

THE SPANISH ECONOMY: MONTHLY REPORT

MAY 2004

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Latest wave of immigrants works in construction, agriculture, hotel/restaurant trade and domestic service. Page 76

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.	3rd Qtr.
INTERNATIONAL ECONOMY			Forecast					Forecast		
Gross domestic product										
United States	2.2	3.1	4.4	2.1	2.4	3.6	4.3	4.9	5.0	4.0
Japan	-0.3	2.7	2.4	2.7	2.4	2.0	3.6	3.2	2.5	2.4
United Kingdom	1.6	2.2	3.0	1.9	2.2	2.2	2.7	3.0	3.2	3.0
Euro area	0.9	0.4	1.6	0.7	0.1	0.3	0.6	0.9	1.6	1.7
Germany	0.2	-0.1	1.4	0.1	-0.3	-0.3	0.0	0.5	1.2	1.7
France	1.2	0.2	1.6	0.7	-0.4	-0.2	0.6	0.8	1.6	2.0
Consumer prices										
United States	1.6	2.3	2.2	2.9	2.1	2.2	1.9	1.8	2.2	2.2
Japan	-0.9	-0.3	-0.1	-0.2	-0.2	-0.2	-0.3	-0.1	-0.1	-0.1
United Kingdom	2.2	2.8	2.2	2.9	2.9	2.9	2.6	2.3	2.0	2.3
Euro area	2.3	2.1	2.0	2.3	1.9	2.0	2.0	1.7	1.9	1.9
Germany	1.3	1.1	1.2	1.2	0.8	1.1	1.2	1.0	1.3	1.1
France	1.9	2.1	1.8	2.4	1.9	1.9	2.2	1.8	2.0	2.0
SPANISH ECONOMY										
Macroeconomic figures										
Household consumption	2.6	3.0	3.0	3.0	2.8	3.1	3.0	3.1	2.9	3.0
Government consumption	4.4	4.6	4.4	4.3	4.5	4.8	4.8	4.5	4.3	4.4
Gross fixed capital formation	1.0	3.0	2.4	3.2	3.4	3.0	2.5	2.4	2.4	2.4
Capital goods and other	-2.7	2.2	1.5	2.8	2.9	1.9	1.2	1.2	1.3	1.5
Construction	4.2	3.7	3.2	3.5	3.8	3.8	3.6	3.4	3.2	3.1
Domestic demand	2.6	3.3	3.2	3.6	3.2	3.6	2.9	3.1	3.4	3.0
Exports of goods and services	0.0	4.0	2.5	4.4	7.8	2.2	1.8	1.8	2.1	2.8
Imports of goods and services	1.8	6.7	3.9	8.5	10.1	5.9	2.7	2.9	4.3	3.8
Gross domestic product	2.0	2.4	2.7	2.2	2.3	2.4	2.7	2.7	2.6	2.6
Balances										
Employment	1.5	1.8	2.0	1.6	1.7	1.9	2.1	2.0	2.1	2.1
Unemployment (% labour force)	11.4	11.3	11.2	11.7	11.1	11.2	11.2	11.4	11.3	11.2
Consumer price index	3.5	3.0	2.5	3.7	2.8	2.9	2.7	2.2	2.7	2.4
Unit labour costs	3.3	3.6	2.9	3.9	3.6	3.5	3.5			
Current account balance (% GDP)	-2.7	-3.2	-3.0	-5.0	-2.5	-3.3	-2.0			
Not lending or net borrowing rest of the world (% GDP)	-1.6	-2.0	-1.9	-4.0	-1.3	-2.5	-0.3			
Government balance (% GDP)	0.1	0.3	0.0							
FINANCIAL MARKETS										
Interest rates										
Federal Funds	1.7	1.1	1.2	1.3	1.2	1.0	1.0	1.0	1.0	1.3
ECB repo	3.2	2.3	2.0	2.7	2.4	2.0	2.0	2.0	2.0	2.0
10-year U.S. bonds	4.6	4.0	4.5	3.9	3.6	4.2	4.3	4.0	4.4	4.6
10-year German bonds	4.8	4.1	4.4	4.1	3.9	4.1	4.3	4.1	4.2	4.5
10-year Spanish bonds	5.0	4.1	4.4	4.1	3.9	4.1	4.3	4.1	4.2	4.2
Exchange rate										
\$/Euro	0.95	1.13	1.23	1.07	1.14	1.12	1.19	1.25	1.23	1.27

"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

May 2004

CAJA DE AHORROS Y PENSIONES DE BARCELONA

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ECONOMIC OUTLOOK FOR 2004

With the first quarter now ended, indicators for the world economy confirm that recovery is giving way to **substantial growth**. The basic engine of international economic growth is the United States. Whereas most people were expecting some stabilization of economic activity in the early months of 2004, the U.S. consumer has again surprised everyone with an upward move. At the same time, job creation, up to now practically absent from the recovery picture in the United States, seems to be moving into a stage of consolidation. As a result, everything points to **the leading world economy growing at around 5% in the first half-year** with a moderate slowing down later on.

Economic activity in the euro area continues to recover strength although at a much slower rate than in the other large world economies. For the year as a whole, **moderate growth** of 1.6% is expected. Forecasts being put out, which the first-quarter indicators would seem to confirm, show a growth pattern based on recovery of investment, a rise in consumption and an increase in exports.

In this situation, the Federal Reserve Board **may possibly raise its reference rate toward the summer**. The Bank of England, which has already begun an upward swing, could make another turn of the screw this spring. On the other hand, the European Central Bank is in no hurry to change its position and will continue to resist pressure for a cut unless the gradual process of economic recovery in the euro area is halted. Long-term interest rates have now begun an upward trend boosted by prospects for U.S. short-term rates with some risk of a sharp rise when the Federal Reserve Board begins to raise the official interest rate. The euro is still in a stage of correction against the dollar and when this is complete it could start another rise in view of the downward pressure on the U.S. currency because of its massive current account deficit.

With regard to Spain's economy, while we are still waiting for the National Accounts figures for confirmation, the first quarter of 2004 looks like it ended with no appreciable changes, keeping to a **sustained growth rate** thanks to the drive in consumption and construction. In addition, it would seem that the economic effects of the tragic terrorist attacks in Madrid on March 11 could be less important than at first feared, if we are to go by the early results of surveys on the economic climate published following those events.

From a broad perspective, the consolidation of world economic recovery is strengthening expectations that average growth of the GDP will go above 2.5% for the year as a whole. While in this situation employment will continue to grow at a stable rate it is hard to see the unemployment rate dropping below 11%. Increases in oil prices and downward resistance in fresh food prices complicate the picture on inflation but for the moment we may remain confident that the year-to-year rate for consumer prices will stand at around 2.5% at year-end.

April 28, 2004

ECONOMIC SITUATION

EU enlarged to 25 members

May 1 sees fifth enlargement of EU which brings 20% more citizens but adds only 5% to GDP.

May 1 saw carrying out of fifth enlargement of the European Union (EU) with the joining of ten new member states. Poland, Czech Republic, Hungary, Slovakia, Lithuania, Latvia, Slovenia, Estonia, Cyprus and Malta add 74 million persons, that is to say, nearly 20% of the current population of EU-15. However, they have an economic weight that substantially lower measured in terms of gross domestic product (GDP) given that together they represent merely 5% of the EU-15 total. At the same time, their relative economic prosperity is substantially lower than that of the EU as it was up to now with levels which runs from 35% of the EU-15 income in Latvia to 77% in Cyprus.

New countries not very homogeneous in economic terms with Poland alone representing half GDP of new group.

In fact, this wide range indicates that a notable characteristic of the new member states is their diversity. In spite of being seen as a group, these countries in fact are not very comparable. In terms of size, Poland is by far the largest economy in the group as it represents about half the total GDP of the new member states. Unemployment levels are also quite different and while the average for the group stands around 6 percentage points above the EU-15 average (8% of the labour force), countries like Poland (19%) and Slovakia (17%) show up as poor stand-outs while Cyprus (5%) and Slovenia (6%) stand out in a positive sense. At the same time, there are notable differences in inflation. The 9% year-to-year increase in Slovakia is in contrast to the drop of 1% year-to-year in Lithuania. Finally, to mention a structural indicator, while nominal labour costs per hour tend to stand at levels 20% below EU figures, they swing between 2.4 euros an hour in Latvia and 11 euros in Cyprus.

Enlargement comes at moment of doubt about strength of recovery in euro area in view of weak situation of three leading economies.

Enlargement of the EU comes at a moment when the economic situation is rather delicate. The growth rate in the euro area is low and, while latest indicators point to modest improvement, there remains a high degree of uncertainty about the strength of recovery. The three leading countries in the euro area (Germany, France and Italy) are precisely those show the biggest difficulties in confirming their recovery, along with the Netherlands and Portugal. Germany, the leading economy in the EU, is still not able to get its slack domestic demand moving, a problem which seems to be better on-track in France when domestic consumption has been more dynamic in the early months of 2004. On the other hand, signs coming from Italy continue to be troubling with no substantive improvement in levels of economic activity showing up. At the other end of the scale, we find the United Kingdom (a country outside the euro area) which continues to show vigorous growth along with Spain, Greece and Ireland.

*On other hand,
recovery of world
economy now
consolidated with
4.5% growth...*

The euro area looks like becoming an exception on the world economic scene given that recovery has generally taken hold in practically all economic areas. At the spring meeting of the International Monetary Fund (IMF) held at the end of April, the Group of Seven (G-7), made up of the world's richest countries, confirmed the strengthening and spread of world recovery. IMF economists have notably corrected upwards (to 4.5%) growth forecasts for 2004 and 2005 while at the same time noting strong growth in world trade. The surprising rise in oil prices, with the per barrel price of Brent quality oil above 33 dollars in April, is causing concern although it is not felt that this will change this optimistic picture.

*...thanks to strength
of Chinese growth...*

One of the epicentres of world recovery is in Asia with China as the main player. The GDP of the planet's most populous country grew by 9.7% in real terms in the first quarter, a rate similar to recent periods. The export capacity of that country, which is very competitive in manufactured products, has been compensated in recent months by heavy purchases of raw materials which has worsened China's trade balance and raised prices of materials such as aluminium, copper and iron in international markets.

*...and continued
growth in United
States which finally is
beginning to create
jobs to stable degree.*

In the United States, the strength of domestic demand is continuing and even strengthened in the first quarter of 2004 which made it possible for the GDP to grow by 4.9% year-to-year compared with 4.3% the previous quarter. Indicators for private consumption showed appreciable improvement in spite of the downward correction in consumer confidence. The other components of demand also reflect the strength of recovery, as in the case of housing construction and industrial investment. The decisive moment for confirming the economic recovery, however, came with the figure of 300,000 new non-farm jobs recorded by the survey of the Department of Commerce in March which throws out the supposed inability of this recovery to create employment. Another relevant figure was the increase in the consumer price index for March. The underlying component, which does not include energy or foods, went from 1.2% in February to 1.6%, raising fears of inflation which, while somewhat exaggerated, do dispel the risks of deflation noted by analysts which are responsible for current monetary policy.

*No major fears of
inflation but Federal
Reserve Board
preparing to change
its easy monetary
policy.*

With the risk of deflation dispelled in the United States, what stands out is the extremely low level of interest rates maintained at 1% by the Federal Reserve Board since June 2003. In this context, the chairman of that body, Alan Greenspan, has slightly changed his tune in what the markets see as preparation for a stage of increases in official interest rates with the first step taking place in the summer. The situation with the European Central Bank is quite different and its chairman, Jean-Claude Trichet, has put out the possibility of a cut in interest rates which in any case did not take place at the meeting of the Governing Council of the ECB at the beginning of April. In any case, long-term interest rates have caught the message and have moved up on both sides of the Atlantic. In this situation, the dollar has been strengthened with a revaluation against the euro in the first four months of the year.

Spain's economy maintaining growth

In Spain, growth based on consumption and construction continues with no notable change...

As mentioned earlier, indicators for Spain's economy continues to point to relatively high growth in the context of the euro area. The growth pattern continues to be characterized by weakness in industry, growth in construction and sustained advance in the services sector. On the demand side, the most notable feature was car registrations which in the first quarter were up by 20% while four-wheel-drive vehicles and motorcycles showed even higher growth. With regard to investment, imports were up notably but the same happened with exports which, combined with the stagnation in domestic production, points to some weakness in corporate investment.

...and terrorist attacks on March 11 seem to have had no substantial effect on economic situation.

The terrorist attacks in Madrid on March 11 do not seem to have done any damage to existing trends in spending or production in the economy although it is still too early to make a valid opinion. On the contrary, the growth of employment and increases in purchasing power are helping the growth of household spending which in turn is based on the growth of credit which is still very strong. Companies are continuing to show good profits as shown by the high net ordinary profit reported by the Quarterly Composite Company Statistics prepared from balance sheets by the Bank of Spain for 2003 as a whole.

Job creation eases off after strong year in 2003...

Nevertheless, employment figures for the first quarter point to a slight slowdown in the strong rate of job creation shown last year. In any case, the increase of 2.8% in the number of non-farm jobs last year shows the strength still being shown by labour statistics. The number of unemployed rose by 37,100 in the first quarter but in annual terms there was a decrease and the unemployment rate stood at 11.4% of the labour force, three decimals below the same period in 2003.

...and inflation under control.

The latest figures on inflation are also favourable. The consumer price index for March held at a year-to-year rate of 2.1%, an historically low level for Spain's economy. Energy prices played a moderating role while fresh food prices are still at rates of more than 6%. The other components, which make up the basic core of goods and services setting the course of the general index, showed a fairly moderate performance.

...although trade balance grows worse.

Finally, we should point out the worsening of the trade balance where the weight of imports due to the strength of domestic demand is counteracting the high level of exports thus resulting in a bigger trade deficit. On the other hand, the central government budgetary balance in the first quarter was positive thus continuing the situation noted in past years.

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 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 11** *Tragic **terrorist attacks** on commuter trains in Madrid.*
- 14** *Victory of Spanish Socialist Workers Party (PSOE) in Spanish **general elections**.*
- April 13** *IBEX 35 index for **Spanish stock market** at annual high (8,444.3) with cumulative gains of 9.1% since end of December 2003.*
- 15** *Brent quality **oil** one-month forward price rises to 33.9 dollars a barrel, the highest level since October 2000.*

AGENDA

May 2004

- 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).*

June 2004

- 3** *Meeting of Governing Council of European Central Bank.*
- 4** *Industrial production index (April).*
- 11** *Consumer price index (May).*
- 13** *European elections.*
- 16** *Harmonized consumer price index for European Union (May).*
- 17** *Quarterly survey of labour costs (1st Quarter).*
- 24** *Ongoing survey of household budgets (1st Quarter).*
- 25** *Producer price index (May).*
- 29** *Meeting of Open Market Committee of Federal Reserve Board.*

INTERNATIONAL REVIEW

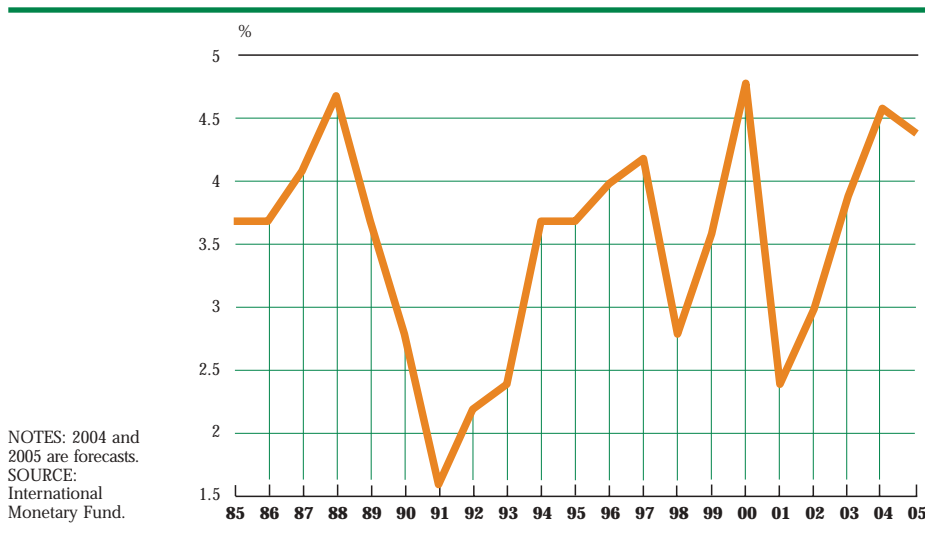
IMF forecasts: notable growth of world economy in 2004 and 2005

IMF expects world growth of around 4.5% in 2004 and 2005.

The spring forecasts of the International Monetary Fund (IMF) are the most optimistic in recent years. The IMF foresees that in 2004 and 2005 the world economy will grow by 4.6% and 4.4% respectively. It should be remembered that since 1985 the economy has grown by more than 4% only on four occasions. The IMF points out three aspects of the current upward stage, namely the notable rise in economic activity in the United States, the good state of financial markets and the substantial increase in world trade. At the same time, the IMF predicts that world recovery will be compatible with a generally contained level of prices in spite of the threat represented by high oil prices.

WORLD ECONOMY AGAIN GROWING AT RATES SEEN IN BEST YEARS DURING NINETIES

Real annual change in world GDP



China takes on leading role as new factor in growth.

World growth is being led by Asia, particularly China, and the United States. In the case of the Asian giant, the strength of investment and the drive in exports will allow the economy to reach growth of 8.5% in 2004 and 8.0% in 2005. For Japan, the IMF foresees an increase in gross domestic product (GDP) of 3.4% and 1.9% in 2004 and 2005 respectively, a strong turnaround from the negative economic results in previous years.

IMF FORECASTS

Annual change as percentage

	2002	2003	2004 (1)	2005 (1)
GDP				
United States	2.2	3.1	4.6	3.9
Japan	-0.3	2.7	3.4	1.9
Germany	0.2	-0.1	1.6	1.9
France	1.2	0.2	1.8	2.4
Italy	0.4	0.3	1.2	2.0
United Kingdom	1.7	2.3	3.5	2.5
Spain	2.0	2.4	2.8	3.3
Euro area	0.9	0.4	1.7	2.3
Advanced economies	1.7	2.1	3.5	3.1
World total	3.0	3.9	4.6	4.4
<i>Developing countries</i>	<i>4.6</i>	<i>6.1</i>	<i>6.0</i>	<i>5.9</i>
<i>Latin America</i>	<i>-0.1</i>	<i>1.7</i>	<i>3.9</i>	<i>3.7</i>
<i>Eastern and Central Europe</i>	<i>4.4</i>	<i>4.5</i>	<i>4.5</i>	<i>4.4</i>
<i>Russia</i>	<i>4.7</i>	<i>7.3</i>	<i>6.0</i>	<i>5.3</i>
<i>China</i>	<i>8.0</i>	<i>9.1</i>	<i>8.5</i>	<i>8.0</i>
Consumer prices				
United States	1.6	2.3	2.3	2.2
Japan	-0.9	-0.2	-0.4	-0.1
Germany (2)	1.3	1.1	1.0	0.9
France (2)	1.9	2.2	1.8	1.6
Italy (2)	2.6	2.8	2.1	2.0
United Kingdom (2)	1.3	1.4	1.6	1.8
Spain (2)	3.9	3.0	2.7	2.7
Euro area (2)	2.3	2.1	1.7	1.6
Advanced economies	1.5	1.8	1.7	1.7
<i>Developing countries</i>	<i>6.0</i>	<i>6.1</i>	<i>5.7</i>	<i>5.0</i>
Unemployment rate (3)				
United States	5.8	6.0	5.5	5.4
Japan	5.4	5.3	4.9	4.9
Germany	8.6	9.9	10.2	10.0
France	8.8	9.3	9.4	9.1
Italy	9.0	8.7	8.4	8.2
United Kingdom	5.2	5.0	4.9	4.9
Spain	11.4	11.3	10.8	10.1
World trade by volume (4)	3.1	4.5	6.8	6.6
Oil price (\$ per barrel) (5)	2.5	15.8	3.8	-10.0

NOTES: (1) Forecasts in April 2004.

(2) Harmonized consumer price index.

(3) Percentage of labour force.

(4) Goods and services.

(5) Average spot prices for Brent, Dubai and West Texas Intermediate oil. Average oil price in dollars per barrel in 2003 was \$28.89; price forecast for 2004 is \$30.00 and \$27.00 for 2005.

SOURCE: International Monetary Fund.

United States assured of two years with good rate of economic activity but imbalances darken prospects over medium term.

With regard to the United States, the scenario put out by the IMF includes some notable ups and downs. Over the short term the IMF foresees that tax and monetary incentives will lose strength in 2004. Nevertheless, it estimates that employment and investment will take over. In overall terms, in spite of the caution expressed, it is expected that the GDP in the United States will move ahead by 4.6% in 2004 to later drop moderately in 2005 to 3.9%. The IMF expresses more doubt about the

medium term prospects for the world's leading economy. Specifically it is concerned about the massive balance of payments deficit and its twin, the government deficit. According to the IMF, historical experience would indicate that the adjustment of the U.S. current account imbalance would bring about a stage of lower economic growth. At the same time, the IMF is concerned about the transition from the current phase of very low interest rates to a level more in agreement with the rate of economic activity.

Euro area to grow at substantially lower levels than other large economies.

Economic recovery in the euro area is seen to be well underway although it is not expected that growth will reach notable levels. The IMF points out that the balanced financial state of households and the situation in financial markets are factors which likely will contribute to recovery of domestic demand. Nevertheless, up to this point the more restrictive economic policy than that applied in other economies and the process of corporate adjustment which is far from being completed have prevented domestic growth, thus leaving the bulk of recovery in the hands of exports. Based on a combination of these trends, the IMF sees limited recovery going to 1.7% in 2004 and 2.3% in 2005.

United States: vigorous growth in first quarter

United States grows by 4.9% in first quarter.

In the first quarter the United States economy grew by 4.9% year-to-year as against 4.3% in the previous quarter. This increased growth was due to the greater strength of private consumption, non-residential investment and public consumption. On the contrary, residential investment slowed a moderate slowdown. The foreign sector, in turn, took two decimals off the increase in GDP due to the fact that exports, in spite of an increase in growth, showed a substantially lower growth rate than imports.

Consumption up thanks to favourable finance terms and tax cuts...

The strength of consumption up to this point may be basically explained by the good financing terms enjoyed by households and the increase in disposable income as a result of tax cuts. Both factors, however, will have less importance in coming months. Nevertheless, the improved state of the labour market should give new support to maintenance of household spending.

...factors now being joined by recovery in employment, confirmed by creation of 308,000 new jobs in March.

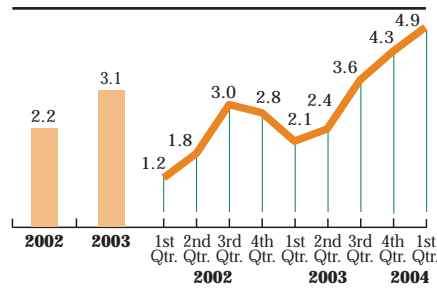
Some 308,000 net jobs were created in the United States in March, the biggest increase in employment since April 2000. With this figure, the level of non-farm employment was 0.5% more than the figure for March 2003. While the high productivity in the current phase of the cycle has slowed the creation of employment (above 5% year-to-year in the third and fourth quarters of 2003) the labour figures for March seem to be opening a balanced stage on this front. In any case, it should be remembered that the unemployment rate is still holding at relatively high levels (5.7% in March, one decimal higher than in February).

GROSS DOMESTIC PRODUCT IN UNITED STATES BY COMPONENT

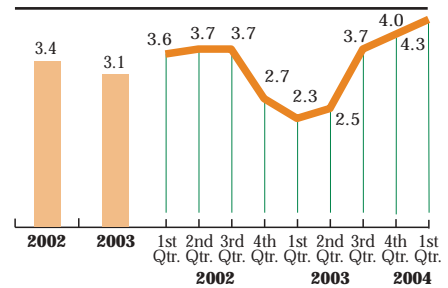
Percentage year-to-year change rate

Domestic demand brings increase in U.S. growth.

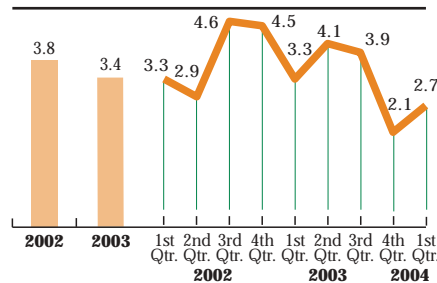
GDP



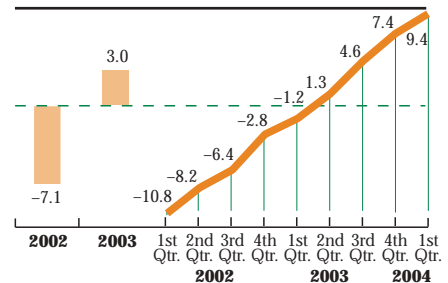
PRIVATE CONSUMPTION



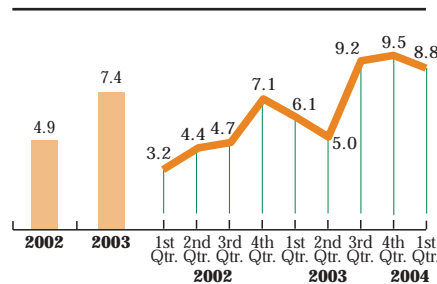
PUBLIC CONSUMPTION



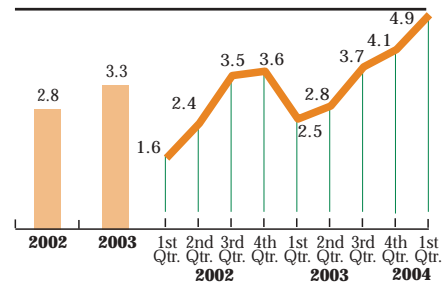
NON-RESIDENTIAL INVESTMENT



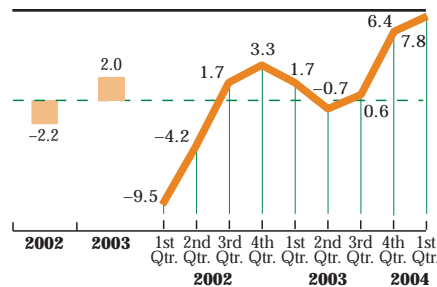
RESIDENTIAL INVESTMENT



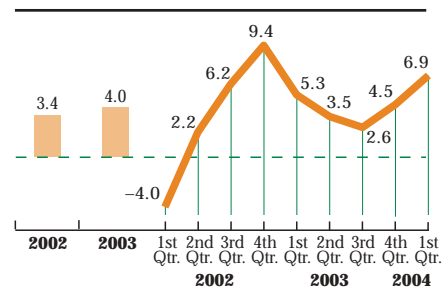
DOMESTIC DEMAND



EXPORTS OF GOODS AND SERVICES



IMPORTS OF GOODS AND SERVICES



SOURCE: Bureau of Economic Analysis and internal figures.

Rate of housing sales doubles in first three months of 2004.

The other components of demand are also moving up. With regard to construction demand, sales of single-family homes were more than 18% year-to-year in the overall period from January to March, thus doubling the increase in the fourth quarter. Investment is also reaching notable growth rates. Industrial production of capital goods rose to 5.3% year-to-year in March, three decimals higher than in February.

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	March
GDP	2.2	3.1	2.1	2.4	3.6	4.3	–	4.9	–
Retail sales	2.5	5.4	4.1	4.4	6.1	6.7	6.3	8.5	8.2
Sales of single-family homes	7.7	11.3	7.7	15.0	13.9	9.2	13.1	20.6	21.8
Consumer confidence (*)	96.6	79.8	68.3	82.7	78.6	89.7	97.7	88.5	88.5
Industrial production	–0.6	0.3	1.1	–1.0	–0.4	1.5	2.4	2.9	3.4
Industrial activity index (ISM) (*)	52.4	53.3	49.7	48.9	54.1	60.6	63.6	61.4	62.5
Unemployment rate (**)	5.8	6.0	5.8	6.1	6.1	5.9	5.6	5.6	5.7
Consumer prices	1.6	2.3	2.9	2.2	2.2	1.9	1.9	1.7	1.7
Trade balance (***)	–35.6	–42.9	–40.7	–42.5	–43.7	–44.6	–44.9	–45.2	...

NOTES: (*) Value.

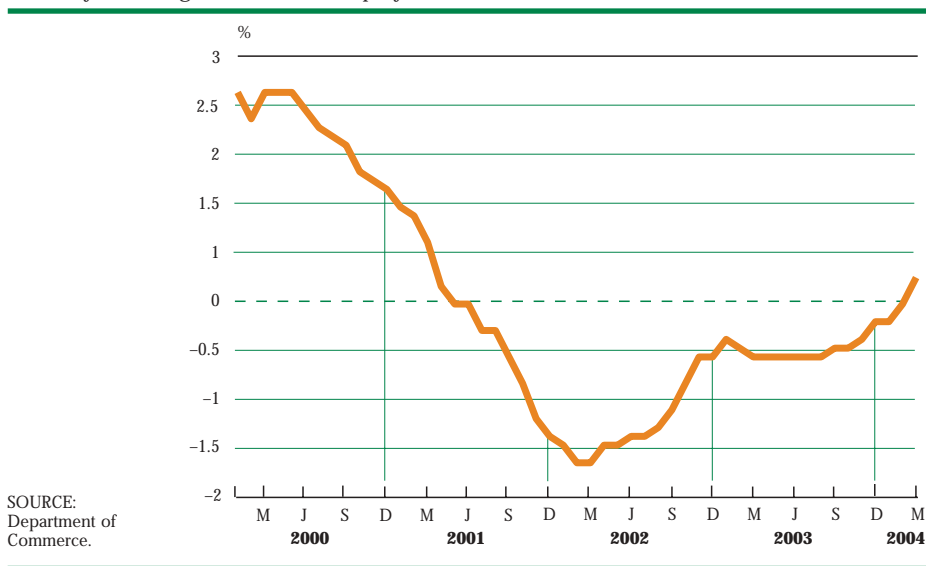
(**) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

RECOVERY REACHES U.S. LABOUR MARKET

Year-to-year change in non-farm employment



Industrial production in March reaches ninth consecutive month with growth.

Supply indicators underline the strength and broad extent of economic growth over the various sectors. Industrial production in March grew by 3.4% year-to-year which meant nine consecutive months of growth. Continuation of this trend seems assured given that the industrial activity index put out by the Institute of Supply Management (ISM) in the first quarter stood at a level of 62.5 points, two points above the average for the fourth quarter.

First signs of inflation.

The strength of domestic demand has begun to raise consumer prices. The consumer price index (CPI) rose by 0.6% in March compared with the February figure. While the year-to-year rate remained at 1.7%, compared with March 2003, this result was entirely due to the strong

monthly increase which took place in the energy component one year earlier. Underlying inflation, which excludes energy and foods, rose to 1.6% in March, four decimals above the February rate.

Trade imbalance increases less than in recent months.

In recent months, while not turning around, the increase in the trade deficit has slowed down. In spite of the strength of imports (increase of 11% year-to-year) the growth of exports in February (12% year-to-year) meant that the cumulative trade deficit for twelve months on monthly average stood at 45.2 billion dollars, not much higher than the 44.6 billion dollars in the fourth quarter.

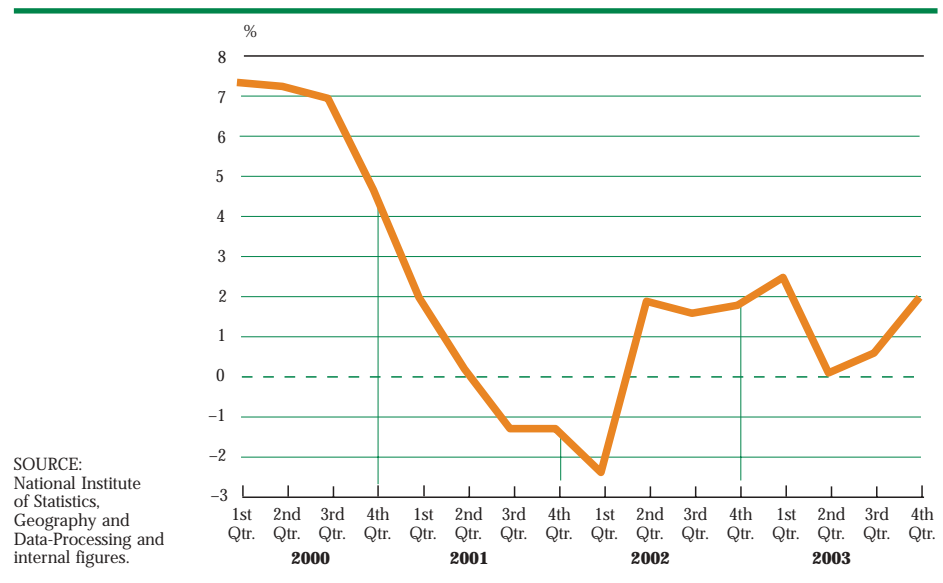
Mexico: moderate growth based on foreign sector and public sector

Moderate growth in Mexico sustained by public sector and foreign sector.

Mexico's real GDP grew by 2% year-to-year in the last quarter of 2003. This represents an improvement over the 0.6% recorded in the third quarter but is far from the strong growth seen in 2000. Private consumption in the fourth quarter rose by 3.2% compared with the same period the year before, which was down from growth of 4.3% in the previous quarter. Following a moderate growth path, public consumption grew by 2.8% year-to-year and gross fixed capital formation was up by a more uncertain 0.8%. Exports for the same period grew by 4.6% year-to-year while imports were up by 2%.

MEXICO AWAITING SUSTAINED RECOVERY

Year-to-year change in gross domestic product in real terms



Most negative indicator is weakness of private fixed capital investment.

Nevertheless, composition of the GDP reflects doubts about its sustainability. The reason is to be found in the sluggishness of the private sector. The combined contribution of consumption and private investment to the growth of 2% in the GDP was 1.1%, whereas these two components represent 84% of the Mexican economy. This contribution of 1.1% breaks

down as 2.3% for consumption and –1.2% for gross fixed capital formation. This is the indicator raising most doubt about the closeness of a scenario of vigorous and sustained growth. The contribution of private investment to growth has been decreasing since the beginning of 2000 and to find worse quarters we have to go back to the last quarter of 2001 or the 1994 crisis.

MEXICO: 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	March
GDP	0.7	1.3	2.5	0.1	0.6	2.0	–	...	–
Industrial production	–0.3	–0.8	1.9	–3.1	–1.8	0.3	0.6	2.2	...
Unemployment rate									
Mexico City (*)	3.0	3.6	2.6	3.5	4.2	4.2	4.6	4.7	...
Consumer prices	5.0	4.5	5.4	4.7	4.1	4.0	4.2	4.5	4.2
Trade balance (**)	–8.1	–5.7	–6.5	–6.5	–6.5	–5.7	–5.7	–6.1	...
Current account (**)	–14.1	–9.2	–13.0	–11.7	–10.6	–9.2	–	...	–

NOTES: (*) Percentage of labour force.

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

SOURCE: Central Bank of Mexico and internal figures.

Foreign sector continues to increase contribution to growth but excessive dependence on oil and «maquiladoras» present risks.

The foreign sector has been gradually increasing its contribution to the GDP. In the fourth quarter of 2004, its contribution was 0.7%. This growing contribution from the foreign sector has two weaknesses. In the first place is the dependence on «maquiladoras», U.S. companies manufacturing in Mexico taking advantage of lower costs. The trade deficit for twelve months up to February 2004 was 6.1 billion dollars but, if we exclude «maquiladoras», the deficit would have been 24.5 billion dollars. This difference accounts for nearly 3% of Mexico's annual GDP which gives some idea of its dependence on its northern neighbour. A second question is its dependence on one raw material, such as oil. Exports based on oil in the twelve months up to February were 18.6 billion dollars, a figure which again represents 3% of the GDP. Dependence on a product like oil, which is subject to major price changes, makes stability of Mexico's economic trend difficult.

Troubling increase in unemployment while prices undergo soft landing.

Industrial production in February 2004 was up by 2.2% year-to-year. The construction component grew by 5.4% while manufactures were up by a mere 1.2% in line with figures for the GDP in the fourth quarter. In addition, the unemployment rate in Mexico City rose to 4.7% in February 2004. This figure is in troubling contrast with the 2.4% in February 2003. Finally, the level of prices shows a positive balance with year-to-year increases of 4.2% in the general index and 3.5% in underlying inflation in March 2004.

Japan: recovery consolidated

Consumption reactivated in Japan reaching spending levels unheard of since 1998.

In recent months the Japanese economy has consolidated its recovery to a greater degree. Consumer indicators are recording their best figures since 1998. Retail sales in February showed a year-to-year increase of 1.8% (decrease of 1.2% year-to-year in the fourth quarter), while consumer confidence rose to the 40.5 points level in the fourth quarter, five decimals above that recorded in the third quarter. The domestic recovery continues to be accompanied by a strong contribution to growth coming from foreign demand. As a result of the increase in exports, more than 11% in March, the cumulative surplus for twelve months reached 11,400 billion yen that month, against 10,000 billion yen in the fourth quarter.

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	March
GDP	-0.3	2.7	2.7	2.4	2.0	3.6	-	...	-
Retail sales	-3.9	-1.9	-1.8	-2.6	-2.2	-1.2	0.9	1.8	...
Industrial production	-1.3	3.3	5.4	2.0	1.2	4.7	6.5	3.8	...
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	1.9	6.9
Unemployment rate (**)	5.4	5.3	5.4	5.4	5.2	5.1	5.0	5.0	...
Consumer prices	-1.0	-0.2	-0.2	-0.3	-0.2	-0.3	-0.3	0.0	...
Trade balance (***)	8.2	9.7	9.9	9.6	9.5	10.0	10.6	11.1	11.4

NOTES: (*) Value.

(**) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

Industrial production above 5% in January and February.

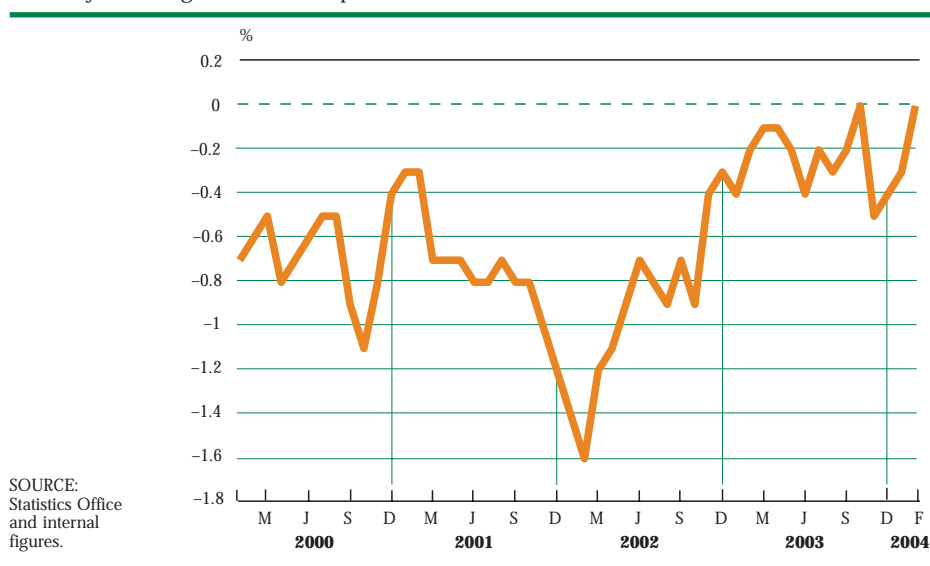
On the supply side, the increase in industrial activity continues to show up as the main trend. In January and February, as a whole, industrial production stood at levels 5.2% higher than those for one year earlier (increase of 4.7% year-to-year in the fourth quarter). At the same time, tertiary activity and construction (although still irregular) enjoyed a better performance in recent months.

Consumer prices stop dropping in February opening door to period with no deflation.

Economic recovery is making it possible that even the long state of deflation may be showing incipient signs of a change for the better. The February CPI moved out of the range of year-to-year decreases for the first time since last October although the rise in prices that month was due to somewhat passing factors, whereas now the change seems to be more permanent. The trend in the unemployment rate is less positive. The rate held at 5.0% of the labour force in February with no change over the January figure.

JAPAN'S DEFLATION STAGE MAY BE ENDING

Year-to-year change in consumer price index



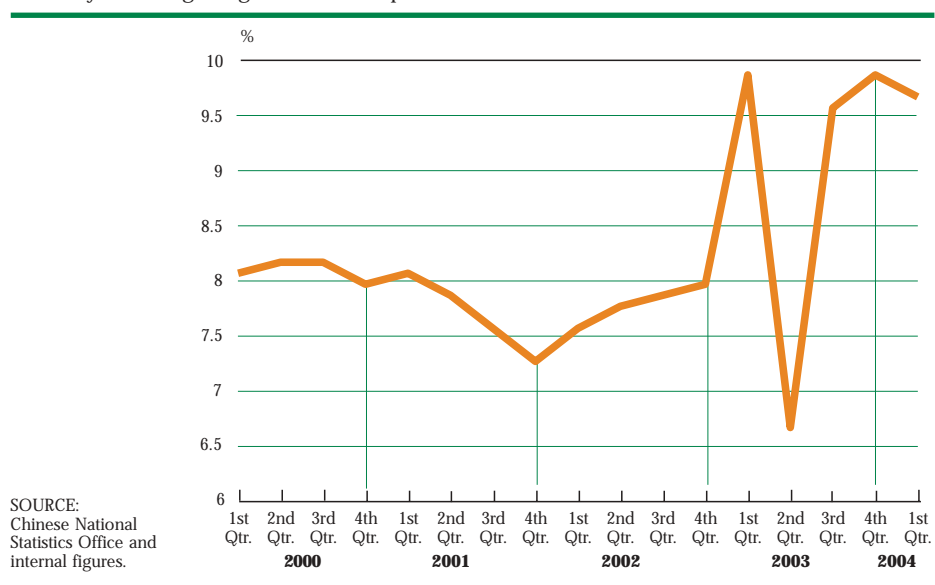
China: strong growth along with raw materials demand

Strong growth led by secondary industry.

China's real GDP grew by 9.7% year-to-year in the first quarter. This growth was largely based on industry which grew by a healthy 11.6%. Agriculture showed growth of 4.5% with services at 7.7%. The figures for this Asian giant are even more impressive in the foreign sector where nominal exports in dollars for the past twelve months ending in March 2004 grew by 34.7% year-to-year while imports were up by 38.3%.

STRONG GROWTH IN CHINA

Year-to-year change in gross domestic product in real terms



Industrial production continues to rise based on heavy industry.

Following a certain slowdown in January, industrial production grew by 23.2% year-to-year in real terms in February and 19.4% in March 2004. The year-to-year growth figures indicate a continuation of this growth period. The strength of industry is to be seen most clearly in heavy industry which represents more than two-thirds of Chinese production. Heavy industry is growing at a rate slightly above that for the general index and is putting demand on large quantities of raw material.

CHINA: 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	March
GDP	8.2	9.1	9.9	6.7	9.6	9.9	–	9.7	–
Industrial production	12.8	16.7	17.0	15.2	16.6	17.8	7.2	23.2	19.4
Consumer prices	–0.8	1.2	0.5	0.7	0.8	2.7	3.2	2.1	3.0
Unemployment rate (*)	4.0	...	–	–	–	–	–	–	–
Trade balance (**)	30.3	25.4	22.0	21.3	19.4	25.4	26.6	18.0	17.9

NOTES: (*) Percentage of labour force.

(**) Cumulative balance for twelve months. Billion dollars.

SOURCE: Chinese National Statistics Office and internal figures.

Big state conglomerates gradually losing importance.

A positive factor to keep in mind is the gradual decrease in the participation of state-run companies in industrial production. While production of these companies grew by 15.2% year-to-year in real terms in March 2004, the share of industrial production of state-run companies in total production was down from 44.8% to 42.9% that same month, dropping from levels of 50% in 2002 and more than 60% in 2000. In the same context, companies with shareholders raised production in March by 18.9% year-to-year. Retail sales grew by 11.1% year-to-year in March. A factor within this growth continues to be the notable difference between the urban situation which grew by 12.8% in the same period while the situation in rural areas grew by 7.9%.

Hunger for raw materials worsens trade balance...

Within this framework of strong growth, in recent months there has been a worsening of the balance of payments in keeping with the strength of domestic demand. The trade balance in dollars for the past twelve months ending March 2004 was 17.9 billion dollars, the lowest since the beginning of 1997 with the sole exception of September 2001. In fact, the trade balance for the first quarter of 2004 was –85.2 billion dollars. We must go back to the final quarter of 1993 to find similar figures. This worsening of the trade balance has its origin in raw materials. In the twelve months ending February 2004, the negative balance in raw materials was –34.7 billion dollars, which meant a record within the upward trend over the past six years. Iron imports grew by 60% year-to-year while copper was up 96% in keeping with the major increases being recorded in computer production. In contrast, the balance of manufactures in the same period was positive at 66.8 billion dollars, which gives some idea of the size of these imbalances.

...but surplus with United States increases.

The geographical breakdown of the Chinese trade balance is having its political consequences and the country has been under pressure to revalue the yuan. The situation, however, is quite uneven. China's deficit with Asia was 58.3 billion dollars in the twelve months ending February 2004. China also showed major deficits with manufacturing countries such as Japan, South Korea and Germany, in spite of the strength of the euro, which amounted to 16.4 billion dollars, 25 billion and 7.2 billion respectively. The compensation for this came from Europe with a surplus of 19.5 billion dollars, and especially from the United States which registered a record surplus figure of 59.7 billion dollars.

Slight rise in inflation concentrated in food sector.

Consumer prices rose by 3% year-to-year in March. The food sector was the leader in this upward pressure with a year-to-year change of 7.9%. We should note here the dual nature of the Chinese economy with its large pockets of rural poverty. Nevertheless, in the broader context, the increase in prices within current levels is positive for a country which has been on the border of deflation since 1998.

Raw materials: oil moves up above 33 dollars

Oil price in April 33% above levels for one year earlier due to geopolitical uncertainty, low level of inventories and increased demand.

Oil prices in April steadily held above 33 dollars a barrel for Brent quality product, even sometimes going to 34 dollars. These prices are 33% above those recorded in April 2003. The rise in prices was due both to fundamentals as well as geopolitical risk. Notable among the former factors is the low level of fuel inventories, especially in the United States, and the sharp rise in international demand particularly notable in growth areas of the globe (basically China and the United States). With regard to geopolitical risk, uncertainty in Iraq has ended up contributing to the rise in prices.

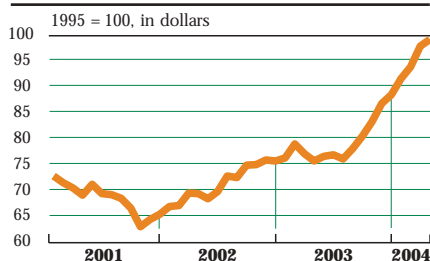
Other raw materials expressed in dollars up 30% year-to-year in April and 20% in euros.

Other raw materials also reflect the sharp rise in world demand. So far in 2004, «The Economist» index for raw materials has shown notable increases each month. In April, this index expressed in dollars stood at levels 30% higher than in April 2003. In the major upward rise in prices of raw materials, a factor of key importance is the fact that even when the index is expressed in euros it shows an increase of 19% year-to-year. By group, a major upward trend showed up in industrial raw materials (increase of 39% year-to-year in April) and, among other raw materials, metals went above a 50% increase year-to-year in April. Gold prices, in turn, went above 405 dollars an ounce on average in April, a level 23% higher than one year earlier. Finally, food raw materials were up 26% year-to-year in the same period.

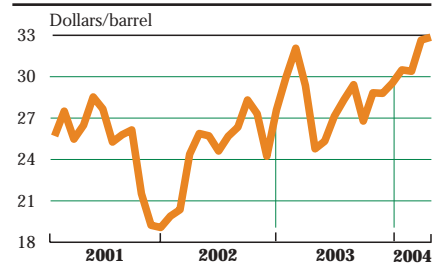
Metals lead price increases in raw materials.

TREND IN SELECTED RAW MATERIALS

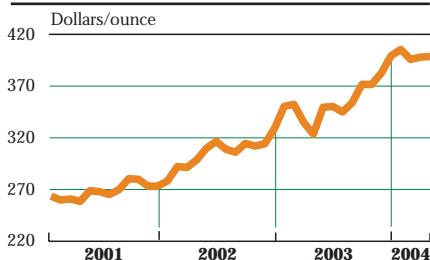
«THE ECONOMIST» INDEX



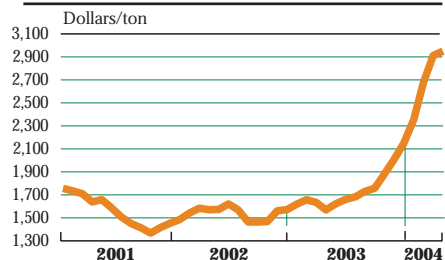
BRENT OIL



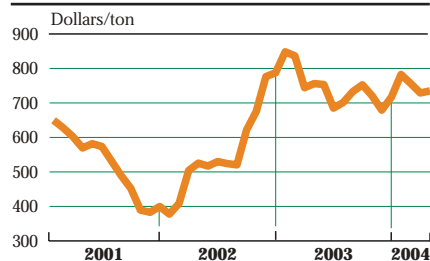
GOLD



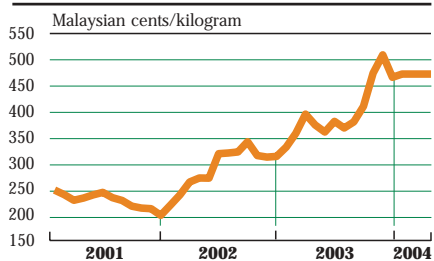
COPPER



COFFEE



RUBBER



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

EUROPEAN UNION

New countries of EU to grow more

Euro area to grow moderate 1.7% in 2004 while European Union unlikely to go above 2%.

In its spring forecasts, the European Commission predicted that economic growth of the 15 existing member states of the European Union (EU) would moderate in 2004 and 2005. For the current year, the EU executive body is expecting an increase in gross domestic product (GDP) of 2.0% which could move up to 2.4% the following year. The euro area will perform even worse with growth of 1.7% and 2.3% in 2004 and 2005, respectively. On the other hand, the new member states joining the EU as of May 1, 2004 will enjoy increases in GDP of the order of 4% in both years.

MACROECONOMIC FORECASTS FOR EURO AREA (1)

	2001	2002	Current forecasts (2004)			Difference with forecasts in autumn 2003 (2)	
			2003	2004	2005	2004	2005
Gross domestic product	1.6	0.9	0.4	1.7	2.3	-0.1	0.0
Investment in equipment	-1.1	-4.9	-2.3	3.4	6.0	0.3	1.5
Employment	1.4	0.6	0.0	0.3	0.9	0.0	0.1
Unemployment rate (3)	8.0	8.4	8.8	8.8	8.6	-0.3	-0.3
Inflation (4)	2.4	2.3	2.1	1.8	1.6	-0.2	-0.1
Government balance (% of GDP) (5)	-1.6	-2.3	-2.7	-2.7	-2.6	0.0	0.1
Government debt (% of GDP)	69.4	69.2	70.4	70.9	70.9	0.2	0.2
Current account balance (% of GDP)	0.5	1.3	0.5	0.7	0.6	-0.5	-0.7
<i>GDP growth in UE-15</i>	<i>1.7</i>	<i>1.1</i>	<i>0.8</i>	<i>2.0</i>	<i>2.4</i>	<i>0.0</i>	<i>0.0</i>

NOTES: (1) Annual change in percentage unless otherwise stated.

(2) A plus sign «+» («-») indicates a higher (lower) positive figure or a lower (higher) negative figure compared with autumn 2003.

(3) Percentage of labour force.

(4) Harmonized consumer price index.

(5) Including proceeds relative to UMTS licenses in 2001 and 2002.

SOURCE: European Commission.

Weak foreign demand to hurt Europe's economic performance with no help coming from consumption.

The weak economic drive in the euro area is specifically due to the limited contribution coming from the foreign sector and the poor upward path being following by domestic demand. With regard to the first of these components, we note that international recovery, whose key feature is world growth of 5% expected in 2004, will likely make it possible for exports to rise in 2004 and 2005. In any case, they will go up at a rate insufficient to counteract the increase in imports. Overall foreign demand will not bring about growth in 2004-2005. In turn, the strong recovery in investment, which is expected to be concentrated in the recovery of investment in capital goods, will be only partly aided by private consumption which will scarcely grow at all.

Poor economic growth easing inflationary pressures but worsening public finances.

Given the modest economic growth in the euro area, consumer prices will tend to ease in the scenario forecast for 2004-2005 going down to 1.6% year-to-year. At the same time, the reduction of unemployment will be quite limited with a decrease of two decimals in the unemployment rate in 2004 and 2005 as a whole. In terms of economic policy, we should mention the notable worsening of public finances in 2004 with only two member states (Finland and Spain) in a situation of surplus and six member states (France, Germany, Netherlands, Portugal, Italy and Greece) going above the government deficit limit of 3% of the GDP. In this situation, the concern of the European Commission about budgetary stability is understandable, something which led it to announce the start of proceedings for excessive deficit because of the negative government balance in the Netherlands and the United Kingdom in 2003 and an early warning to Italy also for its high deficit in 2003.

MACROECONOMIC FORECASTS FOR COUNTRIES OF EUROPEAN UNION Spring 2004

	GDP (*)			Inflation (**)			Unemployment (***)		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
Belgium	1.1	2.0	2.5	1.5	1.5	1.6	8.1	8.3	7.9
Denmark	0.0	2.1	2.2	2.0	1.5	1.8	5.6	5.8	5.3
Germany	-0.1	1.5	1.8	1.0	1.3	1.1	9.3	9.1	8.8
Greece	4.2	4.0	3.3	3.4	3.4	3.5	9.3	8.4	8.0
Spain	2.4	2.8	3.3	3.1	2.4	2.3	11.3	10.9	10.5
France	0.2	1.7	2.4	2.2	1.9	1.5	9.4	9.6	9.4
Ireland	1.2	3.7	4.6	4.0	2.1	2.3	4.6	5.0	4.9
Italy	0.3	1.2	2.1	2.8	2.2	1.9	8.7	8.6	8.5
Luxembourg	1.8	2.4	3.1	2.5	2.0	1.7	3.7	4.7	5.0
Netherlands	-0.8	1.0	1.6	2.2	1.4	0.7	3.8	5.3	6.0
Austria	0.7	1.8	2.5	1.3	1.4	1.3	4.4	4.5	4.3
Portugal	-1.3	0.8	2.2	3.3	2.0	2.2	6.4	6.8	6.7
Finland	1.9	2.6	2.7	1.3	0.4	1.5	9.0	8.9	8.6
Sweden	1.6	2.3	2.6	2.3	1.2	1.6	5.6	6.1	5.8
United Kingdom	2.2	3.0	2.8	1.4	1.6	1.9	5.0	5.0	5.0
UE-15	0.8	2.0	2.4	2.0	1.8	1.7	8.0	8.1	7.9
Euro area	0.4	1.7	2.3	2.1	1.8	1.6	8.8	8.8	8.6
United States	3.1	4.2	3.2	2.3	1.4	1.2	6.0	6.3	5.6
Japan	2.7	3.4	2.3	-0.3	0.0	0.2	5.1	5.1	4.7

NOTES: (*) Percentage real change.

(**) Percentage change in harmonized consumer price index, except for United States and Japan where national consumer price index is given.

(***) Percentage of labour force.

SOURCE: European Commission.

Portugal, Italy, Netherlands, and Germany still in state of low growth.

The trend by country continues to show major disparities in terms of forecast growth. With regard to the EU-15, in 2004 and 2005 Portugal, Italy, Netherlands and Germany will likely remain as those with the lowest increase in GDP in spite of the fact that in the second year the gap between them and the average will be reduced. At the opposite end of

the scale, there is the notable presence of Greece, Ireland, United Kingdom and Spain which all will enjoy a growth rate substantially higher than the EU average.

MACROECONOMIC FORECASTS FOR NEW MEMBER STATES OF EUROPEAN UNION Spring 2004

	GDP (*)			Inflation (**)			Unemployment (***)		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
Cyprus	2.0	3.4	4.1	4.0	2.2	2.1	4.4	4.1	4.0
Czech Republic	2.9	2.9	3.4	-0.1	2.8	2.8	7.8	8.2	8.2
Estonia	4.8	5.4	5.9	1.4	2.8	2.9	10.0	9.7	9.6
Hungary	2.9	3.2	3.4	4.7	6.9	4.6	5.8	5.7	5.6
Latvia	7.5	6.2	6.2	2.9	4.0	3.5	10.5	10.3	10.1
Lithuania	8.9	6.9	6.6	-1.1	1.0	2.2	12.7	11.5	10.7
Malta	0.4	1.4	2.0	1.3	1.8	1.9	8.2	8.6	8.1
Poland	3.7	4.6	4.8	0.7	2.3	3.0	19.8	19.6	19.3
Slovakia	4.2	4.0	4.1	8.5	8.2	4.5	17.1	16.5	15.9
Slovenia	2.3	3.2	3.6	5.7	3.6	3.2	6.5	6.4	6.2
Total	3.6	4.0	4.2	2.1	3.8	3.3	14.3	14.1	13.8

NOTES: (*) Percentage real change.

(**) Percentage change in harmonized consumer price index.

(***) Percentage of labour force.

SOURCE: European Commission.

New member states double growth of 15 as well as showing twice EU inflation.

In any case, the countries joining the EU as of May 1 are those showing the most substantial increases in GDP. Together, the 10 new EU member states will grow by 4.0% in 2004 and 4.2% in 2005, with a notable contribution coming from the Baltic states (Estonia, Lithuania and Latvia) which will mark up GDP increases of the order of 6% in both years. Also of note is the good performance of the Polish economy, by far the biggest in the group, which will reach growth of little less than 5% in 2004-2005. On the other hand, the results in terms of consumer prices will be less favourable given that the new member states will continue to show inflation rates almost double that of the EU-15. Nor can a positive face be put on maintenance of the unemployment rate at levels of the order of 14% of the labour force.

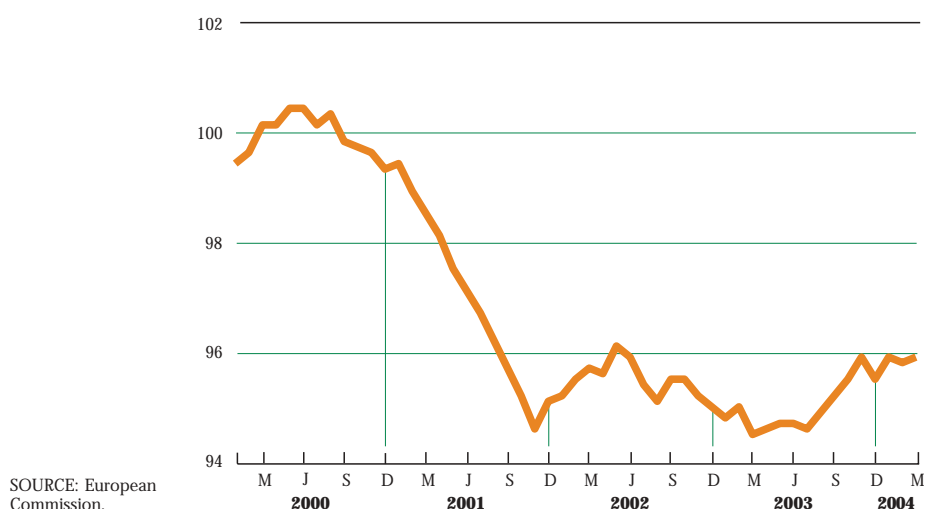
Euro area: economic activity showing moderate recovery

Recovery moves ahead in first quarter although very slowly.

In the first quarter of 2004, economic activity indicators in the euro area tended to go above the depressed figures shown in previous months. In any case, the growth rate is still low. The economic sentiment indicator, which reflects the overall state of economic activity, rose to 96 points in the first three months as against 95.7 points in the fourth quarter of 2003, thanks to recovery of all sector indicators included. Of special note in the first quarter were the improvements in consumer confidence and the services sector while industry and construction were less expansionist.

EURO AREA ABOUT TO ENTER STAGE OF INCREASED ECONOMIC ACTIVITY

Value of economic sentiment index



Retail sales up 0.7% in January and February.

Other indicators would confirm these trends. On the demand side, the better drive in consumption is reflected in the positive growth in retail sales in January and February when these grew by 0.7% year-to-year, a turnaround compared with the year-to-year decrease of 0.4% in the fourth quarter. On the other hand, investment has lost ground. Industrial production of capital goods was down by 0.6% year-to-year in February, compared with an increase of 0.1% year-to-year in January.

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	March
GDP	0.9	0.4	0.7	0.1	0.3	0.6	-	...	-
Retail sales	0.0	0.2	0.9	0.8	-0.4	-0.4	1.0	0.5	...
Consumer confidence (*)	-11	-18.0	-19	-19	-17	-16.0	-15.0	-14.0	-14.0
Industrial production	-0.5	0.3	0.8	-0.9	-0.2	1.5	0.7	0.6	...
Economic sentiment indicator (*)	95.6	95.1	94.9	94.8	95.0	95.7	96.0	95.9	96.0
Unemployment rate (**)	8.4	8.8	8.7	8.8	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	1.7
Trade balance (***)	84.2	81.8	92.7	82.2	77.9	74.2	75.8	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.

***Industrial recovery
loses steam in first
two months of 2004.***

On the supply side, the main factor of note is the difficulty of industry to consolidate recovery. Industrial production grew by a mere 0.7% in January to later hold at similar levels in February (year-to-year rise of 0.6%), a trend which could be expected from the stagnation seen in industrial order books since the fourth quarter of 2003. The poor increase in the industrial climate index in the three months from January to March confirms that recovery in the secondary sector is still far from becoming consolidated.

***Inflation at 1.7%
in March.***

While not giving up their recent tendency to ease up, consumer prices proved to be slightly more upward in March. The harmonized consumer price index (HCPI) for that month grew by 1.7% year-to-year, a rise of one decimal compared with February. The main cause of this increase in consumer prices was the food, alcohol and tobacco component, which rose by 3.1% compared with March 2003. The increase compensated for the year-to-year drop in the energy component (decrease of 2.0% year-to-year). If these two categories are discounted, resulting inflation held at 1.8% year-to-year, the same rate as in February.

***Unemployment holds
at 8.8% in February.***

With regard to the labour market, the two main indicators, the unemployment rate and the employment figure, have shown no changes in recent months. The former stood at 8.8% of the labour force in March 2003 and maintained this level until February 2004. In turn, employment grew by 0.2% year-to-year in the fourth quarter of 2003 with no change over the third quarter.

***Further increase in
foreign surplus
in February.***

The foreign sector remains subject to the restraints imposed by the appreciation of the euro which raises problems for exports. In any case, the cumulative surplus for 12 months in February amounted to 76.1 billion euros, as against 74.2 billion euros in the fourth quarter which indicates that the recovery of international trade is strong enough to overcome the currency barrier. Exports that month were up 1.5% year-to-year while purchases abroad rose by 1.3% year-to-year.

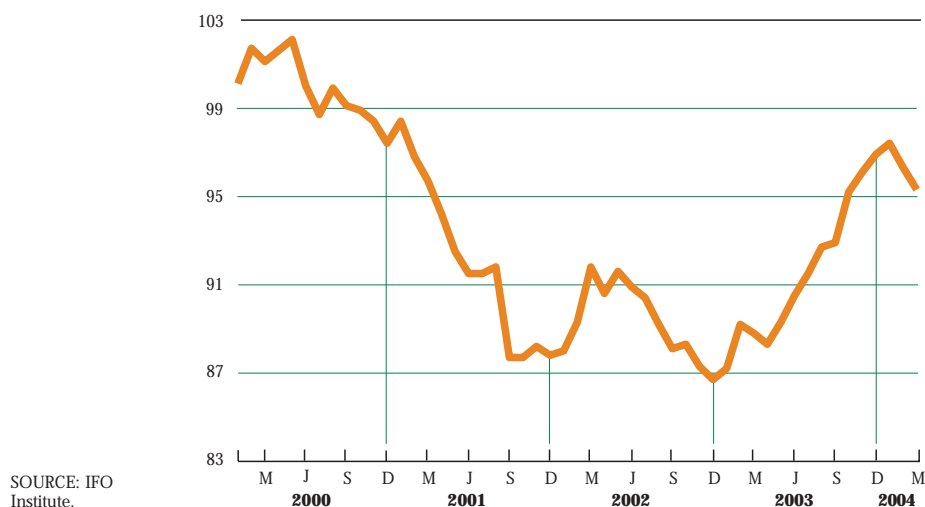
**Germany: economic climate worsens in spite
of improvement in indicators**

***While German
economy grows 0.5%
in first quarter market
operator confidence
down.***

According to early estimates by the Bundesbank, the German economy grew by 0.5% year-to-year in the first quarter compared with a nil year-to-year rise in the previous quarter. Paradoxically, the improvement in this indicator and other key indicators coincides with the worsening of expectations of market operators in practically all areas related to the economic situation. With regard to consumption, the recovery in retail sales in January and February, which had made it possible to edge out of the range of year-to-year decreases for the first time since the second quarter of 2003, must be counterbalanced with the drop of three points in consumer confidence in March.

PROSPECTS IN GERMANY GROW WORSE

Value of IFO industrial activity index



Industry moving up.

Equally in contrast was the maintenance of industrial production in January and February at rates of increase slightly higher than in the fourth quarter (growth of 1.8% year-to-year in February) while the IFO indicator of industrial activity dropped for two consecutive months. In February and March this indicator was down by two points to stand below the level for the fourth quarter. In any case, the rise in this indicator in April (to 96.3 points) and growth of industrial orders as of February, when they reached a year-to-year increase of 2.6%, would seem to discount that the drop in corporate confidence could have any immediate effect on industrial activity.

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	March
GDP	0.2	-0.1	0.1	-0.3	-0.3	0.0	-	0.5	-
Retail sales	-1.4	-0.5	-0.1	1.1	-1.8	-1.3	-0.8	0.0	...
Industrial production	-1.4	0.2	0.6	-0.4	-1.2	1.7	1.9	1.8	...
Industrial activity index (IFO) (*)	89.4	91.6	88.5	89.5	92.5	96.2	97.5	96.4	95.4
Unemployment rate (**)	10.2	10.4	10.6	10.6	10.5	10.4	10.2	10.3	10.4
Consumer prices	1.3	1.2	1.2	1.0	1.1	1.2	1.2	1.0	1.0
Trade balance (***)	118.8	129.9	131.4	128.5	129.7	130.0	134.6	136.2	...

NOTES: (*) Value.

(**) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

German exports grow close to 7% in January and February.

Also contributing to maintain reasonably optimistic prospects is the recovery in exports which has been taking place in the early months of 2004. After showing moderate growth of 1.2% year-to-year in the fourth quarter, foreign sales rose to 6.9% year-to-year in January and February as a whole. The rise in exports made it possible to increase the cumulative trade surplus to 136.2 billion euros, compared with 130 billion euros in the fourth quarter, in spite of the fact that imports were also higher in the January-February period (year-to-year increase of 2.5%).

Unemployment rate rises to 10.4% of labour force in March while inflation stands at 1.0%.

Two results of the weak domestic drive are maintenance of a relatively high level of unemployment and the absence of inflationary pressures. As a result, the unemployment rate rose by one decimal in March going to 10.4% of the labour force while the CPI continued to swing around levels of increase of 1% year-to-year. Specifically, inflation in March was again 1.0% year-to-year with no change over February.

France: recovery consolidating

Consumption and investment in France up in first quarter.

Practically all indicators for the French economy show that recovery is progressively taking shape. On the demand side, of special note are the rise in domestic consumption (reaching an increase of 2.9% year-to-year in the first quarter as against 2.1% in the fourth quarter) and the increase in investment (industrial production of capital goods went above 5% year-to-year in February). The major rise in French consumer confidence recorded in the first quarter (up by 9 points) makes it possible to foresee that domestic demand will continue to be strong in coming months.

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	March
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	3.5	1.8
Industrial production	-1.3	-0.3	-0.4	-1.8	-0.7	1.7	0.7	0.9	...
Unemployment rate (*)	9.3	9.7	9.4	9.5	9.7	9.7	9.6	9.6	...
Consumer prices	1.9	2.1	2.4	1.9	2.0	2.2	2.0	1.8	1.7
Trade balance (**)	0.4	0.3	0.5	0.3	0.2	0.1	0.2	0.2	...

NOTES: (*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

Industry having difficulty taking advantage of recovery in contrast to strength in services and construction.

By sector, recovery is most clearly evident in construction and services whereas industry is turning out to be more feeble. With regard to construction, two key indicators (housing starts and building permits) moved up in the first two months of 2004 taken as a whole. On the other hand, industrial production in February grew by 0.9% year-to-year. While this figure represents some improvement over the January figure (0.7% year-to-year), it is still below the level for the fourth quarter (1.7% year-to-year).

Few price increases with CPI standing at 1.7% in March.

On the prices front, we note the lack of notable increases. The CPI eased in March dropping by one decimal to 1.7% while, in spite of a rise in February, producer prices were up by a mere 0.5% compared with one year earlier. On the debit side of the French economy we note that there has been very little reduction in the unemployment rate. In January and February the unemployment rate held at 9.6% of the labour force, little better than the 9.7% in the fourth quarter.

Italy: no appreciable improvement in first quarter

Poor economic activity indicators in Italy except in consumption which are slightly better.

Most economic activity indicators for Italy suggest that economic recovery in the first quarter will be quite limited. The only positive figures show up in the area of private consumption which show an increase in retail sales in January up to 3.6% year-to-year (0.9% year-to-year in the fourth quarter of 2003) combined with recovery of consumer confidence in March. On the contrary, on the supply side, there is notable slackness in the industrial sector (industrial production in February held at the same levels as one year earlier) which may be explained by the drop in exports in the fourth quarter of 2003 and in January and February 2004.

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	March
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	3.6	...	...
Industrial production	–1.4	–0.4	0.0	–1.6	–0.3	0.1	0.1	0.0	...
Unemployment rate (*)	9.0	8.7	8.9	8.7	8.6	8.5	–	8.5	–
Consumer prices	2.5	2.7	2.7	2.7	2.8	2.5	2.2	2.3	2.3
Trade balance (**)	10.8	3.4	6.7	3.5	1.5	2.0	1.3	0.9	...

NOTES: (*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

Public reaction forces delay in legislation on government pension reform.

In view of the lack of economic strength it is not surprising to see the maintenance of the unemployment level at 8.5% of the labour force in the first quarter. Nor were there any changes in consumer prices which showed an increase of 2.3% year-to-year in March, the same rate as the month before. In another area, we should point out that public objections are having an effect on attempts to reform government pensions. With the specific aim of bringing about an annual decrease in government spending on pensions equivalent to seven decimals of the GDP, the reforms should have gone to the Senate on April 19 last. However, the legislative process has been put off at least until May.

United Kingdom: consumption on increase

British consumer continues as engine driving economy...

The main trends in the British economy continue with little change. The economic situation is still governed by the strength of private consumption. In the first quarter retail sales grew by 6.6% year-to-year, twice that recorded in the fourth quarter. At the same time, the notable rise in car registrations would confirm maintenance of a strong rate of household spending. Immediate prospects are for a continuation of this situation seeing that consumer confidence (which is a good precursor indicator of consumption) recovered by one point in the first quarter. The performance in investment was less satisfactory. While the capital goods component in industrial production has continued to grow in the early months of 2004 it is down compared with previous quarters.

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	March
GDP	1.6	2.2	1.9	2.2	2.2	2.7	–	...	–
Retail sales	6.9	3.0	3.1	2.7	3.0	3.3	7.0	6.5	6.4
Industrial production	–2.7	–0.5	–1.0	–0.7	–0.4	0.0	0.2	–1.2	...
Unemployment rate (*)	3.1	3.0	3.1	3.1	3.1	3.0	2.9	2.9	2.9
Consumer prices	2.2	2.8	2.9	2.9	2.8	2.6	2.4	2.3	2.1
Trade balance (**)	–43.5	–46.3	–46.5	–46.0	–46.4	–46.3	–47.9	–49.0	...

NOTES: (*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

...in contrast to drop in industry which amounts to 1.2% in February.

By sector, the difficulties in industry continue. Industrial production in February dropped by 1.2% year-to-year dragged down by the difficulties being seen in manufactures aimed at export. On the contrary, the sharp rise in the confidence index for services in the first quarter going up to 13 points (2 points in the fourth quarter) and the strength shown in construction orders confirm that construction and services are showing a relatively better performance.

Consumer prices ease to 2.1% in March while unemployment holding at lowest levels since 1975.

In addition, the CPI for March eased to 2.1% year-to-year as against 2.3% year-to-year in February which means that the course of lower consumer prices recorded since the beginning of 2003 is continuing. With regard to the labour market, the unemployment rate in March was again 2.9% of the labour force for the third consecutive month (the lowest since 1975).

FINANCIAL MARKET

MONETARY AND CAPITAL MARKETS

Prospects for increases in U.S. official interest rates

OECD and IMF putting pressure on Federal Reserve Board and European Central Bank in opposite directions.

International bodies such as the OECD and the International Monetary Fund have suggested that, in view of the different macroeconomic situations now existing, the U.S. Federal Reserve Board should raise its official interest rate while the European Central Bank should lower its rate if economic recovery in the euro area still weakens. Nevertheless, the main central banks do not appear to be in a hurry to change their reference rates which stand at the lowest levels in recent decades. The Bank of England also made no change in its intervention rate in April, although it probably will do so shortly.

SHORT-TERM INTEREST RATES IN NATIONAL MARKETS

Monthly averages as annual percentage

	Euro area			United States		Japan	United Kingdom		Switzerland
	ECB auctions (2)	Euribor		Federal Reserve Board target level (3)	3-month	3-month	Bank of England intervention rate (4)	3-month	3-month
		1-month	3-month						
2003									
March	2.61	2.60	2.53	1.25	1.23	0.01	3.75	3.56	0.36
April	2.54	2.58	2.54	1.25	1.25	0.01	3.75	3.55	0.30
May	2.56	2.52	2.41	1.25	1.24	0.01	3.75	3.54	0.29
June	2.20	2.18	2.15	1.20	1.07	0.01	3.75	3.55	0.27
July	2.08	2.13	2.13	1.00	1.08	0.01	3.58	3.39	0.28
August	2.06	2.12	2.14	1.00	1.10	0.01	3.50	3.43	0.26
September	2.07	2.13	2.15	1.00	1.10	0.00	3.50	3.60	0.25
October	2.05	2.10	2.14	1.00	1.12	0.00	3.50	3.71	0.24
November	2.02	2.09	2.16	1.00	1.13	0.01	3.71	3.89	0.25
December	2.01	2.13	2.15	1.00	1.12	0.01	3.75	3.93	0.26
2004									
January	2.01	2.08	2.09	1.00	1.09	0.01	3.75	3.96	0.24
February	2.00	2.06	2.07	1.00	1.07	0.01	3.96	4.08	0.25
March (*)	2.00	2.04	2.03	1.00	1.07	0.01	4.00	4.21	0.25
April (1)	2.00	2.06	2.06	1.00	1.11	0.01	4.00	4.38	0.29

NOTES: (*) Provisional figures.

(1) April 28.

(2) Marginal interest rate. Latest dates showing change: 6-3-03 (2.50%), 5-6-03 (2.00%).

(3) Last date showing change: 25-6-03 (1.00%).

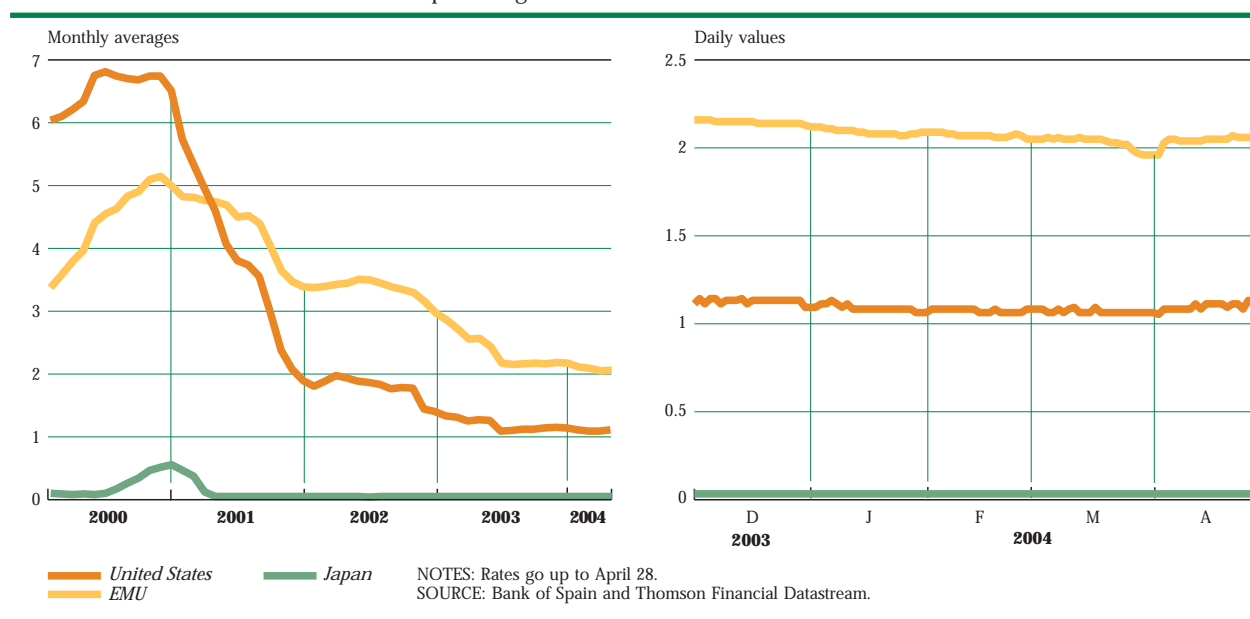
(4) Latest dates showing change: 6-2-03 (3.75%), 10-7-03 (3.50%), 6-11-03 (3.75%), 5-2-04 (4.00%).

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

Market anticipating increase in Federal Reserve Board rate in the summer.

In mid-April, the chairman of the Federal Reserve Board, Alan Greenspan, stated that deflation was no longer a concern. This statement brought an immediate reaction in financial markets. As a result, the interest rate on U.S. 12-month interbank deposits moved up to stand at 1.67% on April 21, some 36 basis points above the end of March. In fact, this yield had already been moving up since mid-March with the appearance of favourable indicators for the U.S. economy, particularly on publication of higher growth of employment than had been expected at the beginning of April. Nevertheless, Greenspan modified his statement of April 20 the very next day and suggested that the increase in interest rates would not be coming soon. In any case, the market as a whole is predicting the restrictive turn in monetary policy will not take place until the summer.

SLIGHT INCREASES IN 3-MONTH INTERBANK INTEREST RATES IN APRIL
3-month interbank interest rates as annual percentage



3-month Euribor marks up all-time low at end of March...

In the euro area, the meeting of the Governing Council of the European Central Bank (ECB) on April 1 confirmed that the Eurosystem reference rate was at the correct level to maintain price stability over the medium term although it noted that there still remained the risk of private consumption being too low for the reactivation of economic activity. The ECB is thus still resisting pressure for a decrease in reference rates. Furthermore, on this occasion, the market had clearly discounted a cut. When this did not take place the Euribor tended to move upward.

...but tends upward in April when cut expected by market fails to get green light from European Central Bank.

Nevertheless, the monthly bulletin of the ECB in April pointed out that economic recovery in the euro area was modest. In the fourth week in April following publication of a number of poor economic figures, Jean-Claude Trichet, chairman of the European Central Bank, stated that the rise in oil prices represented a threat to economic recovery in the euro area and that he was keeping all options open without showing any bias.

As a result, the 1-year Euribor, which in March stood at 2.06% on monthly average, only five basis points above the all-time high in June 2003, stood at 2.21% at the middle of the last week in April, 20 basis points below twelve months earlier. The 3-month Euribor, in turn, recorded an all-time low on March 29 going down to 1.957%. Nevertheless, it later rose to stand at 2.06% on April 28. As a result, the Euribor interest rate curve suggests that the market is still seeing a considerable possibility of easier money and that it does not expect any rate rise until next year.

Central banks in Sweden, Hungary and Canada ease monetary policies in April.

On the other hand, a number of central banks eased their monetary policies in the early weeks of April. On April 1, the Bank of Sweden cut its intervention rate by 50 basis points to 2.00%. On April 5, the Bank of Hungary again reduced its reference rate for the second time in two weeks putting it at 12%, thanks to an improvement in the macroeconomic situation. The Bank of Canada reduced its reference rates by 25 basis points on April 13 putting the objective yield on overnight interbank deposits at 2% and the discount rate at 2.25% in order to stimulate private consumption. This was its third cut this year in a framework of low inflation. In addition, it turned out that China's central bank was considering an increase in official interest rates in order to slow down overheating of the economy.

Upward prospects on interest rates strengthen dollar

Dollar appreciates 2.7% in overall terms in early months of year.

The improved economic climate in the United States and increasing prospects of a rise in the official interest rate by the Federal Reserve Board pushed up the dollar in April. As a result, in relation to a broad group of currencies the U.S. dollar reached its highest level since November 2003 and on April 28 was showing an appreciation of 2.7% compared with the end of 2003. Nevertheless, the massive foreign current account deficit remains a factor for pushing down the dollar over the medium term.

Uninspiring economic balance in euro area drives single currency down.

The euro recorded an annual low in effective terms in relation to the group of thirteen main trading partners of the euro area on April 13 returning to the level on November 2003. Unfavourable economic figures for the euro area and speculation about a possible cut in the Eurosystem reference rate hurt the single currency. However, in overall terms the euro later recovered to some degree. On April 28 it had appreciated by 0.7% compared with the annual low although this represented a drop of 4.3% since the end of December 2003. Compared with the U.S. dollar, on April 21 the euro marked up its lowest level since November 2003 showing a rate of 1.184 dollars. It later recovered slightly but at the middle of the last week in April it was showing a depreciation of 5.7% compared with the end of last year.

EXCHANGE RATES OF MAIN CURRENCIES

March 2004

	Final session of month		Average exchange rate	Monthly figures			Exchange rate April 28, 2004
	Exchange rate	% monthly change (2)		% change (2)			
				Monthly	Over December 2003	Annual	
Against U.S. dollar							
Japanese yen	104.3	-4.7	108.5	1.7	0.8	-8.6	110.1
Pound sterling (1)	1.843	-1.3	1.828	-2.2	4.2	15.4	1.772
Swiss franc	1.266	0.3	1.277	2.6	1.1	-6.2	1.306
Canadian dollar	1.310	-1.9	1.328	0.0	1.3	-10.0	1.375
Mexican peso	11.18	1.1	11.02	-0.1	-2.1	1.0	11.34
Nominal effective index (4)	113.4	-0.7	114.3	1.1	-0.2	-7.1	116.4
Against euro							
U.S. dollar	1.222	-1.6	1.226	-3.0	-0.3	13.5	1.191
Japanese yen	127.0	-6.4	133.1	-1.2	0.5	3.9	130.2
Swiss franc	1.559	-1.2	1.567	-0.4	0.8	6.6	1.549
Pound sterling	0.666	-0.6	0.671	-0.8	-4.4	-1.7	0.667
Swedish krona	9.258	0.3	9.235	0.6	2.3	0.1	9.116
Danish krone (3)	7.445	-0.1	7.449	0.0	0.1	0.3	7.441
Nominal effective index (5)	101.8	-2.1	103.1	-1.6	-1.0	5.3	101.1

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 $\pm 2.25\%$.

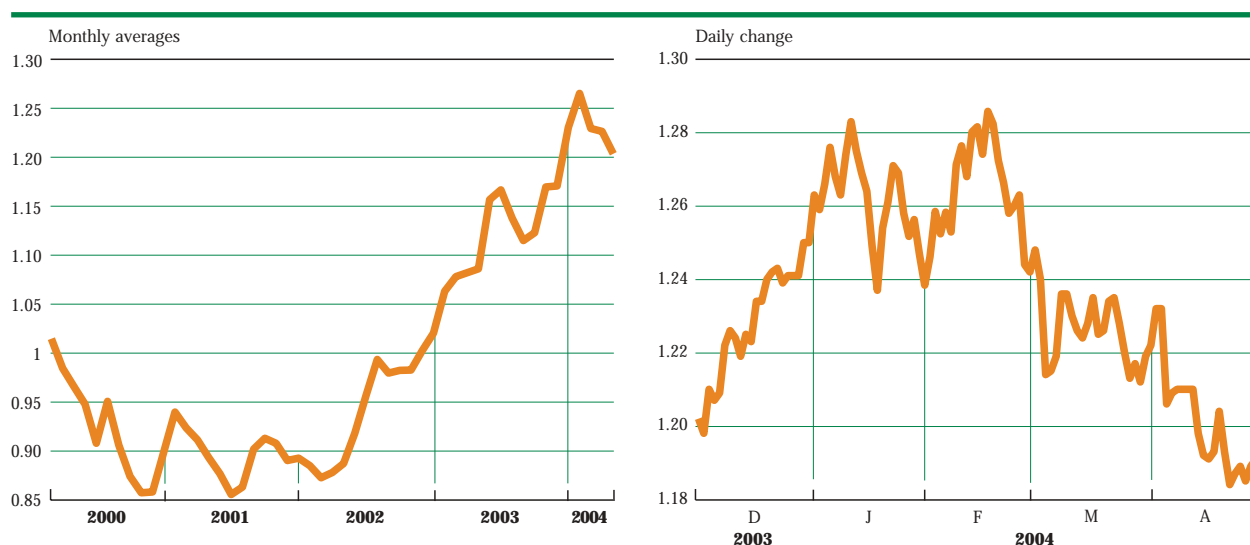
(4) Broad nominal effective index of U.S. Federal Reserve Board. Calculated as a weighted average of the foreign exchange value of the U.S. dollar against the 26 currencies of those countries with greatest volume of trade with the United States. Base: 1-1997 = 100.

(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 SHOWS ANNUAL LOWS AGAINST DOLLAR IN APRIL

U.S. dollars to euro



NOTES: Figures go up to April 28.

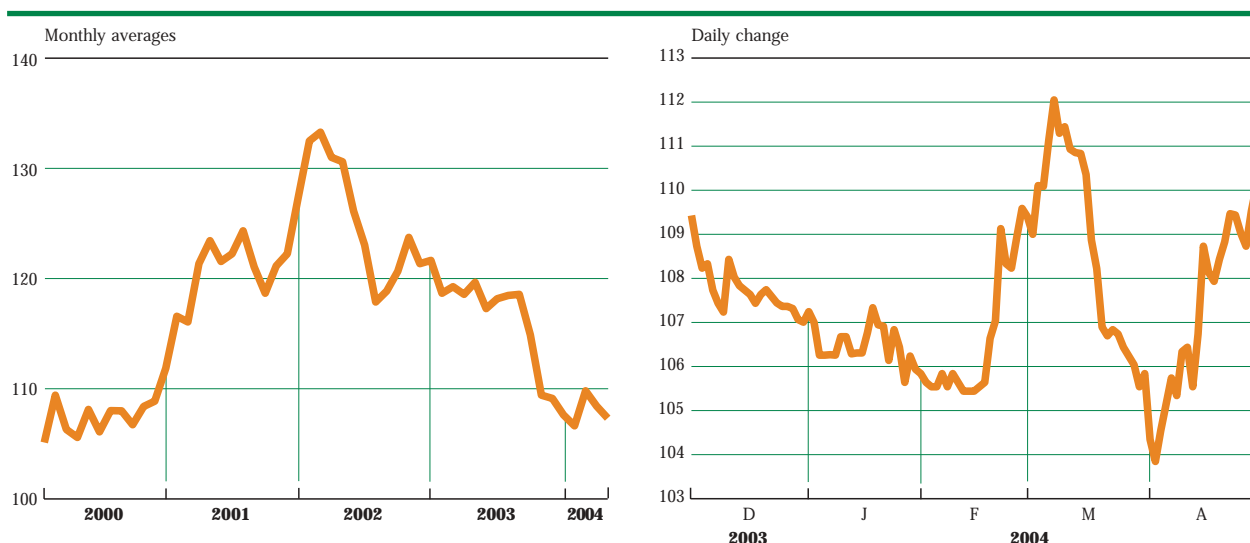
SOURCE: OECD, Thomson Financial Datastream and internal figures.

Yen marks up highest level against dollar in last four years.

On April 1, the yen marked up an annual high against the dollar showing a rate of 103.8 units to the dollar. In the final weeks of March repatriation of capital in view of the close of the Japanese financial year at the end of the month, the improvement in the economy, buying of Japanese shares and the apparent absence of the Bank of Japan in foreign exchange markets meant that the Japanese currency went to its highest level in the past four years. Nevertheless, the yen later dropped against the dollar because of the predominance of capital outflows and the yen was running at 110.1 units to the dollar toward the middle of the final week in April, although it was showing an appreciation of 9.5% compared with the same date the year before. In terms of the euro, on April 28 the yen showed an appreciation of 3.7% compared with the end of December 2003.

YEN SHOWS UPS AND DOWNS AGAINST DOLLAR

Yen to dollar



NOTES: Rates go up to April 28.

SOURCE: OECD, Thomson Financial Datastream and internal figures.

Pound sterling continues to depreciate against dollar.

In the early weeks of April the pound sterling continued to drop against the dollar to the point where it showed an annual low on April 23 of 1.772 dollars to the pound, a drop of 7.0% compared with the high for the last eleven years recorded in mid-February and 0.8% compared with the end of 2003. Contributing to the weakness of the pound was maintenance of the Bank of England intervention rate on April 8 and publication of a lower than expected inflation figure for consumer prices in the fourth week of that month.

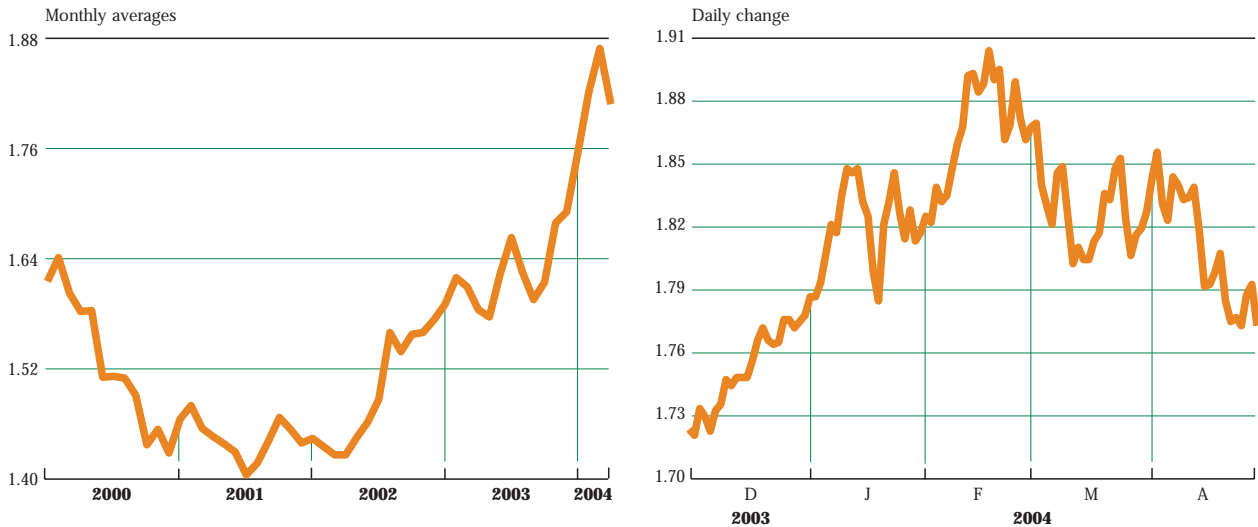
Under U.S. pressure Chinese authorities show signs of some flexibility on future of yuan.

Under pressure from the United States, the Chinese authorities stated in April that they were planning to introduce some flexibility in exchange rates in order to allow the yuan to fluctuate more broadly against a basket of foreign currencies as part of a package of broader reforms which includes the relaxation of control over movement of capital and some liberalization in markets. Nevertheless, there is no date set for making the yuan more flexible and it remains set at 8.28 units to the dollar. In spite of

the fact that China showed a trade deficit in the first quarter of 2004, its foreign currency reserves continued to increase because of the inflow of capital speculating on a future revaluation of the yuan.

POUND STERLING ALSO DROPS AGAINST DOLLAR

U.S. dollars to pound sterling



NOTES: Rates go up to April 28.

SOURCE: Thomson Financial Datastream.

Mexican peso drops against dollar.

Finally, the Mexican peso has dropped against the dollar since the end of March following reduction of rates on 3-month Treasury certificates whereas, in the United States, upward prospects on interest rates increased. As a result, in April the Mexican peso fell by 1.4% against the dollar going to 11.3 units to the dollar which put it 0.9% below the end of 2003.

Substantial rise in yields on U.S. and German 10-year government bonds

Yield on U.S. Treasury bonds marks up highest level since September 2003.

The yield on U.S. Treasury bonds continued to move up in the early weeks of April boosted by indicators showing increased strength in the economy, such as good figures on manufacturing activity, higher than expected job creation, high retail sales and an unexpected rise in inflation, which brought earlier prospects for an increase in the reference rate by the Federal Reserve Board, as mentioned earlier. On April 28, the yield on U.S. 10-year Treasury bonds rose to 4.47%, the highest level since September 2003.

Big increase in variable-rate bond issues in United States.

In addition, prospects of an increase in U.S. official interest rates, along with shifts in high-risk funds in the corporate bond market, brought about an increase in variable-rate bond issues. As a result, nearly half of the bonds placed in the United States this year carrying investment rating were of the variable-rate type, which was in contrast to the usual proportion of only one quarter of the total. This trend was also seen in low credit rating bonds.

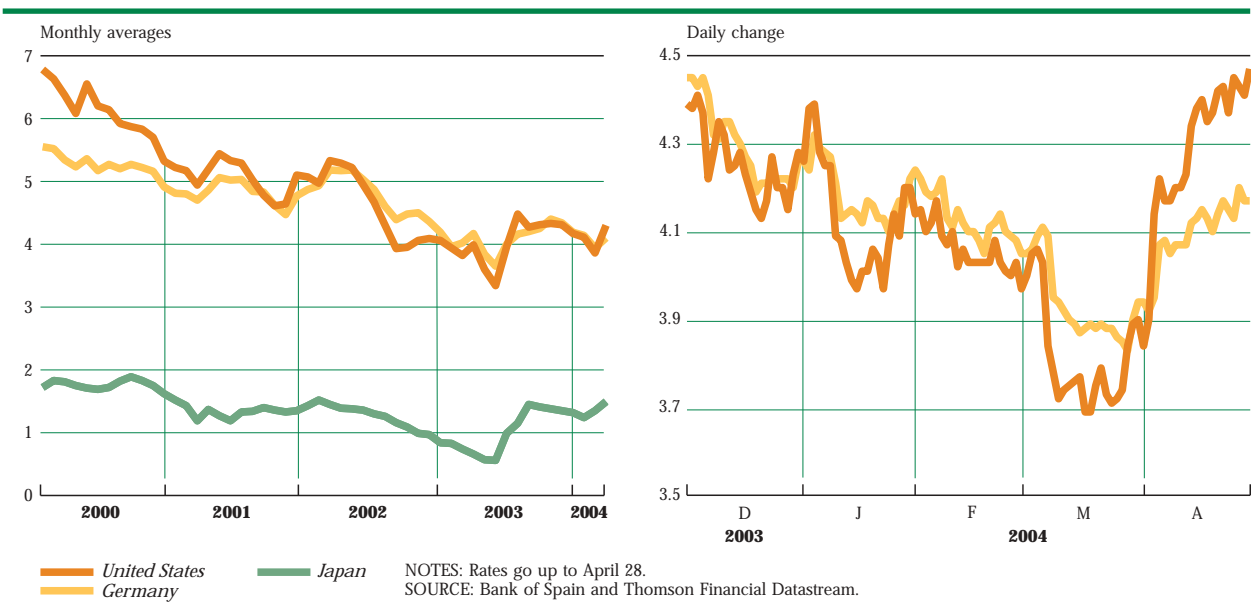
Global default rate on junk bonds continues to drop.

The global default rate on junk bonds continued to decrease in the past twelve months as of March to stand at 4.1% as against 4.4% in February and 7% in March 2003, according to Moody's rating agency. The reduction in default rate may be explained by the world economic recovery and restructuring of corporate balance sheets.

Yield on German government bonds rises less than for U.S. bonds.

European bonds closely followed similar bonds on the other side of the Atlantic. Nevertheless, European yields rose less sharply given the picture of the moderate recovery in the euro area. As a result, the interest rate on German government bonds rose to 4.20% on April 26, the highest level since February 2004. The differential between yields on German and U.S. long-term government bonds was turned around in April and went to 30 basis points in favour of the United States on April 28.

LONG-TERM INTEREST RATES MOVE UP
Yield on 10-year government bonds as annual percentage



Interest rate on Japanese government bonds continues to rise.

The interest rate on Japanese government bonds continued to rise in the early weeks of April, thus reflecting the increased strength of that country's economy, the disappearance of deflation and subsequent shifts from government bonds to the stock market. As a result, the yield on Japanese 10-year government bonds rose to 1.56% on April 21, the highest in the last seven months.

LONG-TERM INTEREST RATES IN NATIONAL MARKETS

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

	2001	2002	2003			2004			
			2nd Qtr.	3rd Qtr.	4th Qtr.	January	February	March	28 April
United States	5.06	4.65	3.64	4.26	4.32	4.17	4.11	3.86	4.47
Japan	1.34	1.27	0.60	1.20	1.38	1.32	1.24	1.35	1.52
Germany	4.82	4.80	3.89	4.12	4.33	4.19	4.14	3.94	4.17
France	4.95	4.88	3.94	4.13	4.35	4.20	4.15	3.99	4.21
Italy	5.19	5.04	4.03	4.25	4.46	4.32	4.26	4.15	4.31
Spain	5.12	4.96	3.92	4.14	4.34	4.19	4.15	4.01	4.18
United Kingdom	4.97	4.93	4.25	4.55	4.98	4.83	4.88	4.77	5.00
Switzerland	3.28	3.02	2.34	2.57	2.68	2.58	2.46	2.35	2.71

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

Stock markets improve levels in April

International stock markets regain drive lost following terrorist attacks on March 11 thanks to good corporate profits...

The main world stock markets recovered some optimism in the early weeks of April. Better prospects of economic growth in the United States, with a subsequent upward revision of corporate profits, pushed up the U.S. stock markets. As a result, the more important international stock markets picked up the good situation on Wall Street in spite of geopolitical risks and the worsening situation in Iraq, recovering the drive most of them had lost in March following the terrorist attacks carried out in Madrid on March 11. Nevertheless, as prospects of a rise in reference rates by the Federal Reserve Board increased, stock markets in the United States and others such as in Latin America began to run out of steam.

...but expected rise in U.S. interest rates hangs over U.S. stock markets.

In the United States, the surprisingly positive figure for job creation in March was followed by a series of announcements of better corporate profits which had a positive effect on the stock markets. However, anticipation of a rise in the official interest rate by the Federal Reserve Board, as well as the rise in oil prices, counteracted these favourable factors. The Standard & Poor's 500 index thus presented a drop of 0.3% on April 28 compared with the end of March, a cumulative change of 0.9% over December. On that date, the traditional Dow Jones index stood 1.1% below par for the year and the general Nasdaq index, which is representative of the hi-tech sector, showed a drop of 0.7% compared with the end of 2003 although showing an advance of 36.1% compared with twelve months earlier. The prospect of an increase in interest rates brought about a redistribution of a demand for shares from sectors which could be most affected, such as real estate and construction, toward less sensitive sectors such as energy.

Euro area stock markets show better trend than U.S. markets in April.

Stock markets in the euro area showed a better trend than those on the other side of the Atlantic, given that they were not held back by a possible early rise in interest rates. As a result, the DJ Eurostoxx 50 rose by 1.8% in the first 28 days of April and raised cumulative gains for the year to 2.8%. In this way, the change over the same date in 2003 stood at a notable 21.0%.

INDICES OF MAIN WORLD STOCK EXCHANGES
March 31, 2004

	Index (*)	% monthly change	% cumulative change	% annual change	Figures on April 28, 2004	
					% cumulative change	% change over same date in 2001
New York						
<i>Dow Jones</i>	10,357.7	-2.1	-0.9	29.6	-1.1	-4.3
<i>Standard & Poor's</i>	1,126.2	-1.6	1.3	32.8	0.9	-10.4
<i>Nasdaq</i>	1,994.2	-1.8	-0.5	48.7	-0.7	-4.1
Tokyo	11,715.4	6.1	9.7	46.9	12.4	-13.9
London	4,385.7	-2.4	-2.0	21.4	1.1	-24.0
Euro area	2,787.5	-3.7	1.0	36.9	2.8	-36.6
<i>Frankfurt</i>	3,856.7	-4.0	-2.7	59.1	2.5	-34.2
<i>Paris</i>	3,625.2	-2.7	1.9	38.4	4.6	-33.2
<i>Amsterdam</i>	338.9	-5.0	0.4	36.3	3.0	-41.3
<i>Milan</i>	1,281.0	-1.9	1.9	26.9	6.1	-24.3
<i>Madrid</i>	8,018.1	-2.8	3.6	36.6	6.4	-14.6
Zurich	5,618.6	-3.1	2.4	37.5	5.6	-20.1
Hong Kong	12,681.7	-8.8	0.8	46.9	-3.3	-9.1
Buenos Aires	1,201.7	1.6	12.1	112.1	5.7	152.2
São Paulo	22,142.0	1.8	-0.4	96.4	-7.9	37.2

NOTES: (*) New York: Dow Jones Industrials, Standard & Poor's Composite, Nasdaq Composite; Tokyo: Nikkei 225; Euro area: DJ Euro Stoxx 50; London: Financial Times-100; Frankfurt: DAX; Paris: CAC 40; Amsterdam: AEX; Milan: Banca Commerciale Italiana; Madrid: IBEX 35 for Spanish stock exchanges; Zurich: Swiss Market Index; Hong Kong: Hang Seng; Buenos Aires: Merval; São Paulo: Bovespa.

SOURCE: Thomson Financial Datastream and internal figures.

Tokyo stock exchange marks up highest level at end of financial year since 1973.

Outside the euro area, there was a notable rise of 3.2% in the London stock exchange in April, which managed to recover par for the year and record capital gains of 1.1% over December 2003. On the other hand, the Nikkei 225 index for the Japanese stock exchange ended the fiscal year on March 31 with the highest figure since 1973 after three years of drops with cumulative losses of more than 60%. The turnaround in Japan's economic situation brought about a new annual high in April with spectacular year-to-year gains of 57.8% on April 28.

IBEX 35 goes to annual high.

With regard to the Spanish stock market, we should point out that the IBEX 35 index recovered the 8,000 level, reached an annual high on April 13 and by April 28 had accumulated capital gains of 6.4% over December 2003. As a result, it showed the best four-monthly result among the main European stock exchanges. The index thus recorded an increase of 24.6% in the last twelve months. With regard to the end of 2003, only six shares out of the 35 making up the selective index showed capital losses.

Latin American stock exchanges down in April.

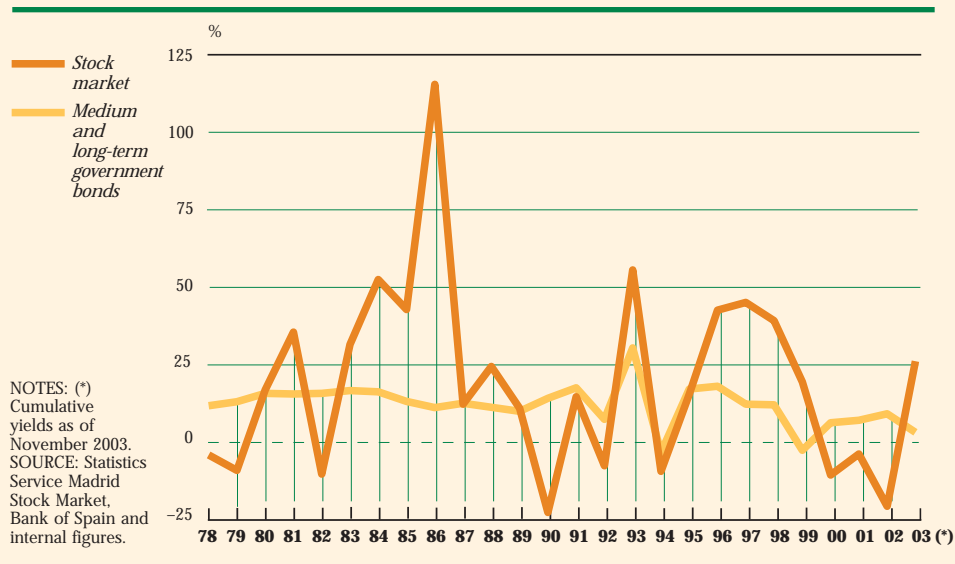
The main Latin American stock exchanges showed an unfavourable trend in the early weeks of April. The Mexican stock exchange was down by 2.6% as of April 28. The Argentine stock exchange dropped by 5.7% under the effect of energy problems in that economy, although it showed gains of 86.2% over April 28, 2003. The Brazilian stock exchange dropped by 7.5% as of April 28 to show an annual low, although it maintained capital gains of 64.3% compared with the same date last year.

YIELD ON SPANISH STOCK MARKET OVER LONG TERM HIGHER THAN ON GOVERNMENT BONDS

Following three consecutive years of drops in yield on the Spanish stock market starting in 2000, yields rose considerably last year and are now progressing satisfactorily in the early months of 2004. Nevertheless, indices are still substantially below the highs reached in March 2000. In this situation it is interesting to examine the long-term performance of the Spanish stock market and compare it with that of government bonds, which are considered to be a security with no default risk. In this respect, can it be said that conclusions about the stock markets, such as those of the United States, are valid for the Spanish scene in so far as their long-term yield is higher than government bonds and above inflation?

Available figures make it possible to analyze the past 26 years from 1978 to November 2003. So that the figures may be comparable in both markets we suppose the reinvestment of yields in the same shares, both in the case of stock market returns and government bond interest coupons. The figures seem to confirm that the response to this question is in the affirmative. In fact, the average gross yield of the total index for the Madrid stock exchange in the period under consideration was 16% annual while the yield on medium and long-term government bonds was 12%. The higher stock market yield would compensate for its greater volatility, as may easily be seen in the graph below. For example, the stock market recorded capital losses in 9 of the last 26 years while government bonds showed capital losses in only two years.

YIELD ON SPANISH STOCK MARKET AND GOVERNMENT BONDS COMPARED
Annual yield

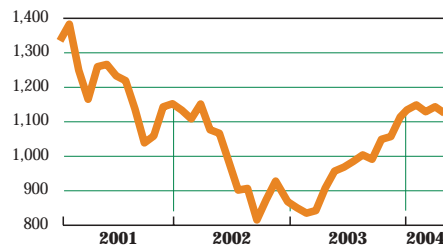


The beginning of the period examined coincided with persistent high inflation following the oil crisis in the Seventies which was gradually corrected mainly thanks to restrictive monetary policy to the point where we see a low rate of inflation in 1998. If we adjust the nominal yields for the effect of inflation (very high in the Seventies and Eighties as mentioned earlier) it turns out that the real gross yield on the Spanish stock market in the past 26 years was 9% annual while that on medium and long-term government bonds was 5%. This confirms that over the long term, which even included various economic cycles, the yield on the stock market was higher than that on government bonds and both were higher than inflation.

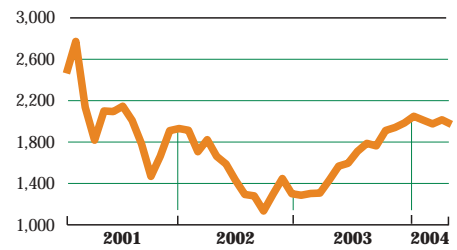
INTERNATIONAL STOCK EXCHANGES

Indices at month-end

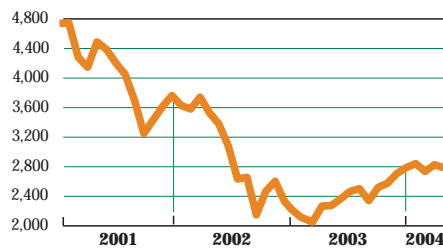
NEW YORK (Standard & Poor's 500)



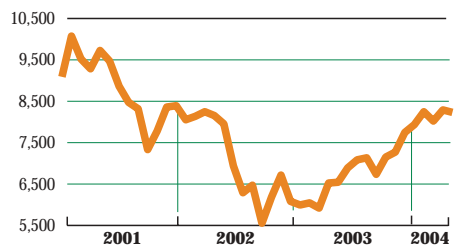
NASDAQ INDEX (UNITED STATES)



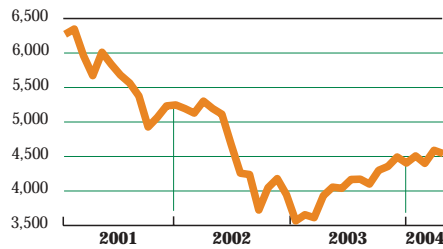
EURO AREA (DJ Euro Stoxx 50)



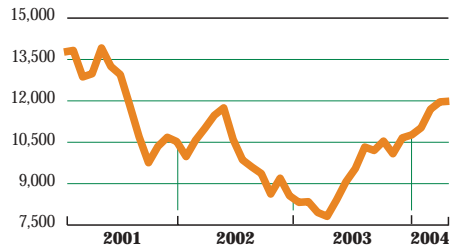
MADRID (IBEX 35)



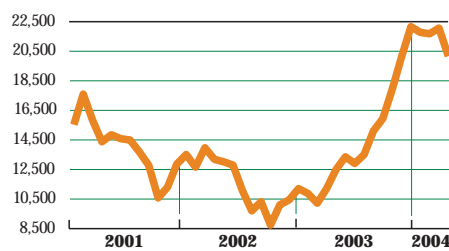
LONDON (Financial Times 100)



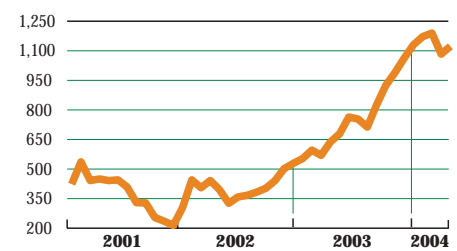
TOKYO (Nikkei 225)



SÃO PAULO (Bovespa)



BUENOS AIRES (Merval)



NOTES: Abril 28, 2004.

SOURCE: Thomson Financial Datastream.

SPAIN: OVERALL ANALYSIS

ECONOMIC ACTIVITY

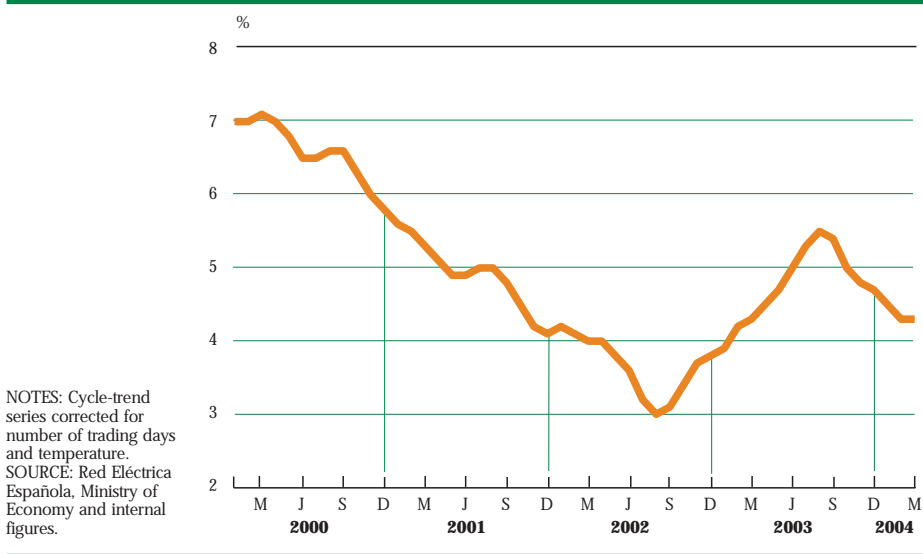
Domestic demand continues to drive economy

Consumption and construction continue to drive Spain's economic activity.

Figures for the main economic activity indicators for the first quarter of 2004 show no significant new features but confirm a clear continuation of what has been happening in previous months. The good state of consumption and construction is continuing with both still acting as the main engines of growth in Spain's economy. While it is still early to put out any definitive opinion, it would seem that the effects of the tragic events in Madrid on March 11 are turning out to be having less impact than at first feared, at least over the short term.

GROWTH OF ELECTRICAL POWER CONSUMPTION SLOWS DECREASE AT START OF 2004

Year-to-year change in electrical power consumption

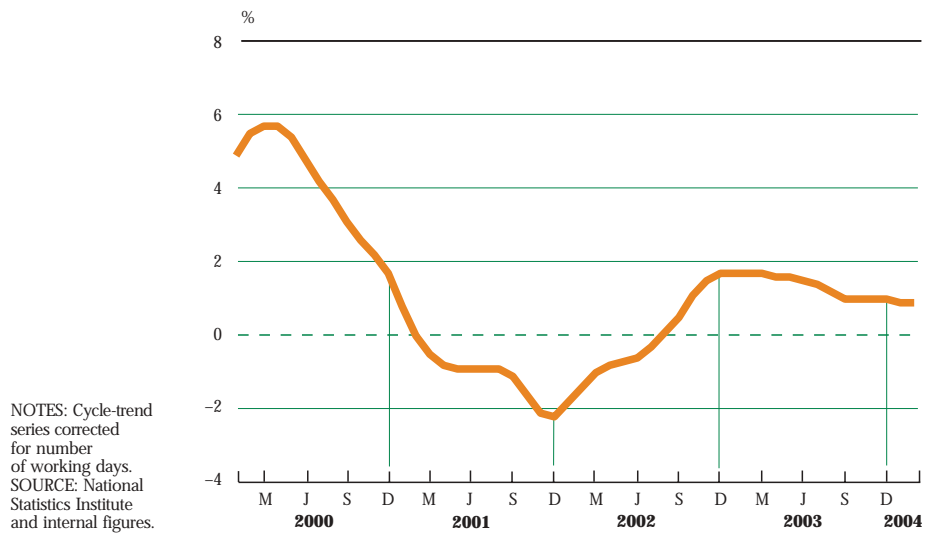


On other hand, industry showing low profile...

From an overall perspective, we note that electrical power consumption is maintaining a high growth rate (4.0% in the first quarter) while lately tending to moderate the slowdown profile shown in recent months. With regard to industry, no appreciable change is seen there either. The sector continues to show a fairly depressed state as reflected in the growth trend of the general production index (less than 1.0%) which is being maintained largely by the drive in energy and to a lesser extent in other intermediate goods.

GROWTH OF INDUSTRIAL PRODUCTION STAGNANT

Year-to-year change in industrial production index



...mainly in some manufacturing branches.

In the manufacturing industry, the most significant drops came in data-processing equipment (down 27.6% as of February), electronic material (19.8%), textile sector (7.8%), clothing and fur trade (6.2%), leather (17.6%), chemical industries (4.2%), motor vehicles (2.2%) and other transportation equipment (7.4%). On the contrary, there were increases, although moderate, in paper-making (rise of 3.3% in the period indicated), publishing (3.6%), metallurgy (4.5%) and machine building (6.4%).

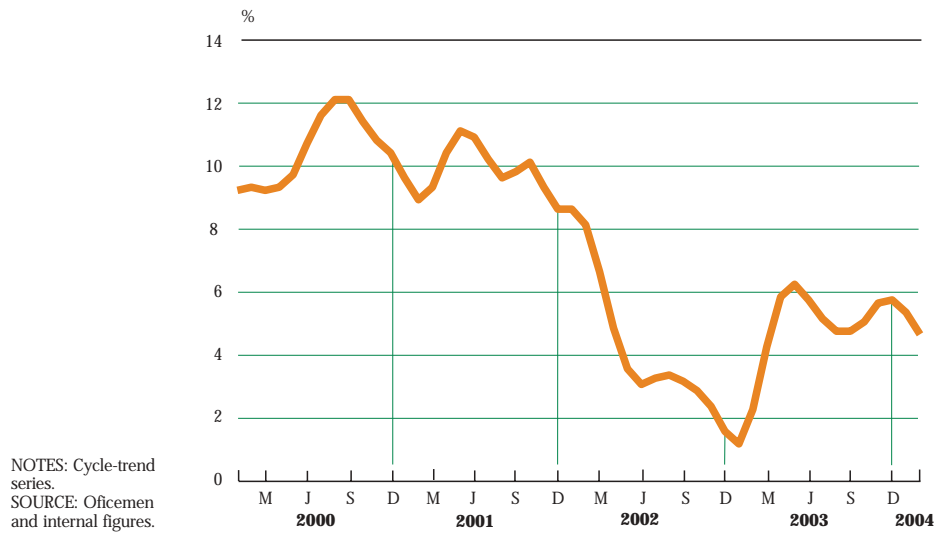
Sustained growth of cement consumption confirms strong drive in construction.

With regard to construction, the main indicators continue to show signs of growth with one exception. Cement consumption, which is strongly representative of activity in the sector, is growing at a notable rate swinging at around 5% in terms of cycle-trend. On the other hand, new building approvals for housing were down by 5.8% in January compared with the same month last year, in contrast to the high growth figures recorded in previous months. Government tendering also showed a notable drop in the final quarter of 2003.

Services also showing general growth trend...

From an overall perspective, activities related to services continue to move ahead at a sustained rate, as underlined by the trend in the indicator for business volume in the sector. In the past twelve months, the growth trend in this index has stood above 5%, with transportation, information and communications technology and services to companies turning out to be the most dynamic with growth rates well above average. Figures for January fell within a trend to continuation of the situation mentioned above.

GROWTH OF CEMENT CONSUMPTION RUNNING AROUND 5%
Year-to-year change for cement consumption



...with fairly positive result in tourism in early months of year...

The tourist sector showed a fairly positive result in the early months of the year before the start of the Easter Week festivities. The state of domestic tourism was particularly favourable with an increase in overnight stays of 9.9% in hotel establishments in the first month and 24.8% in tourist apartments as of February. The figures for foreign tourism were somewhat more moderate. Whereas the total number of visitors grew by 5.4% as of March, the number of overnight stays in hotels rose by only 0.7%, while in tourist apartments stays were down by 1.7% as of February. To complete the picture in the sector we should add that registrations with Social Security in February 2004 were 3.9% higher than one year ago. In addition, inflationary pressures remain (the tourist and hotel group in the consumer price index showed year-to-year growth of 3.8% in March).

...and high rate of activity in some transport modes.

Within the overall positive situation in the transportation sector there were some very uneven results. In passenger lines, the strength of air transport was notable with an increase of 11.5% in total passengers in the first two months of 2004, which was above the high rate recorded in 2003. In the period mentioned, growth of international traffic (13.9%) was above that for domestic traffic (8.8%). In other modes, growth rates were much more modest (2.3% in inter-city transport by road and 1.9% by rail) although this breaks with the contractile situation seen in previous months.

Subways continue to gain ground over buses in urban scene.

With regard to urban transport, the subway (underground railway), with an increase in passengers of 4.0% as of February, continued to gain ground over the bus which saw its growth limited to 1.0%. With regard to goods transport, the increase in shipments by rail (3.1% as of February) is similar to that recorded in the fourth quarter of 2003. It remains to be seen if figures for other modes of transport in 2004 confirm the good results recorded in the final quarter of 2003 when tonnage transported by road was up by 10.5% while tonnage moved by ship was up 5.9%.

SUPPLY INDICATORS

Percentage change over same period year before

	2002	2003	2003				2004		
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February	March
Industry									
Electricity consumption (1)	3.8	4.8	4.0	4.7	6.1	4.7	4.5	2.8	4.8
Industrial production index (2)	0.2	1.4	1.5	1.7	1.1	1.2	-0.7	1.8	...
Confidence indicator for industry (3)	-5.7	-0.9	1.0	-1.0	-1.3	-2.3	-4.0	-2.0	-3.0
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	1.9	...	...
Construction									
Cement consumption	4.7	4.8	3.9	5.1	4.5	5.7	1.9	6.0	5.9
Confidence indicator for construction (3)	5.3	10.5	14.0	10.0	10.3	7.7	2.0	5.0	12.0
Housing (new construction approvals)	4.3	21.4	23.9	21.7	14.1	26.0	-5.8	...	...
Government tendering	13.0	-11.0	56.3	25.2	-31.5	-50.3	...	...	...
Services									
Retail sales	5.7	5.7	5.6	5.9	5.0	6.1	6.2	6.7	...
Foreign tourists	4.5	0.0	-2.7	5.1	-3.0	1.3	6.9	10.5	0.1
Tourist revenue inflows	-2.9	3.7	0.3	7.5	3.9	2.3	4.4	...	...
Goods carried by rail (km-tonnes)	-0.7	1.7	0.7	-2.6	5.8	3.0	-0.8	7.0	...
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	4.3	...	...

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

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

(3) European Commission 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.

Rise in car registrations in first quarter...

On the demand side, the strength of private consumption may be seen, for example, in the rise in passenger car registrations which increased by 20.8% in the first quarter compared with the same period in 2003. Registrations of four-wheel drive vehicles and motorcycles also recorded very sharp growth of the order of 27.2% and 33.1% respectively in the period mentioned.

...along with growth in retail sales...

From another point of view, the expansionist performance in the retail sales index (nominal growth of 6.4% as of February, equivalent to 4.8% real) confirms the good state of consumption. A breakdown by product type shows notable growth in the non-food group (7.2% real) while by type of establishment it puts department stores at 6.9%.

...points to good state of private consumption although consumer confidence not significantly better.

Pointing in the same direction, the indicator for availability of consumer goods (domestic production + imports - exports) drawn up by the Ministry of Economy has recovered a clearly upward trend in recent months. Oddly enough, consumer confidence has not really begun to move up sharply and is still holding at very low levels (-11 points in March), according to the European Union survey. It should be pointed out that this survey is carried out in the first half of each month so that

the results for March almost entirely apply to the situation before the terrorist attacks on March 11.

DEMAND INDICATORS

Percentage change over same period year before

	2002	2003	2003				2004		
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February	March
Consumption									
Production of consumer goods (*)	2.4	0.2	0.5	1.8	0.3	-1.7	-2.5	0.1	...
Imports of consumer goods (**)	5.0	10.0	7.9	10.3	12.6	8.9	16.1	...	...
Car registrations	-6.6	3.8	-5.7	3.6	7.5	10.3	9.2	22.5	28.1
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	-11.0
Investment									
Capital goods production (*)	-4.9	0.5	0.3	0.5	-2.2	3.2	0.1	0.6	...
Imports of capital goods (**)	-5.8	16.8	10.6	22.6	26.2	9.9	16.3	...	...
Commercial vehicle registrations	-6.0	13.5	15.8	10.6	16.3	11.9	7.4	14.9	21.3
Foreign trade (**)									
Non-energy imports	3.7	7.4	9.9	11.0	7.6	2.1	8.2	...	...
Exports	1.4	6.2	5.9	11.1	4.6	3.3	5.7	...	...

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.

Imports of capital goods on increase but domestic production very weak.

In terms of investment demand, the figures are more contradictory. Imports of capital goods were up close to 15% in the past two months but, on the other hand, domestic production rose by a mere 0.4%. The weakness of domestic production and the expansionist performance of exports of goods of this type would explain the downward growth profile shown in availability of these goods in recent months.

Company profits increase in 2003

Rate of business activity of companies up in 2003...

In 2003, gross value added (GVA) generated by non-financial companies grew by 6.3%, well above the 3.4% recorded one year earlier, according to the Quarterly Composite Company Statistics compiled from company balance sheets by the Bank of Spain. Nevertheless, after correcting the effects of oil price changes on refinery companies and fuel distributors (which are over-represented in the above survey), the increase is limited to 5.7% as against 4.6% in 2002. As already indicated in the Quarterly National Accounts, corporate business activity was based on the strength of private consumption, the strong drive in construction and the recovery in investment in capital goods although the latter was seen to be losing some strength in the course of the year.

PROFIT AND LOSS ACCOUNT OF NON-FINANCIAL COMPANIES
Annual Change rate in Quarterly Company Statistics

	2001	2002	2003
Value of production	1.4	1.0	4.1
Intermediate consumption	0.0	-0.4	2.7
Gross value added (GVA)	4.0	3.4	6.3
Labour costs	4.6	4.3	4.0
Gross operating profit	3.5	2.6	8.2
Financial income	37.9	-9.5	4.2
Financial costs	15.2	-2.3	-1.3
Depreciation and operating provisions	1.4	1.3	1.2
Net ordinary profit	11.4	1.2	15.9
Capital gains and extraordinary income	15.3	104.8	-40.1
Capital losses and extraordinary costs	-6.6	133.5	-21.0
Other net allocations to provisions	60.1	138.8	-86.5
Tax on profits	5.3	-6.9	17.1
Net profit (*)	-10.7	-	-

NOTES: (*) Rate of little significance. Omitted if figures making them up are of opposite value (+) or (-).
SOURCE: Bank of Spain.

...mainly in energy sector, retail trade, transport and communications.

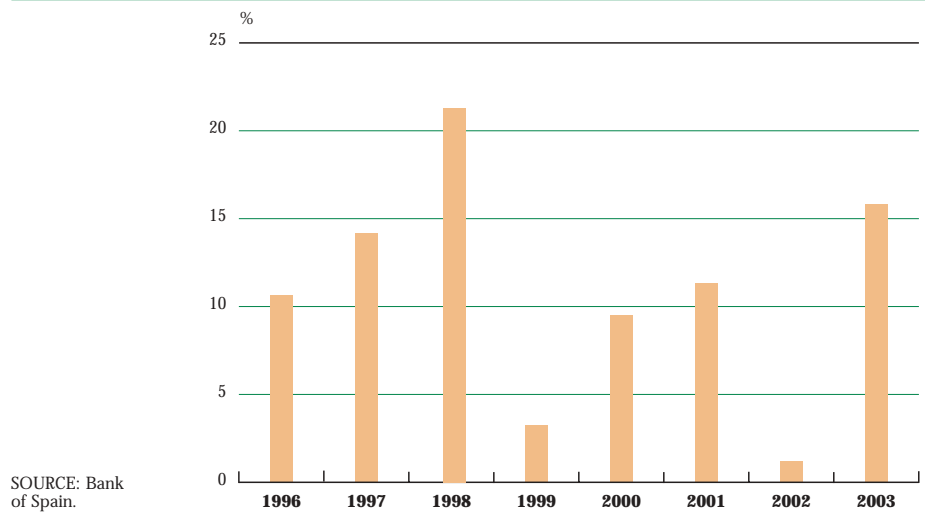
The GVA of electrical power companies was up by 7.2% boosted by a substantial increase in demand. Growth of 40.0% in refinery companies may be attributed to swings in crude oil prices and changes in the dollar exchange rate in the two years being compared. In addition, following the previous growth trend, the GVA in retail trade, transport and communications was up by 10.4% and 4.8% respectively, due to the strength of private consumption in the former case and the rise in cellular phone business in the latter. In contrast to the above, industrial companies noted a reduction in growth (down to 1.1%) mainly as a result of the drop in foreign demand.

Financial costs continue to drop while ordinary net profit up nearly 16%.

Labour costs were up 4.0% overall, three decimals less than in 2002, because of the combined effect of the increase in the number of workers (0.6%) and the increase in average wages (3.4%). At the same time, financial costs showed a further reduction (1.3%) in 2003 (although somewhat lower than that recorded in 2002) due to the fact that the drop in interest rates more than compensated for the charges arising from the increase in borrowing. In line with the trend in the above figures, net ordinary profit (strongly representative of the economic situation of companies) grew by 15.9%, the highest rate in the Composite Company Statistics in the past five years.

GROWTH OF PROFITS IN 2003 HIGHEST IN PAST FIVE YEARS

Change in net ordinary profit



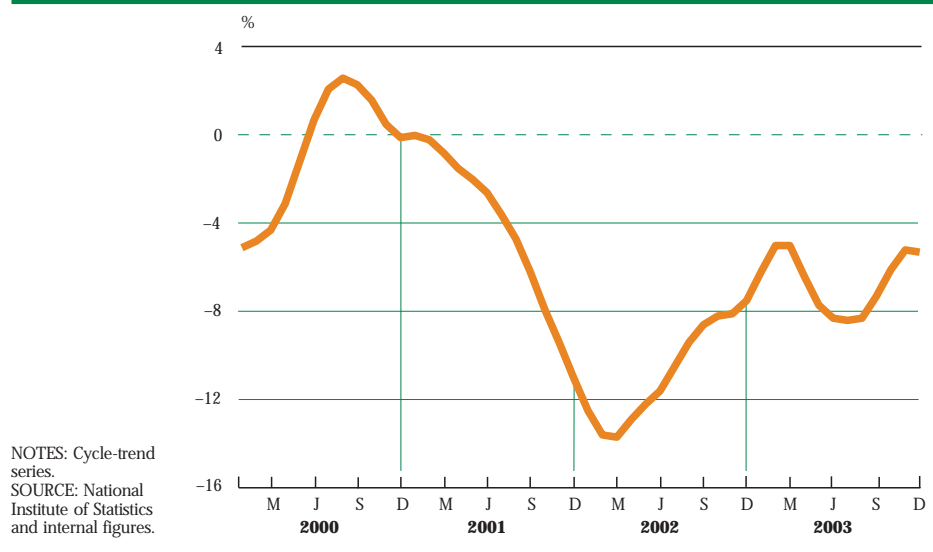
Notable drop in textile and clothing sector in 2003

Production in textile and clothing sector records further drop in 2003.

Value of production in the textile and clothing sector in 2003 maintained the downward trend being recorded in the previous two years. In fact, according to the Textile and Clothing Information Centre (CITYC), textile production was down 4.6%. Nevertheless, if we discount the effect of price increases, the real drop in production goes up to 5.8%.

TEXTILE PRODUCTION STILL SHOWING NEGATIVE GROWTH RATES

Year-to-year change in industrial production index



Sales abroad grow by around 5%...

Sales abroad grew by 4.9% in 2003. Knitted and clothing manufactures recorded the highest nominal increase (close to 13%) thus improving their share of total exports to the detriment of textiles which showed a drop of 4%. Fibre exports, in turn, were up by 2%.

...as against 8% growth for imports.

The most significant growth in 2003 showed up in imports which recorded an increase of 8.3%. By product group, ready-made clothing and household clothing reported the biggest growth (close to 16% compared with the year before) while imports of fibres and textile manufactures (thread and fabrics) were down by 5% and 1% respectively.

Strength of dollar, Asian competition and slack demand behind sharp rise in trade deficit...

The performance in trade with abroad showed a sharp increase in the trade deficit which went up to nearly 2.9 billion euros in 2003, as against 2.5 billion euros the year before. The increase in the negative balance of the trade deficit was due to growing competition from emerging Asian producers, added to the strength of the euro against the dollar, as well as the poor level of European demand which continues to take two-thirds of Spain's textile exports.

TEXTILE AND CLOTHING SECTOR Percentage annual change

	1999	2000	2001	2002 (*)	2003 (**)
Production (value)	-3.0	4.5	-0.2	-6.0	-4.6
Prices	0.0	1.5	1.3	0.8	1.2
Real production	-3.0	3.0	-1.5	-6.8	-5.8
Exports (value)	5.8	14.9	9.4	2.5	4.9
Imports (value)	7.9	17.0	7.3	4.7	8.3
Trade deficit (million euros)	1.791	2.195	2.239	2.477	2.890
Employment	0.0	0.9	-0.1	-3.5	-4.0

NOTES: (*) Estimate.

(**) Forecast by Textile and Clothing Information Centre.

SOURCE: Textile and Clothing Information Centre.

...as well as loss of jobs and containment of prices.

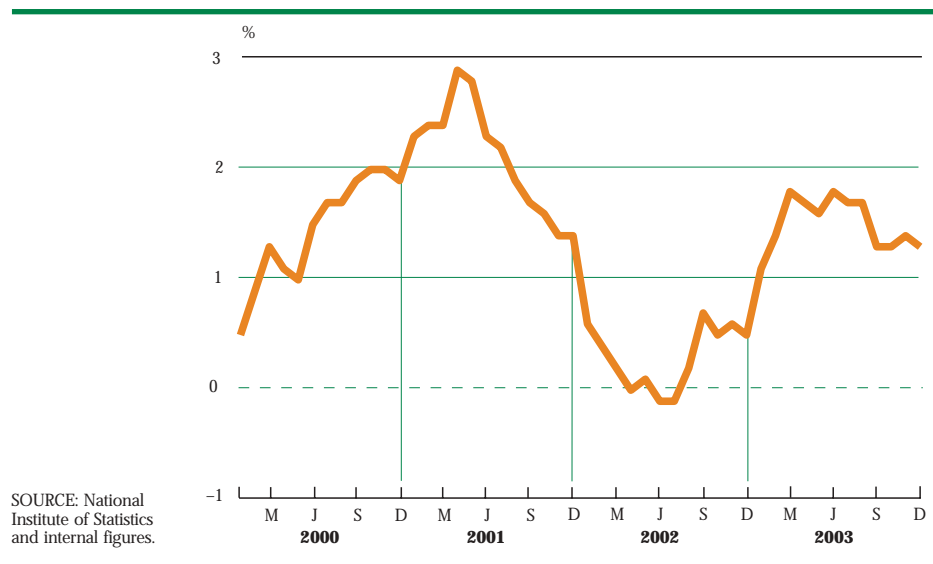
The massive entry of products from China, India and Pakistan and the slack in demand has brought about a sharp loss of jobs in Spain as well as containment of textile prices. In fact, employment showed its biggest drop in recent years with a decrease of 4.0% in 2003 while textile product prices rose by a modest 1.2% on annual average.

Prospects for 2004 unfavourable depending on European recovery...

Prospects for 2004 are not particularly favourable. In spite of the fact that everything points to an improvement in domestic consumption, it is not expected that this increase will shift entirely to sector companies, according to CITYC forecasts. Exports to Europe could grow if recovery in the area is confirmed but other sales abroad will likely remain stagnant due to the appreciation of the euro.

TEXTILE PRODUCT PRICES AGAIN EASING

Year-to-year change in producer prices in textile and clothing group



...while complete liberalization of sector set for 2005.

The Agreement on Textiles and Clothing signed in 1994 did away with the Multi-fibre Agreement establishing the progressive removal of import quotas over a period of 10 years. As a result, on January 1, 2005 we can expect complete liberalization of the sector which will mean rapid major changes in the production structure and the level of employment in Spain. Increases in trade will almost entirely take place in China, India and Pakistan thus aggravating the poor situation of the sector in Spain and the European Union. The negative impact of liberalization is cause for concern to the Spanish Inter-textile Council which has asked the World Trade Organization to prorogue the agreement by three years to December 31, 2007. The sector business organization alleges unfair trade practices by various countries, especially China.

LABOUR MARKET

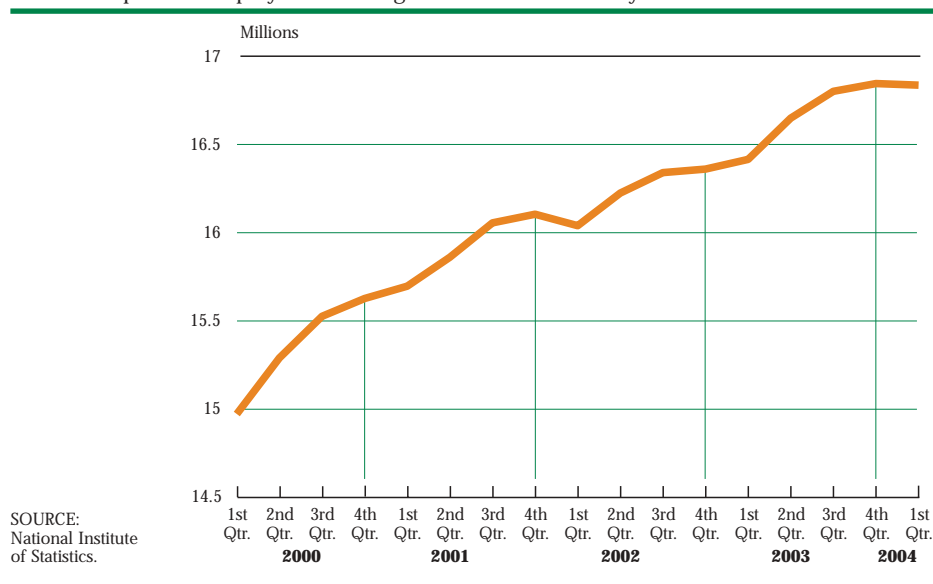
Job creation slowing down

Job creation rate down to 2.6% in first quarter of 2004...

Spain's economy lost nearly 9,400 employees in the first quarter of 2004 as against more than 55,000 jobs created in the same period last year, according to the Labour Force Survey. If we keep in mind that job creation in the early months of each year has been a common factor over the past ten years with the sole exception of 2002, the above result is fairly negative although we should not yet jump to the conclusion that this trend will continue in coming months. Overall, the total number of persons employed was 16,852,500 which meant that the annual rate of job creation was down by 2.6%, four decimals less than at the end of 2003.

EMPLOYMENT MODERATING GROWTH TREND

Number of persons employed according to Labour Force Survey



...in spite of fact 420,000 new jobs created in past 12 months...

In spite of the poor performance in the first quarter, jobs created in the past 12 months amounted to more than 420,000, with real estate companies, services to companies and retail trade making up more than half of those jobs with 150,000 and 135,000 new jobs respectively. Construction, health, and other services also made a significant contribution, to this increase although not to the same extent. Standing at the other end of the scale was industry which lost nearly 71,000 jobs in that 12-month period.

ESTIMATED EMPLOYMENT
First quarter 2004

	No. of employees (thousands)	Quarterly change		Annual change		Share
		Absolute	%	Absolute	%	%
By sector						
Agriculture	964.4	12.6	1.3	-7.1	-0.7	5.7
Non-farm	15,888.1	-22.1	-0.1	427.3	2.8	94.3
Industry	3,072.8	-2.7	-0.1	-70.7	-2.2	18.2
Construction	2,008.7	16.8	0.8	61.6	3.2	11.9
Services	10,806.6	-36.2	-0.3	436.4	4.2	64.1
By type of employer						
Private sector	14,101.4	-13.3	-0.1	344.4	2.5	83.7
Public sector	2,751.1	3.8	0.1	75.7	2.8	16.3
By work situation						
Wage-earners	13,706.8	-45.8	-0.3	372.6	2.8	81.3
Permanent contract	9,581.6	47.8	0.5	282.1	3.0	56.9
Temporary contract	4,125.3	-93.7	-2.2	90.6	2.2	24.5
Non-wage-earners	3,128.7	37.0	1.2	44.3	1.4	18.6
Entrepreneurs with employees	947.4	15.2	1.6	49.3	5.5	5.6
Entrepreneurs without employees	1,929.7	31.5	1.7	2.7	0.1	11.5
Family help	251.7	-9.6	-3.7	-7.6	-2.9	1.5
Other	17.0	-0.7	-4.0	3.2	23.2	0.1
By time worked						
Full-time	15,439.6	-47.0	-0.3	332.0	2.2	91.6
Part-time	1,413.0	37.6	2.7	88.2	6.7	8.4
By sex						
Males	10,290.6	-32.5	-0.3	108.6	1.1	61.1
Females	6,561.9	23.0	0.4	311.5	5.0	38.9
TOTAL	16,852.5	-9.4	-0.1	420.2	2.6	100.0

SOURCE: National Institute of Statistics and internal figures.

**...mainly involving
wage-earners.**

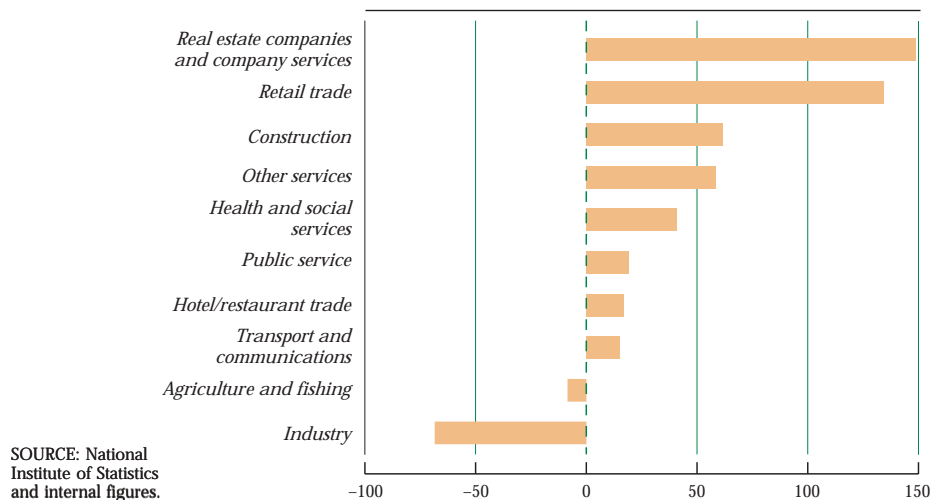
In overall terms, the greater part (372,600) of the new jobs created in the past year was concentrated in the wage-earner group with exactly the same growth rate (2.8% year-to-year) in the public and private sector. The proportion of personnel working in the public service and government-run enterprises held at 16.3% of total employment, slightly more than 20% of all wage-earners.

**Permanent job
contracts grow in
higher proportion
than temporary jobs.**

Compared with the previous quarter, the number of wage-earners under permanent contract rose by 47,800 while, at the same time, wage-earners with temporary contract showed a sharp drop (93,700 persons). The balance for the past 12 months is a little more even with an increase of 282,100 permanent jobs (3.0% year-to-year increase) and 90,600 temporary jobs (2.2%). Finally, the percentage of temporary jobs over total jobs dropped to 30.1%, some six decimals less than in the previous quarter and less than one year earlier.

REAL ESTATE COMPANIES, RETAIL TRADE AND CONSTRUCTION ACCOUNT FOR MOST NEW JOBS

Annual change in number of persons employed in 1st quarter of 2004, in thousands

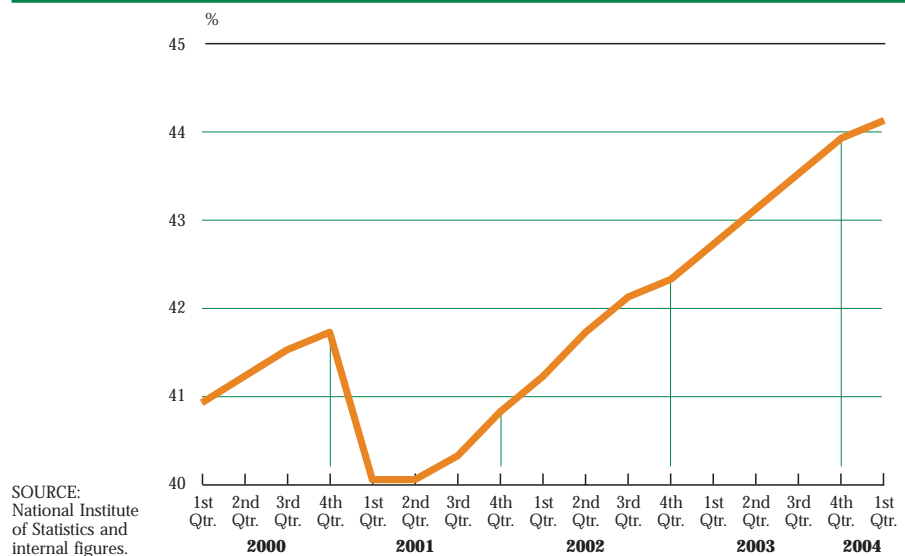


In spite of relatively greater drive, part-time employment still at low levels.

The total number of persons employed full-time increased by around 332,000 persons in the past 12 months as against 88,200 going into part-time work, although the latter is reporting relatively greater drive with a year-to-year growth rate of 6.7% as against 2.2% for the rest. In any case, the proportion of part-time jobs still stands at relatively low levels (8.4% of the total, two decimals more than one year earlier) in comparison with other countries among Spain's neighbours.

RELATIVE RATE OF FEMALE IN LABOUR FORCE MOVING UP

Women in labour force over total female population 16 years and over



Female employment growing faster than male counterpart.

In addition, there is still a higher rate of female employment (5.0% year-to-year) than male employment (1.1%). In fact, female employment represents 74.1% of total jobs generated in the past year while rates for female employment and number of females in the labour force continue to rise. On the other hand, the loss of youth employment continues (close to 30,600 jobs in the past 12 months) which may basically be explained by demographic causes (decrease in the labour force).

Rate of registrations with Social Security drops in March.

The results in employment reflected in the Labour Force Survey are in partial agreement with those shown in figures issued by Social Security. The first quarter ended with an increase of 2.9% year-to-year in the total number of those registering with that body, exactly the same as in the same period in 2003. In March the year-to-year growth rate dropped significantly to 2.7%.

UNEMPLOYMENT RATE UP AGAIN

Total estimated unemployed over labour force



Limited reduction in unemployment in past 12 months...

In the first quarter of 2004, estimated unemployment rose by nearly 37,100 persons compared with the previous quarter although in the calculation for the past 12 months there was still a limited decrease (18,500 persons). The unemployment rate stood at 11.4% (two decimals more than at the end of 2003) as against 11.7% recorded in the first quarter of 2003. The male unemployment rate (8.4%) was practically the same as one year earlier while female unemployment (15.7%) was nearly one point lower.

...without any apparent affect on attitudes of unemployed persons.

The moderation in the rate of job creation had no apparent effect on the attitudes of those unemployed. Only 19.1% would accept a change of location (1.2 points less than in the previous quarter). There was also a drop in the percentage of those ready to accept a change in occupation (70.3% of all unemployed, 1.8 points less than three months earlier), wages lower than for qualifications (43.7%, 1.4 points less) or a lower-than-expected job category (50.2%, 0.7 points less).

ESTIMATED UNEMPLOYMENT
First quarter 2004

	No. of unemployed	Quarterly change		Annual change		Share	Unemployment rate
		Absolute	%	Absolute	%	%	% of labour force
By sex							
Males	940.8	18.7	2.0	7.9	0.8	43.5	8.4
Females	1,223.3	18.4	1.5	-26.5	-2.1	56.5	15.7
By age							
Under 25 years	498.5	-6.2	-1.2	-22.9	-4.4	23.0	23.0
Other	1,665.6	43.3	2.7	4.3	0.3	77.0	9.9
By personal situation							
Long-term unemployment	284.7	11.5	4.2	21.3	8.1	13.2	-
Seeking first job	318.5	-17.9	-5.3	-29.5	-8.5	14.7	-
Other	1,560.9	43.5	2.9	-10.4	-0.7	72.1	-
TOTAL	2,164.1	37.1	1.7	-18.5	-0.9	100.0	11.4

SOURCE: National Institute of Statistics and internal figures.

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

	Labour force			Employed			Unemployed			Unem- ployment rate
	Total (1,000s)	Annual change	% annual change	Total (1,000s)	Annual change	% annual change	Total (1,000s)	Annual change	% annual change	%
Andalusia	3,206.6	60.7	1.9	2,654.8	104.3	4.1	551.8	-43.7	-7.3	17.2
Aragon	528.4	13.6	2.6	495.2	16.8	3.5	33.3	-3.2	-8.5	6.3
Asturias	439.7	17.5	4.1	389.5	19.4	5.2	50.2	-1.9	-3.8	11.4
Balearic Islands	424.3	18.2	4.5	369.9	12.6	3.5	54.4	5.6	11.5	12.8
Canary Islands	893.3	41.6	4.9	777.9	17.1	2.2	115.4	24.5	27.0	12.9
Cantabria	243.5	11.4	4.9	215.5	7.1	3.4	28.0	4.3	17.6	11.5
Castile-Leon	1,051.1	-1.5	-0.1	931.0	-5.1	-0.5	120.1	3.6	3.2	11.4
Castile-La Mancha	734.2	9.5	1.3	661.8	12.5	1.9	72.5	-3.0	-4.0	9.9
Catalonia	3,174.9	56.5	1.8	2,869.0	51.0	1.8	305.8	5.5	1.8	9.6
Valencian Community	2,018.9	27.7	1.4	1,821.6	52.9	3.0	197.3	-25.2	-11.3	9.8
Extremadura	450.5	-0.7	-0.2	373.8	11.8	3.3	76.7	-12.5	-14.0	17.0
Galicia	1,289.1	32.7	2.6	1,100.4	5.5	0.5	188.7	27.2	16.9	14.6
Madrid Community	2,579.7	59.6	2.4	2,411.3	82.2	3.5	168.4	-22.7	-11.9	6.5
Murcia	537.4	17.7	3.4	474.8	16.7	3.6	62.5	1.0	1.5	11.6
Navarre	259.6	9.6	3.8	243.9	7.6	3.2	15.8	2.1	15.3	6.1
Basque Country	1,002.8	18.2	1.8	898.7	5.9	0.7	104.1	12.3	13.3	10.4
La Rioja	122.5	2.1	1.7	113.6	1.3	1.2	9.0	0.7	9.8	7.3
Ceuta and Melilla	60.2	7.6	14.4	49.8	0.4	0.8	10.1	6.9	215.6	16.8
TOTAL	19,016.7	401.7	2.2	16,852.5	420.2	2.6	2,164.1	-18.5	-0.9	11.4

SOURCE: National Institute of Statistics and internal figures.

Navarre, Aragon and Madrid Community are autonomous communities recording lower levels of estimated unemployment.

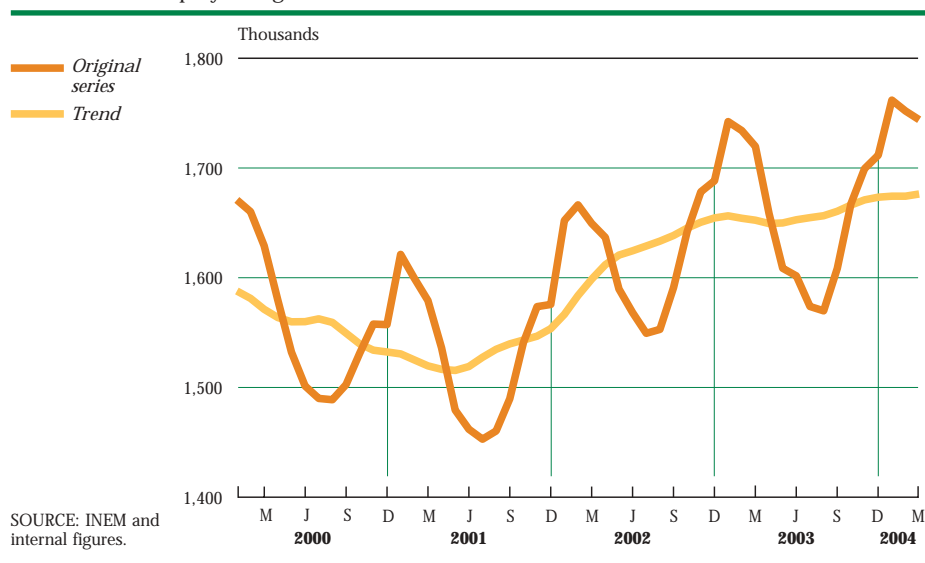
Finally, from a geographical perspective, we continue to note wide disparities. Those autonomous communities to increase employment most in the past twelve months were Asturias (5.2%) and Andalusia (4.1%). Next, with increases of more than 3% came Aragon, Balearic Islands, Cantabria, Extremadura, Madrid Community, Murcia and Navarre. In the rest, the only autonomous community to show a net loss of jobs in the period under consideration was Castile-Leon (decrease of 0.5%). With regard to unemployment, the lowest levels were recorded in Navarre (6.1% of labour force), Aragon (6.3%) and Madrid Community (6.5%). Figures under 10% showed up in Castile-La Mancha, Catalonia, Valencian Community and La Rioja. Standing at the opposite end of the scale were Andalusia and Extremadura with rates above 17%.

Slightly worse trend in registered unemployment in March

Registered unemployment down in March but not as much as year before.

The number of unemployed registered at the National Employment Institute (INEM) was down 8,188 in March, practically half the decrease in the same month in 2003. Because of this, the year-to-year rate of increase in unemployment rose slightly to stand at 1.4%. As a result, as in the case of registrations with Social Security, the figures point to an incipient worsening of the labour situation which at this moment does not look like being severe. In this respect, the balance for the first quarter is still practically identical to that for the same period last year.

SEASONAL INCREASE IN UNEMPLOYMENT IN FIRST QUARTER
Number of unemployed registered at INEM offices



Construction and services seem to reflect situation to greater extent.

The worsening of registered employment in March was especially notable in construction and services. In the former case, in spite of the March figure, the balance for the quarter was much more positive than in the same period in 2003. In services, on the other hand, the cumulative balance was worse than last year, perhaps because of the delay in signing some hiring contracts for the tourist season because of the terrorist attacks in Madrid on March 11.

PRICES

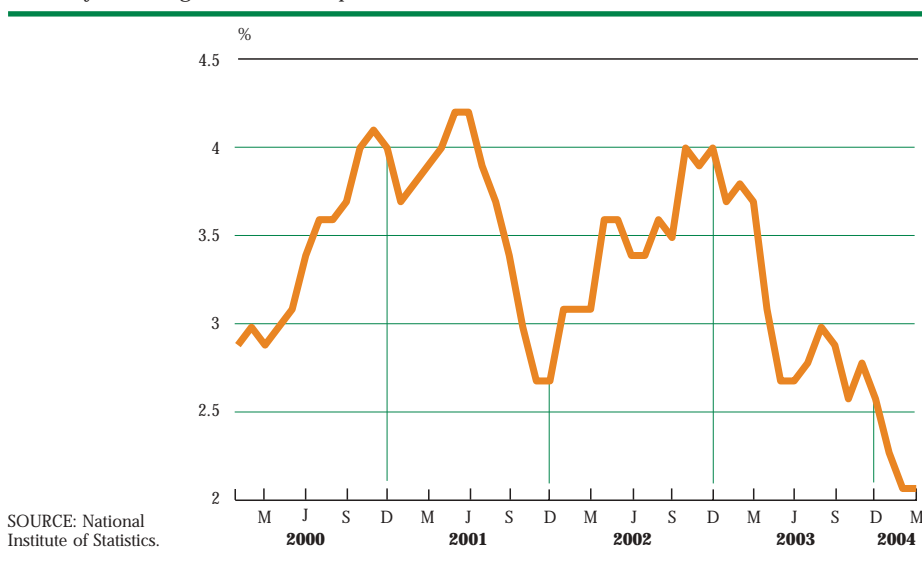
Consumer prices moderate in first quarter

Inflation rate holds at 2.1% in March.

The consumer price index (CPI) rose by 0.7% in March thus repeating the increase recorded in the same month of 2003. As a result, the inflation rate held at 2.1% year-to-year as in the previous month, thereby maintaining the lowest levels since 1999. This stability is practically across the board for the various CPI components.

INFLATION HITS BOTTOM IN MARCH

Year-to-year change in consumer price index



Energy continues to contribute to containment although its role coming to an end.

Energy prices again played a moderating role on the CPI as a whole keeping its rate of decrease at the 2.5% year-to-year seen the month before. This trend, however, could be turned around in coming months to the extent that it is unlikely that fuels will drop as they did in April, May and June 2003, in view of pressures on oil prices and the recent recovery of the dollar. As a result, the following quarter could see this component adding some decimal to the general inflation rate.

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	0.7	0.0	2.1
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			

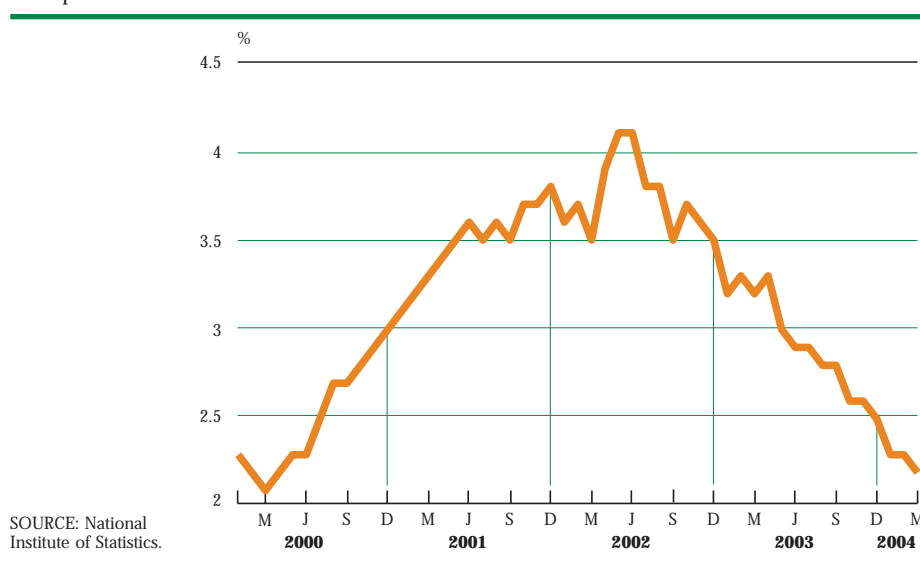
SOURCE: National Institute of Statistics.

Fresh food prices move up but signs point to containment over short-term.

The poor current prospects on energy prices could be fully or partly compensated by some moderation in fresh food prices which nevertheless are still showing downward resistance. In fact, the growth rate for this group in March again rose to a high 6.5% year-to-year because of the impact of some meat products, potatoes and fish. In spite of this, the drop in import prices and relatively favourable prospects for farm prices, mainly due to a base effect, should help moderate this component in coming months.

UNDERLYING INFLATION SLOWS

Year-to-year change in general consumer price index not including energy or unprocessed foods



Underlying inflation continuing very slight downward trend which could soon wear itself out.

The performance of the basic core of the CPI, that is to say, underlying inflation, is proving much less decided. Having an effect on this figure in varying proportion are services, non-energy industrial goods and processed foods. In fact, underlying inflation in March continued to follow a tone of slight moderation going down by one decimal to 2.2% so that in the past year it has dropped by one percentage point. This process, however, seems to be hitting bottom which it will go beyond only if some prices, especially in services, move into a path of effective downward correction.

CONSUMER PRICE INDEX BY COMPONENT

March

	Indices (*)	% monthly change		% change over previous December		% annual change		
		2003	2004	2003	2004	2003	2004	
By type of spending								
Food and non-alcoholic beverages	112.0	0.4	0.5	0.6	0.6	4.4	4.1	
Alcoholic beverages and tobacco	110.3	0.2	0.1	1.9	0.4	6.4	1.3	
Clothing and footwear	105.9	2.9	2.8	-7.8	-9.0	3.9	1.1	
Housing	107.7	0.6	0.5	1.8	1.5	3.5	2.5	
Household equipment	104.8	0.4	0.4	0.1	-0.2	2.2	1.4	
Health	104.6	0.3	0.2	0.6	-0.8	1.6	0.6	
Transport	106.2	0.8	1.1	3.4	2.5	4.7	0.1	
Communications	93.4	-0.2	-0.1	1.3	-0.3	-2.4	-1.8	
Recreation and culture	102.5	0.2	0.3	-0.8	-0.8	0.1	0.1	
Education	112.2	0.1	0.0	0.8	0.4	5.0	3.9	
Hotels, cafés and restaurants	113.1	0.6	0.5	1.6	1.6	4.4	4.0	
Other	110.5	0.5	0.2	2.3	2.1	3.6	2.9	
By group								
Processed food	109.6	0.3	0.3	1.4	1.1	4.1	2.4	
Unprocessed food	116.1	0.5	0.8	-0.6	-0.5	5.6	6.5	
Non-food products	107.1	0.8	0.8	0.4	-0.2	3.4	1.6	
Industrial goods	103.5	1.1	1.1	-0.5	-1.6	3.2	-0.2	
Energy products	102.4	1.4	1.5	5.1	2.5	6.1	-2.5	
Fuels and oils	102.3	1.9	2.0	6.3	2.9	7.8	-3.8	
Industrial goods excluding energy products	103.8	1.0	0.9	-2.2	-2.9	2.3	0.5	
Services	111.3	0.5	0.5	1.5	1.5	3.6	3.6	
Underlying inflation (**)	108.1	0.6	0.6	0.1	-0.2	3.2	2.2	
GENERAL INDEX	108.2	0.7	0.7	0.5	0.0	3.7	2.1	

NOTES: (*) Base 2001 = 100.

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

SOURCE: National Institute of Statistics.

Services resisting any halt to increases...

In this context, the increase in the services CPI in March showed a repeat of the year-to-year rate at 3.6% for the fourth consecutive month. This underlines the great downward resistance of this CPI component which turns out to be quite widespread among the various segments of services (financial, personal, repairs, insurance, education, etc.).

...while industrial goods prices scarcely increase because of competitive pressures.

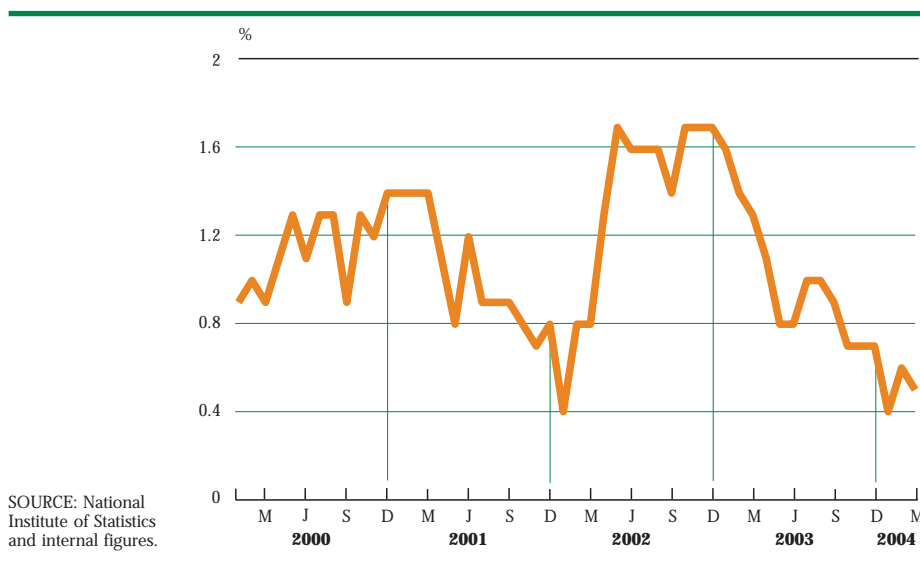
The situation in non-energy industrial products was quite different. In this group the increase in prices stood at low levels for the second consecutive month recording 0.5% year-to-year, nearly two points below the level in March 2003. Strong competition in certain markets combined with increasing supply in some cases meant sharp price decreases (consumer electronics, textiles, footwear) which naturally had its effect on moderating the index in this group.

Processed food prices up moderately but could reflect possible tax increases.

In the case of processed foods, the situation is relatively stable within a process of moderate growth (2.4% in March). In principle, we should not discount a gradual easing of these prices along with a weaker tone in fresh foods. On the other hand, however, the prices of alcohol and tobacco could be an opposing factor to the extent that they are subject to increases in taxes.

INFLATION DIFERENTIAL WITH EURO AREA MODERATES

Difference in year-to-year change in harmonized consumer price index in Spain and euro area



Price differential with euro area drops to half percentage point in March.

Maintenance of the inflation rate in Spain in March coming at the same time as a slight increase in the rate in the euro area made it possible to reduce the differential. In fact, in keeping with the harmonized consumer price index, the inflation differential with the euro area fell to a half percentage point. In any case, Spain continues to stand among the most inflationary countries in the Monetary Union, specifically running in third place after Greece and Italy. The improvement in the situation in March may be explained by the sharp increase in the prices of alcohol, tobacco and medicines in the European index.

Industrial prices begin slight rise in March

Energy favouring containment of industrial prices which grow at 0.8% rate in March.

Industrial prices showed a 0.8% year-to-year rate of increase in March, one decimal more than the figure for the month before, a performance which did not substantially change the situation of low growth in recent months. Up until now, the moderation in industrial prices has rested on the drop in energy prices which compensated for the moderate increases in other index components.

INFLATION INDICATORS

Percentage change over same period year before

	Farm prices	Producer price index					Import prices				GDP deflator (*)
		General index	Consumer goods	Capital goods	Intermediate goods	Energy goods	Total	Consumer goods	Capital goods	Intermediate goods	
2002											
December	-8.1	2.0	1.7	1.8	1.9	6.2	-3.3	-4.4	-4.4	-2.2	-
2003											
January	-10.3	2.5	1.9	1.4	1.2	7.4	3.6	-4.0	2.0	7.4	-
February	-0.7	2.9	2.0	1.2	1.5	8.9	-5.1	2.7	-8.9	-6.9	4.4
March	-0.8	3.0	2.2	1.2	1.5	9.5	2.9	1.4	-3.0	5.3	-
April	0.3	1.4	1.6	1.0	1.3	1.3	-2.5	-0.1	-10.9	-0.9	-
May	7.5	0.7	1.8	1.2	1.0	-2.3	-2.0	-1.9	-10.0	0.4	4.1
June	6.6	0.9	2.0	1.2	0.4	-0.9	0.7	-0.6	-7.2	3.8	-
July	3.7	1.1	2.5	1.1	0.1	0.2	0.0	-3.4	-7.2	3.2	-
August	8.3	1.1	2.7	1.1	0.0	0.1	1.5	4.5	-9.1	2.9	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	-3.6	-1.0	-8.4	-3.5	-
February	...	0.7	2.1	1.3	2.0	-5.4	...	...	...	...	...
March	...	0.8	2.3	1.3	2.6	-5.6	...	...	...	...	-

NOTES: (*) Gross figures corrected.

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

Import prices show greater weakness in first month of year.

Import prices, on the other hand, began 2004 adding to the weakness shown in previous months. In fact, the average drop in import prices in January was 3.6%. This decrease was mainly due to capital goods. In the case of consumer goods, the drop in prices in January was modest and took place only in non-food goods seeing that imported foods showed a slight rise.

FOREIGN SECTOR

Trade deficit continues to rise in January

Trade deficit up 9% in January.

The trade deficit for Spain's economy (3.5 billion euros in January) rose by 9.0% compared with the first month last year thus breaking the trend to containment recorded in the final quarter of 2003. Lower growth of exports than in the case of imports was behind this increase in the foreign imbalance.

FOREIGN TRADE January 2004

	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	1,696	-2.2	11.9	340	1.9	3.2	-1,355	20.1
Consumer goods	4,064	15.0	28.6	4,354	0.7	40.7	290	107.1
Food	909	16.1	6.4	1,524	4.9	14.2	615	167.7
Non-foods	3,155	14.3	22.2	2,830	-2.6	26.5	-325	89.7
Capital goods	2,138	6.6	15.0	1,324	15.5	12.4	-814	61.9
Non-energy intermediate goods	6,309	0.7	44.4	4,678	3.6	43.7	-1,632	74.1
By geographical area								
European Union	8,446	4.8	59.4	7,772	3.8	72.7	-674	92.0
Euro area	7,366	4.3	51.8	6,429	4.2	60.1	-937	87.3
Other countries	5,762	5.0	40.6	2,925	3.1	27.3	-2,837	50.8
Eastern Europe and ex-USSR	710	8.9	5.0	443	-3.9	4.1	-267	62.4
United States	606	1.7	4.3	365	-18.8	3.4	-240	60.3
Japan	374	4.0	2.6	109	18.5	1.0	-265	29.1
Latin America	554	2.8	3.9	586	45.4	5.5	32	105.8
OPEC	1,068	-5.6	7.5	229	-3.4	2.1	-839	21.4
Rest	2,450	11.0	17.2	1,193	-0.1	11.2	-1,258	48.7
TOTAL	14,207	4.9	100.0	10,696	3.6	100.0	-3,511	75.3

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

Rise in imports of consumer goods and capital goods.

Imports in January (14.2 billion euros) recorded a nominal rise of 4.9%, somewhat higher than the average for the previous quarter. In real terms, however, the increase was substantially greater (8.9%) if we take into account the drop in the average price of imported products at 3.6% year-to-year. The sharp increase in imports in January was especially notable in the area of consumer goods and capital goods. In the former case, there was a considerable rise in purchases of products such as clothing, furniture, consumer electronics and cars. In the case of capital goods, the biggest rise came in railway equipment. On the contrary, purchases abroad of intermediate goods remained on the weak side.

Recovery of exports based on foods and certain capital goods.

Sales abroad in January (10.7 billion euros) were up by 3.6% nominal compared with the same month in 2003, which did not mean any significant change over the situation in previous months. However, with the increasing drop in export prices, the rise in exports by volume stood at 5.7%, nearly two points above the average in the second half of 2002. This recovery in exports was due to the strength in sales of food products and certain capital goods, mainly ships. On the other hand, in the area of consumer goods, there was a notable drop in exports of cars, footwear and toys.

Third country markets, particularly in Eastern Europe and some Asian countries, growing faster than EU market.

From a geographical perspective, the strength of exports came from the countries of Eastern Europe, given that other markets, particularly United States, Latin America and much of Asia (with the exception of China and Japan), showed signs of weakness. Shipments to the European Union in turn rose by 3.8% nominal, equivalent to 5.4% real, which was better than the average for the second half of 2003. In any case, sales to the EU by volume grew by 1.1 points below those to third countries.

Current account deficit improves in first month of year

Current account deficit improves in January...

The current account balance showed a deficit of 809 million euros in January, dropping by 11.7% compared with the same period last year. This decrease was brought about by the rise in the positive balance for transfers which, along with the slight improvement in the services surplus, compensated for the increase in the trade imbalance and the imbalance in the incomes figure.

...but cumulative deficit for 12 months unfavourable because of increase in trade deficit and drop in transfers surplus.

In spite of the relative improvement in the current account balance in January, the cumulative deficit for the past 12 months (20.7 billion euros) continued to be well above the figure for twelve months earlier (26.2%). This worse situation came as a result of the increase in the trade deficit and the sharp drop in the transfers surplus, which together were greater than the slight improvement in the services surplus. The incomes balance, in turn, played a neutral role with its deficit unchanged.

Tourist balance shows modest rise.

While modest, the improvement in the services balance in January (2.0% in the last 12 months) came from the tourist balance the surplus for which, with a cumulative surplus last year of 29.6 billion euros, was 3.8% above the figure for last year. This increase was more moderate because of the progressively upward move in payments for tourist services (which rose to 4.6%) in contrast to the increased stability in the cumulative growth of tourist revenue inflows (3.9%) over the past 12 months.

BALANCE OF PAYMENTS

Cumulative figure for last 12 months in million euros

	January 2003	January 2004	% change
Current account balance			
Trade balance	-34,657	-38,141	10.1
Services			
<i>Tourism</i>	<i>28,526</i>	<i>29,596</i>	<i>3.8</i>
<i>Other services</i>	<i>-1,773</i>	<i>-2,305</i>	<i>30.0</i>
Total	26,753	27,290	2.0
Income	-10,774	-10,689	-0.8
Transfers	2,255	819	-63.7
Total	-16,423	-20,721	26.2
Capital account	7,477	7,650	2.3
Financial balance			
Direct investment	1,788	674	-62.3
Portfolio investment	5,034	-15,424	-
Other investment	7,876	33,591	326.5
Total	14,698	18,841	28.2
Errors and omissions	-5,394	-6,014	-11.5
Change in assets of Bank of Spain	-358	244	-

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.

Capital balance fails to compensate for current account deficit.

The capital account, in turn, showed a surplus of 176 million euros in January, some 86.3% lower than the year before. Despite this decrease, the balance for the past 12 months was 2.3% more than in the previous equivalent period. Net world borrowing for non-financial transactions, the result of adding the current account balance and the capital balance, stood at 13.1 billion euros in the past twelve months, some 46.1% more than in the same period ending in January 2003.

Decline in Spain's direct investment abroad and foreign direct investment in Spain.

Financial account, excluding Bank of Spain transactions, recorded net entries of 8.8 billion euros in January, so that the cumulative figure for the past 12 months stood at 18.8 billion euros, 28.2% more than in the same period the year before. Direct Spanish investment abroad continued to drop sharply going to its lowest levels since 1998, in terms of cumulative figures for 12 months. Direct foreign investment also continued its sharp decline dropping to levels seen at the beginning of 2000. Portfolio investment, especially Spanish investment abroad, was up sharply.

PUBLIC SECTOR

Tax collections up modestly in first quarter

Central government revenues up 3.4% in homogeneous terms.

Central government non-financial revenues rose by 0.6% in the first three months of 2004 to reach 27.3 billion euros. By way of comparison with the same period last year, we must add to this those taxes attributed to the autonomous communities and local councils which arise from those segments granted to them from personal income tax collections and the greater part of indirect taxes, including value added tax. If we take these factors into account, collections amounted to 36.8 billion euros with an increase of 3.4% compared with the same period last year.

CENTRAL GOVERNMENT BUDGET IMPLEMENTATION March 2004

	Month		Cumulative for year	
	Million euros	% change over same month year before	Million euros	% change over same month year before
Non-financial revenue	3,993	14.4	27,259	0.6
Non-financial revenue adjusted (*)				
Personal income tax	2,716	3.7	13,327	-6.6
Corporate tax	-161	-36.9	115	-
VAT	1,844	8.4	14,184	6.1
Special taxes	1,313	5.0	4,110	2.8
Other	1,452	46.1	5,034	23.4
Total	7,164	13.5	36,770	3.4
Non-financial spending	9,451	15.3	29,556	-1.1
Treasury balance	-5,458	15.9	-2,297	-18.2
Surplus (+) or deficit (-) (**)	-5,692	11.4	1,171	-67.7

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

(**) In terms of National Accounting.

SOURCE: Ministry of Finance and internal figures.

Collections for indirect taxes up 5.7% thanks to gain in value added tax.

The increase in tax collections was entirely based on indirect taxes which amounted to 18.9 billion euros with a rise of 5.7% compared with the first quarter of 2003. Revenues from value added tax (VAT) were up 6.1% as of March thanks to the relative strength in collections for domestic operations. Collections for special taxes, in turn, were up by 2.8% while the two main headings showed opposing results. There was an increase in fuel tax compared with a drop in revenues from taxes on

tobacco. As in 2003, the figures for 2004 do not include taxes on certain modes of transport which are considered as revenue attributable to autonomous communities.

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

Revenues from direct taxes, in turn, together came to nearly 14 billion euros with a decrease of 3.7% compared with the first three months of 2003. Personal income tax, the main source of revenues up to now, fell sharply (although not significantly) because of the effect of changes in hold-backs and the number of working days.

Government property revenues down while current transfers up sharply.

Apart from tax collections, fees and public service charges showed a slight increase (3.1%) as opposed to government property earnings which were down slightly. On the other hand, current transfers and especially capital transfers reported a spectacular rise during the quarter.

Government non-financial spending slightly down, but figure not significant.

Central government non-financial spending, in turn, was down by 1.1% amounting to 29.6 billion euros. This figure does not include the balancing entry for revenues corresponding to the tax segments ceded to autonomous communities and it thus becomes difficult to interpret because of the lack of homogeneity in the figures. The drop in spending affected current operations and to an even greater extent capital operations.

Treasury deficit down in first quarter.

The central government Treasury balance as of March, that is to say, the difference between non-financial revenues and spending, was in deficit to the extent of 2.3 billion euros, 18.2% less than in the same period last year. This deficit, which was largely compensated by the net decrease in financial assets, gave rise to a borrowing requirement of 243 million euros, some 77.4% higher than in the same period last year. In terms of National Accounting, on the other hand, the budgetary balance was positive at 1.2 billion euros but was lower than in the first quarter of 2003.

SAVINGS AND FINANCING

Default rate at banks hits new all-time low

Slight drop in February takes loan interest rates at banks to new all-time low.

Loan interest rates at banks dropped slightly in February to mark up a new all-time low following the rise in January. As a result, the composite interest rate for credit accounts and loans at credit institutions stood at 4.08% in February 2004, some 6 basis points below the month before and 78 basis points less than twelve months earlier. Both the component of loans to households and funding for companies showed all-time lows in February. In the case of individuals, the interest rate on consumer loans and for other purposes dropped to 6.26%, thus marking up a low level, while housing loans were slightly above the low for August 2003.

LOANS TO COMPANIES AND HOUSEHOLDS February 2004

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
Commercial credit	54,647	-884	-1.6	5,693	11.6	6.7
Loans against collateral (*)	456,599	14,474	3.3	79,473	21.1	55.6
Other term loans	256,754	5,855	2.3	16,982	7.1	31.3
On-demand loans	20,511	-412	-2.0	1,035	5.3	2.5
Leasing	25,255	186	0.7	3,176	14.4	3.1
Doubtful loans	7,707	41	0.5	-22	-0.3	0.9
TOTAL	821,474	19,262	2.4	106,337	14.9	100.0

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

All-time low in mortgage loan interest rates for credit institutions as a whole.

In addition, the interest rate on mortgage loans for more than a three-year term for non-subsidized home acquisition at credit institutions as a whole was down 9 basis points compared with the previous month to stand at 3.36%. As a result, it recorded a new all-time low going down 7 basis points below the previous low level in September 2003.

Bank credit to private sector up 15% in past twelve months.

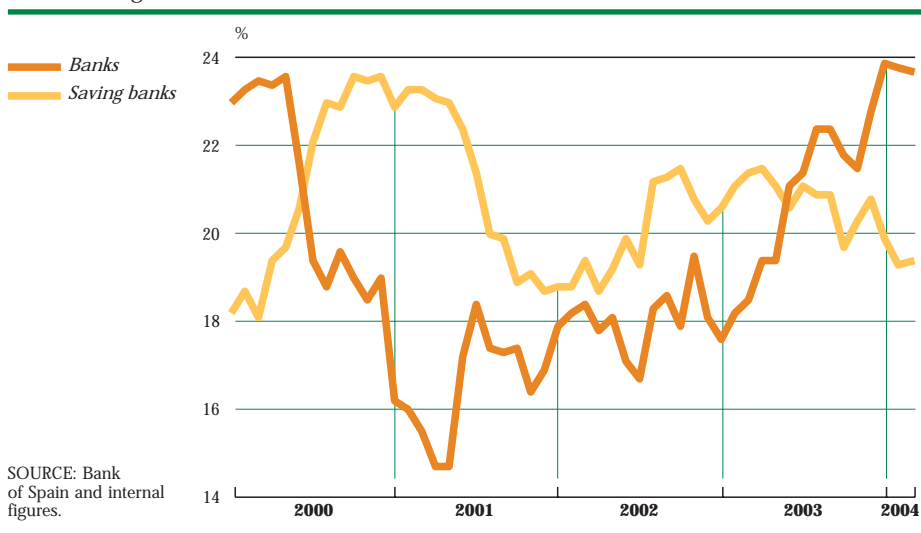
In this framework of cheap loans, bank credit to the private sector grew by 14.9% in February compared with the same month last year (9 decimals more than in January) and a half-point more than in December. Bank credit to companies and households continued to be fostered by the strength of domestic demand and very low interest rates and rose at a rate more than twice that in the euro area as a whole.

Banks increase loans granted to companies and households in recent months.

The performance by type of credit institution was somewhat uneven in February. The growth of credit granted to companies and households by banks recorded a year-to-year change rate of 14.7%, the highest since December 2000 and 1.9 points higher than in December 2003. Savings banks showed a year-to-year increase of 16.3% which was 0.8% less than in December while credit cooperatives recorded their biggest increase in the past twelve months at 18.2%, some 7 decimals more than in 2003. On the other hand, loan finance institutions showed much more modest growth at 1.6% while the Official Credit Institute reported growth of 3.3%.

STRONG GROWTH IN MORTGAGE LOANS AT BANKS

Annual change rate



Mortgage loans still showing no signs of easing off with 24% growth in past 12 months.

Growth of bank credit to the private sector was largely based on mortgage loans. As a result, total mortgage loans handled by credit institutions, including securitizations, rose by 24.1% in February compared with the same month the year before, according to the Spanish Mortgage Association, while showing no signs of a slowdown. Demand for mortgage loans is showing great strength because of increased household incomes, very low real interest rates and favourable financing terms. It should be pointed out that growth of mortgage loan finance at banks in recent months has outdistanced that at savings banks. As a result, total mortgage loans at banks in February showed a year-to-year change rate of 23.7% as against 19.4% in the case of savings banks.

Considerable growth of leasing.

Also notable was the increase in leasing at 14.4% in February compared with the same month the year before. This funding is channelled into the purchase of capital goods and buildings by companies and self-employed professionals.

Default rate at banks and savings banks drops to 0.78%.

Doubtful loans at credit institutions as a whole rose very slightly in absolute terms in February, but the default rate which relates these to the total volume of loans, showed the lowest level in recent years at 0.94%. The corresponding rate for banks and savings banks (excluding other credit institutions) dropped to 0.78%, thus recording an all-time low level.

Notable growth of bank deposits

Composite yield on deposits at credit institutions stands at 1.2% in February.

The composite yield on deposits at credit institutions stood at 1.16% in February, the same level as in the previous month and one basis point more than in December. The composite interest rate on deposits by individuals stood at 1.14%. On-demand accounts and savings accounts yielded 0.39% while time deposits reported a higher interest rate at 1.99%. In turn, the yield on deposits of non-financial companies was 1.19%, with a rate of 0.66% for on-demand accounts and 2.02% for time deposits.

Notable strength in bank deposits by private sector but less than for loans.

Total deposits by the resident private sector in euros and foreign currency was up 10.7% in February 2004 compared with the same month last year, 2.7 points more than in January and 2 points more than in December. In the course of the past 12 months deposits rose by 62.1 billion euros, an amount notably lower than the increase in loans granted by the resident banking system. In order to compensate this, financial institutions fostered securitizations or had recourse to abroad.

Spectacular rise in deposits for more than two years in past 12 months.

We should mention the spectacular rise in time deposits for more than two years which were up by 39.6% in the past 12 months, some 10.8 points more than in December. Savings accounts recorded a year-to-year increase of 13.6%, some 0.3 points less than in the previous month. Temporary asset transfers were up by 7.3% compared with February 2003. On the other hand, time deposits for less than two years were down by 1.4% in the past 12 months.

DEPOSITS OF COMPANIES AND HOUSEHOLDS AT CREDIT INSTITUTIONS February 2004

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
On-demand	167,784	-1,120	-0.7	16,350	10.8	26.1
Savings (*)	144,537	-672	-0.5	17,258	13.6	22.5
Up to 2-year term	155,587	-639	-0.4	-2,287	-1.4	24.2
More than 2-year term	84,153	6,791	8.8	23,885	39.6	13.1
Repos	85,539	7,738	9.9	5,855	7.3	13.3
Total	637,601	12,099	1.9	61,061	10.6	99.3
Deposits in non-euro currencies	4,552	401	9.7	1,074	30.9	0.7
TOTAL	642,153	12,500	2.0	62,135	10.7	100.0

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

More conservative mutual funds recover some investor interest following terrorist attacks on March 11.

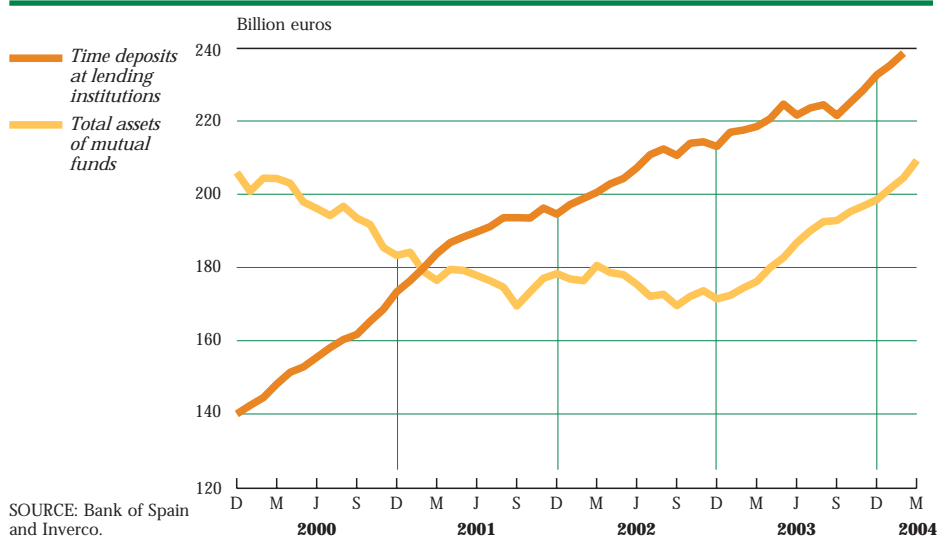
In turn, the assets of mutual funds rose by 4.8 billion euros in March, going to 209.6 billion euros, a year-to-year increase of 19.2%, according to figures supplied by Iverco, the sector organization. The March increase was largely due to net purchases of participations amounting to 3.7 billion euros and to a lesser extent to capital gains. We should point out that the more conservative funds, such as those based on short-term bonds, recovered some interest from savers in the framework of uncertainty following the terrorist attacks on March 11. Nevertheless, the biggest net

shifts went to global funds which involved greater risk but opened the possibility of higher gains.

Average annual yield of funds holds at 5.4%.

The average weighted yield on mutual funds for the past twelve months held at 5.4% in March. All types of investment funds showed positive annual yields, especially notable being that obtained by share-based funds in emerging countries which reported capital gains of 51.4%. At the other end of the scale, the yield on money-market funds was 1.3%.

STRONG BOOST TO MUTUAL FUNDS



SPECIAL REPORTS

The new candidates for joining the euro

As of May 1, ten new member states join European Union.

As of May 1, ten new member states joined the European Union, namely Cyprus, Slovakia, Slovenia, Estonia, Hungary, Latvia, Lithuania, Malta, Poland and Czech Republic. This date ends the process of integration of these ten countries in the European Union which brings with it freedom of trade in goods and services and free movement of capital and persons between these states and the rest of the European Union although with some restrictions. Spain's economy will have to find its place in this new framework. One aspect affecting competitiveness between the various countries is the trend followed by their currencies. For this reason, it would seem useful to become familiar with the ten new currencies within the European Union.

PRESENT REGIMES OF NEW CURRENCIES WITHIN EUROPEAN UNION

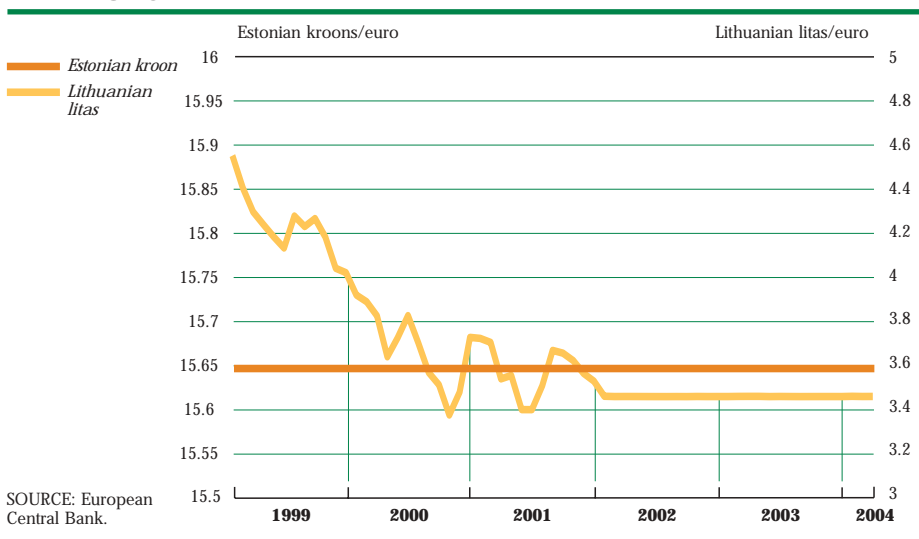
Country	Name of currency	Exchange rate with euro, 8-4-2004	% change in exchange rate since 1-1-99	Present exchange rate situation
Cyprus	Pound	0.5863	-0.7	Linked to euro. Band: $\pm 15\%$
Slovakia	Koruna	40.075	7.3	Managed float with euro as reference currency
Slovenia	Tolar	238.41	-20.7	Managed float
Estonia	Kroon	15.647	-	Currency board with euro
Hungary	Forint	248.75	1.1	Linked to euro. Band: $\pm 15\%$
Latvia	Lats	0.6514	2.4	Linked to special drawing rights (SDR). Band: $\pm 1\%$
Lithuania	Litas	3.4526	36.6	Currency board with euro
Malta	Lira	0.4247	4.4	Linked to basket made up of euro (70%), pound sterling (20%) and dollar (10%)
Poland	Zloty	4.7338	-14.0	Free float
Czech Republic	Koruna	32.579	7.8	Managed float

Present exchange rate regimes of new member states

Widely diverse range of exchange rate regimes in countries now joining EU.

The ten incoming countries have adopted various exchange rate regimes. They range from regimes involving fixed exchange rates to free floating currencies as well as a number of systems in between. As a result, since introduction of the euro on January 1, 1999 the currencies of the new member states have followed very different paths in terms of the single currency. As a result, the exchange rate of the Cypriot pound, the Estonian kroon, the Hungarian forint and the Latvian lats stand more or less at the same level as at the beginning of 1999. Some currencies have appreciated against the euro, such as the Czech koruna, the Lithuanian litas, the Slovak koruna and the Maltese lira. On the other hand, the Slovenian tolar and the Polish zloty have depreciated since that date.

ESTONIA AND LITHUANIA ESTABLISH CURRENCY BOARDS WITH EURO



Under a currency board regime a country's currency is irrevocably fixed against that of another country.

Two Baltic states, Estonia and Lithuania, have established currency boards with the euro. A currency board regime is one under which the currency of one country is irrevocably fixed against that of another country. Under this type of regime, the base money stock is totally financed by foreign reserves and the central bank only issues currency against the reserve currency at the predetermined exchange rate. This makes for a very rigid system given that the central bank loses control over monetary policy and cannot offer lines of credit to private financial institutions which, for example, may be experiencing short-term liquidity problems.

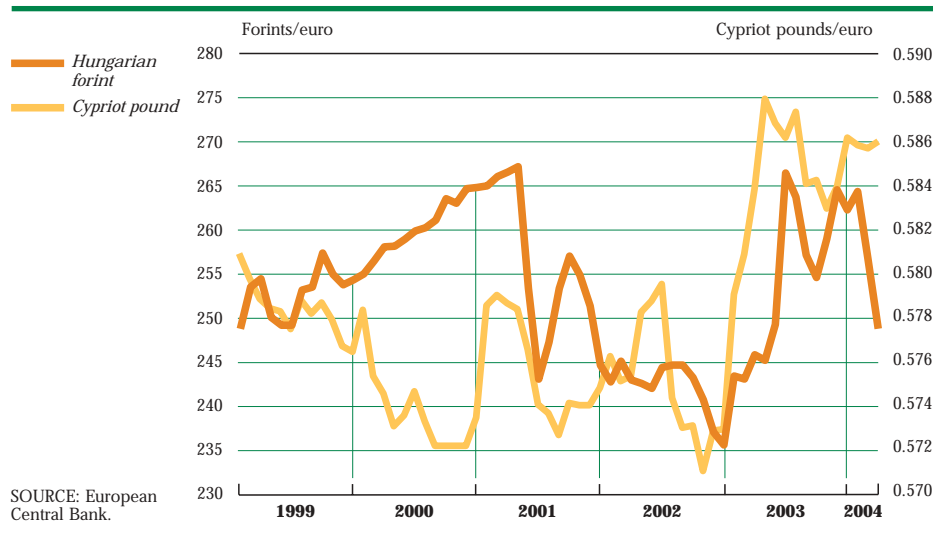
Euro replaces deutschmark as reference currency for currency board for Estonian kroon...

When the Estonian kroon was introduced in 1992 following the crisis in the former Soviet Union, a currency board was established with the deutschmark and the rate was set at 8 Estonian kroons to the deutschmark. The trend in the Estonian kroon against the ECU was a mirror-image of the exchange rate of the deutschmark against the euro. Since the beginning of 1999, the euro replaced the deutschmark as the reference currency at a fixed rate of 15.6466 Estonian kroons to the euro, a rate which has not changed.

...and dollar as basis of currency board for Lithuanian litas.

In Lithuania, when the country introduced its national currency, the litas, it also established a currency board but this was based on the U.S. dollar. The conversion rate was set at 4 units to the dollar. The exchange rate of the litas against the ECU/euro depended on the trend in the dollar against the ECU/euro. As of February 2, 2002, the European single currency replaced the U.S. dollar as reference currency of the currency board with a rate set at 3.4582 litas to the euro.

CURRENCIES OF HUNGARY AND CYPRUS LINKED TO EURO



Cyprus and Hungary opt for system of fixed exchange rate parity with fluctuation bands.

Other countries joining the EU have opted for systems of fixed exchange rate parity. Within this arrangement we note two different types, namely the system of fluctuation bands adopted by Cyprus and Hungary and the traditional system chosen by Latvia and Malta. The system using bands involves setting a central exchange rate along with a fluctuation band around that rate. This system implies the automatic intervention of the central bank in the band margins in order to prevent the exchange rate from going beyond the limits set. Under the system of traditional fixed exchange rate, the national currency is fixed against a currency (or a basket of foreign currencies) and rarely varies. The fluctuation band permitted is very narrow, at a maximum of $\pm 1\%$ around the central rate.

Cypriot pound has had fluctuation band against euro of 15% on either side of central rate since 2001.

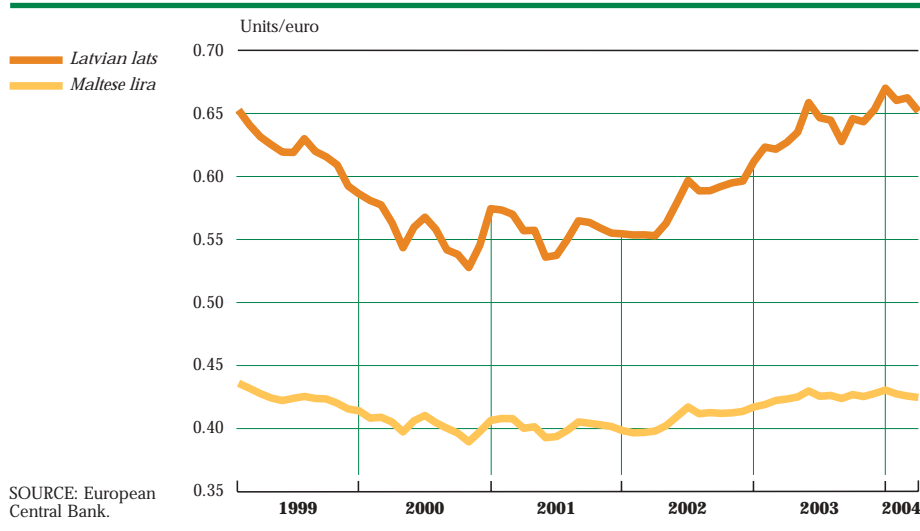
Cypriot pound was unilaterally linked to ECU on January 1, 1992 with a central exchange rate of 0.585274 units to the ECU. A fluctuation band was established with a maximum swing of $\pm 2.25\%$ against the central rate. As of January 1, 1999, the Cypriot pound has been linked to the euro at the same rate as before. On January 1, 2001, the fluctuation range was broadened to 15% on either side of the central rate. Nevertheless, the Cypriot pound has held close to previous limits.

In June 2003, Hungarian forint undergoes devaluation.

Hungary had a crawling peg system from March 1995 to the end of September 2001. In a crawling peg system, instead of revaluing or devaluing all at once there is a distribution of the total change in small percentages over a period of various months in order to compensate for

the differences in inflation between the national economy and those of its main trading partners. The fluctuation band of the forint was 2.25% around the central exchange rate. The monthly devaluation rate was progressively reduced from 1.9% to 0.2%. On May 4, 2001, the margin for variation was broadened from $\pm 2.25\%$ to $\pm 15\%$. The crawling peg system was abandoned on October 1, 2001. Since then, Hungary has adopted a system of fixed parity with the euro with a fluctuation band of $\pm 15\%$. On June 4, 2003, the forint was devalued and the new central exchange rate was set at 282.36 forints to the euro.

CURRENCIES OF LATVIA AND MALTA LINKED TO BASKET OF FOREIGN CURRENCIES



Latvia links currency to special drawing rights.

Since February 12, 1994, Latvia has linked its currency (the lats) to special drawing rights (SDR). These are a kind of international reserve set up by the International Monetary Fund in 1970 in order to increase international foreign monetary reserves. Every five years, the International Monetary Fund decides which currencies will enter this basket and what weight will be applied to each currency. For the period 2001-2005, SDR were made up of the dollar (44%), the euro (31%), the yen (14%) and the pound sterling (11%). The Latvian monetary authorities allow a fluctuation margin of 1% on either side of the central rate of 0.7997 lats against the SDR.

Maltese lira linked to euro, pound sterling and dollar.

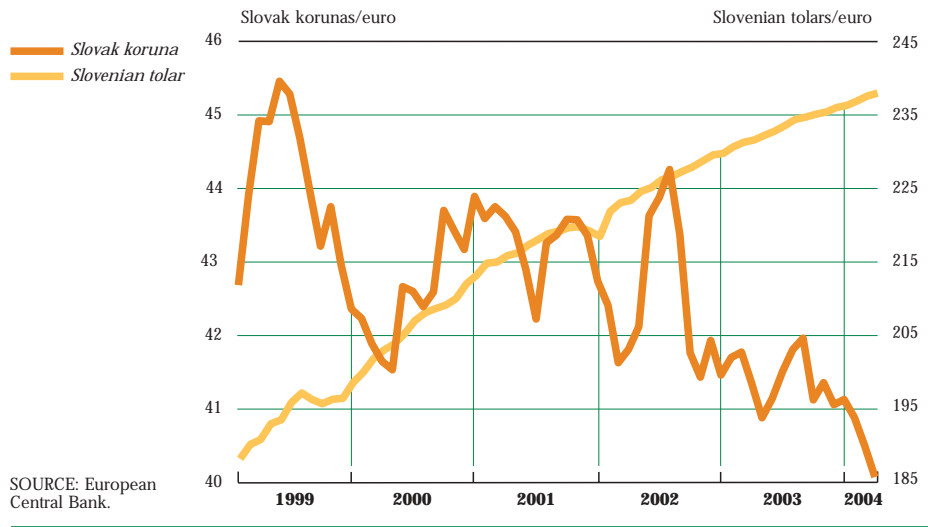
The Maltese lira has been linked to a basket of currencies since the Seventies. At present, this basket is made up of the euro, the pound sterling and the dollar. The currency shares chosen reflect the relative volume of Malta's foreign trade. The share of the euro is 70% as against 20% for the pound sterling and 10% for the dollar.

In flotation systems, the exchange rate is determined by supply and demand for a currency.

On the other hand, the currencies of various other countries joining the EU fall into flotation systems. In this type of arrangement, the exchange rate is determined by supply and demand for a currency. While in principle the exchange rate may fluctuate to any extent, in practice the central bank ensures that swings in the exchange rate are not excessive. In any case, there are two types of flotation depending on whether the

central bank intervenes in foreign exchange markets or not, one being a managed float and the other free float.

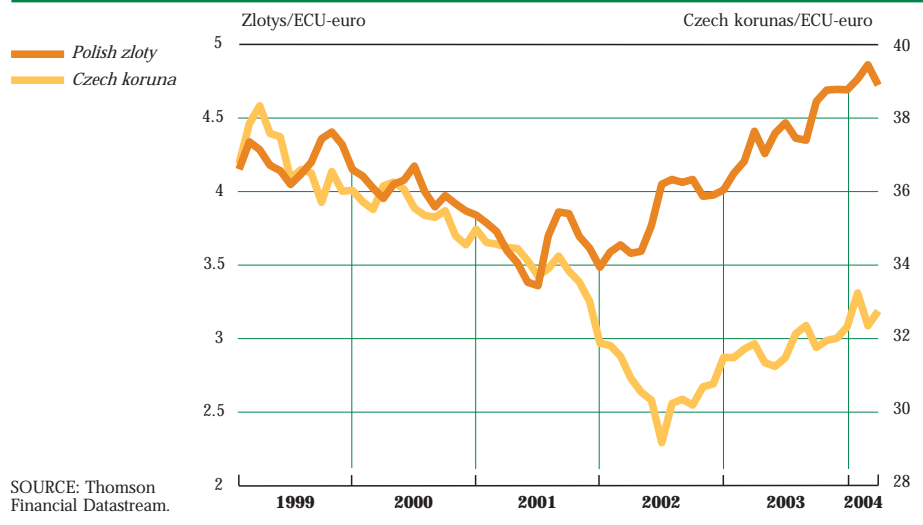
SLOVAKIA AND SLOVENIA ADOPT MANAGED FLOAT OF CURRENCY



Under managed float regime, central bank intervenes in foreign exchange markets...

In October 1998, Slovakia abandoned an exchange rate system which linked the Slovak koruna to a basket made up of the deutschmark and the dollar and adopted a managed float regime with the euro as reference currency. Slovenia also adopted a managed float for its currency, the tolar. As a result, the Slovenian central bank intervenes in foreign exchange markets when it considers that the exchange rate is moving in an undesirable direction.

POLAND AND CZECH REPUBLIC LET CURRENCIES FLOAT



...as in case of Czech koruna.

In May 1993, the Czech koruna was linked to a basket of currencies made up of the deutschmark and the dollar with a fluctuation band of $\pm 0.5\%$. Later on, in February 1996, the fluctuation range was increased to $\pm 7.5\%$. This system of fixed exchange rate was abandoned in favour of a managed float regime on May 26, 1997 as a result of the financial crisis affecting the country.

Polish zloty on free float since April 2000.

Poland adopted a crawling peg system from October 1991 to April 2000. In this period, the zloty was linked to a basket of currencies which changed its composition at the beginning of 1999. On the other hand, the fluctuation band was also changed from $\pm 1\%$ to $\pm 12.5\%$ at the end of 1998. Since April 12, 2000, the zloty has been allowed to float freely in foreign exchange markets.

Toward the Exchange Rate Mechanism II

Ten new member states to adopt euro once they meet established convergence criteria.

From the moment they join the European Union, the new member states must take into consideration their foreign exchange policies as a matter of common interest and a key objective of their monetary policy must be price stability. At the same time, their economic policies will be subject to a series of multilateral checking procedures within the framework of the European Union. The ten countries joining the EU must promise to make every effort necessary in order to adopt the euro once they meet the convergence criteria established in the Treaty on European Union. As a result, at some moment following their joining the EU the new member states will become part of the Exchange Rate Mechanism II (ERM-II) as a preliminary step to their adopting the European single currency.

No single model for joining ERM-II as first step into euro.

The euro cannot be unilaterally adopted by «going over to the euro» outside the confines of the Treaty on European Union. Joining the euro must rather be the culmination of a structured process of convergence within a multilateral framework. That is to say, no one can sidestep the stages laid down for adopting the euro. However, the choice of monetary policy strategies and the exchange rate after joining the EU depends very much on each member state. Given that the economic structures and the exchange rate and monetary systems of the countries joining, as well as the degree of nominal and real convergence reached, are quite different there is no single model for their moving into the Exchange Rate Mechanism II (ERM-II) and their adoption of the euro. Nevertheless, the principle of equal treatment will be applied throughout the entire process of monetary integration.

ERM-II is multilateral agreement on fixed but adjustable exchange rates with an established central rate and normally with fluctuation band of $\pm 15\%$...

What exactly is the Exchange Rate Mechanism II (ERM-II)? On January 1, 1999 this mechanism took the place of the European Monetary System established in 1979 and carries out a double function. On the one hand, it serves to manage the exchange rates between the currencies of member states participating in the mechanism and, on the other hand, it carries out a role in establishing convergence criteria for adopting the euro and constitutes a trial stage for the central rate and for the sustainability of convergence in general. The Exchange Rate Mechanism II is a multilateral agreement on fixed (although adjustable) exchange rates with a central

exchange rate against the euro and a normal fluctuation margin of $\pm 15\%$. Interventions within the margins, in principle, can be automatic and unlimited but are always the responsibility of the member state affected while financing is available over the very short term.

OBJECTIVES FOR TAKING PART IN ERM-II AND SUBSEQUENT ADOPTION OF EURO

Country	Objective date for adopting euro	Objective date for taking part in ERM-II	Planned changes in foreign exchange rate system
Cyprus	2007	This year or 2005	None
Slovakia	2008-2009	Not specified	–
Slovenia	2007	Before end of 2004	–
Estonia	2006	Before August 2004	None
Hungary	January 1, 2008	As soon as possible after joining EU	None
Latvia	January 1, 2008 at earliest	January 1, 2005. Intention to limit fluctuations in lats to band narrower than $\pm 15\%$	Link to euro as of January 1, 2005
Lithuania	2007	Before August 2004	None
Malta	As soon as economic convergence permits	As soon as possible after joining EU	–
Poland	2009	Not specified	None
Czech Republic	2009	Depends on meeting convergence criteria	–

SOURCE: European Commission and Eurostat.

...although narrower fluctuation margins may be set on petition of member state.

On the petition of a member state not yet a member of the euro area fluctuation margins narrower than the normal may be established. However, narrow margins agreed on multilaterally can be considered only during a more advanced stage of convergence as is currently taking place in the case of Denmark. This country has not yet adopted the euro and is participating in the ERM-II with a margin of $\pm 2.25\%$. Nevertheless, the newly joining countries operating under a currency board regime will be able to participate in the mechanism with a currency board as a unilateral commitment but with a central parity against the euro set by mutual accord.

Participation in ERM-II may take place at any moment after joining European Union.

When can the newly joining countries move into the Exchange Rate Mechanism II? Participation of those member states not belonging to the euro area in the Exchange Rate Mechanism II is voluntary and may take place at any time following their joining the European Union. Taking part in the Exchange Rate Mechanism II does not require meeting preestablished criteria. Nevertheless, monetary policy, budgetary and structural policies must be compatible with participation in this mechanism.

Moving too soon into ERM-II could involve certain risks.

Some risks are to be seen in too quickly joining the Exchange Rate Mechanism II. The process of transition and the progression toward convergence of real incomes could come into conflict with a limited degree of flexibility in foreign exchange rates. On the other hand, in a context of free movement of capital, major fiscal imbalances or sharp economic shocks could spell a period of high financial vulnerability or instability in those countries with rigid factors in their labour or product markets. In any case, Estonia, Lithuania, Cyprus, Latvia, Slovenia, Malta and Hungary have already stated that they have set the objective of joining the Exchange Rate Mechanism II in coming months or as soon as possible after joining the European Union. The other countries have not specified this or else make it dependent on their meeting the convergence criteria, as in the case of the Czech Republic.

SITUATION OF NEWLY JOINING COUNTRIES IN LEVEL OF CONVERGENCE

	Inflation (1) (HCPi) %	Government deficit (3) %/GDP	Government debt (3) %/GDP	Exchange rate stability Maximum change against euro in last two years as %	Long-term interest rates (4) %
<i>Reference value</i>	<i>2.7 (2)</i>	<i>3</i>	<i>60</i>		<i>6.1 (5)</i>
Cyprus	4.0	5.4	60.3	-3.0	4.5
Slovakia	8.5	5.0	45.1	11.9	5.2
Slovenia	5.7	2.0	27.4	-6.1	...
Estonia	1.4	-0.4	5.4	0.1	...
Hungary	4.7	4.8	57.9	-14.3	7.5
Latvia	2.9	2.9	16.7	-17.8	...
Lithuania	-1.1	2.4	23.3	-0.1	...
Malta	1.3	7.4	66.4	-7.5	...
Poland	0.7	4.1	45.1	-27.6	6.3
Czech Republic	-0.1	7.6	30.7	-13.1	4.0

NOTES: (1) Estimate. Year-to-year change rate.

(2) Simple arithmetical average of inflation rates of the three member states with best results in terms of price stability plus 1.5 percentage points.

(3) Estimate.

(4) Average for past 12 months.

(5) Simple arithmetical average over 12 months of interest rates in the three member states with best results in terms of price stability plus 2 percentage points.

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

Convergence criteria currently presenting lowest degree of fulfilment is government deficit...

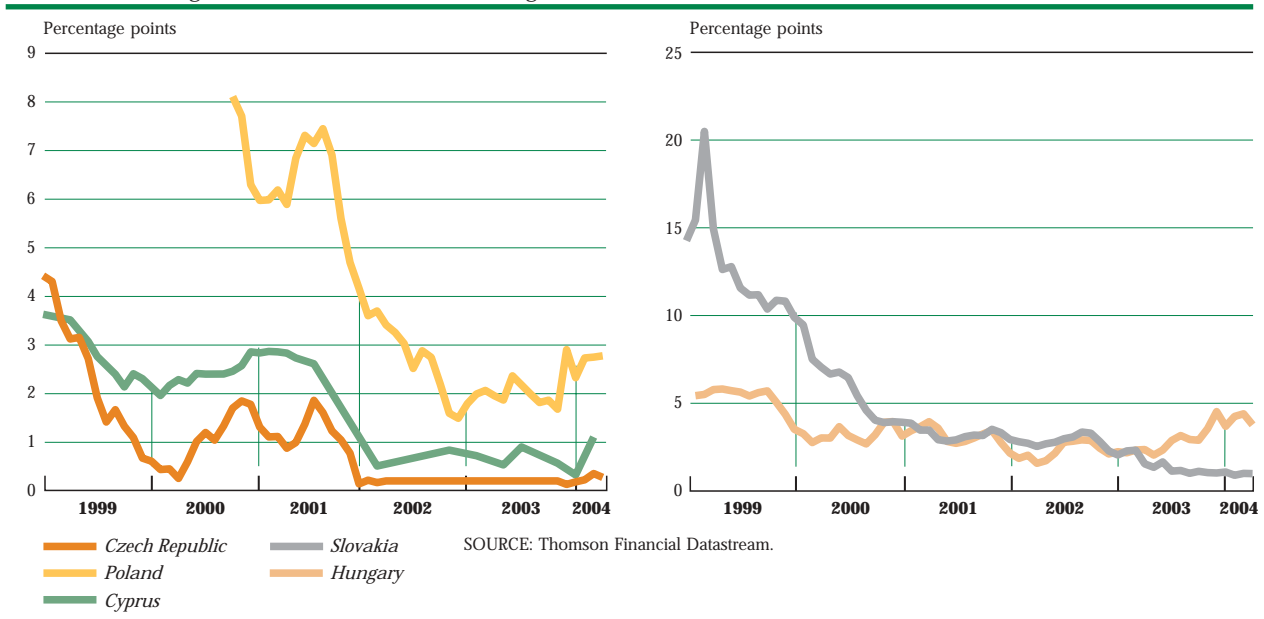
How do the newly joining countries currently stand in terms of the nominal convergence criteria? With regard to inflation, the reference value on December 2003 was 2.7% and this has been met by half the new member states with one other country showing a figure very close. In the matter of the government deficit, the reference value of 3% of the gross domestic product has been met by only four countries, which demonstrates existing structural problems. On the other hand, the criteria for the government debt set at 60% of the gross domestic product was exceeded only by Cyprus and Malta while these showed values not far from the limits. Regarding long-term interest rates, figures available for five countries indicate they have either met the criteria or are close to meeting them. Furthermore, the criteria of exchange rate stability set out that for the two years prior to the examination for admission to the euro

the member state must have met the normal fluctuation margins set for the exchange rate mechanism without serious difficulties.

...but, if necessary economic policy adjustments are carried out, most new member states should be able to join euro area in next few years.

As we have seen in connection with the meeting of the convergence criteria, joining the euro area for the majority of the new member states in the next few years seems possible if they go ahead with suitable adjustments in economic policy, especially in putting their budgets in order. Nearly all the new member states have set an objective date for adopting the euro. Malta wants to do so as soon as economic convergence permits, Estonia wants to join in 2006, Poland and Cyprus in 2007, Hungary and Latvia in 2008, Slovakia a little later, while Slovenia, Lithuania and the Czech Republic want to make the move in 2009. As a result, at the end of the decade the ten new member states could form part of the euro area. On the other hand, prospects in financial markets, measured by differentials with the euro area in long-term interest rates, show that they are compatible with this overall picture.

TREND TO REDUCTION IN RISK PREMIUMS ON LONG-TERM GOVERNMENT BONDS Differentials in long-term interest rates with German government bonds



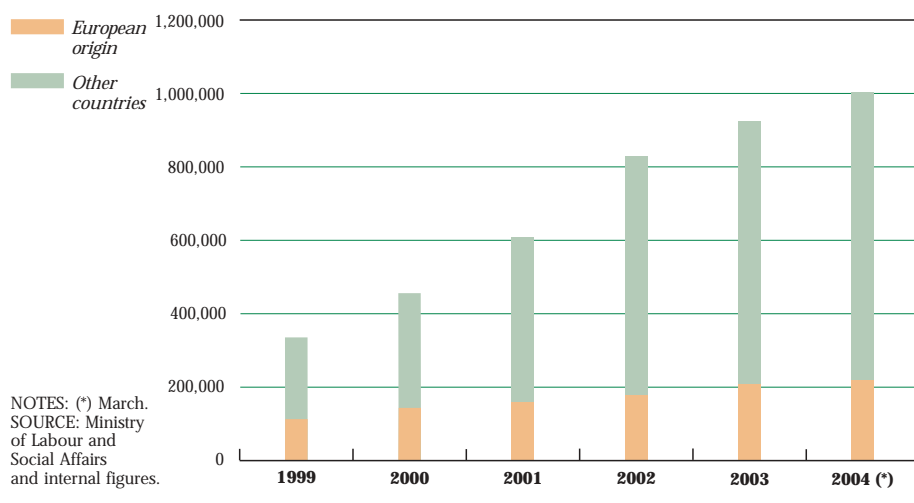
In what sectors are immigrants working?

Foreign population of Spain multiplies by five since 1996...

One of the most notable changes in Spanish society in recent years has been the progressive role of immigration. In 1996, according to figures from the revised Municipal Register carried out by the National Institute of Statistics, foreigners resident in Spain totalled 542,314, that is to say, 1.37% of the total population. Provisional estimates for 2003 put this proportion at around 6.3% of the population, that is, practically 2.7 million persons, most of whom come from outside the European Union (in 2002 those born in the EU made up 1.7% of Spain's population).

SOCIAL SECURITY REGISTRATION OF FOREIGNERS GOES ABOVE ONE MILLION IN MARCH 2004

Persons registered with Social Security according to origin



...and foreign workers registered with Social Security close to 1 million at start of 2004.

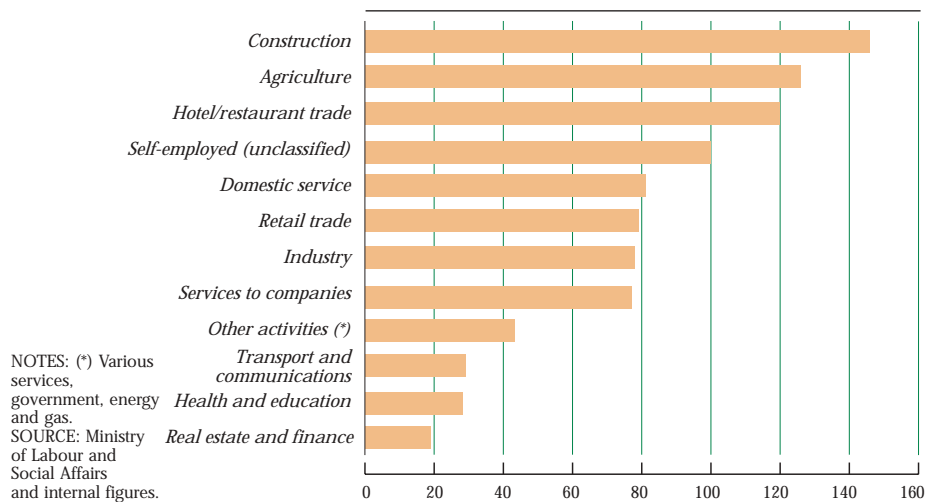
The increase in the foreign population of Spain has had an important impact on the labour market and naturally has meant a substantial increase in the number of those of foreign origin in employment. In March 2004, the number of foreigners registered with Social Security stood at 1,002,039, that is to say, 5.9% of the total. In December 1999, the earliest homogeneous figure available, those registered came to 334,976, or 2.3% of the total.

Construction, agriculture and hotel/restaurant trade take up most foreign workers registered.

Foreign worker employment, mainly from outside the European Union (78.0% from other countries) is concentrated in just a few sectors of economic activity. Figures for 2003 show that construction, agriculture and the hotel/restaurant trade in similar proportions make up 42% of all those foreign workers registered with Social Security. Next come 99,748 persons (10.8% of the total) who are self-employed without fitting into any particular sector. Finally, domestic service, retail trade, industry and services to companies show a share somewhat above 8% of the total.

CONSTRUCTION, AGRICULTURE AND HOTEL/RESTAURANT TRADE TAKE UP BIGGEST SHARE OF FOREIGN WORKERS

Thousand foreign workers registered with Social Security on average in 2003



Certain branches of activity show notable proportion of foreign workers.

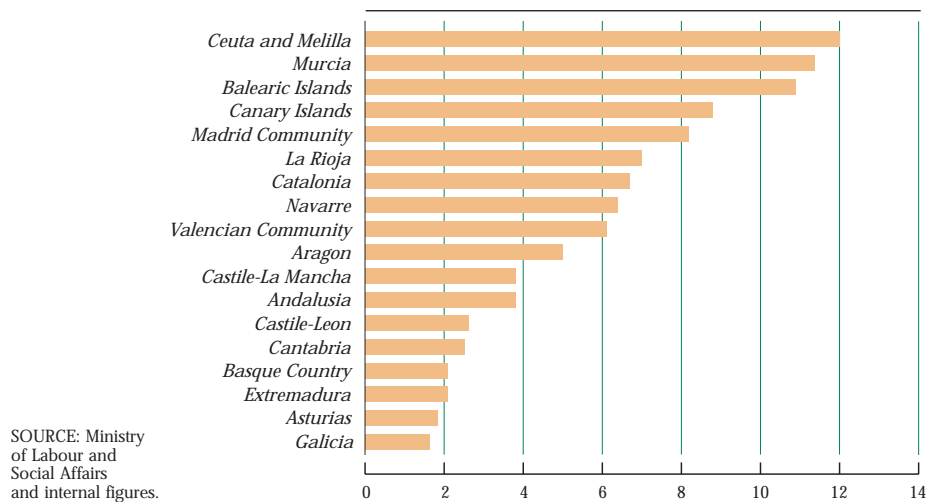
Visible foreign worker employment changes substantially depending on the branch of economic activity. In domestic services some 36% of all those registered with Social Security are from outside the country. The share is more than 11% in the hotel/restaurant trade, comes close to 10% in agriculture and 8% in construction. On the contrary, in sectors such as government, health and administration the proportion of foreign-born workers is low and stable at 0.6% in the first case and 2.1% in the latter two. In retail trade and industry the share amounted to 3% in 2003 although with a significant increase over the year before. These percentages do not include non-agricultural self-employed workers not included in any of the abovementioned sectors so that in some areas of economic activity (retail trade, construction, and industry, among others) the relative importance of foreign workers tends to be underestimated.

Murcia, Balearic Islands, Canary Islands and Madrid Community are autonomous communities with relatively high presence of foreign-born workers.

The importance of foreign worker employment varies across the country. While in Ceuta, Melilla and Murcia those of foreign origin registered with Social Security compared with the total number of persons registered stands at around 12%, in the Balearic Islands and the Canary Islands at 9%, in Madrid at 8.5%, in other regions such as Asturias, Extremadura, the Basque Country and Galicia the level is under 2.5%. In Catalonia, Valencian Community, Andalusia and Madrid Community, where almost two-thirds of foreign-born workers registered with Social Security is concentrated, the weighting of immigration in employment stands at close to 7% in the first two cases and below 4% in Andalusia. Naturally, the greater economic strength of one area or another, along with the importance of certain branches of economic activity in one or another economy, is what determines this wide range of situations.

GEOGRAPHICAL DISPARITIES IN IMPACT OF FOREIGN-BORN WORKERS

Percentage of foreign-born workers registered with Social Security over total on average in 2003

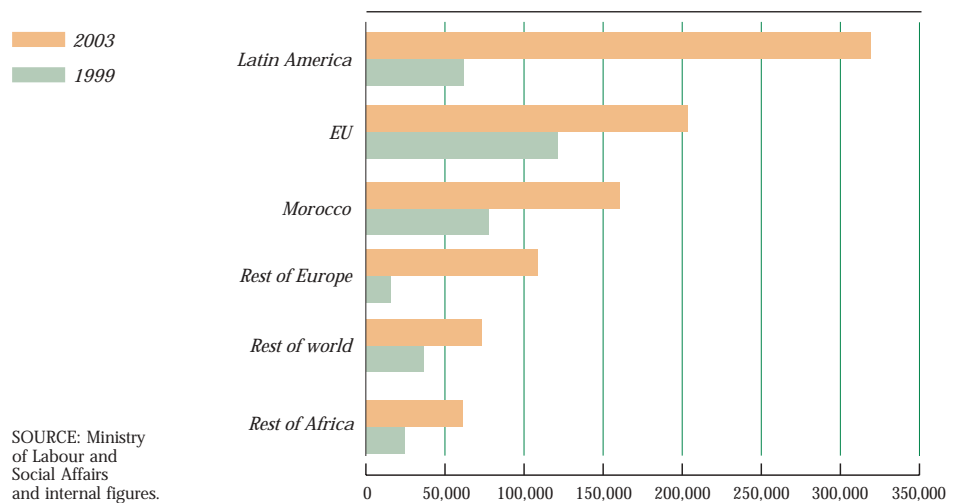


Latin Americans main foreign-born group in Spain.

Finally, the rise in the foreign-born worker group may be largely explained by the arrival of workers from Latin America who in 2003 made up more than one-third of the foreign-born workers registered with Social Security making up a group of close to 320,000 persons, five times the figure in 1999. Among this group, the main nationalities are Ecuadorians, with more than 135,000 persons, and Colombians, who make up 65,000 persons, both as an average for 2003.

LATIN AMERICA: MAIN SOURCE OF FOREIGN WORKERS

Persons registered with Social Security on annual average



Increase in number of workers from Eastern Europe.

Social Security registrations of citizens from non-EU countries (mainly Romanians, Bulgarians and Ukrainians) has also been substantial increasing by nine times to reach practically 110,000 persons (15,427 in 1999).

Morocco is African country with largest numbers in Spanish labour market.

The flow of immigration from other countries has not been as heavy but is still important. In this regard, those of Moroccan origin registered with Social Security numbered 160,233 in 2003 after doubling the figure for 1999 while those from the rest of Africa, mainly Nigeria, Senegal and Algeria, showed a figure of 60,228, nearly twice the 1999 total.

EU citizens working in Spain number more than 200,000.

Finally, the process of European integration has had a relevant impact on the increase in the EU group registered with Social Security in Spain. In fact, this group numbered 202,813 persons in 2003, 67% more than in 1999.

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 - 32 - LA COMPETITIVIDAD DE LA ECONOMIA ESPAÑOLA:
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