Spanish Economic and Financial Outlook

SPANISH BANKING SYSTEM:

Will the New Post-Crisis Layout Be Strong Enough to Overcome Existing Challenges?

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Letter from the Editors

We are honored to present the first issue of FUNCAS' Spanish Economic and Financial Outlook. FUNCAS, the Savings Banks Foundation, is a private, non-partisan, research institution funded through contributions from the Spanish Savings Banking Confederation (CECA). Since its establishment in 1980, FUNCAS has consolidated its reputation as one of the leading, objective, economic think tanks in Spain, and serves as a reference point for information on the Spanish economy and financial sector.

In line with Spain's growing internationalization, our new, English-language, bi-monthly publication, Spanish Economic and Financial Outlook, seeks to broaden FUNCAS traditional Spanish-speaking audience and facilitate access to our knowledge base to the wider, international financial community and key decision makers.

In this first inaugural issue, we will focus on providing you with insights on one of the most important questions in Spain today –Will the new Spanish financial system be strong enough to overcome existing challenges? After a period of declining profitability, financing challenges, the exacerbation of the European sovereign debt crisis, and asset deterioration – all of which were a result of the crisis - the Spanish banking system has undergone a period of tremendous reform and transformation, ranging from sector restructuring, corporate governance improvement of the savings banks to increase their professionalization and facilitate their access to capital markets funding, and strengthened provisioning requirements. To address our key question, as a starting point, we will examine four main themes:

- What are the implications for savings banks and remaining challenges
- Will recent legislation be enough to complete the clean-up of Spanish Bank's balance sheets
- Funding problems of Spanish Financial Institutions related to Spanish sovereign debt exposure
- Measuring the resilience of the Spanish banking sector in the wake of the crisis

Also in this issue, we will present you with the latest economic outlook for the Spanish Economy, an up to date snapshot of fiscal performance, as well as an update on the most relevant legislative novelties, such as a preliminary assessment of the recently approved labour reform.

These themes, in addition to other related important topics, will be revisited by our regularly contributing authors in subsequent editions of this publication.

We hope this issue provides you with some food for thought, as well as key facts, on major issues facing Spain's economy and financial sector and, along with future issues, serves as a guide to stimulate your thinking on these and related topics of interest.

FEATURES

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What is the Outlook for the Spanish Economy?

Ángel Laborda and María Jesús Fernández[1]

Recent data and trends suggest further deterioration of the economy in 2012. On an optimistic note, correction of imbalances is underway, with some positive effects possibly visible by as early as year-end

Economic growth in Spain in 2011 as a whole was 0.7%. Although this was a better result than the -0.1% registered in 2010, the evolution throughout the year as a whole was negative and the growth outlook for 2012 points to further deterioration. The huge imbalances that built up during the expansionary phase are in the process of correction, but this will take some time and remain an obstacle to the start of recovery, leaving the economy extremely vulnerable to shocks. Nevertheless, towards the end of this year, some positive effects of fiscal consolidation, financial restructuring, and structural reform efforts, such as the labour market reform, may begin to show, ultimately leading to modest positive quarterly growth rates in 2013, albeit subject to a high degree of uncertainty.

Short-term pain but laying foundations for medium-term growth

The Spanish economy is currently facing the fifth year of one of the deepest and longest-lasting crises in its recent history. The factors setting the scene for the crisis were the bursting of an unprecedented property market bubble, historic levels of private-sector debt, and a loss of competitiveness relative to the euro area's most advanced economies. The first two factors ultimately affected the health of the financial system, despite its entering the crisis in a strong position in terms of both profits and solvency. The unfavourable international financial environment, particularly following the outbreak of the European sovereign-debt crisis, the insufficient flexibility of Spain's markets and institutions, and the impossibility of using traditional adjustment mechanisms, such as monetary policy and exchange rates, explain why overcoming this crisis has been slow and costly in terms of the loss of jobs and businesses.

The Spanish economy took two quarters longer than its euro area partners to start its recovery after the 2008-2009 recession and recovery has been much more moderate.

Indeed, the Spanish economy took two quarters longer than its euro area partners to start its recovery after the 2008-2009 recession and Spain's recovery has been much more moderate. In the third quarter of 2011, Spain had recovered barely a quarter of the GDP lost since the pre-recession peak, whereas the euro area had recovered just over 80%. What is more, Spain had lost almost 14% of the jobs existing prior to the crisis, with unemployment still rising, while job losses in the euro zone were limited to 2.5% and employment rates have slowly begun to improve.

Worst of all, the moderate recovery ground to a halt after the debt crisis erupted, and there was a return to recession in the fourth quarter of 2011. A significant contraction in GDP and employment is therefore forecast for 2012. On the positive

[1] Funcas Economy and Statistics Department.

side, a correction of the economy's imbalances is underway. In terms of the balance of payments, the current account deficit, which had reached 10% of GDP in 2008, will stand at around 2% this year and may disappear altogether in 2013.

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Falling labour costs are allowing some recovery of the competitiveness lost in the pre-crisis years. Levels of private sector debt have also begun to decline, albeit slowly. At the same time, the process of restructuring and cleaning-up the financial sector is underway, and the latest measures taken by the government will accelerate this process. The labour market has also undergone profound reform, and public-sector discipline and rationalisation measures have been adopted, although correcting the public-sector deficit is taking longer than planned. All these processes of adjustment, reorganisation and restructuring are imposing short-term costs in terms of growth and job creation, but are laying the foundations for the economy to recover its historical growth potential over the medium term.

Recent developments in the Spanish economy

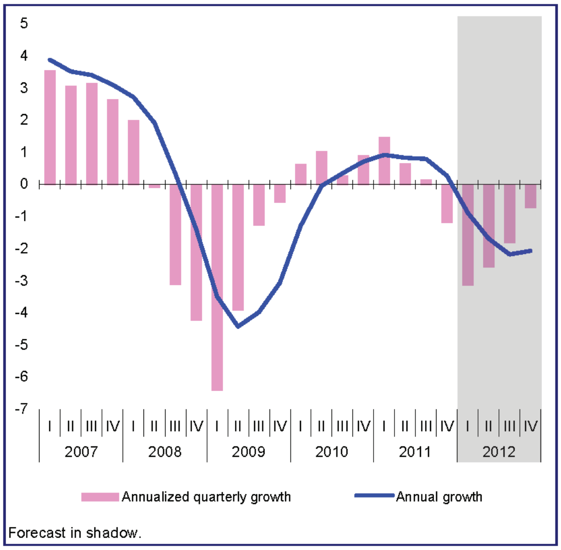
GDP contracted by 1.2% in the last quarter of 2011 on an annualised basis (in what follows, all quarterly rates will be expressed in annualised terms). Economic growth in 2011 as a whole was 0.7%. Although this was a better result than the -0.1% registered in 2010, the evolution throughout the year as a whole was negative, going from a GDP growth rate of 1.5% in the first quarter to a contraction in the last quarter of the year (Exhibit 1).

All the components of demand declined steeply in the fourth quarter. This was first and foremost a consequence of the worsening of the sovereign debt crisis in Europe, but an additional factor was the intensification of government spending cuts required in order to meet the deficit targets.

The negative impact of the debt crisis was also transmitted to the economy through a further tightening of credit conditions, rising risk premiums, falling external demand, worsening expectations, and heightened uncertainty.

Exhibit 1: Spanish GDP

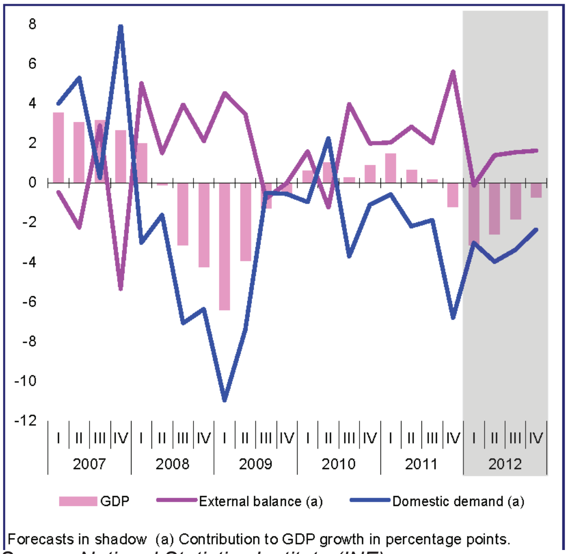
Growth in %



Source: National Statistics Institute (INE).

Exhibit 2: GDP, domestic demand and external contribution

Annualized quarterly growth in % and contribution in pp



Source: National Statistics Institute (INE).

The contraction of GDP in the last quarter was driven by the sharp deterioration in domestic demand, which suffered its biggest drop since the first half of 2009. This accentuated the pattern of behaviour shown by the Spanish economy since 2008, which is characterised by a negative contribution to growth from domestic demand and a positive contribution from the external sector. In 2011 as a whole, domestic demand's contribution to GDP growth (-1.8 percentage points, pp) was significantly more negative than in 2010, but was offset by the much stronger contribution from the external sector, which rose to 2.5 pp (Exhibit 2). Nevertheless, this was not due to faster growth in exports, which, on the contrary, slowed, but rather to a slump in imports.

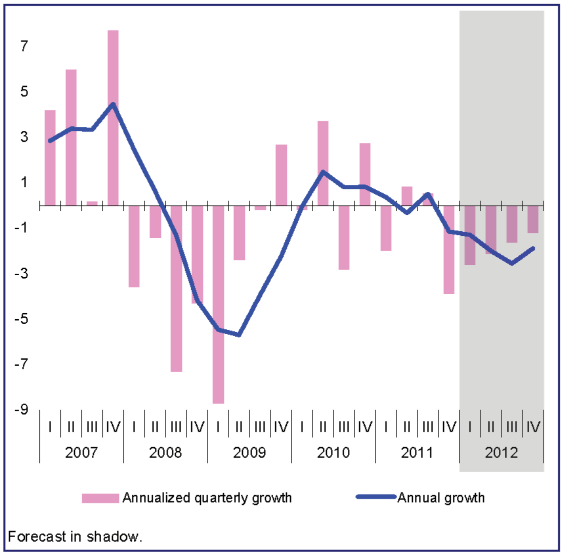
After a decline of 3.9% in the fourth quarter of 2011, household consumption registered a drop of 0.1% for the year as a whole (Exhibit 3), although other indicators, such as retail sales or car sales, suffered much bigger falls, contracting by an annual average of 5.6% and 19.2%, respectively. Taking prices into account, which rose sharply due to the energy component, nominal private consumption increased by 2.8%. This rate exceeded the increase in families' disposable income by a wide margin, translating into a drop in the savings rate for the second year running, after registering a historic high in 2009.

Gross fixed capital formation slumped in the fourth quarter, with abrupt falls in both the capital goods and construction components (Exhibit 4). Consequently, the former was unable to sustain the weak recovery of 3.2%, which began in 2010 and grew by just 1.2% over 2011 as a whole. Investment in construction fell by 17.4% in the fourth quarter. The decline worsened in the case of both the residential sector and other construction, with the latter particularly hard hit, contracting by 25.4%. This result was even worse than that observed during the 2009 recession, and was basically explained by the cutbacks in spending on public works. Despite the deterioration in the final quarter, the fall in construction investment in 2011 overall was 8.1%, more moderate than in 2010.

Exports also shrank in the fourth quarter, reflecting the loss of momentum in world trade towards the end of the year. In 2011 as a whole, sales abroad grew by 9%. This was a slower rate than in the previous year, despite faster growth in exports of tourism services. Imports reversed their positive trend, switching from growth of 8.9% in 2010 to a drop of 0.1%, reflecting the profound weakening of domestic demand.

Exhibit 3: Household consumption

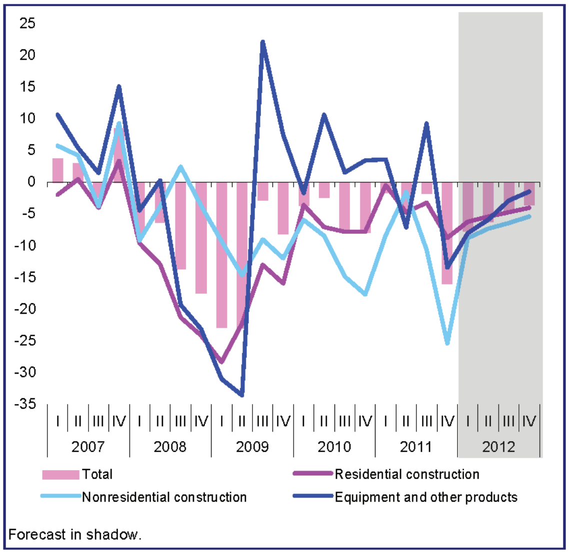
Growth in %



Source: National Statistics Institute (INE).

Exhibit 4: Gross fixed capital formation

Annualized quarterly growth in %



Source: National Statistics Institute (INE).

Although all sectors suffered a drop in gross value added in the fourth quarter of 2011, there was a slight improvement over the year as a whole, except in the case of services. Services grew by 1.1% and industry by 1.9%. Construction continued its adjustment, although at 3.8%, the drop was more moderate than in 2010.

Job losses, measured in terms of the number of full time jobs, became more acute in the final quarter, with a drop in employment of 6.2%, the biggest fall since the first half of 2009. The downturn affected all sectors except agriculture. Average annual job losses came to 2%, six tenths of a percentage points less than in 2010, and equivalent to 356,000 full time jobs, a figure close to that given by the labour force survey.

According to the labour force survey, the number of people out of work rose by 366,000 in 2011 and the active population grew by just 14,000. This is the smallest annual increase since this statistic began to be recorded, and contrasts sharply with the growth of 650,000 registered in the years of expansion preceding the crisis. This sudden stop was the result of the sharp reversal of the trend for foreign workers in the labour force, whose numbers fell by more than 100,000 due to many returning to their country of origin, and the marked slowdown of the growth in the number of Spanish workers. The average unemployment rate for the year was 21.6%, although there was an upward trend over the course of the year, rising from a seasonally adjusted rate of 20.6% in the first quarter, to 22.9% in the fourth.

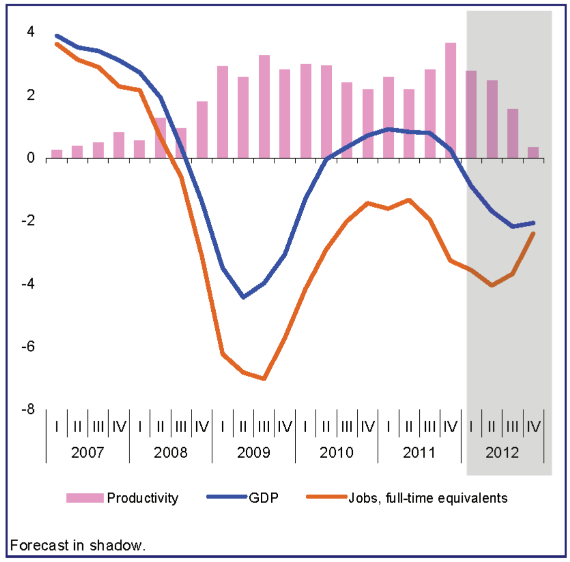
An increase in productivity per full time job of 2.8% can be deduced from the variations in GDP and employment for 2011 as a whole (Exhibit 5). This figure is similar to that in the two preceding years. In conjunction with a moderate growth of 0.8% in wages per employee, this enabled a further drop in unit labour costs (ULC) of 1.9%, which helped narrow the competitiveness gap in cost terms with respect to Europe that had built up in the years prior to the crisis. In the manufacturing industry, the fall was greater still at 3.6%.

The average unemployment rate for the year was 21.6%, although there was an upward trend over the course of the year, rising from a seasonally adjusted rate of 20.6% in the first quarter, to 22.9% in the fourth.

The counterpart to the drop in ULC was a marked recovery in gross operating surplus per unit of output, which rose by 5.8%, the fastest rate since

Exhibit 5: GDP, employment and productivity, total economy

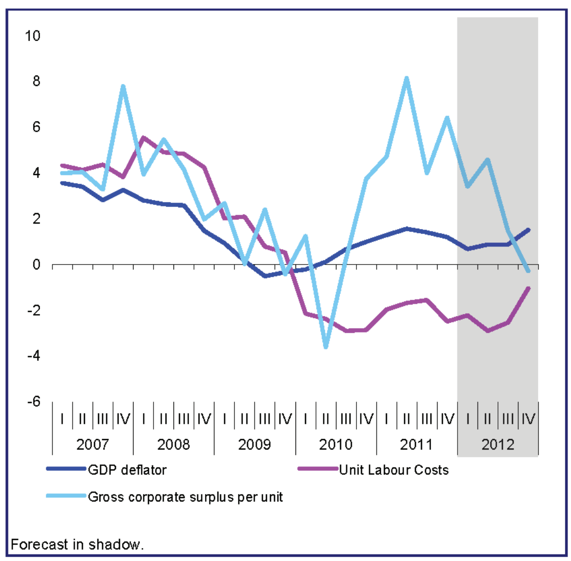
Annual growth in %



Source: National Statistics Institute (INE).

Exhibit 6: GDP deflator and Unit Labour

Annual growth in %

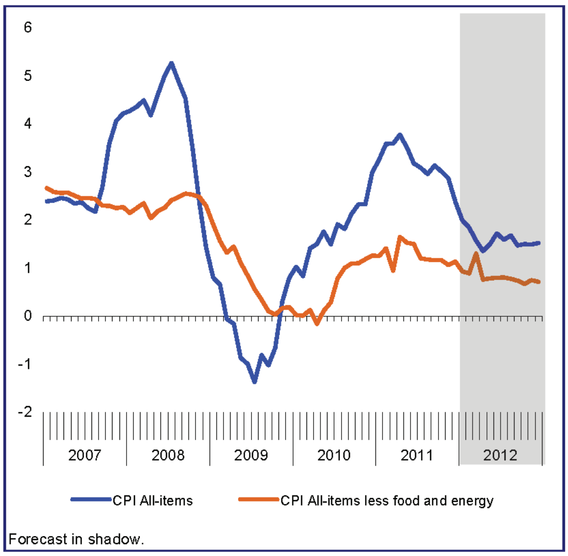


Source: National Statistics Institute (INE).

2002. The total surplus increased y 6.3%, against a 1% drop in workers' wages (Exhibit 6). This translated into an increase in the percentage of GDP attributable to the operating surplus of 1.9 pp, rising to 44.9%, while the share attributed to wages shrank by a similar amount, to 46.6%.

As a result of the changes in costs and surplus per unit of output, the Gross Value Added (GVA) deflator at basic prices increased by 1.9% in 2011, compared to a drop of 1.2% the previous year.

Exhibit 7: Inflation rate
Annual growth in %

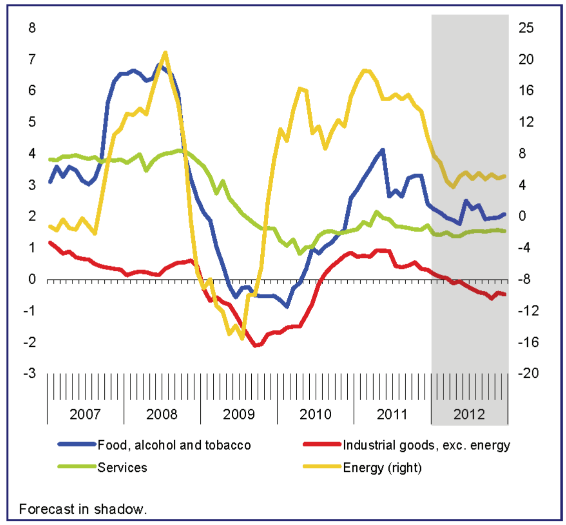


Source: National Statistics Institute (INE).

Given that taxes on output net of subsidies fell, the increase in the GDP deflator was just 1.4%. The private consumption deflator rose considerably faster, at a rate of 3.2%.

The increase in the consumption deflator coincides with the average annual inflation rate for 2011 measured by the consumer price index. Excluding the cost of energy products and food from this index, which also rose due to the in crease in the cost of agricultural raw materials, the core inflation rate was 1.3%, which is significantly lower than its historical average (Exhibits 7 y 8). What is more, discounting from this rate the three percentage points that are attributable to the VAT rise in July of last year, one can conclude that the structural inflationary pressures remained unusually low compared to the levels that have been common for the Spanish economy. Moreover, this low core rate indicates that there must have been only minimal

Exhibit 8: Inflation rate (cont.)
Annual growth in %



Source: National Statistics Institute (INE).

transmission along the production chain of the cost increases caused by rising prices of energy products and foodstuffs. This suggests that depressed domestic demand is limiting the scope for price increases (Exhibits 7 y 8).

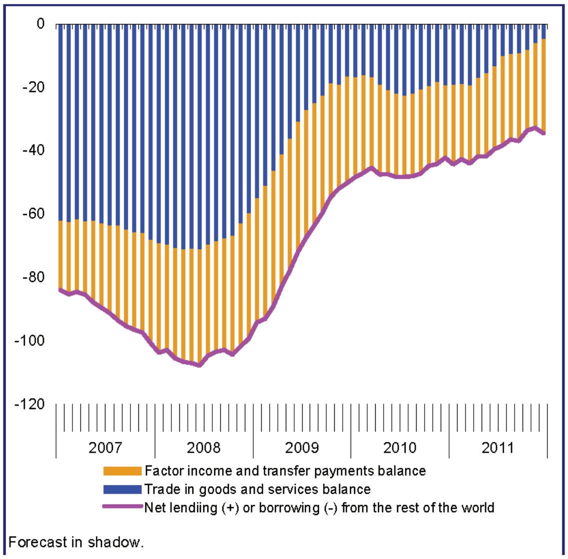
The slump in domestic demand has sped up the adjustment of external imbalances considerably. The current account deficit in 2011 was 3.9%. Although this figure remains high, it is well below the 10% registered at the peak of the expansionary phase in 2007. According to the national accounts, the trade balance in goods was cut by 15%, and this could have reached almost 30% if energy prices had remained stable. The surplus on the services balance grew markedly, despite tourism losing some of its dynamism in the second half of the year. Nevertheless,

The significant improvement in the goods and services balance was partially cancelled out by the income balance deficit resulting from Spain's high level of external debt and climbing interest rates.

the significant improvement in the goods and services balance was partially cancelled out by the income balance deficit resulting from Spain's high level of external debt and climbing interest rates (Exhibit 9). Adding net capital transfers to the current account deficit, the economy's net external borrowing was 3.4%, six tenths of a percent less than in the previous year.

Exhibit 9: Balance of payments

Billion euros, moving sum 12 months



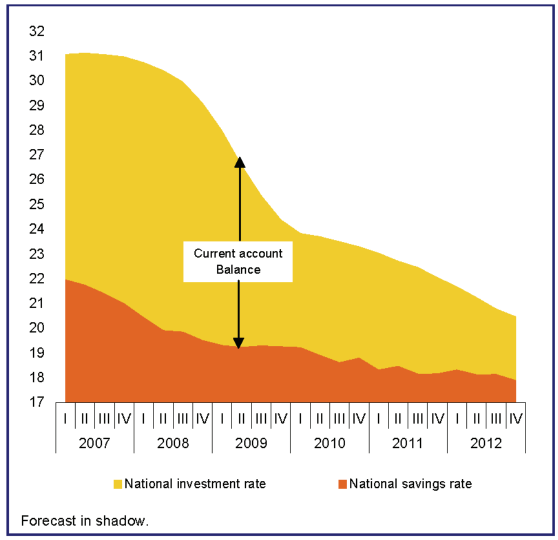
Source: Bank of Spain.

As regards the Spanish economy's financing, the financial account of the balance of payments, excluding the Bank of Spain, recorded a negative balance of €68.3bn to December, which, when added to the deficit of the current accountand capital account balances, and errors and omissions, resulted in financing needs of over €109bn, which were met by the Bank of Spain (Eurosystem). This recourse to the Eurosystem began in July and highlights the difficulty in obtaining financing that the Spanish economy has been experiencing since the deepening of the sovereign debt crisis.

From the point of view of the balance between savings and investment, the reduction in the current account deficit led to a drop in the investment rate of 1.2 percentage points, to 22.1% of GDP (Exhibit 10). The national saving rate also fell, but to a lesser extent, dropping to 18.2% of GDP. The breakdown of the accounts by institutional sectors is not yet available for 2011,

Exhibit 10: Savings and investment rates and c/a balance

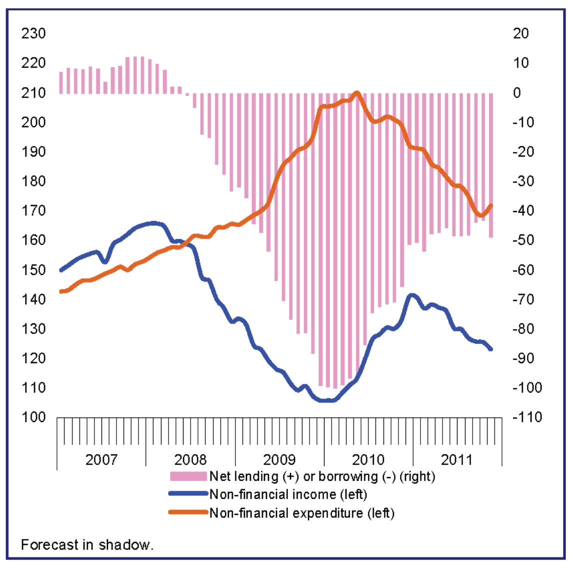
Percentage of GDP, moving average 4 periods



Source: National Statistics Institute (INE).

Exhibit 11: Central Government budget balance

Billion euros, moving sum 12 months

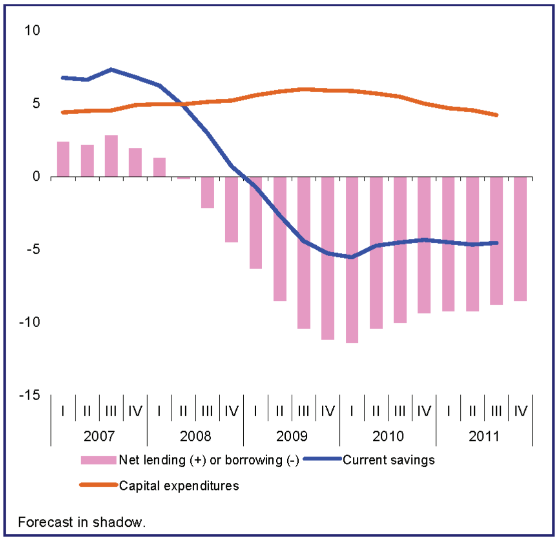


Source: Ministry of Finance.

but with the data for the period up to the third quarter, it is possible to predict that households' net lending dropped, while that of non-financial companies, which has been positive since the previous year, rose, which is an indication of the clean-up efforts underway in the sector. The government deficit also fell from 9.3% of GDP to 8.5%, although through cutbacks in investment rather than through savings. Savings barely improved, as the moderate reduction in current public expenditure was offset by a drop in current income (Exhibits 11 y 12).

Exhibit 12: General Government budget balance

% of GDP, moving sum 4 qrt.



Source: National Statistics Institute (INE).

Outlook for 2012-2013

The drop in GDP in the fourth quarter was in line with forecasts, although the decline in domestic demand was much more pronounced than envisaged. The sharp decline suffered by this variable highlights the extreme weakness of the underlying fundamentals, as a consequence of the huge imbalances that built up during the expansionary phase. These have yet to be corrected, and this represents an obstacle to the start of the recovery. The high level of private debt, both among households and non-financial enterprises, limits the capacity for growth in business investment, and above all, consumption. Moreover, deleveraging is progressing only slowly, due to limited growth in GDP and hence in incomes. In addition, there is a considerable stock of unsold homes, and until the market has absorbed them, investment in residential building will remain very depressed, thus putting a drag on economic growth as a whole. Added to this is the sharp deterioration in financial institutions' balance sheets caused by the bursting of the property market bubble. Financial institutions therefore need to reorganise and restructure –a process in which they are currently involved– in order for credit to flow once again and domestic demand to recover.

The magnitude of the adjustment in domestic demand is clear from the fact that while real GDP at the end of 2011 was 3.5% below its peak before the crisis, domestic demand, which has been on a downward trend since late 2011, was 12% lower. The extreme weakness of domestic demand makes the national economy extremely vulnerable to shocks, such as the intensification of the sovereign debt crisis in the second half of last year, or an acceleration of the fiscal adjustment process.

Against this backdrop, the new forecasts have been made starting out from a base scenario in which there is no fiscal adjustment. This scenario was subsequently modified to incorporate first, the measures adopted by the government last December –spending cuts in the national budget, increased income tax and other taxes for a value of €15bn– and second, the additional measures that need to be adopted by the government in the order of a further €26bn, to achieve a combined fiscal adjustment, in terms of increased income and reduced expenditures, of €41 bn. This would be the figure necessary a priori to reduce the government deficit from 8.2% in 2011 (the estimated figure, until the official data were published) to 4.4%, which was the official target when these forecasts were made. This fiscal shock will have both negative and positive impacts on the economy's growth potential, but in the short term, the negative impacts clearly dominate. Therefore, the new forecasts envisage a downward revision of GDP growth in 2012 to -1.7%, from the previous figure of -0.5%[2]

[2] Following the publication of our forecasts, the government announced that the public deficit in 2011 reached 8.5% of GDP and that the 2012 deficit target would be set at 5.8% of GDP, 1.4 percentage points above the target established in the Stability Program for 2011-2014, which is currently in effect. In reality, this new fiscal scenario does not imply material changes to our underlying forecast assumptions, and therefore, the impact of fiscal policy on economic growth.

Table 1

SPAIN: ECONOMIC FORECASTS, 2012-2013

Annual % change

	Observed data				*FUNCAS Forecasts*	
	Average 1996-2007	*2010*	*2011*		*2012*	*2013*
1. GDP and aggregates, constant prices						
GDP	**3,7**	**-0,1**	**0,7**		**-1,7**	**0,2**
Household consumption	3,8	0,8	-0,1		-1,9	-0,4
Public consumption	4,3	0,2	-2,2		-4,1	-2,4
Gross fixed capital formation	6,2	-6,3	-5,1		-7,5	-2,3
Construction	5,5	-10,1	-8,1		-8,6	-3,4
Residential	7,3	-9,9	-4,9		-5,8	-3,0
Nonresidential	4,5	-10,4	-11,2		-11,3	-3,8
Equipment and other products	7,0	3,2	1,2		-5,6	-0,3
Exports of goods and services	6,6	13,5	9,0		2,4	5,7
Imports of goods and services	8,9	8,9	-0,1		-4,2	0,8
Domestic demand (a)	**4,5**	**-1,0**	**-1,8**		**-3,7**	**-1,3**
Net exports (a)	-0,8	0,9	2,5		2,0	1,5
GDP current prices: - billions of euros	--	1051,3	1073,4		1065,8	1080,6
- % change	7,5	0,3	2,1		-0,7	1,4
2. Inflation, employment and unemployment						
GDP deflator	3,6	0,4	1,4		1,0	1,2
Household consumption deflator	**3,1**	**2,4**	**3,2**		**2,0**	**1,4**
Total employment (full time equivalents (f.t.e))	3,3	-2,6	-2,0		-3,4	-0,8
Labour productivity (GDP per employee f.t.e.)	0,4	2,6	2,8		1,8	1,0
Compensation of employees	7,2	-2,5	-1,0		-3,8	-1,4
Gross corporate surplus	7,5	0,2	6,3		0,7	3,9
Compensation of employees per head (f.t.e.)	3,0	0,0	0,8		-0,4	-0,5
Nominal unit labour costs	2,9	-2,6	-1,9		-2,2	-1,5
Unemployment rate	**12,0**	**20,1**	**21,6**		**24,2**	**24,5**
3. Financial balances (% of GDP)						
National savings rate	22,2	18,8	18,2		18,1	19,2
- private sector	18,8	23,2	22,5	(p)	21,0	21,3
National investment rate	26,5	23,3	22,1		20,5	19,7
- private sector	23,1	19,5	19,0	(p)	18,2	17,7
Current account balance	**-4,3**	**-4,5**	**-3,9**		**-2,4**	**-0,5**
Net lending (+) or net borrowing (-)	-3,4	-4,0	-3,4		-1,9	0,0
- private sector	-2,6	5,4	5,1	(p)	4,2	4,9
- public sector (public deficit)	-0,8	-9,3	-8,5		-6,1	-4,9
General government gross debt	54,0	61,0	68,9	(p)	76,0	81,2
4. Other macro variables						
Household savings rate (% of GDI)	11,9	13,9	11,8	(p)	10,8	10,7
Household gross debt (% of GDI)	80,9	128,0	126,2	(p)	125,3	121,8
EURIBOR 12 months (% annual)	3,8	1,4	2,0		1,7	2,1
Government bond yield (10 years, % annual)	5,0	4,2	5,4		4,9	4,6
Euro nominal effective exchange rate (% change)	--	-8,0	-0,2		-4,8	-1,0

(a) Contribution to GDP growth.

Sources: 1996-2011 except (p): National Statistics Institute and Bank of Spain. Forecasts 2012-13 and (p): FUNCAS.

The new forecasts envisage a downward revision of GDP growth in 2012 to -1.7% from the previous figure of -0.5%

In any event, the worsening forecasts are not merely a consequence of the bigger fiscal adjustment required in 2012 as a result of missing the deficit target by two and a half percentage points of GDP in 2011. The higher capital ratios demanded by the European Banking Authority, and the strict requirements on loss provisions introduced by recent financial system reform, although entirely positive in the medium term and necessary to restore market confidence, will translate into an additional tightening of financial conditions for families and businesses in the short term. The weakening of the European economy is also putting a brake on exports, the only engine of the timid recovery in the Spanish economy in 2010 and the first half of 2011. Moreover, there were more jobs lost than expected in the last quarter, which will further dampen consumption and put downward pressure on the initial estimates. Finally, the collapse in all the components of domestic demand in the fourth quarter means this variable has started the year low, which will have a negative impact on its average over 2012 as a whole.

All these factors will have a particularly strong impact in the first two or three quarters of the year, in which the contraction in GDP is projected to be sharper than in the last quarter of 2011. Towards the end of the year, some of the positive effects of fiscal consolidation and financial restructuring, in conjunction with the labour market reform and other reforms announced by the government, may begin to show, however, slowing the decline in GDP. This could result in a return to positive quarterly rates, albeit moderate ones, as of the first quarter of 2013, thus permitting modest average annual growth of 0.2% next year.

It should be noted that this quarterly profile –and the forecasts for 2013 in particular– are subject to a high degree of uncertainty. On the one hand, fresh episodes of turbulence in European financial markets cannot be ruled out, although the easing of tensions since December owing to the action of the ECB, the implementation of new mechanisms for fiscal discipline and enhanced coordination of European economic policy, together with the second rescue package for Greece, represent important factors in the recovery of confidence and stability in the markets. On the other hand, it remains to be seen what shape the government's fiscal policy will take, or what other measures or reforms it may implement over the course of the year, with the consequent effects on the behaviour of the economy. Moreover, the rising tensions with Iran could lead to further upward pressure on oil prices which will have a powerful impact on those economies highly dependent on this raw material, such as Spain. In terms of the upside risks, an earlier recovery of financial stability and confidence in Europe could mean that the recovery from the current downturn begins earlier than forecast, with the consequent spill-over effects for Spain.

The forecast for growth in household consumption in 2012 has been cut to -1.9%, and it is expected to remain negative in 2013, at -0.4%. The rate of contraction of all the components of gross fixed capital formation will accelerate. Construction will fall by 8.6%, as a result of the continuing adjustment in the property market and the sharp cutbacks in public investment. The timid upward trend in investment in capital goods seen over the last two years will give way to a drop of 5.6% in 2012, moderating to 0.3% in 2013 as a result of the worsening overall climate, falling demand and difficulty obtaining credit.

Deteriorating international economic conditions, particularly in Europe, will lead to a moderation of growth in exports of goods and services in 2012 to 2.4%, with the rate picking up to reach 5.7% in 2013. Imports will fall by 4.2% as a result of the drop in final demand, while the following year will show slight growth, as faster export growth will offset the negative effect on imports due to the expected continuing decline in domestic demand. The pattern of contributions to GDP growth will continue to be that seen since 2008, namely negative on the domestic demand side and positive on the exports side.

In order to achieve a deficit reduction from 8.5% of GDP to 5.8% of GDP, it is necessary to cut expenditures and/or increases taxes in the order of €29bn, to which we must also add €12bn to compensate for the automatic increases in some components of expenditure, among these, interest payments and pensions.

The forecast for employment has also worsened, although labour reform should gradually intensify the utilisation of labour per unit of output. A drop of 3.4% is expected this year in the number of full time jobs (an annual average of 580,000)

The forecast for employment has also worsened, although labour reform should gradually intensify the utilisation of labour per unit of output. A drop of 3.4% is expected this year in the number of full time jobs (an annual average of 580,000) and a drop of 0.8% (-130,000) next year. The annual average unemployment rate will continue to climb, rising from 24.2% in 2012 to 24.5% in 2013. Employment cannot be expected to stabilise until the second half of 2013.

Towards the end of the year, some of the positive effects of fiscal consolidation and financial restructuring, in conjunction with the labour market reform and other structural reforms announced by the government, may begin to show, slowing the decline in GDP.

Productivity will continue to rise, although at a slower pace than in recent years: 1.8% in 2012 and 1% in 2013. Growth in wages per employee has been revised downwards, largely taking into account the recent labour reform, such that a decline is expected in both 2012 and 2013. This will all translate into new and significant reductions in unit labour costs this year and next, which will allow further progress on recovering cost competitiveness relative to the rest of the world.

As a result of the adjustment in domestic demand and the improvement in cost competitiveness in recent years, in 2012, domestic demand will be less than GDP for the first time in 15 years, such that the balance of payments for goods and services will be positive. Nevertheless, the current account and capital account balances (net lending/borrowing vis-à-vis the rest of the world) will remain negative this year (-1.9% of GDP) due to the substantial income deficit, although they are expected to reach equilibrium in 2013.

In the case of the general government budgetary balance, despite the tax increases and spending cuts included ex ante in the forecast scenario, the deficit will reach 6.1% of GDP, which is a long way from the initial target of 4.4%. This is partly explained by the fact that the drop in GDP, spending and employment induced by the adjustment itself, will lead to lower growth in fiscal revenues and a bigger increase in spending, particularly on unemployment benefits (automatic stabilisers). Another factor is that certain items have their own upward momentum, such as pensions, for which spending is increasing at five billion euros a year, or debt interest payments, which will increase by a similar amount this year. In short, cutting the deficit to 4.4% would require further fiscal and/or budgetary measures in addition to those envisaged, which in turn would result in a sharper drop in GDP.

Reform of the Spanish banking sector: implications and remaining challenges

Santiago Carbó Valverde[1]

Recent reforms are having a large impact on the Spanish financial sector, but their ability to address pending challenge –the clean-up of balance sheets– will depend also on macroeconomic conditions

Over the past few years, the Spanish banking sector, an in particular the savings banks sector, has undergone a period of profound, historical change. Underpinned by a series of regulatory measures, Spanish financial sector reform set out to: foster sector reorganization to promote increased efficiency, change the legal framework governing the savings banks regimes, strengthen the sector's capital ratios in line with new global requirements, and increase confidence through increased provisioning requirements related to real estate assets. At the same time, new incentives for further consolidation were introduced last February. Measurable results thus far demonstrate substantial progress. However, outstanding doubts remain regarding the adequacy of current levels of provisions, and whether the latest round of reforms will catalyse the necessary further downward adjustment to Spanish housing market prices. Reform efforts must continue. At the same time, it will be important to maintain some of the particular characteristics of the Spanish savings banking model, which has demonstrated benefits at the national level over the past 40 years. high degree of uncertainty.

Spain's unique approach to Banking Sector reform in the EU context.

Since 2009, the Spanish banking sector has undergone some of the most ambitious and intense reforms since the financial liberalization of the 1970s and 1980s. These reforms have essentially been implemented through the approval of four major regulatory measures. The first one was the Royal Decree-law 9/2009, creating the Fund for the Orderly Restructuring of the Banking Sector (FROB). The second was the Royal Decree-law 11/2010, improving governance and others aspects of the legal framework of the savings banks. The third was the Royal Decree-law 2/2011, for the reinforcement and recapitalisation of the financial system. The fourth and most recent has been the Royal Decree-law 2/2012, increasing the provisioning requirements related to impaired assets.

While recent regulatory action has mainly focused on restructuring the sector and, lately, the clean-up of banks' balance sheets, there has been – at least at certain stages of this reform process - a special focus on savings banks. This article surveys the main contents of these regulations and focuses on two issues in particular:

i) The effects of the reform on savings banks' legal and competitive structure.

ii) The recent developments following the RD-l 2/2012 and the remaining challenges.

It is important to note that Spain has followed a very unique path compared to other European countries where the reform of the banking sector is concerned. In particular, when many EU countries

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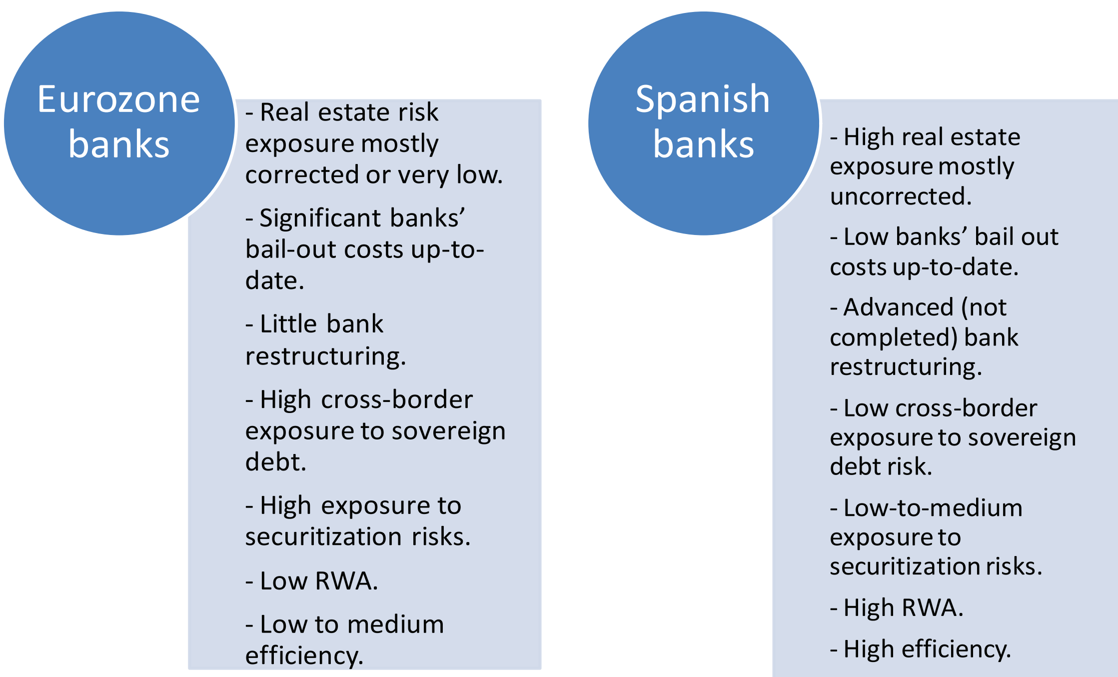
undertook significant bank recapitalizations after the Lehman Brothers collapse in 2008, Spanish authorities did not carry out any bank capital injections at that time. The main

> *In 2009, the solvency concerns related to the Spanish Banking sector's significant exposure to impaired real estate assets and the need to reduce excess capacity, needed to be addressed*

reason was that the Spanish banking sector had shown more resilience to contagion from special purpose investment vehicles linked to US subprime mortgages. The Bank of Spain had prevented Spanish banks from involvement in these types of vehicles in the years prior to the crisis. On top of that, the Bank of Spain had imposed countercyclical provisions in 2001 that helped Spanish banks mitigate the early impact on the crisis on their balance sheets. However, in 2009, the solvency concerns related to the Spanish banking sector's significant exposure to impaired real estate assets, together with the need to reduce excess capacity in line with the new economic reality, needed to be addressed. The first such response was the abovementioned RD-l 9/2009. Therefore, while the focus in other European countries was at that time on recapitalization (with almost no restructuring of the banking sector to date), in Spain, the primary objective was to undertake bank restructuring first and subsequently, bank recapitalization and the clean-up of impaired assets.

There are some other differences between the Spanish banking sector and those of Eurozone countries that help explain the remaining regulatory challenges. As shown in Exhibit 1, the main problem of the Spanish banks is their exposure to real estate assets, which is very large compared to most Eurozone countries. This is a key distinctive feature that makes the problem of Spanish banks more visible and explicit. It has also been the main source of concern among international investors and analysts. However, the majority of impaired assets on the balance

Exhibit 1: Eurozone banks vs. Spanish banks: main structural differences and regulatory treatment



Source: authors' elaboration.

sheets of other Eurozone countries' banks appear largely in the form of securitization and sovereign debt exposure, which are somewhat less transparent. Therefore, they have a smaller negative signalling effect than in the case of Spain.

The difference in risk exposure has implications for solvency regulation. On average, the risk weighted assets (RWA) of Spanish banks are apparently higher than those of other European counterparts. This represents a competitive disadvantage for Spanish banks.

Nevertheless, some of the other differences offered comparative advantages for the Spanish banking sector. In particular, Spanish banks have already faced a great deal of restructuring which is still needed in most European banking sectors. Likewise, Spain shows a lower cross-border sovereign risk exposure and a higher operating efficiency (see, for example, the recent Funcas publication: http://www.funcas.es/publicaciones/Sumario.aspx?IdRef=9-08011).

Reform focus from 2009-2011: Restructuring and recapitalization

The first important milestone in the bank restructuring process in Spain took place in June 2009, with the approval of the Royal Decree-Law 9/2009, which created the so-called Fund for the Orderly Restructuring of the Banking Sector (FROB). The FROB is one of the main pillars of the banking reform in Spain. The RD-l 9/2009 included a set of measures to address some of the weaknesses shown by Spanish banks at that time. The text of the decree provided the following rationale for reform implementation: "the situation of the Spanish banking sector cannot be described as normal, although given their size, those individual institutions likely to encounter difficulties are not systemic." Nonetheless, "if we consider their viability problems overall, a potential systemic risk could be created. The potential risk justifies the provision of early instruments and public resources in the event that circumstances make their use necessary... and the sector would find hard to sustain such losses through reliance on the three Deposit Guarantee schemes."

As for the functioning of the RD-l 9/2009, three different scenarios were considered:

(i) The search for a private solution by the troubled bank itself (basically taking the form of mergers with one or more institutions);

(ii) Actions to tackle weaknesses that may affect the viability of the bank and that could be covered with the existing Deposit Guarantee Fund;

(iii) An orderly restructuring process with the involvement of the FROB. The FROB could also participate as part of a financial viability plan in the event of a merger.

In practical terms, the RD-l 9/2009 forced all Spanish banks to present viability plans to identify if they were in need of any of the solutions considered. The Bank of Spain itself released a note saying that the FROB was a "painstaking process because of the variety and significance of the regulatory adjustments required and because of the complex decisions and negotiations entailed." (http://www.bde.es/webbde/en/secciones/prensa/reestructura_sane/ficheros/Notareformacajas20110217_IVI_en.pdf). The note also mentioned that "the restructuring of the savings banks sector was unavoidable... since the sector had several structural limitations associated with its legal nature, such as the legal restrictions on raising high quality capital other than via retained earnings and a complex and rigid system of governance not conducive to best corporate governance practices." Reform emphasis from that moment onwards was placed on savings banks. However, as it has been shown by the most recent developments in the Spanish banking sector, the solvency problems were not exclusive to the savings banks. In fact, most Spanish banks are currently affected by restructuring processes on some level.

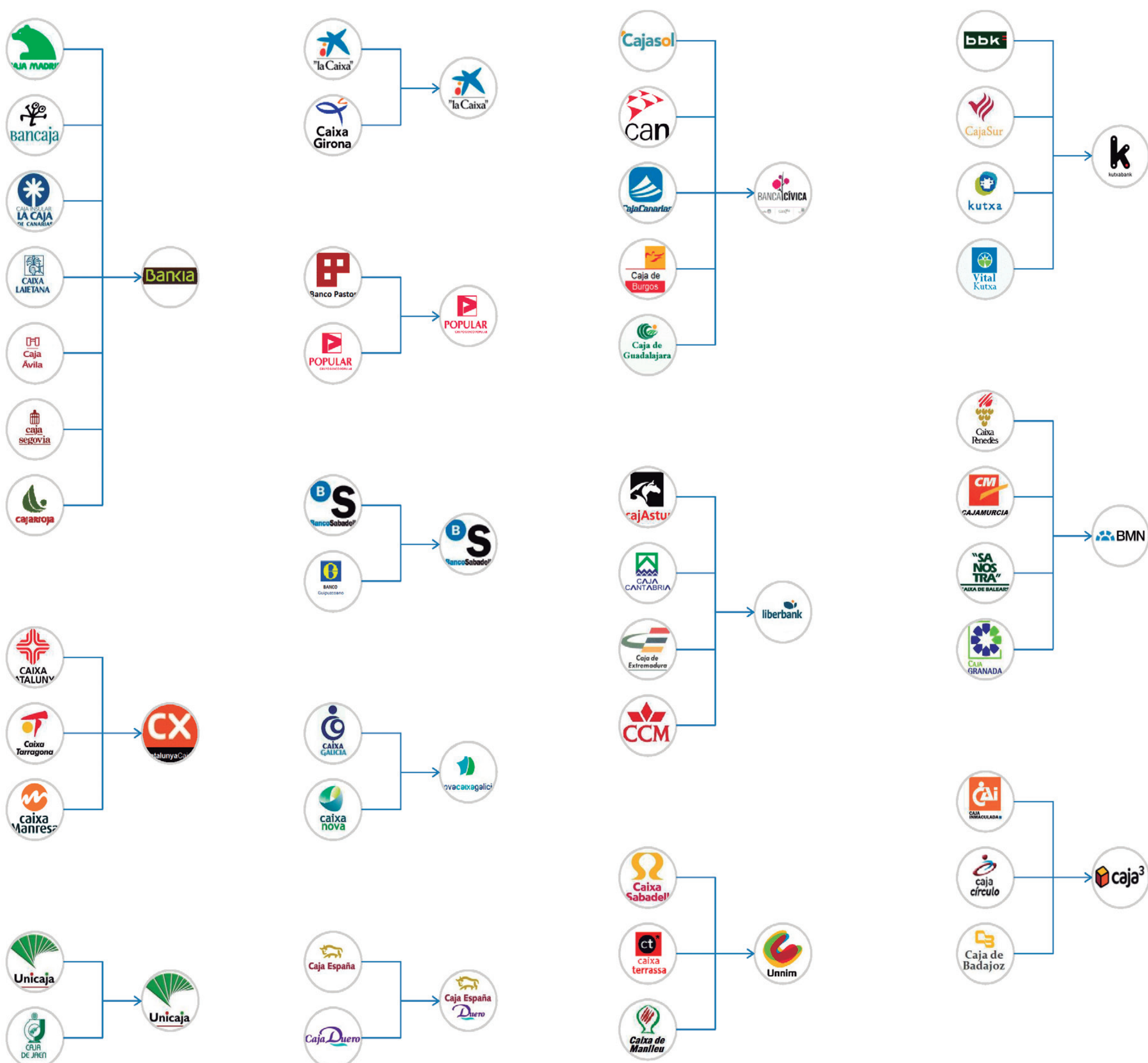
In any event, the implicit focus made on savings banks by the RD-l 2/2009 was reinforced by a new law in 2010 that was explicitly oriented to savings banks, the Royal Decree-Law 11/2010 of July 9th, 2010. Prior to the RD-l 11/2010, savings banks relied mostly on retained profits to increase their solvency ratios. Given that one of the main regulatory responses to the crisis has been requiring more bank capital (i.e. Basel III requirements) the limitations of savings banks to access market financing had to be removed. The Royal Decree-Law 11/2010 addressed these limitations in two main ways:

first, it increased the flexibility of rules governing existing core capital instruments, cuotas participativas (capital certificates) to allow for these instruments to carry voting rights. However, reliance on this type of financing since 2010 has been very limited. Second, and most important, it allowed for alternative ways for a savings bank to transfer all its banking activities to a bank (a public limited company) and remain as a holding institution or even an ordinary foundation, dedicated to the promotion of social works. This was a critical step during the Spanish bank restructuring process, as far as savings banks were concerned, for two main reasons:

The solvency problems were not exclusive to the savings banks. In fact, most Spanish banks are currently affected by the restructuring process on some level.

- Savings banks were able to maintain their foundational nature and, therefore, the institutional diversity of the Spanish banking

Exhibit 2. The bank restructuring process in Spain: merger processes (2009-2011)



Source: authors' elaboration.

sector was legally guaranteed.

- The RD-I 11/2010 enhanced the development of larger savings bank groups, with a core financial centre that took the form of a commercial bank. This permitted the new banking groups to have better access to capital markets and liquidity, while the regional scope and relationship banking nature of the savings banks' model was maintained within the banking group.

The third regulatory event that comprised the Spanish bank reforms was the Royal Decree-Law 2/2011 on the strengthening of the Spanish financial system. The aim of the recapitalisation of the banking sector was that all Spanish banks should have a core capital ratio of at least 8% (10% if they were not a listed company and, hence, had difficulty accessing to equity markets, as experienced by some of the savings banks). Those that did not meet the new minimum requirements had until September 30th, 2011, to increase their capital, either through reliance on private investors or through the FROB.

The results of the restructuring and recapitalization process from 2009 to 2011 can be summarized as follows:

- Following the RD-I 9/2009, the number of savings banks was reduced from 45 to 17 resulting from 13 merger processes (see Exhibit 2).

- 8 out of the 13 integration processes received FROB support for a total amount of €10.58bn.

- Three institutions were seized, including Caja Castilla La Mancha, Cajasur and Caja de Ahorros del Mediterráneo.

- The process of recapitalization required by the RD-I 2/2011 was completed with the contribution of €7.5bn from the FROB and €5.9bn from private sources of capital. According to the Bank of Spain, overall, the total amount of recapitalization was €13.4bn: http://www.bde.es/webbde/en/secciones/prensa/Notas_Informativ/anoactual/presbe2011_37e.pdf

- Three institutions were recapitalised and partially nationalised by the FROB (Novacaixa Galicia, Catalunya Caixa and Unnim).

- Additionally, Banco Sabadell acquired Banco Guipuzcoano and has also acquired Caja de Ahorros del Mediterráneo in a public auction process. Banco Popular and Banco Pastor have also merged.

- There is also another merger operation in progress between Unicaja and Caja España Duero.

The reform agenda's current priority: Balance sheet clean-up to restore confidence

Even if the banking sector experienced a significant restructuring and consolidation following the regulatory initiatives undertaken from 2009 to 2011, the main outstanding challenge for Spanish banks remained the asset impairment problem linked to their real estate market exposure.

Towards the end of 2011, the debate on the likely impact of a potential clean-up of assets in the Spanish banking sector was very intense. Last October, the three deposit-guarantee funds (for commercial, savings and cooperative banks) were merged into one entity so that commercial and savings banks could eventually share losses that may arise when any credit institution is seized. An important fact occurred in early December when the government increased the contributions that banks make to the deposit-guarantee fund and allowed the fund to take on debt. A new maximum contribution of three euros per 1,000 euros of banks' deposits was established, up from two euros, The reform was designed to allow the deposit-guarantee fund to "fully fulfil its functions".

Last February 3rd, the government approved the Royal Decree-Law 2/2012. The rationale states that the measures were "designed to clean up institutions' problematic exposures to construction and real estate developers in Spain - particularly land – from their balance sheets… as well as to consider potential migrations of assets from normal to problematic portfolios."

Most of the reform was directed at introducing new provisions and fostering further sector consolidation. Through this approach, the government was giving priority to private sector based solutions before imposing additional costs on taxpayers. The new provisioning scheme seems simple but there are several exceptions and specific features with very relevant implications.

Importantly, the new provisions are applied to the stock of legacy assets as of 31.12.2011 and not to new loans or assets. The reference framework to estimate the impact of the new provisions are the accounting statements of banks as of June 2011. The total exposure to risk (construction and development) of Spanish banks was estimated at €323bbillion (€175bn are considered to be non-performing or substandard).

There are three types of new provisions considered:

- Specific provisions to address incurred losses in problematic assets, particularly in land - estimated at €25bn.
- Capital add-ons to protect against valuation uncertainties regarding land and housing under development - estimated at €15bn.
- General provisions to take into account the potential migration from normal to problematic portfolios - estimated at €10bn.

Hence, total new provisions are estimated at €50bn. It is important to note that Spanish banks had already charged €66bn in provisions to profit and loss accounts, €22bn to reserves on banks undergoing restructuring, and €17bn corresponding to dynamic/statistical provisions.

The bulk of the new provisions will be for land and housing under development. Only considering specific provisions, the coverage ratio of land is projected to increase from 31% to 60% and that of housing under development from 27% to 46%.

There are also other specific provisioning requirements. In particular, in the case of repossessed finished housing and other real estate developer collateral, the value of the provisioning coefficients has been increased in relation to the time that the asset has been held on the bank's balance sheet: 10% (1st year); 20% (2nd year) and 30% (3rd year) to 25% (1st year); 30% (2nd year); 40% (3rd year) and 50% (4th year).

Similarly, provisions for doubtful loans on finished housing have been set at 25% and for substandard loans at 20%. In the case of foreclosed housing from households, the provisioning coefficients are now set at: 10% (1st year); 20% (2nd year); 30% (3rd year) and 40% (4th year). For other loans with personal guarantees classified as substandard, the minimum provisioning coefficient increases from 10% to 24%.

As for the new general provisions, the idea is to prevent a macroeconomic deterioration from turning currently performing loans into non-performing ones. Importantly, this is only for outstanding loans as of December 2011 and it is not applicable to new loans. It is also worth noting that this is not a reform of the current Spanish dynamic provisioning scheme but a one-off measure (and does not enter into the definition of regulatory capital).

The third element, the new capital add-on of €15bn, is for land and housing under development classified as part of the problematic portfolio. This capital add-on is established on top of the minimum solvency requirements.

With these three elements of the new provisioning scheme, the Spanish authorities claim that the coverage ratio on housing under development will increase to 65% and the coverage ratio on land will increase to 80%.

The new banking reform gives preferential treatment to institutions that present merger plans. Under normal circumstances (i.e. in the absence of anticipated mergers) the timeline for meeting the provisioning requirements will be as follows:

- March 31st, 2012: presentation of a plan to comply with the measures
- BdE approval within 15 working days
- Year-end 2012: compliance with the measures

In order to facilitate these processes, the FROB can buy shares of the institutions. These shares must be sold through a competitive procedure within a maximum period of 3 years.

In the case of anticipated merger, the timeline will be as follows:

- May 31st, 2012: presentation of an integration plan
- Approval by the Ministry of Economy within one month
- 12 months after the approval of the integration plan: compliance with the measures. The integration must be operative by January 1st, 2013, at the latest.

Importantly, the FROB can also provide funds to facilitate the processes through CoCos (convertible into shares within 5 years).

Assessing the reforms' impact in a difficult context

The RD-I 2/2012 has set a path for the clean-up of Spanish banks' balance sheets. As these rules are being currently implemented, it is difficult to make an assessment of their effects but there are some relevant issues that are currently under debate, including some remaining challenges.

Overall, one of the most positive features of the banking reform is that the €50 bn in provisions should help clean-up balance sheets to a significant extent. As of now, most of the necessary €50bn will have to come from the banking sector itself. However, the FROB can still leverage up to €90bn. Importantly, FROB funding does not constitute an increase in the "public deficit" because the funds are borrowed by the credit institutions and therefore are considered temporary bail-out funds.

If economic activity in Spain does not improve, the level of required bank provisions could increase again. This new roadmap has the advantage that it can be changed over time so that, for example, a new general provision could be approved if necessary. In any event, the clean-up of assets should ideally be combined with outside investors' participation in troubled banks that would help to improve their financial structure and reduce the potential impact of the clean-up of banks' balance sheet on public finances.

Interestingly, those banks involved in new mergers will be granted an additional year to comply with the new provisioning rules - receiving 2 years instead of 1. The merger must also lead to "improvements in corporate governance and the adherence to established objectives on lending to households and SMEs" by the resulting institution. However, it will be difficult for banks to generate new be difficult for banks to generate new loans and make significant profits with so many binding regulatory pressures in a context of a foreseeable deterioration of macroeconomic conditions. As for the new dynamic provisions, currently performing assets which become non-performing in the future will still be subject to previous regulations. According to the Bank of Spain "when a loan classified as normal is re-classified to the problematic portfolio, the amount accumulated in this fund of provisions can be used to the extent necessary depending on the provisioning requirements implied in the re-classification. These potential re-classifications will not have an impact on the P&L until the provision fund constituted as a result of the application of the new measures is completely depleted."

One of the most positive features of the banking reform is that the €50bn in provisions should help clean-up balance sheets to a significant extent. However, if the economic activity in Spain does not improve, the level of required bank provisions could increase again.

Another relevant question is the extent to which the reform can contribute to further downward adjustment to Spanish housing market prices. Home prices have only decrease around 17% from 2008 to 2011. Most analysts estimate that these provisions will help to drive prices further downward by 15-20% over 2012 and 2013, so that the total fall from peak will be around 35% on average. It is also important to bear in mind that the new provisions and the expected fall in home prices will have a negative (but necessary) effect on household wealth.

As for savings banks, the evolution of the banking sector has revealed that the exposure to real estate assets is a common weakness of the Spanish banking sector and is not specific to savings banks. Progressively, more commercial banks are getting involved in integration processes and they are making substantial restructuring and efficiency efforts to adjust to the new environment. In any event, it would be beneficial to preserve the institutional diversity of the Spanish banking sector to some extent, given that this diversity has contributed to bank competition and the promotion of relationship banking at the regional and local level over the last forty years.

Cleaning up Spanish Bank Balances: Restoring confidence, but is this enough?

Angel Berges
A.F.I.[1]

Recent legislation is a step forward in the right direction, but it may not be sufficient to cover the future provisioning needs arising from further potential loan deterioration

Significant progress has been made on regulatory reform of the Spanish banking sector in particular with regards to consolidation, and improved corporate governance, and most recently, strengthening provisioning requirements on real estate related assets. Overall, the new provisioning requirements for impaired assets related to real estate exposure should be sufficient to account for the anticipated further decline of real estate prices. However, in our view, questions remain regarding the ability of banks' balance sheets to withstand potential additional reclassifications of currently normally performing real estate assets as impaired assets – a scenario which could realistically materialize over the coming years. Moreover, we must also consider whether or not more coverage is needed on other types of bank portfolio assets, such as corporate and mortgage loans, whose quality could also be subject to deterioration in the face of the negative economic outlook.

New Legislation: a step in the right direction

One month after taking office, the incoming Spanish Government approved a new piece of legislation aimed at restoring the confidence in the banking system. The Royal Decree published on February 2nd rested on a three pillar solution: a) a comprehensive set of requirements for additional write offs in bank assets related to real estate ; b) new incentives to additional rounds of consolidation among banks; and c) new rules for improving corporate governance in the banking sector. The new banking measures form part of a wider package of economic reforms also covering a set of measures addressed at restoring fiscal discipline, especially in the decentralized regions and municipalities; as well as an aggressive labor market reform.

Overall, the new measures are a step in the right direction, as they try to restore confidence by increasing the write-downs on the impaired assets on the balance sheets of banks. We believe that the further write-downs required by the new Decree-Law are enough to meet the needs arising from current impaired assets related to real estate and construction. However, they may not be sufficient to cover the future provisioning needs arising from other loans, such as SME´s, or even mortgages, whose nonperforming rate has been well contained so far but may start rising.

Previous measures taken to restore confidence

Since the beginning of the crisis Spanish banks have been considered to be among the most vulnerable to asset impairment: their exposure to

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real estate related assets was higher than in any other country except for Ireland; and the Spanish economy was also one of the most affected by the crisis.

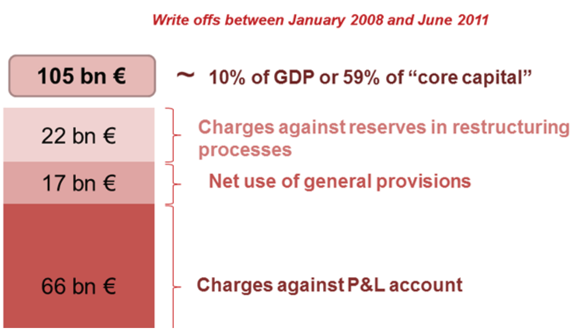
Contrary to other countries, whose toxic asset exposure was mainly in the form of securities (ABS, MBS, derivatives, etc.) exposure of Spanish banks to real estate is mainly in the form of loans, especially to real estate developers. This is the main reason for the delay in applying measures to clean up balances in Spain. Most countries applied intense state aid programs already in the early months of 2009 to strengthen banks' balances. Bad banks or asset management agencies were put in place in many countries as a way of cleaning up bank balances. Those institutional arrangements usually took the form of asset transfers to a bad bank structure, or providing asset protection schemes to clean-up toxic assets from banks' balance sheets.

None of those arrangements was taken in Spain during 2009. In fact, it was not until mid 2010, with a one and a half year delay versus most countries, that Spain recognized that its banking system was also in need of a restructuring and cleaning up of its balances in order to restore confidence and help normalize the flow of funds to the economy.

The delay in taking action has not prevented the Spanish banking system from being subject to intense regulatory activity during the last two years:

- Almost 20 integration processes have been undertaken (12 involving savings banks, 2 involving private banks, and the rest in the smaller credit cooperatives) reducing the total number of financial entities to just over 60. Those integration processes allowed write downs against reserves for a total €22bn (2.2% of GDP).
- Besides those charges against reserves, €66bn have been charged against profits; and €18bn against general dynamic provisions. Total write offs, therefore, amount to over 10% of GDP, as can be seen in Exhibit 1 below.
- Capital injections from the public sector, by an overall amount close to €20bn (2% of GDP), 60% in the form of preference shares and the rest in direct equity stakes.
- Approval of different Decree-Laws that produced a complete overhaul of the special status of savings banks; in fact, forcing all of them to transform into private banks
- Public quotation in the stock exchange of three of those banks resulting from the savings banks transformation;
- Legal intervention of four entities, and virtual nationalization (public sector holding majority stake) of three additional ones; together, all of the seven entities taken over amounted to about 10% of total assets of the Spanish banking system.

Exhibit 1: Write offs between January 2008 and June 2011



Source: Afi, BdE

Yet, despite such intense activity around the banking system, there is a general belief that the goal has not been met in terms of restoring confidence as long as:

- The system is under suspicion of not having cleaned-up sufficiently bad assets, especially those related to real estate. That suspicion, together with current difficult financial markets conditions, has been preventing banks from accessing financial markets to issue virtually any type of securities.
- Nonperforming and repossessed assets have been growing steadily, up to levels clearly higher than those anticipated when the integration plans were put in place.
- The flow of new credit to the economy is severely impaired: total outstanding bank

credit fell in 2011 by 5%; but, what is worse, new credit granted fell by over 30% during that year. This is particularly severe for a country like Spain, with a heavy bias towards bank finance, and with virtually no other sources of finance for small and medium size enterprises.

It is for all of those reasons that a new impulse was needed in terms of reforming the banking system. That was the main objective of the new measures contained in the Decree-Law published on February 2nd, with three main aspects of reform: a) a comprehensive set of requirements for additional write downs on bank assets related to real estate, b) new incentives to additional rounds of consolidation among banks; and c) new rules for improving corporate governance in the banking sector.

Additional write-downs: will they be enough?

As mentioned previously, a total €105bn has already been written off banks' balance sheets, a figure larger in relative terms (10.5% of GDP) than in most countries in which banks have been hit by asset deterioration. And yet, it is generally assumed, especially for assets related to real estate and construction, that additional haircuts are needed in order to improve credibility of the

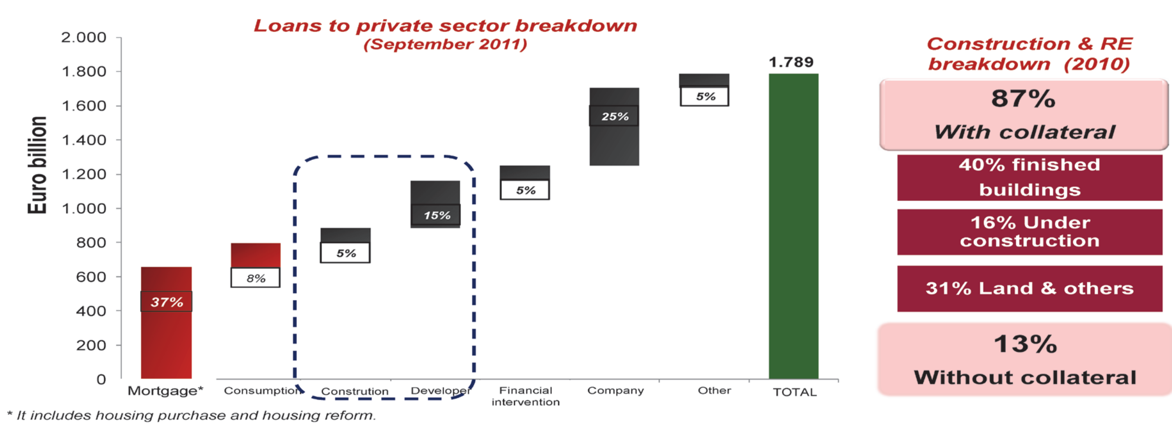
As can be seen in Exhibit 2, total outstanding credit to the private sector in the Spanish banking system amounted, at mid 2011, to €1.8bn, out of which almost 20% is related to real estate developers and construction activities, by far the sector most heavily damaged by the crisis. Out of that total exposure to real estate, almost 50% either had no collateral at all, or were collateralized by land, whose value as a guarantee has probably deteriorated significantly.

The more vulnerable nature of real estate loans is evident if we analyze the breakdown of

nonperforming assets in the overall credit portfolio of the Spanish banking system, as can be seen in Exhibit 3. With a weight of less than 20% of the total loan portfolio, real estate and construction account for almost 60% of total nonperforming assets.

In fact, impaired assets in that sector are much

Exhibit 2: Loans to private sector breakdown, September 2011



Source: Afi, Bank of Spain and information submitted by credit institutions

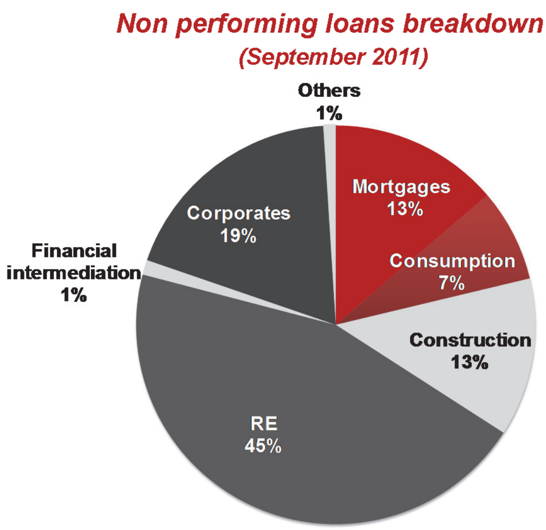
banks' balance sheets.

Without resting importance to aspects b) and c), we will center on the asset write down measures.

These are not formally nonperforming, but there are serious doubts on the debtor's capacity to face maturities. A large amount of loans in this category have been refinanced to longer maturities, and with higher financing costs, but in many cases with no improvement at all in the underlying guarantees.

higher than the corresponding figures from nonperforming loans. They must include also repossessed assets as well as those loans classified by the supervisor as substandard.

Exhibit 3: Non performing loans breakdown, September 2011



Source: Afi, Bank of Spain and information submitted by credit institutions

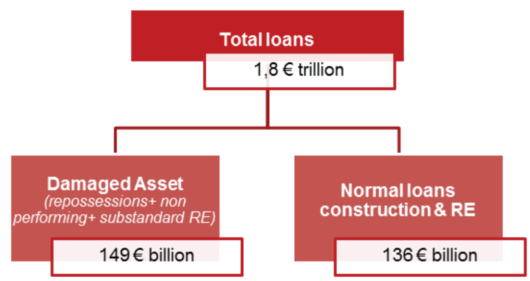
Exhibit 4 summarizes the overall picture of total construction and real estate exposure: a total amount close to €290bn, over a total €1.8bn loan portfolio. Of that exposure, about €140bn are classified as normal, while €150bn are classified as impaired, in any of the three categories mentioned.

As stated previously, a special feature of the Spanish exposure to real estate is that it takes the form of loans, instead of securities. Those loans have been financing real assets like land, unfinished houses, and finished but unsold ones. All these types of assets, but especially the first and second, are extremely difficult to value on a market basis, as there is no active market for them.

This brings us to a debate about appropriate valuation methods for assets when there is no market for them. At one extreme of the debate is the so called "firesale" valuation, based on a forced sale of all those assets in a short period of time. At the other would be to apply historical prices, adjusted by the accumulated depreciation allowances. In the middle, long term valuation models can be applied based on a smoother supply to the market during a long period of time.

In relation to that range of possibilities, none of the major countries that have faced asset impairment within their banks have opted for valuations based on any of the two extremes, either "fire sale", or book value. On the contrary, most of them have assumed valuation models based on long term maturity periods.

Exhibit 4: Spanish banking system: Construction & Real Estate exposure in the overall loan portfolio, September 2011



It is in this context where the new writedown requirements imposed by the Spanish Government must be placed. Specifically, the Ministry of Economy defined an overall new figure of €50bn as the need for additional write downs on the different loans and repossessed assets related to real estate and construction.

The new figure, added to the efforts carried out so far (Exhibit 1 above) will bring total coverage of banks' balance sheets to an overall €155bn, that is over 15% of Gross Domestic Product, and 8% of total outstanding loans. The new figure, therefore, assumes an important closeness to "market prices" (at least under the long term valuation approach), while at the same time forcing the banking system to make an intense effort, in terms of charges against profits and reserves.

The required coverage varies, however, significantly between different categories of assets, depending on the degree of impairment, as perceived by the banking supervisor, as well as on the degree of closeness to completion of the overall value chain of the development-construction-sale process. On the other hand, the additional coverage is to be attained though a

Exhibit 5: Provision levels required

A. Detailed set of requirements

<table>
<tr><td rowspan="3">% Specific provision additional</td><td colspan="3">76%</td><td colspan="3">12%</td><td colspan="2">12%</td></tr>
<tr><td colspan="3">LAND</td><td colspan="3">HOUSING UNDER DEVELOPMENT</td><td>FINISHED BUILDINGS</td><td>PRINCIPAL HOMES. HOUSEHOLDS</td></tr>
<tr><td>Provisions</td><td>Capital Add-On</td><td>Total</td><td>Provisions</td><td>Capital Add-On</td><td>Total</td><td>Provisions</td><td>Provisions</td></tr>
<tr><td>REPOSSESSIONS</td><td rowspan="3">60%</td><td rowspan="3">20%</td><td rowspan="3">80%</td><td rowspan="2">50%</td><td rowspan="2">15%</td><td rowspan="2">65%</td><td>< 12 M; 25%
+12 M; 30%
+24 M; 40%
+36 M; 50%</td><td>< 12 M; 10%
+12 M; 20%
+24 M; 30%
+36 M; 40%</td></tr>
<tr><td>NON PERFORMING</td><td>25%</td><td rowspan="3"></td></tr>
<tr><td>SUBESTANDARD</td><td>50% (in process, 24%)</td><td>15% (in process, 0%)</td><td>65% (in process, 24%)</td><td>20% (24% personal guarantee)</td></tr>
<tr><td>NORMAL</td><td colspan="7">7%</td></tr>
</table>

Source: Afi, and press release Ministry of Economy and Competitiveness

B. Synthesis by type of assets

Asset type	Specific provision	Capital add-on	Generic provision
Impaired assets:			
Land	60%	20%	-
Under development	50%	15%	-
Finished houses	35%	-	-
Performing assets:	-	-	7
Total euros (bn):	25	15	10

combination of regulatory requirements.

Exhibit 5 shows the detailed disaggregation of the requirements, based on a multiple entry format:

a) by the nature of assets to be cleaned-up (land, construction in progress, or finished houses);

b) by the degree of damage of the assets (repossessed assets versus loans in doubtful, subprime, or normal situation);

c) by the regulatory instrument (specific provisions, general provisions, or additional capital requirements).

The biggest effort, with a €25bn requirement, takes the form of direct specific provision, to be registered in the 2012 profit and loss account, and is addressed to clean up impaired assets, with a much heavier burden on land (60% haircut), than on finished houses (35% haircut), with assets under development somewhere in the middle.

This type of distinction is logical, as long as land is an asset with much lower possibility of sale than houses, and it is subject to much larger price variations than houses, both in booms and bursts. As an example, during the boom years of 2000 to 2007, land prices increased twice as much as house prices.

Since the beginning of the crisis, almost five years ago, house prices in Spain have registered an average fall of 26% according to the most widely followed indices published by real estate appraisal firms. At the same time, urban land has registered a fall of 40%, while there are no statistics for nonurban land, with an absolute absence of transactions, and a likely fall which might double the one observed in urban land.

With such price behavior up until now, we might consider that the provisioning requirements go even further than the observed prices so far. For finished houses an additional 10% fall in prices is assumed, which may seem reasonable. As a matter of fact, a 35% haircut in bank loans to finished houses implicitly assumes a much larger fall in house prices, as long as the initial equity share of the developer (100 minus the Loan to Value ratio at the origin) acts as a first loss.

As for land, the haircut imposed by the direct specific provision is approximately equivalent to current market prices (assuming a 50/50 distribution between urban and nonurban land). The fact that land is a much more illiquid asset, and its price a much more volatile one, justifies the imposition of some additional contingent haircuts. This is the role to be played by the required capital add-on, by an amount of 20% of the overall land exposures under an impaired situation. This figure is not formally a charge, but a cushion set apart, which might help absorb additional losses in the event of further falls in land prices.

Finally, assets under development are treated somewhere in the middle; in fact closer to land than to finished houses, with a provisioning requirement of 50%, and capital add-on of 15%. This treatment seems reasonable and therefore appears to reflect the current market situation, and provides a cushion for contingent negative evolution in the future.

Overall, therefore, we might conclude that the new requirements imposed on impaired assets, €25bn of specific provisions and €15bn of capital add-on, may be sufficient to cover actual and potential losses on those types of assets.

We cannot share that view with regard to real estate assets whose current performance is classified as normal. As previously mentioned, there are almost €140bn of loans to real estate and construction classified as normal, and a general provision of €10bn (7% of gross value) is to be set against the profit and loss account.

Our doubts arise from the difficult situation, in terms of sales, that the overall real estate sector is suffering. And also, from the intense trend that we have witnessed in the last two years in terms of reclassifications of loans from normal to impaired status. If that trend continues in the next year, and our own

In our opinion, there is a much finer line that currently separates normal form impaired loans than reflected by the difference of treatment for both categories of loans under the new Decree-Law.

forecasting models indicate this could be the case, at least one third of real estate loans that are currently performing might move to one of the three (repossessed, doubtful, or substandard) categories of impaired assets, and therefore be subject to much heavier haircut requirements than the ones being set now for the normal ones. Put in simpler terms, in our opinion, there is a much finer line that currently separates normal form impaired loans than reflected by the difference of treatment for both categories of loans under the new Decree-Law.

Additionally, we must also recall that the new provisioning requirements are related exclusively to real estate and construction, leaving aside the remaining loan portfolio. Two categories are especially worth mentioning in terms of potential asset deterioration not covered by the new requirements: loans to companies outside the real estate sector, and mortgages to households. In both types of loans, performance is going to be negatively affected by the economic environment during the next year, and no provisioning requirements are imposed upon them.

Structural weaknesses of the Spanish government debt repo market and their implications during the crisis

Jose Manuel Amor (A.F.I.)[1]

Insufficient interconnectivity between Spanish and European clearing houses, together with perceptions of weak risk management at the Spanish Central Counterparty (CCP) in the repo markets, were part of the problems faced by the Spanish government debt market since mid 2010

A properly functioning repo market for government debt securities is critical to the efficient and smooth functioning of the financial markets as a whole. Suitable trading, clearing, and settlement infrastructure is a crucial component of ensuring the repo market can perform its pivotal role. In the Spanish case, deficiencies related to the lack of interconnectivity, together with the perception of weak risk management at the domestic Central clearing counterparty for repo, fuelled existing tensions experienced by domestic financial institutions seeking to fund their growing government debt portfolios. Access of the larger Spanish Banks to the main European CCPs, and second, the ECB three year refinancing operations, have provided some breathing space. However, the current situation is far from optimal, so infrastructure deficiencies must be properly addressed.

Introduction

This article reviews the evolution of the European government debt securities repo markets through the crisis, looking in particular at the Spanish situation since late spring 2010, where great tensions where present in the funding of domestic banks' government debt portfolios. The fragmented market infrastructure in Europe, lack of interconnectivity among Central Securities Depositories (CSDs), the increasing relevance of the CCPs in the repo markets during the financial crisis and the role of the ECB in the repo markets are all aspects that have to be taken into account when looking at the evolution of the repo market for Spanish government debt.

Repo Market: at the core of the financial system

A repo, or a "sale-and-repurchase agreement", is a financial instrument in which the seller sells securities to the buyer against cash and simultaneously agrees to repurchase the same or similar securities (mainly fixed income) in the future. The repo market is at the core of the financial system, pivotal to the smooth functioning and stability of markets. The main functions provided by the repo market, briefly outlined below, demonstrate how this market segment is of fundamental importance in today's financial markets:

- Provides an efficient source of money market funding.
- Provides a financial safety net in times of financial crisis.

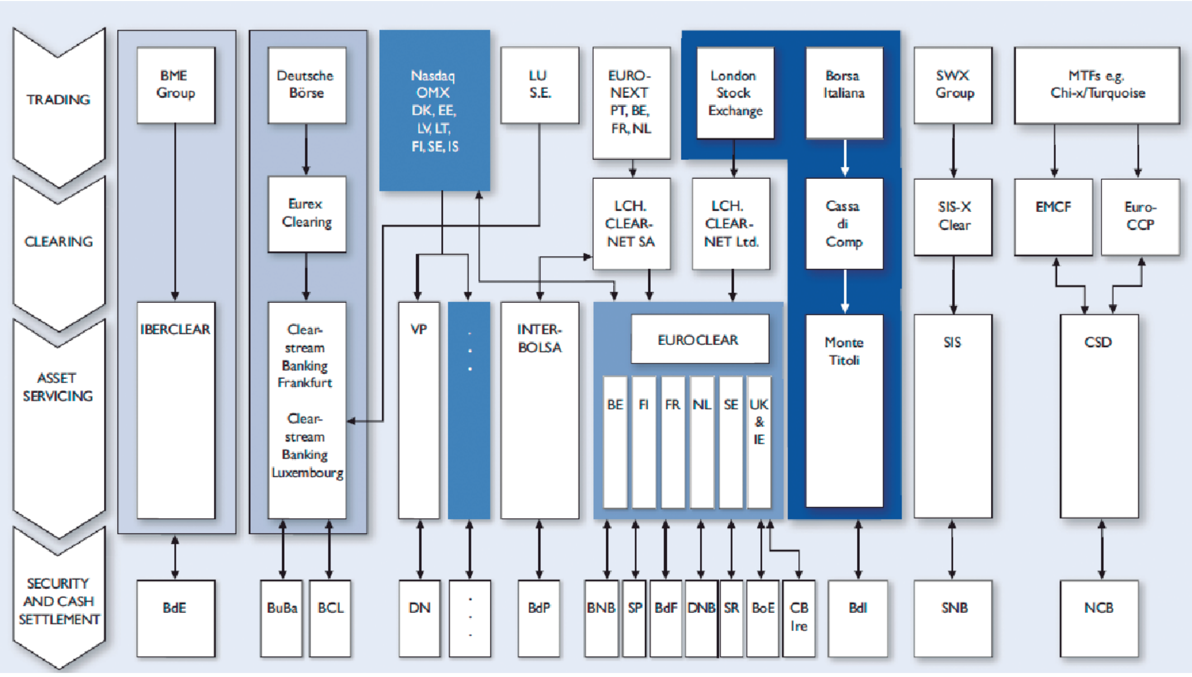
[1] A.F.I. - Analistas Financieros Internacionales, SA

- Facilitates central bank operations.
- Facilitates the mitigation of risks in the interbank market.
- Promotes cross-border market integration.
- Allows for hedging and pricing derivatives.
- Improves efficiency in primary debt markets.
- Ensures liquidity in secondary debt markets and fosters price discovery.

The financial market turbulence and the sovereign debt crisis that hit Europe in 2007, which has intensified since 2009, have had an important impact on the euro money market dynamics. The large contraction of turnover in the unsecured market has been mainly influenced by concerns over credit risk, but also by the large participation in the ECB's 1 and 3-year long-term refinancing operations (LTROs) initiated in 2009 and 2011, respectively. In contrast, the secured market segment (the repo market) has increased its size throughout the crisis, thanks to the trend towards concentrating transactions through a CCP. The main reasons behind the growing importance of CCP cleared repos are, first and foremost, the counterparties' interest in protecting themselves from rising credit-risk concerns and, in second order of importance, the greater use of electronic platforms for trading repos via CCPs. The greater role of CCP-cleared repos since 2008 has come at the expense of a steep fall in bilateral repos not cleared through CCPs.

Regarding the Spanish domestic repo market for government securities, trading traditionally has taken place both through electronic platforms (SENAF being the most important) and on a bilateral basis, normally through brokers. The latter is the channel through which most turnover is concentrated, and it is where foreign participants developed their repo activity with domestic counterparties until 2010. Turnover is concentrated among market members, cleared through the Spanish CCP -MEFFREPO and settled at the national CSD, Iberclear. We will see later in the article that the peculiarities of the Spanish repo market infrastructure were key for explaining the problems in the market for Spanish government bonds experienced during 2010. First, we will look at the post trading market infrastructure in Europe, because the current interconnectivity problems that hinder its efficiency and soundness also greatly affect Spain.

Exhibit 1: Europe`s current trading and post-trading landscape.



Source: ECB

Trading, clearing and settlement in European securities markets: a fragmented picture

The integration of bond and equity markets relies greatly on the degree of integration of the underlying infrastructure, in particular of securities settlement systems and central counterparties. Financial market infrastructures in Europe were created to meet the requirements of national financial markets (i.e. securities in domestic currency). In most cases, there were only one, maybe two, dominant players at each stage of the value chain: one stock exchange for trading, one CCP for clearing and one CSD for settlement. Despite the introduction of the euro, the provision of clearing and settlement services remains quite fragmented (see Exhibit 1).

There have been some successful mergers between European CSDs, but the process of consolidation by mergers has been very slow. There have been vertical mergers (stock exchange, CCP and CSD) in Germany, Spain and Italy, and horizontal integrations or mergers at the same level of infrastructure across several countries. Euroclear is the most prominent example of the latter among CSDs. Clearstream and Euroclear are the two international CSDs (ICSD) in Europe, and their interconnectivity with the domestic CSDs is key for the sound functioning and efficiency of the European securities markets.

Mergers alone are unlikely to deliver an integrated market infrastructure for Europe as a whole. In this regard, the most significant initiative is the Eurosystem's pan-European securities settlement platform TARGET2- Securities (T2S), which is intended to come into operation in 2014.

The lack of interconnectivity between the Spanish CSD (Iberclear) and the main European ICSDs contributed to exacerbate the problems of the Spanish Government debt market back in late spring and early summer of 2010.

The lack of interconnectivity between the Spanish CSD (Iberclear) and the main European ICSDs contributed to exacerbate the problems of the Spanish Government debt market back in spring early summer of 2010. But before we turn to the Spanish case, we will review the pivotal role of CCPs.

Central Counterparties (CCPs): critical role, systemic importance and risk framework

Central counterparties[2] (CCPs) are a critical

[2] CCPs and clearing houses (CSDs) are frequently used synonymously, but there exists a key conceptual distinction.

Exhibit 2: CCPs operating in Europe

CCP	Country	Number of participants 2006	2007	2008	2009	2010	Activity[1] 2008	2009	2010
Euro area countries									
EUREX Clearing AG	Germany	119	118	109	117	128	5.077	2.637	3.035
Hellenic Exchanges Holdings SA	Greece	37	35	34	32	33	1	0	0
MEFF	Spain	52	58	57	52	52	-	-	-
MEFFCLEAR	Spain	16	16	14	13	24	-	-	-
LCH.Clearnet SA	France	115	111	106	103	103	7.392	4.570	5.492
CC&G	Italy	78	74	75	70	71	2.469	1.834	2.231
European Multilateral Clearing Facility	The Netherlands	-	-	-	-	-	1.335	2.401	5.532
CCP	Austria	66	73	76	75	78	146	75	77
Non-euro area countries									
KELER Zrt.	Hungary	37	32	32	32	33	23	20	21
Casa Romana de Compensatie SA	Romania	42	40	37	39	39	0	0	0
Casa de Compensare Bucuresti SA	Romania	36	36	35	27	22	0	0	0
Nasdaq OMX DM	Sweden	44	46	50	82	87	-	-	-
LCH.Clearnet Ltd	United Kingdom	117	117	111	118	148	6.666	4.201	n.a.
ICE Clear Europe	United Kingdom	-	-	-	47	50	0	0	0

(1) Value of cash (outright) securities transactions cleared through each CCP, in billions of euro.

element of financial markets' post trading infrastructure. Created originally to absorb counterparty risk for exchange-traded derivatives, their use has been extended over time to cash markets and, most recently, to OTC (over-the-counter) derivatives. Conceptually, a CCP is an entity that interposes itself between trading participants to become a buyer to every seller and a seller to every buyer, thereby ensuring settlement even if one of the original participants in the trade fails to meet its obligations. A participant thus no longer has to worry about the solvency of all its trading partners but can focus on managing its exposure with a single counterparty, the CCP. In Exhibit 2, we show the most relevant CCPs in Europe: between 75% and 80% of the total volume cleared is concentrated in Eurex Clearing AG (Germany), LCH.Clearnet SA (France) and LCH.Clearnet Ltd (United Kingdom).

A key issue for the stability of the markets arises from the fact that, while CCPs simplify risk management for its participants, they concentrate counterparty risk in a single entity (the CCP). To avoid the failure of CCPs –which would generate a great source of systemic risk it is necessary that they develop a strong risk management framework that, above all things, assures that the CCP has, at any time, sufficient financial resources in order to cover the potential losses in case of a (major) participant's default.

In the concrete space of sovereign bonds, it is useful to look at the risk framework of LCH.Clearnet, the largest CCP for clearing cash and repo transactions in European Sovereign bonds. This risk framework is designed to ensure the financial guarantee of performance of the CCP. It allows for LCH.Clearnet to protect itself from increasing risks in a transparent way, while providing certainty of funding for fixed income participants that LCH.Clearnet will not cease to clear a market.

By imposing higher haircuts or margins on repo positions, LCH.Clearnet's risk framework is designed to react to market conditions and perceived increases in risk in three main areas: dislocation in prices, steep changes in liquidity of sub-investment grade securities; and "wrong way risk" where clearing members are highly correlated with the underlying securities. The Framework has several "key" indicators to judge a significant increase in the risk of a security. The major published indicator is i) at 450bp spread at the 10 year maturity to a AAA benchmark; or ii) at a 500bp 5 year CDS spread; or iii) where a Market Implied Rating drops to B1.

The risk framework emerged in late 2009 in the context of LCH.Clearnet Ltd considerations regarding the clearing of Greek government bonds. Its implementation was a pre-requisite for the clearing of Spanish government bonds in August 2010 in LCH.Clearnet Ltd (London) and November 2010 in LCH.Clearnet SA (Paris). The framework was in place since August 2010 and officially announced in October 2010. The first action, on Irish sovereign debt, dates from November 10th, 2011.

Spain's case: lack of CSD interconnectivity and deficiencies of the local CCP for the repo market

Cross-border transactions have to be settled between a national CSD and an international CSD or ICSD. Normally, the national CSDs are used by domestic investors and the ICSDs are used by cross-border investors. Therefore, national CSD and ICSDs should be interconnected[3] in order to guarantee the sound functioning and improve the efficiency of the

The most significant barriers to interconnectivity between CSDs and ICSDs exist in Greece, Italy and Spain. There are also issues in Italy and Spain about the role of the local CCP, and in Greece about the lack of a CCP.

A CCP is the entity taking over the counterparty risk in a financial trade; a clearing house is a central location or central processing mechanism through which market participants agree to exchange payment instructions or other financial obligations. The CSD function may include the assumption of the counterparty risk in a financial transaction, but not necessarily.

[3] "Interconnectivity" is defined as the ability to transfer securities between two settlement systems on a delivery vs payment (DVP) basis on the same day without a loss of value.

European financial markets. The most significant barriers to interconnectivity between CSDs and ICSDs exist in Greece, Italy and Spain. There are also issues in Italy and Spain over the role of the local CCP, and in Greece about the lack of a CCP. We will now have a look at these market infrastructure problems at the CSD and CCP level- in the Spanish case.

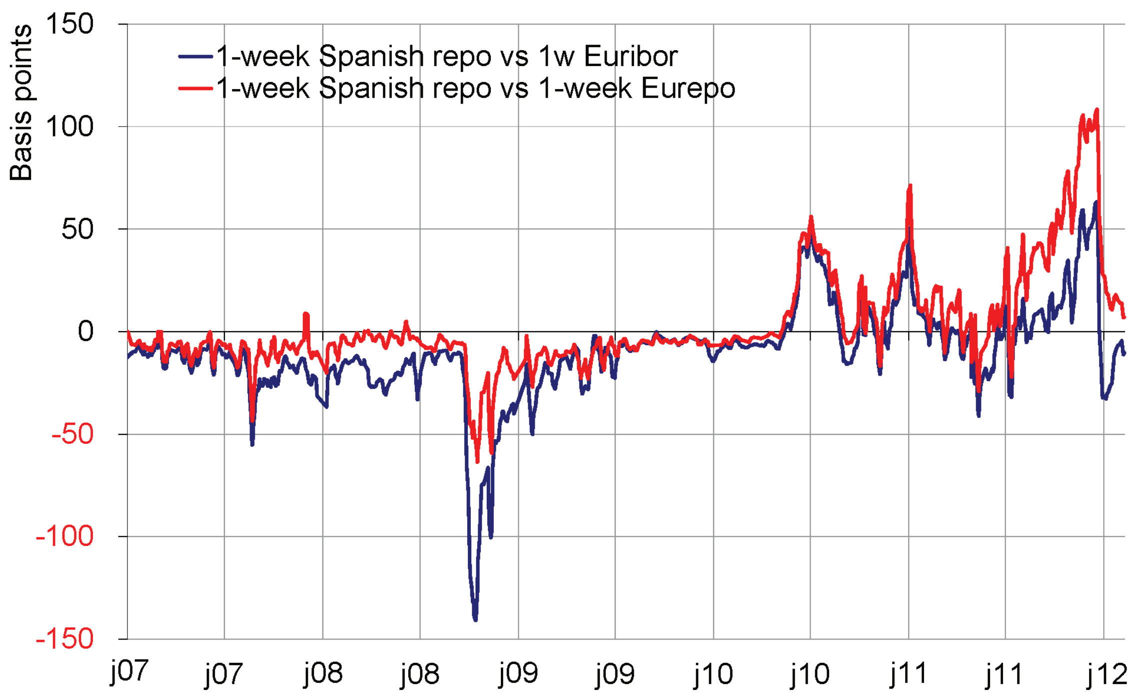
Regarding the Spanish CSD, Iberclear, a number of interconnectivity issues have been identified, the most important being the following: First, members of Iberclear are prohibited from failing to deliver, which makes them reluctant to trade with non-members (who can fail) and has the effect of isolating the domestic market in Spanish government securities. Second, only foreign CSDs can open third-party accounts at Iberclear (the rest of foreign participants can only open own accounts). Opening access to other market users would require a change in the national law. There is agreement to revise this issue in the future, in cooperation with the EU.

The CCP that clears Spanish government securities is MEFFREPO, which is operated by the local futures exchange MEFF. There is a fundamental weakness in the role performed by MEFFREPO in that it would apparently withdraw from clearing in the event of a default by a member, leaving other members to cover the loss. In other words, the CCP would cease to be a CCP in the event of a default. For this reason, the CCP is largely, if not entirely, ignored by international financial intermediaries. It is not possible for other CCPs, such as LCH.Clearnet or Eurex Clearing, to clear Spanish government securities because they are not allowed access to the local CSD.

Spanish government debt repo market problems since spring 2010: intimately related to the deficiencies of Spain's market architecture.

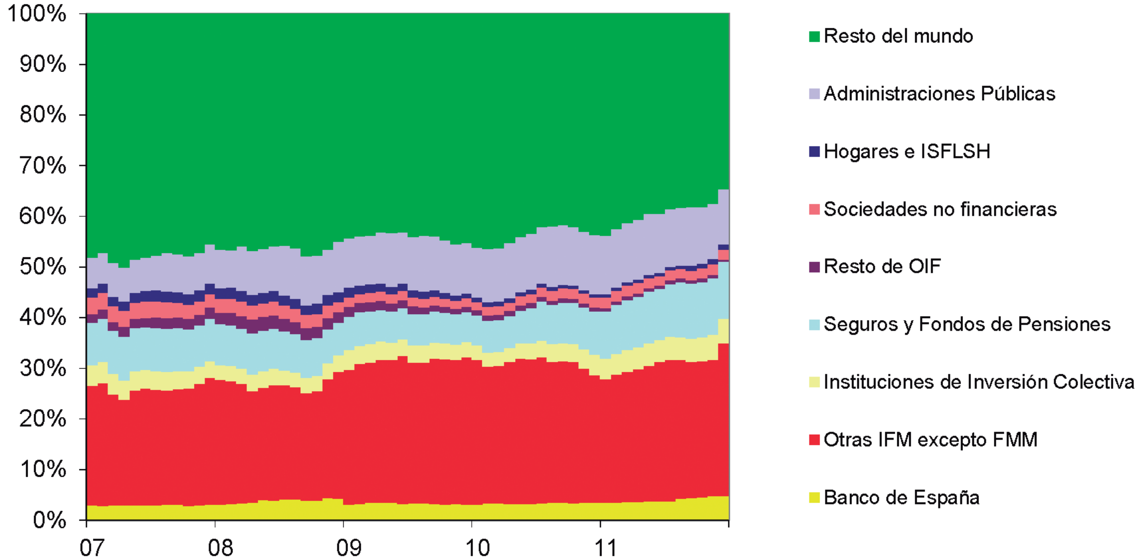
The combination of interconnectivity problems of Iberclear and the deficiencies of MEFFREPO were the main factors behind the structural problems suffered by the Spanish repo market in late spring-early summer of 2010, which greatly compounded the problems generated by the lack of confidence in Spain and its banking system at that time. The effect was clearly evident in

Exhibit 3: Spanish 1-week repo rate vs 1-week Eurepo GC and 1-week Euribor*



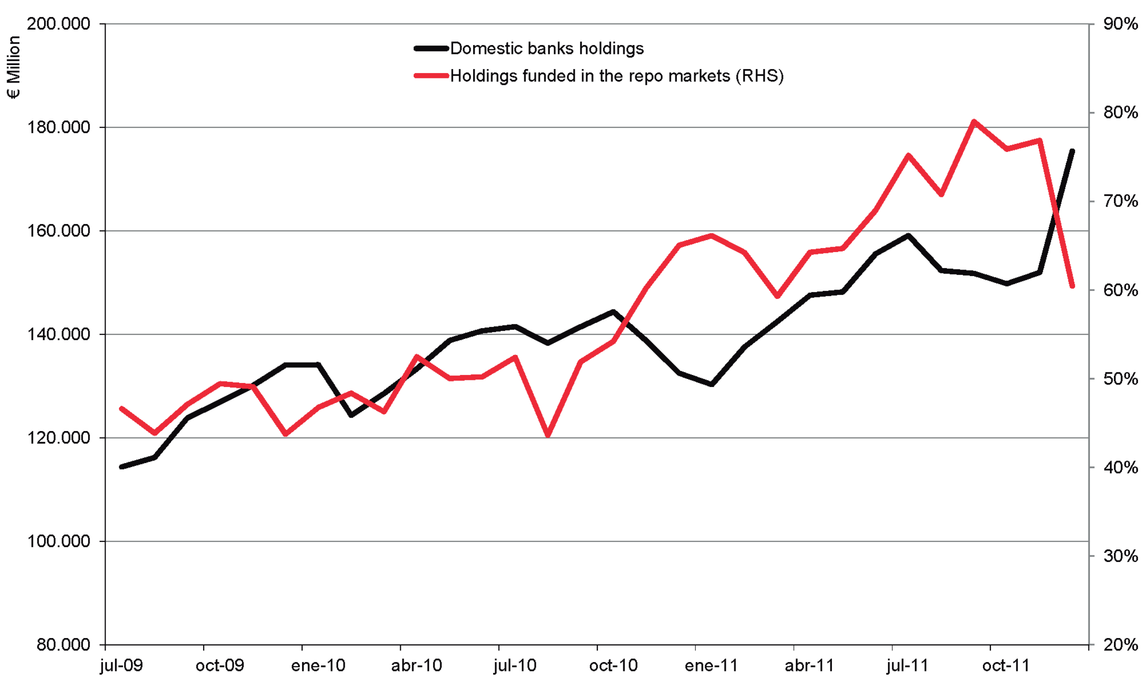
Source: Bank of Spain, EBF, Afi.

Exhibit 4: breakdown of holdings of Spanish government debt: resident (detail) vs non residents.



Source: Bank of Spain, Afi.

Exhibit 5: Spanish domestic banks: holdings and % of holdings which are funded in the repo markets.



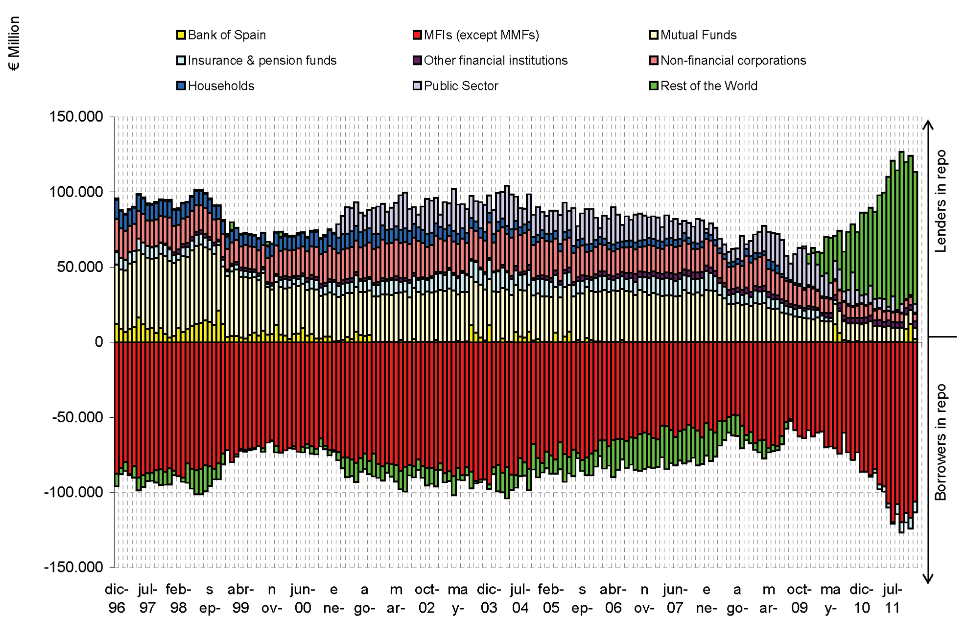
Source: Bank of Spain, Afi.

the evolution of Spanish government securities spreads vis a vis other core European sovereign issuers. Exhibit 3 shows the 1-week repo interest rate for Spanish Government securities compared to Euribor and Eurepo, which turned positive towards mid-June 2010 for the first time since the onset of the financial crisis in 2007. This was due to two reasons: first, the lack of confidence of international investors to enter repo transactions on a bilateral basis with Spanish counterparties (mainly domestic banks, as they hold the larger portions of government debt and consequently rely heavily on foreign counterparties for funding their debt portfolios) due to their perceived credit quality, and second, due to the combination of the lack of interconnectivity of Iberclear with the main European ICSDs and the weaknesses of MEFFREPO, the domestic CCP.

As can be seen in Exhibits 4, 5 and 6, the increase in government debt portfolios at Spanish domestic banks occurred in parallel to the drop in the holdings of international investors. The increasing concentration of debt holdings among domestic counterparties, and the need to keep funding these holdings through the repo markets, resulted in a growing concentration of repo activity with foreign counterparties.

Since the summer of 2010, the larger Spanish domestic banks, driven by the need to find foreign counterparties in order to fund their Spanish government debt portfolios in the repo market, initiated the process of becoming members of those CCPs in which most cross-border repo activity is concentrated (LCH.Clearnet Ltd and LCH.Clearnet SA). This allowed foreign investors to again repo Spanish government debt -due to the mitigation of counterparty risk that the CCP implies and therefore the subsequent softening of the funding stress in the Spanish domestic repo market. It must be noted that only the larger Spanish domestic banks became members of the European CCPs, and that it

Exhibit 6: Spanish domestic banks: holdings and % of holdings which are funded in the repo markets.



Source: Bank of Spain, Afi.

was through their activity in these venues that they could then pass-on (obviously at a cost) the necessary liquidity to the rest of the smaller, domestic banks in Spain. Through this process, a large proportion of the repo turnover activity in Spanish Government securities was reallocated through European CCPs (Eurex Clearing, but especially at LCH.Clearnet -Paris and London) and settled through Clearstream and Euroclear.

In autumn 2011, and coinciding with the renewed tensions in the EMU sovereign bond markets arising from Greece, Portugal, etc, the liquidity and fluidity of repo activity in the European CCPs deteriorated greatly for peripheral debt. Although the main CCPs did not meaningfully increase the margins charged on Spanish and Italian debt repo operations, self protection measures were taken by the members of the CCPs (i.e. capping the volumes on certain sovereign debt securities or reducing repos to very short tenors) that led to a fresh round of stress in the repo markets. As Exhibit 3 shows, the spread of domestically traded 1 week repo on Spanish government debt spiked towards 100 basis points vs Eurepo, a clear sign of severe funding problems.

This deterioration of repo market conditions led the ECB on December 8th, 2011, to take the decision to inject liquidity through two 3 year long-term refinancing auctions held on December 21st, 2011, and February 29th, 2012. This created an incentive for institutions to extend the duration of their repos in order to fund their government debt portfolios. Since the introduction of these 3-year funding operations, the repo turnover in the Spanish domestic market and with Spanish paper at the European CCPs has diminished greatly, showing that most Spanish institutions holding Spanish Government bonds are now channelling most of their repo activity to the ECB. In fact, the ECB is now the main repo market for Spanish and other peripheral sovereign debt, a non-desirable situation in the long term.

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Measuring the resilience of the Spanish banking sector: the impact of the crisis

Joaquín Maudos [1]

Despite their initial resilience to the crisis, banks must make further efforts to maintain a viable business model

The crisis has had a severe impact on the international and Spanish financial sector. Although the Spanish financial sector has been initially more resilient to the crisis than its European counterparts, additional challenges are growing. One of the variables most adversely affected by the crisis has been bank profitability. Reduced profitability has mostly been a consequence of the large amount of provisions that had to be dedicated to cleaning up balance sheets as a result of impaired assets related to the real estate sector, but also because of an increase in financial costs, a consequence of more restrictive capital markets conditions. Looking forward, we should expect further pressure on profitability ratios due to the expected economic contraction in 2012, the continuing process of private deleveraging and the likely adherence of the ECB to loose monetary policies. A further cceleration of the financial restructuring process and integration is needed for Spanish banks to reap the full benefits of economies of scale. Also, banks must continue implementing cost containment strategies to improve efficiency and make further advances to reduce spare capacity.

Banks' profitability: a main casualty of the crisis

The severe impact of the current crisis on the banking sector has forced the adoption of a wide range of measures aimed at strengthening the resilience of the financial system and making it more efficient. Measures have been implemented at both the national[2] and international[3] level. As a result, the Spanish banking sector has undergone profound changes over the past two years. Two illustrative examples of such changes are the savings banks restructuring process and their subsequent conversion into commercial banks.

One of the variables most adversely affected by the crisis has been bank profitability. This is largely a consequence of write downs that had to be made to provision for troubled assets, particularly in the case of the real estate sector. Specifically, from 2008 to September 2011, Spanish credit institutions devoted an amount equivalent to 10% of Spanish GDP (€105bn) to cover deterioration of impaired assets. In addition, profitability also suffered as interest margins were reduced as a result of increased financing costs associated with the sovereign debt crisis and the closure of wholesale funding markets.

Against this backdrop, this article aims to analyze the impact of the crisis on the profitability of the Spanish banking sector as compared to

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[2] Reform of savings banks legislation, the Fund for the Orderly Restructuring of the Banking Sector (FROB), increased solvency and recapitalization requirements, increase in transparency, new measures to clean-up institutions' problematic exposures to construction and real estate developers, etc.

[3] New Basel III accords, extraordinary measures of the European Central Bank, stress tests, etc.

the rest of the European banking sectors. The analysis focuses primarily on the evolution of the components of the profit and loss account using European Central Bank data from 2007 through December 2010. In the case of Spanish deposit institutions, additional data has been obtained from the Bank of Spain through September 2011.

Spanish banking profitability within the European context

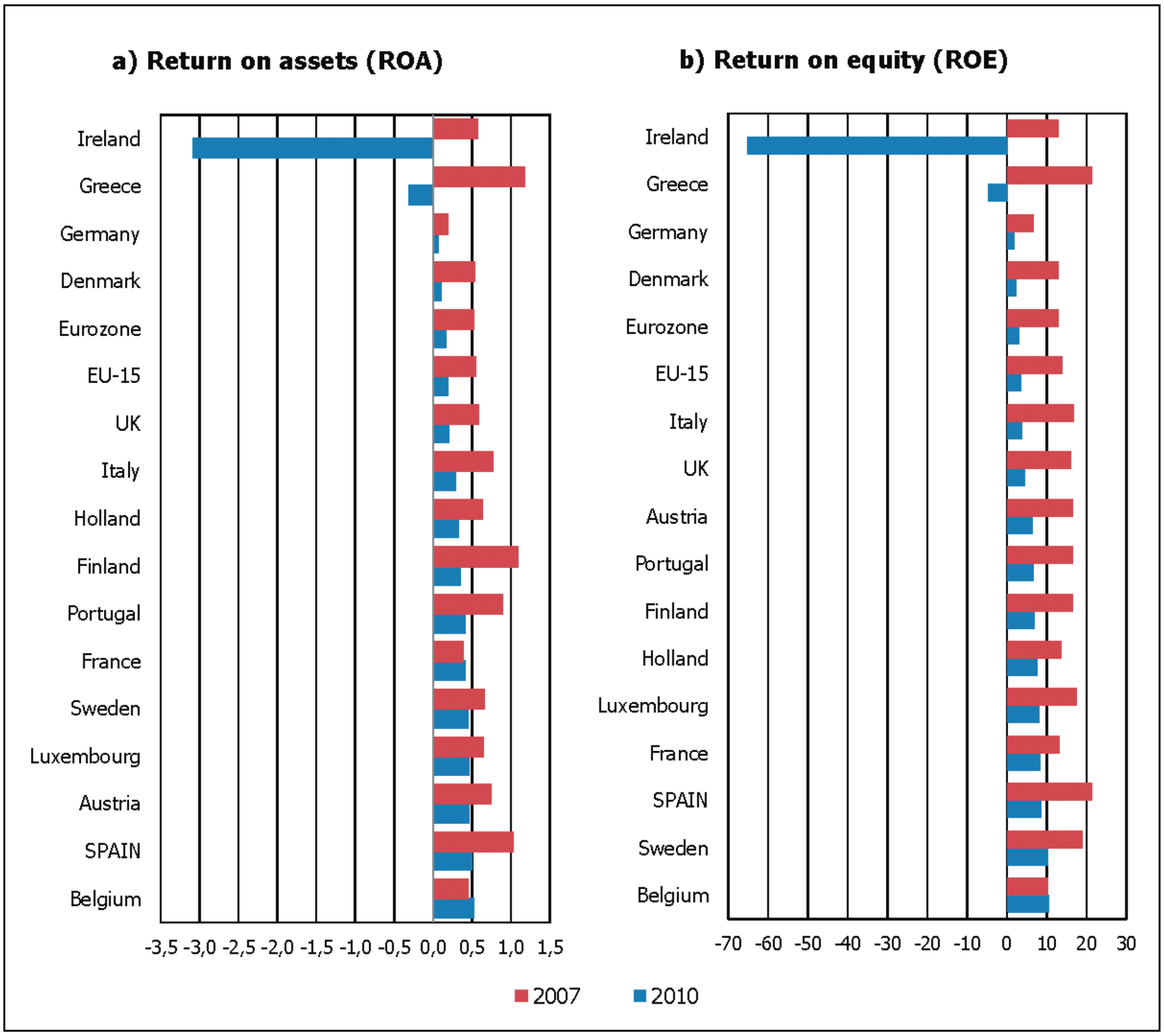
Bank profitability has been adversely affected by a series of factors, such as: the slowdown of banking activity since the onset of the crisis, global financial markets uncertainty, increased risk, and more restrictive wholesale funding market conditions.

The decline of the Spanish banking sector's profitability in the crisis period 2007-2010 is due fundamentally to the steep increase in the cost of risk, the fall in other operating income and to the increase in operating costs.

The Spanish banking sector has always stood out at the international level for its high level of profitability, as measured by return on assets (ROA) as well as return on equity (ROE). Prior

Exhibit 1: Profitability of the European credit institutions

Percentage Rank ordered from lowest to highest profitability in 2010



Source: European Central Bank.

to the crisis, Spanish ROA and ROE levels were twice the European average. With the onset of the crisis in mid-2007, the profitability of the Spanish banking sector fell sharply, but to a lesser degree than that of the European banking sector as a whole. As shown by Exhibit 1, which ranks European banking sectors in increasing order by ROA, in 2010, the Spanish banking sector was the second most profitable within the EU-15 (outperformed only by Belgium) with a value of 0.5%, more than twice the average profitability of the European banking sector (0.19%). The negative levels of profitability in Ireland (-3.09%) and Greece (-0.31%), as well as the low level in Germany (0.07%) reflect the severity with which the crisis impacted their banking sectors. The graph shows that in practically all European countries, the profitability of credit institutions was reduced from 2007 to 2010, with the banking sectors of Ireland and Greece experiencing the greatest fall. Specifically, in these two countries, ROA fell 632% (from 0.58% in 2007 to -3.1% in 2010) and 126% (from 1.18% in 2007 to -0.31% in 2010), respectively. In Spain, the decline was 51.5%, below the mean for both the EU-15 (65.9%) and the Eurozone (68.1%), reflecting a slightly less pronounced impact of the crisis relative to other European countries.

Return on equity exhibits provide further evidence of the Spanish banking sector's high level of profitability and slightly greater resilience to the crisis. In 2010, the profitability of the Spanish banking sector (8.52%) was more than twice the mean of the EU-15 (3.48%), making it the third most profitable of the EU-15. Furthermore, as previously demonstrated with ROA data, ROE exhibits indicate that the impact of the crisis was less pronounced in Spain, where ROE fell by 60% from 2007 to 2010, versus a 75% fall for the average of the banking sectors of the EU-15.

Table 1 helps to further analyze which components of the profit and loss account had the greatest impact on the reduction in profitability, presenting the variation of ROA in the Spanish and Eurozone banking sectors over the crisis period 2007-2010. To measure the contribution of each profit and loss account item, we consider not only the rate of variation of each item, but also its relative importance to total profitability in the initial year. As in the previous exhibit, the table shows, in greater detail, that the ROA of the Spanish banking sector decreased by 51.5% in the crisis period, below that of the average of the European banking sector (68.1%). Specifically, the net interest margin contributed positively to the growth of profitability, by 22.3 percentage points (pp.). However, this positive contribution was more than offset by the 31.1 pp. fall of other operating income, and by the 38.8 pp. negative contribution of provisions, extraordinary items and taxes. The increase in operating costs also contributed negatively, but by a smaller amount, reducing the variation of ROA by only 3.9 pp. Relative to the fall in the gross margin from 2.84% in 2007 to 2.75% in 2010, average operating costs increased from 1.28% to 1.32%. This explains why the cost to income ratio (percentage of operating cost over gross income) increased by 2.6 pp. Nevertheless, despite this deterioration of efficiency, at the end of 2010, the cost to income ratio of the Spanish banks was 14 pp. lower than the average for the European banking sector, the Spanish banking sector thus being the most efficient of the EU-15.

In short, the decline of the Spanish banking sector's profitability in the crisis period 2007-2010 is due fundamentally to the steep increase in the cost of risk, the fall in other operating income and to the increase in operating costs. Specifically, net operating income was reduced by 8%, while profit (ROA) was reduced by 51.5%,

75% of the fall in profitability of the Spanish Banking sector is explained by the provisions that had to be made in order to allow for the cost of risk.

due to increased provisions by Spanish banks to account for write downs of deteriorated assets. Therefore, 75% of the fall in profitability of the Spanish banking sector is explained by the provisions that had to be made in order to allow for the cost of risk.

A similar pattern can be observed in the Eurozone banking sector as a whole, where net interest income is the only item that contributed positively to the evolution of profitability (36.4 pp.). Other operating income contributed negatively (-25.2 pp.), though to a lesser degree than in Spain. Moreover, the overall contribution of net interest income and other operating income is positive in the Eurozone, as shown by the increase in gross margin (with a contribution of 5.8 pp.). In Spain, on the other hand, gross margin has a negative contribution of 8.7 pp. Nevertheless, the positive contribution of gross margin within the Eurozone banking sector is for the most part counteracted by operating costs (-4.2 pp.). In conclusion, the 68.1% fall in European ROA is essentially driven by the increased provisions (-68.4 pp.) necessary to clean-up balance sheets.

Table 1: Variation of ROA of credit institutions over the period 2007-2010

	Spain	Eurozone
ROA (%)	**-51.5**	**-68.1**
Contribution (percentage points)		
Net interest income	22.3	36.4
Other operating income	-31.1	-25.2
Gross margin	-8.7	5.8
Operating costs	-3.9	-4.2
Net operating income	-12.6	0.0
Provisions, extraordinary items and taxes	-38.8	-68.4

Source: European Central Bank and own elaboration

Spanish Deposit Institutions' Profitability in 2010-2011

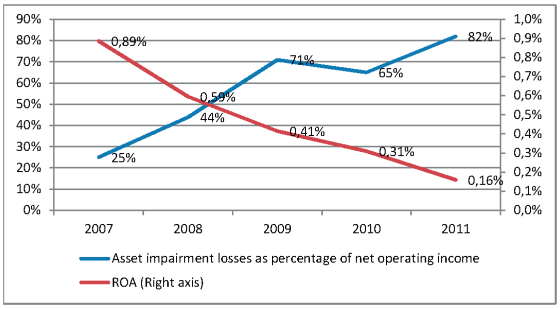
For Spanish deposit taking institutions[4] , it is possible to get an even more up to date picture of the impact of the crisis on profitability, using data from the Bank of Spain through September 2011. It is worth noting that the ECB data analyzed previously includes credit institutions other than just deposit taking institutions (such as specialized credit institutions).

As shown in Exhibit 2, Spanish banking sector provisions represent a high percentage of net operating income. Provisions increased significantly from 25% of the margin in 2007 to 65% in 2010, reaching 82% in September 2011[5] . At the same time, ROA fell steadily, reaching 0.17% in September 2011.

The latest available data (table 2) shows that from September 2010 to September 2011, the ROA (profit after tax as a percentage of total assets) of Spanish deposit institutions decreased by 27.03%, reaching 0.17%. This fall is explained mainly by two factors: i) a reduction of 21.89% in the net interest income; and, ii) the substantial amount of financial asset impairment losses (specific provisions and provisions for foreclosed assets) which absorbed around three quarters of the net operating income.

In sum, the fall in net interest income in 2011 was due primarily to the steep increase in financial costs (21.77%), which greatly surpassed the increase in financial revenues (1.29%).

Exhibit 2: Asset impairment losses as percentage of net operating income and ROA. Spanish deposit institutions



Source: Bank of Spain.

Table 2: Individual income statement for Spanish deposit institutions

Percentage of total assets

	sep-10	sep-11	% Change Sep-10-Sep-11
Financial revenues	2.51%	2.55%	1.29%
-Financial costs	1.33%	1.62%	21.77%
=Net interest income	1.18%	0.92%	-21.89%
+Other operating income	0.88%	0.85%	-3.62%
=Gross income	2.06%	1.77%	-14.10%
-Operating expenses	0.94%	0.91%	-2.69%
=Net operating income	1.12%	0.85%	-23.65%
-Asset impairment losses	0.88%	0.65%	-25.65%
-Provisioning expenses	0.06%	0.13%	124.65%
+Extraordinary items	0.05%	0.04%	-19.69%
=Profit before tax	0.23%	0.11%	-51.57%
Profit for the period	0.24%	0.17%	-27.03%

Source: Bank of Spain.

The steep rise in the average cost of liabilities was due to the closing of the wholesale funding markets, forcing banks to raise the remuneration on their liabilities to allow for maturity of debt. Banks found themselves competing aggressively to capture deposits through higher remunerations, despite the reform of the Deposit Guarantee

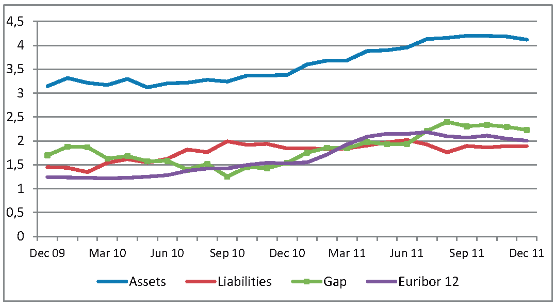
[4] Commercial banks, savings banks and cooperative banks. Data for individual entities, or non consolidated groups only, not taking into consideration foreign subsidiaries of Spanish Banks.

[5] The data for 2011 has been annualized using the information available from the first three quarters.

Fund, which introduced a penalty for banks for offering depositates above a certain threshold relative to the Euribor[6] .

Exhibit 3: Marginal (new business) interest rates of Spanish deposit institutions

Percentage



Source: Bank of Spain.

Although there has been a reduction in the net interest spread for new business, the spread between the marginal interest rate on assets and liabilities almost doubled from September 2010

"The question that remains is whether or not deposit institutions can cover their operating cost with intermediation activity alone"

to August 2011, increasing by 1.15 percentage point (see Exhibit 3). This rise shows that deposit institutions have established more restrictive pricing policies, increasing interest rates applied to loans and the spread on new operations. It is worth pointing out that in the last months of 2011, the spread remained relatively stable.

Table 3 (data for December 2011) shows that the Spanish banking sector sets loan interest rates slightly above the average for the Eurozone banking sectors, in particular with respect to credit to consumption (where the rate of interest in Spain was 30% higher than the European average) and to non-financial corporations between €0.25mn and €1mn (the interest rate in Spain was 16% higher than the Eurozone average). On the other hand, for credit towards home purchases, Spanish interest rates were in line with those of the Eurozone, while Spanish deposit rates remained below the European average, with the exception of deposits from non-financial corporations with agreed maturity of up to 1 year.

Table 3: Bank interest rates (new business) of credit institutions

Percentage

	Spain	Eurozone	Spain / Eurozone
Deposits			
From Households			
Overnight	0.28	0.54	0.52
With agreed maturity up	2.73	2.78	0.98
From non-financial corporations			
Overnight	0.61	0.65	0.94
With agreed maturity up	2.10	1.50	1.40
Loans			
To Households			
Revolving loans and	5.34	8.38	0.64
Extended credit card	20.45	17.08	1.20
For consumption floating	6.86	5.27	1.30
For house purchase at	3.47	3.48	1.00
To non-financial corporations			
Revolving loans and	4.13	4.66	0.89
Up to €0.25mn and up to	5.45	5.17	1.05
Over €0.25mn and up to	5.11	4.58	1.16
Over €1mn and up to 1	3.86	3.76	1.03
Up to €1mn at floating	5.06	4.47	1.13
Over €1mn at floating	3.29	3.15	1.04

Source: European Central Bank.

Although the increased spread on new operations could work to improve the net interest margin, other factors, such as the loss of income related to the increase in doubtful and foreclosed assets are having a stronger negative effect. Moreover, the high volume of outstanding variable rate mortgages loans (€656bn in September 2011), with a very narrow spread relative to the Euribor, generates an insufficient volume of interest revenues compared to the current cost of financing[7] . In fact, in many cases, the current interest rate differential on such loans is very small or even negative.

In addition to falling net interest income, there was also a fall of 3.62% in the percentage that other operating income (commissions and gains/losses on financial assets and liabilities) represents in total assets, which further explains

[6] Since June 2011, the penalty consists of multiplying by five the base on which the contribution to the Deposit Guarantee Fund is applied. The thresholds at which the penalty applies are: for deposits up to 3 months, if the interest rate exceeds 3-months Euribor by 150 basis points (bp); for deposits between 3 and 12 months, if the interest rate exceeds 6-months Euribor by 150 bp; for time deposits of more than 12 months if the interest rate exceeds 12-months Euribor by 100 bp; and for sight deposits, if the interest rate exceeds 1-month Euribor by 100 bp.

[7] See in a more detailed analysis in Maudos, J. (2011). "El sector bancario español en el contexto internacional: el impacto de la crisis", Spanish Savings Banks Foundation (FUNCAS).

the fall in gross income. A breakdown of the data reveals that reduced gains, and in some cases losses, on financial assets and liabilities explains the reduction in other operating income, even while commissions increased.

Operating expenses decreased by 2.69% from September 2010 to September 2011, which means deposit institutions were making an effort to reduce costs and that the ongoing process of savings banks' restructuring was beginning to bear fruit. In fact, the savings banks involved in restructuring processes recorded a 5.5% fall in operating expenses between June 2010 and June 2011, largely achieved through the correction of excess installed capacity. Thus, since the onset of the restructuring process of the Spanish banking system in September 2008 through September 2011, 5,461 branches have been closed and employment in deposit institutions has fallen (with a cumulative fall of 5% up to the end of 2010). This correction has brought the number of branches in line with end-2004 levels and the number of employees in line with 2006 levels.

Nevertheless, cost reduction efforts are clearly insufficient to counteract the decline of gross income. In fact, the cost to income ratio increased from 46% in September 2010 to 52% in September 2011, indicating deterioration in efficiency. For this reason, net operating income continued to fall, with a reduction of 23.65% over the period.

So the question that remains is whether or not deposit institutions can cover their operating costs with intermediation activity alone. The question raises a valid concern. In 2011, the interest margin (as a percentage of total assets) was only 1 basis point (bp) higher than operating expenses, while in 2010 the difference was 14 bp. Such a low interest margin, a consequence of the high cost of liabilities, compels banks to reduce their operating costs through the correction of excess installed capacity.

As demonstrated previously, in a context of a crisis characterized by reduced GDP growth and an increase in non-performing loan rates, deposit institutions have to dedicate a very large part of their net operating income to account for asset deterioration, which explains the fall in profitability levels. Although in 2011 there was a fall in financial asset impairment losses chargeable to the profit and loss account, such assets continue to represent a high percentage of total assets (0.65%). Nevertheless, given the fall in net operating income, the percentage of this margin that must be devoted to provisions remains high (76.48%).

Moving forward with restructuring and integration

On the basis of comparative data from 2007 through 2010, we can conclude that the Spanish banking sector was more resilient to the crisis - its pre-crisis profitability levels falling less than those of the Eurozone banking sectors on average.

Nevertheless, as was the case for the European banking sector overall, the high percentage of net operating income that had to be devoted to provisioning for troubled assets (non-performing loans, substandard loans and foreclosed assets) explains the steep fall in the profitability levels of the Spanish banking sector. Additional profitability declines that occurred in 2011 were also due to increased financial costs, a consequence of more restrictive international capital markets conditions, which resulted in a fall of 22% in net interest income.

In the future, the anticipated contraction of 2012 GDP (-1.5% according to the Bank of Spain and -1.7% according to the Spanish Government) and the likely adherence of the ECB to loose monetary policy, will continue to exert downward pressure on Spanish banking sector profitability.

In the context of a negative growth outlook, the non-performing loan ratio will likely continue to increase from its current level (7.6% in December 2011), which will force banks to continue to direct a large portion of their margins to balance sheet clean-up. On a related note, the necessary process of private sector deleveraging is expected to negatively affect credit demand, and thus the profitability of the banks, for the coming years. Finally, the recently approved regulation for an additional €52bn in real estate provisions to be set aside before 2012[8] will reduce profitability

[8] For banks that proceed with a merger, the time frame to have these provisions in place will be extended to the end of 2013.

levels, albeit necessary to restoring investors' trust.

In the case of a persistent low interest rate environment, the expected fall in reference interest rates will adversely affect net interest margins. In addition, the closure of wholesale funding markets and high debt maturities in 2012 (about € 131bn) will exert upward pressure on funding costs. A decline in the cost of liabilities will only be possible with the credible resolution of the sovereign debt crisis, a necessary condition to unlock wholesale funding markets.

In this context, banks must continue their cost containment strategies in an effort to improve efficiency, making even further advances to reduce spare capacity and rationalize structures. To be able to fully take advantage of economies of scale, further acceleration of the financial restructuring process and integration will be needed. Furthermore, banks will be forced to improve their interest margin by increasing the differentials charged on new operations, as well as increasing the relative weight of other revenue sources (such as fees and commissions), particularly given that the relative weight of non-interest revenues in Spain is below that of the European average (35% of total revenues in Spain vs. 42% in the EU-15). Nevertheless, despite the increase of margins on new operations, the growth of non-interest-earning problematic assets that will occur in the coming months as a consequence of the recession will likely lead to a contraction of the interest margin in 2012, yet again negatively impacting the profitability of the Spanish Banks.

Regional Government Deficit during the Crisis: Falling revenues and delayed fiscal consolidation

FUNCAS

In 2011, Autonomous Communities missed deficit targets agreed in the context of the EU Stability Pact. The explanation can be found not only in delayed consolidation but also from the negative impact of the crisis on revenues

Regional government fiscal slippage primarily explains Spain's deviation from its 2011 deficit target. Delays in the regional governments' fiscal consolidation process, together with the negative impact of the crisis on their revenues, have resulted in most of the autonomous communities missing their deficit targets for 2011. However, fiscal performance differs across the regions, suggesting underlying economic conditions and policies also vary substantially.

Spain has faced considerable fiscal pressure at all levels of government since the onset of the crisis in 2008. In Spain, the central government accounts for 20.9% of expenditure, the Social Security system for 29.9%, the regional governments for 35.6% with the rest accounted for by the local entities. Given that a large part of public expenditure is in the hands of the regions, analysts and the media have focused on regional governments' fiscal performance since the beginning of the crisis.

The regional government deficit, stood at 0.2% of GDP in 2007. As the crisis unfolded, the deficit rose to 1.6% of GDP in 2008, to 2.0% in 2009, and to 2.9% in 2010 and 2011. Last year, the Total Public Sector deficit reached 8.5% of GDP. The central government deficit was 5.1% of GDP, the Social Security deficit was 0.1% of GDP, and the local entities recorded a deficit of 0.4% of GDP. Therefore, the regional governments are responsible for approximately one third of the Spanish deficit, similar to their share in total public expenditure[1].

Revenues declined by one fifth since the onset of the crisis and investment was reduced by 30%, but labour costs and other operating expenditures continued to rise.

The crisis has had a very considerable impact on regional government revenue (Table 1). Non-financial revenue of the regional governments fell by 20.3% over the period from 2007 (pre-crisis) through 2011. Most of this decline in revenue can be attributed to a decline in tax receipts, which in 2011 accounted for 95.5% of total revenue.

On the expenditure side, the regional governments responded by reducing investment expenditure, but between 2007 and 2011, current expenditure continued to grow. Non-financial expenditure rose by 6.4%[2] (Table 2). The trend in regional

[1] Ministry of Finance and Public Administration budget figures have been used to analyze regional government fiscal performance during the crisis. The budget data differ from the ESA data, but reflect most significant activity. See: http://www.minhap.gob.es/esES/Estadistica%20e%20Informes/Estadisticas%20territoriales/ Paginas/Estadisticas%20Territoriales.aspx

[2] This increase includes 0.5% due to transfers of power to the regional governments made between 2008 and 2011 amounting to €774.87mn in 2007 values. See: http://www.seap.minhap.gob.es/es/areas/politica_autonomica/traspasos/datos_basicos.html

Table 1: Non-financial revenue of the regional governments

Revenue	Rights recognised 2007	Rights recognised 2011	Rate of change 2007-2011
1 . Direct taxes	30,445,309.09	39,872,567.56	30.96%
2 . Indirect taxes	53,014,046.21	46,882,070.25	-11.57%
3 . Levies, public prices and other revenue	4,549,294.92	4,768,888.94	4.83%
4 . Current transfers	62,283,527.06	28,228,258.22	-54.68%
5 . Financial revenue	966,308.75	705,324.26	-27.01%
Current income	**151,258,486.03**	**120,457,109.23**	**-20.36%**
6 . Disposal of investments	347,202.64	177,704.83	-48.82%
7 . Capital transfers	6,665,444.92	5,475,455.39	-17.85%
Capital income	**7,012,647.56**	**5,653,160.22**	**-19.39%**
Non-financial income	**158,271,133.59**	**126,110,269.44**	-20.32%

Source: Ministry of Finance and Public Administrations. Data in € thsd. and percentages.

government expenditure can largely be attributed to the evolution of current expenses, which have risen by 14.4% since 2007. By contrast, over the four years of budgetary outcomes during the crisis period, expenditure relating to capital .expenses fell by 30.0%.

Table 2: Non-financial expenditure of the regional governments

Expenditure	Obligations recognised 2007	Obligations recognised 2011	Rate of change 2007-2011
1 . Staff costs	48,956,613.82	57,377,013.53	17.20%
2 . Current expenditure on goods & services	25,210,027.03	27,344,473.64	8.47%
3 . Interest expenses	2,167,356.77	4,555,498.43	110.19%
4 . Current transfers	39,460,692.17	43,212,962.13	9.51%
Current expenses	**115,794,689.79**	**132,489,947.73**	**14.42%**
6 . Investment	12,421,316.04	7,660,765.67	-38.33%
7 . Capital transfers	13,666,855.92	10,060,134.79	-26.39%
Capital expenses	**25,327,931.93**	**17,720,900.47**	**-30.03%**
Non-financial expenses	**141,122,621.72**	**150,210,848.20**	**6.44%**

Source: Ministry of Finance and Public Administrations. Data in € thsd. and percentages. For 2007, certain adjustments have been made to local financial intermediaries and EAGF funds for standardisation purposes.

To better understand these figures, some further disaggregation is required. Exhibit 1 breaks regional government revenue down into two sub-groups: i) Regional taxes and levies revenue, and ii) Autonomous Regions´ Financing System. The revenue in the first group is managed and regulated by the regional governments and is directly linked to regional economic activity. The second group includes a share of national taxes collected in the region - 50% of personal income tax (IRPF), 50% of value added tax (VAT) and 58% of excise duties (II.EE.)- plus transfers to regions from the central government.

Exhibit 1: Current revenue

(€ million)

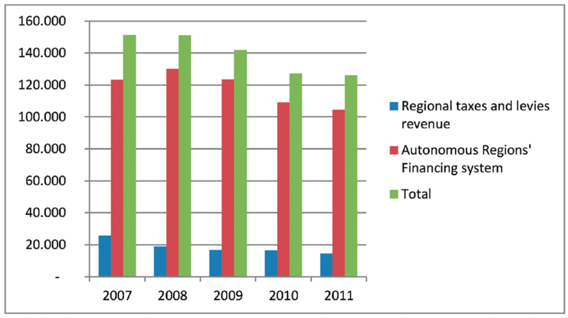
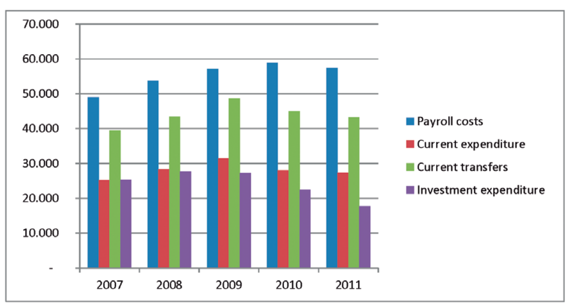


Exhibit 1 shows that of the €32.1bn that the regional governments have "lost" in total revenue since 2007, €11.3bn was regional taxes and levies revenue, which has declined by 44.1% during the crisis. The remaining €20.8bn was comprised of reductions related to the Autonomous Regions' Financing system (€18.6bn), which fell by 15.1% and other revenues (€2.2bn), which include capital income.

Exhibit 2 tracks annual expenditure performance in the period 2007-2011. Despite the crisis, payroll costs continued to rise through 2010, declining only in 2011 as a result of the measures adopted by the central government [3].

Exhibit 2: Expenditure

(€ million)



Expenditure on purchases of goods and services began to decelerate in 2010 and declined further in 2011. Current transfers followed a similar trend, beginning their slowdown in 2010 and

[3] Royal Decree Law 8/2010 of 20 May 2010, adopting extraordinary measures to reduce the public deficit, and 2011 General State Budget Law 39/2010.

continuing to decline in 2011. Lastly, investment expenditure peaked in 2008 at €27.6bn and has fallen by almost €10bn since then. In short, regional government expenditure cuts were long overdue and expenditure remained above 2007 levels.

There are significant differences in fiscal performance across the regions.

Table 3 displays the balance of financial activity of the regional governments in terms of Net Lending (+) or Borrowing (-) Requirement as a percentage of regional GDP, broken down by region.

In terms of the national total, the regional government deficit in 2011 was a repeat of the 2010 figure (2.94% in both years). Non-financial expenditure declined by 4.5%, but to a lesser degree than the decline in non-financial revenue, down 6.1%. Overall, almost all of the regional governments missed the established official deficit target of 1.3%.

Table 3: Net Lending/Borrowing Requirement as a percentage of regional GDP

Region	2007	2008	2009	2010	2011
ANDALUSIA	0.38	-1.01	-1.62	-3.12	-3.22
ARAGON	-0.16	-0.99	-1.71	-2.94	-2.88
ASTURIAS	0.03	-0.79	-1.56	-2.73	-3.64
BALEARIC ISLANDS	-1.95	-3.32	-3.29	-4.09	-4.00
BASQUE COUNTRY	1.09	-1.22	-4.02	-2.49	-2.56
CANARY ISLANDS	0.14	-0.82	-1.09	-2.35	-1.78
CANTABRIA	-0.03	-1.15	-3.40	-3.01	-4.04
CASTILE-LA MANCHA	-0.37	-2.64	-4.53	-6.07	-7.30
CASTILE-LEON	-0.20	-0.99	-1.69	-2.32	-2.35
CATALONIA	-0.62	-2.62	-2.43	-4.28	-3.72
EXTREMADURA	0.49	-1.22	-1.96	-2.51	-4.59
GALICIA	0.18	-0.36	-0.98	-2.34	-1.61
LA RIOJA	-1.00	-1.28	-0.91	-3.01	-1.97
MADRID	0.00	-0.75	-0.43	-0.73	-1.13
MURCIA	-0.11	-2.76	-2.57	-4.83	-4.33
NAVARRA	1.06	-4.80	-2.97	-3.11	-1.89
VALENCIA	-1.22	-2.08	-3.11	-3.60	-3.68
NATIONAL TOTAL	**-0.16**	**-1.56**	**-2.00**	**-2.94**	**-2.94**

Source: Ministry of Finance and Public Administrations. Base 2000 for 2007 regional GDP; base 2008 thereafter.

A comparison of how the regional governments have performed during the crisis reflects significant differences. In 2007, pre-crisis, eight regional governments were running a balanced budget or surplus. By 2011, all 17 of Spain's regional governments recorded a deficit, ranging from 1.13% in the case of Madrid to 7.30% in the case of Castile-La Mancha. Nevertheless, in 2011, various autonomous regions reduced their deficit by a considerable amount (Canary Islands, Catalonia, Galicia, La Rioja and Murcia) initiating the necessary fiscal consolidation effort. Madrid, for its part, although increasing its deficit with respect to 2010, is the region with the lowest deficit, below the target established for the regions for 2011.

Taking into account the entire period (2007-2011), regions may be divided into three groups according to their fiscal performance: (i) those whose deficit was below the national average for all five years: Aragon, Canary Islands, Galicia and Madrid, representing 30.1% of national GDP, (ii) those whose deficit was above the national average for at least four years: Balearic Islands, Castile-La Mancha, Catalonia, Valencia and Murcia[4] , representing 36.9% of national GDP; and, (iii) those whose deficits remained around the national average throughout the period: Andalusia, Asturias, Cantabria, Castile-Leon, Extremadura, Navarra, Basque Country and La Rioja, representing 33% of national GDP.

For 2012, the government has established a deficit target for Spain as a whole of 5.3% of GDP and, pending the final decision, the deficit target for the regions will be 1.5% of GDP. This implies a significant correction of the deficit, which will have to be reduced by 3.2% of which 1.4% corresponds to the regions.

[4] All of the Autonomous regions in this group recorded a deficit above the national average for 5 years with the exception of Murcia, which exceeded the national average for 4 years.

BOX: BILL FOR BUDGETARY STABILITY AND FINANCIAL SUSTAINABILITY

The government has presented a Budget Stability and Financial Sustainability Bill implementing the reform of the Spanish Constitution from September 2011, which introduced a ceiling on the level of public deficit and debt. The main objective of this bill is to increase international confidence in the stability of the Spanish economy and to strengthen Spain's commitments to the European Union.

The new legislation is a reform of the existing Spanish legislation in effect since 2001. It introduces the following main new features:

a) The structural deficit will be prohibited as of 2020. Under the constitutional pact, the deficit ceiling was to be established at each point in time by the European Union. The new rule is, therefore, even more demanding than the Constitution itself. Nevertheless, there is an exception that would permit a structural deficit of up to 0.4% of GDP.

b) The volume of public debt is capped in accordance with the terms of the Constitution, which in turn were linked to the provisions established in the Treaty of the European Union.

c) The new Law includes an "expenditure rule" which was already applicable at the national (State) level and is now extended to all other levels of government (regional and local).

d) Neither the structural deficit nor the public debt ceiling will apply until 2020. Accordingly, until then, the deficit target will be set in line with the consolidation path agreed upon between the European Commission and Spain.

e) With a view to enhancing fiscal policy coordination with the regional and local governments, the control mechanisms are strengthened, similar to the system established in recent European legislation. A number of improvements are included at the preventive stage which will help increase fiscal discipline at the regional and local government levels.

f) At the corrective stage, the existing mechanisms are maintained (rebalancing plans, authorisation of long-term debt by tranche, limits on pacts and subsidies). The most notable new feature is that any form of non compliance with the rebalancing plan will automatically prompt the creation of a deposit in the amount of 0.2% of regional GDP. This deposit will be cancelled if and when correction measures are adopted; failing this, it will be converted into a fine.

g) Moreover, the central government is authorised to monitor the activities of any regional government that fails to comply. Until now, only the State auditors held this power, which is now extended to the Executive.

h) The new legislation includes considerable improvements in transparency; many of these measures were already being applied in practice, but they will now acquire legal status.

i) Lastly, the establishment of an expenditure ceiling and creation of a budget contingency fund to enhance management at all three levels of government becomes mandatory.

In short, although other improvements that had been considered have been put on hold for the time being, such as, for example, strengthening the role of coordination mechanisms with the regional governments, the new legislation (in the process of parliamentary approval) provides the Government with an appropriate tool to coordinate and meet fiscal policy targets similar to those being adopted in other EU countries.

The February 2012 Spanish Labour Market reform

Miguel Á. Malo

Addressing some of the main structural flaws and challenges of the Spanish labour market

The February 2012 labour market reform seeks to address some of the main structural problems of the Spanish labour market that have fuelled the huge rise in Spain´s unemployment since the onset of the crisis. The reform introduces changes in dismissals legislation that should decrease dismissal costs overall, as well as reduce "duality" (i.e. the gap between firing costs of permanent and temporary workers that has resulted in a disproportionate increase in temporary contracts). The reform also allows firms greater internal flexibility, encouraging adjustment through variables other than firing in times of economic downturn. Although not yet definitively approved by the Parliament, as it currently stands, the reform facilitates adjustment in wages and working conditions, making adjustment through layoffs less attractive.

How did we get to this situation?

At the beginning of 2007, the male unemployment rate in Spain was approximately 6% and the female rate was near 11%. In a similar vein, the male and female employment rates at that time were close to 65% and 43%, respectively. By 2011, the unemployment rates had sky rocketed to 21%-22% for both genders and the employment rates had fallen to around 52% for males and 42% for females.

Over this period, Spain, like the rest of the world, was negatively impacted by the external shock of the Lehman Brothers collapse in the summer-autumn of 2008. Additionally, in the autumn-winter of 2007, the country also began facing the fallout from a domestic shock related to the end of a speculative property-market bubble, affecting house prices and the construction sector.

The extremely poor performance of the Spanish labour market could be explained by two distinct factors. First, unfortunate circumstances - Spain was hit by two simultaneous, but diverse shocks within a very short period of time and second, inadequate labour market regulation.

Let us focus on the consequences of the property market shock. As employment in the construction sector is predominantly male, this would explain the relatively worse evolution of male employment rates with respect to female ones. In fact, the traditional gap in the unemployment rate of men relative to women has become almost non existent. It is worth highlighting that some of the largest increases in employment by occupation in the period 1996-2007 were concentrated in those occupations related to construction and some of the largest decreases in employment in the period 2007-2010 were also concentrated in the same sector. For details, see the following link (in Spanish).

Nevertheless, other European countries such as Iceland or Ireland have also suffered speculative bubbles ending shortly before the onset of the financial crisis. These countries have not experienced such a pronounced increase in their unemployment rates (See Exhibits 1 and 2 in the linked report). The crucial difference between these countries and the Spanish case is the high reliance of Spanish firms on employment adjustment measures instead of on those related to adjustments in wages or working hours - a consequence of Spanish Labour market regulation.

In Spain, the most important form of flexibility in the labour market is provided by the temporary contract. In fact, Spain is a clear example within the European Union of a dual labour market. Temporary contracts are used by firms not only in response to adjust to seasonal and temporary demand for labour, but they are also used by firms for screening purposes (as a sort of extended probationary period), as well as ways to facilitate rapid and "cheap" means of adjustment in the face of negative shocks. As is usually the case, adjustment under the temporary contract is less expensive as compared to other forms of adjustment, especially dismissals of workers with

The development of a dual labour market was based on the existence of a relevant gap in firing costs between temporary and open-ended contracts.

open-ended contracts. Therefore, the development of a dual labour market is based on the existence of a relevant gap in firing costs between temporary and open-ended contracts. For example, the firing costs for temporary contracts have ranged from 8 to 12 days of wages per year worked, while for open-ended contracts, the severance payment for fair dismissals on economic grounds is 20 days of wages per year worked. However, the strategic use of dismissal legislation by firms and workers has resulted in the severance payment for unfair dismissals serving as the reference point, and the most frequently applied payment in dismissal cases, even in those cases that never make it to court (for further details, see the linked report).

Prior to the latest reform, the severance payment for unfair dismissals was usually 45 days of wages per year worked (and 33 for some open-ended contracts to be described later). Why have Spanish firms been so prone to agree on such elevated severance payments? Because the whole bureaucratic firing process was limited to 2 days in the case that the dismissal was recognized as unfair. Moreover, firms also eluded to some relevant additional costs (such as intervening wages). This speedy process was widely known as 'express dismissal'. Under this model, workers lost legal protection provided by the Labour Law (as fair cause for dismissals became irrelevant in practice), but in return they obtained a much larger severance payment. Therefore, if we were to adhere to the dismissal costs stipulated by the Labour Law, the gap in firing costs would be 8 days of wages per year worked (20 for open-ended contracts versus 12 for temporary contracts). However, in practice, the gap was actually 33 days of wages per year worked (45 versus 12, respectively).

Moreover, Spanish collective bargaining has not allowed for much flexibility in terms of rapid adjustment in wages and working hours in response to shocks. Wage agreements contain a significant amount of time inertia. Therefore, firms rely on the most rapid way of adjustment - termination of temporary contracts. As the lack of flexibility in other variables is anticipated by firms, usually they have a sort of 'buffer' of workers hired under temporary contracts in the event of the need for a sudden adjustment in response to a downturn of the business cycle.

Therefore, the social and political debate has been focused on how to change labour market regulation in order to decrease 'duality' and to allow for a faster adjustment to the business cycle that does not rely so much on quantities (i.e., termination of temporary contracts and dismissals) but rather on other forms of adjustment such as wages, working hours, irregular distribution of working hours, etc.

Dismissals

Tables 1 and 2 include a synthesis of severance payments and dismissal requirements, respectively, before and after the labour market reform of February 2012. For additional legal details about the strategic use of dismissal regulation (described below) and the so-called 'express dismissal', see also the linked paper.

A key difference (in the 2012 reform versus that of 2010) is the inclusion of an explicit numeric threshold to be used to support dismissals on the grounds of firms' economic problems.

In the case of individual dismissals, new wording is introduced with respect to economic grounds for dismissals. In fact, the new definition closely follows the definition introduced in the labour market reform implemented in 2010 by the previous government. However, a key difference is the inclusion of an explicit numeric threshold to be used to support dismissals on the grounds of firms' economic problems. This threshold consists of declines over a 9 month period in a company's income or sales. This is relevant because on these grounds, the corresponding severance payment is 20 days of wages per year worked. After the 2010 reform, which contained a similar definition but did not include an explicit numerical threshold to define firms' economic problems, there was in fact a decrease in 'express dismissals' (i.e. those dismissals resolved in 2 days according to Act 45/2002, see Table 1) of around 10 percentage points with respect to total dismissals (and a corresponding increase in dismissals on economic grounds of around 8 percentage points). Presumably, this new change in the definition of economic grounds would help to decrease significantly the strategic use of dismissal regulation, which is the main reason behind the gap between firing costs in Spain.

In addition, the severance payment for unfair dismissals has been homogenized for all open-ended contracts to 33 days of wages per year worked (with a maximum of 24 months of salary). Previously, there were two different severance payments for unfair dismissals. The most frequent case corresponded to ordinary open-ended contracts, with an unfair dismissal severance payment of 45 days of wages per year worked (with a maximum of 42 months of salary). From 1997 to 2012, there has been in existence another open-ended contract with 33 days of wages per year worked in case of unfair dismissal (with a maximum of 24 months of salary). Therefore, the labour market reform has decreased the maximum severance payment in unfair dismissals for all workers, including the ordinary open-ended contracts. Notice that even in the event that the reform fails to eliminate the distorted use of dismissals regulation, this change of severance payments for unfair dismissals would decrease the dismissal costs (and, thus, close the gap in firing costs).

The 2012 reform has also eliminated the legal procedure for 'express dismissals' (see Table 2). Therefore, the government implicitly considers that the reform will be so effective in promoting the use of fair dismissals on economic grounds that the previous method of express dismissals will no longer be needed.

Finally, and in line with fiscal austerity measures, the new reform clarifies how the Public Administration and public companies can use the definition of economic grounds for dismissals when they need to decrease their staff. Before this reform, such dismissals were theoretically possible, but in practice, there were problems and limitations to the use of the definition of economic dismissals, as it was mainly conceived for use by private firms.

With respect to collective dismissals, the most remarkable change is that previous authorization from the Public Administration has been eliminated.

With respect to collective dismissals, the 2012 legal reform has addressed some bureaucratic aspects of the legal procedure (reducing costs). However, the most remarkable change is that previous authorization from the Public Administration has been eliminated. Many labour market experts noted that previous authorization requirements increased the bargaining power of workers' representatives when bargaining with a firm regarding severance payments, as consensual collective dismissals rapidly obtained authorization and thus could be easily executed. Therefore, since eliminating the authorization requirement increases the bargaining power of firms as does the new definition of fair economic grounds for dismissals, which also applies to collective dismissals, we can assume that severance payments in collective dismissals will also decrease.

Therefore, the changes in dismissals legislation may decrease firing costs and, in addition, decrease the firing cost gap between open-ended and temporary contracts. As an additional result, strategic use of dismissals legislation will have a smaller impact on dismissal costs.

Internal flexibility

Another set of legal changes tries to encourage adjustment in variables other than the termination of temporary contracts or dismissals of workers with open-ended contracts.

First, the legal reform has introduced new regulation on how to change working conditions in the firm in the face of an economic downturn. These changes can be considered either collective or individual using the same thresholds as for dismissals (see Table 1 or 2 for details on these thresholds). For collective modifications of working conditions, consultation and bargaining with workers' representatives is required. However, under the established thresholds, the employer can make decisions regarding adjustments to working conditions with few limitations. This is a key difference with respect to previous legislation and it is a relevant change to Spanish Labour Law.

With regards to collective bargaining, there are new regulations on the duration of collective agreements. Once their initial duration expires, provided that there is no other agreement in place, the same agreement can be extended only for another two years. Workers will be covered by the next higher level collective agreement (for example, sectoral or inter-sectoral agreements). Previously, there were different time limits in place, but in practice, failure to reach agreement usually led to the extension of the previous agreement, with few limitations. Presumably, this change will reduce the time inertia of wages at the macro level.

There is also new regulation on opting out of the sectoral collective agreement in order to obtain more moderate working conditions (usually lower wages) for a specific firm. However, the procedure remains relatively long and complex, with different stages in case of non-agreement.

Presumably, firms will use another new feature of collective bargaining at the company level as de facto opting out with respect to sectoral agreements. After the current reform, the company-level agreement will supersede sectoral agreements regarding wages, working hours and, in general, working conditions. Therefore, firms negatively affected by a sectoral agreement can reach a collective agreement at the firm level and be able to adjust wages and other working conditions to their specific circumstances (if workers' representatives agree, of course). The putting into practice of these changes will presumably create a sort of negotiated opting out, including bargaining with workers.

If these changes are effective, firms will have a wider menu of adjustment variables when facing crises other than the termination of contracts or dismissals alone. Therefore, one of the most negative side effects of a dual labour market (the large variations in employment and unemployment) will be mitigated. On the other hand, adjustment in wages and, in general, in working conditions will be much more frequent than in the past. This will be a very relevant novelty for Spanish industrial relations and, therefore, unions and employers will need some time to adapt to the new rules. Nevertheless, if the legal design of the current reform is clear and unambiguous, labour and legal conflicts will decrease in the medium term.

Active labour market policies

A third component of the 2012 labour market reform is related to active labour market policies: hiring incentives, training and labour market intermediation.

The reform introduces a new contract to be used by small firms hiring new workers. It includes substantial financial incentives in terms of reduced Social Security contributions. This is problematic because there are different assessments of the various hiring incentives schemes implemented in the past showing that, for the most part, these hiring incentives are not effective (see for example the following linked article, in Spanish). Regarding training, the labour market reform establishes a 'right to training' for workers, in order to allow for a minimum level of annual training and for access to training in the face of the risk of firing. However, in the past, the training contract has been scarcely used and did not provide much training for young workers. The new regulation will not drastically change this situation. Finally, measures on labour market intermediation are exclusively related to temporary work agencies. The reform allows these agencies to become private placement services, i.e. private labour market intermediaries, for any type of vacancy (and not only for temporary jobs). There are no measures concerning public employment services.

Active labour market policies have a secondary role in the labour market reform of 2012.

To sum up, in spite of the significant scope for improvement, active labour market policies have a secondary role in the reform of 2012.

Appendix. A brief outline of labour market reforms in Spain (1980-2012)

- 1980 (November). Workers' Charter. Adaptation of the main labour market regulation to the democratic political system (according to the 1978 Constitutional Act).
- 1984. First relevant change in the Workers' Charter: Temporary Contract to Promote Employment (breaking the 'causality principle' linking temporary contracts to temporary tasks and open-ended contracts with permanent tasks of the firm.)
- 1994. Reinstatement of the 'causality principle', regulation of a new type of dismissal (individual economic dismissal), legalization of temporary work agencies and a lot of legal changes affecting collective bargaining regulation.
- 1997. New open-ended contract with lower severance payment for unfair dismissal on economic grounds (33 wage days per seniority year instead of 45) and subsidies for open-ended contracts.
- 2002. 'Small' change in unemployment assistance law affecting dismissals procedures (no changes in the Workers' Charter) with a huge impact on the bureaucratic management of dismissals. This is the origin of the so-called 'express dismissal', finished in 48 hours if the firm 'recognises' that the dismissal was unfair.
- 2006. New (and more focused) subsidies for open-ended contracts.
- 2010. Labour market reform affecting different features of dismissals, collective bargaining, contracts and financial subsidies (especially for less-skilled young unemployed workers), and enhancing possibilities for private labour market intermediation of temporary work agencies.
- 2011. Emergency (short-term) Plan. (i) Programme for improving transitions toward stable employment promoting part-time work, including relevant decreases in contributions of the firm to Social Security. (ii) Professional re-training for those exhausting unemployment insurance and assistance, combining a subsidy for the worker and active measures. (iii) Mixed actions for individualised counselling (in public employment services) and training for unemployed workers.
- 2012. The new government elected at the end of December 2011 launches a new labour market reform in February 2012. This labour market reform affects to dismissal costs for open-ended contracts (see Table 2 for a synthesis of these changes) and internal flexibility, giving more discretion to the employer about working conditions and introducing prevalence of collective agreements at firm level respect to agreements at above levels. Active policies focus on financial incentives (rather generalised, especially for small firms), and not on labour market intermediation by public employment services (as the 2011 Emergency Plan). The new piece of legislation enhances the role of Temporary Work Agencies as full private labour market intermediaries for all types of contracts (and not only temporary contracts). A new 'training right' for workers is included in the labour market reform, but it heavily depends on further legal development.

Table 1. Monetary costs, requirements and procedures for dismissals in Spain before the labour market reform of February 2012 (synthesis)

		Monetary Costs (Number of days wages per year worked in the firm)	*Procedures (requirements and time periods)*
Individual dismissal†	Misbehaviour (disciplinary grounds)	Fair: 0. Unfair: 45 (maximum: 42 months of salary).	* Letter explaining dismissal reasons. * Advance notice is not required. * 'Express dismissal'. After Act 45/2002, when the employer accepts the dismissal as unfair in 48 hours after presenting the dismissal letter and provides the worker with severance payment for unfair dismissal, the employer will not have to pay any additional amount, even if the worker files a successful suit for unfair dismissal.
	Economic dismissal ('objective grounds')	- Fair: 20 (max. 12 months of salary). - Unfair: * Ordinary open-ended contracts: 45 (max. 42 months of salary). * Open-ended contracts for employment promotion (created in 1997): 33 (max. 24 months de salary).	* Letter explaining dismissal reasons. * Advance notice: 15 days (Act 35/2010). The employer can replace the advance notice with the corresponding wage. * 'Express dismissal'. After Act 45/2002, when the employer accepts the dismissal as unfair in 48 hours after presenting the dismissal letter and provides the worker with severance payment for unfair dismissal, the employer will not have to pay any additional amount, even if the worker files a successful suit for unfair dismissal. * Act35/2010 Act (labour market reform of 2010) introduced new wording for economic grounds in order to facilitate fair economic dismissals.
Collective dismissal	*Expediente de Regulación de Empleo* (ERE)	Minimum: 20. Maximum: Not fixed by law.	* Definition: Dismissals on economic grounds affecting at least: - 10 workers in firms with less than 100 workers. - 10% in firms between 100 and 300 workers. - 30 in firms with more than 300 workers. * There is a mandatory bargaining period between the firm and workers' representatives (bargaining issues include severance payments and the number of dismissals). * Public Administration must give previous authorization to the collective dismissal (in case of agreement between firm and workers the authorization is straightforward). The firm can apply for authorization even in case of disagreement.

† Individual economic dismissals can affect different workers at the same time below the threshold of collective dismissals (ERE). NOTE: Adapted from Table 1 in the linked report.

Table 2. Monetary costs, requirements and procedures for dismissals in Spain after the labour market reform of February 2012 (synthesis)

		Monetary Costs (Number of days wages per year worked in the firm)	*Procedures (requirements and time periods)*
Individual dismissal†	Misbehaviour (disciplinary grounds)	Fair: 0. Unfair: 33 (maximum: 24 months of salary).	* Letter explaining dismissal reasons. * Advance notice is not required. * The procedure for dismissals according to Act 45/2002 Act ('express dismissal') has been abolished.
	Economic dismissal ('objective grounds')	- Fair: 20 (max. 12 months of salary). - Unfair: * All open-ended contracts: 33 (max. 24 months of salary).	* Letter explaining dismissal reasons. * Advance notice: 15 days (Act 35/2010). The employer can replace the advance notice with the corresponding wage. * The procedure for dismissals according to Act 45/2002 ('express dismissal') has been abolished. * The RDL 3/2012 (labour market reform of 2012) introduced a new and even more precise and detailed wording for economic grounds in order to facilitate fair economic dismissals. This definition includes an explicit threshold of 9 months of decline in firm income and sales.
Collective dismissal	*Expediente de Regulación de Empleo* (ERE)	Minimum: 20. Maximum: Not fixed by law.	* Definition: Dismissals on economic grounds affecting at least: - 10 workers in firms with less than 100 workers. - 10% in firms between 100 and 300 workers. - 30 in firms with more than 300 workers. * There is a mandatory bargaining period between the firm and workers' representatives (bargaining issues include severance payments and the number of dismissals). * Previous authorization from Public Administration is no longer required.

† Individual economic dismissals can affect different workers at the same time below the threshold of collective dismissals (ERE).

Recent Key Developments in the Area of Spanish Financial Regulation

Prepared by the Regulation and Research Department of the Spanish Confederation of Savings Banks (CECA)

Royal Decree-Law on urgent budgeting, tax and financial measures (Royal Decree Law 20/2011, published in the Spanish Official Gazette – Boletín Oficial del Estado – of December 31st, 2011)

This regulation reforms the legal and regulatory regime for institutional protection schemes and for the indirect exercise of savings banks' financial business activities. The main new features are:

A) Reform of the legal and regulatory regime for Savings Banks ("Cajas")

Spanish savings bank will be transformed into a special character foundation when it ceases to control (individually or collectively) the banking entity (previously the savings bank had to hold at least 50% of the capital of the instrumental bank).

B) Granting of new state guarantees

The maximum amount of state guarantees to be provided during 2012 will be approximately €196bn. From these, €100bnwill be directed towards new issuance of bank bonds, €3bn towards asset-backed fixed income securities issued by SPVs and €93bn towards ensuring the economic obligations committed to the European Financial Stability Facility.

C) Introduction of extraordinary tax measures

The aim of these measures is to generate an additional income of €6.2 mn for the reduction of the public deficit. They include:

a) Personal Income Tax

The introduction of a complementary, temporary and progressive taxation

b) Real Estate Value Tax

The tax rate for urban real estate will increase during 2012 and 2013. This measure is temporary and exceptional.

c) Value Added Tax

The application of the reduced VAT rate of 4% to housing is extended until December 31st, 2012.

Order from the Spanish Ministry of Economy and Competitiveness on the requirements to grant state guarantees for new bond issuance (Order ECC 149/2012 published in Spanish Official Gazette – Boletín Oficial del Estado – of February 1st, 2012)

This regulation determines the necessary requirements for provision of Spanish state guarantees for new bond issuance by Spanish credit entities, provided that they carry out significant business activity. The Order also stipulates procedural aspects, guarantee fees, and terms related to the usage of the guarantees granted.

The most important features of the Order are:

- Guarantee application form. State guarantees may be requested, before February 6th, 2012, by credit entities, credit entities' consolidating groups or credit entity groupings, provided that they carry out significant business activity.

- Procedures for the granting of guarantees. Credit entities will need an authorisation from the European Commission and the guarantees have a limited duration (the deadline for completion of guaranteed issuance is June 30th, 2012). This deadline may be extended by the Commission.
- Interest rate. The interest rate on the prospective guaranteed issuance may be fixed or floating.
- Issuance amount. The amount of each issuance should be a minimum of €10bn.
- Fees. A guarantee fee of 0.5% should be payable for the requested amount, which will be discounted from the underwriting fee payable by the issuing institution.
- The guarantee is granted for the requested amount, provided that the maximum guarantee amount for the applying entity is not exceeded.

Royal Decree-Law on the clean up of the financial sector (Royal Decree-Law 2/2012, published in the Spanish Official Gazette – Boletín Oficial del Estado – of February 4th, 2012)

Last February 4th, 2012, the Royal Decree-Law 2/2012 of February 3rd, 2012, on the clean up of the financial sector, entered into force. Its main objective is to clean up the credit entities' balance sheets in order to improve the confidence, reliability and strength of the Spanish financial system. The reform seeks to facilitate the entities access to capital markets and, in short, the regulation envisions the return of credit entities to their fundamental role - to channel savings to the real economy.

The major features are:

D) MANDATORY CLEAN UP

- **Affected portfolio**

  The exposures linked to real estate development up to December 31st, 2011, and the exposures subsequently arising from their refinancing.

- **Appointment by portfolio**

  The estimated impact of the measure is €52bn, as stated by the Spanish Ministry of Economy and Competitiveness. This amount can be disaggregated into: new specific provisions for impaired assets; additional general provisions for performing assets with exposure to real estate development; and an additional capital add-on.

- **Proceedings**

  The new provisions (both general and specific) should be accounted for by the income statement; while the capital add-on may come from eligible items, such as capital.

- **Deadline**

  December 31st, 2012. (For banks that opt for consolidation/merger, the time frame to have these provisions in place will be extended until the end of 2013.)

B) CONSOLIDATION PROCESSES

The credit entities that enter new consolidation processes (or have done so after September 1st, 2011), will benefit from the following incentives:

- They will have an extended deadline to meet new provisioning requirements, until the end of 2013.
- They will have access to the Spanish Fund of Orderly Bank Restructuring (FROB) support, through the issuance of convertible instruments – which would constitute basic equity or "capital principal".

However, in order to benefit from these incentives, some requirements must be met:

- Upon the completion of the consolidation process, the resulting entity must reflect an increase of, at least, 20% relative to the balance sheet of the largest entity participating in the consolidation process.
- The consolidation process must entail an operation leading to a structural modification (merger, takeover, etc.); or

the purchase of entities owned mainly by the FROB.

- The entity must submit an application for authorisation, including a compliance plan, before December 31st, 2012.
- A plan of real estate divestments during the three years following the consolidation must be presented.
- The entity must make the commitment of reaching a measureable objective of increasing credit to households and SMEs during the three years following the consolidation.
- The entity must adopt corporate governance measures as well as a Board of Directors and senior managers compensation plan.

C) SPANISH SAVINGS BANKS' CORPORATE GOVERNANCE

Modifications in the Royal Decree-Law 11/2010 of July 9th, 2010, published in the Spanish Official Gazette – Boletín Oficial del Estado – of July 13th, 2010, on the governing bodies and legal and regulatory regime of the savings banks are as follows:

- **Spanish savings banks' indirect exercise of financial business activities**
  - The governing bodies will be the General Assembly, Board of Directors and, optionally, the Control Committee. The number of members in the governing bodies and the frequency of their meetings will be established in the Caja's statutes (with the aim of reduction in frequency).
  - A savings bank under an indirect exercise agreement must not dedicate more than 10% of its unrestricted profits to cover operating expenses.
  - A savings banks under an indirect exercise agreement will also be exempt from certain obligations (mainly organizational and reporting), as most of the requirements are expected to be covered by the new banking entity.
  - The savings bank will be transformed into a foundation when it ceases to hold at least 25% of the voting rights in the entity through which the savings bank performs the activities of a credit institution.
  - The savings bank's General Assembly will approve, together with the arrangement of transformation into a foundation, its statutes and the composition of its Board of Trustees.
  - The government will supervise and control all such foundations whose main scope exceeds a single autonomous community in Spain (measured based on the scope of the instrumental bank activities).
- **Conditions for entities in a institutional protection scheme**

  When the ownership of assets and liabilities is transferred to the central entity of an institutional protection scheme, the savings banks participating in the process will be understood to be under the regime for indirect performance in virtue of the Royal Decree-Law 11/2010.

D) REMUNERATION OF SENIOR MANAGERS AND DIRECTORS IN ENTITIES SUPPORTED BY THE SPANISH FUND OF ORDERLY BANK RESTRUCTURING (FROB)

This regulation establishes limitations to both fixed and variable remunerations of the Board of Directors and senior managers within entities supported by the FROB, differentiating FROB 1 (based on the issuance of preference shares) and FROB 2 (based on the issuance of common shares).

Royal Decree-Law on urgent measures to reform the labour market (Royal Decree-Law 3/2012, published in the Spanish Official Gazette – Boletín Oficial del Estado – of February 11th, 2012)

Together with the concrete measures related to the labour market, this Royal Decree-law includes a specific regime which limits the termination benefits for senior managers and the Board of Directors of credit entities, applicable to entities that are primarily owned by the FROB.

Additionally, several rules are established regarding the termination and suspension of the contract of managers and directors when the termination or suspension is due to (1) sanctions, (2) suspension, or (3) certain situations of provisional substitution.

TABLE 1.- National accounts: GDP and main expenditure components SWDA*

Forecasts in shadow

				Gross fixed capital formation								
					Construction							
	GDP	Private consum-ption	Public consum-ption	Total	Total	Housing	Other construc-tions	Equipment & others products	Exports	Imports	DOMESTIC DEMAND (a)	Net exports (a)
Chain-linked volumes, annual percentage changes (1)												
2001	3,7	3,5	4,0	4,8	7,1	6,7	7,6	0,7	4,2	4,5	3,9	-0,2
2002	2,7	2,8	4,6	3,4	6,2	6,1	6,2	-1,9	2,0	3,7	3,3	-0,6
2003	3,1	2,9	4,8	5,9	6,5	7,6	5,3	4,5	3,7	6,2	3,9	-0,8
2004	3,3	4,2	6,2	5,1	5,4	5,2	5,5	4,4	4,2	9,6	4,9	-1,7
2005	3,6	4,1	5,5	7,1	6,7	6,4	7,1	8,0	2,5	7,7	5,2	-1,7
2006	4,1	4,0	4,6	7,1	6,7	6,6	6,8	8,3	6,7	10,2	5,5	-1,4
2007	3,5	3,5	5,6	4,5	2,4	1,4	3,6	10,0	6,7	8,0	4,3	-0,8
2008	0,9	-0,6	5,9	-4,7	-5,8	-9,1	-1,6	-2,1	-1,0	-5,2	-0,6	1,5
2009	-3,7	-4,3	3,7	-16,6	-15,4	-22,1	-7,6	-19,4	-10,4	-17,2	-6,6	2,8
2010	-0,1	0,8	0,2	-6,3	-10,1	-9,9	-10,4	3,2	13,5	8,9	-1,0	0,9
2011	0,7	-0,1	-2,2	-5,1	-8,1	-4,9	-11,2	1,2	9,0	-0,1	-1,8	2,5
2012	-1,7	-1,9	-4,1	-7,5	-8,6	-5,8	-11,3	-5,6	2,4	-4,2	-3,7	2,0
2009 I	-3,5	-5,5	5,7	-15,3	-13,7	-21,9	-3,7	-19,0	-16,1	-22,3	-6,2	3,1
II	-4,4	-5,7	4,6	-19,3	-16,1	-24,0	-6,5	-26,9	-15,2	-23,3	-7,6	3,6
III	-4,0	-3,9	3,3	-16,9	-16,0	-22,1	-9,2	-19,0	-9,1	-15,2	-6,1	2,5
IV	-3,1	-2,2	1,4	-14,6	-15,8	-20,1	-11,2	-11,9	-0,4	-6,7	-4,8	2,0
2010 I	-1,3	0,0	0,6	-9,8	-12,2	-13,9	-10,4	-3,8	11,9	6,3	-2,3	1,1
II	0,0	1,5	1,0	-4,3	-9,4	-10,0	-8,8	9,3	15,3	14,5	0,1	-0,1
III	0,4	0,8	0,2	-5,5	-9,5	-8,7	-10,4	4,4	11,8	7,0	-0,7	1,1
IV	0,7	0,8	-0,9	-5,4	-9,3	-6,5	-11,8	3,4	14,9	8,0	-0,9	1,6
2011 I	0,9	0,4	0,6	-4,9	-9,2	-5,8	-12,4	4,8	13,1	6,0	-0,8	1,7
II	0,8	-0,3	-2,1	-5,4	-8,1	-5,2	-10,8	0,3	8,8	-1,3	-1,8	2,7
III	0,8	0,5	-3,6	-4,0	-7,0	-4,1	-9,7	2,1	9,2	0,9	-1,4	2,2
IV	0,3	-1,1	-3,6	-6,2	-8,2	-4,3	-11,9	-2,3	5,2	-5,9	-2,9	3,2
2012 I	-0,9	-1,3	-5,5	-7,6	-9,0	-5,8	-12,0	-5,2	3,3	-5,5	-3,5	2,6
II	-1,7	-2,0	-4,4	-8,0	-9,7	-5,9	-13,4	-4,9	3,2	-4,3	-3,9	2,3
III	-2,2	-2,5	-3,2	-8,7	-9,4	-6,3	-12,3	-7,6	0,1	-6,6	-4,3	2,2
IV	-2,1	-1,9	-3,3	-5,5	-6,1	-5,1	-7,0	-4,6	3,1	-0,1	-3,1	1,1
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate (1)												
2009 I	-6,4	-8,7	2,9	-22,8	-19,4	-28,3	-9,3	-31,0	-27,4	-35,5	-10,5	4,7
II	-3,9	-2,4	1,4	-23,0	-18,5	-22,2	-14,6	-33,5	6,3	-8,2	-7,2	3,7
III	-1,3	-0,2	1,3	-2,8	-11,0	-13,0	-9,0	22,1	31,1	31,1	-0,5	-0,8
IV	-0,5	2,7	0,1	-8,1	-13,9	-15,9	-12,0	7,5	-2,7	-2,4	-0,5	0,0
2010 I	0,6	-0,2	-0,5	-3,7	-4,7	-3,5	-5,9	-1,7	15,7	8,6	-0,9	1,6
II	1,0	3,7	3,1	-2,4	-7,8	-7,0	-8,4	10,6	19,6	23,6	2,2	-1,2
III	0,3	-2,8	-1,7	-7,6	-11,5	-7,8	-14,9	1,6	15,9	0,2	-3,6	3,9
IV	0,9	2,7	-4,2	-7,9	-12,9	-7,7	-17,7	3,5	8,7	1,2	-1,1	2,0
2011 I	1,5	-2,0	5,5	-1,7	-4,5	-0,4	-8,3	3,6	8,4	0,5	-0,6	2,0
II	0,7	0,8	-7,4	-4,5	-3,2	-4,8	-1,5	-7,1	2,7	-6,8	-2,1	2,9
III	0,2	0,5	-7,8	-1,7	-7,0	-3,2	-10,6	9,3	17,3	9,6	-1,8	2,0
IV	-1,2	-3,9	-4,3	-16,0	-17,4	-8,8	-25,4	-13,4	-6,1	-23,4	-6,8	5,7
2012 I	-3,1	-2,6	-2,6	-7,7	-7,7	-6,2	-8,8	-8,0	0,5	2,1	-3,0	-0,1
II	-2,6	-2,1	-2,9	-6,2	-6,3	-5,4	-7,3	-5,9	2,5	-1,9	-3,9	1,4
III	-1,8	-1,6	-3,1	-4,6	-5,5	-4,7	-6,4	-2,9	4,0	-0,9	-3,3	1,6
IV	-0,7	-1,2	-4,4	-3,5	-4,7	-4,0	-5,4	-1,5	5,5	0,4	-2,3	1,6
	Current prices (EUR billions)	**Percentage of GDP at current prices**										
2000	629,9	59,7	17,1	25,8	16,6	9,0	7,6	9,3	29,1	32,2	103,1	-3,1
2001	680,4	59,1	17,0	26,0	17,3	9,4	7,9	8,8	28,5	31,1	102,5	-2,5
2002	729,3	58,3	17,1	26,3	18,1	9,9	8,2	8,2	27,3	29,4	102,1	-2,1
2003	783,1	57,6	17,3	27,2	19,1	10,7	8,4	8,1	26,3	28,7	102,4	-2,4
2004	841,3	57,9	17,8	28,1	20,0	11,3	8,8	8,0	25,9	29,9	104,0	-4,0
2005	909,3	57,8	18,0	29,4	21,2	11,9	9,2	8,3	25,7	30,9	105,3	-5,3
2006	985,5	57,4	18,0	30,6	22,2	12,5	9,7	8,4	26,3	32,7	106,4	-6,4
2007	1053,2	57,4	18,3	30,7	21,9	12,2	9,7	8,8	26,9	33,6	106,7	-6,7
2008	1087,7	57,2	19,5	28,7	20,2	10,8	9,4	8,4	26,5	32,3	105,8	-5,8
2009	1047,8	56,1	21,3	24,0	17,1	8,3	8,8	6,9	23,9	25,7	101,9	-1,9
2010	1051,3	57,7	21,1	22,9	15,5	7,5	8,0	7,4	27,0	29,1	102,1	-2,1
2011	1073,4	58,3	20,3	21,7	14,0	6,9	7,1	7,7	30,1	30,7	100,6	-0,6
2012	1065,6	58,7	19,4	20,2	12,8	6,3	6,4	7,4	31,7	30,3	98,6	1,4

(a) Contribution to GDP growth for Domestic Demand and Net Export.
*Seasonally and Working Day Adjusted
Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

TABLE 2.- National accounts: Gross value added by economic activity (SWDA)*

Forecasts in shadow

	Gross value added at basic prices												
					Services								
	Total	Agriculture, foresty and fishing	Manufac-turing, energy and utilities	Construc-tion	Total	Trade, transport, accommo-dation and food services	Information and communi-cation	Finance and insurance	Real estate	Profes-sional, business and support services	Public adminis-tration, education, health and social work	Arts, enter-tainment and other services	Taxes less subsidies on products
Chain-linked volumes, annual percentage changes													
2001	3,7	-2,0	3,3	7,8	3,6	2,7	7,7	7,2	2,6	3,8	2,9	4,2	3,0
2002	2,6	0,4	0,2	6,2	2,9	2,1	5,5	7,2	3,6	0,9	2,7	3,1	3,6
2003	2,7	-0,7	1,5	4,6	3,0	1,8	3,8	4,7	3,1	2,4	4,1	3,2	6,6
2004	3,1	-2,6	0,8	4,2	3,8	3,9	3,6	10,4	2,1	1,4	3,5	4,0	5,1
2005	3,3	-8,4	1,0	5,5	4,1	2,2	5,2	13,0	2,4	6,9	3,6	4,6	6,2
2006	4,2	5,5	1,7	5,0	4,6	3,1	2,7	13,4	2,2	10,3	3,8	3,0	3,4
2007	3,8	7,0	0,5	1,8	5,0	4,3	3,4	11,9	2,8	8,0	4,5	2,2	1,0
2008	1,0	-2,7	-1,7	-0,2	2,2	0,4	1,5	2,8	1,9	1,6	5,1	1,8	-0,3
2009	-3,6	-1,4	-10,9	-8,0	-0,9	-2,4	-1,2	-3,8	-1,0	-3,1	2,9	-0,3	-5,4
2010	0,0	-1,1	0,6	-7,8	1,4	0,9	1,2	6,6	1,5	0,4	1,6	-3,2	-1,2
2011	0,6	0,6	1,9	-3,8	1,1	1,5	0,7	-1,0	1,1	2,5	1,0	-1,8	1,7
2012	-1,7	0,1	-2,3	-4,8	-1,0	-2,1	-1,0	-0,8	-1,2	-0,9	0,2	0,2	-2,3
2009 I	-3,4	-2,6	-8,4	-6,2	-1,6	-3,8	-1,9	-3,0	-2,4	-3,0	3,2	-1,6	-4,6
II	-4,4	-2,3	-13,7	-7,6	-1,4	-3,4	-2,0	-5,4	-1,3	-3,6	3,5	-0,5	-5,1
III	-3,7	-0,9	-12,9	-9,1	-0,3	-2,1	-1,8	0,0	-0,4	-2,7	3,3	1,3	-7,1
IV	-2,9	0,3	-8,4	-8,9	-0,4	-0,1	0,8	-6,7	-0,1	-3,0	1,7	-0,3	-4,8
2010 I	-1,3	-1,1	-1,6	-8,9	0,3	-0,5	-0,9	1,8	0,0	-0,2	1,4	-1,9	-1,1
II	0,0	-1,3	2,3	-8,7	1,2	1,1	2,7	6,4	0,6	0,0	0,6	-2,6	-0,6
III	0,4	-1,5	0,6	-7,6	2,0	1,5	2,2	10,0	0,9	0,7	2,0	-3,4	-0,9
IV	0,9	-0,3	1,3	-5,9	2,2	1,4	0,7	8,9	4,4	1,3	2,6	-4,8	-2,2
2011 I	0,9	1,1	3,0	-4,9	1,4	2,7	1,2	-4,7	2,6	3,1	1,2	-3,1	1,2
II	0,7	0,5	2,3	-3,2	1,0	2,0	-0,4	-2,3	1,0	1,7	1,4	-3,8	2,5
III	0,8	0,4	2,8	-3,2	1,0	0,9	0,9	-0,1	1,3	2,8	1,0	-1,1	1,3
IV	0,1	0,3	-0,4	-3,7	0,9	0,3	1,1	3,5	-0,3	2,6	0,3	0,7	2,0
2012 I	-0,7	-1,3	-3,1	-4,0	0,5	-0,9	0,0	1,5	1,3	0,8	1,6	0,9	-2,8
II	-1,5	0,3	-3,3	-5,0	-0,6	-2,2	-1,4	-0,1	-0,1	0,7	0,5	2,0	-3,3
III	-2,3	1,1	-2,2	-5,2	-2,0	-2,5	-0,7	-2,8	-2,4	-2,9	-0,9	-1,1	-0,9
IV	-2,1	0,4	-0,6	-5,1	-2,0	-2,9	-1,7	-1,7	-3,7	-2,0	-0,5	-0,8	-1,9
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2009 I	-5,9	5,9	-23,1	-10,0	-0,7	-2,8	5,6	27,3	-5,1	-13,6	0,6	-2,4	-11,6
II	-3,6	-2,5	-12,5	-8,6	-0,4	-2,4	-3,5	-20,9	6,1	3,2	6,1	0,7	-7,4
III	-0,9	-1,0	0,3	-8,3	0,2	0,9	-7,3	-12,2	3,3	5,4	1,3	3,7	-5,1
IV	-1,1	-1,1	4,4	-8,9	-0,8	4,1	9,2	-14,3	-4,2	-5,7	-1,2	-3,0	6,0
2010 I	0,5	0,2	2,4	-9,9	2,1	-4,2	-1,1	80,4	-4,5	-3,5	-0,5	-8,3	2,6
II	1,5	-3,4	2,0	-7,6	3,3	4,0	11,1	-5,7	8,4	4,3	3,0	-2,4	-5,2
III	0,8	-1,8	-5,8	-3,8	3,3	2,2	-9,2	0,3	4,6	8,4	7,0	0,4	-6,5
IV	0,9	4,1	7,3	-2,1	0,0	3,6	2,8	-17,6	9,6	-3,6	0,9	-8,4	0,8
2011 I	0,2	5,7	9,4	-5,8	-1,1	0,9	1,3	5,9	-10,7	3,6	-5,5	-1,9	17,4
II	0,8	-5,8	-1,1	-1,0	1,8	1,5	4,3	4,1	1,5	-1,3	3,7	-4,9	-0,3
III	1,3	-2,1	-3,7	-3,9	3,5	-2,2	-4,4	9,7	5,9	13,2	5,2	12,0	-10,8
IV	-1,6	3,8	-5,4	-4,2	-0,5	1,1	3,3	-5,1	3,1	-4,3	-2,0	-1,5	3,8
2012 I	-3,1	-1,0	-2,3	-6,7	-2,8	-4,0	-2,8	-2,2	-5,0	-3,3	-0,3	-1,0	-3,3
II	-2,6	0,5	-1,7	-5,3	-2,4	-3,8	-1,8	-2,0	-4,0	-2,0	-0,6	-1,0	-2,5
III	-1,8	1,0	0,6	-4,5	-2,1	-3,1	-1,6	-1,7	-3,6	-1,8	-0,7	-1,0	-1,4
IV	-0,7	1,0	1,1	-3,7	-0,8	-0,7	-0,5	-1,0	-2,0	-1,0	-0,4	0,0	-0,5
	Current prices (EUR billions)	**Percentage of value added at basic prices**											
2000	569,6	4,2	20,8	10,3	64,7	23,6	4,5	4,6	6,2	6,2	16,0	3,7	10,6
2001	617,5	4,1	20,2	10,9	64,8	23,7	4,5	4,9	6,1	6,3	15,7	3,6	10,2
2002	661,7	3,9	19,5	11,5	65,1	23,8	4,7	4,9	6,1	6,3	15,7	3,6	10,2
2003	707,1	3,8	19,0	12,1	65,1	23,6	4,6	4,8	6,2	6,4	15,9	3,6	10,7
2004	756,4	3,5	18,5	12,7	65,3	23,7	4,5	4,7	6,4	6,4	16,0	3,6	11,2
2005	812,5	3,1	18,2	13,6	65,1	23,2	4,4	4,6	6,7	6,5	16,0	3,6	11,9
2006	876,6	2,7	17,8	14,2	65,4	23,1	4,3	4,7	6,8	6,9	16,0	3,5	12,4
2007	946,0	2,7	17,3	13,9	66,1	23,0	4,2	5,3	6,9	7,2	16,1	3,4	11,3
2008	997,0	2,5	17,0	13,6	66,9	23,1	4,1	5,4	6,8	7,3	16,7	3,4	9,1
2009	973,1	2,5	15,7	13,0	68,8	23,4	4,1	5,9	6,4	7,3	18,2	3,6	7,7
2010	961,6	2,6	16,1	11,9	69,3	24,1	3,9	4,5	7,4	7,4	18,4	3,5	9,3
2011	986,2	2,6	16,9	11,5	69,0	24,6	3,8	4,1	7,6	7,5	17,9	3,4	8,8
2012	970,5	2,7	16,9	11,0	69,4	24,3	3,9	4,4	7,8	7,5	17,9	3,6	9,8

Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

TABLE 3a.- National accounts: Productivity and labour costs (I)

Forecasts in shadow

	Total economy						Manufacturing Industry					
	Gross value added, constant prices	Employ-ment (jobs, full time equivalent)	Employ-ment productivity	Compen-sation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employ-ment (jobs, full time equivalent)	Employ-ment productivity	Compen-sation per job	Nominal unit labour cost	Real unit labour cost (a)
	1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
	Indexes, 2000 = 100, SWDA											
2005	117,4	115,5	101,7	117,9	115,9	94,3	105,5	95,7	110,1	122,3	111,0	96,2
2006	122,2	119,5	102,2	122,4	119,7	93,5	107,4	93,4	114,9	130,5	113,5	95,1
2007	126,4	123,1	102,7	128,2	124,7	94,3	107,8	91,1	118,3	139,9	118,3	95,7
2008	127,6	122,8	103,9	135,9	130,8	96,6	104,6	89,4	117,1	147,4	125,9	97,4
2009	122,8	114,9	106,9	141,8	132,6	97,9	91,8	77,4	118,7	150,3	126,6	98,0
2010	122,7	111,8	109,7	141,8	129,2	95,0	92,3	72,8	126,8	152,7	120,4	91,6
2011	123,6	109,5	112,8	143,0	126,8	91,9	94,6	70,6	133,9	155,4	116,1	84,8
2012	121,5	105,8	114,8	142,4	124,0	89,0	--	--	--	--	--	--
2009 I	124,0	117,2	105,8	140,6	132,9	97,9	94,5	81,5	116,0	148,8	128,3	100,7
II	122,7	115,2	106,5	141,6	132,9	98,1	90,6	78,0	116,2	149,8	128,9	99,2
III	122,3	114,0	107,3	142,3	132,6	98,0	90,7	75,5	120,1	150,3	125,2	95,4
IV	122,2	113,0	108,1	142,7	132,0	97,5	91,5	74,5	122,9	152,5	124,1	96,6
2010 I	122,4	112,3	108,9	141,7	130,1	96,0	92,6	73,4	126,2	150,8	119,5	91,9
II	122,7	111,9	109,7	142,3	129,8	95,7	92,9	73,1	127,0	152,4	120,0	96,5
III	122,8	111,7	109,9	141,5	128,8	94,6	91,1	72,2	126,3	152,8	121,0	89,4
IV	123,0	111,4	110,5	141,6	128,2	93,8	92,7	72,6	127,7	154,7	121,2	88,9
2011 I	123,5	110,5	111,7	142,5	127,5	92,9	95,8	71,2	134,4	153,1	113,9	85,1
II	123,7	110,4	112,1	143,0	127,6	92,6	95,7	71,4	134,0	154,8	115,5	86,5
III	123,7	109,5	113,0	143,3	126,8	91,8	94,3	70,6	133,5	156,2	117,0	84,5
IV	123,4	107,8	114,5	143,2	125,1	90,4	92,6	69,3	133,5	157,7	118,1	83,0
	Annual percentage changes											
2006	4,1	3,5	0,6	3,9	3,3	-0,8	1,8	-2,4	4,4	6,8	2,3	-1,1
2007	3,5	3,0	0,5	4,7	4,2	0,9	0,3	-2,5	2,9	7,2	4,2	0,6
2008	0,9	-0,2	1,1	6,1	4,9	2,5	-2,9	-1,9	-1,0	5,4	6,5	1,8
2009	-3,7	-6,5	2,9	4,3	1,4	1,3	-12,2	-13,5	1,4	2,0	0,6	0,6
2010	-0,1	-2,6	2,6	0,0	-2,6	-3,0	0,5	-5,9	6,8	1,6	-4,9	-6,5
2011	0,7	-2,0	2,8	0,8	-1,9	-3,2	2,4	-3,0	5,6	1,8	-3,6	-7,4
2012	-1,7	-3,4	1,8	-0,4	-2,2	-3,1	--	--	--	--	--	--
2010 I	-1,3	-4,2	3,0	0,8	-2,1	-1,9	-2,0	-9,9	8,8	1,3	-6,9	-8,7
II	0,0	-2,9	3,0	0,5	-2,4	-2,5	2,5	-6,2	9,3	1,7	-7,0	-2,7
III	0,4	-2,0	2,4	-0,6	-2,9	-3,6	0,5	-4,4	5,2	1,7	-3,3	-6,4
IV	0,7	-1,4	2,2	-0,7	-2,9	-3,8	1,3	-2,5	3,9	1,5	-2,3	-8,0
2011 I	0,9	-1,6	2,6	0,6	-2,0	-3,2	3,4	-2,9	6,5	1,5	-4,7	-7,4
II	0,8	-1,3	2,2	0,5	-1,7	-3,2	3,0	-2,4	5,5	1,6	-3,7	-10,4
III	0,8	-2,0	2,8	1,2	-1,5	-2,9	3,4	-2,2	5,7	2,2	-3,3	-5,4
IV	0,3	-3,3	3,7	1,1	-2,5	-3,6	-0,1	-4,5	4,6	1,9	-2,5	-6,6

(a) Nominal ULC deflated by GVA deflator.
Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 1.- ULC, Total economy
Index, 2000=100

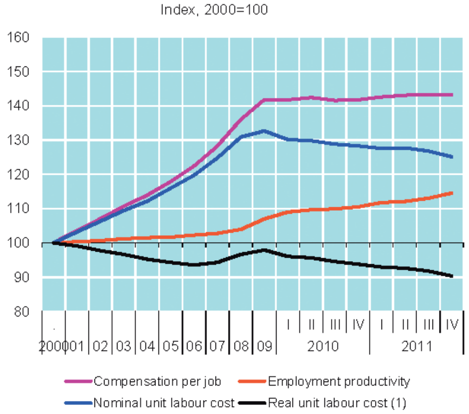


Chart 2.- ULC, Manufacturing industry
Index, 2000=100

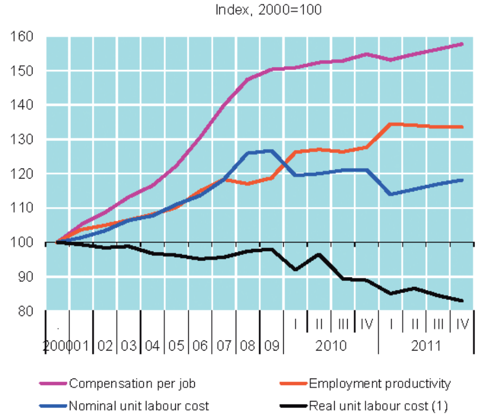


TABLE 3b.- National accounts: Productivity and labour costs (II)

	Construction						Services					
	Gross value added, constant prices	Employ-ment (jobs, full time equivalent)	Employ-ment productivity	Compen-sation per job	Nominal unit labour cost	Real unit labour cost (a)	**Gross value added, constant prices**	Employ-ment (jobs, full time equivalent)	Employ-ment productivity	Compen-sation per job	Nominal unit labour cost	Real unit labour cost (a)
	1	2	3=1/2	4	5=4/3	6	7	8	9=7/8	10	11=10/9	12
							Indexes, 2000 = 100, SWDA					
2005	131,6	130,2	101,1	126,0	124,7	87,2	118,7	120,6	98,4	115,5	117,4	97,1
2006	138,2	138,2	100,0	132,1	132,1	86,2	124,2	126,6	98,1	118,9	121,3	96,9
2007	140,6	145,5	96,6	135,2	139,9	88,1	130,4	131,7	99,0	124,4	125,7	96,6
2008	140,3	128,5	109,1	151,4	138,8	84,2	133,2	135,3	98,4	130,5	132,6	97,6
2009	129,1	99,5	129,7	180,1	138,8	83,1	131,9	131,9	100,0	134,2	134,2	97,4
2010	119,1	87,1	136,6	182,0	133,2	81,0	133,8	130,7	102,4	134,1	131,0	96,9
2011	114,6	74,4	153,9	186,3	121,0	72,0	135,2	130,1	103,9	134,8	129,8	95,0
2009 I	133,5	105,2	126,9	178,4	140,6	84,3	132,1	133,2	99,2	133,1	134,2	97,6
II	130,5	100,7	129,6	180,2	139,1	83,2	131,9	132,0	99,9	134,1	134,1	97,8
III	127,7	96,9	131,8	182,4	138,4	82,5	132,0	131,6	100,3	134,6	134,3	96,9
IV	124,8	95,3	130,9	179,4	137,1	82,3	131,7	130,8	100,7	135,2	134,2	97,4
2010 I	121,6	88,5	137,3	182,4	132,8	79,7	132,4	131,0	101,1	134,3	132,8	97,6
II	119,2	88,7	134,4	182,8	136,0	85,1	133,5	130,5	102,3	134,5	131,5	98,5
III	118,0	87,1	135,5	182,9	135,0	82,2	134,6	130,7	103,0	133,6	129,8	96,2
IV	117,4	84,2	139,5	179,7	128,9	77,3	134,6	130,5	103,1	133,8	129,8	95,4
2011 I	115,7	79,6	145,2	186,6	128,4	75,5	134,2	130,6	102,7	134,5	130,9	95,7
II	115,4	76,5	150,8	188,1	124,8	74,5	134,8	130,9	102,9	134,7	130,8	96,1
III	114,2	72,9	156,7	186,6	119,1	71,6	136,0	130,4	104,2	135,0	129,5	95,1
IV	113,0	68,6	164,7	183,6	111,5	66,1	135,8	128,6	105,6	135,1	128,0	93,2

							Annual percentage changes					
2006	5,0	6,1	-1,0	4,8	5,9	-1,2	4,6	5,0	-0,4	2,9	3,3	-0,2
2007	1,8	5,3	-3,4	2,4	6,0	2,2	5,0	4,0	0,9	4,6	3,7	-0,3
2008	-0,2	-11,7	12,9	12,0	-0,8	-4,4	2,2	2,7	-0,5	5,0	5,5	1,0
2009	-8,0	-22,6	18,9	18,9	0,1	-1,3	-0,9	-2,5	1,6	2,8	1,2	-0,1
2010	-7,8	-12,5	5,3	1,0	-4,1	-2,5	1,4	-0,9	2,4	-0,1	-2,4	-0,5
2011	-3,8	-14,6	12,7	2,4	-9,1	-11,2	1,1	-0,4	1,5	0,5	-0,9	-2,0
2010 I	-8,9	-15,9	8,3	2,2	-5,6	-5,4	0,3	-1,7	1,9	0,9	-1,1	0,0
II	-8,7	-12,0	3,7	1,4	-2,2	2,2	1,2	-1,2	2,4	0,4	-2,0	0,8
III	-7,6	-10,1	2,8	0,2	-2,5	-0,3	2,0	-0,7	2,7	-0,7	-3,3	-0,7
IV	-5,9	-11,7	6,5	0,2	-6,0	-6,0	2,2	-0,2	2,4	-1,0	-3,3	-2,1
2011 I	-4,9	-10,0	5,8	2,3	-3,3	-5,3	1,4	-0,3	1,6	0,2	-1,4	-2,0
II	-3,2	-13,7	12,2	2,9	-8,3	-12,4	1,0	0,4	0,6	0,1	-0,5	-2,5
III	-3,2	-16,3	15,6	2,0	-11,7	-12,9	1,0	-0,2	1,2	1,0	-0,3	-1,2
IV	-3,7	-18,5	18,1	2,2	-13,5	-14,5	0,9	-1,5	2,4	1,0	-1,4	-2,3

(a) Nominal ULC deflated by GVA deflator.
Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 1.- ULC, Construction
Index, 2000=100

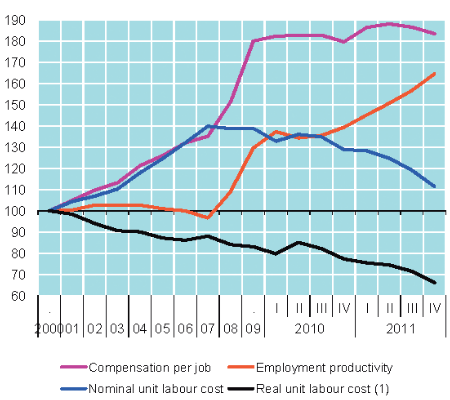


Chart 2.- ULC, Services
Index, 2000=100

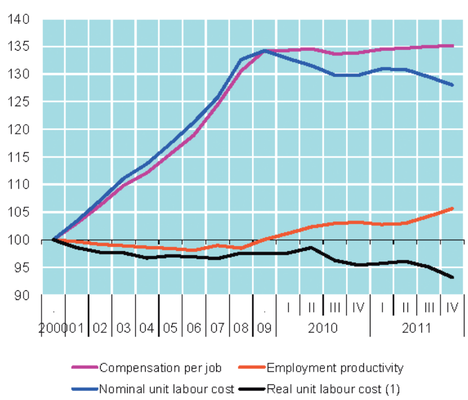


TABLE 4.- National accounts: Net transactions with the rest of the world

Forecasts in shadow

	Goods and services									Saving-Investment-Deficit		
	Total	Goods	Tourist services	Non-tourist services	Income	Current transfers	**Current account**	Capital transfers	**Net lending/ borrowing with rest of the world**	Gross national saving	Gross capital formation	Current account deficit
	1=2+3+4	2	3	4	5	6	7=1+5+6	8	9=7+8	10	11	12=7=10-11
EUR millions, 4-quarter cumulated transactions												
2005	-47902	-67945	28686	-8643	-15748	-4122	-67772	8283	-59489	200803	268575	-67772
2006	-62670	-82502	29922	-10090	-18787	-7420	-88877	6326	-82551	216068	304945	-88877
2007	-70788	-90768	30358	-10378	-27435	-6987	-105210	4345	-100865	221026	326236	-105210
2008	-63282	-85231	30627	-8678	-31764	-9302	-104348	4385	-99963	212312	316660	-104348
2009	-19612	-41493	28276	-6395	-26853	-7331	-53796	4283	-49513	201881	255677	-53796
2010	-22271	-47075	29302	-4498	-19264	-5750	-47285	5517	-41768	197702	244987	-47285
2011	-6399	-40243	32937	907	-27628	-7745	-41772	5546	-36226	194972	236744	-41772
2012	14987	-24893	33773	6107	-33378	-6971	-25362	5502	-19860	192714	218076	-25362
2010 I	-20521	-41965	28260	-6816	-21313	-7674	-49508	4492	-45016	200529	250037	-49508
II	-24926	-46431	28244	-6739	-20381	-6624	-51931	4731	-47200	196781	248712	-51931
III	-23517	-47071	29010	-5456	-20942	-7439	-51898	5798	-46100	194419	246317	-51898
IV	-22271	-47075	29302	-4498	-19264	-5750	-47285	5517	-41768	197702	244987	-47285
2011 I	-22052	-47644	29781	-4189	-21282	-6076	-49410	5962	-43448	194235	243645	-49410
II	-16680	-45089	31040	-2631	-21818	-6014	-44512	6066	-38446	197672	242184	-44512
III	-12193	-43183	32409	-1419	-24993	-5674	-42860	5891	-36969	198014	240874	-42860
IV	-6399	-40243	32937	907	-27628	-7745	-41772	5546	-36226	194972	236744	-41772
Percentage of GDP, 4-quarter cumulated transactions												
2005	-5,3	-7,5	3,2	-1,0	-1,7	-0,5	-7,5	0,9	-6,5	22,1	29,5	-7,5
2006	-6,4	-8,4	3,0	-1,0	-1,9	-0,8	-9,0	0,6	-8,4	21,9	30,9	-9,0
2007	-6,7	-8,6	2,9	-1,0	-2,6	-0,7	-10,0	0,4	-9,6	21,0	31,0	-10,0
2008	-5,8	-7,8	2,8	-0,8	-2,9	-0,9	-9,6	0,4	-9,2	19,5	29,1	-9,6
2009	-1,9	-4,0	2,7	-0,6	-2,6	-0,7	-5,1	0,4	-4,7	19,3	24,4	-5,1
2010	-2,1	-4,5	2,8	-0,4	-1,8	-0,5	-4,5	0,5	-4,0	18,8	23,3	-4,5
2011	-0,6	-3,7	3,1	0,1	-2,6	-0,7	-3,9	0,5	-3,4	18,2	22,1	-3,9
2012	1,4	-2,3	3,2	0,6	-3,1	-0,7	-2,4	0,5	-1,9	18,1	20,5	-2,4
2010 I	-2,0	-4,0	2,7	-0,7	-2,0	-0,7	-4,7	0,4	-4,3	19,2	23,9	-4,7
II	-2,4	-4,4	2,7	-0,6	-1,9	-0,6	-5,0	0,5	-4,5	18,8	23,8	-5,0
III	-2,2	-4,5	2,8	-0,5	-2,0	-0,7	-5,0	0,6	-4,4	18,6	23,5	-5,0
IV	-2,1	-4,5	2,8	-0,4	-1,8	-0,5	-4,5	0,5	-4,0	18,8	23,3	-4,5
2011 I	-2,1	-4,5	2,8	-0,4	-2,0	-0,6	-4,7	0,6	-4,1	18,4	23,1	-4,7
II	-1,6	-4,2	2,9	-0,2	-2,0	-0,6	-4,2	0,6	-3,6	18,6	22,8	-4,2
III	-1,1	-4,0	3,0	-0,1	-2,3	-0,5	-4,0	0,6	-3,5	18,5	22,5	-4,0
IV	-0,6	-3,7	3,1	0,1	-2,6	-0,7	-3,9	0,5	-3,4	18,2	22,1	-3,9

Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 1.- Net lending or borrowing

Percentage of GDP, 4-quarter moving averages

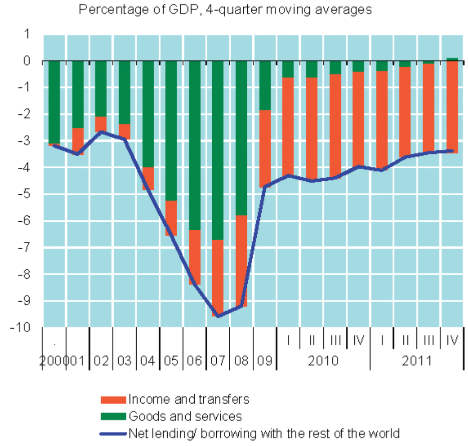


Chart 2.- Saving, investment and current account deficit

Percentage of GDP, 4-quarter moving averages

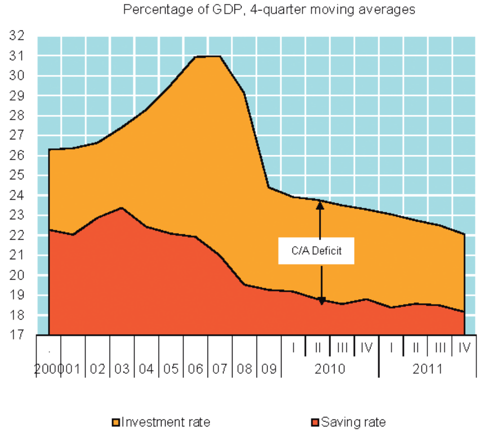


TABLE 5.- National accounts: Household income and its disposition

Forecasts in shadow

	Gross disposable income (GDI)												
	Total	Compensation of employees (received)	Mixed income and net property income	Social benefits and other current transfers (received)	Social contributions and other current transfers (paid)	Personal income taxes	Final consumption expenditure	Gross saving (a)	Saving rate (gross saving as a percentage of GDI)	Net capital transfers	Gross capital formation	Net lending (+) or borrowing (-)	Net lending or borrowing as a percentage of GDP
	1=2+3+4-5-6	2	3	4	5	6	7	8=6-7	9=8/1	10	11	12=8+10-11	13
EUR millions, 4-quarter cumulated operations													
2005	588711	431858	224017	172249	175502	63911	525267	63744	10,8	6919	86540	-15877	-1,7
2006	629812	465827	245149	182613	189572	74205	566151	64546	10,2	6930	97352	-25876	-2,6
2007	671161	503870	262713	197336	206270	86488	604654	69983	10,4	3477	101461	-28001	-2,7
2008	715047	533570	266442	216237	216506	84696	622368	97087	13,6	4837	91076	10848	1,0
2009	721579	519826	254053	232848	209089	76059	588163	133688	18,5	5514	67266	71936	6,9
2010	704613	506738	247344	238761	208625	79605	606911	97985	13,9	6442	64017	40410	3,8
2011	709698	501521	255927	243467	209284	81933	625363	83952	11,8	7473	61524	29902	2,8
2012	701193	482228	264972	246870	205266	87611	625486	76013	10,8	8071	57094	26990	2,5
2010 I	717299	515255	251952	233926	207429	76405	592301	125293	17,5	5349	65831	64811	6,2
II	710094	512643	247491	234925	207254	77711	598164	112375	15,8	4951	65118	52208	5,0
III	704217	509810	244116	236194	207044	78859	600752	103851	14,7	5329	64476	44704	4,3
IV	704613	506738	247344	238761	208625	79605	606911	97985	13,9	6442	64017	40410	3,8
2011 I	705694	505865	249003	239556	209160	79570	612570	93261	13,2	6423	63066	36618	3,5
II	707526	505097	252559	240740	210236	80634	618207	89001	12,6	6982	62534	33449	3,1
III	709076	503523	253818	242034	209134	81165	623229	85439	12,0	7021	62978	29482	2,8
IV	709698	501521	255927	243467	209284	81933	625363	83952	11,8	7473	61524	29902	2,8
Annual percentage changes, 4-quarter cumulated operations									Difference from one year ago	Annual percentage changes, 4-quarter cumulated operations			Difference from one year ago
2005	7,7	7,5	9,5	6,9	7,2	11,3	7,8	6,0	-0,2	-9,9	13,4	–	-0,7
2006	7,0	7,9	9,4	6,0	8,0	16,1	7,8	1,3	-0,6	0,2	12,5	–	-0,9
2007	6,6	8,2	7,2	8,1	8,8	16,6	6,8	8,4	0,2	-49,8	4,2	–	0,0
2008	6,5	5,9	1,4	9,6	5,0	-2,1	2,9	38,7	3,2	39,1	-10,2	–	3,7
2009	0,9	-2,6	-4,6	7,7	-3,4	-10,2	-5,5	37,7	4,9	14,0	-26,1	–	5,9
2010	-2,4	-2,5	-2,6	2,5	-0,2	4,7	3,2	-26,7	-4,6	16,8	-4,8	–	-3,0
2011	0,7	-1,0	3,5	2,0	0,3	2,9	3,0	-14,3	-2,1	16,0	-3,9	–	-1,1
2012	-1,2	-3,8	3,5	1,4	-1,9	6,9	0,0	-9,5	-1,0	8,0	-7,2	–	-0,3
2010 I	-0,1	-2,9	-4,4	5,4	-3,5	-8,0	-3,2	14,1	2,2	-4,0	-22,6	–	3,4
II	-1,5	-2,8	-4,1	3,6	-2,7	-0,2	-0,2	-9,6	-1,4	-10,0	-16,4	–	0,1
III	-2,2	-2,5	-4,5	2,6	-2,0	1,7	1,5	-20,0	-3,3	-6,2	-10,7	–	-1,7
IV	-2,4	-2,5	-2,6	2,5	-0,2	4,7	3,2	-26,7	-4,6	16,8	-4,8	–	-3,0
2011 I	-1,6	-1,8	-1,2	2,4	0,8	4,1	3,4	-25,6	-4,3	20,1	-4,2	–	-2,7
II	-0,4	-1,5	2,0	2,5	1,4	3,8	3,4	-20,8	-3,2	41,0	-4,0	–	-1,8
III	0,7	-1,2	4,0	2,5	1,0	2,9	3,7	-17,7	-2,7	31,8	-2,3	–	-1,5
IV	0,1	-0,4	0,8	0,6	0,1	0,9	0,3	-1,7	-2,1	6,4	-2,3	–	-1,1

(a) Including change in net equity of households in pension funds reserves.

Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 1.- Households: Income, consumption and saving

Annual percentage change and percentage of GDI, 4-quarter moving averages

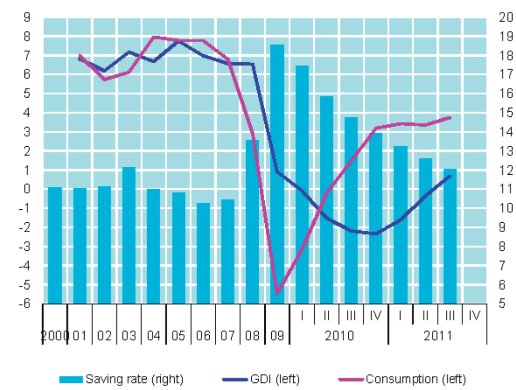
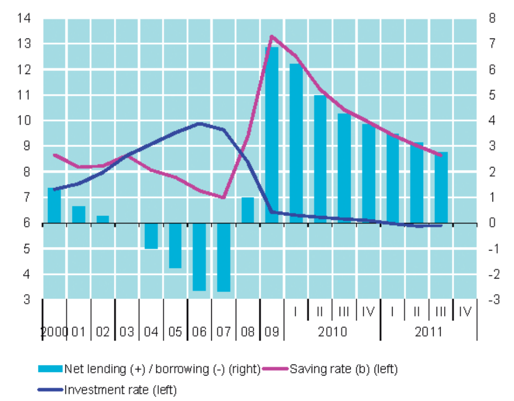


Chart 2.- Households: Saving, investment and deficit

Percentage of GDP, 4-quarter moving averages



(b) Including net capital transfers.

TABLE 6.- National accounts: Non-financial corporations income and its disposition

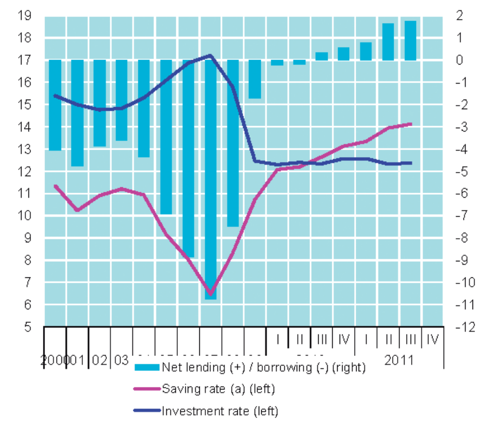
Forecasts in shadow

	Gross value added	Compensation of employees and net taxes on production (paid)	Gross operating surplus	Net property income	Net current transfers	Income taxes	Gross saving	Net capital transfers	Gross capital formation	Net lending (+) or borrowing (-)	Net lending or borrowing as a percentage of GDP	Profit share (percentage)	Investment rate (percentage)
	1	2	3=1-2	4	5	6	7=3+4+5-6	8	9	10=7+8-9	11	12=3/1	13=9/1
	EUR millions, 4-quarter cumulated operations												
2005	428455	274489	153966	-40653	-7858	30055	75400	7884	146232	-62948	-6,9	35,9	34,1
2006	460086	296105	163981	-51598	-8853	33909	69621	9366	166245	-87258	-8,9	35,6	36,1
2007	490264	318228	172036	-62936	-9887	41753	57460	10615	181130	-113055	-10,7	35,1	36,9
2008	519342	334642	184700	-71164	-10377	26110	77049	13393	171796	-81354	-7,5	35,6	33,1
2009	502440	317844	184596	-56246	-9809	20032	98509	13886	130478	-18083	-1,7	36,7	26,0
2010	510473	308504	201969	-51573	-9908	15719	124769	13231	132054	5946	0,6	39,6	25,9
2011	530704	307531	223173	-61809	-10106	14336	136922	13893	129766	21049	2,0	42,1	24,5
2012	512401	291725	220676	-70142	-10208	13275	127051	11809	123510	15350	1,4	43,1	24,1
2010 I	503908	313349	190559	-48882	-9984	19800	111893	14281	128557	-2383	-0,2	37,8	25,5
II	503962	311908	192054	-48562	-10008	19588	113896	13742	129713	-2075	-0,2	38,1	25,7
III	506380	310279	196101	-50423	-10075	17300	118303	14170	129186	3287	0,3	38,7	25,5
IV	510473	308504	201969	-51573	-9908	15719	124769	13231	132054	5946	0,6	39,6	25,9
2011 I	515064	308457	206607	-53036	-9904	15571	128096	12882	132870	8108	0,8	40,1	25,8
II	522894	308733	214161	-54013	-9931	15169	135048	13368	131024	17392	1,6	41,0	25,1
III	526088	308826	217262	-55463	-9391	14987	137421	13569	132311	18679	1,7	41,3	25,1
IV	530704	307531	223173	-61809	-10106	14336	136922	13893	129766	21049	2,0	42,1	24,5
	Annual percentage changes, 4-quarter cumulated operations										Difference from one year ago		
2005	6,5	7,6	4,6	12,4	14,5	23,6	-5,6	-34,8	13,7	--	-2,6	-0,6	2,2
2006	7,4	7,9	6,5	26,9	12,7	12,8	-7,7	18,8	13,7	--	-1,9	-0,3	2,0
2007	6,6	7,5	4,9	22,0	11,7	23,1	-17,5	13,3	9,0	--	-1,9	-0,6	0,8
2008	5,9	5,2	7,4	13,1	5,0	-37,5	34,1	26,2	-5,2	--	3,3	0,5	-3,9
2009	-3,3	-5,0	-0,1	-21,0	-5,5	-23,3	27,9	3,7	-24,1	--	5,8	1,2	-7,1
2010	1,6	-2,9	9,4	-8,3	1,0	-21,5	26,7	-4,7	1,2	--	2,3	2,8	-0,1
2011	4,0	-0,3	10,5	19,8	2,0	-8,8	9,7	5,0	-1,7	--	1,4	2,5	-1,4
2012	-3,4	-5,1	-1,1	13,5	1,0	-7,4	-7,2	-15,0	-4,8	--	-0,5	1,0	-0,3
2010 I	-2,5	-5,4	2,5	-33,7	-1,6	-23,7	47,2	2,6	-19,8	--	6,3	1,9	-5,5
II	-1,3	-4,3	4,1	-29,7	0,5	-21,8	41,6	-0,6	-10,7	--	4,6	2,0	-2,7
III	0,1	-3,5	6,3	-15,8	2,2	-13,7	24,9	5,7	-4,7	--	2,9	2,3	-1,3
IV	1,6	-2,9	9,4	-8,3	1,0	-21,5	26,7	-4,7	1,2	--	2,3	2,8	-0,1
2011 I	2,2	-1,6	8,4	8,5	-0,8	-21,4	14,5	-9,8	3,4	--	1,0	2,3	0,3
II	3,8	-1,0	11,5	11,2	-0,8	-22,6	18,6	-2,7	1,0	--	1,8	2,8	-0,7
III	3,9	-0,5	10,8	10,0	-6,8	-13,4	16,2	-4,2	2,4	--	1,4	2,6	-0,4
IV	4,0	-0,3	10,5	19,8	2,0	-8,8	9,7	5,0	-1,7	--	1,4	2,5	-1,4

Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 1.- Non-financial corporations: Saving, investment and deficit

Percentage of GDP, 4-quarter moving averages



(a) Including net capital transfers.

Chart 2.- Non-financial corporations: Profit share and investment rate

Percentage of non-financial corporations GVA, 4-quarter moving averages

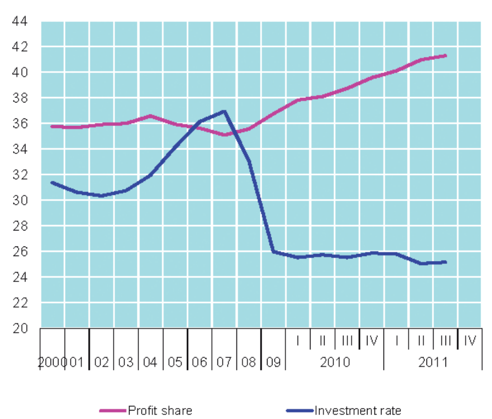


TABLE 7.- National accounts: Public revenue, expenditure and deficit

Forecasts in shadow

	Revenue							Expenditure							Net lending (+) or borrowing (-) (public deficit)
		Current revenue							Current expenditure						
	Total revenue	Total current revenue	Indirect taxes	Direct taxes	Social contributions	Other current revenues	Capital revenue	Total expenditure	Total current expenditure	Public consumption	Interest and other property income	Social payments	Subsidies and others transfers	Capital expenditure	
	1=2+7	2=3+4+5+6	3	4	5	6	7	8=9+14	9=10+11+12+13	10	11	12	13	14	15=1-8
EUR millions, 4-quarter cumulated operations															
2005	361005	353834	112713	100072	117447	23602	7171	349501	304742	163358	16287	105530	19567	44759	11504
2006	401304	394057	123097	116284	127104	27572	7247	377958	328071	177121	16177	112813	21960	49887	23346
2007	433209	427556	122005	137029	136752	31770	5653	412963	355781	193059	16963	122690	23069	57182	20246
2008	402078	399033	106571	116517	143104	32841	3045	450948	391378	212003	17411	136335	25629	59570	-48870
2009	367661	367525	92355	101078	140144	33948	136	484759	422763	223603	18534	153685	26941	61996	-117098
2010	381427	381293	108699	99698	140170	32726	134	479645	426997	221715	20132	160974	24176	52648	-98218
2011	379822	380520	108238	100257	139817	32208	-699	471161	426588	217675	25399	162319	21195	44573	-91339
2012	385948	386724	114171	104580	135438	32535	-776	450949	417853	207257	31538	164924	14134	33096	-65001
2010 I	368228	368140	93195	101076	140157	33712	88	487493	426011	223672	18760	156219	27360	61482	-119265
II	378106	377322	101682	102012	140307	33321	784	487199	426925	224434	18885	157774	25832	60274	-109093
III	382035	381647	107396	100611	139892	33748	388	486632	428958	224320	19633	158920	26085	57674	-104597
IV	381427	381293	108699	99698	140170	32726	134	479593	426945	221715	20132	160974	24124	52648	-98166
2011 I	382887	381782	109551	99452	140172	32607	1105	480105	429410	222653	21433	161281	24043	50695	-97218
II	379010	378634	106267	99972	139910	32485	376	476966	428293	221796	22628	160953	22916	48673	-97956
III	379244	379446	108317	99922	139637	31570	-202	473005	428155	220167	23868	161653	22467	44850	-93761
IV	379822	380520	108238	100257	139817	32208	-699	471161	426588	217675	23850	162319	21195	44573	-91339
Percentage of GDP, 4-quarter cumulated operations															
2005	39,7	38,9	12,4	11,0	12,9	2,6	0,8	38,4	33,5	18,0	1,8	11,6	2,2	4,9	1,3
2006	40,7	40,0	12,5	11,8	12,9	2,8	0,7	38,4	33,3	18,0	1,6	11,4	2,2	5,1	2,4
2007	41,1	40,6	11,6	13,0	13,0	3,0	0,5	39,2	33,8	18,3	1,6	11,6	2,2	5,4	1,9
2008	37,0	36,7	9,8	10,7	13,2	3,0	0,3	41,5	36,0	19,5	1,6	12,5	2,4	5,5	-4,5
2009	35,1	35,1	8,8	9,6	13,4	3,2	0,0	46,3	40,3	21,3	1,8	14,7	2,6	5,9	-11,2
2010	36,3	36,3	10,3	9,5	13,3	3,1	0,0	45,6	40,6	21,1	1,9	15,3	2,3	5,0	-9,3
2011	35,4	35,5	10,1	9,3	13,0	3,0	-0,1	43,9	39,7	20,3	2,4	15,1	2,0	4,2	-8,5
2012	36,2	36,3	10,7	9,8	12,7	3,0	-0,1	42,3	39,2	19,4	3,0	15,5	1,3	3,1	-6,1
2010 I	35,2	35,2	8,9	9,7	13,4	3,2	0,0	46,6	40,7	21,4	1,8	14,9	2,6	5,9	-11,4
II	36,1	36,1	9,7	9,7	13,4	3,2	0,1	46,6	40,8	21,4	1,8	15,1	2,5	5,8	-10,4
III	36,5	36,4	10,2	9,6	13,4	3,2	0,0	46,4	40,9	21,4	1,9	15,2	2,5	5,5	-10,0
IV	36,3	36,3	10,3	9,5	13,3	3,1	0,0	45,6	40,6	21,1	1,9	15,3	2,3	5,0	-9,3
2011 I	36,2	36,1	10,4	9,4	13,3	3,1	0,1	45,4	40,6	21,1	2,0	15,3	2,3	4,8	-9,2
II	35,6	35,6	10,0	9,4	13,1	3,1	0,0	44,8	40,2	20,8	2,1	15,1	2,2	4,6	-9,2
III	35,4	35,5	10,1	9,3	13,0	3,0	0,0	44,2	40,0	20,6	2,2	15,1	2,1	4,2	-8,8
IV	35,4	35,5	10,1	9,3	13,0	3,0	-0,1	43,9	39,7	20,3	2,2	15,1	2,0	4,2	-8,5

Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 1.- Public sector: Current revenue, expenditure and saving

Percentage of GDP, 4-quarter moving averages

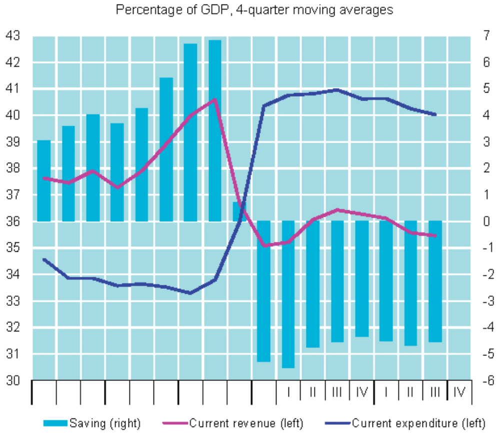
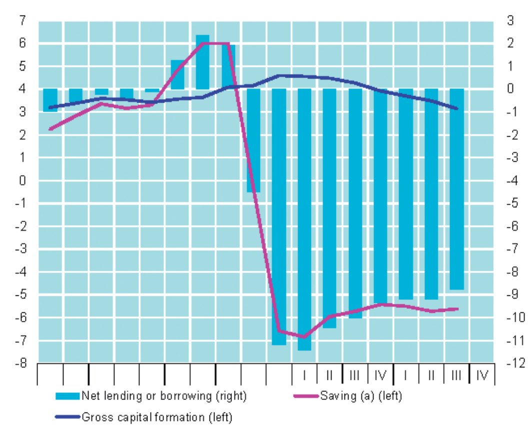


Chart 2.- Public sector: Saving, investment and deficit

Percentage of GDP, 4-quarter moving averages



(a) Including net capital transfers.

TABLE 8.- General activity and industrial sector indicators (a)

	General activity indicators				Industrial sector indicators					
	Economic Sentiment Index	Composite PMI index	Social Security Affiliates	Electricity consum-ption (temperature adjusted)	Industrial production index	Social Security Affiliates in industry	Manufac-turing PMI index	Industrial confidence index	Turnover index deflated	Industrial orders
	Index	Index	Thousands	1000 GWH	2005=100	Thousands	Index	Balance of responses	2005=100	Balance of responses
2007	103,4	54,7	19233	265,8	107,1	2758	53,2	0,5	105,3	3,5
2008	86,3	38,5	19132	269,4	99,3	2696	40,4	-17,9	96,6	-24,0
2009	82,5	40,9	18019	256,3	83,6	2411	40,9	-30,8	78,0	-54,5
2010	92,7	50,0	17667	263,8	84,3	2295	50,6	-13,8	80,7	-36,9
2011	92,6	46,6	17431	260,9	83,1	2232	47,3	-12,5	80,9	-30,7
2012 (b)	92,1	44,5	17134	48,5	80,4	2154	45,0	-14,8	--	-35,7
2010 III	91,9	50,4	17633	66,2	84,0	2285	50,8	-13,5	80,1	-33,6
IV	92,8	48,1	17600	66,3	85,0	2272	50,9	-9,2	81,7	-28,7
2011 I	92,9	50,5	17553	66,2	85,1	2258	51,9	-8,6	82,5	-28,9
II	93,6	50,1	17500	65,9	83,9	2246	48,7	-10,7	81,6	-28,8
III	92,8	45,0	17404	65,3	83,0	2227	44,9	-14,4	81,4	-30,0
IV	91,2	40,7	17262	63,7	81,3	2197	43,8	-16,5	78,5	-35,2
2012 I (b)	92,1	44,5	17134	43,4	81,4	2169	45,0	-14,8	--	-35,7
2011 Nov	91,7	38,2	17257	21,3	80,7	2197	43,8	-16,9	78,1	-35,9
Dic	90,4	42,1	17219	21,1	81,8	2187	43,7	-18,8	79,2	-37,5
2012 Jan	92,2	46,0	17164	21,5	81,4	2176	45,1	-14,8	--	-36,5
Feb	92,0	42,9	17104	21,9	--	2162	45,0	--	--	-34,8
Percentage changes (c)										
2007	--	--	3,0	4,8	2,0	0,6	--	--	1,6	--
2008	--	--	-0,5	1,4	-7,3	-2,2	--	--	-8,3	--
2009	--	--	-5,8	-4,9	-15,8	-10,6	--	--	-19,2	--
2010	--	--	-2,0	2,9	0,8	-4,8	--	--	3,5	--
2011	--	--	-1,3	-1,1	-1,4	-2,7	--	--	0,2	--
2012 (d)	--	--	-2,5	-1,9	-4,2	-3,9	--	--	--	--
2010 III	--	--	-1,3	3,3	-4,5	-3,1	--	--	-3,1	--
IV	--	--	-0,8	0,6	4,6	-2,3	--	--	8,3	--
2011 I	--	--	-1,0	-0,6	0,6	-2,4	--	--	4,1	--
II	--	--	-1,2	-1,8	-5,6	-2,1	--	--	-4,6	--
III	--	--	-2,2	-3,6	-4,3	-3,3	--	--	-0,9	--
IV	--	--	-3,2	-9,2	-7,9	-5,2	--	--	-13,2	--
2012 I (e)	--	--	-2,9	8,8	0,4	-5,0	--	--	--	--
2011 Nov	--	--	-0,3	-0,5	-0,8	-0,5	--	--	-0,4	--
Dic	--	--	-0,2	-0,8	1,4	-0,5	--	--	1,5	--
2012 Jan	--	--	-0,3	1,9	-0,6	-0,5	--	--	--	--
Feb	--	--	-0,3	1,8	--	-0,6	--	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Annualized percent change from the previous quarter for quarterly data, non-annualized percent change from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Annualized growth of the average of available months over the monthly average of the previous quarter.

Sources: European Commision, Markit Economics Ltd., M. of Labour, M. of Industry, National Statistics Institute, REE and Funcas.

Chart 1.- General activity indicators

Percent change from previuos period and index

Chart 2.- Industrial sector indicators

Percent change from previuos period and index

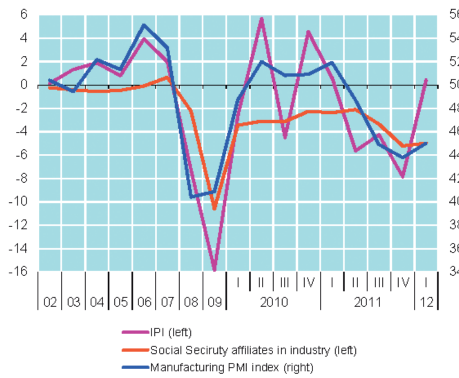


TABLE 9.- Construction and services sector indicators (a)

	Construction indicators						Service sector indicators					
	Social Security Affiliates in construc-tion	Consump-tion of cement	Construc-tion confidence index	Official tenders (f)	Housing starts (f)	Housing permits (f)	Social Security Affiliates in services	Tournover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
	Thousands	1000 Tons	Balance of responses	EUR Billions	Thousands	1000 m2	Thousands	2005=100 (smoothed)	Index	Million	Million	Balance of responses
2007	2601	56,0	8,8	37,4	616,0	125,2	12738	113,4	54,4	271,7	208,6	9,4
2008	2340	42,7	-23,8	38,5	346,0	60,0	12942	109,4	38,2	268,6	202,3	-18,9
2009	1800	28,9	-32,3	35,4	159,3	29,2	12609	94,6	41,0	253,2	186,3	-29,6
2010	1559	24,5	-29,7	21,9	123,6	24,5	12610	95,3	49,3	269,4	191,7	-22,4
2011	1369	20,3	-55,4	11,8	68.3(g)	20,0	12636	94,3	46,5	286,6	203,3	-20,8
2012 (b)	1199	1,1	-51,9	--	--	--	12365	--	44,0	151,3	140,1	-18,0
2010 III	1541	6,3	-27,8	5,0	24,8	5,8	12611	95,5	49,5	67,8	48,3	-24,6
IV	1500	5,3	-41,5	5,4	34,0	5,8	12629	95,2	47,0	68,9	49,2	-28,2
2011 I	1457	5,7	-54,1	3,2	22,8	5,5	12644	95,2	49,6	70,2	50,2	-28,2
II	1403	5,4	-55,4	3,7	27,3	5,3	12657	94,9	50,5	71,2	50,9	-19,1
III	1342	4,9	-58,6	2,7	18,2	5,0	12640	94,1	45,5	71,7	50,9	-14,2
IV	1278	4,3	-53,6	2,2	--	4,1	12595	92,9	40,2	71,5	50,1	-21,8
2012 I (b)	1226	1,4	-51,9	--	--	--	12553	--	44,0	23,8	16,4	-18,0
2011 Nov	1277	1,4	-52,7	1,1	--	1,2	12592	92,9	36,8	23,8	16,7	-20,1
Dic	1258	1,5	-59,1	0,6	--	1,4	12579	92,5	42,1	23,8	16,6	-22,6
2012 Jan	1238	1,4	-58,4	--	--	--	12560	--	46,1	23,8	16,4	-18,0
Feb	1215	--	-45,3	--	--	--	12545	--	41,9	--	--	-15,1
Percentage changes (c)												
2007	5,6	0,2	--	-15,4	-14,9	-22,3	3,4	5,6	--	1,7	9,0	--
2008	-10,1	-23,8	--	2,9	-43,8	-52,1	1,6	-3,5	--	-1,2	-3,0	--
2009	-23,1	-32,3	--	-8,2	-54,0	-51,4	-2,6	-13,5	--	-5,7	-7,9	--
2010	-13,4	-15,4	--	-38,0	-22,4	-16,0	0,0	0,8	--	6,4	2,9	--
2011	-12,2	-17,0	--	-46,1	-23,8	-18,6	0,2	-1,1	--	6,4	6,0	--
2012 (d)	-16,1	-23,3	--	--	--	--	-0,8	--	--	3,5	-3,0	--
2010 III	-10,0	-10,0	--	-36,8	-25,2	-5,8	0,2	-0,8	--	6,3	7,5	--
IV	-10,2	-49,1	--	-35,0	-26,3	-18,8	0,6	-0,9	--	6,9	7,7	--
2011 I	-10,9	31,3	--	-45,4	-28,3	-9,7	0,5	-0,4	--	7,2	7,9	--
II	-14,2	-17,3	--	-34,8	-17,3	-21,8	0,4	-1,3	--	6,1	6,1	--
III	-16,2	-30,5	--	-45,3	-26,6	-14,4	-0,6	-3,2	--	2,8	-0,1	--
IV	-17,7	-39,6	--	-59,3	--	-28,4	-1,4	-5,0	--	-1,0	-6,3	--
2012 I (e)	-15,2	-4,2	--	--	--	--	-1,3	--	--	-1,3	-5,9	--
2011 Nov	-1,8	-5,7	--	-39,5	--	-41,4	-0,2	-0,5	--	-0,2	-0,7	--
Dic	-1,5	3,8	--	-71,0	--	-32,6	-0,1	-0,5	--	-0,2	-0,8	--
2012 Jan	-1,5	-1,5	--	--	--	--	-0,2	--	--	-0,2	-0,8	--
Feb	-1,9	--	--	--	--	--	-0,1	--	--	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Annualized percent change from the previous quarter for quarterly data, non-annualized percent change from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Annualized growth of the average of available months over the monthly average of the previous quarter. (f) Percent changes are over the same period of the previous year. (g) Last available data: September 2011.

Sources: European Commision, Markit Economics Ltd., M. of Labour, M. of Public Works, National Statistics Institute, AENA, OFICEMEN and Funcas.

Chart 1.- Construction indicators
Percentage changes

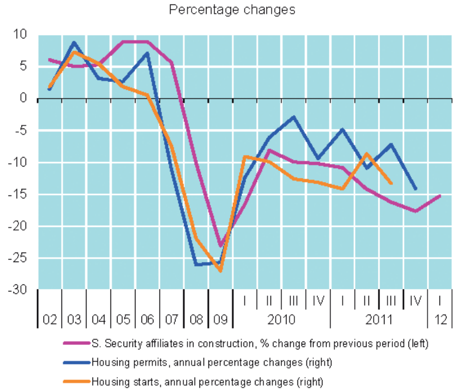


Chart 2.- Services indicators
Percentage changes from previous period and index

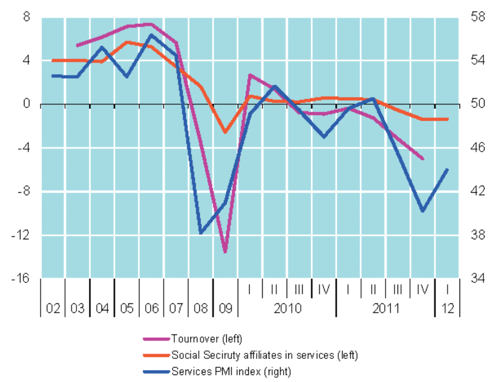


TABLE 10.- Consumption and investment indicators (a)

	Consumption indicators					Investment in equipment indicators		
	Retail sales deflated	Car registrations	Consumer confidence index	Hotel overnight stays by residents in Spain	Industrial orders for consumer goods	Cargo vehicles registrations	Industrial orders for investment goods	Availability of investment goods (f)
	2005=100 (smoothed)	Thousands	Balance of responses	Million	Balance of responses	Thousands (smoothed)	Balance of responses	2005=100
2007	104,8	1633,8	-13,3	116,6	-3,2	420,4	16,1	113,4
2008	98,5	1185,3	-33,7	113,2	-21,0	236,9	-4,5	89,8
2009	93,2	971,2	-28,2	110,1	-40,3	142,1	-50,8	65,6
2010	91,7	1000,1	-20,9	113,6	-26,8	152,1	-31,1	58,4
2011	86,5	808,3	-17,1	111,2	-21,8	142,0	-23,0	52,6
2012 (b)	--	120,7	-22,5	5,1	-27,3	18,4	-31,5	--
2010 III	91,2	203,7	-21,5	28,4	-24,2	37,4	-22,9	56,8
IV	89,9	207,4	-21,0	28,2	-23,0	37,2	-22,2	55,9
2011 I	88,7	208,3	-19,6	28,0	-22,4	37,1	-22,1	55,2
II	87,4	211,8	-16,1	27,8	-21,1	36,5	-21,1	52,0
III	85,9	200,9	-15,8	27,5	-21,9	35,2	-23,2	52,5
IV	84,4	186,1	-16,8	27,3	-21,7	33,0	-25,8	50,6
2012 I (b)	--	134,9	-22,5	9,1	-27,3	20,6	-31,5	
2011 Nov	84,0	57,1	-15,4	9,1	-26	11,0	-30,2	48,0
Dic	84,3	68,3	-15,3	9,1	-24	10,7	-36,6	48,9
2012 Jan	--	67,5	-20,2	9,1	-28,5	10,4	-35,2	--
Feb	--	67,4	-24,7	--	-26,1	10,1	-27,8	--
Percent changes (c)								
2007	2,6	-1,6	--	1,3	--	0,3	--	10,8
2008	-6,0	-27,5	--	-2,9	--	-43,6	--	-20,9
2009	-5,4	-18,1	--	-2,7	--	-40,0	--	-27,0
2010	-1,7	3,0	--	3,1	--	7,0	--	-11,0
2011	-5,6	-19,2	--	-2,2	--	-6,6	--	-9,9
2012 (d)	--	-0,7	--	-0,2	--	-17,8	--	--
2010 III	-4,6	-75,4	--	-0,6	--	-8,8	--	-8,9
IV	-5,4	7,3	--	-3,0	--	-2,1	--	-6,2
2011 I	-5,5	1,8	--	-2,8	--	-0,9	--	-4,7
II	-5,7	6,8	--	-2,7	--	-6,4	--	-21,2
III	-6,5	-19,0	--	-3,2	--	-13,3	--	3,9
IV	-6,9	-26,3	--	-3,4	--	-22,7	--	-13,5
2012 I (e)		40,0	--	-1,6	--	-23,9	--	--
2011 Nov	-0,6	-5,7	--	-0,3	--	-2,5	--	-12,7
Dic	-0,6	19,6	--	-0,2	--	-2,6	--	1,9
2012 Jan	--	-1,2	--	-0,2	--	-2,8	--	--
Feb	--	-0,2	--	--	--	-2,8	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Annualized percent change from the previous quarter for quarterly data, non-annualized percent change from the previous month for monthly data, unless otherwise indicated. (d) Growth of available period over the same period of the previous year. (e) Annualized growth of the average of available months over the monthly average of the previous quarter. (f) Domestic production plus imports less exports.
Sources: European Commision, M. of Economy, M. of Industry, National Statistics Institute, DGT, ANFAC and Funcas.

Chart 1.- Consumption indicators

Percent change from previous period and balance of responses

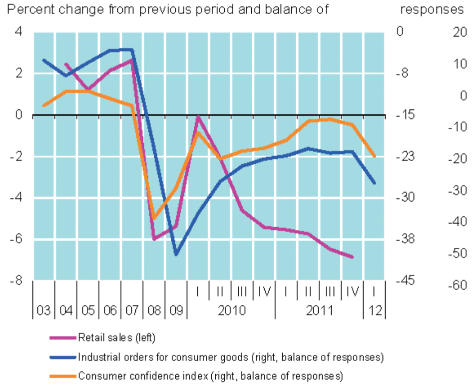


Chart 2.- Investment indicators

Percent change from previous period and balance of responses

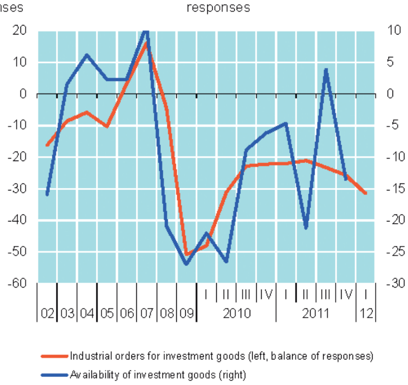


TABLE 11a.- Labour market (I)

Forecasts in shadow

	Population aged 16-64	Labour force		Employment		Unemployment		Participa-tion rate 16-64 (a)	Employ-ment rate 16-64 (b)	Unemployment rate (c)			
		Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted	Seasonally adjusted		Total	Aged 16-24	Spanish	Foreign
	1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
	Thousands							**Percentage**					
2005	29307,8	20885,8	--	18973,3	--	1912,5	--	70,8	64,3	9,2	19,7	8,9	11,4
2006	29812,3	21584,8	--	19747,7	--	1837,2	--	71,9	65,7	8,5	17,9	8,0	11,8
2007	30359,4	22189,8	--	20356,0	--	1833,9	--	72,6	66,6	8,3	18,2	7,6	12,2
2008	30793,5	22848,2	--	20257,6	--	2590,6	--	73,7	65,3	11,3	24,6	10,2	17,5
2009	30906,1	23037,5	--	18888,0	--	4149,5	--	74,0	60,6	18,0	37,8	16,0	28,4
2010	30828,1	23088,9	--	18456,5	--	4632,4	--	74,4	59,4	20,1	41,6	18,2	30,2
2011	30706,3	23103,6	--	18104,6	--	4999,0	--	74,7	58,5	21,6	46,4	19,6	32,8
2012	30552,8	23078,0	--	17484,5	--	5593,6	--	75,0	56,7	24,2	--	--	--
2009 I	30926,5	23101,5	23076,5	19090,8	19219,5	4010,7	3857,0	74,3	61,8	16,7	34,7	14,8	26,8
II	30921,2	23082,5	23064,7	18945,0	18919,7	4137,5	4145,1	74,1	60,7	18,0	37,5	16,0	28,5
III	30903,6	22993,6	23016,7	18870,2	18764,8	4123,4	4251,8	73,9	60,2	18,5	39,9	16,5	28,7
IV	30873,1	22972,4	23001,1	18645,9	18648,4	4326,5	4352,7	73,9	59,8	18,9	39,4	16,8	29,9
2010 I	30849,6	23006,8	22968,9	18394,1	18523,7	4612,7	4445,2	74,2	59,7	19,4	39,9	17,6	28,7
II	30832,8	23122,4	23102,6	18476,9	18449,2	4645,5	4653,4	74,4	59,3	20,1	41,3	18,2	30,6
III	30817,8	23121,5	23148,6	18546,8	18441,7	4574,7	4706,9	74,5	59,3	20,3	42,1	18,3	30,9
IV	30812,3	23104,7	23132,7	18408,1	18410,6	4696,6	4722,2	74,5	59,2	20,4	43,1	18,5	30,9
2011 I	30777,5	23061,9	23022,9	18151,7	18284,0	4910,2	4738,8	74,5	59,1	20,6	44,2	18,9	29,7
II	30710,0	23136,7	23119,2	18303,0	18271,8	4833,7	4847,4	74,7	59,0	21,0	45,5	19,0	32,0
III	30679,2	23134,5	23169,5	18156,2	18052,2	4978,3	5117,3	74,9	58,2	22,1	47,5	19,9	34,5
IV	30658,5	23081,3	23110,1	17807,6	17810,8	5273,7	5299,3	74,8	57,5	22,9	48,8	20,6	35,5
	Percentage changes (d)							**Difference from one year ago**					
2006	1,7	3,3	--	4,1	--	-3,9	--	1,1	1,5	-0,6	-1,7	-0,8	0,4
2007	1,8	2,8	--	3,1	--	-0,2	--	0,7	0,8	-0,2	0,3	-0,4	0,4
2008	1,4	3,0	--	-0,5	--	41,3	--	1,1	-1,3	3,1	6,4	2,6	5,3
2009	0,4	0,8	--	-6,8	--	60,2	--	0,4	-4,7	6,7	13,2	5,8	10,9
2010	-0,3	0,2	--	-2,3	--	11,6	--	0,4	-1,2	2,1	3,8	2,1	1,8
2011	-0,4	0,1	--	-1,9	--	7,9	--	0,3	-0,9	1,6	4,8	1,4	2,7
2012	-0,5	-0,1	--	-3,4	--	11,9	--	0,3	-1,7	2,6	--	--	--
2010 I	-0,2	-0,4	-0,6	-3,6	-2,6	15,0	8,8	-0,1	-2,0	2,6	5,3	2,8	1,9
II	-0,3	0,2	2,3	-2,5	-1,6	12,3	20,1	0,3	-1,4	2,2	3,8	2,2	2,1
III	-0,3	0,6	0,8	-1,7	-0,2	10,9	4,7	0,6	-0,9	1,9	2,2	1,8	2,2
IV	-0,2	0,6	-0,3	-1,3	-0,7	8,6	1,3	0,6	-0,6	1,5	3,7	1,6	1,0
2011 I	-0,2	0,2	-1,9	-1,3	-2,7	6,4	1,4	0,4	-0,6	1,2	4,2	1,3	1,0
II	-0,4	0,1	1,7	-0,9	-0,3	4,1	9,5	0,4	-0,3	0,8	4,1	0,8	1,4
III	-0,4	0,1	0,9	-2,1	-4,7	8,8	24,2	0,4	-1,0	1,8	5,4	1,5	3,6
IV	-0,5	-0,1	-1,0	-3,3	-5,2	12,3	15,0	0,3	-1,7	2,5	5,7	2,2	4,6

(a) Labour force aged 16-64 over population aged 16-64. (b) Employed aged 16-64 over population aged 16-64. (c) Total unemployed over total labour force.
(d) Annual percentage changes for original data; annualized quarterly percentage changes for S.A. data.
Sources: INE (Labour Force Survey) and Funcas (Forecasts).

Chart 1.- Labour force, Employment and unemployment, SA

Annual / annualized quarterly growth rates and percentage of active population

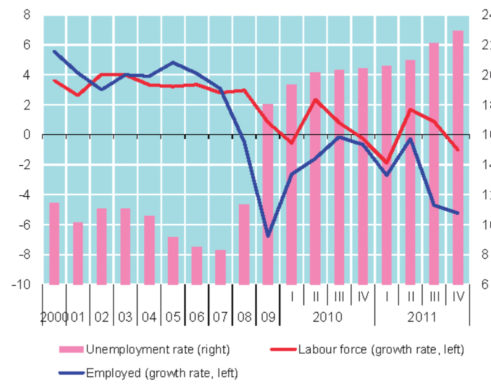


Chart 2.- Unemployment rates, SA

Percentage

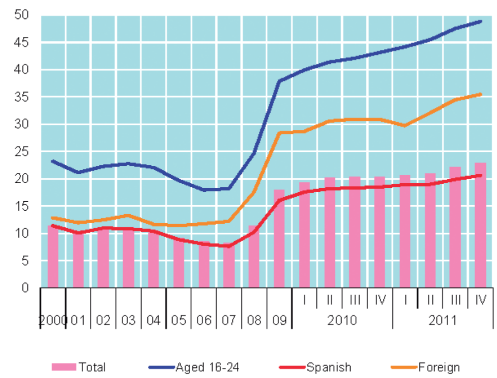


TABLE 11b.- Labour market (II)

	Employed by sector				Employed by professional situation					Employed by duration of the working-day		
					Employees							
						By type of contract						
	Agriculture	Industry	Construc-tion	Services	Total	Temporary	Indefinite	Temporary employ-ment rate (a)	Self-employed	Full-time	Part-time	Part-time employ-ment rate (b)
	1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
	Thousands (original data)											
2005	937,6	3257,5	2403,8	12374,4	15502,1	5169,0	10333,1	33,3	3471,2	16626,4	2346,8	12,4
2006	884,3	3268,0	2592,0	13003,4	16208,1	5516,7	10691,4	34,0	3539,5	17386,4	2361,3	12,0
2007	866,5	3237,0	2748,6	13503,8	16760,0	5306,9	11453,1	31,7	3595,9	17957,3	2398,7	11,8
2008	818,9	3198,9	2453,4	13786,4	16681,2	4880,5	11800,8	29,3	3576,4	17832,1	2425,5	12,0
2009	786,1	2775,0	1888,3	13438,7	15680,7	3982,4	11698,3	25,4	3207,3	16472,9	2415,1	12,8
2010	793,0	2610,5	1650,8	13402,2	15346,8	3823,2	11523,6	24,9	3109,7	16007,3	2449,2	13,3
2011	760,2	2555,3	1393,0	13396,3	15105,5	3825,9	11279,5	25,3	2999,2	15601,8	2502,9	13,8
2009 I	805,7	2929,9	2003,4	13516,9	16001,6	4147,9	11853,7	25,4	3254,3	16871,8	2384,1	12,4
II	792,9	2801,5	1916,5	13401,0	15705,0	3975,8	11729,2	25,2	3206,9	16513,6	2398,3	12,7
III	770,7	2701,8	1830,7	13439,6	15531,6	3915,6	11615,9	25,9	3211,3	16333,9	2409,0	12,9
IV	774,2	2666,2	1803,1	13393,8	15482,6	3891,9	11590,7	25,1	3154,7	16169,6	2467,8	13,2
2010 I	803,9	2632,5	1686,0	13452,2	15424,1	3845,8	11578,3	24,4	3150,5	16158,6	2416,0	13,0
II	785,0	2619,8	1694,8	13339,2	15326,7	3820,4	11506,2	24,9	3112,1	15995,1	2443,6	13,3
III	788,3	2581,3	1648,5	13392,1	15328,5	3817,1	11511,4	25,6	3081,7	15944,9	2465,3	13,4
IV	793,7	2608,2	1573,5	13424,7	15306,6	3811,4	11495,2	24,8	3093,5	15926,6	2473,5	13,4
2011 I	752,4	2575,3	1515,4	13498,1	15299,6	3874,5	11425,1	24,8	3041,6	15811,2	2530,1	13,8
II	748,7	2577,7	1426,1	13507,9	15251,5	3895,8	11355,7	25,5	3008,9	15731,0	2529,4	13,9
III	742,7	2555,2	1353,1	13360,4	15043,5	3814,2	11229,3	26,0	2967,8	15520,6	2490,8	13,8
IV	796,2	2511,8	1278,1	13213,5	14822,5	3718,3	11104,2	25,0	2977,2	15340,6	2459,1	13,8
	Annual percentage changes							**Difference from one year ago**	**Annual percentage changes**			**Difference from one year ago**
2006	-5,7	0,3	7,8	5,1	4,6	6,7	3,5	0,7	2,0	4,6	0,6	-0,4
2007	-2,0	-0,9	6,0	3,8	3,4	-3,8	7,1	-2,4	1,6	3,3	1,6	-0,2
2008	-5,5	-1,2	-10,7	2,1	-0,5	-8,0	3,0	-2,4	-0,5	-0,7	1,1	0,2
2009	-4,0	-13,3	-23,0	-2,5	-6,0	-18,4	-0,9	-3,9	-10,3	-7,6	-0,4	0,8
2010	0,9	-5,9	-12,6	-0,3	-2,1	-4,0	-1,5	-0,5	-3,0	-2,8	1,4	0,5
2011	-4,1	-2,1	-15,6	0,0	-1,6	0,1	-2,1	0,4	-3,6	-2,5	2,2	0,6
2010 I	-0,2	-10,1	-15,8	-0,5	-3,6	-7,3	-2,3	-1,0	-3,2	-4,2	1,3	0,6
II	-1,0	-6,5	-11,6	-0,5	-2,4	-3,9	-1,9	-0,4	-3,0	-3,1	1,9	0,6
III	2,3	-4,5	-10,0	-0,4	-1,3	-2,5	-0,9	-0,3	-4,0	-2,4	2,3	0,5
IV	2,5	-2,2	-12,7	0,2	-1,1	-2,1	-0,8	-0,3	-1,9	-1,5	0,2	0,2
2011 I	-6,4	-2,2	-10,1	0,3	-0,8	0,7	-1,3	0,4	-3,5	-2,2	4,7	0,8
II	-4,6	-1,6	-15,9	1,3	-0,5	2,0	-1,3	0,6	-3,3	-1,7	3,5	0,6
III	-5,8	-1,0	-17,9	-0,2	-1,9	-0,1	-2,5	0,5	-3,7	-2,7	1,0	0,4
IV	0,3	-3,7	-18,8	-1,6	-3,2	-2,4	-3,4	0,2	-3,8	-3,7	-0,6	0,4

(a) Percentage of employees with temporary contract over total employees. (b) Percentage of part-time employed over total employed.

Sources: INE (Labour Force Survey).

Chart 1.- Employment by sector
Annual percentage changes

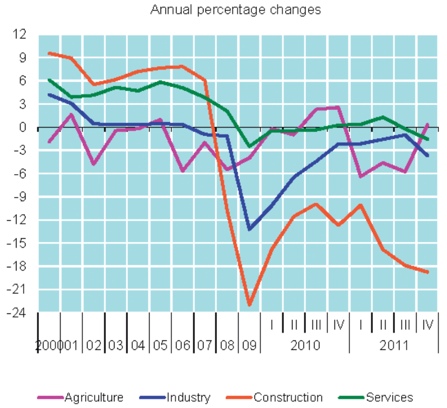


Chart 2.- Employment by type of contract
Annual percentage changes

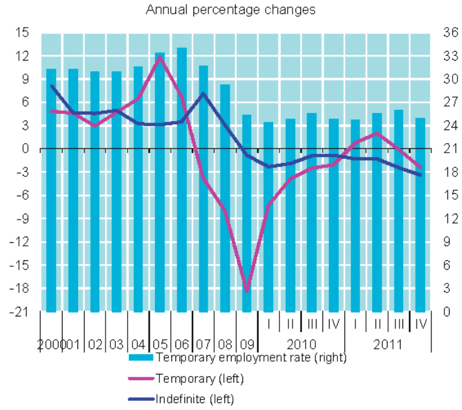


TABLE 12.- Index of Consumer Prices

Forecasts in shadow

	Total	Total excluding food and energy	Excluding unprocessed food and energy: Total	Non-energy industrial goods	Services	Processed food	Unprocessed food	Energy	Food	Harmonized ICP: Spain	EMU-17	Spain/EMU
% of total in 2011	100,0	67,46	82,11	27,79	39,67	14,65	6,50	11,39	21,15			
Indexes, 2011 = 100												
1999	70,8	..	74,4	88,5	67,0	68,9	63,8	52,6	..	70,4	77,9	90,4
2000	73,2	..	76,3	90,3	69,5	69,5	66,5	59,7	..	72,9	79,5	91,7
2001	75,9	..	79,0	92,7	72,4	71,9	72,2	59,1	..	75,5	81,4	92,8
2002	78,6	83,7	81,9	95,0	75,8	75,0	76,4	59,0	75,3	78,2	83,2	94,1
2003	80,9	86,1	84,3	96,9	78,6	77,3	81,0	59,8	78,3	80,7	84,9	95,0
2004	83,4	88,2	86,6	97,8	81,5	80,0	84,7	62,6	81,4	83,1	86,7	95,9
2005	86,2	90,4	88,9	98,7	84,6	82,8	87,5	68,7	84,2	85,9	88,6	97,0
2006	89,2	92,9	91,5	100,1	87,8	85,7	91,3	74,1	87,4	89,0	90,6	98,3
2007	91,7	95,2	93,9	100,8	91,2	88,9	95,7	75,4	91,0	91,5	92,5	99,0
2008	95,5	97,4	96,9	101,1	94,8	94,6	99,5	84,4	96,1	95,3	95,5	99,8
2009	95,2	98,2	97,7	99,8	97,0	95,4	98,2	76,8	96,3	95,1	95,8	99,3
2010	96,9	98,7	98,3	99,4	98,3	96,4	98,2	86,4	96,9	97,0	97,4	99,7
2011	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
2012	101,6	100,8	101,1	99,8	101,5	102,5	101,2	105,5	102,1	--	--	--
Annual percentage changes												**Differential Spain/EMU**
2007	2,8	2,4	2,7	0,7	3,9	3,7	4,7	1,7	4,1	2,8	2,1	0,7
2008	4,1	2,3	3,2	0,3	3,9	6,5	4,0	11,9	5,7	4,1	3,3	0,9
2009	-0,3	0,8	0,8	-1,3	2,4	0,9	-1,3	-9,0	0,2	-0,2	0,3	-0,5
2010	1,8	0,6	0,6	-0,5	1,3	1,0	0,0	12,5	0,7	2,0	1,6	0,4
2011	3,2	1,3	1,7	0,6	1,8	3,8	1,8	15,7	3,2	3,1	2,7	0,3
2012	1,6	0,8	1,1	-0,2	1,5	2,5	1,2	5,5	2,1	--	--	--
2010 Dec	3,0	1,3	1,5	0,9	1,6	2,6	2,6	15,6	2,6	2,9	2,2	0,6
2011 Jan	3,3	1,3	1,6	0,7	1,6	3,1	2,3	17,6	2,9	3,0	2,3	0,7
Feb	3,6	1,4	1,8	0,8	1,8	3,4	2,9	19,0	3,2	3,4	2,4	0,9
Mar	3,6	0,9	1,7	0,7	1,7	3,7	3,1	18,9	3,5	3,3	2,7	0,7
Apr	3,8	1,7	2,1	0,9	2,2	4,5	2,4	17,7	3,9	3,5	2,8	0,7
May	3,5	1,5	2,1	0,9	2,0	4,7	2,7	15,3	4,1	3,4	2,7	0,6
Jun	3,2	1,5	1,7	0,9	1,9	2,9	2,1	15,4	2,6	3,0	2,7	0,3
Jul	3,1	1,2	1,6	0,4	1,7	3,4	1,6	16,0	2,8	3,0	2,6	0,4
Aug	3,0	1,2	1,6	0,4	1,7	3,3	1,1	15,3	2,6	2,7	2,5	0,2
Sep	3,1	1,2	1,7	0,4	1,6	4,1	1,3	15,9	3,2	3,0	3,0	0,0
Oct	3,0	1,2	1,7	0,6	1,6	4,4	0,9	14,5	3,3	3,0	3,0	0,0
Nov	2,9	1,1	1,7	0,3	1,6	4,4	0,8	13,8	3,3	2,9	3,0	-0,1
Dec	2,4	1,1	1,5	0,3	1,7	3,1	0,7	10,3	2,4	2,4	2,7	-0,4
2012 Jan	2,0	0,9	1,3	0,2	1,4	2,8	1,0	8,0	2,2	2,0	2,6	-0,7
Feb	1,8	0,9	1,2	0,1	1,4	2,8	0,6	7,0	2,1	1,9	2,7	-0,8
Mar	1,6	1,3	1,2	0,1	1,5	2,7	0,3	4,7	2,0	--	--	--
Apr	1,4	0,8	1,1	-0,1	1,4	2,4	0,6	3,9	1,9	--	--	--
May	1,5	0,8	1,1	-0,1	1,4	2,3	0,5	5,3	1,8	--	--	--
Jun	1,7	0,8	1,2	-0,2	1,5	3,3	0,8	5,8	2,5	--	--	--
Jul	1,6	0,8	1,2	-0,3	1,5	2,8	1,1	4,9	2,2	--	--	--
Aug	1,7	0,8	1,1	-0,4	1,5	2,8	1,5	5,7	2,4	--	--	--
Sep	1,5	0,7	1,0	-0,4	1,5	2,0	1,7	4,9	1,9	--	--	--
Oct	1,5	0,7	0,9	-0,6	1,6	2,1	1,7	5,6	2,0	--	--	--
Nov	1,5	0,8	1,0	-0,4	1,6	2,0	1,9	5,0	2,0	--	--	--
Dec	1,5	0,7	0,9	-0,5	1,5	2,0	2,2	5,3	2,1	--	--	--

Sources: Eurostat, INE and Funcas (Forecasts).

Chart 1.- Inflation Rate: Spain

Annual percentage changes

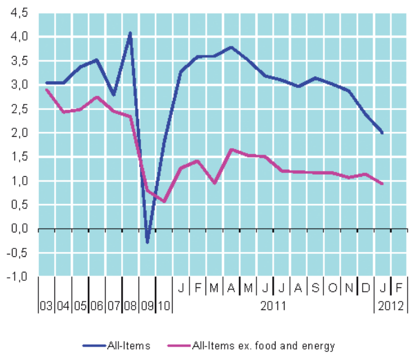


Chart 1.- Harmonized inflation rate: Spain - EMU-17

Annual percentage changes and percentage points

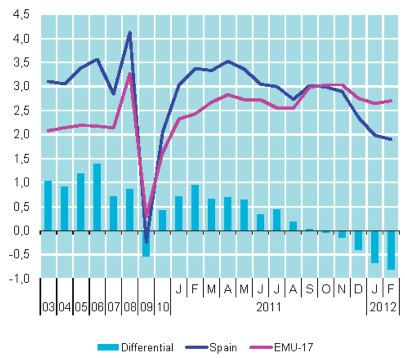


TABLE 13.- Other prices and costs indicators

	PIB deflator (a)	Industrial producer prices: Total	Industrial producer prices: excluding energy	Housing prices: Housing Price Index (INE)	Housing prices: m2 average price (M. Fomento)	Urban land prices (M. Fomento)	Labour Costs Survey: Total labour costs per worker	Labour Costs Survey: Wage costs per worker	Labour Costs Survey: Other cost per worker	Labour Costs Survey: Total labour costs per hour worked	Wage increases agreed in collective bargaining
	2000=100	2005=100		2007=100			2000=100				
2007	132,2	109,2	108,7	100,0	100,0	100,0	131,1	128,3	139,9	136,2	--
2008	135,4	116,3	113,5	98,5	100,7	91,1	137,5	134,8	145,6	142,5	--
2009	135,5	112,4	110,8	91,9	93,2	85,8	142,3	139,2	151,8	150,5	--
2010	136,0	115,9	112,3	90,1	89,6	74,8	142,8	140,4	150,2	151,4	--
2011	137,9	123,9	116,5	84.8(c)	84,6	71.3(c)	142.1(c)	138.8(c)	152.4(c)	151.8(c)	--
2012 (b)	--	125,7	116,9	--	--	--	--	--	--	--	--
2010 III	136,2	116,1	112,6	89,5	89,1	68,5	136,9	133,3	148,0	152,6	--
IV	136,7	117,6	113,4	89,4	88,8	81,7	149,3	149,3	149,6	159,7	--
2011 I	137,2	122,4	115,6	86,3	86,4	76,2	140,5	136,3	153,7	142,7	--
II	137,8	124,0	116,7	85,2	85,2	76,8	146,9	145,2	152,3	153,0	--
III	138,1	124,5	117,0	82,9	84,1	60,9	138,9	134,9	151,2	159,8	--
IV	138,4	124,7	116,7	--	82,8	--	--	--	--	--	--
2012 I (b)	--	125,7	116,9	--	--	--	--	--	--	--	--
2011 Nov	--	124,8	117	--	--	--	--	--	--	--	--
Dic	--	124,7	117	--	--	--	--	--	--	--	--
2012 Jan	--	125,7	116,9	--	--	--	--	--	--	--	--
Feb	--	--	--	--	--	--	--	--	--	--	--
Annual percent changes											
2007	3,3	3,6	4,1	--	5,8	3,8	4,0	4,0	4,1	4,6	3,1
2008	2,4	6,5	4,5	-1,5	0,7	-8,9	4,8	5,1	4,1	4,6	3,6
2009	0,1	-3,4	-2,4	-6,7	-7,4	-5,8	3,5	3,2	4,3	5,6	2,3
2010	0,4	3,2	1,3	-2,0	-3,9	-12,8	0,4	0,9	-1,1	0,6	1,5
2011 (d)	1,4	6,9	3,8	-6,1	-5,6	-1,7	1,0	0,9	1,3	2,1	2,5
2012 (d)	--	3,6	1,8	--	--	--	--	--	--	--	3,5
2010 III	0,7	3,1	1,6	-2,2	-3,4	-19,7	-0,3	0,1	-1,5	-1,4	1,3
IV	1,0	4,6	2,6	-1,9	-3,5	-1,9	-0,3	0,0	-1,0	1,1	1,5
2011 I	1,3	7,4	4,1	-4,1	-4,7	3,8	0,8	1,0	0,4	0,0	3,1
II	1,6	6,9	4,1	-6,8	-5,2	1,5	0,8	0,6	1,5	1,5	2,7
III	1,4	7,2	3,9	-7,4	-5,6	-11,1	1,5	1,2	2,2	4,8	2,6
IV	1,2	6,0	2,9	--	-6,8	--	--	--	--	--	2,5
2012 I (e)	--	2,7	1,1	--	--	--	--	--	--	--	3,5
2011 Nov	--	6,3	3,0	--	--	--	--	--	--	--	2,5
Dic	--	5,2	2,4	--	--	--	--	--	--	--	2,5
2012 Jan	--	3,6	1,8	--	--	--	--	--	--	--	3,5
Feb	--	--	--	--	--	--	--	--	--	--	--

(a) Seasonally adjusted. (b) Period with available data. (c) Last available data: 3rd quarter 2011. (d) Growth of available period over the same period of the previous year. (e) Annualized growth of the average of available period over the monthly average of the previous year.
Sources: M. of Public Works, M. of Labour and INE (National Statistics Institute).

Chart 1.- Housing and urban land prices
Index (2007=100)

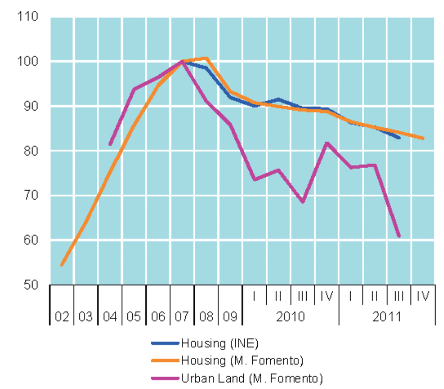


Chart 2.- Wage costs
Annual percent change

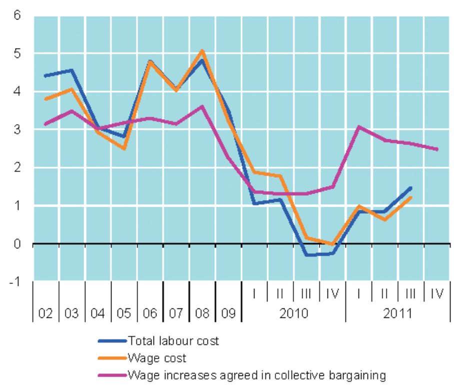


TABLE 14.- External trade (a)

	Exports of goods			Imports of goods			Exports to EU countries	Exports to no EU countries	Total Balance of goods	Balance of goods excluding energy	Balance of goods with EU countries
	Nominal	Prices	Real	Nominal	Prices	Real					
	EUR Billions	2005=100		EUR Billions	2005=100		EUR Billions				
2007	185,0	107,3	111,3	285,0	104,8	116,7	130,9	54,2	-100,0	-65,5	-40,2
2008	189,2	109,0	112,0	283,4	109,2	111,5	130,8	58,5	-94,2	-50,7	-26,3
2009	159,9	101,6	101,5	206,1	96,3	92,0	110,5	49,4	-46,2	-18,8	-9,1
2010	186,8	103,2	116,7	240,1	100,7	102,4	126,3	60,5	-53,3	-17,9	-5,0
2011	214,5	108,2	129,1	260,8	109,2	103,3	141,7	72,8	-46,3	-5,2	4,1
2012 (b)	--	--	--	--	--	--	--	--	--	--	--
2010 III	47,6	105,1	118,3	59,7	102,9	101,6	32,0	15,6	-12,0	-3,6	-0,6
IV	50,1	105,0	123,1	61,7	103,5	103,5	33,6	16,5	-11,6	-2,3	1,0
2011 I	54,3	106,4	128,9	67,0	107,0	106,1	35,0	19,3	-12,7	-1,7	-0,9
II	53,1	107,5	126,1	64,2	107,2	103,0	34,4	18,7	-11,1	-0,9	1,3
III	54,8	108,7	131,6	65,0	110,4	103,1	36,1	18,7	-10,2	0,5	2,1
IV	55,2	110,1	130,9	64,9	112,3	101,3	36,5	18,8	-9,7	-0,4	1,6
2012 I (b)	--	--	--	--	--	--	--	--	--	--	--
2011 Nov	19,1	110	133,1	21,5	114	98,6	12,8	6,3	-2,4	0,5	1,6
Dic	18,2	109	130,0	21,8	112	101,5	11,6	6,6	-3,6	0,7	0,3
2012 Jan	--	--	--	--	--	--	--	--	--	--	--
Feb	--	--	--	--	--	--	--	--	--	--	--
	Percentage changes (c)								Percentage of GDP		
2007	8,6	2,6	5,8	8,5	0,8	7,6	8,0	10,0	-9,5	-6,2	-3,8
2008	2,3	1,6	0,7	-0,6	4,2	-4,5	-0,1	8,0	-8,7	-4,7	-2,4
2009	-15,5	-6,8	-9,4	-27,3	-11,9	-17,5	-15,5	-15,5	-4,4	-1,8	-0,9
2010	16,8	1,5	15,0	16,5	4,6	11,3	14,3	22,5	-5,1	-1,7	-0,5
2011	14,8	4,8	10,1	8,7	8,5	1,0	12,2	20,4	-4,3	-0,5	0,4
2012 (d)	--	--	--	--	--	--	--	--	--	--	--
2010 III	12,2	-1,9	14,3	-4,2	0,1	-4,2	14,6	-1,0	-4,6	-1,4	-0,2
IV	22,5	4,5	17,2	14,5	6,1	7,8	22,3	32,5	-4,4	-0,9	0,4
2011 I	37,7	14,6	20,2	39,0	26,3	10,1	16,4	31,8	-4,8	-0,6	-0,3
II	-8,2	0,2	-8,4	-15,6	-4,9	-11,2	-6,0	-0,6	-4,1	-0,3	0,5
III	13,2	-4,6	18,6	4,8	4,1	0,6	20,8	-1,2	-3,8	0,2	0,8
IV	3,2	5,4	-2,1	-0,5	6,8	-6,8	4,3	-12,4	-3,6	-0,2	0,6
2012 I (e)	--	--	--	--	--	--	--	--	--	--	--
2011 Nov	6,4	3,6	2,8	-0,7	4,6	-5,1	5,1	9,2	--	--	--
Dic	-4,7	-2,4	-2,4	1,6	-1,4	3,0	-9,3	4,6	--	--	--
2012 Jan	--	--	--	--	--	--	--	--	--	--	--
Feb	--	--	--	--	--	--	--	--	--	--	--

(a) Seasonally adjusted, except for annual data. (b) Period with available data. (c) Annualized percent change from the previous quarter for quarterly data, non-annualized percent change from the previous month for monthly data. (d) Growth of available period over the same period of the previous year. (e) Annualized growth of the average of available period over the monthly average of the previous quarter.
Sources: M. of Economy and M. of Industry.

Chart 1.- External trade (real)
Percent change from previous period

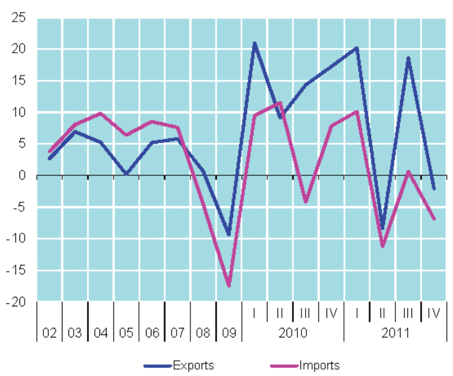


Chart 2.- Trade balance
EUR Billions, moving sum of 4 quarters

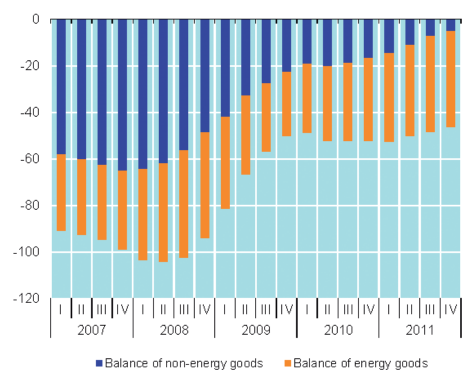


TABLE 15.- Balance of Payments

(Net transactions)

	Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
								Financial account, excluding Bank of Spain					Bank of Spain	
	Total	Goods	Services	Income	Tansfers			Total	Direct invest-ment	Porfolio invest-ment	Other invest-ment	Financial derivatives		
	1=2+3+4+5	2	3	4	5	6	7=1+6	8=9+10+11+12	9	10	11	12	13	14
EUR billions														
2005	-66,86	-68,60	22,24	-17,10	-3,39	8,18	-58,68	62,93	-13,52	58,73	17,35	0,37	-2,11	-2,14
2006	-88,31	-83,25	22,24	-20,80	-6,50	6,19	-82,12	111,42	-58,55	199,61	-31,65	2,00	-25,80	-3,51
2007	-105,27	-91,12	23,05	-30,06	-7,15	4,58	-100,69	86,68	-53,18	104,26	39,69	-4,09	14,32	-0,31
2008	-104,68	-85,59	25,79	-35,48	-9,39	5,47	-99,20	69,14	1,55	-0,20	75,72	-7,93	31,08	-1,02
2009	-54,48	-42,18	25,50	-29,79	-8,02	4,27	-50,21	44,51	-0,43	45,33	5,15	-5,53	10,13	-4,43
2010	-48,40	-47,14	27,80	-21,94	-7,12	6,30	-42,11	28,88	2,23	29,74	-10,47	7,39	15,68	-2,45
2011	-39,78	-39,95	35,31	-29,19	-5,95	5,33	-34,44	-68,30	-7,20	-11,49	-51,06	1,45	109,16	-6,41
2010 III	-9,09	-11,96	11,29	-5,63	-2,79	1,36	-7,73	56,51	-11,00	29,03	38,17	0,32	-45,03	-3,75
IV	-9,62	-11,03	5,38	-4,79	0,82	1,32	-8,30	15,13	6,77	16,68	-7,62	-0,70	-10,42	3,58
2011 I	-17,46	-11,17	4,38	-6,65	-4,03	1,56	-15,90	28,50	-2,74	28,88	-0,34	2,71	-11,04	-1,56
II	-8,69	-9,86	9,65	-6,97	-1,51	1,12	-7,57	2,91	-5,57	-18,38	31,80	-4,94	5,87	-1,21
III	-6,39	-10,10	13,43	-8,44	-1,28	1,27	-5,12	-27,48	2,51	-7,95	-20,19	-1,86	39,02	-6,42
IV	-7,24	-8,83	7,86	-7,12	0,86	1,39	-5,85	-72,23	-1,40	-14,04	-62,33	5,54	75,30	2,78
2011 Jul	-1,02	-1,07	4,44	-3,74	-0,65	0,35	-0,67	-4,27	0,67	-3,56	-0,38	-0,99	11,00	-6,07
Aug	-1,42	-4,37	5,12	-2,04	-0,12	0,94	-0,48	-16,79	-0,74	-6,23	-9,50	-0,31	17,75	-0,48
Sep	-3,95	-4,66	3,88	-2,66	-0,50	-0,02	-3,97	-6,43	2,59	1,84	-10,30	-0,56	10,26	0,13
Oct	0,46	-2,92	3,81	-1,66	1,23	0,33	0,79	-19,34	1,51	-9,26	-14,49	2,90	18,85	-0,30
Nov	-4,10	-2,02	2,33	-2,95	-1,46	0,87	-3,23	-19,18	-1,31	5,81	-25,48	1,81	22,47	-0,06
Dec	-3,60	-3,89	1,72	-2,51	1,09	0,18	-3,42	-33,71	-1,61	-10,59	-22,36	0,83	33,99	3,14
Percentage of GDP														
2005	-7,4	-7,5	2,4	-1,9	-0,4	0,9	-6,5	6,9	-1,5	6,5	1,9	0,0	-0,2	-0,2
2006	-9,0	-8,4	2,3	-2,1	-0,7	0,6	-8,3	11,3	-5,9	20,3	-3,2	0,2	-2,6	-0,4
2007	-10,0	-8,7	2,2	-2,9	-0,7	0,4	-9,6	8,2	-5,0	9,9	3,8	-0,4	1,4	0,0
2008	-9,6	-7,9	2,4	-3,3	-0,9	0,5	-9,1	6,4	0,1	0,0	7,0	-0,7	2,9	-0,1
2009	-5,2	-4,0	2,4	-2,8	-0,8	0,4	-4,8	4,2	0,0	4,3	0,5	-0,5	1,0	-0,4
2010	-4,6	-4,5	2,6	-2,1	-0,7	0,6	-4,0	2,7	0,2	2,8	-1,0	0,7	1,5	-0,2
2011	-3,7	-3,7	3,3	-2,7	-0,6	0,5	-3,2	-6,4	-0,7	-1,1	-4,8	0,1	10,2	-0,6
2010 III	-3,6	-4,8	4,5	-2,2	-1,1	0,5	-3,1	22,5	-4,4	11,5	15,2	0,1	-17,9	-1,5
IV	-3,5	-4,0	2,0	-1,7	0,3	0,5	-3,0	5,5	2,5	6,1	-2,8	-0,3	-3,8	1,3
2011 I	-6,7	-4,3	1,7	-2,5	-1,5	0,6	-6,1	10,9	-1,0	11,0	-0,1	1,0	-4,2	-0,6
II	-3,2	-3,6	3,5	-2,5	-0,5	0,4	-2,7	1,1	-2,0	-6,7	11,5	-1,8	2,1	-0,4
III	-2,5	-3,9	5,2	-3,3	-0,5	0,5	-2,0	-10,6	1,0	-3,1	-7,8	-0,7	15,1	-2,5
IV	-2,6	-3,2	2,8	-2,6	0,3	0,5	-2,1	-26,0	-0,5	-5,0	-22,4	2,0	27,1	1,0

Sources: Bank of Spain.

Chart 1.- Balance of payments: Current and capital accounts

EUR Billions, 12-month cumulated

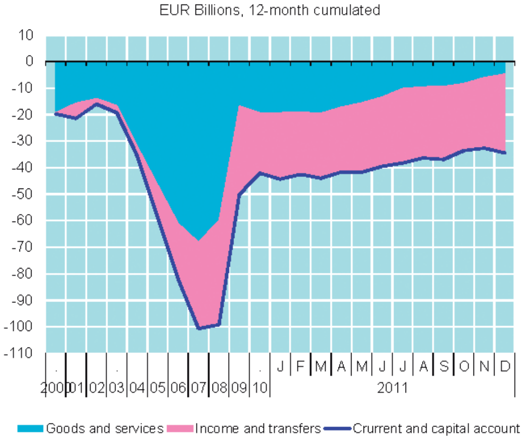
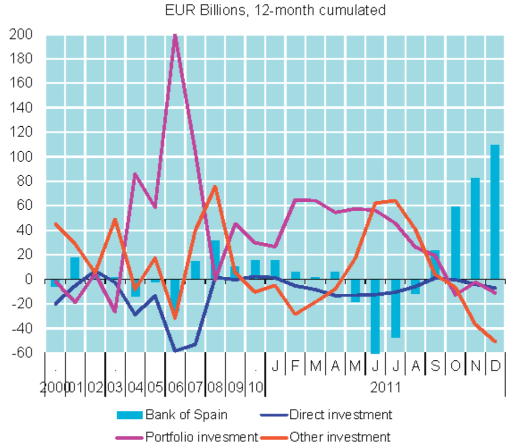


Chart 2.- Balance of payments: financial account

EUR Billions, 12-month cumulated



50 FINANCIAL SYSTEM INDICATORS – FUNCAS

Updated: February 29th, 2012

A. Money and Interest Rates

INDICATOR	Source:	Average 1995-2008	2009	2010	2011 DECEMBER	2012 JANUARY	DEFINITION AND CALCULATION
1. Monetary Supply (%chg.)	ECB	7.4	-0.2	1.7	1.6	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	4.3	1.2	0.9	1.4	1.1 (a)	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	3.6	1.6	1.4	2.0	1.7 (a)	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	5.4	4.0	4.3	5.5	5.4	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	5.5	3.5	3.7	5.2	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

(a) Last data published: February 2012

Comment on "Money and Interest Rates": During the last four weeks, the 3-month and 1-year Euribor rates fell to 1.1% and 1.7%, respectively, in a context of downward interest rate expectations, given the poor economic growth prospects in Europe. Similarly, there has been a reduction in Spanish bond interest rate spreads in an environment of widespread demand for public debt by financial institutions to tap European Central Bank financing.

B. Financial Markets

INDICATOR	Source:	Average 1995-2008	2009	2010	2011 NOVEMBER	2011 DECEMBER	DEFINITION AND CALCULATION
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	17.8	22.6	40.5	91.5	69.5	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	59.4	57.8	88.9	102.0	80.9	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
8. Outright forward treasury bills transactions trade ratio	Bank of Spain	0.3	0.9	1.7	2.6	0.3	(Traded amount/outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	4.7	3.6	2.9	3.5	2.1	(Traded amount/outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	4.0	0.7	0.7	2.8	2.5	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	446.3	674.3	647.8	634.9	684.4	Outright transactions in the market (not exclusively between account holders)
12. Madrid Stock Exchange Capitalization (monthly average %chg.)	Bank of Spain and Madrid Stock Exchange	1.1	-12.9	12.1	-5.2	0.9	Change in the total number of resident companies
13. Stock market trading volume. Stock trading volume (monthly average % var.)	Bank of Spain and Madrid Stock Exchange	33.1	15.6	7.8	-12.4	-20.8	Stock market trading volume. Stock trading volume: change in total trading volume
14. Madrid Stock Exchange general index (Dec1985=100)	Bank of Spain and Madrid Stock Exchange	884.5	1,241.7	1,003.7	845.9	885.3 (a)	Base 1985=100
15. Ibex-35 (Dec1989=3000)	Bank of Spain and Madrid Stock Exchange	8,831.2	10,092.7	10,200.7	8,449.5	8,465.9 (a)	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/profitability)	Bank of Spain and Madrid Stock Exchange	18.1	14.4	9.8	9.7	9.8	Madrid Stock Exchange Ratio "share value/ capital profitability"
17. Long-term bonds. Stock trading volume (%chg.)	Bank of Spain and Madrid Stock Exchange	3.2	-10.2	-29.2	224.0	-64.13	Variation for all stocks
18. Commercial paper. Trading balance (%chg.)	Bank of Spain and AIAF	2.2	-42.4	-43.9	20.8	17.5	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	4.2	1.0	0.8	2.2	2.7	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (%chg.)	Bank of Spain	1.3	-24.36	15.42	3.1	-22.9	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	7.2	-47.41	-31.88	53.8	40.0	IBEX-35 shares concluded transactions

(a) Last data published: February 2012

Comment on "Financial Markets": During the last month there has been a slight reduction in transactions with outright spot and forward T-bills and government bonds. The stock market experienced a slight improvement and the IBEX-35 reached 8822.8 points, while February closed at 8465.9 points. Also, there was a slight decline in financial IBEX-35 futures transactions, while there was an increase in transactions with IBEX-35 financial options.

C. Financial Savings and Debt

INDICATOR	Source:	Average 2002-2008	2009	2010	2011 II-Q.	2011 III-Q.	DEFINITION AND CALCULATION
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-6.3	-5.1	1.9	-3.5	-3.6	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	-0.6	5.8	4.5	3.6	3.4	Difference between financial assets and financial liabilities flows over GDP
24. Debt in securities (other than shares) and loans/GDP (National Economy)	Bank of Spain	229.9	284.8	290.3	292.5	290.6	Public debt, non-financial companies debt and households and non-profit institutions debt over GDP
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	70.3	86.0	84.9	83.4	82.3	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average %chg.)	Bank of Spain	7.7	3.9	3.1	0.2	-4.2	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average %chg.)	Bank of Spain	14.4	-1.1	-0.3	-0.3	-1.4	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During the third quarter of 2011, there was a marked reduction in financial savings to GDP in the overall economy of 3.6%. On the other hand, there is a slowdown in household sector financial savings, which decreased from 3.6% to 3.4%. Also, there is a further reduction of 4.2% in the stock of financial assets on the households balance sheet, while as for the liabilities, the decrease was of 1.4%. All in all, these trends result in a reduction of households' net financial wealth.

D. Credit institutions. Business Development

INDICATOR	Source:	Average 1995-2008	2009	2010	2011 OCTOBER	2011 NOVEMBER	DEFINITION AND CALCULATION
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	1.2	-0.2	0.1	-0.6	0.2	Lending to the private sector percentage change for the sum of banks, savings banks and credit unions.
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	0.9	0.3	0.2	-1.7	-0.6	Deposits percentage change for the sum of banks, savings banks and credit unions.
30. Debt securities (monthly average % var.)	Bank of Spain	0.7	2.1	-0.7	-0.3	-0.1	Asset-side debt securities percentage change for the sum of banks, savings banks and credit unions.
31. Shares and equity (monthly average % var.)	Bank of Spain	1.3	0.6	-0.1	1.2	-1.5	Asset-side equity and shares percentage change for the sum of banks, savings banks and credit unions.
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	4.7	1.5	-0.5	-1.4		Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end)
33. Doubtful loans (monthly average % var.)	Bank of Spain	0.8	3.4	1.2	0.7	1.7	Doubtful loans. Percentage change for the sum of banks, savings banks and credit unions.
34. Assets sold under repurchase (monthly average % var.)	Bank of Spain	0.3	-1.2	1.4	3.6	-3.2	Liability-side assets sold under repurchase. Percentage change for the sum of banks, savings banks and credit unions.
35. Equity capital (monthly average % var.)	Bank of Spain	0.9	0.5	-0.6	4.0	1.4	Equity percentage change for the sum of banks, savings banks and credit unions.

Comment on "Credit institutions. Business Development": The latest available data as of November 2011 show a very small growth in bank credit to the private sector (0.2%). There is a further drop in financial institutions deposit-taking (-0.6%). As for doubtful assets, they increased by 1.7%. Finally, it is worth mentioning the 1.4% increase in the Spanish financial institutions equity capital, coinciding with the efforts to raise banks' solvency.

E. Credit institutions. Market Structure and Eurosystem Refinancing

INDICATOR	Source:	Average 1995-2008	2009	2010	2011 JUNE	2011 SEPTEMBER	DEFINITION AND CALCULATION
36. Number of Spanish credit institutions	Bank of Spain	207	192	188	188	192	Total number of banks, savings banks and credit unions operating in Spanish territory
37. Number of foreign credit institutions operating in Spain	Bank of Spain	59	88	88	88	88	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	243,228	263,093	257,578	-	-	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	43,329	44,085	42,894	41,126	40,39	Total number of branches in the banking sector
40. Recourse to the Eurosystem (total Eurozone financial institutions) (Euro millions)	Bank of Spain	358,753	575,4	473,173	431,647	356,284 [a]	Open market operations and ECB standing facilities. Eurozone total
41. Recourse to the Eurosystem (total Spanish financial institutions) (Euro millions)	Bank of Spain	45,126	76,104	66,986	52,053	133,177 [a]	Open market operations and ECB standing facilities. Spain total
42. Recourse to the Eurosystem (total Spanish financial institutions): main long term refinancing operations (Euro millions)	Bank of Spain	20,385	2,8	22,196	11,505	6,445 [a]	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: January 2012

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": Spanish credit institutions keep on increasing their recourse to Eurosystem funding, which accounted for about 40% of total funds borrowed from the ECB.

F. Credit institutions. Efficiency and Productivity, Risk and Profitability							
INDICATOR	**Source:**	**Average 1995-2008**	**2008**	**2009**	**2010 DECEMBER**	**2011 SEPTEMBER**	**DEFINITION AND CALCULATION**
43. "Operating expenses/gross operating income" ratio	Bank of Spain	57.27	44.45	43.52	46.53	51.52	Operational efficiency indicator. Numerator and denominator are obtained directly from credit institutions´ P&L accounts
44. "Customer deposits/employees" ratio (Euro thousands)	Bank of Spain	2229.88	4249.86	4514.61	4605.69	4321.82	Productivity indicator (business by employee)
45. "Customer deposits/branches" ratio(Euro thousands)		9390.89	15171.70	16398.79	16554.20	17.025.61	Productivity indicator (business by branch)
46. "Branches/institutions" ratio		180.80	230.62	229.61	155.41	144.25	Network expansion indicator
48. Equity capital (monthly average % var.)	Bank of Spain	0.11	0.09	0.04	0.86	0.89	Credit institutions equity capital variation indicator
49. ROA		0.85	0.66	0.46	0.31	0.13	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE		14.17	11.78	7.94	5.73	4.48	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": The Spanish banking sector is still facing a challenging business environment, in line with other European banking sectors. The restructuring process is driven by a transition in which productivity indicators will improve due to reductions in the number of branches and employees. At the same time, regulatory pressures and efforts to improve solvency levels can be also observed.