

Spain

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Macroeconomic overview

The Spanish economy underwent a strong contraction in 2009. The bottom of the cycle was reached in the first half of the year, while in the second half a gradual recovery was observed. Although gross domestic product declined by 3.6% during the year as a whole, on a quarterly basis the decrease in Q4 2009 was only by 0.1% and available data for Q1 2010 showed a positive growth of 0.1%. On the expenditure side, domestic demand moderated its negative contribution to GDP as a consequence of the smaller decrease recorded by final household consumption and gross fixed capital formation. On the other hand, there was a significant slowdown in public expenditure (from 6.0% in Q1 2009 to 0.8% in the last quarter). Net exports provided a positive contribution to GDP growth throughout the year.

As regards the labour market, during 2009 the unemployment rate continued to rise and reached 18.0%. A severe deterioration of public finances was also recorded. General government deficit as a percentage of GDP increased from 4.1% in 2008 to 11.2% in 2009, while general government gross debt as a percentage of GDP increased from 39.7% in 2008 up to 53.2% in 2009.

Housing and mortgage markets

In 2009, the sustained decline in the construction sector continued, resulting in a 37.1% fall in housing completions (from 615,072 to 387,075 dwellings) and the drop of 51.5% in housing starts (from 328,490 to 159,284 dwellings). During 2009 the correction of housing prices also continued. According to official statistics, average house prices in the Spanish market decreased by 10% since their historical peak recorded in Q1 2008. However, the continued downward trend in the housing price index has decelerated in the first months of 2010, and some price stability is expected towards the end of the year. Housing transactions recorded at the end of the year show some signs of pick-up in demand. In fact, although the total number of transactions (463,719) halved the level recorded in 2007 (836,871), in the last quarter of the year the number of transactions increased by 4.1% after almost two years of negative growth rates.

During 2009, the strong deceleration in the mortgage market was exacerbated by the worsening economic situation and rising unemployment, which on the one hand led to a substantial decline in the demand from households and businesses, and on the other hand, boosted the tightening in lending criteria applied by credit institutions given the riskier credit profile of both borrowers and developers. In fact, at the end of the year, gross lending (residential and commercial) declined by 13.9% in volume and by 4% in number of loans. However, on a quarterly basis, total mortgage volume outstanding (residential and commercial) in December 2009 was EUR 1,100 billion which represented an increase of 1% compared with the previous year. As regards residential lending alone, the increase at the end of the year was slightly lower, i.e. by 0.7%. Positive growth rates at the end of the year in 2009 and in early 2010 were possibly due to the important effort made by credit institutions to provide mortgage credit and refinancing to the different market segments. Indeed, total mortgage volume outstanding (residential and commercial) to GDP ratio almost reached 105% and the financial system continued to provide a positive contribution to the growth of the Spanish economy in the context of the global crisis.

As regards doubtful loans, since the end of 2007 a sharp increase in the percentage of doubtful loans out of total outstanding loans was observed, especially in loans to developers and to the construction sector, rising from rates of around 0.6% in 2007 up to 9.5% in 2009. However, the pace of the increase in doubtful loans seems to be moderating as a consequence, both of the robust decrease of interest rates throughout 2009 which have sharply reduced the mortgage debt-servicing costs for borrowers, and due to the financial institutions' efforts aimed at preventing the foreclosure of the collaterals (which are always considered the last resort). In fact, in the last quarter of 2009 the ratio of doubtful loans from outstanding residential lending to households decreased slightly from 3% down to 2.8%.

Funding

For the funding markets, the start of the year 2009 markets was characterised by strong lack of confidence prompted by the Lehman Brothers' bankruptcy at the end of 2008, but also by the continuing funding tensions that had started in 2007. However, over the year some signs of reactivation in funding markets were recorded, especially in the mortgage covered bonds (*cédulas hipotecarias*) segment, also as a positive response to the Purchase Programme of covered bonds announced by the ECB in May. As regards Mortgage Backed Securities (MBS), in 2009 the Spanish credit institutions continued to experience problems in the use of MBS as a funding tool. The markets were still under pressure and no positive signs of reactivation were observed. The new issues of total mortgage securities (MBS and "cédulas hipotecarias") accounted for EUR 77,808 million in 2009, which represented a decrease of 35% on 2008. As regards the breakdown of new issues, the percentage of "cédulas hipotecarias" in the total volume of mortgage securities increased from 40% in 2008 to 60% in 2009. Finally, the total value of outstanding "cédulas hipotecarias" and MBS was EUR 523,832 million compared with EUR 494,222 million in 2008.

	EU27, 2009	Spain, 2009	Spain, 2008
GDP growth (%)	-4.2	-3.6	0.9
Unemployment rate (%)	8.9	18.0	11.3
Inflation (%)	1.0	-0.2	4.1
% owner occupied	68.2	85.0	85.0
Residential Mortgage Loans as % GDP	51.9	64.6	62.0
Residential Mortgage Loans per capita, EUR thousand	12.37	14.81	14.89
Total value of residential loans, EUR million	6,125,727	678,872	674,434
Annual % house price growth	-6.8	-6.3	-3.2
Typical mortgage rate (euro area), %	2.71	2.52	5.89
Outstanding Covered Bonds as % outstanding residential lending	23.2	49.3	45.6

Source: EMF, Eurostat, ECB, Bank of Spain, INE, Ministry of Housing, AIAF

Notes:

- Typical mortgage rate in the euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data.

Spain= 2008