

# I. Analysis of the situation of the City of Madrid

## 1. Economic environment

Turbulence in the financial markets continued in the latter part of the year. The liquidity crisis forced the main banks to co-ordinate their forces in order to limit the distortions of the inter-bank market and restore confidence in the system.

The monetary policies of the Fed and the ECB are contradictory: in the United States it is anticipated that cuts in rates will continue to be applied to mitigate the effects of the economic downturn, while in the EMU, with no signs of serious slowdown in growth and with inflation a long way off the ECB objective, the bank will maintain rates at 4%.

In Spain, the slowdown in growth began to be felt in the third quarter of the year, although to a moderate extent. The most negative aspect is still undoubtedly inflation, which ended the year at 4.3%.

The Madrid Autonomous Region maintained its growth rate of the previous quarter of 4.1%, three tenths of a point higher than the Spanish average. The labour market figures show a higher rate of job creation accompanied by a reduction in the unemployment rate. Macroeconomic forecasts for the City of Madrid suggest growth of 3.9% in 2007, higher than the growth forecast for Spain as a whole (3.8%), and a slowdown in the rate of growth in the next two years.

## 2. Production

### INDUSTRY

The Industrial Production Index (IPI) in the Madrid Autonomous Region recorded a further decline in the average annual rate of growth, which was 2.1% in November. With this figure, the IPI has shown a downturn in its rate of growth for seven consecutive months.

During the third quarter of 2007, the seasonal-trend data for Industrial GAV and the gross figures for industry in the Madrid Autonomous Region showed growth rates of 2.3% and 3.2%, respectively, which reflect a moderate acceleration in the rate of growth compared to the figures for the second quarter.

Finally, the year-on-year growth rate in Social Security registration in industry in the City of Madrid in the third quarter of 2007 was -2.7%, which is a curb on the downward rate seen in previous months. As a result, the number of Social Security-registered workers in the industrial sector was 112,579, a decline of 310 people compared to the previous quarter.

## CONSTRUCTION AND THE PROPERTY MARKET

There were less workers in the construction sector registered with the Social Security system than a year ago, both in the City of Madrid and in the Autonomous Region. In September 2007 the number in the city was 156,712, a fall of 4.2% compared to the same month in 2006.

With figures available up to September 2007, there was a substantial reduction in the average annual growth of the area of construction licences for non-residential use granted by the Department of Government, Housing Infrastructures. Meanwhile, the residential segment did not undergo significant changes compared to the previous quarter.

After several months of negative annual average rates, first occupancy licences granted to business premises bounced back strongly, while licences for parking did so more moderately. First occupancy licences for homes continued to decline compared to the previous year, and their moderate recovery accelerated.

## SERVICES

### Financial system

The volume of deposits by clients in the Madrid Autonomous Region continued to fall in the third quarter of 2007, maintaining the trend of the three previous quarters, giving an annual average growth rate of 20.6%. Furthermore, this growth differential compared to the Spanish national total - which posted a decline, albeit more moderate - in the third quarter of the year, is also falling.

In the third quarter of 2007, the number of branches of deposit institutions in the City of Madrid rose by 3.4%. This was particularly due to the dynamism of savings banks, which are continuing to implement their expansion plans and choose Madrid due to its leading position as a business market. However, the increase recorded was lower than that observed on a regional and Spanish national scale.

The latest figures published for mortgages in October confirm the slowdown in the mortgage market in the Madrid Autonomous Region, which is also occurring in Spain as a whole. The slowdown in mortgage credit clearly shows the stiffening of financing conditions in an environment in which inflationary tensions have prevented the ECB from lowering the benchmark rate and the EURIBOR rate has continued to fall.

The main international financial markets ended the year with significant declines in profits, a slowdown which took place in the second half of the year as a consequence of the financial crisis. The General Madrid Stock Market Index (IGBM) closed 2007 with a profitability of 5.6%, exceeding other markets (e.g. the Nikkei figure in December was -11.1%).

## Tourism

In 2007 the City of Madrid was one of the most dynamic destinations in Spain, with a total of around 7 million travellers visiting until November, according to the Hotel Occupancy Survey of the NSI, which is an increase of 8.9%. This strong growth continued in the September-November period of this year, with an increase in travellers staying in hotels of 7.3% and in overnight stays of 5.6%.

A new high in the number of beds offered of 68,374 was reached in November, according to the Hotel Occupancy Survey produced by the NSI. However, in October and November there was some degree of decline in the rate of growth in the beds on offer, with growth rates of under 2%, figures that had not been seen since the first half of 2005.

The decline in the number of beds offered can also be seen in the figures for employment in hotel establishments in the City of Madrid. The figures for number of employees are close to record highs, although their growth rates have fallen in recent months. In October and November, the growth rates for employment were 0.2% and 1.6%, respectively.

## Transport

The flow of passengers at Madrid-Barajas airport between September and November 2007 increased by 14.6% compared to the same period in the previous year, mainly due to the performance of international flights.

There was a negative trend in employment in the transport sector in the City of Madrid in 2007, with a year-on-year rate of -3.2% posted in the third quarter of the year. However, this decrease was three tenths of a point less than that of the previous quarter.

Elsewhere, the average daily intensity of urban traffic in the City of Madrid fell once again between August and October, which led to an increase in the average daily speed.

## 3. Business Dynamic

In 2007, the number of constitution proceedings of companies in the City of Madrid showed a stable and encouraging trend. The year-on-year rate for the quarterly average for the third quarter was an increase of 13.53%. Furthermore, the increase compared to the previous quarter was 0.65%. The average for the third quarter of 2007 was around 1,457 constitution proceedings, meaning that the number of constitution proceedings in the City of Madrid remains at record high levels.

The business turnover rate in the City of Madrid increased in the third quarter of the year to a quarterly average of 23.3%, compared to 11.2% in the previous quarter. The figure obtained is the highest in recent years. This increase is a consequence of the increase in the number of dissolutions, which rose from an average of 172 dissolutions per month

in the second quarter of the year to 267 in the third quarter. 344 companies were dissolved in July, a figure that had not been seen since early 2004.

The Business Climate Survey for this quarter included four questions about business developments at the end of 2007 and the outlook for 2008. Three conclusions can be drawn from the results obtained. First, the figures for 2007 show a slight deterioration compared to the figures for 2006. The percentage of those surveyed who made profits in 2007 fell from 65.9% (published in the previous issue of the Barometer) to 58.4%. The trend for turnover is similar, with the percentage of those surveyed falling from 78% to 71.4%.

Second, despite this decline, the results for 2007 are still positive, with overall positive opinions expressed in all the variables analysed.

Third, expectations for 2008 maintain the trend towards a slowdown in business accounts in the City, with the percentage of those surveyed expecting an increase in profits falling to 47.4%, and those expecting an increase in turnover to 57.9%. Due to the current economic situation, businesspeople are concerned about their ability to increase their profits and turnover in 2008.

#### 4. Demand

According to the retail price index at constant prices, retail sales in the Madrid Autonomous Region in November showed the lowest year-on-year growth rate in the last year, at 1.2%. This figure points to a downturn in retail sales compared to October, when a figure of 5.7% was recorded.

The Madrid Consumer Confidence Index (MCCI) in November 2007 (the last time the Index was published) was 63.5 points. Despite this not being the most marked fall recorded in November, it should be emphasised that the Madrid Consumer Confidence Index continues to be a some distance off its "normal" value.

Social Security registration in wholesale shops presented a year-on-year rate of -2.1% in the third quarter of 2007, continuing the decline seen in the two previous quarters. After these changes, the number of Social Security-registered workers in wholesale shops was 83,352 people in the City of Madrid.

Year-on-year growth in Social Security registration in retail shops in the City of Madrid was -0.3% in the third quarter. However, in the Madrid Autonomous Region and in Spain as a whole, growth of 1.1% and 1.3% was recorded, which in both cases points to a continuation of the growth rate recorded in the second quarter of the year.

As regards foreign markets, the figures for the last three months available show an acceleration in the growth of exports and a moderation in the increase of imports compared to previous months.

## 5. Prices and salaries

In the last issue, when we highlighted the strong consumer price cuts in the Madrid Autonomous Region, nobody imagined what would happen in the subsequent months, which were characterised by strong inflationary tensions, leading to a year-on-year rate in November of 3.9%, the highest since July 2006, when it was 4.0%. According to the forecast by the Flores de Lemus Institute, the scenario for the coming months is an upward trend in the RPI. An inflation rate of 3.9% is anticipated for December 2007, which could fall from January 2008 onwards. The Industrial Price Index was stable in November and increased its negative differential compared to the Spanish national total.

Prices of new and used housing, and especially new housing, in the City of Madrid remained in check in the third quarter of 2007, which posted the lowest growth rate since the second quarter of 2001, according to figures supplied by TINSA. Finally, the slowdown in the increase in labour costs continued between July and September 2007, at a tenth of a point beneath the level for Spain as a whole, at 3.2%.

## 6. Labour market

The labour market in the City of Madrid continued to lose dynamism in the third quarter of 2007, with moderate increases in the active and employed population, which reached year-on-year growth rates of less than 1.0%. However, the lower job creation figures mainly affect workers with temporary contracts, which led to a decrease in the temporary employment figures. Both permanent employment and self-employment retain their strong dynamism, thereby increasing the stability of the employment that is being generated. Furthermore, the number of unemployed fell in the third quarter, which led to a fall in the unemployment rate to 5.36%.

The trend among both workers registered with the Social Security system and the registered unemployed confirms the slowdown in the labour market in the City of Madrid, which began to become apparent in the second half of the year. There was a moderate increase in Social Security-registered workers, while the number of registered unemployed increased by 6.8% in December and by 1.5% in the year as a whole.

## II. Sustainability

### Madrid, a caring city

The Third Sector is a varied sector undergoing continuous growth, which some experts have called a “non-profit making mosaic”. In Europe it has undergone substantial growth in the last thirty years, as the member countries have developed economically. It is important in both economic and social terms (GDP and job creation) and analysis shows the level of solidarity of businesses, as NGOs are one of the most well-known outlets for corporate capital.

Development NGOs are the most important non-profit making organisations in the fabric of NGOs in Madrid. 66% of all the development NGOs in the Co-ordinating Committee for the Development NGOs in Spain (CONGDE), a group of organisations which accounted for 98.5% of the total human resources used in the field of co-operation in development, with an income of 969,948,797 Euros, are located in the City.

The presence of the public sector and the NGOs is necessary for obtaining the highest levels of attention to the demands not met by the government in the areas of social and environmental welfare and co-operation in development. In 2006, Madrid City Council channelled grants totalling more than 20.5 million Euros through non-profit making institutions, and subsidised 433 institutions and 423 projects. Furthermore, by means of its volunteer policy, it promotes volunteer movements based on activities requiring the altruistic co-operation and involvement of residents.

## III. Territorial balance in the City of Madrid

### The elderly in the City of Madrid

This section includes a profile of the population aged 65 years old and over in the City of Madrid and its evolution, showing how the elderly population has fallen in terms of its proportion among the total population, although there is still a significant number - 597,877 people according to figures from the Municipal Census of 1 January 2007, accounting for 18.8% of the total population of Madrid.

The profile by district shows greater ageing in the Central Area than in the outlying districts - a feature shared with other major cities. Finally, we analyse the range of the main social services in the City to meet the requirements of the elderly, a range which has expanded in recent years and which includes the large number of homes for the elderly, day centres and centres for the elderly, and the increasing use of certain services such as home help or telephone hotlines.

## IV. Madrid as a business attraction pole

### Culture and economy in the City of Madrid

Culture and all the activities that are based around it are increasingly clearly perceived as essential factors in urban competitiveness, and in the attraction of businesses, skilled workers and added value activities to cities. In this area, the City of Madrid is a significant cultural pole, thanks to the relative importance of the sector in its economy, and its range of services and shows, and its museums, such as the National Prado Museum, which is considered one of the most important art galleries in the world.

Madrid is home to a significant number of companies whose main area of work is related to culture. In absolute terms, 10,150 companies are located in the City, and 16,265 in the Autonomous Region, which is 16.1% and 25.8% respectively of all the companies of this type located in Spain, which are 63,004 in total. It is also a sector which despite not having a major influence on the country's economic structure, has shown considerable dynamism in recent years in terms of the increase in businesses in this area in both the City and the Autonomous Region of Madrid.

In the City of Madrid, as well as quantifying the importance of culture in the City's economy, it is also possible to analyse how cultural activities are being transformed, as a strategic feature of the urban economy. In this respect, there is an increased dynamism in live artistic performances, as well as theatre performances, which recorded increases of 9.8% in terms of the number of spectators in the City of Madrid between the 2004-2005 and 2005-2006 seasons - from 2.3 to 2.5 million, respectively.

Finally, the City of Madrid has a renowned cultural heritage, such as its many museums, and in particular, several renowned international art galleries located along the so-called Art Avenue of Madrid: the Prado Museum, the National Reina Sofia Museum Art Centre (MNCARS), and the Thyssen-Bornemisza Museum. Furthermore, visitors to these museums and art centres have increased in recent years.

This is a boost to the City of Madrid's ability to compete with the world's leading cultural destinations, such as Paris, London, Rome and Florence. As a result, although it is difficult to establish direct comparisons between museums due to the different nature of their collections, it can be said, for example, that the Prado Museum is among the top five museums and art centres in Europe in terms of the number of visitors.

## V. Monographic report

### The key importance of the City of Madrid on the high speed horizon

The coming into service of three new high speed lines in 2008 will drastically improve journey times from Madrid to Barcelona, Málaga and Valladolid. However, the high speed process is still incomplete, as other important lines between the City of Madrid and the Mediterranean cities, connections with Lisbon and the French frontier, and access to Galicia, among others, are still to be completed.

The cities of Madrid, Tokyo and Paris (and, in the near future, Beijing) are the becoming the world's major railway hubs. Apart from the network of the Iberian Peninsula, in this future scenario Madrid will become connected to the European gauge high speed network, strengthening its relations with the major cities of the south of France and the rest of the European high speed network.

The high speed scenario is a milestone in the economic and territorial profile of the City of Madrid. The high speed train is one of the key factors in the metropolitan expansion and conurbation of Madrid. High speed contributes to the functional specialisation of Madrid as a business city, a shopping and fashion city and a leisure-culture and tourism city. Finally, as a main node in the high speed network, Madrid will make a significant contribution to the development of more sustainable transport in Spain as a whole.