THE SPANISH ECONOMY:

# MONTHLY REPORT

## JUNE 2004

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**Research Department**

"la Caixa"

# Forecast

% change over same period year-before unless otherwise noted

| | 2002 | 2003 | 2004 | 2003 1st Qtr. | 2003 2nd Qtr. | 2003 3rd Qtr. | 2003 4th Qtr. | 2004 1st Qtr. | 2004 2nd Qtr. | 2004 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 | 5.0 | 5.0 | 4.0 |
| Japan | –0.3 | 2.6 | 3.6 | 2.5 | 2.2 | 1.9 | 3.5 | 4.7 | 4.0 | 3.4 |
| 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 | 1.3 | 1.6 | 1.6 |
| *Germany* | *0.2* | *–0.1* | *1.4* | *0.1* | *–0.3* | *–0.3* | *0.1* | *0.7* | *1.3* | *1.4* |
| *France* | *1.1* | *0.5* | *1.8* | *0.8* | *–0.1* | *0.4* | *1.1* | *1.7* | *2.0* | *1.8* |
| **Consumer prices** | | | | | | | | | | |
| United States | 1.6 | 2.3 | 2.3 | 2.9 | 2.1 | 2.2 | 1.9 | 1.8 | 2.5 | 2.4 |
| Japan | –0.9 | –0.3 | –0.1 | –0.2 | –0.2 | –0.2 | –0.3 | –0.1 | 0.0 | –0.1 |
| United Kingdom | 2.2 | 2.8 | 2.3 | 2.9 | 2.9 | 2.9 | 2.6 | 2.3 | 2.1 | 2.4 |
| Euro area | 2.3 | 2.1 | 2.2 | 2.3 | 1.9 | 2.0 | 2.0 | 1.7 | 2.4 | 2.5 |
| *Germany* | *1.4* | *1.1* | *1.4* | *1.2* | *0.8* | *1.0* | *1.2* | *1.0* | *1.8* | *1.5* |
| *France* | *1.9* | *2.1* | *2.0* | *2.4* | *1.9* | *1.9* | *2.2* | *1.8* | *2.3* | *2.2* |
| **SPANISH ECONOMY** | | | | | | | | | | |
| **Macroeconomic figures** | | | | | | | | | | |
| Household consumption | 2.6 | 3.0 | 2.9 | 3.0 | 2.8 | 3.1 | 3.0 | 3.2 | 3.0 | 2.9 |
| Government consumption | 4.4 | 4.6 | 4.4 | 4.3 | 4.5 | 4.8 | 4.8 | 4.7 | 4.5 | 4.3 |
| Gross fixed capital formation | 1.0 | 3.0 | 3.2 | 3.2 | 3.4 | 3.0 | 2.5 | 3.0 | 3.1 | 3.3 |
| *Capital goods and other* | *–2.7* | *2.2* | *3.0* | *2.8* | *2.9* | *1.9* | *1.2* | *2.4* | *2.7* | *3.4* |
| *Construction* | *4.2* | *3.7* | *3.4* | *3.5* | *3.8* | *3.8* | *3.6* | *3.6* | *3.4* | *3.3* |
| Domestic demand | 2.6 | 3.3 | 3.3 | 3.6 | 3.2 | 3.6 | 2.9 | 3.7 | 3.5 | 3.1 |
| Exports of goods and services | 0.0 | 4.0 | 5.1 | 4.4 | 7.8 | 2.2 | 1.8 | 4.1 | 4.8 | 5.7 |
| Imports of goods and services | 1.8 | 6.7 | 6.8 | 8.5 | 10.1 | 5.9 | 2.7 | 6.7 | 6.9 | 6.8 |
| **Gross domestic product** | 2.0 | 2.4 | 2.7 | 2.2 | 2.3 | 2.4 | 2.7 | 2.8 | 2.7 | 2.6 |
| **Balances** | | | | | | | | | | |
| Employment | 1.5 | 1.8 | 1.8 | 1.6 | 1.7 | 1.9 | 2.1 | 2.1 | 1.9 | 1.7 |
| Unemployment (% labour force) | 11.4 | 11.3 | 11.3 | 11.7 | 11.1 | 11.2 | 11.2 | 11.4 | 11.2 | 11.3 |
| Consumer price index | 3.5 | 3.0 | 2.8 | 3.7 | 2.8 | 2.9 | 2.7 | 2.2 | 3.2 | 3.1 |
| Unit labour costs | 3.3 | 3.6 | 3.4 | 3.9 | 3.6 | 3.5 | 3.5 | 3.5 | | |
| Current account balance (% GDP) | –2.7 | –3.2 | –3.0 | –5.0 | –2.5 | –3.3 | –2.0 | –5.1 | | |
| Net lending or net borrowing rest of the world (% GDP) | –1.6 | –2.0 | –1.8 | –4.0 | –1.3 | –2.5 | –0.3 | –4.4 | | |
| 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 | 1.4 |
| 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 | 4.5 | 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 | 1.22 | 1.07 | 1.14 | 1.12 | 1.19 | 1.25 | 1.21 | 1.25 |

## "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

June 2004


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# ECONOMIC OUTLOOK FOR 2004

The **rise in oil prices** in recent months has become a threat to world recovery. The biggest doubt arises over whether this is a move due to a specific set of circumstances or if we should expect higher prices in coming years (in May the per barrel price of Brent quality oil went above 35 dollars as against an average of 28.4 dollars in 2003). It should be pointed out, however, that the ability of oil to destabilize the economy is much less than in previous crises in the Seventies and the early Eighties. On the one hand, energy dependence (the tonnage of energy needed to produce one unit of the gross domestic product) has gone down notably in most countries. On the other hand, the real price, that is to say, adjusted for inflation, is also now lower. In this context, starting out from the supposition that prices will tend to moderate toward the second half of the year, growth forecasts for 2004 remain generally positive. Specifically, it is foreseen that the United States will grow by 4.4% in 2004, Japan by 3.6% and the euro area by 1.6%. In all three cases, this means an increase in economic activity of the order of one percentage point over 2003.

On the contrary, inflation forecasts point to a **transitory rise in consumer prices** in the second and third quarters of 2004 which will later moderate slightly toward the end of the year. At its peak in the summer months, inflation could reach levels of 2.5%-3% both in the United States and the euro area. At the end of the year it is expected that the level of inflation will be somewhat below 2.5% in those economies.

With this scenario, the U.S. Federal Reserve Board **will probably begin an upward turn** by around the end of June and possibly continue it in August. The Bank of England likely will continue to restrict monetary policy in coming months. On the other hand, the European Central Bank will keep resisting pressures for a cut if recovery in the euro area continues. Long-term interest rates will continue their upward trend, boosted by prospects of increased inflation.

In spite of the favourable performance of Spain's economy in the early months of the year, **the rise in fuel prices is putting complications in the way of future prospects**. It should not be forgotten that Spain is one of the countries to least reduce dependence on fossil fuels in recent decades. The first negative impact has shown up in consumer prices with a year-to-year rate which shot up in the second quarter. If this situation should continue for several more months, the reduction of spending capacity of consumers and pressure on the profit and loss accounts of companies could lead to a weakening of economic activity. For the moment, while waiting to see how the price of oil develops, in principle we may expect growth of the gross domestic product to stand slightly above 2.5% for the year as a whole. In this context, growth of employment could weaken somewhat with the unemployment rate holding at above 11%.

May 27, 2004

## Oil prices endanger world recovery

***World growth underway with United States and Asia acting as leaders…***

Just when world economic recovery was considered well underway, the jump in oil prices in recent weeks has raised some serious questions. In fact, latest indicators available confirm consolidation of economic growth in the United States and Asia. Specifically, the North American giant has continued its strength into the second quarter after growing at 5% in the first quarter. Hand in hand with unstoppable private consumption (aided by easy financing facilities, tax cuts and an improved labour market) and corporate investment rapidly recovering from the drops in 2001 and 2002, economic activity has continued to hold at high levels.

***…with euro area at tail end showing first signs of recovery.***

The euro area, where recovery is taking its time, showed growth of 1.3% in the gross domestic product in the first quarter of 2004, going higher than expected with more than twice the figure in the last quarter of 2003. The relative improvement in Germany, France and Italy in the first three months of the year brought about this gradual improvement in economic activity. In any case, a good part of this drive is coming from the foreign sector so that the Continent is continuing to be dependent on what happens to the world economy.

***But oil poses major threat…***

Erupting into this scenario comes the upward trend in black gold, first as a risk to be taken into consideration and now as a real threat. After dropping by 5% in year-to-year rate in February, the one-month forward price of Brent quality crude oil has been caught up in a continuous rise with a year-to-year increase of 11% in March, 34% in April and 46% in May. In fact, as monthly average, the one-month forward price of Brent quality oil stood at 37 dollars a barrel in May, the highest level since this quotation first came on the board in 1985 while the one-month forward price of West Texas quality oil went above 40 dollars a barrel.

***…affecting price levels which will tend to stay high in coming months.***

As a result of the increase in oil prices, inflation has begun to rise. In March and April, consumer prices rose on both sides of the Atlantic. In the United States the year-to-year rate stood at 2.3% in April while in the euro area it was again above 2%, the «danger level» for the European Central Bank. The key lies in the extent of the rise in oil prices and how long they remain at high levels, such as 35 dollars a barrel for Brent quality oil. For the moment, inflation is not expected to moderate before the end of the summer given that the factors underlying the rise in oil prices are not going to ease over the short term.

***Rise in oil prices caused by heavy demand, high level of production reached, speculative factors and geopolitical risk.***

The rise in oil prices is the result of various factors. First, world demand for oil is going above forecasts and in 2004 will be the highest in history, according to the International Energy Agency. Given that fuel inventories in major economies such as the United States now stand at below normal levels, the need to replace those inventories must be added to demand requirements. At the same time, the difficulties of producing countries to put more oil on the market means that we cannot expect supply to substantially ease the relative scarcity of crude oil on the world scene. With the exception of Saudi Arabia and Russia, the producing countries stand practically at maximum production levels. On top of all these factors comes the uncertainty being generated by geopolitical instability in the Middle East, the main centre of production. Finally, we should mention the existence of some speculative factors operating in the market.

***Any early rise in U.S. reference rates by Federal Reserve Board being discounted…***

The combination of a growing world economy, higher inflation and higher than expected oil prices has substantially changed the scenario in financial markets. Up to now, monetary policy has been extremely easy, especially in the case of the United States, which still is maintaining its reference rate at 1%. However, at the meeting of the Federal Reserve Board held on May 4 the U.S. monetary authorities put out signs of an upcoming rise. The markets quickly picked up the idea and there is talk of the possibility that at the next meeting of the Open Market Committee at the end of June the upward stage in the reference rate could begin and that this could go to 2% by the end of the year.

***…and increases in euro area seen farther off although rises began in United Kingdom several months ago.***

In the euro area, the hypothetical increase in reference rates from the present 2% is seen to be farther off. Recovery of economic activity is still quite weak and premature tightening of monetary policy could impede the much awaited economic recovery. In any case, the price index in the euro area stands at levels of 2% or higher, which gives off signs of inflation according to the doctrine of the monetary authorities in Frankfurt. The Bank of England has had fewer qualms and began to tighten its monetary policy last November and in 2004 has continued this with two increases (in February and May) which have put the reference rate at 4.25%.

***Upward picture on interest rates hurting bond market and stock market but for moment is benefiting dollar.***

The rise in short-term interest rates has dragged along long-term rates with it. In mid-May U.S. 10-year Treasury bonds hit the highest level since July 2002, setting off fears of another crisis in the bond market as in 1994 when the restrictive turn by the Federal Reserve Board brought a collapse in bond prices. The markets have reacted somewhat nervously to a scenario of rising interest rates which comes on top of current geopolitical risks so that many markets marked up lows for the year in May. On the other hand, the dollar has benefited from the upward situation in interest rates seeing that in May it appreciated partly due to the liquidation of speculative positions financed with the very low interest rates operative in the U.S. money market.

## Spain's economy: inflation causes surprise

***Rise in oil price brings fear of inflation in Spain.***

The rise in oil prices has also had its effects on inflation indicators in Spain. The increase in fuel prices put petrol and diesel fuel at highs in May. But the April consumer price index already reflected the impact of fuels so that the year-to-year growth rate in the general index jumped from 2.1% to 2.7% in just one month. The most troubling aspect of this worsening of prices is that other components also are indicating rises, such as foods, services and even industrial goods. Finally, industrial wholesale prices in April equalled the rise in consumer prices given that the general index rate for those prices went from 0.8% in March to 2.6% in April.

***Growth in first quarter stands at 2.8% thus maintaining upward profile…***

The worsening of inflation recorded as of April did not affect growth in the first quarter, according to early estimates by the National Institute of Statistics. On the other hand, year-to-year growth of the gross domestic product in that period was 2.8%, a figure which went one decimal higher than in the previous quarter and showed a gradually upward profile starting back in 2002. This trend was based entirely on domestic consumer demand and investment given that the foreign sector increased its negative contribution to growth to one percentage point.

***…thanks to strength of consumer spending...***

What is of special note is the strength of consumer spending in the early months of 2004 given that consumption of households rose by 3.2% year-to-year, two decimals more than in the previous quarter. This trend was based on the continuing growth of employment, the improvement in real wages per worker and growth of credit. At the same time, public consumption held at the high levels seen in previous quarters (above 4.5% real).

***…and improvement in capital investment.***

Figures for the Quarterly Accounts also indicate a recovery in capital investment, a factor which did not seem clear in the results of previous quarters. Construction spending, on the other hand, stabilized growth at the figure of 3.6% recorded in the previous quarter, thus continuing the long growth seen in recent years. With regard to the unfavourable balance in the foreign sector, this was a result of the bigger growth of imports compared with exports, the latter being hampered by the poor performance of those related to services.

***Initial measures by new government.***

Finally, we should mention some of the initial measures taken by the new government formed following the general elections last March. Notable in this respect was the announcement of a substantial increase in the minimum wage and the beginning of discussions in order to reach an agreement on competitiveness and employment between government, trade unions and business organizations.

## 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*** *records annual high (8,444.3), a cumulative gain of 9.1% over end of December 2003.* |
| **May** | **1** | *Enlargement of* ***European Union*** *with ten new member states making a total of 25.* |
| | **24** | *One-month forward price for Brent quality* ***oil*** *goes up to 38.4 dollars a barrel, highest level since October 1990.* |

## AGENDA

**June**

**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** *Early indicator for harmonized consumer price index (June).*

**29-30** *Meeting of Open Market Committee of Federal Reserve Board.*

**July**

**1** *Meeting of Governing Council of European Central Bank.*

**2** *Industrial production index (May).*

**13** *Consumer price index (June).*

**16** *Harmonized consumer price index for European Union (June).*

**23** *Labour Force Survey (2nd Quarter).*

**26** *Producer price index (May).*

**29** *Early indicator for harmonized consumer price index (July).*

**30** *U.S. GDP (2nd Quarter).*

## OECD forecasts: world recovery on two tracks

***United States and Asia to recover strongly in 2004 and 2005 while major euro area economies will show lesser result.***

In its spring forecasts, the Organization for Economic Cooperation and Development (OECD) confirms that the world economy is benefiting from substantial recovery. Nevertheless, while one group of countries, including the United States, China, Japan and the United Kingdom, will record a notable growth rate in 2004 and 2005, weakness will continue in the major economies of the euro area. Specifically in 2005, growth of the gross domestic product (GDP) in Germany and Italy will be around 2% while the United States will reach 3.7%.

***Domestic demand will allow United States to grow by around 5% in 2004 in sharp contrast to 1.6% in the euro area.***

In the United States, it is expected that recovery of investment, which is still lower than normal for previous growth cycles, the increased contribution from exports and the strength of private consumption will bring about growth of 4.7% in 2004 without this putting pressure on prices. A similar profile will show up in the United Kingdom and, with the exception of any strength in domestic demand in Japan, with both economies growing in the order of 3% in 2004. On the contrary, the difficulties of recovery in domestic demand will impede growth in the euro area, which will scarcely reach a GDP increase of 1.6% in 2004.

***Main new factor in current world growth is contribution by China.***

The OECD report underlines the new role being played by China and generally by Asia as a support for recovery. It is felt that China has made it possible to ease the downward stage in the world economic cycle by boosting world trade. In 2003 China's share of world trade in goods and services was 5% of the total. Nevertheless, that year the Asian giant contributed 25% of total growth of world trade. In spite of the existence of some risk of overheating, forecasts suggest that China will go from growing by more than 9% in 2003 to a slight slowdown at levels of the order of 8% in 2005.

## OECD: ECONOMIC OUTLOOK (1)

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| **GDP** (2) | | | | | |
| United States | 0.5 | 2.2 | 3.1 | 4.7 | 3.7 |
| Japan | 0.4 | –0.3 | 2.7 | 3.0 | 2.8 |
| Germany | 1.0 | 0.2 | –0.1 | 1.1 | 2.1 |
| France | 2.1 | 1.1 | 0.5 | 2.0 | 2.6 |
| Italy | 1.7 | 0.4 | 0.4 | 0.9 | 1.9 |
| United Kingdom | 2.1 | 1.6 | 2.2 | 3.1 | 2.7 |
| Spain | 2.8 | 2.0 | 2.4 | 2.9 | 3.3 |
| **Euro area** | **1.7** | **0.9** | **0.5** | **1.6** | **2.4** |
| **OECD** | **1.0** | **1.7** | **2.2** | **3.4** | **3.3** |
| **Inflation** (3) | | | | | |
| United States | 2.4 | 1.5 | 1.7 | 1.7 | 1.6 |
| Japan | –1.5 | –1.2 | –2.5 | –1.8 | –1.1 |
| Germany | 1.3 | 1.6 | 1.0 | 0.8 | 0.8 |
| France | 1.7 | 2.4 | 1.4 | 1.6 | 1.6 |
| Italy | 2.7 | 3.1 | 2.9 | 2.5 | 2.4 |
| United Kingdom | 2.3 | 3.3 | 3.1 | 2.3 | 2.1 |
| Spain | 4.2 | 4.4 | 4.2 | 3.5 | 3.2 |
| **Euro area** | **2.4** | **2.6** | **2.0** | **1.7** | **1.7** |
| **OECD** | **2.9** | **2.5** | **1.9** | **1.7** | **1.6** |
| **Unemployment** (4) | | | | | |
| United States | 4.8 | 5.8 | 6.0 | 5.5 | 5.2 |
| Japan | 5.0 | 5.4 | 5.3 | 5.0 | 4.6 |
| Germany | 7.4 | 8.1 | 8.7 | 8.8 | 8.5 |
| France | 8.7 | 9.0 | 9.7 | 9.9 | 9.6 |
| Italy | 9.6 | 9.1 | 8.8 | 8.6 | 8.5 |
| United Kingdom | 5.1 | 5.2 | 5.0 | 4.8 | 4.8 |
| Spain | 10.5 | 11.4 | 11.3 | 10.9 | 10.2 |
| **Euro area** | **8.0** | **8.4** | **8.8** | **8.8** | **8.5** |
| **OECD** | **6.4** | **6.9** | **7.1** | **6.9** | **6.7** |
| **Current account balance** (5) | | | | | |
| United States | –3.9 | –4.6 | –4.9 | –4.7 | –4.8 |
| Japan | 2.1 | 2.8 | 3.1 | 3.8 | 4.4 |
| Germany | 0.2 | 2.2 | 2.2 | 2.8 | 3.5 |
| France | 1.6 | 1.9 | 1.0 | 0.7 | 1.2 |
| Italy | –0.1 | –0.8 | –1.5 | –2.0 | –2.9 |
| United Kingdom | –2.4 | –1.7 | –1.7 | –2.3 | –2.7 |
| Spain | –2.8 | –2.4 | –3.0 | –3.3 | –3.4 |
| **Euro area** | **0.2** | **0.9** | **0.4** | **0.5** | **0.6** |
| **OECD** | **–1.1** | **–1.2** | **–1.2** | **–1.0** | **–1.0** |
| **World trade** (6) | **–0.2** | **3.6** | **4.5** | **8.6** | **10.2** |

NOTES: (1) Starting hypothesis: a) Fiscal policies in force or announced remain unchanged. b) Exchange rates do not change compared with level on April 14, 2004 (1 dollar = 108.5 yen = 0.836 euros). c) Per barrel price of oil assumed to be $32/barrel in 2004 and 2005. d) Date of going to press and final inclusion of figures was April 21, 2004.
(2) All percentage change rates in real terms.
(3) Percentage change rates in GDP deflator.
(4) As percentage of labour force.
(5) As percentage of GDP.
(6) Arithmetical average of percentage annual growth rates of world imports and exports by volume.
SOURCE: Organization for Economic Cooperation and Development.

OECD: FINANCIAL OUTLOOK (1)

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| **Government deficit (–) or surplus (+)** (2) | | | | | |
| United States | –0.2 | –3.3 | –4.8 | –4.7 | –3.9 |
| Japan | –6.1 | –7.9 | –8.0 | –7.1 | –6.6 |
| Germany | –2.8 | –3.5 | –3.9 | –3.7 | –3.1 |
| France | –1.5 | –3.3 | –4.1 | –3.8 | –3.6 |
| Italy | –2.7 | –2.4 | –2.5 | –3.1 | –3.9 |
| United Kingdom | 0.7 | –1.6 | –3.2 | –2.9 | –2.9 |
| Spain | –0.4 | 0.1 | 0.3 | 0.3 | 0.5 |
| **Euro area** | **–1.7** | **–2.3** | **–2.7** | **–2.8** | **–2.7** |
| **OECD** | **–1.1** | **–2.9** | **–3.7** | **–3.6** | **–3.1** |
| **Short-term interest rates** (3) | | | | | |
| United States | 3.7 | 1.8 | 1.2 | 1.3 | 2.9 |
| Japan | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| United Kingdom | 5.0 | 4.0 | 3.7 | 4.5 | 5.6 |
| **Euro area** | **4.3** | **3.3** | **2.3** | **1.7** | **1.8** |
| **Long-term interest rates** (4) | | | | | |
| United States | 5.0 | 4.6 | 4.0 | 4.5 | 5.3 |
| Japan | 1.3 | 1.3 | 1.1 | 1.4 | 1.7 |
| Germany | 4.8 | 4.8 | 4.1 | 4.0 | 4.6 |
| France | 4.9 | 4.9 | 4.1 | 4.1 | 4.7 |
| Italy | 5.2 | 5.0 | 4.3 | 4.2 | 4.8 |
| United Kingdom | 4.9 | 4.9 | 4.4 | 5.1 | 5.6 |
| Spain | 5.1 | 5.0 | 4.1 | 4.1 | 4.7 |
| **Euro area** | **5.0** | **4.9** | **4.2** | **4.1** | **4.7** |

NOTES: (1) Starting hypothesis: a) Fiscal policies in force or announced remain unchanged. b) Exchange rates do not change compared with level on April 14, 2004 (1 dollar = 108.5 yen = 0.836 euros). c) Per barrel price of oil assumed to be $32/barrel in 2004 and 2005. d) Date of going to press and final inclusion of figures was April 21, 2004.
(2) As percentage of GDP.
(3) 3-month interest rates on national money markets.
(4) Government bond interest rates on most representative issues in each country.
SOURCE: Organization for Economic Cooperation and Development.

## United States: strong growth in second quarter

***Consumption in United States remains strong with retail sales growing by 8% in April.***

U.S. economic activity continued to show a notable rate in the second quarter of 2004 thanks to private consumption which continued to maintain high levels. In spite of a decrease in April, retail sales still stood at levels 8% higher than one year earlier. At the same time, industrial production of consumer goods in April came close to growth rates of 4% year-to-year, the highest since June 2000. The increase in consumer confidence to the 93.2 points level in May, as against 93.0 points in April would indicate that the strength of household spending will continue to hold up in coming months.

## 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 | April |
| GDP | 2.2 | 3.1 | 2.1 | 2.4 | 3.6 | 4.3 | – | 5.0 | – | – |
| Retail sales | 2.5 | 5.3 | 4.0 | 4.4 | 6.1 | 6.7 | 6.3 | 8.5 | 8.5 | 8.0 |
| Sales of single-family homes | 7.6 | 11.6 | 6.9 | 15.5 | 15.1 | 8.8 | 15.4 | 21.1 | 23.2 | 6.4 |
| Consumer confidence (*) | 96.6 | 79.8 | 68.3 | 82.7 | 78.6 | 89.7 | 97.7 | 88.5 | 88.5 | 93.0 |
| Industrial production | –0.6 | 0.3 | 1.1 | –1.0 | –0.4 | 1.5 | 2.4 | 2.7 | 3.4 | 4.8 |
| Industrial activity index (ISM) (*) | 52.4 | 53.3 | 49.7 | 48.9 | 54.1 | 60.6 | 63.6 | 61.4 | 62.5 | 62.4 |
| Unemployment rate (**) | 5.8 | 6.0 | 5.8 | 6.1 | 6.1 | 5.9 | 5.6 | 5.6 | 5.7 | 5.6 |
| Consumer prices | 1.6 | 2.3 | 2.9 | 2.2 | 2.2 | 1.9 | 1.9 | 1.7 | 1.7 | 2.3 |
| Trade balance (***) | –35.6 | –42.9 | –40.7 | –42.5 | –43.7 | –44.6 | –44.9 | –45.2 | –45.5 | ... |

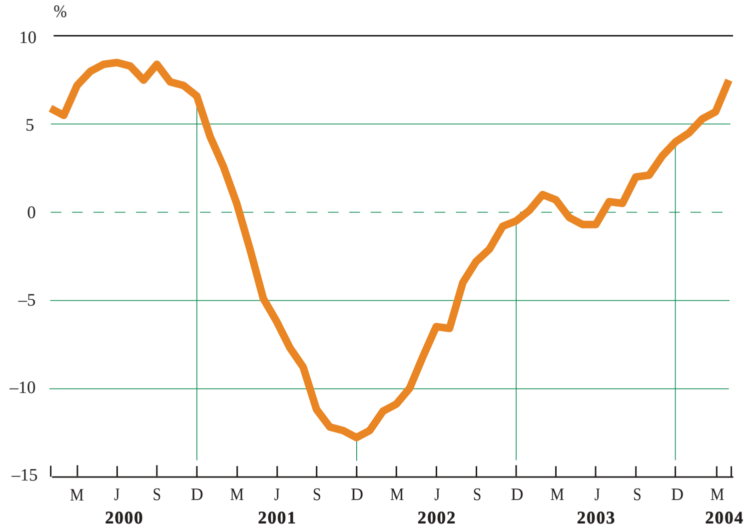
NOTES: (*) Value.
(**) Percentage of labour force.
(***) Cumulative balance for 12 months as monthly average. Billion dollars.
SOURCE: OECD, national statistical bodies and internal figures.

***Investment continues to recover ground lost in 2001 and 2002.***

Investment demand, in turn, is increasing as the year progresses. Capital goods investment has recovered much of the ground lost in 2001 and 2002. Industrial production of capital goods in April marked up the ninth consecutive month of year-to-year increases to reach a rise of 7.2% year-to-year. Running along the same lines was the degree of utilization of production capacity which stood close to 77% in April, thus returning to levels seen in 2001.

## NOTABLE RECOVERY IN U.S. INVESTMENT

Year-to-year change in capital goods component of industrial production index




SOURCE: Federal Reserve Board.

*Industrial production grows by 4.8% in April and future prospects even better.*

On the supply side, what stands out is the sector-by-sector spread of economic growth. Industry has shown a notable turnaround on the positive side in recent months. Industrial production in April marked up a year-to-year increase of 4.8%, a level not recorded since June 2000. Immediate prospects are also bright, in view of maintenance of the industrial activity indicator prepared by the Institute of Supply Management (ISM) above 62 points in March and April and the sharp rise in factory orders which came close to 11% year-to-year in March.

*Services and construction maintaining high rate of activity.*

The industrial sector is being complemented by increased strength in services and a positive situation in construction. The tertiary sector, which had lost some of its drive in the fourth quarter of 2003, has recovered its strength. The non-manufacturing ISM indicator, which reflects the rate of economic activity in services, after having stood at the 60.3 points level in the final quarter of 2003, showed an advance of nearly four points in the first quarter to record just one month later another similar increase in April going to 68.4 points. In turn, the increase in housing starts and building permits would indicate buoyant prospects in construction.

*Inflation jumps to 2.3% in April due to contribution of energy and foods.*

With regard to consumer prices, these are beginning to increase more than in previous months due to the trend in oil prices and the strength of domestic demand. The increase in the energy component in April with growth of 5.6% year-to-year and the increase in food prices which rose by 3.4% year-to-year meant that the consumer price index (CPI) increased to 2.3% year-to-year (1.7% year-to-year in March). Leaving out energy and food, the resultant rate also increased, although to a lesser extent, going to 1.8% year-to-year as against 1.6% year-to-year in March. Other relevant price indicators for the economy face similar upward trends. Producer prices in April, for example, marked up a year-to-year increase of 3.6% as against 2.2% on average in the first quarter.

*Employment stands at levels 0.8% higher than one year ago.*

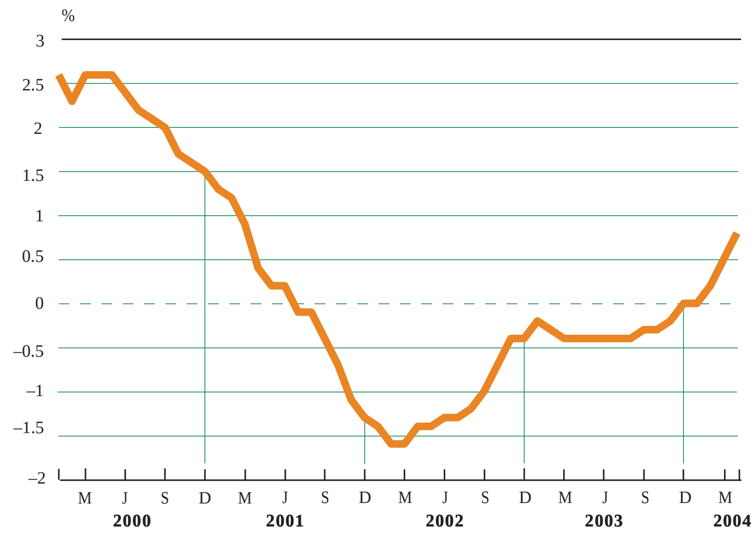
If inflation is beginning to fall in line with what may be expected in a cyclical stage of greater maturity, employment is doing the same. Following disappointing results in terms of job creation in 2003, the situation has begun to improve as of February. Some 288,000 non-farm jobs were created in April, on top of 337,000 jobs created in March. This means that the level of employment in April was 0.8% higher than one year earlier. The unemployment rate, in turn, dropped by one decimal to 5.6% of the labour force.

*Strong domestic demand prevents any decrease in trade deficit.*

On the other hand, the trend in the foreign sector was less positive. When it seemed that the increased strength of exports (year-to-year increase of 14.6% in March) would make it possible to reduce the massive U.S. trade deficit, the strength of domestic demand reflected in the growth of imports (increase of 12.0% year-to-year in March) has again increased this imbalance. The cumulative trade deficit for 12 months in March as a monthly average amounted to 45.5 billion dollars, as against 45.2 billion dollars in February.

EMPLOYMENT INCREASES IN UNITED STATES

Year-to-year change in non-farm employment




SOURCE: Department of Commerce.

## Brazil: signs of recovery

***Sound recovery of industrial production in Brazil.***

Growth is beginning to show positive signs in Brazil. Industrial production rose by 12.5% in March. While there is a certain base effect behind this notable figure it must be kept in mind that such a good month has not been seen since 1995. A breakdown of this indicator would reinforce cautious optimism seeing that production of capital goods in March grew by 36.6% year-to-year thus confirming a strong upward trend. Industrial production of consumer goods grew by 14.4% with intermediate goods somewhat lagging at 7.1%. Car sales also confirm this positive trend with an increase of 35.7% year-to-year in March. Retail sales in Rio de Janeiro in January showing a drop of 0.8% are reason for caution but even so this is an improvement over past periods.

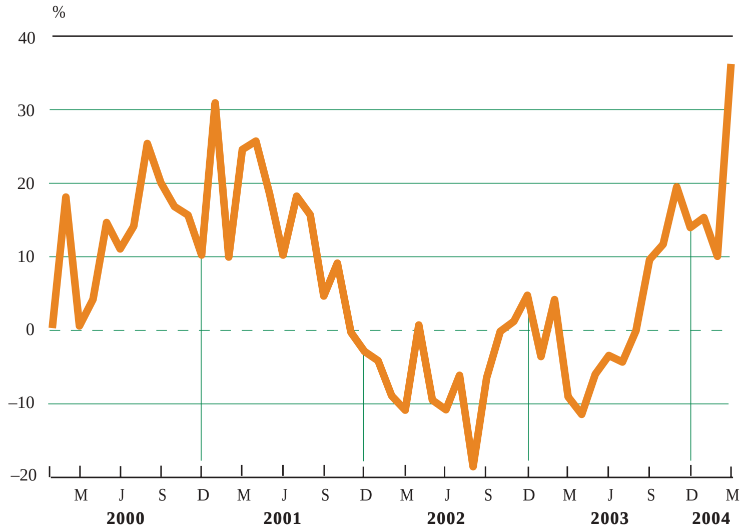
***Unemployment continues to increase to troubling extent.***

The labour market is showing ups and downs with an unemployment rate which continues to grow. The rate of unemployment in the Sao Paulo region reached 20.6% in March whereas at the end of 2003 it had already reached a troubling 19.1%. This has special significance in the present context of the government's difficulties in obtaining popular support for its austerity and reform policies. On the credit side stands the easing of the fall of manufacturing wages in real terms and especially some increase in manufacturing productivity which grew by 3.7% year-to-year in January pointing to a trend to recovery from the lows at the beginning of 2002.

Nevertheless, we shall have to wait for figures on the GDP for the first quarter to confirm the positive signs shown by these figures taking into account that confirmation of growth is critical for the stability and good progress of the Brazilian economy.

## BRAZIL: NOTABLE IMPROVEMENT IN PRODUCTION OF INDUSTRIAL GOODS

Year-to-year change in industrial production in capital goods




SOURCE: Brazilian Institute of Geography and Statistics and Central Bank of Brazil.

## BRAZIL: 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 | April |
| Real GDP | 1.9 | –0.2 | 1.2 | –0.4 | –1.5 | –0.2 | – | ... | – | – |
| Industrial production | 2.7 | –0.1 | 0.8 | –2.8 | –0.6 | 2.1 | 3.7 | 1.8 | 12.5 | ... |
| Unemployment rate São Paulo (*) | 19.0 | 19.9 | 19.1 | 20.5 | 20.1 | 19.8 | 19.1 | 19.8 | 20.6 | ... |
| Consumer prices | 10.2 | 17.0 | 17.5 | 19.8 | 17.8 | 13.0 | 8.6 | 7.5 | 6.6 | 5.6 |
| Trade balance (**) | 13.1 | 24.8 | 15.9 | 20.9 | 23.1 | 24.8 | 25.2 | 26.1 | 27.2 | 27.4 |

NOTES: (*) Percentage of labour force.
(**) Cumulative balance for 12 months. Billion dollars.
SOURCE: Brazilian Institute of Geography and Statistics and Central Bank of Brasil.

***Prices show definite improvement.***

On the price front, we also see a major improvement given that the consumer price index in April was up by 5.6% year-to-year putting the increase for the entire first quarter at 7.6% compared with the same period last year. These figures must be seen as good if we are to compare them with levels of 17% in 2003.

***Foreign sector improving but the recovery of direct investment is yet to come.***

The foreign sector also showed a good performance with the trade balance increasing to 27.4 billion dollars in the twelve months ending April 2004, whereas at the end of 2003 it was 24.8 billion dollars. The sharp increase in exports made this improvement in the foreign sector compatible with an increase in imports. Another positive factor was the end of the drop in direct investment although this was still far from levels seen in 2002.

*Public accounts continue to show austerity although debt servicing and interest rate weigh on.*

In the twelve months ending March 2004, Brazil’s public sector again showed a primary surplus of 64 billion reales but debt servicing meant that the total balance showed a deficit of 52 billion reales. At the end of 2003, the primary surplus was 66 billion reales while the total deficit of the public sector was 56 billion. These figures give an idea that there exists a certain ceiling in the savings capacity of the public sector and show Brazil’s heavy dependence in the matter of increases in interest rates.

## Argentina: growth strong but uncertainty remains

*Argentina undergoing strong growth led by investment and private consumption.*

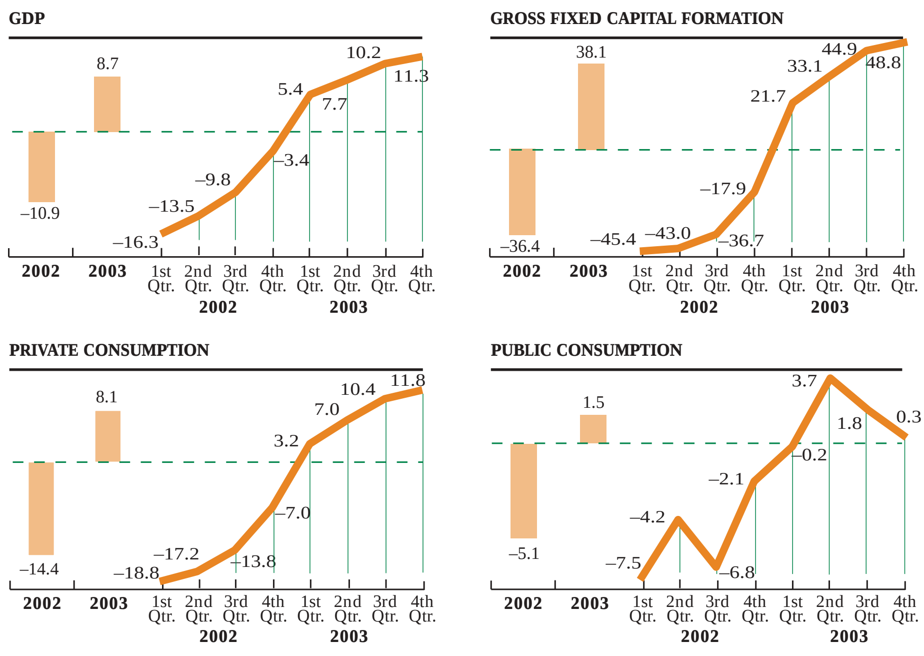
Growth in Argentina is now a reality. The GDP for the fourth quarter grew by 11.3% year-to-year in real terms, which was higher than expected and also above the 10.2% recorded in the third quarter. The components having most influence in this growth were investment, which recorded a year-to-year increase of 49% going above the 45% figure in the third quarter, and private consumption which showed year-to-year increases of close to 12%.

*Industrial production moderating growth.*

Industrial production in April moderated the growth rates shown in recent months to stand at 6.0% year-to-year. While this figure was positive, it meant a slowdown in terms of increases of more than 10% throughout 2003. Cars and, to a lesser extent, food were the sectors showing most strength. Tobacco, energy and steel were the other side of the coin with the latter two sectors reflecting the lack of investment in Argentina’s infrastructures.

TREND IN ARGENTINA’S GDP BY COMPONENT

Percentage annual change




SOURCE: National Institute of Statistics and Census, Republic of Argentina (INDEC).

**Consumer prices remain stable but energy prices rise.**

The CPI rose by 3.1% year-to-year in April maintaining a stable performance following the excesses seen in 2002 and the beginning of 2003. Nevertheless, wholesale prices showed a sharp increase in energy prices which rose by 15.4% in April compared with the same period last year. In March, the increase was 15.5% while the rise in February was 12.9%. On top of these increases there was a rise of 11% in wholesale prices of raw materials in April. The increase in energy prices brought about by the deficit in infrastructures mentioned earlier, while still far from the levels shown in 2002, presents some uncertainty at this time about the sustainability of growth.

ARGENTINA: 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 | April |
| Real GDP | –10.9 | 8.7 | 5.4 | 7.7 | 10.2 | 11.3 | – | ... | – | – |
| Industrial production | –7.3 | 12.9 | 15.0 | 11.8 | 12.4 | 12.8 | 10.9 | 8.8 | 11.8 | 6.0 |
| Unemployment rate (*) | 20.6 | ... | 15.6 | ... | ... | ... | ... | ... | ... | ... |
| Consumer prices | 28.9 | 11.2 | 31.7 | 10.2 | 3.5 | 3.7 | 2.7 | 2.3 | 2.3 | 3.1 |
| Trade balance (**) | 16.7 | 15.6 | 17.1 | 17.3 | 16.6 | 15.6 | 14.9 | 14.6 | 14.2 | ... |

NOTES: (*) Percentage of labour force.
(**) Cumulative balance for 12 months. Billion dollars.
SOURCE: National Institute of Statistics and Census, Republic of Argentina (INDEC).

The foreign sector made a negative contribution to GDP growth but this was coherent with the increase in domestic demand given that the rise in imports was responsible for the drop. The trade balance for the twelve months ending March 2004 remained positive at 14.2 billion dollars although, in keeping with the above, it was less than in March 2003 when it reached 17 billion dollars. Energy imports rose by 14% year-to-year in March, the biggest increase since 2001, while energy exports were up by 4.4%.

**Interest payments and energy insufficiency present two risks within positive environment.**

The current account balance for the twelve months up to the end of 2003 showed a surplus of 7.9 billion dollars which was also a slight decrease over previous periods. Nevertheless, the foreign balance for interest payments ended the same period with a deficit of 6.9 billion dollars. Interest payments and energy demand today constitute the biggest uncertainties in this overall picture which in fact is positive.

## Japan: biggest economic growth in thirteen years

**Japan shows surprising growth of 4.7% in first quarter.**

Japan's economy grew by 4.7% year-to-year in the first quarter, 1.2 percentage points above the figure for the preceding quarter, which represents the highest figure since the first quarter in 1991. This sharp rise in economic activity was due to the notable improvement in private consumption, investment and exports. Private consumption grew by 3.0% year-to-year, one percentage point more than in the preceding quarter.

Investment, in turn, rose to 6.6% year-to-year in the first quarter as against 6.1% in the fourth quarter. With regard to foreign demand, the increase in exports (growth of 15% year-to-year), notably higher than the increase in imports (6% year-to-year) meant a positive contribution from the foreign sector to the change in the GDP of 1.2% (0.9% in the fourth quarter).

***Major recovery in private consumption along with drive in investment and exports.***

TREND IN JAPAN'S GDP BY COMPONENT

Percentage year-to-year change rate


SOURCE: Economic and Social Research Institute and internal figures.

***Improvement in domestic demand partly due to return to job creation.***

The latest monthly indicators available, mainly referring to the end of the first quarter, confirm the previous trends. The growth of retail sales in the first quarter (increase of 0.2% year-to-year) combined with the increase in consumer confidence (going up to the level of 42.5 points in the first quarter) confirm that the drive in private consumption is continuing. The improvement in employment, which in the fourth quarter of 2003 and the first quarter of 2004 returned to the range of year-to-year increases, and the decrease in unemployment (to 4.7% in March) are some of the factors behind the trend for Japanese households to move into a higher level of spending. Foreign demand, in turn, continues to make a notable contribution to economic growth. In cumulative balance for twelve months, the trade surplus in April stood at 11,500 billion yen, a clear increase over the 10,900 billion yen seen in the first 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 | April |
| GDP | –0.3 | 2.6 | 2.5 | 2.2 | 1.9 | 3.5 | – | 4.7 | – | – |
| Retail sales | –3.9 | –1.9 | –1.8 | –2.6 | –2.2 | –1.2 | 0.9 | 1.8 | –1.7 | ... |
| Industrial production | –1.3 | 3.3 | 5.4 | 2.0 | 1.2 | 4.7 | 6.5 | 3.8 | 4.5 | ... |
| 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 | 4.7 | ... |
| Consumer prices | –1.0 | –0.2 | –0.2 | –0.3 | –0.2 | –0.3 | –0.3 | 0.0 | –0.1 | ... |
| Trade balance (***) | 8.4 | 9.8 | 10.0 | 9.6 | 9.6 | 10.0 | 10.5 | 10.9 | 11.3 | 11.5 |

NOTES: (*) Value.
(**) Percentage of labour force.
(***) Cumulative balance for 12 months. Trillion yen.
SOURCE: OECD, national statistical bodies and internal figures.

***Incipient recovery in construction comes on top of recovery in industry and services.***

Recovery is reflected in the improved level of activity in all economic sectors. On top of the recovery in industry recorded since the fourth quarter of 2003, which meant growth of industrial production of 4.5% year-to-year in March, came an increase in the services sector (the METI indicator for tertiary activity rose to 2.3% year-to-year in the fourth quarter as against 0.4% in the third quarter) along with some promising indicators in the construction sector. Housing starts in the first quarter stood at a level 5.4% higher than one year earlier.

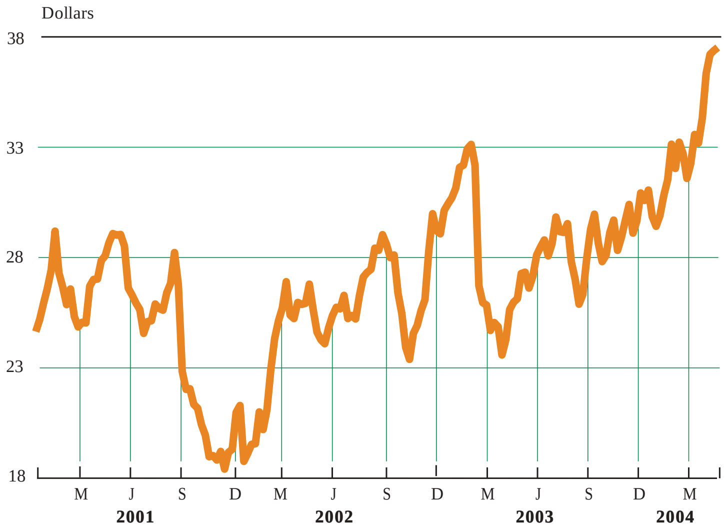
## Raw materials: oil prices shoot up

***Oil prices step up to 38 dollars a barrel due to geopolitical risks in Middle East…***

The one-month forward price per barrel for Brent quality oil went from 35 dollars to stand at a steady figure of around 38 dollars. Prices in May stood at levels 47% higher than one year earlier, representing the highest figure recorded since 1985 when this quality was first quoted. Although geopolitical risks in the Middle East and growth of demand due to world economic growth partly explain the current high level of oil prices (the International Energy Agency forecasts the highest oil consumption in history for 2004), there are other factors contributing to the jump in prices.

GEOPOLITICAL TENSIONS PUSH UP OIL PRICES

One-month forward price of Brent oil per barrel




SOURCE: Thomson Financial Datastream.

***...plus demand pressure, restrictions on increased production and existence of speculative elements.***

Among these factors we should point out the low level of fuel inventories, especially in the United States, difficulties in increasing production in producer countries and the presence of a certain level of speculation in the market. With regard to the first of these factors, the level of oil inventories and distilled products stands below normal. In the case of petrol inventories in the United States, for example, the level is the lowest in the past five years. On the supply side, the capacity to increase production practically comes down to two countries, namely Saudi Arabia and Russia. Finally, speculative activity in the market has brought about a high level of volatility.

***Industrial raw materials with metals leading show increase of more than 30% in May.***

The increase in prices of other raw materials has also been notable. «The Economist» index for raw materials in May stood at levels 26% higher than one year earlier expressed in dollars and 22% higher expressed in euros. By component, the biggest increases showed up in industrial raw materials (increase of 33% year-to-year) headed by the increase in metals (year-to-year increase of 35%). An exception to this trend was the price of gold which has backed down from previous positions and in the average for May stood at 384 dollars an ounce, a mere 7.8% higher than in the same month in 2003.

## Euro area: recovery underway

***Euro area grows 1.3% in first quarter.***

Indicators for the first quarter confirm that recovery is taking shape in the euro area. In the first quarter, the gross domestic product (GDP) grew by 1.3% year-to-year, more than twice the figure recorded in the final quarter of 2003. This growth rate had not been reached since the third quarter of 2001. The increase in activity was basically due to the better performance in the three large economies of the euro area, namely Germany, France and Italy, compared with the sluggishness they had shown in previous quarters. In spite of this relative improvement, it should be remembered that these three countries are still far from showing a level of economic activity in line with their potential.

### EURO AREA BEGINS TO OVERCOME RECESSION

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


SOURCE: Eurostat and internal figures.

***Slight improvement in private consumption main development on economic scene.***

While the breakdown by demand components is still not available, the partial indicators available make it possible to be specific about recent trends in the euro area. The main development has been the moderate recovery of private consumption. Recovery of retail sales (up 0.6% year-to-year in the first quarter as against a drop of 0.5% year-to-year in the fourth quarter) and the rise of two points in the consumer confidence index as of April indicate something of a change toward increased growth of household spending.

## 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 | April |
| GDP | 0.9 | 0.4 | 0.7 | 0.1 | 0.3 | 0.6 | – | 1.3 | – | – |
| Retail sales | 0.0 | 0.2 | 0.9 | 0.8 | –0.4 | –0.5 | 0.9 | –0.1 | 0.9 | ... |
| Consumer confidence (*) | –11 | –18.0 | –19 | –19 | –17 | –16 | –15 | –14 | –14 | –14 |
| Industrial production | –0.5 | 0.4 | 0.9 | –0.8 | –0.1 | 1.4 | 0.6 | 1.0 | 1.0 | ... |
| Economic sentiment indicator (*) | 95.6 | 95.1 | 94.8 | 94.7 | 95.0 | 95.7 | 96.0 | 95.9 | 96.1 | 96.6 |
| Unemployment rate (**) | 8.4 | 8.8 | 8.7 | 8.8 | 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 | 2.0 |
| Trade balance (***) | 84.2 | 81.7 | 92.7 | 82.1 | 77.8 | 74.1 | 75.7 | 77.1 | 83.9 | ... |

NOTES: (*) Value.
(**) Percentage of labour force.
(***) Cumulative balance for 12 months. Billion euros.
SOURCE: Eurostat, European Central Bank, European Commission and internal figures.

***Industry not finding way back to recovery and hampered by export difficulties in recent months.***

On the supply side, economic recovery has taken place mainly in services. The sector confidence index grew by five points in the fourth quarter and in the first quarter added on another point. In April, it again rose by one more point going to the 10 points level. The other two large sectors, industry and construction, have proven to be relatively less growth oriented. To be specific, industrial production grew by 1.0% year-to-year in March compared with 1.4% year-to-year in the fourth quarter. Export difficulties noted in previous quarters and worse prospects in the first quarter were behind the slowdown in the secondary sector. Nevertheless, it should be pointed out that April may represent a turnaround point given that there was an increase both in the industrial climate index and in industrial confidence.

***Consumer prices stand at 2.0% in April.***

In another area, it should be pointed out that consumer prices began to show the effects of increased oil prices. In spite of the anti-inflationary containment coming from an appreciated euro, the harmonized consumer price index (HCPI) grew by 2.0% year-to-year (1.7% year-to-year in March) due to the increase recorded in the energy component which went from a drop of 2% year-to-year in March to a year-to-year increase of 2% in April. While this change is partly conditioned by the base effect arising from the decrease in oil prices one year ago, oil prices have been pushing up inflation since last February. In fact, the rise to 2.5% year-to-year in May, according to preliminary estimates, would be largely due to that contribution from energy.

***Unemployment rate holds at 8.8%.***

With regard to the labour market, there is little new to report. The unemployment rate in March was 8.8% of the work force, a level which has not changed since March 2003. Nor has there been any improvement in job creation. In the fourth quarter of 2003, the latest figure available, employment grew by 0.2% year-to-year showing no change over preceding quarters.

***Foreign demand recovering.***

The trend in foreign demand has been more positive. After standing at 74.1 billion euros in the fourth quarter, the cumulative trade surplus for 12 months rose to 83.9 billion euros in March. The better state of exports (growth of 11.9% year-to-year in March) is making possible this recovery in the foreign balance. Imports, in turn, as a result of slightly more expansionist domestic demand, has also increased growth which went to 4.6% year-to-year in March.

## Germany: increased growth in first quarter

***Growth in Germany reaches 0.7% in first quarter.***

In the first quarter, the German GDP grew by 0.7% year-to-year. Year-to-year growth in the fourth quarter was 0.1%. The basic factor behind this recovery was the positive contribution of the foreign sector which contributed 1.3 percentage points to the change in the GDP. On the other hand, domestic demand dropped by 0.5% year-to-year due to the decrease in private consumption and investment, in both cases of the order of 1% year-to-year.

### 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 | April |
| GDP | 0.2 | –0.1 | 0.1 | –0.3 | –0.3 | 0.1 | – | 0.7 | – | – |
| Retail sales | –1.4 | –0.5 | –0.1 | 1.1 | –1.9 | –1.3 | –1.3 | –1.0 | 1.2 | ... |
| Industrial production | –1.2 | 0.1 | 0.6 | –0.5 | –1.3 | 1.5 | 2.0 | 1.9 | 0.4 | ... |
| Industrial activity index (IFO) (*) | 89.4 | 91.7 | 88.5 | 89.5 | 92.5 | 96.2 | 97.5 | 96.4 | 95.4 | 96.3 |
| Unemployment rate (**) | 10.2 | 10.4 | 10.6 | 10.6 | 10.5 | 10.4 | 10.4 | 10.3 | 10.4 | 10.5 |
| Consumer prices | 1.4 | 1.0 | 1.2 | 1.0 | 1.1 | 1.2 | 1.2 | 1.0 | 1.0 | 1.7 |
| Trade balance (***) | 118.6 | 129.9 | 131.4 | 128.5 | 129.7 | 130.0 | 134.6 | 136.3 | 141.5 | ... |

NOTES: (*) Value.
(**) Percentage of labour force.
(***) Cumulative balance for 12 months. Billion euros.
SOURCE: OECD, national statistical bodies and internal figures.

***Recovery not preventing drop in forecast tax collections up to 2007.***

The increase in economic activity, which has been better than expected, has not prevented the German Ministry of Finance from making a downward revision of forecast tax collections between 2004 and 2007 so that the public deficit would be still be maintained above 3% of the GDP in 2004 and 2005. If these forecasts are fulfilled, this would make four consecutive years (2002-2005) in which Germany would have failed to meet the requirements laid down in the EU Stability and Growth Pact.

***First signs of improvement in private consumption.***

Over the more current period, we note that at the end of the first quarter and the beginning of the second quarter economic activity is continuing to recover although at a moderate rate. The increase in retail sales in March when they went to 1.2% year-to-year and the good figures for car registrations in March and April indicate a better state of private consumption although the drop in consumer confidence in March and

April (4 points) confirms that this trend is still far from becoming consolidated.

*Poor figure for industrial production in March likely of circumstantial nature.*

On the other hand, on the supply side, the weakness of industrial activity in March which put the industrial production indicator at levels only 0.4% higher than one year earlier must be taken as circumstantial if we take note of the growth of the IFO industrial activity index as an average for April and May (going up to 96.2 points) and the notable rise in industrial orders as the first quarter advanced. Also adding to confidence about prospects for the secondary sector was the substantial increase in exports noted between January and March.

*Consumer prices and producer prices move up in April.*

With regard to consumer prices, in line with other advanced economies, the base effect recorded in the energy component a year ago pushed up the CPI to 1.7% year-to-year in April (1.0% year-to-year in March). Other relevant prices, such as producer prices, have marked up even higher increases going from 1.0% year-to-year in March to 2.4% in April. Finally, we should point out that recovery is still not having any notable effect on the labour market. The unemployment rate in April stood at 10.5% of the labour force, one decimal more than the month before.

## France: good start to year

*Domestic demand in France increases growth to 1.7% in first three months of 2004.*

The French economy showed surprising growth in the first quarter well above that expected. The GDP rose by 1.7% year-to-year, six decimals more than in the fourth quarter. The boost came mainly from increased strength in private consumption (it grew by 1.9% year-to-year in the quarter as against 1.6% in the previous quarter) and the increase in investment, which went to 2.6% year-to-year, one percentage point more than in the fourth quarter. On the other hand, the foreign sector maintained its negative contribution to the change in the GDP at –1% due to the fact that the improved export performance was compensated by the rise in imports.

*Industrial production grows by 1.2% in March.*

Demand indicators for the first quarter confirm previous trends. The supply indicators however provide more information. The industrial sector, which had begun 2004 just hobbling along, in February and March recovered part of the ground lost. In the latter month industrial production rose to 1.2% year-to-year. The drive in industry, in any case, will be slow if we are to go by the moderate improvement in the industrial confidence index as of April. The rate of activity in services is substantially better (sector confidence was up five points in the first quarter) and construction, which recorded a notable increase in housing starts and building permits in the first three months of the year.

*Consumer prices stand at 2.1% in April while unemployment holds at 9.8% in March.*

A stable unemployment rate (9.8% in March) and an increase in consumer prices (2.1% year-to-year in April compared with 1.7% in March) round out the review of an economic scene notably better than in previous months.

## TREND IN FRENCH GDP BY COMPONENT

Percentage year-to-year change rate


SOURCE: INSEE and internal figures.

## 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 | April |
| GDP | 1.1 | 0.5 | 0.8 | –0.1 | 0.4 | 1.1 | – | 1.7 | – | – |
| Domestic consumption | 0.9 | 0.9 | 1.7 | –0.3 | 0.8 | 1.4 | 2.8 | 3.3 | 1.6 | 3.8 |
| Industrial production | –1.2 | –0.1 | 0.3 | –1.4 | –0.5 | 1.2 | –0.1 | 0.9 | 1.2 | ... |
| Unemployment rate (*) | 9.3 | 9.9 | 9.6 | 9.8 | 9.9 | 9.9 | 9.9 | 9.8 | 9.8 | ... |
| Consumer prices | 1.9 | 2.1 | 2.4 | 1.9 | 2.0 | 2.2 | 2.0 | 1.8 | 1.7 | 2.1 |
| Trade balance (**) | 0.4 | 0.3 | 0.5 | 0.3 | 0.2 | 0.2 | 0.3 | 0.3 | 0.4 | ... |

NOTES: (*) Percentage of labour force.
(**) Cumulative balance for 12 months. Billion euros.
SOURCE: OECD, national statistical bodies and internal figures.

## Italy: worst of recession now over

***Growth in Italy moves up to 0.8% in first quarter.***

Italy also joined the ranks of the large European economies showing better results in the first quarter of 2004. After growing by a slim 0.1% year-to-year in the fourth quarter, in the first three months of this year its growth rate moved up to 0.8% year-to-year. While the breakdown by component has not yet been made public, economic recovery must have come from some improvement in private consumption (retail sales were up 1.9% on average in January and February) and from a less negative performance in investment and exports than in previous quarters.

### 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 | April |
| GDP | 0.4 | 0.4 | 0.6 | 0.2 | 0.4 | 0.1 | – | 0.8 | – | – |
| Retail sales | 2.4 | 2.0 | 2.3 | 3.2 | 1.8 | 0.9 | 3.6 | 0.1 | ... | ... |
| Industrial production | –1.3 | –0.5 | –0.1 | –1.6 | –0.3 | 0.2 | 0.1 | –0.1 | –0.4 | ... |
| 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 | 2.3 |
| Trade balance (**) | 10.8 | 3.4 | 6.7 | 3.5 | 1.5 | 2.0 | 1.3 | 0.9 | 2.0 | ... |

NOTES: (*) Percentage of labour force.
(**) Cumulative balance for 12 months. Billion euros.
SOURCE: OECD, national statistical bodies and internal figures.

***Future prospects moderately positive although slack in industry troubling.***

If we are to go by the rise in early indicators, which moved up from 2.5% year-to-year in February to 2.9% in March, immediate prospects are for a continuation of the economic recovery. However, the notable difficulties in the industrial sector are troubling. In spite of the improvement in activity generally, industrial production in March was still 0.4% below levels one year earlier. Consumer prices in April, in turn, held at 2.3% year-to-year, a rate which has been unchanged since February. Nor do we see any changes in unemployment which has stabilized at 8.5% of the labour force in the fourth quarter of 2003 and the first quarter of 2004.

## United Kingdom: most dynamic of Europe's large economies

***United Kingdom: growth of 3.0% in first quarter in contrast to less dynamic EU partners.***

Economic growth of 3.0% year-to-year in the first quarter put the United Kingdom among the most dynamic of the large economies of the European Union. Britain's economic growth is based on vigorous private consumption, a fact which differentiates it from its EU partners. In the first quarter, retail sales doubled their growth compared with the previous three months (6.6% year-to-year as against 3.3%). The rate of growth remained high in April at 6.1% year-to-year.

## 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 | April |
| GDP | 1.6 | 2.2 | 1.9 | 2.2 | 2.2 | 2.7 | – | 3.0 | – | – |
| Retail sales | 6.9 | 3.0 | 3.1 | 2.7 | 3.0 | 3.3 | 6.9 | 6.3 | 6.4 | 6.1 |
| Industrial production | –2.7 | –0.5 | –1.0 | –0.7 | –0.4 | 0.0 | 0.3 | –0.8 | –0.6 | ... |
| Unemployment rate (*) | 3.1 | 3.0 | 3.1 | 3.1 | 3.1 | 3.0 | 2.9 | 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 | 2.0 |
| Trade balance (**) | –43.5 | –46.3 | –46.5 | –46.0 | –46.4 | –46.3 | –48.0 | –48.9 | –48.9 | ... |

NOTES: (*) Percentage of labour force.
(**) Cumulative balance for 12 months. Billion pounds.
SOURCE: OECD, national statistical bodies and internal figures.

***Industrial production down 0.6% in March brought about by poor performance in exports.***

From a sector point of view, the most notable feature is the persistence of a poor performance in industry. With manufacturing hurt by difficulties in exports, industrial production fell by 0.6% year-to-year in March so that the incipient recovery in the fourth quarter was not consolidated.

***April inflation down to 2.0%.***

The results in prices and unemployment were much more satisfactory. In April the CPI dropped by one decimal to 2.0% year-to-year while for the fourth consecutive month the unemployment rate held at 2.9% of the labour force, the lowest since 1975.

## MONETARY AND CAPITAL MARKETS

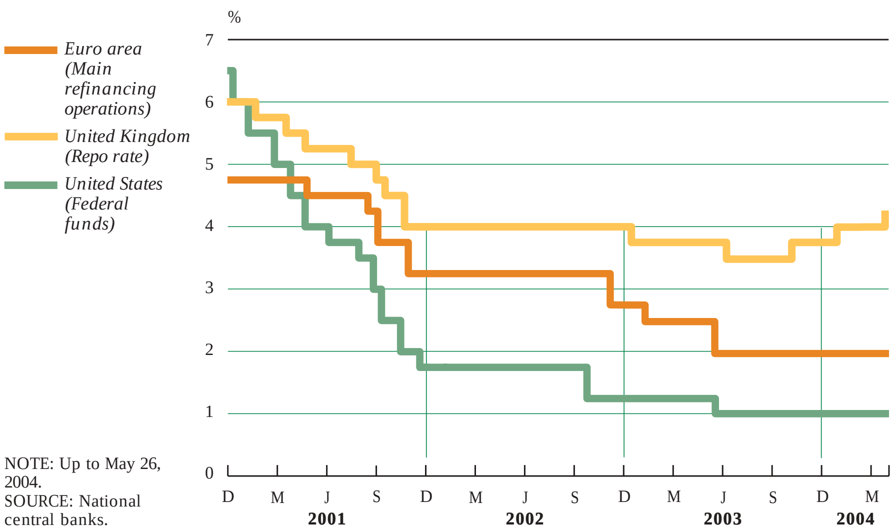
### Upcoming restrictive turn by U.S. Federal Reserve Board

***Preparations by Federal Reserve Board to raise interest rates upset financial markets.***

The stage of very low interest rates seen in recent decades is coming to an end. The U.S. Federal Reserve Board has given out increasing signs that it is getting ready to begin an upward turn in official interest rates. This message has brought upsets in financial markets. The Bank of England, in fact, began to tighten its monetary policy last November and continued to do so in May.

BANK OF ENGLAND AGAIN RAISES OFFICIAL INTEREST RATE

Monetary policy reference rates




NOTE: Up to May 26, 2004.
SOURCE: National central banks.

***Bank of England likely will continue tightening monetary policy.***

In fact, on May 6 the Bank of England announced that it was raising its intervention rate by 0.25 points to 4.25%. This was the third increase in the reference rate in six months. The British monetary authorities justified this measure by the rise in the gross domestic product (GDP) above current trends and because, going by business surveys, it forecast increased strength of the economy. The strength of domestic activity is being sustained by growth in incomes and the unexpected rise in the price of housing. Because of this, in order to ensure that it would meet its inflation objective over the medium term, it opted for further monetary restriction. This trend will probably continue in coming months if we take into account that in mid-May the British central bank published a report on inflation with projections above the objective of 2%. In fact, the market is discounting that the official rate will go above 5% at the end of the year.

***Market expecting objective level of U.S. Federal Funds will have doubled by year-end.***

In the United States, the Federal Reserve Board did not change its reference rates at its meeting held on May 4. Nevertheless, in its press release it adopted a less neutral stance by stating that its easy monetary policy could be dispensed with at a moderate pace and did not indicate that it would be patient. The market, in turn, had been bringing forward the expected date for the increase in the official rate since the beginning of April following the publication of positive economic indicators, especially the recovery of the labour market. The figures showing an increase in inflation published in May, along with the rise in oil prices, also contributed to the market's move to discount that the upward change in the official interest rate by the Federal Reserve Board would come at the next meeting of the Open Market Committee at the end of June. In fact, operators are expecting that the reference rate, now standing at 1%, will have doubled by the end of the year.

## SHORT-TERM INTEREST RATES IN NATIONAL MARKETS

Monthly averages as annual percentage

| | Euro area | | | United States | | Japan | United Kingdom | | Switzerland |
|---|---|---|---|---|---|---|---|---|---|
| | ECB auctions (2) | Euribor 1-month | Euribor 3-month | Federal Reserve Board target level (3) | 3-month | 3-month | Bank of England intervention rate (4) | 3-month | 3-month |
| **2003** | | | | | | | | | |
| 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 (*) | 2.00 | 2.05 | 2.05 | 1.00 | 1.10 | 0.00 | 4.00 | 4.30 | 0.28 |
| May (1) | 2.00 | 2.06 | 2.09 | 1.00 | 1.28 | 0.01 | 4.25 | 4.56 | 0.27 |

NOTES: (*) Provisional figures.
(1) May 26.
(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.

*OECD returns to charge insisting on need for cut in Eurosystem interest rate but ECB maintains its stance.*

In the euro area, however, the situation is not so pressing. At the meeting of the Governing Council of the European Central Bank (ECB) held on May 6 it made no change in interest rates as had been expected. The ECB chairman repeated that the Eurosystem reference rate stood at the correct level to ensure meeting the objective of price stability over the medium term. It also stated that the increase in raw materials prices, particularly in oil, meant a risk for inflation. Nevertheless, on May 11 the OECD returned to the charge and urged a cut be made in the official interest rate in the euro area in order to aid economic recovery. The next day, the head economist of the ECB, Otmar Issing, replied that the problem of economic growth in the euro area would not be resolved by lowering interest rates but through structural reform.

*One-year Euribor rises in April after four months of decreases.*

In this context, in recent weeks, the market has given up hopes of further easing of monetary policy by the ECB and has shifted over to anticipating an increase in official interest rates in the euro area toward the end of the year. As a result, the 1-year Euribor rose to 2.16% on average in April after four consecutive months of decreases. In the early weeks of May the 1-year Euribor continued to rise. As a result, on May 26 it stood at 2.32%, a rise of 16 basis points compared with the same date last year.

*Bank of New Zealand again raises reference rate.*

In addition, toward the end of April the Bank of New Zealand again raised its official interest rate for the second time this year putting it up 25 basis points to 5.50%. That country's central bank argued that its decision was based on excessive strength in the economy which held inflationary risks. As a result, its was correcting the monetary stimulus it had previously provided.

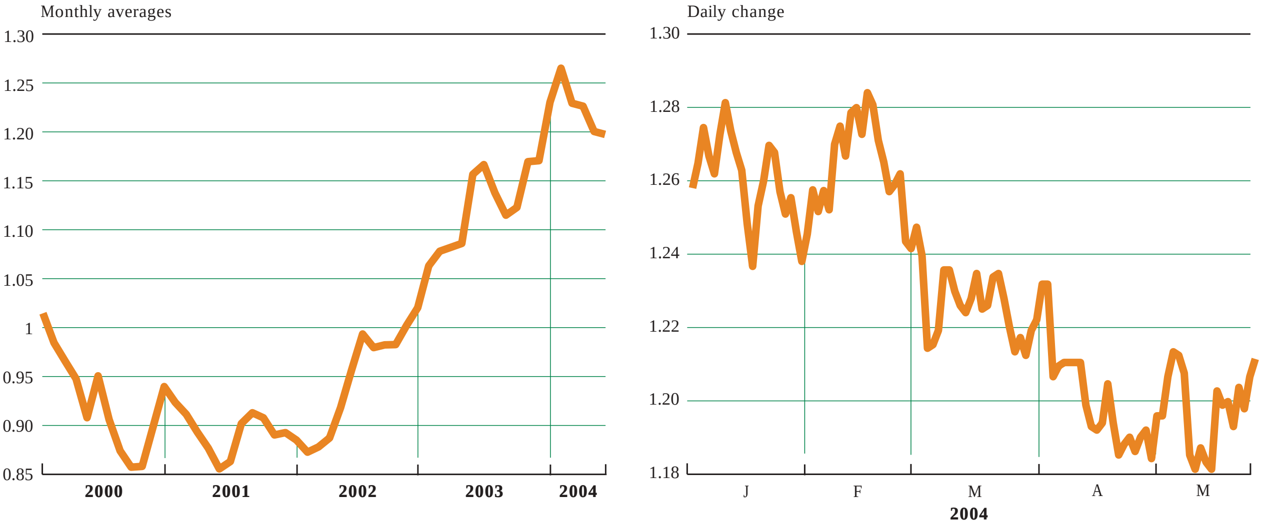
## Upward prospects on interest rates aiding dollar

*Change of scenario in interest rates raises demand for dollars as speculators deleverage positions.*

The increased prospects of an increase in reference rates by the Federal Reserve Board sustained the dollar in May. As a result, in recent weeks speculators, who all last year had borrowed in dollars to take advantage of very low interest rates and the downward trend in the exchange rate to buy more attractive financial assets, have deleveraged positions in view of the imminent rise in official interest rates in the United States. As a result, this has exercised pressure on the dollar with the increased demand for dollars to repay loans. At the middle of the month, in relation to a broad group of currencies the U.S. currency marked up its highest level since September 2003 and on May 26 it showed an appreciation of 2.9% compared with the end of 2003. Nevertheless, the massive foreign current account deficit constitutes a factor for pushing down the dollar.

EURO MARKS UP ANNUAL LOW AGAINST DOLLAR IN MAY

U.S. dollars to euro




NOTE: Figures go up to May 26. SOURCE: OECD, Thomson Financial Datastream and internal figures.

***Disappearance of hopes for rate cut by ECB helps euro.***

With the disappearance of prospects of a cut in the European Central Bank rate, in recent weeks the euro has tended to strengthen. As a result, in relation to the group of 13 main trading partners of the euro area, the single currency showed an appreciation of 2.1% on May 26 compared with the annual low recorded on April 13, In terms of the U.S. dollar, the euro swung within a band of around 1.18 and 1.21. On May 14, the euro recorded its lowest level since November 2003 to run at 1.180 dollars to the euro. It later recovered a little benefiting from the negative effect on the dollar as a result of the worsening political situation in Iraq and at the middle of the fourth week in May it was running at 1.21 dollars, a drop of 4.1% compared with the end of December 2003.

***Pound sterling marks up low for year against dollar on May 11.***

The pound sterling continued to depreciate against the dollar in the early weeks of May going to an annual low of 1.756 dollars on May 11, a drop of 7.8% compared with the high for the last eleven years recorded in mid-February and 1.6% compared with the end of 2003. Nevertheless, publication of favourable figures for the British economy and the prospect of increases in interest rates because of the rise in inflation allowed the pound to later recover.

***Bank of Japan stops intervening in foreign exchange markets.***

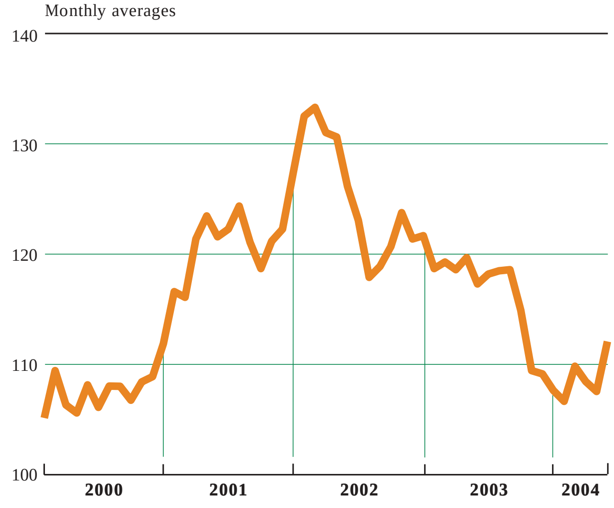
The Bank of Japan made no interventions in foreign exchange markets to avoid appreciation of the Japanese currency in April for the first time in eleven months due to the improvement in that country's economy which is coming out of a long period of deflation. Nevertheless, in the early weeks of May the yen tended to drop against the dollar and on May 13 marked up a low since September 2003 of 114.6 units to the dollar. Nevertheless, the appearance of good economic indicators, such as growth of the GDP in the first quarter, pushed the yen up to 111.8 units to the dollar in the middle of the fourth week of the month. As a result, it showed a drop of 4.1% compared with the end of December.

## EXCHANGE RATES OF MAIN CURRENCIES
April 2004

| | Final session of month | | Monthly figures | | | | *Exchange rate May 25, 2004* |
|---|---|---|---|---|---|---|---|
| | Exchange rate | % monthly change (2) | Average exchange rate | % change (2) Monthly | Over December 2003 | Annual | |
| **Against U.S. dollar** | | | | | | | |
| Japanese yen | 110.5 | 6.0 | 107.6 | –0.8 | –0.1 | –10.2 | *111.8* |
| Pound sterling (1) | 1.779 | –3.5 | 1.805 | –1.2 | 2.9 | 14.6 | *1.814* |
| Swiss franc | 1.296 | 2.3 | 1.295 | 1.4 | 2.6 | –5.9 | *1.271* |
| Canadian dollar | 1.372 | 4.8 | 1.342 | 1.0 | 2.3 | –7.9 | *1.370* |
| Mexican peso | 11.40 | 2.0 | 11.27 | 2.3 | 0.2 | 6.4 | *11.47* |
| *Nominal effective index* (4) | *116.4* | *2.7* | *115.1* | *0.7* | *0.6* | *–5.7* | *116.7* |
| **Against euro** | | | | | | | |
| U.S. dollar | 1.195 | –2.3 | 1.200 | –2.2 | –2.4 | 10.5 | *1.211* |
| Japanese yen | 131.9 | 3.9 | 129.0 | –3.1 | –2.6 | –0.9 | *135.1* |
| Swiss franc | 1.551 | –0.5 | 1.554 | –0.8 | 0.0 | 3.9 | *1.538* |
| Pound sterling | 0.674 | 1.2 | 0.665 | –0.8 | –5.3 | –3.5 | *0.666* |
| Swedish krona | 9.148 | –1.2 | 9.165 | –1.0 | 1.5 | 0.1 | *9.111* |
| Danish krone (3) | 7.441 | –0.0 | 7.444 | –0.1 | 0.0 | 0.2 | *7.440* |
| *Nominal effective index* (5) | *101.9* | *0.1* | *101.2* | *–1.8* | *–2.8* | *2.6* | *102.5* |

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 ±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: I-1999 = 100.
SOURCE: Thomson Financial Datastream and internal figures.

## YEN SHOWS SWINGS AGAINST DOLLAR
Yen to dollar

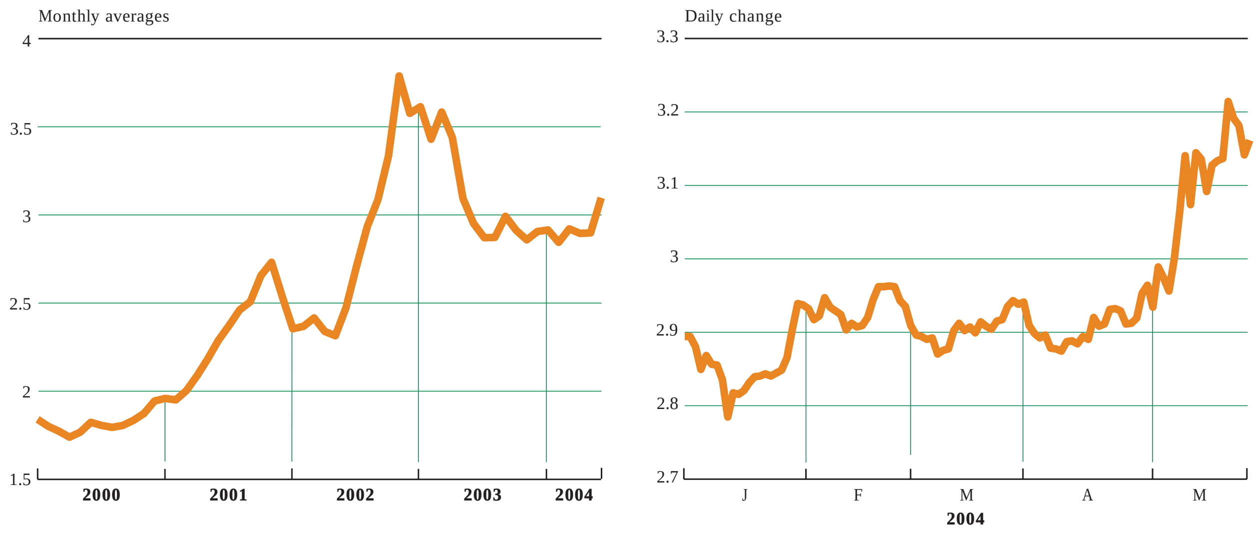




NOTE: Rates go up to May 26. SOURCE: OECD, Thomson Financial Datastream and internal figures.

BRAZILIAN REAL WEAKENS

Brazilian real to dollar




NOTE: Rates go up to May 26. SOURCE: Thomson Financial Datastream and internal figures.

***Prospects of early rise in U.S. interest rates and possible slowdown in Chinese economy hurt Latin American currencies.***

Prospects of an early rise in U.S. interest rates have had a negative effect on Latin American currencies and many currencies in the area recorded annual lows in May. The reasons for this are a reduced ability to attract foreign capital and the increase in the cost of their debt expressed in dollars at variable interest rates. At the same time, the possible slowdown of the Chinese economy, which imports raw materials from Latin America, also had an unfavourable effect. Within this framework, there are fears that the situation occurring in 1994 could be repeated, a year when the increase in interest rates in the United States brought recession to the area. Nevertheless, on this occasion the Latin American economies are generally in better shape. However, the currencies of the area tended to depreciate in the early weeks of May. There was a notable drop in the Brazilian real under the impact of the political problems of the government of President Lula da Silva. After marking up a low against the dollar for the past 13 months, the real went to 3.16 units to the dollar on May 26 to show a depreciation of 8.3% since the end of March.

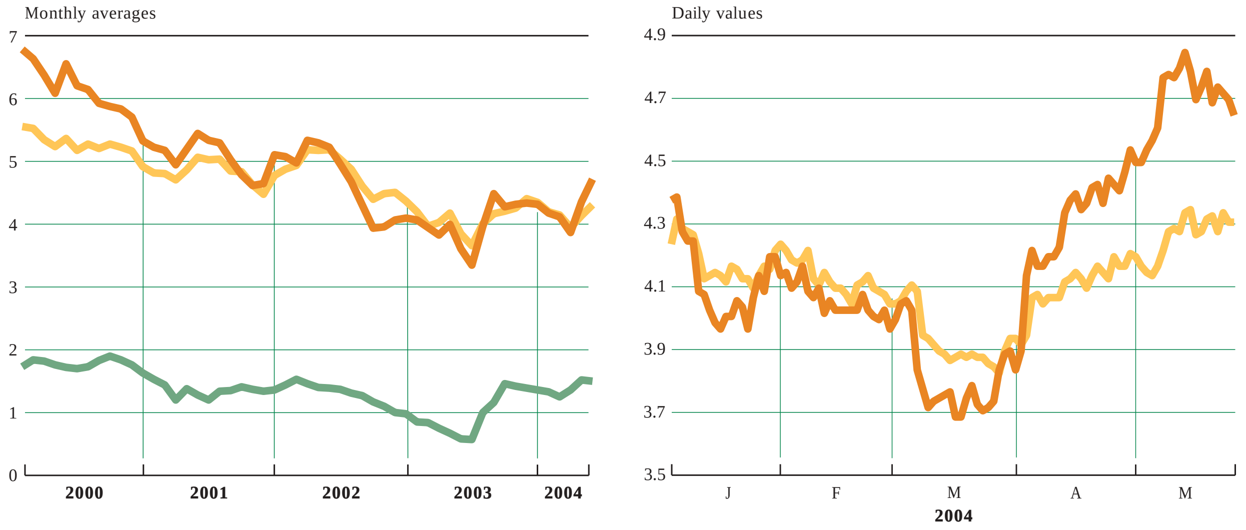
## Long-term interest rates moving up

***Yield on U.S. 10-year Treasury bonds goes up 117 basis points in two months...***

The yield on U.S. Treasury bonds continued to rise in the early weeks of May boosted by growing prospects of inflation due to the rise in oil prices and those of other raw materials and the subsequent bringing forward of the prospect of an increase in the official interest rate by the Federal Reserve Board. As a result, the yield on U.S. 10-year Treasury bonds moved up to 4.85% on May 13, the highest level since July 2002 and an increase of 117 basis points over the annual low in mid-March. Later on, the interest rate on 10-year government bonds dropped slightly thanks to shifts of funds from the stock market and weaker than expected economic figures which put the rate at 4.65% in the middle of the fourth week of May.

INCREASED YIELDS ON GOVERNMENT BONDS CONTINUE

Yield on 10-year government bonds as annual percentage




NOTE: Rates go up to May 26.
SOURCE: Bank of Spain and Thomson Financial Datastream.

***...starting out from levels not justified by fundamentals.***

The sharp rise in yield on U.S. government bonds since mid-May has caused concern that there could be a repetition of the 1994 crisis in the event of a restrictive move by the Federal Reserve Board. Nevertheless, in this case the next increase in the U.S. official interest rate will come as no surprise. On the other hand, while the end of interventions by the Bank of Japan in foreign exchange markets represents a negative factor for the U.S. Treasury bond market to the extent that it reduces demand for dollars, other Central Asian banks are currently giving it notable support. In any case, a rise in yields on public bonds was logical in view of the massive government deficit and recovery of the economy.

***Increase in long-term interest rate differentials between United States and Germany.***

European government bonds followed in the wake of similar bonds on the other side of the Atlantic. Nevertheless, the interest rate on European bonds rose to a lesser extent given that the economic recovery in the euro area is much less established. The yield on German government bonds rose to 4.35% on May 14, the highest level since December 2003 and an increase of 41 basis points compared with 12 months earlier. As a result, the differential between interest rates on long-term government bonds between the United States and Germany stood at 34 basis points on May 26.

***Yield on Japanese bonds eases in May.***

On the other hand, after have marked up a high for the past seven months at 1.56% on April 21, the interest rate on Japanese government bonds tended downward. The shift of funds from the stock market contributed to this correction. As a result, the yield on Japanese 10-year government bonds stood at 1.46% at the middle of the fourth week in May, a rise of 91 basis points above one year earlier.

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. | 1st Qtr. | April | May 26 |
| United States | 5.06 | 4.65 | 3.64 | 4.26 | 4.32 | 4.05 | 4.35 | 4.65 |
| Japan | 1.34 | 1.27 | 0.60 | 1.20 | 1.38 | 1.30 | 1.51 | 1.46 |
| Germany | 4.82 | 4.80 | 3.89 | 4.12 | 4.33 | 4.09 | 4.13 | 4.31 |
| France | 4.95 | 4.88 | 3.94 | 4.13 | 4.35 | 4.11 | 4.20 | 4.45 |
| Italy | 5.19 | 5.04 | 4.03 | 4.25 | 4.46 | 4.24 | 4.35 | 4.51 |
| Spain | 5.12 | 4.96 | 3.92 | 4.14 | 4.34 | 4.12 | 4.20 | 4.30 |
| United Kingdom | 4.97 | 4.93 | 4.25 | 4.55 | 4.98 | 4.83 | 5.00 | 5.11 |
| Switzerland | 3.28 | 3.02 | 2.34 | 2.57 | 2.68 | 2.46 | 2.64 | 2.75 |

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

***Upset in bond markets of emerging countries.***

The rising aversion to risk in recent weeks because of increasing possibilities of an increase in rates by the U.S. Federal Reserve Board has wreaked havoc mainly in markets for bonds of emerging countries and high-yield bonds. The withdrawal of investors from these markets signified the end of some upward stages and meant a subsequent increase in risk premiums, especially in the case of bonds of emerging countries. As a result, many companies on both sides of the Atlantic have had to postpone plans for bond issues or to improve their terms.

## Downward trend in stock markets in May

***Rise in bond interest rates, high oil prices and worsening situation in Iraq have negative effect on stock markets…***

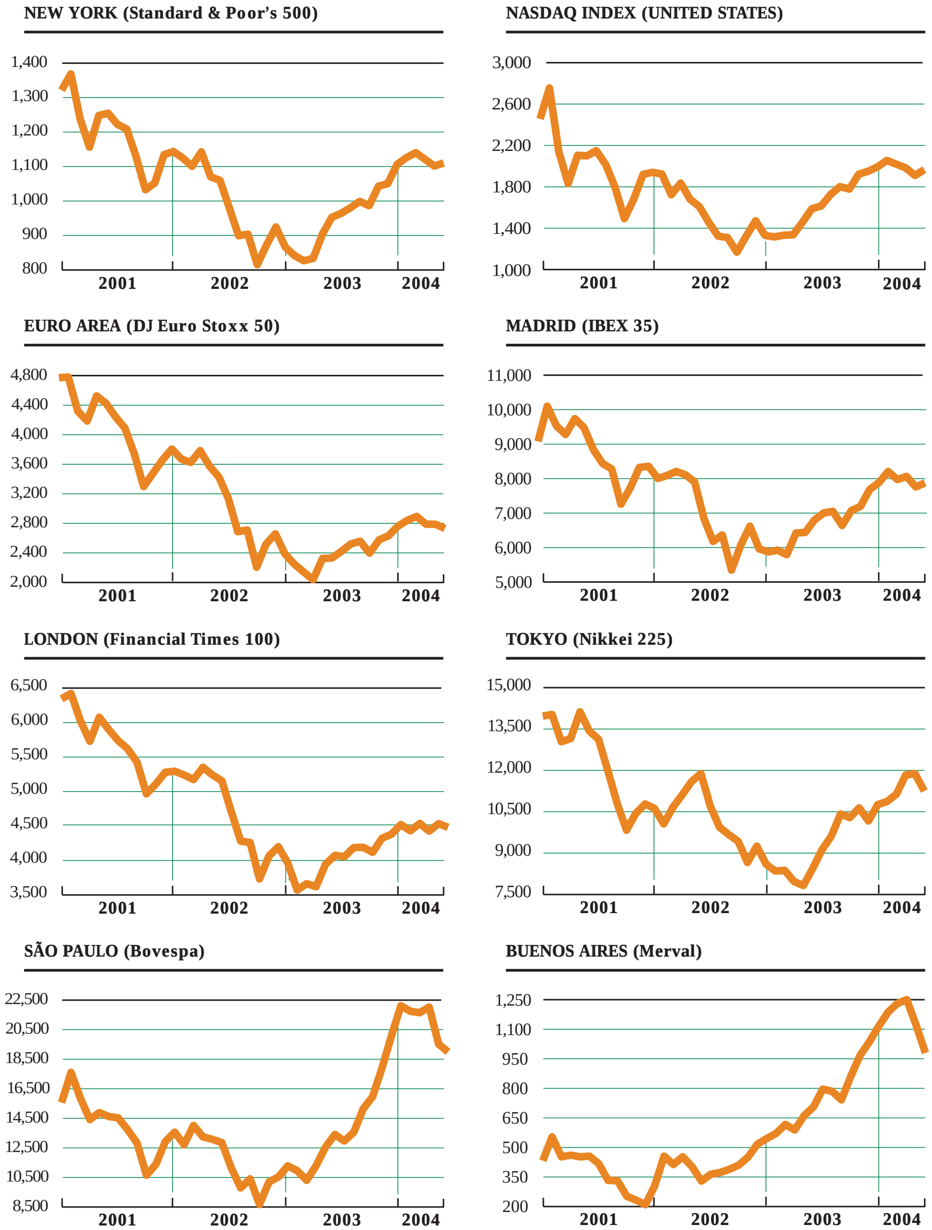
In recent weeks nervousness has again taken hold of the stock markets. On top of growing expectations of an early rise in U.S. official interest rates and an increase in long-term government bond rates comes the worsening of the situation in Iraq, with increased geopolitical risk, and the rise in oil prices, which could have a negative impact on growth. These unfavourable factors had a negative effect on the stock markets, many of which marked up annual low levels in May. Nevertheless, hope of a possible increase in oil production by OPEC contributed to some recovery of the stock markets toward the end of the third week in May. The impact on the various sectors was quite uneven. Among the most hurt were the airline and the motor vehicle sector. On the other hand, the oil companies came off better.

***…in spite of favourable corporate results.***

The state of affairs in U.S. markets in the early weeks off May was poor in spite of the fact that corporate profits for the first quarter have generally been excellent along with the increase in prospects for the year as a whole. As a result, at the middle of the fourth week in May a number of indices had lost par for the year. The Standard Poor's 500 index showed a slight increase over December of 0.3%. The traditional Dow Jones Industrials index was down by 3.3% compared with the end of 2003 and the general Nasdaq index, which is representative of hi-tech shares, stood 1.4% below the end of last year.

*Recovery of stock markets interrupted in April and May.*

INTERNATIONAL STOCK EXCHANGES
Indices at month-end




NOTE: May 26, 2004. SOURCE: Thomson Financial Datastream.

*Many indices lose par for year...*

Stock markets in the euro area also moved down. The DJ Eurostoxx 50 fell by 2.1% in the first 26 days of May so that the cumulative gains for the year evaporated and losses rose to 1.1%. In any case, the balance compared with the same date in 2003 stood at a considerable 21.7%. It should be pointed out that the indices for some European markets, such as the French, Italian and Spanish markets, managed to hold above par for the year at the end of the third week in May.

## INDICES OF MAIN WORLD STOCK EXCHANGES

April 30, 2004

| | Index (*) | % monthly change | % cumulative change | % annual change | Figures on May 26, 2004 % cumulative change | % change over same date in 2001 |
|---|---|---|---|---|---|---|
| New York | *10,225.6* | *–1.3* | *–2.2* | *20.6* | *–3.3* | *–8.1* |
| *Dow Jones* | *1,107.3* | *–1.7* | *–0.4* | *20.8* | *0.3* | *–12.8* |
| *Standard & Poor's* | *1,920.2* | *–3.7* | *–4.2* | *31.1* | *–1.4* | *–12.2* |
| *Nasdaq* | 11,761.8 | 0.4 | 10.2 | 50.2 | 4.5 | *–19.0* |
| Tokyo | 4,489.7 | 2.4 | 0.3 | 14.4 | –0.9 | *–24.6* |
| London | 2,787.5 | 0.0 | 1.0 | 19.9 | –1.1 | *–39.3* |
| Euro area | *3,985.2* | *3.3* | *0.5* | *35.5* | *–2.5* | *–37.9* |
| *Frankfurt* | *3,674.3* | *1.4* | *3.3* | *24.4* | *2.9* | *–34.4* |
| *Paris* | *341.4* | *0.7* | *1.1* | *20.8* | *–0.9* | *–43.3* |
| *Amsterdam* | *1,315.9* | *2.7* | *4.7* | *18.2* | *2.3* | *–26.9* |
| *Milan* | *8,109.5* | *1.1* | *4.8* | *25.0* | *2.4* | *–16.3* |
| *Madrid* | 5,774.4 | 2.8 | 5.2 | 27.1 | 3.4 | *–26.1* |
| Zurich | 11,943.0 | –5.8 | –5.0 | 37.0 | –7.0 | *–15.0* |
| Hong Kong | 1,077.9 | –10.3 | 0.6 | 69.5 | –12.1 | *113.8* |
| Buenos Aires | 19,607.0 | –11.4 | –11.8 | 56.2 | –14.2 | *33.3* |
| São Paulo | | | | | | |

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.

***...with notable exceptions, such as the Japanese market...***

Outside the euro area, the Nikkei 225 index for the Japanese stock market lost 5.2% in the first three and a half weeks in May. In any case, it still managed to show capital gains of 4.5% compared with December and 35.5% compared with the same date last year. On May 26, the Financial Times 100 index for the London stock exchange stood 0.9% below the beginning of the year. On the other hand, the SMI index for the Swiss stock exchange obtained more positive results of 3.4% compared with the end of 2003.

***...and Spanish stock market.***

With regard to the Spanish stock market, the IBEX 35 index recorded an annual low of 7,671.9 points on May 17. Nevertheless, while it could not get back up to 8,000, at the end of the first three and a half weeks of May it showed cumulative gains of 2.4% over December 2003. In the past twelve months this index has marked up spectacular capital gains of 25.1%. With reference to the end of 2003, on May 26 nine shares out of the 35 making up the selective index were in the red.

***Many emerging stock markets suffer blows.***

With regard to emerging stock markets, the blow in recent weeks has been considerable. Asian stock markets took the announcement of a possible slowdown in the Chinese economy quite badly because of what it meant for exports of raw materials to that country. Furthermore, the Indian market reacted unfavourably in the face of uncertainty about the change of government following the recent elections. The Russian stock market reacted to the assassination of the president of Chechnya and showed a sharper drop although it later recovered to some degree. Finally, Latin American markets were the most hurt. The Bovespa index in Brazil fell by 6.7% in the first three weeks of May although it recovered at the beginning of the fourth week in the month. In any case, it showed capital losses of 14.2% compared with December. The Merval index for the Buenos Aires stock exchange fell by 12.6% in the first 26 days of May and 12.1% compared with the end of 2003. On the other hand, the Mexican stock exchange obtained cumulative capital gains of 14.4% for the year thanks to its close relations with the U.S. economy.

# SPAIN: OVERALL ANALYSIS

## ECONOMIC ACTIVITY

### Spain's economy grows by 2.8% in first quarter

***GDP growth up slightly in first quarter.***

The gross domestic product (GDP) grew by 2.8% at year-to-year rate in the first quarter of 2004, according to figures adjusted for seasonal effects and number of working days published by the National Institute of Statistics. This figure, which is one decimal higher than for the previous quarter, confirms the gradual recovery as of the second half of 2002.

***Domestic demand compensates for growth of foreign imbalance.***

The better state of the economy in the first quarter came from the strength of domestic demand which continued to grow at a high rate, thanks to final consumption and the progressive recovery of gross capital formation. The strength of domestic demand had its counterpart in the performance in the foreign sector which increased its negative contribution to growth to one percentage point.

***Household consumption gradually improving and public consumption stabilizes but still growing by more than 4%.***

Recovery of final consumption, which moved up to 3.6% year-to-year, came as a result of the performance in private consumption seeing that both public consumption and that of non-profit institutions held relatively stable although at high levels of above 4.5% real. Household spending was up two decimals to 3.2% year-to-year, thanks to growth of employment, which was stable at 2.1% in terms of jobs equivalent to full-time work and the increase in real wages per worker, all in a context of sharp growth of credit.

***Progressive gradual improvement in capital goods demand and stable growth rate in construction.***

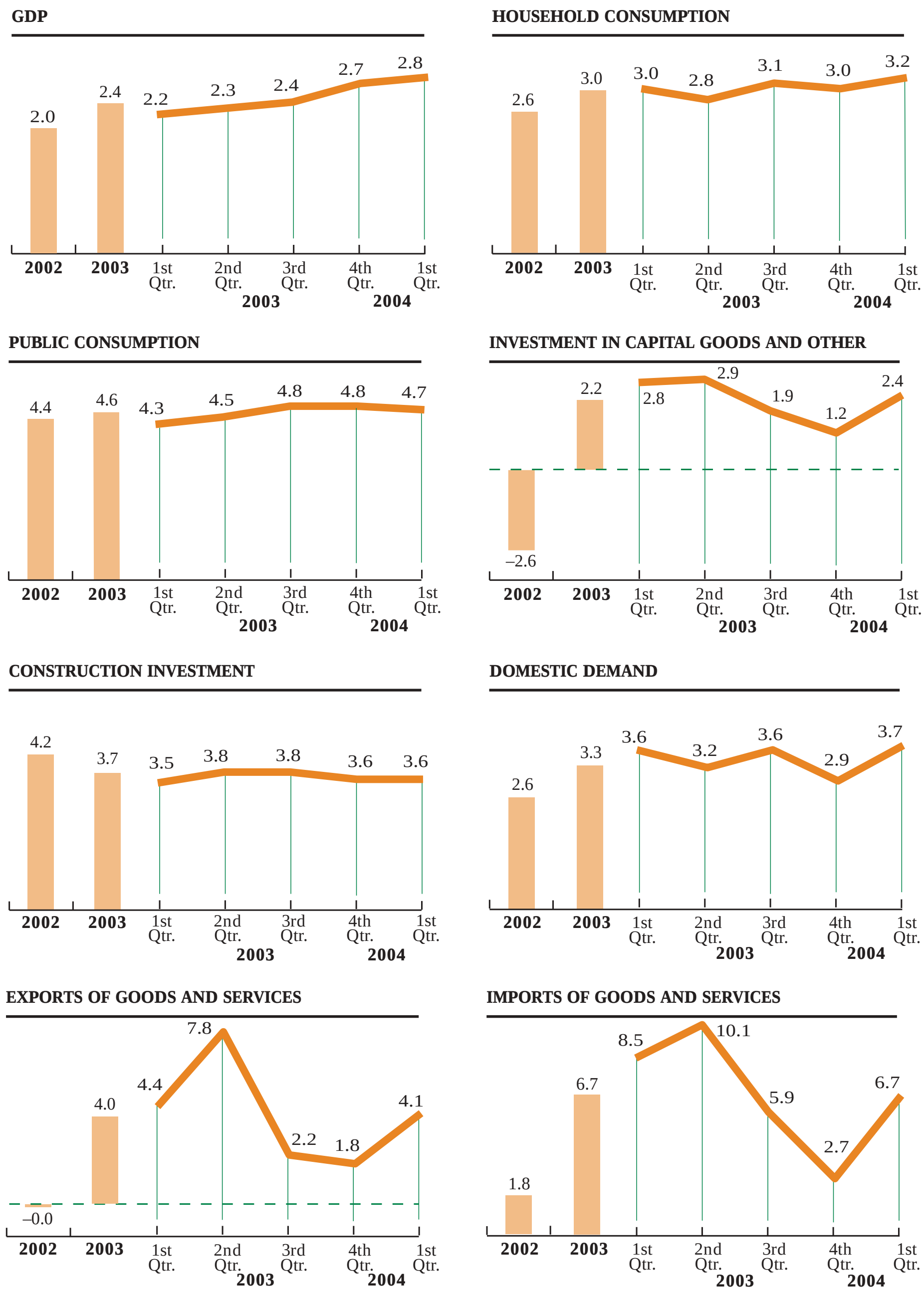
The growth profile of gross fixed capital formation reflects the recovery of investment which held at moderate yet positive levels with growth of 1.6% in capital goods and 3.8% in other products (additions to fixed assets other than machinery and wheeled vehicles). Spending on construction, on the other hand, stabilized growth at the figure of 3.6% already seen in the preceding quarter.

***Exports of services set weak role of foreign sector.***

The unfavourable balance in the foreign sector was mainly due to increased growth of imports over exports which was adversely affected by the poor performance in exports of services which, for the third consecutive quarter, showed a decrease in year-to-year rate. Imports were up 6.7% real due largely to the notable growth in imports of goods given that imports of services were stable.

### TREND IN SPAIN'S GDP BY COMPONENT

Year-to-year change rate (*)




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

***Sustained recovery in services, slight recovery in industry and high stable growth in construction.***

On the supply side, figures for the first quarter confirm the gradually upward profile of industry, although within very modest levels. In addition, we also note some recovery of market services which showed an increase in growth rate to 3.3% in contrast to non-market services which eased to 3.5%. Construction, in turn, continued its positive performance but along the line of stability seen in preceding quarters. Finally, there was notable strength showing in the primary sector with growth of 4.7%.

## GDP: SUPPLY COMPONENTS

Gross figures corrected for seasonal effects and number of working days

| | Million euros (current prices) | Year-to-year growth rates in constant terms (*) | | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2003 | | | | 2004 |
| | 2003 | 2003 | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | 4th Qtr. | 1st Qtr. |
| Farm and fishing branches | 22,187 | 0.7 | –1.6 | –0.6 | 0.9 | 4.2 | 4.7 |
| Energy branches | 21,081 | 1.4 | 0.3 | 1.6 | 2.6 | 1.0 | –0.7 |
| Industrial branches | 109,514 | 1.3 | 2.5 | 1.7 | 0.2 | 0.7 | 1.5 |
| Construction | 67,277 | 3.6 | 3.4 | 3.7 | 3.8 | 3.5 | 3.5 |
| Services branches | 448,732 | 2.1 | 1.7 | 1.6 | 2.5 | 2.7 | 3.4 |
| *Market services* | *349,584* | *1.8* | *1.5* | *1.2* | *2.2* | *2.4* | *3.3* |
| *Non-market services* | *99,148* | *3.3* | *2.5* | *3.0* | *3.7* | *3.9* | *3.5* |
| Net tax on products | 74,255 | 6.8 | 6.6 | 9.3 | 5.5 | 5.7 | 1.7 |
| **GDP at market prices** | **743,046** | **2.4** | **2.2** | **2.3** | **2.4** | **2.7** | **2.8** |

NOTES: (*) Base year: 1995.
SOURCE: National Institute of Statistics.

***Wages per worker up 1.6% in real terms in first quarter while unit labour costs grow by 3.5%.***

From an incomes point of view, total wages of workers showed more moderate growth going down to 6.6% compared with the preceding quarter because of loss strength in wage employment. Wages per worker improved by two decimals moving up to 4.4% nominal, equivalent to 1.6% real, in view of the consumer deflator for households. Mixed incomes and gross operating surplus showed an opposite performance with growth increasing appreciably to 7.9%. In addition, unit labour cost held stable at 3.5% as seen in the two previous quarters.

## Economic activity indicators: domestic demand continues to drive growth

***Spain's economy holding sustained growth rate.***

Spain's economy moved into the second quarter at a growth rate similar to that noted in preceding months. This is indicated, for example, by electrical power consumption (something closely linked to the rate of general economic activity) which shows stable growth in the last three months close to 4.0% in cycle-trend terms. From a broad perspective, consumption and construction continue to show considerable strength while investment in capital goods is also tending to rise. In order to complete the picture, it is to be hoped that in the immediate future the foreign sector can reduce its negative contribution to GDP growth to the extent that recovery in the European economy becomes firm seeing that EU economy is the recipient of 70% of all Spain's exports.

***Immediate prospects are favourable so long as present pressures on oil prices are resolved...***

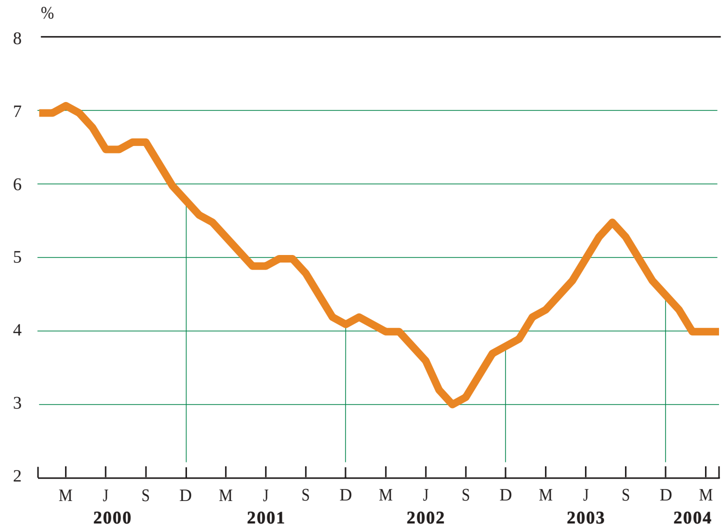
There are, however, some clouds hanging over the above picture. The rise in the price of oil constitutes a definite reason for concern, if we take into account the heavy dependence of Spain's economy on this form of energy. In fact, if the present level of prices were to be maintained over a long period of time, the impact on inflation and the readjustment of consumer spending could weaken the present bases of the growth of Spain's economy. For the moment, however, prospects remain favourable, as is confirmed by the increase in the industrial production index for

*...with a reasonable period.*

March (4.0% year-to-year, adjusted for number of working days), following the poor growth recorded in the past three years.

GROWTH OF ELECTRICAL POWER CONSUMPTION STABILIZES

Year-to-year change in electrical power consumption




NOTE: Cycle-trend series corrected for number of working days and temperature.
SOURCE: Red Eléctrica Española, Ministry of Economy and internal figures.

*Industrial sector showing up better although with notable disparities in some branches.*

In the first quarter, the most dynamic branches of industry were those related to publishing, the rubber industry, metallurgy, machine building and electrical equipment, with average growth running between 6% and 8% compared with the same period last year. On the opposite side of the coin, a sharp decrease was reported in the manufacture of data-processing equipment (37.8%) and more moderate drops in tobacco production, the leather industry and electronics (between 11% and 13%).

*Construction holding firm but tending to moderate growth rate...*

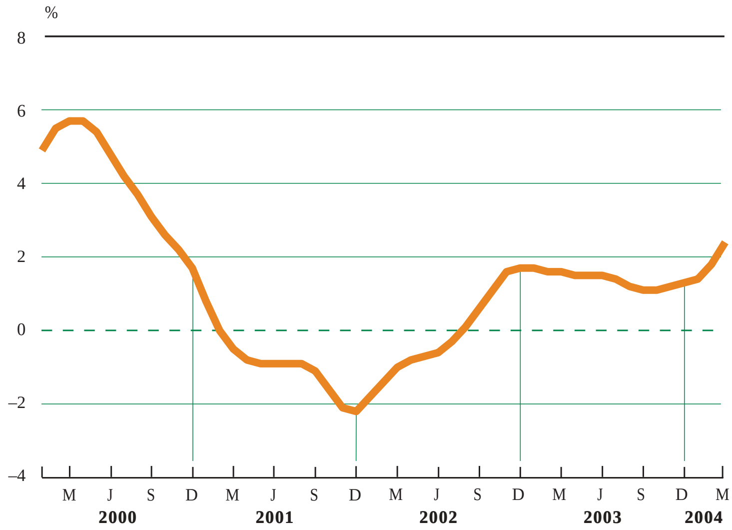
As indicated earlier, construction continues to show considerable strength although the background trend shown by the main indicators would point to a gradual slowing down. This is the case, for example, in cement consumption which, while growing at a notable rate in the first three months (5.1% year-to-year) is showing a downward profile in terms of cycle-trend. In the same direction, the number of housing units in terms of new construction approved has gone down significantly in year-to-year growth rate (2.5% as of February) in contrast to the high rates noted in preceding months.

*...according to trend in main sector indicators.*

On the other hand, government tendering, which showed some weakness in the second half of 2003, recovered a stronger pace in the early months of 2004 with an increase of 11.1% year-to-year as of March. In addition, sector confidence improved appreciably in March and April going above 10 points, thus recovering from the dip it suffered at the beginning of the year.

### IMPROVED STATE OF INDUSTRIAL PRODUCTION

Year-to-year change in industrial production index




NOTE: Cycle-trend series corrected for number of working days.
SOURCE: National Institute of Statistics and internal figures.

### SUPPLY INDICATORS

Percentage change over same period year before

| | 2002 | 2003 | 2003 | | | | 2004 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | 4th Qtr. | January | February | March | April |
| **Industry** | | | | | | | | | | |
| Electricity consumption (1) | 3.8 | 4.8 | 4.0 | 4.7 | 6.1 | 4.7 | 4.5 | 2.0 | 5.0 | 3.9 |
| Industrial production index (2) | 0.2 | 1.4 | 1.5 | 1.7 | 1.1 | 1.2 | –0.8 | 1.7 | 4.0 | ... |
| Confidence indicator for industry (3) | –5.7 | –0.9 | 1.0 | –1.0 | –1.3 | –2.3 | –4.0 | –2.0 | –3.0 | –1.0 |
| Utilization of production capacity (4) | 78.5 | 79.1 | 78.6 | 77.5 | 79.7 | 80.6 | – | – | – | – |
| Imports of non-energy intermediate goods (5) | 6.4 | 3.3 | 10.6 | 7.8 | –0.1 | –3.7 | 1.9 | –7.3 | ... | ... |
| **Construction** | 4.7 | 4.8 | 3.9 | 5.1 | 4.5 | 5.7 | 3.1 | 6.0 | 5.9 | –1.6 |
| Cement consumption | | | | | | | | | | |
| Confidence indicator for construction (3) | 5.3 | 10.5 | 14.0 | 10.0 | 10.3 | 7.7 | 2.0 | 5.0 | 12.0 | 10.0 |
| Housing (new construction approvals) | 4.3 | 21.4 | 23.9 | 21.7 | 14.1 | 26.0 | –5.8 | 10.3 | ... | ... |
| Government tendering | 13.0 | –10.9 | 56.7 | 25.2 | –31.5 | –50.3 | –15.4 | 94.9 | –4.0 | ... |
| **Services** | | | | | | | | | | |
| Retail sales | 5.7 | 5.7 | 5.6 | 5.9 | 5.0 | 6.1 | 6.2 | 6.7 | 7.1 | ... |
| Foreign tourists | 4.5 | –0.1 | –2.7 | 5.0 | –3.0 | 1.3 | 6.9 | 10.5 | 0.1 | –0.2 |
| Tourist revenue inflows | –2.9 | 3.7 | 0.3 | 7.5 | 3.9 | 2.3 | 4.4 | 6.2 | ... | ... |
| Goods carried by rail (km-tonnes) | –0.7 | 1.7 | 0.7 | –2.6 | 5.8 | 3.0 | –0.8 | 7.0 | 12.9 | ... |
| Air passenger traffic | –1.1 | 7.4 | 4.6 | 8.3 | 7.7 | 8.5 | 7.4 | 15.5 | 10.1 | 6.9 |
| Motor vehicle diesel fuel consumption | 6.2 | 7.9 | 10.3 | 8.5 | 7.2 | 6.0 | 4.3 | 7.6 | ... | ... |

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.

*Information technology and communications and retail trade are among most dynamic activities in services sector.*

With regard to services, we generally note a very favourable situation, if we are to go by the trend in indices for volume of business in the sector prepared by the National Institute of Statistics. The highest growth rates show up in activities related to information technology and communications and the retail sector (5.6% and 5.3% respectively as of February), which were relatively stable in the first case and with a tendency to increase in the latter. The transport sector also recorded high growth (4.8%) but has been showing less strength in recent months. Air passenger transport reported a strong growth rate (9.8% as of April), which was much higher than for other modes, according to the trend in the respective indicators.

*Foreign tourism shows effects of March 11 terrorist attacks but domestic tourism maintaining positive levels.*

Growth rates of indices showing business volume for tourism and company services were somewhat more moderate (4.2% and 3.7% respectively as of February). Nevertheless, in March and April indicators for foreign tourism showed a discreet figure (the number of tourists was practically stagnant and hotel overnight stays fell by close to 4.1% on average compared with the same period last year) probably due to the effect of the terrorist attack in Madrid on March 11. On the other hand, domestic tourism maintained a very positive level with an increase in hotel overnight stays of the order of 8.0%.

DEMAND INDICATORS

Percentage change over same period year before

| | 2002 | 2003 | 2003 | | | | 2004 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | 4th Qtr. | January | February | March | April |
| **Consumption** | | | | | | | | | | |
| Production of consumer goods (*) | 2.4 | 0.2 | 0.5 | 1.8 | 0.3 | –1.7 | –2.6 | –0.7 | 2.9 | ... |
| Imports of consumer goods (**) | 5.0 | 10.0 | 7.9 | 10.3 | 12.6 | 8.9 | 16.1 | 20.7 | ... | ... |
| Car registrations | –6.6 | 3.8 | –5.7 | 3.6 | 7.5 | 10.3 | 9.1 | 22.5 | 28.1 | 4.0 |
| 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 | –8.0 |
| **Investment** | | | | | | | | | | |
| Capital goods production (*) | –4.9 | 0.5 | 0.3 | 0.5 | –2.2 | 3.2 | 0.1 | 1.5 | 2.1 | ... |
| Imports of capital goods (**) | –5.8 | 16.8 | 10.6 | 22.6 | 26.2 | 9.9 | 16.3 | 21.2 | ... | ... |
| Commercial vehicle registrations | –6.0 | 13.5 | 15.8 | 10.6 | 16.3 | 11.9 | 7.4 | 14.9 | 21.2 | 11.2 |
| **Foreign trade** (**) | | | | | | | | | | |
| Non-energy imports | 3.7 | 7.4 | 9.9 | 11.0 | 7.6 | 2.1 | 8.2 | 4.3 | ... | ... |
| Exports | 1.4 | 6.2 | 5.9 | 11.1 | 4.6 | 3.3 | 5.7 | 7.3 | ... | ... |

NOTES: (*) Corrected for difference in number of working days.
(**) By volume.
(***) European Commission survey: difference between percentage of positive and negative replies.
SOURCE: ANFAC, National Institute of Statistics, Bank of Spain, Ministry of Economy, European Commission and internal figures.

*Strength of consumption reflected in trend in retail sales...*

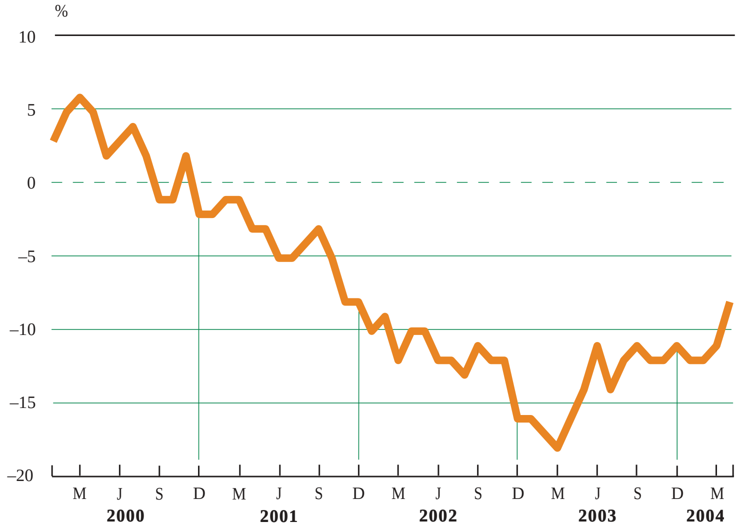
On the demand side, we note a continuation of the sustained increase in consumption. One definite sign of this is the trend in the retail sales index which in the first quarter showed an increase in year-to-year growth going to 5.1% in real terms (that is, discounting inflation) as against 3.9% in the previous quarter. Following the trend in recent months, growth came mainly from the strength in the segment made up of non-food articles (7.5% increase) as opposed to the more moderate growth rate under the food heading (1.7%).

*...and passenger car registrations...*

April brought some easing in the growth rate of passenger car registrations (4.0% compared with the same month in 2003). This result compensated the high growth the month before which apparently was due to the effect of earlier sales brought about by the timing of the Easter Week holidays in the early days of April. Average growth in the first four months of the year rose to 16.1%, which was substantially higher than that recorded in preceding periods.

IMPROVEMENT IN CONSUMER CONFIDENCE

Difference between percentage of positive and negative replies




SOURCE: European Commission.

*...in context of gradual improvement in consumer confidence.*

In a more general sense, we note the upward growth profile of availabilities of consumer goods in a context of improved consumer confidence. The figure for the indicator measuring this sentiment dropped to -8 points in April, the most favourable since January 2001, according to the results of the survey conducted by the European Commission.

*Domestic production recovering and rise in capital goods imports.*

With regard to capital goods investment, the corresponding indicator of availabilities is showing a profile of sharp growth, tending to moderate its downward orientation with respect to that obtained in preceding months. To be specific, imports of goods of this type continued to grow at a very strong rate (18.9% year-to-year as of February) while domestic production is beginning to give off signs of recovery.

## Positive results in motor vehicle sector in 2003

**_World production of motor vehicles up by 2.9% in 2003 because of strength in Asia and despite decline in United States._**

The motor vehicle industry ended 2003 with a positive balance. World production of passenger cars, light and heavy commercial vehicles and buses rose by 2.9% to reach 60.66 million units, according to figures from the International Car Manufacturers Organization. This increase was practically entirely due to the drive in the sector in Asia with the help of the Chinese industry which was responsible for more than 4.4 million units with growth of 35.2%, and the rise in production in India in spite of its modest relative share. The year was also favourable in Eastern Europe but not in the European Union (EU) where production was down slightly. In the United States, Canada and especially in Mexico the results were worse than in the EU.

### WORLD MOTOR VEHICLE AND PASSENGER CAR PRODUCTION
2003

| | Motor vehicles (*) | | | Passenger cars | | |
|---|---|---|---|---|---|---|
| | Units | % of total | % annual change | Units | % of total | % annual change |
| **Europe** (**) | **20,189,264** | **33.3** | **1.3** | **17,428,504** | **41.4** | **0.5** |
| European Union | 16,915,527 | 27.9 | –0.4 | 14,733,732 | 35.0 | –0.8 |
| *Germany* | *5,506,629* | *9.1* | *0.7* | *5,145,403* | *12.2* | *0.4* |
| *France* | *3,620,056* | *6.0* | *–2.2* | *3,220,329* | *7.6* | *–2.2* |
| *Spain* | *3,029,690* | *5.0* | *6.1* | *2,399,238* | *5.7* | *5.8* |
| *United Kingdom* | *1,846,429* | *3.0* | *1.3* | *1,657,558* | *3.9* | *1.7* |
| *Italy* | *1,321,631* | *2.2* | *–7.4* | *1,026,454* | *2.4* | *–8.8* |
| *Other EU* | *1,591,092* | *2.6* | *–7.1* | *1,284,750* | *3.1* | *–9.3* |
| Central and Eastern Europe | 2,740,065 | 4.5 | 5.6 | 2,400,656 | 5.7 | 5.3 |
| *ex-URSS* | *1,364,358* | *2.2* | *6.2* | *1,069,315* | *2.5* | *4.8* |
| *Czech Republic* | *441,719* | *0.7* | *–1.2* | *436,297* | *1.0* | *–1.1* |
| *Poland* | *299,918* | *0.5* | *0.3* | *285,372* | *0.7* | *3.5* |
| **American hemisphere** | **18,206,424** | **30.0** | **–2.5** | **8,244,773** | **19.6** | **–8.2** |
| *United States* | *12,077,726* | *19.9* | *–1.6* | *4,509,565* | *10.7* | *–10.1* |
| *Canada* | *2,546,124* | *4.2* | *–3.2* | *1,339,607* | *3.2* | *–2.2* |
| *Mexico* | *1,585,914* | *2.6* | *–12.1* | *780,619* | *1.9* | *–18.7* |
| *Brazil* | *1,827,038* | *3.0* | *2.0* | *1,504,998* | *3.6* | *–1.0* |
| *Argentina* | *169,622* | *0.3* | *6.4* | *109,784* | *0.3* | *–1.4* |
| **Asia** | **21,901,869** | **36.1** | **9.4** | **16,201,593** | **38.5** | **9.3** |
| *Japan* | *10,286,318* | *17.0* | *0.3* | *8,478,328* | *20.1* | *–1.6* |
| *China* | *4,443,686* | *7.3* | *35.2* | *2,018,875* | *4.8* | *83.3* |
| *South Korea* | *3,177,870* | *5.2* | *1.0* | *2,767,716* | *6.6* | *4.4* |
| *India* | *1,160,525* | *1.9* | *29.7* | *906,851* | *2.2* | *28.8* |
| *Rest of Asia-Pacific* (***) | *2,833,470* | *4.7* | *16.7* | *2,029,823* | *4.8* | *15.9* |
| **Africa** | **360,579** | **0.6** | **4.4** | **242,193** | **0.6** | **5.8** |
| **TOTAL** | **60,658,136** | **100.0** | **2.9** | **42,117,063** | **100.0** | **1.8** |

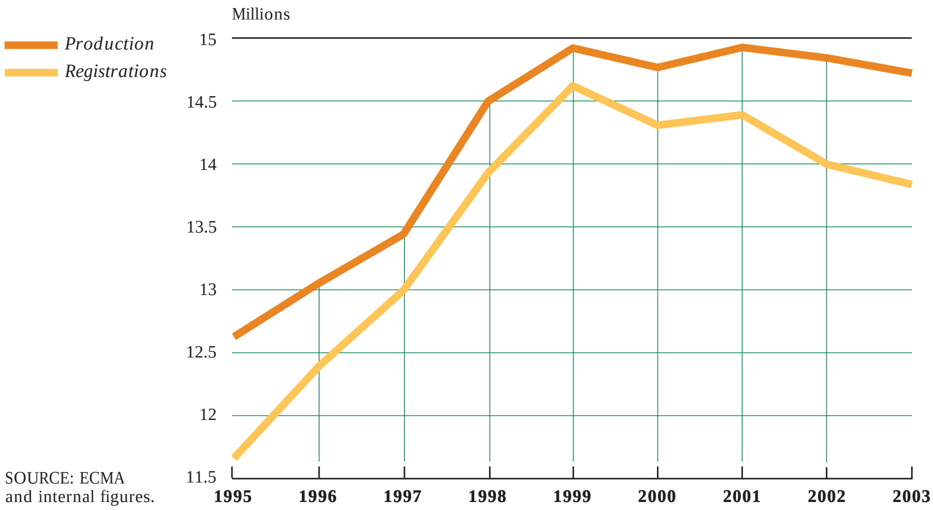
NOTES: (*) Includes cars, light and heavy commercial vehicles and buses.
(**) Includes Turkey.
(***) Australia, Indonesia, Iran, Malaysia, Taiwan and Thailand.
SOURCE: International Car Manufacturers Association and internal figures.

**Passenger car production up 1.8% going above 42 million units.**

World production of passenger cars also grew although less sharply (1.8%) reaching a total of 42.12 million units. By region, the biggest growth took place in the Asia-Pacific area with growth of 9.3% thanks to the fact that China practically doubled its production going above two million units. Japan, with more than eight million passenger cars, gave some ground compared with the year before. In the United States there was a sharp decline in production (10.1%) going down to 4.5 million units. In Europe, on the other hand, the number of units manufactured rose by 0.5% because of the boost from the economies of Eastern Europe which overall compensated for the modest drop in production in the European Union where situations of notable weakness (as in Belgium, Italy and France among the key countries in the sector) went side by side with advances in production which in some cases were considerable (Sweden, Spain and, to a lesser extent, the United Kingdom).

DROP IN PASSENGER CAR DEMAND AND PRODUCTION IN EU

Number of passenger cars




SOURCE: ECMA and internal figures.

**Motor vehicle demand in EU recovers following weak year in 2003.**

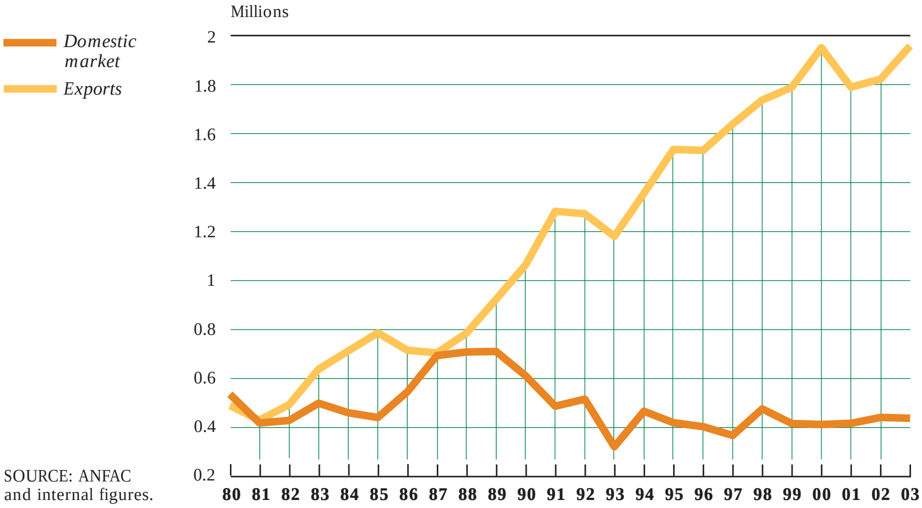
Demand for passenger cars also dropped in the EU-15 in 2003, down 1.1% to 13.85 million units, according to figures supplied by the European Car Manufacturers Association (ECMA). By country, the situation was notably diverse with the contraction in the French market being the most outstanding because of its size in absolute terms. In any case, the unfavourable balance in 2003 seems to have been corrected in the early months of 2004, a period when motor vehicle demand in the EU rose by 3.1% in spite of the continuation of the poor situation in France and the decline in the German and Swedish markets.

## PASSENGER CAR REGISTRATIONS IN EUROPEAN UNION
2003

| | Units | % of total | % annual change |
|---|---|---|---|
| Germany | 3,236,938 | 23.4 | –0.5 |
| United Kingdom | 2,579,050 | 18.6 | 0.6 |
| Italy | 2,251,307 | 16.3 | –1.2 |
| France | 2,009,246 | 14.5 | –6.3 |
| Spain | 1,383,017 | 10.0 | 3.8 |
| Netherlands | 488,977 | 3.5 | –4.3 |
| Belgium | 458,796 | 3.3 | –1.9 |
| Austria | 300,121 | 2.2 | 7.4 |
| Sweden | 261,206 | 1.9 | 2.6 |
| Greece | 257,293 | 1.9 | –4.2 |
| Portugal | 189,792 | 1.4 | –16.1 |
| Finland | 147,222 | 1.1 | 26.0 |
| Ireland | 145,331 | 1.0 | –6.9 |
| Denmark | 96,068 | 0.7 | –13.9 |
| Luxembourg | 43,620 | 0.3 | 0.5 |
| **European Union** | **13,847,984** | **100.0** | **–1.1** |

SOURCE: ECMA and internal figures.

## EXPORTS ARE KEY TO SPAIN'S MOTOR VEHICLE INDUSTRY
Units produced according to destination




SOURCE: ANFAC and internal figures.

***Motor vehicle market in new countries joining EU of relatively modest size.***

The good state of the market in the early months of 2004 is especially evident in those countries which joined the EU on May 1. In fact, the increase in registrations in the first four months of the year was 12.8%. The market in the ten new member states (870,987 passenger cars in 2003) was concentrated in three countries, namely Poland, Hungary and the Czech Republic and is of a size slightly smaller than that of Belgium and the Netherlands taken together.

***Rise in passenger car production in Spain which remains sixth world producer.***

The production of passenger cars in Spain grew by 5.8% in 2003 going up to 2.4 million units. It thus maintained its position as sixth world producer after Japan (20.1% of the total), Germany (12.2%), United States (10.7%), France and South Korea. In the first quarter of 2004 manufacture of passenger cars continued to grow although at a lower rate of 1.7%.

***Foreign market grows sharply in 2003 taking up more than 80% of production.***

Growth of production in Spain in 2003 was driven by the foreign market. Exports of passenger cars rose by 7.5% to stand at 1.96 million vehicles, that is to say, 81.7% of total production. Seen in historical perspective, this major propensity to export is evidence of the big change in Spain's motor vehicle industry in recent years along with globalization of the economy. In 1987, one year after Spain joined the EU, manufacture was divided between the domestic market and exports practically in equal parts. Today, the figure exported is more than four times that going to the domestic market.

***Car sales in Spain up sharply in first four months of 2004.***

The good state of the foreign market was accompanied by growth of domestic demand. In fact, registrations of passenger cars rose by 3.8% in 2003, according to the National Association of Car and Truck Manufacturers (ANFAC). Imports were up by 2.3% going slightly above one million units and representing a significant share of the market. The strength of demand sharpened in the first four months of 2004 with registrations growing by 16.1% compared with the same period the year before.

***Market growing for small cars and multi-purpose vehicles but drop in top-range models.***

Growth of the market in 2003 was especially notable in the small car segment and the share lost was filled with vehicles in the low-medium range and mini-cars. At the same time, we also see a notable increase in registrations of multi-purpose vehicles which made up 11.3% of the market. The share of sports cars, luxury cars and top-range models went in the opposite direction going below 4% with a drop of three decimals compared with the year before. In addition, market preferences in 2003 largely moved over to diesel-powered vehicles which made up 60.4% of registrations, three points more than in 2002.

## LABOUR MARKET

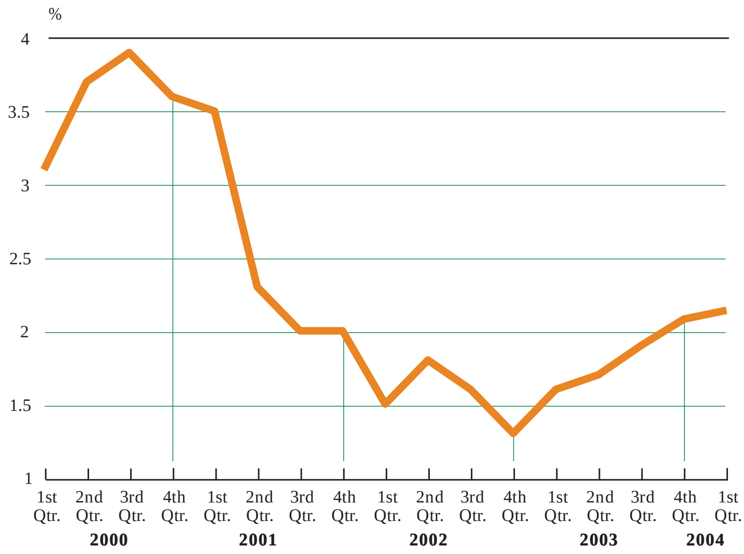
### Employment holding strong as of April

***Spain's economy continues to create employment.***

The growth rate of employment held at 2.1% year-to-year in the first quarter of 2004, according to figures from the Quarterly National Accounts corrected for seasonal effects and number of working days, taking the number of jobs as adjusted to full-time work. As a result, the gradual growth trend held by employment since the beginning of 2003 continued in the early months of 2004.

EMPLOYMENT CONTINUES TO GROW

Year-to-year change in number of jobs (*)




NOTE: (*) Equivalent to full-time work; statistical series adjusted for seasonal changes and number of working days.
SOURCE: National Institute of Statistics and internal figures.

***Market services showing increased strength, construction easing off, while industry losing jobs.***

By sector, market services showed the biggest rise thus consolidating the upward progress they started at the beginning of last year and making an increase of 4.3% year-to-year. On the other hand, the growth rate of employment in construction went through a slight downward move while still staying at high levels (4%). On a favourable note, we should mention that there was some easing of the drop rate in industrial jobs. Finally, employment in non-market services held stable at levels below 2%.

**Registrations with Social Security maintains growth at 2.7% in April...**

The results in registrations with Social Security were similar. In fact, the group registered with Social Security stood at 16,998,997 persons in April with an increase of 104,077 compared with the previous month, practically the same increase recorded in the same month in 2003. As a result, the growth rate of registrations held stable at 2.7% year-to-year in line with the final half of last year.

EMPLOYMENT INDICATORS

Percentage change over same period year before

| | 2002 | 2003 | 2003 | | | | 2004 | |
|---|---|---|---|---|---|---|---|---|
| | | | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | 4th Qtr. | 1st Qtr. | April |
| **Persons registered with Social Security** | | | | | | | | |
| Wage-earners | 3.5 | 3.2 | 3.6 | 3.4 | 2.9 | 2.9 | 2.9 | 2.5 |
| *Industry* | *–0.2* | *–0.5* | *–0.1* | *–0.6* | *–0.5* | *–0.7* | *–0.5* | *–0.4* |
| *Construction* | *5.8* | *4.3* | *5.8* | *4.8* | *3.8* | *3.0* | *4.4* | *4.2* |
| *Services* | *4.4* | *4.1* | *4.0* | *4.3* | *3.9* | *4.3* | *4.3* | *3.8* |
| Non-wage-earners | 0.9 | 2.3 | 1.7 | 2.2 | 2.5 | 2.8 | 3.2 | 3.2 |
| **Total** | **3.0** | **3.0** | **3.3** | **3.2** | **2.8** | **2.9** | **2.9** | **2.7** |
| **Persons employed** (*) | **2.0** | **2.7** | **2.3** | **2.6** | **2.8** | **3.0** | **2.6** | **–** |
| **Jobs** (**) | **1.5** | **1.8** | **1.6** | **1.7** | **1.9** | **2.1** | **2.1** | **–** |
| **Hiring contracts registered** (***) | | | | | | | | |
| Permanent | –1.6 | –1.0 | 8.0 | –6.7 | –6.2 | 0.2 | 10.0 | 17.8 |
| Temporary | 1.1 | 3.9 | 7.9 | –2.8 | 1.5 | 8.8 | 14.4 | 19.6 |
| **Total** | **0.9** | **3.4** | **7.9** | **–3.1** | **0.9** | **8.1** | **13.9** | **19.4** |

NOTES: (*) Estimate from Labour Force Survey.
(**) Equivalent to full-time work. National Accounting estimate; figures adjusted for seasonal effects and number of working days.
(***) At INEM.
SOURCE: National Institute of Statistics, Ministry of Labour and Social Services, National Employment Institute and internal figures.

**...thanks to strength of non-farm self-employment...**

The stable growth of registrations with Social Security was based on the strength of non-farm self-employment which, month after month, is showing a progressive advance. On the other hand, wage employment showed an easing in growth rate. Whereas in the former case the year-to-year growth rate in April had risen by more than one percentage point to a level close to 4%, wage employment grew at the rate of 2.5% year-to-year, more than one point below the level in April 2003.

**...and registrations by foreign workers.**

The increase in registrations with Social Security continues to be boosted by registrations by foreign workers which grew at a rate of 12.8%, well above the rate for Spanish workers (2.1%). In both cases, however, the norm is stability in this trend. The increase in foreign workers among from those coming from the European Union and from third countries is very similar. In April, registered foreign workers reached a total of 1,029,489, of which 224,852 were EU citizens.

**New hirings showing notable growth.**

The relatively moderate level of wage employment was not reflected in the figures for hirings registered by the National Employment Institute (INEM). New hiring contracts continued to grow with unusual strength in April (19.4% year-to-year) putting the cumulative increase for the four months as a whole at 15.1%. This increase, which may be explained by the increased rotation of contracts and their shorter duration, was somewhat higher for temporary work while there was a notable increase in part-time work at 22.7% in this four month period.

## Rise in registered unemployment

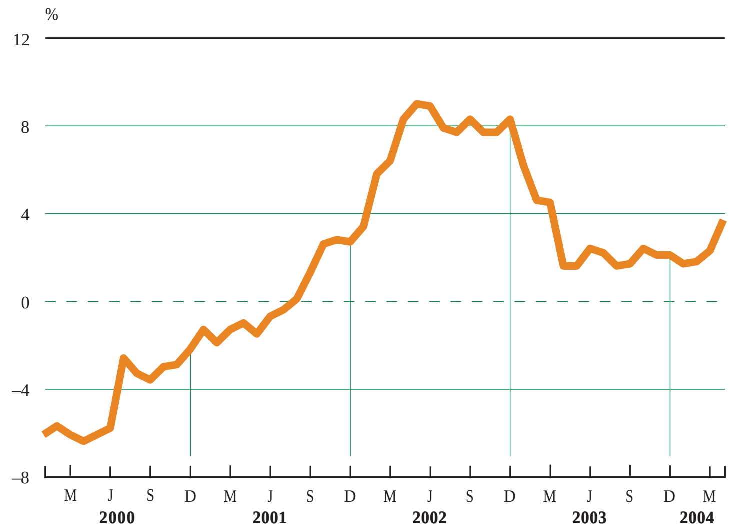
**Drop in registered unemployment in April, practically half that for April last year.**

The number of unemployed registered at INEM was down by 38,530 in April, practically half the drop in the same month in 2003. As a result, the rate of increase in unemployment again rose, this time somewhat more sharply going to 2.8% year-to-year. This slight worsening of the situation, which was somewhat contradictory to the figures on employment, may possibly be explained by the increase in those actively willing to find work.

The worsening of the situation is still greater if we look only at non-farm registered unemployment, which showed a year-to-year increase going up to 3.7%.

SHARPER INCREASE IN NON-FARM UNEMPLOYMENT

Year-to-year change in non-farm registered unemployment




SOURCE: National Employment Institute and internal figures.

**Construction and services showing less favourable results.**

The relatively poor performance in unemployment in April meant that the cumulative decrease in unemployment was very modest and substantially lower than the normal figure for the first four months of the year, which in homogeneous terms also includes the effect of Easter Week. The worsening of the situation was especially noticeable in services where unemployment rose to a growth rate of more than 5%. Some worsening is also to be seen in construction. The state of affairs in industry improved slightly with unemployment dropping by somewhat more than in the first four months of 2003. Finally, those seeking a first job showed a moderate rise which reinforces the impression of an increase in the labour force.

REGISTERED UNEMPLOYMENT BY SECTOR, SEX AND AGE
April 2004

| | No. of unemployed | Change over december 2003 | | Change over same period year before | | % share |
|---|---|---|---|---|---|---|
| | | Absolute | % | Absolute | % | |
| **By sector** | | | | | | |
| Agriculture | 40,958 | 3,034 | 8.0 | 1,974 | 5.1 | 2.4 |
| Industry | 256,453 | –7,840 | –3.0 | –6,337 | –2.4 | 15.0 |
| Construction | 186,971 | –24,917 | –11.8 | 8,806 | 4.9 | 11.0 |
| Services | 984,060 | 15,345 | 1.6 | 48,961 | 5.2 | 57.7 |
| First job | 236,734 | 8,067 | 3.5 | –6,179 | –2.5 | 13.9 |
| **By sex** | | | | | | |
| Males | 686,551 | –38,711 | –5.3 | 17,479 | 2.6 | 40.3 |
| Females | 1,018,625 | 32,400 | 3.3 | 29,746 | 3.0 | 59.7 |
| **By age** | | | | | | |
| Under 25 years | 258,005 | 255 | 0.1 | –8,869 | –3.3 | 15.1 |
| All other ages | 1,447,171 | –6,566 | –0.5 | 56,094 | 4.0 | 84.9 |
| **TOTAL** | **1,705,176** | **–6,311** | **–0.4** | **47,225** | **2.8** | **100.0** |

SOURCE: National Employment Institute and internal figures.

***Women joining work force has effect on registered unemployment.***

The trend to a progressive worsening of unemployment was spread over both sexes, with female unemployment growing at a rate somewhat higher than male unemployment. The continued move of women into the labour force and their active job search would explain this situation. Youth unemployment, on the other hand, continued a downward trend although at a somewhat lower rate than the month before.

***Unemployment up 20% in Canary Islands in one year whereas it drops notably in Aragon and Navarre.***

By autonomous community, there was a rather general trend to some worsening of the situation although there were some big differences in the figures to start with. Regions like the Canary Islands (increase of 20%), Valencian Community, Castile-La Mancha and Cantabria showed major increases in unemployment. On the other hand, Extremadura, Galicia, Asturias and the Balearic Islands also presented a somewhat more unfavourable picture than in the same period in 2003. The situation in the other autonomous communities held at levels similar to last year, except in the case of Aragon and Navarre, where the decrease in unemployment was quite notable (between 5% and 7%).

# PRICES

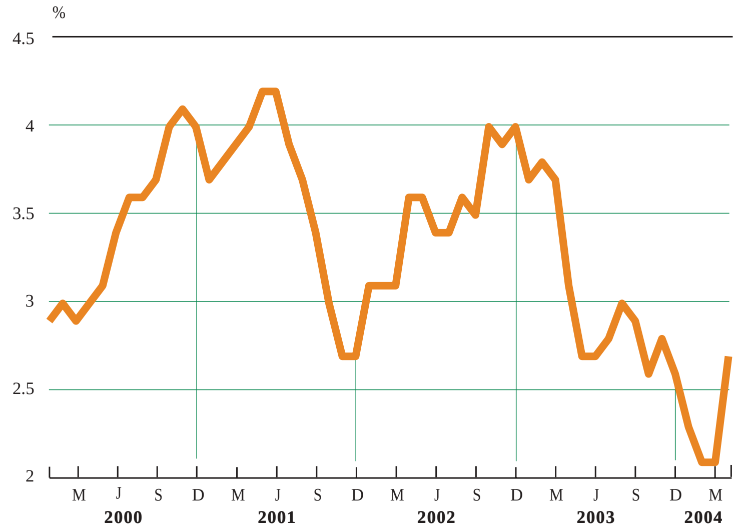
## Inflation up sharply in April

***Inflation rate moves up six decimals in April.***

The consumer price index (CPI) rose by 1.4% in April, six decimals more than in the same month in 2003. As a result, the inflation rate rose to 2.7% year-to-year, thus in just one month making mincemeat of the reduction obtained over the previous three months. The rise in the CPI was mainly due to energy and food prices but the other components also showed a more unfavourable performance than in the month before.

IN ONE MONTH INFLATION LOSES EVERYTHING GAINED IN QUARTER

Year-to-year change in consumer price index




SOURCE: National Institute of Statistics.

***Oil products make decisive contribution to rise in inflation...***

The rise in energy prices was due to oil-derived fuel products which reflected the rise in crude and the dollar exchange rate and was not greater due to the fact that natural gas reported an appreciable price drop which compensated for the situation. As a result, for the first time in several months energy prices stopped playing a deflationary role and began to rekindle the inflation rate. This trend will increase in coming months if there is no change in the situation in crude oil markets and foreign exchange markets and will show up especially strong in May and June to later continue at a lower rate all through the second half-year.

### CONSUMER PRICE INDEX

| | 2003 | | | 2004 | | |
|---|---|---|---|---|---|---|
| | % monthly change | % change over Dec. 2002 | % annual change | % monthly change | % change over Dec. 2003 | % annual change |
| January | –0.4 | –0.4 | 3.7 | –0.7 | –0.7 | 2.3 |
| February | 0.2 | –0.2 | 3.8 | 0.0 | –0.7 | 2.1 |
| March | 0.7 | 0.5 | 3.7 | 0.7 | 0.0 | 2.1 |
| April | 0.8 | 1.3 | 3.1 | 1.4 | 1.4 | 2.7 |
| May | –0.1 | 1.2 | 2.7 | | | |
| June | 0.1 | 1.3 | 2.7 | | | |
| July | –0.6 | 0.6 | 2.8 | | | |
| August | 0.5 | 1.1 | 3.0 | | | |
| September | 0.3 | 1.4 | 2.9 | | | |
| October | 0.7 | 2.1 | 2.6 | | | |
| November | 0.3 | 2.4 | 2.8 | | | |
| December | 0.2 | 2.6 | 2.6 | | | |

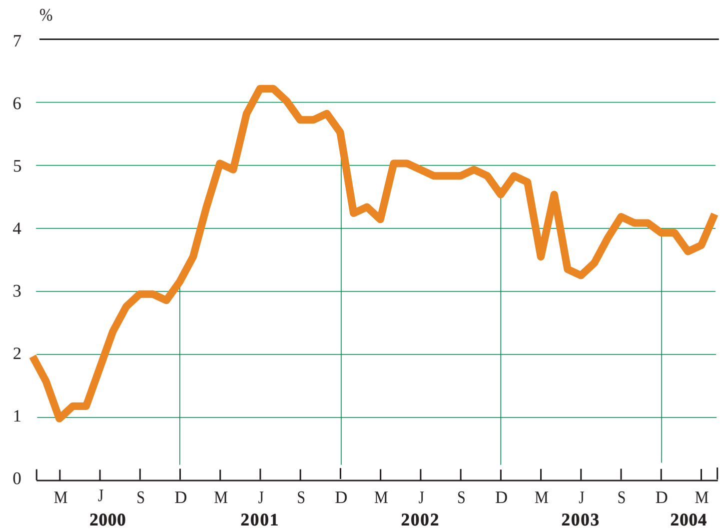
SOURCE: National Institute of Statistics.

***...along with foods, both fresh and processed.***

Food prices in April unexpectedly also ran along very unfavourable lines. Fresh foods increased growth by three decimals to 6.8% year-to-year because of the impact of prices for potatoes, fish and some meat products. Processed food prices went up by 2.9% largely because of the increase in olive oil prices which in one month rose by more than ten percentage points. This trend should not continue over the short term, especially with the drop in import prices and the favourable prospects for farm prices, mainly arising from a base effect. In any case, the erratic nature of this component could bring some unexpected results.

### FOOD: SURPRISE INCREASE IN APRIL

Year-to-year change in food group in consumer price index




SOURCE: National Institute of Statistics.

**Clothing and footwear break with trend to containment of prices of non-energy industrial goods.**

The increase in prices of non-energy industrial goods was also sharp following various months of containment. With the beginning of the spring season, clothing and footwear prices and prices of some household articles raised the year-to-year growth of this group to a still modest 0.7% although this was two decimals higher than in the month before. In spite of this, strong competition in certain markets brought about sharp decreases in the prices of some products which had a direct effect on moderating the group index.

**Prices of services continue to grow at high rates but with no upward change.**

The performance of services prices in April was less favourable given that they showed an increase of one decimal to 3.7% year-to-year. The increased stability of tourist prices and containment of health services went in favour of this trend to relative moderation in spite of the rise in air transportation prices and the lower negative contribution from communications. In any case, we continue to see very strong downward resistance in this CPI component.

CONSUMER PRICE INDEX BY COMPONENT

April

| | Indices (*) | % monthly change | | % change over previous December | | % annual change | |
|---|---|---|---|---|---|---|---|
| | | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 |
| **By type of spending** | | | | | | | |
| Food and non-alcoholic beverages | 112.5 | 0.0 | 0.5 | 0.6 | 1.1 | 3.7 | 4.6 |
| Alcoholic beverages and tobacco | 110.4 | 0.1 | 0.1 | 2.0 | 0.5 | 2.4 | 1.3 |
| Clothing and footwear | 115.8 | 8.7 | 9.3 | 0.2 | –0.5 | 5.5 | 1.7 |
| Housing | 108.1 | 0.0 | 0.4 | 1.9 | 1.8 | 3.2 | 2.8 |
| Household equipment | 105.5 | 0.6 | 0.6 | 0.6 | 0.4 | 2.1 | 1.5 |
| Health | 104.9 | 0.7 | 0.3 | 1.4 | –0.5 | 1.9 | 0.1 |
| Transport | 107.2 | –1.5 | 1.0 | 1.8 | 3.5 | 1.5 | 2.7 |
| Communications | 94.1 | –0.2 | 0.8 | 1.1 | 0.5 | –2.7 | –0.8 |
| Recreation and culture | 103.6 | 1.5 | 1.0 | 0.7 | 0.2 | 2.1 | –0.3 |
| Education | 112.2 | 0.0 | 0.0 | 0.8 | 0.5 | 4.9 | 4.0 |
| Hotels, cafés and restaurants | 113.9 | 0.7 | 0.7 | 2.4 | 2.3 | 4.4 | 4.0 |
| Other | 110.7 | 0.1 | 0.2 | 2.4 | 2.3 | 3.5 | 3.0 |
| **By group** | | | | | | | |
| Processed food | 110.2 | 0.1 | 0.5 | 1.5 | 1.7 | 3.1 | 2.9 |
| Unprocessed food | 116.4 | –0.0 | 0.3 | –0.6 | –0.3 | 4.5 | 6.8 |
| Non-food products | 108.9 | 1.1 | 1.7 | 1.5 | 1.5 | 3.0 | 2.2 |
| Industrial goods | 106.2 | 1.4 | 2.6 | 0.9 | 0.9 | 2.2 | 0.9 |
| *Energy products* | *103.7* | *–2.6* | *1.3* | *2.3* | *3.9* | *0.8* | *1.4* |
| *Fuels and oils* | *104.1* | *–3.5* | *1.7* | *2.6* | *4.7* | *0.6* | *1.5* |
| *Industrial goods excluding energy products* | *106.9* | *2.7* | *3.0* | *0.5* | *0.0* | *2.6* | *0.7* |
| Services | 112.1 | 0.7 | 0.7 | 2.2 | 2.3 | 4.0 | 3.7 |
| Underlying inflation (**) | 109.7 | 1.3 | 1.5 | 1.4 | 1.3 | 3.3 | 2.4 |
| **GENERAL INDEX** | **109.7** | **0.8** | **1.4** | **1.3** | **1.4** | **3.1** | **2.7** |

NOTES: (*) Base 2001 = 100.
(**) General index excluding energy products and unprocessed foods.
SOURCE: National Institute of Statistics.

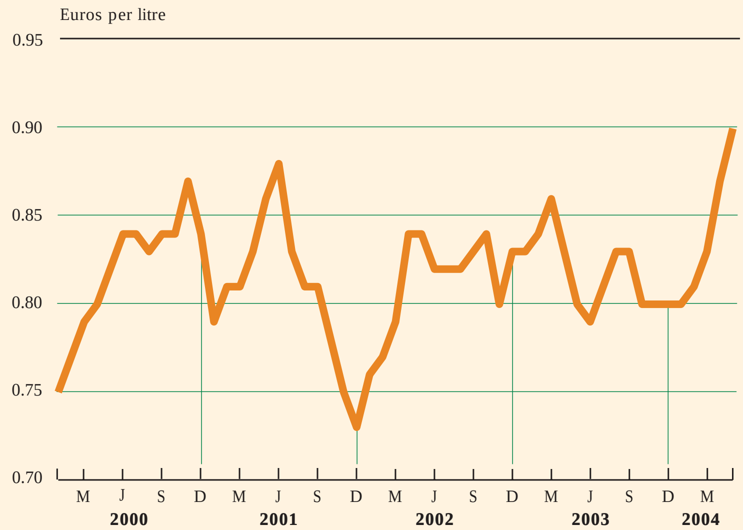
FUELS AND THE CPI: POOR PROSPECTS FOR 2004

*Going by the CPI, fuel prices in Spain in April stood above the level for last year for the first time in the past twelve months. According to the signs to be taken from trends in oil markets and foreign exchange markets, May and months following will likely bring further sharp increases in those products which could affect the inflation rate.*

*The impact of the rise in fuels on the CPI is double-edged. On the one hand, there is the direct impact on fuel prices and on transportation services. On the other hand, we see the effect of these increases on other goods and services both in terms of direct costs not absorbed by margins and in terms of a reaction to a change in prospects.*

MAJOR RISE IN PETROL PRICES

Price of non-leaded 95 octane super petrol




SOURCE: Ministry of Economy.

*The direct impact of fuels on the CPI is a major one given that its weighting in 2004 stands at 50.302 per thousand. In keeping with these figures, any increase in the price of fuel such as that expected in May, of around 4% year-to-year, would add around four decimals to the general inflation rate.*

*The transportation component, in turn, excluding fuels, has a specific weight of 93.726 per thousand in the current CPI. This figure is made up of headings which will not immediately react to the rise in fuels, such as car prices, repairs and parts. The direct impact on the CPI is thus reduced to the increases in prices for transport services and the extent of that impact naturally depends on how much the increase in provision of service is shifted to the final price. In any case, the transport sector in its strict sense (air, rail and road) has a relatively low weighting in the CPI, 9.373 per thousand, so that a rise in fuels as mentioned above would have an impact of less than one decimal.*

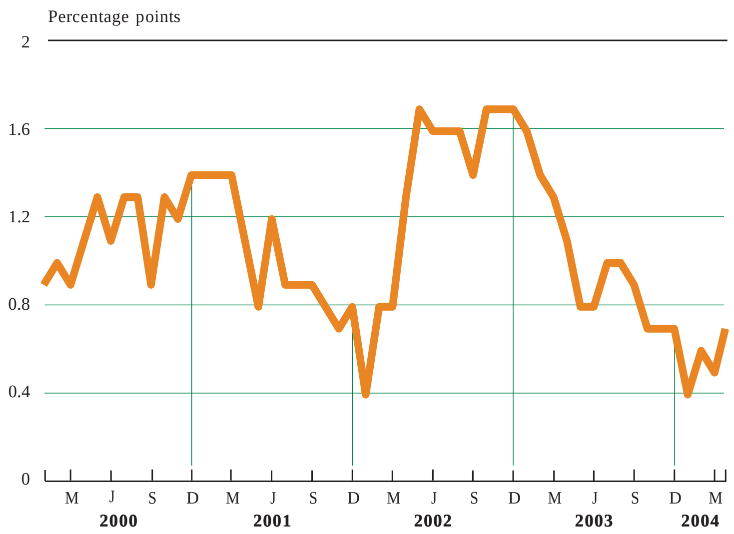
*Determining the indirect impact of a rise in fuel costs on other components of the CPI is much more complicated to the extent that it comes about in steps over a period of time and furthermore is influenced by factors of very diverse type. Recent experience shows that the increase in the CPI, not taking into account energy and food, in the period when the effect of the rise in fuels begun in January 1999 is incorporated, amounted to around one percentage point over two years.*

*CPI prospects clouded.*

Prospects for the CPI clouded over in April because of the worse situation in oil markets and the relative weakness of the euro. On the one hand, it is thus plausible to imagine a direct effect on energy prices somewhat worse than previously forecast. On the other hand, the potential impact of the increase in energy prices on other sectors of the economy may also be somewhat higher, even though limited, and more so as underlying inflation rose sharply last month to stand at 2.4%. This relatively sombre picture could disappear, at least partially, because of the moderation in food prices, particularly in fresh foods.

INFLATION DIFFERENTIAL WITH EURO AREA LEAVES LOWS BEHIND

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




SOURCE: National Institute of Statistics and internal figures.

*Price differential with euro area increases slightly in March.*

The sharp rise in Spain's inflation rate in April, going to 2.7% according to the harmonized consumer price index, once more increased the inflation differential with the euro area although this was not excessive if we take into account the poor performance of prices in other countries in the euro area. Specifically, the differential stood at seven decimals of a point, two points above the previous month. The rise in prices in Spain was higher than that for the euro area in practically all components of the index except in alcoholic beverages and tobacco and health services, both of which reported a sharp increase in Europe.

## Producer prices step up in April

*Energy, intermediate goods and food push up producer prices in April.*

Producer prices showed a sharp rise in April thus breaking with the stable picture seen in previous months. In fact, the growth rate of these prices stood at 2.6% year-to-year, 1.8 points above the figure for the month. The turnaround in energy prices, the sustained rise in non-energy intermediate goods and increases in food prices have complicated the inflation picture which, for the moment, may be partly mitigated by the containment of prices of manufactured goods and capital goods.

## INFLATION INDICATORS

Percentage change over same period year before

| | Farm prices | Producer price index | | | | | Import prices | | | | GDP deflator (*) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | General index | Consumer goods | Capital goods | Intermediate goods | Energy goods | Total | Consumer goods | Capital goods | Intermediate goods | |
| **2002** | | | | | | | | | | | |
| 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 | –1.2 | –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 | 1.8 | –6.0 | –6.2 | 7.5 | ... |
| March | ... | 0.8 | 2.3 | 1.3 | 2.6 | –5.6 | ... | ... | ... | ... | – |
| April | ... | 2.6 | 2.9 | 1.3 | 3.6 | 1.2 | ... | ... | ... | ... | – |

NOTES: (*) Gross figures corrected.
SOURCE: National Institute of Statistics, Ministry of Economy and internal figures.

***Import prices also reflect rise in cost of non-energy intermediate goods.***

Import prices reflect a situation parallel to many of the aspects seen in producer prices. We note substantial weakness in prices of manufactured goods and capital goods along with a substantial rise in non-energy intermediate goods. On the contrary, energy prices have been showing notable moderation given that in February there was still no effect showing from the recent increases in crude oil prices and the relative weakness of the euro. Finally, imported foods underwent a notable drop which, in turn, should have a favourable impact on domestic prices.

# FOREIGN SECTOR

## Trade deficit up in February

***Trade deficit up 13% as of February.***

The trade deficit of Spain's economy rose sharply in February (17.5% compared with the same month the year before) thus sharpening the increase trend. The cumulative imbalance in the first two months of the year amounted to 7.2 billion euros, 13.2% more than in the same period in 2003. The lower growth of exports as compared with imports (around two percentage points less) lay behind this increase in the foreign imbalance.

FOREIGN TRADE
January-February 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 | 3,092 | –10.8 | 10.5 | 713 | 15.7 | 3.2 | –2,379 | 23.1 |
| Consumer goods | 8,459 | 14.3 | 28.7 | 9,013 | –0.2 | 40.6 | 553 | 106.5 |
| *Food* | *1,865* | *13.9* | *6.3* | *3,021* | *5.3* | *13.6* | *1,156* | *162.0* |
| *Non-foods* | *6,594* | *13.9* | *22.4* | *5,992* | *–3.8* | *27.0* | *–602* | *90.9* |
| Capital goods | 4,597 | 10.3 | 15.6 | 2,763 | 14.2 | 12.4 | –1,834 | 60.1 |
| Non-energy intermediate goods | 13,307 | 3.3 | 45.2 | 9,729 | 2.8 | 43.8 | –3,578 | 73.1 |
| **By geographical area** | | | | | | | | |
| European Union | 18,336 | 5.4 | 62.2 | 16,159 | 3.0 | 72.7 | –2,177 | 88.1 |
| *Euro area* | *15,989* | *5.2* | *54.3* | *13,413* | *3.3* | *60.4* | *–2,576* | *83.9* |
| Other countries | 11,120 | 5.7 | 37.8 | 6,060 | 3.7 | 27.3 | –5,060 | 54.5 |
| *Eastern Europe and ex-USSR* | *1,400* | *8.9* | *4.8* | *936* | *–0.4* | *4.2* | *–464* | *66.9* |
| *United States* | *1,178* | *5.5* | *4.0* | *800* | *–8.1* | *3.6* | *–378* | *67.9* |
| *Japan* | *786* | *17.3* | *2.7* | *221* | *19.3* | *1.0* | *–565* | *28.1* |
| *Latin America* | *1,017* | *3.2* | *3.5* | *1,044* | *11.7* | *4.7* | *27* | *102.6* |
| *OPEC* | *1,904* | *–10.8* | *6.5* | *462* | *–11.9* | *2.1* | *–1,442* | *24.3* |
| *Rest* | *4,833* | *11.6* | *16.4* | *2,595* | *8.8* | *11.7* | *–2,238* | *53.7* |
| **TOTAL** | **29,456** | **5.5** | **100.0** | **22,219** | **3.2** | **100.0** | **–7,237** | **75.4** |

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

*Rise in imports of both consumer goods and capital goods.*

Imports (29.5 billion euros as of February) recorded a nominal increase of 5.5%, considerably higher than the average for the previous quarter. In real terms, the increase was somewhat higher at 6.4% if we take into account the slight drop in import prices. The increase in imports was especially notable in both consumer goods and capital goods. In the former case, what stood out was the increase in purchases of footwear, furniture, consumer electronics, clothing and cars. In capital goods, the biggest increase came in railway equipment and machinery of a general nature. On the other hand, foreign purchases of intermediate goods were down, partly reflecting the weaker state of industrial activity.

*Recovery in exports based on foods and some capital goods.*

Foreign sales in the first two months (22.2 billion euros) were up by 3.2% nominal compared with the same period in 2003. Nevertheless, with the further drop in export prices, the increase in volume stood at 6.6%, more than three points above the average for the second half of 2003. The recovery in exports was due to the drive in sales of food products, mainly fish products, and specific capital goods, such as ships. On the other hand, in the area of non-food consumer goods, we note some stagnation brought about by the drop in exports of cars, footwear and toys which cancelled out the increases in other products, mainly appliances.

*Third country markets growing more than EU market.*

From a geographical perspective, exports to third countries showed higher growth than those going to the European Union (EU) showing 8.2% real as against 5.9%. The positive situation in some economies in Latin America, Japan and China and, to a lesser extent, the countries of Eastern Europe marked out the difference thus more than compensating for the contraction of such markets as the United States and the countries belonging to OPEC (Organization of Petroleum Exporting Countries). In the EU area, the stagnation seen in the French and German markets is still hampering export activity in the same way as the incipient slowdown in purchases by the United Kingdom.

## Current account deficit increases in February

*Current account deficit in February more than twice that for same month in 2003...*

The current account balance showed a deficit of 1.9 billion euros in February which was more than twice that for the same period last year. This increase was due to the drop in the positive figure in the transfers balance and the increase in the trade imbalance, in spite of the slight improvement in the services surplus and the decrease in the incomes deficit.

*...and cumulative figure for last 12 months up 31%.*

The substantial worsening of the current account balance in February put the cumulative deficit for the past 12 months at 21.8 billion euros, some 30.8% higher than in those twelve months last year. This worsening of the situation came as a result of the increase in the trade deficit and the incomes deficit, especially with the worsening of the transfers balance. On the other hand, the services surplus improved slightly but this was not enough to compensate for the other headings.

**Services balance continues gradual improvement thanks to tourism.**

The improvement in the services balance in February came from the figures for tourism which showed a cumulative surplus for the past year of 29.6 billion euros. some 4.0% more than the year before. This improvement was not greater because of the progressive increase in growth of payments for tourist services (which went up to 5.8%) in spite of the recovery of the rise in tourist revenues, which moved up to 4.4% cumulative over the past twelve months.

BALANCE OF PAYMENTS

Cumulative figure for last 12 months in million euros

| | February 2003 | February 2004 | % change |
|---|---|---|---|
| **Current account balance** | | | |
| Trade balance | –34,658 | –38,715 | 11.7 |
| Services | | | |
| *Tourism* | *28,471* | *29,621* | *4.0* |
| *Other services* | *–1,944* | *–2,302* | *18.4* |
| Total | 26,527 | 27,319 | 3.0 |
| Income | –10,901 | –10,363 | –4.9 |
| Transfers | 2,374 | –29 | – |
| **Total** | **–16,658** | **–21,787** | **30.8** |
| **Capital account** | **7,853** | **7,727** | **–1.6** |
| **Financial balance** | | | |
| Direct investment | 1,973 | 207 | –89.5 |
| Portfolio investment | 5,839 | 986 | –83.1 |
| Other investment | 7,455 | 18,633 | 149.9 |
| **Total** | **15,267** | **19,826** | **29.9** |
| Errors and omissions | –4,728 | –6,011 | 27.1 |
| Change in assets of Bank of Spain | –1,734 | 245 | – |

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 current account deficit.**

Capital account, in turn, showed a surplus of 558 million euros in February, thus improving on the figure for same month last year. In spite of this, the balance for the past twelve months was still somewhat below that for last year. Net world borrowing for non-financial operations, which is obtained by adding the figures for the current account and capital account, stood at 14.1 billion euros in the past 12 months, some 59.7% higher than in the same period ending February 2003.

**Decline in direct corporate investment while portfolio investment increases.**

Financial account, excluding Bank of Spain transactions, showed cumulative net inflows of 19.8 billion euros in the past 12 months, some 29.9% more than in the same period last year. Spanish direct investment abroad continued to drop sharply to stand at its lowest levels since 1998, in terms of cumulative figures for 12 months. Direct foreign investment in Spain also also continued its sharp decline going back to levels seen at the beginning of 2000. Under direct investment, the drop was concentrated in corporate investment but not in fixed assets. On the other hand, portfolio investment was up sharply in both directions although the net balance was down.

# PUBLIC SECTOR

## Tax collections up more than 5% as of April

***Central government revenues up 5% after various headings made comparable.***

Central government non-financial revenues rose by 3.3% as of April to reach an amount of 44.6 billion euros. For comparative purposes, this figure must be adjusted by the revenues attributed to autonomous communities and local governments arising from tax segments ceded to those bodies from personal income tax and most indirect taxes. If these criteria are kept in mind, collections amounted to 57.2 billion euros with an increase of 5.2% compared with the same period in 2003.

CENTRAL GOVERNMENT BUDGET IMPLEMENTATION
April 2004

| | Month | | Cumulative for year | |
|---|---|---|---|---|
| | Million euros | % change over same month year before | Million euros | % change over same month year before |
| **Non-financial revenue** | **17,306** | **7.7** | **44,565** | **3.3** |
| **Non-financial revenue adjusted** (*) | | | | |
| Personal income tax | 6,353 | 7.7 | 19,680 | –2.4 |
| Corporate tax | 4,042 | 7.3 | 4,157 | 15.7 |
| VAT | 6,857 | 7.1 | 21,041 | 6.4 |
| Special taxes | 1,521 | 17.1 | 5,631 | 6.3 |
| Other | 1,703 | 12.1 | 6,737 | 20.3 |
| **Total** | **20,476** | **8.4** | **57,246** | **5.2** |
| **Non-financial spending** | **7,430** | **–3.9** | **36,986** | **–1.7** |
| **Treasury balance** | **9,876** | **18.5** | **7,579** | **37.1** |
| ***Surplus (+) or deficit (–)*** (**) | ***9,004*** | ***21.1*** | ***10,175*** | ***–8.1*** |

NOTES: (*) Includes tax segments ceded to autonomous communities under financing system in operation as of 2002.
(**) In terms of National Accounting.
SOURCE: Ministry of Finance and internal figures.

***Collections for indirect taxes up 7% due to increase in value added tax.***

The increase in tax collections was based on indirect taxes which amounted to 27.5 billion euros with a rise of 6.6% compared with the first four months of 2003. Revenues from value added tax (VAT) rose by 6.4% as of April thanks to the relative boost in collections for domestic operations. Collections for special taxes, in turn, grew by 6.3% with practically all tax headings going above this average except in the case of fuel tax, for which collections (the highest in absolute figures) grew by 5.7%. As distinct from 2003, the figures for 2004 do not include the tax on certain modes of transport as this tax is considered proper to the autonomous communities.

***Collections for direct taxes up thanks to corporation tax.***

Revenues from direct taxes as a whole amounted to 24.7 billion euros, up 1.6% compared with the first four months in 2003. The increase was mainly due to corporation tax given that personal income tax showed a slight drop in collections.

***Government property earnings and current transfers down but capital transfers rise.***

Apart from tax resources, fees and charges for public services showed a very notable increase (11.6%) as opposed to property earnings and current transfers which were down by 3%. On the contrary, capital transfers were more than three times those received in the first four months of 2003.

***Central government non-financial spending down slightly because of lower outlays for interest.***

Central government non-financial spending, in turn, was down by 1.7% amounting to nearly 37 billion euros. This figure does not include the balancing entry made up of revenues corresponding to those tax segments ceded to the autonomous communities. The drop in spending affected current operations, entirely on account of interest payments and, to a lesser extent, of capital spending.

***Treasury surplus in first four months of year.***

The Treasury balance as of April, that is to say, the difference between non-financial revenues and spending, was positive showing a figure of 7.6 billion euros, some 37.1% higher than in the same period last year. This surplus, increased by the net decrease in financial assets, gave place to a surplus of 8.7 billion euros, some 13.3% higher than in the same period last year. In terms of national accounting, the budgetary balance was also positive at 10.2 billion euros but somewhat lower than in the first four months of 2003.

## SAVINGS AND FINANCING

### Bank credit to private sector showing vigorous growth

***Loan rates drop to all-time lows in March.***

Bank loan rates went down again in March to show a new all-time low. As a result, the composite interest rate for lines of credit and loans dropped to 3.95% in March 2004, some 13 basis points less than in the month before and 63 basis points lower than 12 months earlier. Both loans to individuals and funding granted to companies showed all-time low rates in March. With regard to loans to individuals, interest rates on consumer loans and for other purposes went down to 6.19%, thus marking up an all-time low while housing loans also recorded a low of 3.39%.

***Interest rate on housing loans marks up new all-time low in April.***

In addition, the composite credit institution interest rate on mortgage loans for more than a 3-year term for non-subsidized housing was down by 8 basis points compared with the previous month to stand at 3.28%. As a result, it recorded a new all-time low standing 61 basis points below one year earlier.

***Total bank credit to private sector up 15% in past 12 months.***

Bank credit to companies and families rose by 15.2% in March compared with the same month last year, the highest annual change since January 2001. Bank credit to the private sector continued to be boosted by the favourable economic climate and very low interest rates and thus grew at a rate more than twice that for the euro area as a whole.

***Loans to companies and households by banks, savings banks and credit cooperatives rise much more than those by specialised credit institutions.***

The trend by type of institution in recent months has been quite uneven. Credit granted to the private sector by banks showed a year-to-year change of 14.4% in March, some 1.5 points more than in December 2003. Savings banks recorded a year-to-year change of 17.5% but this was only 0.4 points more than in December while credit cooperatives showed a rise of 17.5% over the past 12 months, the same as that at the end of 2003. On the other hand, specialised credit institutions showed a much more modest rise (1.7%) while that for the Official Credit Institute was 1.2%.

***Highest growth rate in mortgage loans since May 1991.***

Growth in bank credit to the private sector was especially boosted by mortgage loans. As a result, total mortgage loans by banks and savings banks rose by 21.7% in March compared with the same month lest year, the highest rate since May 1991. Mortgage loans granted by credit institutions as a whole, including securitizations, reached an annual growth rate of 24.7% in March 2004, the highest figure in recent years. Demand for mortgage loans rose sharply because of the rise in household incomes, very low real interest rates and favourable financing terms. It should be pointed out that the growth rate of mortgage loans at banks in recent months has been higher than that for savings banks. As a result, total mortgage loans at banks in March showed a year-to-year change rate of 23.7% as against 20.3% in the case of savings banks.

## CREDIT TO COMPANIES AND HOUSEHOLDS

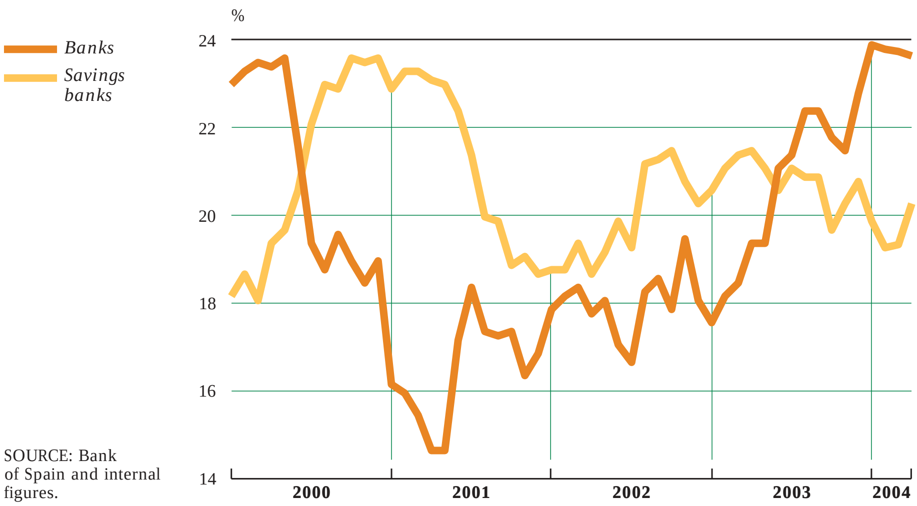
March 2004

| | Total | Change this year | | Change over 12 months | | % share |
|---|---|---|---|---|---|---|
| | Million euros | Million euros | % | Million euros | % | |
| Trade credit | 53,841 | –1,690 | –3.0 | 5,860 | 12.2 | 6.5 |
| Secured loans (*) | 465,732 | 23,607 | 5.3 | 82,368 | 21.5 | 56.0 |
| Other term loans | 258,072 | 7,173 | 2.9 | 17,624 | 7.3 | 31.0 |
| On-demand loans | 20,765 | –158 | –0.8 | 918 | 4.6 | 2.5 |
| Leasing | 26,002 | 933 | 3.7 | 3,195 | 14.0 | 3.1 |
| Doubtful loans | 7,652 | –14 | –0.2 | –106 | –1.4 | 0.9 |
| **TOTAL** | **832,064** | **29,852** | **3.7** | **109,860** | **15.2** | **100.0** |

NOTES: (*) For most part made up of mortgage security.
SOURCE: Bank of Spain and internal figures.

## STRONG GROWTH OF MORTGAGE LOANS

Year-to-year change in mortgage loans by type of institution




SOURCE: Bank of Spain and internal figures.

***Notable increase in leasing and trade credit.***

There was also a notable rise in leasing which was up 14.0% in March 2004 compared with the same month the year before. This funding goes into acquisition of equipment and real estate by companies and self-employed professionals. In addition, trade credit, which is aimed at providing companies with working capital, showed a considerable annual increase of 12.2% in March, some 2.1 points more than in December.

***Loan default drops to new low levels.***

Doubtful loans at credit institutions as a whole dropped slightly in March in absolute terms so that the default rate, which compares that figure with total loans, showed the lowest figure in recent years at 0.92%. The corresponding rate for banks and savings banks (but not including other credit institutions) also recorded an all-time low of 0.76%.

## Low yields impede growth of bank deposits

***Yield on deposits stands at low levels.***

The composite yield on deposits at credit institutions dropped to 1.13% in March, the same at the low recorded in October 2003. The composite interest rate on deposits by individuals stood at 1.11%, three basis points above the low in October. On-demand accounts and savings accounts showed a yield of 0.39%, the same as the low in November 2003, while time deposits stood at 1.93%. Yield on deposits in the case of non-financial companies was 1.15%, with interest rates at 0.66% for on-demand accounts and 1.91% for time deposits.

***Deposits growing much less than loans.***

Total deposits by the resident private sector in euros and foreign currency was up by 10.3% in March 2004 compared with the same month last year, some 0.5 points less than in February but 1.6 points more than in December. In the course of the past 12 months deposits rose by 60.3 billion euros, a sum considerably lower than the increase in credit granted by the resident banking system. In order to compensate this, the financial institutions had recourse to bond issues, to the foreign interbank market and to securitizations.

***Spectacular rise in deposits in currencies other than euro.***

The biggest year-to-year rise showed up in deposits in currencies other than the euro (up 45.7%). Deposits for terms of more than two years also reported a spectacular rise (37.6%) although this increase was two points lower than the figure recorded the month before. Savings accounts recorded a year-to-year increase of 12.8%, some 0.8 points less than in February. Temporary transfers rose by only 4.0% in the past 12 months. Finally, deposits for terms of less than 2 years were down by 0.3% compared with March 2003.

***Investors display preference for global mutual funds.***

The assets of mutual funds grew by 1.8 billion euros in April going to 211.1 billion euros, a year-to-year rise of 17.5%, according to figures supplied by Inverco, the sector organization. The March increase was due to net share acquisitions of 2 billion euros, given that the monthly trend on the stock markets was negative thus bringing capital losses. The biggest net flow of funds reported was in global mutual funds which involve higher risk but offer bigger returns. Guaranteed funds and short-term bond-based funds were preferred by more conservative savers in a situation involving some uncertainty.

## DEPOSITS BY COMPANIES AND HOUSEHOLDS IN CREDIT INSTITUTIONS

March 2004

| | Total | Change this year | | Change over 12 months | | % share |
|---|---|---|---|---|---|---|
| | Million euros | Million euros | % | Million euros | % | |
| On-demand | 171,454 | 2,550 | 1.5 | 15,484 | 9.9 | 26.5 |
| Savings (*) | 145,095 | –114 | –0.1 | 16,490 | 12.8 | 22.4 |
| 2-year term | 154,870 | –1,356 | –0.9 | –422 | –0.3 | 23.9 |
| More than 2-year term | 87,821 | 10,459 | 13.5 | 23,993 | 37.6 | 13.6 |
| Repos | 83,135 | 5,334 | 6.9 | 3,194 | 4.0 | 12.8 |
| **Total** | **642,375** | **16,873** | **2.7** | **58,738** | **10.1** | **99.2** |
| **Deposits in currencies other than euro** | **4,935** | **784** | **18.9** | **1,547** | **45.7** | **0.8** |
| **TOTAL** | **647,310** | **17,657** | **2.8** | **60,285** | **10.3** | **100.0** |

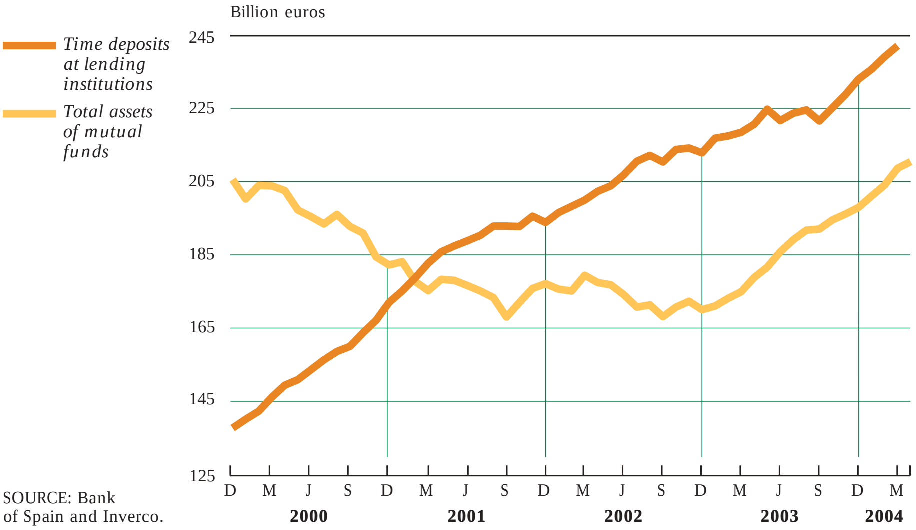
NOTES: (*) Deposits redeemable at notice, according to ECB definition.
SOURCE: Bank of Spain and internal figures.

***Average annual yield on mutual funds stands at 4.2%.***

The average weighted yield on mutual funds over the past 12 months dropped by 1.3 points going to 4.2% in April. All types of fund showed positive annual yields, with an unexpected yield on Japanese share-based funds showing capital gains of 46.2%. At the other extreme, the yield on money-market-based funds held at 1.3%.

## RECOVERY OF DEPOSITS AND MUTUAL FUNDS

Financial assets of companies and households




SOURCE: Bank of Spain and Inverco.

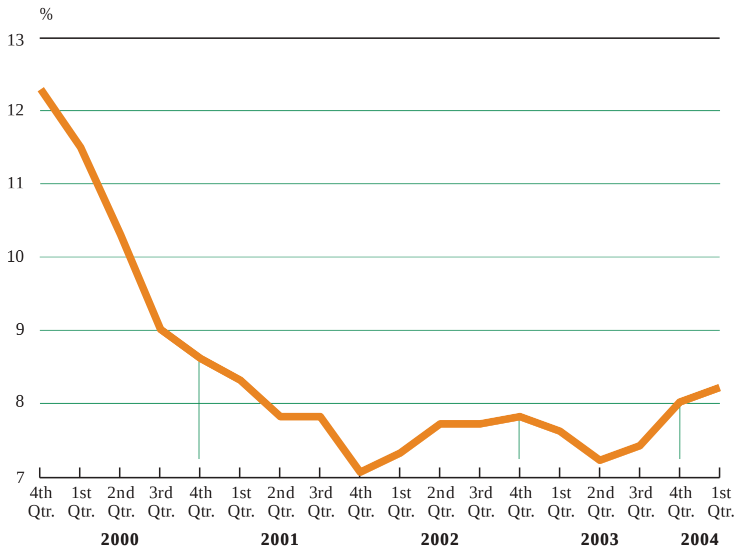
## Growth of European mortgage market continues

***Mortgage loans for home purchase in euro area up 8% in one year.***

The European mortgage market has shown notable growth in recent years. According to figures from the European Central Bank, total loans granted to households for home purchase in the euro area stood at 2,400 billion euros at the end of the first quarter of 2004 to show year-to-year growth of 8.2%. This rate is very similar to that recorded in 2002 and 2003.

MORTGAGE LOANS GROWING BETWEEN 7% AND 8% ANNUAL

Year-to-year change rate




SOURCE: European Central Bank.

***Strong growth of mortgage loans in most European countries...***

The strong growth of the mortgage market, mainly based on demand for home financing, is spread over most European countries. This is indicated by figures from the European Mortgage Federation which makes it possible to analyze the situation by country up to the third quarter of 2003. In the first nine months of 2003 what stands out is the increase of 61% in net mortgage loans in Sweden compared with the same period the year before. Also notable was the increase in mortgage loans in Spain and the Netherlands. Portugal and Greece were the only countries to show a drop in new residential mortgage loans in this period.

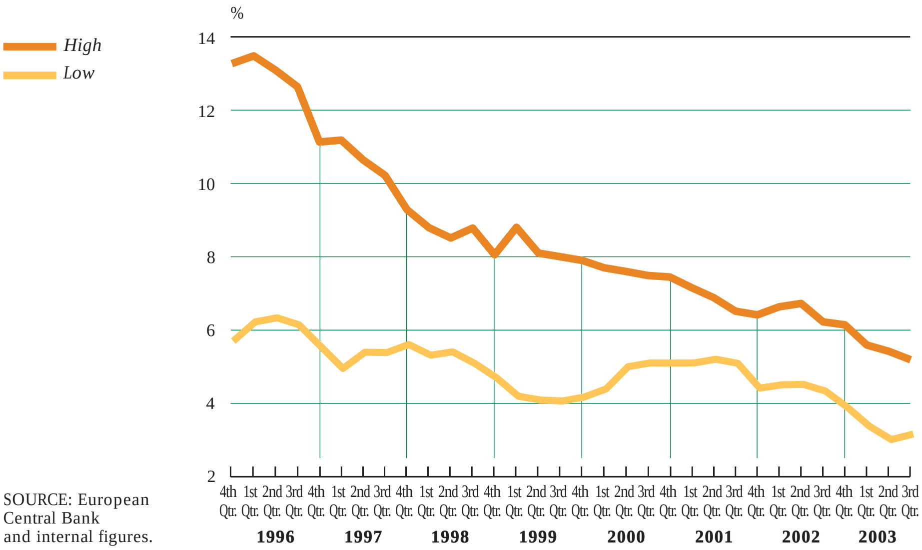
*...with notable rise in Netherlands and Spain in recent years.*

The biggest growth rates in total mortgage loans in 2001 and 2002 showed up in Greece, Ireland, Spain and Portugal. Over a somewhat longer period, from 1996 to 2002, there is little change in the picture. If we take into account the change in mortgage loan indebtedness as a percentage of the gross domestic product (GDP) the highest growth came in the Netherlands with an increase of 35 points, followed by Portugal, Spain, Denmark, Ireland and Greece.

*Higher incomes and very low interest rates have boosted mortgage market.*

Total European mortgage loans in recent years has been boosted, among other factors, by higher incomes and very low interest rates which have stood at the lowest levels in recent decades. On the other hand, there has been notable convergence of mortgage interest rates taking place in the European Union due to financial deregulation and the launching of the euro, as may be seen in the graphic below.

CONVERGENCE OF MORTGAGE LOAN INTEREST RATES IN EUROPEAN UNION




SOURCE: European Central Bank and internal figures.

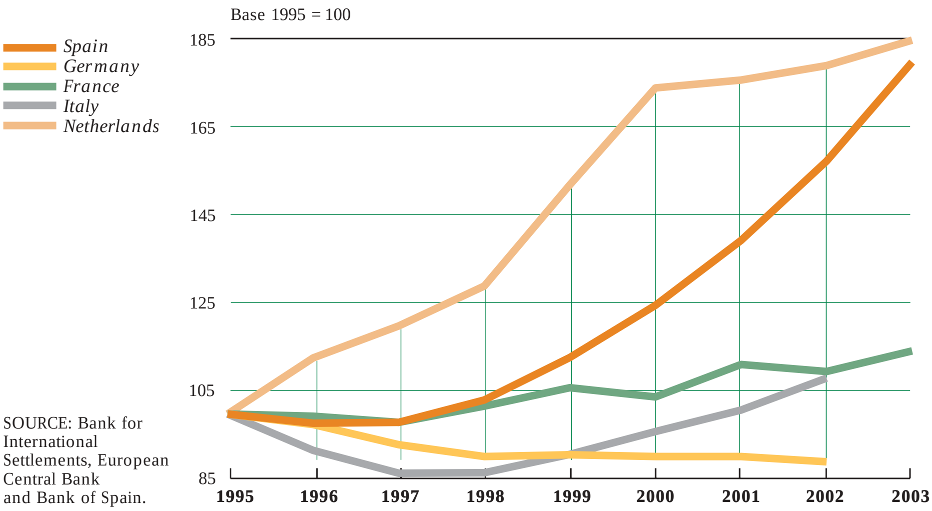
*Mortgage costs in Spain below average in euro area...*

With regard to mortgage interest rates in Spain, in 1995 they were among the highest in Europe. Nevertheless, according to a recent study by the Bank of Spain, financing costs to households for home acquisition in 2003 were below the average for the euro area. These costs for Spanish households were 28 basis points lower in the greater part of new transactions. If we include commissions, the differential increases given that in Spain commissions on housing loans stood at around 13 basis points in annual terms, whereas for the euro area as a whole they were slightly higher.

*...because of increased competition.*

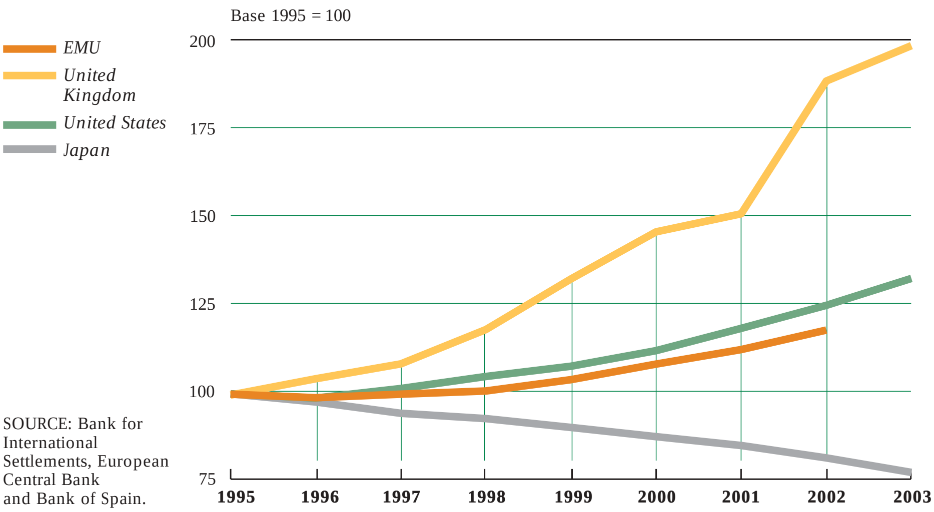
This seems to indicate higher competition in Spain in the housing loan segment compared with other countries in the euro area, given that since 2003 harmonized definitions for interest rates in this area are now available. Furthermore, loans for home purchase in 2003 showed increased strength with growth more than twice that recorded in the euro area.

HOUSING PRICES IN EUROPE
Real price indices




SOURCE: Bank for International Settlements, European Central Bank and Bank of Spain.

INTERNATIONAL HOUSING PRICES
Real price indices




SOURCE: Bank for International Settlements, European Central Bank and Bank of Spain.

***Increase in mortgage loans comes at same time as increase in housing prices in most European countries.***

In recent times, the increase in mortgage loans has also come at the same time as increases in housing prices in most European countries. Going by available figures, in 2003 the biggest price increases in real terms, discounting general inflation, came about in Spain with a figure of 14%, and in the United Kingdom which showed 5%. In France, housing prices rose by 4%, while in the Netherlands the rise was 3%. This is in contrast to the drop of 5% recorded in Japan whereas housing prices in the United States went up by 6%, in real terms in all cases.

***More mortgage financing facilities available.***

The convergence of mortgage loan markets in Europe is to be seen in a trend to greater availability of financing facilities in the various national markets. Nevertheless, mortgage loan markets in each European country are still quite different. Figures from the European Mortgage Federation going up to 2002 make it possible to analyze these markets.

MORTGAGE LOAN FIGURES: RESIDENTIAL AND NON-RESIDENTIAL

| | Million euros | | | Year-to-year change rate as % | |
|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2001 | 2002 |
| Germany | 1,315,559 | 1,346,453 | 1,372,531 | 2.3 | 1.9 |
| Spain | 262,029 | 312,113 | 377,003 | 19.1 | 20.8 |
| Italy | 186,318 | 198,576 | 221,441 | 6.6 | 11.4 |
| Denmark (*) | 153,681 | 165,098 | 177,367 | 7.4 | 7.4 |
| Sweden | 109,729 | 121,934 | 129,656 | 11.1 | 6.3 |
| Portugal | 62,861 | 71,869 | 80,620 | 14.3 | 12.2 |
| Austria | 56,777 | 52,800 | 58,438 | –7.0 | 10.7 |
| Ireland | 37,471 | 44,727 | 55,258 | 19.4 | 23.5 |
| Greece | 13,083 | 17,824 | 24,128 | 36.2 | 35.4 |

NOTES: (*) Members of European Mortgage Federation only.
SOURCE: European Mortgage Federation, national sources and internal figures.

***Boost also comes from tax measures favourable to home acquisition.***

Apart from cyclical and passing factors, the growth in the mortgage loan market depends on structural variables. On the one hand, there has been an increase in population. At the same time, the average size of households has tended to diminish. This process may be explained by the growing degree of individual choice in the society which is bringing about an increase in the number of one-person households and also longer life expectancy. Furthermore, we note a trend to an increase in the level of home ownership, the percentage of families owning their own homes, in most European countries in recent years. This has been influenced by tax measures favourable to home acquisition to the detriment of renting.

***Greater part of mortgage loans goes into home purchase.***

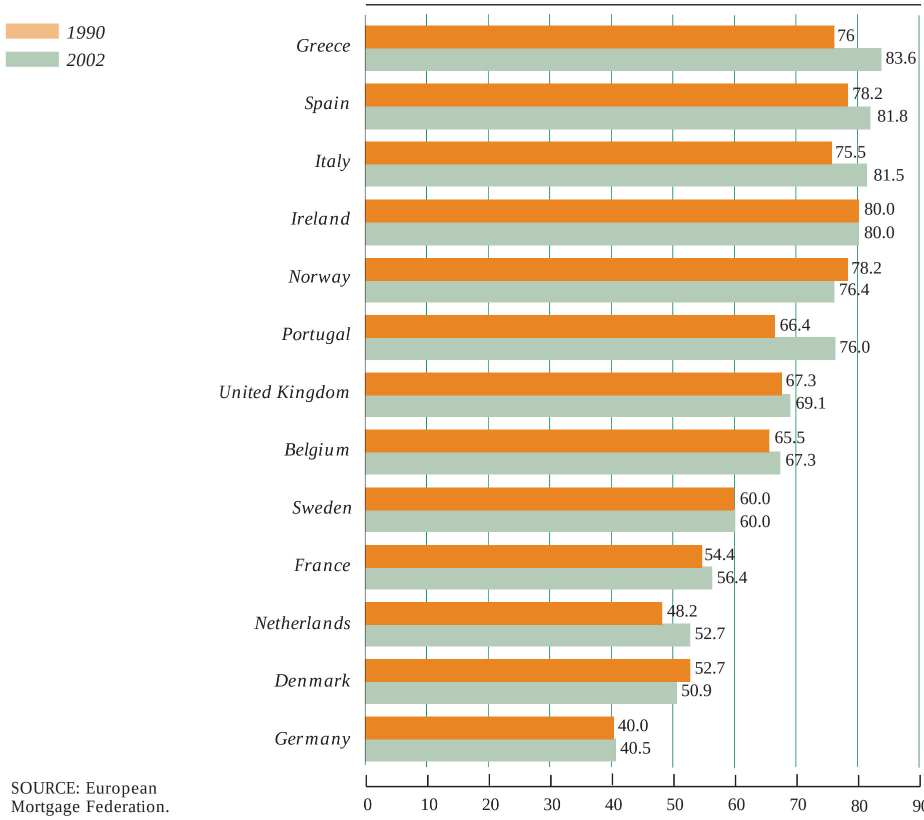
In fact, the greater part of mortgage loans is made up of loans for home purchase. The level of ownership is a key factor, but of greater importance in explaining the trend in the mortgage loan market in relation to interest rates is the proportion of home owners who are indebted for the purchase of their home, the amount of financing and whether this is at fixed or variable interest rate.

***Great diversity in proportion of variable rate mortgage loans by country.***

With regard to methods of interest rate adjustment, Europe shows a very wide range. The proportion of mortgages at variable interest rate is predominant in countries like Finland where it accounted for 97% in 2002, in Greece for 95%, in Luxembourg for 90%, in Spain for 75%, in the United Kingdom for 72%, in Ireland and Portugal for 70%, in Sweden for 62%, while in Italy the figure was 56%. Nevertheless, in France this represented only 20% of the total, with 25% in Denmark and Belgium and 26% in the Netherlands.

HOME-OWNERSHIP IN EUROPE

Percentage of families owning own home




SOURCE: European Mortgage Federation.

***German mortgage market biggest in Europe…***

The size of the mortgage market in Europe is quite diverse. In absolute terms, the biggest mortgage market is to be found in Germany with a figure reaching 1,372.5 billion euros at the end of 2002, closely followed by the United Kingdom, in contrast to 24.1 billion euros in the case of the Greek market.

***…but Netherlands biggest in terms of GDP…***

The differences, however, are also significant in relative terms. With regard to the GDP, the Netherlands market represented the highest percentage at 88%, followed by Denmark at 82% and the United Kingdom showing 62%. Spain stood in a midway range with 38% in terms of the GDP. The last places in this classification were taken up by Italy and Greece.

***…while Denmark leads in per capita terms.***

In mortgage borrowing per capita there are also major differences. Whereas in 2002 Denmark stood above 33,000 euros per capita the figure in Greece was only 2,277 euros per capita, fifteen times less. Spain stood in the medium range of the table with 9,330 euros per capita.

## MORTGAGE BORROWING AND PROPORTION OF VARIABLE RATE MORTGAGES

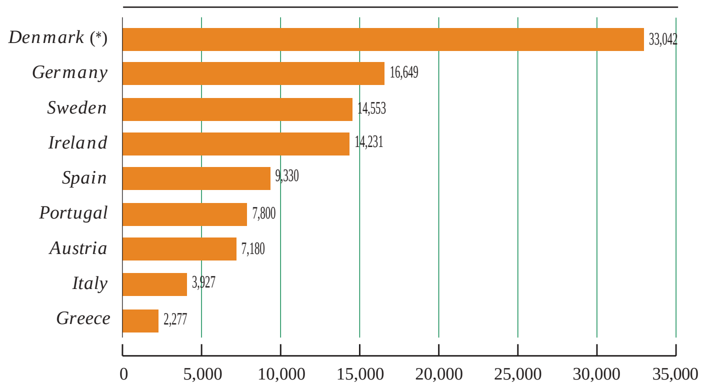
2002

| | Mortgage borrowing as percentage of GDP | Change in mortgage borrowing as percentage of GDP 1996-2002 | Proportion of variable rate mortgages % |
|---|---|---|---|
| Netherlands | 88 | 35 | 26 |
| Denmark | 82 | 18 | 25 |
| United Kingdom | 62 | 1 | 72 |
| Germany | 51 | 2 | 30 |
| Portugal | 50 | 28 | 70 |
| Sweden | 48 | –8 | 62 |
| Spain | 38 | 23 | 75 |
| Ireland | 37 | 12 | 70 |
| Finland | 32 | 1 | 97 |
| Belgium | 28 | 6 | 25 |
| Austria (*) | 27 | 6 | 30 |
| France | 19 | 1 | 20 |
| Luxembourg | 18 | –7 | 90 |
| Greece | 15 | 11 | 95 |
| Italy | 11 | 4 | 56 |

NOTES: (*) Includes commercial loans.
SOURCE: European Central Bank, European Mortgage Federation and Eurostat.

## SUBSTANTIAL DIFFERENCES IN PER CAPITA MORTGAGE BORROWING IN EUROPE

2002, in euros




NOTES: (*) Members of European Mortgage Federation only.
SOURCE: European Mortgage Federation, national sources and internal figures.

***Savings banks play outstanding role in mortgage market in Spain, Germany and Austria.***

The structure of markets by type of mortgage lending institution is also quite diverse. In the third quarter of 2003, according to figures from the European Mortgage Federation, the mortgage market in Italy and Portugal was completely dominated by the general trading banks. In other countries the lead is also held by the commercial banks but to a lesser extent, for example, Belgium (95% of gross residential loans), Greece and

Ireland (81%) and the United Kingdom (76%). Savings banks also have an outstanding role in various countries, as for example, Spain (53%), Germany (45%) and Austria (37%). In other countries, the lead is taken by mortgage loan societies, as is the case in Denmark and Sweden where they account for 90% of the market. In some countries, institutions of a cooperative or mutual benefit nature hold considerable weight, as is the case in Austria (32%), Finland (23%), while in Germany the *Bausparkassen* account for 20% and building societies in Ireland make up 19% and in the United Kingdom 16%. Finally, in some European countries, insurance companies and pension funds have a notable presence in the mortgage market, for example, Germany (8%), the Netherlands (7%), Finland (7%) and Belgium (3%).

***Mortgage loans mainly financed through customer deposits…***

The means by which mortgage loans are financed depends on their type and regulations in the various countries. There are two main types of financing by mortgage institutions, namely general or specialized. General financing is carried out against deposits, bank bonds, interbank loans, insurance premiums and equity. In fact, in most member states mortgage loans are financed mainly by customer deposits. Specialized financing methods having recourse to capital markets are used to a lesser extent and include mortgage bonds and mortgage securitization bonds.

***…although issues of mortgage bonds…***

There is no European definition for mortgage bonds. Nevertheless, according to the directive on mutual investment in transferable securities issued in 1988, mortgage bonds must have the following characteristics: they must be issued by credit institutions, be subject to special supervision by the public authorities, have sufficient cover for the obligations arising from the bonds, confer privileges to holders in the case of insolvency of the issuer and be notified to the European Commission. In 2002, the issue of mortgage bonds was quite uneven in the various European countries. In Spain and France total mortgage bonds underwent a major increase with year-to-year change rates of 76.3% and 34.9% respectively. On the other hand, in the Netherlands and Austria the figures showed a drop.

TOTAL MORTGAGE BONDS OUTSTANDING

| | Million euros | | | Year-to-year change rates as % | |
|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2001 | 2002 |
| Denmark (1) | 165,985 | 199,852 | 221,174 | 20.4 | 10.7 |
| Germany (2) | 247,484 | 200,438 | 208,694 | –19.0 | 4.1 |
| Sweden (3) | 65,128 | 65,445 | 70,906 | 0.5 | 8.3 |
| France | 47,701 | 43,006 | 58,000 | –9.8 | 34.9 |
| Spain | 11,539 | 14,328 | 25,266 | 24.2 | 76.3 |
| Norway | 15,796 | 18,217 | 20,555 | 15.3 | 12.8 |
| Luxembourg | 6,461 | 11,012 | 13,134 | 70.4 | 19.3 |
| Austria (4) | 4,542 | 4,256 | 3,860 | –6.3 | –9.3 |
| Netherlands | 1,258 | 992 | 876 | –21.1 | –11.7 |

NOTES: (1) Includes mortgage bonds expressed in euros.
(2) Figures refer to Hypothekenpfandbriefe and Schiffspfandbriefe.
(3) Bonds issued in Swedish market and abroad.
(4) Figures refer to Hypothekenpfandbriefe.
SOURCE: European Mortgage Federation, national sources and internal figures.

***…and mortgage backed securities undergo big increase in some countries.***

Securitization is the process of converting assets which generate monetary flows into negotiable securities. These differ from mortgage bonds in that the mortgage assets are removed from the balance sheet of the institution involved, among other differences. The total volume of mortgage backed securities is relatively small and the volume is very different depending on country. Nevertheless, it is in a growth stage and in 2002 there were sharp increases in the Netherlands and in Spain.

***European national markets show sharp differences…***

The sharp differences in the European national markets are a result of historical differences in demography and in the political and regulatory frameworks. Lender rates are different and the same occurs with the type of product being offered. These vary with regard to the ratio of the loan figure to the value of the housing unit, the term of mortgage loans and the adjustment of interest rates during the life of the loan. Furthermore, mortgage loans include a complex group of financial and non-financial services which vary from country to country. Rights and obligations differ as well as the complementary services connected to the mortgage, such as related insurance products.

***…and difficulties exist for trans-border mortgage loans.***

While advances have been made in the creation of a European mortgage market and, as mentioned earlier, there has been convergence of interest rates, there still exist many difficulties in the way of trans-border mortgage loans. The main obstacles are differences in mortgage legislation, in the registering of real estate property and in such matters as seizures and insolvencies. Although the needs and demands of mortgage borrowers are not necessarily the same in all European countries, the various factors which prevent a more efficient functioning of the European mortgage market will need to be removed.

***Generally favourable prospect for European mortgage market.***

Prospects for the European mortgage market in general are relatively favourable. This is based on forecasts that interest rates will remain at low levels over the short term with moderate increases over the medium term.

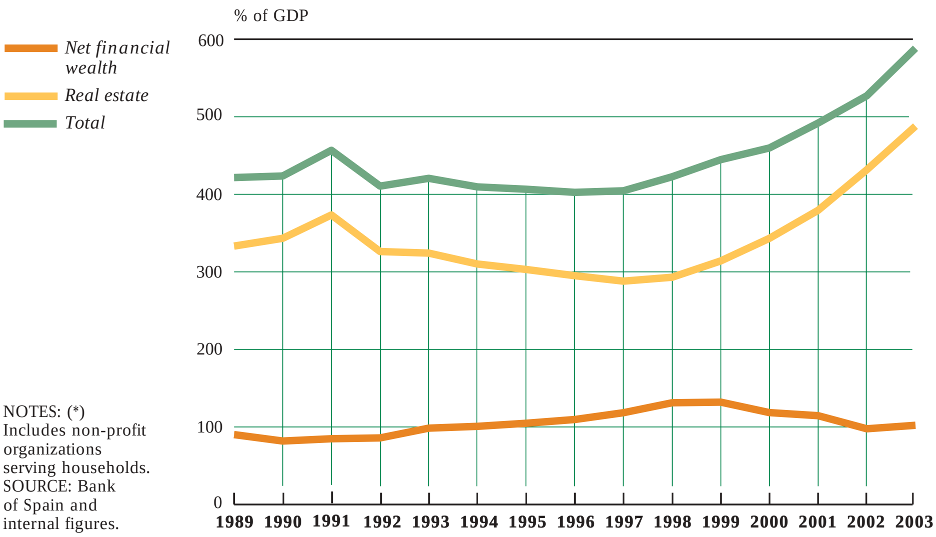
## Wealth of households shows improvement in 2003

***Financial assets of households up 14% in 2003 following drop year before.***

The financial position of Spanish households showed a substantial improvement in 2003, according to Bank of Spain figures. The investment portfolio of households as a whole amounted to 1,270 billion euros, a notable rise of 14.1% compared with 2002, a year in which portfolio value showed a drop. At the end of 2003, financial assets accounted for 170.4% of the gross domestic product (GDP), 11.0 points more than in 2002.

REAL ESTATE PROPERTY BOOSTS WEALTH OF HOUSEHOLDS

Wealth of households (*) by component




NOTES: (*) Includes non-profit organizations serving households.
SOURCE: Bank of Spain and internal figures.

***Net financial wealth on rise following three years of decreases.***

If we subtract household liabilities and debts from financial assets, the result gives us net financial wealth. The year 2003 was also positive in this case given that the figure rose by 4.5 percentage points in terms of the GDP, following three years of decreases thus putting it at 99.9%. If we add the value of all real estate owned by households to net financial wealth it turns out that total wealth of households was 5.8 times the value of the GDP in 2003, a notable increase over the previous year, according to Bank of Spain figures. It should be noted that under the heading of households the Bank of Spain includes private non-profit institutions which include organizations of a religious, charitable and trade union type, etc.

***Deposits lose ground because of low interest rates.***

Bank deposits were the type of asset to show least growth in 2003 in relative terms, in contrast to the year before. As a result, bank deposits rose by 4.4% to 446.3 billion euros. Their share of total assets thus dropped by 3.3 points to stand at 35.3%. As a percentage of the GDP they were down 1.3 points to 60.1%. The drop in share shown by deposits may be explained by their loss of attractiveness because of interest rates at very low levels in recent decades. It should be remembered that in 1989, deposits represented 50% of the total, 14.5 points more than at the end of 2003.

FINANCIAL ASSETS AND LIABILITIES OF HOUSEHOLDS (*)

| | 2003 | | | Annual change | | Change over 5 years | |
|---|---|---|---|---|---|---|---|
| | Million euros | Breakdown as a % | % of GDP | Million euros | As percentage | Million euros | As percentage |
| **Financial assets** | | | | | | | |
| Cash | 62,221 | 4.9 | 8.4 | 12,565 | 25.3 | 12,797 | 25.9 |
| Deposits | 446,298 | 35.3 | 60.1 | 18,920 | 4.4 | 161,065 | 56.5 |
| Securities other than shares | 36,577 | 2.9 | 4.9 | 9,747 | 36.3 | 14,305 | 64.2 |
| Share and participations in mutual funds | 483,414 | 38.2 | 65.1 | 94,611 | 24.3 | 38,449 | 8.6 |
| Insurance technical reserves | 191,206 | 15.1 | 25.7 | 16,288 | 9.3 | 87,100 | 83.7 |
| Other | 46,376 | 3.7 | 6.2 | 4,471 | 10.7 | 16,587 | 55.7 |
| **Total** | **1,266,092** | **100.0** | **170.4** | **156,603** | **14.1** | **330,303** | **35.3** |
| **Financial liabilities** | | | | | | | |
| Loans | 443,774 | 87.4 | 59.7 | 69,018 | 18.4 | 235,938 | 113.5 |
| Other | 63,811 | 12.6 | 8.6 | 4,847 | 8.2 | 15,338 | 31.6 |
| **Total** | **507,585** | **100.0** | **68.3** | **73,864** | **17.0** | **251,276** | **98.0** |
| **Net financial assets** | **758,508** | **–** | **102.1** | **82,739** | **12.2** | **79,027** | **11.6** |

NOTES: (*) Includes non-profit institutions serving households.
SOURCE: Bank of Spain and internal figures.

***Fixed-interest securities show biggest relative annual rise.***

Fixed-interest securities, which include Treasury notes, Treasury bills and bonds, showed the biggest relative annual rise at 36.3%. The increase was largely made up of long-term instruments which rose by 38.8%. The proportion of securities other than shares rose by a half-point to 2.9%.

***Share portfolio of individuals up by 24% in 2003 following three years of decreases.***

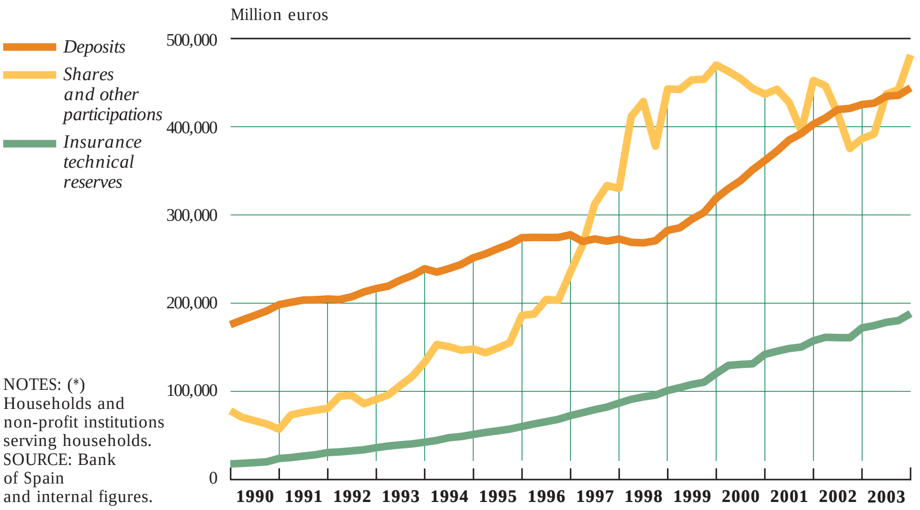
With regard to the share portfolio, which includes participations in mutual funds, this rose to 483.4 billion euros, a considerable increase of 24.3% following three years of decreases. As a result, its share of the total rose by 3.1 points to 38.2% but was still far from the 48.0% reached in mid-1998. The annual increase in 2003 (94.6 billion euros) was largely due to capital gains on the markets, given that net acquisitions amounted to 22.7 billion euros. Most of this increase was made up of the purchase of participations in mutual funds (17.4 billion euros in net terms) while net acquisitions of listed shares held directly by households amounted to only 930 million euros, less than one-third of the figure the year before.

***Mutual funds shares recover.***

Mutual funds shares rose by 16.2% following four years of decreases going to a figure of 153.5 billion euros. Their weighting in the total figure rose by 0.2 points to 12.1%, although this was considerably below the high of 19.4% in September 1998. The various types of fund showed an uneven trend. The biggest net acquisitions were recorded in guaranteed share-based funds in view of the improvement on the stock markets.

SHARE PORTFOLIO AGAIN HIGHER THAN DEPOSITS

Financial assets of households and non-profit institutions (*)




NOTES: (*) Households and non-profit institutions serving households.
SOURCE: Bank of Spain and internal figures.

*Insurance products record highest increase in last five years.*

With regard to products related to insurance, these continued to advance in 2003 with a rise of 9.3%. Their share of the total, however, dropped by 0.7 points to 15.1%. In terms of the GDP, they rose by 0.6 points to 25.7%. Insurance products have been the type of asset showing the biggest growth over the past five years (83.7%) benefiting as they do from favourable tax treatment. Finally, cash increased by 25.3% in 2003 marking up a new all-time high.

*Indebtedness of households increasing at strong rate…*

In addition, financial liabilities of households and non-profit institutions rose to 507.6 billion euros at the end of 2003, an annual rise of 17.0%. The increase in indebtedness was fostered by very low interest rates and the state of consumer confidence boosted by job creation. In relative terms, debt of households and non-profit institutions stood at 40.1% of financial assets, one point more than the year before and accounting for 68.3% of the GDP, 6.0 points more than the year before. These ratios are comparable with those in European countries such as Germany.

*…although financial burden holds at moderate levels.*

Loans continued to make up the main financial liability of individuals accounting for 87.4% of the total. Total loans amounted to 18.4% in 2003. The rise in real estate prices helped boost the growth of loans because this represented more security. Relative indebtedness of households in terms of loans against gross disposable income, continued to increase going above 90% in the final quarter of 2003. This meant an increase in the related financial burden although this held at moderate levels. The debt ratio of households in relation to gross disposable income for the first time stood above the average for the euro area, although it was considerably lower than in countries such as the United States and the United Kingdom.

# BANKING SYSTEM

## CUSTOMER RESOURCES IN BANKING SYSTEM

Balances at March 31, 2004 and trend, in million euros

| Type of institution | Balance | | | Share | | |
|---|---|---|---|---|---|---|
| | March 31, 2004 | December 31, 2003 | % change | March 31, 2004 | December 31, 2003 | Change |
| **Banks** | **459,431** | **435,293** | **5.55** | **47.44** | **46.83** | **0.62** |
| **Savings banks** | **461,930** | **448,571** | **2.98** | **47.70** | **48.25** | **–0.55** |
| **Credit cooperatives** | **47,037** | **45,739** | **2.84** | **4.86** | **4.92** | **–0.06** |
| **Total** | **968,398** | **929,603** | **4.17** | **100** | **100** | |

NOTES: Based on non-consolidated figures. Includes customer deposits, marketable debt securities and subordinated debt in the public balance sheet. Does not include branches of foreign lending institutions with main head office in Europe.
SOURCE: AEB, «Balances y Estadísticas de la Banca en España»; CECA, «Boletín Estadístico» and internal figures.

## RANKING OF MAIN BANK AND SAVINGS BANK GROUPS BY CUSTOMER RESOURCES (1)

Balances at March 31, 2004, in million euros

| | Consolidated groups | Balance at March 31, 2004 | Balance at December 31, 2003 | Change over December 2003 | % change over December 2003 |
|---|---|---|---|---|---|
| 1 | **Santander Central Hispano** | **228,429.5** | **214,997.9** | **13,431.6** | **6.25** |
| 2 | **Banco Bilbao Vizcaya Argentaria** | **192,740.7** | **182,831.2** | **9,909.5** | **5.42** |
| 3 | **Caja de Ahorros y Pensiones de Barcelona** | **96,070.9** | **91,214.0** | **4,856.9** | **5.32** |
| 4 | **C. A. y M. P. de Madrid** | **62,493.3** | **60,831.3** | **1,661.9** | **2.73** |
| 5 | **Banco Popular Español** | **40,981.2** | **37,464.0** | **3,517.2** | **9.39** |
| 6 | **Banco Sabadell** (2) | **33,156.8** | **30,794.4** | **2,362.3** | **7.67** |
| 7 | **Caja de Ahorros de Valencia, Castellón y Alicante** | **27,565.7** | **24,268.6** | **3,297.1** | **13.59** |
| 8 | **Caja de Ahorros de Cataluña** | **22,179.4** | **21,969.6** | **209.8** | **0.96** |
| 9 | **Caja de Ahorros del Mediterráneo** | **19,803.3** | **20,057.8** | **–254.5** | **–1.27** |
| 10 | **Bankinter** | **17,529.2** | **17,992.4** | **–463.1** | **–2.57** |
| 11 | **C. A. y M. P. de Zaragoza, Aragón y Rioja** | **16,026.0** | **15,838.5** | **187.4** | **1.18** |
| 12 | **Caja de Ahorros de Galicia** | **15,821.6** | **15,643.0** | **178.6** | **1.14** |
| 13 | **M. P. y C. A. de Ronda, Cádiz, Almería, Málaga y Antequera** | **14,393.2** | **14,041.8** | **351.4** | **2.50** |
| 14 | **Bilbao Bizkaia Kutxa** | **12,256.3** | **12,571.3** | **–315.0** | **–2.51** |
| 15 | **Caixa de Aforros de Vigo, Ourense e Pontevedra** | **11,547.4** | **11,189.0** | **358.3** | **3.20** |
| 16 | **Caja España de Inversiones, C. A. y M. P.** | **10,998.8** | **10,915.1** | **83.7** | **0.77** |
| 17 | **Caja de Ahorros de Salamanca y Soria** | **10,203.3** | **10,230.5** | **–27.2** | **–0.27** |
| 18 | **Banco Pastor** | **9,268.3** | **8,496.9** | **771.4** | **9.08** |
| 19 | **C. A. y M. P. de Guipúzkoa y San Sebastián** | **8,927.9** | **8,686.4** | **241.5** | **2.78** |
| 20 | **Caja de Ahorros de Castilla-La Mancha** | **8,642.7** | **8,214.8** | **427.9** | **5.21** |

NOTES: (1) Includes customer deposits, marketable debt securities and subordinated debt in the public consolidated balance sheet.
(2) Figure for resources in December 2003 includes those of Banco Atlántico which joined the Banco Sabadell group in March 2004.
SOURCE: AEB, «Balances y Estadísticas de la Banca en España»; CECA, «Boletín Estadístico» and internal figures.

## TREND IN CUSTOMER RESOURCES IN SAVINGS BANK GROUPS BY AUTONOMOUS COMMUNITY (1)

Consolidated figures in million euros. On March 31, 2003

| Consolidated groups (2) | Balance | | Change over December 2003 | % change over December 2003 |
|---|---|---|---|---|
| | March 31, 2004 | December 31, 2003 | | |
| **Andalusia** | **43,591.3** | **42,561.5** | **1,029.8** | **2.42** |
| M. P. y C. A. de Ronda, Cádiz, Almería, Málaga y Antequera - Unicaja | 14,393.2 | 14,041.8 | 351.4 | 2.50 |
| M. P. y C. A. de Huelva y Sevilla | 8,405.6 | 7,878.1 | 527.5 | 6.70 |
| C. A. y M. P. de Córdoba - Cajasur | 8,226.6 | 8,358.2 | –131.6 | –1.57 |
| Caja General de Ahorros de Granada | 6,515.8 | 6,378.3 | 137.5 | 2.16 |
| Caja de Ahorros San Fernando de Sevilla y Jerez | 5,704.5 | 5,548.7 | 155.8 | 2.81 |
| Caja Provincial de Ahorros de Jaén | 345.6 | 356.4 | –10.8 | –3.02 |
| **Aragon** | **20,776.9** | **20,508.0** | **268.9** | **1.31** |
| C. A. y M. P. de Zaragoza, Aragón y Rioja. Ibercaja | 16,026.0 | 15,838.5 | 187.4 | 1.18 |
| Caja de Ahorros de la Inmaculada de Aragón | 4,750.9 | 4,669.5 | 81.4 | 1.74 |
| **Asturias** | | | | |
| Caja de Ahorros de Asturias | **5,828.5** | **5,932.6** | **–104.1** | **–1.75** |
| **Balearic Islands** | **4,867.6** | **4,874.6** | **–7.0** | **–0.14** |
| C. A. y M. P. de las Baleares - Sa Nostra | 4,674.8 | 4,673.1 | 1.8 | 0.04 |
| Caja de Ahorros de Pollença «Colonya» | 192.7 | 201.5 | –8.8 | –4.36 |
| **Canary Islands** | **8,206.2** | **8,051.7** | **154.5** | **1.92** |
| Caja General de Ahorros de Canarias | 4,786.6 | 4,701.7 | 84.9 | 1.81 |
| Caja Insular de Ahorros de Canarias | 3,419.6 | 3,350.0 | 69.6 | 2.08 |
| **Cantabria** | | | | |
| Caja de Ahorros de Santander y Cantabria | **4,317.5** | **4,403.7** | **–86.2** | **–1.96** |
| **Castile-Leon** | **32,628.0** | **32,588.9** | **39.0** | **0.12** |
| Caja España de Inversiones, C. A. y M. P. | 10,998.8 | 10,915.1 | 83.7 | 0.77 |
| Caja de Ahorros de Salamanca y Soria - Caja Duero | 10,203.3 | 10,230.5 | –27.2 | –0.27 |
| Caja de Ahorros Municipal de Burgos | 4,894.7 | 4,787.8 | 106.9 | 2.23 |
| C. A. y M. P. de Segovia | 2,280.4 | 2,319.7 | –39.3 | –1.69 |
| C. A. y M. P. del C.C.O. de Burgos | 2,204.4 | 2,220.8 | –16.3 | –0.74 |
| C. A. y M. P. de Ávila | 2,046.4 | 2,115.0 | –68.7 | –3.25 |
| **Castile-La Mancha** | **9,358.3** | **8,924.6** | **433.7** | **4.86** |
| Caja de Ahorros de Castilla-La Mancha | 8,642.7 | 8,214.8 | 427.9 | 5.21 |
| Caja de Ahorros Provincial de Guadalajara | 715.6 | 709.8 | 5.8 | 0.82 |
| **Catalonia** | **148,526.4** | **142,373.2** | **6,153.2** | **4.32** |
| Caja de Ahorros y Pensiones de Barcelona - ”la Caixa” | 96,070.9 | 91,214.0 | 4,856.9 | 5.32 |
| Caja de Ahorros de Cataluña | 22,179.4 | 21,969.6 | 209.8 | 0.96 |
| Caja de Ahorros del Penedés | 7,964.0 | 7,501.5 | 462.5 | 6.17 |
| Caja de Ahorros de Sabadell | 4,674.5 | 4,576.5 | 98.0 | 2.14 |
| Caja de Ahorros de Terrassa | 4,480.8 | 4,289.9 | 190.9 | 4.45 |
| Caja de Ahorros de Tarragona | 3,645.0 | 3,595.6 | 49.4 | 1.37 |
| Caja de Ahorros Laietana | 3,161.2 | 3,064.2 | 97.0 | 3.16 |
| Caja de Ahorros de Girona | 2,964.6 | 2,915.5 | 49.0 | 1.68 |
| Caja de Ahorros de Manresa | 2,188.9 | 2,067.3 | 121.6 | 5.88 |
| Caja de Ahorros Comarcal de Manlleu | 1,197.1 | 1,179.1 | 18.0 | 1.52 |

| Consolidated groups (2) | Balance | | Change over December 2003 | % change over December 2003 |
|---|---|---|---|---|
| | March 31, 2004 | December 31, 2003 | | |
| **Valencian Community** | **47,874.1** | **44,826.7** | **3,047.4** | **6.80** |
| Caja de Ahorros de Valencia, Castellón y Alicante - Bancaja | 27,565.7 | 24,268.6 | 3,297.1 | 13.59 |
| Caja de Ahorros del Mediterráneo - CAM | 19,803.3 | 20,057.8 | –254.5 | –1.27 |
| C. A. y M. P. de Ontinyent | 505.1 | 500.4 | 4.8 | 0.95 |
| **Extremadura** | **5,595.6** | **5,630.7** | **–35.1** | **–0.62** |
| C. A. y M. P. de Extremadura | 3,465.5 | 3,433.6 | 31.9 | 0.93 |
| M. P. y Caja General de Ahorros de Badajoz | 2,130.0 | 2,197.1 | –67.0 | –3.05 |
| **Galicia** | **27,368.9** | **26,832.0** | **536.9** | **2.00** |
| Caja de Ahorros de Galicia | 15,821.6 | 15,643.0 | 178.6 | 1.14 |
| Caixa de Aforros de Vigo, Ourense e Pontevedra - Caixanova | 11,547.4 | 11,189.0 | 358.3 | 3.20 |
| **La Rioja** | | | | |
| Caja de Ahorros de La Rioja | **1,769.6** | **1,698.1** | **71.6** | **4.22** |
| **Madrid Community** | | | | |
| C. A. y M. P. de Madrid | **62,493.3** | **60,831.3** | **1,661.9** | **2.73** |
| **Murcia** | | | | |
| Caja de Ahorros de Murcia | **7,644.4** | **7,114.9** | **529.5** | **7.44** |
| **Navarre** | | | | |
| C. A. y M. P. de Navarra | **7,280.4** | **7,252.3** | **28.1** | **0.39** |
| **Basque Country** | **25,116.4** | **25,316.3** | **–199.9** | **–0.79** |
| Bilbao Bizkaia Kutxa - BBK | 12,256.3 | 12,571.3 | –315.0 | –2.51 |
| C. A. y M. P. de Guipúzkoa y San Sebastián - Kutxa | 8,927.9 | 8,686.4 | 241.5 | 2.78 |
| Caja de Ahorros de Vitoria y Álava - Vital | 3,932.2 | 4,058.6 | –126.4 | –3.12 |
| **Total Savings Bank Groups** | **463,243.3** | **449,721.0** | **13,522.3** | **3.01** |

NOTES: (1) Includes customer deposits, marketable debt securities and subordinated debt in the public balance sheet.
(2) Except in case of C. A. y M. P. de Ontinyent, Caja de Ahorros de Pollença «Colonya» which have no consolidated group.
SOURCE: CECA, «Balances de las Cajas de Ahorros», «Boletín Estadístico» and internal figures.

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