

THE SPANISH ECONOMY: MONTHLY REPORT

JANUARY 2004

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Research Department

Forecast

% change over same period year-before unless otherwise noted

	2002	2003	2004	2003				2004	
				1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.
INTERNATIONAL ECONOMY		Forecast						Forecast	
Gross domestic product									
United States	2.4	3.0	3.6	2.1	2.4	3.6	3.9	4.4	4.2
Japan	-0.3	2.2	1.8	2.7	2.3	1.8	2.0	2.2	1.8
United Kingdom	1.7	2.0	2.6	1.8	2.0	2.0	2.1	2.7	2.6
Euro area	0.9	0.5	1.9	0.7	0.1	0.3	0.8	1.2	1.8
Germany	0.2	0.0	1.4	0.1	-0.3	-0.2	0.5	0.9	1.3
France	1.2	0.1	1.6	0.7	-0.4	-0.2	0.3	0.8	1.6
Consumer prices									
United States	1.6	2.3	2.2	2.9	2.1	2.2	1.9	1.7	2.2
Japan	-0.9	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3
United Kingdom	2.2	2.8	2.3	2.9	2.9	2.9	2.6	2.4	1.9
Euro area	2.3	2.1	1.8	2.3	1.9	2.0	2.1	1.8	1.7
Germany	1.4	1.1	1.3	1.1	0.9	1.0	1.3	1.0	1.3
France	1.9	2.1	1.8	2.4	1.9	1.9	2.1	1.7	1.9
SPANISH ECONOMY									
Macroeconomic figures									
Household consumption	2.6	3.1	3.2	3.0	3.0	3.2	3.3	3.3	3.2
Government consumption	4.4	3.8	3.7	4.0	3.7	3.6	3.7	3.8	3.8
Gross fixed capital formation	1.0	3.2	3.8	3.1	3.4	3.1	3.3	3.4	3.6
Capital goods	-2.7	2.5	4.2	2.7	2.9	2.1	2.5	2.9	3.5
Construction	4.2	3.7	3.5	3.4	3.8	3.9	3.9	3.8	3.6
Domestic demand	2.6	3.4	3.5	3.5	3.1	3.4	3.5	3.5	3.6
Exports of goods and services	0.0	4.4	6.7	4.7	8.0	2.5	2.8	4.7	5.9
Imports of goods and services	1.8	7.4	8.3	8.7	10.2	5.7	5.3	6.7	8.2
Gross domestic product	2.0	2.4	2.9	2.2	2.3	2.4	2.6	2.7	2.7
Balances									
Employment	1.5	1.8	2.0	1.6	1.7	1.9	1.9	2.0	2.0
Unemployment (% labour force)	11.4	11.3	11.0	11.7	11.1	11.2	11.2	11.1	11.1
Consumer price index	3.5	3.1	2.7	3.7	2.8	2.9	2.7	2.6	2.7
Unit labour costs	3.3	3.3	2.9	3.6	3.3	3.2			
Current account balance (% GDP)	-2.7	-3.5	-3.2	-5.0	-2.5	-3.4			
Not lending or net borrowing rest of the world (% GDP)	-1.6	-2.4	-2.2	-4.0	-1.3	-2.6			
Government balance (% GDP)	0.1	0.0	0.0						
FINANCIAL MARKETS									
Interest rates									
Federal Funds	1.7	1.1	1.5	1.3	1.2	1.0	1.0	1.0	1.2
ECB repo	3.2	2.3	2.1	2.7	2.4	2.0	2.0	2.0	2.0
10-year U.S. bonds	4.6	4.0	4.6	3.9	3.6	4.2	4.3	4.4	4.4
10-year German bonds	4.8	4.1	4.4	4.1	3.9	4.1	4.3	4.2	4.2
10-year Spanish bonds	5.0	4.1	4.4	4.1	3.9	4.1	4.3	4.2	4.2
Exchange rate									
\$/Euro	0.95	1.13	1.22	1.07	1.14	1.12	1.19	1.25	1.28

" la Caixa" GROUP: KEY FIGURES
As of December 31, 2002

FINANCIAL ACTIVITY	Million euros
Total customer funds	105,069
Receivable from customers (including securitizations)	65,168
Group income	683

STAFF, BRANCHES AND MEANS OF PAYMENT	
Staff	23,550
Branches	4,630
Self-service terminals	6,833

" la Caixa" FOUNDATION	
Budget for 2003 (million euros)	168.700
Science Museum (number of visitors)	358,538
«CosmoCaixa» (number of visitors)	552,344
Exhibitions	329
Concerts and musical events	407
Recreation Clubs for elderly	523
Fellowships for study abroad (1982-2002)	1,562

THE SPANISH ECONOMY: MONTHLY REPORT

January 2004

CAJA DE AHORROS Y PENSIONES DE BARCELONA

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ECONOMIC OUTLOOK FOR 2004

In the final months of 2003 the world economy has given confirmation of a state of **recovery expected to continue all through 2004**. The rise in raw material prices and increases in oil prices are a reflection of this change of scene, apart from the specific circumstances of each market. The engine of world growth is again the United States which, after growing by 3% in 2003, will continue to increase economic activity to rates of 3.5%-4% in 2004, thanks to the strong rate of household spending and the recovery of investment in a context of increased job creation and the absence of inflationary pressures. For the moment, it is not expected that the growing public deficit will affect this trend although over the medium term the huge imbalance in the public finances will hamper the growth potential of the U.S. economy. With regard to the foreign deficit, the effect of depreciation of the dollar should make it possible to bring this down to more sustainable levels.

The euro area is also ending 2003 with some increase in growth although the dominant tone remains one of **stagnation with weak signs of recovery**. Growth in the euro area in 2003 stood at a bare 0.5% although in 2004 it is expected that recovery of investment and consumption will bring about a strengthening of growth to 1.5%-2%. The improvement in corporate and consumer confidence at the end of 2003 will show up as an increase in the level of domestic demand while at the same time the strength of the U.S. and Asian economies will give support to the growth of foreign demand. The appreciation of the euro, on the other hand, will go against recovery of the euro area.

In this context, we may expect that the main central banks will begin an upward shift in official interest rates in 2004. Nevertheless, given the weaknesses of the present recovery and the prospect of contained inflation, **the rise in reference rates will be moderate and will not take place for some months yet**. In addition, given that that U.S. economic cycle is ahead of that in Europe, it is likely that the Federal Reserve Board will begin to raise interest rates first in the second quarter while the European Central Bank could follow that move some months later. Long-term interest rates will continue at current levels for some time while then increasing progressively. With regard to the dollar, the trend in foreign exchange markets could bring about overselling of the dollar so that its relation to the euro could put it at an exchange rate of 1.30 dollars in coming months. With regard to the stock markets, the outlook for 2004 is also positive.

With regard to Spain's economy, domestic demand continued to show a fairly strong level in the final months of 2003 basically due to the sustained increase in consumption (which was helped by continuing growth of employment and wages) and the drive in construction. If, as is expected, recovery of the international economy brings about a strong increase in exports, **GDP growth will be close to 3% in 2004**. In that situation, employment will continue to grow at a moderate rate while the unemployment rate will drop slightly. In prices, the rise of the consumer price index in November was merely of a specific nature and did not change prospects that the year would end with an inflation rate below 3% and that this would go down a few decimals more in 2004. In addition, it may be expected that the foreign deficit will tend to moderate over the coming year and that the public accounts will continue in balance.

December 22, 2003

ECONOMIC SITUATION

2003 ends better than it began

Signs of recovery of world economy confirmed.

The year 2003 ended much better than it began when doubts about world recovery and the risks of the war against Iraq darkened the economic scene. Now it is considered that world economic recovery has been confirmed thanks to the drive in the United States and the takeoff of Asian economies such as China and India. Even in the European Union we are beginning to see more and more signs of recovery within the framework of weakness still troubling the main Continental economies. Although oil prices are almost as high as in the most anxious moments of the war against Iraq and other raw materials are showing price rises, inflation remains absent from the economic horizon. The improvement in prospects and moderate interest rates have meant that, in 2003, the stock markets showed gains for the first time in three years.

U.S. economy maintaining growth but job creation very low.

In the final months of 2003, the U.S. economy is maintaining growth with very strong private consumption and corporate investment recovering. On the demand side, what is notable is the strength being shown by construction, the firmness in services and especially the signs of recovery in the manufacturing sector. In any case, the higher level of economic activity is not being clearly reflected in job creation.

High U.S. productivity holding down inflation but government deficit and foreign deficit troubling.

The situation of «recovery without employment» is the result of the high level of productivity and the early stage in the growth cycle so that we may expect a gradual improvement in the course of 2004. The high level of productivity in the United States also explains the practical absence of inflation. The year-to-year rate for the consumer price index in November was down by two decimals compared with the previous month to stand at only 1.8%. Underlying inflation, in turn, which does not include energy or food, stood at 1.1%. The trend in the government deficit was less positive and by the third quarter was running at the troubling level of 6.5% of the gross domestic product (GDP). Nor are we seeing any substantial correction in the current account deficit which is close to 5% of the GDP.

Dollar continuing downward slide...

The dollar has been hurt by the growing government deficit but, on the other hand, it should help to correct the foreign deficit. On December 17, the U.S. currency marked up a low in relation to the currencies of the 26 countries showing the highest volume of trade with the United States recording a decrease of 12.2% compared with the high reached in January 2002. What we see is a relatively controlled devaluation, although the fact that in a good number of those countries their currencies are linked to the dollar means that the burden of the correction falls to an excessive degree on currencies such as the yen and the euro.

...something that does not favour recovery of European economy...

As a result, the euro has undergone a succession of all-time highs against the dollar in recent weeks going to a level of 1.242 dollars three years after the all-time low of 0.82 dollars recorded in October 2000. The strength of the euro is not something most desirable for the euro area economy which is showing major difficulties in following in the wake of growth in the United States and other dynamic economies. In any case, indicators suggest that the worst is over. Results in the third quarter show the first growth in the euro area GDP since the end of 2002 (at quarter-to-quarter rate). Furthermore, we should point out that it is precisely the foreign sector which has made this progress possible given that domestic demand has been less dynamic than in previous quarters.

...where confidence indicators improving considerably.

The most recent indicators suggest that recovery will continue although at a quite contained rate. Consumer confidence has notably improved and the industrial climate indicator was up sharply in November. The German economy, which carries most weight in the euro area, is showing a very weak recovery but some hopeful signs have appeared such as a rise in utilization of production capacity, an improvement in industrial production and latest results of the main survey of business activity. Similar trends are also to be seen in France while Italy remains in a state of stagnation.

Inflation in euro area holds above 2%.

In spite of the low level of economic activity, inflation in the euro area is not going below 2%. In November, the rise in energy prices raised the year-to-year rate for the consumer price index (CPI) by one decimal to 2.2%. The European Central Bank has revised its inflation forecasts for coming months slightly upward.

Interest rates continue low while stock markets showing growth for first time in three years.

Neither the ECB nor the Federal Reserve Board, the U.S. central bank system, changed reference rates in the second half of 2003. The somewhat fragile recovery of economic activity and the absence of inflationary pressures lie behind easy monetary policies, especially in the case of the United States, with the result that short-term interest rates remain at low levels. The increase in yields on government bonds which began toward mid-year recently slowed down for the same reasons. On the other hand, the markets gained a sharp drive in the final stages of 2003 to reach annual highs and record the first annual rise in prices in the last three years.

Favourable trend in Spain's economy

Short-term interest rates in Spain below inflation rate...

Nominal short-term interest rates in Spain remain stuck at very low levels which explains that, if inflation is discounted, real interest rates continue to be negative. This is boosting demand for loans which, in turn, is partly feeding into growth of domestic demand. As a result, bank loans to companies and households are growing at rates of 13% while mortgage loans are holding at 20% growth. With regard to loan default, the percentage of doubtful loans continues at all-time lows.

...which makes possible continued favourable financing terms for private consumption and construction.

Favourable financing terms, among other factors, are making it possible to sustain growth of private consumption and construction, the two bases on which the growth of Spain's economy has rested in recent years. Most recent indicators show a continuation of current trends with a fairly solid advance in household consumption, notable strength in construction and recovery of capital goods investment despite some ups and downs.

Companies presenting favourable results...

The good state of the economy is being fully reflected in the satisfactory state of companies seeing that, in the first three quarters in 2003, the gross profit of those companies surveyed for the Composite Company Statistics prepared by the Bank of Spain underwent growth of 7.3%. Furthermore, the decrease in interest rates meant that ordinary net profit was up by 15.4%, the highest rate in the last five years.

...and job creation continues strong with bigger wage rises.

Growth of Spain's economy, while relatively modest at close to 2.5%, is continuing to create employment. Latest available indicators show up in registrations with Social Security, which continue to reach new highs (16.87 million persons in November), a growth rate of 3%, higher than estimated for the economy. Wages, in turn, have risen in 2003 according to the results shown in the Labour Cost Index in the first three quarters with an increase of 4.5%.

November inflation stands at 2.8%...

Government pensions also will show a further increase, due to the fact the inflation rate taken as reference (year-to-year CPI growth in November) was 2.8% as against the 2.0% objective set by the government. The CPI result is in line with figures for recent months although it was brought down to 2.6% in October, the lowest rate in any month during 2003.

...while trade deficit continues to grow...

The most troubling results are still showing up in the foreign sector due to the constant worsening of the trade balance. The strength of domestic demand, along with the weak recovery of the European economy, partly explains this trend. In the background, however, lies a certain competitive weakness which arises from the unfavourable trend in costs in a context of fixed exchange rates with Spain's euro area partners and the revaluation of the currency in terms of third countries.

...and government deficit moving toward balance.

Finally, at only a month before the end of the year, implementation of the central government budget showed a favourable result with a surplus which presumably will make it possible to meet the objective of financial balance. We should especially point out the increase in indirect tax collections, particularly for value added tax (increase of 10.8%), which provides another sign of the drive in the economy in the last part of the year.

CHRONOLOGY

2002

- January 1** *New **notes and coins in euros** go into circulation.*
March 1 ***Peseta** no longer legal tender.*

2003

- January 1** *Coming into force of **Central Government Budget for 2003** which sets objective of zero government deficit for third consecutive year (BOE 31-12-02).
 Coming into force of **Law on Personal Income Tax Reform** which involves decrease in individual tax load (BOE 19-12-02).
 Culmination of **liberalization of energy markets** offering possibility for households and small businesses to choose electricity and gas supplier.*
- March 6** *One-month forward price for Brent quality **oil** moves up to 33.6 dollars a barrel, the highest level since October 2000.*
- 20** *United States and its allies begin **war against Iraq** to depose Saddam Hussein regime.*
- April 16** *Ten new member states sign **Treaty of Accession to European Union**.*
- 27** *Coming into force of group of **economic reform measures** aimed at reducing cost of mortgage loans, fostering female employment, improving scheme for self-employed persons under Social Security and access of young people to rental housing, as well as improving tax treatment of small and medium-size companies (BOE 26-4-03).*
- May 25** ***Elections** for local government and autonomous communities.*
- June 5** ***European Central Bank** cuts official interest rate by 50 basis points to 2.00%, the second reduction this year.*
- 25** ***Federal Reserve Board** cuts reference rate by quarter-point to 1.00%.*
- September 14** *Sweden rejects adoption of **euro** in referendum.
World Trade Organization summit in Cancun (Mexico) ends without agreement.*
- November 1** *Jean-Claude Trichet, former governor of French central bank, takes over from Willem F. Duisenberg as **chairman of European Central Bank**.*
- December 19** *Dow Jones index for **New York stock** exchange marks up annual high (10,278.2), rise of 23.2% compared with end of 2002.
 IBEX 35 index for **Spanish stock** market records annual high (7,617.6) with cumulative gains of 26.2% over end of December.
Euro running at 1.242 dollars, highest level since its launching at beginning of 1999.*

AGENDA

January 2004

- 8** *Meeting of Governing Council of European Central Bank.*
- 9** *Industrial production index (November).*
- 15** *Consumer price index (December).*
- 21** *Harmonized consumer price index of European Union (December).*
- 25** *Producer price index (December).*
- 27/28** *Meeting of Open Market Committee of Federal Reserve Board.*
- 28** *Labour force survey (4th Quarter).*
- 29** *U.S. GDP (4th Quarter).*

February 2004

- 5** *Industrial production index (December).
 Meeting of Governing Council of European Central Bank.*
- 13** *Consumer price index (January).*
- 25** *Quarterly National Accounts (4th Quarter).*
- 26** *Producer price index (January).*
- 27** *Harmonized consumer price index for European Union (January).*

INTERNATIONAL REVIEW

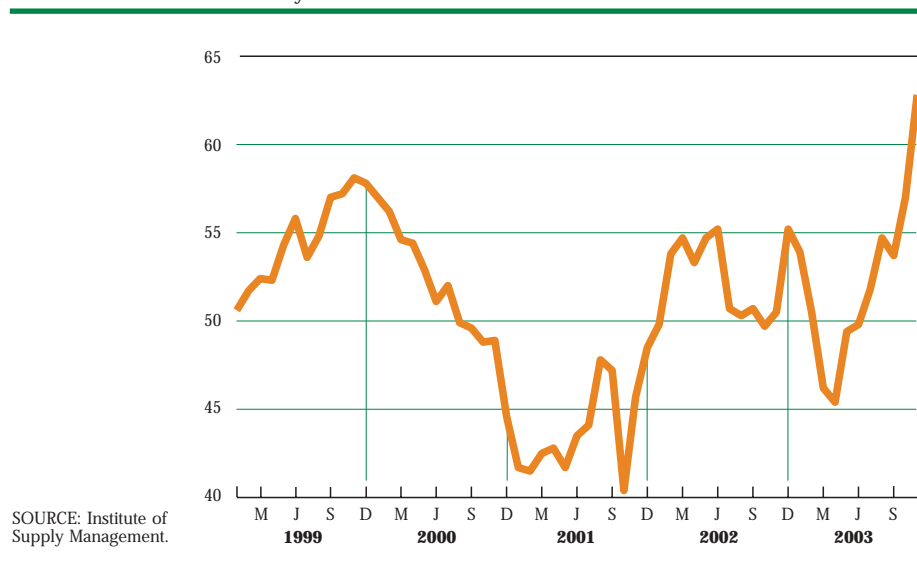
United States: economic activity rate strong in fourth quarter

United States ends year with growth thanks to very strong private consumption and recovery of investment.

In the final months of 2003 the U.S. economy is maintaining growth with very dynamic private consumption and recovery of investment. In November, the increase in retail sales to 6.9% year-to-year (6.5% in October) and the sharp rise in consumer confidence which went up 10 points to the 91.7 points level are indicators that private spending remains robust. At the same time, investment is continuing to recover strength. The capital goods component in industrial production grew by 2.9% year-to-year in November, compared with 0.7% on average in the third quarter. Going along the same lines was the increase in the level of utilization of production capacity which in November added a sixth consecutive month showing an improvement with a figure standing at 75.7%.

ECONOMIC ACTIVITY BUOYANT IN UNITED STATES

Value of ISM industrial activity index



Strong level of activity in construction which shows no sign of dropping...

A perusal of supply indicators makes it possible to precisely evaluate the various sector contributions to economic recovery. In all the most recent stage of the cycle construction has maintained a very notable rate of economic activity. At the middle of the fourth quarter this strength is continuing to hold up. Housing starts in November stood at a year-to-year increase rate of 16.5%, higher than the strong 11.4% year-to-year figure in the third quarter. Continued growth in construction seems assured seeing

that the main early indicator, building permits, was up above 5% year-to-year on average in October-November.

UNITED STATES: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2002	2003				
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November
GDP	0.3	2.4	2.8	2.1	2.4	3.6	–	3.6
Retail sales	2.9	3.1	2.1	4.5	4.8	6.2	6.5	6.9
Sales of single-family homes	3.1	7.7	10.9	7.7	15.0	13.6	10.0	...
Consumer confidence (*)	106.6	96.6	81.7	68.3	82.7	78.6	81.7	91.7
Industrial production	–3.4	–0.6	1.3	1.1	–1.0	–0.4	0.8	1.6
Industrial activity index (ISM) (*)	43.9	52.4	51.8	50.2	48.2	53.4	57.0	62.8
Unemployment rate (**)	4.8	5.8	5.9	5.8	6.2	6.1	6.0	5.9
Consumer prices	2.8	1.6	2.2	2.9	2.2	2.2	2.0	1.8
Trade balance (***)	–36.1	–35.6	–37.8	–40.7	–42.5	–43.7	–44.6	...

NOTES: (*) Value.

(**) Percentage of labour force.

(***) Cumulative balance for 12 months as monthly average. Billion dollars.

SOURCE: OECD, national statistical bodies and internal figures.

...to which must be added services still maintaining acceptable rate and industry now recovering.

The second support base for recovery is to be found in services. In spite of some recent slowing down the drive is still holding firm. In November, the non-manufacturing indicator put out by the Institute of Supply Management (ISM) recorded a drop to the 60.1 points level. In spite of the fact that this figure stands below the average for the third quarter (64.5 points), it should be remembered that this is still four points higher than the historical average for this indicator. The sector missing in the process of shoring up recovery was the secondary sector. It now appears that industrial recovery is finally under way. Industrial production in November showed an increase in year-to-year growth rate to 1.6% which represents the fifth consecutive month of increased rate.

Limited increase in employment in November while unemployment down.

In any case, the higher level of industrial activity is still not showing up clearly in job creation which is putting off an increase in employment and thus the future sustainability of recovery. The level of employment in November was still 0.2% below that for one year earlier. This year-to-year decrease rate, which has continued without change since last September, was basically due to the fact that loss of manufacturing jobs even went to 3.6% year-to-year in November. In turn, the unemployment rate dropped by one decimal to 5.9%.

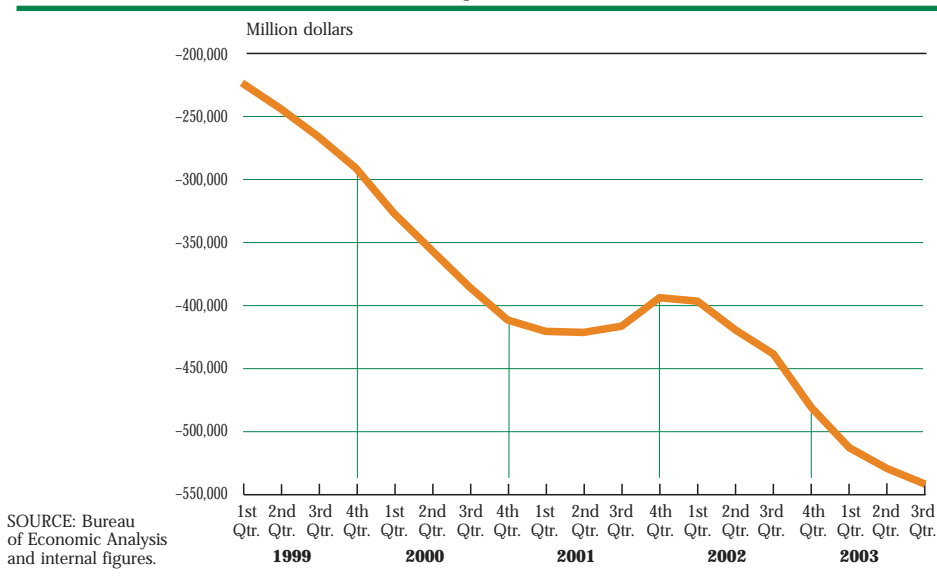
Consumer prices drop to 1.8% in November.

In addition, the month-to-month drop in the consumer price index (CPI) of three decimals in November brought the year-to-year change rate down to 1.8%, two decimals less than the month before. The month-to-month decrease in prices was mainly due to the drop in energy prices and, although to a lesser degree, to prices of industrial goods. Underlying inflation, which does not include energy or foods, stood at 1.1% year-to-year as against 1.3% in October.

Despite moderate correction of current account deficit in third quarter it still stands at 5% of GDP.

Another troubling imbalance in the U.S. economy is that for the foreign sector. While the current account deficit was down to 135 billion dollars in the third quarter, as against 139.4 billion dollars in the second quarter, this figure is still closely equivalent to 5% of the gross domestic product (GDP). As a cumulative figure for four quarters, which most closely approximates the basic trend, the deficit in the balance of payments continued to increase to 541.7 billion dollars.

U.S. CURRENT ACCOUNT DEFICIT CONTINUES TO GROW
Cumulative current account balance for four quarters



Japan: recovery continuing

Japan records best consumer indicators in recent years.

The start of the final quarter of 2003 is showing that Japan's recovery is continuing to move ahead. In this respect, supply and demand indicators for October were the best in recent months. Retail sales stood in the range of year-to-year increases for the first time since March 2001 which would confirm an improved state of private consumption. Prospects for corporate investment continue to be positive. Machinery orders rose to 13.3% year-to-year in October (8.8% year-to-year in September).

Strength of exports giving drive to industry.

With regard to foreign demand, exports in October maintained a notable rate going up by 4.2% year-to-year which brought further recovery in the cumulative 12-month trade surplus which went to 9,800 billion yen (9,500 billion in the third quarter). As a result of the strength of exports, industrial production in October rose to 3.8% year-to-year, the highest since last March.

JAPAN: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2002	2003				
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November
GDP	0.4	-0.3	1.8	2.7	2.3	1.8	-	...
Retail sales	-2.2	-3.9	-2.9	-1.3	-2.6	-2.3	0.3	...
Industrial production	-6.6	-1.3	6.0	5.5	1.7	1.3	3.8	...
Tankan company index (*)	-22	-24	-15	-13	-7	-3	-	8
Housing construction	-4.6	-1.9	-2.8	-2.1	2.2	-0.6	1.0	...
Unemployment rate (**)	5.0	5.4	5.4	5.4	5.4	5.2	5.2	...
Consumer prices	-0.7	-1.0	-0.5	-0.2	-0.3	-0.2	0.0	...
Trade balance (***)	8.1	8.2	9.6	9.9	9.6	9.5	9.8	...

NOTES: (*) Value.

(**) Percentage of labour force.

(***) Cumulative balance for 12 months. Trillion yen.

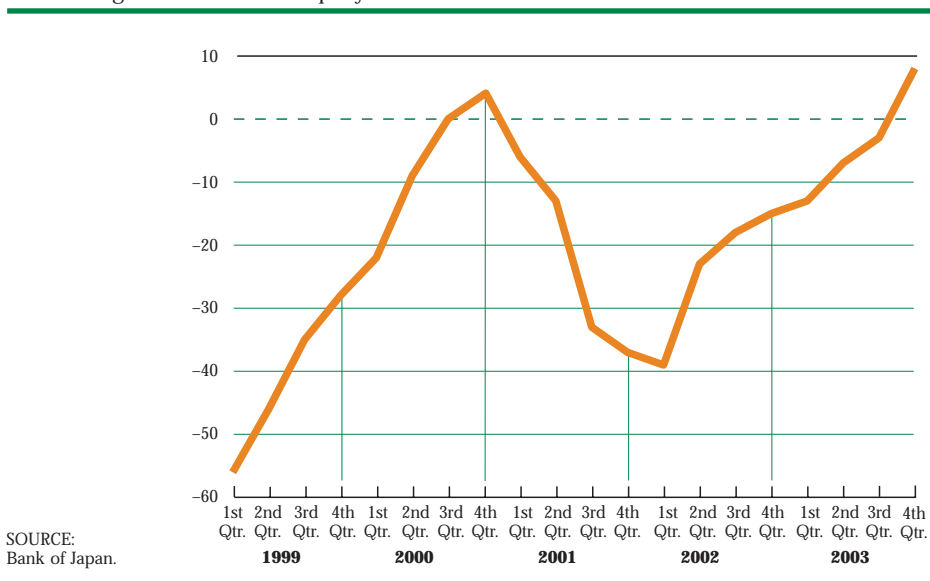
SOURCE: OECD, national statistical bodies and internal figures.

Business confidence highest since 1991.

But perhaps it is the Tankan business confidence index which most accurately reflects the improved prospects for the economy. In the fourth quarter of 2003 the Tankan index stood at the 8 positive points level, the best figure since the far-off fourth quarter of 1991. Companies polled stated that a large part of the improvement in economic activity is coming from more favourable international conditions although national factors are also partially recovering. This increase in activity along with recovery of profit margins will likely mean that investment will be up in 2003 and in the early months of 2004.

JAPAN'S BUSINESS CLIMATE NOTABLY BETTER

Absolute figure for Tankan company index



For first time since 1999, CPI stops dropping although threat of deflation persists.

With regard to consumer prices, October was the first month since January 1999 when the CPI did not show a drop in year-to-year rate (reporting a nil year-to-year change). Nevertheless, immediate prospects indicate that deflation will show up again in coming months given that the increase in prices was due to specific factors such as the increase in taxes on tobacco and higher costs of health services. In addition, the unemployment rate again increased in October going to 5.2% of the labour force (one decimal higher than in September).

Raw materials: substantial rise in prices

Oil prices go above \$30 a barrel because of increased demand, low inventories and geopolitical uncertainty.

Oil prices held at values of the order of 30 dollars a barrel at the end of 2003. A combination of low-level inventories, geopolitical uncertainty which refuses to go away and the drive in demand because of the start of the winter season explain why «black gold» is swinging around the highest levels since last May at the end of the war in Iraq. After recording a price of 30.54 dollars on November 18, the following month the price has scarcely eased going to 29.08 dollars on December 22. The decision by the Organization of Petroleum Exporting Countries to maintain official production quotas at 24.5 million barrels a day at least until February (which if kept to would imply a real reduction of 1.5 million barrels a day because current production is in excess of the quota theoretically in force) puts off the possibility of seeing any significant easing of prices in coming months.

RAW MATERIALS PRICES

	2001	2002	2002	2003				
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November
«The Economist» index in dollars (*)								
General	-6.4	4.4	17.6	14.1	10.4	6.5	11.1	14.3
Food	-3.7	7.4	19.2	15.4	12.7	0.8	3.5	8.4
Industrials	-10.0	0.3	15.3	12.3	7.2	15.1	23.3	23.8
Non-food agricultural	-7.0	6.1	26.0	20.0	11.4	17.3	23.8	24.5
Metals	-12.2	-4.2	7.1	5.9	3.9	14.2	22.8	22.9
«The Economist» index in euros (*)								
	-3.5	-0.8	6.1	-6.7	-11.0	-6.9	-6.9	-1.7
Oil (**)								
Dollars/barrel	24.9	25.1	26.5	30.5	25.8	28.2	28.9	28.8
Change rate	-12.4	0.8	32.2	41.4	1.1	5.3	5.6	18.8
Gold								
Dollars/ounce	271.2	310.4	323.4	352.2	347.0	363.5	379.0	390.6
Change rate	-2.9	14.5	16.1	21.3	11.0	15.6	19.7	22.5

NOTES: (*) Year-to-year change rate.

(**) Brent quality: one-month forward price.

SOURCE: «The Economist», Thomson Financial Datastream and internal figures.

*World recovery
pushes up raw
material prices,
most of which stand
at highest levels
in recent years.*

The strong drive in world demand, with China as an outstanding example, is resulting in a situation where other raw materials have been showing sharp price increases since the beginning of autumn. «The Economist» index for raw materials in dollars was up 14% year-to-year in November, an increase which was stepped up in the first three weeks of December. Industrial raw materials, with increases of more than 23% year-to-year between October and December, have led the rise in prices. As a result of these upward trends some raw materials have gone to the highest levels in recent years. Some significant cases showed up in platinum (highest in 23 years), nickel (in 14 years), copper (in 6 years) and aluminium (in 2 years). Gold, in turn, went above 400 dollars an ounce for the first time in since the beginning of 1996. The increase in raw material prices is having a limited impact in the euro area given that the effect of appreciation of the euro has meant that «The Economist» index expressed in the European single currency fell by 1.7% year-to-year in November.

EUROPEAN UNION

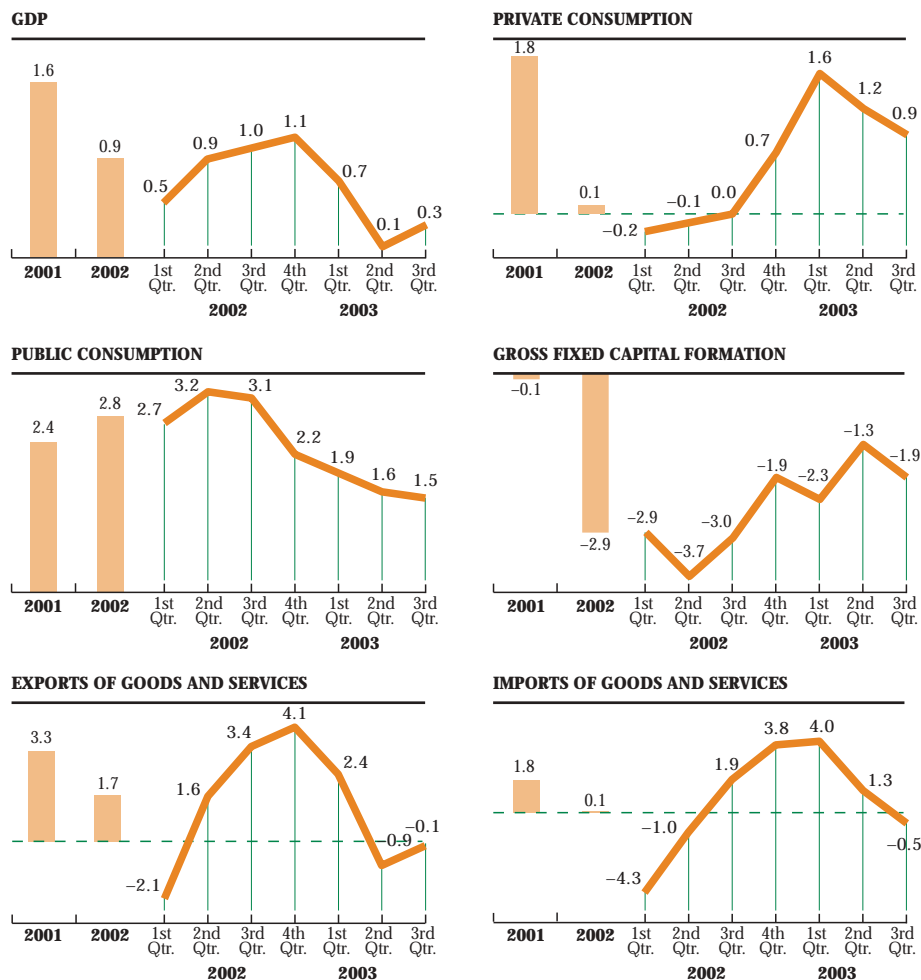
Euro area: economy recovering in third quarter

Euro area grows by 0.3% in third quarter.

In the third quarter, the euro area grew by 1.6% quarter-to-quarter annualized, the first increase since the fourth quarter of 2002. At year-to-year rate, the increase in the gross domestic product (GDP) was 0.3%, a slight increase over the 0.1% year-to-year recorded in the second quarter. The return to growth was largely due to the change taking place in the foreign sector. As a result, foreign demand, which had taken 0.8% away from the GDP in the April-June period, came to make a positive contribution of 0.1% in the third quarter.

GROSS DOMESTIC PRODUCT IN EURO AREA BY COMPONENT Percentage year-to-year change

Foreign demand saves growth.



SOURCE: Eurostat and internal figures.

Domestic demand continues at very contained rates.

Domestic demand, on the other hand, was less dynamic, a trend to which all components made a contribution. Private consumption went from growth of 1.2% year-to-year in the second quarter to 0.9% year-to-year in the third quarter. The performance in investment was worse with the year-to-year rate of decrease going up from the previous 1.3% to 1.9%. On the other hand, public consumption was practically stable showing a increase of 1.5% year-to-year in the July-September period, barely one decimal less than in the second quarter. Finally, the change in inventories took off three decimals from the increase in the GDP, compared with the previous positive contribution of 0.2%.

EURO AREA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2002	2003				
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November
GDP	1.6	0.9	1.1	0.7	0.1	0.3	–	...
Retail sales	1.7	0.0	–0.3	0.9	1.0	–0.6	...	...
Consumer confidence (*)	–5	–11	–14	–19	–19	–17	–17	–16
Industrial production	0.5	–0.5	1.3	1.1	–0.6	–0.3	0.9	...
Economic sentiment indicator (*)	97.0	95.6	95.3	94.9	94.8	95.0	95.5	95.9
Unemployment rate (**)	8.0	8.4	8.6	8.7	8.8	8.8	8.8	...
Harmonized consumer prices	2.3	2.2	2.3	2.3	1.9	2.0	2.0	2.2
Trade balance (***)	18.4	84.3	99.5	93.5	82.9	78.7	78.3	...

NOTES: (*) Value.

(**) Percentage of labour force.

(***) Cumulative balance for 12 months. Billion euros.

SOURCE: Eurostat, European Central Bank and internal figures.

Consumption and investment expected to recover part of lost ground in fourth quarter.

The few available indicators for the fourth quarter suggest that recovery will continue although at a contained rate. While the latest figures for retail sales published still refer to the third quarter (drop of 0.6% year-to-year in September), the rise in consumer confidence, which put that indicator at a level of –16 points in November (the highest since December 2002), would indicate that private consumption will end the year at a better level. At the same time, increased utilization of production capacity in the fourth quarter (81.2% as against 80.7% in the third quarter) would augur less depressed investment activity.

Notable rise in industry in October which should extend into coming months.

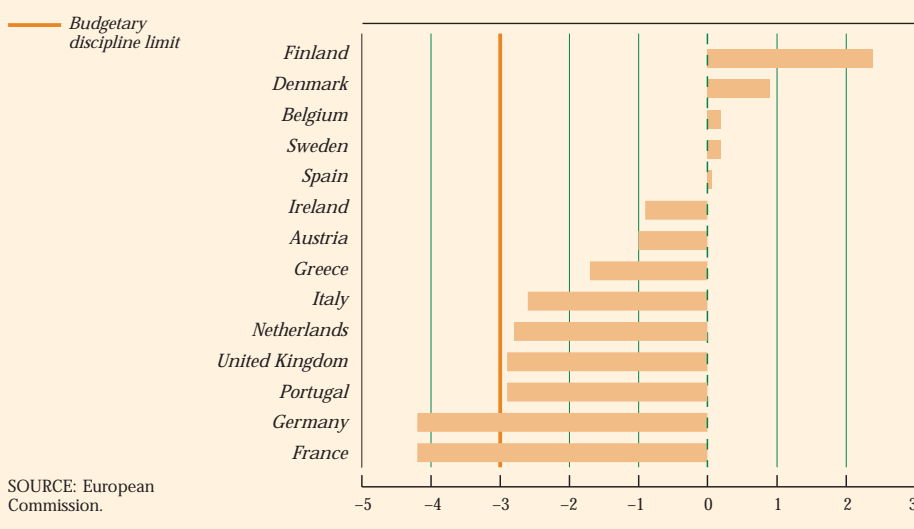
Supply indicators confirm the same course of change to a stronger level of economic activity. While still erratic in recent months, in October industry seemed to have moved onto a clearly upward path. That month the industrial production index went above 0.9% year-to-year as against a year-to-year drop of 1.3% in September. The sharp rise in the industrial climate indicator in November supports a continuation of recovery in the secondary sector. Economic activity in services will also tend to rise, if we are to go by the eighth consecutive monthly increase in the sector confidence index reported in November.

ECOFIN BREAKS WITH STABILITY AND GROWTH PACT

At its meeting on November 25, the Council of Ministers of Economy and Finance of the European Union (ECOFIN) decided not to apply the protocol set out in the Stability and Growth Pact (SGP) to penalize Germany and France for their excessive public deficits. This was a very controversial move and created a major commotion. After profoundly regretting this decision, the European Central Bank stated that this could put the credibility of the institutional framework in danger as well as confidence in the soundness of the public finances of the states in the euro area.

It should be remembered that the origin of the SGP is to be found in the Treaty on European Union (1992) which establishes that member states are to avoid excessive public deficits. In order to guarantee this principle, a supervisory mechanism was established to watch over budgetary implementation of member states under the supervision of the Council itself, which, in the final instance, may apply fines of «suitable size» to the offending member state. In the protocol appearing as an appendix to the Treaty, criteria for budgetary discipline are set out: the public deficit cannot exceed 3% of the GDP while government debt cannot exceed the equivalent of 60% of the GDP.

2003: FORECAST GOVERNMENT DEFICITS
Percentage of GDP



In 1997, the Council adopted the SGP, a political agreement aimed at toughening and regulating the Treaty terms on excessive government deficits more strictly. According to the SGP, member states would maintain their budgets in balance or showing a surplus. If a member state went above the limit of 3% in the government deficit when it was not in a serious economic recession (a minimum of 2% decrease in GDP) nor as a result of exceptional circumstances, the Council had to conclude that there existed an «excessive deficit». In that case, the deficit had to be corrected the year following its appearance. If the member state affected did not take the necessary measures within 10 months, the Council would impose sanctions and could demand a deposit without interest in the EU accounts for an amount between 0.2% and 0.5% of the GDP. If this was not corrected in the following two years the deposit would become a fine.

In fact, the SGP was promoted by Germany in order to make the participation of certain countries in the Economic and Monetary Union difficult and in order to ensure that the euro

would be a strong, stable and solvent currency, similar to the deutschemark. For this purpose, it was considered essential to have a guideline for coordinating budgetary policies and avoiding that the consequences of a lack of control in any specific country might end up having to be borne by the euro area as a whole in the shape of more inflation or higher interest rates. Even while recognizing the need for guidelines on budgetary discipline, critics of the SGP consider it excessively rigid, arbitrary and, indeed, inapplicable. They say it does not take into account other factors such as the level of government debt or debt arising from future pension and public health commitments, etc. Furthermore, critics add, cutting government spending or applying sanctions or fines could mean still worsening the situation of the country having problems.

2003: FORECAST GOVERNMENT DEBT
Percentage of GDP



The mechanism foreseen in the SGP has so far been applied to three countries. First, to Portugal in November 2002 when the ECOFIN Council became aware of the existence of an excessive government deficit. The measures adopted to halt the growing deficit managed to ensure that this did not go over 3% of the GDP in 2003 but Portugal has dropped into economic recession. In January 2003, the ECOFIN Council noted the existence of an excessive deficit in Germany and in June 2003 the same happened with France. As measures adopted by the respective governments did not guarantee a correction of the deficit in the period foreseen, the European Commission recommended the application of the necessary dispositions in order to halt the deficit under threat of the application of the sanctions provided for in the SGP. The Council ignored those recommendations.

The consequences of this action are complex. On the one hand, it gives the impression that there are two measurement sticks depending on whether the offending country is small (Portugal) or one of the larger countries (France or Germany), which, as stated by the European Central Bank, undermines the credibility of the system. Furthermore, the lack of control over government finances could lead the euro area to higher interest rates or could prejudice the single currency. On the other hand, a non-strict application of the SGP could considerably help both economies to more rapidly recover from recession. In any case, it is clear that the SGP needs to be suitably modified to turn it into a more effective weapon both to correct excessive deficit situations and especially to prevent their occurrence.

Energy raises CPI to 2.2% in November.

In addition, specific factors continue to raise prices. In November, the harmonized consumer price index (HCPI) rose by two decimals to 2.2% year-to-year. The culprit for this prices increase was the energy component which went from growth of 0.7% year-to-year in October to 2.2% year-to-year in November. If we discount this heading, the resulting rate holds at 2.1%, the very same year-to-year rate as in October.

Unemployment holds at 8.8% over past eight months.

Neither employment nor unemployment is showing significant signs of improvement. Job creation in the second quarter stood at nil year-to-year growth which represents the fourth quarter without any rise. The unemployment rate is just as stable. In October, the rate held at 8.8% of the labour force for the eighth consecutive month.

Loss of drive in exports in October.

With regard to foreign demand, exports in October were down by 2.8% year-to-year. Only the drop in imports (3.1% year-to-year) made it possible to hold the 12-month trade surplus at 78.3 billion euros with no change over the August and September figures.

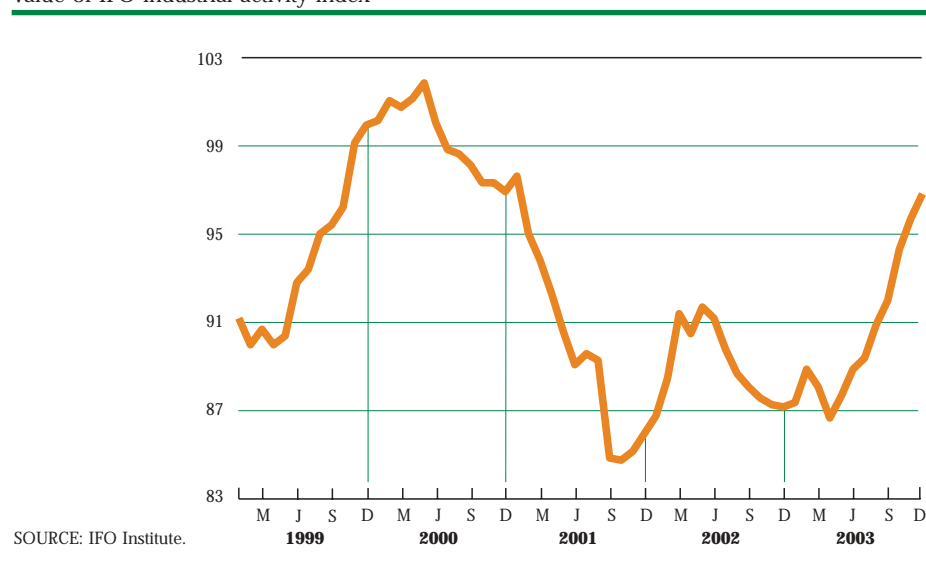
Consumption in Germany remains weak while investment seems to moving into stage of greater activity.

Germany: weak recovery

Recovery in Germany continues very weak and this is only partly reflected in demand and supply indicators. The lack of strength in private consumption does not seem about to be considerably reduced in the fourth quarter, in view of the drop in retail sales in October (year-to-year drop of 2.0% compared with an increase of 0.1% year-to-year in September). On the other hand, the recovery of utilization of production capacity (which went to 83.1% in the third quarter) and the good performance in the capital goods component of industrial production (year-to-year increase of 4.9% in October), may be an indication of a positive change in corporate investment.

ECONOMIC ACTIVITY IN GERMANY SHOWING NOTABLY BETTER PROSPECTS

Value of IFO industrial activity index



Good figures for industrial production and business activity.

In any case, the most promising news comes on the supply side. Industrial production in October reached year-to-year growth of 0.8%, its best figure since last July, a trend which should continue in coming months, if we are to go by the rise in industrial orders in September and October. The sharp rise in the IFO industrial activity indicator goes along the same lines. With the increase recorded in December (going to 96.8 points) this makes eight consecutive months of rises which would indicate better economic activity in coming months.

GERMANY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2002	2003				
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November
GDP	1.0	0.2	0.5	0.1	-0.3	-0.2	-	...
Retail sales	0.1	-1.4	-0.7	0.0	1.2	-2.5	-2.0	...
Industrial production	-0.1	-1.3	0.8	0.7	-0.2	-1.2	0.8	...
Industrial activity index (IFO) (*)	89.8	89.1	87.4	88.1	87.8	90.8	94.3	95.7
Unemployment rate (**)	9.6	10.1	10.1	10.6	10.5	10.5	10.5	10.5
Consumer prices	2.0	1.3	1.2	1.2	1.0	1.1	1.3	1.4
Trade balance (***)	75.4	118.8	132.4	131.6	128.7	129.9	130.6	...

NOTES: (*) Value.

(**) Percentage of labour force.

(***) Cumulative balance for 12 months. Billion euros.

SOURCE: OECD, national statistical bodies and internal figures.

Weakening of exports in October troublesome given how dependent recovery is to contribution from foreign demand.

In this situation of recovery in business activity, in order to consolidate the move out of recession it is fundamental that the contribution from the foreign sector be maintained. Because of this, the result of the foreign sector in October may be considered as not very satisfactory. In spite of the international recovery, foreign sales fell by 1.2% at year-to-year rate. The drop in exports, which came parallel to a rise in imports (year-to-year growth of 0.1%) meant that the trade surplus, as a cumulative 12-month balance, cut short the course of recovery it had begun in June.

Consumer prices up 1.4% in November while unemployment holding at 10.5%.

On the other hand, the results on the prices and unemployment fronts are better. In November, the CPI grew by 1.4% year-to-year (1.3% year-to-year in October), a moderate rise, but one which may be considered positive because it means putting off the threat of deflation. That same month there was also a further reduction in the number of unemployed so that this group went down by 41,000 in the September-November period. In any case, the decrease in unemployment is not enough to lower the unemployment rate which has been stable at 10.5% of the labour force since September.

France: economy moves into stage of increased activity

French economy recovers in fourth quarter with improvement in economic sentiment, consumption and investment.

Immediate prospects for the French economy have improved in recent months. This turnaround is confirmed by the trend in a broad indicator, economic sentiment, which stood at a level of 95.9 points in November (95.2 points in the third quarter). With regard to partial indicators, the recovery in domestic consumption in October when it recorded a rise to 4.3% year-to-year (as against 3.6% year-to-year in September) and in the consumer goods component of industrial production (increase of 2.0% also in October) reflects an increased level of household consumption. The recent trend in the capital goods component of industrial production points along the same lines with a drop of only 1.5% year-to-year in October, a substantial improvement over the year-to-year decrease of 4.2% in the third quarter.

FRANCE: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2002	2003				
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November
GDP	2.1	1.2	1.3	0.7	-0.4	-0.2	-	...
Domestic consumption	3.8	1.2	0.6	2.2	1.0	1.5	4.3	...
Industrial production	1.2	-1.0	-0.1	0.3	-2.0	-1.9	0.5	...
Unemployment rate (*)	8.8	9.3	9.3	9.4	9.5	9.7	9.7	...
Consumer prices	1.7	1.9	2.2	2.4	1.9	2.0	2.2	2.3
Trade balance (**)	-3.6	5.5	6.9	7.0	5.1	4.0	3.8	...

NOTES: (*) Percentage of labour force.

(**) Cumulative balance for 12 months. Billion euros.

SOURCE: OECD, national statistical bodies and internal figures.

Growth spreads to construction, services and industry.

By sector, the recovery has been widespread. The various confidence indicators (construction, services, retail trade and industry) all undoubtedly point to a course of growth. In November, these indicators recorded increases of between 3 and 7 points so that they went to the highest levels since the end of 2002. Effective economic activity indicators have still to confirm the recovery in sector climate, with the exception of industry which is already doing so. In October, industrial production rose by 0.5% year-to-year compared with a drop of 1.9% year-to-year in the July-September period.

CPI at 2.3% highest since last March.

In recent months consumer prices have tended to rise gradually but constantly. This course continued in November so that the year-to-year CPI rate stood at 2.3%, the highest since last March. This rise comes from the trend in energy, food and tax increases, while at the same time the more stable core of inflation has held practically constant since September.

Italy: economy continues stuck in weak state

In Italy, retail sales slow down while industrial production holding at lower levels than one year ago.

There are few signs that Italy is managing to emerge from the situation of cyclical weakness in which it is now immersed. The economic sentiment index held stable at the 98.4 points level in October and November, down from September. Retail sales in October slowed to 1.6%, a notable slowdown from the 3.3% year-to-year recorded in September and prospects are not overly bright if we are to go by the drop in consumer confidence as of November. In spite of a partial recovery in October, industrial production still stands at levels 0.2% lower than one year ago. Immediate prospects are not very much better given that early indicators in October were down to 2.0%, four decimals less than one month earlier.

ITALY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2002	2003				
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November
GDP	1.7	0.4	0.9	0.7	0.3	0.6	–	...
Retail sales	0.7	2.4	3.0	2.3	3.2	1.8	1.6	...
Industrial production	–1.0	–1.4	0.8	–0.2	–1.5	–0.3	–0.2	...
Unemployment rate (*)	9.5	9.0	8.9	8.9	8.7	8.7	–	8.5
Consumer prices	2.7	2.5	2.7	2.7	2.7	2.8	2.6	2.5
Trade balance (**)	4.0	10.5	10.3	7.7	4.2	–0.3	0.4	...

NOTES: (*) Percentage of labour force.

(**) Cumulative balance for 12 months. Billion euros.

SOURCE: OECD, national statistical bodies and internal figures.

Unemployment again 8.7% while prices ease to 2.5%.

As a result of the lack of economic strength, the level of unemployment continues to record relatively high figures. In the fourth quarter, the unemployment rate was still 8.5%. In addition, consumer prices in November recorded a slight decrease compared with October going from the previous 2.6% to 2.5%.

United Kingdom: good start to fourth quarter

British economy confirms recovery through strength of domestic demand.

The final quarter began with indicators undoubtedly favourable for confirming economic recovery. Consumption, the main support of the British economy, is holding at a high level as may be seen from growth of retail sales at 3.7% year-to-year in October and November. While there are other background factors, maintenance of household spending may be related to the good trend in the labour market. In this respect, the unemployment rate in November was again 3.0% of the labour force, the lowest since 1975.

UNITED KINGDOM: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2002	2003				
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November
GDP	2.1	1.7	2.0	1.8	2.0	2.0	–	...
Retail sales	6.0	6.8	6.4	3.4	3.1	3.5	3.7	3.7
Industrial production	–1.6	–2.7	–1.3	–1.1	–0.7	–0.6	0.9	...
Unemployment rate (*)	3.2	3.1	3.1	3.1	3.1	3.1	3.0	3.0
Consumer prices	2.1	2.2	2.6	2.9	2.9	2.8	2.7	2.5
Trade balance (**)	–37.4	–43.5	–46.2	–46.6	–46.3	–46.7	–47.2	...

NOTES: (*) Percentage of labour force.

(**) Cumulative balance for 12 months. Billion pounds.

SOURCE: OECD, national statistical bodies and internal figures.

Recovery of industrial activity in October along with good state of services and construction.

On the supply side, the good figure for industrial production in October was notable (increase of 0.9% year-to-year) which was in contrast to the drop of 0.6% year-to-year in the third quarter. The sharp rise in industrial confidence in November strengthens prospects of a continuation of recovery in the secondary sector. In a similar way, construction and services are showing signs of increased activity, if we are to go by the rise in the respective confidence indices reported in November. The slight slowdown in consumer prices in November is another positive factor which could contribute to firm up recovery. The CPI that same month slowed down by two decimals going from the previous 2.7% to 2.5%.

FINANCIAL MARKETS

INTEREST RATES AND FOREIGN EXCHANGE RATES

Upturn seen in official interest rates in 2004

Containment of inflation allowing continuation of easy monetary policies.

There were no changes in reference rates by the main central banks in December. These institutions have adopted a cautious stance and have maintained official interest rates at all-time low levels in order to consolidate economic recovery. The containment of inflation has made it possible to extend existing very easy monetary policies. Nevertheless, it is expected that both the U.S. Federal Reserve Board and the European Central Bank will embark on increases in interest rates in 2004.

OFFICIAL INTEREST RATES

Average for period as annual percentage (*)

	2001	2002	2003					
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December 18
United States	3.90	1.67	1.25	1.23	1.00	1.00	1.00	1.00
Japan	0.06	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Euro area	4.29	3.22	2.68	2.37	2.00	2.00	2.00	2.00
United Kingdom	5.12	4.00	3.85	3.75	3.53	3.50	3.71	3.75
Switzerland	3.00	1.20	0.64	0.38	0.38	0.38	0.38	0.38

NOTES: (*) United States: Federal funds rate; Japan: objective level of daily interbank rate, although in fact instrumental variable came to be liquid assets as of March 2001; Euro area: minimum bid rate for main refinancing operations of Eurosystem; United Kingdom: repo rate; Switzerland: 3-month Libor in Swiss francs. SOURCE: Central banks and internal figures.

Federal Reserve Board repeats it will maintain official interest rate for some considerable time.

In the United States, the press release issued by the Federal Open Market Committee of the Federal Reserve Board at its meeting held on December 9 recognized that the U.S. economy was growing at a good rate and that the labour market was making modest improvement. It considered that the risk of deflation was lower but stated that with reduced inflation and low utilization of production capacity existing monetary policy could be maintained for a considerable period of time. Within this framework, most market operators are expecting an initial rise in the official U.S. interest rate toward May 2004.

European Central Bank comes out in defence of Stability and Growth Pact...

In the euro area, the European Central Bank (ECB) came out in defence of the Stability and Growth Pact and criticized the ECOFIN Council meeting on November 25, 2003 for not acting in accordance with the recommendations of the European Commission with regard to the

later stages of the excessive deficit procedure begun against France and Germany. It stated that this put in danger the credibility of the institutional framework and confidence in the soundness of government finances of the states in the euro area. It could thus increase the risk premium on interest rates imposed by the market.

...and revises inflation estimate for 2004 upward.

The Governing Council of the ECB foresees a gradual progressive recovery of the euro area in coming months. It is expected that the year-to-year harmonized inflation rate will hold at around 2% in coming months because of the unfavourable trend in prices of food and oil and the expected increase in indirect taxes and controlled prices. As a result, inflation projections for 2004 were revised upward in December 2003 to a range of 1.3%-2.3% on annual average.

Market expecting rise in ECB reference rate toward September 2004.

On the other hand, in the first week of December the ECB expressed its satisfaction with a strong euro because this would help to curb inflationary trends and foster economic activity. Nevertheless, in the third week of the month the chairman of the Dutch central bank expressed concern about excessively fast appreciation of the single currency which might mean a risk for economic recovery in the euro area. In this context, market operators are anticipating an increase in the ECB reference rate toward September 2004.

Bank of Australia raises official interest rate while Norway makes cut.

The Bank of Australia raised its reference rate by 25 basis points on December 3 for the second time in less than one month putting it at 5.25%. These measures were aimed at cooling down the economy which had strengthened greatly since mid-2003. On the other hand, the Bank of Norway cut its reference rates by 25 basis points on December 17 to put the interest rate on deposits at 2.25% and on overnight loans at 4.25%.

One-year interbank interest rates down in December

Yield on U.S. 3-month interbank deposits goes to around 1.1%.

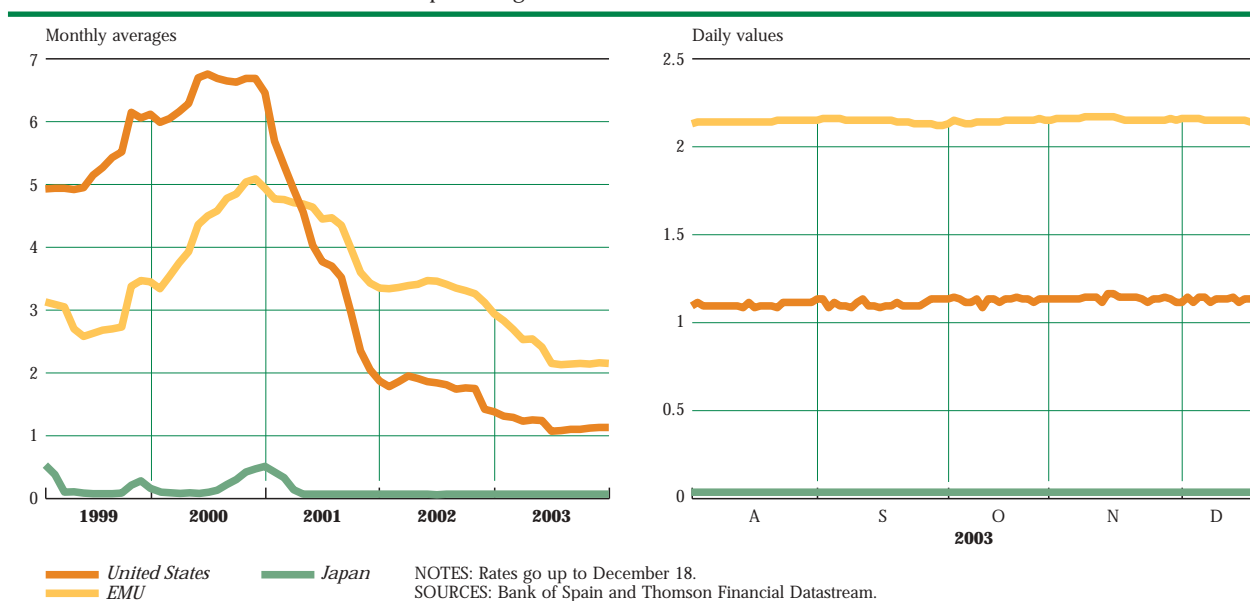
In the United States, the yield on 3-month interbank deposits recorded the lowest level in recent decades on June 23, 2003 when it went to 0.94% in a context of concern about the risk of deflation. Nevertheless, after the Federal Reserve Board reduced its reference rate by only 25 basis points to 1.0% on June 25, the interest rate on 3-month interbank deposits rose to 1.08% the day after that decision. Since then, the yield has fluctuated around that level going to 1.13% on December 18, some 27 basis points below twelve months earlier.

U.S. 1-year interbank deposit interest rates stand at 1.39%, 16 basis points less than twelve months earlier.

The yield on U.S. 1-year interbank deposits marked up its lowest level in recent decades on June 16 when it showed 0.95%. Later on it rose on publication of good economic indicators and reduced concern about deflation going to 1.58% on December 1, some 63 basis points above the low in June and 14 basis points above the beginning of the year. Nevertheless, the yield on 12-month interbank deposits later moved down as a result of lower prospects of a restrictive turn in monetary policy in 2004 and a further repetition by the Federal Reserve Board that it would not change the official interest rate in the early months ahead and the yield stood at 1.39% toward the end of the third week in December, some 16 basis points less than one year earlier.

3-MONTH INTERBANK INTEREST RATES STAY FLAT

3-month interbank interest rates as annual percentage



SHORT-TERM INTEREST RATES IN NATIONAL MARKETS

Monthly averages as annual percentage

	Eonia Overnight	Euribor				United States 3-month	Japan 3-month	United Kingdom 3-month	Switzerland 3-month
		1-month	3-month	6-month	1-year				
2002									
November	3.30	3.23	3.12	3.04	3.02	1.42	0.01	3.88	0.72
December	3.09	2.98	2.94	2.89	2.87	1.38	0.01	3.92	0.69
2003									
January	2.79	2.86	2.83	2.76	2.71	1.31	0.01	3.89	0.62
February	2.76	2.77	2.69	2.58	2.50	1.29	0.01	3.65	0.59
March	2.75	2.60	2.53	2.45	2.41	1.23	0.01	3.56	0.36
April	2.56	2.58	2.53	2.47	2.45	1.25	0.01	3.55	0.30
May	2.56	2.52	2.40	2.32	2.26	1.24	0.01	3.54	0.29
June	2.21	2.18	2.15	2.08	2.01	1.07	0.01	3.55	0.27
July	2.08	2.13	2.13	2.09	2.08	1.08	0.01	3.39	0.28
August	2.10	2.12	2.14	2.17	2.28	1.10	0.01	3.43	0.26
September	2.02	2.13	2.15	2.18	2.26	1.10	0.00	3.60	0.25
October	2.01	2.10	2.14	2.17	2.30	1.12	0.00	3.71	0.24
November	1.97	2.09	2.16	2.22	2.41	1.13	0.01	3.89	0.25
December (*)	1.71	2.12	2.14	2.18	2.31	1.13	0.01	3.97	0.25

NOTES: (*) December 18.

SOURCE: European Central Bank, Bank of Spain, Thomson Financial Datastream and internal figures.

1-year Euribor drops to 2.31% toward end of third week in December.

In the euro area, after marking up an all-time low of 2.12% on July 28, the yield on 3-month interbank deposits held close to this level. As a result, it stood at 2.14% on December 18, some 80 basis points below one year earlier. In turn, with the improved economic climate, the 1-year Euribor rose to 2.50% on December 1 although it then eased going to 2.31% on December 18. In addition, the short-term differential with the dollar has swung at around 103 basis points in recent weeks.

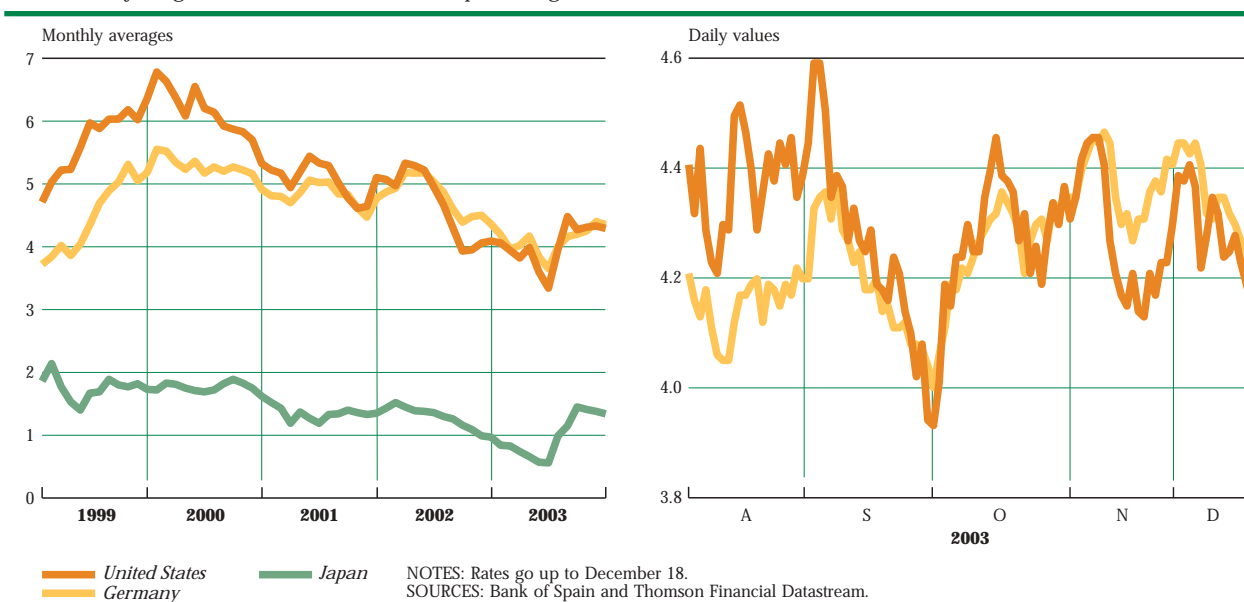
10-year government bond yields ease

Yield on U.S. 10-year Treasury bonds...

The interest on U.S. 10-year Treasury bonds recorded a low for recent decades on June 13, 2003 going to 3.10% while 30-year bonds showed 4.17% in a situation of fear of deflation. Nevertheless, as of that moment rates rose with publication of positive economic figures, upward revision of estimates for the government deficit and the disappearance of the risk of deflation. As a result, the yield on U.S. 10-year Treasury bonds rose to 4.60% on September 2 showing an extraordinary rise of 150 basis points in two and half months. Nevertheless, it later tended downward because of doubts about the sustainability of the economic recovery and because the Federal Reserve Board repeated that that it was unlikely to raise the official interest rate in upcoming months. As a result, at the beginning of October the yield on U.S. 10-year Treasury bonds stood at 3.93%.

SLIGHT NARROWING OF LONG-TERM INTEREST RATE DIFFERENTIAL BETWEEN EURO AND DOLLAR

Yield on 10-year government bonds as annual percentage



LONG-TERM INTEREST RATES IN NATIONAL MARKETS

10-year government bonds: average for period as annual percentage

	2001	2002	2003					
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December 18
United States	5.06	4.65	3.94	3.64	4.26	4.31	4.33	4.15
Japan	1.34	1.27	0.80	0.60	1.20	1.41	1.38	1.33
Germany	4.82	4.80	4.06	3.89	4.12	4.25	4.40	4.19
France	4.95	4.88	4.12	3.94	4.13	4.29	4.41	4.23
Italy	5.19	5.04	4.24	4.03	4.25	4.39	4.52	4.38
Spain	5.12	4.96	4.10	3.92	4.14	4.27	4.40	4.23
United Kingdom	4.97	4.93	4.33	4.25	4.55	4.92	5.09	4.76
Switzerland	3.28	3.02	2.29	2.34	2.57	2.66	2.76	2.55

SOURCE: Bank of Spain, Thomson Financial Datastream and internal figures.

...swings in range of 4%-4.5% since beginning of October.

Nevertheless, optimism soon returned with publication of favourable economic indicators, especially with the improvement in the labour market which tended to raise yields on government bonds. In any case, another series of factors worked in the opposite direction, such as further statements from the Federal Reserve Board that it would not raise its reference rate in coming months as well as signs of contained inflation. The yield on U.S. 10-year Treasury bonds has thus swung in the range of 4%-4.5% since the beginning of October going to 4.15% toward the end of the third week in December, some 10 basis points higher than twelve months earlier.

German government bonds scarcely affected by Stability and Growth Pact crisis.

In 2003 German government bonds followed a path similar to that on the other side of the Atlantic and the interest rate on German 10-year government bonds has also run within the same range since the beginning of October. The yield on German 10-year government bonds went to its highest level since December 2002 on November 12 to hit 4.47%. The market scarcely reacted to the Stability and Growth Pact crisis. The appreciation of the euro in the early weeks of December tended to support the price of German bonds. As a result, toward the end of the third week in December the yield on German government bonds stood at 4.19%, some 11 basis points less than twelve months earlier. The interest rate differential between German and U.S. government bonds tended to narrow in the early weeks of December going to 5 basis points toward the end of the third week in December.

Dollar continues to drop

Dollar marks up lowest level in global terms since beginning of 1999...

The U.S. currency continued its downward course in the early weeks of December. On December 17 it marked up its lowest level since the beginning of 1999 in terms of the currencies of the 26 countries with greatest volume of trade with the United States. It thus recorded a drop of 12.2% compared with the high reached in January 2002. This low came about because of pressure being exerted for correction of the massive U.S. foreign current account deficit and followed publication of figures on foreign investment indicating that U.S. securities had lost their

attractiveness given that investment flows into U.S. financial assets in October did not cover the current account deficit for the second time in a row.

EXCHANGE RATES OF MAIN CURRENCIES

November 2003

	Final session of month		Average exchange rate	Monthly figures			Exchange rate December 20, 2003
	Exchange rate	% monthly change (2)		% change (2)			
				Monthly	Over December 2002	Annual	
Against U.S. dollar							
Japanese yen	109.6	-0.4	109.2	-0.3	-10.4	-10.2	107.6
Pound sterling (1)	1.722	1.4	1.690	0.7	6.4	7.5	1.771
Swiss franc	1.292	-3.6	1.332	0.6	-7.2	-9.1	1.251
Canadian dollar	1.299	-1.4	1.313	-0.7	-15.8	-16.5	1.330
Mexican peso	11.40	3.1	11.15	-0.2	9.1	9.4	11.21
Nominal effective index (4)	116.0	-0.7	116.5	-0.1	-7.3	-7.8	114.5
Against euro							
U.S. dollar	1.199	3.2	1.170	0.1	14.8	16.9	1.240
Japanese yen	131.2	3.6	127.8	-0.2	3.0	5.1	133.4
Swiss franc	1.548	-0.1	1.559	0.7	6.3	6.3	1.556
Pound sterling	0.697	1.6	0.693	-0.7	7.8	8.7	0.702
Swedish krona	9.048	0.0	8.994	-0.2	-1.2	-1.0	9.083
Danish krone (3)	7.440	0.1	7.437	0.1	0.1	0.1	7.443
Nominal effective index (5)	102.7	2.2	101.2	-0.1	8.1	9.4	104.6

NOTES: (1) Units to pound sterling.

(2) Percentages of change refer to rates as shown in table.

(3) Danish krone has central parity of 7.46038 against euro with fluctuation band of $\pm 2.25\%$.

(4) Broad nominal effective index of U.S. Federal Reserve Board. Calculated as a weighted average of the foreign exchange value of the U.S. dollar against the 26 currencies of those countries with greatest volume of trade with the United States. Base: 1-1997 = 100.

(5) European Central Bank nominal effective exchange rate index for the euro. Calculated as a weighted average of the bilateral value of the euro against the currencies of the 13 main trading partners of the euro area. Base: 1-1999 = 100.

SOURCE: Thomson Financial Datastream and internal figures.

**...and does not
appear to have hit
bottom.**

In addition, in mid-December the Secretary of the Treasury, John Snow, stated that in effective terms, that is to say, weighed against the other currencies, the dollar stood above the average for the last 25 years. The drop in the dollar was scarcely halted by the favourable economic figures published whereas it was more affected by negative news. This would indicate that we can expect that the drop in the dollar has still not hit bottom and that it will continue in coming months. For the moment, the weight of the correction of the dollar is falling especially on the euro given that many Asia currencies are tied to the dollar and particularly the Chinese authorities continue to reject any revaluation of the yuan. As a result, they are maintaining a strategy of growth resting on an undervalued currency in order to foster exports.

**In global terms, euro
stands only 1.5%
above level...**

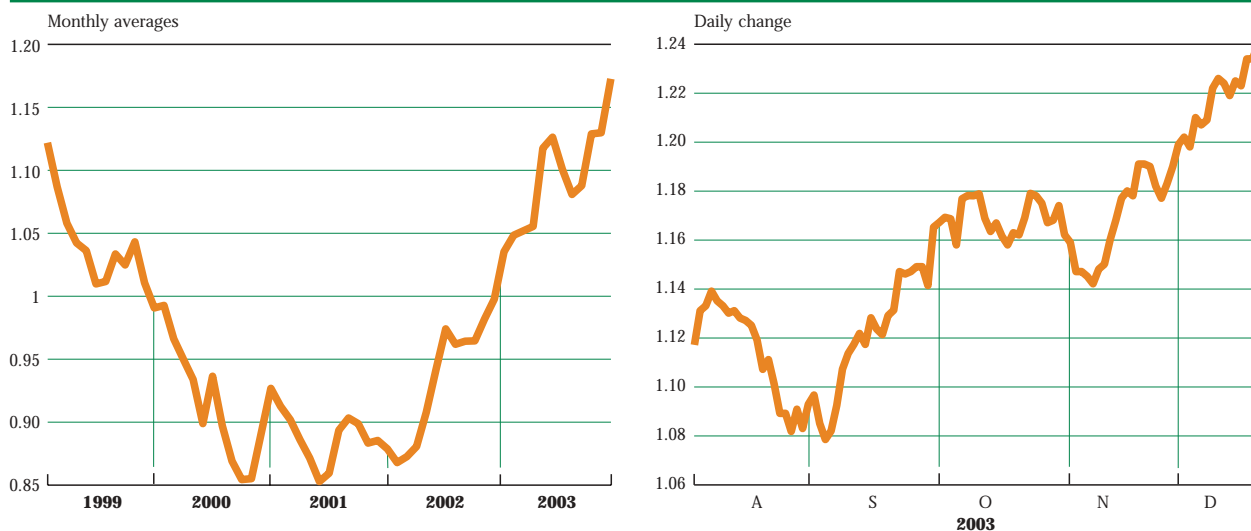
In this context, the euro has been running up a succession of all-time highs against the dollar in recent weeks. As a result, on December 18 it stood at 1.240 dollars to show an appreciation of 18.3% compared with

...at time of launching.

the end of 2002. As a result, for the moment the Stability and Growth Pact crisis has not hurt the single currency because of the weakness of the dollar. Nevertheless, in overall terms, the rise in the euro has been lower. On December 18 the euro marked up a high in effective terms to show an increase of 10.3% compared with the end of 2002. In any case, in overall terms the single currency stood only 1.5% above the level at its launching at the beginning of 1999.

EURO RUNS UP ONE HIGH AFTER ANOTHER AGAINST DOLLAR

U.S. dollars to euro



NOTES: Figures go up to December 18.

SOURCE: OCDE, Thomson Financial Datastream and internal figures.

EURO MARKS UP HIGHEST LEVEL IN EFFECTIVE TERMS SINCE ITS LAUNCHING

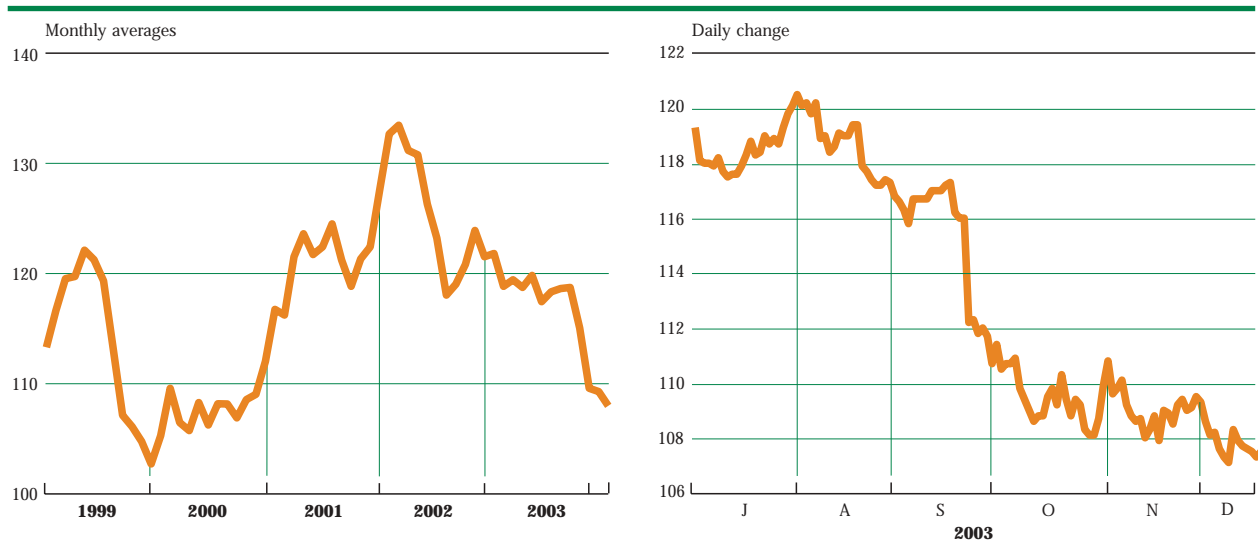
Effective nominal euro exchange rate



NOTES: (*) Figures go up to December 18.
SOURCE: Thomson Financial Datastream.

YEN CONTINUES TO APPRECIATE AGAINST DOLLAR

Yen to dollar



NOTES: Rates go up to December 18.

SOURCE: OCDE, Thomson Financial Datastream and internal figures.

Bank of Japan halts appreciation of yen.

The yen marked up a high since November 2000 against the U.S. currency on December 9 when it went to 107.2 units to the dollar. Optimism about the take-off in Japan's economy pushed up the country's currency. Later on this upward move slowed down probably because of further intervention by the Bank of Japan in foreign exchange markets to prevent appreciation of the yen seen as excessive that could endanger economic recovery. Toward the end of the third week in December the Japanese currency thus stood at 107.6 units to the dollar presenting a cumulative rise of 10.4% against the dollar. On the other hand, against the euro the Japanese currency depreciated by 6.7% over the end of 2002.

Pound sterling marks up highest level against dollar in last 11 years.

On December 18 the pound sterling reached its highest level against the dollar in the past eleven years when it went to 1.77 dollars. The substantial interest rate differential, which increased with the raise by the Bank of England at the beginning of November, contributed to the appreciation of the UK currency.

CAPITAL MARKET

Stock markets rise in 2003 after three years of drops

Bull market returns.

International share markets have been on course to end their best run in the past three years. In fact, with few sessions to go before year-end, most of the main stock market indices were standing practically at highs for the year with notable cumulative gains since the end of 2002 and much more substantial gains since the lows in March when the markets were most sharply showing the effects of the Iraq crisis.

INDICES OF MAIN WORLD STOCK EXCHANGES

November 28, 2003

	Index (*)	% monthly change	% cumulative change	% annual change	Figures at December 18, 2003	
					Index	% change in month
New York						
<i>Dow Jones</i>	9,782.5	-0.2	17.3	10.0	10,248.1	4.8
<i>Standard & Poor's</i>	1,058.2	0.7	20.3	13.0	1,089.2	2.9
<i>Nasdaq 100</i>	1,424.3	0.6	44.7	27.6	1,431.3	0.5
Tokyo	10,100.6	-4.3	17.7	9.6	10,104.0	0.0
London	4,342.6	1.3	10.2	4.2	4,397.3	1.3
Euro area	2,630.5	2.2	10.2	-1.0	2,714.7	3.2
<i>Frankfurt</i>	3,746.0	2.5	29.5	12.8	3,870.9	3.3
<i>Paris</i>	3,424.8	1.5	11.8	3.0	3,503.2	2.3
<i>Amsterdam</i>	968.9	0.6	5.8	-4.3	973.5	0.5
<i>Milan</i>	1,260.8	3.9	15.5	5.6	1,277.9	1.4
<i>Madrid</i>	7,252.5	1.7	20.1	8.5	7,585.5	4.6
Zurich	5,317.5	2.0	14.8	3.9	5,415.8	1.8

NOTES: (*) New York: Dow Jones Industrials, Standard & Poor's Composite, Nasdaq 100; Tokyo: Nikkei 225; Euro area: DJ Euro Stoxx 50; London: Financial Times-100; Frankfurt: DAX; Paris: CAC 40; Amsterdam: CBS Ttl. Rtn. Gen.; Zurich: Swiss Market Index; Milan: Banca Commerciale Italiana; Madrid: IBEX 35 for Spanish stock exchanges.

SOURCE: «Financial Times» and internal figures.

Recovery of U.S. economy decisive in changing stock market scene.

The course of stock markets during 2003 generally was the result of the influence of a wide range of factors although the basic determinant was undoubtedly the evaluation of effective possibilities of recovery of the U.S. economy, especially the rate and degree of that recovery. In this respect, the main stock market indices have been running according to the more or less favourable interpretation of various macroeconomic

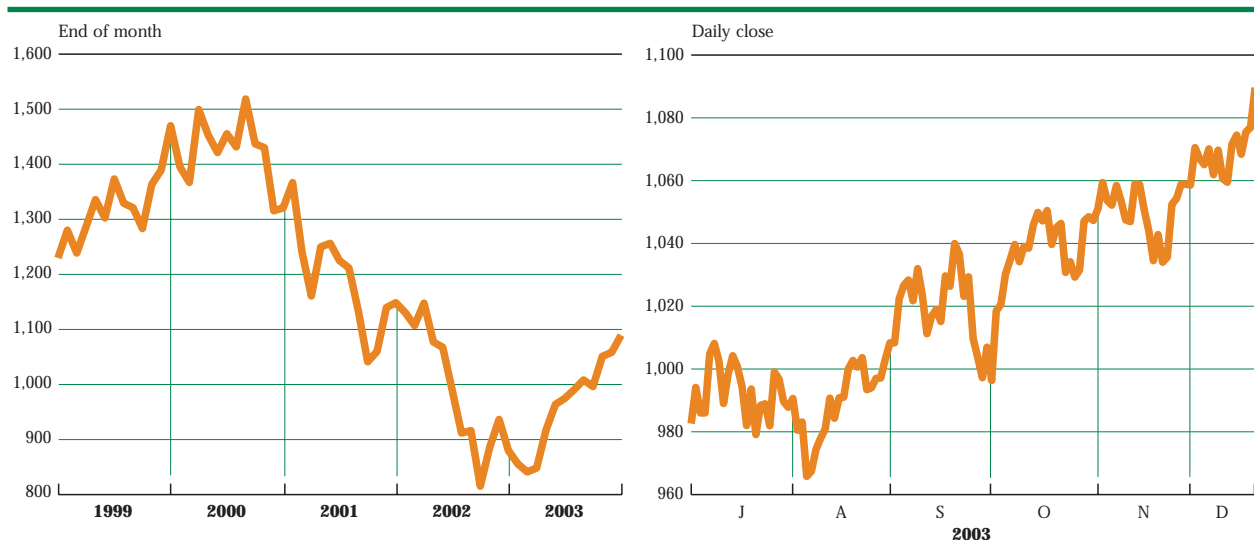
indicators for the U.S. economy. Especially significant in their time were the odd specific figure on business climate, growth of the gross domestic product and, in October, the good figure for non-farm employment in the United States which confirmed the sustainability of recovery.

End of war in Iraq key milestone in changing course of markets.

The stock market rises in 2003 cannot be separated from the process of build-up and conclusion of the armed conflict in Iraq. With the start of hostilities this removed a good part of the political uncertainty which had put the markets in a state of great weakness at the end of 2002 and this favoured a sudden change in the course of the main indices which reflected this fact with major rises. Later on, the rapid conclusion of the war consolidated the state of the market and laid the bases for the later upward trend which has dominated the markets for the greater part of the year.

U.S. STOCK MARKET: 20% GAINS IN 2003

Standard & Poor's 500 Index for New York stock exchange



NOTES: Figures go up to December 18. SOURCE: New York stock exchange.

Hi-tech segment leads stock market recovery in 2003, particularly in United States.

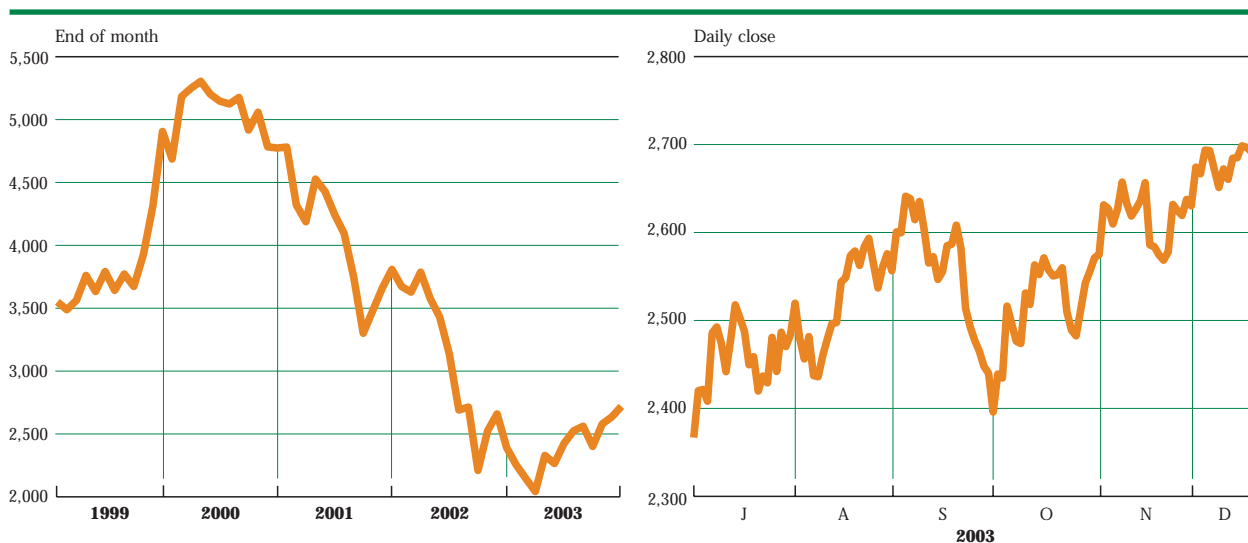
The take-off and later rise in the stock markets was led by the hi-tech segment, naturally the most speculative but also that which had undergone the hardest punishment in the nearly three years of declining share prices. The boost to the hi-tech rise came from corporate profits of the more relevant companies in the sector, which were generally positive and better than expected. The increase in the hi-tech indices spread to other indicators and markets. Nevertheless, the initial post-war boost did not have the same staying power in the United States and Europe, where the main markets reflected the recessive state of the main euro area economies.

Low interest rates and dividends paid also boost investment in stock market.

In any case, in view of the gradual improvement in the economic situation in the United States, the stock market scene improved between June and September in all markets. Conviction about the strength of an economic situation with low interest rates, taking into account the low inflationary risks, and the very attractiveness of dividend yields on shares ended up persuading investor demand to gradually put three years of stock market crisis into perspective and go into the market.

EUROPEAN STOCK MARKET: SOMEWHAT LESS POSITIVE

DJ Euro Stoxx 50 index



NOTES: Figures go up to December 18.

SOURCE: Stoxx Ltd.

Weakening dollar a factor of uncertainty in progress of markets.

The upward move in the markets had a turnaround point and, to some extent, a moment of uncertainty with the progressive weakening of the dollar, especially after the G-7 meeting in September, with the matter of exchange rate stability being seen as a priority. At the same time, the decision of the Organization of Petroleum Exporting Countries to cut oil production put fear into the markets and set off a period of correction (which finally was purely technical) that ended at the beginning of October with excellent figures for growth and employment in the United States. From that moment on, and right up to year-end, the indices of the main markets, except the hi-tech markets, were able to consolidate their rises going up to levels with annual highs.

Balance of U.S. stock market generally better than in euro area.

As a result, in the second half of December the cumulative balance of the main indices was clearly positive. In the United States, the Nasdaq 100 hi-tech index showed gains of more than 40%, twice those obtained for the Dow Jones or the broader Standard & Poor's index. On the European Continent, the Euro Stoxx 50, which is representative of the more important shares in the euro area, showed a much more modest annual revaluation at somewhat less than 15% and, in any case, this was well below the figure seen in other representative indices for the national markets in the area. In this respect, the German DAX 30 showed capital gains of more than 30%

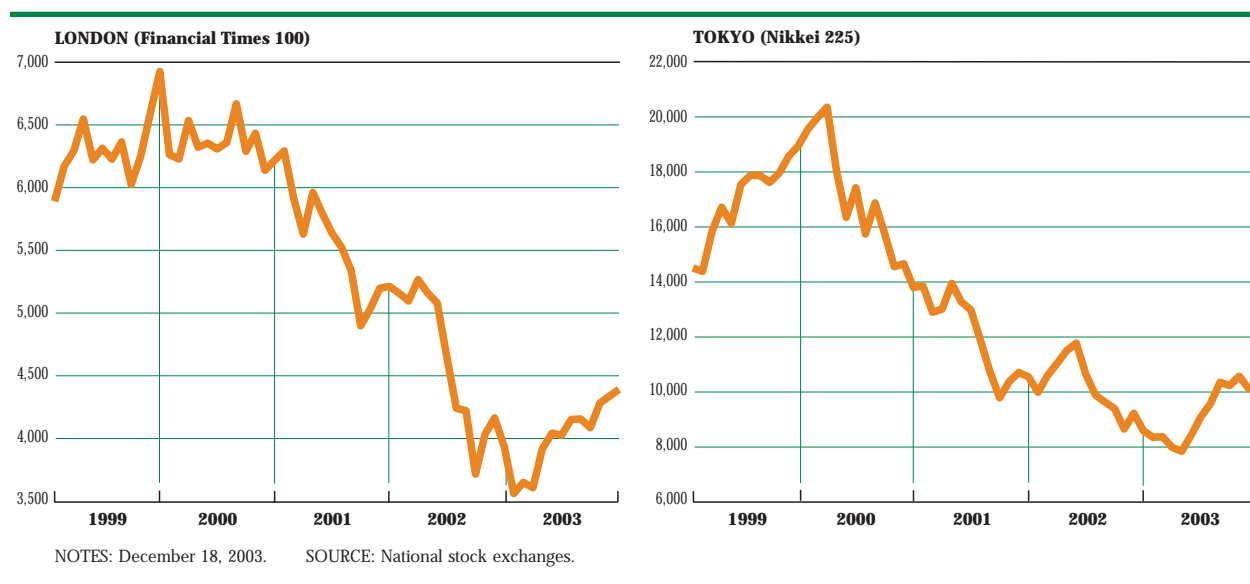
and the IBEX 35 was not far off this figure. On the other hand, the results on the French, Italian and (outside the euro area) British markets were more modest if we look at figures for the more representative indices.

Telecommunications, data-processing, information technology and financial services, among other sectors, show biggest cumulative capital gains in euro area.

In euro area stock markets, consolidation of price increases and the highest annual levels reached was concentrated in bank shares (aided by potential mergers in the sector), telecommunications, public services and motor-vehicles, a sector which has noted a clear improvement in its overall situation. On the other hand, hi-tech shares, communications media and especially retail trade shares have followed negative paths in recent weeks which have cut their annual result. In the middle of December the year's winners were manufacturing industries, hi-tech, cyclical consumer goods, telecommunications and banks, all with capital gains of between 20% and 30%. Food and beverages and non-cyclical consumer goods, on the contrary, were down compared with the end of last year.

INTERNATIONAL STOCK EXCHANGES

Indices at month-end



South American stock markets record spectacular revaluation in 2003.

Outside the European Continent, the Japanese stock market is showing a very favourable balance with capital gains of more than 20% in the second half of December. In any case, among the main international stock markets, the Japanese market was the one to show the biggest downside from annual highs. In Latin America, on the other hand, the situation was much more positive with spectacular revaluations taking place in the Brazilian market based on the progressive improvement of economic and monetary conditions in that country. The balance in the Argentine market was practically identical with a cumulative revaluation for the year of more than 85%.

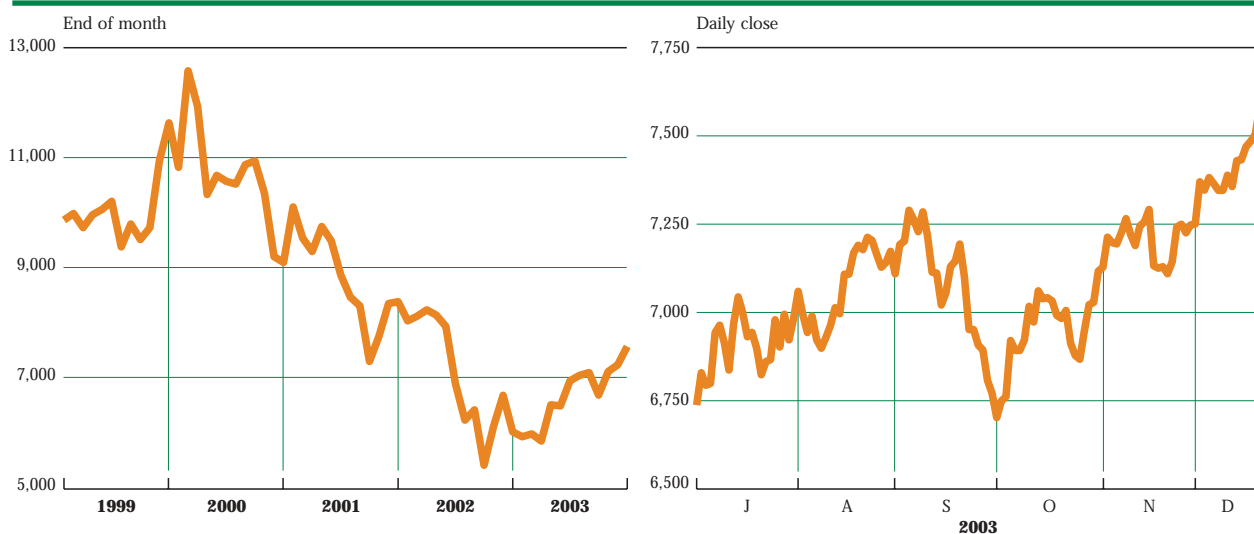
Spanish stock market among best in Europe in 2003

IBEX 35 goes above 7,500 points with cumulative capital gains of more than 25%.

Spain's share market would end the year 2003 with a very positive balance, if we are to go by the revaluation of its main reference indices. In the second half of December the IBEX 35 stood in the region of annual highs marking up cumulative capital gains of more than 25% compared with the end of 2002. As a result, this index stood among those showing most revaluation among euro area markets to be placed only behind the German and Austrian markets.

IBEX 35 CONSOLIDATES 7,500 LEVEL AT YEAR-END

IBEX 35 index, base 1-1-1990 = 3,000



NOTES: Figures go up to December 18.

SOURCE: Sociedad de Bolsas.

Various reasons behind good performance of Spanish market.

The relatively more favourable balance of the Spanish market compared with most European markets started out from the excellent performance of the main market shares at the beginning of the year when they reacted positively to the improvement in the economic and political scene in Latin America. As a result, at the start of the year the IBEX 35 marked up a yield differential which later increased thanks largely to its specific make-up. In fact, in spite of the fact that the profile of the main reference index in the Spanish market in 2003 was notably similar to the main international indices, its better results were helped by relatively sharper increases in those shares carrying greatest weighting in the index.

Stock market year full of corporate activity brings spectacular results for certain companies.

In any case, the year 2003 was full of stock market activity with very sharp swings in certain shares or groups of shares. Merger operations, take-over bids, most of which did not succeed, and excessive expectations about the potential of certain companies gave a boost to trading and brought about substantial changes in prices. In this regard, Sogecable boosted its price by a multiple of four as a result of the merger of the digital television platforms while Iberia doubled its price compared with the lows reached as a result of the Iraq crisis. In the same way,

while revaluations were somewhat less spectacular but more than 50% above annual lows, these companies were joined by Gamesa, Indra, Mapfre, Telefónica Móviles and the large banks.

Communications index shows best sector result as against consumer goods with cumulative losses in 2003.

From a more general perspective, however, the stock market year in 2003 was positive for almost all sector indices for the Madrid stock market. In fact, with the single exception of the consumer goods index which was negatively affected by the course followed by shares such as Inditex (very much hurt by its profit picture) and Zeltia (harmed by the failure of some pharmaceutical products to obtain approval), most of the indicators showed revaluations of more than 20%, with the telecommunications group standing out at very much higher capital gains.

SPANISH STOCK EXCHANGE INDICES

	Index November 28, 2003	% monthly change	% cumulative change	% annual change	Figures at December 18, 2003	
					Index	% change over previous month
Official indices						
IBEX 35 ⁽¹⁾	7,252.5	1.7	20.1	8.5	7,585.5	4.6
Madrid ⁽²⁾	768.4	1.8	21.2	10.8	795.9	3.6
Barcelona ⁽²⁾	619.3	1.6	23.3	9.9	651.2	5.2
Bilbao ⁽³⁾	1,307.8	2.4	20.0	8.3	1,361.3	4.1
Valencia ⁽²⁾	598.4	1.6	24.3	12.3	625.7	4.6
Sector indices for Madrid						
Stock Exchange ⁽⁴⁾						
Financial services	907.9	2.0	23.2	11.1	943.7	3.9
Energy	926.0	-0.2	16.1	13.5	981.7	6.0
Consumer goods	985.3	2.9	-0.4	-6.4	934.4	-5.2
Construction	1,242.9	2.1	19.2	17.8	1,292.7	4.0
Capital goods and intermediate goods	1,167.0	6.6	27.4	17.6	1,161.4	-0.5
Communications	790.8	1.9	35.3	11.8	843.9	6.7
Market services	1,109.7	-1.2	19.7	14.3	1,129.0	1.7

NOTES: (1) Base at January 1, 1990 = 3,000.

(2) Base at January 1, 1986 = 100.

(3) Base at January 1, 2000 = 2,000.

(4) Base at January 1, 2002 = 1,000.

SOURCE: Stock exchanges and internal figures.

Good stock market year pushes up effective turnover.

The gradual improvement in the state of the stock markets also favoured a progressive increase in trading. In fact, effective turnover of shares on the Madrid and Barcelona stock exchanges was up sharply in November so that the effective volume of trading in the first eleven months of the year was 5.7% above last year. By sector, financial services, energy and telecommunications made up more than 80% of total turnover.

Moderate international debt securities issues in third quarter

Uneven performance in international debt securities issues in third quarter with sharp recovery as quarter ends.

Total international debt securities issues in the third quarter of 2003 amounted to 298.6 billion dollars in net terms, according to statistics supplied by the Bank for International Settlements. This amount meant an increase of 66.4% compared with the same quarter last year. Nevertheless, net placements were down by 14.0% compared with the second quarter because of upsets in international debt markets. In fact, issues showed an uneven performance with great weakness in August and a strong recovery in September.

Net debt issues in international markets by borrowers from emerging countries show high in recent years.

The moderate recourse to debt securities markets in the third quarter may be attributed to lower borrowing needs of institutions in the euro area. On the other hand, borrowers from emerging countries, favoured by a series of improvements in credit rating, increased net issues in international debt markets reaching the highest level in the past two years. U.S. financial institutions also increased their net issues in the third quarter with increasing economic growth in the United States. As a result, net debt issues in dollars were practically equal to those carried out in euros for the first time in two years.

NET ISSUES OF INTERNATIONAL DEBT SECURITIES

Billion dollars

	2001	2002	2002		2003		
			3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.
Money market instruments	-78.9	2.3	11.8	-10.0	55.4	3.7	-33.2
<i>In U.S. dollars</i>	-52.3	-16.8	-10.7	-5.3	17.0	-6.2	-3.8
<i>In euros</i>	-26.6	28.4	21.1	0.7	32.5	8.7	-19.3
<i>In yen</i>	-1.9	-25.7	-4.1	-5.6	-2.6	-1.3	-3.8
<i>In other currencies</i>	1.9	16.4	5.5	0.2	8.5	2.5	-6.3
Bonds and notes	1,425.4	1,007.3	167.6	192.2	300.0	343.7	331.8
<i>In U.S. dollars</i>	703.4	436.0	56.1	78.1	80.2	82.1	141.9
<i>In euros</i>	623.7	493.5	93.1	92.4	194.1	223.3	158.7
<i>In yen</i>	18.5	-17.9	-4.3	-3.3	-3.5	-1.8	-3.1
<i>In other currencies</i>	79.8	95.7	22.7	25.0	29.2	40.1	34.3
TOTAL	1,346.6	1,009.6	179.4	182.2	355.3	347.4	298.6

SOURCE: Bank of International Settlements.

European non-financial companies begin to issue subordinated bonds.

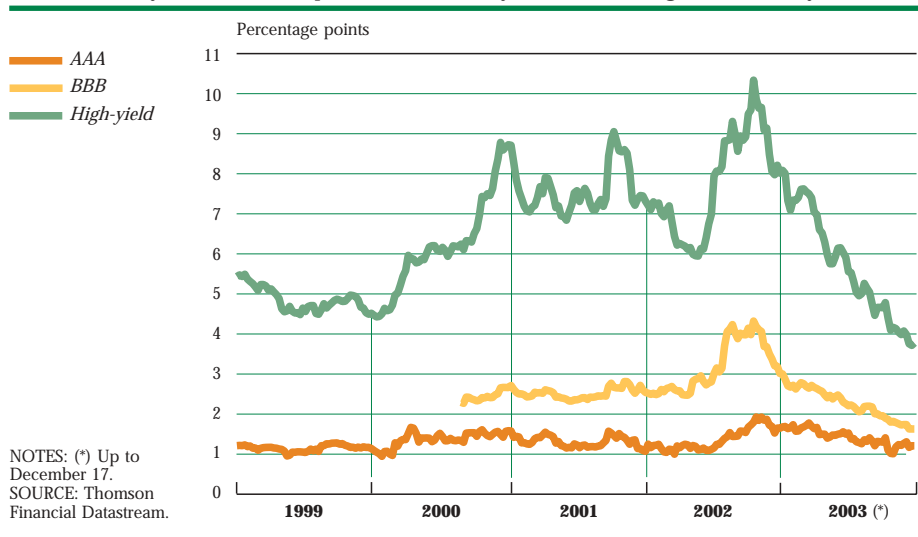
On the other hand, in 2003 European non-financial companies began to use hybrid capital to strengthen their balance sheets moving into a market traditionally reserved to banks and insurance companies. As a result, two European companies holding top credit rating issued subordinated bonds in 2003. These were fixed-income instruments but they had equity-like characteristics.

Global default rate on high-yield bonds continues to drop, credit ratings improve...

The global default rate on high-yield bonds (those of low credit rating) fell to 5.3% in the 12 months ending in November as against 5.7% recorded in October, according to Moody's rating agency. Credit ratings have also improved in recent months. As a result, the ratio of downgrades to upgrades for speculative grade bonds stood at 2.2:1 in November as against 7.4:1 in the same month in 2002, according to Moody's rating agency.

RISK AVERSION REDUCED

Differential in yield on U.S. corporate bonds with yield on U.S. long-term Treasury bonds



...and risk premiums down.

Aversion to risk, measured by the differential with long-term U.S. Treasury bonds, continued to drop in the early weeks of December, thanks to the improvement in the economic situation. Risk premiums stood substantially below the highs recorded in October 2002.

Net bank inflows in emerging countries of Asia-Pacific region and Europe.

With regard to the international bank market, according to figures supplied by the Bank for International Settlements, interbank credit flows again predominated in the second quarter of 2003 as against those going to non-bank borrowers. The increase in net funds channelled to emerging countries was driven by movements in deposits. As a result, major repatriations of deposits by banks in China contributed to a net inflow in the Asia-Pacific region. There were also significant net inflows in emerging countries of Europe especially in the case of Russia. On the other hand, net outflows of bank funds continued to take place in Latin America.

SPAIN: OVERALL ANALYSIS

ECONOMIC ACTIVITY

Economic forecasts: GDP growth rate to come close to 3% in 2004

Recovery of capital goods investment and improved foreign sector to drive GDP growth in 2004 and 2005...

Forecasts by the main international bodies and most private analysts coincide in putting the growth rate for Spain's gross national product (GDP) in 2004 at slightly below 3%, about a half-point more than in 2003. Recovery of investment in capital goods, which will compensate for the lower growth rate in construction, and especially the recovery in the foreign sector (which will reduce its negative contribution to GDP growth) are set out as the main engines of growth while private consumption will maintain or only slightly increase its growth rate. These trends will continue during 2005 which will end up with average GDP growth somewhat above 3%.

...making possible continued increase in employment.

In keeping with these premises, employment will continue to grow at a notable rate close to 2% in 2004 and a few decimals more in 2005. This trend will make possible a modest cut in unemployment which will scarcely drop down from 11% of the labour force in 2004 and come close to 10.5% during the following year.

Slight cut in inflation rate, limited correction of foreign deficit and maintenance of balanced government budget.

A slight improvement is also seen in prices given that the average inflation rate will not go below 2.7% in 2004 and 2.6% in 2005. The Organization for Economic Cooperation and Development (OECD) points out that the inflation differential with the euro area can be significantly reduced if greater flexibility is introduced in setting wages and an increase in competition in those sectors enjoying protection. Finally, correction of the foreign deficit, on which point there is less agreement, in any case will be very limited whereas, on the other hand, all forecasts suggest a slight surplus or maintenance of a balanced government budget.

MACROECONOMIC FORECASTS
Percentage annual change unless otherwise indicated

	2003 "la Caixa"	2004					2005
		ME	EC	OECD	Panel	"la Caixa"	Forecast range
GDP and figures							
Household consumption	3.1	3.1	3.2	3.5	3.1	3.2	3.1-3.4
Public consumption	3.8	2.9	4.3	3.5	–	3.7	3.2-4.0
Gross capital formation	3.2	3.8	3.9	4.0	3.7	3.8	4.4-4.7
<i>Capital goods and other products</i>	<i>2.5</i>	<i>5.0</i>	<i>4.7</i>	–	<i>4.7</i>	<i>4.2</i>	<i>6.5-7.1</i>
<i>Construction</i>	<i>3.7</i>	<i>3.0</i>	–	–	<i>3.0</i>	<i>3.5</i>	–
National demand including inventories	3.4	3.3	3.6	3.7	3.3	3.5	3.5-3.9
Exports of goods and services	4.4	6.3	5.5	5.2	6.4	6.7	7.2-7.6
Imports of goods and services	7.4	7.0	7.2	7.6	7.5	8.3	7.8-8.5
Gross domestic product	2.4	3.0	2.9	2.9	2.8	2.9	3.1-3.3
Labour market							
Employment (*)	1.8	1.9	2.0	–	1.9	2.0	2.1-2.2
Unemployment rate (% of labour force)	11.3	11.0	10.9	11.0	11.1	11.0	10.4-10.6
Prices and costs							
Private consumption deflator	–	2.7	2.9	2.8	–	–	2.6-2.9
Consumer price index	3.1	–	2.8	2.8	2.8	2.7	2.6-2.9
Foreign sector (% of GDP)							
Balance of current operations	–3.5	–	–3.2	–4.0	–2.5	–3.2	–3.1- –4.3
Surplus with rest of world	–2.4	–2.6	–2.3	–	–	–2.2	–2.1- –2.5
Public sector							
Deficit of general government (% of GDP)	0.0	0.0	0.1	0.2	0.0	0.0	0.2-0.3

NOTES: (*) Jobs equivalent to full-time work, according to National Accounting.

SOURCE: ME: Ministry of Economy; EC: European Commission; OECD: Organization for Economic Cooperation and Development; Panel: Panel of private analysts put together by Fundación de Cajas de Ahorros Confederadas; "la Caixa": Research Department, Caja de Ahorros y Pensiones de Barcelona.

Economic indicators: growth continuing

Economic activity continues moderately expansionist in final stages of year...

Toward the end of 2003 the same background trends which have marked Spain's economy all year long are being maintained. Private consumption is maintaining a fairly solid rate of increase, construction continues to show notable strength and investment in capital goods keeps recovering in spite of having gone through some ups and downs. A clear sign of the growth path of the economy is the increase recorded in electricity consumption (strongly representative of the general rate of economic activity) all through the year going to a year-to-year growth rate of close to 5% in the final months of the year in terms of cycle-trend.

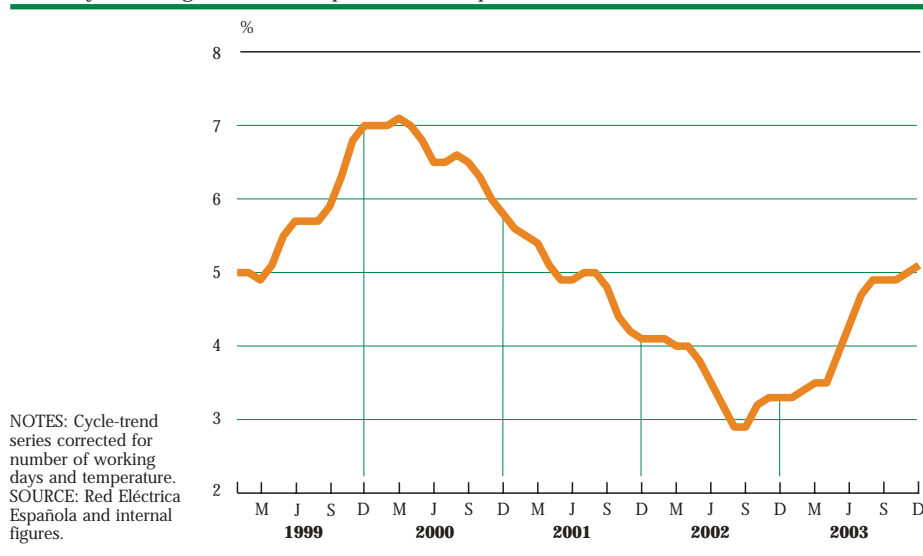
...which shows up in satisfactory situation of companies...

The good state of the economy is showing up in the satisfactory situation of companies. In the first nine months of 2003 gross value added of non-financial companies as a whole grew by 6.3% on average while gross profit rose by 7.3%, according to the Quarterly Composite Company Statistics prepared by the Bank of Spain. Given that financial costs were down by 1.4% (due to the drop in interest rates given that

borrowing continued to rise although more moderately than in previous years) ordinary net profit was up by 15.4%, the highest figure in the past five years.

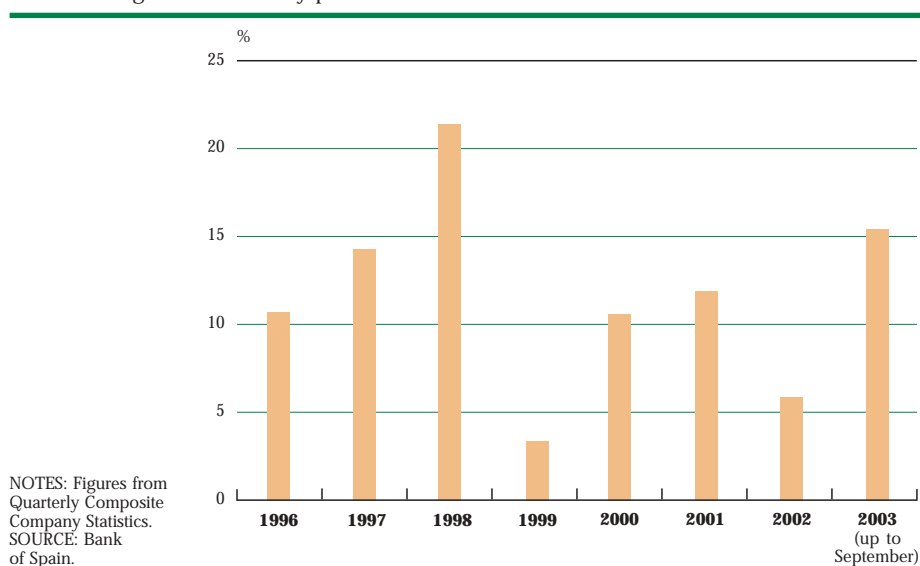
ELECTRICITY CONSUMPTION UP AS RESULT OF GROWTH IN ECONOMIC ACTIVITY

Year-to-year change in electrical power consumption



CORPORATE PROFITS SHOW GROWTH

Annual change in net ordinary profit



...except companies of industrial nature affected by slack in sector.

The industrial sector offered the worst results with ordinary net profit growing by less than 1%. The weakness in industry can also be seen in the trend in the industrial production index which, adjusted for difference in number of working days, barely moved up by 1% between July and October compared with the same period last year. From another point of view, the industry survey is showing signs that an early recovery could take place. In fact, the industrial climate indicator continues to hold at negative levels (-0.6 points in November) in spite of having improved slightly in recent months.

Construction continues to grow at good rate mainly due to drive in building.

The other side of the coin is the strong drive in construction which is still maintaining a notable growth rate although, if we look at government tendering, there has been a pause in growth in recent months, according to figures from the Ministry of Public Works. At the same time, according to figures from Eurostat, production in civil works recorded contained growth in the third quarter (1.9% compared with one year before) while production in the building sector held to a more lively growth rate (increase of 5.4%). In addition, cement consumption continued to rise at an appreciable rate (3.5% from July to November).

SUPPLY INDICATORS

Percentage change over same period year before

	2001	2002	2002 4th Qtr.	2003 1st Qtr.	2003 2nd Qtr.	2003 3rd Qtr.	2003 October	2003 November
Industry								
Electricity consumption (1)	4.8	3.7	3.8	3.2	3.5	5.3	3.4	6.0
Industrial production index (2)	-1.5	0.2	2.5	1.5	1.7	0.9	0.9	...
Industrial climate indicator (3)	-5.3	-5.9	-5.3	-2.7	-0.8	-2.7	0.0	-0.6
Utilization of production capacity (4)	79.2	78.1	80.3	78.9	77.7	79.8	-	80.4
Imports of non-energy intermediate goods (5)	4.6	6.4	14.9	10.6	7.8	-0.1	...	...
Construction								
Cement consumption	9.7	4.7	2.5	3.9	5.1	4.5	-0.3	4.9
Construction climate indicator (3)	12.7	7.0	-1.0	15.3	17.5	6.5	-8.0	-2.0
Housing (new building approvals)	-6.2	4.3	6.5	23.9	21.7	14.1	...	...
Government tendering	71.6	18.0	34.6	34.7	17.2	-34.0	...	...
Services								
Retail sales	7.1	5.7	5.9	5.6	5.9	5.4	7.0	...
Foreign tourists	4.6	4.3	7.0	-0.8	5.1	-3.0	0.1	...
Tourist revenues inflows	8.5	-2.9	1.0	0.3	7.5	3.9	...	...
Goods carried by rail (km-tonnes)	1.1	-0.7	3.3	0.7	-2.6	5.8	5.7	-0.2
Air passenger traffic	2.7	-1.1	4.8	4.5	8.3	7.7	7.3	9.4
Motor vehicle diesel fuel consumption	7.5	6.1	6.6	10.2	8.5	7.2	...	...

NOTES: (1) Corrected for number of working days and temperature.

(2) Corrected for difference in number of working days.

(3) Business survey: difference between percentage of positive and negative replies.

(4) Business survey: percentage of utilization inferred from replies.

(5) By volume.

SOURCE: Red Eléctrica Española, OFICEMEN, SEOPAN, Civil Aviation, National Institute of Statistics, Bank of Spain, Ministry of Science and Technology, Ministry of Economy and internal figures.

**Domestic tourism
compensates for
stagnation in foreign
visitors.**

With regard to services, moderately positive results for tourism have been confirmed, mainly thanks to the contribution from domestic tourism. In fact, overnight stays by Spaniards in hotels, apartments and tourist campgrounds were up by 5.1%, 8.0% and 6.0% respectively whereas overnight stays by foreign visitors grew by a modest 0.8% in hotels and were down by 3.8% and 1.6% in apartments and campgrounds. Other figures, such as the practical stagnation seen in total foreign visitors and the moderate growth in revenues shown in the balance of payments (4.2 nominal equivalent to 1% real as of October) support that impression. Finally, in the transportation sector we note uneven results which are generally more positive in the goods segment than for passengers, with the exception of air traffic which continued to grow sharply (7.9% from July to November).

**On demand side,
good state of
consumption noted...**

On the demand side, we note a relatively sustained increase helped along by the good state of the labour market and growth in wages which have recovered a new upward drive in recent months (real increase of 4.1% in October compared with the same period last year). A clear indication of this is the sharp increase in passenger car registrations (10.2% year-to-year from October to November).

DEMAND INDICATORS

Percentage change over same period year before

	2001	2002	2002 4th Qtr.	2003				
				1st Qtr.	2nd Qtr.	3rd Qtr.	October	November
Consumption								
Production of consumer goods (*)	-1.1	2.4	1.8	0.4	1.8	0.3	-0.8	...
Imports of consumer goods (**)	9.0	5.0	10.5	7.9	10.3	12.6	...	...
Car registrations	3.2	-6.6	-0.4	-5.2	3.2	7.5	8.2	12.6
Credit for consumer durables	24.1	12.6	4.9	-2.2	-0.8	4.0	-	-
Consumer confidence index (***)	-4.0	-11.6	-13.3	-17.0	-13.7	-12.3	-12.0	-12.0
Investment								
Capital goods production (*)	-3.7	-4.9	5.0	0.3	0.4	-2.9	1.9	...
Imports of capital goods (**)	-4.3	-5.8	1.3	10.6	22.6	26.2	...	...
Commercial vehicle registrations	-5.5	-6.0	2.8	15.8	10.6	16.3	12.9	12.2
Foreign trade (**)								
Non-energy imports	4.0	3.7	11.0	9.9	11.0	7.6	...	...
Exports	2.0	1.4	6.4	5.9	11.1	4.6	...	...

NOTES: (*) Adjusted for difference in number of working days.

(**) By volume.

(***) European Commission survey: difference between percentage of positive and negative replies.

SOURCE: ANFAC, National Institute of Statistics, Bank of Spain, Ministry of Economy, European Commission and internal figures.

...although paradoxically consumer confidence failing to clearly improve.

Capital goods imports continue to rise.

Total housing units under construction reaches all-time high...

In addition, the retail sales index has been maintaining a growth stage in recent months (real growth, discounting inflation, close to 4% year-to-year from September to October). It should be pointed out that department stores continued to increase their market share with real growth of more than 8% in the two months mentioned. Paradoxically, consumer confidence has not clearly taken off for more positive levels but has stayed stagnant at around -12 points since mid-year.

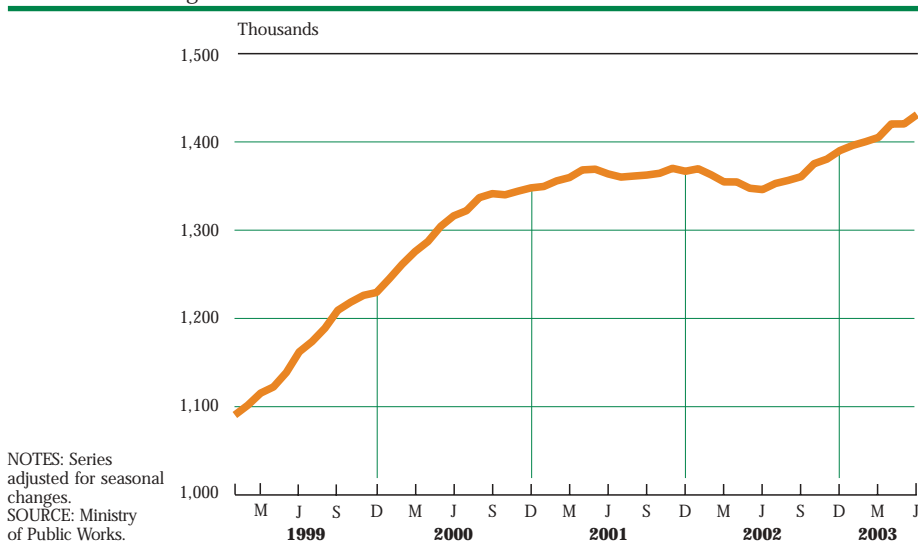
Finally, investment in capital goods is showing contradictory signs. Whereas commercial vehicle registrations show a very expansionist course (increase of 14.6% year-to-year from July to November), domestic production of goods of this type is going down. On the other hand, imports of capital goods, which have a major relative weight in this heading, grew by 26.2% year-to-year in the third quarter.

Housing construction still showing strong drive

The housing sub-sector continued to show considerable strength in the final stages of 2003. In June, the number of housing units under construction amounted to more than 1,418,000 (the highest in history), an increase of 6.3% compared with one year earlier. Along the same lines, total housing starts in the past twelve months amounted to more than 657,000, some 15.3% more than in June 2002, thus also beating the absolute all-time record. In any case, the latest figures indicate a gradual slowing down of the growth trend of this variable following the strong drive shown in previous months.

NUMBER OF HOUSING UNITS UNDER CONSTRUCTION STANDS AT ALL-TIME HIGH

Number of housing units under construction



...which ensures high construction level in 2004.

A similar conclusion is arrived at if we analyze the statistical series for total floor-space planned (obtained from new projects approved by associations of building construction supervisors and technicians) which dropped year-to-year growth in the third quarter of 2003 to 12.8% after nearly 24 months of constant increases. In view of the above figures, a high level of construction activity in 2004 seems assured although with a tendency to gradually slow down in the course of the year, a process which could become sharper in the second half of the year.

Growth of population segments with highest purchasing power...

As mentioned on previous occasions, demand for housing has recorded extraordinary growth in the past three years. During this three-year period Spain's housing stock rose at a rate of 623,000 units a year practically twice the average recorded between 1991 and 2000. The causes of this increase are varied. First of all, the demographic factor has been a strong influence with the incorporation of the so-called «baby-boom» generation into the age levels with highest purchasing power (between 1960 and 1976 births went above the annual average of 650,000).

HOUSING MARKET INDICATORS

Percentage annual change (except where otherwise indicated)

	2001	2002	2003	2002		2003		
				3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.
Housing units planned	-5,1	13,5	11,1	16,5	24,1	10,2	11,9	...
Housing starts	-1,8	3,7	19,3	11,8	20,5	21,3	17,5	...
Housing units completed	21,5	2,9	-5,1	-0,9	1,4	-1,8	-8,1	...
New floor-space ⁽¹⁾	-6,2	4,2	18,3	8,4	7,1	22,1	20,1	12,8
Construction sector survey ⁽²⁾								
Work carried out	7,7	9,7	...	6,3	10,0	...	...	...
New contracts	-2,1	21,7	...	15,4	4,2	...	...	...
Construction climate indicator ⁽³⁾								
Production level	-20,3	-13,0	-1,8	16,3	-29,3	-18,0	12,7	4,0
Order books	9,9	-0,5	6,1	7,3	-1,0	-0,7	3,3	21,0
Foreign real estate investment	21,7	27,7	24,9	26,6	36,2	44,9	19,4	10,5
Loans to individuals ⁽⁴⁾								
For home purchase	20,1	16,9	12,9	18,0	16,1	13,6	13,1	12,2
For home renovation	15,9	18,7	23,3	19,9	20,0	23,4	22,8	23,6
Mortgage loan interest rate ⁽⁵⁾	5,8	4,8	3,8	4,9	4,5	4,1	3,8	3,5
Housing prices (m²)								
New housing (less than 1 year)	15,4	16,7	13,6	18,5	16,2	15,9	12,5	12,8
Existing housing	15,4	15,8	17,5	16,3	16,7	17,2	17,9	17,4
Total	15,4	16,6	16,9	17,7	17,4	17,5	17,5	15,7

NOTES: (1) Total m² to be built as housing according to new building approvals.

(2) Value at constant prices in housing sub-sector.

(3) Difference between percentage of positive and negative replies in housing sub-sector.

(4) Balance at lending institutions.

(5) Average loan rate (more than 3-year term) at banks and savings banks granted for non-subsidized home purchase.

SOURCE: Ministry of Public Works, Ministry of Economy and Bank of Spain.

...and increased immigration has added to rise in demand...

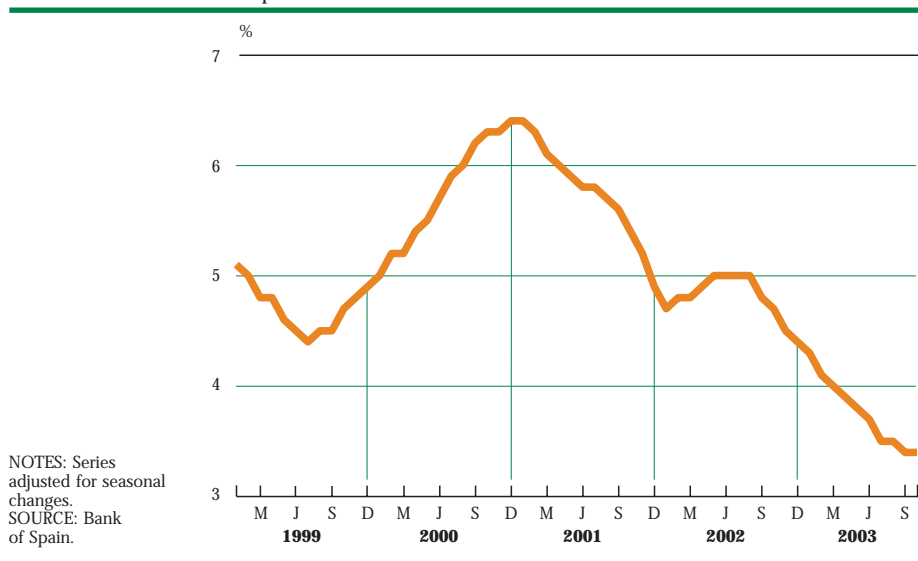
As a result, between 1991 and 2001, those population groups between 20 and 35 years of age (of significance in demand for a main residence) and between 35 and 50 years of age (linked to demand for replacement housing or holiday homes) showed an overall increase of more than 2,700,000 persons, or growth of 16.2%, while, due to various socio-demographic factors such as the increase in single-parent households and those with just one occupant, among other factors, the total number of households grew at a higher rate. More than 2,500,000 new households were established in that decade, an increase of 21.6%. Along with normal population growth we should also take into consideration the sharp rise in the immigrant population involving some 335,000 more persons each year in the last five years, according to municipal residence records.

...also contributing to this are favourable financing terms available since adoption of euro.

Apart from the demographic framework, the growth of employment and incomes, favourable financial terms available since adoption of the euro (in October 2003 the interest rate on mortgage loans of more than three-year term granted by banks and savings banks stood at the all-time low of 3.4%) and the consideration of housing as an alternative profitable investment are also key factors in explaining the rise taking place in housing demand in recent years. This boom has been accompanied by a sharp increase in average purchase price (practically doubling in the past eight years) which, according to a Bank of Spain report, could be overvalued by between 8% and 20%.

MORTGAGE INTEREST RATE DROPS TO LOWEST LEVEL EVER

Average rate on bank and savings bank loans of more than 3 years for non-subsidized home purchase



Gradual easing of rise in housing prices foreseeable in coming months.

In any case, it would seem that we have moved into a stage of some containment. In fact, the increase in the average price of new housing eased to 12.8% in the third quarter of 2003, nearly six points less than one year earlier. This process should continue in coming months in keeping with the gradual slowdown expected in demand.

LABOUR MARKET

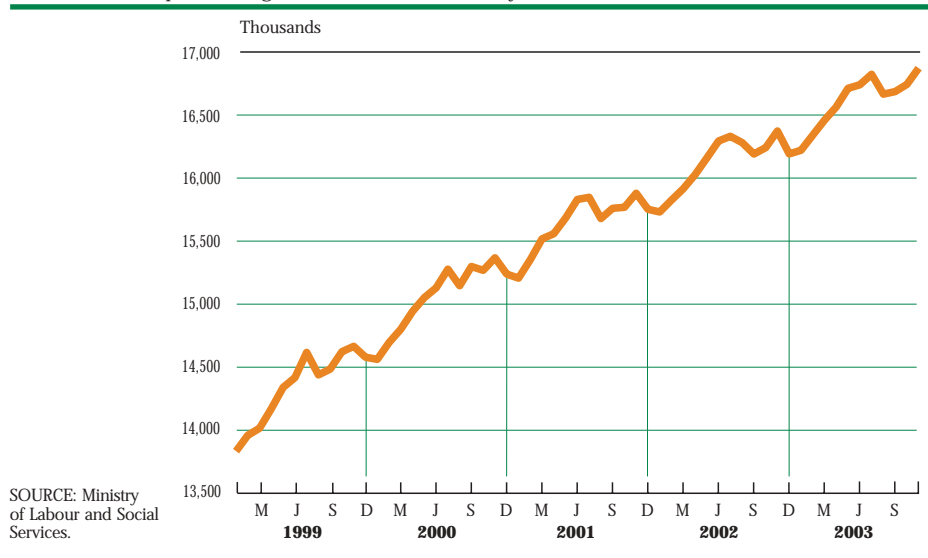
Job creation holds notably strong in fourth quarter

Rate of registrations with Social Security holding at 3%...

The number of persons registered with Social Security rose by 128,596 in November to reach a total of 16,866,901, a level never before reached. The increase in registrations, somewhat lower than in the same month in 2002, meant a slight drop in the year-to-year growth rate of 1 decimal putting it at 3.0% year-to-year, a result which did not change the situation of a strong labour market seen in recent months.

REGISTRATIONS WITH SOCIAL SECURITY HOLDING UP

Total number of persons registered with Social Security



...in spite of sharp slowdown in non-EU workforce registrations.

The easing off in the rate of registrations was entirely due to Social Security registrations among the foreign non-EU workforce which showed a drop in growth to a still high 13.0% level in November which was well below registrations of the order of 40% last year. This spectacular slowdown was a result of the gradual process of giving this group normal labour and legal status, a group which at the end of November numbered 749,541 persons. The trend among workers from within the European Union was quite different as this showed a growth rate going up to 17.2% year-to-year. The bulk of registrations, made up of Spaniards, continued to show notable strength with a growth rate running at 2.5%, that is to say, at highs for the year.

EMPLOYMENT INDICATORS

Percentage change over same period year before

	2001	2002	2002	2003				
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November
Persons registered with Social Security								
Wage-earners	4.6	3.5	3.3	3.6	3.4	2.9	3.2	3.1
Industry	1.6	-0.2	0.0	-0.1	-0.6	-0.5	-0.7	...
Construction	7.3	5.8	5.2	5.8	4.8	3.8	3.3	...
Services	5.6	4.4	3.9	4.0	4.3	3.9	4.5	...
Non-wage-earners	1.0	0.9	1.4	1.7	2.2	2.5	2.7	2.8
Total	3.9	3.0	3.0	3.3	3.2	2.8	3.1	3.0
Persons employed (*)	3.7	2.0	1.6	2.3	2.6	2.8	-	-
Jobs (**)	2.4	1.5	1.4	1.6	1.7	1.9	-	-
Hiring contracts registered (***)								
Permanent	8.0	-1.6	-8.1	8.0	-6.7	-6.2	-6.4	0.6
Temporary	1.0	1.1	-1.4	7.9	-2.8	1.5	1.5	9.9
Total	1.6	0.9	-2.0	7.9	-3.1	0.9	0.8	9.0

NOTES: (*) Estimate from Labour Force Survey.

(**) Equivalent to full-time work. National Accounting estimate; figures adjusted for seasonal effects and number of working days.

(***) At INEM.

SOURCE: National Institute of Statistics, Ministry of Labour and Social Services, National Employment Institute and internal figures.

Jobs among self-employed showing upward profile in contrast to stability of wage-earning jobs.

Registrations with Social Security made stable strong progress among the wage-earning group consolidating its growth rate slightly above 3%. On the other hand, the increase among the non-wage group (2.8% year-to-year) was somewhat lower although showing a clear growth profile.

Job hirings registered at INEM up to November show higher growth than in 2002.

The situation of strength shown by the labour market was also confirmed by figures for hirings registered at the National Employment Institute (INEM). In fact, after a sharp rise in November, the cumulative increase for the year stood at 2.3%, a rate well above that for the same period last year. The improvement in hiring took place entirely within the temporary segment, particularly in part-time work.

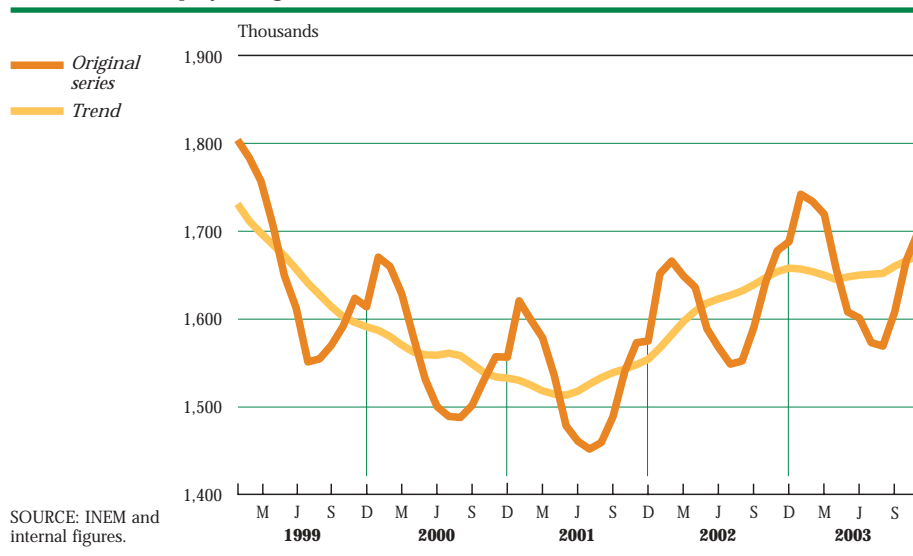
Registered unemployment eases growth rate in November

Registered unemployment eases growth rate in November.

The number of unemployed registered at INEM stood at 1,699,197 at the end of November, up 32,262 compared with the month before. This increase, somewhat lower than in the same month in 2002, brought about a slight drop in the rate of increase in unemployment putting it at 1.3% year-to-year. This confirmed the trend seen in previous months which was characterized by a very slight but sustained increase in unemployment.

SLIGHT INCREASE IN REGISTERED UNEMPLOYMENT

Number of unemployed registered at INEM offices



Cumulative balance better than last year but far from best years in second half of Nineties.

The increase in unemployment in November turned around the balance for the year which showed a cumulative increase of 11,129, which in any case was well below the figure for the January-November period in 2002. However, the situation was quite far from the best years in the second half of the Nineties which were characterized by sharp drops in unemployment. By sector, industry and construction continued to show decreases in unemployment in the first eleven months of 2003, a situation which was different from that seen in services, a segment of economic activity where unemployment showed a substantial increase.

REGISTERED UNEMPLOYMENT BY SECTOR, SEX AND AGE

November 2003

	No. of unemployed	Change over December 2002		Change over same period year before		% share
		Absolute	%	Absolute	%	
By sector						
Agriculture	38,895	683	1.8	-2,098	-5.1	2.3
Industry	253,872	-15,917	-5.9	-3,892	-1.5	14.9
Construction	180,337	-19,103	-9.6	9,209	5.4	10.6
Services	987,103	41,763	4.4	24,498	2.5	58.1
First job	238,990	3,703	1.6	-6,488	-2.6	14.1
By sex						
Males	685,650	-26,912	-3.8	9,298	1.4	40.4
Females	1,013,547	38,041	3.9	11,931	1.2	59.6
By age						
Under 25 years	271,073	3,508	1.3	-7,990	-2.9	16.0
All other ages	1,428,124	7,621	0.5	29,219	2.1	84.0
TOTAL	1,699,197	11,129	0.7	21,229	1.3	100.0

SOURCE: National Employment Institute and internal figures.

Youth unemployment moving down.

The containment of unemployment is to be seen both among the male and female groups with the year-to-year increase rate holding at very similar levels. Youth unemployment, in turn, also reported a slight improvement showing a negative year-to-year change rate for the fifth consecutive month.

Sharp improvement in unemployment in autonomous communities central to Ebro hub.

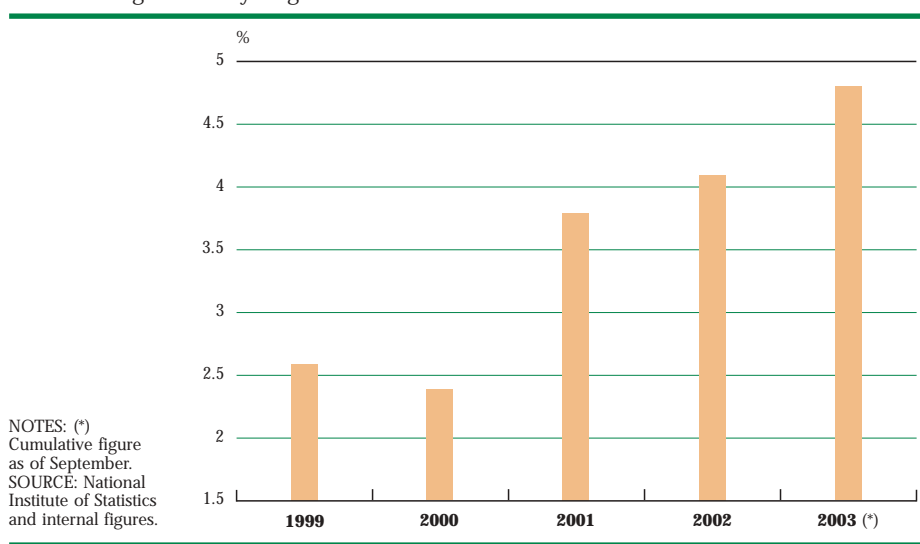
By autonomous community, the improved situation was notably widespread and especially visible was the change in figures for the Balearic Islands where unemployment changed to growth of 4.7% year-to-year, seven points below the month before. As a result, only the Canary Islands and Valencian Community showed an increase in unemployment higher than in the Balearic Islands. At the opposite end of the scale, the three autonomous communities central to the Ebro river hub (Aragon, Navarre and La Rioja) reported major decreases in unemployment. On the other hand, somewhat more moderate year-to-year decreases showed up in Andalusia, the Basque Country and Madrid Community. Other regions recorded unemployment levels generally slightly higher than those in November 2002.

Increase in wage costs eases to 3.1% in third quarter but cumulative figure well above 2002.

Worker wages eased substantially in the third quarter, if we are to go by the Labour Cost Index (LCI). In fact, according to this indicator, the increase in total wage cost per worker per month stood at 3.1% year-to-year, more than one point below the previous quarter. In spite of this moderation, the average increase in the first nine months of the year stood at 4.5%, a level well above that for last year and also above inflation. If other labour costs such as Social Security and other benefits are added to wage costs, the increase in total wage cost stands at 3.6% year-to-year and at a level of 5% on average for the period.

RISE IN COST OF HOUR WORKED

Annual change in hourly wage cost



Wage moderation noted in industry and services but not in construction.

The moderation in wage increases in the third quarter was especially notable in services and industry although in the latter case the increase held at relatively high levels (3.7%), above that recorded in services. The situation in construction was somewhat different and the increase in wage cost continued at a very high level, namely 5.1% year-to-year.

Cost per hour worked up 4.8% in first nine months of year.

The general easing of labour costs may also be seen in wage cost per effective hour worked which eased to 3.1%. In any case, the average increase in the first nine months of the year as a whole stood at 4.8%, three decimals above the average for the same period last year.

WAGE INDICATORS

Percentage change over same period year before

	2001	2002	2002	2003		
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.
Increase under general wage agreements	3.5	3.1	3.1	3.4	3.4	3.5
Wage per job equivalent to full-time work (*)	3.8	3.9	4.0	4.2	3.9	3.7
Labour cost index						
Wage costs						
Total	3.5	3.9	3.9	4.9	4.2	3.1
<i>Industry</i>	3.7	4.7	5.0	5.0	5.1	3.7
<i>Construction</i>	3.9	4.1	4.4	5.1	4.9	5.1
<i>Services</i>	3.6	3.8	3.6	4.8	3.9	2.6
Average wages per hour worked	3.8	4.1	3.5	3.3	8.0	3.1
Other labour costs	6.2	6.0	6.6	6.0	5.5	5.2
Work day (**)	-0.3	-0.3	0.4	1.5	-3.5	-0.1
Farm wages	4.6	5.1	3.5	3.4	2.1	2.1
Labour cost in construction	4.7	2.9	3.7	4.0	4.6	4.4

NOTES: (*) Quarterly National Accounts, corrected gross figures.

(**) Effective hours worked per worker per month.

SOURCE: National Institute of Statistics, Ministry of Labour and Social Affairs, Ministry of Agriculture, Fishing and Food, Ministry of Public Works and internal figures.

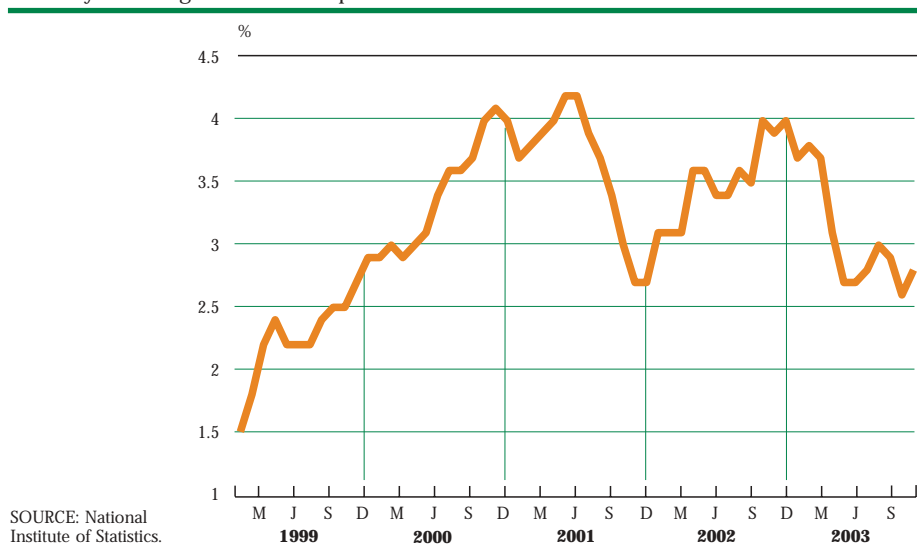
Wage increase under collective bargaining agreements stands at 3.5%, also above that for last year.

With regard to the average increase set under collective bargaining agreements reached up to the fourth quarter, the rise stood at 3.5%, according to figures from the Ministry of Labour and Social Affairs, that is to say, four decimals above that agreed on last year. This increase, however, is lower than that in fact effective in 2002 which amounted to 3.8% because of the impact of safeguard clauses. By sector, construction (with 4.7%) showed the biggest increase with services coming next at 3.5%. The wage increase in industry stood at 3.2%.

**Inflation rate
moves up to 2.8%
in November.**

Year-to-year growth in the consumer price index (CPI) in November was 2.8%, two decimals above the month before. The increase in prices was due to the energy component of the index which failed to show any improvement on the drop recorded in November last year. On the other hand, underlying inflation (which does not include the more volatile components such as fresh food and energy) held unchanged at the 2.6% figure seen the month before.

Year-to-year change in consumer price index



Underlying inflation stable...

50

CONSUMER PRICE INDEX

	2002			2003		
	% monthly change	% change over Dec. 2001	% annual change	% monthly change	% change over Dec. 2002	% annual change
January	-0.1	-0.1	3.1	-0.4	-0.4	3.7
February	0.1	0.0	3.1	0.2	-0.2	3.8
March	0.8	0.8	3.1	0.7	0.5	3.7
April	1.4	2.1	3.6	0.8	1.3	3.1
May	0.4	2.5	3.6	-0.1	1.2	2.7
June	0.0	2.5	3.4	0.1	1.3	2.7
July	-0.7	1.8	3.4	-0.6	0.6	2.8
August	0.3	2.1	3.6	0.5	1.1	3.0
September	0.4	2.5	3.5	0.3	1.4	2.9
October	1.0	3.5	4.0	0.7	2.1	2.6
November	0.2	3.7	3.9	0.3	2.4	2.8
December	0.3	4.0	4.0			

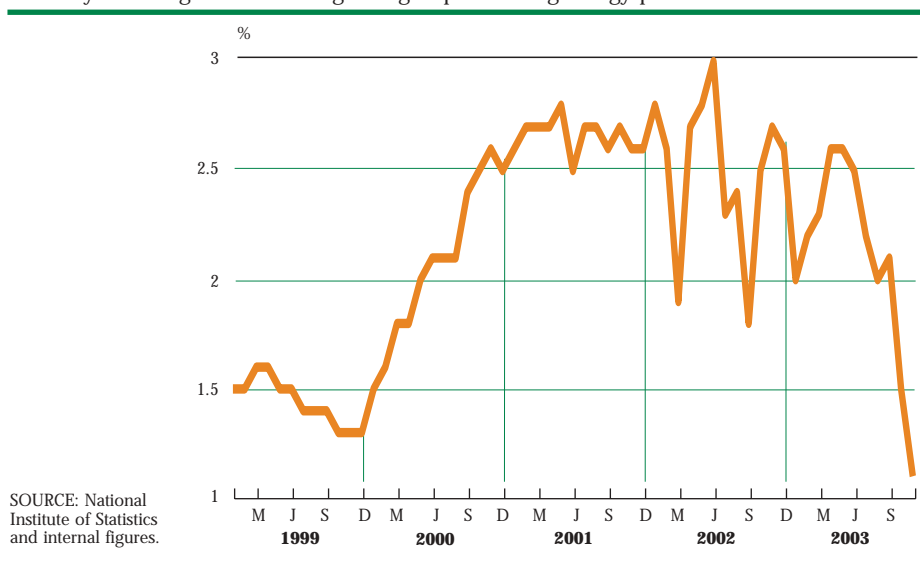
SOURCE: National Institute of Statistics.

...because of weakness in prices of non-energy industrial goods.

The containment of prices of non-energy industrial goods, for which year-to-year inflation has dropped to 1.1%, came as a result of the moderation in prices of clothing and footwear and the further drop in prices of certain consumer durables. The progressive decrease in import prices and the weakness of consumption in some market segments in a situation of growing competition (clothing and home goods) has helped to keep prices from going back to levels prior to end-of-season sales.

DROP IN INFLATION ON INDUSTRIAL GOODS

Year-to-year change in industrial goods group excluding energy products

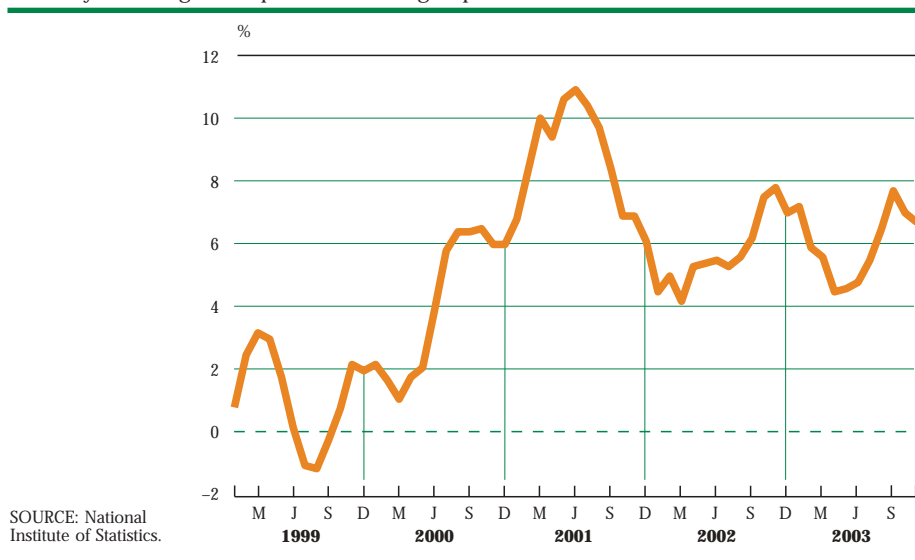


Services prices showing downward resistance.

In the case of services prices, these continue to show downward resistance. In November they continued to rise at a rate of 3.7% in spite of the fact that prices of tourist services were down slightly thanks to organized tours. The notable increase in communications prices as a result of the change in telephone rates and some personal services, along with high growth rates in prices of financial services, would account for this trend.

FRESH FOOD PRICES EASING

Year-to-year change in unprocessed food group



Processed foods continue upward while fresh foods halt sharp growth.

The performance of processed food prices was also unfavourable as they continued upward for the second consecutive month, partly because of the price of cooking oil, food pastes and milk products. On the other hand, fresh foods eased their high growth rate dropping it by three decimals to 6.7% year-to-year, thanks to collapse in poultry prices despite the further rise in eggs (now 18% year-to-year), potatoes (17%) and fresh vegetables which seemed bent on recovering the big increases at the end of last year.

Prospects for moderation of CPI in coming months.

The rise in the inflation rate in November does not change forecasts for an easing of the CPI in coming months, particularly if the euro remains strong which naturally would mean a drop in import prices, especially in energy. Limitation of the improvement in the CPI will mainly come from downward resistance in services prices (which very much depend on labour costs and competitive conditions) and food prices which are still subject to certain risks because of notable increases in prices at origin.

CONSUMER PRICE INDEX BY COMPONENT
November

	Indices (*)	% monthly change		% change over previous December		% annual change		
		2002	2003	2002	2003	2002	2003	
By type of spending								
Food and non-alcoholic beverages	110.8	0.1	0.1	4.0	3.6	4.9	4.3	
Alcoholic beverages and tobacco	109.8	0.0	0.0	4.6	2.7	4.6	2.7	
Clothing and footwear	116.9	3.9	3.3	6.0	3.0	5.6	2.3	
Housing	106.1	-0.0	0.3	2.7	2.8	2.6	3.0	
Household equipment	104.9	0.3	0.3	2.1	1.6	2.2	1.9	
Health	105.4	0.1	0.1	2.6	2.0	2.6	2.1	
Transport	103.6	-1.4	0.0	4.4	1.0	4.0	1.6	
Communications	93.7	-3.4	-0.6	-5.0	-0.1	-5.0	-0.3	
Recreation and culture	102.3	-0.4	-1.1	0.5	-0.9	2.0	0.4	
Education	111.6	0.2	0.2	4.1	4.3	4.2	4.9	
Hotels, cafés and restaurants	111.0	0.0	-0.1	5.5	3.8	5.8	4.0	
Other	108.1	0.1	0.1	3.7	3.0	3.9	3.1	
By group								
Processed foods	108.2	0.0	0.2	3.2	2.5	3.5	2.8	
Unprocessed foods	115.7	0.3	-0.0	5.8	5.5	7.8	6.7	
Non-food products	107.1	0.2	0.4	3.5	2.1	3.6	2.3	
Industrial goods	105.4	0.5	0.9	3.2	1.1	2.9	1.2	
Energy products	100.2	-2.6	0.3	4.8	0.2	3.5	1.1	
Fuels and oils	99.8	-3.6	0.4	6.8	-0.2	4.9	1.0	
Industrial goods excluding energy products	107.0	1.4	1.1	2.6	1.3	2.7	1.2	
Services	109.2	-0.2	-0.2	4.0	3.3	4.5	3.7	
Underlying inflation (**)	108.2	0.4	0.4	3.3	2.4	3.6	2.6	
GENERAL INDEX	108.0	0.2	0.3	3.7	2.4	3.9	2.8	

NOTES: (*) Base 2001 = 100.

(**) General index excluding energy products and unprocessed foods.

SOURCE: National Institute of Statistics.

**Differential with euro
area holds at seven
decimals in November.**

The slight increase in Spain's inflation rate calculated according to the harmonized consumer price index (HCPI) which put it at 2.9% showed no change in the differential with the euro area thus holding at seven decimals of a point in November. By component, the increase in prices was significantly higher in Spain in most components with the exception of prices of food and tobacco which showed much lower growth in Spain.

Farm prices shoot up while import prices ease

Import prices down slightly.

Import prices recovered a downward trend in September partly thanks to the strength of the euro. As a result, in the first nine months of the year as a whole the average drop was 0.5% and 0.2% in the case of consumer goods.

INFLATION INDICATORS

Percentage change over same period year before

	Farm prices	Producer price index					Import prices				GDP deflator (*)
		General index	Consumer goods	Capital goods	Intermediate goods	Energy goods	Total	Consumer goods	Capital goods	Intermediate goods	
2002											
October	-0.9	1.7	2.0	1.7	1.1	3.8	-0.0	-0.2	4.2	-1.1	-
November	-4.6	1.7	1.9	1.7	1.4	4.1	-0.5	-1.3	5.1	-2.0	4.9
December	-8.1	2.0	1.7	1.8	1.9	6.2	-3.3	-4.4	-4.4	-2.2	-
2003											
January	-10.3	2.5	1.9	1.4	1.2	7.4	3.6	-4.0	2.0	7.4	-
February	-0.7	2.9	2.0	1.2	1.5	8.9	-5.1	2.7	-8.9	-6.9	4.4
March	-0.8	3.0	2.2	1.2	1.5	9.5	2.9	1.4	-3.0	5.3	-
April	0.3	1.4	1.6	1.0	1.3	1.3	-2.5	-0.1	-10.9	-0.9	-
May	7.5	0.7	1.8	1.2	1.0	-2.3	-2.0	-1.9	-10.0	0.4	4.1
June	6.6	0.9	2.0	1.2	0.4	-0.9	0.7	-0.6	-7.2	3.8	-
July	3.7	1.1	2.5	1.1	0.1	0.2	0.0	-3.4	-7.2	3.2	-
August	8.3	1.1	2.7	1.1	0.0	0.1	1.5	4.5	-9.1	2.9	3.9
September	14.6	0.8	2.7	1.2	0.3	-2.4	-2.8	-0.2	-17.7	0.9	-
October	...	0.6	2.6	1.3	0.7	...	...	...	...	...	-

NOTES: (*) Gross figures corrected.

SOURCE: National Institute of Statistics, Ministry of Economy and internal figures.

Farm prices continue to show sharp increases.

Farm prices, on the other hand, moved up very sharply in September, partly because of the effect of the decrease shown in the same month last year. The average increase in the first nine months of the year, however, held at relatively moderate levels (3.4%) thanks to decreases in the early months of the year. This upward trend in farm prices may continue to the beginning of 2004 if we keep in mind the notable decreases in prices of farm and livestock products during the second half of 2002 and the beginning of 2003.

FOREIGN SECTOR

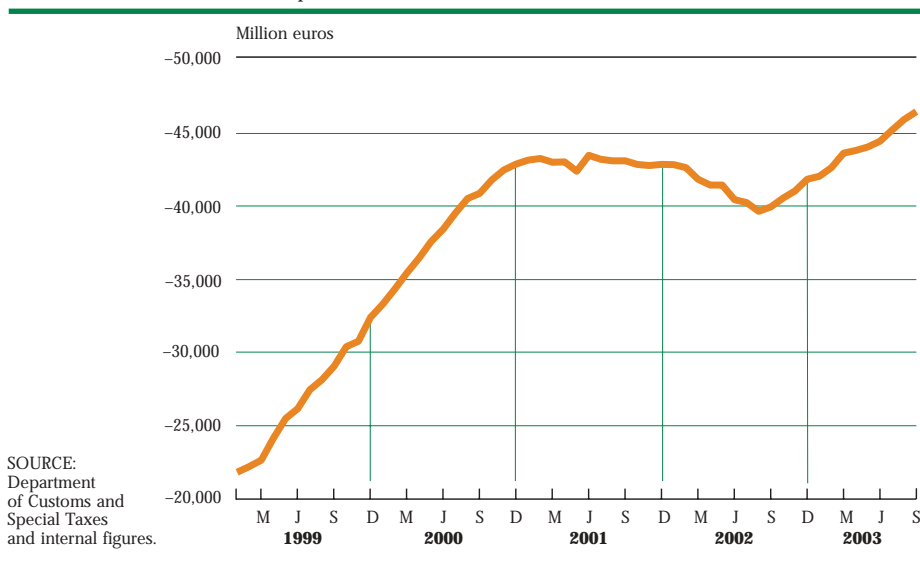
Trade deficit worsens in third quarter

**Trade deficit up 16%
in first nine months.**

Foreign trade in goods showed sharp growth in September breaking with the state of weakness seen in previous months. This recovery did not prevent there being an unfavourable balance in the third quarter because of the increase in the trade imbalance shown in recent months. As a result, the cumulative deficit in the first nine months of the year rose to 33.3 billion euros, an increase of 16.3% compared with the same period in 2002. The export/import ratio, the relation between exports and imports, stood at 75.3%, nearly two points below the same period last year.

TRADE IMBALANCE NOT EASING

Cumulative trade balance for past twelve months



**Imports recover high
level in September
putting cumulative
real increase at 8.9%.**

Imports sharply recovered in September with growth of 11.6% by value. In cumulative terms, the nominal figure for foreign purchases went up to 134.8 billion euros, some 8.4% more than in the first nine months of 2002. The modest decrease in prices meant that real growth stood at 8.9%. The recovery of imports in September came as a result of the spectacular rise in capital goods purchases and, to a lesser extent, to consumer durables. So far in 2003 the real increase in foreign purchases

held at very high levels and maintained a growth profile in capital goods (19.8%) and in non-food consumer goods (10.7%). The increase in foreign purchases of food products was somewhat lower and more stable. On the other hand, imports of intermediate goods tended to weaken except in the field of energy.

Exports also improve in September with increase reaching 7.3% real.

Exports also grew substantially in September (11.3%) while the cumulative figure for the first nine months of the year amounted to 101.5 billion euros, 6.0% more than in the same period in 2002. In real terms, average growth as of September stood at 7.3% thanks to the drop in export prices. The better situation in foreign sales in September was especially notable in food products and capital goods. Nevertheless, in the first nine months as a whole the biggest growth showed up in intermediate energy products and capital goods at 39.5% and 18.7% real respectively. These rates were well above those recorded by consumer goods and non-energy intermediate goods at 6.5% and 3.8% respectively.

FOREIGN TRADE January-September 2003

	Imports			Exports			Balance	Export/ Import ratio (%)
	Million euros	% annual change in value	% share	Million euros	% annual change in value	% share	Million euros	
By product group								
Energy products	14,330	4.7	10.6	3,157	48.6	3.1	-11,173	22.0
Consumer goods	37,801	10.2	28.0	41,524	5.9	40.9	3,723	109.8
Food	8,974	9.8	6.7	12,484	6.7	12.3	3,510	139.1
Non-foods	28,828	9.8	21.4	29,041	4.5	28.6	213	100.7
Capital goods	20,985	9.7	15.6	12,139	7.4	12.0	-8,846	57.8
Non-energy intermediate goods	61,672	7.8	45.8	44,678	3.7	44.0	-16,994	72.4
By geographical area								
European Union	86,027	9.0	63.8	73,393	7.7	72.3	-12,634	85.3
Euro area	74,647	9.0	55.4	61,489	9.0	60.6	-13,158	82.4
Other countries	48,761	7.4	36.2	28,105	1.9	27.7	-20,656	57.6
Eastern Europe and ex-USSR	5,856	6.0	4.3	4,400	8.2	4.3	-1,456	75.1
United States	5,007	-2.4	3.7	4,098	-1.4	4.0	-909	81.8
Japan	3,422	10.8	2.5	724	-3.2	0.7	-2,698	21.2
Latin America	5,444	-1.6	4.0	4,788	-9.3	4.7	-656	88.0
OPEC	8,577	6.4	6.4	2,440	-5.8	2.4	-6,137	28.5
Rest	20,455	13.3	15.2	11,654	8.4	11.5	-8,801	57.0
TOTAL	134,788	8.4	100.0	101,499	6.0	100.0	-33,290	75.3

SOURCE: Department of Customs and Special Taxes and internal figures.

Some EU markets begin to recover and Chinese market booming.

By geographical area, sales to third countries continued to show greater strength than those to the European Union with growth of 10.5% and 5.9% real respectively. Notable in the European Union area was the increase in value of shipments to the Netherlands, Italy and Germany although the starting base was very low. Among third countries there was a notable drop in sales to Japan, United States, OPEC countries, Middle East and especially Latin America, an area where the decrease went to 9.3%. These decreases were largely compensated by the acceptable state of markets in the East European countries and the strong drive being shown by the Chinese market which is progressively gaining market share in Spain's foreign trade.

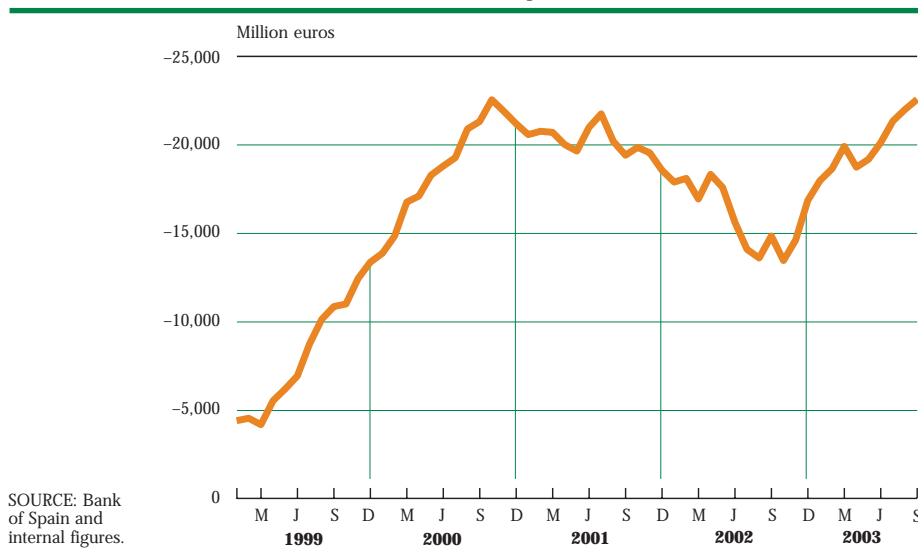
Current account deficit continues rise in September

Current account deficit continues to grow.

The current account balance showed a deficit of 3.1 billion euros in September, some 23.1% higher than in the same month in 2002. This increase was due to the turnaround in the transfers balance, the worsening of the services heading and the increase in the trade deficit which taken as a whole was not compensated by the reduction in the incomes deficit. Because of this, the cumulative imbalance in the first nine months of the year amounted to 15 billion euros, some 62.1% more than in the same period last year.

CURRENT ACCOUNT DEFICIT REACHES NEW HIGHS

Cumulative current account balance with abroad for past twelve months



Improvement in services balance not sufficient to ease worsening of other headings in current account balance.

The rise in the cumulative current account deficit may be largely explained by the increase in the trade imbalance, the sharp drop in the transfers surplus and, to a lesser extent, the increase in the imbalance under incomes. The services balance partly eased the situation with a 4.1% increase in surplus. Under this heading, the tourist balance showed growth of 4.5% because of the relatively favourable performance of revenue inflows (increase of 4.2% up to September) in a context of moderate growth of payments (up 2.7% in the first nine months of the year).

BALANCE OF PAYMENTS

Cumulative figure for last 12 months in million euros

	September 2002	September 2003	% Change
Current account balance			
Trade balance			
<i>Exports</i>	130,647	139,291	6.6
<i>Imports</i>	-162,297	-178,139	9.8
Total	-31,650	-38,848	22.7
Services			
<i>Tourism</i>	28,524	29,512	3.5
<i>Other services</i>	-2,039	-2,561	25.6
Total	26,485	26,951	1.8
Incomes	-12,007	-10,826	-9.8
Transfers	2,566	342	-86.7
Total	-14,606	-22,381	53.2
Capital account	6,928	7,122	2.8
Financial balance			
Direct investment			
<i>From Spain to abroad</i>	-19,119	-14,079	-26.4
<i>From abroad to Spain</i>	19,766	20,939	5.9
Total	647	6,860	-
Portfolio investment			
<i>From Spain to abroad</i>	-43,945	-61,023	38.9
<i>From abroad to Spain</i>	37,330	31,478	-15.7
Total	-6,615	-29,545	346.6
Other investment			
<i>From Spain to abroad</i>	-13,516	-12,993	-3.9
<i>From abroad to Spain</i>	37,714	54,911	45.6
Total	24,198	41,918	73.2
Total	18,230	19,233	5.5
Errors and omissions	-9,914	-5,036	-49.2
Change in assets of Bank of Spain	-639	1,061	-

NOTES: The figure resulting from the sum of current account balance, capital account balance and financial balance is compensated by the change in assets of Bank of Spain plus errors and omissions.

SOURCE: Bank of Spain and internal figures.

Direct foreign investment down less than Spanish investment abroad.

Capital account, in turn, showed a surplus of 5.5 billion euros, down 6.4% from last year. Financial account, excluding Bank of Spain transactions, recorded net inflows of 15.8 billion euros as of September, up 72% from the same period last year. Spanish direct investment abroad continued to decline with the result that the cumulative decrease amounted to 39.8% compared with the same period in 2002. Portfolio investment, on the other hand, was more than twice that for last year. Direct foreign investment in Spain was relatively weak showing a drop of 11.4% as of September. Portfolio investment, in turn, was down by 20.7%.

PUBLIC SECTOR

Sharp increase in indirect tax collections

Central government revenues up 5.1% in first 11 months of year...

Central government non-financial revenues in the first eleven months of the year were up 1.5% compared with the same period last year going to 101.1 billion euros. For purposes of comparison with last year we must add revenues attributed to the autonomous communities for funding health which come from tax segments ceded to those governments for that purpose. In this case, the increase goes up to 5.1% for the January-November period.

CENTRAL GOVERNMENT BUDGET IMPLEMENTATION November 2003

	Month		Cumulative for year	
	Million euros	% change over same month year before	Million euros	% change over same month year before
Non-financial revenue	6,379	-17.8	101,115	1.5
Non-financial revenue adjusted (*)				
Personal income tax	3,855	-9.1	43,091	4.1
Corporate tax	-62	-	19,230	3.8
VAT	2,160	4.0	38,981	10.8
Special taxes	1,498	3.1	15,503	4.9
Other	1,749	-21.0	15,615	-2.8
Total	9,200	-8.6	132,420	5.1
Non-financial spending	8,131	-0.6	102,017	2.1
Treasury balance	-1,752	319.1	-902	171.7
Surplus (+) or deficit (-) (**)	-3,420	100.7	5,156	-9.7

NOTES: (*) Includes tax segments ceded to autonomous communities under financing system in operation as of 2002.

(**) In terms of National Accounting.

SOURCE: Ministry of Finance and internal figures.

...due to increase in certain non-tax revenues and value added tax.

The increase in consolidated tax collections was mainly due to indirect taxes, especially value added tax which was up 10.8% as of November. Special taxes in turn rose by 4.9%, apart from taxes on certain means of transportation which in 2003 was considered to be revenue proper to the autonomous communities. Among special taxes, the tax on fuels, the main source of collections under this heading, was up by 3.3% compared with the sharp increase in funds arising from tax on insurance premiums and tobacco (12.5% and 8.9% respectively). The increase in revenues from direct taxes was much smaller at 3.6% in total. Apart from tax

resources, fees and public service prices contributed 37.9% more to the public coffers while current transfers showed an increase of 12.9%. On the other hand, government property revenues were down by 39.2% while capital transfers showed a drop of 14.9%.

Spending up slightly but figures not significant.

Non-financial spending by the central government in Treasury terms was up by 2.1% as of November going to 102 billion euros. This modest rise may be accounted for by the lack of homogeneity in accounting figures given that in 2002 these included a transfer to Social Security in order to finance the transition period of the new health financing system in the autonomous communities. In any case, consolidated figures which would make possible overall monitoring are not available as in the situation for revenues. Staff costs exclusively for central government showed an increase of 4.9% while purchases of goods and services were up 5.5%. Interest payments were up by 3.2%. Under capital operations, which showed an overall increase of 8.6%, direct investment grew somewhat more than capital transfers.

Treasury deficit triples as of November.

In Treasury terms, the first 11 months of the year ended with a deficit of 902 million euros, nearly three times that for the same period last year. On the other hand, in terms of National Accounting, the cumulative balance as of November was positive at 5.2 billion euros, some 9.7% below the same period in 2002.

Central government deficit amounts to 3.1 billion euros in first 11 months of year.

In any case, the central government presented a deficit of 3.1 billion euros in the first 11 months of the year, 1.0% lower than in the same period last year. This figure may be explained by the Treasury deficit and the substantial amount of the net change in financial assets. The latter heading includes certain loans made by the central government to finance technological innovation and development programmes, participations in certain government-run corporations and property allocations to various institutions, basically Gestor de Infraestructuras Ferroviarias, which received 1.4 billion euros, and the Development Aid Fund which obtained 181 million euros.

SAVINGS AND FINANCING

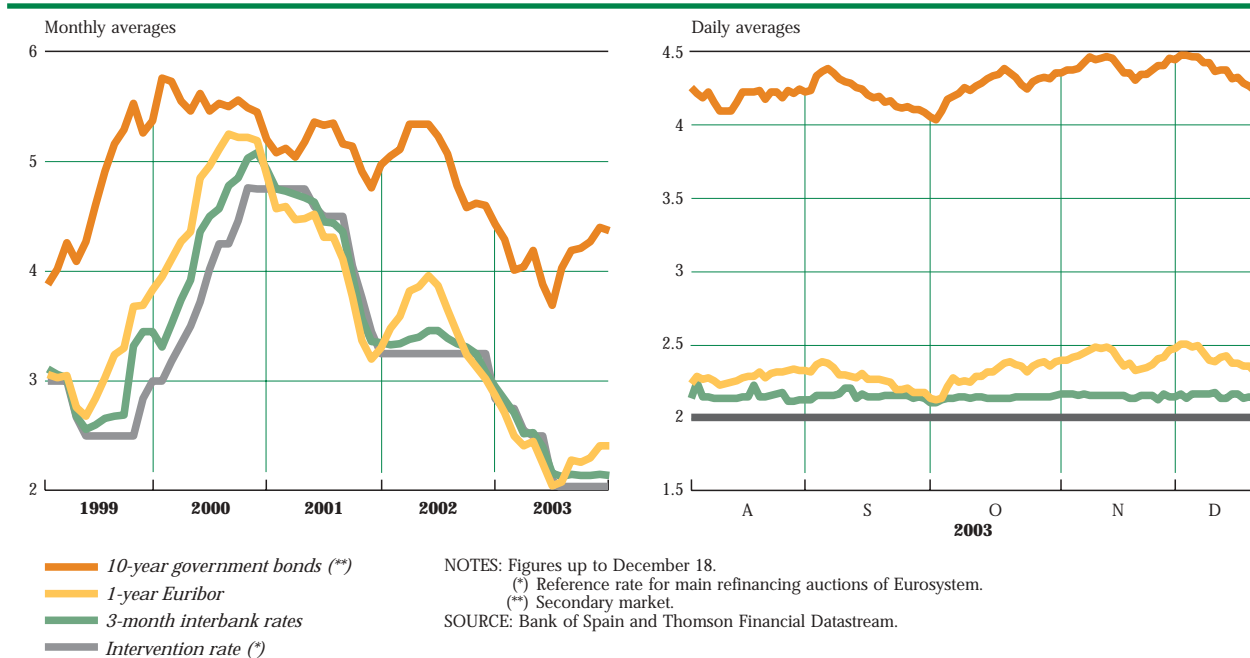
Interest rates holding at low levels

Real interest rates remain negative.

Nominal short-term interest rates continue locked into very low levels because the European Central Bank has been maintaining its reference rate at 2.00% since June 5. As a result, real interest rates, that is to say discounting the inflation rate, continue to be negative. Medium and long-term interest rates has shown ups and downs in recent weeks running within a relatively narrow range.

SWINGS IN LONG-TERM INTEREST RATES

Interest rates as annual percentage



1-year Euribor up 11 basis points in November.

After recording a new all-time low of 2.10% on September 30, the yield on 3-month interbank deposits rose slightly with publication of better economic figures. On December 9, for example, it went to 2.17%. Nevertheless, it later eased somewhat going to 2.13% toward the end of the third week in December, some 82 basis points less than twelve months earlier. With regard to the 1-year Euribor, this rose by 11 basis points at monthly average in November to stand at 2.41% although this

was 61 basis points lower than twelve months earlier. The 1-year Euribor rose to 2.50% at the beginning of December, a high since April 2003 but it later eased to 2.31% on December 18.

INTEREST RATES

Monthly averages as annual percentage

	Main refinancing operations (2)	3-month interbank rate	1-year Euribor (3)	1-year Treasury bills (4)	3-year Govt. bonds (5)	10-year Govt. bonds (5)	30-year Govt. bonds (5)	Composite bank lending rate (6)	Composite bank borrowing rate (6)
2002									
November	3.27	3.08	3.02	2.96	3.30	4.60	5.17	4.67	2.20
December	2.94	2.95	2.87	2.87	3.07	4.43	5.02	4.40	2.06
2003									
January	2.81	2.83	2.71	2.55	2.91	4.24	4.87	4.80 (*)	1.56 (*)
February	2.77	2.71	2.50	2.20	2.70	4.01	4.75	4.73 (*)	1.51 (*)
March	2.61	2.52	2.41	2.34	2.70	4.04	4.82	4.62 (*)	1.43 (*)
April	2.54	2.53	2.45	2.33	2.81	4.19	4.92	4.47 (*)	1.35 (*)
May	2.56	2.40	2.25	2.05	2.51	3.88	4.69	4.72 (*)	1.35 (*)
June	2.20	2.16	2.01	1.84	2.24	3.69	4.57	4.33 (*)	1.21 (*)
July	2.08	2.13	2.08	1.98	2.50	4.03	4.87	4.20 (*)	1.16 (*)
August	2.06	2.15	2.28	2.12	2.97	4.19	4.91	4.22 (*)	1.15 (*)
September	2.07	2.14	2.26	2.14	2.93	4.21	4.96	4.13 (*)	1.14 (*)
October	2.05	2.14	2.30	2.09	2.97	4.27	5.00	4.09 (*)	1.14 (*)
November (*)	2.02	2.15	2.41	2.28	3.11	4.40	5.06	...	...
December (1)	2.00	2.13	2.31	2.35	2.90	4.23	4.90	...	...

NOTES: (*) Provisional figures.

(1) December 18 for intervention rate, interbank rate and government bonds.

(2) Marginal interest rate at main refinancing auctions of Eurosystem.

(3) In accordance with Bank of Spain Circular 7/1999, dated June 29, this rate as a monthly average may be considered as a reference rate for mortgage loans since July 10, 1999. Occasionally it may differ by one-hundredth of a point from the 12-month Euribor as a monthly average published with two decimals in the European Central Bank bulletin.

(4) Average weighted issue interest rate.

(5) Secondary market. Outright spot operations. Average redemption yield.

(6) Average weighted rate for corresponding balances. Up to December 2002 refers to banks and savings banks and as of January 2003 to lending institutions as a whole, among other methodological changes, so that there exists a discontinuity in the statistical series.

SOURCE: Bank of Spain, Thomson Financial Datastream and internal figures.

Yield on 10-year government bonds stands at 4.23%.

With regard to government bonds, the yield on 10-year bonds at the beginning of December was close to the annual high of 4.48% set on November 12. Later on, it dropped somewhat partly because of the appreciation of the euro and went to 4.23% toward the end of the third week in December. This yield meant a drop of 13 basis points compared with twelve months earlier.

Composite mortgage loan rate close to all-time low.

With regard to bank interest rates, the composite interest rate in November for mortgage loans of more than three-year term for non-subsidized home purchase was down one basis point compared with one month earlier and stood at 3.43%, close to the all-time low, and 109 basis points less than in the same month in 2002.

Sustained growth rate in credit to private sector

Bank default rate marks up new all-time low.

Bank credit to companies and households was up 13.3% in October compared with the same month last year, two decimals more than in September. Doubtful loans at lending institutions as a whole recorded a year-to-year decrease of 9.9% so that the default rate showed its lowest level in recent years recording 0.98% in October. This ratio for banks and savings banks (excluding other lending institutions) also continued to drop slightly going to 0.80%, marking up a new all-time low.

Mortgage loans on books up 23% in last 12 months.

The increase in bank credit to the private sector continued to be based on mortgage loans. Total mortgage loans granted by banks and savings banks showed an annual change rate of 20.8% in October, some 0.3 points more than in the month before. The year-to-year change rate would go up to 22.8% if securitizations were included, according to the Spanish Mortgage Association. The demand for mortgage loans is showing great strength due to the increase in household incomes, very low real interest rates and favourable financial terms.

LOANS TO COMPANIES AND HOUSEHOLDS October 2003

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
Commercial credit	51,021	587	1.2	5,098	11.1	6.5
Loans against collateral (*)	427,642	63,680	17.5	72,235	20.3	54.6
Other term loans	251,839	13,646	5.7	12,446	5.2	32.1
On-demand loans	20,839	1,467	7.6	460	2.3	2.7
Leasing	24,417	2,384	10.8	2,863	13.3	3.1
Doubtful loans	7,663	-5	-0.1	-846	-9.9	1.0
TOTAL	783,421	81,758	11.7	92,257	13.3	100.0

NOTES: (*) Largest part with mortgage collateral.
SOURCE: Bank of Spain and internal figures.

Higher growth in bank loans for production activities than for loans to individuals.

In addition, the Bank of Spain recently published figures on credit granted to companies and households by purpose for the third quarter on 2003 which makes possible a more detailed study from the point of view of end-use. Loans going into production activities moved up 13.1% compared with the same period in 2002, some 0.3 points less than in the preceding quarter. Loans to individuals showed a slightly lower annual change of 12.8%, a half-point less than in the previous quarter and two points below December. As a result, the year-to-year change in loans for production activities was again higher than for that going to individuals.

Loans to construction sector and real estate companies up 28% in one year...

By large economic sectors, we should mention that the year-to-year increase in services (15.7%) was higher than in construction (15.1%) for the first time since March 2002. Nevertheless, if we take into account construction plus real estate services, the annual increase rate was 28.0%, a level similar to previous quarters.

BANKING SYSTEM CREDIT TO PRIVATE SECTOR
Third quarter of 2003

	Balance (*)	Change this year		Change over 12 months	
	Million euros	Million euros	%	Million euros	%
Funding of production-related activities					
Agriculture, livestock and fishing	16,462	1,712	11.6	2,181	15.3
Industry	87,240	1,653	1.9	4,406	5.3
Construction	61,902	4,900	8.6	8,125	15.1
Services	232,601	24,736	11.9	31,544	15.7
Total	398,206	33,003	9.0	46,256	13.1
Funding to individuals					
Home purchase and renovation	264,453	25,217	10.5	29,785	12.7
Purchase of consumer durables	36,468	1,784	5.1	1,396	4.0
Other funding	56,225	6,625	13.4	9,268	19.7
Total	357,146	33,626	10.4	40,449	12.8
Funding to private non-profit institutions	2,651	219	9.0	312	13.3
Other unclassified	12,520	2,012	19.2	2,700	27.5
TOTAL	770,523	68,860	9.8	89,717	13.2

NOTES: (*) Of lending institutions as a whole: banking system, specialised credit institutions and Official Credit.
SOURCE: Bank of Spain and internal figures.

...while loans for home purchase up 13% in last twelve months.

Under loans to households, those for home purchase or renovation were up 12.7% in year-to-year change, some 0.8 points less than in June. Loans for purchase of consumer durables (cars, appliances, furniture, etc.) rose by 4.0% compared with the third quarter in 2002. Other loans to individuals recorded the biggest annual rise with an increase of 19.7%, although this was 2.9% less than three months earlier.

Securitizations very dynamic.

With regard to other types of corporate funding, net placement of commercial paper in the January-October period of 2003 was -670 million euros. On the other hand, net bond issues by non-financial companies amounted to 943 million euros. On the other hand, securitization funds reported heavy volume in the first ten months of the year with total issues of 20 billion euros, more than twice that in the same months in 2002. In addition, the cumulative volume of capital increases involving outlay of funds by non-financial companies as of October amounted to 1.3 billion euros, a year-to-year drop of 30.8%, in a situation of some caution in the stock market.

Decrease in financial resources from abroad.

In addition, in the January-September period companies and households obtained financial resources from abroad for a net total of 14.9 billion euros. This amount meant a drop of 32.2% compared with the same period of 2002 due to lower direct investment.

Investment funds active

Increase in private sector deposits covers only half growth in loans.

Total deposits of the resident private sector in euros and foreign currency grew by 8.4% in October 2003 compared with the same month last year, some 0.7 points more than in September. In the course of the last twelve months deposits rose by 46.9 billion euros, practically half the increase in loans granted by the resident banking sector.

Spectacular rise in total 500-euro notes in circulation with sharp drop in number of notes of 5, 10 and 20 euros.

By type of deposit, the biggest increase showed up in time deposits for more than two years which rose by 14.4% in the past twelve months. Savings accounts also recorded a major rise of 12.7% compared with October 2002, one point more than in the month before. On the other hand, cash put into circulation by the Bank of Spain rose by 10.8% in the past twelve months as of October, some 2.4 points more than the rise in deposits. What is remarkable is that in this period the total figures for notes of 5, 10 and 20 euros in circulation recorded sharp reductions whereas the number of notes of largest denomination (500 euros) was up by 70.5%. This may indicate an increase in the «black» economy.

DEPOSITS OF COMPANIES AND HOUSEHOLDS AT CREDIT INSTITUTIONS

October 2003

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
On-demand	159,178	4,545	2.9	15,046	10.4	26.3
Savings (*)	138,899	10,645	8.3	15,630	12.7	23.0
Up to 2-year term	157,709	4,227	2.8	2,876	1.9	26.1
More than 2-year term	68,148	8,099	13.5	8,566	14.4	11.3
Repos	77,066	-2,319	-2.9	4,391	6.0	12.7
Total	601,000	25,197	4.4	46,509	8.4	99.3
Deposits in non-euro currencies	4,065	529	15.0	351	9.5	0.7
TOTAL	605,064	25,725	4.4	46,859	8.4	100.0

NOTES: (*) Deposits redeemable at notice, according to ECB definition.

SOURCE: Bank of Spain and internal figures.

Net inflows of resources to investment funds concentrated in share-based funds.

The assets of investment funds rose by 1.6 billion euros in November going to 196.9 billion euros, a year-to-year increase of 15.3%, according to Inverco, the sector organization. This increase was mainly due to net purchases of participations amounting to 1.2 billion euros. Net acquisition of participations in money-market based funds and long-term bond-based funds was negative in November while net inflows were concentrated in share-based funds.

Slight increases in Treasury bill yields

Total T-bills up 2.9 billion euros in 2003...

At auctions held on December 3, marginal interest rates (the maximum) on Treasury bills for 6-month, 1-year and 18-month terms rose slightly compared with previous auctions to stand at 2.13%, 2.39% and 2.65% respectively. Total Treasury bills in circulation stood at 38.8 billion euros at the end of 2003, a rise of 2.9 billion euros over 2002 which reflects the importance of these discounted financial assets in central government funding in 2003.

SPANISH GOVERNMENT BOND ISSUES

Date of issue	Tranche	Date of auction	Amount (million euros)			Yield (%)		
			Bids at auction	Allotment at auction	Total issued (*)	Marginal	Average	Nominal
TREASURY BILL								
6-months								
5-12-03	5th	3-12-03	1,930.0	806.8	806.8	2.134	2.114	–
1-year								
5-12-03	3rd	3-12-03	2,659.6	760.0	760.0	2.385	2.349	–
18-months								
5-12-03	1st	3-12-03	2,566.7	1,490.7	1,490.7	2.652	2.643	–
MEDIUM AND LONG-TERM BONDS								
5-year bonds								
9-9-02	7th	3-12-03	2,392.6	1,097.5	1,327.5	3.522	3.517	4.25

NOTES: (*) Includes possible placements in the second auction stage and possible cancellation of applications accepted at auction but not fully paid for.
SOURCE: Bank of Spain.

...but central government debt instruments in circulation drop for first time in 15 years.

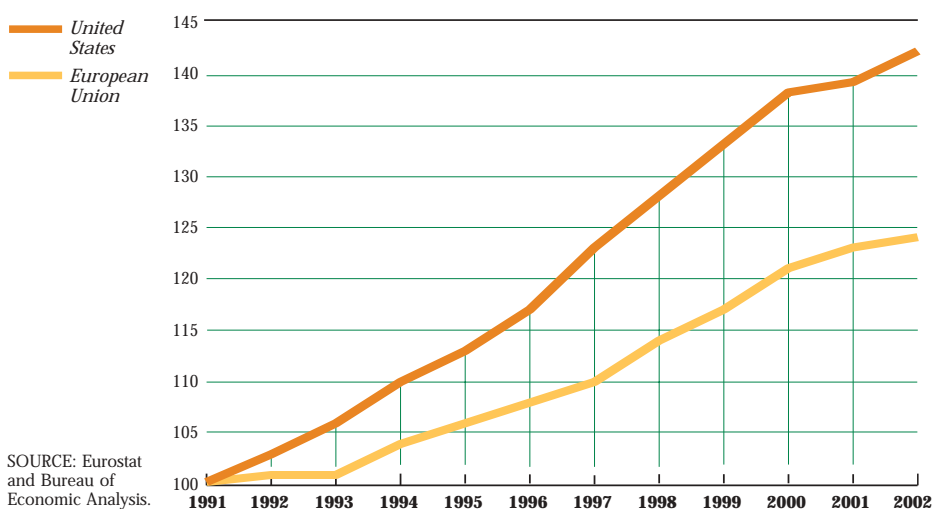
At the auction of 5-year government bonds held on December 3, the marginal yield dropped by 2 basis points compared with the previous auction in September to stand at 3.52%. The Treasury resumed its programme of repurchasing debt instruments for a total of 7 billion euros in 2003. As a result, the outstanding amount of medium and long-term government debt instruments was 246.5 billion euros at the end of the third week in December. This amount meant a decrease of 1.1 billion euros compared with the end of 2002. In fact, the Treasury announced a drop in central government debt instruments in circulation for the first time in 15 years. In addition, the Fitch rating agency raised its credit rating for Spanish debt to the highest level (AAA) in December.

Lisbon Agenda: EU economic strategy under microscope

Ambitious challenge set in Lisbon in 2000 for EU to be world's most dynamic economy in a decade...

In March 2000 the European Union (EU) launched an ambitious strategy for economic reform with the objective of becoming the world's most dynamic and competitive economy in the year 2010. Three and a half years later the European economy is showing growth at a modest 0.8% annual in 2003 and everything indicates that its main economic reference, the United States, will double Europe's growth in the next two years. The aim of this study is to evaluate up to what point the strategy for European economic reform is being carried out.

UNITED STATES GROWING MORE
Gross domestic product in real terms (1991 = 100)



...by means of transition to knowledge economy, stepped up structural reforms and maintenance of macroeconomic stability.

The European Council meeting in Lisbon in March 2000 established as a 10-year objective that the EU would reach a position of economic leadership in terms of growth rate and competitiveness by means of a strategy based on three courses of action. In the first place, it would step up the transition toward an economy based on knowledge by means of promoting research and development (R&D) and on the information society, stepping up structural reforms and fully extending the European internal market. A second area established the objective of modernization of the European social model. Finally, the third objective involved maintenance of appropriate macroeconomic policies oriented to stability. In macroeconomic terms, the results of these reforms would be an

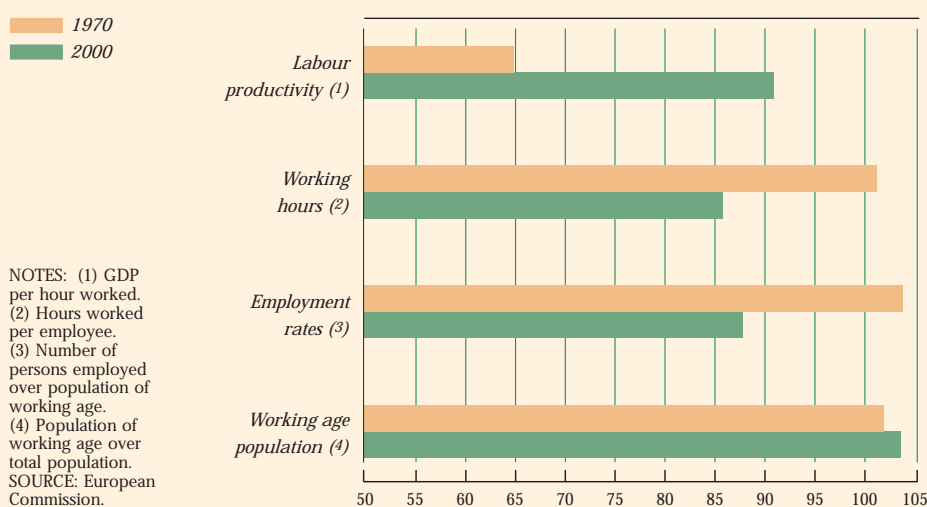
improvement in the capacity for sustainable growth without inflation along with a lower level of unemployment and balanced government finances.

EUROPEAN UNION AND UNITED STATES FACE TO FACE: PRODUCTIVITY, INNOVATION AND STRUCTURAL REFORMS

Why did the Lisbon economic strategy concentrate its efforts on innovation, structural reforms and employment? The Lisbon Agenda had as its fundamental challenge to improve European economic growth with the specific objective of passing the world economic reference of the United States in 2010. A useful way to establish international comparisons is to concentrate on relative prosperity measured in terms of per capita GDP. The per capita GDP may be explained as the result of four components: the GDP by hour worked (apparent labour productivity); hours worked per person employed; the ratio of persons employed over population of 15-64 years of age (that is to say, the employment rate); and finally, the proportion of those persons between 15-64 years of age over total population.

EU COMPARED WITH THE UNITED STATES: LOWER PRODUCTIVITY, FEWER HOURS WORKED AND LESS EMPLOYMENT

Per capita GDP determinants in EU compared with United States (United States = 100) in purchasing power standards



When we compare the composition of the per capita GDP in the United States and the EU in 1970 and 2000, we note that for the latter year the lower GDP per European citizen was one-third due to lower labour productivity, one-third due to fewer hours worked, with the other third due to a lower employment rate. On the other hand, in 1970 the entire difference in per capita GDP was due to differences in productivity. In other words, in the case of the EU a smaller part of the population is working, fewer hours are worked and, furthermore, the labour factor is used less efficiently.

As a result, the efforts for convergence of the levels of economic prosperity being sought in the Lisbon Agenda must primarily come from measures aimed, on the one hand, at improving the

number of hours worked and employment and, on the other hand, improving productivity. With regard to the first two factors, action is to be taken through measures set out in the text of the study covering the areas of employment and social cohesion. It should be remembered that, according to the Organization for Economic Cooperation and Development (OECD), the lower number of hours worked in European countries may largely be explained by the level of part-time work which, in turn, the studies relate to lower employment possibilities in Europe than in the United States. With regard to productivity determinants, outstanding among which is the human capital resource (this also being related to employment) and the creation of knowledge through technological innovation and research, action is to be taken in the areas of social cohesion, innovation and research. Finally, having an indirect effect on employment opportunities and the improvement of productivity will be the existence of a more efficient domestic market, that is to say, the aim of integrated measures under the heading of economic reforms.

EU has established quantified objectives such as reaching employment rate of 70% in 2010 and doubling R&D spending by that year.

In order to move ahead on these three fronts, at various meetings of the European Council (Lisbon itself in 2000; Stockholm in 2001; Göteborg in 2002; Barcelona in 2002; Brussels in 2003) the EU has been establishing a series of quantified objectives or objectives with a time limit, along with other less specific aims. Of notable importance is the aim of reaching an employment rate of 70% in 2010, putting R&D spending at 3% of the gross domestic product (GDP) that same year, fully establishing a single air-traffic market in 2004 and generating 22% of electrical consumption by means of renewable energy in 2010. The monitoring of these quantitative objectives has required compilation of a series of structural indicators in five fields: employment, innovation and research, economic reform, social cohesion and environment. The trend in these sector indicators must be reflected and, at the same time, be conditioned by macroeconomic factors so that, in the above group of indicators, a series of general statistics would be incorporated making up a sixth area, namely the general economic situation. The trend in these five blocks of sector indicators, along with reports issued by EU institutions, makes it possible to evaluate the progress of the Lisbon Agenda more precisely.

Employment

Lisbon objectives on employment seem difficult given that 15 million jobs must be created between 2002 and 2010 to fulfil them.

A recent report commissioned by the European Council warns that the Lisbon objectives in the labour market are far from being reached. The employment rate in 2000 was 63.4% and this improved to 64.1% in 2001. During those two years some 5 million jobs were created. According to official estimates, during the period 2002-2010, 15 million net additional jobs would be required to meet the aims set in Lisbon. Given the fact that, in 2002, the annual increase in employment was only 0.4%, the current year 2003 will likely end without any increase and, for 2004 and 2005, annual growth of 0.3% and 0.8% respectively is forecast, in order to achieve the proposed employment figure in the period 2006-2010, the annual increase rate would have to reach 1.6%. To show the size of the challenge it should be remembered that in the dynamic second half of the Nineties employment grew at 1.4% annual. Finally, meeting the challenge of employment will require new structural reforms given that it will be difficult for economic growth alone to make it possible to reach the requirements set out in Lisbon.

LISBON AGENDA: SELECTION OF QUANTIFIED OBJECTIVES AND CURRENT SITUATION
Employment (European Union)

	Objective 2010	Objective 2005	Situation 2000	Latest figure available	
				Figure	Year
Total employment rate (*)	70	66	63.4	64.3	2002
Female employment rate (**)	60	57	54.1	55.6	2002
Employment rate 55-64 age group (***)	50	–	37.8	40.1	2002

NOTES: (*) Percentage of persons employed over population of working age (15-64 years).

(**) Percentage of females employed over female population of working age (15-64 years).

(***) Percentage of persons employed 55-64 years over population of working age (15-64 years in same age group).

SOURCE: European Council, Council of Ministers, European Commission, Eurostat, U.K. Treasury and internal figures.

Innovation and research

Best results recorded in innovation, area in which spending increased between 2000 and 2002...

The trend in R&D and the move toward the so-called information society has been relatively more satisfactory. If we take the broadest indicator, the percentage of GDP devoted to R&D, the total spending on R&D in the period 2000-2002 rose by 0.3% of the GDP, which would make it possible to reach the objective of 3% of the GDP devoted to research in 2010. In any case, it should be remembered that this challenge is demanding given that, according to OECD estimates, if the EU were to grow by around 2% a year between 2000 and 2010 the amount of R&D equivalent to 3% would mean having to double the funds devoted to this heading in 2000.

LISBON AGENDA: SELECTION OF QUANTIFIED OBJECTIVES AND CURRENT SITUATION
Innovation and research and knowledge society (European Union)

	Objective 2010	Situation 2000	Latest figure available	
			Figure	Year
Total spending on R&D over GDP (*)	3	1.95	1.99	2002
Share of private spending (**)	66	56.2	56.2	2000
Schools connected to Internet (***)	100	–	93.0	2002

NOTES: (*) Percentage of government and private spending compared with GDP.

(**) Percentage share of private spending over total spending on R&D.

(***) Percentage of schools having connection with Internet over total schools.

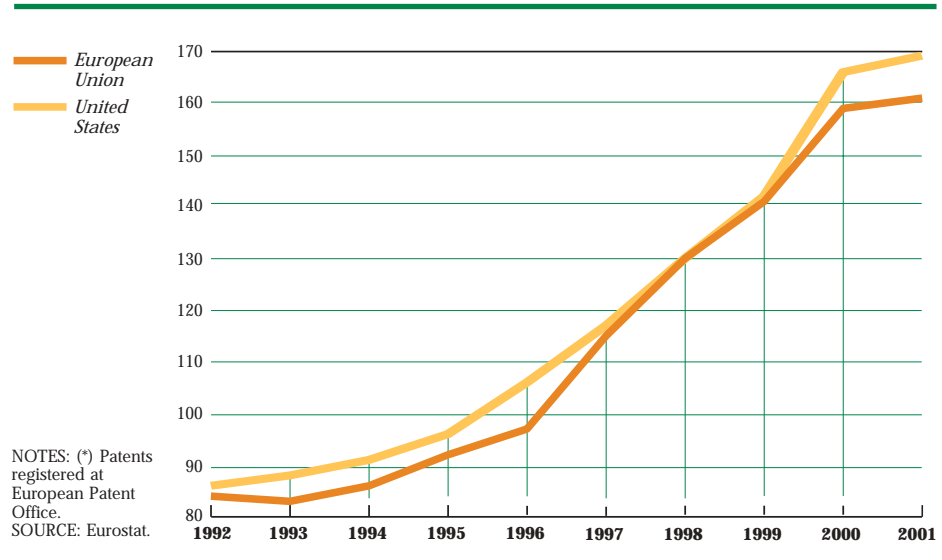
SOURCE: European Council, Council of Ministers, European Commission, Eurostat, U.K. Treasury and internal figures.

...Sixth R&D Framework Programme approved and Galileo satellite navigation system being developed.

One of the objectives considered qualitatively important in the Lisbon strategy was improving the coordination of national R&D measures tending toward an integrated European effort in matters of research. Adoption in September 2002 of the Sixth Framework Programme for R&D in the European Union, an instrument which will mobilize 17.5 billion euros in the period 2002-2006, should act as a key stimulus for progress in this field. Also significant in this technological area is the impulse given to the Galileo satellite navigation system currently in the development stage (2002-2005). In any case, it should be pointed out that in other aspects, such as access to Internet by households and the number of patents, the situation still needs to be considerably improved. In both

cases, the excessive costs borne by European economic actors with regard to other leading countries lies behind the gap being maintained. To cite one example, the process of registering a patent in Europe compared with the United States is five times more costly and the processing time is twice that in the USA.

CREATION OF KNOWLEDGE REMAINS HIGHER
IN UNITED STATES THAN IN EUROPEAN UNION
Number of patents per million population (*)



Economic reform

Economic reform concentrated on fully extending internal market and liberalizing various sectors such as finance, energy and services.

This is a key area for the success of the Lisbon strategy because of the effect it has on the overall efficiency of the European economy. Unfortunately, once more, progress in this area is weak. The projects in the Lisbon Agenda which may be incorporated under this heading are varied. On the one hand, the general improvement of the domestic market is foreseen with special emphasis on a reduction in the level of state aids. On the other hand, progress has been made in the integration certain sectors, among these of special importance being finance, energy, transportation, postal service and services in general.

Indicators suggest some stagnation in full development of internal market.

The results have been sparse. Quantitative indicators tend to show some stagnation in most areas (convergence of prices, both general and in key sectors; increase in inter-European trade; market share of dominant operators; amount of government aid, etc.). In any case, these indicators must be interpreted with caution, given that the effects of the process of economic integration are difficult to reduce to statistical measurement.

Liberalization of energy partially moving ahead whereas single air traffic market...

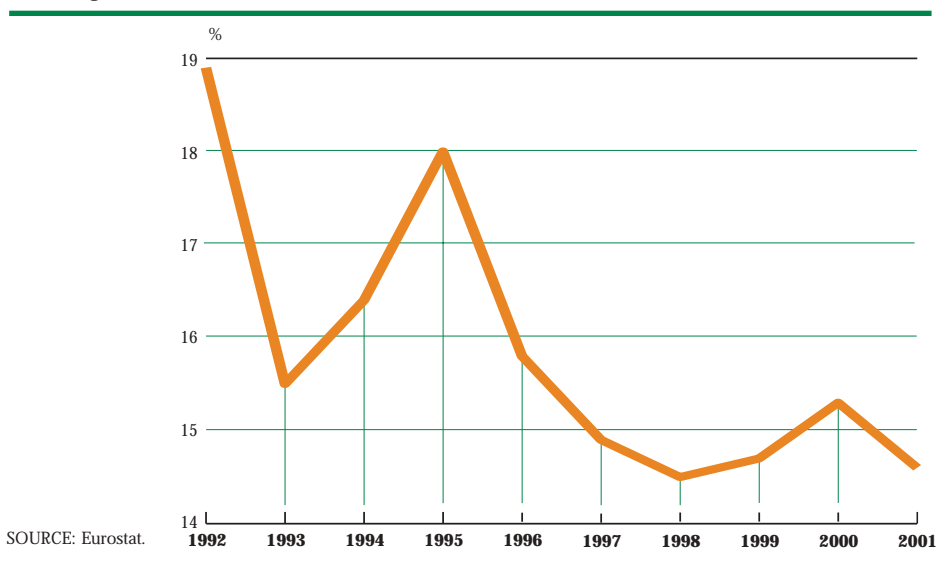
With regard to progress on liberalization and sector integration, this must also be evaluated as moderate. In the energy sector, the main commitments adopted show up in freedom of choice of electricity and gas suppliers for industrial consumers in 2004 for the equivalent of 60% of the market and reaching a level of electrical power interconnection

...encountering bigger difficulties in being carried out.

between member states of 10% of production capacity in 2005. Work on the matter known as «the Single European Sky» has been less conclusive and, while for the moment the objective of reaching an internal air traffic market in 2004 is being maintained, the main advance has been the integration in 2002 of the European community as a member of Eurocontrol, the pan-European air traffic control system.

EFFECTS OF ECONOMIC INTEGRATION STAGNATE IN EUROPEAN UNION

Convergence in prices; coefficient of change in final private consumer prices including indirect taxes



LISBON AGENDA: SELECTION OF SPECIFIC OBJECTIVES AND CURRENT SITUATION

Economic reform (European Union)

	Objective 2010	Objective 2005	Situation 2000	Latest figure available	
				Figure	Year
Full implementation of financial services action plan in 2005 (*)	–	42	–	36	2003
Transposing EU directives on European internal market to national legislation (**)	98,5	–	96,5	98,6	2003
Transposing EU directives on European internal market to national legislation (***)	15	–	–	4	2003

NOTES: (*) Degree of carrying out implementation is estimated by number of measures adopted.

(**) Percentage of EU directives relating to European internal market transposed to national legislation.

(***) Member states meeting criteria of having no internal market directives pending transposition to national legislation with more than two years delay. Does not include future member states to be incorporated in 2004.

SOURCE: European Council, Council of Ministers, European Commission, Eurostat, U.K. Treasury and internal figures.

EU legislation for obtaining a single market in financial services in 2005 being adopted at satisfactory rate...

The integration of financial services, which comes under the so-called «Single Financial Services Market» has been gradually moving ahead. The Lisbon strategy basically concentrated on implementing previously adopted action plans, the Financial Services Action Plan (FSAP from 1999), which is to be completed in 2005, and the Risk Capital Action Plan (RCAP from 1998) which was to be fully operative in 2003. The FSAP set out three main objectives: development of a single wholesale financial market, the setting up of an open and secure retail market and the establishment of modern supervisory rules. For this purpose some 42 actions were defined, most of which refer to the adoption of new guidelines aimed at eliminating specific barriers to full financial integration. Following the launching of the FSAP (1999) five new measures were added. At the end of 2003, some 36 measures were adopted which should make it possible to complete the legislative programme proposed in the period set out. In any case, it should be remembered that there still remains the process of changing national legislation to the measures adopted at the EU level as required, when it will be possible to evaluate the economic effects of financial integration.

OBJECTIVE: TO RECOVER GROWTH IN EUROPEAN UNION

The poor results in economic growth in the EU in 2001 and 2002 led to the adoption of a package of measures complementary to the Lisbon Agenda known as European Action for Growth which was approved on December 12. This group of measures has the twin aim of improving economic activity and creating employment while, at the same time, strengthening structural reforms under way. In order to do this, the action measure foresees the fostering of public and private investment in R&D and trans-European networks in transportation, energy and communications. The total amount to be financed up to 2010, both publicly and privately, is seen as 62 billion euros.

The bulk of the action measure is made up of a group of trans-European projects chosen mainly for their capacity to begin immediately and their trans-border impact. Most of these projects are for transportation corridors. The EU has identified 29 priority segments to which 38 billion euros will be applied up to 2010. A second group of projects is made up of 17 energy network links amounting to 10.1 billion euros up to 2010. Finally, 14 billion euros is assigned to 8 programmes for broadband communications and R&D. Together with these rapid implementation projects, the action measure foresees establishment of a group of measures of an administrative, regulatory and financial type to facilitate public and private financing of infrastructure networks.

...while in fiscal harmonization and liberalization of sectors such as postal services and rail transportation full achievement still seems far off.

In turn, the Risk Capital Action Plan (RCAP) combined a definition of the appropriate legal framework for risk capital activities, measures for their integration in the Financial Services Action Plan (FSAP) and a series of measures to foster risk capital such as bringing them up to best practices. While in the view of the European Commission the RCAP has been satisfactorily brought into effect, the fact is that its aims and consequently its effects are well below those of the Financial Services Action Plan (FSAP). In spite of the fact that the two action plans mentioned have been satisfactorily completed, an overall evaluation of financial integration

cannot be positive until the so-called «Tax Package» has been unblocked. This package contains basic proposals for tax harmonization, especially in terms of taxation on interest on savings of non-residents. In the remaining sectors (postal services, rail transportation, services) only partial improvements are noted compared with the situation in 2000.

Social cohesion

Results in training and education unsatisfactory in view of European Commission itself.

In the area of social cohesion, in spite of the fact that Lisbon also included the fight against poverty and social exclusion, the main objective was concentrated on the generation of human capital in keeping with the general goals of leadership in international competitiveness. Thus, some 13 common objectives were defined in education and training (from the increased mobility of students to a rise in the number of graduates in science and technology disciplines) from which 29 indicators were later established. In a recent evaluation by the European Commission itself, it was recognized that progress on education was unsatisfactory. For example, in 2002 only 74.5% of persons 22 years of age had completed secondary education as a minimum, 10 points below the objective for 2010. Equally negative was the proportion of those prematurely leaving the educational system which, in 2002, stood at 18.8% of the population between 18-24 years of age, against 10% which should be reached in 2010. At the same time, the human capital reserve in the EU is substantially lower than that in its international competitors of reference given that the United States and Japan produce nearly one-third more persons with university degrees than the European Union.

LISBON AGENDA: SELECTION OF QUANTIFIED OBJECTIVES AND CURRENT SITUATION

Social cohesion (European Union)

	Objective 2010	Latest figure available	
		Figure	Year
Population with secondary education or higher studies (*)	85	75.4	2002
Persons with degrees in science and technology (**)	653	568	2001
Persons prematurely leaving education system (***)	10	18.8	2002

NOTES: (*) Percentage of population 22 years of age completing secondary education or higher studies out of total population.

(**) Number of those with degrees in science or technology (including mathematics) in thousand persons.

(***) Percentage of population 18-24 years of age with primary or equivalent education not continuing studies.

SOURCE: European Council, Council of Ministers, European Commission, Eurostat, U.K. Treasury and internal figures.

Environment

Environment included in Lisbon Agenda in 2001 with main goal of making growth compatible with sustainability.

While the European Council meeting in Lisbon in 2000 did not specifically establish the need to make reform objectives compatible with environmental sustainability, in 2001 the European Council meeting in Göteborg introduced the so-called environmental dimension to the Lisbon strategy. Commitments in the matter of environment were concentrated in four areas. In first place came reversing climatic change and increasing the use of renewable energy. The EU foresees meeting the Kyoto commitment for reduction of gases which cause the greenhouse effect

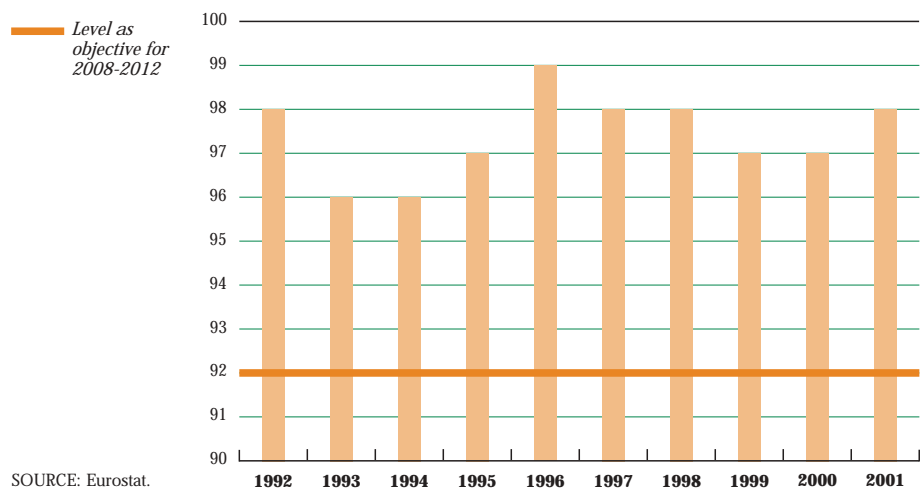
(carbon anhydride, CO₂, and five other gases) and its extension to 2020 which will involve an annual reduction of 1% in emissions compared with the reference year 1990 during the first decades of the century. A second area deals with measures in terms of public health particularly covering food safety. Thirdly, the environment aspect includes different objectives for management of natural resources, outstanding among which is to prevent the loss of biodiversity by 2010. The fourth and final aspect concentrates on improving sustainability of the transportation system and land use. In this area, the main objective quantified concentrates on reaching a road transportation quota in 2010 below that operative in 1998.

Improvement in energy efficiency in EU but meeting Kyoto commitment still partial.

To date, progress in environmental matters has been moderate although not unimportant. Indicators of energy efficiency, particularly energy consumption per unit of gross domestic product (GDP), show an improvement since the second half of the Nineties. The results showing up in relation to meeting the Kyoto commitment are less positive, given that in 2001 the EU overall stood at six points from the objective for 2008-2012 (established as the reduction of 8% of emissions compared with the 1990 level) due to the fact that the trend in recent years has not followed a clearly downward course. At the same time, some member states, Spain among them, will have to carry out a considerable effort given that the recent trend is away from the reference level. The putting into operation of the market for CO₂ emission rights in 2005 should be a milestone in the advancement of a reduction in emissions. On the other hand, in recent years there has been backsliding in indicators for sustainable transportation and use of renewable energy.

EUROPEAN UNION STILL FAR FROM MEETING OBJECTIVES IN FIGHT AGAINST CLIMATE CHANGE

Level of gas emissions causing greenhouse effect (1990 = 100)



To date, meeting of partial objectives and overall goals of Lisbon Agenda has been limited partly because of economic situation...

...but also because of excessively lax method chosen for carrying it out.

Finally, a review of the Lisbon Agenda shows a moderate advance in most areas. While the present stage of economic weakness has not contributed to make structural efforts possible, other problems are also emerging which may be linked to the very procedure chosen. In the first place, the years covered would seem to make clear the imbalance between the general objective of turning the EU into the world's economic leader and the partial objectives. Even in the hypothetical case that those partial objectives might be reached, there remain significant doubts about the overall result.

A second element in this evaluation refers to the method chosen for most of the areas defined. The combination of quantified commitments, which are reflected in a series of indicators, plus the effect of «peer pressure», that is to say, the hope that the improved results would act as an incentive for those countries making less progress, is turning out to be excessively lax, which in turn is bringing about limited progress. In any case, it should be recognized that even in those areas aimed at strengthening or fully establishing the European domestic market, in which a focus based on the more common European regulatory process has been adopted, results have been limited.

BANKING SYSTEM

CUSTOMER RESOURCES IN BANKING SYSTEM BALANCES AT SEPTEMBER 30, 2003 AND TREND, IN MILLION EUROS

Type of institution	Balance			% Market share		
	September 30, 2003	December 31, 2002	% change	September 30, 2003	December 31, 2002	Change
Banks	425,798	401,753	5.99	47.61	48.13	-0.52
Savings banks	424,491	391,517	8.42	47.46	46.90	0.56
Credit cooperatives	44,073	41,438	6.36	4.93	4.96	-0.04
Total	894,362	834,708	7.15	100	100	

NOTES: Based on non-consolidated figures. Includes customer deposits, marketable debt securities and subordinated debt in the public balance sheet. Does not include branches of foreign lending institutions with main head office in Europe.

SOURCE: AEB, «Balances y Estadísticas de la Banca en España»; CECA, «Boletín Estadístico» and internal figures.

RANKING OF MAIN BANK AND SAVINGS BANK GROUPS BY CUSTOMER RESOURCES ⁽¹⁾ BALANCES AT SEPTEMBER 30, 2003, IN MILLION EUROS

Consolidated groups	Balance at September 30, 2003	Balance at December 31, 2002	Change over December 2002	% change over December 2002
1 Santander Central Hispano	211,375.4	211,555.1	-179.7	-0.08
2 Banco Bilbao Vizcaya Argentaria	179,369.3	180,570.6	-1,201.3	-0.67
3 Caja de Ahorros y Pensiones de Barcelona	85,961.2	74,711.1	11,250.1	15.06
4 C. A. y M. P. de Madrid	56,540.2	53,138.7	3,401.6	6.40
5 Banco Popular Español	37,072.1	29,945.7	7,126.4	23.80
6 Caja de Ahorros de Valencia, Castellón y Alicante	23,692.6	20,848.8	2,843.8	13.64
7 Banco Sabadell	23,249.4	20,958.7	2,290.8	10.93
8 Caja de Ahorros de Cataluña	20,874.1	19,502.4	1,371.7	7.03
9 Caja de Ahorros del Mediterráneo	18,994.8	17,596.3	1,398.5	7.95
10 Bankinter	17,744.7	15,738.2	2,006.5	12.75
11 Caja de Ahorros de Galicia	15,221.0	13,907.4	1,313.6	9.45
12 C. A. y M. P. de Zaragoza, Aragón y Rioja	14,814.1	13,917.3	896.8	6.44
13 M. P. y C. A. de Ronda, Cádiz, Almería, Málaga y Antequera	13,393.2	12,502.3	890.9	7.13
14 Bilbao Bizkaia Kutxa	12,138.9	11,999.4	139.5	1.16
15 Caja España de Inversiones, C. A. y M. P.	10,479.3	10,162.1	317.1	3.12
16 Caixa de Aforros de Vigo, Ourense e Pontevedra	10,444.2	9,463.9	980.3	10.36
17 Caja de Ahorros de Salamanca y Soria	9,961.4	9,726.1	235.3	2.42
18 C. A. y M. P. de Guipúzkoa y San Sebastián	8,420.3	8,062.5	357.8	4.44
19 Deutsche Bank S.A.E.	8,152.1	7,633.7	518.4	6.79
20 Banco Pastor	7,682.6	7,043.6	639.0	9.07

NOTES: (1) Includes customer deposits, marketable debt securities and subordinated debt in the public consolidated balance sheet.

SOURCE: AEB, «Balances y Estadísticas de la Banca en España»; CECA, «Boletín Estadístico» and internal figures.

TREND IN CUSTOMER RESOURCES IN SAVINGS BANK GROUPS
BY AUTONOMOUS COMMUNITY ⁽¹⁾
BALANCES AT SEPTEMBER 30, 2003, IN MILLION EUROS

Consolidated groups (2)	Balance		Change over December 2002	% change over December 2002
	September 30, 2003	December 31, 2002		
Andalusia	40,522.9	36,693.7	3,829.3	10.4
M. P. y C. A. de Ronda, Cádiz, Almería, Málaga y Antequera - Unicaja	13,393.2	12,502.3	890.9	7.1
M. P. y C. A. de Huelva y Sevilla	7,813.9	6,658.4	1,155.4	17.4
C. A. y M. P. de Córdoba - Cajasur	7,634.5	6,848.6	786.0	11.5
Caja General de Ahorros de Granada	5,983.3	5,634.5	348.8	6.2
Caja de Ahorros San Fernando de Sevilla y Jerez	5,389.0	4,760.9	628.0	13.2
Caja Provincial de Ahorros de Jaén	309.1	289.0	20.1	7.0
Aragon	19,229.8	18,052.2	1,177.5	6.5
C. A. y M. P. de Zaragoza, Aragón y Rioja. Ibercaja	14,814.1	13,917.3	896.8	6.4
Caja de Ahorros de la Inmaculada de Aragón	4,415.6	4,134.9	280.7	6.8
Asturias				
Caja de Ahorros de Asturias	5,675.9	5,528.7	147.2	2.7
Balearic Islands	4,698.2	4,595.8	102.4	2.2
C. A. y M. P. de las Baleares - Sa Nostra	4,512.6	4,418.2	94.3	2.1
Caja de Ahorros de Pollença «Colonya»	185.7	177.6	8.1	4.6
Canary Islands	7,230.7	7,167.6	63.2	0.9
Caja General de Ahorros de Canarias	4,315.3	4,087.9	227.4	5.6
Caja Insular de Ahorros de Canarias	2,915.4	3,079.6	-164.3	-5.3
Cantabria				
Caja de Ahorros de Santander y Cantabria	3,806.6	3,508.9	297.7	8.5
Castile-Leon	31,314.4	30,107.9	1,206.5	4.0
Caja España de Inversiones, C. A. y M. P.	10,479.3	10,162.1	317.1	3.1
Caja de Ahorros de Salamanca y Soria - Caja Duero	9,961.4	9,726.1	235.3	2.4
Caja de Ahorros Municipal de Burgos	4,571.3	4,242.7	328.6	7.7
C. A. y M. P. del C.C.O. de Burgos	2,170.7	2,089.1	81.6	3.9
C. A. y M. P. de Segovia	2,117.2	2,062.3	54.9	2.7
C. A. y M. P. de Ávila	2,014.5	1,825.5	189.0	10.4
Castile-La Mancha	8,539.0	7,865.9	673.1	8.6
Caja de Ahorros de Castilla-La Mancha	7,846.6	7,208.9	637.7	8.8
Caja de Ahorros Provincial de Guadalajara	692.4	657.0	35.4	5.4
Catalonia	134,069.8	120,098.8	13,971.0	11.6
Caja de Ahorros y Pensiones de Barcelona - "la Caixa"	85,961.2	74,711.1	11,250.1	15.1
Caja de Ahorros de Cataluña	20,874.1	19,502.4	1,371.7	7.0
Caja de Ahorros del Penedés	7,061.1	6,788.1	273.0	4.0
Caja de Ahorros de Sabadell	4,209.7	3,950.5	259.3	6.6
Caja de Ahorros de Terrassa	3,750.6	3,659.2	91.5	2.5
Caja de Ahorros de Tarragona	3,325.9	3,206.4	119.6	3.7
Caja de Ahorros Laietana	2,982.7	2,718.2	264.5	9.7
Caja de Ahorros de Girona	2,863.6	2,630.4	233.2	8.9
Caja de Ahorros de Manresa	1,900.7	1,895.3	5.4	0.3
Caja de Ahorros Comarcal de Manlleu	1,140.2	1,037.3	102.9	9.9

Consolidated groups (2)	Balance		Change over December 2002	% change over December 2002
	September 30, 2003	December 31, 2002		
Valencian Community	43,134.5	38,879.6	4,254.9	10.9
Caja de Ahorros del Mediterráneo - CAM	18,994.8	17,596.3	1,398.5	7.9
Caja de Ahorros de Valencia, Castellón y Alicante - Bancaja	23,692.6	20,848.8	2,843.8	13.6
C. A. y M. P. de Ontinyent	447.2	434.5	12.7	2.9
Extremadura	5,309.4	5,229.2	80.2	1.5
C. A. y M. P. de Extremadura	3,273.5	3,194.6	78.9	2.5
M. P. y Caja General de Ahorros de Badajoz	2,035.9	2,034.6	1.3	0.1
Galicia	25,665.2	23,371.4	2,293.9	9.8
Caja de Ahorros de Galicia	15,221.0	13,907.4	1,313.6	9.4
Caixa de Aforros de Vigo, Ourense e Pontevedra - Caixanova	10,444.2	9,463.9	980.3	10.4
La Rioja				
Caja de Ahorros de La Rioja	1,625.0	1,406.6	218.4	15.5
Madrid Community				
C. A. y M. P. de Madrid	56,540.2	53,138.7	3,401.6	6.4
Murcia				
Caja de Ahorros de Murcia	6,696.9	5,995.7	701.2	11.7
Navarre				
C. A. y M. P. de Navarra	7,063.0	6,449.8	613.2	9.5
Basque Country	24,442.3	23,832.9	609.5	2.6
Bilbao Bizkaia Kutxa - BBK	12,138.9	11,999.4	139.5	1.2
C. A. y M. P. de Guipúzkoa y San Sebastián - Kutxa	8,420.3	8,062.5	357.8	4.4
Caja de Ahorros de Vitoria y Álava - Vital	3,883.1	3,770.9	112.1	3.0
Total Savings Bank Groups (3)	425,564.0	391,923.2	33,640.8	8.6

NOTES: (1) Includes customer deposits, marketable debt securities and subordinated debt in the public balance sheet.

(2) Except in case of C. A. y M. P. del C. C. O. de Burgos, Caja Provincial de Jaén, Caja de Ahorros Comarcal de Manlleu, C. A. y M. P. de Ontinyent, Caja de Ahorros de Pollença «Colonya» and C. A. y M. P. de Segovia which have no consolidated group.

(3) Includes CECA balances.

SOURCE: CECA, «Balances de las Cajas de Ahorros», «Boletín Estadístico» and internal figures.

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