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Unlocking Spain's SME financing channels

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Letter from the Editors

Since 2010, credit to the Spanish non-financial private sector has been either flat, or contracting, across most key industries as shown in the exhibit at the end of this letter.

The trend is worrisome, given the importance of credit flows to the real economy to reactivate economic growth. In recent weeks, we have seen relaxation of credit conditions, helping some large Spanish corporates meet their financing/refinancing needs. Nevertheless, the majority of smaller sized Spanish corporations still define access to finance as one of their principal problems, with financing terms in Spain being among the most restrictive in the Euro Area.

In this January issue of the SEFO, together with our standard contributions on macroeconomic and financial system outlook, we provide an analysis of the financing situation of one of the most important fragments of the Spanish corporate sector – the Small and Medium Size Enterprise (SME). In Spain, 99.9% of businesses have fewer than 250 workers and provide 74.5% of the economy's employment – a figure significantly above the Euro Area average of 63.6%. However, the outlook for SME access to bank credit under reasonable terms remains very challenging and companies' expectations about future credit conditions are negative. In order for Spain's economy to recover, credit flows to SMEs too must show normalization, although probably below pre-crisis levels. Public and other measures may provide some support while the financial sector continues its normalization process, but in the longer term, sufficient credit to the private sector must be supported by well functioning Spanish banks.

Given the aforementioned persistent difficulties in securing bank credit, developing alternative debt and equity financing options for SMEs is imperative. However, overcoming investor's risk perceptions, illiquidity, cost to the issuer and regulatory barriers may prove challenging.

With regard to the Spanish financial system, we examine in this issue continued significant progress on completion of Spain's MoU for financial sector assistance and the outstanding measures that remain to be taken in 2013, such as commencement of Sareb activities and completion of new bank restructuring plans. Further completion of these and other agreed upon measures will be critical to eliminating existing uncertainty about the Sareb and the health of the Spanish financial system as a whole.

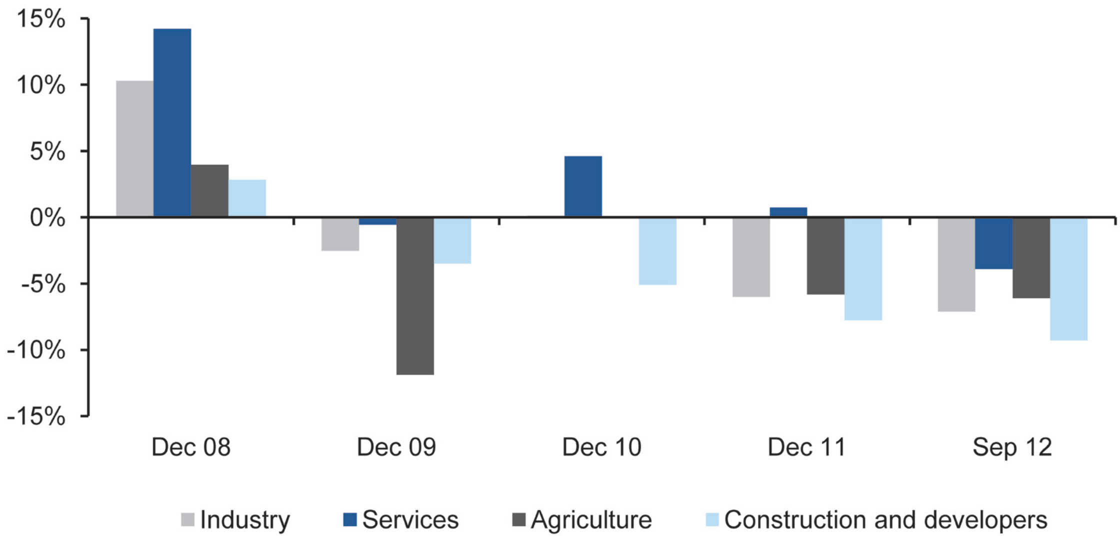
With respect to Spain's economic and financial conditions, there has been some recent improvement in the sovereign risk premium, facilitating Government debt issuance. Although, as we discuss in this SEFO, meeting the central, regional and local governments' financing needs will be just as difficult in 2013 as in 2012, if not more so. With respect to the real economy, activity and employment indicators remain disappointing, and we await to see the results of fiscal consolidation efforts on the deficit.

In conclusion, although Spain's situation is challenging, macroeconomic imbalances and asset prices are correcting. Investors must differentiate across potential opportunities. In this regard, we present our readers with a special feature called *The case for investing in Spain today*, which provides some rationale for potentially attractive risk adjusted investment returns in the country now.

Exhibit

Credit to Spanish non-financial private sector

% change year on year



Sources: Bank of Spain, Afi - Analistas Financieros Internacionales, S.A.

FEATURES

2012 and 2013: Two fundamental years for fiscal consolidation

Ángel Laborda and María Jesús Fernández[1]

Reaching fiscal consolidation targets is proving more difficult than expected. However, significant results have been achieved in the past year and are likely to continue in 2013.

The deterioration of Spain's public accounts and investors' loss of confidence are among the most visible effects of the economic crisis. Although there is disappointment at falling short of fiscal targets, consolidation efforts in 2012 have been significant and it is likely that the same will be true in 2013. Further acceleration of the adjustment rate, particularly if this involves additional tax increases, could seriously damage the productive fabric and the financial system, which will not help in restoring investor confidence. On the other hand, greater involvement of European institutions and additional structural reforms may not yield visible results in the short term, but will contribute to long-term sustainability of public accounts while helping to raise confidence levels.

Introduction

One of the most visible effects of Spain's current economic crisis, along with the soaring unemployment rate, is the sharp deterioration in public accounts. Spain went from a surplus of 2.4% of GDP in 2007 to a deficit of 11.2% in 2009, and by 2012 government debt had risen by around 50 percentage points of GDP. These developments, and the fear that the cost of bailing out and consolidating the financial system could considerably worsen imbalances, have led to a serious loss of confidence among investors, who have come to doubt the government's ability to meet its financial commitments. The result has been an increase in the country-risk premium and a severe financial squeeze on the economy as a whole. Against this backdrop, the response of the Spanish and European authorities was to seek to return the public accounts to financial stability and speed up compliance with the Stability and Growth Pact. In May 2010, the Council of Ministers revised the budgetary stability targets for the three years from 2011 to 2013, and set a deficit target of 6% for 2011, 4.4% for 2012, and 3% for 2013.

However, fiscal consolidation is proving more difficult than anticipated. The 2011 financial year closed with a deficit initially estimated at 8.5%. This was subsequently revised to 9% (9.4% when aid to financial institutions is included). The main reasons for this substantial deviation were the

[1] *Funcas Economy and Statistics Department.*

slippage in the autonomous regions' accounts in an election year and the deteriorating overall situation, which plunged the Spanish economy back into recession. This missed target, the high profile of the banking crisis, and the lacklustre management of the sovereign debt crisis by Europe's institutions, ended up compounding investors' loss of confidence in the Spanish economy.

With 2011 drawing to a close in an unfavourable economic context, the EU's Economic and Financial Affairs Council (ECOFIN) agreed a deficit target of 5.3% of GDP for 2012, instead of the 4.4% originally set. The general government budget was subsequently drawn up based on this figure. The new target meant cutting the deficit by more than three percentage points of GDP, in a context in which GDP was expected to contract by 1.7%, making it again over-ambitious. Consequently, this target was later revised upwards to 6.3% of GDP, and in the end, the current estimate is of a figure of 7.3%.

Although there is disappointment at falling short of the targets, significant results have been achieved in terms of fiscal consolidation in 2012 and it is likely that the same will be true in 2013. The calculations of the breakdown of the deficit suggest a correction in the structural component of between 2.5 and 3 percentage points of GDP in both 2012 and 2013. Speeding up the rate of adjustment, particularly if this requires tax increases, could seriously damage the productive fabric and the financial system, which will not help restore investors' confidence. There are other routes to restoring confidence, ranging from greater involvement by European institutions, to structural reforms to ensure the long-term sustainability of the public accounts, although the results will not be so visible in the short term.

This article examines how the public accounts progressed in 2012 and sets out the forecasts for 2013, accompanied by a brief analysis of the general economic conditions for the Spanish economy.

The macroeconomic context

2012 saw a turning point in the European debt crisis, with the announcement in July by the President of the European Central Bank that he would do whatever it took to save the euro. From this point on, the tensions in financial markets began to ease. Conditions improved further when the ECB announced its outright monetary transactions (OMT) debt purchase programme in September, the new bail-out for Greece was approved in November, and an agreement to avoid the "fiscal cliff" was struck in the United States.

The progress of the economy in the first half of 2012 was shaped by the severe credit squeeze and the uncertainty resulting from the debt crisis, which had erupted in the second half of the previous year. The European economy suffered a relapse, with zero or negative growth rates, albeit with significant differences between countries. Thus, whereas Germany managed to avoid recession, the countries of the periphery suffered a significant slowdown.

In Spain, Funcas' most recent estimates suggest GDP will contract by 1.4% over the year as a whole. This is a somewhat better result than was expected at the start of the year (Exhibit 1), and is basically explained by the improvement in the performance of exports of goods and tourism services. As in previous years, the drop in GDP came from the contraction in domestic demand, which has suffered a cumulative drop of 15% since the start of the crisis, whereas the external sector has made a positive contribution

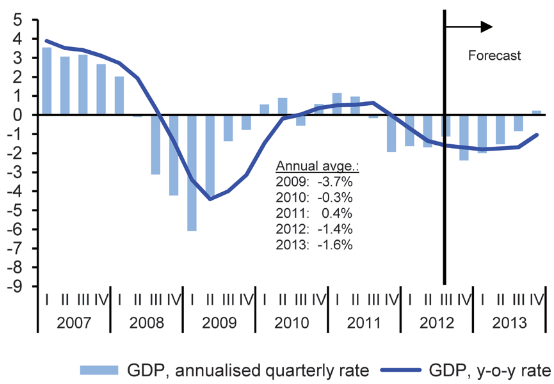
Funcas' most recent estimates suggest GDP will contract by 1.4% over the year as a whole. A better result than expected at the start of the year and explained by the improvement in the performance of exports of goods and tourism services.

Exhibit 1

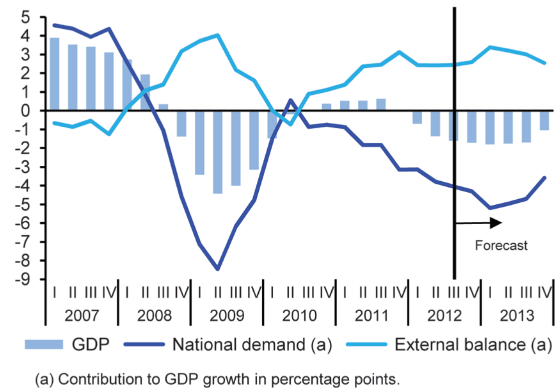
Spanish economy. Forecasts for 2012-2013

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

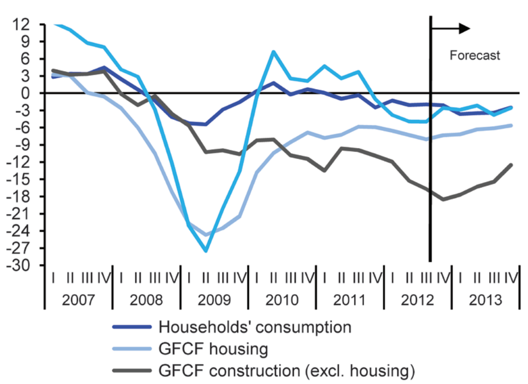
1.1 - GDP



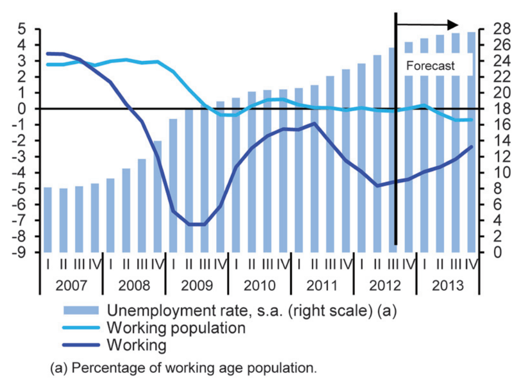
1.2 - GDP, national demand and external balance



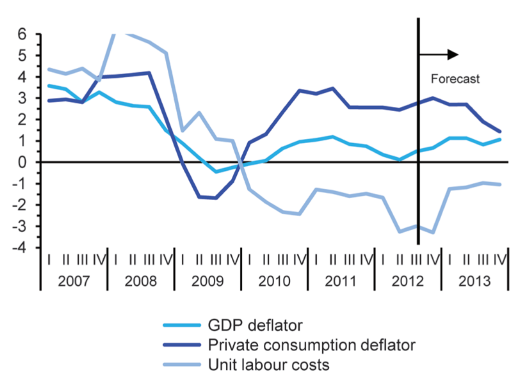
1.3 - National demand aggregates



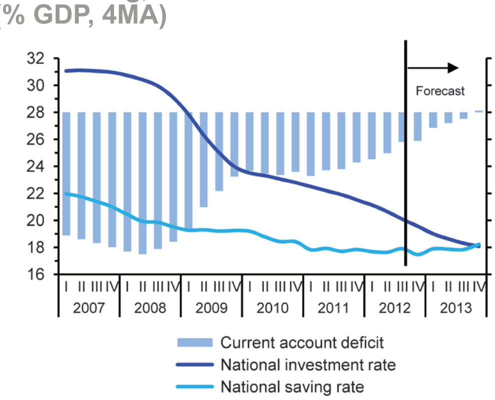
1.4 - Employment and unemployment



1.5 - Inflation



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



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

to growth. The slump in domestic demand, coupled with the increase in exports, enabled the deficit on the goods and services balance to be redressed, to the extent that it now shows a surplus for the first time since 1997.

Employment fell by 4.3% over 2012 as a whole, and the unemployment rate is likely to have ended the year at 26%. The increase in productivity deriving from sharp job losses, in conjunction with wage constraint, has led to a further drop in unit labour costs, on top of those already seen since 2010, and this had brought about a significant improvement in Spain's cost-competitiveness with respect to the rest of the euro area.

The inflation rate picked up strongly between July and October, although in the final months of the year it moderated to 2.9%. This level is high, but is entirely due to exogenous factors, such as the rising cost of energy products and the government's legislative changes aimed at curbing the deficit, such as the VAT rise, increased public charges and prices, and changes in the payment scheme for medications.

Thanks to the more favourable climate from July onwards, the return on Spanish ten-year government bonds has fallen from 6% to below 5.0% in January this year, while the risk premium has declined to 350 basis points from its high of 600 in July. Similarly, external finance has started to return and the volume of Spanish public debt held by foreign investors has begun to recover.

Nevertheless, the situation remains fragile and uncertainties abound, such that any unexpected event could shatter the stability of the last few months. Moreover, despite the recent improvement, access to international markets remains tight, and will continue to be so throughout much of 2013.

The aforementioned issues, in conjunction with the likely continuation of the adjustment to domestic demand and fiscal consolidation, implies that economic conditions will remain fairly restrictive in 2013, a year for which a drop in GDP of 1.6% is forecast. Nevertheless, the situation looks likely to improve later as the year progresses. The progress made in 2012 towards the consolidation and restructuring of Spain's troubled financial institutions helped dispel many of the uncertainties and risks hanging over the country's economy. There are now reasons to expect the current acute credit squeeze to gradually ease over the course of the year.

Progress towards the correction of the macroeconomic imbalances should make it possible to stabilise domestic demand towards the end of the year, such that its negative contribution to GDP growth will start to slacken off significantly, to the point that it will be completely offset by the positive contribution of the external sector. This will result in slightly positive GDP growth rates from this point on.

Fiscal policy in 2012

The calling of early elections in November 2011 led to a delay of six months in the submission and approval of the 2012 General State Budget (PGE-2012). This budget assumed a contraction of GDP of 1.7% in 2012, in real terms, and of 0.7% in nominal terms (Table 1). Funcas' current estimates, pending the data for the fourth quarter, suggest a drop that is three tenths of a percent smaller in real terms, but around three tenths of a percent larger in nominal terms, which is the more important variable for tax revenues. Two additional variables with a big impact on the public accounts are employment and unemployment. The budget predicted a drop in employment of 3.7% (3.8% among salaried employees), a figure that current estimates put close to 4.3% (5% among salaried employees). The unemployment rate was projected to rise from 21.6% in 2011 to 24.3%, while current estimates put it at approximately 25%. In short, although the first conclusion that can be drawn from the evolution of real GDP is that the macroeconomic context might have been slightly more favourable than foreseen in the budget

Table 1

Main forecasts for Spain 2012-2013

Average year-on-year change, as a percentage, unless otherwise stated

	2012						*2013*		
	Spring 2012 forecasts			*Current forecasts*					
	Govt. PGE-2012 (Apr. 2012)	*FUNCAS (Apr. 2012)*	*FUNCAS forecast panel consensus (Apr. 2012)*	*Govt.*	*FUNCAS (Nov. 2012)*	*FUNCAS forecast panel consensus (Dec. 2012)*	*Govt.*	*FUNCAS (Nov. 2012)*	*FUNCAS forecast panel consensus (Dec. 2012)*
Real GDP	-1.7	-1.7	-1.7	-1.5	-1.4	-1.4	-0.5	-1.6	-1.5
Private consumption	-1.4	-2.1	-1.8	-1.5	-1.8	-1.8	-1.4	-3.3	-2.3
Public consumption	-8.0	-6.6	-7.1	-4.8	-4.0	-4.3	-8.2	-4.9	-6.4
Gross fixed capital formation	-9.0	-8.1	-8.4	-9.9	-9.0	-8.3	-2.1	-7.9	-6.1
- GFCF construction	-9.9	-10.0	-10.4	--	-11.6	-11.5	--	-11.1	-8.4
- GFCF equipment	-7.3	-4.6	-6.0	--	-4.1	-6.3	--	-2.9	-3.0
DOMESTIC DEMAND	-4.4	-4.4	-4.2	-4.0	-3.8	-3.8	-2.9	-4.5	-3.9
Exports	3.5	3.3	3.1	1.6	3.2	3.3	6.0	4.5	4.7
Imports	-5.1	-5.5	-5.7	-6.7	-4.7	-4.5	-1.5	-4.6	-3.0
EXTERNAL BALANCE (1)	2.7	2.7	2.5	2.5	2.4	2.4	2.3	2.9	2.4
Nominal GDP: - € billions	1,065.4	1,065.5	--	1,050.6	1,052.9	--	1,062.9	1,046.6	--
- Change (in %)	-0.7	-0.7	--	-1.2	-1.0	--	1.2	-0.6	--
GDP deflator	1.0	1.0	--	0.3	0.4	--	1.6	1.0	--
CPI	--	2.2	1.8	--	2.5	2.4	--	2.1	2.2
Employment (nat. acc.)	-3.7	-3.6	-3.3	-4.0	-4.3	-4.2	-1.2	-3.2	-2.9
Unemp. rate (% labour force)	24.3	24.5	24.0	24.6	25.1	24.9	24.3	27.3	26.5
B.P. deficit c/a (% of GDP)	-0.9 (2)	-1.9	-1.8	-1.9	-2.1	-1.8	0.1	0.2	0.0
Govt. deficit/surplus (% GDP) (3)	-5.3	-6.2	-5.8	-6.3	-7.3	-7.2	-4.5	-5.6	-5.6
Government debt (% of GDP)	79.8	79.7	--	85.3	86.4	--	90.5	94.3	--

(1) Contribution to GDP growth in percentage points.
(2) Net borrowing vis-à-vis rest of world. In 2011 this was 0.5% of GDP less than the current account deficit.
(3) Excluding aid to financial institutions.

Sources: Ministry of Economy and Finance (PGE-2012-2013) and FUNCAS.

(and therefore with a positive effect on the general government deficit), the reality is that nominal GDP growth, the composition of that growth and the evolution of the labour market and salaries (the main basis of personal income tax) have all shown significant deviations, which has had a negative impact on the deficit.

Although the evolution of real GDP may suggest that the macroeconomic context might have been slightly more favourable than foreseen in the budget, the reality is that nominal GDP growth, its composition and evolution of the labour market and salaries have all shown significant deviations, which has had a negative impact on the deficit.

Summarising the main budgetary targets, the PGE-2012 envisages a deficit in national accounts terms of 5.3% of GDP for the general government, 3.2 percentage points (pp) of GDP less than estimated for 2011 at the time. This deficit was broken down into 3.5% of GDP for the central government, 1.5% for the autonomous regions, 0.3% for local governments, and a balanced budget for the social security funds. This amounts to a highly restrictive fiscal policy, particularly in the context of a contraction in GDP. The reasoning behind this was basically the need to satisfy the

Table 2

Taxes collected by central government: Forecast and actual (cash)

	2011-2012 budget					Execution January-November		
	Millions of euros			% variation		Millions of euros		
	Budget 2011 (A)	Execution 2011 (B)	Budget 2012 (C)	Budget vs. budget (C/A)	Budget vs. execution (C/B)	2011	2012	% Change 2012/2011
A.- TOTAL TAXES								
1.- Total taxes	164,278	160,890	167,797	2.1	4.3	151,110	152,727	1.1
1.1.- Direct	91,506	89,640	98,720	7.9	10.1	82,764	86,054	4.0
- Personal income tax	71,761	69,803	73,106	1.9	4.7	65,226	65,910	1.0
- Corporate income tax	16,008	16,611	19,564	22.2	17.8	14,611	17,190	17.7
- Nonresidents income tax	2,540	2,040	2,411	-5.1	18.2	1,834	1,569	-14.4
- Quotas of pension fund rights, etc.	1,197	1,186	3,639	204.0	206.8	1,093	1,385	26.7
1.2.- Indirect	72,772	71,250	69,077	-5.1	-3.0	68,346	66,673	-2.4
- VAT	48,952	49,302	47,691	-2.6	-3.3	48,126	47,216	-1.9
- Special taxes	20,825	18,983	18,426	-11.5	-2.9	17,479	16,744	-4.2
- Others	2,995	2,965	2,960	-1.2	-0.2	2,741	2,713	-1.0
B.- TAXES SHARED WITH REGIONAL AND LOCAL GOVERNMENTS (INCOME TAX, VAT AND SPECIAL TAXES)								
2.- Total	141,538	138,088	139,223	-1.6	0.8	130,831	129,870	-0.7
2.1.- Income tax	71,761	69,803	73,106	1.9	4.7	65,226	65,910	1.0
2.2.- VAT	48,952	49,302	47,691	-2.6	-3.3	48,126	47,216	-1.9
2.3.- Special taxes	20,825	18,983	18,426	-11.5	-2.9	17,479	16,744	-4.2
C.- CENTRAL GOVERNMENT SHARES OF INCOME TAX, VAT AND SPECIAL TAXES								
3.- Total	68,641	65,233	47,367	-31.0	-27.4	64,128	43,046	-32.9
3.1.- Income tax	35,494	33,544	29,232	-17.6	-12.9	32,054	24,522	-23.5
3.2.- VAT	24,968	25,355	13,633	-45.4	-46.2	26,190	14,901	-43.1
3.3.- Special taxes	8,179	6,334	4,502	-45.0	-28.9	5,884	3,623	-38.4
C.- REGIONAL AND LOCAL GOVERNMENTS SHARES OF INCOME TAX, VAT AND SPECIAL TAXES								
4.- Total	72,897	72,855	91,856	26.0	26.1	66,703	86,824	30.2
4.1.- Income tax	36,267	36,259	43,874	21.0	21.0	33,172	41,388	24.8
4.2.- VAT	23,984	23,947	34,058	42.0	42.2	21,936	32,315	47.3
4.3.- Special taxes	12,646	12,649	13,924	10.1	10.1	11,595	13,121	13.2

Sources: Ministry of Finance.

commitments made to the EU in order to make rapid progress towards fiscal consolidation and comply with the Stability and Growth Pact, and thus tackle the sovereign-debt crisis and rebuild the confidence of financial markets in the more vulnerable countries. Subsequent to the budget's approval, on July 10th, during the so-called Europe week, the ECOFIN revised the deficit target to 6.3%. This was in response to the upward revision of the deficit in 2011 and the fact that revenue was performing worse than expected. This modification was assigned to the central government, such that its deficit target was set at 4.5% of GDP.

To meet these targets, given that the tax revenue forecasts deriving from the macroeconomic situation pointed towards a significant drop, the PGE-2012 included a number of fiscal measures that, together with others already in place, represented an increase in central government tax revenues of 12.3 billion euros. Thanks to

Table 3

Central government 2012 budgetary execution up to November

	2011-2012 budget					Execution January-November		
	Millions of euros		% change	Millions of euros		Millions of euros		
	Budget 2011 (A)	Execution 2011 (B)	Budget 2012 (C)	2012 Budget vs. 2011 budget (C/A)	2012 Budget vs. 2011 execution (C/B)	2011	2012	% Change 2012/2011
A. NATIONAL ACCOUNTS								
1.- Non-financial resources	--	137,518	--	--	--	92,446	97,312	5.3
2.- Non-financial applications (expenses)	--	169,097	--	--	--	144,262	143,222	-0.7
3.- Deficit (Financing needs)	-24,388	-31,579	-36,976	--	--	-51,816	-45,910	-11.4
3.a.- Deficit as % of annual GDP	-2.3	-3.0	-3.5 (b)	-1.2 (a)	-0.5 (a)	-4.9	-4.4	0.5 (a)
3.b.- Deficit as % of annual GDP, excluding regional and local governments settlements from prev. years	-4.8	-4.6	-3.5 (b)	1.3 (a)	1.1 (a)			
B.- CASH								
4.- NON-FINANCIAL INCOME	106,020	104,331	119,233	12.5	14.3	97,396	108,318	11.2
4.1.- Taxes	91,381	88,035	75,941	-16.9	-13.7	84,407	65,903	-21.9
4.1.1.- Direct	55,239	53,381	54,846	-0.7	2.7	49,592	44,666	-9.9
- Personal income tax	35,494	33,544	29,232	-17.6	-12.9	32,054	24,522	-23.5
- Corporate income tax	16,008	16,611	19,564	22.2	17.8	14,611	17,190	17.7
- Nonresidents income tax	2,540	2,040	2,411	-5.1	18.2	1,834	1,569	-14.4
- Quotas of pension fund rights, etc.	1,197	1,186	3,639	204.0	206.8	1,093	1,385	26.7
4.1.2.- Indirect	36,142	34,654	21,095	-41.6	-39.1	34,815	21,237	-39.0
- VAT	24,968	25,355	13,633	-45.4	-46.2	26,190	14,901	-43.1
- Special taxes	8,179	6,334	4,502	-45.0	-28.9	5,884	3,623	-38.4
- Others	2,995	2,965	2,960	-1.2	-0.2	2,741	2,713	-1.0
4.2.- Non-tax income	14,639	16,296	43,292	195.7	165.7	12,989	42,415	226.5
5.- NON-FINANCIAL PAYMENTS	150,056	151,095	152,630	1.7	1.0	135,863	136,056	0.1
5.a.- Payments excluding interest	122,635	128,891	123,754	0.9	-4.0	113,908	110,519	-3.0
5.1.- Current expenses	132,406	133,835	139,950	5.7	4.6	121,935	127,174	4.3
5.1.1.- Staff costs	26,982	27,420	27,339	1.3	-0.3	23,767	23,834	0.3
5.1.2.- Purchases of goods and services	3,385	4,319	3,238	-4.3	-25.0	3,308	2,586	-21.8
5.1.3.- Interest	27,421	22,204	28,876	5.3	30.0	21,955	25,537	16.3
5.1.4. Current transfers	74,618	79,892	80,498	7.9	0.8	72,905	75,217	3.2
5.2.- Capital expenses	15,178	17,260	10,302	-32.1	-40.3	13,928	8,882	-36.2
5.2.1.- Real investments	5,817	6,895	5,280	-9.2	-23.4	5,473	4,852	-11.3
5.2.2.- Capital transfers	9,362	10,365	5,022	-46.4	-51.5	8,455	4,030	-52.3
5.3.- Contingency fund	2,472	--	2,377	-3.8	--	--	--	--
6.- CASH BALANCE (4-5)	-44,036	-46,764	-33,397	-24.2	-28.6	-38,467	-27,738	-27.9
6.a.- Deficit as % of annual GDP	-4.1	-4.4	-3.2	1.0 (a)	1.2 (a)	-3.6	-2.6	1.0 (a)
6.b.- Primary cash balance (4-5.a)	-16,615	-24,560	-4,521	-72.8	-81.6	-16,512	-2,201	-86.7

(a) Change in percentage points of GDP.

(b) This deficit target was modified to -4.5% subsequent to the approval of the PGE-2012.

Source: Ministry of Finance.

this, forecast tax revenues rose by 4.3% on the previous year (Table 2). Some of the most significant measures were a supplementary income tax rate (4.1 billion euros), a number of changes to corporate income tax (5.35 billion euros), a special tax on the fiscal regularisation of concealed income (2.5 billion euros), and other measures such as increasing the tax on tobacco products and levying court fees.

Estimates based on the data available up to November suggest that the **central government** will meet its deficit target for 2012 (Table 3). Revenues were increasing by less than initially expected, but the upward path followed in previous months will continue, bringing revenues closer to the target when December's revenue is included. This progression is the consequence of the additional measures taken in July, on top of those in the PGE-2012, basically affecting corporate income tax and value added tax (VAT). In the case of VAT, since September, the general rate has risen from 18% to 21% and the lower rate from 8% to 10%. At the same time, a series of goods and services to which the lower rate formerly applied are now subject to the full rate. The government's estimate of the impact of all the measures taken since 2011, effective in 2012, comes to 14.84 billion euros, 9.2% of total tax revenues in 2011. Based on an estimate for December, tax revenues for the year as a whole could suffer a downward deviation of around 3.65 billion euros. Nevertheless, it is foreseeable that the government might partially make up for this deviation with higher non-tax income than forecast.

The central government's payments registered near stability relative to the same period of 2011, as against forecast growth of 1% for the full year. It is foreseeable that in December these payments will moderate further due to the government's decree to eliminate public employees' Christmas bonuses.

The central government's non-financial cash balance to November registered a deficit of 27.74 billion euros, compared with 38.47 billion euros in 2011. In national accounts terms, the deficit came to 45.91 billion euros, a drop of 11.4% on the previous year. This figure represents 4.4% of the year's estimated GDP, 0.5 pp less than a year earlier. All these figures are fairly well aligned with the overall forecast for the year, making it plausible that the central government will meet its target, and it may even improve on it by a few tenths of a percent of GDP.

However, the way the **social security** system's income and expenses (excluding unemployment benefits) are evolving suggests that it will not be able to balance its budget as required. In the period up to November, non-financial income dropped by 1.4%, when it should have risen by 2% to match the budget. At the same time, expenses grew faster than forecast. Thus, adding in the estimates for December, a deficit of at least 5 billion euros looks likely. As might be expected, unemployment benefits, which are another important component of the social security funds' deficit, have also diverged from their earlier estimates. In the period to November, spending on unemployment benefits rose by 6%, compared with a forecast for the year as a whole of a reduction of 4%. Based on these data, the system's deficit can be estimated at 3.5 billion euros, making the social security funds' overall balance a deficit of 9 billion euros, or 0.85 pp of GDP.

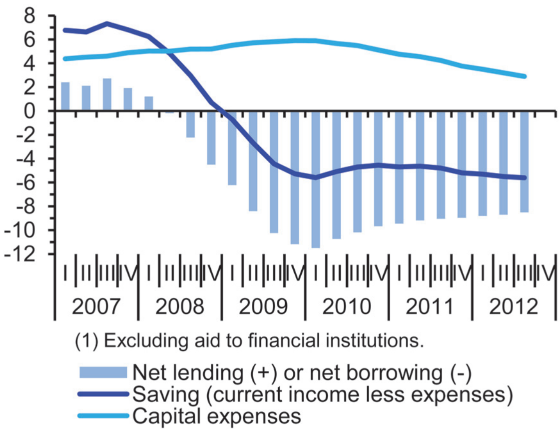
The most relevant information available for the **autonomous regions** is the estimate of their accounts (in national accounts terms) for the first three quarters of the year by the General Intervention Board of the State Administration (IGAE). These estimates show a deficit in uniform terms of 11.98 billion euros, or 1.14% of GDP, compared with 2.2% in the same period the previous year. In other words, the deficit has halved. Keeping the rate of reduction close to this for the third quarter leads to a figure of 1.9% for the year as a whole, which is 0.4 pp over the target.

Lastly, as regards the available statistical information, Exhibit 2 presents the quarterly national accounts on the progress of the total government deficit (as a percentage of GDP) up to the third quarter of 2012. The figure here was obtained as the difference between net savings and capital expenditure in terms of the moving sum over four quarters. As can be seen, savings (i.e. the difference between current revenues and current expenditures) improved slightly in 2010, but since early 2011 they have remained on a moderately downward path, ending the third quarter of 2012 with a negative figure equivalent to 5.6% of GDP. This trend is more marked in the case of capital

Exhibit 2

General government saving, investment and deficit (1)

Percentage of GDP, moving sum over four quarters

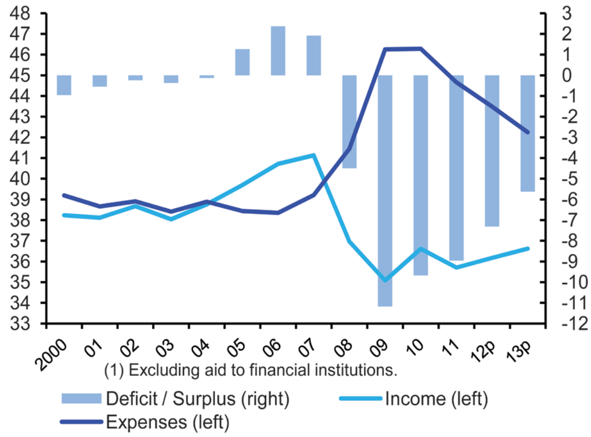


Sources: IGAE and INE.

Exhibit 3

Government income, expenses and deficit (1)

Percentage of GDP



Sources: Up to 2011, IGAE; 2012-13, FUNCAS forecasts.

expenditure, which has dropped to 2.9% of GDP (compared with 5.9% at the end of 2009). This has allowed the deficit to be reined in, albeit too slowly for it to bring the target for the year as a whole within reach. The deficit for the last four quarters up to the third quarter of this year, excluding aid for financial institutions, comes to 8.5% of GDP, just half a percentage point below that in the fourth quarter of 2011 and a long way from the target for the year as a whole of 6.3%.

Based on the foregoing data and analysis, and assuming that local governments meet their targets, the public administration as a whole could balance its 2012 budget with a deficit of 7.3% of GDP (excluding aid to financial institutions, which is valued at 1.1 pp of GDP). This figure is 1.7 pp of GDP lower than that for 2011, but 1 pp higher than the target approved by ECOFIN. The drop on the previous year would come from an increase in income of 0.5 pp of GDP and a cut in expenditures of 1.2 pp (Exhibit 3).

Table 4 shows our estimate (in national accounts terms) of the main income and expenditure items of the general government accounts. In these estimates, total income grew by a modest 0.3% in 2012, and tax revenues by 0.5%, outpacing nominal GDP growth by 1.5 pp. This implies an increase in the tax burden of 0.4 pp of GDP, partly offsetting the reduction in 2011. In the last three years, the tax burden has therefore regained 1.1 points of the 6.4 points it lost between 2008 and 2009.

On the expenditure side (excluding aid to financial institutions), a reduction of 3.6% on the previous year is envisaged. This basically derives from the drop in capital expenditures, as current expenditures fell only slightly, given that the reduction in public consumption and subsidies was offset by the increased spending on interest payments and welfare benefits. As a percentage of GDP, total expenditures shrank by 1.2 pp to 43.5%, a percentage that is 4.3 pp higher than in 2007.

Bearing in mind that the economy's growth was again below its long-term trend rate, the difference between actual and potential GDP (output gap) has once again widened. This means that the cyclical component of the public deficit has also

Table 4

General government accounts. Forecasts for 2012-2013 (Funcas)

	Billions of euros			*% y-o-y change*		*% of GDP*		
	2011 (P)	*2012 (F)*	*2013 (F)*	*2012 (F)*	*2013 (F)*	*2011 (P)*	*2012 (F)*	*2013 (F)*
1.- TOTAL RESOURCES (INCOME)	379.7	380.9	383.3	0.3	0.6	35.7	36.2	36.6
of which, tax revenues	330.5	332.0	334.8	0.5	0.8	31.1	31.5	32.0
1.1.- CURRENT INCOME	380.3	382.6	386.2	0.6	0.9	35.8	36.3	36.9
1.1.1.- Taxes on production and imports	105.0	106.0	113.2	1.0	6.8	9.9	10.1	10.8
1.1.2- Income and wealth taxes	101.6	106.9	106.7	5.2	-0.2	9.6	10.2	10.2
1.1.3.- Actual social contributions	129.0	124.9	121.4	-3.2	-2.8	12.1	11.9	11.6
1.1.4.- Other current resources	44.7	44.9	45.0	0.4	0.2	4.2	4.3	4.3
1.2.- CAPITAL INCOME (a)	-0.7	-1.7	-2.9	--	--	-0.1	-0.2	-0.3
2.- TOTAL APPLICATIONS (EXPENSES)(b)	475.0	457.7	442.1	-3.6	-3.4	44.7	43.5	42.2
2.b.- Total non-interest expenses (2 – 2.1.3)(b)	448.8	423.9	398.9	-5.6	-5.9	42.2	40.3	38.1
2.1.- CURRENT EXPENSES	435.5	431.9	425.3	-0.8	-1.5	41.0	41.0	40.6
2.1.b.- Total current expenses excl. interest (2.1 – 2.1.3)	409.4	398.1	382.1	-2.8	-4.0	38.5	37.8	36.5
2.1.1.- Remuneration of employees	123.6	118.1	112.6	-4.4	-4.7	11.6	11.2	10.8
2.1.2.- Intermediate consumption and production taxes	62.5	55.8	47.5	-10.7	-14.8	5.9	5.3	4.5
2.1.3.- Interest and other property income	26.1	33.8	43.2	29.3	27.8	2.5	3.2	4.1
2.1.4.- Social benefits	163.8	168.1	169.3	2.6	0.7	15.4	16.0	16.2
2.1.5.- Social transfers in kind	30.0	30.0	30.0	0.0	0.0	2.8	2.8	2.9
2.1.6.- Subsidies and other current transfers	29.6	26.1	22.7	-11.8	-13.0	2.8	2.5	2.2
2.2.- CAPITAL EXPENDITURES (a)	39.5	25.8	16.8	-34.6	-34.9	3.7	2.5	1.6
2.2.1.- Gross capital formation (c)	30.0	19.6	12.8	-34.6	-34.9	2.8	1.9	1.2
2.2.2.- Capital transfers (b)	9.4	6.2	4.0	-34.6	-34.9	0.9	0.6	0.4
3.- NET LENDING (+) OR BORROWING (-) (DEFICIT) (1 - 2) (b)	-95.3	-76.8	-58.8	-19.5	-23.4	-9.0	-7.3	-5.6
4.- Primary deficit/surplus (1 -2.b) (b)	-69.2	-43.0	-15.6	-37.9	-63.6	-6.5	-4.1	-1.5
5.- Aid to financial institutions	5.1	11.6	0.0					
6.- DEFICIT with aid to financial institutions	-100.4	-88.3	-58.8	-12.1	-33.4	-9.4	-8.4	-5.6
7.- Primary deficit with aid to financial institutions	-74.3	-54.5	-15.6	-26.6	-71.3	-7.0	-5.2	-1.5
MEMORANDUM ENTRY:								
8.- Gross disposable income	167.5	161.7	158.3	-3.5	-2.1	15.8	15.4	15.1
9.- Final consumption	222.7	210.9	197.3	-5.3	-6.4	20.9	20.0	18.9
10.- GROSS SAVING (8 - 9 = 1.1 - 2.1)	-55.2	-49.2	-39.1	-10.8	-20.6	-5.2	-4.7	-3.7
11.- Deficit of central government and agencies (b)	-31.4	-45.2	-36.8	43.7	-18.5	-3.0	-4.3	-3.5
12.- Deficit of Social Security funds	-0.8	-8.4	-10.5	989.7	24.2	-0.1	-0.8	-1.0
13.- Deficit of autonomous regions	-54.1	-20.0	-10.5	-63.1	-47.7	-5.1	-1.9	-1.0
14.- Local government deficit	-9.0	-3.2	-1.0	-64.7	-66.9	-0.8	-0.3	-0.1
15.- GROSS DEBT	736.5	909.8	987.0	23.5	8.5	69.3	86.4	94.3
16.- Nominal GDP mp	1063.4	1052.9	1046.6	-1.0	-0.6	--	--	--

(P) Provisional.(F) Forecast.

(a) Includes adjustment for uncertain collections.

(b) Excludes aid to financial institutions.

(c) Includes net acquisition of non-financial non-produced assets (land).

Sources: 2011, Ministry of Economy and Finance (IGAE) and INE; 2012-13, FUNCAS forecasts.

Table 5
Breakdown of government deficit

	2006	2007	2008	2009	2010	2011	2012 (F)	2013 (F)
Percentage of GDP								
1.- TOTAL DEFICIT	2.4	1.9	-4.5	-11.2	-9.7	-9.4	-8.4	-5.6
2.- Non-recurrent extraordinary expenses (a)	0.0	0.0	0.5	1.2	1.0	0.5	1.1	0.0
3.- Interest payments	1.6	1.6	1.6	1.8	1.9	2.5	3.2	4.1
4.- Recurrent primary deficit (1+2+3)	4.0	3.5	-2.4	-8.2	-6.7	-6.5	-4.1	-1.5
4.1.- Recurrent cyclical primary deficit	3.3	5.1	4.8	0.7	0.0	0.1	-1.4	-2.9
4.2.- Cyclically adjusted recurrent primary deficit STRUCTURAL PRIMARY DEFICIT) (4-4.1)	0.7	-1.6	-7.2	-8.9	-6.7	-6.6	-2.7	1.4
5.- Cyclically adjusted total primary deficit (TOTAL STRUCTURAL DEFICIT) (4.2-3)	-0.9	-3.2	-8.8	-10.6	-8.7	-9.0	-5.9	-2.7
Change on previous year in percentage points of GDP								
1.- TOTAL DEFICIT	1.1	-0.4	-6.4	-6.7	1.5	0.2	1.1	2.8
2.- Non-recurrent extraordinary expenses	0.0	0.0	0.5	0.7	-0.2	-0.5	0.6	-1.1
3.- Interest payments	-0.1	0.0	0.0	0.2	0.2	0.5	0.8	0.9
4.- Recurrent primary deficit (1+2+3)	1.0	-0.5	-5.9	-5.8	1.4	0.2	2.4	2.6
4.1.- Recurrent cyclical primary deficit	1.9	1.9	-0.3	-4.1	-0.7	0.1	-1.4	-1.6
4.2.- Cyclically adjusted recurrent primary deficit (STRUCTURAL PRIMARY DEFICIT) (4-4.1)	-0.9	-2.3	-5.6	-1.7	2.2	0.1	3.9	4.1
5.- Cyclically adjusted total primary deficit (TOTAL STRUCTURAL DEFICIT) (4.2-3)	-0.8	-2.3	-5.6	-1.8	2.0	-0.4	3.1	3.2

(a) Includes both expenses and loss of income. In 2011 and 2012 these are aid to financial institutions. (F) Forecast.(a) Includes adjustment for uncertain collections.

Sources: Author's own calculations forecasts based on data from the National Accounts up to 2011. The output gap, which is the starting point for the estimate of the cyclical component of the deficit, is obtained as the percentage difference between actual and potential GDP. the latter is extracted using the Hodrick-Prescott filter (lambda = 100).

increased, albeit much less than in the last two years. It can therefore be deduced that all the deficit reduction effort has come from a structural or discretional adjustment. Table 5 shows how the deficit breakdown has been calculated. It should be borne in mind that these figures may vary widely depending on the methodology used[2], although the differences are relatively minor when the variations in these components are analysed. And it is the components that are basically the most significant indicators when assessing the sign of budgetary policy and the fiscal consolidation effort. The drop in the total deficit estimated for 2012 is 1.7 pp of GDP, excluding support to financial institutions. Deducting the increase in interest payments from this figure yields a reduction in the primary deficit of 2.4 pp of GDP. This figure breaks down into an increase in the cyclical component of 1.4 pp and a decrease in the structural (discretional) component of 3.9 pp. Over the three years from 2010 to 2012 the structural component of the primary deficit has improved by 6.2 pp of GDP. Nevertheless, its level remains high, estimated at around 3 pp of GDP.

[2] In the calculations given here, the output gap, which is the starting point when estimating the cyclical component of the deficit, is obtained as the percentage difference between actual (observed) and potential (trend) GDP, where the latter is obtained using the Hodrick-Prescott filter (lambda = 100).

Forecasts for 2013

The 2013 budget

The 2013 budget (PGE-2013) forecasts a contraction in GDP of 0.5% in 2013, in real terms, and of 1.2% in nominal terms (Table 1). The real-term contraction is approximately one percentage point less than in the latest forecasts by international organisations and the consensus among private-sector analysts. Its composition shows a further significant decline in domestic demand (-2.9%), which is largely offset by the contribution of net external demand (2.3 percentage points). In the case of employment, the PGE-2013 forecasts a drop of 1.2%, which is also significantly less than envisaged by other forecasts. Average employee remuneration increases by 1.5%, with salaried employees' income rising by 0.3%. Here too, significant differences with other forecasts are apparent, as these project a drop in salaried

Table 6

Forecast government income, expenses, financing needs and debt in 2013

1.- NON-FINANCIAL INCOME

	Billions of euros		Change with respect to progress of 2012 settlement (%)	
	Govt.	Total (1)	Govt.	Total (1)
1.- Total	124.0	193.9	2.6	-9.0
2.- Taxes	104.2	174.1	37.7	3.7
2.1.- Direct	64.6	96.6	19.9	-1.5
- Pers. inc. tax	42.3	74.2	48.4	2.2
- Corp. inc. tax	19.0	19.0	-2.9	-2.9
- Others	3.4	3.4	-42.4	-42.4
2.2.- Indirect	39.6	77.5	81.6	11.0
- VAT	28.3	54.7	98.6	13.2
- Others	11.3	22.8	49.6	6.3
3.- Remainder	19.8	19.8	-56.2	-56.2
Memorandum entry:				
Nominal GDP		1062.9		1.2

2.- NON-FINANCIAL EXPENSES

	Billions of euros	Change with respect to initial 2012 budget (%)
1.- Total	162.1	6.2
2.- Current expenses	150.9	7.8
2.1.- Staff costs	27.7	1.2
2.2.- Purch. of goods and services	2.9	-12.0
2.3.- Interest	38.6	33.7
2.4.- Current transfers	81.8	1.6
3.- Capital expenses	8.6	-16.1
3.1.- Real investments	3.9	-13.9
3.2.- Capital transfers	4.7	-17.9
4.- Contingency fund	2.6	8.4
Memorandum entry:		
Current transfers, regional and local governments financing systems	35.3	-3.2
Total expenses, excluding regional and local governments financing systems	126.8	9.2
Total non-interest expenses, excluding regional and local governments financing systems	88.2	1.0

3.- FINANCIAL NEEDS (Billions of euros)

	PGE-12	PGE-13
1.- Deficit of non-financial transactions	33.4	38.1
2.- Changes in financial assets	3.4	10.0
3.- Debt repayments	149.3	159.2
4.- Total financial needs (1+2+3)	186.1	207.2

4.- GOVERNMENT DEBT

	2012	2013
1. Outstanding debt (billions)	677.9	728.8
2.- Debt according to Excessive Deficit Protocol (% of GDP)	66.1	70.2

(1) Including regional and local governments' share of income tax, VAT, and special taxes.
Sources: Ministry of the Economy and Public Treasury.

employees' income of 3%. The government expects the unemployment rate to fall to 24.3%, whereas other forecasts indicate a significant increase, to around 26.5%. The uncertainty surrounding the macroeconomic forecasts is undoubtedly high in the current context, but the overall assessment leads to the conclusion that the official figures may be sufficiently overoptimistic to have a serious impact on the budgetary forecasts.

Table 6 sets out the main **central government** income and expenditure headings included in the budget. Tax revenues, including the share of tax that corresponds to the autonomous regions and local governments, will increase by 3.7% relative to estimates for 2012. Central government tax revenues will grow by 37.7%, to 104.23 billion euros, while those destined for other levels of government will shrink by 24.1%. This difference in growth rates is due to the distortion caused in 2012 by the 2010 settlement in central government and autonomous regions' revenues, which boosted regional income above its "normal" level at the expense of central government income. This ceased to apply in 2013, causing a blip in the rate of change.

This increase in total tax income exceeds that in nominal GDP by a considerable margin, and that in domestic demand by a wider margin still. This is due to the fiscal adjustment measures adopted since December 2012, included in the PGE-2013, which will bring the treasury additional revenue of 7.22 billion euros in 2013 in net terms.

Non-tax income will fall in 2013 to 19.81 billion euros, 56.2% less, which will be largely compensated for by the sharp rise in taxes retained by the central government, and is mainly due to the same reasons, i.e. the settlement with the autonomous regions in 2012 for the 2010 financial year, which caused an anomalous increase in transfers to the regions from the central government. The overall effect of the increase in taxes and reduction in transfers for the autonomous regions is negligible, as the amount received under these two headings in 2013 (63.97 billion euros) will be practically the same as in 2012 (63.02 billion euros).

The central government's non-financial income is estimated at 124.04 billion euros, 2.6% more than in 2012. This increase looks reasonable if, despite the macroeconomic forecasts that suggest that the PGE-2013's estimates are over-optimistic, we assume that the tax-raising measures taken will produce the results the treasury expects. However, given that our estimates for the end of 2012 suggest that revenues will fall short of the budget's projections by 3.65 billion euros, the rate of variation applied to this income would lead to a figure that falls short by a similar amount in 2013.

The State's budgeted non-financial expenditures for 2013 come to 162.11 billion euros, 6.2% more than initially budgeted for 2012 (Table 6). This increase is basically due to the cost of interest (33.7%) and transfers to the social security to cover the cost of non-contributory pensions managed by the social security fund but paid for from the central government budget. Thus, expenditure assigned to ministries, excluding these latter items, has been reduced by 9.4%.

The difference between non-financial income and expenses foreseen in 2013 suggests the deficit will come to 38.06 billion euros. If the variation in financial assets of 9.96 billion euros is added to this figure, net borrowing (net issuance) comes to 48.02 billion euros. Repayments of government debt are estimated at 159.15 billion euros. From this it is possible to deduce financial needs (total issuance) of 207.17 billion euros, 21.04 billion more than initially envisaged for 2012. The outstanding government debt will rise from 677.9 billion euros in 2012 to 728.80 billion euros in 2013, or 68.6% of GDP (70.2% GDP according to Excesive Deficit Protocol).

As regards the **social security** system, its non-financial expense budget, which represents 41% of total consolidated central government expenditure, is now 125.80 billion euros, having grown by 5% compared to the initial budget in

2012. The main item, contributory pensions, will rise by 4.3%. These growth rates seem reasonable, although when they are applied to real 2012 expenditure, which is likely to exceed that budgeted, as already mentioned, they lead to an expenditure for 2013 which is also higher. Non-financial revenue is estimated at 125.69 billion euros, 4.8% more than in 2012. This is basically due to the increase in government transfers, given that the main item, namely employers' and employees' social security contributions, has increased by just 1.2%. However, this increase is not consistent with the consensus forecast of a reduction of around 3% in employees' earnings. If we add to this the fact that revenues in 2012 will be less than budgeted, the result is that 2013 revenues may be overestimated by approximately 6.5 billion euros. Although the budget foresees income and expenses being almost balanced, our forecasts suggest instead a deficit of around 9 billion euros, despite the sharp increase in transfers from the central government.

Going from public accounts in cash terms to national accounts terms, which use the accruals basis, the deficit of the central government and its agencies envisaged in the PGE-2013 rises to 40.90 billion euros, or 3.85% of GDP, the same figure as envisaged for the central government, including the social security system. The autonomous regions' deficit is projected to fall to 0.7% of GDP and local government is expected to be in equilibrium. The total deficit in 2013 for all levels of government therefore comes to 4.5% of GDP, against a target of 6.3% or our estimate of 7.3% in 2012.

Estimated public deficit in 2013

Table 4 shows the figures for Funcas' forecast of how the public accounts as a whole are expected to evolve in 2013 based on the data from the close of 2012, discussed in the previous section, and the forecasts that can be deduced from the PGE-2013. The 2013 budget expects revenues to grow by 0.6%, 1.2 pp more than Funcas' estimate of nominal GDP growth. Among the sources of revenue, taxes on production and imports show the biggest increase, explained by the increase in VAT rates and other measures already discussed. Income tax revenues remain practically unchanged, as the increase in personal income tax (due to the measures taken rather than growth in the tax base), will be offset by the drop in corporate income tax, which will shrink as a result of the increase in advance payments and other measures in 2012. Social security contributions drop by 2.8%, somewhat less than employees' earnings. As a percentage of GDP, total general government revenues could increase for the second consecutive year by around half a percentage point, to 36.6%. Nevertheless, this ratio is still 4.5 pp below its peak in 2007.

In the case of expenditures, excluding aid to financial institutions, a drop of 3.4% is foreseen, which is similar to that in 2012. This would be the third decline in a row. Excluding interest, which is set to rise to 28%, primary expenditure will fall by 5.9%. Public consumption, the main component of which is staff remunerations, will drop by 6.4%, with subsidies and other current transfers falling yet faster. However, the biggest fall is in the case of capital expenditure, down by almost 35%. Welfare benefits, which comprise the biggest expenditure category, are the only expenses showing an increase, although the rate is slower than in 2012, due to the cutbacks in unemployment benefits and other non-pension benefits. As a percentage of GDP, total expenditure will fall by 1.3 pp, a similar figure to that in 2012.

The estimates for income and expenses yield a deficit for the general government of 5.6% of GDP, 1.1 pp more than forecast by the government. This difference is partly explained by the different initial macroeconomic picture, but in particular by the deviation in 2012, which, in the absence of additional corrective measures, will spill over into 2013. In any event, as in 2012, the 1.7 pp of GDP reduction in the deficit in a further year of recession is a sign of significant fiscal consolidation. Making a bigger effort would have an excessively restrictive impact on aggregate demand growth and employment with negative consequences for the current process of consolidating the financial system, and in the long term, for the process of fiscal consolidation.

The estimates of the various deficit components (Table 5) show an improvement in the primary structural deficit (cyclically adjusted balance excluding interest payments and aid to financial institutions) of 4 pp of GDP, similar to that in 2012, making it positive for the first time in seven years. The total structural deficit would be situated below 3%. If these forecasts are met, the total structural deficit adjustment between 2012 and 2013 will have been substantial, with a reduction of around 6 pp of GDP. This would enable to slow the rate of adjustment in 2014, so as to minimise the impact on economic growth.

Outlook for the Spanish banking sector in 2013 and beyond: Completing the MoU and addressing remaining challenges

Santiago Carbó Valverde[1] and Francisco Rodríguez Fernández[2]

Many requirements set by the July 2012 Memorandum of Understanding (MoU) for financial assistance to Spanish banks have already been carried out last year. Several important outstanding measures are expected by the end of June 2013, but challenges will remain over the next few years. Restoring financial stability, credit growth and reducing the cost for taxpayers will be the main factors in determining the success of the restructuring and recapitalization process in 2013 and beyond.

The implementation of the MoU requirements has shown significant progress since November 2012. Key steps such as the approval of the restructuring/resolution plans, the injection of the necessary capital for banks and the effective transfer of impaired assets from the banks to the asset management company Sareb, have been carried out. Importantly, these events have coincided with a relatively calmer situation in sovereign and private debt markets that has brought some stability to financial institutions. This can been seen in the increase in deposit inflows in November 2012, after observing a continuous outflow since March 2012. However, loans continued decreasing. Adoption of important pending measures, such as initiation of activities of the asset management company Sareb and the completion of new bank restructuring plans, should also be addressed in 2013. The completion of the efficiency plans of the banks in 2013 may help create a better environment for lending, but the growth of bank financing will ultimately depend upon the improvement of macroeconomic conditions.

Advances in the implementation of the Memorandum of Understanding (MoU)

The approval by the European Commission of the plans for the four banks[3] in which the Fund for the Orderly Restructuring of the Banking Sector (FROB) has a majority stake on November 28th, 2012, was a key milestone in the resolution of the banking crisis in Spain. These banks –classified as Group 1 according to the MoU criteria– were then set to receive the necessary equity funds to meet their capital requirements.

[1] Bangor Business School and Funcas.

[2] University of Granada and Funcas.

[3] BFA-Bankia, CatalunyaCaixa, NCG Banco and Banco de Valencia.

The specific details of the plans have been unveiled and they will imply a significant reduction of the branch network and staff structure, as well as the shrinkage in activity through the sale of some assets, including participations in non-financial companies. Overall, this will imply a substantial deleveraging in the sector. The plans also include subordinated liability schemes (SLS), with haircuts on preference shares and subordinated debt, which seek to minimize the costs for taxpayers. Discounts for the holders of these debt instruments of Group 1 banks have ranged from 30% to 70%.

On December 26th, 2012, the Governing Committee of the FROB instrumented the recapitalization of these four banks with the injection of ESM funds for 36.97 billion euros. These institutions were thus set to meet the 9% minimum capital requirement identified in the stress tests that were released on September 28th, 2012. The recapitalization figures were lower than previous official estimations. The amount of impaired assets transferred to the Asset Management Company for Assets Arising from Bank Restructuring (Sareb) and the implementation of SLS –whereby preference shares and subordinated debt holders assume part of the losses– have explained the somehow lower amount of capital resources finally needed by these banks.

The amount of impaired assets transferred to the Sareb and the implementation of SLS –whereby preference shares and subordinated debt holders assume part of the losses– have explained the somehow lower amount of capital resources finally needed by these banks.

Likewise, the recapitalization plans for the four banks under Group 2[4] requiring injections of capital were approved on December 20th. These banks received equity funds for 1.87 billion euros. Again, the transfer of assets of these banks to Sareb, the burden-sharing actions and the disposal of assets have reduced the official estimations of the capital needs of this group of banks.

The sum of the capital resources provided by the ESM and instrumented by the FROB to all Spanish banks amounts to 38.83 billion euros while the stress tests of Oliver Wyman estimated capital needs of 52.45 billion euros for these institutions.

As for the burden sharing exercise for Group 2 banks, the discounts on hybrid capital instruments affected by the SLS range from 25% to 70%. These banks will also develop substantial restructuring plans during 2013.

The establishment of Sareb was also a very relevant fact towards the end of 2012. On November 16th, the Bank of Spain issued a note on the Sareb "blueprint"[5]. In this note, it is mentioned that "the overarching objective of Sareb is to manage and divest in an orderly manner the portfolio of real estate loans and assets received from participating banks within a timeframe of no more than 15 years". The objectives of the asset management company include optimizing levels of recovery and value preservation; minimizing negative impacts on the Spanish economy, real estate market and banking sector; minimizing costs and the burden on taxpayers; fully repaying its liabilities and utilizing capital efficiently.

On December 13th, Sareb increased capital to allow private investors to take a stake in the management company. The Sareb provided a list of initial shareholders and their equity holdings. Five large Spanish banks provided equity for 430 million euros while the FROB had (as expected) a minor but still significant participation of 397

[4] Banco Mare Nostrum, Banco Caja 3, Liberbank and Ceiss.

[5] http://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/InformacionInteres/ReestructuracionSectorFinanciero/Archivo/Ficheros/en/background_frob161112e.pdf

million euros. The total equity funds provided were 827 million euros. As the targeted capital of Sareb was 3.8 billion euros, the Sareb approved a capital augmentation through subordinated debt that was also expected to be subscribed by private investors and the FROB. On December 17th, Sareb completed its equity shareholding with the entry of 14 new investors, including 2 foreign banks, 8 additional domestic banks and 4 insurance companies[6]. After that entry, the total equity funds provided by private investors amounted to 524 million euros and the contribution of FROB increased to 431 million euros. All the participating banks were also committed to subscribe subordinated debt issued by Sareb to increase the amount of own resources of Sareb to the expected 3.8 billion euros. This way, 25% of these sources will be equity capital and 75% will be subordinated debt.

The total amount of assets managed by Sareb will be around 50-53 billion euros as the assets transferred by the Group 1 banks will be 37 billion euros and the assets transferred by Group 2 banks are estimated to be around 13-16 billion euros.

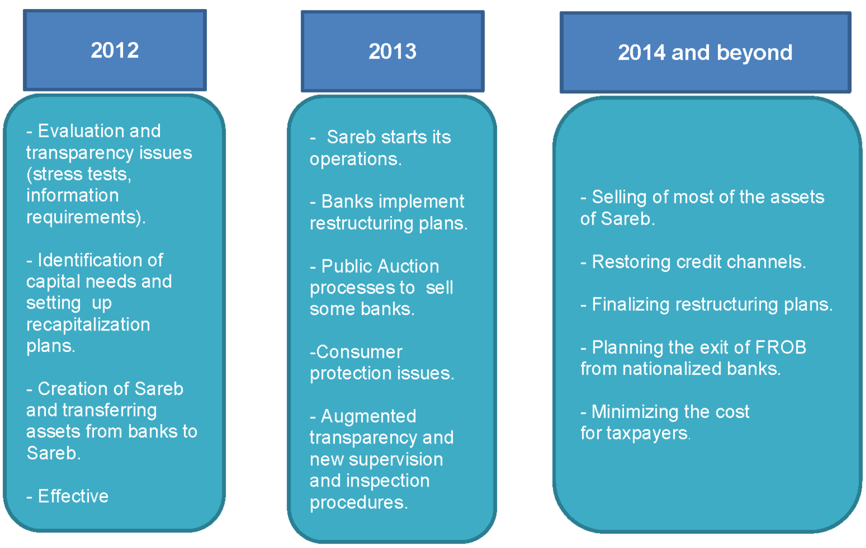
Importantly, the assets of Group 2 banks are expected to be transferred during the first quarter of 2013 and there is a possibility that such transfer could motivate a new equity capital increase and a new issuance of subordinated debt.

The MoU agenda for 2013

The MoU text includes 32 milestones to be completed over 2012 and 2013. As expected, 25 were undertaken in 2012. Importantly, this does not mean that these 25 measures are completely finished in practical terms as some of them consist of plans and/or institutional features that will have to evolve over the next few months/years. These features include, most notably, the operations of

Exhibit 1

The resolution of the banking crisis in Spain during 2012 and 2013, and beyond: A simplified perspective



Source: Authors' own elaboration.

[6] The Sareb shareholders are the following: Santander, Caixabank, Banco Sabadell, Banco Popular, Kutxabank, Ibercaja, Bankinter, Unicaja, Cajamar, Caja Laboral, Banca March, Cecabank, Banco Cooperativo Español, Deutsche Bank, Barclays Bank, Mapfre, Mutua Madrileña, Catalana Occidente and Axa.

Sareb, the restructuring plans of the banks and the exit of FROB from fully or partially nationalized banks. Exhibit 1 offers a simplified but illustrative way of looking at the achievements made and the remaining challenges.

As for the MoU requirements for 2013, some of them have been partially (or even fully) addressed in advance. The requirements and current status of the MoU are as follows:

a) Require all Spanish credit institutions to meet a Common Equity Tier 1 ratio of at least 9% by end-2014: the deadline for this requirement was January 2013 but it has been already fulfilled in advance with the completion of the recapitalization of banks in need of equity injections. This requirement also assumes that all Spanish banks will meet the definition of capital of the EU legislation that follows the European Banking Authority Standards.

b) Review governance arrangements of the FROB and ensure that active bankers will not be members of the Governing Bodies of FROB. This requirement has also been already fulfilled even if the deadline was January 2013.

c) Review the issues of credit concentration and related party transactions. This point was included in response to the identified problems of concentration of loans in the real estate sector as one of the main causes of the crisis in Spain. The way this problem is solved is one of the issues that the MoU text leaves more open. The Bank of Spain is covering some of these issues with new information and reporting requirements as well as with some new procedures in inspection and supervision that we will cover later on in this article. Therefore, this bullet point can be also considered as mostly fulfilled even if it was expected to be met by mid-January 2013.

d) Propose specific legislation to limit the sale by banks of subordinate debt instruments to non-qualified retail clients and to substantially improve the process for the sale of any instruments not covered by the deposit guarantee fund to retail clients: this was actually covered well in advance by the Spanish authorities with the Royal Decree-law 24/2012 released on August 31st, 2012. This decree set strict limits on the commercialization of hybrid capital instruments. These limits effectively result in the banning of such distribution among retail investors. The deadline for this requirement was February 2013.

e) Another issue is the amendment of the legislation of the credit register: the deadline was March 2013. The MoU explicitly mentions that "the Spanish authorities will take additional measures to improve the quantity and quality of information reported to the register". This amendment is being effectively carried out with the new information requirements mentioned above as well as with the distribution of supervision powers (including information requirements) enhanced by the RD-l 24/2012.

The final two requirements to be completed in 2013 refer to the possibility that some banks undergo a limited increase in equity or make use of CoCos to do so. The deadline for such actions is June 2013 but, as of now, it seems that this possibility will have a very limited impact on the recapitalization process. The requirements were defined as follows:

f) Raise the required capital for banks planning a more limited (less than 2% of RWA) increase in equity.

g) Group 3 banks with CoCos to present restructuring plans.

As noted above, one of the most relevant aspects related to the implementation of the MoU at the beginning of 2013 has been the release of a report by an Internal Committee on the supervisory procedures of the Bank of Spain, with recommendations for their reform. As the MoU required, such report was elaborated during October 2012 although the main conclusions have been publicly revealed in January 2013. The report consists of a diagnosis of the supervision procedures of the Bank of Spain and suggests some improvements. These suggestions include the establishment of a standardized framework for the adaptation of supervisory measures based on the risk profile of credit institutions. A formalization of supervisory conduct is also expected. This will be mostly made by fostering the on-site supervision of financial institutions so that any prompt-corrective action can be implemented and monitored without delay. The revision of the supervision actions also embrace a strengthening of the planning procedures for inspections and the procedures for monitoring compliance with letters of requirements and observations.

As shown in Exhibit 1, even if the adoption of the MoU measures have been almost completed, the practical implementation of such measures and their final effects will be observed over the next few months and years. There are, at least, four issues that still represent a very important challenge for Spanish banks and the banking authorities:

a) The success in the operations of Sareb: this will be observed during 2013 and over the 15 years suggested time horizon. The performance of the Sareb will be decisive to determine the success of the resolution of the banking crisis in Spain. In the short-run, investors will closely look at the way the assets are sold and the extent to which the Sareb effectively contributes to the adjustment in house prices, which still needs completion. In the long-run, the main criterion to determine the accomplishment of Sareb will be the extent to which it minimizes the costs for taxpayers.

b) Restoring credit channels: this is ultimately the (long-run) goal of most of the regulatory initiatives aiming to solve the banking crisis. This is a very challenging issue in Spain given that macroeconomic conditions will still make it difficult for some time to observe an increase in loan supply. Recession is still causing an increase in the non-performing loans (NPL) ratio. In particular, in the mortgage portfolio where the efforts of banks and customers with renegotiations have maintained NPL in that segment at relatively low levels but the persistence of the recession may make these NPLs grow significantly in the next few quarters.

The performance of the Sareb will be decisive to determine the success of the resolution of the banking crisis in Spain. In the short-run, investors will closely look at the way the assets are sold and the extent to which the Sareb effectively contributes to the adjustment in house prices. In the long-run, the main criterion will be the extent to which the Sareb minimizes the costs for taxpayers.

c) Banks will have to implement demanding efficiency plans, which include the closing of branches and the reduction of personnel. Actually, we are effectively observing that such efficiency effort is not restricted to the banks that have submitted restructuring plans in accordance to the MoU but to most Spanish banks. There is corporate activity affecting a wide range of banks such as the absorption of Banesto by Santander.

d) As in other European countries, Spain will have to address the exit of the participation of public bodies (i.e. FROB) from the capital of banks. That means moving from nationalizations to privatizations.

e) Overall, a key objective will be to minimize the cost for taxpayers of the resolution of the banking crisis. As in other previous crises internationally, this will include both the fiscal (explicit) and quasi-fiscal (continent aid, guarantees) costs of resolution. These costs are only fully known in the long-run.

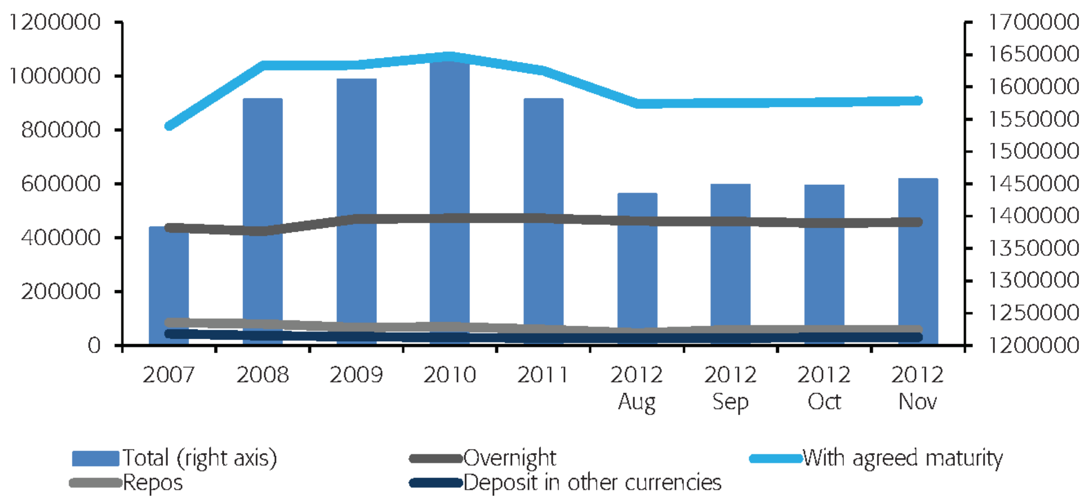
The status of financial intermediation in Spain

Considering the key restructuring and recapitalization plans that many banks are implementing in Spain in 2013, it seems a good time to analyze the situation of financial intermediation in Spain. To do so, we take advantage of some recent information published by the Bank of Spain on deposits and loans.

As shown in Exhibit 2, private sector deposits registered a monthly increase of 0.7% in November 2012, after a continuous fall from March 2012. Deposits from households and firms amounted 1.56 billion euros as of March 2012 and they decreased to 1.45 billion euros until October 2012. In November, they have grown to 1.46 billion euros. 62% of the deposits are termed deposits with agreed maturity (lower than two years for half of them) while 31% are overnight deposits. The increase in the deposits in November 2012 has been mainly driven by the savings accounts with agreed maturity of less than 2 years as many banks have been offering high rates (3%-4%) on such products.

As for loans, the evolution continues to be negative, as the annual growth rates of loans to firms and households fell by 4.6% and 3.6%, respectively in November 2012 being the largest fall –in particular for firms– of the period considered (see Exhibit 3). This evolution suggests that the credit restriction will still persist for some time. In this sense, the relatively better liquidity conditions observed at the beginning of 2013 may have a positive impact but cannot compensate the negative impact on lending from the current macroeconomic performance of the Spanish economy.

Exhibit 2
Private sector deposits in Spain (2007-Nov 2012)
(millions of euros)



Source: Bank of Spain and own elaboration.

Exhibit 3

Loan growth in Spain (2009-November 2012)

Source: Bank of Spain and own elaboration.

It will be very important for the Spanish banking sector to complete the restructuring plans through 2013, as this may help a number of banks to consider a way back to lending, in particular if the economy shows some signs of recovery towards the end of the year. It will have to be a relatively modest and selective flow of financing, in particular to SMEs which are in need of these funds and are solvent but face short-term funding problems.

It will be very important for the Spanish banking sector to complete the restructuring plans that will be done through 2013, as this may help a number of banks to consider a way back to lending, in particular if the economy shows some signs of recovery towards the end of the year.

Table 1

Bank margins, provisions and profits of Spanish banks (2008- Sep 2012)

	Interest margin	Gross margin	Cost/income ratio	Total provisions/ total assets	Impairment losses/total assets	Return on assets
2008	1.16%	2.18%	46.5%	0.11%	0.50%	0.68%
2009	1.41%	2.21%	44.8%	0.04%	0.63%	0.49%
2010	1.12%	2.07%	48.5%	0.13%	0.54%	0.34%
2011	0.93%	1.80%	42.6%	0.06%	0.70%	-0.52%
sep-12	1.02%	1.90%	45.2%	0.15%	1.35%	-1.19%

Sources: Bank of Spain and own elaboration.

A look at some of the main indicators of bank performance as of September 2012 (Table 1) suggests that margins are becoming again a key strategic driver for Spanish banks. Both the interest and the gross margin increased in the third quarter of 2012. However, the need to set new provisions and to assume impairment losses led to negative year-on-year profits with a return on assets of -1.19%. These figures suggest that there is a positive franchise value in Spanish banks and the necessary cleanup is being made so that this value can finally emerge.

In 2013, it will be difficult for banks to increase lending and the credit restrictions are likely to continue but the completion of the recapitalization plans and of the restructuring process may represent important ingredients for lending recovery in a medium-term horizon if the prospects of an exit from economic recession are confirmed.

Spanish SMEs’ financial restrictions: The importance of bank credit

Joaquín Maudos[1]

The ECB’s Survey on access to finance of SMEs in the euro area clearly shows the restrictions companies are facing and that tensions have intensified in 2012. The predominance of SMEs in Spain makes borrowing even more vulnerable to stricter conditions.

According to the ECB survey on SMEs, access to finance has been an ever-increasing key challenge for European SMEs during the crisis, both in terms of quantity and conditions of available bank credit. European SMEs in general perceive that: i) banks are less willing to lend, ii) available credit terms and conditions have deteriorated; and, iii) the outlook regarding future availability of bank credit is worsening. In addition, the closure of wholesale markets to Spanish banks, their increased default rates, and financial institutions’ risk aversion is exacerbating negative conditions, with low expectations on the part of Spanish SMEs that the situation will improve over the coming months.

Since mid-2009 bank credit to the private sector in Spain has contracted by 9.2%, a drop of around 172 billion euros (equivalent to 17% of GDP). This decrease in the availability of bank credit is due to both demand and supply side factors. On the demand side, in a complicated macroeconomic context characterised by falling or even negative GDP growth rates, it is only to be expected that demand for finance will be affected, given the difficulty of finding profitable investment projects. On the supply side, it is also understandable that the difficulties the banking industry is currently facing, such as escalating default rates and an outstanding stock of troubled assets, will heighten risk aversion, driving up the risk premium banks demand from borrowers, thus tightening the financial constraints faced by businesses and households. What is more, the sovereign-debt crisis is compounding the difficulties Spanish banks face in obtaining finance from wholesale markets, which is having a huge impact on credit growth.

The European Central Bank’s (ECB) regular surveys show that the banks themselves acknowledge that the criteria applied for new loan approvals have become stricter in recent years. Businesses share this view, as in the ECB’s six-monthly survey they report that the conditions under which bank finance is available have become stricter during the crisis.

[1] Professor of Economic Analysis at the University of Valencia, researcher at Ivie and contributor to CUNEF. *This article was written as part of the Ministry of Science and Innovation SEC2010-17333 and Generalitat Valenciana PROMETEO/2009/066 research projects.*

Against this backdrop, this article aims to analyse the conditions under which Spanish SMEs are able to access finance, in comparison with those of the rest of the euro area, based on the wealth of information provided by the ECB's *Survey on the access to finance of SMEs in the euro area.* Since the ECB began publishing this information in 2009, there have been seven rounds of the survey, the most recent referring to the period from April to September 2012. Although the survey includes information on both SMEs and large firms, the analysis here will focus on SMEs in view of their greater importance in Spain. Nevertheless, information on large firms will also be offered, as well as for businesses of various sizes within the category of SMEs (micro, small and medium-sized enterprises).

The importance of SMEs in the Spanish economy

One of the distinguishing features of the Spanish economy is the small average size of its firms. As shown in Table 1, which reproduces Eurostat data for 2010, in Spain 99.9% of businesses have fewer than 250 workers[2]. Although similar to Italy, this is a much larger share than in Germany or France. However, more significant than the number of companies, is the percentage of total employment SMEs account for. And in this case, Spain is also above the euro area average. Thus, whereas in the euro area (referring to the 11 founding member states) SMEs provide jobs for 63.6% of the economy's workers, in Spain the percentage is 74.5%, a long way from the level of approximately

Table 1

Distribution of firms and employees by size, 2010 (percentage)

a) Number of firms					
Firm Size	Euro area[1]	Germany	Spain	France	Italy
From 0 to 9 employees	92.0	82.0	93.3	94.0	93.6
From 10 to 49 employees	6.7	14.8	5.8	4.9	5.6
From 50 to 249 employees	1.1	2.7	0.8	0.8	0.6
More than 250 employees	0.2	0.5	0.1	0.2	0.1

b) Number of employees					
Firm Size	Euro area[1]	Germany	Spain	France	Italy[2]
From 0 to 9 employees	27.8	17.9	37.5	27.6	42.1
From 10 to 49 employees	17.0	22.3	21.8	18.7	22.6
From 50 to 249 employees	18.8	21.1	15.2	15.4	14.0
More than 250 employees	36.4	38.7	25.5	38.2	21.3

[1] Euro area is formed by the 11 founding countries (Germany, Austria, Belgium,Spain, Finland, France, Ireland, Italy, Greece, Netherlands and Portugal).

[2] 2009.

Sources: Eurostat (2012) and own elaboration.

60% in Germany and France. Although this is not shown in the table, of all the euro area countries, only Italy exceeds Spain in terms of the percentage of employment generated by SMEs.

It should be noted that as a group, SMEs comprise companies of very different sizes. If we distinguish between micro, small and medium-sized enterprises, the key feature in Spain is the strong presence of businesses with less than 10 employees (in many cases, these are companies with just one self-employed worker), as they represent 37.5% of total employment, a value above the European average (27.8%) and only exceeded in Italy (42.1%). This is also quite different from the situation in Germany (17.9%) and, to a lesser extent, from that in France (27.6%). In Spain too there are also more small enterprises (with between 10 and 49 employees), but the difference with other countries is much less marked.

In the euro area as a whole, medium and large firms (i.e. all those with 50 employees or more) together account for 55.2% of jobs, whereas in Spain this percentage is 14.5 points lower.

In this context of a predominance of small businesses in Spain, bank credit takes on much more importance as one of the main sources of finance (together with trade credit and cash flow funding). This makes Spain's borrowing more vulnerable to stricter conditions of access to bank finance, both in terms of quantity and cost.

Pressing problems of SMEs: The importance of access to finance

Since 2009, which is the first year for which ECB survey information is available, European companies have reported that difficulties accessing finance are their second biggest concern, following only their difficulty finding customers. As Exhibit 1 shows, after a slight improvement in 2010, the sovereign debt crisis which broke out in April 2010

Since 2009, which is the first year for which ECB survey information is available, European companies have reported that difficulties accessing finance are their second biggest concern, following only their difficulty finding customers.

with Greece's request for a bail-out, has led to the economic crisis and closure of the wholesale financing markets (both the debt and inter-bank markets), and has further tightened the restrictions on businesses' access to finance. Thus, the most recent survey reports that 18% of European SMEs said that access to finance was their most pressing problem, an increase of one point in the percentage from the preceding survey. In the case of micro-enterprises the percentage rises to 20%, whereas in medium-sized enterprises it is 14%.

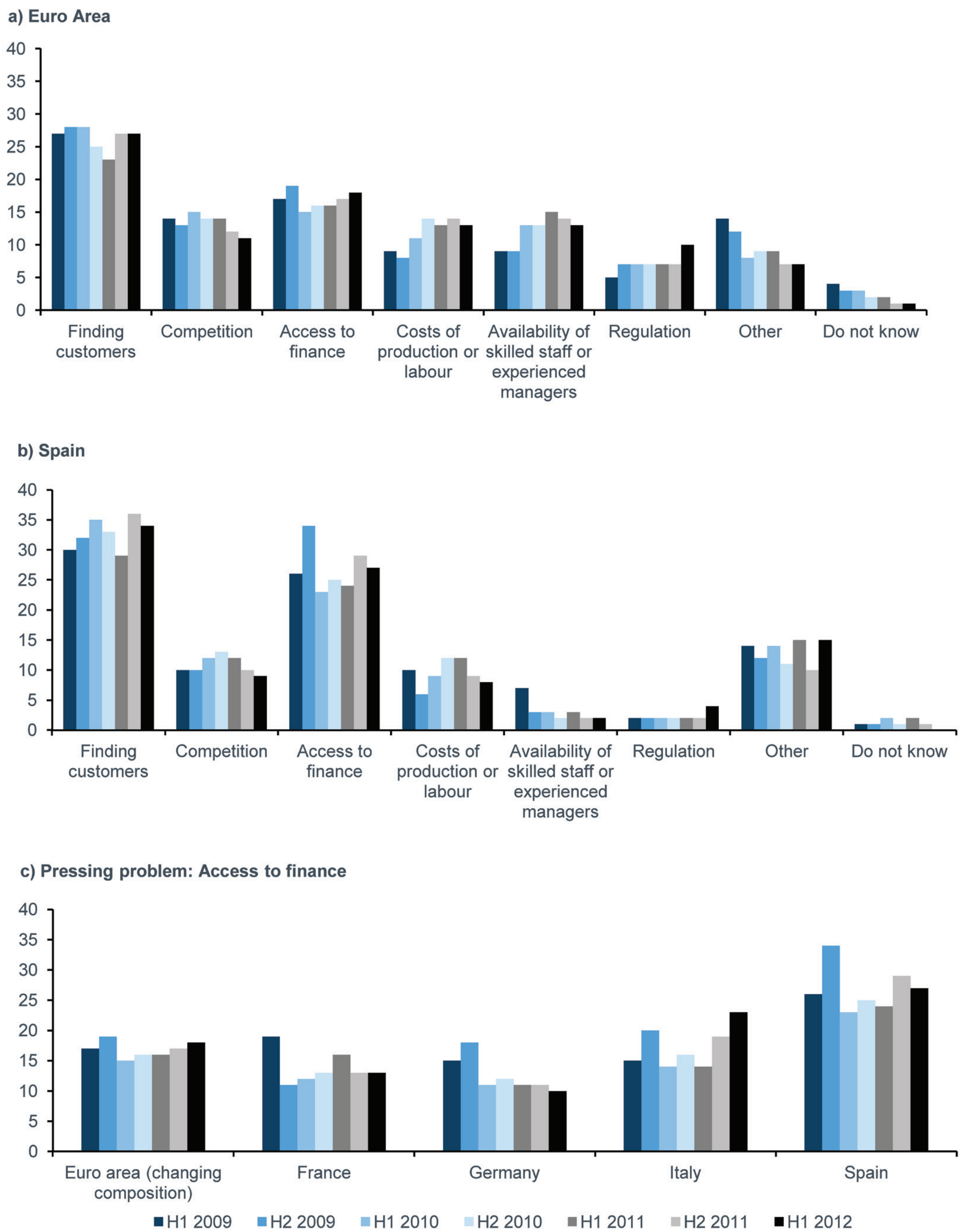
In this context, the difficulty of accessing finance is more serious in Spain, as 27% of the country's SMEs say that it is the most serious problem they currently face, many more than do so in Germany (10%) or France (13%). Of the SMEs in the eleven countries for which the ECB provides information, only in Greece (31%) did more SMEs say they faced difficulties than did those in Spain. Moreover, the financing problem is common to all Spanish companies, as alongside 27% of SMEs reporting access to finance as their main pressure, among large firms the figure is 26%. The only positive point to emerge is that in the latest round of the survey the percentage of Spanish SMEs that mention financing as a problem has dropped from 29% to 27%.

Of the SMEs in the eleven countries for which the ECB provides information, only in Greece (31%) did more SMEs say they faced difficulties than did those in Spain.

Exhibit 1

The most pressing problem faced by SME's

(percentage of respondents)



Sources: European Central Bank, Survey on the access to finance of SME's (November 2012).

The availability of bank credit

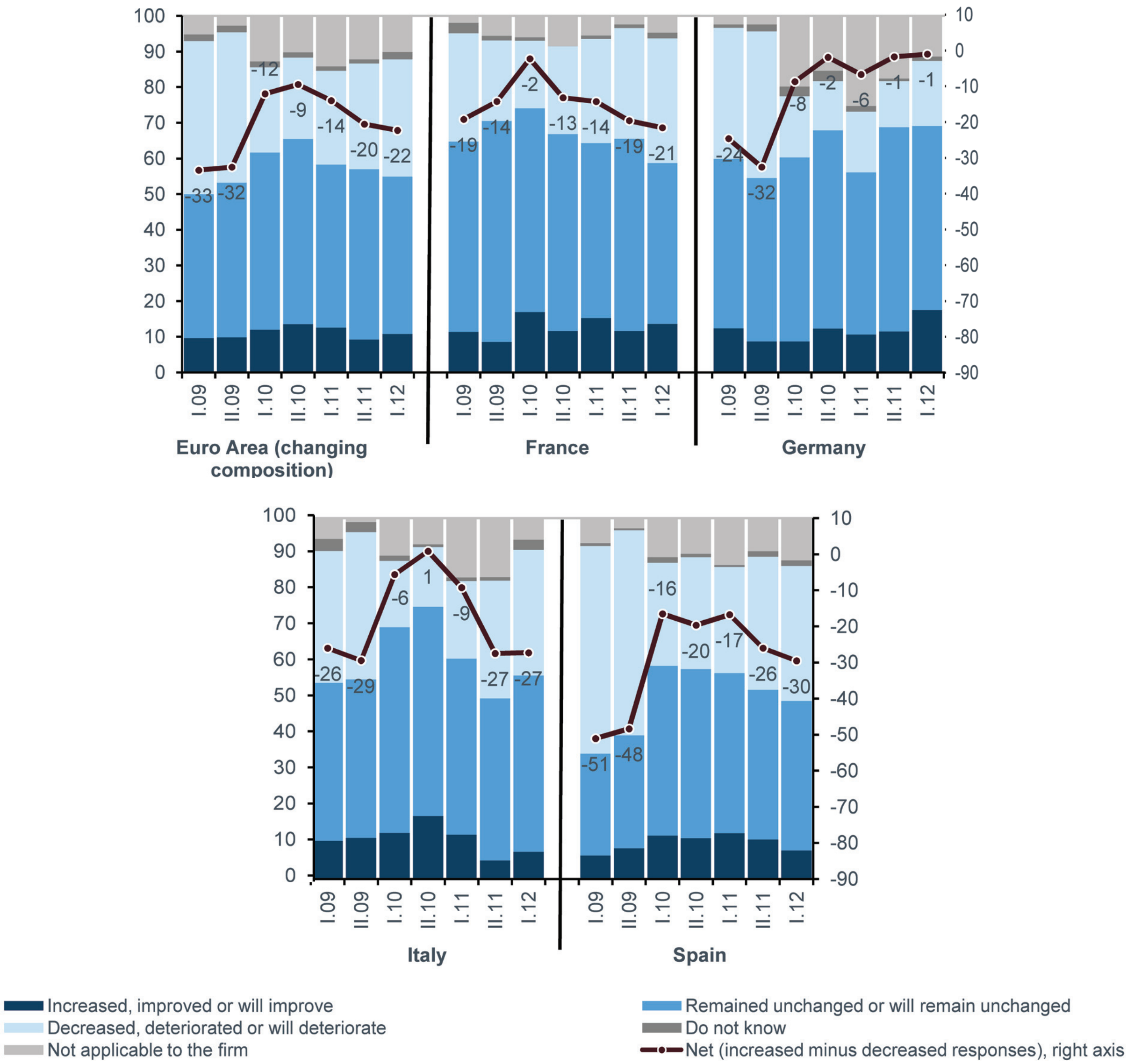
One of the characteristics of the current crisis is the credit crunch or credit squeeze from which all European countries are suffering to some extent.

This is supported by the answers given to the ECB survey's question: Would you say that the availability of bank credit for your company has improved, remained unchanged or worsened over the last six months? In particular, as the information

Exhibit 2

Availability of bank loans over the preceding six months

(percentage of respondents)



Sources: European Central Bank, Survey on the access to finance of SME's (November 2012).

in Exhibit 2 shows, since the second half of 2010, the percentage of European SMEs reporting a deterioration in the availability of bank credit has been rising, reaching 32.8% in the most recent survey in 2012. Also, since mid-2010, the difference between the percentage of positive (improvement) and negative replies (deterioration) has increased, from –9% in the survey in the second quarter of 2010 to –22% in the most recent survey.

Disaggregated by countries, the information shows that, of the four major countries in the Exhibit, it is in Spain that SMEs are suffering most severely from the restriction in bank credit, with a percentage of negative responses (those predicting credit will become harder to obtain) of 37.5% in the most recent survey, well above the figure for Germany (18.2%), although closer to that of France (35%) or Italy (34.8%). Nevertheless, the perception of the deterioration of the availability of credit is worse still in Ireland (41%), Greece (54%), the Netherlands (46%), and Portugal (48%). In net terms (percentage of companies reporting an improvement less the number reporting a worsening), the ranking is similar, with Belgium, France, Austria and Finland above the euro-area average.

The ECB's information reveals that it is the smallest SMEs (micro-enterprises, with less than 10 employees) that are hardest hit by the credit squeeze, as across the euro area on average 40% respond that the availability of finance has worsened in 2012, 14 percentage points (pp) more than in the case of enterprises with workforces of between 50 and 249. Similarly, while just 7% of micro-enterprises reported an improvement, the percentage doubles in the case of medium-sized enterprises. In Spain, on the other hand, the size-related differences between SMEs are much smaller: just a 4 pp difference between the number of medium-sized and micro-enterprises reporting a worsening in the availability of credit.

Another salient feature in Spain is that the perception of a worsening in the availability of finance is also shared by most large firms. Thus, in the most recent survey, there was a difference of just one percentage point between large firms and SMEs reporting a deterioration in access to credit (36% *vs*. 37%). Similarly, the difference is just two percentage points in the case of companies that consider there to have been an improvement (10% *vs*. 8%).

Banks' willingness to give credit: Businesses' perceptions

As well as the availability of bank finance, another aspect that it is worth examining to evaluate the restrictions companies face is their perception of banks' willingness to provide credit. The availability of credit depends on a number of factors, some of which are related to the economy in general, the situation of the specific company, and the attitude of the banks. It is this latter factor that we will now look at.

As Exhibit 3 shows, the majority of European SMEs consider that banks have become less willing to give loans or overdrafts over the last six months, reaching a percentage of 36.6% in the most recent survey conducted in 2012. This percentage has been increasing steadily since the survey conducted in the first half of 2010 and is currently at its peak since the first survey in 2009. At present, only 9.8% of SMEs are of the view that banks have become more willing to lend. Subtracting the negative responses (those reporting a worsening) from the positive ones (an improvement) yields a net balance of 27%, the highest since 2009.

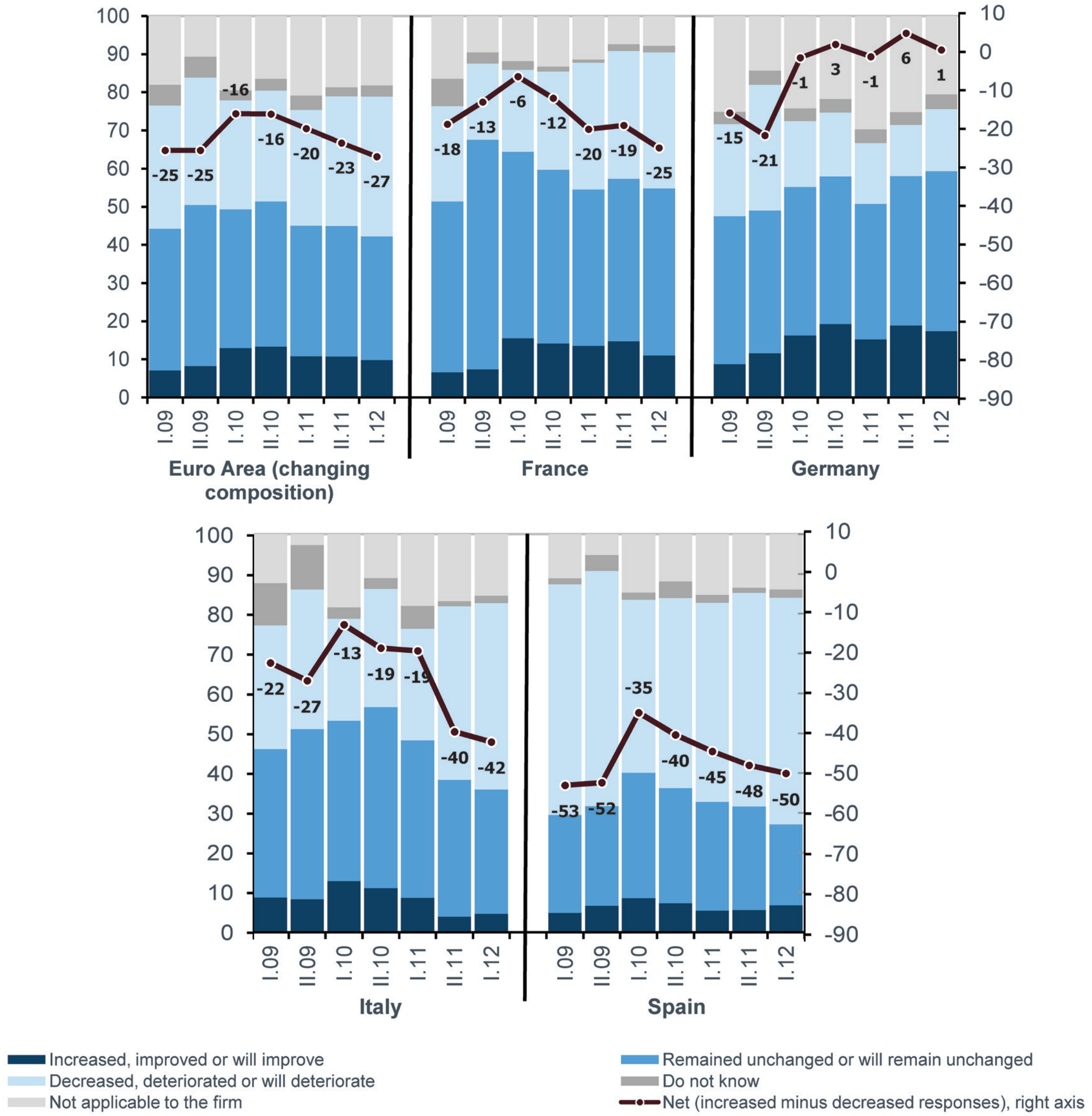
There are considerable differences between the figures for individual countries. Among the large countries shown on Exhibit 3, based on the latest data available, only in Germany do SMEs that consider banks to have become more willing to grant credit outnumber those holding the opposite view, the difference being 1 pp. In France, the difference is –25 pp and in Italy it is–42 pp. In relation to these values, Spanish SMEs' perceptions are worse, as against the 56.9% that consider banks to be less willing to grant finance, only 6.8% think that the situation has improved, yielding a net balance of -50 pp.

Compared to the rest of the countries of the euro area, it is Spanish SMEs (56.7%) that perceive the greatest reluctance on the part of banks to grant credit, their perception being even more negative than that of their counterparts in Greece (49%), Portugal (45%), and Ireland (38%). Moreover, it is again this sense of a worsening that is widespread among all companies, regardless of their size, such that the percentage is the same among Spanish

Exhibit 3

Willingness of banks to provide a loan to SME's over the preceding six months

(percentage of respondents)



Sources: European Central Bank, Survey on the access to finance of SME's (November 2012).

SMEs and large firms. Among SMEs, micro-enterprises have the strongest sense of a deterioration (59%).

The terms and conditions on which banks grant finance

One of the questions on the ECB's questionnaire which provides the most information about the restrictions businesses face in obtaining bank finance is that describing up to six different aspects of the terms and conditions of financing: interest rates, other (non-interest) costs, the size of the loan or credit line, loan maturity, collateral requirements, and other aspects. It is important to note that in this case, the question refers to bank finance as a whole, including both loans and credit lines.

Exhibit 4 shows the four aspects of financing that we consider most important. In the case of interest rates, the situation of European SMEs improved in the second half of 2012, as the difference between the percentage of companies that considered rates to have increased and those that considered they had fallen was 27 pp, compared with 42 pp in the previous survey. Since the first survey in 2011, this net percentage of responses has fallen by half.

In the case of Spanish SMEs, the net response in 2012 was 71 pp, almost three times the average ratio in the euro area. The range of variation between countries is very wide. Thus, in Germany the majority response was a fall in interest rates (45.7%), whereas in Spain just 4.6% of SMEs reported a cut in rates. Similarly, while in Germany only 15.1% of SMEs reported that the interest rate had risen, in Spain the percentage was 75.8%.

Taking the net response (increase-decrease in rates), in four of the countries for which the ECB publishes data (Belgium, Germany, France and Austria), a drop in interest rates predominates, while in the remaining seven countries, an increase predominates, with the worst case being in Greece (72%), although Spain (71%) and Italy (70%) are close behind. Spain therefore stands out in the European context on account of the increase in interest rates SMEs have experienced in 2012.

In the case of other costs of finance (i.e. costs other than interest charges, such as bank charges, fees and commissions), the percentage of European companies reporting an increase has grown steadily over the seven editions of the survey,

Spain stands out in the European context on account of the increase in interest rates SMEs have experienced in 2012.

reaching a maximum of 54.8% in the last survey. In net terms (increase-decrease), the value has also risen continuously, currently reaching a level of approximately 52%.

The most recent survey shows that in Spain 80% of SMEs say there has been an increase in their cost of finance other than in terms of interest rates that is 25 pp above the European average. In terms of net responses the value is also much higher in Spain (78%) as only 1.8% of SMEs replied that they had seen these costs of financing decrease. Of the SMEs in the eleven euro area countries covered by the ECB survey, those in Spain have seen their non-interest borrowing costs rise most, with the increase outstripping that in Italy, Portugal and Greece. The country with the smallest share of SMEs reporting a cost increase is Germany (19.3%). It is also worth noting that in Spain, on balance, more large firms report increases (83%) than do SMEs (78%).

The third of the bank financing conditions examined is the amount available as a loan or credit line. On average, the share of companies in the euro area reporting an increase is less than that reporting a drop, with a net value of -8%, the biggest value in absolute terms since 2009. This highlights that the credit crunch is currently at its most severe.

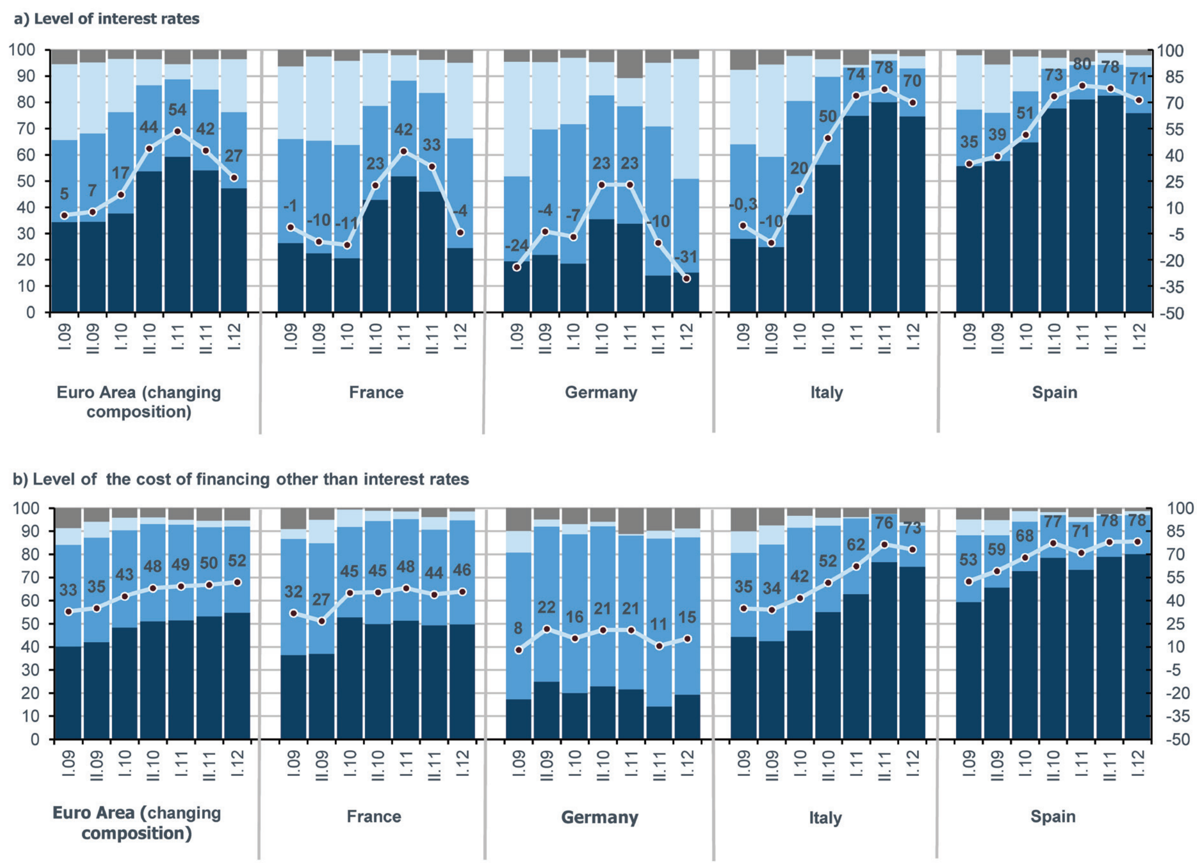
Spanish SMEs are suffering the current limitation on credit much more than in the last ECB survey, compared with 12.1% of companies that are of the view that the amount of finance has increased, 42% hold the opposite view, the net responses (-30%) being almost four times higher than the average for European SMEs. In 2012, Spain was also where the credit squeeze reached its peak, exceeding even that in 2009. It is worth noting that in Spain the difficulties obtaining the desired amount of credit have intensified enormously in 2012 with respect to 2011. Spain's large firms also faced serious difficulties, although these were somewhat less severe than those affecting SMEs. In 2012, only Italian and Greek SMEs faced stricter limitations on the quantity of bank finance required than did their Spanish counterparts.

Finally, a fourth aspect of the financial conditions it is worth analysing is the extent of the requirement for collateral. On average, SMEs in the euro zone again came under maximum pressure in 2012, as against the 40.7% that reported that collateral requirements had increased, only 2.2% stated the opposite. In terms of net responses, in all countries the increase in collateral requirements prevailed,

Exhibit 4

Terms and conditions of the bank financing available to SME's over the preceding six months

(percentage of respondents)

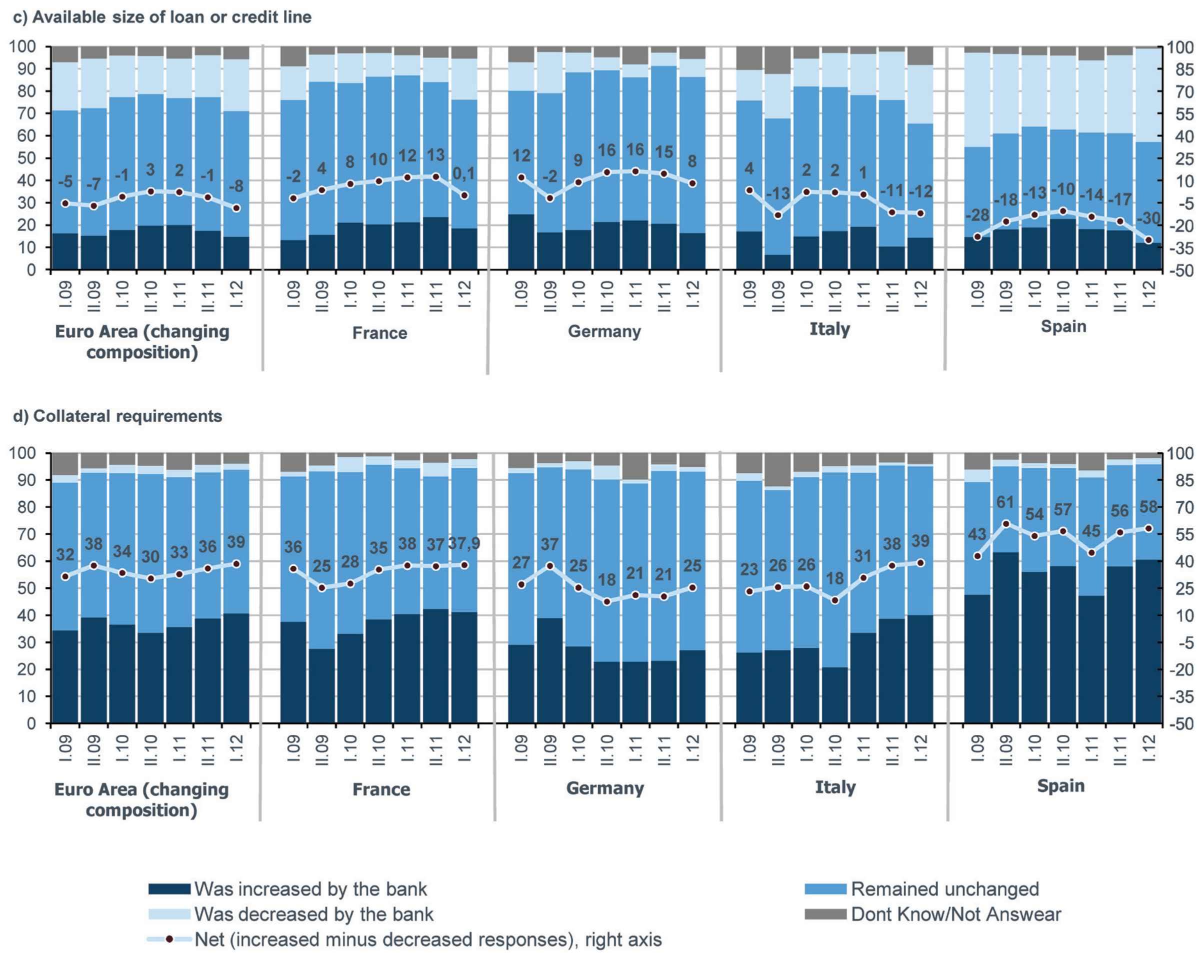


Sources: European Central Bank, Survey on the access to finance of SME's (November 2012).

Exhibit 4 (Continued)

Terms and conditions of the bank financing available to SME's over the preceding six months

(percentage of respondents)



Sources: European Central Bank, Survey on the access to finance of SME's (November 2012).

with Greece at the upper end (a balance of 68%) and the Netherlands at the bottom (23%). In this context, the net percentage in Spain is 58%, just below that in Greece. Consequently, Spanish SMEs also have more difficulty accessing bank finance in terms of the elevated collateral requirements. The situation is somewhat better in the case of large firms, with a balance 14 pp lower than that of SMEs.

SMEs' expectations as to the future availability of bank credit

Although the ECB's survey focuses primarily on analysing recent trends in businesses' access to external finance, it includes a question that is of considerable interest when trying to glimpse the future difficulty of financial conditions. In particular, the questionnaire asks about expectations regarding

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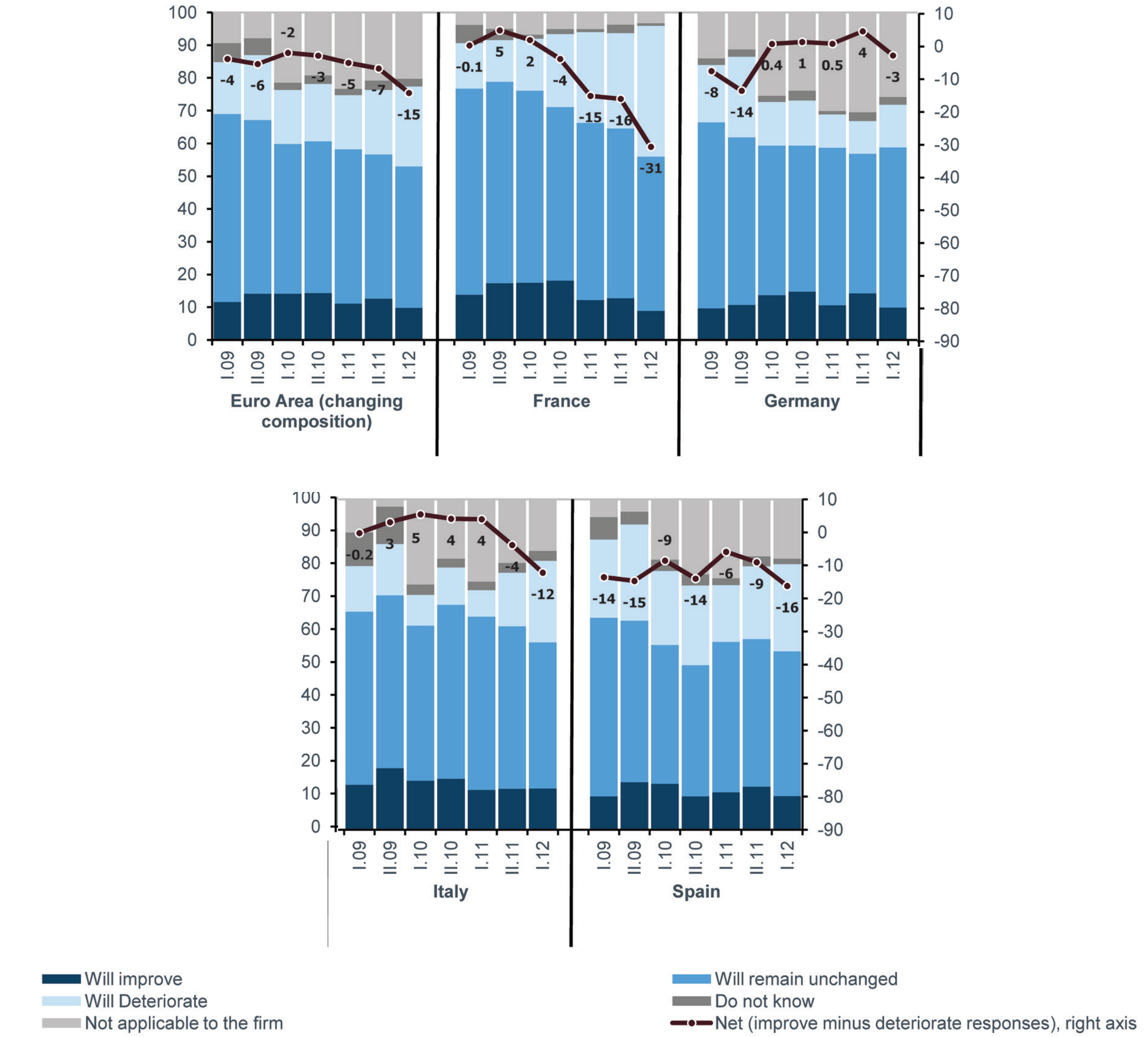
access to bank finance over the next six months relative to the prevailing situation.

As Exhibit 5 shows, in 2012 there was a serious downturn in future expectations, as while 9.8% of European SMEs considered that access to finance would improve, 24.4% believed it would get worse. On balance (-15%) responses were twice as negative as in the previous survey, and the most negative by far since 2009. Of the four largest countries in the euro area shown on the Exhibit, SMEs in France are the most pessimistic, with 39.9% believing that access to finance is set to worsen over the next six months. By contrast, German firms

Exhibit 5

Expectations of SME's about their availability to access to bank loans over the next six months

(percentage of respondents)



Sources: Central Bank, Survey on the access to finance of SME's (November 2012).

are much more optimistic, although those that believe access to finance will be more difficult in six months' time also outnumber those that do not. In the case of the other countries, Greece's SMEs, together with those of France, are those envisaging the severest worsening in conditions of access to bank loans and overdrafts.

In this context, the degree of pessimism among Spanish SMEs is close to the European average, with a balance of replies of –16% compared with–15% for the euro area. In 2012, Spain was also the country in which pessimism was strongest, as the net reply percentage reached its maximum negative value in 2009. Large firms' expectations coincide with those of SMEs, but micro-enterprises are slightly more pessimistic.

Concluding remarks

The ECB's survey on SMEs' access to financing clearly shows the restrictions companies are facing, and that tensions have accentuated in 2012. It is precisely in the most recent of the surveys conducted (between September and October 2012) when the immediate future of access to bank credit is viewed with most pessimism– the percentage of European SMEs believing that conditions are going to deteriorate far outnumbering those that anticipate an improvement over the next six months.

In the case of Spanish SMEs, the future is viewed with even more pessimism, and this negative perception is also common among large firms.

Looking at the recent history of conditions of access to bank finance, one of the most negative issues affecting Spanish SMEs is the high cost of finance, a situation which they shared with Greek and Italian SMEs in 2012. No fewer than 78.5% of Spanish SMEs stated that interest rates had increased over the six preceding months, compared with a European average of 47.3% of SMEs. This situation is even more dramatic in the case of non-interest costs (such as bank charges), where 80% of Spanish SMEs say that they increased in 2012, which is the highest percentage among the eleven countries analysed by the ECB.

In short, the closure of wholesale finance markets to much of the Spanish banking industry, the increased default rate banks are facing, and financial institutions' consequent risk aversion, is greatly hindering companies´ access to bank credit, in terms of both the quantity of finance available, and the conditions attached to it (high interest rates, demand for more collateral, etc.). The highest level of financial restriction was reached in 2012, and SMEs do not expect the situation to improve over the coming months.

In the current context, in which it is essential to recover investment in order to return to growth and create jobs, the recent recapitalisation of part of the Spanish banking system is a necessary condition to enable bank financing to again function correctly. Nevertheless, although improved solvency is a necessary condition, it is not a sufficient one while Spain's government debt is subject to such a high risk premium that it is spreading to private debt, both inside and outside the banking system.

However, it is important to remember that a portion of the Spanish sovereign's risk premium is attributed to the problems of the euro area, whose solution will require advancement on the construction of a banking union. According to recent IMF estimates, the deleveraging of European banks will be more traumatic without progress on the banking union (with a 10% reduction in total assets, compared to less than 5% under a scenario including a banking union). Therefore, in the absence of said progress, the credit crunch companies face will be more severe.

Financing alternatives for SMEs

Arturo Rojas and Javier López Somoza[1]

The collapse of bank financing has had a disproportionately negative impact on SMEs. Given persistent difficulties securing bank credit, development of alternative forms of direct financing for SMEs is imperative.

The drought in bank credit will not be short-lived, making it imperative for SMEs to tap alternative sources of financing, through either debt or equity markets. Debt financing options range from commercial paper or bond issuance, securitization of loans, or creation of investment funds to invest in SME debt. However, these SME debt-financing options would need to overcome investor risk perceptions, illiquidity, high costs to the issuer, and regulatory barriers. Equity finance could be channeled through the already existing Alternative Investment Market (MaB), which could potentially provide a lower cost equity option to SME issuers, among other benefits, such as brand image and diversification. For this to be the case, MaB's existing shortcomings and current negative dynamics will have to be addressed over time.

One of the most significant characteristics of the current crisis in Spain is the collapse of bank financing. The most recent data on loans for productive activities published by the Bank of Spain (funding of non-financial companies) reveal a further acceleration in the fall of the amount of outstanding lending to companies, with a YoY decline of 7.2% in November. Even without knowing the breakdown of this figure by company size, it would not be wrong to say that it is small and medium-sized enterprises (SMEs) which are most affected by this dysfunction on the part of banks. The situation of SMEs is further aggravated due to their lack of recourse to alternative sources of funding.

Paragraph 27 of the July 2012 Memorandum of Understanding associated with the bank bailout requires the government of Spain to prepare proposals for strengthening non-bank financial intermediation. This is a logical requirement if we consider that the SMEs' financial weakness stands in contrast to their contribution to job creation and generation of value added: in the European Union, SMEs (including microenterprises) generate more than 50% of value added, and more than 60% of jobs, but only receive 10% of financial flows. Since the drought in bank financing will not be short-lived, the development of direct financing mechanisms, in the form of both equity and debt, becomes an imperative. In this article we analyze various alternatives to bank financing of SMEs, through either debt or equity. In some cases, such as the *Mercado Alternativo Bursátil* (MaB-Alternative Investment Market), a financing channel for small and mid-cap companies, despite its defects and shortcomings, already exists. The other possibilities analyzed are not yet developed in Spain, but as in the case of corporate bond funds have shown their virtues in other markets such as the UK.

[1] Partners at Afi - Analistas Financieros Internacionales, S.A.

Debt financing

In general, the instruments of disintermediation (direct issue of commercial paper or bonds) for SMEs face two basic problems. The first is investor distrust of the risk of default, together with the disadvantage of the security's lack of liquidity. The second problem is the total cost to the company of the debt instrument, which tends to be high because it includes not only the investor's return, but also the structuring costs and underwriting commission. The fixed costs of issuance are hardly affordable for small issues, of less than 5 million euros.

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Moreover, if a bank undertakes to place the issue among its deposit customers, it assumes a reputational risk in case of non-payment by the company receiving the funds, risk that financial institutions can hardly afford in the current circumstances. The level of reputational risk assumed by the underwriter, high in any case, will also depend on the complexity of the product and on whether other agents participate in the process, whether it be the National Securities Market Commission (CNMV in Spanish) if the placement is retail, or the rating agency which analyses the issuer's credit quality.

Securitization of loans

The securitization of loans allows a bundle of illiquid financial assets to be transformed into a series of negotiable instruments, which are liquid and have specific payment flows. The securitization of loans to SMEs would be an innovation inasmuch as securitization in Spain has been focused on mortgage lending. Securitization does not affect the companies whose loans are securitized and, therefore, does not translate into a diversification of the company's sources of funding. However, the securitization of loans to companies would provide financial institutions with the liquidity to finance new loans to SMEs.

In general, rating agencies play a key role in the securitization process. The securities issued in each tranche of the fund must have one or more credit ratings from different agencies. The rating agencies also have a decisive role in designing the structure of the tranches of the fund with regard to priority in the absorption of losses.

The securities issued would be discountable at the European Central Bank (ECB), provided that they meet the following conditions:

- Rating by two agencies.
- AAA rating at the time of issuance.
- Minimum rating of A during the life of the bond.

The rating of the different tranches of the securitization fund would take account of the characteristics of the loans (sectoral diversification, geographical dispersion, profile of companies) and the additional collateral. The more granular the portfolio of securitized loans with regard to debtors (average amount), sectors of activity and geographic area, the better the rating will be.

However, for the financial institution to remove the securitized loans from its balance sheet (and transfer the corresponding risks for the purposes of capital consumption), it must have sold at least 80% of the initial loss tranches, and 50% of the intermediate risk tranches[2], requirements that may not be easy to fulfill.

For the investor who acquires the securities, one of the main drawbacks is the restricted liquidity of these assets. The conditions for investing in this product would be comparable to those of a fixed term deposit, with a penalty for early redemption. The retail investor's perception of risk can be mitigated by the transparency provided by CNMV supervision and the requirement for reports from independent third parties to evaluate the price of the issue.

Another element providing confidence to the retail investor is that, in the majority of securitizations by Spanish banks, the originator (the institution conceding the securitized loans) continues to administer them. In order to increase the attractiveness to investors, the provision of guarantees can be arranged. The use of government guarantees for securitization funds is currently limited to the FTPYME funds[3], these are closed funds with a specific deadline for applications that were created in 2010 and 2011.

Also, the securitization funds could incorporate guarantees from mutual guarantee companies (SGR in Spanish), but they would only cover the individual loans to the borrowing companies. Inasmuch as the SGR guarantee may increase the company's financing cost, it would be convenient to determine the positive effect on the rating of the securitized loans.

Issue of securities directly by the company

As can be seen in Table 1, regular issuance of bonds by Spanish non-financial companies is limited mainly to large companies in the energy, telecommunications and infrastructure sectors.

Theoretically, Spanish SMEs could issue bonds directly if they comply with the requirements of the Securities Market Law. If the nominal individual value of the debt instrument is less than 100,000 euros, the issue is considered a "public offering" and requires a prospectus approved by the CNMV. If the offering is classified as public, the administrative burden for the company is high: the issuer assumes obligations of corporate governance and information (relevant facts, annual corporate governance report).

The following aspects should be considered with respect to the limitations on the SME segment with regard to direct issues of bonds.

- It is not mandatory for the issue to be rated, although this facilitates the approval of the price (interest rate) by the CNMV. A rating of better than B- is usually only awarded to companies of a significant size (sales > 500 million euros, EBITDA > 70 million euros). For a medium-sized company (sales < 500 million euros), a rating above B- would only be possible with very low debt levels. Therefore, an issue by an SME will be unrated or will have a very low rating.

- The reputational risk of the underwriter with an investor will be high. In rated issues, as it is a third party which provides an opinion on the credit quality of the issuer, the risk is mitigated, but the low rating that an SME can expect to achieve may have an adverse effect.

- In terms of the yield that the security should offer investors, on which the CNMV will have to deliver its opinion if it is a public offering, we estimate that, at present, it should be between 10% and 15% depending on the company's credit quality, and at a term of less than two years.

[2] As set out in the BoS Circulars 4/2004 and 3/2008.

[3] Bonds issued by funds under the FTPYME program, administered by the Ministry of Industry, Energy and Tourism, and the Ministry of Economy and Competitiveness, are backed by a State guarantee on condition that the financial institutions that contribute their assets reinvest at least 80% of the liquidity obtained in new loans to SMEs.

Table 1

Public Issues of bonds by Spanish non-financial companies in 2011 and 2012

Issuer	Date Emission	Maturity	Amount € Million	Coupon %
IBERDROLA FINANZAS SAU	10-feb-11	10-feb-14	750	3.88
TELEFONICA EMISIONES SAU	7-feb-11	7-feb-17	1,420	4.75
GAS NATURAL CAPITAL	9-feb-11	9-feb-17	600	5.63
RED ELECTRICA FIN SA UNI	18-feb-11	16-feb-18	600	4.75
OBRASCON HUARTE LAIN SA	30-mar-11	15-mar-18	425	8.75
IBERDROLA FINANZAS SAU	7-abr-11	7-abr-17	750	4.63
PESCANOVA SA	20-abr-11	20-abr-17	180	5.13
RED ELECTRICA FIN SA UNI	29-abr-11	29-abr-20	550	4.88
GAS NATURAL CAPITAL	24-may-11	24-may-19	500	5.38
AMADEUS CAP MARKT	15-jul-11	15-jul-16	750	4.88
IBERDROLA FINANZAS SAU	25-oct-11	25-ene-16	1,000	4.75
TELEFONICA EMISIONES SAU	3-nov-11	3-feb-16	1,000	4.97
REPSOL INTL FINANCE	12-dic-11	12-feb-16	850	4.25
REPSOL INTL FINANCE	19-ene-12	19-feb-19	750	4.88
GAS NATURAL CAPITAL	13-feb-12	13-feb-18	750	5.00
REPSOL INTL FINANCE	7-feb-12	19-feb-19	250	4.88
TELEFONICA EMISIONES SAU	21-feb-12	21-feb-18	1,500	4.80
IBERDROLA INTL BV	11-abr-12	11-oct-18	1,000	4.25
TELEFONICA EMISIONES SAU	19-sep-12	5-sep-17	1,000	5.81
GAS NATURAL CAPITAL	25-sep-12	27-ene-20	800	6.00
IBERDROLA INTL BV	21-sep-12	21-sep-17	1,000	4.50
RED ELECTRICA FIN SA UNI	4-oct-12	16-feb-18	150	4.75
ENAGAS FINANCIACIONES SA	5-oct-12	5-oct-17	500	4.25
TELEFONICA EMISIONES SAU	19-oct-12	20-ene-20	1200	4.71
GAS NATURAL CAPITAL	23-oct-12	24-abr-17	500	4.13
ENAGAS FINANCIACIONES SA	22-oct-12	5-oct-17	250	4.25
IBERDROLA INTL BV	22-oct-12	11-oct-18	400	4.25
ABERTIS INFRAESTRUCTURAS	25-oct-12	25-oct-19	750	4.75
Total 2011			**9,375**	**4.94**
Total 2012			**10,800**	**4.82**

Source: Bloomberg.

- In terms of cost to the issuer, this nominal return would be increased by the underwriting commission and the costs of issuance. For medium-size businesses with a good financial situation, the cost of bonds may exceed that obtainable on bank financing. In this case, the appeal of the bond for the company is not the cost, but the diversification of funding sources and the direct access to investors.

The issuance of bonds of multiple companies would allow "packaged" marketing. In this case, the bonds to be sold would be issued by companies of similar credit quality, and the bonds would be grouped into portfolios with a limited composition (for example, four or more bonds).

As we have indicated, the main drawback for the marketer of uncovered company bond issues is the reputational risk in the event of default. One way to avoid the reputational risk is to issue the bond with the explicit guarantee of the underwriting financial institution. The investor will have a double guarantee: the issuing company and the underwriting financial institution. The advantage for the financial institution is a lower risk-weighting for the guarantee in RWAs (75% *vs* 100%); in turn, the financial institution would charge the company for the guarantee. Once the investor becomes familiar with the product and the company has demonstrated its ability and willingness to pay the investor, it may be possible for the company to issue bonds regularly without the financial institution's guarantee.

The Government has announced its intention of promoting the creation of an alternative fixed income market, where commercial paper and bonds can be traded, though given the issue sizes required for the cost of issuance not to be prohibitively expensive and the minimal or non-existent liquidity that the securities would have, it is not realistic to consider issues of SME securities as a feasible alternative to bank financing.

Debt Funds

Another alternative to boost the financing of SMEs would be the creation of investment funds investing in SME debt, and benefiting from tax advantages, as occurs with venture capital funds.

Current Spanish legislation does not allow collective investment institutions (CII) to make large-scale investments in debt instruments not traded in markets, as they cannot invest more than 10% of their equity in unlisted securities. In addition, hedge funds must meet liquidity requirements, which do not allow them to invest in unlisted corporate loans. Similarly, venture capital entities must have 60% of their eligible investment assets in equity or quasi-equity instruments.

Therefore, in order to promote the use of debt funds, the government would need to introduce legislative changes, for which there are basically two options. Firstly, the creation of *ad-hoc* legislation for debt funds, which could take the form of legislation very similar to that existing for venture capital (Law 25/2005 of November 24th, regulating venture capital entities). The quickest solution could be to allow debt funds within venture capital funds, by modifying their "Investment regime" (chapter II of Law 25/2005), incorporating ordinary loans as an investment instrument alongside equity loans and capital. The constitution of the debt fund and its managing company would need to be authorised by the CNMV.

The existence of tax advantages for debt funds (like those for venture capital) would be important to encourage use of the instrument.

The aim of the new regulation would be to maximize the participation of private investors. Initially, the participation of public investors may be necessary to provide confidence in the instrument. This has been the model of the Business Finance Partnership (BFP) in the UK. In an initial phase, it would be desirable to limit retail investment by stipulating a minimum investment of 100,000 euros, accessible to family offices and private banking clients.

The investor's remuneration from debt funds could occur much earlier than with venture capital funds, because the loans accrue and pay interest, and moreover they have a schedule of partial amortizations. It would not be necessary, therefore, to wait for disinvestment in the company, as happens with venture capital funds. The establishment of a specified amortization profile in debt funds would help to enhance confidence in the instrument.

The investor's remuneration from debt funds could occur much earlier than with venture capital funds, because the loans accrue and pay interest, and have a schedule of partial amortizations. It would not be necessary, therefore, to wait for disinvestment, as happens with venture capital funds.

The debt fund would be managed by the venture capital managers, who will seek registration as managers of debt funds. Management fees for debt funds should be lower than those for venture capital funds, as these include a success fee based on the capital gains.

The loans in debt funds could be guaranteed by mutual guarantee companies to further reduce the risk for investors.

Equity finance: The *Mercado Alternativo Bursátil* (MaB - Alternative Investment Market)

As a complement to the debt instruments already discussed, the MaB offers SMEs a way to raise equity. The MaB's segment for growing companies began to function in 2009. As Cano[4] correctly points out, the MaB is not an official secondary market under the Securities Market Act, but rather a multilateral trading system. Hence it is not affected by some of the requirements for initial public offerings (IPOs), and the responsibility for establishing effective monitoring mechanisms and supervisory procedures lies with the coordinating entity, in this case *Bolsas y Mercados Españoles* (BME), while the CNMV has the power to impose penalties for non-compliance that could be regarded as breaches of conduct.

Due to less onerous requirements, which should result in lower costs of market access and maintenance, the MaB (known as an "alternative" or junior market) is aimed at small cap companies seeking to finance their growth.

Therefore, due to these less onerous requirements, which should result in lower costs of market access and maintenance, this type of market (known as an "alternative" or junior market) is aimed at small cap companies seeking to finance their growth. Nevertheless, it is true that not all the companies joining the MaB have raised new funding, and companies in their document of incorporation into the market also express other motivations, such as achieving visibility, a higher profile and brand image, diversification of funding sources, broadening the shareholder base, possibility of carrying out business operations using shares as a form of payment, and others.

Its development since then has probably been slower than expected. During the first year, two companies were listed (Zinkia Entertainment and Imaginarium, the toy distribution chain). In 2010 there were 10 listings, an increase that raised great hopes for the development of this market.

[4] Cano, David (2008): "El AIM británico y el Alternext francés como referencias para el MAB EE español". *Análisis Financiero Internacional*, no. 132. Ediciones Empresa Global (Escuela de Finanzas Aplicadas). Madrid.

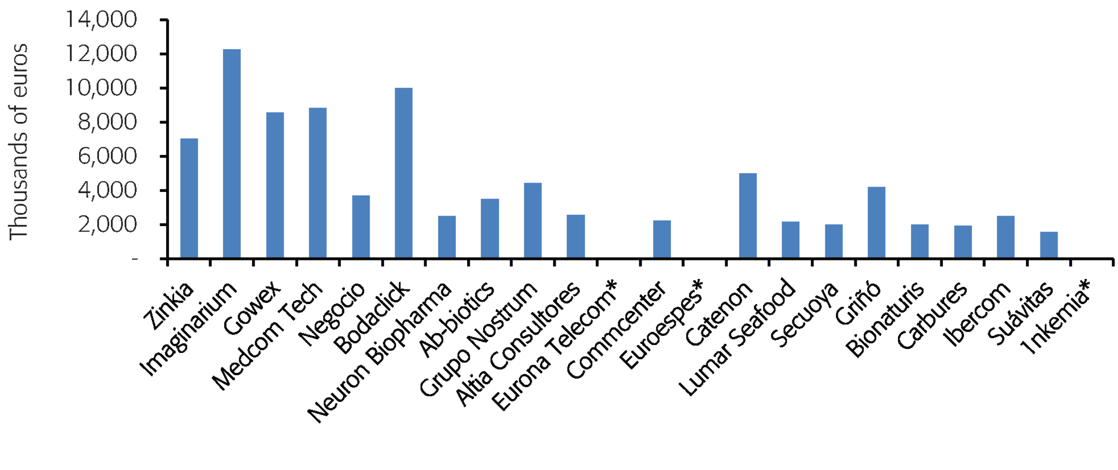
However, in both 2011 and 2012 there were five listings, which raised 13.4 million euros and 8.5 million euros of new funding in each respective year. This has lowered expectations, at least until there is a general revival of new issues markets, because it is true that similar operations in the main market have also reduced significantly in the 2009-2012 period when the two markets have coexisted. There are currently 22 companies listed (though two are suspended due to their delicate financial situation), which have raised a total of almost 90 million euros on the MaB.

However, what has been evident is that the MaB has provided a window for additional funding for companies that are already listed. In fact, during 2012 six companies (AB Biotics, Eurona Wireless Telecom, Medcom Tech, Carbures Europe, Secuoya and Let´s Gowex) have increased their capital by a total of 40 million euros, the most notable being telecommunications carrier Let's Gowex with an increase of 18 million euros.

How does MaB's performance compare to those of other international markets? Although MaB has many counterparts around the world, which moreover have proliferated in recent years, it has two clear precedents in the UK's Alternative Investment Market (AIM), where 1,096 companies of were listed as of last December 31st, and Alternext with headquarters in Paris (although it brings together the stock exchanges of Amsterdam, Brussels, Lisbon and Paris) with 180 companies listed at year end. Such figures are very far removed from the Spanish market, though it should be borne in mind that the British market was launched in 1995 and the French one 10 years later, with the consequent advantage of the prolonged period of economic growth that preceded the current crisis. For example, as many as 1,694 companies were listed on AIM at the end of 2007, 55% more than at present. The performance of these markets in 2012, in terms of the number of new issues, has been inferior to the previous year, as has happened in the case of Spain. Alternext, for example, saw 14 new entries to the market (compared to 34 in 2011), of which only eight were new issuances, while the rest were transfers from other markets[5], either from Euronext or from Free Market. The funds raised by these new issuances were 37 million euros[6]. In the case of AIM, 71 companies were admitted in 2012 (90 in 2011) raising new funds of 3.1 billion pounds,

Exhibit 1

New funds raised by IPO´s on the *Mercado Alternativo Bursátil* (2009-2012)



* These members did not raise new funds in IPOs.

Sources: Afi, BME.

a stratospheric amount is compared to the Spanish market, but for AIM it was the lowest since 2004.

What does the MaB need to become a real funding alternative for Spanish medium-size companies? “Time” would be a general and immediate response. More specifically, drawing on Afi’s experience as a Registered Adviser[7] in this market since its birth, we believe that it has entered into a vicious spiral whose origin is complicated to discern. On the one hand, there is a lack of appetite on the part of the institutional investor for this type of company, which has progressively reduced the average size of new issuance (as can be seen clearly in the above graph), not because the needs or expectations of the companies floated were not higher, but because they have not found sufficient demand. This has led to a relative increase of initial public offering (IPO) costs. In fact, compared with the initial estimate of costs ranging between 8-10%, the most recent new issuances have greatly exceeded this figure being, on average, closer to 15-18%, which in turn has deterred a significant number of companies from opting for this financing alternative, and those turning to this market in recent months have been those with a pressing need for which they found no other alternative.

[5] In the Spanish market, the transfer from the main market to MaB is a long and costly process, as it is necessary to make a delisting tender offer and subsequently a new share issue.

[6] In reality, the total funds raised were of 1.52 billion euros, but one, corresponding to the Brazilian bank Banco Pactual BTG, raised 1.48 billion euros, so for comparison purposes we eliminated it to avoid distortions.

[7] The role of the Registered Adviser is characteristic of this kind of stock market. His main task is to help companies comply with the information requirements, both in the IPO process and subsequently during the phase of listing on the secondary market. Afi was the Registered Adviser of Zinkia Entertainment in its IPO on the MaB.

Financing the Spanish public administration in 2013

José Manuel Amor, Miguel Arregui and César Cantalapiedra[1]

Central government financing in 2013 should be as challenging or more so than in 2012. State support will continue to be crucial to meet financing needs of regional and local governments.

The financing of the public administration in 2012 presented a mixed picture. The state managed to successfully meet its funding needs without incurring higher costs than in previous years, partly due to a reduction in the average life of outstanding debt. Regional governments faced significant difficulties, thus forcing the state to set up extraordinary funding mechanisms that will, however, very likely end up becoming permanent for many regions, at least for as long as the present financial situation persists. Local authorities have made a substantial fiscal adjustment effort in 2012, which will allow them greater room for maneuver in funding for 2013. Nevertheless, any return to capital markets seems unlikely under present conditions.

Overview of central government financing in 2012

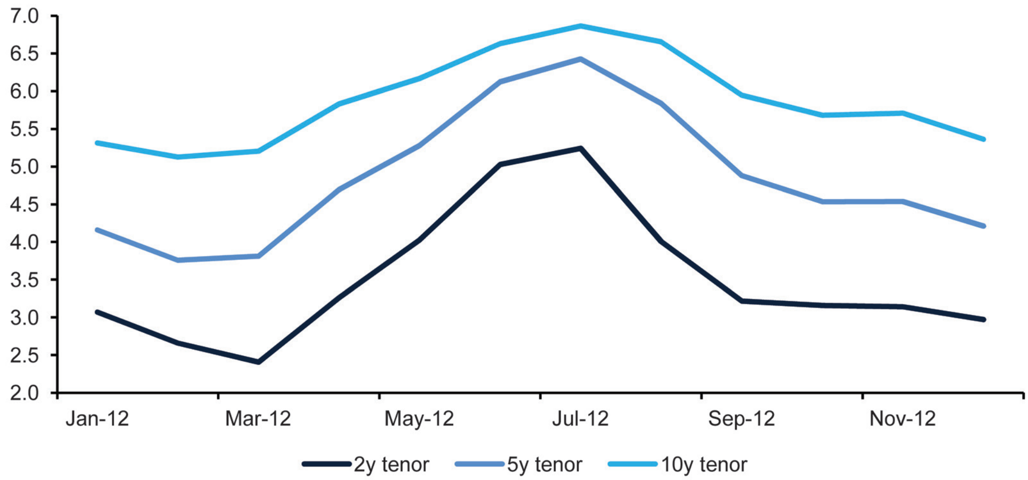
Since the onset of the financial crisis in 2008, the state's funding strategy has been characterized by continuous increases in public debt issuance. The year 2012 was no exception. During the year, the Spanish Treasury obtained funding of nearly 250 billion euros, some 25 billion euros more than in 2009, which had previously been the year with the largest volume of issues in history. Debt maturities also increased to 153 billion euros in the same period. The stock of debt increased by nearly 97 billion euros, to almost 690 billion euros.

The year 2012 was marked by three clearly distinct phases with regard to state funding (Exhibit 1). In the first, between January and March, the Treasury's financing costs fell substantially –especially short term costs– due to the support provided by the ECB's extraordinary 3-year liquidity injections (LTROs). The second phase, between April and July, saw a sharp increase in the cost of financing in conjunction with a loss of confidence in the Spanish economy. Ten-year debt yields hit their highest

Since the ECB's announcement of its OMT program in August last year, the revival of non-resident investor demand for state debt was the key factor allowing the Treasury to successfully complete its funding program in 2012.

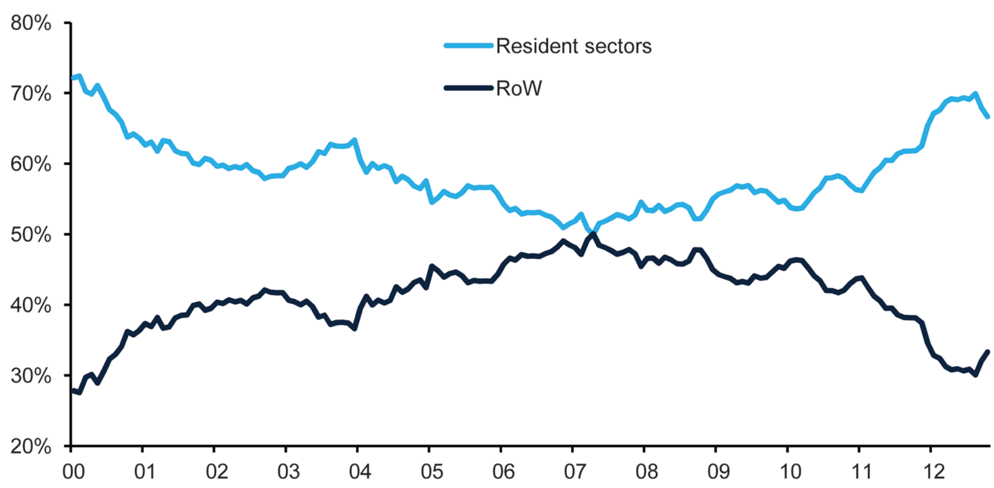
[1] *Afi – Analistas Financieros Internacionales, S.A.*

Exhibit 1
Spanish government debt yields. Monthly average (%)



Sources: Afi from Reuters.

Exhibit 2
Spanish government debt holdings (% of total)



Sources: Afi from Bank of Spain.

levels since the creation of the euro (7.6%) and the pace of debt issuance was adversely affected: net issuance in those months was a negative 14 billion euros. In the third and final phase starting in August, following the ECB's announcement of its Outright Monetary Transactions (OMT) program, the Treasury benefited from a major easing of yields, allowing it to successfully complete its funding program: in the last four months of the year, gross issuance amounted to 83 billion euros.

In this last phase, the revival of non-resident investor demand for state debt was the key factor. Debt holdings by non-residents increased between August and October (the latest available figure) by approximately 25 billion euros, which was greater than the net increase in state debt in the period (16 billion euros). All signs seem to indicate that this trend continued into the closing months of the year, and it would be logical to assume that the debt holdings of non-residents was approximately 34.5% at year-end (see Exhibit 2).

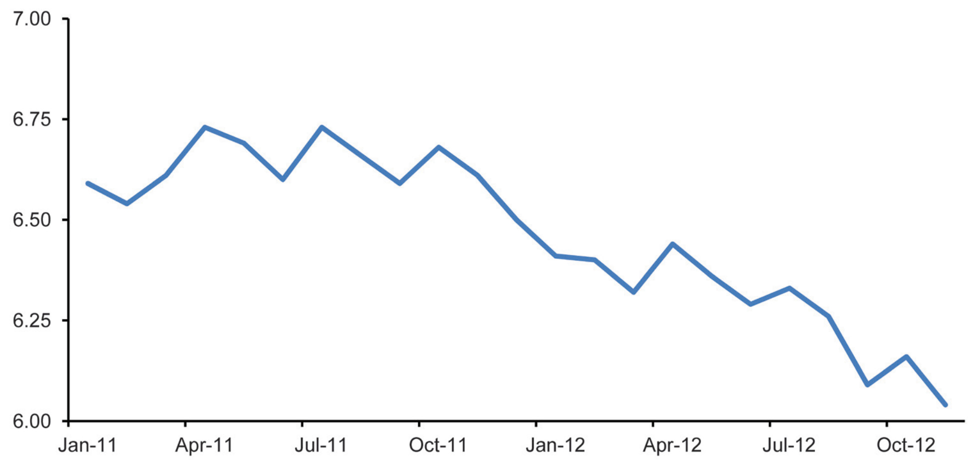
Finally, it should be noted that the elevated volatility in appetite for state debt underlies the performance of a key variable in the strategy for public debt management: the average life of outstanding debt. Indeed, the average life of state debt has gone from 6.5 years in December 2011 to approximately 6.0 by the end of 2012 (Exhibit 3). Although this decline in the average life of debt implies an increase in refinancing risk, this risk is not too high for now (and certainly no higher than in the majority of European countries).

Central government funding in 2013: Just as difficult or even more so than in 2012

The Treasury has published its planned funding strategy for 2013. Gross issuance of state debt will amount to between 215 and 230 billion euros, depending on the use made by autonomous regions of the regional liquidity facility (henceforth the FLA), the mechanism set up by the Treasury to enable regions to meet their debt maturities and fund their deficits. The expected increase in the outstanding state debt in circulation amounts to 71 billion euros, bringing total debt to 761 billion euros by December 2013 (Exhibit 4).

Although early 2013 would appear to be less arduous for state debt financing –due to both the lower total

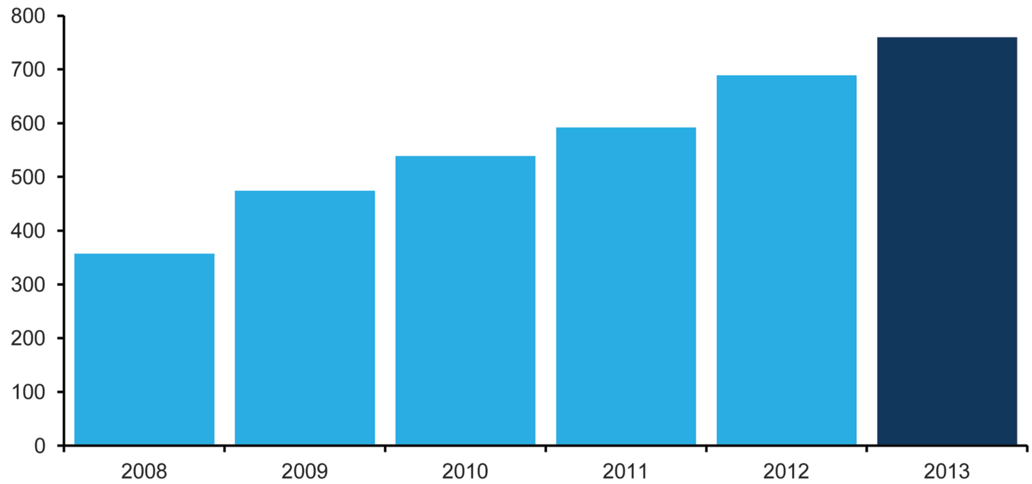
Exhibit 3
Average lifetime of Spanish government debt (years)



Sources: Afi from Spanish Treasury.

Exhibit 4

Spanish central government outstanding debt (billions of euros)



Sources: Afi, Spanish Treasury.

volume of debt to be placed and the substantial reduction in net issuance– and although the year is beginning with a perception of peripheral risk that is far lower than that of 2012, we must recall that investor confidence is quite volatile, making it advisable to work with the utmost flexibility when implementing an issuance strategy. Accordingly, this is how we interpret the majority of the changes the Treasury has made in its funding strategy for 2013, of which we would highlight the following:

- Incorporation of 2-year bond benchmarks, the ultimate purpose of which may be to offer investors more investment points of reference in the segment of the yield curve that is the focus of present demand for state debt (due to the implicit "protection" that potential implementation of OMTs lends this segment)

- Introduction of special auctions targeted solely at market originators that will not be included in the regular issuance calendar. These auctions will aim to bolster the liquidity of old or off-the-run references, which are occasionally in high demand in the repo market. The Treasury seeks to exploit any improvements in market conditions to finance itself at lower rates.

- The Treasury leaves open the door to issuing debt with a coupon linked to an index, such as the Euribor, with the twofold aim of deferring financial burdens into the future –as against an issue at the same term with a fixed coupon– in view of the present shape of the interest rate curve, and providing an attractive investment instrument for investors with a preference for floating rates.

- Elimination of recourse to new debt through 18-month T-bill issues and creation of T-bills with a residual life of 9 months. Again, the objective is twofold: first, to avoid including collective action clauses in T-bills- see next paragraph and (ii) to foster a concentration of state debt in terms where demand is high, such as in issues with maturities longer than 12 months.

Finally, notable is the fact that, from January 1st, 2013, all new debt series issued by the Treasury at longer than one year must include collective action clauses in their documentation (CACs). This obligation is incumbent on all eurozone governments, who are allowed to issue only a declining proportion (45% in 2013) of gross debt without CACs.

Here, there are a number of aspects we consider to be of importance:

- **Price differentiation.** CACs partly limit moral hazard, as they reduce incentives to not participate in debt restructuring operations; nevertheless, their introduction for sovereign debt will result in higher interest rates compared to “old” bonds that do not include these clauses. This expectation is due to the lesser rights of bondholders that do not accede to such clauses and the fact that they facilitate debt restructuring processes.

- **Formation of majorities.** The quorum needed to activate CACs in euro area countries will be lower than the international standard: 66.6%, as against 75%. This lower percentage even further limits private bondholders’ ability to block restructuring (the so-called hold outs).

- **Segmentation of liquidity.** As CAC-free bonds begin to disappear, these instruments’ liquidity will diminish. The impact will be clear not only in the spot market, but also in the segregated debt market, given that with the existence of strips of “new” debt with CACs, old, CAC-free debt will not be fungible.

- **Participation of the official sector in restructuring processes.** CACs uphold the seniority of the European Stability Mechanism (ESM) against other bondholders. This element could generate tensions in debt markets, especially in the debt of distressed countries, to the extent that the debt to other bondholders will be subordinated to official creditors. Here, the ECB’s role is not clear. Although the ECB has always opposed taking losses on its sovereign debt investments, the new mechanism for purchasing assets in the secondary market (OMT) will not have seniority rights over other bondholders. This could mean that if CACs are invoked in any restructuring process, the ECB would take part in the process on an equal footing with other bondholders, thus generating a potential European-level institutional conflict, as some countries are clearly opposed to this form of public assistance.

- **Retroactive attachment of CACs.** Inclusion of CACs in new debt does not completely eliminate the risk that old debt will be retroactively subject to attachment of CACs, as was the case with Greece. This risk becomes greater as a hypothetical debt restructuring becomes more imminent, as the volume of debt issued with CACs would be too small for any restructuring of that portion of the debt to have significant implications for debt sustainability.

In short, we believe that the introduction of CACs arises from a double segmentation in government debt markets in the eurozone. First, by drawing a red line between countries where such clauses are unlikely to be activated and others in which the market attaches significant probabilities of having to activate them. Moreover, differentiation will be internal, as an issuer will have bonds that are more easily restructured (those with CACs) than others, and this will cause a differentiation in the price among the issuer’s bonds, where the price will be higher the more likely the issuer will have to undergo restructuring.

Funding of regional governments: State support will continue to be crucial in 2013

The Spanish debt crisis has had an especially acute effect on the autonomous regions. Although their net debt requirements are far smaller than those of the Treasury, the absence of a liquid secondary market and doubts about compliance with budgetary targets have weakened investor confidence. The complexity of Spain's decentralized state required a strong communication effort. In its absence, international investors chose to reduce their exposure to the country's sub-sovereign risk.

The facts have made clear, however, that the central government is determined to devise mechanisms to back payment commitments undertaken with suppliers and, above all, to ward off any risk of default in servicing the debt.

The success of the supplier payment fund (FFPP), guaranteed by the state, helped to clear away nearly 18 billion euros in outstanding invoices up to year-end 2011 and was undoubtedly a very favorable precedent. But difficulties in accessing the new financing and delays in executing spending cutbacks have again generated a pool of commercial debt that will force the government to take the initiative.

For now, the Ministry of Finance and public authorities have made it a priority for the first quarter of 2013 to set up new financing facilities to enable collections by suppliers.

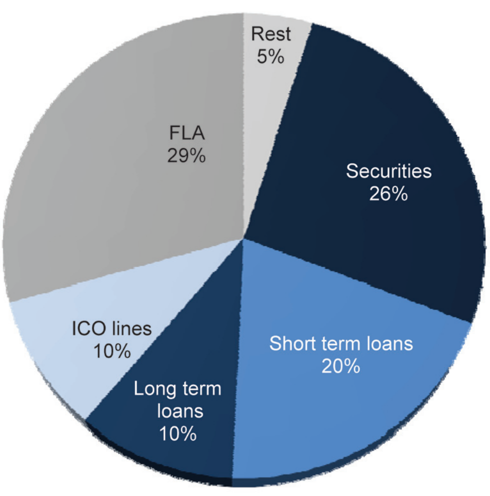
In the meantime, the Treasury has already guaranteed that it will directly finance the regional liquidity fund (FLA) in the order of 23 billion euros, an amount that may be increased if necessary, although at the time this article was written, no information was yet available on either the amounts requested by the regions participating in the mechanism or the amounts to be distributed among the regions.

The funding strategy is known, and it will be simpler than last year's strategy. Although the target pursued last year was to attract outside interest by leveraging the state lottery and betting organization, the operation was ultimately thwarted, and domestic banks had to be used to fund the FLA through syndicated loans and private placements. In 2013, however, the Treasury will directly assume the full volume of its debt issuance policy, thus allowing for broader participation by foreign investors at a time of greater receptivity of non residents in auctions.

The financial terms have yet to be announced, but if they are not too different from the FLA last year,

Exhibit 5

Funding sources for Spanish regions in 2012 (% of total)



Sources: Afi, Regions.

the conditions will be more attractive than any other option without the intermediation of the Treasury. With the current easing of the risk premium, and with the spread on Treasuries remaining at 30-40 bp, regional governments could obtain medium and long-term funding through FLA for less than 5% (in 2012, it was granted at 10 years, with annual repayments and a two-year grace period).

In spite of this, eight regions have started the year with the goal of staying out of the FLA, even if this means bearing higher costs to access markets. These are the same regions that last year managed to meet their needs by exploiting market windows of opportunity in the first quarter and in the final months of the year. The experience of the Madrid region, which issued about 2.4 billion euros in different private issues, left a highly favorable impression after nearly half a year of non-existent demand for paper among foreign investors. But this was not the only case: Galicia, Aragon and Extremadura also managed to complete their debt operations in a market almost completely monopolized by private placement. Although these steps required a significant effort in adjusting financial policy to investor demand, it has allowed these regions to preserve their financial autonomy and helped sustain the pace of issuance in this market.

In short, the technical operation of the FLA must be viewed positively and, although some rating agencies may not have seen it this way, investors and economic actors have improved their perception of the solvency of Spanish public authorities compared to only a few months ago.

Politically, however, the fund was born with the stigma of pejorative connotations with regard to its solvency, a stigma the central government has been unwilling or unable to prevent and which some regional governments have sought to evade. It is clear that some regions had no choice. Meanwhile, others, which chose to call on the support of the FLA, did so to benefit from its better financing conditions, even if their level of financing requirements would have allowed them to consider staying out of the mechanism.

In any case, the primary market for regional debt will be divided into two groups. For the former group, which is the largest, the FLA has budgeted up to 23 billion euros, which should be sufficient to absorb medium and long-term maturities and the 0.7% deficit-to-GDP ratio –approximately 20 billion euros– although a response will be needed for short-term maturities totaling more than 10 billion euros, a part of which could be directly negotiated with financial institutions.

The funding necessities of regions that will seek to autonomously cover the debt in the capital markets are more manageable. They will have to refinance approximately 4.2 billion euros and obtain a further net amount of 3.2 billion euros equivalent to the permitted deficit. The impact of short-term credits on such amounts must be considered, but we believe this should not be an obstacle for these eight authorities.

The technical operation of the FLA must be viewed positively and, although some rating agencies may not have seen it this way, investors and economic actors have improved their perception of the solvency of Spanish public authorities compared to only a few months ago.

Hence, the FLA has a sufficiently representative scope for the total necessities of the sector, which we estimate at approximately 30-32 billion euros, including maturities, yearly deficit and returns to the state from negative settlements of 2008 and 2009 (representing slightly more than 2.1 billion euros). The amount of short-term instruments is somewhat more uncertain. At the end of the third quarter of 2012, they totaled 12 billion euros, but this figure was probably surpassed in December, with total requirements likely approaching 45-46

Table 1
Funding needs for Spanish regions in 2013

All data in € billion	Regions adhered to FLA (1)	Regions not adhered to FLA (2)	(1)+(2)
Short term funding (as of September 2012)	10.657	1.171	11.828
Debt redemptions (medium and long term)	15.086	4.209	19.295
2013 Deficit (equivalent to 0.7% of GDP)	4.339	3.148	7.487
Negative settlements 2008 and 2009	1.407	0.726	2.133
Total funding needs (ex short term funding)	20.833	8.082	28.915

(1) Andalucia, Asturias, Balearic Islands, Canary Islands, Cantabria, Catalonia, Castile-La Mancha, Murcia and Valencia.

(2) Aragon, Castile-Leon, Extremadura, Galicia, La Rioja, Madrid, Navarre and Basque Country.

Sources: Regions' initial budgets and Afi estimates.

billion euros. Although these amounts will have to be curbed in coming years with the consolidation of public accounts, they are high enough to demand planning for the day after the FLA, with the development of a secondary market that will facilitate the liquidity investors demand.

Local authorities' debt: Easing the reins for 2013

The debt levels of local authorities have barely grown in recent years, remaining steady at about 3.5% of GDP since 2009. This discipline, largely due to the tight restrictions imposed by the central government on local authorities for undertaking new debt, even to finance debt maturities, is ultimately more apparent than real. It is true that some city councils have adopted severe spending containment policies more forcefully than other authorities, covering debt maturities with their gross savings. But in response to their inability to take on new debt, these policies also generated a trend among a good number of authorities to use suppliers to finance themselves, thus incurring steep loss carryforwards or accounting anomalies that put off a balancing of their budgets in line with the actual spending obligations they had contracted.

The final outcome of this is known, with the creation of the FFPP. Out of the nearly 27 billion euros channeled by this state-backed mechanism, 8.7 billion euros was earmarked for clearing away the commercial debt of local authorities. Although they represent less than 1% of GDP in volume, it requires increasing outstanding financial debt by 25%, which far surpasses the impact of FFPP in regions in relative terms.

In sum, as against the more than 35 billion euros in debt at the start of last year, the initial figure in 2013 will be 43.44 billion euros. This means that, in aggregate terms, there has been no net increase in debt if we exclude the settlement of commercial debt. Even though the Stability Program allowed local authorities to record a deficit three decimal points above GDP, the Ministry of Finance and public authorities have announced that they may achieve a balanced budget, as will be required of them from this year.

Indeed, the new Organic Law of Budgetary Stability (LOEPSF) introduces certain strict criteria for local authorities, not only prohibiting them from incurring a non-financial deficit –apart from exceptional cases– but they will also have to earmark the surplus for financial debt service.

The Budgetary Law of 2013, however, again introduces greater flexibility by allowing for the use of long-term financial debt by local authorities with net savings whose outstanding capital does not exceed 75% of current assessed income, and it may be increased to 100% with the authorization of the competent body. It also authorizes refinancing of long-term credit operations, eliminating the obligation to unwind positions to cover cash shortfalls and it includes a commitment to again amend article 32 of the LOEPSF to consider proposals that include objectives other than servicing debt with non-financial surpluses.

In short, all of these measures constitute an alteration in the central government's strategy, and

Measures constitute an alteration in the central government's strategy and may open the way to a greater willingness to authorize new net debt for authorities in a sounder financial position. Any increase should not be significant, because of the joint zero deficit target and poor financial conditions for new debt issuance.

they may open the way to a greater willingness to authorize new net debt for authorities in a sounder financial position. Any increase should not be significant, because of the joint zero deficit target and poor financial conditions for new debt issuance, let alone in a market as fragmented and inefficient as that in Spain. We must recall, moreover, that stability regulations call for a debt level of 3% of GDP by 2020, which means reducing its weight to one third.

Conclusions

The year 2013 presents itself as equally or more difficult for Spanish public authorities with regard to funding. Although gross volumes of debt to be issued –in principle, with greater flexibility in deficit targets awaiting confirmation– will be slightly lower than in 2012, financing conditions remain adverse, in spite of the recent improvement.

The gradual rebalancing of Spain's macro-economic disequilibria and ECB support should help continue to temper the excessive perception of risk associated with Spanish debt, and thus allow for a revival of demand among non-resident investors, who, incidentally, are seeing very low yields on other euro-denominated assets.

The majority of regional governments will have no choice but to stay under the umbrella of the state in order to meet their funding needs. Access to the primary market will have to be different in the future, as the solution presently in place is not optimal and undermines regions' financial autonomy. This will require decisive measures to restore confidence in the country's capacity to stabilize the deficit and, in any event, consideration of other avenues to make their access to the market more efficient.

Labor market duality: The unresolved issue of the 2012 reform

Daniel Fernández Kranz[1]

Despite recent reform efforts, empirical evidence suggests little progress to reduce firms' reliance on temporary contracts to adjust to shocks.

The creation of the temporary contract in 1984 has given rise to one of the most important problems of Spain's labor market today - duality. Several recent reforms have tried to address this issue, including the latest in February 2012, however unsuccessfully. This reform aimed to shift workers' and firms' incentives away from external flexibility and towards internal flexibility. Unfortunately, initial evidence suggests that still high severance costs for unfair dismissal and legal uncertainty have led to firms' continued preference for the temporary contract. The resulting buffer of temporary employees is reducing willingness of permanent workers to accept internal flexibility and thereby hindering progress of the reform overall.

Employment protection legislation has generated a dual labor market in Spain, in which temporary contracts represent bad jobs that belong to a secondary sector while permanent contracts are part of good jobs in a primary sector. Moreover, there are some barriers to mobility between the temporary and permanent jobs, even within a given firm.

The duality of the Spanish labor market has its origins in the introduction of employment legislation reform in 1984 that liberalized the use of temporary contracts allowing employers to use these contracts to hire employees performing regular activities. The reform was made by the creation of a new type of contract, the so-called employment-promotion contract. This contract had much lower dismissal costs than permanent contracts (8 days' wages per year of service instead of 45) and its termination could not be appealed to labor courts. Also, these contracts had a maximum duration of 3 years within the same firm. After that period, the employer could choose between terminating the contract and converting it into a permanent contract. As a result of this reform, temporary employment surged to almost 35 percent in the early 1990s. The rampant growth in the use of temporary contracts and the low conversion rate of these contracts into permanent contracts (5 percent in 1994 *versus* 18 percent in 1987), led to the introduction of a series of countervailing reforms during the following decades that imposed some restrictions on the use of temporary contracts and reduced the costs of new permanent contracts.

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In spite of these later reforms, Spain has continued to have about one third of its workforce employed in temporary contracts, one of the largest shares in the European Union, and a low conversion rate of about 4 percent of the total number of contracts signed. Furthermore, less than 10 percent of these temporary contracts relate to seasonal jobs. Temporary employment has been found to especially affect some groups of the population such as young workers and females. Evidence from the administrative data of the Spanish Social Security shows that almost 90% of female workers' first contract is a temporary contract and that 50% of these women still work under a temporary contract five years after their first entry into the labor market.

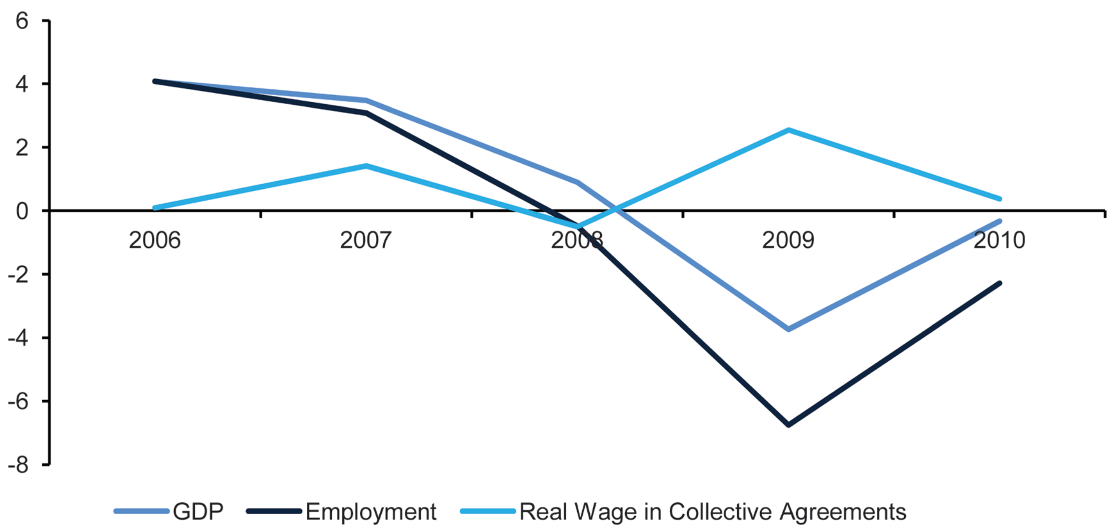
Extensive empirical evidence shows that in Spain temporary contracts are associated with worse employee outcomes than permanent contracts. Workers under temporary jobs have been found to receive lower on-the-job training, lower wages, to face worse working conditions and to be subject to higher accident rates. In addition, temporary contracts in Spain are very unstable with a large likelihood of leading to unemployment and relatively low prospects of transition to permanent work.

One of the most important consequences of duality is that firms in Spain rely disproportionately on external flexibility (dismissals) rather than on internal flexibility (wage flexibility and reduced work time arrangements). This is so because Spanish companies always find it easier to adjust by not renewing temporary contracts rather than by implementing wage cuts or reduced work arrangements. Furthermore, workers under permanent contracts (and their representatives), knowing that there is always the buffer of

One of the most important consequences of duality is that in the midst of a recession, firms in Spain rely disproportionately on external flexibility (dismissals) rather than on internal flexibility (wage flexibility and reduced work time arrangements).

Exhibit 1

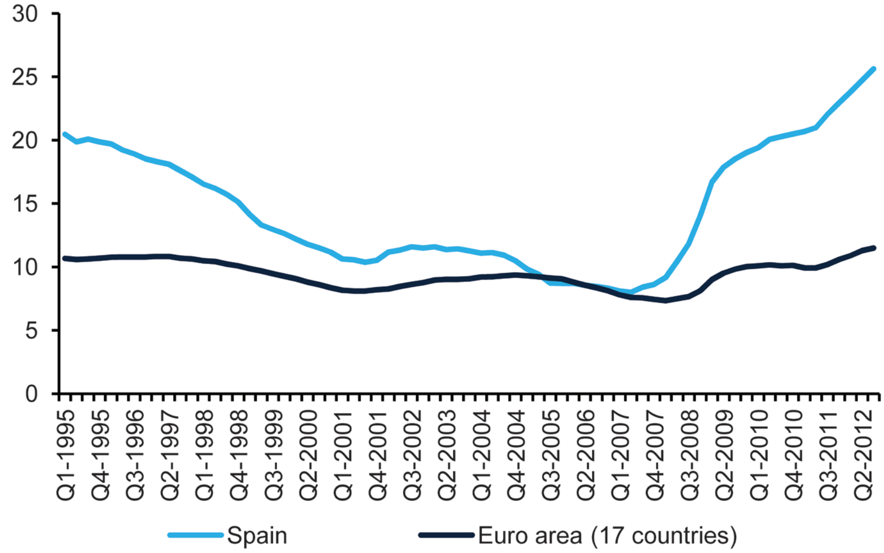
Percent change of GDP, employment and real wages in collective agreements: Spain



Sources: I.N.E. for GDP and employment data and Ministry of Labor for Collective Agreements data.

Exhibit 2

Unemployment rate. 1995-2012 (3rd quarter). Spain versus the Euro Area (17)



Source: O.E.C.D. harmonized unemployment rate.

temporary jobs, are reluctant to accept downward adjustments to their wages or other working conditions even in very tough economic times. In Exhibit 1, for example, we can see how real wages agreed under collective agreements increased more than 2% in 2009, at a time during which the Spanish economy was destroying thousands of jobs every day. In general, Exhibit 1 shows that wage conditions from collective agreements bear little relationship with the situation of the labor and goods markets. Also, not surprisingly, the Spanish labor market has been always characterized by a high and extremely volatile unemployment rate (see Exhibit 2). The high level of the unemployment rate has to do with the fact that in a dual labor market, the high rate of destruction and creation of temporary jobs leads to frictional structural unemployment. The high volatility has to do with the fact that in periods of expansions, firms hire extensively through the use of temporary contracts and in downturns firms destroy massive numbers of temporary jobs.

The 2012 labor market reform: Only half way through the problems

In February 2012, the Spanish government passed the most ambitious labor market reform since 1984. The critical situation of the Spanish labor market, with rampant job destruction and a 25% unemployment rate, led the Spanish government to approve with little resistance a series of important changes transforming the way the Spanish labor market would operate. In particular, the 2012 reform aimed at shifting the incentives of firms and workers away from external

The 2012 reform aimed to give firms and workers incentives to accept adjustments to their wages and other work conditions and stop relying on job destruction as the preferred mechanism for accommodating to adverse market shocks.

flexibility and towards internal flexibility. That is, its goal was to give firms and workers incentives to accept adjustments to their wages and other work conditions and stop relying on job destruction as the preferred mechanism for accommodating to adverse market shocks. Also, the reform was supposed to set the basis for a healthier labor market in the future, allowing it to maintain a higher and more stable level of employment but also a higher rate of labor productivity growth.

The reform took two sets of actions to achieve those goals: the reduction of the costs of terminating permanent contracts, and easing the conditions for decreasing wages and for using reduced work arrangements.

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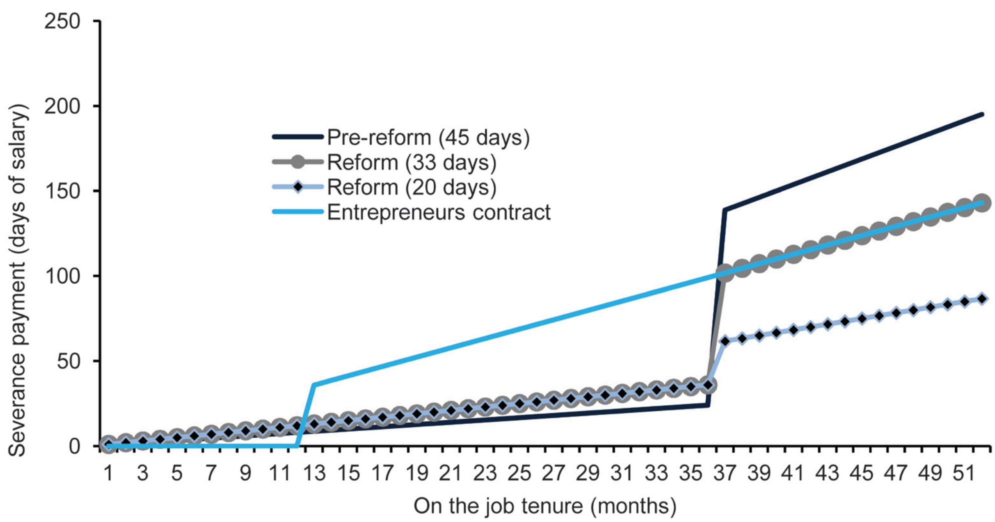
External flexibility: Reduced costs of terminating permanent contracts

This was achieved through four different measures. One, the law reduced the severance payment for terminating a permanent contract with no objective reason (unfair dismissal). The severance payment has decreased from 45 days of salary per year worked (up to a maximum of 3.5 years of salary), to 33 days of salary per year worked (up to a maximum of 2 years of salary). Second, it introduced the so-called permanent contract for the support of entrepreneurs (defining an entrepreneur as an employer that employs fifty or fewer workers). This is a permanent contract with the same severance payment as other permanent contracts but with a twist: there is a 1 year trial period, at the end of which the contract can be terminated at no cost for the firm. Third, it clarified and supposedly made it easier for firms to dismiss workers due to bad economic conditions affecting the firm (dismissal due to objective reasons). In this case, workers are entitled to a severance payment of 20 days of salary per year worked (with a maximum of one year of

Exhibit 3

Severance payments before and after the reform



Source: Author's calculations.

salary). The reform states that firms can use this type of dismissal procedure if they can show that their sales and income have decreased more than nine months consecutively. Fourth, it increased the cost of terminating a temporary contract from 8 to 12 days of salary per year worked.

The objective of this set of measures is to reduce the incentives of firms to use temporary contracts as a buffer when economic conditions change. This is achieved by making permanent contracts more attractive relative to temporary contracts because the cost of terminating the former is now less different compared to the cost of terminating a temporary contract. Exhibit 3, depicts the amount of the severance payment at each level of on the job tenure and by type of dismissal and contract, before and after the reform.

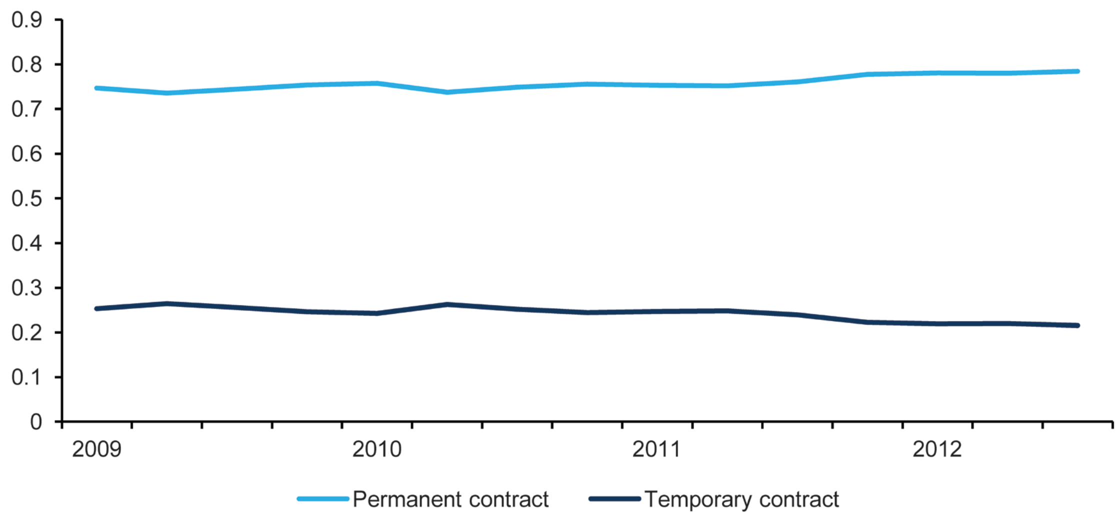
Spanish labor market duality is most signified by the pre-reform (45 days) line. This is the line that shows the severance payment for unfair dismissals, by far the most commonly used type of dismissal used until now in Spain in regards to permanent contracts. The big jump in severance payments that occurs at the end of the maximum duration of temporary contracts (3 years) is what stops many firms from transforming a temporary contract into a permanent one. As a consequence, a large number of workers cannot access a permanent job and instead they get trapped in a sequence of temporary jobs, with negative consequences for wages, productivity and job stability.

The other objective of the 2012 reform has been to reduce the difference in severance payments between permanent and temporary contracts. Has the reform been successful in this regard?

The 2012 reform seems more oriented to facilitate the adjustment of the firm to adverse economic shocks rather than to guarantee the efficient use and productivity of the labor input. This is so because the main novelty of the reform is to facilitate the termination of the permanent contract due to objective economic reasons (20 days of salary as severance payment). The 2012 reform keeps expensive unfair dismissals in permanent jobs (33 days) and the contract in support of entrepreneurs

Exhibit 4

Employment by type of contract in firms of 50 or less employees: 1st Q 2009 to 3rd Q 2012



Source: Ministry of Labor.

(firms with less than 50 employees) raises so many questions of implementation that at least until now it is barely used. In spite of the beneficial aspects of this type of contract (trial period of one year with no severance payment and tax deductions), firms of less than 50 employees prefer to use temporary contracts or traditional permanent contracts. According to official statistics, contracts for the support of entrepreneurs represent less than 10% of new contracts signed by these types of firms. Not surprisingly, as can be seen in Exhibit 4, the employment by type of contract has barely changed in firms of less than 50 employees since the implementation of the reform, with the temporary rate around 20% and declining simply as a consequence of the higher rate of destruction of temporary jobs. If anything, the rate of decrease of the temporary rate has slowed down since 2012.

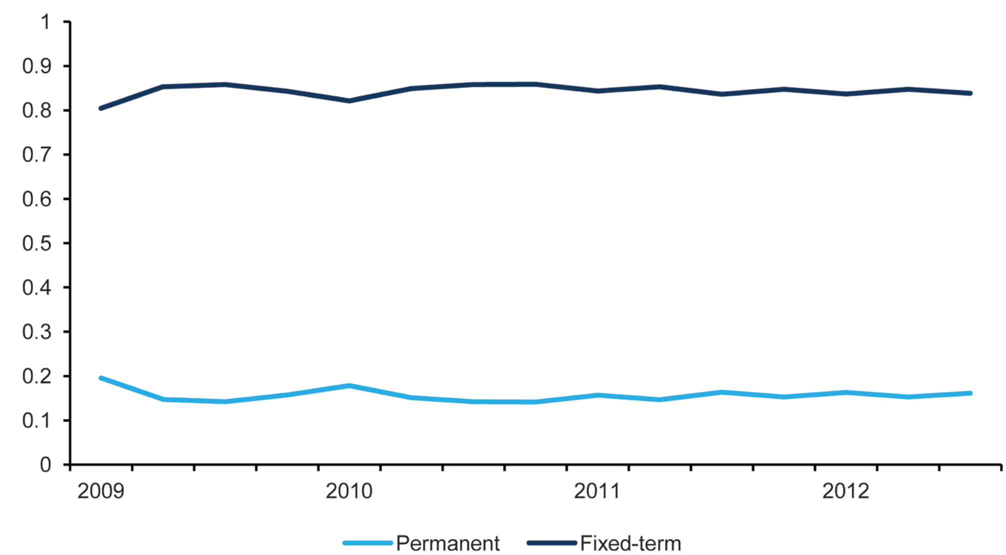
Also revealing is the fact that of all new contracts being signed in Spain among all firms, 85% are temporary contracts and this rate has not change significantly since the implementation of the reform (see Exhibit 5). Finally, according to official statistics, of all terminations of permanent contracts, close to 30% are due to objective reasons, with this percentage not significantly lower (around 26%) before the implementation of the reform.

It seems that in the initial months after the reform, the Spanish labor market continues to create and to destroy jobs with the same intensity and in the same form as before the reform was implemented. Although it is probably still too soon to make a definite analysis of the effects of the reform, this initial evidence is not very encouraging and suggests that firms in Spain still view temporary contracts as the preferred mechanism for adjusting to economic shocks.

It seems that in the initial months after the reform, the Spanish labor market continues to create and to destroy jobs with the same intensity and in the same form as before the reform was implemented. Although it is probably still too soon to make a definite analysis.

Exhibit 5

New contracts by type of contract. All firms. 1st Q 2009 to 3rd Q 2012



Source: Ministry of Labor.

One of the most controversial aspects of this reform, which may explain the scarce use of the new possibilities for terminating permanent contracts, is that there is still a large amount of legal uncertainty. For example, in the case of dismissals due to objective reasons, courts have to ratify that the firm is facing an adverse economic shock, defined as a period of reduced sales of three consecutive quarters or more. But it is not clear what interpretation judges will make of this rule. For example, are they going to look at sales in nominal terms, or in real terms? How will they consider a context in which prices are declining or costs are increasing? If firms fear long and complex judicial processes then they may be tempted to use the quicker but more expensive option: the unfair dismissal with 33 days of salary per year worked.

Internal flexibility: Easing the conditions for decreasing wages and for using reduced work arrangements

The February 2012 Reform introduces some provisions that facilitate the adaptation of firms to economic shocks by making it easier to change wage and work time conditions of already employed workers. First, the reform increases the importance of collective wage agreements at the level of the firm rather than at the sector or national level. Second, it eliminates the automatic extension of old collective wage agreements in those situations in which there is no agreement between the company and the employees. Third, it makes it easier for firms to modify (downwards) the wages of workers if the level of wage compensation for those workers was above the level set by collective wage agreements and if the firm is facing adverse economic conditions (defined as declined sales during a period of two quarters or more). Fourth, and also in the context of adverse economic shocks, it establishes clear conditions and makes it easier to convert full-time contracts into part-time contracts (for a fixed period of time).

The objective of internal flexibility could be jeopardized by the still high degree of labor market duality. This is so for two reasons. First, firms may still prefer to use temporary contracts as the preferred mechanism for adjusting to economic shocks. Second, permanent workers will be reluctant to accept negative changes of their wage and work-time conditions if they know that the firm still has the buffer of temporary employees.

Although there has been negative real wage growth in Spanish collective agreements in 2012 (see Exhibit 6), the rate of wage decline is not significantly different than in 2011 or in 2010. And this rate of wage decline has not been enough to stop the increase of unemployment in Spain during 2012. Furthermore, and surprisingly, since the reform has been approved, real wage declines have been more intense in collective agreements at the sector or national levels than at the level of the firm, contradicting one of the forecasts of the reform. Once again, this evidence suggests that Spanish firms and permanent workers make no extensive use of internal flexibility in order to adjust to adverse economic shocks.

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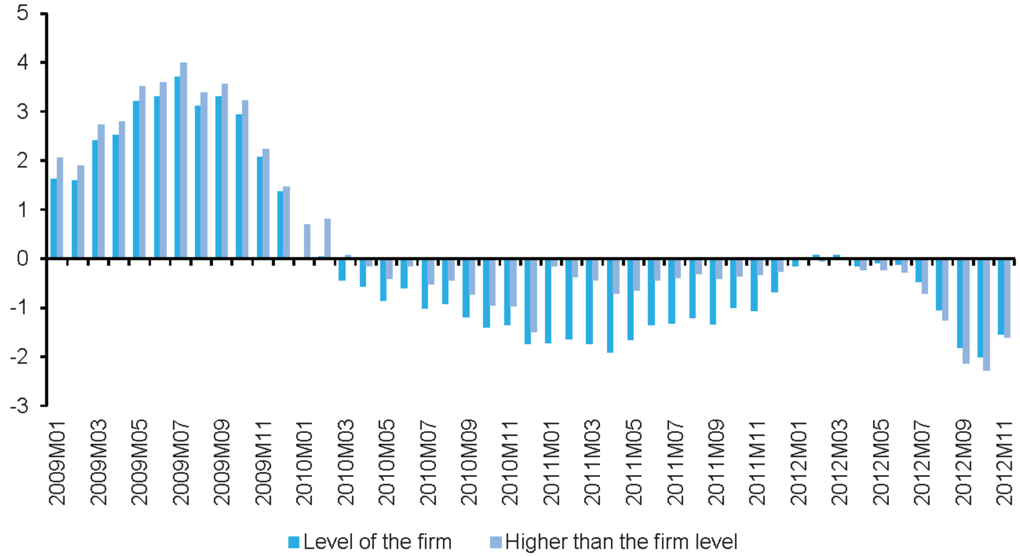
To sum up, despite efforts to make the Spanish labor market more efficient and flexible, the February 2012 Reform has not solved the problem of duality. This unresolved issue could jeopardize the whole reform. The existing evidence is not very encouraging and suggests that firms and permanent workers in Spain still mainly rely

Exhibit 6

Real wage growth in collective agreements at the level of the firm and at higher than the firm level



Source: Ministry of Labor.

on temporary employees to adjust to adverse economic shocks. We will have to wait for future evidence in order to confirm this analysis. In the meantime, many are listening again to those that advocated in Spain for the implementation of a single contract ("contrato único") for all workers in which the severance payment increases linearly with tenure since the first month of employment. This type of contract would solve the problem of duality and therefore policymakers should consider its implementation if future evidence confirms the current pessimistic outlook.

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)

Law on the restructuring and resolution of credit institutions (Law 9/2012, published in the official gazette (BOE) on November 15th, 2012)

Law 9/2012, November 14th, 2012, on the restructuring and resolution of credit institutions, was published on November 15th, and came into force on the day of its publication.

This Law is the outcome of parliamentary debate of Royal Decree-Law 24/2012, August 31st, 2012, on the restructuring and resolution of credit institutions (discussed in issue 3 of this publication). The Royal Decree-Law's main objective was to regulate the processes of early intervention, restructuring and resolution of credit institutions, and to set out the legal framework for the Fund for Orderly Bank Restructuring (FROB), together with the general rules for its operations, in order to protect the stability of the financial system in a way that minimises the use of public resources.

The Law introduces the following new features with respect to the Royal Decree-Law:

- **Changes in the legal framework applicable to the savings banks:** Savings banks will be obliged to transform themselves into a special-character foundation, losing their authorisation to act as credit institutions, when:

  - They lose control of the credit institution, pursuant to Article 42 of the Commercial Code;
  - They hold less than 25% of the voting rights in the credit institution; or
  - The institution's restructuring or resolution plans lay down that this restructuring or resolution is a trigger for the separation of its financial and charitable and social activities.

  The transformation is to take place within **five months** of the occurrence of the event triggering the dissolution and a transitional regime for the transformation is established.

- **Content of the action plan.** The obligation to inform the FROB in advance of when the action plan is modified has been removed when the latter has been appointed provisional administrator of the institution.

- **Conditions for restructuring.** When determining whether an entity is in any of the situations envisaged as a prelude to its restructuring, the situation of the group to which it belongs, if any, will also be taken into account.

- **Monitoring of the restructuring plan and information to the FROB.** The FROB shall no longer be able to exercise the powers relating to early intervention measures.

- **Replacement of the board of directors as a resolution measure.** The requirement that the FROB not have a shareholding that gives it control over the board of directors in order for the Bank of Spain to resolve to replace the institution's board pursuant to Law 26/1988, July 29th,1988, on Discipline and Intervention of Credit Institutions, has been lifted.

It has also been established that the Bank of Spain may **choose not to replace the institution's** board of directors under certain exceptional circumstances, and in particular, when the FROB is in a position to control the institution's board of directors by virtue of the voting rights it holds.

- **Bridge bank.** The bridge bank is included as the institution to which, together with its shareholders, the profit obtained from its sale corresponds.

- **Financial support instruments.** The beneficiaries of the FROB's financial support include both the institutions receiving that financial support and those institutions controlled by the latter.

- **Asset management company.** These are to be companies created with the purpose of managing certain categories of impaired assets or assets that would jeopardise the institution's viability if they remained on its balance sheet.

- **Asset Management Company for Assets Arising from Bank Restructuring (SAREB).** This has the sole purpose of the holding, management, acquisition and disposal, whether directly or indirectly, of assets transferred to it by credit institutions and those it may acquire in the future.

- **Powers of the FROB.** The FROB has been given the authority to decide on the exclusion of preferential subscription rights when convertible bonds are issued.

- **Increase in the maximum amount of guarantees** by 55 billion euros for the granting of guarantees on bonds and securities by the SAREB. This guarantee will cover the principal of the issue and ordinary interest.

- **Changes in taxation.** Article 108.2 of the Securities Market Law 24/1988, July 28th, 1988, will not be applicable to operations resulting from the intervention of the FROB.

Royal Decree-Law on urgent measures to enhance the protection of mortgage debtors (Royal Decree-Law 27/2012, published in the official gazette on November 16th, 2012)

Royal Decree-Law on urgent measures to enhance the protection of mortgage debtors was published on November 16th, 2012, and came into force on the day of its publication.

The main measures it envisages are:

- **Suspension of evictions of particularly vulnerable groups from their habitual residence.**

  1) For a period of **two years** from the entry into force of this Royal Decree-Law, **persons** in any of the situations of **special vulnerability** to which the circumstances envisaged below apply may not be evicted from their habitual residence as a result of judicial or extrajudicial mortgage foreclosure proceedings.

  2) The situations of special vulnerability are:

     a) Large family, pursuant to current legislation.

     b) One-parent family with two dependent children.

     c) Any family with a child aged under three.

d) Households in which one of the members has a disability of more than 33%, is in a situation of dependence or suffers from an illness causing accredited permanent incapacity.

e) Households in which the mortgage borrower is unemployed and has exhausted his or her unemployment benefits.

f) Households in which one or more people living in the same home, and are related to the mortgage holder or his or her spouse by a blood relationship of up to the third degree of kinship or affinity, are disabled, dependent, or seriously ill such as prevents them from working.

g) Households in which there is a victim of gender violence, where the home subject to eviction is their normal residence.

3) The following **economic circumstances** must also apply:

a) That the combined income of all the members of the household does not exceed the limit of three times the public revenue index (IPREM) (this changes over time).

b) That in the four years prior to the time of the application the household has suffered a significant alteration in its economic circumstances (in terms of effort in access to housing).

c) That the mortgage payments are more than 50% of the household's combined net income.

d) That the loan is a mortgage on the debtor's only residential property and was granted for the purpose of its acquisition.

- **Social housing fund.** The government will be responsible for setting up a social housing fund, jointly with the financial sector, comprising housing held by credit institutions, in order to facilitate access to rented property to persons who have been evicted from their habitual residence as a result of default on mortgage payments and who fall within the sphere of application defined in this Royal Decree-Law.

Royal Decree establishing the legal framework for asset management companies (Royal Decree 1559/2012, published in the official gazette on November 16th, 2012)

Royal Decree 1559/2012, November 15th, 2012, establishing the legal framework for asset management companies, was published on November 16th, 2012. The purpose of this Royal Decree, which came into force the day after its publication, is to implement the provisions of Law 9/2012 regarding the framework for the organisation and functioning of asset management companies, the powers of the FROB and the Bank of Spain in relation to them and the SAREB, and to their segregated assets. The main features are:

- **Asset management companies (SGAs):** Implements the provisions of Law 9/2012 on SGAs. The purpose of these companies will be:
  - To help restore the financial system to health by acquiring assets such that, as of their transfer of ownership, there is an effective transfer of the risks associated with them.
  - To minimise public financial support.
  - To meet the debts and obligations undertaken in the course of their operations.

- To minimise the potential market distortions that their activities may cause.

- To dispose of the assets they receive in a way that optimises their value within the timeframe for which they have been established.

- The **FROB may oblige** credit institutions to transfer certain categories of assets on their balance sheet to an SGA or to take the steps necessary to transfer assets on the balance of any institution over which the credit institution exercises control pursuant to Article 42 of the Commercial Code, in the case of particularly impaired assets or assets that would jeopardise the institution's viability if they remained on its balance sheet.

- **Asset Management Company for Assets Arising from Bank Restructuring (SAREB):** The SAREB will be established by the FROB as a joint-stock company with duration of not more than 15 years. No more than 50% of its capital may be from public funds. The SAREB's corporate purpose is the holding and management, acquisition and disposal, whether directly or indirectly, of assets transferred to it by credit institutions.

  The price at which assets are transferred will be decided by the Bank of Spain. The value at which assets are transferred to the SAREB may not exceed 90 billion euros.

- **Segregated assets:** The SAREB may constitute segregated assets, which shall not have a separate legal identity, pursuant to Law 9/2012, and shall be termed bank asset funds (FAB).

The **FABs' assets** will comprise the assets transferred by an SGA, cash, sight deposits and term deposits in credit institutions, and fixed income securities traded on official secondary markets. The liabilities will comprise those liabilities transferred by an SGA, securities of any type that are issued, loans or credit of any kind, contributions from institutional investors, and liabilities generated by the FAB's normal activity.

The main points regarding the legal framework applicable to the FABs' management companies are:

✓ The constitution, administration and representation of the FAB will be entrusted to an asset securitisation fund management company.

✓ The management of the FAB will be confidential and may only be performed by this category of management company, although it may delegate its tasks without prejudice to its responsibility.

✓ The callable capital will be that envisaged for asset securitisation fund management companies.

✓ The management company's remuneration will be calculated using procedures that accord with each FAB's investment and risk management policy, avoiding the emergence of incentives towards management contrary to the objectives established in these policies.

✓ The separation of compliance, risk control and internal audit units will be envisaged and internal regulations on conduct passed.

Bank of Spain Circular on minimum "capital principal" requirements (Circular 7/2012, published in the official gazette (BOE) on December 11th, 2012)

Bank of Spain Circular 7/2012, November 30th, 2012, addressed to credit institutions, was published on December 11th, 2012. This circular sets the current minimum capital requirements and came into force on January 1st, 2013. Its purpose is to implement the powers entrusted to the Bank of Spain to enforce the minimum capital requirements envisaged in Royal Decree-Law 2/2011, pursuant to the amendments made in the aforementioned Law.

- **Institutions subject to the requirement:** Consolidated groups of credit institutions and credit institutions not belonging to a consolidated group of credit institutions which take reimbursable deposits from the public, excluding the branches in Spain of credit institutions authorised in other countries.

  Consolidated groups of credit institutions will have a "reporting institution" that will assume all the obligations arising from relations with the Bank of Spain.

- **Capital requirements:** Institutions must have a "capital principal" (concept similar to core capital) equal to 9% of their total risk-weighted exposures.

- **Elements of "capital principal":** Institutions subject to this requirement will count the elements established by Law 9/2012 as "capital principal":

  - **Share capital** (excluding redeemable and non-voting shares), insofar as they have lower priority than all other types of credit in the case of bankruptcy and liquidation, savings banks' initial capital and equity units, equity units of the savings bank association (CECA), and contributions to the capital of cooperative banks.

    The following will be excluded from the calculation: (i) treasury stock in the form of any of the above instruments, and (ii) those that have been the object of any operation or commitment jeopardising their effectiveness at covering losses in the institution or group.

  - **Issue premiums paid** on any of the instruments listed above.

  - **Effective and express reserves,** including the participation fund and reserve fund for savings banks and CECA equity. Certain valuation adjustments (capital gains) for exchange rate differences and positive valuation for hedges of net investments in foreign business, and the balance on the account recording certain equity-based compensation will also be classified as reserves.

  - **Shares representing minority interests** in the form of ordinary shares in companies in the consolidated group, insofar as they are actually paid up, excluding the part attributed to them in revaluation reserves and in the valuation adjustments included in the equity of the consolidated group.

  - **Eligible instruments subscribed by the FROB,** which are also eligible as core capital under capital requirement rules.

  - **Instruments convertible into common shares,** savings bank shares or contributions to the capital of credit unions qualified by the Bank of Spain as eligible as core capital.

- **Deductions from "capital principal":** The items established in Law 9/2012 will be deducted from "capital principal".

- **Regular information to be submitted to the Bank of Spain:** Institutions subject to this requirement shall submit a new statement of "capital principal" and compliance with the new capital requirements on a quarterly basis.

Bank of Spain Circular on databases of assets transferable to companies referred to in Chapter II of Law 8/2012 on the reorganisation and sale of the financial sector's real estate assets (Circular 8/2012, published in the official gazette on December 27th, 2012)

This circular aims to put into effect the powers entrusted to the Bank of Spain regarding the determination of the requirements that must be fulfilled by the databases of assets transferable to the companies concerned, pursuant to Law 8/2012.

The databases on the assets to be provided should distinguish between property and financing data. When the nature of the assets is such that it is not possible to adapt the information on the assets to the content of the annex to the Circular, after consulting the Bank of Spain, institutions may design the necessary databases taking as their reference the structures referred to.

Spanish economic forecasts panel: December 2012[1]

Funcas Economic Trends and Statistics Department

Growth forecasts for 2012 have improved by two tenths of a point to - 1.4%

GDP dropped by 0.3% in the third quarter of 2012, a slightly smaller decline than in the two preceding quarters. This was due to a moderation in the fall in national demand, driven by consumers bringing purchases forward ahead of the VAT increase, and the strong growth in exports of goods and services (including tourism). The figure was better than anticipated by participants in the preceding panels.

This result, and the fact that growth in the last quarter is expected to be less negative than envisaged in the previous panel forecast (-0.8% per quarter compared to -1%), led to a slightly smaller drop in GDP for the year as a whole than was forecast. If the previous panel already began to anticipate this result with an upward review of a tenth of a percentage point in the rate, in this adjustment the upward change is an additional two tenths of a percentage point, to -1.4%.

The forecast for 2013 remains unchanged at -1.5%

The consensus growth forecast for 2013 remains unchanged at -1.5%. The panellists' range of forecasts lies between a maximum of -1.0% and a minimum of -2.0%. This figure is between one and two tenths worse than that published by the main international organisations (IMF, OECD, and EC). 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 quarters. The contributions from domestic and external demand will be similar to those expected for 2012, i.e. -3.9 and 2.4 percentage points, respectively.

Industrial activity has resumed its downward trend

The industrial production index (IPI) suffered a sharp drop in September, returning it to a downward trend, despite the improvement in the third quarter of the year resulting from the strong performance of exports and consumers bringing purchases forward in August ahead of the VAT increase. Between January and October the IPI dropped by 5.9% in comparison with the same period the previous year. The forecast for 2012 as a whole has worsened to -5.3%, whereas the consensus forecast for 2013 is -2.9%. This is also worse than in the previous panel forecast.

Recent change in the inflation trend

Inflation picked up in July and October as a result of regulatory and fiscal changes and a rise in energy prices. The fall in November was bigger than expected, however, due to the sharp drop in fuel prices. This led to a slight downward modification of the expected year-on-year rate for December 2012 (Table 3) to 3.0%. The forecasts for annual averages in 2012 and 2013 were unchanged at 2.4% and

[1] The Spanish Economic Forecasts Panel is a survey run by Funcas in which it consults the 19 analysis departments listed in Table 1. The survey has been operating since 1999 and is published bimonthly in the first half of January, March, July, September, and November. The survey responses are used to produce a "consensus" forecast, which is calculated as the arithmetic mean of the 19 individual survey responses.

2.2%, respectively, and the expected year-on-year rate for December 2013 is 1.6%.

The outlook for jobs has worsened

The number of full-time jobs shrank by 0.9% in the third quarter of the year, a slightly smaller drop than in the preceding quarter. The figures for Social Security affiliations in October and November seem to suggest a similar drop in employment in the fourth quarter as was seen in the third. The consensus forecast for 2013 has worsened, predicting a decline of 4.2%. For 2013 the forecast is -2.9%, three tenths of a point more negative than in the preceding panel forecast.

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 2.9% this year and 1.5% the next, whereas ULCs are expected to fall by 2.5% and 0.9%, respectively.

The improvement in the current account balance gathers pace

In the first nine months of 2012 the current account deficit shrank by 45.5% compared to the same period the previous year. This reduction was the result of a change in 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 remains -1.8% of GDP this year, with equilibrium expected in 2013 (0.0% of GDP).

The deficit targets will be hard to meet

Through September 2012 the general government deficit stood at 8.4% of GDP over the period. Excluding the effect of supporting the financial system, the figure was 7.1% of GDP, above the 6.3% target for the year as a whole. The main deficit containment measures are focused on the fourth quarter, but a substantial effort will be necessary to meet this target given the negative seasonality of this quarter.

Panel participants' consensus forecast has become more negative, predicting a budgetary balance of 7.2% of GDP in 2012. This deficit figure does not take into account the impact of the support given to financial institutions. The estimate for 2013 has also worsened a few tenths of a percent to -5.6%.

The European context is clearly unfavourable

GDP in the euro area shrank by 0.1% in the third quarter of 2012. Of the area's large economies, Germany and France have managed to remain in positive territory, but Italy and Spain are still 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, while growth in emerging economies, particularly China, has slowed considerably. 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 the interest rates on government debt are expected

The three-month Euribor has continued downwards, dropping to 0.18%, which is well below the ECB benchmark rate, thus reflecting the excess liquidity in the financial system. The majority of panellists consider that this rate is appropriate for the economies' conditions, and as in previous panels, it is expected to remain stable.

Following the announcement by the President of the ECB of a secondary-market debt purchase programme, the risk premium on Spanish debt has relaxed considerably. It subsequently fell further after an agreement was reached to release another tranche of aid to Greece, and after recent progress on recapitalising and restructuring the Spanish financial system. Nevertheless, the easing of market tensions may be only temporary and the situation remains fragile. There is a growing and near unanimous opinion that long-term interest rates are too high to allow the Spanish economy to recover, although, unlike the case in previous panels, in which most participants expected them to remain stable, the number of panellists who anticipate a fall in the coming months has increased, and there is a split between those who expect a drop and those who expect rates to remain unchanged.

The euro is overlued

There have been no changes in the valuation of the euro, which remains strong. The large majority of panellists consider that the European currency is overvalued and expect it to decline in value over the coming months.

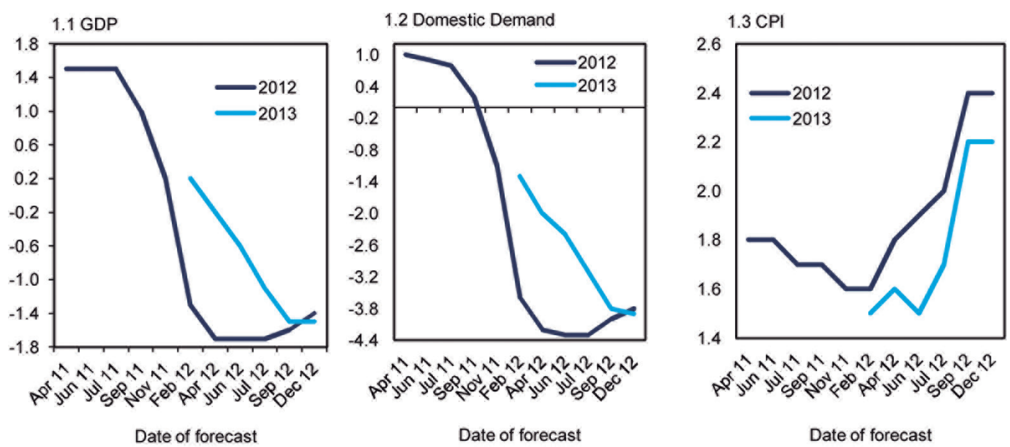
Expansionary monetary policy is warranted

There has been no change in opinions on fiscal policy either, which is still unanimously viewed as restrictive. This is mainly considered to be the right approach, although a growing number of panellists believe it should be neutral. The overwhelming majority of panellists also consider current monetary policy to be expansionary, and still unanimously agree 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 – December 2012

Annual change (percentage) unless stated otherwise

	GDP		Household consumption		Public consumption		Gross fixed capital formation		GFCF machinery and 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	-2.9	-3.6	-6.9	-9.7	-7.5	-7.7	-3.8	-11.8	-10.0	-4.0	-4.7
Bankia	-1.4	-1.5	-2.0	-2.4	-4.1	-5.9	-8.9	-4.2	-6.3	-3.1	-11.3	-5.5	-3.9	-3.5
CatalunyaCaixa	-1.4	-1.4	-1.9	-3.8	-4.4	-8.2	-9.0	-5.3	-6.1	2.8	-12.8	-10.6	-3.8	-3.9
Cemex	-1.3	-1.6	-1.8	-2.7	-4.2	-4.0	-8.9	-6.9	-6.1	-3.0	-11.8	-11.2	-3.9	-3.8
Centro de Estudios Economía de Madrid (CEEM-URJC)	-1.4	-1.4	-1.9	-2.4	-4.2	-7.0	-9.2	-5.7	-7.5	-3.3	-10.3	-7.1	-3.9	-3.9
Centro de Predicción Económica (CEPREDE-UAM)	-1.6	-1.2	-1.8	-1.2	-4.2	-7.7	-8.8	-5.8	-6.9	-1.5	-11.1	-6.1	-3.8	-3.4
CEOE	-1.3	-1.3	-1.8	-2.1	-4.2	-6.0	-9.0	-6.8	-6.2	-1.6	-11.5	-9.8	-3.8	-3.9
ESADE	-1.5	-1.0	-1.0	-1.0	-6.9	-4.5	-1.3	-0.9	--	--	--	--	-2.2	-1.7
Fundación Cajas de Ahorros (Funcas)	-1.4	-1.6	-1.8	-3.3	-4.0	-4.9	-9.0	-7.9	-6.0	-3.4	-11.6	-11.1	-3.8	-4.5
Instituto Complutense de Análisis Económico (ICAE-UCM)	-1.5	-1.4	-1.8	-2.3	-4.7	-6.2	-9.3	-5.9	-6.8	-3.5	-11.1	-7.5	-4.0	-4.0
Instituto de Estudios Económicos (IEE)	-1.5	-1.5	-1.8	-2.5	-4.2	-4.5	-7.1	-5.1	-4.6	-3.0	-11.8	-9.0	-3.7	-3.8
Instituto de Macroeconomía y Finanzas (Universidad CJC)	-1.4	-1.3	-1.9	-2.1	-4.0	-5.1	-9.2	-4.2	-6.6	-0.8	-11.5	-6.2	-3.9	-3.2
Instituto Flores de Lemus (IFL-UC3M)	-1.3	-1.3	-1.7	-1.1	-4.1	-7.4	-8.7	-6.8	-5.9	-4.2	-11.3	-9.2	--	--
Intermoney	-1.3	-2.0	-1.8	-3.7	-4.0	-5.2	-9.1	-11.3	-4.5	-12.0	-11.6	-10.8	-3.8	-5.4
La Caixa	-1.4	-1.5	-1.8	-1.7	-4.3	-9.2	-8.9	-4.8	-6.1	-1.7	-11.4	-6.6	-3.8	-3.8
Repsol	-1.4	-1.5	-1.9	-2.5	-3.8	-5.6	-8.7	-3.2	-5.9	0.6	-11.4	-5.7	-3.7	-3.3
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	-1.4	-1.8	-1.8	-2.5	-4.3	-7.5	-8.8	-8.1	-6.0	-5.5	-11.5	-10.8	-3.9	-4.7
CONSENSUS (AVERAGE)	-1.4	-1.5	-1.8	-2.3	-4.3	-6.4	-8.3	-6.1	-6.3	-3.0	-11.5	-8.4	-3.8	-3.9
Maximum	-1.3	-1.0	-1.0	-1.0	-3.6	-4.0	-1.3	-0.9	-4.5	2.8	-10.3	-5.2	-2.2	-1.7
Minimum	-1.7	-2.0	-2.2	-3.8	-6.9	-9.2	-9.7	-11.3	-7.8	-12.0	-12.8	-11.2	-4.3	-5.4
Change on 2 months earlier[1]	0.2	0.0	0.2	-0.1	0.5	0.5	0.5	-0.2	1.2	0.9	0.0	-1.0	0.2	-0.1
- Up[2]	12	5	10	4	13	9	12	7	14	12	9	5	14	6
- Down[2]	0	3	2	10	2	5	2	8	0	2	2	9	1	9
Change on 6 months earlier[1]	0.3	-0.9	-0.1	-1.3	2.6	-1.0	0.4	-2.3	0.6	-1.1	-0.7	-3.2	0.5	-1.5
Memorandum entry:														
Government (Sept. 2012)	-1.5	-0.5	-1.5	-1.4	-4.8	-8.2	-9.9	-2.1	--	--	--	--	-4.0	-2.9
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 (November 2012)	-1.4	-1.4	-1.9	-2.1	-4.9	-7.2	-9.0	-5.6	-6.6	-3.5	-11.3	-7.3	-4.0	-3.8
IMF (October 2012)	-1.5	-1.3	-2.2	-2.4	-4.1	-5.4	-8.9	-4.1	--	--	--	--	-4.0	-3.3
OECD (November 2012)	-1.3	-1.4	-1.9	-2.3	-4.1	-4.0	-9.1	-9.0	--	--	--	--	-3.9	-4.0

[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 – December 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)[6]	
	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)	3.8	8.2	-4.7	-1.8	--	--	2.5	2.3	--	--	-4.2	-3.2	25.0	26.1	-1.4	-0.5	-7.2	-5.9
Bankia	3.2	3.6	-5.7	-2.7	-5.5	-2.5	2.4	2.0	0.1	0.1	-4.3	-3.1	25.0	26.4	-2.1	0.6	--	--
CatalunyaCaixa	3.7	6.4	-4.5	-3.4	--	--	2.4	2.8	--	--	-4.4	-2.6	25.0	26.6	--	--	--	--
Cemex	2.9	3.6	-5.0	-2.8	--	--	2.5	2.3	--	--	-4.5	-3.0	25.0	25.5	-1.3	0.0	-7.0	-5.3
Centro de Estudios Economía de Madrid (CEEM-URJC)	3.4	5.5	-4.8	-2.3	--	--	2.5	2.2	--	--	-4.0	-1.8	24.8	25.8	-1.3	0.0	-6.9	-5.2
Centro de Predicción Económica (CEPREDE-UAM)	3.5	4.0	-4.4	-2.2	-3.7	-0.9	2.4	2.4	1.3	1.3	-4.2	-2.1	24.8	26.2	-1.7	0.8	-7.5	-4.3
CEOE	3.5	4.7	-4.6	-3.4	-5.5	-4.0	2.5	1.9	-0.6	1.4	-4.3	-2.7	25.0	26.3	-2.1	0.0	-7.1	-5.3
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)	3.2	4.5	-4.7	-4.6	-5.7	-3.2	2.4	1.9	0.1	0.5	-4.3	-3.2	25.1	27.3	-2.0	0.3	-7.4	-5.6
Instituto Complutense de Análisis Económico (ICAE-UCM)	3.2	4.7	-5.2	-2.6	-4.5	-2.0	2.4	2.3	0.2	0.7	-4.0	-2.7	24.8	26.2	-2.0	-0.2	-7.1	-5.7
Instituto de Estudios Económicos (IEE)	3.0	4.5	-5.0	-4.0	-5.5	--	2.4	2.2	0.1	1.0	-4.2	-3.1	25.0	26.5	-2.2	0.1	-7.1	-5.5
Instit. Macroec.y Finanzas (Univ. CJC)	3.5	4.6	-4.8	-2.3	--	--	2.5	2.5	0.7	--	-3.9	-3.3	25.1	27.3	-1.7	-0.7	-7.3	-6.0
Instituto Flores de Lemus (IFL-UC3M)	3.4	5.2	-4.3	-2.0	-5.5	-5.2	2.5	2.4	--	--	--	--	25.0	27.0	-1.8	-0.2	--	--
Intermoney	3.0	-2.2	-4.9	-13.1	--	--	2.4	1.1	0.0	-0.9	-4.4	-4.2	25.1	28.1	-2.0	1.5	-7.5	-6.6
La Caixa	4.0	9.3	-3.7	2.2	-6.1	-1.1	2.5	2.4	0.5	1.0	-4.4	-3.2	24.9	26.3	-2.2	0.7	-7.4	-6.2
Repsol	4.0	6.5	-4.1	-0.3	-5.4	-3.9	2.5	2.2	0.3	0.4	-4.2	-3.1	24.9	26.6	-1.8	-0.2	-7.4	-5.8
Santander	2.9	3.8	-5.6	-4.0	--	--	2.4	1.9	0.4	0.3	-4.5	-2.7	25.0	26.7	-2.1	-0.9	--	--
Solchaga Recio & asociados	3.5	4.4	-4.4	-4.5	--	--	2.4	1.9	--	--	-4.4	-3.5	25.1	27.5	-1.9	0.3	-7.3	-5.5
CONSENSUS (AVERAGE)	3.3	4.7	-4.5	-3.0	-5.3	-2.9	2.4	2.2	0.3	0.6	-4.2	-2.9	24.9	26.5	-1.8	0.0	-7.2	-5.6
Maximum	4.0	9.3	1.0	2.2	-3.7	-0.9	2.5	2.8	1.3	1.4	-3.0	-1.8	25.1	28.1	-1.3	1.5	-6.9	-4.3
Minimum	1.7	-2.2	-6.8	-13.1	-6.1	-5.2	1.7	1.1	-0.6	-0.9	-4.5	-4.2	24.0	24.5	-2.2	-2.5	-7.5	-6.6
Change on 2 months earlier[1]	1.0	0.6	1.3	0.3	-0.6	-0.3	0.0	0.0	-0.3	0.1	-0.3	-0.3	0.2	0.4	0.0	0.1	-0.3	-0.5
- Up[2]	15	10	14	8	4	3	7	6	3	3	3	3	12	11	8	9	2	0
- Down[2]	0	3	1	7	4	4	7	7	5	1	9	9	2	1	5	4	9	11
Change on 6 months earlier[1]	1.1	-0.6	1.8	-2.7	-0.6	-1.0	0.5	0.7	0.4	0.2	-0.6	-1.2	0.6	1.5	-0.1	0.5	-1.3	-1.8
Memorandum entry:																		
Government (Sep 2012)	1.6	6.0	-6.7	-1.5	--	--	--	--	-1.0	1.5	-3,7[8]	-0,2[8]	24.6	24.3	-1.9	0.1	-6.3	-4.5
Bank of Spain (January 2012)	3.5	5.9	-4.8	1.2	--	--	1,5[7]	1,2[7]	-0.8	0.1	-3.0	-0.7	23.4	23.3	-1.4[9]	0.0[9]	-4.4	-3.0
EC (November 2012)	2.1	4.2	-6.3	-3.2	--	--	2.5	2.1	0.4	1.4	-4.5	-2.7	25.1	26.6	-2.4	-0.5	-8.0	-6.0
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 (Nov. 2012)	4.0	6.4	-4.5	-1.3	--	--	2.2	1.2	--	--	--	--	25.0	26.9	-2.0	0.5	-8.1	-6.3

[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.
[4] In National Accounts terms: full time equivalent jobs.
[5] Current account balance, according to Bank of Spain estimates.
[6] Excluding effect of support to financial system, except EC and OECD.
[7] Private consumption deflator.
[8] Employment according to LFS.
[9] Net borrowing vis-à-vis rest of world.

Table 2

Quarterly Forecasts - December 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]	-0.4	-0.4	-0.3	-0.8	-0.5	-0.2	0.0	0.0
Household consumption[2]	0.5	-1.0	-0.5	-1.2	-0.5	-0.5	-0.3	-0.3

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

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

Table 3

CPI Forecasts – December 2012[1]

Monthly change (%)				Year-on-year change (%)	
Nov-12	Dec-12	Jan-13	Feb-13	Dec-12	Dec-13
-0.1	0.2	-1.1	0.0	3.0	1.6

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

Table 4

Opinions – December 2012

Number of responses

	Currently			Trend for next 6 months		
	Favourable	Neutral	Unfavourable	Improving	Unchanged	Worsening
International context: EU	0	0	19	4	13	2
International context: Non-EU	1	16	2	3	15	1
	Low[1]	Normal[1]	High[1]	Increasing	Stable	Decreasing
Short-term interest rate[2]	6	10	3	1	13	5
Long-term interest rate[3]	0	1	18	1	9	9
	Overvalued[4]	Normal[4]	Undervalued[4]	Appreciation	Stable	Depreciation
Euro/dollar exchange rate	14	4	1	0	8	11
	Is			Should be		
	Restrictive	Neutral	Expansionary	Restrictive	Neutral	Expansionary
Fiscal policy assessment[1]	19	0	0	12	6	1
Monetary policy assessment[1]	2	2	15	0	0	19

[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.*

The case for investing in Spain today

Ignacio de la Torre[1]

Spain's macroeconomic and fiscal imbalances, as well as asset prices, are correcting, increasing the attractiveness of Spain as a destination for foreign investment. Nevertheless, investors' misperceptions are still generating capital outflows.

As a result of recent reform efforts, Spain's structural imbalances are adjusting, providing the country with a competitive, export-driven growth model. EU liquidity facilities will allow Spain to remain solvent at the sovereign and banking level. Under the efficient market hypothesis, Spain represents an opportunity for appealing risk adjusted investment returns–with asset prices for today's Spain at minimum historic levels. However, investors are failing to take advantage of opportunities due to existing negative perceptions over the Spanish economy.

From the perspective of an institutional investor, consider the following two investment scenarios:

a) A country with: a current account deficit of close to 10% of GDP, financed principally through portfolio investments; a GDP growth rate of 4%, channeled through credit growth of over 25% per annum (i.e. credit intensity of 4:1); a fiscal surplus of 2%, leveraged by *non-recurring* taxation (driven by a housing bubble), which is used to finance *recurring* expenses; and asset prices (real estate, bonds, and equities) at maximum historic levels.

b) A country with: a balanced current account thanks to ballooning exports, which increased by 7% of GDP in 3 years; a GDP decline of only 1% in spite of a decline in credit of 7%; a fiscal deficit below 5% with a fiscal package of 11% of GDP implemented to cut the structural deficit to zero; and asset prices at minimum historic levels.

Whether to invest in country "A" or "B" depends on whether you believe risk adjusted investment returns are driven by behavioral finance or the efficient market hypothesis. The efficient market hypothesis clearly favors option "B", but in reality, investors overwhelmingly chose option "A".

And they lost money.

Country "A" and "B" are both Spain, but "A" is Spain in 2006, and "B" is Spain in 2012. One would expect that the combination of risky factors in 2006 would result in low asset prices and portfolio outflows, yet the country received 208 billion euros in inflows. In 2012, the aforementioned risks were addressed, which should have resulted in a lower risk associated with investments in the country, together with historically low asset prices, yet 80 billion euros left the country.

We face an intriguing example of behavioral finance. This article will analyze why Spain is a

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much better investment opportunity in 2013 than in the past, from a risk adjusted perspective, and why the adjustments undertaken in the past years give Spain a clear competitive advantage in trade that provides the country with a clear growth model. This article does the following: a) demystifies the Spanish economy, as investors should base decisions on facts, not myths, b) provides data to support the thesis that Spain is a solvent, though illiquid, country with sufficient liquidity provided by the EU, and c) explains why Spanish exports are reaching record highs with further upside in the years to come.

Myths of the Spanish economy

Myth #1: Spain's debt is 363% of GDP, the third largest in the world (see Exhibit 1), and as Spain cannot print its own money, it will default

This is wrong. The total amount of debt in the country is under 268% of GDP. This myth is wrong on several bases. First, even if a country has the power to print its own money (Japan, UK), it can still default through inflation. Second, banks' wholesale debt should not be added to the rest of the nation's debt to calculate total debt (i.e. if you owe 100,000 euros to a bank and the bank to a wholesale investor, you should not double count this debt). Third, intercompany loans (i.e. Inditex lending money to Zara) represent 27% of GDP, and these should be netted out of the country's total debt. Fourth, toxic debt (real estate related debt) represents 40% of GDP at gross value but only 20% at net value, as it has been provisioned at 50% already. Fifth, Spain has some of the most important infrastructure companies in the world, which use project financing for international projects, without recourse to the parent company. This debt represents 10% of GDP. Sixth, Spanish companies have invested 44% of GDP overseas in the last 12 years. Should Telefónica's debt to support the acquisition of O2 be backed by the UK's GDP or by Spain's GDP?

Myth #2: Spanish authorities are reckless in spending

This is also untrue. Exhibit 2 shows that aggregated public spending in Spain is the second lowest in the West. Spain's problem is not public *spending,* but public *income,* which is well below that of other European countries. Once the fiscal package is finished by 2014, Spain will become the country in the West with the lowest weight of Government expenditures, which should provide an attractive prospect for investors.

Myth #3: Spain is not competitive

This is inaccurate. Spanish unit labor costs (ULC) have declined 4% since 2008, while the ULCs of its three major trading partners have risen 5-10% (see Exhibit 3). This means that Spain has regained competitiveness in the range of 9-14%, which explains the country's soaring exports.

Once the fiscal package is finished by 2014, Spain will become the country in the West with the lowest weight of Government expenditures, which should provide an attractive prospect for investors.

Myth #4: Spain does not have a growth model to end its crisis

Exports in Spain have increased 18% since 2008, *vs.* Germany at 12%, France at 5%, and Italy at 4% (see Exhibit 4). Spanish exports of goods and services (services mainly include tourism, which will provide Spain a net surplus of close to 5% of GDP, making it the second largest touristic power in the world after the US) will provide the growth model that the country needs to leave the crisis behind. Spain's significant competitive advantages in ULC leave many years of further upside in terms of trade of goods and services.

Myth #5: The worst is yet to come for Spain

This is disputable. In the absence of currency devaluation, the main adjustment the country must make will be in lower labor costs, as we have seen before. This has allowed the country to close more than 10% of GDP in its current account deficit in five years, a remarkable task. The country has entered into trade surplus ex-energy as well as trade surplus with energy and services, for the first time since the inception of the euro (Exhibit 5).

Myth #6: Europe will allow Spain to leave the euro

This is very unlikely. Spain leaving the euro would probably imply the same for Italy and therefore the end of the euro altogether. A "new" Deutsche Mark would revalue 40-50%, and Germany's exports (more than 40% of its GDP) would sink. The financial cost for Germany driven by this fact, plus the losses accrued through the ECB target II system (Exhibit 6) and in the German banking books would be much higher than the cost of sustaining the euro. Additionally, the euro is an instrument to create further political union, and it is thus far achieving it.

Myth #7: Spain will not reform

This is false. Spain is undertaking a fiscal adjustment of 11% of GDP (substantially more than in the UK or the US) and supply side reforms not undertaken in decades. Supply side reforms can generate a further 8.6% of GDP and 2 million jobs before 2020 (Exhibit 7).

Myth #8: Spanish banks' deposits are fleeing the country, pushing the banking system towards the brink of collapse

This is mostly false. When the Government in November 2011 capped deposits' retribution, the banks convinced many clients to switch to commercial paper, which does not have caps to interest rates and which does not count as deposits. Once the cap was abolished (August 2012), much of that money returned to deposits (Exhibit 8).

Myth #9: Spain's CDS imply that Spain is the fifth country in the world most likely to default

This is untrue. According to CDS spreads, Spain is riskier than Indonesia, Russia, Kazakhstan, and Romania (Exhibit 9). The last time Spain defaulted was in 1883. Credit default swaps do not reflect political stability (democracy) nor stability provided by a strong middle class (built in Spain during the 1960s). Countries default once they reach very high levels of Government debt (above 120% of GDP), cannot access liquidity, and are unable to grow. Spain is not in this situation.

Myth #10: Spaniards don't work hard

This is false. According to the OECD, Spain is the third developed country with the longest hours worked. Productivity per hour is 10-15% below the Eurozone average, but salary per hour is 35% below the Eurozone average (Exhibit 10). Cheap labor costs, high relative productivity, and long hours worked explain the success of Spanish exports and why foreign direct investment (FDI) is up 100% between 2011-2012.

Spain is solvent

It is evident that to assess an institution's solvency, one must analyze both assets and liabilities. Unfortunately, there has been much written on Spain's solvency without performing this analysis in detail. We have performed this analysis to show the inherent solvency of Spain. Financial assets are reported by the Bank of Spain every three months. The task of calculating the value of non-financial assets was undertaken by FUNCAS in 2008, which is based on the register of public property and adjusted for 2007 real estate prices. We have reduced the value they provided in 2008 by 50% to fully reflect declines in housing prices of

36% since the start of the crisis plus an additional 14% margin. The country's debts stand at 268% (this includes much "debt" incurred in foreign countries). Assets represent more than 700% of GDP. We find that each of the three major agents of the economy (Government, which includes local governments, Corporates and Households) are in a positive equity position (see Exhibit 11).

The problem of Spain is lack of liquidity, not lack of solvency. This lack of liquidity is derived from the fact that 80% of households' savings are concentrated in illiquid real estate, compared to a European average of 50% (Exhibit 12). It is true though that a solvent but illiquid party can default through illiquidity. Yet, during 2012, two milestones were achieved that allowed Spain to secure enough liquidity from the EU to avoid insolvency:

The problem of Spain is lack of liquidity, not lack of solvency. This lack of liquidity is derived from the fact that 80% of households' savings are concentrated in illiquid real estate, compared to a European average of 50%.

First, at a sovereign level, the European Stability Mechanism (ESM) entered into effect in September 2012. Together with the European line of credit of the International Monetary Fund (IMF), the lending capability of these rescue vehicles stands above the debt maturities of Italy and Spain combined in 2013 and 2014. For the first time since the inception of the euro crisis, rescue mechanisms' lending power stands above debt maturities. This is a key milestone in the development of a new financial architecture (Exhibit 13).

Second, at a banking level, the European Central Bank (ECB) provided unlimited liquidity to Eurozone banks in February 2012 through the Long Term Repurchase Operations (LTRO). Spanish banks have a loan to deposit ratio of 150%, which implies that close to 0.6 trillion euros need to be financed in wholesale markets. Investors correctly assumed that if this debt was not refinanced, many Spanish banks could fail because of this liquidity issue. Furthermore, Spanish banks did not fully recognize the extent of their losses incurred through foolish lending policies in real estate related sectors between 2001-2007. Out of the total expected banking losses of close to 20% of GDP, only 10% had been recognized by January 2011. During 2012, the introduction of two royal decrees increased this figure to 16%. Finally, a few banks were intervened and recapitalized at the end of 2012 through an EU loan, totaling 4% of GDP. Much of the Spanish banking system, therefore, has been restored to solvency.

Investors also correctly assumed that if full losses were recognized, then a relevant portion of the Spanish banking system would be insolvent. The consequence of this is that the wholesale debt would fall into the hands of the Sovereign, increasing the value of its debt from 80% to 140% of GDP, close to insolvency levels. Thanks to ECB action, though, 0.4 trillion euros out of the 0.6 trillion have been refinanced by the ECB at very favorable conditions, so liquidity risk has been addressed. From a solvency point of view, decisive actions were taken to restore solvency during 2012. The investment implication is that it is incorrect at this stage to add the banking sector wholesale debt to that of the Sovereign, which should lead to a reassessment of the Sovereign's risk level. All in all, the contagion effect from the banks to the Sovereign seems to be over (Exhibit 14).

Thanks to the ECB action, liquidity risk has been addressed. From a solvency point of view, decisive actions were taken to restore solvency during 2012. The investment implication is that it is incorrect at this stage to add the banking sector wholesale debt to that of the Sovereign. The contagion effect from the banks to the Sovereign seems to be over.

Spain has a growth engine: Exports of goods and services

By 2012, Spain reached a historic milestone since its entry into the Eurozone: for the first time, exports of goods and services exceeded imports (Exhibit 15). This is a remarkable fact taking into account that the country had been accumulating trade deficits since 1998, and these were the main reason it held current account deficits (which exceeded 10% of GDP in 2006) and a net international debtor position (around 90% of GDP). As Spain enters into current account surplus (expected by 2013), a key weakness of the country will have disappeared, and the net international debtor position will begin to decline as Spain becomes a net exporter of capital.

What is the main driver behind this transition? - the deflation of real wages (a consequence of high unemployment) and enhanced productivity, which together have resulted in a reduction in Unit Labor Costs (Exhibit 16).

Spain's competitive rise can be explained by: a) a competitive labor force, with costs at 20 euros/ hour and falling, *vs.* 27-33 euros in Italy, Germany, and France, despite differences in productivity per hour worked ranging between only 0-11% (Exhibit 17), b) Spanish work ethic, as Spaniards work 25% more (in terms of hours per year) than employees from these other countries, and c) low elasticity of Spanish exports (Spain kept its world market share of exports in the boom years despite increasing unit labor costs), see (Exhibit 18). With tourism receipts at record highs (Spain is already the second country in the world in tourism revenues, after the US) and subdued imports due to weak consumption, Spain should enter a current account surplus by 2013, for the first time since the euro started.

Furthermore, Spain is reforming. The country has implemented supply side reforms, including much needed labor reforms not undertaken in over 50 years, which could boost future GDP growth. Unit Labor Costs are down 6.4% since 2008 (while those of Germany's are up 2.6%), and labor reform has ended the connection between inflation and salary increases (Exhibit 19). Fiscally, the country is performing adjustments totaling 11% of GDP between 2012-2014, making the effort one of the broadest in its history. Local administrations are complying with unpopular cost-cutting efforts such as medicine co-payment, as the refinancing of their maturing debt by the central government is contingent on fiscal responsibility; therefore, regions are complying and should continue to do so.

Finally, the economic and financial crisis is currently developing engines of future wealth:

Local administrations are complying with unpopular cost-cutting efforts such as medicine co-payment, as the refinancing of their maturing debt by the central government is contingent on fiscal responsibility; therefore, regions are complying and should continue to do so.

a) entrepreneurship (the number of new companies being created is startingto increase), b) R&D, which has been steadily increasing and resulting in a record number of patents filed, c) re-industrialization which already represents 17% of GDP and climbing, and d) SME financing, which is key to generating jobs, as SMEs represent 65% of GDP and 80% of employment.

Conclusion

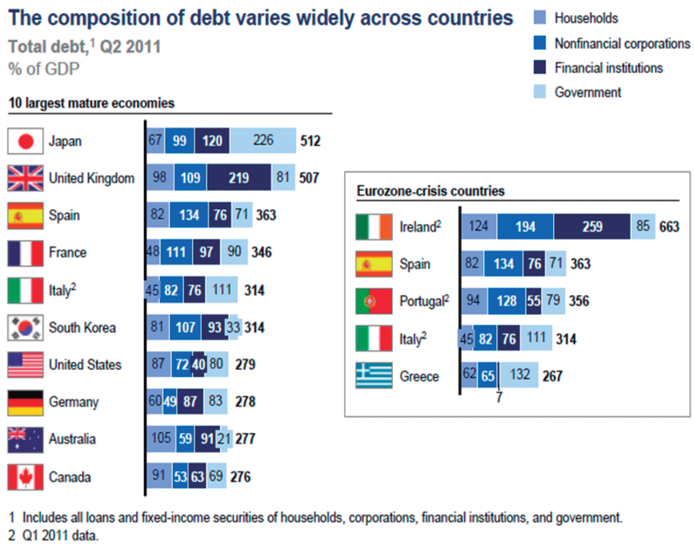
In times of need, a country's best qualities come forth. Spain is currently facing one of its most difficult economic periods since 1959, when an enormous devaluation of the peseta took place. Historically, Spain has adjusted its economy through devaluations, which prompted systemic capital flight. This is the first time in which the country is adjusting its structural problems. Therefore, the euro can be perceived as a weakness, but also as a historic opportunity, as it is imposing discipline in the country. Despite all of the country's fragilities, it is critical to remember Spain's capacity to reinvent itself in the 30 years after the Franco dictatorship, having built a strong corporate sector with companies that are world leaders in their industries, an unthinkable feat only 20 years ago. Indeed, changes in Spanish companies and society in general are already pushing the country towards external demand with initial signs of success. These changes are critical to reinvigorating the country going forward.

As in any economy, the country's evolution from negative growth to positive growth will depend on several key factors: a) a competitive corporate sector; b) a high quality physical infrastructure; c) capacity to finance growth (new capital investments, working capital needs, etc.); d) an efficient public system in terms of providing basic social needs (security, health, education) as well as a legal system that enables companies to flourish; e) growth of SMEs to create employment; and f) the confidence of consumers.

As indicated in this paper, we believe Spain has a truly competitive corporate sector, and there is no question that Spain has one of the best physical infrastructures in the world. However, financing is beyond scarce, and public finances are under strain, calling into question the sustainability of the social benefits enjoyed by Spaniards (including one of the world's best health systems), resulting in an extremely low level of consumer confidence.

Exhibit 1

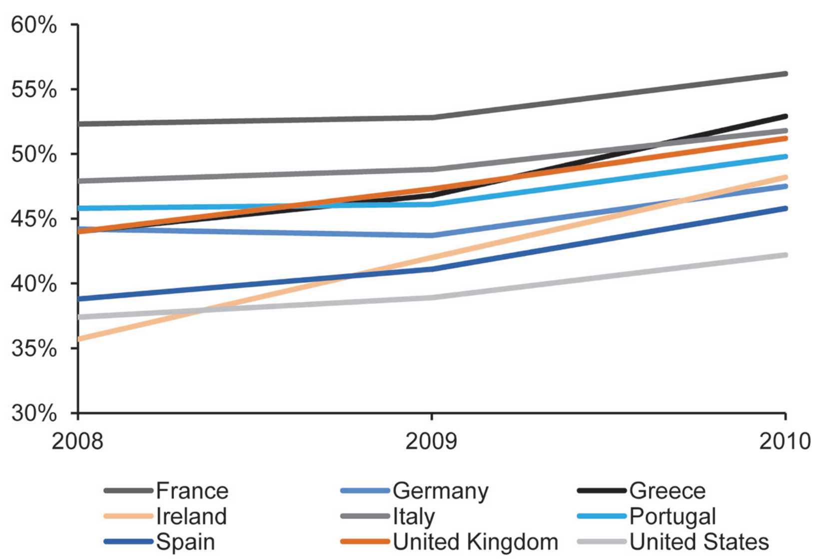
Misrepresentation of Spanish debt



Source: McKinsey Global Institute, "Debt and deleveraging: Uneven progress on the path to growth," January 2012, p. 13.

Exhibit 2

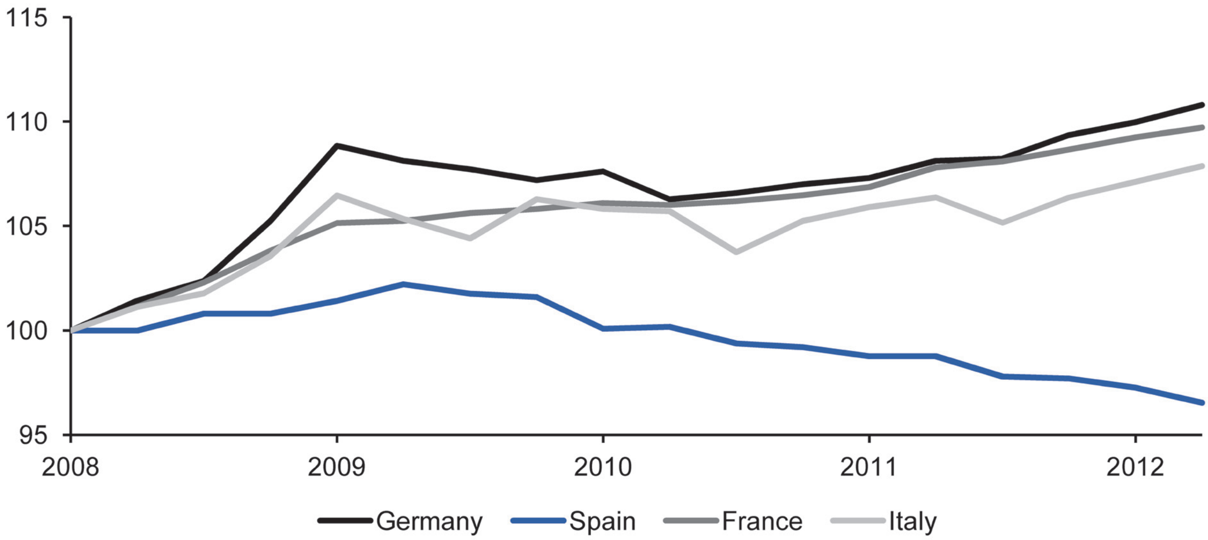
Government spending as a % of GDP



Source: The Heritage Foundation.

Exhibit 3

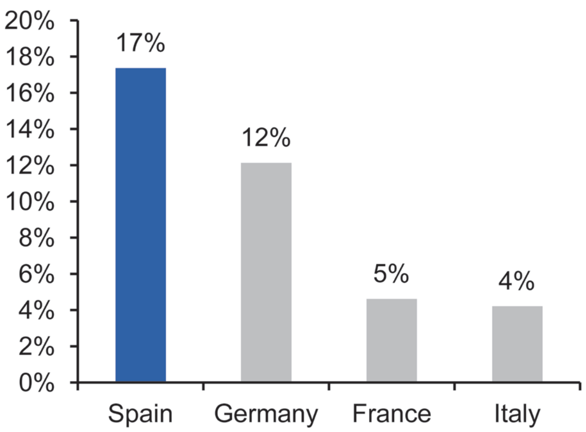
Evolution of Spanish competitiveness (ULC) *vs.* main trading partners



Source: Eurostat.

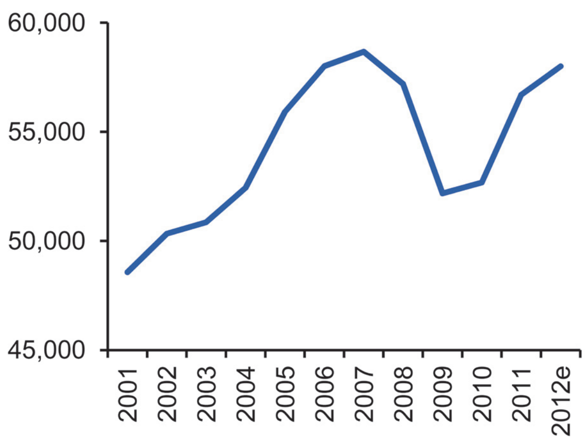
Exhibit 4

Export growth evolution since 2008-2012



Source: Eurostat.

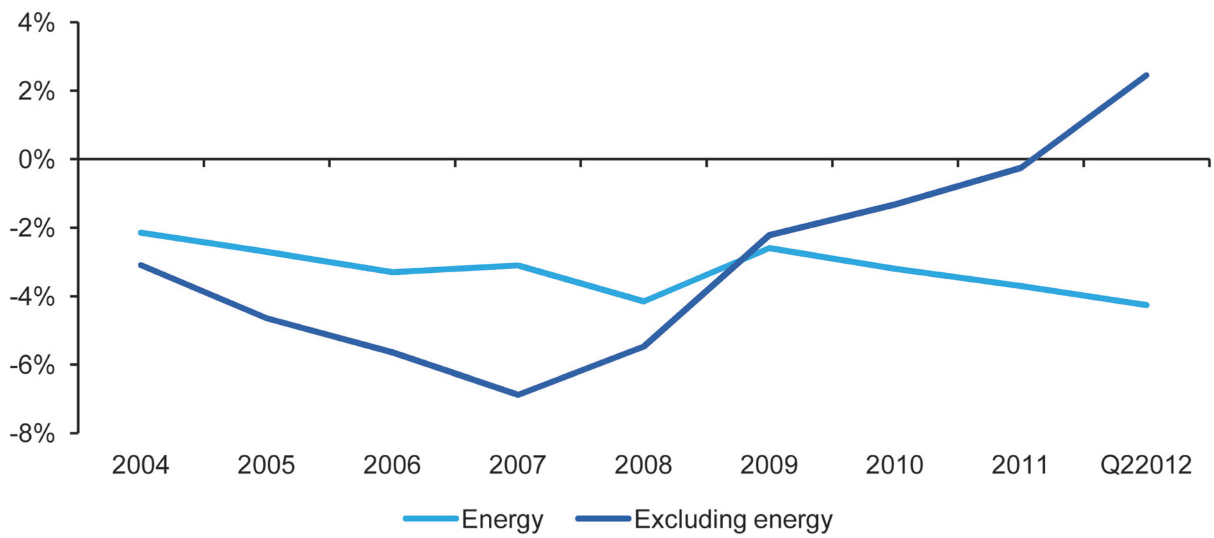
Total number of tourists per year (thousands)



Source: INE.

Exhibit 5

Trade deficit evolution



Source: INE.

Exhibit 6

Target 2 balances

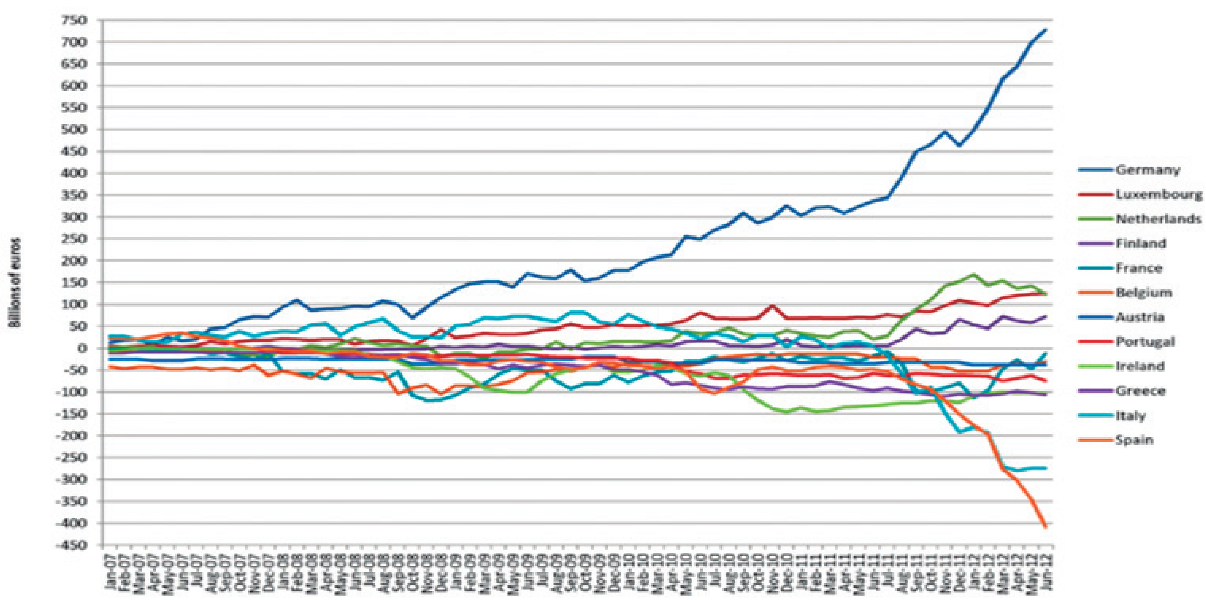


Exhibit 7

Fiscal reform *already being implemented*:

	2012 (€ bn.)	2013 (€ bn.)	2014 (€ bn.)
April Adjustments	43.1	19.6	0
July Adjustments	13.5	22.9	20.1
Total	**56.6**	**42.5**	**20.1**
% of GDP	5.4%	4.0%	1.9%

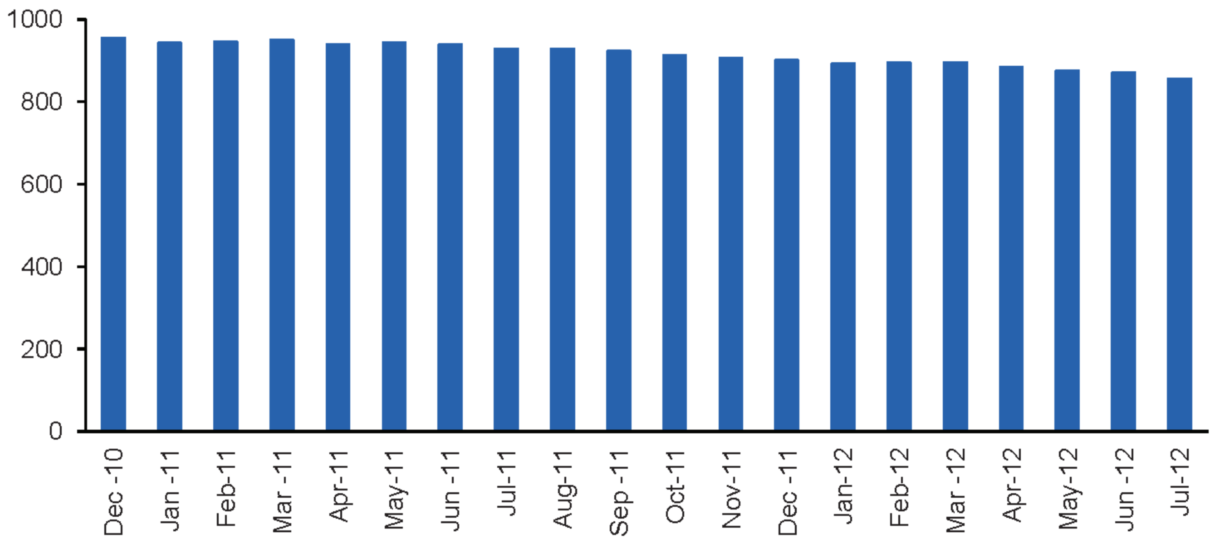
Supply side reforms *already being implemented*:

	Effect on GDP (cumulative until 2020)	Effect on employment (number of employed persons) (cumulative until 2020)
Services Directive	1.2	39,000
Labor Reform	4.5	1,763,000
Pensions Reform	0.4	71,000
Financial Sector Reform	1.6	96,000
Law on Budget Stability and Financial Sustainability	0.9	18,000
Total	**8.6**	**1,987,000**

Source: Spanish Treasury.

Exhibit 8

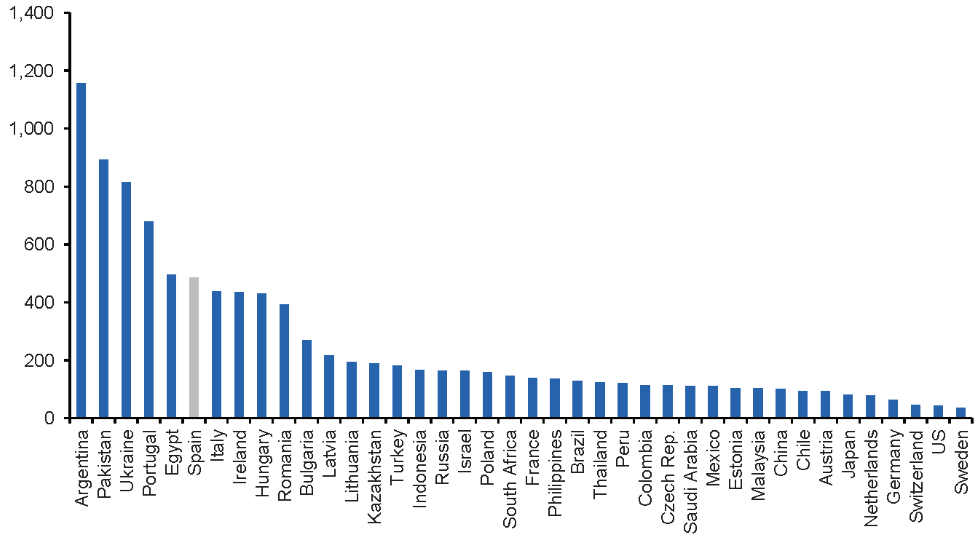
Retail and corporate deposits in Spain (€ bn.)



Source: Bank of Spain.

Exhibit 9

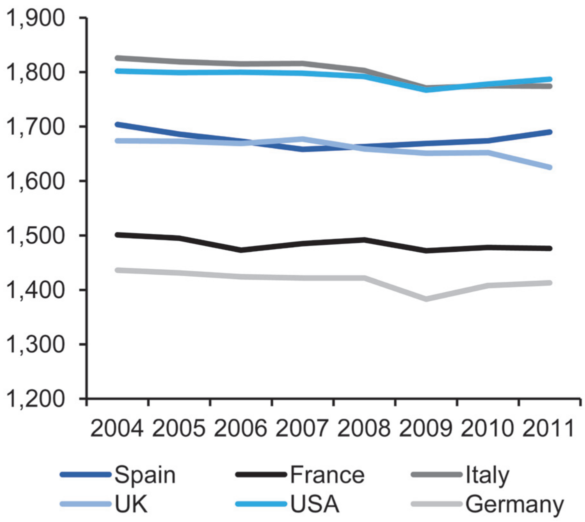
Sovereign CDS spread



Source: Factset.

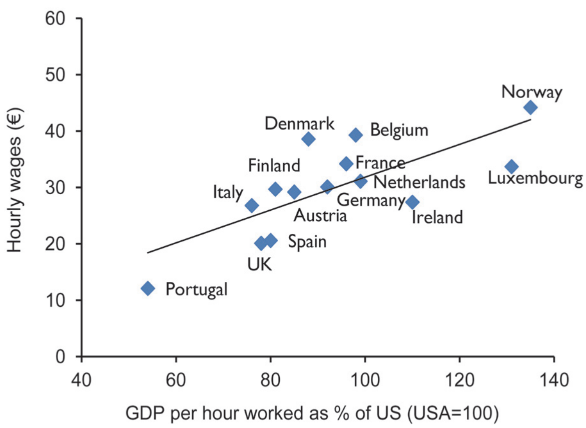
Exhibit 10

Average hours worked per year



Source: OECD.

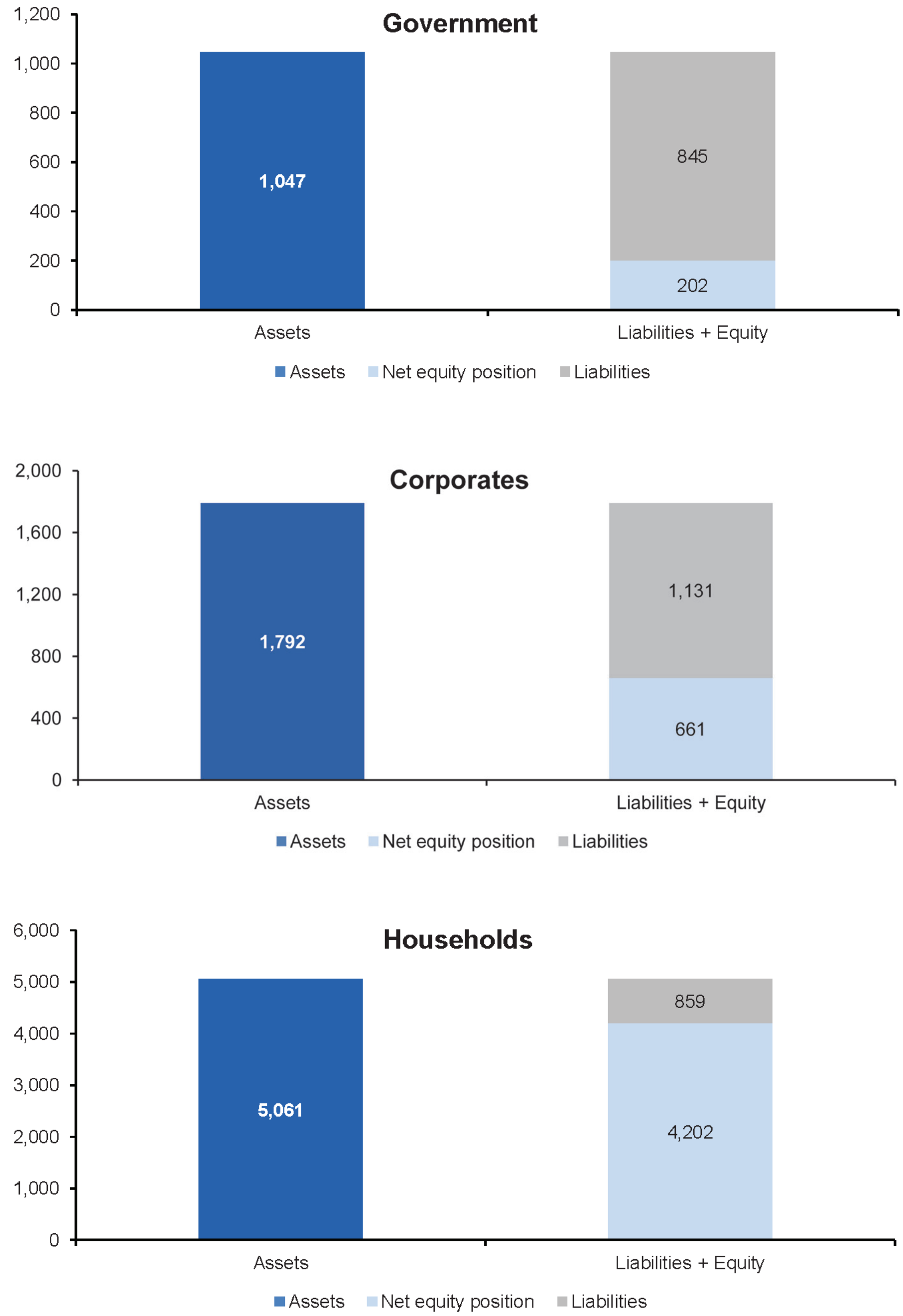
Unit labor costs and GDP per hour worked (2011)



Sources: Eurostat, OECD.

Exhibit 11

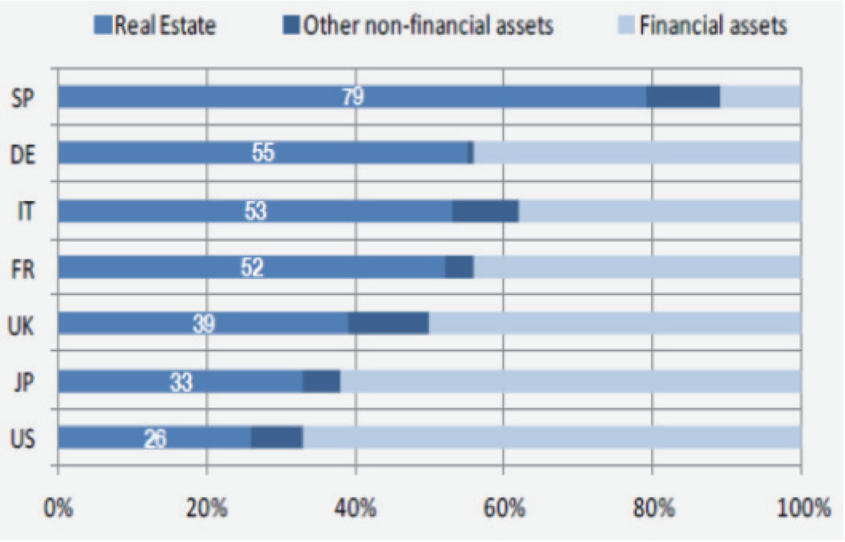
Balance sheets of Spanish government, corporates, and households



Sources: Bank of Spain, Funcas, Arcano.

Exhibit 12

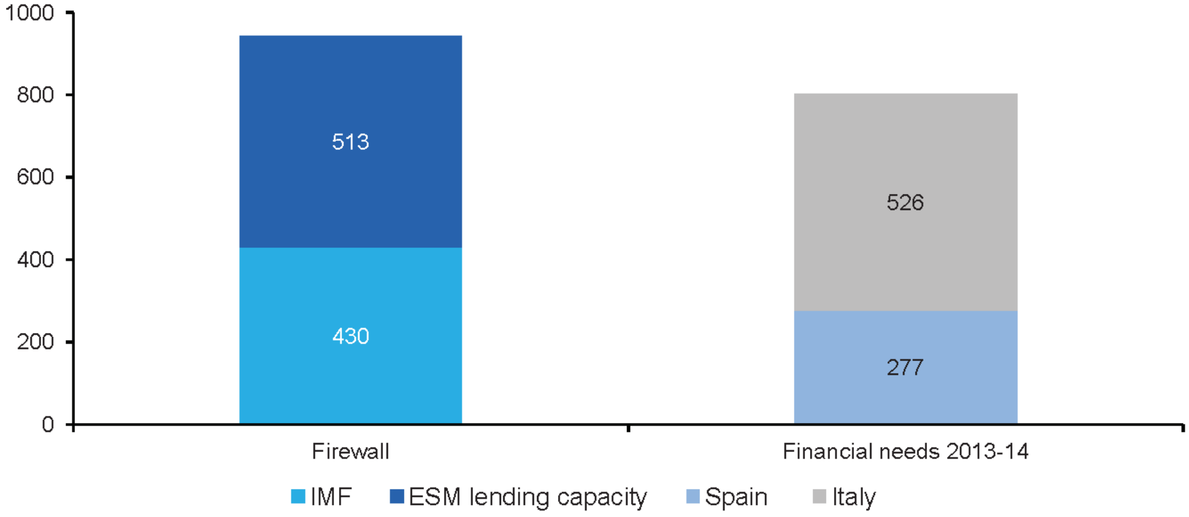
Asset split of households (% of total assets)



Source: Oliver Wyman.

Exhibit 13

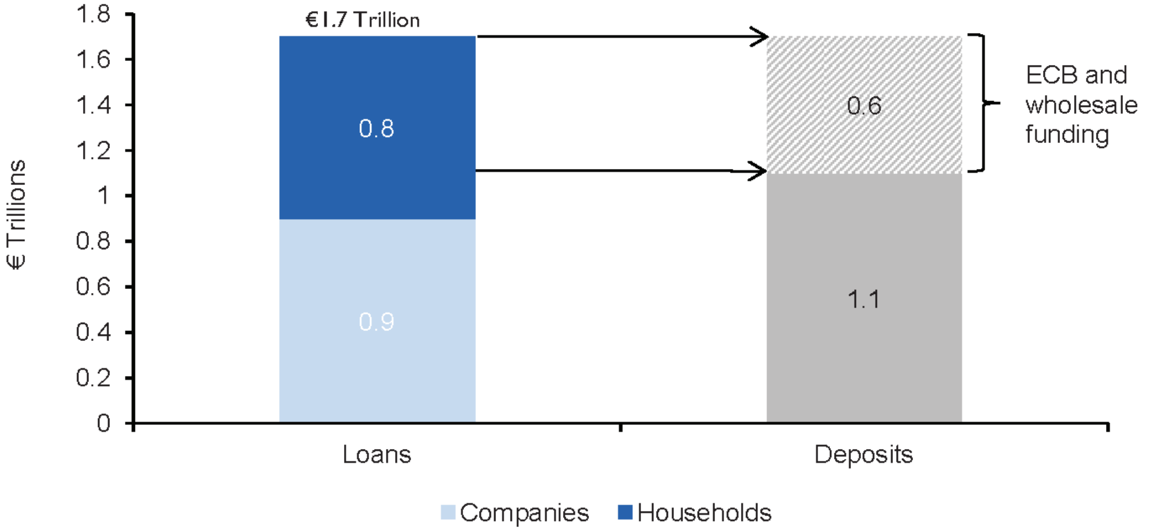
ESM/EFSF resources and gross financial public needs in Spain and Italy (€ bn.)



Source: Bloomberg.

Exhibit 14

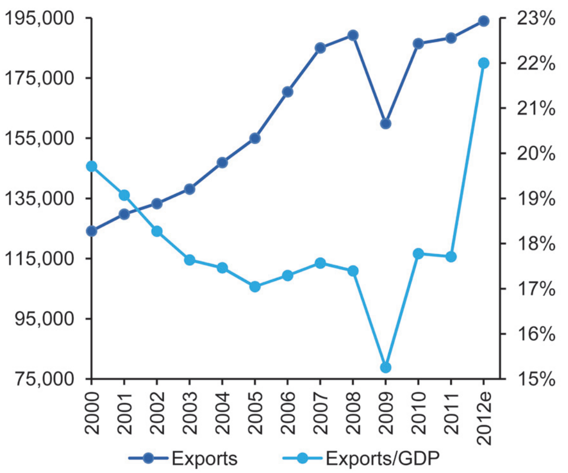
Financial system loan book funding structure



Sources: Arcano, Bank of Spain.

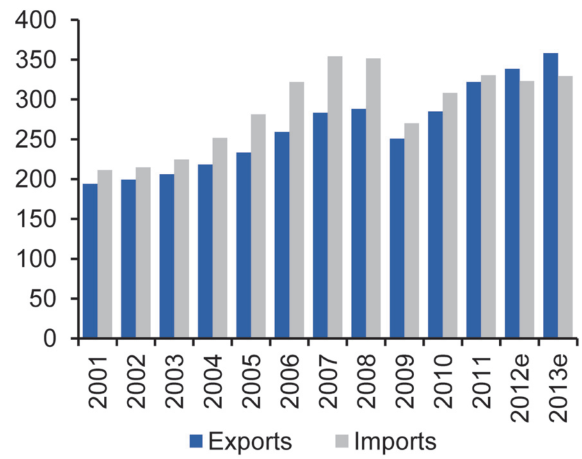
Exhibit 15

Evolution of Spanish exports (€ mm.)



Source: INE.

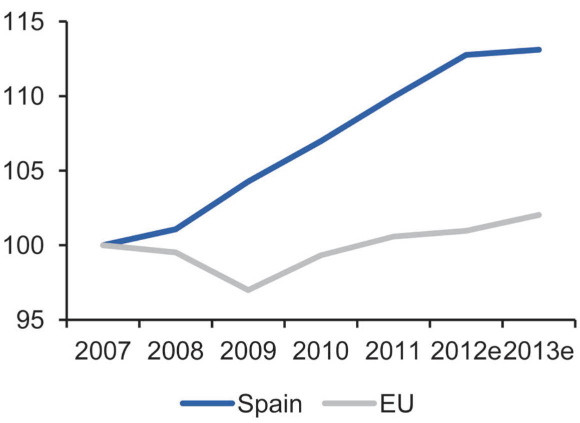
Spanish exports and imports of goods and services (€ bn.)



Sources: Historical figures and projections provided by Eurostat.

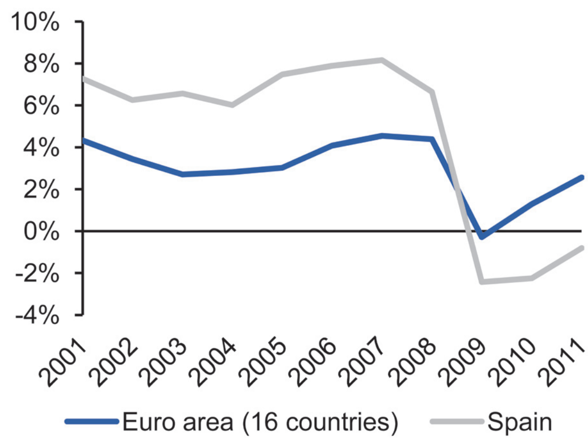
Exhibit 16

Labor productivity change (2007=100)



Source: INE.

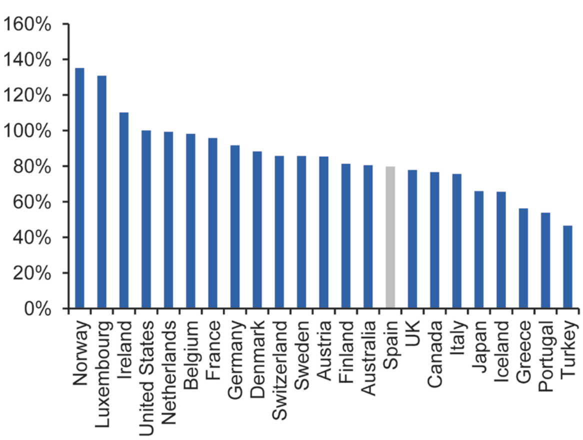
Real wages evolution (YOY%)



Source: Eurostat.

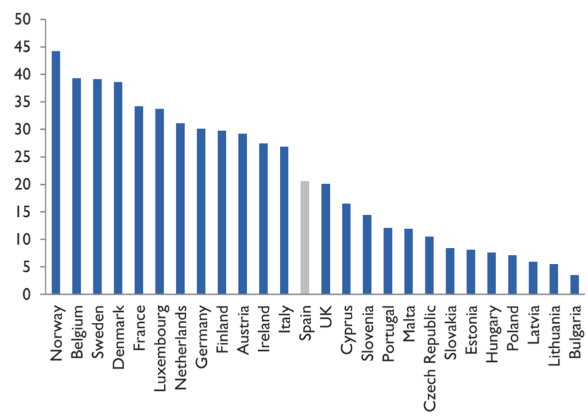
Exhibit 17

Productivity/hour worked (US=100%, 2011)



Source: The Conference Board.

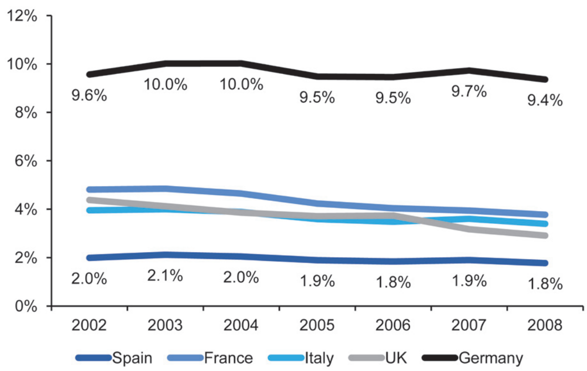
Labor costs (€/hour)



Source: Eurostat.

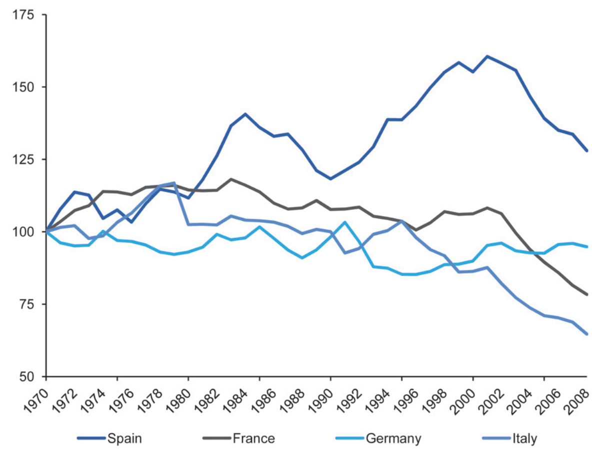
Exhibit 18

Spain´s market share in exports



Source: Eurostat.

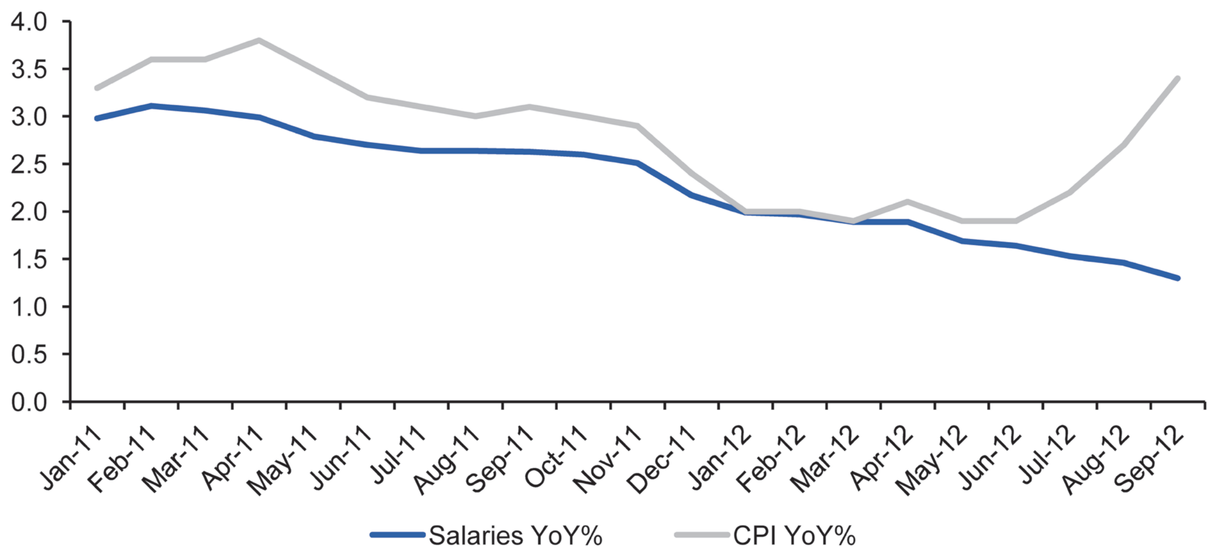
Share in world exports of selected European countries



Source: OECD.

Exhibit 19

Difference between prices and salaries (YOY%)



Sources: Ministry of Labor and Social Security, INE.

KEY FACTS: ECONOMIC INDICATORS

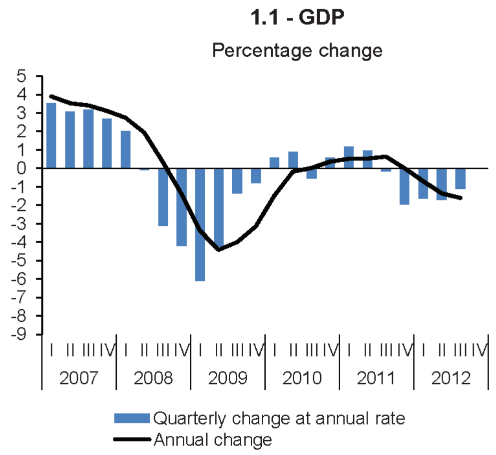
Table 1

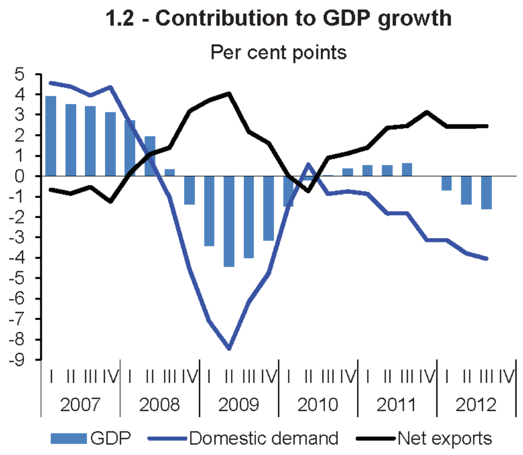
National accounts: GDP and main expenditure components SWDA*

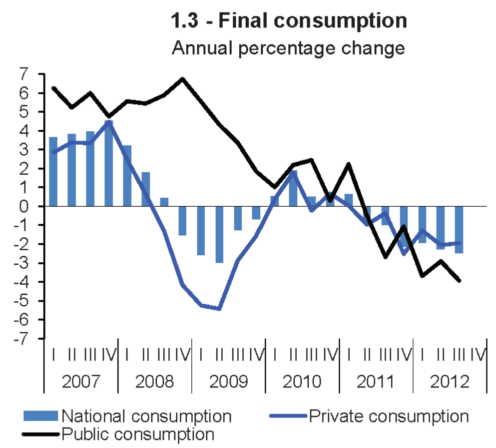
Forecasts in blue

	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	1,053.2	57.4	18.3	30.7	21.9	12.2	9.7	8.8	26.9	33.6	133.6	-6.7
2008	1,087.8	57.2	19.5	28.7	20.2	10.8	9.4	8.4	26.5	32.3	132.3	-5.8
2009	1,048.1	56.5	21.3	23.6	16.8	8.1	8.7	6.8	23.9	25.8	125.8	-1.9
2010	1,048.9	58.0	21.4	22.3	15.1	7.1	8.0	7.2	27.2	29.4	129.4	-2.2
2011	1,063.4	58.3	20.9	21.1	13.6	6.4	7.2	7.4	30.3	31.1	131.1	-0.8
2012	1,052.9	59.4	20.0	19.1	11.8	5.7	6.1	7.3	32.2	31.2	131.2	1.0
2013	1,046.7	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
5
4
3
2
1
0
-1
-2
-3
-4
-5
-6
-7
-8
-9
I II III IV
2007
2008
2009
2010
2011
2012
Quarterly change at annual rate
Annual change


1.2 - Contribution to GDP growth
Per cent points
5
4
3
2
1
0
-1
-2
-3
-4
-5
-6
-7
-8
-9
I II III IV
2007
2008
2009
2010
2011
2012
GDP
Domestic demand
Net exports


1.3 - Final consumption
Annual percentage change
7
6
5
4
3
2
1
0
-1
-2
-3
-4
-5
-6
-7
I II III IV
2007
2008
2009
2010
2011
2012
National consumption
Private consumption
Public consumption

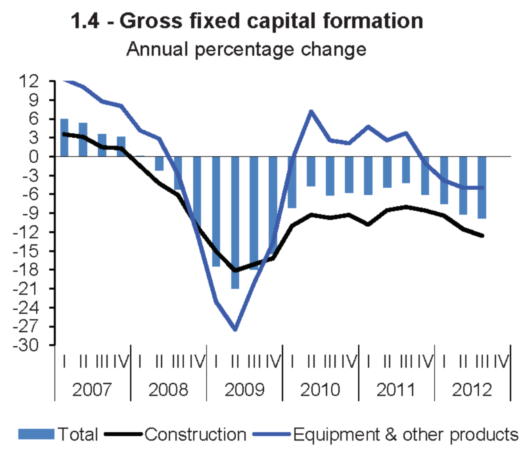

1.4 - Gross fixed capital formation
Annual percentage change
12
9
6
3
0
-3
-6
-9
-12
-15
-18
-21
-24
-27
-30
I II III IV
2007
2008
2009
2010
2011
2012
Total
Construction
Equipment & other products

Table 2

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

Forecasts in blue

	Gross value added at basic prices												Taxes less subsidies on products
	Total	Agriculture, forestry and fishing	Manufacturing, energy and utilities	Construction	Services								
					Total	Trade, transport, accommodation and food services	Information and communication	Finance and insurance	Real estate	Professional, business and support services	Public administration, education, health and social work	Arts, entertainment and other services	
	Chain-linked volumes, annual percentage changes												
2006	4.2	5.5	1.7	5.0	4.6	3.1	2.7	13.4	2.2	10.3	3.8	3.0	3.4
2007	3.8	7.0	0.5	1.8	5.0	4.3	3.4	11.9	2.8	8.0	4.5	2.2	1.0
2008	1.0	-2.7	-2.1	-0.2	2.3	0.4	1.5	2.8	2.1	2.3	5.1	2.0	-0.3
2009	-3.6	-3.2	-12.1	-7.8	-0.6	-1.9	0.9	-4.0	0.0	-2.6	2.3	0.3	-5.4
2010	-0.4	2.0	4.3	-14.3	1.2	1.6	6.5	-3.7	-0.9	-0.2	2.4	0.3	0.1
2011	1.0	8.2	2.7	-5.9	1.4	1.1	3.9	-3.6	2.7	3.2	1.1	1.4	-5.5
2012	-1.4	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

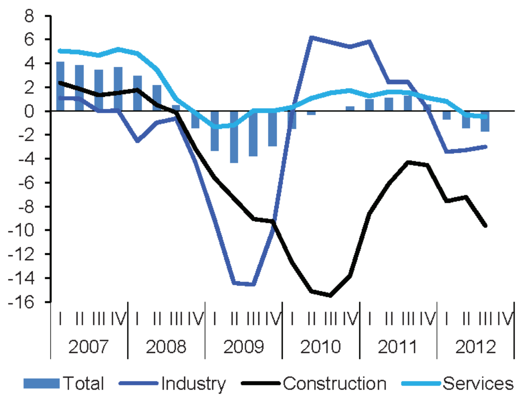


Chart 1.2 - GVA, services (I)

Annual percentage change

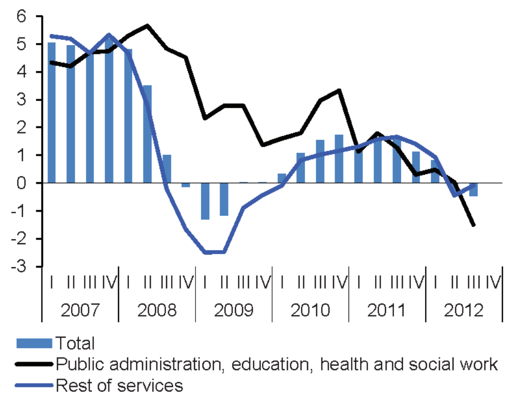


Chart 1.3 - GVA, services (II)

Annual percentage change

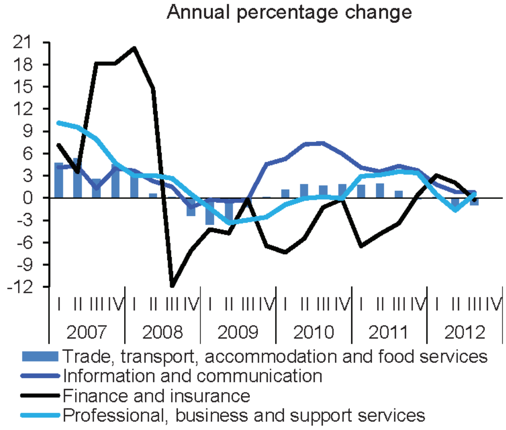


Chart 1.4 - GVA, structure by sectors

Percentage of value added at basic prices

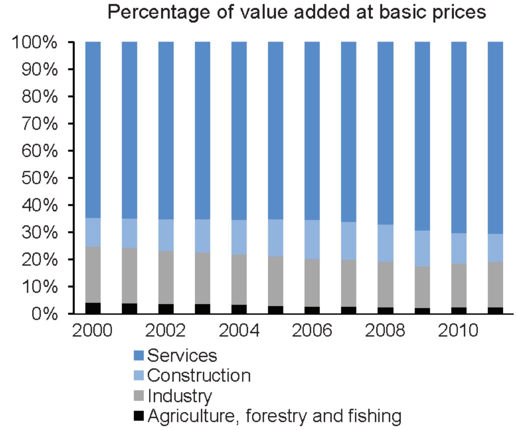


Table 3a

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 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 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

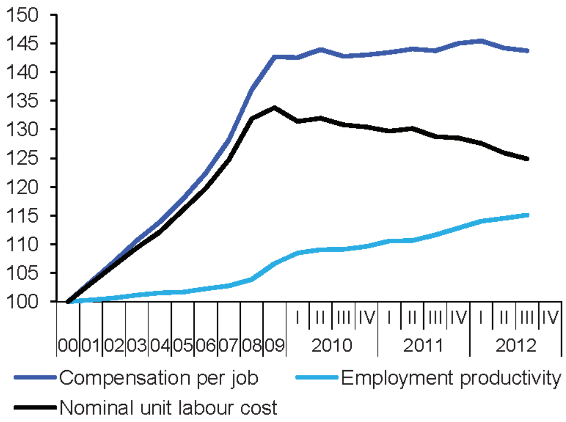
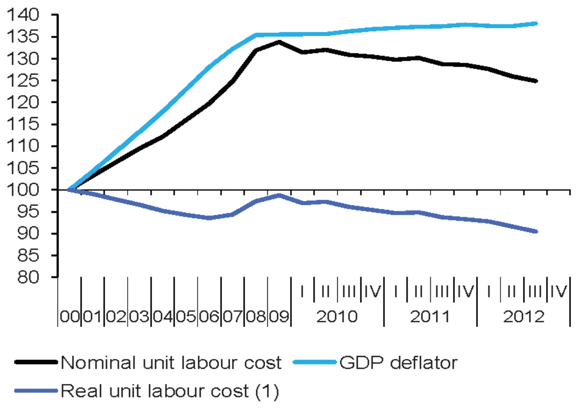


Chart 1.2.- Real ULC, total economy
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

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

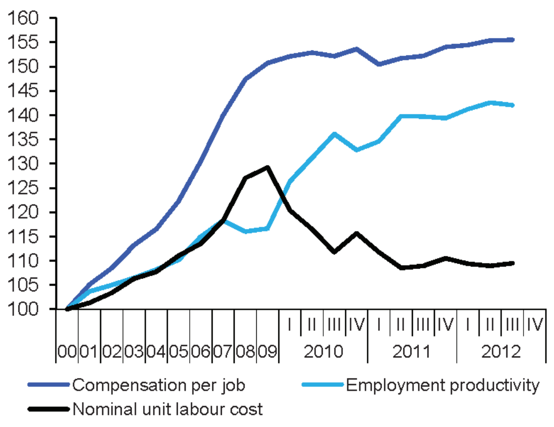
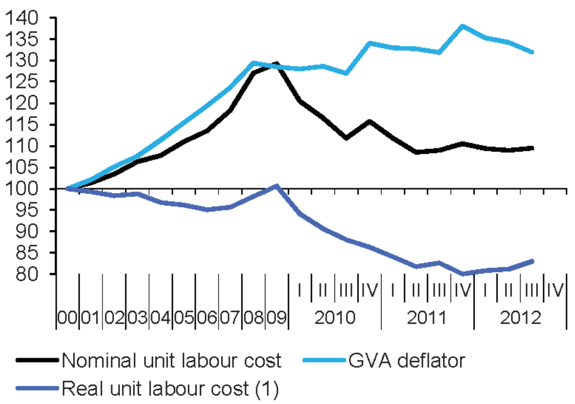


Chart 2.2.- Real ULC, manufacturing industry
Index, 2000=100



(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 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 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

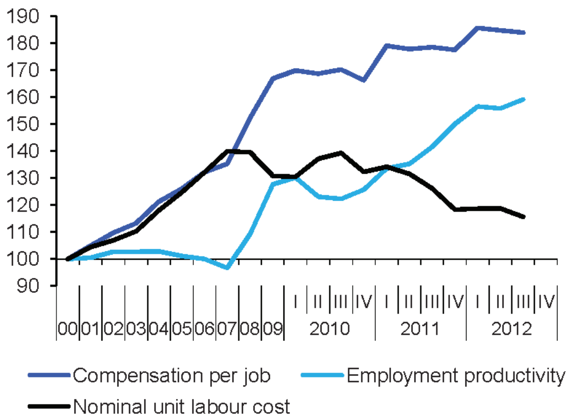
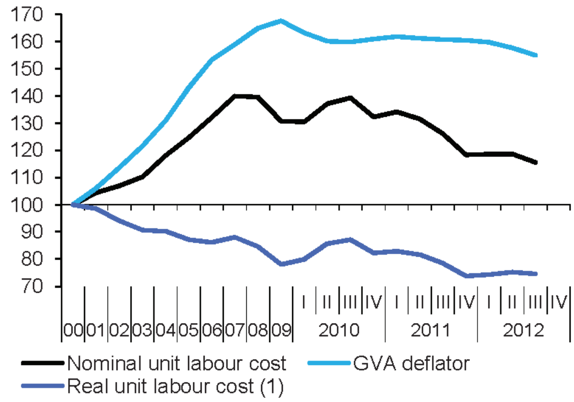


Chart 1.2.- Real ULC, construction
Index, 2000=100



(1) Nominal ULC deflated by GVA deflator.

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

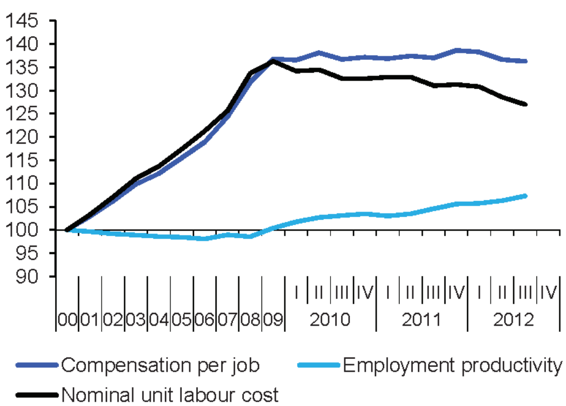
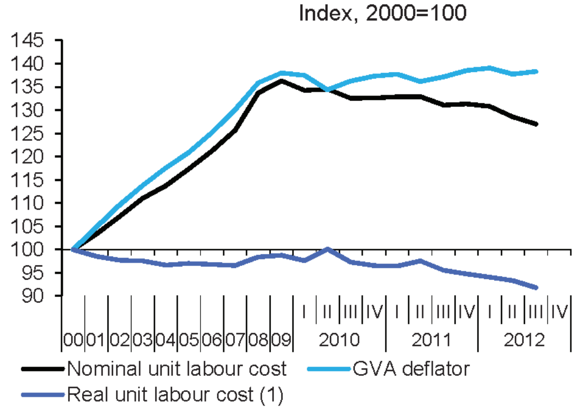


Chart 2.2.- Real ULC, services
Index, 2000=100



(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 consumption	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	13
	EUR Billions, 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	1,053.2	504.1	441.2	107.8	-27.4	1,025.7	-7.0	1,018.7	797.7	221.0	47.9	41.9	10.2
2008	1,087.8	537.6	458.1	92.0	-31.8	1,056.0	-9.2	1,046.8	834.4	212.4	49.4	42.1	8.5
2009	1,048.1	524.6	446.4	77.1	-23.1	1,025.0	-7.3	1,017.7	816.0	201.7	50.1	42.6	7.4
2010	1,048.9	512.8	441.9	94.2	-17.2	1,031.7	-5.9	1,025.9	832.6	193.2	48.9	42.1	9.0
2011	1,063.4	508.6	464.2	90.5	-24.1	1,039.3	-6.9	1,032.4	842.7	189.7	47.8	43.7	8.5
2012	1,052.9	484.0	477.2	91.7	-25.6	1,027.3	-7.6	1,019.7	835.8	184.0	46.0	45.3	8.7
2013	1,046.7	467.3	479.1	100.4	-33.2	1,013.5	-7.6	1,005.9	815.1	190.7	44.6	45.8	9.6
2010 IV	1,048.9	512.8	441.9	94.2	-17.2	1,031.7	44.9	1,076.7	832.6	244.1	48.9	42.1	9.0
2011 I	1,053.0	512.1	446.4	94.5	-18.9	1,034.1	45.9	1,080.0	838.6	241.4	48.6	42.4	9.0
II	1,057.5	511.2	453.1	93.2	-18.7	1,038.8	46.4	1,085.2	841.3	243.9	48.3	42.8	8.8
III	1,061.4	510.2	459.1	92.0	-22.0	1,039.4	46.8	1,086.2	843.1	243.0	48.1	43.3	8.7
IV	1,063.4	508.6	464.2	90.5	-24.1	1,039.3	46.4	1,085.7	842.7	243.0	47.8	43.7	8.5
2012 I	1,062.4	505.1	467.6	89.7	-24.8	1,037.7	46.2	1,083.8	842.4	241.5	47.5	44.0	8.4
II	1,059.1	498.5	472.1	88.4	-23.9	1,035.2	45.8	1,081.0	841.1	240.0	47.1	44.6	8.4
III	1,056.2	491.6	475.3	89.3	-21.0	1,035.1	45.3	1,080.4	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	1.2	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	9.5	29.9	-1.3	0.0	-1.4	-2.5	3.6	-1.3	0.4	0.9
2010 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

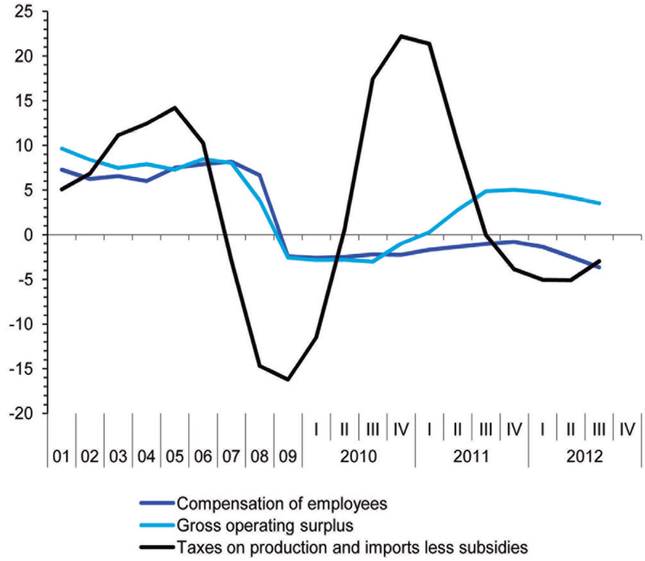


Chart 2.- National Income (II)

Percentage of GDP, 4-quarter moving averages

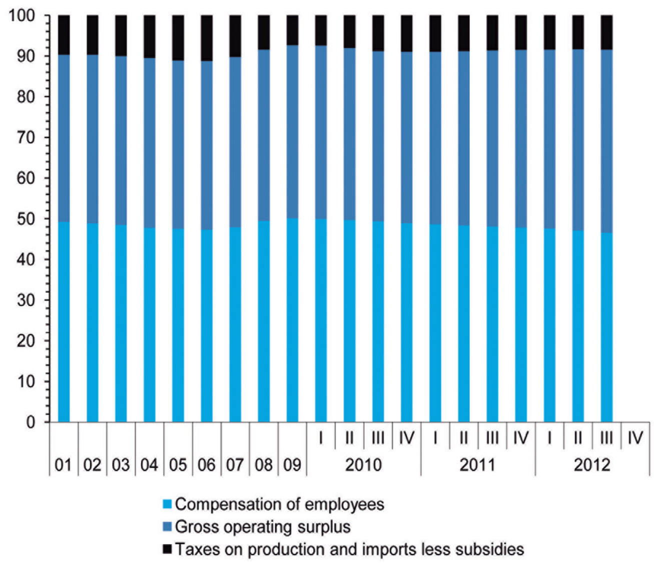


Table 5

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 account deficit
		1=2+3+4	2	3	4	5	6	7=1+5+6	8	9=7+8	10	11	12=7=10-11
		EUR 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	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		4.1	-0.1	3.6	0.7	-3.2	-0.7	0.2	0.4	0.6	18.2	18.0	0.2
2010	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

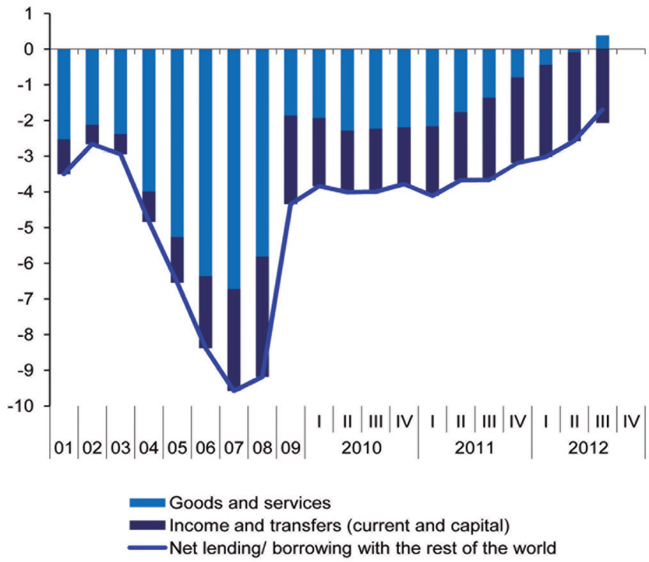


Chart 2.- Saving, investment and current account deficit
Percentage of GDP, 4-quarter moving averages

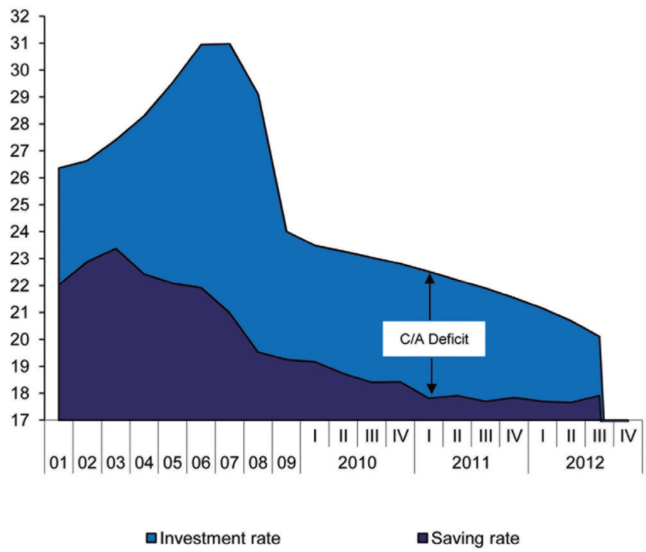


Table 6

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	91.8	13.1	7.2	58.4	40.6	3.9
2011	696.6	508.5	235.5	241.0	207.1	81.3	620.0	76.7	11.0	4.9	55.6	26.0	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 IV	700.1	512.7	235.4	238.7	207.2	79.5	608.1	91.8	13.1	7.2	58.4	40.6	3.9
2011 I	698.9	511.9	234.8	239.4	207.7	79.6	612.7	86.0	12.3	7.1	57.1	35.9	3.4
II	697.5	511.2	235.1	240.1	208.3	80.6	616.1	80.8	11.6	7.5	56.1	32.3	3.0
III	698.1	510.0	236.1	240.9	207.8	81.2	619.1	78.3	11.2	7.6	56.1	29.8	2.8
IV	696.6	508.5	235.5	241.0	207.1	81.3	620.0	76.7	11.0	4.9	55.6	26.0	2.4
2012 I	694.8	505.0	235.7	242.1	206.0	81.9	622.5	72.4	10.4	5.1	54.5	22.9	2.2
II	687.8	498.3	234.2	242.1	204.5	82.3	622.9	65.0	9.5	4.8	52.5	17.3	1.6
III	685.1	491.7	234.5	245.2	203.7	82.7	623.9	60.5	8.8	4.2	50.2	14.5	1.4
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	-28.7	-4.7	23.9	-10.7	--	-2.7
2011	-0.5	-0.8	0.1	1.0	-0.1	2.3	2.0	-16.4	-2.1	-31.5	-4.8	--	-1.4
2012	-1.7	-3.8	1.9	2.1	-0.9	4.8	0.6	-20.8	-2.1	-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 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	-29.2	-4.6	18.8	-9.3	--	-2.7
II	-1.7	-1.4	-2.2	2.0	0.5	3.7	2.4	-25.2	-3.6	30.3	-9.1	--	-1.9
III	-0.7	-1.1	-0.1	1.9	0.6	3.0	2.7	-21.7	-3.0	24.9	-7.2	--	-1.5
IV	-0.5	-0.8	0.1	1.0	-0.1	2.3	2.0	-16.4	-2.1	-31.5	-4.8	--	-1.4
2012 I	-0.6	-1.4	0.4	1.1	-0.8	2.9	1.6	-15.8	-1.9	-28.9	-4.6	--	-1.3
II	-1.4	-2.5	-0.4	0.8	-1.8	2.1	1.1	-19.5	-2.1	-36.6	-6.4	--	-1.4
III	-1.9	-3.6	-0.7	1.8	-2.0	1.9	0.8	-22.7	-2.4	-44.9	-10.6	--	-1.4

(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

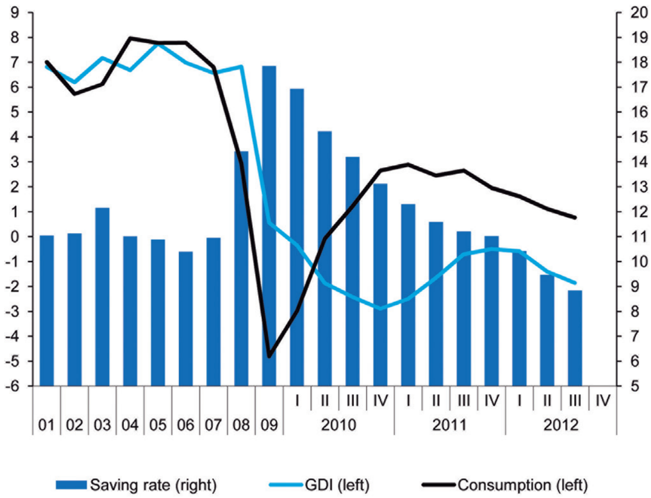
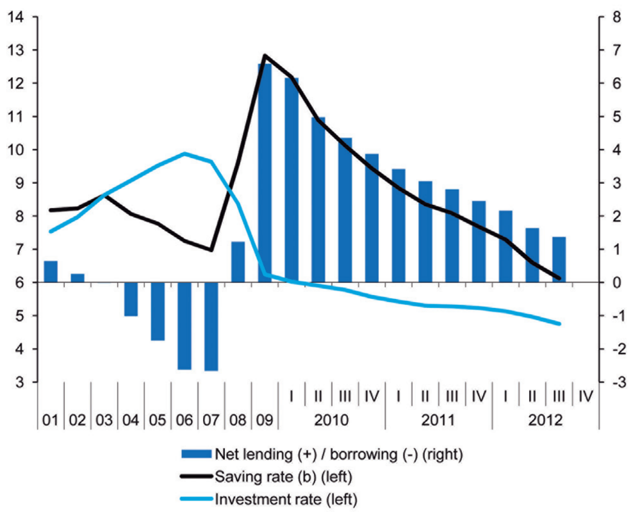


Chart 2.- Households: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages



(b) Including net capital transfers.

Table 7

National accounts: Non-financial corporations income and its disposition

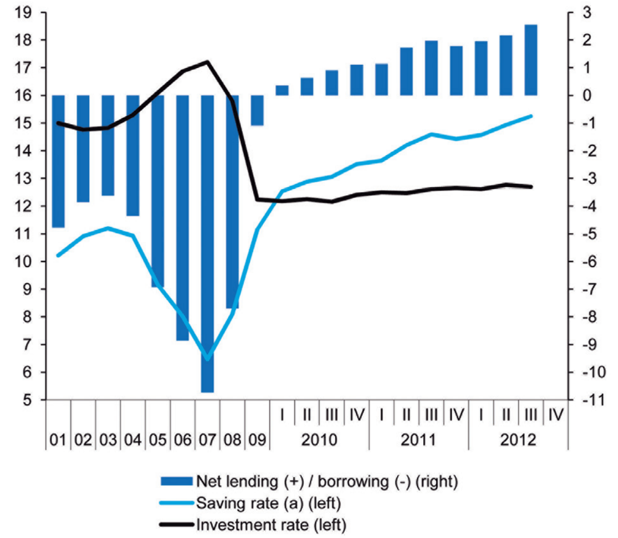
Forecasts in blue

	Gross value added	Compensation of employees and net taxes on production (paid)	Gross operating surplus	Net property income	Net current transfers	Income taxes	Gross saving	Net capital transfers	Gross capital formation	Net lending (+) or borrowing (-)	Net lending or borrowing as a percentage of GDP	Profit share (percentage)	Investment rate (percentage)
	1	2	3=1-2	4	5	6	7=3+4+5-6	8	9	10=7+8-9	11	12=3/1	13=9/1
EUR Billions, 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 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	537.1	312.4	224.6	-54.5	-10.1	16.4	143.6	11.1	133.9	20.8	2.0	41.8	24.9
II	535.6	308.2	227.3	-53.3	-9.9	17.3	146.8	11.3	135.1	22.9	2.2	42.4	25.2
III	534.6	304.0	230.5	-53.5	-9.9	16.6	150.5	10.4	134.0	26.9	2.5	43.1	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 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	-0.8	9.2	12.8	-2.2	4.7	9.3	-9.3	1.8	--	0.8	2.3	-0.3
II	1.6	-2.2	7.1	8.2	-5.7	16.1	6.7	-11.4	2.4	--	0.4	2.2	0.2
III	0.5	-3.5	6.2	6.8	-4.4	13.6	6.0	-20.2	0.0	--	0.6	2.3	-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

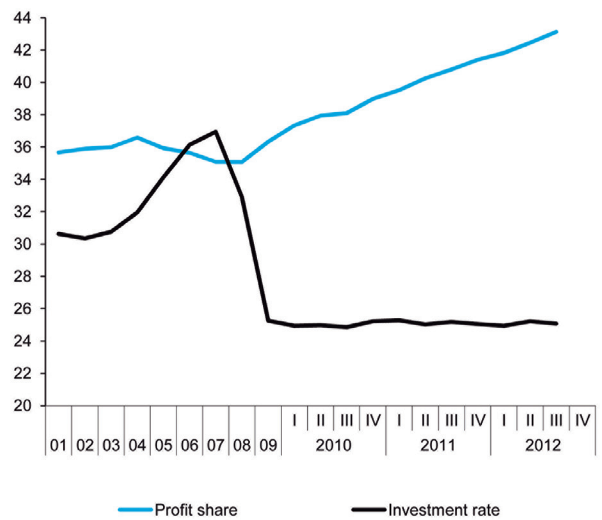


Table 8

National accounts: Public revenue, expenditure and deficit

Forecasts in blue

	Gross value added	Taxes on production and imports receivable	Taxes on income and weath receivable	Social contributions receivable	Compensation of employees	Interests and other capital incomes payable (net)	Social benefits payable	Subsidies and net current transfers payable	Gross disposable income	Final consumption expenditure	Gross saving	Net capital expenditure	Net lending(+)/ net borrowing(-)	Net lending(+)/ net borrowing (-) excluding financial entities bail-out expenditures
	1	2	3	4	5	6	7	8	9=1+2+3+4-5-6-7-8	10	11=9-10	12	13=11-12	14
EUR Billions, 4-quarter cumulated operations														
2005	105.7	112.7	100.1	117.4	90.9	10.4	105.5	16.6	212.5	163.4	49.1	37.6	11.5	11.5
2006	114.4	123.1	116.3	127.1	98.3	8.4	112.8	18.3	243.1	177.1	66.0	42.6	23.3	23.3
2007	125.1	122.0	137.0	136.8	107.8	6.6	122.7	18.9	264.8	193.1	71.8	51.5	20.2	20.2
2008	136.9	106.6	116.5	143.1	118.5	6.0	136.3	22.7	219.7	212.0	7.7	56.5	-48.9	-48.9
2009	144.5	92.4	101.1	140.1	125.7	7.9	153.7	22.4	168.4	223.6	-55.2	61.9	-117.1	-117.1
2010	145.7	109.9	99.6	140.3	125.7	10.6	161.6	20.7	176.8	224.5	-47.7	53.7	-101.5	-101.5
2011	144.8	105.0	101.6	140.0	123.6	15.5	163.8	21.0	167.5	222.7	-55.2	45.2	-100.4	-95.3
2012	139.4	104.4	108.8	136.4	118.1	22.9	168.2	17.8	161.8	210.9	-49.1	39.2	-88.3	-76.7
2013	133.8	111.4	108.5	133.3	112.6	32.1	169.4	14.6	158.3	197.3	-39.1	19.7	-58.8	-58.8
2010 IV	145.7	109.9	99.6	140.3	125.7	10.6	161.6	20.7	176.8	224.5	-47.7	53.7	-101.5	-101.5
2011 I	145.6	110.8	99.6	140.3	125.2	11.6	162.1	21.3	176.1	225.4	-49.4	50.1	-99.5	-99.5
II	144.8	110.0	99.9	140.1	124.1	12.7	161.9	20.6	175.4	224.4	-49.0	48.2	-97.2	-97.2
III	144.9	108.9	99.9	139.7	123.9	14.5	162.6	20.0	172.4	223.3	-50.9	45.1	-96.0	-96.0
IV	144.8	105.0	101.6	140.0	123.6	15.5	163.8	21.0	167.5	222.7	-55.2	45.2	-100.4	-95.3
2012 I	144.6	105.0	101.6	139.1	123.1	17.2	165.0	20.8	164.3	220.4	-56.1	42.6	-98.7	-93.5
II	143.8	103.2	102.6	138.8	122.1	18.9	166.5	20.4	160.5	218.3	-57.9	44.6	-102.5	-91.9
III	142.9	103.8	102.2	137.5	121.1	20.8	168.1	19.8	156.7	215.8	-59.2	45.4	-104.6	-89.5
Percentage of GDP, 4-quarter cumulated operations														
2005	11.6	12.4	11.0	12.9	10.0	1.1	11.6	1.8	23.4	18.0	5.4	4.1	1.3	1.3
2006	11.6	12.5	11.8	12.9	10.0	0.9	11.4	1.9	24.7	18.0	6.7	4.3	2.4	2.4
2007	11.9	11.6	13.0	13.0	10.2	0.6	11.6	1.8	25.1	18.3	6.8	4.9	1.9	1.9
2008	12.6	9.8	10.7	13.2	10.9	0.5	12.5	2.1	20.2	19.5	0.7	5.2	-4.5	-4.5
2009	13.8	8.8	9.6	13.4	12.0	0.8	14.7	2.1	16.1	21.3	-5.3	5.9	-11.2	-11.2
2010	13.9	10.5	9.5	13.4	12.0	1.0	15.4	2.0	16.9	21.4	-4.6	5.1	-9.7	-9.7
2011	13.6	9.9	9.6	13.2	11.6	1.5	15.4	2.0	15.8	20.9	-5.2	4.3	-9.4	-9.0
2012	13.2	9.9	10.3	13.0	11.2	2.2	16.0	1.7	15.4	20.0	-4.7	3.7	-8.4	-7.3
2013	12.8	10.6	10.4	12.7	10.8	3.1	16.2	1.4	15.1	18.9	-3.7	1.9	-5.6	-5.6
2010 IV	13.9	10.5	9.5	13.4	12.0	1.0	15.4	2.0	16.9	21.4	-4.6	5.1	-9.7	-9.7
2011 I	13.8	10.5	9.5	13.3	11.9	1.1	15.4	2.0	16.7	21.4	-4.7	4.8	-9.4	-9.4
II	13.7	10.4	9.4	13.2	11.7	1.2	15.3	1.9	16.6	21.2	-4.6	4.6	-9.2	-9.2
III	13.6	10.2	9.4	13.2	11.7	1.4	15.3	1.9	16.2	21.0	-4.8	4.2	-9.0	-9.0
IV	13.6	9.9	9.6	13.2	11.6	1.5	15.4	2.0	15.8	20.9	-5.2	4.3	-9.4	-9.0
2012 I	13.6	9.9	9.6	13.1	11.6	1.6	15.5	2.0	15.5	20.8	-5.3	4.0	-9.3	-8.8
II	13.6	9.8	9.7	13.1	11.5	1.8	15.7	1.9	15.2	20.6	-5.5	4.2	-9.7	-8.7
III	13.5	9.8	9.7	13.0	11.5	2.0	15.9	1.9	14.8	20.5	-5.6	4.3	-9.9	-8.5

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

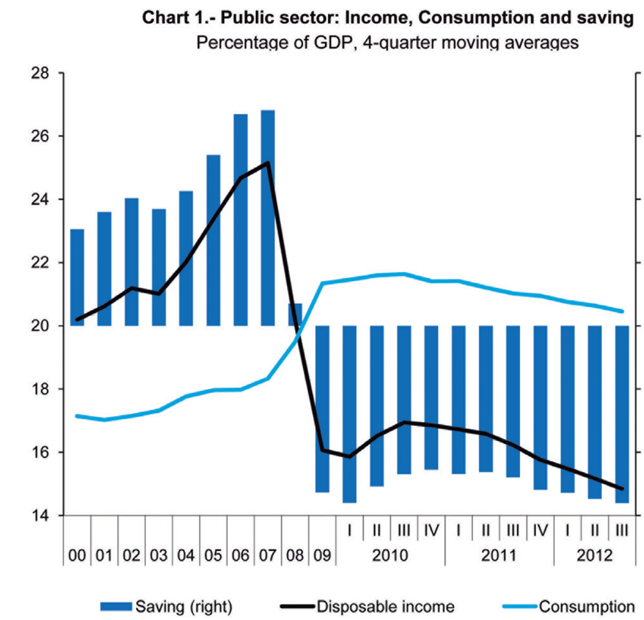


Chart 1.- Public sector: Income, Consumption and saving
Percentage of GDP, 4-quarter moving averages
28
26
24
22
20
18
16
14
8
6
4
2
0
-2
-4
-6
00 01 02 03 04 05 06 07 08 09
I II III IV I II III IV I II III
2010
2011
2012
Saving (right)
Disposable income
Consumption

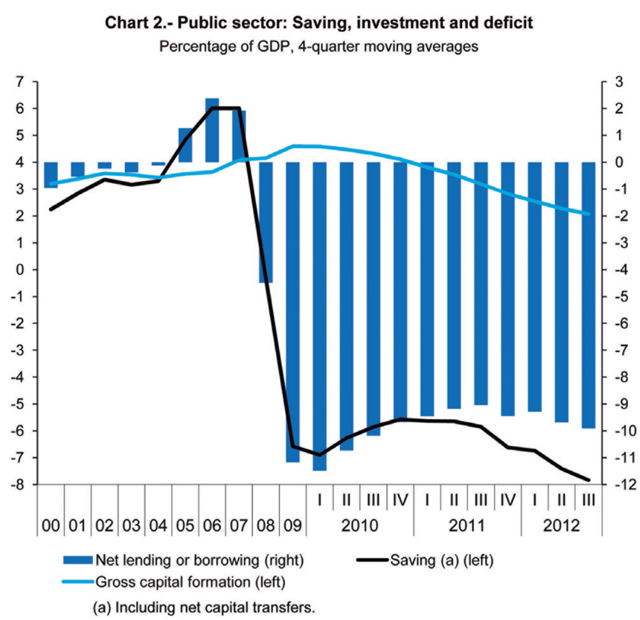


Chart 2.- Public sector: Saving, investment and deficit
Percentage of GDP, 4-quarter moving averages
7
6
5
4
3
2
1
0
-1
-2
-3
-4
-5
-6
-7
-8
3
2
1
0
-1
-2
-3
-4
-5
-6
-7
-8
-9
-10
-11
-12
00 01 02 03 04 05 06 07 08 09
I II III IV I II III IV I II III
2010
2011
2012
Net lending or borrowing (right)
Saving (a) (left)
Gross capital formation (left)
(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	317.4	61.0	29.4	17.2	382.3
2008	-32.9	-18.2	-5.3	7.6	-48.9	367.1	72.6	31.8	17.2	437.0
2009	-98.0	-21.3	-5.9	8.1	-117.1	485.5	91.0	34.7	17.2	565.1
2010	-52.9	-39.6	**-7.0**	-1.9	-101.5	549.7	120.8	35.4	17.2	644.7
2011	-36.6	-54.1	-9.0	-0.8	-100.4	622.3	141.4	35.4	17.2	736.5
2012	-56.1	-20.0	-3.2	-5.3	-88.3	--	--	--	--	909.8
2013	-36.5	-7.3	0.0	-8.4	-58.8	--	--	--	--	987.0
2010 IV	-52.9	-39.6	-7.0	-1.9	-101.5	549.7	120.8	35.4	17.2	644.7
2011 I	-48.6	-41.4	-6.2	-3.3	-99.5	581.9	126.7	37.3	17.2	685.7
II	-47.3	-39.6	-7.0	-3.3	-97.2	594.8	135.7	37.6	17.2	705.5
III	-45.0	-38.4	-7.6	-5.1	-96.0	598.0	137.6	36.7	17.2	708.6
IV	-36.6	-54.1	-9.0	-0.8	-100.4	622.3	141.4	35.4	17.2	736.5
2012 I	-45.4	-45.3	-9.0	-0.5	-98.7	655.4	146.4	36.9	17.2	774.9
II	-55.7	-42.8	-6.8	2.6	-102.5	680.2	168.3	45.0	17.2	804.6
III	--	--	--	--	-104.6	695.5	167.5	43.8	17.2	817.2
	Percentage of GDP, 4-quarter cumulated operations					**Percentage of GDP**				
2007	1.2	-0.2	-0.3	1.3	1.9	30.1	5.8	2.8	1.6	36.3
2008	-3.0	-1.7	-0.5	0.7	-4.5	33.7	6.7	2.9	1.6	40.2
2009	-9.3	-2.0	-0.6	0.8	-11.2	46.3	8.7	3.3	1.6	53.9
2010	-5.0	-3.8	-0.7	-0.2	-9.7	52.4	11.5	3.4	1.6	61.5
2011	-3.4	-5.1	-0.8	-0.1	-9.4	58.5	13.3	3.3	1.6	69.3
2012	-5.3	-1.9	-0.3	-0.5	-8.4	--	--	--	--	86.0
2013	-3.5	-0.7	0.0	-0.8	-5.6	--	--	--	--	92.0
2010 IV	-5.0	-3.8	-0.7	-0.2	-9.7	52.4	11.5	3.4	1.6	61.5
2011 I	-4.6	-3.9	-0.6	-0.3	-9.4	55.3	12.0	3.5	1.6	65.1
II	-4.5	-3.7	-0.7	-0.3	-9.2	56.2	12.8	3.6	1.6	66.7
III	-4.2	-3.6	-0.7	-0.5	-9.0	56.3	12.9	3.5	1.6	66.7
IV	-3.4	-5.1	-0.8	-0.1	-9.4	58.5	13.3	3.3	1.6	69.3
2012 I	-4.3	-4.3	-0.9	0.0	-9.3	61.7	13.8	3.5	1.6	73.0
II	-5.3	-4.0	-0.6	0.2	-9.7	64.3	15.9	4.3	1.6	76.0
III	--	--	--	--	-9.9	65.7	15.8	4.1	1.6	77.2

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

Chart 1.- Government deficit

Percent of GDP, 4-quarter cumulated operations

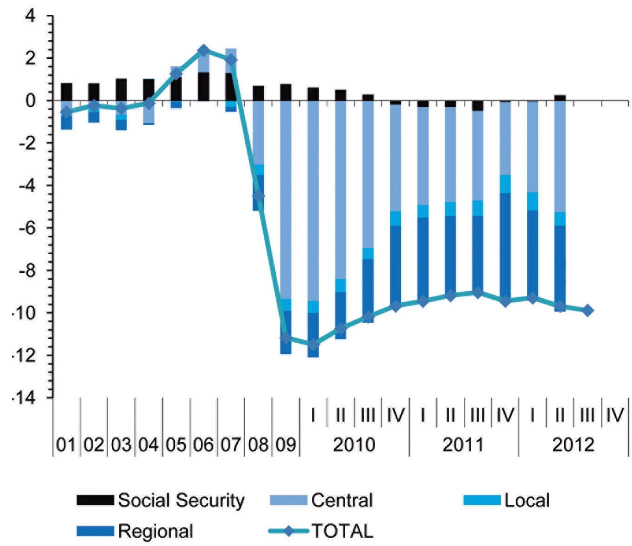


Chart 2.- Government debt

Percent of GDP

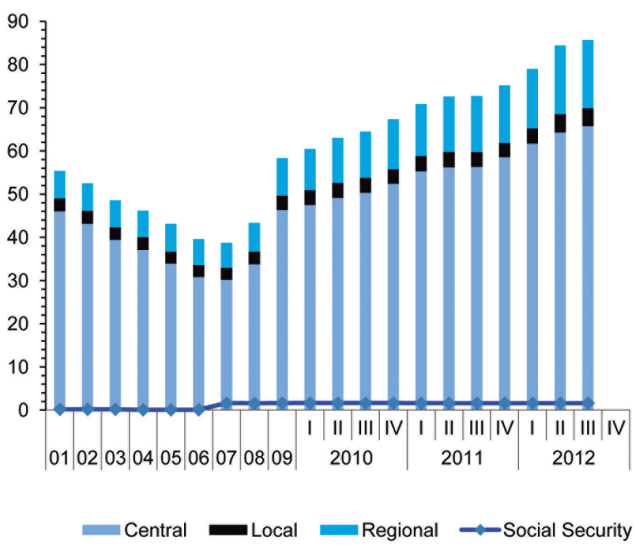


Table 10

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	18,955	267.7	107.1	2,758	53.2	0.5	105.3	3.5
2008	86.3	38.5	18,834	269.5	99.3	2,696	40.4	-18.0	96.7	-24.0
2009	82.5	40.9	17,657	256.9	83.6	2,411	40.9	-30.8	78.0	-54.5
2010	92.7	50.0	17,244	263.8	84.3	2,295	50.6	-13.8	80.6	-36.9
2011	92.6	46.6	16,970	260.5	83.1	2,232	47.3	-12.5	80.9	-30.7
2012 (b)	87.9	43.1	16,334	255.6	78.8	2,114	43.8	-17.5	77.5	-37.2
2011 I	92.9	50.5	17,103	66.2	85.3	2,258	51.9	-8.6	81.9	-29.2
II	93.6	50.1	17,046	65.3	84.2	2,246	48.7	-10.7	81.6	-28.6
III	92.8	45.0	16,939	65.1	82.6	2,227	44.9	-14.4	80.7	-29.7
IV	91.2	40.7	16,791	63.9	81.2	2,196	43.8	-16.5	79.5	-35.4
2012 I	91.7	45.0	16,622	65.1	80.2	2,164	44.9	-14.8	78.5	-35.0
II	88.8	41.7	16,432	64.4	78.4	2,134	42.2	-17.4	77.7	-36.6
III	84.9	42.6	16,242	63.8	78.1	2,096	43.6	-20.0	76.9	-38.8
IV (b)	86.3	42.9	16,050	62.4	76.4	2,066	44.5	-17.9	75.9	-38.5
2012 Oct	85.9	41.5	16,114	21.2	77.2	2,075	43.5	-20.5	76.1	-38.1
Nov	86.4	43.4	16,048	20.7	75.5	2,065	45.3	-17.2	75.6	-38.2
Dec	86.7	43.9	15,988	20.6	--	2,056	44.6	-16.0	--	-39.1
Percentage changes (c)										
2007	--	--	3.4	4.3	2.0	0.6	--	--	1.7	--
2008	--	--	-0.6	0.7	-7.3	-2.2	--	--	-8.2	--
2009	--	--	-6.2	-4.7	-15.8	-10.6	--	--	-19.3	--
2010	--	--	-2.3	2.7	0.8	-4.8	--	--	3.4	--
2011	--	--	-1.6	-1.3	-1.4	-2.7	--	--	0.3	--
2012 (d)	--	--	-3.7	-1.9	-6.0	-5.3	--	--	-4.7	--
2011 I	--	--	-1.3	-1.5	1.6	-2.2	--	--	1.8	--
II	--	--	-1.3	-5.3	-4.9	-2.1	--	--	-1.2	--
III	--	--	-2.5	-1.4	-7.5	-3.5	--	--	-4.3	--
IV	--	--	-3.4	-6.8	-6.6	-5.4	--	--	-5.7	--
2012 I	--	--	-4.0	7.5	-4.5	-5.7	--	--	-4.9	--
II	--	--	-4.5	-4.3	-8.8	-5.4	--	--	-4.2	--
III	--	--	-4.5	-3.6	-1.5	-6.8	--	--	-3.9	--
IV (e)	--	--	-4.6	-8.6	-8.7	-5.7			-5.5	
2012 Oct	--	--	-0.4	0.0	0.1	-0.5	--	--	-0.6	--
Nov	--	--	-0.4	-2.5	-2.2	-0.5	--	--	-0.7	--
Dec	--	--	-0.4	-0.4	--	-0.4	--	--	--	--

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

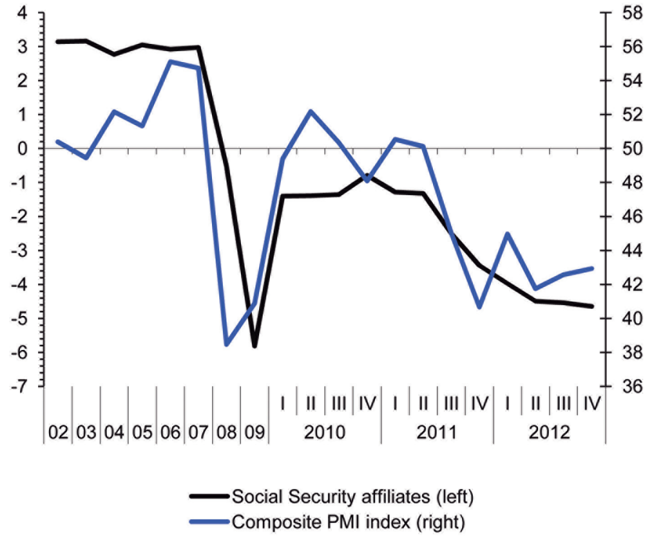


Chart 2.- Industrial sector indicators
Percent change from previuos period and index

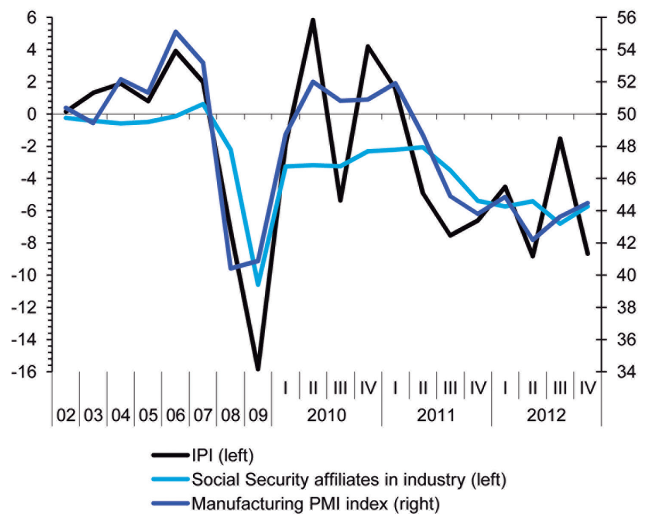


Table 11

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 (g)	Turnover index (nominal)	Services PMI index	Hotel overnight stays	Passenger air transport	Services confidence index
	Thousands	**Million Tons**	**Balance of responses**	**EUR Billions**	**Thou-sands**	**Million m2**	**Thousands**	**2005=100 (smoothed)**	**Index**	**Million**	**Million (smoothed)**	**Balance of res-ponses**
2007	2,601	56.0	8.7	37.4	616.0	125.2	12,457	113.4	54.4	271.7	208.6	9.6
2008	2,340	42.7	-23.6	38.5	346.0	60.0	12,644	109.4	38.2	268.6	202.9	-18.8
2009	1,800	28.9	-32.3	35.4	159.3	29.2	12,247	94.6	41.0	253.2	186.1	-29.7
2010	1,559	24.5	-29.7	21.9	123.6	24.5	12,186	95.3	49.3	269.4	191.3	-22.5
2011	1,369	20.4	-55.4	11.8	86.3	20.0	12,176	94.3	46.5	286.8	202.7	-21.0
2012 (b)	1,136	12.7	-54.9	3.7	28.6	10.7	11,905	88.6	43.1	269.0	177.1	-21.5
2011 I	1,456	5.8	-54.1	3.2	23.0	5.5	12,195	95.2	49.6	70.3	50.2	-28.3
II	1,401	5.4	-55.4	3.7	27.1	5.3	12,203	94.9	50.5	71.3	50.9	-19.3
III	1,342	4.9	-58.6	2.7	17.9	5.0	12,172	94.2	45.5	72.0	50.8	-14.3
IV	1,280	4.4	-53.6	2.2	18.2	4.1	12,128	92.9	40.2	70.9	49.9	-22.0
2012 I	1,215	4.0	-50.4	1.6	16.7	3.8	12,063	91.5	44.8	70.3	49.0	-15.3
II	1,159	3.3	-52.2	2.1	11.9	3.1	11,944	90.1	42.4	70.0	48.8	-19.7
III	1,106	3.2	-55.5	--	--	2.8	11,844	88.6	42.6	70.6	48.4	-26.7
IV (b)	1,067	2.0	-61.4	--	--	0.9	11,767	86.7	42.6	45.8	31.5	-24.3
2012 Oct	1,077	1.1	-56.6	--	--	0.9	11,795	87.2	41.2	23.9	15.8	-22.0
Nov	1,066	1.0	-67.0	--	--	--	11,766	86.3	42.4	13.9	15.6	-25.0
Dec	1,058	--	-60.7	--	--	--	11,740	--	44.3	--	--	-26.0
Percentage changes (c)												
2007	5.6	0.2	--	-15.4	-18.0	-22.3	4.0	5.6	--	1.7	8.9	--
2008	-10.0	-23.8	--	2.9	-43.8	-52.1	1.5	-3.5	--	-1.2	-2.7	--
2009	-23.1	-32.3	--	-8.2	-54.0	-51.4	-3.1	-13.5	--	-5.7	-8.3	--
2010	-13.4	-15.4	--	-38.0	-22.4	-16.0	-0.5	0.8	--	6.4	2.8	--
2011	-12.2	-16.5	--	-46.2	-30.2	-18.6	-0.1	-1.1	--	6.4	5.9	--
2012 (d)	-17.0	-33.8	--	-46.9	-43.0	-38.7	-2.2	-5.4	--	-1.7	-4.9	--
2011 I	-11.4	39.8	--	-45.5	-27.9	-9.7	0.2	-0.4	--	7.2	7.8	--
II	-14.2	-25.9	--	-35.0	-18.0	-21.8	0.3	-1.1	--	5.9	5.7	--
III	-15.8	-31.5	--	-45.2	-27.6	-14.4	-1.0	-3.1	--	3.9	-0.9	--
IV	-17.4	-31.6	--	-59.8	-46.3	-28.4	-1.4	-5.3	--	-6.0	-6.9	--
2012 I	-18.7	-36.6	--	-50.6	-27.4	-30.5	-2.1	-6.1	--	-3.1	-6.7	--
II	-17.4	-50.3	--	-43.6	-56.2	-41.5	-3.9	-5.9	--	-1.9	-1.4	--
III	-16.8	-11.9	--	--	--	-44.4	-3.3	-6.4	--	3.7	-3.7	--
IV (e)	-13.5	-18.5	--	--	--	-40.2	-2.6	-8.1	--	-10.7	-9.4	--
2012 Oct	-1.3	1.3	--	-56.7	--	-40.2	-0.2	-0.9	--	-1.8	-1.1	--
Nov	-1.1	-7.4	--	-35.1	--	--	-0.2	-0.9	--	-2.2	-1.2	--
Dec	-0.7	--	--	-50.6	--	--	-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. (g) Excluding domestic service workers and non-professional caregivers.

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

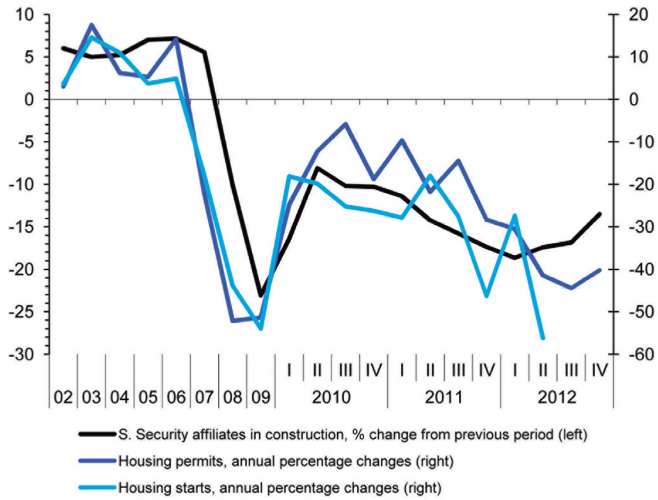


Chart 2.- Services indicators
Percentage changes from previous period and index

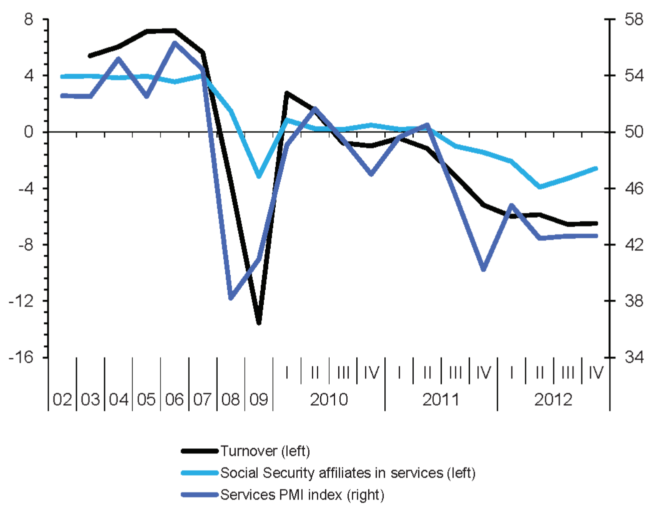


Table 12

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	1,633.8	-13.3	116.6	-3.2	420.4	16.1	113.4
2008	98.5	1,185.3	-33.8	113.2	-21.0	236.9	-4.5	89.6
2009	93.2	971.2	-28.3	110.1	-40.3	142.1	-50.8	65.5
2010	91.6	1,000.1	-21.1	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)	79.6	703.8	-31.8	96.9	-24.2	106.7	-39.2	48.4
2011 I	88.5	206.7	-19.7	28.1	-22.3	37.1	-22.1	54.2
II	87.2	204.3	-16.3	27.7	-21.6	36.5	-21.1	53.0
III	86.0	200.3	-15.7	27.9	-22.0	35.2	-23.2	52.0
IV	84.6	196.8	-16.7	27.1	-21.2	32.9	-25.8	50.6
2012 I	83.1	193.6	-24.7	26.5	-24.8	30.2	-31.7	48.9
II	81.7	184.3	-29.0	26.6	-21.3	27.8	-39.1	47.9
III	79.9	168.6	-35.3	25.0	-23.7	25.7	-44.9	48.2
IV (b)	77.9	150.4	-38.0	15.8	-26.8	23.6	-41.1	48.7
2012 Oct	78.3	52.1	-36.0	8.0	-25.1	8.1	-37.1	48.7
Nov	77.5	50.1	-38.0	7.8	-26.7	7.9	-41.5	--
Dec	--	48.2	-40.0	--	-28.6	7.6	-44.6	--
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)	-6.8	-12.9	--	-8.2	--	-24.8	--	-7.9
2011 I	-6.4	-11.4	--	-1.3	--	-0.9	--	-8.1
II	-5.7	-4.6	--	-5.4	--	-6.5	--	-8.1
III	-5.5	-7.7	--	2.3	--	-13.7	--	-7.5
IV	-6.5	-6.7	--	-10.7	--	-23.5	--	-10.7
2012 I	-6.7	-6.3	--	-8.6	--	-28.9	--	-12.7
II	-6.7	-17.9	--	2.3	--	-28.8	--	-7.6
III	-8.4	-29.9	--	-22.3	--	-26.1	--	2.5
IV (e)	-11.4	-36.7	--	-19.3	--	-29.5	--	4.1
2012 Oct	-1.0	-3.8	--	-4.0	--	-2.8	--	0.5
Nov	-1.0	-3.8	--	-2.1	--	-3.2	--	--
Dec	--	-3.7	--	--	--	-3.4	--	--

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

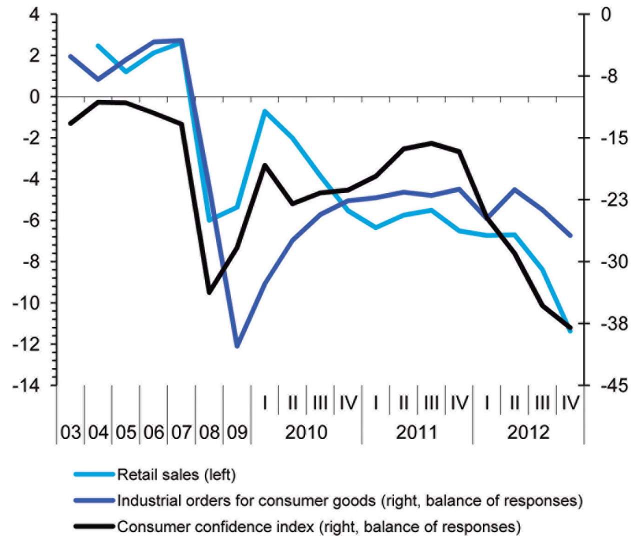


Chart 2.- Investment indicators

Percent change from previous period and balance of responses

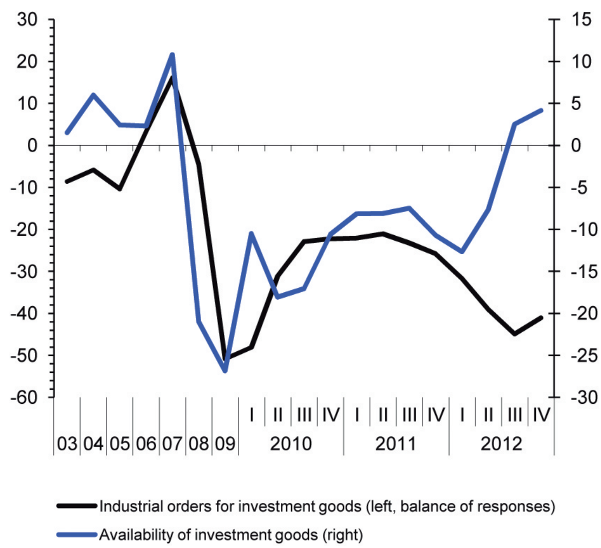


Table 13a
Labour market (I)
Forecasts in blue

	Population aged 16-64	Labour force		Employment		Unemployment		Participation rate 16-64 (a)	Employment rate 16-64 (b)	Unemployment rate (c)			
		Original	Seasonally adjusted	Original	Seasonally adjusted	Original	Seasonally adjusted	Seasonally adjusted		Total	Aged 16-24	Spanish	Foreign
	1	2=4+6	3=5+7	4	5	6	7	8	9	10=7/3	11	12	13
	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 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 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).

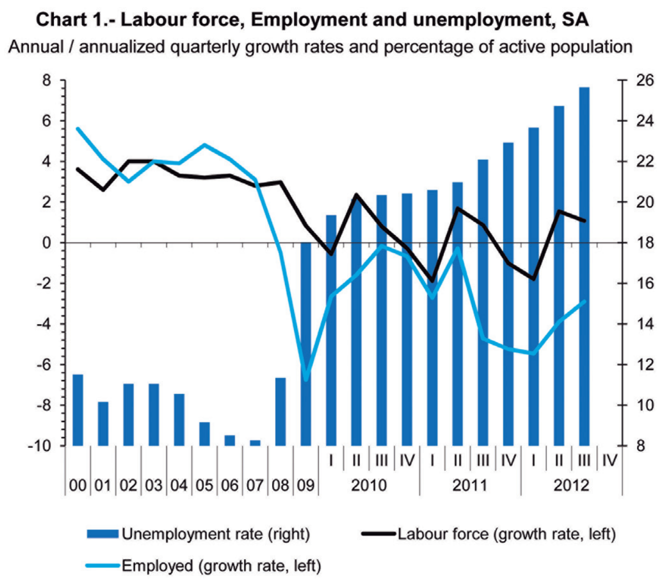


Chart 1.- Labour force, Employment and unemployment, SA
Annual / annualized quarterly growth rates and percentage of active population
8
6
4
2
0
-2
-4
-6
-8
-10
26
24
22
20
18
16
14
12
10
8
I II III IV I II III IV I II III IV
00 01 02 03 04 05 06 07 08 09 2010 2011 2012
Unemployment rate (right)
Labour force (growth rate, left)
Employed (growth rate, left)

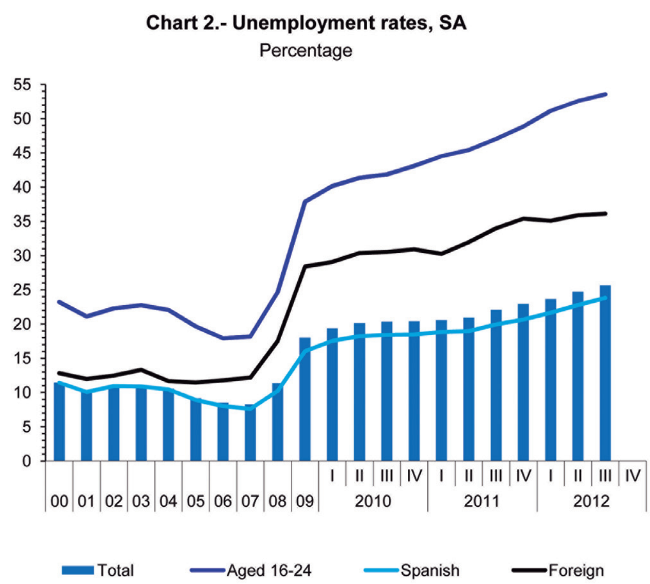


Chart 2.- Unemployment rates, SA
Percentage
55
50
45
40
35
30
25
20
15
10
5
0
I II III IV I II III IV I II III IV
00 01 02 03 04 05 06 07 08 09 2010 2011 2012
Total
Aged 16-24
Spanish
Foreign

Table 13b

Labour market (II)

	Employed by sector				Employed by professional situation					Employed by duration of the working-day		
					Employees				Self- emplo-yed	Full-time	Part-time	Part-time employ-ment rate (b)
					Total	By type of contract						
	Agriculture	Industry	Construc-tion	Services		Temporary	Indefinite	Temporary employment rate (a)				
	1	2	3	4	5=6+7	6	7	8=6/5	9	10	11	12
	Million (original data)											
2007	0.87	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 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 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

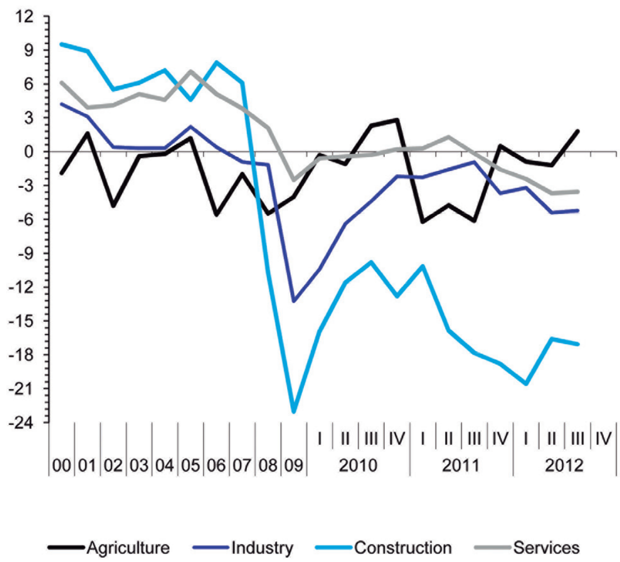


Chart 2.- Employment by type of contract
Annual percentage changes and rate in percent

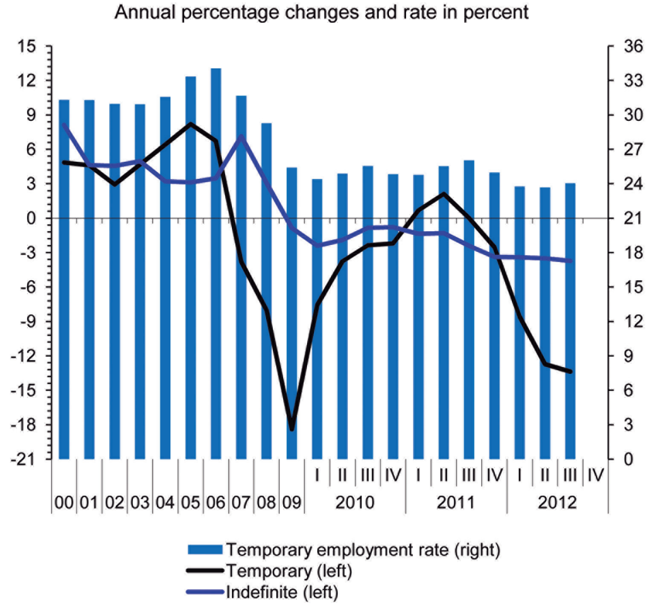


Table 14
Index of Consumer Prices
Forecasts in blue

	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	102.4	101.3	101.6	100.8	101.5	103.1	102.3	108.9	102.8
2013	104.4	102.9	103.4	101.7	103.7	105.5	105.2	111.6	105.4
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	2.4	1.3	1.6	0.8	1.5	3.1	2.3	8.9	2.8
2013	1.9	1.6	1.8	0.9	2.2	2.4	2.9	2.5	2.5
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	2.9	2.1	2.3	1.7	2.3	3.1	3.3	7.5	3.2
Dec	2.9	1.9	2.1	1.5	2.2	3.1	3.9	7.6	3.3
2013 Jan	2.9	2.1	2.3	1.6	2.5	3.1	3.9	6.8	3.3
Feb	2.7	2.1	2.2	1.5	2.5	3.0	2.8	5.8	3.0
Mar	2.5	2.2	2.3	1.5	2.7	3.0	2.8	3.7	2.9
Apr	2.0	1.9	2.0	1.6	2.2	2.6	2.5	1.1	2.6
May	2.3	2.0	2.1	1.6	2.3	2.4	3.3	3.1	2.6
Jun	2.5	2.0	2.1	1.6	2.3	2.5	2.4	5.6	2.4
Jul	2.0	1.7	1.8	0.6	2.4	2.5	3.1	2.7	2.7
Aug	1.7	1.8	1.9	0.9	2.4	2.5	2.8	-0.3	2.6
Sep	0.8	1.0	1.2	-0.2	1.8	2.1	2.9	-2.4	2.4
Oct	1.0	0.9	1.1	-0.1	1.6	1.8	3.0	-0.3	2.1
Nov	1.4	1.1	1.2	0.2	1.7	1.6	2.7	2.6	1.9
Dec	1.5	1.1	1.2	0.2	1.7	1.6	2.5	2.9	1.9

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	128.3	118.1	72.9	78.2	64.8	142.5	139.5	151.7	152.9	--
2011 I	137.0	122.4	115.6	86.3	86.4	76.2	140.5	136.3	153.7	142.7	--
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	163.6	--
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	154.1	--
III	138.0	128.9	118.4	70.2	76.1	60.4	138.8	135.2	149.7	159.8	
IV (b)	--	128.8	118.9	--	--	--	--	--	--	--	
2012 Sep	--	129.3	118.9	--	--	--	--	--	--	--	--
Oct	--	129.1	119.0	--	--	--	--	--	--	--	--
Nov	--	128.5	118.8	--	--	--	--	--	--	--	--
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	3.5	1.4	-14.0	-8.3	-9.1	0.3	0.5	-0.5	0.7	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	1.4	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	-15.2	-9.5	-0.7	-0.1	0.3	-0.9	0.0	1.3
IV (e)	--	3.1	1.9	--	--	--	--	--	--	--	--
2012 Sep	--	3.8	1.7	--	--	--	--	--	--	--	1.3
Oct	--	3.4	1.9	--	--	--	--	--	--	--	1.2
Nov	--	2.8	1.8	--	--	--	--	--	--	--	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)

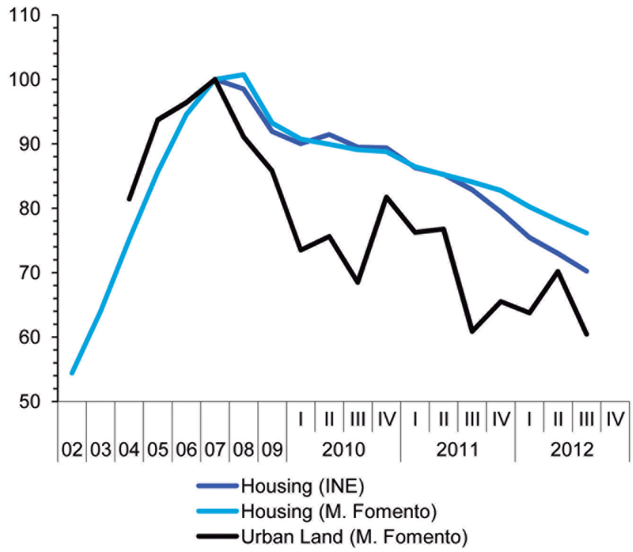


Chart 2.- Wage costs
Annual percent change

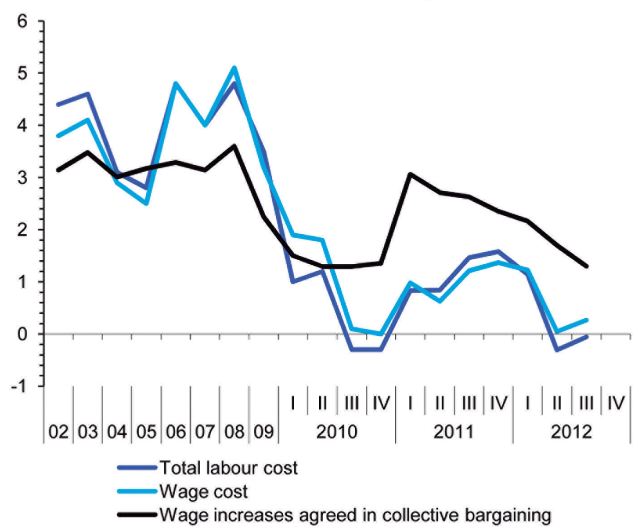


Table 16
External trade (a)

	Exports of goods			Imports of goods			Exports to EU countries	Exports to non EU countries	Total Balance of goods	Balance of goods excluding energy	Balance of goods with EU countries
	Nominal	Prices	Real	Nominal	Prices	Real					
	EUR Billions	**2005=100**		**EUR Billions**	**2005=100**		**EUR Billions**				
2007	185.0	108.3	110.2	285.0	105.8	115.6	130.9	54.2	-100.0	-65.5	-40.2
2008	189.2	108.5	112.5	283.4	108.8	111.8	130.8	58.5	-94.2	-50.7	-26.3
2009	159.9	101.7	101.4	206.1	94.5	93.7	110.5	49.4	-46.2	-18.8	-9.1
2010	186.8	102.8	117.2	240.1	100.8	102.3	126.3	60.5	-53.3	-17.9	-5.0
2011	214.5	107.2	129.1	260.8	108.4	103.3	141.7	72.8	-46.3	-5.2	4.1
2012 (b)	185.1	108.3	130.6	213.2	113.1	96.6	116.1	69.0	-28.1	11.7	9.3
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	57.6	109.5	135.6	63.9	114.0	96.3	34.9	22.7	-6.3	5.6	2.6
IV (b)	19.9	110.7	139.1	21.3	115.4	95.0	11.6	8.3	-1.4	2.1	0.9
2012 Aug	20.6	108.8	146.6	22.2	116.0	98.7	12.4	8.2	-1.6	2.9	1.3
Sep	18.3	111.4	127.1	20.4	115.4	91.3	10.9	7.4	-2.2	1.9	0.5
Oct	19.9	110.7	139.1	21.3	115.4	95.0	11.6	8.3	-1.4	2.1	0.9
	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)	4.2	1.9	2.2	-1.6	5.5	-6.0	-1.2	14.9	--	--	--
2011 I	24.0	5.3	17.7	28.0	14.4	11.9	15.4	42.2	-4.8	-0.7	0.0
II	-0.5	4.1	-4.4	-11.0	0.5	-11.5	-1.0	0.5	-4.1	-0.3	0.6
III	12.6	4.6	7.7	7.9	12.4	-4.0	12.5	12.9	-3.9	0.1	0.6
IV	6.0	5.5	0.5	-0.8	7.3	-7.5	6.3	5.6	-3.6	-0.1	0.4
2012 I	-5.1	0.0	-5.2	3.1	9.1	-5.5	-12.2	9.4	-4.1	0.6	0.9
II	-1.6	-6.6	5.4	-17.5	-6.9	-11.4	-8.9	12.6	-3.0	1.5	1.1
III	22.0	8.7	12.2	7.8	7.5	0.3	5.9	53.2	-2.4	2.1	1.0
IV (e)	15.6	4.4	10.8	-0.2	5.1	-5.1	-2.2	47.8	--	--	--
2012 Aug	10.3	0.2	10.0	4.6	4.7	-0.1	7.1	15.4	--	--	--
Sep	-11.2	2.4	-13.3	-8.0	-0.5	-7.5	-12.5	-9.3	--	--	--
Oct	8.8	-0.6	9.5	4.1	0.0	4.1	6.4	12.4	--	--	--

(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

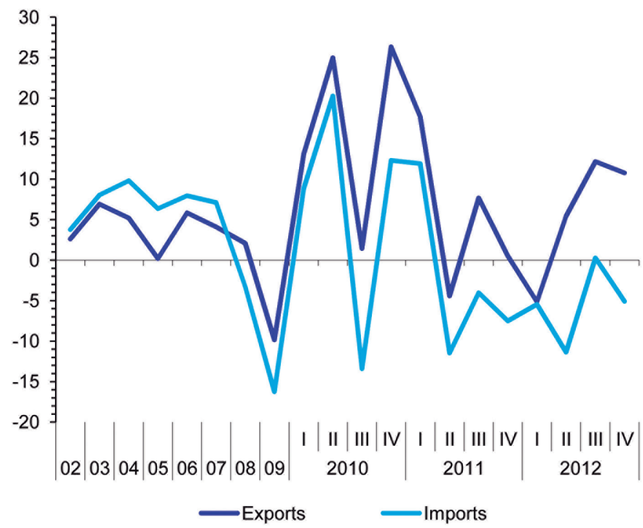


Chart 2.- Trade balance
EUR Billions, moving sum of 4 quarters

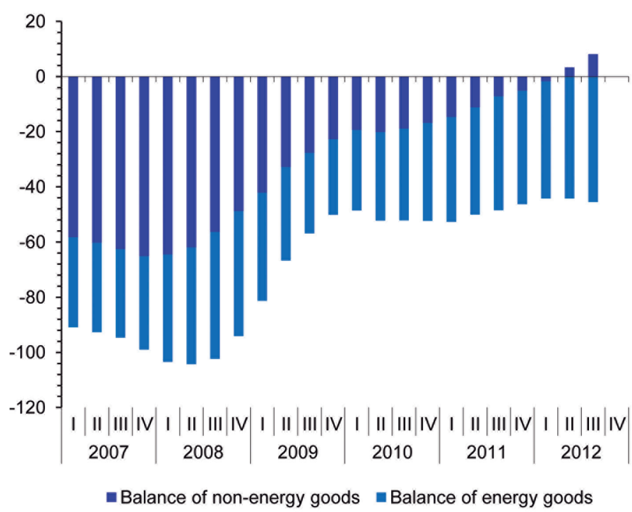


Table 17

Balance of Payments (according to IMF manual)

(Net transactions)

	Current account					Capital account	Current and capital accounts	Financial account						
								Financial account, excluding Bank of Spain					Bank of Spain	Errors and omissions
	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)	-14.91	-23.21	34.59	-17.52	-8.77	4.93	-9.98	-211.08	6.64	-60.77	-164.74	7.80	215.52	5.54
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	-2.68	-6.63	9.96	-4.65	-1.36	1.73	-0.96	-127.34	-3.22	-45.50	-78.49	-0.13	131.22	-2.92
III	1.93	-6.51	15.17	-4.32	-2.40	1.51	3.44	8.38	1.61	16.43	-13.55	3.89	-15.95	4.13
IV (b)	0.87	-0.96	4.20	-1.85	-0.52	1.01	1.87	10.49	-4.46	19.18	-4.86	0.62	-7.78	-4.59
2012 Aug	1.35	-2.63	5.72	-0.81	-0.93	0.64	1.99	-11.90	-0.50	0.77	-11.93	-0.24	11.76	-1.85
Sep	-0.30	-2.71	4.24	-0.81	-1.02	0.79	0.50	28.60	3.07	10.29	14.53	0.70	-33.91	4.82
Oct	0.87	-0.96	4.20	-1.85	-0.52	1.01	1.87	12.09	0.83	15.29	-5.64	1.61	-18.00	4.04
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)	-2.8	-4.4	6.6	-3.3	-1.7	0.9	-1.9	-40.0	1.3	-11.5	-31.2	1.5	40.8	1.0
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	-1.0	-2.5	3.7	-1.7	-0.5	0.6	-0.4	-47.3	-1.2	-16.9	-29.2	0.0	48.7	-1.1
III	0.8	-2.6	6.0	-1.7	-1.0	0.6	1.4	3.3	0.6	6.5	-5.4	1.5	-6.3	1.6

(b) Period with available data.

Sources: Bank of Spain.

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

EUR Billions, 12-month cumulated

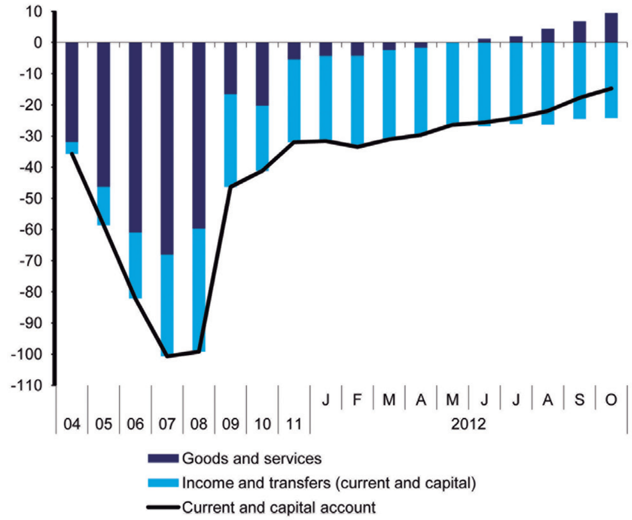


Chart 2.- Balance of payments: financial account

EUR Billions, 12-month cumulated

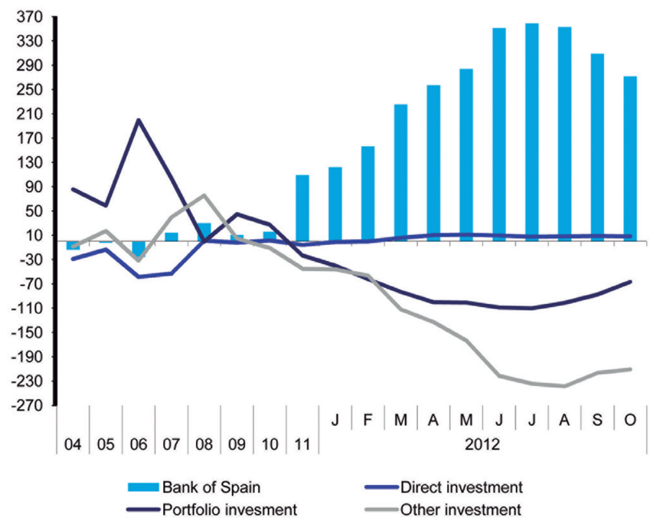


Table 18

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)	-45.9	97.3	143.2	195.1	86.1	66.7	42.4	2.8	109.4	92.7	106.7	90.7
2012 Sep	4.0	14.9	10.9	18.5	8.7	8.6	1.2	-0.3	8.8	8.1	9.0	7.6
Oct	2.7	13.8	11.0	27.1	16.3	9.4	1.3	0.4	9.7	8.4	9.2	7.7
Nov	-2.5	8.5	11.1	11.7	5.5	5.1	1.1	-0.1	9.3	8.0	9.4	7.8
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)	--	15.4	-2.8	18.9	4.0	-2.4	226.5	--	-0.7	-2.6	2.8	4.3
2012 Sep	--	7.6	1.9	21.7	0.5	-5.0	310.5	--	-8.5	-4.7	0.9	4.1
Oct	--	21.2	-20.2	19.2	2.9	-3.9	255.6	--	-0.4	-1.8	3.2	6.1
Nov	--	42.8	-39.5	18.9	4.0	-2.4	226.5	--	-0.6	-3.7	3.6	3.6
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 Sep	0.4	1.4	1.0	1.8	0.8	0.8	0.1	0.0	0.8	0.8	0.9	0.7
Oct	0.3	1.3	1.1	2.6	1.6	0.9	0.1	0.0	0.9	0.8	0.9	0.7
Nov	-0.2	0.8	1.1	1.1	0.5	0.5	0.1	0.0	0.9	0.8	0.9	0.7

(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

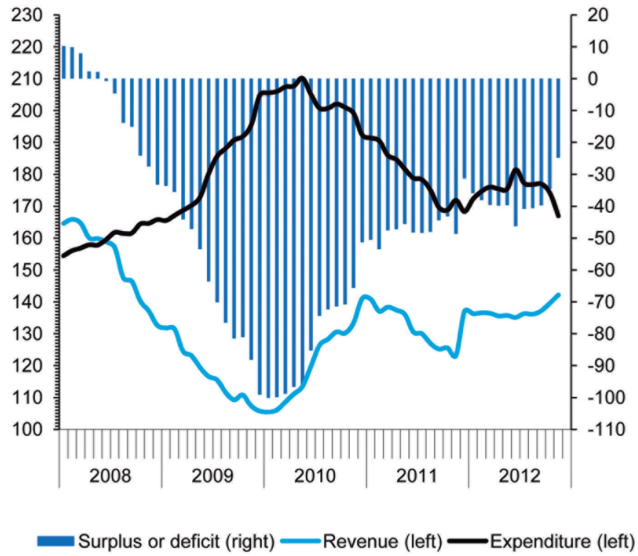


Chart 2.- Social Security System: Revenue, expenditure and deficit

EUR Billions, 12-month cumulated

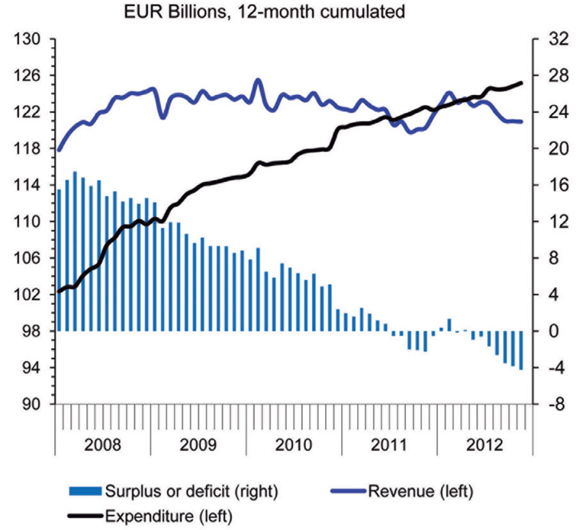


Table 19

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	2,470.5	382.3	1,213.8	874.4	--	15,182.3
2008	4.4	36.0	5.8	10.9	6.4	2,655.3	437.0	1,307.0	911.3	--	9,195.8
2009	4.0	70.5	3.4	10.5	4.7	2,767.0	565.1	1,298.6	903.3	--	11,940.0
2010	4.2	146.5	2.6	8.6	4.3	2,844.5	644.7	1,301.6	898.1	--	9,859.1
2011	5.4	277.4	3.5	8.6	5.1	2,862.7	736.5	1,255.3	871.0	--	8,563.3
2012 (b)	5.9	428.6	3.4	9.2	5.6	2,869.6	830.3	1,198.4	840.8	--	8,167.5
2011 I	5.3	212.0	3.0	8.4	4.8	2,860.3	685.7	1,286.7	887.9	--	10,576.5
II	5.4	222.3	3.4	8.2	5.1	2,867.5	705.5	1,272.8	889.2	--	10,359.9
III	5.4	311.6	3.6	8.7	5.2	2,853.2	708.6	1,267.0	877.6	--	8,546.6
IV	5.7	365.1	3.7	9.1	5.4	2,862.7	736.5	1,255.3	871.0	--	8,563.3
2012 I	5.2	334.7	3.8	9.7	5.5	2,886.3	774.9	1,252.6	858.7	--	8,008.0
II	6.2	462.8	3.5	8.7	5.7	2,893.1	804.6	1,232.8	855.7	--	7,102.2
III	6.4	500.5	3.3	9.2	5.7	2,870.6	817.2	1,212.7	840.8	--	7,708.5
IV (b)	5.6	416.2	3.1	9.0	5.6	2,869.6	830.3	1,198.4	840.8	--	8,167.5
2012 Oct	5.6	415.0	3.2	9.1	5.6	2,858.1	816.4	1,203.5	838.2	--	7,842.9
Nov	5.7	433.0	3.1	9.0	5.6	2,869.6	830.3	1,198.4	840.8	--	7,934.6
Dec	5.4	400.6	--	--	--	--	--	--	--	--	8,167.5
						Percentage change from same period previous year					**(c)**
2007	--	--	--	--	--	12.3	-2.2	17.7	12.5	15.1	7.3
2008	--	--	--	--	--	7.8	14.3	8.2	4.4	7.7	-39.4
2009	--	--	--	--	--	4.0	29.3	-1.4	-0.3	-0.8	29.8
2010	--	--	--	--	--	3.2	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)	--	--	--	--	--	--	--	--	--	--	--
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	-1.5	-2.7	-0.9	-6.5
II	--	--	--	--	--	1.2	14.0	-2.8	-3.1	-2.6	-11.3
III	--	--	--	--	--	1.1	15.3	-3.7	-3.6	-3.6	8.5
IV	--	--	--	--	--	0.8	15.6	-4.6	-3.6	-0.9	6.0
2012 Oct	--	--	--	--	--	1.0	15.5	-4.2	-3.5	-2.2	1.7
Nov	--	--	--	--	--	0.8	15.6	-4.6	-3.6	-0.9	1.2
Dec	--	--	--	--	--	--	--	--	--	--	2.9

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

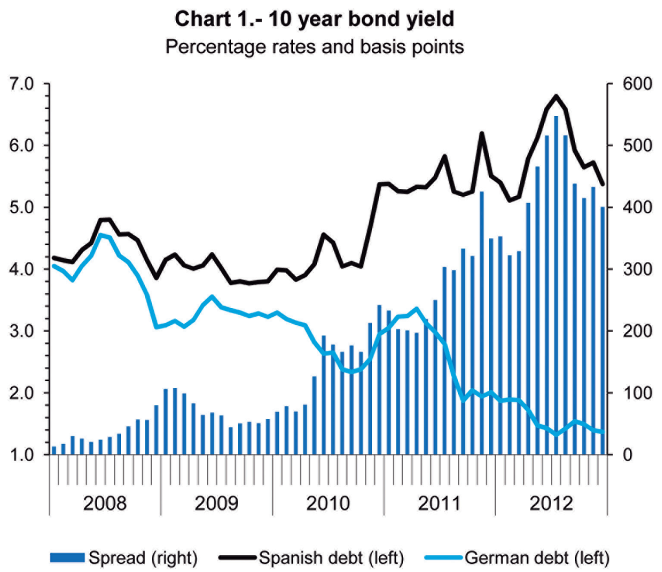


Chart 1.- 10 year bond yield
Percentage rates and basis points
7.0
6.0
5.0
4.0
3.0
2.0
1.0
600
500
400
300
200
100
0
2008
2009
2010
2011
2012
Spread (right)
Spanish debt (left)
German debt (left)

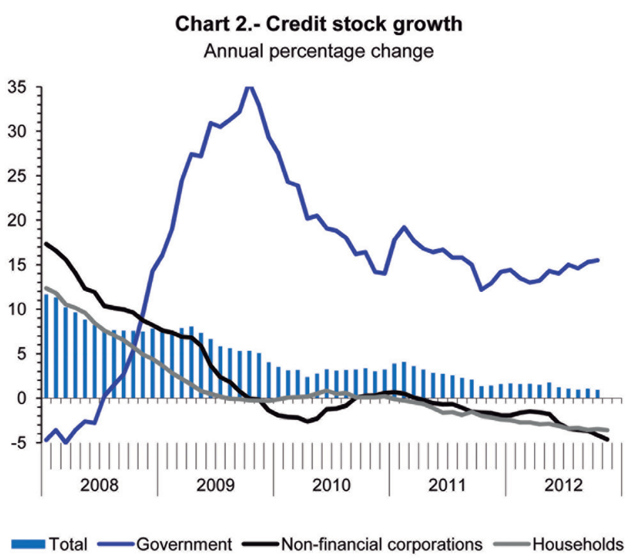


Chart 2.- Credit stock growth
Annual percentage change
35
30
25
20
15
10
5
0
-5
2008
2009
2010
2011
2012
Total
Government
Non-financial corporations
Households

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	90.9	108.8	119.6	106.5	104.4	102.1	108.4	106.5	101.8	111.9
2008	92.6	110.8	119.7	110.9	107.8	102.9	114.7	111.8	102.5	114.5
2009	102.1	114.7	112.3	110.6	108.1	102.4	110.9	106.7	103.9	114.0
2010	99.0	112.4	113.5	112.9	109.8	102.8	114.8	110.1	104.3	112.9
2011	99.6	108.8	109.3	116.3	112.8	103.1	122.4	116.2	105.3	113.1
2012 (b)	--	--	--	119.2	115.6	103.1	126.4	119.0	106.2	111.5
2011 I	--	--	--	114.5	111.3	102.9	120.9	114.7	105.4	112.6
II	--	--	--	117.2	113.1	103.6	122.4	116.3	105.2	114.4
III	--	--	--	116.1	112.9	102.8	122.9	116.7	105.4	112.7
IV	--	--	--	117.6	114.1	103.1	123.2	117.0	105.3	112.8
2012 I	--	--	--	116.7	114.3	102.1	126.1	118.6	106.3	110.8
II	--	--	--	119.4	115.9	103.0	125.8	118.8	106.0	111.8
III	--	--	--	119.3	115.7	103.1	127.0	119.2	106.5	111.1
IV (b)	--	--	--	121.4	116.7		126.9	119.4	106.2	113.1
2012 Oct	--	--	--	121.6	116.7	104.2	127.1	119.5	106.3	113.1
Nov	--	--	--	121.3	116.5	104.1	126.6	119.3	106.1	113.0
Dec	--	--	--	121.3	116.9	103.8	--	--	--	--
	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	1.9	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	-3.1	-2.0	1.1	2.0	1.6	0.4	3.5	3.2	0.3	--
2011	0.5	-3.2	-3.8	3.1	2.7	0.3	6.6	5.6	1.1	--
2012 (d)	--	--	--	2.4	2.5	-0.1	3.3	2.4	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	--
IV (d)	--	--	--	3.2	2.3	0.9	3.0	2.1	0.9	--
2012 Oct	--	--	--	3.5	2.5	1.0	3.2	2.3	1.0	--
Nov	--	--	--	3.0	2.2	0.8	2.8	1.9	0.8	--
Dec	--	--	--	3.0	2.2	0.8	--	--	--	--

(b) Period with available data. (c) Annual percent change. (d) Growth of available period over the same period of the previous year.
Sources: Eurostat and Bank of Spain.

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

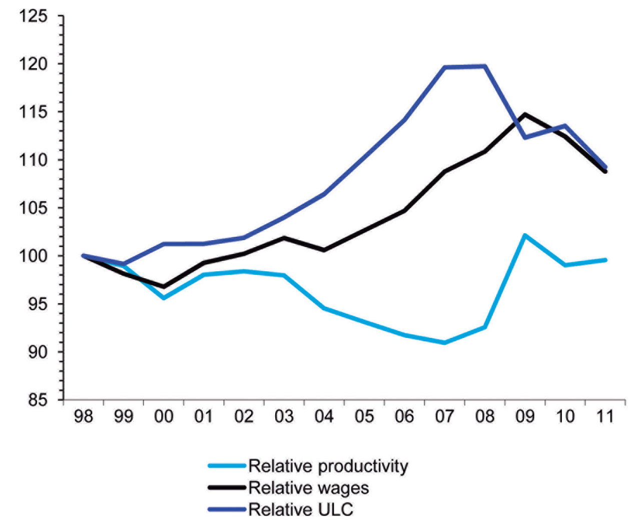


Chart.2 Harmonized Consumer Prices
Annual growth in % and percentage points

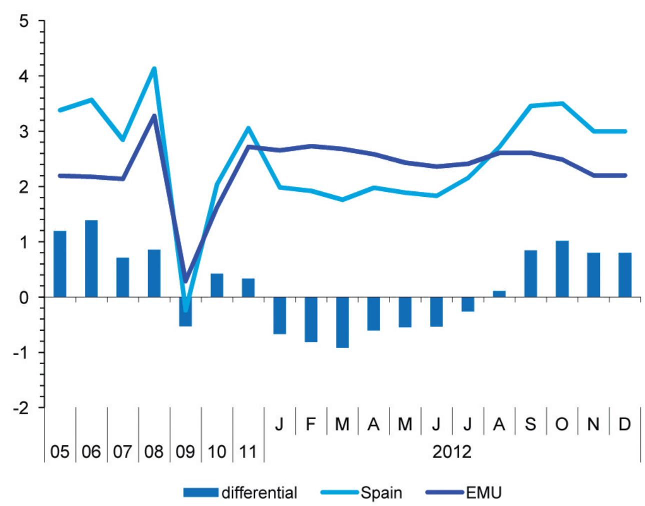


Table 21a

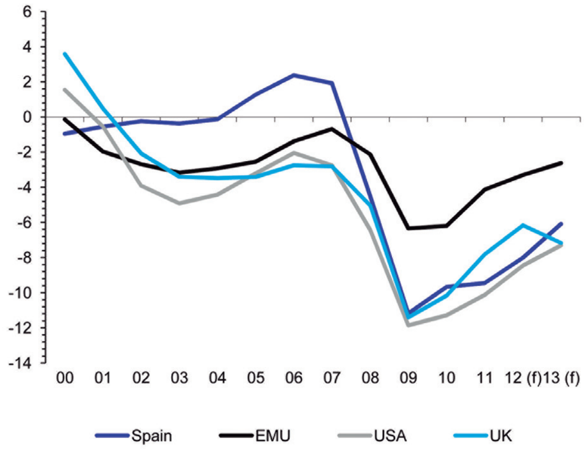
Imbalances: International comparison (I)

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	5,729.9	8,566.6	533.2	-67.8	36.4	-645.5	-25.9
2006	23.3	-118.5	-272.8	-36.6	391.1	5,884.1	8,912.6	577.1	-88.9	42.6	-556.1	-39.1
2007	20.2	-62.5	-385.1	-39.7	382.3	5,994.3	9,421.7	624.7	-105.2	38.7	-704.0	-32.2
2008	-48.9	-197.1	-913.4	-72.6	437.0	6,490.0	10,881.1	753.6	-104.3	-64.5	-676.5	-14.4
2009	-117.1	-566.2	-1,647.4	-159.9	565.1	7,136.4	12,528.1	950.8	-49.9	5.6	-500.4	-17.7
2010	-101.5	-568.9	-1,626.6	-149.1	644.7	7,854.5	14,298.4	1,164.5	-46.0	24.9	-472.4	-37.3
2011	-100.4	-389.5	-1,517.3	-118.7	736.5	8,297.2	15,517.4	1,292.0	-39.4	24.6	-497.7	-29.0
2012	-84.1	-314.1	-1,316.4	-95.9	904.1	8,830.6	17,066.4	1,379.9	-25.3	108.1	-487.4	-59.0
2013	-64.2	-253.9	-1,193.2	-115.1	977.7	9,126.9	18,362.5	1,495.0	-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

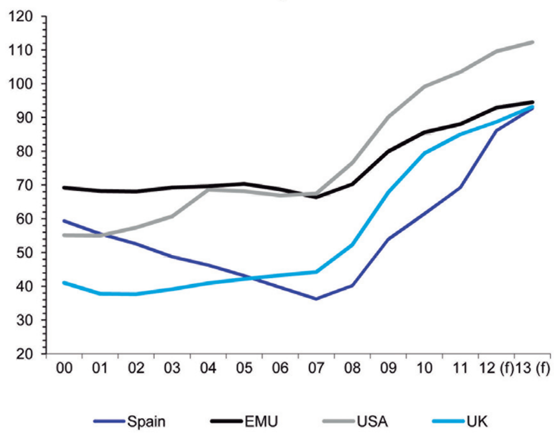
Source: European Commission.

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	4,767.4	11,703.9	1,163.3	949.5	6,699.8	8,652.0	1,242.6	477.0	7,076.8	12,956.9	2,115.1
2006	780.7	5,187.3	12,852.8	1,287.0	1,187.9	7,344.0	9,584.8	1,414.4	686.1	7,972.2	14,279.1	2,275.8
2007	876.6	5,555.4	13,699.1	1,398.2	1,382.0	8,216.8	10,890.8	1,457.7	881.1	9,081.3	16,224.1	2,768.9
2008	913.4	5,807.0	13,678.0	1,448.5	1,471.1	8,836.7	11,546.1	1,648.9	964.8	10,046.1	17,122.9	3,121.8
2009	905.5	5,933.3	13,403.0	1,441.5	1,459.5	8,885.3	11,195.7	1,575.2	1,054.8	10,561.9	15,708.4	3,091.2
2010	900.7	6,109.2	13,129.4	1,448.3	1,472.4	9,102.9	11,237.7	1,548.1	1,078.4	10,740.8	14,498.3	3,267.1
2011	873.7	6,206.9	12,925.6	1,446.3	1,431.9	9,272.1	11,756.3	1,586.6	1,101.2	11,016.8	14,062.1	3,270.8
Percentage of GDP												
2005	71.9	58.5	93.2	92.1	104.4	82.3	68.9	98.4	52.5	86.9	103.1	167.5
2006	79.2	60.6	96.5	96.5	120.5	85.8	72.0	106.1	69.6	93.1	107.2	170.7
2007	83.2	61.5	98.1	99.0	131.2	91.0	78.0	103.2	83.7	100.6	116.2	196.1
2008	84.0	62.8	96.2	100.5	135.2	95.6	81.2	114.4	88.7	108.7	120.4	216.7
2009	86.4	66.5	96.4	102.8	139.3	99.6	80.6	112.4	100.6	118.4	113.0	220.5
2010	85.9	66.6	91.1	98.8	140.4	99.2	77.9	105.6	102.8	117.1	100.5	222.8
2011	82.2	65.9	86.2	95.2	134.7	98.4	78.4	104.4	103.6	116.9	93.8	215.3

(a) Loans and securities other than shares.

Sources: European Central Bank and Federal Reserve.

Chart 1.- Household debt
Percentage of GDP

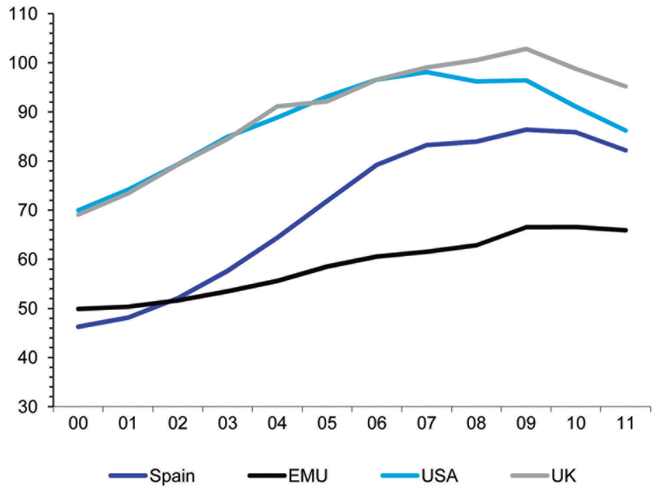
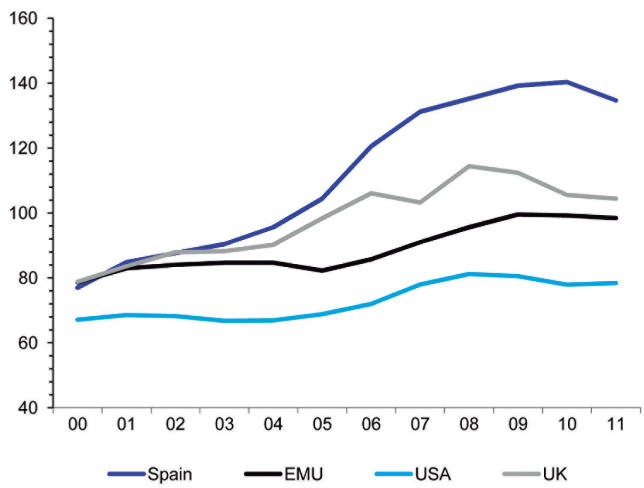


Chart 2.- Non-financial corporations debt
Percentage of GDP



KEY FACTS: 50 FINANCIAL SYSTEM INDICATORS – FUNCAS

Updated: January 15th , 2013

Highlights

Indicator	Last value available	Corresponding to:
Bank lending to other resident sectors (monthly average % var.)	-0.9	October 2012
Other resident sectors' deposits in credit institutions (monthly average % var.)	0.1	October 2012
Doubtful loans (monthly % var.)	4.2	October 2012
Recourse to the Eurosystem (Eurozone financial institutions, million euros)	884,094	December 2012
Recourse to the Eurosystem (Spanish financial institutions, million euros)	313,109	December 2012
Recourse to the Eurosystem (Spanish financial institutions million euros)- Main L/T refinancing operations	41,144	December 2012
Operating expenses/gross operating income ratio (%)	44.15	September 2012
Customer deposits/employees ratio (thousand euros)	4,579.13	September 2012
Customer deposits/branches ratio (thousand euros)	28,446.84	September 2012
Branches/institutions ratio	215.87	September 2012

A. Money and interest rates

Indicator	Source:	Average 1996-2009	2010	2011	2012 December	2013 January 15th	Definition and calculation
1. Monetary Supply (%chg.)	ECB	6.9	1.7	2.2	3.5	-	M3 aggregate change (non-stationary)
2. Three-month interbank interest rate	Bank of Spain	3.4	0.9	1.4	0.18	0.20	Daily data average
3. One-year Euribor interest rate (from 1994)	Bank of Spain	3.3	1.4	2.0	0.54	0.57	End-of-month data
4. Ten-year Treasury bonds interest rate (from 1998)	Bank of Spain	4.9	4.3	5.4	5.3	4.9	Market interest rate (not exclusively between account holders)
5. Corporate bonds average interest rate	Bank of Spain	5.0	3.7	5.0	4.8[a]	4.2[b]	End-of-month straight bonds average interest rate (> 2 years) in the AIAF market

(a) Last data published: November 30th, 2012.
(b) Last data published: December 31st, 2012.

Comment on "Money and Interest Rates": The 3-month and 1-year Euribor rates have slightly increased in January 2013 after a few months of continuous decrease. The Spanish 10-year bond yield fell to 4.9%, standing below 5% for the first time since March 2012, within a relatively calmer sovereign market environment.

B. Financial markets

Indicator	Source:	Average 1996-2009	2010	2011	2012 October	2012 November	Definition and calculation
6. Outright spot treasury bills transactions trade ratio	Bank of Spain	18.3	40.5	81.6	133.2	120.6	(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	64.3	48.7	(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	3.2	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	1.9	1.5	(Traded amount/ outstanding balance) in the market (not exclusively between account holders)
10. Three-month maturity treasury bills interest rate	Bank of Spain	3.4	0.7	1.6	0.7	0.6	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	719.5	735.6	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	2.4	0.8	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	43.4	-40.1	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	790.1	824.7[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	7,842.9	8,167.5[a]	Base dec1989=3000
16. Madrid Stock Exchange PER ratio (share value/ profitability)	Bank of Spain and Madrid Stock Exchange	17.1	9.8	9.7	18.8	17.5	Madrid Stock Exchange Ratio “share value/ capital profitability”

B. Financial markets (continued)

Indicator	Source:	Average 1996-2009	2010	2011	2012 December	2012 January 15th	Definition and calculation
17. Long-term bonds. Stock trading volume (%chg.)	Bank of Spain and Madrid Stock Exchange	2.8	-29.2	15.1	-29.8	40.8	Variation for all stocks
18. Commercial paper. Trading balance (%chg.)	Bank of Spain and AIAF	45.2	-43.9	59.24	-7.6	-0.9	AIAF fixed-income market
19. Commercial paper. Three-month interest rate	Bank of Spain and AIAF	3.6	0.8	1.9	2.8	2.6	AIAF fixed-income market
20. IBEX-35 financial futures concluded transactions (%chg.)	Bank of Spain	2.1	15.42	-15.8	-5.3	-14.5	IBEX-35 shares concluded transactions
21. IBEX-35 financial options concluded transactions (%chg.)	Bank of Spain	-2.7	-31.88	-25.9	-10.2	4.5	IBEX-35 shares concluded transactions

(a) Last data published: 31st December 2012.
Comment on “Financial Markets”: During the last month there has been a reduction in transactions with outright spot and forward T-bills, as well as government bonds and debenture transactions. The stock market experienced an upward trend in the second half of the year, although the IBEX-35 recorded losses for the third consecutive year and ended the year at 8,167.5 points, a 4.6% drop from the previous year. The General Index of the Madrid Stock Exchange closed 2012 at 824.7 points. On the other hand, there was a 14.5% reduction regarding financial IBEX-35 future transactions, while there was a 4.5% increase regarding transactions with IBEX-35 financial options.

C. Financial Savings and Debt

Indicator	Source:	Average 2003-2009	2010	2011	2012 Q I	2012 Q 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 Q I	2012 Q 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 slowdown, 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 September	2012 October	Definition and calculation
28. Bank lending to other resident sectors (monthly average % var.)	Bank of Spain	14.7	0.3	-3.8	0.2	-0.9	Lending to the private sector percentage change for the sum of banks, savings banks and credit unions.
29. Other resident sectors' deposits in credit institutions (monthly average % var.)	Bank of Spain	10.5	0.8	-5.3	0.6	0.1	Deposits percentage change for the sum of banks, savings banks and credit unions.
30. Debt securities (monthly average % var.)	Bank of Spain	10.2	-6.8	5.2	2.7	-1.7	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	-0.1	-0.5	Asset-side equity and shares percentage change for the sum of banks, savings banks and credit unions.
32. Credit institutions. Net position (difference between assets from credit institutions and liabilities with credit institutions) (% of total assets)	Bank of Spain	-0.5	-1.5	-4.3	-10.7	-10.3	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 September	2012 October	Definition and calculation
33. Doubtful loans (monthly average % var.)	Bank of Spain	28.3	16.2	28.3	1.9	4.2	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	24.6	1.9	Liability-side assets sold under repurchase. Percentage change for the sum of banks, savings banks and credit unions.
35. Equity capital (monthly average % var.)	Bank of Spain	11.0	-6.4	37.9	1.5	-1.6	Equity percentage change for the sum of banks, savings banks and credit unions.

Comment on "Credit institutions. Business Development": The latest available data as of October 2012 show a 0.9% reduction in bank credit to the private sector and a 0.1% increase in financial institutions deposit-taking, from the previous month. Additionally, doubtful assets experienced a new monthly increase of 4.2% over the previous month, in an environment of continued deterioration of macroeconomic conditions.

E. Credit institutions. Market Structure and Eurosystem Refinancing

Indicator	Source:	Average 1996-2009	2010	2011	2012 June	2012 September	Definition and calculation
36. Number of Spanish credit institutions	Bank of Spain	207	188	189	186	181	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	85	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	39,521	39,317	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	437,789	884,094[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	337,206	313,109[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 June	2012 September	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	44,961	41,144[a]	Open market operations: main long term refinancing operations. Spain total

(a) Last data published: November 2012.

Comment on "Credit institutions. Market Structure and Eurosystem Refinancing": In December 2012, the recourse to Eurosystem funding by Spanish credit institutions accounted for about 35.42% of net total funds borrowed from the ECB by the Eurozone. This represents a reduction from the 38.52% registered in November.

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

Indicator	Source:	Average 1996-2009	2010	2011	2012 June	2012 September	Definition and calculation
43. "Operating expenses/gross operating income" ratio	Bank of Spain	55.73	46.53	49.85	47.04	44.15	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	5,426.71	4,579.13	Productivity indicator (business by employee)
45. "Customer deposits/ branches" ratio(Euro thousands)	Bank of Spain	18,620.11	16,554.20	29,171.23	33,619.98	28,446.84	Productivity indicator (business by branch)
46. "Branches/ institutions" ratio	Bank of Spain	187.24	155.41	205.38	210.91	215.87	Network expansion indicator
47. "Employees/ branches" ratio	Bank of Spain	6.1	3.6	6.5	6.2	6.2	Branch size indicator
48. Equity capital (monthly average % var.)	Bank of Spain	0.10	0.86	0.40	-0.39	-0.36	Credit institutions equity capital variation indicator
49. ROA	Bank of Spain	0.83	0.31	0.06	-1.10	-1.20	Profitability indicator, defined as the "pre-tax profit/average total assets"
50. ROE	Bank of Spain	13.54	5.73	3.28	-16.17	-17.98	Profitability indicator, defined as the "pre-tax profit/equity capital"

Comment on "Credit institutions. Efficiency and Productivity, Risk and Profitability": During the third 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.