

# THE SPANISH ECONOMY: MONTHLY REPORT

APRIL 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	
<b>Gross domestic product</b>									
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	3.6	3.2	2.5
United Kingdom	1.7	2.3	3.0	2.0	2.3	2.3	2.8	3.0	3.2
Euro area	0.9	0.4	1.7	0.7	0.1	0.3	0.6	1.2	1.7
<i>Germany</i>	<i>0.2</i>	<i>-0.1</i>	<i>1.4</i>	<i>0.1</i>	<i>-0.3</i>	<i>-0.3</i>	<i>0.0</i>	<i>0.9</i>	<i>1.3</i>
<i>France</i>	<i>1.2</i>	<i>0.2</i>	<i>1.6</i>	<i>0.7</i>	<i>-0.4</i>	<i>-0.2</i>	<i>0.6</i>	<i>0.8</i>	<i>1.6</i>
<b>Consumer prices</b>									
United States	1.6	2.3	2.2	2.9	2.1	2.2	1.9	1.7	2.1
Japan	-0.9	-0.3	-0.3	-0.2	-0.2	-0.2	-0.3	-0.2	-0.4
United Kingdom	2.2	2.8	2.2	2.9	2.9	2.9	2.6	2.3	2.0
Euro area	2.3	2.1	1.7	2.3	1.9	2.0	2.0	1.7	1.7
<i>Germany</i>	<i>1.4</i>	<i>1.1</i>	<i>1.2</i>	<i>1.1</i>	<i>0.9</i>	<i>1.0</i>	<i>1.2</i>	<i>1.0</i>	<i>1.3</i>
<i>France</i>	<i>1.9</i>	<i>2.1</i>	<i>1.8</i>	<i>2.4</i>	<i>1.9</i>	<i>1.9</i>	<i>2.2</i>	<i>1.8</i>	<i>2.0</i>
SPANISH ECONOMY									
<b>Macroeconomic figures</b>									
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
<i>Capital goods and other</i>	<i>-2.7</i>	<i>2.2</i>	<i>1.5</i>	<i>2.8</i>	<i>2.9</i>	<i>1.9</i>	<i>1.2</i>	<i>1.2</i>	<i>1.3</i>
<i>Construction</i>	<i>4.2</i>	<i>3.7</i>	<i>3.2</i>	<i>3.5</i>	<i>3.8</i>	<i>3.8</i>	<i>3.6</i>	<i>3.4</i>	<i>3.2</i>
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
<b>Gross domestic product</b>	2.0	2.4	2.7	2.2	2.3	2.4	2.7	2.7	2.6
<b>Balances</b>									
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									
<b>Interest rates</b>									
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	4.4	3.9	3.6	4.2	4.3	4.0	4.2
10-year German bonds	4.8	4.1	4.4	4.1	3.9	4.1	4.3	4.1	4.2
10-year Spanish bonds	5.0	4.1	4.4	4.1	3.9	4.1	4.3	4.1	4.2
<b>Exchange rate</b>									
\$/Euro	0.95	1.13	1.25	1.07	1.14	1.12	1.19	1.25	1.28

"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

April 2004

### CAJA DE AHORROS Y PENSIONES DE BARCELONA

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## ECONOMIC OUTLOOK FOR 2004

In March prospects for the world economy worsened due to a recurrence of the **terrorist threat** and increased tensions of a geo-political nature. While so far these factors have not shifted to economic forecasts and analysts are holding to a scenario of international recovery in 2004, economic sentiment is not that to be expected in a cyclical stage of full recovery. In fact, economic activity indicators in the United States are exceeding the already high levels of some months back, something which makes it possible to hope for **growth close to 5% year-to-year in the first half-year** to be followed by a moderate easing off so that for the year as a whole the gross domestic product will rise by around 4%-5%. China and the Asian economies, including a resurgent Japanese economy, continue to accompany the North American giant in this economic recovery.

In the **euro area**, the first quarter brought improvements in domestic demand which even showed up in private consumption. Nevertheless, **doubts remain about the strength of recovery** and the most optimistic forecasts for 2004 go scarcely above 1.5%. The weakness of recovery on the Continent, along with the decrease in the inflation rate, has increased **expectation of a cut in reference rates** by the European Central Bank. On the contrary, the favourable state of the British economy will likely bring a further increase in interest rates by the Bank of England. So far as concerns the U.S. Federal Reserve Board, no changes are expected over the short term.

With regard to Spain's economy, indicators for the first quarter of 2004 show that **domestic demand continues to grow at a sustained rate**, thanks to the good state of consumption and the strength shown in construction. It is not expected that these trends will greatly change from now to the end of the year and it is estimated that growth will exceed 2.5% for the year as a whole so long as current prospects for a moderate recovery of the international economy are fulfilled. In this context, employment will continue to grow at a stable rate although it is difficult to see the unemployment rate going below 11%. On the other hand, with regard to prices, prospects have improved in recent months and everything would suggest that the inflation rate will stand below 2.5% at the end of the year.

Following the legislative elections on March 14, the programme policies of the new government resulting from the make-up of Parliament would indicate a redistribution of public spending with heavier emphasis on certain social aspects, redistribution of public investment across the country and an emphasis on dialogue with business and labour aimed at solving some recurring problems (excessive temporary work in the labour market, the rise in housing prices, the loss of competitiveness in industry, low productivity in industry and services, insufficient use of new technologies, boost to the country's level in technology and science, etc.). The orientation of economic policy will not greatly depart from the principles of maintaining a balanced budget and macroeconomic stability.

March 25, 2004

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## ECONOMIC SITUATION

### Uncertainty again hanging over world economy

#### *International terrorism strikes again...*

As well as the heavy human cost, the terrorist attacks in Madrid on Thursday, March 11, once more reminded us of the fragile state of the current economic situation. The impact on the stock markets was immediate and considerable with sharp losses not only on Spanish markets but also in the main world markets. The effect of the brutal massacre on consumer confidence and corporate confidence is still uncertain given that results are not yet available for surveys made around the date of the attacks.

#### *...bringing about drop on stock markets and rise in gold prices.*

At the moment it was confirmed that the terrorist attack in Madrid was the work of the Al Qaeda group, a state of alarm and nervousness was once more determining the trend in financial markets. This manifestation of the threat of international terrorism and its capacity to act set the market off on a downward trend and most stock market indices lost gains accumulated so far this year. One year following the beginning of the war in Iraq and after a prolonged rise, the markets, could have begun a correction which, in fact, had been expected for some time. A classical indicator of the risk perceived by investors, such as the price of gold, jumped to 417 dollars an ounce, very close to levels recorded in the period of worst pre-war tension in 2003.

#### *But figures for international economy remain satisfactory both in United States...*

However, for the moment, fears unleashed by the risk of terrorism are not managing to cloud some broadly positive economic results. International economic recovery so far appears to be well underway. Recent indicators for the United States, the leading world economy, are satisfactory. Private consumption is holding very strong, investment is recovering the ground lost in 2001 and 2002, construction is prolonging its growth and even exports are benefiting from the good international environment. Certainly, the massive public and foreign deficits are being maintained but, in any case, these are threats farther down the road.

#### *...and in Japan...*

Furthermore, the United States is now not operating as the only world economic engine, given that Japan and other Asian economies have joined the North American giant over a period of several quarters. The Japanese economy is now showing its best face in recent times. Up until now the rise in exports, largely directed to the United States and neighbouring China, has been pinned on investment. Now it is the domestic front that presents a new situation. Private consumption is showing a still incipient upward rate which should be solidified by recovery in employment and a trend to less deflation. At the same time, since the end of 2003, construction appears to have left behind the weak profile of recent years. Should national recovery consolidate, Japan could enjoy its best economic prospects in a decade.

*...and also in euro area although at still uncertain rate.*

The euro area, which had shown a disappointing economic performance in 2002 and 2003, is also gradually beginning to come out of economic stagnation. Consumption and investment have begun 2004 showing signs of recovery although neither the spread of recovery by various sectors (which is still partial) nor the performance in the foreign sector make it possible to completely discard a cyclical decline in coming months. In any case, the basic trend in the euro area economy is to higher growth.

*Rise in raw materials prices also indicates buoyant economy.*

Oil prices are also reflecting the drive in the world economy as is happening with other raw materials. Since the middle of March, the per barrel price of Brent quality oil has gone above 33 dollars which puts levels 12% above those for one year earlier. Increased Chinese demand, the erratic supply policy of the Organization of Petroleum Exporting Countries (OPEC) and the low levels of oil inventories in the United States are behind the present situation, although it is true that current prices include a premium for geo-political risk which has not played an outstanding role since the spring of 2003.

*Brazil and Argentina tending to overcome worst years.*

Among emerging countries, we should point out the improvement in the Argentine economy following the recession in 2001 and 2002 which is making it possible to deal with payment of its foreign debt although, at the beginning of March, the Néstor Kirchner government had a run-in with the International Monetary Fund over payments for Argentina's debt to that international body. In Brazil, the biggest economy in Latin America, basic economic trends are heading upward leaving behind a year 2003 when the trend in the gross domestic product (decrease of 0.2%) was the worst in the last ten years.

*Nevertheless, all uncertainties over recovery not dispelled which keeps interest rates at low levels.*

Nevertheless, the favourable results in the world economy are not managing to dispel doubts about prospects over the medium term. The lack of job creation and the decrease in consumer confidence in the United States raises the question whether the highest point of the U.S. recovery may have already passed. In Europe, the lack of firm evidence of recovery and the terrorist attacks in Madrid on March 11 confirm the change in Europe's cyclical stage. In keeping with this feeling, the Federal Reserve Board made no change in its reference rates in the first quarter and has declared that, for the moment, it does not plan any increase in spite of the gap between the 1% on Federal Funds and real growth of economic activity at 4%. Nor has the European Central Bank made any change in its reference rates while pressures to make a cut in order to aid recovery have grown stronger.

### Spain's economy: growth without inflation

*Spain's economy maintains strength of domestic demand.*

Initial indicators for 2004 on Spain's economic activity show no significant change in trends noted in the final months of 2003. Domestic demand continues its advance aided by the sustained growth of consumption and the drive in construction, although some signs of moderation of its growth rate are beginning to show up.



***Industry fails to get moving...***

On the supply side, industry has failed to consolidate any clear line of recovery. The industrial production index in January stood in the red for the first time in the last eighteen months due to difficulties in certain mature sectors, such as textiles and chemicals, and pressure from world competition as is the case in consumer electronics, data processing equipment and motor vehicles.

***...while on other hand construction continues very strong.***

On the other hand, construction continues to move ahead at a fast clip both in public works and the residential sector. In the latter case, we should mention the unstoppable rise in housing prices at 17.3% in 2003, according to the Ministry of Public Works, making this the biggest rise in the past 13 years. Furthermore, demand shows no signs of wearing out, given that in January total mortgage loans rose by 24% compared with January 2003, while mortgage loan default dropped to an all-time low. With regard to the tertiary sector, the favourable trend here shows up in high job creation along with increased strength in information technology, transportation, services to companies and retail trade.

***Household consumption holds firm while investment weakens.***

On the demand side, household consumption is holding firm if we are to go by retail sales and motor vehicle registrations which, in the first two months of 2004, went above the all-time high with more than 200,000 vehicles registered. On the contrary, indicators for capital goods investment have recently begun to moderate their high growth levels as in the case of machinery imports and registration of commercial vehicles.

***Economy continues to create employment while wages on increase...***

In keeping with figures for economic activity, the labour market points to a continuation of job creation with an increase in registrations with Social Security for new jobs higher than 3% in the first two months of 2004. Nevertheless, the strength of the labour market is not managing to halt registered unemployment at employment offices which is still showing a very slight upward trend while wage costs are tending to increase with growth of nearly 4% in 2003.

***...but inflation down to nearly 2%, lowest figure in five years.***

In spite of strong domestic demand and the increase in labour costs, results for the consumer price index continue to show great moderation in inflationary pressures, thanks especially to the containment of prices of imported goods, both industrial goods and energy products. In February, the annual increase in the index stood at 2.1%, the lowest figure in the last five years. The strength of the euro in recent months had a favourable effect on the inflation rate although in terms of foreign trade it contributed to a worsening of the trade deficit to more than 6% of the gross domestic product.

## 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 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.*
- March 8** ***IBEX 35** index for **Spanish stock market** marks up annual high (8,369.7) with cumulative gain of 8.2% over end of December 2003.*  
**11** *Tragic **terrorist attack** on commuter trains in Madrid.*  
**14** *Victory of Spanish Socialist Workers Party (PSOE) in **general elections**.*  
**17** *Brent quality one-month forward **oil** price goes up to 33.7 dollars a barrel, highest level since October 2000.*

## AGENDA

### 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).*

### May 2004

- 1** *European Union increases from 15 to 25 member states.*
- 4** *Meeting of Open Market Committee of Federal Reserve Board.*
- 6** *Meeting of Governing Council of European Central Bank.*
- 7** *Industrial production index (March).*
- 14** *Consumer price index (April).*
- 18** *Harmonized consumer price index for European Union (April).*
- 25** *Producer price index (April).*
- 26** *Quarterly National Accounts (1st Quarter).*



# INTERNATIONAL REVIEW

## United States: economy steps up rate

**Retail sales in United States up by notable 8% in February confirming strong growth of private consumption...**

In the first quarter of 2004, the U.S. economy is showing an increased level of activity going above the excellent figures at the end of 2003. Consumption continues to be the engine of recovery. In February the main indicator, retail sales, grew by nearly 8% year-to-year, the highest figure since April 2000. While consumer confidence moved down in February (down to 87.3 points) the fact is that underlying factors behind the strength of household spending are being maintained (growth of incomes, maintenance of purchasing power because of low inflation, etc.). The tax cuts for 2004 should end up strengthening this trend.

### UNITED STATES: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003				2004	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February
GDP	2.2	3.1	2.1	2.4	3.6	4.3	–	...
Retail sales	3.0	5.6	4.5	4.8	6.2	6.8	6.1	7.9
Sales of single-family homes	7.7	11.7	7.7	15.0	13.9	9.9	9.6	...
Consumer confidence (*)	96.6	79.6	68.3	82.7	78.6	88.6	96.4	87.3
Industrial production	–0.6	0.3	1.1	–1.0	–0.4	1.4	2.3	2.7
Industrial activity index (ISM) (*)	52.4	53.3	49.7	48.9	54.1	60.6	63.6	61.4
Unemployment rate (**)	5.8	6.0	5.8	6.1	6.1	5.9	5.6	5.6
Consumer prices	1.6	2.3	2.9	2.2	2.2	1.9	1.9	1.7
Trade balance (***)	–35.6	–42.9	–40.7	–42.5	–43.7	–44.6	–44.9	...

NOTES: (\*) Value.

(\*\*) Percentage of labour force.

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

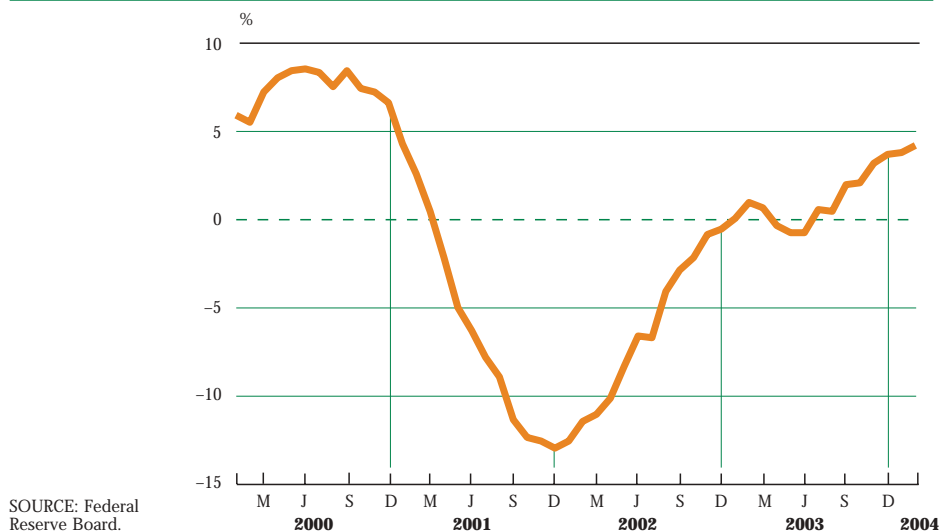
SOURCE: OECD, national statistical bodies and internal figures.

**...to which is added rise in investment.**

Along with consumption we should point out the notable growth rate of investment both in the capital goods and construction components. With regard to the former, the increase in industrial production of capital goods to 3.9% year-to-year and the increased capacity utilization level to 77%, both figures relating to February, indicate that recovery of corporate investment may be considered as consolidated. In turn, construction investment continues at a notable rate. Sales of single family homes rose by a significant 9.6% year-to-year in January, thus halting something of a slowdown trend which came about in the final months of 2003. Growth of early indicators such as construction permits and housing starts would indicate that construction will remain strong in coming months.

## U.S. INVESTMENT RECOVERS GROUND

Year-to-year change in capital goods component of consumer price index



**Industrial production grows close to 3% in February.**

At the same time, growth is settling down in the industrial sector. Following the difficult years in 2001 and 2002, recovery of industrial production came about in the third quarter of 2003 to later show a more appreciable rate of growth since December. In the first two months of 2004 the growth rate again rose to 2.7% year-to-year in February. While the manufacturing indicator put out by the Institute of Supply Management (ISM) dropped to 61.4 points in February, it should not be deduced that industrial growth is threatened given that this is a high level and still stands above the average for the fourth quarter (60.6 points).

**Consumer prices ease, growing by only 1.7% in February.**

The consumer price index (CPI) grew by 1.7% year-to-year in February, two percentage decimals below the January figure. Although this figure is partially biased downward because of the high monthly growth of consumer prices in February 2003, the contained growth of the more stable core (not counting energy or foods), at 1.2% year-to-year in February, confirms the fact that U.S. growth is scarcely bringing about pressure on prices.

**Sharp growth in productivity still holding back job creation.**

The performance in the labour market is less satisfactory. While the increase in productivity (5.4% year-to-year in the fourth quarter) explains that economic recovery is not creating employment as in other periods, the level of employment in February was only 0.1% higher than one year earlier, an unusually low rate of job creation for an economy growing at levels of more than 4%. The unemployment rate in February, in turn, held at 5.6% showing no change from January.

**Current account deficit stands at 4.5% of GDP in fourth quarter, a slight reduction over previous quarters.**

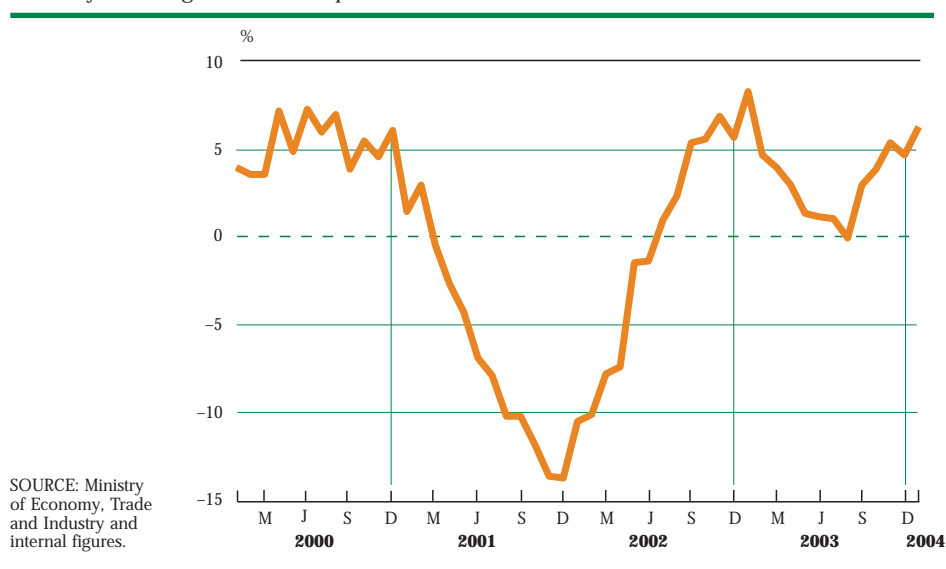
Finally, to complete a generally satisfactory economic picture, it may be noted that the massive U.S. foreign deficit has eased. While still showing an historically high figure equivalent to 4.5% of the gross domestic product (GDP), the current account deficit stood at 127.5 billion dollars in the fourth quarter, a figure below the 135.3 billion dollars of the previous quarter. The increase in the positive figures for the income balance and the transfer balance exceeded the bigger deficit in the goods and services balance. In fact, the increase in the imbalance shown under goods and services hides two positive trends, the increased strength of exports (unable, however, to counteract growth of purchases of goods abroad) and the surplus in services.

## Japan: economic activity on increase

**Japan's economy extends good stage into first quarter.**

Japan's economy began the year 2004 on a good footing. Most indicators confirm a continuation of the economic growth seen in 2003 although at more contained rates than those noted in the dynamic fourth quarter when the GDP grew by 3.6% year-to-year. Consumer indicators continue to improve on figures for preceding months. As a result, retail sales grew by 1.0% year-to-year in January in contrast to a year-to-year decrease of 1.1% in the fourth quarter. The trend in the consumer goods component of industrial production and car sales point along the same lines. On top of this domestic drive comes maintenance of a major contribution from foreign demand. Exports grew by 8% year-to-year in February which, combined with the decrease in imports (drop of 2.1% year-to-year), made it possible for the cumulative trade surplus for twelve months to go up to 11,100 billion yen (10,600 billion yen in January).

INDUSTRIAL GROWTH IN JAPAN  
Year-to-year change in industrial production index



### *Construction showing signs of recovery.*

On the supply side, the main news is the incipient recovery in construction. Severely hurt during the Nineties, this sector has begun to show signs of increased activity since the middle of 2003. At the beginning of 2004 this recovery appears to be more solid. In this respect, we should point out that housing starts grew by 7.3% year-to-year in January as against 3.2% in the fourth quarter. Should this recovery be confirmed construction will join the good period being seen in services (the METI indicator of tertiary activity rose to 2.3% year-to-year in the fourth quarter) and in industry (growth of industrial production above 6% year-to-year in January).

### JAPAN: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003				2004	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February
GDP	-0.3	2.7	2.7	2.4	2.0	3.6	-	...
Retail sales	-3.9	-1.8	-1.3	-2.6	-2.3	-1.1	1.0	...
Industrial production	-1.3	3.3	5.5	1.7	1.3	4.6	6.2	...
Tankan company index (*)	-24	-4	-13	-7	-3	8	-	...
Housing construction	-1.9	0.8	-2.1	2.2	-0.6	3.2	7.3	...
Unemployment rate (**)	5.4	5.3	5.4	5.4	5.2	5.1	5.0	...
Consumer prices	-1.0	-0.2	-0.2	-0.3	-0.2	-0.3	-0.3	...
Trade balance (***)	8.2	9.7	9.9	9.6	9.5	10.0	10.6	11.1

NOTES: (\*) Value.

(\*\*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

### *In spite of recovery no end to shadow of deflation.*

In any case, recovery is not sufficient to mean overcoming the situation of deflation nor to move away from an unemployment rate at the relatively high levels seen in recent years. As a result, the CPI in January was still 0.3% lower than the figure for the same month one year earlier. The unemployment rate, in turn, rose again in January to 5.0% of the labour force (4.9% in December).

### Brazil: fiscal discipline awaiting recovery

#### *Poor results in Brazil in 2003...*

In 2003, Brazil showed the worst real GDP growth in ten years with a drop of 0.2%. Nevertheless, we should point out a general trend to improvement, given that this indicator dropped by 0.1% in the fourth quarter, an improvement on the decrease of 1.5% in the previous quarter. This slight improvement, fiscal discipline and the foreign sector have led analysts to expect growth of 3% in 2004 although concern about the strength of this economy still exists.

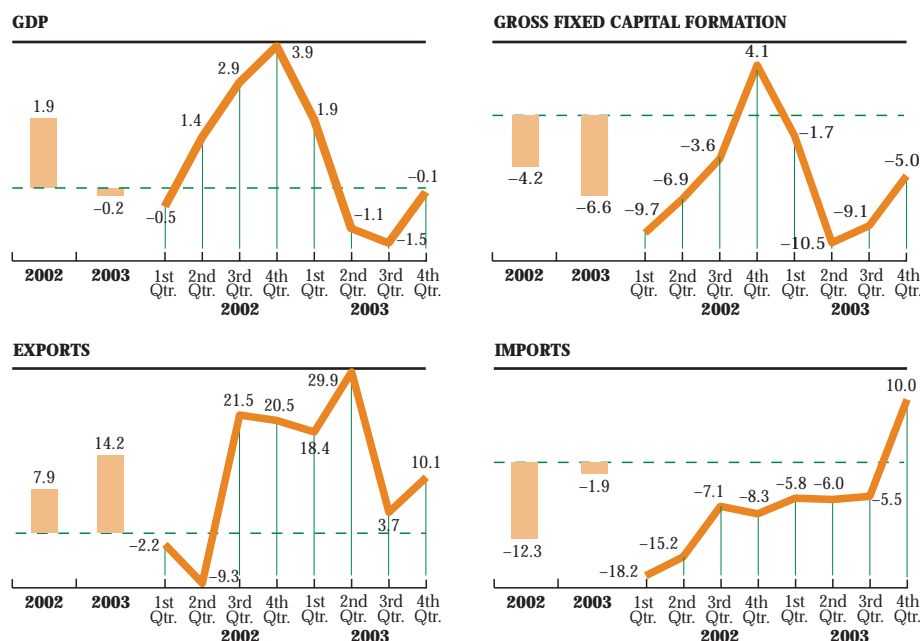
#### *...but signs of improvement in fourth quarter.*

Gross real fixed capital formation was down by 5.0% year-to-year in the fourth quarter. This result represented an improvement over the drop of 9.1% in the previous period. Nevertheless, the level of investment was 9.0% below the levels reached in 1997. Private consumption improved,

thus moderating its year-to-year decrease to 0.6%. Manufacturing and mining showed growth but construction continued on a sharp downward trend. The strength of growth lies in the foreign sector, although the level of imports would indicate the limits of this path. Prices have moderated with regard to earlier periods but the CPI still stood at 13.8% in the fourth quarter of 2003.

## TREND IN BRAZIL'S GDP BY COMPONENT

Percentage year-to-year change rate



SOURCE: Instituto Brasileiro de Geografia e Estatística.

*In labour market, wages drop by 14% while unemployment moves up to 20%.*

In the metropolitan region of São Paulo, the unemployment rate in the fourth quarter of 2003 was 19.8% while showing an upward trend. This high rate of unemployment goes hand in hand with a drastic drop in real wages. The poor situation in the labour market and uncertainty about the strength of the economy are adding pressure on the present government headed by President Lula.

*Brazil presents primary surplus of 4.4% of GDP but debt servicing puts public sector in deficit.*

The primary surplus in the public sector (total budgetary figure excluding interest payments) was 4.4% of the GDP in the third quarter of 2003. This meant a slight drop compared with the 4.6% in the previous quarter but is in line with the objective of 4.25% of the present government. Brazil has been presenting primary surpluses since June 1999. This represents a notable achievement for a country with extreme inequality and a high proportion of persons coming below the poverty line. Nevertheless, the servicing of interest on the public debt amounts to 10.7% of the GDP putting the deficit of the public sector at 6.3% of the GDP. This prevents any reduction in accumulated debt which, in January 2004, continued to represent 58.2% of the Brazilian economy.

**Foreign sector  
showing constant  
improvement.**

On top of fiscal discipline comes the constant improvement in the foreign sector. Brazil's economy is becoming more and more open with real exports and imports growing by 10% year-to-year in the fourth quarter of 2003. The balance of goods and services continues to show vigorous improvement and represented 4.4% of the nominal GDP in the third quarter. In spite of the sharp growth in the fourth quarter, imports grew at a rate well below exports in previous quarters. This notable improvement in the foreign sector was helped by devaluation of the real and by poor domestic demand. Nevertheless, the financial account still darkens the picture. The balance of payments in the fourth quarter showed a decrease in foreign reserves of 4.6 billion dollars.

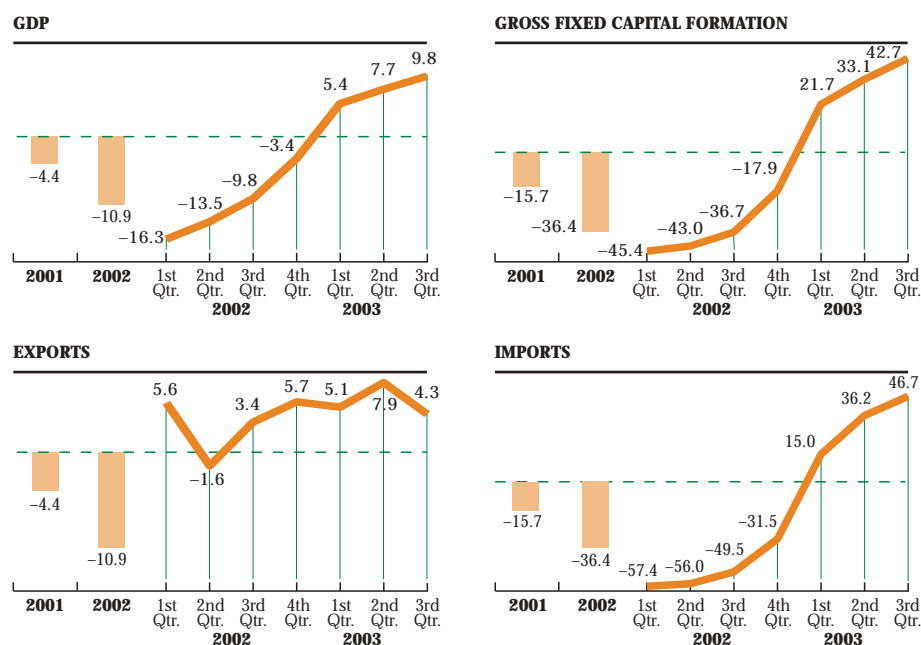
## Argentina coming out of recession

**Domestic demand  
takes over from  
foreign sector in 2003  
with GDP growth at  
10% and investment  
at 43%...**

The economic cycle in Argentina is more advanced than that of Brazil and domestic demand drove the first three quarters of 2003 whereas the foreign sector, which in 2002 was what most contributed to growth, is now losing strength. The factor responsible for this process has been the rise in imports due to the recovery of domestic demand already mentioned. Year-to-year growth in real GDP shows a robust 9.8% while gross fixed capital formation reached 42.7% in the third quarter of 2003. Within the investment components (clearly in contrast to the Brazilian economy), construction is showing great strength with real growth of 37% in the third quarter. Investment in durable goods is showing even greater strength with a figure of 54%.

### TREND IN ARGENTINA'S GDP BY COMPONENT

Percentage year-to-year change rate



SOURCE: National Accounts Directorate.



*...but losses in 2002  
still far from being  
compensated.*

Nevertheless, these figures could be deceptive. The year 2002 was a disastrous year for the Argentine economy and current growth figures are still nowhere near compensating for previous losses. The GDP in the third quarter of 2003 was 7.6% below the average for 1997, investment was 33% lower, construction down 23% and investment in durable goods down by 48%. As a result, the crucial factor is not so much the appearance of growth as its maintenance at levels which make it possible to recover the loss of wellbeing.

*Fight against poverty  
a priority in Argentina.*

The loss of wellbeing is crucial in an economy which saw the percentage of indigents multiply by four to a figure of 25.2% in greater Buenos Aires. We should mention here the age-old failure of the Argentine economy in its fight against poverty seeing that periods of GDP growth did not mean a reduction in the incidence of indigence, whereas periods of stagnation made it worse. To this picture must be added an unemployment rate of 15.6%. The decrease compared with 17.9% in October 2002 is blemished by the high level of unemployment and the more persistent level of hourly unemployment at 18.8%.

*February inflation  
stands at only 2.3%.*

Following the sharp inflation in 2002, prices in 2003 appear to be under control. Inflation in February was 2.3% compared with the same period the year before, while producer prices were up by 3.2%.

Raw materials: no sign of easing in prices

*Oil prices 10% higher  
than one year earlier...*

The price of oil in March shot up to close to 33 dollars per barrel on monthly average for Brent quality, more than 12% higher than levels one year earlier. Some daily quotations even threatened to reach a level of 34 dollars a barrel. As a result, the per barrel price stood at 33.71 dollars on March 17, higher than the top prices recorded during the conflict in Iraq last year.

*...due to series of  
factors, notable  
uncertainty in  
Venezuela and  
strength of Chinese  
demand.*

The notable rise in oil prices was due to the confluence of various factors. Among the more significant we should point out the unstable socio-political situation in Venezuela and the uncertainty taking hold of market operators as a result of announcements by the Organization of Petroleum Exporting Countries about the need to adjust official quotas as of April 1. In any case, more decisive factors appear to be the rise in Chinese demand and the low level of oil inventories in the United States, two factors which have been pushing up prices for several months.

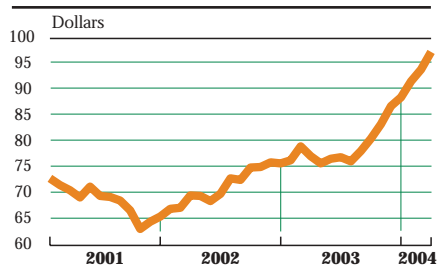
*Prices of other  
raw materials grow  
by 20%.*

In fact, if we look at raw materials as a whole, we note that the heavy demand pressure generated by China is a key factor in explaining the year-to-year increase in prices of around 20% in January and February measured by «The Economist» index in dollars. The increase in raw materials has been led by industrial raw materials (increase of 30% year-to-year in February), particularly by metals (year-to-year rise of 40%).

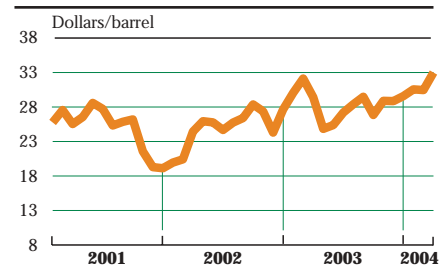
## TREND IN SELECTED RAW MATERIALS

*Raw materials prices continue to rise with metals leading increase.*

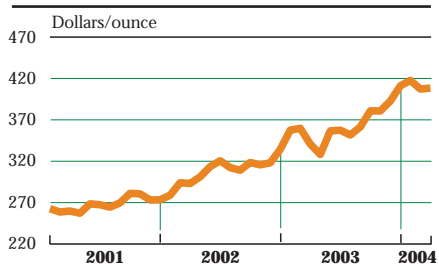
«THE ECONOMIST» INDEX



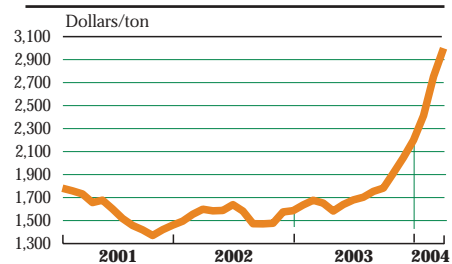
BRENT OIL



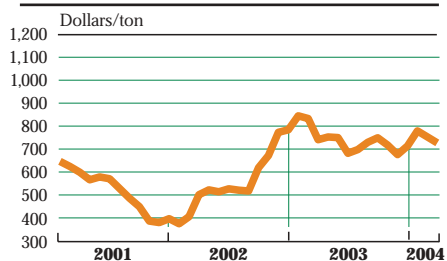
GOLD



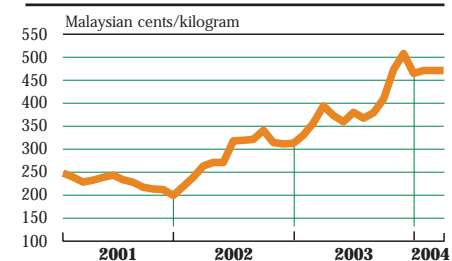
COPPER



COFFEE



RUBBER



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

# EUROPEAN UNION

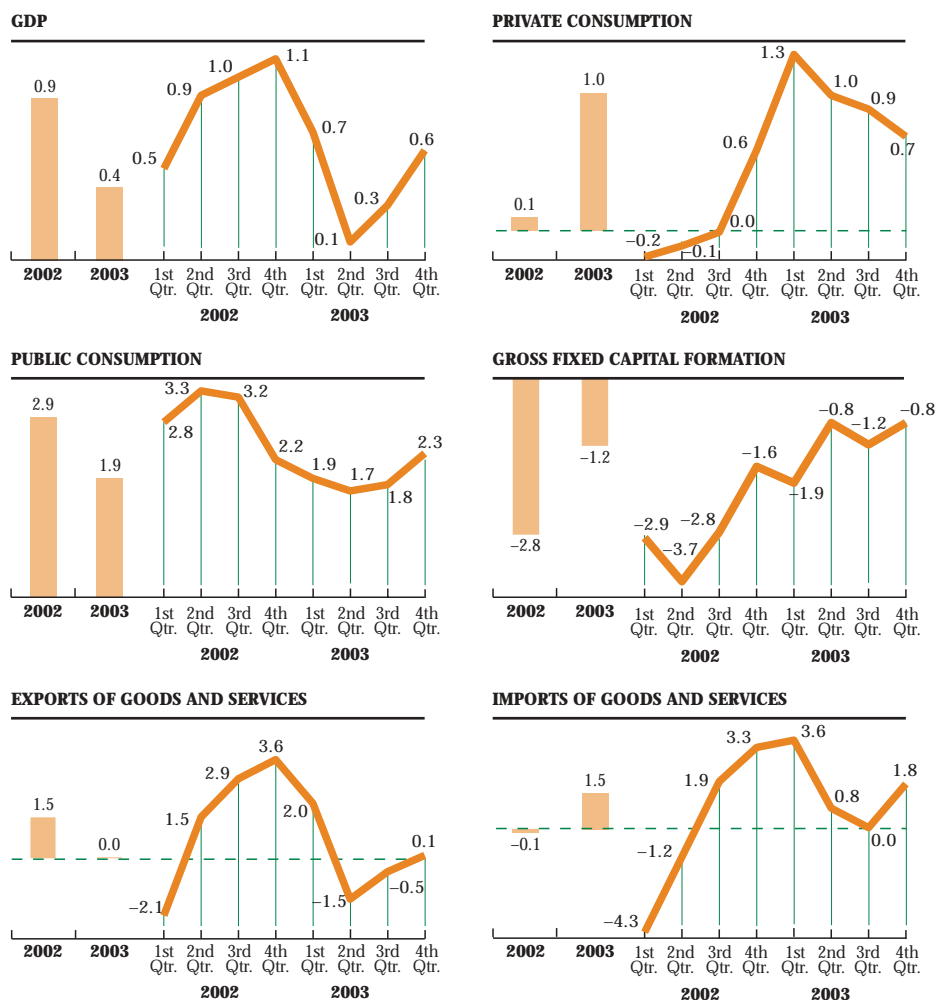
## Euro area: difficulties in achieving recovery

*Euro area grows by 0.6% in fourth quarter of 2003 and 0.4% in year as a whole.*

With modest growth of 0.6% year-to-year in the fourth quarter, the euro area economy ended its worst year since 1993. Annual growth of the gross domestic product (GDP) in 2003 was only 0.4%. Figures for the final quarter of the year show that recovery is moving ahead slowly thanks to maintenance of the rate of public consumption, the contribution from the change in inventories and a resurgence of investment. As a result, public

*Private consumption loses steam while public consumption and investment rise.*

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



SOURCE: Eurostat and internal figures.

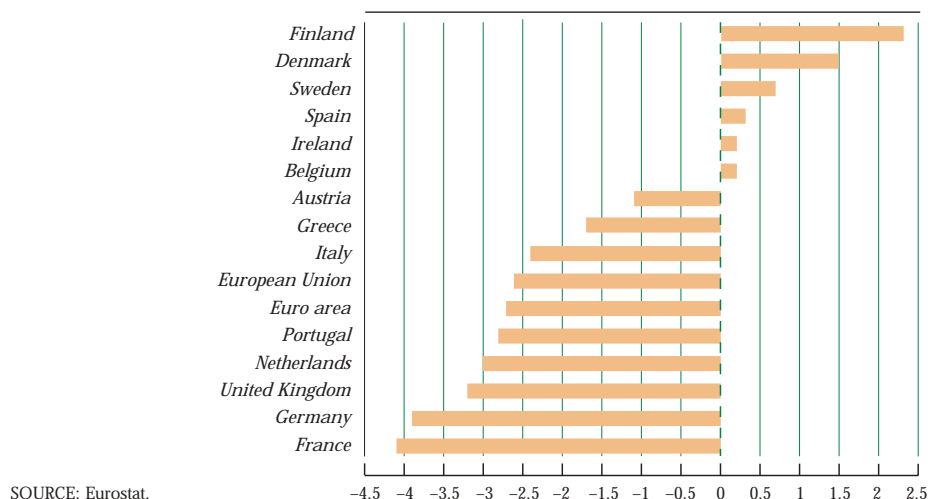
consumption in the fourth quarter grew by 2.3% year-to-year as against 1.8% in the preceding quarter, while the rate of year-to-year decrease in investment went from 1.2% in the third quarter to a drop of 0.8% year-to-year in the fourth quarter. In turn, the change in inventories added five decimals to the change in the GDP.

**Notable drop in growth of foreign demand.**

Other demand components, on the contrary, grew weaker or held at low levels. Private consumption, which had grown by a limited 0.9% year-to-year in the July-September period, dropped to 0.7% in the fourth quarter. With regard to foreign demand, the foreign sector took off six percentage points from GDP growth due to the poor performance of exports (increase of 0.1% year-to-year) and the rise in imports (year-to-year increase of 1.8%).

#### LOW GROWTH BRINGS ABOUT MASSIVE GOVERNMENT DEFICITS IN EUROPEAN UNION

Government balance as percentage of GDP in 2003



**Low growth in 2003 brings increase in government deficit in euro area.**

In view of the poor growth in 2003 efforts at fiscal consolidation slowed down in the euro area. The government deficit that year amounted to 2.7% of the GDP, four decimals higher than in 2002. Only Ireland (surplus of 0.2% of GDP), Spain (positive balance of 0.3%) and Belgium (surplus of 0.2%) managed to improve the government balance. What stood out in a negative sense was the worsening of government finances in Germany (the deficit increased by four decimals to 3.9%), France (increase of 0.9 points in negative imbalance to 4.1%) and the Netherlands (increase of 1.1 points in the deficit to 3.0%), three economies which clearly showed problems of growth.

**Consumption and investment start off better in 2004.**

Returning to the overall economic situation, at the beginning of 2004 we see a slightly more favourable performance in consumption. Retail sales in January rose to 1.0% as against the year-to-year decrease of 1.0% in December. At the same time, consumer confidence recovered in January and February when it moved up by two points to stand at the

level of -14 points. Investment, in turn, continues to recover ground lost in preceding years. The capital goods component grew by 1.5% year-to-year in January which meant four consecutive months of standing in the range of year-to-year increases.

## EURO AREA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003				2004	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February
GDP	0.9	0.4	0.7	0.1	0.3	0.6	–	...
Retail sales	0.0	0.2	0.9	0.9	–0.3	–0.6	1.0	...
Consumer confidence (*)	–11	–18.1	–19	–19	–17	–16.3	–15.0	–14.0
Industrial production	–0.5	0.4	0.8	–0.8	–0.2	1.5	0.6	...
Economic sentiment indicator (*)	95.6	95.1	94.9	94.7	95.0	95.7	96.0	96.0
Unemployment rate (**)	8.4	8.8	8.7	8.8	8.8	8.8	8.8	...
Consumer prices	2.2	2.1	2.3	1.9	2.0	2.0	1.9	1.6
Trade balance (***)	84.2	82.1	92.8	82.3	78.2	75.1	76.1	...

NOTES: (\*) Value.

(\*\*) Percentage of labour force.

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

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

### *Services holding up but industry having difficulty in consolidating recovery.*

Supply indicators confirm a recovery which is spreading but showing differences depending on sector given that, while services continue to show a positive state recovery in industry is having difficulty in becoming consolidated while construction remains in a precarious situation. Specifically, confidence in the tertiary sector rose in February to a level of 11 positive points, one point above the average for the fourth quarter and more than twice that in the middle of the third quarter. Industrial production, in turn, in October 2003 again went to levels higher than those one year earlier and has not changed from that situation since then, although always at relatively low levels. The rate of increase in January went to 0.6% year-to-year. The volatile trend in the industrial climate indicator and the low level of order books would indicate that recovery will continue to be slow and at a low rate.

### *Construction loses ground and puts recovery for fourth quarter in question.*

In any case, the situation in the construction sector is worse. The sector confidence indicator rose modestly in the November to January period but in February it lost all it had gained returning to a level of -21 points, a very low level at which the indicator is locked basically because of the worsening of order books.

### *Drop in exports in January.*

All of this shows that domestic recovery is still weak and that the role of foreign demand will continue to be fundamental. The cumulative trade surplus for twelve months in January stood at 76.1 billion euros, a limited improvement over the 75.1 billion euros in the fourth quarter. In any case, this increase in the foreign balance came from the collapse of imports (decrease of 6.5% year-to-year in January) rather than from the performance in exports (these dropped by 3.3% year-to-year that same month).

**Drop in energy prices  
puts February CPI  
at 1.6%.**

Under other matters, we should point out the substantial drop in consumer prices. The harmonized consumer price index (HCPI) stood at 1.6% year-to-year in February, the lowest figure since November 1999 and three decimals below the figure for January. This notable moderation came almost entirely as a result of the base effect of the energy component. Thanks to the substantial appreciation of the euro, the energy component in February stood at levels 2.3% lower than one year earlier. This effect should continue over coming months to later partially adjust its upward path.

**Unemployment rate  
remains at 8.8% for  
eleven months.**

On the contrary, there were no relevant changes in the labour market. The unemployment rate in the euro area was maintained in January which meant eleven consecutive months at 8.8% of the labour force. Nor have job losses shown any change in recent figures. In the third quarter of 2003, the latest figure available, employment rose by 0.1% year-to-year, a rate which has remained stable since the first quarter of that year. If industrial employment does not substantially recover (in the first three quarters of 2003 it maintained a year-to-year decrease rate of the order of 2%), we cannot expect any upward move on this front.

**Germany: poor start to 2004**

**German consumer not  
spending as opposed  
to investment which  
shows profile of  
increased activity...**

In the early months of 2004 the economic situation in Germany remains marked by the weak drive in domestic demand. Retail sales fell by 1.0% year-to-year in January, a figure certainly better than the year-to-year drop of 2.0% in the fourth quarter but reflects the weakness of household spending. In this context, the improvement in consumer confidence in February (three points) makes it possible to expect any immediate recovery in consumption to be only of little consequence. On the other hand, investment appears to have consolidated greater strength. The capital goods component of industrial production grew by 3.4% year-to-year in January, in line with the figure for the fourth quarter.

**GERMANY: MAIN ECONOMIC INDICATORS**

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003				2004	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February
GDP	0.2	-0.1	0.1	-0.3	-0.3	0.0	-	...
Retail sales	-1.4	-0.6	0.0	1.5	-1.6	-2.0	-1.0	...
Industrial production	-1.4	0.2	0.6	-0.4	-1.2	1.8	1.3	...
Industrial activity index (IFO) (*)	89.4	91.7	88.5	89.5	92.5	96.2	97.5	96.4
Unemployment rate (**)	10.2	10.4	10.6	10.6	10.5	10.4	10.2	10.3
Consumer prices	1.3	1.2	1.2	1.0	1.1	1.2	1.2	0.8
Trade balance (***)	118.8	130.1	131.6	128.7	129.9	130.2	134.8	...

NOTES: (\*) Value.

(\*\*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.



*...which may be linked to improvement in exports at beginning of 2004.*

The recovery in investment may largely be linked to the better state of international demand. Although growth of exports was moderate in the third and fourth quarters, January saw a notable increase in rate of progress (year-to-year increase of 7.7%). Imports, in turn, continued to be contained (growth of the order of 1% year-to-year in recent months), a logical consequence of a situation of domestic demand at the low levels of Germany's present economic situation. As a result of these trends, the cumulative trade surplus for twelve months in January amounted to 134.8 billion euros compared with 130.2 billion euros on average in the fourth quarter of 2003.

*Industry continues to regain ground in spite of poor business confidence.*

The strength in the foreign sector may contribute to consolidate the improvement in the industrial sector which has been evident since the fourth quarter of 2003. Growth of industrial production of 1.3% in January and the increase of 1.0% year-to-year in the figure for industrial orders supports the maintenance of recovery in the secondary sector. The drop in the IFO indicator of industrial activity which came about in February (down to 96.4 points) must, in this context, be seen as a simple correction of the sharp increases in preceding months.

*Inflation again stands below 1%.*

The sharp drop in the CPI in February to 0.8% year-to-year (1.2% year-to-year in January) was the result of the upward bias introduced by the high price of energy products in the first quarter of 2003. In any case, in a more structural sense, the persistent maintenance of prices at levels of the order of 1% since the beginning of 2003 must be seen as the result of a lack of strength in domestic demand, and also help understand the difficulties of the German economy to reduce its unemployment rate. In fact, following two months of moderate reduction, the unemployment rate in February again rose to 10.3% of the labour force.

## France: consumption recovering

*In France, domestic demand livens up growth.*

The French economy is showing moderate signs of recovery in the early months of the year. In February, domestic consumption increased its growth rate to 3.6% year-to-year as against 2.1% year-to-year in the fourth quarter. If we are to go by the better state of consumer confidence in January and February (a level of -15.5 points on average for the two months as against -24 points in the fourth quarter), in coming months the French consumer will continue to increase spending. Also to be valued positively was the performance of the capital goods component of industrial production which came close to 6% year-to-year in January, reflecting a clear recovery of investment.

*Notable contrast between recovery of services and construction and difficulties in industry.*

On the supply side, available indicators show the contrast between the acceptable state of services and construction and the difficulties taking place in industry. In the months of January and February, confidence in the services sector held at the level of 4 positive points compared with a level of -1 point recorded in the fourth quarter. Along the same lines, various construction indicators (housing starts, building permits) recorded a strong increase in January and February. On the other hand, growth of industrial production in the final quarter of 2003 (1.7% year-to-year) gave way to an increase of below 1% in January. The weakness in the

secondary sector is taking place in a context of increased strength of exports (in December and January exports stood at levels close to 4% higher than one year earlier).

## FRANCE: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003				2004	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February
GDP	1.2	0.2	0.7	-0.4	-0.2	0.6	-	...
Domestic consumption	1.2	1.8	2.5	1.1	1.5	2.1	3.3	3.6
Industrial production	-1.3	-0.3	-0.4	-1.8	-0.7	1.7	0.9	...
Unemployment rate (*)	9.3	9.7	9.4	9.5	9.7	9.7	9.6	...
Consumer prices	1.9	2.1	2.4	1.9	2.0	2.2	2.0	1.8
Trade balance (**)	0.4	0.2	0.4	0.3	0.1	0.1	0.1	...

NOTES: (\*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

### *Consumer prices at 1.8% in February.*

In addition, the decrease in the year-to-year rate of the energy component has decreased the CPI in recent months. In February, the CPI stood at 1.8% year-to-year (2.0% in January) although underlying inflation which does not include energy and other volatile prices remained with no change at 1.6%. In another area, it should be pointed out that the unemployment rate dropped by one decimal in January going to 9.6%.

## Poor prospects for Italy's economy

### *Italy stands off from moderate recovery by European partners.*

Italy is showing one of the worst economic pictures in the euro area. In contrast to other European countries it showed no increase in economic growth in the fourth quarter and available figures for 2004 confirm the poor state of the economy. Between January and February consumer confidence fell by 6 points to -21 points, moving down from the already modest figures recorded in 2003. On the supply side, the moderate growth of industrial production in January (0.3% year-to-year) was one decimal lower than the figure for one month earlier. The difficulties in the industrial sector may be linked to the collapse of exports in the fourth quarter when foreign sales fell by 3.9% year-to-year and in January (year-to-year drop of 10%).

### *Drop in unemployment with rise in inflation.*

Even in the matter of prices the Italian economy stands outside the EU pattern. Consumer prices in February rose to 2.3%, one decimal higher than in January. With regard to the unemployment rate, this stood at 8.5% of the labour force in the fourth quarter of 2003 as against 8.6% in the third quarter.

## ITALY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003				2004	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February
GDP	0.4	0.4	0.6	0.2	0.5	0.1	–	...
Retail sales	2.4	2.0	2.3	3.2	1.8	0.9	...	...
Industrial production	–1.4	–0.4	0.0	–1.6	–0.3	0.1	0.3	...
Unemployment rate (*)	9.0	8.7	8.9	8.7	8.6	8.5	–	...
Consumer prices	2.5	2.7	2.7	2.7	2.8	2.5	2.2	2.3
Trade balance (**)	10.8	3.4	6.7	3.5	1.5	2.0	1.3	...

NOTES: (\*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

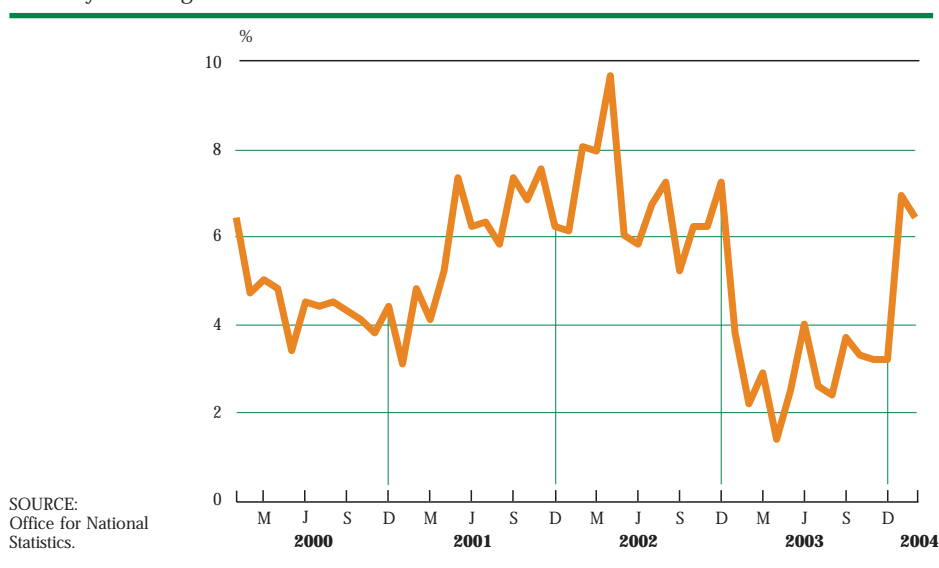
## United Kingdom: domestic demand unstoppable

**British economy continues to show notable strength of domestic demand.**

The good stage of the British economy looks like continuing, which explains why the latest government economic forecasts see growth of between 3%-3.5% in 2004, substantially higher than those being put out by most analysts. The key element justifying this scenario is the strength of British domestic demand. After marking up an increase of 3.3% year-to-year in the fourth quarter, retail sales showed an increase in growth rate to 6.7% year-to-year on average in January and February, which confirms the maintenance of private consumption. At the same time, investment appears to be moving into a phase of sustained growth if we are to go by maintenance of industrial production of capital goods at rates of increase of the order of 3% year-to-year (2.9% in January) and the improvement in the degree of utilization of production capacity in the first quarter (78.7%, more than one percentage point higher than in the fourth quarter).

### BRITISH CONSUMPTION SHOWS INCREASED RATE

Year-to-year change in retail sales



**Industrial production  
in contrast grows  
by mere 0.4%.**

The main sectors benefitting from economic growth up to this point are the services sectors, which continued to improve in January and February, if we are to go by the increase in sector confidence. On the other hand, industry fails to get moving. Industrial production in January was up by 0.4% year-to-year, a very limited improvement over the nil year-to-year growth seen in the fourth quarter. In any case, the recovery in industrial order books recorded since last November and the better state of the industrial confidence indicator make it possible to expect a change of trend in coming months.

#### UNITED KINGDOM: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003				2004	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February
GDP	1.7	2.3	2.0	2.3	2.3	2.8	–	...
Retail sales	6.9	3.0	3.1	2.7	3.0	3.3	7.0	6.5
Industrial production	–2.7	–0.5	–1.0	–0.7	–0.4	0.0	0.4	...
Unemployment rate (*)	3.1	3.0	3.1	3.1	3.1	3.0	2.9	2.9
Consumer prices	2.2	2.8	2.9	2.9	2.8	2.6	2.4	2.3
Trade balance (**)	–43.5	–46.3	–46.5	–46.0	–46.4	–46.3	–48.0	...

NOTES: (\*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

**Growth keeping  
unemployment a low  
levels with no rise in  
consumer prices.**

In this situation of dynamic domestic demand, maintenance of the unemployment rate at the lowest levels since 1975 comes as no surprise. In February the rate was 2.9% of the labour force. Even more notable is the fact that, along with the domestic growth mentioned above, consumer prices continue to be relatively contained. The CPI rose by 2.3% year-to-year in February, one decimal less than in January and far from levels close to 3% which showed up one year earlier.

# FINANCIAL MARKETS

## INTEREST RATES AND FOREIGN EXCHANGE RATES

Monetary policy adopts various approaches

**Main central banks adopt various positions.**

The main central banks are adopting various positions depending on the differing stages of their economies in the economic cycle. The U.S. Federal Reserve Board and the Bank of Japan seem in no hurry to raise their reference rates from their present all-time lows in spite of signs of economic recovery because of uncertainties still surviving. The European Central Bank is even less so inclined and there is even speculation about a possible cut. On the other hand, the Bank of England has opted for a further rate increase in order to avoid overheating of the economy.

### OFFICIAL INTEREST RATES

Average for period as annual percentage (\*)

	2001	2002	2003				2004		
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February	March 23
United States	3.90	1.67	1.25	1.23	1.00	1.00	1.00	1.00	1.00
Japan	0.06	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Euro area	4.29	3.22	2.68	2.37	2.00	2.00	2.00	2.00	2.00
United Kingdom	5.12	4.00	3.85	3.75	3.53	3.65	3.75	3.96	4.00
Switzerland	3.00	1.20	0.64	0.38	0.38	0.38	0.38	0.38	0.38

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

**Market reduces expectation of official interest rate rise by U.S. Federal Reserve Board.**

At its meeting on March 16, the Federal Open Market Committee of the U.S. Federal Reserve Board maintained its previous position. It thus indicated that, while the gross domestic product was growing at a strong rate and job losses had moderated, new hirings were dropping. At the same time, it pointed out that inflation and inflation prospects were now contained. It stated that the likelihood of an undesirable drop in inflation had decreased in recent months and that now a rise in inflation seemed just as likely. As a result, the Committee concluded that it might be slow to abandon its easy money policy. In this context, the market has eased its expectations of a rise in official interest rates by the Federal Reserve Board before the November elections.

***European Central Bank confirms economic recovery in euro area but points out certain risks...***

In the euro area, at the March 4 meeting of the Governing Council of the European Central Bank (ECB), it was considered that the main interest rate of the Eurosystem was at the proper level in order to maintain price stability over the medium term. It thus continued to resist political pressure coming from Germany and France as well as other countries in favour of a cut in interest rate in order to counteract the appreciation of the euro in recent months. The ECB thus reaffirmed its independence. The ECB confirmed that gradual economic recovery of the euro area was continuing although it pointed out some risks. Inflation dropped to 1.6% in February, thus increasing the margin below the 2% limit.

***...while speculation increases about possible Eurosystem rate cut.***

On the other hand, growth of the broad M3 money supply figure moderated in recent months going to 7.0% at annual rate in January while still standing well above the objective of 4.5%. In the framework of weak economic recovery in the euro area along with low inflation, market operators saw a decrease in the Eurosystem reference rate in coming months as very likely.

***Changes in application of euro area monetary policy to reduce volatility of short-term segment of interest rate curve.***

In addition, a number of changes in the application of monetary policy came into effect on March 8 in order to reduce volatility in the short-term segment of the interest rate curve. From now on, the period for calculating reserve assets will begin on the first Wednesday following the first monthly meeting of the ECB Governing Council at which monetary policy decisions are taken. At the same time, the maturity of main financial operations will be one week instead of the previous two weeks. These changes will not affect monetary policy strategy and are intended to avoid distortions in financing demand when there were changes in interest rate prospects during a period when rates were being maintained.

***Bank of England opts for further rise in official interest rate...***

With regard to the United Kingdom, the monetary policy committee at its March 4 meeting also made no change in its intervention rate but expressed concern about the strength of the housing market which could push the level of household indebtedness to unsustainable levels. It also voiced concern about the strength of household consumption. All of this would indicate that there is a good possibility of an upcoming further rise in the Bank of England intervention rate making that the third in this upward stage.

***...on other hand, central banks in Canada and Norway reduce reference rates.***

On the other hand, other central banks have eased monetary policy. On March 2, the Bank of Canada reduced its reference rates by 25 basis points. Following this cut, the objective for the overnight interbank rate stood at 2.25% while the discount rate went to 2.50%. This measure was taken to stimulate overall demand. Nine days later, the Bank of Norway also reduced its reference rates by 25 basis points putting the deposit rate at 1.75% and the overnight loan rate at 3.75%. This was the tenth cut since July 2002 in situation of low inflation.



## Three-month Euribor marks up new all-time low

***Yield on U.S. 1-year interbank drops on disappearance of prospects of early rise in official interest rates...***

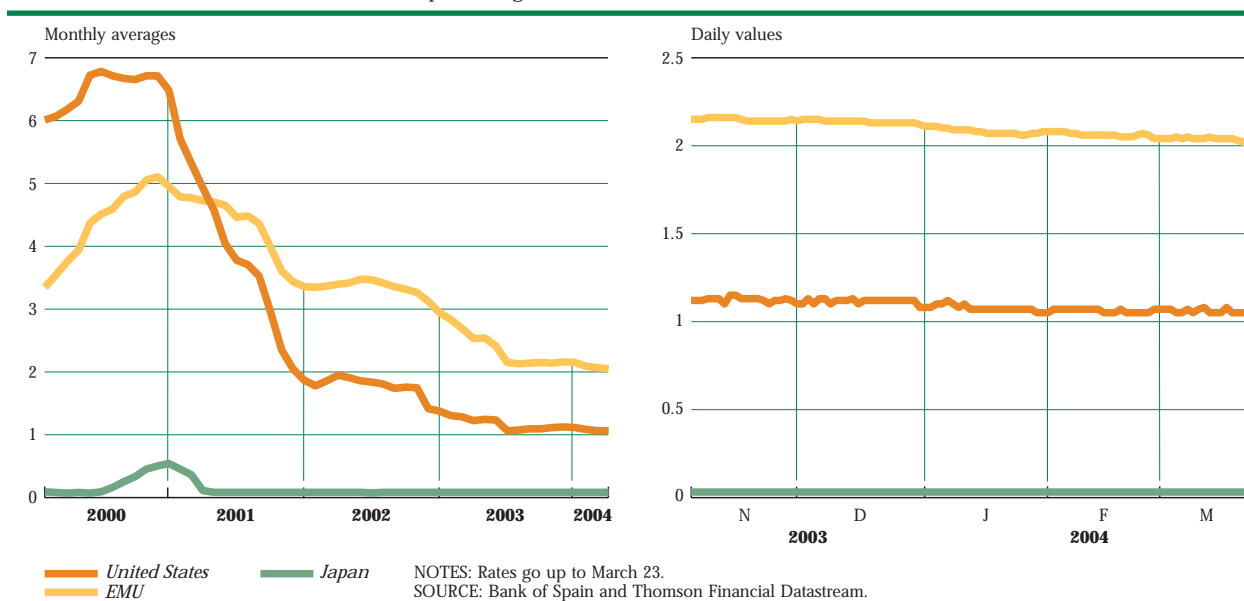
In the United States, interbank interest rates in recent weeks have shown swings in response to macroeconomic indicators published. The yield on 12-month interbank deposits moved up to 1.39% on March 4, eight basis points above the end of February following release of the report by the Institute of Supply Management showing an upward picture for employment and prices. Nevertheless, the poor figures for job creation issued the following day dispelled the prospect of a rise in the official interest rate in the summer and the yield on U.S. 1-year interbank deposits moved down. At the middle of the fourth week in March, the rate stood at 1.27%, some 14 basis points below 12 months earlier.

***...and 3-month interbank rate stands close to 1%.***

The swings in the yield on 3-month interbank deposits were much smaller, staying close to 1.07%, the average level over recent months. As a result, on March 23 it stood at 1.06%, some 17 basis points less than one year earlier.

### 3-MONTH INTERBANK RATES DOWN VERY SLIGHTLY

3-month interbank interest rates as annual percentage



***1-year Euribor hits lowest level since July 2003.***

In the euro area, the 3-month Euribor marked up a new low of 2.02% on March 23 in the midst of speculation about a cut in the European Central Bank reference rate in coming months. The 1-year Euribor stood at 2.03% on March 22 recording the lowest level since July 2003. On the other hand, the short-term differential with the dollar in recent weeks has stood at around 98 basis points, a 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
<b>2003</b>									
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
<b>2004</b>									
January	2.02	2.08	2.09	2.12	2.22	1.09	0.01	3.96	0.24
February	2.03	2.06	2.07	2.09	2.16	1.07	0.01	4.08	0.25
March (*)	2.03	2.04	2.02	2.00	2.03	1.06	0.01	4.25	0.25

NOTES: (\*) March 23.

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

### Drop in yield on 10-year government bonds in United States and Germany

#### *Yield on U.S. Treasury bonds records lowest level since July 2003.*

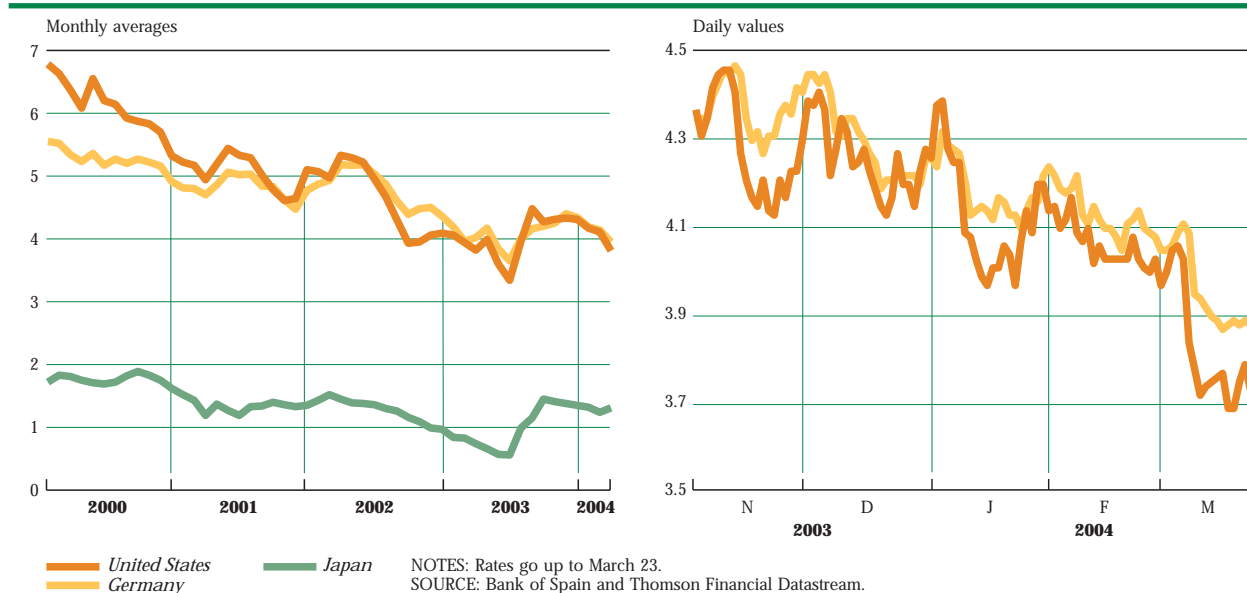
Revised prospects on interest rates as a result of publication at the end of the first week in March of poor figures on job creation for February sent the yield on U.S. 10-year Treasury bonds down to 4%. Other factors contributing to the drop in yield on U.S. long-term bonds were heavy buying by Asian central banks and shifts away from the stock markets, accentuated by various terrorist attacks, which led investors to seek out refuge assets. As a result, the interest rate on U.S. 10-year bonds dropped to 3.69% on March 16, the lowest level since July 2003. Nevertheless, it later rose to some extent because of an unexpected increase in wholesale prices in January. At the beginning of the fourth week in March, however, the yield on U.S. 10-year Treasury bonds again eased to stand at 3.71% on March 23, some 37 basis points below twelve months earlier.

#### *Yield on German government bonds also slides down.*

In recent weeks, European bonds have followed a similar course to those on the other side of the Atlantic. The increased likelihood of a cut in the Eurosystem reference rate tended to push down yields. As a result, the yield on German 10-year government bonds slid down to 3.87% in mid-March. The slope of the interest rate curve between two and ten years has thus tended to flatten out slightly in recent weeks. On the other hand, the differential in long-term interest rates between Germany and the United States rose slightly in recent weeks following the weakening of the euro and it went to 16 basis points at the beginning of the fourth week in March.

## SLIGHT INCREASE IN LONG-TERM INTEREST RATE DIFFERENTIAL BETWEEN GERMANY AND UNITED STATES

Yield on 10-year government bonds as annual percentage



### Interest rates on Japanese bonds rise in March.

The interest rate on Japanese government bonds rose at the beginning of March following an auction of 10-year government securities held on March 2. As a result, the yield on Japanese 10-year government bonds stood at 1.30% at the beginning of the fourth week in March, 7 basis points more than at the end of February, thus reflecting the improvement in Japan's economic fundamentals.

## 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	March 23
United States	5.06	4.65	3.94	3.64	4.26	4.32	4.17	4.11	3.71
Japan	1.34	1.27	0.80	0.60	1.20	1.38	1.32	1.24	1.30
Germany	4.82	4.80	4.06	3.89	4.12	4.33	4.19	4.14	3.88
France	4.95	4.88	4.12	3.94	4.13	4.35	4.20	4.15	3.92
Italy	5.19	5.04	4.24	4.03	4.25	4.46	4.32	4.26	4.01
Spain	5.12	4.96	4.10	3.92	4.14	4.34	4.19	4.15	3.89
United Kingdom	4.97	4.93	4.33	4.25	4.55	4.98	4.83	4.88	4.66
Switzerland	3.28	3.02	2.29	2.34	2.57	2.68	2.58	2.46	2.33

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

## Dollar halts downward course

**Dollar recovers but foreign deficit keeps it under pressure.**

The dollar recorded an annual high against a wide group of currencies on March 3, returning to the level at the beginning of December 2003. Optimism about the labour market in the United States pushed up the U.S. currency. Nevertheless, the weak figures on job creation in February published at the end of the first week in March were disappointing and hurt the dollar. The dollar was also under downward pressure because of the increase in the trade deficit as well as the climate of concern about terrorist attacks. At the beginning of the fourth week in March, the U.S. currency stood 1.2% below the high at the beginning of the month and 8.3% lower than one year ago.

### EXCHANGE RATES OF MAIN CURRENCIES

February 2004

	Final session of month		Average exchange rate	Monthly figures			Exchange rate March 23, 2004
	Exchange rate	% monthly change (2)		% change (2)			
				Monthly	Over December 2003	Annual	
Against U.S. dollar							
Japanese yen	109.4	3.4	106.7	0.3	−0.9	−10.6	106.7
Pound sterling (1)	1.868	2.4	1.869	2.5	6.6	16.2	1.853
Swiss franc	1.263	0.5	1.245	0.2	−1.4	−8.5	1.256
Canadian dollar	1.336	0.9	1.328	2.4	1.3	−12.1	1.332
Mexican peso	11.06	0.5	11.03	1.0	−2.0	0.8	10.97
Nominal effective index (4)	114.1	0.6	113.1	0.4	−1.2	−8.5	113.8
Against euro							
U.S. dollar	1.242	0.3	1.265	0.3	2.8	17.4	1.228
Japanese yen	135.6	3.5	134.8	0.5	1.7	4.8	131.2
Swiss franc	1.578	1.0	1.573	0.5	1.2	7.2	1.552
Pound sterling	0.670	−2.1	0.677	−2.2	−3.6	1.1	0.666
Swedish krona	9.232	0.4	9.176	0.4	1.6	0.3	9.227
Danish krone (3)	7.452	0.0	7.451	0.0	0.1	0.3	7.447
Nominal effective index (5)	104.0	0.2	104.7	−0.3	0.6	7.9	102.6

NOTES: (1) Units to pound sterling.

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

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

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

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

SOURCE: Thomson Financial Datastream and internal figures.

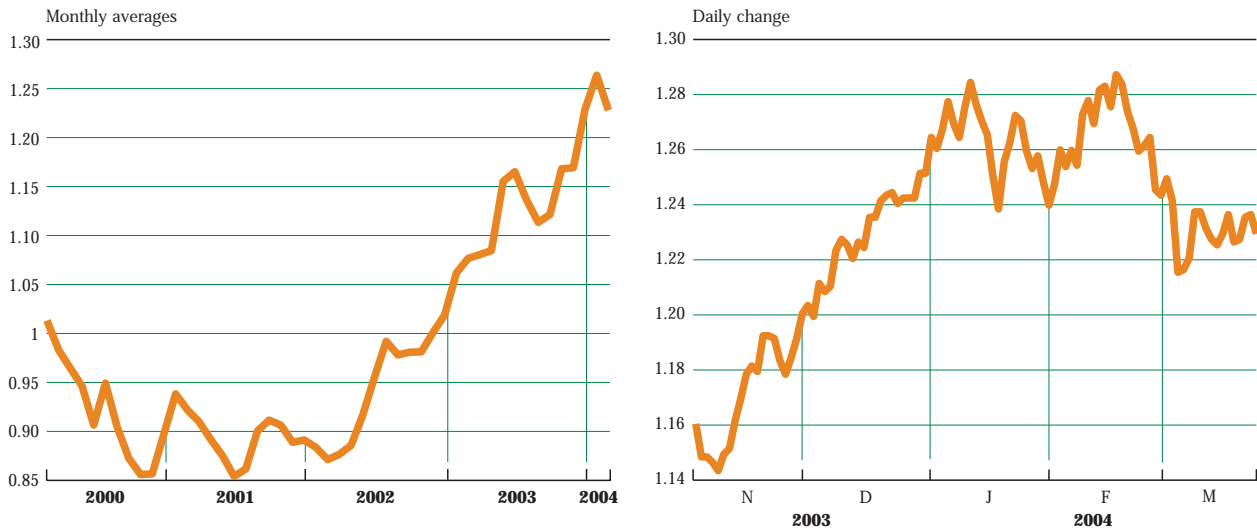
**Euro stands below its launch level in effective terms.**

After reaching an all-time high of nearly 1.29 dollars in mid-February, the euro weakened because of some caution with regard to a possible intervention by the European Central Bank or a cut in the official interest rate. On March 3, it was running at 1.21 dollars, a low for the year. It later recovered to some extent helped by a short-term interest rate differential in its favour and thanks to the weakness of the dollar. Nevertheless, at the beginning of the fourth week in March, the euro again dropped following publication of the current account deficit and net outflows of capital in January and the increased possibility of a cut in the official interest rate

going to 1.23 dollars, a depreciation of 2.8% compared with the end of 2003. In terms of the group of currencies of the thirteen main trading partners, the European currency also showed a drop of 2.9% compared with the end of December 2003 to stand at 0.5% below the level at its launch at the beginning of 1999.

## EURO WEAKENS AGAINST DOLLAR IN MARCH

U.S. dollars to euro



NOTES: Figures go up to March 23.

SOURCE: OECD, Thomson Financial Datastream and internal figures.

### **Bank of Japan changes stance and yen again appreciates against dollar.**

The yen recorded an annual low against the dollar (112.0 units to the dollar) on March 5, less than one month after marking up a high for the past three years at a level of 105.4. Heavy intervention by the Bank of Japan in foreign exchange markets was behind the drop in the Japanese currency. Nevertheless, later on there were signs that the Japanese authorities were easing their stance and there was speculation that they had stopped their intervention. The yen thus again resumed its upward path against the dollar and, at the beginning of the fourth week in March, it stood at 106.7 units to the dollar, a rise of 0.5% over December.

### **China insists it has no wish to revalue yuan.**

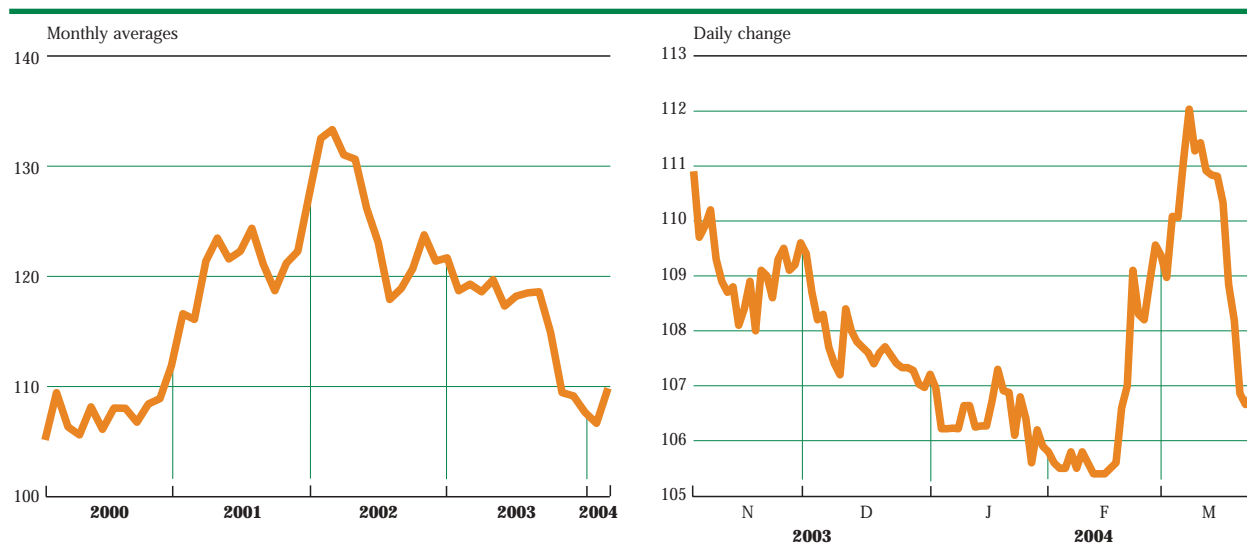
At the beginning of March, a high Chinese official confirmed that the yuan would not be revalued and stated that China had shown a trade deficit of various billion dollars in the first two months of the year as against a surplus of 25.5 billion dollars in 2003. On the other hand, he announced that most investment would be liberalized within five or six years once the reforms to the Chinese state banks had been completed.

### **Swiss franc acting as safe haven currency.**

The Swiss franc acted as a safe haven currency following the tragic terrorist attack in Madrid on March 11. As a result, at the beginning of the fourth week in March it was running at 1.256 units to the dollar, an appreciation of 2.6% compared with March 10. Against the euro, the Swiss franc rose by 1.5% in the same period.

## VOLATILITY OF YEN AGAINST DOLLAR

Yen to dollar



NOTES: Rates go up to March 23.

SOURCE: OECD, Thomson Financial Datastream and internal figures.

### ***Pound sterling drops against dollar in early weeks of March.***

After marking up its highest level against the dollar in the past eleven years, in the middle of February the pound sterling began to show a downward trend. Contributing to this was publication in the second week of March of a record level for the trade deficit and a lower than expected figure for industrial production. As a result, at the beginning of the fourth week in March, the pound went to 1.853 dollars, 2.7% below the high in February but 3.8% above the level at the end of 2003.

## CAPITAL MARKET

Stock markets lose ground following March 11 bombings

**Terrorist bombings on March 11 throw stock markets into weak state...**

International share markets were affected following the terrorist attacks in Madrid on March 11. On top of this came the worsening of the Palestinian conflict. As a result, the various stock market indices lost practically all the ground gained during the year.

### INDICES OF MAIN WORLD STOCK EXCHANGES

February 27, 2004

	Index (*)	% monthly change	% cumulative change	% annual change	Figures at March 23, 2004	
					Index	% change in month
New York						
Dow Jones	10,583.9	0.9	1.2	34.1	10,063.6	-4.9
Standard & Poor's	1,144.9	1.2	3.0	36.1	1,094.0	-4.5
Nasdaq 100	1,470.4	-1.5	0.2	45.6	1,370.0	-6.8
Tokyo	11,041.9	2.4	3.4	32.0	11,281.1	2.2
London	4,492.2	2.3	0.3	22.9	4,318.5	-3.9
Euro area	2,893.2	1.9	4.8	35.1	2,713.7	-6.2
Frankfurt	4,018.2	-1.0	1.3	57.8	3,728.8	-7.2
Paris	3,725.4	2.4	4.7	35.3	3,539.9	-5.0
Amsterdam	356.6	0.9	5.6	34.0	329.2	-7.7
Milan	1,306.0	1.0	3.9	22.3	1,240.7	-5.0
Madrid	8,249.4	4.0	6.6	37.5	7,768.3	-5.8
Zurich	5,798.4	1.1	5.7	39.8	5,509.8	-5.0

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.

**...and European and U.S. markets show equal drop.**

In 2004 the European share market has been showing greater strength than that in the United States, helped along by prospects of depreciation of the U.S. currency. At the beginning of March, the main European reference indices stood at annual highs and, not without growing volatility, practically maintained intact the upward trend begun in March last year. On the other hand, the main U.S. indices, particularly the Nasdaq hi-tech index, by January seemed to have worn out the upward trend shown last year.

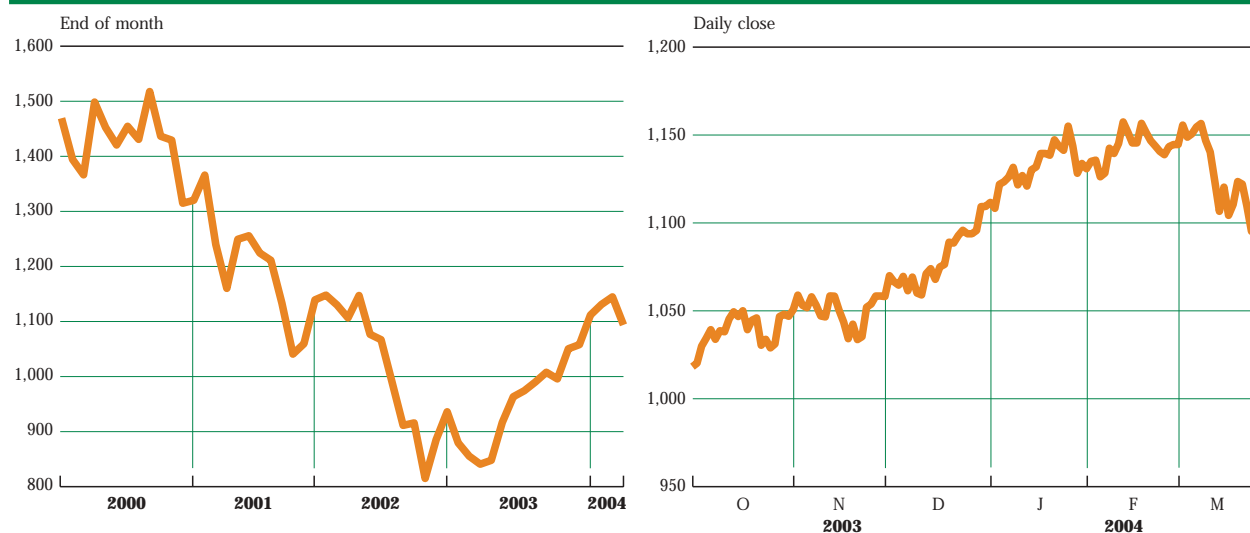


**U.S. hi-tech market showing signs of wearing out even before terrorist attacks.**

As a result, the Nasdaq 100 index kept dropping since the end of January after it had gone above the 1,550 level. This process of reduction was stepped up sharply in the early days of the week when that Thursday brought the terrorist attack in Madrid. In any case, terrorism later took on a key role and had a direct effect on the markets. At the beginning of the fourth week in March, the Nasdaq 100 stood at annual lows going down by around 7% since the beginning of the year but nearly 12% since the highs shown at the end of January.

**U.S. STOCK MARKET: DROP CONTINUES**

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



NOTES: Figures go up to March 23.

SOURCE: New York stock exchange.

**New York stock market loses gains accumulated for year.**

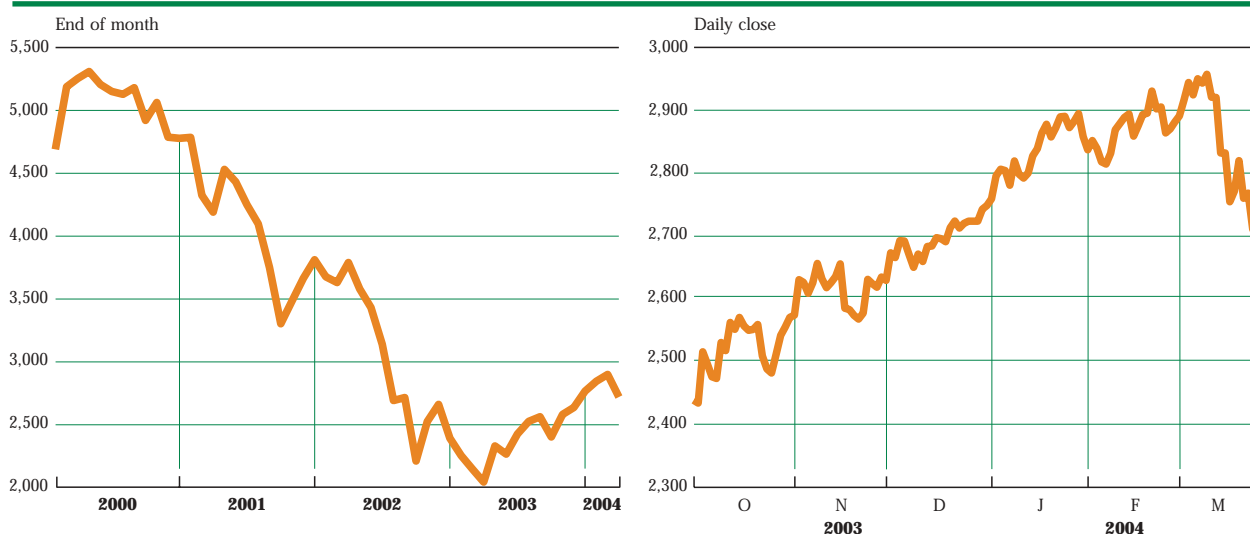
This state of weakness or a dip to annual lows also showed up in other U.S. stock market indices although with gentler swings. The Dow Jones lost 3.7% compared with the beginning of the year and 6.3% from previous highs while the Standard & Poor's 500 stood at 1.6% below par for the year with a drop close to 6% below previous highs.

**Stock markets in euro area drop from annual highs reached on March 8.**

In the euro area, the situation was different given that the market at first was not dragged along by the drop in the U.S. Nasdaq index. The Euro Stoxx 50 index, which is representative of the main shares in the euro area, reached annual highs on March 8 (2,959.7 points) thus accumulating capital gains of more than 7% since the beginning of the year. Just a few sessions later, at the beginning of the fourth week of the month, those capital gains had completely disappeared thus equalling the balance shown by U.S. indices.

## EUROPEAN STOCK MARKETS PLUNGE FOLLOWING TERRORIST ATTACKS

DJ Euro Stoxx 50 index



NOTES: Figures go up to March 23.

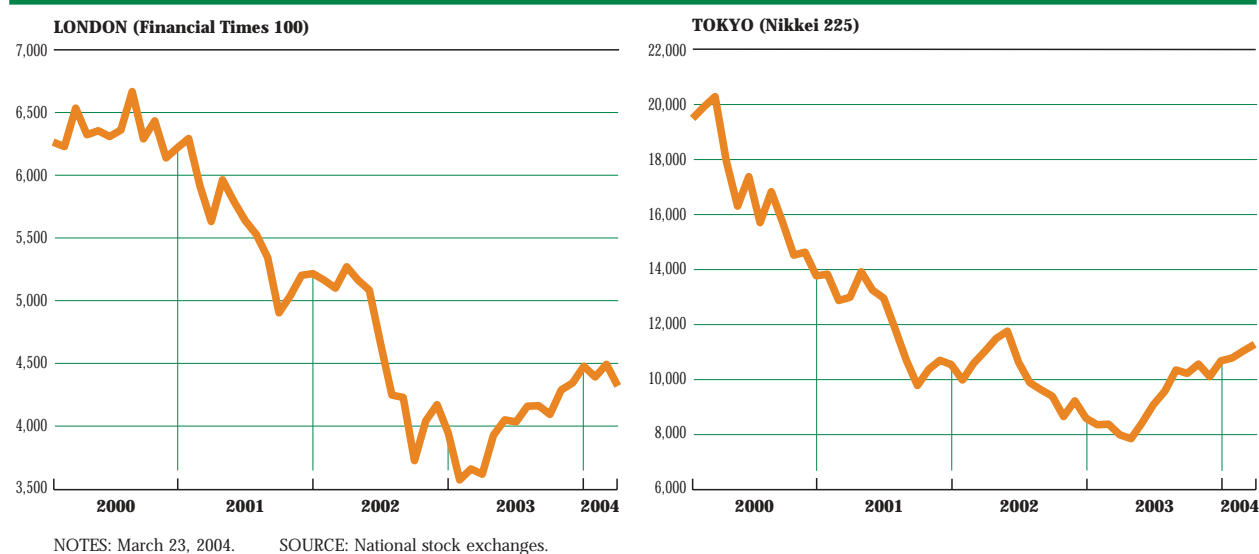
SOURCE: Stoxx Ltd.

**Japan's stock market withstands blow better than other world markets.**

Outside the European continent, the London stock market showed a course parallel to that of other stock markets in the euro area and, in recent weeks, lost all it had gained during the year. Following annual highs on March 5, the Japanese stock market corrected part of its advances but cumulative capital gains of around 6% put it in the position of the best among the main stock markets in the industrialized countries. The main Latin American stock exchanges, in turn, showed quite disparate balances. In Argentina, at the beginning of the fourth week in March, there were cumulative capital gains of more than 17% which put

## INTERNATIONAL STOCK EXCHANGES

Indices at month-end



NOTES: March 23, 2004.

SOURCE: National stock exchanges.

the Merval index close to annual highs. In Brazil, on the other hand, recent events have complicated a situation which was already not particularly positive, thus putting the cumulative balance for the year at negative levels.

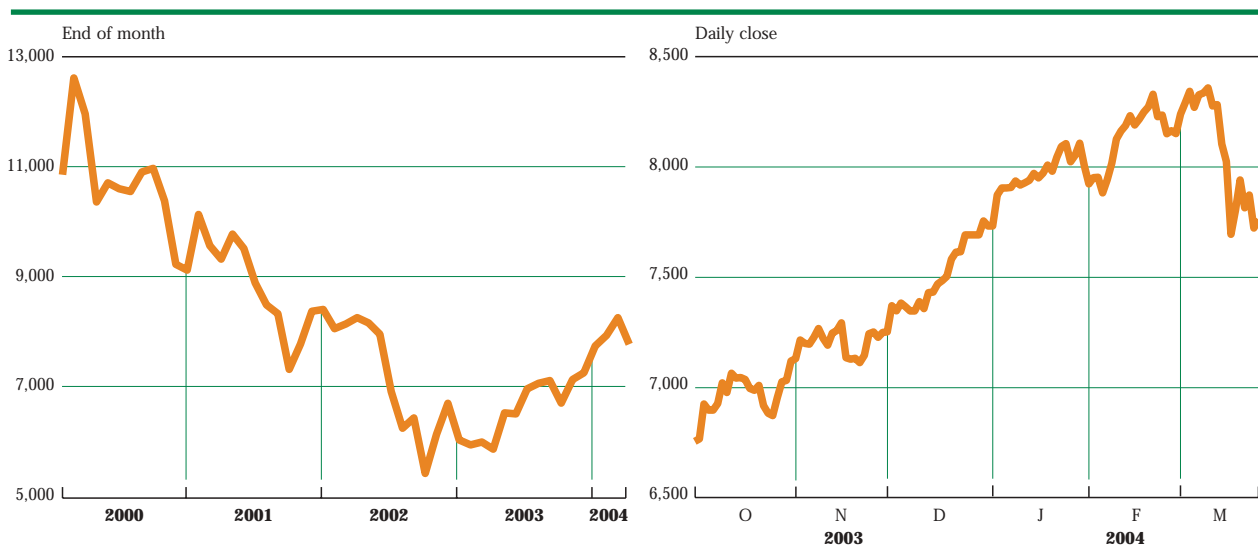
## Spanish stock market suffers heavy blow

### *IBEX 35 shows further effect following general elections.*

Spain's share market has shown a substantially more unfavourable course than that in the main markets on the European scene. On top of the impact from the terrorist attacks in Madrid came the unexpected electoral result which gave victory to the Socialist party. As a result, in little less than a week following annual highs of 8,369.7, the IBEX 35 lost all the ground gained during the year. Later on, correction of excessive earlier drops helped the main Spanish stock market indicator to recover the 7,700 level which meant putting cumulative capital gains for the year at their lowest level.

### DROP IN IBEX 35

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



NOTES: Figures go up to March 23.

SOURCE: Sociedad de Bolsas.

### *Tourism and insurance companies among most affected...*

The major drop on the Spanish stock market as of March 11 had uneven results. The market penalized the potential effects to varying degrees. In the first place there was the uncertainty created by international terrorism and on the other hand the consequences which economic policy of the new government could have on certain sectors or companies. In the first case, companies most affected were those related to the tourism and travel sector as well as insurance companies. Among these sectors the Iberia airline showed a sharp decrease in share prices but recovered to a spectacular extent following rumours of a possible merger with British Airways. Nevertheless, it later again dropped under the effect of the climate of concern about terrorist attacks.

...as well as some electricals, banks and communications media companies.

In addition, there were major drops in companies such as the electrical company Endesa (its share price fell by 10% leading the drops in the IBEX 35 during those days) and some construction companies which may find their business prospects changed both abroad and in the domestic market. At the same time, the market also severely punished some communications media companies, partly correcting the sharp increases in previous weeks.

## SPANISH STOCK EXCHANGE INDICES

	Index February 27, 2004	% monthly change	% cumulative change	% annual change	Figures at March 23, 2004	
					Index	% change over previous month
Official indices						
IBEX 35 <sup>(1)</sup>	8,249.4	4.0	6.6	37.5	7,768.3	-5.8
Madrid <sup>(2)</sup>	862.5	3.9	6.7	37.7	815.3	-5.5
Barcelona <sup>(2)</sup>	711.4	3.8	7.3	42.5	666.2	-6.3
Bilbao <sup>(3)</sup>	1,479.1	3.6	7.0	40.7	1,393.2	-5.8
Valencia <sup>(2)</sup>	684.0	4.1	7.3	45.5	643.8	-5.9
Sector indices for Madrid						
Stock Exchange <sup>(4)</sup>						
Financial services	981.0	1.6	1.3	43.8	919.9	-6.2
Energy	1,051.9	4.4	5.5	28.2	1,016.3	-3.4
Consumer goods	1,055.8	9.2	11.2	7.5	988.2	-6.4
Construction	1,394.7	3.6	6.7	27.1	1,343.6	-3.7
Capital goods and intermediate goods	1,291.1	7.3	8.8	54.0	1,243.1	-3.7
Communications	957.5	4.6	13.4	54.6	887.9	-7.3
Market services	1,245.6	3.8	10.7	31.1	1,199.4	-3.7

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

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

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

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

SOURCE: Stock exchanges and internal figures.

Only 13 companies in IBEX 35 show cumulative price losses since beginning of year.

In any case, at the beginning of the fourth week in March most shares in the IBEX 35, some 22 in all, maintained cumulative capital gains compared with the end of last year, in some cases these being higher than 20% (TPI, Prisa and Gamesa). Those showing more than 10% included Sogecable, some real estate companies (Metrovacesa, Ferrovial) and Iberia. At the opposite end of the scale, among the 13 companies showing cumulative decreases, those which stood out were the Amadeus reservation company (following Lufthansa's withdrawal from its capital), BSCH, Mapfre and the Endesa electrical company.

Effective share trading grows sharply.

Share trading rose sharply in February putting the effective volume of trading on the Madrid and Barcelona stock markets in the first two months of the year 38.9% higher than in the same period last year.

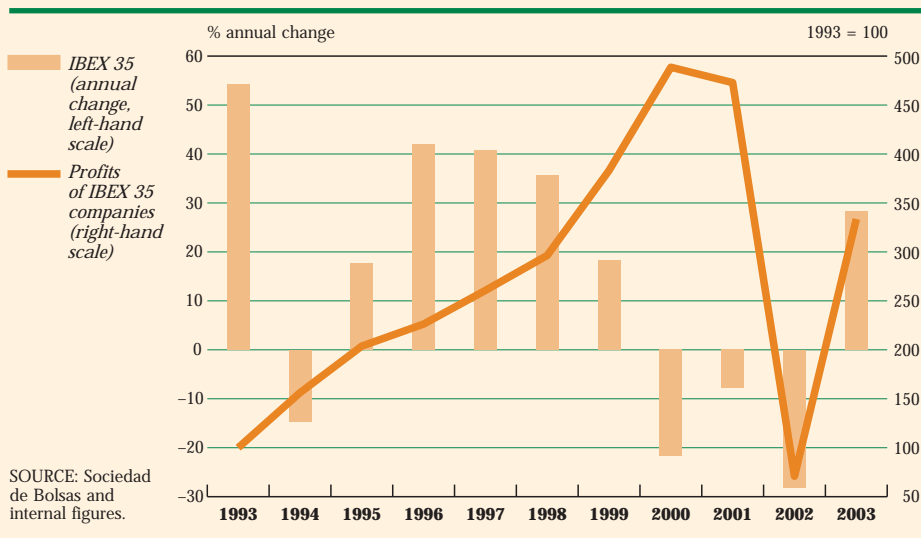
## CORPORATE PROFITS RECOVER IN 2003

Profits of listed companies as a whole amounted to 23.4 billion euros last year to reach an all-time high. This amount represented an increase of 361% compared with 2002 which meant a recovery following the losses shown in previous years. The trend in profits of the 35 biggest companies in the selective IBEX index was quite similar. Net profits after tax amounted to 20.8 billion euros, a rise of 370% compared with the year before so that profits were up nearly five times. This spectacular increase in profits in 2003 was largely due to the comparison with a poor year. Specifically, it is a reflection of the fact that in 2002 Telefónica decided to make major provision for its business failure in third generation mobile telephone service and risks in Latin America, whereas in 2003 adjustments were complete.

As a result, restructuring and rationalization measures undertaken because of critical years showed fruit last year. The improvement in demand with 4.7% growth in business volume and some atypical profits contributed to the recovery of corporate profits. In fact, profit before interest, taxes, depreciation and amortization (so-called EBITDA) rose by 8.4% thus reflecting the trend in profits with fewer distortions. As a result, the IBEX 35 index moved up by 28.2% in 2003 following two years of decreases, thus anticipating a new profit cycle.

Out of the 35 IBEX companies only one (Sogecable) showed losses as against four in the previous year. Out of the other companies in the index, eight showed reductions in net profits. On the contrary, the biggest increases in profits showed up in Acciona as a result of sale of its participation in Airtel-Vodafone, Abertis, Amadeus, Metrovacesa and Sacyr Vallehermoso with increases of more than 50%. In fact, the construction and real estate sector had an excellent year with a major increase in sales, so that three companies in this sector appear in the leading group showing increases in profits. On the other hand, banks had to face a drop in financial margin but were able to compensate for this through containment of operating costs and lower provisions brought about by the improvement in the economic situation in Argentina.

### NEW STAGE IN PROFIT CYCLE BEGINS



## Euro again beats dollar in volume of international debt securities issues in 2003

**Net volume of international bond issues up 45% in 2003.**

Net international debt securities issues amounted to 1,470 billion dollars in 2003, according to figures supplied by the Bank for International Settlements. This amount meant an increase of 45% compared with the previous year. The improvement in prospects of global growth and less risk aversion pushed up debt issues in contrast to the drop shown in 2002. Placements of equity-related debt securities rose sharply following a slack 18-month period helped by the recovery of share markets.

**Increased internationalization of placements in euros...**

On the other hand, last year brought a notable increase in international debt issues denominated in euros, which saw a rise of nearly 60% to the point where they represented 57% of the total in net terms. Nevertheless, it should be pointed out that part of the increase was due to the effect of appreciation of the euro. If the figure is adjusted for this effect, the net increase would be 30%. Issues in euros were boosted by demand for these assets and a tendency among operators in the euro area to go to the market but there was also an increase in the internationalization of placements in euros. The main issuers in euros were financial institutions. Nevertheless, most borrowers outside of North America, the European Union and Japan preferred the dollar.

**...and these continue to grow in first two months of 2004.**

In the first two months of 2004, bond issues in euros continued to grow to the point where they reached an all-time high, according to figures from Dealogic. This was due to spectacular issues by the financial sector.

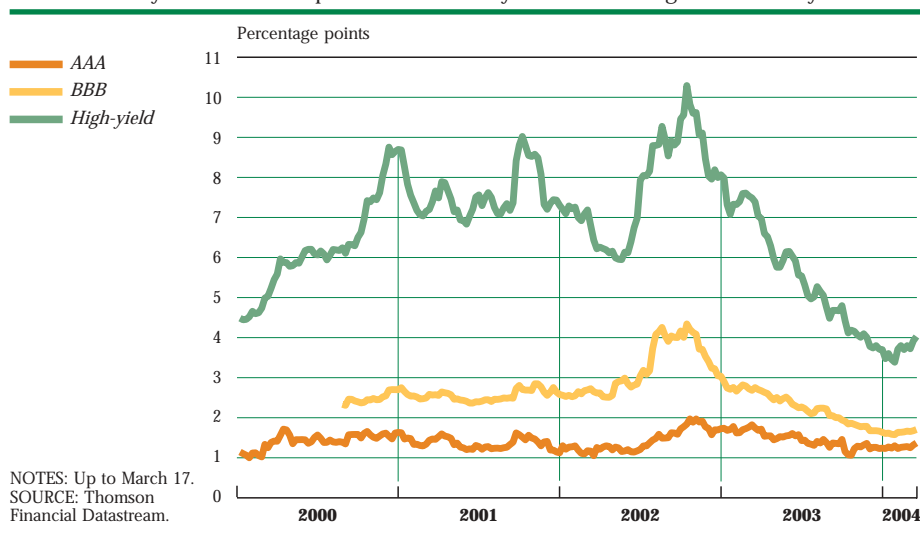
### NET ISSUES OF INTERNATIONAL DEBT SECURITIES Billion dollars

	1996	1997	1998	1999	2000	2001	2002	2003
Money market instruments	28.2	30.8	30.1	135.6	152.1	-78.9	1.6	74.9
<i>In U.S. dollars</i>	18.0	10.9	16.8	20.5	58.8	-52.2	-17.1	19.3
<i>In euros (*)</i>	-2.7	9.6	6.8	91.9	46.7	-26.7	28.1	47.5
<i>In yen</i>	6.6	3.8	1.9	11.7	26.2	-1.9	-25.7	-8.0
<i>In other currencies</i>	6.3	6.5	4.6	11.5	20.4	1.9	16.3	16.1
Bonds and notes	497.1	546.1	646.5	1,103.6	1,085.0	1,425.4	1,009.2	1,392.2
<i>In U.S. dollars</i>	238.8	320.3	399.4	524.4	550.4	703.3	436.2	444.0
<i>In euros (*)</i>	140.0	130.2	214.6	508.4	423.7	623.7	494.8	786.8
<i>In yen</i>	81.7	34.0	-33.0	-23.5	10.9	18.6	-17.5	3.9
<i>In other currencies</i>	36.6	61.6	65.5	94.3	100.0	79.8	95.7	3.9
<b>TOTAL</b>	<b>525.3</b>	<b>576.9</b>	<b>676.6</b>	<b>1,239.2</b>	<b>1,237.1</b>	<b>1,346.5</b>	<b>1,010.8</b>	<b>1,467.1</b>

NOTES: (\*) Before 1999 refers to currencies which joined the euro.  
SOURCE: Bank of International Settlements and internal figures.

## INCREASED RISK AVERSION

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



### *Drop in global default rate of low-rated bonds.*

For the first time in six years, there was no default by issuers of low rated bonds in February. As a result, the global default rate for high-yield bonds (those with low credit rating) continued to fall going to 4.3% in February on average for the last 12 months, as against 5.1% recorded in January, according to Moody's rating agency. The rate thus dropped to its lowest level since April 1999. Nevertheless, in the first three days of March there were two cases of default.

### *Risk premiums rise above lows at end of January.*

Risk aversion, measured by the differential against U.S. long-term Treasury bonds, has risen since the end of January when it recorded its lowest levels in the past six years. The prospect of a rise in the U.S. official interest rate and concern about new terrorist attacks lay behind this trend.

### *Loans to non-banking sector up notably in third quarter of 2003.*

With regard to the international bank market, according to figures provided by the Bank for International Settlements, interbank activity contracted substantially in the third quarter of 2003. This was mainly reflected in the lower amount lent by European banks and U.S. banks through their offices in the United Kingdom and offshore centres. On the other hand, loans to the non-banking sector were up notably. At the same time, we note a shift in risk in emerging countries toward more secure assets. This specifically affected Latin America.



# SPAIN: OVERALL ANALYSIS

## ECONOMIC ACTIVITY

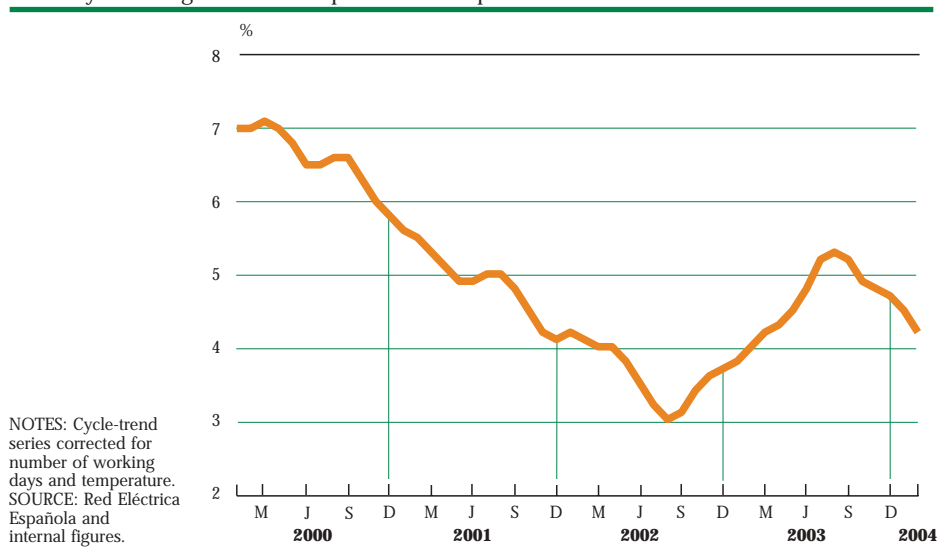
### Consumption and construction hold at high levels

*Domestic demand continues to show great strength while tending to moderate growth rate in recent month*

At the beginning of 2004, figures for the main economic indicators do not show any significant changes in the trends noted in the final months of 2003. Domestic demand is continuing to advance based on sustained growth of consumption and the strength of construction although we are beginning to note some signs of moderation in its growth rate. In this situation, the performance in the foreign sector will be key in order to tip the scales in one direction or the other. From an overall perspective, after adjustment for number of working days and temperature, electrical power consumption rose by 3.7% in January and February, a figure below the average for 2003 with a growth profile clearly moving down in recent months.

### DROP IN GROWTH OF ELECTRICAL POWER CONSUMPTION IN RECENT MONTHS

Year-to-year change in electrical power consumption



*Industrial sector continues very weak...*

On the supply side, industry is still failing to consolidate a clear line of recovery. The industrial production index in January, adjusted for number of working days, recorded a year-to-year decrease (0.8%) for the first time in the last seventeen months. On the other hand, confidence continues to hold at negative levels with a rather downward basic trend so that there is

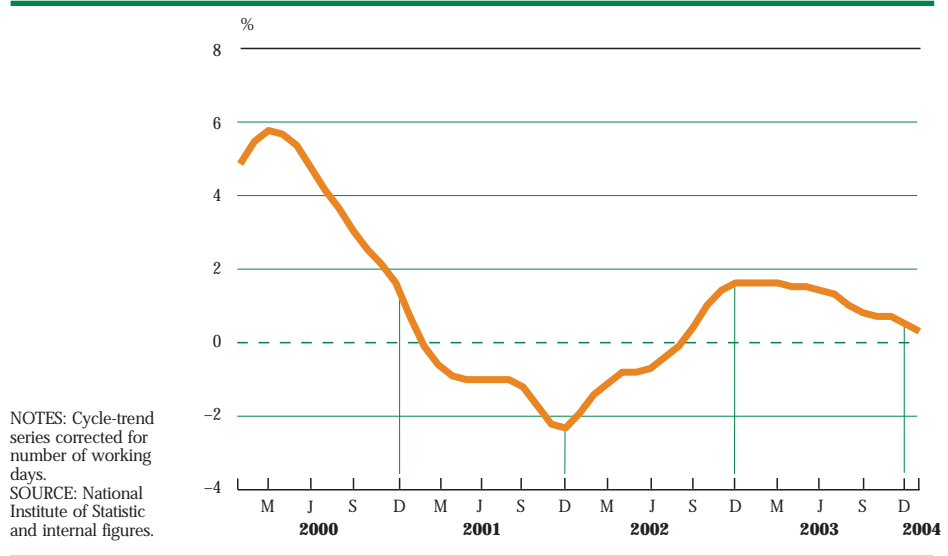
still no sign of a clear way out of the stagnation seen in the sector which, of course, is linked to the weakness of foreign demand and may possibly also be due to the loss of share in the domestic market.

*...mainly in branches linked to textile sector, consumer electronics, data processing equipment and other.*

By economic activity, we are still seeing sharp decreases in those branches forming part of the textile and clothing sector, consumer electronics and data processing equipment, with decreases running between 10% and 20% year-to-year in January. Other areas recording significant drops that month were the chemical industry (8.4%), motor vehicles (4.4%) and other transportation equipment (3.4%). On the opposite scale, we see metallurgy, machine building, medical equipment, publishing and graphic arts, all of which showed year-to-year increases below 5%.

#### GROWTH OF INDUSTRIAL PRODUCTION WEAKENS FURTHER

Year-to-year change in industrial production index



*By contrast, construction remains strong...*

A much more optimistic picture shows up in the construction sector which continues to grow at a very lively rate although with a tendency to moderate, according to the state of some indicators. This is the case, for example, with cement consumption which, with a very irregular growth profile over the past twelve months, reflects a gradual downward trend at the beginning of 2003, although the average increase recorded (4.0% on average in January and February) continues to be very strong.

*...although now, some indicators tend to moderate growth rate.*

Along the same lines, some early indicators such as total housing units planned and housing starts, reflect a notable growth rate, although it is tending to ease. In any case, the high number of housing units under construction ensures a good level of activity in the residential sector in coming months. In addition, we are seeing a drop in the volume of tendering of public works (more than 5% from January to October 2003) following the sharp growth in 2001 and 2002 (increases of 45.4% and 13.2% respectively) which explains the high level of work currently under construction.

## SUPPLY INDICATORS

Percentage change over same period year before

	2002	2003	2003				2004	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February
Industry								
Electricity consumption (1)	3.8	4.7	3.8	4.4	6.0	4.8	4.5	2.9
Industrial production index (2)	0.2	1.4	1.5	1.7	1.1	1.2	-0.8	...
Industrial climate indicator (3)	-5.7	-0.9	1.0	-1.0	-1.3	-2.3	-4.0	-2.0
Utilization of production capacity (4)	78.5	79.1	78.6	77.5	79.7	80.6	-	78.7
Imports of non-energy intermediate goods (5)	6.4	3.3	10.6	7.8	-0.1	-3.7	...	...
Construction								
Cement consumption	4.7	4.7	3.9	5.1	4.5	5.3	1.9	6.0
Construction climate indicator (3)	5.3	10.5	14.0	10.0	10.3	7.7	2.0	5.0
Housing (new building approvals)	4.3	21.4	23.9	21.7	14.1	26.0	...	...
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	6.0	6.1	...
Foreign tourists	4.5	0.2	-1.6	5.1	-3.0	1.3	6.9	...
Tourist revenues inflows	-2.9	3.7	0.3	7.5	3.9	2.3	...	...
Goods carried by rail (km-tonnes)	-0.7	1.7	0.7	-2.6	5.8	3.0	-0.8	...
Air passenger traffic	-1.1	7.4	4.5	8.3	7.7	8.5	7.4	15.5
Motor vehicle diesel fuel consumption	6.2	7.9	10.2	8.5	7.2	6.0	...	...

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.

### *Sustained growth in services reflected in good state of labour market.*

With regard to the services sector, we generally note a rate of sustained growth clearly reflected in the good state of the labour market. In the final quarter of 2003, the total number of persons employed in activities related to this sector grew by 4.7% year-to-year, according to the Labour Force Survey, with a profile of continuing increase all through the year. Figures for registrations with Social Security run in the same direction maintaining a high growth rate (4.3% in January). By sub-sector, those related to information technology, transportation, company services and retail trade continue to show strong. Following a modest balance in 2003, tourism is showing a better state at the beginning of 2004 which may be adversely affected by the tragic bombings in Madrid on March 11.

### *Consumption continues very strong...*

On the demand side, we note that household consumption is holding at high levels. The index for retail sales in January recorded a nominal increase of 6.1% year-to-year (4.4% real, close to a half-point higher than in the fourth quarter of 2003). In addition, passenger car registrations were up by more than 219,000 in January and February, the highest figure in history, with growth of 16.1% compared with the same period the year before.

## DEMAND INDICATORS

Percentage change over same period year before

	2002	2003	2003				2004	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February
Consumption								
Production of consumer goods (*)	2.4	0.2	0.5	1.8	0.3	-1.8	-2.6	...
Imports of consumer goods (**)	5.0	10.0	7.9	10.3	12.6	8.9	...	...
Car registrations	-6.6	3.8	-5.7	3.6	7.5	10.3	9.2	22.5
Credit for consumer durables	12.6	1.6	0.7	0.6	4.0	1.1	-	-
Consumer confidence index (***)	-11.6	-13.7	-17.0	-13.7	-12.3	-11.7	-12.0	-12.0
Investment								
Capital goods production (*)	-4.9	0.5	0.3	0.5	-2.2	3.1	-0.1	...
Imports of capital goods (**)	-5.8	16.8	10.6	22.6	26.2	9.9	...	...
Commercial vehicle registrations	-6.0	13.5	15.8	10.6	16.3	11.9	7.4	15.0
Foreign trade (**)								
Non-energy imports	3.7	7.4	9.9	11.0	7.6	2.1	...	...
Exports	1.4	6.2	5.9	11.1	4.6	3.3	...	...

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.

*...while capital goods investment tends to ease growth.*

On the contrary, indicators for capital goods investment have lately begun to show moderation in the previous sharp growth rate. Imports of capital goods rose by 9.9% real in the final quarter of 2003, while registrations of commercial vehicles were up by 11.2% year-to-year in the first two months of 2004, in both cases lower than in preceding periods.

### Moderate rise in shipbuilding in 2003

*Slight increase in shipbuilding in 2003...*

In 2003, activity in Spanish shipyards measured by the weighted activity index (calculation of which includes keel-layings, launchings and deliveries made during the year) rose by 2.4%, according to the Naval Sector of the Ministry of Science and Technology. This moderate increase returns shipbuilding to the state of stagnation noted since 1999, with the exception of sizeable growth (13%) recorded in 2002.

*...while prospects unfavourable over short and medium term.*

In spite of the recovery mentioned, the modest state of activity in 2003 may undergo a notable decrease over the medium term, if we are to go by the major dip to be seen in new contracts and cumulative order books. The latter showed a drop of 39.9% whereas new contracts were down little less than 25% that year, a reduction slightly below that for 2002 when it fell by 28%.

	2002		2003		% change CGT (*)
	Number of vessels	CGT (*)	Number of vessels	CGT (*)	
<b>Contracts</b>					
New contracts	48	261,432	53	196,166	−25.0
Order books	78	776,072	47	466,683	−39.9
<b>Production</b>					
Keel-layings	56	453,080	64	294,933	−34.9
Launchings	55	401,207	71	408,159	1.7
Deliveries	52	295,689	84	505,555	71.0
<b>Weighted activity (**)</b>	–	<b>391,272</b>	–	<b>400,726</b>	<b>2.4</b>

NOTES: (\*) CGT = Compensated gross tonnage.

(\*\*) Weighted activity = (K + 2L + D), where K = keel-layings, L = launchings and D = deliveries.

SOURCE: Ministry of Science and Technology.

### *Asian shipyards continue to gain ground over European yards.*

This situation is common right across Europe. On a world scale, the sector suffers from excessive supply in which the Asian economies are maintaining a trend to gain market share. The weak position of Spanish and European shipyards may be explained, among other factors, by the strength of the euro against the dollar. Nevertheless, the advantages of the Japanese naval market also lie in its higher productivity, support from government in matters of innovation as well as high quality and reliability in meeting delivery terms. Coming on top of this is the fierce competition from South Korea. Lower labour costs and the financial advantages available to them, among other factors, are the main reasons for the high level of competitiveness in the case of South Korea. Finally, Asian competitiveness is having more and more of an effect on the large European companies to the point where European shipyards saw their world market share reduced to 6% in 2003, whereas in 2002 it was 7%.

### *Slight reduction in Spain's dependence on foreign markets in 2003 but not expected to continue.*

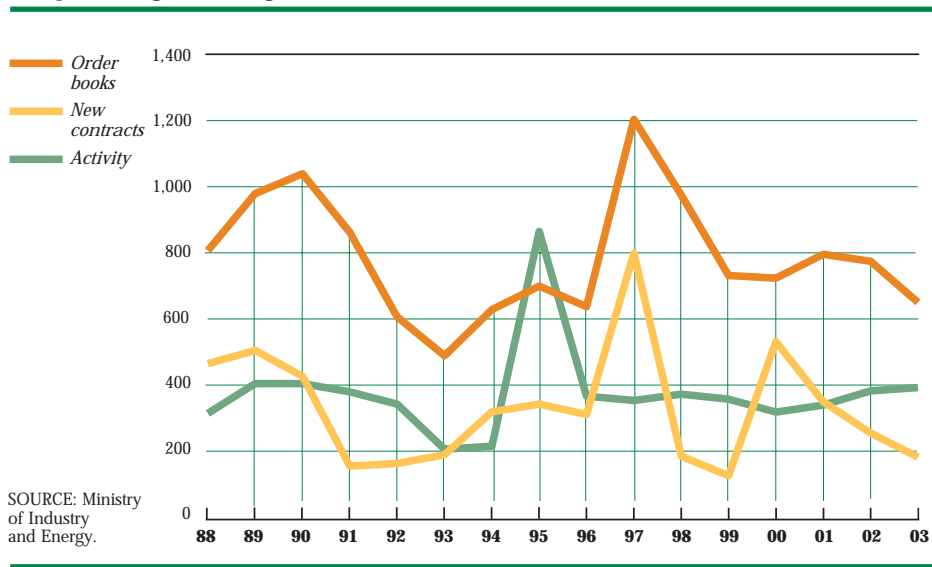
In this context, in the course of 2003 shipbuilding in Spain slightly reduced its dependence on foreign markets. Production activity intended for export that year was little less than 58%, whereas in 2002 foreign demand involved 63% of the activity of the Spanish shipbuilding sector. At the same time, new export contracts went from a little less than 73% in 2002 to 39.4% in 2003. Nevertheless, everything would indicate that this was a temporary phenomenon and that this proportion will tend to grow in the future, given that at the end of 2003 foreign orders amounted to 76% of the total as against 64% recorded in 2002.

### *European Union accepts package of measures aimed at improving competitiveness in Spain...*

Since 1999 the European Union (EU) maintains control over public supports to this industry which is heavily dependent on these for its survival. Nevertheless, on February 6, 2004, the Spanish government approved a package of measures aimed at improving the competitiveness of the country's shipbuilding sector, measures which would have the approval of the EU, seeing that competition from South Korea was considered to be unfair. Notable among these measures was a line of credit from the Official Credit Institute in order to facilitate the purchase of vessels by ship-owners.

## ACTIVITY OF SHIPBUILDING SECTOR IN SPAIN BEING MAINTAINED DESPITE DECREASE IN NEW CONTRACTS AND ORDERS

Compensated gross tonnage



*...hurt by difficult situation at Izar, government-run shipbuilding corporation.*

The shipbuilder Izar, a government-run corporation which arose in December 2000 from the merger of Astilleros Españoles and Bazán, wholly owned by Sociedad Estatal de Participaciones Industriales (SEPI), exemplifies the difficult situation of the sector in Spain. This government-run corporation, which accounts for 70% of Spain's shipbuilding production capacity, is going through a period of labour conflicts worsened by the breakdown of negotiations on a labour agreement and a lack of orders.

## Domestic tourism rescues sector balance in 2003

*Tourism from abroad stagnates in Spain but domestic tourism improves balance for year.*

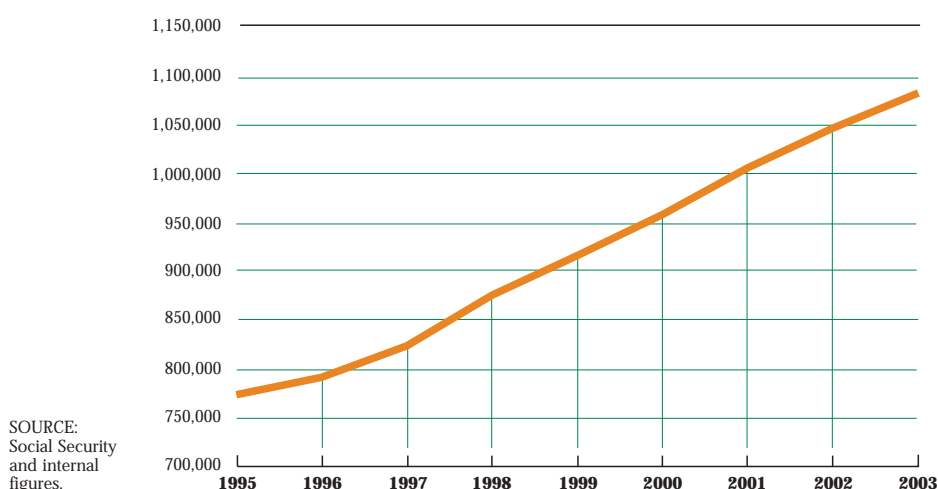
Growth of foreign tourist demand in Spain in 2003 was quite modest in line with Europe as a whole. In any case, the sector balance showed up somewhat more positive in view of the relative strength of domestic tourism as against that from abroad. In any case, we note an upward move in supply in a process of adaptation to the growing world demand in the sector.

*Sustained growth of employment confirms good rate of activity in sector.*

According to the Secretary General of Tourism, the number of workers dependent on tourist activity registered with Social Security rose to 1,622,401 on annual average, 3.2% more than the year before. This figure includes both personnel employed in hotels and restaurants and those in travel agencies, transportation and various tourist services, mainly recreational, cultural and personal. If we look only at Social Security registration in the sub-sector including hotels, restaurants and travel agencies, average registration for 2003 as a whole was 1,078,711, 2.7% more than the year before.

## EMPLOYMENT IN HOTELS, RESTAURANTS AND TRAVEL AGENCIES CONTINUES TO RISE

Persons employed in sector and registered with Social Security, as annual average



***Tourist accommodation supply continues to grow especially in hotels and rural homes.***

The strength of the labour market cannot be separated from the increase in supply in the various types of paid lodging. The various surveys carried out by the National Institute of Statistics (INE) indicate growth in the number of beds, both in the hotel sphere and in apartments, tourist campgrounds and rural tourist homes. In this respect, the number of beds available at hotels grew by 3.5% in 2003 to show an average of 1,119,940 during the year, with a maximum of 1,390,774 in August. In the case of campgrounds and apartments, growth in supply was substantially less at 1.3% and 0.7% compared with 2002, while the relative capacity of both sectors was also much lower at 474,148 and 432,074 beds respectively. Finally, lodging in rural homes rose to a spectacular extent although it continued to be a relatively small proportion of supply (around 67,000 beds).

***Notable containment of hotel prices thanks to increased competition and relatively weak state of demand.***

The growth of hotel accommodation supply, along with the weaker state of demand, seems to be favouring something of a process of price containment. The increase in hotel prices, according to the specific index, was 2.0% in 2003, nearly three points less than in 2002, with a sharper drop being noted in more prestigious establishments. On the other hand, there were no substantial differences in the increases among the various types of price categories (tour operators, companies, weekends, groups). The lower inflationary pressures in the sector also showed up in the consumer price index for tourism and the hotel trade, although the increase at 4.2% on annual average in 2003 (5.8% the year before) was clearly higher than in the case of hotels because of the impact of restaurants and cafeterias.

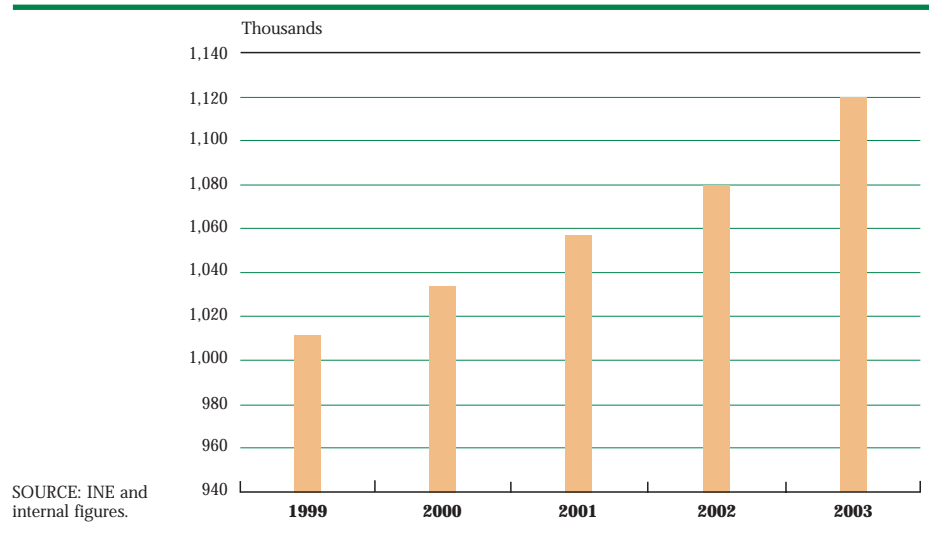
***Number of tourists stagnant...***

Tourist demand from abroad went through an appreciable slowdown in 2003 according to the main indicators available. In fact, the number of tourists visiting Spain who stayed at least one night in the country came to 52,410,599, that is to say 0.2% more than the year before, according to the survey of traveller movements at border points. This increase was



more than three points less than the year before. On the other hand, the increase in foreign visitors was substantially higher (3.1%), reaching a new all-time high of 82,525,063 thanks to the rise in day-trippers.

#### SUSTAINED INCREASE IN HOTEL ACCOMMODATION SUPPLY Beds in hotels and hostels as annual average



*...while tourist revenues increase below nominal growth rate of economy.*

The stagnation in foreign tourism in 2003 did not appreciably affect nominal revenues, partly thanks to the increase in prices in the sector. As a result, inflows for tourism rose by 3.7% for the year as a whole, thus recovering from the decrease seen the year before. In any case, growth of foreign inflows for tourism stood below the nominal growth rate of the economy.

*Weakness of demand mainly due to poor economic state of source markets...*

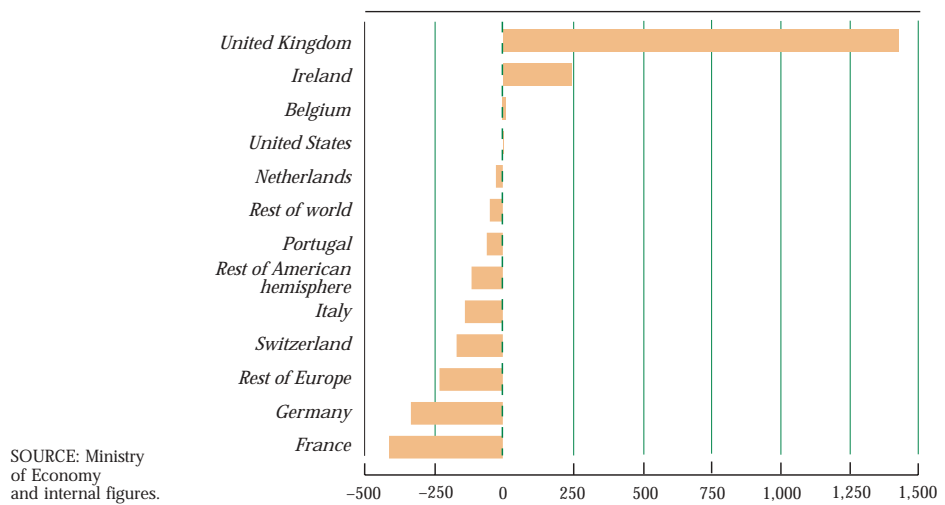
The poor state of incoming tourism was due to various causes. In the first place, the weakness of the economic climate in the main source markets and growing competition from other destinations played an important role in certain cases. In this respect, the sharp drop in German tourism (3.2%) was quite significant as well as that from other European countries and some Latin American countries experiencing economic difficulties. In addition, the growing strength of the euro during the year may also have had an influence on the sharp drop in tourism from Switzerland and the stagnation in tourism from the United States.

*...as well as some base effect in case of tourism from neighbouring countries.*

On the other hand, the weakness of certain markets such as those of France, Italy and Portugal, quite apart from the poor tone in their respective economies, was the result of some base effect. In fact, the uncertainty created by the terrorist attacks in September 2001 boosted the substitution of air travel by road transportation as a means of tourist travel, which fostered growth of tourism from neighbouring or nearby countries in 2002. The relative improvement of the international situation in 2003, especially following the end of the conflict in Iraq, and reduced concern about air travel has shifted back part of nearby tourism, which had boosted results in the preceding year, to that involving longer routes.

## BRITISH TOURISM SAVES YEAR

Annual change in thousand persons



**Increase in tourism from British Isles compensates drop from rest of Europe.**

The decline in tourism from the countries mentioned was compensated in overall terms by the extraordinary growth from the United Kingdom market, especially from Ireland which overall provided more than 17.5 million tourists, one-third of the total. The somewhat more positive economic climate in those countries and especially the rise in low-cost flights on certain routes from the main cities of these two countries explains this growth.

**Drop in apartment rental market, modest growth in hotel and camping accommodation in contrast to rise in free lodgings.**

The poor balance in tourism was mainly due to the drop in the apartment rental market given that lodging in campgrounds and, to a lesser extent, in hotels was up moderately compared with the year before. On the other hand, there was a somewhat sharper increase in tourists using their own housing or visiting family or friends, which reflects the consolidation of the model of investment in holiday homes by foreigners. In any case, hotels continued to be the most normal type of lodging given that 64.7% of tourists used this type of accommodation as against 19.6% having access to their own housing, according to official statistics.

**Catalonia consolidates leadership as main destination for foreign tourism.**

The performance of foreign tourism differed substantially according to destination. The most important increases came in areas of relatively little importance from a tourist perspective except in the case of Murcia, a region where growth of 20.9% meant more than a half-million tourists. Among the main tourist destinations, Catalonia consolidated its position of leadership coming close to 12 million tourists while the Balearic Islands and the Canary Islands showed a slight drop of less than 1%. The least favourable results with sharp decreases showed up in Asturias (following an exceptional year in 2002), Aragon and Galicia.

## TOURISM INDICATORS

	1998	1999	2000	2001	2002	2003
<b>Visitor entries</b>						
Tourists	9.7	7.8	2.4	5.2	3.3	0.2
Day-trippers	6.6	3.8	5.1	-3.7	6.3	8.7
<b>Total</b>	<b>8.6</b>	<b>6.3</b>	<b>3.3</b>	<b>3.1</b>	<b>4.3</b>	<b>3.1</b>
<b>Origin of foreign tourists</b>						
Germany	24.8	24.8	23.3	21.5	19.5	18.8
United Kingdom	26.2	26.0	27.6	28.0	28.1	30.7
France	12.1	12.3	11.9	13.4	15.5	14.7
Rest of Europe	29.7	30.1	30.1	30.6	31.0	30.3
Rest of world	7.2	6.8	7.1	6.5	5.8	5.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Hotel establishments</b>						
Occupancy level (as % of available beds)	61.0	60.5	57.0	56.2	53.6	54.5
Overnight stays						
<i>Spanish residents</i>	<i>8.5</i>	<i>4.6</i>	<i>2.3</i>	<i>2.3</i>	<i>1.5</i>	<i>4.7</i>
<i>Foreigners</i>	<i>6.1</i>	<i>21.7</i>	<i>-3.5</i>	<i>-0.2</i>	<i>-5.1</i>	<i>0.7</i>
Total	6.9	15.0	-1.5	0.7	-2.6	2.2
<b>Tourist campgrounds</b>						
Overnight stays						
<i>Spanish residents</i>	<i>...</i>	<i>9.2</i>	<i>10.4</i>	<i>6.3</i>	<i>-4.3</i>	<i>5.9</i>
<i>Foreigners</i>	<i>...</i>	<i>26.6</i>	<i>7.0</i>	<i>12.6</i>	<i>9.5</i>	<i>-0.7</i>
Total	...	16.3	8.9	9.0	1.9	2.8
<b>Tourist apartments</b>						
Overnight stays						
<i>Spanish residents</i>	<i>...</i>	<i>...</i>	<i>...</i>	<i>-0.9</i>	<i>2.5</i>	<i>-2.1</i>
<i>Foreigners</i>	<i>...</i>	<i>...</i>	<i>...</i>	<i>-4.7</i>	<i>-6.1</i>	<i>8.3</i>
Total	...	...	...	-4.2	-5.0	-3.9
<b>Tourism balance of payments (*)</b>						
Inflows	13.3	13.5	11.0	8.5	-3.5	3.7
Payments	13.0	15.0	15.5	11.7	5.8	4.2
Balance	13.3	13.2	10.0	7.9	-5.5	3.6
<b>Consumer price index (**)</b>						
Restaurants and cafeterias	3.0	3.5	3.9	4.7	5.8	4.1
Hotels and other lodgings	6.1	6.5	10.6	9.9	4.8	3.7
Tourist services	15.4	7.2	12.3	7.1	7.3	0.2
<b>Total tourism and hotel trade</b>	<b>4.0</b>	<b>4.0</b>	<b>4.9</b>	<b>5.2</b>	<b>5.9</b>	<b>3.6</b>
<b>Hotel price index (**)</b>						
Normal rates	...	...	...	4.4	5.1	2.7
Tour operator and travel agency rates	...	...	...	5.8	4.3	1.3
Total hotel prices	...	...	7.3	5.5	4.9	2.0

NOTES: (\*) Percentage cumulative change as of October.

(\*\*) Change over December year before.

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

**Tourist trips by Spaniards within Spain up notably.**

With regard to tourism by Spanish residents within Spain, there was a substantial improvement in the spring and summer seasons in 2003. According to figures from the Tourism Studies Institute, the number of tourist trips within Spain made by Spanish residents (which made up 91.7% of all tourist trips) rose by 4.3% compared with the same period the year before. This increase was somewhat higher than that shown by travel abroad at 3.5%. These figures do not include trips to holiday homes, a segment making up 64.7% of tourist travel by Spanish families, which also grew sharply in spring and summer.

**FOREIGN TOURISTS BY AUTONOMOUS COMMUNITY OF DESTINATION  
2003**

	Tourists	Share of total		Annual change	
		2003	2002	Tourists	Percentage
Catalonia	11,816,977	22.5	22.3	133,981	1.1
Canary Islands	10,668,547	20.3	20.6	-90,609	-0.8
Balearic Islands	9,608,376	18.3	18.5	-46,544	-0.5
Andalusia	7,578,782	14.4	14.3	78,943	1.1
Valencian Community	4,963,446	9.5	9.5	-29,969	-0.6
Madrid Community	3,093,056	5.9	5.8	45,153	1.5
Castile-Leon	1,261,872	2.4	2.5	-38,344	-2.9
Basque Country	976,901	1.9	1.8	12,984	1.3
Galicia	769,214	1.5	1.6	-59,551	-7.2
Murcia	525,711	1.0	0.8	90,924	20.9
Aragon	244,045	0.5	0.5	-23,352	-8.7
Navarre	227,489	0.4	0.4	39,115	20.8
Cantabria	192,958	0.4	0.4	-7,095	-3.5
Extremadura	173,187	0.3	0.2	48,720	39.1
Castile-La Mancha	155,072	0.3	0.3	-5,406	-3.4
Asturias	150,280	0.3	0.3	-18,680	-11.1
La Rioja	71,641	0.1	0.1	20,518	40.1
<b>Total entries</b>	<b>52,477,554</b>	<b>100.0</b>	<b>100.0</b>	<b>150,788</b>	<b>0.3</b>

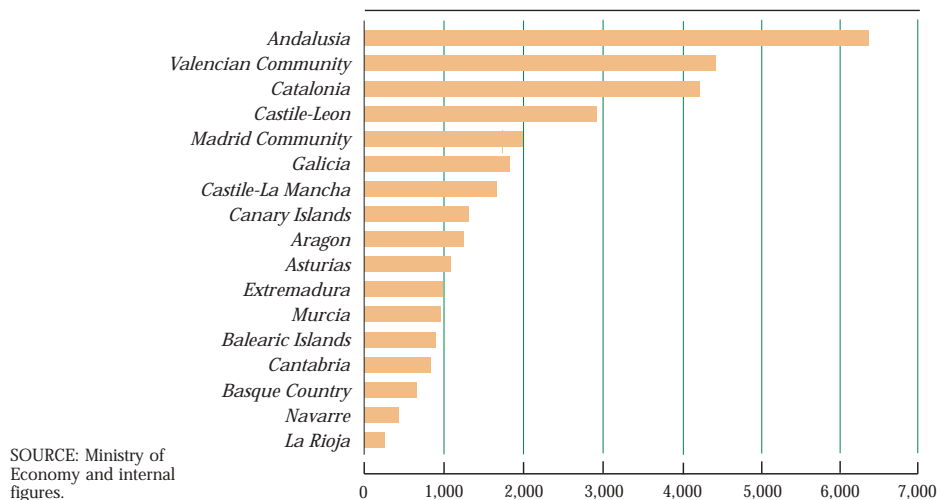
SOURCE: Ministry of Economy and internal figures.

**Hotels make up 75% of paid overnight stays.**

Figures for 2003 as a whole show an increase of 4.7% in overnight stays by Spaniards in hotels, 5.9% in the case of campgrounds, 8.3% for tourist apartments and, finally, 6.8% for rural homes. In any case, the hotel market is the most significant under paid lodging as it accounts for three-quarters of all overnight stays. At the opposite extreme, rural homes account for only about 1% of the market while the rest is divided up by campgrounds and tourist apartments (14% and 10% respectively).

## ANDALUSIA MAIN DESTINATION FOR SPANISH DOMESTIC TOURISM

Thousand trips in spring and summer seasons in 2003



**Andalusia, Valencian Community and Catalonia account for nearly 50% of tourist demand by Spaniards.**

Domestic tourism by Spaniards, excluding trips to holiday homes, mainly chose Andalusia, Valencian Community and Catalonia as main destinations, so that those areas as a whole made up somewhat more than 46% of all such tourist trips. These figures include tourism of residents within the respective autonomous community. Those tourist destinations to show highest growth were Madrid Community, Asturias, La Rioja, Aragon, Castile-La Mancha and Catalonia. On the other hand, Murcia and Cantabria recorded modest decreases in tourist demand. In addition, we should point out the poor growth in demand in those areas which heavily specialize in tourism, such as the Balearic Islands and the Valencian Community.

## LABOUR MARKET

### Good state of employment at beginning of 2004

#### *Registrations with Social Security hold to growth above 3%...*

The number of those registered with Social Security on taking a job rose by 126,310 persons in February, very slightly bettering the figure for the same month in 2003. As a result, the growth rate of registrations with Social Security remained practically stable at 3.1% year-to-year, thus confirming the sustained growth of employment being noted in recent months.

#### EMPLOYMENT INDICATORS

Percentage change over same period year before

	2001	2002	2003				2004	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February
<b>Persons registered with Social Security</b>								
Wage-earners	4.6	3.5	3.6	3.4	2.9	2.9	3.1	3.0
<i>Industry</i>	1.6	-0.2	-0.1	-0.6	-0.5	-0.7	-0.4	...
<i>Construction</i>	7.3	5.8	5.8	4.8	3.8	3.0	4.6	...
<i>Services</i>	5.6	4.4	4.0	4.3	3.9	4.3	4.5	...
Non-wage-earners	1.0	0.9	1.7	2.2	2.5	2.8	3.1	3.3
<b>Total</b>	<b>3.9</b>	<b>3.0</b>	<b>3.3</b>	<b>3.2</b>	<b>2.8</b>	<b>2.9</b>	<b>3.1</b>	<b>3.1</b>
<b>Persons employed (*)</b>	<b>3.7</b>	<b>2.0</b>	<b>2.3</b>	<b>2.6</b>	<b>2.8</b>	<b>3.0</b>	-	-
<b>Jobs (**)</b>	<b>2.4</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>1.9</b>	<b>2.1</b>	-	-
<b>Hiring contracts registered (***)</b>								
Permanent	8.0	-1.6	8.0	-6.7	-6.2	0.2	-6.2	11.9
Temporary	1.0	1.1	7.9	-2.8	1.5	8.8	3.4	15.9
<b>Total</b>	<b>1.6</b>	<b>0.9</b>	<b>7.9</b>	<b>-3.1</b>	<b>0.9</b>	<b>8.1</b>	<b>2.5</b>	<b>15.5</b>

NOTES: (\*) Estimate from Labour Force Survey.

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

(\*\*\*) At INEM.

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

#### *...thanks to increase in registrations among foreign worker group.*

The notable increase in registrations continues to be based on bringing the foreign worker group (both those from the European Union and third countries) into the Social Security system. In fact, the total number of registrations by workers of foreign origin rose by 12.8% year-to-year in February going up to 973,919 persons. The sharpest growth came among EU citizens with a figure of 16.5%, around five points above that shown by persons from third countries, a group making up 78.0% of foreign

employment in Spain. In any case, growth of registrations by Spaniards also showed a good rate at 2.5% year-to-year.

*Hirings registered at INEM up 8.6% in first two months of year.*

Maintenance of the state of the labour market in the early stages of 2004 is also confirmed by the strength shown by figures for job placements recorded by the National Employment Institute (INEM). In fact, these placements rose notably in February putting the cumulative annual figure at an increase of 8.6%, somewhat higher than the year before. The increase in hiring was mainly due to growth of temporary jobs, particularly part-time work, given that permanent jobs rose by 2.7%.

## Registered unemployment up slightly

*Registered unemployment stabilizes increase at very moderate levels.*

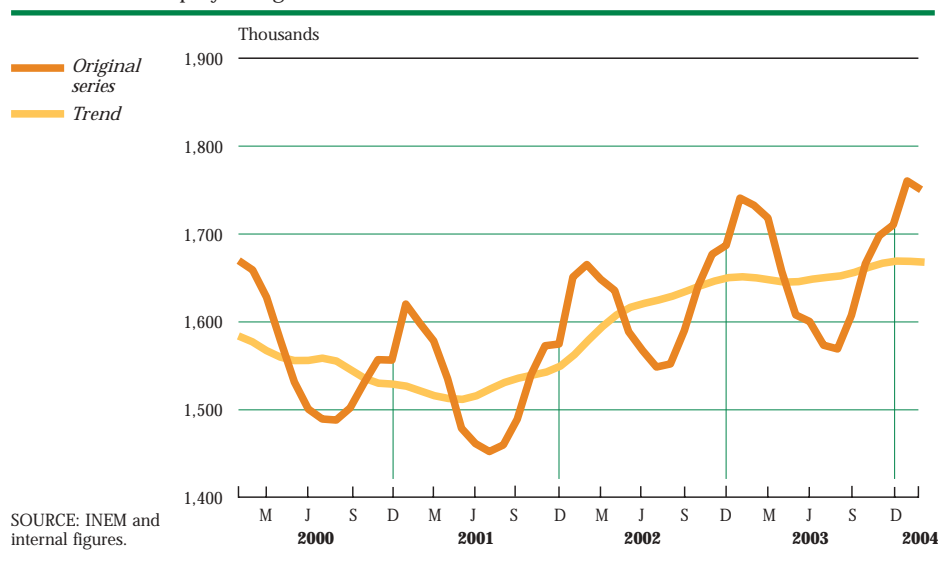
The number of unemployed registered at INEM dropped by 10,074 in February thus improving the figure for the same month the year before. As a result, the year-to-year growth of unemployment moderated slightly to stand at 1.0%, which also confirmed the state of gradual growth being shown by unemployment in recent months.

*In spite of being unfavourable, balance as of February better for this period than in recent years.*

The decrease in unemployment in February failed to prevent the cumulative balance for the year from still being unfavourable but it did show an improvement over 2003. In fact, the increase in unemployment as of February (40,407 persons) was slightly below the year before and represented the best start to the year since 2000.

## REGISTERED UNEMPLOYMENT: GOOD START TO YEAR

Number of unemployed registered at INEM offices





**Increase in unemployment concentrated in services and those seeking a first job...**

The increase in unemployment was concentrated in services and among those seeking a first job, a situation which reflects the increase in the labour force. On the other hand, construction recorded a drop in unemployment sharper than in the same period the year before. Industry followed along the same line of decrease although at more moderate figures.

**...especially among women.**

The increase in unemployment was concentrated among females because the increase in the female labour force could not be absorbed. On the other hand, unemployment among males dropped notably and even more sharply than in 2003. Finally, in spite of growing in the early months of the year, unemployment among young people rose to a lesser extent than in the same period the year before.

### Wages costs up by 3.8% in 2003

**Wage costs grow more than one point above inflation.**

The increase in total wage costs per person per month rose by two decimals in the fourth quarter of 2003 to stand at 3.3% year-to-year, according to the labour cost index (LCI). As a result, the average increase for the year as a whole stood at 3.8%, one decimal below the figure recorded in 2002. In any case, total wage costs rose by 1.2 points above the average inflation rate. If we add other labour costs such as Social Security and other benefits to wage costs, the increase in total labour costs stood at 3.7% year-to-year and at the level of 4.2% as the average for the period (4.4% in 2002).

### WAGE INDICATORS

Percentage change over same period year before

	2001	2002	2003			
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Increase under general wage agreements	3.5	3.1	3.4	3.4	3.5	3.5
Wage per job equivalent to full-time work (*)	3.8	3.9	4.6	4.3	4.0	4.1
Labour cost index						
Wage costs						
Total	3.5	3.9	4.9	4.2	3.1	3.3
<i>Industry</i>	3.7	4.7	5.0	5.1	3.7	3.7
<i>Construction</i>	3.9	4.1	5.1	4.9	5.1	5.1
<i>Services</i>	3.6	3.8	4.8	3.9	2.6	3.0
Average wages per hour worked	3.8	4.1	3.3	8.0	3.1	3.0
Other labour costs	6.2	6.0	6.0	5.5	5.2	5.0
Work day (**)	-0.3	-0.3	1.5	-3.5	-0.1	0.4
Farm wages	4.6	5.1	3.4	2.1	2.1	2.6
Labour cost in construction	4.7	2.9	4.0	4.6	4.4	3.6

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

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

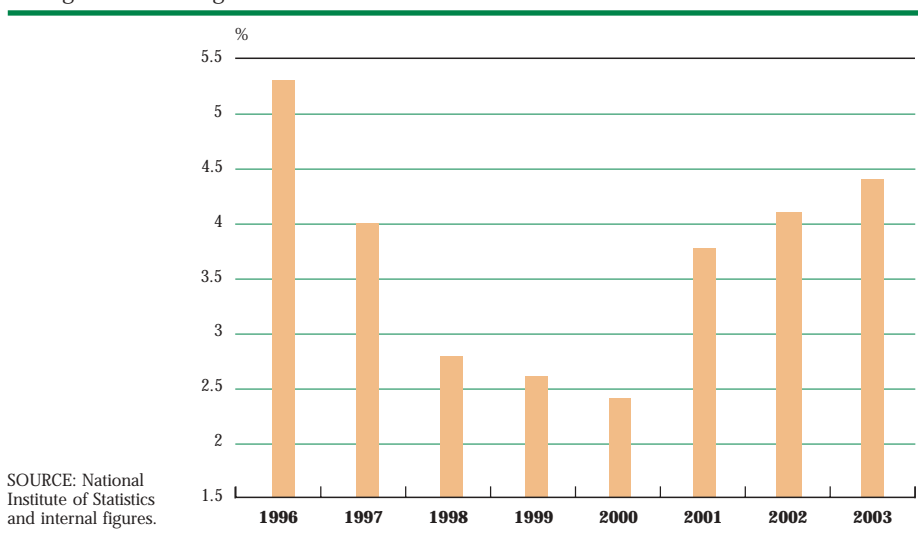
SOURCE: National Institute of Statistics, Ministry of Labour and Social Affairs, Ministry of Agriculture, Fishing and Food, Ministry of Public Works and internal figures.

**Construction and industry at head of increases in labour costs.**

The slight increase in wage costs in the fourth quarter was to be seen only in the area of services where labour cost per worker per month came to grow by 3.0% ending the year at an average of 3.5%, three decimals below that for the year before. In industry and construction, on the other hand, the increase in labour costs remained stable in the fourth quarter although in both cases the average annual increase was higher than that shown in services, specifically 5.0% and 4.4% respectively.

#### NOTABLE RISE IN WAGE COST PER HOUR WORKED IN 2003

Average annual change



**Wage cost per effective hour worked shows rise of 4.4% in 2003 with drop in effective hours worked.**

The slight moderation in wage increases, however, was not reflected in the performance of cost per effective hour worked which in 2003 as a whole grew by 4.4% on annual average, three decimals more than in the previous year. This increase, which was higher than wage costs, may be explained by the decrease of 0.5% seen in effective hours worked.

**Wages covered by union agreement up 3.5%, that is, somewhat below revised increases year before.**

The average wage rise under collective bargaining agreements stood at 3.5% in 2003, according to figures from the Ministry of Labour and Social Affairs, that is to say, four decimals above the average agreed upon the year before. This increase is lower, however, than that really paid in 2002 which came to 3.8% because of the impact of revision clauses. By sector, construction (at 4.8%) showed the highest increase with services coming next in line at 3.4%. The wage increase in industry stood at 3.2%.

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## PRICES

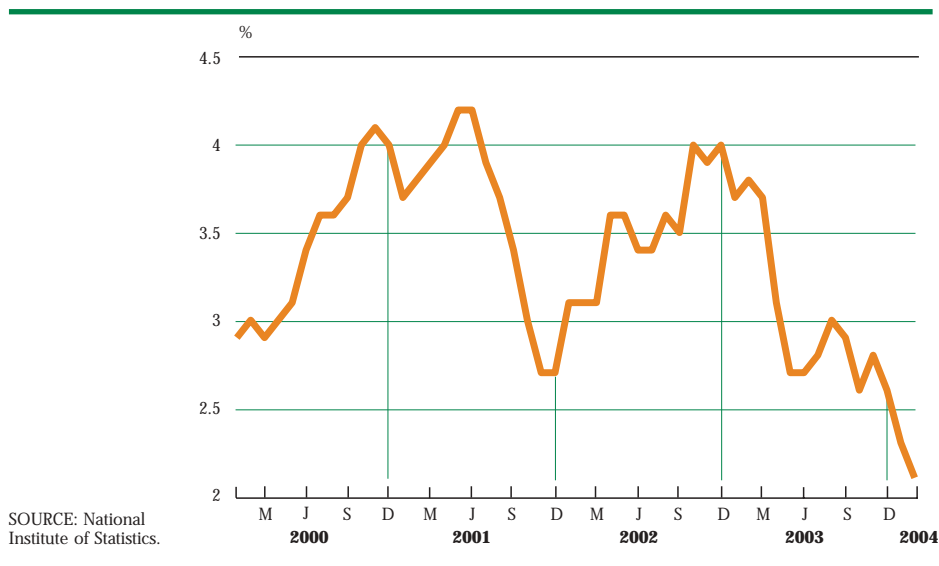
### Inflation rate close to 2% in February

*Inflation rate drops again in February.*

The inflation rate measured by the consumer price index (CPI) dropped by 2 decimals in February to stand at 2.1% year-to-year, the lowest figure in five years. The good performance of the CPI was mainly due to moderation of fuel prices and, to a lesser extent, to containment of prices of foods and non-energy industrial goods. On the other hand, services maintained a stable rate of increase.

#### FURTHER CONTAINMENT OF CPI

Year-to-year change in consumer price index



*Energy key factor in improvement...*

The key factor behind the reduction of the inflation rate in February was containment of fuel prices which benefited from the positive effect of the strength of the euro despite growing pressures in oil markets. This containment sharpened the rate of decrease of this component to 3.9% year-to-year which meant a reduction of around eight decimals in the general CPI rate in the past year.

## 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	0.0	-0.7	2.1
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			

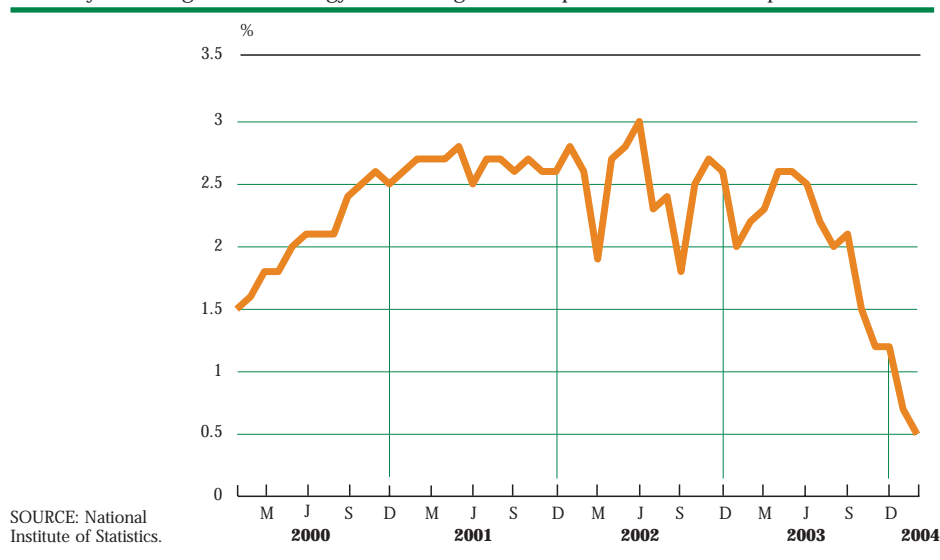
SOURCE: National Institute of Statistics.

*...along with  
containment of food  
prices.*

The second factor favouring a decrease in the inflation rate was food prices, especially in fresh food products which, despite the high growth rate maintained (6.1% year-to-year in February), have moderated significantly. In addition, processed foods have also shown a reduced rate of increase thanks to cooking oil and tobacco with the latter benefiting from some base effect compared with the same month last year.

## NON-ENERGY INDUSTRIAL GOODS CONTINUE TO DROP

Year-to-year change in non-energy industrial goods component of consumer price index



**Prices of industrial goods continue to moderate...**

A third factor was that prices of industrial goods continued along a path of moderation although, in contrast to previous months, the downward pressure came more from certain durable consumer products of household use than from clothing and footwear which had previously shown notable containment. As a result, the increase in this CPI component stood at 0.5% year-to-year, two decimals below the previous month and far from the levels above 2% where it was running for the greater part of last year.

**CONSUMER PRICE INDEX BY COMPONENT**  
February

	Indices (*)	% monthly change		% change over previous December		% annual change		
		2003	2004	2003	2004	2003	2004	
By type of spending								
Food and non-alcoholic beverages	111.4	-0.3	-0.4	0.2	0.1	4.5	4.0	
Alcoholic beverages and tobacco	110.2	1.5	0.1	1.7	0.3	6.4	1.4	
Clothing and footwear	103.0	-0.8	-0.5	-10.3	-11.5	3.2	1.2	
Housing	107.1	0.4	0.3	1.2	1.0	3.2	2.6	
Household equipment	104.4	0.2	0.0	-0.3	-0.6	2.2	1.5	
Health	104.3	0.0	-1.3	0.3	-1.0	1.8	0.6	
Transport	105.0	0.9	0.6	2.5	1.4	5.3	-0.1	
Communications	93.5	0.1	-0.1	1.5	-0.2	-3.5	-1.8	
Recreation and culture	102.2	0.3	0.3	-1.0	-1.1	1.4	0.0	
Education	112.2	0.6	0.1	0.7	0.4	5.1	4.0	
Hotels, cafés and restaurants	112.5	0.5	0.5	1.0	1.1	4.7	4.1	
Other	110.3	0.2	0.2	1.7	1.9	3.4	3.3	
By group								
Processed food	109.3	0.6	0.5	1.1	0.9	4.2	2.4	
Unprocessed food	115.2	-1.5	-1.9	-1.1	-1.3	5.9	6.1	
Non-food products	106.2	0.3	0.2	-0.4	-0.9	3.5	1.6	
Industrial goods	102.4	0.3	-0.0	-1.6	-2.7	3.2	-0.2	
Energy products	100.9	1.3	0.4	3.6	1.1	6.7	-2.5	
Fuels and oils	100.3	1.8	0.6	4.4	0.9	8.6	-3.9	
Industrial goods excluding energy products	102.8	-0.0	-0.2	-3.1	-3.8	2.2	0.5	
Services	110.7	0.4	0.4	1.0	1.0	4.5	3.6	
Underlying inflation (**)	107.5	0.3	0.2	-0.5	-0.8	3.3	2.3	
GENERAL INDEX	107.5	0.2	0.0	-0.2	-0.7	3.8	2.1	

NOTES: (\*) Base 2001 = 100.

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

SOURCE: National Institute of Statistics.

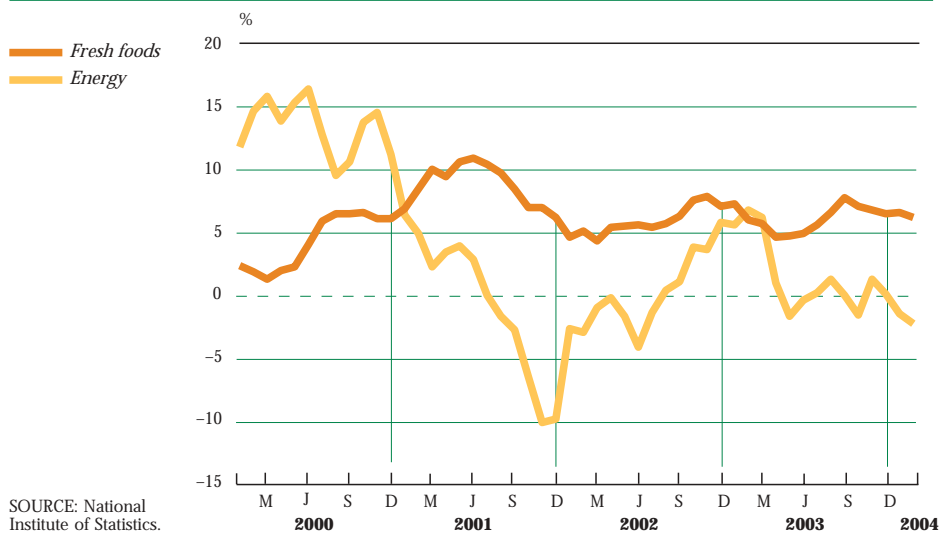
**...in contrast to services which show downward resistance.**

The resulting CPI was not more favourable because of downward resistance of services prices which continued to increase by 3.6% year-to-year in February, a rate the same as in the preceding month. Among those elements showing the biggest increase were those related to financial services, some types of insurance and personal services, both of a recreational and cultural nature and of an educational type. Hotels and

restaurants maintained a relatively high growth rate. Only communications and certain medical services reported appreciable moderation.

## ENERGY AND FRESH FOODS HOLD DOWN CPI

Year-to-year change in energy and fresh food components of consumer price index



***CPI continues path of moderation over short term.***

The improvement in the CPI in February should continue up until the beginning of Spring, although at a reduced rate, because of the positive effect of energy products, so long as oil markets and foreign exchange markets show no substantial changes. At the same time, fresh food prices continue to show some potential for slowdown. It is more difficult to see any downward trend in other components, although a context of moderation in consumption could indirectly favour this. In any case, it is hard to see any significant slowdown in underlying inflation, that is to say, excluding those components mentioned earlier (fresh foods and energy).

***Price differential with euro area stands at 0.6 percentage points.***

The reduction in the inflation rate in Spain was somewhat lower than that shown by the harmonized consumer price index for the euro area in February, which meant that the differential increased slightly that month to stand at 6 decimals. This differential, however, was far from the 1.4 points recorded in the same month last year. By component, the differences between Spain and other countries in the euro area were quite uneven with notable relative moderation of prices in Spain under such groups as alcoholic beverages and tobacco, medical services, transportation and communications.

## Moderation in producer prices in February

***Energy favours containment of producer prices in February...***

Producer prices in February maintained the rate of increase of 0.7% year-to-year recorded the month before, thus continuing along a path of strong moderation. The stability of producer prices was favoured by the

*...compensating for increase in other intermediate products.*

sharper decrease in energy prices which compensated for the moderate pressures seen in prices of intermediate goods taking place since the beginning of the second half of last year.

## INFLATION INDICATORS

Percentage change over same period year before

	Farm prices	Producer price index					Import prices				GDP deflator (*)
		General index	Consumer goods	Capital goods	Intermediate goods	Energy goods	Total	Consumer goods	Capital goods	Intermediate goods	
2003											
January	-10.3	2.5	1.9	1.4	1.2	7.4	3.6	-4.0	2.0	7.4	-
February	-0.7	2.9	2.0	1.2	1.5	8.9	-5.1	2.7	-8.9	-6.9	4.4
March	-0.8	3.0	2.2	1.2	1.5	9.5	2.9	1.4	-3.0	5.3	-
April	0.3	1.4	1.6	1.0	1.3	1.3	-2.5	-0.1	-10.9	-0.9	-
May	7.5	0.7	1.8	1.2	1.0	-2.3	-2.0	-1.9	-10.0	0.4	4.1
June	6.6	0.9	2.0	1.2	0.4	-0.9	0.7	-0.6	-7.2	3.8	-
July	3.7	1.1	2.5	1.1	0.1	0.2	0.0	-3.4	-7.2	3.2	-
August	8.3	1.1	2.7	1.1	0.0	0.1	1.5	4.5	-9.1	2.9	4.0
September	14.6	0.8	2.7	1.2	0.3	-2.4	-2.8	-0.2	-17.7	0.9	-
October	12.0	0.6	2.5	1.2	0.7	-3.6	0.8	2.8	-0.6	-0.0	-
November	11.1	1.3	2.6	1.4	0.9	-0.4	-0.2	-0.4	-7.0	1.8	4.2
December	9.5	1.1	2.4	1.3	1.0	-1.1	-1.4	-1.4	-9.4	1.0	-
2004											
January	...	0.7	2.1	1.3	1.4	-3.6	...	...	...	...	-
February		0.7	2.1	1.3	2.0	-5.4					

NOTES: (\*) Gross figures corrected.

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

*Import prices drop slightly in 2003...*

Import prices, on the other hand, ended 2003 showing an average decrease of 0.4% which came on top of the drop of 3.0% the year before. This decrease was mainly due to capital goods in contrast to the previous year when prices of intermediate goods decidedly contributed to the decrease in the overall index. In the case of consumer goods, the decrease in prices in 2003 was practically imperceptible at 0.1% brought about by food products. On the other hand, non-food consumer goods rose by 0.1%, a performance in contrast to the decrease of 1.2% the year before.

*...while farm prices up 5.5%.*

Farm prices ended 2003 with average growth of 5.5% following a second half marked by sharp increases. This rise was largely a response to the drop of 4.5% seen the year before. The weaker performance came in agricultural products with an average increase of 9.4%, well above the figure for livestock products at 4.5%.



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## FOREIGN SECTOR

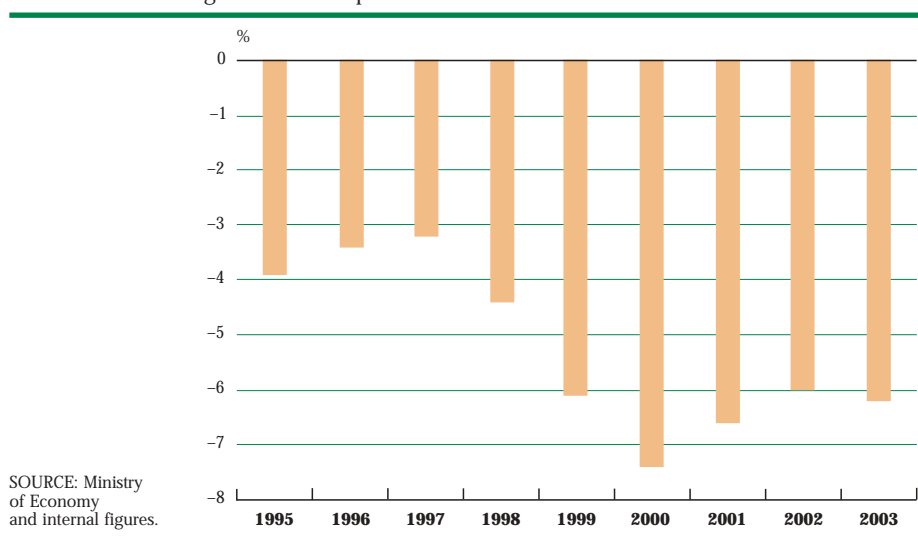
Trade deficit goes up to 6.2% of GDP in 2003

***Trade deficit grows sharply in 2003.***

The trade deficit of Spain's economy increased by 10.3% in 2003 going up to 46.3 billion euros, a figure equivalent to 6.2% of the gross domestic product (GDP). This increase was due to the weaker state of exports while imports moved up at the nominal rate of the economy. The export/import ratio, that is the relation between exports and imports, dropped by eight decimals to 74.9%.

### TRADE DEFICIT HOLDS AT HIGH LEVELS

Trade balance over gross domestic product



***Imports move up at nominal rate of economy to make up 25% of GDP.***

Imports amounting to 184.1 billion euros for the year as a whole recorded a nominal increase of 6.5% which represented 24.8% of the GDP, a figure practically identical to that recorded the year before. In real terms, if we take into account the decrease in average price of imported products, the increase was 7.0%, practically twice the increase recorded in 2002.

***Imports reflect good state of domestic demand...***

The notable increase in foreign purchases was mainly concentrated in consumer goods and capital goods, given that imports of intermediate goods tended to ease in 2003 to show a modest increase of 3.3% real at

*...and weakness  
of industrial sector.*

year-end, far from the growth attributed to consumer goods (10.0% real) and to capital goods (16.8%). This performance confirms the good state of domestic demand in the course of the year in contrast to some weakness in industrial activity. By geographical area, purchases from the European Union (EU) were up by 6.0% real, 3.3 points less than those coming from non-EU countries.

FOREIGN TRADE  
January-December 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	19,100	2.0	10.4	4,133	36.0	3.0	-14,966	21.6
Consumer goods	52,004	10.0	28.2	56,564	5.6	41.0	4,561	108.8
Food	12,451	9.1	6.8	17,352	6.1	12.6	4,901	139.4
Non-foods	39,553	9.7	21.5	39,212	4.2	28.5	-341	99.1
Capital goods	29,405	7.9	16.0	16,906	6.3	12.3	-12,499	57.5
Non-energy intermediate goods	83,586	5.1	45.4	60,211	3.3	43.7	-23,375	72.0
By geographical area								
European Union	117,795	6.6	64.0	98,986	6.2	71.8	-18,809	84.0
Euro area	101,838	6.2	55.3	82,807	7.0	60.1	-19,031	81.3
Other countries	66,300	6.5	36.0	38,830	3.2	28.2	-27,470	58.6
Eastern Europe and ex-USSR	8,079	7.3	4.4	5,959	8.1	4.3	-2,120	73.8
United States	6,815	-4.4	3.7	5,677	-1.4	4.1	-1,138	83.3
Japan	4,814	13.8	2.6	998	-4.2	0.7	-3,816	20.7
Latin America	7,539	1.3	4.1	6,814	-4.1	4.9	-725	90.4
OPEC	11,524	3.1	6.3	3,385	-3.6	2.5	-8,139	29.4
Rest	27,528	11.2	15.0	15,997	9.0	11.6	-11,531	58.1
TOTAL	184,095	6.5	100.0	137,815	5.4	100.0	-46,279	74.9

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

*Weighting of exports  
drops to 19% of GDP.*

Sales abroad (137.8 billion euros) grew by 5.4% in 2003, thus coming to represent 18.5% of the GDP, three decimals less than the year before. In real terms, if we take into account the slight decrease in prices, the increase stood at 6.2%, nearly five points higher than the previous year. The biggest activity showed up in capital goods with exports growing 15.4% by volume, thus turning around the negative balance shown the year before. The increase in exports of consumer goods was decidedly lower at 6.3%, although they showed relatively sustained growth during the year and, in any case, were higher than the year before. On the other hand, exports of intermediate goods were lower, particularly non-energy goods which grew by 2.8% while showing a clear downward profile as the year advanced.

**Weak state of EU market compensated by rise in exports to third countries.**

The maintenance of exports was mainly due to the good state of markets outside the European Union (EU) which grew by 11.6% real and furthermore showed a growth profile as the year advanced. The strength of the Chinese market, along with vigorous demand in Eastern Europe, the Middle East and certain African countries lay behind this performance. Sales to the EU, on the other hand, grew progressively weaker in the course of 2003 with growth for the year being 3.9%.

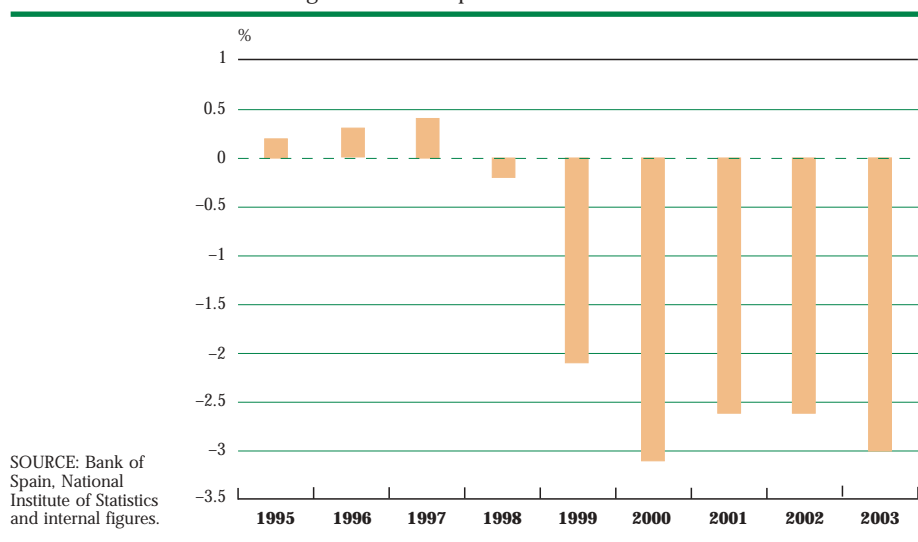
## Current account deficit moves up to 3% of GDP in 2003

**Current account deficit again shows significant worsening in 2003.**

The current account balance ended the year 2003 with a deficit of 22 billion euros, some 32.2% higher than the year before. In relative terms, this figure is equivalent to 3.0% of the GDP and was a half percentage point above the previous year, once more coming close to the highest figures in the past ten years. This increase must be attributed to the drop in the surplus for transfers and services and the broadening of the trade deficit, given that the incomes balance followed a practically neutral role with regard to the previous year.

### CURRENT ACCOUNT DEFICIT AGAIN WORSENS

Current account balance over gross domestic product



**Trade deficit increases while surplus for services and transfers down.**

The negative figure for the goods balance, according to figures from the Bank of Spain, rose by one decimal to 5.1% of the GDP on loss of relative weight by exports. The surplus in services, in turn, also dropped by one decimal to stand at 3.7% dragged down by the drop in the tourist balance which was lower for the second consecutive year. In this case, inflows for tourism were down by one decimal to 5.0% of the GDP, whereas payments remained stable at 1.0%. The transfers balance showed the worst relative performance because of the decrease in transfers from the EU, showing the lowest figure by far for the decade. Finally, the income deficit improved slightly to stand at 1.6% of the GDP.

*Spain's net world borrowing up a half percentage point to 1.8% of GDP...*

Capital account presented a cumulative surplus of 8.7 billion euros, 16.3% higher than the year before, thanks to the increase in capital transfers coming from the EU. This figure was equal to 1.2% of the GDP. Net world borrowing for non-financial transactions, obtained by adding the current account balance and the capital balance, rose to 13.3 billion euros, that is to say, 1.8% of the GDP (1.3% in 2002).

## BALANCE OF PAYMENTS

Cumulative figure for last 12 months in million euros

	December 2002	December 2003	% change
<b>Current account balance</b>			
Trade balance	-34,712	-38,190	10.0
Services			
<i>Tourism</i>	<i>28,524</i>	<i>29,556</i>	<i>3.6</i>
<i>Other services</i>	<i>-2,396</i>	<i>-2,164</i>	<i>-9.7</i>
Total	26,128	27,392	4.8
Income	-10,466	-11,779	12.5
Transfers	2,424	596	-75.4
<b>Total</b>	<b>-16,627</b>	<b>-21,980</b>	<b>32.2</b>
<b>Capital account</b>	<b>7,498</b>	<b>8,721</b>	<b>16.3</b>
<b>Financial balance</b>			
Direct investment	2,909	4,131	42.0
Portfolio investment	6,509	-32,215	-
Other investment	3,200	44,685	-
<b>Total</b>	<b>12,618</b>	<b>16,601</b>	<b>31.6</b>
Errors and omissions	-7,050	-4,909	-30.4
Change in assets of Bank of Spain	3,561	1,567	-56.0

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.

*...while financial account shows net capital inflows because of loan and deposit transactions.*

Financial account, excluding transactions by the Bank of Spain, recorded net inflows of 16.6 billion euros, 31.6% higher than the year before. This result was mainly due to the figure for other investment (loans, temporary asset transfers and deposits) which was clearly positive given that operations by non-residents were higher than those of residents and, to a lesser extent, to the net balance of direct investment, since foreign investment in Spain was greater than Spanish investment abroad. On the contrary, portfolio investment gave rise to net capital outflows since Spanish investment abroad was well above foreign investment in Spain.

*Drop in direct Spanish investment abroad while portfolio investment shows significant rise.*

In any case, direct Spanish investment abroad fell sharply to stand at 1.8% of the GDP, one point below the year before. Direct foreign investment also was down although to a lesser degree, thus amounting to 2.4% of the GDP, eight decimals less than in the year before. In the case of portfolio investment, foreign investment in Spain went down to 4.6% of the GDP whereas Spanish investment abroad moved up to 8.9% of the GDP (4.4% in 2002).

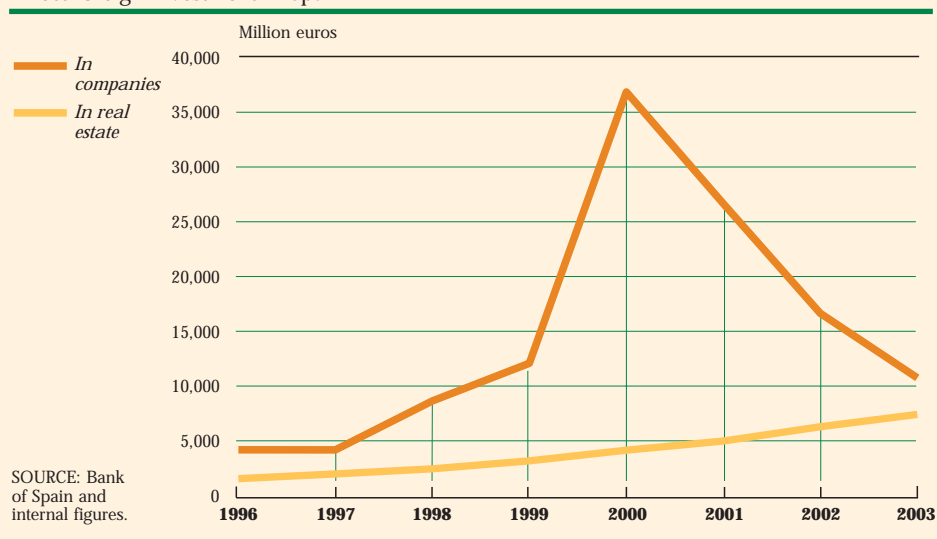
## DIRECT FOREIGN INVESTMENT DOWN FOR THIRD CONSECUTIVE YEAR

*Direct foreign investment in Spain was again down sharply in 2003 for the third consecutive year. In fact, capital inflows for this purpose amounted to 17.7 billion euros last year dropping by 21.3% compared with the previous year and came to represent a figure equal to 2.4% of the GDP, a rate far from the exceptional levels reached in 2000 when this proportion rose to 6.7% of the GDP.*

*The decline in direct foreign investment in Spain was mainly due to the drop in corporate investment, that is, investment carried out through the purchase of unlisted shares, corporate or other types of participation and continuing financing of related companies. On the other hand, investment in real estate has not stopped growing in recent years.*

## FOREIGN INVESTMENT IN REAL ESTATE COMES CLOSE TO INVESTMENT IN COMPANIES

Direct foreign investment in Spain



*In fact, foreign corporate investment has gone from levels slightly above 6% of the GDP in 2000 to values close to 1.4% in 2003, on the one hand reflecting the weaker state of the world economy following the stock market crisis in 2000 and, on the other hand, the reduced relative interest of foreign capital in Spain's economy in the face of other destinations or emerging economies.*

*On the contrary, investment in real estate has continued to increase in recent years to the point where it reached an overall figure of 7.2 billion euros in 2003, 1.0% of the GDP, up from levels slightly above 1 billion euros at the beginning of the second half of the Nineties, before the start of the upward cycle in the real estate market. The prospect of monetary integration and, latter on, the introduction of the single currency along with the rise in real estate prices are behind this trend which has brought investment in real estate to a level of 40.5% of total direct foreign investment.*

## PUBLIC SECTOR

### Fiscal surplus in first two months of year

*Central government revenues up moderately.*

Non-financial central government revenue was down 1.4% in the first two months of 2004 and amounted to 23.3 billion euros. In order to make a comparison with last year we must add revenue attributed to autonomous communities and local governments coming from the segments of collections for personal income tax and the greater part of indirect taxes (including value added tax) ceded to those levels of government. Taking this into account, collections amounted to 29.6 billion euros which represented an increase of 1.3% compared with the same period last year.

### CENTRAL GOVERNMENT BUDGET IMPLEMENTATION February 2004

	Month		Cumulative for year	
	Million euros	% change over same month year before	Million euros	% change over same month year before
<b>Non-financial revenue</b>	<b>16,317</b>	<b>9.1</b>	<b>23,266</b>	<b>-1.4</b>
<b>Non-financial revenue adjusted (*)</b>				
Personal income tax	3,291	4.9	10,611	-8.9
Corporate tax	399	386.6	276	236.6
VAT	11,986	4.5	12,340	5.7
Special taxes	1,355	-4.6	2,797	1.8
Other	2,456	46.7	3,582	16.0
<b>Total</b>	<b>19,487</b>	<b>9.6</b>	<b>29,606</b>	<b>1.3</b>
<b>Non-financial spending</b>	<b>10,685</b>	<b>50.6</b>	<b>20,105</b>	<b>-7.3</b>
<b>Treasury balance</b>	<b>5,632</b>	<b>-28.4</b>	<b>3,161</b>	<b>66.1</b>
<b>Surplus (+) or deficit (-) (**)</b>	<b>6,367</b>	<b>-11.0</b>	<b>6,863</b>	<b>-21.5</b>

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.

*Collections for indirect taxes up by 5.2% thanks to rise in value added tax collections.*

So far as taxes are concerned, the modest increase in collections was entirely due to indirect taxes which accounted for 15.5 billion euros, an increase of 5.2% over 2003. Notable among those taxes was value added tax which was up by 5.7% as of February thanks to the relative strength of collections for domestic transactions. Special taxes, in turn, were up by 1.8% as a result of collections for fuel tax and the tax on insurance premiums. On the other hand, there was a drop in collections for tax on

tobacco. The 2004 figures do not include (as they did in 2003) the tax on certain modes of transport, now considered revenue proper to the autonomous communities.

***Revenues from direct taxes affected by change in number of working days.***

Revenues from direct taxes, in turn, together amounted to 11.5 billion euros going down by 6.5% compared with the early months of 2003. Personal income tax, the main source of revenue up to the present, was down sharply although not significantly as a result of changes in hold-backs and the number of working days. The latter factor brought about major distortions in corporate tax.

***Drop in government property earnings, fees and current transfers.***

Apart from tax collections, there were also decreases in collections for fees and public service charges, current transfers and government property earnings. On the contrary, capital transfers rose substantially.

***Non-financial central government spending down notably.***

Central government non-financial spending in turn was down by 7.3% to amount to 20.1 billion euros. This figure does not include the balancing entry for revenues related to those tax segments ceded to autonomous communities and it is difficult to interpret these because the figures are not homogeneous. The drop in spending showed up both in current operations and in capital transactions.

***Budgetary surplus in early months of year.***

The central government Treasury balance as of February, that is to say, the difference between non-financial collections and spending, was positive and amounted to 3.2 billion euros, some 66.1% more than in the same period the year before. This surplus, added to the net decrease in financial assets, gave place to a surplus of 5.5 billion euros, 18.9% higher than in the same period the year before. In terms of National Accounting, the budgetary balance was also positive at 6.9 billion euros, although this meant a decrease from the figure in the early months of 2003.



## SAVINGS AND FINANCING

### Sustained advance in credit to private sector

***Slight rise in interest rates on bank loans to households in January but rates still at low levels.***

Bank loan interest rates rose slightly in January above the all-time low recorded in December. The composite interest rate for loans by credit institutions thus stood at 4.14% in January 2004, some 5 basis points above the low in December but 72 basis points below 12 months earlier. The rise in January was due to the increase in interest rates on loans to households which were up by 9 basis points to 4.50%. Both housing loans and those going into consumer goods showed increases. On the other hand, the composite rate for loans to companies went down very slightly in January to record a new all-time low of 3.74%, some 70 basis points below one year earlier.

### LOANS TO COMPANIES AND HOUSEHOLDS January 2004

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
Commercial credit	54,501	-1,030	-1.9	5,088	10.3	6.7
Loans against collateral (*)	448,525	6,400	1.4	78,237	21.1	55.3
Other term loans	252,055	1,156	0.5	12,362	5.2	31.1
On-demand loans	22,265	1,342	6.4	1,751	8.5	2.7
Leasing	25,451	381	1.5	3,633	16.7	3.1
Doubtful loans	7,745	80	1.0	9	0.1	1.0
<b>TOTAL</b>	<b>810,543</b>	<b>8,330</b>	<b>1.0</b>	<b>101,081</b>	<b>14.2</b>	<b>100.0</b>

NOTES: (\*) Largest part with mortgage collateral.

SOURCE: Bank of Spain and internal figures.

***Mortgage interest rate drops in February.***

On the other hand, the interest rate on mortgage loans of more than three years for non-subsidized home purchase at credit institutions as a whole dropped by 3 basis points compared with the previous month to stand at 3.45%. As a result, it stood just 2 basis points from the all-time low in September 2003.

***Bank loans to private sector up by 14% in past twelve months...***

In this situation of low interest rates, bank credit to companies and households rose by 14.2% in January compared with the same month the year before, one decimal less than in December. Bank credit to the private sector continued to be boosted by the strong economy and grew at a rate more than double that in the euro area.

*...largely thanks to mortgage loans which rose by 24%.*

The growth of bank credit to the private sector continued to be based on mortgage loans. Total mortgage loans managed by credit institutions, including securitizations, showed an annual change rate of 24.0% in January, only one decimal less than the high in December, according to the Spanish Mortgage Association. Demand for mortgage loans is showing great strength due to the increase in household incomes, very low real interest rates and favourable loan conditions. Also of note was the rise in leasing which showed a rise of 16.7% in January 2004 compared with the same month the year before. This type of credit goes into acquisition of capital goods and buildings both by companies and self-employed professionals.

*Mortgage loan default at low levels below 0.50%.*

Doubtful loans for credit institutions as a whole held at practically the same level as 12 months earlier so that the default rate stood at 0.96% in January 2004, very close to the low for recent years in November 2003. This ratio for banks and savings banks (excluding other credit institutions) stood at 0.79%, also very close to the all-time low recorded in November. In addition, the rate for doubtful mortgage loans hit an all-time low of 0.49% in December 2003, according to figures from the Spanish Mortgage Association.

*Bank loans to individuals increases share going to all-time high.*

In addition, the Bank of Spain recently published figures for loans to companies and households by purpose for the third quarter of 2003 which make possible a more detailed analysis from the point of view of end use. Credit going into production activities rose by 11.8% compared with 2002, 1.3 points more than in the previous quarter. As a result, the year-to-year change in loans to individuals was higher than that going into production activities. Funds obtained by individuals increased their share to an all-time high of 47.4%.

*Loans for real estate services up by 39% in 2003.*

By large economic sector, we should mention the drive in services and construction, for which credit rose by 16.1% and 14.7% respectively in 2003. Credit to real estate services rose by 39.3% and, if we take into account construction plus real estate services, the annual change rate was 27.0%, three decimals less than in 2002. Bank funding for agriculture, livestock raising and fishing was up considerably at 8.5%. On the other hand, loans going into industry rose by only 0.1%.

*Loans to households for non-durable goods and services up 21% in 2003.*

Under financing for households, home acquisition and renovation was up by 17.4% at year-to-year change rate, some 4.7 points more than in September. Loans to buy durable consumer goods (cars, appliances, furniture, etc.) rose by only 1.1% compared with the fourth quarter of 2002. Other financing to households showed the biggest annual rise at 21.3%.

CREDIT TO PRIVATE SECTOR BY PURPOSE  
Fourth quarter of 2003

	Total (*)	Change 12 months	
	Million euros	Million euros	%
<b>Funding of production-related activity</b>			
Agriculture, livestock and fishing	16,402	1,280	8.5
Industry	85,829	67	0.1
Construction	65,784	8,408	14.7
Services	244,040	33,834	16.1
<b>Total</b>	<b>412,054</b>	<b>43,588</b>	<b>11.8</b>
<b>Funding to individual</b>			
Home purchase or renovation	275,958	40,872	17.4
Acquisition of consumer durables	35,136	395	1.1
Other funding	60,919	10,692	21.3
<b>Total</b>	<b>372,013</b>	<b>51,960</b>	<b>16.2</b>
<b>Funding to private non-profit institutions</b>	<b>3,002</b>	<b>678</b>	<b>29.2</b>
<b>Other unclassified</b>	<b>15,144</b>	<b>4,325</b>	<b>40.0</b>
<b>TOTAL</b>	<b>802,213</b>	<b>100,550</b>	<b>14.3</b>

NOTES: (\*) For credit system as a whole – banking system, finance corporations and Official Credit.  
SOURCE: Bank of Spain and internal figures.

## Moderation in growth of bank deposits

### *Deposits by companies and households up 8% in past 12 months.*

Total deposits by the resident private sector in euros and foreign currency grew by 8.1% in January 2004 compared with the same month the year before, some 0.6 points less than in December. Over the course of the past twelve months deposits rose by 46.8 billion euros, less than half the rise in loans by the resident banking system. In order to compensate this the financial institutions increased securitizations and had recourse to abroad.

### *Deposits for more than two years rise by 32% in past year.*

By type of deposit, the biggest increase came in deposits for more than two years which rose by 31.9% in the past 12 months, 3.1 points more than the December rate. Savings accounts showed a major increase of 14.0% compared with January 2004, some 0.8 points more than in the month before. On the contrary, deposits for terms of less than two years were down slightly in the past 12 months while temporary transfers fell by 7.3%.

### *Shifts from conservative investment funds to share-based funds.*

In addition, the assets of investment funds rose by 3 billion euros in February going to 204.7 billion euros, a year-to-year rise of 17.7%, according to figures from Inverco, the sector organization. This increase was mainly due to net acquisition of shares amounting to 2.6 billion euros and to a lesser extent to capital gains. We should point out that shifts took place from more conservative funds such as money-market funds to global funds and share-based funds in general which imply higher risk but offer the opportunity of higher gains.

## DEPOSITS OF COMPANIES AND HOUSEHOLDS AT LENDING INSTITUTIONS

January 2004

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
On-demand	165.275	-3.629	-2,1	15.272	10,2	26,4
Savings (*)	144.145	-1.064	-0,7	17.701	14,0	23,0
Up to 2-year term	157.036	810	0,5	-158	-0,1	25,1
More than 2-year term	79.497	2.135	2,8	19.228	31,9	12,7
Repos	75.689	-2.112	-2,7	-5.984	-7,3	12,1
<b>Total</b>	<b>621.643</b>	<b>-3.859</b>	<b>-0,6</b>	<b>46.061</b>	<b>8,0</b>	<b>99,3</b>
<b>Deposits in non-euro currencies</b>	<b>4.450</b>	<b>299</b>	<b>7,2</b>	<b>783</b>	<b>21,4</b>	<b>0,7</b>
<b>TOTAL</b>	<b>626.092</b>	<b>-3.561</b>	<b>-0,6</b>	<b>46.843</b>	<b>8,1</b>	<b>100,0</b>

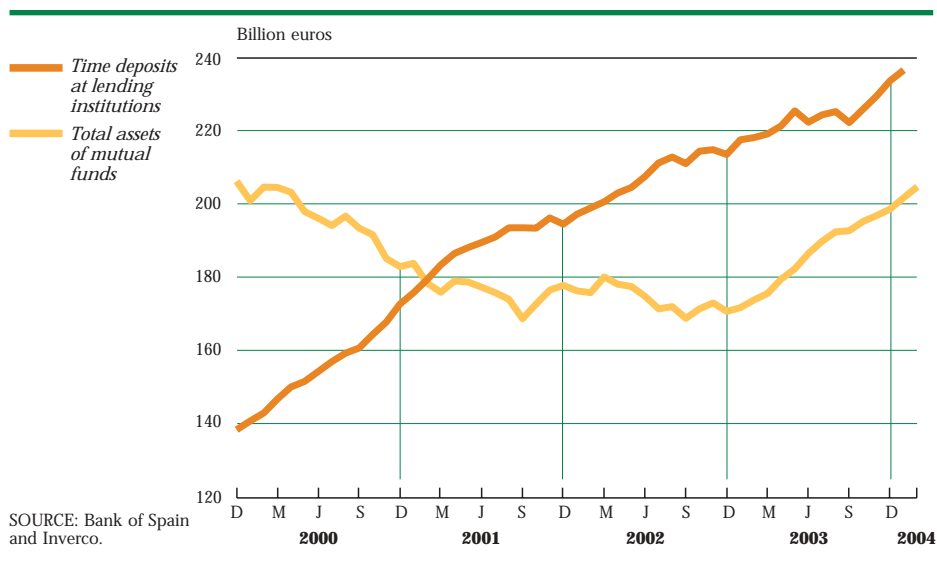
NOTES: (\*) Deposits redeemable at notice, according to ECB definition.

SOURCE: Bank of Spain and internal figures.

### Average yield on mutual funds up to 5.4% annual.

The average weighted yield on mutual funds in the past 12 months rose to 5.4%. All categories of mutual funds showed positive annual yields with the yield on share-based funds of emerging countries being of special note with capital gains of 49.8%. At the opposite extreme came the yield on money-market funds at 1.4%.

### MUTUAL FUNDS SHOWING STRONG



### Competitiveness of Spain's economy: inflation, productivity and specialization

***Economic Studies series publishes paper on evaluating competitive situation of Spain's economy and main determinants.***

As part of its Economic Studies series, the Research Department of "la Caixa" has published a paper entitled «Competitiveness of Spain's Economy: inflation, productivity and specialization». The study was carried out by the Valencian Institute for Economic Research (IVIE), with the collaboration of researchers from the University of Valencia and the Centre d'Études Prospectives et d'Informations Internationales (CEPII), Paris, under the direction of Professor Francisco Pérez of the University of Valencia. The report evaluates the situation of Spain's competitiveness and its main determinants (prices, productivity, costs and production specialization) identifying the strengths and weaknesses of the economy and proposing measures for future improvement. In their conclusions, the authors call attention to the coming importance of changes in production specialization and the improvement in trade penetration in markets outside the European Union (EU) in order to reduce the weak points in Spain's competitiveness.

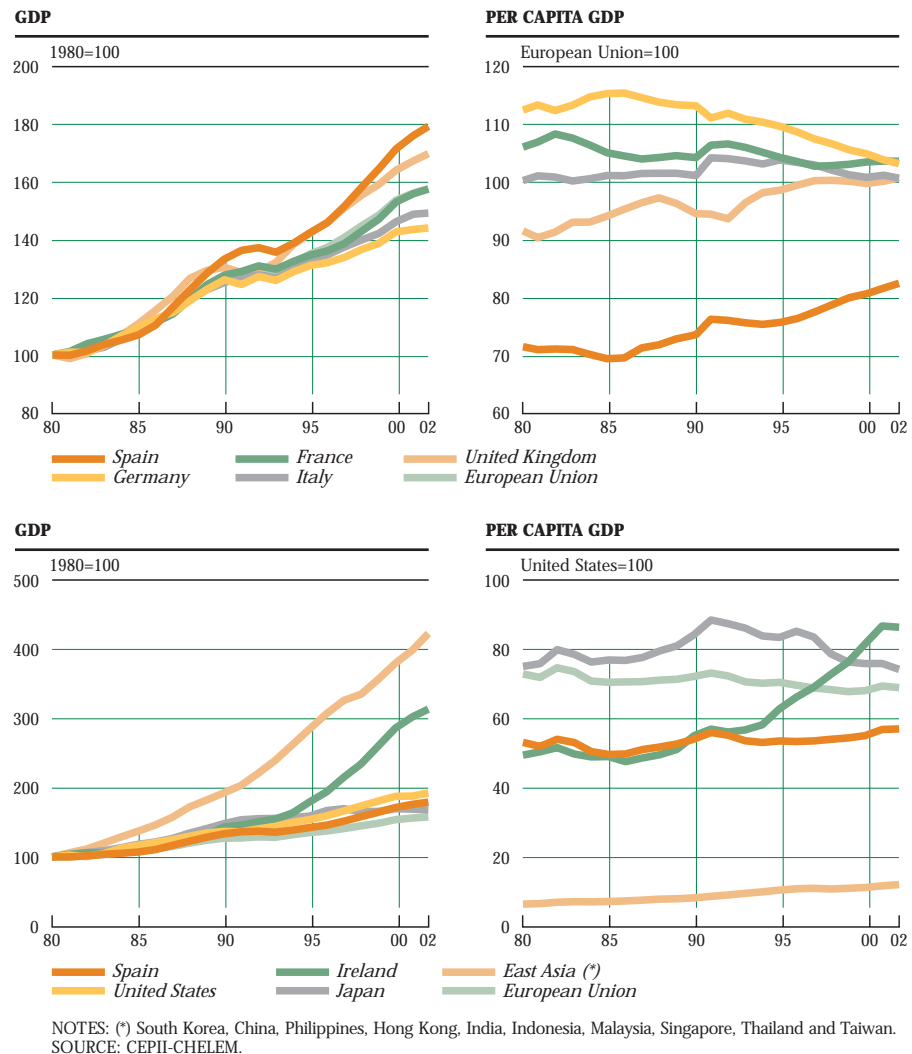
***Study notes loss of foreign competitiveness in spite of rise in macroeconomic variables.***

The IVIE study underlines the existence of various connotations of the term competitiveness. By foreign competitiveness is understood the capacity of an economy to compete in international markets while overall competitiveness is centred on the trend in the main macroeconomic indicators of a country compared with other economies. The authors underline the uneven performance of Spain's economy from both perspectives. In recent decades, Spain has advanced greatly in terms of basic macroeconomic variables such as per capita income and employment (especially in comparison with the EU average) but has suffered from a continuing loss of foreign competitiveness on a world scale which shows up in the ongoing trade deficit.

***Growth differential with European countries sustained by construction and market services...***

The Spanish response to the competitive challenge arising from the growing integration of economies is positive but in recent years has not been particularly satisfactory. Spain's economy has consolidated its ability to grow but at a rate which is not noteworthy on a world scale, although this may be so in the context of the EU. Furthermore, the net contribution of foreign demand to growth of the gross domestic product (GDP) is close to nil. It is therefore domestic demand and particularly that associated with the rapid growth of the construction sector and market services which is sustaining Spain's growth differential in terms of other European countries. For this reason the good results obtained in terms of real convergence with Europe arise from a model at risk over the medium and long term, which must be strengthened through improvements in foreign competitiveness.

# TREND IN GDP AND PER CAPITA GDP AT LEVEL OF PRICES AND PURCHASING POWER PARITY AT 1995



*...while exports encounter difficulties to continue advancing due to Spain's pattern of production specialization.*

The difficulty of exports to follow the rapidly growing rate of Spain's purchases of imported goods is clear and continuing, as is evident from the ongoing trade deficit which is scarcely compensated by the surplus in services based on tourism. The obstacles limiting the strength of growth in exports are not only those arising from Spain's inflation differential with other economies, particularly with those of Europe which represent the main markets of origin and destination for Spain's foreign trade. Just as important as prices are the difficulties represented by the pattern of Spain's production specialization (lacking strength in those sectors with the more expansionist markets which are hi-tech intensive) and the orientation of foreign trade among Spanish companies which is very much biased toward the interior EU market.

*Spain's higher inflation also reduces its export capacity although cost advantages continue as basis of Spain's capacity to compete.*

Spain's higher inflation rates indicate that it is slowly losing advantages for competing in price in goods traded with the more developed countries. At the same time, Spain's inflation also makes it more difficult to compete with countries with lower levels of income and prices which can produce at lower cost and which benefit from depreciation of their exchange rate with greater facility than in the case of Spain. The trend in indices of competitiveness confirm the risks which undoubtedly arise from a positive differential in inflation when the country forms part of a monetary union. Nevertheless, due to the level of Spanish incomes, domestic prices and costs of Spanish companies are not greater than those of its European competitors. In fact, cost advantages today are still the basis of Spain's ability to compete price-wise in the main foreign markets although these advantages are partly compensated by the lower levels of Spanish productivity compared with those in the rest of Europe.

*Exporter margins being squeezed in spite of wage moderation.*

In spite of this, in recent years Spain's export sector has again begun to show signs that its operating margins are being squeezed by the effect of pressure on costs which cannot be shifted to prices in very competitive foreign markets. This takes place in spite of the fact that wage moderation does not generally merit any talk in this period of pressure from labour costs and in spite of the fact that the reduction of interest rates and financial costs has been a considerable help in maintaining margins. On the other hand, in the recent period of Spain's growth the rather slow advance in productivity and higher inflation rates on some intermediate products constitute factors which do indeed exert pressure on margins in those manufacturing sectors more oriented to abroad where companies in the near future may become involved in making adjustments of various kinds, both in the labour and corporate spheres.

*Production and trade specialization determine competitiveness.*

The study underlines that in present circumstances it is not only the reduction of the inflation differential which is relevant. Production specialization and the pattern of trade specialization turn out to be elements of the greatest importance for competitiveness and in order that the rate of growth of exports may make it possible to achieve positive trade figures.

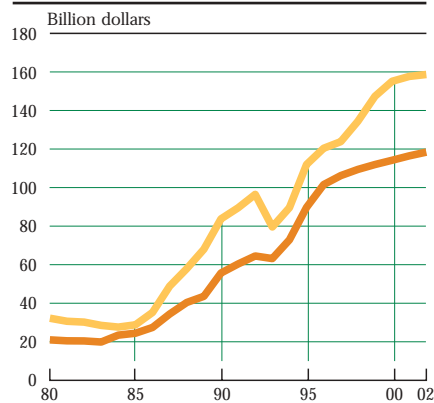
*Current pattern of production specialization based on traditional manufacturing sectors and tourism...*

The present pattern of production specialization is the result of an intense structural transformation which took place in the Sixties and Seventies and living through the industrial recession in the Eighties. Thanks to all this, Spain achieved an economy specializing in traditional manufacturing sectors and in activities of medium or low technological content, which were quite mature. This specialization and a combination of cost advantages and favourable location in relation to European markets has formed the basis of Spain's export capacity in manufactures up to the present. Consolidation of Spain as a tourist destination (an activity with strong demand during these decades) has made it possible to equalize the current account balance and has led the orientation of production toward activities of low technological content in which price competition is more relevant than those characterized by innovation and product quality.

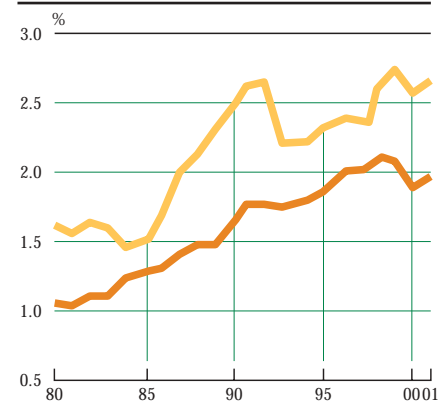


## COURSE OF SPAIN'S FOREIGN TRADE IN GOODS

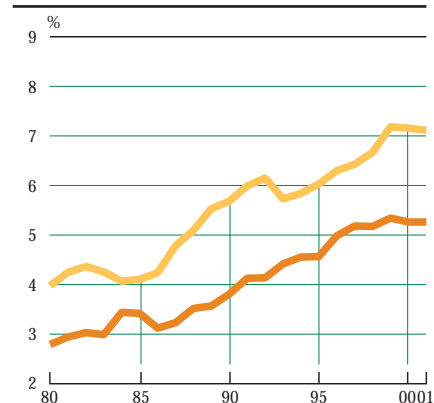
**TREND IN SPAIN'S TRADE IN GOODS**



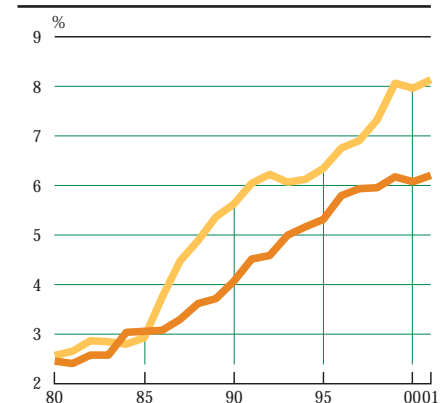
**SPAIN'S WEIGHTING IN WORLD TRADE**



**SPAIN'S WEIGHTING IN EU TRADE**



**SPAIN'S WEIGHTING IN INTRA-EU TRADE**



Exports Imports

SOURCE: CEPIL-CHELEM and Ministry of Finance.

*...but whether competitive advantages of past will be sufficient for the future is doubtful.*

This model of development has made it possible for Spain to move ahead in many respects for four decades and to sustain continuous growth previously unknown in the country. However, it is doubtful that the competitive advantages of the past will be sufficient for the future due to the fact that Spain's own progress has raised incomes and costs. Furthermore, the Nineties represented the beginning of a period of technical change on a world scale of great consequence for competitive opportunities in which Spain's position at the moment is not favourable. In particular, Spain's poor showing in recent years in production activities involving the new technologies has prevented it from participating in sharply growing markets. The limited degree of Spain's structural change has had an influence on the slow improvement of productivity in recent years. These circumstances, similar to those of Europe with regard to the poor advance in productivity, are holding up growth. Probably, improvements in productivity make it necessary not only to produce the same things more efficiently but to efficiently produce new products.

*Orientation toward EU markets, which are less dynamic, reduces opportunities for growth of exports.*

In order to assimilate the process of globalization, Spain's integration in the European institutions has had great virtue because it has fostered many of the changes Spain's economy needed. Integration with Europe has improved macroeconomic stability, opened up Spain's markets and oriented the country's pattern of foreign trade toward its partners in the EU which is the world's main trading area. In the Nineties, however, the EU underwent growth in imports lower than other economic areas, particularly some Asian economies. The poor orientation of Spain's channels of trade with those economies and its pattern of specialization, little adapted to competing in some of those markets, have limited opportunities for Spanish companies.

*Fostering competitiveness demands orientation of production fabric toward new type of specialization...*

The study sponsored by "la Caixa" warns that the competitive advantages being lost as a result of a series of factors (inflation differential, slow progress in productivity and adoption of the euro) are not being compensated through gains in other aspects. The conclusions point out that the improvement of the competitiveness of Spain's economy today represents bigger challenges than moderation of prices and costs. The authors indicate that, boosting significant competitiveness in the future and promoting a gradual reorientation of the production fabric toward a new type of specialization in activities where innovation and knowledge are more relevant along with the range of products may make it possible to better deal with Spain's present costs.

*...which presents a very demanding challenge.*

This is a major challenge for all economic and social players which will require the most complete definition of objectives and policies and efficiently putting these into practice. These are extremely demanding challenges, especially for companies which undoubtedly will be the key players in the new structural changes and the main adaptations this will require. However, they also involve challenges for other social institutions and the various levels of government currently involved in the development of policies (in education, R&D, infrastructures, communications, regulatory matters, etc.) which could favour or hinder, promote or block the accumulation of the many resources which are crucial for improving the productivity of the economy and making it more oriented toward innovation and knowledge in order to achieve a future competitiveness resting on broader bases than prices and costs.

## Spain 2004: Social Statistics Year Book

**"la Caixa" Foundation  
publishes Social  
Statistics Year Book...**

This year, "la Caixa" Foundation has again published its Social Statistics Year Book which as usual sets out a broad selection of social indicators at the municipal, provincial and autonomous community level. With publication of *Spain 2004: Social Statistics Year Book* the Foundation continues its editorial policy begun four years ago with publication of the Social Studies series in which the Year Book attempts to provide a reference framework.

**...prepared by the  
Gauss Centre of  
L. R. Klein Institute.**

The Social Statistics Year Book together with the Economic Year Book published by "la Caixa" Research Department, forms a unit with the same structure but with information which is complementary. The former deals with social aspects while the latter contains economic indicators. In both cases the work of preparing the broad data base was commissioned to the Gauss Centre at the Lawrence R. Klein Institute at the Autonomous University of Madrid.

The variables and indicators set out in the Social Statistics Year Book have been drawn up from different information sources after having carried out a rigorous treatment of the original data.

**New volume offers  
more than 100  
additional variables.**

With publication of the Social Statistics Year Book, "la Caixa" Foundation attempts to both facilitate the work of professional researchers in the social sciences and consultation by other groups and the general public. With this aim in mind, the content of the Year Book has been improved upon and added to year after year both in the printed and electronic versions, the latter even offering broader breakdowns of certain variables which increases the possibilities of search and treatment of data. In this edition, more than 100 new variables are provided of which 40 appear in the print edition.

### Structure and additions

**Municipal section  
broken down into five  
thematic areas...**

The Social Statistics Year Book is made up of two large segments according to the level of breakdown of the variables provided. The first segment gives the more representative social indicators available covering Spanish municipalities of more than 1,000 population. The variables presented are grouped around five thematic fields: population and demography, socioeconomic factors, the elderly, education and policy.

### CHANGE IN POPULATION IN 2000-2003

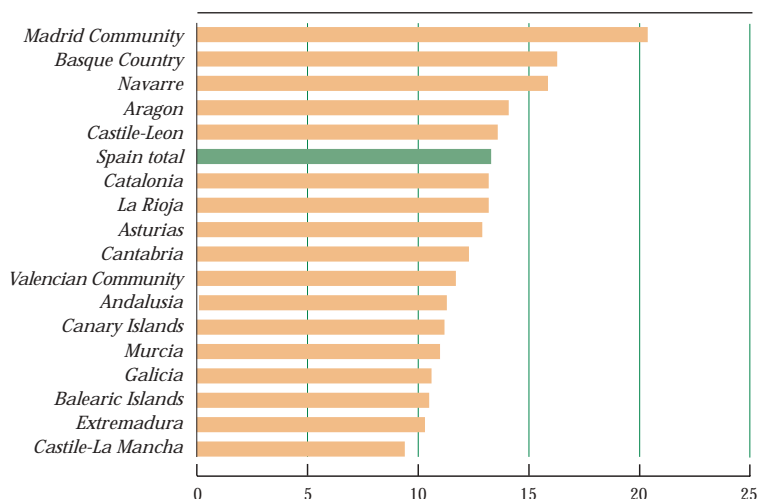
Autonomous communities with biggest population changes

Biggest increases in population	%	Smallest increases in population	%
Balearic Islands	12.0	Asturias	-0.1
Canary Islands	10.4	Castile-Leon	0.3
Murcia	10.4	Extremadura	0.4
Madrid Community	9.9	Basque Country	0.6
Valencian Community	8.5	Galicia	0.7
<b>Spain</b>	<b>5.5</b>		

*...and educational level included as new feature.*

One of the new features in the municipal section this year is the inclusion of the educational level of the population broken down into illiterate or uneducated persons, those with primary studies, secondary and university studies.

EDUCATIONAL LEVEL: UNIVERSITY STUDIES  
Percentage of population 16 years and older



*Provincial section...*

In the second large segment of the Social Statistics Year Book other indicators are provided, which are very useful in providing a sound knowledge of social realities, and are only available at the provincial and autonomous community level. These variables are set out in 13 thematic fields, 5 set out in detail in the municipal group along with another 8 under culture, information society, health and the handicapped, health, security and justice, environment and natural surroundings, road infrastructures and security and religion.

*...provides new variables such as makeup of households and housing.*

Among the main new features appearing in this segment we find the marital status of the population (single, married, widowed, separated and divorced), the makeup of households and housing (number of persons per household, ownership or rental of housing, households with holiday homes) and those with health risks (smokers, drinkers of alcohol, sedentary and obese or overweight persons).

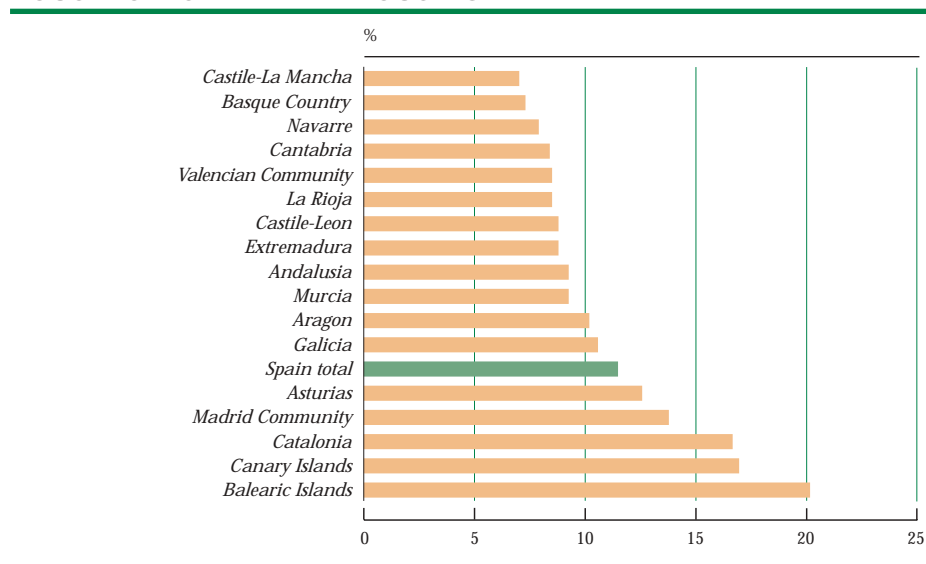
*Year Book also includes 12 social wellbeing indices.*

Finally, this edition of the Year Book also includes estimates for 12 representative indices of social wellbeing at the provincial level, including income, health, health services, education and cultural level, availability of education, culture and recreation, employment, working conditions, state of housing and household furnishings, earning capability, road safety, good neighbourhood relations, policing, natural environment and climate.

The method used to make estimates for these indices is especially designed to evaluate the differences between various provinces with regard to the social wellbeing component dealt with, although it should

be mentioned that the construction of a ranking or positioning of provinces should not lead to the conclusion that existing differences are very great. For this reason their correct interpretation is necessary.

#### ACCOMODATION STATUS: HOUSEHOLDS IN RENTAL HOUSING



#### SOCIAL WELLBEING INDICATORS BY PROVINCE

##### Income index

Higher income index	Level	Lower income index	Level
<i>Autonomous Community</i>			
Navarre	10	Extremadura	1
Basque Country	10	Andalusia	2
Madrid Community	9	Castile-La Mancha	3
		Galicia	3
		Murcia	3
<i>Province</i>			
Girona	10	Badajoz	1
Guipúzcoa	10	Cádiz	1
Lleida	10	Cáceres	2
Navarre	10	Córdoba	2
Álava	9	Granada	2
Madrid	9	Huelva	2
Vizcaya	9	Jaén	2
		Seville	2
<b>Spain</b>	<b>5</b>		

## Social Year Book on Internet

***Electronic version provides more variables than print edition...***

All the variables appearing in the print edition of the Year Book as well as broader breakdowns of some indicators may be consulted on Internet through the web page [www.estudios.lacaixa.es/analisisocial](http://www.estudios.lacaixa.es/analisisocial). Keeping in mind current technological conditions, the electronic version has been designed to enable its use with most existing navigation programmes.

***...and broadens possibilities for treatment of Year Book data.***

This application provides certain internal features (such as page make-up of material downloaded or classification by column) and the possibility of consulting, printing, or moving selected data to a spreadsheet (something which allows the user to carry out later treatment of data downloaded using his or her own programmes or tools). An added function of undoubted interest is the possibility of segmenting information contained by geographic variables and areas, according to selection requirements established by the user. There is also the option of introducing selection criteria for delimiting data. Finally, in order to improve overall knowledge of the values of available indicators, the application offers the possibility of obtaining a histogram of any variable or geographic segmentation.

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