time it was not operationally feasible. During this second bout of instability the additional purchases of debt of countries subject to speculation against them in their secondary debt markets reached around €50 billion at the end of August 2011 (latest information available at the cut-off date of this article).

EUROSYSTEM

€ bn

FEDERAL RESERVE

$ bn

OTHER, NET   SECURITIES   LIQUIDITY FACILITIES
DEPOSIT FACILITY   RESERVES   CASH

OTHER, NET   SECURITIES   LIQUIDITY FACILITIES
RESERVES   CASH
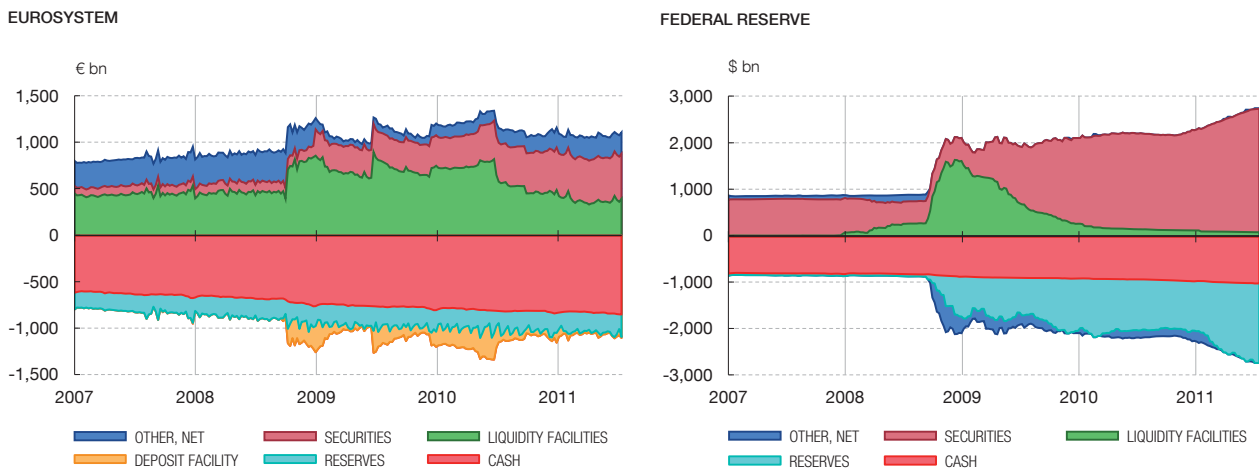
SOURCES: European Central Bank and Federal Reserve.

a In July 2011 the total on-balance-sheet assets of the Fed amounted to $2,282 billion and those of the Eurosystem to €1,957 billion.

In any event, asset purchases were much more significant in the case of the Fed, which made them for a clearly different purpose. First, it participated actively in the government programmes to support the financial sector by making outright purchases of different securities arising from asset securitisation, most notably those issued by the agencies Freddie Mac and Fannie Mae, which play a central role in the US mortgage market. As in the case of the ECB's purchase of covered bonds, the basic idea here was to bolster a significant segment of the monetary policy transmission mechanism (that running from the official interest rate to the rates determining the house purchase decisions of households). However, the financial difficulties being faced at that time by these two agencies, the main issuers of the securities purchased, added an additional dimension to the Fed's intervention at the frontier between monetary policy and financial policy. In Europe, however, the securities purchased by the central bank had a wider variety of issuers.

March 2009 saw a far-reaching qualitative change when the Fed decided to set in motion the programme known as "Quantitative Easing I" to acquire outright assets amounting to $1,750 billion ($1,250 billion of State agency debt, $300 billion of Treasuries and $200 billion of other assets). This was a purchase of government debt on a scale far exceeding that of the ECB purchases and for the express purpose of making a lasting contribution to the easing of monetary and financial conditions, in consonance with the overall expansionary sign of policies to expand demand. Chart 2 shows the impact of this programme on the size of the Fed's balance sheet and compares it with that of the ECB's programmes.

As a result of the differing focus of these actions on one and the other side of the Atlantic, the boundary separating monetary policy from fiscal and financial stability policies became much less precise for the Fed than for the ECB. From the central European standpoint, the blurring of the boundaries between the various economic policy tools in the USA entails obvious risks for the independence and credibility of the monetary authority. Firstly, because it increases the demand for greater and closer coordination of the decisions taken in the various areas, which, on past experience, has nearly always tended to reduce the central bank's freedom of action in the pursuit of its main objective, particularly when this relates to achieving price stability. Secondly, the larger balance sheet of the monetary authority as a result of increased holdings of financial assets purchased outright entails a

%

ECB   FED (a)
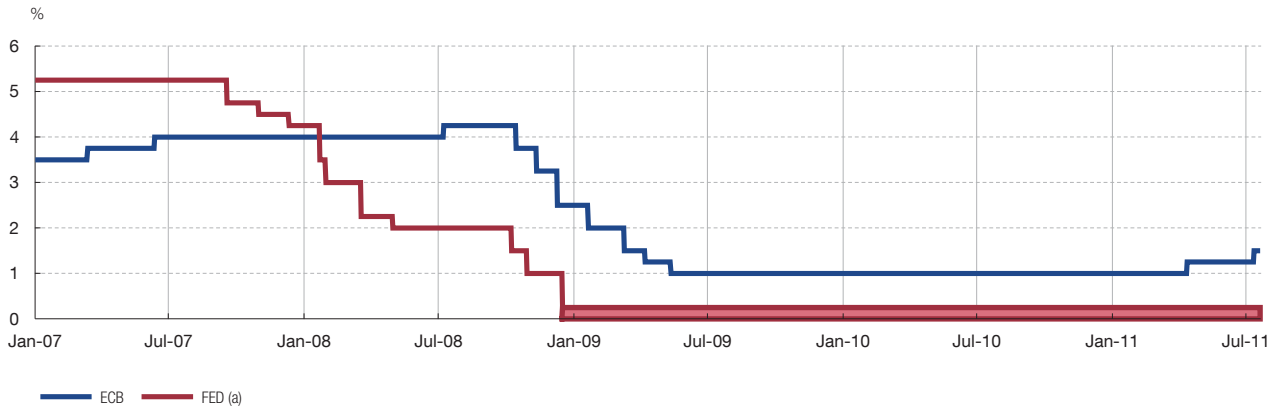
SOURCE: European Central Bank and Federal Reserve.

a   Since 16 December 2008, the Fed defines its interest rate in the form of a band between 0% and 0.25%.

higher risk of financial losses. Should these risks materialise in the form of significant losses, it would have to be recapitalised by the government in power at the time. Otherwise, the central bank would be unable to maintain price stability.

The divergences noted between the action of the Fed and the ECB have widened recently, against a background of uneven recovery in the respective economies. Last year the Fed extended its asset purchase programme by an additional $600 billion under its so-called "Quantitative Easing II" programme. In contrast to this further increase in the Fed's balance sheet, the ECB was letting its extraordinary six- and 12-month refinancing operations mature without rolling them over. Although the regular three-month operations reabsorbed a portion of the related demand for liquidity, the substitution was not complete (see Chart 2), and this had the effect of reducing the institution's balance sheet. However, the reawakening of the sovereign debt crisis tensions in summer 2011 prompted the ECB to reintroduce the six-month tender to alleviate the greater need for liquidity due to the heightened uncertainty.

The discrepancies have also extended into the terrain of the conventional measures relating to monetary policy stance. In April and July 2011 the ECB decided to raise the interest rate on its main refinancing operations by 25 basis points on each occasion, so that at the cut-off date of this article the official rate stood, as shown in Chart 3, at 1.5%. These decisions were justified by the progressive firming of the economic recovery in the euro area and by the emergence of risks to price stability associated with energy price movements and their possible second-round effects, with possible rises in indirect taxes as a part of the process of fiscal consolidation under way and with higher pressure from domestic demand, against a background of growing use of productive capacity in the euro area. These conditions made it necessary to adjust the markedly accommodative stance of monetary policy which for nearly two years had kept the official rate at an all-time low of 1%. The risks that might derive from holding interest rates exceptionally low for too long a time, when the euro area had already entered a phase of moderate but sustained recovery, influenced the decision to opt for a gradual normalisation of monetary conditions. However, the resurgence of financial tensions as the sovereign debt crisis spread meant that this trend had to be revised.

Lessons of the crisis and challenges for the future

As described in the previous section, both the ECB and the Fed have deployed a wide range of measures in response to the crisis. It is not, however, easy to assess empirically

the effectiveness of these actions. To the usual problems involved in any estimate of this nature must be added in this case an additional difficulty resulting from the absence of an adequate alternative (i.e. counterfactual) scenario against which to gauge the effectiveness of decisions. From a different standpoint, it is in any event hard to doubt that the joint coordinated (at least partially) action of the economic authorities stopped the dangerous spiral of financial deterioration and economic contraction in which the world economy found itself in the final stretch of 2008 and in the first few months of 2009.

Having said this, it should be noted that the empirical studies available tend, generally speaking and always subject to the proviso that they should be interpreted with extreme caution, to corroborate the effectiveness of both the conventional and the non-conventional monetary policy measures adopted (see, for example, the work on the euro area by Lenza et al., 2011 and the studies cited by them, and that on the USA by Chung et al., 2011). These works suggest that both the spreads approximating the degree of tension in the money markets and some of the main economic variables located towards the end of the monetary policy transmission mechanism (such as bank interest rates or credit) responded to central bank action with movements in the desired direction. The range of uncertainty to which the estimates are subject, however, does not allow the true magnitude of these effects to be determined with sufficient accuracy.

The effectiveness of the measures, moreover, depends also on their duration. In fact, precisely because of their exceptional nature, many of the measures taken have to be of limited duration so as not to compromise their efficacy or to avoid undesired secondary effects. It should not be a central bank goal, for example, to act permanently as an intermediary in liquidity flows between banks or to become permanently a kind of market maker in certain financial market segments. Prolonging these non-conventional actions beyond the strictly necessary limits would tend to generate distortions in those markets and perverse incentives between the agents participating in them. This is certainly the most important challenge facing the ECB and the Fed at this time: to define the most effective schedule for withdrawing these non-conventional support measures so as to safeguard against these perverse effects without, at the same time, prejudicing the progressive recovery of markets and growth. In this respect, as noted above, at this time the ECB is at a comparatively more advanced stage than the Fed.

Along with this more immediate challenge, another more distant but no less significant one can be identified: that of drawing useful lessons for the future conduct of monetary policy from the crisis and from the actions taken.

With the due caution befitting the high level of uncertainty still surrounding the performance of the main financial markets and of the US and European economies and hence how fast they will exit the crisis, a first lesson that can be drawn from the experience relates to the design of the operational framework of monetary policy. More specifically, the approach taken by the ECB at the outset of the crisis provided a high degree of flexibility which, in an extraordinarily convulsive financial setting, allowed it to accommodate substantial changes in its manner of monetary policy implementation and in financial system liquidity management without need for major modifications. In this respect, it should be noted that a significant part of the changes made to its operational processes by the Fed can be viewed as a shift by it to a framework more similar to the European one, based on the interaction with a large number of counterparties, the use of a wide range of instruments and the acceptance of a relatively extensive list of collateral including financial assets other than traditional government debt, albeit always with a sufficiently high level of soundness.

There are also significant teachings to be had from the crisis in the area of monetary policy strategy. More specifically, this episode is providing an interesting testing ground to improve our understanding of the limitations of this economic policy tool for dealing with certain types of shocks (e.g. those underlying the current tensions) and of the risks entailed in trying to move beyond them. In this respect, it should not be overlooked that this crisis originated and initially developed in the financial area. Frictions in a relatively limited segment of the US mortgage market, no matter how strong, cannot cause tension on the scale seen recently except as a consequence of much deeper structural weaknesses. We now know that the strong dynamism of the prices of some financial and real assets and the growing leverage of the financial and non-financial private sector were based on a general underestimation of risk by investors and an inability of the economic authorities to detect that underestimation and remedy its negative effects in time.

The generally accepted primary objective of monetary policy is to maintain price stability. However, the events before and during the crisis are more directly and immediately related to problems of financial stability. It comes as no surprise, then, that the crisis has reactivated the deep discussion over the part played by the monetary authority in achieving financial stability. The wide range of positions in this debate extends from the maximalists, who defend the inclusion of express targets in terms of the price stability of financial assets (and some real assets, such as houses), to what may be termed the "Greenspan doctrine", expounded by the then Chairman of the Fed at the meeting of central bankers in Jackson Hole in 2002, according to which all that the monetary authorities should do in this field is to limit themselves, in the event of an outbreak of financial instability, to ensuring that it does not degenerate, via recession, into deflation. More or less equidistant between these two positions is the "BIS doctrine" (see Borio and Lowe, 2002), which can be briefly summarised as asserting that monetary policy should take into account *ex ante*, rather than just *ex post,* the possible effect of financial instability on inflation, paying special attention above all to potential frictions which, although relatively unlikely, could be particularly harmful if they materialised. The monitoring of asset prices and credit behaviour would thus play a key role in the design of monetary targeting strategy, with complementary tasks in the dual pursuit of price and financial stability.

The experience garnered from this crisis indeed confirms that monetary policy is fully equipped to act effectively, as argued by Greenspan, against the risk of deflation associated with a bout of marked financial instability. However, the huge cost of the crisis seems to point to the need to seriously consider how to include in monetary policy strategic design the considerations derived from the focus of the BIS economists, without detriment to the priority of the price stability objective. This need not signify the broadening of central bank objectives to include that of maintaining financial stability, since this could dangerously dilute the responsibility of central banks, given that the management of short-term interest rates, which is the tool used by monetary policy, has a limited ability to influence the behaviour of financial asset prices. In a certain sense, the recourse by the ECB and the Fed to extraordinary unconventional measures to correct the frictions detected in certain financial market segments relevant for the transmission of monetary policy illustrates this limitation. The difficulties increase additionally if that single instrument has to serve simultaneously to meet two objectives which, as shown by the experience of low inflation and accumulation of financial imbalances that preceded the crisis, do not always reinforce each other.

Unfortunately, when it comes to assuming the objective of financial stability, similar objections and difficulties may be raised in the case of other economic policy instruments such

as microprudential supervision or fiscal policy. As regards microprudential supervision, the financial crisis has made it clear that the individual soundness and solvency of banks is not a sufficient condition for the stability of the financial system as a whole. For its part, fiscal policy, because of the instruments it uses and, more importantly, the inertia and lags with it acts, is not a sufficiently precise tool to halt the build-up of financial imbalances.

In view of the evident limitations of the readily available tools, it is generally acknowledged that there is a need to develop a specific new area of economic policy with an eminently preventive focus and the express objective of ensuring the stability of the financial system as a whole and minimising the effects of potential tensions on the real economy: macro-prudential policy. This seems to be one of the most unanimously accepted lessons to be learned from the crisis. A completely different matter is the existence of operational pro-posals capable of endowing this new branch of economic policy with well defined objec-tives and instruments. This should not be cause for discouragement, however, if we think back on how much time and effort it took to construct the current framework of conven-tional macroeconomic policies.

Actually, macroprudential analysis is not a completely new concept in economic policy (see, for example, Borio, 2003). As a precedent, mention may be made of the relatively common practice among numerous central banks of preparing regular financial stability reports assessing the risk to the global stability of financial systems and making eco-nomic policy recommendations with an eminently macroprudential focus. The Spanish experience of the introduction of dynamic provisioning in 2000 can also be considered a pioneering case of macroprudential response to an evident risk of financial instability. In a certain sense, these experiences underlie the creation of the Financial Stability Board by the G-20 in April 2009 or the recent entry into operation of the European authority in this field, the European Systemic Risk Board, responsible for maintaining financial stability in Europe together with the three supervisory authorities established at European level (for the banking, securities market and insurance and pension fund sectors, respectively).

Finally, this short and necessarily synoptic assessment cannot be concluded without men-tioning, although it departs a little from the strict arena of central bank conduct, that the crisis has forcefully shown how quickly in situations of this type the room for fiscal policy response tends to become exhausted. Keynesian stimulation policies and even financial sector support measures heighten the risks to debt sustainability, particularly in a setting in which population ageing weighs heavily on the future prospects for government indebt-edness. Shifting, directly or indirectly, the burden of adjustment to monetary policy carries high risks for the independence, and thus the credibility, of the central bank. The eco-nomic costs of a possible disanchoring of price stability expectations are well known in the advanced economies since the 1970s oil crises. In these situations, action has to be taken through supply-side policies underpinned by structural reforms to allow economies to function more flexibly and increase their growth potential, thereby increasing their ability to absorb and recover from negative shocks. But these measures are always hard to digest in the short run and only yield benefits in the long run, so it is not always easy to convince the general public that they are needed. Governments too have to make the necessary educational effort to overcome this obstacle.

Conclusions

Responding to the serious international crisis which broke out in 2007 posed significant challenges for central banks, which had to face problems unknown in the preceding dec-ades in relation to liquidity provision and to the stability of the markets through which monetary policy is transmitted. Expansionary Keynesian fiscal policies implemented rela-

tively concertedly by the governments of the industrialised countries were accompanied by strong action by the world's main central banks which gave rise to widespread easing of monetary policy stance and to the introduction of far-reaching changes in their respective operational frameworks.

Faced with the emergency of blocked interbank markets, the main central banks, including the Fed and the ECB, had to take on directly the task of redistributing liquidity. In the early stages the Fed and the ECB, although they did not coordinate their responses, reacted fairly similarly in that they both provided a generous monetary base to meet the gross needs of banks. The ECB used its flexible array of financial instruments, while the Fed was forced to introduce new forms of intervention broadening its scope of action and to adapt its operational framework more closely to the European style based on numerous counterparties and an extensive range of collateral.

When the crisis worsened after Lehman Brothers went bankrupt, it became necessary to take stronger action. This action required the use of non-conventional monetary policy measures on both sides of the Atlantic which reflected differing practices rooted in the respective characteristics of their financial systems. The ECB changed its liquidity providing tenders to a fixed-rate system with unlimited amount and, to remove uncertainty, increased their maturity up to one year. It also set up a programme to purchase covered bonds and subsequently introduced the Securities Market Programme to ensure proper transmission of monetary policy stimuli during the serious shocks of the sovereign debt crisis. This programme entailed the adoption of the non-conventional measure furthest removed from the ECB's customary operational framework, the primary objective of which was to restore the conditions necessary for transmission of monetary policy to the euro area as a whole. It was not a quantitative easing instrument. In fact, the effects of the purchases made under this programme on the liquidity provided by the ECB were later sterilised by liquidity-absorbing fine-tuning operations, so the volume injected in net terms was not affected. By contrast, the Fed's asset purchases reached a significant scale with the successive rounds of quantitative easing because they were based on the belief that purchases of government securities helped to ease monetary conditions and to facilitate their transmission to the cost of financing over the whole of the yield curve, although this blurred the separation of responsibilities in the different economic policy areas.

These divergences in the use of non-conventional tools reflected differing perceptions and assessments of the risks that may be assumed by central banks. The US strategy involved, as noted above, a greater blurring of the boundary which separates monetary policy from fiscal and financial stability policies. That blurring entailed risks for the monetary authority's independence that the ECB, as the central bank of 17 countries with full sovereignty in other monetary policy areas, must not and cannot assume.

In any event, the reaction of the two central banks evidenced the great flexibility of response under the current monetary policy models and the ability of monetary policy to innovate in unexpected adverse situations and avoid the errors which led to the Great Depression of the 1930s.

The crisis has also served to reactivate the debate on the contribution which monetary policy, above and beyond its primary objective of price stability, makes to financial stability. It is not evident from the experience of the crisis that monetary policy objectives should be broadened to include that of maintaining the stability of financial asset prices, given the limited role that interest rate management can play in this task. By contrast, there do seem

to be more grounds for defining a new field of action of economic policy centred around the concept of macroprudential analysis. It would have the purpose of identifying risks to macrofinancial stability and developing an adequate array of instruments to pre-empt or counteract them. This is a task on which central banks, given their privileged position in the mechanics of financial markets, will have to cooperate with other regulatory and supervisory authorities, although without relinquishing their autonomy in monetary policy.

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THE REFORM OF THE FISCAL FRAMEWORK IN SPAIN: CONSTITUTIONAL LIMITS
AND THE NEW PUBLIC SPENDING GROWTH RULE

THE REFORM OF THE FISCAL FRAMEWORK IN SPAIN: CONSTITUTIONAL LIMITS AND THE NEW PUBLIC SPENDING GROWTH RULE

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Introduction

In the last two decades the developed countries have significantly modified the framework in which fiscal policy operates. In particular, they have adopted fiscal rules setting explicit caps on the deficit or public debt and/or on certain budgetary items so as to ensure the sustainability of public finances. The empirical evidence available broadly confirms that fiscal rules may prove effective in obtaining and maintaining budgetary discipline [Debrun et al. (2008) and European Commission (2009)]. Moreover, it is found that their presence increases the likelihood of fiscal consolidations being successful, which is particularly important in circumstances such as those at present, in which the deterioration in public finances brought about during the economic crisis must be corrected [IMF (2009)]. The same literature emphasises, however, that the design of fiscal rules largely influences their effectiveness. Aspects such as their definition, control and application mechanisms, and the procedure for correction in the event of deviations, are crucial for attaining the objectives laid down [Bohn and Inman (1996) and Ayusi-i-Casals et al. (2009)].

Establishing fiscal rules that make it obligatory to maintain healthy public finances is all the more important in a monetary union since, as has been seen in the case of the sovereign debt crisis affecting the euro area since early 2010, one member's inappropriate fiscal policies may have adverse repercussions for the other members and generate union-wide tensions. Insofar as the financial markets do not always act as a deterrent to these policies, it becomes necessary to set fiscal controls on the Member States, obliging them to internalise the effect of their decisions on the union as a whole.

It is this very reasoning that prompted the inclusion in the Treaty on European Union of limits on the members' deficits and public debt, which were complemented by the Stability and Growth Pact (SGP). However, the economic crisis has highlighted the problems of the workings of the SGP, which was incapable of promoting a sustained fiscal consolidation during the economic upturn. This meant that the crisis led to an unprecedented deterioration in most European countries' fiscal position and outlook, which in some cases began to be perceived as unsustainable.

The economic policy response to the euro area's sovereign debt crisis is far-reaching and includes, among other aspects, a revision of the EU economic governance framework. In addition to the need to create crisis-management mechanisms, the strong interrelatedness of macroeconomic, fiscal and financial problems has revealed the need for wider and more intense economic policy coordination in the monetary union, which has taken specific form in the design of a new framework for the monitoring of macroeconomic imbalances and of competitiveness [ECB (2011) and Caballero et al. (2011)].

On the fiscal front, a reform of the SGP aimed at strengthening its implementation is pending approval. Among other aspects, the reform acknowledges the importance of an appropriate definition of fiscal frameworks not only at the European level, but also at the national level; accordingly, the Member States are asked to meet minimum requirements in respect of their fiscal frameworks so that these may contribute more effectively to attaining budgetary stability. In the same respect, the Euro Plus Pact entered

into by the euro area Heads of State and Government on March 2011 included the commitment by members to transpose into national legislation the EU budgetary rules established in the SGP.

Spain already had budgetary stability legislation (BSL) setting limits on the deficit that all tiers of government may incur. Nonetheless, it has been decided to reinforce this framework further to the approval in September 2011 of a reform of the Constitution that incorporates into the constitutional text the deficit and debt limits set at European level. Previously, in July 2011, a public spending growth rule was introduced for central government and for the biggest municipal councils. Under this rule, the rate of increase of public spending may not annually exceed the economy's nominal medium-term growth rate.

This article analyses these changes. The following section briefly describes the reform of the SGP. The third section analyses the constitutional reform. Section 4 describes the spending rule and illustrates its functioning through a simulation of how such a rule would have worked during the expansion period. Section 5 draws conclusions.

The reform of the Stability and Growth Pact

The framework of fiscal rules in Spain is firstly defined by the content of the constituent Treaty of the European Union and of the SGP. This framework defines quantitative limits on the deficit and public debt, a compliance oversight and control mechanism (which is known as the preventive arm of the SGP) and a procedure so that countries may correct deviations should they arise (the corrective arm of the SGP).

As regards the limits, the budget deficit is required not to exceed 3% of GDP, and public debt to remain below 60% of GDP. Further, under the preventive arm, budget balances should be "close to equilibrium or in surplus" in the medium term, a clause that has been interpreted as the need to attain and maintain a structural budget balance in equilibrium (the so-called "medium-term target"). The medium-term targets are specific to each country and depend, among other factors, on the level of public debt, on potential growth and on implicit liabilities, in particular those derived from population ageing on public finances. Currently, for the euro area countries, these targets stand, in respect of the structural budget balance, at between –0.5% of GDP (in Germany, Ireland, the Netherlands and Portugal) and a surplus of 0.5% (in Belgium, Luxembourg and Finland). In Spain's case, according to the methodology for calculating the medium-term targets agreed upon by the Ecofin in July 2009 [European Commission (2010)], the structural deficit may rise to around 0.5%, and the updated Stability Programme 2009-2010 set this target as a structural balance in equilibrium (see Table 1).[1]

The preventive arm of the SGP comprises the periodic monitoring of national public finances by the Commission and the Council on the basis of the Stability and Convergence Programmes submitted annually by the Member States. Under these oversight arrangements, the attainment of medium-term targets and the pattern of approach to them are evaluated. The corrective arm establishes a so-called "excessive deficit" procedure for cases in which the margins are exceeded. This includes the setting of timeframes for correction, the failure to comply with which may lead to various "reputational" or financial sanctions.

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1 Each Member State presents its own medium-term budgetary targets in its stability or convergence programme. This may not exceed the target derived from the agreed calculation methodology, and it is assessed by the Ecofin Council. These targets are revised when a significant structural reform is made and, in any event, every four years.

% of GDP

	Medium-term objectives (a)	Structural balance			Actual balance			Public debt		
		1999	2007	2010	1999	2007	2010	1999	2007	2010
Belgium	0.5	-1.4	-1.4	-2.8	-0.6	-0.3	-4.1	113.7	84.2	96.8
Germany	-0.5	-1.6	-0.5	-2.2	-1.5	0.3	-3.3	60.9	64.9	83.2
Estonia	0.0	-1.8	-1.0	2.5	-3.5	2.5	0.1	6.0	3.7	6.6
Ireland	-0.5	1.3	-1.8	-30.3	2.7	0.1	-32.4	48.5	25.0	96.2
Greece	0.0	-3.4	-7.5	-8.2	-3.1	-6.4	-10.5	94.0	105.4	142.8
Spain	0.0	-2.0	1.3	-7.0	-1.4	1.9	-9.2	62.3	36.1	60.1
France	0.0	-2.4	-3.7	-5.1	-1.8	-2.7	-7.0	58.8	63.9	81.7
Italy	0.0	-1.6	-3.0	-2.9	-1.7	-1.5	-4.6	113.7	103.6	119.0
Cyprus	0.0	-4.4	2.7	-4.6	-4.3	3.4	-5.3	51.8	58.3	60.8
Luxembourg	0.5	2.1	1.9	0.1	3.4	3.7	-1.7	6.4	6.7	18.4
Malta	0.0	-8.4	-2.1	-3.5	-7.7	-2.4	-3.6	57.1	62.0	68.0
Netherlands	-0.5	-0.5	-0.9	-3.8	0.4	0.2	-5.4	61.1	45.3	62.7
Austria	0.0	-3.0	-2.0	-3.7	-2.3	-0.9	-4.6	67.2	60.7	72.3
Portugal	-0.5	-3.7	-3.4	-8.8	-2.7	-3.1	-9.1	49.6	68.3	93.0
Slovenia	0.0	-3.4	-2.9	-3.0	-3.0	-0.1	-5.6	24.3	23.1	38.0
Slovakia	0.0	-6.7	-3.6	-7.4	-7.4	-1.8	-7.9	47.8	29.6	41.0
Finland	0.5	0.3	2.6	0.2	1.6	5.2	-2.5	45.7	35.2	48.4

SOURCES: European Commission (2010) and AMECO.

a The medium-term objectives are set in structural balance terms.

The experience of the past decade has nevertheless revealed problems with the workings of the SGP, which was not capable of promoting the consolidation of public finances during the expansionary phase (see Table 1). The structural deficit in 2007, the year prior to the economic crisis, stood at –1.7% of GDP in the euro area, a very similar figure to that observed in 1999, when the third phase of EMU began, meaning that only five of the countries today making up the euro area had achieved their medium-term targets (Germany, Spain, Cyprus, Luxembourg and Finland). Also in 2007, eight countries had a public debt ratio above 60%. Departing from this starting point, which was subsequently compounded by the impact of the economic crisis on public finances and on growth prospects, there was a highly significant deterioration in the budgetary situation in most European countries during the crisis.

Against the background of the ongoing reform of the European governance framework, the strengthening of the SGP is, therefore, of crucial importance [European Commission (2011)]. The reform that is pending approval[2] firstly envisages reinforcing the preventive arm with the inclusion of spending developments in the evaluation of countries' compliance with medium-term budgetary targets. As a result, the growth rate of public spending should not exceed medium-term GDP growth unless it is accompanied by discretionary increases in public revenue. It is sought hereby to prevent, as occurred before the crisis in some countries, a highly favourable trend in public revenue, associ-

2 After a series of meetings between May and September 2011, the European Parliament and the Council reached an agreement on 14 September on governance reform. The Parliament plans to adopt this at its plenary session from 26 to 29 September, and the Council intends to do so on 4 October 2011.

% of GDP

	1998 Debt	2007 Debt	
		Actual	Simulation
Belgium	117.4	84.2	83.1
Germany	60.3	64.9	59.9
Estonia	5.5	3.7	3.7
Ireland	53.6	25.0	25.0
Greece	94.5	105.4	79.0
Spain	64.1	36.1	36.1
France	59.4	63.9	60.2
Italy	114.9	103.6	91.3
Cyprus	58.6	58.3	48.7
Luxembourg	7.1	6.7	6.7
Malta	53.4	62.0	49.7
Netherlands	65.7	45.3	45.3
Austria	64.8	60.7	57.2
Portugal	50.4	68.3	62.5
Slovenia	23.3	23.1	23.1
Slovakia	34.5	29.6	29.6
Finland	48.4	35.2	35.2

SOURCES: AMECO and Banco de España.

a This table compares the actual debt ratio of the euro area countries in 1998 and 2007 (columns 2 and 3, respectively) with a simulation based on the debt-reduction proposal in the reformed SGP (column 4). In the simulation, a debt ratio greater than the reference value in year t is reduced in t+1 by 1/20th of the difference between its level and 60%. If the annual reduction observed in the debt ratio were greater than 1/20th in a year, the reduction observed in that year would be maintained.

ated with exceptional factors such as an excessive growth of financial and real estate assets, from allowing likewise excessive public spending growth. Indeed, it can be verified that strict compliance with this rule would have led to a much healthier situation in most European countries during the decade prior to the economic crisis [Banco de España (2011)].

Secondly, it is sought to strengthen the public debt criterion, given that it had largely been ignored in the past and in light of the absence of quantitative criteria for the evaluation of its rate of reduction. The reform will require Member States with a level of debt of over 60% of GDP to move more quickly towards their medium-term budgetary targets. Further, Member States with debt ratios that exceed the reference value of 60% of GDP will be subject to the application of the excessive deficit procedure, unless the rate of decline of debt over a given period is considered satisfactory.

The Commission has proposed using a numerical criterion to evaluate whether a country's public debt ratio is diminishing at a satisfactory rate. In the three years prior to the assessment, the ratio should have fallen on average by one-twentieth of the amount by which it differs from the reference value of 60%. Table 2 presents a simulation of the dynamics of the public debt/GDP ratio between 1998 and 2007 in the euro area countries, under the assumption that this criterion had been applicable. While in terms of the area as a whole the impact would have been limited, its application would have had a very significant effect on the countries with bigger public debt/GDP ratios. Specifically, Greece and Italy would have reduced this ratio to below 100% in 2007, a level close to 20 pp and 10 pp, respectively, below their actual values. In the case of Belgium, however, the simulations show that the effort made was greater than that required by the rule.

Thirdly, new reporting obligations and new financial sanctions are included for the euro area countries. These will be applicable beforehand and more gradually, and their approval will be more automatic.

Finally, national budgetary frameworks should adjust to a set of minimum requirements relating to public accounting and statistics systems, numerical fiscal rules, forecasting systems, effective medium-term budgetary targets, and the coverage of all general government sub-sectors. Beyond these minimum requirements, the use of top-down budgeting processes will also be promoted, along with the role of fiscal councils, which will be entrusted with providing independent analyses, assessments and projections regarding national fiscal policy matters.

Along the same lines, the Euro Plus Pact, signed in April 2011 by the euro area Heads of State and Government to strengthen economic policy coordination in favour of competitiveness and convergence, highlights as one of its essential objectives the need for the Member States to transpose the EU budgetary rules laid down in the SGP into national legislation. In this respect, it is stressed that, although the Member States may select the specific national legal instrument used to bring about this transposition, they must ensure this instrument is sufficiently and soundly binding and durable (e.g. a constitutional or framework law). The exact formulation of the rule will also be decided by each country, although budgetary discipline must be ensured both at the national level and at other regional and local levels.

It is in this connection that the recent reform of the budgetary framework in Spain is being undertaken. In fact, the national budgetary framework has been defined since 2001 by the BSL, which was subsequently amended in 2006. This legislation sets limits on the deficit that all levels of government may incur. Likewise, it details a procedure for setting and monitoring targets, along with the consequences, if any, in the event of non-compliance (see Box 1 on the content of this legislation). The reforms approved in recent months reinforce this framework with the incorporation of the fiscal limits into our Constitution, along with the introduction of a public spending rule linked to medium-term economic growth. These changes are analysed in detail below.

The constitutional reform

CONTENT

The reform enshrines in the Constitution the obligation for all levels of government to adjust their conduct to the principle of budgetary stability. Specifically, it establishes that the State and regional governments may not incur a structural deficit that exceeds the margins, if any, established by the European Union. Local governments, for their part, must keep their budget in balance.

In the case of public debt, its weight in relation to GDP may not exceed the reference value established in the Treaty on European Union, i.e. 60%, and absolute priority is granted to the payment of interest charges and of principal on public debt over other budgetary commitments.

The limits on the structural deficit and the volume of public debt may only be exceeded in the event of natural disasters, economic recession or exceptional emergency situations beyond the control of the State and which considerably impair the financial situation or the economic or social sustainability of the State. An absolute majority in Parliament would be required in this situation.

The details on these exceptions, the way in which deviations should be corrected and the accountability of each level of government should such deviations occur, the definition of the mechanisms providing for compliance with the limit on debt and the methodology for

The budgetary stability legislation (BSL) in Spain sets limits on the deficit that may be incurred by all levels of government and public-sector corporate entities. It likewise details a procedure for setting targets and monitoring them, along with the consequences, if any, of these not being met.

Specifically, under the BSL, central government and the regional governments are, along with large municipalities at the local government level[1], obliged to submit a public finances outturn that is in balance over the course of the business cycle. If economic growth of less than 2% is projected[2], the deficit these levels of government may incur shall not exceed 1% of GDP[3]. If economic growth is between 2% and 3%, general government must show a budget in balance and, if growth exceeds 3%, a surplus must be run. Moreover, an additional 0.5% can be added to these limits to finance increases in investment, including that earmarked for research, development and innovation.[4] All other municipalities should always show a budget in balance or in surplus. The stability target of the Social Security system shall be set having regard to medium- and long-term population and economic developments.

Given the high fiscal decentralisation in Spain, in which the regional and local governments are responsible for a large share of public revenue and spending policies, Spanish regulations establish additional requirements for them. In the case of regional governments, the organic law on funding governing them sets limits on their debt capacity. Specifically, it allows regional governments to enter into credit operations maturing at less than one year to cover temporary cash needs but, for operations maturing at over one year, funds must be earmarked exclusively to investment spending and, moreover, the total amount of the annual repayments may not exceed 25% of the regional government's current revenue. As regards credit operations abroad and public debt issues, prior authorisation from the State is required. Similar limits exist in the case of local government.

In addition to the extension of the fiscal rules to the lower tiers of government, the BSL has a clause that says that the State shall not take responsibility for the financing of the deficits or public debt of the lower levels of government. This clause, similar to that at the European level, seeks to prevent the cost of inappropriate fiscal behaviour in one region from feeding through to others or to central government, and it is essential so that capital markets maintain a significant disciplining effect on the basis of discrimination between the risk premia on the debt of the different levels of government.

Turning to the target-setting procedure, a report is first drawn up assessing the cyclical phase for the following three years.[5] On this basis, the BSL obliges the government to set, first, the budgetary stability target for the three following years in the first half of each year, both for the general government sector as a whole and for each of the agents comprising it[6]; and, second, the State spending limit. Both must be approved by Parliament. Once approved, the individual fiscal target for each regional government is set by means of bilateral negotiations between the Ministry of Economy and Finance and the representatives of each regional government on the Fiscal and Financial Policy Council.

As to the monitoring procedure, the Ministry of Economy and Finance is required to submit a report to the government before 1 October each year on the degree of compliance with the targets, and on real cyclical developments during the year and deviations from the initial forecast. Should a risk of non-compliance be discerned, a warning may be made to the government agent responsible. If such non-compliance involves a bigger-than-targeted deficit, the level of government in question is also required to draw up an economic and financial rebalancing plan over a maximum term of three years.

Lastly, it is stipulated that, if a deviation from targets prompts a breach of the SGP, the tier of government involved shall assume the attendant proportion of the responsibilities that should arise from the breach. In addition, in the case of the regional governments and municipalities, compliance shall be taken into account in the State's authorisation of credit operations and debt issues. Specifically, if the failure to meet the stability target takes the form of a greater-than-targeted deficit, all the regional government's debt operations shall require State authorisation.[7]

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1   Specifically, those that are provincial or regional capitals, or that have a population equal to or higher than 75,000 inhabitants.
2   These growth thresholds that determine the possibility of attaining a budget in deficit, in balance or in surplus are set, for a period of three years, by the Council of Ministers, on the proposal of the Minister of Economy and Finance and further to a report by the Council of Fiscal and Financial Policy of the Regional Governments and the National Local Government Board.
3   Breaking down into a ceiling of 0.2% of GDP for central government, 0.75% of GDP for the regional governments as a whole and 0.05% of GDP for large municipalities.
4   This additional 0.5% of GDP breaks down into 0.2% of GDP for central government, 0.25% of GDP for the regional governments as a whole and 0.05% for the above-mentioned municipalities.

5   This report is drafted by the Ministry of Economy and Finance, following consultation with the National Statistics Institute and with the Banco de España on the cyclical position of the Spanish economy, and taking into account the projections of the European Central Bank and of the European Commission.
6   The Ministry of Economy and Finance is also entrusted with formulating the proposed stability target for the regional governments as a whole and for local governments. This proposal follows prior reports by the Fiscal and Financial Policy Council and the National Local Government Board, respectively, before being approved by the Government.
7   However, if the regional government had submitted the economic and financial plan to the Fiscal and Financial Policy Council and the measures contained therein had been declared suitable by the Council, State authorisation for short-term credit operations that are not deemed to be external financing would not be required.

	Types of fiscal rule			
	Spending	Revenue	Balance	Debt
Political commitments	9	6	4	3
Coalition agreements	2	1	1	2
Legal	14	3	13	7
International treaties			41	47
Constitution			4	3
TOTAL	**25**	**10**	**63**	**62**

SOURCE: IMF (2009), Fiscal rules: Anchoring expectations for sustainable public finances.

a The totals for some columns may give rise to a number higher than the total number of countries with rules, since several rues are applied simultaneously in many countries.

calculating the structural deficit shall be established in an implementing organic law that shall be approved before 30 June 2012.

The reform shall enter into force as of the day of its publication in the Official State Gazette, accepting the structural deficit limits, which shall be applicable from 2020.

ANALYSIS OF THE REFORM

Constitutional rank

The main novelty of the reform in relation to the pre-existing fiscal framework is the incorporation into the Constitution of the deficit and public debt limits set at the European level. In this respect, the economic literature stresses that a higher legal order may improve the effectiveness of the rule, arguing that this hampers the capacity of the particular government in power to eliminate or amend it, given that this normally requires broader Parliamentary majorities. Moreover, constitutional rank gives the rule supremacy over other legislation drawn up by national parliaments, meaning that such legislation must be drafted in a manner compatible with the fiscal limits included in the rule.

The empirical evidence available on this issue is scant and not sufficiently conclusive, given that very few countries have incorporated their fiscal rule into the Constitution (see Table 3). For the EU, Iara and Wolf (2010) find that the greater the rank of the legislation in which fiscal limits are set, the more effective they are. Yet for the United States, in contrast, it does not seem that the incorporation into the Constitution in certain States has given rise to significant effects in terms of budgetary discipline [Hou and Smith (2010)].[3]

In Spain's case, the high degree of fiscal decentralisation prevailing may be an additional argument in favour of constitutional rank, since it makes it easier for the requirement to be made of all levels of government, and in particular the regional and local governments. Indeed, the Spanish constitutional rule covers, as did the budgetary stability legislation, all tiers of government, mentioning explicitly central government, the regional governments and the local governments.[4]

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3 The evidence for the United States is, in principle, sounder than that available for the EU, since it is based on long periods of time (1978-2004) in which there are more observations with fiscal rules incorporated into the Constitution of the Federated States.

4 In the case of Social Security Funds, the implementing organic law will have to detail what is understood by budgetary stability. It should be recalled that the BSL establishes that the stability target for the Social Security system should be set having regard to medium- and long-term population and economic projections. It would have been an option to include this definition in the Constitution, which would have given constitutional cover to the need to ensure the sustainability of the pensions system in the medium and long term on the basis of the population and macroeconomic projections available.

| The limit on the budget deficit in structural terms | As to the choice of the target variable for the rule, the reform refers to the budget deficit in structural terms[5], but it does not set an explicit numerical limit as is the case, for example, in the German constitution, but refers rather to the margins established by the European Union. As indicated in the previous section, the main limit on the structural deficit existing at the European level is that included in the preventive arm of the SGP, which establishes the need to attain the medium-term target, which in Spain's case was defined by the 2009-2010 Stability Programme as a structural balance in equilibrium. In any event, the size of this target depends on the level of public debt, potential growth and implicit liabilities. And a structural surplus might indeed be required if the country were to have, for instance, a high public debt/GDP ratio or if medium-and long-term growth prospects were to worsen. The reference to the European Union could be understood along the lines that, were Spain to find itself in these circumstances, the constitutional requirement might come to entail the requirement of a structural surplus. Furthermore, it can add greater flexibility to the setting of targets, aligning them automatically to European agreements. |

In any event, the political agreement accompanying the constitutional reform establishes that the limits on the structural deficit will be set in an organic law and will be 0.4% of GDP (0.26% corresponding to the State and 0.14% to the regional governments), a figure slightly above the medium-term target set in the 2009-2010 Stability Programme, but which observes the figure defined according to the calculation methodology agreed upon. This figure is similar to that set in the reform of the German constitution, which places it at 0.35% of GDP for the annual cyclically adjusted central government deficit, while in the case of the federal *Länder*, it is 0%. In Spain's case, the setting of the numerical ceiling and its distribution between State and regional government under the law involves allowing these limits to be amended, like any organic law, by an absolute Parliamentary majority, compared with the three-fifths figure that amendment of the Constitution requires.[6]

The definition of the limit in respect of the structural deficit adds a practical difficulty, since this variable is not observable and must be estimated.[7] Specifically, the calculation of the structural deficit is obtained as the difference between the observed deficit and the cyclical deficit[8], and the latter is calculated by applying the public revenue and spending elasticities to the deviation, or output gap, between actual GDP and potential or trend GDP. However, estimates of the output gap and of the elasticity of public revenue and spending are not free from controversy, given that there are different methods available in the economic literature that also show different results. The reform stipulates that it will be the implementing organic law that determines "the methodology and procedure for the calculation of the structural deficit". It would be advisable to choose a method that were readily replicable and one that could be made available to all analysts. In the case of the German constitutional reform, it was decided, for example, to apply the same method currently used in the European Union, developed jointly by the European Commission and the Member States.

In the case of the output gap it should moreover be taken into account that the estimates require macroeconomic projections and are frequently subject to revision following the inclusion of new available information or data arising from forecasting errors, which may also

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5 The constitutional text makes no reference to the actual deficit. In any event, the 3% ceiling in the EU Treaty remains applicable.

6 In this respect, the political agreement accompanying the constitutional reform indicates that "the limits relating to the structural deficit, and the path for attaining the debt target in 2020, may be subject to revision in 2015 and in 2018, on the initiative of any of the parties subscribing to this agreement".

7 Nor was the arrangement established under the stability law free from problems, given that it necessarily involved setting the thresholds determined by the surplus, equilibrium or deficit requirement.

8 The calculation of the structural balance further requires adjusting the latter for temporary or exceptional factors.

alter the calculations of the structural deficit. It is therefore necessary to establish the treatment of these revisions.[9] Generally, calculations of the structural deficit should be based on prudent estimates of the economy's potential output growth, estimates that avoid viewing as structural improvements in the budget deficit those that are merely cyclical.

The main advantage of using the deficit in structural terms is that it allows the stabilising role of fiscal policy to be maintained (see Chart 1).[10] In fact, the cyclical component of the deficit diminishes (increases) in periods of economic expansion (recession), given that public revenue tends to grow (diminish) and public spending to fall (increase) simply due to the operation of the automatic stabilisers, generating a stabilising effect on the economy. The constitutional limits would allow for countercyclical discretionary fiscal policy conduct, beyond that derived from the automatic stabilisers, but that would call for the attainment of structural surpluses in economic boom times.

Setting the limit in terms of the structural deficit offers some advantages over the current BSL, which establishes the need for a surplus, a balanced budget or a deficit in terms of real GDP growth thresholds. In particular, these thresholds create undesirable elements of discontinuity. For instance, a growth forecast of 1.9% enabled a deficit of up to 1% to be budgeted (without including the productive investment deficit), whereas, if growth one-tenth of a point higher is projected, a budget in balance would have to be provided for. Furthermore, there was no direct relationship between growth above the threshold set on the amount of the surplus, meaning that it could not be ensured that a continuous period of expansion would materialise in a sizeable surplus (a surplus of 0.1% of GDP was sufficient to comply with the rule). Conversely, the new definition requires that, in times of economic boom, the entire portion relating to the cyclical balance should be saved and this, moreover, will be proportionate to the economic expansion (see Chart 1).

Generally, it could be said that the new rule will require higher surpluses than those arising from the BSL in expansion periods. For example, on the basis of an elasticity of the deficit with respect to the output gap of 0.4, in a situation of a positive output gap to an order equivalent to 3% of GDP, the fiscal surplus will have to be at least 0.8%, while in the case of the BSL, a surplus of 0.1% would suffice (provided that real GDP growth exceeded 3%). Moreover, the ceiling of 1.5% for the total deficit under the current BSL is eliminated, giving more headroom in periods of recession. For example, if a negative output gap of 5% of GDP is reached, the new arrangement would allow a deficit of up to 2.4% of GDP.

Another difference between the new rule and the BSL is that the new structural limits cannot be altered by the presence of investment spending. There are arguments that warrant leaving public investment outside the definition of the rule (in application of what is known as the "golden rule"), which are based above all on the fact that there is evidence showing that this type of expenditure may exert positive effects on growth in the long run. However,

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9   In the case of the German constitutional rule, the ex post result of the structural balance is adjusted for the error in the projection of real GDP. In the case of the Swiss constitutional rule, however, when a deviation from the limit in the rule arises as a result of a forecasting error, this is included in full in a notional account.

10 In the case of local governments, the ceiling is set in terms of the observed deficit. This is the criterion that was also adhered to by the BSL, although in this case the biggest municipal councils were actually allowed to run a deficit of 0.5% of GDP when economic growth was less than 2%. Local government revenue may show something of a cyclical response in its behaviour, given that they have a share in State tax revenue (depending on how the latter trends) and, in the case of the large municipalities, a percentage of personal income tax, VAT and excise duties are transferred to them. Accordingly, compliance with the limits set in the Constitution will mean that these municipalities will have to attain a structural surplus in periods of expansion, allowing them to offset the adverse impact on revenue-raising capacity in economic slowdowns, without having to apply compensatory adjustment measures.

% of GDP

OUTPUT GAP   CYCLICAL BUDGET   CONSTITUTIONAL LIMIT ON THE STRUCTURAL BALANCE
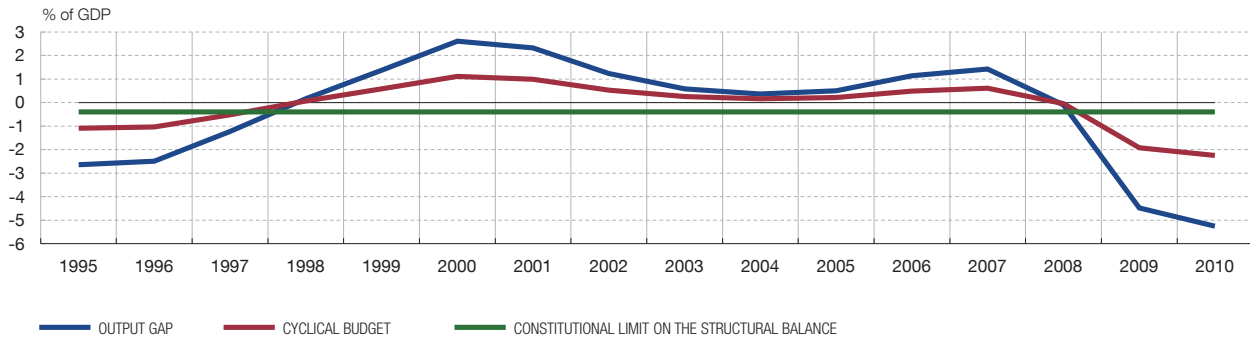
SOURCE: AMECO.

excluding investment spending also poses problems. Firstly, not all investment spending is necessarily productive. Secondly, there is expenditure classified as current that may have even greater effects on long-term productivity (for example, education spending). Further, the accounting distinction between current and capital expenditure is not always easy, whereby excluding investment spending may generate incentives to record current expenditure in this latter group. Indeed, some countries that had "golden rules" in the past, such as the United Kingdom and Germany, have recently scrapped them.

The limit on public debt

The reform establishes an explicit limit on public debt, further reinforcing the commitment to budgetary discipline. Public debt is, in fact, the key variable for measuring the sustainability of public finances; and, given that the need to meet the debt criterion in the Stability Pact has in the past been subject to a milder interpretation than in the case of the deficit, the introduction of a constitutional limit may confer operability on the European requirement in Spain's case. Moreover, this prevents those budgetary transactions that are not accounted for in the budget deficit, but which do give rise to an increase in borrowing needs, from remaining outside the scope of the rule.

The Constitution further establishes that the procedure for reducing the public debt/GDP ratio if it exceeds the European ceiling will be detailed in the implementing organic law. This procedure should adhere, at least, to the arrangements laid down in the new reform of the Stability Pact for the reduction of excess debt above 60% of GDP.

As to the priority given to the payment of the interest and principal on public debt over other expenditure, this may prove particularly significant in circumstances such as the present in which the markets are most sensitive to the possibilities of sovereign debt default.

The possibility of deviations from the limits

Broadly, establishing exceptions to compliance with fiscal limits is considered to be desirable and can reinforce the credibility of compliance, provided these exceptions are clearly defined. In the case of constitutional reform, the definition of these exceptions and the need for Parliamentary approval of the circumstances giving rise to the exceptionality are very similar, for example, to those of the German constitution, the sole difference being that, in Spain's case, explicit mention is made among the exceptions of "economic recession". In this respect, it should be recalled that the Treaty on European Union states that deficits above 3% are not considered "excessive" provided that the failure to comply is of scant significance, temporary and due to exceptional circumstances, such as a serious economic recession for instance. Following the 2005 reform of the SGP, a serious reces-

sion is defined as a negative year-on-year growth rate of real GDP or a cumulative loss of output over a prolonged period of very low real GDP growth relative to potential growth. Moreover, it is important that the organic law should make clearly explicit the temporary path that should be followed to place the deficit once more within the established limits, once the deviations have come about.

The Spanish constitutional reform does not explicitly consider the treatment of the potential deviations that may come about. In this respect, the German constitutional rule, like Switzerland's, includes in its implementing legislation a mechanism whereby any ex post deviation from the structural balance target (positive or negative) is accumulated in a notional account. In Switzerland's case, the government must take adjustment measures if this account has a negative balance exceeding 6% of expenditure (i.e. around 0.6 pp of GDP), placing it below this limit in the following three years. In Germany's case, adjustment measures must be taken as soon as the notional account reaches 1%, but only if economic conditions allow.[11]

Monitoring, control and compliance mechanisms

The economic literature stresses that to ensure the success of fiscal rules, it is vital to have the appropriate monitoring and control mechanisms, and the capacity to impose or encourage compliance. In Spain's case, these procedures should also be laid down in the implementing organic law of the constitutional text. In relation to monitoring the rule, it is particularly important that the mechanisms set in place should allow early identification, within the fiscal year, of the risks to meeting the budgetary targets.

As to the mechanisms for encouraging or forcing through compliance, the constitutional reform indicates that the implementing organic law should regulate the responsibility of each government level in the event of non-compliance with the budgetary stability targets, which might be interpreted as the possibility of including sanctions. Sanctions are, in fact, a mechanism that could encourage compliance. However, the evidence shows that it is not easy to define them in a manner that makes their application credible, as the case of the SGP demonstrated. In this respect, and as indicated in the second section, the reform of the Pact includes the proposal whereby sanctions should be decided beforehand and more automatically so that their applicability is enhanced. A further instrument that might prove very effective would be clauses providing for the automatic adjustment of specific revenue and expenditure items in the event of the established fiscal targets failing to be met.[12]

Transitory period

Finally, as regards the entry into force of the rule, the definition of a transitory procedure would be reasonable given the high budget deficit levels prevailing at the time of approval of the constitutional reform. The transitory period is somewhat longer in Spain's case than was set in Germany, at least in the case of central government. That might be warranted by the different starting position in terms of the budget deficit, although the extension to 2020 in the case of limits on the structural deficit might prove more than accommodating. It should be borne in mind that the latest Stability Programme set an overall general government structural deficit of 1.9% in 2014, whereby, if this target is met, attaining a structural deficit of 0.4% in 2020 will entail a limited fiscal effort.

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11 The control account may not exceed 1.5% of GDP and, moreover, deviations during the year may not exceed 3% of budgetary revenue. In the year after this increase in the control account of above 1%, the deficit must be reduced by the amount by which it exceeds 1%, but not by an amount in excess of 0.35%. This obligation is only applicable to the years in which there is a positive output gap or the negative output gap is diminishing.

12 The content of single additional provision 2 of the constitutional reform may give rise to the introduction of these mechanisms in the implementing organic law, indicating that "this law shall envisage the mechanisms that allow compliance with the debt limit referred to in article 135.3".

% of GDP
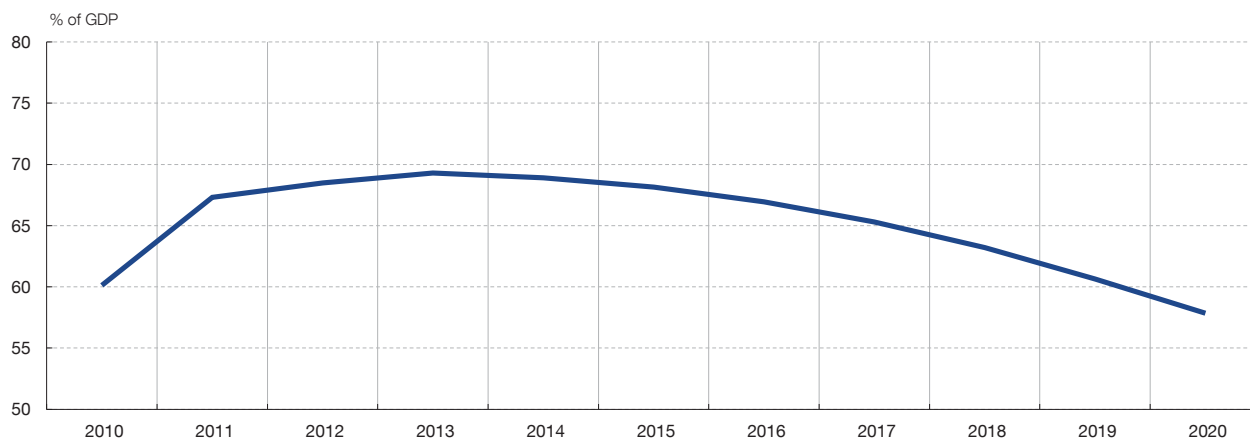
SOURCE: Banco de España.

The political agreement accompanying the constitutional reform indicates, moreover, a 60% ceiling on public debt as a target to be met in 2020. Chart 2 illustrates how this ratio might be attained on the basis of a series of assumptions.[13] Evidently, under harsher macroeconomic scenarios the fiscal adjustment needed to place public debt at 60% in 2020 will be greater. Even under the macroeconomic scenario simulated, a greater adjustment of the structural deficit, that were to anticipate the time at which the constitutional limit were reached, would allow a swifter reduction in the public debt ratio, meaning that room for manoeuvre would be gained to face potentially adverse situations without the risk of breaching the 60% ceiling again.

The new spending rule

Before the constitutional reform, in July 2011, a ceiling on public spending growth was introduced into the national budgetary framework with a definition very similar to that included in the preventive arm of the SGP. This spending rule, now in force, is a very useful complement to the constitutional debt and deficit margins. Indeed, the experience in some other developed countries shows that the most successful fiscal frameworks are those that combine the budget deficit rule with explicit limits on public spending [IMF (2009) and Ljungman (2008)]. The usefulness of the latter is that it is directed at the habitual source of budget deficits. Specifically, the ex ante setting of a maximum amount of spending adds discipline to the budgeting for each spending unit, and these units thus have less leeway to exert upward pressure through their individual demands. Moreover, ex post this enables the increase in revenue in better-than-expected cyclical situations to be saved and, if the rule is well-defined and transparent, the spending components that generate deviations can be identified.

Defining a spending rule is not, however, free from difficulty and the definition may impair its effectiveness. Specifically, among the different elements that make up its definition, the choice of the variable that acts as a reference for setting boundaries on its permitted course is one of

13 In particular, strict compliance with the macroeconomic and fiscal projections in the latest Stability Programme is assumed. That would entail placing the budget deficit at 2.1% of GDP and the public debt ratio at 68.9% in 2014. Subsequently, an annual 0.3% adjustment of the structural deficit is assumed, taking it to 0.4% in 2020 as established by the reform. Under the assumption of a zero contribution to the change in debt of the difference between GDP growth and the implicit interest rate on debt, a deficit-debt adjustment of 0.5% of GDP per annum and a trajectory that would see the output gap close in 2015 to subsequently turn positive and reached 2% in 2020, the public debt/GDP ratio would stand below 60% in 2020.

the most important. In principle, given that public revenue shows approximately unit elasticity with respect to nominal GDP, a growth in spending linked to this variable would ensure, if the starting point is a budgetary position in balance, that this position were maintained in the future. Evidently, if the starting point is a budget deficit, resuming a balanced budget will require spending growth below nominal growth until such equilibrium is attained.

However, to avoid procyclical behaviour in public spending, selecting annual GDP growth as a reference should be avoided, replacing it instead with a measure of the economy's potential growth. Under the rule approved in Spain, the annual increase in spending may not exceed the increase in real GDP over the medium term, which is defined, for each year, as the average of the real GDP growth rates envisaged in the Stability Programme for the current year and the three following years and those recorded in the five previous years, i.e. as an average of growth rates over nine years, which may be considered as an approximation to potential growth.[14] In any event, given that the constitutional reform will also require the estimation of this variable for the calculation of the structural deficit, its definition in the spending rule should desirably be compatible with the methodology used in the estimation.

As to the nominal component of GDP to be taken as a reference, in principle the annual growth of the GDP deflator could be used. Nonetheless, that might allow very high spending increases as a result of the existence of likewise very high inflation. To avoid this problem, some limit could be set on the increase in the deflator incorporated into the rule (e.g. that compatible with the ECB's definition of price stability). Along the same lines, it has been decided in the case of the rule approved to set growth in the GDP deflator of 1.75% as a reference, which would add a disciplining element to the future course of public spending.

The rule likewise states that the permitted growth in spending should be adjusted for the estimated impact of planned discretionary tax measures; as a result, when regulatory changes involving increases (reductions) in revenue are approved, the limit on spending increases (falls) by the equivalent amount. This adjustment is fully warranted in that it accommodates growth in spending to changes in revenue and prevents fiscal imbalances from arising further to the approval, for example, of tax cuts not accompanied by equivalent cuts in spending. However, it should be taken into account that estimating the impact of tax changes on revenue is not straightforward and ex ante estimates may differ greatly from actual results. Accordingly, it would be advisable periodically to conduct an ex post analysis and to adjust spending growth to the potential deviations that may arise.

As regards the spending components subject to the limit, it has been decided, firstly, to exclude interest payments, which is justified by the fact that this variable is beyond the control of the fiscal authority, at least in the short run. Further, non-discretionary expenditure on unemployment benefits is excluded, which will prevent any procyclical bias in the application of the rule.[15] However, this exclusion runs the risk of leaving out rises in expenditure derived from a structural increase in unemployment, which will not be corrected with cyclical developments.

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14 Some problems may be encountered with this definition. Specifically, the five years backwards that are taken may not be representative of potential growth if a structural change takes place. Moreover, taking projections for the current year and three ahead may cause added problems given that it is a stylised fact in the literature that it is difficult to capture changes in the business cycle. Further, the use of projections may cause some risk of excessive growth in spending if the projections prove optimistic.

15 For instance, in an economic slowdown there would be an increase in spending on unemployment benefits. If the rule is applied to this definition of spending, that would mean that, to ensure compliance, other spending items would have to be adjusted to compensate for the total spending growth exceeding that set in the rule, causing a procyclical bias therein.

As to the tiers of government to which the limit is applicable, central government and its agencies are included along with local governments that participate in the transfer of State taxes. In the case of the regional governments, the government has proposed in the Fiscal and Financial Policy Council the adoption by all regions of the spending rule. Given the weight of the regional governments in public spending in Spain, the extension to them is crucial if effective control over spending is to be achieved.

In respect of Social Security Funds, their exclusion essentially involves leaving spending on pensions out of the rule (in addition to the above-mentioned unemployment benefits). That would be consistent with the need to maintain a long-term perspective in the financing of these benefits. The annual growth of this item is largely predetermined by the parameters of the system and demographic developments, meaning it would be difficult to restrict its trajectory annually. In any event, to ensure the financial equilibrium of the pensions system in the long run, a regular estimate is needed of future spending requirements and the adaptation of the parameters of the system, in particular through the sustainability factor incorporated into the recently approved pensions reform.

Finally, the monitoring and correction mechanisms are, once again, a crucial element for ensuring the rule's effectiveness. Spanish regulations establish that, before 1 October each year, the Minister of Economy and Finance shall submit to the government a report on the degree of compliance with the spending rule for the preceding year. In the event of non-compliance, it is established that the level of general government responsible will adopt exceptional and immediately applicable measures to ensure a return to the approved spending path. It would perhaps be useful also to introduce some criterion to be applied in the course of the year so that, if deviations are anticipated, they may be corrected in the current fiscal year. Moreover, given that this rule is a complement to the multi-year budgetary stability targets, it might be worthwhile setting spending targets for the same years for which deficit targets are determined, making it necessary to adopt a multi-year perspective in expenditure budgeting that may prove most appropriate for rationalising such expenditure.

Table 4 illustrates how a rule such as that approved in Spain would have worked in the 1998-2010 period. Specifically, it shows spending growth and the budget deficit that would have arisen had a similar rule been applied in each year of the period 1998-2010. in this connection, the fiscal figures for 1997 are taken and public spending growth equal to the economy's nominal growth in the medium term is set.[16] The rule is applied to total general government public spending less the interest burden on public debt and less social benefits (essentially relating to unemployment and pensions). Hence an attempt is made to replicate the working of the rule which, as indicated, excludes these components. Under these assumptions, however, it is assumed that the rule applies to the spending of the regional governments and to all local governments.

Clearly, strict compliance with the rule would have led to a much healthier public finances situation during the decade prior to the economic crisis, allowing in particular the extraordinary revenue arising from the real estate boom to be saved. Indeed, the growth of public spending in the 1998-2007 period was significantly higher in Spain than would have been

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16 Medium-term growth is calculated for each year as the arithmetic mean of the real GDP growth of the five previous years and of the forecasts for that year and for the three following years included in the Stability Programme (for that year). Added to this real growth is a deflator of 1.75%, equivalent to that set by the rule. Finally, this limit increases/falls by the amount of the discretionary tax measures in each year.

	Observed data				Growth of spending allowed by the rule and components					Outcome of the application of the rule
	Total public spending growth (1)	Real GDP growth (2)	GDP deflator growth (3)	Budget balance (% of GDP) (4)	Average growth of real medium-term GDP in accordance with the rule (5)	GDP deflator growth allowed by the rule (6)	Contribution of the discretionary revenue-side measures to the growth of public spending allowed by the rule (7)	Discretionary revenue-side measures (% of GDP) (8)	Total public spending growth allowed by the rule (9)	Budget balance as a result of the application of the rule (% of GDP) (10)
1998	5.6	4.5	2.5	-3.2	2.9	1.75	-1.0	0.0	3.7	-2.4
1999	4.4	4.7	2.6	-1.4	3.3	1.75	-5.9	-1.7	-0.9	0.5
2000	6.6	5.0	3.5	-1.0	3.5	1.75	0.0	-0.2	5.2	0.9
2001	6.7	3.6	4.2	-0.7	3.8	1.75	0.0	0.0	5.6	1.4
2002	7.8	2.7	4.3	-0.5	3.7	1.75	0.7	0.1	6.1	2.0
2003	6.0	3.1	4.1	-0.2	3.6	1.75	-2.6	-0.6	2.7	3.1
2004	8.8	3.3	4.0	-0.4	3.5	1.75	0.1	-0.2	5.3	3.8
2005	6.8	3.6	4.3	1.0	3.3	1.75	0.8	0.1	5.9	5.2
2006	8.2	4.0	4.1	2.0	3.2	1.75	1.0	0.0	6.0	6.9
2007	9.2	3.6	3.3	1.9	3.3	1.75	-0.7	-0.4	4.4	8.0
2008	8.8	0.9	2.4	-4.2	3.3	1.75	-2.3	-1.4	2.8	3.4
2009	7.4	-3.7	0.6	-11.1	2.2	1.75	2.2	-0.6	6.2	-3.2
2010	-0.1	-0.1	1.0	-9.2	1.8	1.75	4.8	1.4	8.3	-3.2
Average (1998-2007)	7.0	3.8	3.7	-0.2	3.4	1.75	-0.8	-0.3	4.4	2.9
Average (2008-2010)	5.4	-1.0	1.3	-8.2	2.4	1.75	1.6	-0.2	5.8	-1.0
Average (1998-2010)	6.6	2.7	3.2	-2.1	3.2	1.75	-0.2	-0.3	4.7	2.0

SOURCES: ECB and AMECO.

the case with the application of the rule (7% in annual average terms, compared with 4.4%, respectively) (see Chart 3). In the economic crisis period it would, however, have allowed for slightly higher growth than that observed. In terms of the budget balance, a far greater surplus than that actually posted would have been achieved in 2007, the year prior to the crisis.[17] The rule would not have prevented a highly significant deterioration in the budget balance during the crisis but, given the starting situation, the budget deficit would have been significantly below the actual figure recorded.

Conclusions

The economic crisis and, in particular, the events that unfolded further to the Greek fiscal crisis and spread to other countries have highlighted the weaknesses of the European governance framework. In the fiscal arena, the strong deterioration in the budgetary position and outlook in most European countries has its roots in various factors, such as the cyclical downturn, the repercussions of the restructuring of the financial system and the revision of the medium-term growth outlook for European economies. However, it is also clear that the European fiscal framework had not been capable of sustainably redressing public finances during the economic upturn in such a way as to provide sufficient leeway to tackle the recession.

17 This estimate of the impact on the budget balance reflects the direct effect of the spending rule and the second-round effects arising from the possible impact of this lower growth in spending on GDP growth. The estimate draws on a simulation made with the Banco de España Quarterly Macroeconomic Model (MTBE).

Rate of change (%)

TOTAL PUBLIC SPENDING   TOTAL PUBLIC SPENDING PERMITTED BY THE RULE   REAL MEDIUM-TERM GDP ACCORDING TO THE RULE
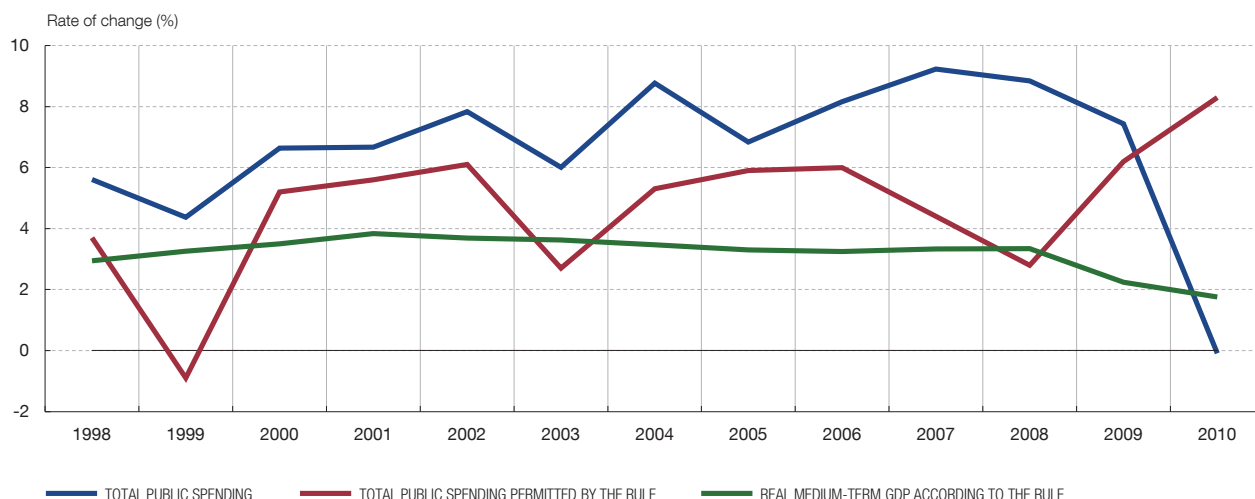
SOURCES: ECB and AMECO.

As part of the European governance framework reform under way, it is therefore crucial to reinforce the Stability and Growth Pact so as to improve its implementation and effectiveness. The reform pending approval does indeed amend several aspects of the workings of the Pact, including most notably recognition of the importance of improving national fiscal frameworks so that they may contribute to achieving budgetary stability.

Against this background, it has been decided to strengthen the budgetary framework in Spain by building into the constitutional text the limits on the budget deficit and the public debt ratio established at the European level, extending them to all government levels. The raising of these limits to constitutional rank should give rise to a greater degree of compliance with such limits, insofar as the latter would be more difficult to alter and the other laws approved should be compatible with them. At the same time, the definition of the limit on the budget deficit in structural terms, though it poses certain measurement problems, allows the fiscal stability target to be compatible with the maintenance of a stabilising role in the application of fiscal policy through the automatic stabilisers.

The effectiveness of fiscal rules depends, in any event, on setting the appropriate rule-control and compliance procedures in place. In the constitutional reform, these matters are addressed in an organic law. It is therefore vital that this law should define these procedures in such a way that the risks to attaining the targets may be identified in time and that the corrective measures preventing such risks from materialising be adopted. Furthermore, the law should clearly and strictly specify exceptions, making explicit the time path that should be followed in order to reposition the fiscal variables within the limits set when deviations occur. Finally, the appropriate mechanisms to assist in compliance with targets should also be incorporated, including here the setting of sanctions and/or the laying down of clauses for the automatic adjustment of specific revenue and expenditure items should the specific fiscal targets established not have been met.

The national budgetary framework has also been strengthened by the introduction of a public spending rule which, broadly, limits its annual increase to the economy's nominal growth in the medium term. The strict application of this limit, combined with the constitutional rule, may prove useful for ensuring fiscal discipline in the future. Indeed, a counter-

factual exercise of how a spending rule such as that approved would have worked in Spain in the 1998-2010 period shows that strict compliance with such a rule would have led to a much healthier public finances situation during the decade prior to the economic crisis. This is because it would have made it possible for the extraordinary revenue arising from the real estate expansion to have been saved, meaning that the surplus prior to the crisis would have been higher and the budget deficit would not have reached the levels observed during the crisis. In any event, for a rule of these characteristics to be effective, its application to the regional governments should be ensured.

THE PROCESS OF ECONOMIC ADJUSTMENT FOLLOWING FINANCIAL CRISES:
A HISTORICAL PERSPECTIVE

THE PROCESS OF ECONOMIC ADJUSTMENT FOLLOWING FINANCIAL CRISES:
A HISTORICAL PERSPECTIVE

The author of this article is Galo Nuño of the Associate Directorate General International Affairs.[1]

Introduction

The severe financial imbalances generated in the advanced economies during the preceding upturn are at the root of the current crisis and explain why, since 2008, a large number of developed countries have experienced the deepest recession of recent decades and why the recovery is taking place at such a slow pace. Chart 1 shows the strong contraction in GDP growth and the notable rise in the rate of unemployment in the cases of the United States, the United Kingdom and the euro area,

The economic literature shows that recessions associated with financial crises are especially acute and prolonged.[2] Studies underline that recessions associated with financial crises are the result of excessively optimistic expectations regarding the growth of income and wealth, which lead to a very pronounced expansion in the borrowing and leverage of private agents. When these expectations fail to materialise there is a sudden correction of private spending, which is all the greater the more extensive the imbalances that have built up in the private sector, and the subsequent economic recovery should preferably be supported by government and foreign demand, while firms and households rebuild their financial position. As seen in Chart 1, following the start of the current crisis, the private sector's saving-investment balance has recovered significantly, while public sector finances have deteriorated, as a result of the operation of automatic stabilisers and the adoption of discretionary fiscal measures designed to reduce the impact of the recession.

Given the observed similarity of the economic dynamics of different countries in the current episode, this article analyses the extent to which this pattern of adjustment is in line with the historical evidence of previous crises and the foreseeable course of developments in the current recovery. It does this using a database with information on 46 financial crises during the period 1980-2008, and the dynamics of the main macroeconomic variables following the start of a crisis are studied. The characteristics of the phases of recovery of economies following a recessionary period largely depend on the nature of the expansion that preceded the recession (and, therefore, on the imbalances in the economy) and the prevailing macroeconomic policy framework. Consequently, this article explores the differences in the profile of recovery following a financial crisis in terms of the external position of the economy (current-account deficit or surplus) and the exchange rate regime in force at the beginning of the crisis.

The degree of synchronisation of crises is a factor that has a decisive influence on the profile of the recovery. This is an additional obstacle in the current juncture, since the recession has become global and many advanced economies are still handicapped by imbalances. Indeed, the more global the crisis, the smaller the potential role of external demand in the exit phase. The episodes included in the sample of financial crises used in this article did not have the geographic scope of the current one, which has been compared to the Great Depression of 1929-33 (the last great global financial crisis). That crisis led to a prolonged economic stagnation and continues to be an important reference in the design of macroeconomic policies. For this reason, a box is included reviewing the origin and

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1 The author would like to thank Gabriel Aparicio, Álvaro Claudio and Richard Doval for technical assistance.
2 See, for example, Terrones et al. (2009) and the references cited there.

GDP
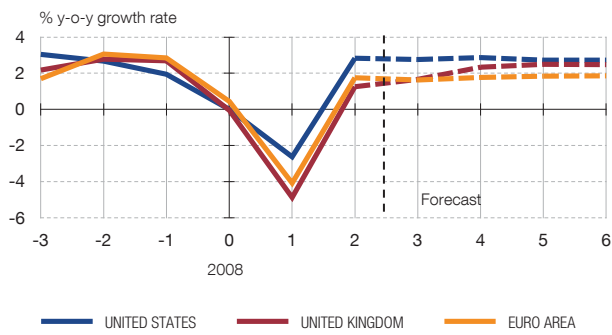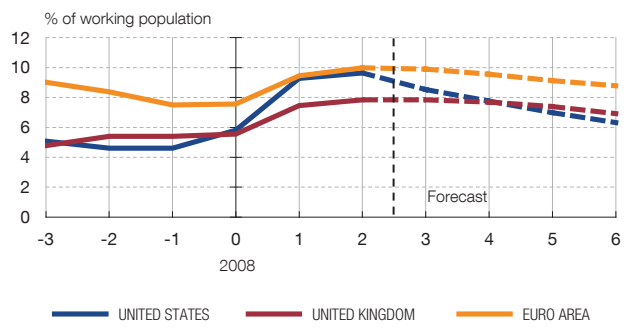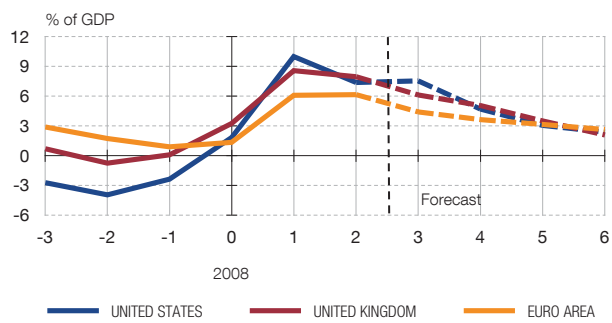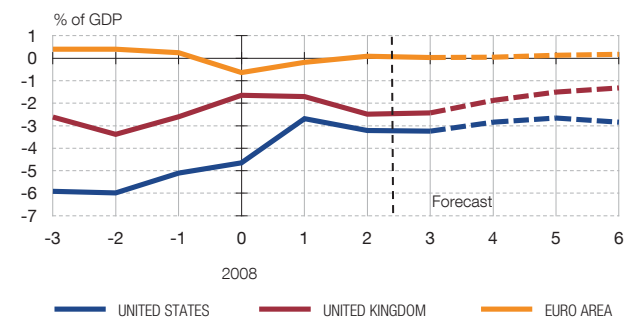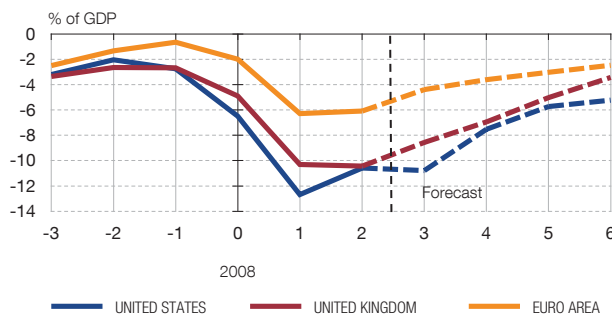
% y-o-y growth rate

2008

UNITED STATES — UNITED KINGDOM — EURO AREA

UNEMPLOYMENT

% of working population

2008

UNITED STATES — UNITED KINGDOM — EURO AREA

PRIVATE BALANCE (b)

% of GDP

2008

UNITED STATES — UNITED KINGDOM — EURO AREA

EXTERNAL BALANCE

% of GDP

2008

UNITED STATES — UNITED KINGDOM — EURO AREA

BUDGET BALANCE

% of GDP

2008

UNITED STATES — UNITED KINGDOM — EURO AREA

PUBLIC DEBT

% of GDP

2008

UNITED STATES — UNITED KINGDOM — EURO AREA

INFLATION

Level in % y-o-y

2008

UNITED STATES — UNITED KINGDOM — EURO AREA

REAL EFFECTIVE EXCHANGE RATE

Index

2008

UNITED STATES — UNITED KINGDOM — EURO AREA
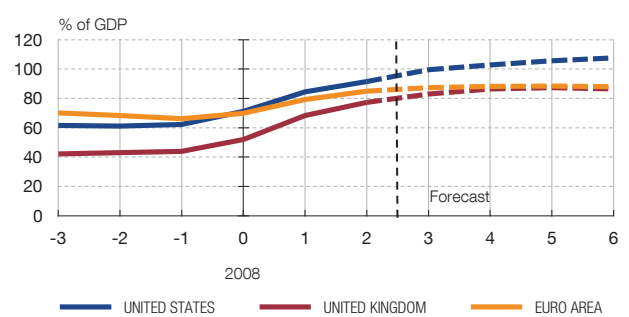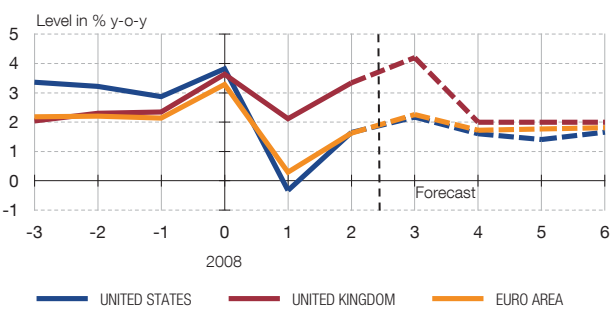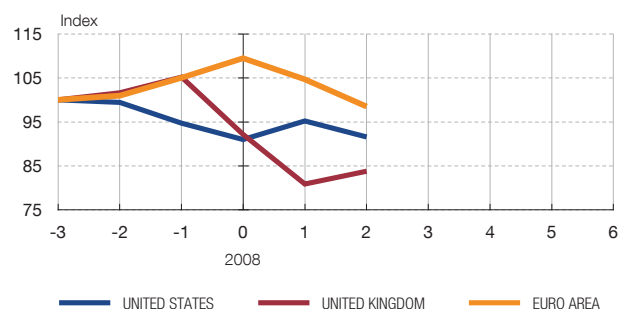
SOURCES: World Economic Outlook (WEO), Economist Intelligence Unit, OECD and World Bank.

a Forecast data obtained from the IMF (WEO April 2011). Year 0 = 2008.
b The private balance is calculated as the difference between the current account balance and the budget balance.

evolution of the 1929 crisis, with special emphasis on the United States, then the central axis of the international monetary system, and the role of macroeconomic policies and the gold standard in the genesis and resolution of that crisis.

The comparison of the current recovery with other financial crisis exit phases may allow the short and medium-term growth prospects to be better assessed and the difficulties the advanced economies are having in restoring sustained growth rates similar to the pre-crisis ones to be explained.

Methodological aspects   The analysis of the process of macroeconomic adjustment following the financial crisis presented in this article is based on a database containing information on the main macroeconomic variables in financial crisis episodes in various countries (both advanced and emerging) during the period 1980-2008. The most important methodological aspects of the exercise are as follows: first, the dating of the financial crises is based on the Reinhart and Rogoff (2009) approach. They define a financial crisis as a situation involving the liquidation, merger, acquisition or rescue, with public-sector involvement, of one or more financial institutions, whether or not as a result of a bank run.[3] With the data available, 46 financial crises in 29 countries were identified.

Two criteria have been used to divide up the sample of financial crisis episodes: the sign of the current-account balance and the exchange rate regime existing at the moment before the outbreak of the crisis. The sample includes 34 crises in which the country concerned started with a current-account deficit. Of these, 24 occurred in countries with fixed exchange rates and the other ten in economies with flexible ones. The twelve remaining episodes took place in countries with current-account surpluses at the onset of the crisis. In this case, owing to the small number, no sub-division has been made.[4]

The article focuses on the analysis of the evolution of various macroeconomic variables at around the time the financial crisis occurs, in accordance with the dating made.[5] For this purpose, the charts that show the main results also show the average value of each variable in the different episodes and a band indicating one standard deviation from the mean. To facilitate the comparison between episodes, all the variables are normalised, taking the year before the start of the crisis as zero, with the exception of the GDP growth rate and inflation, which are expressed as deviations from their long-term averages.[6]

Finally, it should be noted that the exercise performed suffers from certain limitations. First, the sample is rather heterogeneous; in particular, the episodes considered include crises in both developed and emerging countries. As is well known, in periods of stress the emerging economies tend to have severe difficulty accessing financing, especially external financing, which tends to increase the magnitude of the adjustment. Second, the weighting and normal-

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3   In the terminology of Reinhart and Rogoff (2009), these episodes are called "banking crises".

4   The episodes considered include 15 cases of crisis in developed economies and 31 in emerging economies.

5   The variables used and their sources are as follows: real GDP (*World Economic Outlook* (WEO)); inflation: WEO and Economist Intelligence Unit (EIU); external balance (current-account balance): WEO; budget balance: WEO and EIU; gross public debt: WEO; rate of unemployment: World Bank, WEO and EIU; real effective exchange rate: Reinhart and Rogoff (2009).

6   The normalisation is carried out in the following way: for series expressed in terms of year-on-year growth rates (GDP growth and inflation), the difference is calculated with respect to an average. For GDP, the average used corresponds to the GDP growth rates during the ten years preceding the crisis. For inflation this average is for the three preceding years. In the case of the other variables the value obtained in the year before the crisis is deducted, so that these variables have a value of zero at that point.

ising criteria used do not take into account the economic weight of each country considered or the magnitude or depth of the different crises, so that the results reflect the dynamics of adjustment in response to an "average financial crisis", but do not allow the effect of the intensity of the crisis on the path of the macroeconomic variables to be assessed. Both limitations mean that the results of the analysis should be interpreted with some caution.

The dynamics of macroeconomic adjustment following a financial crisis

The current crisis is by no means the first financial crisis of the post-war period, although the severity and degree of synchronisation are unprecedented since the Great Depression. However, the current episode shares some of the characteristics of the recessions that have occurred in recent decades which, albeit more local and not so deep, have also been linked to financial crises. At the end of the last upturn, numerous developed countries (and some emerging ones) were in a situation marked by highly indebted private agents (as a result of a prolonged period of credit expansion) and overvalued assets. These features were also present, to a varying degree, in the financial crises of the last three decades and, for this reason, the pattern of the subsequent adjustment is of great interest.

THE ROLE OF THE EXTERNAL BALANCE: DEFICIT VERSUS SURPLUS COUNTRIES

The recovery process following a financial crisis (in comparison with those that take place following a recession caused by some other type of shock) is characterised by marked restructuring of company and household balance sheets, which contributes to the prolonged slackness of domestic demand, and the rebuilding of banks' accounts. However, as mentioned in the introduction, the nature of the imbalances in the economy at the start of the crisis influences the path of the main macroeconomic variables in the recovery phase. In particular, external net borrowing at the start of the crisis (reflected in a current-account deficit) is an important determinant of the dynamics of exit from the recession.

Charts 2 and 3 show the average paths for a set of macroeconomic variables in the period following the outbreak of a financial crisis, distinguishing between countries with a current-account deficit at the start of the crisis and economies with an external surplus. The green bands give an idea of the dispersion of average behaviour and, therefore, of the significance of the results. The main difference between the patterns of adjustment is due to the marked correction of the external deficit in those episodes that took place in deficit countries, while in the surplus economies not only did this correction not occur, but the external balance deteriorates slightly following the start of the crisis.

The reason for the difference in behaviour is that in the case of deficit countries, in which the upturn is financed by external capital, financial crises lead to a decline in foreign capital inflows, which reduces the financing of the external deficit, forcing the private sector (households and firms) to reduce their consumption and investment.[7] As indicated by Kaminsky and Reinhart (1999), when recessions follow a prolonged expansion based on pronounced credit growth and capital inflows it is not uncommon for the banking crisis to end up causing a foreign exchange crisis (a twin crisis) in which foreign investors attempt to rapidly liquidate their domestic positions. As seen in Chart 2, in crises in deficit countries the intensity of the private-sector restructuring allows the deterioration in public finances associated with the crisis to be offset, so that the current-account balance improves relative to the previous situation. The fiscal deterioration observed is the result of the fall in tax revenues, caused by the contraction in activity and, in some cases, the increase in public spending (e.g. on unemployment subsidies). The fiscal stimulus measures adopted to contain the crisis may also contribute to this fiscal deterioration, although funding difficulties

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7   In some cases, mainly in emerging economies, there may even be a "sudden stop". See, for example, Aguiar and Gopinath (2007).

GDP

Deviations from long-term average, in % y-o-y

Years after the crisis

UNEMPLOYMENT

Deviation from year prior to the crisis, in % of working population

Years after the crisis

PRIVATE BALANCE

Deviation from year prior to the crisis, in % of GDP

Years after the crisis

EXTERNAL BALANCE

Deviation from year prior to the crisis, in % of GDP

Years after the crisis

BUDGET BALANCE

Deviation from year prior to the crisis, in % of GDP

Years after the crisis

PUBLIC DEBT

Deviation from year prior to the crisis, in % of GDP

Years after the crisis

INFLATION

Deviations from long-term average, in % y-o-y

Years after the crisis

REAL EFFECTIVE EXCHANGE RATE

Deviation from year prior to the crisis, in index

Years after the crisis

SOURCES: World Economic Outlook (WEO), Economist Intelligence Unit, OECD and World Bank.

a The green area is the area within one standard deviation of the mean (blue line). Both the mean and the standard deviation are calculated using the sample of countries available in each group.

CHART 3

GDP

Deviations from long-term average, in % y-o-y

Years after the crisis

UNEMPLOYMENT

Deviation from year prior to the crisis, in % of working population

Years after the crisis

PRIVATE BALANCE

Deviation from year prior to the crisis, in % of GDP

Years after the crisis

EXTERNAL BALANCE

Deviation from year prior to the crisis, in % of GDP

Years after the crisis

BUDGET BALANCE

Deviation from year prior to the crisis, in % of GDP

Years after the crisis

PUBLIC DEBT

Deviation from year prior to the crisis, in % of GDP

Years after the crisis

INFLATION

Deviations from long-term average, in % y-o-y

Years after the crisis

REAL EFFECTIVE EXCHANGE RATE

Deviation from year prior to the crisis, in index

Years after the crisis

SOURCES: World Economic Outlook (WEO), Economist Intelligence Unit, OECD and World Bank.

a The green area is the area within one standard deviation of the mean (blue line). Both the mean and the standard deviation are calculated using the sample of countries available in each group.

usually lead, especially in emerging economies (and, in particular, in those with high net borrowing), to a contractionary bias in fiscal policy in periods of financial stress.[8]

In crises in surplus countries, the domestic savings available at the start of the crisis provided greater room for manoeuvre during the adjustment. Since they do not depend on external savings, these economies are less vulnerable to external shocks and have a greater capacity to implement stabilisation measures. Chart 3 shows (for the average crisis episode in current-account surplus countries) that the increase in the budget deficit is not offset by an improvement in private saving, so that, unlike in the case of deficit countries, there is no improvement in the external balance. Also notable in crises affecting surplus countries is the smaller contraction in GDP, which is also indicative of this larger scope for implementing policies to stimulate domestic demand.

THE ROLE OF THE EXCHANGE
RATE: FIXED VERSUS FLEXIBLE

Along with the dependence on external financing, another factor that influences the pattern of adjustment following a financial crisis is the macroeconomic policy framework and, in particular, the exchange rate regime and the monetary policy strategy. Charts 4 and 5 show the average pattern of adjustment following financial crises in deficit countries, according to the exchange rate regime in force at the time of the crisis. In principle, countries with flexible exchange rates are more exposed to a sharp exchange-rate adjustment. However, economies with fixed exchange rates may also be subject to significant downward pressures on the exchange rate, which may eventually lead to an exchange-rate crisis, if they do not succeed in defending the peg. As a corollary of the greater exchange rate variability, countries with flexible exchange rates have a greater capacity to use monetary policy to combat the effects of the crisis. However, sometimes countries with flexible exchange rates have also had to implement contractionary monetary policies (interest rate increases) in situations of stress, in order to stem capital outflows. In addition, monetary expansion as a means of adjustment, although potentially useful to accommodate the real adjustment, may lead to the unanchoring of inflation expectations and, ultimately, to persistently high inflation rates, which may eventually reduce long-term growth.[9]

The empirical evidence shows that, at the time of the crisis, deficit countries with flexible exchange rates experience a net capital outflow. This contributes to the depreciation of their nominal exchange rate and an improvement in their competitiveness, facilitating correction of the external deficit in the short term. As seen in Chart 4, the improvement in the current-account balance in crisis episodes in deficit countries with flexible exchange rates is on average 4% of GDP. At the same time, the depreciation has an inflationary impact and historical experience shows that central banks tend to accommodate this, leading to easier monetary conditions, either through lower nominal interest rates or by accommodating the reduction in real interest rates caused by the increase in inflation. This expansionary bias to monetary policy helps to mitigate the impact on the financial system and facilitate recovery. In the sample of episodes analysed, the rate of inflation stands on average 5 pp above its long-term average in the first year after the start of the crisis (see Chart 4). This increase in inflation partly offsets the nominal depreciation so that the real exchange rate depreciation is gradually reversed. This pattern of adjustment based on the reduction of real interest rates, basically driven by the increase in inflation, is conducive to a recovery in private demand in countries with flexible exchange rates. Another channel through which higher inflation boosts demand is by reducing the debt burden. However, this reduction depends on the percentage of debt in local currency. If the proportion of

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8   See Alberola and Montero (2006).
9   For a review of the literature on the costs of inflation, see Woodford (2002).

GDP
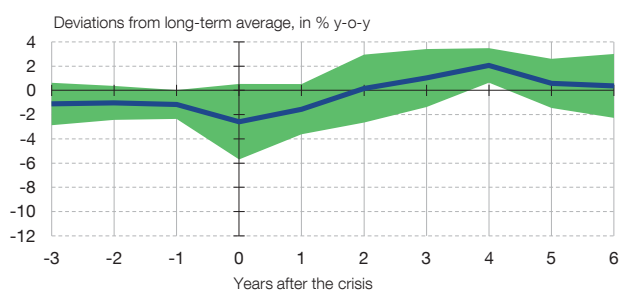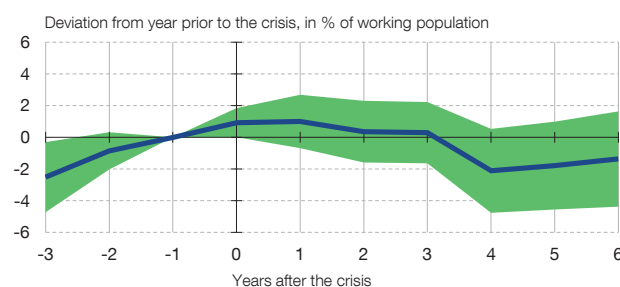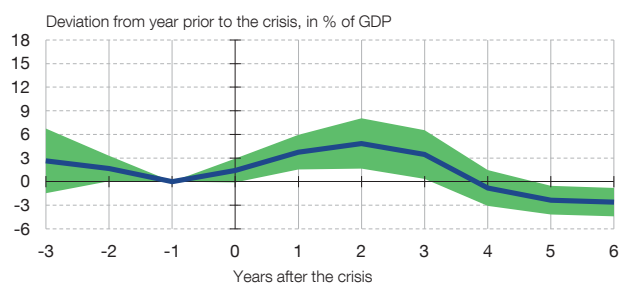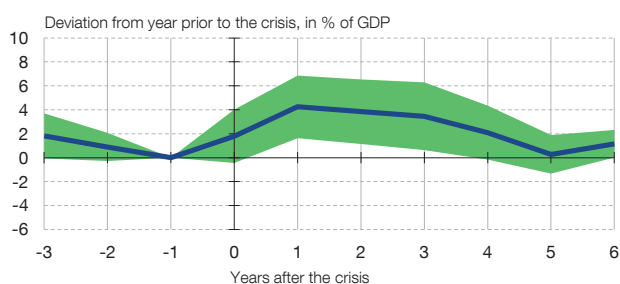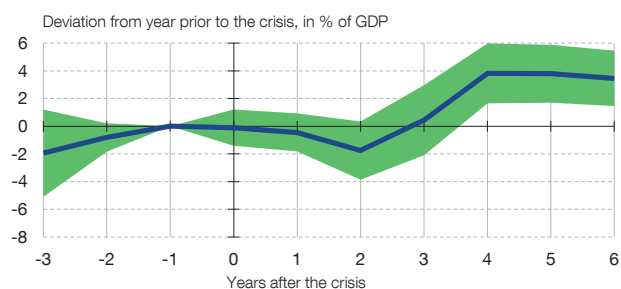
Deviations from long-term average, in % y-o-y

Years after the crisis

UNEMPLOYMENT

Deviation from year prior to the crisis, in % of working population

Years after the crisis

PRIVATE BALANCE

Deviation from year prior to the crisis, in % of GDP

Years after the crisis

EXTERNAL BALANCE

Deviation from year prior to the crisis, in % of GDP

Years after the crisis

BUDGET BALANCE

Deviation from year prior to the crisis, in % of GDP

Years after the crisis

PUBLIC DEBT

Deviation from year prior to the crisis, in % of GDP

Years after the crisis

INFLATION

Deviations from long-term average, in % y-o-y

Years after the crisis

REAL EFFECTIVE EXCHANGE RATE

Deviation from year prior to the crisis, in index

Years after the crisis
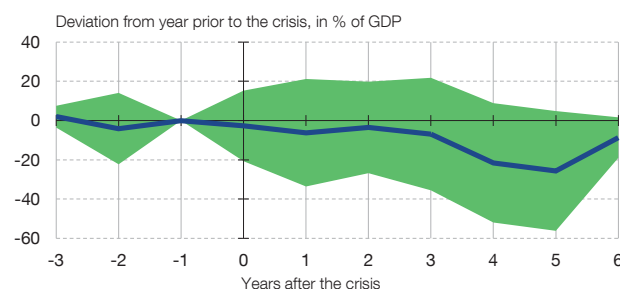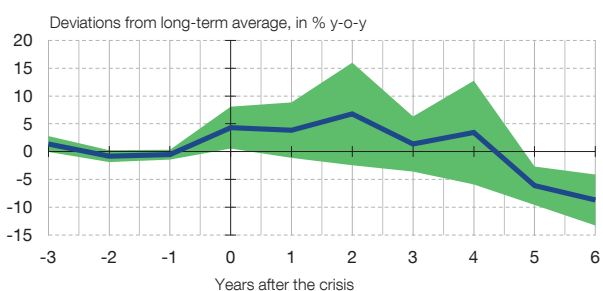
SOURCES: World Economic Outlook (WEO), Economist Intelligence Unit, OECD and World Bank.

a The green area is the area within one standard deviation of the mean (blue line). Both the mean and the standard deviation are calculated using the sample of countries available in each group.

debt denominated in foreign currency is high, the exchange-rate depreciation may offset this impact and could even generate a severe deterioration in indebtedness.

On average, in the crisis episodes analysed in deficit countries with flexible exchange rates, the crisis generates a fall in GDP growth of 2 pp with respect to trend and an increase of 1 pp in the rate of unemployment. For its part, the budget deficit increases by 2 pp in the second year following the crisis. However, this trend is corrected from the third year, in line with the reduction in unemployment and the increase in the GDP growth rate, and the budget balance improves from the fourth year after the crisis. In the sample analysed, the crisis episodes in countries with flexible exchange rates generate less persistent negative effects, which disappear approximately three years after the crisis starts. The public debt-to-GDP ratio does not increase, despite the slight fiscal deterioration, owing to the impact of inflation on the stock of nominal debt, especially if it is predominantly denominated in local currency.

In the case of deficit countries with a fixed exchange rate regime at the start of the crisis, monetary policy should aim to maintain the exchange-rate commitment, and thereby influence the path of macroeconomic adjustment. In some cases (11 out of 24 in the sample) the exchange-rate peg was ultimately abandoned, generally against the initial wishes of the authorities. The exchange-rate anchor and consequent restriction of monetary instruments, have notable advantages in periods of stability, but may hamper the stabilisation of the economy following a crisis, a lesson that has been well known since the Great Depression, as seen in Box 1. Chart 5 shows that, in the analysed sample of crisis episodes in countries with fixed exchange rates, the GDP growth rate falls on average by 4 pp relative to its long-term average, twice the fall with flexible exchange rates, and takes between three and five years to return to its historical level, while unemployment rises by 3 pp and recovers very slowly. However, both maintenance of the peg and the more contractionary monetary policy stance generate a fall in inflation with respect to its long-term average. The combination of a fixed exchange rate and lower inflation translates into a real exchange rate depreciation and, therefore, an improvement in the economy's external competitiveness. This result suggests that the behaviour of the real exchange rate is more favourable than in countries with flexible rates where, as indicated, the nominal depreciation is partially offset by the increase in inflation.

The deterioration in the budget balance as a percentage of GDP has also been more intense in adjustment episodes in countries with fixed exchange rates than in those with flexible rates. This may be due to the fact that in recovery phases in countries with exchange-rate commitments the role of stimulating private demand falls to a greater extent to fiscal policy, as monetary policy has little room for manoeuvre due to the defence of the peg. In addition, the combination of a larger fiscal deterioration with lower inflation entails a larger increase in the debt-to-GDP ratio (25 pp on average), as against what happens with flexible exchange rate regimes, when this ratio is reduced (see Chart 4). Finally, stricter monetary and financial conditions are conducive to a more pronounced increase in private agents' saving, which helps to improve the private balance and the external surplus. On average in the episodes analysed these balances increased by 10 and 5 pp, respectively, in relation to their pre-crisis levels.

The adjustment process in the developed economies in the current crisis in the light of historical experience

The financial crisis has hit a large number of economies, both developed and emerging, although the impact on the latter has generally been less intense and prolonged. The degree of international synchronisation displayed makes it difficult to establish precise parallels with previous episodes, but it is still useful to assess the extent to which economies' recovery profiles following the start of the current crisis correspond with what one might expect from historical experience. The analysis of the patterns of adjustment in the three main developed economies (the United States, the euro area and the United Kingdom)

The current financial crisis has been repeatedly compared with the Great Depression of 1929, not only because of its severity but also because of its financial origin and the ensuing protracted period of adjustment. In recent decades, research into this period of history has led to the emergence of a certain degree of consensus in the academic world about its causes and the effectiveness of the various policies applied to resolve it, although there are divergent opinions and it remains a subject of investigation.[1] It is also important to underline that in the wake of the Great Depression, Keynes developed his theory, the foundation for most of the macroeconomic toolkit. These tools have provided the basis, at different times, for economic policy design and have been effectively applied since the outbreak of the current crisis.

Although the Great Depression began in 1929, its origins date back to the end of the First World War, a decade earlier. During the war, many of the countries involved, had suspended the gold standard, under pressure from the fiscal needs of the war effort and the metal shortage. The gold standard had been in operation since approximately 1874 and guaranteed the convertibility of national currencies into their equivalent in gold, which notably restricted the room for manoeuvre in terms of monetary policies which were subordinated to maintaining such parity. Although the suspension of the gold standard was based on an economic emergency, high inflation and the poor situation of the European economies made it difficult for it to be reintroduced after the war. However, strong fluctuations in prices and exchange rates and the need to discipline fiscal expansion during the period 1919-25, convinced the authorities in most countries of the need to recover a nominal anchor to maintain stable inflation and exchange rates, as had occurred in the pre-war period.[2] Thus, throughout the 1920s, most European countries reintroduced the convertibility of their currencies into gold.[3] The United Kingdom restored the gold standard in 1925, applying the pre-war parity, with the aim of recovering sterling's role as a central currency before the war. The decision to maintain the previous parity meant a substantial revaluation of sterling in real terms which triggered strong deflationary pressure and a recession. This favoured the United Kingdom's main

trade competitor, the United States, which significantly increased its share in international trade and moved from a trade deficit to a trade surplus. The trade surplus, under the prevailing gold standard, involved the inflow of gold into the United States which was reinvested in the form of loans to Germany and Austria. With these loans, the United States facilitated payment by Germany and Austria of the reparations to France and the United Kingdom pursuant to the Treaty of Versailles, and the latter, in turn, were able to repay their war debts to the United States.

This circuit of credit was favoured by the US Federal Reserve's low interest rate policy. This combination of policies made it easier for price convergence between the United Kingdom (downwards) and the United States (upwards) against a backdrop of coordination between the monetary authorities of these two countries. During this phase, the rising trend on the US stock market quickened, bolstered by the positive economic outlook and the inflow of fresh capital. Financial innovation and international market integration also contributed to this process. Thus, for example, the leveraged purchase of shares in the United States became widespread, that is, it was possible to receive loans to buy shares (that in turn were used as collateral). This encouraged a change in the direction of private financial flows from Europe to the United States, which caused financial problems in countries like Germany.

The perception that economic growth was out of control prompted the Federal Reserve's decision to tighten its monetary policy to rein it back in. This stemmed the growth of the speculative market bubble and ultimately triggered the collapse of the US stock market and of other stock markets, leading to the 1929 stock market crash. From that moment, the stock market fall began to feed through to the US and world economies through a "financial accelerator" mechanism.[4] The decline in asset prices compelled agents to settle positions to get cash and to improve solvency but this simultaneous settlement of positions depressed asset prices even further, reducing the value of the loan collateral. This triggered a rise in bank and business failures, reducing credit and the money stock and amplifying the effect of the recession.

Economic policies did not react suitably and the gold standard contributed to transmitting this process to an international scale, by magnifying it. The monetary contraction forced countries to raise their interest rates to avoid being left without gold reserves which tended to amplify the recessive and deflationary effects of the depression. The United States, which had emerged after the war as the new central country in the monetary system, could have followed the example set by the United Kingdom in the twentieth century, by temporarily halting convertibility to increase liquidity in the system and acting as a "lender of last resort" to commercial banks and other cen-

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1   This box does not attempt to review the large volume of existing literature but to provide a brief summary. The view expressed attempts to cover the most widely spread thesis, developed, inter alia, in Friedman and Schwartz (1963), Bernanke (1983), Romer (1992) and Eichengreen (1992). Other authors, such as Cole and Ohanian (2002), offer alternative explanations, underlining aspects such as the cartel system and the increase in trade union negotiating power to explain the persistence of the recession.

2   There has been a dispute about whether the exchange rate instability during the period 1919-1925 was the cause of the economic instability, as held by Ragnar Nurske, or a consequence of it, as maintained by Milton Friedman. See Eichengreen (1996).

3   The first countries to reintroduce the convertibility of their currencies into gold were those which had experienced the effects of hyperinflation: Austria (1923), Germany and Poland (1924) and Hungary (1925). They were followed by the other large nations and their colonies: the United Kingdom and Belgium (1925), Italy (1927) and France (1928)

4   See Christiano, Motto and Rostagno (2004).

tral banks. However, the US authorities remained passive until well into the 1930s, which deepened the magnitude of the depression and its duration. The chart in this box includes the main economic indicators of the United States in the period after 1929.

Exit from the crisis and the policies adopted varied greatly. In 1931, countries like Austria and the United Kingdom abandoned the gold standard, which was accompanied by an economic recovery in these countries resulting from the ensuing monetary expansion. Monetary expansion contributed to im-

THE US ECONOMY DURING THE GREAT DEPRESSION

GDP
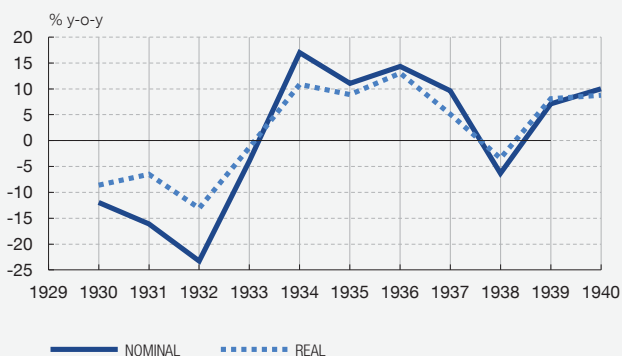
INFLATION
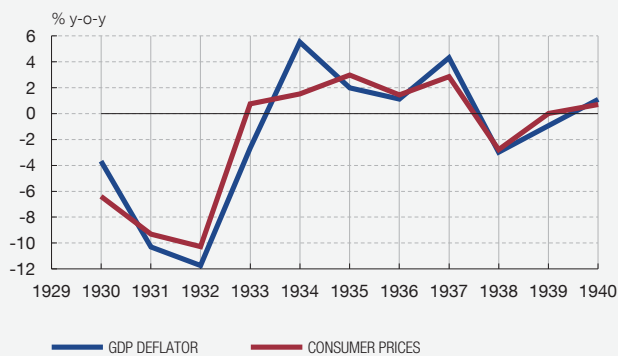
PUBLIC FINANCES
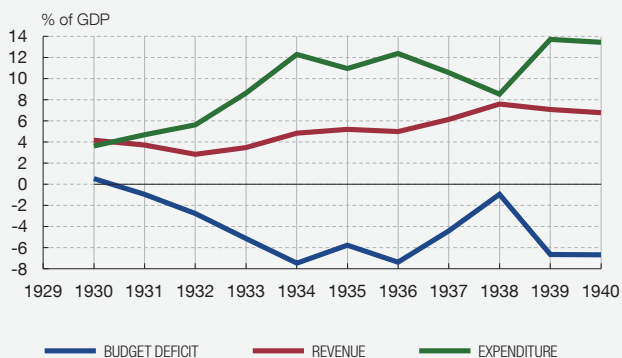
EXTERNAL BALANCE
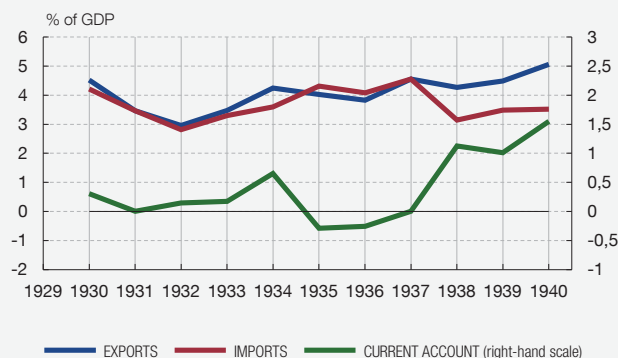
UNEMPLOYMENT
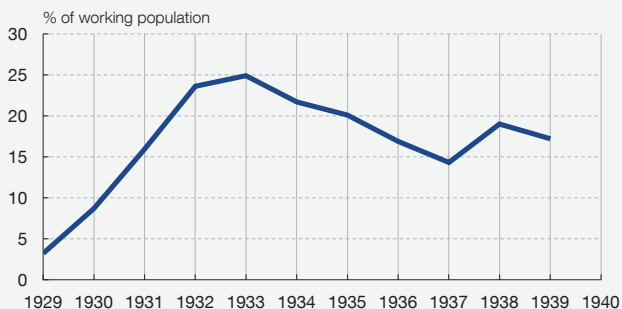
MONETARY BASE
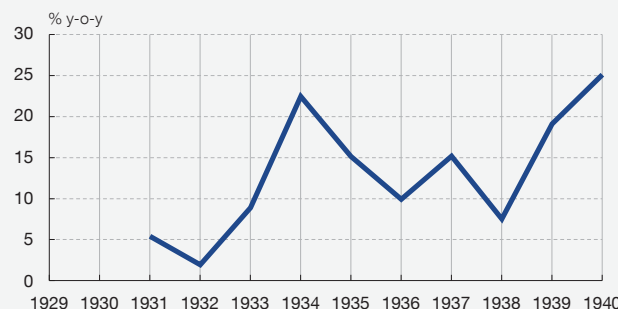
SOURCES: Federal Reserve of St. Louis and International Historical Statistics.

proving financing conditions and unblocked the credit supply, which facilitated the recovery of investment and consumption; on the other hand, abandoning the gold standard temporarily improved the external balance through the depreciation of the exchange rate; lastly higher inflation reduced the real amount of debt and made deleveraging easier. By contrast, countries like France which maintained convertibility into gold until 1936, saw their fragile economic situation drag on until the beginning of World War II.

In the case of the United States, the situation did not offer any signs of improving until the arrival of the new Roosevelt administration in 1933, which had undertaken to fight deflation. Therefore, it suspended convertibility into gold in 1933, permitting monetary

expansion and the depreciation of the dollar. Secondly, it introduced "bank holidays" by decree in order to rebuild the balance sheets of banks and wind up insolvent ones. Additionally, it announced an inflationary target for prices to rise to their pre-1929 levels[5] which triggered a strong rise in inflation and the beginning of the economic recovery from 1933. These decisions were ultimately much more transcendent than the fiscal expansion, also introduced further to the New Deal, which was moderate owing to the scale of the recession according to most authors.[6]

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5 See Eggertsson (2008).
6 See Romer (1992) or Brown (1956). The government deficit never exceeded a maximum of 8% of GDP in 1934. However, when it started to contract again from 1937, it did contribute to the US economy falling back into recession.

shows that although they generally reflect the historical experience described in the previous sections in qualitative terms, there are some notable differences.

The adjustment in the British economy is perhaps the most similar to that recorded in previous episodes of financial crisis in deficit countries with flexible exchange rates. Following a very deep crisis (involving a GDP contraction of around 8 pp and a moderate increase in unemployment of about 2 pp) there was a sharp depreciation of the pound sterling and inflation rose to stand persistently above 4%. This relatively high inflation entailed, against the background of a relatively stable exchange rate, a real appreciation in the last year considered. Fiscal stimulus measures were reflected in a substantial increase in the budget deficit. This was offset by the sharp adjustment in the private sector, which has become a significant net lender. As a result, the external balance has improved relative to the pre-crisis period.

The US economy, which has posted persistent current-account deficits (based on high levels of private-sector borrowing), has also suffered an intense crisis without any recent precedent: the GDP growth rate has fallen by around 4 pp relative to its historical average and unemployment has increased by some 5 pp with respect to its pre-crisis level. Unlike in the case of the pound sterling, the tendency for the dollar to depreciate has been modest and there have been certain episodes of appreciation, associated with the persistently high level of uncertainty in the post-crisis period. This behaviour is strongly influenced by the central position of the United States in the international monetary system, resulting from the status of its currency as the safe haven instrument par excellence. At the same time, despite the easy monetary policy pursued by the Federal Reserve to boost economic recovery (with official interest rates kept at slightly above zero and non-standard measures), inflation has still not reached its pre-crisis levels, in contrast to the historical experience. This aspect highlights the special nature of this financial crisis: the fragility of the financial system has blocked the monetary transmission mechanisms, causing the large amount of liquidity provided by the monetary authorities (in the United States and in the other advanced economies) to remain largely stuck on the balance sheets of central banks and financial institutions.
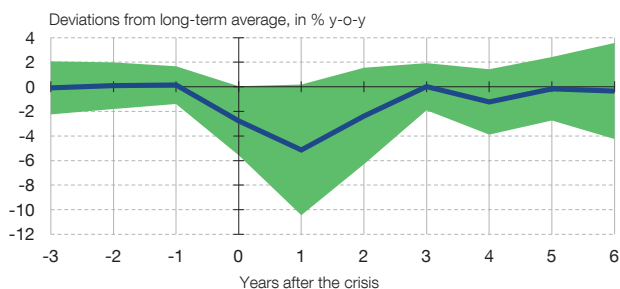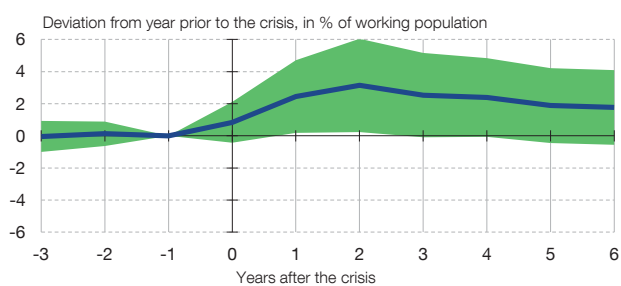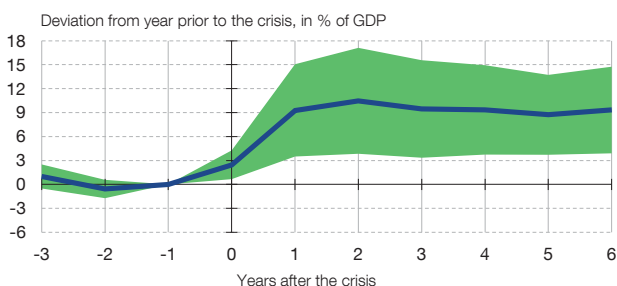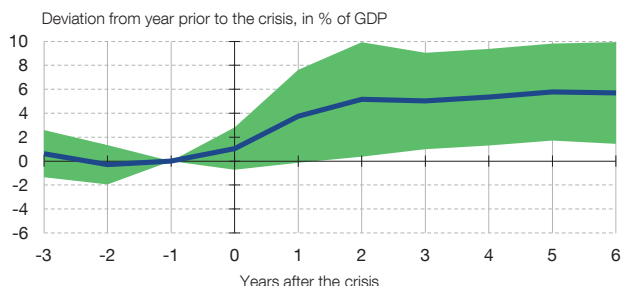
CHART 5

GDP

Deviations from long-term average, in % y-o-y

UNEMPLOYMENT

Deviation from year prior to the crisis, in % of working population

PRIVATE BALANCE

Deviation from year prior to the crisis, in % of GDP

EXTERNAL BALANCE

Deviation from year prior to the crisis, in % of GDP

BUDGET BALANCE

Deviation from year prior to the crisis, in % of GDP

PUBLIC DEBT

Deviation from year prior to the crisis, in % of GDP

INFLATION

Deviations from long-term average, in % y-o-y

REAL EFFECTIVE EXCHANGE RATE

Deviation from year prior to the crisis, in index
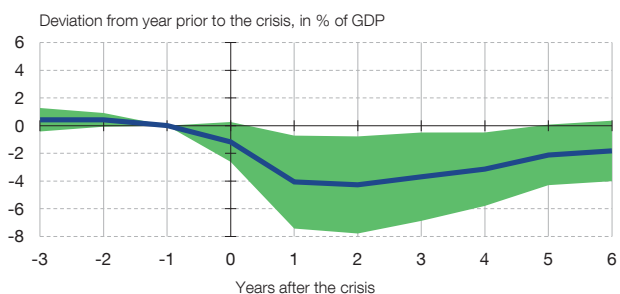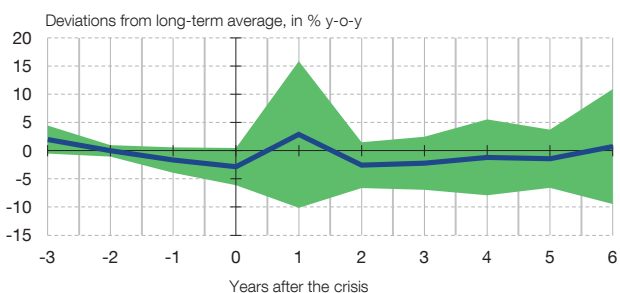
SOUERCES: World Economic Outlook (WEO), Economist Intelligence Unit, OECD and World Bank.

a The green area shows the area within one standard deviation of the mean (blue line). Both the mean and the standard deviation are calculated using the sample of countries available in each group.

The strong fiscal expansion has also been notable, with deficits of more than 10% of GDP. As in the British case, these were offset by an improvement in the private sector's net lending, resulting in some correction of the external deficit.

The euro area is a special case. In its entirety the area may be considered to be an economy with a flexible exchange rate and with a current account that has historically been roughly in balance. The recent financial crisis has been accompanied by a recession of similar intensity to the one in the United States in terms of output, although it has been less intense in terms of job destruction. As in the United States inflation has remained below its pre-crisis levels, but the exchange rate has tended to appreciate against the dollar, albeit with a high level of volatility, while in real effective terms it has see-sawed. At the start of the crisis the euro area had a slight surplus, but the pattern of domestic adjustment has been similar to that in the other two economies, which had a substantial external deficit. That is to say, there has been an increase in private saving which has offset the growth in the budget deficit in the period immediately after crisis. However, these movements have been less intense, especially in the case of the budget deficit, which has enabled the increase in overall debt to be smaller than in the other two countries analysed.

Final considerations

In the light of the historical evidence of the last three decades, the immediate impact of a financial crisis is a substantial reduction in the GDP growth rate, an increase in unemployment and a higher budget deficit. Apart from these common responses, the pattern of adjustment to a financial crisis varies in accordance with several factors, among which the external position of the economy and its exchange rate regime stand out. In countries with current-account deficits, the financial crisis is accompanied by a sharp adjustment in the external position. In emerging economies, especially, this adjustment is usually exacerbated by a sudden stop in external financing (that may be more or less intense and prolonged), which forces the private sector to reduce its consumption and investment drastically, amplifying the recessionary effect of the crisis. In surplus countries, no significant external adjustment takes place, so that the increase in the budget deficit can be financed externally without the need for an increase in private saving or a reduction in investment.

The analysis also reveals that the adjustment tends to be briefer and smoother in economies with flexible exchange rates, assisted by the depreciation in the nominal exchange rate which, however, leads to a larger rise in inflation. The risks in this context lie in the possibility of an exchange rate crisis, which is especially damaging in economies with a high volume of foreign currency denominated debt, and in the possible unanchoring of inflation expectations, which may eventually have an impact on longer term growth. Moreover, in the medium term inflation erodes the competitiveness gains obtained. In the case of economies with fixed exchange rates, maintaining the exchange rate commitment limits the nominal adjustment, through lower exchange rates, and also the room for manoeuvre in the area of monetary policy. This tends to prompt a sharper real adjustment and also means that fiscal policy is the main instrument for supporting the recovery. Both these factors lead to greater fiscal deterioration. However, the exchange-rate peg tends to be conducive to a low inflation environment and to greater discipline in the adjustment process which, in the long term, may be beneficial.

In any event, the current crisis displays a number of differences when compared with those analysed in this article. First, it is global and – in the advanced economies –persistent, this being in contrast to previous financial crises, which were predominantly in emerging economies. The global nature of the crisis limits the possibility that external demand will smooth the adjustment. That said, the fact that the crisis has been centred on the developed countries, with their deeper and more internationally integrated financial markets, may have mitigated the intensity of the adjustment. Even so, the pattern of adjustment in the main

advanced economies is largely in line with the experience of previous episodes, which also show that a period of deleveraging by private agents is a prerequisite for exit from the crisis.

The other fundamental difference when comparing with historical experience, is the relatively low level of inflation in the three economies analysed (all of which have flexible exchange rates), despite the notable expansion in liquidity during the crisis. This benign behaviour by inflation is without doubt partly attributable to the credibility of monetary policy. However, the severe shocks that the crisis (and its impact on financial systems) has generated in the transmission of monetary stimuli may also have mitigated the price pressures in some of these economies.

Looking ahead, in addition to the central scenario of gradual recovery in the advanced economies and normalisation of the economic policy stance, there are two contrasting risk scenarios. The first would involve consolidation of the situation of financial paralysis and its negative interaction with the real economy. This could lead to a deflationary environment similar to the one following the Japanese crisis, which continues to prevail after two decades. In the second scenario the authorities would lose control of the normalisation of the financial and economic situation, which would eventually lead to an inflationary process, due to the high levels of liquidity in the system, against a backdrop of large budget deficits. The best way of addressing these risks is for monetary policy to continue to be oriented towards the achievement of medium-term price stability.

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FINANCIAL REGULATION: 2011 Q3

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Introduction

In 2011 Q3 a relatively small number of new financial provisions was promulgated in comparison with previous periods.

In the area of financial institutions, the regulation of electronic money institutions (ELMIs) was changed to adapt it to recent EU legislation.

In the government debt book-entry system, eligibility to become an account holder was extended to include all government agencies.

In the European Union area, there were four notable new provisions: amendment of the legislation on the balance sheet of the monetary financial institutions sector; the updating of legislation on monetary statistics; the introduction of certain changes in data collection regarding the euro and the operation of the currency information system; and the publication of a new directive relating to alternative investment fund managers (AIFMs).

Finally, a royal decree was promulgated which contains, inter alia, measures to support mortgagors, to control government expenditure and for settling the debt of local government.

Electronic money institutions: legal amendments

Law 21/2011 of 26 July 2011 (BOE of 27 July 2011) on electronic money establishes a new regulatory framework for electronic money institutions (ELMIs) and for the issuance of electronic money.[1] This new law resulted from the partial transposition of Directive 2009/110/EC of 16 September 2009[2] on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC of 26 October 2005 and 2006/48/EC of 14 June 2006 and repealing Directive 2000/46/EC of 18 September 2000, and builds on the past experience gained over these years.

Table 1 succinctly compares the main features of the current law with those of the previous legislation.

The definition of electronic money is changed slightly. It is based on three criteria: 1) any electronically or magnetically stored monetary value representing a claim on the issuer; 2) which is issued on receipt of funds for the purpose of making payment transactions as defined in Law 16/2009 of 13 November 2009 on payment services;[3] and 3) which is accepted as a means of payment by a natural or legal person other than the electronic money issuer;

Excluded from the scope of application is monetary value stored on specific instruments designed to meet specific needs and with limited use, either because the holder may only acquire goods or services in the premises of the issuer of these instruments, or because

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1 The previous legal provisions, now repealed, were contained in Article 21 of Law 44/2002 of 22 November 2002 on financial reform measures and in Royal Decree 322/2008 of 29 February 2008 on the legal regime governing electronic money institutions.

2 See "Financial Regulation: 2009 Q4", *Economic Bulletin,* January 2010, Banco de España, pp. 155-158.

3 See "Financial Regulation: 2009 Q4", *Economic Bulletin,* January 2010, Banco de España, pp. 150-155.

Law 44/2002 of 22 November 2002, and Royal Decree 322/2008 of 29 February 2008	Law 21/2011 of 26 July 2011
Legal regime	
They have credit institution status.	Loss of credit institution status. From now on, they have financial institution status.
A number of requirements are set for the creation of ELMIs. These include particularly the suitability and repute of the managers, the establishment of mechanisms for sound and prudent internal management, an appropriate organisational structure and effective procedures for identification, management, control and communication of risks.	No significant changes.
Own funds and limitation of investments	
They are required to have initial capital of at least €1 million and to hold at all times own funds which are equal to or above 2% of the current amount or the average of the preceding six month's total amount of their financial liabilities related to outstanding e-money.	The minimum initial capital is reduced to €350,000 from €1 million previously. This will be supplemented by a sufficient volume of own funds in relation to the business indicators. Based on the assessment of risk management processes, the Banco de España may require or permit ELMIs to hold up to 20% more or up to 20% less own funds.
Investment restrictions: ELMIs must make a series of compulsory investments in certain assets.	Repealed.
Not envisaged.	Requirements are set for safeguarding the funds received for the issuance of electronic money or for the provision of payment services. In particular, the procedure of safeguarding funds through coverage by an insurance policy or some other comparable guarantee may only be used if expressly authorised by the Banco de España in response to a reasoned request from the entity.
Regime governing activities	
The issuance of electronic money, as well as the provision of financial and non financial services closely related to electronic money issuance.	Additionally, they may provide payment services, grant credit in connection with certain payment services, manage payment systems, provide operational and auxiliary services closely linked to the aforementioned activities, and carry out any other economic activities different from the issuance of electronic money, in conformity with applicable legislation.
Not specifically envisaged.	ELMIs may delegate to third parties, or procure through agents, the performance of certain activities such as the distribution and redemption of electronic money. However, it is prohibited to issue electronic money through agents.
Not specifically envisaged.	A qualifying holdings regime similar to that in place for credit institutions is introduced.
Supervisory and penalty regime	
The Banco de España is responsible for the control and inspection of these institutions under Law 26/1988 of 29 July 1988 on the discipline and intervention of credit institutions.	No significant changes.

SOURCES: BOE and Banco de España.

the instruments may only be used to acquire a limited range of goods or services, or because the instruments are used for payment transactions executed using telecommunications, digital or IT devices.

The issuance and redemption of electronic money is addressed, specifically in three basic respects: a) it is compulsory to issue electronic money at par value; 2) it is prohibited to grant interest or any other benefit unless those benefits are not related to the length of time during which the electronic money holder holds electronic money; and 3) it is provided that, upon request by the electronic money holder, electronic money issuers shall redeem,

at any moment and at par value, the monetary value of the electronic money held. The Law stipulates that redemption shall generally be free of charge, although it specifies certain cases in which the electronic money issuer may charge a fee proportionate and commensurate with the actual costs incurred in making that redemption.

Unlike the previous legislation, the Law restricts the activity of issuing electronic money to certain entities enumerated therein. They are as follows: credit institutions, ELMIs, Sociedad Estatal de Correos y Telégrafos, the Banco de España when not acting in its capacity as monetary authority, and general government agencies when acting in their capacity as public authorities.

A more appropriate legal regime is established for ELMIs in relation to the risks potentially deriving from their activity, the main new feature being the loss of credit institution status, given that they may shall not take deposits from the public or grant credit with the funds received from the public. From now on, they will have financial institution status.

The procedure for setting up ELMIs remains the same as under the previous legislation: authorisation and registration by the Ministry of Economic Affairs and Finance, upon prior reports of the Banco de España and the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences; requirements for the incorporation of the entity; documents to be included in the incorporation applications, especially all those referring to the suitability and repute of the managers and of the shareholders or other equity holders that will have a qualifying holding, to the mechanisms for sound and prudent internal management, to an appropriate organisational structure and to effective procedures for identification, management, control and communication of the risks to which they are or may be exposed.

The minimum initial capital is reduced to €350,000 from €1 million previously. This will be supplemented by a sufficient volume of own funds in relation to the business indicators, as provided by law. For this purpose, the eligible own funds will be defined as provided in this respect for credit institutions.

ELMIs forming part of a consolidable group of credit institutions may be exonerated by the Banco de España from full individual compliance with capital requirements. Based on the assessment of risk management processes and internal control mechanisms, the Banco de España may require or permit ELMIs to hold up to 20% more or up to 20% less own funds.

Another new feature in the Law is that ELMIs may engage in economic activities other than the issuance of electronic money, which previously was their only activity. These other economic activities include: the provision of the payment services defined in Law 16/2009;[4] the granting of credit in connection with certain payment services provided that certain conditions are met and subject to the limitation that this credit is not granted from funds received in exchange for electronic money; the provision of operational and auxiliary services closely linked to the issuance of electronic money and to the provision of payment services; payment systems management; and, in general, any other economic activities different from the issuance of electronic money, in conformity with applicable EU and national legislation.

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4 These services, which are set out in Article 1.2 of Law 16/2009 of 13 November 2009, include services enabling cash withdrawals from payment accounts and all the operations required for operating a payment account; execution of payment transactions, including transfers of funds; issuance and acquisition of payment instruments; money remittance; etc.

The limitations on investments under the previous legislation are repealed, although the requirement to safeguard appropriately the funds received in exchange for electronic money issued and those received for the provision of payment services not linked to electronic money issuance remains in place. For this purpose, the Law provides for a guarantee regime equivalent to that for payment institutions, although it is limited to the procedure which requires, first, that these funds be completely separated from any others held by the entity, and, second, that they be invested in low-risk liquid assets or deposited in a separate account with a credit institution. The procedure of safeguarding funds through coverage by an insurance policy or some other comparable guarantee may only be used if expressly authorised by the Banco de España in response to a reasoned request from the entity.

In addition, the Law introduces a qualifying holdings regime[5] similar to that in place for credit institutions. Thus, anyone intending to purchase or assign such a holding must previously notify the Banco de España. This obligation also applies when qualifying holdings rise above or fall below certain thresholds (20%, 30%, 50% or where control is gained or lost).

The Law regulates the cross-border activity of ELMIs, which, if not subject to regulatory exceptions,[6] are granted a "Community passport", such that their intra-EU activity is based on the system of communication between supervisors (analogous to that of credit institutions). The prior authorisation system remains in place where the authorisation encompasses third countries.

The Law provides that ELMIs may delegate to third parties the performance of certain activities such as the distribution and redemption of electronic money or the provision of operational functions. They are also allowed to distribute and redeem electronic money through agents (i.e. natural or legal persons acting on their behalf) and, where applicable, to provide payment services, but in no case may they issue electronic money through agents.

The Banco de España is entrusted with the supervision of ELMIs: control and inspection, cooperation with EU authorities, exercise of competence under the ELMI qualifying holdings regime, etc., notwithstanding the powers already exercised by the Banco de España in respect of credit institutions. The penalty regime applicable to ELMIs is basically as provided in Law 26/1988 of 29 July 1988 on the discipline and intervention of credit institutions, as regulatorily adapted.

The Law includes a transitional provision under which existing ELMIs do not need new authorisation, although, to be able to continue their activity, they have to accredit compliance with the new requirements for engaging in this activity under the Law.

Finally, the Law amends certain legislation (Legislative Royal Decree 1298/1986 of 28 June 1986 on the adaptation of current law on credit institutions to the law of the European Communities and Law 26/1988 of 29 July 1988 on the discipline and intervention of credit institutions) to adapt them to the loss of credit institution status by ELMIs and to the

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5   A qualifying holding is defined as a direct or indirect holding in an undertaking which represents 10% or more of the capital or of the voting rights. Also considered to be a qualifying holding is an ownership interest which, although not reaching this percentage, makes it possible to exercise a significant influence over the management of that undertaking. A natural or legal person is presumed to be able to exercise such significant influence if said person can appoint or remove one or more board members.

6   In the transposition of Directive 2009/110/EC, use was not made of the power granted to the Member States in Article 9 to authorise Spanish ELMIs subject to regulatory exceptions, in which case they would not have qualified for the Community Passport.

application thereto of Law 10/2010 of 28 April 2010 on the prevention of money laundering and terrorist financing.

The Law came into force on 28 July 2011.

Government debt book-entry system: new account holders

Ministerial Order EHA/2288/2011 of 2 August 2011 (BOE of 18 August 2011) amended the Ministerial Order of 19 May 1987[7] which implemented Royal Decree 505/1987 providing for the creation of a government debt book-entry system.

This reason for this amendment is to provide for the granting of the status of account holder in the government debt book-entry system to the general government agencies that did not have this status.[8] Accordingly, the agencies which have or wish to purchase State government debt can carry out the transactions in the government debt market without having to act through an intermediary or financial institution.

The new account holders' participation in the government debt market will be subject to the operating rules for this market and to those established for cash settlement in TARGET2-Banco de España.

The Ministerial Order came into force on 19 August 2011.

European Central Bank: amendment of rules on accounting and monetary statistics

Regulation ECB/2011/12 of the European Central Bank of 25 August 2011 (OJ L of 3 September 2011) amended Regulation ECB/2008/32 of the European Central Bank of 19 September 2011 concerning the balance sheet of the monetary financial institutions (MFI) sector,[9] and *Guideline ECB/2011/13 of the European Central Bank of 25 August 2011* (OJ L of 3 September 2011) amended Guideline ECB/2007/9 of the European Central Bank of 1 August 2007 on monetary, financial institutions and markets statistics.

The Regulation contains two new developments. First, it sets out the new identification conditions or criteria[10] that money market funds (MMFs)[11] have to meet in full, some of which were already included in Regulation ECB/2008/32. The net conditions include most notably the following: 1) they pursue the investment objective of maintaining a fund's principal and providing a return in line with the interest rates of money market instruments; 2) they ensure that the money market instruments they invest in are of high credit quality;[12] 3) they ensure that their portfolio has a weighted average maturity of no more than six months and a weighted average life of no more than 12 months; 4) they limit investment in securities to those with a residual maturity until the legal redemption

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7   See "Regulación financiera: segundo trimestre de 1987", *Boletín Económico*, July-August 1987, Banco de España, pp. 46-48.

8   Until now the only entities recognised by the Spanish general government as having this status were itself, acting through the Treasury, and the Social Security System General Treasury.

9   To carry out its functions, the European System of Central Banks requires the consolidated balance sheet of the MFI sector to be prepared. The main purpose of this balance sheet is to provide the ECB with a complete statistical picture of monetary developments in the participating Member States, which is considered to be a single economic territory.

10 In accordance with the guidelines issued on 19 May 2010 by the Committee of European Securities Regulators (CESR), the predecessor of the European Securities and Markets Authority.

11 MMFs are defined as those collective investment undertakings the shares/units of which are, in terms of liquidity, close substitutes for deposits and which primarily invest in money market instruments and/or in MMF shares/units and/or in other transferable debt instruments with a residual maturity of up to and including one year, and/or in bank deposits, and/or which pursue a rate of return that approaches the interest rates of money market instruments.

12 The money market instrument shall be considered to be of high credit quality if it has been awarded one of the two highest available short-term credit ratings by each recognised credit rating agency that has rated the instrument or, if the instrument is not rated, it is of an equivalent quality as determined by the management company's internal rating process.

date of less than or equal to two years, provided that the time remaining until the next interest rate reset date is less than or equal to 397 days; and 5) they do not take direct or indirect exposure to equity or commodities, including via derivatives. Derivatives which give exposure to foreign exchange may only be used for hedging purposes. Investment in non-base currency securities is allowed provided the currency exposure is fully hedged.

Under the Regulation, ELMIs are excluded from the MFI group because they cease to have credit institution status,[13] now being classified in the "other MFIs" category. This means that certain provisions of Regulation ECB/2008/32 have to be changed. Among these changes, the exemption of ELMIs from statistical reporting obligations for which small MFIs qualify was deleted because ELMIs ceased to belong to this category.

Also, in relation to the foregoing point, Guideline ECB/2011/13 amends the scope, frequency and deadline of reporting by electronic money institutions to ensure the appropriate collection of statistics on electronic money. Previously, national central banks submitted to the ECB statistical information on electronic money issued by the MFIs that were electronic money issuers (credit institutions and ELMIs) at least twice a year. That same obligation remains in place for credit institutions, but ELMIs now have to report once a year on a smaller number of statistical items.

The Regulation and the Guideline came into force on 23 September 2011.

Euro banknote information system

Guideline ECB/2011/9 of 30 June 2011 (OJ L of 23 August 2011) amended Guideline ECB/2008/8 of 11 September 2008 on data collection regarding the euro and the operation of the Currency Information System 2.[14]

On 12 May 2010 the Governing Council endorsed daily reporting functionalities additional to the monthly and semi-annual reporting functionalities already provided for in Guideline ECB/2008/8. They must thus be included in the guideline.

The ECB shall activate the daily reporting of data (collection of data on euro banknotes submitted daily) if any of the following applies: 1) more than one national central bank (NCB) reports unusual developments in the cash cycle and at least one of those NCBs is likely to request an ad hoc bulk transfer of euro banknotes; 2) the data reported on a monthly basis show that the gross issue of euro banknotes at Eurosystem level exceeds certain thresholds approved by the Governing Council; and 3) the Banknote Committee gives reasons for its activation.

Notwithstanding the above, for contingency testing reasons daily reporting of data shall be activated each year in June for a one-month period.

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13 Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC excluded ELMIs from the credit institutions category because they cannot receive deposits from the public or grant credit from funds received from the public. They are thus included in the financial institutions category. See the section above on ELMIs (second section of this article).

14 Decision ECB/2010/14 of 16 September 2010 on the authenticity and fitness checking and recirculation of euro banknotes replaced from 1 January 2011 the framework for the detection of counterfeits and fitness sorting by credit institutions and other professional cash handlers. Decision ECB/2010/14 obliges cash handlers to report statistical data to their national central Banks (NCBs) by 1 January 2012. NCBs must furnish the ECB with the aggregate statistical data referred to by Guideline ECB/2008/8 of 11 September 2008 on data collection regarding the euro and the operation of the Currency Information System 2.

Upon activation of this requirement, NCBs shall report on a daily basis to the ECB the data relating to euro banknotes, i.e. the banknote data items specified in Annex VII of the Guideline.

The Guideline came into force on 2 July 2011.

Directive on alternative investment fund managers

Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 (OJ L of 1 July 2011) on alternative investment fund managers[15] amended Directives 2003/41/EC of 3 June 2003 and 2009/65/EC of 13 July 2009 and Regulations 1060/2009 of 16 September 2009 and 1095/2010 of 24 November 2010.

The Directive lays down the rules for the authorisation, ongoing operation and transparency alternative investment fund managers (AIFMs) which manage and/or market alternative investment funds (AIFs) in the Union.

It aims to provide for an internal market for AIFMs and a harmonised and stringent regulatory and supervisory framework for the activities within the Union of all AIFMs, including those which have their registered office in a Member State and those which have their registered office in a third country.

AIM AND SCOPE OF APPLICATION

Its scope of application is: a) EU AIFMs which manage one or more AIFs irrespective of whether such AIFs are EU AIFs or non-EU AIFs; b) non-EU AIFMs which manage one or more EU AIFs; and c) non-EU AIFMs which market one or more AIFs in the Union irrespective of whether such AIFs are EU AIFs or non-EU AIFs.

The Directive shall not apply to AIFMs in so far as they manage one or more AIFs whose only investors are the AIFM or the parent undertakings or the subsidiaries of the AIFM or other subsidiaries of those parent undertakings, provided that none of those investors is itself an AIF.

The Directive provides for a lighter regime for AIFMs where the cumulative AIFs under management fall below a threshold of €100 million and for AIFMs that manage only unleveraged AIFs[16] that do not grant investors redemption rights during a period of 5 years where the cumulative AIFs under management fall below a threshold of €500 million.

AUTHORISATION OF AIFMs

The Directive sets out the conditions for authorising AIFMs. This include: information on the identities of the persons effectively conducting the business of the AIFM and on the identities of the AIFM's shareholders or members that have qualifying holdings, who must have sufficient repute and experience; and a programme of activity setting out the organisational structure of the AIFM, including information on remuneration policies and practices.

Authorisation shall be valid for all Member States. The competent authorities shall, on a quarterly basis, inform the European Securities and Markets Authority (ESMA)[17] of au-

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15 Alternative investment funds (AIFs or hedge funds) entered Spanish law under the name of *fondos de inversión libre*, regulated by Law 35/2003, which in turn was implemented by the Regulations of Law 35/2003 of 4 November 2003 on collective investment institutions.

16 The Directive defines leverage as any method by which the AIFM increases the exposure of an AIF it manages whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means.

17 The ESMA was created by Regulation 1095/2010 of the European Parliament and of the Council of 24 October 2010.

thorisations granted or withdrawn. The ESMA shall keep a central public register identifying each AIFM authorised, a list of the AIFs managed and/or marketed in the Union by such AIFMs and the competent authority for each such AIFM.

Depending on their legal form, AIFs may be managed externally or internally. In the first case, the external manager must be an AIFM, which shall be responsible for ensuring compliance with the Directive. If the legal form of the AIF permits internal management and the AIF's governing body chooses not to appoint an external AIFM, the AIF itself must meet all the requirements set by the Directive for AIFMs. However, this internal AIF will not be authorised to carry out the functions of external manager of any other AIF.

INITIAL CAPITAL AND OWN FUNDS

Member States shall require that an AIFM which is an internally managed AIF has an initial capital of at least €300,000. Where an AIFM is appointed as external manager of AIFs, the AIFM shall have an initial capital of at least €125,000.

Where the value of the portfolios of AIFs managed by the AIFM exceeds €250 million, the AIFM shall provide an additional amount of own funds. That additional amount of own funds shall be equal to 0.02% of the amount by which the value of the portfolios of the AIFM exceeds €250 million but the required total of the initial capital and the additional amount shall not, however, exceed €10 million. Member States may authorise AIFMs not to provide up to 50% of that additional amount of own funds if they benefit from a guarantee of the same amount given by a credit institution or an insurance undertaking.

OPERATING CONDITIONS FOR AIFMs

AIFMs must perform at least the function of AIF investment management, which includes portfolio management and risk management, subject to certain limits. Thus, in no case may AIFMs provide portfolio management without also providing risk management or vice versa. They should not, however, be prevented from engaging in the activities of administration and marketing of an AIF or from engaging in activities related to the assets of the AIF. They are also allowed to provide: the service of management of portfolios of investments with mandates given by investors on a discretionary, client-by-client basis, including portfolios owned by pension funds and institutions for occupational retirement provision; and the non-core services of investment advice, safe-keeping and administration in relation to units of collective investment undertakings and reception and transmission of orders.

Also, the operating requirements for the proper conduct of their activity are exhaustively enumerated. Specifically, AIFMs have an express obligation to establish and maintain, for those categories of staff whose professional activities have a material impact on the risk profiles of AIFs they manage, remuneration policies and practices that are consistent with sound and effective risk management. Those categories of staff should at least include senior management, risk takers, control functions, and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers.

Further, AIFMs shall maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps designed to identify, prevent, manage and monitor conflicts of interest in order to prevent them from adversely affecting the interests of the AIFs and their investors. Also, AIFMs shall implement adequate risk management systems in order to identify, measure, manage and monitor appropriately all risks relevant to each AIF investment strategy and to which each AIF is or may be exposed. AIFMs shall review the risk management systems with appropriate frequency at least once a year and adapt them whenever necessary.

AIFMs shall, for each AIF that they manage which is not an unleveraged closed-ended AIF, employ an appropriate liquidity management system and adopt procedures which enable them to monitor the liquidity risk of the AIF and to ensure that the liquidity profile of the investments of the AIF complies with its underlying obligations.

Finally, AIFMs shall ensure that, for each AIF that they manage, appropriate and consistent procedures are established so that a proper and independent valuation of the assets of the AIF can be performed. The rules applicable to the valuation of assets and the calculation of the net asset value per unit or share of the AIF shall be laid down in the law of the country where the AIF is established and/or in the AIF rules or instruments of incorporation. The process for valuation of assets and calculation of the net asset value shall be independent from the portfolio management and the remuneration policy of the AIFM and other measures should ensure that conflicts of interest are prevented. Subject to certain conditions, AIFMs may appoint an external valuer to perform the valuation function.

DELEGATION OF AIFM FUNCTIONS

AIFMs which intend to delegate to third parties the task of carrying out functions on their behalf shall notify the competent authorities of their home Member State before the delegation arrangements become effective. The delegate must dispose of sufficient resources to perform the respective tasks and the persons who effectively conduct the business of the delegate must be of sufficiently good repute and sufficiently experienced.

Where the delegation concerns portfolio management or risk management, it must be conferred only on undertakings which are authorised or registered for the purpose of asset management and subject to prudential supervision or, where that condition cannot be met, only subject to prior approval by the competent authorities of the home Member State of the AIFM.

DEPOSITARY

The Directive requires that a single depositary be appointed for each AIF, different from the AIFMs. The depositary should have its registered office or a branch in the same country as the AIF. It should be possible for a non-EU AIF to have a depositary established in the relevant third country only if certain additional conditions are met.

The depositary may be a credit institution, an investment firm or another entity subject to prudential regulation and ongoing supervision.[18]

Amongst its functions, the depositary shall in general ensure that the AIF's cash flows are properly monitored, and shall in particular ensure that all payments made by or on behalf of investors upon the subscription of units or shares of an AIF have been received and that all cash of the AIF has been duly booked. The assets of the AIF or the AIFM acting on behalf of the AIF shall be entrusted to the depositary for safe-keeping.

The safe-keeping of assets may be delegated to a third party which, in turn, may delegate that function. However, delegation and sub-delegation should be objectively justified and subject to strict requirements in relation to the suitability of the third party entrusted with the delegated function, and in relation to the due skill, care and diligence that the depositary should employ to select, appoint and review that third party.

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18 In accordance with Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities.

An AIFM shall, for each of the EU AIFs it manages and for each of the AIFs it markets in the Union, make available an annual report for each financial year no later than 6 months following the end of the financial year. The annual report shall be provided to investors on request. The annual report shall be made available to the competent authorities of the home Member State of the AIFM, and, where applicable, the home Member State of the AIF.

AIFMs shall make available to AIF investors, before they invest in the AIF, certain information set out in detail in the Directive. AIFMs shall periodically disclose to investors other information such as: the percentage of the AIF's assets which are subject to special arrangements arising from their illiquid nature; any new arrangements for managing the liquidity of the AIF; the current risk profile of the AIF and the risk management systems employed by the AIFM to manage those risks; and the level of and change in the leverage of leveraged AIFs.

An AIFM has certain obligations to report information to the competent authorities of its home Member State. Among these, it has to provide information on the principal markets and instruments in which it trades on behalf of the AIFs it manages and/or markets.

Other notable features of the Directive are the obligations it sets for the AIFMs managing specific types of AIF. Specifically, for *leveraged AIFMs*, special requirements are imposed in respect of the overall level of leverage employed. This information must be gathered by the competent authorities of the home Member State and shared with other EU authorities, with the ESMA and with the European Systemic Risk Board (ESRB). Also, where the stability and integrity of the financial system may be threatened, the competent authorities of the home Member State of the AIFM should impose limits to the level of leverage that an AIFM can employ in AIFs under its management.

In addition, certain obligations are imposed on AIFMs managing AIFs which acquire *control of non-listed companies and of issuers*.[19] Included here is the requirement that when an AIF acquires, disposes of or holds shares of a non-listed company, the AIFM managing such an AIF must notify the competent authorities of its home Member State of the proportion of voting rights of the non-listed company held by the AIF any time when that proportion reaches, exceeds or falls below the thresholds of 10%, 20%, 30%, 50% and 75%. Also, certain specific provisions are laid down regarding the annual report of AIFs exercising control of non-listed companies.

Certain conditions are set for the pursuit of cross-border activities by AIFMs. Specifically, conditions are laid down for the marketing of shares/units of EU AIFs in Member States other than the home Member State of the AIFMs; for EU AIFMs managing non-EU AIFs not marketed in Member States; and for the management of AIFs established in Member States by non-EU AIFMs, among other cases.

Member States may allow AIFMs to market to retail investors in their territory all or some types of the AIFs managed by them. In such cases, Member States may impose stricter requirements on the AIFM or the AIF than the requirements applicable to the AIFs marketed to professional investors in their territory, regardless of whether those AIFs are marketed domestically or on a cross-border basis. Where a Member State allows the market-

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19 For the purpose of the Directive, control of a non-listed company shall mean more than 50% of the voting rights of the company.

ing of AIFs to retail investors in its territory, this possibility should be available regardless of the Member State where the AIFM managing the AIFs is established, and Member States should not impose stricter or additional requirements on EU AIFs established in another Member State and marketed on a cross-border basis than on AIFs marketed domestically.

Member States shall lay down rules on penalties applicable to infringements of this Directive and ensure that they are implemented. The penalties should be effective, proportionate and dissuasive.

The Directive came into force on 21 July 2011 and shall be applicable from 22 July 2013, the deadline for Member States to write it into law.

Support to mortgagors, control of public spending, settlement of debts incurred by local government and other measures

Royal Decree Law 8/2011 of 1 July 2011 (BOE of 7 July 2011) was published, enacting measures relating to support for mortgagors, to the control of public spending and settlement of debts incurred by local government with corporations and the self-employed, and to the fostering of business activity, real estate renovation and more simplified administrative procedures.

The key measures of this legislation are briefly detailed below.

SUPPORT TO MORTGAGORS

The unforeclosability threshold increases when the price obtained on the sale of the mortgaged habitual dwelling in a mortgage enforcement procedure is insufficient to cover the mortgage loan. Previously, the unforeclosable minimum was equivalent to the minimum wage. Henceforth, it increases to 150% of this minimum wage with an additional 30% for each core household member[20] who does not receive income greater than the minimum wage.

The amount for which creditors can request the foreclosure of property rises from 50% to 60% of the appraised value of said property if there should have been no bidder at the attendant auction of the property, irrespective of the amount of the total debt.

Further, the deposit required of bidders to participate in an auction is reduced from 30% to 20% in order to encourage the presence of bidders and improve the allocation of the mortgaged assets.

CONTROL OF PUBLIC SPENDING AND SETTLEMENT OF DEBTS INCURRED BY LOCAL GOVERNMENT

Certain financial and spending-control measures have been introduced. The growth of the spending of certain general government units is thus limited, and these may not exceed the Spanish economy's benchmark growth rate. This spending rule shall be applied to central government and its agencies, and to local governments that participate in the assignment of State taxes. In the case of the remaining local governments, the balanced or surplus budget rule envisaged in the current budgetary stability regulations shall continue to be applicable.[21] Complementing this measure is the objective of budgetary stability over the course of the business cycle, so that computable[22]

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20 Core household members are understood to be the spouse or de facto partner and the first-degree relatives living with the owner-occupier of the foreclosable dwelling.

21 See Royal Legislative Decree 2/2007 of 28 December 2007, approving the consolidated text of the General Budgetary Stability Law, and the consolidated text of the Law Regulating Local Government Finances, approved by Royal Legislative Decree 2/2004 of 5 March 2004.

22 Computable expenditure is understood as non-financial expenditure defined in terms of the European System of National and Regional Accounts, excluding debt interest payments and non-discretionary spending on unemployment benefits.

SPECIFIC ADMINISTRATIVE PROCEDURES IN THE FINANCIAL ARENA IN WHICH "ADMINISTRATIVE SILENCE" IS NOW CONSTRUED AS TACIT AUTHORISATION

TABLE 2

Procedure	Legislation	Article	Resolution
Credit cooperative merger, takeover, spin-offs.	Law 13/1989 of 26 May 1989 on Credit Cooperatives.	Art. 1 of Law 13/1989 of 26 May 1989.	6 months.
Mutual guarantee company merger, takeover, spin-offs.	Law 1/1994 of 11 March 1994 on the Legal Regime for Mutual Guarantee Companies.	Art. 5 of Law 1/1994 of 11 March 1994.	6 months.
Investment services company merger, spin-off, takeover.	Law 24/1988 of 28 July 1988 on the Securities Market.	Art. 7 of Law 24/1988 of 28 July 1988.	3 months.
Authorisation for the merger and spin-off of pension fund management companies.	Consolidated text of the Law regulating pension plans and funds, approved by RLD 1/2002 of 29 November 2002.	Art 20.7 of the consolidated text.	3 months.
Communication of the replacement of a pension fund management company or depository.	Consolidated text of the Law regulating pension plans and funds, approved by RLD 1/2002 of 29 November 2002.	Art. 11.5 and 2nd Additional Provision of the consolidated text.	3 months.
Amendment of registration data of pension fund depositories.	Consolidated text of the Law regulating pension plans and funds, approved by RLD 1/2002 of 29 November 2002.	2nd Additional Provision of the consolidated text of Economy and Finance Ministerial Order 407/2008 of 7 February 2008.	3 months.
Amendment of registration data of pension fund management companies.	Consolidated text of the Law regulating pension plans and funds, approved by RLD 1/2002 of 29 November 2002. Implementing regulations approved by R.D. 304/2004 of 20 February 2004.	2nd Additional Provision of the consolidated text of Economy and Finance Ministerial Order 407/2008 of 7 February 2008.	3 months.
Amendment of pension fund registration data.	Consolidated text of the Law regulating pension plans and funds, approved by RLD 1/2002 of 29 November 2002.	Art. 11.5 and 2nd Additional Provision of the consolidated text.	3 months.
Revocation of authorisation of pension funds.	Consolidated text of the Law regulating pension plans and funds, approved by RLD 1/2002 of 29 November 2002. Implementing regulations approved by R.D. 304/2004 of 20 February 2004.	2nd Additional Provision of the consolidated text.	3 months.
Application for authorisation and inscription as a pension fund management company for an insurer.	Consolidated text of the Law regulating pension plans and funds, approved by RLD 1/2002 of 29 November 2002.	Art. 20.2 of the consolidated text.	3 months.
Application for authorisation and inscription of a pension fund depository.	Consolidated text of the Law regulating pension plans and funds, approved by RLD 1/2002 of 29 November 2002.	Art. 2 of the consolidated text.	3 months.
Application for authorisation and inscription of a pension fund management company in the strict sense of the term.	Consolidated text of the Law regulating pension plans and funds, approved by RLD 1/2002 of 29 November 2002.	Art. 2 of the consolidated text.	3 months.
Application for authorisation and inscription of pension funds.	Consolidated text of the Law regulating pension plans and funds, approved by RLD 1/2002 of 29 November 2002.	Art.1 and 11 bis of the consolidated text.	3 months.
Authorisation to companies to provide certification services.	Law 30/1992 of 26 November 1992. Finance Ministerial Order 1181/2003 of 12 May 2003.	Disposición Adicional 5.1.	6 months.
Conversion of credit cooperatives into other types of cooperatives.	Royal Decree 84/1993 of 22 January 1993, approving the implementing regulations of Law 13/1989 of 26 May 1989 on Credit Cooperatives.	Art. 31 and 36 of RD 84/1993 of 22 January 1993.	6 months.
Amendment of investment services companies' programmes of operations.	Royal Decree 217/2008 of 15 February 2008 on the legal regime governing investment services companies.	Art. 11 and 12 of RD 217/2008 of 15 February 2008.	3 months.
Amendment of articles of incorporation of securitisation fund management companies.	Royal Decree 926/1998 of 14 May 1998, regulating asset securitisation funds and securitisation fund management companies.	Art. 13 and 17 of RD 926/1998 of 14 May 1998.	3 months.
Creation of a securitisation fund management company.	Royal Decree 926/1998 of 14 May 1998, regulating asset securitisation funds and securitisation fund management companies.	Art. 13.2 of RD 926/1998 of 14 May 1998.	3 months.

SOURCES: BOE and Banco de España.

spending growth may not exceed the Spanish economy's benchmark medium-term growth rate.[23]

Furthermore, regulations provide for a credit facility for the settlement of local governments' debts with corporations and the self-employed. These debts shall have arisen from the acquisition of supplies, the carrying out of construction and other work and the provision of services. In this way, exceptionally, local governments may arrange credit transac-

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23 The Spanish economy's benchmark medium-term growth rate is defined as average GDP growth, expressed in nominal terms, over nine years.

tions, under the limits, conditions and requirements laid down in the Royal Decree Law. To this end, the government's Standing Committee for Economic Affairs will instruct the ICO to set up the attendant financial facility.

Local governments should, before 1 December 2011, apply to the ICO for authorisation to arrange debt operations. Having obtained this, local governments may enter into the attendant financial transactions with the cooperating credit institutions. The latter shall act, on behalf of the ICO, to directly satisfy suppliers' outstanding debts.

The settlement term for debt operations may not exceed three years, and nor may these be arranged with grace periods. The financial facility shall be closed on 31 December 2014.

OTHER MEASURES

The number of administrative procedures under which approval may be assumed not to be tacit becoming procedures whereunder authorisation may be assumed to have been granted[24] has increased. Table 2 shows those procedures affected in the financial arena.

Certain measures to boost business activity have been adopted. These include most notably the change in personal income tax to report as exempt[25] the capital gains obtained on the transfer of shares or equity holdings arising from individuals' investments in projects promoted by entrepreneurs, fostering business start-ups that provide for progress in the change in production model and employment generation.

Lastly, other types of measures have been introduced, such as those aimed at promoting property renovation, more simplified administrative procedures, environmental accountability, etc.

The Royal Decree Law came into force on 7 July 2011.

4.10.2011.

24 Tacit authorisation occurs when, in the absence of an express administrative decision, the law per se assumes this discretion, assuming that, for certain purposes, authorisation has come about on a "silence is consent" basis, thereby granting authorisation for the relevant request for permission.

25 This exemption is subject to a series of prerequisites: specifically, the investment must have been made directly by the individual through the subscription of shares or equity holdings in new or recently created entities engaged in a business activity. The capital gain exemption will be applicable in respect of capital gains obtained on the transfer of shares or equity holdings whose acquisition value, for the group of entities invested in, does not exceed €25,000 per annum, or €75,000 per entity during the three years following their incorporation, and the time over which the securities have been part of the taxpayer's assets shall be greater than three and less than 10 years.

ADDITIONS

Change in indicator 8.1 relating to the Eurosystem balance sheet (8.1.a) and to the Banco de España balance sheet (8.1.b)

The indicator has been changed in columns 12 and 27, which comprise, among other stocks, the operations relating to the Eurosystem Securities Markets Programme, so as to include, additionally, the liquidity absorbing operations which neutralise the effect on liquidity of the purchases made under this programme. These liquidity absorbing operations were previously included, along with other fine-tuning reverse operations, in columns 4 and 17, under the heading "Fine-tuning reverse operations (net)", from which they are now excluded. This also entails changes in the related time series of totals (columns 1, 8, 14 and 23).

With these changes the simplified balance sheets of the Eurosystem and of the Banco de España presented in this indicator reflect in a single item the overall effect of the purchases under the Eurosystem Securities Markets Programme and the resulting weekly liquidity absorbing operations carried out to sterilise the effect of the programme on liquidity.

CONTENTS

These economic indicators are permanently updated on the Banco de España website (http://www.bde.es/homee.htm). The date on which the indicators whose source is the Banco de España [those indicated with (BE) in this table of contents] are updated is published in a calendar that is disseminated on the Internet (http://www.bde.es/estadis/estadise.htm).

1   IMF Special Data Dissemination Standard (SDDS).

INTEREST RATES
AND INDICES OF SPANISH
COMPETITIVENESS

1 IMF Special Data Dissemination Standard (SDDS).

■ 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
08	P	0.9	0.3	-0.6	0.3	5.8	2.4	-4.8	-1.2	-0.5	0.3	-1.1	0.9	-5.3	0.8	1 088	9 243
09	P	-3.7	-4.2	-4.2	-1.2	3.2	2.6	-16.0	-11.9	-6.0	-3.6	-11.6	-12.7	-17.8	-11.5	1 054	8 938
10	P	-0.1	1.8	1.2	0.9	-0.7	0.4	-7.6	-0.9	-1.1	1.3	10.3	10.1	5.4	9.2	1 063	9 168
08 Q3	P	0.3	0.1	-1.5	-0.1	6.0	2.5	-6.5	-1.5	-1.5	0.0	-3.4	0.7	-8.2	0.6	273	2 317
Q4	P	-1.4	-2.1	-3.9	-0.9	6.4	2.6	-12.1	-6.5	-4.3	-1.6	-7.8	-6.1	-15.6	-4.9	270	2 286
09 Q1	P	-3.5	-5.3	-4.9	-1.6	5.9	2.8	-15.3	-12.1	-5.8	-3.8	-16.5	-16.1	-21.5	-12.9	266	2 229
Q2	P	-4.4	-5.1	-5.4	-1.4	4.4	2.7	-18.0	-13.1	-7.1	-4.2	-15.8	-16.3	-22.2	-14.5	263	2 225
Q3	P	-3.9	-4.2	-4.1	-1.2	2.7	2.7	-16.4	-12.6	-6.1	-3.9	-11.0	-12.8	-17.2	-12.2	262	2 237
Q4	P	-3.0	-2.1	-2.6	-0.4	0.2	2.3	-14.0	-9.8	-5.0	-2.5	-2.1	-5.5	-9.2	-6.6	263	2 248
10 Q1	P	-1.4	0.9	-0.3	0.5	-1.1	1.1	-10.5	-5.0	-3.0	0.0	9.4	6.5	2.0	4.1	264	2 259
Q2	P	-0.0	2.1	2.1	0.7	-0.1	0.6	-6.7	-0.4	-0.3	1.7	11.9	12.1	9.6	11.2	265	2 287
Q3	P	0.2	2.1	1.5	1.1	-0.7	0.2	-6.7	0.7	-0.7	1.8	9.4	11.1	5.0	10.7	266	2 307
Q4	P	0.6	1.9	1.6	1.2	-0.9	-0.2	-6.1	1.2	-0.6	1.8	10.5	10.6	5.3	10.7	268	2 314
11 Q1	P	0.9	2.4	0.7	0.9	2.6	0.7	-6.0	3.8	-0.4	2.1	12.1	8.8	6.3	8.3	271	2 343
Q2	P	0.7	1.6	-0.2	0.5	-1.0	0.3	-6.7	1.7	-1.9	1.3	8.4	5.3	-1.7	4.5	272	2 356

GDP. AND DOMESTIC DEMAND. SPAIN AND EURO AREA
Annual percentage changes

- GDP SPAIN
- GDP EURO AREA
- DOMESTIC DEMAND SPAIN
- DOMESTIC DEMAND EURO AREA
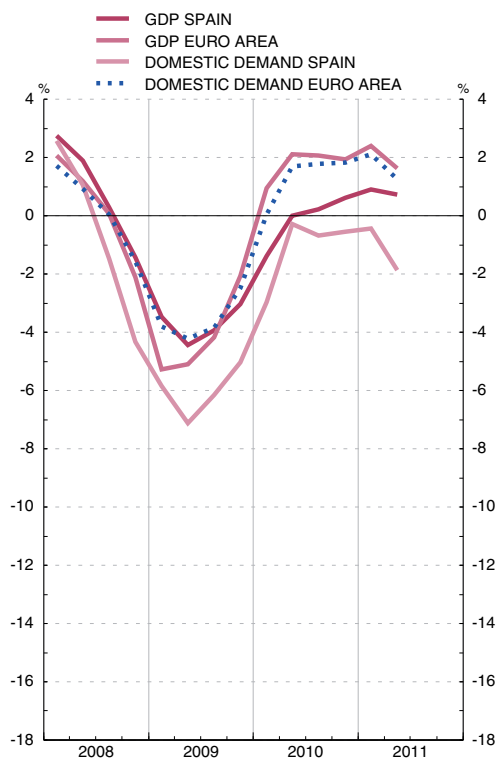
DEMAND COMPONENTS. SPAIN AND EURO AREA
Annual percentage changes

- FINAL CONS. HOUS. AND NPISHs. SPAIN
- FINAL CONS. HOUS. AND NPISHs. EURO AREA
- GFCF SPAIN
- GFCF EURO AREA
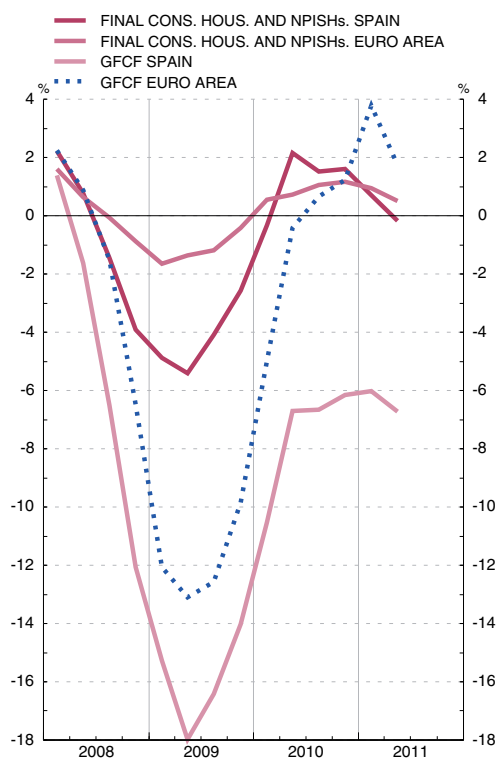
Sources: INE (Quarterly National Accounts of Spain. Base year 2000) and Eurostat.

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
08	P	-4.8	-2.5	-5.9	-4.1	0.1	-1.1	-1.9	-4.3	4.6	-5.3	-6.0	-6.0	-1.6	-0.6	0.9
09	P	-16.0	-24.8	-11.9	-16.2	-0.0	-11.6	-12.5	-9.6	-10.0	-17.8	-19.2	-13.4	-12.5	-6.4	-3.7
10	P	-7.6	1.8	-11.1	-8.2	0.1	10.3	13.6	2.5	5.5	5.4	6.2	2.6	3.1	-1.1	-0.1
08 *Q3*	P	-6.5	-4.6	-7.5	-6.0	0.2	-3.4	-2.8	-4.7	-4.2	-8.2	-9.3	-11.6	-2.2	-1.6	0.3
Q4	P	-12.1	-14.4	-11.1	-11.7	0.1	-7.8	-10.6	-10.1	5.4	-15.6	-18.0	-13.1	-4.6	-4.6	-1.4
09 *Q1*	P	-15.3	-24.2	-12.2	-12.1	0.0	-16.5	-20.0	-13.9	-5.3	-21.5	-23.7	-19.5	-11.1	-6.2	-3.5
Q2	P	-18.0	-31.5	-12.0	-16.9	-0.0	-15.8	-18.4	-9.4	-10.9	-22.2	-24.4	-18.3	-12.0	-7.5	-4.4
Q3	P	-16.4	-25.5	-11.7	-18.7	-0.0	-11.0	-11.5	-9.3	-10.2	-17.2	-18.4	-8.7	-13.5	-6.5	-3.9
Q4	P	-14.0	-16.9	-11.9	-17.2	-0.1	-2.1	2.1	-5.4	-13.3	-9.2	-8.3	-5.6	-13.4	-5.3	-3.0
10 *Q1*	P	-10.5	-4.6	-11.4	-15.8	0.0	9.4	14.7	-0.2	0.1	2.0	3.0	-0.7	-1.4	-3.0	-1.4
Q2	P	-6.7	8.7	-11.3	-11.0	0.1	11.9	16.3	0.2	6.8	9.6	10.4	2.8	7.5	-0.3	-0.0
Q3	P	-6.7	2.4	-11.2	-3.0	0.1	9.4	11.3	5.8	5.8	5.0	5.8	4.9	1.6	-0.7	0.2
Q4	P	-6.1	1.2	-10.6	-1.5	0.1	10.5	12.3	4.4	9.5	5.3	5.6	3.2	5.0	-0.6	0.6
11 *Q1*	P	-6.0	0.3	-10.4	-0.4	0.0	12.1	15.8	4.6	4.3	6.3	7.4	-2.2	3.6	-0.4	0.9
Q2	P	-6.7	-3.7	-9.3	-2.7	-0.1	8.4	8.5	9.0	7.7	-1.7	-1.1	-6.9	-3.3	-1.9	0.7

GDP. DOMESTIC DEMAND
Annual percentage changes

GDPmp
DOMESTIC DEMAND (b)

GDP. DEMAND COMPONENTS
Annual percentage changes

GFCF ON CAPITAL GOODS
EXPORTS
IMPORTS

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.

■ Series depicted in chart.   *Annual percentage changes*

		Gross domestic product at market prices	Agriculture and fisheries	Energy	Industry	Construction	Services Total	Market services	Non-market services	VAT on products	Net taxes linked to imports	Other net taxes on products
		1 ■	2 ■	3	4 ■	5 ■	6 ■	7	8	9	10	11
08	P	0.9	-2.1	5.8	-2.7	-1.6	2.3	1.7	4.7	-1.3	-1.0	-0.7
09	P	-3.7	1.0	-6.4	-13.6	-6.2	-1.0	-1.9	2.1	-5.0	-9.9	-7.4
10	P	-0.1	-1.3	3.0	0.9	-6.3	0.5	0.4	0.8	-0.7	14.4	1.9
08 *Q3*	P	0.3	-2.8	6.4	-2.6	-1.6	1.5	0.7	4.3	-2.0	-3.1	-1.2
Q4	P	-1.4	-4.6	1.3	-6.6	-5.4	0.6	-0.2	3.6	-3.6	-6.7	-1.3
09 *Q1*	P	-3.5	0.4	-5.5	-12.7	-6.1	-0.8	-1.8	2.5	-4.8	-10.6	-7.2
Q2	P	-4.4	0.7	-6.5	-15.9	-6.3	-1.6	-2.6	2.2	-6.0	-12.3	-8.1
Q3	P	-3.9	1.6	-7.3	-14.8	-7.1	-0.9	-1.7	2.0	-5.2	-10.7	-8.4
Q4	P	-3.0	1.6	-6.3	-11.0	-5.4	-0.9	-1.6	1.6	-4.0	-5.7	-6.1
10 *Q1*	P	-1.4	-1.2	0.1	-2.0	-6.4	-0.6	-1.0	0.7	-2.1	3.1	0.6
Q2	P	-0.0	-2.1	0.6	2.5	-6.5	0.4	0.3	0.9	-0.3	12.7	4.3
Q3	P	0.2	-2.2	4.6	1.7	-6.6	0.8	0.9	0.7	-0.4	19.7	1.6
Q4	P	0.6	0.3	6.6	1.4	-5.8	1.1	1.3	0.7	-	22.7	1.1
11 *Q1*	P	0.9	0.2	3.4	4.1	-5.4	1.3	1.5	0.9	1.1	15.7	-4.3
Q2	P	0.7	-0.1	0.9	3.2	-4.1	1.2	1.4	0.5	-0.1	3.7	-3.2

GDP. BRANCHES OF ACTIVITY
Annual percentage changes
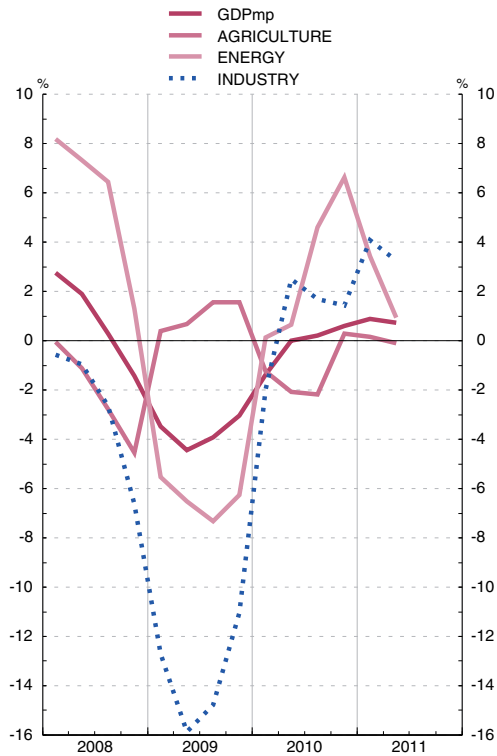
GDP. BRANCHES OF ACTIVITY
Annual percentage changes
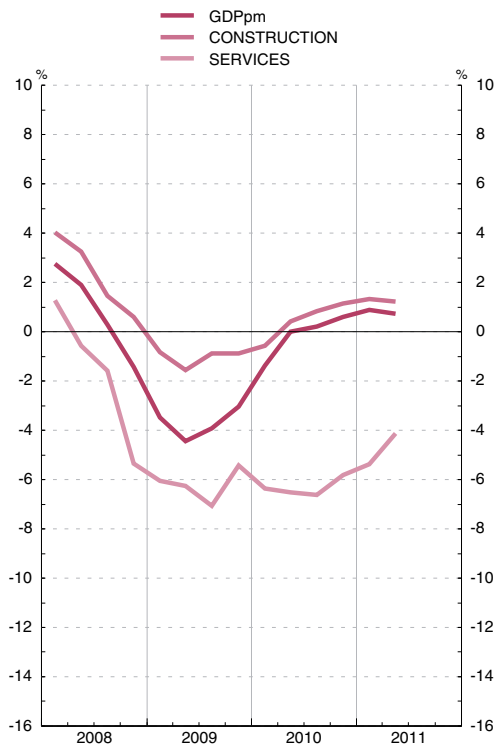
Source: INE (Quarterly National Accounts of Spain. Base year 2000).
a. Prepared in accordance with ESA95, seasonally- and working-day-adjusted series (see Economic bulletin April 2002).

■ Series depicted in chart.

Annual percentage changes

		Demand components								Branches of activity					
				Gross fixed capital formation										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	Gross domestic product at market prices	Agriculture and fisheries	Energy	Industry	Construction	Services	Market services
		1 ■	2 ■	3	4 ■	5	6 ■	7 ■	8 ■	9 ■	10	11 ■	12 ■	13	14
08	P	3.5	3.7	0.9	1.4	1.4	2.8	4.5	2.4	-0.5	7.7	4.7	2.9	4.5	4.7
09	P	0.1	1.7	-0.8	-4.7	-2.9	-3.3	-6.7	0.6	-3.0	6.3	-0.1	-0.9	2.8	2.8
10	P	2.8	-0.2	2.3	1.2	4.7	2.7	6.5	1.0	1.7	2.2	-0.7	-1.1	-0.6	-0.6
08 Q3	P	4.0	3.5	0.7	2.0	1.5	4.3	6.0	2.6	-4.9	9.1	5.6	4.0	4.6	4.9
Q4	P	2.0	3.1	0.3	-1.6	0.1	2.2	1.7	1.6	-8.3	6.7	3.4	0.9	4.0	4.1
09 Q1	P	0.8	2.3	-0.0	-2.8	-2.5	-1.9	-4.5	1.2	-2.4	7.1	0.5	0.2	3.4	3.8
Q2	P	-0.3	2.2	-1.0	-5.7	-3.4	-2.7	-7.8	0.8	-2.5	7.0	0.4	0.2	3.6	3.6
Q3	P	-0.5	1.4	-1.3	-5.9	-4.0	-4.7	-8.5	0.1	-4.3	5.5	-0.8	-2.3	2.3	2.2
Q4	P	0.6	0.9	-0.9	-4.4	-1.9	-3.8	-5.7	0.3	-3.0	5.6	-0.5	-1.7	1.8	1.7
10 Q1	P	1.9	0.9	1.2	-0.5	1.9	0.7	3.2	0.6	-1.6	0.1	-0.5	-1.5	0.6	0.4
Q2	P	2.5	0.6	1.9	1.3	4.6	1.9	7.4	0.5	1.0	0.9	-2.4	-1.9	-1.3	-1.8
Q3	P	3.1	-0.9	2.7	2.1	5.9	3.9	7.3	1.3	2.5	0.8	-2.1	-0.9	-1.3	-1.3
Q4	P	3.6	-1.6	3.6	2.1	6.4	4.2	7.9	1.4	5.4	6.7	2.2	0.1	-0.4	0.2
11 Q1	P	4.1	-0.3	4.1	2.0	6.9	5.5	9.4	1.8	3.1	12.0	3.5	0.5	1.3	2.0
Q2	P	4.0	-0.2	3.6	1.2	5.2	4.1	7.1	2.0	-2.4	11.4	3.1	0.3	1.6	2.6

GDP. IMPLICIT DEFLATORS
Annual percentage changes

FINAL CONS. OF HOUSEHOLDS AND NPISHs
GENERAL GOVERNMENT FINAL CONSUMPTION
CONSTRUCTION GROSS FIXED CAPITAL FORMATION
EXPORTS
IMPORTS

GDP. IMPLICIT DEFLATORS
Annual percentage changes

GDPmp
AGRICULTURE
INDUSTRY
ENERGY
CONSTRUCTION
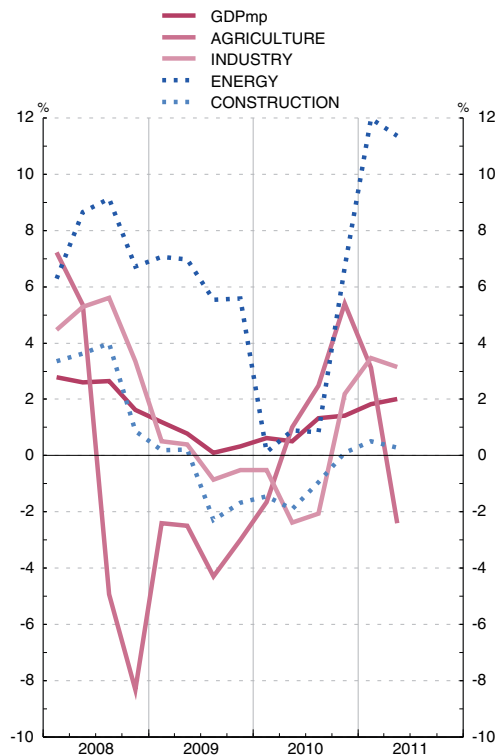
Source: INE (Quarterly National Accounts of Spain. Base year 2000).
a. Prepared in accordance with ESA95, seasonally- and working-day-adjusted series (see Economic bulletin April 2002).
b. Final consumption expenditure may take place on the domestic territory or abroad (ESA95, 3.75). It therefore includes residents' consumption abroad, which is subsequently deducted in Imports of goods and services.

2.1. INTERNATIONAL COMPARISON. GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

■ Series depicted in chart.

Annual percentage changes

		OECD	EU-27	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
		1	2	3 ■	4 ■	5 ■	6 ■	7	8 ■	9 ■	10 ■
08		-2.9	0.4	0.3	0.8	0.9	-0.3	-0.2	-1.3	-1.2	-1.1
09		-0.8	-4.3	-4.2	-5.1	-3.7	-3.5	-2.6	-5.2	-6.3	-4.4
10		2.9	1.8	1.8	3.6	-0.1	3.0	1.4	1.2	4.0	1.8
08	Q2	1.3	1.4	1.2	1.8	1.9	1.0	0.3	-0.4	-0.1	0.6
	Q3	-0.1	0.2	0.1	0.5	0.3	-0.6	-0.5	-1.8	-1.2	-2.6
	Q4	-2.9	-2.1	-2.1	-1.9	-1.4	-3.3	-2.1	-3.4	-4.7	-5.4
09	Q1	-5.5	-5.2	-5.3	-6.8	-3.5	-4.5	-3.9	-6.7	-9.9	-6.9
	Q2	-5.1	-5.2	-5.1	-6.2	-4.4	-5.0	-3.2	-6.3	-7.1	-5.9
	Q3	-3.8	-4.4	-4.2	-5.0	-3.9	-3.7	-2.7	-4.9	-6.2	-3.8
	Q4	-0.8	-2.2	-2.1	-2.2	-3.0	-0.5	-0.7	-3.0	-1.8	-0.8
10	Q1	2.6	0.8	0.9	2.4	-1.4	2.2	1.0	0.7	5.5	0.9
	Q2	3.3	2.1	2.1	4.1	-0.0	3.3	1.5	1.4	3.3	2.2
	Q3	3.4	2.3	2.1	4.0	0.2	3.5	1.6	1.4	4.8	2.6
	Q4	2.9	2.1	1.9	3.8	0.6	3.1	1.4	1.5	2.5	1.3
11	Q1	2.4	2.4	2.4	4.6	0.9	2.2	2.2	1.0	-0.7	1.6
	Q2	1.7	1.7	1.6	2.8	0.7	1.6	1.7	0.8	-1.1	0.6

GROSS DOMESTIC PRODUCT
Annual percentage changes

- UNITED STATES
- EURO AREA
- JAPAN

GROSS DOMESTIC PRODUCT
Annual percentage changes

- SPAIN
- UNITED KINGDOM
- FRANCE
- ITALY
- GERMANY
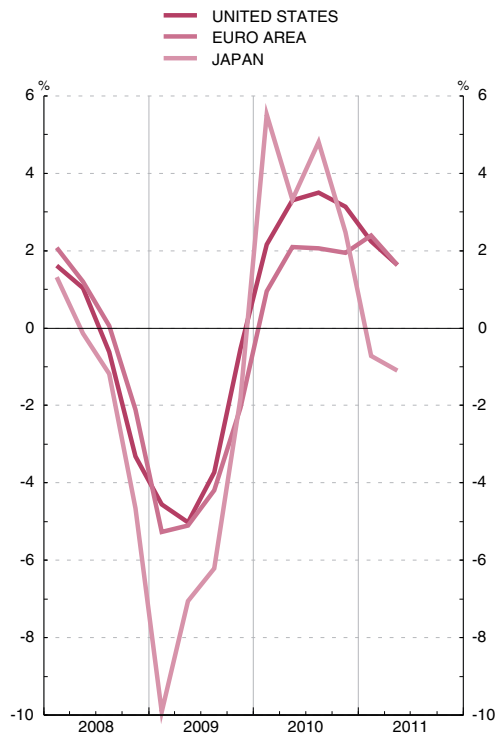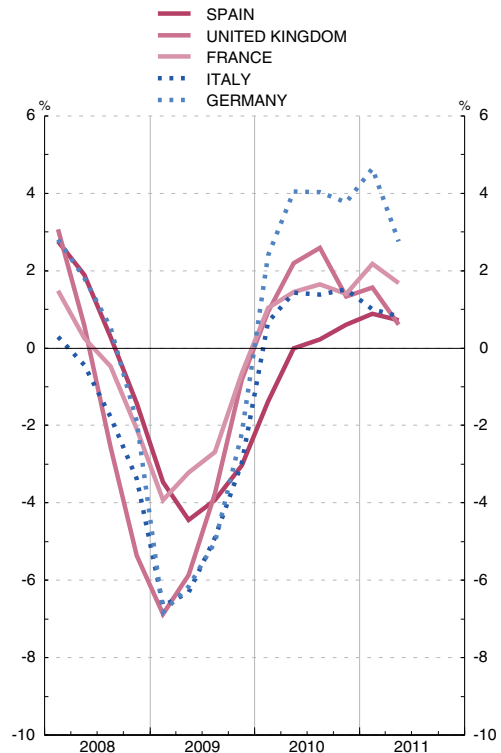
Sources: ECB, INE and OECD.
Note: The underlying series for this indicator are in Table 26.2 of the BE Boletín Estadístico.

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 ■
08	6.1	7.1	7.7	7.6	11.4	5.8	7.8	6.8	4.0	5.6
09	8.4	9.0	9.6	7.7	18.0	9.3	9.5	7.8	5.1	7.6
10	8.6	9.6	10.1	7.0	20.1	9.6	9.8	8.4	5.1	7.8
10 *Mar*	8.7	9.7	10.1	7.4	19.5	9.7	9.8	8.5	5.1	7.9
Apr	8.7	9.7	10.2	7.3	19.8	9.8	9.8	8.7	5.1	7.8
May	8.6	9.7	10.2	7.2	20.0	9.6	9.8	8.6	5.1	7.7
Jun	8.5	9.6	10.2	7.1	20.2	9.5	9.8	8.4	5.2	7.7
Jul	8.6	9.6	10.2	7.0	20.3	9.5	9.8	8.3	5.1	7.7
Aug	8.6	9.6	10.2	6.9	20.4	9.6	9.8	8.2	5.0	7.7
Sep	8.6	9.6	10.1	6.8	20.6	9.6	9.8	8.3	5.0	7.8
Oct	8.6	9.7	10.2	6.7	20.6	9.7	9.7	8.5	5.1	7.8
Nov	8.5	9.6	10.1	6.6	20.5	9.8	9.7	8.3	5.1	7.7
Dec	8.4	9.6	10.0	6.5	20.4	9.4	9.7	8.2	4.9	7.8
11 *Jan*	8.3	9.5	10.0	6.4	20.5	9.0	9.7	8.1	4.9	7.8
Feb	8.2	9.5	10.0	6.3	20.6	8.9	9.7	8.1	4.6	7.7
Mar	8.2	9.4	9.9	6.2	20.7	8.8	9.7	8.1	4.6	7.7
Apr	8.2	9.5	9.9	6.2	20.7	9.0	9.7	7.9	4.7	7.8
May	8.2	9.5	10.0	6.1	20.8	9.1	9.7	8.0	4.5	7.9
Jun	8.3	9.5	10.0	6.1	21.0	9.2	9.8	8.0	4.6	8.0
Jul	8.2	9.5	10.0	6.0	21.1	9.1	9.8	8.0	4.7	...
Aug	8.2	9.5	10.0	6.0	21.2	9.1	9.9	7.9	4.3	...

UNEMPLOYMENT RATES

— SPAIN
— EURO AREA

UNEMPLOYMENT RATES

— GERMANY
— UNITED STATES
— FRANCE
···· ITALY
···· JAPAN
···· UNITED KINGDOM
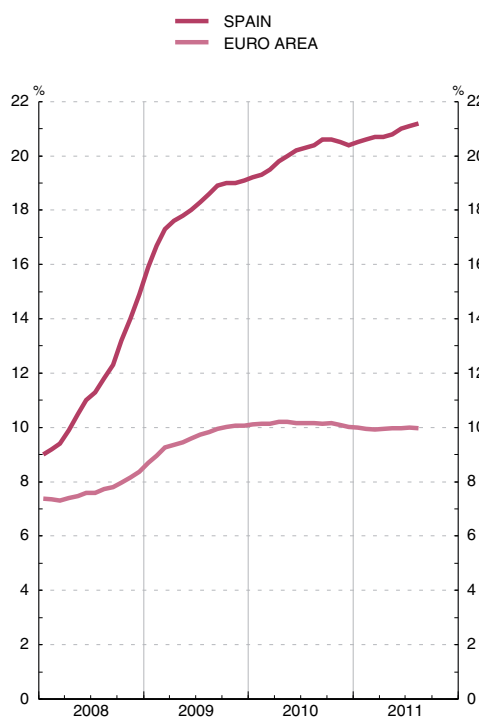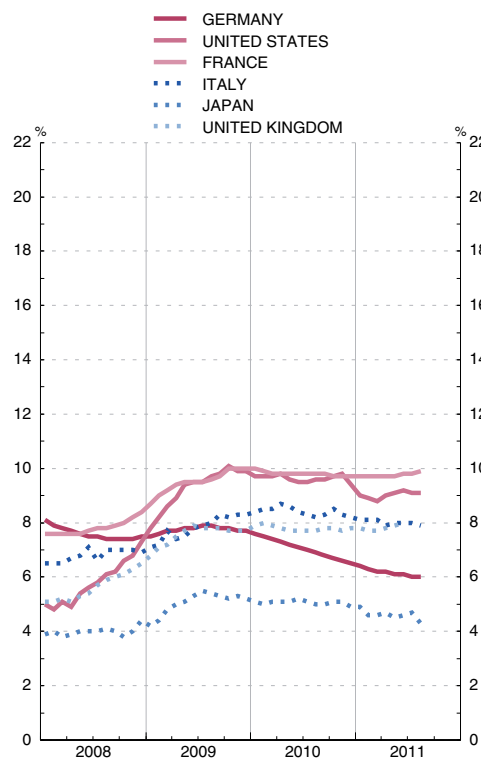
Source: OECD.

2.3. INTERNATIONAL COMPARISON. CONSUMER PRICES (a)

■ Series depicted in chart.   *Annual percentage changes*

	OECD	EU-27	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	1	2	3 ■	4 ■	5 ■	6 ■	7 ■	8 ■	9 ■	10 ■
08	3.7	3.7	3.3	2.8	4.1	3.8	3.2	3.5	1.4	3.6
09	0.6	1.0	0.3	0.2	-0.2	-0.3	0.1	0.8	-1.3	2.2
10	1.9	2.1	1.6	1.2	2.0	1.6	1.7	1.6	-0.7	3.3
10 *Apr*	2.2	2.1	1.6	1.0	2.4	2.2	1.9	1.6	-0.8	3.7
May	2.0	2.1	1.7	1.2	2.5	2.0	1.9	1.6	-0.7	3.3
Jun	1.5	1.9	1.5	0.8	2.1	1.1	1.7	1.5	-0.7	3.2
Jul	1.6	2.1	1.7	1.2	1.8	1.2	1.9	1.8	-1.0	3.1
Aug	1.5	2.0	1.6	1.0	1.6	1.2	1.6	1.8	-1.1	3.1
Sep	1.7	2.2	1.9	1.3	2.8	1.2	1.8	1.6	-0.9	3.0
Oct	1.8	2.3	1.9	1.3	2.5	1.2	1.8	2.0	-0.2	3.1
Nov	1.8	2.3	1.9	1.6	2.3	1.1	1.8	1.9	-0.3	3.2
Dec	2.0	2.7	2.2	1.9	2.9	1.4	2.0	2.1	-0.4	3.7
11 *Jan*	2.1	2.8	2.3	2.0	3.0	1.6	2.0	1.9	-0.6	4.0
Feb	2.3	2.9	2.4	2.2	3.4	2.1	1.8	2.1	-0.5	4.3
Mar	2.6	3.1	2.7	2.3	3.3	2.7	2.2	2.8	-0.5	4.1
Apr	2.9	3.3	2.8	2.7	3.5	3.2	2.2	2.9	-0.5	4.5
May	3.1	3.2	2.7	2.4	3.4	3.6	2.2	3.0	-0.4	4.5
Jun	3.0	3.1	2.7	2.4	3.0	3.6	2.3	3.0	-0.4	4.2
Jul	3.1	2.9	2.5	2.6	3.0	3.7	2.1	2.1	0.2	4.5
Aug	3.2	2.9	2.5	2.5	2.7	3.8	2.4	2.3	0.2	4.5
Sep	...	3.3	3.0	2.9	3.0	...	2.4	3.6	...	5.2

CONSUMER PRICES
Annual percentage changes
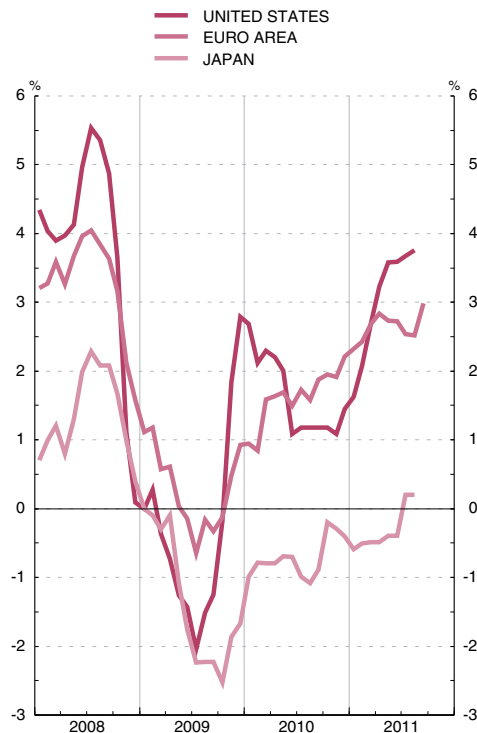
CONSUMER PRICES
Annual percentage changes
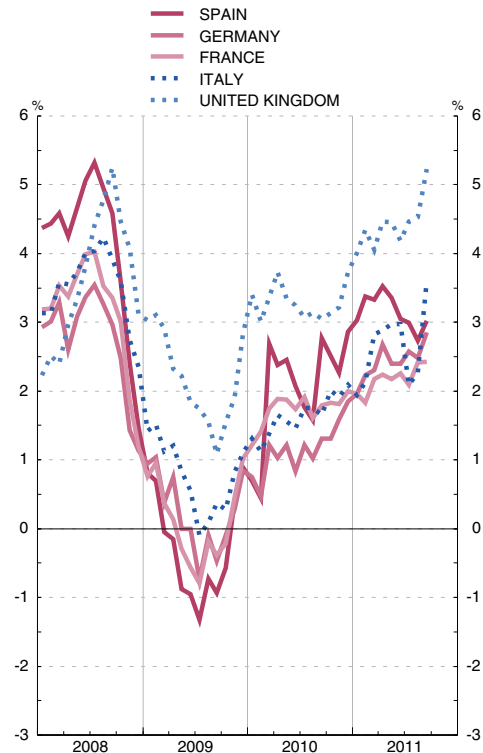
Sources: OECD, INE and Eurostat.
Note: The underlying series for this indicator are in Tables 26.11 and 26.15 of the BE Boletín Estadístico.
a. Harmonised Index of Consumer Prices for the EU countries.

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
08	1.4707	152.31	103.36	110.4	78.2	98.3	109.9	86.6	76.9	108.2	90.5	74.9
09	1.3940	130.30	93.57	111.7	81.1	112.4	110.6	89.5	86.6	105.5	92.7	85.0
10	1.3267	116.42	87.78	104.7	79.1	120.7	103.0	87.6	90.7	99.3	93.2	87.9
10 *J-S*	1.3157	117.85	89.54	104.7	79.9	118.9	103.1	88.6	89.6	99.4	94.0	87.0
11 *J-S*	1.4066	113.29	80.56	104.9	74.0	126.6	102.6	82.7	91.9	99.0	89.6	88.0
10 *Jul*	1.2770	111.73	87.50	102.5	80.7	123.0	101.1	89.4	92.1	97.5	94.8	89.6
Aug	1.2894	110.04	85.33	102.1	79.7	125.3	100.6	88.3	93.8	97.2	93.8	90.9
Sep	1.3067	110.26	84.38	102.5	78.8	125.7	100.8	87.3	94.2	97.7	92.7	90.9
Oct	1.3898	113.67	81.79	106.0	75.8	126.1	104.1	83.8	94.6	101.0	89.7	91.1
Nov	1.3661	112.69	82.51	104.7	76.3	125.8	102.7	84.4	94.0	99.5	90.5	90.4
Dec	1.3220	110.11	83.29	102.6	77.5	126.2	100.6	85.5	93.7	97.3	91.6	90.5
11 *Jan*	1.3360	110.38	82.63	102.4	76.6	126.5	100.3	85.2	93.7	97.2	90.8	90.3
Feb	1.3649	112.77	82.63	103.4	75.6	125.1	101.1	84.1	92.2	98.2	90.1	88.5
Mar	1.3999	114.40	81.72	105.2	74.4	125.2	103.1	82.9	91.7	99.6	89.8	87.7
Apr	1.4442	120.42	83.39	107.0	73.2	120.7	104.9	81.8	88.0	101.1	89.1	84.4
May	1.4349	116.47	81.17	106.0	73.2	124.3	103.8	81.9	90.4	99.8	89.9	86.4
Jun	1.4388	115.75	80.45	106.1	73.2	125.3	104.0	82.1	91.1	100.0	89.6	87.3
Jul	1.4264	113.26	79.40	105.2	72.8	127.2	102.7	81.8	92.5	99.0	89.4	88.4
Aug	1.4343	110.43	77.00	104.9	72.5	130.9	102.3	81.5	95.1	98.7	88.6	91.0
Sep	1.3770	105.75	76.79	103.8	74.6	134.1	101.1	...	...	97.4	...	...

EXCHANGE RATES

- US DOLLAR PER ECU-EURO
- JAPANESE YEN PER US DOLLAR/100
- JAPANESE YEN PER ECU-EURO/100

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

- EURO
- US DOLLAR
- JAPANESE YEN
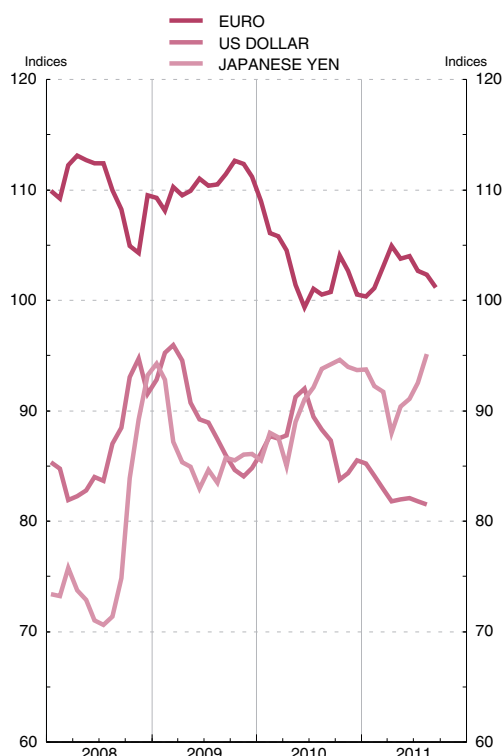
Sources: ECB and BE.

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

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

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

■ Series depicted in chart.   *Percentages*

	Official intervention interest rates					3-month interbank rates									
	Euro area	United States		Japan	United Kingdom	OECD	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
		Discount rate (b)	Federal funds rate												
	(a)			(c)	(d)										
	1 ■	2 ■	3 ■	4 ■	5 ■	6 ■	7	8 ■	9	10	11 ■	12	13	14 ■	15 ■
08	2.50	0.50	0.25	0.30	2.00	3.45	4.75	4.63	-	-	3.07	-	-	0.77	5.41
09	1.00	0.50	0.25	0.30	0.50	0.93	1.19	1.22	-	-	0.83	-	-	0.27	1.01
10	1.00	0.75	0.25	0.30	0.50	0.61	0.78	0.81	-	-	0.40	-	-	0.11	0.57
10 Apr	1.00	0.75	0.25	0.30	0.50	0.51	0.62	0.65	-	-	0.35	-	-	0.10	0.50
May	1.00	0.75	0.25	0.30	0.50	0.61	0.66	0.69	-	-	0.54	-	-	0.11	0.55
Jun	1.00	0.75	0.25	0.30	0.50	0.70	0.74	0.73	-	-	0.66	-	-	0.12	0.64
Jul	1.00	0.75	0.25	0.30	0.50	0.75	0.83	0.85	-	-	0.69	-	-	0.12	0.65
Aug	1.00	0.75	0.25	0.30	0.50	0.64	0.86	0.90	-	-	0.37	-	-	0.12	0.64
Sep	1.00	0.75	0.25	0.30	0.50	0.63	0.84	0.88	-	-	0.33	-	-	0.13	0.60
Oct	1.00	0.75	0.25	0.30	0.50	0.64	0.93	1.00	-	-	0.30	-	-	0.09	0.60
Nov	1.00	0.75	0.25	0.30	0.50	0.69	0.98	1.04	-	-	0.38	-	-	0.08	0.60
Dec	1.00	0.75	0.25	0.30	0.50	0.69	0.98	1.02	-	-	0.35	-	-	0.10	0.65
11 Jan	1.00	0.75	0.25	0.30	0.50	0.70	0.99	1.02	-	-	0.37	-	-	0.12	0.70
Feb	1.00	0.75	0.25	0.30	0.50	0.68	1.05	1.09	-	-	0.27	-	-	0.12	0.70
Mar	1.00	0.75	0.25	0.30	0.50	0.74	1.13	1.18	-	-	0.34	-	-	0.11	0.71
Apr	1.25	0.75	0.25	0.30	0.50	0.78	1.25	1.32	-	-	0.32	-	-	0.14	0.75
May	1.25	0.75	0.25	0.30	0.50	0.79	1.34	1.43	-	-	0.26	-	-	0.12	0.75
Jun	1.25	0.75	0.25	0.30	0.50	0.79	1.39	1.49	-	-	0.21	-	-	0.12	0.75
Jul	1.50	0.75	0.25	0.30	0.50	0.86	1.48	1.60	-	-	0.29	-	-	0.14	0.75
Aug	1.50	0.75	0.25	0.30	0.50	0.83	1.44	1.55	-	-	0.26	-	-	0.13	0.79
Sep	1.50	0.75	0.25	0.30	0.50	0.84	1.46	1.54	-	-	0.28	-	-	0.13	0.88

OFFICIAL INTERVENTION INTEREST RATES

- UNITED KINGDOM
- UNITED STATES: DISCOUNT RATE
- UNITED STATES: FEDERAL FUNDS RATE
- ·· EURO AREA: WEEKLY TENDERS
- ·· JAPAN

3-MONTH INTERBANK RATES

- UNITED KINGDOM
- UNITED STATES
- EURO AREA
- ·· JAPAN

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	EU-15	Euro area	Germany	Spain	United States	France	Italy	Japan	United Kingdom
	1	2	3 ■	4 ■	5 ■	6 ■	7 ■	8 ■	9 ■	10 ■
08	3.63	4.33	4.36	4.00	4.36	3.69	4.24	4.66	1.49	4.55
09	3.18	3.74	4.03	3.27	3.97	3.27	3.65	4.28	1.35	3.63
10	3.05	3.52	3.78	2.78	4.25	3.22	3.12	4.03	1.18	3.56
10 *Apr*	3.42	3.67	4.16	3.09	3.90	3.87	3.41	3.93	1.35	4.05
May	3.16	3.49	3.68	2.82	4.08	3.46	3.09	4.01	1.28	3.76
Jun	3.05	3.49	3.70	2.63	4.56	3.24	3.07	4.11	1.21	3.51
Jul	2.92	3.45	3.62	2.65	4.43	3.01	2.99	4.03	1.10	3.41
Aug	2.67	3.18	3.44	2.38	4.04	2.71	2.69	3.81	0.98	3.10
Sep	2.67	3.21	3.50	2.33	4.09	2.65	2.67	3.84	1.07	3.03
Oct	2.58	3.18	3.34	2.38	4.04	2.52	2.72	3.77	0.89	2.99
Nov	2.83	3.52	3.73	2.55	4.69	2.75	2.99	4.14	1.05	3.22
Dec	3.24	3.92	4.07	2.95	5.37	3.30	3.34	4.63	1.19	3.53
11 *Jan*	3.32	4.02	3.94	3.05	5.38	3.41	3.44	4.73	1.22	3.63
Feb	3.46	4.13	4.48	3.23	5.26	3.59	3.60	4.74	1.29	3.81
Mar	3.40	4.15	4.49	3.24	5.25	3.44	3.60	4.80	1.26	3.67
Apr	3.46	4.26	4.66	3.36	5.33	3.47	3.69	4.75	1.27	3.68
May	3.28	4.15	4.37	3.13	5.32	3.19	3.50	4.74	1.15	3.40
Jun	3.18	4.14	4.37	2.98	5.48	3.00	3.44	4.82	1.14	3.27
Jul	3.21	4.22	4.59	2.79	5.82	3.03	3.40	5.49	1.12	3.15
Aug	2.70	3.74	4.21	2.27	5.25	2.32	2.99	5.28	1.03	2.57
Sep	2.49	3.58	4.04	1.87	5.20	1.98	2.65	5.53	1.01	2.41

10-YEAR GOVERNMENT BOND YIELDS

— UNITED STATES
— EURO AREA
— JAPAN

10-YEAR GOVERNMENT BOND YIELDS

— SPAIN
— UNITED KINGDOM
— GERMANY
···· ITALY
···· FRANCE
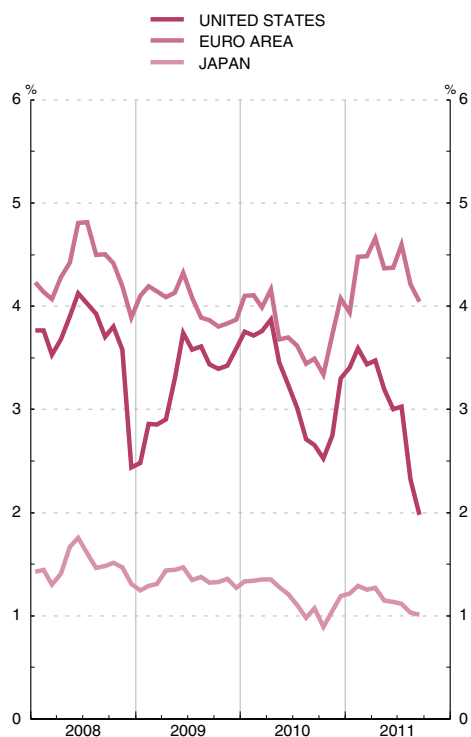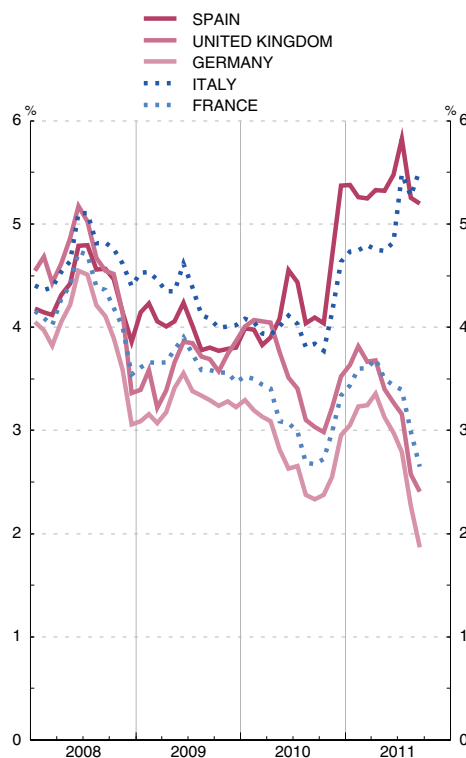
Sources: ECB, Reuters and BE.

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

■ Series depicted in chart.

Base 2000 = 100

	Non-energy commodity price index (a)						Oil		Gold		
	Euro index	US dollar index					Index (b)	Brent North sea US dollars per barrel	Index (c)	US dollars per troy ounce	Euro per gram
	General	General	Food	Industrial products							
				Total	Non-food agricultural products	Metals					
	1	2	3	4	5	6	7	8	9	10	11
06	125.6	170.8	139.3	211.6	147.3	246.4	227.8	64.9	216.7	604.6	15.45
07	136.4	202.3	175.1	237.4	162.4	278.4	252.1	73.0	249.8	696.7	16.32
08	142.2	227.4	232.4	221.0	176.0	245.5	343.7	97.2	312.5	871.7	19.07
09	120.8	182.3	198.0	162.2	136.0	176.4	219.2	61.7	348.8	973.0	22.42
10	158.6	213.1	207.9	220.2	211.2	225.9	280.0	79.9	439.2	1 225.3	29.76
10 *J-S*	150.7	214.4	206.3	225.0	204.4	236.3	272.4	77.5	422.1	1 177.5	28.89
11 *J-S*	193.4	218.6	226.4	210.5	257.8	190.2	...	112.9	549.0	1 531.5	35.00
10 *Aug*	159.6	222.9	220.2	226.4	203.5	238.9	268.8	77.9	435.8	1 215.8	30.31
Sep	166.1	235.2	231.7	239.6	223.0	248.8	269.7	78.4	455.6	1 271.0	31.25
Oct	168.6	219.0	216.8	222.6	223.0	223.5	289.4	83.0	481.1	1 342.0	31.04
Nov	180.1	196.8	203.2	190.1	223.5	175.7	299.4	85.7	491.1	1 369.9	32.27
Dec	198.3	211.3	217.6	204.8	248.0	186.2	319.0	92.3	498.2	1 389.7	33.80
11 *Jan*	207.1	221.5	227.7	215.2	266.7	193.1	328.2	97.4	486.2	1 356.4	32.70
Feb	212.5	233.5	235.4	231.5	301.3	201.5	346.1	103.7	492.1	1 372.7	32.35
Mar	201.2	226.3	226.0	226.8	298.4	196.1	384.8	115.4	510.5	1 424.0	32.66
Apr	198.4	229.9	230.2	229.5	300.8	199.0	411.9	124.4	528.3	1 473.8	32.88
May	189.0	218.4	226.0	210.6	258.1	190.2	383.2	116.2	541.4	1 510.4	33.90
Jun	183.4	213.5	222.8	203.9	244.5	186.5	374.9	114.9	548.0	1 528.7	34.15
Jul	185.2	212.7	222.2	202.8	224.2	193.6	382.1	117.3	563.8	1 572.8	35.41
Aug	181.8	209.5	226.3	192.1	215.9	181.8	355.8	111.3	629.4	1 755.8	39.41
Sep	183.5	203.2	221.7	183.9	214.1	171.0	...	114.8	637.7	1 779.1	41.36

NON-ENERGY COMMODITY PRICE INDEX

— IN US DOLLARS
— IN EUROS

PRICE INDICES FOR NON-ENERGY COMMODITIES, OIL AND GOLD

— FOOD
— INDUSTRIAL PRODUCTS
— OIL
···· GOLD
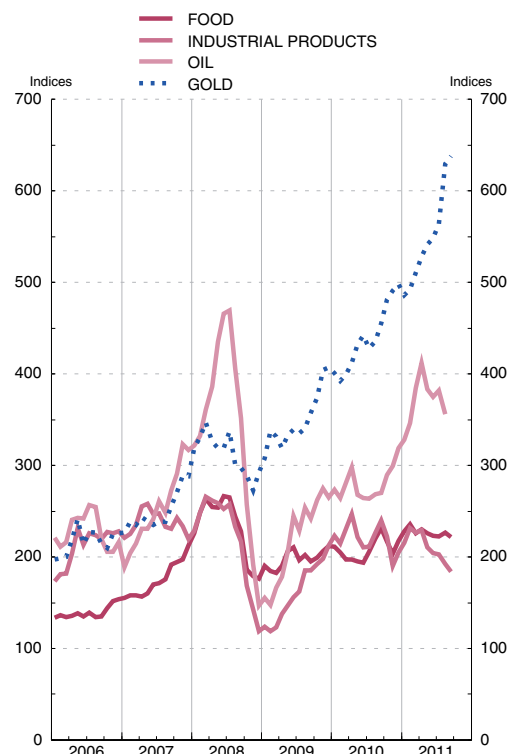
Sources: The Economist, IMF, ECB and BE.
a. The weights are based on the value of the world commodity imports during the period 1999-2001.
b. Index of the average price in US dollars of various medium, light and heavy crudes.
c. Index of the London market's 15.30 fixing in dollars.

■ Series depicted in chart.

Annual percentage changes

		Opinion surveys (net percentages)						New car registrations and sales				Retail trade indices (2005=100, NACE 2009) (Deflated indices)							
		Consumers			Retail trade confidence index	Memorandum item: euro area			of which		Estimated sales	Memorandum item: euro area	General retail trade index	General index without petrol stations						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		Registrations		Total	of which Food	Large retail outlets	Large chain stores	Small chain stores	Single-outlet retailers	
		1 ■	2	3	4	5 ■	6	7	8	9 ■	10	11	12	13	14	15	16	17	18
08		-33.7	-32.6	-20.4	-27.6	-18.1	-10.0	-27.4	-30.0	-28.1	-8.1	-5.7	-5.7	-2.3	-5.2	1.1	-8.6	-8.0	-0.8
09		-28.2	-26.2	-13.2	-24.6	-24.8	-15.5	-18.1	-10.7	-17.9	4.4	-5.7	-5.8	-3.4	-6.0	-1.6	-7.1	-7.2	-2.0
10	P	-20.9	-18.0	-9.7	-17.2	-14.0	-4.0	3.0	-1.3	3.1	-8.1	-1.6	-0.9	-0.4	-1.6	1.9	-3.1	-2.0	1.1
10 *J-S*	P	-20.9	-18.1	-9.8	-15.7	-15.2	-5.6	16.3	9.7	16.2	-7.3	-1.3	-0.5	-0.2	-1.4	2.2	-2.7	-1.2	1.2
11 *J-S*	P	-17.2	-14.2	-6.9	-19.9	-12.2	-3.5	-21.4	-6.3	-20.7	-0.5	...	...	...	...	...	...	...	...
10 *Oct*	P	-19.7	-17.3	-8.4	-22.3	-10.9	-0.8	-37.9	-36.0	-37.6	-15.3	-2.9	-2.6	-2.1	-1.0	0.4	-5.0	-5.1	1.4
Nov	P	-20.7	-16.3	-10.0	-20.7	-9.4	-1.1	-25.8	-22.1	-25.5	-10.0	-1.0	-0.7	1.0	-0.8	3.3	-4.4	-2.5	1.3
Dec	P	-22.8	-20.2	-9.8	-22.6	-11.0	4.3	-24.0	-19.9	-23.9	-6.9	-4.5	-3.9	-2.0	-5.2	-0.4	-4.1	-5.4	0.2
11 *Jan*	P	-21.0	-22.6	-10.5	-22.3	-11.2	-0.6	-23.6	-16.4	-23.5	-4.3	-4.6	-4.5	-3.2	-6.3	-0.4	-4.6	-6.1	0.8
Feb	P	-15.2	-18.2	-5.5	-20.1	-10.0	-0.2	-28.0	-13.1	-27.6	0.1	-4.6	-4.6	-2.9	-7.1	0.1	-3.9	-6.3	1.3
Mar	P	-22.6	-15.0	-10.6	-23.1	-10.6	-1.4	-29.8	-8.9	-29.1	-4.5	-7.9	-8.1	-5.7	-12.4	-3.8	-7.9	-8.7	-1.2
Apr	P	-21.0	-15.2	-11.0	-21.7	-11.6	-1.8	-24.1	-12.0	-23.3	-0.2	-2.1	-1.5	1.1	0.5	6.4	-6.1	-6.1	1.5
May	P	-15.5	-11.5	-6.2	-18.7	-9.9	-2.4	-24.1	-4.3	-23.3	-1.1	-5.9	-5.8	-3.6	-8.4	-	-8.4	-6.9	-1.7
Jun	P	-11.9	-6.3	-2.9	-16.5	-9.7	-2.6	-31.5	-14.8	-31.4	-3.8	-7.5	-7.4	-2.2	-9.7	0.3	-12.2	-8.8	-0.4
Jul	P	-13.4	-8.1	-2.2	-17.3	-11.2	-3.6	-5.5	15.8	-4.0	2.2	-6.1	-5.7	-5.7	-5.4	-3.8	-6.9	-6.4	0.1
Aug	P	-17.0	-14.4	-6.0	-20.3	-16.5	-8.7	3.7	10.1	5.9	6.1	-4.0	-3.6	-1.2	-3.4	1.6	-7.1	-6.0	-0.9
Sep	P	-17.0	-16.1	-6.9	-19.0	-19.1	-9.8	-2.7	-0.4	-1.3	1.3	...	...	...	...	...	...	...	...

CONSUMER CONFIDENCE INDEX

SPAIN
EURO AREA

CAR SALES
Trend obtained with TRAMO-SEATS

ESTIMATED SALES (SPAIN)
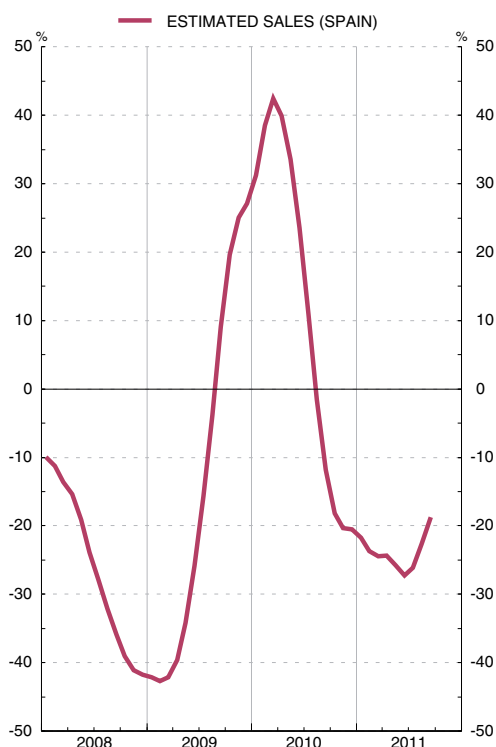
Sources: European Commission, European Economy, Supplement B, INE, Dirección General de Tráfico, Asociación Nacional de Fabricantes de Automóviles y Camiones and ECB.
a. Data adjusted by working days.

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

■ Series depicted in chart.

Annual percentage changes at current prices

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

INVESTMENT IN INDUSTRY
Annual rates of change
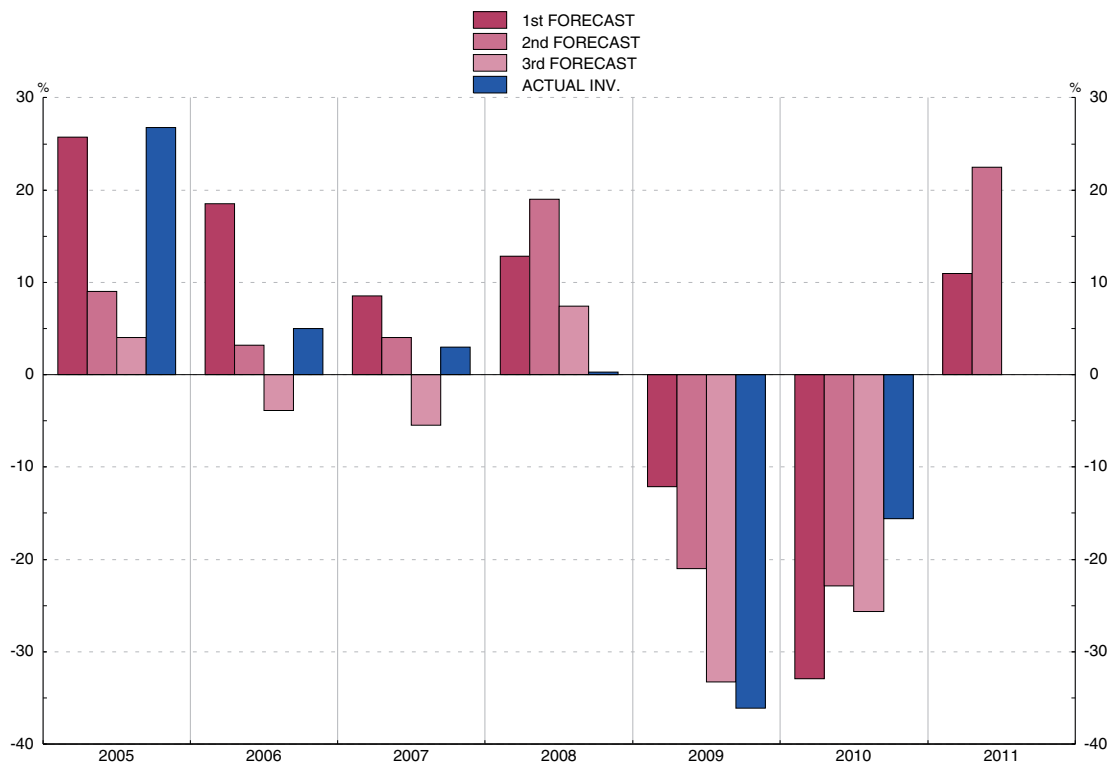
Source: Ministerio de Industria, Turismo y Comercio.
Note: The first forecast is made in the autumn of the previous year and the second and third ones in the spring and autumn of the current year, respectively; the information relating to actual investment for the year t is obtained in the spring of the year t+1.

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

■ Series depicted in chart.

Annual percentage changes

		Permits: buildable floorage				Approvals: buildable floorage		Government tenders (budget)							Apparent consumption of cement
				of which			of which	Total		Building				Civil engineering	
		Total	Residential	Housing	Non-residential	Total	Housing	For the month	Year to date	Total	Residential	of which Housing	Non-residential		
		1 ■	2	3	4	5 ■	6	7 ■	8	9	10	11	12	13	14 ■
08		-48.5	-53.1	-53.8	-29.8	-52.1	-56.6	2.9	2.9	-7.5	8.5	13.4	-11.5	7.2	-23.8
09		-43.4	-49.3	-49.2	-27.2	-51.4	-56.8	-8.2	-8.2	1.1	3.7	-19.9	0.3	-11.4	-32.3
10	P	-28.7	-24.3	-25.2	-36.9	-16.0	-16.1	-37.9	-37.9	-20.1	-38.1	-38.7	-14.4	-45.1	-15.1
10 *J-S*	P	-36.8	-32.1	-32.4	-45.3	-15.1	-16.0	-38.9	-38.9	-23.7	-34.2	-36.9	-20.7	-45.7	-14.9
11 *J-S*	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-14.0
10 *Jun*		-52.2	-39.5	-40.0	-67.6	3.0	9.0	-22.3	-39.8	-39.7	-36.2	-9.9	-40.3	-12.5	-10.7
Jul		-30.0	-28.2	-25.7	-34.4	-13.1	-23.6	-55.5	-42.1	-28.7	-56.9	-66.7	-11.5	-67.3	-15.2
Aug	P	-5.2	15.5	15.2	-31.5	-1.6	2.0	-29.1	-40.8	-30.0	-43.5	-46.3	-25.5	-28.7	-12.9
Sep	P	-28.9	-15.3	-15.1	-47.7	1.4	-0.7	-13.7	-38.9	-26.1	20.6	125.8	-33.8	-9.4	-18.1
Oct	P	-16.0	-19.5	-20.7	-8.1	-27.7	-30.4	-0.5	-36.6	36.6	53.1	-50.4	33.4	-15.2	-15.8
Nov	P	2.0	10.2	2.2	-14.8	-13.2	-13.7	-15.1	-35.1	-27.8	-61.1	347.5	-4.3	-9.3	-20.5
Dec	P	11.1	10.0	11.3	13.7	-15.6	-4.4	-57.1	-37.9	-9.6	-73.4	-66.8	22.7	-65.6	-9.6
11 *Jan*	P	14.4	22.7	21.8	-8.2	-4.8	13.9	-18.5	-18.5	-27.4	-45.8	30.1	-22.5	-12.6	0.3
Feb	P	-17.7	-19.9	-24.7	-12.4	-6.3	5.0	-24.3	-22.0	-57.6	-58.6	-72.0	-57.4	0.6	0.9
Mar	P	25.4	17.7	20.7	42.5	-16.2	-23.3	-57.8	-36.9	-66.5	-65.8	-92.6	-66.8	-49.5	-7.3
Apr	P	6.2	-10.0	-11.6	36.9	-22.9	-25.0	-50.0	-40.0	-62.1	33.6	98.4	-71.3	-39.6	-17.1
May	P	...	...	...	...	-21.9	-20.7	29.6	-25.7	-55.9	-64.9	19.5	-53.9	80.0	-10.7
Jun	P	...	...	...	...	-20.3	-10.6	-17.2	-24.3	-49.8	3.8	-46.2	-60.2	-4.5	-20.3
Jul	P	...	...	...	...	-19.9	-13.1	-37.3	-25.8	-59.5	-46.1	-38.8	-63.4	-16.1	-26.1
Aug	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-16.7
Sep	P	...	...	...	...	...	...	...	...	...	...	...	...	...	-19.8

CONSTRUCTION
Trend obtained with TRAMO-SEATS

— PERMITS
— APPROVALS

CONSTRUCTION
Trend obtained with TRAMO-SEATS

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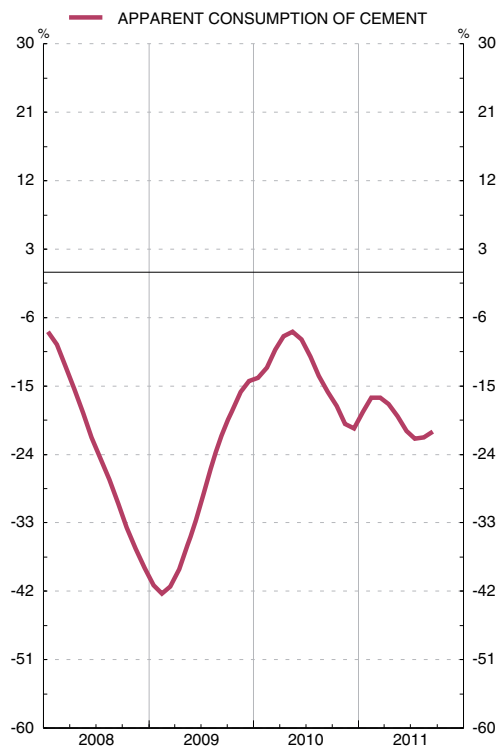
Sources: Ministerio de Fomento and Asociación de Fabricantes de Cemento de España.
Note: The underlying series for this indicator are in Tables 23.7, 23.8, and 23.9 of the BE Boletín estadístico.

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

■ Series depicted in chart.

Annual percentage changes

		Overall Index		By end-use of goods				By branch of activity (NACE 2009)			Memorandum item: euro area			
		Total		Consumer goods	Capital goods	Inter-mediate goods	Energy	Mining and quarrying	Manufac-turing	Electricity and gas supply	of which		By end-use of goods		
		Original series	12-month %change 12								Total	Manufac-turing	Consumer goods	Capital goods	Inter-mediate goods
		1	2 ■	3 ■	4 ■	5 ■	6	7	8	9	10 ■	11	12	13	14
08	M P	98.6	-7.1	-4.6	-8.7	-11.0	1.6	-13.7	-7.8	1.1	-1.6	-1.7	-1.8	0.1	-3.4
09	M P	82.6	-16.2	-8.8	-22.5	-21.4	-8.6	-24.3	-17.0	-7.6	-14.8	-15.8	-4.9	-20.8	-19.0
10	M P	83.4	0.9	0.9	-3.3	2.7	2.5	4.4	0.6	2.9	7.5	7.9	3.3	9.4	10.1
10 J-A	M P	82.5	1.5	1.5	-2.7	3.9	1.6	6.7	1.3	2.5	7.4	7.8	3.7	7.6	11.4
11 J-A	M P	82.3	-0.2	-0.9	2.9	-0.2	-2.6	-13.6	0.4	-2.7	5.2	6.5	1.6	11.3	6.1
10 May	P	86.1	5.1	4.0	0.7	9.7	2.0	15.4	5.0	3.8	10.0	10.0	4.5	10.0	14.6
Jun	P	89.0	3.2	2.1	1.9	4.6	4.1	7.4	3.6	-0.3	8.7	9.4	4.4	9.9	12.5
Jul	P	89.7	-2.3	-3.2	-5.9	-2.5	6.0	3.4	-2.9	2.5	7.7	8.1	4.0	10.0	9.9
Aug	P	63.9	3.4	5.7	-7.4	6.5	3.9	14.8	3.6	1.5	8.4	9.5	4.2	12.9	11.7
Sep	P	86.1	-1.1	-0.3	-6.7	0.1	2.5	4.6	-1.5	2.2	5.6	6.1	1.4	8.6	7.3
Oct	P	84.9	-3.5	-3.2	-8.9	-3.3	2.9	4.7	-4.3	2.8	7.3	7.9	3.2	13.2	7.7
Nov	P	90.3	3.4	1.4	2.0	4.1	8.5	-7.6	3.2	7.3	8.2	8.6	3.4	13.2	8.1
Dec	P	79.4	0.4	0.8	-3.5	0.9	3.7	-2.1	0.1	2.6	8.9	9.3	2.0	16.7	8.1
11 Jan	P	80.5	5.0	3.5	5.0	7.1	3.8	-3.8	5.4	3.3	6.2	8.0	0.7	13.0	9.5
Feb	P	83.5	3.3	0.1	5.1	6.6	0.2	-10.9	4.3	-2.3	7.7	9.6	2.7	15.1	10.0
Mar	P	92.4	1.3	-3.2	3.1	5.6	-1.8	-9.0	1.7	-0.6	5.7	6.9	1.0	11.5	7.5
Apr	P	78.9	-4.0	-6.1	-1.4	-4.1	-3.2	-15.9	-3.7	-5.5	5.4	6.8	4.0	10.7	5.4
May	P	87.1	1.2	2.9	6.4	-2.2	-1.0	-14.8	1.9	-1.7	4.3	6.0	2.6	10.7	4.5
Jun	P	86.7	-2.6	-1.5	0.3	-4.2	-5.2	-14.7	-2.4	-2.3	2.8	3.6	0.5	6.8	3.1
Jul	P	85.1	-5.1	-4.3	-0.8	-6.2	-10.1	-15.2	-4.5	-9.2	4.4	5.2	-0.2	11.9	4.2
Aug	P	64.3	0.6	3.1	9.4	-3.2	-3.0	-22.9	2.0	-4.0	5.3	6.5	1.9	12.2	5.3

INDUSTRIAL PRODUCTION INDEX
Trend obtained with TRAMO-SEATS

SPAIN
EURO AREA

INDUSTRIAL PRODUCTION INDEX
Trend obtained with TRAMO-SEATS
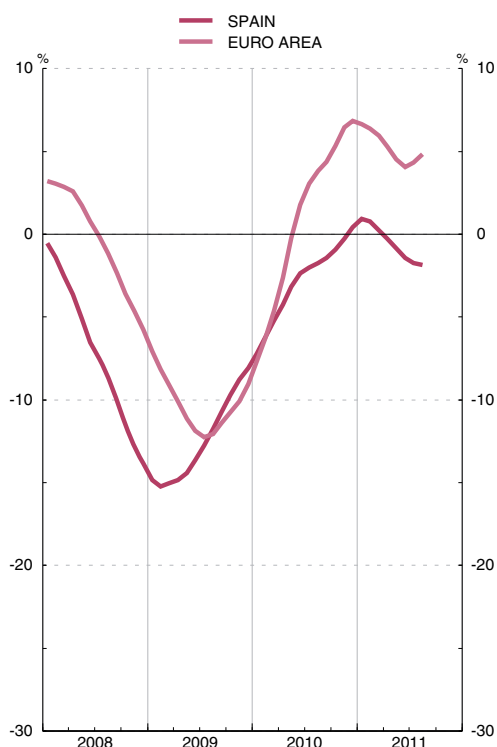
CONSUMPTION GOODS
INVESTMENT GOODS
INTERMEDIATE GOODS
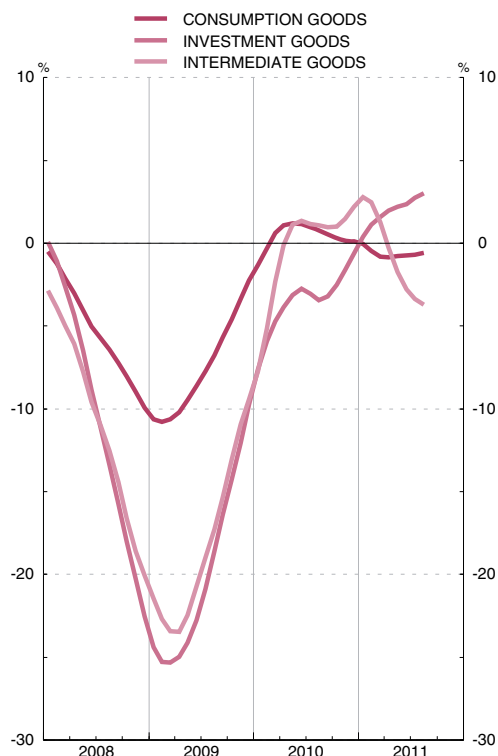
Sources: INE and BCE.
Note: The underlying series for this indicator are in Table 23.1 of the BE Boletín estadístico.
a. Spain 2005 = 100; euro area 2000 = 100.

3.5. MONTHLY BUSINESS SURVEY: INDUSTRY AND CONSTRUCTION. SPAIN AND EURO AREA (NACE 2009)

■ Series depicted in chart.

Percentage balances

		Industry, excluding construction										Construction					Memorandum item: euro area (b)		
		Business climate indicator (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 ■
08	M	-18	-16	-8	-24	-17	21	-12	-8	-27	-3	-23	-2	-20	-16	-16	-8	-13	-13
09	M	-29	-34	-11	-54	-52	23	-19	-26	-38	-44	-31	-20	-32	-13	-19	-29	-57	-33
10	M	-16	-8	-1	-37	-29	11	-10	-14	-18	-52	-32	-19	-31	-26	-33	-5	-25	-28
10	J-S M	-17	-9	-1	-40	-32	12	-10	-16	-20	-51	-26	-16	-27	-16	-27	-7	-30	-29
11	J-S M	-14	-8	-2	-29	-22	11	-10	-10	-15	-49	-54	-23	-50	-43	-39	3	-4	-25
10	Jun	-16	-1	1	-36	-27	12	-9	-17	-15	-52	-28	9	-39	-26	-37	-5	-26	-31
	Jul	-15	7	1	-35	-29	11	-10	-9	-18	-51	-28	0	-30	-6	-4	-4	-21	-29
	Aug	-15	1	-3	-33	-22	9	-6	-14	-17	-63	-31	1	-18	-46	-47	-3	-18	-29
	Sep	-15	1	-4	-33	-22	7	-10	-12	-18	-34	-19	-34	-21	-2	-43	-1	-16	-26
	Oct	-14	-7	-2	-30	-9	9	-10	-13	-14	-54	-43	-25	-32	-55	-55	1	-13	-25
	Nov	-13	-7	-3	-29	-24	8	-9	-11	-14	-59	-47	-29	-43	-56	-44	2	-11	-27
	Dec	-12	-7	2	-28	-26	10	-7	-5	-14	-52	-54	-29	-51	-51	-48	5	-5	-27
11	Jan	-13	-7	0	-28	-20	10	-9	-5	-15	-55	-59	-35	-67	-41	-24	6	-3	-26
	Feb	-13	-14	1	-29	-27	10	-9	-10	-12	-55	-64	-42	-58	-50	-51	7	-1	-24
	Mar	-14	-7	-2	-30	-24	11	-12	-12	-13	-50	-61	-48	-58	-43	-21	7	-0	-25
	Apr	-15	-6	-4	-29	-21	12	-9	-14	-13	-65	-50	-10	-47	-43	-27	6	0	-24
	May	-15	-7	-5	-29	-22	12	-11	-12	-15	-61	-52	-6	-47	-24	-31	4	-3	-25
	Jun	-12	-6	-2	-27	-17	6	-10	-4	-14	-29	-49	-6	-41	-27	-31	4	-1	-24
	Jul	-15	-6	-5	-28	-20	14	-9	-13	-18	-43	-52	-9	-40	-62	-65	1	-5	-24
	Aug	-13	-7	0	-30	-24	10	-12	-6	-16	-42	-48	-10	-45	-47	-49	-3	-9	-23
	Sep	-16	-11	-4	-32	-28	12	-8	-15	-21	-42	-55	-38	-46	-51	-56	-6	-12	-26

INDUSTRIAL BUSINESS CLIMATE
Percentage balances
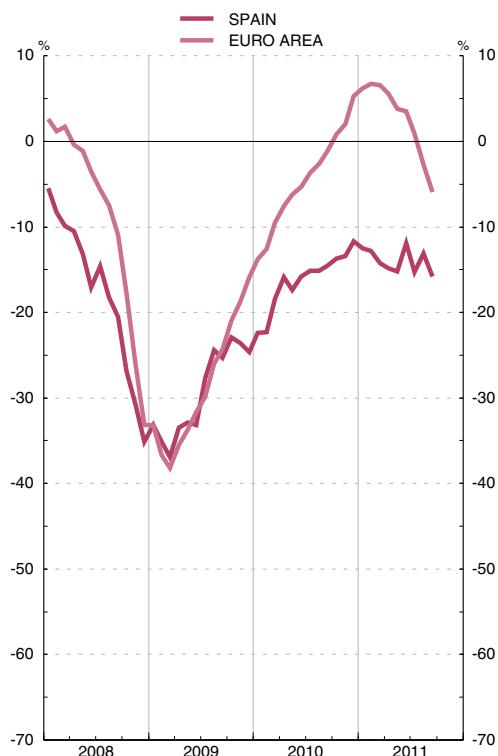
CONSTRUCTION BUSINESS CLIMATE
Percentage balances
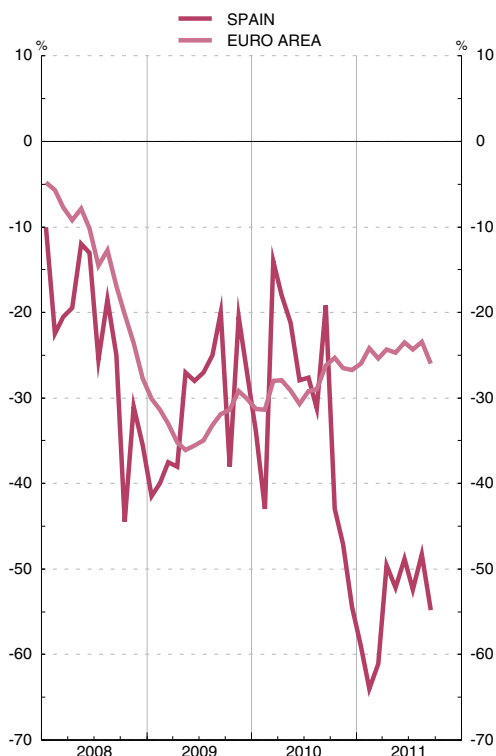
Sources: Ministerio de Industria, Turismo y Comercio and ECB.
a. Seasonally adjusted.
b. To April 2010, NACE 1993; from May 2010, NACE 2009.

■ Series depicted in chart.

Percentages and percentage balances

	Total industry			Consumer goods			Investment goods			Intermediate goods			Other sectors (a)			Memorandum item: euro area capacity utilisation
	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 (%)	(Percentage balances)	Over last three months (%)	Forecast (%)	(Percentage balances)	Over last three months (%)	Forecast (%)	(Percentage balances)	Over last three months (%)	Forecast (%)	(Percentage balances)	Over last three months (%)	Forecast (%)	(Percentage balances)	(b) (%)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
08	80.1	80.4	7	76.2	77.3	8	83.4	83.3	6	79.6	79.7	7	94.0	94.5	-0	83.4
09	71.2	71.4	26	69.6	70.7	18	73.3	73.6	25	69.0	68.5	34	93.1	94.3	1	71.1
10	72.0	72.8	22	69.8	70.5	18	73.0	72.5	23	71.4	72.9	24	88.6	90.5	18	75.9
10 Q1-Q3	71.7	73.1	20	69.3	70.3	16	72.7	73.3	22	70.9	73.0	24	91.8	92.4	0	75.2
11 Q1-Q3	73.5	74.2	18	70.8	72.0	18	76.5	76.0	13	72.6	73.5	21	85.1	86.8	3	80.9
09 Q1	73.4	72.9	22	72.1	71.8	9	77.8	76.2	17	70.3	70.1	36	90.4	92.7	-	74.7
Q2	70.9	71.4	26	68.1	69.8	20	73.9	73.9	22	68.8	68.7	35	96.2	96.7	-	70.0
Q3	69.8	70.7	30	69.3	70.8	19	69.9	70.6	38	67.6	68.4	36	94.8	95.8	3	69.2
Q4	70.6	70.4	24	69.0	70.4	23	71.4	73.7	22	69.2	66.7	28	90.9	91.9	-	70.7
10 Q1	69.5	70.7	25	66.4	67.1	20	70.0	71.0	26	69.2	70.9	30	92.1	92.8	0	72.4
Q2	71.8	73.9	21	69.0	70.1	19	73.9	74.3	22	70.6	74.3	24	92.8	93.6	-	76.0
Q3	73.9	74.6	15	72.6	73.6	10	74.1	74.5	19	72.9	73.8	18	90.6	90.9	0	77.2
Q4	72.9	72.1	26	71.1	71.3	21	73.9	70.3	25	73.0	72.4	24	78.8	84.5	73	78.1
11 Q1	72.6	73.4	16	72.0	72.6	13	74.8	75.0	15	71.4	72.7	20	76.0	78.4	3	80.2
Q2	74.7	75.8	17	70.8	72.7	20	79.8	79.6	9	73.1	74.2	21	89.1	91.9	-	81.6
Q3	73.3	73.4	20	69.6	70.7	20	74.8	73.5	16	73.3	73.5	22	90.1	90.0	6	80.9

CAPACITY UTILISATION. TOTAL INDUSTRY
Percentages

— TOTAL INDUSTRY (SPAIN)
— TOTAL INDUSTRY (EURO AREA)
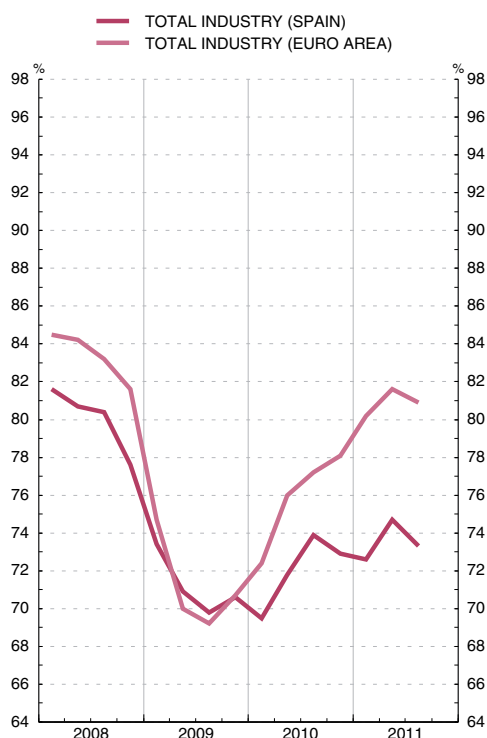
CAPACITY UTILISATION. BY TYPE OF GOOD
Percentages

— INVESTMENT GOODS
— CONSUMPTION GOODS
— INTERMEDIATE GOODS
···· OTHER SECTORS
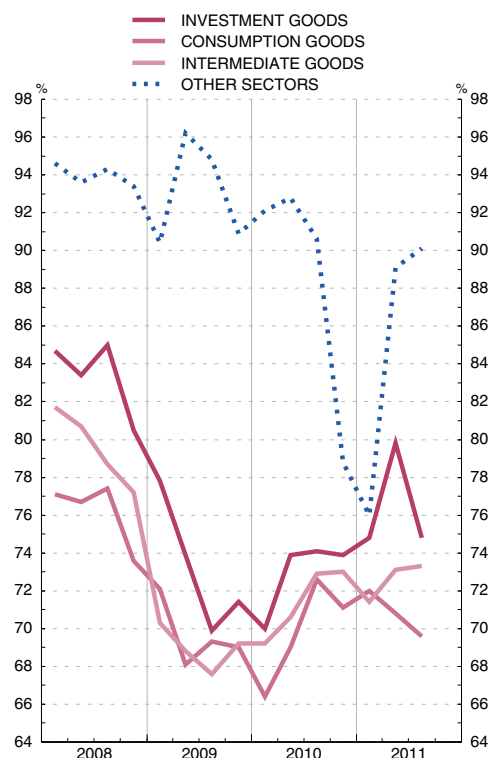
Sources: Ministerio de Industria, Turismo y Comercio and ECB.
a. Includes mining and quarrying, manufacture of coke and refined petroleum products, and nuclear fuels.
b. To April 2010, NACE 1993; from May 2010, NACE 2009.

3.7. TOURISM AND TRANSPORT STATISTICS. SPAIN

■ Series depicted in chart.

Annual percentage changes

		Hotel stays (a)		Overnight stays		Visitors entering Spain			Air transport				Maritime transport		Rail transport	
		Total	Foreig-ners	Total	Foreig-ners	Total	Tourists	Day-trip-pers	Passengers			Freight	Passen-gers	Freight	Passen-gers	Freight
									Total	Domestic flights	Interna-tional flights					
		1	2	3 ■	4	5 ■	6	7	8 ■	9	10	11	12	13	14 ■	15
08		-1.7	-0.1	-1.2	0.2	-1.3	-2.5	0.6	-3.0	-7.5	0.3	0.0	-0.0	-2.1	-0.7	-10.3
09		-7.2	-10.8	-6.9	-9.6	-5.9	-8.8	-1.9	-8.0	-8.0	-8.0	-9.6	-5.7	-12.9	-5.7	-24.8
10	P	5.7	10.6	5.5	7.6	2.0	0.9	3.4	3.0	1.3	4.1	15.8	3.2	4.6	-2.6	-3.0
10 *J-S*	P	6.1	11.2	6.4	8.8	2.5	0.8	4.7	2.5	1.1	3.5	19.1	3.8	3.2	-3.1	-1.4
11 *J-S*	P	5.0	11.8	7.3	13.5	6.7	8.0	5.1	...	...	...	...	...	...	...	...
10 *Jun*		6.0	7.5	4.9	4.3	4.5	1.6	9.4	3.4	1.0	4.9	17.6	5.3	3.5	-4.2	4.7
Jul		7.7	14.7	6.2	9.8	3.0	4.5	0.7	3.8	-1.6	7.0	10.0	4.6	7.1	-2.2	5.3
Aug		5.9	13.8	7.3	13.4	2.7	3.9	1.3	3.8	-1.5	7.0	10.6	-2.9	3.7	-2.4	-0.9
Sep	P	6.5	13.9	7.0	11.6	8.0	4.3	14.1	5.8	2.4	7.9	4.1	9.9	2.7	0.0	-14.4
Oct	P	8.9	13.2	8.5	10.2	3.6	4.2	2.7	8.9	6.5	10.4	6.7	1.9	7.7	-2.0	-3.7
Nov	P	4.6	13.1	5.6	12.0	0.2	2.7	-2.5	5.5	4.0	6.7	10.9	1.3	8.1	-1.5	-3.9
Dec	P	3.8	7.5	3.5	3.4	-4.9	-4.6	-5.1	-2.0	-4.6	0.2	5.9	-1.0	9.8	-0.6	-14.6
11 *Jan*	P	2.9	8.5	4.6	9.0	6.1	4.7	7.5	6.4	2.7	9.3	9.2	-23.2	6.0	0.4	-7.6
Feb	P	3.2	7.0	5.4	9.6	3.9	4.3	3.6	4.9	-0.6	9.5	5.9	-3.1	7.8	4.2	14.7
Mar	P	1.0	11.1	4.9	13.5	0.2	0.6	-0.2	4.8	0.5	8.3	4.0	-18.1	2.5	5.4	17.3
Apr	P	8.5	13.3	11.9	20.6	13.3	20.9	4.1	20.7	4.3	33.5	-8.8	0.4	5.5	-1.5	2.7
May	P	-0.8	6.9	1.6	9.3	3.5	4.2	2.3	6.4	0.9	9.7	2.9	0.9	6.9	3.6	11.4
Jun	P	8.4	18.0	10.9	18.1	11.1	8.5	15.4	6.8	-0.2	11.0	3.6	-6.0	4.6	5.2	8.3
Jul	P	7.2	13.5	8.9	14.1	6.0	7.2	4.1	6.7	0.5	10.3	4.5	...	...	1.3	6.9
Aug	P	5.6	13.0	6.2	12.2	6.8	9.4	3.8	...	...	...	...	...	...	3.7	...
Sep	P	6.0	10.3	8.4	12.4	8.1	9.2	6.5	...	...	...	...	...	...	...	...

TOURISM
Trend obtained with TRAMO-SEATS

— OVERNIGHT STAYS
— VISITORS ENTERING SPAIN
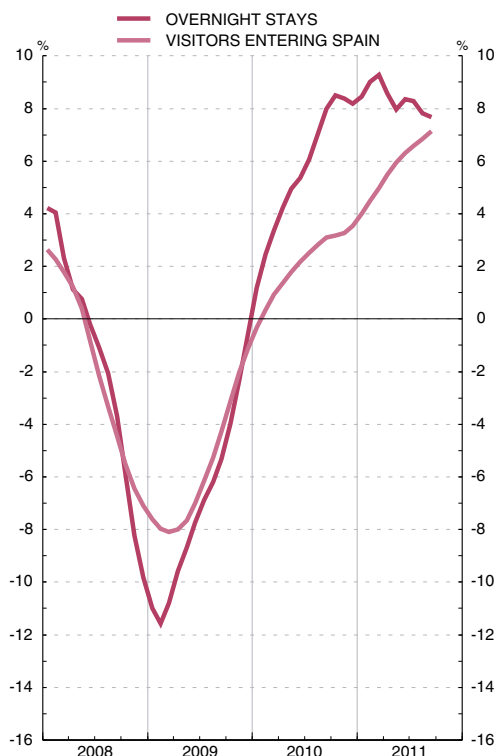
TRANSPORT
Trend obtained with TRAMO-SEATS

— AIR TRANSPORT
— RAIL TRANSPORT
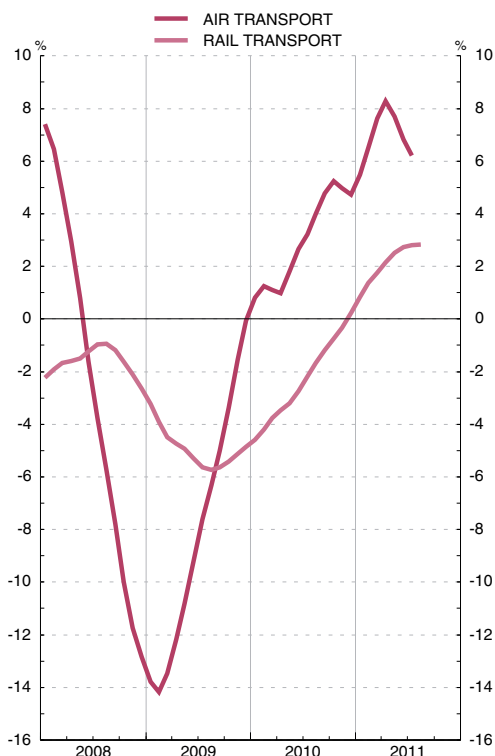
Sources: INE and Instituto de Estudios Turísticos, Estadística de Movimientos Turísticos en Frontera.
Note: The underlying series for this indecator are in Tables 23.14 and 23.15 of the BE Boletín estadístico .
a. Information from hotel directories. Since January 2006, the frequency of data collection has been increased to every day of the month. Because hotel directories are updated
at different times, data for different years are not directly comparable. Chaining coefficients are available for the periods 2005, June 2009-May 2010 and July 2010-July 2011.

■ Series depicted in chart.

Thousands and annual percentage changes

		Population over 16 years of age			Participation rate (%) (a)	Labour force				
						Thousands (a)	Annual change (b)			
		Thousands	Annual change	4-quarter % change			Total	Due to change in population over 16 years of age	Due to change in partici-pation rate	4-quarter % change
		1	2	3 ■	4	5	6 ■	7 ■	8 ■	9 ■
08	M	38 208	545	1.4	59.80	22 848	658	326	333	3.0
09	M	38 432	224	0.6	59.95	23 037	189	134	55	0.8
10	M	38 479	48	0.1	60.00	23 089	51	29	23	0.2
10 Q1-Q2	M	38 459	39	0.1	59.97	23 065	-55	47	-101	-0.1
11 Q1-Q2	M	38 497	37	0.1	60.00	23 099	69	45	25	0.2
08 Q4		38 357	460	1.2	60.13	23 065	660	276	384	2.9
09 Q1		38 409	366	1.0	60.15	23 102	525	220	305	2.3
Q2		38 432	271	0.7	60.06	23 082	276	162	113	1.2
Q3		38 443	172	0.4	59.81	22 994	48	103	-54	0.2
Q4		38 443	87	0.2	59.76	22 973	-92	52	-144	-0.4
10 Q1		38 451	42	0.1	59.83	23 007	-95	25	-120	-0.4
Q2		38 468	36	0.1	60.11	23 122	40	22	18	0.2
Q3		38 485	43	0.1	60.08	23 122	128	26	102	0.6
Q4		38 512	69	0.2	59.99	23 105	132	42	91	0.6
11 Q1		38 512	61	0.2	59.88	23 062	55	37	18	0.2
Q2		38 481	13	0.0	60.12	23 137	14	8	6	0.1

LABOUR FORCE SURVEY
Annual percentage change

POPULATION
LABOUR FORCE
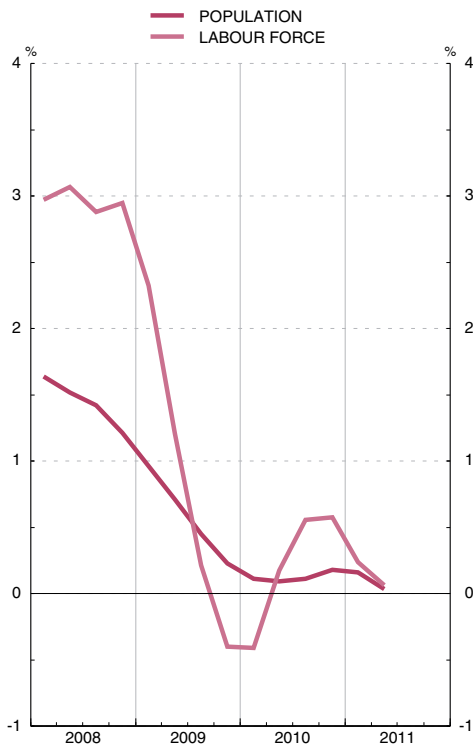
LABOUR FORCE
Annual changes
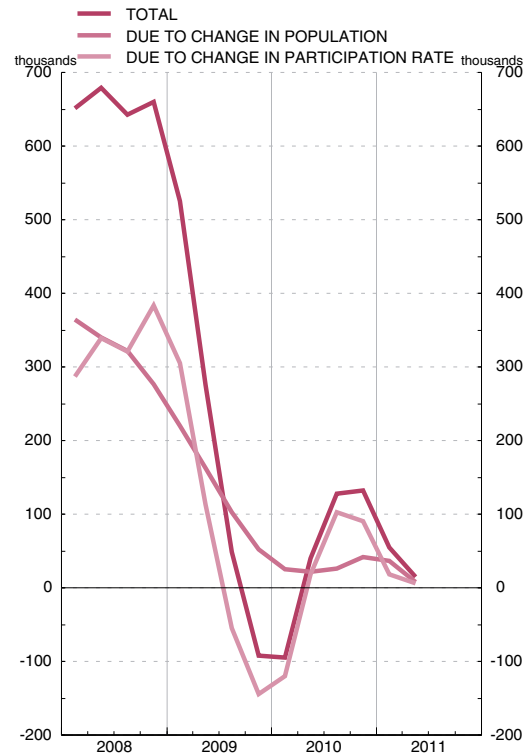
TOTAL
DUE TO CHANGE IN POPULATION
DUE TO CHANGE IN PARTICIPATION RATE

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).
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
08	M	20 258	-98	-0.5	16 681	-79	-0.5	3 576	-20	-0.5	2 591	757	41.3	11.33	0.8	7.67
09	M	18 888	-1 370	-6.8	15 681	-1 001	-6.0	3 207	-369	-10.3	4 150	1 559	60.2	18.01	-1.9	9.58
10	M	18 457	-431	-2.3	15 347	-334	-2.1	3 110	-98	-3.0	4 632	483	11.6	20.07	-0.5	10.14
10 Q1-Q2	M	18 436	-582	-3.1	15 308	-482	-3.1	3 127	-101	-3.1	4 629	555	13.6	20.07	-1.0	10.16
11 Q1-Q2	M	18 227	-208	-1.1	15 207	-102	-0.7	3 021	-106	-3.4	4 872	243	5.2	21.09	0.4	9.96
08 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	8.16
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	-1.2	8.98
Q2		18 945	-1 480	-7.2	15 737	-1 116	-6.6	3 208	-364	-10.2	4 138	1 756	73.7	17.92	-1.9	9.47
Q3		18 870	-1 476	-7.3	15 650	-1 096	-6.5	3 220	-380	-10.6	4 123	1 525	58.7	17.93	-2.2	9.84
Q4		18 646	-1 211	-6.1	15 493	-816	-5.0	3 153	-395	-11.1	4 327	1 119	34.9	18.83	-2.1	10.04
10 Q1		18 394	-697	-3.6	15 253	-590	-3.7	3 141	-107	-3.3	4 613	602	15.0	20.05	-1.3	10.13
Q2		18 477	-468	-2.5	15 363	-373	-2.4	3 113	-95	-3.0	4 646	508	12.3	20.09	-0.6	10.20
Q3		18 547	-323	-1.7	15 456	-194	-1.2	3 090	-130	-4.0	4 575	451	10.9	19.79	-0.1	10.15
Q4		18 408	-238	-1.3	15 314	-178	-1.2	3 094	-59	-1.9	4 697	370	8.6	20.33	0.2	10.08
11 Q1		18 152	-243	-1.3	15 121	-133	-0.9	3 031	-110	-3.5	4 910	298	6.4	21.29	0.3	9.96
Q2		18 303	-174	-0.9	15 292	-71	-0.5	3 011	-103	-3.3	4 834	188	4.1	20.89	0.5	9.96

EMPLOYMENT
Annual percentage changes
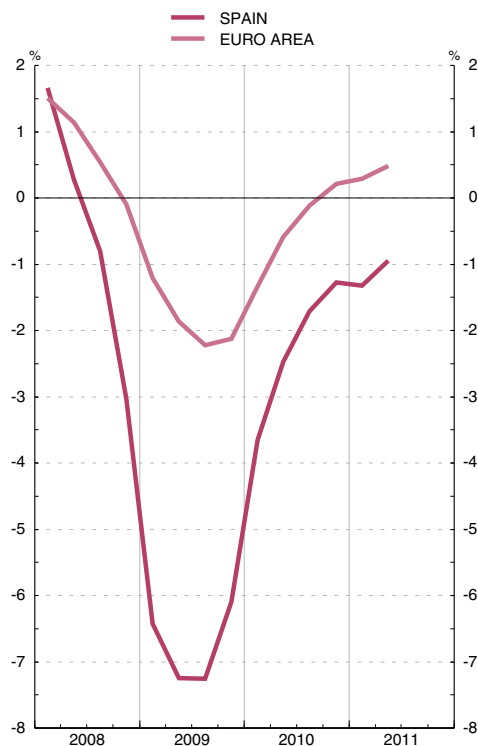
LABOUR FORCE: COMPONENTS
Annual percentage changes
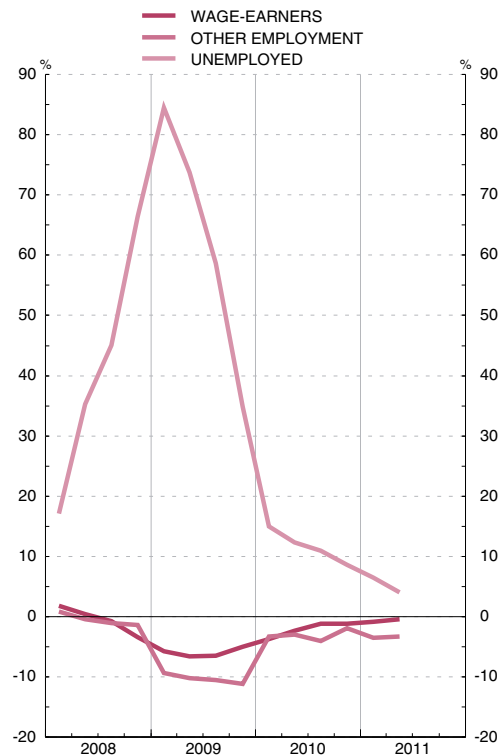
Sources: INE (Labour Force Survey: 2005 methodology), and ECB.
a. the new definition of unemployment applies from 2001 Q1 onwards, entailing a break in the series. (See www.ine.es).
General note to the tables: As a result of the change in the population base (2001 Census), all the series in this table 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
08	M	-0.5	-0.5	29.2	-5.1	-8.0	58.0	-1.3	-1.3	20.7	-10.4	-12.2	48.9	2.0	2.3	27.0	-0.3
09	M	-6.8	-6.0	25.4	-4.0	-0.1	59.0	-13.3	-13.1	15.8	-23.0	-25.0	42.6	-2.5	-1.3	24.0	-6.9
10	M	-2.3	-2.1	24.9	0.9	5.4	59.1	-5.9	-5.2	16.2	-12.6	-14.9	41.6	-0.3	-0.1	23.5	-2.4
10 Q1-Q2	M	-3.1	-3.1	24.6	-0.7	1.8	59.9	-8.4	-8.3	15.5	-13.8	-16.0	41.7	-0.5	-0.4	23.2	-2.5
11 Q1-Q2	M	-1.1	-0.7	25.1	-5.5	-4.2	57.7	-1.9	-1.4	16.7	-13.0	-12.3	41.6	0.8	0.9	24.0	-0.8
08 Q4		-3.0	-3.4	27.9	-4.8	-3.4	59.8	-6.7	-7.7	18.7	-20.2	-23.8	45.7	1.4	1.7	26.3	-3.0
09 Q1		-6.4	-5.8	25.4	-3.0	3.3	63.0	-12.5	-12.0	16.6	-25.9	-29.9	40.5	-1.3	0.0	23.9	-6.6
Q2		-7.2	-6.6	25.2	-4.2	0.8	57.1	-13.7	-14.0	15.6	-24.6	-26.4	42.8	-2.7	-1.6	23.9	-7.4
Q3		-7.3	-6.5	25.9	-6.4	-3.5	56.9	-14.9	-15.0	15.3	-23.3	-24.5	43.0	-2.8	-1.7	24.9	-7.3
Q4		-6.1	-5.0	25.1	-2.6	-1.5	59.2	-11.9	-11.4	15.5	-17.3	-17.6	43.9	-3.3	-1.8	23.5	-6.2
10 Q1		-3.6	-3.7	24.4	-0.3	2.4	62.7	-10.4	-10.9	15.0	-15.9	-17.2	41.1	-0.6	-0.5	22.8	-3.8
Q2		-2.5	-2.4	24.9	-1.1	1.1	57.1	-6.4	-5.6	15.9	-11.6	-14.8	42.2	-0.4	-0.2	23.6	-2.5
Q3		-1.7	-1.2	25.6	2.3	11.2	55.4	-4.4	-3.2	16.5	-9.8	-12.3	42.3	-0.3	0.2	24.5	-1.9
Q4		-1.3	-1.2	24.8	2.8	7.7	61.3	-2.2	-0.7	17.2	-12.8	-15.1	40.9	0.2	0.1	23.3	-1.5
11 Q1		-1.3	-0.9	24.8	-6.2	-4.6	59.1	-2.3	-1.1	16.6	-10.2	-9.0	41.5	0.3	0.2	23.4	-1.1
Q2		-0.9	-0.5	25.5	-4.8	-3.8	56.2	-1.6	-1.8	16.8	-15.9	-15.6	41.7	1.3	1.6	24.7	-0.8

EMPLOYMENT
Annual percentage changes
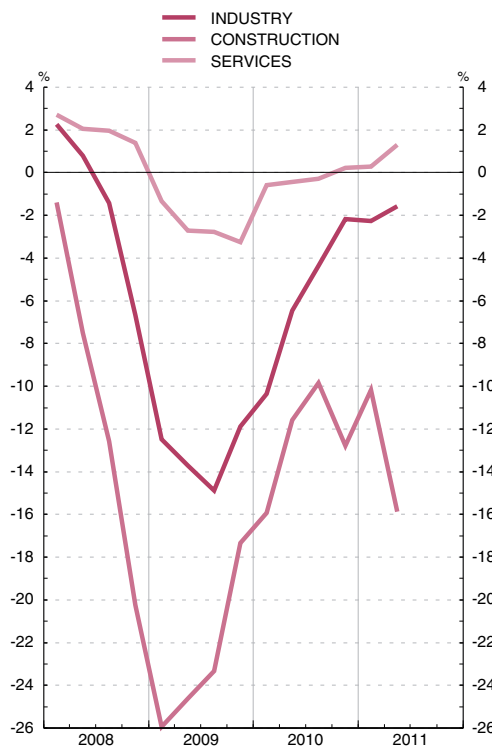
TEMPORARY EMPLOYMENT
Percentages
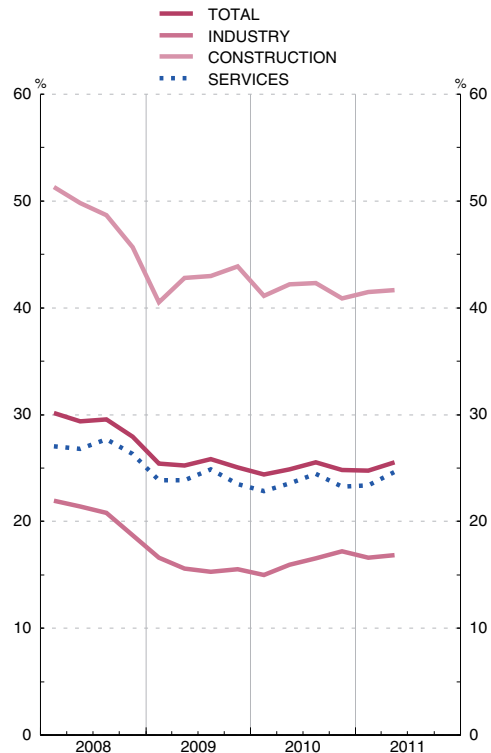
Source: INE (Labour Force Survey: 2005 methodology).
a. Series re-calculated drawing on the transition matrix to NACE 2009 published by INE. The underlying series of this indicator are in Tables 24.4 and 24.6 of the BE Boletín Estadístico.
General note to the tables: As a result of the change in the 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.

■ Series depicted in chart.

Thousands, annual percentage changes and %

		Wage-earners									Unemployment			
		By type of contract					By duration of working day					By duration		
		Permanent		Temporary			Full-time		Part-time			Less than one year		More than one year	
		Annual change	4-quarter % change	Annual change	4-quarter % change	Proportion of temporary employment	Annual change	4-quarter % change	Annual change	4-quarter % change	As % for wage earners	Unemployment rate (a)	4-quarter % change	Unemployment rate (a)	4-quarter % change
		Thousands		Thousands			Thousands		Thousands						
		1	2 ■	3	4 ■	5	6	7	8	9 ■	10	11 ■	12	13 ■	14
08	M	348	3.0	-426	-8.0	29.25	-112	-0.8	33	1.6	12.33	7.75	55.5	2.41	27.0
09	M	-102	-0.9	-898	-18.4	25.40	-1 036	-7.1	36	1.7	13.34	11.83	53.8	5.13	114.0
10	M	-175	-1.5	-159	-4.0	24.91	-384	-2.8	50	2.4	13.95	10.40	-11.9	8.53	66.7
10 Q1-Q2 M		-254	-2.2	-227	-5.7	24.63	-436	-3.2	50	2.4	14.10	10.88	-11.4	8.14	86.3
11 Q1-Q2 M		-155	-1.3	53	1.4	25.15	-182	-1.4	111	5.1	14.92	10.01	-7.8	9.95	22.4
08 Q4		96	0.8	-664	-12.7	27.93	-656	-4.4	88	4.3	12.92	9.86	83.6	2.97	56.8
09 Q1		70	0.6	-1 045	-20.6	25.41	-996	-6.8	22	1.1	13.22	12.42	99.7	4.01	91.0
Q2		-135	-1.1	-981	-19.8	25.24	-1 155	-7.8	39	1.9	13.48	12.11	72.9	4.72	117.2
Q3		-197	-1.7	-899	-18.2	25.85	-1 136	-7.7	40	2.0	12.79	11.42	49.2	5.29	127.2
Q4		-148	-1.3	-668	-14.7	25.08	-857	-6.0	42	2.0	13.87	11.37	14.8	6.50	117.8
10 Q1		-285	-2.4	-305	-7.6	24.39	-628	-4.6	39	1.8	13.99	11.36	-8.9	7.77	93.0
Q2		-224	-1.9	-149	-3.8	24.88	-436	-3.2	62	2.9	14.21	10.40	-14.0	8.51	80.6
Q3		-98	-0.8	-96	-2.4	25.56	-266	-2.0	73	3.6	13.42	9.92	-12.7	8.52	61.9
Q4		-93	-0.8	-86	-2.2	24.82	-204	-1.5	26	1.2	14.20	9.93	-12.2	9.33	44.3
11 Q1		-158	-1.4	26	0.7	24.77	-243	-1.8	110	5.2	14.84	10.24	-9.6	9.92	27.9
Q2		-152	-1.3	81	2.1	25.52	-182	-1.4	111	5.1	15.01	9.79	-5.8	9.98	17.4

WAGE-EARNERS
Annual percentage changes

— PERMANENT
— TEMPORARY
— PART-TIME

UNEMPLOYMENT
Unemployment rate

— LESS THAN ONE YEAR
— MORE THAN ONE YEAR

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									
			Annual change	12 month % change	12 month % change			Branches other than agriculture					12 month % change	Perma-nent	Part time	Tempo-rary		12 month % change
		Thou-sands	Thou-sands			Total	Agri-culture	Total	Industry	Construc-tion	Services	Thou-sands					Thou-sands	
		1	2	3 ■	4	5	6 ■	7	8 ■	9 ■	10 ■	11	12	13	14	15	16	17 ■
08	M	2 540	501	24.6	7.9	26.6	30.6	26.5	17.0	71.1	20.1	1 383	-10.9	11.39	25.61	88.61	1 358	-9.8
09	M	3 644	1 104	43.5	35.7	45.3	49.9	45.2	47.7	62.5	40.0	1 168	-15.5	9.41	27.97	90.59	1 165	-14.2
10	M	4 061	417	11.4	35.1	9.9	27.4	9.4	3.1	5.7	12.1	1 201	2.8	8.55	29.26	91.45	1 191	2.3
10 J-S	M	4 048	478	13.4	38.8	11.7	29.5	11.2	5.0	8.0	13.8	1 180	2.9	8.59	28.76	91.41	1 177	2.8
11 J-S	M	4 209	161	4.0	14.8	3.1	16.2	2.6	-2.7	-2.3	5.4	1 195	1.2	8.09	30.46	91.91	1 206	2.5
10 Aug		3 970	341	9.4	30.1	7.8	27.3	7.2	0.0	3.9	10.0	1 010	6.9	6.62	28.59	93.38	1 021	6.0
Sep		4 018	308	8.3	26.3	6.9	23.1	6.4	-0.7	2.8	9.2	1 390	2.6	8.78	31.88	91.22	1 442	3.1
Oct		4 086	278	7.3	23.9	5.9	22.4	5.4	-1.4	1.1	8.4	1 346	-0.9	8.80	33.12	91.20	1 295	-6.1
Nov		4 110	241	6.2	24.1	4.8	21.5	4.2	-2.4	-0.4	7.2	1 257	4.4	8.60	30.86	91.40	1 243	4.5
Dec		4 100	176	4.5	24.7	2.9	19.5	2.4	-3.4	-3.7	5.8	1 190	4.6	7.83	28.24	92.17	1 165	5.4
11 Jan		4 231	183	4.5	25.5	2.9	21.0	2.3	-3.4	-3.9	5.7	1 116	6.3	9.21	26.03	90.79	1 116	8.3
Feb		4 299	169	4.1	24.0	2.5	21.3	1.9	-3.7	-4.7	5.4	1 011	-1.6	9.33	28.08	90.67	1 004	-1.9
Mar		4 334	167	4.0	20.8	2.6	18.9	2.1	-3.9	-4.4	5.5	1 155	-2.9	9.62	29.94	90.38	1 148	-2.5
Apr		4 269	127	3.1	16.3	1.9	13.2	1.5	-3.6	-2.8	4.1	1 067	-1.1	9.02	31.13	90.98	1 083	1.3
May		4 190	123	3.0	12.5	2.2	10.5	1.9	-3.5	-3.0	4.7	1 289	9.0	8.00	30.28	92.00	1 306	9.0
Jun		4 122	139	3.5	9.3	3.0	13.7	2.6	-2.7	-1.7	5.1	1 313	1.1	7.23	31.54	92.77	1 304	4.8
Jul		4 080	171	4.4	8.8	4.0	15.5	3.6	-1.8	-0.2	5.9	1 349	-3.4	6.66	33.44	93.34	1 346	-2.9
Aug		4 131	161	4.1	7.2	3.8	14.7	3.4	-1.7	-0.6	5.8	1 061	5.1	6.23	30.37	93.77	1 075	5.3
Sep		4 227	209	5.2	8.9	4.8	17.0	4.4	-0.1	0.7	6.6	1 394	0.2	7.51	33.30	92.49	1 473	2.2

REGISTERED UNEMPLOYMENT
Annual percentage changes

- TOTAL
- AGRICULTURE
- INDUSTRY
- CONSTRUCTION
- SERVICES
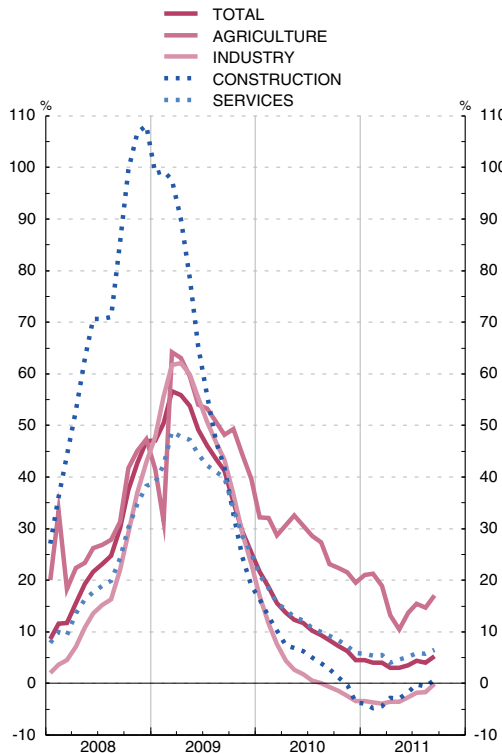
PLACEMENTS
Annual percentage changes (Trend obtained with TRAMO-SEATS)

- TOTAL
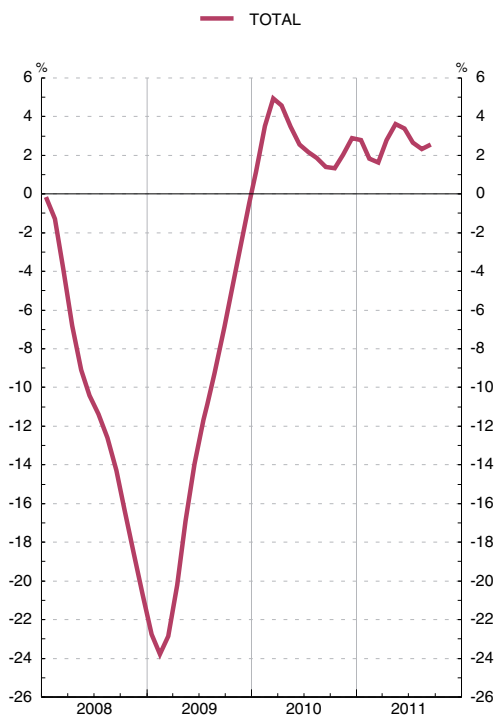
Source: Instituto de Empleo Servicio Público de Empleo Estatal (INEM).
Note: The underlying series for this indicator are in Tables 24.16 and 24.17 of the BE Boletín estadístico.
a. To December 2008, NACE 1993; from January 2009, NACE 2009.

■ 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
08	11 968	3.60	7 069	1 733	8 802	390	406	2 419	1 070	4 907	3.48	3.80	3.54	3.21	3.39	3.64	3.62
09	11 558	2.24	7 611	1 064	8 676	-126	483	2 063	1 158	4 971	2.62	2.35	2.59	2.39	2.48	3.57	2.43
10	9 544	2.20	6 071	1 023	7 093	-1 583	557	1 699	1 084	3 753	1.32	1.20	1.30	1.35	1.08	1.49	1.34
10 *Apr*	9 410	2.20	2 625	156	2 781	-3 993	224	715	40	1 802	1.29	1.04	1.27	1.46	0.94	0.90	1.39
May	9 415	2.20	2 890	194	3 083	-3 915	234	831	41	1 978	1.33	1.06	1.31	1.59	1.04	0.90	1.40
Jun	9 460	2.19	3 396	208	3 604	-3 781	234	1 060	81	2 229	1.31	1.06	1.30	1.59	1.00	1.76	1.39
Jul	9 480	2.19	3 548	224	3 771	-3 665	235	1 100	66	2 371	1.30	1.13	1.29	1.58	1.02	1.41	1.38
Aug	9 481	2.19	3 766	290	4 056	-3 391	236	1 319	66	2 435	1.29	1.10	1.28	1.58	1.01	1.41	1.39
Sep	9 502	2.19	4 786	344	5 130	-2 698	238	1 354	910	2 628	1.32	1.09	1.31	1.58	1.02	1.49	1.37
Oct	9 543	2.20	5 381	821	6 202	-2 183	429	1 537	1 084	3 153	1.33	1.10	1.30	1.39	1.04	1.49	1.34
Nov	9 543	2.20	6 047	917	6 964	-1 625	520	1 664	1 084	3 696	1.32	1.09	1.29	1.32	1.08	1.49	1.32
Dec	9 544	2.20	6 071	1 023	7 093	-1 583	557	1 699	1 084	3 753	1.32	1.20	1.30	1.35	1.08	1.49	1.34
11 *Jan*	4 788	2.58	1 372	0	1 373	219	210	438	12	712	2.98	0.50	2.98	2.90	2.95	1.62	3.04
Feb	4 802	2.59	2 230	0	2 230	837	263	712	32	1 223	3.12	0.50	3.12	2.81	3.16	3.45	3.15
Mar	4 934	2.61	2 754	26	2 780	901	263	1 064	155	1 298	3.08	1.66	3.06	2.81	3.27	1.81	3.10
Apr	5 037	2.64	2 984	41	3 025	244	263	1 149	228	1 384	3.03	1.63	3.01	2.81	3.17	1.72	3.14
May	5 038	2.64	3 935	71	4 007	923	263	1 193	644	1 906	2.82	1.95	2.80	2.81	3.11	1.58	3.02
Jun	5 040	2.64	4 355	365	4 719	1 116	345	1 270	854	2 251	2.82	1.41	2.71	2.55	3.08	1.52	2.97
Jul	5 121	2.63	4 495	509	5 004	1 232	351	1 306	918	2 429	2.77	1.59	2.65	2.53	3.04	1.52	2.89
Aug	5 121	2.63	4 506	518	5 024	968	351	1 309	919	2 445	2.77	1.60	2.65	2.53	3.04	1.52	2.88
Sep	5 121	2.63	4 513	609	5 122	-7	352	1 374	919	2 476	2.77	1.64	2.63	2.54	2.99	1.52	2.87

EMPLOYEES AFFECTED
January-September
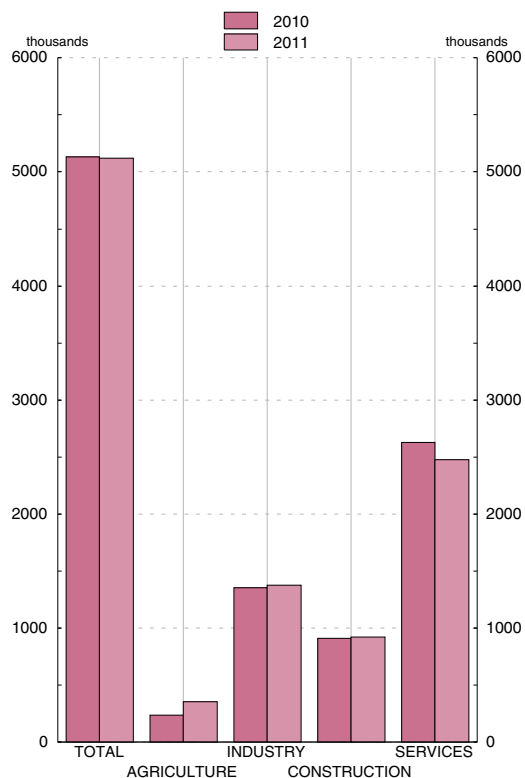
AVERAGE WAGE SETTLEMENT
January-September
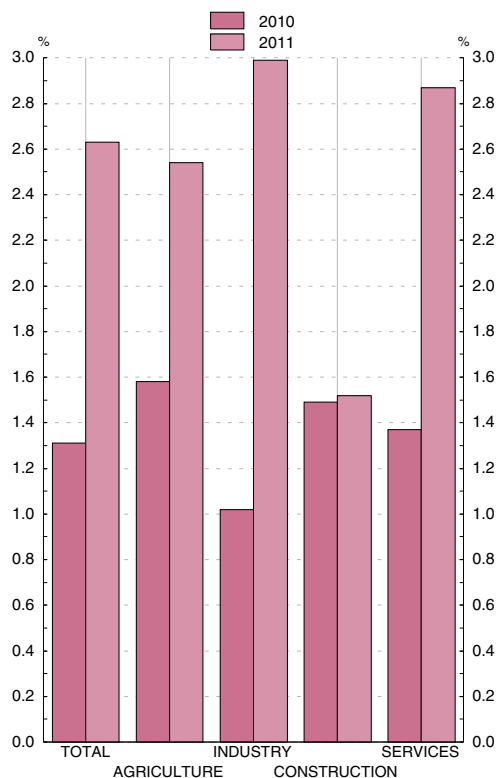
Source: Ministerio de Trabajo e Inmigración (MTIN), Estadística de Convenios Colectivos de Trabajo. Avance mensual.

a. Cumulative data.
b. Includes revisions arising from indexation clauses, except in 2011.
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	memoramdum item: total hourly costs (a)	
		Per worker and per month				Per hour worked	Per worker and per month				Per hour worked		Spain (b)	Euro area (c)
		Total	Industry	Construction	Services		Total	Industry	Construction	Services				
		1 ■	2	3	4	5 ■	6 ■	7	8	9	10	11	12 ■	13 ■
08	M	4.8	4.4	6.3	4.9	4.6	5.1	4.8	6.3	5.0	4.9	4.1	4.5	3.5
09	M	3.5	3.1	5.4	3.5	5.6	3.2	2.1	5.2	3.2	5.3	4.3	4.9	2.7
10	M	0.4	2.3	0.1	0.2	0.6	0.9	2.9	0.8	0.5	1.1	-1.1	0.4	1.6
10 *Q1-Q2* M		1.1	2.3	0.5	1.1	1.4	1.8	2.9	1.6	1.6	2.1	-0.9	1.5	1.7
11 *Q1-Q2* M		0.8	1.4	2.9	0.6	0.8	0.8	3.1	2.8	0.1	0.7	1.0	1.5	3.2
08 *Q4*		5.0	4.6	7.9	5.0	3.0	4.8	4.5	6.6	4.7	2.7	5.8	4.8	4.1
09 *Q1*		4.2	3.8	6.5	4.1	3.7	2.9	1.2	4.6	3.0	2.4	7.8	5.0	2.6
Q2		4.0	3.1	6.3	4.1	9.6	4.1	2.4	5.8	4.3	9.8	3.5	5.7	4.0
Q3		3.4	2.9	5.0	3.5	4.2	3.1	2.0	4.9	3.2	3.9	3.9	5.0	2.7
Q4		2.5	2.7	4.1	2.5	5.1	2.7	2.5	5.3	2.5	5.3	1.9	4.0	1.6
10 *Q1*		1.0	2.1	0.7	1.0	2.1	1.9	2.8	1.9	1.6	2.9	-1.1	1.9	1.9
Q2		1.2	2.5	0.4	1.1	0.8	1.8	3.0	1.4	1.6	1.4	-0.6	1.2	1.5
Q3		-0.3	2.1	-0.9	-0.6	-1.4	0.1	2.9	-0.9	-0.4	-0.9	-1.5	-1.0	1.2
Q4		-0.3	2.3	0.2	-0.8	1.1	-	2.8	0.6	-0.7	1.3	-1.0	-0.1	1.7
11 *Q1*		0.8	1.3	2.8	0.6	-	1.0	3.0	2.3	0.3	0.2	0.4	1.3	2.7
Q2		0.8	1.6	3.0	0.6	1.5	0.6	3.1	3.2	-0.2	1.3	1.5	1.7	3.6

PER WORKER AND MONTH
Annual percentage change

- LABOUR COSTS
- WAGE COSTS
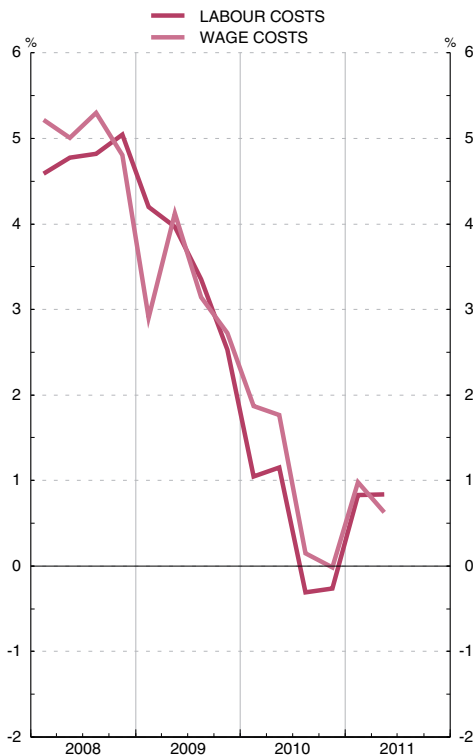
PER HOUR WORKED
Annual percentage change

- LABOUR COSTS PER HOUR. SPAIN
- LABOUR COSTS PER HOUR. EURO AREA
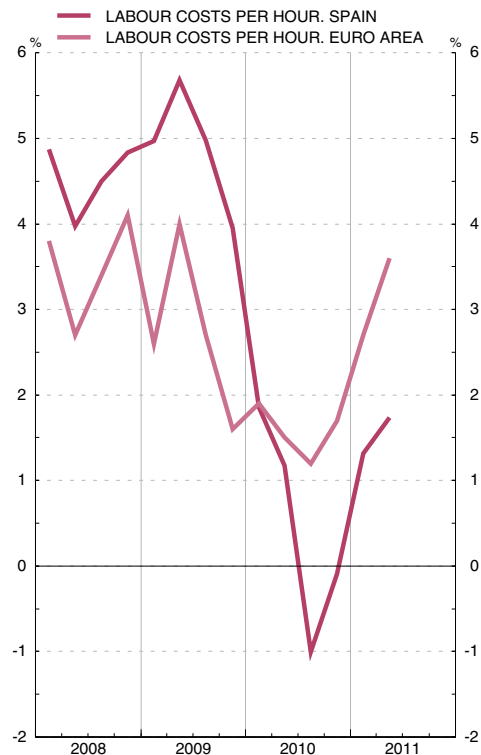
Sources: INE (Quarterly Labour Costs Survey and Harmonised Labour Costs Index) and Eurostat.
Note: The underlying series for this indicator are in Tables 24.25, 24.26 and 24.27 of de BE Boletín estadístico.
a. Working day adjusted.
b. Harmonised Labour Costs Index.
c. Whole economy, excluding agriculture, public administration, education, health and services not classified elsewhere.

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

■ Series depicted in chart.   *Annual percentage changes*

		Unit labour costs				Whole-economy				Memorandum items			
		Whole-economy		Manufacturing		Compensation per employee		Productivity		GDP (volume measures)		Employment Whole-economy	
		Spain	Euro area	Spain (b)	Euro area (c)	Spain (d)	Euro area	Spain	Euro area	Spain	Euro area	Spain (d)	Euro area
		1 ■	2 ■	3 ■	4 ■	5	6	7	8	9	10	11	12
08	P	4.9	3.8	6.9	6.1	6.4	3.3	1.4	-0.5	0.9	0.3	-0.5	0.8
09	P	1.0	3.9	2.8	8.9	4.1	1.4	3.1	-2.3	-3.7	-4.2	-6.6	-1.9
10	P	-1.5	-0.6	-4.6	-5.5	0.7	1.6	2.3	2.2	-0.1	1.8	-2.4	-0.5
08 Q3	P	5.2	3.9	6.8	6.3	6.3	3.4	1.1	-0.5	0.3	0.1	-0.8	0.5
Q4	P	4.2	4.9	5.8	11.9	6.2	2.8	2.0	-2.0	-1.4	-2.1	-3.3	-0.1
09 Q1	P	1.9	6.1	4.5	15.7	4.8	1.8	2.9	-4.1	-3.5	-5.3	-6.2	-1.2
Q2	P	1.7	4.7	4.5	12.7	4.5	1.3	2.8	-3.3	-4.4	-5.1	-7.1	-1.9
Q3	P	0.3	3.3	1.7	6.8	3.9	1.3	3.6	-2.0	-3.9	-4.2	-7.2	-2.2
Q4	P	0.0	1.2	0.4	0.2	3.2	1.3	3.1	0.1	-3.0	-2.1	-6.0	-2.1
10 Q1	P	-0.9	-0.8	-5.7	-7.3	1.7	1.5	2.7	2.3	-1.4	0.9	-3.9	-1.3
Q2	P	-0.9	-0.8	-6.0	-7.1	1.5	1.8	2.5	2.7	-0.0	2.1	-2.4	-0.6
Q3	P	-1.9	-0.7	-4.1	-4.4	-0.1	1.5	1.8	2.2	0.2	2.1	-1.6	-0.1
Q4	P	-2.3	-0.1	-2.4	-3.3	-0.4	1.6	2.0	1.7	0.6	1.9	-1.4	0.2
11 Q1	P	-1.5	0.2	-4.2	-1.6	0.8	2.3	2.4	2.1	0.9	2.4	-1.4	0.3
Q2	P	-1.5	1.3	-3.2	0.6	0.2	2.5	1.7	1.1	0.7	1.6	-1.0	0.5

UNIT LABOUR COSTS: TOTAL
Annual percentage changes
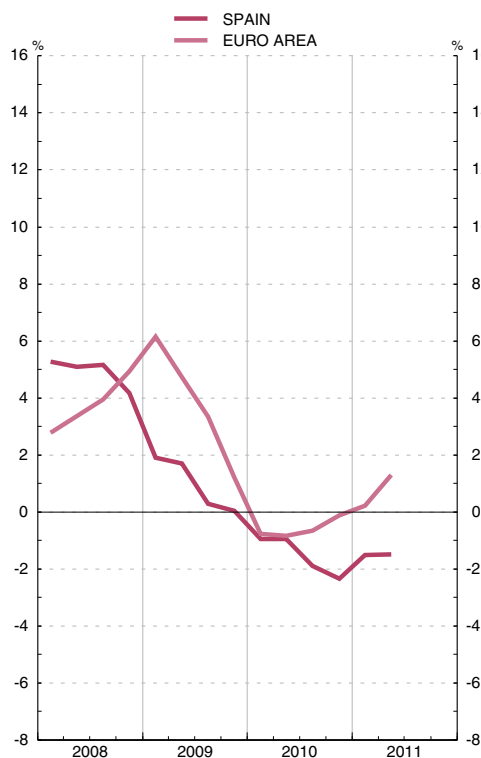
UNIT LABOUR COSTS: MANUFACTURING
Annual percentage changes
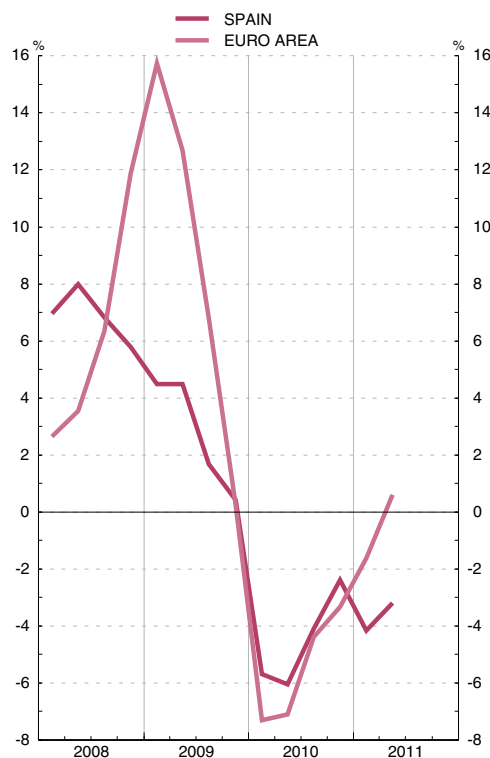
Sources: INE (Quarterly National Accounts of Spain. Base year 2000) and ECB.
a. Spain: prepared in accordance with ESA95. SEASONALLY- AND WORKING-DAY-ADJUSTED SERIES (see economic bulletin April 2002).
b. Industry.
c. Industry and energy.
d. Full-time equivalent employment.

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

■ Series depicted in chart.

Indices and annual percentage changes

		Total (100%)			Annual percentage change (12-month % change)						Memorandum item:prices for agricultural products (2005=100)	
		Original series	Month-on-month % change	12-month % change (a)	Cumulative % change during year (b)	Unprocessed food	Processed food	Industrial goods excl. energy products	Energy	Services	IPSEBENE (c)	Original series	12-month % change
		1	2	3	4	5	6	7	8	9	10	11	12
08	M	107.0	_	4.1	1.4	4.0	6.5	0.3	12.1	3.9	3.2	107.0	3.1
09	M	106.7	_	-0.3	0.8	-1.3	0.9	-1.3	-8.7	2.4	0.8	94.9	-11.3
10	M	108.6	_	1.8	3.0	0.0	1.0	-0.4	12.6	1.3	0.6	100.8	6.2
10 *J-S*	M	108.0	0.1	1.5	0.2	-0.7	0.8	-0.8	12.4	1.2	0.4	101.3	4.9
11 *J-S*	M	111.6	0.1	3.4	0.6	2.2	3.7	0.7	16.8	1.8	1.8	...	...
10 *Jun*		108.9	0.2	1.5	1.0	0.5	1.2	-0.8	10.9	1.0	0.4	101.8	8.6
Jul		108.4	-0.4	1.9	0.6	1.1	0.7	-0.1	11.8	1.4	0.8	87.0	4.5
Aug		108.6	0.3	1.8	0.8	1.6	0.8	0.2	8.9	1.5	1.0	88.5	5.1
Sep		108.7	0.1	2.1	0.9	1.3	1.1	0.4	11.1	1.5	1.1	97.6	8.0
Oct		109.7	0.9	2.3	1.8	2.1	1.1	0.6	12.6	1.5	1.1	100.9	10.3
Nov		110.3	0.5	2.3	2.4	2.2	1.3	0.8	11.7	1.5	1.2	101.7	10.3
Dec		111.0	0.6	3.0	3.0	2.6	2.6	0.9	15.6	1.6	1.5	103.1	8.5
11 *Jan*		110.2	-0.7	3.3	-0.7	2.3	3.1	0.7	17.6	1.6	1.6	99.0	3.7
Feb		110.3	0.1	3.6	-0.6	2.9	3.4	0.8	19.0	1.8	1.8	105.2	1.3
Mar		111.1	0.7	3.6	0.1	3.1	3.7	0.7	18.9	1.7	1.7	105.5	-5.2
Apr		112.5	1.2	3.8	1.4	2.4	4.5	0.9	17.7	2.2	2.1	105.7	-4.7
May		112.5	-	3.5	1.3	2.7	4.7	0.9	15.3	2.0	2.1	106.5	-8.1
Jun		112.3	-0.1	3.2	1.2	2.1	2.9	0.9	15.4	1.9	1.7	108.6	6.7
Jul		111.7	-0.5	3.1	0.7	1.6	3.4	0.4	16.0	1.7	1.6	...	...
Aug		111.9	0.1	3.0	0.8	1.1	3.3	0.4	15.3	1.7	1.6	...	...
Sep		112.1	0.2	3.1	1.0	1.3	4.1	0.5	15.9	1.6	1.7	...	...

CONSUMER PRICE INDEX. TOTAL AND COMPONENTS
Annual percentage changes

- TOTAL
- IPSEBENE
- INDUSTRIAL GOODS EXCL. ENERGY PRODUCTS
- SERVICES

CONSUMER PRICE INDEX. COMPONENTS
Annual percentage changes

- PROCESSED FOOD
- UNPROCESSED FOOD
- ENERGY
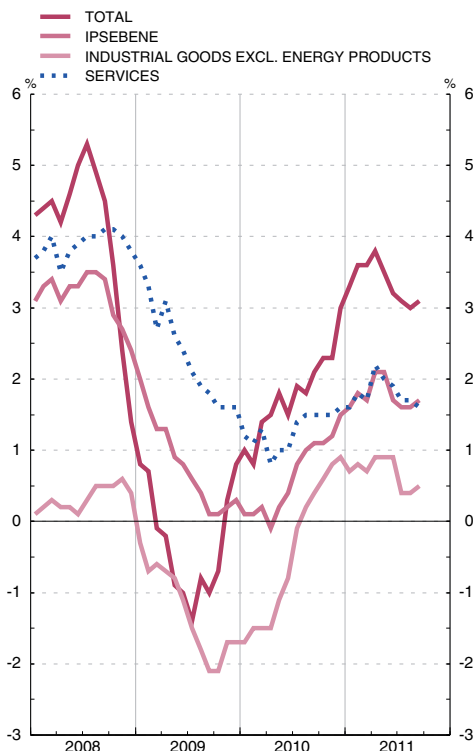
Sources: INE, Ministerio de Medio Ambiente y Medio Rural y Marino.
Note: The underlying series for this indicator are in Tables 25.2 and 25.8 of the BE Boletín estadístico.
a. For annual periods: average growth for each year on the previous year.
b. For annual periods: December-on-December growth rate.
c. Index of non-energy processed goods and service prices.

■ Series depicted in chart.

Annual percentage changes

		Total		Goods														Services	
						Food						Industrial							
						Total		Processed		Unprocessed				Non-energy		Energy			
		Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area	Spain	Euro area
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
08	M	4.1	3.3	4.2	3.8	5.7	5.1	7.4	6.1	3.9	3.5	3.3	3.1	0.4	0.8	11.9	10.3	3.9	2.6
09	M	-0.2	0.3	-1.8	-0.9	0.2	0.7	1.0	1.1	-0.7	0.2	-2.9	-1.7	-0.9	0.6	-9.0	-8.1	2.2	2.0
10	M	2.0	1.6	2.7	1.8	1.1	1.1	1.4	0.9	0.7	1.3	3.5	2.2	0.3	0.5	12.5	7.4	1.1	1.4
10 *J-S*	M	1.9	1.5	2.4	1.6	0.8	0.8	1.2	0.8	0.4	0.9	3.3	2.0	0.1	0.4	12.2	6.8	1.0	1.4
11 *J-S*	M P	3.2	2.6	4.2	3.2	2.8	2.5	4.2	2.9	1.3	1.8	4.9	3.6	0.5	0.6	16.7	12.1	1.7	1.8
10 *Jun*		2.1	1.5	2.9	1.6	1.6	0.9	1.8	0.9	1.4	1.1	3.6	2.0	1.0	0.6	10.8	6.2	0.9	1.3
Jul		1.8	1.7	2.1	2.0	1.1	1.3	0.9	0.9	1.4	2.1	2.6	2.3	-0.7	0.4	11.7	8.1	1.2	1.4
Aug		1.6	1.6	1.7	1.7	1.3	1.6	1.1	1.0	1.7	2.5	1.8	1.7	-0.7	0.3	8.9	6.1	1.4	1.4
Sep		2.8	1.9	3.7	2.2	0.7	1.5	1.3	1.0	-	2.3	5.3	2.6	3.2	0.9	11.0	7.7	1.4	1.4
Oct		2.5	1.9	3.3	2.4	1.3	1.6	1.3	1.2	1.2	2.3	4.4	2.7	1.5	0.8	12.6	8.5	1.3	1.4
Nov		2.3	1.9	2.9	2.3	1.5	1.8	1.4	1.3	1.6	2.6	3.6	2.6	0.7	0.9	11.7	7.9	1.4	1.3
Dec		2.9	2.2	3.8	2.9	2.6	2.1	3.1	1.5	2.0	3.2	4.5	3.2	0.5	0.7	15.6	11.0	1.4	1.3
11 *Jan*		3.0	2.3	4.0	2.9	2.2	1.9	3.7	1.8	0.7	2.2	5.0	3.4	0.3	0.5	17.6	12.0	1.5	1.5
Feb		3.4	2.4	4.5	3.0	2.8	2.3	4.0	2.0	1.6	2.7	5.4	3.4	0.3	0.1	19.0	13.1	1.7	1.6
Mar		3.3	2.7	4.5	3.4	2.7	2.4	4.3	2.5	1.1	2.2	5.5	4.0	0.6	0.9	18.9	13.0	1.6	1.6
Apr		3.5	2.8	4.5	3.4	3.0	2.2	5.3	2.8	0.6	1.4	5.4	4.0	0.8	1.0	17.6	12.5	2.0	2.0
May		3.4	2.7	4.4	3.4	3.7	2.8	5.5	3.2	1.8	2.4	4.8	3.6	0.8	1.0	15.3	11.1	1.8	1.8
Jun		3.0	2.7	3.9	3.2	2.4	2.7	3.0	3.1	1.7	2.0	4.8	3.5	0.8	0.9	15.3	10.9	1.8	2.0
Jul		3.0	2.5	4.0	2.9	2.9	2.6	3.6	3.4	2.0	1.3	4.5	3.1	0.2	-	15.9	11.8	1.5	2.0
Aug		2.7	2.5	3.5	3.0	2.1	2.7	3.6	3.6	0.5	1.1	4.3	3.1	0.1	-	15.3	11.8	1.5	1.9
Sep	P	3.0	3.0	4.0	3.7	3.3	3.0	4.6	4.0	1.8	1.4	4.5	4.1	0.2	1.2	15.9	12.4	1.5	1.9

HARMONISED INDEX OF CONSUMER PRICES. TOTAL
Annual percentage changes

HARMONISED INDEX OF CONSUMER PRICES. COMPONENTS
Annual percentage changes
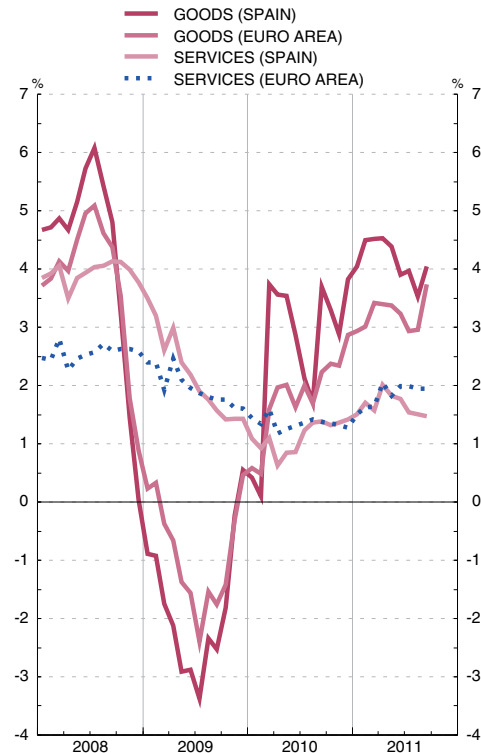
Source: Eurostat.

a. Since January 2011 the rules of Commission Regulation (EC) No 330/2009 on the treatment of seasonal products have been incorporated. This has prompted a break in the series. The series constructed with the new methodology are only available from January 2010. The year-on-year rates of change presented here for 2010 are those disseminated by Eurostat, wich were constructed using the series prepared with the new methodology for 2010 and using the series prepared with the old methodology for 2009. Thus, these rates give a distorted view since they compare price indices prepared using two different methodologies. The year-on-year rates of change in the HICP in 2010, calculated on a uniform basis using solely the previous methodology and wich are consequently consistent, are as follows: Jan:1,1; Feb:0,9; Mar:1,5; Apr:1,6; May:1,8; Jun:1,5; Jul:1,9; Aug:1,8; Sep:2,1; Oct:2,3; Nov:2,2; Dec:2,9. 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				
													Total	Consumer goods	Capital goods	Intermediate goods	Energy
		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	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
08	M P	116.3	_	6.5	_	4.4	_	2.5	_	5.5	_	14.3	6.1	3.9	2.1	3.9	14.3
09	M P	112.4	_	-3.4	_	-0.6	_	0.8	_	-5.4	_	-6.8	-5.1	-2.1	0.5	-5.2	-11.5
10	M P	115.9	_	3.2	_	0.2	_	0.2	_	2.9	_	9.8	2.9	0.4	0.3	3.5	6.5
10 *J-A*	M P	115.3	_	2.6	_	-0.1	_	0.0	_	1.9	_	9.2	2.0	-0.1	0.1	2.4	4.9
11 *J-A*	M P	123.5	_	7.2	_	2.3	_	1.2	_	7.0	_	17.2	6.3	3.0	1.4	7.0	12.1
10 *May*	P	116.0	0.2	3.8	-0.1	0.2	-	-0.1	0.8	3.5	0.2	12.0	3.2	-0.0	0.3	3.9	7.4
Jun	P	116.1	0.1	3.2	0.1	0.3	0.1	0.1	-	3.7	0.2	8.7	3.1	0.2	0.4	4.3	6.2
Jul	P	116.0	-0.1	3.3	-	0.2	-	0.2	-0.3	3.2	-0.1	9.8	4.0	0.4	0.6	4.5	9.6
Aug	P	116.1	0.1	2.7	0.3	-	0.2	0.5	0.6	3.4	-0.9	7.0	3.6	0.5	0.7	4.7	7.3
Sep	P	116.3	0.2	3.4	0.3	0.2	0.1	0.5	0.5	4.0	-0.2	9.1	4.3	0.8	0.7	5.1	9.3
Oct	P	117.0	0.6	4.1	0.1	0.6	-	0.5	0.2	4.3	1.9	10.5	4.4	1.2	0.7	5.5	8.7
Nov	P	117.4	0.3	4.4	-	0.9	0.1	0.6	0.4	5.1	1.0	10.7	4.6	1.5	0.9	5.8	8.8
Dec	P	118.5	0.9	5.3	0.3	1.3	-	0.7	0.7	5.7	2.7	13.5	5.4	1.8	0.7	6.3	11.2
11 *Jan*	P	121.3	2.4	6.8	0.5	1.5	0.5	1.0	1.7	6.8	6.7	17.3	5.9	2.1	1.2	7.3	11.7
Feb	P	122.4	0.9	7.6	0.5	1.9	0.1	0.9	1.2	7.9	1.4	18.5	6.6	2.5	1.4	8.2	12.6
Mar	P	123.5	0.9	7.8	0.3	2.1	0.2	1.2	0.6	8.0	2.3	18.6	6.8	2.8	1.4	8.1	13.0
Apr	P	124.2	0.6	7.3	0.4	2.5	0.1	1.3	0.5	7.1	1.1	17.1	6.8	3.4	1.4	7.3	13.2
May	P	123.8	-0.3	6.7	0.1	2.6	-	1.3	0.2	6.6	-1.3	15.4	6.2	3.5	1.2	6.6	11.8
Jun	P	123.9	0.1	6.7	0.1	2.6	0.1	1.3	-0.1	6.5	0.1	15.4	5.9	3.4	1.4	6.3	10.7
Jul	P	124.7	0.6	7.5	0.2	2.8	0.1	1.4	0.1	6.8	2.1	17.9	6.1	3.3	1.4	6.2	11.9
Aug	P	124.3	-0.3	7.1	0.2	2.7	-	1.2	-	6.2	-1.4	17.3	5.9	3.3	1.6	5.7	11.5

PRODUCER PRICE INDEX. TOTAL
Annual percentage changes

TOTAL (SPAIN)
TOTAL (EURO AREA)

PRODUCER PRICE INDEX. COMPONENTS
Annual percentage changes
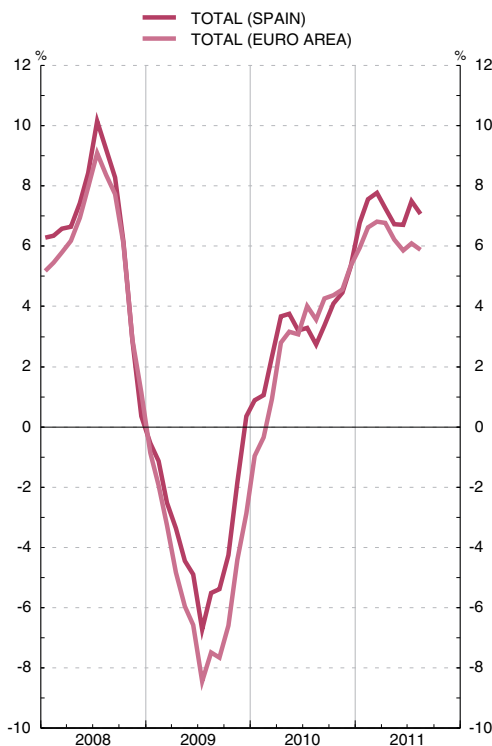
CONSUMPTION
INVESTMENT
INTERMEDIATE GOODS
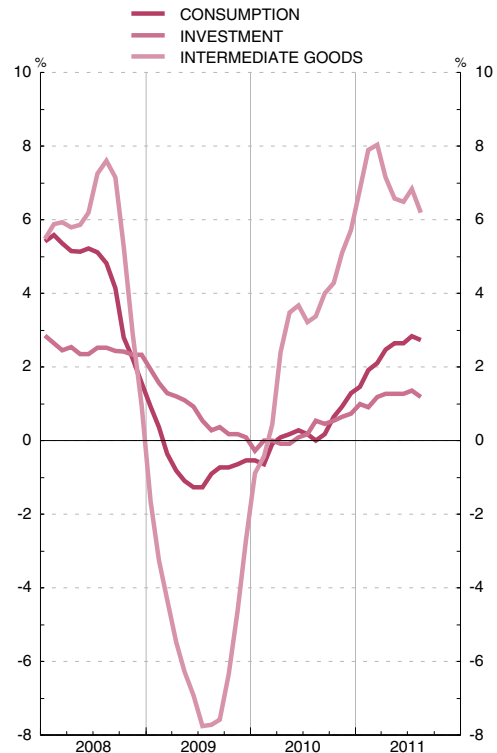
Sources: INE and ECB.
Note: The underlying series for this indicator, for Spain, are in Table 25.3 of the BE Boletín estadístico.
a. For annual periods: average growth for each year on the previous year.

5.4. UNIT VALUE INDICES FOR SPANISH FOREIGN TRADE

■ Series depicted in chart.

Annual percentage changes

	Exports/dispatches						Imports/arrivals					
	Total	Consumer goods	Capital goods	Intermediate goods			Total	Consumer goods	Capital goods	Intermediate goods		
				Total	Energy	Non-energy				Total	Energy	Non-energy
	1	2	3	4	5	6	7	8	9	10	11	12
08	1,6	0,4	0,5	2,6	28,7	0,4	4,2	-1,0	2,3	6,6	24,2	0,5
09	-6,8	-3,5	-5,4	-9,3	-31,0	-6,8	-11,8	-3,6	-5,6	-16,1	-30,3	-9,8
10	1,6	3,1	-5,2	1,8	16,8	0,9	4,7	1,7	2,4	6,2	25,8	0,5
10 *J-A*	0,6	1,7	-7,8	1,4	15,2	0,6	3,0	-2,2	-0,9	5,7	27,4	-0,6
11 *J-A*	5,0	4,4	1,3	6,0	31,3	4,0	8,7	5,9	-0,4	10,6	26,0	5,4
10 *Mar*	-2,2	3,6	-12,9	-4,3	8,2	-4,9	-0,8	-8,7	-11,9	5,0	28,9	-1,6
Apr	-2,0	-4,3	2,0	-1,1	20,7	-2,3	2,1	-5,4	-4,5	6,0	36,3	-2,7
May	6,2	3,1	-15,0	12,7	23,1	12,1	5,1	-7,0	3,3	10,5	40,2	2,4
Jun	1,0	1,3	-11,0	3,2	15,0	2,7	5,2	-0,2	-0,6	7,6	32,5	0,6
Jul	1,3	3,8	-9,9	2,1	21,3	0,8	5,0	5,1	1,1	4,8	22,6	-0,5
Aug	6,9	4,4	-1,5	9,1	27,4	7,4	11,1	12,2	7,0	10,7	20,8	7,4
Sep	4,3	5,0	9,6	2,9	17,9	2,0	6,2	3,4	14,8	6,7	20,6	2,9
Oct	4,0	7,7	1,5	2,1	23,9	0,8	8,0	10,3	6,3	7,0	22,9	2,5
Nov	3,6	5,7	-6,8	3,8	24,6	2,4	8,6	12,0	6,1	7,1	19,4	3,4
Dec	2,8	5,7	-4,5	2,2	13,4	1,3	9,5	11,4	9,4	8,3	26,8	1,7
11 *Jan*	5,8	5,3	-3,9	7,9	48,3	5,5	11,5	6,5	-7,8	15,4	30,5	9,0
Feb	6,7	5,1	3,6	8,3	24,1	6,8	10,1	6,0	0,6	12,5	30,4	6,9
Mar	6,6	2,6	4,0	10,0	41,4	8,1	11,4	10,1	12,9	11,6	33,7	5,9
Apr	9,5	11,8	1,6	9,4	29,6	7,2	11,0	9,7	2,7	12,1	25,9	7,2
May	0,7	4,6	4,0	-2,8	27,6	-5,0	3,9	4,7	-5,1	4,3	19,0	0,6
Jun	4,2	0,8	2,9	6,3	27,5	4,3	7,3	2,4	-1,7	9,8	20,4	5,3
Jul	4,6	2,9	4,7	5,6	29,1	3,6	9,3	4,2	-1,2	12,3	26,7	7,2
Aug	2,1	2,1	-6,3	3,3	21,5	2,0	5,3	3,8	-3,3	6,8	21,3	1,2

EXPORT AND IMPORT UNIT VALUE INDICES (a)

EXPORTS
IMPORTS
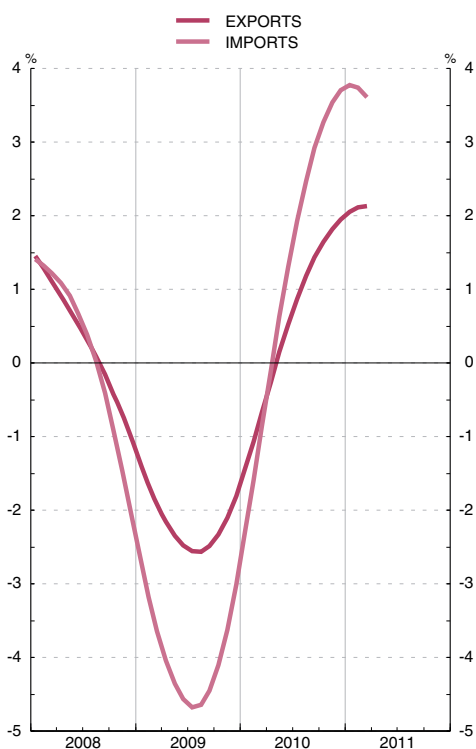
IMPORT UNIT VALUE INDICES BY PRODUCT GROUP (a)

CONSUMER GOODS
CAPITAL GOODS
INTERMEDIATE GOODS
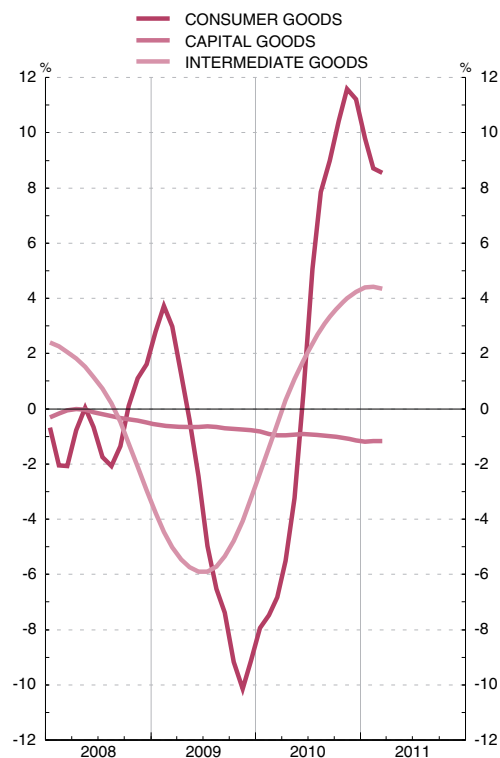
Sources: ME and BE.
Note: The underlying series for this indicator are in the Tables 18.6 and 18.7 of the Boletín Estadístico.
a. Annual percentage changes (trend obtained with TRAMO-SEATS).

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 a 13	9	10	11	12	13	14=15-16	15	16
06	5 005	147 220	34 929	11 331	5 328	82 528	13 104	142 215	16 839	13 820	69 588	5 808	36 160	11 471	141 847	130 375
07	12 098	165 010	33 332	12 938	6 645	99 240	12 855	152 912	18 006	14 024	77 833	6 092	36 957	20 135	159 840	139 704
08	-30 642	135 104	26 065	12 715	7 006	76 927	12 391	165 746	19 179	14 147	85 333	5 911	41 176	-18 747	129 336	148 082
09	P -99 258	105 827	18 767	11 563	8 144	58 234	9 119	205 085	20 141	16 318	119 693	5 988	42 945	-87 281	102 038	189 319
10	-50 842	141 995	42 685	11 733	8 018	62 767	16 792	192 837	20 173	18 098	109 209	4 648	40 709	-52 235	127 337	179 572
10 J-A	A -34 983	81 702	26 755	7 737	3 759	38 775	4 676	116 685	12 970	11 664	69 974	977	21 100	-37 054	78 930	115 984
11 J-A	A -30 944	68 324	17 352	5 122	3 761	33 385	8 704	99 268	12 758	14 363	51 505	1 303	19 339	-33 683	63 662	97 345
10 Aug	A -9 102	3 885	-1 965	975	442	3 767	666	12 987	1 409	1 552	7 537	112	2 377	-7 374	2 599	9 973
Sep	A -1 585	14 421	4 931	1 084	823	6 366	1 217	16 006	1 470	1 525	9 850	152	3 009	-885	13 747	14 632
Oct	A 5 180	19 574	6 173	1 004	306	11 369	722	14 394	1 460	1 522	8 512	270	2 630	3 090	19 220	16 131
Nov	A -7 514	7 663	1 646	986	223	3 494	1 314	15 177	1 462	1 577	8 989	173	2 976	-8 198	7 313	15 511
Dec	A -11 940	18 635	3 180	922	2 907	2 763	8 863	30 575	2 811	1 810	11 884	3 076	10 994	-9 188	8 127	17 315
11 Jan	A -1 217	7 839	-777	815	243	8 762	-1 204	9 056	1 346	1 870	4 017	-	1 823	-7 706	9 484	17 190
Feb	A 3 095	16 670	11 780	464	265	1 578	2 583	13 575	1 418	1 433	7 254	26	3 444	2 125	13 447	11 322
Mar	A -8 811	3 336	-225	446	1 419	1 617	79	12 147	1 509	1 806	5 759	566	2 507	-3 579	4 522	8 101
Apr	A 4 440	17 118	5 415	659	470	9 326	1 248	12 678	1 490	1 790	6 963	308	2 127	3 018	16 196	13 178
May	A -11 327	1 459	190	631	112	-1 314	1 840	12 786	1 500	1 843	6 625	341	2 477	-7 939	958	8 897
Jun	A -10 375	2 984	-818	773	311	467	2 251	13 359	2 623	1 831	6 186	27	2 692	-9 414	1 081	10 495
Jul	A 1 378	17 598	4 928	810	29	11 367	464	16 220	1 461	1 917	10 355	15	2 472	2 886	15 698	12 812
Aug	A -8 127	1 320	-3 141	524	912	1 582	1 443	9 447	1 411	1 873	4 346	20	1 797	-13 073	2 277	15 350

STATE. NET LENDING OR BORROWING AND CASH-BASIS DEFICIT
(Lastest 12 months)

- Net lending or borrowing
- Cash-basis deficit
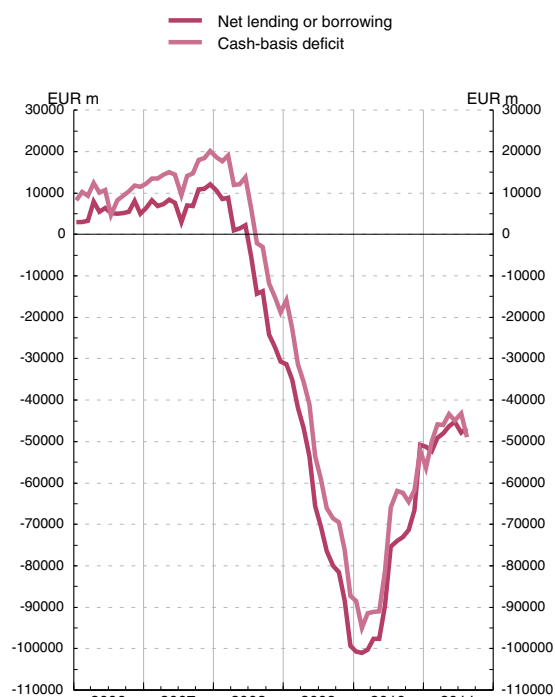
STATE. RESOURCES AND USES ACCORDING TO THE NATIONAL ACCOUNTS
(Latest 12 months)

- Total resources
- VAT
- Income and wealth taxes
- Total uses
- Interest
- Current and capital transfers within general government
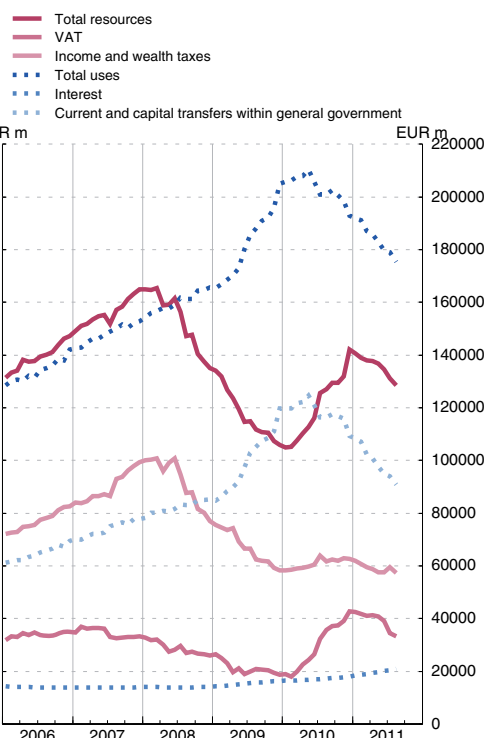
Source: Ministerio de Economía y Hacienda (IGAE).

■ 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				
		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	Held by resident sectors			Rest of the world	
											Total	Monetary financial institutions	Other resident sectors		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
06	5 005	1 917	-200	-3 088	-1 195	-2 198	-4 346	-486	-418	4 360	-13 445	-18 000	4 555	10 357	-7 448
07	12 098	5 382	65	-6 716	-118	1 206	-6 475	-519	-2 495	1 567	13 867	5 342	8 525	-20 582	-8 282
08	-30 642	22 314	4 337	52 956	1 227	19 355	30 868	-520	-40	3 293	40 724	22 233	18 491	12 232	49 664
09	P -99 258	17 133	-4 197	116 391	1 524	34 043	86 835	-535	-510	-3 442	71 089	50 819	20 270	45 302	119 833
10	A -50 842	14 015	-5	64 857	-726	3 616	57 958	-544	907	2 919	58 560	9 809	48 751	6 297	61 938
10 *J-A*	A -34 983	-511	195	34 472	-923	1 970	27 063	-544	182	5 800	32 187	-11 300	43 488	2 285	28 672
11 *J-A*	A -30 944	-437	-201	30 507	-1 444	-1 088	31 011	-537	1 446	-326	30 749	20 670	10 079	-242	30 833
10 *Aug*	A -9 102	-7 085	23	2 017	16	2 495	4 995	-	-6	-5 465	90	-2 421	2 512	1 927	7 483
Sep	A -1 585	5 215	-1	6 800	-23	644	8 852	-	-33	-2 662	6 013	11 885	-5 872	787	9 463
Oct	A 5 180	17 270	2 497	12 090	10	5 037	7 129	-	190	-265	1 775	3 670	-1 895	10 315	12 356
Nov	A -7 514	-4 092	-2 700	3 422	15	-1 919	8 406	-	148	-3 214	8 432	1 640	6 792	-5 011	6 635
Dec	A -11 940	-3 868	5	8 072	195	-2 116	6 508	-	420	3 260	10 152	3 914	6 238	-2 080	4 812
11 *Jan*	A -1 217	2 225	-0	3 442	15	-806	6 766	-	6	-2 524	1 019	-668	1 686	2 423	5 966
Feb	A 3 095	17 141	-4	14 046	14	1 979	9 972	-	530	1 565	8 430	2 244	6 186	5 616	12 481
Mar	A -8 811	-184	-195	8 627	-5	-2 423	15 480	-	-23	-4 407	6 595	2 775	3 819	2 033	13 034
Apr	A 4 440	13 500	18 220	9 060	-4	-259	-9 917	-537	-4	19 776	3 814	-3 559	7 373	5 246	-10 716
May	A -11 327	-19 336	-18 220	-8 009	15	436	9 307	-	0	-17 752	5 812	8 085	-2 273	-13 821	9 743
Jun	A -10 375	485	80	10 860	-37	2 444	9 324	-	918	-1 826	8 508	19 110	-10 602	2 352	12 686
Jul	A 1 378	11 499	-82	10 121	-1 454	336	-15 631	-	5	25 411	14 789	-1 409	16 197	-4 667	-15 290
Aug	A -8 127	-25 767	1	-17 640	11	-2 795	5 710	-	14	-20 569	-18 217	-5 909	-12 308	577	2 929

STATE. NET INCURRENCE OF LIABILITIES. BY INSTRUMENT
(Latest 12 months)

- Net incurrence of liabilities. By instrument
- Short-term securities
- Goverment bonds and assumed debt
- ····· Other MARketable liabilities

STATE. NET INCURRENCE OF LIABILITIES. BY COUNTERPART SECTOR
(Latest 12 months)
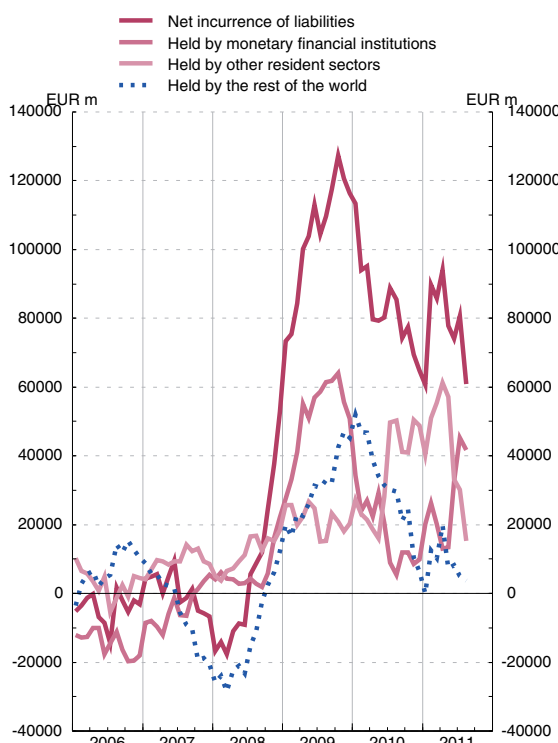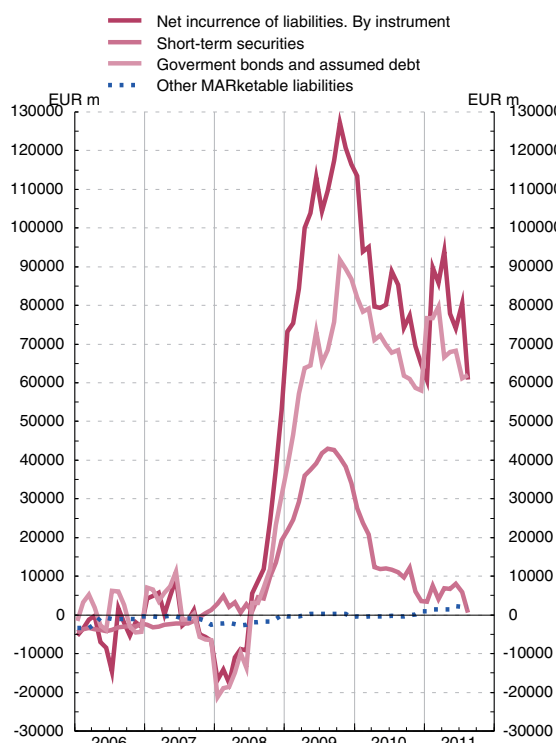
- Net incurrence of liabilities
- Held by monetary financial institutions
- Held by other resident sectors
- ····· Held by the rest of the world

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	By instrument				By counterpart sector						Other deposits: Treasury liquidity tenders (b)	Guarantees given (contingent liabilities). Outstanding level
		In currencies other than the peseta/ euro	Short-term securities	Government bonds and assumed debt	Banco de España loans	Other marketable liabilities (a)	Held by resident sectors			Rest of the world	Deposits at the Banco de España		
							Total	General government	Other resident sectors				
	1 ■	2 ■	3 ■	4 ■	5 ■	6 ■	7 ■	8	9 ■	10 ■	11	12	13
06	294 860	515	31 060	250 702	6 416	6 683	164 240	21 897	142 343	152 517	100	13 486	5 794
07	286 531	355	31 644	243 246	5 832	5 808	171 839	25 551	146 288	140 243	165	15 018	6 162
08	328 379	63	50 788	266 334	5 249	6 008	201 112	34 511	166 601	161 779	4 502	21 403	8 152
09 P	433 436	68	84 303	338 969	4 665	5 498	263 300	46 105	217 195	216 241	305	24 486	58 854
10 *Aug* A	455 236	0	83 082	362 392	4 082	5 680	288 494	58 952	229 542	225 694	500	18 387	64 760
Sep A	463 084	0	83 952	369 403	4 082	5 647	295 153	59 102	236 051	227 034	499	25 428	65 267
Oct A	476 376	0	89 354	377 104	4 082	5 837	300 045	59 344	240 700	235 676	2 996	42 058	65 183
Nov A	480 799	0	87 787	382 944	4 082	5 985	300 024	60 244	239 780	241 019	296	40 053	69 311
Dec A	483 382	0	85 980	386 915	4 082	6 406	299 410	61 170	238 240	245 142	300	28 598	73 560
11 *Jan* A	491 807	0	85 559	395 755	4 082	6 412	319 382	60 868	258 514	233 294	300	31 103	75 420
Feb A	500 486	0	87 018	402 444	4 082	6 942	327 782	61 764	266 018	234 468	295	45 108	81 961
Mar A	507 343	0	83 408	412 935	4 082	6 919	336 158	64 409	271 749	235 594	100	47 541	83 500
Apr A	500 417	0	83 479	406 524	3 499	6 915	328 267	63 126	265 140	235 276	18 320	41 459	84 677
May A	505 020	0	84 462	410 145	3 499	6 915	345 159	65 894	279 264	225 756	100	39 911	85 531
Jun A	516 898	0	87 532	418 034	3 499	7 833	352 297	65 312	286 985	229 913	180	40 164	87 329
Jul A	508 706	0	88 799	408 570	3 499	7 838	345 975	63 203	282 772	225 934	98	48 068	88 994
Aug A	510 253	0	86 395	412 508	3 499	7 852	...	63 061	...	...	99	19 953	88 644

STATE. LIABILITIES OUTSTANDING
By instrument

Legend: State debt; Short-term securities; Goverment bonds; Banco de España loans; Other Marketable liabilities
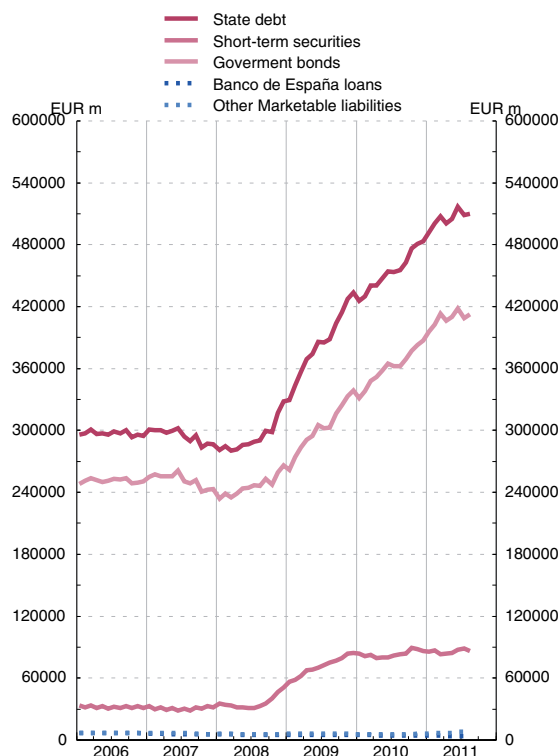
STATE. LIABILITIES OUTSTANDING
By counterpart sector
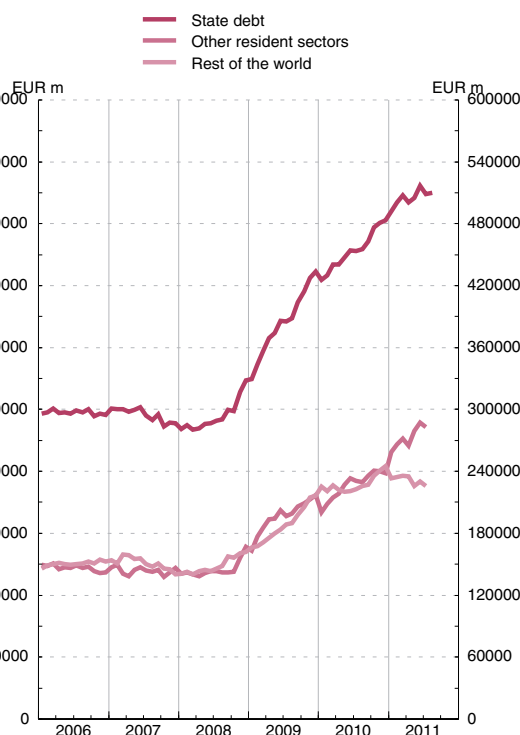
Legend: State debt; Other resident sectors; Rest of the world

Source: BE.

a. Includes other loans, non-negotiable securities, coined money and Caja General de Depósitos (General Deposit Fund).

b. Including the daily liquidity tenders of the Treasury recorded in its accounts at the Banco de España and the repurchase agreements carried out by the Treasury with a one-month maturity.

■ Series depicted in chart.

EUR millions

		Current account (a)												Capital account	Current account plus capital account	Financial account	Errors and omission
			Goods			Services					Income			Current transfers (balance)			
		Total (balance)	Balance	Receipts	Payments	Balance	Receipts		Payments		Balance	Receipts	Payments		(balance)		(balance) (b)	
							Total	Of which Travel	Total	Of which Travel								
		1=2+5+10+13	2=3-4	3	4	5=6-8	6	7	8	9	10=11-12	11	12	13	14	15=1+14	16	17=-(15+16)
08		-104 676	-85 594	193 007	278 601	25 791	97 651	41 901	71 861	13 834	-35 483	53 050	88 533	-9 389	5 475	-99 201	100 222	-1 021
09	P	-54 481	-42 175	163 996	206 171	25 503	88 215	38 125	62 712	12 086	-29 787	41 875	71 662	-8 022	4 275	-50 206	54 641	-4 435
10	P	-48 404	-47 143	190 806	237 949	27 797	93 513	39 621	65 716	12 663	-21 941	41 372	63 313	-7 116	6 295	-42 109	44 562	-2 454
10 J-J	P	-32 082	-27 976	108 440	136 416	15 069	53 151	21 617	38 082	6 660	-13 329	22 434	35 763	-5 846	4 178	-27 904	30 534	-2 630
11 J-J	P	-28 919	-23 344	127 710	151 054	18 729	56 623	23 722	37 895	6 565	-18 174	20 802	38 977	-6 129	3 025	-25 894	36 585	-10 691
10 Apr	P	-5 051	-4 842	14 953	19 795	1 436	6 637	2 401	5 201	860	-1 124	3 934	5 058	-521	-237	-5 288	3 407	1 881
May	P	-5 020	-3 913	16 574	20 487	2 503	7 912	3 247	5 408	660	-3 098	3 804	6 902	-512	1 828	-3 192	5 459	-2 267
Jun	P	-3 690	-4 510	16 563	21 074	2 979	8 707	3 869	5 728	1 207	-2 268	3 167	5 434	109	128	-3 562	2 549	1 013
Jul	P	-2 387	-3 820	16 721	20 541	3 943	9 741	5 010	5 798	1 246	-1 813	3 764	5 577	-697	567	-1 820	2 167	-346
Aug	P	-2 677	-3 941	13 330	17 271	4 089	9 291	5 265	5 203	1 378	-1 846	2 070	3 916	-978	239	-2 438	3 357	-919
Sep	P	-4 024	-4 200	16 288	20 488	3 261	8 877	4 304	5 616	1 349	-1 975	3 524	5 499	-1 111	556	-3 469	5 957	-2 489
Oct	P	-2 660	-3 083	17 931	21 013	2 816	8 162	3 850	5 346	1 209	-1 387	2 946	4 333	-1 006	127	-2 533	2 370	163
Nov	P	-4 387	-3 357	18 082	21 438	1 524	6 844	2 520	5 320	1 096	-3 371	2 030	5 402	817	320	-4 066	2 288	1 779
Dec	P	-2 573	-4 586	16 736	21 322	1 038	7 187	2 064	6 149	971	-32	8 368	8 400	1 007	875	-1 698	55	1 643
11 Jan	P	-6 349	-4 386	16 288	20 674	1 668	7 045	2 591	5 378	893	-2 557	2 178	4 736	-1 073	174	-6 175	5 449	726
Feb	P	-5 519	-2 714	17 538	20 252	1 026	6 367	2 243	5 341	924	-1 551	2 596	4 147	-2 280	1 252	-4 267	4 322	-56
Mar	P	-5 596	-4 067	19 964	24 030	1 684	7 432	2 733	5 748	872	-2 541	2 146	4 687	-672	137	-5 458	7 689	-2 231
Apr	P	-3 705	-3 856	17 759	21 615	2 344	7 367	2 850	5 023	838	-1 752	2 586	4 338	-441	273	-3 432	4 333	-901
May	P	-3 972	-3 109	18 795	21 905	3 287	8 414	3 526	5 127	651	-3 610	4 169	7 779	-540	550	-3 422	6 241	-2 819
Jun	P	-2 234	-3 813	18 340	22 153	4 107	9 746	4 298	5 639	1 119	-2 073	4 020	6 093	-455	299	-1 935	3 004	-1 069
Jul	P	-1 546	-1 400	19 025	20 425	4 613	10 253	5 481	5 640	1 269	-4 090	3 107	7 197	-669	341	-1 205	5 546	-4 341

SUMMARY

CURRENT ACCOUNT

Legend (both charts):
- JANUARY 2010 - JULY 2010
- JANUARY 2011 - JULY 2011

Left chart categories: CURRENT ACC., CAPITAL ACC., FINANCIAL ACC., ERR. & OMISS.

Right chart categories: GOODS, SERVICES, INCOME, TRANSFERS

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

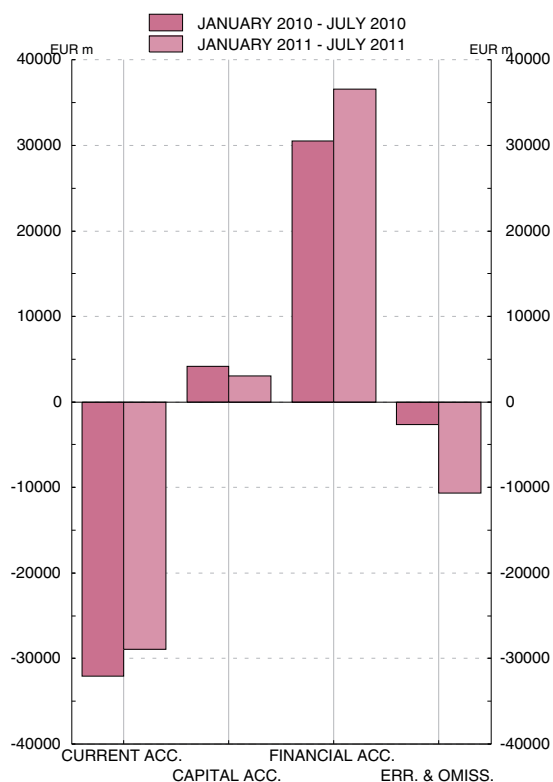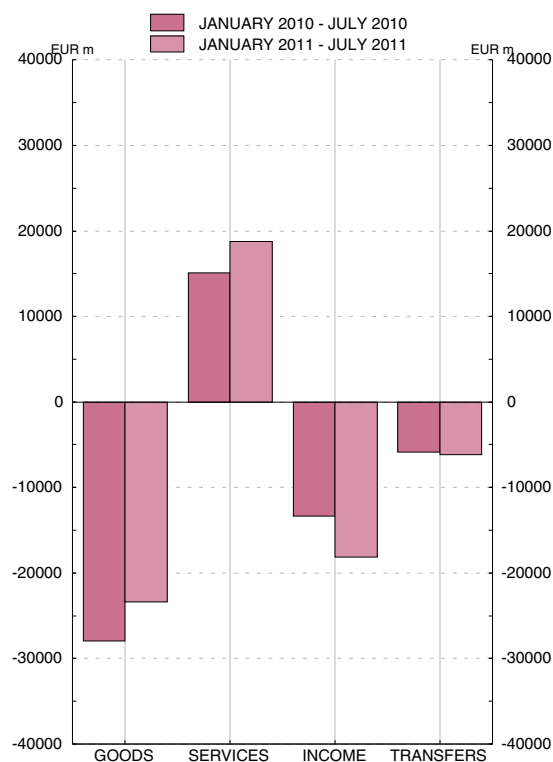| | | | Total, excluding Banco de España | | | | | | | | | | Banco de España | | | |
	Financial account (NCL-NCA) 1=2+13	Total (NCL-NCA) 2=3+6+9+12	Direct investment Balance (NCL-NCA) 3=5-4	Spanish investment abroad (NCA) 4	Foreign investment in Spain (NCL) (b) 5	Portfolio investment Balance (NCL-NCA) 6=8-7	Spanish investment abroad (NCA) 7	Foreign investment in Spain (NCL) (c) 8	Other investment (d) Balance (NCL-NCA) 9=11-10	Spanish investment abroad (NCA) 10	Foreign investment in Spain (NCL) 11	Net financial derivatives (NCL-NCA) 12	Balance (NCL-NCA) 13=14+15+16	Reserves (e) 14	Net claims with the Euro-system (e) 15	Other net assets (NCL-NCA) 16
08	100 222	70 004	1 553	51 008	52 561	-203	-21 761	-21 964	75 717	12 330	88 048	-7 064	30 218	-645	31 713	-850
09 P	54 641	44 177	-433	7 009	6 576	45 325	4 119	49 444	5 145	4 065	9 210	-5 861	10 464	-1 563	6 146	5 882
10	44 562	28 866	2 226	16 308	18 534	29 739	-63 371	-33 633	-10 470	15 732	5 262	7 371	15 696	-814	9 788	6 722
10 *J-J* P	30 534	-38 348	5 348	-987	4 361	-9 003	-33 783	-42 786	-43 717	5 878	-37 839	9 024	68 882	-592	60 931	8 543
11 *J-J* P	36 585	30 748	-6 231	18 905	12 674	5 386	-21 508	-16 122	32 488	11 809	44 297	-895	5 836	-2 090	5 749	2 178
10 *Apr* P	3 407	10 439	1 429	-1 396	33	4 779	-8 409	-3 631	3 694	965	4 659	537	-7 032	-6	-7 566	540
May P	5 459	-34 478	-2 132	3 912	1 780	-9 851	-6 990	-16 841	-23 382	10 072	-13 310	887	39 937	-413	42 402	-2 051
Jun P	2 549	-32 546	-802	-366	-1 168	-5 201	-8 995	-14 196	-29 192	1 656	-27 536	2 649	35 096	-9	27 477	7 627
Jul P	2 167	4 432	-1 110	2 458	1 348	6 974	-9 212	-2 238	-2 699	924	-1 775	1 266	-2 265	-52	-3 552	1 338
Aug P	3 357	21 261	-5 539	6 402	863	13 218	-3 931	9 287	13 984	4 784	18 768	-402	-17 904	32	-17 970	34
Sep P	5 957	30 819	-4 352	9 909	5 556	8 840	-5 201	3 639	26 880	-14 485	12 395	-549	-24 862	-2	-24 966	106
Oct P	2 370	19 377	2 937	-231	2 706	22 716	-7 770	14 947	-4 416	17 661	13 244	-1 860	-17 007	-212	-16 092	-703
Nov P	2 288	3 170	2 257	-1 337	919	-4 436	-4 711	-9 147	4 977	-11 142	-6 165	372	-883	-5	-83	-795
Dec P	55	-7 415	1 575	2 553	4 128	-1 597	-7 975	-9 572	-8 178	13 037	4 859	785	7 470	-35	7 967	-462
11 *Jan* P	5 449	9 006	-1 496	4 566	3 070	10 670	-6 592	4 079	-984	13 973	12 989	816	-3 557	-216	-2 836	-506
Feb P	4 322	9 322	1 355	572	1 927	17 552	-3 532	14 020	-10 244	-3 160	-13 404	659	-5 000	-58	-5 121	180
Mar P	7 689	10 172	-2 600	4 433	1 833	653	1 546	2 200	10 883	-644	10 239	1 236	-2 483	-218	-2 938	673
Apr P	4 333	6 919	-3 530	5 835	2 304	-2 354	721	-1 634	14 494	227	14 722	-1 690	-2 586	-50	-2 495	-41
May P	6 241	-9 235	-1 592	1 851	258	-10 188	-3 955	-14 143	1 934	12 306	14 240	611	15 476	-59	15 530	5
Jun P	3 004	10 022	225	476	701	-5 094	-5 379	-10 473	15 709	-2 217	13 491	-818	-7 018	-27	-7 702	711
Jul P	5 546	-5 458	1 408	1 173	2 581	-5 854	-4 317	-10 171	696	-8 676	-7 980	-1 708	11 004	-1 462	11 311	1 156

FINANCIAL ACCOUNT (NCL-NCA)

JANUARY 2010 - JULY 2010
JANUARY 2011 - JULY 2011
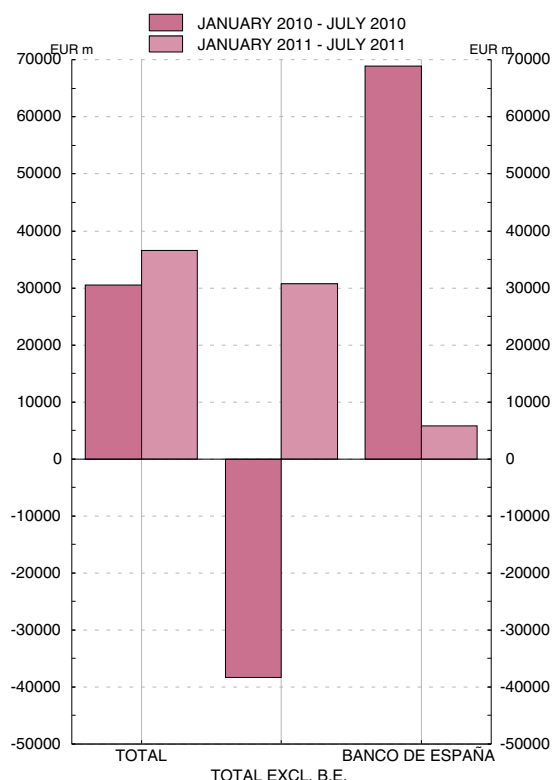
FINANCIAL ACCOUNT, EXCLUDING BANCO DE ESPAÑA. Breakdown. (NCL-NCA)
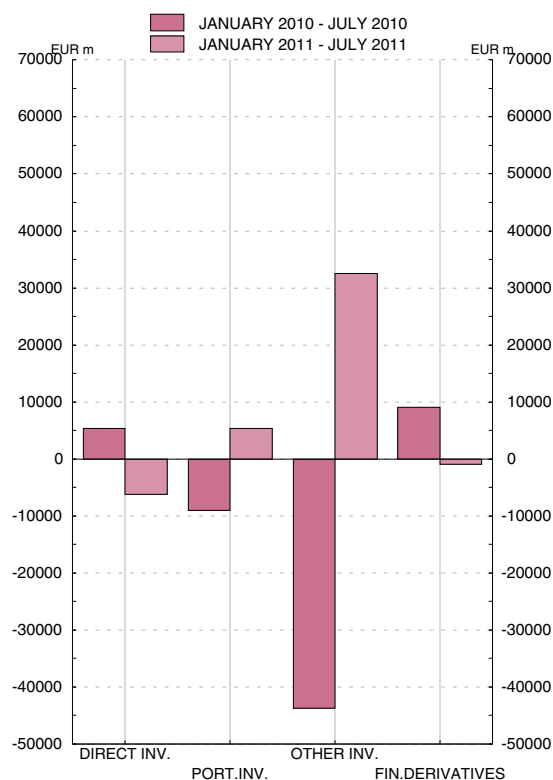
JANUARY 2010 - JULY 2010
JANUARY 2011 - JULY 2011

Sources: BE. Data compiled in accordance with the IMF Balance of Payments Manual (5th edition).

a. Changes in assets (NCA) and changes in liabilities (NCL) are both net of repayments. A positive (negative) sign in NCA columns indicates an outflow (inflow) of foreign financing. A positive (negative) sign in NCL columns implies an inflow (outflow) of foreign financing.

b. This does not include direct investment in quoted shares, but does include portfolio investment in unquoted shares.

c. This includes direct investment in quoted shares, but does not include portfolio investment in unquoted shares. d. Mainly, loans, deposits and repos.

e. A positive (negative) sign indicates a decrease (increase) in the reserves and/or claims of the BE with the Eurosystem.

7.3. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD
EXPORTS AND DISPATCHES

■ Series depicted in chart.

Eur millions and annual percentage changes

	Total			By product (deflated data) (a)					By geographical area (nominal data)							
						Intermediate			EU 27		OECD					Newly industri-alised coun-tries
	EUR millions	Nom-inal	De-flated (a)	Con-sumer	Capital	Total	Energy	Non-energy	Total	Euro Area	Total	of which: United States	OPEC	Other American countries	China	
	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	3.3	4.5	5.1	3.8	-1.7	-5.9	2.2	38.2	-23.4
04	146 925	6.4	5.3	2.2	13.1	6.6	10.2	6.3	5.0	5.0	5.9	2.0	12.5	3.3	5.6	4.7
05	155 005	5.5	0.8	-0.8	5.5	1.4	-8.7	2.2	2.6	2.3	4.2	10.2	9.1	11.8	31.4	14.5
06	170 439	10.0	5.2	2.9	12.7	5.6	-3.7	6.2	8.1	7.8	8.4	17.7	6.0	34.5	12.8	16.5
07	185 023	8.6	5.8	3.0	6.6	8.1	6.6	8.1	8.0	8.4	7.0	-1.1	22.3	-12.5	23.5	-0.8
08	189 228	2.3	0.7	2.4	-5.6	0.6	19.0	-0.6	-0.1	-0.5	-0.4	1.4	30.1	1.0	1.2	4.2
09	159 890	-15.5	-9.4	-3.4	-14.1	-12.8	-19.9	-12.2	-15.5	-13.2	-15.2	-24.4	-11.4	-17.9	-7.7	8.5
10 Jul P	16 379	13.2	11.7	-9.3	-2.4	31.5	34.6	31.4	11.2	12.8	12.7	5.3	1.7	32.3	48.3	47.9
Aug P	12 874	27.8	19.6	2.9	33.4	29.1	38.1	28.3	23.4	19.4	25.4	48.6	25.7	61.8	69.1	38.7
Sep P	15 902	14.6	9.9	-4.2	3.0	21.7	6.8	22.8	10.8	10.2	12.5	29.1	13.6	49.3	35.7	48.8
Oct P	17 393	16.6	12.1	-6.2	26.7	23.4	9.0	24.5	16.8	15.2	15.3	26.0	13.0	29.9	10.9	31.9
Nov P	17 525	24.6	20.3	2.2	34.5	32.9	34.6	32.8	20.1	20.4	21.9	35.7	49.6	50.0	50.6	33.4
Dec P	15 956	16.8	13.6	2.3	-0.3	25.7	44.7	24.5	20.2	20.3	20.9	11.4	8.8	19.2	15.9	-53.3
11 Jan P	15 955	32.0	24.7	13.8	58.0	28.3	16.1	29.0	25.3	24.2	30.8	62.9	22.2	38.4	60.5	-7.1
Feb P	17 137	22.5	14.8	8.9	18.8	18.3	70.3	16.2	21.4	18.3	19.9	56.9	39.3	60.7	51.5	-54.1
Mar P	19 645	18.0	10.7	10.5	39.4	6.6	12.8	6.3	13.4	9.8	16.9	33.4	2.1	29.1	12.6	31.0
Apr P	17 344	18.6	8.4	7.2	23.3	6.9	35.3	5.5	15.2	10.8	15.9	50.4	30.5	23.7	17.0	-3.5
May P	18 328	13.0	12.3	10.0	-13.2	19.4	17.4	19.5	10.8	7.0	13.3	19.0	25.7	25.4	44.0	10.3
Jun P	17 954	10.8	6.3	8.2	9.1	4.9	29.4	3.7	7.9	5.1	8.7	35.3	5.0	13.9	38.6	12.1
Jul P	18 635	13.8	8.8	1.6	34.5	9.4	15.8	8.9	14.3	8.1	9.6	-10.1	21.3	8.0	6.5	5.6
Aug P	15 444	20.0	17.4	17.0	15.0	18.0	-1.4	19.8	19.3	16.3	19.3	16.4	25.6	21.3	25.1	34.6

BY PRODUCT
Annual percentage changes (trend obtained with TRAMO-SEATS method)
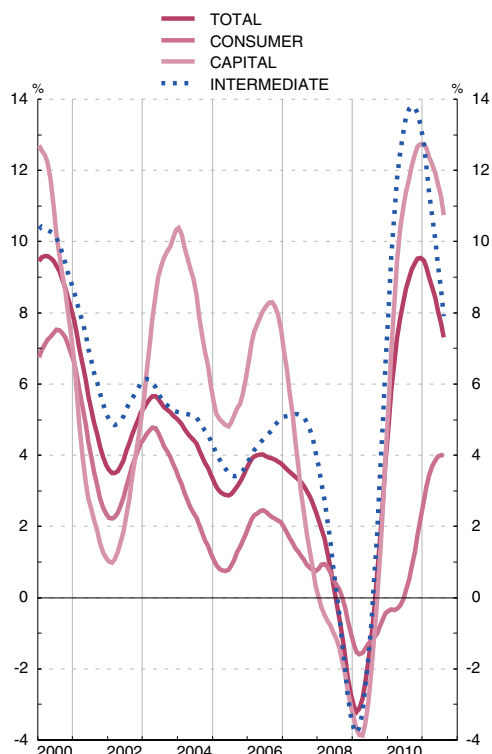
- TOTAL
- CONSUMER
- CAPITAL
- INTERMEDIATE

BY GEOGRAPHICAL AREA
Annual percentage changes (trend obtained with TRAMO-SEATS method)

- OECD
- EURO AREA
- UNITED STATES
- NEWLY INDUSTR. COUNTRIES
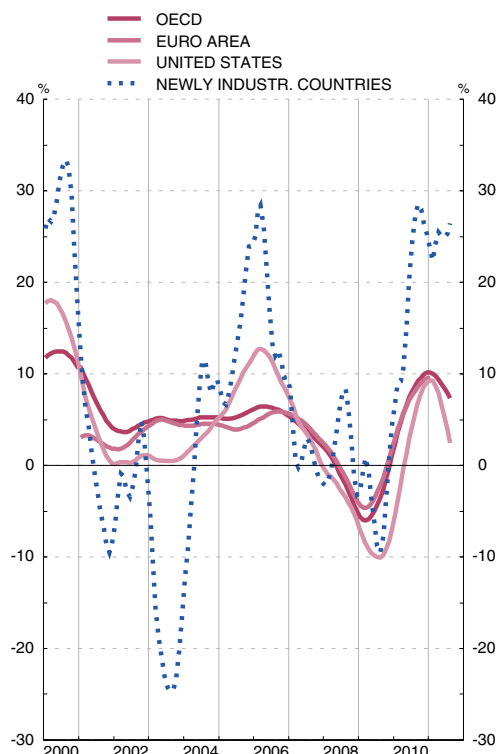
Sources: ME y BE.
Note: The underlying series for this indicator are in Tables 18.4 and 18.5 of the Boletín estadístico.
The monthly series are provisional data, while the annual series are the final foreign trade data.
a. Series deflated by unit value indices.

7.4. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD
IMPORTS AND ARRIVALS

■ Series depicted in chart.

Eur millions and annual percentage changes

	Total			By product (deflated data) (a)					By geographical area (nominal data)							
	EUR millions	Nom-inal	De-flated (a)	Con-sumer	Capital	Intermediate			EU 27		OECD		OPEC	Other American countries	China	Newly industri-alised countries
						Total	Energy	Non-energy	Total	Euro Area	Total	of which: United States				
	1	2	3 ■	4	5 ■	6 ■	7	8	9	10 ■	11 ■	12 ■	13	14 ■	15	16 ■
03	185 114	5.6	7.1	9.6	12.9	4.8	1.0	5.9	5.8	5.3	5.8	-4.8	-1.0	12.9	16.6	1.1
04	208 411	12.6	9.9	13.5	14.4	7.3	10.6	6.4	9.9	10.0	11.3	9.3	17.9	7.9	26.8	14.6
05	232 954	11.8	6.4	8.4	17.6	3.3	11.1	1.1	5.6	5.3	6.1	-0.1	40.8	29.3	37.3	11.2
06	262 687	12.8	8.5	7.3	2.5	10.2	6.1	11.5	8.4	8.0	8.5	14.7	25.3	24.1	22.7	28.6
07	285 038	8.5	7.6	5.8	10.8	7.8	4.0	8.9	10.5	11.0	9.8	16.4	-6.3	-6.8	28.7	-3.7
08	283 388	-0.6	-4.5	-6.4	-14.3	-1.9	5.8	-3.9	-8.2	-8.8	-7.4	12.9	37.4	16.6	10.8	-16.1
09	206 116	-27.3	-17.5	-12.1	-31.4	-17.5	-9.9	-20.0	-23.8	-25.6	-24.6	-25.1	-38.6	-31.1	-29.5	-31.6
10 Jul P	20 666	16.7	11.1	-11.3	16.2	22.0	5.7	27.8	9.1	10.5	11.3	49.5	39.3	35.1	44.2	-18.2
Aug P	17 334	18.8	6.9	-10.9	22.9	14.5	-0.0	20.7	8.2	7.8	7.9	21.8	30.4	57.5	41.8	4.0
Sep P	20 248	4.9	-1.2	-21.2	-4.2	9.7	1.1	12.2	-3.3	-1.9	-2.2	13.5	6.0	1.6	40.9	9.3
Oct P	21 093	12.0	3.7	-19.0	8.1	15.0	2.4	19.1	3.1	3.9	6.7	17.6	18.4	38.5	28.4	-5.6
Nov P	21 405	13.1	4.2	-12.8	12.1	11.5	4.7	13.6	4.2	2.9	6.1	17.2	14.3	69.3	26.7	9.9
Dec P	21 321	20.2	9.8	-8.8	-4.5	21.5	18.6	22.4	9.5	8.5	10.3	40.8	41.9	51.1	20.5	7.3
11 Jan P	20 882	25.8	12.8	-2.1	21.1	17.4	22.6	15.7	15.4	15.0	18.2	32.9	39.8	49.6	22.4	-2.9
Feb P	20 387	16.2	5.5	-0.1	-1.9	8.4	1.5	10.4	12.3	13.6	12.3	36.4	26.8	19.8	9.6	8.1
Mar P	24 239	15.7	3.9	-1.2	-8.0	7.3	-6.0	11.0	13.6	15.5	14.2	19.9	3.4	4.2	-4.4	7.8
Apr P	21 306	8.5	-2.2	-8.0	-11.6	1.0	-1.3	1.7	2.2	2.2	2.8	21.4	1.8	68.5	0.7	-20.1
May P	21 738	6.7	2.6	-10.4	2.5	7.8	-3.5	10.9	2.0	5.6	3.0	-3.0	3.0	16.4	5.7	7.0
Jun P	21 878	4.6	-2.5	-7.7	-5.8	-0.3	2.5	-1.1	-4.0	-4.3	-2.7	11.9	-1.0	20.7	2.1	-8.4
Jul P	20 277	-1.9	-10.3	-10.1	-14.7	-10.0	-12.3	-9.3	-6.7	-6.2	-6.5	1.1	9.8	26.1	-16.4	-3.8
Aug P	20 366	17.5	11.5	12.1	8.4	11.8	6.2	13.7	15.3	15.2	15.5	28.7	13.5	18.9	8.8	23.8

BY PRODUCTS
Annual percentage changes (trend obtained with TRAMO SEATS method)

TOTAL
CONSUMER
CAPITAL
INTERMEDIATE

BY GEOGRAPHICAL AREA
Annual percentage changes (trend obtained with TRAMO-SEATS method)

OECD
EURO AREA
UNITED STATES
NEWLY INDUSTR. COUNTRIES
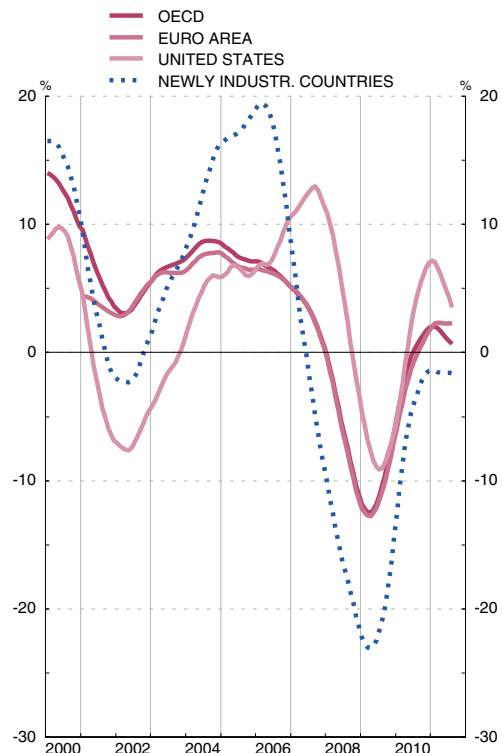
Sources: ME y BE.
Note: The underlying series for this indicator are in Tables 18.2 and 18.3 of the Boletín estadístico.
The monthly series are provisional data, while the annual series are the final foreign trade data.
a. Series deflated by unit value indices .

7.5. SPANISH FOREIGN TRADE WITH OTHER EURO AREA COUNTRIES AND WITH THE REST OF THE WORLD. TRADE BALANCE. GEOGRAPHICAL DISTRIBUTION
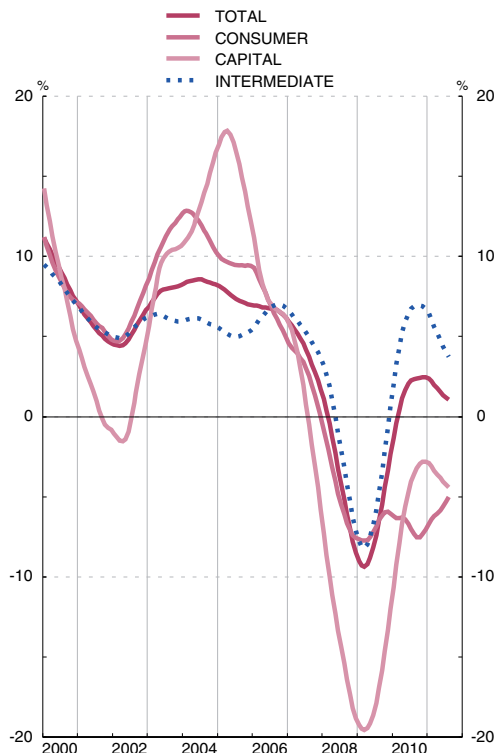
EUR millions

	World total	European Union (EU 27) Total	Euro area Total	Germany	France	Italy	Other EU 27 Total	United Kingdom	OECD Total	United States	Japan	OPEC	Other American countries	China	Newly industrialised countries
	1	2=3+7	3	4	5	6	7	8	9	10	11	12	13	14	15
04	-61 486	-25 991	-25 267	-16 282	-3 353	-5 671	-724	472	-36 990	-1 692	-4 583	-8 325	-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	-12 938	-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	-17 031	-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	-14 682	-3 477	-16 366	-4 347
08	-94 160	-26 262	-26 264	-19 612	3 019	-6 608	1	356	-39 284	-3 739	-3 663	-20 561	-4 971	-18 340	-3 296
09	-46 227	-9 068	-6 762	-9 980	6 787	-1 847	-2 306	187	-15 547	-2 742	-1 958	-10 701	-2 641	-12 471	-1 532
10 P	-52 283	-4 192	-1 241	-8 486	8 399	-398	-2 951	709	-9 822	-2 834	-2 048	-17 286	-4 162	-16 219	-1 244
10 *Jul* P	-4 288	-258	-118	-760	567	-118	-140	240	-596	-151	-111	-1 610	-201	-1 551	-75
Aug P	-4 460	-510	-461	-553	156	8	-49	-18	-404	-106	-133	-1 457	-342	-1 503	-74
Sep P	-4 346	-134	68	-817	934	-10	-202	46	-404	-256	-179	-1 196	-408	-1 695	-102
Oct P	-3 700	422	404	-564	843	153	18	257	-388	-276	-148	-1 484	-246	-1 427	-87
Nov P	-3 880	314	483	-548	873	189	-170	64	-268	-261	-180	-1 174	-522	-1 355	-139
Dec P	-5 365	-513	-208	-600	630	-225	-305	-94	-982	-345	-150	-1 873	-472	-1 339	-122
11 *Jan* P	-4 927	299	322	-374	591	50	-23	111	-116	-284	-134	-1 901	-398	-1 434	-131
Feb P	-3 250	413	362	-625	767	-79	51	230	150	-174	-168	-1 618	70	-1 209	-109
Mar P	-4 594	-300	-451	-1 091	741	-38	151	376	-568	-237	-181	-1 491	-419	-1 181	-216
Apr P	-3 962	240	-173	-866	743	-75	413	274	-200	-141	-118	-1 428	-822	-1 069	-107
May P	-3 410	338	174	-754	759	69	164	290	235	-100	-66	-1 410	-336	-1 250	-116
Jun P	-3 925	597	492	-699	1 003	40	105	207	395	-116	-114	-1 542	-391	-1 277	-78
Jul P	-1 642	2 013	1 159	-528	989	181	854	532	1 496	-237	-103	-1 695	-371	-1 235	-52
Aug P	-4 922	-264	-461	-859	463	-53	198	326	-434	-197	-109	-1 583	-394	-1 599	-74

CUMULATIVE TRADE DEFICIT

JANUARY 2010 - AUGUST 2010
JANUARY 2011 - AUGUST 2011

CUMULATIVE TRADE DEFICIT

JANUARY 2010 - AUGUST 2010
JANUARY 2011 - AUGUST 2011

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.

■ Series depicted in chart.

End-of-period stocks in EUR billions

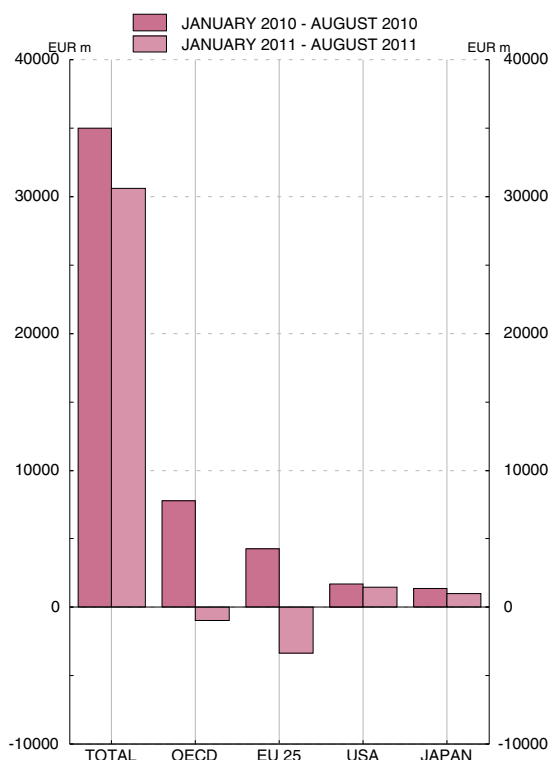|	Net international investment position (assets-liabil.)	Total excluding Banco de España											Banco de España			
		Net position excluding Banco de España (assets - liabil.)	Direct investment			Portfolio investment			Other investment			Financial derivatives Net position (assets-liabil.)	Banco de España Net position (assets-liabil.)	Reserves	Net assets vis-à-vis the Euro-system	Other net assets (assets-liabil.) (a)
			Net position (assets-liabil.)	Spanish investment abroad (assets)	Foreign investment in Spain (liabil.)	Net position (assets-liabil.)	Spanish investment abroad (assets)	Foreign investment in Spain (liabil.)	Net position (assets-liabil.)	Spanish investment abroad (assets)	Foreign investment in Spain (liabil.)					
	1=2+13	2=3+6+9+12	3=4-5	4	5	6=7-8	7	8	9=10-11	10	11	12	13= 14 to 16	14	15	16
03	-354.3	-410.3	-93.9	175.0	268.9	-102.3	319.8	422.0	-214.2	204.0	418.1	...	56.1	21.2	18.3	16.6
04	-436.4	-504.5	-91.9	207.2	299.1	-203.2	359.3	562.5	-209.4	222.2	431.6	...	68.1	14.5	31.9	21.7
05	-505.5	-577.2	-67.1	258.9	326.0	-273.6	454.7	728.4	-236.5	268.2	504.7	...	71.7	14.6	17.1	40.1
06	-648.2	-743.9	-19.3	331.1	350.4	-508.9	455.7	964.6	-206.1	324.9	530.9	-9.6	95.7	14.7	29.4	51.6
07	-822.8	-901.7	-2.6	395.4	398.0	-648.5	438.4	1 086.9	-231.8	379.5	611.3	-18.8	78.9	12.9	1.1	64.9
08 Q2	-862.7	-929.9	-10.8	407.9	418.7	-620.2	393.9	1 014.1	-275.5	417.2	692.7	-23.4	67.2	12.7	-7.5	62.0
Q3	-861.3	-918.4	1.7	422.6	420.9	-633.6	380.5	1 014.1	-274.8	423.1	697.9	-11.7	57.0	13.8	-19.6	62.8
Q4	-863.1	-914.0	1.3	424.4	423.2	-603.7	354.2	958.0	-305.1	386.6	691.8	-6.4	50.9	14.5	-30.6	67.0
09 Q1	-883.6	-935.9	-1.2	414.9	416.1	-596.6	342.1	938.7	-338.1	374.5	712.5	0.0	52.3	15.7	-27.4	64.0
Q2	-940.1	-985.5	-21.5	423.4	444.9	-614.2	363.2	977.4	-342.5	370.6	713.2	-7.3	45.4	15.1	-30.5	60.7
Q3	-973.3	-1 010.2	-19.1	427.7	446.8	-658.3	376.9	1 035.3	-327.9	365.1	693.0	-4.9	36.9	18.3	-42.6	61.2
Q4	-982.7	-1 026.8	-9.3	429.0	438.3	-689.3	378.6	1 067.9	-327.2	370.5	697.7	-1.0	44.1	19.6	-36.4	60.9
10 Q1	-972.2	-1 014.6	-4.7	435.8	440.5	-670.2	385.7	1 055.9	-345.5	364.2	709.7	5.7	42.4	20.9	-38.5	60.0
Q2	-926.5	-903.1	7.1	450.5	443.4	-605.4	358.7	964.1	-316.8	373.0	689.8	12.0	-23.4	24.4	-100.8	53.1
Q3	-985.1	-1 005.3	9.4	459.1	449.7	-663.8	339.8	1 003.6	-355.1	355.2	710.3	4.3	20.2	22.6	-54.3	51.9
Q4	-941.3	-971.7	13.2	473.0	459.7	-641.3	317.7	959.1	-346.2	374.0	720.2	2.7	30.3	23.9	-46.1	52.5
11 Q1	-985.1	-1 024.5	3.3	469.9	466.5	-686.7	307.3	994.0	-339.6	382.5	722.2	-1.5	39.5	23.2	-35.2	51.5
Q2	-1 021.3	-1 053.4	7.5	478.1	470.6	-684.6	298.7	983.3	-376.1	386.8	762.9	-0.3	32.2	23.5	-40.6	49.3

INTERNATIONAL INVESTMENT POSITION
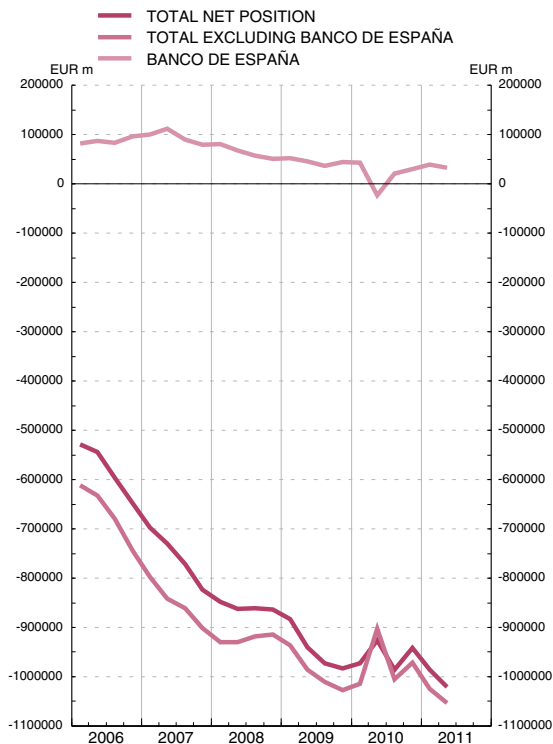
COMPONENTS OF THE POSITION
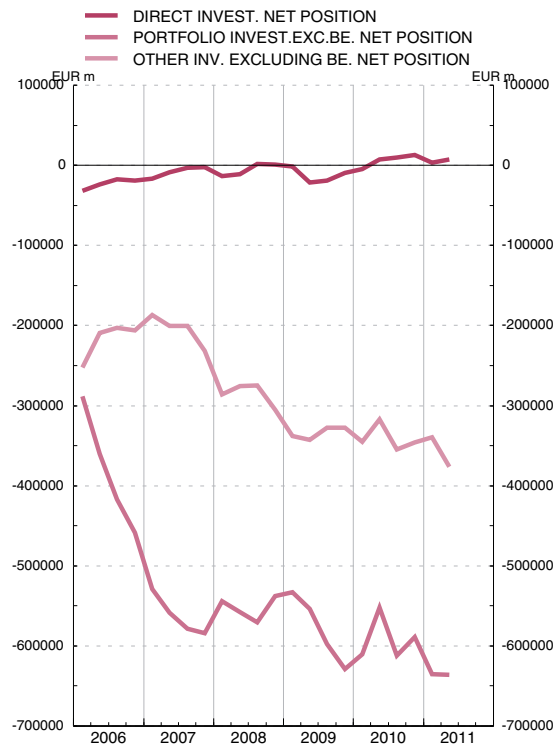
Source: BE.
Note: As from December 2002, portfolio investment data have been calculated using a new information system (see Banco de España Circular 2/2001 and note on changes introduced in the economic indicators). The incorporation of the new data under the heading 'shares and mutual funds' of other resident sectors entails a very significant break in the time series, both in the financial assets and the liabilities, so that the series have been revised back to 1992. This methodological change introduced by the new system also affects the rest of the headings, to some extent, but the effect does not justify a complete revision of the series.
a. See note b to table 17.21 of the Boletín Estadístico.

7.7. SPANISH INTERNATIONAL INVESTMENT POSITION VIS-à-VIS OTHER EURO AREA RESIDENTES AND THE REST OF THE WORLD BREAKDOWN BY INVESTMENT

■ Series depicted in chart.

End-of-period stocks in EUR millions

	Direct investment				Portfolio investment, including Banco de España				Other investment, including Banco de España		Financial derivatives including BE	
	Spanish investment abroad		Foreign investment in Spain		Spanish investment abroad		Foreign investment in Spain		Spanish investment abroad	Foreign investment in Spain	Spanish investment abroad	Foreign investment in Spain
	Shares and other equities	Intercompany debt transactions	Shares and other equities	Intercompany debt transactions	Shares and mutual funds	Debt securities	Shares and mutual funds	Debt securities		(a)		
	1	2	3	4	5	6	7	8	9 ■	10 ■	11	12
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	307 902	23 206	271 313	79 125	133 193	373 001	245 683	718 897	355 621	531 211	32 973	42 569
07	368 306	27 086	307 278	90 696	132 955	369 758	282 331	804 609	384 714	614 829	44 642	63 487
08 Q2	380 219	27 659	329 774	88 933	97 307	358 629	216 631	797 428	421 982	704 984	58 579	82 016
Q3	391 877	30 743	323 994	96 913	82 732	360 523	200 218	813 893	427 889	722 208	70 066	81 757
Q4	393 430	31 011	320 664	102 489	63 146	357 229	170 143	787 812	391 414	726 987	108 278	114 027
09 Q1	382 686	32 222	312 860	103 269	54 989	350 665	142 151	796 597	379 934	745 031	111 670	111 538
Q2	392 725	30 644	324 466	120 387	62 698	360 773	177 670	799 699	376 073	748 753	92 879	100 032
Q3	400 116	27 608	329 441	117 369	74 037	363 555	218 943	816 315	370 544	740 493	85 194	90 098
Q4	404 189	24 843	327 238	111 090	81 229	357 947	222 620	845 284	375 982	739 139	77 449	78 498
10 Q1	410 966	24 832	331 034	109 467	91 998	353 521	199 350	856 507	369 684	753 365	93 867	88 286
Q2	423 592	26 919	333 740	109 691	90 402	321 202	170 376	793 757	378 474	795 700	118 304	106 522
Q3	429 281	29 801	338 676	111 053	91 763	299 508	195 464	808 125	360 616	769 768	121 434	117 049
Q4	440 980	32 000	345 800	113 943	94 830	275 052	182 623	776 434	379 584	771 557	95 116	92 459
11 Q1	438 344	31 530	354 835	111 695	95 262	263 342	206 215	787 827	388 126	762 832	80 724	82 170
Q2	446 176	31 962	358 958	111 639	94 144	253 377	197 382	785 920	392 424	808 659	83 770	84 040

SPANISH INVESTMENT ABROAD
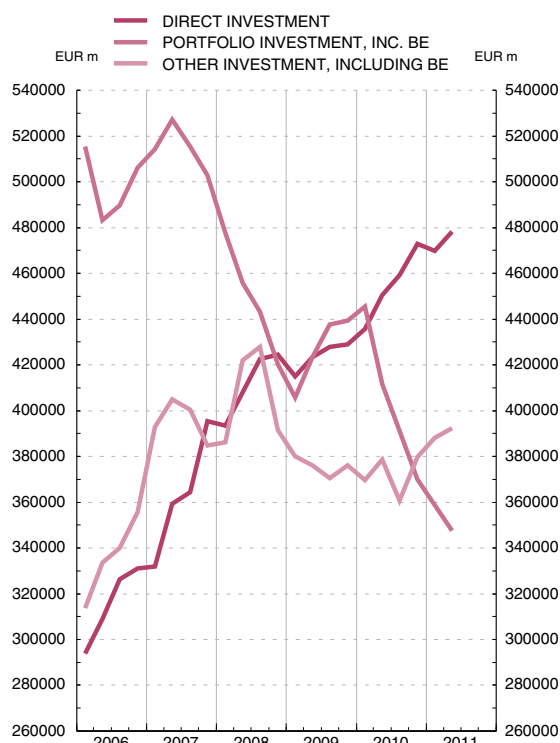
FOREIGN INVESTMENT IN SPAIN
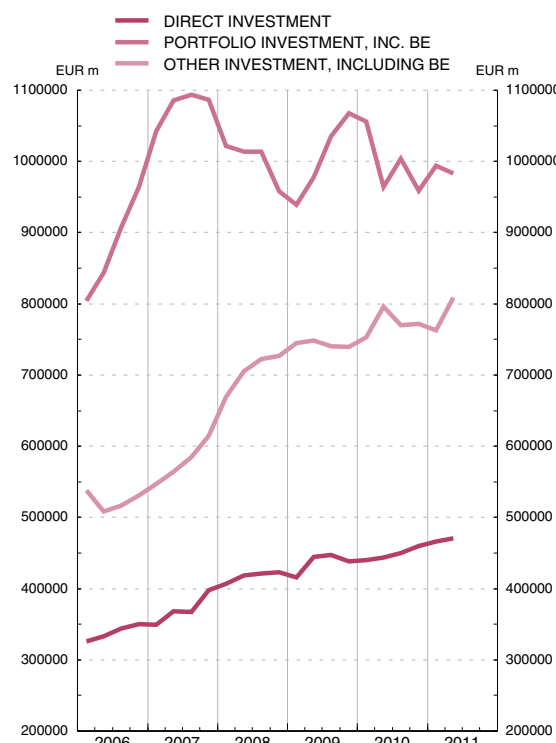
Source: BE.
Note: See footnote to Indicator 7.6
a. See note b to table 17.21 of the Boletín Estadístico.

7.8. SPANISH RESERVE ASSETS

■ Series depicted in chart.

End-of-period stocks in EUR millions

	Reserve assets						Memorandum item: gold
	Total	Foreign exchange	Reserve position in the IMF	SDRs	Monetary gold	Financial derivatives	Millions of troy ounces
	1	2	3	4	5	6	7
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	14 546	8 292	467	160	5 627	-	9.1
09	19 578	8 876	541	3 222	6 938	-	9.1
10 *Apr*	21 657	9 627	644	3 352	8 034	-	9.1
May	23 870	10 444	1 078	3 509	8 839	-	9.1
Jun	24 353	10 555	1 091	3 537	9 169	-	9.1
Jul	22 626	10 029	1 055	3 412	8 130	-	9.1
Aug	23 717	10 368	1 018	3 466	8 865	-	9.1
Sep	22 641	9 629	995	3 320	8 697	-	9.1
Oct	22 754	9 696	990	3 302	8 766	-	9.1
Nov	24 351	10 279	1 024	3 416	9 632	-	9.1
Dec	23 905	9 958	995	3 396	9 555	-	9.1
11 *Jan*	23 034	9 769	1 158	3 345	8 762	-	9.1
Feb	23 410	9 812	1 040	3 322	9 235	-	9.1
Mar	23 159	9 439	1 643	2 957	9 119	-	9.1
Apr	22 965	9 102	1 606	2 891	9 365	-	9.1
May	23 734	9 452	1 676	2 943	9 664	-	9.1
Jun	23 471	9 420	1 667	2 938	9 447	-	9.1
Jul	25 955	10 908	1 809	2 979	10 259	-	9.1
Aug	27 004	10 878	1 796	2 958	11 373	-	9.1
Sep	27 566	11 619	1 953	3 072	10 922	-	9.1

RESERVE ASSETS
END-OF-YEAR POSITIONS
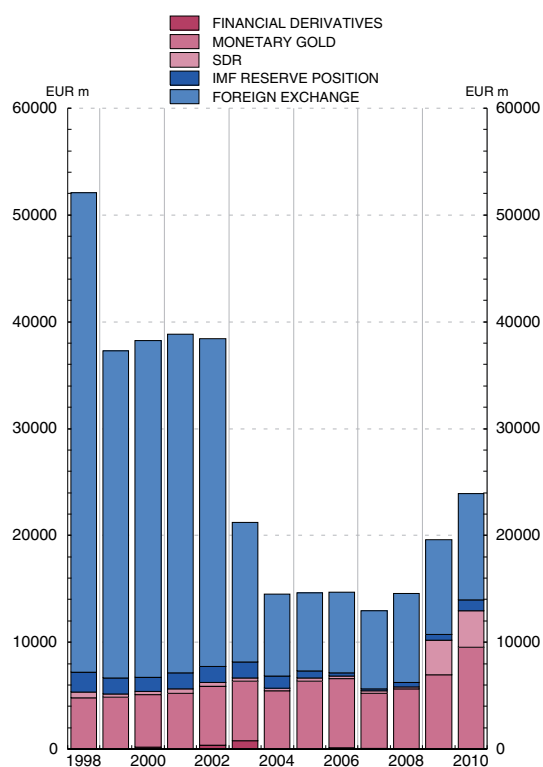
RESERVE ASSETS
END-OF-MONTH POSITIONS
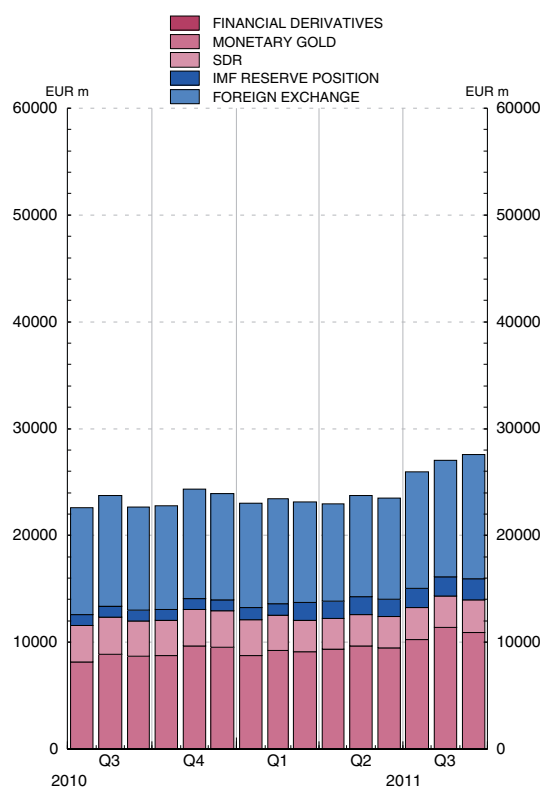
Source: BE.

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.

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
07 *Q2*	1 523 843	215 134	5 446	443	190 503	18 742	-	684 742	11 316	294 402	269 682	109 341
Q3	1 542 085	207 145	4 820	1 329	182 455	18 541	-	707 016	15 079	308 889	273 907	109 140
Q4	1 563 730	197 835	4 653	878	173 266	19 038	-	724 116	21 248	327 391	261 177	114 300
08 *Q1*	1 596 725	200 163	6 329	558	173 668	19 607	-	768 529	20 424	380 522	256 302	111 281
Q2	1 651 445	202 260	5 594	162	177 009	19 495	-	794 086	22 729	399 932	258 374	113 051
Q3	1 690 245	217 747	9 722	494	187 624	19 907	-	792 491	21 269	400 051	258 393	112 778
Q4	1 672 021	233 755	12 480	2 099	198 366	20 810	-	766 311	12 224	400 691	249 210	104 187
09 *Q1*	1 700 345	243 079	15 801	480	204 677	22 122	-	783 924	15 149	411 446	248 633	108 696
Q2	1 729 068	256 709	21 125	978	211 334	23 272	-	785 982	14 200	409 692	251 728	110 363
Q3	1 738 702	275 890	31 005	709	219 370	24 806	-	769 833	14 217	391 123	256 821	107 671
Q4	1 763 167	299 691	44 479	532	229 558	25 121	-	782 741	14 873	384 509	260 201	123 157
10 *Q1*	1 794 456	318 698	51 915	117	240 354	26 312	-	790 665	16 642	399 817	257 133	117 073
Q2	1 775 129	293 571	39 746	195	225 671	27 959	-	743 171	12 157	378 888	240 537	111 589
Q3	1 761 337	303 800	39 461	935	234 755	28 649	-	760 466	10 926	396 110	245 257	108 173
Q4	1 733 790	290 968	36 687	979	223 227	30 075	-	762 765	9 906	425 112	241 175	86 572
11 *Q1*	1 734 730	307 975	34 674	489	242 102	30 711	-	766 452	10 638	395 695	241 501	118 619
Q2	1 778 381	313 832	34 471	11	247 217	32 132	-	797 549	7 547	425 267	236 887	127 848

End-of-period positions   *EUR millions*

	Monetary authority		Other residents sectors								Direct investment		
	Total (a)	Short-term Deposits	Total	Short-term			Long-term				Total	Vis-à-vis	
				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
07 *Q2*	423	423	482 312	5 418	27 035	1 066	336 291	110 523	331	1 647	141 233	50 464	90 769
Q3	277	277	494 727	2 553	22 020	854	345 252	122 021	339	1 688	132 920	52 206	80 714
Q4	3 550	3 550	493 937	701	20 981	314	343 564	126 473	331	1 573	144 292	55 165	89 128
08 *Q1*	1 855	1 855	484 555	927	22 022	473	328 226	130 418	358	2 132	141 624	56 104	85 520
Q2	12 326	12 326	493 741	6 217	22 786	1 465	327 505	133 364	355	2 047	149 032	61 350	87 683
Q3	24 276	24 276	501 587	18 093	25 024	1 342	318 792	136 110	362	1 865	154 144	62 559	91 585
Q4	35 233	35 233	479 500	13 329	22 307	2 668	302 204	136 854	361	1 777	157 223	65 142	92 080
09 *Q1*	32 491	32 491	482 134	20 122	18 297	3 275	292 216	145 546	393	2 285	158 717	69 922	88 795
Q2	35 596	35 596	470 165	18 969	16 314	2 416	282 343	147 176	385	2 561	180 616	90 607	90 009
Q3	47 538	47 538	463 546	13 249	15 298	2 322	281 652	147 913	419	2 694	181 894	89 759	92 135
Q4	41 400	41 400	460 591	17 935	12 956	2 052	278 237	146 168	419	2 825	178 744	73 743	105 001
10 *Q1*	43 673	43 673	456 836	14 634	13 806	2 895	275 829	145 699	424	3 550	184 584	69 063	115 521
Q2	105 881	105 881	446 833	12 714	16 604	4 033	262 932	146 171	431	3 949	185 673	66 561	119 112
Q3	59 477	59 477	454 151	14 032	16 178	4 337	263 695	151 349	421	4 139	183 444	66 452	116 992
Q4	51 323	51 323	442 935	11 929	16 980	3 549	253 510	152 407	422	4 138	185 799	66 781	119 018
11 *Q1*	40 665	40 665	435 566	11 724	18 177	3 086	247 188	150 852	415	4 123	184 071	67 236	116 836
Q2	45 732	45 732	437 466	11 750	18 633	3 461	248 048	151 038	414	4 123	183 802	67 942	115 860

Source: BE.

a. See note b to table 17.21 of the Boletín Estadístico.

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					Actual reserves of credit institutions
	Total	Open market operations				Standing facilities		Autonomous factors					
		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
10 Apr	518 251	72 798	663 740	-13 286	-	183	205 184	306 870	795 902	117 289	457 309	149 012	211 381
May	527 612	97 546	692 289	-15 223	-	1 178	248 178	302 425	803 187	117 440	461 565	156 636	225 187
Jun	538 701	129 940	713 202	-16 522	-	304	288 223	317 638	808 910	133 527	463 359	161 440	221 063
Jul	502 230	197 804	418 108	11 093	-	261	125 035	300 156	817 564	103 637	543 196	77 849	202 074
Aug	488 964	156 847	436 311	-9 174	-	569	95 589	280 646	817 554	81 380	543 363	74 925	208 318
Sep	508 881	154 228	432 260	-6 635	-	547	71 520	284 256	813 964	97 492	543 285	83 915	224 624
Oct	463 422	184 986	327 455	-984	-	662	48 697	265 250	813 259	95 670	511 143	132 536	198 171
Nov	473 553	179 522	338 925	-4 462	-	1 776	42 207	258 331	813 937	91 614	511 275	135 946	215 222
Dec	473 174	194 560	333 046	-116	-	819	55 135	244 377	832 289	82 373	512 369	157 916	228 797
11 Jan	423 017	184 834	303 292	-4 467	-	65	60 707	239 928	827 363	94 746	548 751	133 430	183 089
Feb	448 819	159 033	323 186	-7 933	-	6 539	32 007	223 843	820 280	89 194	549 375	136 256	224 976
Mar	416 301	106 478	336 508	-4 166	-	1 478	23 997	205 766	822 946	81 378	552 327	146 232	210 536
Apr	396 372	96 912	322 853	-3 756	-	378	20 016	194 759	831 108	64 758	526 450	174 657	201 613
May	406 998	121 578	315 687	-6 504	-	252	24 016	190 096	833 005	53 806	526 287	170 428	216 902
Jun	431 648	134 617	315 438	-1 346	-	158	17 219	217 454	842 535	75 422	528 083	172 420	214 194
Jul	428 135	155 735	314 193	-3 563	-	123	38 354	218 792	851 836	74 499	541 021	166 522	209 343
Aug	415 158	152 276	371 089	-6 310	-	467	102 365	198 249	854 163	56 888	540 662	172 140	216 908
Sep	385 451	159 698	379 582	-7 589	-	613	146 852	184 329	852 472	47 300	543 854	171 590	201 122

8.1.b BALANCE SHEET OF THE BANCO DE ESPAÑA. NET LENDING TO CREDIT INSTITUTIONS AND ITS COUNTERPARTS

Average of daily data, EUR millions

	Net lending in euro							Counterparts							Actual reserves of credit institutions
	Total	Open market operations				Standing facilities		Intra-ESCB		Autonomous factors					
		Main refinancing operations	Longer-term refinancing operations	Fine-tuning reserve operations (net)	Structural reserve operations (net)	Marginal lending facility	Deposit facility	Target	Rest	Total	Banknotes	Deposits to general government	Gold and net assets in foreign currency	Other assets (net)	
	14=15+16+17+18+19-20	15	16	17 t	18	19	20	21	22	23=24+25-26-27	24	25	26	27	28
10 Apr	74 603	1 351	89 436	-861	-	-	15 323	41 475	-5 447	12 505	76 714	30 938	17 390	77 757	26 070
May	86 451	7 984	97 566	-952	-	2	18 150	53 407	-5 447	11 686	76 313	30 862	17 638	77 850	26 805
Jun	126 518	30 119	106 371	-390	-	55	9 638	92 411	-5 447	14 131	76 968	31 662	17 802	76 696	25 422
Jul	131 891	31 057	108 960	1 377	-	-	9 503	102 620	-5 447	9 993	78 104	21 305	20 533	68 883	24 725
Aug	114 748	15 500	110 128	-947	-	-	9 933	88 651	-5 447	8 353	77 088	17 100	20 528	65 308	23 191
Sep	102 782	7 334	104 423	-353	-	-	8 620	77 026	-5 447	4 733	75 443	15 414	20 479	65 646	26 471
Oct	67 947	13 512	57 773	662	-	1	4 002	49 480	-5 447	-170	74 449	18 195	19 186	73 628	24 084
Nov	61 527	13 352	51 105	155	-	-	3 084	42 571	-5 447	-131	73 297	20 212	19 224	74 416	24 534
Dec	66 986	22 197	47 538	241	-	-	2 990	50 767	-5 465	-6 565	75 356	14 283	19 258	76 945	28 249
11 Jan	53 646	17 882	39 237	-347	-	4	3 131	51 551	-5 585	-13 806	74 555	8 039	20 445	75 955	21 486
Feb	49 268	14 803	36 141	-402	-	-	1 273	43 382	-5 585	-13 975	73 006	10 280	20 545	76 716	25 447
Mar	42 244	9 090	34 734	-240	-	-	1 340	40 606	-5 585	-17 499	72 689	7 193	20 785	76 596	24 721
Apr	42 227	10 830	32 991	-544	-	-	1 050	43 621	-5 585	-18 560	73 096	6 828	19 781	78 702	22 751
May	53 134	18 422	39 430	-487	-	0	4 231	50 085	-5 585	-16 970	71 609	8 699	19 822	77 456	25 604
Jun	47 777	11 506	37 949	-127	-	40	1 591	47 536	-5 585	-17 618	71 283	9 185	19 886	78 200	23 444
Jul	52 053	21 686	35 678	-206	-	74	5 179	53 344	-5 585	-20 478	71 836	6 329	21 185	79 452	24 772
Aug	69 918	36 767	44 840	-435	-	51	11 304	69 880	-5 585	-18 545	70 845	11 743	21 543	79 590	24 169
Sep	69 299	32 965	46 394	-225	-	0	9 835	82 810	-5 585	-30 491	68 987	8 879	21 636	86 721	22 565

Sources: ECB for Table 8.1.a and BE for Table 8.1.b.

■ 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
08		479 495	-3.3	0.5	-4.2	545 753	18.0	24.3	-21.2	-8.9	148 107	-30.6	-16.7	-41.3	4.9	8.0
09		520 512	8.6	0.6	10.6	527 870	-3.3	-1.3	-16.3	-39.8	146 214	-1.3	0.5	-3.2	2.1	0.3
10		519 551	-0.2	-0.3	-0.1	571 361	8.2	6.4	37.5	-22.2	124 357	-14.9	-29.5	1.6	1.7	-1.7
10 *May*		513 534	5.2	0.3	6.4	529 833	-2.6	-0.1	-21.3	-40.7	137 385	-6.5	-13.2	1.4	0.0	-4.1
Jun		532 191	5.8	0.8	7.0	537 026	-0.8	1.4	-19.1	-22.1	133 721	-6.9	-16.4	4.2	1.1	-4.4
Jul		524 832	4.9	0.8	5.9	544 535	0.4	2.7	-17.8	-30.8	133 385	-7.6	-20.8	8.1	0.9	-5.2
Aug		518 585	4.0	0.7	4.8	546 058	0.8	2.7	-14.2	-29.3	132 909	-8.7	-22.6	8.1	0.5	-5.1
Sep		511 873	1.7	0.7	2.0	552 730	3.1	4.9	-9.1	-36.3	131 280	-9.7	-25.6	9.9	0.4	-3.5
Oct		507 466	0.6	0.1	0.7	558 783	6.4	7.2	4.1	-33.3	130 626	-9.5	-26.1	10.7	1.4	-2.6
Nov		505 196	-0.2	-0.4	-0.1	566 601	8.2	7.5	23.6	-24.9	125 886	-12.9	-28.6	6.2	1.8	-1.5
Dec		519 551	-0.2	-0.3	-0.1	571 361	8.2	6.4	37.5	-22.2	124 357	-14.9	-29.5	1.6	1.7	-1.7
11 *Jan*		505 829	-2.0	-0.3	-2.4	570 833	8.8	7.1	36.9	-20.5	124 909	-13.8	-30.5	5.2	1.1	-1.5
Feb		507 405	-1.8	-0.4	-2.1	576 733	11.1	8.8	46.7	-11.5	125 719	-12.6	-30.6	7.1	2.3	0.6
Mar		515 644	1.0	-1.2	1.6	577 416	10.0	7.5	46.6	1.8	125 307	-12.7	-28.5	3.7	3.4	1.2
Apr	P	513 405	1.3	-0.5	1.7	568 851	8.5	7.9	19.9	-16.1	124 736	-12.3	-28.0	3.9	2.8	1.8
May	P	511 092	-0.5	-1.7	-0.2	572 063	8.0	7.4	16.4	0.5	123 511	-10.1	-25.8	5.7	2.0	2.2
Jun	P	524 957	-1.4	-2.0	-1.2	573 846	6.9	7.0	8.1	-13.4	121 791	-8.9	-20.9	2.4	1.4	2.6
Jul	P	517 278	-1.4	-2.2	-1.3	569 103	4.5	4.5	7.8	-17.0	119 743	-10.2	-18.7	-2.9	0.5	2.0
Aug	P	508 589	-1.9	-2.1	-1.9	569 744	4.3	4.6	9.0	-60.1	118 264	-11.0	-17.5	-5.5	0.3	2.2

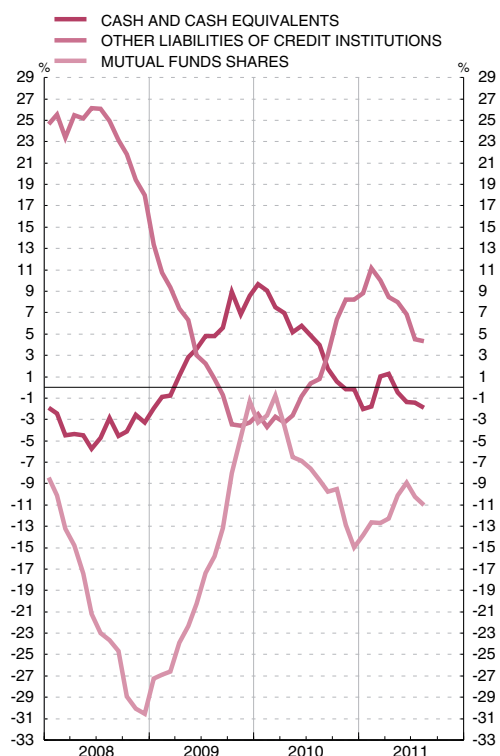**NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHs**
Annual percentage change

- CASH AND CASH EQUIVALENTS
- OTHER LIABILITIES OF CREDIT INSTITUTIONS
- MUTUAL FUNDS SHARES

NON-FINANCIAL CORPORATIONS, HOUSEHOLDS AND NPISHs
Annual percentage change

- AL
- CONTRIBUTION OF THE MFIs RESID. TO M3

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 %
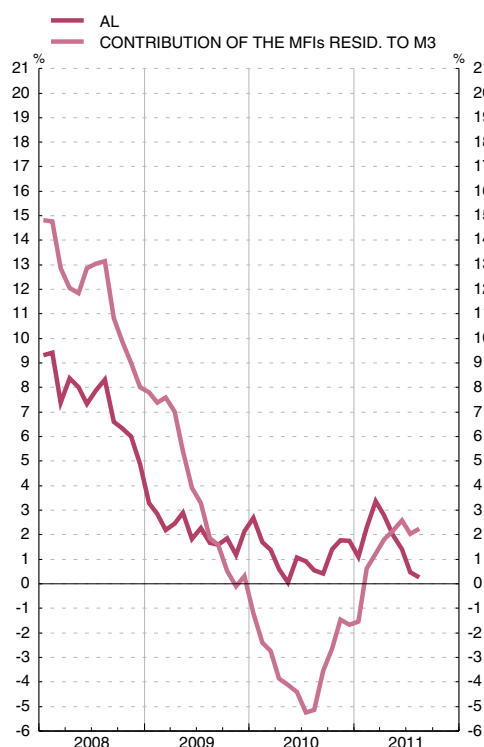
		Cash and cash equivalents (b)		Other liabilities of credit institutions				Mutual funds shares			
		Stocks	Annual growth rate	Stocks	Annual growth rate	Annual growth rate		Stocks	Annual growth rate	Annual growth rate	
						Other deposits (c)	Repos + credit instit.' securit.+ dep. in branches abroad			Fixed income in EUR (d)	Other
		1	2 ■	3	4 ■	5	6	7	8 ■	9	10
08		121 783	-8.6	118 058	16.2	25.1	-0.8	11 959	-52.5	-42.7	-60.1
09		118 631	-2.6	112 469	-4.7	9.2	-38.2	11 475	-4.0	-6.4	-1.4
10		119 142	0.4	122 915	9.3	6.1	23.0	12 153	5.9	-9.4	22.1
10	May	118 963	4.7	108 235	-8.7	3.4	-42.6	11 195	-2.7	-8.3	3.8
	Jun	125 313	8.9	111 321	-4.6	5.9	-35.2	10 897	-3.1	-11.8	6.7
	Jul	120 072	7.1	113 422	-3.4	6.9	-34.8	13 472	14.7	-1.4	33.7
	Aug	121 405	6.4	112 183	-5.2	2.5	-29.8	13 424	13.3	-3.7	33.6
	Sep	118 151	2.1	115 816	-1.0	5.8	-22.9	13 259	12.1	-7.3	36.0
	Oct	115 037	1.1	116 790	4.2	8.6	-11.6	12 766	13.3	-4.2	33.0
	Nov	115 219	-1.2	121 848	10.1	9.6	12.2	12 302	8.8	-7.9	27.6
	Dec	119 142	0.4	122 915	9.3	6.1	23.0	12 153	5.9	-9.4	22.1
11	Jan	112 151	-4.6	117 779	8.6	5.4	22.9	12 228	6.9	-11.3	26.2
	Feb	116 384	-0.5	120 354	15.8	10.1	44.1	12 307	8.2	-11.5	28.5
	Mar	120 811	4.4	122 018	13.7	7.3	46.1	12 267	7.9	-9.1	24.5
	Apr P	117 865	3.3	117 652	8.9	5.2	26.1	12 211	5.4	-13.4	24.6
	May P	117 839	-0.9	119 557	10.5	5.9	33.5	12 091	8.0	-10.7	26.8
	Jun P	121 412	-3.1	120 490	8.2	5.0	23.5	11 923	9.4	-5.0	22.9
	Jul P	115 486	-3.8	115 306	1.7	-2.1	20.5	11 722	-13.0	-21.3	-5.8
	Aug P	114 048	-6.1	116 454	3.8	1.7	13.8	11 577	-13.8	-20.1	-8.3

NON-FINANCIAL CORPORATIONS
Annual percentage change
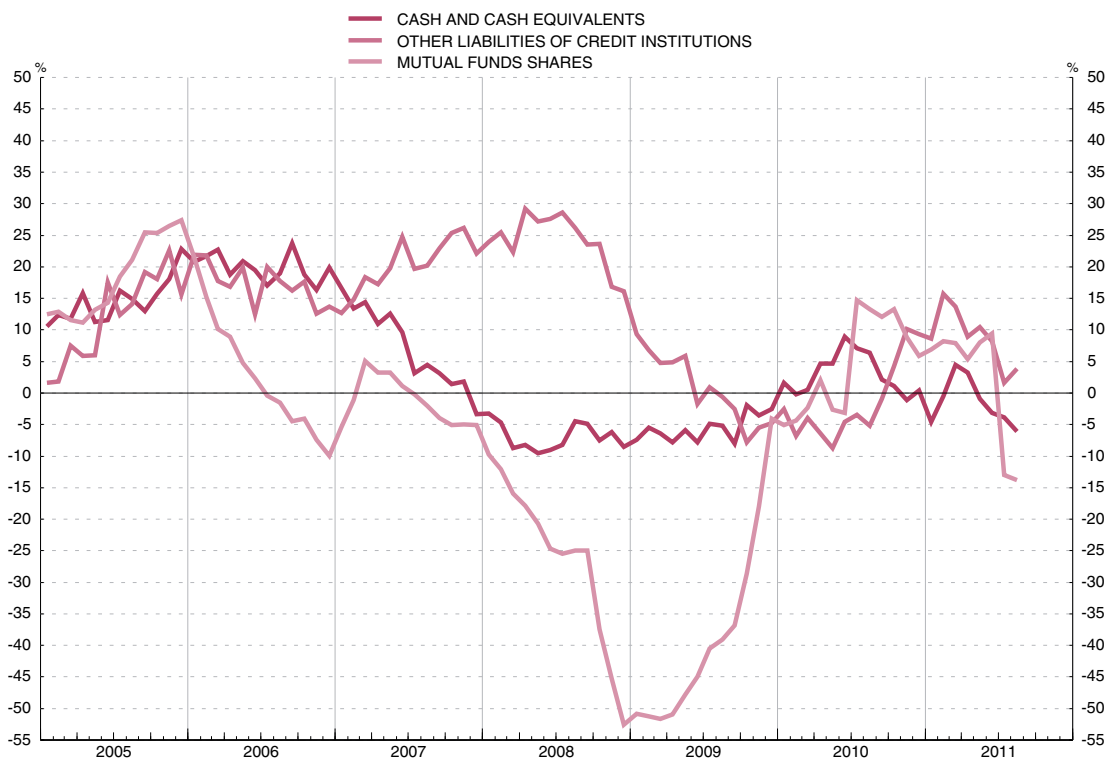
— CASH AND CASH EQUIVALENTS
— OTHER LIABILITIES OF CREDIT INSTITUTIONS
— MUTUAL FUNDS SHARES

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			
				Annual growth rate				Annual growth rate				Annual growth rate	
		Stocks	Annual growth rate	Cash	Deposits (b)	Stocks	Annual growth rate	Other deposits (c)	Repos + credit instit.' securit.+ dep. in branches abroad	Stocks	Annual growth rate	Fixed income in EUR (d)	Other
		1	2 ■	3	4	5	6 ■	7	8	9	10 ■	11	12
08		357 712	-1.3	3.1	-2.7	427 695	18.5	24.2	-38.5	136 148	-27.6	-13.3	-38.7
09		401 881	12.3	3.5	15.3	415 401	-2.9	-3.5	8.9	134 738	-1.0	1.1	-3.4
10		400 409	-0.4	0.2	-0.5	448 446	8.0	6.5	34.3	112 204	-16.7	-31.1	-0.2
10	May	394 571	5.3	2.2	6.3	421 598	-0.9	-0.9	-1.5	126 190	-6.8	-13.6	1.2
	Jun	406 878	4.9	2.5	5.6	425 705	0.2	0.4	-2.8	122 824	-7.2	-16.7	4.0
	Jul	404 761	4.2	2.3	4.9	431 113	1.4	1.8	-3.2	119 913	-9.5	-22.5	5.9
	Aug	397 180	3.2	2.0	3.6	433 876	2.5	2.8	-1.9	119 485	-10.6	-24.3	5.8
	Sep	393 722	1.6	1.8	1.6	436 914	4.2	4.7	-2.8	118 021	-11.7	-27.2	7.6
	Oct	392 429	0.4	1.0	0.2	441 993	7.0	6.9	8.4	117 860	-11.5	-27.8	8.7
	Nov	389 977	0.1	0.3	0.1	444 753	7.7	7.0	20.2	113 584	-14.7	-30.3	4.3
	Dec	400 409	-0.4	0.2	-0.5	448 446	8.0	6.5	34.3	112 204	-16.7	-31.1	-0.2
11	Jan	393 678	-1.3	0.2	-1.7	453 054	8.9	7.5	33.1	112 681	-15.6	-32.1	3.3
	Feb	391 021	-2.2	0.2	-2.9	456 379	10.0	8.6	34.7	113 412	-14.4	-32.1	5.2
	Mar	394 833	0.0	-0.6	0.3	455 398	9.1	7.5	36.5	113 040	-14.5	-30.1	1.9
	Apr P	395 540	0.7	-0.0	1.0	451 199	8.3	8.5	6.5	112 525	-13.8	-29.3	2.0
	May P	393 254	-0.3	-1.2	-0.1	452 506	7.3	7.7	1.4	111 420	-11.7	-27.1	3.8
	Jun P	403 546	-0.8	-1.5	-0.6	453 355	6.5	7.4	-7.1	109 868	-10.5	-22.4	0.6
	Jul P	401 792	-0.7	-1.8	-0.4	453 797	5.3	6.0	-5.9	108 021	-9.9	-18.4	-2.5
	Aug P	394 541	-0.7	-1.6	-0.4	453 290	4.5	5.3	-8.7	106 687	-10.7	-17.2	-5.2

HOUSEHOLDS AND NPISH
Annual percentage change

— CASH AND CASH EQUIVALENTS
— OTHER LIABILITIES OF CREDIT INSTITUTIONS
— MUTUAL FUNDS SHARES

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.
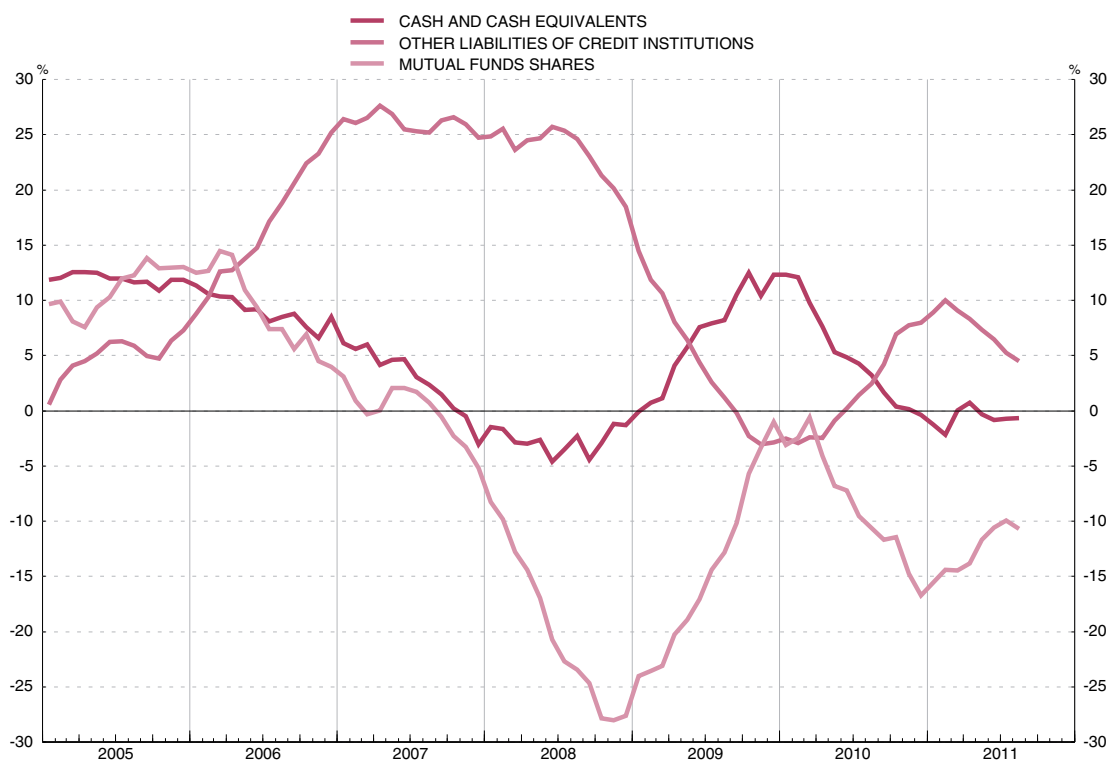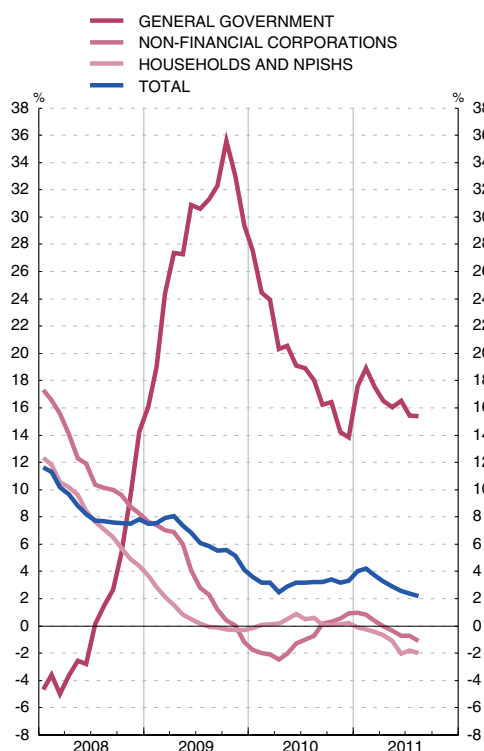
8.5. FINANCING OF NON-FINANCIAL SECTORS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

EUR millions and %

	Total			Annual growth rate							Contribution to col. 3						
				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		
	Stocks	Effective flow	Annual growth rate			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
08	2 655 191	192 830	7.8	14.3	6.6	8.2	4.4	5.6	11.8	12.4	2.2	5.6	4.0	1.6	4.0	0.2	1.4
09	2 771 063	109 502	4.1	29.4	-0.8	-1.2	-0.3	-2.0	36.3	1.1	4.8	-0.7	-0.6	-0.1	-1.4	0.5	0.1
10	2 852 205	91 858	3.3	13.8	0.6	0.9	0.2	-0.4	15.0	3.9	2.8	0.5	0.4	0.1	-0.3	0.3	0.5
10 May	2 803 292	12 708	2.9	20.5	-1.0	-2.0	0.5	-2.0	42.6	-1.2	3.7	-0.8	-1.0	0.2	-1.4	0.7	-0.1
Jun	2 827 582	24 833	3.2	19.1	-0.4	-1.3	0.9	-1.0	43.4	-2.7	3.5	-0.3	-0.6	0.3	-0.7	0.7	-0.3
Jul	2 824 074	-2 437	3.2	18.9	-0.4	-1.0	0.5	-1.0	25.6	-1.0	3.5	-0.3	-0.5	0.2	-0.7	0.5	-0.1
Aug	2 816 804	-7 105	3.2	18.0	-0.2	-0.7	0.6	-0.8	26.6	-0.9	3.4	-0.2	-0.4	0.2	-0.5	0.5	-0.1
Sep	2 827 543	18 392	3.2	16.2	0.1	0.2	0.1	-0.7	28.4	0.3	3.1	0.1	0.1	0.0	-0.4	0.5	0.0
Oct	2 842 583	16 761	3.4	16.4	0.2	0.3	0.1	-0.6	27.2	0.7	3.2	0.2	0.1	0.0	-0.4	0.5	0.1
Nov	2 858 794	14 150	3.2	14.2	0.4	0.6	0.1	-0.4	18.6	1.5	2.9	0.3	0.3	0.0	-0.2	0.4	0.2
Dec	2 852 205	-702	3.3	13.8	0.6	0.9	0.2	-0.4	15.0	3.9	2.8	0.5	0.4	0.1	-0.3	0.3	0.5
11 Jan	2 856 625	5 435	4.0	17.6	0.5	1.0	-0.1	-0.5	11.8	4.1	3.6	0.4	0.5	-0.0	-0.3	0.2	0.5
Feb	2 866 831	11 337	4.2	18.9	0.4	0.8	-0.3	-0.9	15.2	4.9	3.9	0.3	0.4	-0.1	-0.6	0.3	0.6
Mar	2 868 770	4 942	3.7	17.5	0.0	0.3	-0.5	-1.0	10.5	3.8	3.7	0.0	0.2	-0.1	-0.7	0.2	0.5
Apr	2 859 620	-7 282	3.3	16.5	-0.3	0.0	-0.7	-1.2	4.7	3.8	3.4	-0.2	0.0	-0.2	-0.8	0.1	0.5
May	2 861 777	2 585	2.9	16.1	-0.7	-0.4	-1.1	-1.7	5.8	3.7	3.4	-0.5	-0.1	-0.4	-1.1	0.1	0.5
Jun	2 875 820	16 045	2.6	16.5	-1.2	-0.7	-2.0	-2.4	5.4	3.6	3.5	-1.0	-0.3	-0.7	-1.5	0.1	0.5
Jul P	2 866 270	-7 225	2.4	15.4	-1.2	-0.7	-1.8	-2.4	7.6	3.5	3.3	-0.9	-0.3	-0.6	-1.5	0.2	0.4
Aug P	2 852 526	-12 668	2.2	15.4	-1.5	-1.1	-2.0	-2.7	7.4	3.5	3.3	-1.1	-0.5	-0.6	-1.7	0.2	0.5

FINANCING OF NON-FINANCIAL SECTORS
Annual percentage change

- GENERAL GOVERNMENT
- NON-FINANCIAL CORPORATIONS
- HOUSEHOLDS AND NPISHS
- TOTAL

FINANCING OF NON-FINANCIAL SECTORS
Contributions to the annual percentage change
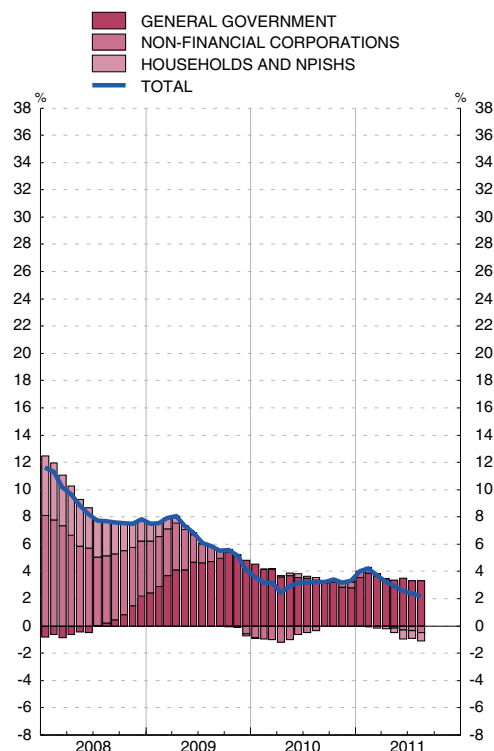
- GENERAL GOVERNMENT
- NON-FINANCIAL CORPORATIONS
- HOUSEHOLDS AND NPISHS
- TOTAL

Source: BE.

a. The annual percentage changes are calculated as the effective flow of the period / the stock at the beginning of the period.

b. Total liabilities (consolidated). Inter-general government liabilities are deduced.
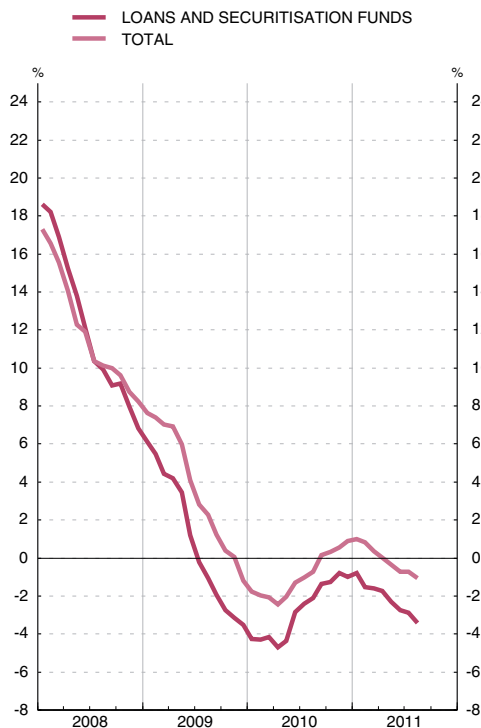
8.6. FINANCING OF NON-FINANCIAL CORPORATIONS RESIDENT IN SPAIN (a)

■ Series depicted in chart.

EUR millions and %

	Total			Resident credit institutions' loans and off-balance-sheet securitised loans			Securities other than shares (b)				External loans			Memorandum items: off-balance-sheet securitised loans
	Stocks	Effective flow	Annual growth rate	Stocks	Annual growth rate	Contribution to col.3	of which		Annual growth rate	Contribution to col.3	Stocks	Annual growth rate	Contribution to col.3	
							Stocks	Issues by resident financ. subsid.						
	1	2	3 ■	4	5 ■	6 ■	7	8	9	10 ■	11	12	13 ■	14
08	1 308 086	99 965	8.2	954 134	6.8	5.0	40 059	25 648	11.8	0.3	313 893	12.2	2.9	2 060
09	1 303 430	-15 688	-1.2	916 361	-3.5	-2.6	54 618	40 095	36.3	1.1	332 451	1.1	0.3	1 256
10	1 311 839	11 809	0.9	897 475	-1.0	-0.7	62 825	47 129	15.0	0.6	351 539	3.9	1.0	1 581
10 May	1 310 725	1 835	-2.0	906 048	-4.4	-3.1	62 754	46 658	42.6	1.4	341 922	-1.2	-0.3	1 351
Jun	1 313 460	1 991	-1.3	907 970	-2.8	-2.0	62 182	46 358	43.4	1.4	343 308	-2.7	-0.7	1 856
Jul	1 315 807	3 107	-1.0	907 752	-2.4	-1.7	61 307	45 523	25.6	0.9	346 749	-1.0	-0.3	1 783
Aug	1 310 428	-5 532	-0.7	900 944	-2.1	-1.5	61 225	45 826	26.6	1.0	348 258	-0.9	-0.2	1 697
Sep	1 314 624	10 890	0.2	904 894	-1.4	-1.0	61 841	45 941	28.4	1.0	347 888	0.3	0.1	1 493
Oct	1 314 465	926	0.3	904 269	-1.3	-0.9	62 847	46 973	27.2	1.0	347 348	0.6	0.2	1 593
Nov	1 319 280	2 286	0.6	903 778	-0.8	-0.6	63 566	47 763	18.6	0.8	351 936	1.4	0.4	1 597
Dec	1 311 839	-3 020	0.9	897 475	-1.0	-0.7	62 825	47 129	15.0	0.6	351 539	3.9	1.0	1 581
11 Jan	1 307 894	-3 992	1.0	892 670	-0.8	-0.6	62 560	46 909	11.8	0.5	352 664	4.1	1.0	1 447
Feb	1 304 041	-2 956	0.8	884 149	-1.5	-1.1	64 722	49 140	15.2	0.7	355 170	4.9	1.3	1 342
Mar	1 298 375	-4 174	0.3	881 905	-1.6	-1.1	64 653	48 890	10.5	0.5	351 817	3.8	1.0	1 317
Apr	P 1 295 504	-1 303	0.0	878 129	-1.7	-1.2	65 160	49 104	4.7	0.2	352 215	3.8	1.0	1 454
May	P 1 291 359	-2 876	-0.4	873 122	-2.3	-1.6	66 425	50 033	5.8	0.3	351 812	3.7	1.0	1 431
Jun	P 1 286 709	-2 671	-0.7	870 333	-2.7	-1.9	65 531	49 150	5.4	0.3	350 846	3.6	0.9	1 427
Jul	P 1 288 094	2 749	-0.7	868 567	-2.9	-2.0	65 967	49 415	7.6	0.4	353 561	3.4	0.9	1 388
Aug	P 1 277 603	-9 943	-1.1	857 223	-3.4	-2.3	65 739	49 237	7.4	0.3	354 641	3.5	0.9	1 371

FINANCING OF NON-FINANCIAL CORPORATIONS
Annual percentage change

— LOANS AND SECURITISATION FUNDS
— TOTAL

FINANCING OF NON-FINANCIAL CORPORATIONS
Contributions to the annual percentage change
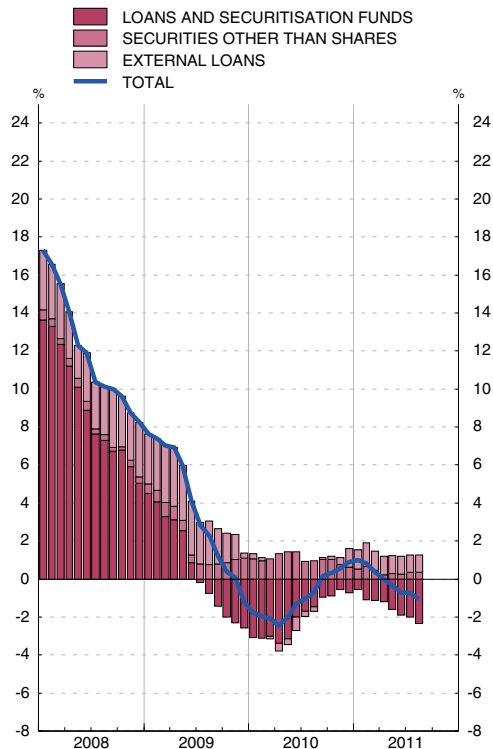
■ LOANS AND SECURITISATION FUNDS
■ SECURITIES OTHER THAN SHARES
■ EXTERNAL LOANS
— TOTAL

Source: BE.

a. The annual percentage changes are calculated as the effective flow of the period / the stock at the beginning of the period.

b. Includes issues of resident financial subsidiaries of non-financial corporations, insofar as the funds raised in these issues are routed to the parent company as loans. The issuing institutions of these financial instruments are classified as Other financial intermediaries in the Boletín Estadístico and in the Financial Accounts of the Spanish Economy.
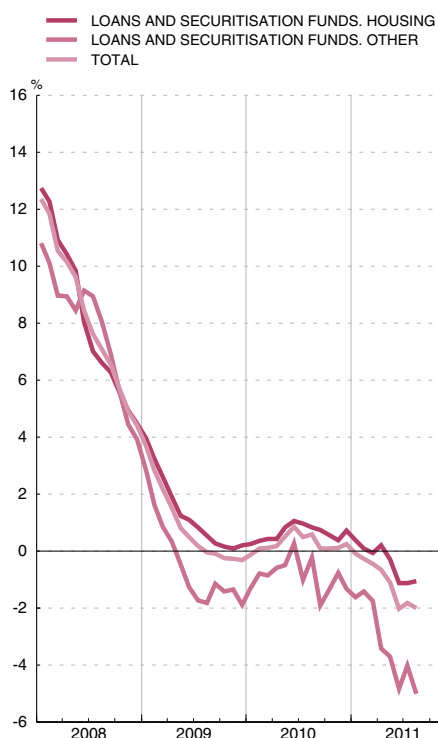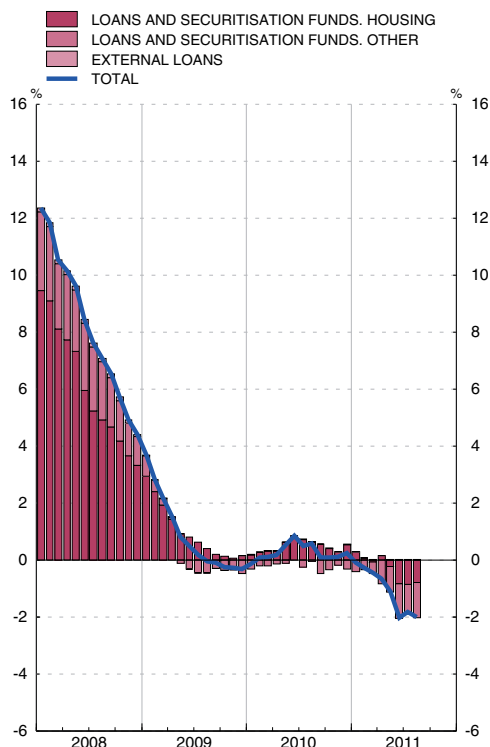
■ Series depicted in chart.

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
08		911 283	38 443	4.4	678 448	4.5	3.3	229 712	3.9	1.0	3 122	36.9	0.1	23 304	4 436
09		903 755	-2 865	-0.3	678 552	0.2	0.1	221 824	-1.9	-0.5	3 379	3.9	0.0	23 986	2 986
10		898 564	2 124	0.2	679 958	0.7	0.5	215 285	-1.3	-0.3	3 320	5.4	0.0	17 161	1 637
10 *May*		902 472	2 023	0.5	680 525	0.8	0.6	218 728	-0.5	-0.1	3 219	2.4	0.0	22 777	2 488
Jun		910 929	9 744	0.9	680 328	1.0	0.8	227 379	0.3	0.1	3 222	3.3	0.0	19 891	2 407
Jul		904 746	-5 871	0.5	680 760	1.0	0.7	220 755	-1.0	-0.2	3 231	3.1	0.0	19 834	2 311
Aug		902 979	-1 450	0.6	679 165	0.8	0.6	220 542	-0.2	-0.1	3 272	3.9	0.0	19 271	2 156
Sep		898 173	-3 847	0.1	678 448	0.7	0.6	216 448	-1.9	-0.5	3 277	3.1	0.0	19 216	2 070
Oct		898 412	875	0.1	677 838	0.5	0.4	217 288	-1.3	-0.3	3 286	4.5	0.0	18 914	2 009
Nov		903 664	5 720	0.1	677 590	0.4	0.3	222 772	-0.8	-0.2	3 302	5.1	0.0	17 285	1 773
Dec		898 564	-3 635	0.2	679 958	0.7	0.5	215 285	-1.3	-0.3	3 320	5.4	0.0	17 161	1 637
11 *Jan*		894 526	-4 079	-0.1	677 703	0.4	0.3	213 493	-1.6	-0.4	3 330	5.1	0.0	16 634	1 517
Feb		891 907	-2 282	-0.3	675 957	0.1	0.1	212 617	-1.4	-0.3	3 333	4.7	0.0	16 738	1 543
Mar		888 316	-2 860	-0.5	674 687	-0.1	-0.1	210 271	-1.7	-0.4	3 358	5.8	0.0	16 553	1 383
Apr	P	887 586	-311	-0.7	676 532	0.2	0.1	207 699	-3.4	-0.8	3 355	5.7	0.0	16 211	1 300
May	P	885 295	-1 953	-1.1	674 603	-0.3	-0.2	207 319	-3.7	-0.9	3 373	5.9	0.0	16 028	929
Jun	P	885 952	1 245	-2.0	671 048	-1.1	-0.8	211 517	-4.8	-1.2	3 387	6.6	0.0	15 735	760
Jul	P	881 724	-3 810	-1.8	671 374	-1.1	-0.9	206 939	-4.0	-1.0	3 412	7.0	0.0	15 726	717
Aug	P	878 272	-3 133	-2.0	670 240	-1.1	-0.8	204 602	-5.0	-1.2	3 430	6.2	0.0	15 609	673

FINANCING OF HOUSEHOLDS AND NPISHs
Annual percentage change

LOANS AND SECURITISATION FUNDS. HOUSING
LOANS AND SECURITISATION FUNDS. OTHER
TOTAL

FINANCING OF HOUSEHOLDS AND NPISHs
Contributions to the annual percentage change

LOANS AND SECURITISATION FUNDS. HOUSING
LOANS AND SECURITISATION FUNDS. OTHER
EXTERNAL LOANS
TOTAL

Source: BE.

a. The annual percentage changes are calculated as the effective flow of the period / the stock at the beginning of the period.

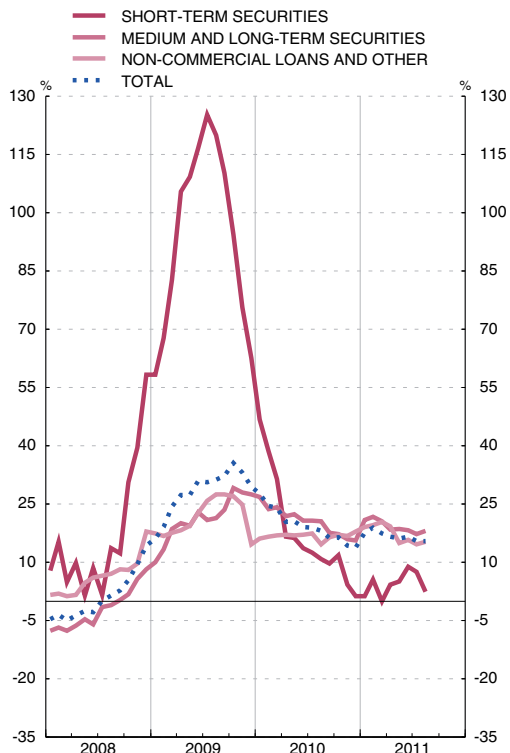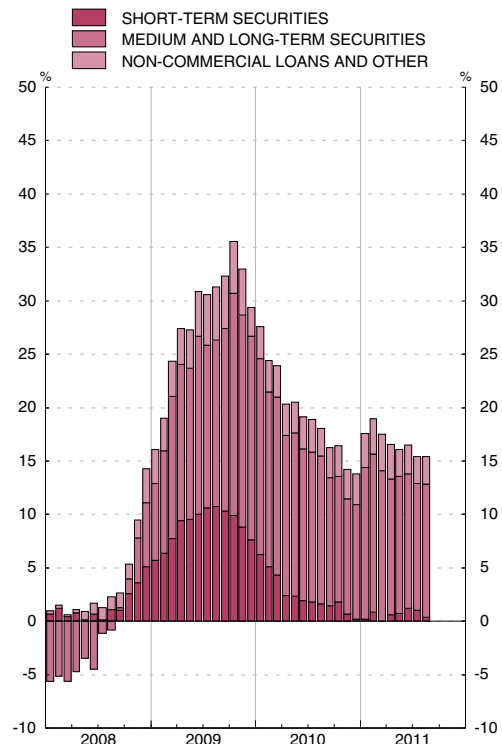# 8.8. GROSS FINANCING OF SPAIN'S GENERAL GOVERMENT

■ Series depicted in chart.

EUR millions and %

		Gross financing			Short-term securities				Medium and long term securities				Non Comercial Loans and Others (b)			
		EDP Debt (a)	Monthly change	12 month % change	Total	Monthly change	12 month % change	Contribu-tion to 12-month % change	Total	Monthly change	12 month % change	Contribu-tion to 12-month % change	Total	Monthly change	12 month % chage	Contribu-tion to 12-month % change
		1=4+8+12	2=5+9+13	3	4	5	6	7	8	9	10	11	12	13	14	15
07		381 401	-8 824	-2.3	33 397	823	2.5	0.2	279 872	-9 001	-3.1	-2.3	68 132	-645	-0.9	-0.2
08		435 822	54 422	14.3	52 876	19 479	58.3	5.1	302 656	22 784	8.1	6.0	80 291	12 158	17.8	3.2
09		563 878	128 055	29.4	86 003	33 127	62.7	7.6	385 825	83 169	27.5	19.1	92 050	11 759	14.6	2.7
10	P	641 802	77 925	13.8	87 119	1 116	1.3	0.2	446 217	60 392	15.7	10.7	108 466	16 416	17.8	2.9
10 Mar	P	581 168	16 851	23.9	84 644	1 111	31.4	4.3	400 102	14 314	24.2	16.7	96 423	1 426	16.9	3.0
Apr	P	581 245	76	20.3	81 354	-3 290	16.6	2.4	403 053	2 951	21.9	15.0	96 838	415	17.1	2.9
May	P	590 095	8 850	20.5	81 750	397	16.2	2.3	409 481	6 427	22.4	15.3	98 864	2 026	16.8	2.9
Jun	P	603 193	13 098	19.1	81 616	-135	13.7	1.9	418 215	8 734	20.8	14.2	103 363	4 499	17.0	3.0
Jul	P	603 521	327	18.9	83 409	1 793	12.5	1.8	415 311	-2 904	20.7	14.0	104 800	1 437	17.5	3.1
Aug	P	603 397	-123	18.0	84 768	1 359	10.8	1.6	415 559	248	20.5	13.8	103 071	-1 730	14.7	2.6
Sep	P	614 746	11 349	16.2	86 110	1 342	9.7	1.4	422 493	6 934	17.6	12.0	106 143	3 073	16.4	2.8
Oct	P	629 706	14 959	16.4	90 961	4 852	11.8	1.8	431 481	8 988	17.3	11.8	107 263	1 120	17.1	2.9
Nov	P	635 849	6 144	14.2	89 112	-1 849	4.2	0.6	440 273	8 792	15.9	10.8	106 464	-799	16.8	2.8
Dec	P	641 802	5 953	13.8	87 119	-1 993	1.3	0.2	446 217	5 944	15.7	10.7	108 466	2 002	17.8	2.9
11 Jan	P	654 910	13 107	17.6	86 885	-234	1.3	0.2	456 957	10 740	20.9	14.2	111 068	2 601	19.1	3.2
Feb	P	671 164	16 255	18.9	88 198	1 312	5.6	0.8	469 345	12 388	21.7	14.8	113 622	2 555	19.6	3.3
Mar	P	682 854	11 690	17.5	84 649	-3 549	0.0	0.0	482 181	12 836	20.5	14.1	116 025	2 403	20.3	3.4
Apr	A	677 311	-5 544	16.5	84 859	210	4.3	0.6	477 067	-5 114	18.4	12.7	115 385	-640	19.2	3.2
May	A	684 875	7 565	16.1	85 889	1 030	5.1	0.7	485 326	8 259	18.5	12.9	113 661	-1 724	15.0	2.5
Jun	A	702 806	17 931	16.5	88 886	2 997	8.9	1.2	494 283	8 957	18.2	12.6	119 637	5 976	15.7	2.7
Jul	A	696 643	-6 163	15.4	89 723	837	7.6	1.0	486 718	-7 565	17.2	11.8	120 202	565	14.7	2.6
Aug	A	696 388	-255	15.4	86 877	-2 845	2.5	0.3	490 733	4 014	18.1	12.5	118 778	-1 424	15.2	2.6

GROSS FINANCING OF GENERAL GOVERNMENT
Annual percentage changes

- SHORT-TERM SECURITIES
- MEDIUM AND LONG-TERM SECURITIES
- NON-COMMERCIAL LOANS AND OTHER
- TOTAL

GROSS FINANCING OF GENERAL GOVERNMENT
Contributions to the annual percentage change

- SHORT-TERM SECURITIES
- MEDIUM AND LONG-TERM SECURITIES
- NON-COMMERCIAL LOANS AND OTHER

FUENTE: BE.
a. Debt according to Excessive Deficit Procedure (EDP).Consolidated nominal gross debt.
b. Including coined money and Caja General de Depositos

8.9 LENDING BY CREDIT INSTITUTIONS TO OTHER RESIDENT SECTORS. BREAKDOWN BY END-USE.
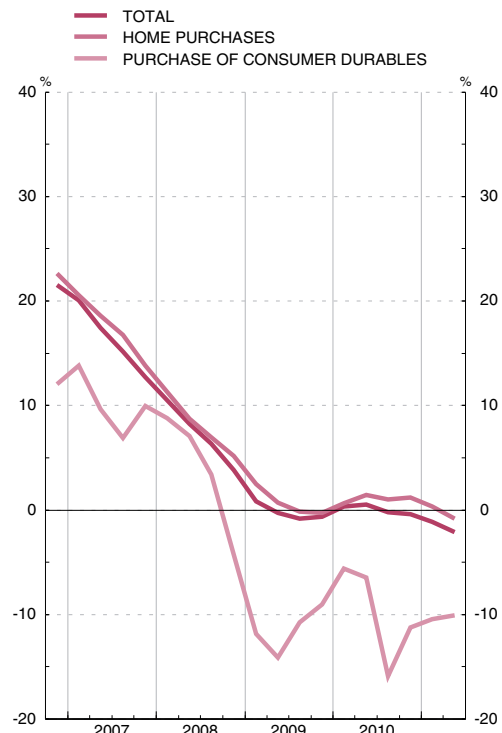
■ Series depicted in chart.

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 (a)	Total	Agriculture and fisheries	Industry excluding construction	Construction	Services Total	Services Of which Real estate activities	Total	Home purchases and improvements Total	Home purchases and improvements Of which Purchases	Purchases of consumer durables	Other (b)	Financing of private non-profit institutions	Unclassified	Memorandum item: construction and housing (d)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
08	1 869 882	1 016 948	26 244	156 141	151 848	682 716	318 032	819 412	655 145	626 620	54 176	110 092	6 091	27 431	1 125 024
09	1 837 038	991 363	23 123	152 199	130 438	685 602	322 984	813 939	654 566	624 755	49 273	110 101	5 523	26 213	1 107 988
10	1 843 952	985 157	23 128	152 376	114 519	695 134	315 782	812 781	662 798	632 449	42 068	107 916	6 096	39 918	1 093 099
07 Q1	1 569 169	816 098	23 436	121 148	137 836	533 678	264 653	726 179	570 989	545 190	52 713	102 477	5 743	21 149	973 479
Q2	1 652 352	869 174	24 294	132 145	144 552	568 184	282 081	754 726	593 655	567 062	53 898	107 174	5 955	22 497	1 020 287
Q3	1 706 126	910 001	25 085	140 332	150 341	594 243	292 599	768 197	609 791	582 505	54 035	104 371	6 106	21 822	1 052 731
Q4	1 760 213	943 086	25 245	141 571	153 453	622 818	303 514	789 250	623 540	595 929	56 576	109 133	6 089	21 788	1 080 507
08 Q1	1 793 356	962 331	25 003	143 816	154 237	639 275	311 272	802 258	635 010	606 807	57 357	109 891	5 804	22 962	1 100 519
Q2	1 838 174	991 307	25 727	148 218	155 600	661 762	313 176	817 074	645 286	616 487	57 726	114 062	5 952	23 840	1 114 062
Q3	1 852 563	1 005 670	26 593	155 481	156 363	667 233	315 444	816 755	651 958	623 101	55 859	108 938	6 063	24 075	1 123 765
Q4	1 869 882	1 016 948	26 244	156 141	151 848	682 716	318 032	819 412	655 145	626 620	54 176	110 092	6 091	27 431	1 125 024
09 Q1	1 861 734	1 018 902	24 472	158 905	143 515	692 011	324 222	808 715	651 495	621 811	50 560	106 660	5 125	28 991	1 119 231
Q2	1 861 005	1 007 492	23 732	158 800	134 690	690 271	324 664	815 068	651 564	620 920	49 583	113 922	5 382	33 063	1 110 917
Q3	1 846 010	996 650	23 576	153 070	134 045	685 959	324 439	810 149	652 434	622 122	49 840	107 875	5 457	33 754	1 110 918
Q4	1 837 038	991 363	23 123	152 199	130 438	685 602	322 984	813 939	654 566	624 755	49 273	110 101	5 523	26 213	1 107 988
10 Q1	1 827 087	985 197	22 791	149 368	126 464	686 574	322 820	811 242	655 474	625 856	47 716	108 053	5 372	25 276	1 104 758
Q2	1 847 066	994 441	23 366	152 413	124 054	694 607	321 946	821 460	660 436	630 104	44 712	116 312	5 840	25 326	1 106 436
Q3	1 837 278	991 374	23 456	152 031	121 514	694 374	320 090	810 717	659 232	628 696	40 259	111 225	5 743	29 444	1 100 836
Q4	1 843 952	985 157	23 128	152 376	114 519	695 134	315 782	812 781	662 798	632 449	42 068	107 916	6 096	39 918	1 093 099
11 Q1	1 824 256	971 962	22 618	145 796	109 582	693 966	312 152	804 029	658 133	628 138	41 073	104 823	5 710	42 554	1 079 867
Q2	1 817 810	963 849	22 436	146 489	105 489	689 436	308 425	804 257	655 643	625 021	40 201	108 412	5 898	43 807	1 069 556

CREDIT BY END-USE
Annual percentage changes (c)

TOTAL
PRODUCTIVE ACTIVITIES
INDIVIDUALS
CONSTRUCTION AND HOUSING (d)
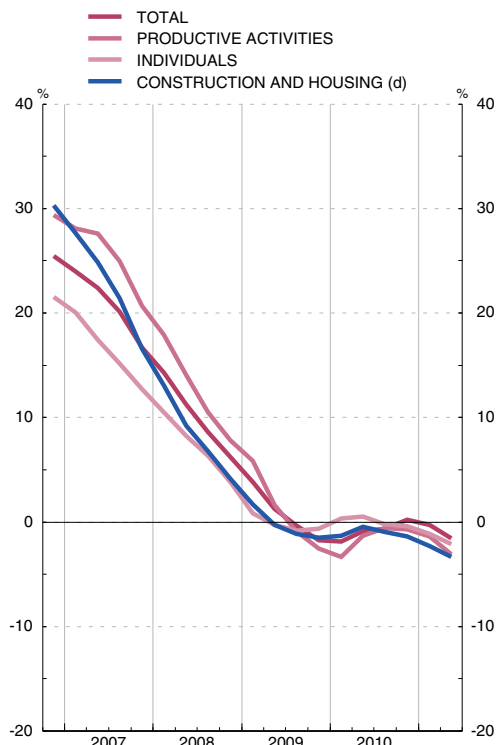
CREDIT TO INDIVIDUALS BY END-USE
Annual percentage changes (c)

TOTAL
HOME PURCHASES
PURCHASE OF CONSUMER DURABLES

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 char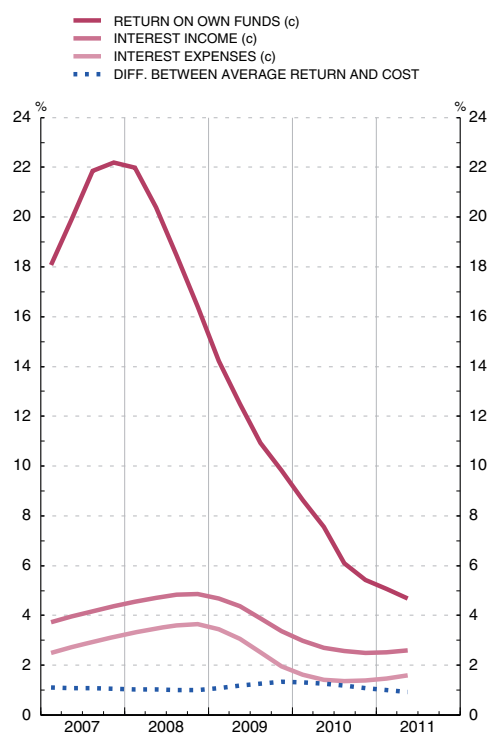t have been adjusted to eliminate this effect.   d. Including: construction, real estate activities and home purchases and improvements

8.10. PROFIT AND LOSS ACCOUNT OF DEPOSIT-TAKING INSTITUTIONS RESIDENT IN SPAIN
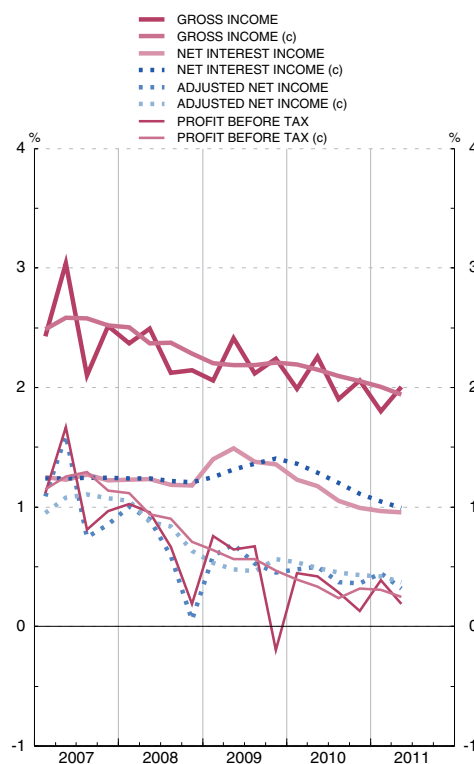
■ Series depicted in chart.

	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 ■
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
09	2.8	1.4	1.4	0.9	2.2	1.0	0.6	0.8	0.5	0.8	-0.2	8.0	3.6	2.3	1.3
10	2.5	1.6	1.0	1.1	2.1	1.0	0.6	0.7	0.4	0.5	0.1	5.4	2.7	1.6	1.1
08 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
Q2	3.5	2.1	1.5	0.9	2.4	0.9	0.6	0.8	0.7	0.2	0.6	10.0	4.7	3.5	1.2
Q3	3.0	1.6	1.4	0.7	2.1	0.9	0.6	0.6	0.5	0.3	0.7	9.9	4.2	2.9	1.3
Q4	2.8	1.4	1.4	0.9	2.2	1.0	0.6	0.8	0.5	0.8	-0.2	8.0	3.6	2.3	1.3
10 Q1	2.5	1.3	1.2	0.8	2.0	0.9	0.6	0.6	0.5	0.1	0.4	6.6	3.2	1.9	1.3
Q2	2.5	1.3	1.2	1.1	2.3	0.9	0.6	0.8	0.5	0.2	0.4	5.7	2.9	1.6	1.3
Q3	2.5	1.4	1.1	0.9	1.9	0.9	0.6	0.6	0.4	0.2	0.3	4.0	2.7	1.6	1.2
Q4	2.5	1.6	1.0	1.1	2.1	1.0	0.6	0.7	0.4	0.5	0.1	5.4	2.7	1.6	1.1
11 Q1	2.6	1.6	1.0	0.8	1.8	0.9	0.6	0.4	0.4	0.1	0.4	5.2	2.7	1.7	1.0
Q2	2.7	1.8	1.0	1.1	2.0	1.0	0.6	0.7	0.3	0.2	0.2	4.1	2.8	1.8	0.9

PROFIT AND LOSS ACCOUNT
Percentages of the adjusted average balance sheet and returns

- RETURN ON OWN FUNDS (c)
- INTEREST INCOME (c)
- INTEREST EXPENSES (c)
- DIFF. BETWEEN AVERAGE RETURN AND COST

PROFIT AND LOSS ACCOUNT
Percentages of the adjusted average balance sheet

- GROSS INCOME
- GROSS INCOME (c)
- NET INTEREST INCOME
- NET INTEREST INCOME (c)
- ADJUSTED NET INCOME
- ADJUSTED NET INCOME (c)
- PROFIT BEFORE TAX
- PROFIT BEFORE TAX (c)

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.
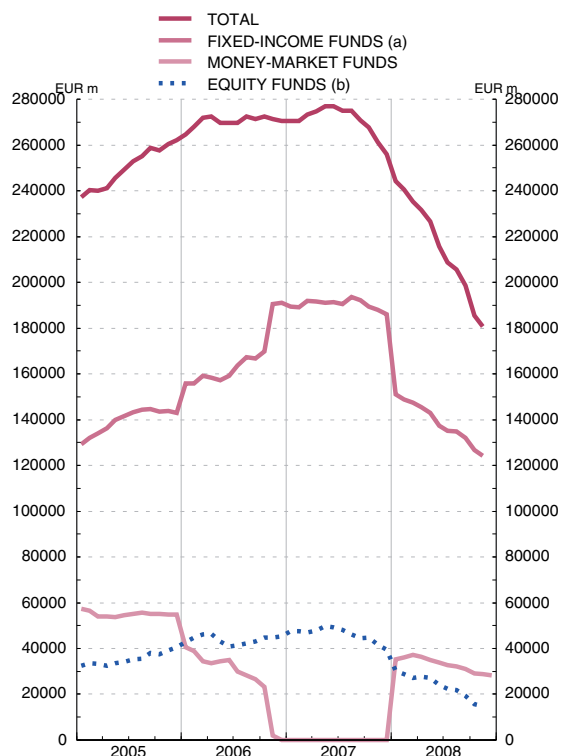c. Average of the last four quarters.

■ Series depicted in chart.

EUR millions

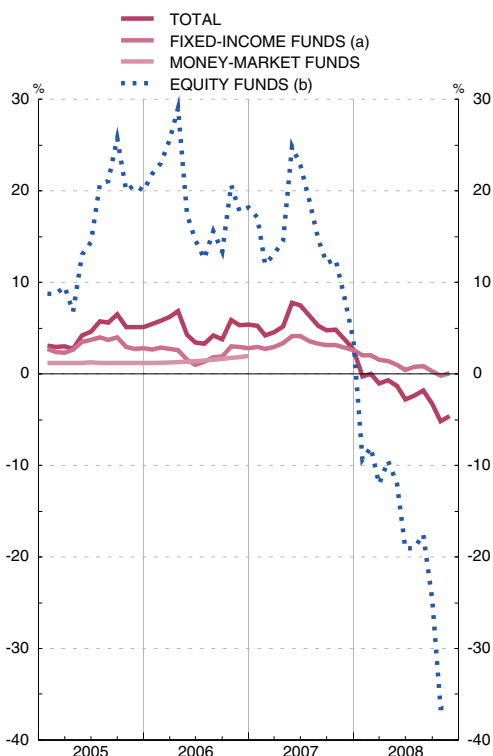|	Total				Money-market funds				Fixed-income funds (a)				Equity funds (b)				Others funds (c)
		Of which				Of which				Of which				Of which			
	Net asset value	Monthly change	Net funds invested	Return over last 12 months	Net asset value	Monthly change	Net funds invested	Return over last 12 months	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

- TOTAL
- FIXED-INCOME FUNDS (a)
- MONEY-MARKET FUNDS
- EQUITY FUNDS (b)

RETURN OVER LAST 12 MONTHS

- TOTAL
- FIXED-INCOME FUNDS (a)
- MONEY-MARKET FUNDS
- EQUITY FUNDS (b)

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.
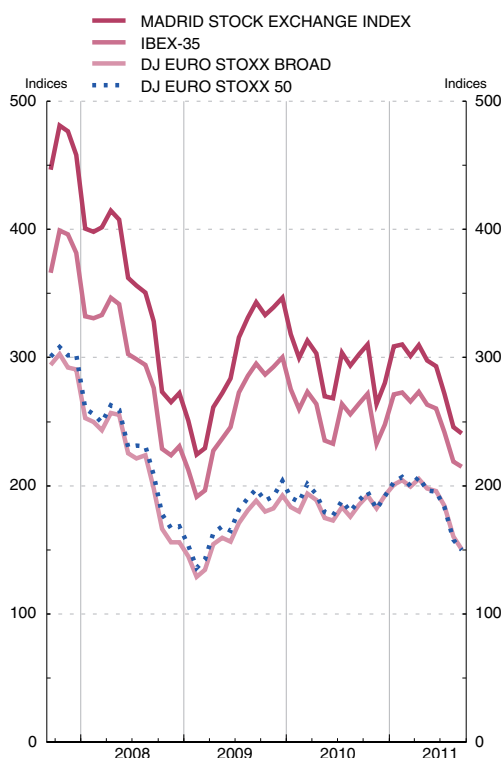
c. Global funds.

8.12. SHARE PRICE INDICES AND TURNOVER ON SECURITIES MARKETS. SPAIN AND EURO AREA
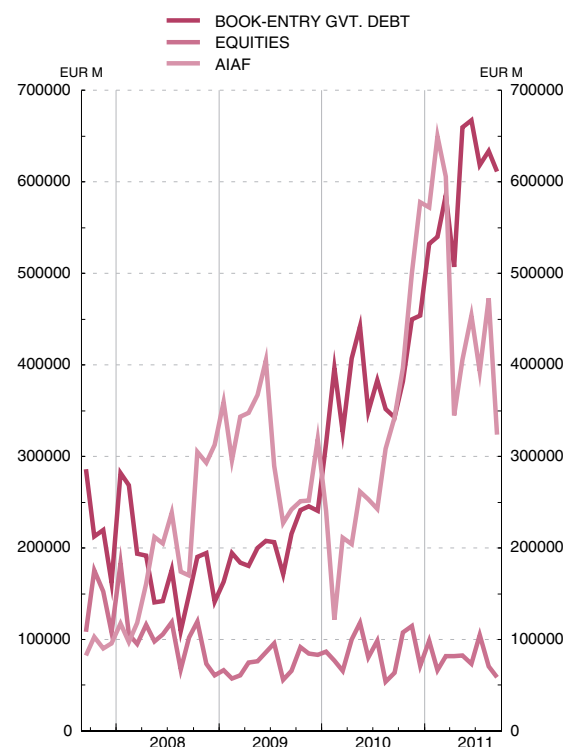
■ Series depicted in chart.

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
09		1 055.69	10 107.91	235.02	2 529.03	898 195	75 103	2 448 490	3 699 008	-	33 946	-	5 752
10		1 053.39	10 203.05	262.36	2 737.05	1 038 259	67 454	4 597 749	3 660 872	-	37 904	-	6 639
11	A	1 025.79	10 087.27	269.19	2 748.04	719 741	49 064	5 353 393	4 222 342	-	20 476	-	4 585
10 *Jun*		960.79	9 263.40	246.38	2 573.32	80 641	5 013	349 054	253 096	...	3 866	...	642
Jul		1 088.62	10 499.80	261.65	2 742.14	98 411	4 761	383 009	242 812	...	2 610	...	532
Aug		1 052.73	10 187.00	251.15	2 622.95	53 667	4 420	351 521	308 542	...	2 280	...	415
Sep		1 085.03	10 514.50	264.43	2 747.90	63 353	5 259	342 963	342 945	...	3 296	...	450
Oct		1 111.28	10 812.90	274.34	2 844.99	107 818	4 759	381 546	396 506	...	2 359	...	454
Nov		944.91	9 267.20	260.19	2 650.99	114 931	10 151	449 857	500 240	...	4 053	...	570
Dec		1 003.73	9 859.10	274.45	2 792.82	71 638	4 765	453 940	577 528	...	4 412	...	481
11 *Jan*		1 105.31	10 806.00	286.41	2 953.63	98 865	4 101	532 103	572 367	...	2 992	...	581
Feb		1 111.25	10 850.80	291.83	3 013.09	66 520	3 982	539 541	649 957	...	2 243	...	511
Mar		1 079.01	10 576.50	284.36	2 910.91	81 839	5 217	585 212	605 845	...	3 182	...	573
Apr		1 109.35	10 878.90	293.20	3 011.25	81 814	6 855	506 668	344 493	...	1 369	...	412
May		1 066.37	10 476.00	282.60	2 861.92	82 857	7 455	659 698	405 338	...	2 267	...	446
Jun		1 049.76	10 359.90	279.46	2 848.53	73 411	4 294	667 286	454 088	...	2 579	...	495
Jul		973.30	9 630.70	262.76	2 670.37	104 705	6 551	617 918	393 327	...	1 292	...	524
Aug		881.40	8 718.60	228.82	2 302.08	70 892	5 279	633 792	473 063	...	1 523	...	602
Sep	P	862.85	8 546.60	214.77	2 179.66	58 839	5 331	611 176	323 864	...	3 030	...	441

SHARE PRICE INDICES
JAN 1994 = 100

- MADRID STOCK EXCHANGE INDEX
- IBEX-35
- DJ EURO STOXX BROAD
- DJ EURO STOXX 50

TURNOVER ON SECURITIES MARKETS

- BOOK-ENTRY GVT. DEBT
- EQUITIES
- AIAF

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									
				Marginal lending	Deposit	Overnight (EONIA)	1-month	3-month	6-month	1-year	Non-transferable deposits					Government-securities repos			
											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
09		1.00	1.00	1.75	0.25	0.714	0.89	1.22	1.43	1.62	0.67	0.94	1.23	1.41	1.62	0.61	0.63	0.67	0.84
10		1.00	1.00	1.75	0.25	0.437	0.57	0.81	1.08	1.35	0.46	0.71	0.87	1.04	1.36	0.39	0.57	0.74	0.98
11	A	1.50	1.50	2.25	0.75	0.897	1.16	1.36	1.61	1.99	0.96	1.31	1.33	1.57	2.56	0.87	1.15	1.31	2.38
10 *Jun*		1.00	1.00	1.75	0.25	0.354	0.45	0.73	1.01	1.28	0.55	0.80	1.07	1.00	1.27	0.42	0.72	0.97	-
Jul		1.00	1.00	1.75	0.25	0.481	0.58	0.85	1.10	1.37	0.48	0.77	1.12	1.10	1.39	0.41	0.78	0.99	-
Aug		1.00	1.00	1.75	0.25	0.426	0.64	0.90	1.15	1.42	0.38	0.85	1.00	1.16	1.43	0.33	0.65	0.87	1.50
Sep		1.00	1.00	1.75	0.25	0.454	0.62	0.88	1.14	1.42	0.44	0.87	0.93	1.14	1.41	0.37	0.55	0.82	-
Oct		1.00	1.00	1.75	0.25	0.701	0.78	1.00	1.22	1.50	0.69	1.01	0.95	1.20	1.48	0.64	0.78	1.11	-
Nov		1.00	1.00	1.75	0.25	0.593	0.83	1.04	1.27	1.54	0.60	1.08	1.03	-	1.54	0.56	0.79	0.90	-
Dec		1.00	1.00	1.75	0.25	0.498	0.81	1.02	1.25	1.53	0.67	1.04	1.08	1.25	1.52	0.57	1.00	1.31	-
11 *Jan*		1.00	1.00	1.75	0.25	0.659	0.79	1.02	1.25	1.55	0.64	0.99	1.03	1.28	-	0.58	0.95	1.16	-
Feb		1.00	1.00	1.75	0.25	0.707	0.89	1.09	1.35	1.71	0.70	1.11	1.08	1.34	1.68	0.65	0.90	1.07	-
Mar		1.00	1.00	1.75	0.25	0.659	0.90	1.18	1.48	1.92	0.66	1.12	1.17	1.47	-	0.59	0.86	1.10	-
Apr		1.25	1.25	2.00	0.50	0.966	1.13	1.32	1.62	2.09	0.98	1.25	1.31	1.64	2.08	0.94	1.15	1.23	-
May		1.25	1.25	2.00	0.50	1.033	1.24	1.43	1.71	2.15	1.03	1.43	1.43	1.72	2.23	0.99	1.16	1.25	-
Jun		1.25	1.25	2.00	0.50	1.124	1.28	1.49	1.75	2.14	1.20	1.39	1.49	1.72	-	1.12	1.25	1.44	1.77
Jul		1.50	1.50	2.25	0.75	1.012	1.42	1.60	1.82	2.18	1.08	1.47	-	-	3.10	1.00	1.48	1.67	2.00
Aug		1.50	1.50	2.25	0.75	0.906	1.37	1.55	1.76	2.10	1.06	1.39	1.45	1.82	3.10	0.93	1.37	1.49	3.34
Sep		1.50	1.50	2.25	0.75	1.005	1.35	1.54	1.74	2.07	1.27	1.60	1.68	-	3.10	1.00	1.23	1.37	-

EUROSYSTEM: MONETARY POLICY OPERATIONS AND EURO AREA OVERNIGHT DEPOSITS

- MARGINAL LENDING FACILITY
- EURO AREA OVERNIGHT (EONIA)
- MAIN REFINANCING OPERATIONS
- DEPOSIT FACILITY
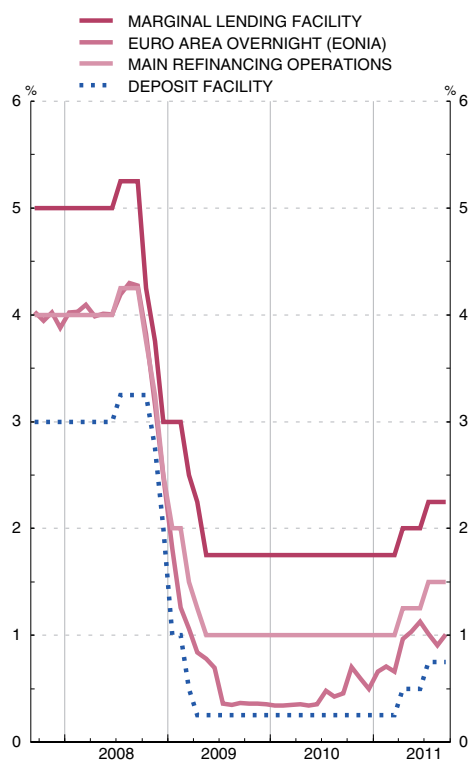
INTERBANK MARKET: EURO AREA 3-MONTH AND 1-YEAR RATES

- EURO AREA 12 MONTHS
- EURO AREA 3 MONTHS
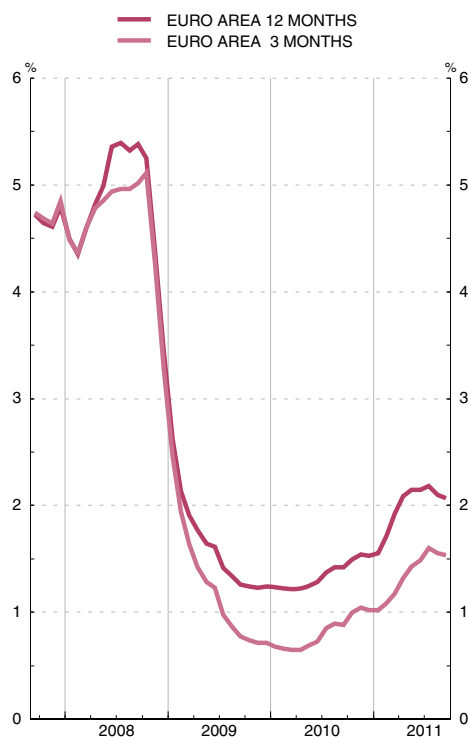
Source: ECB (columns 1 to 8).

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 ■
09		1.04	0.99	1.67	1.67	2.30	2.98	3.99	4.45	4.86	2.23	3.97	3.46
10		1.80	1.70	1.32	1.62	2.79	3.20	4.46	5.04	5.11	2.64	4.25	3.74
11	A	2.97	2.75	1.95	2.97	3.93	4.48	5.40	5.99	5.96	3.86	5.37	4.98
10 *Jun*		2.45	2.27	-	1.32	3.39	-	4.91	-	5.94	3.30	4.56	4.25
Jul		2.25	2.10	-	1.92	-	3.73	-	5.15	-	2.82	4.43	4.44
Aug		1.90	1.73	-	1.89	2.31	-	-	-	-	2.34	4.04	4.45
Sep		1.94	1.79	-	2.05	-	3.00	4.17	-	5.08	2.59	4.09	3.57
Oct		1.86	1.83	-	2.32	2.55	-	-	4.55	4.79	2.49	4.04	3.64
Nov		2.45	2.30	-	1.93	-	3.60	4.63	-	5.50	3.28	4.69	4.13
Dec		3.52	3.26	-	2.11	3.80	-	5.49	5.99	-	3.90	5.37	4.36
11 *Jan*		3.01	2.77	1.78	2.99	-	4.59	-	-	-	3.75	5.38	5.35
Feb		2.46	2.22	2.14	2.86	3.30	4.08	5.22	-	5.98	3.49	5.26	4.87
Mar		2.18	2.14	-	2.88	3.61	4.41	5.18	6.01	5.89	3.41	5.25	4.81
Apr		2.90	2.55	-	3.07	3.60	-	5.48	5.70	-	3.73	5.33	5.45
May		2.57	2.51	-	2.19	-	4.56	5.41	-	6.01	3.97	5.32	5.43
Jun		2.73	2.69	-	2.80	4.05	4.25	5.37	6.04	-	4.07	5.48	5.03
Jul		3.76	3.29	-	3.10	4.32	4.89	5.92	6.22	-	4.50	5.82	5.23
Aug		3.40	3.25	-	3.50	5.05	-	-	-	-	3.98	5.25	4.56
Sep		3.65	3.33	-	3.34	-	4.52	5.20	-	-	3.76	5.20	4.12

PRIMARY MARKET

— ONE-YEAR COMMERCIAL PAPER
— ONE-YEAR TREASURY BILLS

SECONDARY MARKET

— 3-YEAR CENTRAL GOVERNMENT DEBT
— 10-YEAR CENTRAL GOVERNMENT DEBT
— PRIVATE BONDS WITH MATURITY OVER 2 YEARS
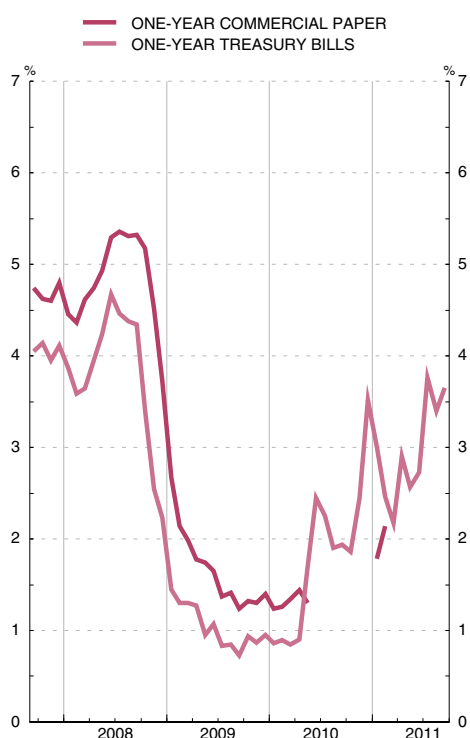
Sources: Main issuers (column 3); AIAF (columns 4 and 12).

9.3. INTEREST RATES ON NEW BUSINESS. CREDIT INSTITUTIONS. (CBE 4/2002) SDDS (a)

■ Series depicted in chart.

Percentages

		Loans (APRC) (b)						Deposits (NDER) (b)								
		Synthetic rate (d)	Households and NPISH			Non-financial corporations			Synthetic rate (d)	Households and NPISH				Non-financial corporations			
			Synthetic rate	House purchase	Consumption and other	Synthetic rate	Up to EUR 1 million	Over EUR 1 million (c)		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
09		3.32	3.71	2.62	6.96	2.95	4.24	2.47	1.28	1.39	0.36	2.21	0.33	0.92	0.55	1.44	0.41
10		3.40	3.56	2.66	6.35	3.24	4.40	2.73	1.60	1.70	0.27	2.74	1.21	1.29	0.68	1.98	0.79
11	A	4.26	4.56	3.68	7.38	3.96	5.16	3.37	1.57	1.64	0.33	2.58	1.12	1.32	0.65	2.05	0.97
10 *Jan*		3.32	3.87	2.60	7.68	2.79	4.36	2.08	1.24	1.35	0.31	2.18	0.29	0.87	0.53	1.34	0.27
Feb		3.29	3.84	2.67	7.37	2.76	4.29	2.06	1.18	1.27	0.31	2.04	0.30	0.88	0.54	1.33	0.31
Mar		3.27	3.70	2.60	7.04	2.86	4.21	2.27	1.30	1.37	0.31	2.19	0.33	1.05	0.57	1.68	0.25
Apr		3.22	3.66	2.55	7.00	2.80	4.22	2.11	1.36	1.45	0.29	2.34	0.32	1.08	0.59	1.70	0.34
May		3.16	3.61	2.50	6.98	2.73	4.33	2.07	1.30	1.37	0.27	2.21	0.39	1.08	0.57	1.74	0.40
Jun		3.15	3.31	2.39	5.99	3.00	4.08	2.51	1.37	1.48	0.28	2.43	0.57	1.04	0.53	1.71	0.48
Jul		3.22	3.45	2.53	6.25	2.99	4.19	2.48	1.51	1.58	0.29	2.57	0.62	1.28	0.58	2.12	0.54
Aug		3.32	3.63	2.60	6.73	3.03	4.23	2.46	1.46	1.55	0.30	2.50	0.43	1.18	0.55	1.97	0.43
Sep		3.31	3.65	2.66	6.69	2.98	4.22	2.35	1.61	1.70	0.30	2.73	0.42	1.33	0.54	2.27	0.45
Oct		3.49	3.69	2.70	6.70	3.29	4.37	2.66	1.63	1.71	0.29	2.75	0.68	1.34	0.56	2.19	0.69
Nov		3.38	3.66	2.72	6.47	3.11	4.41	2.47	1.65	1.76	0.29	2.82	0.65	1.31	0.58	2.14	0.62
Dec		3.40	3.56	2.66	6.35	3.24	4.40	2.73	1.60	1.70	0.27	2.74	1.21	1.29	0.68	1.98	0.79
11 *Jan*		3.64	3.92	2.92	7.04	3.36	4.58	2.79	1.59	1.67	0.29	2.66	1.18	1.33	0.58	2.14	0.77
Feb		3.87	4.05	3.07	7.09	3.69	4.81	3.10	1.57	1.65	0.29	2.61	1.29	1.30	0.57	2.10	0.71
Mar		3.89	4.09	3.15	7.04	3.70	4.90	3.06	1.60	1.69	0.30	2.68	0.81	1.32	0.59	2.12	0.74
Apr		4.09	4.22	3.31	7.13	3.95	5.01	3.37	1.64	1.72	0.30	2.73	1.24	1.38	0.63	2.23	1.03
May		4.07	4.34	3.46	7.13	3.80	5.08	3.12	1.71	1.79	0.31	2.83	1.16	1.45	0.65	2.32	1.01
Jun		3.97	4.29	3.53	6.64	3.65	5.09	3.08	1.72	1.81	0.30	2.91	1.23	1.45	0.64	2.34	1.18
Jul		4.19	4.42	3.58	7.10	3.96	5.23	3.29	1.65	1.72	0.30	2.75	1.23	1.41	0.64	2.27	1.13
Aug	P	4.26	4.56	3.68	7.38	3.96	5.16	3.37	1.57	1.64	0.33	2.58	1.12	1.32	0.65	2.05	0.97

LOANS SYNTHETIC RATES

- TOTAL
- HOUSEHOLDS
- NON-FINANCIAL CORPORATIONS
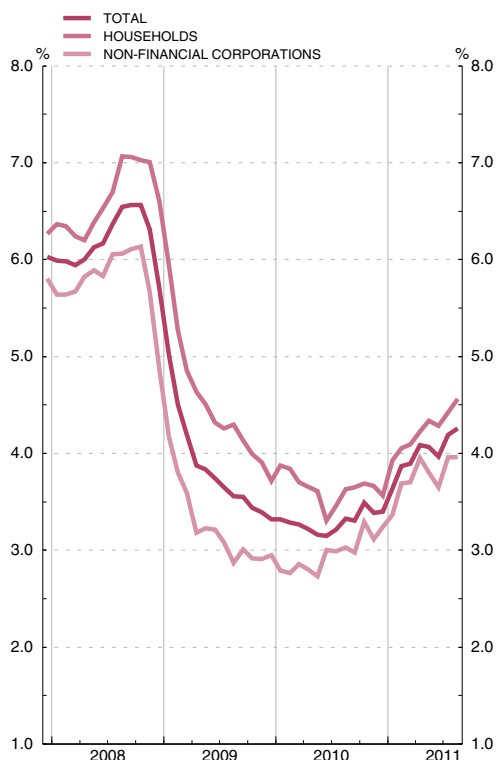
DEPOSITS SYNTHETIC RATES

- TOTAL
- HOUSEHOLDS
- NON-FINANCIAL CORPORATIONS

Source: BE.

a. This table is included among the IMF's requirements to meet the Special Data Dissemination Standards (SDDS)

b. APRC: annual percentage rate of charge. NEDR: narrowly defined effective rate, which is the same as the APRC without including commissions.

c. Calculated by adding to the NDER rate, which does not include commissions and other expenses, a moving average of such expenses.

d. The synthetic rates of loans and deposits are obtained as the average of the interest rates on new business weighted by the euro-denominated stocks included in the balance sheet for all the instruments of each sector.

e. Up to the reference month May 2010, this column includes credit granted through credit cards (see the 'Changes' note in the July-August 2010 Boletín Estadístico).

■ Series depicted in chart.

Base 1999 QI = 100

	Vis-à-vis the EU-27									Vis-à-vis the euro area				
	Total (a)				Nominal component (b)	Price component (c)				Based on producer prices	Based on consumer prices	Based on total unit labour costs	Based on manufacturing unit labour costs (d)	Based on export unit values
	Based on producer prices	Based on consumer prices	Based on total unit labour costs	Based on export unit values		Based on producer prices	Based on consumer prices	Based on total unit labour costs	Based on export unit values					
	1 ■	2 ■	3	4 ■	5	6	7	8	9	10 ■	11 ■	12	13	14 ■
08	107.9	110.6	113.7	103.3	101.1	106.7	109.4	112.4	102.2	107.2	110.2	114.4	123.1	104.6
09	108.5	111.7	112.2	102.3	103.0	105.4	108.5	109.0	99.3	107.3	109.7	111.0	115.5	103.1
10	107.8	111.2	110.0	101.9	102.2	105.5	108.8	107.6	99.7	107.1	110.3	109.6	117.2	103.4
09 *Q3*	108.3	111.1	111.8	102.8	102.6	105.5	108.3	109.0	100.2	107.5	109.6	111.0	116.6	103.8
Q4	108.4	112.2	112.5	102.4	102.9	105.3	109.0	109.2	99.5	107.3	110.4	111.3	116.9	103.5
10 *Q1*	108.5	110.8	110.8	101.5	102.6	105.8	108.0	108.0	98.9	107.4	109.5	110.0	114.3	102.9
Q2	108.0	111.6	110.9	101.8	102.2	105.7	109.2	108.6	99.7	107.4	110.7	110.5	116.5	103.6
Q3	107.3	110.6	109.4	102.0	101.9	105.3	108.6	107.4	100.1	106.9	110.1	109.4	117.8	103.6
Q4	107.5	111.8	108.8	102.1	102.1	105.2	109.5	106.6	100.0	106.9	111.1	108.6	120.0	103.7
11 *Q1*	107.7	110.8	108.5	101.8	101.9	105.7	108.7	106.5	99.9	107.4	110.4	108.6	113.7	103.4
Q2	107.9	112.1	108.8	101.9	102.2	105.6	109.7	106.4	99.6	107.4	111.4	108.5	115.2	103.6
10 *Dec*	107.5	111.7	108.8	101.3	102.0	105.4	109.5	106.6	99.3	107.1	111.1	108.6	120.0	102.9
11 *Jan*	107.6	110.5	...	102.0	101.8	105.6	108.5	...	100.2	107.3	110.3	...	...	103.9
Feb	107.7	109.9	...	101.6	101.8	105.8	108.0	...	99.8	107.4	109.7	...	...	103.2
Mar	108.0	111.7	108.5	101.7	102.1	105.8	109.5	106.5	99.6	107.5	111.1	108.6	113.7	103.3
Apr	108.1	112.3	...	102.4	102.2	105.7	109.9	...	100.2	107.5	111.6	...	...	104.1
May	107.8	112.1	...	101.4	102.2	105.5	109.7	...	99.3	107.3	111.4	...	...	103.1
Jun	108.0	112.1	108.8	101.8	102.3	105.5	109.5	106.4	99.5	107.3	111.2	108.5	115.2	103.4
Jul	108.0	111.1	...	...	102.3	105.6	108.6	...	...	107.4	110.4	...	...	...
Aug	107.8	110.8	...	...	102.3	105.3	108.3	...	...	107.2	110.0	...	...	...
Sep	...	111.6	...	...	102.4	...	109.0	...	...	...	110.8	...	...	...

INDICES OF SPANISH COMPETITIVENESS VIS À VIS THE EU-27

— WITH PRODUCER PRICES
— WITH CONSUMER PRICES
— WITH EXPORT UNIT VALUES

INDICES OF SPANISH COMPETITIVENESS VIS À VIS THE EURO AREA

— WITH PRODUCER PRICES
— WITH CONSUMER PRICES
— WITH EXPORT UNIT VALUES

Source: BE.

a. Outcome of multiplying nominal and cost/price components. A decline in the index denotes an improvement in the competitiveness of Spanish products.

b. Geometric mean calculated using a double weighting system based on (1995-1997), (1998-2000), (2001-2003),
and (2004-2006) manufacturing foreign trade figures.

c. Relationship between the price indices of Spain and of the group.

d. The index obtained drawing on Manufacturing Labour Costs has been compiled using base year 2000 National Accounts data.

■ 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
08	112.3	115.2	130.4	105.8	103.3	108.7	111.6	126.3	102.4	113.1	116.6	104.5	108.2	111.6
09	111.2	114.8	123.4	104.0	103.6	107.4	110.9	119.1	100.4	111.7	115.7	104.5	106.8	110.7
10	109.8	113.5	122.4	102.9	101.9	107.7	111.4	120.1	100.9	109.0	113.3	102.0	106.8	111.1
09 *Q3*	111.4	114.7	124.4	104.8	103.6	107.5	110.7	120.1	101.2	112.1	115.8	104.8	106.9	110.5
Q4	111.6	115.9	124.9	104.5	104.0	107.3	111.5	120.1	100.5	112.2	117.1	105.3	106.5	111.2
10 *Q1*	111.0	113.8	120.9	103.0	103.0	107.7	110.5	117.3	100.0	110.7	114.2	103.6	106.8	110.2
Q2	109.7	113.7	121.7	102.6	101.7	107.9	111.8	119.7	100.9	108.6	113.2	101.5	107.1	111.5
Q3	108.9	112.5	122.2	102.8	101.2	107.6	111.2	120.7	101.6	108.0	112.1	101.1	106.7	110.8
Q4	109.4	114.2	124.7	103.1	101.8	107.5	112.2	122.5	101.3	108.8	113.9	102.0	106.7	111.7
11 *Q1*	109.9	113.2	117.6	102.9	101.6	108.1	111.4	115.8	101.3	109.3	112.9	101.8	107.4	110.9
Q2	110.4	115.1	120.3	103.3	102.3	107.9	112.5	117.5	101.0	110.2	115.2	102.8	107.2	112.0
10 *Dec*	109.1	113.7	124.7	102.1	101.3	107.8	112.3	122.5	100.8	108.2	113.2	101.2	106.9	111.8
11 *Jan*	109.4	112.7	...	103.0	101.3	108.0	111.2	...	101.7	108.6	112.1	101.3	107.2	110.7
Feb	109.9	112.4	...	102.7	101.5	108.2	110.7	...	101.2	109.3	112.0	101.7	107.5	110.2
Mar	110.3	114.4	117.6	103.0	102.0	108.2	112.2	115.8	101.0	110.0	114.4	102.3	107.5	111.8
Apr	110.8	115.5	...	104.1	102.5	108.1	112.7	...	101.5	110.7	115.6	103.0	107.4	112.2
May	110.2	115.0	...	102.7	102.2	107.8	112.5	...	100.5	110.0	115.0	102.7	107.1	112.0
Jun	110.3	114.9	120.3	103.2	102.3	107.9	112.3	117.5	100.9	110.1	114.8	102.7	107.2	111.8
Jul	110.1	113.6	...	...	102.0	107.9	111.4	...	...	109.7	113.3	102.3	107.2	110.7
Aug	109.7	113.0	...	...	101.8	107.7	111.0	...	...	109.3	112.8	102.2	107.0	110.4
Sep	...	113.5	...	...	101.5	...	111.8	...	...	...	113.0	101.6	...	111.2

INDICES OF SPANISH COMPETITIVENESS VIS-À-VIS THE DEVELOPED COUNTRIES
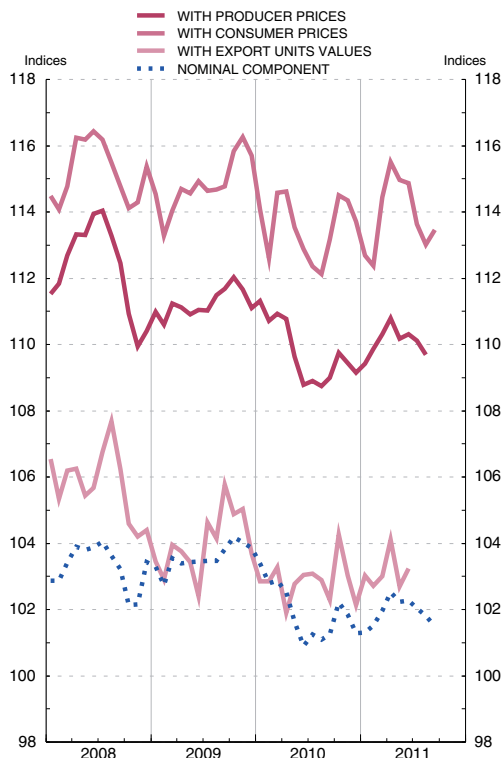
INDICES OF SPANISH COMPETITIVENESS VIS-À-VIS THE INDUSTRIALISED COUNTRIES
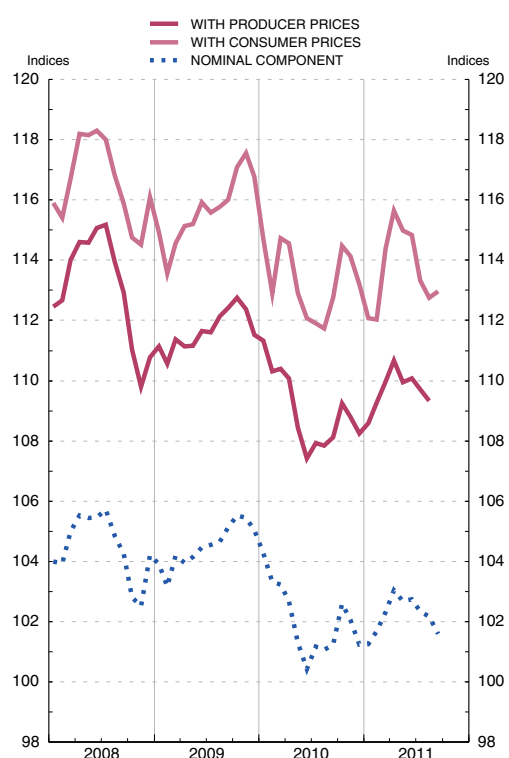
Source: BE.

a. Outcome of multiplying nominal and cost/price components. A decline in the index denotes an improvement in the competitiveness of Spanish products.

b. Geometric mean calculated using a double weighting system based on (1995-1997), (1998-2000), (2001-2003),
and (2004-2006) manufacturing foreign trade figures.

c. Relationship between the price indices of Spain and of the group.

d. The index obtained drawing on Manufacturing Labour Costs has been compiled using base year 2000 National Accounts data.

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2 Moreover, it is updated daily in the Statistics section.
3 A quarterly update of the tables of this publication is also disseminated on the Internet.
4 Available only on the Banco de España website until it is included in the publication *Circulares del Banco de España. Recopilación*.