

THE SPANISH ECONOMY: MONTHLY REPORT

MARCH 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	2.2	3.1	4.2	2.1	2.4	3.6	4.3	4.8	4.9
Japan	-0.3	2.7	2.4	2.7	2.4	2.0	3.8	3.2	2.5
United Kingdom	1.7	2.3	2.8	2.0	2.3	2.3	2.8	2.8	2.9
Euro area	0.9	0.4	1.7	0.7	0.1	0.3	0.6	1.2	1.7
Germany	0.2	-0.1	1.4	0.1	-0.3	-0.3	0.0	0.9	1.3
France	1.2	0.2	1.6	0.7	-0.4	-0.2	0.6	0.8	1.6
Consumer prices									
United States	1.6	2.3	2.2	2.9	2.1	2.2	1.9	1.6	2.1
Japan	-0.9	-0.3	-0.3	-0.2	-0.2	-0.2	-0.3	-0.3	-0.4
United Kingdom	2.2	2.8	2.2	2.9	2.9	2.9	2.6	2.2	1.9
Euro area	2.3	2.1	1.7	2.3	1.9	2.0	2.0	1.7	1.7
Germany	1.4	1.1	1.4	1.1	0.9	1.0	1.2	1.2	1.5
France	1.9	2.1	1.8	2.4	1.9	1.9	2.2	1.8	1.9
SPANISH ECONOMY									
Macroeconomic figures									
Household consumption	2.6	3.0	3.0	3.0	2.8	3.1	3.0	3.1	2.9
Government consumption	4.4	4.6	4.4	4.3	4.5	4.8	4.8	4.5	4.3
Gross fixed capital formation	1.0	3.0	2.4	3.2	3.4	3.0	2.5	2.4	2.4
Capital goods and other	-2.7	2.2	1.5	2.8	2.9	1.9	1.2	1.2	1.3
Construction	4.2	3.7	3.2	3.5	3.8	3.8	3.6	3.4	3.2
Domestic demand	2.6	3.3	3.2	3.6	3.2	3.6	2.9	3.1	3.4
Exports of goods and services	0.0	4.0	2.5	4.4	7.8	2.2	1.8	1.8	2.1
Imports of goods and services	1.8	6.7	3.9	8.5	10.1	5.9	2.7	2.9	4.3
Gross domestic product	2.0	2.4	2.7	2.2	2.3	2.4	2.7	2.7	2.6
Balances									
Employment	1.5	1.8	2.0	1.6	1.7	1.9	2.1	2.0	2.1
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	3.0	2.3	3.7	2.8	2.9	2.7	2.1	2.2
Unit labour costs	3.3	3.6	2.9	3.9	3.6	3.5	3.5		
Current account balance (% GDP)	-2.7	-3.2	-3.0	-5.0	-2.5	-3.3	-2.0		
Not lending or net borrowing rest of the world (% GDP)	-1.6	-2.0	-1.9	-4.0	-1.3	-2.5	-0.3		
Government balance (% GDP)	0.1	0.3	0.0						
FINANCIAL MARKETS									
Interest rates									
Federal Funds	1.7	1.1	1.2	1.3	1.2	1.0	1.0	1.0	1.0
ECB repo	3.2	2.3	2.0	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	4.3	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	1.24	1.07	1.14	1.12	1.19	1.26	1.30

"la Caixa" GROUP: KEY FIGURES
As of December 31, 2003

FINANCIAL ACTIVITY	Million euros
Total customer funds	126,281
Receivable from customers (including securitizations)	79,130
Group income	840

STAFF, BRANCHES AND MEANS OF PAYMENT	
Staff	24,338
Branches	4,735
Self-service terminals	6,939

"la Caixa" FOUNDATION	
Budget for 2004 (million euros)	183.5
Science Museum (number of visitors)	194,893
«CosmoCaixa» (number of visitors)	807,545
Exhibitions	295
Concerts and musical events	384
Recreation Clubs for elderly	544
Fellowships for study abroad (1982-2003)	1,688

THE SPANISH ECONOMY: MONTHLY REPORT

March 2004

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ECONOMIC OUTLOOK FOR 2004

As we move into 2004, **recovery of the world economy is felt to be well under way** with this possibly becoming the best year since 2000. The two centres of recovery are to be found in Asia with the rise of China, which is spreading broadly over that continent, and in the United States. In the case of the world's leading economy, growth of more than 4% is expected although with a different profile in the first half-year when growth will rise fast whereas in the second half growth will run out of steam. The reasons for this uneven course lie in the progressive wearing out of those elements which have driven this recovery (fiscal policy and monetary policy) and the effects of a high level of consumer borrowing and the growing government deficit. In spite of the drop in the dollar and the rise in raw materials prices no inflationary pressures are expected while prospects in the labour market indicate a very gradual improvement in the ability to create jobs.

In the euro area, **recovery is now under way but at a very slow rate**. In 2004, growth is expected to go above 1.5%, a rate which Germany will have difficulty in reaching and which France will only slightly go above. Figures available at the beginning of the year support these prospects. Consumer and business confidence rates are showing better results than in previous quarters, services and industry are beginning to take off and prices are showing a trend to a progressive decrease. In any case, the effect of an appreciated euro on exports and, by extension, on recovery generally continues to be a concern.

In money and financial markets, the U.S. Federal Reserve Board is not in any hurry to raise the official interest rate. In any case, it is likely that it could put out a restrictive signal when the improvement in the labour market becomes consolidated, something that may happen toward the middle of the year. The European Central Bank is also maintaining a **cautious stance** although the drop in inflation in the euro area and uncertainty about recovery open up some margin for a possible cut in the reference rate. With regard to long-term interest rates, these will fluctuate around current levels in coming months to later again move into a moderate upward trend.

With regard to Spain's economy, it is estimated that during 2004 the **recovery in domestic demand will be confirmed in the first half** which will make possible growth of the gross domestic product at 2.7% in 2004 as a whole (up from 2.4% in 2003). Private consumption will hold at around current levels of 3% aided by the increase in the number of persons employed, by low interest rates and prospects of cuts in direct taxes. Construction demand will slow down but in a very contained way thanks to the notable momentum obtaining in the sector, both in residential building and in public works. The foreign sector will perform somewhat more favourably in spite of the slow recovery taking place in Europe and the strength of the euro. In addition, it is expected that the consumer price index will run in the 2%-2.5% band in coming months and that general government accounts will continue to show a state of balance.

February 27, 2004

ECONOMIC SITUATION

Japan joins world recovery

Japan's economy showing signs of sustained growth...

The Japanese economy reported surprising growth of 7% in the fourth quarter of 2003 at quarter-to-quarter rate annualized. This was the highest figure since 1990 and, what is more important, for the first time in many years people are beginning to feel that Japan may finally be coming out of its long period of stagnation with deflation. The sharp rise in the gross domestic product (GDP) came about largely as a result of private consumption which was on top of the upward trends being recorded in investment and public consumption.

...largely thanks to growth of Chinese market.

The key factor in Japan's recovery, however, was the sharp increase in exports to China. The importance of the Chinese market for Japan's economy is such that in a short time it could become its main export market, thus displacing the United States. In fact, the strength of the Chinese economy which in 2003 showed growth of 9% is rapidly spreading out to the world economy. Another of the results being attributed to the booming Chinese economy, for example, is the rise in raw materials prices in recent months. Specifically, oil has climbed to prices close to the highs of one year ago just before the war against Iraq.

Meanwhile United States continues to show positive results...

The U.S. economy, in turn, is continuing to play out its role as world engine with growth rates higher than 4%. Initial figures for 2004 suggest a continuation of private consumption and consolidation of investment. On the demand side, utilization of production capacity in industry improved in December while the production index for the sector is pointing upward. Construction continues to show signs of strength while early indicators in the services sector moved up in January.

...although imbalances not being corrected...

The strength of recovery in the United States has its Achilles heel in the two major imbalances (foreign deficit and government deficit) which, far from being corrected, are continuing at full steam. The depreciation of the dollar is not yet being reflected in figures for the trade balance in which the sharp rise in exports is scarcely compensating for the strength of imports. With regard to the government deficit, Alan Greenspan, chairman of the Federal Reserve Board, speaking before the Budget Committee of the House of Representatives recently expressed his concern about the unstoppable worsening of the public finances.

...and labour market scarcely creating employment.

The big concern of public opinion in the United States, however, continues to be the low rate of job creation. In the past five months, some 366,000 net jobs were created but, in spite of this, January 2004 showed practically the same number of jobs as January 2003. The concern arises both because of the inability of the recovery to create employment lost in the last recession and for the fact that the tendency to

relocate companies and activities has the result that employment is being created outside the United States.

Euro zone confirming recovery with difficulty despite weak results of main economies...

The good state of the world economy is also being felt on the European continent although rates of increase in economic activity are far from those mentioned earlier. According to preliminary figures, the euro area grew by 0.6% annual in the fourth quarter of 2003 which makes it possible to state that recovery is gradually being confirmed. Overall growth of the GDP in the past year stood at 0.4%, the lowest rate in 10 years. Germany, the leading economy in the area, is largely responsible for this result given that its GDP dropped by 0.1%. France grew by a mere 0.2%, while Italy reached 0.4%. The poor progress of the large economies in the euro area is in contrast to the strength of the other large European economy, that of the United Kingdom, as its GDP rose by 2.3% in 2003.

...and foreign exchange hurdle presented by strong euro.

Coming back to the euro area as a whole, the most recent trends in the main figures point to maintenance of the weak state of private consumption, some improvement in investment and a troubling loss of drive in the foreign sector. In this case, the effect of revaluation of the euro is probably hurting more than desirable given the fact that exports are proving more uneven while, at the same time, we see confirmation of a growth in imports. The course of the euro, especially considered in terms of the dollar, is clearly a cause for concern among the economic authorities. Some political leaders have recently put pressure on the European Central Bank (ECB) to reduce its interest rates so that the euro would be weakened thus strengthening recovery in the euro area.

Neither ECB nor Federal Reserve Board seem close to changing reference rates while Bank of England opts for rise.

Nevertheless, since the middle of 2003 the ECB has maintained its reference rate at 2%, as it considers this level the most appropriate. Nor does the Federal Reserve Board show any intention of changing its monetary rate (now set at 1%) over the short term, in spite of the strong drive in the U.S. GDP, in view of the absence of inflation and the uncertainty still surrounding the current recovery. On the other hand, the Bank of England has raised its intervention rate twice in the past three months. The British central bank justified its latest move because of the growth of the economy, the increased indebtedness of households and price increases in the housing market, in spite of the fact that inflation is being kept under control.

Stock markets continue upward.

In this context of confirmed world recovery, financial markets have responded with a continuing rise in share prices on the main stock markets. This is a situation which has gone on almost continuously since the end of the war against Iraq and has even surprised market operators.

Spain's economy: recovery being consolidated

Spain grows 2.4% in 2003 on a recovery road.

Along with the United Kingdom, Spain is one of the countries of the European Union to grow most in 2003. According to early figures from the National Institute of Statistics, the GDP grew by 2.4%, an improvement on the figure for 2002 (increase of 2.0%) and well above the average for the euro area. Furthermore, the profile of growth presented by the figures for the Quarterly National Accounts indicates a state of sustained recovery based on the strength of consumption and the drive in construction.

Household consumption and construction remain strong while capital goods investment and foreign sector weaker.

With regard to domestic demand, household consumption grew by 3.0% in 2003, nearly a half-point more than in 2002, the same increase as that recorded by gross fixed capital formation. Under the latter heading we should point out the weakness of the capital goods component although, for the year as a whole, the result was much better than the decrease of 5.4% shown in 2002. On the other hand, construction demand maintained high stable growth at 3.7%. Also notable was the rise in public consumption which grew at a rate of no less than 4.6% in 2003. In turn, the foreign sector played a negative role in 2003 subtracting one percentage point from GDP growth as against only 6 decimals in 2002.

Strong job creation in 2003.

Growth of the economy was clearly to be seen in the labour market with Spain continuing to be the country in the European Union creating most employment in absolute terms. The Labour Force Survey estimates nearly a half million new jobs in 2003 although figures for the Quarterly National Accounts lower this figure to 350,000. In any case, this meant considerable progress in which the strong access of women to the labour market was an outstanding point, something which has brought a notable increase in the rate for females in the labour market in recent years.

Consumer price index continues to ease with year-to-year growth of 2.3% in January.

The favourable results in terms of growth were accompanied by a modest improvement in inflation given that the GDP deflator rose by 4.2% in 2003 against 4.4% the year before. Nevertheless, the consumer price index continues to show a notable drop in inflationary pressures at the level of the shopping basket as the figure for January meant a decrease in the annual rate from 2.6% to 2.3%, far from the 3.7% rate one year ago. This trend arises from the favourable effect of fuel prices and containment of prices for consumer goods of industrial origin, such as clothing, appliances, photography and data-processing equipment.

Surplus in central government accounts in 2003.

Finally, we should point out the positive results obtained in the public sector accounts. At the end of February, results were published for the central government including Social Security, which show a surplus equivalent to 0.6% of the GDP. In spite of the deficit shown by other levels of government (autonomous communities and local government) the objective of a zero deficit in 2003 was easily fulfilled with a surplus of 0.3% of the GDP being recorded, a result unheard of in recent decades.

CHRONOLOGY

2003

- January 1** 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**.

2004

- January 1** **Central government budget for 2004** comes into force (BOE 31-12-03).
- February 11** Dow Jones index for **New York stock exchange** records annual high (10,737.7), rise of 2.7% compared with end of 2003.
- 17** **Euro** running at 1,286 dollars, highest figure since launching of single currency at beginning of 1999.
- 19** IBEX 35 index for **Spanish stock exchange** records annual high (8,340.6), cumulative gain of 7.8% over end of December 2003.

AGENDA

March 2004

- 4** Meeting of Governing Council of European Central Bank.
- 5** Industrial production index (January).
- 11** Consumer price index (February).
- 14** General elections in Spain (House of Deputies and Senate).
- 16** Meeting of Federal Open Market Committee of U.S. Federal Reserve Board.
- 17** Harmonized consumer price index for European Union (January).
- 18** Quarterly survey of labour costs (4th Quarter).
Ongoing survey of household budgets (4th Quarter).
- 25** Producer price index (February).

April 2004

- 1** Meeting of Governing Council of European Central Bank.
- 2** Industrial production index (February).
- 15** Consumer price index (March).
- 16** Harmonized consumer price index for European Union (March).
- 26** Producer price index (March).
- 27** Labour Force Survey (1st Quarter).
- 29** U.S. GDP (1st Quarter).

INTERNATIONAL REVIEW

United States: economic recovery confirmed

United States increases growth to 4.3% in fourth quarter thanks to better performance in investment...

The U.S. economy increased its growth rate to 4.3% year-to-year in the final quarter of 2003 (3.6% year-to-year in the third quarter). At quarter-to-quarter rate annualized growth eased from 8.2% in the third quarter to 4.1% in the fourth. All of this presents a situation of clear recovery at rather more sustainable rates. By component, we should point out that private consumption seems to have reached a ceiling in the fourth quarter with growth at a rate approximately equal to that in the previous quarter, slightly below 4% year-to-year. On the other hand, gross fixed capital formation rose to 7.9% year-to-year compared with 6.1% year-to-year in the third quarter, thanks to an increase in growth of non-residential and residential investment.

UNITED STATES: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2003						2004
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
GDP	0.5	2.2	2.1	2.4	3.6	–	4.3	–	–
Retail sales	2.9	3.0	4.5	4.8	6.2	6.6	7.2	6.3	5.0
Sales of single-family homes	3.1	7.7	7.7	15.0	13.9	14.3	9.3	0.8	...
Consumer confidence (*)	106.6	96.6	68.3	82.7	78.6	81.7	92.5	91.7	96.4
Industrial production	–3.4	–0.6	1.1	–1.0	–0.4	0.7	1.6	2.1	2.4
Industrial activity index (ISM) (*)	43.9	52.4	49.7	48.9	54.1	57.1	61.3	63.4	63.6
Unemployment rate (**)	4.8	5.8	5.8	6.1	6.1	6.0	5.9	5.7	5.6
Consumer prices	2.8	1.6	2.9	2.2	2.2	2.0	1.8	1.9	1.9
Trade balance (***)	–36.1	–35.6	–40.7	–42.5	–43.7	–44.6	–44.6	–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.

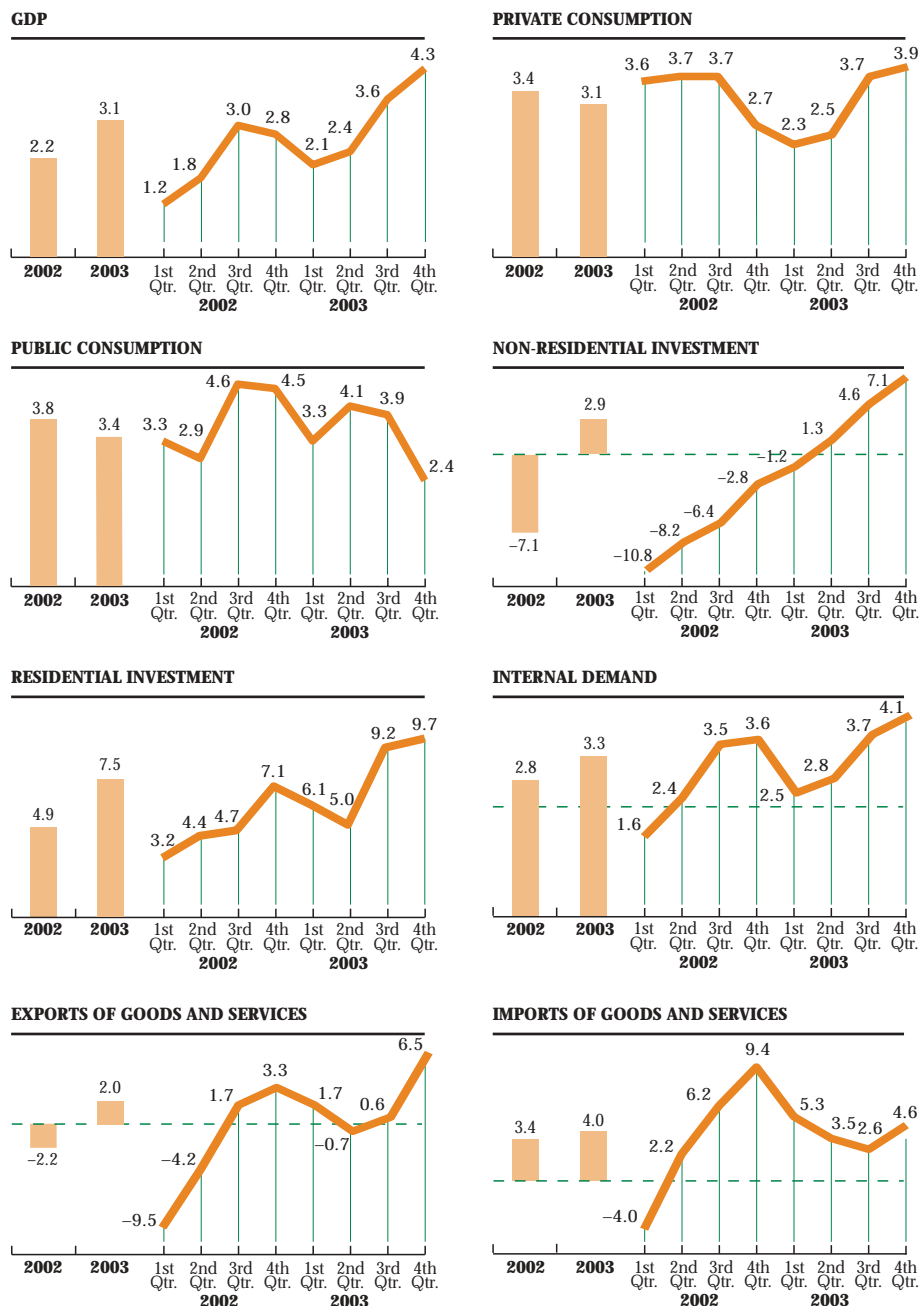
...and positive contribution from foreign demand.

The contribution from the change in inventories was also up, to the point where it drained off only one decimal from growth of the gross domestic product (GDP) as against –0.4 in the third quarter. The only component of domestic demand to rise below previous figures was public consumption which, showing an increase of 2.4% year-to-year (one and a half points less than the previous quarter), moved back into figures more in line with averages in previous years. Foreign demand, in turn, did not slow down GDP growth, a situation which has not occurred since the second quarter in 1996 (in the third quarter it took three

decimals off the change in GDP). The sharp rise in exports (increase of 6.5% year-to-year), which was higher than the recovery in imports (increase of 4.6% year-to-year), would explain this turnaround.

GROSS DOMESTIC PRODUCT IN UNITED STATES BY COMPONENT Percentage year-to-year change rate

Private consumption maintains notable growth rate in fourth quarter.



SOURCE: Bureau of Economic Analysis and internal figures.

Retail sales up 5.0% in January and consumer confidence rises more than five points.

The above mentioned trends are extending into the beginnings of 2004. Private consumption remains strong and immediate prospects are satisfactory. Retail sales in January grew by 5.0% year-to-year, a more moderate figure than in previous months although still quite notable, while consumer confidence rose to the 96.4 points level in January, a little less than five points above the figure for December. While this indicator dropped to 87.3 points in February, this remains a high level similar to the average in the fourth quarter (88.6 points). With regard to investment, recovery continues to consolidate. The degree of utilization of production capacity in January stood at 76.2%, six decimals higher than in December, while at the same time the capital goods component in industrial production stood at 3.3% year-to-year.

Recovery led by services and construction now being joined by industry...

Sector indicators confirm that recovery is catching on in the economy as a whole. In the services sector, which had faltered in the final stages of 2003, was up again in January, if we are to go by the notable increase in the non-manufacturing activity index published by the Institute of Supply Management (ISM) that month when it stood at the 65.7 points level, an absolute high for the series. Construction, the firm support of the economy in recent months, maintained a notable rate of activity in the fourth quarter of 2003. Housing starts were up by a massive 17% compared with the same quarter in 2003 while building permits rose by 6%. In this situation, industrial recovery was the missing factor for guaranteeing economic growth. Industrial production in January grew by 2.4% year-to-year (2.1% year-to-year in December), which chalked up a total of 7 consecutive months with growth in secondary sector activity with the result that the contribution of this sector may be considered as under way.

...making possible incipient recovery in labour market.

The better state of industry is shifting to the labour market which has been weak up to this point. In the United States, January saw the creation of 112,000 net jobs more than in the month before, the first increase since January 2003. At year-to-year rate, there was nil growth for the second consecutive month which, in any case, represents an improvement over the year-to-year decreases recorded between July 2001 and November 2003. This result arises from the lower rate of year-to-year decrease in manufacturing employment and maintenance of the increase in tertiary employment at year-to-year rate. There was also an improvement on the unemployment front. The unemployment rate dropped to 5.6% in January, one decimal less than in December, the best figure since January 2002.

CPI at 1.9% in January.

Inflationary pressures, in turn, continued to be relatively contained in January. In recent months, only the slight swings in the contribution of the energy component made any change in the consumer price index (CPI). In January, the CPI repeated the year-to-year rate of 1.9% with no change over December. The lack of pressure on final prices resulted in maintenance of underlying inflation (excluding energy and food) at 1.1% year-to-year for the third consecutive month. It should be pointed out that this figure is the lowest in 40 years.

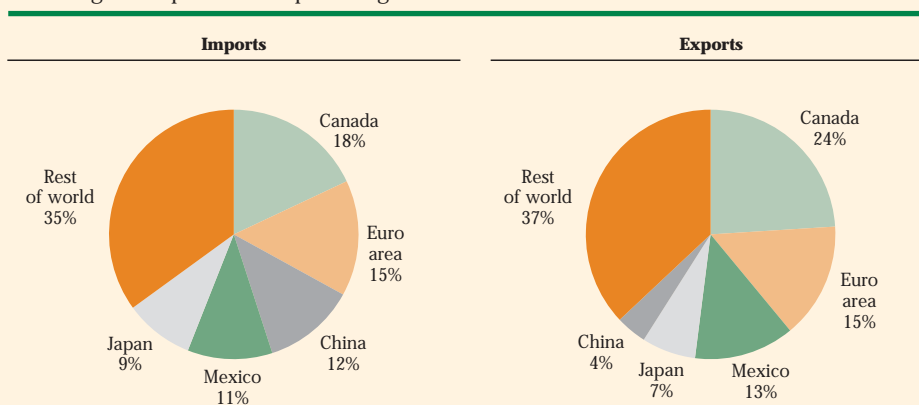
NOTABLE CHANGES IN STRUCTURE OF U.S. FOREIGN TRADE

In recent years, the U.S. foreign sector has been showing profound changes taking place in its orbit. Between 1993 and 2003, Canada and the euro area were the main trading partners of the United States, both in terms of export of goods and imports. Nevertheless, as a result of the rise in China's trade and the results of the process of economic integration of the three North American economies (United States, Canada and Mexico) under the North American Free Trade Agreement (NAFTA) signed in December 1992 and in force since January 1994, Japan has lost ground in favour of China and Mexico.

In the period under consideration, Canada increased its share of total exports from the United States by two percentage points, moving up to represent 24% of the total in 2003. The euro area, in turn, maintained its share unchanged at 15%. On the other hand, there was a change in the next placing. Whereas in 1993 the third position was held by Japan which received 10% of U.S. exports, in 2003 this spot was occupied by Mexico which thus became the country showing the highest increase (four points in 10 years). China, in turn, doubled its share moving up to represent 4% of the total in 2003.

CANADA STILL MAIN COUNTRY OF SOURCE AND DESTINATION OF U.S. TRADE

Percentage of exports and imports of goods over total in 2003



SOURCE: Department of Commerce and internal figures.

With regard to imports, in 1993 Japan, along with Canada, was the main foreign supplier country of the United States (both with 19% of the total). Ten years later, both had seen their share reduced to the benefit of China, Mexico and the euro area. China showed the biggest increase (7 points), followed by Mexico (4 points), thus going up to hold third and fourth place respectively, while at the same time becoming the countries with which the United States most increased its trade. The United States reduced imports from Japan to a greater extent. This thus limited Japan's participation in the structure of U.S. imports for 2003 to 9%. In spite of a slight reduction, Canada remained the main supplier of the United States, followed by the euro area which, with an increase of 2 points over this period, came to occupy the place of Japan.

Growth of exports allows trade deficit to stabilize at end of 2003.

With regard to the foreign sector, the sharp recovery in exports (foreign sales in the fourth quarter grew by more than 9% year-to-year) made it possible to compensate for the strength of imports arising from the drive in domestic demand (increase of 8% year-to-year in purchases abroad in the fourth quarter). All these factors made it possible that, in the three months from October to December, the cumulative trade deficit for twelve months stabilized at 44.6 billion dollars on monthly average.

China boosting Japan's economy

Sharp rise in Japanese growth in fourth quarter of 2003 going to 3.8%.

In the fourth quarter of 2003 Japan's economy marked up surprising positive growth of 3.8% year-to-year, its best result since the fourth quarter of 2000. The sharp rise in the GDP largely arose from the increase in private consumption (up 2.0% year-to-year) which was added to recovery trends already seen in investment, public consumption and exports in previous quarters. With regard to domestic demand, gross fixed capital formation reached a year-to-year growth rate of 4.9%, compared with 2.6% in the third quarter, while public consumption rose by 1.4% year-to-year (1.0% in the previous quarter). The change in inventories, in turn, maintained a positive contribution of a size similar to that shown in the third quarter. The contribution to the increase in GDP from the foreign sector was close to one percentage point, thanks to the fact that exports were up by more than 10% year-to-year. It should be pointed out that the sharp growth in exports going to China was the main factor responsible for this significant combination. Whereas in the fourth quarter exports of goods were up by 4% year-to-year, those going to China rose by 27%. On the other hand, imports stood at rates of increase slightly below 4%.

Investment continues to show notable recovery with consumption also beginning to make itself felt.

Other recently published indicators confirm that recovery is consolidating. Private consumption rose in the final stages of 2003. In the fourth quarter, retail sales reduced the rate of year-to-year decrease to approximately half (a trend which extended to January when sales grew by 1.3%), consumer confidence stood at its highest level since the second quarter of 2001 and the consumer goods component in industrial production marked up an increase of 0.7% (compared with a decrease of 0.5% year-to-year in the third quarter). Recovery of corporate investment was even better as reflected in the sharp rise in machinery orders (growth of 18.3% year-to-year in the last quarter of 2003).

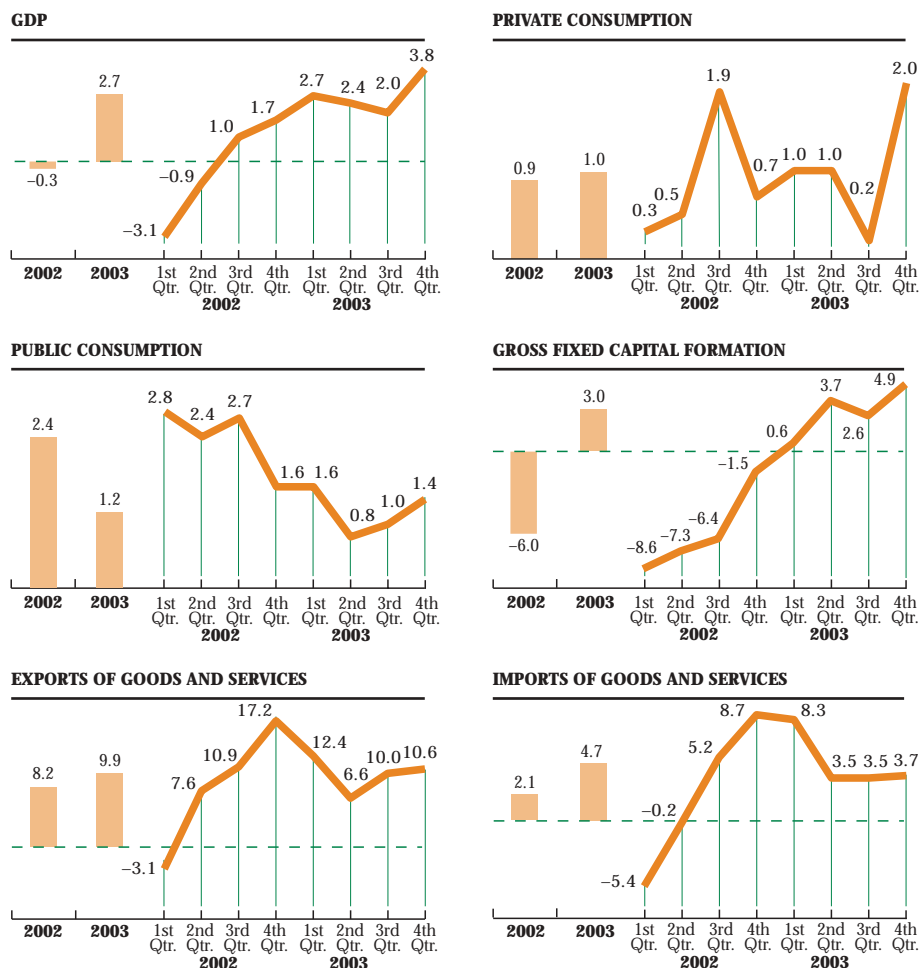
Unemployment drops below 5% but deflation remains present.

For the moment, the improvement in the economy is not being reflected in consumer prices. The CPI fell by 0.4% year-to-year in December, a decrease slightly less than that in November (drop of 0.5% year-to-year). On the contrary, the labour market is beginning to benefit from the better rate of economic activity. In December, the unemployment rate dropped below 5% (specifically 4.9%) for the first time since June 2001. Non-farm employment, in turn, showed an increase in year-to-year rate of 0.1% in the fourth quarter, the first growth recorded since the first quarter of 2001.

GROSS DOMESTIC PRODUCT IN JAPAN BY COMPONENT

Percentage year-to-year change rate

Sharp rise in private consumption along with boost in investment and exports.



SOURCE: Economic and Social Research Institute and internal figures.

JAPAN: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2003						2004
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
GDP	0.4	-0.3	2.7	2.4	2.0	-	3.8	-	-
Retail sales	-2.2	-3.9	-1.3	-2.6	-2.3	0.3	-3.2	-0.6	1.3
Industrial production	-6.6	-1.3	5.5	1.7	1.3	3.8	5.3	4.6	...
Tankan company index (*)	-22.3	-23.8	-13.0	-7.0	-3.0	-	8.0	-	-
Housing construction	-4.6	-1.9	-2.1	2.2	-0.6	1.0	-0.3	9.4	...
Unemployment rate (**)	5.0	5.4	5.4	5.4	5.2	5.2	5.2	4.9	...
Consumer prices	-0.7	-1.0	-0.2	-0.3	-0.2	0.0	-0.5	-0.4	...
Trade balance (***)	8.1	8.2	9.9	9.6	9.5	9.8	9.9	10.3	10.7

NOTES: (*) Value.

(**) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

EUROPEAN UNION

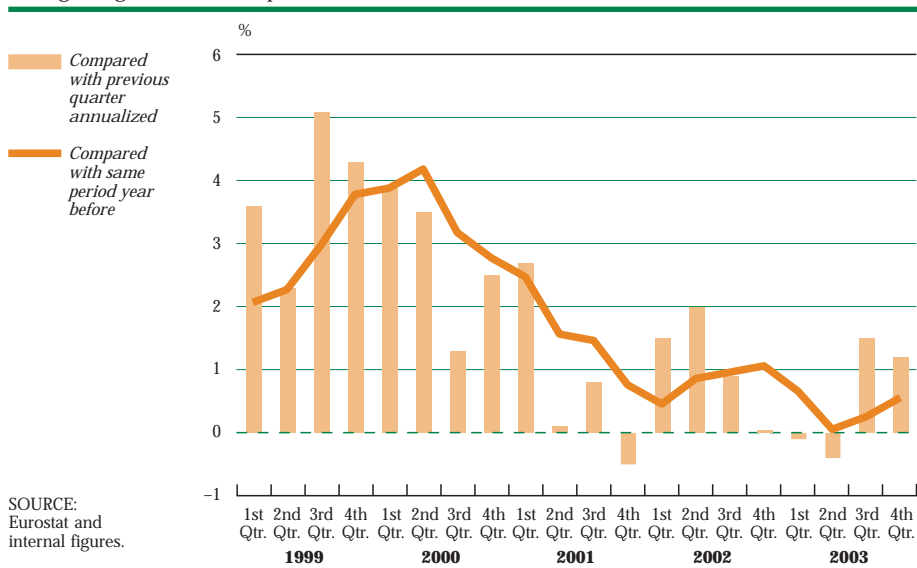
Euro area: state of economy improving

Euro area grows by 0.6% in fourth quarter of 2003.

According to preliminary figures, the euro area grew by 0.6% year-to-year in the fourth quarter of 2003, twice that recorded in the third quarter. For the year as a whole, the gross domestic product (GDP) rose by a modest 0.4%. In spite of the low current levels of GDP growth the fact is that the fourth quarter represents the second consecutive quarter showing a return to positive growth. While full details by country are still not available, it may be ventured that the reason the euro area economy is still not showing a clearer recovery is the sluggishness to be seen in the two large economies, Germany and Italy.

EURO AREA BEGINNING TO RECOVER

Change in gross domestic product in real terms



Consumption still very stable as opposed to increased strength in investment.

This preliminary estimate does not include a breakdown by demand components but monthly indicators make it possible to sketch out the main current trends in the euro area. Domestic demand shows a combination of a weak drive in consumption and a clearer recovery in investment. With regard to household spending, retail sales in November fell by 1.6% year-to-year while such industrial production components as durable and non-durable consumer goods continued to show a very flat state (year-to-year change of 0% and 1.5% respectively in December). Immediate prospects are not very much better. Consumer confidence rose by only one point in the fourth quarter (going to -16 points) and merely repeated that level in January. On the contrary, the capital goods component of industrial

production in December rose to 2.6% year-to-year in sharp contrast to the year-to-year drop of 1.2% in the third quarter.

EURO AREA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2003						2004
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
GDP	1.6	0.9	0.7	0.1	0.3	–	0.6	–	–
Retail sales	2.2	0.3	1.3	1.1	0.1	1.2	–1.6	...	...
Consumer confidence (*)	–5	–11	–19	–19	–17	–17	–16	–16	–16
Industrial production	0.4	–0.5	0.8	–0.8	–0.1	1.6	1.1	2.3	...
Economic sentiment indicator (*)	97.0	95.6	94.9	94.8	95.0	95.5	96.0	95.6	95.8
Unemployment rate (**)	8.0	8.4	8.7	8.8	8.8	8.8	8.8	8.8	...
Harmonized consumer prices	2.3	2.2	2.3	1.9	2.0	2.0	2.2	2.0	1.9
Trade balance (***)	18.4	84.2	92.8	82.3	78.2	78.2	74.2	73.0	...

NOTES: (*) Value.

(**) Percentage of labour force.

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

SOURCE: Eurostat, European Central Bank, European Commission and internal figures.

Services leading recovery while awaiting bigger contribution from industry.

Supply indicators show that up to the present recovery has been restricted basically to services. The confidence indicator for services has thus left behind the negative levels shown in the first half of 2003 to grow in the third and fourth quarters. Now industry is beginning to show a mild recovery. Industrial production in December rose by 2.3% year-to-year compared with the drop of 0.1% year-to-year in the third quarter. The stable state of industrial confidence and little recovery in order books in the fourth quarter, in any case, indicate that the upward turn in secondary industry will be very gradual.

Foreign sector slackens at end of 2003.

The foreign sector, in turn, is showing a troubling tendency to loss of strength. In December, the cumulative trade surplus for twelve months fell to 73 billion euros as against 78.2 billion in the third quarter. While imports remain firmer, the irregular level of exports lies behind this poor performance which threatens to get in the way of the main lines of growth of the current recovery.

Inflation holds stable for most of 2003 but some decrease now expected.

With regard to consumer prices, the situation remains stable although immediate prospects are for some decrease. The harmonized consumer price index (HCPI) grew by 2.0% year-to-year in December, two decimals less than in November. For the year as a whole, the harmonized CPI rose by 2.1% and proved notably static after overcoming the effect arising from the increase in oil prices in the first quarter of 2003. The trend in inflation in 2003 may be explained by maintenance of prices of non-energy industrial goods and services which has made it possible to compensate for the growth of food prices, both processed and unprocessed. The increase which should have shown up in the energy component because of prices of this raw material at origin was tempered by the effect of appreciation of the euro. The year 2004 began along the same lines.

Harmonized consumer prices grew by 1.9% at year-to-year rate in January, as against 2.0% the month before.

Unemployment rate stands at 8.8% since last March.

In keeping with a recovery which has scarcely moved into the first stage, the labour market continues to show an unemployment rate stuck at relatively high levels. Between March and December 2003, the rate remained unchanged at 8.8% of the labour force. Nor is job creation improving. In the third quarter of 2003 the year-to-year rate showed positive by one decimal, the same growth rate as in the first and second quarters. The main culprit for this lack of job creation was industry which continued to lose employment (drop of 2.0% year-to-year in the third quarter).

Germany: economy not growing

Germany records nil year-to-year GDP growth in fourth quarter.

In the fourth quarter of 2003, Germany's GDP held at the same levels as shown one year earlier. While this result represents a comparatively better figure than the drop of 0.3% year-to-year in the third quarter, the fact is that the performance of domestic demand was quite negative. Private consumption in the fourth quarter dropped by 0.8% year-to-year so that only a certain amount of recovery in investment, public consumption and the positive contribution from the change in inventories made possible moderate growth in domestic demand (0.3% year-to-year). In any case, the turnaround in the contribution from the foreign sector was worse. After having contributed 0.2 points to the change in the GDP in the third quarter, foreign demand in the fourth quarter took off three decimals, largely due to a lack of strength in exports.

German consumer still holds back on spending.

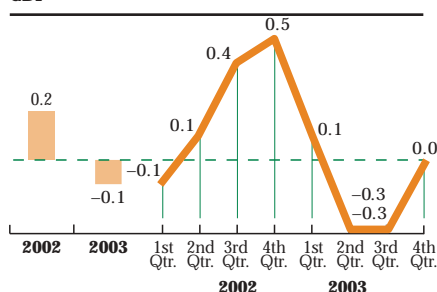
The above trends continued between the end of 2003 and the beginning of 2004. The consumer is still holding back on rate of spending. Following the decrease in retail sales of 2.7% year-to-year in the fourth quarter, the further drop in consumer confidence in January to the -16 level makes it possible to discard any strong recovery of consumption. Capital goods investment, on the other hand, is consolidating its recovery. The capital goods component of industrial production increased growth in December to 4.3% year-to-year, the highest rate since February 2003. On the supply side, the most notable event is the recovery in industrial activity. Industrial production in December grew by 3.0% year-to-year compared with an increase of 1.0% year-to-year in November, while the IFO industrial activity index held above 96 points in February.

GROSS DOMESTIC PRODUCT IN GERMANY BY COMPONENT

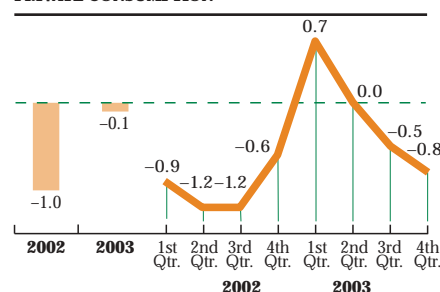
Percentage year-to-year change

Slight recession in German economy in 2003.

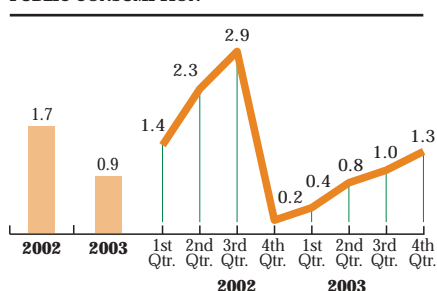
GDP



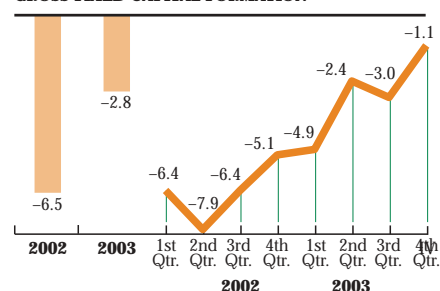
PRIVATE CONSUMPTION



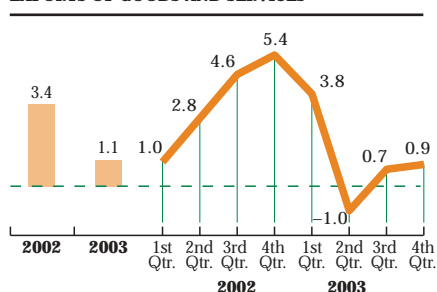
PUBLIC CONSUMPTION



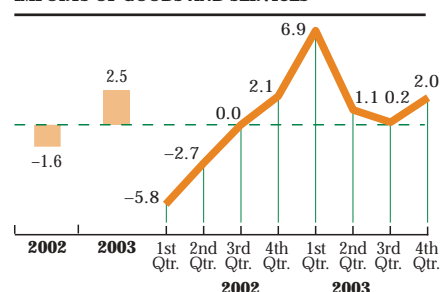
GROSS FIXED CAPITAL FORMATION



EXPORTS OF GOODS AND SERVICES



IMPORTS OF GOODS AND SERVICES



SOURCE: Federal Statistics Office and internal figures.

GERMANY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2003						2004
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
GDP	1.0	0.2	0.1	-0.3	-0.3	-	0.0	-	-
Retail sales	0.1	-1.4	0.1	1.2	-1.8	-0.3	-5.3	-2.5	...
Industrial production	-0.2	-1.4	0.6	-0.4	-1.2	1.3	1.0	3.0	...
Industrial activity index (IFO) (*)	92.1	89.4	88.5	89.5	92.5	95.3	96.2	97.0	97.5
Unemployment rate (**)	9.6	10.2	10.6	10.6	10.5	10.5	10.5	10.4	10.2
Consumer prices	2.0	1.3	1.2	1.0	1.1	1.3	1.4	1.1	1.2
Trade balance (***)	75.4	118.8	131.6	128.7	129.9	130.7	129.2	130.9	...

NOTES: (*) Value.

(**) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

Consumer prices grow by 1.2% in January while unemployment drops to 10.2%.

Prices in Germany remain at very low levels. In January, the CPI rose by a moderate 1.2% year-to-year which represents a slight increase compared with 1.1% in December. The absence of inflationary pressures, which may be linked to the lack of strength in domestic demand and the drop in cost of purchases abroad, also shows up in other relevant prices. Wholesale prices slowed notably in the first month of 2004 to stand at 0.4% year-to-year (1.3% year-to-year in December). There was a bigger slowdown in industrial prices which rose by only 0.2% year-to-year in January, a sharp drop compared with 1.8% year-to-year in December. In addition, the unemployment rate recorded a decrease of two decimals in January to stand at 10.2% of the labour force.

Rise in exports in December gives a break to economy highly dependent on foreign demand.

Figures for the foreign sector in December are somewhat better. Following the drop in the cumulative 12-month surplus to 129.2 billion euros in November (which came as a result of the lower rate of exports) the recovery of exports to 3.9% year-to-year meant that the surplus in the final month of the year stood at 130.9 billion euros. In line with the weak strength of domestic demand, imports grew by a mere 0.9% in December compared with the figure one year earlier.

France: economy improves growth rate in fourth quarter

French economy improves growth to 0.6% in final quarter of 2003.

The increased strength of domestic demand allowed the French economy to end 2003 with growth of 0.6% year-to-year in the fourth quarter as against a decrease of 0.2% year-to-year in the third quarter. Maintenance of private consumption at the growth rates seen in the previous quarter (1.5% year-to-year) came on top of the increased rate of investment (growth of 1.1% year-to-year compared with the previous drop of 0.8% year-to-year) and the rise in public consumption (year-to-year increase of 2.6%, six decimals higher than in the third quarter). In turn, the change in inventories reduced its negative contribution to GDP growth (subtracting one decimal in the fourth quarter as against a negative contribution of 0.5 points in the third quarter). On the contrary, the foreign sector increased its effect subtracting one percentage point from the change in the GDP, due to the fact that imports were up substantially in the fourth quarter whereas exports showed a lower increase.

In final stages of 2003, consumption loses strength, investment and industry continue to recover, unemployment increases while inflation holds in line with previous months.

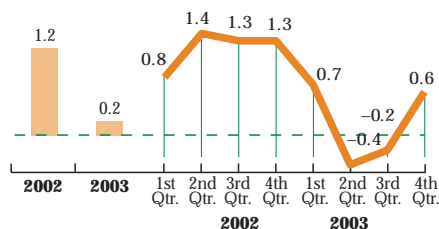
Monthly indicators still largely refer to the fourth quarter and therefore do not show any particular information about the economic situation given above. Domestic consumption in December showed a moderate downward move (growth of only 0.9% year-to-year as against 1.6% in November) while investment continued to show increased growth (the capital goods component of industrial production rose by 8.0% year-to-year as against 5.6% in November). On the supply side, industrial production stood at levels 2.0% higher than in December 2002. With regard to prices, the year 2003 ended with the CPI at 2.2% year-to-year scarcely one decimal less than the November result and in line with the figures for recent months. On the other hand, inflation slowed down to 2.0% year-to-year in January. Finally, unemployment rose to 9.7% of the labour force in December (9.6% in November).

GROSS DOMESTIC PRODUCT IN FRANCE BY COMPONENT

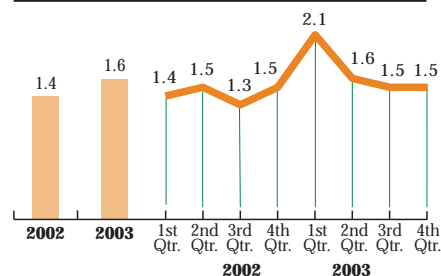
Percentage year-to-year change

French GDP shows low growth in 2003.

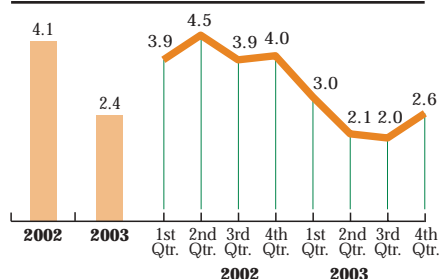
GDP



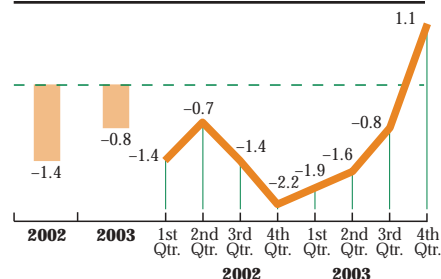
PRIVATE CONSUMPTION



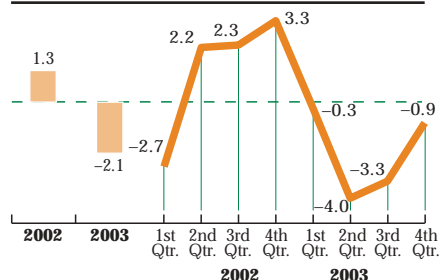
PUBLIC CONSUMPTION



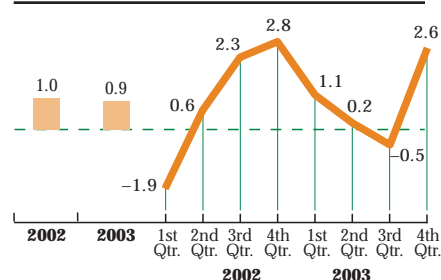
GROSS FIXED CAPITAL FORMATION



EXPORTS OF GOODS AND SERVICES



IMPORTS OF GOODS AND SERVICES



SOURCE: INSEE and internal figures.

FRANCE: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2003						2004
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
GDP	2.1	1.2	0.7	-0.4	-0.2	-	0.6	-	-
Domestic consumption	3.8	1.2	2.4	1.1	1.5	4.0	1.6	0.9	...
Industrial production	1.1	-1.3	-0.4	-1.8	-0.7	2.2	0.9	2.0	...
Unemployment rate (*)	8.8	9.3	9.4	9.5	9.7	9.7	9.6	9.7	...
Consumer prices	1.7	1.9	2.4	1.9	2.0	2.2	2.3	2.2	2.0
Trade balance (**)	-0.3	0.4	0.6	0.4	0.3	0.3	0.3	0.3	...

NOTES: (*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

Economic sentiment in January indicates start of recovery although at slow rate.

Qualitative indicators suggest that recovery continued to make headway in January although this was still at a contained rate. Economic sentiment in January recovered from the dip in December to stand at the 96.2 points levels. This change was brought about by the sharp increase in consumer confidence and, to a lesser extent, by recovery of confidence in the services sector. On the contrary, the drop in industrial order books and the decrease in industrial confidence suggest that the recovery in the secondary sector is still weak.

Italy: economy stagnant in fourth quarter

Italy grows by only 0.1% in fourth quarter due to lack of strength in domestic demand.

The Italian economy ended the year 2003 with a low rate of activity. According to early estimates, the GDP dropped to 0.1% year-to-year in the fourth quarter as against 0.5% year-to-year in the third quarter. In spite of the lack of detailed information on domestic demand, the trend in indicators suggests that the loss of strength came mainly from the sluggishness in private consumption. Retail sales fell by 0.9% year-to-year in November while consumer confidence was down by one point in December only to add a further drop of three points in January. The situation is no better on the supply side. The most significant indicator in this respect, industrial production, shows three consecutive months (from October to December) swinging around the zero level in terms of year-to-year growth.

ITALY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2003						2004
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
GDP	1.7	0.4	0.7	0.2	0.5	–	0.1	–	–
Retail sales	0.7	2.4	2.3	3.2	1.8	1.6	–0.9	...	...
Industrial production	–1.1	–1.3	–0.3	–1.5	–0.3	0.0	0.0	0.1	...
Unemployment rate (*)	9.5	9.0	8.9	8.7	8.6	–	8.5	–	–
Consumer prices	2.7	2.5	2.7	2.7	2.8	2.6	2.5	2.5	2.2
Trade balance (**)	4.0	10.8	6.7	3.5	1.5	2.2	2.0	...	...

NOTES: (*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

Unemployment down for third consecutive quarter.

In this situation, only the trends in unemployment and inflation bring something of a positive note. In the fourth quarter of 2003, the unemployment rate stood at 8.5% of the labour force, which represents the third consecutive quarter to record a reduction. Consumer prices, in turn, were stuck at a growth rate of the order of 2.5% in the fourth quarter and slowed to 2.2% in January.

United Kingdom maintains favourable results

British economy increases pace in fourth quarter with growth of 2.8% as result of strong consumption.

The United Kingdom economy continues to show an enviable performance compared with the other large European economies. In the fourth quarter, the GDP increased its growth rate to 2.8% compared with 2.3% in the preceding quarter with the result that growth for 2003 as a whole was 2.3%. Consumption continues to show up as the main support of the economic situation. Retail sales in January rose by 6.3% year-to-year (3.6% year-to-year in December), car registrations showed an increase of 5.8% year-to-year while consumer confidence held at the -3 points level, two points above the average for the third quarter.

UNITED KINGDOM: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2003						2004
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
GDP	2.1	1.7	2.0	2.3	2.3	-	2.8	-	-
Retail sales	6.0	6.8	3.2	2.9	3.3	3.6	3.9	3.6	6.3
Sales of single-family homes	3.1	7.7	7.7	15.0	13.9	14.3	9.3	0.8	...
Industrial production	-1.6	-2.7	-1.2	-0.9	-0.6	0.6	-0.4	-0.8	...
Unemployment rate (*)	3.2	3.1	3.1	3.1	3.1	3.0	3.0	3.0	2.9
Consumer prices	2.1	2.2	2.9	2.9	2.8	2.7	2.5	2.6	2.4
Trade balance (**)	-37.4	-43.5	-46.5	-46.1	-46.4	-46.8	-46.0	-46.4	...

NOTES: (*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

Services consolidate recovery in contrast to industry.

By sector, industry continues to have difficulty in recovering. Industrial production fell by 0.8% year-to-year in December. On the contrary, services consolidated a clearly upward trend. In January, sector confidence reached a level of 15 positive points so that in the four months from October to January there has been an increase of 19 points.

Unemployment rate at lowest since June 1975.

Consumer prices, in turn, have shown a slowing down of the increase recorded in the final stages of 2003. In January, the general index, which includes mortgage interest, was down by two decimals from 2.8% year-to-year in December to 2.6%. If mortgage interest is excluded the resultant rate stands at 2.4% year-to-year as against the previous 2.6%. The trend in unemployment is even better. The unemployment rate in January fell below 3% of the labour force, specifically 2.9%, a level not seen since June 1975.

INTEREST RATES AND FOREIGN EXCHANGE RATES

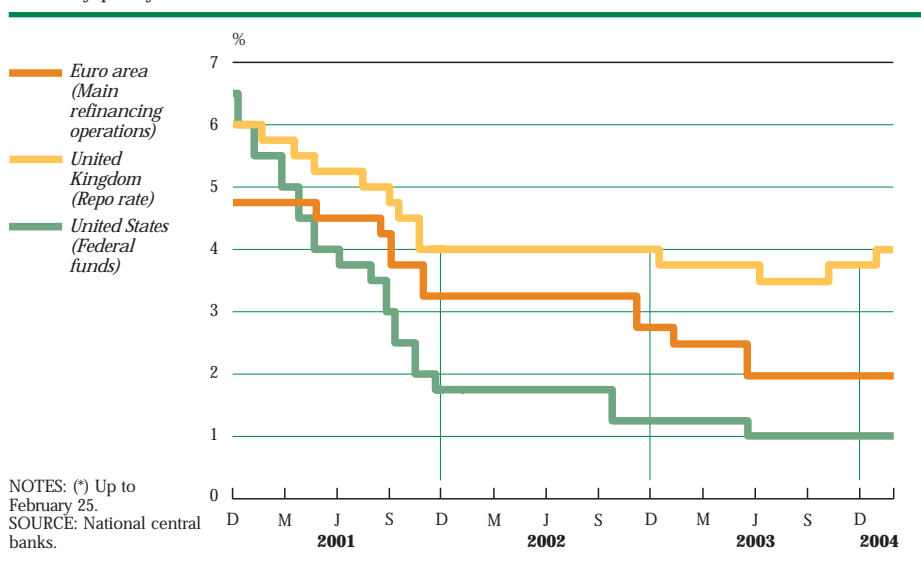
Federal Reserve Board and ECB in no hurry to change interest rates

Further increases expected in Bank of England intervention rate.

On February 5, the Bank of England announced that it was raising its intervention rate by 25 basis points to 4%. This was the second rise in the past three months thus turning around the extraordinarily low level at which the official interest rate had stood since the middle of 2003. The British central bank justified the measure by the trend in the economy above growth potential since the second half of last year, because of a notable increase in household indebtedness and the strength of activity in the housing market. With this decision, the central bank hoped to prevent future inflationary pressures over the medium term. Although current inflation stands below the 2% objective, the market was generally hoping for a rise in February following publication of figures showing increased growth of the gross domestic product in the fourth quarter of 2003 and also is expecting further increases.

BANK OF ENGLAND CONTINUES ON UPWARD PATH

Monetary policy reference rates



Federal Reserve Board showing no inclination to change interest rates...

Nevertheless, other central banks have not so far followed the upturn by the Bank of England for various reasons. The Federal Open Market Committee of the U.S. Federal Reserve Board issued a bulletin at its meeting on January 28 in which it stated that it was in no hurry to change its easy monetary policy. Nevertheless, omission of the expression "for a considerable period of time" which had been included in previous bulletins was interpreted by the market as a sign of an early rise in reference rates. Later on, the appearance of Alan Greenspan, chairman of the Federal Reserve Board, before committees of the House of Representatives and the Senate on February 11 and 12, brought some rethinking of prospects. As a result, in the final week of February, money market operators were not anticipating an increase in the U.S. official interest rate before the summer.

...as is case with European Central Bank.

In the euro area, the Governing Council of the European Central Bank (ECB) at its meeting on February 5 repeated that the main interest rate for the Eurosystem stood at the proper level to maintain price stability over the medium term. It thus resisted certain pressure, largely of a political nature, to reduce the interest rate in order to compensate for the rise of the euro in recent months. The ECB considered that gradual economic recovery was taking place in the euro area and that the strength of the euro would contribute to reducing inflationary pressures. In this context, the market as a whole is not expecting any rise until the beginning of 2005 and even admits fair possibilities of a slight cut in coming months.

OFFICIAL INTEREST RATES As annual percentage

Date	United States		Japan		Main refinancing operations	Euro area		United Kingdom	Switzerland
	Target level of Federal Funds	Discount rate	Discount rate	Target level of overnight interbank rate		Standing facilities		Repo rate	Reference rate (*)
						Loan	Deposit		
31-12-01	1.75	1.25	0.10	(**)	3.25	4.25	2.25	4.00	1.25-2.25
2-5-02	↓	↓	↓	↓	↓	↓	↓	↓	0.75-1.75
26-7-02	↓	↓	↓	↓	↓	↓	↓	↓	0.25-1.25
6-11-02	1.25	0.75	↓	↓	↓	↓	↓	↓	↓
5-12-02	↓	↓	↓	↓	2.75	3.75	1.75	↓	↓
6-2-03	↓	↓	↓	↓	↓	↓	↓	3.75	↓
6-3-03	↓	↓	↓	↓	2.50	3.50	1.50	↓	0.00-0.75
5-6-03	↓	↓	↓	↓	2.00	3.00	1.00	↓	↓
25-6-03	1.00	2.00 (***)	↓	↓	↓	↓	↓	↓	↓
10-7-03	↓	↓	↓	↓	↓	↓	↓	3.50	↓
6-11-03	↓	↓	↓	↓	↓	↓	↓	3.75	↓
5-2-04	↓	↓	↓	↓	↓	↓	↓	4.00	↓

NOTES: (*) 3-month Libor rate in Swiss francs.

(**) The instrumental variable has been changed to liquid assets but in such a way that the overnight interbank rate stands close to 0% while deflation persists.

(***) On January 9, 2003, the U.S. Federal Reserve Board made a technical change in the discount rate putting it above the objective level of Federal Funds although this did not mean a change in monetary policy.

SOURCE: Central banks.

Central banks in Norway, New Zealand and Sweden carry out moves in opposite direction.

On the other hand, other central banks have carried out moves in a different direction in recent weeks. On January 28, the Bank of Norway reduced its reference rates for the ninth time since July 2002 in a situation of low inflation. Following a cut of 25 basis points, the deposit rate stood at 2.0% while the overnight loan rate was 4.0%. The following day, the Bank of New Zealand raised its official rate to 5.25%. On February 6, with the drop in inflation prospects, the Bank of Sweden lowered its reference rates by 25 basis points to 2.50%.

3-month Euribor hits new all-time low

End of January brings further prospects of rise in Federal Reserve Board interest rate...

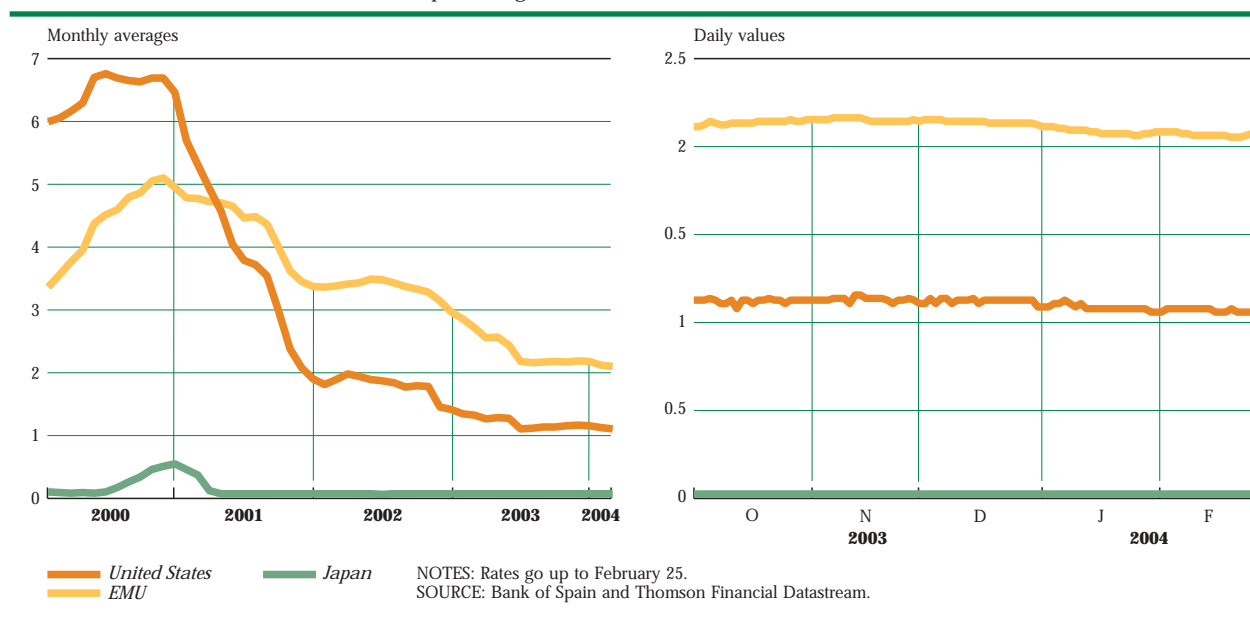
In the United States in recent weeks, the interest rate on 3-month interbank deposits stood at around 1.07% with scarcely any change, which indicates that the market is not expecting any variation in the Federal Reserve Board reference rate in coming months. On the other hand, the yield on U.S. 1-year interbank deposits moved up sharply from 1.31% to 1.44% following issue of the bulletin by the Federal Reserve Board on January 28, given that the market felt that the U.S. monetary authorities were preparing a rise in the short term whereas the scenario put forward was for a rise well into the summer.

...but these later moderate.

Later on, however, especially following the biennial appearances of Alan Greenspan, chairman of the Federal Reserve Board, before the congressional committees, prospects of an increase in interest rates moderated and the yield on 12-month interbank deposits returned to the level before the rise on January 29. As a result, the interest rate on 1-year interbank deposits stood at 1.31% in the last week of February. It thus stood 5 basis points below twelve months earlier.

VERY SLIGHT DROP IN 3-MONTH INTERBANK RATES

3-month interbank interest rates as annual percentage



12-month Euribor marks up annual low level of 2.11% on February 18.

In the euro area, the 3-month Euribor slid down in recent weeks to mark up a new all-time low of 2.06% on February 18 when the euro stood in the range of all-time highs and there was renewed speculation about a drop in the official Eurosystem rate in order to halt the rise of the euro. On the other hand, the 12-month Euribor recorded an annual low level of 2.11% on February 18 although later on it rose slightly. In addition, the short-term differential with the dollar in recent weeks stood at around 100 basis points, a very slight narrowing compared with the end of 2003.

SHORT-TERM INTEREST RATES IN NATIONAL MARKETS
Monthly averages as annual percentage

	Eonia	Euribor				United States	Japan	United Kingdom	Switzerland
	Overnight	1-month	3-month	6-month	1-year	3-month	3-month	3-month	3-month
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	2.06	2.13	2.15	2.20	2.38	1.12	0.01	3.93	0.26
2004									
January	2.02	2.08	2.09	2.12	2.22	1.09	0.01	3.96	0.24
February (*)	2.05	2.07	2.07	2.08	2.14	1.06	0.01	4.13	0.26

NOTES: (*) February 25.

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

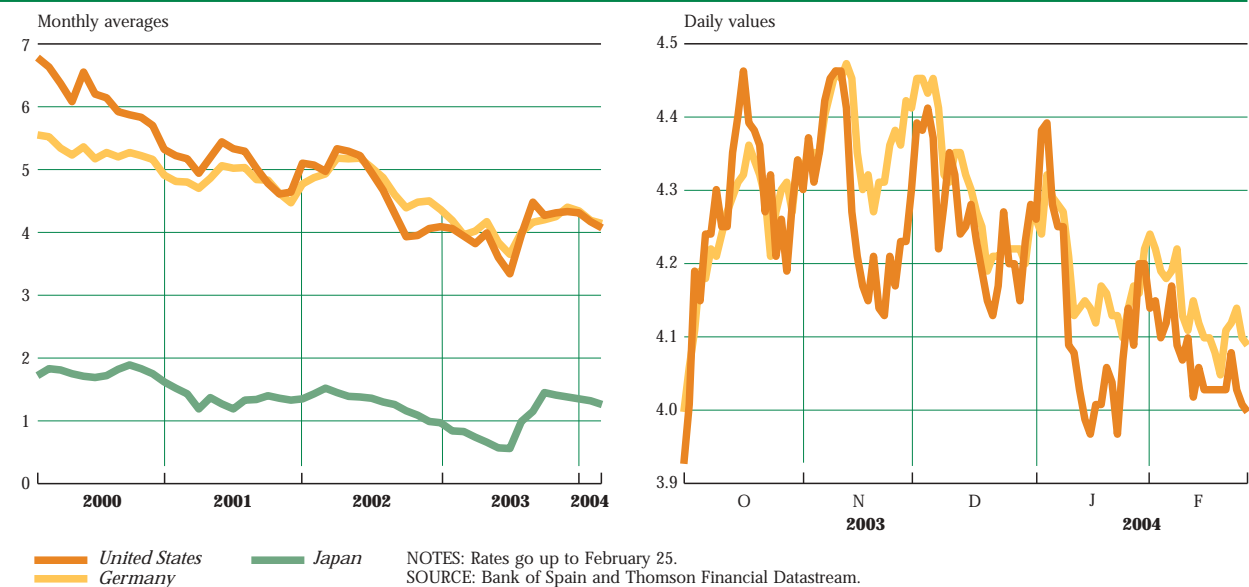
Slight drop in 10-year government bond yields in United States and Germany

Transitory rise in U.S. 10-year government bond yields.

The yield on U.S. 10-year Treasury bonds rose to 4.20% on January 28 from 4.09% the day before, with the increased prospects of a rise in the official Federal Reserve Board interest rate following issue of its bulletin that day. Nevertheless, since that time it tended to ease following repeated statements of a moderate tone by Alan Greenspan, chairman of the Federal Reserve Board, and the appearance of figures showing the weakness of the labour market. In the middle of the final week in February, the interest rate on U.S. 10-year Treasury bonds stood at 4.00%, some 27 basis points below the end of 2003, although this was 89 basis points above the low in recent decades recorded in the middle of June, 2003.

SLIGHT WIDENING OF DIFFERENTIAL IN LONG-TERM INTEREST RATES BETWEEN GERMANY AND UNITED STATES

Yield on 10-year government bonds as annual percentage



Purchase of U.S. government bonds by Asian central banks still pushing down government bond yields.

The drop in yields on U.S. long-term government bonds has come about in spite of the rise in the U.S. government deficit and the high speed growth of the economy. Acting in favour of a drop in the yield on U.S. long-term government bonds were substantial purchases of U.S. Treasury bonds by Asian central banks as a result of their interventions to avoid appreciation of their currencies against the dollar. Nevertheless, prospects for yields on U.S. bonds are for a moderate upward trend in coming months once the economic recovery is confirmed with the risk of a sharp rise once the upturn by the Federal Reserve Board takes place.

Differential between interest rates on German and U.S. government bonds swings around 6 basis points.

In recent weeks, European bonds have followed in the wake of their counterpart on the other side of the Atlantic. As a result, yields rose toward the end of January only to drop as of the early days of February. Nevertheless, the yield rose at the end of the third week in the month with a weakening of the euro. At the middle of the last week in February, it stood at 4.09%. The differential between yields on German and U.S. government bonds has fluctuated at around 6 basis points in recent weeks to stand at 9 basis points at the middle of the last week in February.

Yield on Japanese government bonds moves down.

The interest rate on Japanese government bonds also moved down in the early months of the year, in spite of sharp economic growth in the fourth quarter of 2003. As a result, in the middle of the last week in February, the yield on Japanese government bonds stood at 1.20%, some 13 basis points less than at the end of 2003. The weakness on the Japanese stock market contributed to the fact that investors continued to take refuge in bonds.

LONG-TERM INTEREST RATES IN NATIONAL MARKETS

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

	2001	2002	2003				2004	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February 25
United States	5.06	4.65	3.94	3.64	4.26	4.32	4.17	4.00
Japan	1.34	1.27	0.80	0.60	1.20	1.38	1.32	1.20
Germany	4.82	4.80	4.06	3.89	4.12	4.33	4.19	4.09
France	4.95	4.88	4.12	3.94	4.13	4.35	4.20	4.10
Italy	5.19	5.04	4.24	4.03	4.25	4.46	4.32	4.21
Spain	5.12	4.96	4.10	3.92	4.14	4.34	4.19	4.09
United Kingdom	4.97	4.93	4.33	4.25	4.55	4.98	4.83	4.78
Switzerland	3.28	3.02	2.29	2.34	2.57	2.68	2.58	2.46

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

G 7 summit leaves open rise in euro

Dollar marks up annual high in global terms at end of January.

The dollar strengthened toward the end of January following the Federal Reserve Board bulletin which was interpreted on an upward note. On January 29, the dollar chalked up an annual high against a broad group of currencies to show a slight rise of 0.5% compared with the end of 2003. Nevertheless, it later tended to drop because of a series of factors. At the beginning of February it was hurt by renewed fears of terrorist attacks. The summit of finance ministers and central bank governors of the seven most industrialized countries, the so-called G 7, held on February 6-7, took no measures on the matter of foreign exchange markets as representatives of the euro area had hoped, given that the U.S. authorities seem content with the drop in the dollar in order to reduce the massive current account deficit and improve the competitiveness of U.S. companies.

Toward end of February dollar recovers some ground lost.

Nevertheless, in the third week of February, publication of figures showing notable inflows of capital as portfolio investment in the United States and the rise in U.S. inflation in January which raised speculation about a possible increase in official interest rates earlier than had been expected gave a boost to the dollar. As a result, in the middle of the last week of February, the U.S. currency showed a slight appreciation of 0.4% compared with the end of 2003, standing 2.0% above the annual low on January 9.

Euro reaches all-time high of 1.29 dollars in mid-February.

The euro recorded an annual low in relation to the group of currencies of its 13 main trading partners at the end of January. Nevertheless, in February it tended to appreciate once more. In the first three and a half weeks of the month it rose by 0.9% to stand 1.6% above the level at its launching at the beginning of 1999. Against the dollar, aided by the favourable short-term interest rate differential, the euro recorded a new all-time high of 1.29 dollars on February 17. Nevertheless, the level of 1.30 dollars stood as a point of resistance as there was some caution among market operators in view of possible interventions by the European Central Bank. The euro thus dropped and, at the middle of the last week in February, was running at 1.26 dollars.

EXCHANGE RATES OF MAIN CURRENCIES

January 2004

	Final session of month		Average exchange rate	Monthly figures			Exchange rate February 25, 2004
	Exchange rate	% monthly change (2)		% change (2)			
				Monthly	Over December 2002	Annual	
Against U.S. dollar							
Japanese yen	105,8	-1,3	106,4	-1,2	-1,2	-10,4	108,9
Pound sterling (1)	1,825	2,2	1,823	3,9	3,9	12,7	1,872
Swiss franc	1,257	1,5	1,242	-1,6	-1,6	-9,7	1,260
Canadian dollar	1,324	2,4	1,297	-1,1	-1,1	-15,8	1,334
Mexican peso	11,01	-2,0	10,92	-3,0	-3,0	2,9	11,08
Nominal effective index (4)	113,5	0,1	112,6	-1,6	-1,6	-9,0	113,8
Against euro							
U.S. dollar	1,238	-1,9	1,261	2,6	2,6	18,8	1,263
Japanese yen	131,1	-3,0	134,1	1,2	1,2	6,4	137,2
Swiss franc	1,563	0,3	1,566	0,7	0,7	7,1	1,574
Pound sterling	0,685	-2,9	0,692	-1,4	-1,4	5,4	0,668
Swedish krona	9,194	1,3	9,137	1,2	1,2	-0,4	9,234
Danish krone (3)	7,450	0,1	7,448	0,1	0,1	0,2	7,452
Nominal effective index (5)	103,8	-1,8	105,1	0,9	0,9	9,8	104,7

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 $\pm 2.25\%$.

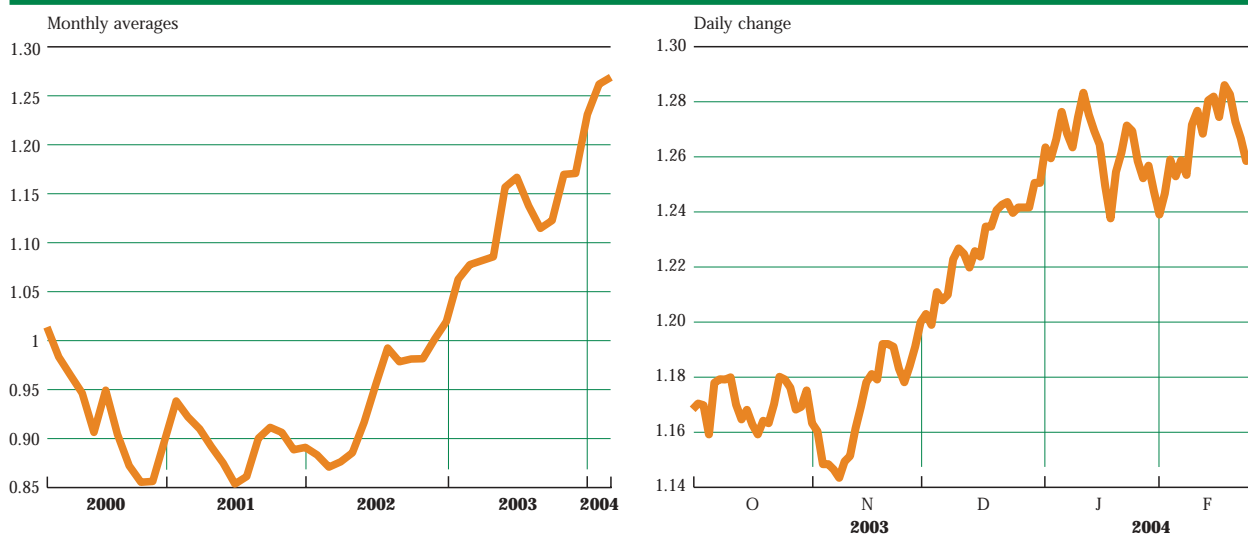
(4) Broad nominal effective index of U.S. Federal Reserve Board. Calculated as a weighted average of the foreign exchange value of the U.S. dollar against the 26 currencies of those countries with greatest volume of trade with the United States. Base: 1-1997 = 100.

(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.

EURO RECORDS NEW ALL-TIME HIGH AGAINST DOLLAR

U.S. dollars to euro



NOTES: Figures go up to February 25.

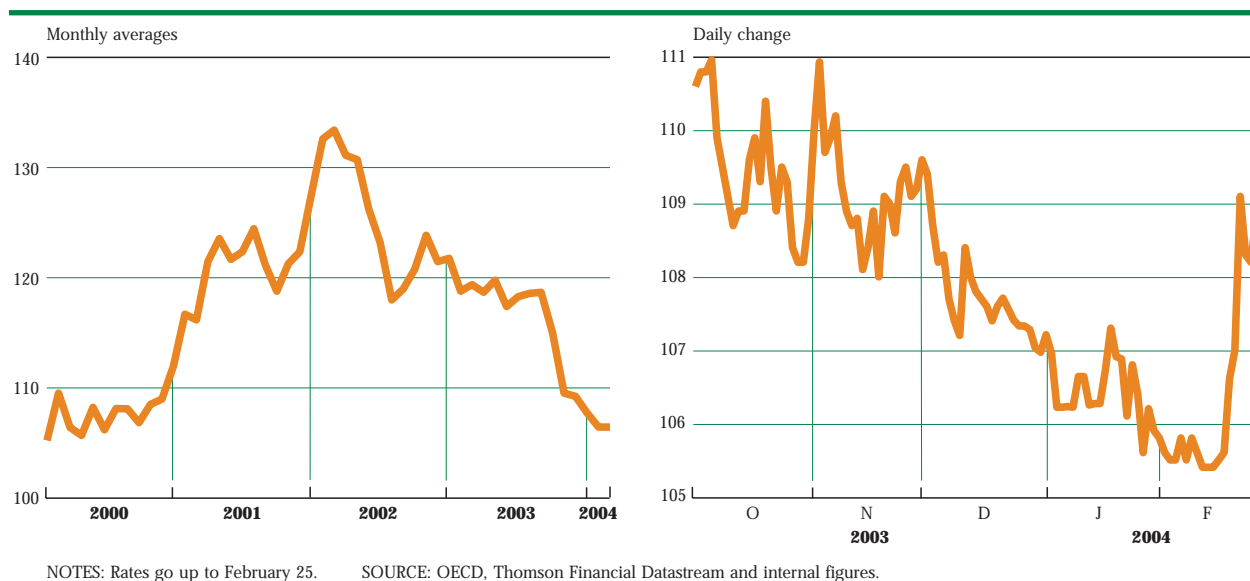
SOURCE: OECD, Thomson Financial Datastream and internal figures.

**Bank of Japan halts
rise of yen against
dollar.**

The Bank of Japan intervened strongly in foreign exchange markets in January buying dollars against yen in order to halt appreciation of the Japanese currency. Nevertheless, the Japanese currency rose by 1.4% against the dollar in January. In the early weeks of February, the yen continued to rise against the dollar to stand at 105.4 units to the dollar on February 12, the lowest level since September 2000. However, the more the Japanese currency came close to a level of 105 units to the dollar, the more the Bank of Japan's interventions increased. This, together with the strengthening of the dollar, meant that at the end of the third week in February the yen was running at 109.1 units to the dollar, a slight appreciation of 1.8% compared with the end of December.

BANK OF JAPAN HALTS UPWARD TREND OF YEN AGAINST DOLLAR

Yen to dollar



**Strength of pound
sterling boosted by
growing differential in
interest rates.**

Helped by the growing differential in interest rates, the pound sterling marked up its highest level against the dollar since September 1992 to record 1.905 dollars to the pound on February 17. Later on, it dropped slightly to 1.862 dollars at the end of the third week in the month to show annual appreciation of 4.3%. It also appreciated in terms of the euro in the early weeks of February aided by an economic cycle more advanced than that in the euro area and stood at 0.668 units to the euro on February 25, the highest level since February 2003, which also meant a rise of 5.5% compared with the end of 2003.

CAPITAL MARKET

Euro area stock markets showing up better than U.S. markets

Weakness of dollar gets in way of rise on U.S. stock market...

International share markets have generally shown a positive aspect in recent weeks although with appreciable differences according to indices and markets. While most European markets ended February with notable advances, which in most cases took indices to annual highs, the main U.S. indices have shown upward paths of less significance, a fact that may be explained by the continuing process of dollar depreciation and expectation about its future exchange rate.

INDICES OF MAIN WORLD STOCK EXCHANGES January 30, 2004

	Index (*)	% monthly change	% cumulative change	% annual change	Figures at February 24, 2004	
					Index	% change in month
New York						
Dow Jones	10,488.1	0.3	0.3	30.2	10,566.4	0.7
Standard & Poor's	1,131.1	1.7	1.7	32.2	1,139.1	0.7
Nasdaq 100	1,493.1	1.7	1.7	51.9	1,462.1	-2.1
Tokyo	10,783.6	1.0	1.0	29.3	10,644.1	-1.3
London	4,390.7	-1.9	-1.9	23.1	4,496.8	2.4
Euro area	2,839.1	2.8	2.8	26.3	2,866.0	0.9
Frankfurt	4,058.6	2.4	2.4	47.7	3,991.4	-1.7
Paris	3,638.4	2.3	2.3	23.8	3,683.4	1.2
Amsterdam	353.3	4.6	4.6	19.8	354.2	0.3
Milan	1,239.3	2.9	2.9	23.8	1,299.9	0.5
Madrid	7,929.9	2.5	2.5	33.3	8,159.6	2.9
Zurich	5,736.4	4.5	4.5	29.7	5,801.8	1.1

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: AEX; Zurich: Swiss Market Index; Milan: Banca Commerciale Italiana; Madrid: IBEX 35 for Spanish stock exchanges.

SOURCE: «Financial Times» and internal figures.

...despite calmer situation described by Federal Reserve Board.

The stock market rises in February were based on the increasing calm spreading among investors following the G-7 meeting in Florida which was to make a statement on foreign exchange questions. Also having a positive effect was the parliamentary appearance of the chairman of the U.S. Federal Reserve Board who intimated that the time horizon for a

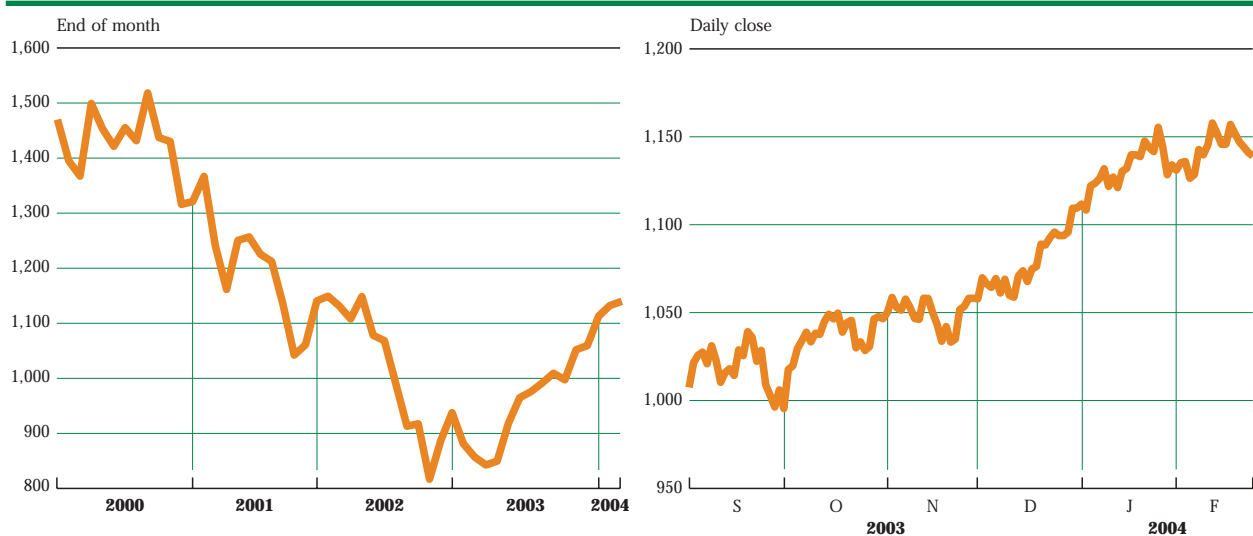
possible rise in interest rates was lengthening. To the extent that this appearance relieved concern about interest rates generated by earlier announcements by the U.S. central banking body, this appearance acted as a turning point in the course of the stock markets, halting the drops which had taken place in previous sessions.

Macroeconomic figures and good profit results fail to boost U.S. stock market especially hi-tech segment.

In any case, the swings on the stock market have been minor in the early months of the year and took place in a general context of largely favourable macroeconomic figures and positive corporate profits. Because of this, very few indices in the main markets have dropped below the levels at which they began the year. The highest levels of volatility showed up in the hi-tech segment of the market. After gaining nearly 6% as of the end of January, the Nasdaq 100 lost all its gains in little more than a week. Later on, it recovered a small part of the ground lost but again began to fall and at the beginning of the last week in February showed a slight loss (0.4%) compared with the beginning of the year.

U.S. STOCK MARKET: CONTROLLED TAKE-OFF

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



NOTES: Figures go up to February 24.

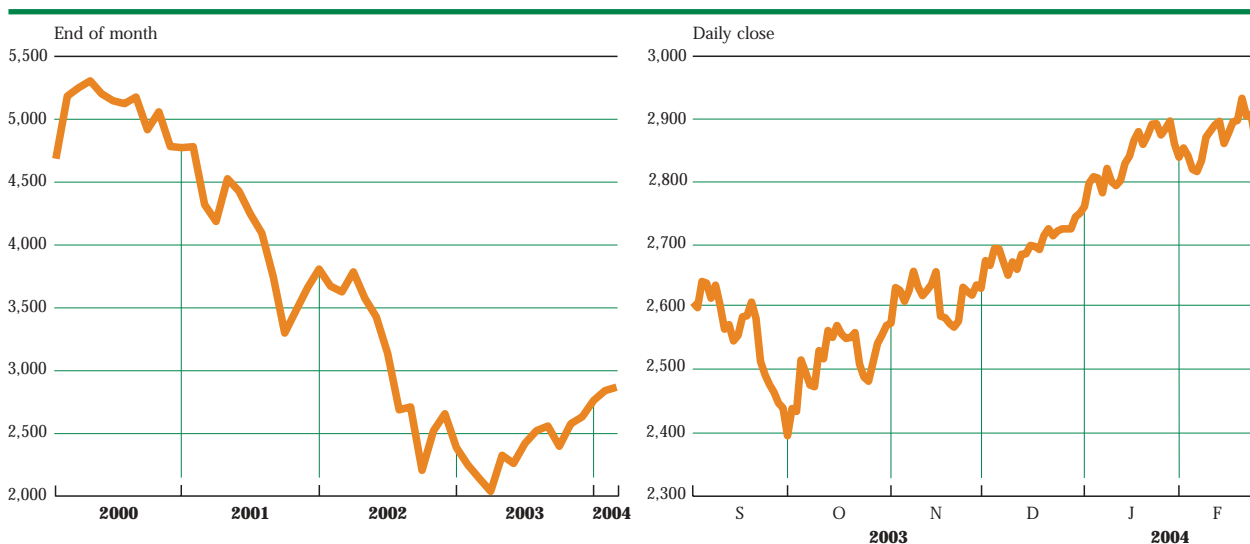
SOURCE: New York stock exchange.

More general indices of New York market show somewhat bigger advances but still modest.

The course of the more general indices for the New York market was very similar in terms of profile although the swings were not as great. As the last week of February began, the Dow Jones stood close to 1% above the closing figure for 2003. The Standard & Poor's 500, a more broadly representative index, ended the period with an advance more than one point higher than the Dow Jones with substantial differences between sectors. The best results showed up in telecommunications, non-cyclical consumption, financial services and energy, sectors with cumulative capital gains of between 4% and 6%. At the other end of the scale, the manufacturing industries and information technology shares reported modest drops.

EUROPEAN STOCK MARKETS KEEP UP LEVELS IN FEBRUARY

DJ Euro Stoxx 50 index



NOTES: Figures go up to February 24.

SOURCE: Stoxx Ltd.

Stock markets in euro area, on other hand, recover more strongly in spite of weakness of economy and maintenance of interest rates.

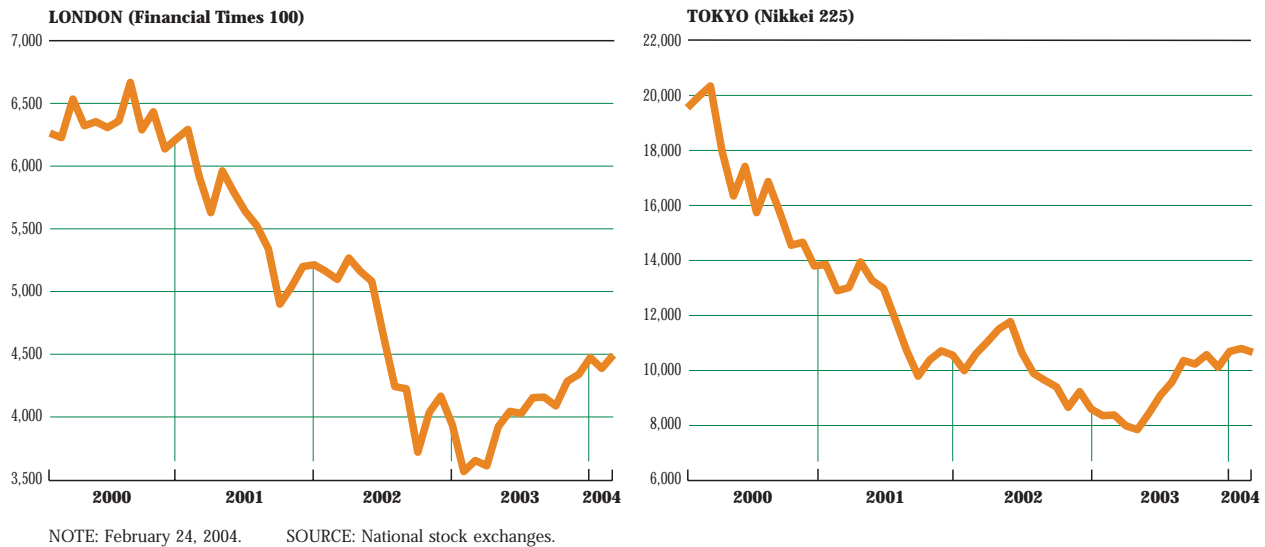
The picture among stock markets in the euro area was somewhat more favourable in spite of the weak growth of the economy, the difficulties arising from a strong currency for export sectors and maintenance of interest rates by the European Central Bank. The Euro Stoxx 50, which represents the main shares in the euro area, moved up by around 4% in the first three and a half weeks of February with quite notable gains in some hi-tech companies, communications media and manufacturers of communications equipment (Getronics, Alcatel and Nokia). A moderately positive role was also played by banks and finance companies although this was not the case for all countries. Also running along these lines were public services and distribution. On the other hand, the results in motor vehicles, energy and chemicals were less favourable with some moderate drops.

Japanese stock market loses steam as happens in Latin America, especially in Brazil.

Outside the European Continent, the London stock exchange has been operating quite apart from the generally positive climate partly suffering from the country's own monetary policy which has now set out on a course of interest rate increases. The Japanese stock market, in turn, has maintained a relatively weak tone with a drop of 4% since the highs in mid-January and the Nikkei index has again lost par for the year in spite of the better news in the region. The main Latin American stock markets have run along the same lines although losses have been somewhat greater thus losing some ground from the highs seen at the end of January. In spite of this, the Argentine and Mexican markets have shown a positive cumulative balance so far this year in contrast to the Brazilian market where factors of a political nature have sharpened market corrections.

INTERNATIONAL STOCK EXCHANGES

Indices at month-end



Spanish stock market continues on upward path in February

IBEX 35 goes higher than Euro Stoxx but not above other indices for smaller euro area markets.

The Spanish share market has presented a somewhat more favourable course than the main markets of its EU neighbours and has thus continued to follow a clearly positive course in the 2004 stock market year. The rise in the market made it possible for the IBEX 35 to go above the 8,300 points level although later on drops of a technical nature prevented it from holding at that level. In any case, cumulative gains for Spain's main stock market index stood close to 6% at the beginning of the last week in February. The balance for the main Spanish index, which was higher than those for the larger markets, however, stood below that for the smaller markets in the euro area, such as Lisbon, Helsinki, Brussels and Vienna.

Telephone services and communications still basis of good tone in Spanish stock market.

The favourable balance in the Spanish stock market in recent weeks has continued to be based on shares in the communications group headed by Telefónica and its subsidiaries, particularly Telefónica Móviles and above all by TPI, which showed a sharp rise. Sogecable and Prisa have also maintained the upward trend seen the month before. As a result, this sector index showed cumulative capital gains of more than 12% as of the middle of the last week in February. The course followed by the sector index for consumer goods was also very favourable helped along by the good performance in some textile companies, foods and pharmaceuticals which put cumulative gains at close to 11%.

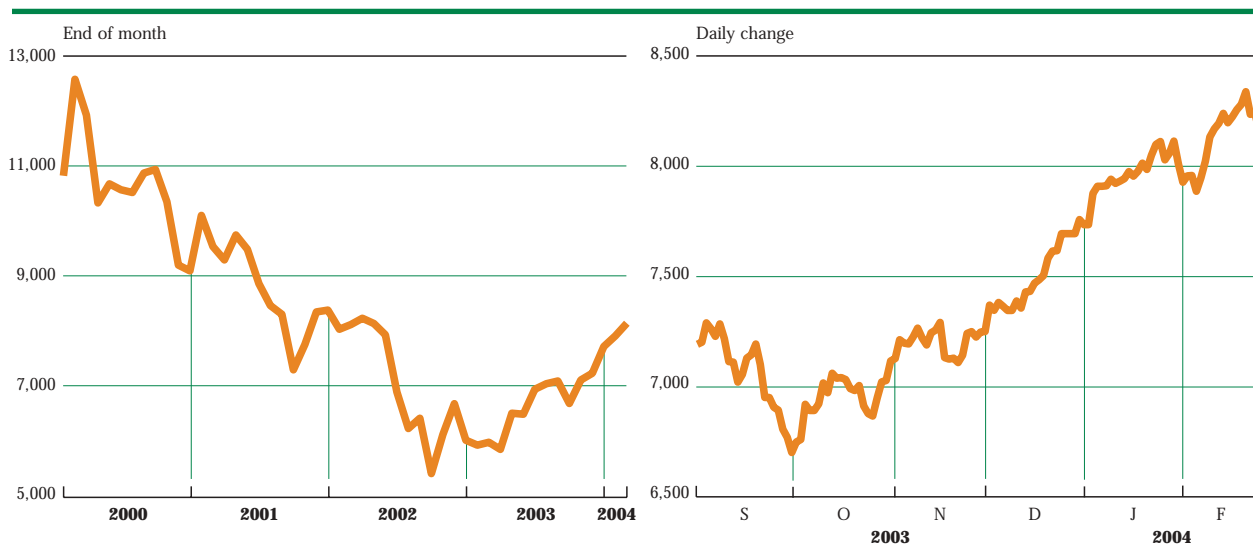
Energy shares join rises in February while some market services lose positions.

Energy companies, both electrical and gas and oil, recovered positions in February although the weaker situation the month before has slightly eroded the overall balance since the beginning of the year. On the other hand, the sharp upward trend shown by the market services index because of the boost in Iberia, among other companies, was halted in February as a result of notable drops in some shares (Amadeus Global,

following Lufthansa's disinvestment in that company). Construction companies stood at a midway spot with cumulative capital gains of close to 7%. On the other hand, the financial sector was somewhat weaker as a result of the punishment meted out to BBVA following announcement of its purchase of a bank in Mexico.

IBEX 35 MAKES TRY AT CONSOLIDATING ABOVE 8,000 LEVEL

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



NOTE: Figures go up to February 24.

SOURCE: Sociedad de Bolsas.

SPANISH STOCK EXCHANGE INDICES

	Index January 30, 2004	% monthly change	% annual change	Figures at February 24, 2004	
				Index	% change over previous month
Official indices					
IBEX 35 ⁽¹⁾	7.929,9	2,5	33,3	8.159,6	2,9
Madrid ⁽²⁾	830,2	2,8	33,1	853,9	2,8
Barcelona ⁽²⁾	685,3	3,4	37,8	704,0	2,7
Bilbao ⁽³⁾	1.427,5	3,3	37,6	1.460,8	2,3
Valencia ⁽²⁾	657,3	3,1	37,9	677,8	3,1
Sector indices for Madrid					
Stock Exchange ⁽⁴⁾					
Financial services	965,7	−0,3	42,5	969,5	0,4
Energy	1.007,9	1,1	22,7	1.044,6	3,6
Consumer goods	967,1	1,9	−1,0	1.050,4	8,6
Construction	1.346,2	3,0	27,7	1.396,2	3,7
Capital goods and intermediate goods	1.203,8	1,4	39,6	1.250,6	3,9
Communications	915,8	8,5	47,2	947,8	3,5
Market services	1.199,5	6,6	29,5	1.229,6	2,5

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.

Effective share turnover up sharply in January.

The good state of the market helped to increase share turnover. The effective volume traded on the Madrid and Barcelona stock exchanges was up notably in January by 19.5% compared with the same period the year before. Trading in government securities was along the same lines of high growth, as opposed to the drop in the private bond segment.

Sharp rise in euro commercial paper issues in 2003

Much activity in securitized euro commercial paper in 2003.

Issues of euro commercial paper (short-term instruments) reported a notable rise in 2003, according to figures supplied by Dealogic. Most issues originated in Europe which reported a 76% share. The proportion of Germany, with a 22% share, was quite notable. By sector, the biggest issuer was the motor vehicle industry followed by energy. The euro remained the preferred currency among issuers and following an annual rise of 61% it made up 50% of the total. The dollar accounted for a 26% share while the pound took up 16%. The outstanding balance of euro commercial paper rose to 422 billion dollars, an increase of 33% compared with the year before. Asset backed euro commercial paper continued to show an increase. As a result, the outstanding balance of these securities rose by 62% to represent 21% of the total.

Notable bond placements by emerging countries in January...

With regard to emerging countries, these placed 13.7 billion dollars in bonds in January, the biggest monthly figure since July 1997, according to Thomson Financial. The high figure for bond issues by emerging countries was boosted by the desire to get in ahead of expected interest rate increases in the United States. On the other hand, this was made possible because investors were showing a great appetite for assuming risk. In fact, the rise in bond holdings with low credit rating has aroused concern in view of a possible rise in interest rates.

...while volume of syndicated loans modest.

On the other hand, the volume of syndicated loans in January was modest and the position of banks was quite liquid. Nevertheless, in February the prospect of a new increase in corporate acquisitions presented a better picture for this segment of the financial market.

EURO COMMERCIAL PAPER ISSUES Million dollars

	2002	2003	Annual change		2003 (% share)
			Million dollars	%	
Europe	1,174,248	1,658,621	484,373	41.2	76.0
United States and Canada	226,817	272,921	46,104	20.3	12.5
Australasia	73,803	105,907	32,104	43.5	4.9
Caribbean	66,270	79,760	13,490	20.4	3.7
Asia	23,834	24,700	866	3.6	1.1
Latin America	2,007	2,034	27	1.3	0.1
Other	24,992	35,057	12,065	48.3	1.7
TOTAL	1,591,971	2,181,000	589,029	37.0	100.0

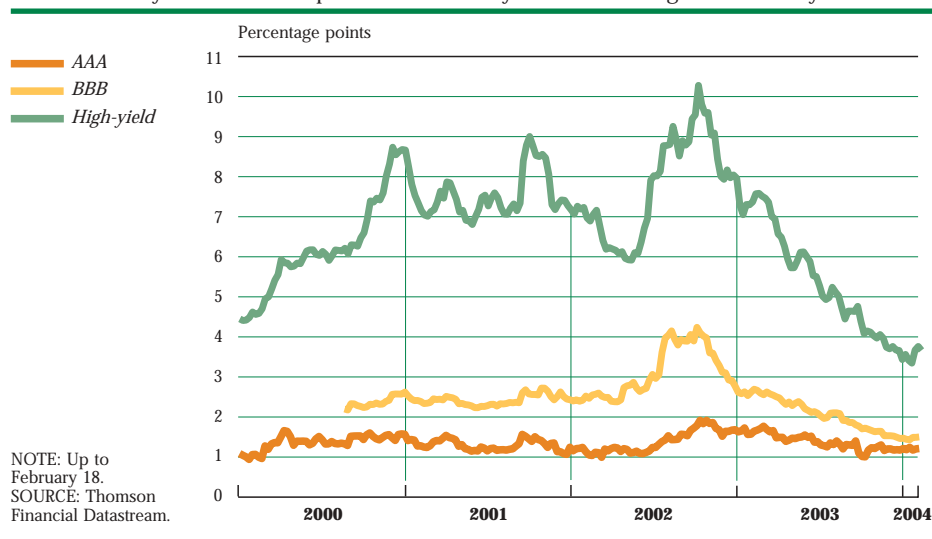
SOURCE: Dialogic and internal figures.

Global default rate for high yield bonds continues to drop in January...

The global default rate for high yield bonds (of low credit rating) continued to drop going to 5.1% in January on average for the past 12 months as against the 5.2% recorded in December 2003, according to Moody's rating agency. By geographical area, this rate showed no change in the United State holding at 5.4% whereas in Europe it dropped to 4.6% from the 6.1% figure recorded the month before. It is expected that with the improvement in the economic climate the default rate will continue to drop during the current year.

SLIGHT RISE IN RISK AVERSION

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



...but risk premiums up in February.

Aversion to risk, measured by the differential with U.S. long-term Treasury bonds, marked up lows for the past six years toward the end of February. Nevertheless, the market reacted to the U.S. Federal Reserve Board bulletin put out on January 28 and showed a rise in risk premiums in anticipation of a restrictive turnaround in monetary policy. This especially affected bonds issued by emerging countries largely denominated in dollars.

SPAIN: OVERALL ANALYSIS

ECONOMIC ACTIVITY

GDP up 2.4% in 2003

GDP growth goes up to 2.7% in fourth quarter.

The gross domestic product (GDP) grew by 2.7% at year-to-year rate in the fourth quarter of 2003 according to figures adjusted for seasonal effects and number of working days published by the National Institute of Statistics. This figure confirms the state of sustained recovery being shown by Spain's economy since the end of 2002 and which made it possible to end the year with average growth of 2.4%, four decimals above the year before.

Foreign sector boosts economy at end of 2003 although not sufficient to improve annual balance...

The increased growth of the GDP in the last quarter was based on the foreign sector which reduced its negative contribution to growth given that domestic demand showed some weakening. The better state of the foreign sector in the final stages of the year, however, did not manage to improve the annual average balance. In effect, the foreign balance played a more negative role in 2003 than in 2002 subtracting one percentage point from growth of domestic demand as against only six decimals the year before.

...which shows bigger growth of imports than recovery of exports.

The worsening of the foreign balance was due more to the bigger growth of imports than to a poor performance in exports. In fact, imports showed growth of 6.7% real in 2003, practically five points above the year before, with much bigger increases in the case of goods than services. Exports in turn showed an increase of 4.0% as against the zero figure recorded in 2002. Also in this case, the biggest strength showed up in goods seeing that services remained stagnant in 2003.

Domestic demand weakens in last quarter but annual balance quite favourable.

The weakening of domestic demand in the final quarter was mainly caused by gross fixed capital formation, especially by the capital goods component, as both construction demand and consumer demand moderated very slightly. In any case, the contribution of domestic demand to growth in 2003 as a whole was 3.4 percentage points, eight decimals more than the year before.

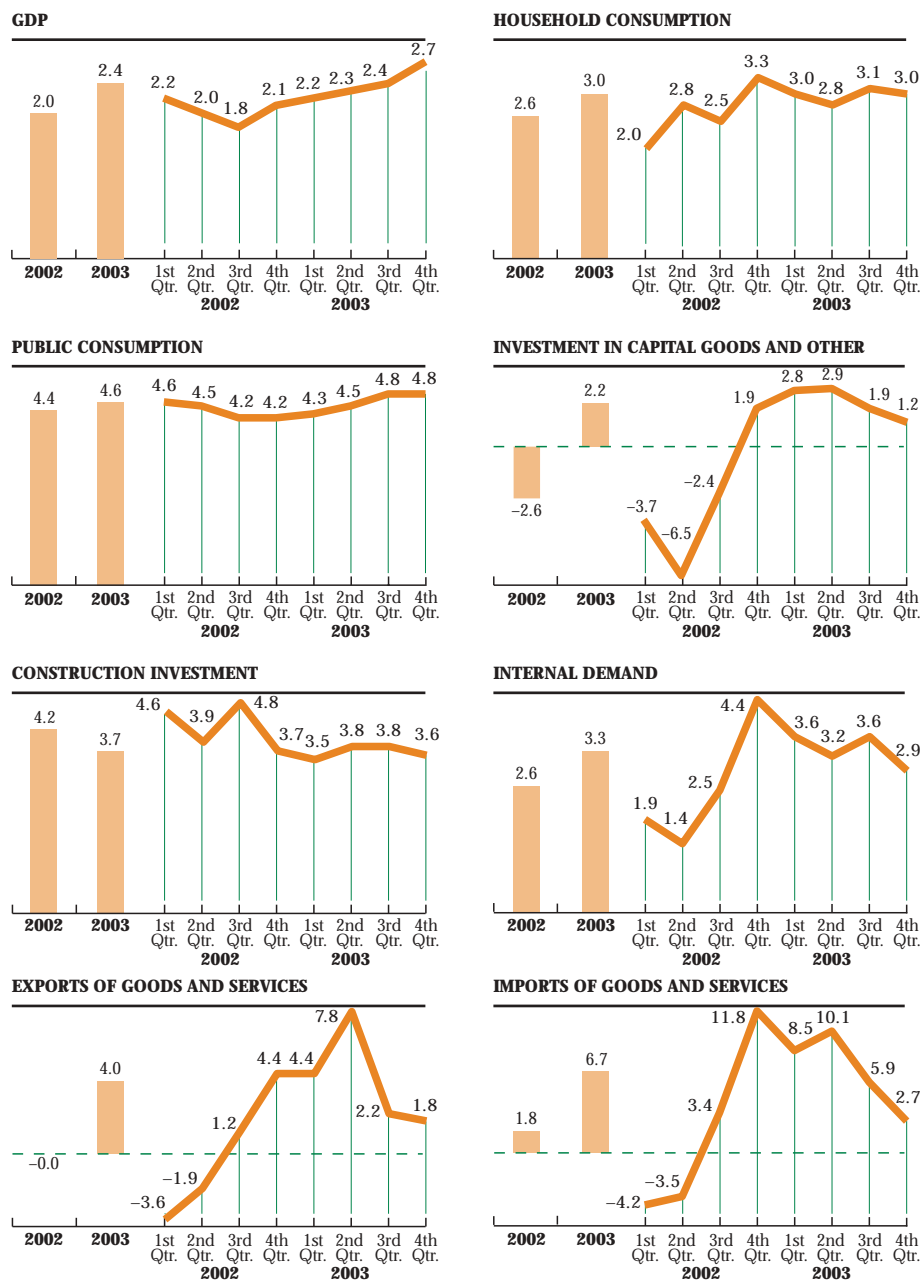
Level of investment in capital goods moderating but cumulative increase above 2002.

The loss of strength in gross fixed capital formation in the second half did not prevent the year end showing a more positive balance than in 2002 with cumulative growth of 3.0, two points higher than that year. The change in the situation was especially visible in capital goods demand seeing that average growth in 2003 (2.2%) was in sharp contrast to the decrease of 2.6% the year before. On the other hand, construction demand, which was more stable during the year, ended the financial year with an increase of 3.7%, a half-point less than in 2002.

GROSS DOMESTIC PRODUCT IN SPAIN BY COMPONENT

Percentage year-to-year change rate (*)

Domestic demand loses strength.



NOTES: (*) Figures adjusted for seasonal effects and number of working days.
SOURCE: National Institute of Statistics.

Notable growth in general government consumption.

Final consumption spending was up by 3.3% in 2003, three decimals more than in the year before, and showed a profile of notable stability. Real household spending, in turn, was up by 3.0%, four decimals more than in 2002 thanks to the recovery in employment (average growth stood at 1.8% in full-time jobs) and the increase in real wages per worker (1.1%), all of this taking place in a context of strong growth of consumer

credit. Spending on final consumption by general government, in turn, moved up at a rate of 4.6%, two decimals above the year before.

Market services stronger, construction moderating, while industry shows slight recovery in context of low growth.

On the supply side, figures for the fourth quarter confirm the upward profile in services, a slight improvement over the poor trend in industrial activity and the beginnings of moderation in construction and energy branches. The biggest growth showed up in services linked to general government which increased its growth rate to 3.9% in the last quarter and showed an average of 3.3% for the year as a whole, one point higher than in 2002. The increase in construction activity was also very high at 3.6% although less than in the year before. Industry, in turn, grew modestly at 1.3%, going above the figure for the year before but not showing a recovery profile. Finally, farm and fishing activities ended the year with a very poor balance without any appreciable improvement over figures for the previous year in spite of the notable recovery in the level of activity in the final quarter.

GDP: SUPPLY COMPONENTS

Gross figures corrected for seasonal effects and number of working days

	Million euros (current prices)	Year-to-year growth rates in constant terms (*)								
		2003	2002				2003			
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Farm and fishing branches	22,187	0.7	7.5	2.0	1.8	-6.6	-1.6	-0.6	0.9	4.2
Energy branches	21,081	1.4	2.1	-1.2	-0.3	0.5	0.3	1.6	2.6	1.0
Industrial branches	109,514	1.3	-0.7	-0.4	1.1	2.7	2.5	1.7	0.2	0.7
Construction	67,277	3.6	5.1	4.5	5.5	4.1	3.4	3.7	3.8	3.5
Services branches	448,732	2.1	2.1	2.5	1.9	2.2	1.7	1.6	2.5	2.7
<i>Market services</i>	<i>349,584</i>	<i>1.8</i>	<i>1.8</i>	<i>2.4</i>	<i>1.9</i>	<i>2.3</i>	<i>1.5</i>	<i>1.2</i>	<i>2.2</i>	<i>2.4</i>
<i>Non-market services</i>	<i>99,148</i>	<i>3.3</i>	<i>3.1</i>	<i>2.6</i>	<i>2.0</i>	<i>1.8</i>	<i>2.5</i>	<i>3.0</i>	<i>3.7</i>	<i>3.9</i>
Net tax on products	74,255	6.8	4.2	3.4	0.3	3.1	6.6	9.3	5.5	5.7
GDP at market prices	743,046	2.4	2.2	2.0	1.8	2.1	2.2	2.3	2.4	2.7

NOTES: (*) Base year: 1995.

SOURCE: National Institute of Statistics.

Wages per worker up while unit labour costs grow by 3.6%.

With regard to incomes, worker wages showed an increase in growth to 6.8% nominal in the final quarter of the year while the annual average stood at 6.7%, seven decimals above the figure for the previous year. Average nominal wages per worker grew by 4.2%, four decimals more than in 2002. There was an identical increase in unit labour costs which stood at 3.6% on annual average. The rise in wages was largely compensated by the moderation in growth of mixed incomes and the gross operating surplus which went to 5.9% annual. Finally, taxes on production and imports were up by 10.2%, around three points above the year before.

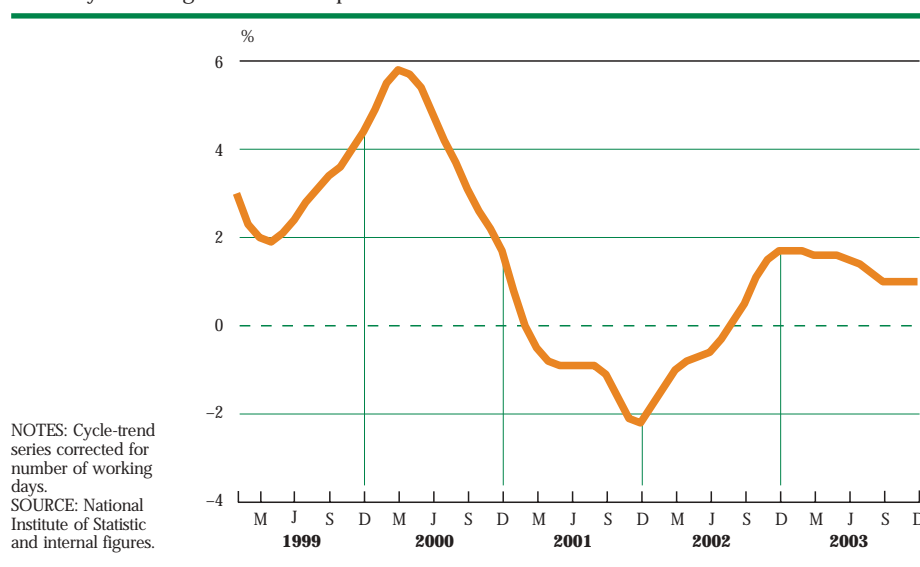
Economic activity indicators: expansionist tone at beginning of 2004

Domestic demand continues to boost growth of economic activity.

Early figures for 2004 show that Spain's rate of economic activity is being maintained. This is indicated, for example, by electrical power consumption (a highly representative indicator of the state of general activity) which, after adjustment for number of working days and temperature, grew by 6.2% year-to-year in January as against 4.5% recorded in the previous three months. Domestic demand is maintaining a fairly stable growth profile, while in the foreign sector the trade deficit and the current account deficit are tending to increase slightly.

GROWTH OF INDUSTRIAL PRODUCTION STAGNANT

Year-to-year change in industrial production index



Industry not coming out of sluggish state...

On the supply side, industry continues to show a weak state. In the fourth quarter of 2003 the general production index, after adjustment for differences in number of working days, grew by a modest 1.1%, practically the same as in the three preceding months. A similar picture is shown by the survey carried out by the Ministry of Science and Technology. The business climate indicator in December stood at the level of -1.3 points, a figure somewhat better however than in the preceding nine months. Order books continue to run in the negative band but are showing a slight upward trend mainly under the heading of consumer goods. To complete the picture, we note that utilization of production capacity rose to 80.4% in the fourth quarter of 2003 and that forecasts for the sector for the three coming quarters continue to be moderately optimistic.

...although chemicals and motor vehicles, among others, showing positive tone.

The trend in the main branches of economic activity continues to be subject to major disparities. The chemical industry, for example, obtained a strong advance in 2003 (4.3% average growth) as happened in motor vehicle manufacture (3.8%), machinery and electrical material (4.8%), optical equipment, watchmaking, medical and surgical instruments (5.2%) and electrical machinery and equipment (4.8%). On the contrary, in those

twelve months, there were very sharp decreases in the textile industry (6.8%), clothing and furs (4.2%), leather and footwear (11.0%) and consumer electronics (11.4%).

SUPPLY INDICATORS

Percentage change over same period year before

	2001	2002	2003						2004
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
Industry									
Electricity consumption (1)	3.8	4.6	3.8	4.4	6.0	3.9	4.8	4.8	6.2
Industrial production index (2)	0.2	1.4	1.5	1.7	1.0	1.1	1.5	0.8	...
Industrial climate indicator (3)	-5.8	-1.7	-2.7	-0.8	-2.7	-0.1	-0.6	-1.3	...
Utilization of production capacity (4)	78.1	79.2	78.9	77.7	79.8	-	80.4	-	-
Imports of non-energy intermediate goods (5)	6.4	4.3	10.6	7.8	-0.1	-1.5	-3.4	...	...
Construction									
Cement consumption	4.7	4.6	3.9	5.1	4.5	0.9	4.9	10.0	1.6
Construction climate indicator (3)	7.0	9.6	15.3	17.5	6.5	-8.0	-2.0	7.0	...
Housing (new building approvals)	4.3	20.3	23.9	21.7	14.1	20.2	24.9	...	...
Government tendering	13.2	-5.2	34.7	21.4	-34.0	-43.6	...	...	...
Services									
Retail sales	5.7	5.7	5.6	5.9	5.4	7.0	3.6	7.0	...
Foreign tourists	4.5	0.2	-1.6	5.1	-3.0	0.1	0.0	4.5	6.9
Tourist revenues inflows	-2.9	3.8	0.3	7.5	3.9	3.0	1.0	...	...
Goods carried by rail (km-tonnes)	-0.7	1.7	0.7	-2.6	5.8	5.7	-0.2	3.5	-0.8
Air passenger traffic	-1.1	7.4	4.5	8.3	7.7	7.3	9.4	9.2	7.4
Motor vehicle diesel fuel consumption	6.2	7.9	10.2	8.5	7.2	6.0	2.5	9.8	...

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.

Strong growth rate in construction may have hit ceiling...

In the construction sector, the main indicators continue to reflect a fairly positive tone although some of these may already have hit their highest point. This is so, for example, in the case of cement consumption which, in terms of cycle trend, has maintained a fairly stable growth rate (slightly above 5.0%) in the last twelve months. Other early indicators for the housing sector also show moderation in growth rate, such as in units planned and housing starts, which in the third quarter of 2003 reported a drop in annual growth rate to 4.8% and 13.3% respectively, lower than those noted in previous months.

...although sector optimistic about future.

General government tendering also tended to slow down in the second half of 2003 from the high previous growth rates. Along the same lines, the indicator for construction climate recorded a progressive worsening in spite of the fact that forecasts for the future on production and order books continued to be fairly optimistic. According to

associations of building construction managers, new construction approvals continued to grow at a very lively rate (around 20% year-to-year on average) as of November, which could confirm this optimism.

Tourism shows moderately favourable balance thanks to domestic demand.

In services, moderately positive results in tourism have been confirmed, thanks especially to domestic demand. In fact, overnight hotel stays by Spaniards rose by 4.7% on average in 2003 while those for foreign visitors grew by a modest 0.7% in keeping with the practical stagnation in the number of tourists coming from abroad (0.3% increase). In any case, revenue inflows recorded in the balance of payments coming under the tourism heading showed nominal growth of 3.8% as of November, which goes down to less than 1% if we discount the effect of price increases.

DEMAND INDICATORS

Percentage change over same period year before

	2001	2002	2003						2004
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
Consumption									
Production of consumer goods (*)	2.4	0.2	0.4	1.8	0.3	-1.1	-2.6	-1.4	...
Imports of consumer goods (**)	5.0	9.7	7.9	10.3	12.6	6.9	7.6	...	...
Car registrations	-6.6	3.8	-5.7	3.6	7.5	8.2	12.6	10.3	9.2
Credit for consumer durables	12.6	0.3	-2.2	-0.8	4.0	-	-	-	-
Consumer confidence index (***)	-11.6	-13.7	-17.0	-13.7	-12.3	-12.0	-12.0	-11.0	-12.0
Investment									
Capital goods production (*)	-4.9	0.4	0.3	0.4	-2.2	4.0	3.3	-0.1	...
Imports of capital goods (**)	-5.8	17.1	10.6	22.6	26.2	1.1	14.8	...	...
Commercial vehicle registrations	-6.0	13.5	15.8	10.6	16.3	12.8	12.2	10.6	7.5
Foreign trade (**)									
Non-energy imports	3.7	7.9	9.9	11.0	7.6	1.2	2.7	...	...
Exports	1.4	6.1	5.9	11.1	4.6	4.4	-2.1	...	...

NOTES: (*) Corrected 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.

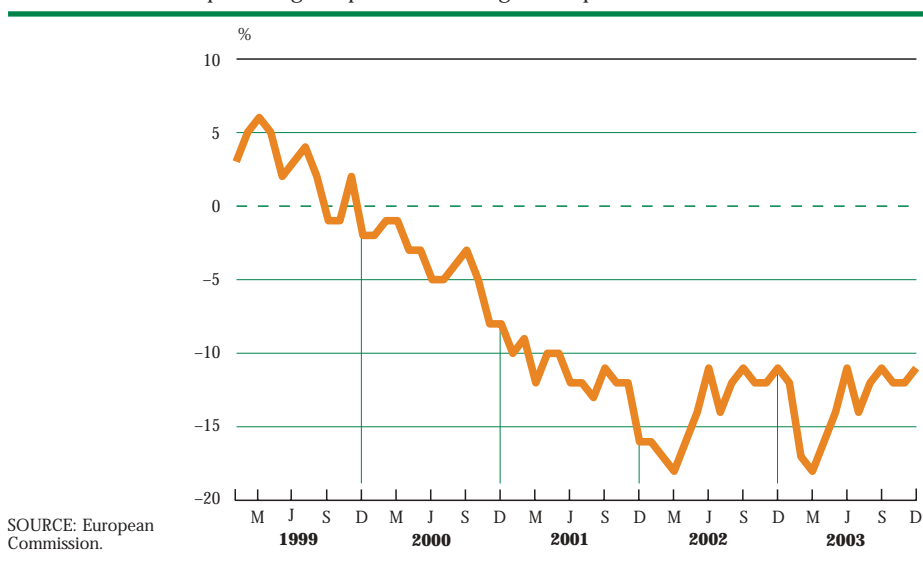
Good general tone in other services.

In other services, we note a generally expansionist tone in transportation, retail trade, services to companies and information technology. With regard to transportation, growth in goods traffic was generally greater than that for passenger traffic, except in the case of air traffic which, after ending 2003 with an increase of 10.1% in passengers, grew by 7.4% year-to-year in January. In addition, there was an increase in the growth rate of retail sales in the fourth quarter in 2003 (6.0% nominal, equivalent to 3.3% real, compared with the same period the year before). In those three months, the growth rate was sharper under the heading of non-food goods (4.3% real) and, by type of establishment, for department stores (7.4%).

Sustained growth of consumption.

The stable growth in employment, the gain in purchasing power because of the decrease in inflation and continued low interest rates are still boosting consumption, as confirmed by early figures for 2004. The notable increase in passenger car registrations (9.2% year-to-year in January), which follows the norm seen in the final months of 2003, is a clear example of this. Along the same lines, imports of consumer goods recorded a notable increase (10.3% by volume) between July and November, in contrast to the decrease recorded in domestic production of goods of this type (0.8% in the second half of 2003), under the effect of the weakness of exports and the possible loss of share in the domestic market.

CONSUMER CONFIDENCE SENTIMENT FAILS TO RECOVER
Difference between percentage of positive and negative replies



...although consumer confidence shows no advance in recent months.

In spite of the good general state of consumption, consumer confidence has made little progress in recent months (swinging around the -12 points level), although prospects expressed by consumers with regard to the coming twelve months have indeed improved. To round out the picture of economic activity in Spain from the point of view of demand, we note that capital goods investment has maintained a relatively stable growth profile in recent months. To be specific, imports of goods of this type grew by 17.3% on average between July and November 2003, while commercial vehicle registrations rose by more than 13.5% in the second half of that year.

LABOUR MARKET

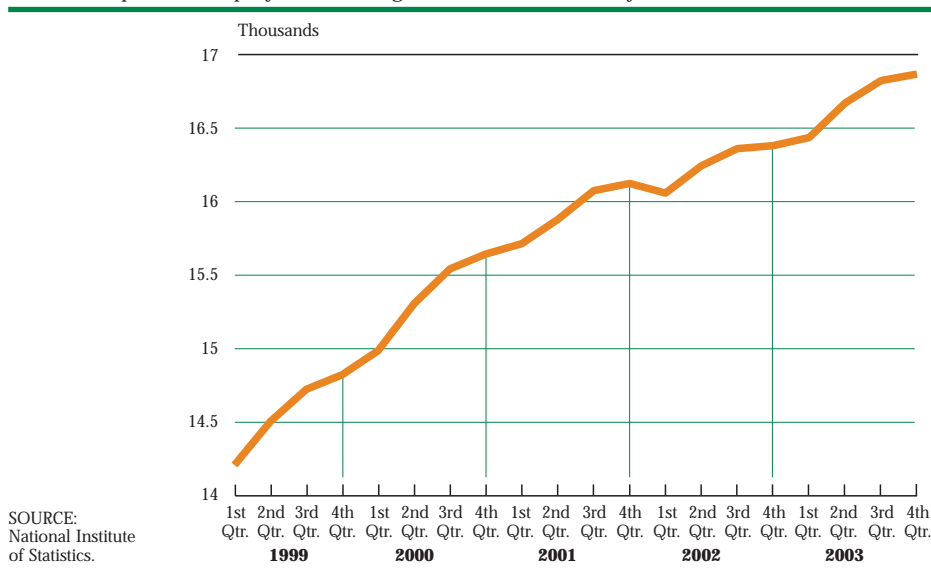
Good employment results in 2003

Employment increases growth to 3% in final quarter of 2003 according to Labour Force Survey...

Spain's economy created 44,800 net new jobs in the fourth quarter of 2003, according to the Labour Force Survey. This increase, which was substantially higher than in the same period the year before, meant that the job creation rate rose to 3.0% year-to-year, two decimals above the previous quarter, thus confirming the solid trend the labour market was showing all last year.

EMPLOYMENT CONFIRMS GROWTH TREND

Number of persons employed according to Labour Force Survey



...and year ends with nearly 500,000 new persons employed...

The good performance in the labour market in the fourth quarter made it possible to reach a total of 16,862,000 persons employed, 484,700 more than in 2002, a more favourable result than in the preceding year and similar to that reached in 2001. On the other hand, the results shown by the Quarterly National Accounts show growth of employment of 2.1% in the economy in 2003 with creation of 339,000 jobs equivalent to full-time work.

ESTIMATED EMPLOYEMENT
Fourth quarter 2003

	No. of employees (thousands)	Quarterly change		Annual change		Share
		Absolute	%	Absolute	%	%
By sector						
Agriculture	951.8	41.1	4.5	10.3	1.1	5.6
Non-farm	15,910.2	3.1	0.0	474.5	3.1	94.4
<i>Industry</i>	<i>3,075.5</i>	<i>-71.3</i>	<i>-2.3</i>	<i>-94.8</i>	<i>-3.0</i>	<i>18.2</i>
<i>Construction</i>	<i>1,991.9</i>	<i>2.7</i>	<i>0.1</i>	<i>81.7</i>	<i>4.3</i>	<i>11.7</i>
<i>Services</i>	<i>10,842.8</i>	<i>71.7</i>	<i>0.7</i>	<i>487.6</i>	<i>4.7</i>	<i>64.3</i>
By type of employer						
Private sector	14,114.7	39.5	0.3	395.0	2.9	83.7
Public sector	2,747.3	4.7	0.2	89.7	3.4	16.3
By work situation						
Wage-earners	13,752.6	22.4	0.2	452.7	3.4	81.6
<i>Permanent contract</i>	<i>9,533.7</i>	<i>23.7</i>	<i>0.2</i>	<i>316.9</i>	<i>3.4</i>	<i>56.5</i>
<i>Temporary contract</i>	<i>4,218.9</i>	<i>-1.3</i>	<i>-0.0</i>	<i>135.8</i>	<i>3.3</i>	<i>25.0</i>
Non-wage-earners	3,091.7	28.5	0.9	31.1	1.0	18.3
<i>Entrepreneurs with employees</i>	<i>932.2</i>	<i>24.0</i>	<i>2.6</i>	<i>49.0</i>	<i>5.5</i>	<i>5.5</i>
<i>Entrepreneurs without employees</i>	<i>1,898.2</i>	<i>11.7</i>	<i>0.6</i>	<i>-15.3</i>	<i>-0.8</i>	<i>11.3</i>
<i>Family help</i>	<i>261.3</i>	<i>-7.2</i>	<i>-2.7</i>	<i>-2.6</i>	<i>-1.0</i>	<i>1.5</i>
Other	17.7	-6.7	-27.5	0.9	5.4	0.1
By time worked						
Full-time	15,486.6	-46.2	-0.3	395.8	2.6	91.8
Part-time	1,375.4	90.3	7.0	89.0	6.9	8.2
By sex						
Males	10,323.1	-30.5	-0.3	158.1	1.6	61.2
Females	6,538.9	74.7	1.2	326.7	5.3	38.8
TOTAL	16,862.0	44.2	0.3	484.7	3.0	100.0

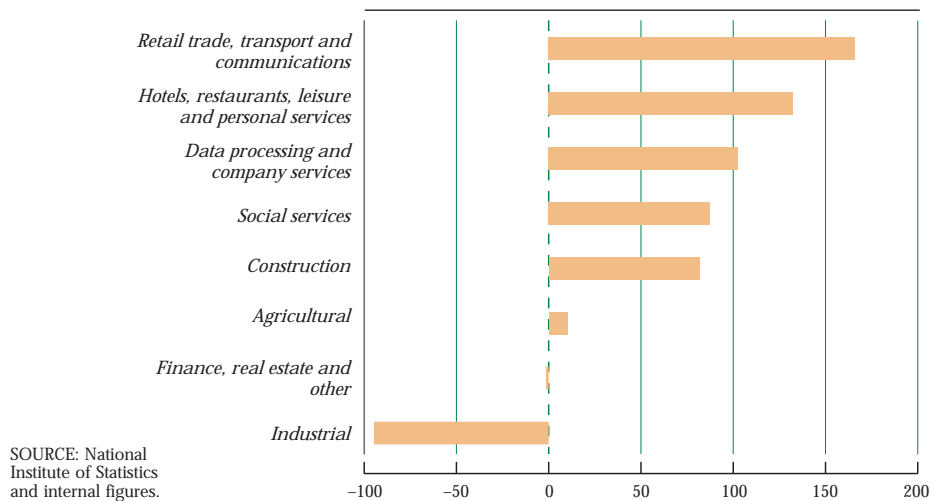
SOURCE: National Institute of Statistics and internal figures.

**...most of them in low
value added services.**

According to the results of the Labour Force Survey, the continued strength of the labour market was especially to be seen in construction and services. In both cases, the rate of increase in employment went above the level of 4% year-to-year. In industry, on the other hand, employment continued a contractile course while agriculture moved away from the downward trend it had followed. In absolute terms, retail trade, transportation and communications took up the greater part of new jobs created followed by hotels and restaurants. These activities gave work to nearly 300,000 new persons employed. Also notable was the development of various services to companies with more than 100,000 new employees and, in construction, with 81,700. On the negative side, we note the loss of nearly 100,000 jobs in industry.

INDUSTRY LOSING JOBS

Annual change in number of persons employed in 4th quarter of 2003, in thousands



93% of new persons employed are wage-earners while self-employed persons make up 18% of total.

New employment was largely generated among wage-earners with 93.4% of new workers falling into this labour market category. On the other hand, non-wage employment grew less strongly although it showed a slightly upward trend thanks to the sharp increase in small business operators and members of cooperatives. As a result, the total figure for non-wage earners came to 3,091,700, that is to say, 18.3% of total employment.

Public sector creates 18% of new employment in 2003.

Under wage-earner employment, public and private employment grew at the same rate, although the former showed a slight slowing down in rate compared with previous months. New public service employment, 89,700 persons in the past year, represented 18.5% of total jobs created. As a result, the proportion of personnel in government service and government-run enterprises to total employment stood at 16.3% in the fourth quarter of 2003, equivalent to 20% of the wage-earning population.

Permanent hiring contracts make up greater part of employment except in construction.

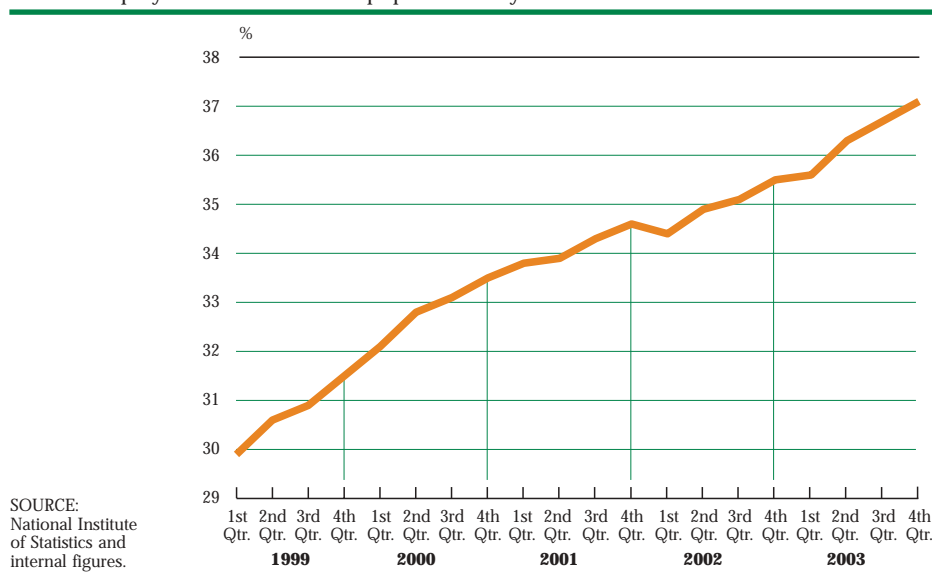
The greater part of new employment generated was of a permanent nature although there were sharp differences by sector. Some 55% of new jobs in construction were of this type bringing about a slight reduction in the temporary rate in the sector which, in spite of everything, stood at a high 56.0%. In services, permanent employment made up somewhat more than 70% of new employment and the temporary rate held at around 27% of the wage-earning group.

Part-time work grows faster than full-time employment and opens up greater access of women to labour market.

New jobs created in 2003 were largely full-time jobs, specifically 81.7% of the total. Nevertheless, we note a strong trend to increasing recourse to part-time work and 89,000 persons came into this category among those newly employed during the year. In any case, part-time work continued to represent a relatively low proportion of employment (8.2%) showing up more strongly in the female group, a segment in which it represented 16.9% of total employment as against 2.6% for males.

FEMALE EMPLOYMENT RATE CONTINUES TO GROW

Women employed over total female population 16 years and over



Female employment growing above 5%, nearly four points more than male employment.

The improvement in employment was common to both sexes but much stronger in the female group, a segment in which employment grew by 5.3% as against 1.6% for males. As a result, female employment made up 67.4% of new employment created in 2003. Youth employment in turn continued to decrease although at a more moderate rate for demographic reasons. The sharp drop in those making up the labour force under 25 years of age (63,700 persons in the past year) would explain all the loss in youth employment in this period.

Registrations with Social Security also showing strong growth.

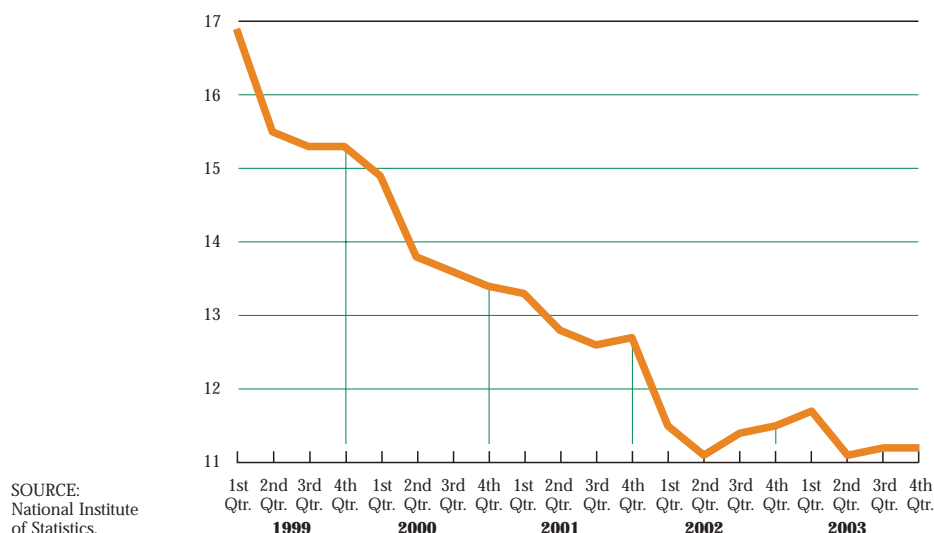
The good results in employment shown by the Labour Force Survey were also confirmed by registrations with Social Security which, in the fourth quarter, rose slightly more sharply than in the preceding quarter. This gradual upward trend continued in January 2004 with the increase in worker registrations with Social Security reaching 3.1%.

Rise in number of females in labour force prevents substantial improvement in unemployment.

Estimated unemployment (2,127,100 persons in the fourth quarter) rose slightly compared with the same period in 2002 because of the increase in the labour force which continued to grow at a sharp rate above that for the population 16 years of age and older. The increase in the labour force in 2003 was 440,200 persons, practically twice that for the population of 16 years and older (224,800) a situation which is indicative of the increased propensity of persons to actively seek employment. This propensity is especially high in the case of females, given that the number of those newly entering the labour force (330,400) was notably above the increase in population (118,300). In the male segment, on the other hand, the differential was much lower with 163,200 more persons in the labour force as against a population increase of 106,500.

UNEMPLOYMENT RATE SHOWS DOWNWARD RESISTANCE

Thousand estimated unemployed



Female unemployment rate goes up to 15.6% while male rate holds at 8.2%.

The unemployment rate stood at 11.2%, three decimals below the same quarter the year before and continued to maintain sharp differences between the corresponding indices for the male and female groups at 8.2% and 15.6% respectively. The level of unemployment among those under 25 years of age, in turn, stood at 22.9%, three decimals less than in the same quarter the year before.

ESTIMATED UNEMPLOYMENT

Fourth quarter 2003

	No. of unemployed	Quarterly change		Annual change		Share	Unemployment rate
		Absolute	%	Absolute	%	%	% of labour force
By sex							
Males	922.1	5.9	0.6	5.2	0.6	43.4	8.2
Females	1,204.9	6.5	0.5	3.7	0.3	56.6	15.6
By age							
Under 25 years	504.7	-12.3	-2.4	-21.7	-4.1	23.7	22.9
Other	1,622.3	24.7	1.5	30.6	1.9	76.3	9.7
By personal situation							
Long-term unemployment	273.2	8.2	3.1	9.2	3.5	12.8	–
Seeking first job	336.4	-19.7	-5.5	-23.9	-6.6	15.8	–
Other	1,517.5	24.0	1.6	23.7	1.6	71.3	–
TOTAL	2,127.1	12.5	0.6	8.9	0.4	100.0	11.2

SOURCE: National Institute of Statistics and internal figures.

Improvement in labour climate also seen in attitudes among unemployed in accepting new job.

The improvement on the labour scene is also evident in the changing attitudes among the unemployed with regard to certain terms of access to the labour market. The proportion of unemployed ready to accept a change in location in order to obtain a job dropped to 20.4%. Also down was the percentage of unemployed willing to accept a new job if this meant wages lower than their qualifications or a lower than expected job category, which went to levels of 49.1% and 50.9% respectively. On the other hand, there was no apparent difficulty for unemployed to take a new job involving a change from previous employment, given that as high a figure as 72% was ready to do so.

LABOUR FORCE, EMPLOYMENT AND UNEMPLOYMENT BY AUTONOMOUS COMMUNITY Fourth quarter 2003

	Labour force			Employed			Unemployed			Unemployment rate %
	Total (1,000s)	Annual change	% annual change	Total (1,000s)	Annual change	% annual change	Total (1,000s)	Annual change	% annual change	
Andalusia	3,207.3	74.8	2.4	2,615.1	115.2	4.6	592.2	-40.4	-6.4	18.5
Aragon	521.4	9.1	1.8	489.1	9.1	1.9	32.3	0.0	0.0	6.2
Asturias	441.3	21.5	5.1	397.0	19.2	5.1	44.3	2.3	5.5	10.0
Balearic Islands	424.2	18.0	4.4	384.4	11.1	3.0	39.8	6.9	21.0	9.4
Canary Islands	893.5	50.0	5.9	785.4	36.9	4.9	108.1	13.1	13.8	12.1
Cantabria	245.0	9.8	4.2	219.7	9.6	4.6	25.3	0.2	0.8	10.3
Castile-La Mancha	737.4	11.3	1.6	666.6	10.8	1.6	70.8	0.5	0.7	9.6
Castile-Leon	1,056.8	13.5	1.3	941.5	2.9	0.3	115.3	10.6	10.1	10.9
Catalonia	3,172.1	89.4	2.9	2,889.7	102.8	3.7	282.4	-13.4	-4.5	8.9
Valencian Community	2,026.5	46.2	2.3	1,819.4	47.0	2.7	207.1	-0.8	-0.4	10.2
Extremadura	453.2	4.4	1.0	375.7	12.1	3.3	77.5	-7.7	-9.0	17.1
Galicia	1,276.5	40.8	3.3	1,104.8	17.0	1.6	171.7	23.8	16.1	13.5
Madrid Community	2,554.4	50.9	2.0	2,375.5	45.1	1.9	178.9	5.8	3.4	7.0
Murcia	537.9	20.1	3.9	481.5	22.9	5.0	56.4	-2.8	-4.7	10.5
Navarre	257.9	6.5	2.6	242.7	4.5	1.9	15.2	2.0	15.2	5.9
Basque Country	1,004.0	17.1	1.7	910.4	15.1	1.7	93.6	2.0	2.2	9.3
La Rioja	120.2	1.8	1.5	112.7	1.5	1.3	7.5	0.3	4.2	6.2
Ceuta and Melilla	59.5	8.3	16.2	50.8	1.7	3.5	8.7	6.6	314.3	14.6
TOTAL	18,989.1	493.6	2.7	16,862.0	484.7	3.0	2,127.1	8.9	0.4	11.2

SOURCE: National Institute of Statistics and internal figures.

Canary Islands and Murcia show strongest employment level in 2003.

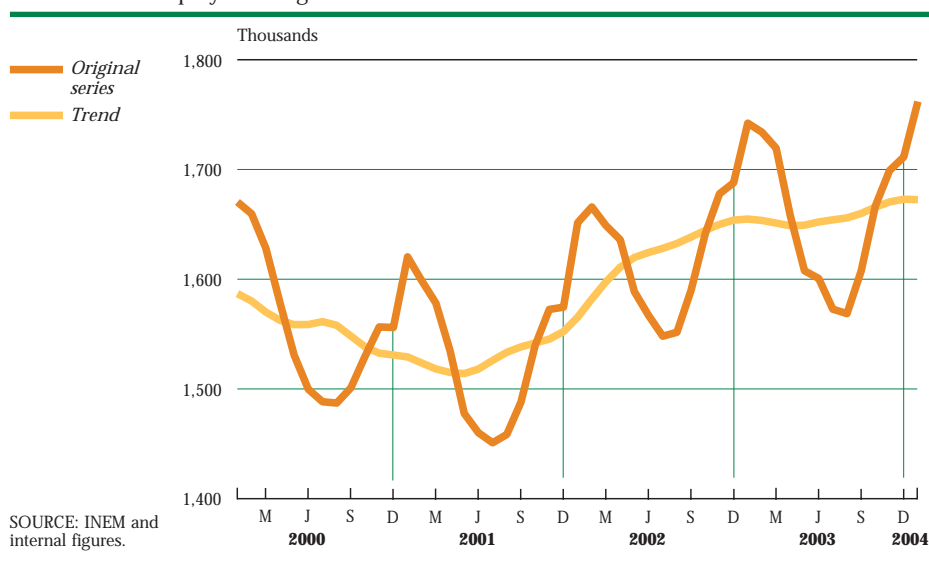
From a geographical perspective, the situation showed notable differences among autonomous communities, although a general growth in employment was noted. The biggest increases in annual average showed up in the Canary Islands and Murcia with rates close to 4.5%. Extremadura, Andalusia, Cantabria, Catalonia, Asturias and Galicia made up the second group with increases somewhat higher than 3%. At the other end of the scale, Castile-Leon, Navarre and Madrid, with employment increases of lower than 2%, were among the less dynamic autonomous communities. With reference to unemployment, the significance of the figures is much lower because of the effect of changes in the labour force.

Registered unemployment: very contained increase

Registered unemployment up in January but improves on last year's results.

The number of unemployed registered at the National Employment Institute (INEM) stood at 1,761,968 at the end of January, an increase of 50,481 compared with the previous month. This increase, which was somewhat lower than in the same month the year before and normal for this time of year, did not mean any substantial change in the trend to moderation seen in the rate of increase in unemployment in recent months, although it does not show the effects of the improvement in economic activity recorded in the course of 2003.

REGISTERED UNEMPLOYMENT: VERY CONTAINED INCREASE
Number of unemployment registered at INEM offices



Increase in registered unemployment concentrated in services.

The increase in registered unemployment in January was concentrated in services and was in contrast to the sharp decrease noted in construction, partly due to something of a reaction to the substantial rise in December. Unemployment in industry, in turn, continued along a downward path. Finally, we also see a notable increase in those seeking a first job which makes sense in view of the growth of the labour force.

Hiring contracts handled by INEM up 2.5% in January.

In addition, hiring contracts handled by INEM showed a notable increase in January, specifically 2.5% compared with the same period the year before. This growth was concentrated in temporary contracts given that permanent hiring (a little more than 8% of the total) was down sharply.

PRICES

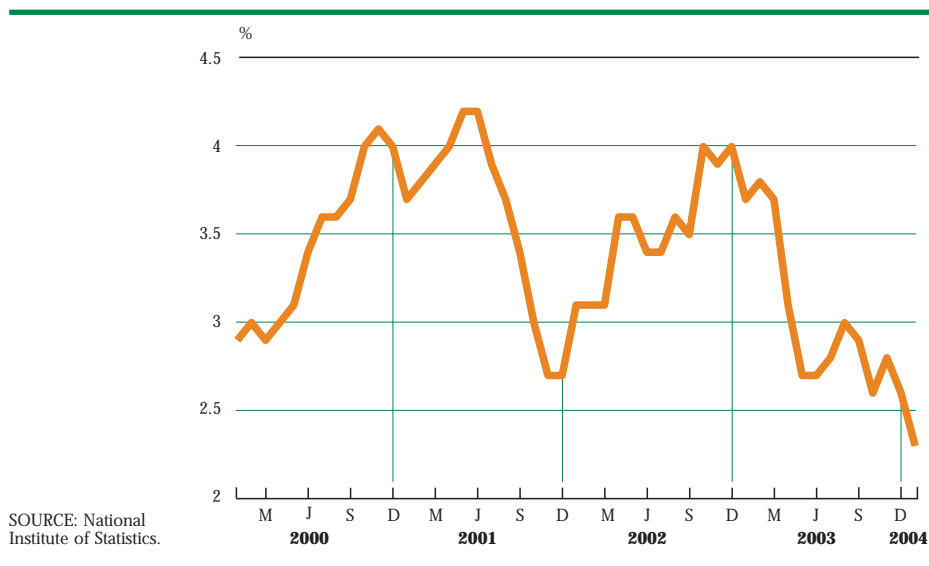
CPI rate drops to 2.3% in January

Annual inflation rate down three decimals in January.

The annual inflation rate, measured by the consumer price index (CPI), dropped by three decimals in January to stand at 2.3%, the lowest figure since July 1999. The good performance of the CPI was due both to the drop in fuel prices and the sharp decrease in prices of non-energy industrial goods, given that both services and food were practically neutral with regard to the course followed by the inflation rate.

DROP IN INFLATION

Year-to-year change in consumer price index



Non-energy industrial goods key factor in improved rate...

The sharp easing in prices of industrial goods was especially notable in the area of clothing and footwear with the January sales reporting sharper cuts than last year, possibly in order to stimulate consumption which was showing rather weak. Another relevant factor in this regard was a continuation of the decreases in prices of products subject to strong competition such as appliances (both white goods and audiovisual), optical and photographic equipment and especially data-processing equipment. As a result, prices of industrial goods moved up to a growth rate of 0.7% year-to-year, a half-point below the month before.

CONSUMER PRICE INDEX

	2003			2004		
	% monthly change	% change over Dec. 2002	% annual change	% monthly change	% change over Dec. 2003	% annual change
January	-0.4	-0.4	3.7	-0.7	-0.7	2.3
February	0.2	-0.2	3.8			
March	0.7	0.5	3.7			
April	0.8	1.3	3.1			
May	-0.1	1.2	2.7			
June	0.1	1.3	2.7			
July	-0.6	0.6	2.8			
August	0.5	1.1	3.0			
September	0.3	1.4	2.9			
October	0.7	2.1	2.6			
November	0.3	2.4	2.8			
December	0.2	2.6	2.6			

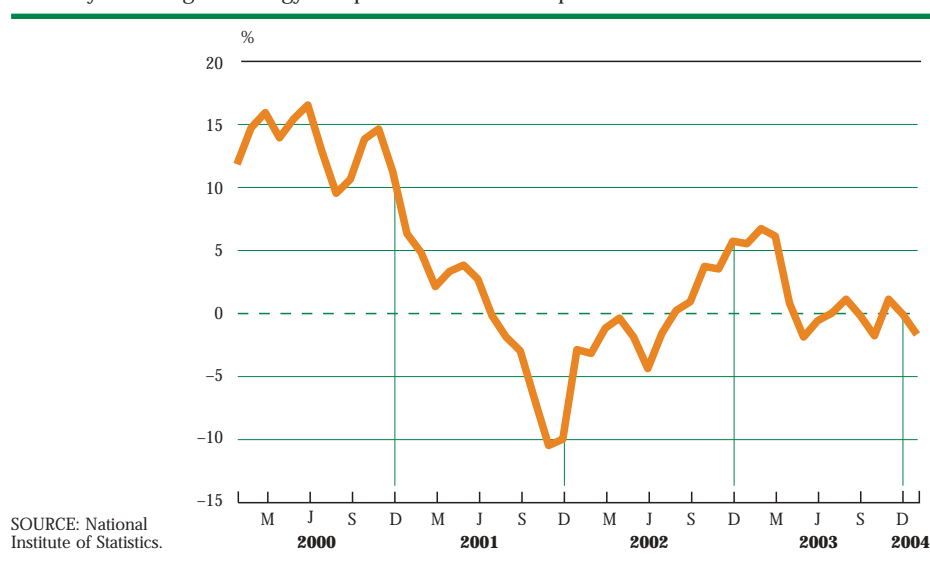
SOURCE: National Institute of Statistics.

...together with drop in energy prices.

The other factor in reducing the annual inflation rate in January, in line with forecasts, was the drop in fuel prices brought about by the continuing strength of the euro which more than wiped out the rise in oil product prices. Energy prices in January dropped at a rate of 1.7% year-to-year, far from the increases of between 5% and 6% in the early months of 2003.

MODERATE DECREASE IN ENERGY PRICES

Year-to-year change in energy component in consumer price index



**Fresh foods show
downward
resistance...**

The improvement in the inflation rate was not bigger due to the continuation of high rates of increase in fresh food products. The notable pressures taking place in certain farm markets in 2003, partly as a result of poor weather conditions, pushed up prices at origin and naturally final prices have suffered from this situation. As a result, fresh food prices in January continued to move up at the rate of 6.5%, one decimal above the month before. This sharp increase was partly compensated by lower pressures on processed food prices which rose by 2.5%.

CONSUMER PRICE INDEX BY COMPONENT
January

	Indices (*)	% monthly change		% annual change	
		2003	2004	2003	2004
By type of spending					
Food and non-alcoholic beverages	111.8	0.5	0.5	4.9	4.0
Alcoholic beverages and tobacco	110.0	0.1	0.1	4.8	2.8
Clothing and footwear	103.5	-9.6	-11.0	2.8	0.9
Housing	106.9	0.8	0.7	2.9	2.8
Household equipment	104.4	-0.5	-0.6	2.1	1.6
Health	105.7	0.3	0.3	2.4	2.0
Transport	104.4	1.5	0.7	4.8	0.2
Communications	93.6	1.4	-0.1	-5.0	-1.6
Recreation and culture	101.9	-1.3	-1.4	1.2	0.0
Education	112.0	0.1	0.3	4.6	4.5
Hotels, cafés and restaurants	112.0	0.5	0.6	5.2	4.1
Other	110.1	1.6	1.8	3.4	3.3
By group					
Processed foods	108.8	0.5	0.4	3.7	2.5
Unprocessed foods	117.4	0.4	0.6	7.2	6.5
Non-food products	106.1	-0.7	-1.1	3.3	1.8
Industrial goods	102.5	-1.9	-2.6	2.8	0.1
Energy products	100.5	2.2	0.6	5.5	-1.7
Fuels and oils	99.7	2.5	0.3	7.0	-2.8
Industrial goods excluding energy products	103.0	-3.1	-3.6	2.0	0.7
Services	110.3	0.6	0.6	4.5	3.6
Underlying inflation (**)	107.3	-0.8	-1.0	3.2	2.3
GENERAL INDEX	107.4	-0.4	-0.7	3.7	2.3

NOTES: (*) Base 2001 = 100.

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

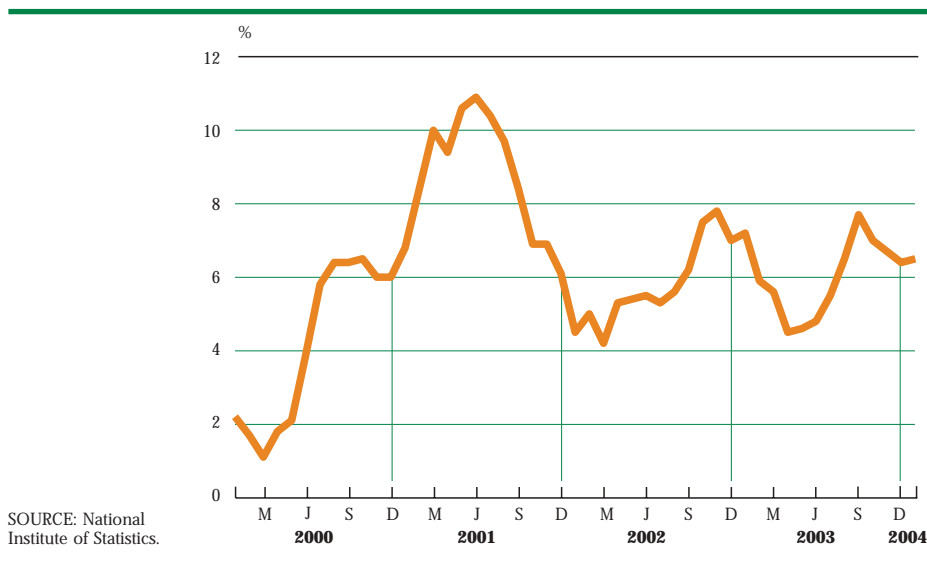
SOURCE: National Institute of Statistics.

...as happens in services.

Finally, there has also been confirmation of the downward resistance of services prices which continued to move up by 3.6% year-to-year in January, the same rate as the month before. Markets which in some cases are not very competitive while others are segmented, along with the rigidity of supply, are making any moderation in these prices difficult. Those showing the biggest increases include financial services, some insurance and personal services, both recreational and cultural as well as educational. Hotels and restaurants maintained growth in line with the group. Only communications services showed some moderation.

FRESH FOODS EXERT PRESSURE ON CPI

Year-to-year change in consumer price index



Excellent prospects for CPI over short term.

The improvement in the CPI in January should continue, although at a slower rate, over the short term because of the positive effect of energy products if the strength of the euro continues and, perhaps, because of the potential moderation of fresh food prices, particularly after Easter Week. Any continuation of the slowdown in other components is more complicated as these make up underlying inflation, that is to say, inflation which excludes the more volatile prices such as fresh foods and energy.

CPI BASKET UNDERGOES CHANGES

In keeping with the methodology adopted for the consumer price index since 2001, the National Institute of Statistics has carried out its annual update of the weightings used in its calculation. This means that the index fully reflects the prices of all the goods and services consumed by households in a situation where changes in consumer preferences are taking place more rapidly than in the past and where supply is becoming more diversified and sophisticated at a growing rate. It is for this reason that the weighting of the various articles making up the shopping basket is being revised annually thus making it possible to refine the accuracy of one of the indicators most carefully watched and of most significance in Spain's economy.

The structure of the CPI weightings has been brought up-to-date using information from the ongoing survey of household budgets for the period between the second quarter of 2002 and the first quarter of 2003. As a result, the CPI reflects the changes in consumer habits taking place in the 12 months before the last update. The changes introduced do not affect the continuity of the CPI statistical series (with base 2001) given that the calculation formula for the 2001 System consists of linking the indices so that there is no break. The updating of weightings therefore does not affect the change rates published.

NEW WEIGHTINGS IN CPI

Group	CPI base 2001 2003 weightings	CPI base 2001 2004 weightings	Change
1. Foods and non-alcoholic beverages	21.93	22.60	0.67
2. Alcoholic beverages and tobacco	3.18	3.17	-0.01
3. Clothing and footwear	9.90	9.73	-0.17
4. Housing	10.68	10.69	0.01
5. Household goods	6.41	6.41	0.00
6. Health	2.75	2.68	-0.07
7. Transport	15.32	14.40	-0.92
8. Communications	2.73	2.99	0.26
9. Recreation and culture	6.83	6.76	-0.07
10. Education	1.67	1.67	0.00
11. Hotels, cafés and restaurants	11.18	11.23	0.05
12. Other goods and services	7.39	7.64	0.25
General	100.00	100.00	

It should be pointed out that the more important changes show up in the transport groups, which lose weighting, and in foods and non-alcoholic beverages, which gain in weighting, while on the other hand there are practically no changes in education, household goods and housing.

FOREIGN SECTOR

Trade deficit gradually increasing

Trade deficit shows growth of 14% as of November.

In November, foreign trade in goods continued the state of weakness shown the previous month especially with regard to exports. The trade deficit showed a notable increase raising the cumulative figure for the year to 42 billion euros, 13.9% more than in the same period in 2002. The export-import ratio, that is to say, the relation between exports and imports, stood at 75.0%, one and a half points below the same period the year before.

FOREIGN TRADE January-November 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	17,503	2.4	10.4	3,823	39.5	3.0	-13,680	21.8
Consumer goods	47,453	9.8	28.2	51,930	5.4	41.1	4,477	109.4
Food	11,289	10.1	6.7	15,685	6.4	12.4	4,396	138.9
Non-foods	36,164	9.3	21.5	36,245	3.8	28.7	81	100.2
Capital goods	26,542	8.4	15.8	15,114	4.3	12.0	-11,429	56.9
Non-energy intermediate goods	76,728	6.1	45.6	55,376	3.1	43.9	-21,352	72.2
By geographical area								
European Union	107,696	7.8	64.0	91,125	6.5	72.2	-16,571	84.6
Euro area	93,181	7.5	55.4	76,299	7.5	60.4	-16,882	81.9
Other countries	60,530	5.9	36.0	35,117	1.4	27.8	-25,413	58.0
Eastern Europe and ex-USSR	7,337	5.7	4.4	5,492	7.4	4.4	-1,845	74.9
United States	6,157	-5.0	3.7	5,101	-3.6	4.0	-1,056	82.9
Japan	4,383	12.9	2.6	902	-4.1	0.7	-3,480	20.6
Latin America	6,938	0.8	4.1	6,045	-7.6	4.8	-893	87.1
OPEC	10,534	3.4	6.3	3,017	-6.8	2.4	-7,517	28.6
Rest	25,182	10.6	15.0	14,560	7.9	11.5	-10,622	57.8
TOTAL	168,226	7.1	100.0	126,242	5.0	100.0	-41,984	75.0

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

***Imports down but
real increase holds
above 7%.***

Despite the decrease in imports in November, they showed growth of 2.7% in value and the cumulative figure for eleven months (168.2 billion euros) was 7.1% above the same period the year before. In terms of volume, the increase rises to 7.5% if we take into account the slight decrease in import prices. The slowdown in imports, something especially notable in the last two months, was practically general for the various product groups except in the case of food consumer goods which showed an upward profile with high growth. The weaker state of imports, however, did not prevent consolidation of the cumulative high growth in imports of capital goods (17.1% real) and quite notable growth in non-food consumer products (9.5% by volume) with special strength showing up in purchases of furniture, clothing and footwear.

***Exports also losing
strength while
cumulative increase
holds at 6% real.***

Exports fell slightly in November (down 1.6% in value) putting the cumulative increase at 126.2 billion euros, 5.0% more than in the same period of 2002. In real terms, average growth stood at 6.1% thanks to the slight drop in export prices. The weakness of foreign sales in November showed up in capital goods and intermediate goods, in the former case as a reaction to the sharp growth the previous year. In the first eleven months as a whole, the most positive balance was to be seen in energy intermediate goods and capital goods with increases of 33.9% and 13.9% real respectively. These rates were higher than those recorded for consumer goods and non-energy intermediate goods at 6.2% and 2.9% respectively.

***Sales in dollar area
reflect strength of
euro.***

Sales to third countries continued to show stronger drive than those to the European Union with growth of 9.3% and 4.7% respectively by volume. Within the European Union, the relative drop in sales was fairly general in November while the cumulative figure for certain countries (Netherlands, Italy and Germany) held at levels close to 10% nominal. In addition, sales to the United States and other dollar areas were notably down in response to the strength of the euro. On the positive side, there was a notable rise in the Chinese market (41.9% cumulative) and, to a lesser extent, in the countries of Eastern Europe. It should be pointed out that the weighting of the Chinese market for the Spanish economy now is well ahead of that for Japan, Brazil or Russia, although sales toward that country make up a relatively small share of the total at 1.1%.

Current account deficit continues to rise

***Current account
deficit grows 62% in
first eleven months
of year.***

The current account balance showed a deficit of 3.1 billion euros in November, 68.7% higher than in the same month of 2002. This increase was due to the worsening of the trade deficit, the transfers balance and incomes balance and this was only partially compensated by the increase in the services surplus. As a result, the cumulative imbalance for the first eleven months rose to 19.7 billion euros, some 62.3% more than in the same period the year before.

BALANCE OF PAYMENTS

Cumulative figure for last 12 months in million euros

	October 2002	October 2003	% change
Current account balance			
Trade balance	-33,147	-39,090	17.9
Services			
<i>Tourism</i>	<i>28,477</i>	<i>29,558</i>	<i>3.8</i>
<i>Other services</i>	<i>-2,112</i>	<i>-2,396</i>	<i>13.5</i>
Total	26,365	27,162	3.0
Incomes	-10,033	-12,205	21.6
Transfers	2,446	-64	-
Total	-14,370	-24,198	68.4
Capital account	7,899	7,036	-10.9
Financial balance			
Direct investment	2,603	948	-63.6
Portfolio investment	5,457	-28,826	-
Other investment	8,466	54,397	-
Total	16,526	26,519	60.5
Errors and omissions	-8,994	-3,833	-57.4
Change in assets of Bank of Spain	-1,061	-5,524	420.6

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.

Improvement in services balance insufficient to ease major drop in other headings of current account balance.

The increase in the cumulative current account deficit may be largely explained by the increase in the trade imbalance mainly because of the decrease in the transfers surplus and, to a lower degree, because of the increase in the imbalance in the incomes figure. The services balance partially compensated for the situation with 4.2% growth in the surplus as of November. Under this heading, the tourist balance grew by 3.8% boosted by an increase in revenues of the same magnitude. Payments for tourist services grew at a very similar rate, namely 3.6%.

Net world borrowing by Spain's economy three times higher than year before.

Capital account showed a surplus of 6.7 billion euros as of November, down 6.4% from the year before. Net world borrowing for non-financial operations, a figure obtained by adding the current account balance and the capital balance, rose to 13 billion euros as of November, nearly three times the figure recorded in the same period of 2002.

Spanish direct investment abroad down 31% while portfolio investment abroad doubles.

Financial account, excluding operations of the Bank of Spain, recorded net inflows of 28.5 billion euros as of November, practically double that for the same period the year before. Spanish direct investment recovered somewhat during the month although the cumulative drop was 31.3% compared with the same period in 2002. On the other hand, portfolio investment doubled. Direct foreign investment in Spain, in turn, showed some improvement but chalked up a cumulative decrease of 35.2% as of November. Finally, foreign portfolio investment was down by 8.4%, a figure well below Spanish portfolio investment abroad.

PUBLIC SECTOR

Notable increase in indirect taxes in 2003

Central government revenue up less than nominal growth of economy.

Central government non-financial revenue rose by 1.1% in 2003 to reach a figure of 109.7 billion euros. Nevertheless, in order to compare this figure with the results in 2002 we must add revenue attributed to the autonomous communities arising from the segments granted them related to income tax collections and the greater part of indirect taxes, including value added tax. Keeping this in mind, collections amounted to 143.8 billion euros with an increase of 4.6%, that is to say, around 2 points below nominal growth of the economy.

CENTRAL GOVERNMENT BUDGET IMPLEMENTATION December 2003

	Month		Cumulative for year	
	Million euros	% change over same month year before	Million euros	% change over same month year before
Non-financial revenue	8,540	-3.7	109,655	1.1
Non-financial revenue adjusted (*)				
Personal income tax	3,355	14.0	46,446	4.8
Corporate tax	2,682	-7.5	21,912	2.3
VAT	1,588	-7.3	40,569	9.9
Special taxes	1,350	0.8	16,853	4.6
Other	2,387	-9.3	18,002	-3.7
Total	11,362	-1.4	143,782	4.6
Non-financial spending	11,770	5.4	113,787	2.4
Treasury balance	-3,230	40.8	-4,132	57.3
Surplus (+) or deficit (-) (**)	-7,273	-20.4	-2,117	-38.1

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.

Indirect taxes in contrast up by 8.4%...

With regard to tax revenue, the increase in collections was mainly due to indirect taxes which amounted to 59.6 billion euros with an increase of 8.4% compared with 2002. Notable among those taxes was value added tax which grew by 9.9% in the year, with more activity in collections for domestic transactions than for imports at 10.7% as against 8.0% respectively. Special taxes, in turn, were up by 4.6% not including tax on certain means of transport which, in 2003, was considered to be revenue proper to the autonomous communities. Under special taxes, the tax on fuels, the main

source of collections, grew by 3.0% in contrast to the sharp increase in funds coming from taxes on insurance premiums and tobacco (12.2% and 7.4% respectively).

...more than twice direct taxes.

Revenues from direct taxes, in turn, together accounted for 70.1 billion euros with an increase of 3.7% over 2002. Income tax was the main source of revenues with growth of 4.8% which more than doubled both the increase and amount of revenues for corporate income tax totalling 21.9 billion euros. Apart from tax revenues, fees and public service charges brought 31.1% more to the public coffers while current transfers recorded an increase of 8.8%. On the contrary, revenue from government property was down by 41.8% and capital transfers dropped by 11.1%.

Central government spending on staff, goods and services and interest up by around 5%.

In addition, central government non-financial spending in Treasury terms was up by 2.4% in 2003 an increase of 113.8 billion euros. This figure does not include the balancing entry for revenue corresponding to the tax segments ceded to autonomous communities, which means that comparison with 2002 is of little significance. Under spending entirely related to central government what stands out is the growth of spending for staff, purchases of goods and services and interest, all of which rose by around 5%. Capital spending, in turn, was up by 7.2%.

Treasury deficit up 57% in 2003 while borrowing requirement goes up to 1% of GDP...

The central government Treasury deficit, that is to say, the difference between revenues and non-financial spending, amounted to 4.1 billion euros in 2003, up 57.3% from the year before. In addition, the borrowing requirement, specifically the funds needed to finance the deficit plus the change in financial assets, amounted to 7.5 billion euros, a figure equivalent to 1.0% of the estimated GDP for 2003 and 6.6% higher than that for the year before. Under the change in financial assets, among other headings are included property allocations to Gestor de Infraestructuras Ferroviarias for a total of 1.9 billion euros, a figure not included in the calculation of central government investment.

...but in terms of National Accounting, Social Security surplus more than compensates central government deficit in 2003.

In terms of National Accounting, the borrowing requirement in 2003 amounted to 2.1 billion euros, that is to say, 0.3% of the GDP. Nevertheless, the central government as a whole ended the year 2003 with a surplus of 4.8 billion euros, equivalent to 0.6% of the gross domestic product (GDP). The positive balance arose thanks to the surplus obtained through administration of Social Security (1.0% of the GDP) which in this way compensated for the deficit shown in the accounts of the central government and its attached autonomous bodies.

SAVINGS AND FINANCING

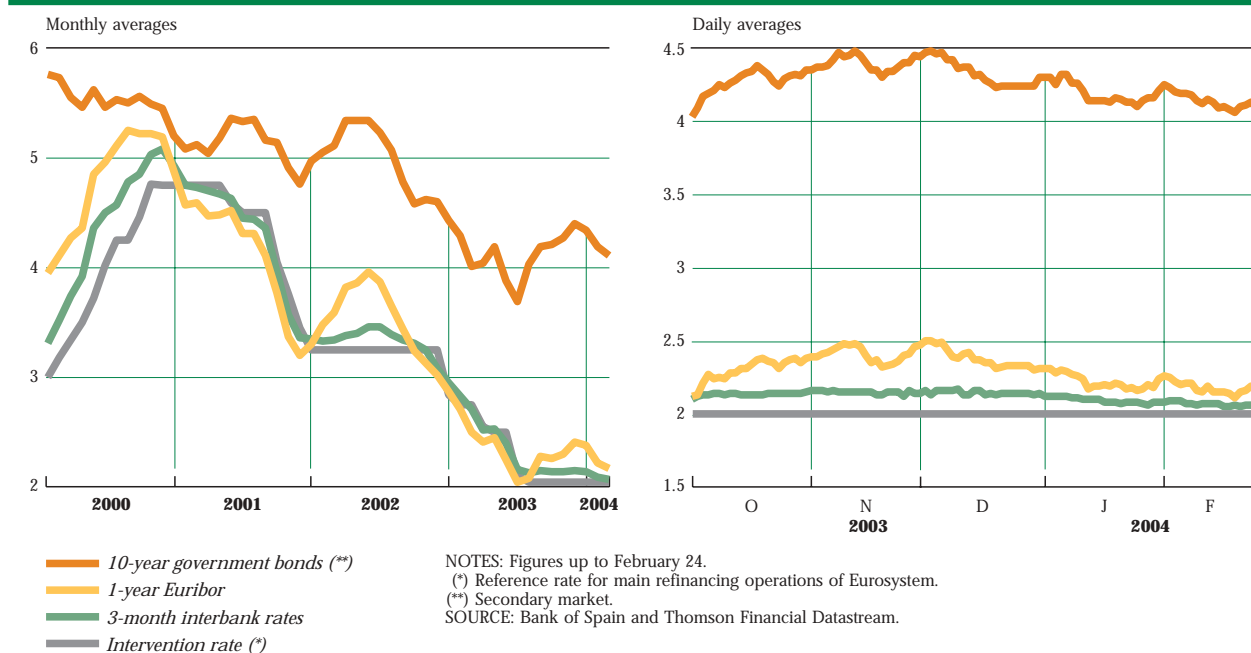
3-month interbank rate drops to new all-time low

Strength of euro and subsequent speculation about possible cut in European Central Bank official rate brings slight decreases in interest rates.

The European Central Bank official interest rate in February remained at the 2% figure set in June 2003. Nevertheless, in recent weeks, speculation about a possible further rate cut because of the strength of the euro, which marked up a new low against the dollar in mid-February, and the uneven recovery of the European economy meant that the 3-month interbank rate went to a new all-time low. As a result, real short-term interest rates, that is to say, subtracting the inflation rate from nominal interest rates, continued to be negative. Long-term interest rates also dropped slightly in the early weeks of February although they have remained in the 4%-4.5% fluctuation band seen in recent months.

SLIGHT DECREASES IN INTEREST RATES

Interest rates as annual percentage



**1-year Euribor drops
17 basis points in
January going down
to 2.22%.**

The yield on 3-month interbank deposits marked up a new all-time low of 2.05% on February 16, some 7 basis points less than at the end of 2003 and 60 basis points below 12 months earlier. With regard to the 1-year Euribor, this dropped by 17 basis points in January on monthly average to stand at 2.22%. It thus dropped 49 basis points compared with January 2003. In the early weeks of February 2004, the 1-year Euribor slid downwards to stand at 2.11% in the third week of the month although it later rose to 2.19% at the beginning of the last week in the month.

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)	Loans. Synthetic bank rate (6)	Deposits. Synthetic bank rate (6)
2003									
January	2.81	2.83	2.71	2.55	2.91	4.24	4.87	4.86	1.56
February	2.77	2.71	2.50	2.20	2.70	4.01	4.75	4.76	1.51
March	2.61	2.52	2.41	2.34	2.70	4.04	4.82	4.58	1.43
April	2.54	2.53	2.45	2.33	2.81	4.19	4.92	4.54	1.35
May	2.56	2.40	2.25	2.05	2.51	3.88	4.69	4.46	1.35
June	2.20	2.16	2.01	1.84	2.24	3.69	4.57	4.28	1.21
July	2.08	2.13	2.08	1.98	2.50	4.03	4.87	4.11	1.16
August	2.06	2.15	2.28	2.12	2.97	4.19	4.91	4.24	1.15
September	2.07	2.14	2.26	2.14	2.93	4.21	4.96	4.18	1.14
October	2.05	2.14	2.30	2.09	2.97	4.27	5.00	4.16	1.14
November	2.02	2.15	2.41	2.28	3.11	4.40	5.06	4.13	1.15
December (*)	2.01	2.14	2.38	2.35	3.04	4.34	5.00	4.09 (*)	1.16 (*)
2004									
January (*)	2.01	2.08	2.22	2.12	2.78	4.19	4.91	...	...
February (1)	2.00	2.05	2.19	1.95	2.61	4.09	4.90	...	...

NOTES: (*) Provisional figures.

(1) February 24 for intervention rate, interbank rate and government bonds.

(2) Marginal interest rate at main refinancing operations 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 operation. 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.

**Annual lows in
Treasury bills and 10-
year government
bonds in February.**

With regard to government debt instruments, the yield on 12-month Treasury bills in the secondary market reached an annual low on February 18 when it went to 1.99%, a decrease of 19 basis points compared with the end of December 2003. At the same time, the yield on 10-year government bonds recorded an annual low of 4.06% on February 18. As a result, the yield stood 3 basis points above 12 months earlier.

Very small increase in composite mortgage interest rate in January.

With regard to bank interest rates, the composite interest rate on mortgage loans of more than 3 years for non-subsidized home acquisition continued to increase slightly in January going to 3.48%. As a result, it stood 5 basis points above the all-time low in September 2003 but was 78 basis points below 12 months earlier.

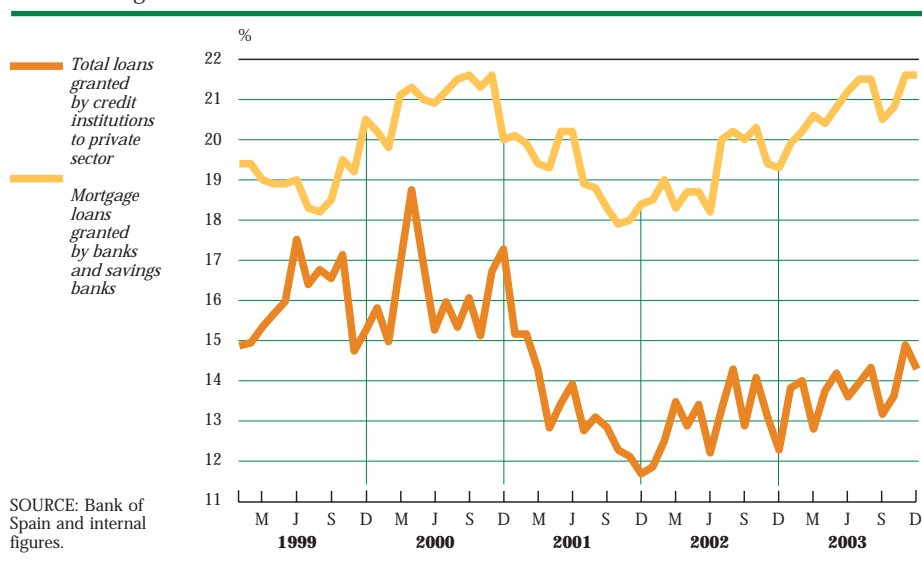
Credit to private sector up by 14% in 2003

Bank credit to private sector in 2003 up 2 points more than in 2002.

Bank credit to companies and households in December 2003 was up 14.3% compared with the same month the year before, 0.6 points less than in November but 2 points more than in 2002. Loans to companies and households continued to be boosted by the increase in incomes plus very low interest rates and has grown at more than double the rate in the euro area.

MAJOR GROWTH IN MORTGAGE LOANS IN 2003

Annual change rate



Total mortgage loans up 24% in 2003.

By type of loan, total mortgage loans by banks and savings banks showed an annual change rate of 21.6% in December, 2.2 points more than in 2002. The year-to-year change rate at credit institutions rose to 23.9% including securitizations, according to figures from the Spanish Mortgage Association. As a result, mortgage loan demand ended 2003 on a good footing. Commercial credit, used to finance working capital of companies, was up by 10.1%, some 6.6 points more than in 2003. In turn, leasing (related to financing investment) was up by a notable 13.8%, some 4.8 points more than in 2002.

Default rate at banks and savings banks ends 2003 slightly above all-time low.

Doubtful loans at credit institutions as a whole was down by 0.1% in 2003. The default rate ended last year at 0.96%, slightly above the November figure, the lowest in recent years. In turn, the corresponding default rate at banks and savings banks (excluding other credit institutions) ended 2003 at 0.79%, very little above the all-time low in November 2003.

LOANS TO COMPANIES AND HOUSEHOLDS

December 2003

	Total	Change this year		% share
	Million euros	Million euros	%	
Commercial credit	55,531	5,097	10.1	6.9
Loans against collateral (*)	442,126	78,164	21.5	55.1
Other term loans	250,899	12,706	5.3	31.3
On-demand loans	20,924	1,552	8.0	2.6
Leasing	25,070	3,037	13.8	3.1
Doubtful loans	7,663	-5	-0.1	1.0
TOTAL	802,213	100,550	14.3	100.0

NOTES: (*) Largest part with mortgage collateral.

SOURCE: Bank of Spain and internal figures.

Major growth of securitizations in 2003.

With regard to other types of corporate financing, net placements of commercial paper were -767 million euros in 2003. Net bond issues by non-financing companies totalled 826 millions. In the other hand, securitization funds showed great strength last year with net issues amounting to 30.8 billion euros, an increase of 77.0%. In addition, net capital increases involving outlay of funds carried out by non-financial companies amounted to 1.5 billion euros, a year-to-year drop of 22.4% in a somewhat cautious environment in the stock market.

Funds from abroad down.

In addition, in the January-November period in 2003 the private sector obtained financial resources from abroad for a net amount of 16.4 billion euros. This amount represented a decrease of 45.4% compared with the same period in 2002 due to lower direct investment.

Private sector bank deposits liven growth rate

Deposits of companies and households up 9% in 2003...

Total deposits of resident companies and households in euros and foreign currency rose by 8.7% in 2003 compared with the year before. This year-to-year rate was 1.1 points higher than that recorded at the end of 2002. In any case, the absolute increase in deposits in 2003 (50.3 billion euros) represented less than half the increase in credit granted by the resident banking system.

DEPOSITS OF COMPANIES AND HOUSEHOLDS AT CREDIT INSTITUTIONS
December 2003

	Total	Change this year		% share
	Million euros	Million euros	%	
On demand	168,904	14,271	9.2	26.8
Savings (*)	145,209	16,955	13.2	23.1
Up to 2-year term	156,211	2,729	1.8	24.8
More than 2-year term	77,377	17,328	28.9	12.3
Repos	77,801	-1,584	-2.0	12.4
Total	625,502	49,699	8.6	99.3
Deposits in non-euro currencies	4,151	615	17.4	0.7
TOTAL	629,653	50,314	8.7	100.0

NOTES: (*) Deposits redeemable at notice, according to ECB definition.
SOURCE: Bank of Spain and internal figures.

...while time deposits of more than 2 years up 29%.

By type of deposit, those for a period of more than 2 years showed the biggest increase at 28.9%. Savings accounts also recorded a notable increase of 13.2% compared with December 2002.

Assets of investment funds up 17% in last twelve months ending January.

The assets of investment funds rose by 3.8 billion euros going to 201.8 billion euros, a year-to-year increase of 17.4%, according to information supplied by Inverco, the sector organization. The increase was due both to net share purchases of 1.9 billion euros and substantial capital gains. Net acquisition of participations was concentrated in global funds which indicated that investors were looking for higher yields even at the expense of greater risk. As a result, there were shifts from the more conservative funds, such as money-market funds, bond-based funds and guaranteed funds toward share-based funds.

Mutual funds record annual yield of 5% in January.

The average weighted yield on mutual funds in the past 12 months ending January was 4.68%. All categories of mutual funds recorded annual gains. The most outstanding were share-based funds in emerging markets with a rise of 40.1% and national share-based funds with a yield of 34.0%. The lowest capital gains showed up in money market funds with a gain of 1.43%.

Pension funds record annual yield of 5% in 2003 and 7% in last 14 years.

Finally, total pension fund assets stood at 55.8 billion euros at the end of December 2003. This amount meant annual growth of 15.4%. The number of participant accounts rose by 12.7% to 7,361,972. Assets of the system covering individuals showed the biggest annual increase at 19.2% followed by the employee coverage system at 10.9% and the associate system at 10.2%. The annual average yield on pension funds in 2003 was 5.42% while over the last 14 years (a more appropriate period to calculate yield) it was 7.41%.

Slight decreases in Treasury bill yields

Total Treasury bills down in first two months.

At the auctions held on January 28, the marginal interest rates (the highest) on Treasury bills for 6-month, 1-year and 18-month periods were down slightly compared with previous auctions. At subsequent auctions on February 18, yields continued to decrease going to 1.94% for 6-month T-bills, 1.99% for 1-year and 2.14% for 18-month. Total Treasury bills amounted to 35.2 billion euros at the end of February, a drop of 3.5 million euros compared with the end of 2003.

SPANISH GOVERNMENT SECURITIES ISSUES

Date of issue	Tranche	Date of auction	Amount (million euros)			Yield (%)		
			Bids at auction	Allotment at auction	Total issued (*)	Marginal	Average	Nominal
TREASURY BILLS								
6-month								
30-1-04	5th	28-1-04	2.778,1	529,1	529,1	1,974	1,968	–
20-2-04	6th	18-2-04	2.405,7	500,0	500,0	1,935	1,927	–
1-year								
30-1-04	3rd	28-1-04	2.584,4	706,4	706,4	2,077	2,064	–
20-2-04	4th	18-2-04	2.755,4	685,2	685,2	1,990	1,952	–
18-month								
30-1-04	1st	28-1-04	1.834,2	1.363,7	1.363,7	2,267	2,258	–
20-2-04	2nd	18-2-04	2.220,8	620,8	620,8	2,135	2,128	–
MEDIUM AND LONG-TERM BONDS								
3-year bonds								
13-1-03	7th	5-2-04	2.613,1	978,1	1.174,9	2,457	2,446	3,20
10-year bonds								
24-2-04	28th	19-2-04	1.796,6	1.171,4	1.171,4	4,185	4,178	4,75
30-year bonds								
23-1-01	14th	19-2-04	1.093,7	618,7	618,7	4,902	4,892	5,75

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.

Yields on government bonds down in February.

At the auction of 3-year government bonds held on February 5, the Treasury raised the marginal yield by 5 basis points compared with the previous auction in October putting the rate at 2.46%. At the auctions for 10-year and 30-year government bonds held on February 19, marginal yields stood at 4.19% and 4.90%, a reduction of 22 and 15 basis points respectively, compared with the previous auctions in November.

Considerable increase in total government bonds.

The outstanding balance of medium and long-term government bonds amounted to 254.7 billion euros at the end of the third week in February. This amount meant an increase of 8.2 billion euros compared with the end of 2003.

SPECIAL REPORTS

Trends in employment and branch networks in banking sector

Trends in 2001-2002

Spanish banks continued to reduce employment in 2002 while savings banks and credit cooperatives showed increase.

On December 31, 2002, the Spanish banking system had 239,394 employees, 2,147 persons less than at the end of 2001. This negative trend arose entirely from the bank sub-sector which reduced its workforce by 4% during the year, equivalent to 4,801 fewer employees. On the other hand, savings banks created 1,806 net jobs while credit cooperatives also contributed to job creation with an increase of 848 employees.

Same trends apply to branch networks...

With regard to branch networks, the total number of branches held practically stable throughout 2002 with a net reduction of 27 branches. The trend in branch networks took on a similar form to that in bank employment in each of the banking sub-sectors. Banks reduced their branch presence across the country by 4.8% (719 branches), a reduction practically balanced by the growth in savings banks branches (507 branches) and those of credit cooperatives (185 branches). We should point out the slowdown in the rate of branch expansion in the case of savings banks whose branch networks in earlier years recorded higher growth rates.

TREND IN EMPLOYMENT AND BRANCH NETWORKS IN BANKING SECTOR
2001-2002. On December 31

	Employees				Branches				Employees per branch	
	2001	2002	Change	As %	2001	2002	Change	As %	2001	2002
Banks	119,277	114,476	-4,801	-4.0	14,928	14,209	-719	-4.8	8.0	8.1
Saving banks	106,684	108,490	1,806	1.7	19,842	20,349	507	2.6	5.4	5.3
Credit cooperatives	15,580	16,428	848	5.4	4,092	4,277	185	4.5	3.8	3.8
Total banking sector	241,541	239,394	-2,147	-0.9	38,862	38,835	-27	-0.1	6.2	6.2

SOURCE: AEB, CECA, Bank of Spain and internal figures.

...so that average number of employees per branch remains stable.

The trend in employment and branches in 2002 shows up as slight swings in the ratio between employees and branches. As a result, at the end of 2002 there was an average of 8.1 employees in each bank branch, with 5.3 employees per savings bank branch and 3.8 employees per credit cooperative branch, ratios similar or equal to those recorded in 2001. It should be kept in mind that calculation of these ratios includes those employed in head offices.

SCH and BBVA make up most of change in bank sector...

In addition, the following table shows the changes, also during the past year, in employment and branch networks for the main bank groups and savings bank groups in Spain, these being understood as parent entities and its subsidiaries in Spain. This table shows how the trend in the variables of the two large banking groups (SCH and BBVA) accounts for practically all the reduction for Spanish banks as a whole.

TREND IN LEADING SPANISH BANKING GROUPS

Branches and employees of parent entities and its subsidiaries in Spain 2001-2002. On December 31

	Employees			Branches		
	2001	2002	Difference	2001	2002	Difference
Santander Central Hispano	38,195	33,798	-4,397	4,732	4,212	-520
BBVA	31,916	31,877	-39	3,665	3,440	-225
Popular	11,966	12,125	159	2,123	2,144	21
Total of three banks	82,077	77,800	-4,277	10,520	9,796	-724
"la Caixa"	20,514	21,139	625	4,450	4,554	104
Caja Madrid	11,440	11,859	419	1,844	1,877	33
Caja de Cataluña	4,863	4,982	119	936	961	25
Total of three savings banks	36,817	37,980	1,163	7,230	7,392	162

NOTES: **Banks making up the Santander Central Hispano group in Spain at end of 2002:** Santander Central Hispano, Banesto, Santander Central Hispano Investment, Albacete, Patagon Bank, Banif, Santander Consumer Finance, Allfunds Bank, Vitoria Desarrollo Económico Español, Banesto Banco de Emisiones and Alicantino de Comercio. There were no significant changes in composition of the group in 2002.

Banks making up BBVA group in Spain at end of 2002: BBVA, Uno-e, BBVA Privanza, Depositario BBVA, Finanzia Banco de Crédito, Industrial de Bilbao, BBVA Banco Financiación, Occidental, Promoción de Negocios, Banco de Credito Local. There were no significant changes in composition of the group in 2002.

Banks making up the Popular group in Spain at end of 2002: Popular, Andalucía, Castilla, Crédito Balear, Galicia, Vasconia, Popular Hipotecario, Popular-e and Popular Banca Privada, the latter established in 2002.

With regard to savings banks, "la Caixa" group is made up of "la Caixa" and Banco de Europa, while Caja Madrid group includes Caja Madrid and Banco Altae.

SOURCE: AEB, CECA and internal figures.

...while change in savings banks is more widely distributed.

On the other hand, the total variation in the savings bank sector is not concentrated in such a reduced number of institutions. The three leading savings banks make up 64% of the increase in employment and 32% of the increase in branches, percentages which, while notable, indicate a more widely spread distribution of overall growth.

Retrospective analysis

Trend in employment and branches since 1975 broken down.

The following table shows the trend in employment and branch networks in the banking sector since 1975, broken down by sub-sector along with the trend in the ratio between the number of employees and branches. At the same time, a graph presents the trend of the two variables examined in banks and savings banks in order to simplify conclusions.

TREND IN NUMBER OF EMPLOYEES AND BRANCHES
1975-2002. On December 31

	Employees				Branches				Employees per branch		
	Banks	Savings banks	Credit cooperatives	TOTAL	Banks	Savings banks	Credit cooperatives	TOTAL	Banks	Savings banks	Credit cooperatives
1975	155,428	33,172	–	–	7,569	6,365	2,033	15,967	20.5	5.2	–
1976	165,229	36,999	–	–	9,093	6,818	2,137	18,048	18.2	5.4	–
1977	171,238	40,277	–	–	10,205	7,206	2,277	19,688	16.8	5.6	–
1978	175,774	42,403	–	–	11,095	7,512	2,398	21,005	15.8	5.6	–
1979	179,382	45,320	–	–	12,235	7,807	2,523	22,565	14.7	5.8	–
1980	180,274	49,040	9,731	239,045	13,223	8,198	2,668	24,089	13.6	6.0	3.6
1981	177,230	51,444	10,347	239,021	14,290	8,872	2,841	26,003	12.4	5.8	3.6
1982	175,757	57,304	10,866	243,927	15,374	9,574	3,048	27,996	11.4	6.0	3.6
1983	172,580	59,481	10,880	242,941	16,046	10,081	3,197	29,324	10.8	5.9	3.4
1984	168,888	61,168	10,896	240,952	16,399	10,477	3,315	30,191	10.3	5.8	3.3
1985	163,591	63,213	10,823	237,627	16,568	10,854	3,350	30,772	9.9	5.8	3.2
1986	159,342	65,196	10,225	234,763	16,471	11,306	3,382	31,159	9.7	5.8	3.0
1987	156,986	66,488	10,153	233,627	16,449	11,711	3,248	31,408	9.5	5.7	3.1
1988	156,484	70,590	9,674	236,748	16,651	12,308	3,029	31,988	9.4	5.7	3.2
1989	157,056	74,960	9,592	241,608	16,623	13,158	2,890	32,671	9.4	5.7	3.3
1990	158,160	76,878	9,968	245,006	16,835	13,685	2,919	33,439	9.4	5.6	3.4
1991	165,939	78,902	10,643	255,484	17,923	13,944	3,018	34,885	9.3	5.7	3.5
1992	158,570	82,997	11,016	252,583	18,154	14,123	3,080	35,357	8.7	5.9	3.6
1993	153,638	83,349	11,225	248,212	17,713	14,264	3,072	35,049	8.7	5.8	3.7
1994	150,624	84,552	11,195	246,371	17,405	14,595	3,107	35,107	8.7	5.8	3.6
1995	147,452	84,866	11,626	243,944	17,841	15,010	3,195	36,046	8.3	5.7	3.6
1996	141,640	88,081	12,024	241,745	17,657	15,874	3,311	36,842	8.0	5.5	3.6
1997	138,386	90,853	12,804	242,043	17,727	16,647	3,468	37,842	7.8	5.5	3.7
1998	133,899	94,846	13,292	242,037	17,593	17,598	3,607	38,798	7.6	5.4	3.7
1999	128,204	98,372	13,855	240,431	16,948	18,350	3,744	39,042	7.6	5.4	3.7
2000	122,861	102,989	14,495	240,345	16,027	19,297	3,888	39,212	7.7	5.3	3.7
2001	119,277	106,684	15,580	241,541	14,928	19,842	4,092	38,862	8.0	5.4	3.8
2002	114,476	108,490	16,428	239,394	14,209	20,349	4,277	38,835	8.1	5.3	3.8

NOTES: Since 1991, figures for Caja Postal and Official Credit Institutions are included under banks with a total of 680 branches and 6,838 employees (in 1991). Prior to that date these were not included in any of the series.

SOURCE: AEB, CECA, Bank of Spain and internal figures.

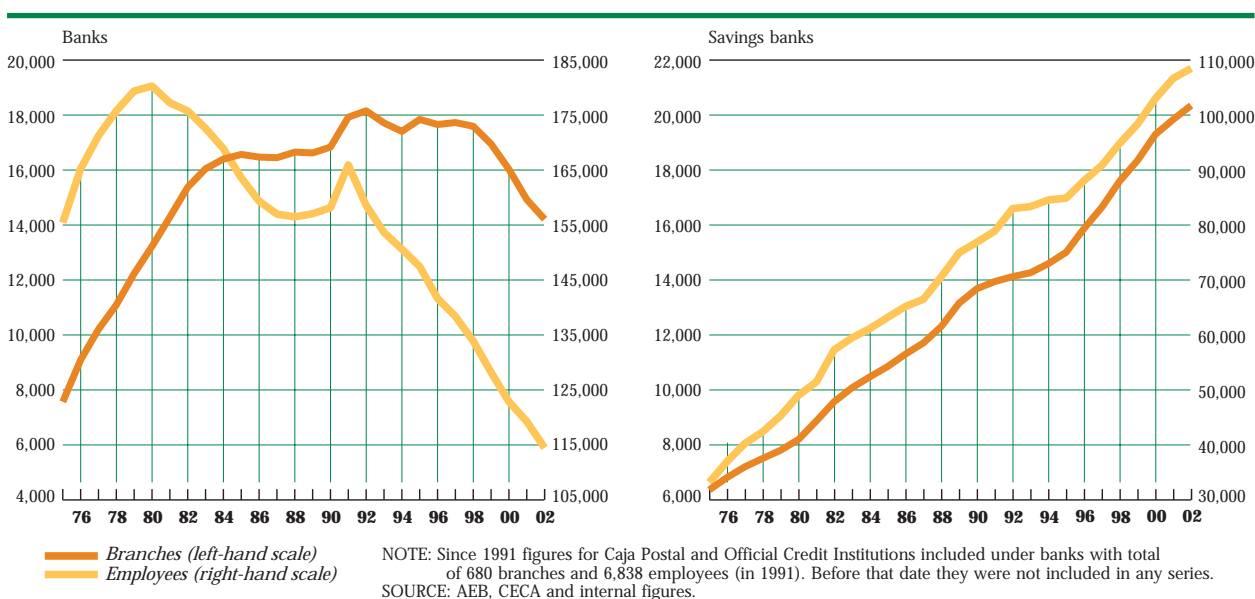
Savings banks have more than tripled employment and branch networks since 1975...

In this period, with regard to the first of the variables mentioned, employment in banks was down by 40,952 persons (26.3%), while savings banks employment rose by 75,318 persons, which meant more than tripling the workforce existing in 1975. Employment in credit cooperatives, in turn, has grown by nearly 70% since 1980 (6,697 persons). The respective trends also show notable differences and, because of their greater size within the Spanish banking system as a whole, from this point on this analysis will be concentrated on banks and savings banks.

...growth which has been gradual due to progressive liberalization of expansion possibilities.

In the case of savings banks, as is clearly shown in the accompanying graph, both variables show growth in lineal progression and in a parallel way, to the point where both the number of employees and branches multiplied by around 3.2 in the period between 1975 and 2002. Furthermore, the ratio measuring the average number of employees per branch was practically the same at the beginning and the end of the period (5.2 and 5.3 respectively), without there being any major swings during those years. The fact that legislation on geographical expansion of savings banks was liberalized progressively, undoubtedly contributed to the fact that the process of branch openings in the savings bank sector also showed gradual development. In this respect, it should be remembered that the expansion of savings banks was liberalized in 1975 within the area of their province of origin, an area which was extended to cover their autonomous community in 1979 while total freedom of expansion was not obtained until the beginning of 1989.

COMPARATIVE TREND IN NUMBER OF BRANCHES AND EMPLOYEES
1975-2002. On December 31



Spanish banks begin to reduce employment in 1980.

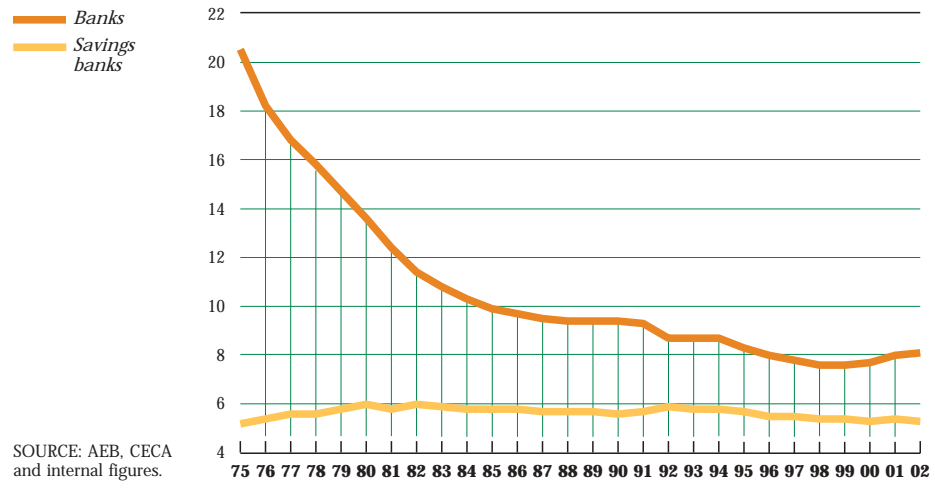
On the other hand, the statistical series for banks reveals a different performance. With regard to employment, the previous graph shows four distinct stages with growth and reduction of workforce. Between 1975 and 1980, there was an increase of 24,846 employees with the highest figure for employment being reached in 1980 (180,274 employees). As of 1980 the process of reduction of employment began and by 1988 there was a reduction of 23,790 employees. This period largely coincides with the bank crises in the Eighties which meant major restructuring of the sector. The downward trend was briefly interrupted in the final years of the Eighties when a slight growth in employment was recorded (increase of 1,676 employees between 1988 and 1990). As of 1991, coinciding with the beginning of the process of contraction of financial margins, employment in

banks showed a sharp decrease so that between 1991 and 2002 total staff of Spanish banks dropped by 51,463 employees. We should point out that the statistical series for banks shows a break in 1991 given that, as of that year, they include figures for Caja Postal and former Official Credit Institutions.

Geographical expansion of banks concentrated in 1975-1983.

With regard to the trend in bank branch networks, the graph reflects very sharp growth between 1975 and 1983, a period when banks opened a total of 8,477 branches. A reason for this rapid expansion may be attributed to the fact that the opening of bank branches was liberalized in 1974 to cover the entire country, something of which the banks immediately took advantage in a decided way. Later on, growth slowed down with alternate changes up and down in the years between 1984 and 1997. As of 1997, the downward trend became consolidated with the number of branches at the end of 2002 coming close to levels in 1981.

TREND IN NUMBER OF EMPLOYEES PER BRANCH
1975-2002. On December 31



Savings banks combine geographical expansion with technological innovation.

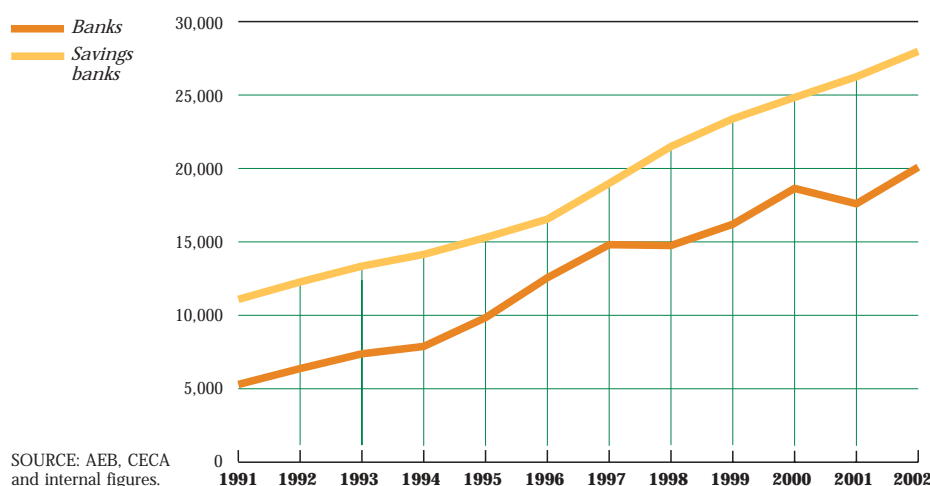
The different pattern of branch network expansion implemented by banks and savings banks which, as already mentioned, was connected to the different development of legislation in this matter, holds basic strategic implications. The geographical expansion of banks, which took place earlier, occurred before the widespread introduction of the new technology which reduced the load of administrative work at bank branches. On the contrary, the savings banks combined geographical expansion with technological innovation so that, as we have seen, this growth could be carried out with much smaller workforces. As a result, at the beginning of the Nineties, the restructuring needs of banks were greater than that in the case of the savings banks. This is also brought out by the trend in the indicator which measures the number of employees per branch in the bank sub-sector which went from an average of 20.5 employees per branch in 1975 to 8.1 at the end of 2002, this being

substantially higher than the average currently recorded for savings banks (5.3 employees per branch).

Savings banks also ahead in development of self-service network.

The comparative trend in the number of automatic teller machines for banks and savings banks, shown in the following graph, confirms the same direction. The savings banks were ahead in the development of self-service systems which made it possible to reduce the administrative workload at branches. Even now, the total number of automatic teller machines operated by the savings banks (27,975 units on December 31, 2002) is substantially higher than that of the banks (20,089 units).

TREND IN AUTOMATIC TELLER MACHINES



Bank mergers in Nineties promote restructuring of sector

At beginning of Nineties, banks had to tackle restructuring process.

As mentioned above, at the beginning of the Nineties there was a clear need to carry out restructuring of Spanish banks. The wave of mergers, which has transformed the sector since the end of the Eighties, was partly due to this need and, while at the same time, was the detonator for the structural adjustment carried out by the merged institutions which, among other matters, brought about a notable reduction in staff and branch networks.

Mergers between larger banks set off substantial adjustments...

In this respect, as shown in the following table, the two leading Spanish bank groups, Santander Central Hispano and BBVA, have reduced employment in Spain by 45,987 persons since 1991 and cut down their branch networks by 4,789 offices. This calculation is made on the basis of all the head offices and subsidiaries of Spanish banks making up each of the merged groups on each date. In addition, 1991 is taken as a reference because it was the year in which figures for Caja Postal and the Official Credit Institutions, which became part of Argentaria, were incorporated in the statistical series.

TREND IN MAIN SPANISH BANK GROUPS

Branches and employees of parent entities and its bank subsidiaries in Spain
1991-2002. On December 31

Employees	1991	2002	Change	Of which: from sale of subsidiaries (*)
Santander Central Hispano	67,380	33,798	-33,582	-6,424
BBVA	44,282	31,877	-12,405	-507
Santander Central Hispano + BBVA	111,662	65,675	-45,987	-6,931
Total banks	165,939	114,476	-51,463	
Branches	1991	2002	Change	Of which: from sale of subsidiaries (*)
Santander Central Hispano	8,422	4,212	-4,210	-1,150
BBVA	4,019	3,440	-579	-74
Santander Central Hispano + BBVA	12,441	7,652	-4,789	-1,224
Total banks	17,923	14,209	-3,714	

NOTE: (*) Subsidiaries sold: Grupo Santander Central Hispano: Banco de Murcia, Banco de Jerez, Banco Gallego, Banco de Granada, Banco de Valencia, Banco de Madrid and Banco de Fomento branch network. BBVA: Banco Industrial del Mediterráneo and Banco Simeón. Of the total, 2,791 employees and 444 branches correspond to bank subsidiaries sold to savings banks.
SOURCE: AEB and internal figures.

...which accounts for practically all cuts carried out by banks as a whole.

The table also shows cuts carried out by banks as a whole and emphasizes the fact that these were almost entirely due to adjustments made in the leading two groups. As a result, the reduction in employment in the leading two groups accounts for 81% of the total decrease recorded by banks as a whole and 108% of the reduction in branches. In the calculation of these percentages, the number of employees and branches belonging to subsidiaries sold to other banks have been discounted, given that they remained within the sector.

Santander Central Hispano group has reduced staff to half since 1991.

Of particular note is the staff adjustment carried out by the Santander Central Hispano group which, in little more than a decade, has reduced its workforce and branch network in Spain by half. It should be noted that this group includes four of those previously known as the «big seven banks» (Banco Santander, Banco Central, Banco Hispanoamericano and Banesto).

Staff restructuring plans financed as a charge to non-restricted reserves.

In addition, it should be pointed out that up to now restructuring of staff has been carried out through early retirement programmes financed as a charge to non-restricted reserves. The Santander Central Hispano and BBVA groups have widely used this formula to finance their various restructuring plans, with charges to reserves amounting to 3,556 million euros and 2,406 million euros respectively in the period 1993-2002. Adjustments carried out by both groups in 2002 involved a net charge of 1,181 million euros to reserves.

Savings banks expand outside traditional regions

From end of Eighties regional expansion of savings banks has taken them beyond autonomous communities of origin.

With regard to the savings bank sector, the expansion policy developed by these institutions in the past decade was directly related to the decree issued at the end of 1988 which removed those restrictions on the opening of branches which still existed. The process of expansion thus arose from a policy of growth and geographical diversification. At the end of 1988, less than 6% of the total number of saving banks branches were located outside their autonomous communities of origin. At the end of 1991 this percentage had nearly doubled to 11.3%. By December 2002 there were 5,993 savings banks branches in the new expansion areas which was equivalent to 30% of the total branch network.

BREAKDOWN OF SAVINGS BANKS BY PERCENTAGE
OF BRANCHES IN EXPANSION AREA
On December 31, 2002

% of branches outside region of origin	Number of savings banks	As %	% of customer funds handled
Less than 5%	21	45.7	18.5
Between 5% and 15%	10	21.7	14.0
Between 15% and 30%	7	15.2	16.8
Between 30% and 50%	7	15.2	31.9
Over 50%	1	2.2	18.8
Total savings banks	46	100.0	100.0

SOURCE: CECA and internal figures.

Process undertaken by larger savings banks.

In any case, as shown in the accompanying table, this process was undertaken by the larger savings banks. Only eight institutions out of the 46 making up the sector have more than 30% of their branch network outside their respective autonomous communities of origin. Nevertheless, those 8 institutions make up more than 50% of customer funds in the sector. On the other hand, 21 savings banks have practically all their business concentrated in their respective regions of origin.

Leading three savings banks account for 53% of sector expansion since 1991.

In fact, since the end of 1991 the leading three savings banks have increased their branch networks by 3,377 offices which is equivalent to 52.7% of total growth. The leading institution, "la Caixa", was responsible for 35.2% of all expansion. The percentages are very similar if we look at the variable of employees. The total workforce of the three leading savings banks rose by 16,106 employees, a figure which represents 54.4% of the total increase in the sector, with "la Caixa" responsible for 35.8% of the overall change.

LEADING SAVINGS BANKS: TREND IN STAFF AND BRANCHES
1991-2002. Individual institutions. On December 31

	Employees			Branches		
	1991	2002	Difference	1991	2002	Difference
"la Caixa"	10,526	21,124	10,598	2,296	4,553	2,257
Caja Madrid	7,944	11,792	3,848	1,071	1,874	803
Caja de Cataluña	3,322	4,982	1,660	644	961	317
Total 3 savings banks	21,792	37,898	16,106	4,011	7,388	3,377
Total savings banks	78,902	108,490	29,588	13,944	20,349	6,405

SOURCE: CECA and internal figures.

Impact on profit and loss accounts

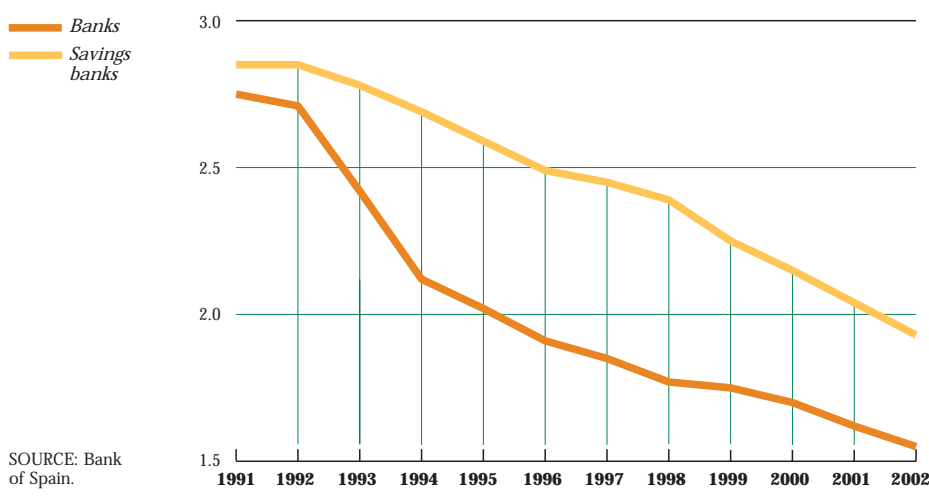
Having examined the various strategies of the banks and savings banks with regard to workforce and branch networks, it is interesting to note the impact of those strategies on their respective profit and loss accounts.

Banks and savings banks have reduced relative importance of operating costs since 1991.

In this respect, the following graph shows the trend in operating costs of banks and savings banks expressed as a percentage of total average assets in the period 1991-2002. In both cases, we note a loss of relative importance of operating costs in the profit and loss account, rather more noticeable in the case of banks for which the ratio went down from 2.75% to 1.55%. In the same period, in the case of savings banks, this indicator went from 2.85% to 1.93%. It should be pointed out that savings banks operating costs reflect the effect of expansion although these costs drop as a result of the increase in business that brought about.

TREND IN OPERATING COSTS

As % of average total assets



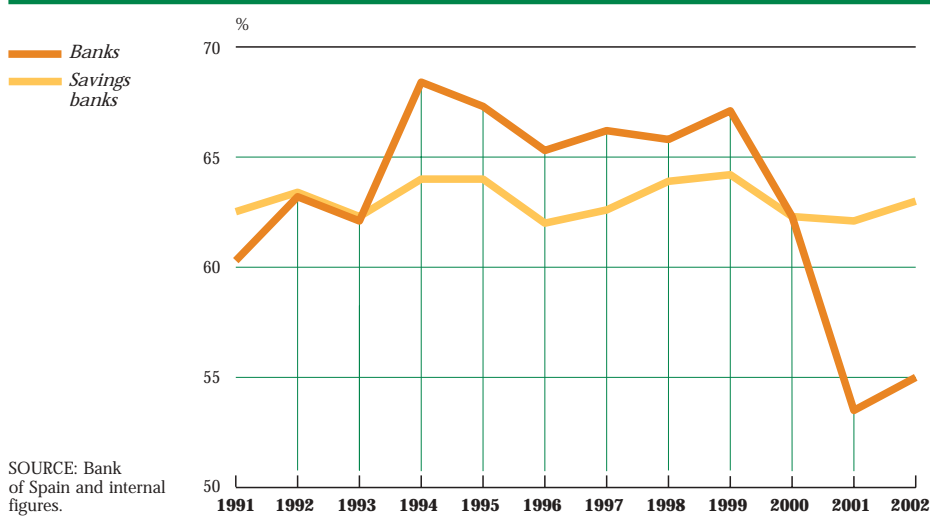
With regard to efficiency ratio...

...trend more positive for banks than for savings banks.

On the other hand, the next graph shows the trend in the efficiency ratio which measures that part of net ordinary income absorbed by operating costs, with efficiency being greater when the ratio is lower.

In the past decade, Spanish banks have recorded notable fluctuations in their efficiency ratios. Between 1994 and 1999 efficiency obtained by banks was lower than that of savings banks although since the year 2000 the ratio has shown a clear trend to improvement even taking into account that the figure for 2001 is biased because of extraordinary dividends brought into account by the large banks that financial year. In the year 2002, the efficiency ratio of banks stood at 55% after having improved by more than 10 percentage points compared with levels reached in the middle of the Nineties. With regard to the savings bank sector, the efficiency ratio is showing stagnant with a swing between 64% and 62% throughout the period under discussion. As a result, the expansion process carried out by savings banks in this period did not adversely affect the efficiency of those institutions although it is also true that today, looked at in overall terms, they show a level of efficiency lower than in the case of the banks.

TREND IN EFFICIENCY RATIO



Bank employment and branches in European Union

Bank employment in European Union down by 3.5% in past decade.

In the European Union as a whole, employment in the banking sector went from 2,716,087 employees at the end of 1992 to 2,620,848 at the end of 2002. This meant an overall decrease of 95,239 jobs (3.5%), of which 31,501 were reductions taking place in the last year.

TREND IN EUROPEAN UNION EMPLOYEES

	1992	2001	2002	Change 2002-2001		Change 2002-1992	
				Absolute	As %	Absolute	As %
Germany	711,800	718,450	700,500	-17,950	-2.5	-11,300	-1.6
Austria	70,000	65,027	64,192	-835	-1.3	-5,808	-8.3
Belgium	77,243	75,843	74,896	-947	-1.2	-2,347	-3.0
Denmark	52,161	43,499	42,634	-865	-2.0	-9,527	-18.3
Spain	252,583	241,541	239,394	-2,147	-0.9	-13,189	-5.2
Finland	42,225	24,773	24,440	-333	-1.3	-17,785	-42.1
France	390,762	391,351	394,465	3,114	0.8	3,703	0.9
Greece	49,960 (*)	59,636	60,338	702	1.2	10,378	20.8
Ireland	21,500	36,100	36,800	700	1.9	15,300	71.2
Italy	352,985	342,279	340,541	-1,738	-0.5	-12,444	-3.5
Luxembourg	16,143	23,894	23,300	-594	-2.5	7,157	44.3
Netherlands	119,900	160,000	154,000	-6,000	-3.8	34,100	28.4
Portugal	60,772	55,375	53,623	-1,752	-3.2	-7,149	-11.8
United Kingdom	453,837	372,250	n.a.	-	-	-81,587	-18.0 (**)
Sweden	44,216	42,331	39,475	-2,856	-6.7	-4,741	-10.7
EU-15	2,716,087	2,652,349	2,620,848 (**)	-31,501	-1.2	-95,239	-3.5

BRANCHES

	1992	2001	2002	Change 2002-2001		Change 2002-1992	
				Absolute	As %	Absolute	As %
Germany	49,166	39,904	37,582	-2,322	-5.8	-11,584	-23.6
Austria	4,667	4,546	4,471	-75	-1.6	-196	-4.2
Belgium	8,052	6,168	5,550	-618	-10.0	-2,502	-31.1
Denmark	2,467	2,099	2,067	-32	-1.5	-400	-16.2
Spain	35,357	38,862	38,835	-27	-0.1	3,478	9.8
Finland	2,817	1,580	1,572	-8	-0.5	-1,245	-44.2
France	25,479	26,049	26,162	113	0.4	683	2.7
Greece	2,280 (*)	3,101	3,288	187	6.0	1,008	44.2
Ireland	927	896	902	6	0.7	-25	-2.7
Italy	20,909	29,270	29,926	656	2.2	9,017	43.1
Luxembourg	303	368	299	-69	-18.8	-4	-1.3
Netherlands	7,518	5,400	4,600	-800	-14.8	-2,918	-38.8
Portugal	3,303	5,167	5,140	-27	-0.5	1,837	55.6
United Kingdom	18,550	14,050	13,886	-164	-1.2	-4,664	-25.1
Sweden	2,910	2,090	1,952	-138	-6.6	-958	-32.9
EU-15	184,705	179,550	176,232	-3,318	-1.8	-8,473	-4.6

NOTES: (*) Figures for 1993.

(**) For those countries where information not available figure for previous year used.

(***) Comparison made with 2001.

SOURCE: "la Caixa" Research Department.

AUTOMATIC TELLER MACHINES

	1995	2001	2002	Change 2002-2001		Change 2002-1995	
				Absolute	As %	Absolute	As %
Germany	35,700	49,620	50,487	867	1.7	14,787	41.4
Austria	1,993	2,630	2,764	134	5.1	771	38.7
Belgium	3,591	6,782	6,942	160	2.4	3,351	93.3
Denmark	2,033	2,763	2,822	59	2.1	789	38.8
Spain	26,552	47,191	51,828	4,637	9.8	25,276	95.2
Finland	2,421	2,132	2,110	-22	-1.0	-311	-12.8
France	22,852	36,912	38,975	2,063	5.6	16,123	70.6
Greece	1,350	4,389	4,961	572	13.0	3,611	267.5
Ireland	853	1,355	1,417	62	4.6	564	66.1
Italy	21,887	34,349	37,355	3,006	8.8	15,468	70.7
Luxembourg	187	355	n.a.	-	-	168	89.8 (**)
Netherlands	5,489	6,750	7,530	780	11.6	2,041	37.2
Portugal	3,744	8,482	9,032	550	6.5	5,288	141.2
United Kingdom	20,900	36,666	n.a.	-	-	15,766	75.4 (**)
Sweden	2,359	2,567	2,647	80	3.1	288	12.2
EU-15	151,911	242,943	255,891 (*)	12,948	5.3	103,980	68.4

NOTES: (*) For those countries where information not available figure for previous year used.

(**) Comparison made with 2001.

SOURCE: "la Caixa" Research Department.

Banking sectors in ten EU countries make up total loss of 165,877 jobs since 1992...

By country, there has been a predominant trend to reduce staff. Ten out of fifteen banking systems in the European Union have reduced staff to show a cumulative loss of 165,877 jobs in the past decade. The biggest cut in absolute terms (nearly 81,600 employees) took place in the United Kingdom, a country with greater labour market flexibility than Continental Europe. At the same time, bank employment in Finland dropped by 42.1% in those ten years, equivalent to 17,785 jobs. This reduction reflects the profound restructuring taking place in the banking sector as a result of the crisis occurring in the first half of the Nineties. With regard to Germany, although its banking sector recorded a moderate decrease of 11,300 bank employees over the past decade, it should be pointed out that in just the past year it lost 17,950 jobs (2.5%), two thirds of which were in the private banks.

...while others create 70,638 jobs.

On the other hand, the banking sectors in five EU countries (Netherlands, Ireland, Greece, Luxembourg and France) recorded job increases with overall growth of 70,638 employees.

Bank branches in EU down by 8,473 in same period.

With regard to branch networks, the number of bank branches in the European Union has dropped from 184,705 to 176,232 in the past ten years, an absolute decrease of 8,473 branches, of which 3,318 were included in the change taking place last year. Once more, most European banking sectors showed significant reductions, the most notable being the cuts in Germany (-11,584 branches) and the United Kingdom (-4,664 branches) where in both cases reductions have been progressive all through the period.

Italy, Spain, Portugal and Greece show notable increases in branch networks.

We should point out that there are four countries with substantial growth in branch networks either at the absolute or relative level. Those countries are Italy, Spain, Portugal and Greece. The case of Spain has already been fully discussed. With regard to Italy, the late liberalization of freedom of geographical expansion which did not take place until 1990 would explain the growth of 9,017 branches since 1992. In the case of the Portuguese and Greek banking systems, their recent modernization and development accounts for the increase in their branch networks.

Major increase in automatic teller machine networks right across EU...

Finally, a third table shows how the general trend to a reduction in operating factors (employees and branches) in the past ten years, in practically all banking systems in the EU, has been accompanied by a notable increase in automatic teller machine networks which showed an overall increase of 151,911 to 255,891 units installed, an increase of 68.4%.

...which have become alternative means of customer access.

This increase is an example of the process of automation characterizing the recent trends in European banking systems as well as the development of alternative channels of access to the customer.

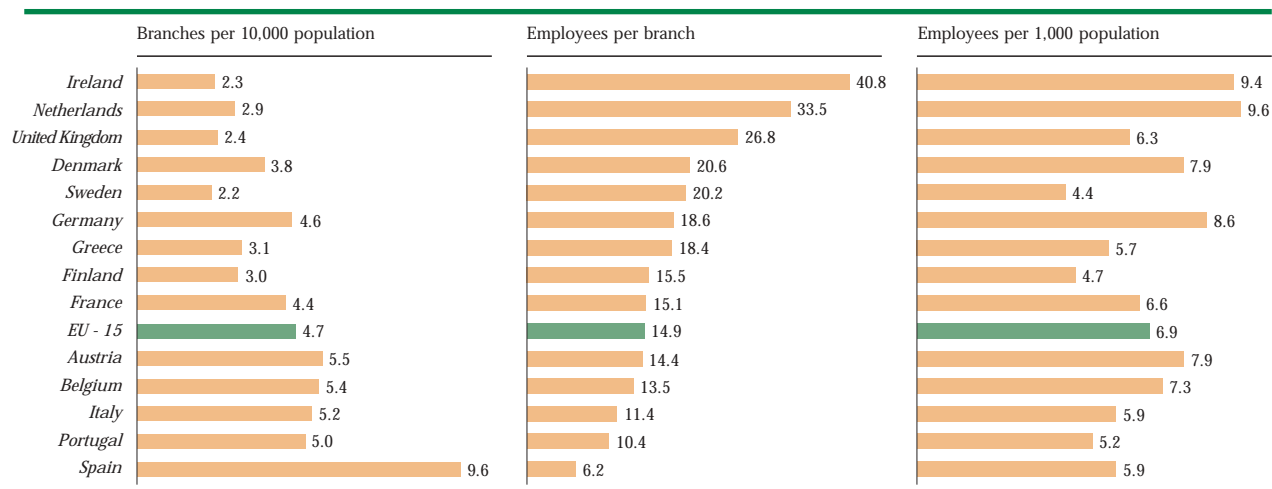
Bank service ratios show relationship between number of bank branches and employees and total population.

In addition, the final graph shows the main banking service ratios for the various countries of the European Union. These ratios show the relationship between the number of branches and employees and the total population (and thus serve as indicators of banking service density) and also show the average size of each bank branch. It does not give the individual figure for Luxembourg in view of the special characteristics of that banking system as an international financial centre although it has been taken into account in drawing up overall ratios for the European Union.

Banking systems of United Kingdom and Spain exemplify two quite distinct structures of banking service.

The graph clearly shows two different models of banking structures when it comes to the development of operating factors. On the one hand, there are various banking systems with very low branch density of less than 3 branches per 10,000 population. This is the situation in the banking systems of Sweden, Ireland, United Kingdom and the Netherlands, whose branches are characterized as being larger in terms of average staff (more than 20 employees per branch). At the other end of the scale we find Spain with 9.6 branches per 10,000 population although working in each branch is an average of only 6.2 employees. Although some distance behind, Portugal and Italy would be closest to the Spanish model. As a result of this contrast, the relation between bank employees and total population is much more even among the various countries which makes it more difficult to state that some countries have more banking service than others.

EUROPEAN UNION: MAIN RATIOS OF BANKING SERVICE
On December 31, 2002 (*)



NOTES: (*) Except figure for employees in case of United Kingdom (2001).
SOURCE: "la Caixa" Research Department.

Spain's economy gains new strength in 2003

Spanish economy increases growth rate in 2003...

Spain's economy showed a positive overall balance in 2003. The year ended with average growth of the gross domestic product (GDP) of 2.4% as against 2.0% recorded in 2002. Private consumption and construction were the real engines of growth making a contribution of 1.8 and 0.5 percentage points respectively to GDP growth. In addition, growth of the Spanish economy was nearly one point higher than that in the euro area and came out as one of the most dynamic in the group of industrialized countries. The drop in inflation rate to 2.6% at year-end and the renewed strength in the labour market were other notable aspects of the yearly balance while, on the other hand, the increase in the foreign deficit stands out as one of the more negative features.

GROSS DOMESTIC PRODUCT BY SPENDING COMPONENTS

Percentage annual change at constant prices

	Gross domestic product	Household consumption	Public consumption	Fixed capital investment	Exports goods and services	Imports goods and services	Gross value added				
							Agriculture and fishing	Energy	Industry	Construction	Services
1989	4.8	5.4	8.3	12.0	1.4	17.7	-4.7	0.4	4.5	12.8	4.8
1990	3.8	3.4	6.3	6.5	4.7	9.6	5.4	-0.2	2.7	8.1	3.8
1991	2.5	2.8	6.0	1.7	8.2	10.3	3.7	2.3	1.9	2.1	3.0
1992	0.9	2.1	3.5	-4.1	7.5	6.8	1.0	-0.5	-0.3	-6.1	2.2
1993	-1.0	-2.0	2.7	-8.9	7.8	-5.2	2.8	-1.8	-3.9	-6.7	0.6
1994	2.4	0.9	0.5	1.9	16.7	11.4	-4.7	2.7	1.7	1.1	3.2
1995	2.8	1.7	2.4	7.7	9.4	11.1	-6.1	1.8	3.8	6.2	2.9
1996	2.4	2.2	1.3	2.1	10.4	8.0	17.6	4.9	1.4	-1.4	1.8
1997	4.0	3.2	2.9	5.0	15.3	13.2	2.6	3.4	5.8	2.2	3.5
1998	4.3	4.4	3.7	10.0	8.2	13.2	-0.6	1.4	5.4	7.2	3.8
1999	4.2	4.7	4.2	8.8	7.7	12.6	-5.1	2.4	4.2	8.5	4.1
2000	4.2	4.0	5.1	5.7	10.0	10.6	1.8	4.4	3.8	6.0	4.1
2001	2.8	2.9	3.6	3.3	3.6	4.0	-3.3	4.3	1.9	5.5	3.3
2002	2.0	2.6	4.4	1.0	0.0	1.8	1.0	0.3	0.7	4.8	2.2
2003	2.4	3.0	4.6	3.0	4.0	6.7	0.7	1.4	1.3	3.6	2.1

SOURCE: National Institute of Statistics and internal figures.

...mainly thanks to contribution of private consumption...

Private consumption rose by 3.0% annual on average, some 0.4 percentage points more than in 2002, showing a relatively stable growth profile for most of the year. The increase in household financial wealth due to the recovery of the stock markets, the increase in employment, the increase in purchasing power because of the drop in inflation rate, the continued low interest rates and cuts in personal income tax were some of the factors aiding the expansionist performance in that component. In any case, consumer confidence showed a modest improvement ending the year at -12 points compared with -16 recorded in December 2002, which probably contributed to easing of the rate of increase in consumption which, in other circumstances, might have been even stronger.

...and drive in construction.

Along with the drive in construction we should also mention the recovery in capital goods investment which was up 2.2% for the year as a whole leaving behind the contractile trend shown in 2002 although it lost some strength in the second half-year. Public consumption also showed an expansionist trend with average growth of 4.6%, thus adding 0.8 points to overall growth of the GDP. Finally, the strength of imports and the containment in the growth of exports (especially under the heading of services) meant that the foreign sector took off 1.0 points from GDP growth, four decimals more than in 2002.

LABOUR MARKET

	Employment (*)			Unemployment						
				Estimated (**)				Registered (***)		
	Total (thousands)	Annual change		Total (thousands)	Annual change		Unemployment rate (%)	Total (thousands)	Annual change	
		Thousands	%		Thousands	%			Thousands	%
1989	12,638.2	434.6	3.6	2,632.5	-274.0	-9.4	17.2	2,426.6	-341.9	-12.3
1990	12,954.9	316.7	2.5	2,510.5	-122.0	-4.6	16.2	2,351.2	-75.4	-3.1
1991	13,057.1	102.1	0.8	2,545.2	34.7	1.4	16.3	2,329.3	-21.9	-0.9
1992	12,822.3	-234.7	-1.8	2,883.4	338.2	13.3	18.4	2,360.4	31.1	1.3
1993	12,293.8	-528.5	-4.1	3,598.8	715.4	24.8	22.6	2,705.8	345.4	14.6
1994	12,207.7	-86.1	-0.7	3,880.1	281.3	7.8	24.1	2,556.8	-149.0	-5.5
1995	12,512.0	304.4	2.5	3,715.6	-164.5	-4.2	22.9	2,377.0	-179.9	-7.0
1996	12,835.0	323.0	2.6	3,657.3	-58.3	-1.6	22.2	2,216.1	-160.9	-6.8
1997	13,259.5	424.5	3.3	3,471.9	-185.4	-5.1	20.8	2,075.7	-140.4	-6.3
1998	13,807.6	548.1	4.1	3,177.3	-294.6	-8.5	18.7	1,785.7	-290.0	-14.0
1999	14,568.1	760.5	5.5	2,722.4	-454.9	-14.3	15.7	1,613.8	-171.9	-9.6
2000	15,369.7	801.6	5.5	2,486.9	-235.5	-8.7	13.9	1,556.4	-57.4	-3.6
2001	15,945.6	575.9	3.7	1,869.0	-	-	10.5	1,574.8	18.5	1.2
2002	16,257.6	312.1	2.0	2,082.9	213.9	11.4	11.4	1,688.1	113.2	7.2
2003	16,694.6	437.0	2.7	2,127.4	44.5	2.1	11.3	1,711.5	23.4	1.4

NOTA: (*) Annual averages. Labour Force Survey.

(**) Annual averages. Labour Force Survey. The new definition of unemployment as of 2001 means that it is not comparable with previous figures.

(***) At year-end. National Institute of Employment figure.

SOURCE: National Institute of Statistics, National Institute of Employment and internal figures.

Growth in economic activity reflected in rise in job creation rate although unemployment rate still above 11%...

The rise in the rate of economic activity in 2003 had a positive effect on the labour market. Some 437,000 net jobs were created on annual average, some 125,000 more than in 2002, according to the Labour Force Survey. Nevertheless, the increase in the labour force meant that the unemployment rate reported a very limited reduction to stand at 11.3% on annual average (only one decimal less than in 2002), the highest figure in the European Union. Nor was there any appreciable progress in the type of employment. At year-end temporary hiring contracts made up 30.7% of the total, exactly the same proportion as one year earlier. In a similar way, progress in part-time work was very modest making up 8.2% of the total in 2003, only three decimals more than in 2002.

...while some imbalances persist, such as excessive temporary jobs and low rate of female employment.

However, in spite of progress in recent years, the strength of the labour market is still accompanied by notable imbalances. At the end of 2003, the rate of inclusion in the labour force (percentage of those included in the labour force out of the total population 16-64 years of age) stood at 69.3%, an increase of 4.5 points in the past 5 years, coming close to the European Union average (69.8% in 2002). Nevertheless, while the male inclusion rate (81.8%) was also above the EU average (78.5%), the female inclusion rate (in spite of having risen by more than 6 points in five years) stood at 56.8%, still far from that for the EU as a whole (61%).

CONSUMER PRICE INDEX

Percentage change in December over December previous year

	Total		Special groups						Groups		
	Annual average	Year-end	Food			Industrial goods			Total services	All non-food	Underlying inflation
			Process.	Unprocess.	Total	Non-energy	Energy	Total			
1989	6.8	6.9	8.6	6.3	7.5	3.7	6.2	4.1	9.1	6.6	7.1
1990	6.7	6.5	3.7	7.2	5.3	4.8	11.3	5.8	9.4	7.2	6.1
1991	5.9	5.5	4.4	2.0	3.3	4.7	1.9	4.2	9.6	6.7	6.5
1992	5.9	5.3	5.6	-3.5	1.3	5.0	10.1	5.9	10.4	7.4	6.8
1993	4.6	4.9	4.8	3.7	4.4	3.3	6.4	3.9	6.8	5.1	5.0
1994	4.7	4.3	5.0	4.7	4.9	3.6	1.8	3.2	5.2	4.1	4.5
1995	4.7	4.3	6.2	1.9	4.5	4.2	3.0	4.0	4.5	4.2	4.8
1996	3.6	3.2	3.2	2.4	2.9	2.4	6.5	3.1	3.6	3.3	3.0
1997	2.0	2.0	0.4	3.2	1.5	1.4	0.6	1.2	3.5	2.2	2.0
1998	1.8	1.4	0.4	0.9	0.6	1.6	-6.6	0.1	3.7	1.7	2.2
1999	2.3	2.9	2.6	2.0	2.4	1.3	11.5	3.1	3.2	3.1	2.4
2000	3.4	4.0	1.1	6.5	3.2	2.5	11.2	4.1	4.4	4.2	3.0
2001	3.6	2.7	5.3	6.1	5.6	2.6	-10.0	-0.4	4.2	1.8	3.8
2002	3.5	4.0	3.4	7.0	4.6	2.6	5.7	3.3	4.4	3.8	3.5
2003	3.0	2.6	2.7	6.4	3.9	1.2	-0.1	0.9	3.6	2.2	2.5

SOURCE: National Institute of Statistics.

Inflation rate down, thanks to easing of prices for energy, industrial goods...

The drop in the consumer price index (2.6% at year-end, 1.4 points less than in December 2002) put the figure at the lowest level in the past five years. The moderation in imported oil prices was one of the determining factors in this drop. Specifically, the performance in the fuel-oil and fuels sub-group (with a negative year-to-year rate of 0.6% in December 2003) would explain 42% of the reduction recorded. Non-energy industrial goods, which reduced their year-to-year change to 1.2% as against the 2.6% recorded in December 2002, also contributed to the overall reduction to a major extent (31%), perhaps with the strength of the euro having had an effect in this case as well as the strength of international competition. This showed up especially in data-processing equipment, audio, photographic and video equipment and the clothing and footwear component.

EURO EXCHANGE RATE

Units of national currencies per ECU or euro (*). Annual averages

	U.S. dollar	Japanese yen	Swiss franc	Pound sterling	Swedish krona	Danish krone	Peseta	Indices of competitiveness (**)	
								Against indus- trialized countries	Against European Union
1989	1.106	152.0	1.801	0.673	7.10	8.05	130.41	110.6	110.5
1990	1.273	183.7	1.762	0.714	7.52	7.86	129.41	116.2	113.6
1991	1.241	166.7	1.772	0.701	7.48	7.91	128.47	117.7	115.9
1992	1.297	164.2	1.819	0.737	7.53	7.81	132.53	117.2	114.7
1993	1.172	130.5	1.732	0.780	9.11	7.59	149.12	105.0	105.0
1994	1.188	121.3	1.622	0.776	9.16	7.54	158.92	100.0	100.2
1995	1.308	122.9	1.545	0.829	9.33	7.33	163.00	101.2	100.7
1996	1.269	138.0	1.568	0.814	8.52	7.36	160.75	103.5	102.4
1997	1.134	137.2	1.644	0.693	8.66	7.48	165.89	99.3	99.1
1998	1.120	146.4	1.622	0.676	8.91	7.50	167.18	99.6	99.1
1999	1.067	121.4	1.600	0.659	8.81	7.44	166.39	99.1	99.8
2000	0.924	99.5	1.558	0.609	8.45	7.45	–	97.6	100.4
2001	0.896	108.7	1.510	0.622	9.26	7.45	–	98.7	101.4
2002	0.945	118.1	1.467	0.629	9.16	7.43	–	101.3	103.0
2003	1.131	131.0	1.521	0.692	9.12	7.43	–	105.6	105.4

NOTES: (*) Foreign exchange rates of ECU up to 1998, exchange rate of euro as of January 1999.

(**) Measured against consumer prices. First quarter of 1999 = 100. Drop in index reflects improvement in competitiveness.

SOURCE: Bank of Spain.

...and services, with notable reduction in existing differential with euro area.

With an increase of 3.6% as against 4.4% in 2002, services account for around 20% of the drop in the inflation rate, largely thanks to the moderation of prices for hotels, restaurants and tourism. As for the rest, the fact that underlying inflation (which excludes energy products and non-processed foods) fell to 2.5% at year-end, even below the general CPI rate, strengthens prospects that the drop in the inflation rate will be consolidated in the course of 2004. In addition, the slowdown in Spain's inflation rate made it possible for the differential with the euro area as a whole to improve notably (0.7 percentage points in December 2003 as against the 1.7 points recorded one year earlier).

Strength of imports behind sharp rise in trade deficit...

In the foreign sector, growth of imports (7.1% as of November in terms of the balance of payments) above the figure for exports (5.3%) brought about a sharp rise in the trade deficit in 2003 putting it at 34.6 billion euros for those eleven months, some 14.5% more than in the same period in 2002. The strength of domestic demand, the stagnation in the European market and the appreciation of the euro by around 20% on annual average (in 2002 it was up 5.5%) all largely contributed to this increase. It should also not be forgotten that the increase in Spain's inflation rate (higher than among its European neighbours in recent years) ended up eroding the competitiveness of Spain's economy (by nearly 6.5% against the euro area since the introduction of the single currency) and to an even greater degree against the industrialized countries as a whole following the drop of the dollar.

BALANCE OF PAYMENTS
Million euros

	Current account balance					% Curr. A/c balance/ GDP	Capital A/c balance	Curr. A/c balance + Capital A/c		Financial A/c balance (*)
	Goods	Services	Transfers	Incomes	Curr. A/c balance			Total	over GDP	
1989	-17,703	8,356	...	-2,119	...	...	...	-8,186	-2.9	9,727
1990	-17,813	7,263	1,683	-2,158	-11,025	-3.5	911	-10,114	-3.2	13,857
1991	-18,988	7,557	1,625	-2,674	-12,480	-3.6	2,120	-10,361	-3.0	19,958
1992	-18,562	7,645	1,314	-3,532	-13,135	-3.6	2,298	-10,837	-2.9	3,804
1993	-11,440	8,964	991	-2,724	-4,210	-1.1	2,269	-1,941	-0.5	-303
1994	-11,868	11,953	1,013	-6,238	-5,140	-1.3	1,843	-3,297	-0.8	3,554
1995	-13,761	13,935	3,494	-3,105	563	0.1	4,473	5,036	1.2	-6,178
1996	-12,384	15,554	1,802	-4,661	311	0.1	5,020	5,331	1.1	14,971
1997	-11,802	17,583	2,408	-5,949	2,240	0.5	5,609	7,849	1.6	7,955
1998	-18,480	19,626	3,006	-6,751	-2,598	-0.5	5,680	3,081	0.6	-11,971
1999	-28,585	21,524	2,853	-8,904	-13,112	-2.3	6,552	-6,561	-1.2	26,311
2000	-37,778	24,243	1,528	-8,985	-20,991	-3.4	5,181	-15,811	-2.6	27,444
2001	-36,396	27,131	1,798	-10,878	-18,346	-2.8	5,566	-12,780	-2.0	2,597
2002	-34,712	26,128	2,424	-10,466	-16,627	-2.4	7,498	-9,129	-1.3	12,618
2003 (**)	-34,640	25,929	115	-11,136	-19,733	-2.7	6,737	-12,996	-1.8	28,518

NOTES: (*) Except change in reserves and other assets of Bank of Spain.

(**) January-November.

SOURCE: Bank of Spain and internal figures.

...and current account deficit.

In addition, the moderate growth in the services surplus, partly due to the containment of tourist inflows, was not sufficient to counteract the trade imbalance mentioned. This fact, along with the notable growth of the deficit in the incomes balance largely brought about by the increase in payments by the non-financial private sector, would explain the sharp growth of the current account deficit which was up more than 62% above the figure for 2002.

Low interest rates continue to push growth of bank credit.

In 2003, the reference rate of the European Central Bank went through two further cuts which in June put it at an all-time low of 2.0% which has shown no change in following months. With interest rates at very low levels, bank credit took on a new drive. In December, total credit granted to companies and households was nearly 15% higher than the figure for one year earlier and growth of mortgage loans was even higher (nearly 22%) in keeping with the rise in the real estate market (average housing prices rose by nearly 17% in the first nine months of the year).

FINANCIAL MARKETS

	Interest rates (1)					Bank credit (6)	Bank deposits (6)	IBEX 35 index (7)	Share turnover on stock exchange (8)
	Central bank reference rate	1-year Interbank market (2)	10-year Govt. bonds (3)	Bank loans (1-3 years) (4)	Bank current accounts (5)				
1988	11.6	11.8	–	15.2	7.1	17.6	13.1	2,727	20
1989	14.0	15.1	12.1	16.4	8.1	19.6	15.1	3,000	28
1990	14.6	15.4	13.0	17.5	10.2	11.2	13.5	2,249	27
1991	13.2	13.1	11.8	16.5	9.6	12.2	9.0	2,603	28
1992	12.8	13.3	11.2	15.9	8.3	6.9	3.6	2,345	27
1993	11.3	10.9	10.7	14.6	7.4	1.2	9.9	3,615	39
1994	7.8	8.4	10.1	10.9	5.1	3.2	7.3	3,088	55
1995	8.8	10.0	11.5	11.3	5.1	6.2	12.1	3,631	48
1996	7.6	7.4	8.9	9.6	4.3	7.4	5.1	5,155	77
1997	5.4	5.2	6.5	7.3	3.2	13.8	4.3	7,255	163
1998	4.2	4.0	4.9	6.0	2.5	16.8	2.0	9,837	261
1999	2.7	3.2	4.8	4.7	1.5	15.2	7.5	11,641	292
2000	4.0	4.8	5.6	5.7	2.1	17.3	12.8	9,110	493
2001	4.3	4.1	5.1	5.9	2.4	11.7	12.2	8,398	445
2002	3.2	3.5	5.0	5.0	2.0	12.3	7.8	6,037	445
2003	2.3	2.3	4.1	4.0	0.8	14.3	8.0	7,737	500

NOTES: (1) As annual percentage. Annual average.
(2) National market up to 1998, Euribor as of that date.
(3) Issues in primary market. Marginal interest rate.
(4) Loans up to € 1 million to non-financial companies in 2003.
(5) On-demand deposits of households in 2003.
(6) Year-to-year change rate in balances of credit institutions on December each year.
(7) At year-end.
(8) Billion euros.

SOURCE: Bank of Spain and internal figures.

Year ends with rise on stock market and drop in yields in bond markets.

In addition, the recovery of the stock markets following the successive drops recorded in previous years meant an important change in trend in financial markets. The IBEX 35 ended the year at 7,737 points, a gain of more than 28%, higher than that recorded by the Euro Stoxx 50 index (15.7%), which is representative of the euro area as a whole. The bond market also reported gains with the drop in yields (which meant a reciprocal rise in the price of bonds). Average issue rate for 10-year government bonds stood at around 4.1%, nine decimals less than in 2002 although with a tendency to move up in the second half-year, following the trend set by international markets which reacted in the face of prospects of a consolidation of economic recovery in the United States, the worsening of the public deficits and the containment of the risk of deflation.

Government budgetary balance maintained in 2003.

With regard to the public sector, early estimates indicate that the year ended with a surplus. At the same time, it is expected that containment of spending (in recent years this has been slightly below 40% of the GDP) will make it possible for the total debt of general government to drop to 50.8% of the GDP, three percentage points less than in 2002. Under the heading of revenues, we note that resources of general government in Spain arising from effective tax collections and Social Security contributions have tended

to increase their share of the GDP in recent years (35.7% in 2002, close to one percentage point more than one year earlier). Starting out from these figures, we note that the tax load (which includes segments of taxes ceded to EU institutions and other technical adjustments) rose to 35.5% of the GDP (around 0.6 percentage points more than in 2002), according to the Ministry of Economy.

BUDGETARY IMPLEMENTATION IN PUBLIC SECTOR

% of GDP

	Non-financial operations of general government		Central govt. non-financial Treasury balance (Million euros)	Surplus (+) or deficit (-)				Debt all general govt.
	Taxes + Social Security contributions (*)	Total spending (**)		Central govt.	Social Security	Other general govt.	Total general govt.	
1989	33.6	42.0	-4,654	-2.2	0.2	-0.8	-2.8	43.8
1990	33.4	42.7	-7,035	-2.9	0.1	-1.0	-3.8	43.1
1991	33.6	43.7	-8,219	-2.5	-0.3	-1.6	-4.4	44.2
1992	35.2	45.0	-11,223	-2.8	-0.1	-1.1	-4.0	46.7
1993	34.3	47.8	-22,681	-6.1	0.5	-1.2	-6.8	55.4
1994	34.0	46.2	-20,843	-5.0	-0.2	-1.0	-6.2	60.2
1995	32.7	45.0	-19,017	-5.7	-0.3	-0.6	-6.6	64.0
1996	33.0	43.7	-22,137	-3.9	-0.4	-0.7	-5.0	68.2
1997	33.5	41.8	-12,314	-2.7	-0.2	-0.3	-3.2	66.6
1998	33.8	41.4	-6,698	-2.4	-0.3	-0.3	-3.0	64.6
1999	34.5	40.2	-6,354	-1.1	0.1	-0.2	-1.2	63.1
2000	35.0	39.8	-2,431	-0.9	0.4	-0.3	-0.8	60.5
2001	34.8	39.4	-2,884	-0.6	0.8	-0.5	-0.3	56.8
2002	35.7	39.7	-2,626	-0.5	0.8	-0.3	0.0	53.8
2003	...	...	-4,132	-0.4	1.0	-0.3	0.3	50.8

NOTES: (*) Resources of general government in Spain. (Does not include segments relating to EU institutions).

(**) Current employment and capital spending.

SOURCE: Ministry of Finance, Bank of Spain and internal figures.

Kingdom of Spain's Stability Plan foresees GDP growth rising to 3.0% in 2004.

Finally, with regard to future prospects, it may be expected that the growth trend of Spain's economy will be consolidated in 2004, thanks to the strength of domestic demand and the improvement in the world economy. The latest updating of the Kingdom of Spain's Stability Plan foresees that the GDP growth rate will rise to 3.0% in 2004 to remain stable in the following three years. This will make it possible for employment to continue to grow continuously (at around 2% annual on average during those four years) and for the unemployment rate to drop below 8% in 2007. At the same time, it is expected that this scenario will involve a continuation of the government budgetary balance and maintenance of a foreign deficit (measured by Spain's net world borrowing) slightly above 2.5% of the GDP.

KINGDOM OF SPAIN'S STABILITY PLAN
Percentage real change unless otherwise indicated

	2002	2003	2004	2005	2006	2007
Overall figures						
Final household consumption	2.6	3.0	3.1	3.0	3.0	3.0
Gross capital formation	1.1	3.1	3.9	3.9	3.9	3.9
Domestic demand	2.6	3.1	3.3	3.2	3.2	3.2
Foreign balance (contribution to GDP growth)	-0.6	-0.9	-0.4	-0.3	-0.3	-0.3
GDP	2.0	2.3	3.0	3.0	3.0	3.0
Prices and costs						
Private consumption deflator	3.5	3.2	2.7	2.4	2.4	2.4
Unit labour cost	3.3	3.3	2.1	2.1	2.1	2.1
Labour market						
Employment	1.5	1.8	1.9	2.1	2.1	2.1
Unemployment rate (% of labour force)	11.4	11.3	11.0	10.0	8.9	7.9
Other variables						
Budgetary balance of general government (% of GDP)	0.1	0.5	-0.1	0.0	0.0	0.1
Surplus (+) or deficit (-) in net world borrowing (% of GDP)	-1.6	-2.6	-2.6	-2.6	-2.6	-2.7

SOURCE: Ministry of Economy.

BANKING SYSTEM

CUSTOMER RESOURCES IN BANKING SYSTEM

Balances at December 31, 2003 and trend, in million euros

Type of institution	Balance			% Market share		
	December 31, 2003	December 31, 2002	% change	December 31, 2003	December 31, 2002	Change
Banks	435,293	401,753	8.35	46.83	48.13	-1.31
Savings banks	448,571	391,517	14.57	48.25	46.90	1.35
Credit cooperatives	45,739	41,438	10.38	4.92	4.96	-0.04
Total	929,603	834,708	11.37	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 December 31, 2003, in million euros

Consolidated groups	Balance at December 31, 2003	Balance at December 31, 2002	Change over December 2002	% change over December 2002
1 Santander Central Hispano	214,997.9	211,555.1	3,442.8	1.63
2 Banco Bilbao Vizcaya Argentaria	182,831.2	180,570.6	2,260.6	1.25
3 Caja de Ahorros y Pensiones de Barcelona	91,214.0	74,711.1	16,502.9	22.09
4 C. A. y M. P. de Madrid	60,831.3	53,138.7	7,692.6	14.48
5 Banco Popular Español ⁽²⁾	37,464.0	32,863.2	4,600.8	14.00
6 Banco Sabadell	24,423.7	20,954.7	3,574.9	17.15
7 Caja de Ahorros de Valencia, Castellón y Alicante	24,268.6	20,848.8	3,313.9	15.81
8 Caja de Ahorros de Cataluña	21,969.6	19,502.4	2,467.2	12.65
9 Caja de Ahorros del Mediterráneo	20,057.8	17,596.3	2,461.5	13.99
10 Bankinter	17,992.4	15,738.2	2,254.2	14.32
11 C. A. y M. P. de Zaragoza, Aragón y Rioja	15,838.5	13,917.3	1,931.1	13.89
12 Caja de Ahorros de Galicia	15,643.0	13,907.4	1,725.7	12.40
13 M. P. y C. A. de Ronda, Cádiz, Almería, Málaga y Antequera	14,041.8	12,502.3	1,539.5	12.31
14 Bilbao Bizkaia Kutxa	12,571.3	11,999.4	571.8	4.77
15 Caixa de Aforros de Vigo, Ourense e Pontevedra	11,189.0	9,463.9	1,026.9	10.11
16 Caja España de Inversiones, C. A. y M. P.	10,915.1	10,162.1	1,451.2	15.33
17 Caja de Ahorros de Salamanca y Soria	10,230.5	9,726.1	504.4	5.19
18 C. A. y M. P. de Guipúzkoa y San Sebastián	8,686.4	8,062.5	623.9	7.74
19 Barclays Bank ⁽³⁾	8,629.9	7,848.2	781.7	9.96
20 Banco Pastor	8,496.9	7,043.6	1,453.3	20.63

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

(2) Customer resources on 31-12-2002 obtained by adding those for Banco Popular Español and Banco Nacional de Crédito Inmobiliario (BNC).

(3) Customer resources on 31-12-2002 obtained by adding those for Barclays Bank and Banco Zaragozano.

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⁾

Consolidated figures in million euros. On December 31, 2003

Consolidated groups (2)	Balance		Change over December 2002	% change over December 2002
	December 31, 2003	December 31, 2002		
Andalusia	42,561.5	36,693.7	5,867.8	15.99
M. P. y C. A. de Ronda, Cádiz, Almería, Málaga y Antequera - Unicaja	14,041.8	12,502.3	1,539.5	12.31
M. P. y C. A. de Huelva y Sevilla	7,878.1	6,658.4	1,219.7	18.32
C. A. y M. P. de Córdoba - Cajasur	8,358.2	6,848.6	1,509.6	22.04
Caja General de Ahorros de Granada	6,378.3	5,634.5	743.8	13.20
Caja de Ahorros San Fernando de Sevilla y Jerez	5,548.7	4,760.9	787.8	16.55
Caja Provincial de Ahorros de Jaén	356.4	289.0	67.4	23.32
Aragon	20,508.0	18,052.2	2,455.8	13.60
C. A. y M. P. de Zaragoza, Aragón y Rioja. Ibercaja	15,838.5	13,917.3	1,921.2	13.80
Caja de Ahorros de la Inmaculada de Aragón	4,669.5	4,134.9	534.6	12.93
Asturias				
Caja de Ahorros de Asturias	5,932.6	5,528.7	403.9	7.30
Balearic Islands	4,874.6	4,595.8	278.7	6.07
C. A. y M. P. de las Baleares - Sa Nostra	4,673.1	4,418.2	254.8	5.77
Caja de Ahorros de Pollença «Colonya»	201.5	177.6	23.9	13.46
Canary Islands	8,051.7	7,167.6	884.1	12.33
Caja General de Ahorros de Canarias	4,701.7	4,087.9	613.8	15.01
Caja Insular de Ahorros de Canarias	3,350.0	3,079.6	270.3	8.78
Cantabria				
Caja de Ahorros de Santander y Cantabria	4,403.7	3,508.9	894.8	25.50
Castile-Leon	32,588.9	30,107.9	2,481.1	8.24
Caja España de Inversiones, C. A. y M. P.	10,915.1	10,162.1	753.0	7.41
Caja de Ahorros de Salamanca y Soria - Caja Duero	10,230.5	9,726.1	504.4	5.19
Caja de Ahorros Municipal de Burgos	4,787.8	4,242.7	545.1	12.85
C. A. y M. P. del C.C.O. de Burgos	2,220.8	2,089.1	131.7	6.30
C. A. y M. P. de Segovia	2,319.7	2,062.3	257.4	12.48
C. A. y M. P. de Ávila	2,115.0	1,825.5	289.5	15.86
Castile-La Mancha	8,924.6	7,865.9	1,058.7	13.46
Caja de Ahorros de Castilla-La Mancha	8,214.8	7,208.9	1,005.9	13.95
Caja de Ahorros Provincial de Guadalajara	709.8	657.0	52.8	8.04
Catalonia	142,373.2	120,098.8	22,274.4	18.55
Caja de Ahorros y Pensiones de Barcelona - "la Caixa"	91,214.0	74,711.1	16,502.9	22.09
Caja de Ahorros de Cataluña	21,969.6	19,502.4	2,467.2	12.65
Caja de Ahorros del Penedés	7,501.5	6,788.1	713.4	10.51
Caja de Ahorros de Sabadell	4,576.5	3,950.5	626.0	15.85
Caja de Ahorros de Terrassa	4,289.9	3,659.2	630.7	17.24
Caja de Ahorros de Tarragona	3,595.6	3,206.4	389.2	12.14
Caja de Ahorros Laietana	3,064.2	2,718.2	346.0	12.73
Caja de Ahorros de Girona	2,915.5	2,630.4	285.1	10.84
Caja de Ahorros de Manresa	2,067.3	1,895.3	172.0	9.07
Caja de Ahorros Comarcal de Manlleu	1,179.1	1,037.3	141.8	13.67

Consolidated groups (2)	Balance		Change over December 2002	% change over December 2002
	December 31, 2003	December 31, 2002		
Valencian Community	44,826.7	38,879.6	5,947.1	15.30
Caja de Ahorros del Mediterráneo - CAM	20,057.8	17,596.3	2,461.5	13.99
Caja de Ahorros de Valencia, Castellón y Alicante - Bancaja	24,268.6	20,848.8	3,419.8	16.40
C. A. y M. P. de Ontinyent	500.4	434.5	65.9	15.16
Extremadura	5,630.7	5,229.2	401.5	7.68
C. A. y M. P. de Extremadura	3,433.6	3,194.6	239.0	7.48
M. P. y Caja General de Ahorros de Badajoz	2,197.1	2,034.6	162.4	7.98
Galicia	26,832.0	23,371.4	3,460.6	14.81
Caja de Ahorros de Galicia	15,643.0	13,907.4	1,735.5	12.48
Caixa de Aforros de Vigo, Ourense e Pontevedra - Caixanova	11,189.0	9,463.9	1,725.1	18.23
La Rioja				
Caja de Ahorros de La Rioja	1,698.1	1,406.6	291.4	20.72
Madrid Community				
C. A. y M. P. de Madrid	60,831.3	53,138.7	7,692.6	14.48
Murcia				
Caja de Ahorros de Murcia	7,114.9	5,995.7	1,119.2	18.67
Navarre				
C. A. y M. P. de Navarra	7,252.3	6,449.8	802.5	12.44
Basque Country	25,316.3	23,832.9	1,483.4	6.22
Bilbao Bizkaia Kutxa - BBK	12,571.3	11,999.4	571.8	4.77
C. A. y M. P. de Guipúzkoa y San Sebastián - Kutxa	8,686.4	8,062.5	623.9	7.74
Caja de Ahorros de Vitoria y Álava - Vital	4,058.6	3,770.9	287.7	7.63
Total Savings Bank Groups (3)	449,721.0	391,923.2	57,797.8	14.75

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. de Ontinyent, Caja de Ahorros de Pollença «Colonya» 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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