Spanish Economic and Financial Outlook

Implementing the MoU: Spain's "Bad Bank" Solution

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Letter from the Editors

The Spanish banking sector is going through an intense process of institutional and structural changes following the signing this past July of the Memorandum of Understanding (MoU) between the Spanish and European authorities for contingent financial assistance to Spanish banks. Since our last SEFO publication in September, two significant events have taken place within the sector. The first has been the publication of bank-level stress tests results and the second the creation of Spain's "bad bank" solution, the Asset Management Company called Sareb, in line with the terms of EU MoU implementation.

In this November issue of the SEFO, we focus on how these two events represent steps forward in the resolution of Spain's banking crisis and underline what remains to be done. For instance, while Spain's "bad bank" model appears to contain the necessary ingredients for an effective clean-up of Spanish banks' balance sheets, implementation issues, in particular related to governance and ownership, will be critical to its ultimate success. What is clear is that the reforms in the financial sector are now firmly on track. The path taken is in line with IMF and EU recommendations. We also compare the performance of Spain's banking sector relative to its European peers throughout the crisis through an analysis of financial soundness indicators. While the impact of the crisis years has left the Spanish banking sector in a generally weaker position in absolute and relative terms in comparison with the euro area, several strengths and improvements are evident, such as high levels of efficiency, doubtful loan provisions, and solvency ratios. We reiterate the importance of analyzing Spanish financial institutions on an individual basis, given the high degree of variation across the sector.

Another topic addressed in this issue is the European Covered Bond market. Due to their high credit quality, large choice of maturities, vast liquidity, and solid legal framework, together with attractive capital charges for investors and a favorable treatment by the ECB, Covered Bonds have provided an important source of wholesale funding for cash-strapped peripheral issuers. This has especially been true in Spain, where *Cedulas Hipotecarias,* or Mortgage Covered Bonds, have been heavily relied upon by the Spanish banking sector during the crisis.

Another key issue in this SEFO is the future of Spain's Social Security System, which currently faces both structural and cyclical challenges. Despite the 2011 reform, which aims to tackle some of the system's shortcomings, additional measures within the system's actual parameters will likely be necessary to ensure long-term sustainability.

On the fiscal front, we look at the recently approved 2013 draft budget, as well as a description of the functioning of Spain's regional financing system. As regards the 2013 budget, the overall deficit is estimated at 4.5% of GDP, in line with the agreed upon targets at the EU level. Meeting this target depends crucially on how the economy will perform. The government's optimistic GDP forecast, liquidity injections for nationalized financial institutions, and a larger than anticipated social security deficit could have negative implications on the final deficit outcome.

As regards the region's financing model, the recent political uncertainty surrounding the existing model has produced new tensions. Nevertheless, while the system may need additional reforms, it is worth recalling that a technical model remains in place to guarantee the adequate provision of public services at the regional level.

Finally, we provide comparative macroeconomic forecasts for the Spanish economy, together with a snapshot of the latest key regulatory changes.

FEATURES

The Spanish economy: Recent developments and outlook for 2012-2013

Àngel Laborda and María Jesús Fernández[1]

Economic conditions to remain negative, but situation may start to stabilise in the last quarter of 2013.

The Spanish economy has moved into a new stage in the economic downturn since the crisis began in 2007. In our opinion, the factors depressing domestic demand will persist, but financial constraints are proving decisive in the current relapse. For 2012, we expect a drop in GDP of 1.4% for the year as a whole –a slight improvement on our earlier forecasts– as a result of GDP being better than expected in the third quarter. For 2013, we estimate that the factors underlying the current contraction of the Spanish economy –limited finance, uncertainty, fiscal adjustments, internal devaluation, and deleveraging, among others– will persist. Conditions will therefore remain highly negative, even assuming no critical events occur in the context of the European debt crisis, and that the current situation of restricted finance eases in the second half of the year. We expect the situation may start to stabilise in the last quarter of 2013 and our forecast change in GDP for 2013 as a whole is -1.6%, two tenths higher than the previous forecast.

Introduction

The European sovereign-debt crisis, which began in early 2010, took a turn for the worse in the summer of 2011, dragging Europe's economy as a whole, and Spain's in particular, back into recession. By 2012 this slowdown had spread to the global economy. Neither the series of European summits held since the outbreak of the crisis, nor the extraordinary liquidity provision measures taken by the European Central Bank (ECB) have served to contain the crisis. At best, they have merely served to provide some breathing room.

In September, more than a year after the crisis entered this new phase, the European Central Bank announced a plan of action that could put an end to the tensions. However, its effect will not be immediate, and even if nothing derails the process, it will take time for investors to gradually regain their confidence, for financial markets to return to normal, and for credit to start to flow again.

Thus, the credit squeeze and general lack of access to finance affecting the Spanish economy will not be remedied in the immediate future. Conditions will stay negative for the rest of the

[1] Funcas.

year, and for at least the first half of next year, and uncertainty will remain high.

Recent developments in the Spanish economy

The Spanish economy has moved into a new stage in the economic downturn that has dragged on since the crisis began in 2007. Although the factors depressing domestic demand persist, ruling out any recovery in the short term, it is the financial constraints that are proving decisive in the current relapse. Thus, in the third quarter of 2011 the economy was driven back into recession by the credit squeeze triggered by the worsening of the European debt crisis and the climate of uncertainty and mistrust, which led to a complete freeze on financing from abroad. The economy's difficulty in obtaining funding from international markets was evident in the net negative flows that began to appear on the financial account of the balance of payments in July 2011 (excluding the Bank of Spain's operations). Between July and December these totalled the equivalent of approximately 18% of the period's GDP.

Although the factors depressing domestic demand persist, ruling out any recovery in the short term, it is the financial constraints that are proving decisive in the current relapse.

The tensions eased somewhat in the first few months of 2012 thanks to abundant liquidity from the European Central Bank. But this did nothing to address the causes of the crisis, so the financial deficit continued to grow, and the debt market came under renewed pressure in March. After the government was forced to announce the nationalisation of one of the country's leading financial institutions, the risk premium began to climb again, reaching over 500 basis points (bp) in the case of ten-year sovereign debt, rising as high as 600 bp at times in July. The net outflows recorded on the financial account of the balance of payments in the first half of the year came to 220 billion, equivalent to 41.6% of GDP for the period.

In June the Spanish government requested financial assistance from the European Union to help it undertake the consolidation of the part of the country's financial system that was unable to do so by itself – accounting for approximately 40% of the sector. Although this was a big step forward, the markets reacted negatively. The tensions in the debt market worsened. At the end of July, the president of the European Central Bank announced the institution's intention to do whatever it takes to save the euro. In early September, the ECB spelled out a more concrete plan of action, consisting of purchasing government debt of countries in financial difficulties, provided that they formally request financial assistance from the Eurogroup.

Against this backdrop, GDP contracted by 1.1% in the third quarter of 2012 compared to the preceding quarter (at a year-on-year rate, as is the case for all the GDP aggregates indicated below). This was the fifth consecutive quarter of negative GDP growth, although the decline had moderated from the -1.7% recorded in the previous quarter. The softening of the quarterly decline was the consequence of domestic demand's making a slightly less negative contribution to growth, -4.2 percentage points. The contribution of the external balance was slightly smaller than in the preceding quarter, at 3.1 pp. despite the surge in exports, which was offset by equally strong import growth.

The transfer of purchases from the fourth quarter of the year to the third to avoid the VAT increase offset the drop in private consumption, limiting it to -2.0%. This effect was observable in most consumer indicators. The limited indicators available for October –new vehicle registrations, manufacturers' orders for consumer goods and confidence– show stabilisation at very low levels after the sharp downturn in September (Exhibits

1.1 and 1.2). The drop in public consumption, on the other hand, accelerated notably, falling by 9.1%.

Investments in capital goods and other goods recovered slightly from the previous quarter, although the trend remains negative, with sharp drops in the preceding quarters. This recovery is probably also linked to the bringing forward of purchases caused by the VAT increase. The indicators have not changed their downward path, so it is more than likely that this variable will return to the downward trend in the fourth quarter (Exhibits 1.3 and 1.4).

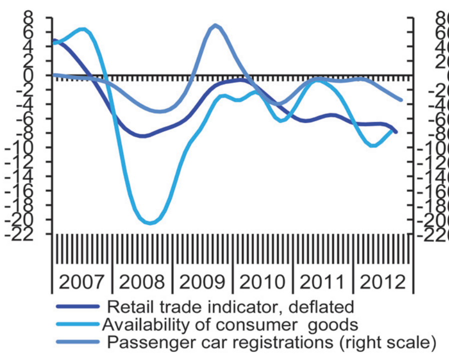
As regards **gross fixed capital formation in construction,** the adjustment in the other structures component, which largely reflects changes in public investment, was again more pronounced than in the case of housing (-15.1% compared with -6.3%). Official tendering for public works fell by 47% in the first six months of the year, compared to the same period the previous year, while housing permits declined by 36.8% to August, and there were 27% fewer housing starts than in the first quarter of 2011 (Chart 2.6). There was a slight upturn in housing sales over the summer, but this does not mean that the property market has bottomed out. Nor does

Exhibit 1

Consumption and capital goods investment indicators

1.1 - Consumption Indicators (I)

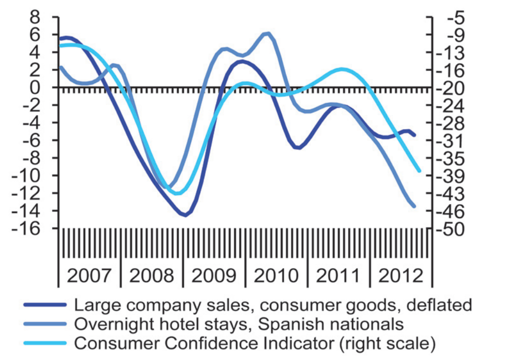
Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Economy, INE, DGT and Funcas.

1.2 - Consumption Indicators (II)

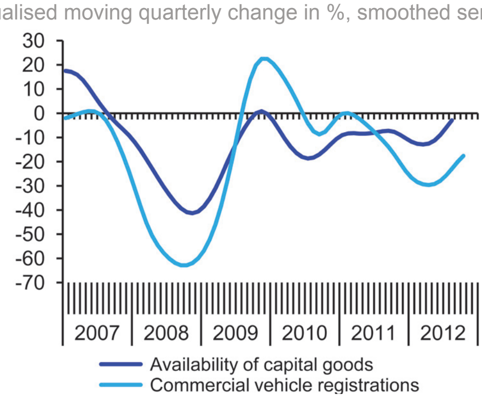
Annualised moving quarterly change in % and index (CCI), smoothed series



Sources: European Commission, INE, AEAT and Funcas.

1.3 - Capital goods GFCF indicators (I)

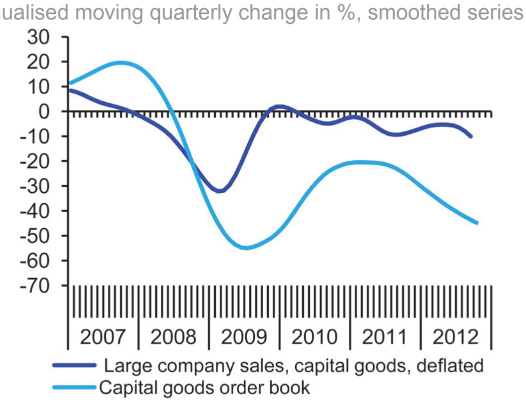
Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Economy, DGT and Funcas.

1.4 - Capital goods GFCF indicators (II)

Annualised moving quarterly change in %, smoothed series



Sources: Ministry of Industry, AEAT and Funcas.

it imply a change of trend, as it simply reflects the way purchases have been brought forward ahead of the tax changes announced for January 2013.

Exports grew strongly in the third quarter, expanding by 20.8%. Growth was strong in the case of both goods and services, with the strong performance of non-tourism services standing out in the case of the latter. The positive effect of exports was offset, however, by equally strong growth in **imports,** which rose by 10%. The net contribution of the external sector to growth was slightly lower even than in the previous quarter.

Primary sector GVA grew by 3.2%. This is the sector, which has performed best since the start of the crisis, and the only one to show a clear growth trend in recent years, largely driven by sales abroad. In the case of **industry,** which has been in recession since the second quarter of 2011. GVA contracted by 4% in the third quarter, a more pronounced drop than in previous quarters. This contrasts with the relatively good results shown by indicators such as the industrial production index, sales by large capital goods manufacturers, or PMI, which instead suggest a stabilisation of activity, thanks to the increase in sales resulting from purchases being brought forward to avoid the VAT increase, and the strong performance of exports. The available indicators (PMI and industrial confidence index) showed a slight deterioration at the start of the third quarter, (Exhibits 2.1 and 2.2).

Services grew by 1.4% on aggregate. Public administration, health and education continued their downward trend, while other services increased their GVA. However, contrary to what might be expected given the rise in foreign tourism, this growth did not come from the branches most closely associated with it. The signs at the start of the fourth quarter were contradictory, as on the one hand in October the PMI worsened against its average for the third quarter, but on the other, the sector's confidence has improved somewhat. The number of affiliates of the Social Security system in September and October continued to fall at a similar rate to that in previous quarters, (Exhibits 2.3 and 2.4).

GVA in **construction** shrank by 12.8% in the third quarter. The decline in new housing permits accelerated, heralding a prolongation of the strongly negative trend in residential construction. Nor are there signs of improvement in the sector's confidence index or in the change in the number of affiliates of the Social Security system between September and October (Charts 2.5 and 2.6).

Employment dropped by 3.1% in the third quarter, the slowest rate of decline since the current recession began in the third quarter of 2011. Farming was the only major sector to experience an increase in employment. Seasonally-adjusted unemployment rose by almost one percentage point to 25.6%. The trend towards a moderate reduction in the working age population continued in the third quarter, due primarily to immigrants returning to their countries of origin. The number of foreigners in the labour force has fallen by 7.2% (approximately 265.000 people) over the last three years. According to the Social Security affiliation figures, employment continued to fall in September and October at the same rapid rate as in previous months. Unemployment has also been rising (Exhibits 3.1 and 3.4).

Productivity continued to rise rapidly in the third quarter, outpacing compensation per employee, such that unit labour costs remained on the downward trend they have followed since the start of the crisis, with a year-on-year drop of 3.0%.

The **inflation** rate has moved upwards since July, rising to 3.5% in October. This trend does not reflect underlying inflationary pressures, but is the result of rising energy prices, on the one hand, and regulatory and tax changes, such as the change in system of payments for medicines, increased university fees, and the VAT increase, on the other (Exhibits 4.1 and 4.2).

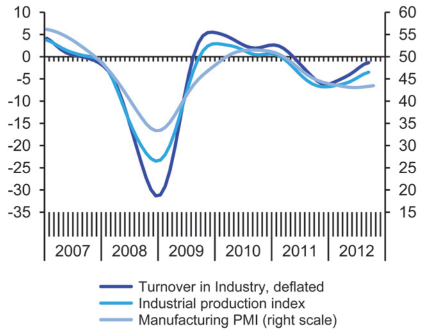
Between January and September, the government deficit, in national accounts terms, rose by 22.6%

Exhibit 2

Industrial activity, services and construction indicators

2.1 - Industrial sector indicators (I)

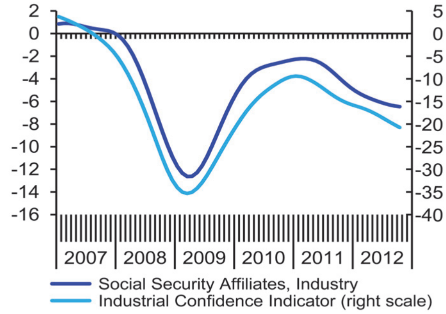
Annualised moving quarterly change in % and index, smoothed series



Sources: INE, Markit Economics Ltd and Funcas.

2.2 - Industrial sector indicators (II)

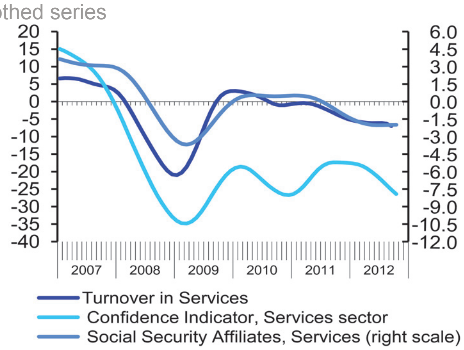
Annualised moving quarterly change in % and index. smoothed series



Sources: European Commission, Ministry of Labour and Funcas.

2.3 - Services indicators (I)

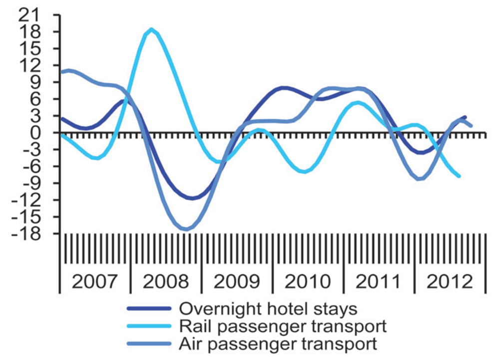
Annualised moving quarterly change in % and index. smoothed series



Sources: European Commission, Ministry of Labour, INE and Funcas.

2.4 - Services indicators (II)

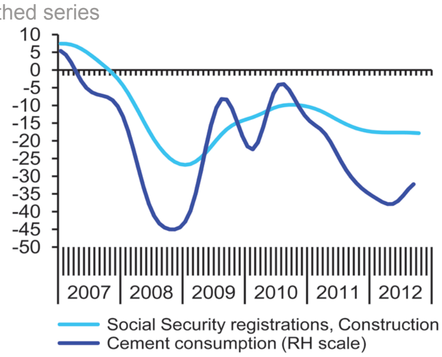
Annualised moving quarterly change in %. smoothed series



Sources: INE, AENA, RENFE and Funcas.

2.5 - Construction sector indicators (I)

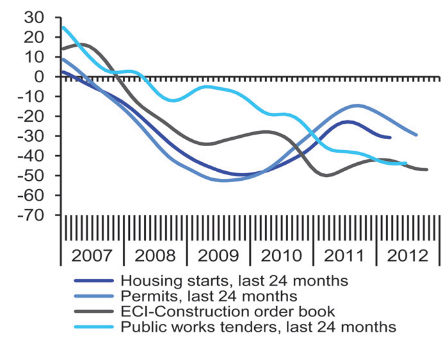
Annualised moving quarterly change in % (Q 3/3). smoothed series



Sources: Ministry of Labour, OFICEMEN and Funcas.

2.6 - Construction sector indicators (II)

Annualised moving quarterly change in % (Q 3/3) and index. smoothed series



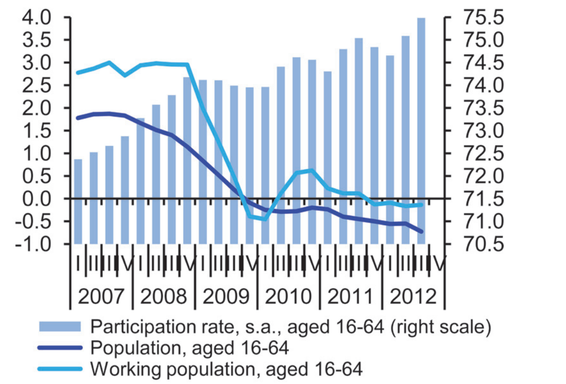
Sources: Ministry of Industry, Ministry of Fomento and Funcas.

Exhibit 3

Labour market indicators

3.1 - Labour supply

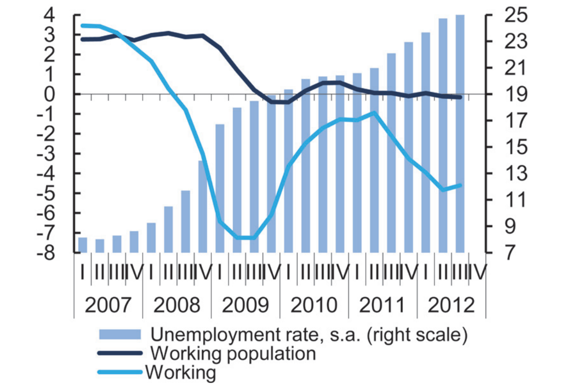
Change y-o-y in % and percentage of population aged 16-64



Source: INE (LFS).

3.2 - Employment and unemployment (LFS)

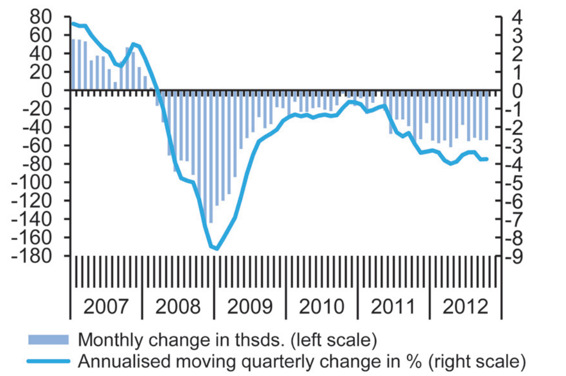
Change y-o-y in % and percentage of working age population



Source: INE (LFS).

3.3 - Social Security Affiliates

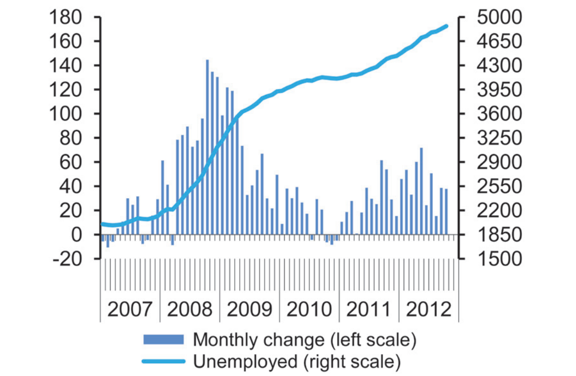
Change in thousands and in %, seasonally-adjusted data



Sources: Ministry of Labour and Funcas.

3.4 - Registered unemployment

Thousands, seasonally-adjusted data



Sources: Ministry of Labour and Funcas.

on the same period versus the previous year, equivalent to 4.4% of annual GDP, very close to the target for the year of 4.5%. Revenue is performing worse than forecast, which is making meeting the deficit targets harder. However, revenues will tend to improve over the remainder of the year, as a result of the measures taken by the government in late July, such as the VAT increase. In the case of the **Social Security** system, there has been a significant deviation from the forecast income from social security contributions, which fell by 2.5% in the first nine months, and in pension spending, which grew by 4.2%. Spending on unemployment benefits is also performing worse than expected.

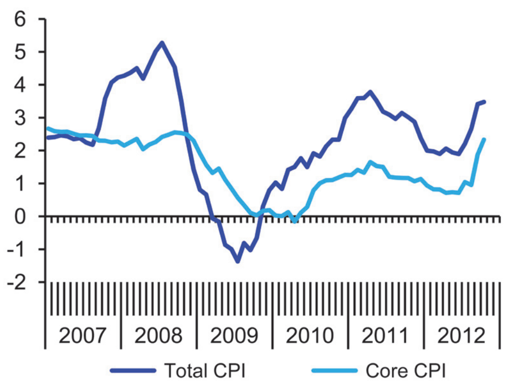
Revenue is performing worse than forecast, which is making meeting the deficit targets harder. However, revenues will tend to improve over the remainder of the year, as a result of the measures taken by the government in late July, such as the VAT increase.

Exhibit 4

Price indicators

4.1 - Consumer Prices Index

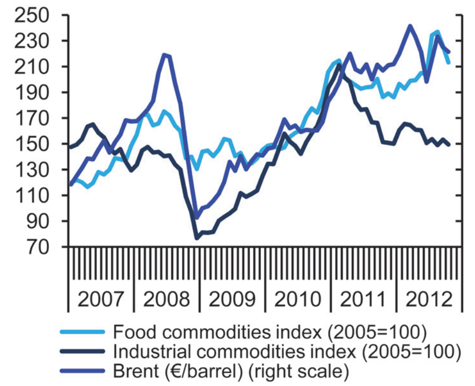
Change y-o-y in %



Source: INE (CPI).

4.2 - Commodities prices in €

Euros and index



Sources: Ministry of Economy and The Economist.

The deficit of the **Autonomous Regions** stood at 0.8% in the first half of the year.

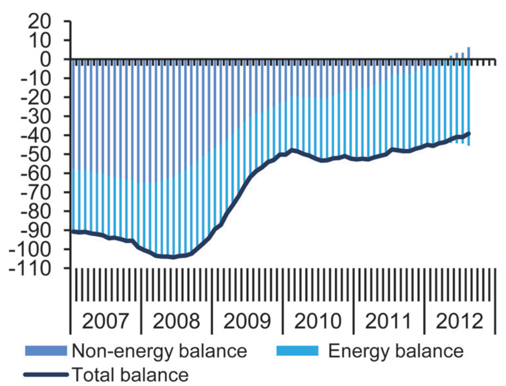
The **trade deficit** continued its correction for the first eight months of the year. According to Customs figures, the merchandise trade balance, excluding energy trade, has been in surplus since the start of the year. And according to the balance of payments figures, the cumulative surplus on the services balance from January to August –on a sustained upward trend– completely offset the goods balance deficit, producing a slight surplus on the balance of goods and services, something which has not happened since 1998 (Exhibit 5.1).

Exhibit 5

External sector

5.1 - Surplus/deficit on trade in goods (Customs)

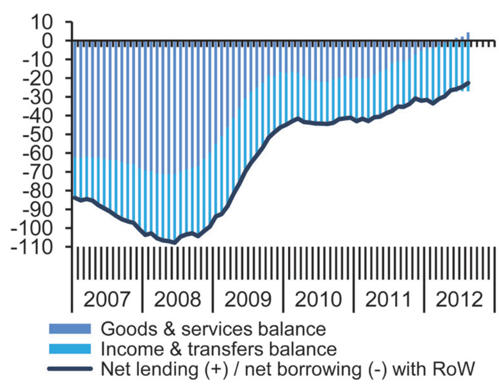
Euro billion, cumulative last 12 months



Source: Ministry of Industry.

5.2 - Balance of payments

Euro billion, cumulative last 12 months



Source: Bank of Spain.

However, the current account balance is still in the red, due to the substantial deficit on the current transfers and income accounts, although the cumulative figure for the first eight months of 2012 was 39% lower than that for the same period the previous year (Exhibit 5.2). The economy's net borrowing, meanwhile, fell by 42%.

The **financial account** performed quite differently. As mentioned, net outflows (excluding the Bank of Spain) between January and August totalled almost 250 billion euros. Direct investment flows were positive, however, portfolio and other investments shrank rapidly, reflecting the haste with which foreign investors have reduced their exposures to Spanish financial assets, thus hindering Spanish economic agents' ability to draw upon the world's savings. This negative balance, together with the national economy's net borrowing, was therefore met by Spanish institutions' resorting to the Eurosystem, as is revealed by the sharp rise in the Bank of Spain's debtor position vis-à-vis the Eurosystem.

From the point of view of the equilibrium between **savings and investments,** the reduction of the economy's net borrowing was a result of a bigger drop in investment than in the national savings rate. **Household** savings rates have been on a continual downward trend since their peak in 2009. This has led to lower financing capacity (surplus). Nevertheless, despite households' diminished financial savings, they have continued reducing their debts, which came to 124.7% of gross disposable income in the second quarter of 2012, compared with a peak of 128.8% in mid-2010.

Non-financial companies' increased savings rate has led them to have a positive and growing financing capacity since 2010. This has made it possible to reduce their debt ratios to 133.7% of GDP in the second quarter of 2012, 8.3 percentage points lower than the previous peak.

Forecasts for 2012-13

The results of the third quarter of 2012 were better than expected due to consumption being brought forward ahead of the VAT increase, the upturn in exports, and the better-than-expected performance of equipment investments. It is highly likely that these last two variables will return to trend in the last quarter of the year. In the case of equipment investments, the trend has been negative since the end of 2011, and in that of exports, growth has been more moderate. In the case of the latter, the hangover after purchases being brought forward ahead of the VAT increase, and the on-going public spending cuts, mean a worsening looks likely in the last quarter. A drop in GDP of 1.4% is therefore expected for the year as a whole. This is a slight improvement on earlier forecasts, as a result of GDP being better than expected in the third quarter (Exhibits 6.1 to 6.6).

National demand will subtract 3.8 pp from GDP growth in 2012, and external demand will add 2.4 pp. Private consumption will contract by 1.8% as a result of rising unemployment, increasing uncertainty, and above all, the drop in households' disposable income in both nominal and real terms. In any event, the savings rate will continue to fall. Public consumption will decrease by 4%. The climate of uncertainty and worsening expectations also explain, together with the lack of credit, the drop in gross fixed capital formation in capital goods, which will decline by 4.1%. Construction investment will fall by 11.6%, as a result of the contraction in residential investment, and investment in other structures, in particular, due to the cutbacks in public works. Exports will grow by 3.2% this year, while imports will drop by 4.7%.

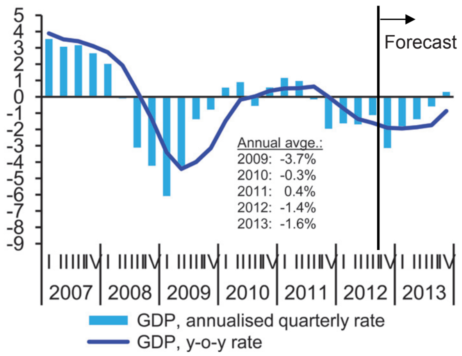
The factors underlying the current contraction of the Spanish economy –limited finance, uncertainty, fiscal adjustments, internal devaluation, and deleveraging, among others– will persist into the coming year. Conditions will therefore remain highly negative, even assuming no critical events occur in the context of the European debt crisis, and that the current situation of restricted finance eases in the second half of the year. Quarterly drops in economic activity are expected throughout almost the whole year. The situation may start to stabilise in the last quarter. The forecast change

Exhibit 6

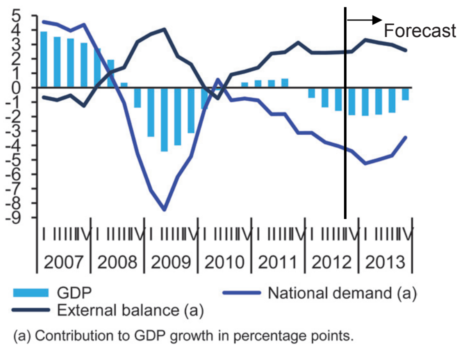
Funcas forecasts for 2012-2013, quarterly profile

Change y-o-y in %, unless otherwise indicated

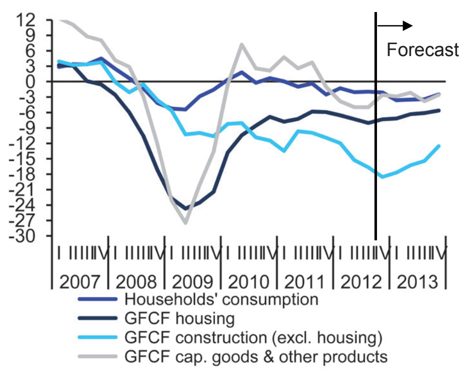
6.1 - GDP



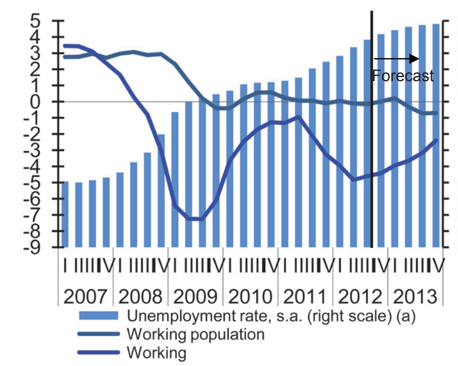
6.2 - GDP, national demand and external balance



6.3 - National demand aggregates

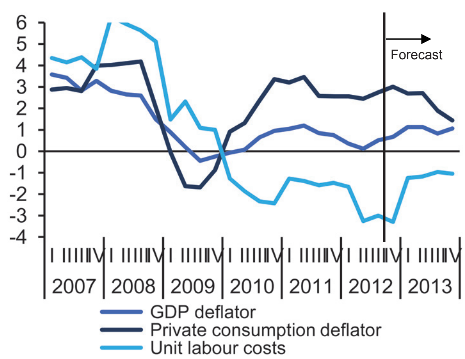


6.4 - Employment and unemployment

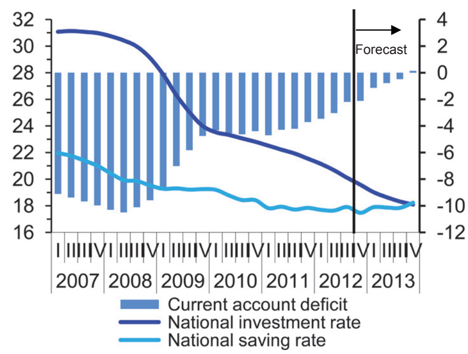


(a) Percentage of working age population.

6.5 - Inflation



6.6 - Saving, investment and c/a deficit (% GDP, 4MA)



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

in GDP for 2013 as a whole is -1.6%, two tenths higher than the previous forecast.

The contribution of national demand to growth will be even more negative than in 2012, at -4.5 pp. although the contribution of the external sector will improve somewhat, to 2.9 pp. The contraction in household consumption, and in particular spending by the general government, will be more pronounced than this year, at 3.3% and 4.9%, respectively. The negative factors alluded to will continue to weigh on these variables. In particular, the drop in households' disposable income will accelerate, in both real and nominal terms.

Credit will continue to contract until the process of consolidating and restructuring Spain's financial institutions has been completed, a process which requires a reduction in their debt and shrinking of their balance sheets, among other things. Although the consequent problem of the lack of finance could start to ease towards the end of the year as the consolidation process progresses, the situation will remain highly restrictive. In conjunction with the uncertainty and unfavourable outlook, this will keep **investments in capital goods and other goods** in negative territory, with a change of -2.9%. While finance remains scare, expectations are negative and household incomes continue to fall, there is little prospect of a recovery in the property sector. Moreover, the adjustments the sector needs to make are still a long way from complete, as a huge stock of unsold properties has yet to be absorbed. Residential investments are therefore likely to continue to decline in 2013, with the drop estimated at 6.3%. Meanwhile, deeper cutbacks in public investment will translate into a sharper drop in investments in other structures, which are expected to shrink by 15.6%. The improved international context is reflected in better export performance, with export growth of 4.5% and a drop in imports of 4.6%.

Credit will continue to contract until the process of consolidating and restructuring Spain's financial institutions has been completed. Although the consequent problem of the lack of finance could start to ease towards the end of the year as the consolidation process progresses, the situation will remain highly restrictive.

Employment is forecast to contract by -4.3% in 2012, and -3.2% in 2013, which will take the unemployment rate from an annual average of 25.1% this year to 27.3% the next. As a result of labour reform, among other factors, the increase in apparent labour productivity is likely to slow in 2013, but will continue to outpace compensation per employee, which will rise only slowly, such that **nominal unit labour costs** will continue to fall.

The **current account deficit** will fall to 2.1% of GDP in 2012, and the economy's net borrowing to 1.7%. These balances will change sign in 2013, with a current account surplus of 0.2% of GDP and net lending of 0.6% being expected.

Finally, the forecast general government deficit for this year has worsened to -8.4% of GDP. This figure includes the impact on the public accounts of the losses incurred bailing out financial institutions. Without this effect, the deficit would be -7.4%. Much of the deviation in this deficit figure from the target of 6.3% is taking place in the social security system. Despite this, if these forecasts are met, it may be concluded that the fiscal consolidation effort in 2012 has been significant, as with an estimated drop in real GDP of 1.4%, the output gap would have widened by nearly 2 pp of GDP, with the consequent deterioration in the cyclical component of the primary deficit of 1.5 pp. If the increase in interest payments is factored in, the structural primary deficit, which is the benchmark variable for the fiscal effort, can be expected to have fallen by slightly more than 3.5 pp of GDP. Finally, the total deficit will drop to 5.6% of GDP next year.

Table 1

Economic forecasts for Spain, 2012-13

Annual rates of change in %, unless otherwise indicated

	Actual data			Funcas forecasts		Change in forecasts (a)	
	Average 1996-2007	2010	2011	2012	2013	2012	2013
1. GDP and aggregates, constant prices							
GDP	**3.7**	**-0.3**	**0.4**	**-1.4**	**-1.6**	**0.1**	**0.2**
Final consumption households and NPISHs	3.8	0.7	-1.0	-1.8	-3.3	0.3	-0.1
Final consumption general government	4.3	1.5	-0.5	-4.0	-4.9	-0.5	0.2
Gross fixed capital formation	6.4	-6.2	-5.3	-9.0	-7.9	0.6	1.1
Construction	5.4	-9.8	-9.0	-11.6	-11.1	0.7	1.5
Residential construction	7.3	-10.1	-6.7	-7.3	-6.3	-0.3	0.0
Non-residential construction	4.2	-9.6	-11.0	-15.5	-15.6	1.5	3.1
Capital goods and other products	7.5	2.8	2.5	-4.1	-2.9	0.6	0.2
Exports goods and services	6.7	11.3	7.6	3.2	4.5	1.5	0.7
Imports goods and services	9.3	9.2	-0.9	-4.7	-4.6	1.8	0.8
National demand (b)	**4.5**	**-0.6**	**-1.9**	**-3.8**	**-4.5**	**0.2**	**0.2**
External balance (b)	-0.8	0.3	2.3	2.4	2.9	-0.1	0.0
GDP, current prices: - € billion	--	1048.9	1063.4	1052.9	1046.6	--	--
- % change	7.4	0.1	1.4	-1.0	-0.6	-0.1	0.2
2. Inflation, employment and unemployment							
GDP deflator	3.6	0.4	1.0	0.4	1.0	-0.2	0.0
Household consumption deflator	**3.1**	**2.0**	**2.9**	**2.7**	**2.2**	**-0.1**	**-0.1**
Total employment (National Accounts, FTEJ)	3.3	-2.5	-1.7	-4.3	-3.2	0.0	0.2
Productivity (FTEJ)	0.4	2.3	2.2	3.0	1.6	0.1	-0.1
Wages	7.2	-2.3	-0.8	-4.8	-3.5	-1.0	-0.2
Gross operating surplus	7.3	-1.0	5.0	2.8	0.4	1.1	0.6
Wages per worker (FTEJ)	3.2	0.3	0.7	0.1	0.5	-0.9	0.0
Unit labour costs	2.8	-2.0	-1.4	-2.8	-1.1	-0.9	0.0
Unemployment rate (LFS)	**12.2**	**20.1**	**21.6**	**25.1**	**27.3**	**0.1**	**0.1**
3. Financial balances (% of GDP)							
National saving rate	22.2	18.4	17.8	17.5	18.2	-0.1	-0.1
- of which, private saving	18.9	23.0	23.0	22.1	22.0	0.1	0.4
National investment rate	26.6	22.8	21.5	19.6	18.0	-0.1	-0.1
- of which, private investment	23.1	18.8	18.7	17.7	16.7	-0.2	-0.3
Current account balance with RoW	**-4.4**	**-4.4**	**-3.7**	**-2.1**	**0.2**	**0.0**	**0.0**
Nation's net lending (+) / net borrowing (-)	-3.4	-3.8	-3.2	-1.7	0.6	0.0	0.0
- Private sector	-2.6	5.9	6.3	6.7	6.2	0.4	0.6
- Public sector (general government deficit)	**-0.8**	**-9.7**	**-9.4**	**-8.4**	**-5.6**	**-0.4**	**-0.6**
Gross public debt	53.5	61.5	69.3	86.4	94.3	0.4	2.3
4. Other variables							
Household saving rate (% of GDI)	12.0	13.1	11.0	8.7	8.4	-0.2	0.0
Household gross debt (% of GDI)	82.5	128.7	125.4	122.5	119.4	0.0	-0.1
12-month EURIBOR (annual %)	3.7	1.4	2.0	1.1	0.9	-0.1	-0.1
10-year government bond yield (annual %)	5.0	4.2	5.4	5.9	5.0	0.1	0.7
Nominal effective euro rate (% annual change)	--	-6.2	-0.3	-5.5	-1.3	0.0	-0.3

(a) Change Between present and previous forecasts, in percentage points.

(b) Contribution to GDP growth, in percentage points.

Sources: 1996-2011: INE and Bank of Spain; Forecasts 2012-13: Funcas.

To conclude, the Spanish economy is in the midst of a financial crisis in which it is unable to access external credit just as it is reducing debt, absorbing an excess stock of property, and undergoing an internal devaluation. This is a situation that will take some time to overcome. All the more so, given that it is being tackled at a time of unprecedented fiscal retrenchment and in an unfavourable international context. No significant change in the current conditions can therefore be expected in what remains of this year or in much of the next.

Spain's bank-level stress tests and "bad bank" solution (Sareb[1]): Key steps in the resolution of the banking crisis

Santiago Carbó[2] and Francisco Rodríguez[3]

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The Spanish banking sector is going through an intense process of institutional and structural changes following agreement on the Memorandum of Understanding (MoU) between the Spanish and European authorities for contingent financial assistance to Spanish banks. Two relevant recent developments are the bank-level stress tests results and creation of Spain's "bad bank" (Sareb). Both aim to increase transparency, deal with banks' asset impairment, and determine the extent to which Spanish banks will rely on European financial assistance.

The bank-level stress tests and the creation of an asset management company are key steps in the resolution of the Spanish banking crisis. As for the stress tests, although certain methodological aspects may still need some clarification -and there are some remaining concerns over the potential impairment losses from specific asset classes- they are probably the most detailed bank transparency exercises carried out in Europe during the crisis years. As for the "bad bank", or Asset Management Company (AMC), the so-called Sareb incorporates the desirable ingredients that a modern 'bad bank' should probably include, although consideration of implementation issues and, in particular, those regarding ownership and management, will be critical in the assessment of its final success.

Spain is meeting the MoU targets

A good benchmark for the evaluation of the two main institutional developments that have occurred in the Spanish banking sector over the period of September through October 2012 –the bank-level stress tests and the Sareb– is the preliminary set of conclusions presented by the International Monetary Fund (IMF) staff team following their surveillance mission on MoU implementation. The mission took place during October 15th - 26th and the (brief) preliminary conclusions were published on October 26th [4]. The IMF acknowledges that "important progress has been made in reforming

[1] Sociedad de Gestion de Activos Procedentes de la Restructuracion Bancaria, in English Asset Management Company for Assets Arising from Bank Restructuring.

[2] Bangor Business School and Funcas.

[3] University of Granada and Funcas.

[4] http://www.imf.org/external/np/sec/pr/2012/pr12400.htm

the financial sector" as "all deadlines established in the Memorandum of Understanding (MOU), agreed between the Spanish and European authorities, have been met." Importantly, a reference is made to the improvement of financial market conditions that has taken place since the announcement of the ECB's Outright Monetary Transactions (OMT) program.

As for the stress tests results that were presented on September 28th, 2012, they are considered by the IMF as "technically robust" and "a sound basis for identifying undercapitalized banks". The IMF also recommends that in light of the stress tests, the recapitalization process should be made as fast as possible and should be accompanied by the burden-sharing tools considered in the MoU. Importantly, the Fund also recommends avoiding any bank merger processes that do not clearly generate value.

In the case of the Sareb, a key distinction is made between the main design features that have already been presented and the strong efforts that will still be needed to make it fully operational by the end-November deadline set by the MoU.

According to the IMF, particular attention should be paid to the incentive structures of the Sareb in order to achieve an effective management of the transferred assets.

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Bank-level stress tests: Main features and implications

On September 28th, 2012, the results of the bank-level stress tests were presented and published on the Bank of Spain's website[5]. These tests provided a response to the requirement established by the MoU that "a bank-by-bank stress test conducted by an external consultant with regard to banking groups comprising 90% of the Spanish banking system will be completed by the second half of September 2012 (Stress Test). The Stress Test, following the results of the top-down exercise published on June 21st, 2012, will estimate the capital shortfalls for individual banks and give rise to a recapitalization and restructuring process for groups of banks".

It is also important to keep in mind that on the basis of the stress test results and recapitalization plans, banks will be categorized accordingly into four groups:

- Group 0: banks for which no capital shortfall is identified and no further action is required.
- Group 1: banks already owned by the Fund for Orderly Bank Restructuring (FROB) (BFA/Bankia, Catalunya Caixa, NCG Banco and Banco de Valencia).
- Group 2: banks with capital shortfalls identified by the Stress Test and unable to meet those capital shortfalls privately without having recourse to State aid.
- Group 3: banks with capital shortfall identified by the Stress Test with credible recapitalization plans and able to meet those capital shortfalls privately without recourse to State aid.

The MoU also mentions that "the AMC will manage the assets with the goal of realizing their long-term value. The AMC will purchase the assets… The FROB will contribute cash and/or high quality securities to the AMC for an amount corresponding to a certain percentage… and in exchange for the assets, the banks will receive

[5] http://www.bde.es/bde/en/secciones/prensa/infointeres/reestructuracion/

a suitably small equity participation in the AMC, bonds issued by the AMC and guaranteed by the State, or cash and/or high quality securities". Hence, the challenge was to create an AMC where most of the impaired assets of the Spanish banking sector are transferred and with a sufficiently robust and flexible financial structure to give support to the sale of those assets.

The bank-by-bank stress tests are the basic ingredient in the process of increased transparency in the Spanish banking sector. This process has involved four major working areas. The so-called Work Area 1 corresponds to the top-down analysis that was presented in June 2012 and that was undertaken by two independent consultants, Roland Berger and Oliver Wyman. The results published on June 21st, 2012, reflect under an adverse macroeconomic scenario and a core Tier 1 requirement of 6%, that the additional capital needs of the Spanish banking sector range between 51 and 62 billion euros.

Work Area 2 corresponds to the detailed accounting review of the loan portfolio and of foreclosed assets or repossessed assets. Four private auditors (Deloitte, PwC, Ernst & Young and KPMG) were responsible for this work area and they mainly dealt with itemizing the loan portfolios of the 14 banking groups evaluated in the stress tests. Even if these auditing companies were not commissioned to produce the bottom-up analysis and final report, they had a key role in identifying if the portfolios of assets of individual banks were adequately segmented and properly provisioned for. Some figures are very illustrative of the magnitude of this accounting review process under Work Area 2. In particular, the auditors reviewed a sample of more than 115,000 operations and the average sample per bank amounted to 770 borrowers. The coverage ratio of the sample represented 11% of the credit exposures in Spain of the banks evaluated.

One of the key issues that has been largely criticized over the last few years as far as the magnitude of the banks' asset impairment is concerned is the potential reclassification of certain assets under categories that do not correspond to their nature and/or credit risk. The analysis in Work Area 2 concluded that "a low level of exposures had been included by mistake in the SME and Corporate segments, which should have been in real estate development and construction. These data are considerably lower than the assumptions made by Oliver Wyman in the top-down exercise". Additionally, the auditors noticed that as for the level of refinancing by segment, "the sample selected disclosed low levels of refinancing which were not marked in the SME and retail segments (3% and 1%, respectively) and were higher in the real estate development sector (21%)".

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The work of the four independent auditors did not end with Work Area 2. Under Work Area 3, they were also commissioned to analyze the non-performing loans (NPL) management processes and systems. The auditors concluded that the 14 banks evaluated had complete NPL management systems and considered that "these systems are able to absorb the current volume of NPLs and potential future increases in them".

The final process to elaborate the results of the bank-by-bank stress tests was done under Work Area 4, which was established to evaluate the additional capital needs according to the bottom-up analysis. Oliver Wyman took the lead role in this area, in cooperation with the Bank of Spain and under the supervision of the European Commission, the European Central Bank and the IMF, as established by the MoU. This final stage of the stress tests was also undertaken using sample information. The

Bank of Spain has specified "in order to refine the assumptions and parameters used, the auditors took a random sample of more than 16,000 operations, which enabled Oliver Wyman to extrapolate the results obtained in the auditors' work to the whole population".

The timeframe for the analysis was 2012-2014. Importantly, the tests included all the assets in the resident private sector credit portfolio and not just real estate assets. The reference capital requirement was the same as the one established by the European Banking Authority - 6% of total assets for the adverse scenario and 9% for the baseline scenario. The accounting valuation was made on the credit portfolios as of 31/12/2011.

It is also important to note that this final step of the stress tests implied supervision by the Bank of Spain to assure that all the inputs from Work Areas 2 and 3 were homogeneously produced for comparative purposes.

As for the baseline and adverse scenarios, they are exactly the same ones that were used in the top-down results presented in June 2012[6]. The main results are shown in Table 1. The total estimated capital deficit under the baseline scenario is 25.8 billion euros while the estimated deficit in the adverse scenario is 53.7 billion euros.

Table 1
Capital deficit of Spanish banks (billion euros)

Baseline Scenario		Adverse Scenario	
Bankia-BFA	-13.230	Bankia-BFA	-24.743
Catalunyabank	-6.488	Catalunyabank	-10.825
NCG Banco	-3.966	NCG Banco	-7.176
Banco de Valencia	-1.846	Banco de Valencia	-3.462
BMN	-368	Popular	-3.223
Bankinter	393	BMN	-2.208
Ibercaja+Caja3+Liberbank	492	Ibercaja+Caja3+Liberbank	-2.108
Popular	677	Unicaja+CEISS	128
Unicaja+CEISS	1.300	Bankinter	399
Kutxabank	3.132	Sabadell+CAM	915
Sabadell+CAM	3.321	Kutxabank	2.188
Caixabank+Cívica	9.421	Caixabank+Cívica	5.720
BBVA	10.945	BBVA	11.183
Grupo Santander	19.181	Grupo Santander	25.297
Total	-25.898	Total	-53.745

Source: Bank of Spain and own elaboration.

The total estimated capital deficit under the baseline scenario is 25.8 billion euros while the estimated deficit in the adverse scenario is 53.7 billion euros.

As of now, the supervision authorities have made clear that they do not expect that these capital needs will fully materialize for three reasons: i) many of the banks with capital deficit will be

[6] These scenarios were discussed in Carbó, S. and F. Rodríguez (2012), Resolution of the Spanish banking crisis: Implications of recent developments, *Spanish Economic and Financial Outlook,* vol. 1, n.2: 5,-4.

able to apply their own strategies to partially or even fully manage the capital shortfall; ii) a substantial amount of impaired assets will be transferred to the Sareb, which in turn will reduce the capital needs; and iii) the probability of occurrence of the adverse scenario is considered unlikely.

Some aspects of the bank-by-bank stress tests have been criticized. In particular, more information will be needed on how the top-down exercise was conducted from sample information and to what extent there is still some misclassification of assets. In any event, the tests have been ratified by the European Commission (EC), the European Central Bank (ECB), the European Banking Authority (EBA) and the International Monetary Fund (IMF).

The Spanish "Bad bank" solution: Sareb

Although the legal text was still to be released by the time this article was written, the main ingredients of the AMC were presented on October 29th, 2012. As other resolution tools in the management of the banking crisis, the AMC has been the result of a consultation and joint work process between the Spanish authorities and the EC, the ECB and the IMF. As mentioned, the AMC will be called Sareb (*Sociedad de Gestion de Activos Procedentes de la Reestructuración Bancaria* - Asset Management Company for Assets Arising from Bank Restructuring).

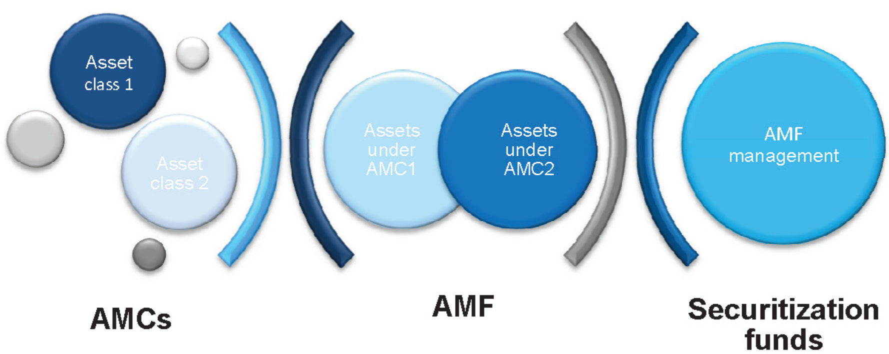
The Sareb will manage the portfolio of assets transferred from those banks that are required to make such transfers in accordance with the criteria of the MoU and the Royal Decree-Law 24/2012. In particular, a maximum time horizon of 15 years is established so that Sareb can sell those assets. The Sareb has been designed by the Fund for Orderly Restructuring of Banks (FROB), supported by advisory services from the private firm Álvarez & Marsal and in collaboration with the Bank of Spain and the Ministry of Economic Affairs.

The main features of the Sareb refer to its structure and governance and asset transfer regime (the scope and the price).

As for the structure and governance, the Sareb is a single company that will have the power to set up specific asset funds that will be managed

Exhibit 1

The classification of assets under the Sareb



Source: *own elaboration.*

as separate securitization funds. As shown in Exhibit 1, the Sareb will classify the assets first and then organize them as asset management funds (AMF) that will be managed by securitization funds.

As for the financial structure, the equity capital of the Sareb will be 8% of the total assets. A non-majority holding will correspond to the FROB, while a majority holding is expected to be subscribed by private investors. Part of the own funds could be subscribed as subordinated bonds.

The governing bodies of Sareb will be those of public limited companies in Spain including a Board of Directors, an Audit Committee and a Remuneration and Appointments Committee. At the same time, the Board of Directors of the Sareb will have an Executive Committee, a Risk/Credit Committee, an Investment/Divestment Committee and an Assets and Liabilities Committee. Additionally, it will have an External Monitoring Committee with representatives of the Ministry of Economic Affairs and Competitiveness, Ministry of Financial Affairs and Public Administration, the Bank of Spain and the Securities Exchange Commission (CNMV).

As for the scope of the asset transferred, there will be two steps. First, the banks classified in Group 1 according to the bank-by-bank stress tests discussed above will transfer all their foreclosed assets with a value larger than 100,000 euros and all their loans to real estate developers larger than 250,000 euros. In a second stage, the banks that will fall under Group 2 will transfer the same categories of assets to Sareb in 2013. According to the FROB estimates, the total assets transferred in the first stage will be around 45 billion euros, while in the second stage, the estimates point to 14 billion euros. The maximum amount of assets to be transferred to the Sareb has been set at 90 billion euros.

One of the most important ingredients of the Sareb, as in any other historical experience of asset management companies, are transfer prices. The criteria to set transfer prices will be mainly two:

i) The economic value of the assets (both for the foreclosed assets and the loans) taking the baseline scenario of the bank-by-bank stress tests as a reference.

ii) An additional adjustment, considering criteria such as “the en bloc acquisition of assets; the consideration of certain expenses borne by the banks’ income statements, which must now be assumed by the company, such as asset management and administration costs, including financial costs; the outlook for the timing of the divestment of the assets transferred to the company; and other factors that affect the viability of and the risks involved in the specific activity of Sareb”.

The FROB projects average transfer prices as shown in Exhibit 2. The average haircut on loans will be 45.6% while the average discount on foreclosed assets will be 63.1%. These haircuts go beyond the estimated discounts that can be inferred from the provisions that the Royal Decree 24/2012 required of Spanish banks.

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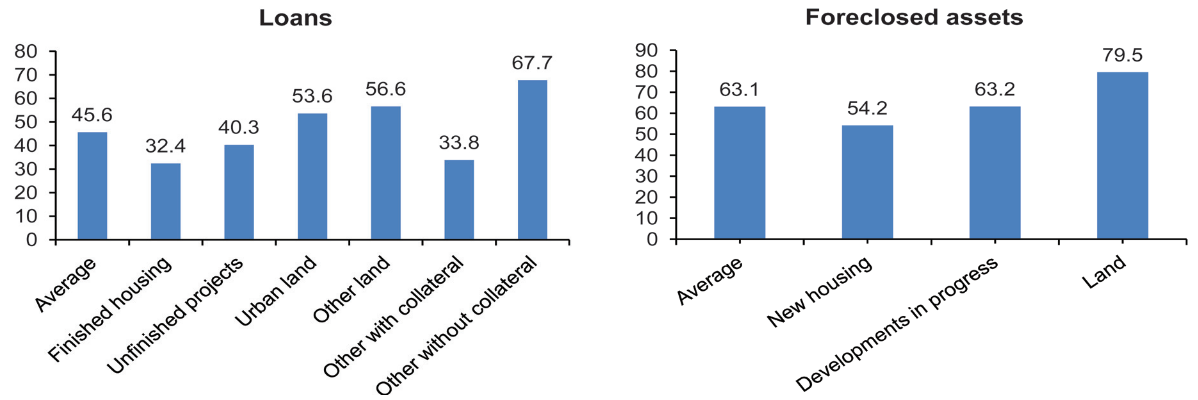
As for other aspects of the Sareb, the FROB estimates that the return on equity (ROE) over a 15-year time horizon –in a conservative scenario– will be around 14-15%.

Overall, the Sareb contains the most important ingredients for an asset management company but some of the remaining implementation issues will be very relevant for determining its success in the near future. The establishment of a proper incentive structure between ownership and management will also be particularly significant.

Exhibit 2

Average haircut on loans and foreclosed assets in the Sareb



Source: own elaboration.

Additionally, the participation of foreign investors will be critical, as it may bring both credibility and balance to the management and ownership structure of Sareb.

Additionally, even if it is very difficult to determine to what extent the Sareb will affect housing prices in Spain, it is very likely that the estimated transfer prices will imply a faster adjustment in house prices during 2013. During the presentation of the Sareb, authorities noted that “the transfer price is

> *…it is very likely that the estimated transfer prices will imply a faster adjustment in house prices during 2013… that Sareb prices will push down house market prices in Spain as it is not plausible to expect a market with an average discount of 25-30% and Sareb with discounts of around 40-60%...*

not a reference for the valuation of non-transferred bank assets”. This is true as a starting reference, but it is very likely that Sareb prices will push down house market prices in Spain as it is not plausible to expect a market with an average discount of 25-30% and Sareb with discounts of around 40-60%.

Financial soundness indicators for the Spanish banking sector: An international comparison

Joaquín Maudos[1]

Solvency indicators are improving and efficiency ratios are above the euro area average. However, the damage caused by prolonged crisis is still evident in other key metrics.

Financial soundness indicators offer the most recent aggregate picture of Spanish consolidated banking groups in the European context. The impact of the crisis years has left the Spanish banking sector in a generally weaker position in absolute terms, as well as, in comparison with the euro area. Nevertheless, high levels of efficiency and doubtful loan provisions stand out in comparison to euro area figures and solvency ratios are improving. Despite the importance of aggregate comparisons, it is critical to analyse Spanish financial institutions on a disaggregated basis, given the high degree of variation across the health of institutions within the sector.

Since the financial crisis began in mid-2007, Spain has experienced four separate phases of a continuous process, which has now dragged on for over five years. The first phase was a liquidity crisis, followed by a profound economic crisis in 2009. Next came the sovereign-debt crisis and since 2012, the strains in the financial markets and uncertainties surrounding the euro have led to the current recession, which is projected to continue into 2013.

The Spanish banking sector has inevitably felt the effects of these various phases of the crisis. First, it was necessary to provide liquidity to counteract the closure of financial markets, through measures such as issuing public guarantees on bank debt. Second, in the midst of the sharp GDP contraction, it became necessary to approve the Fund for Orderly Restructuring of the Banking Sector (FROB) in 2009, and to reform savings bank legislation in 2010. After the outbreak of the sovereign debt crisis, banks were required to hold more capital (enacted by the Royal Decree/ Law on the strengthening of the financial sector in 2011) and to clean up assets associated with the property development sector in 2012. This meant increasing the provisions required for normal risk loans as well as for assets classified as toxic. Finally, the capital shortfall detected in the 2012 stress tests made it necessary to request financial

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assistance from the European rescue fund and to accept a Memorandum of Understanding (MoU), the conditions of which have begun to take shape through specific measures (such as the approval of an asset management company or "bad bank").

Taking into account all of these significant developments affecting the Spanish financial sector, it is relevant to ask oneself the following series of questions:

i) What is the Spanish banking sector's current position in the European context?

ii) Has the crisis had a bigger impact on Spanish credit institutions than on their peers?

iii) Has efficiency been boosted in an effort to counter the effects of the crisis?

iv) Have Spanish banks done more to recapitalise and improve their solvency?

v) Has the Spanish banking system made a bigger effort to clean up its impaired assets?

vi) What has been the impact of the crisis on Spanish banks' non-performing loan rate compared to their European counterparts?

vii) Do Spanish banks still have higher profits than the European average, despite the crisis?

viii) What has been the impact of the closure of wholesale financial markets on the liquidity of the Spanish banking sector?

To answer these questions, this article draws on various financial soundness indicators. In its latest report on the Spanish banking sector *(Spain: Financial Stability Assessment)* in June 2012, the International Monetary Fund (IMF) provided an in-depth analysis of recent developments in the Spanish banking system based on information up to December 2011. The IMF also uses financial soundness indicators, although it does not offer a comparative analysis with the banking sectors of Spain's peers. The aim here, therefore, is to analyse recent developments and the current position of the Spanish banking sector in the European context, using indicators of profitability, solvency, liquidity, efficiency, asset quality, etc. This approach makes it possible to analyse both how the impact of the crisis on Spanish banks has differed from elsewhere, and to examine the most recent snapshot of European banking sectors available from European Central Bank (ECB) and IMF data gathered in December 2011. In the first case, the analysis is based on consolidated banking data (including information on aggregate consolidated profitability, balance sheets and solvency of EU banks). In the second case, it is based on information from financial soundness indicators. The analysis refers to consolidated banking groups, including both domestic business and that of Spanish banks' subsidiaries abroad.

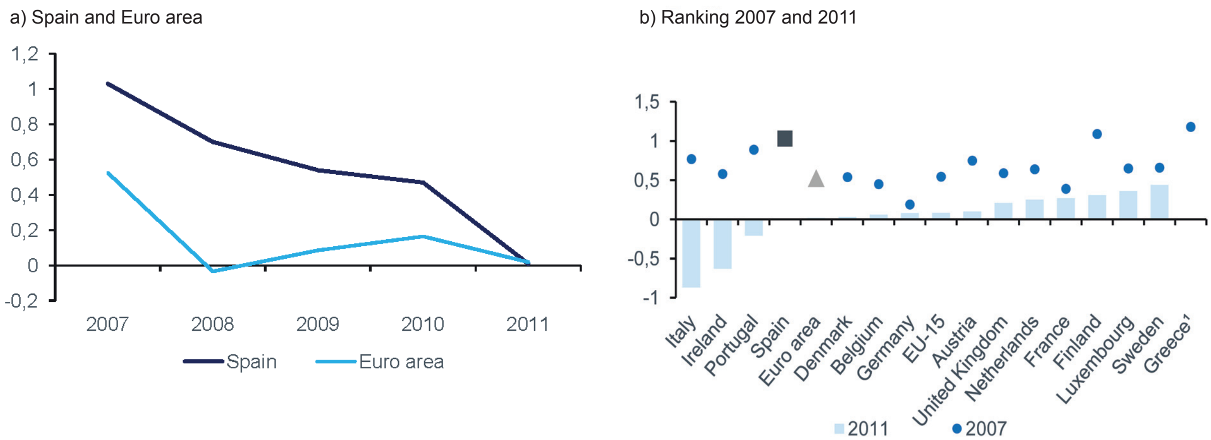
Profitability

At the close of 2011, the Spanish banking sector's return on assets (ROA) stood at 0.01%[2], a long way short of the 1.03% at the start of the crisis in 2007 (see Exhibit 1). Nevertheless, despite this sharp drop, Spanish banks' profitability in 2011 was close to the euro area and EU-15 averages, which were also extremely low. At the end of 2011 there was a wide range of variation in profitability between the various banking sectors in the euro area. Thus, although the crisis has driven down profits across the board, alongside countries with negative returns (banks in Italy, Ireland and Portugal) there are others with returns of over 0.3% (Sweden, Luxembourg and Finland). In all the euro area's banking sectors, however, profitability in 2011 was well below 2007 levels. Moreover, as the crisis has dragged on, Spanish

[2] This figure differs from that reported by the Bank of Spain in its banking supervision report. as it gives an ROA (ROE) for consolidated banking groups of 0.2% (3%). However, the information for previous years is similar.

Exhibit 1

Return on assets (ROA) of the Spanish and Euro area banking sectors. 2007-2011 (%)



(1) In 2011. Greece is not available. Euro area and EU-15 are weighted averages using total assets as weights.
Source: ECB and author's calculations.

banks' profitability has tended to converge with the European average.

In terms of return on equity (ROE), the profitability of the Spanish banking sector dropped sharply in 2011, falling from 8% in 2010 to just 0.1% in 2011. This drop is explained by the substantial cost of write-downs in 2011, as almost 95% of operating profit (i.e. 46.1 billion euros) was set aside for provisions. This exceeds the already high percentage set aside in 2009 and 2010 (around 65%). Moreover, Spanish banks' interest margins fell in 2011, weighed down by rising borrowing costs (in the context of difficulty accessing the wholesale market), which were almost three times higher than interest income (30.5% *vs.* 12.7%).

Solvency

In late 2011, the Spanish banking sector's total solvency ratio (12.4%) was situated 1.5 percentage points (pp) below the euro area average, although it had narrowed the gap compared to 2010. In terms of Tier 1 capital, the difference with the euro area banking system in 2011 was smaller (0.8 pp) and its level improved by almost 1 pp against the 2010 level and 3 pp against that of 2007. Market pressure, the requirement for higher levels of principal capital (a concept similar to core capital under the new Basel III accords) by the Bank of Spain (which required that the basic solvency ratio be increased to 8% in general, and up to 10% in some cases) and anticipation of the effects of the new Basel III accords explain the increase in quantity and quality of equity capital.

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Thus, in 2011, core capital represented 89.4% of the total, 3.6 percentage points more than in 2010 and 14.4 points more than in 2008.

In comparison with the remainder of the EU-15's banking sectors, as Exhibit 2 shows, the overall solvency ratio of the Spanish banking system in 2011 was low, above only that of Greece, Portugal, Sweden and France. The high solvency levels of Luxembourg, Belgium and Ireland stand out, although the substantial injection of public funds should be borne in mind in the case of Ireland. The ranking is very similar in the case of Tier 1 capital to risk weighted assets, with the Spanish banking system having the fifth-lowest level of solvency of all the EU-15's banking sectors.

Efficiency

The process of root-and-branch restructuring underway in the Spanish banking sector since the approval of the FROB in 2009 has meant tackling the imbalances that built up in the previous expansionary phase. The excess installed capacity that some institutions had accumulated has been partly corrected with a cut in the number of branches and jobs of 14% and 11%, respectively, from their peak values in 2008. Thus, the sector shed 30,000 employees between 2008 and 2011, and cut branches by 6,500 by June 2012. Much of this adjustment is the outcome of the savings banks mergers that have taken place.

The adjustment in installed capacity translated into a reduction in domestic business's operating expenses in 2011, although at a consolidated group level, operating expenses have risen owing to banks with a stronger international presence expanding abroad.

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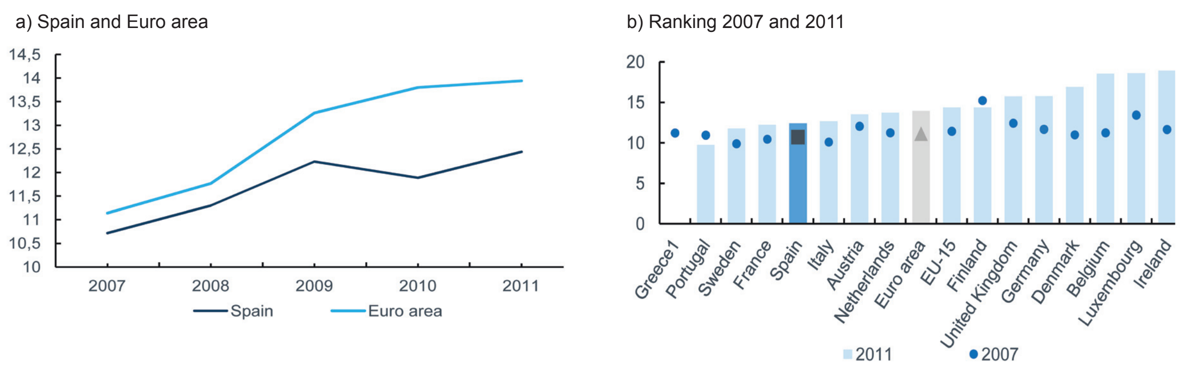
Exhibit 2

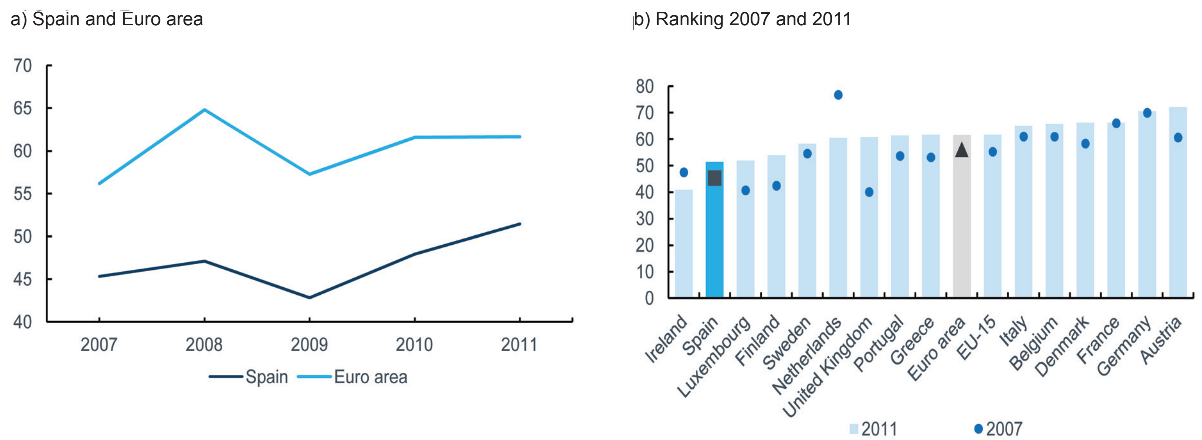
Regulatory capital to risk (overall solvency ratio) of the Spanish and Euro area banking sectors. 2007-2011 (%)



(1) In 2011. Greece is not available. Euro area and EU-15 are weighted averages using total assets as weights.
Source: ECB and author's calculations.

Exhibit 3

Cost to income ratio of the Spanish and Euro area banking sectors. 2007-2011 (%)



(*) Euro area and EU-15 are weighted averages.

Source: ECB and author's calculations..

The sharp drop in operating margin has meant that the correction of part of the existing surplus capacity has yet to bear fruit in terms of improved efficiency. Thus, the Spanish banking sector's cost to income ratio worsened in 2010 and 2011, rising to 51.5% in 2011, six points above its level at the start of the crisis in 2007. Nevertheless, Spanish banks have always stood out internationally for their high levels of efficiency, and continue to do so with an efficiency that is 10 pp higher than the average for euro area banks (51.5% *vs.* 61.6%). Moreover, as Exhibit 3 shows, Spanish banks are the second most efficient in the EU-15, with Austrian and German banks at the bottom of the efficiency rankings.

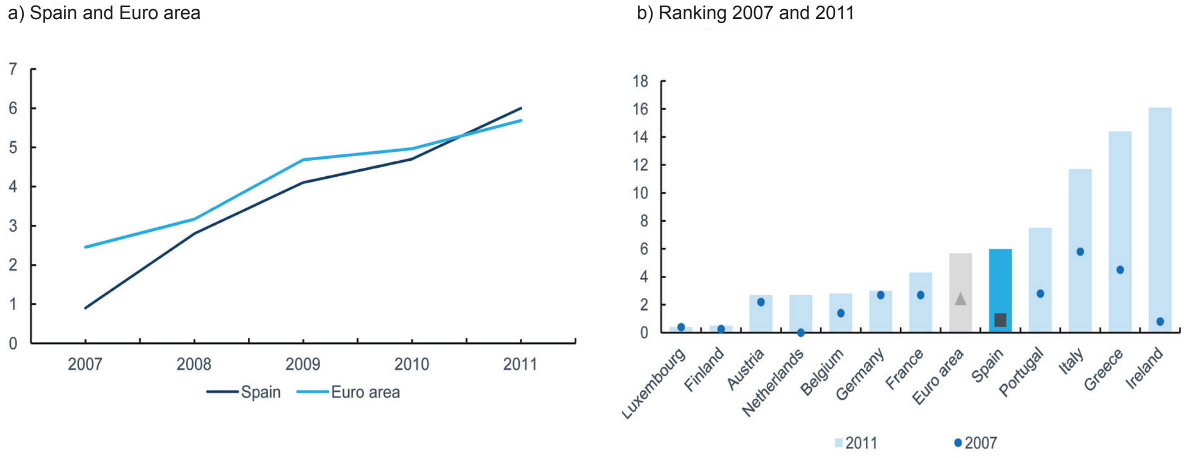
Asset quality

As well as the sharp drop in profitability levels, one of the facets of the banking business that has been hardest hit by the crisis is asset quality and the consequent need to set aside loss provisions. In the case of Spanish banks' loans to the private sector, which constitute the most important item in their assets by a wide margin, the non-performing loan (NPL) rate has risen exponentially since the onset of the crisis. From a level of just 0.9% in 2007, it had reached 6% by the end of 2011. In the case of business in Spain, the NPL rate is higher still, having reached a historic maximum of 10.7% in September 2012 (the most recent data available at the time this article was written).

Taking the latest data available for the sample of European banking sectors (December 2011), the Spanish banking sector's NPL rate was 0.4 percentage points higher than the euro area average. At that time (see Exhibit 4), the banking sectors in Ireland (16.1%) and Greece (14.4%) were suffering the highest NPL rates, with rates in Italy (11.7%) and Portugal (7.5%) also above those in Spain. Luxembourg and Finland were at the other end of the scale, with an NPL rate of less than 1%. The banking sectors in Germany (3%) and the United Kingdom (4%) had NPL rates below the European average. The rapid growth of

Exhibit 4

Non-performing loans to total loans ratio of the Spanish and Euro area banking sectors. 2007-2011 (%)



(*) Euro area average is a weighted average using total loans as weights.
Source: IMF and author's calculations

The rapid growth of bank credit in the preceding expansionary phase, the excessive concentration of risks in the construction and property development sector and the depth and duration of Spain's recession, are all factors in the rapid increase in non-performing loans banks are experiencing.

bank credit in the preceding expansionary phase, the excessive concentration of risks in the construction and property development sector (in the case of business in Spain, 23% of credit to the private sector at the end of 2011), and the depth and duration of Spain's recession, are all factors in the rapid increase in non-performing loans banks are experiencing.

As mentioned above, the asset write-downs needed to respond to defaults and asset impairment made it necessary to set aside a large share of operating margin to cover provisions. Fortunately, Spanish banks entered the crisis with a strong buffer of provisions, thanks to the Bank of Spain's requirement that they set aside general provisions based on a percentage of normal risk loans. This explains why at the start of the crisis the Spanish banking sector had a high level of doubtful asset coverage, with a coverage ratio that was three times the European average. The increase in defaults since that time caused the subsequent drop in coverage in 2008 to 71%, banks having set aside part of the general provisions to cover non-performing loans. In 2011 the ratio had dropped to 57%, although it was 12 pp higher than the European average.

Liquidity

The final aspect of the financial health of the Spanish banking sector we will examine here in the European context is liquidity. The first indicator of the liquidity problems Spanish banks are currently facing as a result of the closure of wholesale financing markets is their high level of dependence on financing from the Eurosystem. Thus, in October 2012, Spanish banks concentrated

32% of gross Eurosystem lending (a historical high), a percentage well above that of the Spanish banks in the euro area (Spain's capital key in the Eurosystem is 11.8%). This percentage has risen almost uninterruptedly since early 2011, having more than tripled since then.

Another indicator of Spanish banks' liquidity problems is the wide gap between private sector credits and deposits, such that consolidated groups' loans to deposits ratio stood at 128% at the end of 2011. The ratio has dropped from the 143% level reached in 2007, although in 2011 it was up from the 2010 level, demonstrating the difficulty of reducing the liquidity gap.

Strengths and weaknesses of the Spanish banking sector

The most recent aggregate picture of Spanish consolidated banking groups in the European context is offered by financial soundness indicators (summarised in Table 1). These reveal the impact of the crisis on profitability levels, which are currently very low, but similar to the European average. With respect to solvency, although the Spanish banking sector's level is below the European average, credit institutions made a big effort to improve the situation in 2011, increasing their solvency ratio by more than the European average and boosting their core capital as a share of the total.

Regarding efficiency, despite shrinking margins, Spanish banks are still much more efficient than their European peers. In the area of asset quality, the high concentration of risks in the most crisis-stricken sector (property) explains the rapid growth of the NPL rate, to a level currently above the European average. This increase in defaults, in conjunction with the application of stricter regulations on provisions to clean up assets related to the property sector, explains the sharp drop in profits in 2011, a year in which credit institutions set aside almost 95% of their operating profits to write down impaired assets. The narrowing of interest margins and the decline in the volume of business have also had a negative impact on profits.

One of the Spanish banking sector's most significant vulnerabilities is its excessive dependence on ECB liquidity. The closure of wholesale financing markets in the wake of the sovereign debt crisis has forced Spanish banks to meet their debt repayments by turning to ECB financing on a massive scale, accounting for a peak of 32% of total Eurosystem financing, In recent years the Spanish banking sector has reduced the credit/deposit liquidity gap, although it still remains high. For this reason, it is essential to enable the banking system to return to the markets and to increase the deposit base. Otherwise there will be an abrupt deleveraging, which could undermine the economic recovery.

The forecast macroeconomic scenario is another factor putting a strain on the Spanish banking system in the immediate future. Analysts' forecasts for 2013 indicate a drop in GDP of around 1.5%, which could have an impact in terms of an increase in the NPL rate. If we add low interest rates to this crisis scenario, which have a negative impact on banking margins, and the process of deleveraging about to take place (with a drop in the credit/GDP ratio), the banks are facing a situation that is extremely complicated, and in which cost savings and efficiency gains are fundamental to overcoming the crisis.

Warning: Disaggregation matters

A warning needs to be given about the image of the sector offered by the aggregate data, as it can mask huge differences across institutions. As the IMF recognizes in its latest report on the Spanish financial sector, there is a high degree of variation in the health of Spanish financial institutions across the sector. It therefore classifies them into four different groups according to the recapitalisation they need in order to pass the stress tests. This message is reinforced and confirmed by the latest institution-level stress tests (a bottom-up analysis)

Table 1

Financial soundness indicators for the Spanish and Euro area banking sectors (%). Consolidated banking groups

SPAIN	2007	2008	2009	2010	2011
Profitability					
ROA	1.03	0.70	0.54	0.47	0.01
ROE	21.29	12.20	8.87	8.04	0.09
Interest margen (% of total assets)	1.56	1.60	1.96	1.79	1.69
Operating profit (% of total assets)	1.56	1.40	1.71	1.43	1.25
Solvency					
Tier 1 capital to risk weighted assets	7.64	8.10	9.33	9.65	10.59
Regulatory capital to risk (overall solvency ratio)	10.72	11.30	12.23	11.89	12.44
Efficiency					
Operating expenses (% total assets)	1.28	1.20	1.29	1.32	1.33
Cost to income ratio	45.31	47.10	42.82	47.92	51.45
Asset quality					
Non-performing loans to total loans	0.90	2.80	4.10	4.70	6.00
Total loss provisions per Total (gross) doubtful and non-performing loans	-	71.40	60.80	65.82	57.31
Provisions and impairments to operating profit	-	58.94	66.59	65.14	94.62
Liquidity					
Loans to deposit ratio (private sector)	142.90	136.70	129.30	125.20	128.00

EURO AREA	2007	2008	2009	2010	2011
Profitability					
ROA	0.53	-0.03	0.09	0.16	0.02
ROE	13.00	-2.98	0.93	2.83	1.13
Interest margen (% of total assets)	1.04	1.10	1.33	1.29	1.25
Operating profit (% of total assets)	0.80	0.51	0.87	0.79	0.75
Solvency					
Tier 1 capital to risk weighted assets	8.67	8.81	10.34	11.01	11.42
Regulatory capital to risk (overall solvency ratio)	11.14	11.77	13.26	13.80	13.94
Efficiency					
Operating expenses (% total assets)	1.26	1.19	1.31	1.30	1.30
Cost to income ratio	56.17	64.81	57.28	61.60	61.65
Asset quality					
Non-performing loans to total loans	2.45	3.17	4.68	4.96	5.69
Total loss provisions per Total (gross) doubtful and non-performing loans[1]	-	48.41	59.01	44.73	45.43
Provisions and impairments to operating profit	-	114.26	85.45	63.83	101.18

[1] Euro area data doesn't include Finland. Ireland and Luxembourg.

Euro area data are calculated as weighted averages.

Source: ECB, IMF, Bank of Spain and own elaboration.

The upside is that two thirds of the Spanish banking system does not show signs of vulnerability, as banks have a level of solvency sufficient to confront an adverse scenario, the likelihood of which is slight.

carried out by the independent consultant at Oliver Wyman. Their findings, published in September 2012, reveal that the system's capital needs are concentrated primarily in the four nationalised banking groups. Together, these account for 86% of total capital needs. Conversely, the seven groups that passed the test, comprising the biggest institutions, account for 62% of the loan portfolio analysed, and consequently the lion's share of the sector. The upside is that two thirds of the Spanish banking system does not show signs of vulnerability, as banks have a level of solvency sufficient to confront an adverse scenario (accumulated drop in real GDP of 6.5% from 2012 to 2014), the likelihood of which is slight (the estimated probability of occurrence is less than 1%). Moreover, some of these institutions have a business that is highly diversified internationally, providing them with an adequate buffer of capital and profits to offset the weaker performance of their domestic business.

Covered Bonds: Differences among some European countries and main challenges ahead

Miguel Arregui and Alfonso García Mora[1]

Primary and Secondary CB markets are crucial for the stability of the European financial markets. However, future regulatory changes are expected and their potential impact can be relevant for investor confidence.

The attractiveness of Covered Bonds has increased over the recent years and we expect both issuers and investors to continue using these instruments compared to other financial alternatives due to favorable market technical factors and regulatory considerations. However, we believe some relevant factors will have a significant impact on the Covered Bond market in the near future. As the correlation between sovereigns and Covered Bonds increases –particularly in peripheral Europe– any policy towards normalizing this situation will affect the primary and secondary CB markets. Implementation of important regulatory changes will also affect existing legal frameworks for CBs in Europe. From their part, investors will continue demanding more transparency and information that goes beyond public accounting standards, particularly related to the cover pool. How these factors are addressed in the near future will be key to generate the necessary confidence in CB markets.

Covered Bonds: A brief overview

Covered Bonds (CBs), or securities backed by dedicated collateral, are one of the largest asset classes in the European bond market, offering an alternative to sovereign debt for potential investors willing to invest in high rated securities. At the end of 2011, the overall volume stood at 2.7 trillion euros (ECBC, 2012). Currently there are active CB markets in 25 different European jurisdictions.

The dual protection that investors receive when investing in a CB explains a significant part of their success and the existence of a wide range of instruments within the same category. CBs backed by mortgages, on which investors have a priority claim, are called Mortgage Bonds, with significant differences also among European Union countries. Within the CB market, those covered with mortgage pools represent 75% of the overall amount. The other 25% are based on pools created from public sector loans. There is also a third kind of CB, backed by large projects, such as the construction of ships, but nowadays this type of CB is insignificant compared with the others. Throughout the article, we will focus on CBs backed by mortgages.

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

The common factor to all CBs is the existence of a double recourse –the issuer's creditworthiness and the pool of collateral–, which increases the guaranty for the investor in case of default, and therefore the rating of the instrument[2].

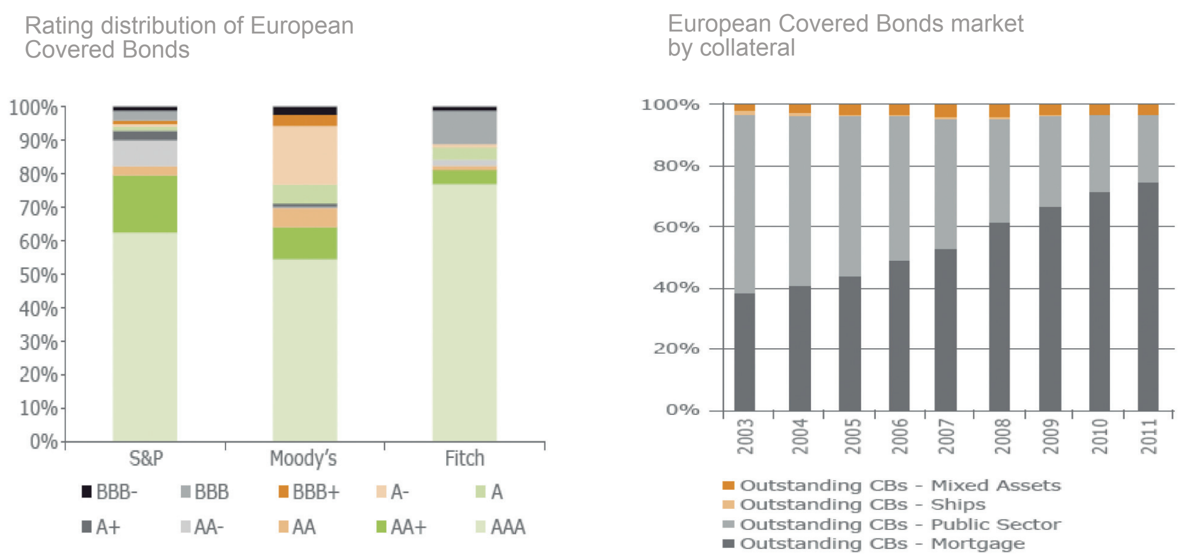
In fact, the dual protection offered by CBs accounts for the main difference with respect to senior unsecured bonds and asset backed securities. As a consequence, the price of a CB should be higher than unsecured bonds of the same issuer –due to the existence of the cover pool– and also than that of Mortgage Backed Securities (MBS). Since there is double recourse on the issuer of CBs, there is no prepayment risk and there is also a potential replacement of non-performing loans from the cover pool. In fact, the lower the correlation between the value of the cover pool and the issuer, the higher the price difference between CBs and other instruments should be.

Even though there are significant differences between them, from an empirical point of view, CBs and MBS rely on their high credit profile (and rating), usually better than their respective senior unsecured debt. Thus, CBs and MBS are quite attractive to investors looking for high quality assets and low credit risk products. On the other hand, these instruments provide an efficient low-cost way for lenders to expand their business and enlarge their funding duration.

Whereas in the case of CBs, the covered pool remains on the balance sheet, for ABS (and MBS as a special type of ABS), credit risk is transferred to the investor. Since the originator can transfer

Exhibit 1

European Covered Bond market: Distribution by collateral and rating



Source: EBCB (2012).

[2] In several countries, CB legislation is very recent. Those countries without specific CB legislation (e.g., USA) have developed structured covered bonds. In these cases, although they also offer investors double recourse –issuer and collateral pool– they achieve this through contractual arrangements and creation of Special Purpose Vehicles, instead of through legislation. For a detailed analysis of the US case, see Surti (2010).

Table 1
Main differences between covered bonds and asset-backed securities

	Covered bonds	Asset-backed securities
Motivation of issuer	Refinancing	Risk reduction, regulatory arbitrage, refinancing
Who issues	Generally originator of loans	Special entity
Recourse on originator	Yes	Generally no
Structure	Assets generally remain on balance sheet, but are identified as belonging to cover pool	Assets are transferred to special entity
Impact on issuer's capital requirements	None	Reduction
Legal restrictions on issuer or eligible collateral	Yes (if issued under covered bond legislation)	Generally none
Management of asset pool	Generally dynamic	Predominantly static
Transparency of asset pool to investors	Limited (but quality regularly controlled by trustees or rating agencies)	Generally high
Prepayment of assets	No pass-through as assets are replaced	Generally full pass-through
Tranching	None	Common
Coupon	Predominantly fixed	Predominantly floating

Source: Packer et al., (2007).

the ownership of a pool of assets to another investor, the former has no responsibility for the insolvency of the asset pool. Thus, in principle, the credit quality of any ABS security is solely based on the characteristics of the asset pool and not related to the rest of the pool that is not directly covering the bond, or the creditworthiness of the originator. Furthermore, CBs are usually over-collateralized, which means that the face value of the pool of assets backing the CB is larger than the issued amount, and therefore there are more assets backing the securities than bonds issued.

Another significant difference comes from the structuring and origination. Every single CB investor has the same credit rank in the event of default. However, MBS are “tranched” structures, in which normally there exist many bonds –equity, mezzanine and senior– with different subordinations and claiming priorities in case of default (ECB, 2007).

Legal framework for Covered Bonds: Main differences among large European countries

The main factor that differentiates CBs from other instruments is the double recourse and whether or not the cover pool will retain its value in the event of bankruptcy of the originator. As a result, the credit quality of the pool and the bankruptcy remoteness of the cover pool become two of the most important issues in any legislative framework, with many differences among European countries.

As a consequence, one of the variables often quoted as the main driver explaining differences in legal frameworks is the bankruptcy remoteness of the cover pool. This becomes especially important when analyzing the Spanish case, which differs from the other three large European countries, as can be seen in Table 2. However, there is no empirical evidence of the real impact it has. Since there has never been a failure of an issuer of

CBs, there is no evidence of what type of resolution regime would be more effective in case of default, and therefore it has not been possible to test whether the Spanish singularity works better or not.

In Spain, the legal framework for Mortgage Covered Bonds (so called *Cedulas Hipotecarias* – CHs-) is defined by the Law 2/1981, subsequently modified by the Law 41/2007. Finally, in 2009, the Royal Decree 716/2009 developed certain aspects of the Law 2/1981 that were still pending. The main aspects to be highlighted are the following:

- There is special treatment for the holders of CHs in case of insolvency of the issuer, since they have special privileged claims (Law 22/2003). By this, in case of issuer insolvency, all the capital and interest payments of the issued CHs and substitution assets will have a special privilege. Furthermore, what becomes even more important when analyzing the real protection that investors have, is that claims against the insolvency estate have to be paid on their respective due dates, without delay of payment regardless of the status

Table 2

Legal framework in main European countries

Factor	France	Germany	Italy	Spain
Name	Obligations Foncieres	Hypotheken-Pfandbrief	Obbligazioni Bancarie Garantie	Cedulas hipotecarias (CHs)
Specialist bank principle	Yes	No	No	No
Issuer	Specialized Bank	Originator	Originator but guaranteed by a special entity	Originator
Cover assets structure	Registered and remain on balance sheet	Registered and remain on balance sheet	Transferred to a special entity	No designated cover pool. All eligible assets serve as cover[1]
Max. LTV of the mortgage pool (residential)	80%	60%	80%	80%
Max. LTV of the mortgage pool (commercial)	60%	60%	60%	60%
Pool monitoring	Independent trustee appointed by the regulator	Independent trustee appointed by the regulator	Bank of Italy (special supervision)	No
Bankruptcy remoteness of cover pool	Cover assets are segregated in case of insolvency	Cover assets are segregated in case of insolvency	Transfer to a special entity remote	No, but CH investors have priority to all eligible pool in balance sheet[2]

[1] *The Spanish mortgage law determines that only the mortgages originated with the characteristics described below can be considered eligible, and therefore used as cover pool for the issuance of CH.*

[2] *Excluding those mortgages used in Asset Backed Securities or Bonos Hipotecarios.*

of the bankruptcy proceedings. By this, the mortgage law supersedes the insolvency law.

- The capital and interests of the CH are secured by the entire mortgage loan book of the issuer, with the exception of those loans used in securitizations or loans securing mortgage bonds.
- Cover assets are the entire mortgage loan book registered in favor of the issuer, which is the relevant pool when analyzing the special privilege claims of CH investors.
- However, for issuance purposes (capacity and limits), the eligible assets must be considered. These assets must comply with the following (most relevant) characteristics (ECBC, 2012):
    - The mortgage that guarantees the loan or credit must be a first-ranked mortgage.
    - The loan or credit guaranteed may not exceed 60% (art. 5 Law 2/1981 modified by Law 41/2007) of the mortgage lending value of the mortgaged asset, except for the financing of the construction, reconstruction or acquisition of residential premises, in which case it may reach 80% of such value. The 80% limit can be exceeded (but never more than 95%), if the mortgage loan or credit has a bank guarantee provided by a different credit institution to the creditor or is covered by credit insurance, covering, at least, the amount of the guaranteed loan or credit which exceeds 80% of the valuation of the mortgaged asset and interests (Art. art. 5 RD 716/2009).
    - A dynamic valuation can be considered. As a consequence, loans that initially exceed these percentages can be used when the values do not exceed said LTV, in relation to the initial or revised valuation of the mortgaged asset.
    - The cover asset pool is defined as a dynamic cover pool (very important difference with other legal frameworks). ABS/MBS or other assets are not allowed in the cover pool, but mortgages are allowed.
    - The mortgaged properties must have been valued previously by appraisals.
    - The mortgaged assets must be insured against damages.
    - The institution issuing the CHs will keep a special accounting register of the loans and credits that serve as collateral and, if any, of the substitute assets fixed that cover them, as well as the derivative financial instruments linked to each issue. The issuers have to provide the Bank of Spain with a monthly cover pool report.

Supply and demand: Main investors and issuers of Covered Bonds (CBs)

In the first half of the last decade, the CB market was dominated by core euro country issuers, which accounted for more than 90% of the total amount outstanding. Since then, there has been a significant increase in the amount of CBs issued by peripheral countries, as a consequence of the increasing funding needs of the banking sector. Even though since 2008, the total amount of bonds issued in the market has still been significant, these bonds were issued with lower durations. The increase in CB spreads during the crisis allowed for financial institutions to maximize their funding strategies, keeping a relevant issuing amount but with lower duration[3].

[3] In some countries, like Spain, during the crisis the only instrument that has still been used by the banking sector in their wholesale funding strategies has been CB. There has not been any MBS issue and the amount of new unsecured bonds has been very small compare to the previous period.

In addition, CB issuance has slightly decreased during the crisis with respect to previous activity because of the issuance of Government Guaranteed Bonds, which in some jurisdictions were highly used as a result of their lower cost. However, the liquidity policy approved by the ECB and their 'Covered Bond Purchases Programs' played a relevant role in keeping CBs as a broadly-used funding vehicle for financial institutions[4].

There has been a significant increase in the amount of CBs issued by peripheral countries, as a consequence of the increasing funding needs of the banking sector.

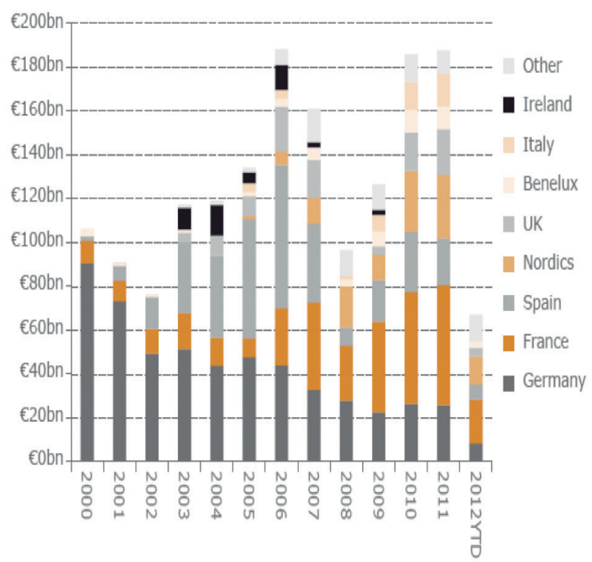
On the investor side, as stated before, CBs are a very attractive financial investment because of their top credit quality, large choice of maturities, vast liquidity and their solid legal framework. As a result, they offer interesting diversification opportunities to investors with respect to pure unsecured debt. Recently, the debate regarding the "burden sharing" (or bail-in) of investors in subordinated debt and also senior unsecured debt, has contributed to a greater attractiveness of investors for CB.

The largest holders of this kind of asset are Monetary Financial Institutions. Besides the benefits already mentioned, the lower capital charges for investing in CBs and the favorable treatment regarding the Eurosystem's liquidity-providing operations (ECB, 2010) are the two main reasons behind these strategies. Second tier investors are mutual funds,

Exhibit 2

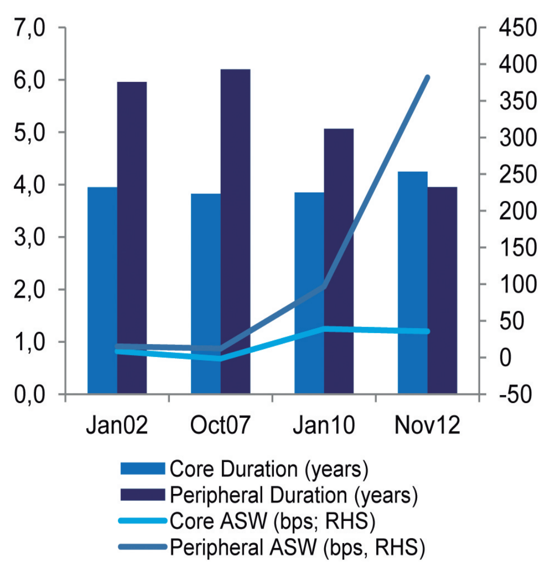
Breakdown of European Covered Bonds issuers

Issuance of Covered Bonds in EUR by country (€ bn)



Source: ECBC (2012).

Asset swap spread (bps) and duration (years) in the CB market



Source: Afi based on Merrill Lynch data.

[4] Given the lack of market access, the issue-to-retain strategy has remained a key way to obtain liquidity for peripheral issuers throughout 2010 to 2012, using the discount policy of the ECB. This has been especially the case in Spain, being one of the reasons that explain the significant level of new issues during these years.

pension funds, insurance companies, central banks and, in some countries, also retail investors. In any case, it must be noted that most of these investors are located within Euro countries, with only residual participation from outside the Euro Area. In fact, as a consequence of the crisis, this "home bias" at a national level has been even more important.

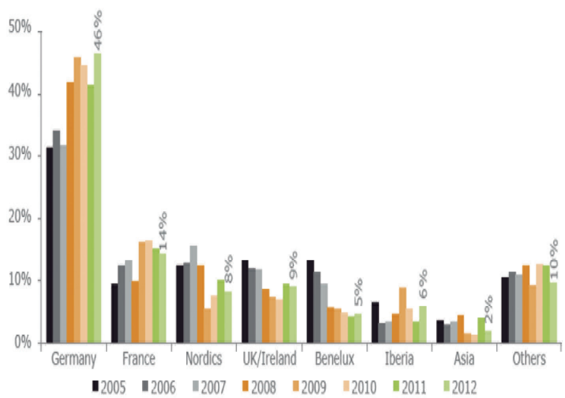
Market evolution: Differences among main European Covered Bonds

The valuation of CBs is complex, and in most cases it is only weakly related to differences in legal frameworks or portfolio quality. In fact, during

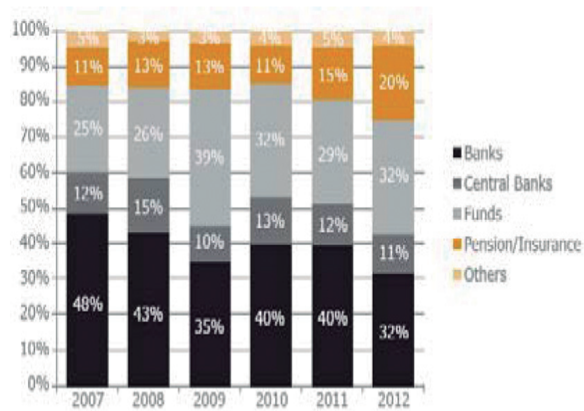
Exhibit 3

Investors in Covered Bonds

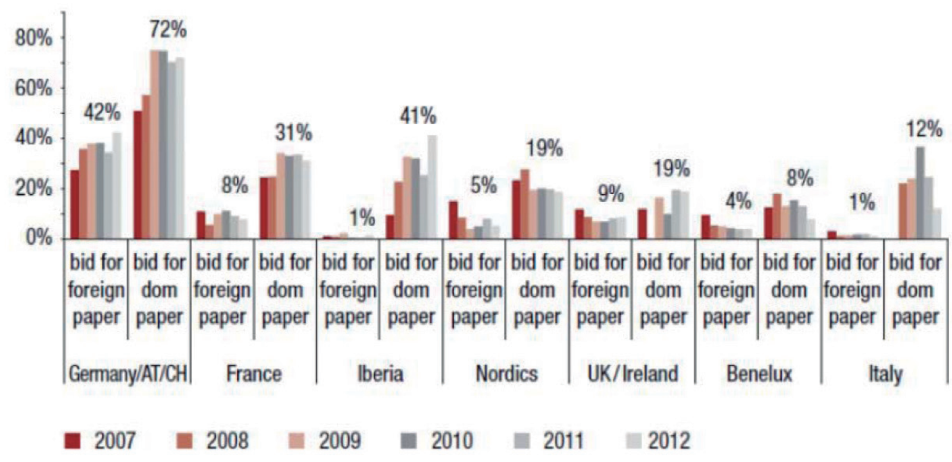
Covered Bond investors by Country



Covered Bond investors by institution



Home-bias in European Covered Bond market



Source: ECBC (2012) and RBS.

the last semesters, the yield levels across different CB markets do not appear to be trading in the secondary market according to fundamentals, and therefore affecting also new issuances. Macroeconomic, banking sector and even political factors have been extremely relevant when trying to explain this bond's performance.

Although the ECBC (2012) determines that there are many factor affecting the evolution of CB spreads, such as: (i) sovereign risk, (ii) lower supply than originally expected, and (iii) the credit quality of the issuing bank and the cover pool, during the crisis it is clear that the most relevant one has been sovereign risk. In fact, since the inception of the crisis in 2008, spreads have remained extremely heterogeneous and volatile, especially in those countries that have been more severely hit by the sovereign crisis.

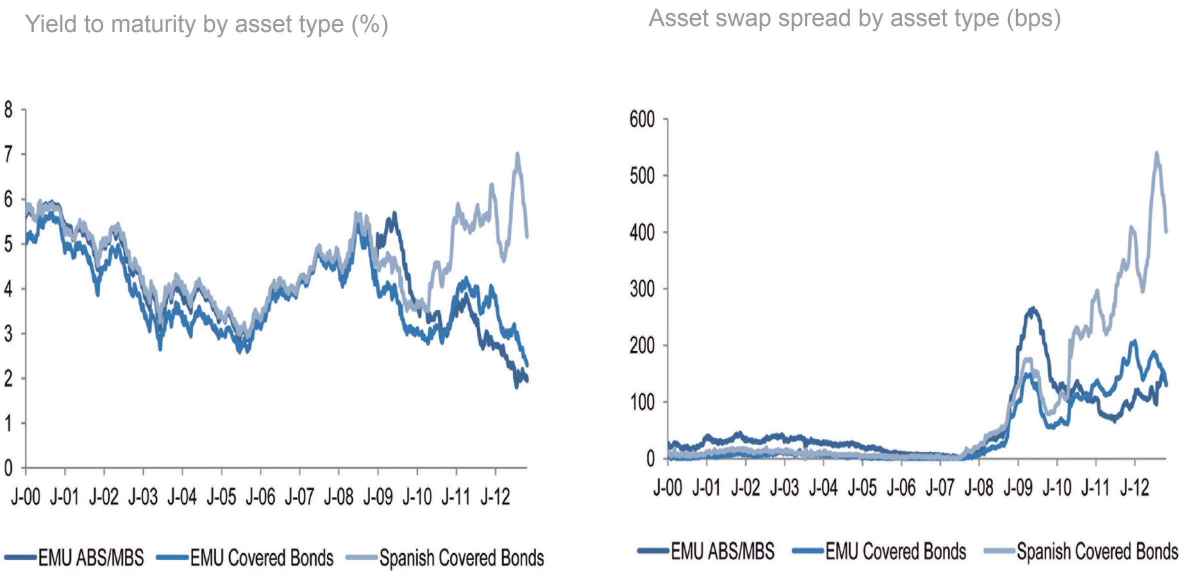
A good example has been the evolution of Spanish *Cedulas Hipotecarias*[5]. Their yields and spreads have surged in recent years as a result of the high correlation with their sovereign peers, explaining a significant part of the different evolution of CHs and other European CBs since 2010, as can be seen in Exhibit 4.

But this has not only been a Spanish CB stand-alone phenomenon. In Exhibit 5 it can be seen that the correlation between Spanish and Italian bonds with their sovereign peers has been very significant, and very low with the IRS curve. On the other hand, French, German and Dutch CBs are much more linked to the evolution of IRS than to the evolution of their Treasuries.

Another way of seeing the relationship between CBs and sovereign bonds is by analyzing the

Exhibit 4

Evolution of European MBS, Covered Bonds and Spanish Cedulas Hipotecarias

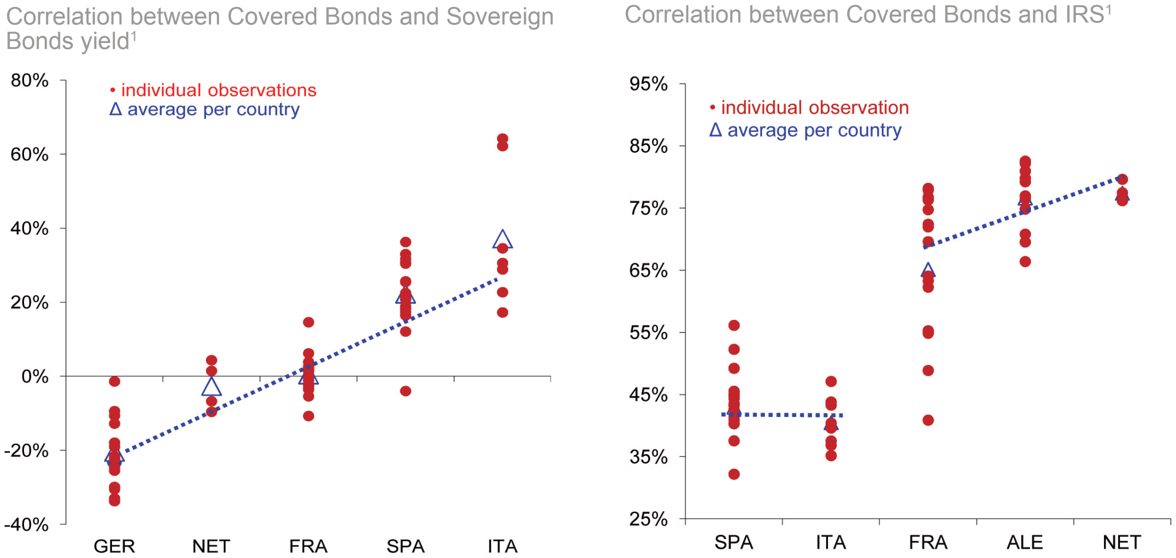


Source: Afi based on Merrill Lynch data.

[5] However, Spanish CH have outperformed Spanish debt during 2012. The difficulty of establishing a haircut on CB holders, as seen in Greece, is one of the main reasons. Besides, the final exposure to real assets that any investor in CBs would have compared to sovereign bonds has also been quoted as a relevant factor.

Exhibit 5

Relationship between Covered Bonds and Sovereign Bonds some Europe countries

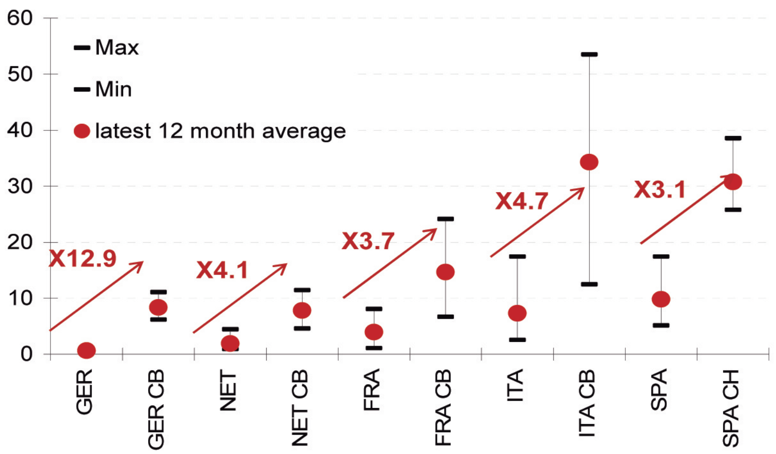


[1] Based on a selection of references with 5 years residual life.

Source: Afi based on Reuters data.

Exhibit 6

Bid-Ask spread of Covered Bonds and Sovereign Bonds (in basis points)[1]



[1] Basis Points (bps). Analysis done with 5 years residual life references. The graph shows the maximum, minimum and average of the last 12 months. Red numbers refer to the number of times the bid-ask spread of CB is higher than the one of its Sovereign benchmark.

Source: Afi based on Reuters data.

evolution of bid-offer spreads in both markets. Exhibit 6 shows that the Spanish and Italians CB spreads have widened significantly. But, the same trend can be observed with the sovereigns. The wider the sovereign bid-ask spreads, the wider the CB bid-ask spreads. In fact, the Spanish CB spread has widened but to a lesser extent with respect to the sovereign. Exactly the opposite has happened in core jurisdictions. The difference in bid-ask spreads between Spanish CBs and Spanish Treasuries is 3.1x, which is much lower than in other core European countries. This situation could reflect a higher volatility in the CBs in core countries rather than in the Spanish CB market.

What's next? Regulatory changes and covered bonds

Even though there are many factors that should be considered when valuing these instruments, and in some cases these are very related to the sovereign, during the coming years, there will be important regulatory changes that could have a significant impact on both, primary and secondary CB markets.

First, the Capital Requirements Directive IV (CRD IV) is the legal text that transposes the Basel III regulatory framework into enforceable EU legislation[6]. In the specific case of the CB, there are some differences between Basel and CRD, the latter giving a more favorable treatment to CBs in contrast to unsecured debt when determining capital charges.

During the coming years, there will be important regulatory changes that could have a significant impact on both, primary and secondary CB markets.

According to current regulation, the two existing methodologies to determine capital charges –Standardized and the IRB approach– use the issuer risk as the main driver rather than the rating of the CB itself. This creates confusing situations in which a CB issued by different banks but with similar characteristics, could have different risk weighting depending on the issuer. If it has an A- or lower rating, risk weighting would be 20%; but if the issuer rating is AA- or higher, the risk weighting would be 10%.

Under CRD IV, the standardized approach methodology to determine risk weighting will be based on the CB itself and no longer on the rating of the issuer, which makes a significant difference with respect to the current situation. Only in those cases in which CBs are not rated, the risk weighting will be linked to the senior unsecured debt of the issuer, as can be observed in Table 3. As a consequence, it is expected that CB capital consumption will benefit from the application of CRD IV.

However, the IRB methodology will not have the same positive impact on CBs. Unlike the standardized approach, IRB does not change from the previous regulatory framework, and therefore it does not have an explicit direct link to CB ratings. The IRB approach uses Probability of Default (PD) and Loss Given Default (LGD) as the main variables explaining the rating. Since there is no historical data on CB issuer´s defaults, PDs are approximated with the issuer PD, leading to an overestimation of the real numbers that CBs should have[7]. As a result, IRB banks only benefit from this more sophisticated approach when

[6] This process is taking more time that initially expected. It was supposed to be effective by January 1st, 2013, but there has been a significant delay in the approval process that will probably delay the initial timeline.

[7] LGD is uniformly set at 11.25%, and it does not vary among different programs depending on overcollateralization or recovery expectations.

Table 3

Risk weighting for covered bonds –Standardized approach

CRD IV - Standardized Method – Rated Covered Bonds						
Covered bond rating	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC and below
CRD IV risk weight (%)	10	20	20	50	50	100
CRD IV - Standardized Method – Non-Rated Covered Bonds						
Credit institution rating	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC and below
Credit institution risk weight (%)	20	50	50	100	100	100

Source: CRD IV and Basel III.

a CB issuer rating is rated AA+ or above (Fitch Ratings, 2012). Any bank investor following IRB would have to assign more capital for investing in a CB than those following the standardized methodology. This situation would benefit both, bank investors following the standard approach –since they will have lower capital charges–, and issuers with lower rating –since they will not be penalized by the correlation factor according to the new regulatory framework[8].

The second factor that has to be analyzed in order to extract relevant conclusions on the impact that new regulatory framework could have on CBs comes from the liquidity side. According to Basel III and CRD IV, the short term liquidity ratio that institutions will have to satisfy –Liquidity Coverage Ratio (LCR)– will determine two levels of assets with different haircuts and caps in order to define the liquid assets needed to cover the ratio. The key issue will be to determine whether CBs will form part of level 1 or 2 assets[9].

Finally, the European Union is currently defining the framework for the recovery and resolution of financial institutions, under discussion at the FSB and European Commission level. Even though new regulation will not be implemented before 2015, the impact it could have on the market will have to be considered when analyzing potential risks and therefore returns of these instruments. Resolution regimes could affect the funding costs of financial institutions, resulting in further tiering and differentiation. For instance, depending on the asset encumbrance policy, and the definition of the instruments that could be involved in a bail-in process, the difference between unsecured debt and CBs could change, in favor of the latter[10].

Conclusions

Since the beginning of the crisis, but especially during the last three years, the wholesale funding market in the banking sector has been a clear example of the complicated situation of the European financial markets. New bond issuance to the "open-market" has been scarce, and with very different conditions than in the pre-crisis period. In the secondary market, spreads have increased significantly as a consequence of the sovereign debt and banking crises, especially in some peripheral countries. In fact, although there are significant differences among European legal frameworks for CBs, the evolution of these instruments has been much more linked to the sovereign than to CBs characteristics and their underlying cover pools.

[8] Large banks (total assets equal or greater than EUR70bn) will also be penalized by the correlation factor between the issuer's performance and the economic cycle introduced in IRB methodology. As a consequence, according to Fitch (2012), capital charges for CB issued by a large bank can be one third higher than capital charges for CB issued by a small one.

[9] The liquidity level depends on many factors such as the size and depth of the market, volume traded, bid-ask spreads and volatility, rating, etc.

[10] A deep analysis on the implications for CBs of resolution process can be found in Winkler (2012).

Since these instruments will still be very relevant in the future as a result of their lower credit risk

Although there are significant differences among European legal frameworks for CBs, the evolution of these instruments has been much more linked to the sovereign than to CBs characteristics and their underlying cover pools.

premium and high attractiveness for both sides- issuers and investors- there are some important aspects that must be considered.

First, investors will demand and require more information regarding the cover pool, with micro data that goes well beyond the public accounting standards. This information should be public and transparent in order to generate the needed confidence. Second, the impact of new regulation will be very relevant. The final version of CRD IV and the Resolution regime within the European Union banking sector will have a significant impact on CBs, both for liquidity and for capital consumption factors. Third, currently the pricing differences of these instruments among jurisdictions are explained by factors that go well beyond the legal framework and cover pool. The correlation between CBs and sovereign issues has increased significantly. Any policy towards normalizing the sovereign situation will have a direct impact on these instruments. Finally, it must be noted that a potential European banking union would have a very significant impact on this kind of instruments. The existence of different legal frameworks within European countries, and the absence of an integrated mortgage market are significant obstacles to be considered, especially if one of the main purposes of the banking union is the existence of pan European institutions. For this to happen, a common legal framework would be required in order to maximize banks' funding strategies and avoid the negative impact of market fragmentation.

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Spain's social security system: Recent reform and existing challenges

Fernando Azpeitia and Ignacio Blasco[1]

Spain's social security system faces structural and cyclical related challenges. The recent 2011 reform addresses some of the major shortcomings of the system, but will likely be insufficient to ensure long-term sustainability.

The Spanish social security system is comprised of a pay-as-you-go public scheme, together with a supplementary private one. Reliance on private pension plans in Spain remains limited primarily due to the high retirement salary workers receive, together with the limited development of employment pension schemes. The public system faces challenges due to structural issues such as demographic constraints, as well as cyclical issues arising from the economic crisis. The main areas of the 2011 reform attempt to address some of the issues facing the current system. However, given the costly transition from a pay-as-you-go to a capitalized system of notional accounts, this is not an option in the current economic crisis and additional measures will likely be needed.

Introduction

The social welfare system includes all those features aimed at protecting workers' income from the following risks and unforeseen events associated with an employee's situation: Death, disability, illness, retirement and unemployment.

In Spain, we can distinguish between the public social security system, mainly based on Social Security benefits, and the supplementary private pension scheme, of a voluntary nature, comprised of all forms of private savings intended to cover the above events, through various products such as pension funds, savings insurance, life insurance, health insurance, or long-term care.

Public pension system

Spain's public retirement-income scheme is a pay-as-you-go system. Every year, revenues from social security contributions of employers and employees together with transfers from the State budget (general taxes) are used to pay benefits for that year. The system does not reserve capitalization funds for the payment of pensions in the future.

In the Spanish public pension scheme there are two different performance levels:

- Non-contributory or social assistance level, financed by general taxes, under the control

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

Table 1

Spanish social security system

Public Social Security System	Supplementary private pension scheme	
First Pillar	Second Pillar	Third Pillar
Basic level		
Non-contributory benefits. Of a universal nature. Financed through taxes and made up of non-contributory benefits, health care, family benefits and social services	Employee pension plans and collective insurance	Individual and associate pension plans
Contributory and professional level		
Mandatory for employees and self-employed. Financed through contributions assumed by the company and the employee and involves perception of annuities of retirement, permanent or temporary disability, maternity, death and subsistence.		Individual insurance

of social security and managed by the Autonomous Regions. This is a basic level which seeks to ensure minimum benefits to those citizens who lack financial resources or have very low income levels (less than 5,007.8 euros per year). All citizens are eligible, even if they have never contributed or have not contributed for a sufficient amount of time (nowadays 15 years) to reach contributory level benefits. The objective is to avoid situations of extreme poverty among retirees.

- Contributory level: Provides pension benefits based on years and contributions quoted by workers throughout their working lives. To access these pension benefits workers must meet the following requirements:
  - The legal retirement age (65 years, pre-reform).
  - A minimum of fifteen years of contributions, of which at least 2 must be within the 15 years immediately prior to the date of retirement.

The most important –and the focus of all political debate- is the contributory system of social security, financed by social contributions from workers and employers. The contributions are set as a percentage of the contribution base (wage), with a maximum and a minimum defined annually:

- The most common contribution rate for the General Scheme of Social Security in Spain is 28.3% of salary, of which 23.6% is paid by the company and 4. 7% by the worker.
- The contribution rate for the Special Scheme of self-employed workers is 29.80%.
- There is also a specific contribution to finance unemployment benefits and those arising from work-related accidents.
- There is a maximum and a minimum for the retirement contributions base, which in 2012 was set at 3,262.5 and 754.2 euros per month, respectively.

Pension benefits are linked to contributions. To calculate retirement pension for the first year, earnings during the last 15 years prior to the date of retirement are taken into account. The pension benefits for the rest of the years are indexed to the inflation rate.

Fifteen years of contributions are necessary to qualify for pension benefits. After 15 years of contributions, the pension benefit is 50% of the earnings base. Over the next ten years, an extra 3% is accrued per year, followed by 2% per year thereafter. The maximum accrual is 100%, reached after 35 years of contributions.

The earnings base is based on salary over the last 15 years, adjusted in line with prices, apart from the last two years. This means that the replacement rate relative to final salary is less than 100%.

As is the case with contributions, pension benefits also have a maximum and a minimum, which in 2012 were set to 35,320.46 and 8,664.6 euros per year (14 payments), respectively.

Unlike individual capitalization systems where the pension benefits depend on their contributions, income and expenses, in the pay-as-you-go systems the contributions of current workers and employers pay the pension benefits of the current retirees. And the current workers expect that their pensions will be paid by future workers. So the sustainability of the public pension scheme depends on the number of current workers and the number of pensioners receiving a pension.

Private pensions system

Article 41 of the Spanish Constitution provides for the existence of a complementary private pension scheme to the public one. Although in the Spanish market, there are different savings products, retirement savings mainly focus on private pension plans and savings insurance. There are three types of private pension plans:

- Individual system pension schemes, those in which the promoter is one or several Financial Entities, open to any participant. This system, together with individual savings insurance and other savings, represents the 3rd pillar in Pension Schemes. They must be Non-Defined Benefits.

- Associate system pension schemes, those of which the promoter is an Association, Syndicate or Labour Union, the participants being its associates or members (closed).

- Employment system pension schemes: Those of which the promoter is any Entity, Society or Firm, and whose participants are its employees (closed).

Compared to other developed countries, the development of private pension plans in Spain has been very limited. The main cause of this is that the replacement rate of public pensions in Spain is very high compared to neighbouring countries. In Spain, the replacement rate is 81.2%[2] of pre-retirement salary. Thus, workers do not have incentives to save for retirement (people

Compared to other developed countries, the development of private pension plans in Spain has been very limited mainly due to a high replacement rate of public pensions compared to neighbouring countries. Thus, workers do not have incentives to save for retirement. Another cause is the limited development of the employment system, much larger in other countries.

[2] http://www.oecd-ilibrary.org/finance-and-investment/pensions-at-a-glance-2011/net-pension-replacement-rates_pension_glance-2011-18-en

Table 2

Total pension benefits

Accumulated savings (millions of euros)	2007	2008	2009	2010	2011
Employee pension plans and collective insurance and PPSE	62,657	59,652	60,725	60,677	60,212
Individual and associate pension plans, and PPA	55,037	52,564	58,885	59,619	60,531
Supplementary Social Security	117,694	112,216	119,610	120,296	120,743

Source: DGSFP, Dirección General de Seguros y Fondos de Pensiones.

are not very worried about their future incomes as retirees). Another cause of this reduced growth is the limited development of the employment system, much larger in other countries than in Spain, where the system that has been most developed is the individual system, which concentrates 61.1% of the total of accumulated savings in pension plans at the end of 2011. In addition to the savings accumulated in pension plans, we must also take into account the savings on other products such as savings insurance for retirement, referred to as Insured Pension Plans (commercially known as PPAs).

Reasons for public pension plan reform

There are two main causes of the sustainability problems of the public pension scheme: Structural causes closely related to demographic trends of the Spanish population, and other causes of a cyclical nature arising from the current economic crisis.

Structural problems: Demography

Demographic trends of the last decades play a role in the sustainability of public pension schemes and the restrictions in public expenditure on pensions, as it is the case in most developed countries. The evolution of the Spanish population in the coming decades will change sharply the structure of age groups. These trends in Spain are even more pronounced than in other neighbouring countries:

Life expectancy: Improvements in living conditions and health system have resulted in a significant increase in life expectancy both at birth and life expectancy at 65 years old. In the last two decades, life expectancy has risen from 77.1 to 82.0 years old, assuming an increase in life expectancy of 2 years per decade. The life expectancy at 65 years in 2010 was 20.3 years, while the legal retirement age has stayed at 65 years since the beginning of Social Security (1908).

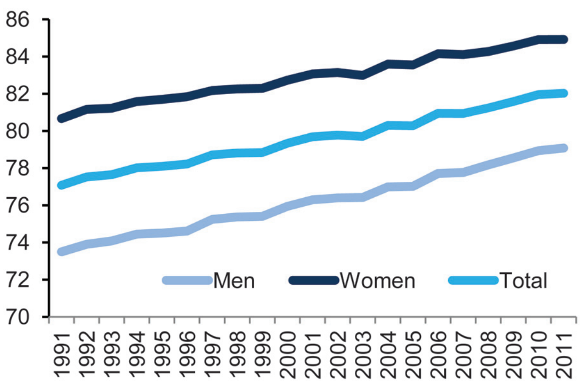
The crucial fact is that the percentage of people older than 65 will grow to 31.9 by the year 2050, while population groups between 15-64 will decrease down from 68.9 % in 2008 to 53.6 in the year 2050. The dependency ratio[3] will go down from 2.25 in 2008 to 1.15 in the year 2050, thus hindering the financial sustainability of the current pension scheme.

Birth rate: In Spain between 1975 and 1995 there was a sharp drop in the birth rate, falling below 10 (per 1,000 inhabitants). During the late ‘90s and the first decade of the century, that rate stabilized

[3] Number of persons aged between 15 and 64 years, among those under 15 and over 64 years old.

Exhibit 1

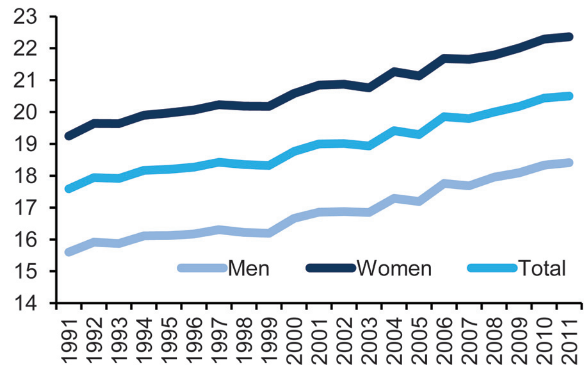
Life expectancy at birth (years)



Source: INE, National Statistics Institute.

Exhibit 2

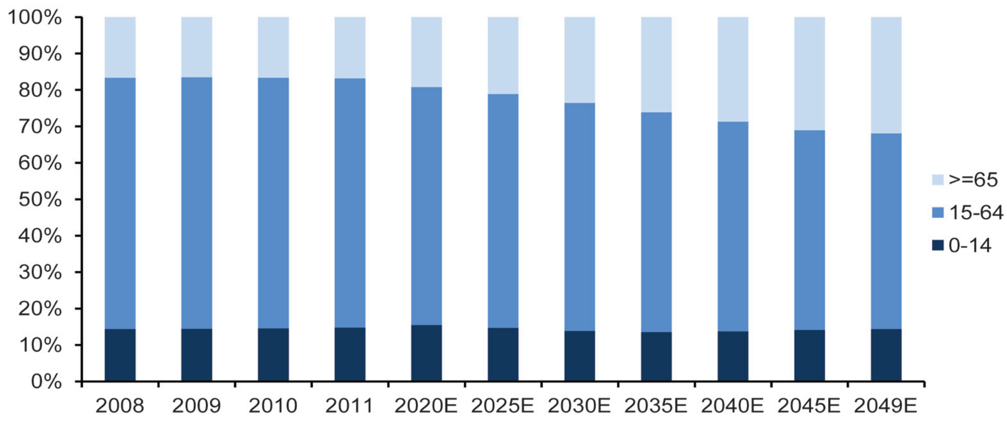
Life expectancy at 65 years (years)



Source: INE, National Statistics Institute.

Exhibit 3

Population by age group



Source: INE, National Statistics Institute.

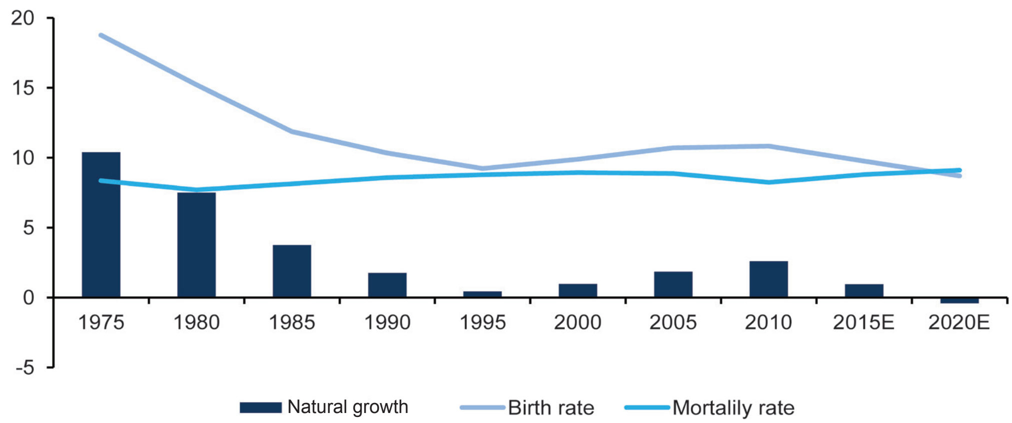
and even increased slightly because of increased immigration in Spain. Despite these years, the return of immigrants to their countries as a result of the economic crisis will cause a further drop in the birth rate to below the death rate, which would be a negative natural growth.

The increase in life expectancy, together with low birth rates, results in a projection for a substantial increase in the number of retirees over the next decades.

Increased average pension benefits: The factors behind the increase in average pension benefits are the growth of wages and contribution years.

Exhibit 4

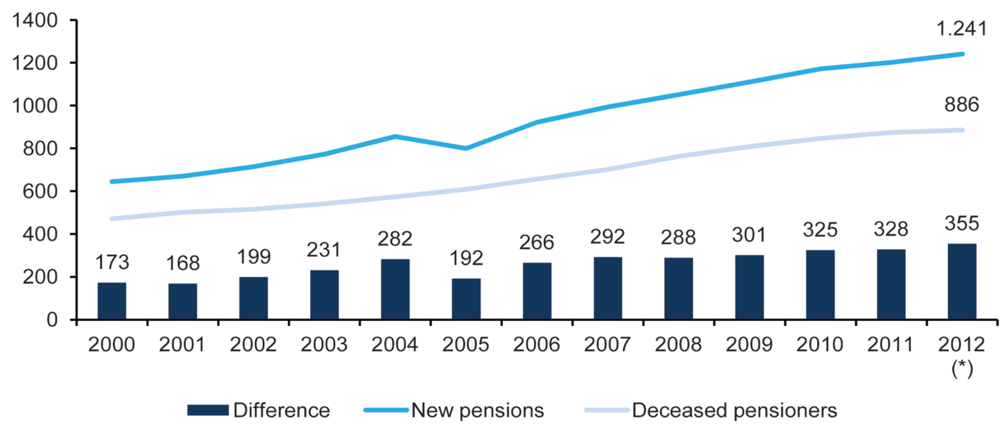
Birth rate, mortality rate and natural growth (per 1,000 inhabitants)



Source: INE, National Statistics Institute.

Exhibit 5

New pensions *vs*. discontinued pensions (euros)



Source: Social Security.

The new pensions are higher than the pension of retirees who leave (become deceased) the system. This trend increases the annual pension cost.

Pension benefits are price-indexed: Pension benefits grow every year with the inflation rate.

The trend of the variables mentioned will cause an increase in both the number of retirees and the average pension, so that the expected increase in public pension expenditure is very important.

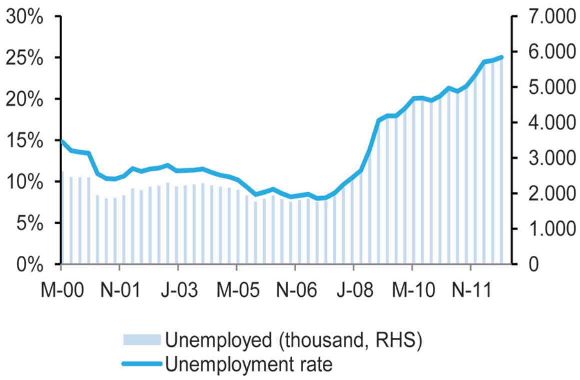
Present economic crisis

Along with the structural problems already mentioned, the impact of the economic crisis on employment must be considered. The unemployment rate, in September 2012 reached 25.02%. Social Security lost 2.5 million of workers since 2007. Thus, the number pensioners, has gone from 4.9 million in 2007 to 5.3 million in 2012.

Therefore, the system has recorded a sharp decline in incomes, and a surge in unemployment benefits, which have caused Social Security to register deficits in 2010 and 2011, and it is expected to end the year 2012 with a deficit of 1% of GDP.

Exhibit 6

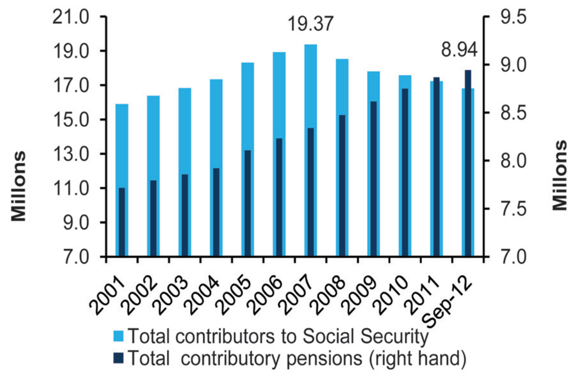
Unemployment rate



Source: INE, National Statistics Institute.

Exhibit 7

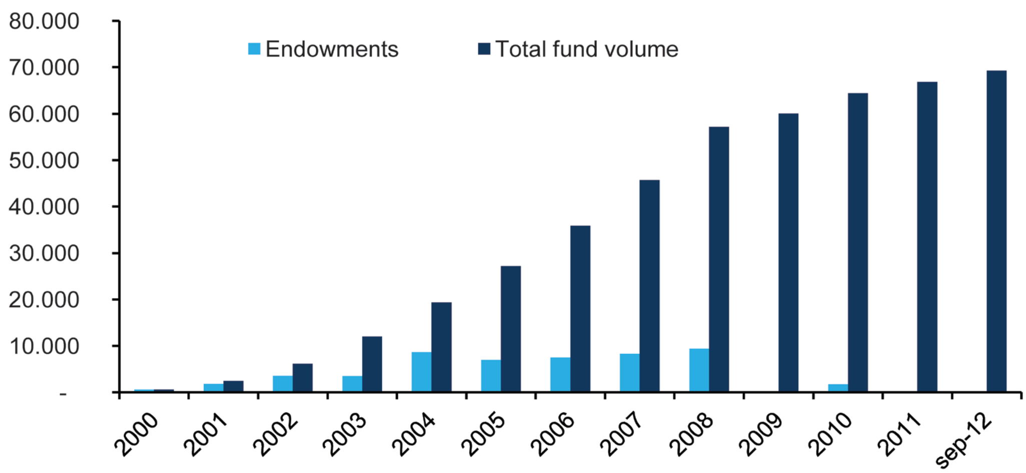
Contributors *vs* Pensioners



Source: Social Security.

Exhibit 8

Pension Reserve Fund of Social Security



Source: Reserve Fund of Social Security.

In fact, in June 2012, the government used 4,400 million euros from the Prevention Fund or *Fondo para la Prevención* of Social Security to the payment of pensions and in October it used another 3,063 million euros from the Reserve Pension Fund of the Social Security, or *Fondo de Reserva*.

The *Fondo de Reserva* was constituted in 2000 with surpluses earned by Social Security in different years, reaching a total amount of 69,252.36 million euros as of September 2012, representing 6.45% of GDP. Although this is a huge amount of money, if the system does not have other income, the fund would only be able to pay 13 months of pension benefits.

Main areas of reform under Law 27/2011

Given the demographic trend of the Spanish population and the impact of the economic crisis on employment, sustainability of public pensions under the current regime is not possible. For these reasons, and to contain public pension expenditure over the coming decades, a reform of the main parameters of the public pension scheme was carried out in 2011. The reform will come into force in 2013 and will take place gradually until its full implementation in 2027. The main areas of the reform are:

Legal retirement age

The legal retirement age to obtain full benefits is 65 years for men and women. The legal retirement age will increase from 65 to 67 (through a gradual increase from 2013 to 2027), with certain exceptions:

- Long contributing careers: Workers having contributed at least 38.5 years will be allowed to retire at the age of 65 with full pension benefits.

- Professionals in dangerous occupations: Workers performing work that is of an especially dangerous or arduous nature may be allowed to retire before the age of 67.

- Mothers having interrupted their contributing career due to child care: Their cumulative period of contribution will be increased to account for the interruption in their careers related to having children. It will be increased by the duration of the period of interruption (up to a maximum of 9 months per child and 24 months per family) as long as they meet certain requirements regarding contributions to the system.

Pension benefits

When the reform comes into force in 2013, the earnings record taken into account to determine full pension benefits will be gradually lengthened from 15 years to 25 years (one per year until 2022). Additionally, the number of years of contributions required to obtain full pension benefits will gradually increase from 35 to 37 – calculations will be made on the basis of monthly contributions, rather than rounding to the next full year, as was the case prior to the reform.

The percentage of the full pension received by a worker will be proportional to the number of years contributed, starting at 50% for careers of 15 years up to 100% for careers of 37 years. By comparison, before the reform, the system was biased in favour of shorter careers.

Early, partial and delayed retirement

The possibility of early retirement is delayed from 61 to 63 years. Eligibility for early retirement is limited, since it will only be possible after 33 years of contributions to the pension system (*versus* 30 prior to the reform). Penalization applied to pension benefits will be 7.5% per year of early retirement (prior to the reform, penalization

Table 3

Transition period: Legal retirement age

Years	Contribution Periods	Retirement Age
2013	35 years and 3 months or more	65 years
	Less 35 years and 3 months	65 years and 1 months
2014	35 years and 6 months or more	65 years
	Less 35 years and 6 months	65 years and 2 months
2015	35 years and 9 months or more	65 years
	Less 35 years and 9 months	65 years and 3 months
2016	36 years or more	65 years
	Less 36 years	65 years and 4 months
2017	36 years and 3 months or more	65 years
	Less 36 years and 3 months	65 years and 5 months
2018	36 years and 6 months or more	65 years
	Less 36 years and 6 months	65 years and 6 months
2019	36 years and 9 months or more	65 years
	Less 36 years and 9 months	65 years and 8 months
2020	37 years or more	65 years
	Less 37 years	65 years and 10 months
2021	37 years and 3 months or more	65 years
	Less 37 years and 3 months	65 years
2022	37 years and 6 months or more	65 years
	Less 37 years and 6 months	66 years and 2 months
2023	37 years and 9 months or more	65 years
	Less 37 years and 9 months	66 years and 4 months
2024	38 years or more	65 years
	Less 38 years	66 years and 6 months
2025	38 years and 3 months or more	65 years
	Less 38 years and 3 months	66 years and 8 months
2026	38 years and 3 months or more	65 years
	Less 38 years and 3 months	66 years and 10 months
From 2027	38 years and 6 months or more	65 years
	Less 38 years and 6 months	67 years

Source: Law 27/2011, of August 1, for updating, adapting and modernizing of the Social Security system.

Table 4

Transition period: Earnings record to determine pension benefits

Transition Period	Time (Years)
During 2012	15
During 2013	16
During 2014	17
During 2015	18
During 2016	19
During 2017	20
During 2018	21
During 2019	22
During 2020	23
During 2021	24
From 2022	25

Source: Law 27/2011, of August 1, for updating, adapting and modernizing of the Social Security system.

depended on the years of contribution from 7.5% to 6% for long careers where early pensions were concentrated); the resulting pension cannot be lower than 125% of the minimum pension.

There is one exception to the 63 rule - early retirement during an economic crisis. In that case, workers will be allowed to retire at 61, provided that they contributed for at least 33 years. The reform removes the possibility of a special retirement modality at 64.

Partial retirement at age 61 will continue to be permitted, although with the reform, both the new and the partially retired employee will contribute fully to the system. Prior to the reform, the worker partially retiring only contributed by the proportion of the working day effectively worked.

Finally, voluntary extension of working life is encouraged through increased bonuses depending on contributing careers, 2%, 2.75%, and 4% per year of delay for careers below 25 years, between 25 and 37, and over 37, respectively.

Sustainability factor

Beginning in 2027, the parameters of the system will be revised every five years by the difference in life expectancy at the age of 67 in the year of the revision and the life expectancy at 67 in 2027. Calculations will be done on the basis of forecasts by official agencies.

The objective of this element is to ensure the long-term sustainability of the public pension system and maintain the proportionality between contributions to the system and the benefits it is expected to payout.

Economic impact of the pension system reform

Impact of the reforms: Financial sustainability

Currently, Spain spends about 8% of GDP on pensions as of 2007, a little above the OECD average (7%). But the estimations show pension spending in Spain increasing to over 15% of GDP by 2050. The 2011 pension reform in Spain will significantly improve the long-term financial sustainability of Spain's retirement-income system. According to the Spanish government's estimates[4] , the reform will imply savings for the pension system of around 3.5% of GDP in 2050 (2.8% in 2040 and 1.4% in 2030). These savings will be mainly a result of:

- The increase in the activity rate of the population between 16 and 71 years old and higher potential GDP level.

- The increase in the earnings record from 15 years to 25 years.

[4] Ministry of Economy. June 27th, 2011. It is important to recall that these estimates do not include the extension of the social security reform to the central government employees' pension system.

- The enlargement of the years to obtain full pension benefits, from 35 to 37.

- The sustainability factor.

Impact of the reforms: Pension entitlements

Disposable incomes of people aged 65+ in Spain are on average 79% of those of the population as a whole (adjusting for differences in sizes of households). This is a little below the OECD average of 82%. The aggregate replacement rate, a measure that looks at the actual pensions paid out to pensioners today, is 48% which is close to the EU average.

The projected pension replacement rate for Spain for a full-career worker entering the labour market in 2008 is 81.2%. This replacement rate –pension relative to earnings when working– averages much less in the 34 OECD countries: 57.3%. The main impact of the reform on a full career worker is the change in the measure of earnings used to calculate benefits. This is expected to reduce the replacement rate to 73.9% (on the OECD's standard assumptions of 2.5% price inflation and 2% real earnings growth). The left-hand panel in exhibit 9 shows the net replacement rate, taking into account taxes and contributions paid on retirement benefits and on earnings when working. The average net replacement rate in the OECD-34 is 68.8%.

The reform will reinforce the link between contributions and benefits compared with the current system. For example, the number of contribution years needed to receive a full benefit

The 2011 reform is very likely not to be sufficient to ensure long-term sustainability of the public pension system. And the high cost of changing the pay-as-you-go system into a capitalization system of notional accounts is not acceptable in the current economic crisis. Therefore, it is necessary to examine the system's parameters to ensure its sustainability.

at age 67 will increase from 35 to 37 years. Only with 38.5 years of contributions will retirement at age 65 still be possible. Thus, the reform's impact will be strongest for people with interrupted careers.

Additional measures for the improvement of the public pensions system

The reform of the public pension scheme was carried out in 2011, and it is very likely not to be sufficient to ensure long-term sustainability of the public pension system.

Because of the high cost of facing a structural reform of the current public pension scheme,

Table 5

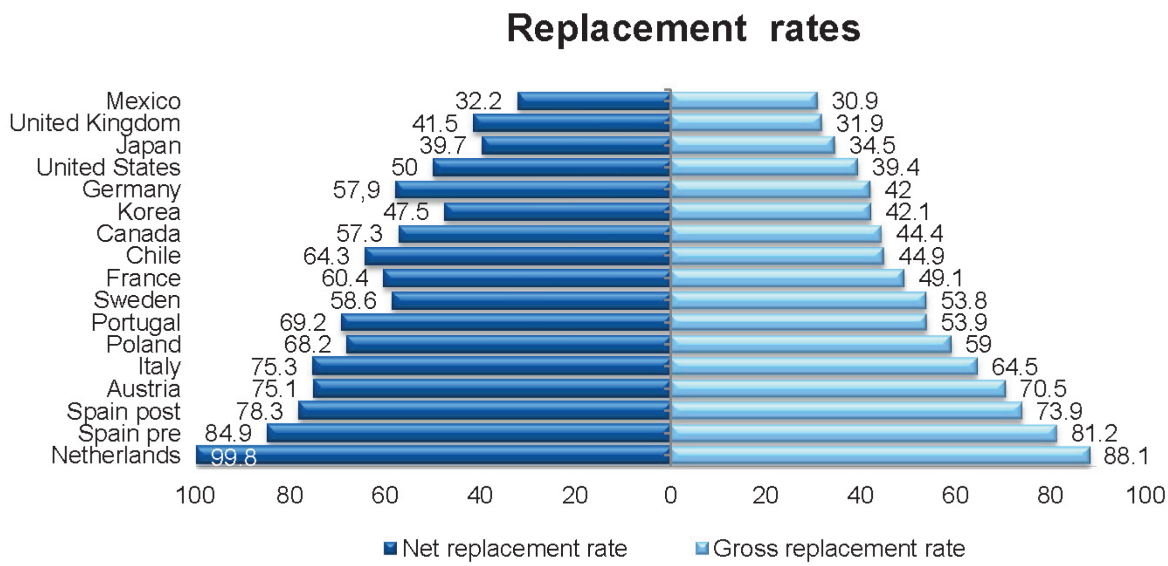
The impact of the reform savings of the social security system

% over GDP Year	Higher potential GDP	Statutory retirement age	Years considered to calculate the pension	Years needed to qualify for full pension	Sustainability factor	TOTAL
2030	0.1	0.8	0.4	0.1	0.0	1.4
2040	0.2	1.0	0.8	0.3	0.5	2.8
2050	0.2	1.0	1.0	0.3	1.0	3.5

Source: Ministry of Economy.

Exhibit 9

Pension replacement rates for new labour-market entrants, average earners



Source: OECD (2011), Pensions at a Glance: Retirement-Income Systems in OECD and G20 Countries; OECD Pensions Models.

Note: In practice, many people will not havefull careers, and so the actual replacement rates received will be lower than those shown by the simulation model.

changing the pay-as-you-go system into a capitalization system of notional accounts is not acceptable in the current economic crisis. Therefore, it is necessary to examine the different parameters of the system to ensure its sustainability. Here are some of them:

- Accelerate the implementation of the legal retirement age to 67 years.
- Postpone the real retirement age, 63.9 years old at 2012[5] , restricting early retirement and increasing incentives to postpone retirement age.
- Increase maximum contribution bases.
- Enhancing the link between contributions and benefits, extending the contribution period used in the calculation of pension benefits to the entire career.
- Change the indexation of pensions to inflation by another economic variable as a percentage of GDP or increase in salary, as in the Swedish model.
- Development of the sustainability factor and advance in its implementation.
- Increase transparency in the public pension scheme, sending a letter every year to employees disclosing the statement of their future pension. Although reform of 2011

[5] Data up to August.

already provided for this measure, this point is pending development and implementation.

In the same line, it would be useful to take some measures to facilitate the development of private pension plans and complement the public system:

- Increase household financial education in order to make people aware of future needs and understand the savings options available to address them.

- Incentivise the creation of a supplementary pension schemes, for example taking the model of United Kingdom's NEST (National Employment Savings Trust[6]). The employee gives 3% of his or her salary, the company, 4% and the Government 1% in an automatic enrolment scheme for workers in the UK whose company does not provide them with a pension scheme, or simply, wants to provide an additional pension scheme along with the existing one.

NEST creates a single pot in which the employee puts pension money aside in the same account throughout his entire labour life, preventing possible administrative issues because of stopping and restarting labour life, lowering the costs attached.

Apparently, one of the main virtues is that this new scheme provides the employee the necessary transparency regarding his or her pension scheme.

- Increase tax incentives for private retirement products:

    - Establish a real tax exemption, not tax-deferral on private pension plans.

    - Remove the cap on contributions to pension systems, just to prevent a loss of purchasing power of the pension, known as the crowding-out effect.

[6] http://www.nestpensions.org.uk/

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2013 Budget: Impact on fiscal consolidation

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

The 2013 Draft Budget forecasts an overall deficit of 4.5%, in line with the agreed upon targets at the EU level. Meeting this target depends crucially on how the economy will perform.

The Draft Budget for 2013, to be approved before year-end, contains ambitious deficit targets, as agreed with EU authorities. Next year's revenue forecasts have been calculated on the basis of economic performance and the anticipated impact of the tax changes implemented since December 2011. Most budgetary items show a reduction in spending levels. It is worth noting the evolution of financial charges on debt and the overall sharp cutback in total resources available to the ministries. Underperformance relative to the government's optimistic GDP forecast, liquidity injections for nationalized financial institutions, and a larger than anticipated social security deficit could have negative implications on the final deficit figures and financing costs.

Initial situation

On Thursday, September 27th, the Council of Ministers approved the Draft General State Budget for 2013. This legal text defines the upper limit on spending and its distribution across the various policy areas: health, education, justice, etc., together with the government's revenue forecasts. Reflecting Spain's organisational structure, the State Budget also includes the figures for the various ministerial departments, the social security system, autonomous agencies, and state-owned public sector businesses[3]. The details contained in the draft budget are being debated by the political parties in the two legislative chambers –Congress of Deputies and Senate– in the final quarter of 2012. The final text, with the amendments included, must be approved before December 31st, 2012. This legal text will then become the State General Budget for 2013. There is no doubt as to its being approved, given that the Partido Popular (PP)[4] has an absolute majority.

The 2013 budget will be the second to be drafted by the Partido Popular (PP) since the elections on November 20th, 2011[5]. Once again, the priority objective will be to correct the imbalances in the

[1] Universidad Complutense de Madrid.

[2] Universidad Rey Juan Carlos.

[3] The budgets of the Autonomous Regions, Autonomous Cities, and local authorities are not included in the State Budget.

[4] People's party in English.

[5] Exceptionally, the 2012 budget was approved in June 2012. The People's Party drew up the budget after the elections in November 2011.

public accounts. To better understand the context in which they were prepared, it should be recalled that in 2011, the preceding Socialist Party (PSOE) government agreed upon an overall government deficit of 6% with the European Union authorities. However, the final figure was much higher, 9.44%, which was a long way from the 8.9% the PP had considered feasible after adjusting the imprecise figures it inherited from the previous government when it came to office. This 0.54 point difference between the PP government's forecast and Eurostat's final revised figure is due to two factors. First, the downward revision of the Spanish economy's growth in 2011, from 0.7% to 0.4%, raising the deficit by 0.06 points. Second, as a result of the public aid to the banking sector, which added 0.48 points to the deficit.

This 0.54 point difference between the PP government's forecast and Eurostat's final revised figure is due to two factors. First, the downward revision of the Spanish economy's growth in 2011, from 0.7% to 0.4%, raising the deficit by 0.06 points. Second, as a result of the public aid to the banking sector, which added 0.48 points to the deficit.

Table 1 lists the deficit targets for the general government as a whole agreed with the EU authorities. On this point it should be noted that on July 10th, 2012 the EU's Council of Economics and Finance Ministers (ECOFIN) gave Spain an additional year to bring the deficit to below 3%. This target is now due to be met in 2014. This decision was taken in response to the economy's worse-than-expected performance. The condition for ECOFIN's granting Spain an extra year for fiscal consolidation was its preparation of a biannual 2013-2014 budget. The budgetary plan that was approved in August 2012 envisaged a cumulative adjustment for the general government as a whole of 13,118 million euros in 2012, 38,956 million euros in 2013, and 50,075 million euros in 2014. As Table 1 shows, the biggest adjustment falls in 2013, with a figure of 25,838 million euros, of which 15,069 million (58.3%) is expected to be obtained through tax measures.

Following ECOFIN's revision in July 2012, the new deficit limits for total general government were set at 6.3% in 2012, 4.5% in 2013, and 2.8% in 2014. If these forecasts are met, the general government deficit will drop to below 3% in 2014, thus culminating the consolidation process. Moreover, on these forecasts, local authorities will reach budgetary equilibrium in 2013, and the Autonomous Regions will run a budget surplus in 2015.

Focusing on 2013, the 4.5% general government deficit forecast is distributed as follows: 3.8 points correspond to the central government, 0.7 to the Autonomous Regions, with local authorities expected to achieve budgetary equilibrium. Meeting these targets depends crucially on how the economy performs in 2013 –and therefore on the performance of revenues and some of the expenditure items, such as unemployment benefits.

Meeting these targets depends crucially on how the economy performs in 2013 –and therefore on the performance of revenues and some of the expenditure items, such as unemployment benefits.

On this point, the government's forecasts are for a 0.5% contraction of GDP in 2013. By contrast, the panel forecast compiled by *Fundación de las Cajas de Ahorros* (Funcas) suggests a drop of 1.5%. This matches the European Commission's forecast. The International Monetary Fund (IMF) predicts a drop of 1.3% in its latest revision (October 2012), and BBVA's Research Department has just published its estimate for 2013 GDP, which predicts it will drop by 1.4%. If the government's optimistic forecast is not met, the revenue figure will be overestimated and expenditure underestimated,

Table 1
Summary of tax measures adopted by general government (millions of euros, in cumulative terms)

Measures	2012	2013	2014
Tax measures	4,975	15,069	15,425
Public administration	5,425	3,723	5,372
Employment	1,888	5,746	5,989
Social Security	70	-1,040	-2,551
Aid for disabled persons	160	1,391	1,473
Specific measures – national level	600	3,700	6,000
Specific adjustment measures – Autonomous Communities		6,867	12,867
Local government reform		3,500	5,500
Cumulative total	13,118	38,956	50,075
Annual change	13,118	25,838	11,119

Table 2
Government deficit targets for the public administration as a whole

Institution	2012	2013	2014	2015
State	-4.5	-3.8	-2.7	-2.1
Autonomous Regions	-1.5	-0.7	-0.1	0.2
Local Authorities	-0.3	0.0	0.0	0.0
Total	-6.3	-4.5	-2.8	-1.9

which will have a strong negative impact on the deficit and the Spanish government's financing capacity.

Meeting the deficit targets in 2013 will depend on the legacy from the previous year. Two factors are crucial to achieving the 2012 target. First, the liquidity injection due to be given to nationalised financial institutions –the impairment suffered by banking sector loans and equity has been estimated at 11,556 million euros. And second, the slippage in the social security deficit, which has been estimated by the government at 10.5 billion euros, due to the deterioration in revenues from social security contributions, the rising number of pensioners, and the sums allocated to pay for unemployment benefits. For this reason, it is highly likely that the general government deficit will overshoot the 6.3% target in 2012. In fact, the Bank of Spain's estimates put the 2012 deficit at

7.4%, the International Monetary Fund and BBVA at 7.0%, and the Funcas expert panel at 6.9%. Even so, cutting the public deficit by around 2.5 points –from 9.44% in 2011 to a figure close to 7%– would be a significant achievement given that the Spanish economy is in a deep recession.

The 2013 income budget: Objectives and constraints

The revenue forecasts in the draft 2013 General State Budget have been calculated taking into account the (i) downturn in the economy, and (ii) the impact of the tax reforms implemented since 2011.

In the case of the first of these factors, the impact of the economic cycle on tax revenues is well known. When quantifying this relationship, the key variable is domestic demand. This is the closest variable to the concept of the tax base, on both the income and expenditure sides. Official estimates of the drop in domestic demand in 2012 put it at 3.1%. This value is slightly higher than the -4.0% put forward by the Funcas expert panel and the International Monetary Fund in its October 2012 update. For 2013, the figures given in the draft budget estimate a drop of 1.1% in domestic demand, whereas Funcas puts it at -3.8%, and the IMF at -3.3%. As regards tax reforms, since December 2011 the government has been implementing a series of changes affecting the

Table 3

Central government non-financial income in 2013 (millions of euros)

Chapters	State	Total	Share of tax revenue	Share of total non-financial income
Personal income tax	42,251	74,215	42.6	38.3
Corporate income tax	19,012	19,012	10.9	0.1
Non-resident income tax	2,248	2,248	1.3	1.2
Pension fund contribution	995	995	0.6	0.5
Miscellaneous	133	133	0.1	0.1
I. Direct taxes	64,639	96,603	55.5	49.8
Value added tax	28,272	54,657	31.4	28.2
Excise duties and special taxes	8,438	19,956	11.5	10.3
Alcoholic beverages	331	717	0.4	0.4
Beer	121	277	0.2	0.1
Intermediate products	8	16	0.0	0.0
Hydrocarbons	4,405	10,362	6.0	5.3
Tobacco products	3,508	7,099	4.1	3.7
Electricity	65	1,485	0.9	0.8
Miscellaneous	2,884	2,884	1.7	1.5
II. Indirect taxes	39,594	77,407	44.5	39.9
I to II TAX REVENUES	104,234	174,099		89.8
III Fees and other income	4,324	4,324		2.2
IV Current transfers	9,211	9,211		4.8
V Property income	5,614	5,614		2.9
VI Sale of real estate	135	135		0.1
VII Capital transfers	527	527		0.3
III to VII OTHER REVENUES	19,811	19,811		10.2
TOTAL NON-FINANCIAL INCOME	**124,044**	**193,910**		

main taxes –personal income tax (IRPF), corporate income tax (IS), value added tax (VAT), and excise duties and special taxes– with the aim of slowing the drop in revenues. These tax changes, as we shall see, will have effects in 2012 and subsequent years.

As our starting point, Table 3 shows the government's non-financial income for 2013 broken down by tax type. The table shows the budgeted non-financial income in 2013 coming to 193,910 million euros –of which 89.8% are tax revenues (174,099 million euros). These figures are net of the fiscal benefits existing in all the taxes, such as deductions for dependent children in the case of personal income tax, or for investments in R&D in the case of corporate income tax. The loss of revenues caused by these fiscal benefits has been estimated at 38,986 million euros in 2013, or 20.1% of estimated revenues. The government's estimates show an increase in total non-financial income between 2012 and 2013 of 3.74%. The difference between the *Total* and *State* columns is due to the taxes transferred to the Autonomous Regions under Spain's system of fiscal decentralisation. Specifically, it is forecast that 40.12% of the total tax income obtained in 2013 will be transferred from the central government to the Autonomous Regions (69,865 million euros). Consequently, the State will have 104,234 million euros from tax revenues and 19,811 million euros from other income (fees, transfers, sale of assets, etc.). As Table 3 shows, the two pillars of the Spanish tax system are personal income tax (IRPF), which provides 42.6% of revenues, and value added tax (31.4%). The forecasts suggest that 74% of revenue will be obtained from these two taxes. Next in importance are the excise duties and special taxes (11.5%) and corporate income tax (10.9%), which together provide 22.4% of revenues.

Main legislative changes effective in 2013

The revenue forecasts for 2013 set out in Table 2 factor in the impact of the tax measures implemented since December 2011. Since that date, four pieces of legislation have been passed that include tax changes that will have an impact on revenues in 2013. The first package of measures was enacted by the PP government immediately after coming to power in the elections on November 20th, 2011 (Royal Decree/Law, December 30th, 2011). These changes to the tax system were passed as urgent measures to narrow the discrepancy existing between the deficit forecast by the outgoing government (6%) and the new government's initial estimates, which placed it at 8.5%. The second package was included in the 2012 State Budget. However, given that the 2012 budget was finally passed in June this year, the tax changes were introduced urgently via Royal Decree/Law 12/2012, March 30th, 2012. The changes incorporated in this second legislative instrument basically affected corporation tax. The third package of tax measures was enacted by Royal Decree/Law 20-2012 on July 13th, 2012. Among other measures, this raised the VAT rates and eliminated the tax deduction for investments in the primary residence. This tax reform took place after the ECOFIN Council meeting on July 10th, which recommended various measures to deepen the process of fiscal consolidation. The last set of tax changes was included in the draft 2013 State Budget. The following sections describe the main changes included in these four packages of tax measures.

(i) First package of tax reforms

The most important tax changes included in Royal Decree/Law 20/2011, December 30th, 2011, effective in 2013 are:

A sharp increase in the State tranche of the marginal rates of personal income tax in the "common regime" Autonomous Regions –i.e. all of Spain except the Basque Country and Navarre, which have fiscal autonomy regarding income tax. This complementary tax will be in force in 2012 and 2013. As Table 3 shows, the increase in the tax rate affects both income from savings and all other taxable income. The increase in the marginal rates varies from 0.75 points, applicable to incomes of less than 17,702.2 euros, to 7 points for incomes over 300,000.2 euros. However, it should be borne in mind that the tax rates paid by residents of the Autonomous Regions in the "common regime" are made up of the state tax rates listed in Table 4 plus the regional tax rate set in each region[6]. The estimates in the draft State Budget indicate that this extra tax will raise an additional 1,772 million euros in 2013. The impact of this complementary tax on revenues in 2012 makes it reasonable to doubt the government's revenue forecasts for 2013. Initially, the government estimated that the reform would produce an additional 5,400 million euros in revenues. This was reduced to 4,100 million euros and then 3,702 million euros (this last estimate being given in the draft 2013 State Budget).

Table 4

Increase in marginal income tax rates in force in 2012 and 2013 (state tranche of tax)

General tax basis			Savings tax basis		
Threshold (euros)	Applicable marginal rate	Increment in marginal rate (points)	Threshold (euros)	Applicable marginal rate	Increment in marginal rate (points)
0.00	12.75	0.75	0.00	10.50	1.0
17,707.20	16.00	2.00	6,000.00	12.50	2.0
33,007.20	21.50	3.00	24,000.00	13.50	3.0
53,407.20	25.50	4.00			
120,000.20	27.50	5.00			
175,000.20	29.50	6.00			
300,000.20	30.50	7.00			

Delivering on its electoral promise, the government restored the tax deduction on mortgage (interest plus + capital), applying it retroactively from January 2011. The 2011 State Budget had eliminated this deduction for home purchases since January 1st, 2011 in the case of taxpayers whose taxable income was over 24,107.20 euros –for all other taxpayers the value of the deduction dropped with income, such that the maximum amount was the 15% of 9,040 euros for a taxable income of 17,707.20 euros or less. Following the recommendations of the EU authorities, the draft 2013 State Budget has included the elimination of this mortgage tax relief on homes purchased on or after January 1st, 2013. The government calculates that eliminating this incentive will bring in extra tax income of 430 million euros.

Property tax (IBI) has been temporarily increased in 2012 and 2013. IBI is a direct tax on properties such as homes, garages and commercial premises. Revenues from this tax are one of the pillars of local authority financing in Spain. To shore up its finances, the government raised the rates of this tax, which range between 4% and 10%. However, the increase is limited to properties whose cadastral value is higher than the median cadastral value in the municipality concerned.

The application of the super-reduced rate of VAT on home purchases has been extended until December 2012. This reduces the VAT paid on home purchases from 8% (reduced rate previously in force) to 4% (super-reduced rate). This change, originally approved in July 2011 by the previous socialist government, was intended

[6] A detailed description of the state and regional income tax rates in force in 2013 in the common regime Autonomous Regions is given in Sanz-Sanz and Romero-Jordán (2012).

to help reduce Spain's stock of unsold properties left over from the housing boom. In January 2013, homes will again be taxed at the reduced rate (currently 10%). Official estimates indicate that this tax change will boost VAT revenues by 750 million euros in 2013.

(ii)Second package of tax reforms

This package of measures was approved urgently by means of a Royal Decree. The reason being that the 2012 Budget was not submitted to debate on October 1st, as was required, so could not be approved before the end of the year. Under Spanish law this anomalous situation obliged the new government to extend the 2011 budget. Consequently, the People's Party government had to prepare a budget proposal for 2012, which was discussed in both houses of the Spanish parliament, and finally passed in June 2012. The government opted to approve a package of tax measures by Royal Decree/Law 12-2002, March 30th, 2012, which were incorporated in the 2012 State Budget. As will be discussed below, the measures include a series of changes to corporate income tax, most of which will be in force in 2012 and 2013. There was also a slight restructuring of the excise duty on tobacco products, increasing the specific component and reducing the *ad valorem* part. Additionally, for 2012 a tax of 8% on foreign dividends was passed, and a tax regularisation plan applying a tax of 10% to previously undeclared income (the proceeds of tax evasion) before November 30th, 2012.

The most significant changes made to the structure of corporate income tax (IS) are as follows. Firstly, the annual ceiling on deductions for amortisation of goodwill has been reduced from 5% to 1%. This measure will only apply in 2012 and 2013. The cost of this measure in 2013 is estimated at 20 million euros. Secondly, large companies no longer have freedom of amortisation. It has been kept in the case of small and medium-sized businesses, provided it is associated with job creation. This measure is expected to raise estimated revenues of 145 million euros. Thirdly, the deductibility of financial charges has been limited. Specifically, financial charges exceeding 30 percent of the profits for the financial year cannot be deducted –the first million euros of financing costs will not be affected by this new limit. With some exceptions, financial costs deriving from shareholdings in the same business group are not deductible. The impact of these measures is an estimated 286 million euros. Lastly, a minimum IS instalment payment has been set for companies with profits of over twenty million euros a year.

(iii) Third package of tax reforms

After the ECOFIN summit on July 10th, the government passed Royal Decree/Law, July 13th, 2012, which contained a series of measures to ensure budgetary stability and stimulate competitiveness. The measures in the budgetary area have affected VAT, excise duties, personal income tax (IRPF), and corporate income tax (IS).

In the case of VAT, the normal and reduce rates have been increased, but the super-reduced rate has been left unchanged at 4%. Specifically, the reduced rate was raised by 2 points from 8% to 10%, and the standard rate by 3 points, from 18% to 21%. The Royal Decree/Law also made a number of changes to the VAT tax base. For example, the normal rate of VAT is now applicable to cinemas, theatres and shows (they were previously subject to the reduced rate). Also, school stationery has been moved from the super-reduced to the normal rate (books are still taxed at 4%). Although this legislative instrument was passed in July, it came into force on September 1st, 2012. Table 5 illustrates the VAT rates in Spain in force as of January 1st, 2013. The government estimates given in the "Budget Plan 2013-2014" published in early August 2012 quantified the net impact of the tax reform on revenues at 9,774 million euros in 2013 –excluding the change in the tax treatment of home purchases. Using micro-simulation techniques, Sanz-Sanz and Romero-Jordán (2012) estimated that, on current levels of consumption, the impact of the reform on annual revenues would be 6,680 million euros –a figure approximately a third lower than the official estimate. It should come as no surprise then, that the draft 2013 State Budget has cut its initial estimate by 1,940 million euros, to leave it at 7,834 million euros. The reform also increased the compensating percentages in the farming and fishing regimes, and the general and reduced rates in the special equalization surcharge regime. Along with the changes to VAT there was a restructuring of the taxes on tobacco products, with an increase in the minimum tax on cigars, cigarettes, and rolling tobacco, and a reduction in the minimum applicable to cigarettes. These changes will have a negative impact on revenues of 138 million euros.

In the case of personal income tax, tax relief on the purchase of a primary residence has been eliminated. The deduction applicable to homes bought before January 20th, 2006 was 25% in the first two years, and 20% in the third and subsequent years. After this time, the percentages dropped to 15% on a maximum amount of 9,015 euros. To offset the impact on homebuyers who purchased before January 20th, 2006, the legislation included an additional deduction of 5% on a limit of 4,507 euros (225 euros per income tax return). This complement has been repealed, with the general application of a 15% deduction for homebuyers who purchased their home before December 31st, 2012. The estimates in the draft General State Budget indicate that this measure will increase revenues by 430 million euros in 2013. The new legislation has also raised the withholding rate applicable to courses, lectures and seminars, and writing literary, artistic and scientific works from 15% to 19%. This change, applicable on a transitional basis in 2012 and 2013, will have an impact of 340 million euros in 2013.

Table 5

VAT rates in Spain following the 2012 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. New housing.	Other goods: for example, alcoholic beverages, tobacco products, clothing and footwear, private transport (cars, motorcycles, etc.), fuel, electricity, etc. Refurbishment of housing. Tickets for the theatre, circus, cinema and other shows, digital television services, hairdressers, funeral services, flowers and plants, works of art.

The changes made to corporate income tax expand and deepen the changes introduced in the second package of reforms discussed above. On a transitional basis, limits have been set on the offsetting of losses against taxable income in 2012 and 2013. For companies with a turnover in excess of 20 million euros, the limit has been reduced from 75% to 50%. These limits drop from 50% to 25% if turnover is in excess of 60 million euros. The tax rate also rises as a function of turnover. For companies with a turnover in excess of 10 million euros, the rate has risen from 21% to 23%. The rate has gone from 24% to 26% for companies with a turnover exceeding 20 million euros. And the rate has risen from 27% to 29% if turnover is more than 60 million euros a year. The rate for instalment payments has risen from 8% to 12%.

A number of changes have been made to the structure of the tax that will be applicable permanently as of 2012. First, the limit on the deductibility of financial costs is now applicable to all companies (it was previously only applicable to financial groups). And second, the tax rate on foreign dividends and earnings has been raised to 10%.

(iv) Fourth package of tax reforms

The changes included in the Presentation of the draft State Budget comprise the fourth and final

Table 6

Expected impact of the tax reforms in millions of euros
Measured as the difference with respect to the previous year

Taxes	2012	2013	Δ	Δ (%)
Personal income tax (IRPF)	**3,990**	**2,751**	**-1,239**	**-31.1**
Elimination of the allowance of 2,500 euros for the birth of a child	116			
Increase in the tax rate on incomes over 120 thousand euros	27			
Complementary levy	3,702	1,772		
Increase in the withholding rate for professional activities	330	340		
Elimination of bonus for public employees	-185	-615		
Elimination of tax deduction for home purchase		430		
Tax on lottery prizes over 2,500 euros		824		
Corporate income tax	**6,470**	**-2,757**	**-3,713**	**-57.4**
Increase in the limits for small businesses	-223			
Increase in the withholding rate for capital income	294	-294		
Measures affecting payments and compensation in large companies	2,999	-4,535		
Limitation on the deductibility of financial charges	1,300	286		
Elimination of freedom of amortisation	840	145		
Limits on deductibility of goodwill	210	20		
Special tax on foreign dividends	1,050	-1,050		
Limits on deductibility of amortization expenses		2,371		
Asset revaluation tax		300		
Non-residents income tax	**104**	**26**	**-78**	**-75.0**
Special tax return	**2,500**	**-2,500**	**0**	**0.0**
VAT	**1,372**	**8,584**	**7,212**	**525.7**
Rate increase in July 2010	-178			
Reduction in the VAT rate on home purchases from 8% to 4%	-750	**750**		
Rate increase in September 2012	2,300	**7,834**		
Excise duties and special taxes	**187**	**1,025**	**838**	**448.1**
Tobacco products	95	**-138**		
Hydrocarbons	92	**1,163**		
Fees and other income	**214**	**92**	**-122**	**-57.0**
TOTAL	**14,837**	**7,221**	**-7,616**	**-51.3**

package of tax reforms implemented to date. The modifications mainly affect IRPF and IS, and are as follows. As mentioned, the deduction for investments in the primary residence has been eliminated, and the treatment of capital gains on short-term investments and the treatment of lottery prizes have been changed. After January 1st, 2013, capital gains generated on investments held for less than a year –considered speculative– will be taxed at the standard rate for IRPF. At present, these capital gains are taxed at the much lower rate applicable to savings (see Table 3). Also, any prizes worth more than 2,500 euros awarded by lotteries organised by the *Sociedad Estatal de Loterías* (the national lottery company), the Autonomous Regions, the Red Cross or the *Organización Nacional de Ciegos Españoles* (Spanish National Organisation for the Blind), will be taxed at 20%. Prizes of this kind were traditionally exempt from personal income tax.

The draft also introduces some significant changes to the structure of corporate income tax. Firstly, a limit has been placed on tax deductibility of tangible fixed asset depreciation charges. Specifically, in 2013 and 2014, companies will only be able to apply 70% of the maximum coefficient envisaged in the amortisation tables. The impact of this measure has been estimated at 2,371 million euros. Secondly, companies can revalue tangible fixed assets voluntarily at low tax cost. As a particular case, real-estate assets have to be updated individually. The revaluation will be registered in a reserve account to which a tax rate of 5% will apply. It is estimated that this measure will raise an extra 300 million euros of corporate income tax revenues.

Table 6 summarises the expected effect of the tax changes mentioned in this section on the 2013 budget. The following points need to be borne in mind when interpreting this information. Firstly, as mentioned above, tax revenues in 2013 will be influenced by the tax reforms implemented in 2012 and in 2013. Secondly, the figures show the differential impact of 2012 revenues compared to the previous year. The increment in revenues is estimated at 7,221 million euros. However, if we discount the effect of these measures that will only apply in 2013, the impact on revenue will be 10,094 million euros. Thirdly, the government's estimates show that the biggest contribution to this figure will come from VAT (8,584 million euros) and IRPF reform (2,751 million euros). Corporate income tax, however, will have a negative effect (-2,757 million euros) on revenues in 2013, as a result of the changes made in 2012 to bring forward payments to this year and to limit large company's offsetting of losses. For this reason the measures the government has adopted include a restriction on large company's freedom of amortisation in 2013. Finally, as discussed above, there are reasons to think that the figures for the impact on revenues in 2013 might be overestimated by around 3 billion euros.

Cutbacks in public spending

The consolidated spending by the State, the social security administration, and autonomous agencies (under Chapters I to VIII) will increase by 2.5% in 2013, from 311,776 to 319,460 million euros. For the purposes of illustration, Table 7 summarises the consolidated State budget broken down by functional classification. Most items show a reduction in spending levels. As will be discussed below, one of the few exceptions is pension spending, which will increase by 4.9%. The behaviour of this item, which accounts for 43% of consolidated spending, is the main factor behind the 2.5% increase in total spending. 56% of total expenditure will be social spending, which basically consists of pensions and other benefits, which are managed by the social security administration (121,556 million euros), and unemployment benefits, which are managed by the state employment service (*Servicio Estatal de Empleo Público*, SEPE)(26,993 million euros). This section gives an overview of the spending items that have had the biggest impact on the preparation of the budget. It also shows the government's main adjustments to meet the deficit target.

State Budget

The State's spending will grow by 5.42% in 2013 –from 164,650 to 173,583 million euros. In other

Table 7

Consolidated State Expenditure Budget (Chapters I to VIII)
Summary of breakdown by spending policy (millions of euros)

Chapters	Initial budget 2012 (1)	(%)	Initial budget 2013 (2)	(%)	Δ (%) (2) /(1)
1. Basic public services					
Total (Justice, defence, citizen security, and foreign policy)	17,917.4	6.3	16,724.6	6.0	-6.7
2. Social spending					
Total	175,393.0	62.0	178,771.3	63.6	1.9
Pensions	115,825.9	40.9	121,556.5	43.3	4.9
Unemployment benefits	28,805.0	10.2	26,993.7	9.6	-6.3
Other current transfers	12,043.2	4.2	11,880.2	4.2	-1.1
Health	3,975.6	1.4	3,852.2	1.4	-3.1
Education	2,270.9	0.8	1,944.7	0.7	-14.4
Other social spending	12,472.4	4.0	12,544.0	3.9	0.5
3. Economic measures					
Total	26,995.3	9.5	24,177.3	8.6	-10.4
Farming, fishing and food	8,454.6	3.0	7,661.8	2.7	-9.4
Energy and industry	1,897.0	0.7	1,653.5	0.6	-12.8
Tourism, trade and SMEs	1,095.9	0.4	889.5	0.3	-18.8
Transport subsidies	1,616.8	0.6	1,178.2	0.4	-27.1
Infrastructure	6,900.8	2.4	5,966.6	2.1	-13.5
Civil R&D	5,562.7	2.0	5,562.8	2.0	0.0
Military R&D	757.6	0.3	363.3	0.1	-52.0
Other	709.5	0.3	901.3	0.3	27.0
4. General measures					
Total	62,622.7	22.1	61,197.7	21.8	-2.3
Transfers to other public administrations	49,686.0	17.6	48,285.8	17.2	-2.8
Finance and tax administration	5,757.2	2.0	5,501.5	2.0	-4.4
Other	7,179.5	2.5	7,410.4	2.6	3.2
TOTAL CHAPTERS I to VIII	311,776.4		319,460.6		2.5

words, the State's spending will increase by 8,933 million euros. Nevertheless, as Tables 8 and 9 show, this figure is –3,883 million euros after discounting social security payments, interest on the debt, and transfers to the Autonomous Regions. Two aspects of the central government budget are worth emphasising: (i) how financial charges on the debt have evolved, and (ii) the sharp cutback in the total resources available to the ministerial departments.

Two aspects of the central government budget are worth emphasising: (i) how financial charges on the debt have evolved, and (ii) the sharp cutback in the total resources available to the ministerial departments.

Interest charges on the debt will increase by 9,741 million euros in 2013 (33.8%), the ratio of debt to

Table 8

State Expenditure Budget (Chapters I to VIII)
Breakdown by Sections (millions of euros)

Chapters	Initial budget 2012 (1)	(%)	Initial budget 2013 (2)	(%)	∆ (%) (2) /(1)
1. Constitutional bodies					
Royal household, Parliament, National audit office, Constitutional court, etc.	383.96	0.1	367.61	0.1	-4.2
2. General Government Debt					
Debt interest	28,848.00	17.9	38,589.55	22.7	33.8
3. Civil Service Pensions					
Civil service pensions	11,280.00	7.0	12,150.00	7.2	7.7
4. Ministries					
Foreign Affairs	1,493.20	0.9	1,343.22	0.8	-10.0
Justice	1,574.00	1.0	1,507.78	0.9	-4.2
Defence	6,316.44	3.9	5,937.00	3.5	-6.0
Treasury and Public Administration	2,679.96	1.7	2,424.60	1.4	-9.5
Interior	7,701.78	4.8	7,214.19	4.2	-6.3
Public Works	7,291.08	4.5	6,488.70	3.8	-11.0
Education, Culture and Sport	3,093.31	1.9	2,561.16	1.5	-17.2
Employment and Social Security	20,924.40	13.0	23,798.39	14.0	13.7
Employment and Social Security, excluding transfers to the state employment service and the social security administration	500.36	0.3	458.9	0.3	-8.3
Industry, Energy and Tourism	3,752.93	2.3	2,952.57	1.7	-21.3
Agriculture, Food and Environment	2,252.69	1.4	1,680.15	1.0	-25.4
Prime minister's office	432.00	0.3	434.47	0.3	0.6
Health, Social Services and Equality	2,310.24	1.4	2,970.21	1.7	28.6
Economy and Competitiveness	6,061.21	3.8	6,301.11	3.7	4.0
Spending by various ministries	2,189.65	1.4	1,976.02	1.2	-9.8
Total for all Ministries	68,072.90	42.3	67,589.59	39.8	-0.7
Total for all ministries excluding transfers to the state employment service and the social security administration	43,604.51	27,1	39,721.20	23.4	-8.9
5. Transfers to the Autonomous Communities and the European Union					
32. Other financial relationships with territorial bodies	1,002.87	0.6	656.01	0.4	-34.6
33. Inter-territorial compensation fund	671.58	0.4	671.58	0.4	0.0
34. Financial relationships with the EU	11,770.72	7.3	11,900.60	7.0	1.1
35. Contingency fund	2,322.81	1.4	2,535.84	1.5	9.2
36. System of financing for rail authorities	36,489.31	22.7	35,314.23	20.8	-3.2
Total for Chapters I to VIII	164,650.00	100.0	173,583.02	100.0	5.6

Table 9

State Expenditure Budget (millions of euros), (Excluding contributions to the state employment service, the social security administration, and obligations from previous years)

Chapters	Initial budget 2012 (1)	(%)	Initial budget 2013 (2)	(%)	Δ (%) (2) /(1)
I. Personnel expenses	16,244.04	37.3	15,615.12	39.3	-3.9
II. Current expenditure on goods and services	2,922.97	6.7	2,749.3	6.9	-5.9
III. Financial expenses	27.42	0.1	24.94	0.1	-9.0
IV. Current transfers	7,554.24	17.3	6,909.07	17.4	-8.5
Current operations	26,748.68	61.3	25,298.43	63.7	-5.4
V. Contingency fund	44.46	0.1	30	0.1	-32.5
VI. Real investments	3,930.86	9.0	3,240.35	8.2	-17.6
VII. Capital transfers	4,668.49	10.7	3,484.59	8.8	-25.4
Capital operations	8,599.35	19.7	6,724.95	16.9	-21.8
Total non-financial transactions	3,5392.49	81.2	32,053.38	80.7	-9.4
VIII. Financial assets	8,212.03	18.8	7,668.48	19.3	-6.6
IX. Financial liabilities	0.37	0.0	0.37	0.0	0.0
Total financial transactions	8,212.4	18.8	7,668.85	19.3	-6.6
TOTAL BUDGET	4,3604.89	100.0	39,722.23	100.0	-8.9

GDP will reach a level close to 90% in 2013. In fact, debt interest in 2013 will be approximately equal to the spending by all the ministries, which is 39,721 million euros, after excluding transfers to the state employment service and the social security administration. As Table 7 shows, ministerial departments will suffer an average cut of 8.9% –which is in addition to the 16.9% initially envisaged for 2012. However, the cutback will be higher than this figure in certain departments, such as the ministries of Foreign Affairs (-10%), Finance (-9.5%), Agriculture (-25.4%), or Public Works (-11.0%).

In absolute terms, the ministries will see their overall budget reduced by 3,883 million euros. 46% of this figure will come from cuts in staff (628.9) and investment costs (1,874.4). Staff costs, which account for 39.7% of state expenditure, will be cut by 3.9%, representing a saving of 629 million euros. This reduction is partly explained by the freeze on new public sector recruitment passed in 2012 (see Sanz and Romero, 2012). The non-replacement of staff is having a direct effect on the total number of public employees working for the central government, which will drop from 561.8 thousand to 547.1 thousand (-2.6%). Also, the freezing of public employees' salaries for the third consecutive year will have a direct effect on staff costs. Nevertheless, the draft budget anticipates that the Christmas bonus, which was eliminated in 2012, will be reinstated in 2013. The State's investments, mainly in infrastructure, will be cut by 17.6% (690.5 million) while capital transfers will drop by 25.4% (1,183.9 million).

Social security budget

Social security spending is set to rise by 6.2% in 2013, to reach 7,537 million euros. 58% of this figure (4,396 million) is explained by the increase in contributory pension expenditure. These figures, which do not include pensions received by public employees, have been calculated assuming that the number of pensioners will increase and pensions will be revalued by 1%. However, the draft budget does not give any details of the change in the number of pensioners.

Table 10

Breakdown of the main social security expenditure items

Items	Initial budget 2012 (1)	(%)	Initial budget 2013 (2)	(%)	Δ (%) (2) /(1)
Sum total of expenses under Chapters I to VIII	120,698.27	100.0	128,236.23	100.0	6.2
Current transfers	115,634.3	95.8	121,697.2	94.9	5.2
Contributory pensions	101,953.8	84.4	106,350.1	82.9	4.3
Non-contributory pensions	1,995.01	1.6	2,475.5	1.9	24.1
Temporary Incapacity	5,799.2	4.8	5,830.6	4.5	0.5
Maternity, pregnancy and breastfeeding	2,369.8	1.9	2,309.8	1.8	-2.5
Care for dependent adults	1,326.0	1.0	2,126.5	2.6	60.4
Other transfers	2,190.4	1.8	2,604.7	2.0	18.9

Table 11

Breakdown of the main social security revenue items

Items	Initial budget 2012 (1)	(%)	Initial budget 2013 (2)	(%)	Δ (%) (2) /(1)
Sum total of revenues under Chapters I to VIII	120,698.30	100.0	128,236.26	100.0	6.2
Social security contributions	106,322.9	88.0	105,863.2	82.5	-0.4
From employers and employees	96,048.3	79.5	97,605.0	76.1	1.6
From the unemployed	10,153.7	8.4	8,137.2	6.3	-19.8
For termination of activity (self-employed)	120.8	0.1	120.5	0.0	-0.2
Current transfers received	8,929.8	7.3	15,549.0	12.1	74.1

Also, spending on non-contributory and welfare pensions will increase by 480 million euros. Recipients of these benefits are workers who did not pay contributions over the statutory minimum number of years for entitlement to a retirement pension who do not have a minimum subsistence income (5,007.8 euros in 2012). 82% of the social security system's revenues come from social security contributions paid by employers and employees. It is estimated that this income will increase by 1.6% in 2013. 7.7% of contributions are from the unemployed. As of 2013 these contributions will be paid entirely by the worker – up until 2012, 35% of the amount was met by the State employment service. In short, the Social Security administration's budget foresees a drop in contribution income in 2013, which will oblige the State to increase its transfers to the system from 8,929 million to 15,549 million euros.

Budget for autonomous and state agencies

Along with the central government and the social security system, the draft General State Budget includes the expenditure forecasts of the 73 Autonomous Agencies and the eight State Agencies. These agencies provide a wide variety of different services, and include bodies such as the State Employment Service, the National Library, the National Statistics Institute, the Tax Administration, and the National Research Council. The aggregate spending by these 81 agencies will be cut by 10.5% in 2013 (5,671 million euros). Thus, total spending will go from 53,723 million euros in 2012 to 48,052 million euros in 2013. The State Employment Service will manage 64.3% of this spending in 2013 (or

67.5% of the Autonomous Agencies' expenditure). This agency manages active policies to combat unemployment and pays unemployment benefits. Its figures are shown in Table 11.

Spending on unemployment benefits is projected to fall by 6.3% in 2013, to 26,696 million euros (a drop of 1,811 million euros). This figure includes both contributory unemployment benefits and non-contributory benefits (for unemployed people with dependants whose contributory benefits have been exhausted). The spending on contributory unemployment benefits has been estimated at 13,968 million euros. The government is confident that the legislative changes will reduce spending on unemployment even though the unemployment rate is set to remain close to 25% (24.35%). As regards unemployment benefits, Royal Decree/Law 20/2012, July 13th, 2012, reduces the amount of benefit paid from the seventh month onwards. The amount of benefit has been cut from 60% to 50% of the reference value. In the case of non-contributory unemployment benefit, the legislation has eliminated the special benefit for people over 45, and the age at which unemployed people can claim this benefit when their contributory unemployment benefit has run out has been raised from 52 to 55 years. Finally, the eligibility requirements for the basic guaranteed income received by long-term unemployed and disabled persons have been made stricter. In parallel, active policies to tackle unemployment have been cut back by 1,994 million euros (34.6%).

Table 12

Budget for State Employment Service programmes (millions of euros)

Items	Initial budget 2012 (1)	(%)	Initial budget 2013 (2)	(%)	Δ (%) (2) /(1)
Benefits for termination of activity (self-employed persons)	14.83	0.0	25.48	0.1	71.9
Promoting labour market access and job stability	5,759.56	16.6	3,765.34	12.2	-34.6
Unemployment benefits	28,805.05	83.0	26,993.70	87.3	-6.3
Internal transfers	139.51	0.4	132.03	0.4	-5.4
TOTAL	34,718.95	100.0	30,916.55	100.0	-11.0

The assignment of revenue to Spain's Autonomous Regions

Julio López-Laborda[1]

Spain's regional financing model has improved significantly since its conception in the late 1970's. Outstanding work remains to ensure the now decentralized regime maintains high and equitable standards across the regions, but provision of public services is guaranteed.

Spain's basic model of regional financing has evolved considerably since its creation in the late 1970's. A key feature of the model is its high-degree of decentralization, placing Spain among the most decentralized countries at the European, as well as the global level. For the majority of regions under the common regime (excluding Navarre and the Basque Country, which are under a different system), based on approximation of expenditure needs, the model combines a system of assigned taxes, transfers, and other regional revenue to ensure the provision of essential, and to a certain guaranteed level, non-essential, public services to citizens.

Introduction

Spain is made up of seventeen autonomous regions (referred to here as regions) together with the autonomous cities of Ceuta and Melilla. Despite their short history, the regions have indisputably become major players in the country's economy. They are responsible for providing some of the welfare state's most important services, including education, health and social services. And they have competencies in other fundamental areas for regional economic development such as farming, industry, commerce, tourism, infrastructure, and R&D. The regions manage 35% of total public non-financial expenditure and are responsible for 34% of general government gross fixed capital formation. They account for over 50% of total public sector employment, and their revenues amount to 20% of total government non-financial revenues.

On the expenditure side, the regions are all similar, as they all basically exercise the same powers. However, on the revenue side a distinction needs to be drawn between those regions under the common regime and those under the charter regime (Navarre and the Basque Country), as the revenue allocation process is very different in each case.

This article aims to describe as simply as possible the way revenue is allocated to Spain's regions.

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The following sections deal primarily with the common regime, but reference is also made to the charter regime[2].

Revenue allocation to the regions under the common regime: General overview

Revenue allocation to the regions under the common regime is governed by the Organic Law on the Financing of the Autonomous Regions (LOFCA in its Spanish initials), drawn up centrally to implement the Spanish Constitution. This law contains the basic principles of the regional financing model, the proper application of which is agreed at the level of the Autonomous Regions' Fiscal and Financial Policy Board (CPFF), a joint body coordinating financial activities at central and regional levels. Every so often (generally every five years) the CPFF evaluates how the regions' public finances have progressed and makes the relevant adjustments.

To fully understand how revenues are allocated today it is worth briefly looking back at how the problem was solved when the system of Autonomous Regions was established. As provision of services was a power devolved to each region (beginning in the late seventies), their actual cost was calculated based on how much it had cost the State to provide the service in question in the region prior to decentralisation. This was then used by the Central government to determine the grant paid to the region to enable it to finance the services over which it now had authority.

This approach had two obvious shortcomings: first, it meant that each region could only continue providing these services at the same level as the State had done, not at the same level as other regions; and second, being based on transfers, it did not allow regional fiscal autonomy and accountability to develop.

Consequently, all the reforms made to the model, including the most recent, in 2009, have sought to rectify these shortcomings. The following sections will describe the system of revenue allocation currently in force, and will allow us to see if progress has been made since the beginning of the regional system. The analysis will address the three basic pillars of the regions' revenue structure: expenditure needs, assigned taxes, and transfers.

Expenditure needs

The first element of the regional financing model is the calculation of each region's expenditure needs. This relates to the level of expenditure a region needs to provide the same level of services in a particular area of its competency as other regions.

The procedure by which expenditure needs are calculated is complex. In simple terms, the main feature is that regional services are divided into two categories: essential public services, comprising education, health, and essential social services, which account for around 70% of the regions' spending, and non-essential public services, comprising the remainder.

The regions' expenditure needs for the provision of essential public services are calculated annually using a series of indicators reflecting cost and demand factors affecting the delivery of these services. The weighted indicators used to construct an indicator referred to as the *adjusted population* are: the region's population (with a weighting of 30%); the population covered by the health-care system, divided into age groups (38%); the population aged over 65 (8.5%); the population aged between 0 and 16 years (20.5%);

[2] For a more detailed description and analysis, see Joumard and Giorno (2005), López-Laborda and Monasterio (2007), López-Laborda *et al.,* (2007) and Zabalza and López-Laborda (2011).

the surface area covered (1.8%); population dispersal (00.6%); and insularity (0.6%).

The procedure applied in the case of non-essential public services is less precise and it does not quantify regions' expenditure needs. Here the model basically limits itself to ensuring that no region receives less revenues to finance these services than it had received historically.

Consequently, whereas the financing model pursues a clear objective of equalisation of the essential public services provided by the regions, in the case of other regional services, the goal is simply to ensure that revenues are sufficient.

Assigned taxes

In the same way that the State has been devolving certain services to the regions over the years, it has also gradually transferred taxes. These taxes are known as "assigned taxes" and are taxes that are set and regulated at the central government level, with some or all of their revenue being transferred to the regions. Moreover, in some cases the regions can administer the tax, set the tax rate, and grant allowances or tax credits applicable in their territory.

Today, almost all the taxes in the Spanish fiscal system are assigned to the regions in this way to some extent or other. The only major taxes that are not are corporate income tax, non-resident tax, and social security contributions.

Thus, 100% of the revenues from tax on net wealth, inheritance and gift tax, tax on asset transfers and documented legal acts (stamp duty), gambling tax, special tax on certain means of transport (vehicle registration tax), special tax on retail sales of certain fuels, and the electricity tax, is transferred. 50% of VAT and personal income tax is transferred, along with 58% of excise duties (on tobacco products, hydrocarbons and alcoholic beverages). In the case of personal income tax, the tax schedule has been divided into two equal tranches, one for the central government and the other for the region. Each region can maintain the standard regional tax schedule or set its own (as certain regions have done), although they cannot modify the rates applicable to earned income from savings: interest, dividends and capital gains. Regions can also establish their own tax credits. However, they have no powers to regulate VAT, or excise duties.

On average, these assigned taxes account for approximately 70% of the regions' non-financial revenues. It is therefore true to say that the regions have broad powers to implement a tax policy of their own, deciding the level and composition of their revenues.

On average, these assigned taxes account for approximately 70% of regions' non-financial revenues. It is therefore true to say that the regions have broad powers to implement a tax policy of their own, deciding the level and composition of their revenues.

Transfers

Transfers constitute the final component of the financing model. They provide revenues to the regions that are unable to meet all their expenditure from the assigned taxes. In order to explain how the two most important unconditional transfers work, we need to go back to the distinction between essential and non-essential services.

To finance essential public services, transfers are made from the Essential Public Services Guarantee Fund. This is calculated annually as the difference between each regions' expenditure needs for these services and 75% of standard revenue collection from the assigned taxes. The standard revenue collection (or fiscal capacity) is the revenue the region could obtain (not that which it actually obtains) by applying the standard tax rate to its taxes. This transfer –which may be positive or negative– is therefore a genuine equalisation transfer. It guarantees, year to year, that if a region's tax effort from its assigned taxes is the same as that of the other regions, it can also provide the same level of education, health and social services.

In the case of non-essential public services, there is also a transfer through the Overall Sufficiency Fund. This is calculated as the difference between each region's guaranteed expenditure level and 25% of the standard revenue collection from the assigned taxes. This transfer –which may also be either positive or negative– aims to ensure sufficiency rather than equalisation. As we have already seen, the regions' expenditure needs for these services are not calculated, and the transfer is not quantified each year: its value in the first year varies at the same rate as do central government taxes.

If a region decides to demand a greater or lesser tax effort from its assigned taxes in its territory than has been established as standard, the consequences in terms of revenues of this decision, whether positive or negative, accrue to the region, as the transfers it receives are in no way affected.

There is another general transfer, which is quantitatively much less important than the others, called the Competitiveness Fund. This has two goals: it aims to avoid significant differences in total financing per adjusted inhabitant between regions, and at the same time it tries to avoid that the wealthier regions end up much worse off under the model than if they simply relied on their own fiscal capacity.

Revenue allocation under the charter regime

Navarre and the Basque Country have a special financing status under the charter regime. This is basically governed by the Economic Agreement between the State and Navarre Act *(Convenio)* and the Economic Agreement with the Autonomous Region of the Basque Country Act *(Concierto)*. These regimes are therefore also referred to in Spain as "agreement regimes". They differ substantially from the common regime on all of the three basic aspects identified in the preceding sections.

In the charter regime, there is no calculation of expenditure needs to guide revenue allocation as in the case of the common regime. The two regions concerned are financed exclusively from the taxes accruing in their territory, which are referred to as "agreed taxes." These two regions have very broad powers regarding these taxes, indeed far wider than is the case of the regions under the common regime. First, in the charter regime regions, all the taxes in the Spanish fiscal system are "agreed taxes," with the significant exception of social security contributions. Moreover, these regions are entitled to 100% of the revenues from these taxes, can administer them, and with certain exceptions (such as VAT and excise duties), they can also regulate them.

Given the considerable fiscal capacity of these regions and their high income level, the regions in the charter regime can clearly cover their expenditures from their tax revenues without requiring supplementary transfers. Indeed, these regions make annual transfer payments to the central government –the *cupo* in the Basque Country and the *aportación* in Navarre– with which they contribute to the cost of centrally provided public goods and services, although not to the equalisation of services with the other regions.

Other regional revenues

So far we have described what could be called the basic model of regional funding, i.e. the revenues placed at the disposal of the regions to finance the competencies they have assumed. However, in addition to these basic resources, the regions in both the common and charter regimes have access to other revenues with which to implement their public policies. First of all, they can enact their own taxes, and this is something they have been doing, particularly in the environmental area. Secondly, they can receive transfers from the State or the European Union, with a view to promoting regional development and reducing the income and wealth differences between territories. Finally, they can run a deficit and borrow, within the framework of budgetary stability legislation. Spain has recently modified its Constitution to enshrine the principle of budgetary stability. To implement the Constitution, the Organic Law on Budgetary Stability and Financial Sustainability was passed in April 2012. In an orthodox way, this law imposes various limits on the financial activities of the Spanish public sector as a whole –on the structural deficit, public debt and public expenditure– sets a calendar to achieve them, and establishes an institutional framework and a set of preventive, corrective and enforcement measures, intended to act largely automatically, to ensure compliance.

Concluding remarks

Over a relatively short period, Spain has undergone a far-reaching process of decentralisation of public expenditure. The decentralisation of public revenue has been slower, although in the last fifteen years it has been given considerable momentum. This process has placed Spain among the world's most decentralised countries and at the top of the list of the European Union's most decentralised member states.

What stands out from the foregoing sections is the huge progress that has been made from the rudimentary model of financing applied in the late

The model gives the regions an ever-expanding sphere of tax competencies and ensures that if regions' tax effort from their assigned taxes is the same, they will be able to provide their citizens with the same level of health, education, and essential social services, and the rest of the services they have assumed, up to a certain guaranteed level.

seventies to the model in effect today, the basic components of which are not unlike those in other federal countries, such as Australia, Canada, Germany or Switzerland. The model gives the regions an ever expanding sphere of tax competencies and ensures that if regions' tax effort from their assigned taxes is the same, they will be able to provide their citizens with the same level of health, education, and essential social services, and that they will also be able to provide the rest of the services they have assumed, up to a certain guaranteed level.

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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)

Bank of Spain Circular amending accounting circular (Circular 6/2012, published in the State Official Gazette (BOE) on October 2nd, 2012)

Bank of Spain Circular 6/2012, September 28th, 2012, was published in the BOE on October 2nd, 2012 and amends Circular 4/2004, December 2nd, 2004, on reporting standards for public and confidential financial information and standard financial statements. The Circular came into effect on October 3rd.

Its aim is to adapt the Accounting circular to the provisions of Royal Decree-law 18/2012, May 11th, 2012, on the write-down and sale of real-estate assets held by the financial sector, in relation to the increased coverage requirements established in the RD-l for lending relating to land and buildings or property developments corresponding to the business in Spain of credit institutions, and which were classified as normal risk on December 31st, 2011.

Circular 6/2012 also covers the inclusion (in line with the rules on the information that credit institutions are to disclose in their individual and consolidated annual accounts) of certain information regarding refinancing operations, refinanced and restructured operations, and the concentration of risks in both sectors and geographical areas. It also completes the transparency requirements associated with exposures to the construction and property development sector, with information regarding assets awarded or received in payment of debts that are transferred to asset management companies.

Annex IX introduces modifications concerning risk policies institutions are required to put in place, adding to the policy of debt renegotiation, the policies of refinancing, restructuring and operation renewal. It incorporates the criteria applicable to refinancing and restructuring of operations (policies, decisions, contribution of new guarantees and the internal information system), and introduces modifications regarding the classification of clients by insolvency risk and its hedging. To this end the following definitions will apply:

- **Refinancing operation:** Operation used in situations of financial stress by the borrower to cancel operations held by the borrower or other group companies, or whereby these operations are brought fully up to date with payment to facilitate debt payment by holders of cancelled or refinanced operations who are unable to meet their conditions.

- **Refinanced operation:** Operation that is brought wholly or partly up to date on payment by means of a refinancing operation by the institution or another entity in its economic group.

- **Restructured operation:** An operation in which there is a debt write-down or assets are received to reduce the debt, or the financial conditions are modified.

- **Roll-over operation:** Operation to replace another granted previously by the same institution, without the borrower necessarily being in financial difficulties.

- **Strengthening credit institutions' solvency.** As of January 1st, 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.

- **Renegotiated operation:** Operation in which the financial conditions are modified, without the borrower necessarily being in financial difficulties.

A new section has been added to Annex IV reproducing section 1 of article 1 and the annex of Royal Decree-law 18/2012 in relation to additional coverage for credit risk. Various statements are also modified, and the changes necessary to support the new information needed for supervisory purposes and that which credit institutions are required to disclose in their annual accounts are made to the Special accounting record of mortgage operations in Annex X. These changes are to be incorporated no later than December 31st, 2012.

Royal Decree amending certain Royal Decrees concerning the powers of the European Supervisory Authorities (Royal Decree 1336/2012, published in the BOE on October 5th, 2012)

On October 5th, the Royal Decree amending certain Royal Decrees concerning the powers of the European Supervisory Authorities was published. This Royal Decree completes the process of transposing European regulations to national legislation that began with Royal Decree-law 10/2012.

Royal Decree 1336/2012 completes the implementation of Directive 2010/78/EU, November 24th, 2010, in order to incorporate the obligation of collaboration, communication and notification by the competent authorities, the Bank of Spain and the CNMV, with the relevant European supervisory authorities. This details the adaptation of the national supervision arrangements envisaged in Royal Decree-law 10/2012 to the obligations under European Union Law established by the European supervisory framework.

As a result the following legislation has been amended:

- **Royal Decree 84/1993 implementing the Credit Unions Act referring** to the need to notify the inscription and discontinuation of Credit Unions in the Special Register and informing the EBA of this fact.

- **Royal Decree 1245/1995 on the creation of banks,** cross-border business, and other issues concerning the legal framework governing credit institutions, amended in the same terms as the previous Royal Decree.

- **Royal Decree 1310/2005 partially implementing the Securities Market Act,** concerning the listing of securities on official secondary markets, public offers of sale or subscription and the brochure required for these purposes. The modifications concern the notification of approval and registration of the brochure, and the cross-border effectiveness of brochures approved in Spain or in other EU member states.

- **Royal Decree 1332/2005, implementing the Financial Conglomerates Supervision Act,** which adds an internal control mechanism to help prepare and develop the bail-out and resolution mechanisms and plans, if necessary.

- **Royal Decree 1362/2007 implementing the Securities Market Act** in relation to the transparency requirements concerning information on issuers whose securities are listed on an official secondary market or another EU regulated market. It adds that the CNMV is obliged to notify the ESMA of the granting of exemptions to the obligations to provide regular information on issuers whose registered office is in a non-EU country.

- **Royal Decree 216/2008 on financial institutions' equity capital.** The modifications primarily concern the procedure for the declaration of branches as significant, the obligations to inform the Bank of Spain, and the rules of operation of colleges of supervisors of credit institutions. It also modifies some of the CNMV's competencies in relation to coordination with other supervisory authorities.

- **Royal Decree 217/2008 on the legal framework applicable to investment services companies** and other institutions providing investment services, partially modifying the Regulations of the Collective Investment Institutions Act. The modification consists of the CNMV notifying the ESMA of any authorisations of investment services companies in Spain, and any difficulty a Spanish investment services company may have in establishing itself in a non-EU Member State or in conducting its business there.

Law on the write-down and sale of property assets held by the financial sector (Law 8/2012, published in the BOE on October 31st)

This repeals Royal Decree-law 18/2012, May 11th, 2012, on the write-down and sale of property assets held by the financial sector (mentioned in SEFO nº. 1, May 2012) and incorporates the same requirements as established in the aforementioned Royal Decree-law.

Law amending the fiscal and budgetary legislation and adapting financial legislation to intensify measures to prevent and combat fraud (Law 7/2012, published in the BOE on October 30th, 2012)

This Law contains a series of measures aimed at preventing and combating tax fraud. The law includes novel measures designed to have a direct impact on niches of fraud detected as being the source of significant loss of public revenue, combined with other measures aiming to fine-tune the rules ensuring tax credit in order to update them and clarify their correct interpretation to improve legal certainty in the tax system and avoid unnecessary litigation.

It is worth highlighting the measures incorporated in the regulations with a clear vocation in the fight against fraud, which include the possibility of taking precautionary measures linked to alleged cases of offences against the public treasury, and the investigation of the associated assets, limitations on payments in cash, and the putting into place of new obligations to report assets and rights abroad.

The Securities Market Act has also been modified to avoid the potential for tax fraud in transfers of ownership of securities where the intermediation of a company is used as a means of transferring ownership of real-estate.

Spanish economic forecasts panel: September 2012[1]

Funcas Economic Trends and Statistics Department

Growth forecasts for 2012 have improved by a tenth of a point

GDP contracted by 0.4% in the second quarter of 2012, making it the fourth consecutive quarter of negative growth. Compared to the previous quarter, the pace of the fall in domestic demand accelerated, driven by a decline in both investment and consumer spending, while the contribution of the external sector grew.

The indicators available for the third quarter suggest GDP will shrink only slightly more than it did in the second. However, the VAT increase may have induced consumers to bring forward purchases, possibly inflating the figures somewhat, although much of this effect will have been offset in the last month of the quarter, when the VAT increase was in effect.

In any event, even supposing a much sharper drop in the last quarter than in the preceding quarters (which is likely, given that the fiscal adjustment measures are concentrated in the period), it seems clear that the drop in annual GDP will be somewhat less than forecast in previous Panels. Thus, the average or consensus forecast for 2012 has risen by a tenth of a percentage point to -1.6%.

The forecast for 2013 has been cut to -1.5%

On the other hand, the forecast for 2013 has been cut by four tenths of a percent, to -1.5%. This revision is the outcome of a more negative figure for domestic demand, which is now expected to fall by 3.8%, although part of this drop will be offset by the stronger contribution of the external sector.

The quarterly profile that emerges from the consensus figures (Table 2) is that GDP will continue to fall until the second quarter of 2013, then rise slightly in the third and fourth quarter.

Little change in the forecast for industry

The slump in industrial activity moderated in July and August, probably reflecting the fact that consumer purchases were brought forward ahead of the VAT increase. The forecast for this year has been modified upwards slightly, to -4.7%, although that for the coming year has worsened, falling to -2.6%.

The forecast for inflation has risen

Inflation has picked up considerably in the last few months, although this has been a result of a series of external factors rather than an increase in inflationary pressures. These factors include the rising oil price and legislative changes affecting consumer prices –the change in the tax on tobacco products, the new system of payments for medicines, increases in public prices and fees, and the VAT rate increase.

As a result, the new average rate forecasts for 2012 and 2013 have risen to 2.4% and 2.2%, respectively. The forecasts for the year on year

[1] The Spanish Economic Forecasts Panel is a survey run by Funcas, which consults the 19 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 19 individual responses.

rate to December of this year and next have increased to 3.1% and 1.6%, respectively.

The outlook for jobs has deteriorated

According to social security registration figures, the job market continued to contract rapidly over the summer, with the rate of job losses remaining largely unchanged from the preceding quarters. Even if domestic employees are excluded, given the distortion in the series caused by the change in the system they come under, the drop in employment has been intense. The consensus forecast for 2012, despite the upward correction in the expected growth rate, has been revised downwards to a drop of 3.9%. For 2013, in line with the worsening forecast for GDP growth, the estimate has been downgraded by six tenths from the previous consensus figure, to -2.6%.

The estimates for GDP growth, employment and wages yield an implicit consensus forecast for productivity growth and unit labour costs (ULC): Productivity is set to rise by 2.4% this year and 1.1% the next, whereas ULCs are expected to fall by 1.8% and 0.6%, respectively.

The external deficit adjustment will continue

In the first half of 2012 the current account balance decreased by 31.7% compared to the same period the previous year. This reduction was the result of a change in the sign of the total trade balance (goods and services), which returned to surplus, and a reduction in the income and transfers deficit.

The forecast for this variable is -1.8% of GDP this year (a tenth of a point lower than in the July Panel– while the figure for 2013, consistent with the bigger drop envisaged in national demand, has risen (a tenth of a point less negative) to -0.1%.

The deficit targets will be hard to meet

The general government deficit in the second quarter of the year, in national accounts terms, came to 9.7% of GDP, measured as the moving average over four quarters. However, one percentage point of this figure is the result of assuming the financial support to credit institutions. In any event, the result reflects a slight advance on the correction of the deficit in the first half of the year, although it is expected to pick up speed in the second half of the year, as most of the adjustment measures are concentrated in this period.

Panel participants' consensus forecast now points to a budgetary balance of -6.9% of GDP in 2012. This figure refers to the deficit without taking into account the impact of the financial support given to financial institutions. This represents a deterioration of six tenths of a percentage point on the figure given by the previous Panel. The estimate for 2013 has worsened by 1.1 percentage points to -5.1%. In both cases the estimate is over the deficit targets.

The European context is clearly unfavourable

Euro-area GDP shrank by 0.2% in the second quarter, and all the signs suggest that it was also negative in the third. Of the area's largest economies, only Germany managed to avoid recession. The French economy has been stagnant since the end of 2011, and Spain and Italy are mired in recession. The panellists' unanimous verdict on the economic context in the EU is unfavourable, and most believe that it will remain so over the coming months.

As regards the situation outside the EU, the recovery in the United States looks solid, although growth is sluggish. The property market has started to recover, and the trend in employment in September was also very positive. However, there is growing concern that the lack of agreement in Congress on the pace of fiscal adjustment will mean hitting a “fiscal cliff” next year, plunging the economy into recession. The growth rate in emerging economies, particularly China, has slowed significantly. The consensus view remains virtually unchanged: the situation outside the EU is considered neutral and likely to remain so over the months ahead.

No further increases in interest rates on government debt are expected

The downward trend in short term interest rates has accelerated in recent weeks, to the extent that an increasing number of panellists think they are already too low for Spain’s economy, although the majority still consider them appropriate. The majority also believe that they will remain at their current level.

The pressure on Spanish government debt has eased since the President of the ECB announced a programme to buy debt in the secondary market, albeit subject to conditionality. Despite this, there is a growing current of opinion –close to a majority view– that the return on Spanish government debt is too high for the state of the Spanish economy. On the subject of the expected course of rates over the next few months, the vast majority of responses are divided between no change and a drop.

The euro is overvalued

The easing of the sovereign debt crisis since the end of July has encouraged a recovery of the euro, to the extent that there has been an increase in the majority of panellists who consider it overvalued. The majority expect that it will depreciate over the next few months.

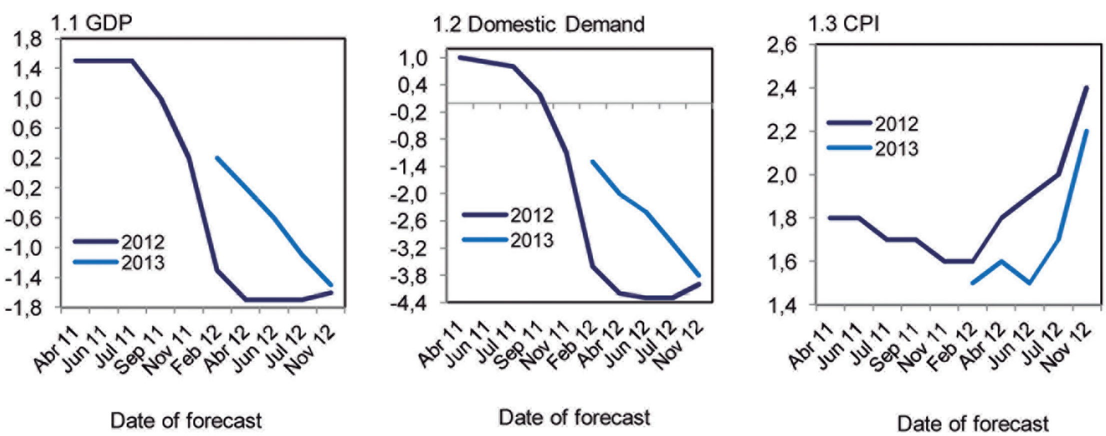
Expansionary monetary policy is warranted

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 overwhelming majority of panellists also consider current monetary policy to be expansionary, and still unanimously believe that this orientation should be maintained.

Exhibit 1

Change in forecasts (Consensus values)

Percentage annual change



Source: Funcas forecasts panel.

Table 1

Economic Forecasts for Spain – September 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)	-1.7	-2.0	-2.2	-2.5	-5.1	-9.0	-5.1	-9.6	-7.8	-3.4	-11.3	-5.2	-4.3	-4.3
Banco Bilbao Vizcaya Argentaria (BBVA)	-1.4	-1.4	-2.0	-2.8	-4.8	-7.9	-9.4	-5.6	-9.1	-4.6	-10.7	-6.7	-4.2	-4.4
Bankia	-1.4	-1.5	-2.3	-2.4	-4.1	-5.9	-9.2	-4.2	-6.7	-3.1	-11.5	-5.5	-4.2	-3.4
CatalunyaCaixa	-1.7	-1.4	-2.4	-3.5	-4.8	-7.2	-9.9	-5.2	-7.1	2.4	-13.5	-9.6	-4.0	-3.8
Cemex	-1.7	-2.0	-2.2	-2.6	-4.5	-4.0	-10.0	-8.5	-8.0	-6.0	-12.5	-11.2	-4.4	-4.0
Centro de Estudios Economía de Madrid (CEEM-URJC)	-1.7	-1.4	-1.9	-2.2	-4.9	-7.6	-9.2	-2.9	-7.5	-2.4	-10.3	-3.2	-4.1	-3.4
Centro de Predicción Económica (CEPREDE-UAM)	-1.6	-1.2	-2.0	-1.3	-4.9	-8.1	-9.3	-4.3	-7.2	-1.7	-11.4	-6.5	-4.3	-3.6
CEOE	-1.6	-1.6	-2.1	-2.1	-5.2	-9.3	-9.7	-4.7	-7.7	-2.0	-11.7	-6.4	-4.1	-3.7
ESADE	-1.5	-1.2	-1.0	-1.1	-6.9	-4.3	-1.3	-1.0	--	--	--	--	-2.2	-1.9
Fundación Cajas de Ahorros (FUNCAS)	-1.5	-1.8	-2.1	-3.2	-3.5	-5.1	-9.6	-9.0	-6.4	-3.5	-12.3	-12.6	-4.0	-4.7
Instituto Complutense de Análisis Económico (ICAE-UCM)	-1.5	-1.4	-1.8	-2.3	-6.8	-6.2	-9.3	-5.2	-6.8	-3.5	-11.1	-6.2	-4.2	-4.0
Instituto de Estudios Económicos (IEE)	-1.8	-1.2	-1.8	-1.3	-4.4	-6.0	-6.8	-4.5	-5.3	-2.5	-8.5	-6.0	-3.4	-3.0
Instituto de Macroeconomía y Finanzas (Universidad CJC)	-1.5	-1.0	-2.3	-1.8	-4.4	-3.5	-10.0	-5.0	-7.9	-3.1	-12.2	-6.4	-4.4	-2.8
Instituto Flores de Lemus (IFL-UC3M)	-1.4	-1.6	-1.5	-1.2	-4.8	-8.1	-9.2	-6.8	-7.0	-5.4	-11.3	-8.5	--	--
Intermoney	-1.6	-2.0	-2.3	-3.8	-3.4	-4.6	-10.7	-12.1	-9.0	-13.8	-12.8	-12.5	-4.3	-5.6
La Caixa	-1.5	-1.5	-1.9	-1.5	-4.4	-8.5	-9.8	-5.6	-8.7	-6.3	-11.4	-5.3	-4.0	-3.7
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	-1.5	-1.4	-2.0	-1.7	-4.0	-7.0	-9.1	-6.5	-6.2	-4.2	-11.2	-7.8	-3.9	-3.7
Solchaga Recio & asociados	-1.7	-1.8	-2.0	-2.1	-5.1	-8.1	-9.2	-6.6	-6.1	-5.8	-11.5	-7.5	-4.3	-4.3
CONSENSUS (AVERAGE)	-1.6	-1.5	-2.0	-2.2	-4.8	-6.9	-8.8	-5.9	-7.5	-3.9	-11.5	-7.4	-4.0	-3.8
Maximum	-1.4	-1.0	-1.0	-1.1	-3.4	-3.5	-1.3	-1.0	-5.3	2.4	-8.5	-3.2	-2.2	-1.9
Minimum	-1.8	-2.0	-2.4	-3.8	-6.9	-9.9	-10.7	-12.1	-9.5	-13.8	-13.5	-12.6	-4.4	-5.6
Change on 2 months earlier[1]	0.1	-0.4	-0.3	-0.7	2.1	-0.4	-0.1	-1.5	-0.3	-1.4	-0.7	-1.6	0.3	-0.7
- Rise[2]	11	1	2	2	15	4	5	2	5	2	4	1	11	4
- Drop[2]	2	10	12	11	1	9	9	13	7	9	9	14	2	10
Change on 6 months earlier[1]	0.1	-1.3	-0.2	-1.5	2.3	-1.8	-0.4	-2.7	-1.5	-3.5	-1.1	-2.7	0.2	-1.8
Memorandum entry:														
Government (July 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[3]	-0,9[3]	-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 (October 2012)	-1.5	-1.3	-2.2	-2.4	-4.1	-5.4	-8.9	-4.1	--	--	--	--	-4.0	-3.3
OECD (May 2012)	-1.6	-0.8	-2.9	-1.8	-7.7	-4.5	-9.3	-2.4	--	--	--	--	-5.3	-2.5

[1] Difference in percentage points between the current month's average and that of two months earlier (or six months earlier).
[2] Number of panelists revising their forecast upwards (or downwards) since two months earlier.
[3] Investment in capital goods.

Table 1 (Continued)

Economic Forecasts for Spain – September 2012

Annual change (percentage) unless stated otherwise

	Exports goods & services		Imports goods & services		Industrial production (IPI)		CPI (annual average)		Labour costs[3]		Employment[4]		Unemp. (LFS) (% labour force)		C/A bal. payments (% of GDP)[5]		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)	1.7	5.6	-6.8	-1.6	--	--	2.4	2.3	--	--	-4.5	-2.4	25.1	26.7	-1.6	0.1	-6.9	-5.1
Banco Bilbao Vizcaya Argentaria (BBVA)	2.6	7.2	-6.5	-2.1	--	--	2.1	1.5	--	--	-4.3	-3.6	24.9	26.0	-1.2	0.7	-6.3	-5.0
Bankia	3.1	3.6	-6.1	-2.7	-3.8	-1.8	2.6	2.5	--	--	-4.2	-3.1	25.0	26.4	-2.2	0.3	--	--
CatalunyaCaixa	2.1	4.7	-6.9	-5.5	--	--	2.5	2.4	--	--	-4.2	-1.8	24.6	26.0	--	--	--	--
Cemex	2.2	5.6	-5.9	0.0	--	--	2.4	2.3	--	--	-4.5	-3.0	24.5	25.5	-0.9	0.5	-7.0	-5.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.0	4.8	-4.8	-1.5	--	--	2.5	2.4	--	--	-3.6	-1.5	24.3	25.2	-1.1	0.0	-6.5	-4.7
Centro de Predicción Económica (CEPREDE-UAM)	2.7	4.2	-5.8	-2.4	-5.1	-3.6	2.4	2.4	1.3	1.3	-4.2	-2.1	24.8	26.2	-1.7	0.8	-7.1	-3.4
CEOE	3.2	5.4	-5.8	-2.5	-5.7	-3.8	2.4	1.8	0.3	1.3	-4.5	-3.2	25.2	26.5	-2.5	-1.0	-6.9	-4.9
Esade	4.0	3.0	1.0	1.0	--	--	1.7	2.5	--	--	-3.0	-2.5	24.0	24.5	-2.0	-2.5	--	--
Fundación Cajas de Ahorros (FUNCAS)	1.7	3.8	-6.5	-5.4	-6.1	-3.7	2.6	2.4	1.0	0.5	-4.3	-3.4	25.0	27.2	-2.1	0.2	-6.9	-5.0
Instituto Complutense de Análisis Económico (ICAE-UCM)	1.5	3.8	-6.3	-2.0	-4.5	-2.0	2.3	2.4	0.0	0.3	-4.0	-2.7	24.8	26.0	-2.0	0.2	-6.3	-5.1
Instituto de Estudios Económicos (IEE)	3.0	4.5	-3.0	-2.0	-2.5	-1.1	2.0	2.1	-0.1	0.2	-2.5	-1.7	24.1	25.3	-2.5	-0.1	-6.3	-5.1
Instit. Macroec.y Finanzas (Univ. CJC)	3.3	4.4	-6.3	-2.3	--	--	2.6	2.5	0.7	--	-4.4	-2.9	25.2	27.3	-1.9	-1.0	-7.3	-6.0
Instituto Flores de Lemus (IFL-UC3M)	1.8	3.3	-6.1	-3.4	-5.0	-4.2	2.4	2.3	--	--	--	--	24.9	26.6	-2.2	-0.7	--	--
Intermoney	1.3	-3.2	-8.0	-14.9	--	--	2.9	1.6	-0.3	-0.9	-4.0	-3.9	24.8	27.2	-2.1	1.7	-7.9	-6.5
La Caixa	2.0	3.8	-6.1	-3.3	-6.5	-3.0	2.5	2.4	1.0	1.0	-4.1	-2.8	24.8	26.3	-2.2	-0.2	-6.3	-4.5
Repsol	0.4	4.8	-7.9	-4.8	-3.1	-0.5	2.0	1.6	0.8	0.6	-2.0	-1.8	24.5	25.0	-1.2	-0.2	-7.0	-4.9
Santander	2.9	3.8	-5.6	-4.0	--	--	2.5	2.7	0.8	0.3	-4.0	-2.3	24.6	25.7	-2.4	-1.3	--	--
Solchaga Recio & asociados	1.7	4.4	-6.9	-4.1	--	--	2.5	2.1	--	--	-4.1	-2.5	24.7	26.3	-1.3	-0.2	-7.5	-5.3
CONSENSUS (AVERAGE)	2.3	4.1	-5.8	-3.3	-4.7	-2.6	2.4	2.2	0.6	0.5	-3.9	-2.6	24.7	26.1	-1.8	-0.1	-6.9	-5.1
Maximum	4.0	7.2	1.0	1.0	-2.5	-0.5	2.9	2.7	1.3	1.3	-2.0	-1.5	25.2	27.3	-0.9	1.7	-6.3	-3.4
Minimum	0.4	-3.2	-8.0	-14.9	-6.5	-4.2	1.7	1.5	-0.3	-0.9	-4.5	-3.9	24.0	24.5	-2.5	-2.5	-7.9	-6.5
Change on 2 months earlier[1]	0.3	-0.8	0.5	-2.0	0.3	-0.5	0.4	0.5	0.7	0.3	-0.3	-0.6	0.3	0.9	-0.1	0.1	-0.6	-1.1
- Up[2]	7	4	10	0	3	2	15	13	5	4	1	1	11	12	3	6	1	0
- Down[2]	8	9	4	13	4	5	0	1	1	1	8	10	0	0	8	6	10	10
Change on 6 months earlier[1]	-0.8	-1.6	-0.1	-3.3	-0.9	-2.1	0.6	0.6	0.2	-0.3	-0.6	-1.2	0.7	1.5	0.0	0.5	-1.1	-1.7
Memorandum entry:																		
Government (July 2012)	1.6	6.0	-6.7	-1.5	--	--	--	--	-1.0	1.5	-3,7[7]	-0,2[7]	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[6]	1,2[6]	-0.8	0.1	-3.0	-0.7	23.4	23.3	-1.4[8]	0.0[8]	-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 (October 2012)	2.4	3.5	-5.7	-2.8	--	--	2.4	2.4	--	--	-4.4	-0.1	24.9	25.1	-2.0	-0.1	-7.0	-5.7
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

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

Table 2

Quarterly Forecasts - September 2012[1]

Quarter-on-quarter change (percentage)

	12-Q1	12-Q2	12-Q3	12-Q4	13-Q1	13-Q2	13-Q3	13-Q4
GDP[2]	-0.3	-0.4	-0.7	-1.0	-0.5	-0.1	0.1	0.3
Household consumption[2]	0.3	-1.0	-0.7	-1.2	-0.5	-0.4	-0.1	0.1

[1] *Average forecasts of private institutions listed in Table 1.*

[2] *According to series corrected for seasonality and labour calendar.*

Table 3

CPI Forecasts – September 2012[1]

Monthly change (%)				Year-on-year change (%)	
Sep-12	Oct-12	Nov-12	Dec-12	Dec-12	Dec-13
1.0	1.1	0.7	0.5	3.1	1.6

[1] *Average forecasts by private institutions listed in Table 1.*

Table 4

Opinions – September 2012

Number of responses

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

[1] *In relation to the current state of the Spanish economy.*

[2] *Three-month Euribor.*

[3] *Yield on Spanish 10-year govermment debt.*

[4] *Relative to theoretical equilibrium rate.*

KEY FACTS: ECONOMIC INDICATORS

Table 1

National accounts: GDP and main expenditure components SWDA*

Forecasts in blue

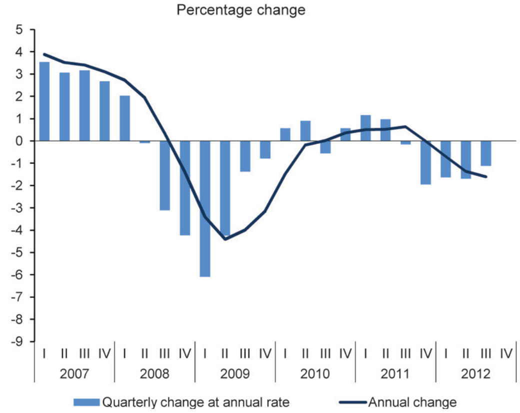
	GDP	Private consumption	Public consumption	Gross fixed capital formation					Exports	Imports	Domestic Demand (a)	Net exports (a)
					Construction							
				Total	Total	Housing	Other constructions	Equipment & others products				
Chain-linked volumes, annual percentage changes												
2006	4.1	4.0	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	-1.4	-1.8	-4.0	-9.0	-11.6	-7.3	-15.5	-4.1	3.2	-4.7	-3.8	2.4
2013	-1.6	-3.3	-4.9	-7.9	-11.1	-6.3	-15.6	-2.9	4.5	-4.5	-4.5	2.9
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	-0.7	-1.3	-3.7	-7.5	-9.4	-6.6	-12.0	-3.8	2.4	-5.8	-3.1	2.4
II	-1.4	-2.1	-2.9	-9.2	-11.5	-7.3	-15.3	-5.0	2.9	-5.1	-3.8	2.4
III	-1.6	-1.9	-3.9	-9.9	-12.6	-8.0	-16.7	-5.0	4.3	-3.5	-4.0	2.4
IV	-1.9	-2.1	-5.4	-9.4	-13.2	-7.3	-18.5	-2.6	3.2	-4.4	-4.4	2.5
2013 I	-1.9	-3.6	-4.9	-9.1	-12.7	-7.2	-17.7	-2.9	6.3	-4.1	-5.2	3.3
II	-1.9	-3.5	-5.8	-8.0	-11.5	-6.3	-16.3	-2.1	5.6	-4.0	-5.0	3.1
III	-1.7	-3.4	-4.6	-8.1	-10.9	-6.1	-15.4	-3.8	1.9	-6.8	-4.7	3.0
IV	-0.9	-2.5	-4.3	-6.5	-9.2	-5.6	-12.5	-2.6	4.4	-3.1	-3.5	2.6
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	-1.6	2.1	-3.9	-9.7	-13.6	-7.1	-19.1	-2.5	-8.8	-7.2	-1.3	-0.3
II	-1.7	-3.7	-2.2	-11.6	-14.6	-9.4	-19.3	-6.2	7.0	-5.0	-5.3	3.6
III	-1.1	-2.0	-9.1	-5.5	-10.9	-6.3	-15.1	4.1	20.8	10.0	-4.3	3.2
IV	-3.1	-4.7	-6.2	-10.7	-13.8	-6.6	-20.5	-5.5	-3.9	-14.0	-6.2	3.0
2013 I	-1.8	-4.1	-2.0	-8.3	-11.5	-6.4	-15.7	-3.7	2.9	-5.8	-4.7	2.9
II	-1.4	-3.2	-5.6	-7.3	-9.9	-6.0	-13.6	-3.3	4.0	-4.6	-4.4	3.0
III	-0.6	-1.7	-4.6	-6.2	-8.5	-5.4	-11.6	-2.8	5.1	-2.5	-3.1	2.6
IV	0.3	-1.0	-4.8	-4.4	-6.9	-4.7	-9.1	-0.6	5.6	0.5	-2.1	2.4
	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	132.7	-6.4
2007	1053.2	57.4	18.3	30.7	21.9	12.2	9.7	8.8	26.9	33.6	133.6	-6.7
2008	1087.8	57.2	19.5	28.7	20.2	10.8	9.4	8.4	26.5	32.3	132.3	-5.8
2009	1048.1	56.5	21.3	23.6	16.8	8.1	8.7	6.8	23.9	25.8	125.8	-1.9
2010	1048.9	58.0	21.4	22.3	15.1	7.1	8.0	7.2	27.2	29.4	129.4	-2.2
2011	1063.4	58.3	20.9	21.1	13.6	6.4	7.2	7.4	30.3	31.1	131.1	-0.8
2012	1052.9	59.4	20.0	19.1	11.8	5.7	6.1	7.3	32.2	31.2	131.2	1.0
2013	1046.6	59.0	18.9	17.5	10.2	5.1	5.1	7.3	34.4	30.3	130.3	2.0

**Seasonally and Working Day Adjusted.*

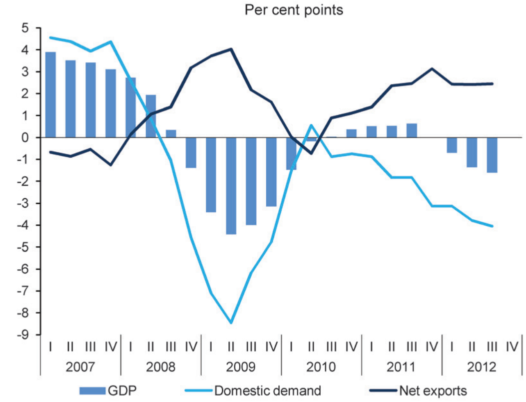
(a) Contribution to GDP growth.

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

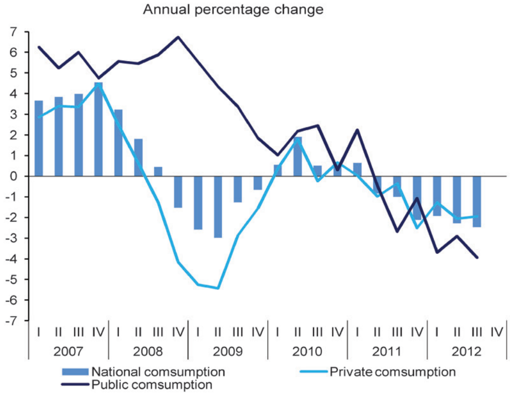
1.1 - GDP
Percentage change



1.2 - Contribution to GDP growth
Per cent points



1.3 - Final consumption
Annual percentage change



1.4 - Gross fixed capital formation
Annual percentage change

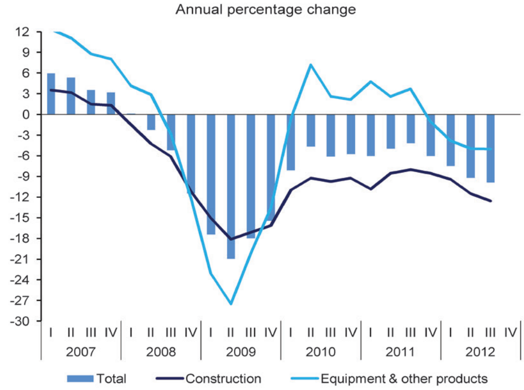


Table 2

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

Forecasts in blue

	Gross value added at basic prices												Taxes less subsidies on products
					Services								
	Total	Agriculture, foresty and fishing	Manufacturing, energy and utilities	Construction	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	-1.4	2.3	-2.9	-9.0	-0.1	-0.8	0.9	0.6	2.2	0.1	-0.6	-0.7	-1.0
2013	-1.4	1.0	-0.8	-9.6	-0.6	-0.4	0.9	-2.5	2.4	0.4	-2.2	-2.6	-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	-0.7	2.8	-3.4	-7.5	0.8	0.2	1.8	3.0	2.1	0.5	0.5	1.3	-0.6
II	-1.4	2.5	-3.3	-7.2	-0.3	-1.3	0.8	2.1	1.7	-1.6	0.0	-1.0	-0.5
III	-1.7	2.6	-3.0	-9.6	-0.5	-1.0	0.8	-0.2	2.1	0.5	-1.5	-0.9	-0.2
IV	-1.8	1.2	-1.9	-11.7	-0.5	-0.9	0.2	-2.3	2.8	1.2	-1.4	-2.3	-2.7
2013 I	-1.7	0.8	-1.9	-11.1	-0.5	-1.3	0.0	-3.0	3.1	0.8	-0.4	-3.2	-4.6
II	-1.6	1.4	-1.5	-10.8	-0.6	-0.5	0.9	-2.5	2.7	2.3	-2.9	-1.6	-4.5
III	-1.5	0.8	-0.3	-9.2	-1.0	-0.3	1.8	-2.4	1.9	-1.1	-2.8	-3.6	-3.8
IV	-0.8	1.0	0.5	-7.2	-0.4	0.6	0.9	-2.3	1.8	-0.2	-2.5	-1.9	-1.3
	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	-2.4	2.7	-0.7	-12.0	-1.5	3.3	0.1	-0.5	0.5	-0.5	-9.4	-0.5	7.1
II	-1.6	-1.4	-1.5	-9.1	-0.6	-4.3	-2.3	-4.3	3.3	-6.7	8.8	-8.8	-2.3
III	-0.8	3.2	-4.0	-12.8	1.4	-0.2	-4.6	-2.5	5.2	15.3	-1.8	6.9	-4.2
IV	-2.5	0.4	-1.5	-12.8	-1.4	-2.3	8.0	-2.0	2.3	-2.1	-2.5	-6.0	-10.5
2013 I	-1.8	1.0	-0.7	-9.5	-1.3	1.7	-0.5	-3.0	1.5	-1.8	-5.5	-4.1	-1.2
II	-1.3	1.0	0.0	-7.9	-0.9	-1.0	1.0	-2.5	1.8	-1.0	-1.7	-2.7	-1.9
III	-0.5	1.0	1.0	-6.5	-0.2	0.4	-1.0	-2.0	2.0	0.5	-1.5	-1.4	-1.3
IV	0.4	1.0	1.5	-4.9	0.7	1.3	4.2	-1.5	2.0	1.5	-1.2	0.8	-0.8
	Current prices (EUR billions)	**Percentage of value added at basic prices**											
2006	812.5	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	876.6	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	946.0	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	997.0	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	973.4	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	957.8	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	976.3	2.6	16.9	9.1	71.5	25.0	4.2	4.5	8.1	7.7	18.3	3.7	9.1
2013	964.6	2.7	17.1	8.2	72.0	25.3	4.3	4.6	8.5	7.9	17.8	3.6	10.2

**Seasonally and Working Day Adjusted.*
Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 1.1 - GVA by sectors
Annual percentage change

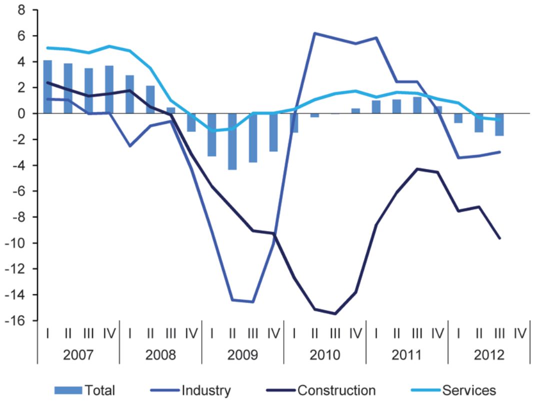


Chart 1.2 - GVA, services (I)
Annual percentage change

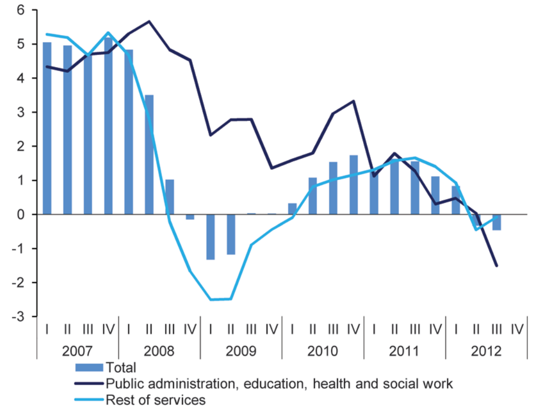


Chart 1.3 - GVA, services (II)
Annual percentage change

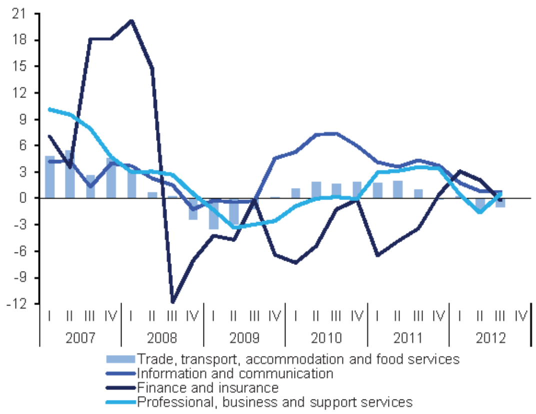


Chart 1.4 - GVA, structure by sectors
Percentage of value added at basic prices

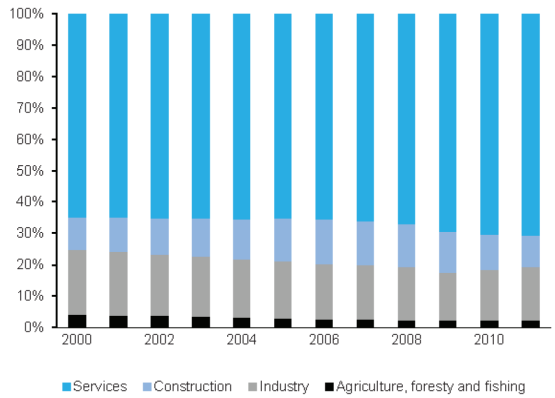


Table 3a

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
	Indexes, 2000 = 100, SWDA											
2005	117.4	115.5	101.7	117.9	115.9	94.3	105.5	95.7	110.1	122.3	111.0	96.2
2006	122.2	119.5	102.2	122.4	119.7	93.5	107.4	93.4	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	121.2	105.6	114.8	144.3	125.7	91.1	93.0	--	--	--	--	--
2013	119.3	102.2	116.7	145.0	124.3	89.2	92.0	--	--	--	--	--
2010 I	122.2	112.7	108.5	142.6	131.4	96.9	94.0	74.4	126.3	152.1	120.4	94.1
II	122.5	112.3	109.1	144.0	132.0	97.3	97.4	74.3	131.2	152.9	116.5	90.6
III	122.3	112.1	109.1	142.8	130.8	96.1	100.2	73.6	136.1	152.1	111.8	88.1
IV	122.5	111.8	109.6	143.0	130.4	95.4	98.3	74.0	132.8	153.6	115.7	86.3
2011 I	122.9	111.1	110.6	143.4	129.7	94.7	98.9	73.5	134.6	150.5	111.8	84.1
II	123.2	111.3	110.7	144.0	130.2	94.8	103.4	73.9	139.8	151.7	108.5	81.8
III	123.1	110.3	111.6	143.7	128.8	93.8	102.8	73.6	139.7	152.2	108.9	82.7
IV	122.5	108.6	112.8	145.0	128.5	93.3	100.9	72.4	139.4	154.0	110.5	80.1
2012 I	122.0	107.0	114.0	145.5	127.6	92.8	98.9	70.1	141.2	154.4	109.4	80.9
II	121.5	106.1	114.5	144.2	125.9	91.6	98.7	69.2	142.6	155.4	109.0	81.2
III	121.1	105.2	115.1	143.8	124.9	90.5	98.0	69.0	142.1	155.5	109.5	83.0
	Annual percentage changes											
2006	4.1	3.5	0.6	3.9	3.3	-0.8	1.8	-2.4	4.4	6.8	2.3	-1.1
2007	3.5	3.0	0.5	4.7	4.2	0.9	0.3	-2.5	2.9	7.2	4.2	0.6
2008	0.9	-0.2	1.1	6.9	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	-1.4	-4.3	3.0	0.1	-2.8	-3.2	-3.8	-5.8	--	--	--	--
2013	-1.6	-3.2	1.6	0.5	-1.1	-2.1	-1.0	-4.2	--	--	--	--
2010 I	-1.5	-4.1	2.7	1.4	-1.3	-1.2	-11.1	-8.5	8.1	1.8	-7.1	-33.3
II	-0.2	-2.8	2.7	0.8	-1.9	-1.9	-1.1	-4.9	11.7	1.6	-11.0	-38.2
III	0.0	-1.9	2.0	-0.4	-2.3	-3.0	6.2	-2.8	8.6	1.1	-13.0	-36.9
IV	0.4	-1.4	1.7	-0.7	-2.4	-3.3	5.6	-1.3	6.6	0.6	-9.6	-38.2
2011 I	0.5	-1.4	1.9	0.6	-1.3	-2.3	5.2	-1.3	7.5	-1.1	-7.2	-10.6
II	0.5	-0.9	1.5	0.1	-1.4	-2.5	6.1	-0.5	3.1	-0.8	-6.9	-9.8
III	0.6	-1.6	2.3	0.7	-1.6	-2.4	2.7	0.0	2.7	0.0	-2.5	-6.1
IV	0.0	-2.9	2.9	1.4	-1.5	-2.2	2.7	-2.2	2.3	0.3	-4.5	-7.2
2012 I	-0.7	-3.7	3.1	1.4	-1.7	-2.0	0.1	-4.0	-0.5	2.4	-2.1	-3.8
II	-1.4	-4.7	3.5	0.1	-3.3	-3.4	-4.5	-6.4	1.9	2.1	0.4	-0.7
III	-1.6	-4.6	3.1	0.0	-3.0	-3.5	-4.7	-6.4	1.9	2.1	0.5	0.4

(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

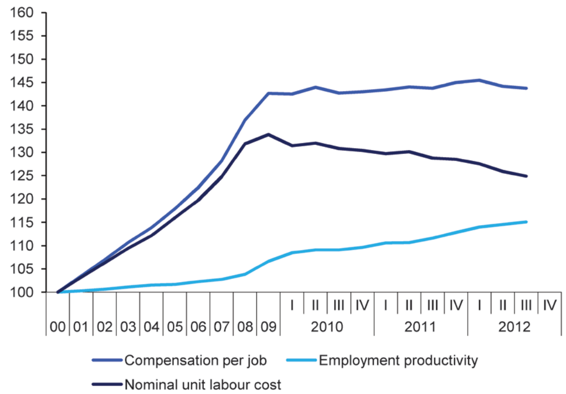
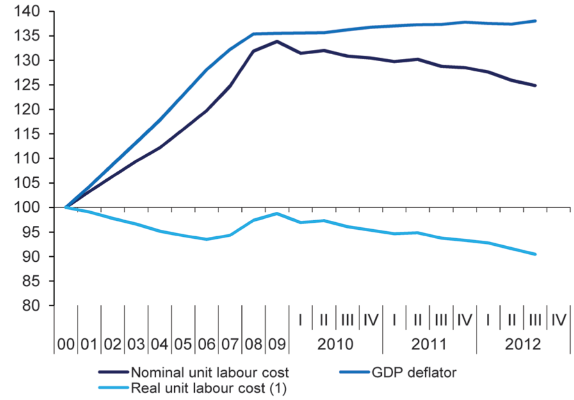


Chart 1.2.- Real ULC, total economy
Index, 2000=100



(1) Nominal ULC deflated by GDP deflator.

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

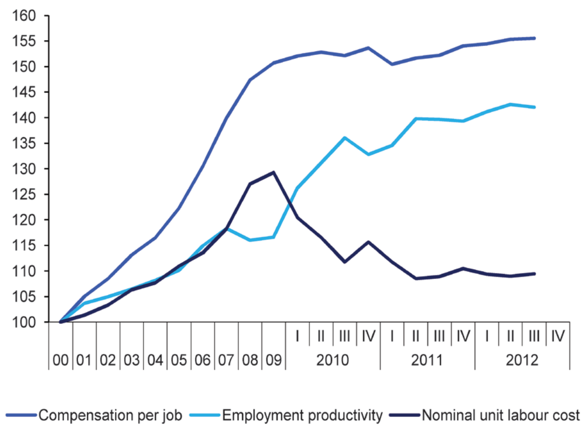
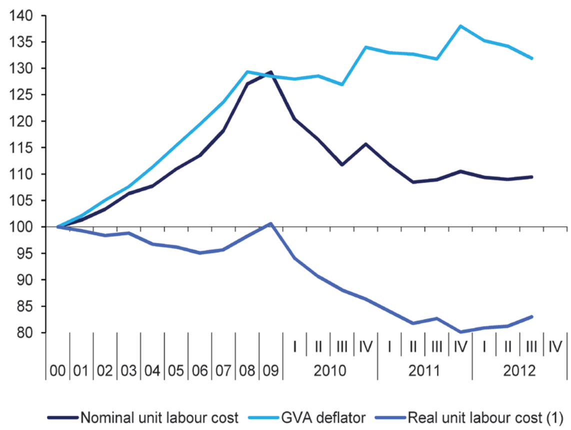


Chart 2.2.- Real ULC, manufacturing industry
Index, 2000=100



(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
Indexes, 2000 = 100, SWDA												
2005	131.6	130.2	101.1	126.0	124.7	87.2	118.7	120.6	98.4	115.5	117.4	97.1
2006	138.2	138.2	100.0	132.1	132.1	86.2	124.2	126.6	98.1	118.9	121.3	96.9
2007	140.6	145.5	96.6	135.2	139.9	88.1	130.4	131.7	99.0	124.4	125.7	96.6
2008	140.3	128.5	109.1	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	94.9	60.1	158.0	--	--	--	135.8	127.1	106.8	--	--	--
2013	85.8	51.2	167.6	--	--	--	134.9	124.0	108.8	--	--	--
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	99.1	63.3	156.5	185.6	118.6	74.3	135.8	128.4	105.7	138.3	130.8	94.1
II	96.8	62.1	155.8	184.8	118.6	75.2	135.6	127.5	106.3	136.7	128.6	93.3
III	93.5	58.7	159.2	184.0	115.6	74.6	136.1	126.8	107.3	136.3	127.0	91.8
Annual percentage changes												
2006	5.0	6.1	-1.0	4.8	5.9	-1.2	4.6	5.0	-0.4	2.9	3.3	-0.2
2007	1.8	5.3	-3.4	2.4	6.0	2.2	5.0	4.0	0.9	4.6	3.7	-0.3
2008	-0.2	-11.7	12.9	12.6	-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	-9.0	-20.2	13.1	--	--	--	-0.1	-2.6	2.6	--	--	--
2013	-9.6	-14.1	6.1	--	--	--	-0.6	-2.4	1.9	--	--	--
2010 I	-29.8	-16.2	-16.2	2.9	22.8	-18.9	36.7	-1.8	39.3	1.4	-27.2	-47.6
II	-32.2	-11.8	-23.1	1.1	31.5	-10.0	37.5	-1.4	39.5	0.8	-27.8	-46.8
III	-32.3	-10.6	-24.3	0.2	32.3	-9.4	38.4	-1.0	39.8	-0.4	-28.8	-48.3
IV	-31.3	-11.5	-22.3	0.2	28.9	-12.3	38.5	-0.5	39.2	-0.8	-28.7	-48.1
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	-7.5	-21.1	17.2	3.7	-11.6	-10.4	0.8	-1.8	2.6	1.0	-1.6	-2.5
II	-7.2	-19.4	15.2	3.9	-9.8	-7.8	-0.3	-3.0	2.8	-0.6	-3.3	-4.4
III	-9.6	-19.6	12.4	3.0	-8.4	-4.9	-0.5	-3.0	2.6	-0.5	-3.1	-3.9

(a) Nominal ULC deflated by GVA deflator.

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

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

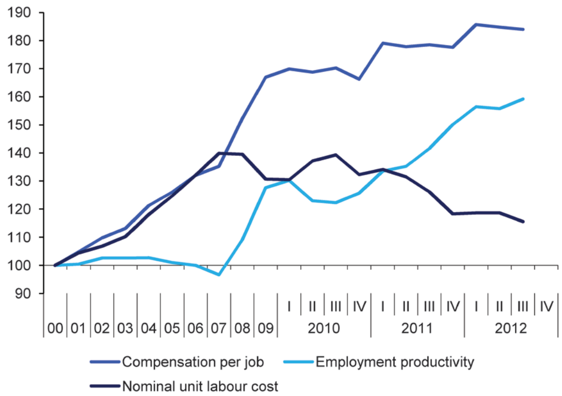
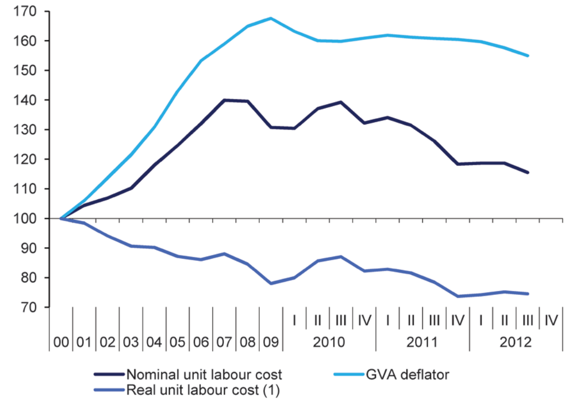


Chart 1.2.- Real ULC, construction
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

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

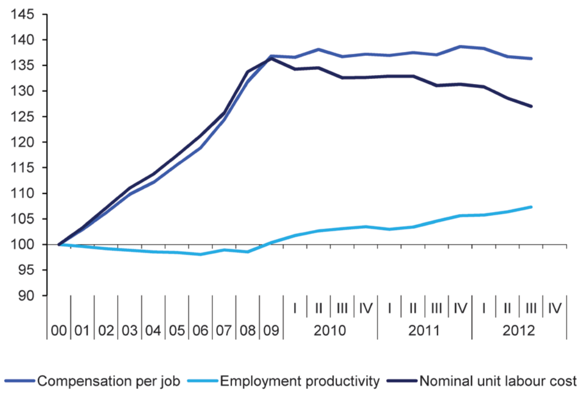
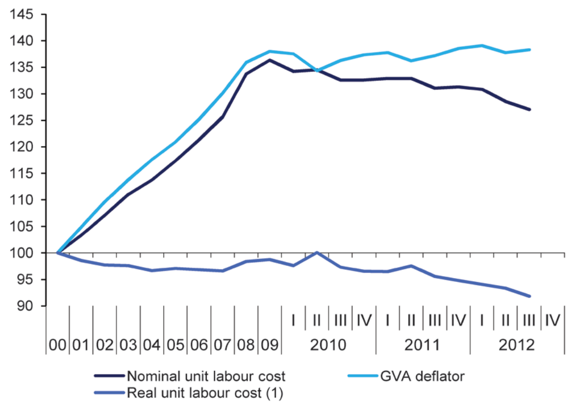


Chart 2.2.- Real ULC, services
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

Table 4

National accounts: National income, distribution and disposition

Forecasts in blue

	Goods domestic product	Compen-sation of employees	Gross opera-ting surplus	Taxes on production and imports less subsi-dies	Income payments to the rest of the world, net	Gross national product	Current transfers to the rest of the world, net	Gross natio-nal income	Final national consuption	Gross national saving (1)	Compen-sation of employees	Gross operating surplus	Taxes on production and imports less subsidies
	1=2+3+4	2	3	4	5	6=1+5	7	8=6+7	9	10=8-9	11	12=7=10-11	13
	EUR millions, 4-quarter cumulated transactions										**Percentage of GDP**		
2005	909.3	432.0	376.5	100.7	-15.7	893.6	-4.1	889.4	688.6	200.8	47.5	41.4	11.1
2006	985.5	466.1	408.4	111.1	-18.8	966.8	-7.4	959.3	743.3	216.1	47.3	41.4	11.3
2007	1053.2	504.1	441.2	107.8	-27.4	1025.7	-7.0	1018.7	797.7	221.0	47.9	41.9	10.2
2008	1087.8	537.6	458.1	92.0	-31.8	1056.0	-9.2	1046.8	834.4	212.4	49.4	42.1	8.5
2009	1048.1	524.6	446.4	77.1	-23.1	1025.0	-7.3	1017.7	816.0	201.7	50.1	42.6	7.4
2010	1048.9	512.8	441.9	94.2	-17.2	1031.7	-5.9	1025.9	832.6	193.2	48.9	42.1	9.0
2011	1063.4	508.6	464.2	90.5	-24.1	1039.3	-6.9	1032.4	842.7	189.7	47.8	43.7	8.5
2012	1052.9	484.0	477.2	91.7	-25.6	1027.3	-7.6	1019.8	835.8	184.0	46.0	45.3	8.7
2013	1046.6	467.3	479.1	100.3	-33.2	1013.4	-7.6	1005.8	815.1	190.7	44.6	45.8	9.6
2010 I	1044.0	520.9	445.2	77.9	-17.3	1026.6	42.0	1068.6	818.6	250.1	49.9	42.6	7.5
II	1043.7	518.2	440.9	84.5	-16.9	1026.8	43.1	1069.9	824.2	245.7	49.7	42.2	8.1
III	1045.4	515.6	437.8	92.0	-17.6	1027.9	44.1	1072.0	827.7	244.3	49.3	41.9	8.8
IV	1048.9	512.8	441.9	94.2	-17.2	1031.7	44.9	1076.7	832.6	244.1	48.9	42.1	9.0
2011 I	1053.0	512.1	446.4	94.5	-18.9	1034.1	45.9	1080.0	838.6	241.4	48.6	42.4	9.0
II	1057.5	511.2	453.1	93.2	-18.7	1038.8	46.4	1085.2	841.3	243.9	48.3	42.8	8.8
III	1061.4	510.2	459.1	92.0	-22.0	1039.4	46.8	1086.2	843.1	243.0	48.1	43.3	8.7
IV	1063.4	508.6	464.2	90.5	-24.1	1039.3	46.4	1085.7	842.7	243.0	47.8	43.7	8.5
2012 I	1062.4	505.1	467.6	89.7	-24.8	1037.7	46.2	1083.8	842.4	241.5	47.5	44.0	8.4
II	1059.1	498.5	472.1	88.4	-23.9	1035.2	45.8	1081.0	841.1	240.0	47.1	44.6	8.4
III	1056.2	491.6	475.3	89.3	-21.0	1035.1	45.3	1080.4	839.9	240.6	46.5	45.0	8.5
	Annual percentage changes										**Difference from one year ago**		
2005	8.1	7.5	7.3	14.2	4.9	8.1	373.2	7.8	8.1	6.5	-0.3	-0.3	0.6
2006	8.4	7.9	8.5	10.3	19.3	8.2	80.0	7.9	7.9	7.6	-0.2	0.0	0.2
2007	6.9	8.2	8.0	-2.9	46.0	6.1	-5.8	6.2	7.3	2.3	0.6	0.5	-1.0
2008	3.3	6.6	3.8	-14.7	15.8	3.0	32.0	2.8	4.6	-3.9	1.6	0.2	-1.8
2009	-3.7	-2.4	-2.6	-16.2	-27.4	-2.9	-21.3	-2.8	-2.2	-5.0	0.6	0.5	-1.1
2010	0.1	-2.3	-1.0	22.2	-25.6	0.7	-19.1	0.8	2.0	-4.2	-1.2	-0.5	1.6
2011	1.4	-0.8	5.0	-3.9	40.2	0.7	17.0	0.6	1.2	-1.8	-1.1	1.5	-0.5
2012	-1.0	-4.8	2.8	1.3	6.4	-1.2	10.0	-1.2	-0.8	-3.0	-1.9	1.7	0.2
2013	-0.6	-3.5	0.4	9.3	29.9	-1.4	0.0	-1.4	-2.5	3.6	-1.3	0.5	0.9
2010 I	-3.4	-2.6	-2.8	-11.5	-49.9	-1.9	-15.4	-2.5	-1.4	-6.0	0.4	0.3	-0.7
II	-2.4	-2.5	-2.8	0.6	-47.2	-1.0	-6.1	-1.2	0.2	-5.7	-0.1	-0.2	0.2
III	-1.1	-2.2	-3.0	17.4	-36.5	-0.2	1.4	-0.1	1.2	-4.2	-0.6	-0.8	1.4
IV	0.1	-2.3	-1.0	22.2	-25.6	0.7	6.1	0.9	2.0	-2.9	-1.2	-0.5	1.6
2011 I	0.9	-1.7	0.3	21.4	9.0	0.7	9.3	1.1	2.4	-3.5	-1.3	-0.2	1.5
II	1.3	-1.4	2.8	10.2	10.7	1.2	7.7	1.4	2.1	-0.7	-1.3	0.6	0.7
III	1.5	-1.0	4.9	0.0	25.1	1.1	6.1	1.3	1.9	-0.5	-1.2	1.4	-0.1
IV	1.4	-0.8	5.0	-3.9	40.2	0.7	3.3	0.8	1.2	-0.4	-1.1	1.5	-0.5
2012 I	0.9	-1.4	4.7	-5.1	31.1	0.3	0.6	0.4	0.4	0.0	-1.1	1.6	-0.5
II	0.2	-2.5	4.2	-5.1	27.5	-0.3	-1.3	-0.4	0.0	-1.6	-1.3	1.7	-0.5
III	-0.5	-3.7	3.5	-3.0	-4.3	-0.4	-3.1	-0.5	-0.4	-1.0	-1.5	1.7	-0.2

(1) Including change in net equity in pension funds reserves.

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

Chart 1.- National Income (I)

Annual percentage change

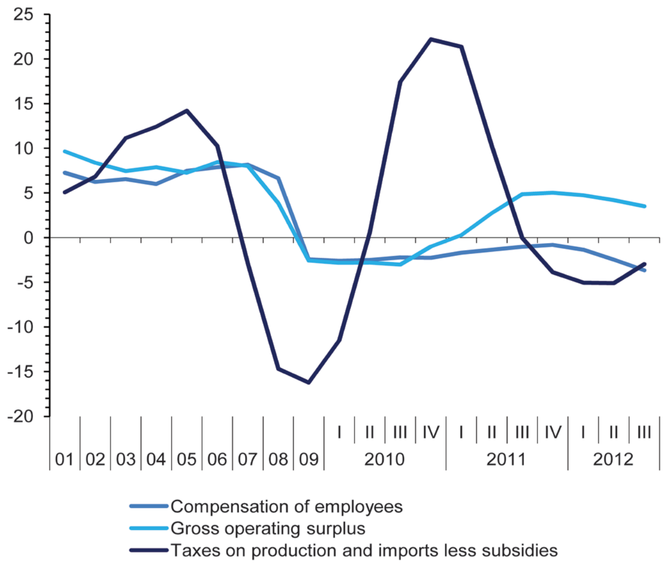


Chart 2.- National Income (II)

Percentage of GDP, 4-quarter moving averages

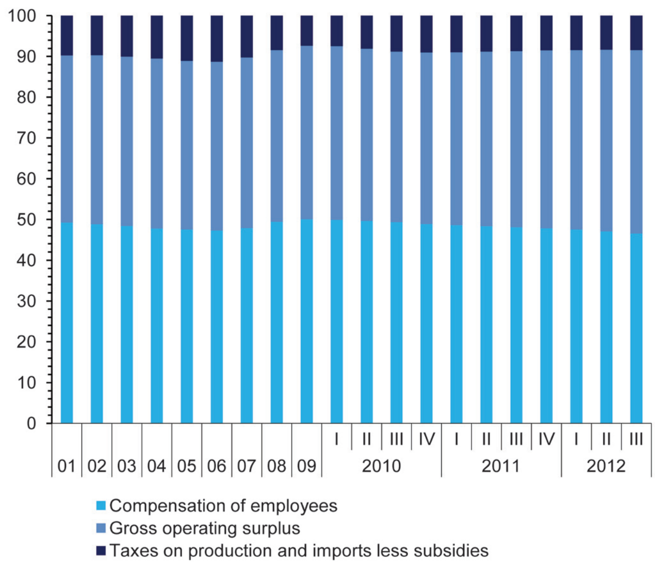


Table 5

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 acount deficit
	1=2+3+4	2	3	4	5	6	7=1+5+6	8	9=7+8	10	11	12=7=10-11
EUR Billions, 4-quarter cumulated transactions												
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	11.1	-25.0	34.2	2.0	-25.6	-7.6	-22.0	4.4	-17.6	184.0	206.0	-22.0
2013	43.3	-1.5	37.3	7.5	-33.2	-7.6	2.5	4.0	6.5	190.7	188.2	2.5
2010 I	-20.2	-41.9	28.3	-6.6	-17.3	-7.6	-45.1	5.0	-40.2	200.4	245.6	-45.1
II	-23.9	-45.9	28.3	-6.4	-16.9	-6.7	-47.5	5.6	-41.9	195.9	243.4	-47.5
III	-23.3	-47.0	28.8	-5.2	-17.6	-7.6	-48.4	6.6	-41.8	192.7	241.1	-48.4
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	-22.7	-48.8	30.0	-4.0	-18.9	-7.9	-49.5	6.2	-43.3	187.6	237.1	-49.5
II	-18.7	-46.6	31.2	-3.3	-18.7	-7.9	-45.4	6.5	-38.9	189.5	234.9	-45.4
III	-14.4	-43.6	32.1	-2.9	-22.0	-8.3	-44.7	5.8	-38.9	188.0	232.7	-44.7
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	-4.6	-37.6	33.1	-0.1	-24.8	-7.3	-36.7	4.6	-32.1	187.9	224.7	-36.7
II	-0.9	-34.2	33.0	0.3	-23.9	-7.4	-32.1	4.9	-27.2	186.8	218.9	-32.1
III	4.0	-30.8	33.4	1.4	-21.0	-6.2	-23.2	5.4	-17.8	189.1	212.3	-23.2
Percentage of GDP, 4-quarter cumulated transactions												
2005	-5.3	-7.5	3.2	-1.0	-1.7	-0.5	-7.5	0.9	-6.5	22.1	29.5	-7.5
2006	-6.4	-8.4	3.0	-1.0	-1.9	-0.8	-9.0	0.6	-8.4	21.9	30.9	-9.0
2007	-6.7	-8.6	2.9	-1.0	-2.6	-0.7	-10.0	0.4	-9.6	21.0	31.0	-10.0
2008	-5.8	-7.8	2.8	-0.8	-2.9	-0.8	-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	1.1	-2.4	3.2	0.2	-2.4	-0.7	-2.1	0.4	-1.7	17.5	19.6	-2.1
2013	4.2	-0.1	3.6	0.7	-3.2	-0.7	0.2	0.4	0.6	18.3	18.1	0.2
2010 I	-1.9	-4.0	2.7	-0.6	-1.7	-0.7	-4.3	0.5	-3.8	19.2	23.5	-4.3
II	-2.3	-4.4	2.7	-0.6	-1.6	-0.6	-4.5	0.5	-4.0	18.7	23.3	-4.5
III	-2.2	-4.5	2.8	-0.5	-1.7	-0.7	-4.6	0.6	-4.0	18.4	23.0	-4.6
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	-2.2	-4.6	2.9	-0.4	-1.8	-0.7	-4.7	0.6	-4.1	17.8	22.5	-4.7
II	-1.8	-4.4	3.0	-0.3	-1.8	-0.8	-4.3	0.6	-3.7	17.9	22.2	-4.3
III	-1.4	-4.1	3.0	-0.3	-2.1	-0.8	-4.2	0.5	-3.7	17.7	21.9	-4.2
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	-0.4	-3.5	3.1	0.0	-2.3	-0.7	-3.5	0.4	-3.0	17.7	21.2	-3.5
II	-0.1	-3.2	3.1	0.0	-2.3	-0.7	-3.0	0.5	-2.6	17.7	20.7	-3.0
III	0.4	-2.9	3.2	0.1	-2.0	-0.6	-2.2	0.5	-1.7	17.9	20.1	-2.2

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

Chart 1.- Net lending or borrowing
Percentage of GDP, 4-quarter moving averages

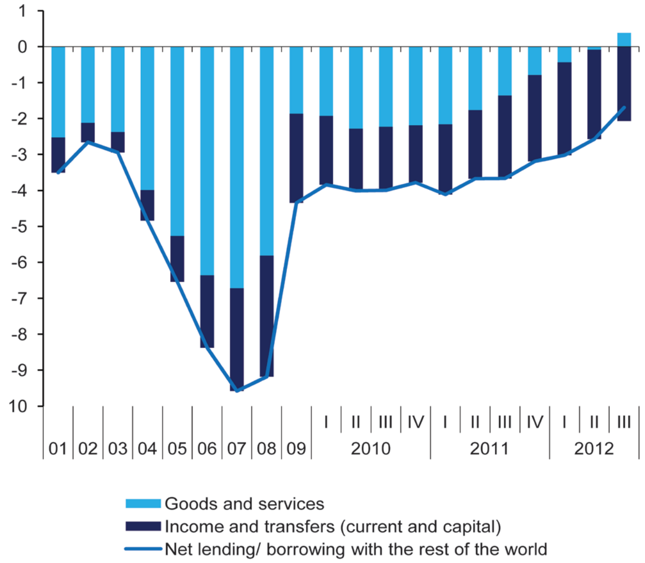


Chart 2.- Saving, investment and current account deficit
Percentage of GDP, 4-quarter moving averages

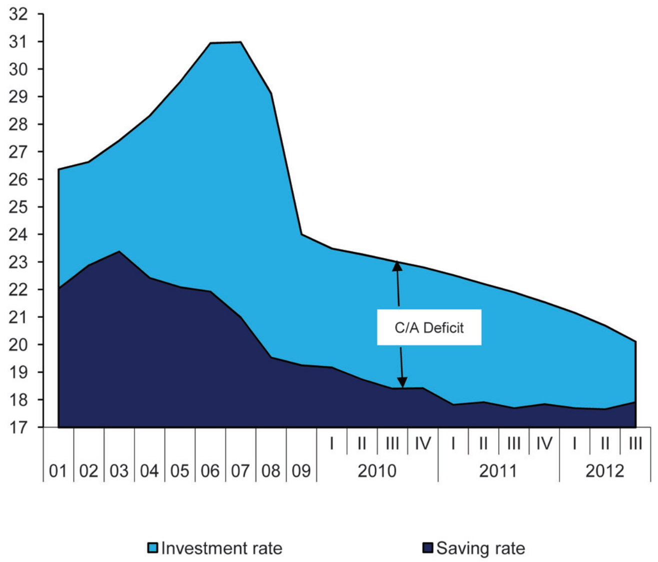


Table 6

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	64.0	10.9	6.9	86.5	-15.6	-1.7
2006	629.8	465.8	245.1	182.6	189.6	74.2	566.2	65.4	10.4	6.9	97.4	-25.0	-2.6
2007	671.2	503.9	262.7	197.3	206.3	86.5	604.7	73.5	10.9	3.5	101.5	-24.5	-2.7
2008	717.0	537.6	264.1	217.0	216.9	84.7	622.4	103.4	14.4	5.4	91.1	17.7	1.2
2009	720.9	524.5	248.0	233.8	209.3	76.1	592.4	128.7	17.9	5.8	65.4	69.1	6.6
2010	700.1	512.7	235.4	238.7	207.2	79.5	608.1	91.6	13.1	7.2	58.4	40.4	3.9
2011	696.6	508.5	235.5	241.0	207.1	81.3	620.0	76.9	11.0	4.9	55.6	26.1	2.4
2012	684.5	489.0	239.9	246.1	205.2	85.3	623.9	60.8	8.9	3.9	50.5	14.2	1.3
2013	673.7	472.8	242.2	248.7	202.7	87.2	617.3	56.6	8.4	3.5	46.1	14.0	1.3
2010 I	716.8	520.8	245.3	234.8	207.7	76.4	595.5	121.4	16.9	6.0	63.0	64.4	6.2
II	709.3	518.2	240.4	235.6	207.2	77.7	601.3	108.1	15.2	5.8	61.7	52.2	5.0
III	703.0	515.8	236.3	236.4	206.6	78.8	603.1	99.8	14.2	6.1	60.4	45.5	4.4
IV	700.1	512.7	235.4	238.7	207.2	79.5	608.1	91.6	13.1	7.2	58.4	40.4	3.9
2011 I	698.9	511.9	234.8	239.4	207.7	79.6	612.7	85.7	12.3	7.1	57.1	35.7	3.4
II	697.5	511.2	235.1	240.1	208.3	80.6	616.1	80.2	11.5	7.5	56.1	31.6	3.0
III	698.1	510.0	236.1	240.9	207.8	81.2	619.1	77.6	11.1	7.6	56.1	29.1	2.8
IV	696.6	508.5	235.5	241.0	207.1	81.3	620.0	76.9	11.0	4.9	55.6	26.1	2.4
2012 I	694.5	505.3	235.5	242.0	206.0	82.3	622.4	72.3	10.4	5.0	54.6	22.8	2.1
II	688.8	500.2	233.8	241.8	204.4	82.6	622.6	66.6	9.7	5.1	52.2	19.4	1.8
Annual percentage changes, 4-quarter cumulated operations									**Difference from one year ago**	**Annual percentage changes, 4-quarter cumulated operations**			**Difference from one year ago**
2005	7.7	7.5	9.5	6.9	7.2	11.3	7.8	6.0	-0.2	-9.9	13.4	--	-0.7
2006	7.0	7.9	9.4	6.0	8.0	16.1	7.8	2.2	-0.5	0.2	12.5	--	-0.9
2007	6.6	8.2	7.2	8.1	8.8	16.6	6.8	12.3	0.6	-49.8	4.2	--	0.0
2008	6.8	6.7	0.5	9.9	5.2	-2.1	2.9	40.8	3.5	55.5	-10.2	--	3.9
2009	0.6	-2.4	-6.1	7.8	-3.5	-10.2	-4.8	24.5	3.4	7.3	-28.2	--	5.4
2010	-2.9	-2.2	-5.1	2.1	-1.0	4.5	2.7	-28.8	-4.8	23.9	-10.7	--	-2.7
2011	-0.5	-0.8	0.1	1.0	-0.1	2.3	2.0	-16.1	-2.1	-31.5	-4.8	--	-1.4
2012	-1.7	-3.8	1.9	2.1	-0.9	4.8	0.6	-20.9	-2.2	-20.0	-9.2	--	-1.1
2013	-1.6	-3.3	0.9	1.1	-1.2	2.3	-1.1	-6.8	-0.5	-12.0	-8.8	--	0.0
2010 I	-0.3	-2.6	-5.8	5.4	-3.6	-8.0	-3.0	7.8	1.8	-0.9	-25.7	--	3.4
II	-1.9	-2.4	-5.8	3.5	-2.9	-0.2	-0.1	-14.1	-1.8	-1.9	-20.1	--	0.1
III	-2.4	-2.2	-5.9	2.1	-2.5	1.6	1.2	-22.0	-3.3	0.5	-14.3	--	-1.5
IV	-2.9	-2.2	-5.1	2.1	-1.0	4.5	2.7	-28.8	-4.8	23.9	-10.7	--	-2.7
2011 I	-2.5	-1.7	-4.3	1.9	0.0	4.1	2.9	-29.4	-4.7	18.8	-9.3	--	-2.7
II	-1.7	-1.4	-2.2	2.0	0.5	3.7	2.4	-25.9	-3.8	30.3	-9.1	--	-1.9
III	-0.7	-1.1	-0.1	1.9	0.6	3.0	2.7	-22.3	-3.1	24.9	-7.2	--	-1.5
IV	-0.5	-0.8	0.1	1.0	-0.1	2.3	2.0	-16.1	-2.1	-31.5	-4.8	--	-1.4
2012 I	-0.6	-1.3	0.3	1.1	-0.8	3.4	1.6	-15.6	-1.8	-29.0	-4.5	--	-1.3
II	-1.3	-2.1	-0.6	0.7	-1.9	2.5	1.1	-16.9	-1.8	-32.8	-6.9	--	-1.2

(a) Including change in net equity of households in pension funds reserves.
Sources: INE (Quarterly National Accounts) and Funcas (Forecasts).

Chart 1.- Households: Income, consumption and saving
Annual percentage change and percentage of GDI, 4-quarter moving averages

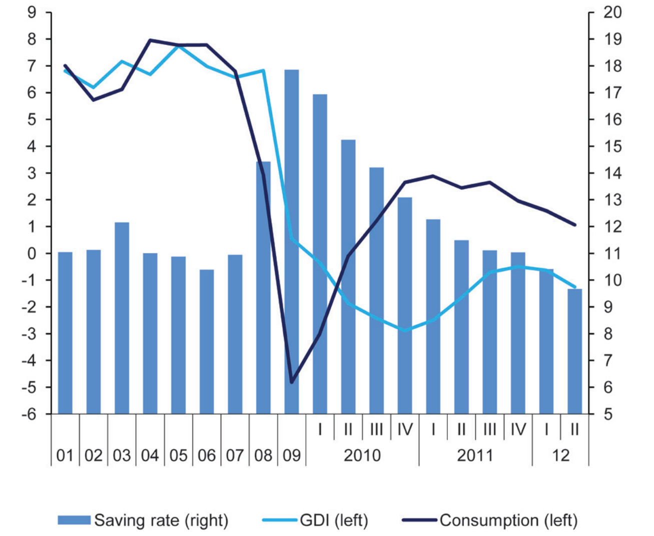
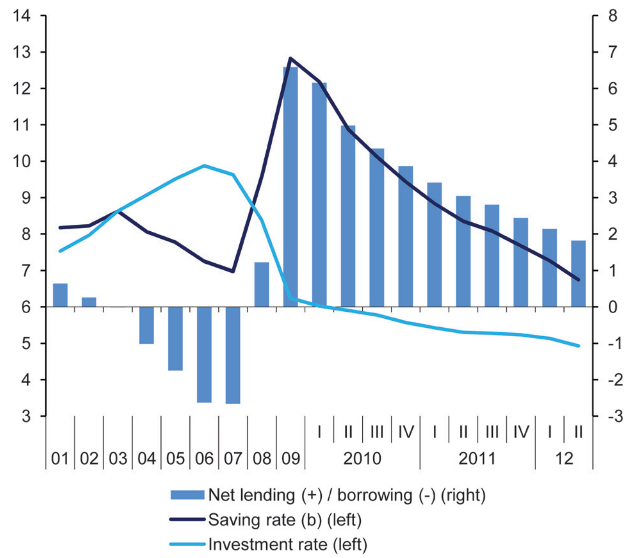


Chart 2.- Households: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(b) Including net capital transfers.

Table 7

National accounts: Non-financial corporations income and its disposition

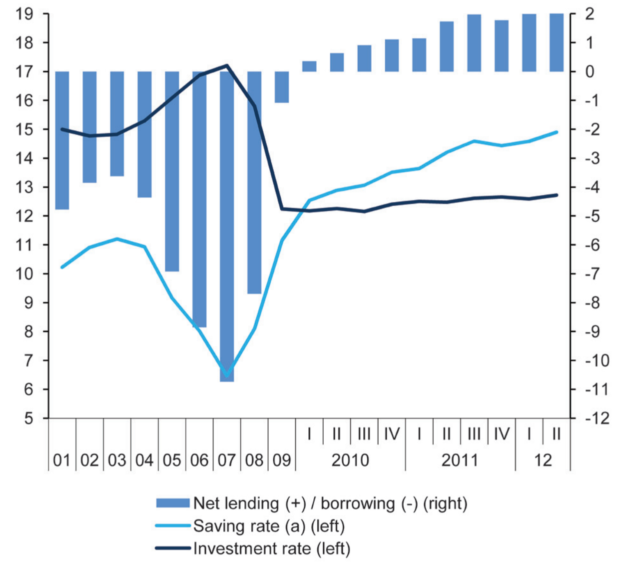
Forecasts in blue

	Gross value added	Compen-sation of emplo-yees and net taxes on pro-duction (paid)	Gross ope-rating surplus	Net property income	Net current trans-fers	Income taxes	Gross saving	Net capital trans-fers	Gross capital formation	Net lending (+) or borro-wing (-)	Net lending or bo-rrowing as a per-centage of GDP	Profit share (per-cen-tage)	Investment rate (percen-tage)
	1	2	3=1-2	4	5	6	7=3+4+5-6	8	9	10=7+8-9	11	12=3/1	13=9/1
EUR millions, 4-quarter cumulated operations													
2005	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	522.1	339.0	183.1	-71.2	-10.6	26.1	75.3	12.8	171.8	-83.7	-7.7	35.1	32.9
2009	507.7	323.3	184.4	-50.9	-10.3	20.0	103.2	13.7	128.2	-11.3	-1.1	36.3	25.3
2010	516.0	314.9	201.1	-46.0	-10.4	15.7	129.0	12.7	130.1	11.6	1.1	39.0	25.2
2011	537.1	314.8	222.4	-53.8	-10.1	16.6	141.9	11.5	134.6	18.9	1.8	41.4	25.1
2012	534.1	304.1	230.0	-56.2	-10.0	19.5	144.3	8.6	128.8	24.0	2.3	43.1	24.1
2013	524.9	296.5	228.4	-58.6	-9.8	17.8	142.2	6.4	121.6	27.1	2.6	43.5	23.2
2010 I	510.5	319.9	190.6	-43.6	-10.4	19.6	117.0	14.0	127.3	3.7	0.4	37.3	24.9
II	513.0	318.4	194.6	-43.8	-10.4	19.5	121.0	13.8	128.2	6.6	0.6	37.9	25.0
III	511.9	316.9	195.0	-44.7	-10.5	17.1	122.7	14.0	127.2	9.5	0.9	38.1	24.9
IV	516.0	314.9	201.1	-46.0	-10.4	15.7	129.0	12.7	130.1	11.6	1.1	39.0	25.2
2011 I	520.6	314.9	205.7	-48.3	-10.3	15.7	131.4	12.2	131.6	12.0	1.1	39.5	25.3
II	527.4	315.1	212.3	-49.3	-10.5	14.9	137.6	12.7	132.0	18.3	1.7	40.3	25.0
III	532.1	315.1	217.0	-50.1	-10.4	14.6	142.0	13.0	134.0	21.0	2.0	40.8	25.2
IV	537.1	314.8	222.4	-53.8	-10.1	16.6	141.9	11.5	134.6	18.9	1.8	41.4	25.1
2012 I	537.3	312.6	224.7	-54.4	-10.1	16.5	143.8	11.1	133.8	21.1	2.0	41.8	24.9
II	536.1	309.5	226.6	-52.8	-10.0	17.3	146.5	11.3	134.7	23.0	2.2	42.3	25.1
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	6.5	6.5	6.4	13.1	7.0	-37.5	31.0	20.8	-5.1	--	3.0	0.0	-4.0
2009	-2.8	-4.6	0.7	-28.5	-2.5	-23.3	37.1	6.9	-25.4	--	6.6	1.3	-7.7
2010	1.6	-2.6	9.0	-9.6	0.4	-21.8	25.1	-7.2	1.5	--	2.2	2.6	0.0
2011	4.1	0.0	10.6	16.8	-2.5	6.1	9.9	-9.3	3.4	--	0.7	2.4	-0.2
2012	-0.6	-3.4	3.4	4.5	-1.0	17.6	1.7	-25.5	-4.3	--	0.5	1.7	-0.9
2013	-1.7	-2.5	-0.7	4.4	-2.0	-8.9	-1.4	-25.0	-5.7	--	0.3	0.5	-1.0
2010 I	-1.7	-4.7	3.7	-39.4	-0.8	-24.3	55.2	5.6	-20.0	--	6.9	1.9	-5.7
II	0.0	-3.7	6.8	-33.7	-0.1	-22.1	49.8	7.4	-11.3	--	5.4	2.4	-3.2
III	0.4	-2.9	6.4	-20.4	1.5	-14.5	26.8	11.0	-6.0	--	3.4	2.1	-1.7
IV	1.6	-2.6	9.0	-9.6	0.4	-21.8	25.1	-7.2	1.5	--	2.2	2.6	0.0
2011 I	2.0	-1.6	7.9	10.7	-0.8	-20.0	12.3	-13.2	3.4	--	0.8	2.2	0.3
II	2.8	-1.0	9.1	12.7	1.5	-23.7	13.7	-7.9	3.0	--	1.1	2.3	0.0
III	4.0	-0.6	11.3	12.0	-0.7	-14.7	15.7	-7.3	5.3	--	1.1	2.7	0.3
IV	4.1	0.0	10.6	16.8	-2.5	6.1	9.9	-9.3	3.4	--	0.7	2.4	-0.2
2012 I	3.2	-0.7	9.2	12.5	-2.3	4.8	9.4	-9.1	1.7	--	0.8	2.3	-0.4
II	1.7	-1.8	6.8	7.1	-5.0	16.2	6.5	-11.2	2.1	--	0.4	2.0	0.1

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

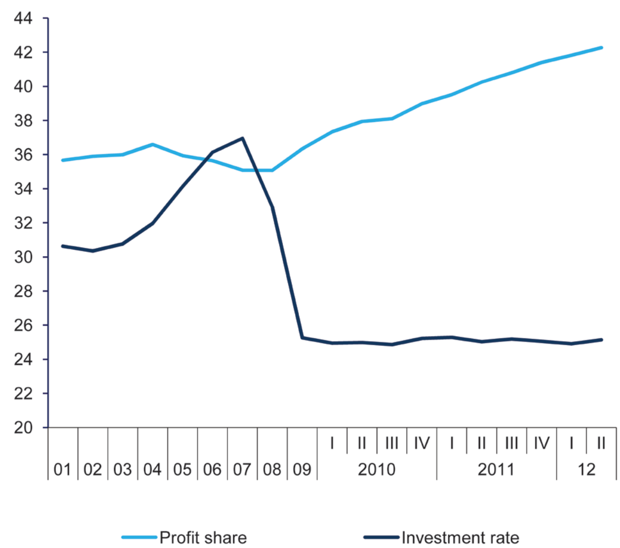


Table 8

National accounts: Public revenue, expenditure and deficit

Forecasts in blue

	Revenue							Expenditure							Net lending (+) or borrowing (-) (public deficit)
		Current revenue							Current expenditure						
	Total revenue	Total current revenue	Indirect taxes	Direct taxes	Social contributions	Other current revenues	Capital revenue	Total expenditure	Total current expenditure	Public consumption	Interest and other property payments	Social payments	Subsidies and others transfers	Capital expenditure	
	1=2+7	2 = 3 + 4 + 5 + 6	3	4	5	6	7	8 = 9+14	9 = 10 + 11 + 12 + 13	10	11	12	13	14	15=1-8
EUR millions, 4-quarter cumulated operations															
2005	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	27.0	62.0	-117.1
2010	384.0	383.3	109.9	99.6	140.3	33.6	0.7	485.5	431.0	224.5	20.4	161.6	24.4	54.5	-101.5
2011	379.7	380.3	105.0	101.6	140.0	33.7	-0.7	480.1	435.5	222.7	26.1	163.8	22.8	44.6	-100.4
2012	384.2	385.7	105.3	109.1	137.6	33.7	-1.5	468.7	432.6	212.4	33.7	167.5	19.1	36.1	-84.5
2013	386.9	389.4	112.4	109.0	134.7	33.4	-2.5	439.1	424.1	198.1	41.6	169.0	15.4	15.0	-52.1
2010 I	368.5	368.3	93.3	100.9	140.2	33.9	0.2	488.7	426.8	224.3	18.8	156.3	27.4	61.8	-120.2
II	376.5	375.5	99.4	102.0	140.4	33.7	1.0	488.8	428.6	225.8	19.0	157.9	25.9	60.2	-112.3
III	383.2	382.5	107.6	100.5	140.0	34.3	0.8	489.7	431.5	226.5	19.8	159.1	26.2	58.2	-106.5
IV	384.0	383.3	109.9	99.6	140.3	33.6	0.7	485.4	431.0	224.5	20.4	161.6	24.4	54.5	-101.4
2011 I	386.0	384.5	110.8	99.6	140.3	33.8	1.5	485.5	433.8	225.4	21.9	162.1	24.4	51.6	-99.4
II	384.7	384.0	110.0	99.9	140.1	34.0	0.7	481.8	432.9	224.4	23.2	161.9	23.4	48.9	-97.1
III	381.7	381.8	108.9	99.9	139.7	33.3	-0.1	477.7	432.7	223.3	24.4	162.6	22.4	45.0	-96.0
IV	379.7	380.3	105.0	101.6	140.0	33.7	-0.7	480.1	435.5	222.7	26.1	163.8	22.8	44.6	-100.4
2012 I	376.2	377.6	103.2	102.0	139.1	33.3	-1.4	476.4	435.2	220.6	27.4	165.0	22.2	41.2	-100.2
II	376.0	375.6	100.9	103.0	138.8	33.0	0.5	478.6	435.5	218.8	28.7	166.5	21.6	43.1	-102.6
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	36.6	36.5	10.5	9.5	13.4	3.2	0.1	46.3	41.1	21.4	1.9	15.4	2.3	5.2	-9.7
2011	35.7	35.8	9.9	9.6	13.2	3.2	-0.1	45.2	41.0	20.9	2.5	15.4	2.1	4.2	-9.4
2012	36.5	36.7	10.0	10.4	13.1	3.2	-0.1	44.6	41.1	20.2	3.2	15.9	1.8	3.4	-8.0
2013	37.1	37.4	10.8	10.5	12.9	3.2	-0.2	42.1	40.7	19.0	4.0	16.2	1.5	1.4	-5.0
2010 I	35.2	35.2	8.9	9.7	13.4	3.2	0.0	46.7	40.8	21.5	1.8	14.9	2.6	5.9	-11.5
II	36.0	35.9	9.5	9.8	13.4	3.2	0.1	46.7	41.0	21.6	1.8	15.1	2.5	5.8	-10.7
III	36.6	36.5	10.3	9.6	13.4	3.3	0.1	46.8	41.2	21.6	1.9	15.2	2.5	5.6	-10.2
IV	36.6	36.5	10.5	9.5	13.4	3.2	0.1	46.3	41.1	21.4	1.9	15.4	2.3	5.2	-9.7
2011 I	36.7	36.5	10.5	9.5	13.3	3.2	0.1	46.1	41.2	21.4	2.1	15.4	2.3	4.9	-9.4
II	36.4	36.3	10.4	9.4	13.2	3.2	0.1	45.5	40.9	21.2	2.2	15.3	2.2	4.6	-9.2
III	35.9	35.9	10.2	9.4	13.2	3.1	0.0	45.0	40.7	21.0	2.3	15.3	2.1	4.2	-9.0
IV	35.7	35.8	9.9	9.6	13.2	3.2	-0.1	45.1	41.0	20.9	2.5	15.4	2.1	4.2	-9.4
2012 I	35.4	35.6	9.7	9.6	13.1	3.1	-0.1	44.9	41.0	20.8	2.6	15.5	2.1	3.9	-9.4
II	35.5	35.5	9.5	9.7	13.1	3.1	0.0	45.2	41.2	20.7	2.7	15.7	2.0	4.1	-9.7

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

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

Percentage of GDP, 4-quarter moving averages

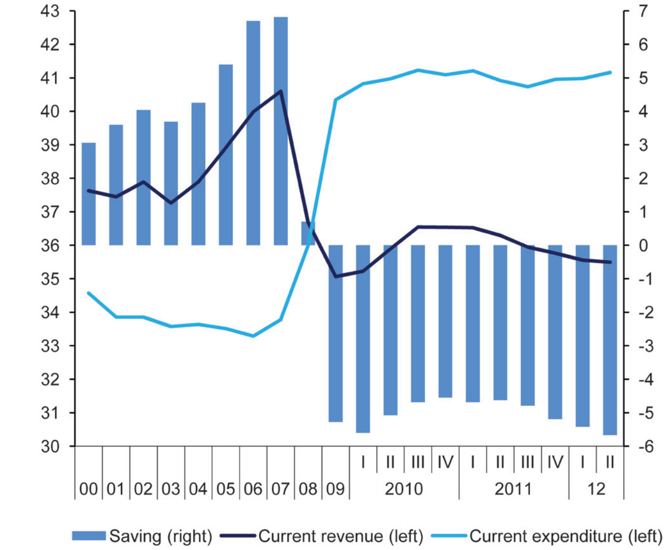
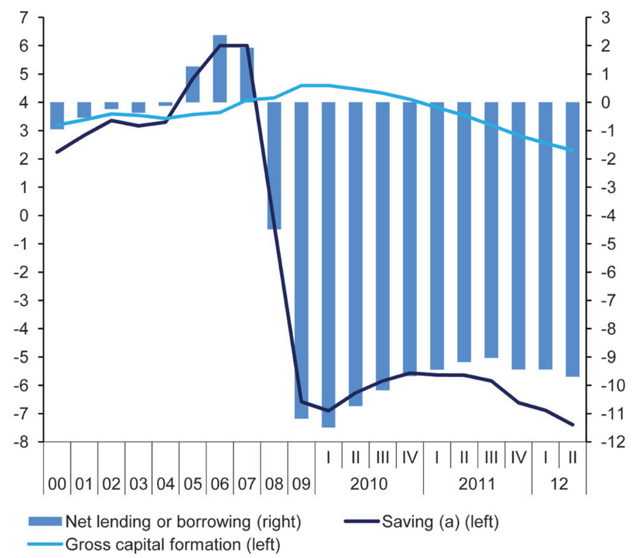


Chart 2.- Public sector: Saving, investment and deficit

Percentage of GDP, 4-quarter moving averages



(a) Including net capital transfers.

Table 9

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	-39.6	-7.0	-1.9	-101.5	488.5	120.8	35.4	0.0	644.7
2011	-36.6	-54.1	-9.0	-0.8	-100.4	559.7	141.4	35.4	0.0	736.5
2012	-56.1	-20.0	-3.2	-5.3	-84.5	--	--	--	--	906.0
2013	-36.5	-7.3	0.0	-8.4	-52.1	--	--	--	--	961.1
2010 I	-98.8	-21.9	-5.8	6.4	-120.1	446.8	99.4	36.2	0.0	582.4
II	-88.0	-23.2	-6.4	5.3	-112.3	458.9	109.2	36.5	0.0	604.6
III	-72.7	-31.3	-5.4	2.9	-106.6	467.8	112.0	36.2	0.0	616.0
IV	-52.9	-39.6	-7.0	-1.9	-101.5	488.5	120.8	35.4	0.0	644.7
2011 I	-48.6	-41.4	-6.2	-3.3	-99.5	521.6	126.7	37.3	0.0	685.7
II	-47.3	-39.6	-7.0	-3.3	-97.2	532.2	135.7	37.6	0.0	705.5
III	-45.0	-38.4	-7.6	-5.1	-96.0	534.3	137.6	36.7	0.0	708.6
IV	-36.6	-54.1	-9.0	-0.8	-100.4	559.7	141.4	35.4	0.0	736.5
2012 I	-45.4	-45.3	-9.0	-0.5	-100.2	591.7	146.4	36.9	0.0	774.9
II	-55.7	-42.8	-6.8	2.6	-102.6	617.7	150.6	36.3	0.0	804.6
	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	-3.8	-0.7	-0.2	-9.7	46.6	11.5	3.4	0.0	61.5
2011	-3.4	-5.1	-0.8	-0.1	-9.4	52.6	13.3	3.3	0.0	69.3
2012	-5.3	-1.9	-0.3	-0.5	-8.0	--	--	--	--	86.0
2013	-3.5	-0.7	0.0	-0.8	-5.0	--	--	--	--	92.0
2010 I	-9.4	-2.1	-0.6	0.6	-11.5	42.7	9.5	3.5	0.0	55.7
II	-8.4	-2.2	-0.6	0.5	-10.7	43.9	10.4	3.5	0.0	57.8
III	-6.9	-3.0	-0.5	0.3	-10.2	44.7	10.7	3.5	0.0	58.9
IV	-5.0	-3.8	-0.7	-0.2	-9.7	46.6	11.5	3.4	0.0	61.5
2011 I	-4.6	-3.9	-0.6	-0.3	-9.4	49.5	12.0	3.5	0.0	65.1
II	-4.5	-3.7	-0.7	-0.3	-9.2	50.3	12.8	3.6	0.0	66.7
III	-4.2	-3.6	-0.7	-0.5	-9.0	50.3	12.9	3.5	0.0	66.7
IV	-3.4	-5.1	-0.8	-0.1	-9.4	52.6	13.3	3.3	0.0	69.3
2012 I	-4.3	-4.3	-0.9	0.0	-9.4	55.7	13.8	3.5	0.0	73.0
II	-5.3	-4.0	-0.6	0.2	-9.7	58.4	14.2	3.4	0.0	76.0

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

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

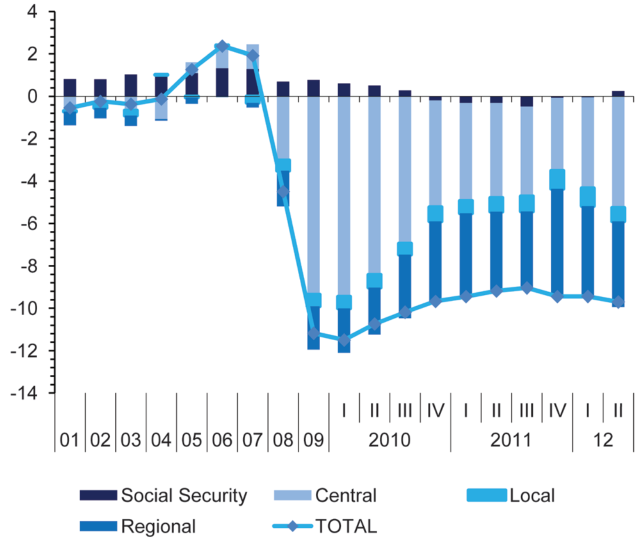


Chart 2.- Government debt
Percent of GDP

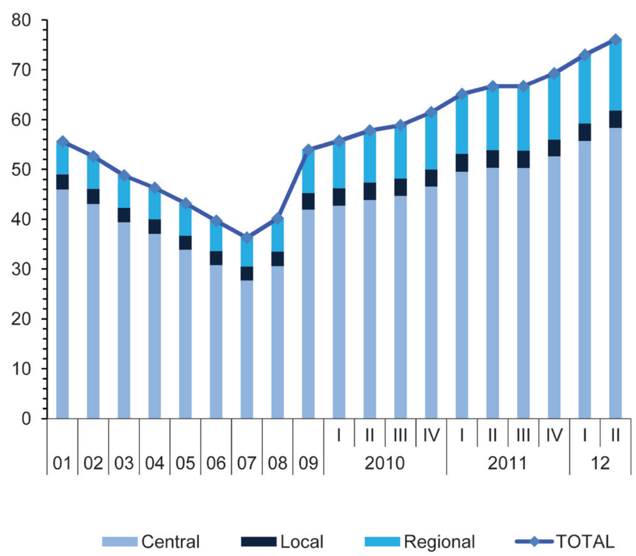


Table 10

General activity and industrial sector indicators (a)

	General activity indicators				Industrial sector indicators					
	Economic Senti-ment Index	Composite PMI index	Social Security Affiliates	Electricity consumption (temperature adjusted)	Industrial pro-duction index	Social Secu-rity Affiliates in industry	Manufacturing PMI index	Industrial confi-dence index	Turnover in-dex deflated	Industrial orders
	Index	**Index**	**Thousands**	**1000 GWH**	**2005=100**	**Thou-sands**	**Index**	**Balance of responses**	**2005=100 (smoothed)**	**Balance of responses**
2007	103.4	54.7	19233	267.7	107.1	2758	53.2	0.5	105.3	3.5
2008	86.3	38.5	19132	269.5	99.3	2696	40.4	-18.0	96.7	-24.0
2009	82.5	40.9	18019	256.9	83.6	2411	40.9	-30.8	78.0	-54.5
2010	92.7	50.0	17667	263.8	84.3	2295	50.6	-13.8	80.7	-36.9
2011	92.6	46.6	17431	260.5	83.1	2232	47.3	-12.5	80.9	-30.7
2012 (b)	88.2	42.9	16917	212.0	78.6	2124	43.6	-17.7	77.3	-36.9
2011 I	92.9	50.5	17554	66.2	85.2	2258	51.9	-8.6	81.9	-29.2
II	93.6	50.1	17505	65.3	84.3	2246	48.7	-10.7	81.7	-28.6
III	92.8	45.0	17400	65.1	82.7	2226	44.9	-14.4	80.7	-29.7
IV	91.2	40.7	17258	63.9	81.0	2196	43.8	-16.5	79.4	-35.4
2012 I	91.7	45.0	17105	65.1	80.1	2164	44.9	-14.8	78.3	-35.1
II	88.8	41.7	16941	64.4	78.5	2134	42.2	-17.4	77.8	-36.6
III	84.9	42.6	16790	63.8	78.5	2096	43.6	-20.0	78.2	-38.6
IV (b)	85.9	41.5	16683	21.2	--	2074	43.5	-20.5	--	-37.9
2012 Aug	82.8	43.4	16791	21.6	79.6	2096	44.0	-22.2	78.2	-38.8
Sep	84.1	41.2	16737	21.2	77.7	2085	44.5	-19.3	78.3	-37.7
Oct	85.9	41.5	16683	21.2	--	2074	43.5	-20.5	--	-37.9
Percentage changes (c)										
2007	--	--	3.0	4.3	2.0	0.6	--	--	1.7	--
2008	--	--	-0.5	0.7	-7.3	-2.2	--	--	-8.2	--
2009	--	--	-5.8	-4.7	-15.8	-10.6	--	--	-19.3	--
2010	--	--	-2.0	2.7	0.8	-4.8	--	--	3.4	--
2011	--	--	-1.3	-1.3	-1.4	-2.7	--	--	0.3	--
2012 (d)	--	--	-3.2	-1.6	-6.1	-5.2	--	--	-4.8	--
2011 I	--	--	-1.0	-1.5	1.7	-2.2	--	--	1.9	--
II	--	--	-1.1	-5.3	-4.3	-2.1	--	--	-1.1	--
III	--	--	-2.4	-1.3	-7.1	-3.5	--	--	-4.5	--
IV	--	--	-3.2	-6.8	-8.1	-5.4	--	--	-6.4	--
2012 I	--	--	-3.5	7.5	-4.2	-5.6	--	--	-5.2	--
II	--	--	-3.8	-4.3	-7.9	-5.5	--	--	-2.5	--
III (e)	--	--	-3.5	-3.5	0.0	-6.9	--	--	1.7	--
IV (e)	--	--	-2.5	-1.0		-4.1				
2012 Aug	--	--	-0.3	2.3	1.8	-0.5	--	--	0.3	--
Sep	--	--	-0.3	-1.8	-2.4	-0.5	--	--	0.2	--
Oct	--	--	-0.3	0.2	--	-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 Commision, Markit Economics Ltd., M. of Labour, M. of Industry, National Statistics Institute, REE and Funcas.

Chart 1.- General activity indicators

Percent change from previuos period and index

Chart 2.- Industrial sector indicators

Percent change from previuos period and index

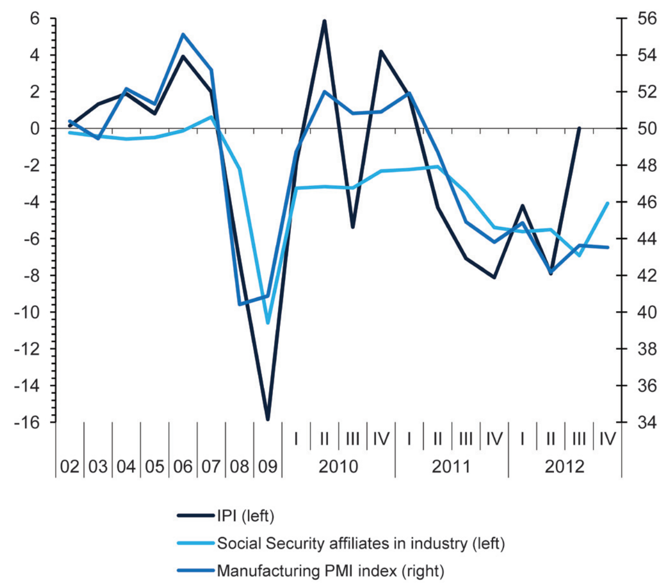


Table 11

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	Tournover 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	8.7	37.4	616.0	125.2	12734	113.4	54.4	271.7	208.6	9.4
2008	2340	42.7	-23.6	38.5	346.0	60.0	12942	109.4	38.2	268.6	202.9	-18.9
2009	1800	28.9	-32.3	35.4	159.3	29.2	12609	94.6	41.0	253.2	186.1	-29.6
2010	1559	24.5	-29.7	21.9	123.6	24.5	12610	95.3	49.3	269.4	191.3	-22.4
2011	1369	20.3	-55.4	11.8	86.3	20.0	12636	94.3	46.5	286.8	202.7	-20.8
2012 (b)	1151	10.6	-53.1	3.7	16.7	8.8	12457	88.9	43.1	231.2	146.7	-20.7
2011 I	1458	5.8	-54.1	3.2	23.0	5.5	12642	95.1	49.6	70.2	50.2	-28.2
II	1403	5.4	-55.4	3.7	27.1	5.3	12661	94.8	50.5	71.4	50.9	-19.1
III	1342	4.9	-58.6	2.7	17.9	5.0	12641	94.1	45.5	72.3	50.7	-14.2
IV	1277	4.3	-53.6	2.2	18.2	4.1	12593	92.8	40.2	70.5	49.7	-21.8
2012 I	1218	4.0	-50.4	1.6	16.7	3.8	12537	91.4	44.8	70.2	48.8	-15.5
II	1161	3.3	-52.2	2.1	--	3.1	12461	90.2	42.4	70.2	48.9	-19.6
III	1105	3.2	-55.5	--	--	1.9	12410	89.4	42.6	71.2	49.7	-26.6
IV (b)	1073	--	-56.6	--	--	--	12368	--	41.2	--	--	-22.2
2012 Aug	1105	1.1	-64.5	--	--	0.7	12409	89.5	44.0	23.6	16.6	-24.6
Sep	1089	1.0	-56.7	--	--	--	12390	89.2	40.2	23.8	16.6	-32.8
Oct	1073	--	-56.6	--	--	--	12368	--	41.2	--	--	-22.2
Percentage changes (c)												
2007	5.6	0.2	--	-15.4	-19.0	-22.3	3.4	5.6	--	1.7	8.9	--
2008	-10.0	-23.8	--	2.9	-43.8	-52.1	1.6	-3.5	--	-1.2	-2.7	--
2009	-23.1	-32.3	--	-8.2	-54.0	-51.4	-2.6	-13.5	--	-5.7	-8.3	--
2010	-13.4	-15.4	--	-38.0	-22.4	-16.0	0.0	0.8	--	6.4	2.8	--
2011	-12.2	-16.9	--	-46.2	-30.2	-18.6	0.2	-1.1	--	6.4	5.9	--
2012 (d)	-17.1	-34.6	--	-46.9	-27.1	-36.8	-1.5	-5.0	--	-1.3	-4.1	--
2011 I	-10.6	41.9	--	-45.5	-27.9	-9.7	0.5	-0.4	--	8.1	7.8	--
II	-14.3	-25.9	--	-35.0	-18.0	-21.8	0.6	-1.3	--	7.0	5.6	--
III	-16.3	-31.5	--	-45.2	-27.6	-14.4	-0.6	-3.3	--	5.1	-1.3	--
IV	-17.9	-37.1	--	-59.8	-46.3	-28.4	-1.5	-5.2	--	-9.7	-7.6	--
2012 I	-17.4	-31.2	--	-50.6	-27.1	-30.5	-1.8	-6.0	--	-1.6	-7.1	--
II	-17.3	-50.3	--	-43.6	--	-41.5	-2.4	-5.1	--	-0.1	1.0	--
III	-17.9	-11.9	--	--	--	-40.4	-1.6	-3.2	--	5.8	6.1	--
IV (e)	-11.3	--	--	--	--	--	-1.4	--	--	--	--	--
2012 Aug	-1.6	0.4	--	--	--	-42.0	-0.2	-0.2	--	-0.7	0.5	--
Sep	-1.5	-4.1	--	--	--	--	-0.2	-0.3	--	0.7	0.5	--
Oct	-1.5	--	--	--	--	--	-0.2	--	--	--	--	--

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

Chart 1.- Construction indicators
Percentage changes

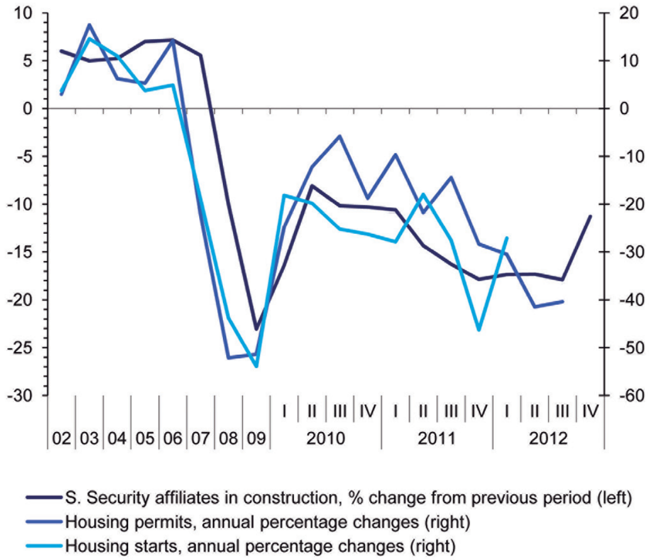


Chart 2.- Services indicators
Percentage changes from previous period and index

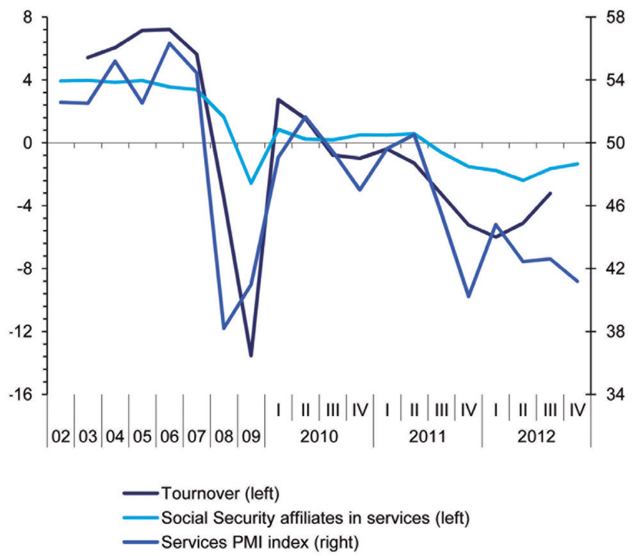


Table 12

Consumption and investment indicators (a)

	Consumption indicators					Investment in equipment indicators		
	Retail sales deflated	Car registrations	Consumer confidence index	Hotel overnight stays by residents in Spain	Industrial orders for consumer goods	Cargo vehicles registrations	Industrial orders for investment goods	Availability of investment goods (f)
	2005=100 (smoothed)	**Thousands (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	-33.7	113.2	-21.0	236.9	-4.5	89.6
2009	93.2	971.2	-28.2	110.1	-40.3	142.1	-50.8	65.5
2010	91.6	1000.1	-20.9	113.6	-26.8	152.1	-31.1	58.3
2011	86.5	808.3	-17.1	111.5	-21.8	142.0	-23.0	52.6
2012 (b)	80.5	602.7	-30.2	83.8	-23.4	90.6	-38.4	48.1
2011 I	88.5	206.7	-19.6	28.1	-22.3	37.1	-22.1	54.2
II	87.2	204.3	-16.1	27.7	-21.6	36.5	-21.1	53.0
III	86.0	200.5	-15.8	27.9	-21.8	35.2	-23.2	52.0
IV	84.5	197.4	-16.8	27.1	-21.3	32.9	-25.8	50.6
2012 I	83.0	194.5	-24.6	26.5	-24.9	30.2	-31.7	48.9
II	81.8	184.0	-29.0	26.6	-21.3	27.7	-39.1	47.8
III	80.5	163.3	-35.2	25.0	-23.5	25.8	-44.9	47.7
IV (b)	--	48.2	-35.8	--	-24.8	8.2	-37.1	--
2012 Aug	80.5	54.6	-39.7	8.3	-23.0	8.6	-44.6	47.7
Sep	80.0	51.5	-36.8	8.3	-23.3	8.4	-53.2	--
Oct	--	48.2	-35.8	--	-24.8	8.2	-37.1	--
				Percentage changes (c)				
2007	2.6	-1.6	--	1.3	--	0.3	--	10.8
2008	-6.0	-27.5	--	-2.9	--	-43.6	--	-21.0
2009	-5.4	-18.1	--	-2.7	--	-40.0	--	-26.9
2010	-1.7	3.0	--	3.1	--	7.0	--	-11.0
2011	-5.6	-19.2	--	-1.8	--	-6.6	--	-9.9
2012 (d)	-6.3	-12.5	--	-7.6	--	-24.4	--	-9.8
2011 I	-6.3	-11.4	--	-1.3	--	-0.8	--	-8.3
II	-5.8	-4.5	--	-5.4	--	-6.4	--	-8.3
III	-5.7	-7.3	--	2.3	--	-13.7	--	-7.3
IV	-6.6	-5.9	--	-10.7	--	-23.7	--	-10.4
2012 I	-6.7	-5.8	--	-8.6	--	-29.3	--	-12.9
II	-6.1	-19.9	--	2.3	--	-29.0	--	-9.0
III	-6.0	-38.0	--	-22.3	--	-24.6	--	-0.7
IV (e)	--	-38.4	--	--	--	-16.1	--	--
2012 Aug	-0.5	-4.7	--	-1.8	--	-2.2	--	0.2
Sep	-0.6	-5.7	--	0.6	--	-2.1	--	--
Oct	--	-6.3	--	--	--	-2.2	--	--

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

Sources: European Commision, M. of Economy, M. of Industry, National Statistics Institute, DGT, ANFAC and Funcas.

Chart 1.- Consumption indicators

Percent change from previous period and balance of responses

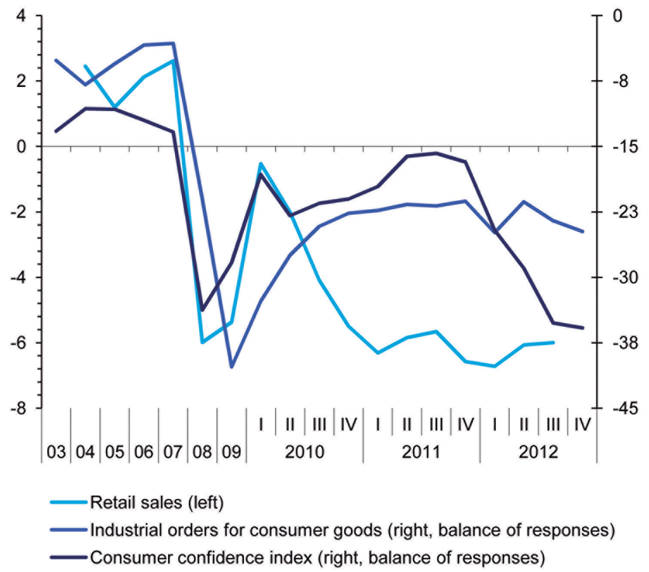


Chart 2.- Investment indicators

Percent change from previous period and balance of responses

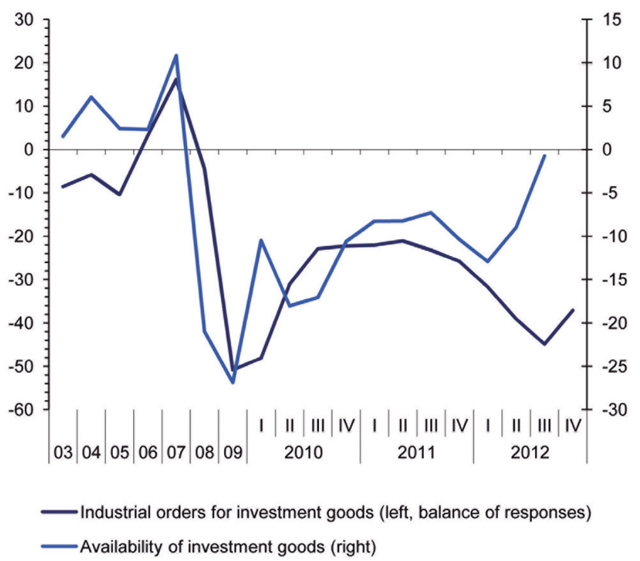


Table 13a

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)			
										Total	Aged 16-24	Spanish	Foreign
		Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted	Seasonally adjusted					
	1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
	Million							**Percentage**					
2007	30.4	22.2	--	20.4	--	1.8	--	72.6	66.6	8.3	18.2	7.6	12.2
2008	30.8	22.8	--	20.3	--	2.6	--	73.7	65.3	11.3	24.6	10.2	17.5
2009	30.9	23.0	--	18.9	--	4.1	--	74.0	60.6	18.0	37.8	16.0	28.4
2010	30.8	23.1	--	18.5	--	4.6	--	74.4	59.4	20.1	41.6	18.2	30.2
2011	30.7	23.1	--	18.1	--	5.0	--	74.7	58.5	21.6	46.4	19.6	32.8
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	55.1	27.3	--	--	--
2010 I	30.8	23.0	23.0	18.4	18.5	4.6	4.4	74.0	59.6	19.4	40.1	17.5	29.1
II	30.8	23.1	23.1	18.5	18.4	4.6	4.7	74.4	59.3	20.1	41.4	18.2	30.4
III	30.8	23.1	23.1	18.5	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	4.8	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
III	30.5	23.1	23.2	17.3	17.2	5.8	5.9	75.5	56.0	25.6	53.5	23.8	36.1
	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	6.4	2.6	5.3
2009	0.4	0.8	--	-6.8	--	60.2	--	0.4	-4.7	6.7	13.2	5.8	10.9
2010	-0.3	0.2	--	-2.3	--	11.6	--	0.4	-1.2	2.1	3.8	2.1	1.8
2011	-0.4	0.1	--	-1.9	--	7.9	--	0.3	-0.9	1.6	4.8	1.4	2.7
2012	-0.7	-0.1	--	-4.5	--	15.9	--	0.8	-1.8	3.5	--	--	--
2013	-0.7	-0.4	--	-3.3	--	8.3	--	0.1	-1.6	2.2	--	--	--
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	1.2
II	-0.4	0.1	1.7	-0.9	-0.3	4.1	9.5	0.4	-0.3	0.8	4.0	0.7	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	3.4
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	-1.7	-4.0	-5.5	14.9	11.3	0.3	-2.0	3.1	6.6	2.8	4.8
II	-0.5	-0.1	1.5	-4.8	-3.9	17.8	21.2	0.3	-2.6	3.8	7.1	3.8	3.9
III	-0.7	-0.2	1.1	-4.6	-3.8	16.1	16.9	0.4	-2.4	3.6	6.5	3.9	2.2

(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

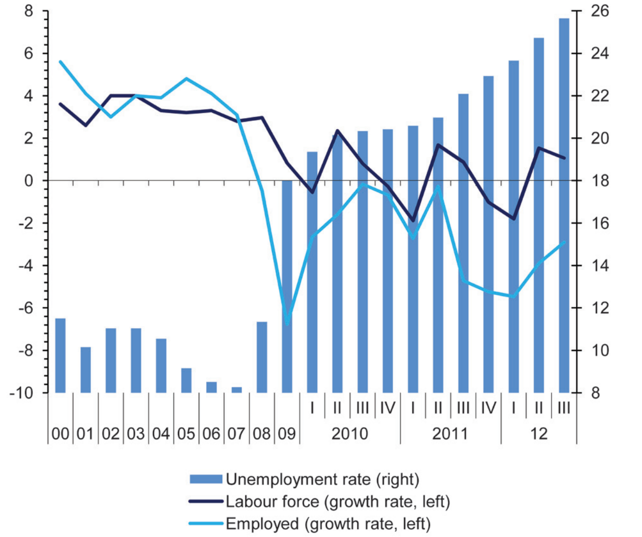


Chart 2.- Unemployment rates, SA

Percentage

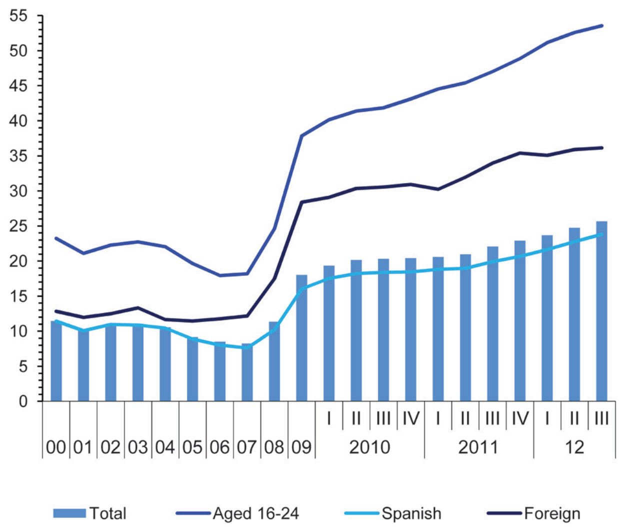


Table 13b
Labour market (II)

	Employed by sector				Employed by professional situation					Employed by duration of the working-day		
					Employees							
						By type of contract						
	Agriculture	Industry	Construc-tion	Services	Total	Temporary	Indefinite	Temporary employ ment rate (a)	Self- emplo-yed	Full-time	Part-time	Part-time employ-ment rate (b)
	1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
Million (original data)												
2007	0.87	3.24	2.75	13.50	16.76	5.31	11.45	31.7	3.60	17.96	2.40	11.78
2008	0.82	3.20	2.45	13.79	16.68	4.88	11.80	29.3	3.58	17.83	2.43	11.97
2009	0.79	2.78	1.89	13.44	15.68	3.98	11.70	25.4	3.21	16.47	2.42	12.79
2010	0.79	2.61	1.65	13.40	15.35	3.82	11.52	24.9	3.11	16.01	2.45	13.27
2011	0.76	2.56	1.39	13.40	15.11	3.83	11.28	25.3	3.00	15.60	2.50	13.82
2012 (c)	0.74	2.45	1.17	13.03	14.35	3.42	10.93	23.8	3.04	14.86	2.53	14.56
2010 I	0.84	2.60	1.66	13.30	15.25	3.72	11.53	24.4	3.14	15.94	2.45	13.33
II	0.78	2.62	1.70	13.38	15.36	3.82	11.54	24.9	3.11	15.98	2.50	13.52
III	0.75	2.60	1.67	13.52	15.46	3.95	11.51	25.6	3.09	16.17	2.37	12.79
IV	0.80	2.62	1.57	13.41	15.31	3.80	11.51	24.8	3.09	15.93	2.47	13.44
2011 I	0.78	2.54	1.49	13.33	15.12	3.75	11.37	24.8	3.03	15.59	2.57	14.14
II	0.74	2.58	1.43	13.55	15.29	3.90	11.39	25.5	3.01	15.72	2.59	14.14
III	0.71	2.58	1.37	13.50	15.18	3.95	11.23	26.0	2.98	15.76	2.40	13.21
IV	0.81	2.53	1.28	13.20	14.83	3.70	11.12	25.0	2.98	15.35	2.46	13.81
2012 I	0.78	2.46	1.19	13.01	14.41	3.42	10.99	23.8	3.02	14.93	2.51	14.37
II	0.73	2.44	1.19	13.05	14.40	3.41	10.99	23.7	3.02	14.82	2.60	14.93
III	0.72	2.44	1.14	13.02	14.23	3.42	10.81	24.0	3.09	14.83	2.49	14.37
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	-5.5	-1.2	-10.7	2.1	-0.5	-8.0	3.0	-2.4	-0.5	-0.7	1.1	0.2
2009	-4.0	-13.3	-23.0	-2.5	-6.0	-18.4	-0.9	-3.9	-10.3	-7.6	-0.4	0.8
2010	0.9	-5.9	-12.6	-0.3	-2.1	-4.0	-1.5	-0.5	-3.0	-2.8	1.4	0.5
2011	-4.1	-2.1	-15.6	0.0	-1.6	0.1	-2.1	0.4	-3.6	-2.5	2.2	0.6
2012 (d)	-0.1	-4.6	-18.1	-3.2	-5.6	-11.6	-3.5	-1.5	1.2	-5.3	0.6	0.7
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
III	1.8	-5.2	-17.1	-3.6	-6.2	-13.4	-3.7	-2.0	3.7	-5.9	3.8	1.2

(a) Percentage of employees with temporary contract over total employees. (b) Percentage of part-time employed over total employed. (c) Period with available data. (d) Growth of available period over the same period of the previous year.
Source: INE (Labour Force Survey).

Chart 1.- Employment by sector
Annual percentage changes

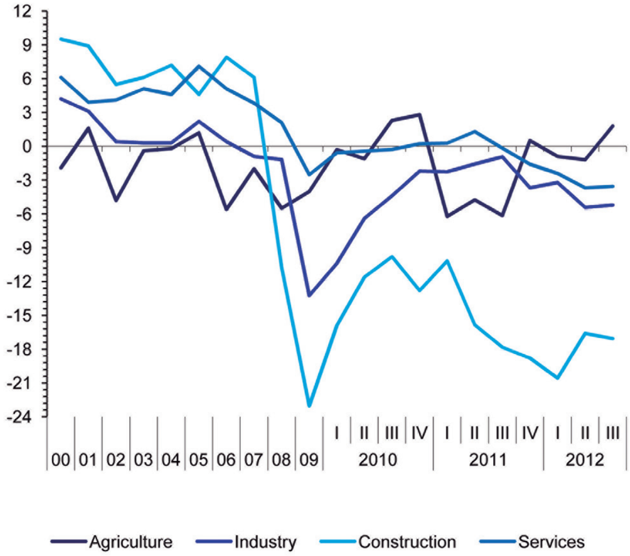


Chart 2.- Employment by type of contract
Annual percentage changes

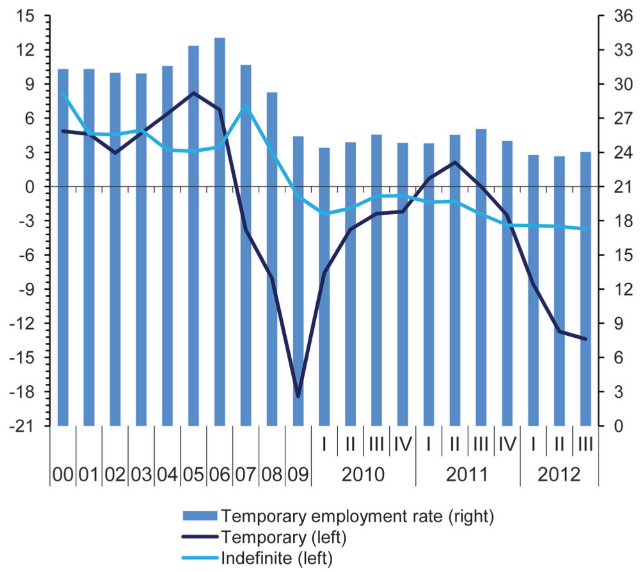


Table 14

Index of Consumer Prices

Forecasts in blue

	Total	Total excluding food and energy	Excluding unprocessed food and energy				Unprocessed 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
Indexes, 2011 = 100									
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	101.3	101.6	100.9	101.6	103.1	102.2	109.0	102.8
2013	104.7	103.3	103.7	102.3	103.9	106.0	104.8	111.6	105.6
Annual percentage changes									
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	1.3	1.6	0.9	1.6	3.1	2.2	9.0	2.8
2013	2.1	1.9	2.1	1.4	2.3	2.9	2.5	2.4	2.8
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	3.4	1.9	2.1	2.0	1.8	2.9	2.8	13.4	2.9
Oct	3.5	2.3	2.5	2.0	2.6	3.0	2.7	11.2	2.9
Nov	3.2	2.4	2.5	2.2	2.6	3.1	3.0	8.3	3.0
Dec	3.2	2.4	2.5	2.1	2.6	3.2	3.3	8.4	3.2
2013 Jan	3.1	2.5	2.6	2.3	2.7	3.2	3.5	6.6	3.3
Feb	2.9	2.5	2.6	2.2	2.7	3.3	2.3	5.4	3.0
Mar	2.8	2.6	2.8	2.2	2.9	3.4	2.4	3.2	3.1
Apr	2.2	2.3	2.4	2.2	2.4	2.9	2.1	1.0	2.7
May	2.6	2.5	2.5	2.3	2.6	2.7	2.9	2.9	2.8
Jun	2.9	2.5	2.6	2.3	2.7	2.9	2.0	5.4	2.6
Jul	2.4	2.1	2.3	1.3	2.7	3.0	2.7	2.8	2.9
Aug	2.0	2.2	2.3	1.4	2.7	3.0	2.4	-0.2	2.8
Sep	1.1	1.2	1.5	0.1	2.0	2.6	2.5	-2.3	2.6
Oct	1.1	0.8	1.1	0.0	1.3	2.6	2.6	0.1	2.6
Nov	1.4	0.8	1.1	0.1	1.3	2.5	2.5	2.3	2.5
Dec	1.4	0.8	1.1	0.1	1.3	2.5	2.5	2.5	2.5

Sources: Eurostat, INE and Funcas (Forecasts).

Chart 1.- Inflation Rate (I)
Annual percentage changes

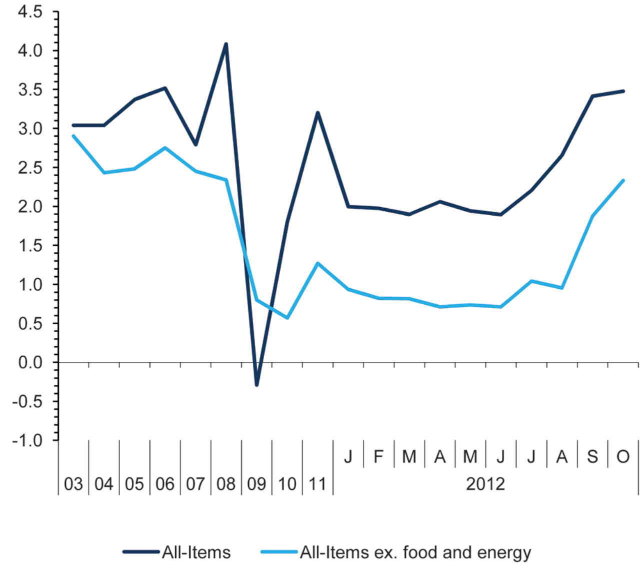


Chart 2.- Inflation rate (II)
Annual percentage changes

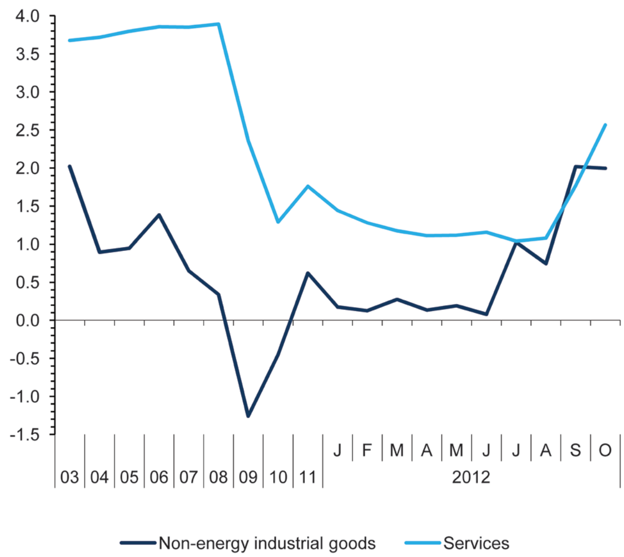


Table 15

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	128.2	117.8	74.2	78.2	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	116.7	85.2	85.2	76.8	146.9	145.2	152.3	153.0	--
III	137.3	124.5	117.0	82.9	84.1	60.9	138.9	134.9	151.2	159.8	--
IV	137.8	124.9	116.7	79.4	82.8	65.5	151.7	151.3	152.9	163.5	--
2012 I	137.5	128.1	117.2	75.4	80.2	63.7	142.2	137.9	155.1	144.7	--
II	137.4	127.5	118.0	73.0	78.1	70.2	146.5	145.3	150.2	154.0	--
III	138.0	128.9	118.2	--	76.1	--	--	--	--	--	
2012 Jul	--	127.9	118.0	--	--	--	--	--	--	--	--
Aug	--	129.4	118.4	--	--	--	--	--	--	--	--
Sep	--	129.3	118.9	--	--	--	--	--	--	--	--
Annual percent changes											
2007	3.3	3.6	4.1	--	5.8	3.8	4.0	4.0	4.1	4.6	3.1
2008	2.4	6.5	4.4	-1.5	0.7	-8.9	4.8	5.1	4.1	4.6	3.6
2009	0.1	-3.4	-2.4	-6.7	-7.4	-5.8	3.5	3.2	4.3	5.6	2.3
2010	0.4	3.2	1.3	-2.0	-3.9	-12.8	0.4	0.9	-1.1	0.6	1.5
2011	1.0	6.9	3.7	-7.4	-5.6	-6.7	1.2	1.0	1.6	2.2	2.4
2012 (c)	0.3	3.7	1.2	-13.5	-8.3	-12.5	0.4	0.6	-0.2	1.1	1.3
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	2.7
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	0.4	4.6	1.4	-12.6	-7.2	-16.4	1.1	1.2	0.9	1.5	2.2
II	0.1	2.9	1.1	-14.4	-8.3	-8.6	-0.3	0.0	-1.4	0.7	1.7
III	0.5	3.5	1.2	--	-9.5	--	--	--	--	--	1.3
2012 Jul	--	2.6	0.9	--	--	--	--	--	--	--	1.6
Aug	--	4.1	1.2	--	--	--	--	--	--	--	1.5
Sep	--	3.8	1.6	--	--	--	--	--	--	--	1.3

(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)

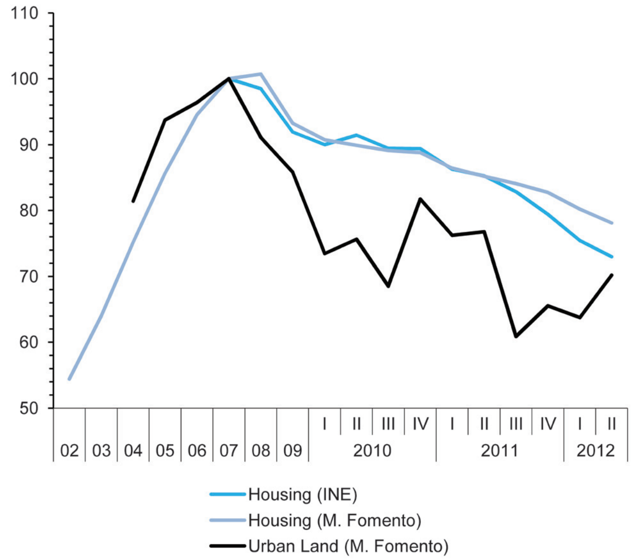


Chart 2.- Wage costs
Annual percent change

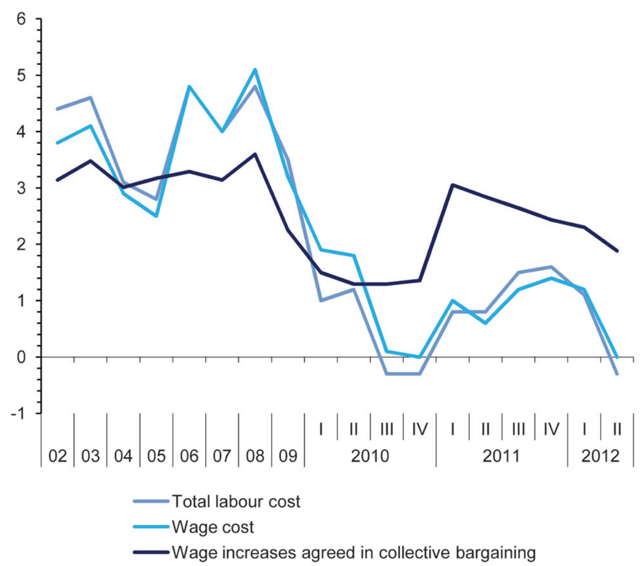


Table 16
External trade (a)

	Exports of goods			Imports of goods			Exports to EU countries	Exports to no EU countries	Total Balance of goods	Balance of goods exclu-ding 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)	146.2	108.3	130.6	169.6	113.1	96.6	92.1	54.1	-23.5	8.7	7.6
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
III (b)	39.3	108.7	139.9	43.5	113.3	98.7	24.0	15.3	-4.2	3.7	2.2
2012 Jun	18.6	107.4	133.9	21.3	112.2	97.7	11.7	6.8	-2.7	1.3	0.7
Jul	18.7	108.5	133.2	21.2	110.7	98.8	11.5	7.2	-2.6	0.8	0.9
Aug	20.6	108.8	146.6	22.2	116.0	98.7	11.6	9.0	-1.6	2.9	1.3
	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)	4.1	1.9	2.2	-0.8	5.5	-6.0	-0.6	13.1	--	--	--
2011 I	24.0	5.3	17.7	28.0	14.4	11.9	3.7	9.2	-4.8	-0.7	0.0
II	-0.5	4.1	-4.4	-11.0	0.5	-11.5	-0.2	0.1	-4.1	-0.3	0.6
III	12.6	4.6	7.7	7.9	12.4	-4.0	3.0	3.1	-3.9	0.1	0.6
IV	6.0	5.5	0.5	-0.8	7.3	-7.5	1.5	1.4	-3.6	-0.1	0.4
2012 I	-5.1	0.0	-5.2	3.1	9.1	-5.5	-3.2	2.3	-4.1	0.6	0.9
II	-1.6	-6.6	5.4	-17.5	-6.9	-11.4	-2.3	3.0	-3.0	1.5	1.1
III (e)	33.9	5.4	27.0	16.7	5.1	11.0	4.8	12.3	--	--	--
2012 Jun	-0.2	0.2	-0.4	2.9	1.5	1.4	-2.5	3.7	--	--	--
Jul	0.6	1.0	-0.5	-0.2	-1.3	1.1	1.2	-0.5	--	--	--
Aug	10.3	0.2	10.0	4.6	4.7	-0.1	7.1	15.4	--	--	--

(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. (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: Ministry of Economy and Funcas.

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

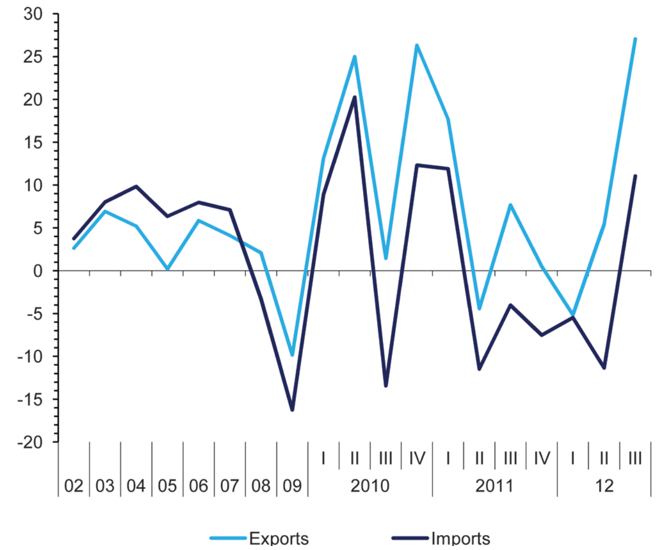


Chart 2.- Trade balance
EUR Billions, moving sum of 4 quarters

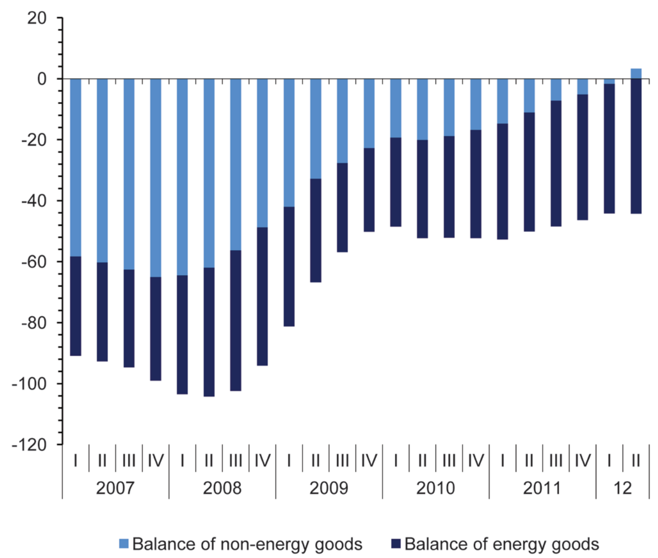


Table 17
Balance of Payments (according to IMF manual)
(Net transactions)

	Current account					Capital account	Current and capital accounts	Financial account						Errors and omissions
								Financial account, excluding Bank of Spain					Bank of Spain	
	Total	Goods	Services	Income	Tansfers			Total	Direct investment	Porfolio investment	Other invest-ment	Financial derivatives		
	1 = 2 + 3 + 4 + 5	2	3	4	5	6	7=1+6	8 = 9 + 10 + 11 + 12	9	10	11	12	13	14
EUR billions														
2006	-88.31	-83.25	22.24	-20.80	-6.50	6.19	-82.12	111.42	-58.55	199.61	-31.65	2.00	-25.80	-3.51
2007	-105.27	-91.12	23.05	-30.06	-7.15	4.58	-100.69	86.68	-53.18	104.26	39.69	-4.09	14.32	-0.31
2008	-104.68	-85.59	25.79	-35.48	-9.39	5.47	-99.20	70.00	1.55	-0.20	75.72	-7.06	30.22	-1.02
2009	-50.54	-41.61	25.03	-25.93	-8.03	4.22	-46.32	41.52	-1.92	44.82	4.66	-6.05	10.46	-5.67
2010	-47.43	-47.78	27.51	-19.85	-7.31	6.29	-41.14	27.48	1.83	27.67	-10.61	8.59	15.70	-2.04
2011	-37.50	-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)	-16.14	-19.46	26.06	-15.66	-7.08	3.13	-13.01	-247.17	6.59	-81.24	-178.20	5.67	267.43	-7.25
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	-15.03	-9.11	5.27	-6.70	-4.48	0.68	-14.34	-94.91	7.71	-37.18	-68.19	2.75	105.57	3.68
II	-2.86	-6.39	9.94	-5.14	-1.27	1.73	-1.13	-125.43	-1.64	-41.04	-82.20	-0.55	131.22	-4.66
III (b)	1.74	-3.96	10.85	-3.81	-1.33	0.71	2.46	-26.83	0.52	-3.02	-27.80	3.48	30.64	-6.27
2012 Jun	-0.80	-2.27	4.17	-2.46	-0.25	0.71	-0.09	-59.40	-1.71	-12.23	-45.89	0.43	60.18	-0.69
Jul	0.50	-1.28	5.32	-3.11	-0.44	0.08	0.58	-15.03	1.31	-5.13	-14.49	3.28	18.88	-4.43
Aug	1.24	-2.68	5.52	-0.71	-0.89	0.63	1.88	-11.80	-0.79	2.11	-13.31	0.19	11.76	-1.85
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)	-3.1	-3.7	4.9	-3.0	-1.3	0.6	-2.5	-46.8	1.2	-15.4	-33.8	1.1	50.7	-1.4
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	-5.8	-3.5	2.0	-2.6	-1.7	0.3	-5.5	-36.7	3.0	-14.4	-26.4	1.1	40.8	1.4
II	-1.1	-2.4	3.7	-1.9	-0.5	0.6	-0.4	-46.6	-0.6	-15.2	-30.5	-0.2	48.7	-1.7

(b) Period with available data.
Sources: Bank of Spain.

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

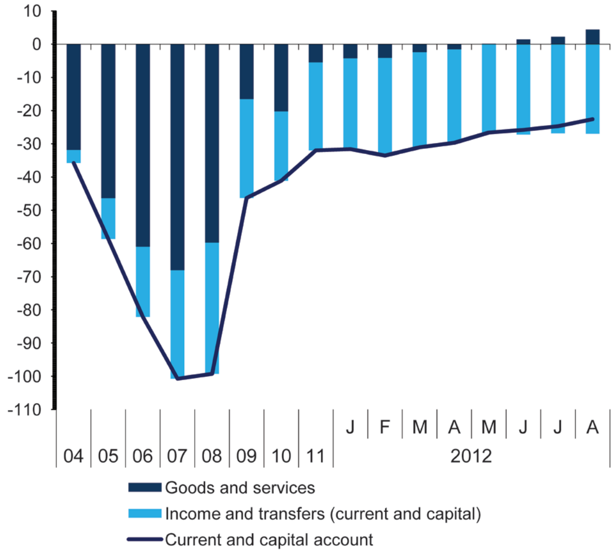


Chart 2.- Balance of payments: financial account
EUR Billions, 12-month cumulated

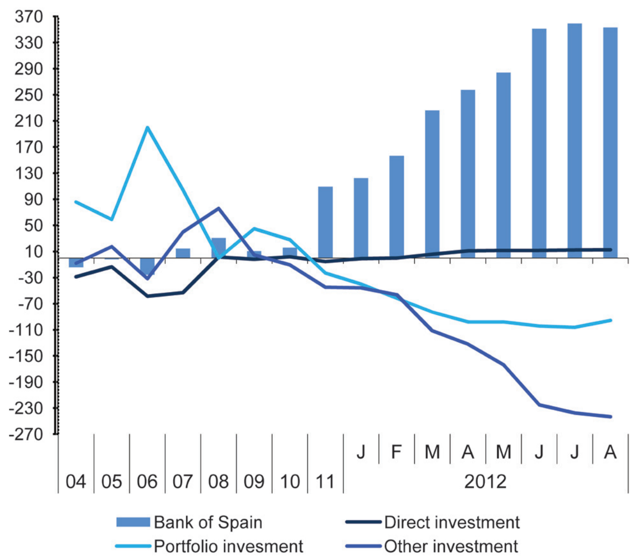


Table 18

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
EUR billions, 12-month cumulated												
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)	-39.8	137.2	177.0	204.8	90.0	68.5	46.4	-3.2	121.4	103.4	124.5	104.6
2012 Jul	-40.8	136.3	177.2	206.4	92.3	67.5	46.5	-1.7	122.9	104.2	124.6	104.1
Ago	-40.6	136.2	176.8	202.6	88.2	67.9	46.5	-2.6	121.8	103.8	124.5	104.3
Sep	-39.8	137.2	177.0	204.8	90.0	68.5	46.4	-3.2	121.4	103.4	124.5	104.6
Annual percentage changes												
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)	--	9.6	4.3	17.0	3.2	-5.1	194.1	--	1.3	-1.1	2.3	3.4
2012 Jul	--	4.8	-0.7	17.7	6.4	-7.2	194.8	--	1.7	-0.6	2.9	3.6
Ago	--	7.2	1.0	14.7	-0.3	-6.3	196.8	--	0.5	-0.9	2.5	3.5
Sep	--	9.6	4.3	17.0	3.2	-5.1	194.1	--	1.3	-1.1	2.3	3.4
Percentage of GDP, 12-month cumulated												
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 Jul	-3.9	13.0	16.9	19.6	8.8	6.4	4.4	-0.2	11.7	9.9	11.9	9.9
Ago	-3.9	13.0	16.8	19.3	8.4	6.5	4.4	-0.3	11.6	9.9	11.8	9.9
Sep	-3.8	13.1	16.8	19.5	8.6	6.5	4.4	-0.3	11.6	9.8	11.9	10.0

(a) Including the regional and local administrations share in direct and indirect taxes. (b) Cummulated since january.
Source: Bank of Spain.

Chart 1.- State: Revenue, expenditure and deficit

EUR Billions, 12-month cumulated

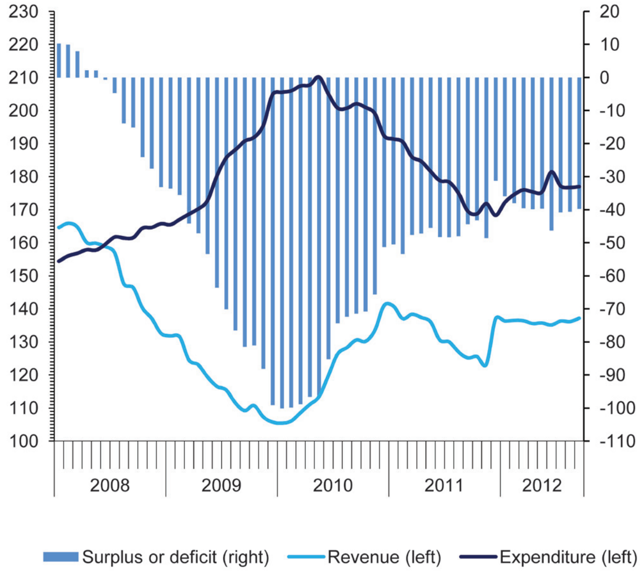


Chart 2.- Social Security System: Revenue, expenditure and deficit

EUR Billions, 12-month cumulated

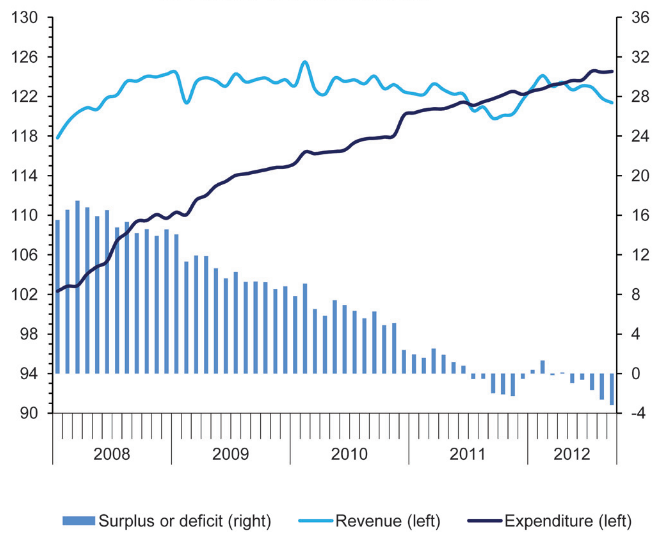


Table 19

Monetary and financial indicators

	Interest rates (percentage rates)					Credit stock (EUR billion)					
	10 year Bonds	Spread with German Bund (basis points)	Housing credit to households	Consumer credit to households	Credit to non-financial corporations (less than 1 million)	TOTAL	Government	Non-financial corporations	Households	Contribution of Spanish MFI to M3	Stock market (IBEX-35)
	Average of period data					**End of period data**					
2007	4.3	7.4	5.3	9.8	5.8	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	2844.2	644.5	1301.6	898.1	--	9859.1
2011	5.4	277.4	3.5	8.6	5.1	2862.5	736.2	1255.3	871.0	--	8563.3
2012 (b)	5.9	430.9	3.5	9.2	5.6	2855.7	801.5	1208.7	845.5	--	7842.9
2011 I	5.3	212.0	3.0	8.4	4.8	2860.1	685.4	1286.8	887.9	--	10576.5
II	5.4	222.3	3.4	8.2	5.1	2867.3	705.3	1272.8	889.2	--	10359.9
III	5.4	311.6	3.6	8.7	5.2	2853.0	708.3	1267.0	877.6	--	8546.6
IV	5.7	365.1	3.7	9.1	5.4	2862.5	736.2	1255.3	871.0	--	8563.3
2012 I	5.2	334.7	3.8	9.7	5.5	2886.1	774.7	1252.6	858.7	--	8008.0
II	6.2	462.8	3.5	8.7	5.7	2892.9	804.4	1232.7	855.8	--	7102.2
III	6.4	500.5	3.3	9.2	5.7	--	--	--	--	--	7708.5
2012 Ago	6.6	516.1	3.3	9.4	5.8	2855.7	801.5	1208.7	845.5	--	7420.5
Sep	5.9	438.0	3.2	9.3	5.5	--	--	--	--	--	7708.5
Oct	5.6	415.0	--	--	--	--	--	--	--	--	7842.9
						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	14.0	0.6	0.2	-2.2	-17.4
2011	--	--	--	--	--	1.6	14.2	-2.0	-2.4	-1.6	-13.1
2012 (b)	--	--	--	--	--	0.9	14.8	-3.3	-3.4	-3.7	--
2011 I	--	--	--	--	--	3.6	17.7	0.1	-0.5	0.9	7.3
II	--	--	--	--	--	2.7	16.7	-0.7	-1.6	2.5	-2.0
III	--	--	--	--	--	2.1	15.0	-1.5	-1.6	0.1	-17.5
IV	--	--	--	--	--	1.6	14.2	-2.0	-2.4	-1.6	0.2
2012 I	--	--	--	--	--	1.6	13.0	-1.4	-2.7	-0.9	-6.5
II	--	--	--	--	--	1.2	14.1	-2.7	-3.1	-2.6	-11.3
III	--	--	--	--	--	--	--	--	--	-3.5	8.5
2012 Ago	--	--	--	--	--	0.9	14.8	-3.3	-3.4	-5.4	10.1
Sep	--	--	--	--	--	--	--	--	--	-3.5	3.9
Oct	--	--	--	--	--	--	--	--	--	--	1.7

(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

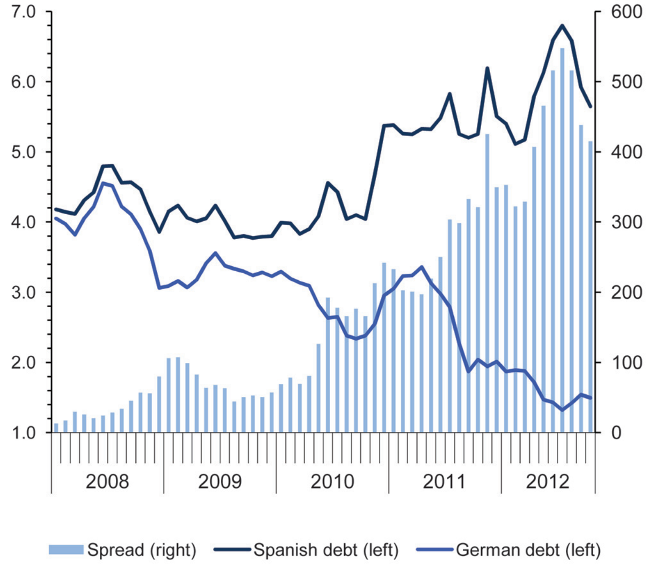


Chart 2.- Credit stock growth

Annual percentage change

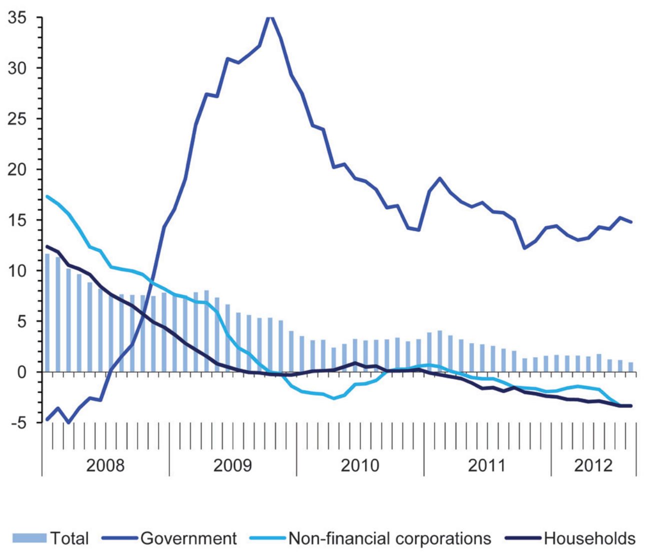


Table 20

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	90.8	109.3	120.4	106.5	104.4	102.1	108.4	106.5	101.8	111.9
2008	92.4	111.3	120.5	110.9	107.8	102.9	114.7	111.8	102.5	114.5
2009	101.9	115.2	113.1	110.6	108.1	102.4	110.9	106.7	103.9	114.0
2010	98.5	113.1	114.8	112.9	109.8	102.8	114.8	110.1	104.3	112.9
2011	98.5	109.0	110.7	116.3	112.8	103.1	122.4	116.2	105.3	113.1
2012 b)	--	--	--	118.8	115.3	103.0	126.3	118.9	106.2	111.2
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	--	--	--	118.7	114.3	103.9	126.1	118.6	106.3	110.8
II	--	--	--	121.0	115.9	104.4	125.8	118.8	106.0	111.8
III	--	--	--	121.6	115.7	105.1	127.0	119.3	106.5	111.1
2012 Ago	--	--	--	118.7	115.6	102.7	127.4	119.5	106.6	110.3
Sep	--	--	--	121.0	116.4	103.9	127.4	119.7	106.5	112.6
Oct	--	--	--	121.6	116.7	104.2	--	--	--	--
				Percentage changes (c)		**Differential**	**Percentage changes (c)**		**Differential**	
2007	-0.8	4.1	4.9	2.8	2.1	0.7	3.2	2.2	1.0	--
2008	1.8	1.8	0.1	4.1	3.3	0.9	5.7	5.0	0.7	--
2009	10.3	3.5	-6.2	-0.2	0.3	-0.5	-3.3	-4.6	1.3	--
2010	-3.3	-1.8	1.5	2.0	1.6	0.4	3.5	3.2	0.3	--
2011	0.0	-3.6	-3.5	3.1	2.7	0.3	6.6	5.6	1.1	--
2012 (d)	--	--	--	2.3	2.6	-0.3	3.5	2.6	0.9	--
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	4.2	3.4	0.9	--
II	--	--	--	1.9	2.5	-0.6	2.8	2.1	0.7	--
III	--	--	--	2.8	2.5	0.2	3.3	2.2	1.1	--
2012 Ago	--	--	--	2.7	2.6	0.1	3.7	2.6	1.1	--
Sep	--	--	--	3.5	2.6	0.8	3.7	2.5	1.2	--
Oct	--	--	--	3.5	2.5	1.0	--	--	--	--

(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

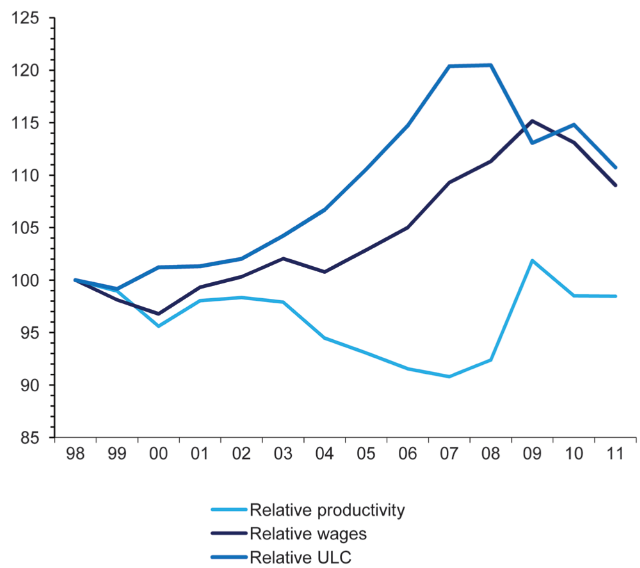


Chart.2 Harmonized Consumer Prices
Annual growth in % and percentage point

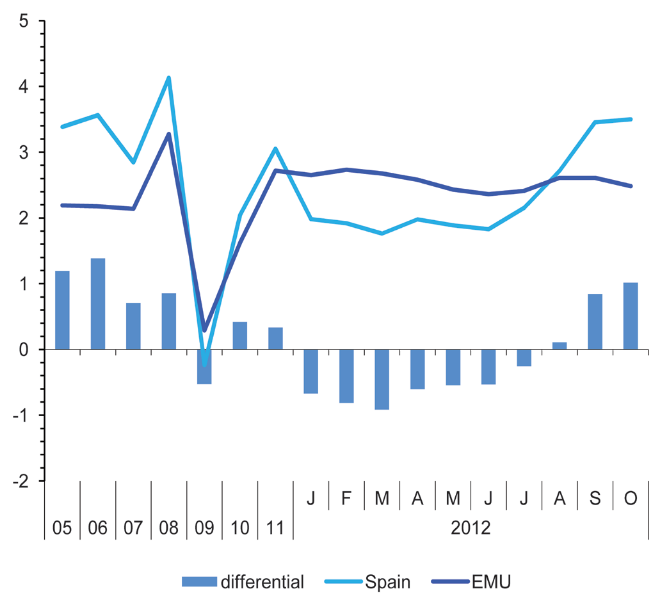


Table 21a

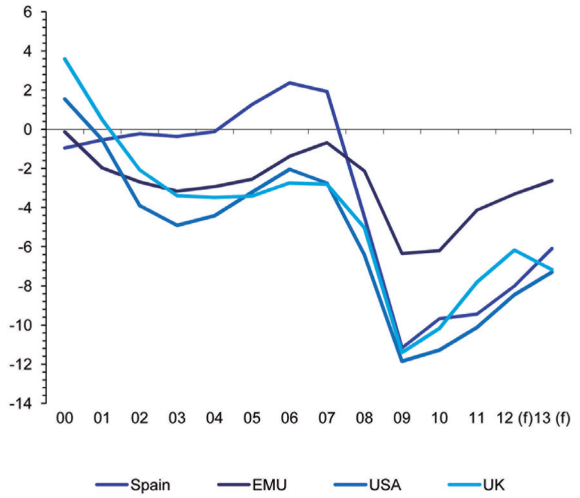
Imbalances: International comparison (I)

In blue: European Commission Forecasts

	Government net lending (+) or borrowing (-)				Government gross debt				Current Account Balance of Payments (National Accounts)			
	Spain	EMU	USA	UK	Spain	EMU	USA	UK	Spain	EMU	USA	UK
Billions of national currency												
2005	11.5	-207.7	-402.9	-43.1	392.5	5729.9	8566.6	533.2	-67.8	36.4	-645.5	-25.9
2006	23.3	-118.5	-272.8	-36.6	391.1	5884.1	8912.6	577.1	-88.9	42.6	-556.1	-39.1
2007	20.2	-62.5	-385.1	-39.7	382.3	5994.3	9421.7	624.7	-105.2	38.7	-704.0	-32.2
2008	-48.9	-197.1	-913.4	-72.6	437.0	6490.0	10881.1	753.6	-104.3	-64.5	-676.5	-14.4
2009	-117.1	-566.2	-1647.4	-159.9	565.1	7136.4	12528.1	950.8	-49.9	5.6	-500.4	-17.7
2010	-101.5	-568.9	-1626.6	-149.1	644.7	7854.5	14298.4	1164.5	-46.0	24.9	-472.4	-37.3
2011	-100.4	-389.5	-1517.3	-118.7	736.5	8297.2	15517.4	1292.0	-39.4	24.6	-497.7	-29.0
2012	-84.1	-314.1	-1316.4	-95.9	904.1	8830.6	17066.4	1379.9	-25.3	108.1	-487.4	-59.0
2013	-64.2	-253.9	-1193.2	-115.1	977.7	9126.9	18362.5	1495.0	-5.4	145.8	-473.9	-35.9
Percentage of GDP												
2005	1.3	-2.5	-3.2	-3.4	43.2	70.3	68.2	42.2	-7.5	0.4	-5.1	-2.1
2006	2.4	-1.4	-2.0	-2.7	39.7	68.7	66.9	43.3	-9.0	0.5	-4.2	-2.9
2007	1.9	-0.7	-2.8	-2.8	36.3	66.4	67.5	44.2	-10.0	0.4	-5.0	-2.3
2008	-4.5	-2.1	-6.4	-5.0	40.2	70.2	76.5	52.3	-9.6	-0.7	-4.8	-1.0
2009	-11.2	-6.3	-11.9	-11.4	53.9	80.0	90.1	67.8	-4.8	0.1	-3.6	-1.3
2010	-9.7	-6.2	-11.3	-10.2	61.5	85.6	99.2	79.4	-4.4	0.3	-3.3	-2.5
2011	-9.4	-4.1	-10.1	-7.8	69.3	88.1	103.5	85.0	-3.7	0.3	-3.3	-1.9
2012	-8.0	-3.3	-8.5	-6.2	86.1	92.9	109.6	88.7	-2.4	1.1	-3.1	-3.8
2013	-6.1	-2.6	-7.3	-7.2	92.7	94.5	112.3	93.2	-0.5	1.5	-2.9	-2.2

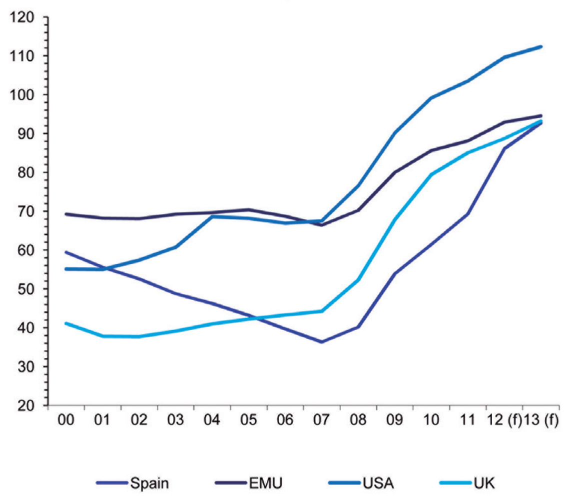
Source: European Commission.

Chart 1.- Government deficit
Percentage of GDP



(f) European Commission forecast.

Chart 2.- Government gross debt
Percentage of GDP



(f) European Commission forecast.

Table 21b

Imbalances: International comparison (II)

	Household debt (a)				Non-financial corporations debt (a)				Financial corporations debt (a)			
	Spain	EMU	USA	UK	Spain	EMU	USA	UK	Spain	EMU	USA	UK
Billions of national currency												
2005	653.5	4767.4	11704.9	1163.3	952.2	6790.7	8642.9	1266.3	528.3	7637.5	12956.9	2418.5
2006	780.7	5187.3	12839.7	1287.0	1192.0	7437.5	9576.6	1436.0	753.9	8643.1	14278.6	2616.5
2007	876.6	5555.4	13699.1	1398.2	1386.0	8323.9	10883.3	1479.9	980.4	9988.4	16224.1	3130.0
2008	913.4	5807.0	13682.7	1448.5	1475.4	8956.6	11546.8	1680.0	1042.5	10966.1	17122.9	3494.2
2009	905.5	5933.3	13410.5	1441.5	1461.6	8962.2	11199.4	1597.7	1121.1	11325.6	15708.5	3461.5
2010	900.7	6109.2	13137.5	1448.3	1473.1	9176.0	11243.4	1575.8	1116.6	11452.7	14498.3	3555.9
2011	873.7	6206.9	12933.7	1446.3	1432.8	9354.9	11769.1	1622.1	1137.1	11803.1	14070.6	3462.9
Percentage of GDP												
2005	71.9	58.5	92.7	92.1	104.7	83.4	68.5	100.3	58.1	93.8	102.6	191.5
2006	79.2	60.6	96.0	96.5	121.0	86.8	71.6	107.7	76.5	100.9	106.7	196.3
2007	83.2	61.5	97.7	99.0	131.6	92.2	77.6	104.8	93.1	110.6	115.6	221.7
2008	84.0	62.8	95.7	100.5	135.6	96.9	80.8	116.6	95.8	118.7	119.8	242.5
2009	86.4	66.5	96.0	102.8	139.5	100.4	80.1	114.0	107.0	126.9	112.4	246.9
2010	85.9	66.6	90.6	98.8	140.4	100.0	77.5	107.5	106.5	124.8	100.0	242.5
2011	82.2	65.9	85.8	95.2	134.7	99.3	78.1	106.8	106.9	125.3	93.3	228.0

(a) Loans and securities other than shares.

Sources: European Central Bank and Federal Reserve.

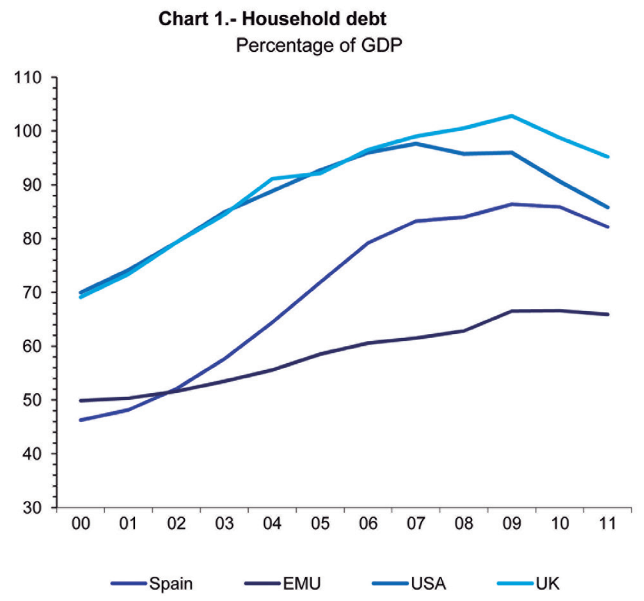


Chart 1.- Household debt
Percentage of GDP
110
100
90
80
70
60
50
40
30
00
01
02
03
04
05
06
07
08
09
10
11
Spain
EMU
USA
UK

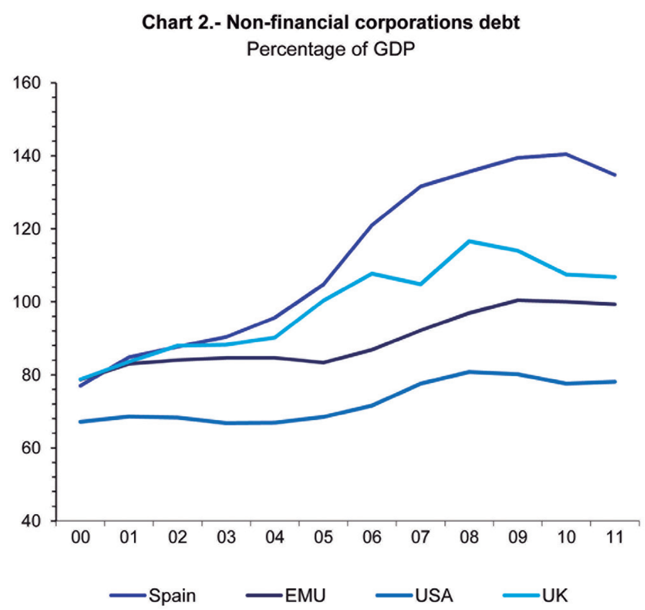


Chart 2.- Non-financial corporations debt
Percentage of GDP
160
140
120
100
80
60
40
00
01
02
03
04
05
06
07
08
09
10
11
Spain
EMU
USA
UK

KEY FACTS: 50 FINANCIAL SYSTEM INDICATORS – FUNCAS

Updated: October 31th, 2012

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-1.1	August 2012
Other resident sectors' deposits in credit institutions (monthly average % var.)	-0.4	August 2012
Doubtful loans (monthly % var.)	3.2	August 2012
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	876,292	September 2012
Recourse to the Eurosystem (Spanish financial institutions, million euros)	378,176	September 2012
Recourse to the Eurosystem (Spanish financial institutions million euros)- Main L/T refinancing operations	70,818	September 2012
Operating expenses/gross operating income ratio (%)	47,04	June 2012
Customer deposits/employees ratio (thousand euros)	5,426.71	June 2012
Customer deposits/branches ratio (thousand euros)	33,619.98	June 2012
Branches/institutions ratio	210.91	June 2012

A. Money and interest rates

Indicator	Source:	Average 1996-2009	2010	2011	2012 August	2012 September	Definition and calculation
1. Monetary Supply (%chg.)	ECB	6.9	1.7	2.2	2.8	2.7	M3 aggregate change (non-stationary
2. Three-month interbank interest rate	Bank of Spain	3.4	0.9	1.4	0.3	0.2[a]	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	3.3	1.4	2.0	0.8	0.6[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	5.6[a]	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	5.0	3.7	5.0	8.3	7.1	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

(a) Last data published: October 31st, 2012.

Comment on "Money and Interest Rates": By the end of October, the 3-month and 1-year Euribor rates decreased to 0.2% and 0.6%, respectively. Additionally, the 10-yr bond yield has decreased to 5.6% due to more stable environment in the debt markets compared to previous months.

B. Financial markets

Indicator	Source:	Average 1996-2009	2010	2011	2012 August	2012 September	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	18.3	40.5	81.6	77.3	83.9	(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	57.4	55.5	(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	1.7	1.1	(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	0.9	1.0	(Traded amount/ outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	3.4	0.7	1.6	0.5	0.7	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	684.9	706.5	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	10.2	4.5	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	-52.3	45.1	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	749.8	790.1[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	7,420.5	7,842.9[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	16.4	17.2[a]	Madrid Stock Exchange Ratio "share value/ capital profitability"

B. Financial markets (continued)

Indicator	Source:	Average 1996-2009	2010	2011	2012 August	2012 September	Definition and calculation
17. Long-term bonds. Stock trading volume (%chg.)	Bank of Spain and Madrid Stock Exchange	2.8	-29.2	15.1	-21.9	54.1	Variation for all stocks
18. Commercial paper. Trading balance (%chg.)	Bank of Spain and AIAF	45.2	-43.9	59.24	2.4	-3.3	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	3.6	0.8	1.9	1.9	1.9	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (%chg.)	Bank of Spain	2.1	15.42	-15.8	-27.4	-4.5	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	-2.7	-31.88	-25.9	-17.5	48.5	IBEX-35 shares concluded transactions

(a) Last data published: 31st, October 2012.

*Comment on "Financial Markets": During the last month there has been a slight increase in transactions with outright spot and forward T-bills, whereas government bonds and debenture transactions have experienced a relative reduction. Regarding the stock market, the IBEX-35 jumped to 7,842.9 points by the end of October, while by mid-October it closed at 7,420.5 points. On the other hand, there was a r*eduction 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 2003-2009	2010	2011	2012 H I	2012 H II	Definition and calculation
22. Net Financial Savings/GDP (National Economy)	Bank of Spain	-6.6	1.9	-3.4	-3.0	-2.6	Difference between financial assets and financial liabilities flows over GDP
23. Net Financial Savings/GDP (Households and non-profit institutions)	Bank of Spain	0.1	4.2	3.1	3.6	3.5	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	243.2	294.2	293.3	295.9	293.4	Public debt, non-financial companies debt and households and non-profit institutions debt over GDP

C. Financial Savings and Debt (continued)

Indicator	Source:	Average 2003-2009	2010	2011	2012 H I	2012 H II	Definition and calculation
25. Debt in securities (other than shares) and loans/GDP (Households and non-profit institutions)	Bank of Spain	75.2	85.9	82.2	81.1	81.1	Households and non-profit institutions debt over GDP
26. Households and non-profit institutions balance: financial assets (quarterly average %chg.)	Bank of Spain	6.1	3.1	-0.1	-0.9	.-3.1	Total assets percentage change (financial balance)
27. Households and non-profit institutions balance: financial liabilities (quarterly average %chg.)	Bank of Spain	11.4	-0.3	-0.5	-0.9	0.6	Total liabilities percentage change (financial balance)

Comment on "Financial Savings and Debt": During the second quarter of 2012, there was a 2.6% reduction in financial savings to GDP in the overall economy, in line with the 3% reduction registered in the previous quarter. On the other hand, household financial savings have experienced a relative slow down, changing from 3.6% in the previous quarter to 3.5%. Similarly, there was a slight reduction in households´ financial deleveraging, registering a debt to GDP ratio of 81.1%. There was also a 3.1% reduction in the stock of financial assets and liabilities on households' balance sheets.

D. Credit institutions. Business Development

Indicator	Source:	Average 1996-2009	2010	2011	2012 July	2012 August	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	14.7	0.3	-3.8	-1.6	-1.1	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	-3.4	-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	-2.8	-2.0	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	0.4	0.8	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	-11.5	-11.8	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 (continued)

Indicator	Source:	Average 1996-2009	2010	2011	2012 July	2012 August	Definition and calculation
33. Doubtful loans (monthly average % var.)	Bank of Spain	28.3	16.2	28.3	0.5	3.2	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	-15.0	-9.4	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	-0.6	0.8	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 August 2012 show a decrease in bank credit to the private sector (-1.1%) and in financial institutions deposit-taking (-0.4%). Additionally, doubtful assets experienced a new monthly increase of 3.2% compared to the previous month, in a recessive macroeconomic environment.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source:	Average 1996-2009	2010	2011	2012 March	2012 June	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	207	188	189	188	186	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	64	88	86	87	87	Total number of foreign credit institutions operating in Spanish territory
38. Number of employees	Bank of Spain	247,916	257,578	243,041	-	-	Total number of employees in the banking sector
39. Number of branches	Bank of Spain	40,572	42,894	39,843	39.616	39,230	Total number of branches in the banking sector
40. Recourse to the Eurosystem (total Eurozone financial institutions) (Euro millions)	Bank of Spain	365,832	473,173	394,459	361,695	876,292[a]	Open market operations and ECB standing facilities. Eurozone total
41. Recourse to the Eurosystem (total Spanish financial institutions) (Euro millions)	Bank of Spain	30,953	66,986	118,861	227,600	378,176[a]	Open market operations and ECB standing facilities. Spain total

E. Credit institutions. Market Structure and Eurosystem Refinancing (continued)

Indicator	Source:	Average 1996-2009	2010	2011	2012 March	2012 June	Definition and calculation
42. Recourse to the Eurosystem (total Spanish financial institutions): main long term refinancing operations (Euro millions)	Bank of Spain	18,500	22,196	47,109	1,037	70,818[a]	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: September 2012.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In September, the recourse to Eurosystem funding by Spanish credit institutions accounted for about 43.15% of net total funds borrowed from the ECB by the Eurozone.

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

Indicator	Source:	Average 1996-2009	2010	2011	2012 March	2012 June	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	55.73	46.53	49.85	49.01	47.04	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	3,074.38	4,605.69	4,512.30	4,717.42	5,426,71	Productivity indicator (business by employee)
45. "Customer deposits/ branches" ratio (Euro thousands)	Bank of Spain	18,620.11	16,554.20	29,171.23	28,941.01	33,619.98	Productivity indicator (business by branch)
46. "Branches/ institutions" ratio	Bank of Spain	187.24	155.41	205.38	144.06	210.91	Network expansion indicator
47. "Employees/ branches" ratio	Bank of Spain	6.1	3.6	6.5	6.1	6.2	Branch size indicator
48. Equity capital (monthly average % var.)	Bank of Spain	0.10	0.86	0.40	0.03	-0.39	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.83	0.31	0.06	-0.16	-1.10	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	13.54	5.73	3.28	-2.14	-16.17	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": During the second quarter of 2012 the Spanish banking sector faced 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.