

### **Monetary and financial conditions**

Throughout 2001, and against a background of slowing growth, Spanish monetary and financial conditions showed a degree of generosity similar to the previous year. This was because the reduction on the inflation rate and the slight appreciation in the euro exchange rate were offset by the lower interest rates stemming from the easier single monetary policy stance. These conditions remained looser than in the rest of the euro area, although this difference lessened as the buoyancy of demand diminished and the inflation gap between and the euro area narrowed. The more liquid financial assets and, to a greater extent, the credit aggregates grew in Spain for the third year running at high rates, higher indeed than those posted in the euro area. That said, during the year and in 2002 to date, signs of slowing have been observed.

Total financing to non-financial resident sectors grew last year at a rate close to 11%, only one percentage point less than in 2000 and over five points above the increase in this aggregate in the euro area as a whole. Component by component, financing to non-financial corporations and households decelerated, in contrast to the acceleration in financing to general government. However, the growth of financing to non-financial corporations and households stood at 14% year-on-year, with a fresh rise in the debt ratios for the sector (of over four percentage points of GDP in the case of corporations, and of two points of GDP in that of households), which is discussed in detail in Chapter V of this Report.

The more liquid financial assets also saw a bigger increase in Spain than in the euro area, although the relative differences progressively narrowed. Means of payment, the aggregate comprising cash and sight and saving deposits, posted moderately rising growth during the year, with its year-on-year rate standing at 6.9% at end-2001, despite the substantial contraction in currency in circulation (-21.3% in December 2001). Cash has been influenced by the switch from pesetas to euro at the onset of 2002; the changeover appears to have led a sizable proportion of Spanish households and firms to replace cash by bank deposits. The same quickening trend was seen in shares in collective investment undertakings, which benefited from a new tax change in June 2000, and in the Spanish component of M3, which grew by 10.4% in 2001, compared with 8% in the euro area as a whole. There was a significant reduction only in the pace of deposits with an agreed maturity.

So far 2002, the credit and, more clearly, monetary aggregates are posting more moderate growth. That shows a degree (albeit insufficient) of convergence towards rates more consistent with the general situation of economic activity in Spain.

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## Pigs in muck

Exciting countries get exciting acronyms, at least in financial circles. Fast-growing Brazil, Russia, India and China, for example, are called Brics, the very initials implying solid growth. Other countries are less fortunate. Take Portugal, Italy, Greece and Spain, sometimes described as the Pigs. It is a pejorative moniker but one with much truth.



Eight years ago, Pigs really did fly. Their economies soared after joining the eurozone. Interest rates fell to historical lows – and were often negative in real terms. A credit boom followed, just as night follows day. Wages rose, debt levels ballooned, as did house prices and consumption. Now the Pigs are falling back to earth.

How far they might drop can be seen in their trade figures. While the eurozone is broadly in balance, at the end of 2007 Spain and Portugal had current account deficits equivalent to 10 per cent of GDP. Greece's, meanwhile, was a whopping 14 per cent while Italy's deficit was relatively respectable at about 3 per cent.

The usual response to a yawning current account deficit is a stiff devaluation. But the Pigs are members of the euro, so that route is closed.

The next alternative is simply to carry on and somehow finance the deficit. But that is increasingly hard to do in these credit-chastened times. Indeed, Spain may have a particular problem. In the past, its banks – particularly the unlisted *cajas* – have used low-quality, asset-backed collateral to raise cheap funds from the European Central Bank. But the ECB plans to tighten its lending rules.

That leaves the last and most painful solution. Competitiveness can be restored through a drop in real wages. In other words, a deep recession. The most dramatic sign of this can be seen in Spain where the unemployment rate rose by almost a whole percentage point in the second quarter.

Britain, facing similar problems in the early 1990s when it was shackled to Europe's exchange rate mechanism, withdrew sterling from the ERM and the devaluation saved its sausage. Some now wonder if the Pigs, as part of the euro, risk turning into bacon.

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## Free Case Summary

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*CRIME — Sentencing — Imprisonment — Defendant convicted in Portugal of drug trafficking — European arrest warrant — Defendant settling in France — Whether member states allowed to restrict power to execute warrant — TFEU, art 18 — Council Framework Decision 2002/584/JHA, art 4(6)*

### ***In re Proceedings against Lopes Da Silva Jorge***

**(Case C-42/11); [2012] WLR (D) 263**

ECJ: President V Skouris, Presidents of Chamber A Tizzano, JN Cunha Rodrigues, K Lenaerts, J-C Bonichot, U Lõhmus, Judges A Rosas, E Levits, A Ó Caoimh (Rapporteur), L Bay Larsen, T von Danwitz, A Arabadjiev, CG Fernlund: 5 September 2012

Article 4(6) of Council Framework Decision 2002/584/JHA of 13 June 2002 on the European arrest warrant and the surrender procedures between member states and article 18FEU meant that, although a member state might, in transposing article 4(6), decide to limit the situations in which an executing judicial authority might refuse to surrender a person who fell within the scope of that provision, it could not automatically and absolutely exclude from its scope the nationals of other member states staying or resident in its territory irrespective of their connections with it. The national court was required, taking into consideration the whole body of domestic law and applying the interpretative methods recognised by it, to interpret that law, so far as possible, in the light of the wording and the purpose of Framework Decision 2002/584, with a view to ensuring that the Framework Decision was fully effective and achieved an outcome consistent with the objective pursued by it.

The Court of Justice of the European Court (Grand Chamber) so held on a reference for a preliminary ruling under article 267FEU from the cour d'appel d'Amiens, France, concerning the interpretation of article 4(6) of Council Framework Decision 2002/584/JHA of 13 June 2002 on the European arrest warrant and the surrender procedures between Member States (OJ 2002 L190, p 1) and of article 18FEU in the context of the execution in France of a European arrest warrant issued on 14 September 2006 by the tribunal criminal de Lisboa (Criminal Court of Lisbon, Portugal), against Mr Lopes Da Silva Jorge, a Portuguese national resident in France, for the purposes of enforcing a penalty of five years' imprisonment for drug trafficking.

**THE COURT (Grand Chamber)** ruled as follows. When national courts applied domestic law they were bound to interpret it, so far as possible, in the light of the wording and the purpose of the Framework Decision concerned in order to achieve the result sought by it. The obligation to interpret national law in conformity with European Union law was inherent in the system of the Treaty on the Functioning of the European Union, since it permitted national courts, for matters within their jurisdiction, to ensure the full effectiveness of European Union law when they determined the disputes before them. Thus, article 4(6) of the Framework Decision 2002/584/JHA of 13 June 2002 on the European arrest warrant and the surrender procedures between member states and article 18FEU meant that, although a member state might, in transposing article 4(6), decide to limit the situations in which an executing judicial authority might refuse to surrender a person who fell within the scope of that provision, it could not automatically and absolutely exclude from its scope the nationals of other member states staying or resident in its territory irrespective of their connections with it. The national court was required, taking into consideration the whole body of domestic law and applying the interpretative methods recognised by it, to interpret that law, so far as possible, in the light of the wording and the purpose of Framework Decision 2002/584, with a view to ensuring that the Framework Decision was fully effective and achieved an outcome consistent with the objective pursued by it.

**Appearances:** *D Fayein-Bourgois* for Mr Lopes Da Silva Jorge; *G de Bergues*, *J-S Pilczner* and *B Beaupère-Manokha*, agents, for the French Government; *M Smolek* and *J Vláci*, agents, for the Czech Government; *T Henze* and *J Kemper*, agents, for the German Government; *C Wissels* and *M Bulterman*, agents, for the Netherlands Government; *C Pesendorfer* agent, for the Austrian Government; *M Szpunar*, *M Arciszewski* and *B Czech*, agents, for the Polish Government; *W Bogensberger* and *R Troosters*, agents, for the European Commission.

**Reported by:** Geraldine Fainer, barrister.

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