Spanish Economic and Financial Outlook

Cleaning Up Banks' Property Assets: What's Next?

2012
Volume 1 ♦ Number 1
May 2012

FUNCAS

Editorial

Board of Editors
Carlos Ocaña (Director)
Santiago Carbó
Ángel Laborda
José Félix Sanz

Managing Editors
Alice B. Faibishenko
Juan Núñez-Gallego

Board of Trustees
Isidro Fainé Casas (Presidente)
José María Méndez Álvarez-Cedrón (Vicepresidente)
Fernando Conlledo Lantero (Secretario)
Julio Fernández Gayoso
Mario Fernández Pelaz
Jordi Mestre González
Antonio Pulido Gutiérrez
Atilano Soto Rábanos
Adolfo Todó Rovira
Victorio Valle Sánchez

Editorial and Production
Fundación de las Cajas de Ahorros (FUNCAS)
Caballero de Gracia, 28. 28013 Madrid

ADVANTIA, S.A.
Pol. Ind. Los Olivos. Formación, 16.
28906 Getafe (Madrid)
Tel.: 91 471 71 00

Printed in Spain

Contact
comunicacion@funcas.es

Web Site
www.funcas.es

Depósito Legal: M-10678-2012

Letter from the Editors

Over the past decade, the economic boom, the entry of Spain into the euro, and the crisis itself, have catalyzed a process of intense transformation of the Spanish financial system. Nevertheless, as a consequence of too much activity in the property sector (including real estate, construction, and household mortgages), banks have amassed a concentration of exposure in this area. The result has been a highly efficient Spanish banking sector, but also increased vulnerability in the current context of the crisis.

In this issue, we examine how the onset of the financial crisis, the bursting of the housing bubble and the resulting economic downturn put into evidence the accumulation of Spanish banks' overexposure to the housing sector. At a time when market concerns over sovereign risk are adversely affecting the ability of even the strongest financial institutions to gain access to funding, it is important to accelerate the process of correcting imbalances.

We provide a snapshot of the current state of banks' balance sheets, as well as recent government actions taken with a view to address the problems highlighted above. Such actions include the new measures approved on May 11th to introduce independent auditing on banks' property assets, isolate them from other performing assets, and introduce additional capital requirements for performing real estate assets on their balance sheets. We believe all of these measures will help to correct imbalances and more importantly, help to distinguish the good from the bad.

In our view, the latest measures will accelerate consolidation of the financial sector. Moreover, the independent valuation will help assign a credible value to property assets, allowing investors to differentiate on the basis of asset quality. As a next step, investors will be able to apply this differentiation on a greater scale – separating solid financial institutions and corporations from weaker ones. They will also be able to tap into potential opportunities for productive investment within the Spanish economy. Nevertheless, going forward, it will be critical to define how the so-called backstop mechanism will provide the necessary resources and guarantees on potential losses, in the event that the magnitude of the impairment is higher than expected.

In addition to the situation of Spain's private sector debt, we provide some insights on the state of regional debt markets. We explore ways to improve the regions' financing mechanisms, including preliminary thoughts presented by our contributing authors on the on-going hispabonos debate. This debate brings with it a series of potential positive, as well as negative considerations, in the event that it finally implies a State guarantee over regional debt. Additionally, we include an update on recent trends in the evolution of holders of Spanish government debt.

Another important issue we analyze is the 2012 budget, along with its implications for the regional governments. Finally, we also summarize the relevant regulatory actions the government has taken over the past few months.

We believe that proactivity is on the rise with respect to addressing critical challenges. As you read through the key themes of this issue of our publication, we trust that you will come away with the same impression.

FEATURES

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

The fiscal consolidation measures adopted thus far are, for the most part, proactive steps in the right direction. If results are in line with expectations, there should be a noteworthy impact on both the revenue and expenditure side. However, the impact of macroeconomic conditions will also be a determining factor in the government's ability to meet fiscal targets.

[2] Prepared by the Advisory Cabinet on Spanish Economic and Financial Outlook

Highlights of Spain's new financial sector reform

Santiago Carbó Valverde[1]

The Spanish government's new financial sector reform aims to accelerate the clean-up of banks' balance sheets and restore confidence in the Spanish financial system. The reform has clear advantages in boosting transparency and credibility, as well as tackling core issues. Next steps will need to include defining backstop mechanisms.

Spain has just approved its second financial reform this year, containing complementary measures to those approved last February, with an aim to clean-up banks' balance sheets. The reform also incorporates the creation of so-called asset management companies (SGAs in their Spanish initials) that will serve as the instruments through which troubled real estate assets of banks will first be transferred, and subsequently sold, over the next few years. This note summarizes the main elements of the new reform and makes a preliminary assessment of its potential impact.

The fifth financial sector reform since 2009

On May 11th, the Spanish government approved a new financial reform. The first was Royal Decree-law 9/2009, creating the Fund for the Orderly Restructuring of the Banking Sector (FROB). The second was Royal Decree-law 11/2010, improving governance and other aspects of the legal framework of the savings banks. The third was Royal Decree-law 2/2011, for the reinforcement and recapitalisation of the financial system. The fourth, approved last February, was Royal Decree-law 2/2012, increasing the provisioning requirements related to impaired assets.

The new reform will be enforced mainly through Royal Decree-law 18/2012 of May 11th, 2012 on the clean up and sale of real estate assets of the banking sector (published in the Spanish Official Bulletin 114 of May 12th, 2012: http://www.boe.es/boe/dias/2012/05/12/pdfs/BOE-A-2012-6280.pdf). The Decree is in line with the decision of the Spanish Council of Ministers to make a general assessment of the global credit portfolio of banks in Spain. To that end, two independent entities will be appointed. As the Spanish Minister for Economic Affairs and Competition has pointed out, the goal of the reform is "to dissipate any kind of doubt or uncertainty regarding the balance sheets of the banks" and the assets included in these balance sheets". Additionally, as noted in RD-l 18/2012, the reform seeks to "promote recovery of credit and drive the sale of property at fair value."

Approval of this new reform comes only three months after the February reform. Market pressure on Spanish banks has significantly intensified over March and April and there have been several recommendations from international organizations

[1] University of Granada and Funcas

calling for further action in the area of banking sector reforms in Spain to dissipate some of the current concerns and uncertainties. Probably among the most influential of these recommendations were the preliminary conclusions of the Financial Sector Assessment published by the International Monetary Fund on April 25th, 2012. The IMF noted that *"the assessment confirms the need to continue with and further deepen the financial sector reform strategy to address remaining vulnerabilities and build strong capital buffers in the sector. A carefully designed strategy to clean up the weak institutions quickly and adequately is essential to avoid any adverse impact on the sound banks. Furthermore, dealing effectively and comprehensively with banks' legacy problem assets should be the priority of the next stage of the financial reform strategy."*

In this short note, we provide detail on the financial reform's new provisioning requirements and discuss how it offers new tools to try to provide more confidence in the Spanish banking sector. In section 2, we address the main elements of the reform and in Section 3 we make a brief preliminary assessment.

Main components of the reform

New provisions and FROB funding

The new financial sector reform has been presented as a second phase of the reform approved last February. The basic idea has been to anticipate the clean-up of a hypothetical deterioration of the performing (healthy) real estate portfolio. For performing loans in the real estate sector – estimated by the government to be 123 billion euros as of December 2011 - an average increase in the current (generic) provisions level from 7% to 30% will be required by December 2012. According to the government, this will imply around 30 billion euros of additional provisions.

Importantly, the banks in need of capital as a result of the new provisioning requirements will have to fund themselves either through the market, or through financial support from the FROB. In particular, by June 11th, banks will have to present compliance plans for achieving the new levels of provisions. The Bank of Spain will then have 15 working days to make its own assessment of the plans. If the Bank of Spain considers that the plans would result in a shortfall of own funds or "capital principal" (concept similar to core capital), the banks will be required to present new measures to avoid such a shortfall, as well as an execution plan, within the next five months. In any event, if the Bank of Spain considers that compliance is unlikely, additional measures can be adopted, including financial support from the FROB.

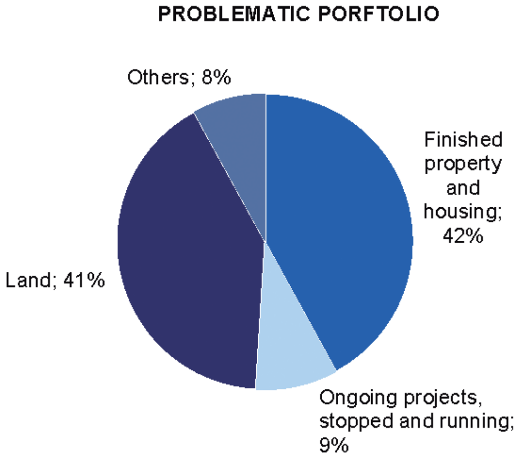
The FROB will be able to provide capital through two instruments: shares or contingent capital (CoCos). Since this funding will be considered as refundable, these recapitalization possibilities will not be included in the public deficit.

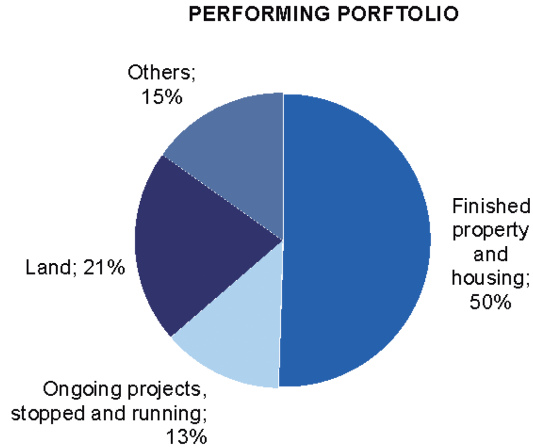
Importantly, the CoCos will be remunerated at a 10% interest rate, which represents approximately twice the Spanish Treasury's funding cost for 5 year maturities, the same period allotted for refunding of state aid. Any bank receiving FROB support will have to submit an additional restructuring plan to the Bank of Spain explaining how the funds will be refunded.

It is worth highlighting that the government has provided data on the composition and quality of the performing real estate portfolio and the problematic portfolio. There are significant differences in composition. As shown in Exhibit 1, problematic land (74 billion euros) represents 24% (74 billion euros out of 307 billion euros) of total assets linked to loans to developers, while non-problematic land (25 billion euros) represents 8% (25 billion euros out of 307 billion euros) of total assets linked to loans to developers. In any event, the effort ahead for Spanish financial institutions will be considerable.

Exhibit 1

Composition of problematic and performing portfolio of assets linked to loans to developers in the Spanish banking sector





Source: Spanish Ministry for Economic Affairs and Competition

Additionally, the Ministry for Economic Affairs and Competition has conducted a preliminary stress test on the potential effectiveness of the new provisioning rules (combining both the measures adopted in RD-I 2/2012 and RD-I 18/2012). Under a stress scenario, where 75% of performing assets (that is, 92.2 billion euros) become impaired, total problematic assets would increase from the current 184 billion euros to 276 billion euros and the provisions would cover 50% of these problematic assets.

Specific measures for banks engaging in new merger processes

The new banking reform allows those banks that engage in further mergers to enjoy some advantages. In particular, the deadline to meet the new provisioning requirements will be extended until December 2013. Additionally, the government will allow the write-down of impaired assets against equity for these merging institutions. Merging banks may also benefit (if they decided to do so) for the FROB’s margin of action, allowing for acquisition of CoCos until December 2013.

In return for these potential advantages for merging institutions, the reform establishes some strict conditionality on the mergers. In particular, merging banks will be required to submit a plan to the Ministry for Economic Affairs and Competition by June 30th, 2012 and the merger will be expected to be fully operative as of January 1st, 2013. The merged institution will need to have a balance sheet 20% higher than the largest participating institution. Improvements in corporate governance could also be required, as well as further reductions in the exposure to real estate assets and “an increase in lending to productive activities”.

Asset management companies (SGAs) and independent third-party valuation of all assets

RD-I 18/2012 also includes two very important additional features. The first one is the creation of the so-called asset management companies

(SGAs). The goal is to isolate problematic real estate assets from the bank's balance sheet. The regulation predicts an "initial transfer of only foreclosed problematic assets". The transfer is expected to be made "at fair value (book value net of provisions, considering high provisioning levels for these assets)". The creation of an SGA will be compulsory for all Spanish financial institutions (one SGA for each one the banks).

The second very relevant additional feature is that two independent risk valuations from reputed independent experts will be requested by the government. The valuation will cover the entire portfolio and not only the real estate portfolio.

Preliminary assessment

As for any significant economic reform, an accurate assessment requires time to evaluate the medium to long-term impact of the actions undertaken. In any event, the most obvious filter that will determine the success of the new reform will be the extent to which it contributes to calm markets and foreign investors and to improve financial stability and confidence in the Spanish banking sector.

Among the advantages of the reform is a clear improvement in transparency over the market value of banking assets - the independent valuation of the assets will be a key feature. The result of this independent valuation will get closer to the real magnitude of the challenge that Spanish authorities and banks may face in solving asset impairment problems.

Another advantage of the reform is that it clearly deals with the most problematic set of assets in the loan portfolio, those linked to construction and development.

In any event, there are still a few problems and uncertainties that will probably require further clarification or action to make the reform as effective as it aims to be. The main question is how the potential losses that will emerge from the legacy assets will be covered/guaranteed. In particular, if the independent valuation of the banks' asset portfolio reveals that the magnitude of the impairment is higher than expected. Hence, it is critical to define how the so called backstop mechanism will provide the necessary resources to assist the troubled banks and guarantee potential losses. This feature is particularly relevant considering two additional issues that are a source of concern for financial analysts today. The first one is the extent to which the transfer of assets to an SGA at book value (net of provisions) will be considered an effective recognition of the asset impairment in the banks' balance sheets. The second (and probably most important) concern is the extent to which other assets - and not only those related to loans to construction and development - will be affected if macroeconomic conditions keep on deteriorating. Mortgages constitute the main concern and the independent assessment on the value of all banking assets should also reveal the magnitude of this potential problem.

Box: The clean up and sale of real estate assets in the financial sector (Royal Decree/Law 18/2012)[1]

Royal Decree-Law 18/2012, approved on May 11th, 2012, on the write-down and sale of the financial sector's real-estate assets, was published in the Official State Gazette (BOE) on Saturday, May 12th. The main aim of the Royal Decree-Law (RDL) was to increase the provisions against loans for land for construction and construction and property development, as well as to separate real-estate assets from pure bank assets by requiring banks to transfer the former to asset-management companies. Institutions that are unable to meet the new provisioning requirements may be eligible for support from the Fund for Orderly Bank Restructuring (FROB) through its purchase of convertible bonds or equity.

The main points of the Royal Decree–Law are:

- **Write-downs:** New provisions (in addition to the 7% established in RDL 2/2012) need to be set aside, on a one-off basis, on the outstanding balance, as of December 31st, 2012, of loans for land for construction and construction and property development, held by credit institutions or consolidated groups of credit institutions with activities in Spain, as referred to in Article 1.2 of Royal Decree-Law 2/2012. The percentages for additional provisions are as follows: 45% for land, 22% for ongoing development projects, and similarly, 7% for finished homes, and 45% for assets not backed with real-estate as collateral.

- **Implementation plan:** In general, institutions must comply with these new provisioning requirements by December 31st, 2012. Institutions involved in further mergers in 2012 will have twelve months from authorisation of the operation to comply.

- **Institutions must submit an implementation plan by June 11th, 2012**. This is to include a programme for divestment of real-estate assets and a timetable for implementation. If there is a shortfall in own funds or "capital principal" (concept similar to core capital) in the implementation plan, the plan must describe the measures envisioned to avoid such a shortfall, for which the maximum execution period will be five months.

- **The Bank of Spain** will have 15 working days to approve the plan, and may require such changes or additional measures as it considers necessary, including the possibility of requesting financial support from the FROB.

- **Asset management companies (SGAs in their Spanish initials):** All institutions must transfer foreclosed assets and assets received in payment of debts to an SGA before the end of the period allotted for compliance with the new provisioning requirements under Articles 1 and 2 of RDL 2/2012. In the case of institutions in which the FROB

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

has a majority shareholding, the latter shall decide whether or not it is appropriate to create an SGA.

- **Assets will be transferred at fair value**, or at book value if that is not possible, determined pursuant to Article 1.1 of RDL 2/2012 and Article 1.1 of the present RDL.

- **Institutions receiving FROB support pursuant to this RDL** will have three years to carry out the measures necessary for the SGA to be separated from the bank, such that its link is no closer than that of an associated company. To do so, it must sell off at least 5% of its assets to third parties each year.

- **Tax treatment of asset contributions to SGAs:** the tax regime has been modified to ensure the fiscal neutrality of asset contributions to SGAs.

- **Amendment of RDL 9/2009 (FROB):** Article 10 of RDL 9/2009 has been modified to enable institutions affected by Article 2 of this RDL to be eligible for financial support from the FROB. To access these funds, they will need to submit a recapitalisation plan for approval by the Bank of Spain. This financial support may take the form of convertible bonds or share capital injections. In either case, the securities will be included in the calculation of own funds and “capital principal”.

- **Amendment of RDL 2/2012:** The deadline for applications for authorisation of mergers, previously May 31st, has been extended until June 30th.

- **The RDL entered into force on May 12th.**

The specialisation of the Spanish banking sector: Building on original strengths, while adapting to a more challenging environment

Joaquín Maudos[1]

The Spanish banking sector has evolved rapidly over the past decade. In order to survive in the current environment, this evolution must continue, taking into account key elements such as efficiency, diversification of activities, and internationalization.

The Spanish economy and in particular the banking sector have undergone an intense period of transformation driven by European integration, economic boom, and the financial crisis itself. This article analyses one of the key aspects of this transformation process - the specialisation of the Spanish banking system - over the past decade and within a European context. We conclude that, while originally an important strength of the Spanish banking model, the specialisation of the originate-to-hold, retail banking business into the property market, together with overexpansion of installed capacity, are some of the imbalances that need to be corrected to ensure the health of the sector. This is particularly important at a time when access to wholesale finance remains restricted and a period of significant economic slowdown and deleveraging lies ahead. Going forward, in parallel to the on-going restructuring efforts, the banking sector must also expand services, reorient business towards more productive sectors, increase its share of non-interest income, and importantly, internationalize.

Since joining the European Monetary Union in 1999, the Spanish economy has undergone an extensive process of transformation and development. These changes have also affected the banking sector, which has experienced profound transformations in terms of aspects such as: i) productive specialisation, ii) the composition of the industry, iii) internationalisation and openness to the rest of the world; and, iv) an intensification of competition. Prior to the outbreak of the current crisis in mid-2007, the economic boom, in conjunction with the process of European financial integration, accounted for much of the transformation taking place in the Spanish banking sector. Similarly, the ongoing crisis itself, representing a shock of sufficient magnitude, together with the measures taken to mitigate its impact, can explain the structural changes occurring in the sector.

Against this backdrop, this article focuses on one aspect of this transformation, looking in

[1] Professor of Economics at the University of Valencia and Researcher at the Ivie. This article is related to the research project SEC2010-03333 of Spanish Ministry of Education.

particular at the specialisation of Spanish banks in the European context and the changes that have taken place over the past decade. The period examined includes the years from 2000 to 2011, covering Spain's adoption of the euro and its subsequent economic expansion, together with the impact of the crisis in 2008-2011. The analysis draws on information published by the European Central Bank (ECB) in the form of aggregate Monetary Financial Institutions' (MFIs) balance sheets, supplemented with more detailed information from the Bank of Spain.

As we shall see, the model of retail banking - typical of the Spanish banking sector -characterised by its proximity to the customer (and supported by an extensive network of branches) represented a strength at the start of the crisis. However, the intensity and duration of the crisis, and the high degree of concentration of risk in the property sector, brought to light the existence of imbalances that still have to be corrected. Thus, although the generate-to-hold business model meant Spanish banks were not exposed to toxic assets in other countries, the sector's rapid specialisation in real estate and the excessive rate of credit growth underlie the problems it faces today. Going forward, Spanish banks will have to make their specialisation in financial intermediation compatible with the necessary correction of their excess installed capacity, and an increase in the relative importance of non-interest income.

Spanish banking system specialisation in the European context

An analysis of the differences in financial institutions' balance-sheet composition (on both the assets and liabilities sides) is crucial to explaining the differences observed in terms of aspects such as margins, income structure, transformation costs, default rates, liquidity, etc. Each particular banking business orientation (investment banking, retail banking, corporate banking, universal banking, specialised banking, etc.) has its own characteristic income and expenditure structure. Consequently, the differences observed between institutions in terms of economic and financial ratios can only be understood when the differences in productive specialisation are taken into account.

The standard approach to analysing banking specialisation is based on the composition of the balance sheet, to the extent that the liabilities reflect the financial structure and sources of financing and the assets demonstrate how this financing was used.

The main feature of Spanish banks in comparison with other European financial sectors is the high relative proportion of deposits and loans, implying a model typical of financial intermediation.

As shown in Exhibits 1 and 2, the main feature of Spanish banks in comparison with other European financial sectors is the high relative proportion of deposits and loans, implying a model typical of financial intermediation. Specifically, in late 2011, lending accounted for 61.9% of total assets, compared with an average of 55.1% for euro-area banks. Spain's banks are in second place in the euro area in terms of the significance of lending on their balance sheets, surpassed only by those of Greece (64.7%). In the case of deposits, Spanish banks are the most specialised with respect to this type of financing, as deposits represent 62.2% of the balance sheet, 11.2 percentage points above the euro-area average.

If we focus on the non-financial private sector, Spanish banks also lead the euro-area in terms of their degree of reliance on deposits as a source of financing, which represent 47.6% of total liabilities, 15 percentage points above the European average.

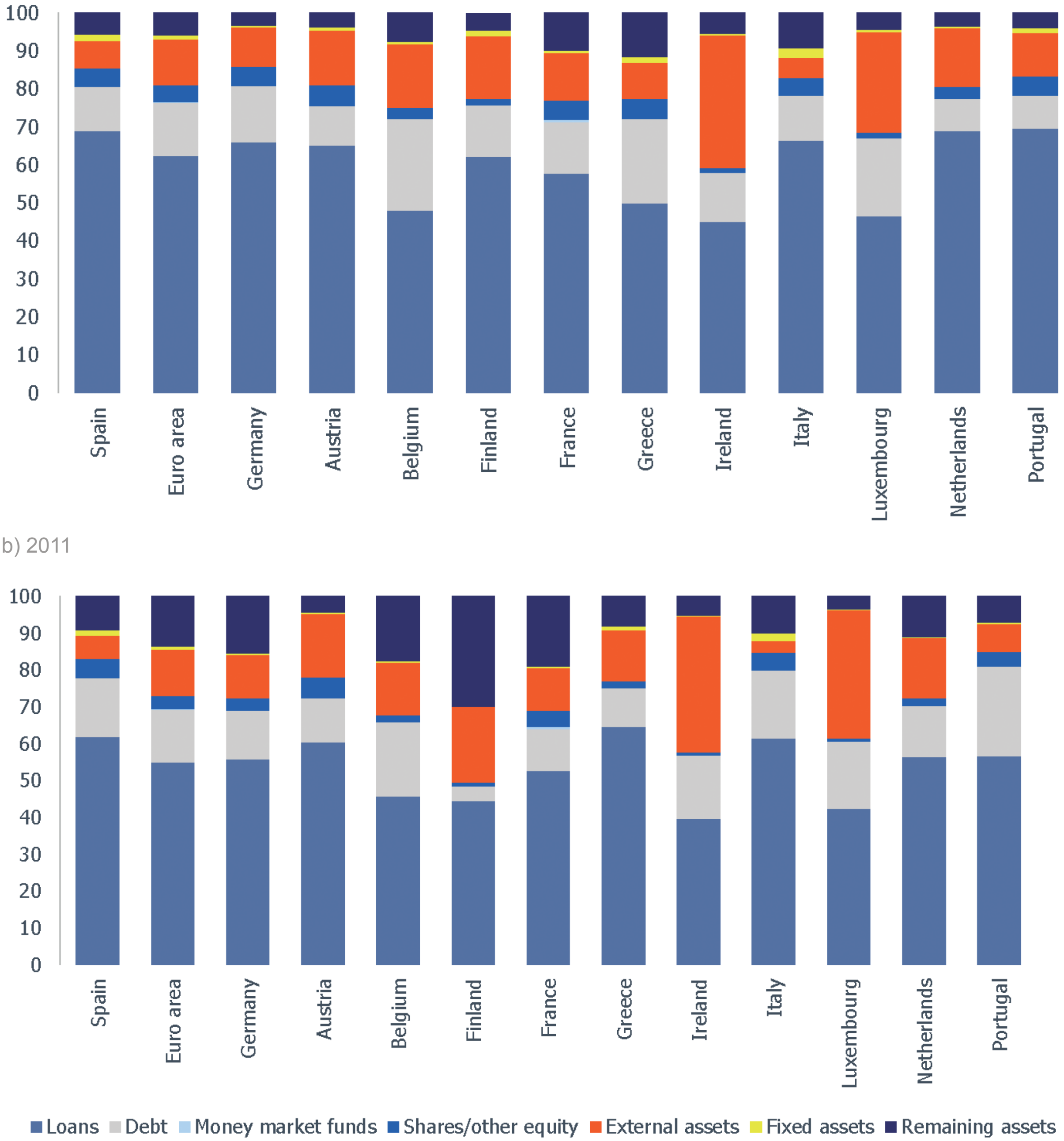
Moreover, in the case of lending, loans to

Exhibit 1

Percentage distribution of assets of Monetary Financial Institutions

(%)

a) 2000



Source: ECB and author's calculations.

businesses and households account for 50.4% of total assets in Spain, 17.2 percentage points more than in the euro area, second only to Greece, and far ahead of Germany (30.7%), France (25.3%) and Italy (42.8%). The relative weight of this item highlights the importance of private-sector financing in the range of activities conducted by Spanish banks.

Another notable feature of the Spanish banking sector is the greater importance of lending to the private sector, and by contrast, the lesser importance of lending to other MFIs. As is apparent in Exhibit 3, which shows the percentage distribution of lending to the private sector, loans to other MFIs represent 14.5% of total lending, which is less than half the comparative figure for other European banks (33.5%). The greater relative weight of credit to the non-financial sector concerns both loans to businesses (38.4% in Spain vs. 25.4% in the euro-area) and households (32.5% vs. 23.8%). This trait is explained by the larger share of lending accounted for by mortgages in Spain. Thus, home loans account for 29.4% of total private-sector lending, a proportion 9 percentage points higher than the euro-area average.

In the case of inter-bank lending, Spanish banks are less specialised than their counterparts elsewhere in Europe, with deposits and loans representing 15% and 9% of the balance sheet, respectively, compared with euro-area averages of 18.8% and 18.4%. The high net negative exposure of the Spanish banks in the inter-bank market is thus apparent, with a difference of 9 percentage points between share deposits and loans with other MFIs on their balance sheets.

In addition to Spanish banks' high degree of specialisation in the lending market, they also have a larger share of investments in fixed income securities, accounting for 16% of total assets, compared to 14.2% for euro-area banks. A closer analysis of the composition of fixed income portfolios reveals that this is explained by investments in securities issued by the non-financial private sector, as in Spain these investments account for 8.3% of total assets, compared to 4.6% in the euro area. The weight of public debt in Spanish banks' balance sheets also exceeds the European average (5.7% vs. 4.1%).

On the liabilities side, issuance of fixed-income securities has taken on greater importance in Spain, with a weight of 12% compared to 15% among euro-area banks. Nevertheless, as will be explored in more detail below, the increasing recourse to wholesale market finance, particularly through the issuance of covered bonds, is one of the main changes to have taken place in the Spanish banking sector's specialisation in recent years.

The increasing recourse to wholesale market finance, particularly through the issuance of covered bonds, is one of the main changes to have taken place in the Spanish banking sector's specialisation in recent years.

The relative weight of investment in equities is also higher in Spain in comparison to the average for euro-area banks. Specifically, at the end of 2011, shareholdings represented 5.1% of total assets, compared to 3.6% in the euro area. Only Austria had a percentage higher than that in Spain, with investments in equities playing a relatively minor role in countries such as Luxembourg, Finland and Ireland. These equity investments in various different sectors have enabled institutions to bolster their income with dividend flows. On the liabilities side, Spanish banks' degree of capitalisation is also greater, capital and reserves representing 10.2% of the balance sheet, a figure 3.6 percentage points higher than the euro-area, and behind only Greece.

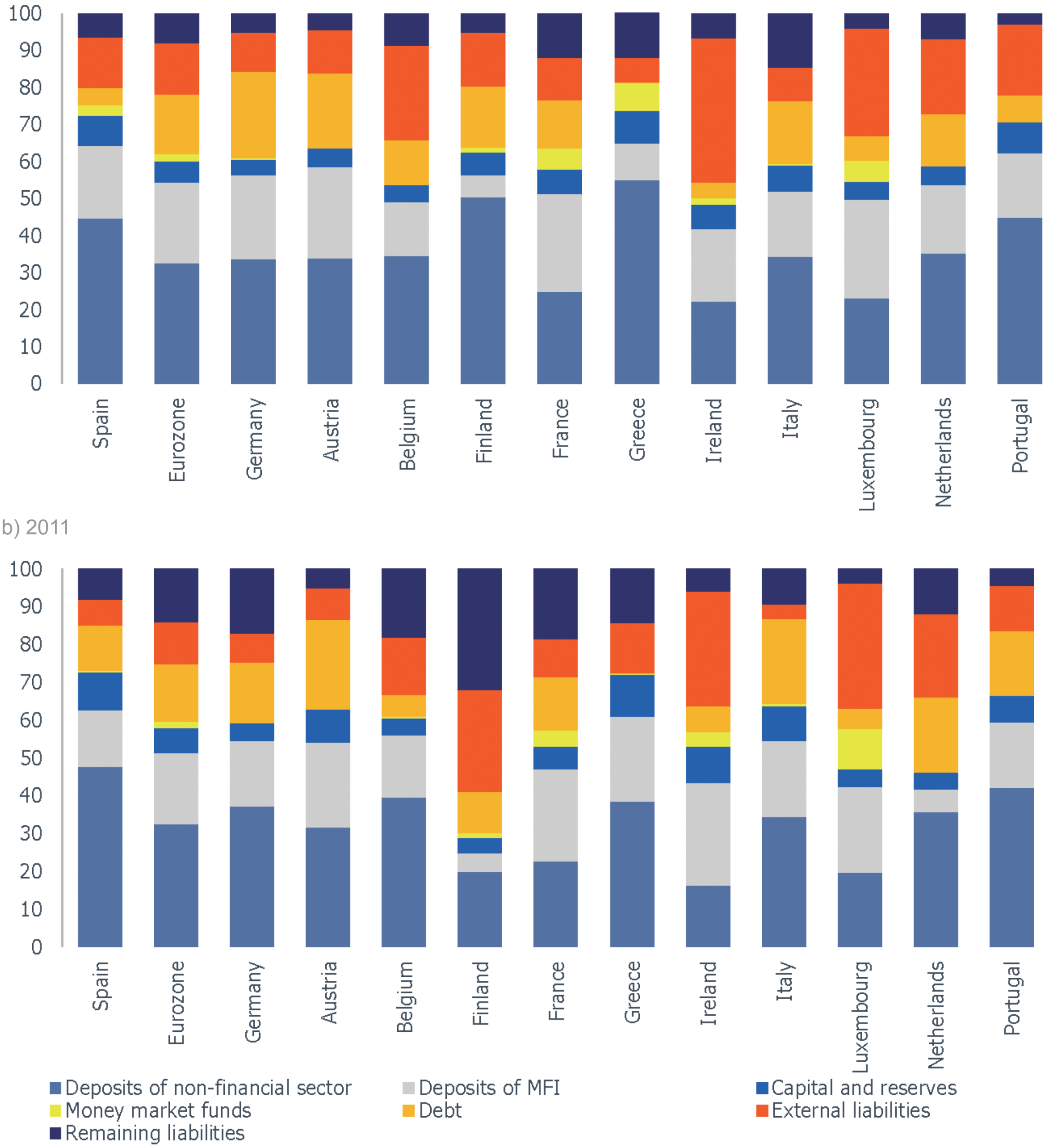
Finally, another point that stands out in the specialisation of Spanish banks in the European context today is the relatively low degree of investment and financing outside the euro area.

Exhibit 2

Percentage distribution of liabilities of Monetary Financial Institutions

(%)

a) 2000



Source: ECB and author's calculations.

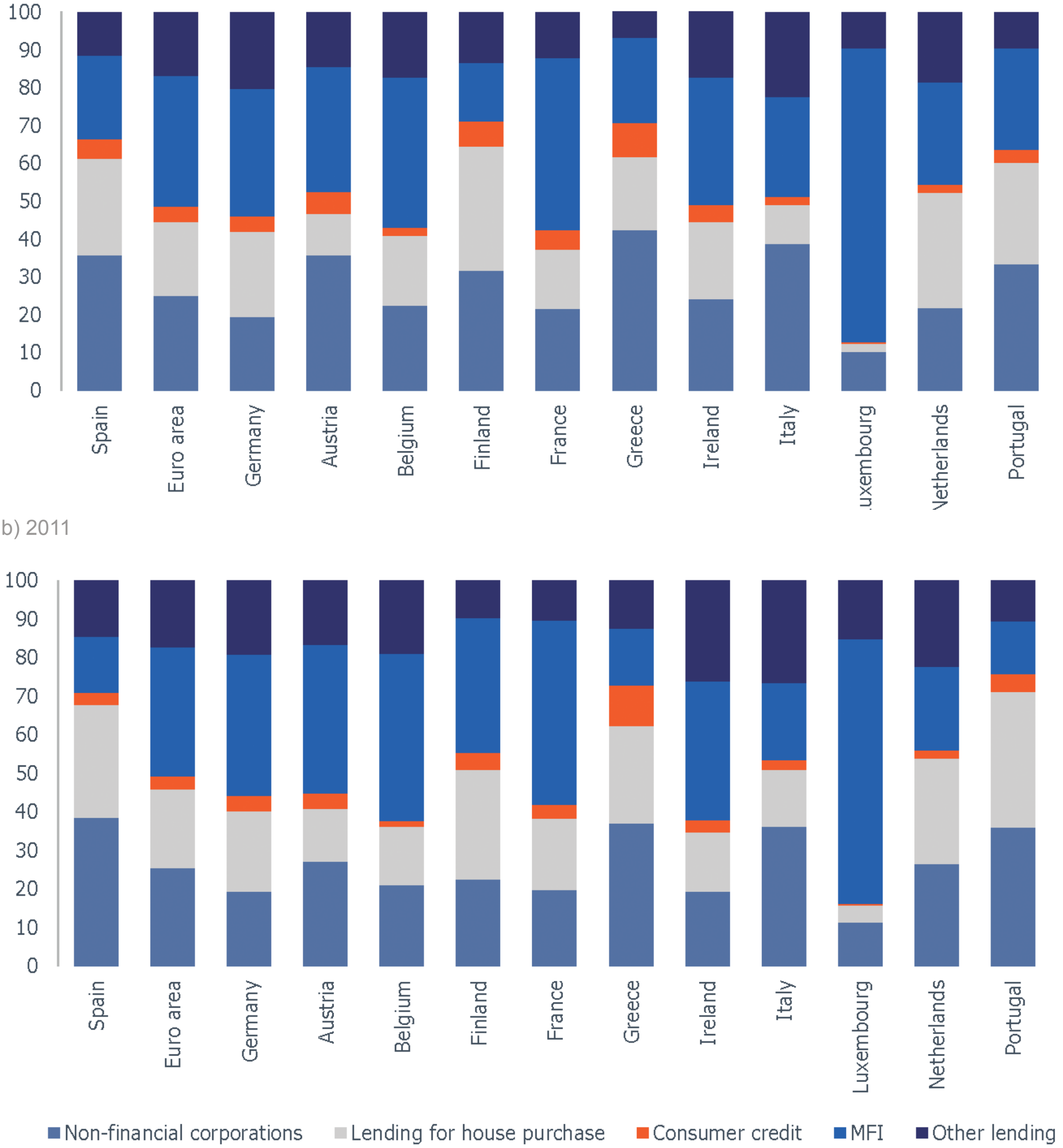
Exhibit 3

Percentage distribution of lending by Monetary Financial Institutions

(%)

a) 2003

b) 2011



Source: ECB and author's calculations.

This is indicative of the banks' more limited degree of internationalisation. In particular, external assets (from outside the euro area) represent only 6.2% of assets (compared to 12.6% in the euro area), while external liabilities represent 6.9% (11.7% in the euro area).

Changes in specialisation: 2000-2011

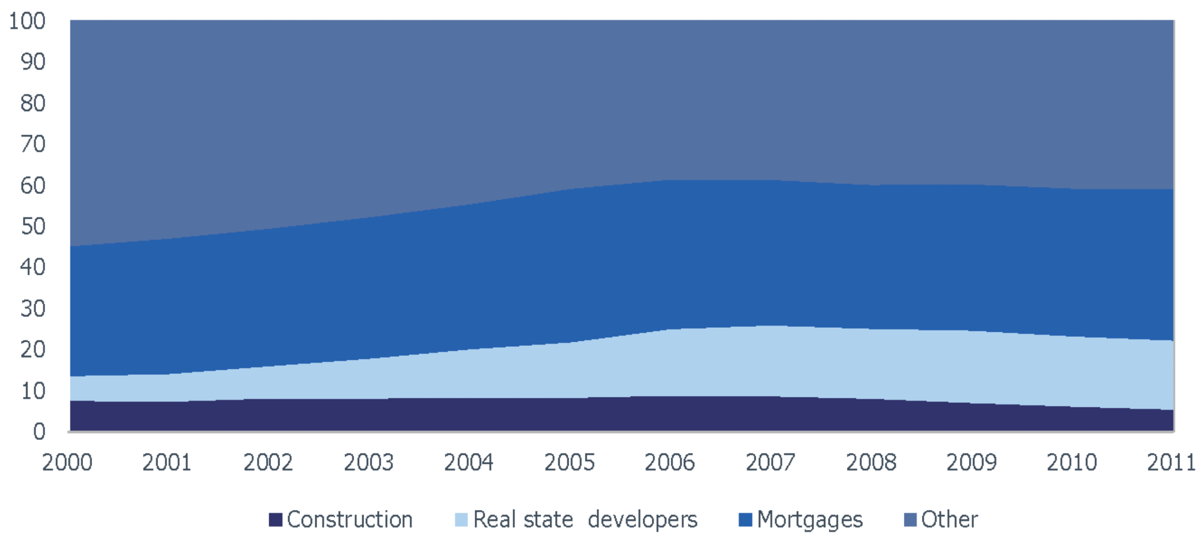
Comparing the 2011 balance sheet with that of 2000 reveals a number of noteworthy features of the changes in banking sector specialisation in the European context. On the asset side, the most striking feature is that while in Spain, the relative share of fixed income has increased by 4.4 percentage points, among euro-area banks, it has remained unchanged from initial levels. Another salient point is the drop in the percentage that loans represent on the balance sheet, with the drop being similar in Spain (7.2 percentage points) and the euro-area (7.3 percentage points). However, this aggregate decrease conceals important differences. These can only be analysed from 2003 onwards, as the ECB did not publish detailed information on the lending breakdown in previous years. Thus, comparing the current composition with that existing in 2003 (see Exhibit 4), the drop in Spanish banks' total assets attributable to lending is largely due to the declining significance of lending to MFIs and, to a lesser extent, consumer credit, while lending for home purchases and to businesses actually increased. Against this change in the lending mix, the composition in the euro area is much more stable, with a slight drop in lending to MFIs and consumer credit, and an increase in total lending for home purchases.

The biggest change in the composition of Spanish banking sector liabilities is the 7.5 percentage point increase in the share of fixed income securities issuance in total liabilities. This contrasts with the drop of one percentage point among euro area banks and is explained by Spanish banks' increasingly turning to the wholesale markets for finance. Also noteworthy is the increase in the importance of deposits from the non-financial sector as a source of financing and the drop in the

Exhibit 4

Percentage distribution of lending to the resident private sector by Spanish credit institutions

(%)



Source: Bank of Spain and author's calculations.

weight of deposits from other MFIs.

Lending specialisation: the focus on the property sector

As mentioned above, the composition of credit in Spain differs substantially from that in the rest of the euro area in that lending to the non-financial private sector is more significant and inter-bank lending is less so. In the case of the former, the information provided by the ECB reveals Spanish banks' greater orientation towards providing home loans.

Drawing on the more detailed information about credit institutions provided by the Bank of Spain, the feature that stands out most strongly is the increase by almost 14 percentage points in lending to the property sector (understood in the broad sense to include construction, real estate development, and home purchases), which came to represent 59.1% of private-sector lending in December 2011. Lending for real-estate development activities underwent the fastest growth, gaining 10.7 percentage points of the total, versus 5.2 percentage points in the case of mortgage lending.

The concentration of credit in activities related to the property sector reached a peak of 61.4% in late 2007, at precisely the moment the property bubble burst. Since then, the serious crisis being suffered by the Spanish property sector has translated into an acceleration of the banks' non-performing-loan rate, which reached 20.9% on lending to real-estate developers and 17.7% on construction lending. On the other hand, in the case of personal home loans, default rates remain at very low levels (2.8%).

In this context, the necessary process of deleveraging has been intense in the case of construction lending (the share of construction lending in the total fell by 3.4 percentage points between 2007 and 2011), whereas in real estate activities, it has only dropped by 0.5 percentage points (the outstanding stock has fallen by 8.1% since its peak in June 2009, compared with a drop of 37% in the case of construction since the maximum reached in September 2008), which highlights the significance of the refinancing activities taking place in the property sector.

Financing the private vs. public sector

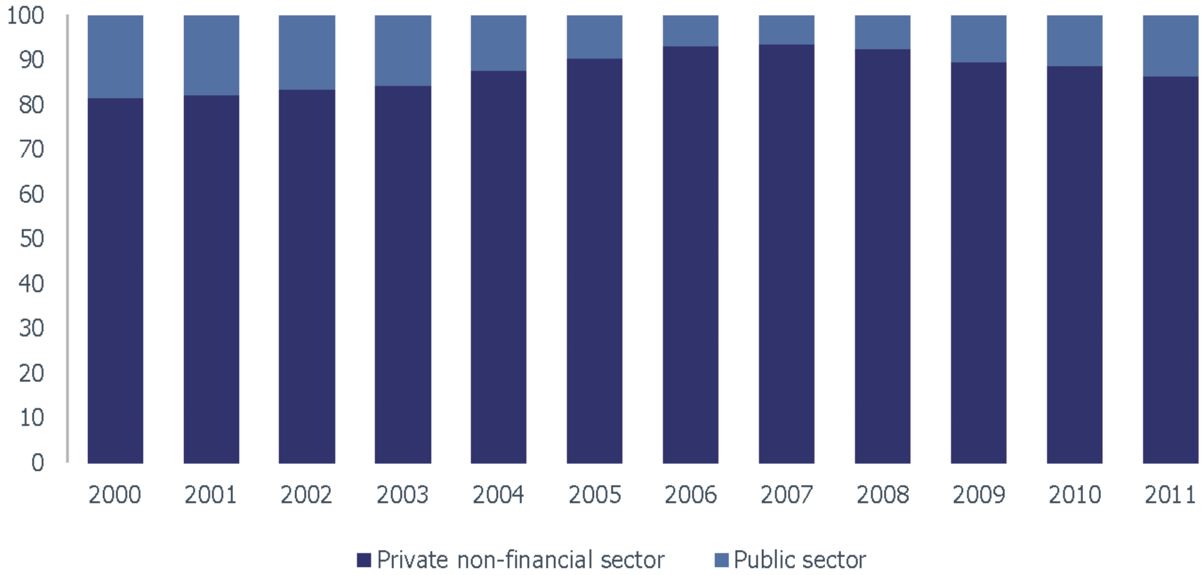
Another point worth analysing in the changes in the composition of financial institutions' business concerns is the way financing has been distributed between the private and public sectors. In the latter case, financing is provided in either of two ways: through the direct granting of loans or through the purchase of government debt.

In the specific case of Spanish credit institutions, Exhibit 5 shows the percentage distribution of bank financing from 2000 to 2011. The time series data clearly show that the economic boom underway up until the end of 2007 was accompanied by rapid growth in lending to the private sector (around 18% a year). Moreover, the public deficit reduction taking place up until 2007 meant that public sector net financing needs decreased (there was even a surplus from 2005 to 2007), which is also reflected in the changing composition of bank financing. In particular, whereas in 2000 the public sector absorbed 18.4% of financing of the Spanish banking sector, in 2007, the percentage had dropped to a third of that amount (6.3%). Subsequently, during the crisis, bank financing of the public sector rose to a maximum of 13.6% in December 2011, explained primarily by the amount of Spanish government debt purchased by the banks. In particular, relative to the 3% of Spanish banks' assets in the form of government debt in 2007, in 2011, the share had risen to 5.8%. The most recent information available at the time of drafting this article refers to February 2012 and situates this percentage at 6.9%, as a result, in particular, of the considerable amount of financing the Spanish banks have received in the ECB's two extraordinary liquidity auctions. As well as

Exhibit 5

Percentage distribution of bank finance of Spanish credit institutions

(%)



Source: Bank of Spain and author's calculations.

meeting debt repayments, Spanish banks have used this finance to buy government debt.

Changes in sources of financing and the liquidity gap

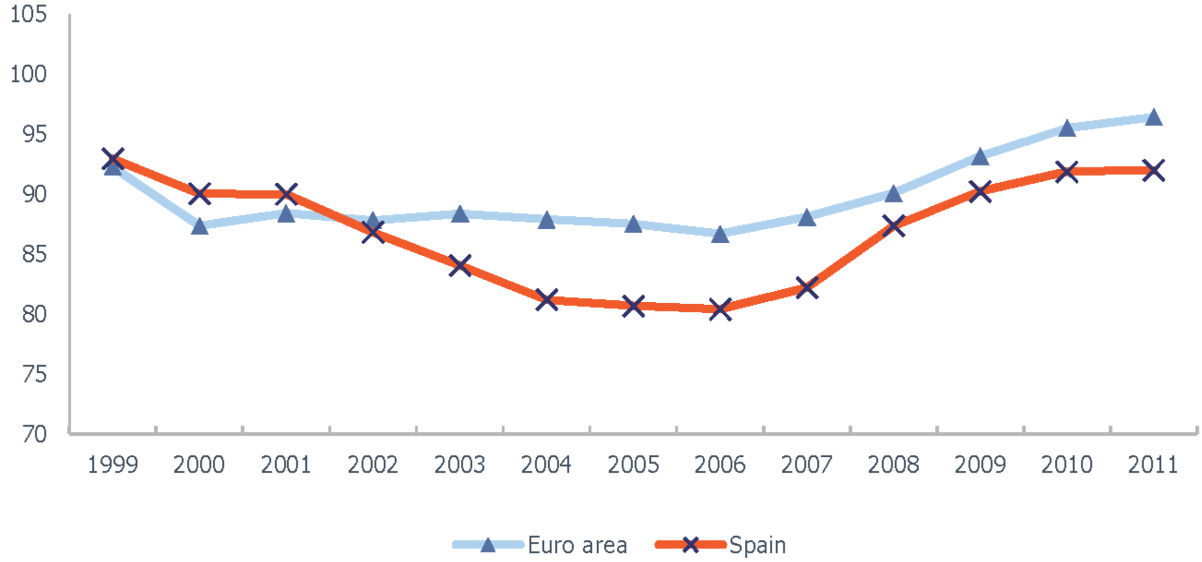
The rapid rate of credit growth in Spain over the period of expansion that lasted up until the onset of the current crisis was possible thanks to the abundance of liquidity in financial markets. However, with the loss of confidence in the wake of the crisis and the closure of wholesale markets (both debt and inter-bank markets), there has been a structural shift, with a reduction in dependence on these markets and consequently greater recourse to bank deposits as the principal form of financing. The ultimate goal of this process was to reduce the credit-deposit liquidity gap and, thereby reduce levels of leverage.

As Exhibit 6 shows, Spanish banks' non-financial private sector deposits-to-loans ratio fell by 10 percentage points between 2000 and 2006 to a minimum of 80.4%. Over this period, European banks' liquidity gap remained relatively constant at around 87%, highlighting Spanish banks' extreme vulnerability to tensions in financial markets. Given the difficulties accessing wholesale markets in the aftermath of the crisis, Spanish banks have had to turn to deposits as a basic financing mechanism. This has translated into a drop of 12 percentage points in the liquidity gap, with the deposits-to-loans ratio reaching 92% in late 2011, a level above even that at the start of 2000. Nevertheless, in 2011, Spain's ratio remained below the European average (92% vs. 96.4%), but exceeded that in countries such as Italy (80%), France (88%) or Portugal (86%). To narrow this liquidity gap, it has been necessary to increase returns on liabilities more than what might be desirable. This has led in recent years to a sharp narrowing of margins, which in turn has had an impact on profits.

Exhibit 6

Deposit/credit ratio (private non-financial sector) of Monetary Financial Institutions

(%)



Source: ECB and author's calculations.

Business model and income structure

The different orientation of the banking business towards a particular type of activity is reflected in the composition of the profit and loss account statement, and specifically, in the income structure. Similarly, in addition to the changes in balance-sheet composition, the changes in the structure of the market and the intensity of competition, financial development, internationalisation, financial disintermediation, etc. have effects on the income structure.

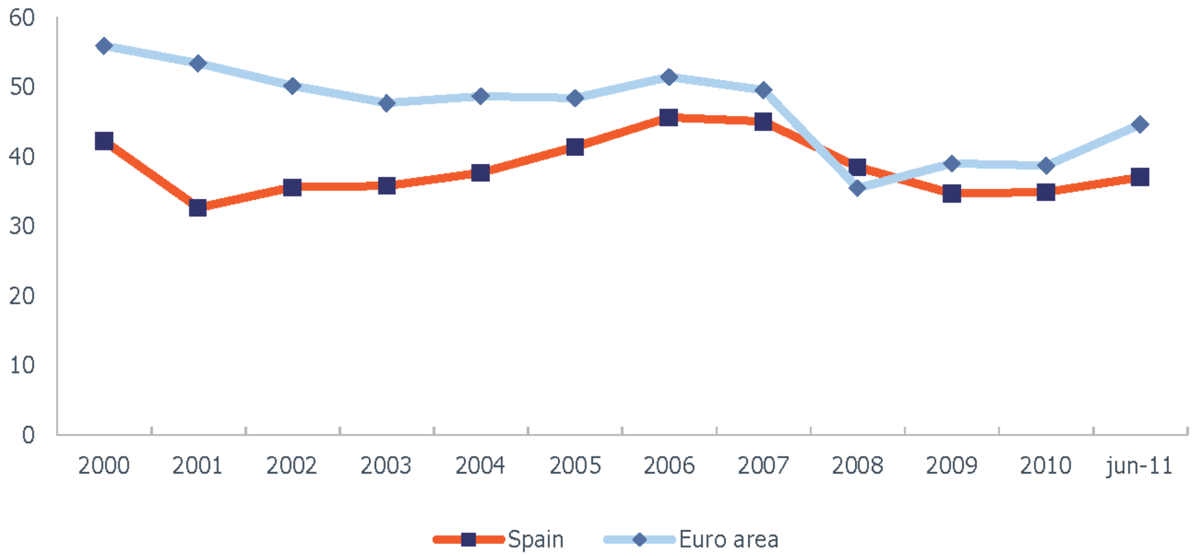
Exhibit 7 shows how the income structure of the Spanish banking sector has developed in comparison to that of banks elsewhere in the euro area, approximated by the weight of non-interest income as a share of total income[2] . The conclusions that can be drawn from the graph are the following: a) throughout almost the whole of the period analysed, the traditional intermediation business characteristic of the Spanish banking sector was reflected in the fact that the weight of net interest income was greater than in the euro area, representing, on average, almost two thirds of net income during the period, as against 50% in the euro area; b) although in early 2000, non-interest income was much less significant in Spain (representing 42.4% of total net income, compared to 55.9% in the euro area), in mid-2011 the difference had narrowed considerably, although interest income continues to be more important in Spain (63% vs. 55.4%); and c) in the wake of the crisis, there has been a structural change in the way the banks' income structure is evolving, with a sharp drop (even sharper in the case of European banks than Spanish ones) in 2008 in the relative importance of non-interest income, from which there has been only a partial and somewhat sluggish recovery in Spain in subsequent years.

[2] Non-interest income includes fee and commissions, income from securities and the net loss/profit on financial operations, and other operating income. Net interest income is financial revenues minus financial costs.

Exhibit 7

Non-interest income/Total net income of Monetary Financial Institutions

(%)



Source: ECB and author's calculations.

Looking to the future

Over the past decade, the Spanish banking sector has undergone a series of significant changes in its specialisation. Nevertheless, it kept its model of retail banking distinct from the international banking model characteristic of the preceding expansionary phase, in which there was a reorientation of the business towards credit origination and subsequent risk transfer (the so-called originate-to-distribute model).

Spanish banks will have to make the advantages associated with their retail (and relationship banking) specialisation compatible with the urgent need to reduce costs and increase efficiency.

However, although at the outbreak of the crisis the originate-to-hold model followed in Spain was initially a strength, the changes in productive specialisation that had taken place with the shift in emphasis onto the property business and the rapid expansion of installed capacity, meant that some of the initial strengths (such as the proximity to customers supported by the extensive network of branches) now need to be revised in order to correct the imbalances that have built up.

What is more, Spanish banks' growing dependence on wholesale finance in the past to fund high levels of credit growth made it necessary to narrow the liquidity gap existing at the time between loans and deposits, which has largely been corrected in response to the closure of wholesale markets. Nevertheless, this replacement of wholesale finance by retail finance has not been cost-free, as it has obliged institutions to increase the yield on liabilities above a desirable level, leading to a narrowing of financial margins, which has had an impact on profits.

Looking to the future, Spanish banks will have to make the advantages associated with their retail (and relationship banking) specialisation compatible with the urgent need to reduce costs and increase efficiency. This is due to the declining growth rate the banking business will suffer in the years ahead as a result of the deleveraging that needs to be undertaken to reduce the economy's high level of private debt. To do so, it will be necessary to reduce excess installed capacity, promote other distribution channels for banking products and services (such as online banking), reorient the business towards other sectors to substitute for the construction business, and increase the share of non-interest income. Last, but not least, once the current restructuring process has been completed, the new and larger institutions emerging will need to look beyond Spain's borders by diversifying their investments geographically, as the evidence shows that it is the more diversified institutions that are best positioned to overcome the crisis.

Spain’s private sector indebtedness: Where do we stand and what are the remaining challenges?

Santiago Carbó Valverde[1], Eduardo Maqui-López[2] and Francisco Rodríguez Fernández[3]

Private debt imbalances have begun a process of slow correction. Additional adjustment is necessary, in particular related to the housing market, but important consideration must be given to ensure future deleveraging does not threaten financial stability.

While a significant degree of public attention on Spanish imbalances has been devoted to the public debt, Spain does not seem to have a comparative disadvantage relative to its European peers where public debt levels are concerned. However, Spanish private sector debt experienced intense growth in the years prior to the crisis and is now considerably higher than the EU average. This article shows that Spain’s private debt imbalances are significant and correcting them is one of the major challenges for the Spanish economy over the next few years. Private debt has been mainly channelled through banks. As a consequence, current banks’ asset impairment problems - and the resolution mechanisms necessary to address them - will determine to a large extent the way the deleveraging process is conducted. Furthermore, private sector debt imbalances and related banking problems are linked to house price dynamics. Lower house prices and improved housing affordability could be two of the means through which to help Spain to accelerate private sector deleveraging.

Introduction to Spain’s private debt problem

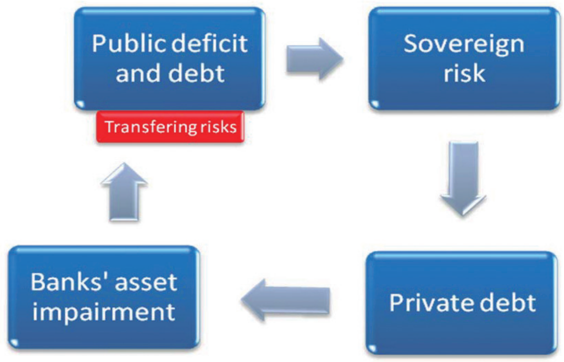
While controlling public deficit and debt are two of the main current concerns over Spain, it is private debt that accounts for the difference between Spain and other EU countries. There is a link between public and private debt and international investors are interested in determining the extent to which there could be potential transfers from private to public debt. The IMF has pointed out in its latest Global Financial Stability Report, published in April 2012, that “Ireland and Spain are examples of a private debt overhang weighing down the sovereign”. As shown in Exhibit 1, public deficit and debt has been pushing sovereign risk up but there is a link with private debt issues. Specifically, the accumulated private sector debt has increased the banking sectors’ asset impairment and if the resolution mechanisms eventually involve public funding, this may further increase the public deficit, in line with the concerns of the IMF.

[1] University of Granada and Funcas
[2] University of Granada and Funcas
[3] University of Granada and Funcas

The history of financial crises has shown that domestic private debt crises could be even more harmful than external debt or exchange rate crises as it happened, for example, in Mexico and Brazil during the 1980s, in Russia during the 1990s and in Argentina during the 2000s. Spain's current problems with both sovereign and private debt are good examples. Private sector borrowing expanded rapidly in Spain in the period preceding the 2007 financial turmoil, as occurred in other developed and emerging economies. Household debt has shown a downward adjustment since 2007 -both in terms of GDP and disposable income- although it is still significantly higher than in other EU countries.

Exhibit 1

Public and private debt risk transfer



Source: Own elaboration.

Table 1

Indebtedness and leverage to GDP in selected advanced economies: IMF projections for 2012

	SPAIN	Euro Area	Greece	Ireland	Italy	Portugal	France	Germany	United Kingdom	United States	Japan	Canada
General government debt												
Gross	79	90	153	113	123	112	89	79	88	107	236	85
Net	67	70	n.a.	103	102	111	83	54	84	84	135	35
Primary balance	–3.6	–0.5	–1.0	–4.4	3	0,1	–2.2	1	–5.3	–6.1	–8.9	–3.1
Household debt												
Gross	89	70	70	120	51	105	63	59	99	88	74	89
Net	–72	–123	–48	–68	–171	–124	–127	–118	–178	–226	–236	–151
Nonfinancial corporate debt												
Gross	196	138	75	244	112	154	152	63	118	87	143	53
Debt divided by equity (percent)	149	106	264	84	139	144	85	107	86	82	184	45
Financial institutions												
Gross debt	109	142	33	691	97	63	169	97	742	87	177	60
Leverage of domestic banks	20	23	15	24	19	16	24	28	22	11	23	18
Bank claims on public sector	26	n.a.	29	27	32	19	17	21	8	7	79	18
External												
Gross	221	191	207	1.717	142	286	255	219	717	146	66	93
Net	93	14	97	93	23	107	9	–33	11	16	–52	11
Government debt held abroad	28	25	87	66	49	62	56	48	25	30	19	17

Source: International Monetary Fund (Global Financial Stability Report: The Quest for Lasting Stability, 2012).

The history of financial crises has shown that domestic private debt crises could be even more harmful than external debt or exchange rate crises.

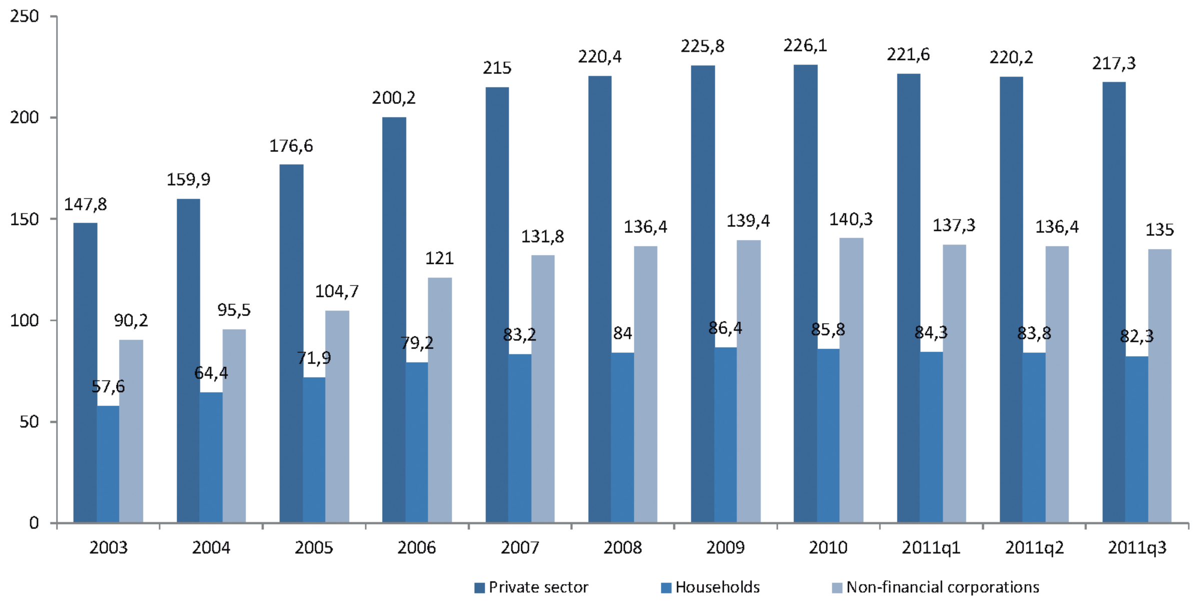
The history of financial crises has shown that domestic private debt crises could be even more harmful than external debt or exchange rate crises as it happened, for example, in Mexico and Brazil during the 1980s, in Russia during the 1990s and in Argentina during the 2000s. Spain's current problems with both sovereign and private debt are good examples. Private sector borrowing expanded rapidly in Spain in the period preceding the 2007 financial turmoil, as occurred in other developed and emerging economies. Household debt has shown a downward adjustment since 2007 -both in terms of GDP and disposable income- although it is still significantly higher than in other EU countries.

The projections on public and private debt to GDP made by the IMF (see Table 1) suggest that Spanish gross government debt to GDP will be 79% by the end of 2012, while the EU average will be 90%. However, households' debt to GDP is expected to reach 89%, while the estimation for the EU is 70% Similarly, non-financial firms' debt in Spain will grow to 196% in 2012, according to the IMF, while the EU average will be 138%.

Understanding how Spain reached this point, and how intense private sector deleveraging should be in the following years, is critical to understanding the Spanish path towards economic recovery. Where do we stand and what are the remaining challenges? In the following sections, we offer our insights on how Spain's private debt has evolved before and during the crisis and what challenges remain for households, firms, and banks to correct the accumulated imbalances over the next few years. The next section describes the evolution of private debt in Spain. Subsequently, we address

Exhibit 2

Debt of the non-financial sectors in the form of securities other than shares and of loans
(% of GDP)



Source: Bank of Spain and own elaboration.

the extent to which households and firms will need to deleverage and the importance that housing market dynamics (including housing affordability) may have in correcting current imbalances. Finally, the last section offers some conclusions.

Evolution of private debt in Spain and its regions

The information provided in the Financial Accounts published by the Bank of Spain is a useful tool to analyze the recent evolution of households' and non-financial firms' debt in Spain. Exhibit 2 shows the evolution of the debt of the non-financial sectors in the form of securities other than shares and of loans as a percentage of GDP from 2003 to 2011Q3 (latest information available). In 2003, the private debt to GDP ratio was 147.8% and in 2010 it was 226.1%. This represents a net increase in private debt of 52.9% of GDP in just seven years.

A slow deleveraging process started in 2010 as the ratio of private debt to GDP fell to 217.3% in 2011Q3. However, if we take 2003 as a reference, it seems that there is still a significant

Table 2

Net difference between loans and deposits and loans-to-deposits ratio in Spain and its regions (2005-2011)

	2005		2007		2009		2011*	
	Net difference (Eur million)	Loans/ Deposits Ratio	Net difference (Eur million)	Loans/ Deposit Ratio	Net difference (Eur million)	Loans/ Deposits Ratio	Net difference (Eur million)	Loans/ Deposits Ratio
Andalusia	76,974.74	1.96	127,764.27	2.28	124,206.39	2.19	112,559.51	2.08
Aragon	10,016.90	1.46	16,362.67	1.57	13,375.94	1.40	11,069.23	1.32
Asturias	2,723.90	1.18	6,176.29	1.32	4,795.22	1.22	2,561.00	1.11
Balearic islands	14,485.77	2.03	23,126.87	2.32	24,010.84	2.22	21,593.09	2.07
Basque country	15,889.39	1.35	21,029.33	1.35	6,918.15	1.09	10,599.43	1.14
Canary islands	21,312.64	2.22	33,060.77	2.54	32,470.90	2.40	27,868.61	2.20
Cantabria	3,709.31	1.51	5,915.94	1.63	4,497.57	1.40	3,558.12	1.30
Castile-La Mancha	8,806.85	1.36	20,067.80	1.65	19,294.31	1.55	16,129.89	1.46
Castile-Leon	6,305.86	1.14	15,455.70	1.29	11,466.75	1.19	7,432.08	1.12
Catalonia	88,818.83	1.66	147,034.26	1.86	148,300.86	1.76	131,123.14	1.68
Extremadura	3,091.16	1.27	6,024.34	1.41	5,363.70	1.32	4,523.96	1.27
Galicia	10,672.22	1.32	21,247.78	1.50	18,672.00	1.37	11,106.60	1.21
Madrid	47,198.69	1.22	109,038.15	1.35	115,000.17	1.35	130,308.60	1.43
Murcia	14,160.92	1.83	25,638.81	2.17	24,808.44	2.06	22,741.46	1.93
Navarra	4,818.58	1.43	7,616.00	1.51	7,090.70	1.42	6,083.42	1.36
La Rioja	3,534.63	1.73	5,383.81	1.80	4,363.54	1.54	3,592.04	1.44
Valencia	47,857.40	1.69	76,449.43	1.78	82,357.38	1.85	78,356.36	1.82
Ceuta	270.98	1.46	452.31	1.61	505.80	1.61	544.53	1.66
Melilla	201.59	1.36	317.89	1.43	265.17	1.34	184.96	1.22
SPAIN	380,850.36	1.50	668,162.44	1.65	647,763.81	1.58	601,936.02	1.55

* September.

Source: Bank of Spain and own elaboration.

debt reduction effort required ahead. In absolute terms, the Spanish private sector accumulated more than 800 billion euros in debt between 2003 and 2009 and in 2010 and 2011 the reduction of this debt was 70 billion euros.

As for firms, the ratio of debt to GDP was 90.2% in 2003 and increased to 140.3% in 2010. From then onwards, it fell to 135% in 2011Q3. In the case of households, the debt ratio was 57.6% in 2003 and 86.4% in 2009 and it only decreased to 82.3% in 2011Q3. As shown in the latest Financial Stability Report of the Bank of Spain (April, 2012) "credit to the private sector in Spain remained on a declining trend, which is largely due to the natural process of deleveraging by households and firms following the strong credit growth in the years prior to the crisis"[4] . The process, however, seems to be proceeding at a slow pace.

As both households and firms' debt is mainly bank debt, looking at the evolution of bank loans could be another way of analysing private sector leverage, particularly in the case of the regions.

[4] http://www.bde.es/webbde/Secciones/Publicaciones/InformesBoletinesRevistas/InformesEstabilidadFinancera/12/FinancialStabilityReport_Apr_12.pdf

In order to provide a relative measure of this leverage, we compare the amount of loans with the amount of deposits. This also allows us to have a proxy of the evolution of private sector debt at the regional level, where no other statistics are available or have been recently updated. Table 2 shows the evolution of the loans-to-deposits ratio in Spain and its regions from 2005 to 2011. The ratio increased from 1.50 in 2005 to 1.65 in 2007. This financial leverage ratio fell to 1.55 by September 2011.

As for the regional breakdown, Canary Islands (2.20), Andalucía (2.08) Balearic Islands (2.07), and Murcia (1.93) are the regions where private sector leverage is found to be higher. As for the regions showing the lowest values of the loans-to-deposits ratio, they are Asturias (1.11), Castile - León (1.12), the Basque Country (1.14), and Galicia (1.21).

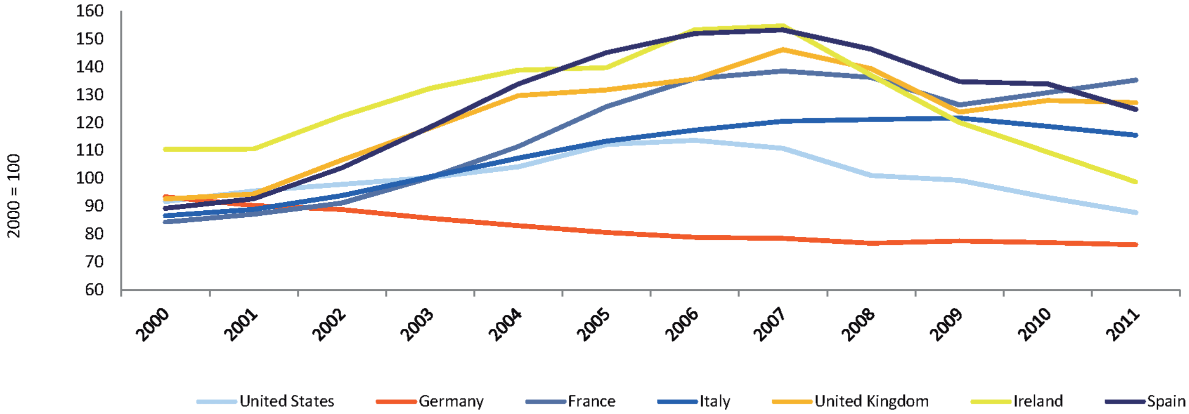
Spain's private sector deleveraging challenge and house price dynamics

Housing market developments and private sector indebtedness have been closely linked during the follow-up to the 2007 financial crisis. Since

Exhibit 3

House price-to-income ratio in selected countries (2000-2011)

(2000=100)



Source: IMF (2012), "Global House Price Monitor. Will House Prices Keep Falling?" by Prakash Loungani.

the late 1990s, expectations of continued house price increases eased credit growth considerably, particularly to the real estate and construction sectors. This is one of the reasons the house price cycle in Spain became particularly pronounced compared to other European countries.

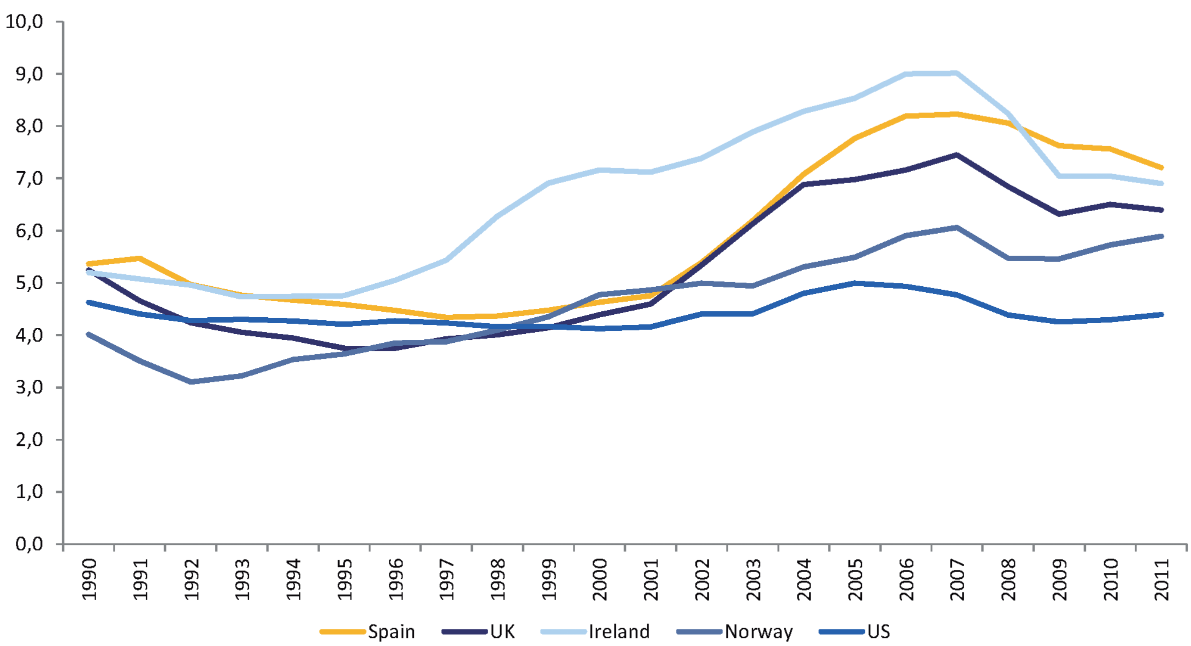
One indicator that Spanish private sector deleveraging and debt imbalances are not being corrected as fast as one would have expected relates to the correction in house prices observed in Spain compared to other countries that also experienced real estate bubbles (i.e., Ireland, UK). Institutions such as the IMF look at this correction in house prices as a key driver of correction of private sector debt imbalances. One of the methods of monitoring the extent to which imbalances are being corrected is housing affordability. The IMF uses the ratio of median house prices to median household disposable income as a metric for housing affordability. As shown in Exhibit 3, Spain is one of the countries (along with France and Italy) where the housing affordability index remains high.

Since the late 1990s, expectations of continued house price increases eased credit growth considerably, particularly to the real estate and construction sectors. This is one of the reasons the house price cycle in Spain became particularly pronounced compared to other European countries.

Another method of showing a house affordability index is by calculating the number of annual salaries that a household will have to pay to acquire an average house. Making such a comparison at an international level is a hard task as it requires taking data from different sources which are as homogeneous as possible.

Exhibit 4

Housing affordability in Spain, UK, Ireland and the US (1990-2011)



Source: OECD Statistical Database and National Statistical Offices.

As for the data on average wages, they are the most homogeneous through the ratio of "expenditure on staff compensation" to "labour force". Both variables can be obtained from the OECD Statistical database. As for the data on average house prices, they are computed by taking different national sources that use similar methodologies. House prices were computed for 90 sq. m. houses.

As shown in Exhibit 4, larger salaries are required to acquire a house in Spain, Ireland and the UK and they have increased significantly over the last 10 years compared to, for example, the US. The house affordability index for Spain experienced a considerable growth in pre-crisis years. In 2000 the number of annual salaries to buy a house was 4.6, in 2007 it almost doubled to 8.2 annual salaries.

Compared to the other selected countries, the correction in terms of housing affordability in Spain seems to be lower and the level still seems to be the higher, suggesting that there is still room for further adjustment.

As for the post-crisis period, the house affordability index for Spain decreased from 8.2 in 2007 to 7.2 in 2011. However, compared to the other selected countries, the correction in terms of housing

Table 3

Number of salaries needed to buy a house in Spain and its regions

	2005		2007		2009		2011*	
	Average salary (Eur)	Number of salaries	Average salary (Eur)	Number of salaries	Average salary (Eur)	Number of salaries	Average salary (Eur)	Number of salaries
Andalusia	16,817.12	9.10	18,094.47	9.72	20,697.03	7.80	20,640.91	6.98
Aragon	18,280.51	9.09	20,165.82	9.58	21,689.90	7.96	21,779.25	6.77
Asturias	18,571.29	8.11	20,189.53	8.72	22,341.24	7.16	22,619.59	6.99
Balearic islands	17,591.54	11.51	19,068.47	12.70	21,034.96	10.11	21,241.31	9.18
Basque country	21,875.79	11.82	23,328.34	12.73	25,987.49	10.54	26,513.22	9.68
Canary islands	15,257.62	10.48	16,759.69	10.89	18,798.60	8.58	18,656.32	7.69
Cantabria	17,519.55	9.87	18,864.98	10.87	20,558.83	8.75	20,703.50	8.64
Castile-La Mancha	17,148.96	7.70	18,481.89	8.21	20,603.82	6.74	20,687.79	6.25
Castile-Leon	16,443.20	7.78	17,914.49	8.03	20,015.62	6.19	19,997.31	5.83
Catalonia	20,851.36	10.03	22,162.33	11.06	23,812.33	9.60	24,169.27	8.44
Extremadura	16,978.58	5.29	16,376.64	6.26	18,820.31	5.32	19,198.79	5.11
Galicia	15,026.50	8.53	17,403.37	8.89	19,402.84	7.56	19,986.27	6.87
Madrid	22,386.10	12.44	23,921.56	12.57	26,013.17	10.07	26,122.19	8.65
Murcia	16,162.56	8.61	17,310.37	9.35	20,265.85	6.67	20,918.46	5.88
Navarra	21,372.07	7.47	22,267.89	7.67	23,365.88	6.95	23,724.93	6.11
La Rioja	17,330.49	8.41	18,880.29	8.58	21,007.74	7.29	21,162.37	6.37
Valencia	16,978.58	8.78	17,948.21	9.27	19,884.05	7.57	20,103.33	6.67
SPAIN	18,034.81	10.12	19,361.08	10.77	21,429.39	8.83	21,660.28	7.86

* September.

Source: INE, Ministerio de Fomento and own elaboration.

affordability in Spain seems to be lower and the level still seems to be the higher, suggesting that there is still room for further adjustment. In the US for example, the housing affordability index dropped from 4.8 in 2007 to 4.4 in 2011, in the UK it fell from 7.5 to 6.4 and in Ireland from 9 to 6.9.

Table 3 shows the housing affordability index in Spain and its regions from 2005 to 2011. In this case, for comparative reasons, the housing affordability index is computed for a house of 100 sq. m. There are significant regional differences. The housing affordability index is higher than 8 in the Balearic Islands, Cantabria, Catalonia, Madrid and the Basque Country. However, it is lower than 6 in Castile - Leon, Extremadura, Murcia, Navarra and La Rioja.

It is important to note that the correction in house prices may have accelerated during 2012 in Spain. The latest official statistics of the Spanish Statistical Office reflect that house price declines are becoming more pronounced. House prices fell by 7.2% on a year-on-year basis during 2012Q1. This type of adjustment path is similar to the one observed during 2009Q2 and 2009Q3. After 2009Q3, house prices kept on falling but less intensely and only by the beginning of 2012 had they started to rapidly decrease again. It should be also noted that some regions are adjusting more rapidly than others. In 2012Q1, the higher declines in house prices were observed in Aragon (10.1%), Andalusia (-9.2%), Catalonia (-8.4%), Valencia (-7.6%), Madrid (-7.5%), La Rioja (-7.4%) and the Balearic Islands (-7.3%). However, price decreases were less pronounced in Castile-Leon (-6.8%), Galicia (-6.8%), Castile-La Mancha (-6.7%), Murcia (-6.3%), the Canary Islands (-5.5%), Extremadura (-5.3%), Navarra (-4.5%), the Basque Country (-2.0%), Asturias (-1.9%) and Cantabria (-0.3%).

One of the impediments to achieve a faster house price adjustment in Spain is that there are very few property transactions. The latest available information is revealing. In particular, urban property transactions fell by 26.2% in February 2012 compared to February 2011. However, there are some expectations that prices could adjust further in the near future. The additional provisions that the new government introduced in February on real estate loans, together with other regulatory actions recently approved, (i.e. special vehicles for the real estate assets of the banks) may lead to further house price reductions. Additionally, owners of unoccupied homes could follow suit and accept lower prices. This may permit improvements in housing affordability and reactivate the market so that banks and households may readjust their asset portfolios and wealth.

Conclusions

The importance of private sector indebtedness and its linkages with public debt in Spain became clear during the course of the current financial crisis. Private debt has been mainly channelled through banks. In this sense, a key concern is how the deleveraging process is conducted and the way it may impact the banking sector. This relationship between private debt and the banking sector depends critically on the correction of current imbalances in house prices. In this article, we have shown that despite an improvement in housing affordability over the last few years, the number of transactions in the housing market and the corrections in prices are still low. Higher market affordability may reactivate the housing market further and correct some of the current imbalances in real estate markets that are still considered internationally as one of the main imbalances of the Spanish economy. Of course, this correction will also imply a reduction in private wealth, which is implicit in the process of deleveraging.

Importantly, some of these interconnections between debt, banks and the real estate market have been mentioned in the latest Financial Sector Assessment released by the IMF on April 25th, 2012: *“Dealing effectively and comprehensively with banks’ legacy problem assets should be the* *priority of the next stage of the financial reform strategy. There are a number of options for managing impaired assets including keeping these assets in the banks or setting up private or public specialized asset management companies. To give guidance on the best strategy for the Spanish banking system going forward, a comprehensive diagnostic of the impaired assets can be particularly useful". The IMF also acknowledges the costs of deleveraging for Spanish household when it states the need "to avoid resolution costs becoming too high for the (banking) industry to bear... after exhausting options for private recapitalization, to preserve financial stability and to avoid excessive deleveraging".*

Regional government debt and the hispabonos debate: Considerations for an improved regional financing model

Johanna M. Prieto and César Cantalapiedra
A.F.I[1]

Access to finance is become increasingly constrained for the regional governments. In this context it is even more necessary to improve their ability to fund themselves. However, the introduction of any new regional financing mechanism must properly take into consideration market pricing rationale in order to minimize downside risks.

Acute credit restrictions and international investors' growing mistrust of Spanish risk is making it nearly impossible for the regions to meet their financing needs based on traditional fund raising models. In response to these concerns, this article analyses the state of regional debt markets in 2011 and the need for alternative solutions. Consideration is given to a range of options for greater Treasury intervention, including the hispabonos debate, or the creation of a specialized vehicle for regional and local government funding to improve the regions' ability to finance themselves and meet debt service and other budgetary obligations.

The Spanish regions' funding market in the current context

Last year, the regional governments again funded themselves in unprecedented volumes through a wide variety of debt instruments, exploring new ways of accessing the markets. Despite the upheavals of recent years, the regions have until now been able to adapt their borrowing policies to the conditions in the capital markets. However, the acute credit restrictions and international investors' growing mistrust of Spanish risk mean that the existing model can no longer be relied upon to fulfil funding needs, which we estimate at 35 billion euros for this year.

When the regions embarked on their first major transformation twenty years ago, a good part of their debt was subject to a process of disintermediation, led by Andalusia, Catalonia and the Basque Country, through the issue of eurobonds rated by the rating agencies. This freed up the domestic market, saturated in the 1990s crisis by the Spanish public administrations' strong demand for loans from the country's banks.

Two decades later, much of this process has suffered a setback, with international investors losing interest in Spain. Although the ECB's extraordinary liquidity injections created some windows of opportunity in the market for those

[1] A.F.I — Analistas Financieros Internacionales, S.A.

borrowers with stronger solvency ratios, demand for their bonds has been concentrated almost exclusively in the Spanish financial system, with the participation of foreign investors being little more than symbolic.

In light of existing concerns over the Spanish financial system and economy, in particular public finances at the regional level, there is nothing to suggest that this situation will change significantly over the next few months. Therefore, measures to facilitate the revival of the regional government debt market are becoming increasingly necessary.

In light of existing concerns, in particular public finances at the regional level, there is nothing to suggest that this situation will change significantly over the next few months. Measures to facilitate the revival of the regional government debt market are becoming increasingly necessary.

In this context, the activity of the rating agencies has been characterized by a procyclical line that has seen Spain's credit rating cut to an average A and some regional governments have even fallen below investment grade.

Exhibit 1

Regional ratings (May 2012)

	Fitch-IBCA		S&P		Moody's	
Spain	A	Negative	BBB+	Negative	A3	Negative
Andalusia	A	Negative	BBB	Negative	A3*-	
Aragon			BBB	Negative		
Asturias	A*-					
Balearic Islands			BBB-	Negative		
Basque Country	AA*-		A	Negative	A2	Negative
Canary Islands	A*-		BBB+	Negative		
Cantabria	A*-				WR	
Castile-La Mancha	BBB+*-				Ba2*-	
Castile-Leon					A3	Negative
Catalonia	BBB+*-		BBB-	Negative	Baa3*-	
Extremadura					A3*-	
Galicia			BBB+	Negative	A3	Negative
Madrid	A	Negative	BBB+	Negative	A3	Negative
Murcia	A*-				Baa2*-	
Navarra			A	Negative		
Valencia			BB	Negative	Ba3*-	

Source: Reuters, Bloomberg and Rating Agencies.

Regardless of the merit of recent rating actions, the fact is that the imbalances generated during this recession have lasted much longer than expected, even in the face of the government's efforts to contain the growth of public spending.

As a result, Spain has experienced a widening of risk premiums toward levels indicative of market failure, but these levels also reflect the absence of investors in the regional debt market. Some regions have already made public their demands for a solution involving the central state, which would provide a mechanism for the funding volumes required this year, bearing in mind that so far barely 8 billion euros have been raised.

This is the context of the debate on the possible development of hispabonos. Although this term is used with different meanings, depending on who is using it, the fact is that regional governments were in need of an alternative mechanism for stable funding. There is no unanimity because some regions are seeking full-scale Treasury involvement, specifically the provision of an explicit guarantee, while other regions are more in favour of limiting the Treasury's contribution to attendance at investor presentations and the coordination of issuance schedules.

This article aims to present the starting point of the regional debt market in 2011 and to analyze the possible alternatives by looking at solutions which have already been explored in other European countries, also with a view to decentralising the provision of services to the population.

Characteristics of the primary market for regional debt in 2011

Last year, the regions raised gross funding of close to 30 billion euros, a spectacular increase bearing in mind that the pre-crisis annual average was 6 billion euros. To achieve this, regional governments have adapted their borrowing policies, adopting strategies to diversify their funding sources and accepting higher costs and shorter maturities. The primary market has been characterised by:

i) **Increased presence in the retail market through public issues:** Issues aimed at retail investors contributed more than 10 billion euros in funding in 2011 at terms of up to 2 years, more than double the amount raised from this source in 2010, when they were first issued.

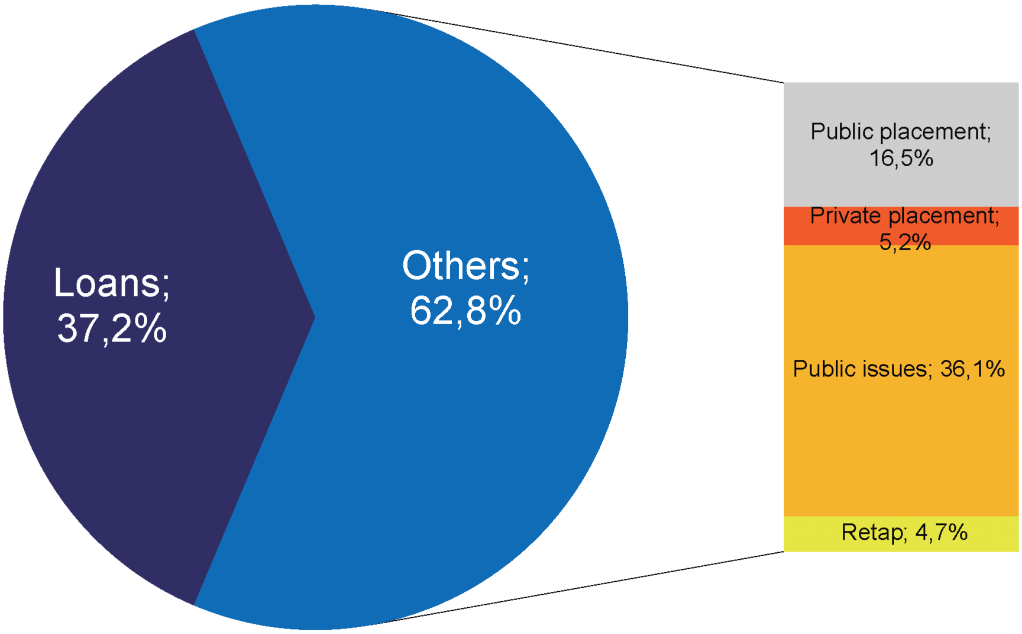
ii) **Fragmentation of borrowing:** Borrowing in 2011 has been centred on the increased use of existing issues (tap issues) and private placements. These instruments have accounted for the largest number of operations. However, with an average issuance amount of 50-75 million euros, if their size does not increase, some regions will find it necessary to renegotiate dozens of operations, as retail issues and public placements are showing signs of exhausting their potential.

iii) **Shorter funding terms:** The average term of new operations in 2011 was less than 4 years, below the average of 7 years of all regional debt at the end of 2010. This shortening of maturities is due mainly to the weight of the retail placements at a maximum term of 2 years, as well as the intensive use of short-term borrowing. Although these instruments, such as credit lines, are designed for cashflow management, some public administrations have been obliged to resort to them as they are unable to raise long-term debt until market conditions improve or they receive the necessary ministerial authorization.

iv) **Greater differentiation in funding costs:** The differentiation of risk premiums between the regions was minimal until a couple of years ago. However, investors are now increasingly discriminating among regions, not only on the basis of credit ratings, but also on the basis of a series of variables

Exhibit 2

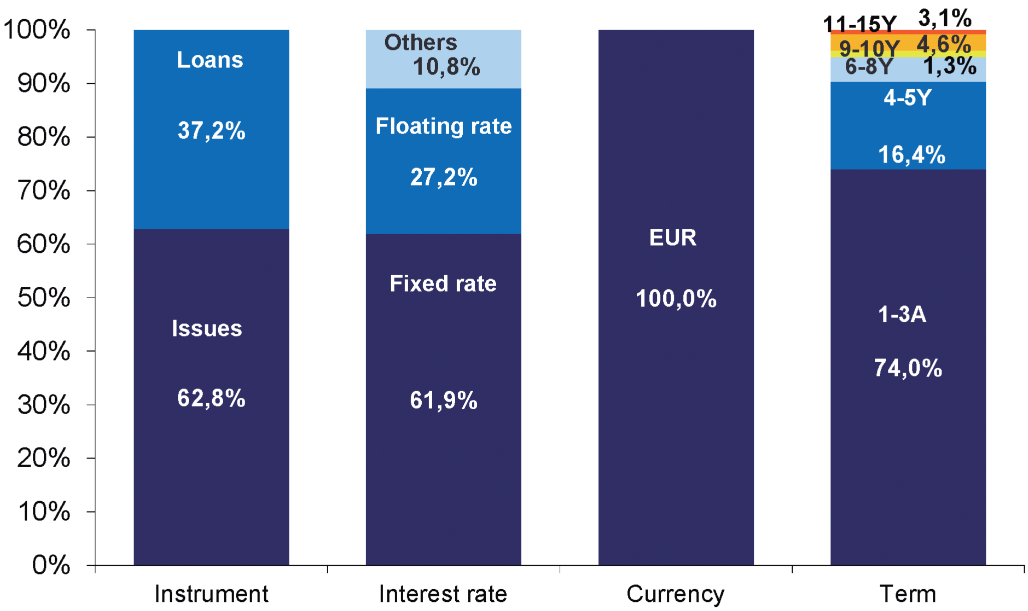
Instruments issued by the regions in 2011



Source: AFI

Exhibit 3

Features of regional borrowing in 2011



Source: AFI

> indicative of the borrower's credit worthiness. Of particular importance are: the degree of commitment and compliance with budget targets, size of the debt, market experience and access, and the liquidity of their issues.
>
> Using the Spanish Treasury yield curve as a basis, investors have been adding a common spread for sub-sovereign risk, which is further increased depending on the specific situation of each region. In 2011, this spread has ranged from 80 bp over the Treasury curve for the best rated regions to more than 300 bp when the market's perception of deterioration was at its height.

Extending this analysis to the first quarter of 2012, we can include additional elements that aggravate the regions' difficulties to access new funding. On the one hand, retail investment is showing signs of exhaustion, with demand limited to rollovers, rather than attracting new savings. On the other hand, the margin of error for increasing the amount of repayments in the coming years is smaller, due to forecasts for further deficits and the financial burden arising from the need to cover each year's gross funding requirements. In short, there are strong arguments in favour of developing support mechanisms and greater collaboration between the central state and regional governments in debt financing.

There are strong arguments in favour of developing support mechanisms and greater collaboration between the central state and regional governments in debt financing.

International precedents and experiences

At least until now, the present government has agreed that a solution is needed to ease the financing of regional budget deficits and has taken some initiatives on this front. One example of this improved collaboration is the Fund for Financing Payment to Suppliers (FFPP in Spanish). This mechanism provides different public bodies with access to credits guaranteed directly by the Treasury, in the amount of almost 28 billion euros, which will allow a good part of the commercial debt owed to the private sector to be settled. Although this amount is less than the total unfunded deficit from previous periods or than the outstanding commercial debts, it nevertheless provides a strong injection of liquidity for businesses and the self-employed.

Without entering further into the scope and timeliness of this measure, which is undoubtedly very positive for the economy, the Fund represents a first attempt to coordinate efforts to improve the regions' access to the markets, initially through a syndicated loan which from the third year will be refinanced by debt issues. The final borrowers in this transaction are 14 regional governments and close to 5,000 local authorities, to which the market would not have offered the same terms (ten years with a spread of 115 bp over the Treasury rate). Nevertheless, they are the final guarantors, meeting payments with their tax resources, which the state transfers to them periodically via payments on account.

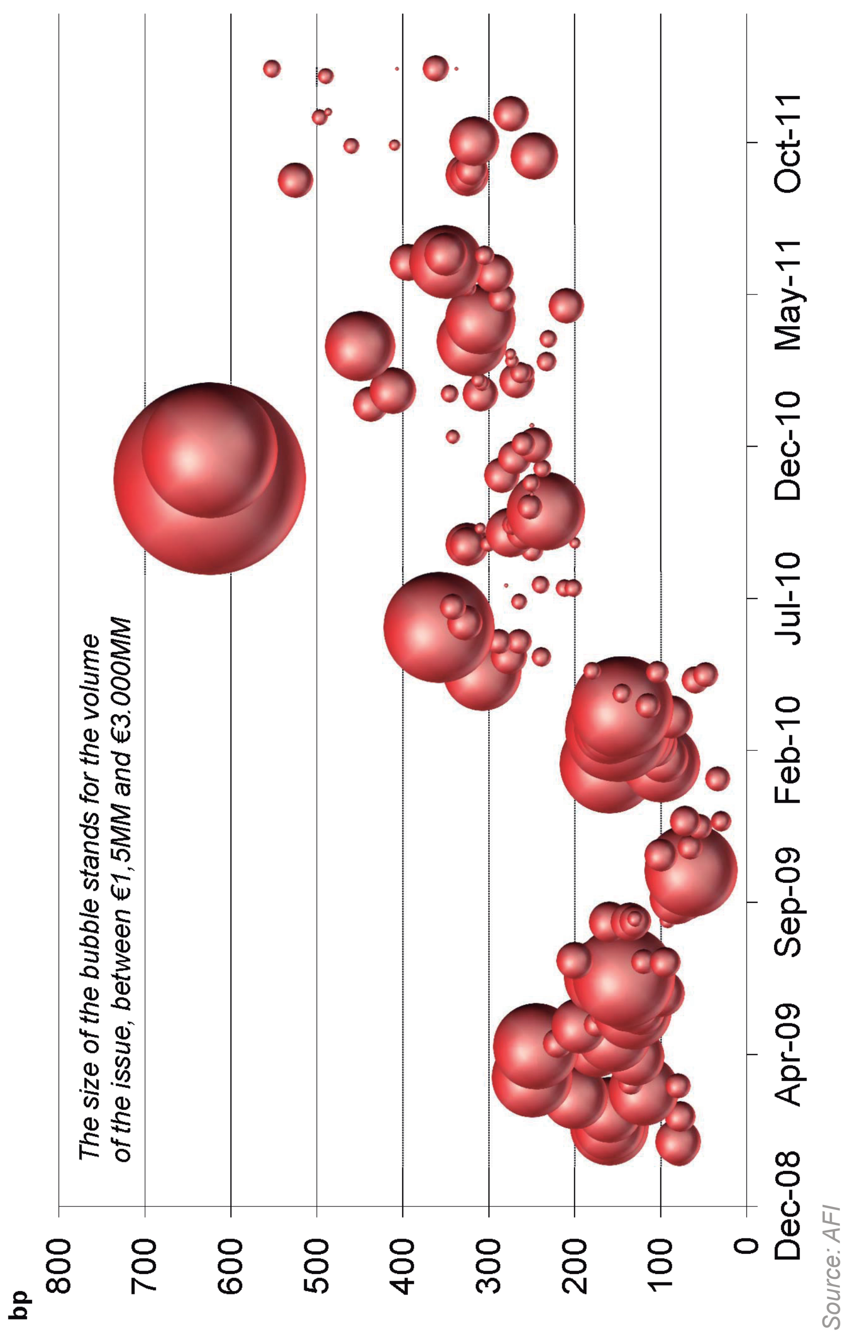
This has obliged the government to reform the Law of Budgetary Stability and Financial Sustainability (LEPSF in Spanish) to give it the legal power to retain the revenues of the regional authorities as a counter-guarantee. Hence, it is a structure involving all the administrations covered by the central government to meet the payment obligations of the regional governments.

Another initiative was undertaken at the beginning of the year when the Official Credit Institute (ICO) designed a short-term funding facility to refinance the debt maturities of regions, seeking to avoid any risk of default on their financial debt during the first half of the year.

Exhibit 4

Financing cost of regional issues in 2011

(bp over IRS to average life)



Source: AFI

Investors are demanding instruments and a market structure which put the Treasury and the regional governments on a more equal footing with regard to debt issuance.

Both of these solutions provide a pragmatic response to the difficult liquidity situation which has been evident in the public sector. However, it is clear that they are provisional measures which do not solve the main underlying problems: investors are demanding instruments and a market structure which put the Treasury and the regional governments on a more equal footing with regard to debt issuance.

Today the funding costs of regional governments show that the markets and the rating agencies clearly distinguish between the Treasury and the regions. If so, a decision which involves, either explicitly or implicitly, the central government's debt growing by 150 billion euros, i.e. 25 %, cannot be harmless.

The possibility of the central government providing an explicit guarantee for regional issues could be an alternative. However, we do not think it is the only one and it also represents an anomaly with regard to both the financial autonomy of the regions and the spirit of the LEPSF. We often hear arguments that minimize the impact of making the state guarantee more explicit. In extreme cases, we believe the government will not allow any public body to default on the service of its debt - as has been demonstrated, for example, with the Valencian Region. Nevertheless, today the funding costs of regional governments show that the markets and the rating agencies clearly distinguish between the Treasury and the regions. If so, a decision which involves, either explicitly or implicitly, the central government's debt growing by 150 billion euros, i.e. 25 %, cannot be harmless. This is even more the case if we consider that the Treasury's annual gross issuance is around 175 billion euros while that of the regions does not reach 35 billion euros.

For a highly decentralised country like Spain, we believe that there is value in the fact that the market recognizes different risks, penalizing or rewarding the credibility and quality of the policies of each administration, central or regional. This does not constitute an obstacle to the implementation of different forms of collaboration but, in this process, taking shortcuts may mean that little differentiation is made between different classes of public and private debt, penalizing central government risk.

Exhibit 5

Debt/GDP of Public Administrations (December 2011)

	Outstanding 2010-2011 (mill.€)				% Debt / Total	Debt/GDP		
	Dec-10	Dec-11	Δ mill €	Δ %	2011	Dec-10	Dec-11	2011-2010
Central Government	488.245	559.459	71.214	14,6%	76,1%	46,4%	52,1%	5,7%
Regions	119.460	140.083	20.622	17,3%	19,1%	11,4%	13,1%	1,7%
Local authorities	35.431	35.420	-11	-0,0%	4,8%	3,4%	3,3%	-0,1%
Total Public sector	**643.136**	**734.961**	**91.825**	**14,3%**	**100,0%**	**61,2%**	**68,5%**	**7,3%**

Source: Bank of Spain

Exhibit 6

Public sector debt of regions (December 2011)

	Outstanding (mill.€)			Debt/GDP	
	2011 (mill.€)	Δ 2010-2011 mill €	%/ Total Regions 2011	%	2011-2010
ANDALUSIA	14.314	2.135	10,2%	9,8%	1,3%
ARAGON	3.403	502	2,4%	10,2%	1,3%
ASTURIAS	2.155	454	1,5%	9,1%	1,7%
BALEARIC ISLANDS	4.432	297	3,2%	16,3%	0,8%
BASQUE COUNTRY	5.536	521	4,0%	8,1%	0,6%
CANARY ISLANDS	3.718	419	2,7%	8,8%	0,8%
CANTABRIA	1.293	301	0,9%	9,3%	2,0%
CASTILE-LA MANCHA	6.587	768	4,7%	18,0%	1,8%
CASTILE-LEON	5.476	1.172	3,9%	9,4%	1,9%
CATALONIA	41.778	7.548	29,8%	20,7%	3,4%
EXTREMADURA	2.021	274	1,4%	10,9%	1,3%
GALICIA	7.009	848	5,0%	12,3%	1,2%
LA RIOJA	900	174	0,6%	11,2%	2,0%
MADRID	15.447	1.956	11,0%	7,9%	0,8%
MURCIA	2.806	699	2,0%	10,1%	2,4%
NAVARRA	2.446	754	1,7%	12,9%	3,8%
VALENCIA	20.762	1.799	14,8%	19,9%	1,3%
TOTAL REGIONS	140.083	20.622	100,0%	11,4%	1,7

Source: Bank of Spain

Bearing this in mind, an alternative that minimizes this risk, in our view, is the establishment of an instrument with a joint and combined guarantee, whose issues would be liquid in the market, creating benchmarks for which the market makers would have an incentive to quote prices in reasonable conditions of supply and demand. Of course, the characteristics of the regional governments as a group mean that the amounts involved are large enough so that, together with the provision of guarantees and the necessary credibility, their issues could become an important asset class for institutional investors.

However, we believe that it is necessary to establish operating principles that do not generate perverse incentives, i.e. the more solvent participants should be assured access to funding on better terms than those regional governments which will benefit most from the existence of this joint mechanism. In any case, our starting point is that all the potential partners in this vehicle have scope to improve on their current situation, at the very least by a reduction in their illiquidity premium, which we estimate at 30-50 basis points. Moreover, consideration should be given to the favourable effect of coordinated communication policies and the economies of scale from any joint vehicle, such as presentations to investors, for example.

These are not outlandish ideas or risky innovations, because joint funding mechanisms have been around in Europe for years, although it must be stressed that they respond to very different needs. For example, in Germany, joint issues have been used mainly in pursuit of increased liquidity, as the regions are guaranteed by the central government. In the French case, joint issues, which do not provide a combined guarantee of all participants, have had the aim of improving the average rating of the participating entities and also of increasing the liquidity of the issues in question. However, in the current funding scenario, the association of issuers in itself, even without sharing additional or combined guarantees, would lead to an improvement in the terms on which the Spanish regions can issue debt.

Another way, perhaps with a more long-term perspective, is the model of the regional funding entities developed in the last twenty years in the Scandinavian countries (Finland, Sweden, Norway and Denmark). Its aim has been to facilitate the funding of a very fragmented public sector of very uneven dimensions, with the aim of solving at source the problems of access to capital markets.

Broadly speaking, these are vehicles, in some cases banks, which are supervised by the

Exhibit 7

Advantages and disadvantages "Specialized vehicle for funding regional and/or local governments"

Vehicle for joint issues by regional governments: Advantages and disadvantages

- **Advantages**:
  - ✓ Reduction in costs compared with separate operations.
  - ✓ Increased participation of investors
  - ✓ Access to investor base in multiple markets and formats. Operability, flexibility and appeal to investors.
  - ✓ Increased liquidity and depth of market with benchmark issues (translating into a more stable investor base).
  - ✓ Possibility of creating a differentiated secondary market.
  - ✓ Economies of scale in admin and management costs.
  - ✓ Cost of constituting the vehicle is affordable and can be recovered through distribution of profits to shareholders (e.g. the regions).

- **Disadvantages**:
  - ✓ Although unlikely, may be more expensive for some regions than issuing alone. Liquidity is very important if ratings are similar.
  - ✓ Risk of debt consolidation? It would be a company that derives its revenue from the market and whose activity is intermediation.
  - ✓ Problems with combined guarantees? Financial efficiency vs. potential political obstacles.
  - ✓ Reduced flexibility. The process of obtaining authorization for debt issues should not be an obstacle to taking advantage of market opportunities.
  - ✓ The institution will need to earn a reputation among investors.

corresponding national authorities and constituted via the contribution of capital by the local and regional governments involved. Their credibility is reinforced by very cautious liquidity management policies (that cover at least a year of maturities), capital ratios in excess of 25% and the direct, joint and combined guarantee of all members (in some cases they also feature the central state's guarantee). Their business model, with hardly any overhead, allows them to be very cost-efficient for the amount of funding they provide. However, although they occupy a dominant position in the domestic market, they are not necessarily trying to cover all the borrowing requirements of their members, in which case local governments have to resort to the other financial institutions operating in the market.

The establishment of this model in Spain could take the form of a bank owned by the regional governments, a body governed by public law, a non-profit agency acting in a manner equivalent to the Treasury, or an open-ended fund without legal personality.

The Central Government has not yet taken a decision about: i) which model will be selected, ii) which type of guarantee scheme will be provided for investors, iii) its role in the model; or, iv) the rate policy to be applied to the regions' funding. At this stage, it has announced that it is in the process of evaluating the distinct options. Nevertheless, the principal actors agree on the need to develop a mechanism that will be operable in the second half of the year, given the urgency to meet the financing needs of regional governments.

Considerations for the future

The Spanish state model places 35% of the burden of public policies on the regional governments, especially those oriented to welfare, such as healthcare, education and social services. There can be no doubt that since these responsibilities were transferred, the improvement in the quality of public services and the provision of infrastructure has been remarkable. However, the budgeting and accounting of these policies has left much to be desired, to the extent that the validity of the model itself has been questioned.

The reforms being implemented in the regulatory framework are intended to convey a message of greater commitment to medium and long-term stability in public sector budgets, and they include mechanisms to promote a rationalization of spending and of the public business sector belonging to the administrations.

However, at the same time, the regions must adopt the procedures and instruments necessary to enable them to refinance debt maturities and cover the gap which arises between income and expenses in exceptional circumstances - and a recession is such a circumstance. Even though Spain is one of the most decentralized countries, it nevertheless also has one of the shortest experiences as such, so it is reasonable to study other experiences, and even more so if systemic dysfunctions, that only lead to financial difficulties, have been detected.

There are already well established regional and local bond markets in Germany, the United States and Italy, to provide a few examples, and more efficient ways of financing of territorial entities, such as that established in some Scandinavian countries.

The possibility of an explicit central government guarantee, though it remains an alternative to consider, conflicts with the principle of responsibility[2] of the various administrations

[2] The principle of responsibility is reflected in article 8 of the preliminary draft of the LEPSF. Its second paragraph notes "the central administration does not assume, and will not be liable for, the commitments of the regions, local corporations and entities related to or dependent on the same, without prejudice to the mutual financial guarantees for the joint implementation of specific projects.
The regions do not assume, and will not be liable for, the commitments of the local corporations nor of entities related to or dependent on the same, without prejudice to the mutual

as upheld in the new LEPSF, and could have undesirable widening effects on the cost of issuance by the Treasury, which is responsible for 80% of the gross debt issued each year by the public sector.

Even without providing guarantees, some of the central government's actions could still provide significant support for regional debt. There can be no doubt that the proactive participation of the Treasury and the Ministries of Economy and Finance in the presentations to investors has been very useful in persuading them of the effectiveness of the government's structural reforms, but we believe a greater coordination and joint action with the regional governments is required. The lack of information and understanding abroad, and even within Spain, about the regional funding model and the distribution of resources among administrations, is an obstacle to accessing the markets on more positives terms, even for the Treasury itself, which is equally susceptible to contagion by the perception of risk emanating from some local and regional governments.

The lack of information and understanding abroad, and even within Spain, about the regional funding model and the distribution of resources among administrations, is an obstacle to accessing the markets on more positives terms, even for the Treasury itself.

In summary, other alternatives, that could provide improved functionality and appeal to investors, should be explored, given that in 2012, approximately 35 billion euros need to be raised to finance debt repayments and the forecast budget deficits. In the national context, this is not a huge figure bearing in mind that the Treasury plans to issue up to 190 billion euros of debt, but the effort to do so among 17 regional governments means a dispersion of resources and communication policies which rules out the economies of scale necessary to access international markets when conditions are unfavourable.

Until now, Spain's state model has achieved high standards in the level of public services, even more so if we consider the tax income per inhabitant that Spain is capable of collecting compared with other European countries. However, if Spain wishes to reduce the scope for criticism, whether from the centralist camp or the regional nationalists, the faults detected will have to be corrected. One of the actions required to do so is the promotion of the regions' ability to fund themselves, with a more pragmatic approach than hitherto, to enable them to meet debt amortization and all their other budget obligations.

financial guarantees for the joint implementation of specific projects."

Evolution of Spanish government debt holdings

José Manuel Amor and Miguel Arregui
A.F.I[1]

Non resident holdings of Spanish government debt continue to decrease. Without a credible solution to the institutional problems of the EMU and the recovery of economic growth, it is unlikely that investor confidence will return.

The crisis that began in the summer of 2007 marked a turning point in the stock of Spanish government debt held by non-residents, which had increased in absolute and relative terms since the middle of the 1990's. This phenomenon has been common for most economies of the periphery of the euro, and its coincidence with episodes of sharp widening of sovereign spreads vs. Germany shows that non-resident investors now perceive a higher credit risk in some member states' government debt than in the past.

Recurring fall in the central government debt holdings among non-residents since the beginning of the crisis

The percentage of Spanish government debt held by non-residents has fallen by almost 18 full points to 32.4% in February 2012 from levels slightly higher than 50% in the spring of 2007, according to the latest available data (see Exhibit 1). This percentage does not entirely reflect the drop in Spanish debt holdings of private non-resident investors, due to the fact that this data is not net of the debt in the hands of the ECB and other central banks outside the EMU. In fact, assuming that of the current 215 billion euros of the SMP , about 40 billion euros are holdings of Spanish debt, the previous number of holdings would be reduced to just 26%.

The absolute level of non residents' debt holdings at February 2012 (195 billion euros) is the lowest since September 2009 (189 billion euros), a point in which non residents held 43.9% of total central government debt in circulation. In other words, the 172 billion euro increase in the stock of debt since September 2009 (from 432 to 604 billion euros) has been fully assumed by domestic investors.

The percentage of Spanish government debt held by non-residents has fallen by almost 18 full points to 32.4% in February 2012 from levels slightly higher than 50% in the spring of 2007.

The sharp decline of non-resident holdings of Spanish debt over the past three years breaks more than a decade of continuous relative increase in holdings of Spanish government debt of non residents. Indeed, after the first part of the decade of the 1990's, marked by very intense tensions in most European currencies,

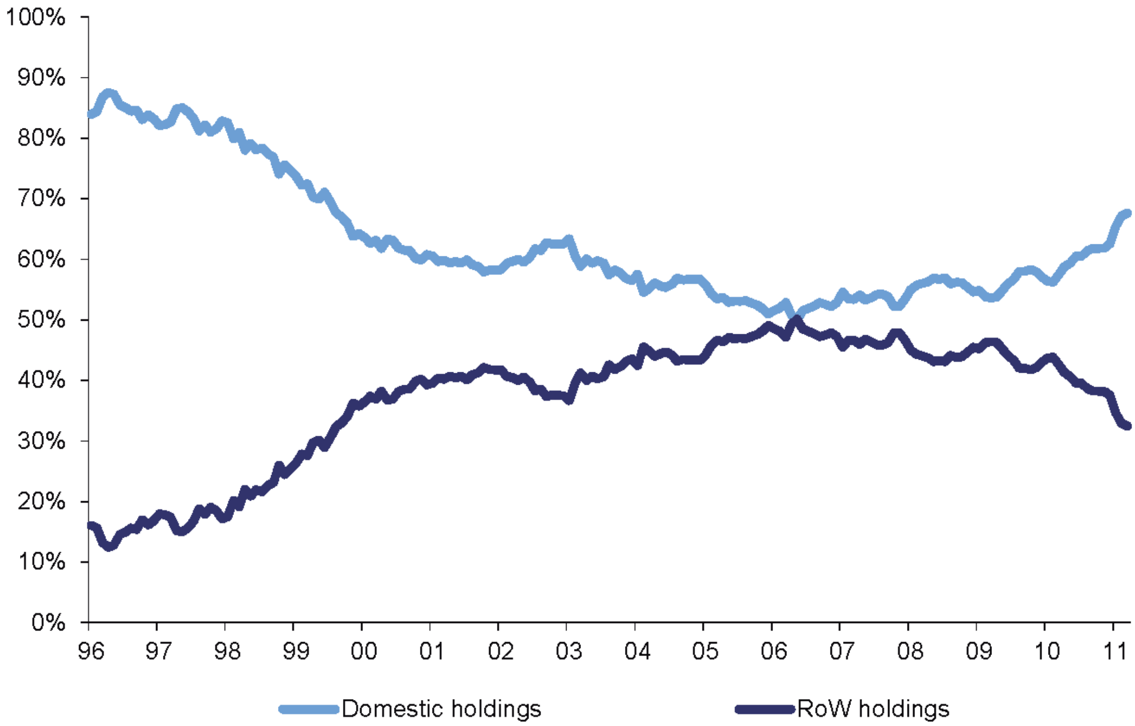
[1] A.F.I — Analistas Financieros Internacionales, S.A.

the economic convergence process into the EMU and the adoption of the single currency (with the consequent elimination of exchange rate risk) led to a rapid convergence of yields among all sovereign bonds from issuers to form part of the EMU. This evolution was accompanied by a generalized increase in the proportion of government debt held by non-residents. Once in the EMU, the holdings of domestic debt of non-residents continued to rise in almost all member states, reaching a common maximum around late 2006, early 2007.

Exhibit 1

Spanish central government debt: holdings by sector

(% of outstanding amount)



Source: Afi from Bank of Spain

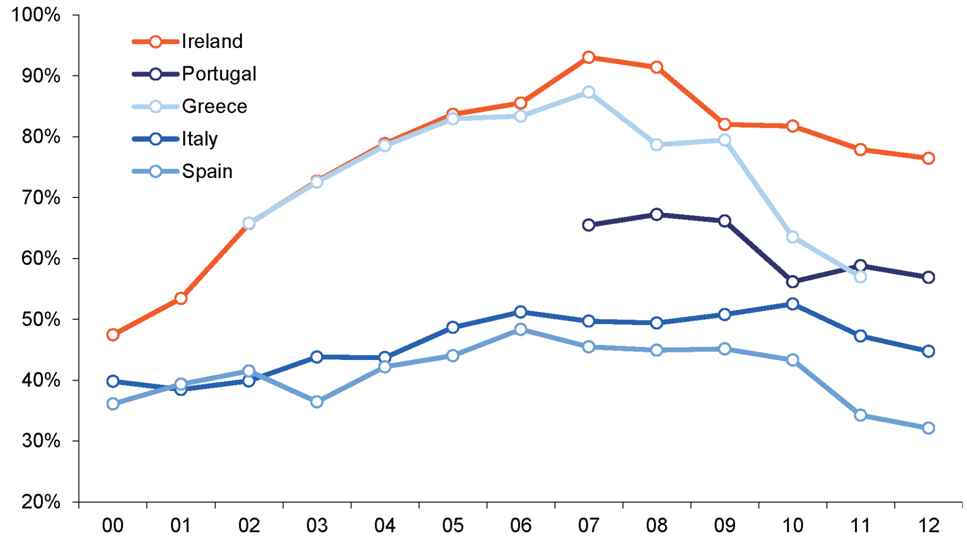
Returning to the recent past, it must be said that the reduction in the debt held by non-residents has been common to most EMU member states, although it has been more pronounced in those countries most affected by the crisis, and especially in those who have been subject to a bailout (see Exhibit 2), such as Ireland, Greece and to a lesser extent, Portugal. In analyzing these countries, it should be noted that, on the one hand, most of the central government debt is today held by official creditors, including the ECB and the IMF. On the other hand, private non resident investors have reduced positions aggressively due to their fear of possible debt restructuring, such as the one that occurred in Greece in early 2012.

Return of the "home bias" and dramatic increase of interest rate spreads vs German debt

The sharp reduction in holdings of government debt of non residents in most EMU countries has occurred in parallel to a sharp rise in spreads

Exhibit 2

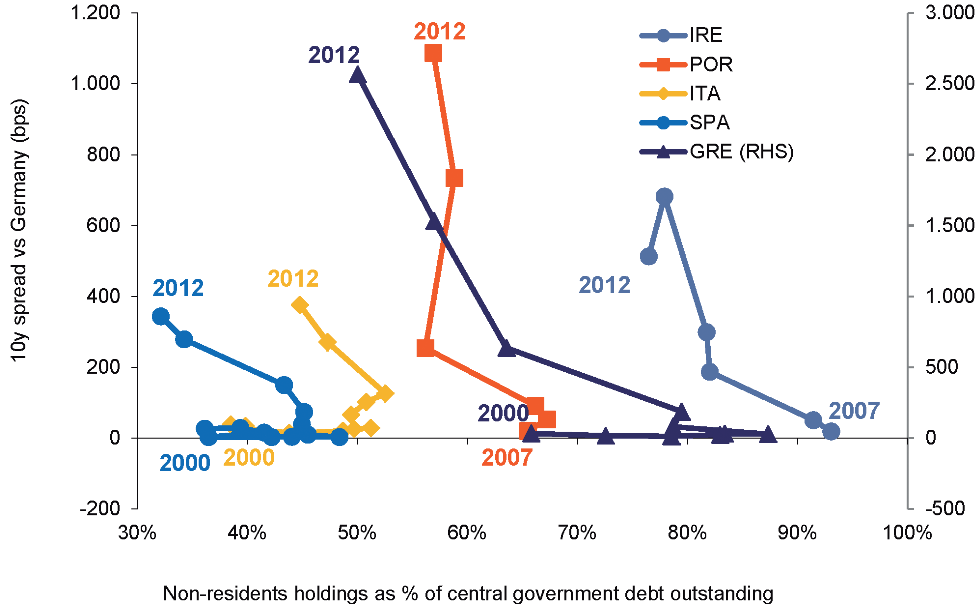
Non-resident holdings of central government debt in selected EMU countries
(% of debt outstanding)



Source: Afi from National Central Banks.

Exhibit 3

Evolution of non-resident holdings of government debt (% of total) and 10 year spread vs Germany (bps)



Source: Afi from Eurostat, Bloomberg.

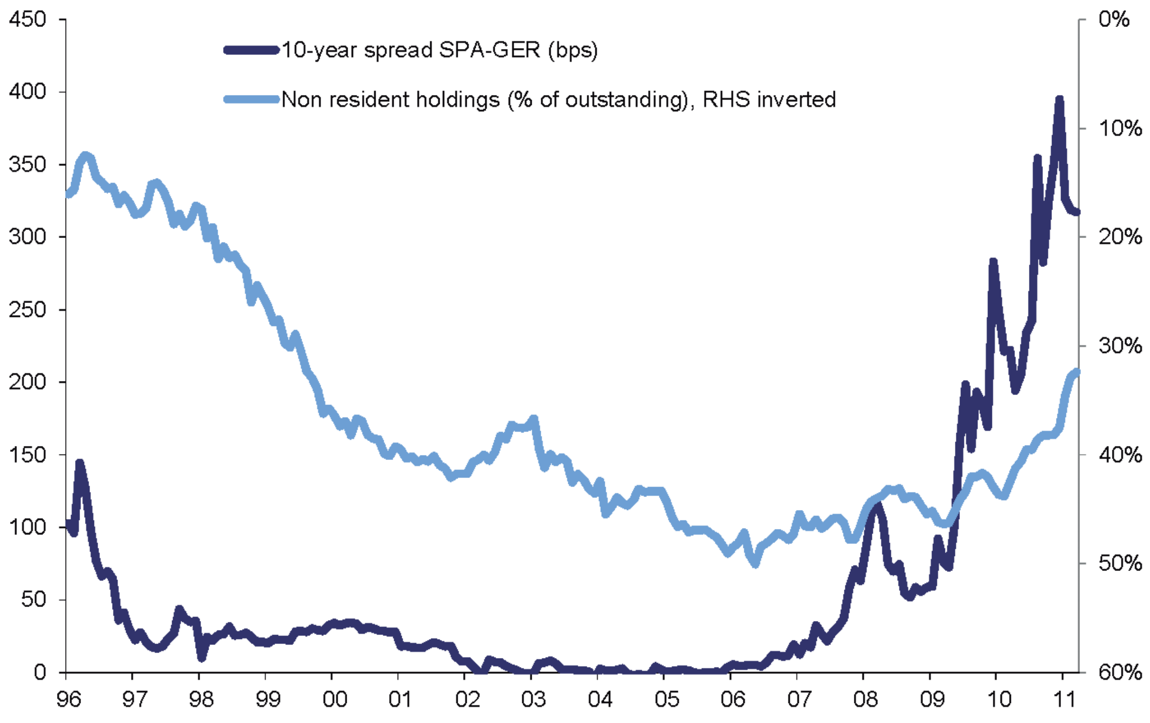
against German debt, even to levels at or above those existing in the mid 1990s for almost all the sovereigns of the periphery of the EMU (see Exhibit 3). This is symptomatic of a return of the "home bias" in investment decisions on sovereign debt among international investors, a move in which three factors are at play: i) the high uncertainty about the debt sustainability of several member states, ii) the possibility of future debt restructuring episodes and last but not least, iii) the existence of a very small, but no longer negligible, probability that there could be changes in the current configuration of the euro area.

The increase in the probabilities assigned by the market to episodes of sovereign default or debt restructurings (voluntary or imposed) among the countries of the EMU periphery, and the fact that official aid packages and direct purchases of debt by the ECB under the SMP introduced a "de facto" subordination to private bondholders, help to explain the withdrawal of non-resident investors from the debt of those EMU countries currently facing economic difficulties.

The increase in perceived probabilities of sovereign default or debt restructurings among EMU periphery countries, and the fact that official aid packages and direct purchases of debt by the ECB introduced a "de facto" subordination to private bondholders, help explain the withdrawal of non-residents from the debt of those EMU countries facing economic difficulties.

Exhibit 4

Spanish central government debt: non-residents holdings (% of outstanding) and 10 year spread vs Germany (bps)



Source: Afi, Bank of Spain, Bloomberg.

In the case of Spanish public debt (see Exhibit 4), the return to levels of debt held by non residents not seen since mid-2000 (32% of total) was accompanied by an increase in bond spreads to German debt that far exceeded the levels seen in the years prior to the adoption of the euro.

explain the withdrawal of non-resident investors from the debt of those EMU countries currently facing economic difficulties.

In the case of Spanish public debt (see Exhibit 4), the return to levels of debt held by non residents not seen since mid-2000 (32% of total) was accompanied by an increase in bond spreads to German debt that far exceeded the levels seen in the years prior to the adoption of the euro.

Detailed evolution of Spanish government debt holdings: country breakdown, holdings by instrument, and domestic holders' evolution

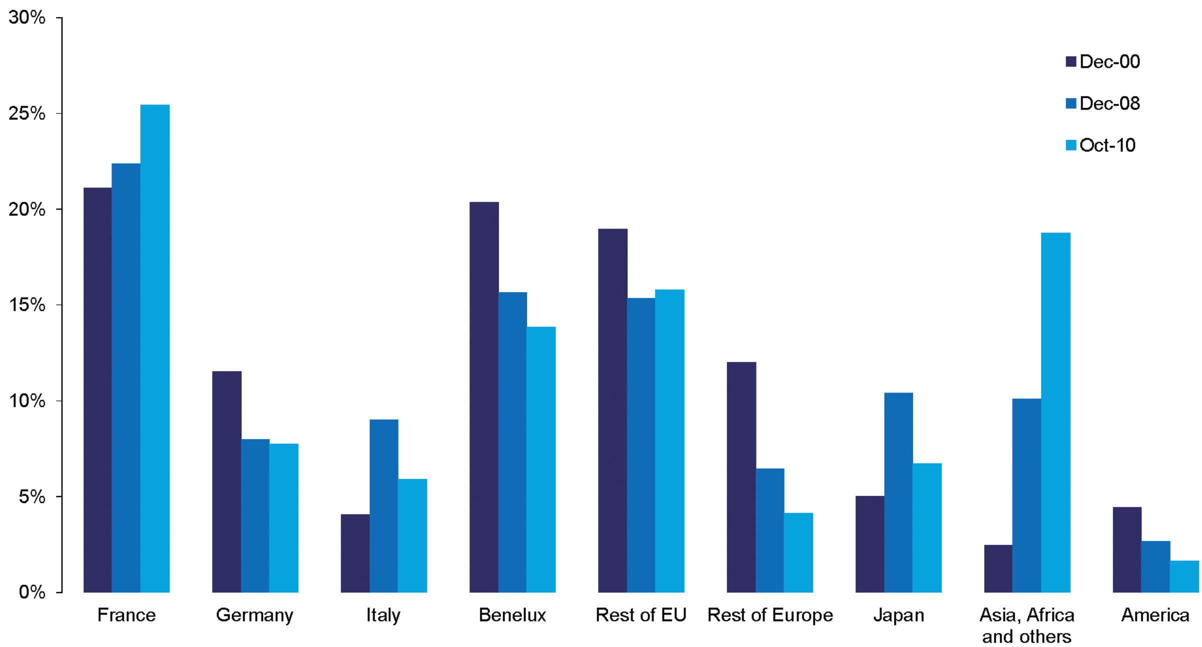
In this section, we provide a detailed analysis of the evolution and current situation of the stock of public debt issued by the Kingdom of Spain from several viewpoints: country of residence of the holder, holdings by type of instrument (Treasury bills, Notes and Bonds) and the structure of holdings among domestic investors.

With respect to the debt holdings of non-residents by country of residence (for which the Spanish Treasury only provides detailed information through October 2010), about 73% is concentrated in investors domiciled in European countries, particularly in France, Benelux and Germany. About 19% of the total debt held by

Exhibit 5

Non-resident holdings of Spanish government debt by country of residence

(% of total non-resident holdings)

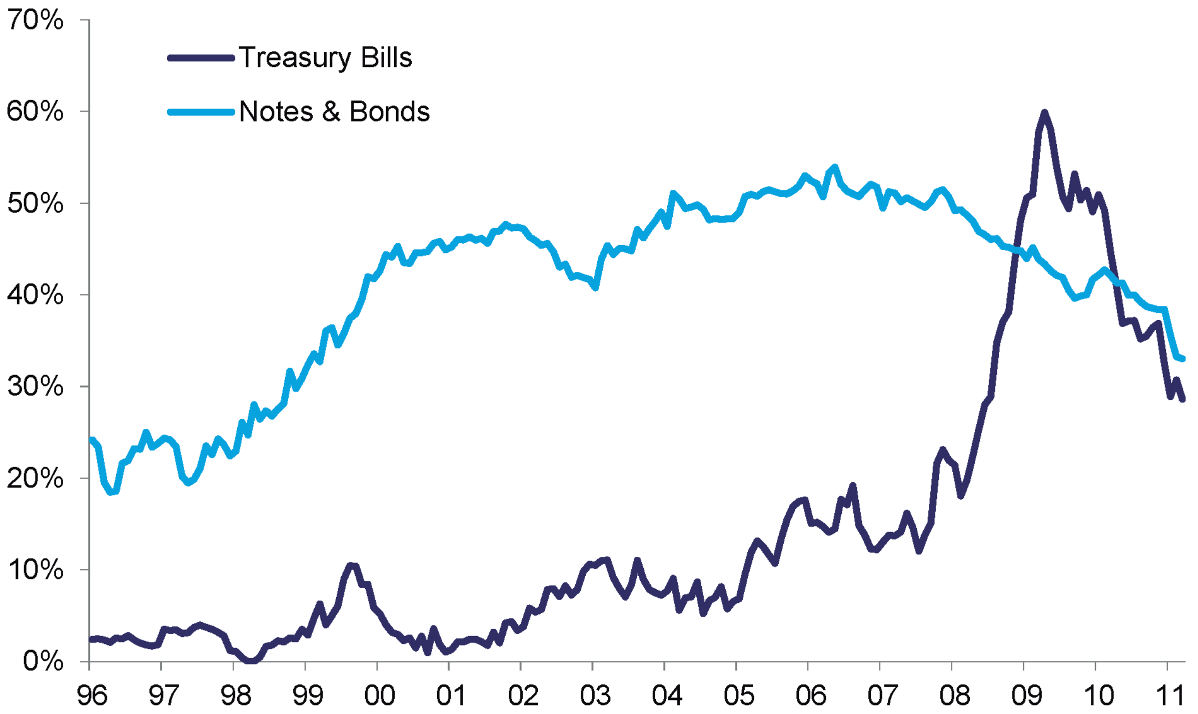


Source: Spanish Treasury.

Exhibit 6

Non-resident holdings of Spanish government debt by type of instrument

(as a % of total outstanding for each instrument)



Source: Spanish Treasury.

non residents is in the hands of investors based in Asia and Africa these areas being the fastest growing in terms of Spanish public debt holdings and the remaining 8% is split between Japan (with about 6.7% of the total) and the Americas.

By type of institution, central banks were the major holders of Spanish debt as of October 2010 with about 33% of non resident holdings, followed by the non-financial private sector (28%) and financial institutions (banks) with 19%. The remaining holdings are split between insurance companies, pension funds and collective investment institutions (investment funds).

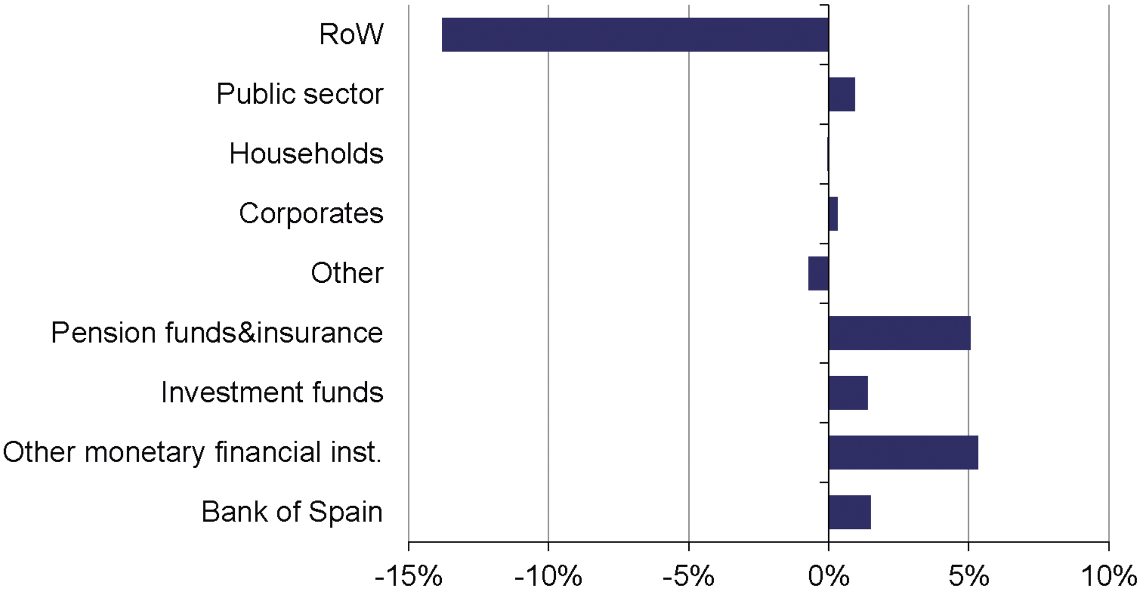
As for the evolution of debt holdings by type of instrument issued by the Spanish Treasury (see Exhibit 6), the fall in the share of non-resident holdings is much higher for Treasury Bills: holdings have dropped from 59.9% of the total outstanding in March 2010 to 28.6% in February 2012. In absolute terms, non-resident investors have shed positions (or not renewed) for about 26 billion euros since March 2010, for a current holdings figure of 24 billion euros (see also Exhibit 8).

In the case of Notes and Bonds (see Exhibit 10), the relative decline in the share of debt holdings of non-residents has been somewhat smaller than in the case of Treasury bills, but in any event, worth noting: from 53.3% of the total outstanding as of March 2007 to the current 33.0%. From the beginning of 2010, when market tensions over Spanish government debt began to be very relevant, the holdings of Notes and Bonds by non

Exhibit 7

Change in relative holdings of Spanish government debt since January 2010

(%)



Source: Afi from Bank of Spain

residents dropped 12.2 percentage points (from 45.2% in January 2010 to 33.0% in February 2012), although in absolute terms, holdings have remained almost constant (174 billion euros in January 2010 vs. 171 billion euros at present).

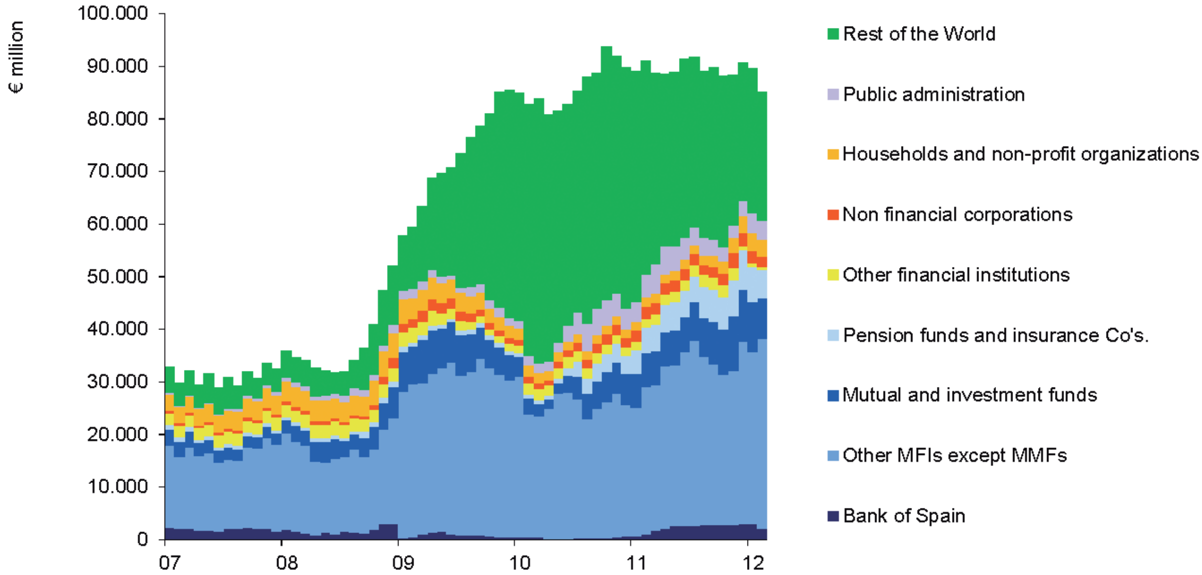
The domestic counterweight to the decline in total debt holdings of non-residents since January 2010 (13.8 percentage points) has been dominated by the banking sector followed by the insurance industry, investment and pension funds.

The domestic counterweight to the decline in total debt holdings of non-residents since January 2010 (13.8 percentage points) has been dominated by the banking sector (+6.8 points increase) followed by the insurance industry, investment and pension funds (which collectively increased their holdings by 6.5 points). Households, non financial corporations and public administrations also added absolute and relative positions, although smaller than those of the above sectors (see Exhibit 7). The domestic financial sector has been instrumental in offsetting the fall of holdings of non resident investors, especially during the last 12-18 months. It is worth mentioning two important aspects. First, the increase in domestic debt holdings of pension funds, insurers and investment funds the latter despite the sharp drop in assets under management a group of investors lured by the high yields offered by Spanish public debt, especially at medium and long-term maturities, given their need to match assets and liabilities. (In the case of investment funds, the trend towards reducing equity positions and replacing them with short and medium term fixed income has been very intense in response to the increased risk aversion among retail investors.)

Second, the increase in holdings of government

Exhibit 8

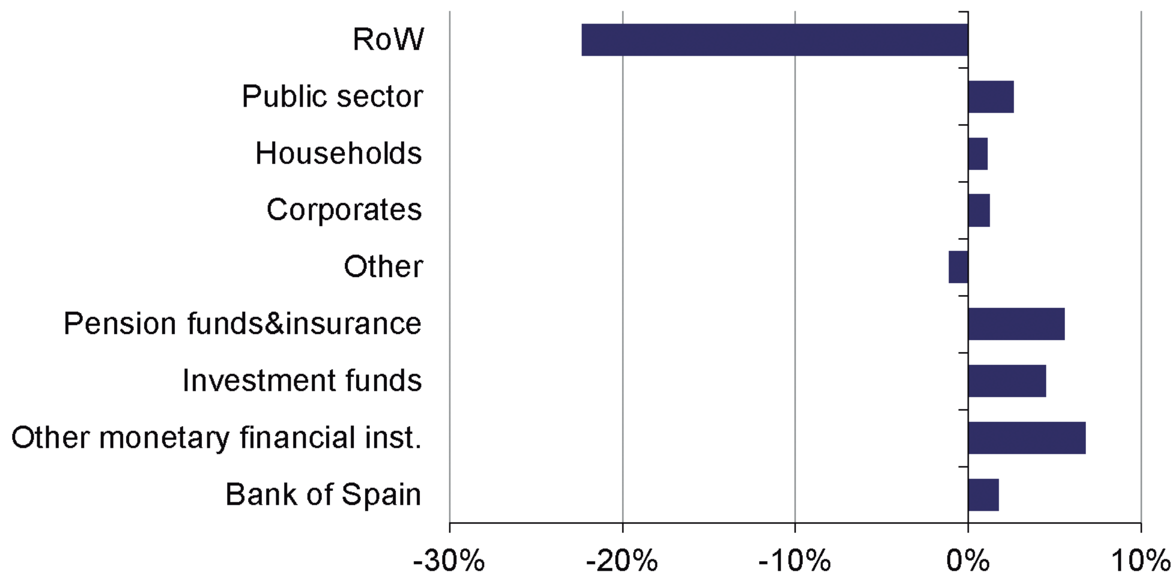
Holders of Spanish Treasury Bills 2007-2012



Source: Afi from Bank of Spain.

Exhibit 9

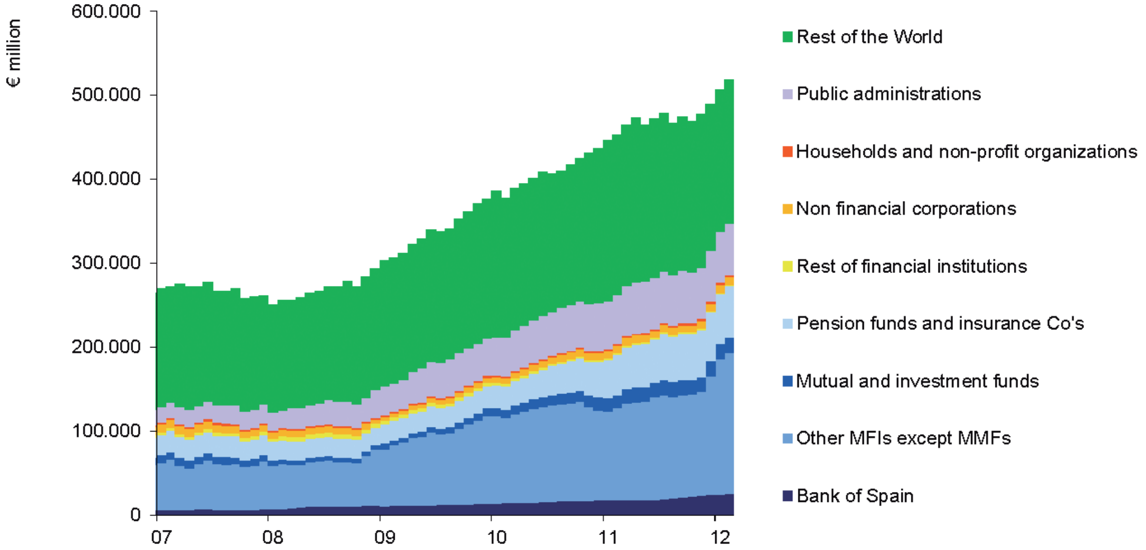
Change in relative holdings of Spanish Treasury Bills since January 2010



Source: Afi from Bank of Spain.

Exhibit 10

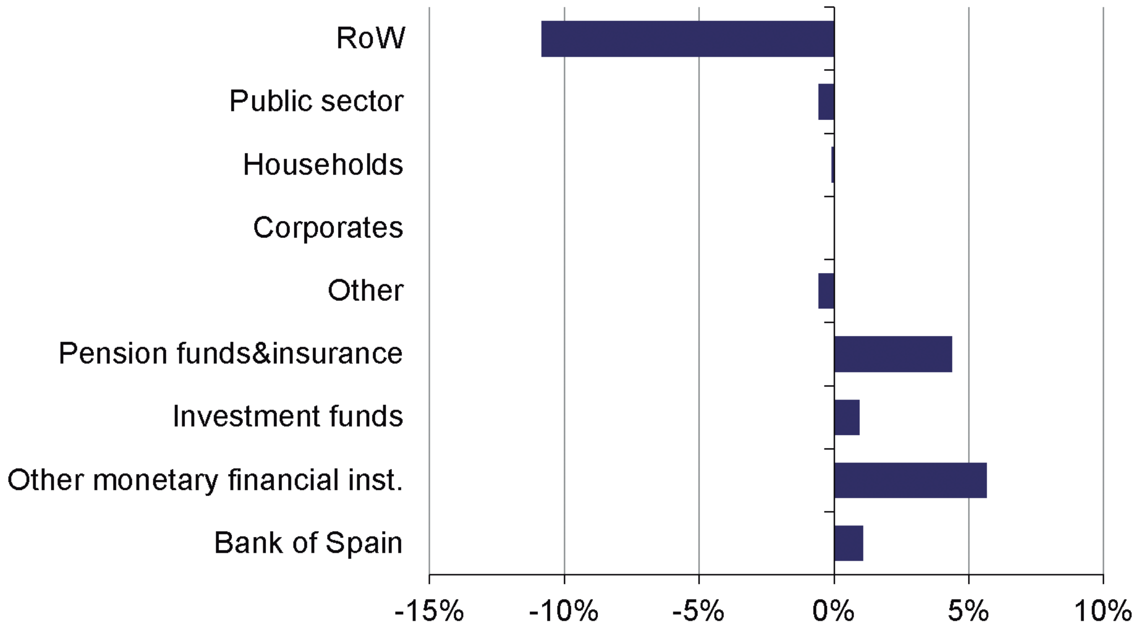
Holders of Spanish Government Notes and Bonds 2007-2012



Source: Afi from Bank of Spain.

Exhibit 11

Change in relative holdings of Spanish government Notes and Bonds since January 2010

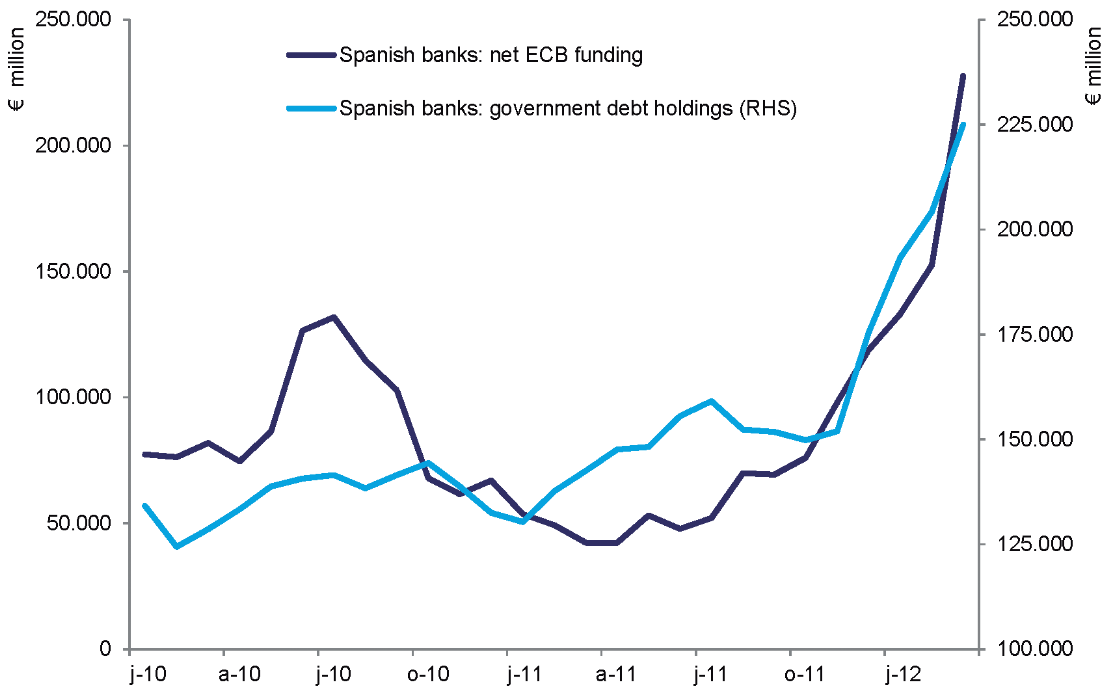


Source: Afi from Bank of Spain.

Exhibit 12

Spanish banks gross funding at the ECB and holdings of Spanish government debt

(data in € million)



Source: Afi from ECB and Bank of Spain.

debt of the banking sector which has nearly quadrupled since early 2010 to reach almost 220 billion euros at present (see Exhibit 12). Two key factors explain this evolution. On the one hand, the need to compensate, via generation of returns on fixed income portfolios, the fall in traditional business margins, heavily penalized by the economic crisis (especially by the increase in the cost of retail and wholesale funding). On the other hand, and crucially, the introduction of extraordinary monetary policy measures by the ECB, namely the extension of liquidity facilities first to 12 months (summer 2009) and later to 36 months (in December 2011 and February 2012). The effect of the last two long term ECB refinancing auctions (LTROs) alone may have led to an increase in Spanish government debt holdings in bank portfolios of close to 75 billion euros between November 2011 and March 2012.

In summary

The crisis marked a turning point in the previous trend of increasing holdings of Spanish government debt of non-residents, which had been observable since the mid 1990's. Spain was not the only country that saw its sovereign spreads widen relative to those of Germany, as investor risk perceptions for euro area members states increased.

At this juncture, it seems unlikely that international investors' confidence will return without a credible solution to the institutional problems of the EMU and the recovery of economic growth in those countries most affected by the crisis. This places domestic investors, especially the domestic banks –thanks to the invaluable help of the ECB- as the main source of demand for government debt issued by the countries in the EMU periphery (Spain included). The resulting situation is quite risky, as it increases the feedback loop between the sovereign and the banks, a factor viewed by international investors as one of the sources of the current problems.

The budgetary measures introduced during the new government's first 100 days: Proactivity in the right direction

José Félix Sanz-Sanz[1] and Desiderio Romero-Jordán[2]

The fiscal consolidation measures adopted thus far are, for the most part, proactive steps in the right direction. If results are in line with expectations, there should be a noteworthy impact on both the revenue and expenditure side. However, the impact of macroeconomic conditions will also be a determining factor in the government's ability to meet fiscal targets.

In order to comply with ambitious deficit targets agreed upon with Brussels over the medium term, together with the introduction of proactive legislative structural reforms, during its first 100 days in office, the Spanish administration adopted a series of fiscal consolidation measures. Revenue enhancing measures include urgent tax increases affecting the personal income tax, property tax, and revenues from telecommunication services, as well as tax measures included in the 2012 budget related to the corporate tax, shadow income, tobacco tax, and court fees. Nevertheless, the negative impact on revenues from the economic downturn and taxpayers' reactions to proposed tax reforms must be taken into account. Expenditure reduction measures, also contemplated both urgent measures as well as an austere 2012 budget. Cost cutting measures introduced include cuts in the area of personnel expenditures, and cost control measures in the budget, such as the establishment of an expenditure ceiling, as well as generalized cuts across the different levels of the public administration.

Initial Situation

According to the last available figures, Spain's total public deficit reached 8.9% of GDP in 2011- a long way from the 6% target agreed upon with the European Union as a reasonable deficit for the year. Against a ceiling of 4.4% of GDP set by the outgoing socialist government, Prime Minister Mariano Rajoy's new administration initially proposed a maximum limit of 5.8% for 2012. However, Spain's euro area partners demanded an additional effort, finally setting the maximum deficit at 5.3% (dropping to 3% in 2013). The overall deficit target the Spanish public administration is expected to meet in 2012 is spread across the various levels of government as follows: a maximum deficit of 3.5% for the State, 1.5% for the regions, and 0.3% for the municipalities. Therefore, in the case of the central government, the deficit needs to be cut by

[1] Full Professor of Applied Economics at Universidad Complutense (Madrid), and FUNCAS Tax Studies Office.
[2] Associate Professor of Applied Economics atUniversidad Rey Juan Carlos (Madrid), and FUNCAS Tax Studies Office.

1.6 percentage points in terms of GDP in 2012. However, in reality, the adjustment necessary to meet this target will have to be 2.5% of GDP, given the existence of expenditure commitments, such as interest payments, financial support to the regions, pensions and unemployment benefits, that will follow a clear upward trend over the year.

Table 1
Impact of tax measures in 2012
(millions of euros)

Personal income tax	**4,100**
Complementary levy	4,100
Corporate tax	**5,350**
Deferral of tax benefits	210
Accelerated depreciation	840
Financial expenses	1,050
Instalment payments based on book earnings	2,500
Tax on foreign dividends	750
Tax regularisation	**2,500**
Special taxes	**150**
Tobacco	150
Court fees	**214**

Against this backdrop, Rajoy's government began proactively with a wide range of legislative initiatives. The changes made during the government's first 100 days have included structural legislative reforms –a budgetary stability law, labour reform, financial system reform, pending reform of autonomous bodies and public companies– and other measures aimed at containing public spending and increasing public revenues. We will describe this set of measures below.

Increasing government revenue

In terms of government revenues, the new government's proposals have taken shape through two initiatives: the first, just a few days after taking office, through Royal Decree/Law 20/2011, on December 30th, 2011, and the second, through the General State Budget for 2012, passed on March 30th, 2012. With this package of measures, the government hopes to increase revenue by 12.314 billion euros in 2012, broken down by tax type, as summarised in Table 1.

Tax measures included in Royal Decree/ Law 20/2011

The urgent tax measures approved by the new government upon coming into office in December 2011 were: i) A substantial increase in the marginal rates of income tax (IRPF, in its Spanish initials), ii) Reinstatement of the tax deduction for investments in one's primary residence, iii) A selective increase in local property taxes (IBI in its Spanish initials); and, iv) An increase in taxes on telecommunications services.

These new measures focused on short-term, revenue-raising as a means to urgent and immediate rebalancing of the general government's budget to correct its serious deviation. However, the personal income tax (IRPF) and property tax (IBI) rate increases are temporary, as they are only due to be applied during the 2012 and 2013 tax years.

(i) A substantial increase in the marginal rates of income tax (IRPF, in its Spanish initials). In the case of personal income tax, there was a significant rise in the marginal rate (in the state tax schedule) for the regions under the common system (see Table 2). This increase affected both income from savings as well as other taxable income.

Table 2

Increase in marginal income tax rates

(national segment of tax)

General tax base		Savings tax base	
Threshold (euros)	**Increment in points of marginal rate**	**Threshold (euros)**	**Increment in points of marginal rate**
0.00	0.75	0.00	2
17,707.20	2.00	6,000.00	4
33,007.20	3.00	24,000.00	6
53,407.20	4.00		
120,000.20	5.00		
175,000.20	6.00		
300,000.20	7.00		

In 2012 and 2013, applicable tax rates are going to increase substantially. But the increase will not be the same across all the regions, reflecting significant regional differences. Regional governments can and have modified their rates independently.

Tables A1,A2 and A3 in the Appendix compare the tax rates before and after this rate increase. As illustrated in those Tables, in Spain, power to establish income taxes are split between the central government and the regions. In 2012 and 2013, applicable tax rates are going to increase substantially. But the increase will not be the same across all the regions, reflecting significant regional differences. Although the increase in the national rate is uniformly applied throughout the country, regional governments can and have modified their rates independently.

ii) Reinstatement of the tax deduction for investments in one's primary residence. Along with the increase in marginal tax rates, and somewhat counter to stated tax collection objectives, was the reintroduction of the tax deduction for taxpayers' investments in their primary residence. This deduction had been opportunely eliminated by the previous government in view of its proven inefficiency, powerful distortionary effects, and high cost in terms of revenue collection. The government initially estimated that the increase in personal income tax, despite the reintroduction of the deduction for investments in the primary residence, would inject additional revenues of around 5.3 billion euros in 2012. However, after presenting the General State Budget for 2012, the government reduced its estimate for the anticipated impact to an increase of just 4.1 billion euros. In addition, it must be taken into consideration that this figure does not include the reaction of taxpayers to the proposed tax reform, which, will certainly reduce the final tax revenue.

The impact of this income tax increase on revenue collection began to be felt in February

2012 due to the increase in withholdings. In line with the increase in income tax withholdings, Royal Decree/Law 20/2011 also introduced an amendment to the corporate tax (IS in its Spanish initials) to raise the withholding rate from 19% to 21%. This advance financing from the withholdings associated with personal income tax and corporate tax will help boost immediate liquidity in 2012 and 2013, although, by the same token, they will cut prospective tax collection.

iii) A selective increase in property taxes. The third tax measure approved during the early days of the new government sought to improve municipalities' solvency and liquidity. To achieve this, it was decided that the tax rate for the main municipal tax, the property tax (IBI), should be raised across the board. Specifically, depending on the year in which properties' cadastral values (i.e. book values) were last updated, the tax rate was increased by between 4% and 10% for 2012 and 2013.

To avoid penalising more modest homes, this increase in tax rates will be limited to properties whose cadastral value is above the median value for their municipality. The government estimates that this upward adjustment in property tax rates will increase municipal authorities' revenues by 918 million euros.

iv) An increase in charges on telecommunications services. The new government's measures include a review of the leasing formulas for the public radio spectrum, which will translate to an increase in revenues.

The tax measures included in the 2012 General State Budget

After the approval of urgent tax measures in December 2011, the General State Budget for 2012 introduced a second package of measures aiming to increase public revenue. These fall under the following four headings: i) Approval of a series of measures to increase the effective average rate of the corporate tax (IS), ii) Exceptional measures to incentivize collection of shadow income, iii) Structural modification of the duties on tobacco; and, iv) Increase of charges in relation to the administration of justice.

i) Approval of a series of measures to increase the effective average rate of the corporate tax (IS). In order to avoid a continuing drop in the effective rate of the corporate tax (IS), primarily among large corporations, the 2012 budget introduced a series of significant changes to the way in which the tax base for the corporate tax is calculated and the effective application of deductions and exemptions. With this restructuring of the corporate tax, the government hopes to boost revenues by 5.350 billion euros. We will look at these changes below. In relation to the quantification of the IS tax base, the three following modifications were put forward:

- Large corporations' freedom to use flexible depreciation has been eliminated, limiting deductions for flexible depreciation exclusively to previous investments. Nevertheless, SMEs (small and medium-sized enterprises) will be allowed to continue to use flexible depreciation provided it is tied to job creation.

- The maximum annual deduction for intangible assets relating to goodwill has been cut from 5% to 1%. This reduction will affect both acquisitions of other entities and corporate restructuring. This is a temporary measure limited to the 2012 and 2013 tax years.

- The deductibility of financial charges has been limited. Upon entry into force of this regulation, financial charges exceeding 30 per 100 of the operating income (EBITDA) on the year will not be deductible. However, the first million euros of financial charges will not be affected by this new limitation. Nevertheless, expenses that were not deductible during the year may be carried forward to future periods, up to a maximum of eighteen years.

Financial charges arising out of the purchase of a stake in entities in the same group will not be deductible, unless the entity is able to justify the economic rationale for the share purchase. This measure is intended to be permanent.

As regards the application of specific deductions and exemptions, the modifications can be summarised as follows:

- Limit on deductions. The current general limit has been cut from 35 percent to 25 percent of the taxable income, including the deduction for reinvestment of extraordinary profits. This has been cut from 60 percent to 50 percent in cases where the deduction for R&D activities exceeds 10 percent of the tax due. These are temporary reductions, only affecting the 2012 and 2013 tax years.

- Partial exemption on the sale of shares. In order to support the internationalisation of Spanish firms, the system of exemptions for the sale of shareholdings in non-resident entities has been made more flexible, and a proportionality principle has been established based on the time over which the requirements are met.

- Lastly, a minimum corporate tax instalment payment has been set for companies with profits of over twenty million euros a year. In general, this new tax obligation is set at 8% of the earnings reported on the profit and loss account. However, if less than 85% of earnings are from exempt income or dividends entitled to deductions for dual taxation, the percentage drops to 4%. This measure, along with the others mentioned above, will only affect the period 2012-2013.

ii) *Exceptional measures to incentivize collection of shadow income*. Together with measures raising the effective corporate tax rate, the 2012 budget also introduces provisions to encourage Spanish firms to expand abroad. In particular, it will allow firms to repatriate funds in tax havens and low taxation territories via dividends with a tax rate of just 8%. The government hopes that this will encourage firms to repatriate 9.375 billion euros, on which it hopes to collect 750 million euros in taxes. A tax regularisation plan (or fiscal amnesty) has also been approved, consisting of the establishment of a special 10% tax rate for taxpayers who bring to light undeclared income (the proceeds of tax evasion) before November 30th, 2012. The government anticipates that this measure will bring 25 billion euros into legal circuits and allow additional tax revenues of 2.5 billion to be raised.

iii) *Structural modification of the duties on tobacco.* The structure of the tobacco tax has also been modified, with an increase in the fixed component and reduction in the ad valorem part. Specifically, the proportional rate has been cut by two percentage points, from 57% to 55%, while the specific rate per 1,000 cigarettes has been raised from 12.7 to 19 euros. According to the government, this new tax structure will also bring in an extra 150 million euros in taxes, while reducing smuggling and the illegal trade in tobacco.

iv) *Increase of charges in relation to the administration of justice.* Finally, court fees have been increased substantially, and their scope has been expanded to include a wider range of areas, including private individuals, rather than just companies, as was previously the case. With the exclusion of penal jurisdiction, fees are now extended to labour law, civil and contentious-administrative cases. It is estimated that the increase in court fees will bring in additional revenues of 128 million euros.

The final impact on tax collection taking into consideration the macroeconomic context

Overall, even with the aforementioned reforms, the forecast tax income for 2012 will inevitably be affected by the economic recession anticipated for this year –a contraction of 1.7% in GDP and of 4.4% in domestic demand. Table 3 summarises the simultaneous impact on expected tax collection both of the envisaged macroeconomic scenario and the reforms passed.

Even with the aforementioned reforms, the forecast tax income for 2012 will inevitably be affected by the economic recession anticipated for this year –a contraction of 1.7% in GDP and of 4.4% in domestic demand. Taxpayers' reactions to tax reforms will also affect final tax revenue.

Thus, the forecast revenue from income tax in 2012 is anticipated at 73.106 billion euros, representing an increase of 3.303 billion (4.7%) with respect to the taxes collected in 2011. This increase is less than the impact of the complementary levy mentioned above, which is expected to be 4.1 billion euros. Were it not for the increase in tax rates, the revenue collected by this tax would drop as a result of the unfavourable evolution of employment, and consequently, wage income. This decline in tax revenue is due to the fact that the macroeconomic scenario for 2012 projects a decline in the number of wage earners of 3.8%, with an increase in average earnings of just 0.3%, inevitably leading to a contraction in total wages and salaries. At the same time, earnings by the self-employed are also expected to decrease, although a slight improvement in earnings on capital is forecast, thus partially offsetting the two preceding negative factors. As regards tax collection from the main tax on consumer spending, the value-added tax (VAT), the revenue forecast for 2012 is 47.691 billion euros. This, therefore, represents a drop of 1.611 billion euros compared to that obtained in 2011 –a decrease of 3.3%. This forecast has been made on the assumption that domestic household consumption, the main determinant of this tax, will experience near zero growth, in contrast to a rise of 3.5% in 2011. At the same time, general government spending and home purchases are also set to contract sharply.

Income from duties is projected to reach 18.426

Table 3

Forecast tax collection for 2012 taking into account the macroeconomic scenario for the period

Tax	Revenues (millions of euros)	Annual change (%)
Personal income tax	73,106	4.7%
VAT	47,691	-3.3%
SPECIAL TAXES	18,426	-2.9%
Wines and spirits	753	-2.5%
Beer	276	-1.1%
Intermediate products	17	0.0%
Tobacco products	6,884	-5.1%
Hydrocarbons	9,094	-2.1%
Electricity	1,402	2.2%
Total	139,223	0.8%

billion euros in 2012, a drop of 557 million euros (2.9%) relative to 2011 revenues. The tax on hydrocarbons is expected to decline by 2.1% to 9.094 billion euros, with a drop in consumption, in physical terms, of over 3%. The income expected from the tax on tobacco products is 6.884 billion euros, 5.1% less than in 2011. This estimate is based on the assumption that there will be a further drop in consumption, which will not be offset by higher prices, and that the changes in the structure of the tobacco tax will yield the additional income of 150 million euros mentioned above. Tax on electricity is expected to raise revenues of 1.402 billion euros, with an increase of 2.2% compared to 2011, due to rising electricity prices.

Public spending cuts

This section gives a short description of the public spending adjustments included in both the Royal Decree of December 30th, 2011, and the General State Budget. The scale of the expenditure adjustment in the national budget figures is 18.094 billion euros. Of this amount, 9 billion euros corresponds to central government (50.0% of the adjustment), 3.719 billion euros to the social security fund (20.6%) and 5.302 billion euros to autonomous organisations, state agencies and other public bodies (29.4%). Nevertheless, given the seriousness of the situation, Rajoy's government has announced additional cuts that will affect health and education spending. These measures are expected to save an extra 10 billion euros (with 70% in the area of health spending), and will have a direct impact on the regions, given that they are responsible for managing these two areas.

Extension of the 2011 budget and measures to control the deficit included in Royal Decree/Law 20/2011, December 30th, 2011

For the reasons set out in the introduction to this article, for 2012, the previous year's budget was extended. To ensure budgetary discipline, Royal Decree/Law 20/2011 limited the availability of credit under the extended budget by 8.915 billion euros. Additionally, this legislative instrument introduced a number of urgent measures to control the public deficit. Specifically, the salaries of public-sector workers, including senior officials, were frozen, and their standard working week was increased by 2.5 hours to 37.5 hours. New recruitment in the public sector has also been put on hold. New staff can therefore only be hired under exceptional circumstances to meet urgent needs. However, this limitation will not be applicable in strategic sectors –teaching, health, the security forces, the armed forces, and authorities responsible for tackling issues related to employment and tax fraud– where the replacement rate has been set at 10%.

The overall cost of pensions will therefore rise by 3.660 billion euros in 2012 as a consequence of the rise and the increase in the number of pensioners. This figure far exceeds the savings obtained from the reduction in personnel expenses.

The savings these measures are expected to bring to the central government, considering all sectors, are estimated at 564 million euros. Although the objective of the Royal Decree is to introduce urgent deficit-control measures, the instrument also includes a rise of 1% for both contributory and non-contributory pensions. The increase in total pension payments by the State sector (civil service pensions) comes to 796 million euros. According to official estimates, expenditure on other contributory and non-contributory pensions will increase by 2.864 billion euros. The overall cost of pensions will therefore rise by 3.660 billion euros in 2012 as a consequence of the rise and the increase in the number of pensioners. This figure far exceeds the savings obtained from the reduction in personnel expenses mentioned above.

Cost-control measures in the General State Budget

On March 14th, 2012, both chambers of the Spanish parliament (the Congress and the Senate) approved the establishment of a government expenditure ceiling. The limit was set at 118.565 billion euros, although the final amount included in the draft national budget was 116.140 billion euros. An adjustment of 2.270 billion has been made to this figure, to reflect expenses incurred in previous years, which were not included in the budgets. Thus, the effective limit on government non-financial operations for 2012 is 113.870 billion, 6.7% less than in 2011.

Cuts in the State sector

The total expense budget for the State sector is 214.701 billion euros. 17% of this amount, 36.489 billion euros, will be transferred to the regions as settlement of payments for the regional financing system in 2010. Adjustments of 2.270 billion euros relating to expenses from previous years will also need to be made. Thus, the total State expenditure budget for 2012 is set to drop to 175.942 billion euros. Of this amount, 113.870 billion (the expenditure ceiling referred to above) corresponds to non-financial operations and 12.021 billion to financial assets. As Table 4 shows, the sum of these two items is basically earmarked for the ministerial departments (52.3%) and a series of expense commitments –interest on debt, contributions to the European Union, civil service pensions, and the contingency fund– (43%). The remaining 4.7% basically corresponds to the royal household, constitutional bodies, the inter-territorial compensation fund, and the Spanish contribution to the European Financial Stability Facility (EFSF).

As Table 4 shows, the biggest adjustment corresponds to ministerial departments, whose expenditure has been cut by 16.9%, or 13.406 billion euros. For more details, see Table A3 in the Appendix. However, the budget available for the state sector has been reduced by 9 billion euros (-6.7%), compensated fundamentally by the contribution to the EFSF (3.809 billion euros), the sharp rise in the cost of debt (1.448 billion euros) and the cost of civil-service pensions (790.7 billion euros).

In terms of expenditure categories, the biggest cuts are in capital transfers to the Regions and to fund R&D projects, current transfers to the public employment service, and cuts in development aid programmes, together with a decline in investments destined primarily for road and rail infrastructure.

In terms of economic expenditure categories, the biggest cuts are in capital transfers to the regions and to fund R&D projects (4.340 billion euros), current transfers to the public employment service (2.465 billion euros) –even as unemployment rose by 630 thousand– and cuts in development aid programmes (1.389 billion euros), together with a decline in real investments destined primarily for road and rail infrastructure (1.138 billion euros).

Social security cutbacks

The total expense budget for the social security system in 2012 comes to 120.698 billion euros, a drop of 3% between 2011 and 2012. As Table 5 shows, all the expense items, except current transfers, have been adjusted downwards in 2012 – sharply in the case of capital operations. Note that current transfers, which account for 95.8% of total social security spending, are set to increase by 1.2%. What is more, the estimated increase in contributory pensions, which account for 84.4% of total social security spending (101.953 billion euros in 2012), is 2.864 billion euros –due to the combined effect of the increase

Table 4

Budgetary adjustment for State sector managed expenditure

	2011 (1)	2012 (2)	Change (millions of euros)	Change Δ(2)/(1) (%)
Available budget[(a)]	134,982.6	125,981.8	**-9,000.8**	-6.7%
Ministerial departments	79,208.8	65,802.9	-13,405.9	-16.9%
Committed expenditure	52,447.1	54,221.5	1,774.4	3.4%
Debt interest	27,400.0	28,848.0	1,448.0	5.3%
Contributions to the EU	12,117.3	11,770.7	-346.6	-2.9%
Civil service pensions	10,489.3	11,280.0	790.7	7.5%
Contingency fund	2,440.4	2,322.8	-117.6	-4.8%
Other expenditure	3,326.5	5,867.4	2,540.7	76.4%
Royal household	8.4	8.2	-0.2	-2.4
Constitutional bodies	389.6	375.5	-14.1	-3.6
Inter-territorial compensation fund	1,074.3	671.5	-402.8	-37.5
European Financial Stability Facility	----	3,809.0	3,809.0	----
Miscellaneous	1,854.0	1,002.8	-851.2	-45.9

(a) Budget for non-financial expenses plus financial assets. Net of adjustments for previous years and settlement of support grants to finance the regions.

in the number of pensioners and the rise of 1% mentioned previously. With these modifications, the adjustment to the Social Security budget in 2012 will come to 3.720 billion euros. It is worth noting that this adjustment of -3.0%, is in terms of financial operations, and can be attributed to a smaller contribution to the guarantee fund. However, an examination of the budget in terms of non financial operations actually reveals an increase of 0.9%.

Cuts in the budget for autonomous organisations and public bodies

Along with the national government and the social security system, the General State Budget includes autonomous organisations, state agencies, and other public bodies belonging to central government. The total budget in 2012 for these three spending areas was 51.206, 1.306 and 1.515 billion euros, respectively. As the information in Tables 6 to 8 shows, overall, the budget available to these public bodies –i.e. the sum of their non-financial transactions and financial assets– has been cut by 5.305 billion euros in 2012 (-8.97%). Of this figure, 87% corresponds to the autonomous organisations (4.582 billion euros), 10% to state agencies (514 million euros), and lastly, 4% to other central government bodies (208 million euros). In the case of the autonomous organisations, the biggest drop in spending in absolute terms corresponds to current transfers (3.6862 billion). Of this total, 79% is managed by the State Employment Service, one of the basic tasks of which is to pay unemployment benefits. In

Table 5

Social Security expense budget

Areas of expenditure	2011 (1)	2012 (2)	Change (million euros)	Change Δ(2)/(1) %
Staff costs	2,378.1	2,358.0	-20.0	-0.8
Goods and services	1,718.6	1,540.6	-177.9	-10.4
Financial expenses	18.4	16.2	-2.0	-11.4
Current transfers	114,279.3	115,683.3	1,403.9	1.2
Total current transactions	118,394.4	119,598.3	1,203.8	1.0
Real investments	426.9	282.7	-144.2	-33.8
Capital transfers	5.1	2.1	-3.0	-58.9
Total capital transactions	432.1	284.8	-147.2	-34.1
Total non-financial transactions	118,826.5	119,883.1	1,056.5	0.9
Financial assets	5,591.5	815.1	-4,776.4	-85.4
Financial liabilities	0.4	0.0	-0.4	-93.6
Total financial transactions	5,592.0	815.1	-4,776.8	-85.4
Total budget	124,418.6	120,698.3	**-3,720.3**	-3.0

this regard, the forecasts for the draft budget show that this expenditure programme will be reduced by 2.269 billion euros in 2012 (-5.5%), despite the number of unemployed being projected to rise by over 600 thousand over the course of the year.

Table 6

Expense budget for autonomous organisations

Areas of expenditure	2011 (1)	2012 (2)	Change (millions of euros)	Change Δ(2)/(1) %
Staff costs	1,980.1	1,886.8	-93.3	-4.7
Goods and services	2,263.0	2,209.4	-53.6	-2.4
Financial expenses	21.7	20.7	-1.0	-4.7
Current transfers	47,618.2	43,932.1	-3,686.2	-7.7
Total current transactions	51,883.1	48,049.1	-3,834.1	-7.4
Real investments	1,529.0	1,091.0	-437.6	-28.6
Capital transfers	2,130.1	1,820.5	-309.6	-14.5
Total capital transactions	3,659.2	2,911.7	-747.5	-20.4
Total non-financial transactions	55,542.3	50,960.8	-4,581.6	-8.2
Financial assets	11.7	11.3	-0.4	-3.8
Financial liabilities	200.3	234.6	34.3	17.1
Total financial transactions	212.1	245.9	33.8	15.9
Total budget	55,754.5	51,206.7	-4,547.8	-8.2

Table 7

Expense budget for state agencies

Areas of expenditure	2011 (1)	2012 (2)	Change (millions of euros)	Change Δ(2)/(1) %
Staff costs	469.90	494.13	24.2	5.2
Goods and services	258.29	253.18	-5.1	-2.0
Financial expenses	0.06	0.56	0.5	833.3
Current transfers	729.12	307.68	-421.4	-57.8
Total current transactions	1,457.37	1,055.55	-401.8	-27.6
Real investments	235.88	207.60	-28.3	-12.0
Capital transfers	122.89	38.49	-84.4	-68.7
Total capital transactions	358.78	246.09	-112.7	-31.4
Total non-financial transactions	1,816.14	1,301.64	-514.5	-28.3
Financial assets	0.63	0.71	0.1	12.7
Financial liabilities	0.51	4.00	3.5	684.3
Total financial transactions	1.14	4.71	3.6	313.2
Total budget	1,817.29	1,306.35	-510.9	-28.1

Table 8

Expense budget for other public bodies

Areas of expenditure	2011 (1)	2012 (2)	Change (millions of euros)	Change Δ(2)/(1) %
Staff costs	1,108.7	1,073.9	-34.9	-3.1
Goods and services	386.4	369.0	-17.5	-4.5
Financial expenses	0.3	0.2	-0.1	-19.4
Current transfers	3.6	3.6	0.0	1.4
Total current transactions	1,499.2	1,446.8	-52.4	-3.5
Real investments	221.3	65.9	-155.3	-70.2
Capital transfers	1.8	0.9	-0.9	-46.7
Total capital transactions	223.1	66.9	-156.2	-70.0
Total non-financial transactions	1,722.3	1,513.8	-208.5	-12.1
Financial assets	1.8	1.4	-0.3	-17.7
Financial liabilities	---	---		
Total financial transactions	1.8	1.4	-0.3	-17.7
Total budget	1,724.1	1,515.3	-208.8	-12.1

APPENDIX

Table A1

State-level tax rate applicable to the general tax base in 2011, 2012, and 2013

2011			
Tax base	**Tax liability**	**Remainder**	**Rate (%)**
0	0	17,707.20	12.00
17,707.20	2,124.86	15,300.00	14.00
33,007.20	4,266.86	20,400.00	18.50
53,407.20	8,040.86	66,593.00	21.50
120,000.20	22,358.36	55,000.00	22.50
175,000.20	34,733.36	And above	23.50
2012 and 2013			
Tax base	**Tax liability**	**Remainder**	**Rate (%)**
0	0	17,707.20	12.75
17,707.20	2,257.66	15,300.00	16.00
33,007.20	4,705.66	20,400.00	21.50
53,407.20	9,091.66	66,593.00	25.50
120,000.20	26,072.88	55,000.00	27.50
175,000.20	41,197.88	125,000.00	29.50
300,000.20	78,072.88	And above	30.50

Table A.2

Tax rate applicable to the savings tax base (state and regional segments) in 2011, 2012 and 2013

2011		2012 and 2013	
Tax base	**Rate (%)**	**Tax base**	**Rate (%)**
0	19	0	21
6,000.00	21	6,000.00	25
		24,000.00	27

Table A3

Regional tax rate applicable to the general tax base in 2011, 2012, and 2013

ANDALUSIA			
Tax base	**Tax liability**	**Remainder**	**Rate**
0	0	17,707.20	12.00
17,707.20	2,124.86	15,300.00	14.00
33,007.20	4,266.86	20,400.00	18.50
53,407.20	8,040.86	26,592.80	21.50
80,000.00	13,758.31	20,000.00	22.50
100,000.00	18,258.31	20,000.00	23.50
120,000.00	22,958.31	And above	24.50

ARAGON - CANARY ISLANDS - CASTILE-LA MANCHA - CASTILE-LEON - GALICIA - BALEARIC ISLANDS			
Tax base	**Tax liability**	**Remainder**	**Rate**
0	0	17,707.20	12.00
17,707.20	2,124.86	15,300.00	14.00
33,007.20	4,266.86	20,400.00	18.50
53,407.20	8,040.86	And above	21.50

ASTURIAS			
Tax base	**Tax liability**	**Remainder**	**Rate**
0	0	17,707.20	12.00
17,707.20	2,124.86	15,300.00	14.00
33,007.20	4,266.86	20,400.00	18.50
53,407.20	8,040.86	36,592.80	21.50
90,000.00	15,908.32	85,000.00	24.00
175,000.00	36,308.32	And above	25.00

CANTABRIA			
Tax base	Tax liability	Remainder	Rate
0	0	17,707.20	12.00
17,707.20	2,124.86	15,300.00	14.00
33,007.20	4,266.86	20,400.00	18.50
53,407.20	8,040.86	14,300.00	21.50
67,707.20	11,115.36	12,300.00	22.00
80,000.00	13,821.36	19,400.00	22.50
99,407.20	18,186.36	20,600.00	23.50
120,007.20	23,027.36	And above	24.50

CATALONIA			
Tax base	Tax liability	Remainder	Rate
0	0	17,707.20	12.00
17,707.20	2,124.86	15,300.00	14.00
33,007.20	4,266.86	20,400.00	18.50
53,407.20	8,040.86	66,593.00	21.50
120,000.20	22,358.36	55,000.00	23.50
175,000.20	35,283.36	And above	25.50

VALENCIA			
Tax base	Tax liability	Remainder	Rate
0	0	17,707.20	11.90
17,707.20	2,107.96	15,300.00	13.92
33,007.20	4,236.92	20,400.00	18.45
53,407.20	8,000.72	And above	21.48

EXTREMADURA			
Tax base	Tax liability	Remainder	Rate
0	0	17,707.20	12.00
17,707.20	2,124.86	15,300.00	14.00
33,007.20	4,266.86	20,400.00	18.50
53,407.20	8,040.86	7,300.00	21.50
60,707.20	9,610.36	19,300.00	22.00
80,007.20	13,856.36	19,400.00	22.50
99,407.20	18,221.36	20,600.00	23.50
120,007.20	23,062.36	And above	24.50

MADRID AND RIOJA			
Tax base	Tax liability	Remainder	Rate
0	0	17,707.20	11.60
17,707.20	2,054.04	15,300.00	13.70
33,007.20	4,150.14	20,400.00	18.30
53,407.20	7,883.34	And above	21.40

MURCIA			
Tax base	Tax liability	Remainder	Rate
0	0	17,707.20	12.00
17,707.20	2,124.86	15,300.00	14.00
33,007.20	4,266.86	20,400.00	18.50
53,407.20	8,040.86	66,593.00	21.50
120,000.20	22,358.36	55,000.00	22.50
175,000.20	34,733.36	And above	23.50

Table A4

Change in expenditure of ministerial departments(a)

Ministerial departments	2011	2012	Change Millions of euros	Change %
1. External Affairs and Cooperation	2,645.71	1,205.20	-1,440.51	-54.4
2. Justice	1,680.53	1,574.00	-106.53	-6.3
3. Defence	6,928.89	6,316.44	-612.45	-8.8
4. Treasury and Public Administration	3,473.17	2,679.21	-793.96	-22.9
5. Interior	7,821.92	7,484.62	-337.30	-4.3
6. Public Works	8,936.97	5,843.08	-3,093.89	-34.8
7. Education, Culture and Sport	3,918.25	3,088.31	-829.94	-21.2
8. Employment and Social Security	22,592.67	20,924.40	-1,668.27	-7.4
9. Industry, Energy and Tourism	5,514.55	3,752.88	-1,761.67	-31.9
10. Agriculture, Food and Environment	2,807.54	1,931.69	-875.85	-31.2
11. Presidency	449.03	432.00	-17.03	-3.8
12. Health, Social Services and Equality	2,674.32	2,309.19	-365.13	-13.7
13. Economics and Competitiveness	7,480.77	6,062.11	-1,418.66	-19
14. Expenses attributable to various ministries	2,284.81	2,199.78	-85.03	-3.7
TOTAL	79,209.13	65,802.91	-13,406.22	-16.9

(a) Excludes obligations from previous years and contribution to EFSF.

Box: The impact of the 2012 national budget on the regions[1]

State income transfers to the regions will remain constant in 2012 (+0.19%). Nevertheless, the regions will need to cut their budgets this year in the order of 18.80 billion euros to meet fiscal targets.

Constant levels of revenue transfers from the State this year relative to 2011 will help regional efforts towards fiscal consolidation. However, to correct last year's slippage and achieve this year's targets, the regions will have to make a significant expenditure adjustment. The Central Government has recently taken measures to help the regions achieve savings in the areas of health and education spending. However, further adjustment by the regions at both the income and expenditure level, together with Central Government oversight, will be necessary.

The draft bill for the National Budget Law for 2012 is currently in the process of parliamentary approval. This law will establish approximately 75% (74.7% in 2011) of the income that the 15 regions under the common system (all of the regions except the Basque Country and Navarre) will receive. In 2012, the State's income transfers to the regions will be in the order of 84.3 billion euros - an increase of 0.19% relative to 2011. In the context of the national budget, in which State level spending has been cut by 6.7%, transfers to the regions have remained virtually unchanged, which will provide them with additional support to meet their deficit target.

The 84.3 billion euro transfer is net of the expected refunds to the regions to account for negative settlements in 2008 and 2009, which amount to 2.4 billion euros. The regions under the common system will be able to spend this additional amount without increasing the deficit, because this amount has already been accounted for.

The deficit of the regions stood at 3.23% of GDP, or 34.6 billion euros, in 2011. A deficit target of 1.5% of GDP has been set for 2012, which means the deficit will need to be reduced by approximately 18.8 billion euros.

To help achieve this expenditure reduction target and increase the regions' income, on April 20th, the government approved Royal Decree-Law 14/2012 on urgent measures to rationalise public spending on education and Royal Decree-Law 16/2012 on urgent measures to guarantee the sustainability of the National Healthcare System and to improve the quality and safety of its services.

In the case of education, the main measures are:

i) The maximum number of pupils per classroom has been raised from 27 to 30 in primary education, from 30 to 36 in compulsory secondary education, and from 37 to 42 in non-compulsory secondary education.

[1] Prepared by the Advisory Cabinet on Spanish Economic and Financial Outlook

ii) Teachers' weekly classroom time has been increased (previously the maximum was 25 hours a week; this is now the minimum in primary education). The minimum number of teaching hours for secondary-school teachers has been set at 20 hours, having previously been in the 18 to 21 hours range.

iii) The caps on university tuition fees have been raised, allowing the regions to charge up to 66% more in the 2012-13 academic year.

The Central government's competencies in education are limited to defining the regulatory framework, with each of the regions being responsible for applying the measures. According to government estimates, savings of up to three billion euros can be achieved.

The main measures affecting health-care are:

i) The system of co-payments for medical products has been changed. Until now, pensioners under the social security regime received medicines free of charge, whereas under the new system, they will pay 10%, up to a maximum of 8, 18 or 60 euros per month, depending on income.

ii) Also, the remainder of the population covered by the Social Security system will see their prescription drug charges rise as a function of income level, from 40% of the cost at present to up to 60% for people earning over 100,000 euros.

iii) Undocumented immigrants lose the right to medical care, with the exception of emergency treatment, and health-care for children and pregnant women.

iv) The public subsidy on certain drugs to treat mild symptoms has been withdrawn.

The aforementioned healthcare measures are the sole competency of the central government, so they will be applied in full. The government has estimated that the impact of these measures will be a reduction in the deficit of seven billion euros.

To date, 14 regions have approved their budgets for 2012, whereas three (Asturias, Castile-Leon and Castile-La Mancha) have extended their 2011 budgets. The regions budgeted for an increase in income that will now no longer take place, as the draft national budget has been announced.

The government has therefore required all of the regions to draw up rebalancing plans to match their income to the real situation and to implement the measures passed affecting education and healthcare services. These plans were accorded on May 17th (except for Asturias) and envisage a total reduction of 18.35 billion euros (5.28 billion euros of revenue increase and 13.07 billion euros of expenditure reduction).

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 new tax and administrative measures aimed at the reduction of the public deficit (Real Decreto-ley 12/2012, published in the Spanish Official Gazette – Boletín Oficial del Estado – of March 31st, 2012)

This regulation establishes highly relevant tax modifications, especially regarding corporate income tax, personal income tax, taxes on tobacco products and taxes on the increase in urban land value. The Royal Decree-Law also stipulates a special tax return for certain incomes, in order to reduce the public deficit down to the limit established for 2012.

These are the main tax modifications in virtue of the aforementioned Royal Decree Law 12/2012:

A) Corporate Income Tax (CT)

Some relevant modifications, which affect the tax structure, are introduced for an unlimited period, while other measures are temporary in nature (and they will be in force only in 2012 and 2013). All the modifications foreseen allow for an advance in collection of tax income without increasing the global tax burden on taxpayers.

1. Reforms of CT for an unlimited period:

   a. Restrictions on the deduction of financial costs, which have been fully deductible hitherto.

   b. The regime of exemption related to transfer of shares in non-Spanish entities is modified in order to support the internationalization of Spanish companies.

   c. Ban on the freedom to decide on the depreciation of new elements of tangible fixed assets, in virtue of the Additional provision 11 of the Spanish Corporate Tax Law.

2. Temporary measures:

   a. Reduction in the depreciation rate, which is considered as deductible from goodwill – both for income generated in the acquisition of assets and liabilities and as well as income resulting from corporate restructuring operations.

   b. Reduction on the limits of applicable deductions on the quota of corporate income tax. As an exception, the deduction on reinvestment of extraordinary benefits will be included in the limit.

   c. Likewise, the period to compensate over-deductions not applied in the original financial year is extended. These deductions can be used during the tax periods over the following 15 years, except for RDI deductions.

   d. Establishment of a minimum amount in

fractionated payments by corporations whose turnover figures during the twelve preceding months are over 20 million Euros.

e. Special tax on foreign income repatriation.

B) Personal Income Tax

The tax is modified in accordance with the modifications on the Corporate Income Tax regarding the elimination of free depreciation without preserving employment.

C) Special tax return for the regularization of hidden assets

Taxpayers of personal income tax, corporate income tax or nonresidents' income tax owning goods or rights which do not correspond with the person's income as declared for these tax purposes, will have the possibility of submitting a special tax return in order to regularize their tax situation up to November 30th, 2012, provided that the Spanish tax administration has not started verification procedures. Together with the aforementioned tax return, 10% of the total amount or value of the goods or rights should be paid, which will state the non chargeability of administrative sanctions, interests or surcharges.

Royal Decree-Law of urgent measures for the protection of debtors with limited resources (Real Decreto-ley 6/2012, published in Spanish Official Gazette – Boletín Oficial del Estado – of March 10th, 2012)

This regulation establishes mechanisms for the protection of mortgage holders in critical situations or affected by foreclosures. More precisely, some general measures are applied to all mortgage loans and credit facilities, other measures are applied to debtors in the "exclusion threshold" and finally a code of good practices is foreseen.

A) General measures, which apply to all mortgage loans and credit facilities

The Royal Decree-Law (RD-l) foresees provisions on assistance to tenants contained in Royal Decree 2066/2008 which are extended to: (i) individuals who have lost their house as a consequence of court-based or out-of-court foreclosure proceedings after January 1st, 2012; and, (ii) individuals who enter into a rental agreement as a consequence of the application of the dation in payment mechanism under the Code of Good Practices.

The RD-l also introduces significant amendments to out-of-court foreclosure proceedings under the Mortgage Law and its implementing regulations with a view to bringing the rules on out-of-court auctions in line with those on court auctions under the Civil Procedure Law (out-of-court foreclosure proceedings have been simplified by requiring a single auction in which the starting price will be that stipulated in the mortgage deed).

It is provided that, within six months from the date of entry into force of the Royal Decree-Law, the government will approve the necessary regulations to simplify out-of-court sale proceedings, which include allowing online auctions.

B) Measures in force under which the debtor falls below what the Royal Decree-Law referred to as the "exclusion threshold".

To be considered under the exclusion threshold, certain requirements must be met (amongst others, they may not have any income from work or other economic activities). Furthermore, the purchase price of the property should not exceed a certain amount.

A limit on late-payment interest is placed for all mortgage credit facilities or loan agreements where the debtor falls within the exclusion threshold, such that the default interest does not exceed the amount of the stipulated interest payable on the loan, 2.5% over the outstanding loan principal.

With regard to fiscal matters, it should be stressed that the public deeds to formalize contractual novations of mortgage loans and credits that occur pursuant to the RDL, shall be exempt from the gradual rate for notarial documents for the purposes of the Tax on Property Transfers and Documented Legal Acts.

Likewise, in the case of dation in payment involving the usual place of residence pursuant to the RD-l, any capital gains that the debtors may generate shall be exempt from Income Tax ("Impuesto de la Renta de las Personas Físicas") and, for the purposes of the Municipal Tax on the Increase in Value of Urban Land ("Impuesto Municipal sobre el Incremento de Valor de los Terrenos de Naturaleza Urbana"), the institution that acquires the property shall be the taxable person to substitute the taxpayer, without the substitute being entitled to seek the amount of the tax liabilities paid from the taxpayer.

C) Code of good practices.

It is foreseen, a Code of Good Practices, which includes different measures that apply to debtors who prove that they fall within the exclusion threshold but only if the lender has acceded to the Code.

Firstly, the Code of Good Practices aims to achieve a viable restructuring of the mortgage loan prior to foreclosure (by the establishment of a grace period of 4 years for repayment, a reduction in the applicable interest rate to Euribor + 0.25% for the grace period; and the extension of the total repayment period up to 40 years from the date the loan was granted). This measure is obligatory for lenders that have accepted the Code.

Secondly, even if after these measures are accounted for, the debtor is still unable to repay the loan, it is suggested that the lender offers the debtor a release from obligations using the following methods: (i) 25% reduction; (ii) a reduction equivalent to the difference between the repaid principal and the total loaned principal in the same proportion as the number of installments paid by the debtor bears to the total installments owed; (iii) a reduction equivalent to half of the difference between the current value of the residential property and the value resulting from the initial appraisal value minus twice the difference from the loan granted.

If after the conclusion of 12 months from the date on which the restructuring was requested, and despite the restructuring and the additional measures accepted by the lender, the situation continues to be unviable for the debtor (because the monthly loan repayments are above 60% of the total income received by the family unit), the debtor may request the dation in payment of his principal residence, which the lender is obliged to accept.

Finally, the RDL establishes a special application of the Urban Leases Act ("Ley de Arrendamientos Urbanos") to regulate certain aspects of those leases signed as the result of applying the Code of Good Practices.

Mechanism to regularize payments to suppliers of Regional and Local Governments (Royal Decree-Law 4/2012, published in the Spanish Official Gazette – Boletín Oficial del Estado – of February 24th, 2012; and Royal Decree-Law 7/2012, published in the Spanish Official Gazette – Boletín Oficial del Estado – of March 10th, 2012)

The Spanish government has approved a Suppliers Plan through the Royal Decree-law 4/2012 of February 24th. The plan is an agile mechanism for payments and cancellation of debts owed by Local Governments (Ayuntamientos) and Regional Governments (Comunidades Autónomas). More precisely, this regulation states the obligations regarding information by Local Governments and the necessary procedures to establish a financing mechanism to regularize the payments due to suppliers of Local Governments. Regional Governments can adhere to this mechanism and the measures would be extended to their suppliers.

On the other hand, the Royal Decree-law 7/2012 of March 9th has regulated the conditions for the outturn in payments of outstanding obligations in Local Authorities and, if applicable, in Regional Governments. For these purposes, a Fund for the Financing of Payments to Suppliers (FFPP) has been created in order to establish the conditions leading to collection of sufficient financial funds to finance the outstanding obligations due to suppliers.

These regulations are completed with other binding texts, such as agreements of the Executive Committee of the Government for Economic Issues, of the Fiscal and Financial Policy Board, or the Order HAP/537/2012 of March 9th approving the schemes of individual certification, the application scheme and the adjustment plan system in virtue of Royal Decree-Law 4/2012 of February 24th, which sets out the obligations of information and procedures required for the establishment of a financing mechanism for the payment of suppliers of local entities.

The basic features of the mechanism are as follows:

a) Local Governments must submit to the Ministry of Finance and Public Administration a certified list of arrears to suppliers. The list shall include the fallen due, chargeable and contingent arrears prior to January 1st, 2012, and under the Law on Contracts of the Public Sector.

b) The suppliers included in this list shall adhere to the terms of mechanism. As of that moment, the Local Government will regularize their payments due or use the established mechanism.

c) The payments will be administered through a non-financial Fund, especially designed for this purpose under the State Secretariat for Economic Affairs and Enterprise Support of the Ministry of Economy and Competitiveness. Some functions will be monitored by the Ministry of Finance and Public Administration.

d) Regarding the financing of the Fund, the General State Budget will provide up to 6 billion Euros. From this amount, 1.5 billion will be payable in 2012. Furthermore, the fund will have to possibility of raising funds in national and international capital markets.

e) The Local Governments shall design an Adjustment Plan. If the plan is approved by the Ministry of Finance and Public Administration, then the Local Government will take out a loan. If the plan is not approved, then the Fund will finance the arrear, with the Local Government's tax contribution to the state as a guarantee.

f) The Spanish Official Credit Institute will act as a payment agent, managing and monitoring the operations under Royal Decree-Law 7/2012.

Table 1

National accounts: GDP and main expenditure components SWDA*

Forecasts in blue

	GDP	Private consum-ption	Public consum-ption	Gross fixed capital formation					Exports	Imports	DOMESTIC DEMAND (a)	Net exports (a)
					Construction							
				Total	Total	Housing	Other construc-tions	Equipment & others products				
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	-2,1	-6,6	-8,1	-10,0	-5,6	-14,3	-4,6	3,3	-5,5	-4,4	2,7
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	-0,5	-1,1	-5,4	-7,0	-8,5	-5,7	-11,3	-4,2	3,5	-6,3	-3,4	3,0
II	-1,4	-2,1	-5,9	-7,9	-10,3	-5,8	-14,6	-3,5	4,1	-5,2	-4,3	2,8
III	-2,3	-2,8	-6,6	-9,6	-11,3	-6,1	-16,4	-6,5	1,4	-7,8	-5,2	2,9
IV	-2,7	-2,4	-8,6	-7,8	-10,0	-4,8	-15,1	-3,9	4,4	-2,4	-4,9	2,3
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	-1,5	-2,0	-2,1	-5,3	-6,0	-5,8	-5,8	-4,3	1,4	-1,2	-2,6	1,1
II	-3,1	-2,9	-9,4	-8,1	-10,3	-5,2	-15,2	-4,3	5,2	-2,4	-5,5	2,3
III	-3,3	-2,5	-10,2	-8,7	-11,3	-4,4	-18,1	-3,9	5,4	-2,2	-5,7	2,4
IV	-2,7	-2,2	-12,4	-8,9	-12,1	-3,9	-20,4	-3,3	5,6	-3,8	-5,6	2,9
	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	19,0	20,1	12,6	6,4	6,2	7,5	32,3	30,3	98,0	2,0

(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 blue

	Gross value added at basic prices												Taxes less subsidies on products
	Total	Agriculture, foresty and fishing	Manufacturing, energy and utilities	Construction	Services								
					Total	Trade, transport, accommodation and food services	Information and communication	Finance and insurance	Real estate	Professional, business and support services	Public administration, education, health and social work	Arts, entertainment and other services	
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	-1,2	-2,6	-6,3	-0,7	-0,4	-1,1	-1,1	-0,5	-0,8	-0,9	-0,4	-2,5
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	-0,5	-1,9	-2,7	-3,6	0,9	0,2	0,2	1,5	2,1	1,1	1,4	0,8	-2,6
II	-1,4	-0,9	-3,1	-5,6	-0,1	-0,4	-1,4	-0,2	0,7	0,8	-0,2	1,5	-3,3
III	-2,3	-0,6	-2,7	-7,2	-1,6	-0,5	-0,9	-3,1	-1,7	-2,8	-2,2	-1,9	-1,2
IV	-2,7	-1,4	-1,7	-9,0	-1,9	-0,9	-2,4	-2,4	-2,9	-2,4	-2,5	-1,9	-2,7
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	-1,5	-3,4	-0,6	-5,0	-0,9	0,6	-2,2	-2,2	-2,0	-2,3	-1,2	-1,6	-2,7
II	-3,1	-1,6	-2,8	-9,3	-2,2	-1,2	-2,1	-2,5	-4,0	-2,4	-2,8	-2,2	-3,1
III	-3,3	-1,0	-2,0	-10,3	-2,6	-2,4	-2,6	-2,7	-3,6	-2,2	-2,7	-2,1	-2,8
IV	-2,7	0,4	-1,2	-11,1	-1,9	-0,5	-2,5	-2,0	-2,0	-2,6	-3,2	-1,8	-2,3
		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	977,8	2,7	17,0	10,7	69,7	25,1	3,9	4,2	7,8	7,5	17,6	3,5	9,0

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

Table 3a

National accounts: Productivity and labour costs (I)

Forecasts in blue

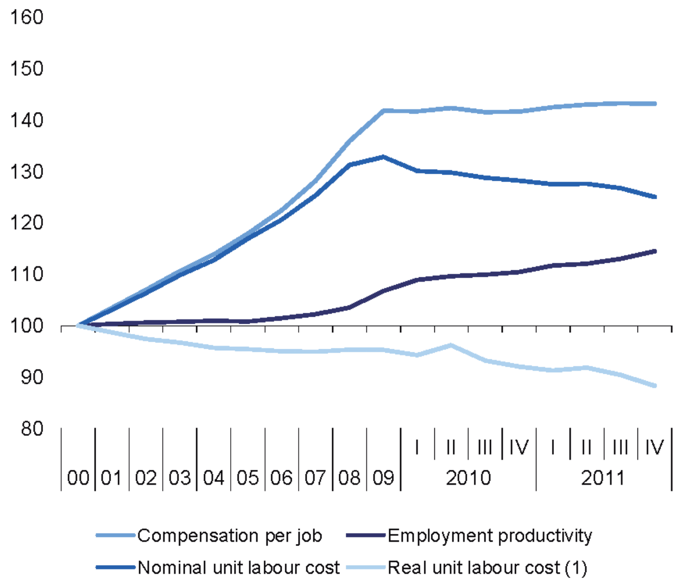
	Total economy						Manufacturing Industry					
	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation 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	116,4	115,5	100,8	117,9	116,9	95,4	105,5	95,7	110,1	122,3	111,0	96,2
2006	121,3	119,5	101,5	122,4	120,7	95,1	107,4	93,4	114,9	130,5	113,5	95,1
2007	125,8	123,1	102,3	128,2	125,3	95,0	107,8	91,1	118,3	139,9	118,3	95,7
2008	127,1	122,8	103,6	135,9	131,3	95,4	104,6	89,4	117,1	147,4	125,9	97,4
2009	122,6	114,9	106,7	141,8	132,9	95,3	91,8	77,4	118,7	150,3	126,6	98,0
2010	122,6	111,8	109,6	141,8	129,3	93,9	92,3	72,8	126,8	152,7	120,4	91,6
2011	123,3	109,5	112,6	143,0	127,0	90,5	94,6	70,6	133,9	155,4	116,1	84,8
2012	121,3	105,6	114,9	142,7	124,2	87,8	--	--	--	--	--	--
2009 I	124,0	117,2	105,8	140,6	132,9	95,9	94,5	81,5	116,0	148,8	128,3	100,7
II	122,7	115,2	106,5	141,6	132,9	95,6	90,6	78,0	116,2	149,8	128,9	99,2
III	122,3	114,0	107,3	142,3	132,6	94,6	90,7	75,5	120,1	150,3	125,2	95,4
IV	122,2	113,0	108,1	142,7	132,0	95,1	91,5	74,5	122,9	152,5	124,1	96,6
2010 I	122,4	112,3	108,9	141,7	130,1	94,3	92,6	73,4	126,2	150,8	119,5	91,9
II	122,7	111,9	109,7	142,3	129,8	96,2	92,9	73,1	127,0	152,4	120,0	96,5
III	122,8	111,7	109,9	141,5	128,8	93,2	91,1	72,2	126,3	152,8	121,0	89,4
IV	123,0	111,4	110,5	141,6	128,2	92,0	92,7	72,6	127,7	154,7	121,2	88,9
2011 I	123,5	110,5	111,7	142,5	127,5	91,3	95,8	71,2	134,4	153,1	113,9	85,1
II	123,7	110,4	112,1	143,0	127,6	91,9	95,7	71,4	134,0	154,8	115,5	86,5
III	123,7	109,5	113,0	143,3	126,8	90,4	94,3	70,6	133,5	156,2	117,0	84,5
IV	123,4	107,8	114,5	143,2	125,1	88,3	92,6	69,3	133,5	157,7	118,1	83,0
	Annual percentage changes											
2006	4,2	3,5	0,7	3,9	3,2	-0,4	1,8	-2,4	4,4	6,8	2,3	-1,1
2007	3,8	3,0	0,8	4,7	3,9	-0,1	0,3	-2,5	2,9	7,2	4,2	0,6
2008	1,0	-0,2	1,3	6,1	4,7	0,4	-2,9	-1,9	-1,0	5,4	6,5	1,8
2009	-3,6	-6,5	3,1	4,3	1,2	0,0	-12,2	-13,5	1,4	2,0	0,6	0,6
2010	0,0	-2,6	2,7	0,0	-2,6	-1,5	0,5	-5,9	6,8	1,6	-4,9	-6,5
2011	0,6	-2,0	2,7	0,8	-1,8	-3,7	2,4	-3,0	5,6	1,8	-3,6	-7,4
2012	-1,6	-3,6	2,1	-0,2	-2,2	-3,0	--	--	--	--	--	--
2010 I	-1,3	-4,2	3,0	0,8	-2,1	-1,7	-2,0	-9,9	8,8	1,3	-6,9	-8,7
II	0,0	-2,9	3,0	0,5	-2,4	0,6	2,5	-6,2	9,3	1,7	-7,0	-2,7
III	0,4	-2,0	2,4	-0,6	-2,9	-1,5	0,5	-4,4	5,2	1,7	-3,3	-6,4
IV	0,7	-1,4	2,2	-0,7	-2,9	-3,3	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	-4,5	3,0	-2,4	5,5	1,6	-3,7	-10,4
III	0,8	-2,0	2,8	1,2	-1,5	-3,0	3,4	-2,2	5,7	2,2	-3,3	-5,4
IV	0,3	-3,3	3,7	1,1	-2,5	-4,1	-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

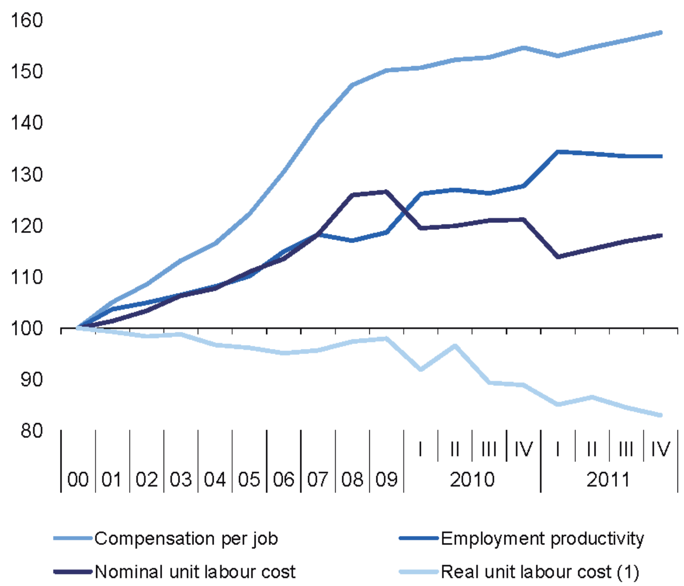
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Chart 2.- ULC, Manufacturing industry

Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Table 3b

National accounts: Productivity and labour costs (II)

	Construction						Services					
	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation per job	Nominal unit labour cost	Real unit labour cost (a)	Gross value added, constant prices	Employment (jobs, full time equivalent)	Employment productivity	Compensation 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

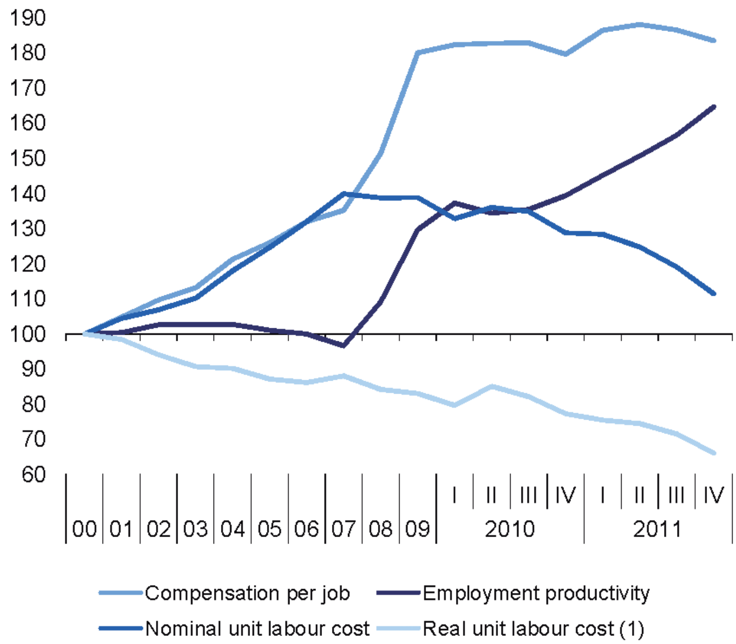


Chart 2.- ULC, Services

Index, 2000=100

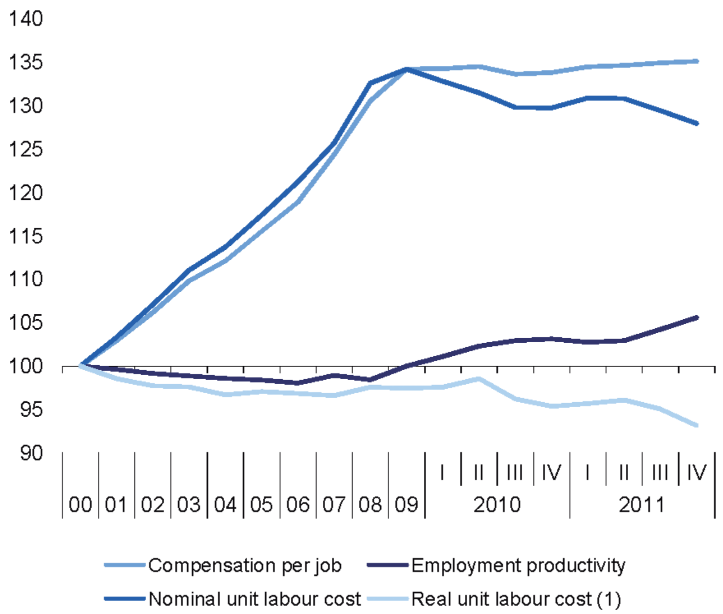


Table 4

National accounts: Net transactions with the rest of the world

Forecasts in blue

	Goods and services				Income	Current transfers	Current account	Capital trans-fers	Net lending/ borrowing with rest of the world	Saving-Investment-Deficit		
	Total	Goods	Tourist services	Non-tourist services						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	20926	-20810	34254	7482	-34638	-6971	-20682	5000	-15682	196574	217256	-20682
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	2,0	-2,0	3,2	0,7	-3,3	-0,7	-1,9	0,5	-1,5	18,4	20,4	-1,9
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

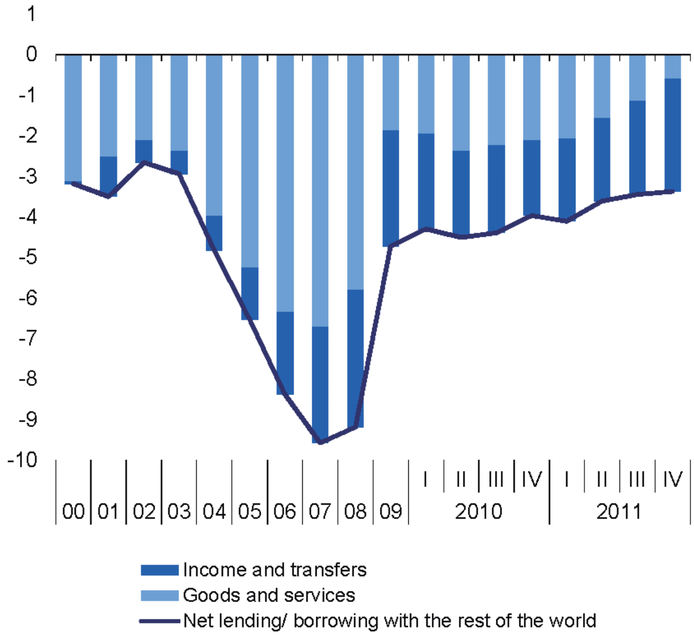


Chart 2.- Saving, investment and current account deficit

Percentage of GDP, 4-quarter moving averages

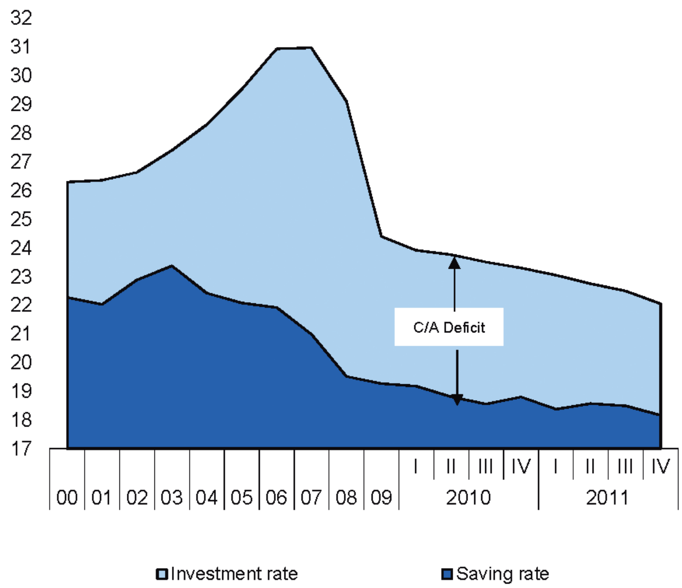


Table 5

National accounts: Household income and its disposition

Forecasts in blue

	Gross disposable income (GDI)						Final con-sum-ption expen-diture	Gross saving (a)	Saving rate (gross saving as a percen-tage of GDI)	Net capital transfers	Gross capital formation	Net lending (+) or borro-wing (-)	Net lending or borrowing as a per-centage of GDP
	Total	Compen-sation of employees (received)	Mixed income and net property income	Social benefits and other current transfers (received)	Social contribu-tions and other current transfers (paid)	Personal income taxes							
	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	707127	501446	254109	242397	209622	81203	625363	81900	11,6	4793	61747	24946	2,3
2012	699952	482269	263691	248133	206070	88071	625137	74917	10,7	3834	57410	21341	2,0
2010 I	717299	515255	251952	233926	207429	76405	592301	125293	17,5	5349	65938	64704	6,2
II	710094	512643	247491	234925	207254	77711	598164	112375	15,8	4951	65415	51911	5,0
III	704217	509810	244116	236194	207044	78859	600752	103851	14,7	5329	64639	44541	4,3
IV	704613	506738	247344	238761	208625	79605	606911	97985	13,9	6442	64017	40410	3,8
2011 I	705753	505849	248957	239707	209190	79570	612798	93048	13,2	6427	63286	36189	3,4
II	707990	505142	252591	241223	210340	80626	617858	89724	12,7	6984	62861	33847	3,2
III	709886	504262	254334	242086	209676	81120	623146	86197	12,1	7060	63102	30155	2,8
IV	707127	501446	254109	242397	209622	81203	625363	81900	11,6	4793	61747	24946	2,3
	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	0,4	-1,0	2,7	1,5	0,5	2,0	3,0	-16,4	-2,3	-25,6	-3,5	--	-1,5
2012	-1,0	-3,8	3,8	2,4	-1,7	8,5	0,0	-8,5	-0,9	-20,0	-7,0	--	-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	--	-2,8
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	-2,6	31,8	-2,3	--	-1,4
IV	-0,4	-0,6	-0,1	0,1	0,0	0,1	0,4	-5,0	-2,3	-32,1	-2,1	--	-1,5

(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

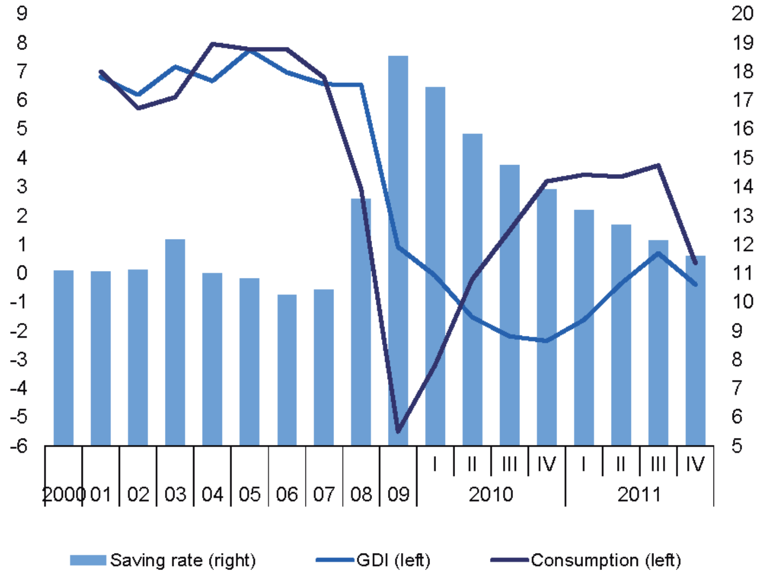
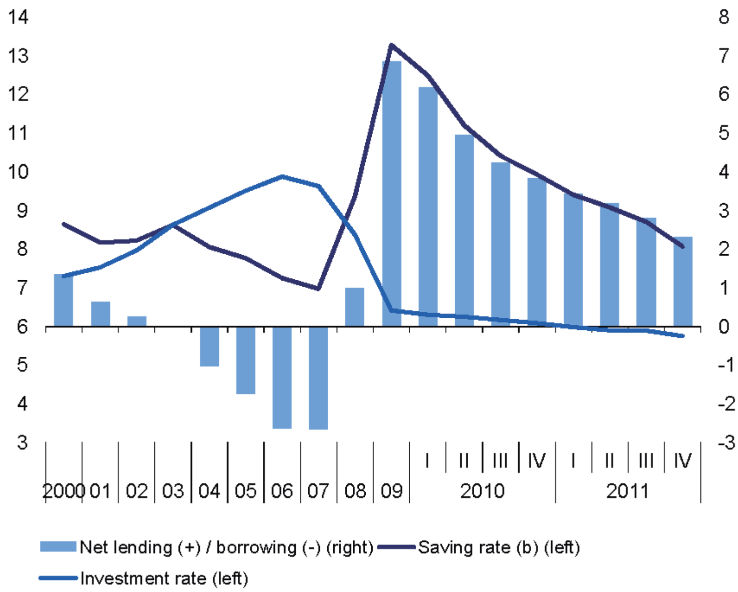


Chart 2.- Households: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(b) Including net capital transfers.

Table 6

National accounts: Non-financial corporations income and its disposition

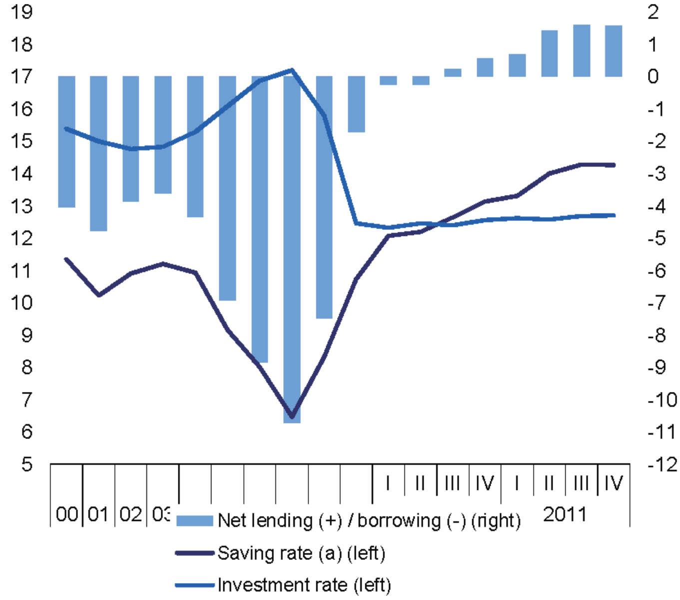
Forecasts in blue

	Gross value added	Com-pen-sation of emplo-yees and net taxes on pro-duction (paid)	Gross ope-rating surplus	Net property income	Net current transfers	Income taxes	Gross saving	Net capital trans-fers	Gross capital formation	Net len-ding (+) or borro-wing (-)	Net lending or bo-rrowing as a percen-tage of GDP	Profit share (per-cen-tage)	Inves-tment rate (percen-tage)
	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	530988	307578	223410	-57122	-9522	16854	139912	13164	136307	16769	1,6	42,1	25,7
2012	525473	294860	230613	-67327	-9427	19854	134006	9807	130746	13068	1,2	43,9	24,9
2010 I	503908	313349	190559	-48882	-9984	19800	111893	14281	128833	-2659	-0,3	37,8	25,6
II	503962	311908	192054	-48562	-10008	19588	113896	13742	130346	-2708	-0,3	38,1	25,9
III	506380	310279	196101	-50423	-10075	17300	118303	14170	129938	2535	0,2	38,7	25,7
IV	510473	308504	201969	-51573	-9908	15719	124769	13231	132054	5946	0,6	39,6	25,9
2011 I	514881	308471	206410	-53134	-9885	15581	127810	12862	133361	7311	0,7	40,1	25,9
II	523197	308760	214437	-53887	-9949	14917	135684	13313	133841	15156	1,4	41,0	25,6
III	527055	309330	217725	-54046	-9766	14616	139297	13598	135773	17122	1,6	41,3	25,8
IV	530988	307578	223410	-57122	-9522	16854	139912	13164	136307	16769	1,6	42,1	25,7
	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	10,6	10,8	-3,9	7,2	12,1	-0,5	3,2	--	1,0	2,5	-0,2
2012	-1,0	-4,1	3,2	17,9	-1,0	17,8	-4,2	-25,5	-4,1	--	-0,3	1,8	-0,8
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	--	0,9	2,3	0,3
II	3,8	-1,0	11,5	11,2	-0,8	-22,6	18,6	-2,7	1,0	--	1,7	2,9	-0,3
III	3,9	-0,5	10,8	10,0	-6,8	-13,4	16,2	-4,2	2,4	--	1,4	2,6	0,1
IV	4,0	-0,3	10,6	10,8	-3,9	7,2	12,1	-0,5	3,2	--	1,0	2,5	-0,2

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

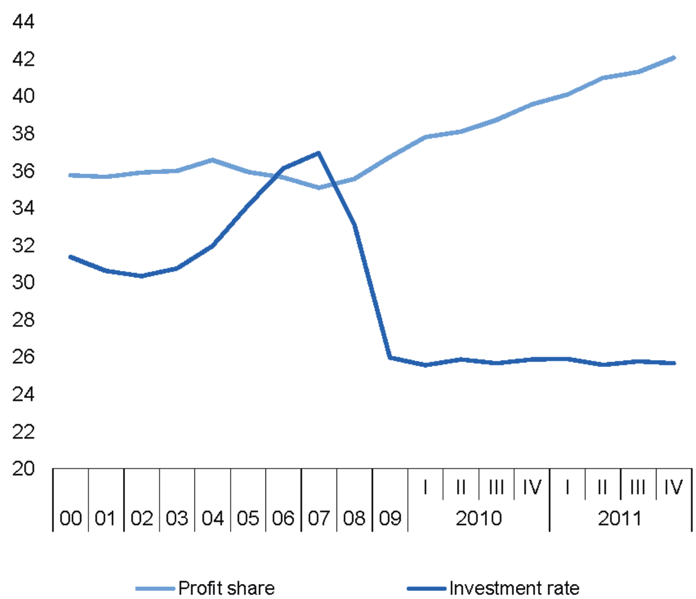


Table 7

National accounts: Public revenue, expenditure and deficit (1)

Forecasts in blue

	Revenue							Expenditure							Net lending (+) or borro-wing (-) (public deficit)
		Current revenue							Current expenditure						
	Total revenue	Total current revenue	Indirect taxes	Direct taxes	Social contribu-tions	Other current revenues	Capital revenue	Total expendi-ture	Total current expendi-ture	Public consum-ption	Interest and other property income	Social payments	Subsidies and others transfers	Capital expen-diture	
	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	270061	273308	104971	101610	139868	-73141	-3247	326872	300202	217675	25880	163486	-106839	26670	-56811
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	487476	425994	223672	18760	156219	27343	61482	-119248
II	378106	377322	101682	102012	140307	33321	784	487224	426950	224434	18885	157774	25857	60274	-109118
III	382035	381647	107396	100611	139892	33748	388	486757	429083	224320	19633	158920	26210	57674	-104722
IV	381427	381293	108699	99698	140170	32726	134	479645	426997	221715	20132	160974	24176	52648	-98218
2011 I	382887	381782	109621	99441	140211	32509	1065	480154	429459	222503	21580	161410	23966	50695	-97267
II	379010	378634	106407	99954	139989	32284	320	477003	428330	220973	22913	161228	23216	48673	-97993
III	379244	379446	107769	99863	139634	32180	-266	473030	428180	218941	24295	161980	22964	44850	-93786
IV	270061	273308	104971	101610	139868	-73141	-1306	326872	300202	217675	25880	163486	-106839	26670	-56811
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	3,1	-0,1	42,3	39,2	19,5	3,0	15,5	1,3	3,1	-6,1
2010 I	35,0	35,0	8,9	9,6	13,3	3,2	0,0	46,4	40,5	21,3	1,8	14,9	2,6	5,8	-11,3
II	36,0	35,9	9,7	9,7	13,3	3,2	0,1	46,3	40,6	21,3	1,8	15,0	2,5	5,7	-10,4
III	36,3	36,3	10,2	9,6	13,3	3,2	0,0	46,3	40,8	21,3	1,9	15,1	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	35,7	35,6	10,2	9,3	13,1	3,0	0,1	44,7	40,0	20,7	2,0	15,0	2,2	4,7	-9,1
II	35,3	35,3	9,9	9,3	13,0	3,0	0,0	44,4	39,9	20,6	2,1	15,0	2,2	4,5	-9,1
III	35,3	35,3	10,0	9,3	13,0	3,0	0,0	44,1	39,9	20,4	2,3	15,1	2,1	4,2	-8,7
IV	25,2	25,5	9,8	9,5	13,0	-6,8	-0,1	30,5	28,0	20,3	2,4	15,2	-10,0	2,5	-5,3

(1) On May 18th, 2012, the Government announced that the overall public sector deficit for 2011 was revised upwards to 8.9% of GDP. At the time of publication, details on the final breakdown of revenues and expenditures supporting the latest deficit figure were not yet available. Therefore, due to the lack of information, we were not able to further update this table.

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

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

Percentage of GDP, 4-quarter moving averages

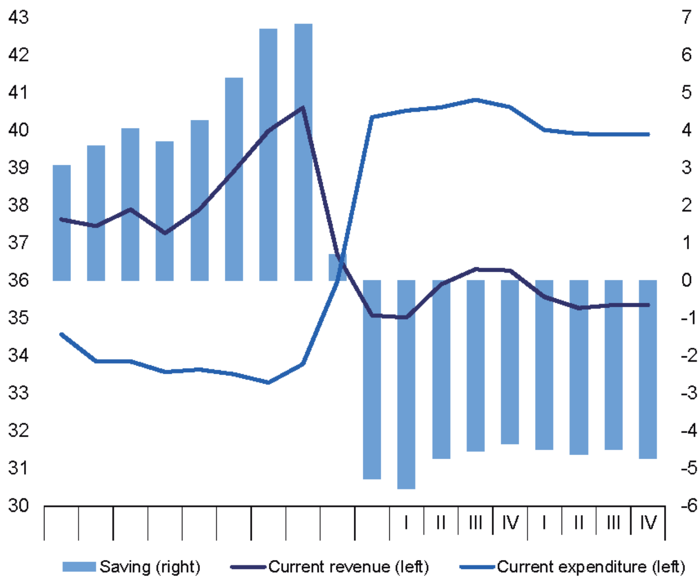
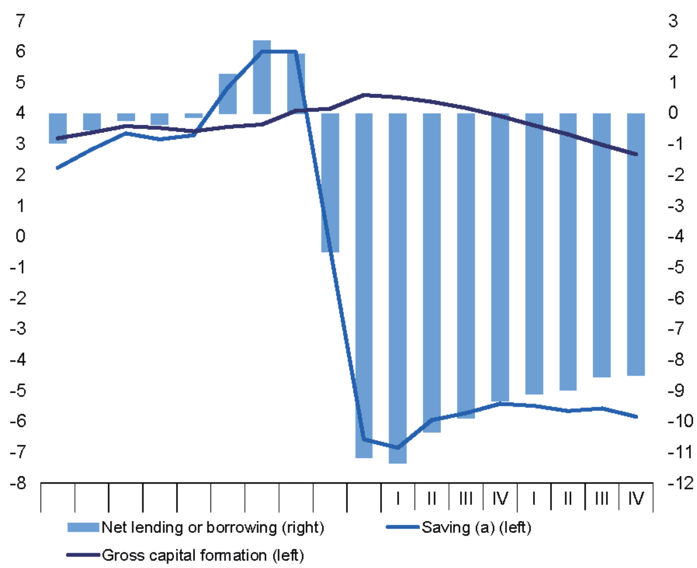


Chart 2.- Public sector: Saving, investment and deficit

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 Senti- ment Index	Composite PMI index	Social Security Affiliates	Electricity consum-ption (temperature adjusted)	Industrial produc- tion 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 res- ponses	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	96,7	-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	261,0	83,1	2232	47,3	-12,5	81,0	-30,7
2012 (b)	91,1	44,2	16916	91,4	81,3	2144	44,5	-15,5	74,2	-34,0
2010 IV	92,8	48,1	17600	66,3	84,9	2272	50,9	-9,2	81,6	-28,7
2011 I	92,9	50,5	17551	66,2	85,2	2260	51,9	-8,6	82,2	-29,0
II	93,6	50,1	17502	65,9	84,0	2244	48,7	-10,7	81,4	-28,9
III	92,8	45,0	17407	65,3	82,9	2225	44,9	-14,4	81,3	-29,9
IV	91,2	40,7	17262	63,8	81,1	2198	43,8	-16,5	79,1	-35,0
2012 I	91,7	45,0	17098	64,9	80,2	2168	44,9	-14,8	79,5	-34,3
II (b)	89,1	42,0	16969	21,7	--	2147	43,5	-17,5	--	-33,1
2012 Jan	92,2	46,0	17160	21,5	80,9	2180	45,1	-14,8	79,6	-36,2
Feb	92,0	42,9	17097	21,8	80,5	2168	45,0	-14,2	79,3	-33,9
Mar	90,9	46,0	17038	21,6	79,2	2156	44,5	-15,5	--	-32,7
Apr	89,1	42,0	16969	21,7	--	2147	43,5	-17,5	--	-33,1
					Percentage changes (c)					
2007	--	--	3,0	4,8	2,0	0,6	--	--	1,7	--
2008	--	--	-0,5	1,4	-7,3	-2,2	--	--	-8,2	--
2009	--	--	-5,8	-4,9	-15,8	-10,6	--	--	-19,3	--
2010	--	--	-2,0	2,9	0,8	-4,8	--	--	3,4	--
2011	--	--	-1,3	-1,1	-1,4	-2,7	--	--	0,4	--
2012 (d)	--	--	-2,7	-1,8	-5,8	-4,4	--	--	-3,8	--
2010 IV	--	--	-0,8	0,6	4,2	-2,1	--	--	2,7	--
2011 I	--	--	-1,1	-0,6	1,4	-2,1	--	--	1,2	--
II	--	--	-1,1	-1,8	-5,2	-2,7	--	--	-1,5	--
III	--	--	-2,2	-3,6	-5,1	-3,4	--	--	-3,6	--
IV	--	--	-3,3	-8,7	-8,7	-4,7	--	--	-4,4	--
2012 I	--	--	-3,7	7,2	-4,2	-5,3	--	--	-3,1	--
II (e)	--	--	-3,0	1,2	--	-3,9	--	--	--	--
2012 Jan	--	--	-0,3	1,5	-0,7	-0,4	--	--	-0,5	--
Feb	--	--	-0,4	1,6	-0,5	-0,6	--	--	-0,4	--
Mar	--	--	-0,4	-1,2	-1,6	-0,5	--	--	--	--
Apr	--	--	-0,4	0,6	--	-0,4	--	--	--	--

(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

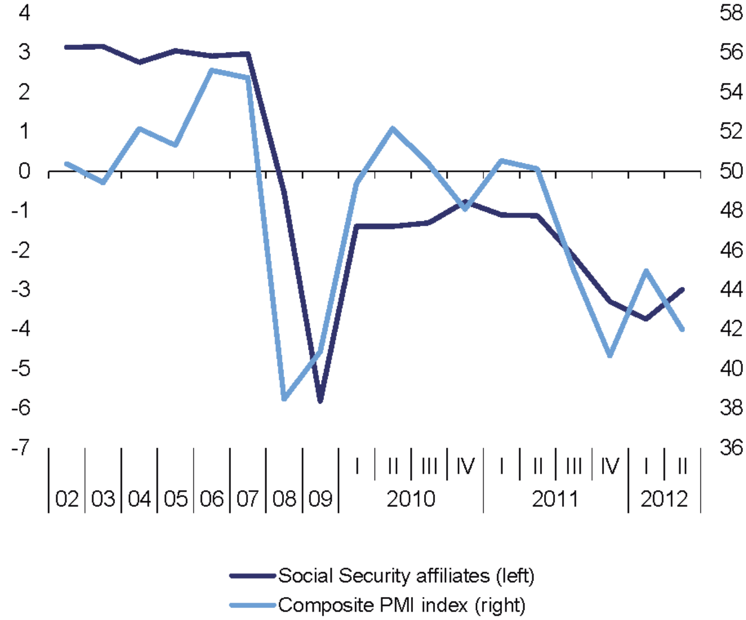


Chart 2.- Industrial sector indicators
Percent change from previuos period and index

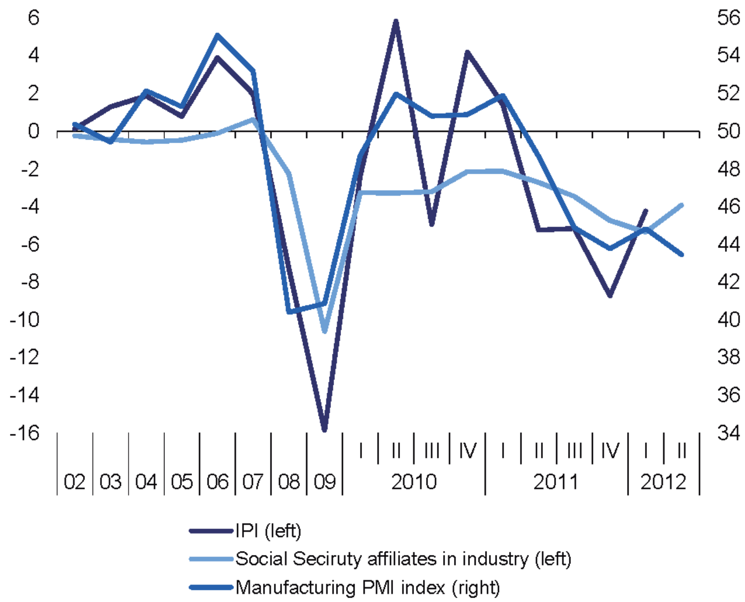


Table 9

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 over-night 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	20,4	-55,4	11,8	87,0	20,0	12636	94,3	46,5	286,7	203,3	-20,8
2012 (b)	1189	3,7	-51,9	1,2		2,4	12379	84,5	44,1	44,2	37,4	-16,1
2010 IV	1500	5,3	-27,8	4,7	34,0	5,8	12626	95,2	47,0	68,9	49,2	-28,2
2011 I	1459	5,7	-41,5	3,9	23,0	5,5	12636	95,1	49,6	70,2	50,2	-28,2
II	1401	5,3	-54,1	3,3	27,4	5,3	12661	94,8	50,5	71,3	51,0	-19,1
III	1341	4,9	-55,4	2,8	17,9	5,0	12650	94,1	45,5	71,7	50,9	-14,2
IV	1279	4,4	-58,6	2,3	18,6	4,1	12594	93,0	40,2	71,1	49,7	-21,8
2012 I	1220	3,9	-53,6	1,3	--	2,4	12525	92,0	44,8	70,1	47,8	-15,5
II (b)	1180	--	-51,9	--	--	--	12460	--	42,1	--	--	-18,0
2012 Jan	1241	1,4	-52,7	0,7	--	1,2	12550	92,2	46,1	12,6	11,7	-18,0
Feb	1219	1,3	-59,1	0,6	--	1,2	12526	91,8	41,9	14,2	11,5	-15,1
Mar	1199	1,3	-58,4	--	--	--	12498	--	46,3	17,5	14,1	-13,4
Apr	1180	--	-45,3	--	--	--	12460	--	42,1	--	--	-18,0
					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	-16,5	--	-46,2	-29,7	-18,6	0,2	-1,1	--	6,4	6,0	--
2012 (d)	-16,6	-31,3	--	-42,4	--	-32,0	-1,1	-3,3	--	-0,7	-5,4	--
2010 IV	-10,0	-43,4	--	-25,1	-26,3	-18,8	0,4	-0,9	--	6,9	7,9	--
2011 I	-10,6	29,0	--	-33,5	-27,8	-9,7	0,3	-0,4	--	7,8	8,2	--
II	-15,0	-21,7	--	-37,4	-17,0	-21,8	0,8	-1,3	--	6,5	6,3	--
III	-16,1	-28,8	--	-38,1	-27,6	-14,4	-0,4	-3,1	--	2,0	-0,6	--
IV	-17,1	-33,9	--	-40,0	-45,2	-28,4	-1,7	-4,7	--	-3,2	-9,1	--
2012 I	-17,4	-37,6	--	-37,6	--	-31,5	-2,2	-4,2	--	-5,4	-14,7	--
II (e)	-12,3	--	--	--	--	--	-2,1	--	--			--
2012 Jan	-1,4	-3,8	--	-6,7	--	-24,5	-0,2	-0,4	--	-0,5	-1,3	--
Feb	-1,8	-4,1	--	-6,3	--	-38,5	-0,2	-0,4	--	-0,5	-1,4	--
Mar	-1,7	-4,2	--	--	--	--	-0,2	--	--	-0,5	-1,5	--
Apr	-1,6	--	--	--	--	--	-0,3	--	--	--	--	--

(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

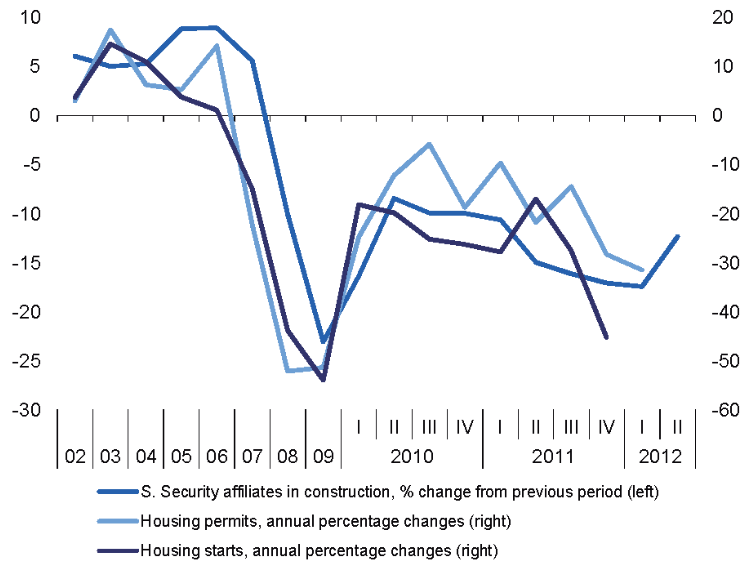


Chart 2.- Services indicators

Percentage changes from previous period and index

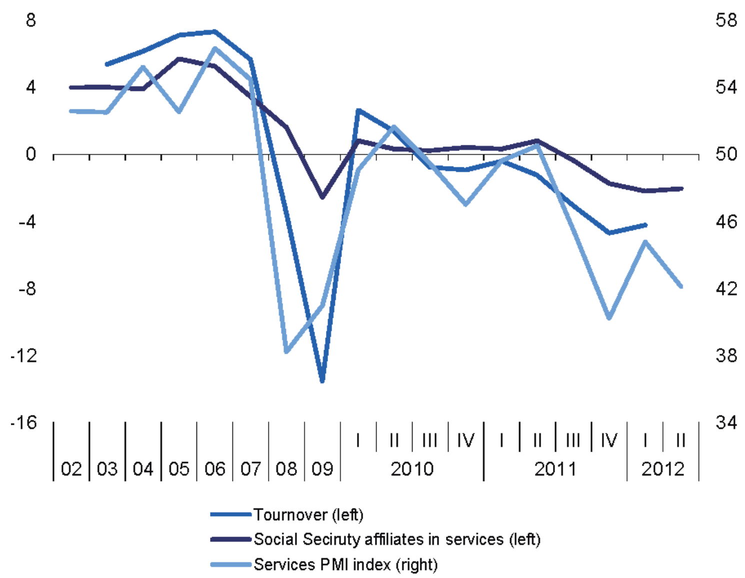


Table 10

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	89,7
2009	93,2	971,2	-28,2	110,1	-40,3	142,1	-50,8	65,6
2010	91,6	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	52,7
2012 (b)	80,7	262,6	-25,6	18,8	-23,9	39,5	-33,2	52,0
2010 IV	89,9	213,1	-21,0	28,2	-22,8	37,2	-22,2	55,5
2011 I	88,6	206,7	-19,6	28,0	-22,3	37,1	-22,1	54,0
II	87,3	204,2	-16,1	27,8	-21,4	36,5	-21,1	52,8
III	85,8	199,7	-15,8	27,6	-21,9	35,3	-23,2	52,3
IV	84,5	195,7	-16,8	27,1	-21,4	33,0	-25,8	51,8
2012 I	83,5	192,9	-24,6	26,4	-24,9	30,2	-31,7	51,3
II (b)	--	63,1	-28,6	--	-21,0	9,4	-37,5	--
2012 Jan	83,8	64,7	-15,3	8,9	-23	10,4	-35,2	51,4
Feb	83,5	64,3	-20,2	8,8	-28	10,1	-27,8	51,2
Mar	83,2	63,8	-24,7	8,7	-25,6	9,7	-32,1	--
Apr	--	63,1	-28,9	--	-21,0	9,4	-37,5	--
				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	--	-26,9
2010	-1,7	3,0	--	3,1	--	7,0	--	-11,0
2011	-5,6	-19,2	--	-2,1	--	-6,6	--	-9,8
2012 (d)	-5,3	-7,2	--	-2,3	--	-20,5	--	-5,2
2010 IV	-5,4	-30,5	--	-2,7	--	-2,1	--	-10,3
2011 I	-5,7	-11,4	--	-2,4	--	-0,8	--	-9,8
II	-6,0	-4,9	--	-2,4	--	-6,2	--	-8,7
III	-6,3	-8,4	--	-3,7	--	-13,2	--	-4,0
IV	-6,0	-7,8	--	-6,6	--	-23,2	--	-4,0
2012 I	-4,9	-5,7	--	-10,0	--	-30,4	--	-3,4
II (e)	--	-7,0	--		--	-24,6	--	--
2012 Jan	-0,6	-0,4	--	-0,9	--	-3,0	--	-0,3
Feb	-0,7	-0,6	--	-1,0	--	-3,2	--	-0,3
Mar	0,8	-0,8	--	-1,1	--	-3,4	--	--
Apr	--	-1,0	--	--	--	-3,6	--	--

(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. (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

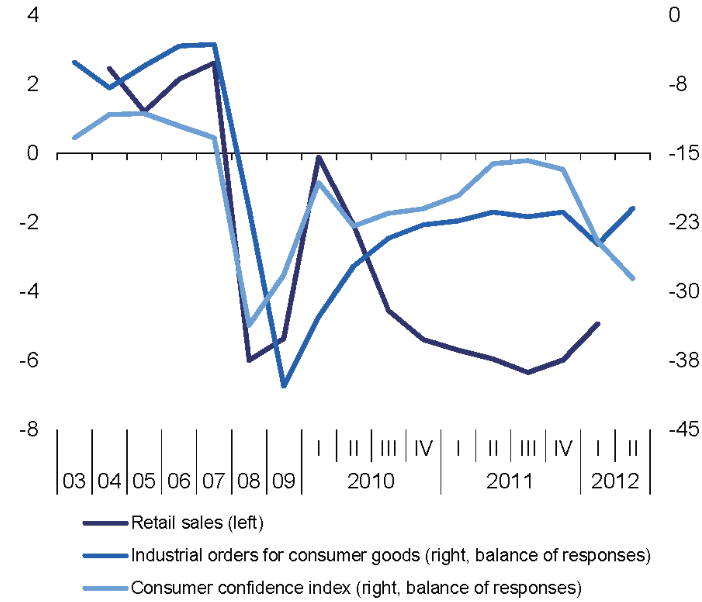


Chart 2.- Investment indicators

Percent change from previous period and balance of responses

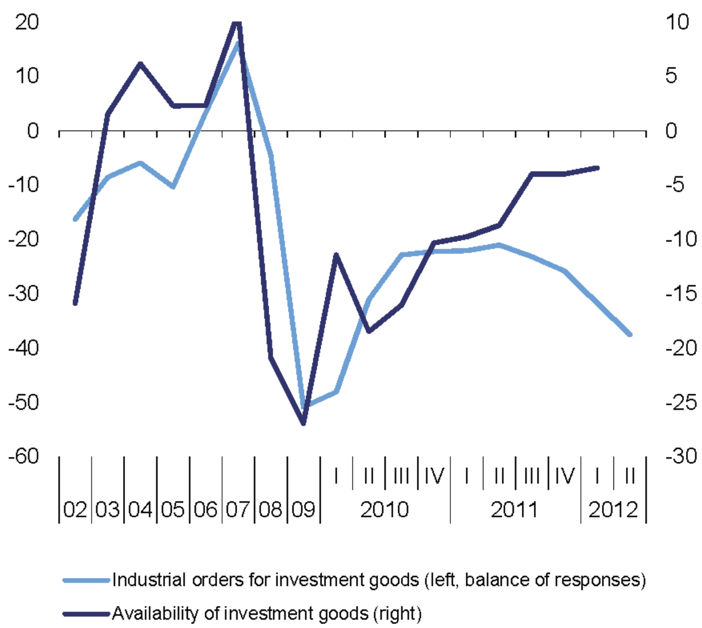


Table 11a

Labour market (I)

Forecasts in blue

	Population aged 16-64	Labour force		Employment		Unemployment		Participa-tion rate 16-64 (a)	Employ-ment rate 16-64 (b)	Unemployment rate (c)			
										Total	Aged 16-24	Spanish	Foreign
		Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted	Seasonally adjusted					
	1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
	Thousands							Percentage					
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	--	17412,6	--	5665,4	--	75,0	56,5	24,5	--	--	--
2009 I	30926,5	23101,5	23113,9	19090,8	19250,6	4010,7	3863,3	74,2	61,8	16,7	34,9	14,7	27,1
II	30921,2	23082,5	23054,0	18945,0	18910,9	4137,5	4143,1	74,1	60,7	18,0	37,5	16,1	28,1
III	30903,6	22993,6	22995,7	18870,2	18747,8	4123,4	4247,9	73,9	60,2	18,5	39,7	16,6	28,6
IV	30873,1	22972,4	22991,1	18645,9	18640,3	4326,5	4350,8	73,9	59,9	18,9	39,4	16,9	29,8
2010 I	30849,6	23006,8	23030,9	18394,1	18573,7	4612,7	4457,2	74,2	59,7	19,4	40,1	17,4	29,4
II	30832,8	23122,4	23086,1	18476,9	18436,0	4645,5	4650,1	74,4	59,3	20,1	41,4	18,2	30,3
III	30817,8	23121,5	23107,8	18546,8	18409,2	4574,7	4698,6	74,5	59,2	20,3	41,9	18,4	30,5
IV	30812,3	23104,7	23120,4	18408,1	18400,8	4696,6	4719,6	74,5	59,2	20,4	43,1	18,5	30,5
2011 I	30777,5	23061,9	23097,4	18151,7	18343,2	4910,2	4754,2	74,5	59,1	20,6	44,5	18,7	30,5
II	30710,0	23136,7	23103,6	18303,0	18259,5	4833,7	4844,1	74,7	59,0	21,0	45,4	19,0	31,9
III	30679,2	23134,5	23114,6	18156,2	18009,4	4978,3	5105,2	74,9	58,2	22,1	47,0	20,0	34,0
IV	30658,5	23081,3	23095,7	17807,6	17799,8	5273,7	5296,0	74,8	57,5	22,9	48,9	20,8	35,0
2012 I	30606,1	23072,7	23111,2	17433,2	17643,1	5639,5	5468,1	75,0	57,2	23,7	51,1	21,6	35,3
	Percentage changes (d)							Difference from one year ago					
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	--	-3,8	--	13,3	--	0,3	-2,0	2,9	--	--	--
2010 I	-0,2	-0,4	0,7	-3,6	-1,4	15,0	10,2	-0,1	-2,0	2,6	5,2	2,7	2,3
II	-0,3	0,2	1,0	-2,5	-2,9	12,3	18,5	0,3	-1,4	2,2	3,9	2,2	2,2
III	-0,3	0,6	0,4	-1,7	-0,6	10,9	4,2	0,6	-0,9	1,9	2,2	1,9	1,9
IV	-0,2	0,6	0,2	-1,3	-0,2	8,6	1,8	0,6	-0,6	1,5	3,7	1,7	0,7
2011 I	-0,2	0,2	-0,4	-1,3	-1,2	6,4	3,0	0,4	-0,6	1,2	4,4	1,3	1,2
II	-0,4	0,1	0,1	-0,9	-1,8	4,1	7,8	0,4	-0,3	0,8	4,0	0,7	1,6
III	-0,4	0,1	0,2	-2,1	-5,4	8,8	23,4	0,4	-1,0	1,8	5,2	1,5	3,5
IV	-0,5	-0,1	-0,3	-3,3	-4,6	12,3	15,8	0,3	-1,7	2,5	5,8	2,2	4,4
2012 I	-0,6	0,0	0,3	-4,0	-3,5	14,9	13,6	0,5	-2,0	3,1	6,6	2,8	4,7

(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

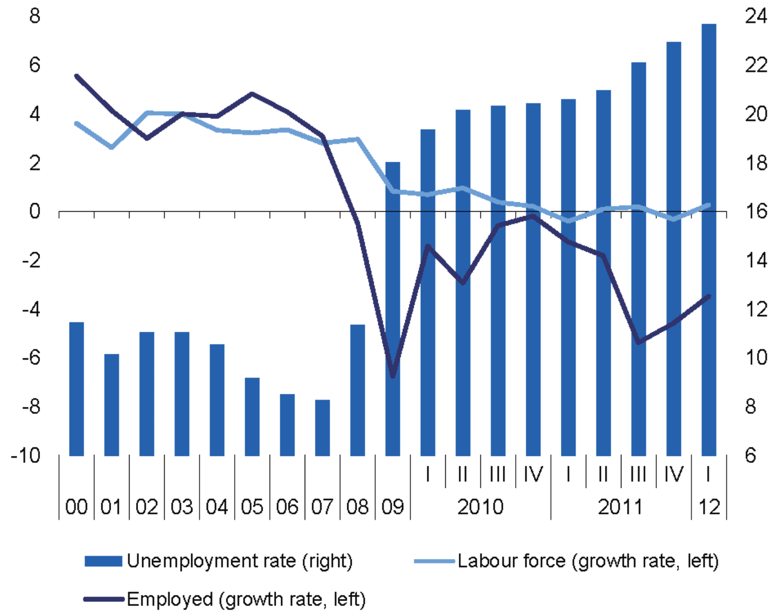


Chart 2.- Unemployment rates, SA

Percentage

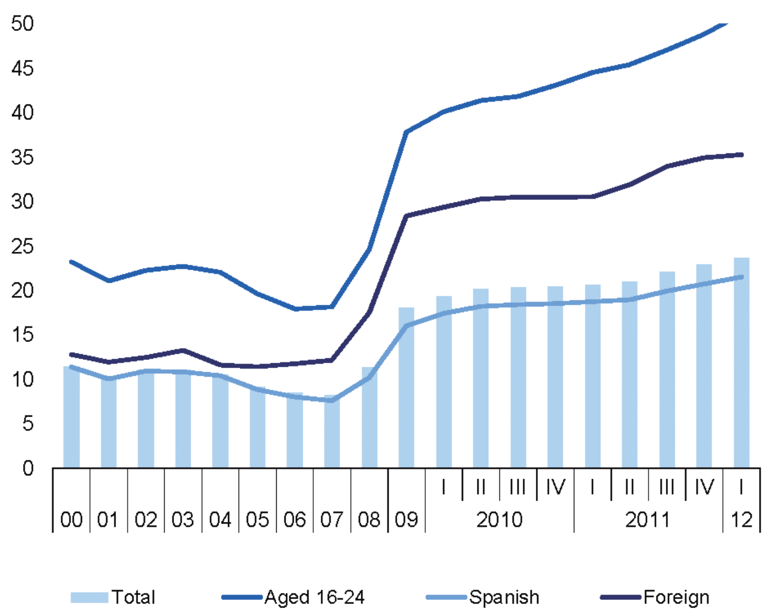


Table 11b

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- em- ployed	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)							
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	15843,1	4025,7	11817,4	25,4	3254,3	16667,9	2422,9	12,6
II	792,9	2801,5	1916,5	13401,0	15736,8	3971,5	11765,3	25,2	3206,9	16494,4	2450,6	13,0
III	770,7	2701,8	1830,7	13439,6	15650,1	4046,0	11604,1	25,9	3211,3	16554,1	2316,1	12,4
IV	774,2	2666,2	1803,1	13393,8	15492,6	3886,2	11606,4	25,1	3154,7	16175,2	2470,7	13,3
2010 I	803,9	2632,5	1686,0	13452,2	15253,3	3720,5	11532,8	24,4	3150,5	15942,4	2451,7	13,2
II	785,0	2619,8	1694,8	13339,2	15363,4	3822,1	11541,3	24,9	3112,1	15978,3	2498,6	13,6
III	788,3	2581,3	1648,5	13392,1	15456,3	3949,9	11506,4	25,6	3081,7	16174,9	2371,9	12,9
IV	793,7	2608,2	1573,5	13424,7	15314,2	3800,3	11513,9	24,8	3093,5	15933,6	2474,5	13,4
2011 I	752,4	2575,3	1515,4	13498,1	15120,8	3746,0	11374,8	24,8	3041,6	15585,3	2566,4	14,0
II	748,7	2577,7	1426,1	13507,9	15292,4	3902,9	11389,5	25,5	3008,9	15715,0	2588,0	14,2
III	742,7	2555,2	1353,1	13360,4	15179,4	3950,4	11229,0	26,0	2967,8	15757,7	2398,5	13,3
IV	796,2	2511,8	1278,1	13213,5	14829,2	3704,4	11124,8	25,0	2977,2	15349,1	2458,5	13,8
2012 I	776,2	2459,3	1186,7	13011,0	14411,2	3424,8	10986,4	23,8	3022,0	14927,2	2506,0	14,4
	Annual percentage changes							Difference from one year ago	Annual percentage changes			Difference from one year ago
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	-3,7	-7,6	-2,4	-1,0	-3,2	-4,4	1,2	0,6
II	-1,0	-6,5	-11,6	-0,5	-2,4	-3,8	-1,9	-0,4	-3,0	-3,1	2,0	0,6
III	2,3	-4,5	-10,0	-0,4	-1,2	-2,4	-0,8	-0,3	-4,0	-2,3	2,4	0,5
IV	2,5	-2,2	-12,7	0,2	-1,2	-2,2	-0,8	-0,3	-1,9	-1,5	0,2	0,2
2011 I	-6,4	-2,2	-10,1	0,3	-0,9	0,7	-1,4	0,4	-3,5	-2,2	4,7	0,8
II	-4,6	-1,6	-15,9	1,3	-0,5	2,1	-1,3	0,6	-3,3	-1,6	3,6	0,6
III	-5,8	-1,0	-17,9	-0,2	-1,8	0,0	-2,4	0,5	-3,7	-2,6	1,1	0,4
IV	0,3	-3,7	-18,8	-1,6	-3,2	-2,5	-3,4	0,2	-3,8	-3,7	-0,6	0,4
2012 I	3,2	-4,5	-21,7	-3,6	-4,7	-8,6	-3,4	-1,0	-0,6	-4,2	-2,4	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

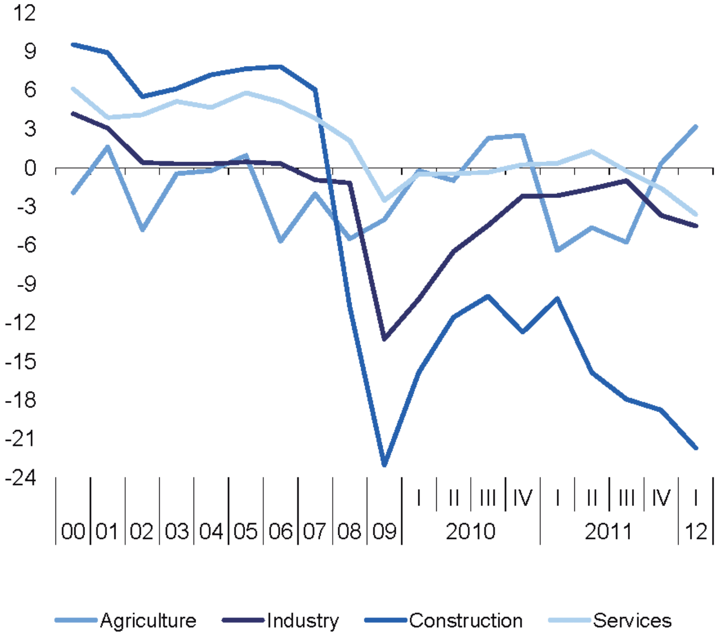


Chart 2.- Employment by type of contract
Annual percentage changes

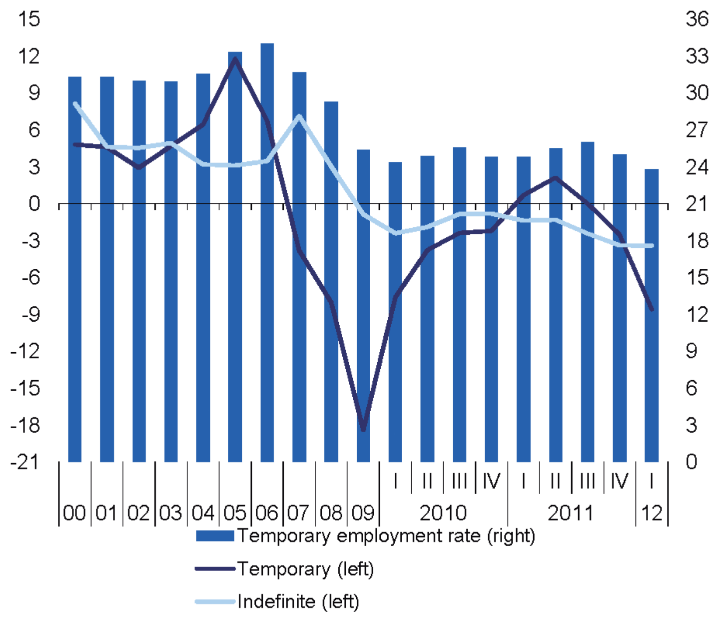


Table 12

Index of Consumer Prices

Forecasts in blue

	Total	Total excluding food and energy	Excluding unprocessed food and energy				Unproces-sed food	Energy	Food	Harmonized ICP		
			Total	Non-energy industrial goods	Services	Processed food				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	102,0	100,8	101,1	100,0	101,2	102,8	102,4	108,5	102,7	--	--	--
						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	2,0	0,8	1,1	0,0	1,2	2,8	2,4	8,5	2,7	--	--	--
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	2,7	-0,7
Feb	2,0	0,8	1,2	0,1	1,3	2,8	1,8	7,9	2,5	1,9	2,7	-0,8
Mar	1,9	0,8	1,2	0,3	1,2	2,7	1,4	7,5	2,3	1,8	2,7	-0,9
Apr	2,1	0,7	1,1	0,1	1,1	2,9	2,1	8,9	2,7	--	--	--
May	2,0	0,7	1,1	0,2	1,1	2,8	1,9	9,1	2,5	--	--	--
Jun	2,2	0,7	1,2	0,1	1,1	3,6	2,3	9,2	3,2	--	--	--
Jul	2,1	0,7	1,2	0,0	1,2	3,1	2,5	8,2	2,9	--	--	--
Aug	2,2	0,7	1,1	-0,1	1,3	3,1	2,9	9,0	3,0	--	--	--
Sep	2,0	0,7	1,0	-0,1	1,2	2,4	3,1	8,2	2,6	--	--	--
Oct	2,0	0,7	1,0	-0,3	1,3	2,4	3,1	8,9	2,6	--	--	--
Nov	2,0	0,7	1,0	-0,1	1,3	2,3	3,3	8,3	2,6	--	--	--
Dec	2,0	0,7	1,0	-0,1	1,3	2,4	3,7	8,6	2,8	--	--	--

Sources: Eurostat, INE and Funcas (Forecasts).

Chart 1.- Inflation Rate: Spain
Annual percentage changes

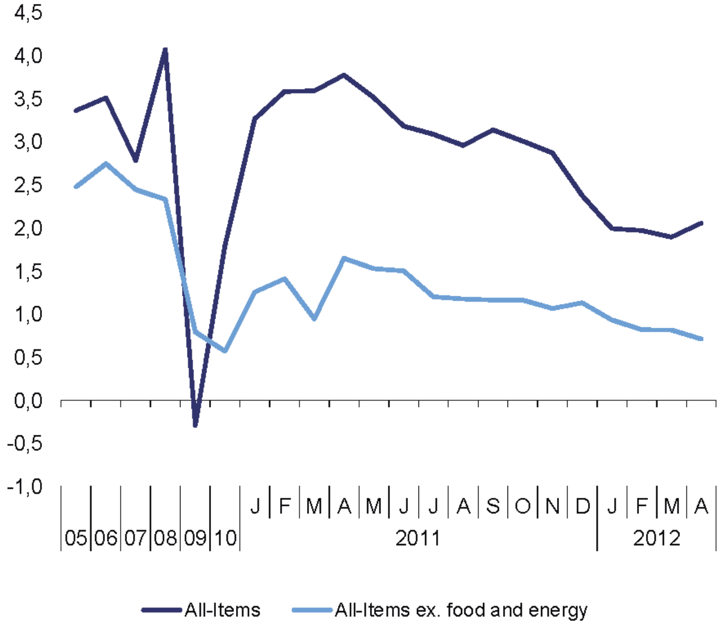


Chart 1.- Harmonized inflation rate: Spain - EMU-17
Annual percentage changes and percentage points

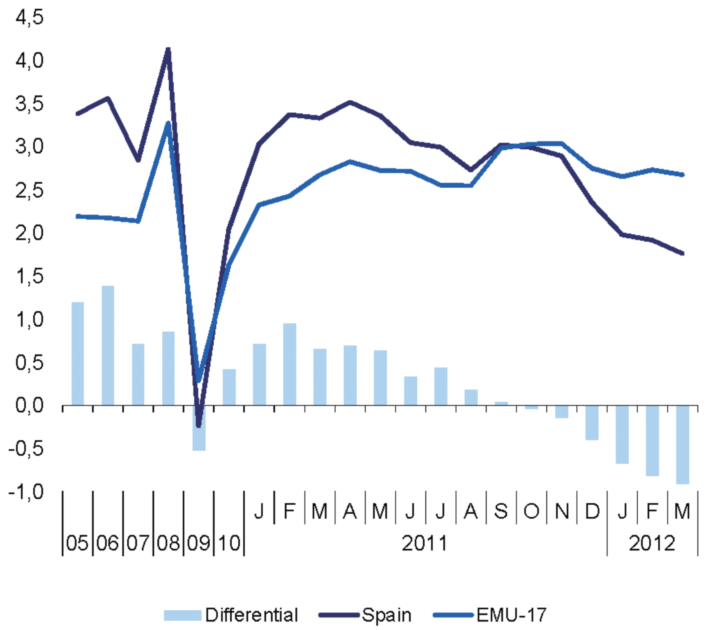


Table 13
Other prices and costs indicators

	PIB deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Fomento)	Labour Costs Survey				Wage increases agreed in collective bargaining
		Total	excluding energy	Housing Price Index (INE)	m2 average price (M. Fomento)		Total labour costs per worker	Wage costs per worker	Other cost per worker	Total labour costs per hour worked	
	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	83,4	84,6	69,9	144,5	141,9	152,5	154,8	--
2012 (b)	--	126,7	117,3	--	--	--	--	--	--	--	--
2010 IV	136,7	117,6	113,4	89,4	88,8	81,7	149,3	149,3	149,6	159,7	--
2011 I	137,3	122,4	115,6	86,3	86,4	76,2	140,5	136,3	153,7	142,7	--
II	137,9	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	79,4	82,8	65,5	151,7	151,3	152,9	163,6	--
2012 I	--	126,7	117,3	--	80,2	--	--	--	--	--	--
II (b)	--	--	--	--	--	--	--	--	--	--	--
2012 Jan	--	125,8	116,8	--	--	--	--	--	--	--	--
Feb	--	126,6	117,3	--	--	--	--	--	--	--	--
Mar	--	127,6	117,6	--	--	--	--	--	--	--	--
Apr	--	--	--	--	--	--	--	--	--	--	--
					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	1,4	6,9	3,8	-7,4	-5,6	-6,7	1,2	1,0	1,6	2,2	2,4
2012 (d)	--	3,5	1,4	--	--	--	--	--	--	--	2,1
2010 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	-11,2	-6,8	-19,8	1,6	1,4	2,2	2,5	2,4
2012 I	--	3,5	1,4	--	-7,2	--	--	--	--	--	2,3
II (e)	--	--	--	--	--	--	--	--	--	--	2,1
2012 Jan	--	3,7	1,7	--	--	--	--	--	--	--	2,4
Feb	--	3,4	1,4	--	--	--	--	--	--	--	2,3
Mar	--	3,3	1,2	--	--	--	--	--	--	--	2,2
Apr	--	--	--	--	--	--	--	--	--	--	2,1

(a) Seasonally adjusted.
(b) Period with available 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 year.
Sources: M. of Public Works, M. of Labour and INE (National Statistics Institute).

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

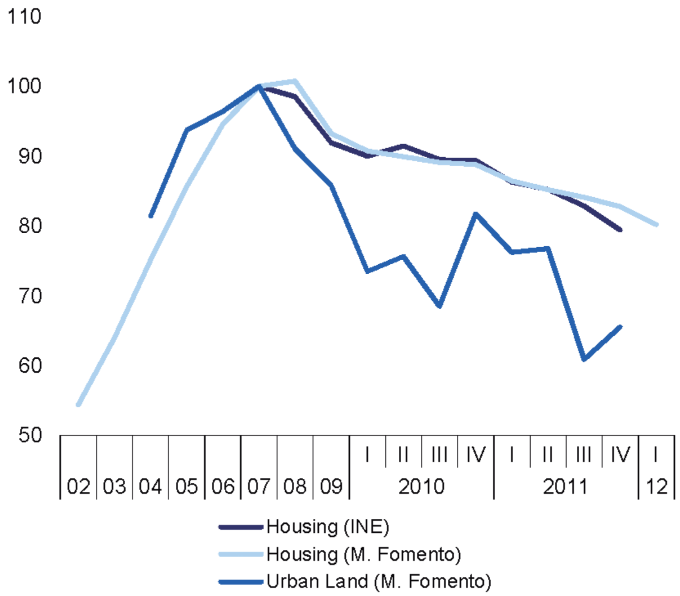


Chart 2.- Wage costs
Annual percent change

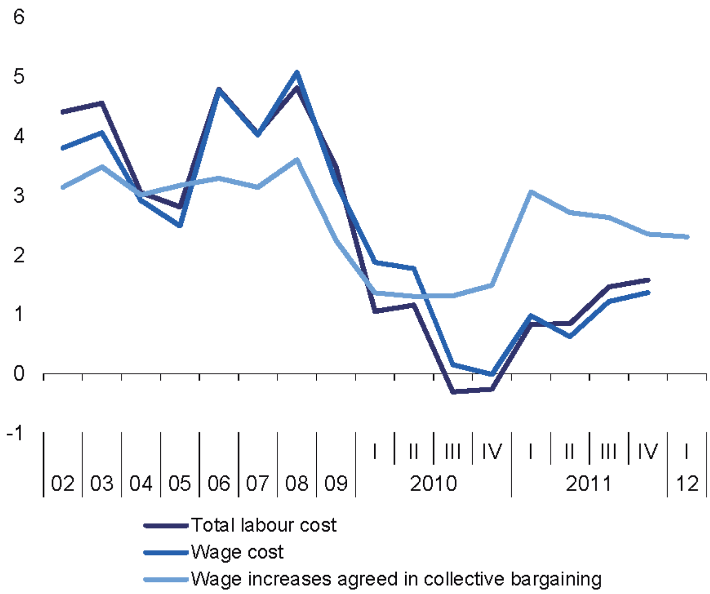


Table 14

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	110,2	285,0	104,8	116,7	130,9	54,2	-100,0	-65,5	-40,2
2008	189,2	109,0	112,5	283,4	109,2	111,5	130,8	58,5	-94,2	-50,7	-26,3
2009	159,9	101,6	101,4	206,1	96,3	92,0	110,5	49,4	-46,2	-18,8	-9,1
2010	186,8	103,2	117,2	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)	34,6	109,8	122,9	42,0	113,9	95,6	22,6	12,0	-7,4	0,8	1,4
2010 IV	50,6	106,6	122,8	62,1	103,8	103,4	33,6	16,9	-11,6	-2,2	0,7
2011 I	53,4	106,9	129,2	66,1	107,4	106,3	34,8	18,5	-12,7	-1,7	-0,1
II	53,3	109,3	126,2	64,2	107,7	102,9	34,8	18,5	-10,9	-0,7	1,5
III	54,9	108,1	131,5	65,4	109,6	103,1	35,8	19,1	-10,5	0,2	1,5
IV	55,7	110,5	130,5	65,3	111,5	101,1	36,3	19,4	-9,6	-0,3	1,2
2012 I (b)	36,6	110,5	128,8	44,1	114,4	99,8	23,5	13,1	-7,4	0,8	1,1
2012 Jan	18,4	109,0	130,8	21,5	112,6	99,1	11,7	6,7	-3,2	0,7	0,8
Feb	18,3	111,9	126,8	22,5	116,1	100,5	11,8	6,5	-4,2	0,1	0,3
Mar	--	--	--	--	--	--	--	--	--	--	--
Apr	--	--	--	--	--	--	--	--	--	--	--
	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)	4,4	3,6	0,8	1,7	6,4	-4,7	1,4	10,7	--	--	--
2010 IV	26,1	8,1	16,6	15,1	7,2	7,4	24,7	28,8	-4,4	-0,8	0,3
2011 I	24,0	1,4	22,3	28,0	14,7	11,6	15,4	42,2	-4,8	-0,6	0,0
II	-0,5	9,4	-9,0	-11,0	1,2	-12,1	-1,0	0,5	-4,1	-0,3	0,5
III	12,6	-4,4	17,9	7,9	7,3	0,6	12,5	12,9	-3,9	0,1	0,6
IV	6,0	9,0	-2,8	-0,8	7,0	-7,3	6,3	5,6	-3,6	-0,1	0,4
2012 I (e)	-5,3	-0,1	-5,2	5,1	10,8	-5,1	-11,7	7,6	--	--	--
2012 Jan	1,2	0,2	1,0	-2,2	0,0	-2,2	-0,5	4,2	--	--	--
Feb	-0,5	2,7	-3,1	4,5	3,1	1,4	0,9	-2,9	--	--	--
Mar	--	--	--	--	--	--	--	--	--	--	--
Apr	--	--	--	--	--	--	--	--	--	--	--

(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

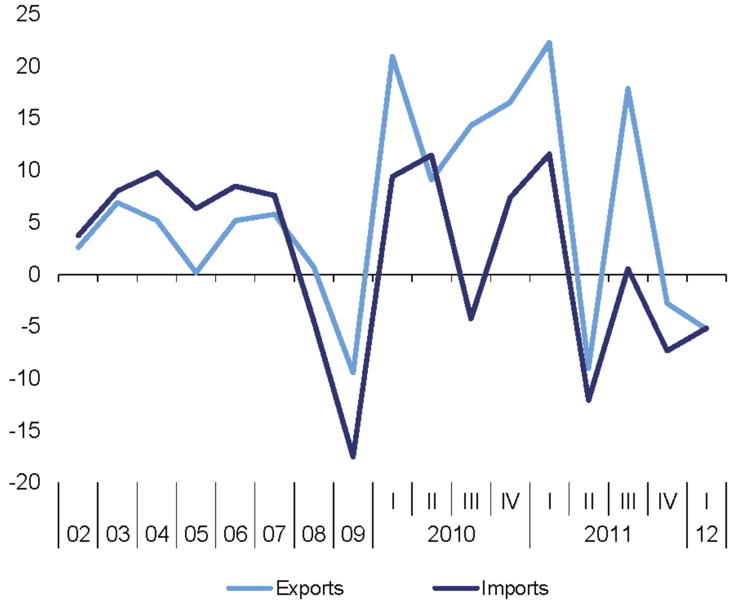


Chart 2.- Trade balance

EUR Billions, moving sum of 4 quarters

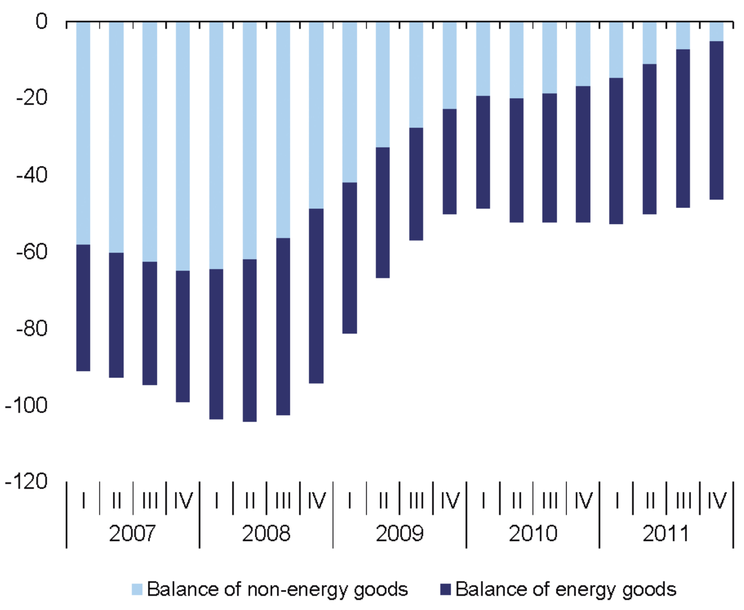


Table 15

Balance of Payments

(Net transactions)

	Current account					Capital account	Current and capital accounts	Financial account						
								Financial account, excluding Bank of Spain					Bank of Spain	Errors and omissions
	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							
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	70,00	1,55	-0,20	75,72	-7,06	30,22	-1,02
2009	-50,54	-41,61	25,03	-25,93	-8,03	4,22	-46,32	41,52	-1,92	44,82	4,66	-6,05	10,46	-5,67
2010	-47,43	-47,78	27,51	-19,85	-7,31	6,29	-41,14	27,48	1,83	27,67	-10,61	8,59	15,70	-2,04
2011	-37,77	-39,70	34,00	-26,13	-5,93	5,49	-32,28	-75,31	-6,43	-23,95	-47,44	2,50	109,15	-1,57
2012 (a)	-11,61	-6,20	3,60	-5,33	-3,69	0,18	-11,43	-30,89	5,07	-10,95	-29,35	4,34	38,84	3,48
2010 III	-9,21	-12,17	11,10	-5,30	-2,85	1,36	-7,85	56,91	-10,07	29,43	37,47	0,08	-45,03	-4,03
IV	-10,56	-12,07	5,24	-4,54	0,80	1,32	-9,24	14,92	7,67	16,39	-8,49	-0,64	-10,42	4,74
2011 I	-16,86	-11,14	4,21	-5,87	-4,06	1,56	-15,29	20,89	-3,52	22,82	-1,16	2,75	-11,04	5,44
II	-7,72	-9,80	9,54	-5,95	-1,50	1,34	-6,37	1,57	-7,51	-19,87	31,00	-2,05	5,87	-1,07
III	-5,72	-10,06	13,10	-7,49	-1,28	1,27	-4,46	-30,76	2,16	-14,60	-17,35	-0,97	39,02	-3,80
IV	-7,47	-8,70	7,15	-6,83	0,91	1,31	-6,16	-67,00	2,44	-12,29	-59,93	2,78	75,30	-2,14
2011 Sep	-3,73	-4,55	3,66	-2,32	-0,51	-0,02	-3,74	-7,91	2,52	-3,15	-7,68	0,41	10,26	1,39
Oct	-1,33	-3,02	3,67	-1,43	-0,54	0,28	-1,05	-15,24	1,50	-5,45	-11,75	0,46	18,85	-2,56
Nov	-2,11	-1,78	1,91	-2,62	0,37	0,87	-1,24	-17,66	1,14	5,80	-25,80	1,19	22,47	-3,57
Dec	-4,03	-3,90	1,57	-2,78	1,08	0,16	-3,87	-34,10	-0,20	-12,64	-22,38	1,12	33,98	3,99
2012 Jan	-5,73	-3,19	1,84	-3,28	-1,10	0,07	-5,66	-5,34	2,57	-4,89	-4,54	1,52	9,53	1,47
Feb	-5,88	-3,00	1,76	-2,05	-2,59	0,12	-5,77	-25,55	2,51	-6,06	-24,81	2,82	29,31	2,01
							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	-0,6	2,8	-0,1
2009	-4,8	-4,0	2,4	-2,5	-0,8	0,4	-4,4	4,0	-0,2	4,3	0,4	-0,6	1,0	-0,5
2010	-4,5	-4,5	2,6	-1,9	-0,7	0,6	-3,9	2,6	0,2	2,6	-1,0	0,8	1,5	-0,2
2011	-3,5	-3,7	3,2	-2,4	-0,6	0,5	-3,0	-7,0	-0,6	-2,2	-4,4	0,2	10,2	-0,1
2010 III	-3,7	-4,8	4,4	-2,1	-1,1	0,5	-3,1	22,6	-4,0	11,7	14,9	0,0	-17,9	-1,6
IV	-3,8	-4,4	1,9	-1,6	0,3	0,5	-3,4	5,4	2,8	6,0	-3,1	-0,2	-3,8	1,7
2011 I	-6,4	-4,3	1,6	-2,2	-1,6	0,6	-5,8	8,0	-1,3	8,7	-0,4	1,1	-4,2	2,1
II	-2,8	-3,6	3,5	-2,2	-0,5	0,5	-2,3	0,6	-2,7	-7,2	11,2	-0,7	2,1	-0,4
III	-2,2	-3,9	5,1	-2,9	-0,5	0,5	-1,7	-11,9	0,8	-5,7	-6,7	-0,4	15,1	-1,5
IV	-2,7	-3,1	2,6	-2,5	0,3	0,5	-2,2	-24,1	0,9	-4,4	-21,6	1,0	27,1	-0,8

(a) Period with available data.

Sources: Bank of Spain.

Chart 1.- Balance of payments: Current and capital accounts
EUR Billions, 12-month cumulated

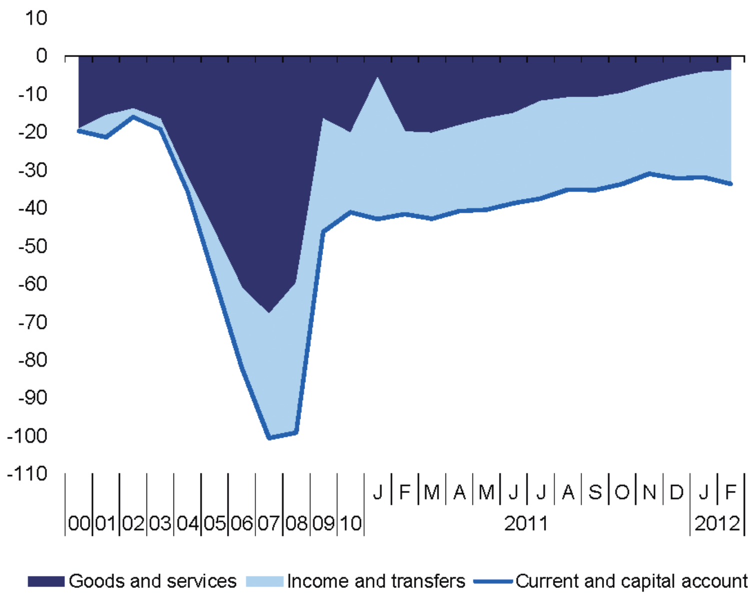


Chart 2.- Balance of payments: financial account
EUR Billions, 12-month cumulated

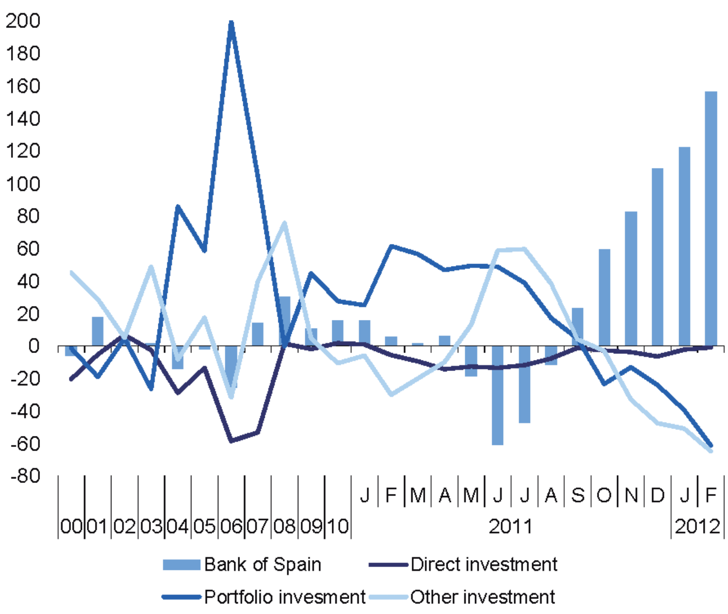


Table 16

State and Social Security System budget

	State							Social Security System				
	National accounts basis			Revenue, cash basis (a)				Surplus or deficit	Accrued income		Expenditure	
	Surplus or deficit	Revenue	Expen-diture	Total	Direct taxes	Indirect taxes	Others		Total	of which, social contribu-tions	Total	of which, pensions
	1=2-3	2	3	4=5+6+7	5	6	7	8=9-11	9	10	11	12
EUR billions, 12-month cumulated												
2005	4,2	132,9	128,8	173,6	89,4	70,7	13,5	10,0	97,7	88,2	87,7	70,8
2006	8,2	150,7	142,5	191,1	102,4	76,3	12,4	12,2	106,3	95,8	94,1	75,8
2007	12,4	165,3	152,9	214,2	121,0	78,9	14,4	14,7	116,7	103,7	102,0	81,8
2008	-33,1	132,6	165,7	188,7	102,0	70,7	16,0	14,6	124,2	108,7	109,7	86,9
2009	-99,1	105,8	204,9	162,5	87,5	55,7	19,3	8,8	123,7	107,3	114,9	92,0
2010	-51,3	141,1	192,4	175,0	86,9	71,9	16,3	2,4	122,5	105,5	120,1	97,7
2011	-31,3	137,1	168,3	177,0	89,6	71,2	16,1	-0,5	121,7	105,4	122,2	101,5
2011 Oct	-43,2	125,6	168,8	177,2	88,0	72,5	16,7	-2,1	120,1	104,4	122,2	101,4
Nov	-48,6	123,2	171,8	176,1	87,1	72,3	16,7	-2,3	120,2	104,2	122,5	101,7
Dec	-31,3	137,1	168,3	177,0	89,6	71,2	16,1	-0,5	121,7	105,4	122,2	101,5
2012 Jan	-35,9	136,3	172,2	176,4	88,4	70,6	17,4	0,4	123,0	105,6	122,6	101,9
Feb	-38,1	136,6	174,6	176,5	88,4	69,8	18,3	1,5	124,3	105,4	122,8	102,2
Mar	-39,6	136,4	176,0	177,2	88,9	69,7	18,7	0,0	123,1	105,1	123,2	102,5
Annual percentage changes												
2005	--	12,1	1,1	11,8	17,7	9,6	-8,6	--	7,8	7,8	7,0	6,9
2006	--	13,4	10,7	10,1	14,6	7,9	-8,2	--	8,8	8,6	7,2	7,0
2007	--	9,7	7,3	12,1	18,1	3,4	16,4	--	9,7	8,3	8,4	7,9
2008	--	-19,8	8,4	-11,9	-15,7	-10,4	11,1	--	6,5	4,8	7,6	6,2
2009	--	-20,2	23,6	-13,9	-14,2	-21,2	20,4	--	-0,5	-1,3	4,7	5,9
2010	--	33,3	-6,1	7,7	-0,7	29,1	-15,7	--	-1,0	-1,7	4,5	6,2
2011	--	-2,8	-12,5	1,1	3,1	-0,9	-0,8	--	-0,7	-0,1	1,8	3,9
2011 Oct	--	-3,5	-16,0	2,0	1,2	3,5	-0,4	--	-2,2	-2,1	3,6	6,1
Nov	--	-7,7	-13,7	0,8	-0,1	1,9	1,7	--	-2,4	-2,0	3,8	6,0
Dec	--	-2,8	-12,5	1,1	3,1	-0,9	-0,8	--	-0,7	-0,1	1,8	3,9
2012 Jan	--	-3,2	-10,0	0,2	0,4	-2,3	11,3	--	0,6	0,2	1,9	3,8
Feb	--	-0,4	-8,3	1,0	2,9	-3,9	12,9	--	1,7	0,1	1,8	3,8
Mar	--	-1,4	-5,4	0,5	2,2	-4,5	14,1	--	-0,1	-0,2	2,0	3,8
Percentage of GDP, 12-month cumulated												
2005	0,5	14,6	14,2	19,1	9,8	7,8	1,5	1,1	10,7	9,7	9,6	7,8
2006	0,8	15,3	14,5	19,4	10,4	7,7	1,3	1,2	10,8	9,7	9,5	7,7
2007	1,2	15,7	14,5	20,3	11,5	7,5	1,4	1,4	11,1	9,8	9,7	7,8
2008	-3,0	12,2	15,2	17,3	9,4	6,5	1,5	1,3	11,4	10,0	10,1	8,0
2009	-9,5	10,1	19,6	15,5	8,4	5,3	1,8	0,8	11,8	10,2	11,0	8,8
2010	-4,9	13,4	18,3	16,7	8,3	6,8	1,5	0,2	11,7	10,0	11,4	9,3
2011	-2,9	12,8	15,7	16,5	8,4	6,6	1,5	0,0	11,3	9,8	11,4	9,5
2011 Oct	-4,0	11,7	15,7	16,5	8,2	6,8	1,6	-0,2	11,2	9,7	11,4	9,4
Nov	-4,5	11,5	16,0	16,4	8,1	6,7	1,6	-0,2	11,2	9,7	11,4	9,5
Dec	-2,9	12,8	15,7	16,5	8,4	6,6	1,5	0,0	11,3	9,8	11,4	9,5
2012 Jan	-3,4	12,8	16,2	16,6	8,3	6,6	1,6	0,0	11,5	9,9	11,5	9,6
Feb	-3,6	12,8	16,4	16,6	8,3	6,5	1,7	0,1	11,7	9,9	11,5	9,6
Mar	-3,7	12,8	16,5	16,6	8,3	6,5	1,8	0,0	11,6	9,9	11,6	9,6

(a) Including the regional and local administrations share in direct and indirect taxes.

Sources: Bank of Spain.

Chart 1.- State: Revenue, expenditure and deficit
EUR Billions, 12-month cumulated

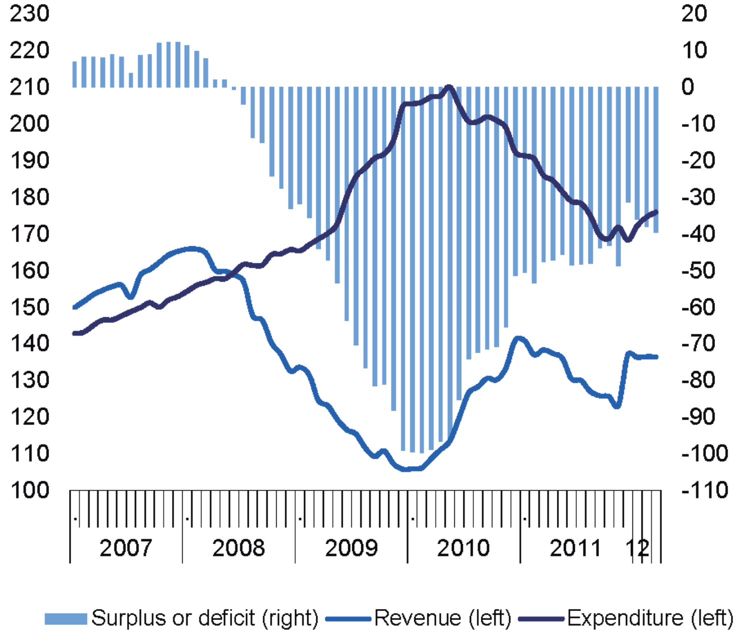


Chart 2.- Social Security System: Revenue, expenditure and deficit
EUR Billions, 12-month cumulated

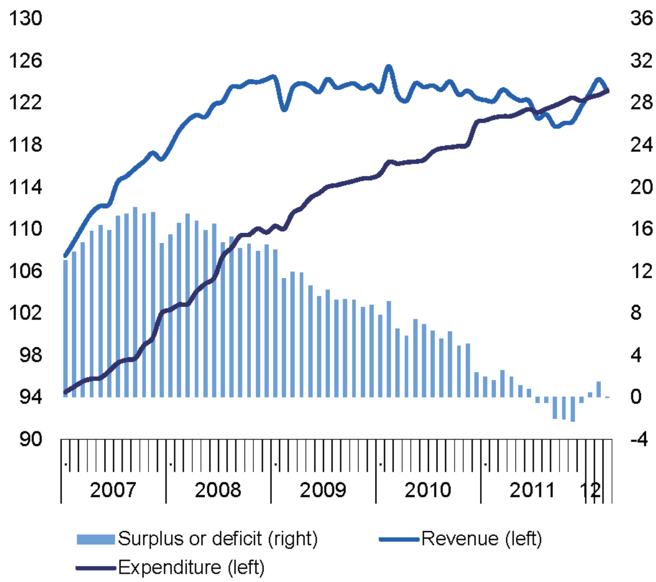


Table 17

Monetary and financial indicators

	Interest rates (percentage rates)					Credit stock (EUR billion)					
	10 year Bonds	Spread with German Bund (basis points)	Housing credit to households	Consumer credit to households	Credit to non-financial corporations (less than 1 million)	TOTAL	Government	Non-financial corporations	Households	Contribution of Spanish MFI to M3	Stock market (IBEX-35)
	Average of period data					End of period data					
2007	4,3	7,4	5,3	9,8	5,8	2471,0	382,3	1214,3	874,4	--	15182,3
2008	4,4	36,0	5,8	10,9	6,4	2655,9	437,0	1307,6	911,3	--	9195,8
2009	4,0	70,5	3,4	10,5	4,7	2767,9	565,1	1299,5	903,3	--	11940,0
2010	4,2	146,5	2,6	8,6	4,3	2843,8	643,1	1302,5	898,1	--	9859,1
2011	5,4	277,4	3,5	8,6	5,1	2864,0	735,0	1258,0	871,0	--	8563,3
2012 (a)	5,4	353,7	3,8	9,7	5,5	2879,4	764,0	1254,3	859,5	--	7011,0
2010 III	4,7	173,4	2,6	7,7	4,2	2819,2	616,0	1305,5	897,8	--	10514,5
IV	5,3	207,0	2,7	7,7	4,4	2843,8	643,1	1302,5	898,1	--	9859,1
2011 I	5,4	212,0	3,0	8,4	4,8	2859,6	684,1	1287,6	887,9	--	10576,5
II	5,4	222,3	3,4	8,2	5,1	2866,9	704,0	1273,7	889,2	--	10397,9
III	5,7	311,6	3,6	8,7	5,2	2852,6	707,1	1267,9	877,6	--	8546,6
IV	5,2	365,1	3,7	9,1	5,4	2864,0	735,0	1258,0	871,0	--	8563,3
2012 I (a)	5,2	334,6	3,8	9,7	5,5	2879,4	764,0	1255,0	859,5	--	7011,0
2012 Jan	5,4	353,0	3,8	10,1	5,5	2871,5	751,6	1253,7	866,2	--	8509,2
Feb	5,1	321,9	3,8	9,8	5,4	2879,4	764,0	1254,3	861,6	--	8465,9
Mar	5,2	329,0	3,7	9,4	5,5	--	--	1255,0	859,5	--	8008,0
Apr	5,8	411,0	--	--	--	--	--	--	--	--	7011,0
						Percentage change from same period previous year					(b)
2007	--	--	--	--	--	12,3	-2,3	17,7	12,5	15,0	7,3
2008	--	--	--	--	--	7,8	14,3	8,2	4,4	7,8	-39,4
2009	--	--	--	--	--	4,0	29,4	-1,2	-0,3	-0,8	29,8
2010	--	--	--	--	--	3,2	13,8	0,7	0,2	-2,2	-17,4
2011	--	--	--	--	--	1,4	14,7	-2,6	-2,4	-1,6	-13,1
2012	--	--	--	--	--	1,4				-0,6	-18,1
2010 III	--	--	--	--	--	3,2	16,2	0,0	0,1	-4,2	13,5
IV	--	--	--	--	--	3,2	13,8	0,7	0,2	-2,2	-6,2
2011 I	--	--	--	--	--	3,6	17,5	0,3	-0,5	0,9	7,3
II	--	--	--	--	--	2,5	16,5	-1,0	-1,6	2,5	-1,7
III	--	--	--	--	--	1,8	14,9	-2,1	-1,6	0,1	-17,8
IV	--	--	--	--	--	1,4	14,7	-2,6	-2,4	-1,6	0,2
2012 I (a)	--	--	--	--	--	1,4	13,8	-2,2	-2,7	-0,6	-18,1
2012 Jan	--	--	--	--	--	1,5	14,7	-2,4	-2,5	0,6	-0,6
Feb	--	--	--	--	--	1,4	13,8	-2,2	-2,7	0,1	-0,5
Mar	--	--	--	--	--	--		-2,2	-2,7	-0,6	-5,4
Apr	--	--	--	--	--	--	--	--	--	--	-12,5

(a) Period with available data. (b) Percent change from preceeding period.
Source: Bank of Spain.

Chart 1.- 10 year bond yield

Percentage rates and basis points

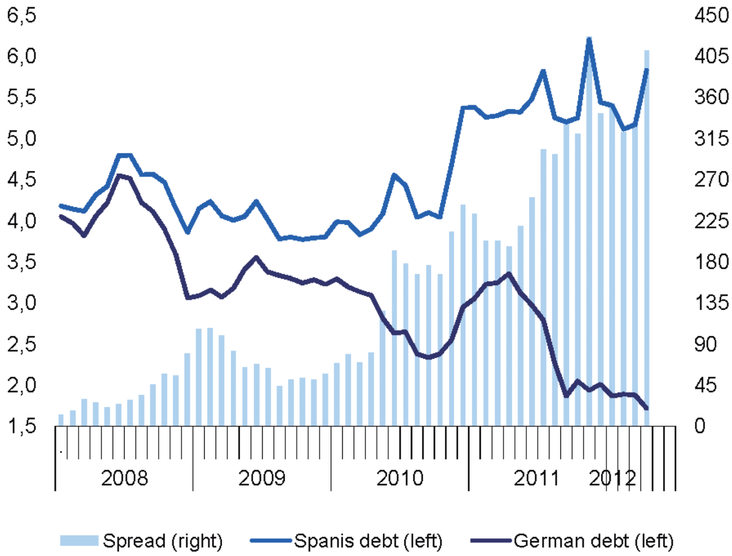
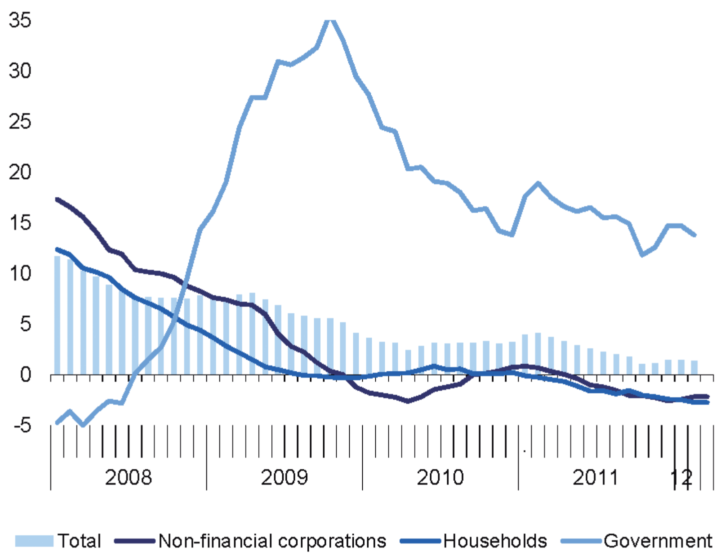


Chart 2.- Credit stock growth

Annual percentage change



50 FINANCIAL SYSTEM INDICATORS – FUNCAS

Updated: April 30th, 2012

A. Money and interest rates

Indicator	Source:	Average 1996-2009	2010	2011	2012 February	2012 March	Definition and calculation
1. Monetary Supply (%chg.)	ECB	6.9	1.7	2.2	2.8	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	3.4	0.9	1.4	1.1	0.7(a)	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	3.3	1.4	2.0	1.7	1.3(a)	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.9	4.3	5.4	5.1	5.7a)	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	5.0	3.7	5.0	4.8	-	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

(a) Last data published: April 2012
Comment on “Money and Interest Rates”: In the second half of April, the 3-month and 1-year Euribor rates fell to 0.7% and 1.3%, respectively. Also, the 10-year Spanish bond interest rate spread was 5.7%, at the end of a month in which tensions regarding the sovereign debt have intensified and the spread with the German bond was above 400 basis points.

B. Financial markets

Indicator	Source:	Average 1996-2009	2010	2011	2012 February	2012 March	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	18.3	40.5	81.6	85.3	150.4	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	77.8	88.9	112.6	88.2	120.0	(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	1.7	2.2	2.0	1.6	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
9. Outright forward government bonds transactions trade ratio	Bank of Spain	4.6	2.9	3.3	2.3	0.5	(Traded amount/ outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	3.4	0.7	1.6	0.4	0.3	Outright transactions in the market (not exclusively between account holders)
11. Government bonds yield index (Dec1987=100)	Bank of Spain	490.2	647.8	684.4	705.2	699.7	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	12.1	-0.8	0.2	-4.6	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	5.1	4.3	1.6	-34.8	34.3	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	973.6	1.003.7	857.7	852.5	708.6(a)	Base 1985=100
15. Ibex-35 (Dec1989=3000)	Bank of Spain and Madrid Stock Exchange	9.319.2	10.200.7	9.734.6	8.465.9	7.021.8(a)	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/ profitability)	Bank of Spain and Madrid Stock Exchange	17.1	9.8	9.7	12.9	12.3	Madrid Stock Exchange Ratio “share value/ capital profitability”
17. Long-term bonds. Stock trading volume (%chg.)	Bank of Spain and Madrid Stock Exchange	2.8	-29.2	15.1	14.0	14.9	Variation for all stocks
18. Commercial paper. Trading balance (%chg.)	Bank of Spain and AIAF	45.2	-43.9	59.24	19.5	18.5	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	3.6	0.8	1.9	2.7	2.2	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (%chg.)	Bank of Spain	2.1	15.42	-15.8	7.6	-81.1	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	-2.7	-31.88	-25.9	30.0	92.3	IBEX-35 shares concluded transactions

(a) Last data published: April 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 downturn and the IBEX-35 reached 7,011 points by the end of April, while March closed at 8.808 points. Also, there was a decline in financial IBEX-35 future 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 III-Q.	2011 IV-Q.	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-6.3	-5.1	1.9	-3.6	-3.4	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	3.4	2.7	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	290.6	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	82.3	81.5	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	-4.2	-0.1	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	-1.4	-0.5	Total liabilities percentage change (financial balance)

Comment on “Financial Savings and Debt”: During the fourth quarter of 2011, there was a 3.4% reduction in financial savings to GDP in the overall economy, which contrasts with the 1.9% increase observed in 2010. Additionally, there is a slowdown in household financial savings, which decreased from 3.4% to 2.7%. Also, there is a slight reduction in households financial deleveraging evidencing a reduction in the debt to GDP ratio from 82.3% to 81.5%. There is also a 0.1% reduction in the stock of financial assets on the households’ balance sheet, while as for the liabilities, the decrease was 0.5%.

D. Credit institutions. Business development

Indicator	Source:	Average 1996-2009	2010	2011	2012 January	2012 February	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	14.7	0.3	-3.8	-0.9	-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	10.5	0.8	-5.3	-1.3	0.1	Deposits percentage change for the sum of banks, savings banks and credit unions.
30. Debt securities (monthly average % var.)	Bank of Spain	10.2	-6.8	5.2	7.5	4.1	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	16.0	-2.0	41.0	3.2	-0.1	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	-0.5	-1.5	-4.3	-4.6	-6.1	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	28.3	16.2	28.3	3.3	2.8	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	2.5	-15.7	-3.2	9.9	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	11.0	-6.4	37.9	3.2	0.2	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 February 2012 show a new monthly decline in bank credit to the private sector (0.2%) and an increase in financial institutions deposit-taking (0.1%). As for doubtful assets, they increased by 2.8%, in a recessive macroeconomic environment.

E. Credit institutions. Market structure and eurosystem refinancing

Indicator	Source:	Average 1995-2008	2009	2010	2011 September	2011 December	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	207	192	188	192	194	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	86	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	40,39	39,843	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	385,451	361,695(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	69,299	227,600(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	32,965	1,037(a)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: March 2012
Comment on “Credit institutions. Market Structure and Eurosystem Refinancing”: In March, Spanish credit institutions keep on increasing their recourse to Eurosystem funding, which accounted for about 63% of net total funds borrowed from the ECB.

F. Credit institutions. Efficiency and productivity, risk and profitability

Indicator	Source:	Average 1995-2008	2009	2010	2011 September	2011 December	Definition and calculation
43. “Operating expenses/gross operating income” ratio	Bank of Spain	57.27	43.52	46.53	51.52	49.85	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	2,229.88	4,514.61	4,605.69	4,321.82	4,512.30	Productivity indicator (business by employee)
45. “Customer deposits/branches” ratio(Euro thousands)		9,390.89	16,398.79	16,554.20	17,025.61	29,171.23	Productivity indicator (business by branch)
46. “Branches/institutions” ratio		180.80	229.61	155.41	144.25	205.38	Network expansion indicator
48. Equity capital (monthly average % var.)	Bank of Spain	0.11	0.04	0.86	0.89	0.40	Credit institutions equity capital variation indicator
49. ROA		0.85	0.46	0.31	0.13	0.06	Profitability indicator, defined as the “pre-tax profit/average total assets”
50. ROE		14.17	7.94	5.73	4.48	3.28	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.

Orders and information:

FUNDACIÓN DE LAS CAJAS DE AHORROS
Caballero de Gracia, 28
28013 Madrid
Phone: 915965481
Fax: 915965796
suscrip@funcas.es
www.funcas.es

FUNCAS