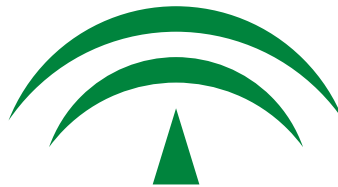


CONSEJERÍA DE ECONOMÍA Y HACIENDA

The Securities of the Junta de Andalucía

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JUNTA DE ANDALUCIA
CONSEJERÍA DE ECONOMÍA Y HACIENDA

The Securities of the Junta de Andalucía / coordinated by Dirección General de Tesorería y Deuda Pública -- Sevilla : Servicio de Estudios y Publicaciones, Consejería de Economía y Hacienda, 2009.

39 p. : il. ; 27 cm

D.L. SE-3691-09. – ISBN 978-84-8195-301-5

1. Hacienda pública – España -- Andalucía
2. Relaciones fiscales Gobierno Central Comunidades Autónomas (España)
 - I. Andalucía. Dirección General de Tesorería y Deuda Pública, coord.
 - II. Andalucía. Consejería de Economía y Hacienda, Servicio de Estudios y Publicaciones, ed.

336.1/.5 (460.35)

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Coordinated by Dirección General de Tesorería y Deuda Pública

Translated by ALIARIA IDEAS, S.L.

Published by Servicio de Estudios y Publicaciones

Designed and printed by RC Impresores, S.C.A.

ISBN: 978-84-8195-301-5

Legal deposit : SE-3691-09

Printed in Seville, Spain

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INTRODUCTION¹

Geographic description

Located in the south of the Iberian Peninsula, Andalusia is continental Europe's southernmost region, forming a natural geographic vertex between Europe and Africa. It bounds to the east with the Mediterranean Sea and to the west with the Atlantic Ocean and the Republic of Portugal, while in the north it borders onto the Sierra Morena, which screens it off from the peninsula's Meseta, or tableland, and on its southern frontier it meets the Strait of Gibraltar, which separates it from continental Africa. It occupies an area of 87,597 square kilometres, greater than that of European countries such as Austria or Ireland.

Its size and positioning as a crossroads for seas and continents mean that Andalusia offers wide-ranging geographic diversity and a contrasting treasure trove of scenery: from the outspread breadth of the Guadalquivir valley, which represents the core of Andalusia's physical configuration (its deep, black soil in the countryside is among the best in Spain), to the lofty mountain crests of the Sierra Nevada, home of the highest peak in the Iberian Peninsula (Mulhacén, at 3,481 metres); from the deserts of Almería to Spain's rainiest enclave in the Sierra de Grazalema. It has a vast network of protected nature areas covering over 19 per cent of its territory, notable among which is the Doñana national park, declared a *Biosphere Reserve* by Unesco. The coasts run along more than 850 kilometres of shoreline, offering, on the Atlantic side, far-flung beaches with fine sand, and, facing the Mediterranean, a series of cliffs

and coves, which, together with the quality and warmth of their waters and the ever-present sun (Andalusia is Spain's most sun-soaked region and a large part of it benefits from more than 2,800 hours of sunlight a year), means that the Andalusian coastline is one of the favourite tourist destinations for travellers the world over.

Brief historical description

Andalusia has actually been a constant focal point for drawing other civilisations since the dawn of history, both for its fair climate and its geostrategic position, as well as the abundance of mineral and agricultural resources in the territory it covers. In ancient times it was occupied by the Iberians, colonised by Greeks and Phoenicians and conquered by Carthaginians and Romans, who promoted it to imperial province status, it being known as Baetica, where future emperors such as Trajan and Hadrian were born. In the Middle Ages it was occupied by Vandals and Visigoths, and over almost eight centuries the Muslims used it as a base for the Spanish territories over which they held sway, leaving the name it still bears today as a legacy, which is a derivation of the Arabic "Al Andalus".

Andalusia's thousands-year history has left a vast cultural and artistic heritage spanning from the archaeological sites of the first human settlements in the Peninsula (such as Los Millares in Almería) to a broad range of architectural periods and styles: Roman, such as Itálica, Arab, as at the Alhambra in Granada or the Mosque in Cordoba, Gothic, like the cathedral of

¹ All geographic and population data in this section have been taken from the Spanish National Statistics Institute (www.ine.es).

Seville, Renaissance, such as the cities of Úbeda and Baeza and the cathedrals of Granada or Jaén, or Baroque, like hundreds of churches scattered all over Andalusia. Today the figure for legally protected cultural resources is close to 20,000. The old quarters in Granada, Cordoba, Úbeda and Baeza have been recognised as *World Heritage Sites* by Unesco, as has the triangle in Seville traced by the Alcázar, the cathedral and the Giralda. And 126 Andalusian municipalities have been declared *historical complexes*. Yet, more than this, Andalusia has given the world numerous poets and writers (Góngora, Bécquer, Machado, Cernuda, Lorca, etc.), these including two Nobel prize-winners (Vicente Aleixandre and Juan Ramón Jiménez), universal painters (Velázquez, Murillo and Zurbarán in times gone by, Picasso in more recent ones), and the schools linked with the making of religious images (Montañés, Mena, de Mesa, Cano, etc.). It also has an immense musical heritage, where some of the best composers from the renaissance feature prominently (Cristóbal de Morales or Francisco Guerrero) and, of course, a rich traditional side, noted for Flamenco singing (*el cante*) and dancing. Its popular music has inspired major classical composers both from Spain (Fallá, Turina, Tárrega) and abroad (Lalo, Bizet, Ravel).

Demography

With over eight million inhabitants (8,202,220 as at 1 January 2008) and a population density of 93 inhabitants/km², Andalusia is Spain's most populous autonomous region, accounting for 18 per cent of the national total population. The population is in the main concentrated in the Guadalquivir valley and the coastal strip, and in recent years it has been party to a particularly significant trend of urban clustering. Close to two thirds of Andalusia's population live in municipalities of over 20,000 inhabitants,

while 26 of these are home to over 50,000 and 12 top 100,000 inhabitants.

One of the hallmarks of the Andalusian population is its youthfulness compared to the rest of Spain and Europe: the population under 25 accounts for 28.7 per cent, which compares with 25.6 per cent on average nationally. The spectacular drop in child mortality since the 80s and the steady rise in life expectancy (which today stands at 75.6 years for males and 82.1 for females) are other significant facets. On the other hand Andalusia has shifted from being an emigration region to a host area, largely due to the far-reaching modernisation experienced over the last two decades, fuelled, amongst other factors, by joining the European Union, the surge in tourism and the agro-food industry and the major public investments in infrastructure, health and education.

Andalusia among Spain's autonomous communities

Andalusia is today one of the 17 autonomous regions (*Comunidades Autónomas*) in the Kingdom of Spain, a sovereign Member State of the European Union and whose form of government is a constitutional monarchy. Since the Constitution was approved in 1978 Spain has been arranged territorially into autonomous communities which assume competence to manage their own interests with extensive autonomy and legislative, budgetary, administrative and executive powers guaranteed to them by the State through the Constitution and the Statutes of Autonomy, which are a fundamental institutional precept for each autonomous community. As a result of this, Spain today is a "State of Autonomies", a single country in form which to a large extent functions in a decentralised arrangement via regional governments that run their health and education systems autonomously, as well as several other aspects of the public sector budget.

Territorial organisation

Andalusia is made up of a total of 771 municipalities grouped into eight provinces: Almería, Cadiz, Cordoba, Granada, Huelva, Jaén, Malaga and Seville, where its capital is located. The government and administration of the municipalities is the responsibility of the town and city halls and, in the case of the provinces, the Provincial Councils. Both types of organisation enjoy autonomy to perform their functions.

Political organisation

On top of this traditional territorial arrangement Andalusia was established as an autonomous community following the passing of the Spanish Constitution in 1978. In compliance with the demand expressed by the Andalusian people in the referendum of 28 February 1980, the Autonomous Community of Andalusia has extensive legislative, executive and judicial powers as enshrined in the first Statute of Autonomy of 1981, which have been underpinned and extended in the new text passed under the referendum of 18 February 2007 that remains in effect today. The Statute regulates the various institutions charged with government and administration within the Autonomous Community of Andalusia that are collectively known as the Junta de Andalucía, foremost among which are the President, the Governing Council and the Andalusian Parliament.

The President is elected by an absolute majority in voting by the members of the Andalusian Parliament and appointed by H. M. the King of Spain. He is the supreme representative of the Autonomous Community of Andalusia. He heads, coordinates and presides over the Governing Council and is in charge of adopting the key political decisions that affect the Junta de Andalucía.

The Governing Council is the highest political and administrative body in the Autonomous Community of Andalusia and is responsible for exercising statutory authority and performing the executive function. Its duties also include drawing up and implementing the annual budget, which is submitted to the Andalusian Parliament for approval. The Governing Council comprises the President of the Junta de Andalucía and the Members appointed by him to take charge of the different departments known as *Consejerías*, or Regional Ministries. At present, the Government of the Junta de Andalucía has 15 Regional Ministries: Presidency; the Interior; Economy and Finance; Education; Justice and Public Administration; Innovation, Science and Enterprise; Public Works and Transport; Employment; Health; Agriculture and Fisheries; Housing and Planning; Tourism, Trade and Sport; Equality and Social Welfare; Culture, and the Environment.

The Andalusian Parliament is elected by general, secret and direct suffrage every four years and is the body entrusted with drafting and passing the laws in the Autonomous Community, as well as supervising the Governing Council on an economic and political basis. Based in Seville, it comprises 109 members of parliament, who are elected as representatives of Andalusia's eight provinces. As a result of the last elections on 9 March 2008, its political make-up is: Partido Socialista Obrero Español (PSOE), 56 seats; Partido Popular (PP), 47 seats; Izquierda Unida-Los Verdes-Convocatoria por Andalucía (IUCA), 6 seats. The PSOE, which the current President of the Junta de Andalucía belongs to, is the party that has been called upon to form a government ever since the Autonomous Community was founded in 1980.

I. OVERVIEW OF ANDALUSIAN ECONOMY

Introduction

In 2008, Andalusia generated a Gross Domestic Product (GDP) of €152,358m, equal to some 13.9 per cent of national GDP, which makes it the third largest contributor to Spain's national wealth among its autonomous communities.

Progress: towards European convergence

The pattern in Andalusia's economic performance over the last two decades has been marked both by Spain's integration into the European Union (EU) and, more

than anything, by its development and subsequent implications. Spain's fully-fledged membership of the formerly named European Economic Community in 1986 marked the beginning of a period of opening up to the outside world which would end up making this the driving force for the major economic transformations seen in recent years; a period which has essentially led to the dismantling of tariffs on the national side, the assumption of single market rules for all the countries that make up the EU and, since 1999, the implementation of a single currency, the euro, and a common monetary policy orchestrated and executed by the European Central Bank.

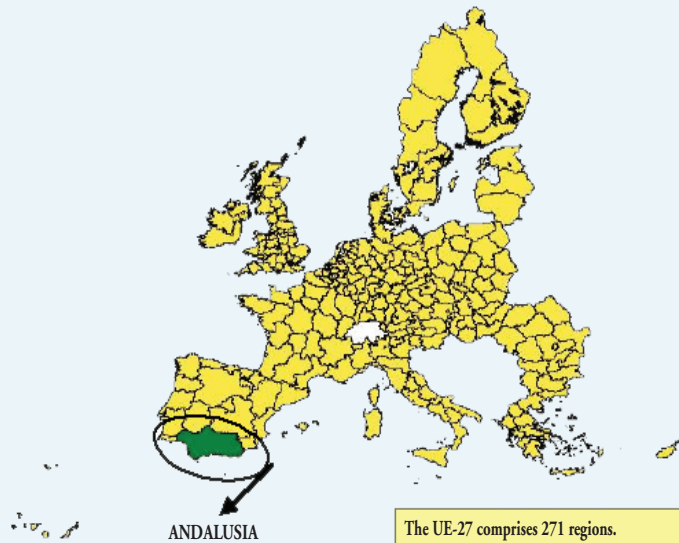
Andalusia in the European Context.

Note: Figures as at December 2008, except GDP pps per capita, which relates to 2007.

Source: IEA; INE and Eurostat.

Compilation: Office of the Secretary-General for Economy, Junta de Andalucía.

- **Area:** Europe's 4th largest region, occupying 87,597 km².
- **Population:** Europe's 3rd most populated region, with 8,202,220 in habitants.
- **GDP (pps per capita):** 82% of the European average.
- **Employment:** Europe's 4th region in terms of people in, employment, at 3,149,700.
- **Companies:** Europe's 4th region in number of companies, totalling 522,815.

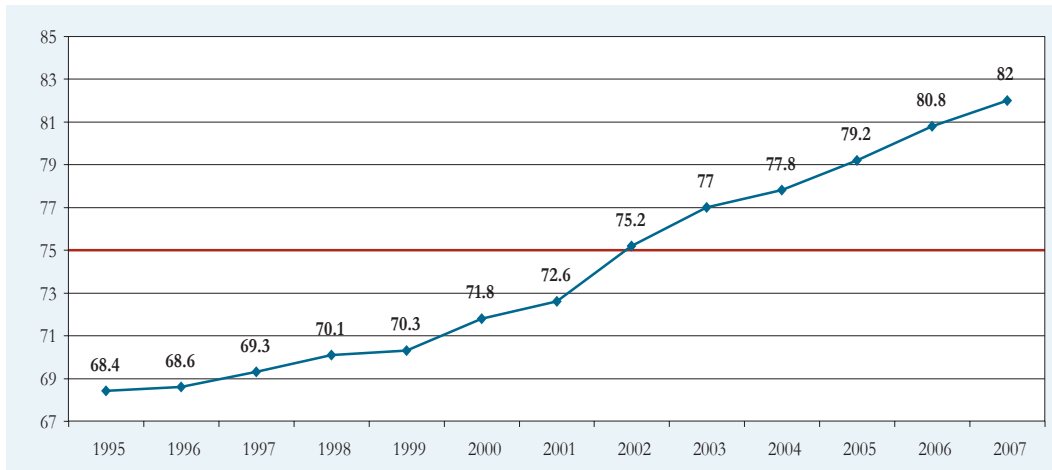


Such integration has turned out to be especially beneficial for the Autonomous Community of Andalusia, which has since experienced economic growth ahead of the European average. In fact, over the 1986-2008 period, Andalusia's GDP has risen (in real terms and on a cumulative basis) by 126.8 per cent, or in other words almost 55 percentage points more than the EU as

a whole, which means an annual growth rate of 3.6 per cent for Andalusia compared to 2.4 per cent for the EU. This higher growth rate, which has been particularly significant in recent years, has allowed wealth levels per inhabitant to approach European standards. To illustrate, in 2007 GDP per capita in Andalusia as expressed in terms of purchasing power parity has

come to be 82 per cent of the EU average, which represents a 13.6 percentage point increase in the last twelve years, in other words over one percentage point a year. This also means that (since 2002) Andalusia has achieved its historical aspiration of topping 75 per cent of average wealth per capita in

Europe, thereby meeting the criteria to become a region within the EU's *regional competitiveness and employment* objective rather than one within the *convergence* objective, which status it maintains in the 2007-2013 programming for European Funds.



Convergence of Andalusia.

Note: EU-27 GDP pps per capita=100.
 Source: 1995-2006, Eurostat; 2007, INE.
 Compilation: Office of the Secretary-General for Economy, Junta de Andalucía.

Sectors of industry

In line with trends in the economies in the more developed countries, Andalusia's economy has in recent decades experienced an increasing skew towards the service sector, which has meant that the service industries have built up a bigger share of industry, accounting for a concentration of 70 per cent of Gross Value Added (GVA) generated in 2008. This is followed quite far behind by the secondary sector, with 25 per cent of GVA, split almost equally between construction (13.3 per cent) and manufacturing industries (11.7 per cent). The primary sector supplies the remaining 5 per cent of Andalusia's GVA, which is a noticeably higher figure than that for the EU (1.8 per cent).

Primary sector

The abundance of natural resources in Andalusia to a large extent dictates the relatively higher weighting for its primary sector, whose presence in outside markets is

enhanced today thanks to, on the one hand, the modernisation undertaken in the last few years and, on the other hand, the growing productivity and keener competitiveness achieved. Farming is actually the activity that contributes most to Andalusia's overall exports figure, providing almost a third of sales abroad. Olive oil, fruit and garden vegetables together account for over 70 per cent of final farming produce and enjoy pre-eminence worldwide for their quality and substantial value-added.

Andalusia has a million and a half hectares of olive groves and each year produces around a million tons of olive oil, which speaks for almost 30 per cent of production worldwide as estimated by the International Olive Council. In 2004 it pioneered an Olive Oil Futures Market. The region is also a market leader in developing sustainable farm produce systems with a high quality level and a minimum of environmental impact. Almost 600,000 hectares of land are given over to ecological farming (approximately 60 per cent of the

national total), with 90 per cent production earmarked for world markets.

Secondary sector

Closely tied to farming activity, the agro-food industry takes up 20.5 per cent of employment and 27.1 per cent of GVA within Andalusia's secondary sector. Oils, processed and preserved fruit and garden vegetables, alcoholic beverages, meats and milk are its core products. The Andalusian agro-food industry is the second largest in Spain and comprises close to 6,000 companies, its sales abroad representing one of the region's chief areas of foreign trade.

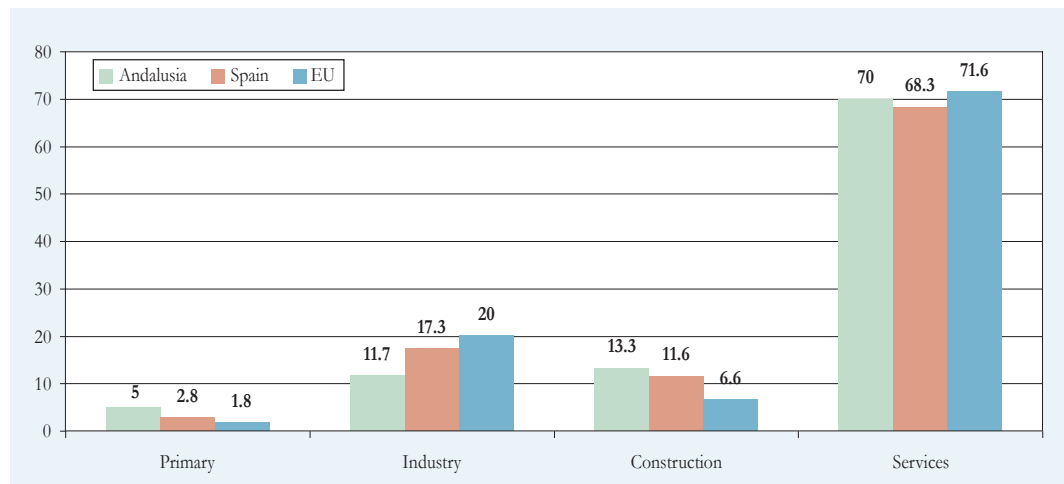
Together with this, mining, quarrying, oil refining, metallurgy, energy, chemicals and aeronautics constitute the core activities in Andalusian industry, which, in the last few years, is gradually shifting towards segments with a higher technological content, encompassing renewable energies and electrical and electronic equipment.

Its aeronautics industry stands out as one of Andalusia's most promising strategic sectors, in 2006 having generated one quarter of industry's value added nationally and coming to account for 21 per cent of employment in the sector nationally. It has several technology centres that specialise in this subject, the most notable of which are *Aerópolis* in Seville, which makes this city the third most important European aeronautical centre after Toulouse and Hamburg, and the Bahía de Cádiz technology park.

Andalusia's manufacturing structure is, broadly speaking, topped off by sectors such as the automotive industry, jewellery, marble quarrying and processing, as well as renewable energies using major solar and wind facilities. Seville is home to the world's largest solar energy platform, *Solúcar*, which belongs to an Andalusian technology company which provides innovative solutions for sustainable development within the infrastructure, environment and energy sectors and has a presence in over 70 countries.

Productive Structure. 2008. Andalusia-Spain-EU.

Note: % of total GVA.
Source: IEA, INE and Eurostat.
Compilation: Office of the Secretary-General for Economy, Junta de Andalucía.



The construction industry has seen strong growth since the end of the nineties until 2007, with a cumulative increase in the last ten years of more than double the increase recorded by GDP, which has led it to expand

its share within industry. Such growth was spurred on by infrastructure projects and the great buoyancy of residential building, which was in turn stimulated by the increase in demand driven on by

both the growing population, above all the foreign element, and the escalating interest in second homes. The slowdown in residential demand in 2008 meant a departure from this course in spite of the fact that public infrastructure investment has remained on the rise (with a 7.4 per cent. growth in tendering for public works in Andalusia).

Tertiary sector

The service industries represent the sector with the largest relative share in Andalusia, both in terms of its contribution to Andalusia's GVA (70 per cent), its significance for employment (69.3 per cent of the population in employment is concentrated in it) and its ability to galvanise and spur on other business activity. Traditionally linked with trade and the hotels and catering industry, it is today, however, a highly diversified sector where other activities have recently taken on a growing importance such as business, healthcare and educational services, as well as various social and personal services. At present roughly a quarter of the sector is actually accounted for by trade and hotels and catering industry activities, with a further quarter by business services and real estate activities. The rest of the sector is more wide-ranging and above all the most notable group is healthcare activities, social services and education which together are responsible for 20 per cent of sector GVA.

Owing to its relative importance tourism merits special attention, as it accounts for around 12 per cent of Andalusian GDP. The climate, cultural inheritance, the historical and artistic heritage, the abundance of scenery and protected nature areas, the variety of options on offer and the great value for money are the major strengths of Andalusian tourism. The annual figure for visitors

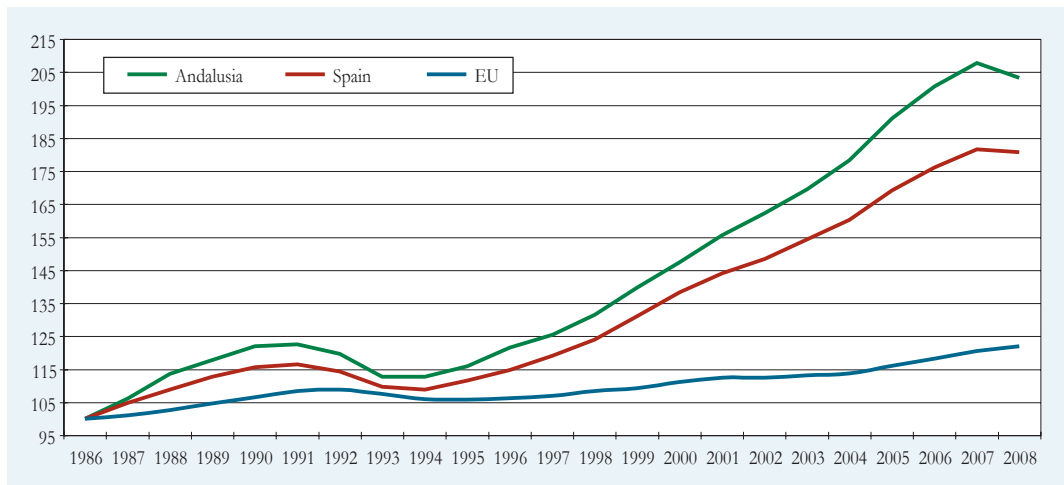
is about 25 million, which is three times the Andalusian population. Andalusia is the region most visited by Spanish tourists and one of the most popular in Spain for hosting foreigners, especially Britons, Germans and the French. It is the third Spanish region in terms of accommodation in hotels and apartments and on camp-sites, with capacity for over 390,000 visitors. Andalusia's tourism options also include a complete network of leisure facilities: theme parks, such as *Isla Mágica* in Seville, the highest density of golf courses in Spain (totalling 101), and Europe's southernmost ski resort: *Sierra Nevada*. Andalusia also has 42 marinas and over 13,400 mooring points.

Labour market

Andalusia has a potential working population (of those over 16) of 6,659,500, and it is worth noting that it is the European region with the fourth largest potential labour force. Of these, some 3,833,300 people are economically active, meaning the participation rate is 57.6 per cent, similar to the European average. Among the labour force, 3,149,700 are in employment, which also makes Andalusia the European region with the fourth highest amount of employed people, this being the outcome of the surge seen in recent decades, especially since Spain joined the EU. In fact, between 1986 and 2008 as many as 1,600,300 jobs were created in Andalusia, thus doubling employment prior to membership of the EU. This figure represents 17.7 per cent of total employment created in Spain and 4 per cent of this figure for the EU. This also means an annual rate of employment growth of 3.3 per cent over the twenty-two year period, which is higher than that for the nation overall (2.7 per cent) and almost four times the European average (0.9 per cent).

Employment.

Note: Base year 1986=100.
Source: LFS (INE);
EUROSTAT.
Compilation: Office of
the Secretary-General for
Economy,
Junta de Andalucía.

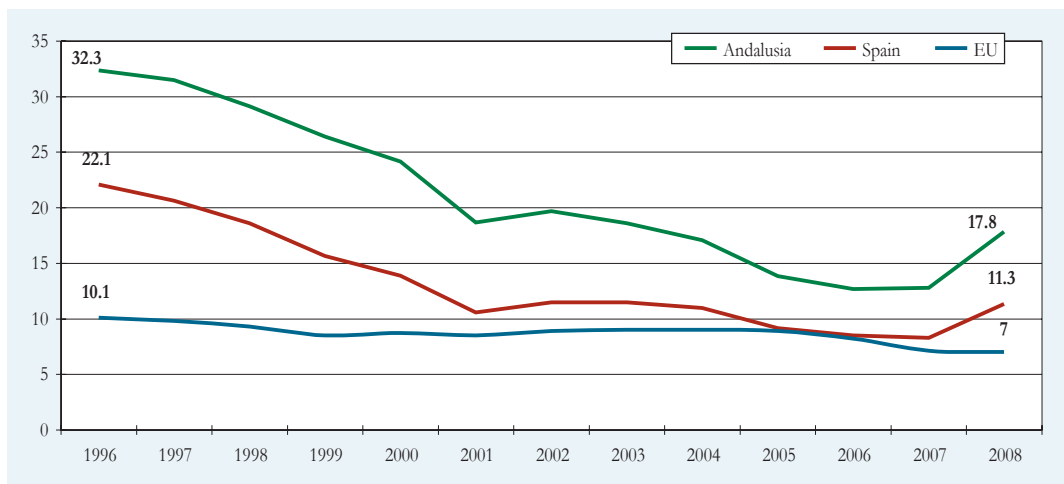


This process of job creation, which was brisker in Andalusia than in Spain and in the rest of Europe, has meant a substantial reduction in the Andalusia-EU unemployment rate differential, which has drawn nearer to the average levels in both benchmark areas. While in 1996 Andalusia had an unemployment rate of 32.3 per

cent. (22.2 percentage points above that for the EU), twelve years later the gap had been virtually halved with 10.8 percentage points, this despite the upturn seen by the unemployment rate in 2008 within the context of the international economic crisis and in line with trends observed nation-wide.

Unemployment Rate.

Note: % of the labour force.
Source: LFS (INE),
EUROSTAT.
Compilation: Office of
the Secretary-General for
Economy,
Junta de Andalucía.



With respect to employment in Andalusia, 82.1 per cent is wage-earning work, mostly with an open-ended contract (around 60 per cent) and the rest are self-employed people. As many as 60.5 per cent are males and 39.5 per cent are females. This trend in male/female employment distribution has also been significant since Spain joined the EU: in 1986 females accounted for a mere 24.7 per

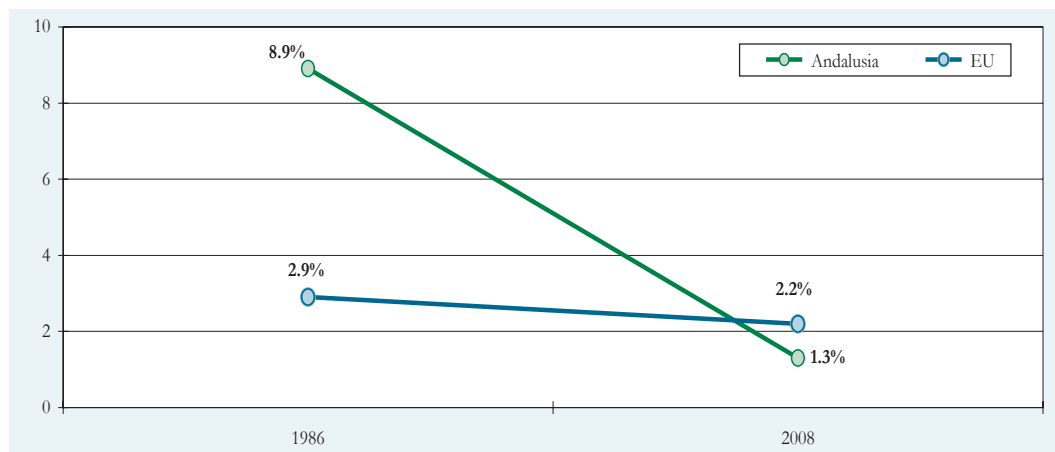
cent, meaning that their participation in the labour market has climbed by almost 15 percentage points since then. This course of events has run parallel and is similar to that for the level of education of Andalusia workers in that there has been a steady rise since 1986. While at that time the share of workers who were qualified (with secondary or a university education) scarcely reached

a third of the total, today they account for 82.9 per cent. Among them the share of the employed who have had a university education is notable, at approximately one fifth of the total (20.4 per cent). At the other extreme the less qualified (those having an education up to primary level) display a trend in the opposite direction: from representing 66.6 per cent of those in work in 1986, they have dropped to 17.1 per cent at present. In recent years the foreign population has also been joining the Andalusia labour market at noticeably large rate, in keeping with the substantial increase in immigration, with the result that in 2008 of those in employment 10.1 per cent were foreigners, which is a percentage that is after all under the level recorded for the Spanish economy as a whole (14.5 per cent).

Inflation

One of the successes of the Economic and Monetary Union has been that it has managed to achieve price stability in the countries which it comprises. The fact that

Spain (and by extension Andalusia) belongs to the euro area (i.e. the area comprising those EU Member States in which the euro has been adopted as the single currency) has enabled a sharp cut in the annual inflation rate in Andalusia, which has moved from close to double digit figures in 1986 (8.9 per cent at year-end) to substantially lower rates, such as that of 1.3 per cent at the end of 2008. This paring down has additionally been significant, not only in absolute terms, but also in relation to the European average: the negative gap of 7 percentage points that Andalusia showed before Spain joined the European Union became a positive one in 2008 whereby for the first time an inflation rate below the EU average was attained. In keeping with this price trend and without losing sight of the implementation of monetary policy through the European Central Bank since 1999, interest rates have charted a downward course, which has notably driven consumption and investment in recent years and has consequently enabled the significant economic growth and the surge in job creation mentioned above.



Trade relations

Growth in trade exchanges by Andalusia with countries abroad has in recent years outstripped GDP growth, which has led to the regional economy progressively opening up and becoming more internationalised.

Openness to trade, as expressed as the ratio of exports plus imports to GDP, hit a historic high of 28.9 per cent in 2008. This powerful surge arose from the increasing sales abroad, which grew to a greater extent than did those of the world's major exporter countries. To be precise

Inflation Rate.

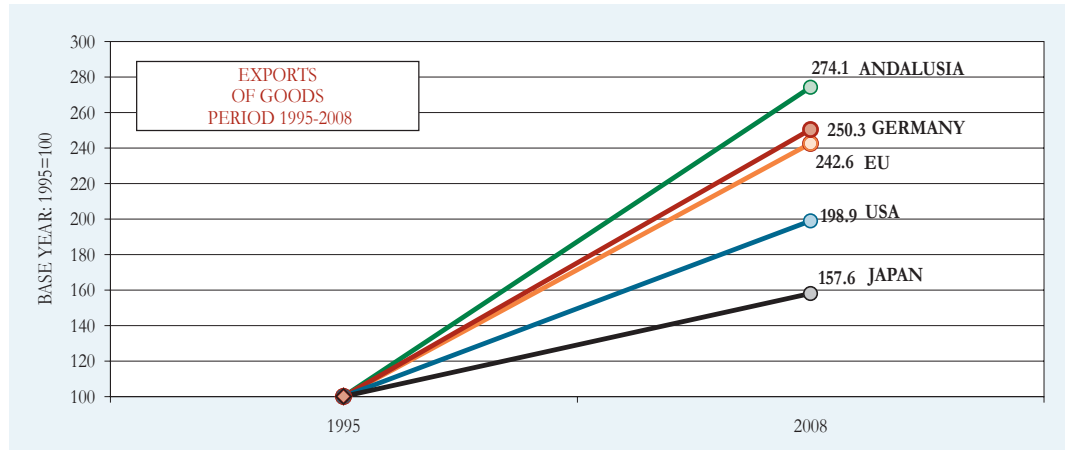
Note: Data as of December each year.
 Source: INE, EUROSTAT.
 Compilation: Office of the Secretary-General for Economy, Junta de Andalucía.

Competitiveness of Economy.

Source: IEA, WTO.
 Compilation: Office of the Secretary-General for Economy, Junta de Andalucía.

goods exports in Andalusia, amounting to €16.81bn in 2008, had increased by 174.1 per cent since 1995, in other words 23.8 percentage points more than the growth seen by those from Germany, 31.5

percentage points more than the average rise for the EU, and significantly over the step-up observed in the United States or Japan (98.9 per cent and 57.6 per cent respectively).

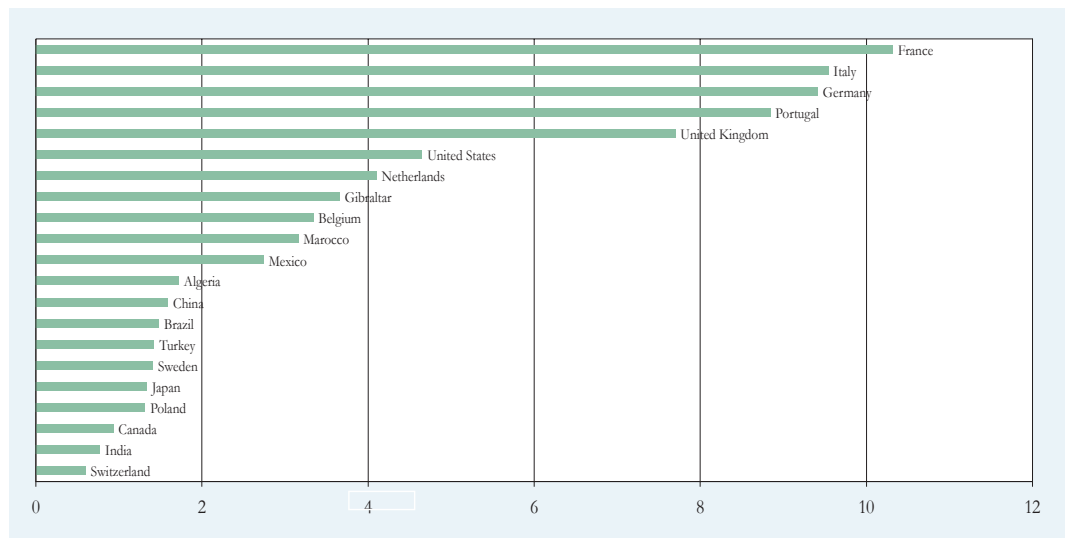


Besides this, Andalusian products are steadily reaching a greater number of countries. While in 1995 exports were made to 171 countries, in 2008 this increased to 196 countries, or virtually all the countries in the world. All in all, as with the rest of Spain, Andalusia has its main customers in the EU countries, with almost two thirds (63 per cent) of

total exports. France, Italy and Germany in particular are the destination for almost 30 per cent of Andalusia's sales abroad. Outside the EU, also worth noting are exports to the United States, accounting for close to 5 per cent, and to Morocco and Mexico (around 3 per cent in both cases), and in recent years, the growing significance of exports bound for China.

Main Destination Countries for Andalusian Exports in 2008.

Note: % Exports to each country out of the total. These countries account for 80.1% of Andalusia's total exports.
 Source: Ministry of Industry, Tourism and Trade.
 Compilation: Office of the Secretary-General for Economy, Junta de Andalucía.



With respect to the goods that are exported and clearly in keeping with the importance of the Andalusian agro-food industry, foods feature prominently (fruit, pulses, and oils and animal or vegetable fats more than anything), accounting for 35.4 per cent of total exports made in 2008. Nonetheless, their weight relative to total exports has progressively diminished, giving way to the increasingly

substantial presence of other products such as semi-finished goods and energy-related products. The former represent almost a quarter of total sales abroad and, of these, over 70 per cent is accounted for by iron, steel and chemical products. Energy products (oil refining and by-products in particular) together comprise 12.5 per cent, approximately double what they did in 1995.

	1995		2008	
	Million euros	% of total	Million euros	% of total
FOOD	2,366.99	38.8	5,946.60	35.4
ENERGY PRODUCTS	385.87	6.3	2,100.75	12.5
COMMODITIES	287.82	4.7	639.30	3.8
SEMI-FINISHED GOODS	1,278.57	20.9	4,152.79	24.7
CAPITAL GOODS	806.59	13.2	1,763.65	10.5
AUTOMOTIVE SECTOR	410.26	6.7	300.85	1.8
CONSUMER DURABLES	26.63	0.4	148.33	0.9
MANUFACTURED CONSUMER GOODS	157.19	2.6	448.35	2.7
OTHER GOODS	383.95	6.3	1,309.81	7.8
TOTAL	6,103.87	100.0	16,810.43	100.0

So as to give its backing to the internationalisation of the Andalusian industry structure, the regional government has opened business promotion units in the United States, Hungary, the Czech Republic, Poland, Russia, Belgium, Argentina, Brazil, Chile, Mexico, Japan, Germany, China, France, Morocco, Portugal, the United Kingdom and Panama.

Transport and communications infrastructure

In only a quarter of a century and thanks to the heavy investment in infrastructure made by general government, the Andalusian network of motorways and double and single lane dual carriageways has been extended from 270 kilometres to the 2,522 kilometres it currently has. Andalusia has thus ensured that there are

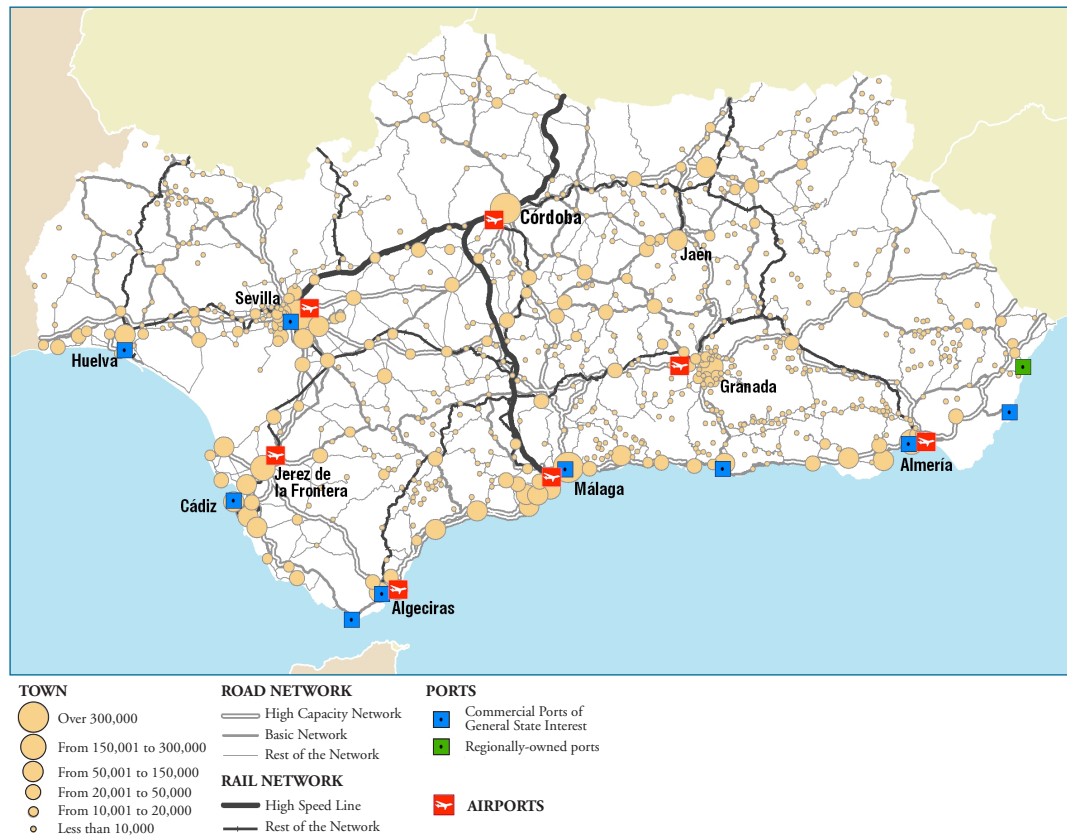
good connections internally by means of two large corridors that cut through the region from east to west: the *A-92* dual carriageway (and its southerly branch along the Mediterranean coast) and the so-called *Transversal Railway Trunk Route* that connects the main towns and which is currently being adapted for high speed trains. Speaking of this, Andalusia has since 1992 had what was the first Spanish high-speed line, known as the AVE, which covers the route from Seville to Madrid in barely two and a half hours. This stretch has also been joined by the one linking Malaga with Spain's capital that was opened in 2007, and there are connections planned with Huelva, Cadiz, Algeciras, Granada and Jaén. The addition of Almería to the high speed rail service will be carried out via the Mediterranean corridor which extends to Barcelona via Murcia.

Andalusian Exports by Product.

Source: Ministry of Industry, Tourism and Trade.
 Compilation: Office of the Secretary-General for Economy, Junta de Andalucía.

Road, Rail, Airport and Commercial Port.

Source: Regional Ministry of Public Works and Transport, Junta de Andalucía.



Andalusia has six airports (Malaga, Seville, Jerez, Almería, Granada and Cordoba) which ensure a good outside connection. As regards sea-faring transport, the port of Algeciras in the strait of Gibraltar is notable as the biggest in Spain and one of the major ones in Europe, both in terms of passenger and freight traffic. Other major Andalusian ports are those of Huelva and Cadiz on the Atlantic and Malaga, Almería and Motril on the Mediterranean, to which must be added the only river port in Spain, namely Seville, on the Guadalquivir.

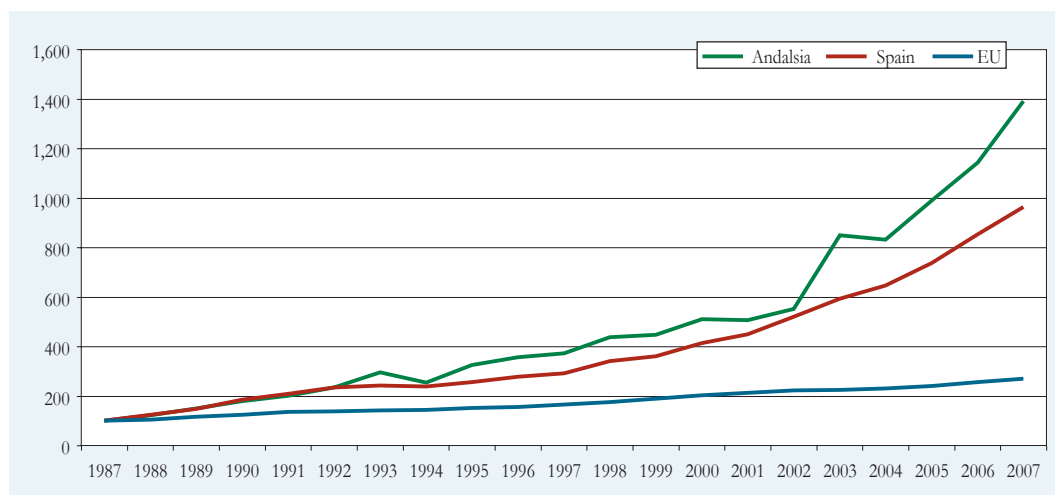
The knowledge society

Innovation, as a key factor in progress, growth and competitiveness, and the development of advanced technologies are expanding continuously and progressively throughout society today and Andalusia has not been

left out of this phenomenon. The region has in the last few years made a considerable effort in developing an economy centered on information and knowledge as the basis for production, productivity and competitiveness (the so-called *new economy*), and moving a step ahead of the *information society* into the *knowledge society*. As a result of this effort the latest statistical information shows that in 2007 Andalusia was third-ranked among the Spanish autonomous communities both by volume of internal expenditure on R&D (€1.48bn) and by personnel working in such activities (22,103 people). These figures are well ahead of those reported in 1987 and bear testimony to growth in expenditure on R&D of 14.1 per cent a year in Andalusia, which is 3.1 percentage points above the Spanish average (11 per cent) and almost three times the figure for the EU (5.1 per cent).

R&D Expenditure.

Note: 1987=100.
Source: INE; Eurostat.
Compilation: Office of
the Secretary-General for
Economy,
Junta de Andalucía.



In the fields of education, research and innovation the Andalusian business fabric is supported by ten public universities and a network of technological spaces. Research activity in Andalusia is especially noted for being at the forefront nationally in the field of biomedicine, with cutting-edge infrastructures such as the *Andalusian Stem Cell Bank* in Granada and the *Andalusian Center for Molecular Biology and Regenerative Medicine* in Seville. A large alliance is in operation within the region among companies, universities and financial institutions to foment R&D&I projects – the *Corporación Tecnológica de Andalucía*, encompassing around a hundred leading companies from strategic sectors such as agro-foods, aerospace, biotechnology, renewable energies, and information and communication technologies.

The *Andalusian Technology Network* is led by the *Cartuja 93* technology park in Seville, one of the largest in Europe, with over 350 enterprises and research and educational centres in the new technologies and advanced services sectors. The *Parque Tecnológico de Andalucía* in Malaga is home to the headquarters of the *International Association of Science Parks*, a key proponent of business initiatives in this sphere. One could also mention the parks given over to

the aeronautical industry (Seville), health sciences (Granada), the agro-industrial sector (Cordoba), agriculture (Almería), the foods sector (Jerez), the olive oil industry (Jaén) and the shipbuilding and motor vehicle sectors (Bahía de Cádiz), among others.

Social dialogue

Social dialogue between the government of the Junta de Andalucía and the most representative economic and social stakeholders as an instrument for designing and implementing economic policy is a hallmark of the way of governing in Andalusia. Social dialogue has been an ongoing reference point since 1993, with six major agreements that make the Autonomous Community a pioneer in this field having built up experience that has been endorsed by the European Commission itself in its reports entitled *Action for Employment in Europe: A Confidence Pact* and *Structural interventions and employment*. The commitment on the part of the Andalusian governments and the economic and social stakeholders to social dialogue as a tool to move forward and bring about structural transformation has led to beneficial effects for Andalusian society as a whole and is largely behind the climate of economic stability and social concord

that has allowed the regional economy to transform itself in the last two decades.

The Junta de Andalucía's economic policy that is currently being implemented as it will be over the coming years is examined in the *Competitiveness Strategy for Andalusia* (ECA), which is a strategic planning document agreed with economic and social stakeholders within the framework of social dialogue. Its period in effect coincides with the new European financial outlook for the 2007–2013 period and it has a distinct European benchmark as it is linked to the renewed Lisbon strategy and

the Community strategic guidelines for the same period. Within this context the ECA establishes a commitment as a priority of economic policy to technological capital, with an emphasis on fomenting knowledge through developing science and boosting it through innovation, to human capital by raising the population's knowledge level, not only in educational terms but also over their entire working lives, and to physical capital, by enhancing infrastructure and turning Andalusia into a competitive area with quality of life which is at the same time compatible with sustainable development in productive activities.

II. SOURCES OF FUNDING FOR THE AUTONOMOUS COMMUNITY OF ANDALUSIA²

Resources and sources of funding for Andalusia

As with many other European governments, funding for the Autonomous Community of Andalusia rests upon two principal sources: taxes and transfers from other government bodies. Significant among the former (which in the 2008 liquidated budget accounted for 42.4 per cent of non-financial revenue) due to their relative weight are Personal Income Tax (which provided 12.7 per cent of such revenues) and Value Added Tax (with a weight of 13.8 per cent). Regarding transfers, chief among the more notable is the so-called *Fondo de Suficiencia* (*Sufficiency Fund*), a top-up fund whereby

the autonomous communities complete their share of State revenues, which for Andalusia represented 35.3 per cent of non-financial revenue in 2008.

The funding system

The funding system for the autonomous communities regulated under Law 21/2001, of 27 December, answers to the basic principles enshrined in the Spanish Constitution and in Organic Law 8/1980, of 22 September, on the Financing of the Autonomous Communities, which are to govern the financial activities of regional finance departments: sufficiency, autonomy and solidarity.

² All the calculations in this section refer to the 2008 liquidated budget and have been carried out excluding from the total for the Autonomous Community's non-financial revenue transfers corresponding to the participation of local governments (provincial councils and town and city councils) in State revenues, whereby the State contributes to their funding. Although the Autonomous Community receives such transfers (and they are thus part of its annual budget) it only acts as a mere intermediary between central government and the local governments, for which reason this cannot be considered as a source of the Autonomous Community's financing.

- The principle of financial sufficiency, which guarantees the autonomous communities the necessary and sufficient resources to provide all the services within their sphere of competence.
 - The principle of financial autonomy, which guarantees their autonomy both in terms of expenditure and the exercise of their duties and in terms of revenue, so that autonomous communities themselves are able to set the volume of revenues and exert an influence on the pattern of distribution among their citizens.
 - The principle of solidarity, which guarantees that all the autonomous communities can provide the same level of services and in equal conditions, irrespective of the tax-paying power of the citizens living within them.
- for practically two thirds of revenue in this block (58 per cent in 2008).
- Inheritance and gift tax.
 - Gaming tax.
 - Tax on certain means of transport.
 - Electricity tax.
 - Tax on retail sales of certain hydrocarbons.
2. Partially assigned tax funds (from taxes laid down and collected by the State whose proceeds are only partially transferred to Andalusia⁴). These funds accounted for 31.1 per cent of non-financial revenues in the 2008 liquidated budget. The percentage assigned from the collection of these taxes within Andalusia is:

The system allocates the following funds to Andalusia:

1. Wholly assigned tax funds (from taxes laid down by the State whose proceeds are entirely assigned to Andalusia³). These funds represented 11.2 per cent of non-financial revenues in the 2008 liquidated budget. The breakdown of this block of tax revenues is as follows:
 - Transfer and stamp tax, which is a tax on the transfer of title and other legal business conducted between private persons and which accounts
 - 33 per cent of Personal Income Tax.
 - 35 per cent of Value Added Tax.
 - 40 per cent of the special production tax on brewing beer, on making wine and fermented beverages, on intermediate products, on alcohol and drinks made from it, on manufactured tobacco and on hydrocarbons.
3. Sufficiency Fund. The *Sufficiency Fund* (35.3 per cent of non-financial revenue in 2008) is an annual unconditional transfer made by central government. Its calculation is done in the base year

³ In all these, except in the electricity tax, the Autonomous Community of Andalusia has regulatory authority to amend, among other aspects, the tax rate, deductions, reductions, etc.

⁴ All of them, as well as the electricity tax mentioned above, are handled by central government and Andalusia has no regulatory authority over them (except for personal income tax).

as the difference between the funding requirement of each autonomous community and the assessment of the tax funding due to it, and its amount is updated annually according to trends in collection at State level regarding certain taxes assigned, which gives it considerable stability.

Partially assigned tax funds, the Sufficiency Fund and the electricity tax are subject to a system of *payments on account*. On an annual basis the autonomous communities receive provisional funding that consists of such payments on account and calculated according to the collections envisaged at state level. As soon as the actual collections for the year are found out, a final settlement payment is made for the difference between these final amounts and the payments on account received.⁵

Other sources of financing

As a supplement to the financing mechanisms envisaged under Law 21/2001 the Autonomous Community of Andalusia has other sources of funding that are additional to the ones mentioned, such as those deriving from its involvement in the Interterritorial Compensation Fund (a financial mechanism to ensure funding equity among the various autonomous communities and which in Andalusia represented 1.7 per cent of the budget's

non-financial revenue), the receipt of other earmarked transfers from central government (having a total share of 9.9 per cent of non-financial revenue) and the funds from the European Union (which account for 10.7 per cent of such revenue), among other sources of funding. With respect to the latter, it is important to stress that although, as has been mentioned above, Andalusia's GDP per capita has reached 82 per cent of the EU average (thereby breaking through the 75 per cent barrier for continuing to be a region covered by the *convergence objective*), the region will continue to receive European funds over the 2007-2013 period with these sums being similar to those seen in the previous period (and actually having a minimum guaranteed amount of €11,14bn for the five-year period), on the grounds that in calculating and defining those regions covered by the convergence objective account was taken of income per capita for the 2000-2002 period, when Andalusia was still below the threshold of 75 per cent.

All the non-financial funding examined thus far is topped off, as is to be expected, by the net result of borrowing and other financial transactions (such as deposits and guarantees made) allowed to the regions by Organic Law 8/1980, of 22 September, on the Financing of the Autonomous Communities.

⁵ The administration of the tax on certain means of transport and the tax on retail sales of certain hydrocarbons is pending a move across to the Autonomous Community of Andalusia. At the moment central government annually transfers the return produced in its territory to the Autonomous Community.

Source of funding	2007 (million euros)	2008 (million euros)	% of total for 2008
Tax revenues	12,675.62	12,073.89	45.42
Transfer and stamp tax	3,101.35	1,854.13	6.51
Inheritance and gift tax	327.02	385.00	1.35
Wealth tax	147.60	164.58	0.58
Gaming tax	290.64	273.46	0.96
Tax on certain means of transport	339.86	185.65	0.65
Tax on retail sales of certain hydrocarbons	197.24	152.89	0.54
Personal income tax	3,090.42	3,612.91	12.69
Value Added Tax	3,682.82	3,917.32	13.76
Special taxes	1,473.96	1,508.82	5.30
Own taxes	24.70	19.13	0.07
Sufficiency Fund	9,439.12	10,059.96	35.35
Interterritorial Compensation Funds	457.58	481.62	1.69
European Funds	2,560.79	3,033.45	10.66
Earmarked transfers and other non-financial revenue	2,140.69	2,811.74	9.88
TOTAL NON-FINANCIAL REVENUE	27,273.81	28,460.66	100

*Share of Each
Funding
Mechanism in the
Liquidation of
the Consolidated
Revenue Budget⁶
for Andalusia in
2007 and 2008.*

Source: Junta de Andalucía.
Compilation: Directorate
General for Finance and Taxes.

Reform of the funding system for autonomous communities

Talks are currently in progress between the State and the autonomous communities to reform the current funding system with the aim of improving certain aspects of it. The reform proposed by the central government is based on the premise of ensuring the *status quo* whereby no autonomous community will lose out on funds in absolute terms with respect to the current funding system. This proposal is built around four key principles: backing for the benefits from

the *Welfare State*, via the provision of additional resources by central government; an increase in equity and sufficiency vis-à-vis the financing of the set of services provided by the autonomous communities; an increase in tax autonomy and joint tax accountability through increasing the share of tax funding out of total funding for the autonomous communities and giving them legal powers to change the amount and distribution of tax receipts; and, lastly, an improvement in the system's dynamics and stability, as well as its ability to adjust to the needs of citizens.

⁶ The consolidated budget includes that of general government and those of the dependent government agencies (among others the Andalusian Health Service) and cuts out internal transfers.

III. ANALYSIS OF THE CURRENT BUDGET

Procedure for drawing up and passing the budget

Andalusia's budget is annual and approval of it falls to the Andalusian Parliament, which converts it into law. The process of drawing up and implementing the budget is governed by General Law 5/1983, of 19 July, on the Public Finance of the Autonomous Community of Andalusia, of regional scope, General Law on Budgetary Stability, which is nationally applicable (passed in 2001 and amended in 2006 under Organic Law 3/2006, of 26 May), and the annual budgetary law, once passed. The first of these laws lays down the rules that should be observed in the process of drawing up the budget, which, in summary, are as follows:

- Before 1 July each year the regional ministries and the bodies and institutions with a separate budget have to send in to the regional ministry of Economy and Finance their respective statements of expenditure as per the guidelines adopted on the proposal of the regional ministry, and their draft income and expenditure accounts and draft statements of resources and allocations for bodies, institutions and companies.
- The Regional Ministry of Economy and Finance draws up the statement of revenue for the budget in accordance with the evaluation techniques and the taxation system for the year.
- According to the estimates of revenue and business activity for the coming

year the regional ministry of Economy and Finance draws up a draft budget which must be submitted for approval to the Andalusian government. Once approved the budget is treated as a bill and sent to parliament at least two months before the expiry date of the current budget. Having debated and examined the bill brought before it, parliament passes it into law. From that moment on implementation of the budget falls entirely to the Andalusian government.

Additionally, the annual budgetary laws regulate specific aspects regarding how these should be implemented, including the maximum amount of borrowing that the Autonomous Community can enter into or the amount of guarantees that are to be granted in the financial year.

The budgetary stability objective

The Budgetary Stability Law (*Stability Law*) has significant implications for managing Andalusia's budget. The Stability Law provides for a procedure for determining an annual target for the autonomous communities' funding capacity or funding requirement⁷ that can vary between a surplus or a maximum deficit of 1 per cent of GDP depending on the expected growth for the Spanish economy and its position in the economic cycle. In about May every year, the Junta de Andalucía is informed of what the stability objective (deficit or surplus) will have to be for the following three years. If the objective is not adhered to, the region

⁷ Funding capacity/funding requirement, or net lending/net borrowing in ESA 95 terminology, is a balancing item similar to the non-financial surplus/deficit calculated according to the European System of Accounts, which is the official methodology set out in the Stability and Growth Pact.

would be obliged to draw up a correction plan to put the situation on the right course again within a maximum of three years. In any case, regarding the degree to which this stability objective is achieved, two points deserve to be emphasised:

1. Andalusia has *always* met its budgetary stability objectives year after year, as can easily be gathered from reading the section on *Previous year's budget implementation and results* below.
2. The Stability Law itself contains flexibility mechanisms that make it possible to respond to an adverse turn of events for the economy relative to the economic scenario used to set targets. Availing itself of the powers vested in it by the Stability Law and in keeping with the deterioration in the world economy, the body representing the autonomous communities and the State regarding the economy, namely the *Fiscal and Financial Policy Council*, in October 2008 resolved to raise the authorised borrowing limits for the autonomous communities for 2008 itself by an amount equal to 1 per cent of their regional GDP as well as to exempt those autonomous communities passing the 2009 budget with a deficit of under 1 per cent of GDP from drawing up a correction plan. Taking advantage of this option and as is examined below, unlike the case in recent years, the financial accounts for 2009 show a borrowing requirement equal to 1 per cent of expected regional GDP.

Analysis of the budget for 2009

The annual budgets of the Junta de Andalucía adhere to the major medium term objectives planned for the Andalusian economy which are based on consolidating

a balanced and sustainable model of growth within the context of equal opportunities, especially as regards gender. Other aims are to improve supplies of physical, human and technological capital and enhance and modernise our traditional industries (tourism, agro-food and culture). These objectives are shared with those in the *Competitiveness Strategy for Andalusia (ECA)* referred to above. To this end an anti-cyclical component is also included, with items that help to stabilise the economy automatically, together with a set of discretionary measures adopted within the scope of the areas of competence of the Autonomous Community and which, in coordination and consistent with those set in train by central government and the European Union, are aimed at overcoming the current economic situation.

The consolidated budget for 2009 amounts to €33.76bn, which represents a 5.6 per cent increase over the previous year, which is more modest than in previous years as a result of the current economic situation. In terms of its composition the budget is clearly oriented towards those items which have a greater revitalising effect and towards maintaining the social welfare network.

Revenue

On the revenue side the drop in the Andalusian economy's growth rate compared to the strength that has been evident for over a decade has led to a decrease in the Autonomous Community's tax revenues, in particular those associated with the real estate sector, such as transfer and stamp tax, although they actually only account for 5.9 per cent of total revenue. Payments on account of taxes handled by the State have also seen their sum scaled down, except in the case of personal income tax. The Sufficiency Fund, whose

*Consolidated
Revenue Budget
(Financial
Structure).*

Source: Junta de Andalucía.
Compilation: Directorate
General for Budget.

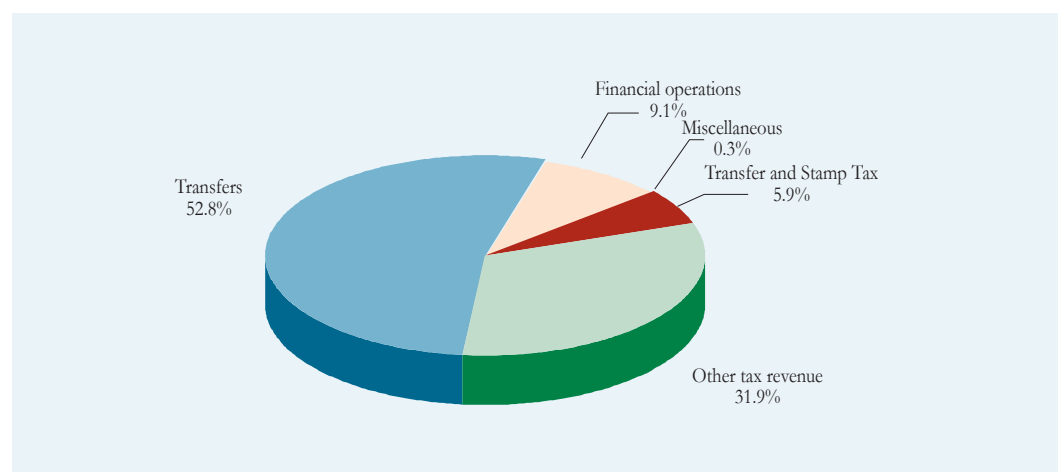
annual change is linked to trends in State taxes, is also down in 2009. The end result

is a fall in non-financial revenue of 1.4 per cent compared to 2008.

CAPTIONS		2008 (million euros)	%	2009 (million euros)	%	% Ch.
I	Direct taxes	4,019.45	12.6	4,732.45	14.0	17.7
II	Indirect taxes	9,098.53	28.5	7,214.81	21.4	-20.7
III	Fees and rates for public services & other revenue	662.65	2.1	806.79	2.4	21.8
IV	Current transfers	14,985.08	46.9	15,259.15	45.2	1.8
V	Revenue from government assets	83.79	0.3	84.39	0.2	0.7
Current operations		22,849.50	90.3	28,097.59	83.2	-2.6
VI	Disposals of real investments	16.72	0.1	28.71	0.1	71.7
VII	Capital transfers	2,283.89	7.1	2,578.84	7.6	12.9
Capital-related operations		2,300.61	7.2	2,607.55	7.7	13.3
NON-FINANCIAL OPERATIONS		31,150.10	97.5	30,705.13	90.9	-1.8
VIII	Financial assets	9.50	0.0	571.27	1.7	5,913.9
IX	Financial liabilities	802.20	2.5	2,487.59	7.4	210.1
FINANCIAL OPERATIONS		811.70	2.5	3,058.87	9.1	276.8
TOTAL		31,961.80	100	33,764.00	100	5.6

*Breakdown of
Revenues of the
Junta de Andalucía.*

Source: Junta de Andalucía.
Compilation: Directorate
General for Budgets.



Expenditure

The obliged austerity deriving from trends in revenue implies a reallocation of expenditure from general services to the two major priorities in the budget: social

spending and public investment. The austerity principle manifests itself in that the current expenditure captions have had their growth contained or reduced, except for those involving basic public services, whereas investment is slightly up on the

previous year. Thus personnel expenses have grown less than on average for current operations, there being a particularly pronounced drive to rein these in within general administration and the salaries of those in senior posts, which have not risen at all. Current expenditure on goods and services has been maintained and the increase for current transfers, which is somewhat higher, focuses on covering the timetable for implementing the Law 39/2006, of 14 December, on the promotion of personal autonomy and care of dependent persons (*Dependency Act*) and on the participation of local governments in State revenue. On this point it is worth mentioning that Andalusia's budget contains two items where it only acts as an intermediary that channels revenue from other government arms to its ultimate recipients. These are the

participation of local governments in State revenue and transfers under the Common Agricultural Policy for farmers. In this case the increases in expenditure are always backed by an equivalent rise in revenue. On the other hand it should be pointed out that the real defining feature of budget for Andalusia relative to those of other autonomous communities of a similar size is its leaning towards investment. Despite the current economic situation, public investment is being held in 2009 at the historic level reached in 2008, moving up 2.2 per cent on that year to €7.63bn and 23.6 per cent of non-financial expenditure. This upward course has meant that since 2004 accumulated capital expenditure has amounted to €37.14bn, which represents an increase with a cumulative annual average rate of 13 per cent.

CAPTIONS		2008 (million euros)	%	2009 (million euros)	%	% Ch.
I	Personnel expenses	9,710.61	30.4	10,155.79	30.1	4.6
II	Current expenditure on goods and services	3,352.69	10.5	3,352.54	9.9	0.0
III	Financial expenses	433.27	1.4	444.10	1.3	2.5
IV	Current transfers	10,180.19	31.9	10,733.88	31.8	5.4
	Current operations	23,676.76	74.1	24,686.31	73.1	4.3
VI	Real investments	3,019.77	9.1	2,952.15	8.7	-2.2
VII	Capital transfers	4,453.57	13.9	4,682.68	13.9	5.1
	Capital-related operations	7,473.34	23.0	7,634.83	22.6	2.2
	NON-FINANCIAL OPERATIONS	31,150.10	97.1	32,321.13	95.7	3.8
VIII	Financial assets	29.10	0.1	615.65	1.8	2,015.4
IX	Financial liabilities	782.60	2.4	827.21	2.4	5.7
	FINANCIAL OPERATIONS	811.70	2.5	1,442.87	4.3	77.8
	TOTAL	31,961.80	100	33,764.00	100	5.6

In addition to the capital expenditure in the budget there is the investment activity carried out by the public sector enterprises. Some of these enterprises carry out very heavy

investment activity which supplements the government activity conducted under the various budget sections. In consolidated terms, the investment that business

Consolidated Expenditure Budget (Financial Structure).

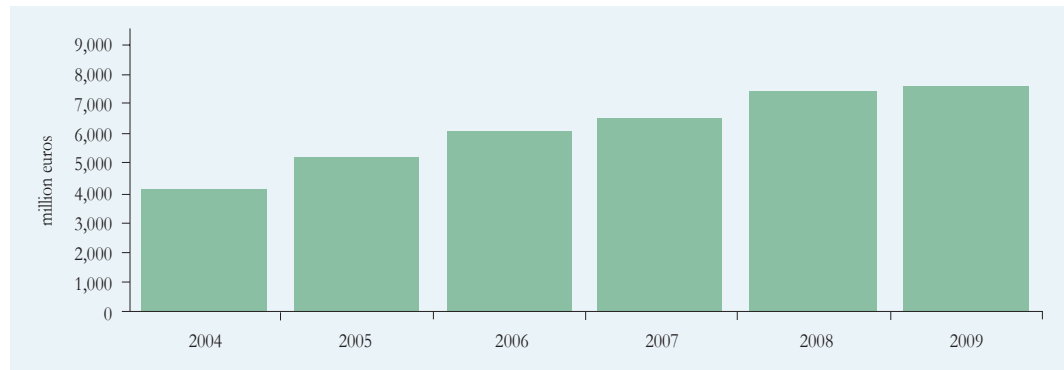
Source: Junta de Andalucía.
Compilation: Directorate General for Budget.

Investment Trends 2004-2009.

Source: Junta de Andalucía.
Compilation: Directorate
General for Budgets.

enterprises plan to carry out that is not financed by transfers from the Autonomous Community amounts to €438.4m, with special emphasis on the policies regarding

housing and development, economic and business activity development and infrastructures, this amount being up 99.5 per cent on the previous year.



As a supplement to public investment the 2009 budget brings in a major new facet intended to boost government backing for agro-food, tourism-related, commercial and cultural small and medium-sized companies as well as the urban development projects run by local governments. This consists of channelling the necessary funding, through providing capital to various specialist funds, to bring continuity and stability to investment projects, thereby counteracting the restrictions on credit that exist on a global scale. For this reason operations involving financial assets reached €615.6m compared to the figure of €29m for the previous period.

Adding up the three amounts referred to in paragraphs above, the whole set of funds mustered to keep up activity and provide a boost for the productive sectors comes to some €8.62bn, which is 12 per cent up on the year before and an amount equalling 5.4 per cent of regional GDP. Still within this sphere, investment initiatives are being carried out in partnership with the private sector, where the pioneers were the

undertakings involving the management and running of the underground train services in Seville (now in service) and Malaga (under construction) which have served as a stimulus for future projects now going through a study phase, on the general premise of improving efficiency by optimising risk management.

Regarding the allocation of spending, health and education policy takes up 58.1 per cent of the budget (excluding transfers due to participation in State revenues by local governments and the Common Agricultural Policy), with the other areas some way behind this figure. It is however worth noting some important aspects of investment such as the commitment to research and development and innovation which has led to its budgetary funding being doubled in the latest term of office, or the emphasis given to other policies such as infrastructure, where funding in 2009 topped €1.25bn, or economic and business activity development, where €1.28bn was assigned to backing the Andalusian business structure.

	2009 (million euros)	% of total
Research and Development and Innovation	544.38	1.8
Infrastructures	1,250.31	4.2
Economic and business activity development	1,276.47	4.3
Farming and fisheries	1,120.22	3.7
Promotion of employment	1,283.32	4.3
Environment	1,254.93	4.2
Education	7,566.51	25.3
Health	9,797.33	32.8
Social services and benefit	1,806.44	6.0
Culture and sport	527.15	1.8
Housing and development	516.11	1.7
Legal system	412.52	1.4
Coordination and cooperation with the local governments	317.48	1.1
Action abroad and International cooperation	111.59	0.4
Government borrowing	1,237.66	4.1
Other policies	855.43	2.9

2009 Proposed Expenditure Breakdown.

Source: Junta de Andalucía.
Compilation: Directorate
General for Budgets.
Note: Those items have
been removed which are
associated with the share of
local governments (provincial
councils and town and city
councils) in State revenues and
those associated with funds
deriving from the European
Union's Common Agricultural
Policy as in both cases the
Autonomous Community acts
merely as an intermediary.

IV. PREVIOUS YEAR'S BUDGET IMPLEMENTATION AND RESULTS

Liquidated revenue budget

In 2008, the liquidation of the consolidated revenue budget amounted to €33.81bn. This sum, equal to so-called *net recognised receivables* or NRR (that is to say revenue actually recognised in the Autonomous Community's favour), represents 96.15 per cent of the final estimate for revenue made in the budget and means this has increased by around 9 per cent on the previous year.

In comparison with the result obtained in 2007, the proportions are very much the same: in that year revenue rose by 8 per cent on 2006 and reached 97.04 per cent of the final estimate for revenue in the budget. This similarity actually reveals stability and a consistent performance in implementing revenue in the budget, as shown by the following figures for the last five-year period:

Liquidation of the Consolidated Revenue Budget.

Source: Junta de Andalucía.
Compilation: Internal Auditing Office.

	2004		2005		2006		2007		2008	
	Budget	NRR	Budget	NRR	Budget	NRR	Budget	NRR	Budget	NRR
I. Direct Taxes	2,052	2,320	2,493	2,577	2,947	3,109	3,426	3,565	4,019	4,162
II. Indirect Taxes	5,973	6,915	6,710	7,132	7,520	8,336	8,446	8,820	9,099	7,638
III. Fees and Rates for Public Services & Other Revenue	570	588	610	569	615	638	627	677	671	717
IV. Current Transfers	11,627	11,246	12,383	11,958	14,067	13,777	15,073	14,794	16,001	15,807
V. Revenue from Government Assets	56	65	89	101	102	114	131	282	229	257
VI. Disposals of Real Investments	28	23	26	22	20	19	19	22	17	35
VII. Capital Transfers	2,647	1,925	2,930	1,931	3,103	1,892	3,058	1,883	3,421	2,787
VIII. Financial Assets	212	13	224	10	241	22	251	20	534	20
IX. Financial Liabilities	813	828	680	684	778	794	923	945	1,170	2,383
Total	23,978	23,923	26,145	24,984	29,393	28,702	31,953	31,008	35,160	33,806

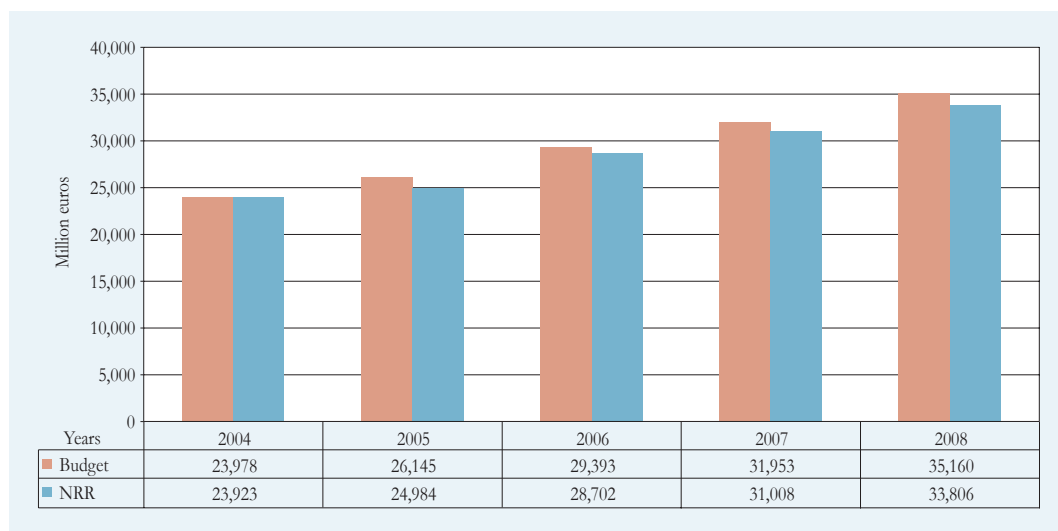
Budget: Final Revenue Budget/NRR: Net recognised receivables
Figures in million euros

According to these figures, the implementation of the budget has always been over 95 per cent of final estimates,

in some years (such as 2004) even topping 99 per cent of these.

Liquidation of the Consolidated Revenue Budget 2004-2008.

NRR = "Net recognised receivables"
Source: Junta de Andalucía.
Compilation: Internal Auditing Office.



It may be noted that the captions with the most recognised receivables over the last five-year period are current transfers, which, as we should remember, include the *Sufficiency Fund*, and the tax items, which include the main tax funds examined above and which, together with the Sufficiency Fund mentioned, represent the principal sources of funding for the Autonomous Community. Approximately 50 per cent of the revenue budget consists of current transfers, whose level of implementation

over the five years was over 95 per cent. Over 20 per cent is accounted for by Indirect Taxes, which, apart from in 2008, have shown an implementation level of over 100 per cent, followed by Direct Taxes, which, in all the years under review, accounted for over 10 per cent of the budget and where the implementation level has always been over 100 per cent of the estimates. The 2008 increase in revenue from financial liabilities is from the raising of authorised borrowing limits

for autonomous communities for 2008, as has already been mentioned in the section on *Analysis of the current budget* above, and is discussed below in further detail.

Liquidated expenditure budget

From the point of such a view of expenditure trends have not been very different and show

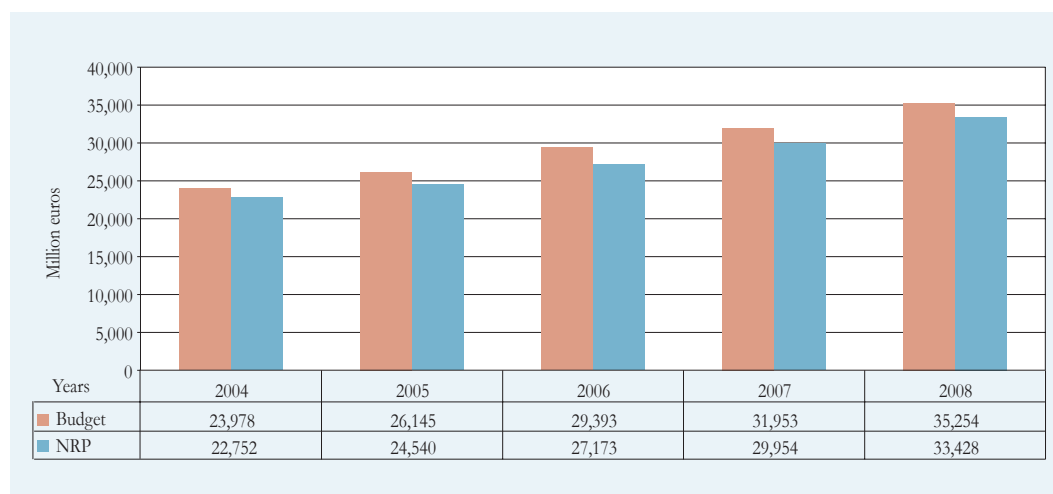
similar features of stability, consistency and sustainability. In 2008 *net recognised payables* (NRP) rose to €33.43bn, which means an increase of 11.6 per cent on the previous year, which is similar to that seen in recent years (10.23 per cent in 2007 or 10.73 per cent in 2006) and which frames actual spending policy within such continuous and stable trends.

	2004		2005		2006		2007		2008	
	Budget	NRP	Budget	NRP	Budget	NRP	Budget	NRP	Budget	NRP
I. Personnel expenses	7,311	7,301	7,801	7,778	8,537	8,407	9,198	9,174	10,109	10,085
II. Current expenditure on goods and services	2,367	2,340	2,656	2,624	2,801	2,745	3,141	3,086	3,907	3,860
III. Financial expenses	436	398	382	382	492	362	406	359	372	333
IV. Current Transfers	8,016	7,982	8,493	8,327	9,330	9,114	10,460	10,356	11,261	11,195
V. Real Investments	1,782	1,446	2,296	1,747	2,876	2,163	2,943	2,159	3,192	2,644
VI. Capital Transfers	3,248	2,467	3,835	3,002	4,572	3,600	4,871	3,887	5,594	4,492
VII. Financial Assets	24	24	24	24	25	25	160	160	29	29
VIII. Financial Liabilities	794	794	657	657	758	757	772	772	790	790
Total	23,978	22,752	26,145	24,540	29,393	27,173	31,953	29,954	35,254	33,428

Budget: Final Expenditure Budget/NRP: Net recognised payables
Figures in million euros

A similar trend has been observed in the extent to which the budget has been implemented, because in all the years within the last five-year period the percentage of implementation of expenditure has been over 92 per cent, being close to or topping

94 per cent in most years. Notable in this respect is the level of implementation achieved in the last year, which was actually close to 95 per cent as shown in the chart below.



Liquidation of the Consolidated Expenditure Budget.

Source: Junta de Andalucía.
Compilation: Internal Auditing Office.

Liquidation of the Consolidated Expenditure Budget 2004-2008.

NRP = "Net recognised payables"
Source: Junta de Andalucía.
Compilation: Internal Auditing Office.

By caption, the level of budgetary implementation is close to 100 per cent for most of them and in all years within the last five-year period. This is the case with captions I, II, IV, VIII and IX, where the percentage for implementation has surpassed 98 per cent, followed by caption III (financial expenses), where implementation was around 90 per cent and whose effective expenditure has gradually decreased over all years. While it is also true that capital-related operations (captions VI and VII) show a lower level of implementation, the increase seen in such operations, both in terms of budget estimates and in the liquidated expenses, was in most years far higher than the average budget increase. A good example are the years 2005 and 2006, where real investments were up on previous years by over 25 per cent in the estimates and over 20 per cent in recognised

payables in those years. By the same token the liquidated expenditure budget for last year reveals an increase in actual spending on real investments of over 22 per cent with respect to 2007. Year 2008 saw the highest level of budget implementation as regards real investment and capital-related operations as a whole (captions VI and VII) for the entire five-year period.

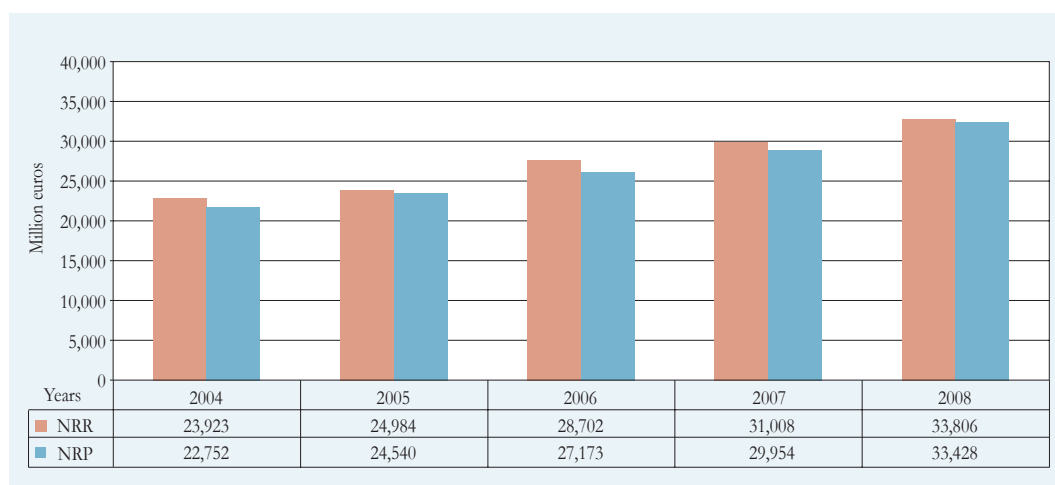
Comparative analysis of liquidated revenue and expenditure

The following chart summarizes the liquidated budget, with a significant balance between revenue and expenditure over the last five-year period, as well as an ongoing, sustained and balanced growth regarding the Autonomous Community of Andalusia's public accounts over the whole period.

Implementation of the Consolidated Budget. 2004-2008.

NRR = "Net recognised receivables"
NRP = "Net recognised payables"

Source: Junta de Andalucía.
Compilation: Internal Auditing Office.



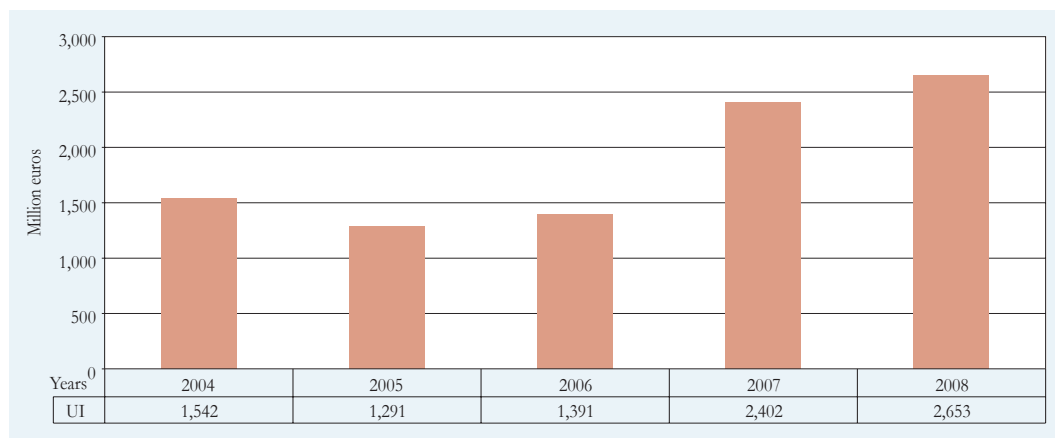
Consolidated unallocated income from cash and near-cash items

During the last five years the consolidated unallocated income from cash and near-cash items caption (a figure obtained from the difference between recognised short-term receivables and liquid or available funds, and recognised short-term payables) has performed optimally. This has not only been positive in all years, but since 2005 it has only grown. Notable was the major growth

at year-end 2007, with an increase of almost 73 per cent on the previous year and a figure topping €2.4bn, equalling 8 per cent of the budget. No less notable, however, was the increase achieved (of over 10 per cent) at year-end 2008, when unallocated income came in at over €2.65bn. As unallocated income from cash and near-cash items provides information on the government's ability to meet its debt obligations in the short term, and therefore its immediate liquidity (unallocated income from cash and near-cash items, in the case

of general government, is the equivalent of *working capital*), it can be concluded that

the Autonomous Community has a liquidity situation that cannot be bettered.



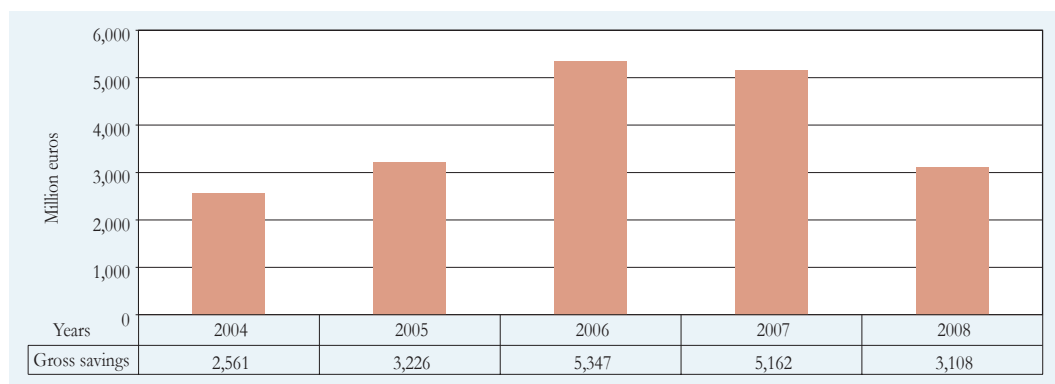
Consolidated unallocated income from cash and near-cash items. 2004-2008.

UI = Unallocated income.
Source: Junta de Andalucía.
Compilation: Internal Auditing Office.

Consolidated gross savings

Gross savings (in other words the difference between current revenues and current expenditure, represented respectively by recognised receivables and recognised payables) at year-end 2008 was positive and amounts to almost €3.11bn. As the following chart shows, this indicator has shown positive figures in all years within the five-year period, which has made it possible to fund a great

deal of the investments and capital-related operations mentioned above. The volume of savings at year-end was so great in 2006 and 2007 (in both cases comfortably topping €5.00bn) that the 2008 figures in comparison with both years may seem small. It should however be stressed that not only was a positive gross saving maintained but also that the volume achieved at year-end 2008 was substantial, in spite of the evident problems posed by the economic situation.



Consolidated gross savings. 2004-2008.

Source: Junta de Andalucía.
Compilation: Internal Auditing Office.

Funding capacity/borrowing requirement⁸: Andalusian public sector

A list is given in the Stability Law of the groups of stakeholders that are considered

to be part of the public sector for the purposes of that law, in other words for calculation of the funding capacity/ funding requirement in terms of ESA 95. Such stakeholders include, *inter*

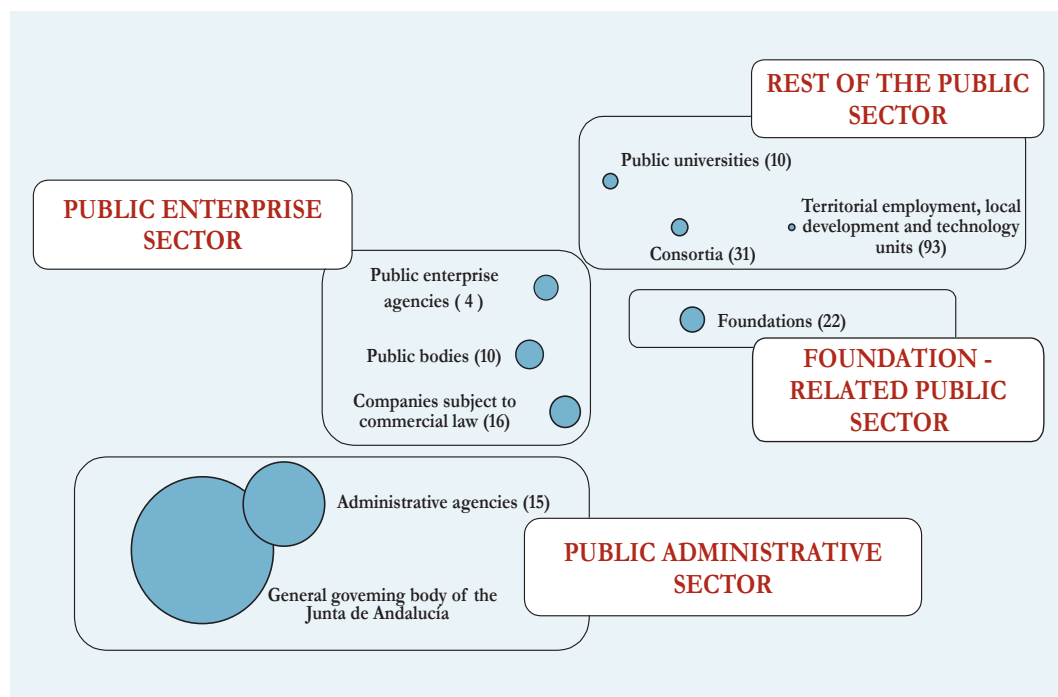
⁸ Funding capacity/funding requirement, or net lending/net borrowing in ESA 95 terminology, is a balancing item similar to the non-financial surplus/deficit calculated according to the European System of Accounts, which is the official methodology set out in the Stability and Growth Pact.

Andalusian Public Sector.

Source: Junta de Andalucía.
Compilation: Internal Auditing Office.

alia, “Governments for the autonomous communities, as well as public entities and organisations under them that provide services or produce goods that are not

mainly funded by commercial revenue”. As regards the Autonomous Community of Andalusia, the general government sector comprises the following units:



Pursuant to this law, in the first half of every year and subject to a report from the Fiscal and Financial Policy Council for the Autonomous Communities, the Spanish government is entrusted with setting the budgetary stability objective for the following three years for the public sector as a whole. The following table gives details of the budgetary stability objectives set for the years 2004 to 2007 (as figures for last year are not yet available) and the funding

capacity or funding requirement of the Autonomous Community of Andalusia over these years. As can be seen, there is a notably high funding capacity in 2004, which is due to the payment received from the State government, for the sum of €2.5bn as a result of the final settlement arrangement for the Autonomous Community’s financing system for the 1997–2001 five-year period. Above all it should be noted that the stability objective was met for all years.

Budgetary Stability Objective.

Note: The budgetary stability objective for 2005 was defined as a deficit or under 0.01%.
Source: Junta de Andalucía.
Compilation: Internal Auditing Office.

Year	Budgetary stability objective	Funding capacity / funding requirement (million euros)
2004	0.00% GDP	2,558
2005	0.00% GDP	-380
2006	0.00% GDP	469
2007	0.00% GDP	546

V. LIQUIDITY AND DEBT MANAGEMENT

Financial soundness of the Autonomous Community of Andalusia

The strict compliance by the Autonomous Community of Andalusia with the budgetary stability objectives set and the careful management of the budget have allowed the Junta de Andalucía to significantly reduce its debt ratios and establish a sound cash position that underpins its current credit rating, particularly in the growth phase of the economic cycle. Andalusia's sound financial position has been acknowledged by the three rating agencies providing credit ratings for the Autonomous Community. Moody's, Standard & Poor's and Fitch have raised their ratings for Andalusia in the last four years and maintain its outlook as stable.

Cash policy of the Junta de Andalucía

Partly thanks to efforts made to contain spending and the gross savings generated by the region itself, since late 2004 Andalusia has had sustained levels of liquidity that underpin its streamlined position and its credit rating. At year-end 2008 liquid assets at the Treasurer's Department amounted to €4.87bn and the average balance for these in the 2005–2008 four-year period was €4.33bn.

Andalusia has always handled cash policy professionally, actively managing available cash, and for this reason in December 2004 it embarked on an innovative programme for parking cash surplus through competitive bidding from banks, which is a pioneer programme among the autonomous communities. The extraordinarily good reception by the market to the initiative of subjecting liquidity to a regular programme

is evidenced by sustaining participation in bidding by all the financial institutions that signed up to the agreement regulating such a programme, wherein fortnightly bidding continue to be held in 2009. An example of all this is the fact that in the 2005–2008 period funds have been raised in the market under this programme via weekly placements worth over €578bn, with a weekly average of €2.79bn, which made it possible to generate interest of €397m.

Debt level

Besides maintaining a stable debt level since the beginning of this decade as a result of the budgetary stability mentioned, the Autonomous Community of Andalusia has managed to cut its debt (including the debt belonging to the Junta de Andalucía and to other entities and enterprises that consolidate pursuant to ESA 95) in absolute terms from 2004 (€7.43bn) up until late 2007 (€7.18bn), as shown in the chart below, by over €250m. Such a performance is a factor which sets Andalusia apart from the other autonomous communities, which, in the same period, increased their debt levels jointly from €51.98bn in 2004 to €59.71bn in 2007.

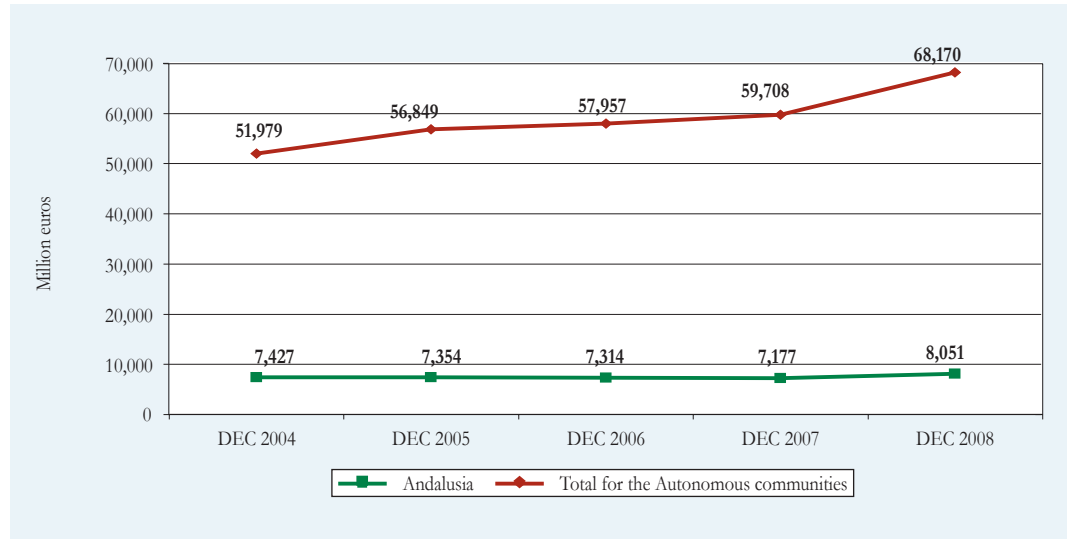
As mentioned above in the section on *Analysis of the current budget*, in 2008 a raising was passed, under the Spanish rules and regulations on budgetary stability, of the borrowing ceiling for autonomous communities of up to 1 per cent of GDP. Availing itself of this option, the outstanding debt of the Autonomous Community of Andalusia at the end of 2008 reached €8.05bn. Year-on-year growth, however, has been lower in Andalusia (12.17 per cent) than the average for the autonomous

communities (14.17 per cent). As a result, the share of Andalusian debt out of the autonomous communities as a whole has dropped in the period under review from 14.3 per cent in 2004 to 11.8 per cent in 2008.

This fall in debt in absolute terms has entailed a reduction in the Autonomous Community of Andalusia's debt ratios, which can be classed as exceptional when set against the other autonomous communities as a whole.

Debt in absolute terms.

Source: Bank of Spain.
 Compilation: Directorate General for Treasury and Government Debt. Junta de Andalucía.

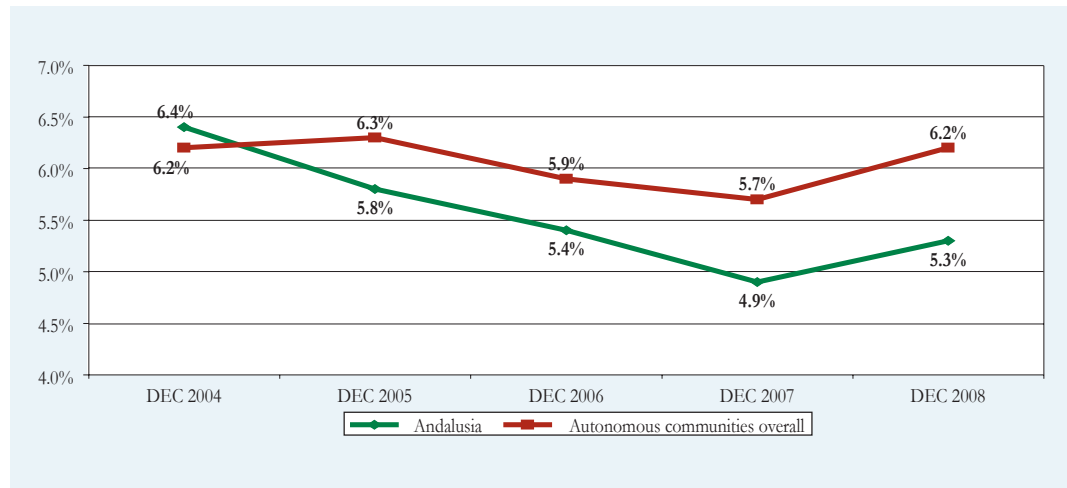


The ratio of debt to GDP has therefore fallen back from 6.4 per cent in 2004 to 4.9 per cent in 2007, dropping to 5.3 per

cent of GDP in 2008, far below the figure of 6.2 per cent for the autonomous communities as a whole.

Debt / GDP.

Source: Bank of Spain.
 Compilation: Directorate General for Treasury and Government Debt. Junta de Andalucía.

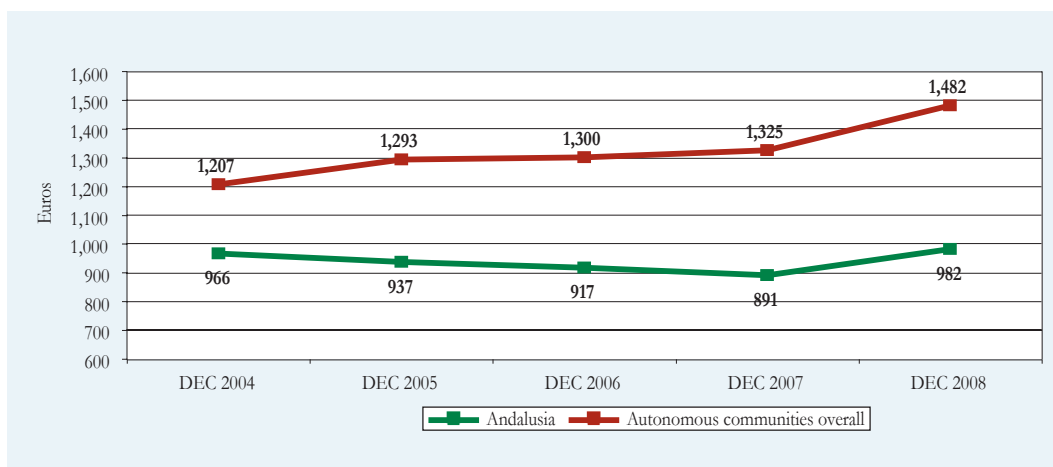


Debt per inhabitant in the Autonomous Community of Andalusia has always been far below the average for the autonomous communities. While in 2004 debt per

inhabitant in Andalusia was €241 below the average for the autonomous communities, in 2008 this was €500 lower, meaning that the gap has widened to more than double.

Debt / Inhabitant.

Source: Bank of Spain.
Compilation: Directorate
General for Treasury and
Government Debt. Junta de
Andalucía.



Debt to current revenue for Andalusia has also dropped from 38 per cent in 2004 to 28 per cent in 2008, far below than the average of 43 per cent for the autonomous communities as a whole.

This more moderate profile for Andalusia as regards its debt position has extended to its public enterprise sector. The Autonomous Community of Andalusia has holdings in a large number of enterprises, yet the combined debt of all of these is very low. At year-end 2008 the debt of the non consolidated companies where a

majority holding was held amounted to €195m, representing 0.1 per cent of the region's GDP. For the entire set of Spanish autonomous communities debt of this type is 1.2 per cent of GDP.

A core aspect of the Autonomous Community's debt policy has been to unify debt with general government, that is to say with the Junta de Andalucía as issuer, thereby minimising access to credit for the other bodies and enterprises in which majority holdings are held.

JUNTA DE ANDALUCÍA	PUBLIC UNIVERSITIES	OTHER BODIES OF THE AUTONOMOUS COMMUNITY	TOTAL
7,713.33	205.16	131.54	8,050.03

Debt policy of the Junta de Andalucía

Under Spanish law the Autonomous Community of Andalusia is allowed to carry out long term debt transactions to fund investments, as well as short term transactions (of up to a year) to deal with temporary cash requirements. At year-end

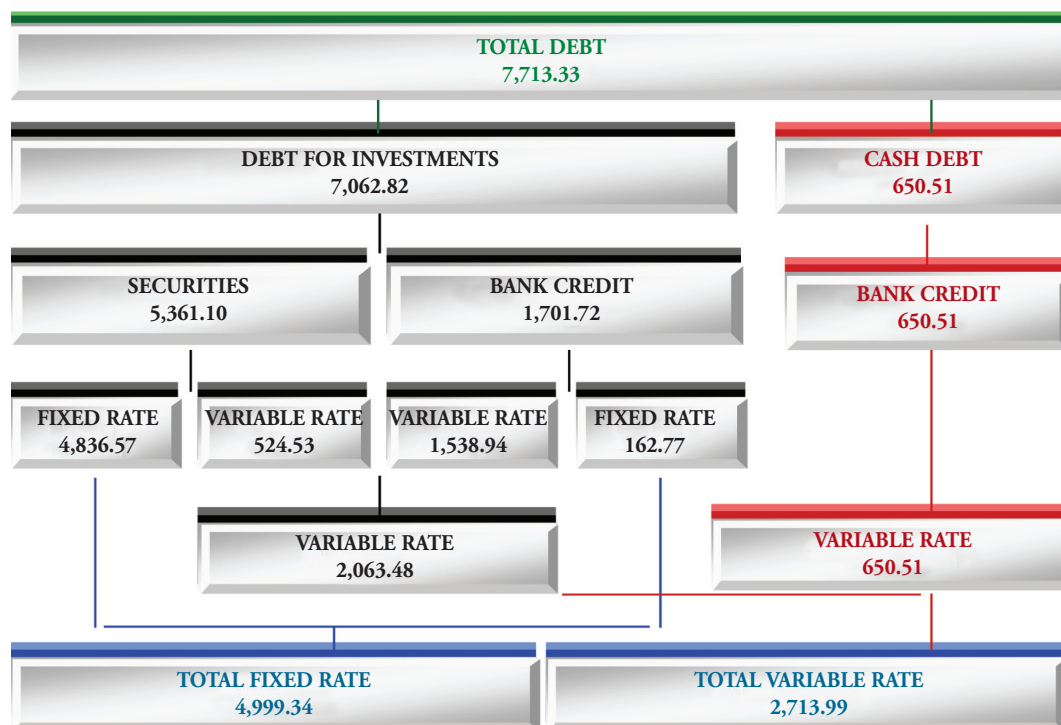
2008 the Junta de Andalucía's debt reached €7.71bn, in the main employed in funding investments (91.57 per cent of total debt). This figure represented an overall increase over 2007 of €903m, although short term cash debt was reduced by €229m. The structure of the debt portfolio at 31 December was as follows:

Debt of the Autonomous Community of Andalusia (ESA 95) as of 31/12/2008.

Million euros
Compilation: Directorate
General for Treasury and
Government Debt. Junta de
Andalucía.

Structure of the debt portfolio as of 31 December 2008.

Million euros.
 Compilation: Directorate General for Treasury and Government Debt. Junta de Andalucía.



This structure is the result of a debt strategy aimed at facilitating the placement of debt and obtaining the best cost terms through achieving widely diversified sources of debt and debt instruments. The Junta de Andalucía has hinged its debt on two highly popular domestic issue programmes that have guaranteed a regular presence of the issuer on markets: the promissory note programme, active since 1991 to issue short term securities at a discount, and the notes and bonds programme whereby long and medium term securities have been issued since 1995. Both programmes guarantee a regular presence for the issuer on markets via scheduled auctions and, together with the launching of government issues of greater value, these have helped to make the Junta de Andalucía a key regional issuer on financial markets.

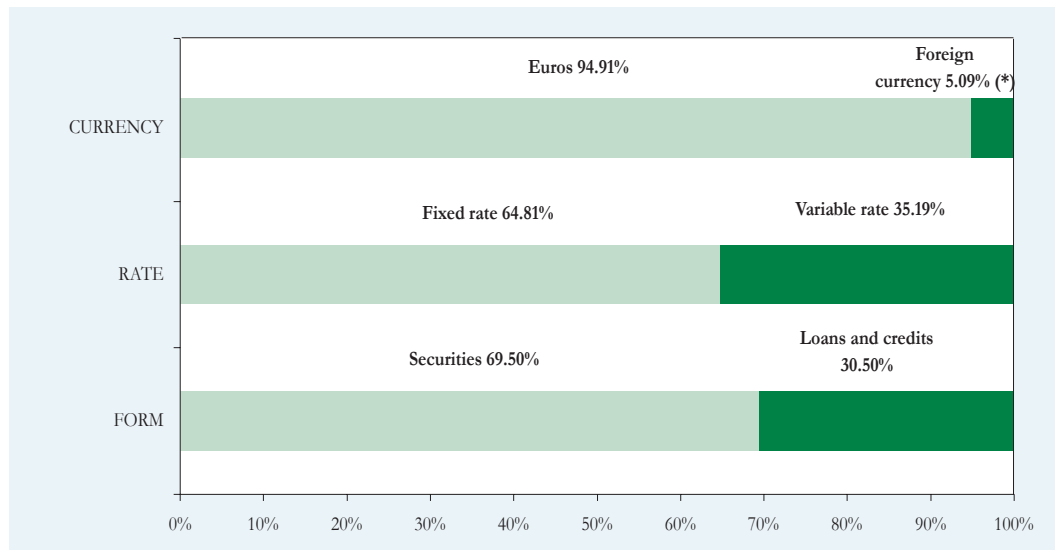
Besides these programmes, the Junta de Andalucía has a long track record of foreign currency issues, having carried out issues on the US market in dollars and in Asia in yen, maintaining as a priority

objective a widening of its investor base via the placement of debt among non-resident investors. Along these lines private placements have been conducted recently at the request of non-resident investors in Swiss francs and in euros. As of 31 December 2008 the Junta de Andalucía's outstanding debt in foreign currencies was the equivalent of €392.5m. The Junta de Andalucía has actively managed its risk, this essentially being exchange rate risk associated with its currency transactions, as well as interest rate risk, always with the aim of hedging against such risk, though never for speculative reasons. At present the Junta de Andalucía only has offsetting items in derivatives trading resulting from this kind of management worth the equivalent of €202m. For this reason, even though the share of debt in foreign currencies out of the total as of 31 December 2008 was 5.09 per cent, real exposure to exchange rate risk was 2.47 per cent.

The distribution of book entry debt issued in euros also reflects the international

leaning of the Junta de Andalucía, as 69 per cent of such debt was in 2008 in investment portfolios from Germany, France, the Netherlands and Ireland.

As a result of the above the composition of the Junta de Andalucía's debt portfolio is balanced as regards interest rate and exchange rate risk, as the following chart illustrates.



Composition of the debt portfolio as of 31 December 2008.

(*) Does not include Swap trading.
 Compilation: Directorate General for Treasury and Government Debt. Junta de Andalucía.

It can likewise be noted that the weight of securities issues is substantial compared to traditional resorting to bank credit.

All these aspects have made it possible to get an appropriate average life for our debt, to be precise one of 5 and a half years.

Finally it should be said that the Junta de Andalucía's commitment to transparency has led it to always disclose material information regarding the issuer to the market. The Junta de Andalucía therefore

provides full and updated financial information on its website at www.juntadeandalucia.es/economia/hacienda/, which includes data on budgets and how they are allocated and implemented besides information on trends in its debt and on how its issue programmes are faring. The website also includes publications of interest to investors featuring *Valores*, the magazine on securities issued quarterly in Spanish and English with complete information on the Junta de Andalucía's book entry debt.

