

# Spanish Economic and Financial Outlook

## How the New Financial Resolution Framework Will Help to Solve Spain's Banking Crisis

2012

Volume 1 ♦ Number 3

September 2012



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### **Electronic edition**

An electronic edition of this journal is available at

<http://www.funcas.es/publicaciones/index.aspx?id=47>

Printed in Spain

### **Editorial and Production**

Fundación de las Cajas de Ahorros (FUNCAS)

Caballero de Gracia, 28. 28013 Madrid

### **Ownership and Copyright:**

© Fundación de las Cajas de Ahorros 2012

ISSN print edition 2254-3899

ISSN electronic edition 2254-3880

Déposito Legal: M-10678-2012

Prints: Advantia, S.A.

## Letter from the Editors

The new financial resolution framework approved by the Spanish government at the end of August represents another step forward in solving Spain's banking crisis. The framework's explicit mechanisms –which include early intervention tools, burden sharing regimes and deep capitalization schemes– can provide a fast response to some of the most pressing problems of the Spanish financial sector. Although the transition period from implicit resolution mechanisms, which included regulatory forbearance and restructuring, to more explicit resolution actions, like the one approved, may have taken longer than desired, the new framework is most welcome. However, there is no time now for complacency and, as important as the tools themselves, is the efficient and correct execution of the implementation process. In our opinion, some relevant aspects of this framework are yet to be defined and it is advisable for the details to be defined as soon as feasible –particularly if the intention is to attract participation of investors. As an example and with respect to the “bad bank”, we expect a more precise definition of key details, such as capital structure, type of assets to be transferred and value of the assets, among others. In this fourth issue of SEFO, we take a closer look at international experiences of “bad banks” and also the Spanish case. Many countries have adopted bad banks to find solutions for different types of banking crises and it is illustrative to compare the initial circumstances and strategies pursued by each country.

The implementation of this new financial resolution framework is taking place in an environment of significant foreseeable regulatory changes and in a context of EU

banking integration. In this context, many forces are at work, some pushing towards integration and other pushing against. In the section of this SEFO devoted to an examination of the Spanish banking sector and the European single banking market, we would like to highlight our concern about the significant retreat in integration suffered in the past years as a consequence of financial instability, uncertainty and the economic crisis. Part of the loss of confidence in Spain is attributable to problems in the design of the EMU and the lack of a single banking market. In our opinion, urgent actions should be taken to recover the lost ground and accelerate the creation of an integrated banking market. Without a supranational authority with banking regulation and supervisory power, unified deposit protection and banking crisis resolution mechanisms, and harmonization of certain key areas, a single banking market will not be possible. A closer look at Euro area economy financing reveals the increasing role of the Eurosystem and how its funds have replaced a good portion of private capital mainly in peripheral economies. The imbalances generated in the financial accounts of peripheral countries –with increasing private capital outflows and resource to the Eurosystem’s liquidity – and core countries –with increasing capital inflows and excess liquidity– signal a source of concern with respect to increasing financial fragmentation within the EMU. We welcome the ECB’s institutional support announced on September 6th, as well as recent steps taken towards EU financial integration and supervision at the informal ECOFIN Council meeting that took place in mid September in Cyprus. We also point out that the rhythm of adjustment in economies with internal imbalances is increasing. However, we would like to highlight our concern, particularly when there is still so much divergence across member states on how to move forward.

To conclude, since Spain’s economic recovery continues blocked by factors that are holding down national demand but also by financial constraints, any removal of these barriers represent an important step forward in helping Spain out of this crisis.

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# Implementing the MoU for Spanish banks: Setting up explicit resolution mechanisms

**Santiago Carbó<sup>1</sup> and Francisco Rodríguez<sup>2</sup>**

As in past historical international experiences of banking crises, Spain is currently undergoing a transition period from implicit resolution mechanisms –including regulatory forbearance and restructuring- to more explicit resolution actions –including early intervention tools, burden sharing regimes and deep recapitalization schemes. The catalyst for such a transition has been the acceptance of EU financial assistance which incorporates a number of conditions included in the Memorandum of Understanding (MoU). The set of new resolution tools being implemented seems sound and significant, however the implementation of these tools will be as important as the tools themselves.

*The approval of the Royal Decree-Law 24/2012 on “a new framework for the restructuring and resolution of financial institutions” represents a milestone in the resolution of the banking crisis in Spain. The new decree incorporates some of the conditions imposed by the MoU in a timely manner. In particular, it pays special attention to early resolution mechanisms by providing the Bank of Spain and the Fund for Orderly Restructuring of Banks (FROB) with expanded prompt-corrective action powers that even include the resolution of banks through different mechanisms. The decree also incorporates some burden sharing principles with which troubled banks will have to comply before getting any public aid. These burden-sharing exercises may potentially result in significant losses for bondholders of these banks, although the magnitude of these losses will depend on implementation. This is also the case of the Asset Management Company (AMC) that pools together some of the impaired assets of those banks. Some of the relevant features such as the transfer prices or the structure of the AMC itself, are still to be determined.*

## From regulatory forbearance to explicit resolution: The Spanish case

The banking crises that have taken place during the last fifty years have provided very useful

lessons on the effectiveness of different resolution mechanisms. Although the circumstances that may condition the implementation and effects of a variety of policy actions may vary across countries and over time depending on a number of political, economic and sociological factors, there are some common lessons and grounds. Many of the most important banking crisis and, in particular,

<sup>1</sup> Bangor Business School and Funcas.

<sup>2</sup> University of Granada and Funcas.

the so-called big five –including Spain in the 1970s, Sweden, Finland and Norway in the 1980s and Japan during the 1980s and 1990s– have shared some similar causes although they were addressed through different policies. In these crises, for example, there was always some initial common (and limited) response in the form of regulatory forbearance, which somehow permits banks to avoid the costs of regulatory compliance. For example, some bank solvency regulations are subject to modifications at the beginning of the banking crises, creating transitory regimes that seek to allow banks to recapitalize themselves or follow some restructuring paths (including mergers and acquisitions) without imposing costs on taxpayers. Regulatory forbearance is then considered a pseudo-resolution mechanism which is based on the beliefs that economic contractions and price adjustments in real estate markets will not be long lasting.

convertibility and fire-sale losses that result from asset liquidation.

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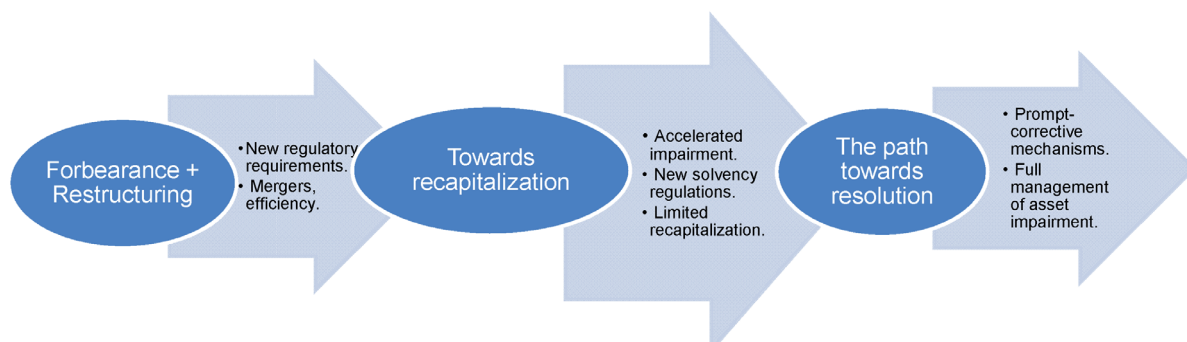
*When a banking crisis lasts longer than expected and regulatory forbearance proves to be an inefficient strategy, other explicit actions are needed to avoid dramatic issues.*

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The current banking crisis in Spain has not been an exception. Four banking sector-specific reforms have been approved since 2009 but these reforms (and, in particular, their execution) have put emphasis on restructuring measures seeking to improve efficiency and to foster private solutions within the banking sector, mainly through mergers. These reforms have proven to fall short in their objectives. The situation of the banking sector, and the financing conditions of the private sector have only worsened in the last few years (Exhibit 2). The latest data available -as of July 2012- show that lending to households and firms was falling at an annual rate of 3.4% and 3.5%, respectively. At the same time, the ratio of non-

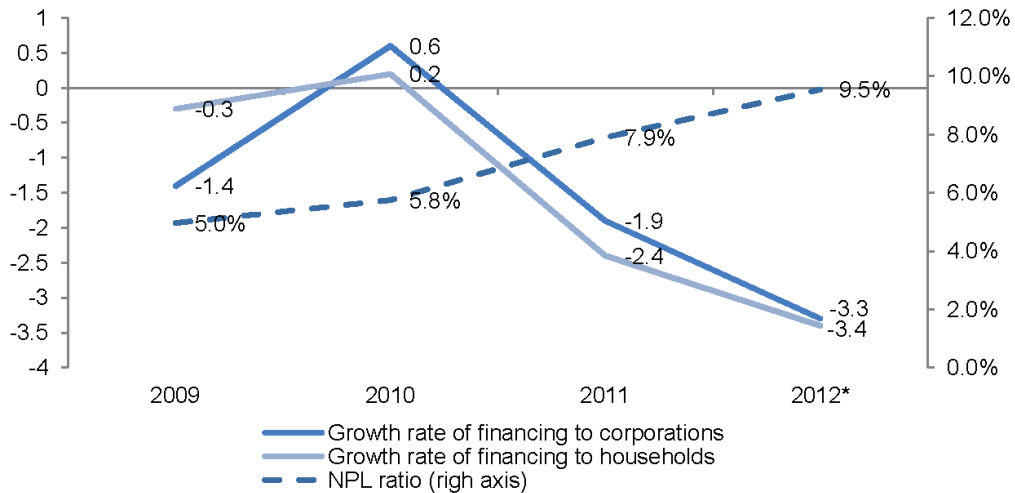
Exhibit 1

### The path from regulatory forbearance to explicit resolution



Source: Own elaboration.

Exhibit 2

**Lending to the private sector in Spain: Annual growth rates and non-performing loans (NPL) ratio**

\*July 2012 for financing data and June 2012 for NPL data.

Source: Bank of Spain and own elaboration.

performing loans has grown from 5% in 2009 to 9.5% in June 2012.

*The fact that the banking crisis in Spain has been related, to a large extent, to a sovereign debt crisis, has made the resolution challenge even more complex. In particular, solvency problems have been accompanied by sovereign risk and reputation problems that have considerably limited the access of Spanish banks to funding markets.*

On top of these problems, the fact that the current banking crisis in Spain has been related, to a large extent, to a sovereign debt crisis, has made the resolution challenge even more complex. In particular, solvency problems have been accompanied by sovereign risk and reputation problems that have considerably limited the access of Spanish banks to funding markets. In

this context, more explicit resolution mechanisms have been needed (see Exhibit 1). However, the magnitude of the banks' asset impairment has been such that it has required the support of the EU authorities through contingent financial aid for the recapitalization of Spanish banks for 100 billion euros. The aid embedded a conditionality agreement (the Memorandum of Understanding) that includes those explicit resolution measures such as the creation of an Asset Management Company (AMC) –the so-called bad bank that will absorb and manage the real-estate related impaired assets–, the implementation of Subordinated Liability Exercises (SLEs) – that will define the extent to which bondholders will share losses with the shareholders and the establishment of a number of new prompt-corrective action powers that will be mainly shared between the Bank of Spain and the Fund for the Orderly Restructuring of Banks (FROB)<sup>3</sup>.

<sup>3</sup> See the Spanish Economic and Financial Outlook n.2 for a detailed description of the MoU principles.

## The Government's first response to the MoU: A new framework for the restructuring and resolution of financial institutions

On August 31st, 2012, the Spanish government approved the Royal Decree-Law 24/2012 (RDL 24/2012 from here onwards) on "a new framework for the restructuring and resolution of financial institutions".

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*The destabilizing potential of short positions on financial institutions is enhanced by the existing capital requirements on banks. Very aggressive short selling may drive down the market value of a financial institution, making it more difficult to meet capital requirements.*

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The title is quite illustrative of the aim of getting from restructuring measures to a final resolution setting for the banking crisis in Spain<sup>4</sup>. The RDL 24/2012 constitutes the first main step of the compliance with the MoU requirements. In particular, the new decree aims to meet, as a minimum, the following conditions of the MoU:

- "Introduce legislation to ensure the effectiveness of SLEs, (by End-August 2012)".
- Upgrade of the bank resolution framework, i.e. strengthen the resolution powers of the FROB and the Deposit Guarantee Fund (DGF) (by End-August 2012).
- Prepare a comprehensive blueprint and legislative framework for the establishment and functioning of the AMC (by End-August 2012).

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<sup>4</sup> The legal text of the RDL 24/2012 can be found here: <http://www.boe.es/boe/dias/2012/08/31/pdfs/BOE-A-2012-11247.pdf>

Given the timeframe established by these MoU conditions, it is not surprising that the new decree was approved exactly on August 31st, 2012, in time to comply with these time constraints. The RDL 24/2012 even includes preemptive action as it shows some progress on commitments agreed to be implemented before the end of 2012 such as the strengthening of retail investors protections and the transfer of responsibilities for sanctioning and licensing of new banks from the Ministry of Economy and Competitiveness to the Bank of Spain.

Importantly, even if the MoU agenda is quite specific and clear in both its content and progress, the RDL 24/2012 acknowledges that the implementation of the MoU is taking place within an environment of significant foreseeable regulatory changes in Europe that may force Spain to adopt some of these going measures to a new EU legal framework, in particular where the provision of EU funds and the functioning of the available funding mechanisms (the EFSF and/or the ESM) are concerned. Specifically, in the motivation of the Royal Decree it is said that "as soon as the EU agrees on a legal text for a Directive on bailout and resolution mechanisms for banks, this decree will be adapted to that Directive".

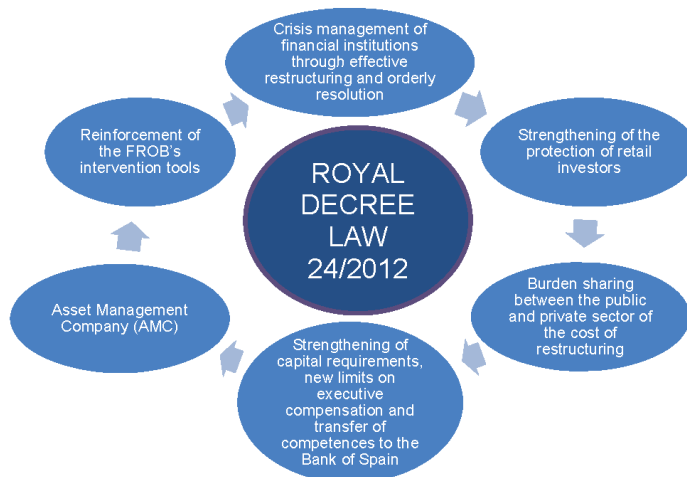
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*The RDL 24/2012 acknowledges that the implementation of the MoU is taking place within an environment of significant foreseeable regulatory changes in Europe that may force Spain to adopt some of these ongoing measures to a new EU legal framework, in particular where the provision of EU funds and the functioning of the available funding mechanisms (the EFSF and/or the ESM) are concerned.*

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As shown in Exhibit 3, The Royal Decree-Law includes measures on six main subjects:

## Exhibit 3

**The structure and content of the Royal Decree-Law 24/2012 on Restructuring and Resolution of Financial Institutions**

Source: Own elaboration.

i) A new and strengthened framework for crisis management of financial institutions that allows for effective restructuring and orderly resolution if necessary (chapters II, III and IV of the legal text of the decree).

ii) Reinforcement of the FROB's intervention tools at all stages of crisis management (chapter V and Chapter VIII).

iii) Strengthening of the protection of retail investors (Chapter VII).

iv) Establishment of an Asset Management Company (AMC) (Chapter VI).

v). Burden sharing between the public and private sector of the cost of restructuring resulting from the restructuring of entities (Chapter VII).

vi) Other aspects such as the strengthening of capital requirements, new limits on executive compensation and transfer of competences to the Bank of Spain (Chapter IX).

While there are important developments regarding these six issues, some of them –in particular, some specific aspects of the AMC- will still need to be determined during the months of September and October of 2012.

The following is a summary and critical review of the decree's main contents:

### **Strengthened framework for crisis management of financial institutions**

Since the early 1990s several jurisdictions, starting with the US, have progressively implemented different types of prompt corrective action or early intervention measures. Although the Bank of Spain -as the banks' main supervisory authority- already had several early intervention powers –and the regulatory reforms since 2009 have somehow reinforced them- the new Royal Decree has extended those powers and it has divided them mainly between the Bank of Spain and the FROB. In the decree, these prompt corrective actions have been undertaken “to deal with viable

institutions which may require an exceptional and temporary support (no longer than two years) through the use of contingent capital instruments (CoCos)”.

Early intervention of a bank will take place in any of the following situations:

- Solvency requirements are not being met or there is a reasonable expectation that they will not be met.
- Liabilities of the bank are (or are expected to be) larger than the assets.
- Banks cannot (or are expected not to be able to) meet their financial commitments.

The decree provides the Bank of Spain with the power to directly remove the board of directors and other executive representatives of a bank. The Bank of Spain may also force the Board of Directors to set a board meeting and may force the board to negotiate a program of debt restructuring with the debtors of the institution. The orderly resolution of an institution might also take the form of partial business sales or an asset and liability sale to a bridge-bank (a bank where the assets are transferred and managed by the FROB) or to an asset management company.

Banks in these situations will be required to present a work plan. They will have 15 days to elaborate the plan that has to be approved by the Bank of Spain. If the plan includes the injection of public funds then the FROB will also have to approve it and the funds should be made available in 10 days.

The content required for the work plan are quite ambitious as they include efficiency and recapitalization measures with very specifically scheduled goals. The banks in this situation will have to give detailed monthly information to the Bank of Spain and the FROB on the execution

of the work plan. If all the conditions are met according to the plan, then the Bank of Spain will make official the end of early intervention actions.

As mentioned above, a troubled bank may be required to make assets sales and/or to transfer asset to the AMC. Additionally, the FROB may require the transfer of all assets to a so-called bridge-bank that would be controlled and managed by the FROB itself. The FROB should dispose of its capital shares in the bridge-bank in 5 years.

The FROB could also decide to provide financial aid to the acquirers of troubled banks to help in the restructuring of the bank without taking control of it. This way the FROB could eventually minimize the public funds used.

In the cases where the FROB decides to inject funds in a bank as part of a restructuring process or to support the acquirers of a troubled institution, the funds could be provided as ordinary shares or as CoCos (convertible bonds). As far as CoCos are concerned the FROB can convert them into capital in the 6 months following the fifth year of their subscription. The six months deadline can be increased to 2 years depending on the entity's situation. As for the ordinary shares –as in the case of the bridge bank- the FROB should dispose of them in 5 years.

## The reinforcement of the FROB's intervention tools

The decree reinforces the FROB's powers, sharing some important supervision and discipline powers with the Bank of Spain. The decree highlights that “the FROB will be in charge of managing the restructuring and resolution processes in the Spanish banking sector”.

As described earlier, the FROB –in coordination with the Bank of Spain- may determine and monitor a number of early intervention actions

and the current decree gives the FROB full rights to take control of financial firms and effectively manage them if necessary.

The FROB will be funded by the State Budget and its leverage limit is increased from 90 to 120 billion euros. It will be ruled by a board formed by representatives of the Bank of Spain and the Ministries of Economy, Public Administrations and Finance, and it will also have a General Director with full executive powers.

### The protection of retail investors

In order to avoid some of the significant controversies that retail investors have recently faced regarding hybrid financial instruments –in particular, preference shares and subordinated debt– the RDL 24/2012 has included some preventive conditions for future investments. In particular, significant restrictions to the future sale of these hybrid products are adopted. For example, these issuances will have a minimum wholesale tranche of 50% and a threshold for retail investments of 25,000 and 100,000 euros, respectively for listed and non-listed companies. As noted in the decree, “supervision powers of the National Securities Commission (CNMV) are reinforced in this sense and non-suitable retail customers will be requested to handwrite a statement saying they were warned about their non-suitability to buy that product”.

### The Asset Management Company (AMC)

The decree has only incorporated some general aspects of the Asset Management Company (AMC). In particular, the AMC is said to adopt the form of a limited company or a trust fund. The AMC will allow for the removal from the balance sheet of state aided banks of (real estate-related) problematic assets in order to ease their viability. This AMC has a temporary role. It will be entitled to issue debt if necessary.

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*The Bank of Spain will be in charge of setting transfer prices for the assets. This is a critical aspect, as historical experience shows that the success of an AMC depends on a combination of an accurate price setting and the specification of a proper financial structure over the years of functioning.*

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The Bank of Spain will be in charge of setting the transfer price for the assets. The value of the assets will be first calculated by independent experts commissioned by the Bank of Spain, who ultimately will decide on the price considering the reports of the experts as well as other sources of information that it may collect. This is a critical aspect, as historical experience shows that the success of an AMC depends on a combination of an accurate price setting and the specification of a proper financial structure over the years of functioning. The AMC will be committed to sell the assets in 15 years.

### The burden sharing of the cost of restructuring

Another very relevant and controversial issue in the MoU was the burden sharing regime between the public sector and the private stakeholders. The RDL 24/2012 defines this burden sharing as the owners of hybrid capital instruments could be forced to bear part of the losses of a troubled institution. According to the decree, “the objective is to reduce, to the maximum extent possible, the cost for taxpayers of restructuring, according to the European rules of state aids”. The troubled banks themselves will be able to offer a number of possibilities to the owners of hybrid capital including haircuts on the value of the outstanding debt, the early buy back or anticipated sale of the debt instruments at discounted prices, a conversion of hybrid capital to any other form of equity capital or “any other instrument offered

by the bank". Importantly if the FROB considers that the loss absorption by private owners is not enough, it will be able to impose on them specific exchange exercises. These exercises could consist of exchanges into capital instruments, direct or conditioned cash repurchases, or reduction and anticipated amortization of the nominal value of the instrument. All these actions will take into account market values, applying a haircut as established in the European rules.

### Other aspects of the RDL 24/2012: A new minimum capital requirement

Other aspects of the decree are probably more specific but they are also very relevant. The main example is that the decree sets a new minimum Common Equity Tier 1 ratio. Specifically, the current requirements of 8% and 10% (8% as a general rule and 10% for entities with difficult access to capital markets and for those for which wholesale funding is predominant) become a single requirement of 9% that all the entities must comply with as of January 1<sup>st</sup> 2013. The new regulation adapts the definition of the Tier 1 ratio to the one established in the European Banking Authority.

### Further challenges ahead

The contents of the Royal Decree-Law 24/2012 is key ingredients to follow a solid resolution path for the Spanish banking sector. In any event, it is worthwhile to note that not only the elements of the decree are relevant in this context but also their implementation. Hence, the development of this wide set of early intervention, recapitalization and burden sharing actions will require a very efficient and clear execution.

Some aspects such as the transfer prices and the structure of the AMC are still to be determined and they will be a reference point for investors trying to determine to what extent the price adjustment in real estate assets is convincing as to participate

in the AMC and, importantly, to reduce the uncertainty in the capacity of Spain to correct one of its most important current imbalances. The details of the AMC will be determined in parallel to other very relevant features in this context, such as the publication of the bank-level stress tests (which according to the MoU are expected to be released in the second half of September 2012).

Other remaining regulatory challenges this year will be to finalize a proposal on enhancing transparency of banks (with is due by End-September 2012) and, of course the practical implementation at the bank level of the burden sharing exercise as banks with significant capital shortfalls will have to set SLEs –and inform their bondholders on the losses that they will assume– before any public capital injections are received.

# The Spanish banking sector and the European single banking market

Joaquín Maudos<sup>1</sup>

## How to avoid further retreat in EU banking integration.

*Advances in European banking integration have suffered a significant retreat in the past years as a consequence of financial instability, uncertainty and the economic crisis. To avoid further deterioration of this situation some key issues need to be addressed urgently. Without a supranational authority with banking regulation and supervisory powers, a unified deposit protection and banking crisis resolution mechanism and harmonization of certain key areas, creating a single banking market in Europe will not be possible. Part of the loss of confidence in Spain is attributable to problems in the design of the EMU and specifically the lack of a single banking market. This situation may continue unless specific measures and actions are taken to recover the lost ground and accelerate the creation of a genuine single European banking market.*

The international financial crisis that began in the United States in mid-2007 and rapidly spread to the rest of the world has brought to light one of the weaknesses inherent in the process of financial market globalisation. Financial internationalisation and globalisation bring huge advantages in terms of growth, as the increased competition accompanying financial market integration gives economic agents access to more sources of finance at a lower cost. Also, from

range of products meeting their preferences in terms of risk and return. However, the crisis has shown that more integrated financial markets increase the likelihood and rate of transmission of shocks, thus heightening international financial instability. Moreover, the liberalisation that has gone hand in hand with globalisation has not been accompanied by enhanced financial regulation and supervision. This has made a radical overhaul of the international financial architecture necessary.

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*In the specific case of European financial market integration, the crisis has clearly caused a reversal in the level of integration.*

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investors' points of view, access to new markets allows for portfolio diversification by widening the

In the specific case of European financial market integration, the various reports published regularly by institutions such as the European Central Bank and the European Commission (the most recent being from April 2012) show that the crisis has clearly caused a reversal in the level of integration. In short, what these reports highlight is that since 2008, cross-border transactions have

<sup>1</sup> Professor of Economics at the University of Valencia and Researcher at the Ivie. This article is related to the research projects SEC2010-17333 of Spanish Ministry of Science and Innovation and PROMETEO/2009/066 of the Valencian Government.

lost importance relative to domestic ones, and that the differences in prices (interest rates) between countries have widened. In the early stages of the crisis, it was initially those markets that were most integrated and closest to monetary policy (such as the interbank market) that suffered the biggest reversal in their level of integration. However, these markets are also those that rebounded fastest (in large part thanks to the measures taken). On the other hand, in retail markets, which are much less integrated (like the majority of banking markets), the pace of integration is recovering much more slowly.

Against this backdrop, this article aims to examine the position of the Spanish banking sector in the process of financial integration in Europe, by analysing the various segments of the banking market. For this purpose, indicators based on quantities and prices will be used. In the case of quantitative indicators, the most important reference variable with which to judge progress towards the single market is the composition of banking business, making a distinction between domestic and cross-border business, and, in the case of the latter, delimiting business with other European countries. Nevertheless, other indicators such as the share of the domestic market accounted for by banks from other European countries can also be used. In the case of prices, the analysis is based on the degree of compliance with the so-called “law of one price,” according to which, in an integrated market two products with identical risk and liquidity characteristics should have the same price regardless of the geographical location of the supplier of the good or service.

### **Domestic vs. cross-border business of the European Monetary Financial Institutions**

The European Central Bank (ECB) has published quarterly information on Monetary Financial Institutions’ (MFI) cross-border positions in each

of the euro area countries since 1999. This time series data can be used to analyse how the degree of integration has evolved since the advent of the euro and the accompanying single monetary policy, together with the adoption that same year of the Financial Services Action Plan, the aim of which was precisely to bring about a single pan-European financial market. The information on cross-border business distinguishes between transactions with other euro area countries and business with EU Member States that have not adopted the euro. This allows a more rigorous analysis of the effect of the euro on financial integration between the countries of the European Monetary Union. In addition, the ECB’s data gives a breakdown by different banking products. This makes it possible to analyse the progress of integration in both wholesale and retail markets. In particular, the data cover the following banking markets: On the asset side, loans, distinguishing between MFI and non-MFI loans, thus enabling separate analysis of the progress of integration in the interbank loan market; securities other than shares (again distinguishing between MFI and non-MFI); and shares and other equity. And on the liabilities side, the ECB’s information enables the interbank deposit market and other deposits to be analysed.

### **The evolution of European banking integration: The impact of the crisis**

The retreat in the degree of integration occurring in the wake of the outbreak of the crisis in 2007 is clearly visible in the decline in cross-border business with other EU countries as a share of the total (domestic + cross border). As Table 1 shows, in terms of the average for banks in the euro area, the upward trend prior to 2007 was broken that year and followed by a decline, although the intensity varied from one product to another. The increase in the relative importance of cross-border business with EU countries was bigger than that with euro-area countries. This

Table 1

**Cross-border activity of MFI. Percentage over total business (within country + cross-border)**

SPAIN	% cross-border business with euro area countries					% cross-border business with EU countries				
	1999	2007	Q1 2012	Variation 2007-1999 (%)	Variation Q1 2012-2007 (%)	1999	2007	Q1 2012	Variation 2007-1999 (%)	Variation Q1 2012-2007 (%)
Interbank loans	16.6	25.8	16.0	55.0	-38.0	22.3	39.9	33.5	78.7	-16.0
Non-interbank loans	0.8	1.2	1.5	41.5	32.2	1.0	2.3	2.3	115.6	2.8
Securities other than shares issued by MFI	29.3	36.8	15.4	25.4	-58.1	32.9	50.3	25.2	52.9	-49.9
Securities other than shares issued by non-MFI	9.5	12.6	5.6	32.4	-55.3	10.6	17.5	6.6	65.9	-62.4
Shares and equity	10.5	18.5	9.1	75.2	-50.8	10.7	26.2	17.0	144.0	-35.1
Interbank deposits	18.9	31.9	19.1	68.8	-40.3	28.2	49.9	33.6	77.2	-32.7
Non-interbank deposits	2.1	2.1	3.9	0.1	82.2	2.6	2.9	6.0	7.7	111.9

EURO AREA	% cross-border business with euro area countries					% cross-border business with EU countries				
	1999	2007	Q1 2012	Variation 2007-1999 (%)	Variation Q1 2012-2007 (%)	1999	2007	Q1 2012	Variation 2007-1999 (%)	Variation Q1 2012-2007 (%)
Interbank loans	17.6	23.5	18.1	33.6	-23.1	27.5	42.0	31.4	53.1	-25.3
Non-interbank loans	3.0	4.5	4.8	51.7	6.1	4.4	7.3	7.5	65.3	3.7
Securities other than shares issued by MFI	42.6	68.4	44.3	60.6	-35.2	48.9	86.3	59.7	76.6	-30.8
Securities other than shares issued by non-MFI	24.2	37.4	21.5	54.4	-42.4	27.7	44.2	25.7	59.5	-41.9
Shares and equity	12.0	17.3	16.1	44.2	-7.1	13.9	23.4	21.9	68.4	-6.3
Interbank deposits	16.0	21.1	16.5	31.6	-21.7	27.5	37.6	31.2	36.5	-17.1
Non-interbank deposits	5.3	5.3	5.1	-0.1	-3.4	6.9	8.1	8.3	17.9	1.8

Source: ECB.

implies that the positive effects of creating EMU spilled over the borders of the euro area to neighbouring countries.<sup>2</sup>

If we take cross-border activity with all EU countries as our reference, the breakdown by banking products suggests that the progress towards integration up until 2007 was greater in the case of asset products than liabilities. The non-interbank deposits market showed most progress. By contrast, integration grew most in the case of debt issued by MFIs, with cross-border activities increasing rising to 76.6% of the total.

After the 2007 crisis, integration of some products evolved very differently from that of others, to the extent that whereas cross-border business in some markets declined (such as non-interbank loans and deposits), it increased slightly in others.

Looking at levels of integration, rather than focusing on the changes over time, the current situation

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*Looking at levels of integration, rather than focusing on the changes over time, the current situation varies widely from one banking product to another.*

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varies widely from one banking product to another, with the degree of integration being only slight in the case of loans and non-interbank deposits. Specifically, in the case of the former, cross-border business with other EU countries accounts for just 7.5% of the total, whereas in the case of deposits, the percentage is 8.3%. As a result, although these two retail product markets (loans and deposits with domestic companies and households) have become more integrated since 1999, the level of integration remains low. These small percentages are in sharp

contrast with interbank loan and deposit markets, where values in 2012 were 31.4% and 31.2%, respectively.

## Cross-border activity of the Spanish Monetary Financial Institutions

As Exhibit 1 and the data in Table 1 show, for loans and deposits, Spanish banks' business with other EU countries is on a much smaller scale than is the case for euro area banks as a whole. Using data for March 2012, the biggest differences between Spanish and euro area banks lie in debt investments and non-interbank loans, with percentages in the euro area that, in some cases, almost quadruple those of Spain. The most significant item in banks' assets,

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*Spanish banks' cross-border business with other European countries has increased relative to the levels existing when EMU was created, except in the case of investments in securities other than shares issued by non-MFIs. Consequently, despite the crisis and its negative impact on financial integration, cross-border activity today remains much higher than it was at the birth of the euro.*

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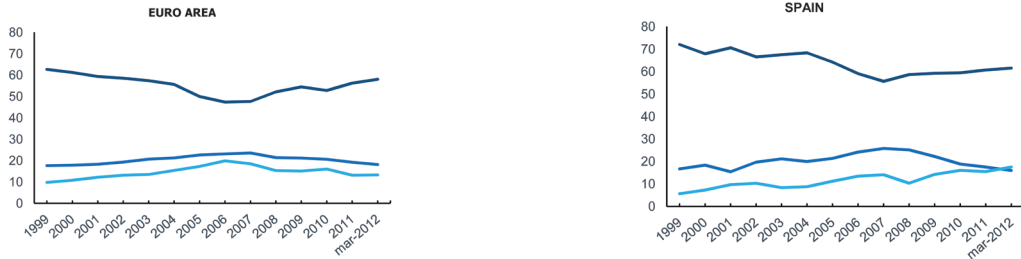
namely non-interbank loans by Spanish banks to residents in other EU countries, represents just 2.3% of the total, compared with a value of 7.5% for euro-area banks. The difference is much smaller in the case of the main liability product, as the non-interbank deposits the Spanish banking sector attracts from other European residents

<sup>2</sup> The decline in relative importance of European banks' cross-border business with other EU countries seen since 2008 was also observed using BIS data on banks' exposures to other countries' debt. Thus, as was examined in the previous issue of SEFO, there has been a decline in the total foreign exposure of European banks to other EU countries.

Exhibit 1

**Cross-border activity of Monetary Financial Institutions in the loan and deposit markets**  
(share of total business)  
(percentages)

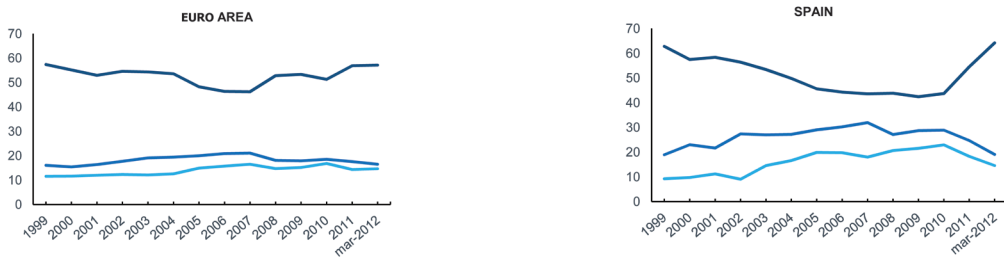
a) Interbank loans



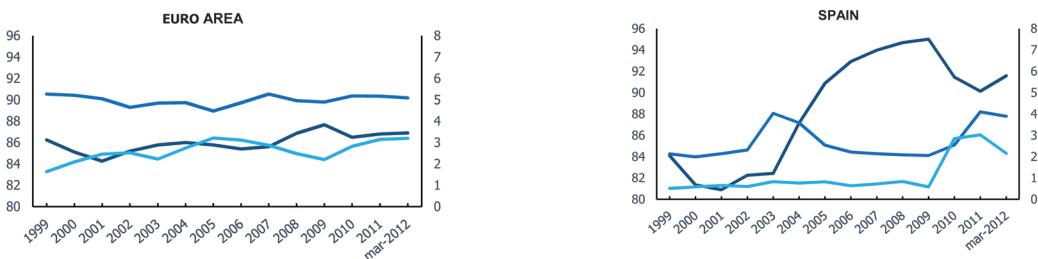
b) Non-interbank loans<sup>1</sup>



c) Interbank deposits



d) Non-interbank deposits<sup>1</sup>



— Domestic — Other Euro area countries<sup>1</sup> — Rest of the EU<sup>1</sup>

<sup>1</sup> For Non-interbank loans and Non-interbank deposits, the Other Euro area countries and Rest of the EU: right-hand scale.  
Source: ECB.

represented 6% of the total, two percentage points below the average for European banks.

Spanish banks' cross-border business with other European countries has increased relative to the levels existing when the EMU was created, except in the case of investments in securities other than shares issued by non-MFIs. Consequently, despite the crisis and its negative impact on financial integration, cross-border activity today remains much higher than it was at the birth of the euro. On the other hand, in the debt market, the increase in cross-border business with Europe prior to 2007 has vanished entirely, such that today's levels are below those of 1999.

Weighing the effect of the advent of the euro on the Spanish banking sector in terms of progress towards financial integration, the information on cross-border business shows that there has been a bigger increase in the importance of business with other European countries although its relative importance, particularly in the case of loans, is less than the European average. In the interbank market, Spanish banks currently have a level of business with European banks that is higher even than the euro area banks' average in terms of its relative importance as a share of the total (domestic + cross border-business).

## Foreign banks' business in domestic markets

Another indicator of the progress towards financial integration is how foreign banks' market share has evolved in other European countries' domestic markets (through both branches and subsidiaries). The bigger the presence and business of foreign banks from other European countries in a given national market, the greater the relative importance of cross-border activity and consequently the higher the degree of integration.

As Exhibit 2 shows, in average terms, euro-area banks' market share in national markets grew by 55% from 2000 to 2007, reaching 17.3% at the

end of the period. This growth was cut short by the outbreak of the financial crisis, such that in 2008 market share had dropped to 16.1%. In the two subsequent years the share recovered slowly, although the 2010 level (the last year for which data is available) was below that of 2007.

In Spain's case, the market share of other European countries' banks is much smaller, reaching a maximum differential in the last year examined. Specifically, in 2010 the euro area average (16.8%) was twice the value for Spain (8.3%), which clearly shows the limited presence of foreign banks in the country, above all in terms of subsidiaries, whose market share in Spain is just 3%, compared to 12.8% in the euro area as a whole. As Exhibit 2 shows, Spain is the euro area country in which banks from other European countries have the smallest market share.

In the last few years there has also been a drop in European banks' market share, although this began before the onset of the crisis. Nevertheless, the biggest drop took place after 2007, with a cumulative reduction of 2.5 percentage points.

## Price-based indicators of financial integration

The extent to which the law of one price holds can be examined by comparing the differences in the price at which a given financial service or product is available in different countries. Using standard deviation as a statistical measure of dispersion, Exhibit 3 shows that retail bank markets, being the most fragmented, have been least affected by the crisis. However, as the crisis has dragged on they have also suffered its effects. The differences in interest rates between countries of the euro area began to widen in 2008, although the impact of the crisis and degree of integration differed according to the product analysed. In the case of loans to businesses and time deposits, the dispersion of interest rates is highest at the end of the series (December 2011), and the difference in interest rates is smaller in the case of home



concern is that in the case of some products the dispersion in interest rates at the end of 2011 is greater than that at the end of 1999, clearly revealing the impact of the crisis.

Against this backdrop of a retreat in the integration of European banking markets, Spanish banks have also been affected by the crisis, as the analysis of interest rate spreads compared to euro area banks' average shows. The higher or lower interest rates set by Spanish banks relative to their European peers reflects the different risk premiums affecting each country and the levels of competition. It also highlights the differences in the impact of the crisis on access to wholesale funding markets. As Exhibit 4 shows, with the exception of consumer credit, which has been 120 basis points above the euro area average since mid-2005 in Spain, it is since early 2009 that the interest rates set by Spanish banks have diverged from those set by their European counterparts, although the pattern of behaviour varies from one product to another. The information for December

2011 shows how interest rates in Spain are above the European average for loans to businesses and consumer loans in the domestic economy. Rates for house purchases are similar, however, and interest on time deposits somewhat lower. In the case of consumer loans and business loans

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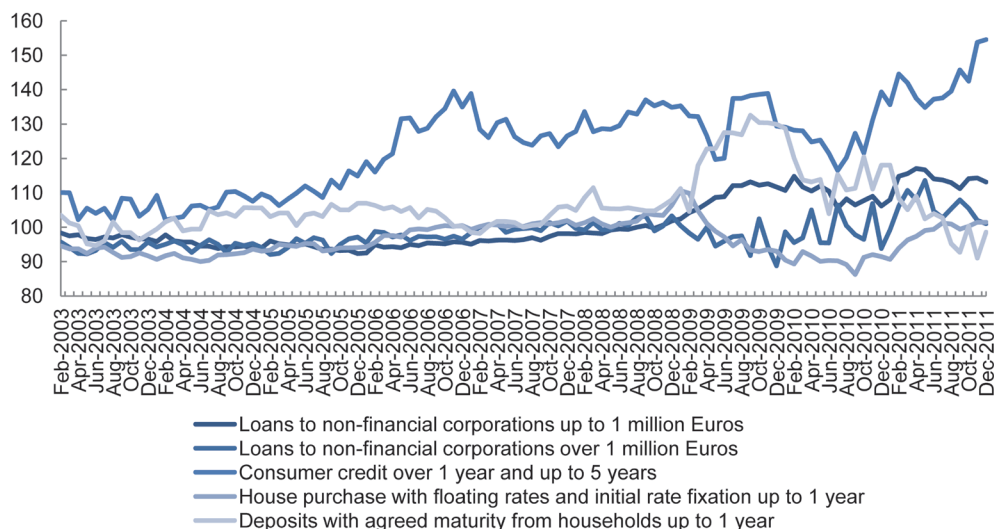
*The higher or lower interest rates set by Spanish banks relative to their European peers reflects the different risk premiums affecting each country and the levels of competition. It also highlights the differences in the impact of the crisis on access to wholesale funding markets.*

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for amounts less than a million euros Spanish banks set rates well above European averages, particularly in the case of the former, where the rate exceeds the euro-area average by 57%.

Exhibit 4

#### Spanish monetary institutions interest rates. Euro area=100 in each period



Source: ECB.

The progress of interest rates on time deposits is worth highlighting, as a gap opened up between Spain and the rest of the euro area at the start of 2009, which has been gradually closing in 2010 and 2011.

## Conclusions

The creation of the EMU made progress towards European banking integration, in the context of growth, possible. But in the wake of the crisis and the ensuing spread of a climate of financial instability and uncertainty, there has been a retreat in the degree of banking integration. This is confirmed by the price-based indicators, which reveal an increase in dispersion between countries since 2008, and hence a deviation from the law of one price. The decrease in the level of cross-border investment and holding of bank debt also confirms the increased fragmentation of funding markets. Thus, euro area banks have reduced their holdings of securities other than shares issued by banks in other countries of the euro area, compared to their holdings of debt issued by domestic issuers, resulting in a geographical segmentation of the banking market.

The retreat of integration has revealed that it is not possible to create a single market without putting banking regulation and supervision in the hands of a supranational authority, and designing unified deposit protection and banking crisis resolution mechanisms. This means national sovereignty over banking matters has to be yielded, and the huge differences currently existing in many areas, such as characteristics of deposit guarantee schemes (in terms of the level and scope of coverage, funding mechanisms, the payout delay, etc.) or the different rules used for bank recovery and resolution (there is as yet no EU framework for managing crises in the banking sector, although last June 2012 the European Commission presented a proposal, have to be harmonised).

In the specific case of the Spanish banking sector, joining the euro enabled rapid progress towards integration with Europe, although the level of

openness of Spain's banking sector to Europe, and the importance of Spanish banks' business with European partners, remain below average. Thus, European banks' market share in Spain is very small, as is the relative importance of cross-border transactions with European countries.

The market uncertainty surrounding the Spanish banking sector has had a severe impact on the level of integration of Spanish banks in Europe. The most visible sign of this is the closure of wholesale funding markets and the drop in cross-border business. Part of this loss of confidence is due to macroeconomic imbalances in the Spanish economy as a whole and the delay in resolving the problems affecting a small and well contained part of the banking sector. But as the IMF has recently pointed out, another part of the loss of confidence (the main indicator for which is the sovereign risk premium) is attributable to problems in the design of EMU, one of the most serious of which is the lack of a single banking market. Consequently, it will be hard to restore this confidence unless specific measures are taken soon to build this integrated market, as the Spanish government asked in writing last July in the letter sent to the presidents of the European Commission and the European Council. Moreover, given that the evidence shows that financial integration fosters economic growth, the measures needed in order to recover the lost ground in terms of integration and create a genuine single European banking market need to be taken as soon as possible. Fortunately, the recent proposals of the European Commission for EU-wide rules for a single European recovery and resolution framework (June 2012), a single supervisory mechanism for banks in the euro area with the European Central Bank at the core and involving national supervisors (September 2012), and the proposal of July 2010 for a harmonized deposit protection schemes, are important steps forward building a genuine banking union. For the Spanish economy, accelerating the achievement of a single supervisory mechanism is crucial, considering that it is a precondition for the direct recapitalisation of banks by the European Stability Mechanism.

# What is the right price of Spanish residential real estate?<sup>1</sup>

José García Montalvo and Josep María Raya Vilchez<sup>2</sup>

## From appraisals to market prices, and beyond.

*The results presented in this paper provide new evidence to explain the large overvaluation of Spanish real estate assets. The current appraisal mechanism relies on the incentives of banks and appraisal companies. While the average loan to appraisal value was 82%, close to the maximum level recommended by the Bank of Spain, the average ratio of loan to market price was around 110%. This divergence is based on the overvaluation bias derived from the use of appraisal values, which can be explained by two factors: i) the incentives of appraisal companies, and ii) the application of the valuation methodology. Official housing prices incorporated this overvaluation bias, generating spillover effects that exacerbated the housing bubble. A possible solution could be to limit mortgages to 80% of the Registry price.*

An important component of the current crisis can be linked to the real estate sector. The wrong incentives structure in the system of housing finance, which generated the housing bubble, is at the core of the current financial crisis. Therefore, in order to understand the extent of the correction of the irrational exuberance in the housing market, it is critical to have an accurate indicator for house prices. This is even more important when doubts exist regarding the quality and value of the assets on the balance sheets of banks. In the Spanish case, the situation is particularly important, since credit to construction, housing and household mortgages accounted for 60% of the total credit to the economy in 2007.

Usually, countries have alternative indicators for house prices. Even if the methodologies are

different, there are always price indices based on market prices. The methodological quality of the indicators is heterogeneous. Some indices, like the Standard and Poor's Case-Shiller index in the US, or the HM Land Registry in the UK, are based on repeated sales. Other indicators, such as the Census Bureau Constant Quality House Price Index in the US, take the hedonic approximation. In Spain, and despite the importance of the construction and the housing sector, there are no good indices for house prices. The official price published by the Department of Public Works (DPW) uses, as the basic input, the appraisal price computed for the purposes of requesting a mortgage. Obviously, this indicator excludes cash purchases and has a time lag of several months with respect to developments in the housing market. In addition, appraisal prices

<sup>1</sup> The financial support of FUNCAS and project SEC2007-64340 of the Ministry of Education is kindly acknowledged.

<sup>2</sup> Universitat Pompeu Fabra.

are not determined in the market. Therefore, they can be manipulated depending on the incentives of agents in the mortgage finance industry. For instance, appraisal prices can be raised in order to increase the likelihood of granting a mortgage. The Bank of Spain recommends that mortgages do not cover more than 80% of the value of the house. But if a family could not obtain the down payment of 20%, then appraisal companies, which were mostly owned by financial institutions, have an incentive to increase appraisal prices. In this way, the mortgage is approved with the family effectively receiving more than 80% of the price of the house, without an extra cost for banks in terms of risk weighted assets. It was also the case that when other indicators (income, employment situation, etc.) were not good enough to secure a mortgage, a low loan to value ratio could increase the chances to get the credit approved<sup>3</sup>.

More recently, the National Institute of Statistics of Spain (INE) initiated the publication of a different price index based on “precios registrales”, or the price that is reflected in the public transactions registry. This indicator by the INE aggregates prices

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*In Spain, and despite the importance of the construction and the housing sector, there are no good indices for house prices.*

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using a hedonic correction, but the registry prices are not a good reflection of the actual prices paid for housing in Spain. It is well known that buyers and sellers of real estate have tax incentives not to report the actual price paid for the house. Finally, there are also indices based on ask prices, such as the ones elaborated by the webpage Idealista.com or by Fotocasa. Obviously, these ask prices do not reflect appropriately the level and evolution of market prices, since discounts over ask prices depend significantly on the situation of the market.

Unfortunately, none of the Spanish housing price indices use as raw data actual prices of transactions. The purpose of this paper is to present a brief summary of the results of a project that compares alternative prices, including the actual market prices, for a large sample of transactions of houses during the period

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*Unfortunately, none of the Spanish housing price indices use as raw data actual prices of transactions.*

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2004-2011. The data which we have been able to obtain cover thousands of properties merging information from several sources, such as the actual price of the transaction, the appraisal price, the size of the mortgage and the registry price. The results of this comparison can give indications to evaluate the accurateness of current price indicators based on appraisal values.

## **Housing price adjustment since the beginning of the crisis: Spain versus other countries with property bubbles**

One of the most surprising facts related to the evolution of housing prices in Spain in recent years is the slow rate of adjustment observed until very recently<sup>4</sup>. Table 1 shows that price adjustments in other countries that suffered a housing bubble smaller than the one in Spain (measured as the increase in the ratio of house prices over disposable income) were larger than in Spain.

The fact that there is no official indicator of market prices in Spain is one of the reasons for the divergence in the speed of adjustment of house prices between Spain and other countries

<sup>3</sup> The Spanish mortgage industry was very competitive during the years of the housing bubble. The interest rate on mortgages was the lowest in Europe and, therefore, with a very small spread, the way to increase profits was to increase the number of mortgages approved.

<sup>4</sup> The Executive Orders 2/2012 and 18/2012 of the Spanish Government have accelerated the drop of house prices by forcing Banks to write down the value of housing related assets and loans.

Table 1

### Peak-to-trough change in house prices in selected countries

	Peak	Trough or last	Change
Ireland-CSO index	April-07	March-12	-48.5%
US-S&P Case Shiller	April-06	May-09	-32.8%
	(double dip)	February-12	-34.4%
Japan	1995	2011	-41.7%
UK	August-07	Diciembre-11	-30.6%
Spain			
Dep. Public Works -Appraisals	March-08	June-12	-23.5%
INE -Registry prices	September-07	March-12	-25.6%
Fotocasa-Ask prices (existing houses)	June-07	August-12	-31.9%
SOCTAS- Appraisals (new houses)	Diciembre-07	June-12	-20.7%
IMIE- Appraisals	Diciembre-07	July-12	-31%

with a housing bubble. The official price of the Department of Public Works reports a contraction from peak to trough of 23.5%<sup>5</sup>. But appraisal prices, the raw data for this indicator, depend mostly on the condition of the financial sector and not that much on the evolution of supply and demand of housing and, therefore, the housing market. The

*The fact that there is no official indicator of market prices in Spain is one of the reasons for the divergence in the speed of adjustment of house prices between Spain and other countries with a housing bubble.*

need to contain the effect of write-offs on the profits of financial institutions, and the traditional participation of banks in the capital of appraisal companies, can explain part of the divergence in speed of adjustment of price indices based on appraisals observed in Table 1. For comparison

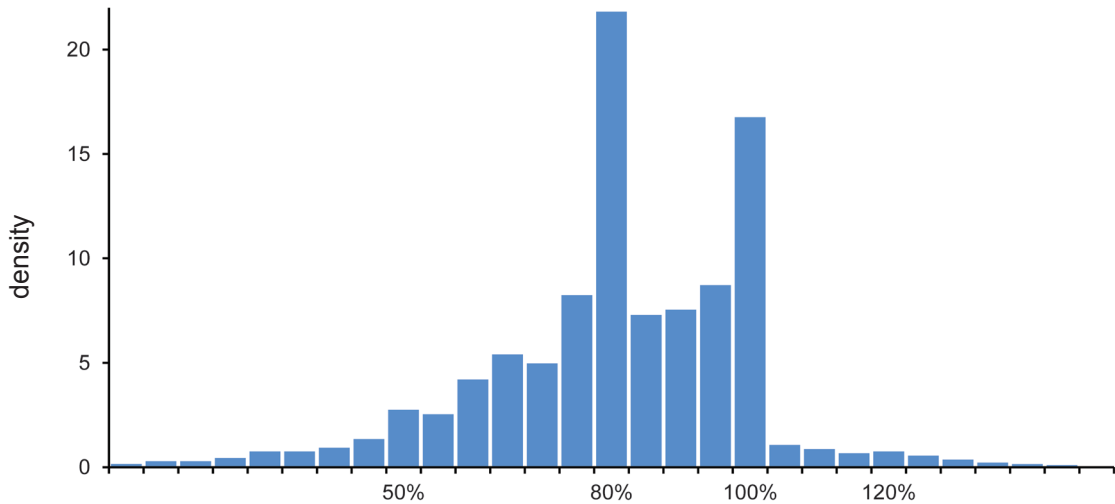
purposes, the US price index was already down 32% in May of 2009 and Ireland's price index is down 48% from its peak.

To analyze the usefulness, of the official house price indices as indicators of the value of property in Spain, we merged several databases. First, we obtained data from a housing market intermediary with many franchises that provided information on market prices and characteristics of the properties<sup>6</sup>. The second source of information was a financial intermediary which usually works with the housing market intermediary. The dataset contains information on the amount of the mortgage, the appraisal price, the extent of guarantees, etc. The third source of information was the Official Registry of Real Estate Properties (Registro de la Propiedad). The Registry provided information on the amount of the mortgage, the appraisal price, and the price reported in the official ownership document. Finally, to improve the matching success rate of the Official Registry of Real Estate Properties, we obtained the unique

<sup>5</sup> This effect was even more visible before the Executive Orders of 2012. At the end of 2011 house prices had dropped from the peak between 15% and 20% depending on the indicator chosen.

<sup>6</sup> The data may not be representative of the whole population of housing transactions during the period of study since large cities are oversampled. In any case, the average price per square meter and average size of the units in our sample is very similar to the national values.

Exhibit 1

**Loan to appraisal value**

identifier for each property (Referencia Catastral) for the Catastro (General Directorate of the Catastro).

Some of the information, like appraisal prices or the amount of the mortgage was redundant (i.e. present in several datasets). We used this information to make sure that the properties were properly matched in the different datasets. The sample periods include transactions that took place between 2004 and 2011.

### Data analysis

After merging all of the datasets, we analyze the relationship between all of the prices pertaining to a real estate operation. The first indicator is the loan to appraisal value ratio. This is a very important ratio since banking regulation imposes penalties in terms of weighted assets to mortgages with loan to values above 80% (and

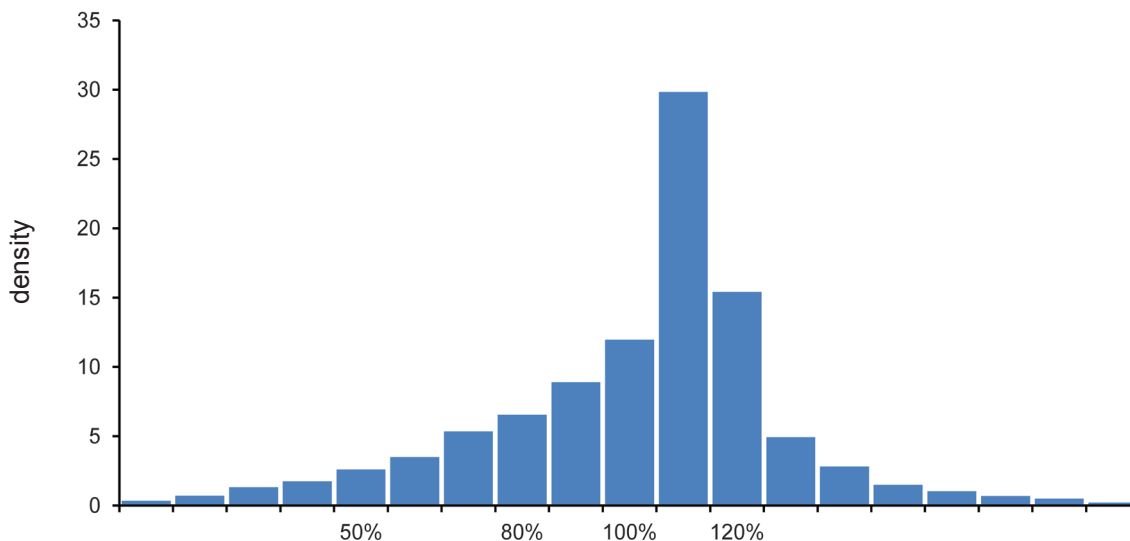
even higher penalties for ratios above 100%). As stated previously, the ownership of appraisal firms by banks has led to perverse incentives such as the adjustment the appraisal values to the financial needs of families, instead of reflecting the real value of the properties. This phenomenon is very dangerous, since we know that default rates increase exponentially once the mortgage reaches a loan to value over 80%.

Exhibit 1 shows that the loan to appraisal value ratio has a mode at 80% and very low frequencies above 100%. The average of the loan to appraisal value is 82.9%. This number is consistent with the result of dividing the average amount of new mortgages over the appraisal value of an apartment of average size.

However, the information in Exhibit 1 could be biased by the incentive to increase appraisal values to give a higher proportion of loans over

Exhibit 2

### Loan to transaction price



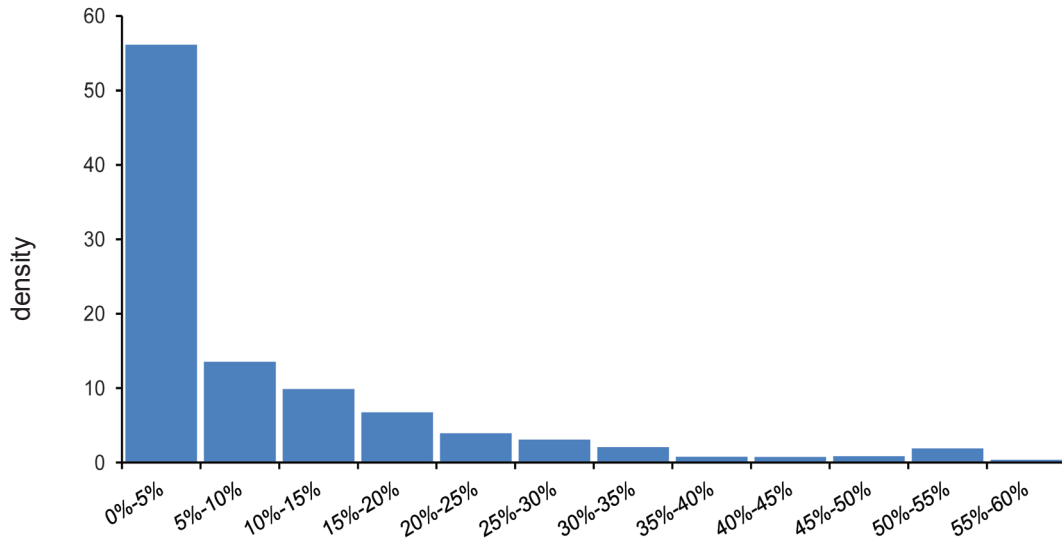
the actual price paid. To analyze this likely bias, Exhibit 2 presents the distribution of the ratio of loan over market price instead of appraisal value. The figure is eye-catching: most of the distribution of loan to transaction price is over 100%. In fact, the average is 110%, with a similar median<sup>7</sup>. This is a clear sign of over-appraising and it raises doubts on the traditional view that in Spain, contrary to the US case, there was not an effect of mortgage equity withdrawal. In the US, it was very frequent that families converted wealth into disposable income by asking for a loan on the increase in the price of their house. In Spain, this was not frequent. This led to some analysts' claims in the initial stages of the crisis that the effect of reduction in housing prices in Spain would not be as negative in terms of consumption as it was in the US. Exhibit 2 shows the sort of equity withdrawal that was taking place in Spain:

appraisal values were already capturing future increases in house prices and resulting in loans of a larger size. This kind of equity withdrawal is worse than the one observed in the US. In the Spanish case, the increase in house prices did not have to be realized. The damage was done merely through expectations.

The bias towards higher housing prices derived from the incentives of appraisal firms was amplified by the fact that appraisal firms generally use ask prices, and not market prices, to construct the set of comparables (usually six) that are considered as the basis for the pricing for comparables in the neighborhood (main pricing methodology for appraisals). The use of an index based on appraisals as the only official indicator of prices during the bubble years generated also external effects. The bias towards calculating high

<sup>7</sup> The results are almost identical if we use the sample of properties in which market price is equal to the price reported by the Registro de la Propiedad.

Exhibit 3

**Proportion of undeclared payment over total price paid in the transaction**

appraisal values led to an aggregated price index that had also a bias toward a rapid growth rate, which gave the impression that house prices were growing faster than they were actually growing. Each time that the rapid growth rate of the official house prices appeared in the media, this attracted some large, and many small, private investors. Moreover, many families were led to believe that

*The use of an index based on appraisals as the only official indicator of prices during the bubble years generated also external effects. The bias towards calculating high appraisal values led to an aggregated price index that had also a bias toward a rapid growth rate, which gave the impression that house prices were growing faster than they were actually growing.*

if they did not buy quickly, house prices would be unattainable in the future. Therefore, the use of appraisals for the construction of the official price index fed a vicious circle that led to an enormous housing bubble.

The regression of the loan to appraisal value ratio over the loan to transaction price ratio leads to a coefficient of 0.89, which implies a clear deflation of the loan to transaction price when translated into loan to appraisal value ratios. The standard deviation of the coefficient is very small which implies that this mechanism was applied consistently. The average of the over-appraisal reaches 32% of the transaction price. Notice that part of this difference is retained by the bank to supposedly cover for the equity. The other part was used to pay for transaction costs, furniture, appliances, vacations or even the down payment on a car. There is also a trade-off between the loan to appraisal value ratio and the degree of over-appraisal. There are basically two situations:

either the loan to appraisal value ratio is high, with a transaction price close to the appraisal price, or the loan to value is low with a high degree of over-appraisal. Savings and loans more frequently adopted the first strategy, while banks had a high propensity to follow the second strategy.

Finally, the merged data can help to calculate the extent of undeclared payment in housing transactions. Declaring the price of a house below the actual price paid has fiscal advantages for buyers and sellers. The buyer pays less for sale taxes, while the seller pays less for income taxes due to lower capital gains. Exhibit 3 shows that many transactions did not involve any undeclared money since the price declared in the Official Registry was identical to the transaction price. However, there are many transactions that involved heterogeneous amounts of undeclared money. The average divergence is 8%.

## Conclusions

The recent episodes of stress in the Spanish financial sector show how slowly the financial reform has advanced in Spain until recently. The bursting of Spain's property bubble has seen the level of bad loans as a proportion of total lending rise to the highest level in 18 years. The portfolios of repossessed and unsold real estate are negatively impacting the ability of banks to provide credit to the economy. The results presented in this paper provide new evidence to interpret the large overvaluation of Spanish real estate assets. The mechanism relies on the incentives of banks and appraisal firms. While the average loan to appraisal value was 82%, close to the maximum level recommended by the Bank of Spain, the average ratio of loan to market price was around 110%. This divergence is based on the overvaluation bias derived from the use of appraisal values and can be explained by two factors:

ii) the application of the methodology for valuation. The official housing price, based on the aggregation of appraisal values, incorporated that overvaluation bias in the index and generated external effects that exacerbated the housing bubble. There is also evidence of undeclared payment involved in housing transactions.

To solve the problems discussed above, and try to avoid the next bubble, the size of loans should be tied to the price declared in the official document of the transaction (escritura). If the loan is capped at 80% of the Registry price, many of the perverse incentives described above disappear. Buyers will not have an incentive to accept the overvaluation of the house to get a larger mortgage since they will have to pay more taxes. Sellers may still have incentives to declare lower values for the transaction but that incentive will not be aligned with the incentives of buyers who need a mortgage as large as possible to finance the purchase. This mechanism would avoid the multiplicity of prices and it would increase tax revenues largely avoiding undeclared money. Finally, it would eliminate the external effects of price indices based on appraisals.

i) the incentives of appraisal companies, and

# “Bad Banks”: International experiences and the Spanish case

**Alfonso García Mora and Enrique Martín<sup>1</sup>**

**A viable bad bank solution for the Spanish financial sector requires a more precise definition of its terms and structure.**

*The banking sector recapitalization and the likely creation of a bad bank are necessary conditions for economic recovery. A viable and effective bad bank should maintain and promote activity in the real estate sector. International evidence shows that many countries have adopted bad banks to find solutions for different types of banking crises. In Spain, the main obstacles to the creation of a bad bank at previous stages of the restructuring process have recently been removed. The approval of new regulation increases transparency and forces institutions to make larger provisions on repossessed assets. However, a more precise definition of some key elements, including capital structure, type of assets to be transferred, value of the assets and management incentives, among others, are still missing.*

## **Introduction: The rationale for creating bad banks**

Five years after the onset of the deepest global crisis witnessed within the last eighty years, many countries are still looking for solutions to manage one of the main problems of this crisis: the existence of a significant amount of “toxic assets” in the banking sector. Even though the factors underlying the real estate bubbles in the US, Ireland, the UK and Spain were significantly different, and the analysis of each country’s situation requires the introduction of idiosyncratic factors, the accumulation of unsold housing, unfinished real estate constructions

and unaffordable household mortgage loans, are common factor in all of these economies.

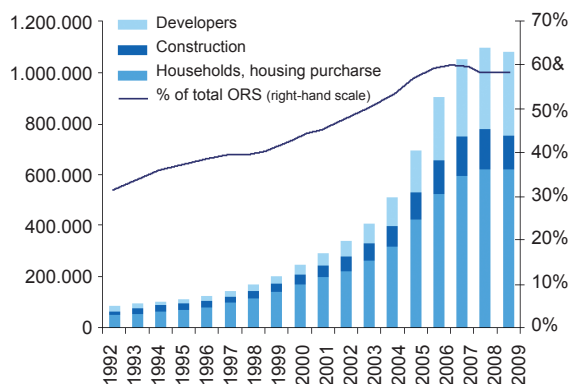
The backlog created in the real estate market becomes even more important when analyzing the large spillover effect that this sector has on the economy and the financial sector. In all these countries, but probably to a greater degree in Spain and Ireland, the relation between housing finance and the banking sector became closer and closer as the boom period progressed. The bancarization of these economies, the rapid indebtedness of households and developers funded exclusively by banks, and the increasing reliance of these banks on wholesale funding, help us to explain and understand the magnitude and evolution of these examples. In Spain, the picture in December 2008 reflected this situation.

<sup>1</sup> Partners at A.F.I.-Analistas Financieros Internacionales, S.A.

Exhibit 1

**Breakdown of Spanish Banks' Loan Portfolio**

in million euros

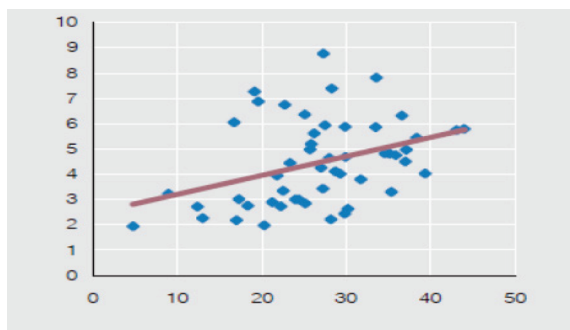


Source: AFI and Bank of Spain.

As the business cycle deteriorated, home transactions started to decline and the default rate of developers that were unable to pay back their loans increased significantly. Besides this direct impact, the economic deterioration led to a large increase in unemployment, with a special negative impact on those households with a higher proportion of their income dedicated to debt service. As a consequence, by December 2011, 20% of the assets held by the banking sector were either non-performing loans or repossessions (Berges 2012).

*The different definition of toxic assets played an important role in the schemes implemented in these countries.*

Exhibit 2

**Relationship between share of construction and developer loans in the portfolio (% , x axis) and Non-Performing Loans (% , Y axis), June 2009**

Source: Bank of Spain.

When the bubble exploded, banks' balance sheets were full of real estate and mortgage assets, representing between 20% and 30% of the Spanish loan portfolio<sup>2</sup>.

<sup>2</sup> For a detail analysis of the Spanish real estate bubble, causes and consequences, see Berges and García Mora (2008) and García Mora (2010).

While in some economies (e.g. the US) the exposure to the real estate and mortgage sector was essentially based on investments in mortgage-backed securities and other structured products with underlying real estate exposure, in the Spanish case, it was direct exposure to mortgages and developers' credit. The different definition of toxic assets played an important role in the schemes implemented in these countries. Underlying all the solutions there was a common understanding that these economies needed to recognize prospective high losses on developer and mortgage loans. However, whereas in those countries with "market valued toxic assets", the impact was immediate and transparent, in countries with a higher credit exposure (accounted at "book value"), the recognition of a substantial price decline would require more time. As a consequence, although the final objective was to allow a quick restructuring of the financial institutions to facilitate the maintenance of the integrity of the payments system while allowing for resolution or bankruptcy schemes, this process has taken place with a very different timing.

*The initiatives undertaken can be summarized in two types. Firstly, those specific solutions in which the “unhealthy” bank splits its business into a good and a bad bank; and secondly, the general solutions in which the government creates one big bad bank and many “unhealthy banks”, transferring their “toxic assets” onto itself.*

In both cases, one of the most popular solutions to deal with this problem was the creation of the so-called “bad bank” or Asset Management Agencies. The “bad bank” was envisaged as a way of cleaning up balance sheets, allowing banks to get rid of problematic assets and thereby becoming a “good bank”. Although there have been many different schemes –depending on its size, the legal framework, the assets transferred, the capital structure, etc.–, and there are no two similar cases in the world, the initiatives undertaken can be summarized in two types. Firstly, those specific solutions in which the “unhealthy” bank splits its business into a good and a bad bank; and secondly, the general solutions in which the government creates one big bad bank and many “unhealthy banks”, transferring their “toxic assets” onto itself<sup>3</sup>.

Bad banks can differ significantly depending on many different factors. As an example, there are at least seven aspects that should be considered:

- The number of contributors.
- The nature of asset transfer (mandatory or voluntary).

<sup>3</sup> An analytical theory of different bad bank schemes –an outright sale of toxic assets to a state-owned bad bank and a repurchase agreement between the bad bank and the initial bank– can be found in Hauck-Neyer-Vieten (2011). They conclude that although both schemes can reestablish stability and avoid a credit crunch, an outright sale will be less costly to taxpayers than a repurchase agreement only if the transfer payment is sufficiently low.

- The legal framework: Bank, SPV, Fund, etc.
- The type of assets to be transferred: mortgage loans, developer loans, repossessions, other assets and liabilities.
- The capital structure: Public vs. Private capital.
- The funding structure: Existence of Government guarantee Bonds.
- The pricing methodology underlying asset transfers: book vs. market value and discount applied.

## International experience: Some recent examples

The creation of bad banks is not something new to this crisis. In recent history, there are many examples of countries adopting a “bad bank”, trying to find solutions for different type of banking crises. From the ones implemented in the late eighties and early nineties in the US –as a result of the saving and loans crisis and the resolution trust, or in Germany –with the implementation of the “equalization claims” in East Germany, or the Swedish case in the mid-nineties. We will focus on six cases that have taken place recently.

One of the cases widely used during this crisis, as an example of a successful solution, has been the Swedish scheme established in 1995, which certainly minimized the public cost and the timing needed to hollow out toxic assets. However, there are exogenous factors that go beyond the framework adopted and that must be considered when judging its effectiveness. Indeed, in the late nineties, the world economy and the EMU lived one of the most dynamic and persistently positive business cycles of the last decades, with an important impact in the Swedish real estate and banking sectors. This situation clearly differs from

the current cycle and the huge spread between supply and effective demand for real estate. In the Swedish case, the government did not create a unique bad bank. Initially, every financial institution created, on a voluntary basis, its own AMS. Securum, which is probably the most famous one, was established by Nordbanken, with €8 billion of assets under management. Its capital structure was composed by 25% of equity injected by the Treasury, and funding from the central bank. The assets were transferred at book value. Since Nordbanken was a public bank, the valuation methodology –and the discussion over whether or not it should be based on book or market value– and the definition of the capital structure were not that relevant. However, years later Securum had to undertake other private initiatives, which was done only after the original shareholders had fully lost their investments.

The Irish model is probably the best example we have among the “unique and compulsory bad banks”<sup>4</sup>. The Government announced in April 2009 (passed into law by December of that year) the creation of an asset management company –NAMA (National Asset Management Agency)– to purchase large property loans at “long term economic value” (Honohan, 2012). This was done with a detailed valuation approach, so that time was needed for the scheme to be implemented. The government therefore decided to implement in a sequence of tranches, starting with the largest loans. The mechanism was easy: when purchases were made, losses would have to crystalize and recapitalization would be done. However, since it was done on a dynamic basis, initial estimations of valuation and capital needs underestimated final figures.

With the participation of six financial institutions, NAMA was created as an SPV (Special Purpose Vehicle), and therefore not subject to banking regulation. It was launched with an initial capital of 100 million euros (49% public) and a 40 times

leverage ratio. NAMA acquired the toxic assets of those six banks with a 77 billion euros book value at a “Long Term Economic Value” which was equivalent to a 30% discount with respect to the book value. The banking sector received as a result public debt that could be discounted at the ECB to get liquidity, and the Irish Treasury had to inject the shortage of equity banks had as a result of the write offs and the capital needs generated by the discounts applied.

The German model was also based on the creation of an SPV, but in this case each bank could, on a voluntary basis, establish and create its own Asset Management Vehicle (AMV). The toxic assets were transferred to the SPV with a 10% discount over book value that was used to cover administrative and management costs. In exchange, the banks got SPV bonds guaranteed by the State Fund for the Stabilization of the Markets (“Finanz markt stabilisierungs fonds”). Even though initially this solution could have been interpreted as too beneficial for the original banks, the banks had to compensate the SPV on a yearly basis for the difference between the transfer value and the fundamental value divided by the number of years with guarantee (settled as 20 years). Additionally, if this compensation was not enough to cover potential losses, original banks had to cover with a cap defined by the dividend they were planning to distribute. Therefore, the German case minimized transfers from public to private sectors. The key factor of the model was based on the accounting methodology used and the deferring of potential losses without an initial write off.

Finally, the United Kingdom on October 2010 created a unique aggregated holding company (also SPV) named Asset Resolution Limited (UKAR) to bring together the Government-owned businesses of Bradford & Bingley plc (B&B) and Northern Rock (Asset Management) plc (NRAM), with 72,2 billion pounds of loans. The British case is clearly a different one, since it is not a scheme open to financial institutions with potential problems. UKAR serves as a holding institution for

<sup>4</sup> See Honohan (2012) for a deep review of the recapitalization of failed Banks in Ireland.

toxic assets only when a resolution and liquidation process takes place

Among the idiosyncratic and specific solutions, ING obtained the support of the public sector to guarantee its portfolio of toxic assets coming from US mortgage investments. The model used was a hybrid between the Irish and the German described above. The volume of toxic assets (30 billion euros) was transferred to an SPV at a 10% discount. The Dutch Treasury absorbed 80% of the potential losses generated by the SPV, whereas ING supported the other 20%. In exchange, ING paid the Treasury an ex-ante defined fee for the guarantee obtained.

The UBS case was very similar to the ING case described above, but with a different protection scheme. UBS had 60 billion swiss francs in toxic assets (also coming from “subprime” exposure) that were transferred at book value to an SPV created with 6 billion euros of capital and 54 billion swiss francs in funding from the Central Bank.

A hybrid scheme was created for Citigroup. It was divided into a good (bank Citicorp) and a bad bank (Citi Holdings). This structure was probably done with the final objective of splitting the management in order to increase transparency, rather than for risk management and capital deconsolidation purposes. In fact, the volume of toxic assets transferred to Citi Holdings (300 billion dollars) was backed by 50 billion dollars of equity, out of which Citigroup had a 90% share and the US Treasury and the FDIC the other 10%. The funding was provided by the Federal Reserve. First losses would be absorbed by Citi up to the total equity they injected. And only when Citi would have lost their total share, additional losses would be absorbed 10% by Citi and 90% by the Public sector. Therefore, this case was a combination of the Swiss model -“full first loss”- and the Dutch model -“partial second loss”.

## The Spanish case:

### Why now and not before?

There are several reasons that explain why a bad bank was difficult to create in Spain during previous stages of the restructuring process. Basically they are linked to the low amount of impairments recognized in real estate assets. This situation made it very difficult to transfer these assets at market prices to the bad bank. The only way to do this would have been with a significant initial recognition of losses by the banks. Therefore, either the bad bank would have been non-viable –in case assets would have been transferred at prices higher than market value- or the banks would have been non-viable if the transfer would have been done at market prices.

Facing this dilemma, the strategy adopted to close this gap was based on a radical change of regulation affecting provisions on real estate assets, which had two basic milestones: in 2010 and in 2012. The aim of this new regulation was two-fold: to generate more transparency by identifying the exposure to real estate risk, and to force larger provisions on repossessed assets.

In the initial stages of the financial crisis, repossession of real estate guarantees was subject to a fairly loose regulation, at least not adapted to the extension and depth of the crisis. By then, when banks executed guarantees, they had to recognize the real estate assets repossessed at the lowest value of debt outstanding, net of provisions, or the appraisal value of the asset.

This led to an under-recognition of losses, since many repossessions were made at a very early stage, and in some cases structured as a purchase of the asset through a “dación en pago” –dation pro solution, which basically is based on a process in which the debt is cancelled through transferring the property of the asset, which acts as a guarantee. Since provisions for repossessed assets were assumed to be implicit in the impairments recognized on loans, and the regulation didn’t

expressly mentioned the “purchase” or “dation” as repossession alternatives, the level of provisions on these assets was very low.

*There are several reasons that explain why a bad bank was difficult to create in Spain during previous stages of the restructuring process basically linked to the low amount of impairments recognized in real estate assets.*

additional 10% each of the two following years, to a maximum of 30% provision –when those assets were retained on balance more than 24 months.

*The majority of the financial sector was focused on the restructuring process, mergers and recapitalization, and not articulating the best strategy to reduce the volume of reposed assets.*

## Recent regulatory initiatives

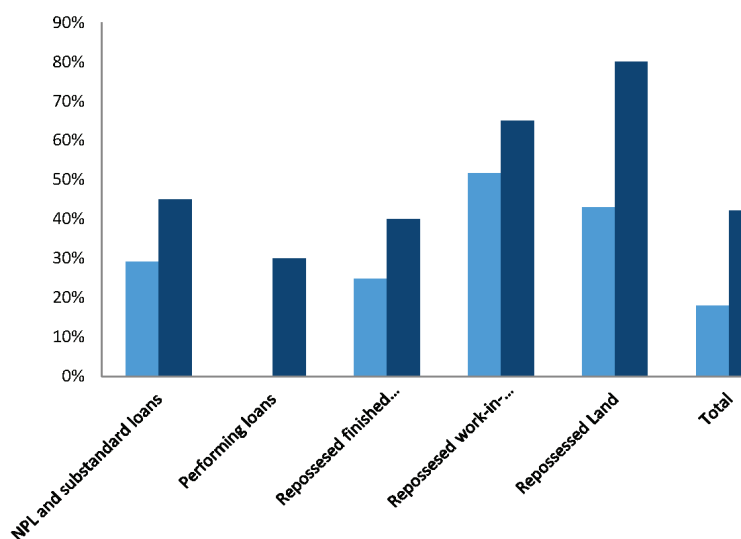
The solution to this problem was address through with a change in the accounting rules for banks at the end of 2010, by introducing new provisioning requirements for all assets received to cancel loans, regardless of the legal form they had. As a consequence, the new regulation required banks to hold a minimum provision when receiving the assets of 10% of the original debt, and an

However, given the conditions and prices in the real estate market and the expected returns of potential investors, these valuation rules resulted in an accumulation of assets on banks' balance sheets. By that time, any sale done at “market prices” would have led to the recognition of losses definitely greater than the 10%-20%-30% provisions booked.

Probably only some big banks were able to recognize additional impairments to adjust

Exhibit 3

### % of provisions on RE assets



Source: A.F.I.

sale prices and reduce the stock of assets, as a consequence of their healthy organic profit generation. But the majority of the financial sector was focused on the restructuring process, mergers and recapitalization, and not articulating the best strategy to reduce the volume of reposed assets.

Under these conditions, in February 2012 the new government required additional provisions for exposure to real estate: both assets and loans. The objective was to focus the new strategy on “problematic assets”, including under this category repossessed assets, non-performing loans and the so-called “substandard” category (those performing loans defined as under surveillance by the supervisor). The level of provisions was set based on the asset type underlying the loans. With some guarantees, –i.e. land- provisions in P&L were reinforced by an additional requirement based on a capital add-ons or buffers. At the same time, the new regulation required banks to segregate repossessed assets into an asset management company before the end of 2012.

The market soon reacted identifying that the provisions could be adequate for “problematic assets” but “normal” assets still had a very low provisioning level –set at 7% in the February regulation. This situation led to a second regulatory change in just four months, which set an average 30% provision for performing loans linked to real estate activity. Even though this percentage differed according to the type of collateral used –land, work-in-progress, finished houses.

The new requirements in provisions defined by the regulatory changes done in February and May had to be fulfilled by the end of 2012, with every bank required to present a mandatory plan, including timeframe, to the supervisor.

At this point in time, June 2012, the net valuation of the assets and loans related to the real estate sector was assumed to be –or would be at end of the year— close to its market value. This situation

made easier the constitution of a bad bank, as the transfer would not generate additional losses.

Finally, the process accelerated with the negotiation of the “Banking sector financial aid” received from the European Union to recapitalise the banking sector. The conditions established in the Memorandum of Understanding signed by the Spanish government –articles 21 and 22- set the requirements regarding the management of real estate toxic assets for those banks receiving public support. In fact, they were forced to segregate the real estate problematic assets and transfer them to an asset management company.

## Pending topics

The MoU was transposed to Spanish law by another Real-Decree approved at the end of August. Although the details of the Spanish Bad Bank were supposed to be defined in this new regulatory initiative, this was not the case. This law established some general issues, but there are still many substantial topics pending regarding the definition and structure of the “bad bank”.

The new regulation established that only banks receiving public support would have to transfer their problematic assets to a single asset management company (AMC) –the “Bad Bank”-, in which the State (through the FROB) will have at most a 49% equity share. The rest of the banking sector will have to transfer their repossessed assets to their own AMC, according to the Real-Decree approved in May.

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*Although the details of the Spanish Bad Bank were supposed to be defined in this new regulatory initiative, this was not the case. This law established some general issues, but there are still many substantial topics pending regarding the definition and structure of the “bad bank”.*

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Here emerges one important question, which is “Which” banks will be required to make the transfer. As defined in RDL 24/2012, both banks that actually have public support as well as others which could need it under a restructuring or resolution process are forced to transfer assets to the AMC.

A second question could be related to “What” kind of assets are they going to transfer. Since the type of assets to be transferred has a very vague definition, it could include repossessed assets, real estate loans, equity holdings in real estate sector companies, or even other “problematic” assets from other sectors. The scope and volume of assets segregated will take into account the viability of the institution after segregation and also the loss-absorption capacity of capital and other hybrid instruments to impair assets prior to the transfer to the AMC. It is assumed that the scope of segregation will be broader for more problematic banks. By this, the supervisor would avoid further provisioning (and recapitalisation) in the future as a consequence of an even worse business cycle, and therefore a higher NPL ratio that could question the viability of the institution.

Thirdly, what would be the value of the assets to be transferred?. As happened with other international experiences, in the Spanish case, the valuation of assets and loans to be transferred to the AMC will be established after a detailed stress-test exercise by independent experts is done. In the regulation there is only a vague reference to a “long-term economic value”, which tries to overcome current market conditions that could force prices down. The viability of the bad bank would require valuations similar to the market conditions these assets would have to face when sold. However, here arises another controversial situation, since the lower the initial value, the higher the impairment losses that would have to be recognized by banks, and the greater the recapitalization needs. The only way to avoid further losses or recapitalization needs in the future would be to apply conservative haircuts in the valuation process. This discount could be

even larger than the provision levels reached by the regulatory changes explained before, in order to generate some “buffer” on the AMC to face potential losses on sales and operating expenses.

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*The lower the initial value, the higher the impairment losses that would have to be recognized by banks, and the greater the recapitalization needs.*

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Fourthly, the capital structure would be crucial in order to analyse the strategy this vehicle is going to follow. Even though the Public sector (through the FROB) will have less than 50% of the equity, there are many questions regarding who will invest in the AMC and, more relevant, at what price and with what kind of conditions. Besides, the funding structure, according to the MoU, will be probably based on government guaranteed bonds, which could be discounted at the ECB.

Finally, management of the AMC is key to its success. A clear incentive and governance mechanism must ensure that there is an active and segmented management on all types of assets. Together with this, a global strategic plan should be defined identifying the objective and strategy the AMC is going to follow for every type of asset, accompanied with a clear schedule.

The creation of a “bad bank” and the recapitalization of the banking sector is a necessary condition for the economic recovery. However, for that to happen and make the bad bank viable, it should have as one of its objectives to maintain and promote some activity in the real estate sector. Otherwise, further deterioration of debtors could increase significantly, with the subsequent losses increasing debt restructuring, additional financing and other measures will be helpful to avoid the need for additional impairments and that will require establishment of clear goals and incentive schemes for all the economic agents involved in the process.

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# Financing the euro area economy: The role of the Eurosystem

**Sara Baliña and Matías Lamas<sup>1</sup>**

**Explaining the increasing role of the Eurosystem in financing the Euro Area economy and what to do about it.**

*As a result of the environment of uncertainty related to the viability of the Euro Area and the tensions in sovereign debt markets with systemic impact, Eurosystem funds have replaced a good portion of private capital in the peripheral economies. Private capital outflows and the recourse to the liquidity of the Eurosystem are today the highlights that explain the composition of the financial account in the peripheral economies, while capital inflows and excess liquidity in the banking system define the structure of financial accounts in the core countries. The imbalances generated in these two areas signal a process of increasing financial fragmentation inside the EMU. To reverse this process, in addition to ECB institutional support announced on September 6<sup>th</sup>, more advances in European integration and more internal developments in the economies with higher imbalances are required. These actions will be a prerequisite to reduce private capital outflows and rebalance both current accounts and the composition of financial accounts among the euro economies, reducing Eurosystem liquidity as a significant source of funding.*

## Introduction

The idiosyncrasy and persistence of the current financial and economic crisis has substantially changed the sources of funding in main developed economies and, in particular, in the Euro Area countries with a growth model supported by the increased reliance on external savings (as is the case in most of the denominated peripheral economies –Greece, Ireland, Portugal, Spain and Italy), due to persistent current account deficits.

Until 2007, banking systems in these countries, the main intermediaries in the funding of

households and non-financial corporations, could access, without restrictions of volume or cost, to wholesale money markets (through interbank loans, deposits and/or repos and the issue of securities), thus covering external financial needs coming from a growing net imports balance and the acquisition of financial assets in the rest of the world (in this last case, coinciding with the financial internationalization process in some countries).

However, with the eruption of the financial crisis and following the collapse of private funding markets, central banks initiated non-conventional monetary policy measures in order to reduce liquidity tensions in key segments of the market,

<sup>1</sup> A.F.I.-Analistas Financieros Internacionales, S.A.

like collateralized banking debt (covered bonds) or even, more recently, sovereign debt. In the euro Area, the ECB has become the lender of last resort, providing funding to the banks in the periphery with open market operations and covering not only new financial needs but also net outflows of private capital. The environment of uncertainty related to the viability of the euro Area, the programs of financial assistance to the Greek, Portuguese and Irish economies or the Spanish banking sector, and the tensions in sovereign debt markets with systemic impact, have contributed to boost the replacement of private capital with Eurosystem funds in the peripheral economies.

### Financing structure of the euro Area: Financial account analysis

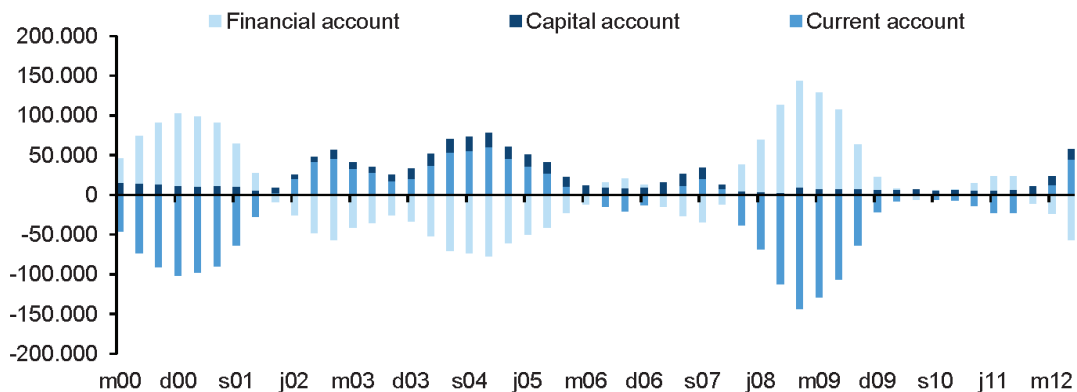
As expected, the analysis of the financial account reveals no significant changes in the nature of financial flows in the euro area, although we observe (i) a swing in the aggregate balance since late 2011 and (ii) a significant reduction in cross-border flows since the beginning of the crisis.

The first point is the result of a change in the current account balance, which stood at -150 billion euros in mid-2008, and turned positive in the first months of 2012. So, as happened in 2001-05, the euro Area has become a net lender to the rest of the world (financial liabilities operations with the rest of the world are lower than asset operations, in terms of volume).

With regard to cross-border capital flows, it is noteworthy that since their sharp fall in late 2008 and the first half of 2009, coinciding with one of the greatest periods of financial stress in the current crisis (Lehman Brothers bankruptcy), they have gradually recovered, although are still far from pre-crisis levels. The strongest drop is observed in the more volatile and short-term capital flows. For instance, portfolio investment or “other investment” positions (banking deposits, loans or *repo* operations). The relative stability in aggregate balances is primarily attributable to two facts: the drop of liability operations fell at the same (or similar) pace as that of asset transactions.

Exhibit 1

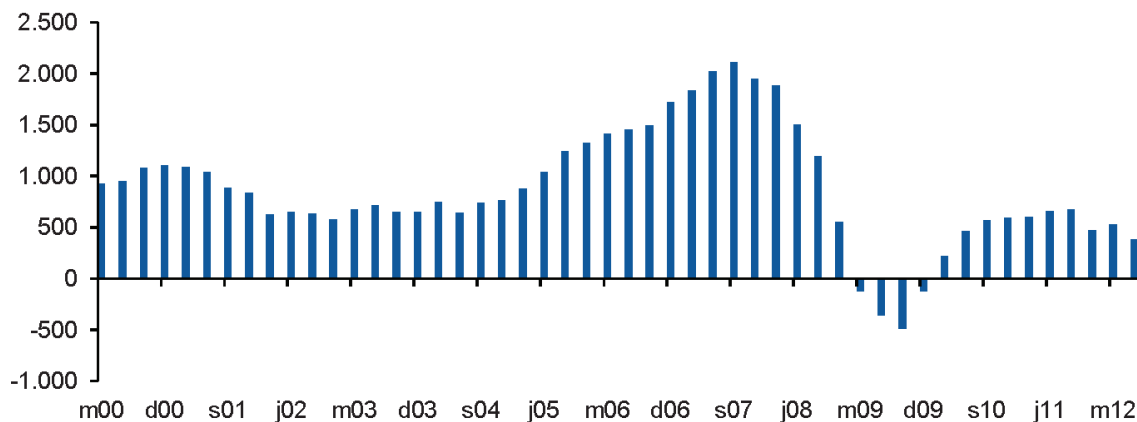
#### Euro Area financial account (millions of euros, cumulative balances in last 12 months)



Source: A.F.I., ECB.

Exhibit 2

### Cross-border capital flows in the euro Area (billion of euros, cumulative flows in last 12 months)



Source: A.F.I., ECB.

### Individual, and not aggregate, imbalances matter. A three-pronged approach

Significant swings in the euro area funding framework are detected when we analyze individual countries. Contrary to peripheral economies, where funding restrictions in the private sector have exacerbated their dependence on Eurosystem's liquidity, core economies, with more solid external positions, have benefited from their status as "safe havens" (net inflows of private capital) and the ECB's liquidity provision.

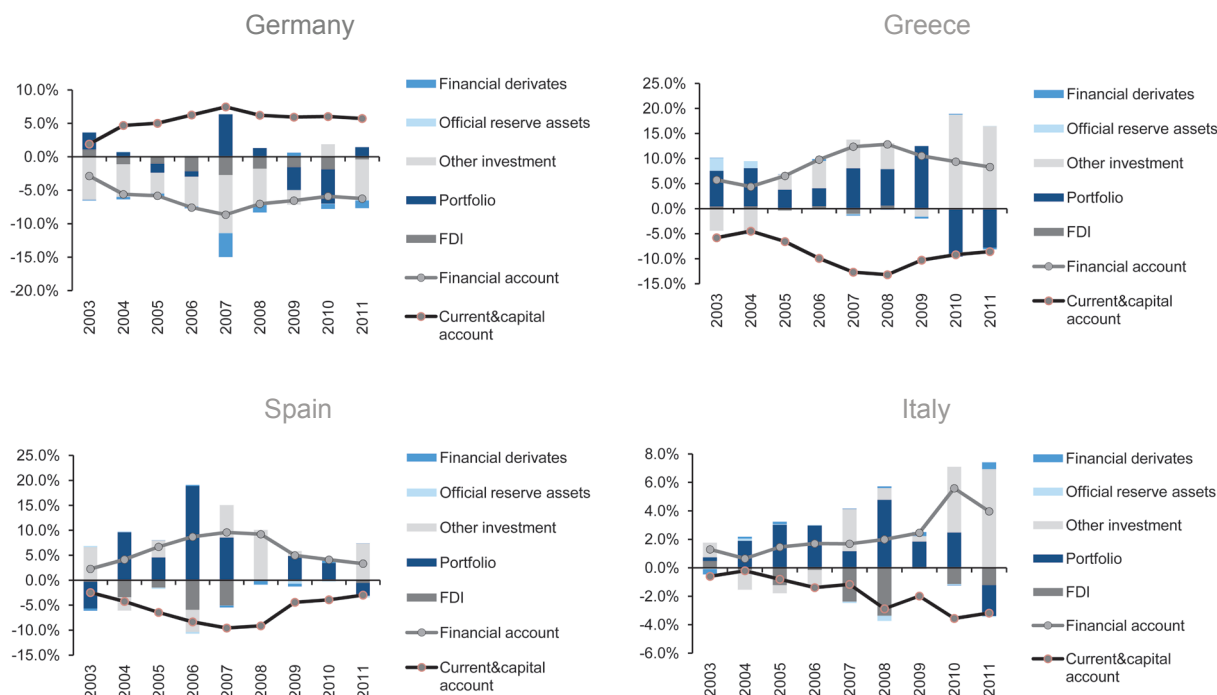
Divergences between core and peripheral economies and the role of the Eurosystem in their scheme of funding, are more than evident when one considers (i) the evolution of financial accounts; (ii) gross and net borrowing with the Eurosystem; and (iii) TARGET 2 positions (*Trans-European Automated Real-time Gross settlement Express Transfer system*).

### The evolution of the financial accounts by euro area country

On the one hand, since the early 2000s and until 2007, economies like Greece, Portugal or Spain funded levels of current account deficit close to 10% of their GDP, mainly, through portfolio inflows (shares and other securities which account for capital, without the aim of controlling or influencing the management of a company; and fixed income, both public and private securities) and, to a lesser extent, via "other investment" positions (bank funding like deposits, loans and repos).

On the other hand, the persistent excess of savings in Germany or the broadly balanced external position of France, resulted in negative portfolio balances in both cases (these countries overtook investment outflows were greater than their investment inflows from the rest of the world) and in "other investment" too, in the case of Germany.

Exhibit 3

**Balance of payments of euro Area countries (% of GDP) (\*)**

\* FDI=Foreign direct investment.

Source: A.F.I., EUROSTAT.

Net sales of portfolio assets by the rest of the world in the peripheral economies in 2008 and afterwards (first led by bank securities and, since 2011, as a result of the stress in sovereign debt markets, by public debt), resulted in an increasing reliance on Eurosystem liquidity, strengthened by measures taken by the ECB during the crisis (see annex).

Nowadays, positive balances in “other investment” balances in Greece, Portugal, Ireland, Spain or Italy are reflecting the fact that Eurosystem loans account for an “other investment” liability. In countries under a programme of financial assistance (Greek rescue in May 2010; Irish and Portuguese bailouts in November 2010 and in May 2011, respectively), loans provided by the

IMF, EU/EMU or financial stability facilities (EFSF, ESM) are also classified as “other investment” in the financial account.

The other side of the coin would be found in the “other investment” balance in core economies, particularly Germany, which has been markedly negative since 2011. Their position as net lenders vis-à-vis the rest of the world and, more specifically, vis-à-vis the peripheral economies, in this sort of investment, is symptomatic of the excess of liquidity in core banking systems. Sales of peripheral assets and extreme risk aversion have benefited lower yield but also less risky assets, explaining the fact that core economies have received, also since 2011, strong net portfolio inflows (appetite for core government debt).

## Gross borrowing with the Eurosystem

The confirmation of uneven liquidity balances between the peripheral economies (strong deficit) and the core economies (with a broad surplus position) is reflected in borrowing levels with the Eurosystem. Through the reinforcement of temporary open market operations by the ECB (see annex), liquidity provision in the euro area rose from 400 billion euros in 2007 to 1.2 trillion in mid-2012 (July is the latest data available), after the two 3 year LTROs (*Long Term Refinancing Operations*), with liquidity in long term operations (more than three months) surpassing also one billion. The fact that a portion of the injected liquidity returns to the Eurosystem when it is placed in the marginal deposit facility (mainly, by core banking systems), puts net borrowing with the Eurosystem below one trillion (currently, 750 billion euros).

The capital key of each central bank in the Eurosystem is the main reference to measure the degree of dependence of each respective banking system to Eurosystem liquidity. Peripheral banking sectors, with capital keys between 1.5% in Ireland and 2.5% in Portugal, or

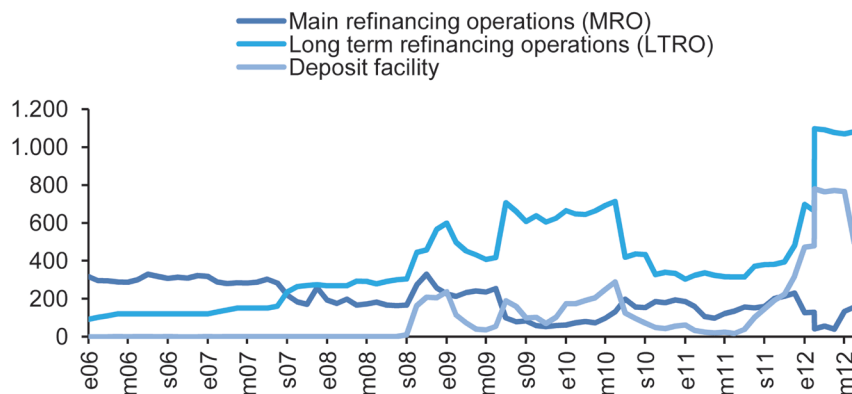
11.8% in Spain and 17.8% in Italy, are taking in more liquidity than expected regarding their capital keys. In July, only Spain and Italy accounted for 55% of total gross borrowing (the sum of their two capital keys is equal to 29.7%) and 88% of total net borrowing.

Recent reduction in the level of reliance by Greece is the result of constraints to access Eurosystem liquidity due to the shortage of collateral in the Greek banking system (not eligible in repo operations due to its low credit quality), and the replacement of the Eurosystem liquidity by the liquidity provided by the ELA (*Emergency Liquidity Assistance*) of the Central Bank of Greece, with more flexible standards in terms of eligible collateral for repo operations.

On the opposite side, the core countries have a participation in the Eurosystem's gross loans well below their capital keys (14% in France, compared to a capital key of 20.3%; 7% in Germany when its capital key is 27%), and a net lending in the Eurosystem very strongly reduced or even negative, as in Germany. Since early 2012, the German banking system has left, on average, 375,000 million in the marginal deposit facility.

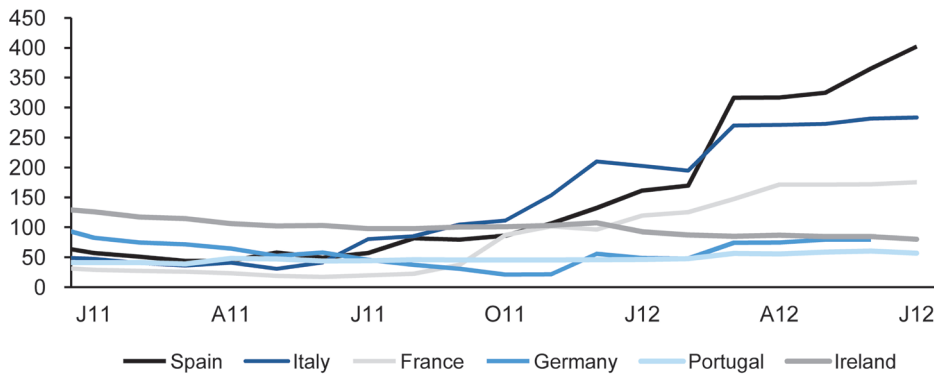
Exhibit 4

### Eurosystem balance: gross and net loans to euro area counterparties (billions of euros)



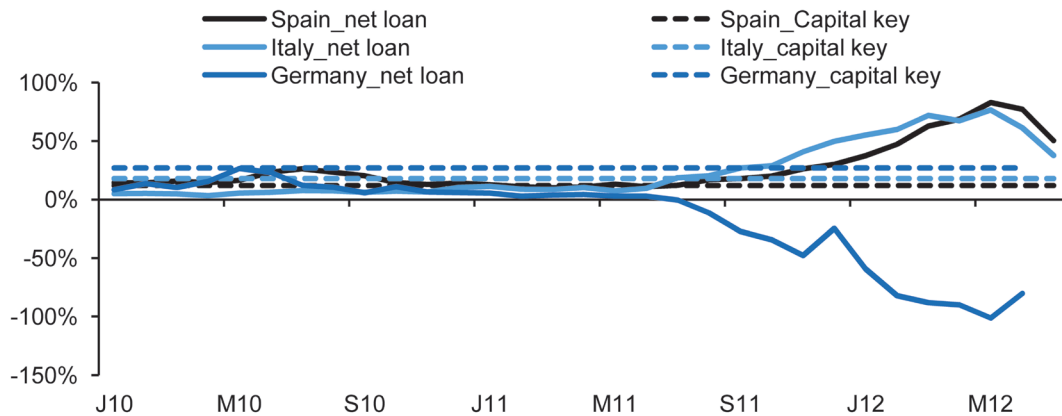
Source: A.F.I., ECB.

Exhibit 5

**Recourse to Eurosystem liquidity by euro area countries: gross loans (billions of euros)**

Source: A.F.I., NCB.

Exhibit 6

**Recourse to Eurosystem liquidity by euro area countries: net loans as % of total and respective to capital key**

Source: A.F.I., NCB.

**TARGET 2 positions**

Another way to analyze changes in the funding structure of euro area economies is to analyze swings in National Central Banks (NCBs) TARGET 2 positions since the beginning of the crisis.

TARGET 2 ("Trans-European Automated real-time Gross settlement Express Transfer System")

is used to denominate the system of payment and compensation of the European Economic Area (EEA), which includes the euro Area and near countries. Whether for buying a good or service or for the acquisition of a financial asset, if this implies an exchange of capital flows between countries of the EEA, TARGET2 is the tool which acts as the intermediary in the operation.

TARGET2 system implies necessarily intra-Eurosystem rights and claims (we assume, just to simplify, that the system only rules for euro area countries): NCBs can have rights, and thus a positive TARGET2 position (an asset in the balance sheet), or claims (a negative TARGET2, on the liability side of the balance), with the ECB as the counterparty of all of them. In a baseline scenario, TARGET2 positions of NCBs are balanced or close to equilibrium. When this happens, capital outflows in an economy are offset, approximately, by capital inflows. Otherwise (as we can observe since the start of the crisis) an imbalance arises, creating a positive position (in general, in NCBs of core economies) or negative (NCBs in the periphery) in NCBs balance sheets in terms of TARGET2.

With regard to the Spanish economy, monitoring the balance sheet of Banco de España (BoS)

offers a good overview of the changes in TARGET2 positions inside the Eurosystem.

Before the crisis, capital outflows related to current account deficit and the acquisition of assets in the rest of the world were offset by inflows to buy Spanish assets. In other words, there was a practical balance between assets and liabilities of the BoS in terms of TARGET2: the value of products and assets bought outside -a TARGET2 liability in the balance sheet of BoS- was similar to asset acquisitions by the rest of the world -a TARGET2 asset-.

As the crisis arises, the prior scheme is broken. Capital inflows abruptly fall while confidence in the national banking system erodes. Outflows are exacerbated in spite of a reduction in the current account deficit and the acquisition of external

Table 1  
**How TARGET 2 operations are registered?**

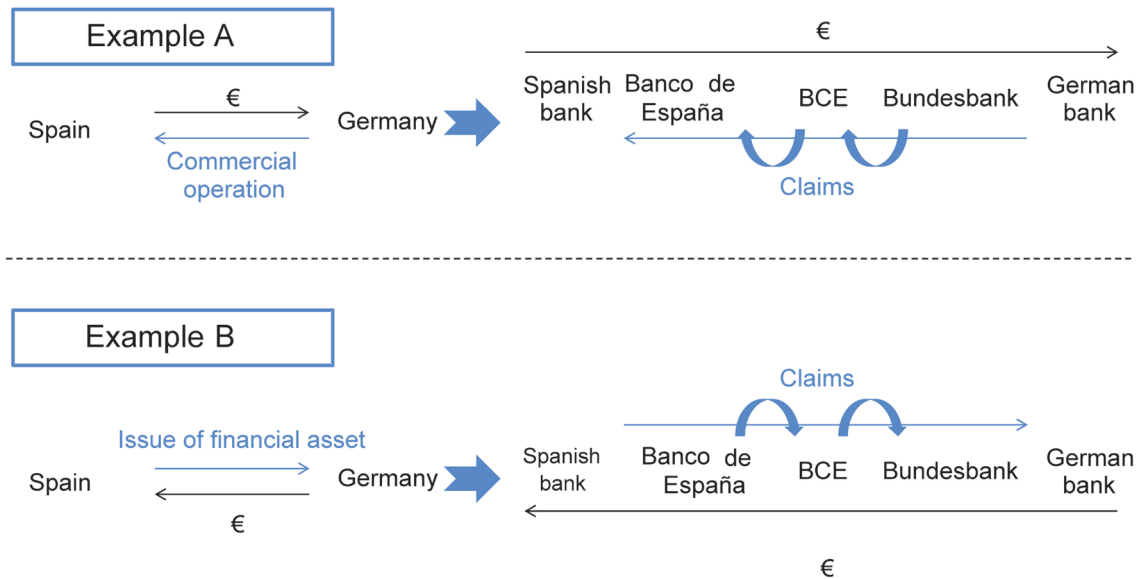
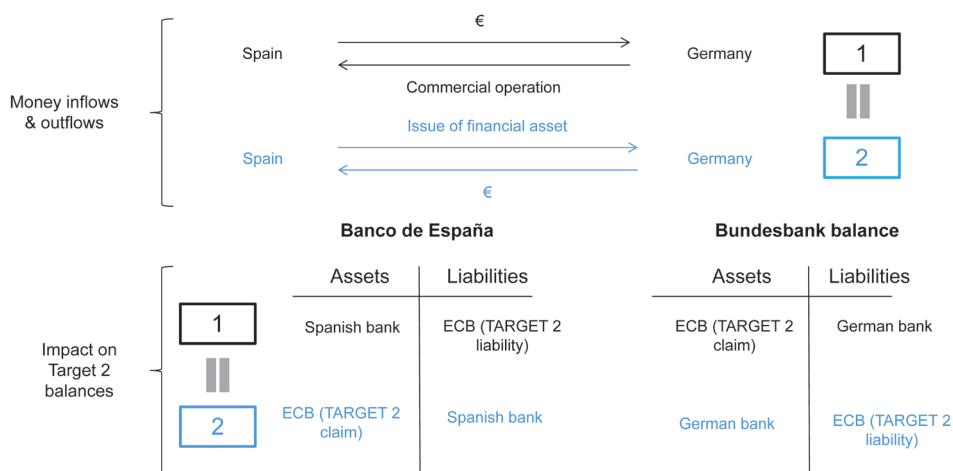


Table 2

**TARGET 2 balances. Example of Bank of Spain position. Before the crisis**

- Money outflows in the Spanish economy due to current account deficit and the acquisition of external assets were offset by money inflows destined to buy Spanish assets. So Banco de España TARGET 2 liabilities were covered by TARGET 2 assets, in balance.

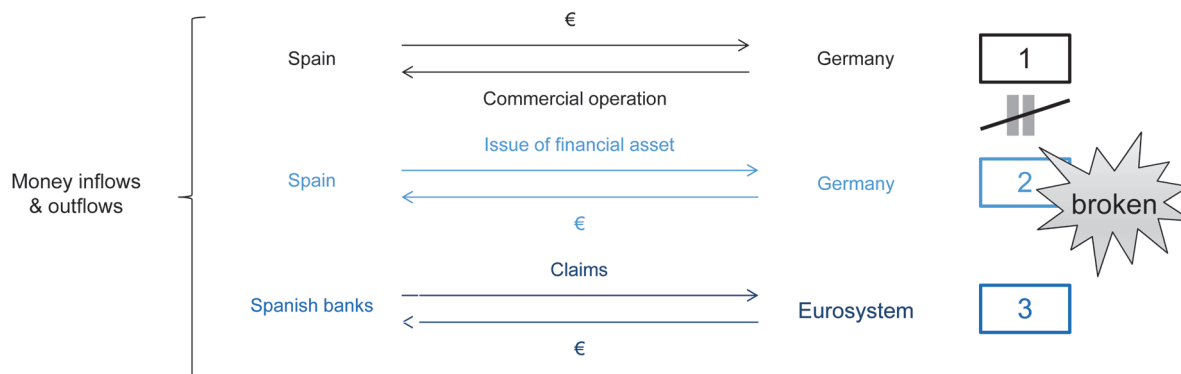


Source: Af.

Table 3

**TARGET 2 balances. Example of Bank of Spain position. After the crisis**

- The prior mechanism is broken. Private money inflows fall abruptly as confidence in the banking system is eroded. Money outflows exacerbate in spite of a reduction in current account deficit and acquisition of external assets due to the sell off in Spanish assets.
- As private liquidity dries up, Eurosystem liquidity comes into action.



Source: A.F.I.

assets as a result of the sell-off in Spanish assets by foreign investors. The shortage of private funding sources, and its progressive replacement by Eurosystem liquidity, is now one of the most idiosyncratic elements of the funding scheme for Spanish banks, with implications in the TARGET2 position of the BoS, markedly “negative” in this moment (TARGET2 liabilities higher than assets). On the other side is, the situation of NCBs in core economies, the Bundesbank among them, with very “positive” TARGET2 positions due to the excess of liquidity in their banking systems.

It is important to note that the creation of assets and liabilities vis-à-vis the ECB has no limits in the TARGET2 system. Otherwise, cross-border capital flows inside the euro Area would find a cap related to TARGET2 positions of NCBs, something contrary to the own logic of a monetary union.

## Conclusions

The specific point with regard to the current funding scheme in the euro area is not the financial position of the sum of all euro economies, but the individual positions of each one. Private capital outflows and the recourse to the liquidity of the Eurosystem are today the highlights that explain the composition of the financial account in the peripheral economies, while capital inflows and excess liquidity in the banking system explain, the structure of financial accounts in the core countries.

These imbalances recorded in financial accounts and recourse levels to ECB liquidity in each banking system are, jointly with other measures analysed here (TARGET2 positions of NCBs) and others not mentioned but also evident, such as, money supply transmission by countries, debt holdings by nationality in each banking system, or sovereign spreads, some of the signals that point to a financial fragmentation process inside the EMU, which is gaining momentum in recent months due to the pressure on Italian and specially Spanish sovereign bond markets.

Latest institutional decisions, however, are expected to reduce the convertibility premium (risk of fragmentation or break up of the euro area) pricing in peripheral assets. Calls for stronger action by the ECB generated a response at the last meeting of the Government Council (September 6<sup>th</sup>), which marked the outline of a new programme to buy public bonds, now unlimited but subject to macroeconomic conditionality. This conditionality arises from the need to require financial assistance (EFSF and the future ESM financial lines) and the respect of commitments by the beneficiary country in order to obtain ECB support.

There is still room to see a meaningful correction in the measures of fragmentation of the euro area. ECB institutional support and advances in the integration area are critical, but should be carried out together with internal developments in the economies with more imbalances.

Only then can we witness a reduction in private capital outflows in these economies and, eventually, once the role of financial stabilization is adopted by the ECB and the ability of sovereigns under pressure to comply with the reform agenda and fiscal consolidation is confirmed, a gradual return of flows. Ultimately, we may see a current account rebalancing among the Euro economies (in fact, this is something which is currently taking shape) and a rebalancing in the composition of financial accounts, where the liquidity of the Eurosystem as a source of funding becomes less significant.

## Annex. A summary of the most important monetary policy decisions in the euro area since 2010 (Greek bailout)

Exceptional measures have been taken by the ECB since the beginning of the euro crisis (2010: Greek bailout) with the aim of restoring the confidence in the financial system as a whole. We present here a summary of the most relevant, following a chronological order:

## 2010

May, 10<sup>th</sup>. The ECB decided to conduct interventions in the euro area public and private debt securities markets: activation of the SMP (Securities Markets Programme).

September and December meetings. The ECB extended its fixed rate tender procedures with full allotment.

## 2011

April, 7<sup>th</sup>. First repo hike: +25bp to 1.25%. Interest rate on both the marginal lending facility and the deposit facility were also increased by 25bp.

July, 7<sup>th</sup>. Another increase in official rates (+25bp).

August, 4<sup>th</sup>. The ECB announced the “reactivation” of the SMP to reduce financial stress in specific market areas. The Spanish and Italian sovereign debt markets, among them.

Additionally, the ECB decided to hold a liquidity-providing supplementary longer-term refinancing operation with a maturity of approximately six months as a fixed rate tender procedure with full allotment.

October 6<sup>th</sup>. Two more LTROs were announced: one with a maturity of approximately 12 months in October 2011, and another with a maturity of approximately 13 months in December 2011.

In addition, the ECB launched a new covered bond purchase programme in November 2011.

November 3<sup>th</sup>. The ECB cut official rates by 25bp. Repo rate: 1.25%.

December 8<sup>th</sup>. Another reduction in repo rates (-25bp). Further non-standard measures were adopted. Particularly: (i) two longer-term refinancing operations with a maturity of approximately three years; (ii) to increase the

availability of collateral; and (iii) to reduce the reserve ratio to 1%.

## 2012

July 5<sup>th</sup>. Official rates were reduced to historical lows. Repo rate, 0.75%; marginal deposit facility: 0.0%.

September 6<sup>th</sup>. ECB launched OMT (Outright Monetary Transactions), the Eurosystem's outright transactions in secondary sovereign bond markets that aim at safeguarding an appropriate monetary policy transmission and the singleness of the monetary policy.

# Effect of the July 2012 VAT reform on tax revenues

José Félix Sanz-Sanz<sup>1</sup> and Desiderio Romero-Jordán<sup>2</sup>

## Looking at the positive side of the VAT reform.

*The new VAT reform approved on July 13th and effective since September 1st, 2012 is a combination of tax rate increases and modification of the tax base. Spain's ratio of VAT revenue to GDP is the lowest in the EU-27 and the low effective VAT burden has been cited by the European Commission and the IMF as a reason to raise the amount collected. Assuming that the private sector's pattern of consumption remains unchanged, it is expected that the total impact of the reform would be annual tax revenues over 6.5 billion euros. In addition, contrary to widespread perception, the approved VAT increase is not particularly regressive in distributive terms.*

## Introduction

The latest data from Eurostat show Spain's ratio of VAT revenue to GDP to be the lowest in the EU-27. Specifically, in 2010 it stood at 5.5%, slightly below Luxembourg's 6.1%, Italy's 6.2%, Ireland's 6.4% and the United Kingdom's 6.6% and a long way below the level of 7.0% in France, 7.8% in Portugal, 9.2% in Belgium, 9.8% in Sweden and 9.9% in Denmark. Spain's low effective VAT burden has been cited repeatedly by the European Commission (EC) and the International Monetary Fund (IMF) as a reason to raise the amount of VAT collected. Depending on the institution, the tax collection gains produced may either be used to reduce the Spanish government's excessive deficit or to produce a fiscal devaluation by financing a reduction in social

charges associated with labour inputs. However, both proposals come up against the difficulty that just over six months ago the government decided to increase marginal income tax rates. Unless

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*The latest data from Eurostat show Spain's ratio of VAT revenue to GDP to be the lowest in the EU-27.*

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the sharp rise in marginal income tax rates is revised first, the scope for the desired increase in the VAT tax burden is somewhat limited. Indeed, VAT revenues fell during the first quarter of 2012 by 7.2%, largely a result of the economic crisis and

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the rise in marginal income tax rates announced in December 2011<sup>3</sup>.

What, a priori, were the options available to the Spanish government to increase VAT revenues? Apart from curbing fraud, the government basically had two non-exclusive alternatives: (i) raising tax rates and/or (ii) modifying the tax base, i.e. redefining the groups of goods taxed at the super-reduced (4%), reduced (8%) and standard (18%) rates. This latter option could have brought with it a reduction in the number of tax rates: from the three rates today, to two –as in the United Kingdom, Germany, the Netherlands, Slovenia, Slovakia, Latvia, Estonia and Bulgaria– or just one, as is the case in Denmark<sup>4</sup>. In the end, the reform introduced by Decree-Law 20/2012, July 13<sup>th</sup> 2012, has opted for a combination of both. Thus, the reduced rate has been increased from

8% to 10% (2 percentage points) and the standard rate has risen from 18% to 21% (three percentage points). As Table 1 shows, some goods previously taxed at 8% are now eligible to be taxed at the 21% rate. The reform has left the super-reduced rate unchanged, however. The new structure of rates following the reform is similar to that in Italy, at least as far as the level is concerned.

The purpose of this note is to shed some light on the effects on tax revenues of the VAT increase that will come into effect on September 1<sup>st</sup> 2012. The calculations given have been produced by the Fundación de las Cajas de Ahorros indirect tax simulator (FUNCASindi), developed by the FUNCAS Tax Studies Department. This tool enables the impact of indirect taxation reforms to be estimated by incorporating their effects into the algorithm by which households' consumption decisions are calculated.

Table 1

### Changes in the tax rates introduced by the reform

Super-reduced rate 4%	Reduced rate 10%	Standard rate 21%
Bread, milk, eggs, fresh fruit and vegetables, books, newspapers, medicines for human use, cars for the disabled, prostheses for the disabled.	Meat, fish, processed foods, water, medicines for animal use, public transport, hospitality (bars, restaurants, hotels), glasses and contact lenses.	Other goods. For example, alcoholic drinks, tobacco, clothing and footwear, private transport (cars, motorcycles, etc.), fuel, electricity, etc.
New housing	Rehabilitation of homes	Tickets for the theatre, circus, cinema and other shows, digital television services, hairdressers, funeral services, flowers and plants, works of art.
Until December 31 <sup>st</sup> 2012, after when they will be taxed at 10%.	Until December 31 <sup>st</sup> 2013, after when it will be taxed at 21%.	Before the reform the reduced rate applied.

<sup>3</sup> The time sequence in which individuals make their economic decisions needs to be borne in mind: before deciding whether to spend or save, they first have to produce their income; thus, a change in the income tax rate inevitably has an impact on the revenues collected in the form of indirect taxes. Specifically, we estimate the elasticity of indirect tax revenues vis-à-vis a changes in disposable income (net of income tax) to be 0.70. Using this elasticity, and taking into account that the increase in marginal income tax rates will reduce households' net income by 1.83% in 2012, the increase in marginal rates passed in December will induce a drop in indirect tax revenues in 2012 of 430 million euros.

<sup>4</sup> A recent analysis of the impact of these measures can be found in Sanz and Romero (2012).

This is due to the fact that changes in relative prices of goods and services consumed modify the composition of the consumer basket. Failure to take economic agents' behaviour into account would skew the results of estimates of the tax-raising impact of this type of reform. Precisely to capture these behaviour changes, FUNCASindi estimates a matrix of price and income elasticities using microdata from the Household Budget Survey for 1998 to 2010. This elasticity matrix was estimated by modelling consumption decisions using the well-known AIDS (Almost Ideal Demand System) model proposed by Deaton and Muellbauer in the eighties. These elasticities have been used to perform the simulation, taking the changes in the fiscal parameters into account. It should be noted that FUNCASindi is primarily a tool for analysing the effects of VAT reform on the household sector. Nevertheless, we made a global estimate of this tax change assuming that private consumption by households accounts for approximately 75% of total transactions subject to VAT.

Section 2 analyses the impact of the reform on tax revenues. Section 3 evaluates the impact of the reform in terms of progressiveness and redistributive capacity.

## Overall effect of the reform on tax revenues

Table 2 summarises the expected impact of the July 2012 VAT reform on tax collection. As regards the effect on households, the results show that the VAT reform will increase tax revenues by 14.387%, equivalent to 5,329.8 million euros a year. As mentioned, changes in relative prices of goods change households' consumption decisions, leading them to consume more of certain goods and less of others. For this reason, the reform will have a negative impact on excise duties, from revenues, which will drop by 319.3 million euros a year (-2.243%). Adding the two amounts yields the result that the VAT reform will generate increased tax revenues from household consumption of 5,010.5 million euros a year. To

Table 2

### Effects of the VAT reform on tax revenues

Scenario in 2012		Simulation of the VAT reform passed in July 2012**
Reform		Δ 2 points in rate R + Δ 3 points in rate N
Resulting rate	SR: 4%	SR: 4%
Structure	R : 8%	R : 10%
	N : 18%	N : 21%
Δ annual tax revenues (%)		
VAT -households	-----	14.387%
Excises -households	-----	-2.243%
Δ annual tax revenues (millions of euros)*		
VAT -households	-----	5,329.8
Excises -households	-----	-319.3
	-----	5,010.5
Total for all sectors	-----	6,680.7

(SR): super-reduced, (R): reduced, (N): standard. (\*) Assuming VAT and excise revenues produced by households account for 75% of the total. (\*\*) Calculations made taking the revenues at the end of 2011 as the reference.

quantify the overall impact of these figures on tax revenues, we need to add the tax collected from other economic agents, i.e. the public sector, and public and private businesses. Assuming

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*Assuming that the private sector's patterns of consumption remain unchanged, the total expected impact of the reform would be annual tax revenues of 6,680.7 million euros.*

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that the latter's pattern of consumption remains unchanged, the total expected impact of the reform would be annual tax revenues of 6,680.7 million euros. As explained in the introduction, these figures have been calculated so as to take into account the fact that the composition of household consumption responds to changes in relative prices of goods and income levels. If it were not for this change in behaviour, the total revenue would be 7,445.6 million euros (5,584.2 million euros from households). In other words, failing to take into account the way household consumption responds to changes in relative prices induced by the VAT increase leads to an overestimation of the tax revenues by 845 million euros, which is probably what has happened to some of the recently published official figures. Additionally, the final tax revenue figures could even be slightly lower, if over the course of the year there are significant changes in the variables affecting consumers' disposable income, such as average salaries, the unemployment rate, savings rates, economic expectations, and, of course, the prevalence of tax fraud.

### **Impact on households' tax bill according to economic capacity**

Table 3 shows the impact of the reform broken down by levels of spending. The calculations refer only to the households sector. Columns (1) and (2) list the average revenues obtained from households in each level of expenditure. Column (3)

shows the average impact of the reform in euros per home in the decile concerned. Note that the results are presented in terms of income deciles. The impact of the measures passed on households with greater economic capacity, i.e. the right-hand tail of the distribution, is also examined in more detail. Finally, column (4) quantifies the variation in tax revenues in percentage terms. On average, the reform will generate a total increase in indirect taxes of 356.8 euros per household a year, equivalent to a percentage increase of 10.13%. In terms of economic capacity, the impact of the

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*The approved tax increase, in conjunction with the way spending in Spain is distributed, is such that the tax increase is approximately proportional. In other words, contrary to the widespread perception, the approved VAT increase is not particularly regressive in distributive terms.*

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reform on households in the first decile is 94.9 euros per household/year. It can be seen that as we move up the income/expenditure distribution, the tax increase rises to an average of 866.4 euros per household/year in the tenth decile. The table also shows the effects of the reform on the ten last percentiles (households with the greatest economic capacity). Thus, in percentile 91 the increase in taxes is 672.6 euros, whereas in percentile 100 it is almost twice that, at 1370.9 euros. One point worth highlighting is that, in percentage terms, the tax burden increases by between 9.77% in the third decile and 10.60% in the tenth decile. It can therefore be said that the approved tax increase, in conjunction with the way spending in Spain is distributed, is such that the tax increase is approximately proportional. In other words, contrary to the widespread perception, the approved VAT increase is not particularly regressive in distributive terms.

Table 3

**Effect on households. Expanded tax-revenue impact by expenditure deciles (VAT + Excise duties)**

Decile	Tax revenues Pre-reform scenario Euros household/year (1)	Tax revenues Post-reform scenario Euros household/year (2)	Change in absolute terms Euros household/year(3)	Percentage change (%) (%) (4)
Decile 1	900.4	995.3	94.9	10.54
Decile 2	1,509.8	1,660.7	150.9	9.99
Decile 3	1,991.8	2,186.3	194.5	9.77
Decile 4	2,405.8	2,641.7	235.9	9.81
Decile 5	2,843.7	3,122.3	278.6	9.80
Decile 6	3,343.4	3,671.1	327.7	9.80
Decile 7	3,892.5	4,277.2	384.7	9.88
Decile 8	4,558.0	5,017.2	459.2	10.08
Decile 9	5,603.5	6,179.0	575.5	10.27
Decile 10	8,170.3	9,036.7	866.4	10.60
Percentile 91	6,516.9	7,189.4	672.6	10.32
Percentile 92	6,731.9	7,438.6	706.7	10.50
Percentile 93	6,927.7	7,653.5	725.7	10.48
Percentile 94	7,190.2	7,937.1	747.0	10.39
Percentile 95	7,347.8	8,130.8	783.0	10.66
Percentile 96	7,873.9	8,707.7	833.9	10.59
Percentile 97	8,251.9	9,126.9	875.0	10.60
Percentile 98	8,775.5	9,714.5	938.9	10.70
Percentile 99	9,463.0	10,474.3	1,011.2	10.69
Percentile 100	12,633.7	14,004.6	1,370.8	10.85
Total	3,521.8	3,878.6	356.8	10.13

# 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 the restructuring and resolution of credit institutions (RD-L 24/2012, published in the BOE on August 31<sup>st</sup>, 2012)

This Royal Decree/Law's primary objective is to provide regulations governing early action, restructuring and resolution of credit institutions. It also seeks to establish the legal and operating frameworks for the Fund for Orderly Bank Restructuring (FROB), so it can safeguard the stability of the financial system while minimising the recourse to public funds.

■ **New crisis management framework.** The Royal-Decree/Law establishes various procedures for action in the case of credit institutions in difficulties, depending on their ability to fulfil requirements of solvency, liquidity, organisational structure and internal control.

- a) **Early action.** Envisaged for those cases in which a credit institution fails to comply with the requirements of solvency, liquidity, organisational structure and internal control, or there are objective signs making it reasonably foreseeable that it may do so, but where the institution is in a position to return to compliance by its own means.
- b) **Restructuring.** A credit institution will be restructured when it requires public

financial aid to ensure its viability, and there are objective signs making it reasonably foreseeable that this aid will be repaid or recovered within the planned timeframe. Restructuring may also be envisaged when the entity's resolution might seriously harm the stability of the financial system.

- c) **Resolution.** This procedure is applicable to a credit institution when it has ceased to be viable, or it is foreseeable that this will happen in the near future, and for reasons of the public interest and financial stability, it is necessary to avoid bankruptcy proceedings.

■ **Restructuring and resolution mechanisms.** The Royal-Decree/Law provides for the following mechanisms:

- a) **Financial aid** The FROB may provide financial support in one or more of the following ways:
  - a) Giving guarantees.
  - b) Granting loans or credit.
  - c) Acquiring assets or liabilities, whether retaining control over them or entrusting their management to a third party.

d) Recapitalisation using recapitalisation instruments.

**b) Recapitalisation instruments.** The FROB may subscribe or purchase instruments of the following types, issued by institutions requiring financial aid:

a) Ordinary shares or contributions to share capital.

b) Instruments convertible into those mentioned in point a). The subscription or acquisition will take place in accordance with the principles and criteria the FROB may establish for this purpose, following a report from the Bank of Spain.

**c) Specific resolution mechanisms.** The resolution mechanisms available are:

a) Sale of the institution's business.

b) The transfer of ownership of assets and liabilities to a "bridge bank" for subsequent sale, or the sale of assets and liabilities, when circumstances allow, within a maximum period of five years.

c) Transfer of ownership of assets and liabilities to an asset management entity.

d) When necessary in order to facilitate implementation of the foregoing instruments, financial support may be given to the purchasers of the business, the bridge bank or the asset management company.

■ **Asset management companies.** Within three months of the entry into force of the Royal-Decree/Law, the FROB will establish an asset management company, with the

name "*Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.*", to purchase assets in those institutions the FROB sees fit.

The FROB may, acting by virtue of its administrative powers, oblige the credit institution to transfer certain types of particularly impaired assets that would jeopardise the institution's viability if they remained on its balance sheet, to an asset management company. This will be reviewed regularly so as to remove impaired assets and enable the independent management of their disposal. The Bank of Spain shall specify which assets may be transferred in the case of each institution.

This transfer of ownership will be obligatory in the case of credit institutions of which the FROB is the majority shareholder when this Royal-Decree/Law comes into force, or which in the opinion of the Bank of Spain, following an independent evaluation of the capital requirements and quality of current assets, will require the initiation of a process of restructuring or resolution.

■ **Legal framework of the FROB.** The RD/L defines the new framework for the FROB under which it will have the task of managing the processes of restructuring and resolution of credit institutions.

■ **Management of hybrid capital instruments and subordinate debt.** Two types of measures for the management of hybrid instruments are envisaged. Firstly, measures of a voluntary nature that institutions are to include in their restructuring and resolution plans, which will be adopted voluntarily by investors. Secondly, measures that may be imposed by the FROB and which will be binding for both the institution and holders of the securities.

a) **Management by institutions of hybrid capital instruments and subordinate debt.** Restructuring and resolution plans must include management of hybrid capital instruments and subordinate debt issued by the credit institutions to which these plans correspond, in order to ensure that the costs of consolidation or restructuring the institution are distributed between the public and private sectors appropriately.

b) **Management by the FROB of hybrid capital instruments and subordinate debt.** The FROB will decide which issues or items of hybrid capital and subordinated debt instruments are within the scope of application of the management action. The management actions taken will be one or more of the following:

- a) The postponement, suspension, elimination or modification of certain rights, obligations, terms and conditions from some or all of the institution's issues of hybrid capital or subordinated debt instruments.
- b) The institution's obligation to repurchase the securities affected at the price decided by the FROB.
- c) Any other action that the affected credit institution may have conducted through a hybrid capital instrument and subordinated debt management action.

■ **Strengthening credit institutions' solvency.** As of January 1<sup>st</sup>, 2013, credit institutions and consolidated groups of credit institutions taking reimbursable funds from the public must have core capital of at least 9% of their total risk-weighted exposures.

■ **Measures regarding the marketing of certain financial instruments.** The following requirements must be met whenever preference shares, convertible debt instruments, or subordinate finance that may be computed as equity pursuant to the regulations on the solvency of credit institutions are marketed to or placed with retail customers or investors:

- a) The issue must include a tranche of at least 50% of the total issue aimed solely at professional investors or customers. The total number of these investors may not be less than fifty, and customers may not renounce their treatment as retail customers.
- b) In the case of issues of preference shares or convertible debt instruments by institutions that are not listed on the stock market, the minimum nominal unit value of the securities will be 100,000 euros. In the case of other issues, the minimum nominal unit value will be 25,000 euros.

Law 24/1988, July 28<sup>th</sup>, 1988, on the Securities Market, has also been amended to add new investor protection mechanisms in the case of the marketing of certain products.

**Royal Decree approving the implementing regulations for the Law on Collective Investment Undertakings (Royal Decree 1082/2012, published in the state official gazette (BOE) on July 20<sup>th</sup>, 2012)**

The new implementing regulation for Law 35/2003, November 4<sup>th</sup>, 2003, on Collective Investment Undertakings, repeals the previous regulation enacted by Royal Decree 1309/2005, November 4<sup>th</sup>, 2005, and introduces the following new features:

- **Expansion and facilitation of cross-border business.** Harmonised rules have been introduced for cross-border mergers between collective investment undertakings (CIUs). The formalities with the competent authorities have been simplified and the time taken to obtain a “passport” to market these products has been shortened.
- **European management company passport.** The rules intended to ensure that the passport for collective investment undertaking management companies (CIUMCs) operates correctly have been transposed into Spanish law.
- **Risk management, conflicts of interest and equity capital.** CIUMCs are obliged to specify the criteria they use to evaluate the adequacy and proportionality of their risk management policy in light of the nature, scale and complexity of their activities and the CIUs they manage. The rules applicable to managing conflicts of interest in CIUMCs are also set out, and CIUMCs’ equity capital requirements have been reduced.
- **Investor protection.** The mandatory information investors are to be given has been expanded and new items added to the content of the brochure. A series of aspects of the “Key Investor Information” document have been set out and the previous brochure format replaced.
- **Other amendments.** A number of other points have also been introduced: the obligation to send the investment fund position statement to the CIUMC; a share/unit deposit and administration fee, authorising marketers to charge when they use omnibus accounts; and, the establishment of a register of management or sub-management entities.

Royal Decree 1082/2012 came into force the day following its publication in the BOE, although

a number of transitional arrangements are envisaged and time is allowed for adaptation depending on the type of CIU.

### **National Securities Market Commission (CNMV) Circular amending Circular 6/2010, Circular 4/2008 and Circular 3/2006 (published in the BOE on August 4<sup>th</sup>, 2012)**

- This circular amends three different regulations: Circular 6/2010, December 21<sup>st</sup>, 2010, on transactions involving derivative instruments and other operational aspects of CIUs; Circular 4/2008, September 11<sup>th</sup>, 2008, on the content of quarterly, semi-annual and annual reports by CIUs and the statement of position, and Circular 3/2006, October 26<sup>th</sup>, 2006, on CIUs’ information brochures.
- In the case of Circular 6/2010, the amendments have been made with the following aims:
  - To incorporate the ESMA “*Guidelines on risk measurement and the calculation of global exposure for certain types of structured UCITS,*” defining additional criteria for the application of the compromise methodology to the cited institutions.
  - Adapt and update the regulatory framework to new market requirements and circumstances and the nature of certain CIUs.
  - Introduce modifications in counterparty solvency analysis and regarding eligibility, determination and reinvestment of security or collateral received in CIU operations (both derivatives and temporary acquisitions, simultaneous, securities lending, etc.) required at the European level with the approval of the “Guidelines on ETF and other UCITS issues.”

- Define the cases where certain non-compliances affecting funds with the aim of obtaining a profit may be maintained, when resolving the non-compliance would be detrimental to profitability, and establishing actions in these cases to protect investors.
  - In relation to Circular 4/2008, the modification of the content of the quarterly, semi-annual and annual reports and position statement of CIUs is proposed, such that the annual reports of CIUs and CIUMCs, which includes the annual accounts, management report and audit report, is submitted to the CNMV, via its electronic register, using the CIFRADOC service.
  - Lastly, Circular 3/2006 has been amended to give managers the capacity to adapt quickly to market conditions in response to changes in credit ratings.
- Order regarding remuneration in institutions receiving financial aid for their restructuring or consolidation (Order ECC/1762/2012, published in the BOE on August 8<sup>th</sup>, 2012).**
- This Order aims to set out the rules for compensation, defining the upper limits on the remuneration and compensation payable to directors and executives of credit institutions that are majority owned by the Fund for Orderly Bank Restructuring (FROB), have received aid from the Fund, or are due to apply for aid, for their restructuring or consolidation.
- The compensation limits applicable as of the 2012 financial year until restructuring is complete differ according to the type of aid received, with a difference according to whether the FROB has acquired a majority shareholding in the institution or not:
- **Limits in the case of institutions majority owned by the FROB:**
    - Non-executive members of collective management bodies may not receive gross annual compensation of more than 50,000 euros, and executive chairmen, chief executives, and other executives may not receive more than 300,000 euros.
    - The above will not be entitled to variable compensation while the FROB remains a majority shareholder.
  - **Limits in the case of institutions receiving financial support from the FROB:**
    - Non-executive members of collective management bodies may not receive gross annual compensation of more than 100,000 euros, and executive chairmen, chief executives, and other executives may not receive more than 600,000 euros.
    - The annual variable compensation for executives and directors may not exceed 60% of the annual gross fixed compensation, although it may reach 100%, with the Bank of Spain's approval, if the executives concerned are contracted subsequent to or at the same time as financial aid is received from the FROB.
- The Order also provides that executives' and directors' contracts or agreements may not include severance compensation clauses for amounts exceeding the lesser of the following:
- a) twice the maximum basic amount resulting from Article 5.3.a) rule 3 or 4, as applicable, of RD-I 2/2012 (i.e. 300,000 euros in the case of institutions majority-owned by the FROB or 500,000 euros in the case of institutions that, while not majority owned by the FROB are receiving financial aid); or

- b) two years of the stipulated fixed compensation.

Specific rules are provided for the case of institutions in the process of integration and divestment:

- **Integration processes:** executives and directors who do not form part of the majority-owned or FROB-supported institution or the institution giving rise to this shareholding or support will not be affected by the limits set out in this Order.

In the case of executives and directors from the institution requiring financial support, or giving rise to the need for support, the Minister of Economy and Competitiveness, upon receiving a proposal from the Bank of Spain, may modify the criteria and limits set in this Ministerial Order and Royal-Decree/Law 2/2012.

- **Divestment processes:** When the FROB's financial support accompanies a competitive divestment process, the Minister of Economy and Competitiveness, upon receiving a proposal from the Bank of Spain, may relax the limits on the executives and directors due to be employed by the divested institution or exempt them from these limits.

The Order came into force on August 9<sup>th</sup>, 2012, the day following its publication in the BOE.

**Circular on banking-service transparency and responsible lending (Bank of Spain Circular 5/2012, June 27<sup>th</sup>, 2012, to credit institutions and payment service providers, on banking-service transparency and responsible lending, published in the BOE on July 6<sup>th</sup>, 2012).**

This Circular has its origins in Law 2/2011, March 4<sup>th</sup>, 2011, on the Sustainable Economy, implemented by the Ministry of Finance Order

EHA/2899/201, October 28<sup>th</sup>, 2011, on banking service transparency and customer protection.

The main new features are:

- **Scope.** The Circular applies to banking services aimed at private individuals or provided to them in Spain by Spanish credit institutions and branches in Spain of foreign credit institutions. However, it is envisaged that when customers are dealing with banks as part of their business, the parties may agree that some or all of the terms of the Circular will not apply, although there are exceptions to this.
- **General public information.** Institutions must provide the public with: interest rates usually applied to the most common banking services, the most common fees, and the current declarations of preferential rate, and the guidance rate for other lending operations.
- **Precontractual information.** The precontractual information institutions must provide free of charge to customers is to be set out in detail for each type of service and product. This information must be clear, sufficient and objective.
- **Contractual and post-contractual information.** There is an obligation to supply the contractual document to customers even if they do not ask for it. The standard forms of interest payments and fees are updated and a standard annual summary of fees and interest established.

The Circular will come into general effect on October 7<sup>th</sup>, 2012, although certain qualifications are foreseen, and some of the new obligations are due to be phased in later.

# Spanish economic forecasts panel: July 2012<sup>1</sup>

## FUNCAS Economic Trends and Statistics Department

### Growth forecasts for 2012 remain at -1.7%

The indicators suggest that the sharp drop in activity at the start of the second quarter of 2012 may have softened in June. The fall in GDP over the period as a whole has therefore been less severe than anticipated. According to Bank of Spain estimates, the result was -0.4%, although the consensus forecast for this quarter has barely changed, at -0.6%. However, the forecasts for the third and fourth quarters have worsened, with a quarterly drop of 0.1% in both cases (Table 2).

The consensus forecast for GDP growth over 2012 as a whole remains -1.7%, with almost no changes in its composition. The contribution of national demand to growth continues to be -4.3 pp and that of the external sector 2.6 pp.

### The forecast for 2013 has been cut to -1.1%

By contrast, the average or consensus forecast for 2013 has been cut by five tenths to -1.1%. This revision is due to a bigger drop in domestic demand components, whose contribution to GDP growth has been cut by seven tenths, to -3.1 pp. The expected contribution of the external sector has improved by two tenths of a percent to 2.0 pp.

<sup>1</sup> The Spanish Economic Forecasts Panel is a survey run by FUNCAS, which consults the 18 analysis departments listed in Table 1. It has been run since 1999 and is published bimonthly in the first half of February, April, June, October and December and the second half of July. The survey responses are used to produce a "consensus" forecast, which is calculated as the arithmetic mean of the 18 individual responses.

It is anticipated that GDP will continue to shrink in the first quarter of the year.

### The slowdown in industrial activity has worsened

Indicators such as the industrial production index, the turnover index or the PMI all point to a sharp slowdown in industrial activity in April and May. The drop in employment in the sector as a whole in the second quarter, according to the figures for social security registrations, has been similar to that in the previous quarter, and in both cases, these are the highest figures since the end of 2009.

The consensus forecasts for 2012 and 2013 for the industrial production index have again worsened, dropping to -5.0% and -2.1%, respectively.

### The VAT increase has pushed up the inflation forecast for December of this year

In the first six months of the year, the inflation rate stood at around 2%. The underlying inflation rate had been low, but in June it rebounded to 1.3% as a result of the increase in the tobacco price.

The decision to raise VAT as of September 1<sup>st</sup> of this year is probably the main reason why the forecast year-on-year rate for December this year has risen by three tenths of a percent to 2.1% (Table 3), and the annual average to 2.0%. The

year-on-year rate for December, estimated for 2013, remains at 1.5%, while the annual average for this year has increased by two tenths to 1.7%.

## **The outlook for jobs has worsened**

The drop in employment in April and May, according to social security registration figures, was as severe as in the preceding months, softening somewhat in June. The consensus forecast for the variation in employment this year stood at -3.6%, and that for the coming year has worsened to -2.0%. The forecasts for the unemployment rate have risen to 24.4%, and 25.2%, respectively.

The estimates for GDP growth, employment and wages yield an implicit consensus forecast for productivity growth and unit labour costs: Productivity is set to rise by 2.0% this year and 0.9% the next, whereas ULC is expected to fall by 2.0% and 0.7%, respectively.

## **The external deficit adjustment will continue**

The trade gap between January and April was 58.7% lower than in the same period the previous year, although this improvement was partly offset by the increase in the deficit on the income and transfers account, such that the negative current account balance shrank by 18.7%.

The forecast for this variable was -1.7% of GDP this year –as in the case of the Panel in June– whereas that for 2013 has been modified to a balance of -0.2%, from -0.5% in the previous panel forecast, consistent with the more negative outlook for national demand.

## **The government deficit is forecast to be 4.0% in 2013**

Following the changes to the government deficit targets in 2012 and 2013, the consensus forecast

for this variable is 6.3% and 4.0% of GDP, respectively, for this year and next, compared with 5.9% and 3.8% in the June survey.

## **The European context is clearly unfavourable**

All the signs are that GDP growth in the euro area was negative in the second quarter of the year, and that, in a context of a worsening debt crisis, the outlook for the year as a whole remains bleak. There is near unanimity among the panellists about the unfavourable EU economic context. Moreover, there has been a drop in the number of panellist who think that the situation is going to improve over the course of the next few months.

As regards the situation outside the EU, the recovery in the United States seems solid, and the property market indicators have begun to bounce back. However, moderate growth, at below the potential rate, is still expected. Growth in emerging economies has slowed considerably, particularly in China, which posted growth of 7.6% in the second quarter. Thus the assessment remains virtually unchanged: the situation outside the EU is considered neutral and is set to remain so over the coming months. However, there are ever fewer panellists who think that the situation is going to improve in the immediate future.

## **No further increase in the interest rates on government debt are expected**

The downward trend in short-term interest rates has steepened in recent weeks after forecasts of a rate cut by the European Central Bank were confirmed. The level is deemed appropriate for the economy's conditions, and the majority view is that it will remain at current levels.

Spanish government debt has come under mounting pressure, with the risk premium rising to over 600 points. There are no changes in the

assessment of long-term interest rates: most panellists believe that rates are too high for the state of Spain's economy, but despite recent increases, they are not generally expected to rise further.

### The euro is overvalued

The renewed tensions caused by the European debt crisis have prolonged the euro's slide begun in May, leaving it at a value of 1.21 dollars. Nevertheless, the panellists' majority opinion is that it is still overvalued, and panellists who expect a further drop continue to outnumber those who do not.

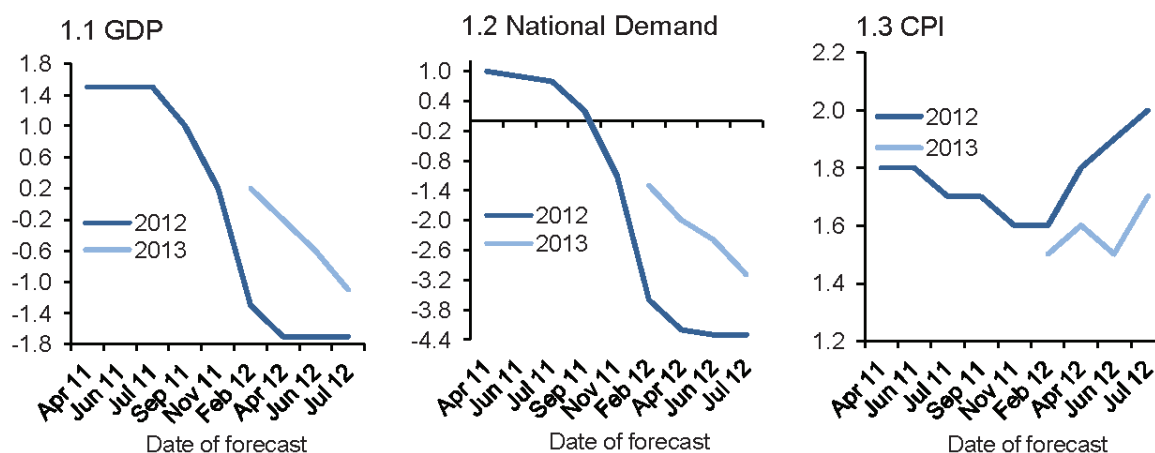
### Expansionary monetary policy is warranted

There has been no change in opinions on fiscal policy, which continues to be unanimously viewed as restrictive, which is considered the right approach. The ECB's recent rate cut has led to a shift in opinions that monetary policy is neutral towards a view that it is expansionary. The unanimous view is that this course should be maintained.

Exhibit 1

#### Change in forecasts (Consensus values)

Percentage annual change



Source: FUNCAS forecasts panel.

Table 1

# Economic Forecasts for Spain – July 2012

Annual change (percentage) unless stated otherwise

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery capital goods		GFCF Construction		National demand	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Analistas Financieros Internacionales (AFI)	-2.0	-1.7	-2.0	-1.5	-10.6	-9.6	-9.1	-3.1	-7.5	-1.8	-10.4	-3.7	-5.3	-3.4
Banco Bilbao Vizcaya Argentaria (BBVA)	-1.3	0.6	-2.0	-0.9	-8.0	-5.6	-7.4	-1.0	-4.6	-2.8	-9.2	-3.2	-4.5	-1.8
Bankia	-1.5	-0.8	-2.2	-2.1	-5.7	-4.4	-8.0	-1.7	-6.1	-0.5	-9.7	-2.7	-4.1	-2.4
CatalunyaCaixa	-1.9	-1.4	-1.5	-1.4	-7.5	-7.2	-8.7	-2.9	-8.0	1.5	-10.0	-5.4	-4.0	-3.4
Cemex	-2.1	-2.3	-1.9	-2.6	-4.6	-4.0	-12.0	-8.4	-10.0	-6.0	-14.0	-11.0	-4.7	-4.1
Centro de Estudios Economía de Madrid (CEEM-URJC)	-1.9	-1.4	-1.7	-2.5	-7.8	-5.2	-8.2	-5.2	-7.5	-2.4	-8.6	-6.8	-4.4	-3.5
Centro de Predicción Económica (CEPREDE-UAM)	-1.1	-0.5	-1.5	0.1	-8.6	-8.0	-10.2	-4.1	-7.2	-2.9	-12.1	-5.1	-5.0	-2.5
CEOE	-1.6	-0.6	-1.1	-0.8	-7.8	-6.7	-8.3	-3.3	-5.0	0.4	-10.7	-5.3	-3.8	-2.3
ESADE	-1.9	--	-1.6	--	-6.7	--	-1.3	--	--	--	--	--	-2.6	--
Fundación Cajas de Ahorros (FUNCAS)	-1.7	-1.5	-1.8	-2.6	-6.4	-7.2	-9.4	-6.4	-6.7	-3.1	-11.7	-8.5	-4.3	-4.4
Instituto Complutense de Análisis Económico (ICAE-UCM)	-1.5	-0.9	-1.8	-1.0	-6.8	-5.2	-9.3	-4.4	-6.8	-2.4	-11.1	-5.9	-4.2	-2.5
Instituto de Estudios Económicos (IEE)	-1.8	-0.4	-1.8	-1.0	-6.0	-1.5	-6.8	-3.0	-5.3	-1.0	-8.5	-4.1	-3.9	-1.5
Instituto Flores de Lemus (IFL-UC3M)	-1.5	-0.9	-1.4	-0.8	-7.5	-6.6	-8.9	-5.2	-6.3	-3.9	-11.4	-6.8	--	--
Intermoney	-1.8	--	-2.2	--	-3.8	--	-11.4	--	-10.0	--	-13.4	--	-4.4	--
La Caixa	-1.5	-0.5	-1.3	-0.7	-6.3	-5.7	-9.2	-3.2	-7.6	-2.6	-10.9	-3.5	-4.0	-2.2
Repsol	-1.7	-1.4	-1.3	-1.7	-5.9	-9.9	-10.1	-4.8	-9.5	-2.1	-11.6	-6.3	-4.1	-4.2
Santander	-1.6	-1.4	-1.5	-1.7	-6.5	-8.5	-8.3	-6.3	-6.0	-4.2	-9.4	-7.4	-4.0	-4.0
Solchaga Recio & asociados	-2.1	-1.8	-2.2	-2.5	-7.5	-8.5	-9.8	-6.8	-8.1	-5.8	-11.5	-6.8	-5.0	-4.8
<b>CONSENSUS (AVERAGE)</b>	<b>-1.7</b>	<b>-1.1</b>	<b>-1.7</b>	<b>-1.5</b>	<b>-6.9</b>	<b>-6.5</b>	<b>-8.7</b>	<b>-4.4</b>	<b>-7.2</b>	<b>-2.5</b>	<b>-10.8</b>	<b>-5.8</b>	<b>-4.3</b>	<b>-3.1</b>
Maximum	-1.1	0.6	-1.1	0.1	-3.8	-1.5	-1.3	-1.0	-4.6	1.5	-8.5	-2.7	-2.6	-1.5
Minimum	-2.1	-2.3	-2.2	-2.6	-10.6	-9.9	-12.0	-8.4	-10.0	-6.0	-14.0	-11.0	-5.3	-4.8
Change on 2 months earlier <sup>1</sup>	0.0	-0.5	0.0	-0.5	0.0	-1.1	0.0	-0.6	-0.3	-0.6	0.0	-0.6	0.0	-0.7
- Rise <sup>2</sup>	4	0	2	1	4	2	3	1	2	2	3	2	2	0
- Drop <sup>2</sup>	2	7	3	6	3	6	3	6	3	4	2	6	2	7
Change on 6 months earlier <sup>1</sup>	0.0	-0.9	0.1	-0.8	0.2	-1.4	-0.3	-1.2	-1.2	-2.1	-0.4	-1.1	-0.1	-1.1
<b>Memorandum items:</b>														
Government (May 2012)	-1.5	-0.5	-1.5	-1.4	-4.8	-8.2	-9.8	-2.0	--	--	--	--	-4.0	-2.8
Bank of Spain (January 2012)	-1.5	0.2	-1.2	-0.5	-6.3	-3.3	-9.2	-2.2	-7.0 <sup>3</sup>	-0.9 <sup>3</sup>	-10.6	-3.1	--	--
EC (May 2012)	-1.8	-0.3	-2.2	-1.3	-6.9	-3.5	-7.9	-3.2	-6.1	-3.0	-9.1	-3.5	-4.4	-2.1
IMF (April 2012)	-1.7	-1.2	--	--	--	--	--	--	--	--	--	--	--	--
OECD (May 2012)	-1.6	-0.8	-2.9	-1.8	-7.7	-4.5	-9.3	-2.4	--	--	--	--	-5.3	-2.5

<sup>1</sup> Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).

<sup>2</sup> Number of panelists revising their forecast upwards (or downwards) since two months earlier.

<sup>3</sup> Investment in capital goods.

Table 1 (Continued)

**Economic Forecasts for Spain – July 2012**

Annual change (percentage) unless stated otherwise

	Exports goods & services		Imports goods & services		Industrial production (IPI)		CPI (annual average)		Labour costs <sup>3</sup>		Employment <sup>4</sup>		Unemp. (LFS) (% labour force)		C/A bal. payments (% of GDP) <sup>5</sup>		Gen. gov. bal. (% of GDP)	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Analistas Financieros Internacionales (AFI)	1.9	5.8	-8.9	0.5	--	--	1.8	1.1	--	--	-4.3	-2.5	25.0	26.6	-1.3	0.2	-6.3	-3.5
Banco Bilbao Vizcaya Argentaria (BBVA)	4.0	8.9	-6.2	1.6	--	--	1.9	0.7	--	--	-4.3	-2.0	24.6	24.8	-1.9	-0.4	-5.3	-3.0
Bankia	1.6	3.5	-7.0	-1.4	-2.8	0.8	1.9	1.9	0.1	0.3	-4.0	-2.1	24.7	25.8	-2.4	0.1	--	--
CatalunyaCaixa	0.2	3.1	-7.1	-2.0	--	--	1.9	1.8	--	--	-4.2	-1.8	24.6	26.0	--	--	--	--
Cemex	1.8	5.6	-5.5	1.0	--	--	1.7	1.5	--	--	-4.0	-3.0	24.5	25.5	-1.9	-0.7	-7.0	-5.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.7	5.2	-4.5	-1.5	--	--	2.1	2.4	--	--	-3.6	-1.5	24.3	25.2	-1.1	0.0	-6.4	-4.7
Centro de Predicción Económica (CEPREDE-UAM)	2.8	4.8	-9.7	-0.6	-4.1	-1.4	2.3	2.6	1.5	2.0	-2.4	-1.1	23.3	23.9	-0.4	1.4	-5.5	-3.1
CEOE	3.1	5.8	-5.0	-0.2	-5.1	-3.5	2.0	1.7	-1.2	-0.5	-3.5	-1.7	24.2	25.4	-1.8	-0.5	-6.5	-4.2
Esade	4.0	--	1.0	--	--	--	1.7	--	--	--	-3.0	--	24.0	--	-2.0	--	--	--
Fundación Cajas de Ahorros (FUNCAS)	2.2	6.0	-6.6	-3.2	-7.1	-2.9	2.1	1.8	0.2	-0.5	-4.0	-2.7	24.5	26.1	-1.9	1.0	-6.2	-3.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	1.0	3.4	-6.3	-0.7	-4.5	-2.0	1.8	1.6	0.0	0.3	-3.8	-1.8	24.0	23.0	-2.0	-0.8	-6.3	-4.2
Instituto de Estudios Económicos (IEE)	3.0	3.5	-4.0	-0.7	--	--	2.0	2.0	-2.6	-1.4	-2.5	-1.0	24.1	24.5	-2.5	0.2	-5.8	-3.3
Instituto Flores de Lemus (IFL-UC3M)	2.5	5.2	-6.3	-0.5	-5.9	-5.5	1.9	1.6	--	--	--	--	24.3	25.5	-2.2	-0.7	--	--
Intermoney	-1.0	--	-9.4	--	-7.4	--	1.9	--	-0.3	--	-4.0	--	24.7	--	-1.2	--	-7.1	--
la Caixa	0.5	4.3	-7.4	-1.2	-4.7	-1.0	1.8	1.4	0.4	1.0	-4.3	-2.4	24.7	25.8	-2.0	-1.4	-6.4	-4.0
Repsol	0.4	4.8	-7.9	-4.8	-3.5	-1.5	2.0	1.6	0.8	0.6	-2.0	-1.8	24.5	25.0	-1.2	-0.2	-6.3	-4.5
Santander	3.1	3.8	-5.6	-4.0	--	--	2.1	2.4	0.4	0.2	-3.8	-2.0	24.4	25.3	-1.7	-0.5	-6.3	-4.8
Solchaga Recio & asociados	2.0	5.5	-7.2	-3.8	--	--	2.2	1.7	--	--	-4.1	-2.1	24.7	25.5	-1.2	-0.4	-6.5	-4.9
<b>CONSENSUS (AVERAGE)</b>	<b>2.0</b>	<b>4.9</b>	<b>-6.3</b>	<b>-1.3</b>	<b>-5.0</b>	<b>-2.1</b>	<b>2.0</b>	<b>1.7</b>	<b>-0.1</b>	<b>0.2</b>	<b>-3.6</b>	<b>-2.0</b>	<b>24.4</b>	<b>25.2</b>	<b>-1.7</b>	<b>-0.2</b>	<b>-6.3</b>	<b>-4.0</b>
Maximum	4.0	8.9	1.0	1.6	-2.8	0.8	2.3	2.6	1.5	2.0	-2.0	-1.0	25.0	26.6	-0.4	1.4	-5.3	-3.0
Minimum	-1.0	3.1	-9.7	-4.8	-7.4	-5.5	1.7	0.7	-2.6	-1.4	-4.3	-3.0	23.3	23.0	-2.5	-1.4	-7.1	-5.3
Change on 2 months earlier <sup>1</sup>	-0.2	-0.4	0.0	-1.0	-0.3	-0.2	0.1	0.2	0.0	-0.2	0.0	-0.3	0.1	0.2	0.0	0.3	-0.4	-0.2
- Up <sup>2</sup>	1	1	3	1	1	0	9	9	2	0	2	1	6	7	4	6	0	1
- Down <sup>2</sup>	6	6	4	6	4	4	3	1	0	2	6	7	1	0	2	0	6	3
Change on 6 months earlier <sup>1</sup>	-1.1	-0.8	-0.6	-1.3	-1.2	-1.6	0.2	0.1	-0.5	-0.6	-0.3	-0.6	0.4	0.6	0.1	0.4	-0.5	-0.6
<b>Memorandum entry:</b>																		
Government (July 2012)	1.6	6.0	-6.7	-1.5	--	--	--	--	-1.0	1.5	-3.7 <sup>7</sup>	-0.2 <sup>7</sup>	24.6	24.3	-2.0	0.0	-6.3	-4.5
Bank of Spain (January 2012)	3.5	5.9	-4.8	1.2	--	--	1.5 <sup>8</sup>	1.2 <sup>8</sup>	-0.8	0.1	-3.0	-0.7	23.4	23.3	-1.4 <sup>8</sup>	0.0 <sup>8</sup>	-4.4	-3.0
EC (May 2012)	3.2	4.7	-5.6	-0.9	--	--	1.9	1.1	0.1	0.1	-3.7	-1.5	24.4	25.1	-2.0	-1.0	-6.4	-6.3
IMF (July 2012)	--	--	--	--	--	--	2.1	2.2	--	--	--	--	24.9	24.7	-1.8	-0.6	-6.3	-4.7
OECD (May 2012)	3.1	5.7	-9.2	0.8	--	--	1.6	2.1	--	--	--	--	24.5	25.3	-0.9	0.1	-5.4	-3.3

<sup>1</sup> Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).<sup>2</sup> Number of panelists revising their forecast upwards (or downwards) since two months earlier.<sup>3</sup> Average earnings per full-time equivalent job: includes all labour cost items for businesses.<sup>4</sup> In National Accounts terms: full time equivalent jobs.<sup>5</sup> Current account balance, according to Bank of Spain estimates.<sup>6</sup> Private consumption deflator.<sup>7</sup> Employment (LFS).<sup>8</sup> Net borrowing vis-à-vis rest of world.

Table 2

### Quarterly Forecasts - July 2012<sup>1</sup>

	Quarter-on-quarter change (percentage)							
	12-Q1	12-Q2	12-Q3	12-Q4	13-Q1	13-Q2	13-Q3	13-Q4
GDP <sup>2</sup>	-0.3	-0.6	-1.0	-1.0	-0.1	0.1	0.1	0.3
Household consumption <sup>2</sup>	0.0	-0.7	-0.9	-1.0	-0.4	-0.3	-0.1	0.1

<sup>1</sup> Average forecasts of private institutions listed in Table 1.

<sup>2</sup> According to series corrected for seasonality and labour calendar.

Table 3

### CPI Forecasts – July 2012<sup>1</sup>

Monthly change (%)				Year-on-year change (%)	
Jul-12	Aug-12	Sep-12	Oct-12	Dec-12	Dec-13
-0.6	0.2	-0.1	0.5	2.1	1.5

<sup>1</sup> Average forecasts by private institutions listed in Table 1.

Table 4

### Opinions – July 2012

Number of responses

	Currently			Trend for next 6 months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	1	17	1	13	4
International context: Non-EU	2	14	2	3	12	3
	Low <sup>1</sup>	Normal <sup>1</sup>	High <sup>1</sup>	Increasing	Stable	Decreasing
Short-term interest rate <sup>2</sup>	4	10	4	2	10	6
Long-term interest rate <sup>3</sup>	1	2	15	2	9	7
	Overvalued <sup>4</sup>	Normal <sup>4</sup>	Undervalued <sup>4</sup>	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	9	8	1	0	5	13
	Is			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment <sup>1</sup>	18	0	0	11	6	1
Monetary policy assessment <sup>1</sup>	2	1	15	0	0	18

<sup>1</sup> In relation to the current state of the Spanish economy.

<sup>3</sup> Yield on Spanish 10-year government debt.

<sup>2</sup> Three-month Euribor.

<sup>4</sup> Relative to theoretical equilibrium rate.

## KEY FACTS: ECONOMIC INDICATORS

Table 1

### National accounts: GDP and main expenditure components SWDA\*

Forecasts in blue

	GDP	Private consumption	Public consumption	Gross fixed capital formation					Exports	Imports	Domestic Demand (a)	Net exports (a)
						Construction						
				Total	Total	Housing	Other constructions	Equipment & others products				
Chain-linked volumes, annual percentage changes												
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	-3.8	3.7	-18.0	-16.6	-23.1	-9.1	-21.3	-10.0	-17.2	-6.6	2.9
2010	-0.3	0.7	1.5	-6.2	-9.8	-10.1	-9.6	2.8	11.3	9.2	-0.6	0.3
2011	0.4	-1.0	-0.5	-5.3	-9.0	-6.7	-11.0	2.5	7.6	-0.9	-1.9	2.3
2012	-1.6	-2.2	-3.5	-9.6	-12.2	-7.1	-16.9	-4.9	1.7	-6.4	-4.1	2.5
2013	-1.8	-3.3	-5.2	-9.4	-13.1	-6.6	-19.3	-3.4	4.3	-5.5	-4.9	3.1
2011 I	0.5	0.0	2.2	-6.0	-10.8	-7.8	-13.5	4.7	10.2	4.5	-0.9	1.4
II	0.5	-1.0	-0.5	-4.9	-8.5	-7.3	-9.6	2.6	7.1	-1.6	-1.8	2.4
III	0.6	-0.4	-2.7	-4.2	-8.0	-5.8	-9.9	3.7	7.6	-1.2	-1.8	2.5
IV	0.0	-2.5	-1.1	-6.0	-8.6	-5.9	-10.9	-1.0	5.8	-4.9	-3.1	3.1
2012 I	-0.6	-1.4	-3.6	-7.7	-9.5	-6.3	-12.3	-4.2	2.8	-5.9	-3.2	2.6
II	-1.3	-2.2	-3.0	-9.4	-11.8	-7.0	-16.0	-5.1	3.3	-5.4	-3.9	2.6
III	-2.0	-2.6	-2.9	-11.0	-13.6	-7.9	-18.8	-6.3	0.1	-7.7	-4.5	2.5
IV	-2.4	-2.7	-4.5	-10.5	-14.3	-7.3	-20.6	-3.8	0.8	-6.7	-4.8	2.5
2013 I	-2.6	-4.0	-4.6	-10.4	-14.2	-7.4	-20.5	-3.8	3.8	-6.2	-5.8	3.2
II	-2.4	-3.7	-5.3	-9.7	-13.5	-6.8	-19.9	-3.3	3.4	-6.0	-5.5	3.1
III	-1.7	-3.2	-5.3	-9.3	-12.8	-6.4	-18.9	-3.7	4.6	-5.3	-5.0	3.3
IV	-0.6	-2.2	-5.6	-8.2	-11.7	-5.8	-17.6	-2.8	5.3	-4.3	-3.8	3.2
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate												
2011 I	1.2	-2.9	7.0	-3.9	-10.3	-4.5	-15.2	9.3	4.1	-4.0	-1.2	2.3
II	1.0	-0.6	-5.3	-4.6	-6.2	-6.4	-5.9	-1.6	4.7	-7.7	-2.7	3.7
III	-0.2	-2.4	-5.1	-2.8	-6.4	-3.3	-9.3	4.3	14.7	3.2	-3.3	3.1
IV	-2.0	-4.1	-0.4	-12.4	-11.3	-9.4	-13.0	-14.5	0.3	-10.7	-5.3	3.4
2012 I	-1.3	1.5	-3.5	-10.5	-13.8	-6.1	-20.3	-4.2	-7.2	-7.9	-1.8	0.4
II	-1.7	-3.6	-3.0	-11.6	-15.2	-8.8	-21.0	-5.0	6.5	-5.7	-5.4	3.7
III	-2.9	-4.0	-4.9	-9.5	-14.1	-7.0	-20.7	-1.2	1.2	-6.6	-5.1	2.2
IV	-3.4	-4.7	-6.6	-10.5	-13.9	-7.1	-20.5	-4.7	3.3	-6.6	-6.5	3.1
2013 I	-2.3	-3.7	-4.1	-9.9	-13.7	-6.8	-19.7	-4.1	4.3	-5.9	-5.6	3.3
II	-0.9	-2.6	-5.6	-8.9	-12.4	-6.2	-18.6	-3.3	5.0	-5.0	-4.3	3.4
III	0.0	-1.7	-5.0	-7.8	-11.0	-5.5	-16.8	-2.8	5.7	-3.8	-3.4	3.4
IV	1.0	-1.0	-7.6	-6.3	-9.7	-4.7	-15.1	-1.1	6.3	-2.5	-2.8	3.8

Table 1 (continued)

**National accounts: GDP and main expenditure components SWDA\***

Forecasts in blue

	GDP	Private consumption	Public consumption	Gross fixed capital formation					Exports	Imports	Domestic Demand (a)	Net exports (a)
					Construction							
				Total	Total	Housing	Other constructions	Equipment & others products				
	Current prices (EUR billions)	Percentage of GDP at current prices										
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	1087.8	57.2	19.5	28.7	20.2	10.8	9.4	8.4	26.5	32.3	105.8	-5.8
2009	1048.1	56.5	21.3	23.6	16.8	8.1	8.7	6.8	23.9	25.8	101.9	-1.9
2010	1048.9	58.0	21.4	22.3	15.1	7.1	8.0	7.2	27.2	29.4	102.2	-2.2
2011	1063.4	58.3	20.9	21.1	13.6	6.4	7.2	7.4	30.3	31.1	100.8	-0.8
2012	1051.9	59.1	20.4	19.1	11.8	5.8	6.1	7.3	31.8	30.9	99.1	0.9
2013	1042.3	58.9	19.2	17.4	10.3	5.3	5.0	7.2	34.0	30.0	96.1	3.9

\*Seasonally and Working Day Adjusted.

(a) Contribution to GDP growth.

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

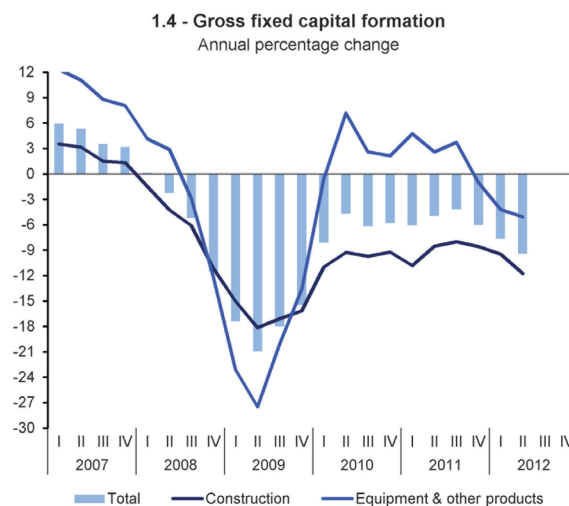
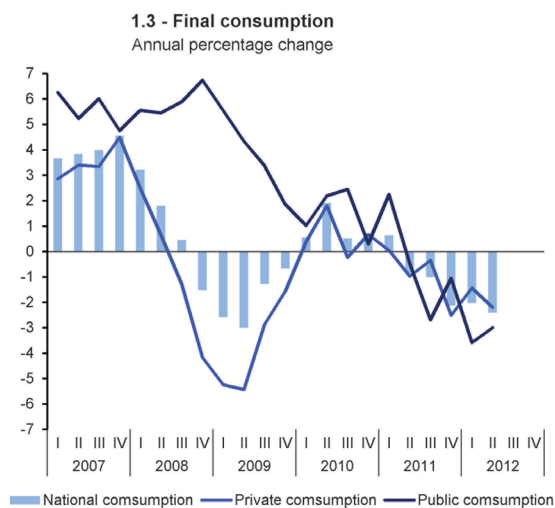
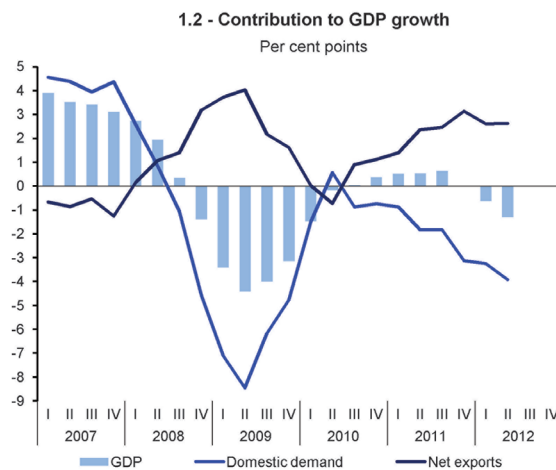
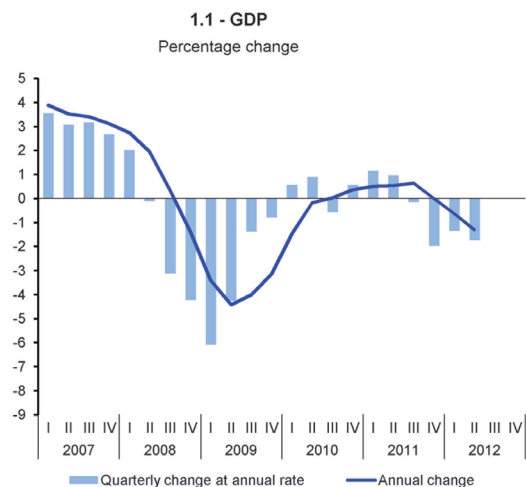


Table 2

**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, forestry 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													
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	-2.1	-0.2	2.3	0.4	1.5	2.8	2.1	2.3	5.1	2.0	-0.3
2009	-3.6	-3.2	-12.1	-7.8	-0.6	-1.9	0.9	-4.0	0.0	-2.6	2.3	0.3	-5.4
2010	-0.4	2.0	4.3	-14.3	1.2	1.6	6.5	-3.7	-0.9	-0.2	2.4	0.3	0.1
2011	1.0	8.2	2.7	-5.9	1.4	1.1	3.9	-3.6	2.7	3.2	1.1	1.4	-5.5
2012	-1.5	1.9	-2.8	-8.9	-0.2	-0.1	0.4	0.4	1.5	-1.1	-0.6	-1.9	-2.8
2013	-1.6	0.7	-1.4	-11.2	-0.6	0.1	-0.4	-3.1	1.7	-0.8	-1.3	-3.0	-3.6
2011 I	1.0	8.1	5.8	-8.6	1.3	1.8	4.1	-6.5	2.8	2.9	1.1	-0.3	-4.7
II	1.1	8.2	2.4	-6.1	1.6	2.0	3.6	-4.9	2.3	3.1	1.8	0.1	-5.3
III	1.3	8.7	2.5	-4.3	1.6	1.0	4.3	-3.4	2.9	3.6	1.3	3.1	-6.0
IV	0.6	7.8	0.2	-4.5	1.1	-0.2	3.7	0.4	2.8	3.4	0.3	2.9	-5.9
2012 I	-0.6	2.6	-3.4	-7.3	0.9	0.2	1.9	3.5	1.9	0.6	0.6	1.0	-0.5
II	-1.4	2.5	-3.1	-7.1	-0.3	-1.2	0.5	1.9	1.6	-1.7	0.1	-0.8	-0.3
III	-1.8	1.9	-2.8	-9.5	-0.6	0.1	1.2	-0.5	1.0	-2.0	-1.5	-3.2	-4.1
IV	-2.0	0.5	-2.0	-11.6	-0.7	0.5	-1.8	-3.0	1.4	-1.3	-1.5	-4.6	-6.4
2013 I	-2.2	0.3	-2.2	-11.8	-1.0	-1.5	-2.0	-4.1	1.9	-1.8	0.4	-4.9	-6.5
II	-2.0	0.7	-2.1	-12.0	-0.8	0.1	-0.8	-3.1	1.4	-0.1	-2.1	-3.6	-6.5
III	-1.7	0.8	-1.1	-11.0	-0.7	0.2	0.0	-2.8	1.6	-1.1	-1.9	-2.7	-1.7
IV	-0.7	1.0	-0.1	-9.7	0.3	1.8	1.1	-2.3	1.8	-0.2	-1.6	-0.8	0.7
Chain-linked volumes, quarter-on-quarter percentage changes, at annual rate													
2011 I	2.7	24.1	15.2	0.0	-0.4	1.9	8.0	-10.3	3.2	11.6	-10.0	5.8	-14.1
II	1.3	-0.3	-2.1	-10.4	4.0	1.7	1.4	-0.5	4.9	1.5	10.7	0.0	-2.7
III	0.3	3.2	-5.1	-3.2	2.0	-1.8	-4.3	6.7	3.6	5.8	4.5	6.6	-5.1
IV	-2.0	5.8	-5.7	-4.2	-1.2	-2.4	10.4	6.8	-0.5	-4.7	-2.8	-0.7	-1.2
2012 I	-2.1	1.7	-0.5	-11.0	-1.3	3.6	0.5	1.3	-0.3	0.1	-9.0	-1.7	7.5
II	-1.7	-0.5	-1.1	-9.5	-0.8	-4.1	-4.0	-6.5	3.6	-7.6	8.7	-6.8	-1.9
III	-1.4	0.5	-4.0	-13.1	0.8	3.7	-1.6	-3.2	1.1	4.7	-2.2	-3.7	-19.0
IV	-2.8	0.4	-2.3	-12.9	-1.7	-0.8	-2.0	-3.6	1.3	-2.1	-2.5	-6.0	-10.0
2013 I	-3.1	1.0	-1.6	-11.7	-2.4	-4.4	-0.5	-3.0	1.5	-1.8	-2.0	-3.1	7.0
II	-0.9	1.0	-0.6	-10.4	0.2	2.2	1.0	-2.5	1.8	-1.0	-1.7	-1.7	-1.9
III	0.1	1.0	0.3	-9.0	1.2	3.8	1.6	-2.0	2.0	0.5	-1.5	0.0	-1.3
IV	1.2	1.0	1.4	-7.7	2.2	5.7	2.2	-1.5	2.0	1.5	-1.2	1.8	-0.8

Table 2

**National accounts: Gross value added by economic activity (SWDA)\***

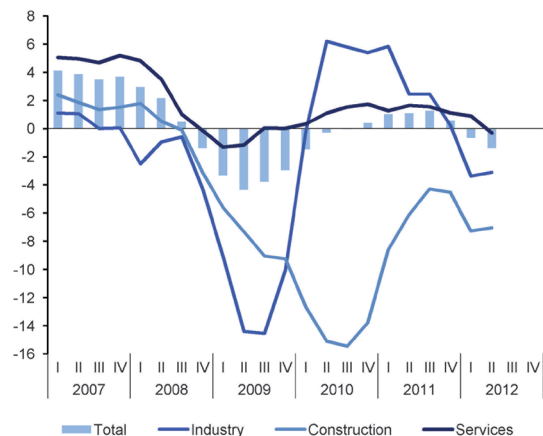
Forecasts in blue (continued)

	Gross value added at basic prices												Taxes less subsidies on products
	Total	Agriculture, forestry 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	
	Current prices (EUR billions)	Percentage of value added at basic prices											
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	16.9	13.6	67.0	23.1	4.1	5.4	6.9	7.4	16.7	3.4	9.1
2009	973.4	2.4	15.3	13.1	69.2	23.6	4.2	5.9	6.4	7.4	18.1	3.6	7.7
2010	957.8	2.6	16.2	10.9	70.3	24.4	4.3	4.6	7.3	7.4	18.6	3.7	9.5
2011	976.3	2.5	16.9	10.1	70.5	24.8	4.3	4.2	7.7	7.6	18.3	3.7	8.9
2012	960.3	2.6	16.9	9.3	71.1	24.9	4.3	4.3	8.0	7.6	18.4	3.6	9.5
2013	940.7	2.7	17.1	8.4	71.8	25.3	4.3	4.3	8.5	7.9	18.0	3.5	10.8

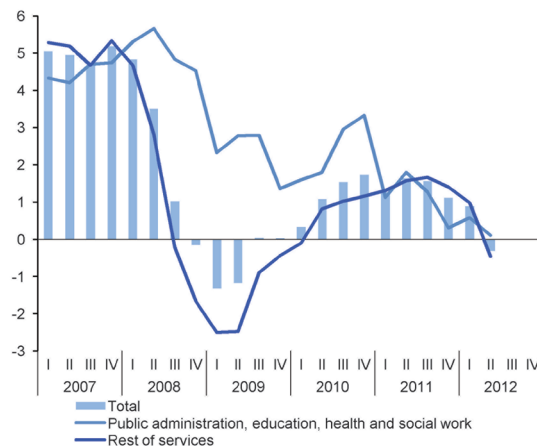
\*Seasonally and Working Day Adjusted.

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

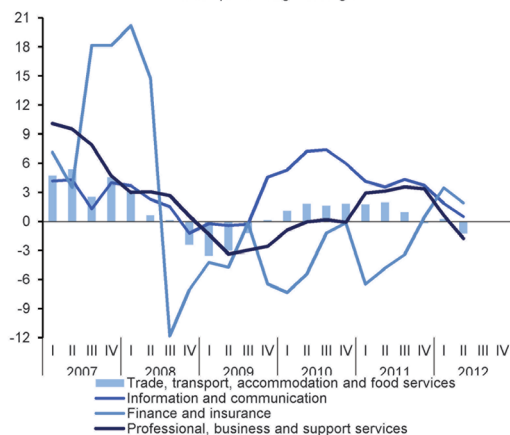
**Chart 1.1 - GVA by sectors**  
Annual percentage change



**Chart 1.2 - GVA, services (I)**  
Annual percentage change



**Chart 1.3 - GVA, services (II)**  
Annual percentage change



**Chart 1.4 - GVA, structure by sectors**  
Percentage of value added at basic prices

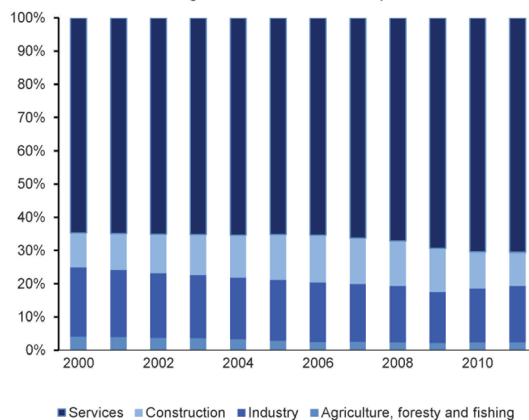


Table 3a

**National accounts: Productivity and labour costs (I)**

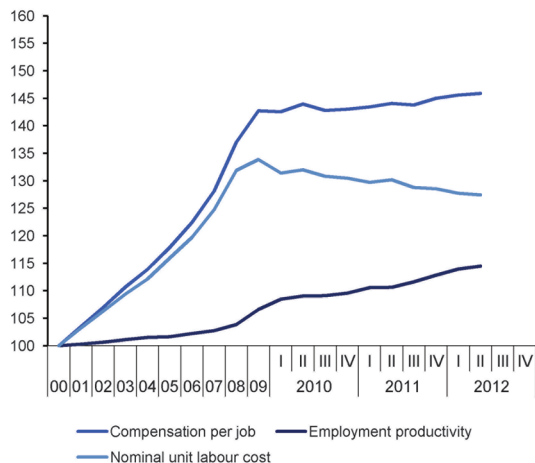
Forecasts in blue

	Total economy						Manufacturing industry					
	GDP, 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
<b>Indexes, 2000 = 100, SWDA</b>												
2005	117.4	115.5	101.7	117.9	115.9	94.3	105.5	95.7	110.1	122.3	111.0	96.2
2006	122.2	119.5	102.2	122.4	119.7	93.5	107.4	93.4	115.0	130.5	113.5	95.1
2007	126.4	123.1	102.7	128.2	124.7	94.3	107.8	91.1	118.3	139.9	118.3	95.7
2008	127.6	122.8	103.9	137.0	131.9	97.4	104.1	89.7	116.0	147.4	127.0	98.2
2009	122.8	115.2	106.6	142.7	133.8	98.8	90.4	77.5	116.6	150.7	129.2	100.6
2010	122.4	112.2	109.1	143.1	131.2	96.4	94.0	74.1	126.9	152.7	120.4	93.0
2011	122.9	110.3	111.4	144.1	129.3	94.1	96.7	73.4	131.8	152.1	115.4	86.2
2012	121.0	105.6	114.6	145.6	127.0	92.0	92.9	69.1	134.5	--	--	--
2013	118.8	102.0	116.5	145.9	125.2	89.9	91.1	66.2	137.6	--	--	--
2010 I	122.2	112.7	108.5	142.6	131.4	96.9	92.8	74.4	124.7	152.1	122.0	95.3
II	122.5	112.3	109.1	144.0	132.0	97.3	95.4	74.3	128.4	152.9	119.0	92.6
III	122.3	112.1	109.1	142.8	130.9	96.1	93.6	73.6	127.2	152.1	119.7	94.3
IV	122.5	111.8	109.6	143.0	130.5	95.4	94.1	74.0	127.2	153.6	120.8	90.1
2011 I	122.9	111.1	110.6	143.5	129.7	94.7	98.4	73.5	134.0	150.5	112.3	84.5
II	123.2	111.3	110.7	144.1	130.2	94.8	97.9	73.9	132.4	151.7	114.5	86.3
III	123.1	110.3	111.6	143.8	128.8	93.8	96.1	73.6	130.5	152.2	116.6	88.5
IV	122.5	108.6	112.8	145.0	128.5	93.3	94.2	72.4	130.1	154.0	118.4	85.8
2012 I	122.1	107.1	114.0	145.6	127.8	92.8	94.1	70.5	133.4	154.1	115.5	85.2
II	121.6	106.2	114.5	145.9	127.5	92.6	93.4	69.2	135.0	154.9	114.8	85.1
<b>Annual percentage changes</b>												
2006	4.1	3.5	0.6	3.9	3.3	-0.8	1.8	-2.4	4.4	6.8	2.3	-1.1
2007	3.5	3.0	0.5	4.7	4.2	0.9	0.3	-2.5	2.9	7.2	4.2	0.6
2008	0.9	-0.2	1.1	6.9	5.7	3.3	-3.4	-1.5	-1.9	5.3	7.4	2.7
2009	-3.7	-6.3	2.7	4.2	1.5	1.4	-13.1	-13.6	0.5	2.3	1.7	2.4
2010	-0.3	-2.5	2.3	0.3	-2.0	-2.4	3.9	-4.5	8.8	1.3	-6.9	-7.5
2011	0.4	-1.7	2.2	0.7	-1.4	-2.4	2.9	-1.0	3.9	-0.4	-4.1	-7.3
2012	-1.6	-4.3	2.9	1.0	-1.8	-2.3	-3.9	-5.8	2.0	--	--	--
2013	-1.8	-3.4	1.6	0.2	-1.4	-2.3	-1.9	-4.2	2.3	--	--	--
2010 I	-1.5	-4.1	2.7	1.4	-1.3	-1.2	-1.1	-8.5	8.1	1.8	-5.9	-7.3
II	-0.2	-2.8	2.7	0.8	-1.9	-1.9	6.2	-4.9	11.7	1.6	-9.1	-8.0
III	0.0	-1.9	2.0	-0.4	-2.3	-3.0	5.6	-2.8	8.6	1.1	-6.9	-5.2
IV	0.4	-1.4	1.7	-0.7	-2.4	-3.3	5.2	-1.3	6.6	0.6	-5.6	-9.3
2011 I	0.5	-1.4	1.9	0.6	-1.3	-2.3	6.1	-1.3	7.5	-1.1	-8.0	-11.4
II	0.5	-0.9	1.5	0.1	-1.4	-2.5	2.7	-0.5	3.1	-0.8	-3.8	-6.8
III	0.6	-1.6	2.3	0.7	-1.6	-2.4	2.7	0.0	2.7	0.0	-2.6	-6.2
IV	0.0	-2.9	2.9	1.4	-1.5	-2.2	0.1	-2.2	2.3	0.3	-2.0	-4.8
2012 I	-0.6	-3.6	3.1	1.5	-1.5	-2.0	-4.4	-4.0	-0.5	2.4	2.9	0.9
II	-1.3	-4.6	3.5	1.3	-2.1	-2.4	-4.6	-6.4	1.9	2.1	0.2	-1.4

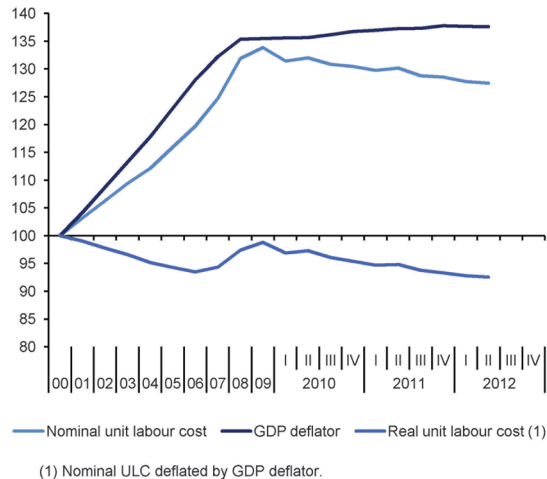
(a) Nominal ULC deflated by GDP/GVA deflator.

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

**Chart 1.1.- Nominal ULC, total economy**  
Index, 2000=100

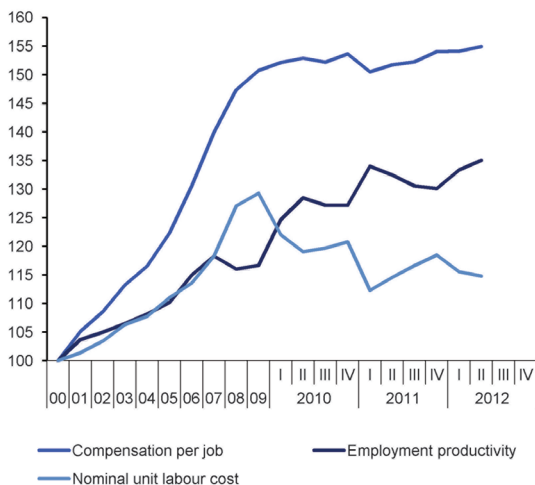


**Chart 1.2.- Real ULC, total economy**  
Index, 2000=100

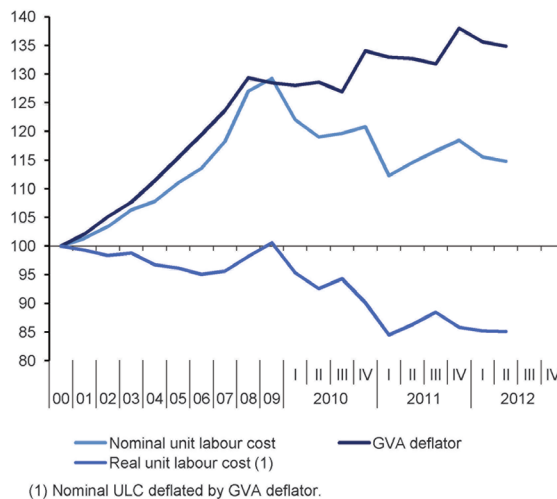


(1) Nominal ULC deflated by GDP deflator.

**Chart 2.1.- Nominal ULC, manufacturing industry**  
Index, 2000=100



**Chart 2.2.- Real ULC, manufacturing industry**  
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Table 3b

**National accounts: Productivity and labour costs (II)**

Forecasts in blue

	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
<b>Indexes, 2000 = 100, SWDA</b>												
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	152.3	139.6	84.7	133.3	135.3	98.6	131.8	133.7	98.4
2009	129.3	101.3	127.7	166.9	130.7	78.0	132.5	132.0	100.4	136.8	136.3	98.8
2010	110.9	88.5	125.3	168.8	134.7	83.7	134.1	130.5	102.8	137.1	133.5	97.9
2011	104.3	74.7	139.7	178.3	127.6	79.2	135.9	130.5	104.1	137.5	132.0	96.1
2012	95.1	59.6	159.5	--	--	--	135.7	127.3	106.6	--	--	--
2013	84.4	51.2	164.9	--	--	--	134.9	124.2	108.6	--	--	--
2010 I	117.3	90.1	130.2	169.9	130.5	80.0	133.0	130.7	101.7	136.5	134.2	97.6
II	111.1	90.3	123.0	168.7	137.1	85.7	133.8	130.3	102.7	138.1	134.5	100.1
III	108.1	88.4	122.2	170.3	139.3	87.1	134.6	130.5	103.1	136.7	132.6	97.3
IV	107.2	85.3	125.7	166.3	132.3	82.2	134.8	130.3	103.5	137.2	132.6	96.6
2011 I	107.2	80.3	133.5	179.1	134.1	82.9	134.7	130.7	103.0	136.9	132.9	96.5
II	104.3	77.1	135.2	177.8	131.5	81.6	136.0	131.5	103.4	137.5	132.9	97.6
III	103.4	73.1	141.6	178.5	126.1	78.5	136.7	130.8	104.5	137.0	131.1	95.6
IV	102.3	68.2	150.1	177.5	118.3	73.8	136.3	129.1	105.6	138.7	131.3	94.8
2012 I	99.4	62.8	158.2	186.3	117.8	73.4	135.9	128.6	105.6	138.5	131.1	94.2
II	96.9	60.7	159.8	186.1	116.5	72.5	135.6	127.9	106.0	138.8	131.0	95.1
<b>Annual percentage changes</b>												
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	12.6	-0.2	-3.9	2.3	2.7	-0.4	6.0	6.4	1.9
2009	-7.8	-21.2	17.0	9.6	-6.3	-7.8	-0.6	-2.4	1.8	3.8	1.9	0.4
2010	-14.3	-12.6	-1.9	1.1	3.0	7.2	1.2	-1.2	2.4	0.2	-2.1	-0.9
2011	-5.9	-15.7	11.5	5.6	-5.3	-5.3	1.4	0.0	1.4	0.3	-1.1	-1.8
2012	-8.9	-20.2	14.2	--	--	--	-0.2	-2.5	2.3	--	--	--
2013	-11.2	-14.1	3.4	--	--	--	-0.6	-2.5	1.9	--	--	--
2010 I	-12.7	-16.2	4.2	2.9	-1.3	1.5	0.3	-1.8	2.2	1.4	-0.8	-0.7
II	-15.1	-11.8	-3.8	1.1	5.0	10.1	1.1	-1.4	2.6	0.8	-1.8	0.6
III	-15.5	-10.6	-5.5	0.2	6.0	11.1	1.5	-1.0	2.5	-0.4	-2.9	-0.8
IV	-13.8	-11.5	-2.6	0.2	2.8	6.8	1.7	-0.5	2.2	-0.8	-3.0	-2.8
2011 I	-8.6	-10.9	2.6	5.4	2.8	3.7	1.3	0.0	1.3	0.3	-1.0	-1.2
II	-6.1	-14.6	9.9	5.4	-4.1	-4.8	1.6	0.9	0.7	-0.5	-1.2	-2.5
III	-4.3	-17.4	15.8	4.9	-9.5	-10.0	1.6	0.2	1.4	0.2	-1.1	-1.8
IV	-4.5	-20.0	19.4	6.8	-10.6	-10.3	1.1	-0.9	2.1	1.1	-1.0	-1.8
2012 I	-7.3	-21.7	18.4	4.0	-12.2	-11.4	0.9	-1.6	2.5	1.2	-1.3	-2.4
II	-7.1	-21.3	18.1	4.7	-11.4	-11.1	-0.3	-2.7	2.5	1.0	-1.4	-2.6

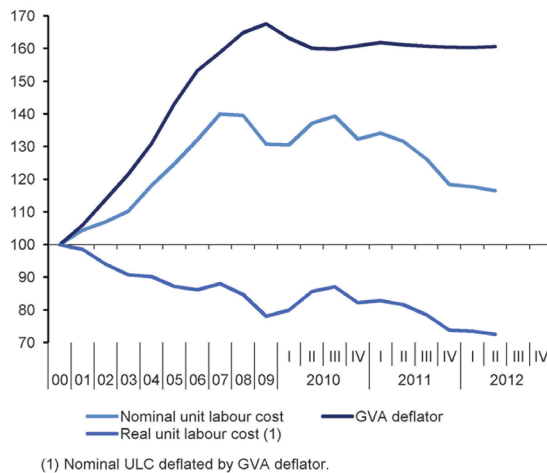
(a) Nominal ULC deflated by GVA deflator.

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

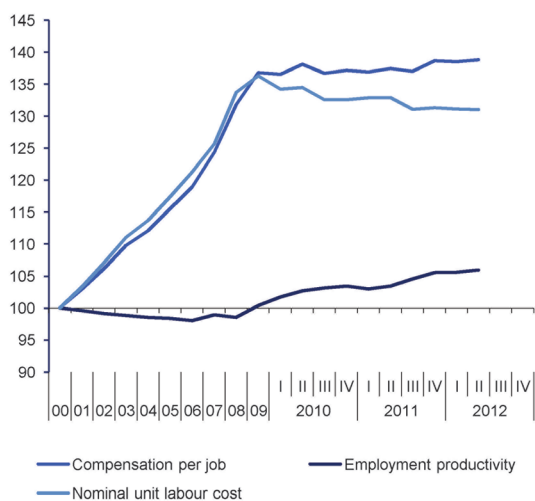
**Chart 1.1.- Nominal ULC, construction**  
Index, 2000=100



**Chart 1.2.- Real ULC, construction**  
Index, 2000=100



**Chart 2.1.- Nominal ULC, services**  
Index, 2000=100



**Chart 2.2.- Real ULC, services**  
Index, 2000=100

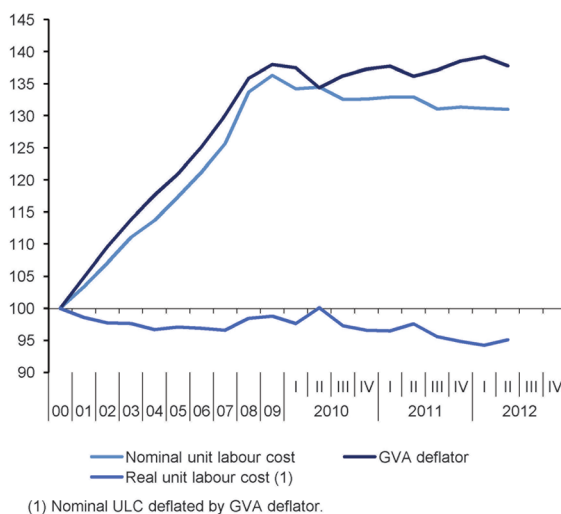


Table 4

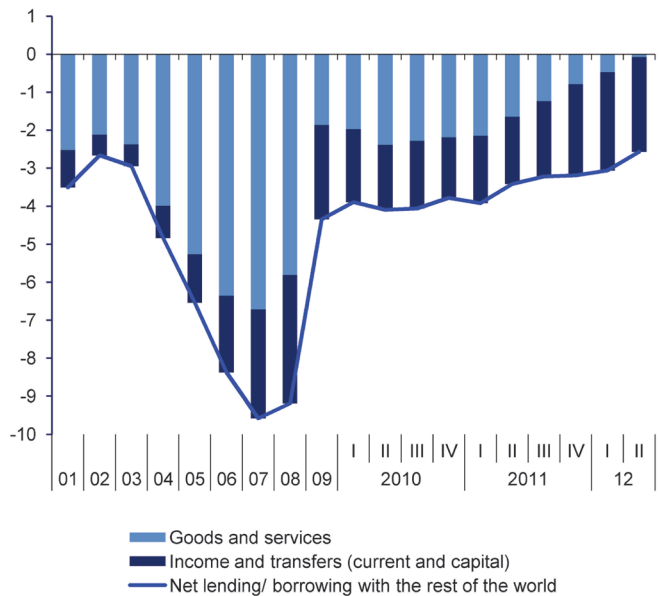
**National accounts: Net transactions with the rest of the world**

Forecasts in blue

	Goods and services				Income	Current transfers	Current account	Capital transfers	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
<b>EUR millions, 4-quarter cumulated transactions</b>												
2005	-47.9	-67.9	28.7	-8.6	-15.7	-4.1	-67.8	8.3	-59.5	200.8	268.6	-67.8
2006	-62.7	-82.5	29.9	-10.1	-18.8	-7.4	-88.9	6.3	-82.6	216.1	304.9	-88.9
2007	-70.8	-90.8	30.4	-10.4	-27.4	-7.0	-105.2	4.3	-100.9	221.0	326.2	-105.2
2008	-63.3	-85.4	30.6	-8.5	-31.8	-9.2	-104.3	4.4	-99.9	212.4	316.7	-104.3
2009	-19.5	-41.6	28.3	-6.2	-23.1	-7.3	-49.9	4.3	-45.5	201.7	251.6	-49.9
2010	-23.0	-48.0	29.3	-4.3	-17.2	-5.9	-46.0	6.4	-39.6	193.2	239.3	-46.0
2011	-8.4	-40.1	32.9	-1.2	-24.1	-6.9	-39.4	5.4	-33.9	189.7	229.1	-39.4
2012	9.4	-27.6	33.7	3.3	-26.7	-6.9	-24.1	4.8	-19.3	182.2	206.3	-24.1
2013	41.1	-4.1	36.4	8.9	-32.2	-6.5	2.4	4.5	6.9	189.7	187.3	2.4
2010 I	-20.7	-42.3	28.3	-6.7	-17.3	-7.6	-45.6	4.9	-40.7	200.7	246.4	-45.6
II	-25.0	-46.8	28.3	-6.4	-16.9	-6.7	-48.5	5.7	-42.8	195.3	243.7	-48.5
III	-23.9	-47.6	29.0	-5.3	-17.6	-7.6	-49.0	6.5	-42.5	191.9	240.9	-49.0
IV	-23.0	-48.0	29.3	-4.3	-17.2	-5.9	-46.0	6.4	-39.6	193.2	239.3	-46.0
2011 I	-22.6	-48.1	29.8	-4.3	-19.0	-6.2	-47.8	6.6	-41.3	189.4	237.3	-47.8
II	-17.4	-45.2	31.0	-3.2	-19.2	-6.3	-42.9	6.8	-36.2	192.1	235.0	-42.9
III	-13.1	-42.9	32.4	-2.7	-21.6	-5.9	-40.7	6.5	-34.2	192.4	233.1	-40.7
IV	-8.4	-40.1	32.9	-1.2	-24.1	-6.9	-39.4	5.4	-33.9	189.7	229.1	-39.4
2012 I	-5.1	-38.2	33.1	0.0	-24.8	-7.3	-37.2	4.6	-32.6	187.6	224.8	-37.2
II	-0.8	-34.8	33.0	1.0	-23.9	-7.4	-32.0	4.9	-27.2	186.7	218.8	-32.0
<b>Percentage of GDP, 4-quarter cumulated transactions</b>												
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	-0.8	-9.6	0.4	-9.2	19.5	29.1	-9.6
2009	-1.9	-4.0	2.7	-0.6	-2.2	-0.7	-4.8	0.4	-4.3	19.2	24.0	-4.8
2010	-2.2	-4.6	2.8	-0.4	-1.6	-0.6	-4.4	0.6	-3.8	18.4	22.8	-4.4
2011	-0.8	-3.8	3.1	-0.1	-2.3	-0.6	-3.7	0.5	-3.2	17.8	21.5	-3.7
2012	0.9	-2.6	3.2	0.3	-2.5	-0.7	-2.3	0.5	-1.8	17.3	19.6	-2.3
2013	3.9	-0.4	3.5	0.8	-3.1	-0.6	0.2	0.4	0.7	18.2	18.0	0.2
2010 I	-2.0	-4.0	2.7	-0.6	-1.7	-0.7	-4.4	0.5	-3.9	19.2	23.6	-4.4
II	-2.4	-4.5	2.7	-0.6	-1.6	-0.6	-4.6	0.5	-4.1	18.7	23.3	-4.6
III	-2.3	-4.5	2.8	-0.5	-1.7	-0.7	-4.7	0.6	-4.1	18.3	23.0	-4.7
IV	-2.2	-4.6	2.8	-0.4	-1.6	-0.6	-4.4	0.6	-3.8	18.4	22.8	-4.4
2011 I	-2.1	-4.6	2.8	-0.4	-1.8	-0.6	-4.5	0.6	-3.9	18.0	22.5	-4.5
II	-1.6	-4.3	2.9	-0.3	-1.8	-0.6	-4.1	0.6	-3.4	18.2	22.2	-4.1
III	-1.2	-4.0	3.1	-0.3	-2.0	-0.6	-3.8	0.6	-3.2	18.1	21.9	-3.8
IV	-0.8	-3.8	3.1	-0.1	-2.3	-0.6	-3.7	0.5	-3.2	17.8	21.5	-3.7
2012 I	-0.5	-3.6	3.1	0.0	-2.3	-0.7	-3.5	0.4	-3.1	17.7	21.2	-3.5
II	-0.1	-3.3	3.1	0.1	-2.3	-0.7	-3.0	0.5	-2.6	17.6	20.7	-3.0

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

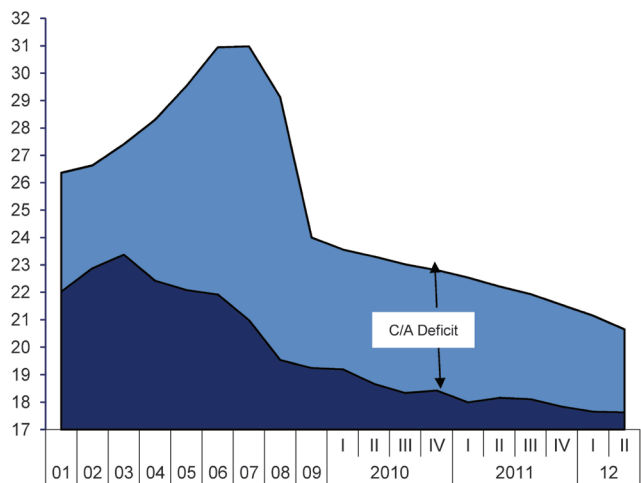


Table 5

**National accounts: Household income and its disposition**

Forecasts in blue

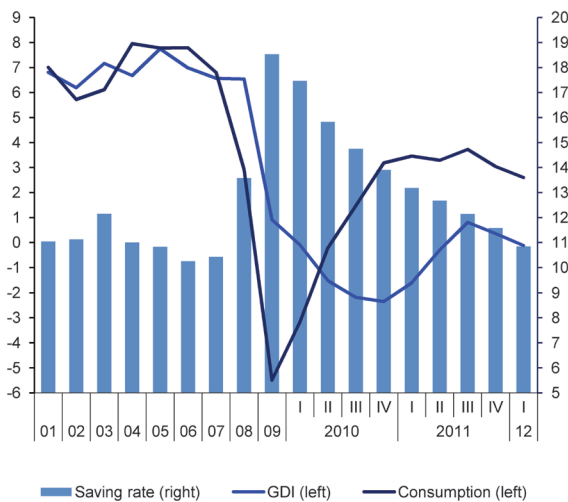
	Gross disposable income (GDI)						Final consumption expenditure	Gross saving (a)	Saving rate (gross saving as a percentage of GDI)	Net capital transfers	Gross capital formation	Net lending (+) or borrowing (-)	Net lending or borrowing as a percentage of GDP
	Total	Compensation of employees (received)	Mixed income and net property income	Social benefits and other current transfers (received)	Social contributions and other current transfers (paid)	Personal income taxes							
	1=2+3+4-5-6	2	3	4	5	6	7	8=1-7	9=8/1	10	11	12=8+10-11	13
EUR Billions, 4-quarter cumulated operations													
2005	588.7	431.9	224.0	172.2	175.5	63.9	525.3	63.7	10.8	6.9	86.5	-15.9	-1.7
2006	629.8	465.8	245.1	182.6	189.6	74.2	566.2	64.5	10.2	6.9	97.4	-25.9	-2.6
2007	671.2	503.9	262.7	197.3	206.3	86.5	604.7	70.0	10.4	3.5	101.5	-28.0	-2.7
2008	715.0	533.6	266.4	216.2	216.5	84.7	622.4	97.1	13.6	4.8	91.1	10.8	1.0
2009	721.6	519.8	254.1	232.8	209.1	76.1	588.2	133.7	18.5	5.5	67.3	71.9	6.9
2010	704.6	506.7	247.3	238.8	208.6	79.6	606.9	98.0	13.9	6.4	64.0	40.4	3.9
2011	707.1	501.4	254.1	242.4	209.6	81.2	625.4	81.9	11.6	4.8	61.7	24.9	2.3
2012	699.7	482.4	263.1	247.8	207.3	86.3	627.5	72.3	10.3	3.8	55.4	20.8	2.0
2013	690.1	465.1	269.3	247.4	204.5	87.2	619.8	70.4	10.2	3.4	50.4	23.4	2.2
2010 I	717.3	515.3	252.0	233.9	207.4	76.4	592.3	125.3	17.5	5.3	65.9	64.7	6.2
II	710.1	512.6	247.5	234.9	207.3	77.7	598.2	112.4	15.8	5.0	65.4	51.9	5.0
III	704.2	509.8	244.1	236.2	207.0	78.9	600.8	103.9	14.7	5.3	64.6	44.5	4.3
IV	704.6	506.7	247.3	238.8	208.6	79.6	606.9	98.0	13.9	6.4	64.0	40.4	3.8
2011 I	705.8	505.8	249.0	239.7	209.2	79.6	612.8	93.0	13.2	6.4	63.3	36.2	3.4
II	708.0	505.1	252.6	241.2	210.3	80.6	617.9	89.7	12.7	7.0	62.9	33.8	3.2
III	709.9	504.3	254.3	242.1	209.7	81.1	623.1	86.2	12.1	7.1	63.1	30.2	2.8
IV	707.1	501.4	254.1	242.4	209.6	81.2	625.4	81.9	11.6	4.8	61.7	24.9	2.3
2012 I	704.9	497.6	254.6	243.4	208.4	82.4	628.7	76.4	10.8	4.9	60.3	21.0	2.0
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	3.6	2.2	-1.1	6.2	0.3	-11.7	-1.2	-20.0	-10.3	--	-0.4
2013	-1.4	-3.6	2.3	-0.1	-1.3	1.1	-1.2	-2.7	-0.1	-12.0	-9.1	--	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	2.5	0.8	4.1	3.5	-25.7	-4.3	20.2	-4.0	--	-2.8
II	-0.3	-1.5	2.1	2.7	1.5	3.8	3.3	-20.2	-3.2	41.1	-3.9	--	-1.8
III	0.8	-1.1	4.2	2.5	1.3	2.9	3.7	-17.0	-2.6	32.5	-2.4	--	-1.4
IV	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 I	-0.1	-1.6	2.3	1.5	-0.4	3.5	2.6	-17.9	-2.3	-23.7	-4.7	--	-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

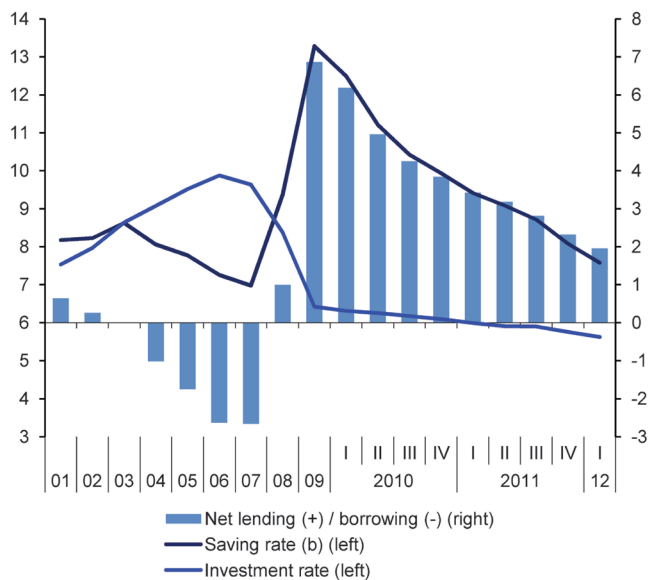


Table 6

**National accounts: Non-financial corporations income and its disposition**

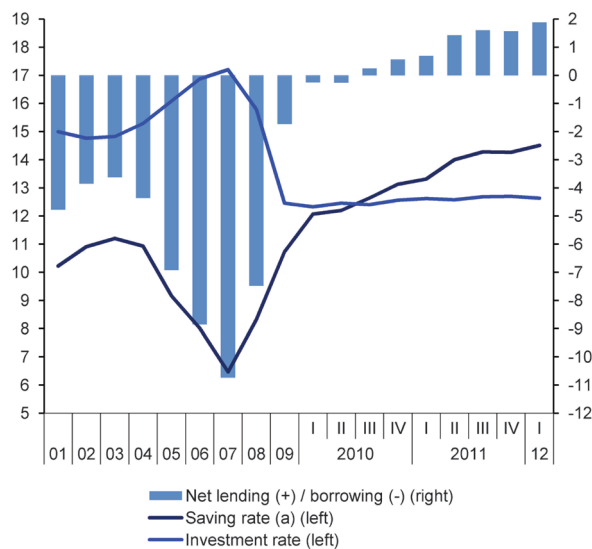
Forecasts in blue

	Gross value added	Compensation of employees and net taxes on production (paid)	Gross operating surplus	Net property income	Net current transfers	Income taxes	Gross saving	Net capital transfers	Gross capital formation	Net lending (+) or borrowing (-)	Net lending or borrowing as a percentage of GDP	Profit share (percentage)	Investment rate (percentage)
	1	2	3=1-2	4	5	6	7=3+4+5-6	8	9	10=7+8-9	11	12=3/1	13=9/1
EUR millions, 4-quarter cumulated operations													
2005	428.5	274.5	154.0	-40.7	-7.9	30.1	75.4	7.9	146.2	-62.9	-6.9	35.9	34.1
2006	460.1	296.1	164.0	-51.6	-8.9	33.9	69.6	9.4	166.2	-87.3	-8.9	35.6	36.1
2007	490.3	318.2	172.0	-62.9	-9.9	41.8	57.5	10.6	181.1	-113.1	-10.7	35.1	36.9
2008	519.3	334.6	184.7	-71.2	-10.4	26.1	77.0	13.4	171.8	-81.4	-7.5	35.6	33.1
2009	502.4	317.8	184.6	-56.2	-9.8	20.0	98.5	13.9	130.5	-18.1	-1.7	36.7	26.0
2010	510.5	308.5	202.0	-51.6	-9.9	15.7	124.8	13.2	132.1	5.9	0.6	39.6	25.9
2011	531.0	307.6	223.4	-57.1	-9.5	16.9	139.9	13.2	136.3	16.8	1.6	42.1	25.7
2012	522.2	294.6	227.6	-68.8	-9.4	18.5	130.9	9.8	129.5	11.2	1.1	43.6	24.8
2013	509.0	285.3	223.7	-73.1	-9.2	18.8	122.6	7.4	120.5	9.4	0.9	43.9	23.7
2010 I	503.9	313.3	190.6	-48.9	-10.0	19.8	111.9	14.3	128.8	-2.7	-0.3	37.8	25.6
II	504.0	311.9	192.1	-48.6	-10.0	19.6	113.9	13.7	130.3	-2.7	-0.3	38.1	25.9
III	506.4	310.3	196.1	-50.4	-10.1	17.3	118.3	14.2	129.9	2.5	0.2	38.7	25.7
IV	510.5	308.5	202.0	-51.6	-9.9	15.7	124.8	13.2	132.1	5.9	0.6	39.6	25.9
2011 I	514.9	308.5	206.4	-53.1	-9.9	15.6	127.8	12.9	133.4	7.3	0.7	40.1	25.9
II	523.2	308.8	214.4	-53.9	-9.9	14.9	135.7	13.3	133.8	15.2	1.4	41.0	25.6
III	527.1	309.3	217.7	-54.0	-9.8	14.6	139.3	13.6	135.8	17.1	1.6	41.3	25.8
IV	531.0	307.6	223.4	-57.1	-9.5	16.9	139.9	13.2	136.3	16.8	1.6	42.1	25.7
2012 I	532.3	304.7	227.6	-58.4	-9.5	16.7	143.0	12.8	135.6	20.2	1.9	42.8	25.5
Annual percentage changes, 4-quarter cumulated operations											Difference from one year ago		
2005	6.5	7.6	4.6	12.4	14.5	23.6	-5.6	-34.8	13.7	--	-2.6	-0.6	2.2
2006	7.4	7.9	6.5	26.9	12.7	12.8	-7.7	18.8	13.7	--	-1.9	-0.3	2.0
2007	6.6	7.5	4.9	22.0	11.7	23.1	-17.5	13.3	9.0	--	-1.9	-0.6	0.8
2008	5.9	5.2	7.4	13.1	5.0	-37.5	34.1	26.2	-5.2	--	3.3	0.5	-3.9
2009	-3.3	-5.0	-0.1	-21.0	-5.5	-23.3	27.9	3.7	-24.1	--	5.8	1.2	-7.1
2010	1.6	-2.9	9.4	-8.3	1.0	-21.5	26.7	-4.7	1.2	--	2.3	2.8	-0.1
2011	4.0	-0.3	10.6	10.8	-3.9	7.2	12.1	-0.5	3.2	--	1.0	2.5	-0.2
2012	-1.7	-4.2	1.9	20.4	-1.0	9.8	-6.5	-25.5	-5.0	--	-0.5	1.5	-0.9
2013	-2.5	-3.2	-1.7	6.3	-2.0	1.5	-6.4	-25.0	-6.9	--	-0.2	0.4	-1.1
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	8.3	8.7	-1.0	-21.3	14.2	-9.9	3.5	--	0.9	2.3	0.3
II	3.8	-1.0	11.7	11.0	-0.6	-23.8	19.1	-3.1	2.7	--	1.7	2.9	-0.3
III	4.1	-0.3	11.0	7.2	-3.1	-15.5	17.7	-4.0	4.5	--	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
2012 I	3.4	-1.2	10.3	9.9	-3.6	7.3	11.9	-0.6	1.7	--	1.2	2.7	-0.4

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

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

Percentage of GDP, 4-quarter moving averages



(a) Including net capital transfers.

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

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

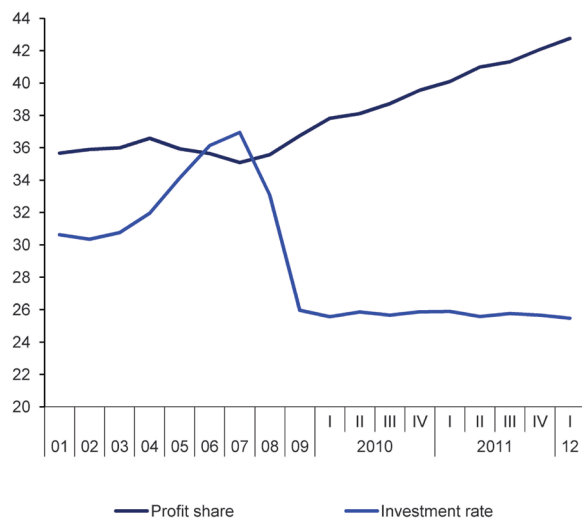


Table 7

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

Forecasts in blue

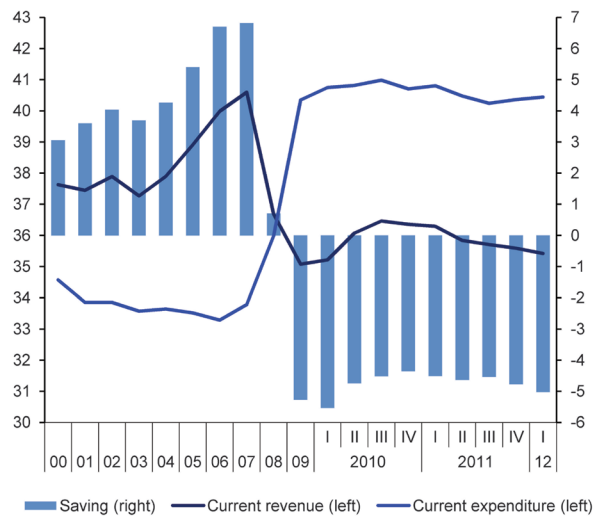
	Revenue							Expenditure							Net lending (+) or borrow- ing (-) (public deficit)
	Total revenue	Current revenue							Current expenditure					Capital expen- diture	
		Total current revenue	Indirect taxes	Direct taxes	Social contribu- tions	Other current revenues	Capital revenue	Total expendi- ture	Total current expenditure	Public consump- tion	Interest and other property income	Social payments	Subsidies and others transfers		
	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	361.0	353.8	112.7	100.1	117.4	23.6	7.2	349.5	304.7	163.4	16.3	105.5	19.6	44.8	11.5
2006	401.3	394.1	123.1	116.3	127.1	27.6	7.2	378.0	328.1	177.1	16.2	112.8	22.0	49.9	23.3
2007	433.2	427.6	122.0	137.0	136.8	31.8	5.7	413.0	355.8	193.1	17.0	122.7	23.1	57.2	20.2
2008	402.1	399.0	106.6	116.5	143.1	32.8	3.0	450.9	391.4	212.0	17.4	136.3	25.6	59.6	-48.9
2009	367.7	367.5	92.4	101.1	140.1	33.9	0.1	484.8	422.8	223.6	18.5	153.7	26.9	62.0	-117.1
2010	381.4	381.3	108.7	99.7	140.2	32.7	0.1	479.6	427.0	221.7	20.1	161.0	24.2	52.6	-98.2
2011	377.1	378.4	105.0	101.6	139.9	31.9	-1.3	468.4	429.2	217.7	25.9	163.5	22.2	39.2	-91.3
2012	380.6	383.1	106.0	108.7	136.9	31.5	-2.5	453.5	429.6	209.3	34.0	167.9	18.3	23.9	-72.9
2013	386.6	389.7	114.9	110.0	133.6	31.3	-3.2	433.7	419.4	195.3	43.2	167.5	13.4	14.3	-47.1
2010 I	368.2	368.1	93.2	101.1	140.2	33.7	0.1	487.1	426.0	223.7	18.7	156.2	27.4	61.1	-118.9
II	378.1	377.3	101.7	102.0	140.3	33.3	0.8	486.3	426.9	224.4	18.9	157.8	25.8	59.3	-108.2
III	382.0	381.6	107.4	100.6	139.9	33.7	0.4	485.7	429.0	224.3	19.6	158.9	26.1	56.8	-103.7
IV	381.4	381.3	108.7	99.7	140.2	32.7	0.1	479.6	426.9	221.7	20.1	161.0	24.1	52.6	-98.2
2011 I	383.1	382.1	109.6	99.4	140.2	32.8	1.1	479.3	429.6	222.5	21.6	161.4	24.1	49.7	-96.1
II	379.5	379.2	106.4	100.0	140.0	32.8	0.3	475.1	428.2	221.0	22.9	161.2	23.1	46.8	-95.6
III	379.0	379.3	107.8	99.9	139.6	32.0	-0.3	470.7	427.5	218.9	24.3	162.0	22.3	43.2	-91.7
IV	377.1	378.4	105.0	101.6	139.9	31.9	-1.3	468.4	429.1	217.7	25.9	163.5	22.1	39.3	-91.3
2012 I	374.2	376.4	103.2	102.2	139.0	31.9	-2.2	465.7	429.7	215.3	27.1	165.0	22.4	36.0	-91.5
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	35.1	35.3	9.8	9.5	13.0	3.0	-0.1	43.6	40.0	20.3	2.4	15.2	2.1	3.7	-8.5
2012	36.4	36.6	10.1	10.4	13.1	3.0	-0.2	43.3	41.0	20.0	3.3	16.0	1.7	2.3	-7.0
2013	36.9	37.2	11.0	10.5	12.8	3.0	-0.3	41.4	40.1	18.7	4.1	16.0	1.3	1.4	-4.5
2010 I	35.2	35.2	8.9	9.7	13.4	3.2	0.0	46.6	40.7	21.4	1.8	14.9	2.6	5.8	-11.4
II	36.1	36.1	9.7	9.8	13.4	3.2	0.1	46.5	40.8	21.5	1.8	15.1	2.5	5.7	-10.3
III	36.5	36.5	10.3	9.6	13.4	3.2	0.0	46.4	41.0	21.4	1.9	15.2	2.5	5.4	-9.9
IV	36.4	36.4	10.4	9.5	13.4	3.1	0.0	45.7	40.7	21.1	1.9	15.3	2.3	5.0	-9.4
2011 I	36.4	36.3	10.4	9.4	13.3	3.1	0.1	45.5	40.8	21.1	2.0	15.3	2.3	4.7	-9.1
II	35.9	35.8	10.1	9.4	13.2	3.1	0.0	44.9	40.5	20.9	2.2	15.2	2.2	4.4	-9.0
III	35.7	35.7	10.1	9.4	13.1	3.0	0.0	44.3	40.2	20.6	2.3	15.2	2.1	4.1	-8.6
IV	35.5	35.6	9.9	9.6	13.2	3.0	-0.1	44.1	40.4	20.5	2.4	15.4	2.1	3.7	-8.6
2012 I	35.2	35.4	9.7	9.6	13.1	3.0	-0.2	43.8	40.4	20.3	2.5	15.5	2.1	3.4	-8.6

(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).

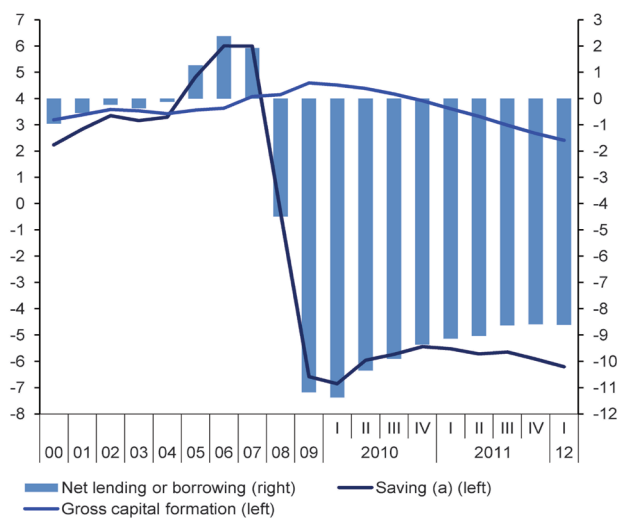
**Chart 1.- Public sector: Current revenue, expenditure and saving**

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

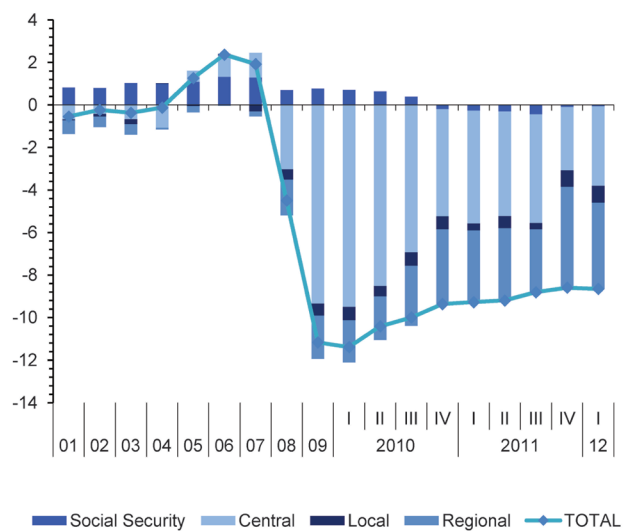
**Public sector balances, by level of Government**

Forecasts in blue

	Deficit				Debt					
	Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government	Central Government	Regional Governments	Local Governments	Social Security	TOTAL Government
EUR Billions, 4-quarter cumulated operations					EUR Billions, end of period					
2007	12.1	-2.3	-3.2	13.7	20.2	291.9	61.0	29.4	0.0	382.3
2008	-32.9	-18.2	-5.3	7.6	-48.9	332.6	72.6	31.8	0.0	437.0
2009	-98.0	-21.3	-5.9	8.1	-117.1	439.4	91.0	34.7	0.0	565.1
2010	-52.9	-36.8	-8.5	-2.1	-98.2	488.2	119.5	35.4	0.0	643.1
2011	-31.7	-50.5	-8.2	-1.0	-91.4	559.5	140.1	35.4	0.0	735.0
2012	-47.7	-20.0	-3.2	-2.1	-73.0	--	--	--	--	--
2013	-32.5	-8.3	-2.1	-4.2	-47.2	--	--	--	--	--
2010 I	-99.4	-20.6	-6.5	7.4	-119.1	446.8	99.4	36.2	0.0	582.4
II	-89.1	-21.4	-5.1	6.7	-109.0	458.9	109.2	36.5	0.0	604.6
III	-72.6	-29.6	-6.6	4.2	-104.6	467.8	112.0	36.2	0.0	616.0
IV	-52.9	-36.8	-6.5	-2.1	-98.2	488.2	120.8	35.4	0.0	644.5
2011 I	-55.9	-35.5	-3.5	-2.8	-97.7	521.4	126.7	37.3	0.0	685.4
II	-52.1	-36.1	-6.0	-3.2	-97.3	532.0	135.7	37.6	0.0	705.3
III	-54.3	-31.4	-3.2	-4.8	-93.6	534.1	137.6	36.7	0.0	708.3
IV	-31.7	-50.5	-8.2	-1.0	-91.4	559.5	141.4	35.4	0.0	736.2
2012 I	-39.7	-43.1	-8.5	-0.7	-92.0	591.4	146.4	36.9	0.0	774.7
II	--	--	--	--	--	617.5	150.6	36.3	0.0	804.4
Percentage of GDP, 4-quarter cumulated operations					Percentage of GDP					
2007	1.2	-0.2	-0.3	1.3	1.9	27.7	5.8	2.8	0.0	36.3
2008	-3.0	-1.7	-0.5	0.7	-4.5	30.6	6.7	2.9	0.0	40.2
2009	-9.3	-2.0	-0.6	0.8	-11.2	41.9	8.7	3.3	0.0	53.9
2010	-5.0	-3.5	-0.6	-0.2	-9.4	46.4	11.4	3.4	0.0	61.2
2011	-3.0	-4.7	-0.8	-0.1	-8.6	52.1	13.1	3.3	0.0	68.5
2012	-4.5	-1.9	-0.3	-0.2	-6.9	--	--	--	--	--
2013	-3.1	-0.8	-0.2	-0.4	-4.5	--	--	--	--	--
2010 I	-9.5	-2.0	-0.6	0.7	-11.4	42.7	9.5	3.5	0.0	55.7
II	-8.5	-2.0	-0.5	0.6	-10.4	43.9	10.4	3.5	0.0	57.8
III	-6.9	-2.8	-0.6	0.4	-10.0	44.7	10.7	3.5	0.0	58.9
IV	-5.0	-3.5	-0.6	-0.2	-9.4	46.5	11.5	3.4	0.0	61.4
2011 I	-5.3	-3.4	-0.3	-0.3	-9.3	49.5	12.0	3.5	0.0	65.1
II	-4.9	-3.4	-0.6	-0.3	-9.2	50.3	12.8	3.6	0.0	66.7
III	-5.1	-3.0	-0.3	-0.4	-8.8	50.3	12.9	3.5	0.0	66.7
IV	-3.0	-4.7	-0.8	-0.1	-8.6	52.6	13.3	3.3	0.0	69.2
2012 I	-3.7	-4.1	-0.8	-0.1	-8.7	55.7	13.8	3.5	0.0	72.9
II	--	--	--	--	--	58.3	14.2	3.4	0.0	75.9

Sources: Bank of Spain (Financial Accounts of the Spanish Economy) and Funcas (Forecasts).

**Chart 1.- Government deficit**  
Percent of GDP, 4-quarter cumulated operations



**Chart 2.- Government debt**  
Percent of GDP

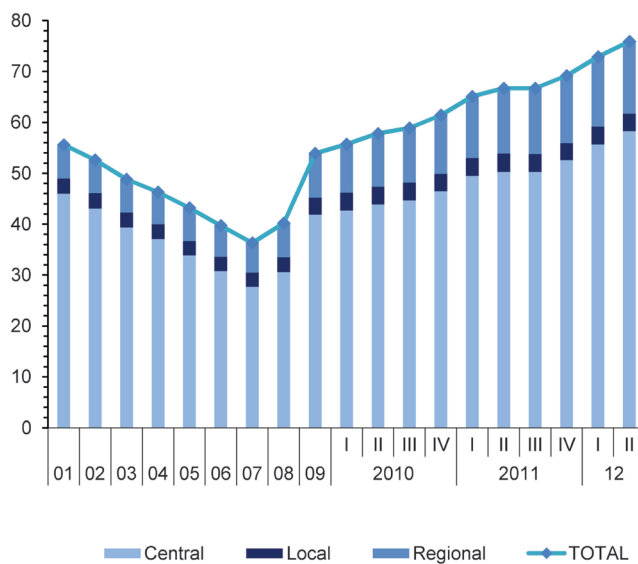


Table 9

## General activity and industrial sector indicators (a)

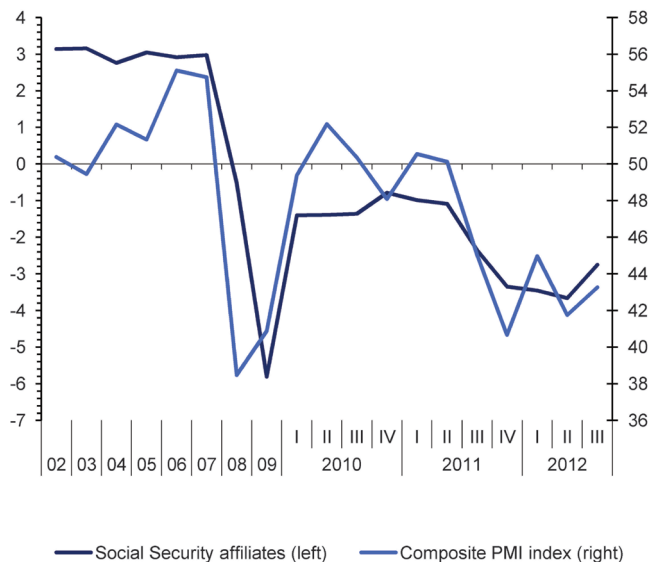
	General activity indicators						Industrial sector indicators			
	Economic Sentiment Index	Composite PMI index	Social Security Affiliates	Electricity consumption (temperature adjusted)	Industrial production index	Social Security Affiliates in industry	Manufacturing PMI index	Industrial confidence index	Turnover index deflated	Industrial orders
	Index	Index	Thousands	1000 GWH	2005=100	Thousands	Index	Balance of responses	2005=100 (smoothed)	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	-18.0	96.7	-23.5
2009	82.5	40.9	18019	256.3	83.6	2411	40.9	-30.8	78.0	-55.1
2010	92.7	50.0	17667	263.8	84.3	2295	50.6	-13.8	80.7	-36.7
2011	92.6	46.6	17431	261.0	83.1	2232	47.3	-12.5	80.9	-30.8
2012 (b)	89.0	43.3	16952	173.3	81.2	2132	43.4	-17.2	78.9	-36.5
2011 I	92.9	50.5	17554	66.2	85.2	2258	51.9	-8.6	81.9	-27.7
II	93.6	50.1	17506	65.9	84.1	2246	48.7	-10.7	81.7	-27.9
III	92.8	45.0	17402	65.3	82.9	2226	44.9	-14.4	80.9	-31.5
IV	91.2	40.7	17254	63.8	81.0	2196	43.8	-16.5	79.6	-36.2
2012 I	91.7	45.0	17103	65.0	79.8	2164	44.9	-14.8	78.3	-33.0
II	88.8	41.7	16945	65.0	78.4	2134	42.2	-17.4	76.7	-36.4
III (b)	85.3	43.3	16827	42.9	78.0	2102	43.2	-20.4	75.6	--
2012 Jun	89.1	42.0	16906	21.6	78.5	2120	41.1	-19.0	76.2	-38.8
Jul	87.7	43.1	16850	21.3	78.0	2107	42.3	-18.6	75.6	-41.5
Aug	82.8	43.4	16804	21.6	--	2096	44.1	-22.2	--	-42.2
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	--	--	0.3	--
2012 (d)	--	--	-2.7	-1.6	-2.3	-4.5	--	--	-5.6	--
2011 I	--	--	-1.0	-0.6	1.7	-2.2	--	--	1.8	--
II	--	--	-1.1	-1.8	-5.1	-2.1	--	--	-1.0	--
III	--	--	-2.4	-3.6	-5.7	-3.5	--	--	-3.9	--
IV	--	--	-3.4	-8.7	-9.0	-5.4	--	--	-6.1	--
2012 I	--	--	-3.5	7.8	-5.5	-5.6	--	--	-6.6	--
II	--	--	-3.7	-0.2	-7.0	-5.5	--	--	-7.7	--
III (e)	--	--	-2.8	-3.6	-5.4	-5.9	--	--	-5.6	--
2012 Jun	--	--	-0.8	0.6	0.0	-0.6	--	--	-0.7	--
Jul	--	--	-1.3	-1.4	-0.6	-0.6	--	--	-0.7	--
Aug	--	--	-1.1	1.2	--	-0.5	--	--	--	--

(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 Commission, Markit Economics Ltd., M. of Labour, M. of Industry, National Statistics Institute, REE and Funcas.

**Chart 1.- General activity indicators**

Percent change from previous period and index



**Chart 2.- Industrial sector indicators**

Percent change from previous period and index

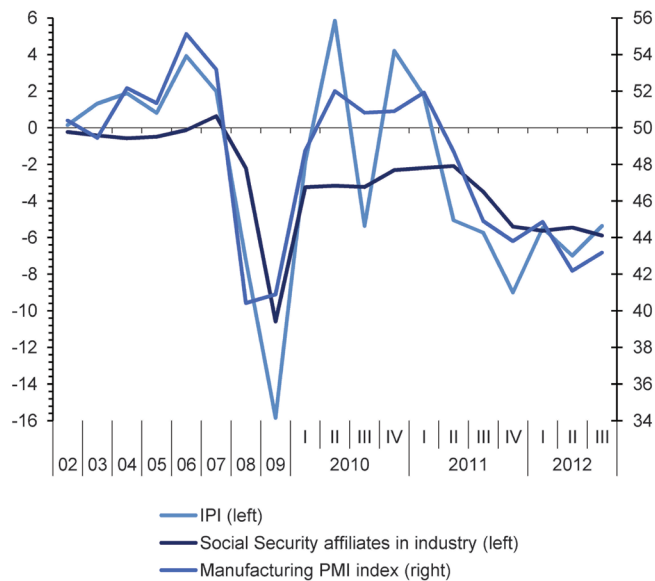


Table 10

**Construction and services sector indicators (a)**

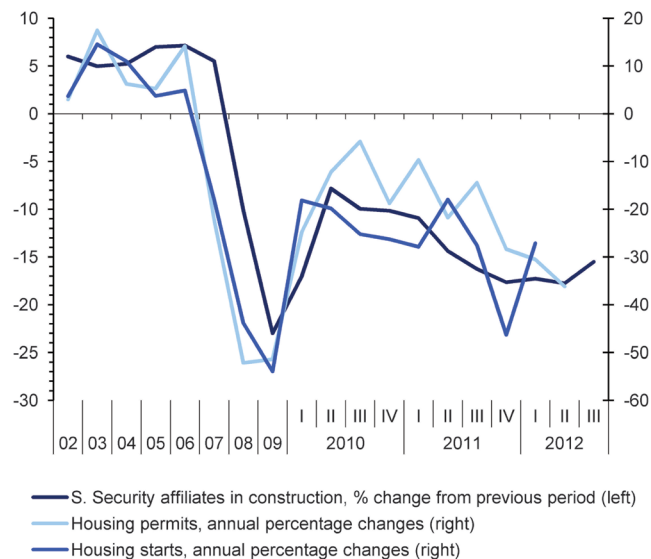
	Construction indicators						Service sector indicators					
	Social Security Affiliates in construction	Consump- tion of cement	Construction confidence index	Official tenders (f)	Housing starts (f)	Housing permits (f)	Social Security Affiliates in services	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
	Thousands	1000 Tons	Balance of responses	EUR Billions	Thou- sands	1000 m2	Thousands	2005=100 (smoothed)	Index	Million	Million (smoothed)	Balance of res- ponses
2007	2601	56.0	8.8	37.4	616.0	125.2	12734	113.4	54.4	271.7	209.0	9.6
2008	2340	42.7	-23.8	38.5	346.0	60.0	12942	109.4	38.2	268.6	202.3	-18.8
2009	1800	28.9	-32.3	35.4	159.3	29.2	12609	94.6	41.0	253.2	186.0	-29.7
2010	1559	24.5	-29.7	21.9	123.6	24.5	12610	95.3	49.3	269.4	192.0	-22.5
2011	1369	20.4	-55.5	11.8	86.3	20.0	12636	94.3	46.5	286.8	201.5	-21.0
2012 (b)	1166	7.2	-52.3	3.7	16.7	5.9	12465	89.8	43.7	158.3	130.6	-19.0
2011 I	1458	5.8	-54.3	3.9	23.0	5.5	12642	95.2	49.6	70.2	50.2	-28.3
II	1402	5.4	-55.3	3.3	27.1	5.3	12661	94.9	50.5	71.4	50.9	-19.3
III	1341	4.9	-58.7	2.7	17.9	5.0	12643	94.1	45.5	72.3	50.7	-14.3
IV	1278	4.3	-53.7	2.2	18.2	4.1	12592	92.8	40.2	70.5	49.7	-22.0
2012 I	1219	4.0	-50.3	1.9	16.7	3.8	12535	91.2	44.8	70.2	48.8	-15.3
II	1161	3.3	-52.3	1.9	--	2.1	12463	89.6	42.4	70.2	48.9	-19.7
III (b)	1113	--	--	--	--	--	12424	88.6	43.8	23.8	32.9	-23.5
2012 Jun	1140	1.1	-49.0	0.4	--	--	12457	89.1	43.4	23.8	16.4	-18.0
Jul	1121	--	-45.0	--	--	--	12433	88.6	43.7	23.8	16.4	-22.0
Aug	1104	--	-65.0	--	--	--	12416	--	44.0	--	16.5	-25.0
<b>Percentage changes (c)</b>												
2007	5.6	0.2	--	-15.4	-19.0	-22.3	3.4	5.6	--	1.7	9.0	--
2008	-10.0	-23.8	--	2.9	-43.8	-52.1	1.6	-3.5	--	-1.2	-3.2	--
2009	-23.1	-32.3	--	-8.2	-54.0	-51.4	-2.6	-13.5	--	-5.7	-8.1	--
2010	-13.4	-15.4	--	-38.0	-22.4	-16.0	0.0	0.8	--	6.4	3.3	--
2011	-12.2	-16.7	--	-46.2	-30.2	-18.6	0.2	-1.1	--	6.4	4.9	--
2012 (d)	-14.8	-34.6	--	-46.9	-27.1	-32.6	-1.4	-5.2	--	-1.4	-3.2	--
2011 I	-10.9	-1.5	--	-45.5	-27.9	-9.7	0.5	-0.3	--	8.2	7.8	--
II	-14.4	-25.9	--	-35.0	-18.0	-21.8	0.6	-1.1	--	7.0	5.6	--
III	-16.3	-28.6	--	-45.2	-27.6	-14.4	-0.6	-3.3	--	4.8	-1.2	--
IV	-17.6	-39.6	--	-59.8	-46.3	-28.4	-1.6	-5.5	--	-9.6	-7.6	--
2012 I	-17.3	-31.2	--	-50.6	-27.1	-30.5	-1.8	-6.6	--	-1.5	-7.1	--
II	-17.8	-50.3	--	-43.6	--	-36.2	-2.3	-6.9	--	-0.1	0.6	--
III (e)	-15.5	--	--	--	--	--	-1.2	-4.4	--	6.8	4.2	--
2012 Jun	-1.7	4.0	--	-50.6	--	--	0.0	-0.6	--	1.2	0.4	--
Jul	-1.7	--	--	--	--	--	-0.2	-0.6	--	0.1	0.4	--
Aug	-1.6	--	--	--	--	--	-0.1	--	--	--	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. (f) Percent changes are over the same period of the previous year.

Sources: European Commission, 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

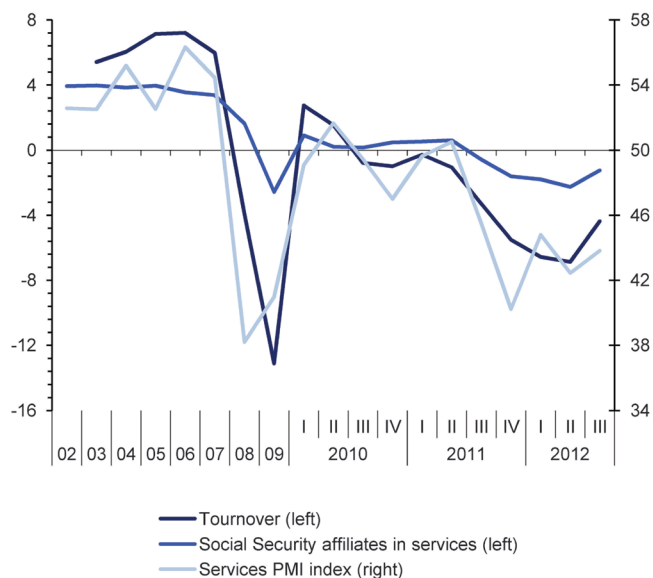


Table 11

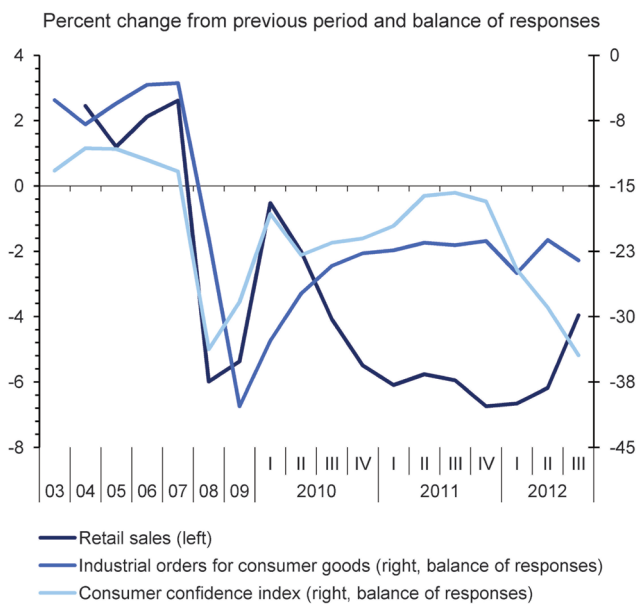
**Consumption and investment indicators (a)**

	Construction 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 (smoothed)	Balance of responses	Million	Balance of responses	Thousands (smoothed)	Balance of responses	2005=100 (smoothed)
2007	104.8	1633.8	-13.3	116.6	-3.2	420.4	16.1	113.4
2008	98.5	1185.3	-33.8	113.2	-21.0	236.9	-4.5	89.6
2009	93.2	971.2	-28.3	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	-17.2	62.2	-22.1	142.0	-21.2	52.6
2012 (b)	81.2	526.9	-28.7	58.3	-23.2	74.8	-36.8	47.7
2011 I	88.6	206.7	-19.6	28.1	-22.4	37.1	-20.3	54.1
II	87.3	204.1	-16.1	27.7	-21.5	36.5	-21.5	53.0
III	85.9	199.5	-15.8	27.9	-21.8	35.2	-25.4	52.2
IV	84.4	195.3	-16.8	27.1	-21.3	32.9	-25.2	50.9
2012 I	83.0	192.9	-24.6	26.5	-25.0	30.2	-29.9	48.8
II	81.7	189.3	-29.0	26.6	-21.2	27.6	-39.4	46.4
III (b)	80.9	125.4	-34.5	8.4	-23.6	17.2	-43.0	--
2012 Jun	81.3	62.8	-25.1	8.5	-21	8.9	-36.3	45.7
Jul	80.9	62.7	-29.2	8.4	-24.2	8.7	-38.0	--
Aug	--	62.7	-39.7	--	-22.9	8.5	-48.1	--
<b>Percentage changes (c)</b>								
2007	2.6	-1.6	--	1.3	--	0.3	--	10.9
2008	-6.0	-27.5	--	-2.9	--	-43.6	--	-21.0
2009	-5.4	-18.1	--	-2.7	--	-40.0	--	-26.8
2010	-1.7	3.0	--	3.1	--	7.0	--	-11.0
2011	-5.6	-19.2	--	-1.8	--	-6.6	--	-9.8
2012 (d)	-6.2	-8.2	--	-6.3	--	-23.1	--	-11.0
2011 I	-6.1	-11.4	--	-1.3	--	-0.8	--	-8.8
II	-5.8	-5.0	--	-5.4	--	-6.4	--	-8.1
III	-6.0	-8.7	--	2.3	--	-13.6	--	-5.4
IV	-6.7	-8.0	--	-10.7	--	-23.5	--	-10.1
2012 I	-6.7	-4.9	--	-8.6	--	-29.4	--	-15.7
II	-6.2	-7.2	--	2.3	--	-30.1	--	-18.0
III (e)	-4.0	-2.7	--	-19.1	--	-24.1	--	--
2012 Jun	-0.5	-0.5	--	-0.1	--	-2.7	--	-1.6
Jul	-0.5	-0.2	--	-1.0	--	-2.7	--	--
Aug	--	0.1	--	--	--	-2.7	--	--

(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 Commission, M. of Economy, M. of Industry, National Statistics Institute, DGT, ANFAC and Funcas.

**Chart 1.- Consumption indicators**



**Chart 2.- Investment indicators**

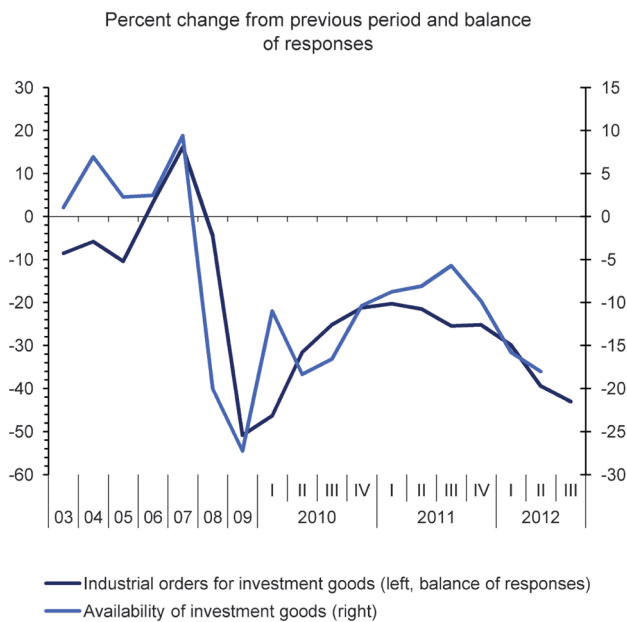


Table 12a

**Labour market (I)**

Forecasts in blue

	Population aged 16-64	Labour force		Employment		Unemployment		Participation rate 16-64 (a)	Employment rate 16-64 (b)	Unemployment rate (c)					
		Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted					Total	Aged 16-24	Spanish	Foreign
												Seasonally adjusted			
	1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13		
Million								Percentage							
2007	30.4	22.2	--	20.4	--	1.8	--	72.6	67.0	8.5	17.9	7.6	12.2		
2008	30.8	22.9	--	20.3	--	2.6	--	73.7	65.8	8.3	24.4	10.2	17.6		
2009	30.9	23.0	--	18.9	--	4.2	--	74.1	61.1	11.4	34.9	16.0	28.4		
2010	30.8	23.1	--	18.5	--	4.6	--	74.4	59.9	18.0	38.4	18.2	30.2		
2011	30.7	23.1	--	18.1	--	5.0	--	74.7	59.0	20.1	43.4	19.6	32.9		
2012	30.5	23.1	--	17.3	--	5.8	--	75.5	56.6	25.1	--	--	--		
2013	30.3	23.0	--	16.7	--	6.3	--	75.7	55.0	27.3	--	--	--		
2010	I	30.9	23.0	23.0	18.4	18.5	4.6	4.5	74.0	59.6	19.4	40.1	17.5	29.1	
	II	30.8	23.1	23.1	18.5	18.5	4.7	4.7	74.4	59.3	20.1	41.4	18.2	30.4	
	III	30.8	23.1	23.2	18.6	18.4	4.6	4.7	74.6	59.4	20.3	41.9	18.4	30.5	
	IV	30.8	23.1	23.1	18.4	18.4	4.7	4.7	74.6	59.2	20.4	43.1	18.5	30.9	
2011	I	30.8	23.1	23.0	18.2	18.3	4.9	4.7	74.3	58.9	20.6	44.5	18.8	30.2	
	II	30.7	23.1	23.1	18.3	18.3	4.8	4.9	74.8	59.0	21.0	45.4	19.0	32.0	
	III	30.7	23.1	23.2	18.2	18.1	5.0	5.1	75.0	58.4	22.1	47.0	19.9	34.0	
	IV	30.7	23.1	23.1	17.8	17.8	5.3	5.3	74.8	57.6	22.9	48.9	20.7	35.4	
2012	I	30.6	23.1	23.0	17.4	17.6	5.6	5.4	74.7	56.9	23.7	51.1	21.6	35.1	
	II	30.5	23.1	23.1	17.4	17.4	5.7	5.7	75.1	56.4	24.7	52.6	22.8	35.9	
Percentage changes (d)								Difference from one year ago							
2007	1.8	2.8	--	3.1	--	-0.2	--	0.7	0.8	-0.2	0.1	-0.4	0.4		
2008	1.4	3.0	--	-0.5	--	41.3	--	1.1	-1.3	3.1	6.5	2.6	5.4		
2009	0.4	0.8	--	-6.8	--	60.2	--	0.4	-4.7	6.7	10.5	5.8	10.9		
2010	-0.3	0.2	--	-2.3	--	11.6	--	0.3	-1.2	2.0	3.4	2.1	1.8		
2011	-0.4	0.0	--	-1.9	--	7.9	--	0.3	-0.9	1.6	5.1	1.5	2.7		
2012	-0.6	-0.2	--	-4.6	--	15.7	--	0.8	-2.4	3.4	--	--	--		
2013	-0.7	-0.5	--	-3.5	--	8.6	--	0.1	-1.6	6.6	--	--	--		
2010	I	-0.2	-0.4	-0.6	-3.6	-2.6	15.0	8.8	-0.2	-2.1	2.6	5.2	2.7	2.3	
	II	-0.3	0.2	2.3	-2.5	-1.6	12.3	20.1	0.3	-1.4	2.2	3.9	2.2	2.3	
	III	-0.3	0.6	0.8	-1.7	-0.2	10.9	4.7	0.6	-0.9	1.9	2.2	1.9	1.9	
	IV	-0.2	0.6	-0.3	-1.3	-0.7	8.6	1.3	0.6	-0.6	1.5	3.7	1.7	0.7	
2011	I	-0.2	0.2	-1.9	-1.3	-2.7	6.4	1.4	0.3	-0.6	1.2	4.4	1.3	1.1	
	II	-0.4	0.1	1.7	-0.9	-0.3	4.1	9.5	0.4	-0.3	0.8	4.0	0.8	1.6	
	III	-0.4	0.1	0.9	-2.1	-4.7	8.8	24.2	0.4	-1.0	1.8	5.2	1.5	3.5	
	IV	-0.5	-0.1	-1.0	-3.3	-5.2	12.3	15.0	0.3	-1.7	2.5	5.8	2.2	4.5	
2012	I	-0.6	0.0	-1.8	-4.0	-5.5	14.9	11.3	0.3	-2.0	3.1	6.6	2.8	4.9	
	II	-0.5	-0.1	1.6	-4.8	-3.9	17.8	21.2	0.3	-2.6	3.8	7.1	3.8	3.9	

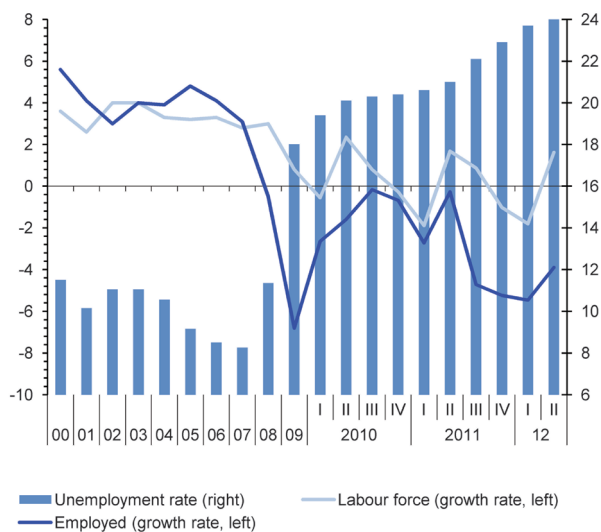
(a) Labour force aged 16-64 over population aged 16-64. (b) Employed aged 16-64 over population aged 16-64. (c) Total unemployed over total labour force.

(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

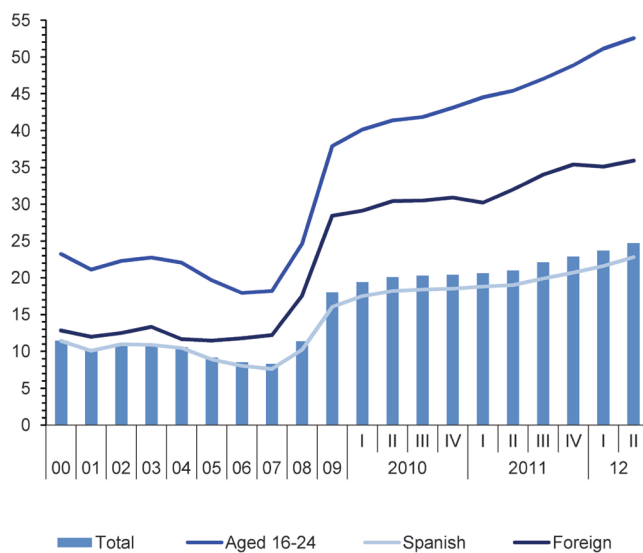


Table 12b

**Labour market (II)**

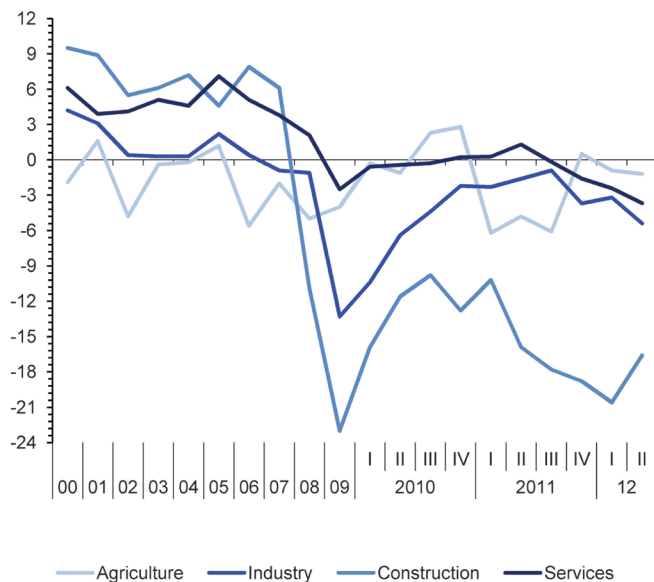
	Employed by sector				Employed by professional situation					Employed by duration of the working-day		
	Agriculture	Industry	Construction	Services	Employees				Self-employed	Full-time	Part-time	Part-time employment rate (b)
					Total	By type of contract						
						Temporary	Indefinite	Temporary employment rate (a)				
	1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
Million (original data)												
2007	0.86	3.23	2.75	13.51	16.76	5.31	11.45	31.7	3.60	17.96	2.40	11.8
2008	0.82	3.20	2.45	13.79	16.68	4.88	11.80	29.3	3.58	17.83	2.43	12.0
2009	0.79	2.78	1.89	13.44	15.68	3.98	11.70	25.4	3.21	16.47	2.42	12.8
2010	0.79	2.61	1.65	13.40	15.35	3.82	11.52	24.9	3.11	16.01	2.45	13.3
2011	0.76	2.56	1.39	13.40	15.11	3.83	11.28	25.3	3.00	15.60	2.50	13.8
2012 (c)	0.75	2.45	1.19	13.03	14.40	3.42	10.99	23.7	3.02	14.87	2.55	14.7
2010 I	0.84	2.60	1.66	13.30	15.25	3.72	11.53	24.4	3.14	15.94	2.45	13.3
II	0.78	2.62	1.70	13.38	15.36	3.82	11.54	24.9	3.11	15.98	2.50	13.5
III	0.75	2.60	1.67	13.52	15.46	3.95	11.51	25.6	3.09	16.17	2.37	12.8
IV	0.80	2.62	1.57	13.41	15.31	3.80	11.51	24.8	3.09	15.93	2.47	13.4
2011 I	0.78	2.54	1.49	13.33	15.12	3.75	11.37	24.8	3.03	15.59	2.57	14.1
II	0.74	2.58	1.43	13.55	15.29	3.90	11.39	25.5	3.01	15.72	2.59	14.1
III	0.71	2.58	1.37	13.50	15.18	3.95	11.23	26.0	2.98	15.76	2.40	13.2
IV	0.81	2.53	1.28	13.20	14.83	3.70	11.12	25.0	2.98	15.35	2.46	13.8
2012 I	0.78	2.46	1.19	13.01	14.41	3.42	10.99	23.8	3.02	14.93	2.51	14.4
II	0.73	2.44	1.19	13.05	14.40	3.41	10.99	23.7	3.02	14.82	2.60	14.9
Annual percentage changes								Difference from one year ago	Annual percentage changes		Difference from one year ago	
2007	-2.0	-0.9	6.1	3.8	3.4	-3.8	7.1	-2.4	1.6	3.3	1.6	-0.2
2008	-5.0	-1.1	-10.9	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
2012 (c)	-1.0	-4.3	-18.6	-3.1	-5.3	-10.7	-3.5	-1.6	0.0	-5.0	-0.9	0.5
2010 I	-0.3	-10.4	-15.9	-0.6	-3.7	-7.6	-2.4	-1.0	-3.3	-4.4	1.2	0.6
II	-1.1	-6.4	-11.6	-0.4	-2.4	-3.8	-1.9	-0.4	-3.0	-3.1	2.0	0.6
III	2.3	-4.4	-9.8	-0.3	-1.2	-2.4	-0.8	-0.3	-4.0	-2.3	2.4	0.5
IV	2.8	-2.2	-12.8	0.2	-1.2	-2.2	-0.8	-0.3	-1.9	-1.5	0.2	0.2
2011 I	-6.2	-2.3	-10.2	0.3	-0.9	0.7	-1.4	0.4	-3.5	-2.2	4.7	0.8
II	-4.8	-1.6	-15.9	1.3	-0.5	2.1	-1.3	0.6	-3.3	-1.6	3.6	0.6
III	-6.1	-0.9	-17.8	-0.2	-1.8	0.0	-2.4	0.5	-3.7	-2.6	1.1	0.4
IV	0.5	-3.7	-18.8	-1.6	-3.2	-2.5	-3.4	0.2	-3.7	-3.7	-0.6	0.4
2012 I	-0.9	-3.2	-20.6	-2.4	-4.7	-8.6	-3.4	-1.0	-0.3	-4.2	-2.4	0.2
II	-1.2	-5.4	-16.6	-3.7	-5.9	-12.7	-3.5	-1.9	0.3	-5.7	0.5	0.8

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

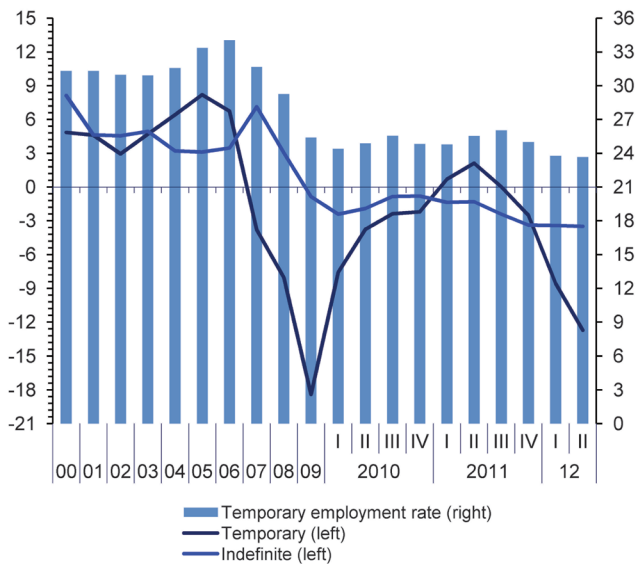


Table 13

**Index of Consumer Prices**

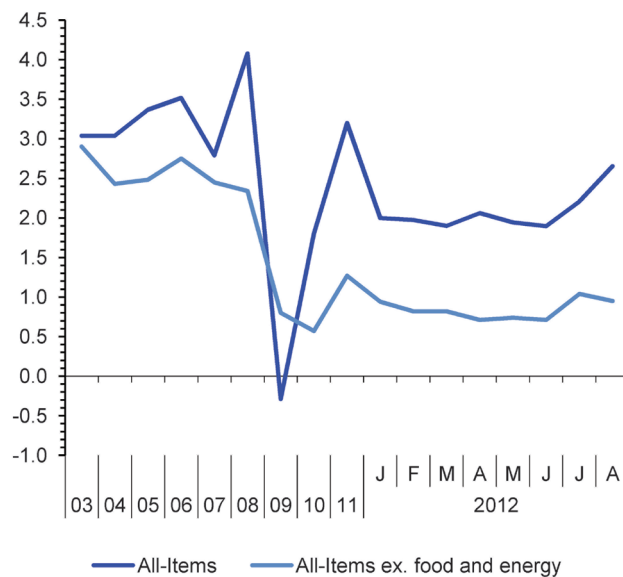
Forecasts in blue

	Total	Total excluding food and energy	Excluding unprocessed food and energy				Unproces-sed food	Energy	Food
			Total	Non-energy industrial goods	Services	Processed food			
% of total in 2011	100.0	67.46	82.11	27.79	39.67	14.65	6.50	11.39	21.15
<b>Indexes, 2011 = 100</b>									
1999	70.8	..	74.4	88.5	67.0	68.9	63.8	52.6	..
2000	73.2	..	76.3	90.3	69.5	69.5	66.5	59.7	..
2001	75.9	..	79.0	92.7	72.4	71.9	72.2	59.1	..
2002	78.6	83.7	81.9	95.0	75.8	75.0	76.4	59.0	75.3
2003	80.9	86.1	84.3	96.9	78.6	77.3	81.0	59.8	78.3
2004	83.4	88.2	86.6	97.8	81.5	80.0	84.7	62.6	81.4
2005	86.2	90.4	88.9	98.7	84.6	82.8	87.5	68.7	84.2
2006	89.2	92.9	91.5	100.1	87.8	85.7	91.3	74.1	87.4
2007	91.7	95.2	93.9	100.8	91.2	88.9	95.7	75.4	91.0
2008	95.5	97.4	96.9	101.1	94.8	94.6	99.5	84.4	96.1
2009	95.2	98.2	97.7	99.8	97.0	95.4	98.2	76.8	96.3
2010	96.9	98.7	98.3	99.4	98.3	96.4	98.2	86.4	96.9
2011	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2012	102.5	100.8	101.2	100.6	101.3	103.0	102.3	110.3	102.8
2013	104.8	102.4	102.9	101.4	103.0	105.6	105.3	117.6	105.5
<b>Annual percentage changes</b>									
2007	2.8	2.5	2.7	0.7	3.9	3.7	4.7	1.7	4.1
2008	4.1	2.3	3.2	0.3	3.9	6.5	4.0	11.9	5.7
2009	-0.3	0.8	0.8	-1.3	2.4	0.9	-1.3	-9.0	0.2
2010	1.8	0.6	0.6	-0.5	1.3	1.0	0.0	12.5	0.7
2011	3.2	1.3	1.7	0.6	1.8	3.8	1.8	15.7	3.2
2012	2.5	1.1	1.4	0.6	1.3	3.0	2.3	10.3	2.8
2013	2.2	1.4	1.5	0.8	1.7	2.5	2.9	6.6	2.6
2011 Dec	2.4	1.1	1.5	0.3	1.7	3.1	0.7	10.3	2.4
2012 Jan	2.0	0.9	1.3	0.2	1.4	2.8	1.0	8.0	2.2
Feb	2.0	0.8	1.2	0.1	1.3	2.8	1.8	7.9	2.5
Mar	1.9	0.8	1.2	0.3	1.2	2.7	1.4	7.5	2.3
Apr	2.1	0.7	1.1	0.1	1.1	2.9	2.1	8.9	2.7
May	1.9	0.7	1.1	0.2	1.1	3.0	1.1	8.3	2.4
Jun	1.9	0.7	1.3	0.1	1.2	3.8	2.5	6.2	3.4
Jul	2.2	1.0	1.4	1.0	1.0	3.2	2.0	7.8	2.8
Aug	2.7	1.0	1.4	0.7	1.1	3.2	2.7	11.9	3.1
Sep	3.1	1.2	1.4	1.0	1.3	2.7	3.0	14.6	2.8
Oct	3.2	1.3	1.6	1.0	1.5	3.0	3.1	14.5	3.0
Nov	3.3	1.5	1.8	1.3	1.7	2.9	3.5	13.9	3.1
Dec	3.3	1.5	1.8	1.3	1.7	3.0	3.8	14.3	3.2
2013 Jan	3.2	1.6	1.9	1.4	1.8	3.0	4.0	12.3	3.3
Feb	3.0	1.6	1.9	1.4	1.8	3.0	2.9	11.1	3.0
Mar	2.9	1.8	2.0	1.3	2.2	3.1	2.9	8.8	3.0
Apr	2.3	1.5	1.7	1.4	1.6	2.5	2.7	6.4	2.6
May	2.7	1.7	1.8	1.4	1.8	2.3	3.4	8.5	2.7
Jun	3.0	1.7	1.8	1.5	1.9	2.5	2.5	11.1	2.5
Jul	2.4	1.3	1.5	0.4	1.9	2.5	3.2	8.4	2.7
Aug	2.1	1.4	1.6	0.5	2.0	2.5	2.9	5.2	2.6
Sep	1.5	1.1	1.3	0.3	1.7	2.3	2.8	2.0	2.4
Oct	1.4	0.9	1.1	0.1	1.5	2.1	2.7	2.5	2.3
Nov	1.3	0.8	1.0	0.0	1.3	2.1	2.6	2.5	2.2
Dec	1.3	0.8	1.0	0.0	1.3	2.1	2.5	2.5	2.2

Sources: Eurostat, INE and Funcas (Forecasts).

**Chart 1.- Inflation Rate (I)**

Annual percentage changes



**Chart 2.- Inflation rate (II)**

Annual percentage changes

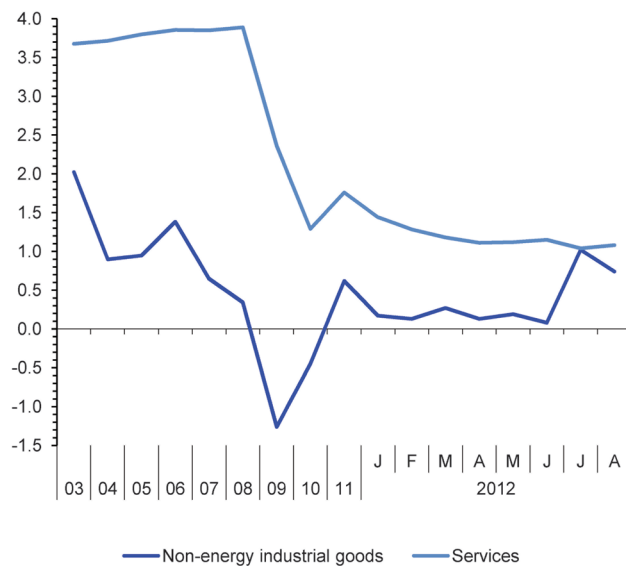


Table 14

## Other prices and costs indicators

	GDP deflator (a)	Industrial producer prices		Housing prices		Urban land prices (M. Public Works)	Labour Costs Survey				Wage increases agreed in collective bargaining
		Total	excluding energy	Housing Price Index (INE)	m2 average price (M. Public Works)		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	113.6	98.5	100.7	91.1	137.5	134.8	145.6	142.5	--
2009	135.5	112.4	110.9	91.9	93.2	85.8	142.3	139.2	151.8	150.4	--
2010	136.0	116.0	112.3	90.1	89.6	74.8	142.8	140.4	150.2	151.4	--
2011	137.3	124.0	116.5	83.4	84.6	69.8	144.5	141.9	152.5	154.7	--
2012 (b)	137.6	127.8	117.7	74.2	79.2	67.0	144.3	141.6	152.7	149.4	--
2011 I	137.0	122.4	115.6	86.3	86.4	76.2	140.5	136.3	153.7	142.6	--
II	137.3	124.0	116.8	85.2	85.2	76.8	146.9	145.2	152.3	153.0	--
III	137.3	124.6	117.0	82.9	84.1	60.9	138.9	134.9	151.2	159.8	--
IV	137.8	125.0	116.7	79.4	82.8	65.5	151.7	151.3	152.9	163.5	--
2012 I	137.7	128.1	117.3	75.4	80.2	63.7	142.2	137.9	155.1	144.7	--
II	137.6	127.6	118.0	73.0	78.1	70.2	146.5	145.3	150.2	154.0	--
2012 Jun	--	127.0	118.0	--	--	--	--	--	--	--	--
Jul	--	128.0	118.1	--	--	--	--	--	--	--	--
Ago	--	--	--	--	--	--	--	--	--	--	--
Annual percent changes											
2007	3.3	3.6	4.1	--	5.8	3.8	4.0	4.0	4.1	4.6	2.9
2008	2.4	6.5	4.5	-1.5	0.7	-8.9	4.8	5.1	4.1	4.6	3.5
2009	0.1	-3.4	-2.4	-6.7	-7.4	-5.8	3.5	3.2	4.3	5.6	2.6
2010	0.4	3.2	1.3	-2.0	-3.9	-12.8	0.4	0.9	-1.1	0.6	1.4
2011	1.0	6.9	3.8	-7.4	-5.6	-6.7	1.2	1.0	1.6	2.2	2.7
2012 (c)	0.4	3.6	1.2	-13.5	-7.8	-12.5	0.4	0.6	-0.2	1.1	1.9
2011 I	1.0	7.4	4.1	-4.1	-4.7	3.8	0.8	1.0	0.4	0.0	3.1
II	1.2	6.9	4.1	-6.8	-5.2	1.5	0.8	0.6	1.5	1.5	2.8
III	0.8	7.2	3.9	-7.4	-5.6	-11.1	1.5	1.2	2.2	4.8	2.6
IV	0.8	6.2	2.9	-11.2	-6.8	-19.9	1.6	1.4	2.2	2.5	2.4
2012 I	0.5	4.6	1.4	-12.6	-7.2	-16.4	1.1	1.2	0.9	1.5	2.3
II	0.3	2.9	1.1	-14.4	-8.3	-8.6	-0.3	0.0	-1.4	0.7	1.9
2012 Jun	--	2.5	1.0	--	--	--	--	--	--	--	1.7
Jul	--	2.6	1.0	--	--	--	--	--	--	--	1.6
Ago	--	--	--	--	--	--	--	--	--	--	1.5

(a) Seasonally adjusted. (b) Period with available data. (c) Growth of available period over the same period 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

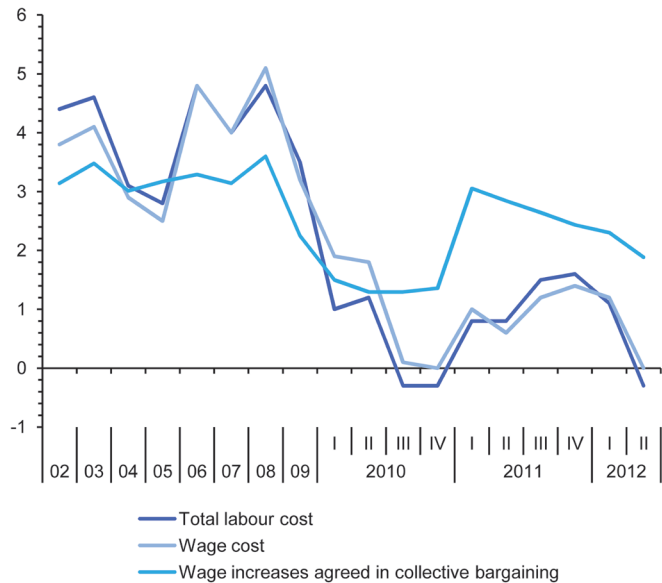


Table 15

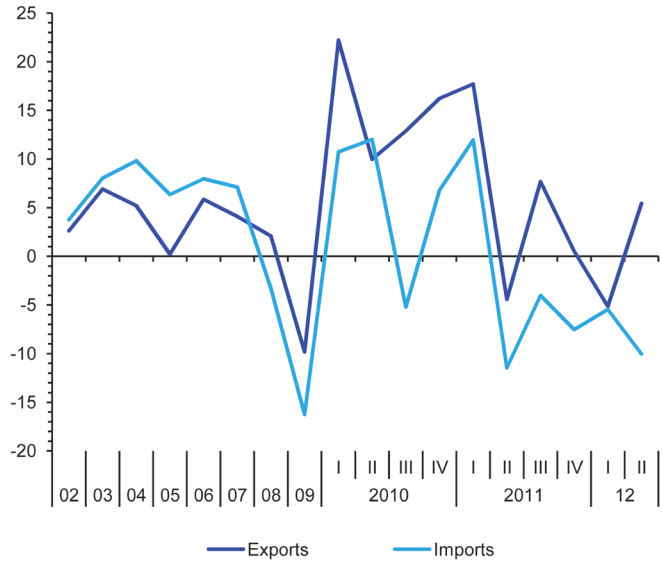
**External trade (a)**

	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	108.3	110.2	285.0	105.8	115.6	130.9	54.2	-100.0	-65.5	-40.2
2008	189.2	108.5	112.5	283.4	108.8	111.8	130.8	58.5	-94.2	-50.7	-26.3
2009	159.9	101.7	101.4	206.1	94.5	93.7	110.5	49.4	-46.2	-18.8	-9.1
2010	186.8	102.8	117.2	240.1	100.8	102.3	126.3	60.5	-53.3	-17.9	-5.0
2011	214.5	107.2	129.1	260.8	108.4	103.3	141.7	72.8	-46.3	-5.2	4.1
2012 (b)	110.0	108.2	130.9	128.6	113.0	97.7	70.6	39.4	-18.6	5.7	5.5
2011 I	53.4	105.4	130.7	66.1	106.3	106.8	34.8	18.5	-12.7	-1.7	-0.1
II	53.3	106.4	129.2	64.2	106.4	103.6	34.8	18.5	-10.9	-0.7	1.5
III	54.9	107.6	131.6	65.4	109.6	102.5	35.8	19.1	-10.5	0.2	1.5
IV	55.7	109.1	131.8	65.3	111.5	100.5	36.3	19.4	-9.6	-0.3	1.2
2012 I	55.0	109.1	130.1	65.8	114.0	99.1	35.2	19.8	-10.8	1.6	2.3
II	54.8	107.2	131.8	62.7	111.9	96.2	34.4	20.4	-7.9	4.0	3.0
2012 Apr	17.6	107.1	127.1	20.7	113.0	94.5	11.2	6.4	-3.2	1.1	1.1
May	18.6	107.2	134.4	20.7	110.6	96.4	11.7	6.9	-2.1	1.6	1.2
Jun	18.6	107.4	133.9	21.3	112.2	97.7	11.5	7.1	-2.7	1.3	0.7
Percentage changes (c)									Percentage of GDP		
2007	8.6	4.3	4.1	8.5	1.4	7.1	8.0	10.0	-9.5	-6.2	-3.8
2008	2.3	0.2	2.1	-0.6	2.8	-3.3	-0.1	8.0	-8.7	-4.7	-2.4
2009	-15.5	-6.3	-9.8	-27.3	-13.2	-16.3	-15.5	-15.5	-4.4	-1.8	-0.9
2010	16.8	1.1	15.6	16.5	6.7	9.2	14.3	22.5	-5.1	-1.7	-0.5
2011	14.8	4.3	10.1	8.7	7.6	1.0	12.2	20.4	-4.4	-0.5	0.4
2012 (d)	3.4	2.2	1.2	-1.4	6.2	-7.2			--	--	--
2011 I	24.0	5.3	17.7	28.0	14.3	11.9	15.4	42.2	-4.8	-0.7	0.0
II	-0.5	4.1	-4.4	-11.0	0.5	-11.5	-1.0	0.5	-4.1	-0.3	0.6
III	12.6	4.6	7.7	7.9	12.4	-4.0	12.5	12.9	-3.9	0.1	0.6
IV	6.0	5.5	0.5	-0.8	7.3	-7.5	6.3	5.6	-3.6	-0.1	0.4
2012 I	-5.1	0.0	-5.2	3.1	9.1	-5.5	-12.2	9.4	-4.1	0.6	0.9
II	-1.6	-6.6	5.4	-20.1	-6.9	-10.0	-8.9	12.6	-3.0	1.5	1.1
2012 Apr	-4.2	-2.4	-1.9	-4.5	3.1	-2.3	-4.4	-5.4	--	--	--
May	5.9	0.2	5.8	-0.2	-2.1	2.0	5.1	-4.3	--	--	--
Jun	-0.2	0.2	-0.4	2.9	1.5	1.4	-2.5	3.5	--	--	--

(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.

Sources: Ministry of Economy and Fincas.

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



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

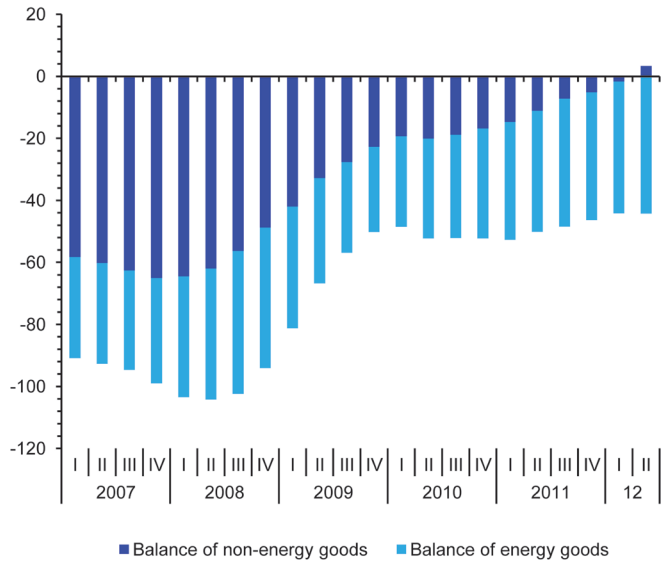


Table 16

**Balance of Payments (according to IMF manual)**

(Net transactions)

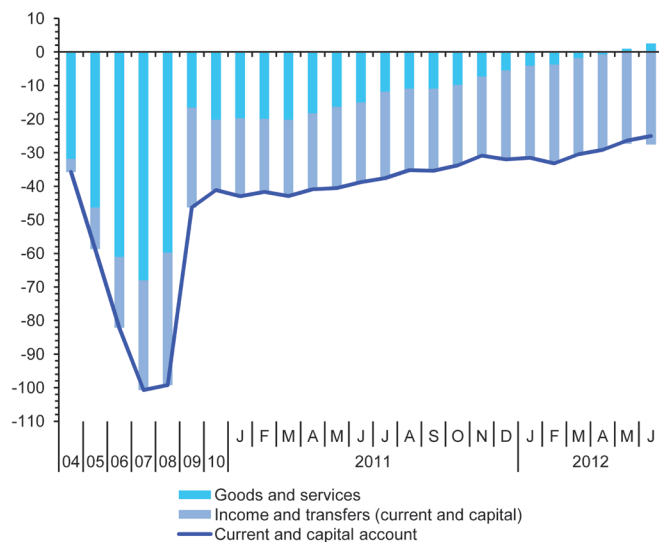
	Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
	Total	Goods	Services	Income	Transfers			Financial account, excluding Bank of Spain					Bank of Spain	
								Total	Direct investment	Portfolio investment	Other investment	Financial derivatives		
	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	-37.50	-39.73	34.24	-26.11	-5.90	5.49	-32.01	-73.39	-5.60	-23.08	-44.88	0.16	109.15	-3.75
2012(b)	-17.13	-15.58	16.38	-12.06	-5.88	2.41	-14.72	-219.82	5.80	-77.49	-154.29	6.17	236.79	-2.25
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	-7.20	-8.73	7.39	-6.80	0.94	1.31	-5.89	-65.09	3.27	-11.42	-57.37	0.43	75.30	-4.33
2012 I	-14.44	-8.97	5.72	-6.70	-4.49	0.69	-13.76	-95.30	7.18	-36.15	-69.83	3.49	105.57	3.49
II	-2.69	-6.61	10.66	-5.35	-1.38	1.73	-0.96	-124.51	-1.38	-41.35	-84.46	2.68	131.22	-5.74
2012 Apr	-1.68	-2.89	2.83	-1.31	-0.31	0.31	-1.36	-26.59	0.77	-20.20	-7.17	0.02	28.99	-1.04
May	-0.75	-1.50	3.45	-1.87	-0.84	0.70	-0.05	-41.29	-1.24	-9.20	-31.92	1.07	42.05	-0.70
Jun	-0.26	-2.22	4.38	-2.17	-0.24	0.71	0.45	-56.63	-0.91	-11.95	-45.37	1.59	60.18	-4.00
Percentage of GDP														
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	-4.6	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	-2.5	-0.6	0.5	-3.0	-6.9	-0.5	-2.2	-4.2	0.0	10.3	-0.4
2012(b)	-3.2	-2.9	3.1	-2.3	-1.1	0.5	-2.8	-41.6	1.1	-14.7	-29.2	1.2	44.8	-0.4
2011 I	-6.5	-4.3	1.6	-2.3	-1.6	0.6	-5.9	8.0	-1.4	8.8	-0.4	1.1	-4.2	2.1
II	-2.8	-3.6	3.5	-2.2	-0.6	0.5	-2.3	0.6	-2.8	-7.3	11.4	-0.8	2.2	-0.4
III	-2.2	-3.9	5.1	-2.9	-0.5	0.5	-1.7	-12.0	0.8	-5.7	-6.8	-0.4	15.3	-1.5
IV	-2.6	-3.2	2.7	-2.5	0.3	0.5	-2.1	-23.7	1.2	-4.2	-20.9	0.2	27.4	-1.6
2012 I	-5.6	-3.5	2.2	-2.6	-1.7	0.3	-5.3	-36.8	2.8	-13.9	-26.9	1.3	40.7	1.3
II	-1.0	-2.5	4.0	-2.0	-0.5	0.6	-0.4	-46.2	-0.5	-15.3	-31.3	1.0	48.6	-2.1

(b) 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

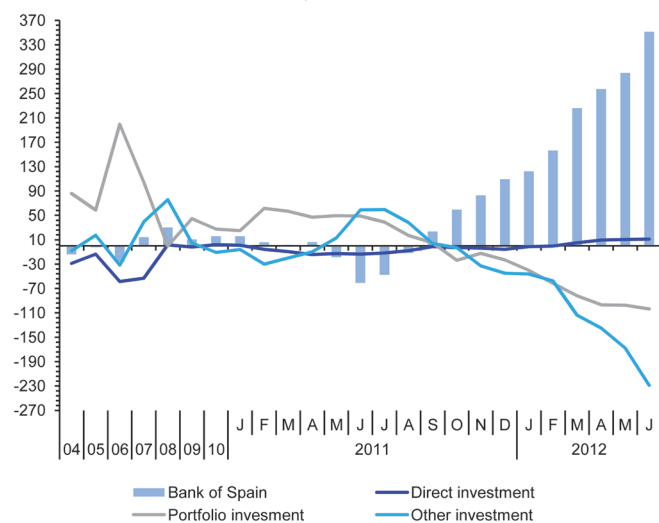


Table 17

**State and Social Security System budget**

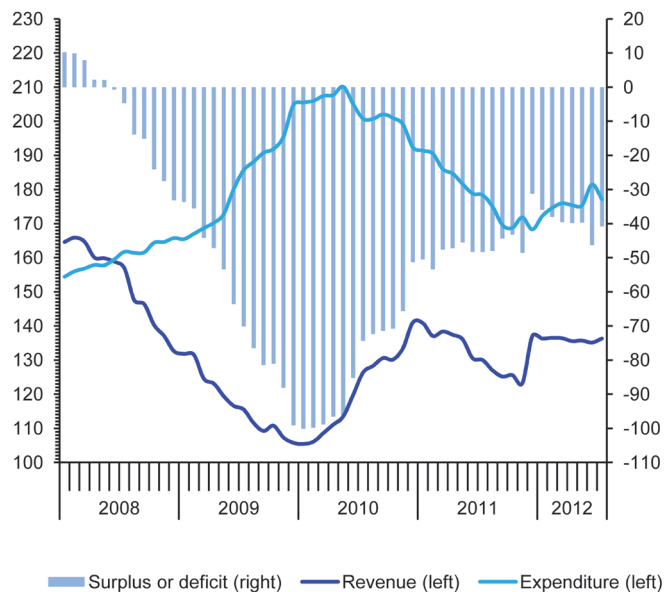
	State							Social Security System				
	National accounts basis			Revenue, cash basis (a)				Surplus or deficit	Accrued income		Expenditure	
	Surplus or deficit	Revenue	Expenditure	Total	Direct taxes	Indirect taxes	Others		Total	of which, social contributions	Total	of which, pensions
	1=2-3	2	3	4=5+6+7	5	6	7	8=9-11	9	10	11	12
<b>EUR billions, 12-month cumulated</b>												
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	-33.2	132.6	165.8	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
2012(b)	-48.5	52.2	100.7	133.8	53.4	42.2	38.1	2.4	72.7	59.9	70.3	60.1
2012 May	-39.7	135.7	175.4	176.9	89.2	68.5	19.2	-0.8	122.8	104.7	123.6	103.1
Jun	-46.3	135.2	181.5	178.7	90.2	68.0	20.4	-0.3	123.3	104.4	123.7	103.4
Jul	-40.8	136.3	177.2	206.4	92.3	67.5	46.5	-1.4	123.2	104.2	124.6	104.1
<b>Annual percentage changes</b>												
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
2012(b)	--	-1.4	9.6	28.1	5.3	-8.1	391.9	--	2.1	-1.9	3.5	4.4
2012 May	--	-0.3	-3.4	-1.3	1.6	-8.1	13.6	--	0.5	-0.3	2.1	3.7
Jun	--	3.5	1.5	0.2	2.5	-7.8	23.5	--	0.9	-0.6	1.8	3.6
Jul	--	4.8	-0.7	17.7	6.4	-7.2	194.8	--	2.2	-0.6	2.9	3.6
<b>Percentage of GDP, 12-month cumulated</b>												
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	19.5	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	6.9	1.5	0.2	11.7	10.1	11.5	9.3
2011	-2.9	12.9	15.8	16.6	8.4	6.7	1.5	0.0	11.4	9.9	11.5	9.5
2012 May	-3.8	12.9	16.7	16.8	8.5	6.5	1.8	-0.1	11.7	10.0	11.8	9.8
Jun	-4.4	12.9	17.3	17.0	8.6	6.5	1.9	0.0	11.7	9.9	11.8	9.8
Jul	-3.9	13.0	16.9	19.6	8.8	6.4	4.4	-0.1	11.7	9.9	11.9	9.9

(a) Including the regional and local administrations share in direct and indirect taxes. (b) Cumulated since January.

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

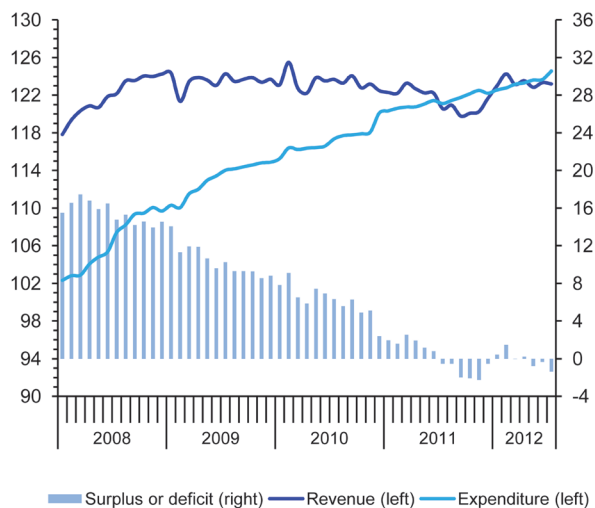


Table 18

**Monetary and financial indicators**

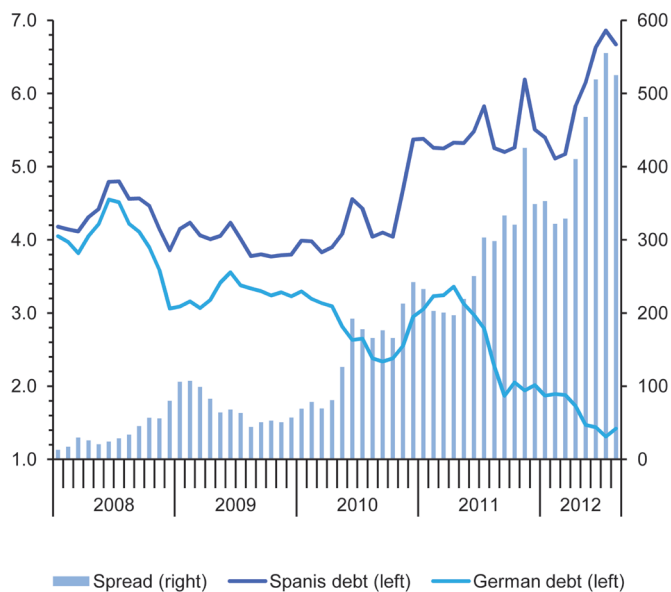
	Interest rates (percentage rates)					Credit stock (EUR billion)				Contribution of Spanish MFI to M3	Stock market (IBEX-35)	
	10 year Bonds	Spread with German Bund (basis points)	Housing credit to households	Consumer credit to households	Credit to non-financial corporations (less than 1 million)	TOTAL	Government	Non-financial corporations	Households			
	Average of period data					End of period data						
2007	4.3	7.4	5.3	9.8	5.8	2470.5	382.3	1213.8	874.4	--	15182.3	
2008	4.4	36.0	5.8	10.9	6.4	2655.3	437.0	1307.0	911.3	--	9195.8	
2009	4.0	70.5	3.4	10.5	4.7	2767.0	565.1	1298.6	903.3	--	11940.0	
2010	4.2	146.5	2.6	8.6	4.3	2842.9	643.1	1301.6	898.1	--	9859.1	
2011	5.4	277.4	3.5	8.6	5.1	2861.3	735.0	1255.4	871.0	--	8563.3	
2012 (b)	6.0	435.1	3.6	9.2	5.6	2889.3	805.2	1218.5	848.4	--	7420.5	
2011	I	5.3	212.0	3.0	8.4	4.8	2858.8	684.1	1286.8	887.9	--	10576.5
	II	5.4	222.3	3.4	8.2	5.1	2866.1	704.0	1272.9	889.2	--	10359.9
	III	5.4	311.6	3.6	8.7	5.2	2851.8	707.1	1267.1	877.6	--	8546.6
	IV	5.7	365.1	3.7	9.1	5.4	2861.3	735.0	1255.4	871.0	--	8563.3
2012	I	5.2	334.6	3.8	9.7	5.5	2882.5	774.5	1248.9	859.0	--	8008.0
	II	6.2	465.6	3.5	8.7	5.7	2889.3	805.2	1228.0	856.1	--	7102.2
2012	Jun	6.6	519.0	3.4	8.0	5.6	2889.3	805.2	1228.0	856.1	--	7102.2
	Jul	6.9	555.0	3.3	9.0	5.7	--	--	1218.5	848.4	--	6738.1
	Ago	6.7	525.0	--	--	--	--	--	--	--	--	7420.5
						Percentage change from same period previous year					(c)	
2007	--	--	--	--	--	12.3	-2.2	17.7	12.5	15.1	7.3	
2008	--	--	--	--	--	7.8	14.3	8.2	4.4	7.7	-39.4	
2009	--	--	--	--	--	4.0	29.3	-1.4	-0.3	-0.8	29.8	
2010	--	--	--	--	--	3.2	13.8	0.6	0.2	-2.2	-17.4	
2011	--	--	--	--	--	1.6	14.3	-2.0	-2.4	-1.6	-13.1	
2012 (b)	--	--	--	--	--	1.4	14.4	-3.3	-3.4	-3.7	--	
2011	I	--	--	--	--	3.6	17.5	0.1	-0.5	0.9	7.3	
	II	--	--	--	--	2.7	16.4	-0.7	-1.6	2.5	-2.0	
	III	--	--	--	--	2.0	14.8	-1.5	-1.6	0.1	-17.5	
	IV	--	--	--	--	1.6	14.3	-2.0	-2.4	-1.6	0.2	
2012	I	--	--	--	--	1.7	13.2	-1.4	-2.7	-0.9	-6.5	
	II	--	--	--	--	1.4	14.4	-2.7	-3.1	-2.1	-11.3	
2012	Jun	--	--	--	--	1.4	14.4	-2.7	-3.1	-2.1	16.6	
	Jul	--	--	--	--	--	--	-3.3	-3.4	-3.7	-5.1	
	Ago	--	--	--	--	--	--	--	--	--	10.1	

(b) Period with available data. (c) Percent change from preceeding period.

Source: Bank of Spain.

**Chart 1.- 10 year bond yield**

Percentage rates and basis points



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**Chart 2.- Credit stock growth**

Annual percentage change

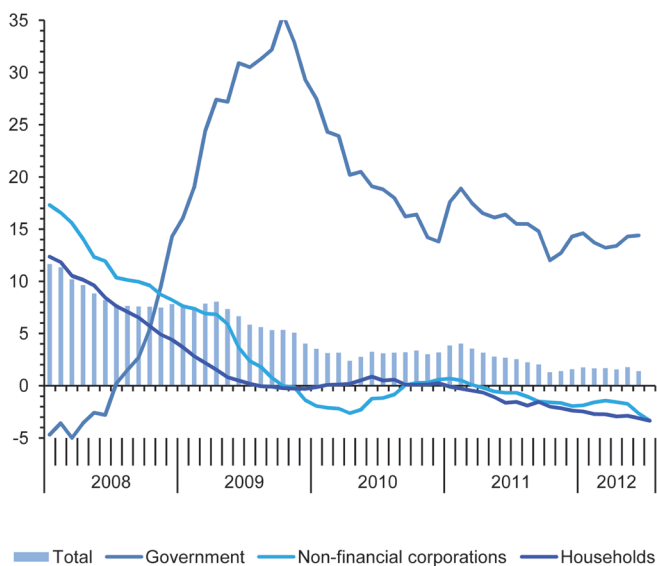


Table 19

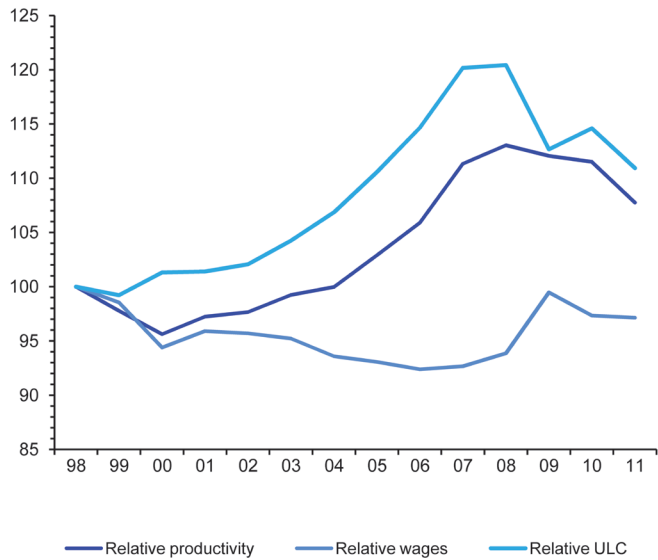
**Competitiveness indicators in relation to EMU**

	Relative Unit Labour Costs in industry (Spain/EMU)			Harmonized Consumer Prices			Producer prices			Real Effective Exchange Rate in relation to developed countries
	Relative productivity	Relative wages	Relative ULC	Spain	EMU	Spain/EMU	Spain	EMU	Spain/EMU	
	1998=100			2005=100			2005=100			1999 I =100
2007	111.3	92.6	120.2	106.5	104.4	102.1	108.4	106.5	101.8	111.9
2008	113.0	93.8	120.4	110.9	107.8	102.9	114.7	111.8	102.5	114.5
2009	112.1	99.5	112.6	110.6	108.1	102.4	110.9	106.7	103.9	114.0
2010	111.5	97.3	114.6	112.9	109.8	102.8	114.8	110.1	104.3	112.9
2011	107.8	97.1	110.9	116.3	112.8	103.1	122.4	116.2	105.3	113.1
2012 (b)	--	--	--	118.1	115.2	102.5	126.0	118.7	106.2	111.1
2011 I	--	--	--	114.5	111.3	102.9	120.9	114.7	105.4	112.6
II	--	--	--	117.2	113.1	103.6	122.4	116.3	105.2	114.4
III	--	--	--	116.1	112.9	102.8	122.9	116.7	105.4	112.7
IV	--	--	--	117.6	114.1	103.1	123.2	117.0	105.3	112.8
2012 I	--	--	--	116.7	114.3	102.1	126.1	118.6	106.3	110.8
II	--	--	--	119.4	115.9	103.0	125.8	118.8	106.0	111.8
2012 Jun	--	--	--	119.1	115.8	102.9	125.4	118.2	106.1	111.4
Jul	--	--	--	118.1	115.2	102.5	126.2	118.7	106.3	110.3
Ago	--	--	--	118.7	115.6	102.7	--	--	--	--
	Percentage changes (c)			Differential			Percentage changes (c)			Differential
2007	0.3	5.0	4.8	2.8	2.1	0.7	3.2	2.2	1.0	--
2008	1.5	1.3	0.2	4.1	3.3	0.9	5.7	5.0	0.7	--
2009	-0.9	6.0	-6.5	-0.2	0.3	-0.5	-3.3	-4.6	1.3	--
2010	-0.5	-2.2	1.7	2.0	1.6	0.4	3.5	3.2	0.3	--
2011	-3.4	-0.2	-3.2	3.1	2.7	0.3	6.6	5.6	1.1	--
2012 (d)	--	--	--	2.0	2.6	-0.5	3.4	2.6	0.8	--
2011 I	--	--	--	3.2	2.5	0.8	7.4	6.4	1.0	--
II	--	--	--	3.3	2.8	0.6	6.6	5.8	0.9	--
III	--	--	--	2.9	2.7	0.2	6.7	5.4	1.4	--
IV	--	--	--	2.7	2.9	-0.2	5.8	4.7	1.1	--
2012 I	--	--	--	1.9	2.7	-0.8	4.3	3.4	0.9	--
II	--	--	--	1.9	2.5	-0.6	2.8	2.1	0.7	--
2012 Jun	--	--	--	1.8	2.4	-0.5	2.5	1.7	0.8	--
Jul	--	--	--	2.2	2.4	-0.3	2.6	1.7	0.9	--
Ago	--	--	--	2.7	2.6	0.1	--	--	--	--

(b) Period with available data. (c) Annual percent change. (d) Growth of available period over the same period of the previous year.

Sources: Eurostat and Bank of Spain.

**Chart 1.- Relative Unit Labour Costs in industry (Spain/EMU)**  
1998=100



**Chart 2.- Harmonized Consumer Prices**  
Annual growth in % and percentage points

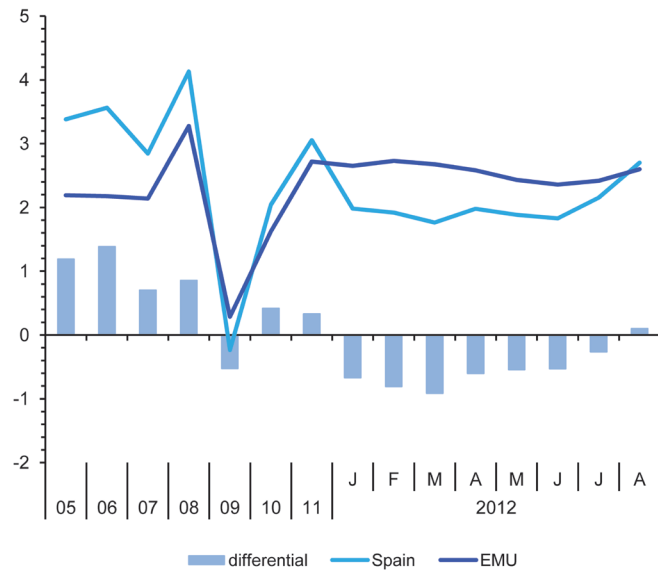


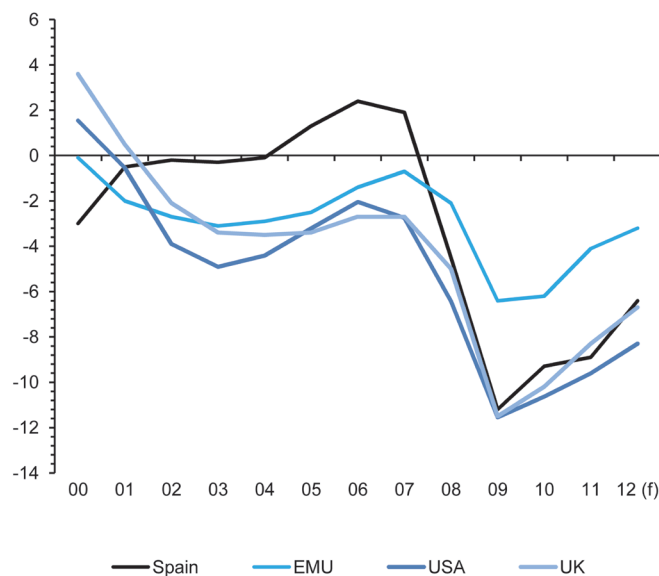
Table 20

**Imbalances: International comparison (I)**

	Government net lending (+) or borrowing (-)				Government gross debt				Current Account Balance of Payments			
	Spain	EMU	USA	UK	Spain	EMU	USA	UK	Spain	EMU	USA	UK
<b>Billions of national currency</b>												
2005	11.5	-207.7	-402.9	-42.9	391.7	5718.5	8566.6	533.2	-67.8	33.6	-645.5	-32.7
2006	23.3	-118.6	-272.8	-36.2	390.2	5871.5	8912.6	577.1	-88.9	43.9	-556.1	-43.1
2007	20.2	-62.6	-385.1	-38.2	381.4	5989.0	9421.7	624.7	-105.2	40.3	-704.0	-34.8
2008	-48.9	-196.8	-913.4	-71.9	437.0	6481.7	10881.1	786.0	-104.3	-62.6	-676.5	-19.8
2009	-117.1	-569.2	-1601.0	-158.8	565.1	7126.9	12528.1	970.8	-53.8	-13.4	-454.8	-20.3
2010	-98.2	-570.5	-1536.2	-149.0	643.1	7839.0	14312.0	1165.0	-47.3	5.2	-480.2	-48.6
2011	-91.4	-386.5	-1442.3	-125.1	735.0	8284.6	15537.4	1292.6	-41.8	14.6	-481.1	-29.0
2012	-68.6	-305.6	-1294.1	-124.4	861.5	8750.6	16994.6	1419.8	-21.4	56.7	-488.8	-27.0
<b>Percentage of GDP</b>												
2005	1.3	-2.5	-3.2	-3.4	43.1	70.6	68.2	42.5	-7.5	0.5	-5.1	-2.6
2006	2.4	-1.4	-2.0	-2.7	39.6	69.0	66.9	43.4	-9.0	0.6	-4.2	-3.2
2007	1.9	-0.7	-2.8	-2.7	36.2	66.8	67.5	44.4	-10.0	0.6	-5.0	-2.5
2008	-4.5	-2.1	-6.4	-5.0	40.2	70.8	76.5	54.8	-9.6	-0.6	-4.8	-1.4
2009	-11.2	-6.4	-11.5	-11.5	53.9	80.6	90.4	69.6	-5.1	-0.1	-3.3	-1.5
2010	-9.3	-6.2	-10.6	-10.2	61.2	86.2	99.1	79.6	-4.5	0.1	-3.3	-3.3
2011	-8.9	-4.1	-9.6	-8.3	68.5	88.6	103.5	85.7	-3.9	0.2	-3.2	-1.9
2012	-6.4	-3.2	-8.3	-6.7	80.9	92.4	108.9	91.2	-2.0	0.6	-3.1	-1.7

Source: European Commission.

**Chart 1.- Government deficit**  
Percentage of GDP



**Chart 2.- Government gross debt**  
Percentage of GDP

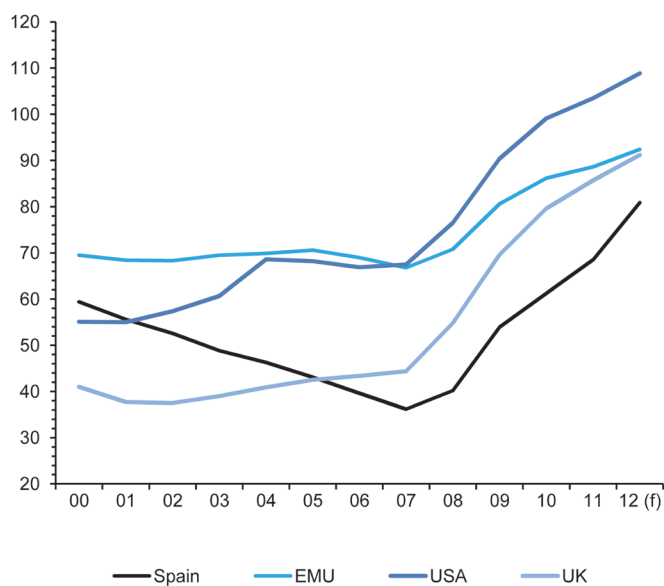


Table 20

**Imbalances: International comparison (II)**

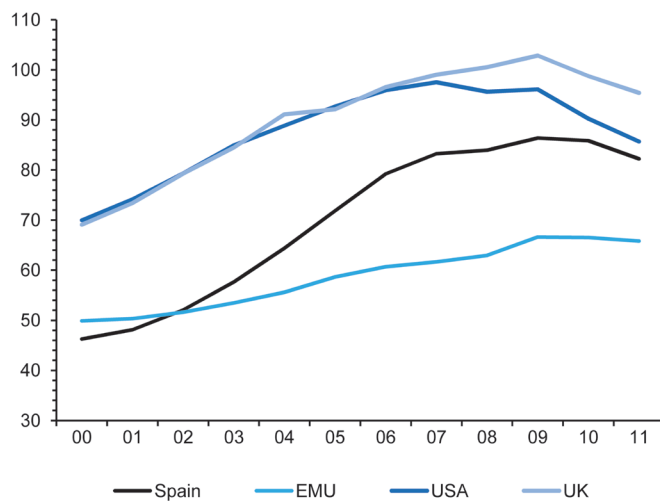
In blue: European Commission Forecasts

	Household debt (a)				Non-financial corporations debt (a)				Financial corporations debt (a)			
	Spain	EMU	USA	UK	Spain	EMU	USA	UK	Spain	EMU	USA	UK
<b>Billions of national currency</b>												
2005	653.5	4777.5	11701.4	1163.3	952.2	6782.0	8639.5	1266.3	528.2	7639.6	12956.9	2418.5
2006	780.7	5198.9	12834.6	1287.0	1192.0	7426.1	9571.8	1436.0	753.6	8635.9	14278.6	2616.5
2007	876.6	5568.6	13680.9	1398.2	1386.0	8320.5	10876.5	1479.9	980.3	9967.9	16223.8	3130.0
2008	913.4	5819.8	13665.5	1448.5	1475.4	8981.8	11538.6	1680.0	1042.3	10966.2	17122.7	3494.2
2009	905.5	5942.3	13394.5	1441.5	1461.6	9035.0	11190.9	1597.7	1120.1	11434.0	15708.3	3461.5
2010	900.7	6106.3	13115.6	1448.3	1471.6	9271.5	11295.1	1575.8	1110.3	11598.0	14261.8	3555.9
2011	874.1	6203.6	12930.0	1446.3	1432.0	9494.6	11804.9	1598.1	1092.4	11943.0	13793.8	3422.5
<b>Percentage of GDP</b>												
2005	71.9	58.7	92.7	92.1	104.7	83.3	68.4	100.3	58.1	93.8	102.6	191.5
2006	79.2	60.7	95.9	96.5	121.0	86.7	71.6	107.7	76.5	100.8	106.7	196.3
2007	83.2	61.7	97.5	99.0	131.6	92.1	77.5	104.8	93.1	110.4	115.6	221.7
2008	84.0	63.0	95.6	100.5	135.6	97.2	80.7	116.6	95.8	118.6	119.8	242.5
2009	86.4	66.6	96.1	102.8	139.5	101.2	80.3	114.0	106.9	128.1	112.7	246.9
2010	85.9	66.5	90.3	98.8	140.3	101.0	77.8	107.5	105.9	126.3	98.2	242.5
2011	82.2	65.8	85.7	95.4	134.7	100.7	78.2	105.4	102.7	126.7	91.4	225.7

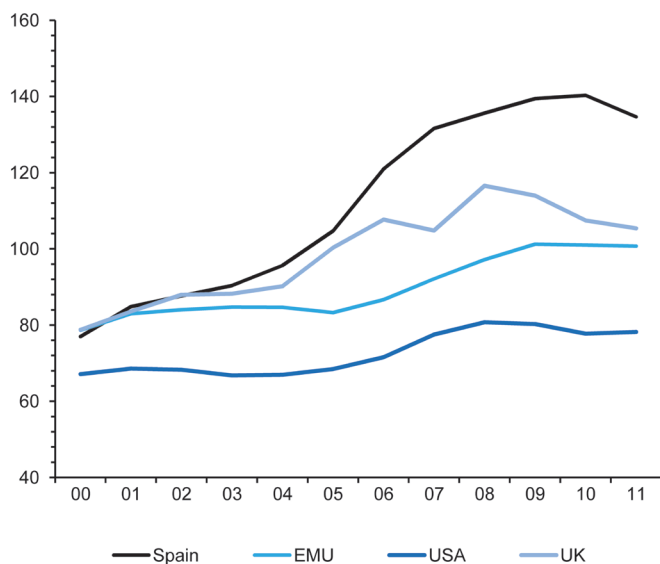
(a) Loans and securities other than shares.

Source: European Central Bank and Federal Reserve.

**Chart 1.- Household debt**  
Percentage of GDP



**Chart 2.- Non-financial corporations debt**  
Percentage of GDP



**KEY FACTS: 50 FINANCIAL SYSTEM INDICATORS – FUNCAS**

Updated: September 15th, 2012

**Highlights**

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	0.2	June 2012
Other resident sectors' deposits in credit institutions (monthly average % var.)	0.4	June 2012
Doubtful loans (monthly % var.)	5.5	June 2012
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	743.701	July 2012
Recourse to the Eurosystem (Spanish financial institutions, million euros)	388.736	July 2012
Recourse to the Eurosystem (Spanish financial institutions million euros)- Main L/T refinancing operations	74.115	July 2012
Operating expenses/gross operating income ratio (%)	49.01	March 2012
Customer deposits/employees ratio (thousand euros)	4,717.4	March 2012
Customer deposits/branches ratio (thousand euros)	28,941.0	March 2012
Branches/institutions ratio	144.06	March 2012

**A. Money and interest rates**

Indicator	Source:	Average 1996-2009	2010	2011	2012 June	2012 July	Definition and calculation
1. Monetary Supply (%chg.)	ECB	6.9	1.7	2.2	3.2	3.8	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	3.4	0.9	1.4	0.6	0.2(a)	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	3.3	1.4	2.0	1.2	0.7(a)	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.9	4.3	5.4	6.6	5.7(a)	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	5.0	3.7	5.0	6.2	7.9	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

(a) Last data published: September 15<sup>th</sup> 2012

Comment on "Money and Interest Rates": By mid-September, the 3-month and 1-year Euribor rates decreased to 0.2% and 1.7%, respectively. Additionally, the 10-yr bond yield has decreased significantly to 5.7% following the announcement of the program of Outright Monetary Transactions by the European Central Bank.

## B. Financial markets

Indicator	Source:	Average 1996-2009	2010	2011	2012 June	2012 July	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	18.3	40.5	81.6	68.6	71.5	(Traded amount/ outstanding balance) x100 in the market (not exclusively between account holders)
7. Outright spot government bonds transactions trade ratio	Bank of Spain	77.8	88.9	112.6	56.6	57.1	(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	2.1	0.2	(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	1.9	0.9	(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	1.1	1.1	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	653.9	641.7	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	14.7	-3.5	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	6.6	-11.5	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	718.5	795.1(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	7,102.0	8,154.5(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	11.8	24.4(a)	Madrid Stock Exchange Ratio "share value/ capital profitability"

## B. Financial markets (continued)

Indicator	Source:	Average 1996-2009	2010	2011	2012 June	2012 July	Definition and calculation
17. Long-term bonds. Stock trading volume (%chg.)	Bank of Spain and Madrid Stock Exchange	2.8	-29.2	15.1	-43.8	-	Variation for all stocks
18. Commercial paper. Trading balance (%chg.)	Bank of Spain and AIAF	45.2	-43.9	59.24	3.2	14.3	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	3.6	0.8	1.9	2.2	2.1	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (%chg.)	Bank of Spain	2.1	15.42	-15.8	-9.6	-9.0	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	-2.7	-31.88	-25.9	-5.1	8.1	IBEX-35 shares concluded transactions

(a) Last data published: June 29<sup>th</sup> 2012

Comment on "Financial Markets": During the last month there has been an increase in transactions with outright spot and forward T-bills, as well as in transactions with government bonds and debentures. Regarding the stock market, the IBEX-35 jumped to 8154 points by September 15<sup>th</sup>, while the previous month it closed at 6738 points. Finally, there was a reduction in financial IBEX-35 future transactions, while an increase was observed in transactions with IBEX-35 financial options.

## C. Financial Savings and Debt

Indicator	Source:	Average 2002- 2008	2009	2010	2011 IV-T.	2012 I-T.	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-6.3	-5.1	1.9	-3.4	-3.1	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	2.8	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	290.4	292.8	Public debt, non-financial companies debt and households and non-profit institutions debt over GDP

## C. Financial Savings and Debt

Indicator	Source:	Average 2002-2008	2009	2010	2011 IV-T.	2011 I-T.	Definition and calculation
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	70.3	86.0	84.9	81.4	80.3	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average %chg.)	Bank of Spain	7.7	3.9	3.1	-0.1	-0.9	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average %chg.)	Bank of Spain	14.4	-1.1	-0.3	-0.5	-0.9	Total liabilities percentage change (financial balance)

*Comment on "Financial Savings and Debt": During the first quarter of 2011, there was a 3.1% reduction in financial savings to GDP in the overall economy. Additionally, household financial savings remain relatively stable, changing from 2.8% in the previous quarter to 2.7%. Also, there was a slight reduction in households' financial deleveraging, evidencing a reduction in the debt to GDP ratio from 81.4% in the last quarter of 2011 to 80.3% in the first quarter of 2012. There was also a 0.9% reduction in the stock of financial assets on households' balance sheets, exactly the same reduction shown by the liabilities.*

## D. Credit institutions. Business Development

Indicator	Source:	Average 1996-2009	2010	2011	2012 May	2012 June	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	14.7	0.3	-3.8	-0.4	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	-0.2	0.4	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	-2.1	-0.3	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	-0.2	-0.5	Asset-side equity and shares percentage change for the sum of banks, savings banks and credit unions.
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-0.5	-1.5	-4.3	-9.1	-1.1	Difference between the asset-side and liability-side "Credit System" item as a proxy of the net position in the interbank market (month-end).

## D. Credit institutions. Business Development

Indicator	Source:	Average 1996-2009	2010	2011	2012 May	2012 June	Definition and calculation
33. Doubtful loans (monthly average % var.)	Bank of Spain	28.3	16.2	28.3	2.1	5.5	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	0.1	9.2	Liability-side assets sold under repurchase. Percentage change for the sum of banks, savings banks and credit unions.
35. Equity capital (monthly average % var.)	Bank of Spain	11.0	-6.4	37.9	-8.1	3.6	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 June 2012 show a small increase in bank credit to the private sector (0.2%) and in financial institutions deposit-taking (0.4%). Also, doubtful assets experienced a new monthly increase of 5.5% compared to the previous month, in a recessive macroeconomic environment.*

## E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source:	Average 1995-2008	2009	2010	2011 December	2012 March	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	207	192	188	189	188	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	86	87	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	243.228	263.093	257.578	243.041	-	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	43.329	44.085	42.894	39.843	39.616	Total number of branches in the banking sector
40. Recourse to the Eurosystem (total Eurozone financial institutions) (Euro millions)	Bank of Spain	358.753	575.400	473.173	394.459	743.701(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	118.861	388.736(a)	Open market operations and ECB standing facilities. Spain total

## E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source:	Average 1995-2008	2009	2010	2011 December	2012 March	Definition and calculation
42. Recourse to the Eurosystem (total Spanish financial institutions): main long term refinancing operations (Euro millions)	Bank of Spain	20.385	2.800	22.196	47.109	74.115(a)	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: July 2012

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In July, the recourse to Eurosystem funding by Spanish credit institutions accounted for about 44% of net total funds borrowed from the ECB by the Eurozone.

## F. Credit institutions. Efficiency and Productivity, Risk and Profitability

Indicator	Source:	Average 1995-2008	2009	2010	2011 December	2012 March	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	57.27	43.52	46.53	49.85	49.01	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	4,512.30	4,717.42	Productivity indicator (business by employee)
45. "Customer deposits/branches" ratio (Euro thousands)	Bank of Spain	9,390.89	16,398.79	16,554.20	29,171.23	28,941.01	Productivity indicator (business by branch)
46. "Branches/institutions" ratio	Bank of Spain	180.80	229.61	155.41	205.38	144.06	Network expansion indicator
48. Equity capital (monthly average % var.)	Bank of Spain	0.11	0.04	0.86	0.40	0.03	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.85	0.46	0.31	0.06	-0.16	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	14.17	7.94	5.73	3.28	-2.14	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": During the first quarter of 2012 the Spanish banking sector was still facing a tough business and macroeconomic environment, in line with the European environment. Productivity indicators have improved due to the restructuring process of the Spanish banking sector.





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