THE SPANISH ECONOMY:

MONTHLY REPORT

JULY-AUGUST 2004

No. 271 Contents

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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	4.8	5.0	4.0
Japan	–0.3	2.5	3.6	2.5	2.2	1.8	3.5	5.0	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	2.5	2.9	2.1	2.2	1.9	1.8	2.8	2.7
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	2.2	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*	*1.5*	*1.2*	*0.8*	*1.0*	*1.2*	*1.1*	*1.9*	*1.6*
France	*1.9*	*2.1*	*2.1*	*2.4*	*1.9*	*1.9*	*2.2*	*1.8*	*2.4*	*2.3*
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
Other variables										
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	3.0	3.7	2.8	2.9	2.7	2.2	3.2	3.4
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	4.6	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

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July-August 2004

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(See Chapter on Spanish Banking System)

Design, make-up page and printing: www.cege.es - Ciutat d'Asunción, 42 - 08030 Barcelona D. L.: B. 21063-1980 ISSN: 1134-1920
Internet edition: J.J. Serveis d'Informàtica S.L. - www.comunicacions.com - Travessera de Dalt 30 - 08024 Barcelona

ECONOMIC OUTLOOK FOR 2004

World recovery continues strong with prospects even brighter than those in April and May, thanks to decrease in per-barrel price of oil in June. Strong economic activity in the United States in the second quarter supports the growth forecast for the year as a whole of the order of 4.5% (3.1% in 2003). Existing risks are not to be ignored both over the short term (basically the price of oil) and over the medium term (foreign and public imbalances) but for the moment flexibility and the ability to improve productivity demonstrates that the U.S. economy allows us to keep to a relatively optimistic forecast. Nor is the recent rise in inflation considered important coming as it does in the current cyclical position of the economy with an increase in consumer prices foreseen at around 2.5% in 2004, two decimals more than last year.

In the Asian area **it may be foreseen that** China **will gradually moderate its growth rate** over coming months with bigger price increases. Japan's growth has reached levels of 5%, well above the normal figures for recent years and it is also expected there will be some containment of the rate of economic activity in coming quarters. **The** euro area **will continue to lag behind** the United States and Asia. After moving up by a modest 0.4% in 2003, thanks to the contribution from the foreign sector and some recovery of domestic demand, the euro area will reach growth of more than 1.5% in 2004. In turn, inflation will stand somewhat above 2% in 2004 on average, also above the increase in 2003, mainly because of the effect of the high price of oil in recent months.

In this context it is expected that the U.S. Federal Reserve Board **will repeat its upward move in interest rates** with a further rise, possibly in August. The Bank of England will likely continue to tighten its monetary policy in coming months. On the other hand, the European Central Bank for the moment **will maintain its present position**. Long-term interest rates will stay oriented upwards due to prospects of higher inflation. The euro stands at an unclear level against the dollar but could end up starting a new stage of strength because of downward pressures on the U.S. currency due to its high foreign current account deficit.

With regard to Spain's economy, we note **signs of increasing moderation** in the growth rate of some indicators. On the supply side, recovery in industry appears to have taken on a slower pace while in construction we see some easing of the previous high growth rates. The situation in services generally continues to be positive although not without certain disparities. On the other hand, it is possible that the rise in the inflation rate will have a somewhat negative effect on the purchasing power of consumers although for the moment the growth in employment and low interest rates continue to boost demand, thus counteracting that effect. If, as expected, pressures on oil prices diminish, there could be some turnaround in the rise in inflation which then might stand at close to 3% at the end of the year.

June 30, 2004

Time of low interest rates coming to end

Federal Reserve Board raises reference rate to 1.25% thus ending period of extremely easy monetary policy starting at beginning of 2001 when interest rate was 6.5%.

On June 30 the Federal Reserve Board, the U.S. central banking system, raised its reference rate by 0.25 points putting it at 1.25%, thus taking a first step to end a long period of very low interest rates in a context of extremely easy monetary policy. It should be remembered that at the beginning of 2001, after nearly a decade of sustained growth and in view of the risk of stagnation or recession and even deflation, the Federal Reserve Board began an aggressive easing of monetary policy. Starting out from a level of reference rates at 6.5%, cut followed cut in the face of the effective slowdown of economic activity, collapse of the stock markets and terrorist attacks on September 11, 2001. Three and a half years later recovery of economic activity appears to be consolidated, employment is again being created and even some signs of inflation have appeared so that it now makes no sense to maintain nominal interest rates so low any longer.

Start of interest rate increases reflects consolidation of world recovery.

The turnaround in monetary policy by the Federal Reserve Board was preceded by similar moves by central banks in the United Kingdom, New Zealand and Switzerland and is it likely that other countries will sooner or later follow suit. The main reason lies in the favourable situation in the world economy and the risk of inflation which goes with an economy in a growth stage. The International Monetary Fund has announced its intention to revise slightly upward its growth forecasts for the world economy issued in mid-April which even then drew an optimistic growth scenario for 2004 and 2005.

Threat of high oil prices fades in June thanks to increased production by OPEC.

Even the threat posed by oil prices close to 40 dollars a barrel, which caused serious concern in April and May, seems to have been warded off. In June, the Organization of Petroleum Exporting Countries (OPEC) decided to increase production to the highest levels in the past 25 years in order to meet fast growing demand. Saudi Arabia and the United Arab Emirates brought to bear the efforts of the oil cartel and managed to bring the per-barrel price of Brent quality oil down to 35 dollars at the end of June.

Recovery in euro area still just beginning although inflation goes up more than desired.

However, in the euro area any rise in monetary interest rates still seems far off. While in the first quarter the euro area benefited from an increase in the growth rate rising to 1.3% year-to-year (0.7% year-to-year in the fourth quarter of 2003), this recovery came from the contribution of the foreign sector and the lack of drive in private consumption is troubling. And, if this were not enough, inflation has shot up higher than levels desired by those in charge of monetary policy. The high oil prices seen in recent months have meant that the harmonized consumer price index went from an annual low of 1.6% year-to-year in February to 2.5% in May. Industrial production prices have also increased.

Bank of Japan maintains easy money to maximum although recovery of economic activity improving.

Nor is it likely that Japan's central bank will change its monetary policy over the short term with interest rates being held at practically 0%. The Japanese economy has shown strong signs of recovery but some caution should be maintained. The heavy dependence on the foreign sector continues to grow and deflation still persists. The real estate sector, which is of special significance in the case of Japan, is giving indications of incipient recovery but the poor experience of the past decade is still far too recent.

Stock market goes through complicated first quarter which finally ends with modest advances while dollar halts its drop.

The turnaround in U.S. monetary policy scarcely affected the stock markets while the harm caused in the bond market was modest given that investors had anticipated the move. In the first half-year, the stock markets showed modest advances compared with the brilliant course followed in 2003 within a framework of ups and downs. The sharp responses brought about by the terrorist attacks in Madrid, the worsening situation in the Middle East and Iraq, the growing upward prospects for interest rates set by the Federal Reserve Board as of the end of the first quarter and the rise in oil prices meant it would mark up annual lows in mid-May. In turn, the dollar halted its downward slide in the first half of 2004 in spite of the worsening of the current account deficit, thanks to currency purchases by Asian central banks and anticipation of the restrictive turn taken by the Federal Reserve Board.

Spanish economy: growth moderating

Spain's economy continues to grow at strong rate although some signs of moderation noted.

With regard to Spain's economy, economic activity indicators for the first half-year confirm the good growth rate (close to 3%) while at the same time some signs of moderation of the growth rate can be seen in the figures for the second quarter of 2004. In this respect, we should mention containment of the increase in electrical power consumption in April and May, the modest growth in the industrial production index in April, the drop in cement consumption in April and May as well as the decrease in overnight hotel stays by foreign tourists in those same months.

Some branches of industry facing difficult markets but utilization of overall production capacity on increase.

In the case of industry, the performance of the various branches of economic activity has been very uneven. Metallurgy and machine building and electrical equipment show strong growth, whereas companies related to electronics and data-processing equipment have gone through a notable recession. At the same time, the drop in industrial employment continues (2.2% year-to-year in the first quarter, according to the labour force survey) which gives a measure of the efforts in terms of productivity being carried out by manufacturing industry in a context of globalization and the growing opening up of the world market. In any case, we should point out that both the industrial climate index and the rate of utilization of production capacity of companies have improved in the figures for the second quarter.

Construction sector remains strong especially in terms of housing.

With regard to construction, the drop in apparent cement consumption mentioned earlier seems to be the result of specific effects in the statistical reference series, given that in general it is estimated that growth of economic activity, even if it is not going to the high levels of previous years, continues to show notable strength. In the case of housing, demand continues very strong, if we are to go by available figures on mortgage credit and housing sale prices. Government tendering also seems to have taken on greater strength than in the early months of the year, in contrast to the sharp decreases recorded in previous months.

Services sector continues to create employment although tourism temporally affected by terrorist attacks on March 11.

With regard to services, the level of economic activity continues to be generally very positive, as can be seen from figures on employment in the sector. The biggest unknown lies in the effect the terrorist attacks in Madrid on March 11 could have on tourism. In this respect, figures for March and April showed visitor inflows somewhat below the trend in recent months while at the same time overnight hotel stays by foreigners reported a notable drop, a situation which continued in May. In any case, the general consensus is that the effects have been quite limited, a view shared by the panel of experts of the World Tourist Organization and the Bank of Spain, which also would indicate that the optimistic prospects for the summer season have not been shattered.

Inflation shoots up in second quarter because of oil.

Another factor which could affect the growth rate of the economy is the sudden worsening of the inflation rate. Whereas in the first three months of the year the consumer price index held flat, in the second quarter prices grew by nearly 2%, that is to say, practically all the growth expected for the year 2004 as a whole, according to official forecasts. The main cause lying behind this development, as in other developed economies, was the effect of the rise in oil prices. But other components are also showing more than expected inflationary pressures, such as some food products and other components of the services group.

Increase in persons registered with Social Security while foreign deficit worsens.

With regard to the labour market, we should point out the strong growth in the number of persons registered with Social Security as of May, especially with regard to registrations by immigrant workers. In the foreign sector, the balance of payments continued to worsen because of the growing deficit in transactions recorded under the current account balance.

New government announces more flexible rules on budget stability in public sector.

With regard to the public sector, we should mention the surplus arising on implementation of the central government budget in Treasury terms in the first five months of the year. In this respect, the new government coming out of the March general elections has announced changes in the Law on Budget Stability, application of which has managed to eradicate public deficits since 2002, to make it more flexible and establishing the objective of budget stability over the medium term (it being possible to incur a deficit in years of poor economic situation) instead of annually, as at present.

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.*
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 the **European Union** by ten new member states making a total of 25.*
June	**1**	*One-month forward price for Brent quality **oil** goes up to 39.2 dollars a barrel, highest level since October 1990.*
	18	*Summit meeting of Council of Europe in Brussels approves **European Constitution** which must be ratified by member states of European Union.*
	30	***U.S. Federal Reserve Board** raises reference rate by a quarter-point to 1.25%.*

AGENDA

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 (June).*

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

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

August

5 *Industrial production index (June).*

Meeting of Governing Council of European Central Bank.

10 *Meeting of Open Market Committee of U.S. Federal Reserve Board.*

12 *Consumer price index (July).*

18 *Harmonized consumer price index for European Union (July).*

25 *Producer price index (July).*

30 *Early indicator for harmonized consumer price index (August).*

September

1 *Quarterly National Accounts (2nd Quarter).*

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

9 *Industrial production index (July).*

10 *Consumer price index (August).*

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

21 *Meeting of Open Market Committee of U.S. Federal Reserve Board.*

22 *Quarterly survey of labour costs (2nd Quarter).*

27 *Producer price index (August).*

United States: employment strengthens recovery

Domestic demand in United States continues to grow as result of high rate of private consumption...

In the second quarter the United States maintained a high rate of economic activity. The sharp growth of household spending, the recovery of investment and a bigger contribution from exports were the three factors behind this economic drive. So far as concerns private consumption, the main monthly indicator, retail sales, showed a surprising rise of 8.9% year-to-year in May, the highest recorded since March 2000. The increase in consumer confidence in April and May (going to the 93.2 points level) would indicate that the rate of consumption will be maintained in coming months.

UNITED STATES: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003			2004		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	2.2	3.1	2.4	3.6	4.3	4.8	–	...
Retail sales	2.5	5.4	4.5	6.1	6.7	7.8	7.7	8.9
Sales of single-family homes	7.6	11.6	15.5	15.1	8.8	19.8	6.4	...
Consumer confidence (*)	96.6	79.8	82.7	78.6	89.7	91.6	93.0	93.2
Industrial production	–0.6	0.3	–1.0	–0.4	1.5	2.9	5.1	6.3
Industrial activity index (ISM) (*)	52.4	53.3	48.9	54.1	60.6	62.5	62.4	62.8
Unemployment rate (**)	5.8	6.0	6.1	6.1	5.9	5.6	5.6	5.6
Consumer prices	1.6	2.3	2.2	2.2	1.9	1.8	2.3	3.1
Trade balance (***)	–35.5	–42.7	–42.4	–43.5	–44.3	–45.0	–46.0	...

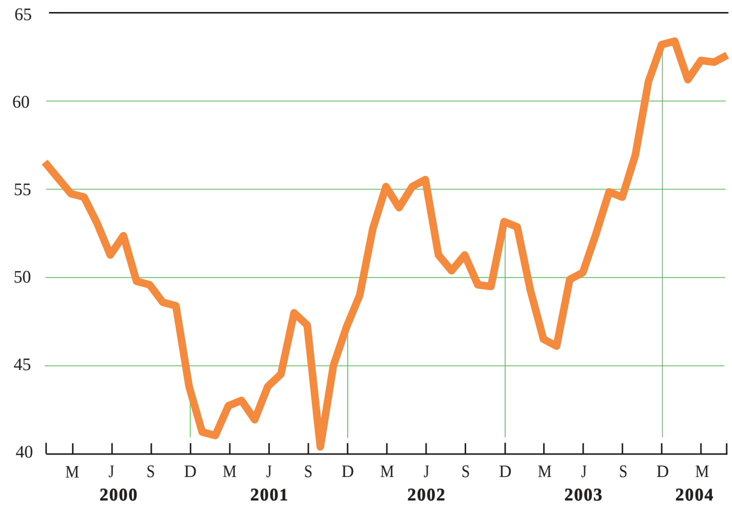
NOTES: (*) Value.
(**) Percentage of labour force.
(***) Cumulative balance for 12 months as monthly average. Billion dollars.
SOURCE: OECD, national statistical bodies and internal figures.

...and recovery of investment.

The trend in capital goods investment was also positive. Following two rather unsatisfactory years in 2001 and 2002, the capital goods component of industrial production has been gradually recovering from previous drops. In the first quarter of 2004, industrial production of capital goods grew by a notable 4.9% year-to-year. In any case, this figure was well below the year-to-year increase of 9.4% in May. Along the same lines, utilization of production capacity in April reached 76.9%, its best level since July 2001.

HIGH RATE OF ECONOMIC ACTIVITY IN UNITED STATES

ISM index of industrial activity



SOURCE: Institute of Supply Management.

Industry shows clearly upward profile which should hold in coming months.

From a sector point of view, available indicators confirm that industrial growth is moving ahead strongly. Industrial production in May stood at levels 6.3% higher than one year earlier. According to early indicators for the sector, immediate prospects are positive. Factory orders rose to 12.5% year-to-year in April while the industrial activity index put out by the Institute of Supply Management (ISM) rose to a level of 62.8 points in May.

Construction increases growth rate in second quarter.

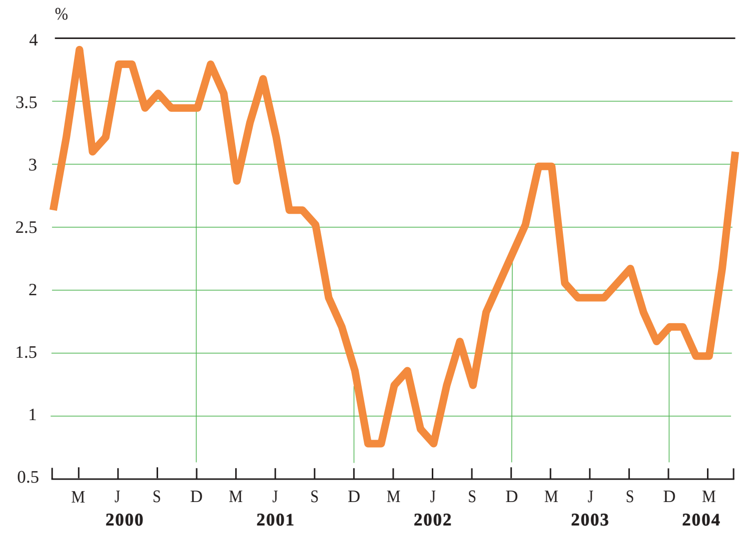
Construction is also going through good times. The year-to-year increase in building permits reached 11.4% in April, slightly improving on the average for the first quarter which stood at 9.7% year-to-year. The performance in housing starts was also quite strong with growth of 13.3% year-to-year in the first quarter which held at similar levels up until May when it rose by 12.5% year-to-year.

Oil causes notable rise in prices.

The notable rise in prices recorded in recent months was less satisfying. The main culprit of the rapid increase in inflation was the rise in crude oil prices which have shifted to intermediate and final prices in the economy. As a result, producer prices shot up to 4.9% year-to-year in May from 2.2% year-to-year in the first quarter. With regard to the consumer price index (CPI), this stood at 3.1% year-to-year in May, compared with 2.3% year-to-year in April. In spite of the fact that the year-to-year rate is partially biased upward by the base effect arising from the drop in energy prices in 2003, the truth is that the month-to-month increase was approximately twice that recorded in April. If we exclude energy and food, resulting inflation was 1.7% year-to-year, one decimal less than in April.

ENERGY RAISES PRICES IN UNITED STATES

Year-to-year change in consumer price index



SOURCE: Bureau of Labor Statistics and internal figures.

Positive job creation makes it possible to recovery close to 50% of jobs lost since 2001 recession.

Possibly the brightest factor in the U.S. macroeconomic scene in recent months has been a return to vigorous job creation. Following the atypical year 2003 when employment rose less than usually had happened in previous stages of economic recovery, since the end of that year and, at a faster rate since the beginning of 2004, the situation began to normalize. Between September 2003 and May 2004 the creation of some 1,435,000 net non-farm jobs was recorded, which represents approximately 50% of the jobs lost since the 2001 recession. The unemployment rate in turn held at 5.6% of the labour force in May showing no change over April.

Rise in domestic demand brings about further increase in trade deficit.

As domestic demand undergoes strong growth, the U.S. trade deficit continues to increase month after month. In spite of the fact that exports grew by 15.5% year-to-year in April, imports stood at scarcely lower rates of increase (14.9% year-to-year) so that the cumulative balance for 12 months on monthly average rose to 46 billion dollars, a billion more than in the first quarter.

Current account deficit goes above 5% of GDP in first quarter.

Latest available figures for the balance of payments confirm the difficulties in the first quarter. The current account deficit in the first quarter stood at a figure equivalent to 5.1% of the gross domestic product (GDP) as against 4.5% in the fourth quarter. This trend was due to the increase in the deficit in goods (approximately two-thirds of the increase in the current account deficit could be explained by the increase in the trade imbalance) and services and to the drop in the surplus in the incomes balance. At the same time, there was a worsening of the transfers balance.

Mexico: moderate growth based on foreign sector

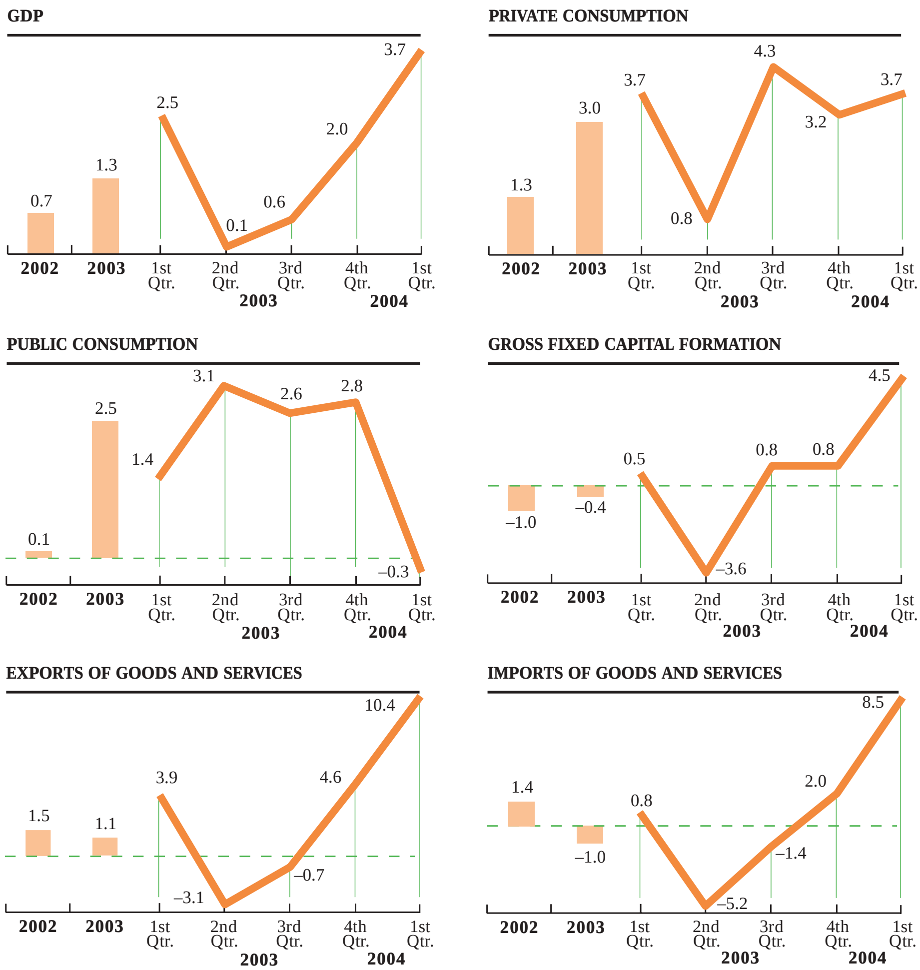
Mexico grows by 3.7% in first quarter with notably good performance in fixed capital investment, up 4.5%.

Mexico's real GDP was up by 3.7% year-to-year in the first quarter of 2004 showing strong growth compared with figures for the final quarter of 2003. By component, what stands out was the preponderance of gross fixed capital formation which grew by 4.5% compared with the same quarter last year. The good performance in investment is significant in so far as its weak showing has been the Achilles heel of the Mexican economy in recent quarters. We shall have to wait for a breakdown of this figure between public and private components keeping in mind that the former was much stronger than the second in 2003. Private consumption in the first quarter grew by 3.7% year-to-year while public consumption fell by 0.3%. Inventories made a negative contribution to growth of 0.2%.

Private consumption maintains growth.

TREND IN MEXICO'S GDP BY COMPONENT

Percentage year-to-year change rate



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

Mining and construction most dynamic sectors while recovery of manufacturing substantial.

By sector, mining and construction (with year-to-year growth of 6.4% and 4.9% respectively) were the most dynamic. Nevertheless, we should not overlook the recovery in manufactures. Whereas year-to-year growth of manufactures was 2.8% in the first quarter this figure compared very favourably with the negative growth in the previous three months. Financial services continued to show up well with year-to-year growth of 4.3% but with more of a continuing trend compared with previous periods.

Industrial production was up by 4.0% year-to-year in May. While this was a slight slowdown compared with the previous month, which reached 6.5%, we must remember that April was an exceptionally good month. In keeping with the GDP figures for the first quarter, with indices continuing on a growth path, construction is showing a better state than manufacturing but the recovery of the latter has been sharper compared with previous low levels.

MEXICO: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003			2004		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
Real GDP	0.7	1.3	0.1	0.6	2.0	3.7	–	–
Industrial production	–0.7	–0.8	–1.4	–2.2	–0.6	1.8	6.5	4.0
Unemployment rate Mexico City (*)	3.1	3.5	3.0	4.1	4.5	4.3	5.0	4.4
Consumer prices	4.9	4.7	5.2	4.1	4.0	4.2	4.2	4.2
Trade balance (**)	–8.1	–5.6	–6.4	–6.4	–5.6	–6.0	–6.0	–5.6

NOTES: (*) Percentage of labour force.
(**) Cumulative balance for 12 months. Billion dollars.
SOURCE: Central Bank of Mexico and Thomson Financial Datastream.

Improvement in productivity…

The unemployment rate in Mexico City dropped slightly in May to stand at 4.4%. Productivity in manufacturing was up 5.5% in April compared with the same period last year thus making a positive contribution to the competitiveness of Mexican products. This is a key indicator if we keep in mind that the Mexican currency has not depreciated in recent times as has happened in other neighbouring countries. If we remember that the foreign sector is a weak link in the Mexican economy, any gains in competitiveness are a factor of great importance. Confirming this, prices continued on a stable path with the CPI at 4.2% year-to-year in May, a slight drop from the 4.5% reached in March.

…but foreign sector not showing excessive strength.

Exports in the first quarter of 2004 were up by 10.4% year-to-year while imports grew by 8.5%. This allowed the foreign sector to make a positive contribution to growth although less than in the final quarter of 2003. The trade balance for the past 12 months as of May 2004 was –5.6 billion dollars. If we exclude oil exports, it showed a deficit of 25 billion dollars.

Japan: growth continues to strengthen

Japan revises first-quarter growth upward from 4.7% to 5.0%.

Japan's growth has been confirming the positive signs seen in previous months. GDP growth in the first quarter of 2004 has been revised upward from 4.7% to 5.0%. Private domestic demand contributed 4.4 percentage points of this 5 points total increase while the public sector made a negative contribution of 0.6 points. Gross fixed capital formation also confirmed the strength noted in recent months with growth of 6.0% year-to-year along with private consumption which stood at 2.9%, practically repeating the figures before the revision was made.

Industrial production reaches best levels for decade but retail sales fail to follow suit.

Industrial production joined in the signs of growth mentioned earlier. It grew by 8.7% year-to-year in April. We have to go back to the end of the Eighties to see similar growth rates. Nevertheless, retail sales in April failed to match the general situation and showed a year-to-year decrease of 1%. We shall have to wait for a few months to see clearer trends in consumer performance although signs in the labour market suggest a good state of affairs.

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.	1st Qtr.	April
GDP	–0.3	2.5	2.5	2.2	1.8	3.5	5.0	–
Retail sales	–3.9	–1.9	–1.8	–2.6	–2.2	–1.2	0.2	–1.0
Industrial production	–1.3	3.3	5.4	1.9	1.1	4.7	5.0	8.7
Tankan company index (*)	–23.0	–8.0	–17.0	–9.0	–7.0	1.0	7.0	–
Housing construction	–1.9	0.8	–2.1	2.2	–0.6	3.2	5.4	–4.1
Unemployment rate (**)	5.4	5.3	5.4	5.4	5.2	5.1	4.9	4.7
Consumer prices	–0.9	–0.3	–0.2	–0.2	–0.2	–0.3	–0.1	–0.4
Trade balance (***)	11.8	12.4	12.0	11.7	11.9	12.4	13.2	...

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

Housing still presents some doubts.

Housing presents some hopeful signs but solid recovery is still far off. While housing unit prices showed a slight upward trend in April, housing starts that month were 4% lower than in the same period last year and average prices of homes purchased did not follow the upward trend in the former.

Labour market offers positive picture with dark spots in manufacturing and finances.

The labour market also was active and in April the number of employed persons rose by 0.8% year-to-year so that the recovery begun in the summer of 2002 continued. Nevertheless, it was starting out from a very poor situation in the labour market and we shall have to wait over the next few months to see if this trend is confirmed. The services sector showed the biggest year-to-year increases (6.5%) as against the continued weakness of the manufacturing sector which lost 2.7% of employees compared with last year and the even weaker state of the financial sector which saw a 5.6% reduction in employees in April compared with the same period last year.

Productivity up 8.5% in April.

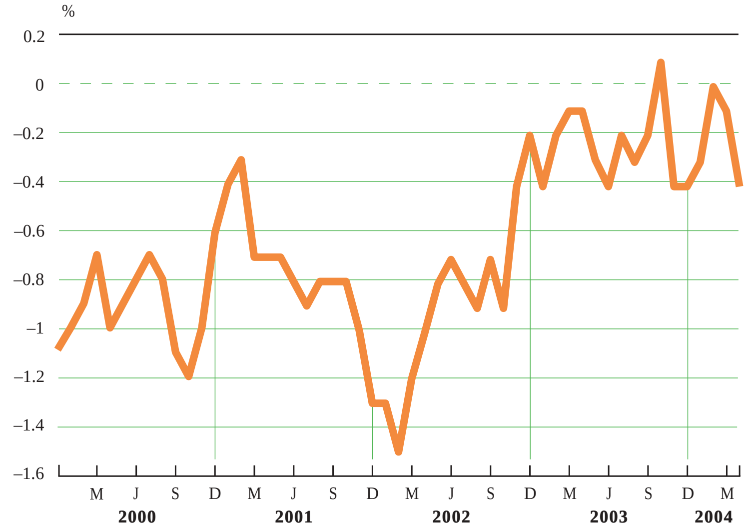
Another positive factor in the labour market was the 8.5% year-to-year growth of total productivity in industry in April. In spite of the great volatility of this index, in the present context, with most jobs in services showing losses in the financial sector, this figure is undoubtedly positive.

Prices continue to drop although moderately.

Prices were down by 0.4% year-to-year in April. Not counting fresh foods the drop was 0.3%. This represents an easing down from the decreases seen in 2001 and 2002. Nevertheless, in the case of Japan in contrast to the U.S. economy, prices still keep dropping and fears of deflation have not yet disappeared. Maintenance of growth of consumption at the strong levels seen in the first quarter should change this situation.

DEFLATION PERSISTS IN JAPAN

Year-to-year change in consumer price index



SOURCE: Ministry of Posts and Communications.

Foreign sector contributing more and more to growth.

The foreign sector continued to make a positive contribution to growth. In spite of the fact that the revision of the GDP put growth of imports at 7.2% year-to-year in the first quarter, above the 6% given in the first estimate, exports held to an increase of 15% for the same period. This contribution is following a fairly stable growth trend. Japan's trade balance showed a positive balance of 13,400 billion yen in March. The positive effects of Chinese growth are still to be noted, as well as the risks this entails.

China: strong growth with demand for raw materials

China revises first-quarter GDP slightly upward.

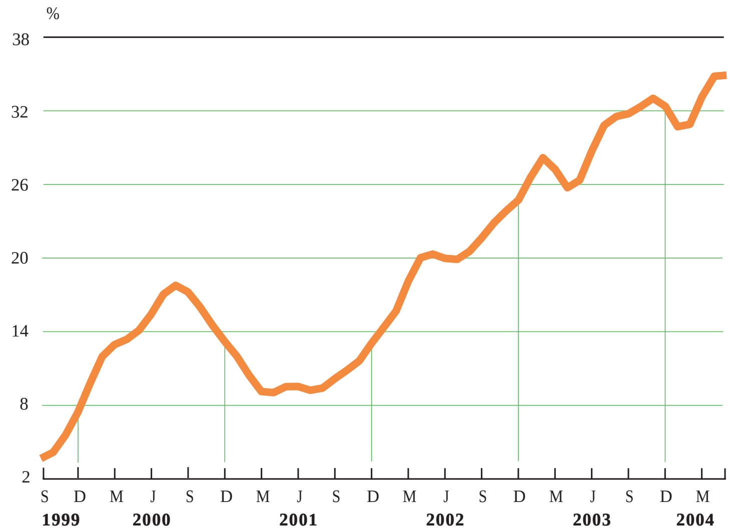
China's real GDP growth in the first quarter of 2004 was revised slightly upward going from 9.7% to 9.8% year-to-year. By sector, agriculture and industry showed no changes (4.5% and 11.6% respectively) it being the tertiary sector which was subject to changes. The tertiary sector went from 7.7% to an 8% increase compared with the previous quarter.

Industrial production shows very slight moderation.

Large state conglomerates continue to lose market share.

While growing by 17.5% year-to-year in real terms, industrial production in May 2004 showed a slight drop from March and April when it grew by 19.4% and 19.1% respectively. The pattern was the same as in recent months with higher growth in heavy industry and a drop in market share represented by state corporations. Heavy industry grew by 18.9% year-to-year in May, light industry by 16% and industrial production of state corporations by 13.8%. In all cases, we note a very slight easing of growth although it is too early to speak of «soft landings». The share of total industrial production held by state corporations continued to decrease going from 42.9% in March to 41.9% in May. Production of colour television sets, motor vehicles and computers also showed something of a slowdown while still maintaining high growth levels.

CHINESE INDUSTRY MAINTAINING STABLE GROWTH
Year-to-year change in nominal industrial production



NOTES: Cycle-trend series.
SOURCE: Chinese National Statistics Office.

Retail sales up in May.

In contrast to these slight signs of an easing of growth, retail sales grew by 17.8% year-to-year in May. This meant a clear rise compared with previous months. The imbalances between rural areas and the cities sharpened according to this indicator. Whereas in March retail sales in the cities grew by 12.8% year-to-year, they rose by 21.1% in May. In contrast, rural retail consumption rose by 7.2% and 11.7% respectively. Maintenance of strong demand, along with some moderation in supply, may be seen as positive in a country where the rate of investment has even been excessively high in recent times. The negative side may come out in prices.

Inflation rising with foods in lead.

Inflation in China rose to 3.7% year-to-year in May. More than being a correct level, what is notable is the increase compared with previous months. The year-to-year increase in March was 2.1%. The food sector recorded more notable increases going to 9.7% year-to-year in May.

CHINA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003			2004		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
Real GDP	7.8	9.0	6.7	9.6	9.9	9.8	–	...
Industrial production	12.7	16.7	15.2	16.6	17.7	16.6	19.1	17.5
Consumer prices	–1.5	1.9	1.8	1.6	3.3	2.3	2.8	3.7
Trade balance (*)	30.3	26.1	22.0	20.1	26.1	18.6	15.7	15.6

NOTES: (*) Cumulative balance for twelve months. Billion dollars.
SOURCE: Chinese National Statistics Office, internal figures and Thomson Financial Datastream.

Foreign sector continues pattern of previous months...

The trade balance for the past 12 months as of May 2004 continued to worsen with a continuation and sharpening of the pattern noted in the figures for the first quarter of 2004. It thus amounted to 15.6 billion dollars as against 22.7 billion dollars one year earlier. It should be mentioned, however, that May represented a small surplus (2.1 billion dollars) in contrast to four consecutive months of deficits.

...that is, deficit in raw materials, deficit with Asia and surplus with United States.

The trade deficits with Asia and Latin America continue to grow reaching 64.9 billion dollars and 4.4 billion dollars respectively in the 12 months as of May 2004. This represents twice that for the year before in the case of Asia. The situation with Latin America is much worse given that the year before China showed a small surplus with that region. In contrast, also following trends in recent times, the trade surplus with the United States continued to increase while at the same time there were growing pressures on China to let its currency float freely on the market. In the 12 months as of May 2004 this surplus reached 62.6 billion dollars. The deficit with Korea and Japan continues to rise although the biggest deficit of the Chinese economy is with Taiwan which amounted to 45 billion dollars in May.

Imbalance in raw materials continues to rise.

The imbalance in raw materials continues. Exports represented 40% of imports in the 12 months as of May 2004. If we look only at the figures for the month, the export/import ratio in May stood at around 30%, which was in line with recent months. We therefore see no clear signs of any moderation in Chinese demand. With regard to this point, imports of aluminium, copper, iron and oil by volume continued to rise in the 12 months as of May 2004. In the case of oil, the increase was 29%, with 50% for aluminium and 37% for iron.

Euro area: rise in inflation

Euro area grows 1.3% in first quarter thanks to contribution of foreign sector.

Growth in the euro area in the first quarter of 2004 rose to 1.3% year-to-year (0.7% year-to-year in the fourth quarter of 2003). The bigger growth of the gross domestic product (GDP) was basically due to the turnaround in the foreign sector which went from taking off a half percentage point from the change in the GDP in the fourth quarter to contributing three decimals in the first quarter. The drive in exports (increase of 3.2% year-to-year), which was higher than the rise in imports (2.7% year-to-year), went in favour of this shift in foreign demand.

Exports save first quarter.

TREND IN EURO AREA'S GDP BY COMPONENT

Percentage year-to-year change

SOURCE: Eurostat and internal figures.

Despite improved state of private consumption and investment, domestic demand slowing down.

On the other hand, domestic demand lost some of its drive due to the slowdown in public consumption (from 2.1% year-to-year in the fourth quarter to 1.5% in the first quarter) and the lower contribution from the change in inventories (only two decimals, one third of amount contributed in preceding quarter). On the other hand, the trend in private consumption was moderately more positive with growth at 0.7% year-to-year (0.6% in fourth quarter) and in investment, which went from a drop of 0.4% year-to-year in the fourth quarter to record a year-to-year increase of 0.2% in the first quarter.

EURO AREA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003			2004		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	0.9	0.5	0.1	0.4	0.7	1.3	–	...
Retail sales	0.0	0.2	0.8	–0.4	–0.5	0.1	1.0	...
Consumer confidence (*)	–11.0	–18.0	–19.0	–17.0	–16.0	–14.3	–14.0	–16.0
Industrial production	–0.5	0.4	–0.8	–0.1	1.4	1.2	1.7	...
Economic sentiment indicator (*)	94.4	93.5	91.4	94.2	97.8	98.7	100.2	100.3
Unemployment rate (**)	8.4	8.9	8.9	8.9	8.9	8.9	9.0	...
Consumer prices	2.2	2.1	1.9	2.0	2.0	1.7	2.0	2.5
Trade balance (***)	84.1	81.6	82.6	77.1	73.8	79.3	88.1	...

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

Industry beginning to improve...

With regard to the second quarter, available indicators suggest a continuation of recovery although still at a restrained rate. The most general of these indicators, that for economic sentiment, after reaching 98.7 points in the first quarter, stood at 100.3 points in May which would indicate a slight improvement in economic activity in the Spring. By sector, the economic recovery is spreading to services and, to a lesser extent, to industry. The industrial confidence indicator thus held at the minus 4-5 points level in April and May, an improvement of three points compared with the January-March average. At the same time, industrial production grew by 1.7% year-to-year in April, some 0.5 points more than in the first quarter. The recovery in industrial orders as of May makes it possible to expect that the upturn in activity in the secondary sector will extend into coming months.

...partly thanks to recovery in exports.

The relatively better state of industry arises from the substantial increase in exports so far this year with foreign sales in April standing at 8% above the figure for one year ago. In spite of the improved vigour also shown by imports (rise of 4.4% year-to-year in April), the trade surplus has continued to recover. In April, the cumulative balance for 12 months stood at 88.1 billion euros, some 8.8 billion euros higher than the figure for the first quarter.

Spending rate of households still low although showing some recovery.

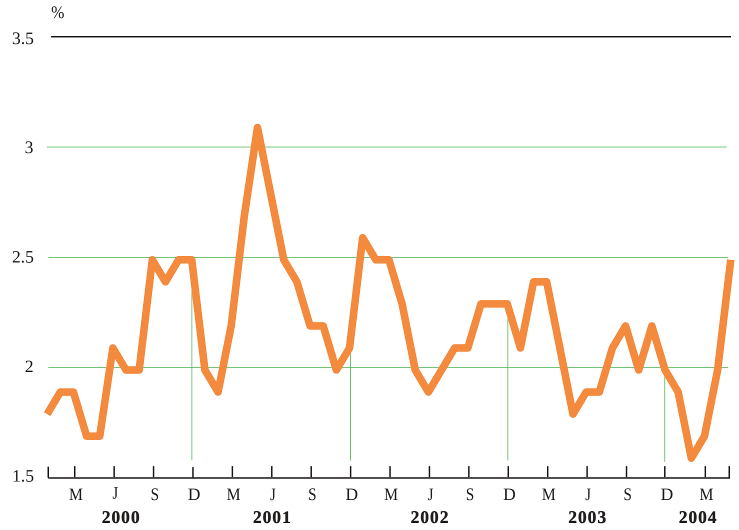
On the other hand, domestic demand is proving to have less drive. While the level of private consumption seems better than in previous months, its growth rate is still far from being dynamic. Retail sales grew by 1.0% year-to-year in April, a figure higher than the 0.3% year-to-year recorded in March. In any case, the two points drop in consumer confidence in May would suggest that the course of recovery of household spending is still just at its early stages.

Pressures on oil prices boost inflation to 2.5% in May.

In view of this situation of incipient recovery the trend in prices is troubling. The high oil prices recorded in recent months have meant that the harmonized consumer price index (HCPI) went from an annual low of 1.6% year-to-year in February to 2.5% year-to-year in May. That same month the energy component grew by 6.7% year-to-year as against 2.0% year-to-year in April. After deducting energy, alcohol and food, the resulting rate holds at 1.8% year-to-year, representing no change from April. The repercussions from the high price of oil is shifting not only to final prices but also to intermediate prices. As a result, in April producer prices rose by one percentage point to reach 1.4% year-to-year.

INFLATION IN EURO AREA ABOVE 2%

Year-to-year change in harmonized consumer price index



SOURCE: Eurostat and internal figures.

Unemployment again 9% in April.

The labour market in turn remains locked into a state of weakness. The unemployment rate in April held at 9.0% of the labour force, the same figure as in March. Nor were there any great changes in employment. In the fourth quarter of 2003, the latest figure available, employment had grown by 0.2% compared with the same quarter in 2002 (rise of 0.1% year-to-year in the third quarter of 2003).

Germany: foreign demand sustaining economy

Little drive in German consumption...

While German economic indicators are less negative than in earlier months, economic recovery is still almost entirely relying on the foreign sector while domestic demand remains weak. The poor figures for retail sales in April (year-to-year drop of 1.8%) and in car registrations in May confirm the lack of willingness of German households to take on bigger outlays. On the contrary, the performance in corporate investment is better, if we are to go by the notable rise in industrial production of capital goods which rose to 5.9% year-to-year in April (as against a rise of 2.3% year-to-year in March).

GERMANY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003			2004		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	0.2	–0.1	–0.3	–0.3	0.1	0.7	–	...
Retail sales	–1.4	–0.5	1.1	–1.8	–1.3	–0.8	–1.8	...
Industrial production	–1.2	0.1	–0.5	–1.3	1.4	1.4	3.0	...
Industrial activity index (IFO) (*)	89.4	91.7	89.5	92.5	96.2	96.4	96.3	96.1
Unemployment rate (**)	10.2	10.4	10.6	10.5	10.4	10.4	10.5	10.5
Consumer prices	1.4	1.1	0.9	1.1	1.2	1.1	1.7	2.1
Trade balance (***)	118.6	129.9	128.5	129.7	130.0	137.5	147.1	...

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

...as against good state of exports...

The weakness in consumption runs in contrast to the strength of foreign demand. In spite of the brake being applied by the appreciation of the euro, German exports grew by a notable 7.4% year-to-year on average in the first quarter, which was a sharp rise over the 1.2% year-to-year shown in the final quarter of 2003. The growth trend sharpened in April with exports moving up by 16% year-to-year. This sharp recovery in foreign sales was accompanied by a much slimmer increase in imports (1.0% year-to-year in the first quarter; 6.7% year-to-year in April) so that the trade surplus as a cumulative figure for 12 months rose to 147.1 billion euros in April, close to 10 billion euros more than the average for the first quarter.

...which brings higher level of industrial activity.

The growth in foreign demand partly explains the improved rate of industrial activity recorded as of April. Industrial production grew by 3.0% year-to-year that month, more than twice that recorded in the first quarter. The increase in industrial orders (7.8% year-to-year in April) and maintenance of the IFO industrial activity index above the 96 points level as of May would indicate that the positive state of industry will be maintained in coming months.

Substantial increase in prices in Germany, nearly twice that recorded at beginning of year.

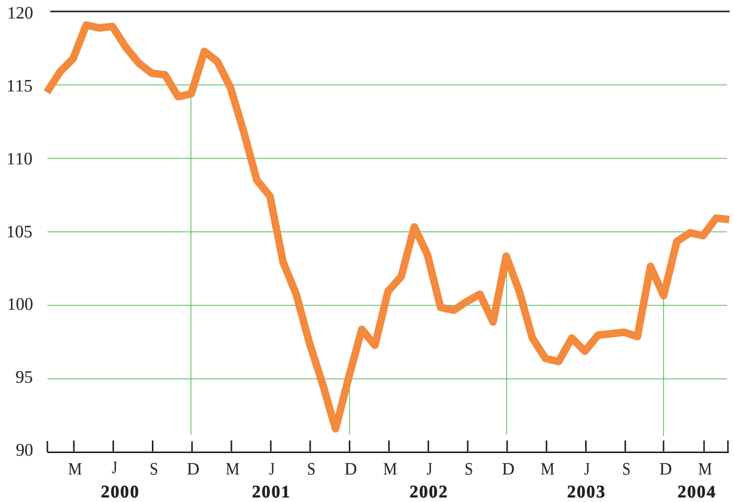
In addition, German prices are locked into an upward situation similar to other industrialized economies. As a result of the contribution from energy, consumer prices rose to 2.1% year-to-year in May compared with 1.7% year-to-year in April and close to double the figures in February and March. Wholesale prices and producer prices are running along the same lines. Nor is the trend in unemployment very positive holding at 10.5% in April and May.

France: substantial growth of domestic demand

French domestic demand shows notable strength in May.

The current economic situation in France remains dominated by the notable strength of domestic demand. Domestic consumption was up by 4.8% year-to-year in May, an increase of 0.8 points over April, similar to that recorded by the capital goods component of industrial production which obtained an increase of 2.8% year-to-year in April compared with 1.6% year-to-year in the first quarter. As a notable contrast, foreign demand has been stalled since the beginning of the year. The cumulative trade surplus for 12 months was 300 million euros in April, practically the same figure since February 2003. The moderately better export performance in March and April was compensated by the growth in imports which was especially sharp in April.

FRANCE ENTERING STAGE OF INCREASED ECONOMIC ACTIVITY
Value of economic sentiment index



SOURCE: European Commission.

Recovery in industry in April appears to end sector slump in first quarter.

On the supply side, we should point out the upward state of the industrial sector following the relative dip in the first quarter. Industrial production in April stood at growth levels of 1.1% year-to-year which represents some improvement over the 0.7% year-to-year in the first quarter. Immediate prospects are bright if we take into account the rise in industrial confidence in May which went to –3 points (–5 points in the first quarter) and in industrial orders which rose to –14 points (–17 points on average from January to March).

FRANCE: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003			2004		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	1.1	0.5	–0.1	0.4	1.1	1.7	–	...
Domestic consumption	0.9	0.9	–0.3	0.8	1.5	2.5	3.9	4.8
Industrial production	–1.2	–0.1	–1.4	–0.5	1.2	0.7	1.1	...
Unemployment rate (*)	9.3	9.9	9.8	9.9	9.9	9.8	9.8	...
Consumer prices	1.9	2.1	1.9	2.0	2.2	1.9	2.1	2.6
Trade balance (**)	0.4	0.3	0.3	0.2	0.2	0.3	0.3	...

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

Inflation at 2.6% in May with unemployment at 9.8% in April.

With regard to the labour market, the unemployment rate stabilized at 9.8% of the labour force between February and April. In turn, the French CPI stood at 2.6% year-to-year in May compared with 2.1% year-to-year the month before. The biggest contribution to this growth came from energy. If this is discounted along with other volatile components, the resulting rate was 1.6%, similar to that recorded since the fourth quarter of 2003.

Italy: domestic demand again growing

Italy grows by 0.8% year-to-year in first quarter thanks to recovery of consumption and investment.

The Italian economy grew by 0.8% year-to-year in the first quarter (0.1% year-to-year in the fourth quarter) thanks to recovery of domestic demand. After dropping by nearly one percentage point in the final quarter of 2003, domestic demand grew by 1.3% year-to-year in the first quarter due to recovery of domestic consumption and investment. On the other hand, the weak drive in exports meant that foreign demand took off one decimal from the change in GDP.

Trend to increased economic activity holds up in second quarter.

The increases shown in early indicators for April and the economic sentiment index for May confirm that economic recovery is improving at the beginning of the second quarter. On the demand side, the relatively better state of consumer confidence as of May indicates that private consumption is recovering part of the drive lost in previous quarters. On the supply side, the most notable point is the recovery in industry seen in April (year-to-year rise of 0.7% as against nil growth in the first quarter). Finally, in contrast to what has taken place in other European countries, Italy’s inflation has remained stable in spite of the rise in energy (2.3% year-to-year from February to May).

ITALY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003			2004		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	0.4	0.4	0.2	0.4	0.1	0.8	–	...
Retail sales	2.4	2.0	3.2	1.8	0.9	1.2	...	...
Industrial production	–1.3	–0.5	–1.6	–0.3	0.1	0.0	0.7	...
Unemployment rate (*)	9.0	8.7	8.7	8.6	8.5	8.5	–	...
Consumer prices	2.5	2.7	2.7	2.8	2.5	2.2	2.3	2.3
Trade balance (**)	10.8	3.4	3.5	1.5	2.0	1.4	2.6	...

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

United Kingdom: consumption maintaining drive

Household consumption in United Kingdom improving largely due to good situation in labour market.

In the second quarter the British economic situation continued to be characterized by the strong level of domestic demand which is running hand in hand with a poor state in the foreign sector. The main private consumption indicator, retail sales, grew by a notable 7.4% year-to-year in May (6.4% year-to-year in the first quarter). Among the key factors underlying the strength of British household spending we should mention the good state of the labour market. The unemployment rate in May held at 2.8% of the labour force for the third consecutive month, which represents the lowest figure since 1975.

UNITED KINGDOM: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003			2004		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	1.6	2.2	2.2	2.2	2.7	3.0	–	...
Retail sales	6.8	2.9	2.6	3.0	3.1	6.4	5.9	7.4
Industrial production	–2.7	–0.5	–0.7	–0.4	0.0	–0.2	0.4	...
Unemployment rate (*)	3.0	2.9	3.1	3.0	2.9	2.8	2.8	2.8
Consumer prices	2.2	2.8	2.9	2.8	2.6	2.3	2.0	2.3
Trade balance (**)	–43.5	–46.8	–46.5	–47.1	–47.3	–49.8	–52.1	...

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

Incipient recovery in industry.

By sector, we should mention that the good situation shown in services for some months is now beginning to be joined by a better performance in secondary industry. While the international scene still remains unattractive for British manufacturing exports, industrial production was able to grow by 0.4% year-to-year in April thus showing a clear recovery from the year-to-year drop of 0.2% in the first quarter.

Energy pushes up consumer prices to 2.3% in May.

In turn, parallel to figures recorded in other European countries, British prices are showing a sharp rise due to energy prices. The CPI rose to 2.3% year-to-year in May, three decimals more than in April. Along the same lines, producer prices went from 1.8% year-to-year in April to 2.4% in May, which suggests that the prices to consumers will remain relatively high in coming months.

Portugal: return to growth

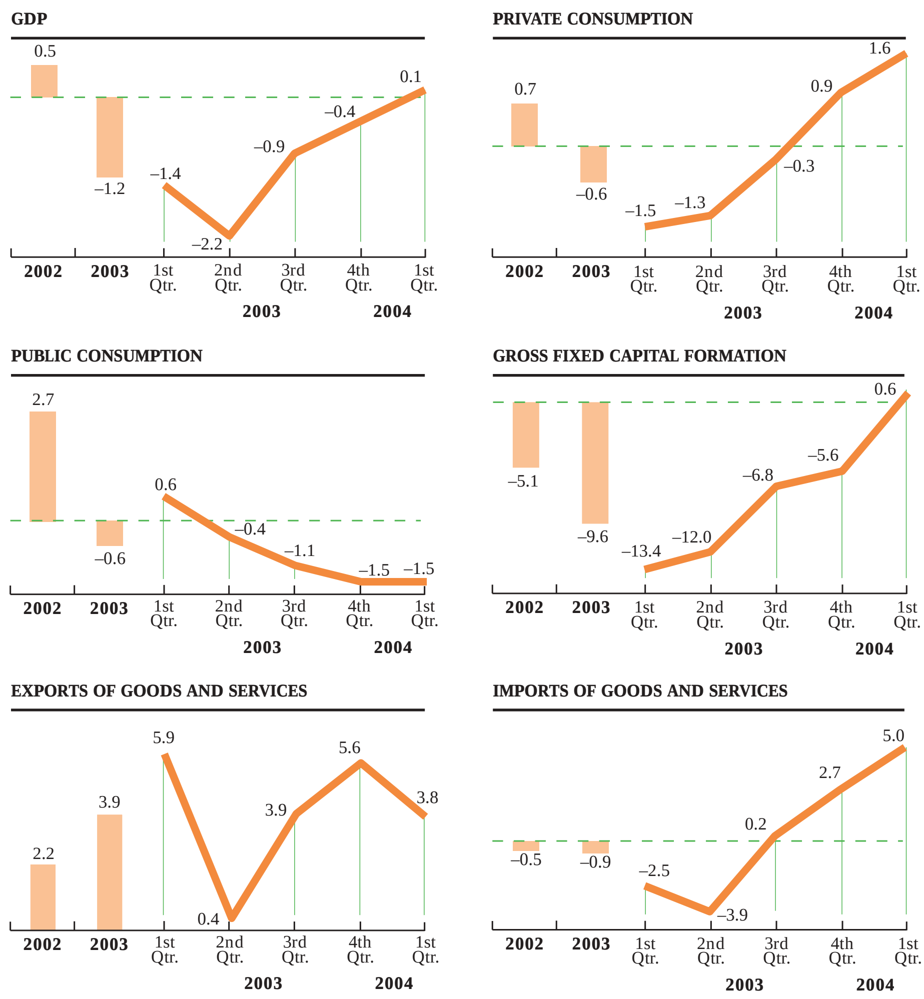
Recovery of domestic demand allows Portugal to again grow in first quarter.

After dropping by 1.2% in 2003, the Portuguese GDP began to rise in the first quarter of 2004. In the first three months of the year the rise in private consumption and investment made possible growth of 0.1% year-to-year, compared with a year-to-year drop of 0.4% in the fourth quarter. As a result, household consumption reached a growth rate of 1.6% year-to-year (0.9% year-to-year in the previous quarter) while gross fixed capital formation showed a year-to-year increase of 0.6% as against a drop of 5.6% year-to-year in the fourth quarter.

Consumption and investment behind rise in growth.

TREND IN PORTUGAL'S GDP BY COMPONENT

Percentage year-to-year change rate



SOURCE: National Institute of Statistics and internal figures.

Drop in public consumption reflects effort made on budgetary consolidation.

On the other hand, the efforts made on budgetary consolidation demanded of Portugal by the European Union to put its public deficit in order (2.8% of GDP in 2003) is turning out to mean a notable correction of public consumption. In the first quarter, this process is continuing its course so that public consumption dropped by 1.5% year-to-year. With regard to foreign demand, exports were up 3.8% year-to-year in the first quarter (increase of 5.6% year-to-year in the previous quarter) while imports rose by 2.7% year-to-year in the fourth quarter to 5.0% in the first quarter.

PORTUGAL: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003			2004		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	0.5	–1.2	–2.2	–0.9	–0.4	0.1	–	...
Retail sales	1.7	–0.7	0.0	–1.1	–0.5	1.7	3.8	...
Industrial production	–0.4	–0.1	–2.8	1.3	0.9	–2.4	–3.1	...
Unemployment rate (*)	5.1	6.2	6.1	6.1	6.5	6.4	...	...
Consumer prices	3.6	3.3	3.6	2.9	2.7	2.3	2.3	2.4
Trade balance (**)	–1.2	–1.0	–1.0	–1.0	–1.0	–1.0	...	...

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

Second quarter starts off with industrial production weak but household spending on rise.

In the second quarter we note that Portuguese households are continuing to increase their rate of spending. Retail sales in April rose to 3.8% year-to-year (1.7% in the first quarter) and the recovery of consumer confidence as of May gives hope of further advances on this front. The moderate improvement in the unemployment rate (down one decimal in the first quarter to 6.4%) and a relatively contained level of inflation (2.4% year-to-year in May with no big change compared with the first quarter) are factors contributing to this rise in consumption. On the other hand, industrial production continues slack. After dropping by 2.4% year-to-year in the first quarter, the decrease in April rose to 3.1% year-to-year.

Poland: strong economic growth

Poland grows notably in 2003 and prospect favourable for 2004.

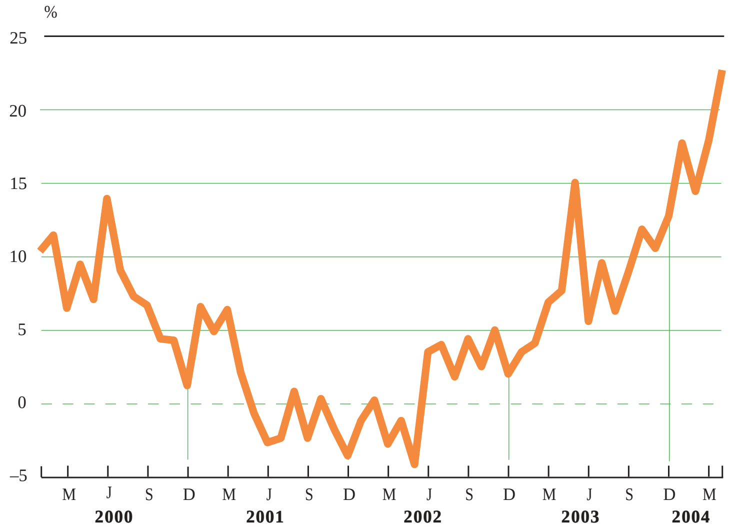
In 2003, Poland recorded a notable growth rate of 3.7% compared with 1.0% in 2001 and 1.4% in 2002. This increase in economic activity was basically due to the positive contribution of the foreign sector, which benefited greatly from the sharp depreciation of the exchange rate for the zloty against the euro. Since the exchange rate arrangements were modified on April 12, 2000 and the currency moved over to a free-float system, the Polish currency has depreciated 16% against the euro. Domestic demand has proven less expansionist with some worsening of investment and a moderate increase in private consumption. A further increase in growth is expected for the current year 2004 largely because of the boost coming from an easy monetary policy and an expansionist fiscal policy. If the forecasts of the European Commission are met, the GDP in 2004 and 2005 will show rates close to 5% annual.

Rise in retail sales and industrial production.

So far this year, the good expectations are being met. Private consumption indicators have moved onto a clearly upward course. After growth of 11.1% year-to-year in the first quarter, retail sales rose to 17.7% in April. Along the same lines, consumer confidence recovered by five points between April and May thus consolidating the rise in the first quarter. On the supply side, we should mention the strong rate of industrial production which went from growth of 17% year-to-year in the first quarter to 23% year-to-year in April.

POLISH INDUSTRY BENEFITING FROM ECONOMIC RECOVERY

Year-to-year change in industrial production index



SOURCE: OECD and internal figures.

POLAND: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003			2004		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	1.4	3.7	3.9	4.0	4.7	...	–	...
Retail sales	2.3	2.6	6.9	0.8	7.3	11.1	17.7	...
Industrial production	1.2	8.7	9.4	8.4	11.9	16.9	22.9	...
Unemployment rate (*)	17.9	19.9	19.9	19.5	19.6	20.6	20.0	...
Consumer prices	1.9	0.8	0.5	0.9	1.6	1.8	2.3	3.4
Trade balance (**)	–4.8	–4.7	–4.7	–4.7	–4.7	–4.8	...	...

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

Contribution from foreign sector slows in first quarter.

The contribution of foreign demand, in turn, seems to have reached a ceiling in the fourth quarter of 2003. Even though exports grew by a notable 18% year-to-year in the first quarter, this figure represents a reduction of nearly 10 percentage points compared with the previous quarter. In view of the continuing strength of imports (year-to-year growth of more than 20% in the fourth quarter of 2003 and the first quarter of 2004), it may be expected that the contribution of the foreign sector will drop in the first quarter.

Unemployment and inflation are negative factors in Polish economic picture.

Despite the fact that economic recovery has made a slight improvement possible, the level of unemployment continues to be very high. The unemployment rate in April was 20.0% compared with 20.6% in the first quarter. Nor is there anything positive in the rise in consumer prices which, as a result of the rise in oil prices, stood at 3.4% year-to-year in May, a rate 1.1 percentage points higher than in April.

MONETARY AND CAPITAL MARKETS

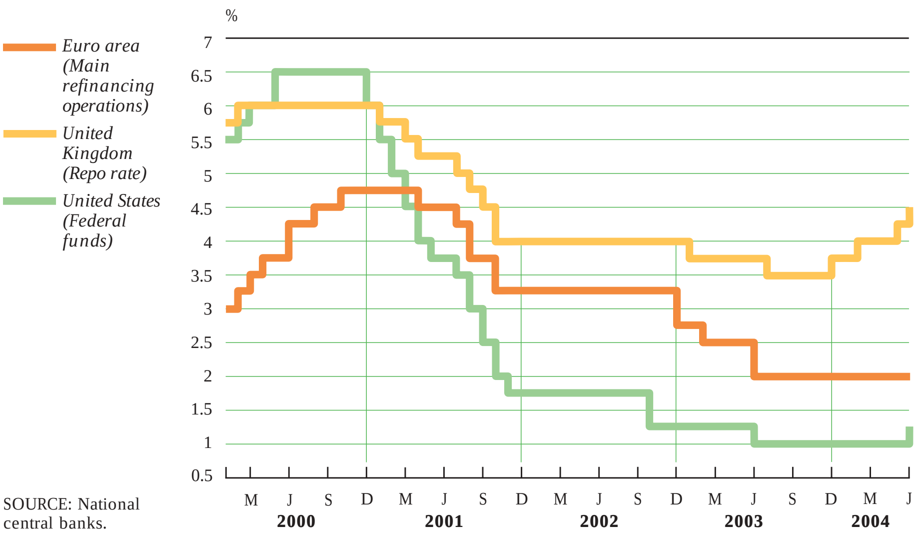
Federal Reserve Board raises reference rate

Inflationary pressures bring restrictive turn to monetary policy.

The improvement in the world economy and the subsequent rise in raw materials prices, especially the boost in oil prices above 30 dollars a barrel, is reflected in upward pressure on prices. Inflation rates are moving up. In this situation some central banks, such as the Bank of England, the Bank of Switzerland and the U.S. Federal Reserve Board have already begun a restrictive turn in monetary policy. Others, such as the European Central Bank and the Bank of Japan, will still delay such action for some months. As a result, the time of interest rates at all-time low levels in coming to an end.

UPWARD TURN IN OFFICIAL INTEREST RATES CONFIRMED

Monetary policy reference rates



SOURCE: National central banks.

Market anticipating further increases in Bank of England official rate.

The Bank of England confirmed the upward turn on June 10 when it again raised its official interest rate by 0.25 points to 4.50%. This was the third rise in reference rate for the year and the fourth in seven months. The British monetary authorities took this decision in order to deal with inflationary pressures which could put meeting the objective of price stability over the medium term in danger. With this move it hoped to halt the rise in prices in the housing market and in consumer goods. The market is still anticipating further increases in interest rates by the Bank of England in coming months.

Federal Reserve Board raises reference rate 25 basis points to 1.25% after more than a year at low levels…

In the United States, economic figures appearing in recent weeks, particularly the recovery of the labour market, heightened prospects of an increase in the objective interest rate by the Federal Reserve Board even at its meeting at the end of June. At a press conference on June 8, chairman Alan Greenspan pointed out that interest rates might have to rise more rapidly than expected in order to keep inflationary pressures under control. At the same time, he stated that the Federal Reserve Board was prepared to take stronger action if it were needed. Nevertheless, one week later he qualified the tone of his statements thus calming the market. Finally, at the meeting of the Open Market Committee at the end of June it was decided to raise the reference rate by 25 basis points to 1.25% following more than a year with no change. In its press release, the Open Market Committee left the door open to further increases.

…and leaves door open to further increases.

As a result, the interest rate on U.S. 1-year interbank deposits rose by 36 basis points in the first two weeks of June to 2.41% but later eased and at the end of the month stood at 2.39%. The interest rate curve suggests that operators are expecting the Federal Reserve Board official rate to go above 2% at the end of the year.

European Central Bank maintains official rate at 2%...

In the euro area, at its meeting at the beginning of June the Governing Council of the European Central Bank (ECB) maintained its reference rates at current levels. The chairman of that body, Jean-Claude Trichet, recognized the presence of strong inflationary pressures over the short term which had taken the inflation rate to 2.5% in May, a figure above the objective of 2%. Nevertheless, he stated that medium-term forecasts on inflation pointed to meeting the objective of price stability while the ECB would remain vigilant.

…and unlikely to change rate until year-end.

In this context, while the 3-month Euribor stood slightly above the Eurosystem reference rate, set at 2% a year ago, the 12-month Euribor rose by 14 basis points as monthly average in May going to 2.30% although it stood 11 basis points below the level in November 2003. As a result, the market is not anticipating any change in coming months but is discounting a rise of 25 basis points before the end of December.

Bank of Switzerland raises reference rate…

On June 17 the Bank of Switzerland announced it was raising the objective band for the 3-month Libor in Swiss francs to 0%-1%, up from the previous range of 0%-0.75%. The Swiss central bank adopted this measure to counteract moderate inflationary pressures coming as a result of the rise in crude oil prices and economic recovery. Nevertheless, it recognized that monetary policy would continue to be easy and that it would respond in the event that the Swiss franc unexpectedly appreciated sharply.

SHORT-TERM INTEREST RATES IN NATIONAL MARKETS

Monthly averages as annual percentage

	Euro area			United States		Japan	United Kingdom		Switzerland
	ECB auctions (2)	Euribor 3-month	Euribor 1-year	Federal Reserve Board target level (3)	3-month	3-month	Bank of England intervention rate (4)	3-month	3-month
2003									
May	2.56	2.41	2.26	1.25	1.24	0.01	3.75	3.54	0.29
June	2.20	2.15	2.01	1.20	1.07	0.01	3.75	3.55	0.27
July	2.08	2.13	2.08	1.00	1.08	0.01	3.58	3.39	0.28
August	2.06	2.14	2.28	1.00	1.10	0.01	3.50	3.43	0.26
September	2.07	2.15	2.26	1.00	1.10	0.00	3.50	3.60	0.25
October	2.05	2.14	2.30	1.00	1.12	0.00	3.50	3.71	0.24
November	2.02	2.16	2.41	1.00	1.13	0.01	3.71	3.89	0.25
December	2.01	2.15	2.38	1.00	1.12	0.01	3.75	3.93	0.26
2004									
January	2.01	2.09	2.22	1.00	1.09	0.01	3.75	3.96	0.24
February	2.00	2.07	2.16	1.00	1.07	0.01	3.96	4.08	0.25
March	2.00	2.03	2.06	1.00	1.07	0.01	4.00	4.21	0.25
April	2.00	2.05	2.16	1.00	1.10	0.00	4.00	4.30	0.28
May (*)	2.00	2.09	2.30	1.00	1.21	0.00	4.21	4.44	0.26
June (1)	2.01	2.12	2.43	1.25	1.59	0.01	4.50	4.81	0.50

NOTES: (*) Provisional figures.
(1) June 30.
(2) Marginal interest rate. Latest dates showing change in minimum rate: 6-3-03 (2.50%), 5-6-03 (2.00%).
(3) Latest dates showing change: 25-6-03 (1.00%), 30-6-04 (1.25%).
(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%), 6-5-04 (4.25%), 10-6-04 (4.50%).
SOURCE: European Central Bank, Bank of Spain, Thomson Financial Datastream and internal figures.

...along with Bank of New Zealand.

On the other hand, on June 10 the Bank of New Zealand again raised its official rate for the third time this year putting it up 25 basis points to 5.75%. As expected, the monetary authorities there acted in order to restrain inflationary risks.

Prospect of interest rate increases by Federal Reserve Board sustaining dollar

Dollar appreciates 2% in first half-year against broad group of currencies...

On January 9, 2004 the dollar reached its lowest level since December 1997 against a broad group of currencies. Later on consolidation of economic recovery in the United States, interventions by Asian central banks buying U.S. dollars and anticipation of the restrictive turnaround in the Federal Reserve Board’s monetary policy aided the dollar. As a result, while the persistent U.S. current account deficit constitutes a factor for downward pressure, at the end of the first half-year the dollar showed an appreciation of 2.2% over the end of 2003 against a broad group of currencies.

EXCHANGE RATES OF MAIN CURRENCIES
June 2004

	Final session of month		Monthly figures			
	Exchange rate	% monthly change (2)	Average exchange rate	% change (2) Monthly	Over December 2003	Annual
Against U.S. dollar						
Japanese yen	108.8	–0.6	109.4	–2.4	1.6	–7.5
Pound sterling (1)	1.820	–0.7	1.829	2.3	4.3	10.1
Swiss franc	1.250	–0.3	1.250	–2.5	–1.0	–5.2
Canadian dollar	1.333	–2.1	1.358	–1.4	3.6	0.5
Mexican peso	11.54	1.1	11.39	–1.1	1.2	8.5
Nominal effective index (4)	*115.8*	*–0.1*	*115.9*	*–1.0*	*1.3*	*–1.2*
Against euro						
U.S. dollar	1.216	–0.4	1.214	1.1	–1.3	4.1
Japanese yen	132.4	–0.6	132.9	–1.2	0.3	–3.8
Swiss franc	1.524	–0.2	1.519	–1.4	–2.3	–1.4
Pound sterling	0.671	0.9	0.664	–1.1	–5.4	–5.4
Swedish krona	9.145	0.6	9.143	0.2	1.3	0.3
Danish krone (3)	7.433	–0.1	7.434	–0.1	–0.1	0.1
Nominal effective index (5)	*102.1*	*0.1*	*101.8*	*–0.5*	*–2.2*	*–0.9*

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.

...while euro moves down.

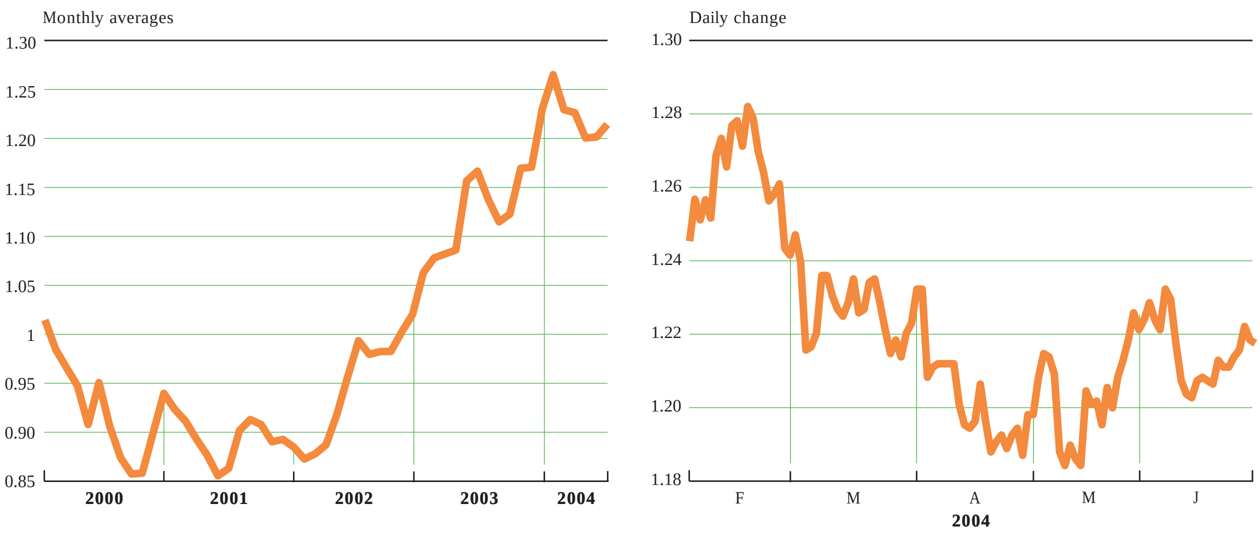
The euro reached an all-time high against the currencies of its 13 main trading partners in the second week of January 2004. Nevertheless, it later dropped because feeling in the markets was affected by the expressions of concern about its rapid rise by the European Central Bank (ECB), the economic slackness in the euro area and speculation about a further cut in official Eurosystem interest rates. On April 13 the euro thus marked up an annual low. Nevertheless, the end to expectations of a cut in ECB interest rates allowed the euro to recover to some degree. In any case, at the end of the first half-year the single currency had depreciated by 3.4% against currencies of the area’s main trading partners compared with the end of December. Against the dollar, the euro was down 3.8% in the January-June period.

Pound sterling strengthens in first half-year.

The pound sterling strengthened briefly following the rise in the Bank of England official rate on June 10. Nevertheless, against the dollar it recorded depreciation of 0.7% during the month going to 1.82 dollars. Against the euro it dropped 0.9% in the same period down to 0.671 units to the euro. This level meant a rise of 5.1% compared with December. In the course of the first six months of 2004 the British pound rose by 4.2% compared with a broad group of currencies, aided by the good state of the economy and increases in the official interest rate.

SWINGS IN EURO AGAINST DOLLAR IN JUNE

U.S. dollars to euro



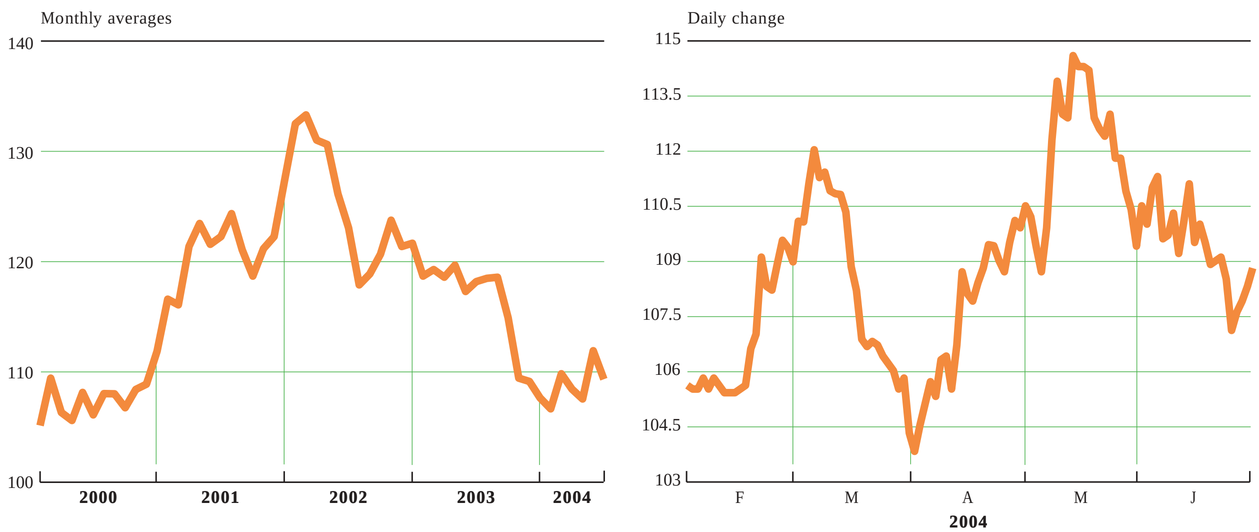
NOTE: Figures go up to June 30. SOURCE: OECD, Thomson Financial Datastream and internal figures.

Yen depreciates against dollar but rises in terms of euro in January-June period.

The recovery of Japan's economy and the Tokyo stock market has helped the yen in recent weeks. The Japanese currency was thus able to resist the rise of the dollar and at the end of June stood above the level at the beginning of the month going to 108.8 units to the dollar. This level represented a depreciation of 1.5% compared with the end of 2003. Against the euro, the Japanese currency rose by 0.6% in June and 2.0% since the beginning of the year.

UPS AND DOWNS OF YEN AGAINST DOLLAR

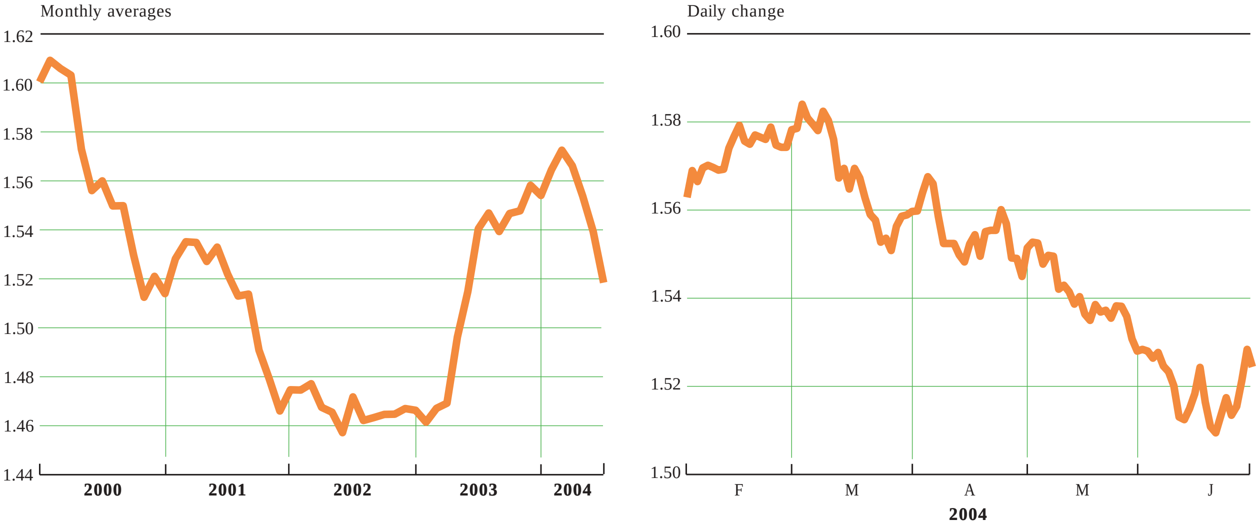
Yen to dollar



NOTE: Rates go up to June 30. SOURCE: OECD, Thomson Financial Datastream and internal figures.

SWISS FRANC STRENGTHENS

Swiss francs to euro



NOTE: Rates go up to June 30. SOURCE: Thomson Financial Datastream and internal figures.

Swiss franc strengthens against euro in first half-year.

The Swiss franc strengthened in June as a reflection of the recovery of the Swiss economy and the raising of the reference rate. This trend came about in spite of lower world risk aversion which reduced its attractiveness as a refuge currency. As a result, the Swiss franc rose by 0.3% against the dollar in June. Against the euro, the Swiss currency appreciated by 0.2% in the same period and 2.2% compared with December.

Currencies of Estonia, Lithuania and Slovenia join ERM-II as step on way to moving into euro.

Toward the end of June, the respective national authorities came to agreement with the ECB to incorporate the Estonian kroon, the Lithuanian litas and the Slovenian tolar in the Exchange Rate Mechanism (ERM-II) as a step toward joining the single European currency. This decision came as no surprise given that Estonia and Lithuania had announced that this move would take place before August and, in the case of Slovenia, before the end of 2004. The ERM-II is a multilateral agreement on fixed, but changeable, foreign exchange rates with a central exchange rate against the euro and a normal fluctuation margin of ±15%. These currencies must remain in the ERM-II for at least two years as one of the conditions required to be able to move into the euro. The central exchange rates against the euro were established at 15.6466 Estonian kroons, 3.4528 Lithuanian litas and 239.64 Slovenia tolars. In fact, up to now Estonia and Lithuania have had a fixed exchange rate against the euro at these levels. The tolar fluctuated in a controlled way within these levels close to the fixed central rate.

Upward trend in bond yields moderating

U.S. government bond yield curve flattens out.

The yield on U.S. 10-year government bonds has tended to moderate its upward trend following the substantial rise seen between mid-March and mid-May. In recent weeks the yield on U.S. government bonds has swung according to prospects for Federal Reserve Board interest rates. As a result, on June 14 it reached a high for the past two years when it went to 4.87%. It later made something of a correction to stand at 4.62% at the end of the month, some 35 basis points above the end of December and 109 basis points higher than 12 months earlier. It should be pointed out that the first half brought a flattening out of the interest rate curve in the 2-30 year segment following the bigger increase in yields in the shorter term segment.

Increased supply of inflation-protected bonds in United States.

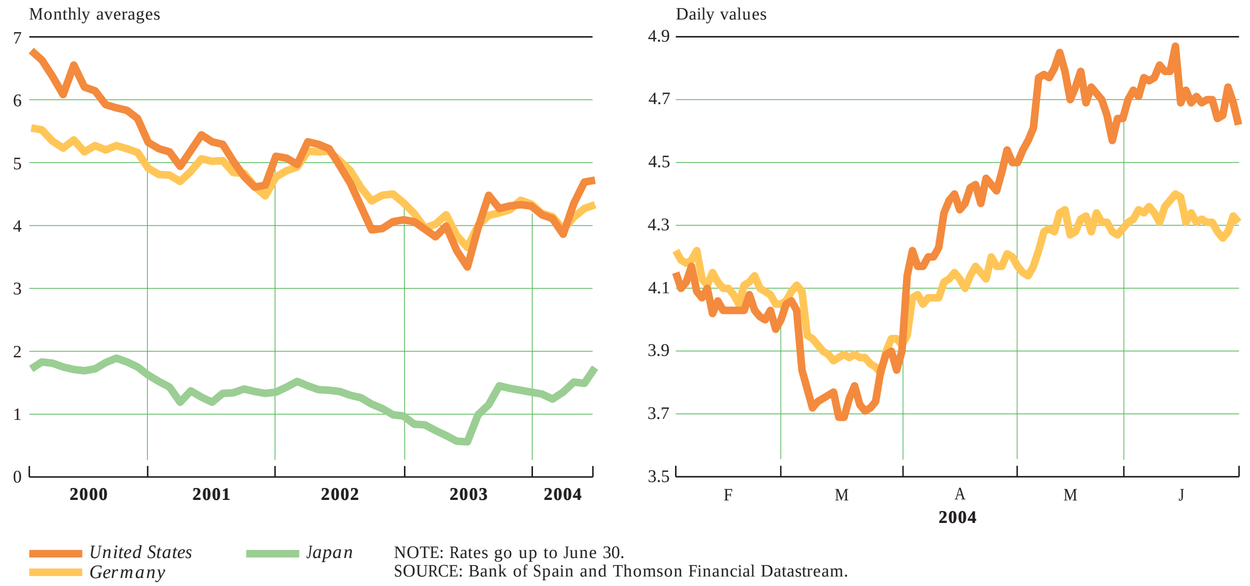
Concern over a rise in inflation has stimulated purchase of bonds for which yield is indexed to inflation. The United States government, for its part, recently announced that it would greatly increase issues of these bonds. Furthermore, it announced that in June it would begin to place these bonds for a 20-year term as well as the current 10-year term and that the first 5-year issue would come out in October. The Treasury was hoping that these measures would increase total demand for these bonds.

Yield on German government bonds marks up highest level in last six months.

The yield on German 10-year government bonds followed the course set by similar U.S. bonds in recent weeks, while maintaining a differential of 35 basis points below. As a result, on June 14 the yield stood at 4.40%, the highest in the past six months. At the end of June they stood at 4.31%, some 5 basis points above the end of December.

YIELD ON U.S. 10-YEAR TREASURY BONDS MARKS UP HIGH FOR PAST TWO YEARS

Yield on 10-year government bonds as annual percentage



NOTE: Rates go up to June 30.
SOURCE: Bank of Spain and Thomson Financial Datastream.

Rise in interest rate on Japanese government bonds.

The interest rate on Japanese government bonds rose considerably in recent weeks with consolidation of that country's economic recovery. At the same time, some official comments about a possible change in Japan's monetary policy position also contributed to the rise. As a result, the yield on Japanese 10-year government bonds at the end of June stood at 1.75%, some 23 basis points above the end of May and 94 basis points higher than twelve months earlier.

Drop in default of high-yield bonds.

The improvement in the economy has brought lower default. The overall default rate on high-yield bonds continued to drop going to 3.4% in May from 4.0% in April to stand below the long-term average of 3.9%, according to Moody's rating agency. As a result, the default rate marked up the lowest level since 1999. This ratio was 5.2% at the beginning of the year.

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	June 30
United States	5.06	4.65	3.64	4.26	4.32	4.05	4.35	4.77	4.62
Japan	1.34	1.27	0.60	1.20	1.38	1.30	1.51	1.49	1.75
Germany	4.82	4.80	3.89	4.12	4.33	4.09	4.13	4.29	4.31
France	4.95	4.88	3.94	4.13	4.35	4.11	4.20	4.34	4.36
Italy	5.19	5.04	4.03	4.25	4.46	4.24	4.35	4.50	4.50
Spain	5.12	4.96	3.92	4.14	4.34	4.12	4.20	4.33	4.30
United Kingdom	4.97	4.93	4.25	4.55	4.98	4.83	5.00	5.16	5.09
Switzerland	3.28	3.02	2.34	2.57	2.68	2.46	2.64	2.72	2.88

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

Modest rise in stock markets in first half-year

Stock markets…

Stock markets began the year on a good footing with a continuation of the upward move since March 2003. The trend to economic recovery with no inflation, the favourable prospects for corporate profits, very low interest rates and the expectation of moderate interest rate increases gave support to the stock markets. Nevertheless, they later went through a series of ups and downs due to the terrorist attacks in Madrid on March 11, the worsening of the situation in the Middle East and Iraq, increased upward expectations on Federal Reserve Board interest rates as of the end of the first quarter and the rise in bond yields since mid-March, as well as the persistent rise in the price of oil. As a result, many stock markets chalked up annual lows in mid-May.

…manage to recover from annual lows in May.

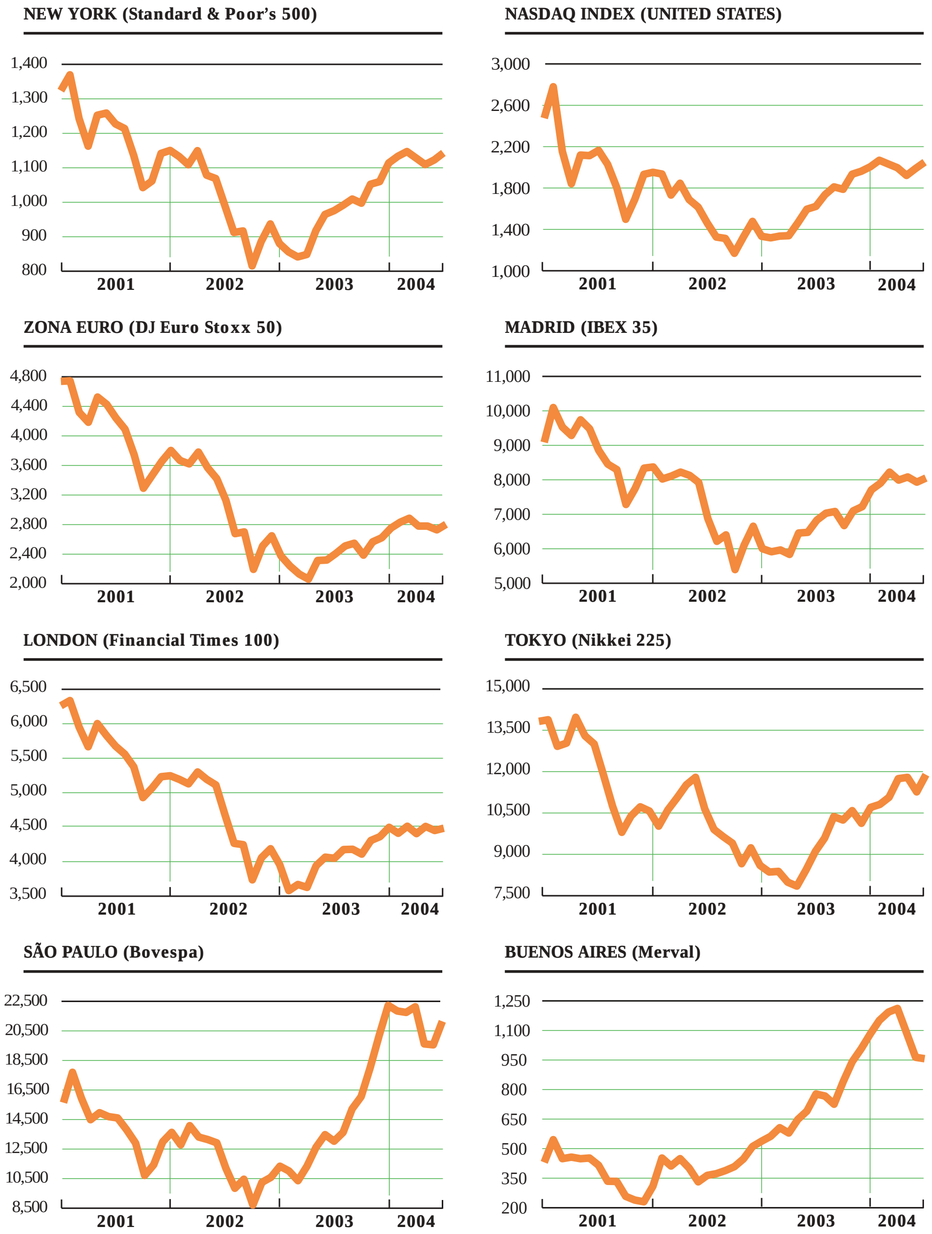
Nevertheless, the drop in crude oil prices in June and some easing of upward expectations on interest rates brought a recovery of the markets in recent weeks. In this way, many stock markets were able to end the half-year with moderate advances over levels at the beginning of the year.

Standard & Poor's 500 index rises 3% in first six months of year…

In the United States, the upward trend which brought sharp increases in 2003 showed signs of wearing out toward the end of January. In any case, U.S. stock markets could count on the prospect of favourable corporate profits. As a result, after sharp swings in the Standard & Poor's 500 index, it closed the first part of the year with an increase of 2.6% over December. The traditional Dow Jones Industrials index recorded a decrease of 0.2% compared with the end of 2003 and the general Nasdaq index, which is representative of hi-tech shares, ended June 3.1% above the close of last year.

INTERNATIONAL STOCK EXCHANGES

Indices at month-end



NOTE: June 30, 2004. SOURCE: Thomson Financial Datastream.

…while some European stock markets show slightly better balance.

Stock markets in the euro area showed a trend similar to that on the other side of the Atlantic in the first half of 2004. As a result, the DJ Eurostoxx 50 index, which is representative of the largest companies in the euro area, ended the second quarter with an advance of 1.8% over par for the year. It is worth noting that stock exchanges in Milan, Paris and Madrid marked up higher increases in this period.

INDICES OF MAIN WORLD STOCK EXCHANGES
June 30, 2004

	Index (*)	% monthly change	% cumulative change	% annual change	*% change over same date in 2001*
New York					
Dow Jones	*10,435.5*	*2.4*	*–0.2*	*16.1*	*–0.6*
Standard & Poor's	*1,140.8*	*1.8*	*2.6*	*17.1*	*–6.8*
Nasdaq	*2,047.8*	*3.1*	*2.2*	*26.2*	*–5.2*
Tokyo	11,858.9	5.5	11.1	30.6	–8.6
London	4,464.1	0.8	–0.3	10.7	–20.9
Euro area	2,811.1	2.7	1.8	16.2	–33.8
Frankfurt	*4,052.7*	*3.3*	*2.2*	*25.8*	*–33.1*
Paris	*3,733.0*	*1.7*	*4.9*	*21.0*	*–28.6*
Amsterdam	*345.1*	*2.4*	*2.2*	*18.4*	*–39.8*
Milan	*1,326.3*	*3.0*	*5.5*	*14.0*	*–18.8*
Madrid	*8,078.3*	*1.5*	*4.4*	*17.7*	*–9.0*
Zurich	5,619.1	–0.1	2.4	16.7	–22.4
Hong Kong	12,285.8	0.7	–2.3	28.3	–5.8
Buenos Aires	945.5	–0.8	–11.8	23.5	135.0
São Paulo	21,148.0	8.2	–4.9	63.0	45.3

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.

Sharp gains on Japanese stock market.

Outside the euro area, the Nikkei 225 index for the Japanese stock exchange reached an annual high toward the end of April going above 12,100 points, thanks to the recovery of Japan's economy. Later on, it reflected the increase in oil prices and moved down but rose once again and ended the first half-year at 11,859 points, an increase of 11.1% over December and 30.6% compared with the end of June 2003. On the other hand, The Financial Times 100 index for the London stock exchange suffered a loss of 0.3% in the first six months of the year. In turn, the SMI index for the Swiss stock exchange on June 30 stood 2.4% above the end of 2003.

Notable rise in Spanish stock market as of June.

With regard to the Spanish stock market, the IBEX 35 index recorded sharp fluctuations in the course of the half-year going from an annual high of 8,444.3 points on April 13 to an annual low of 7,671.9 points on May 17. Nevertheless, it later regained the 8,000 level and ended the second quarter at 8,078 points, a cumulative increase of 4.4% over December 2003. At the end of June, only six shares out of the 35 making up the selective index were in the red compared with the end of 2003. In the past 12 months this index obtained considerable capital gains amounting to 17.7%.

Drops on many emerging stock markets following spectacular rises in 2003.

With regard to emerging stock markets, these were volatile all through the half-year. The Asian stock markets went down following announcement of a possible slowdown in the Chinese economy because of what it represents to raw material exports to this Far East giant. The Hang Seng index in Hong Kong, for example, ended the first half-year with losses of 2.3% although it showed capital gains of 28.3% compared with 12 months earlier. Latin American stock markets also showed sharp swings. The rising prospects of an increase in U.S. interest rates especially hurt those markets. As a result, the Bovespa index in Brazil, which was also affected by the political problems of President Lula da Silva's government, dropped by 4.9% in the first six months of 2004 although it maintained an extraordinary advance of 63.0% compared with 12 months earlier. The Merval index for the Buenos Aires stock exchange dropped 11.8% in the first half of 2004 although it showed an annual rise of 23.5%. On the other hand, the Mexican stock market managed to obtain cumulative gains of 16.9% for the year due to the close links with the U.S. economy.

ECONOMIC ACTIVITY

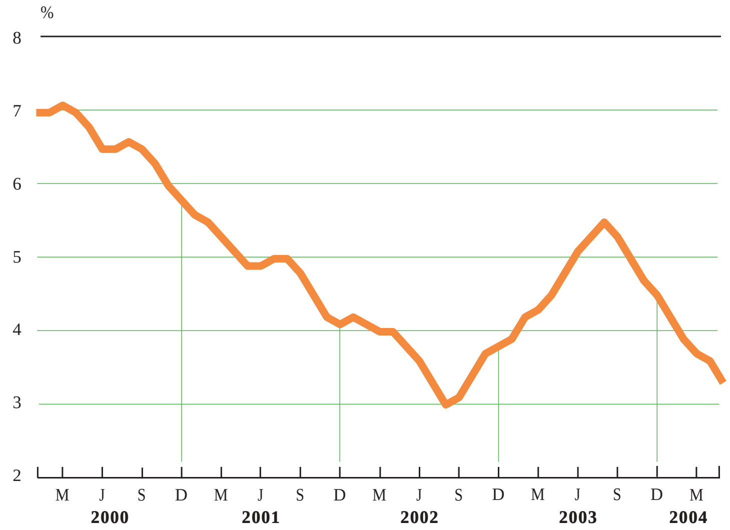
Domestic demand slackens drive

Growth rate of economic activity easing...

Estimates in the Quarterly National Accounts confirmed that Spain's economy sharpened its growth rate in the first quarter of 2004 thanks to the strong drive in domestic demand which compensated for the worsening of the negative contribution from the foreign sector. The few figures available for the second quarter indicated something of a continuation of the previous trends although there were signs of increasing moderation in the growth rate of economic activity.

GROWTH OF ELECTRICAL POWER CONSUMPTION SLOWING DOWN

Year-to-year change in electrical power consumption



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

...as indicated by slower growth of electrical power consumption...

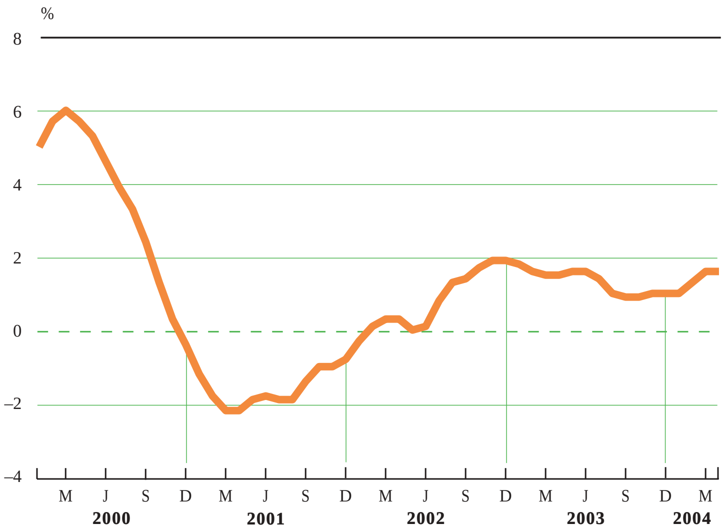
For example, electrical power consumption (adjusted for number of working days and temperature), which is very much representative of the pulse of general economic activity, grew by around 3.2% year-to-year in April and May, well below the figure seen in the first quarter of this year (3.8%) and in 2003 as a whole (4.8%). The easing off of growth in the cycle-trend series for this indicator is a sign of the loss of strength mentioned above.

...and slow recovery of industrial activity.

In addition, the recovery in industrial activity also seems to have taken on a slower pace. The general industrial index, adjusted for number of working days, grew by a modest 1% year-to-year in April, nearly half a point less than the average for the previous quarter. The manufacturing industry is the area suffering most from this slowdown with nil growth in that month. Metallurgy and machine building and electrical equipment (with growth rates of 6.6% and 10.2% as of April) were some of the branches of industry showing a positive divergence from the generally weak situation noted. On the other hand, there were notable decreases in electronics and data-processing equipment (11.0% and 40.9% respectively in the four months mentioned) while there were more moderate decreases in the chemical industry (2.7%), motor vehicles (0.5%) and furniture manufacture (3.3%).

MODERATE GROWTH IN INDUSTRIAL PRODUCTION

Year-to-year change in industrial production index



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

Industrial climate indicator tending to improve.

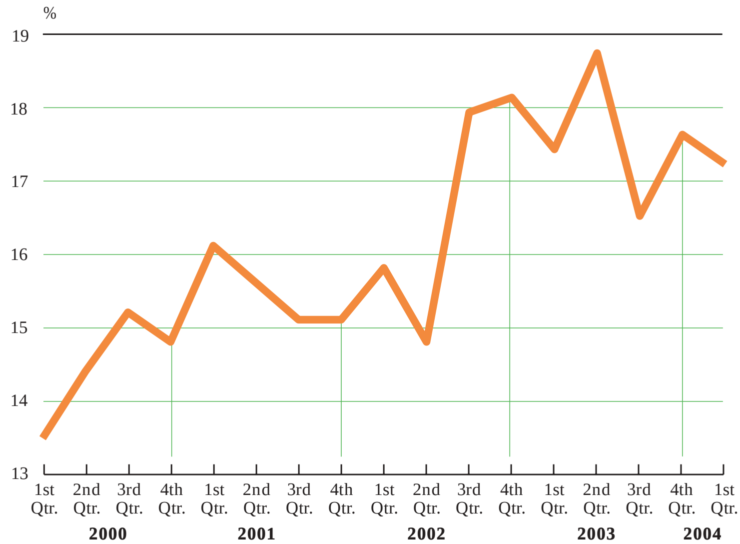
Paradoxically, the industrial climate indicator has shown some improvement in recent months to stand at –1 point in April and May, somewhat better than in the early months of 2004. At the same time, utilization of production capacity moved up six decimals in the second quarter to 79.3%. In any case, the decline in industrial employment (2.2% year-to-year in the first quarter, according to the Labour Force Survey) would confirm the weakness of recovery in the sector although to some extent it could also be the result of certain processes of restructuring now underway in order to increase competitiveness in the face of foreign competition.

Some construction indicators begin to show easing of growth rate...

The slackness in the industrial sector runs in contrast to the strong drive still being maintained in construction, although some indicators suggest increasing moderation in the sector growth rate. To be specific, growth of cement consumption was down by 2.4% year-to-year in the first five months of 2004 after having gone above 5% in the second half of 2003. Other indicators not as up-to-date also show a slowing down in growth rate as, for example, total housing starts (increase of 6.4% in the last quarter of 2003 as against nearly 18% in the previous nine months) and in new construction approvals (increase of 7.7% in the first quarter of 2004 as against 21% in 2003).

HOUSING PRICES IN SPAIN CONTINUE TO RISE

Year-to-year change in average price per square metre



SOURCE: Ministry of Public Works.

...although demand in residential sector remains very strong and government tendering recovering better pace.

From another point of view, the growth trend in housing prices (17.2% year-to-year in the first quarter of 2004) on the other hand would indicate that demand is continuing to be very strong in the residential sector, driven (as we have indicated on previous occasions) by low interest rates, an increase in employment, the rise in the immigrant population, demand from foreigners (especially in coastal areas) and investment reasons. In addition, government tendering seems to have taken on greater strength in the early months of the year with year-to-year growth of 5.4% as of April, in contrast to the sharp decreases recorded in the preceding months.

Overall state of services continues very positive, mainly in retail trade, transportation and information and communications technology.

With regard to services, the overall state of activity continues to be very positive as is fully shown by the trend in estimated employment and current registrations with Social Security. Retail trade, transportation, information and communications technology continue to be the activities with greatest drive, followed closely by company services. Within this positive framework, the results in the transportation sector are fairly mixed. Generally, goods transport is maintaining an upward trend while in passenger lines the rise in air traffic, with 9.2% year-to-year growth in number of persons carried as of May, is in contrast to the modest increase in road passenger transport (1.3% as of April) and a drop in rail passengers (2.6%).

SUPPLY INDICATORS

Percentage change over same period year before

	2002	2003	2003			2004		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
Industry								
Electricity consumption (1)	3.8	4.8	4.7	6.1	4.7	3.8	3.9	2.5
Industrial production index (2)	0.2	1.4	1.7	1.1	1.2	1.4	1.0	...
Confidence indicator for industry (3)	–5.7	–0.9	–1.0	–1.3	–2.3	–3.0	–1.0	–1.0
Utilization of production capacity (4)	78.5	79.1	77.5	79.7	80.6	78.7	–	79.3
Imports of non-energy intermediate goods (5)	6.4	3.3	7.8	–0.1	–3.7	0.6	...	...
Construction								
Cement consumption	4.7	4.8	5.1	4.5	5.7	5.3	–1.6	–1.2
Confidence indicator for construction (3)	–2.3	–1.5	–2.0	–2.3	1.0	–1.0	2.0	–5.0
Housing (new construction approvals)	4.3	21.4	21.7	14.1	26.0	7.7	...	...
Government tendering	13.1	–10.9	25.2	–31.6	–50.2	11.0	–17.5	...
Services								
Retail sales	5.7	5.7	5.9	5.0	6.1	6.7	6.4	...
Foreign tourists	4.5	–0.3	4.2	–3.0	1.3	5.4	–0.2	4.6
Tourist revenue inflows	–2.9	3.7	7.5	3.9	2.3	4.0	...	...
Goods carried by rail (km-tonnes)	–0.7	1.7	–2.6	5.8	3.0	6.4	8.0	...
Air passenger traffic	–1.1	7.4	8.3	7.7	8.5	11.0	6.9	7.2
Motor vehicle diesel fuel consumption	6.2	8.0	8.5	7.2	6.0	7.8	...	...

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.

March-April tourism suffers effects of March 11 terrorist attacks but again recovers drive in May.

The performance in the tourist sector showed a sudden worsening in March and April, probably related to the terrorist attacks in Madrid on March 11. In May, however, the situation seems to have normalized with a rise of 4.6% year-to-year in the number of tourists. In the first five months of 2004 as a whole the total number of foreign tourists was up by 3.8%, which in fact meant a rise compared with the performance in 2003. Domestic tourism in turn has kept showing a very strong trend during 2004 as is confirmed by overnight hotel stays of Spaniards, which was up 7.7% as of May.

Rising inflation may have negative effect on real consumer incomes...

On the demand side, it may be expected that, in principle, the upward trend in the inflation rate as of April will have a negative effect on real household incomes, which could result in greater moderation in private consumption. For the moment, we do not have all the figures to confirm that the expected effect has actually taken place, something which certainly would be of limited scale given that low interest rates and job creation continue to clearly act as factors driving demand.

DEMAND INDICATORS

Percentage change over same period year before

	2002	2003	2003			2004		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
Consumption								
Production of consumer goods (*)	2.4	0.2	1.8	0.3	–1.7	–0.1	–2.0	...
Imports of consumer goods (**)	5.0	10.0	10.3	12.6	8.9	20.4	...	...
Car registrations	–6.6	3.9	3.6	7.5	10.3	20.8	4.0	8.9
Credit for consumer durables	12.6	1.6	0.6	4.0	1.1	3.7	–	–
Consumer confidence index (***)	–11.6	–13.7	–13.7	–12.3	–11.7	–11.7	–8.0	–9.0
Investment								
Capital goods production (*)	–4.9	0.5	0.5	–2.2	3.2	1.2	–2.1	...
Imports of capital goods (**)	–5.8	16.8	22.6	26.2	9.9	18.7	...	...
Commercial vehicle registrations	–6.0	13.5	10.6	16.3	11.9	14.9	11.1	12.5
Foreign trade (**)								
Non-energy imports	3.7	7.4	11.0	7.6	2.1	8.9	...	...
Exports	1.4	6.2	11.1	4.6	3.3	7.2	...	...

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.

...although consumption maintains fairly strong level...

In principle, car registrations have eased off their sharp growth rate (they grew by 6.5% in the April-May period as against 20.8% in the first quarter) but performance continues to be very satisfactory. In April retail trade also showed very strong drive if we are to go by the sector sales index which stood at 4.1% real (discounting inflation), only one point less than that recorded in the third quarter. In department stores, growth in April (6.8%) was even above that for the first quarter (6.4%).

…and consumer confidence drops only slightly in May.

Consumer confidence in turn dropped only slightly in May (it stood at –9 points, one point more than in April) following the increase recorded in the two preceding months. From another point of view, we note that the confidence index in services has been holding a positive line for the past three months, confirming the good state of demand.

Strong growth of capital goods imports.

Finally, in the early period of 2004 capital goods investment is following a similar pattern to that in previous months. Along with very high growth in imports (18.7% real in the first quarter) we note the weakness in domestic production of such goods with year-to-year growth barely touching 0.5% as of April.

LABOUR MARKET

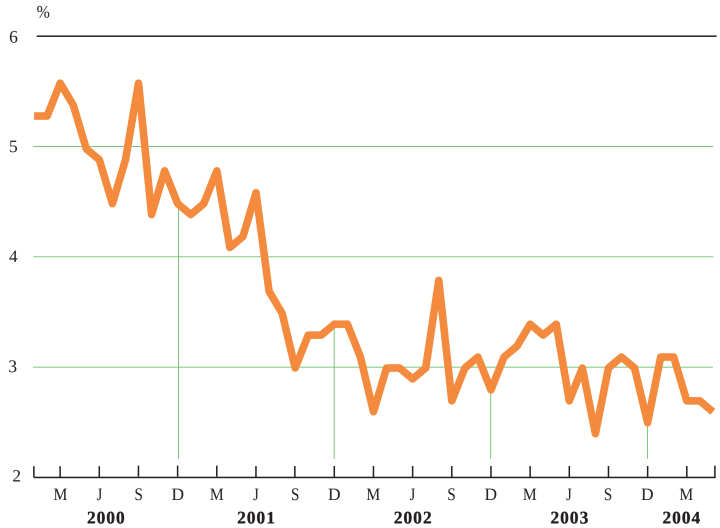
Employment eases progress in second quarter

Registrations with Social Security ease growth in May...

The number of persons registered with Social Security rose by 427,827 in May to stand at a total of 17,135,324 persons, the highest figure ever reached at month-end. In any case, the increase in May was lower than that recorded in the same month last year so that the growth rate of registrations slowed slightly to stand at 2.6% year-to-year, one decimal less than in April.

REGISTRATIONS WITH SOCIAL SECURITY WEAKEN

Annual change in number of persons registered with Social Security



SOURCE: Ministry of Labour and Social Services and internal figures.

...because of weaker state of wage employment.

The progressive but gradual easing of growth in registrations with Social Security is due mainly to the weaker state of wage employment, given that employment among non-farm self-employed persons is showing a more favourable situation with increases of around 4% year-to-year in recent months.

Increase in foreign worker registrations adds more than half-point...

In addition, the rise in registrations with Social Security continues to be based on the notable addition of foreign workers. In fact, registrations of such workers (which in May reached a total of 1,062,342 persons) have been growing at a sustained rate very close to 13% in the past four months. On the other hand, registrations among Spanish nationals

...to total growth of registrations.

continued to drop for the fifth consecutive month going to 1.9% year-to-year, more than a half-point below the rate at the beginning of the year.

EMPLOYMENT INDICATORS

Percentage change over same period year before

	2002	2003	2003			2004		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
Persons registered with Social Security								
Wage-earners	3.5	3.2	3.4	2.9	2.9	2.9	2.5	2.4
Industry	*–0.2*	*–0.5*	*–0.6*	*–0.5*	*–0.7*	*–0.5*	*–0.4*	...
Construction	*5.8*	*4.3*	*4.8*	*3.8*	*3.0*	*4.4*	*4.2*	...
Services	*4.4*	*4.1*	*4.3*	*3.9*	*4.3*	*4.3*	*3.8*	...
Non-wage-earners	0.9	2.3	2.2	2.5	2.8	3.2	3.2	3.2
Total	**3.0**	**3.0**	**3.2**	**2.8**	**2.9**	**2.9**	**2.7**	**2.6**
Persons employed (*)	**2.0**	**2.7**	**2.6**	**2.8**	**3.0**	**2.6**	**–**	**–**
Jobs (**)	**1.5**	**1.8**	**1.7**	**1.9**	**2.1**	**2.1**	**–**	**–**
Hiring contracts registered (***)								
Permanent	–1.6	–1.0	–6.7	–6.2	0.2	10.0	17.8	13.2
Temporary	1.1	3.9	–2.8	1.5	8.8	14.4	19.6	6.3
Total	**0.9**	**3.4**	**–3.1**	**0.9**	**8.1**	**13.9**	**19.4**	**6.9**

NOTES: (*) Estimate from Labour Force Survey.
(**) Equivalent to full-time work. National Accounting estimate; figures corrected 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.

Sharp growth in part-time hiring as of May.

New hiring contracts registered at the National Institute of Employment (INEM) again showed sharp growth in May (6.9% year-to-year) which put the cumulative increase at 13.5%. This strong growth, which was in contrast to the moderation seen in other indicators, may be explained by the lack of homogeneity in figures that from year to year may include hiring contracts that are quite different in length and type. In this respect, the increase in job placements in 2004 is showing up especially strong in part-time work with a figure of 22.0% in the first five months.

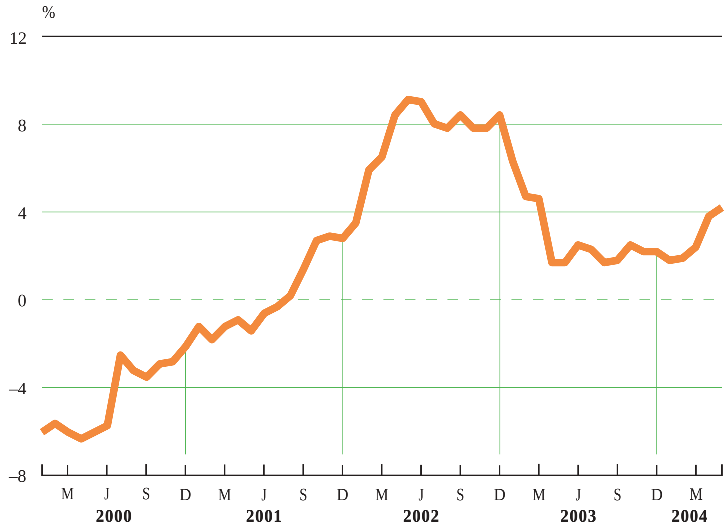
Registered unemployment: situation slightly worse in May

Decrease in registered unemployment in May practically same as last year.

The number of unemployed registered at INEM was down by 51,027 in May, a figure similar to that for the same month in 2003. As a result, the rate of increase in unemployment held practically stable at around 2.9%. Unemployment in non-farm sectors, on the other hand, showed a somewhat less favourable performance which led to an increase in growth rate slightly above 4% year-to-year.

NON-FARM UNEMPLOYMENT SHOWS SHARPER INCREASE

Year-to-year change in non-farm sector unemployment registered at INEM



SOURCE: National Institute of Employment and internal figures.

Construction and services show unfavourable trend compensated by drop in those seeking first job.

The increased growth of unemployment in non-farm sectors (going up to 4.1% year-to-year) was mainly due to the relative worsening of the situation in construction and services, sectors in which the rise in registered unemployment came to stand at 6.2% and 5.3% year-to-year respectively. The situation in industry also worsened slightly although the level of unemployment was still slightly below that for May 2003. The poor relative performance in the various sectors of non-farm production was partly compensated by the reduction in the number of those seeking a first job.

REGISTERED UNEMPLOYMENT BY SECTOR, SEX AND AGE

May 2004

	No. of unemployed	Change over December 2003		Change over same period year before		% share
		Absolute	%	Absolute	%	
By sector						
Agriculture	40,265	2,341	6.2	1,691	4.4	2.4
Industry	250,781	–13,512	–5.1	–4,353	–1.7	15.2
Construction	182,755	–29,133	–13.7	10,640	6.2	11.0
Services	952,511	–16,204	–1.7	48,288	5.3	57.6
First job	227,837	–830	–0.4	–10,379	–4.4	13.8
By sex						
Males	664,637	–60,625	–8.4	20,801	3.2	40.2
Females	989,512	3,287	0.3	25,086	2.6	59.8
By age						
Under 25 years	240,587	–17,163	–6.7	–12,331	–4.9	14.5
All other ages	1,413,562	–40,175	–2.8	58,218	4.3	85.5
TOTAL	**1,654,149**	**–57,338**	**–3.4**	**45,887**	**2.9**	**100.0**

SOURCE: National Employment Institute and internal figures.

Youth unemployment continues to drop.

The worsening of unemployment was notable only in the male segment of the population given that female unemployment showed a more moderate growth rate. Youth unemployment, on the other hand, continued its downward path even at a sharper rate than for the month before.

Situation more favourable in Ebro valley, Madrid, Andalusia and Murcia than in other autonomous communities.

By autonomous community, the regions in the Ebro valley along with Madrid Community, Andalusia and Murcia showed a somewhat more favourable situation than the other autonomous communities and generally presented a level of registered unemployment lower or practically equal to last year at this juncture. On the other hand, the Canary Islands, Valencian Community, Extremadura, Castile-Leon, Castile-La Mancha, Balearic Islands, Cantabria, Galicia and Asturias showed increases in unemployment of varying degree with the first two mentioned showing notable increases of 20% and 10% respectively.

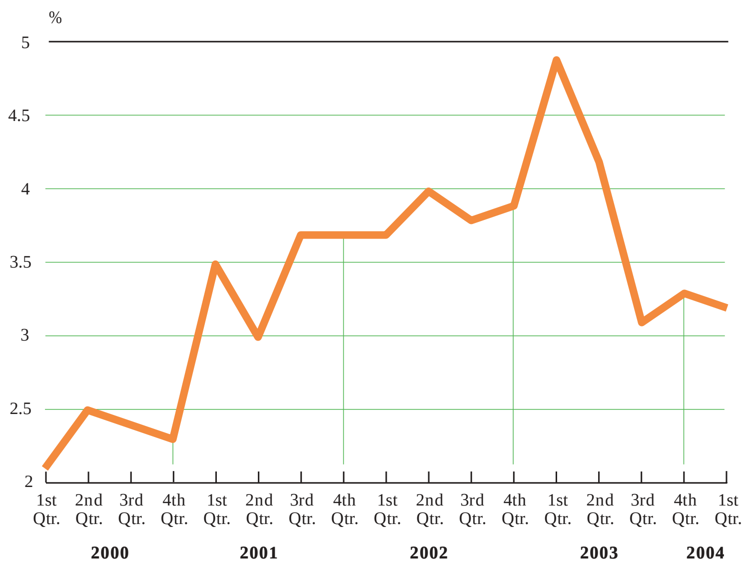
Wage costs rise above inflation

Increase in wage costs per person per month moderates by one decimal in first quarter to stand at 3.2%...

According to the quarterly survey of labour costs, total wage cost in the first quarter of 2004 stood at 1,457 euros per person per month to show an increase of 3.2% compared with the same period last year. This increase, which was one decimal lower than in the preceding quarter, confirmed a certain stability in the growth of wages at above 3%. In the first quarter, the consumer price index showed an average increase of 2.2%, that is to say, one point less than that recorded for wage costs.

WAGE INCREASES GO ABOVE 3%

Change in wage costs per worker per month



SOURCE: National Institute of Statistics and internal figures.

…nevertheless, hourly wage costs go up more than one point to 4.1%.

The lower growth seen in wage costs in the first quarter was also to be noted in total wage costs, that is to say, wage costs plus other labour costs such as Social Security and other headings, which stood at 3.5% year-to-year, two decimals below the previous quarter. This decrease however was not reflected in effective cost per hour worked which moved up to an increase of 4.1% in the quarter, that is to say, 1.1 points more than in the fourth quarter of 2003.

Substantial wage increases in industry and construction…

The moderation noted in wage costs was only to be seen in the area of services where labour costs per worker per month went to growth of 2.7%, three decimals less than in the preceding quarter. In industry and construction, on the other hand, the increase in wage costs rose slightly to stand at 4.0% and 5.2% respectively.

…in contrast to signs of moderation in collective bargaining agreements.

The average wage rise agreed upon in collective bargaining agreements as of the middle of the second quarter of 2004 stood at 2.9%, according to figures from the Ministry of Labour and Social Affairs, that is to say, six decimals less than in last year as a whole. These figures are for agreements reached on behalf of 4.5 million workers, that is to say, somewhat more than half of those which effectively came under collective bargaining at year-end.

WAGE INDICATORS

Percentage change over same period year before

	2002	2003	2003				2004
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.
Increase under general wage agreements	3.1	3.5	3.4	3.4	3.5	3.5	2.8
Wage per job equivalent to full-time work (*)	3.9	4.2	4.5	4.2	4.0	4.2	4.2
Labour cost index							
Wage costs							
Total	3.9	3.8	4.9	4.2	3.1	3.3	3.2
Industry	*4.7*	*4.4*	*5.0*	*5.1*	*3.7*	*3.7*	*4.0*
Construction	*4.1*	*5.0*	*5.1*	*4.9*	*5.1*	*5.1*	*5.2*
Services	*3.8*	*3.5*	*4.8*	*3.9*	*2.6*	*3.0*	*2.7*
Average wages per hour worked	4.1	4.3	3.3	8.0	3.1	3.0	4.1
Other labour costs	6.0	5.4	6.0	5.5	5.2	5.0	4.4
Work day (**)	–0.3	–0.5	1.5	–3.5	–0.1	0.4	–0.9
Farm wages	5.1	2.6	3.4	2.1	2.1	2.6	...
Labour cost in construction	2.9	4.4	4.0	4.6	4.4	4.5	3.8

NOTES: (*) Quarterly National Accounts, corrected gross figures.
(**) Effective hours worked per worker per month.
SOURCE: National Institute of Statistics, Ministry of Labour and Social Affairs, Ministry of Agriculture, Fishing and Food, Ministry of Public Works and internal figures.

PRICES

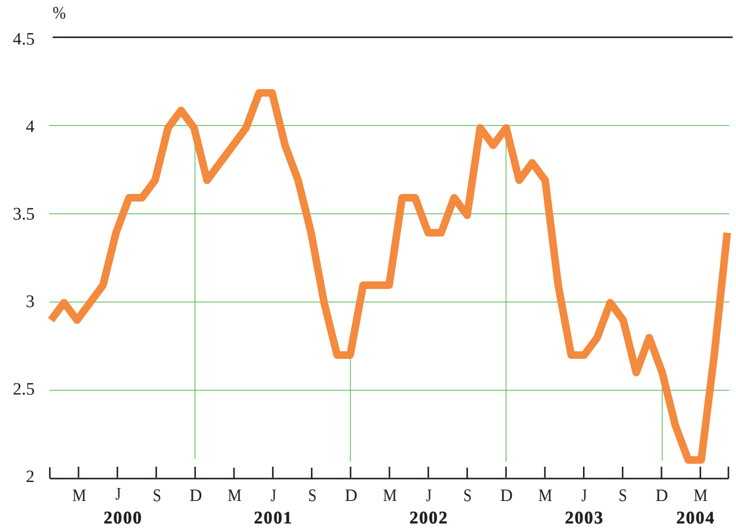
New rise in inflation in May

Inflation rate up six decimals in May.

The consumer price index (CPI) rose by 0.6% in May which was in contrast to the drop of 0.1% in the same month in 2003. As a result, the year-to-year inflation rate rose sharply for the second consecutive month going to 3.4%. This jump in the CPI was mainly due to prices for energy and food but the other components also showed a slightly more unfavourable performance than in the previous month. In this respect, underlying inflation moved up three decimals going to 2.7% year-to-year.

INFLATION AGAIN ABOVE 3%

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 sharp increases in oil-based fuels which reflected the rise in crude oil prices and the dollar exchange rate. In fact, the increase in prices in the energy group moved up somewhat more than five points to stand at 6.6% year-to-year. As a result, in the past two months this component has contributed practically seven decimals to the general inflation rate.

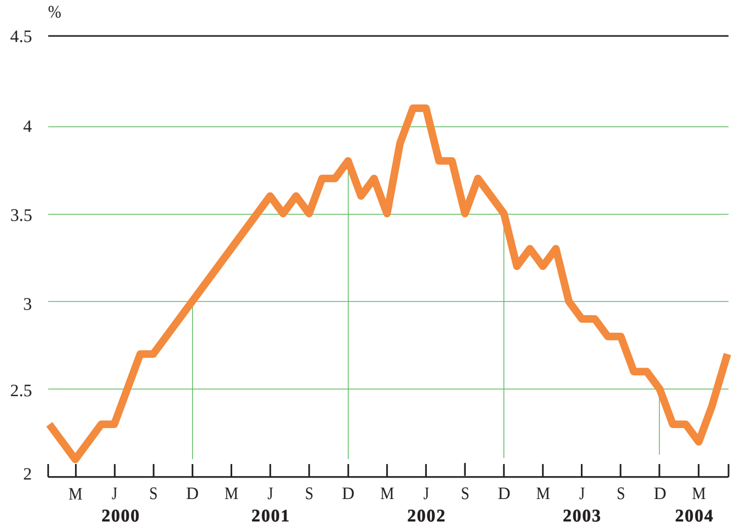
CONSUMER PRICE INDEX

	2003			2004		
	% monthly change	% change over Dec. 2002	% annual change	% monthly change	% change over Dec. 2003	% annual change
January	–0.4	–0.4	3.7	–0.7	–0.7	2.3
February	0.2	–0.2	3.8	0.0	–0.7	2.1
March	0.7	0.5	3.7	0.7	0.0	2.1
April	0.8	1.3	3.1	1.4	1.4	2.7
May	–0.1	1.2	2.7	0.6	2.0	3.4
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.

BOOST IN UNDERLYING INFLATION

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



SOURCE: National Institute of Statistics.

...along with food, both fresh and processed, especially the latter.

Although the impact was not as great, food prices also ran along the same lines. Fresh foods increased by a growth rate of two decimals going to 7.0% year-to-year as a result of the impact of chicken, potatoes and fish. The performance in processed foods was worse with prices moving up eight decimals to 3.7%, boosted mainly by tobacco and olive oil.

Clothing and footwear begin moderate rise impeding containment of prices for non-energy industrial goods.

Prices of non-energy industrial goods also moved up in increases in growth rate by a couple of decimals to 0.9% year-to-year, a rate which, in spite of everything, was quite moderate. With the start of the Spring season, prices of clothing and footwear and some household goods raised the year-to-year growth of this group although, on the other hand, decreases in prices of other products in markets involved in fierce competition (appliances, data-processing, audio and video) partly compensated for this situation.

Prices of services continue to grow at high relatively stable rates.

The course followed by prices of services in May was somewhat less unfavourable seeing that the annual rate rose by only one decimal to 3.8%. The greater stability in tourist prices, the containment in medical services and the decrease in communications prices favoured this trend in spite of the rise in air transport prices and some other more specific services.

CONSUMER PRICE INDEX BY COMPONENT

May

	Indices (*)	% monthly change		% change over previous December		% annual change	
		2003	2004	2003	2004	2003	2004
By type of spending							
Food and non-alcoholic beverages	113.0	0.3	0.4	0.9	1.6	3.6	4.7
Alcoholic beverages and tobacco	115.0	0.1	4.1	2.1	4.6	2.2	5.4
Clothing and footwear	117.4	1.2	1.4	1.4	1.0	5.5	2.0
Housing	108.4	–0.2	0.3	1.7	2.2	2.9	3.4
Household equipment	105.9	0.4	0.4	1.1	0.8	2.1	1.4
Health	104.9	0.1	0.0	1.5	–0.5	2.5	0.1
Transport	109.0	–1.1	1.6	0.7	5.2	0.2	5.5
Communications	94.0	–0.2	–0.1	0.9	0.4	–2.8	–0.7
Recreation and culture	102.2	–1.7	–1.3	–1.0	–1.1	0.1	0.0
Education	112.3	0.0	0.0	0.8	0.5	4.9	4.0
Hotels, cafés and restaurants	113.9	0.0	0.0	2.4	2.3	4.1	4.0
Other	110.9	0.1	0.1	2.5	2.5	3.4	3.1
By group							
Processed food	111.3	0.1	1.0	1.6	2.7	2.8	3.7
Unprocessed food	117.3	0.6	0.8	–0.1	0.5	4.6	7.0
Non-food products	109.4	–0.2	0.5	1.3	2.0	2.4	2.9
Industrial goods	107.3	–0.2	1.0	0.7	2.0	1.6	2.2
Energy products	*106.3*	*–2.5*	*2.5*	*–0.2*	*6.4*	*–1.9*	*6.6*
Fuels and oils	*107.6*	*–3.4*	*3.3*	*–0.8*	*8.2*	*–3.1*	*8.5*
Industrial goods excluding energy products	*107.5*	*0.5*	*0.6*	*0.9*	*0.6*	*2.6*	*0.9*
Services	111.9	–0.2	–0.1	2.0	2.1	3.5	3.8
Underlying inflation (**)	110.1	0.1	0.4	1.5	1.7	3.0	2.7
GENERAL INDEX	**110.4**	**–0.1**	**0.6**	**1.2**	**2.0**	**2.7**	**3.4**

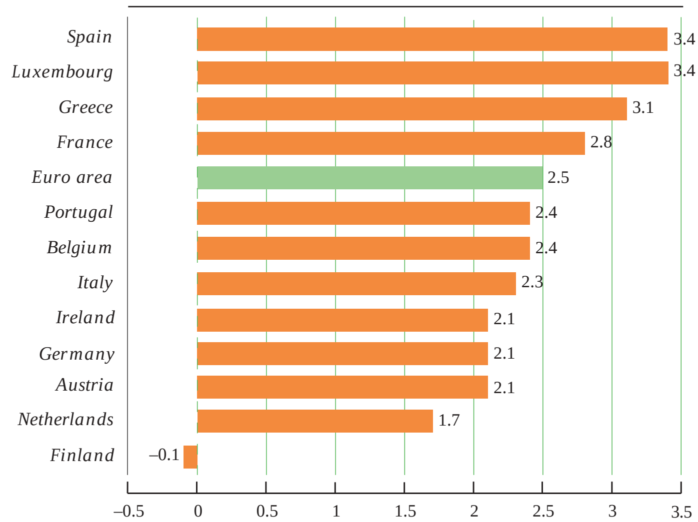
NOTES: (*) Base 2001 = 100.
(**) General index excluding energy products and unprocessed foods.
SOURCE: National Institute of Statistics.

Poor figure for May shows vulnerability of CPI to impact of energy but clarifies prospects.

The poor CPI figure for May confirmed expectations but at the same time showed the limits which could apply to that increase if the situation in oil markets and foreign exchange markets should stabilize. In this respect, despite the fact that energy prices will add the odd decimal to the inflation rate the following month, a sharp increase in the other CPI components does not seem plausible. In any case, non-energy industrial goods and services may be affected by the new level of energy prices. On the other hand, food should show a notable drop in rate of increase during the third quarter thus taking a few decimals off the general index.

SPAIN AT PEAK OF INFLATION IN EURO AREA

Percentage year-to-year change in harmonized consumer price as of May 2004



SOURCE: Eurostat.

Spain most inflationary country in euro area.

The sharp rise in inflation in Spain in May going to 3.4%, according to the harmonized consumer price index, was somewhat higher than for the same index in the euro area so that the inflation differential increased to nine decimals, the highest value in the past eight months. At the same time, along with Luxembourg, Spain was the country with the highest inflation in the euro area that month. Growth of prices in Spain in May was higher than that in the euro area in practically all components of the index with the exception of alcoholic beverages and tobacco and medical services, both of which showed a sharp increase in Europe.

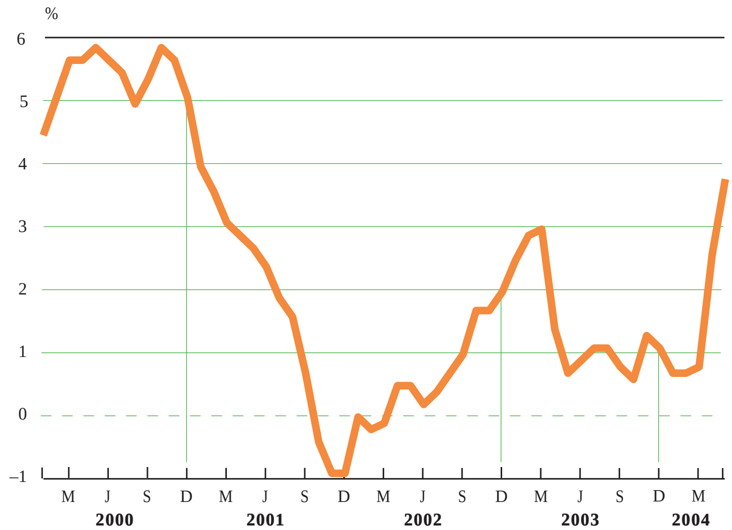
Producer prices continue to rise in May

Energy, intermediate goods and food put pressure on producer prices.

Industrial prices continued their sharp rise in May with a growth rate standing at 3.8% year-to-year, 1.2 points above the figure for the month before. The increase in energy prices, the sustained rise in non-energy intermediate goods and pressures on food prices were behind this new situation which is quite different from that at the beginning of the year when the producer price index was growing below 1%.

SHARP RISE IN WHOLESALE PRICES

Year-to-year change in producer prices



SOURCE: National Institute of Statistics.

INFLATION INDICATORS

Percentage change over same period year before

	Farm prices	Producer price index: General index	Producer price index: Consumer goods	Producer price index: Capital goods	Producer price index: Intermediate goods	Producer price index: Energy goods	Import prices: Total	Import prices: Consumer goods	Import prices: Capital goods	Import prices: Intermediate goods	GDP deflator (*)
2003											
March	–0.8	3.0	2.2	1.2	1.5	9.5	2.9	1.4	–3.0	5.3	–
April	0.3	1.4	1.6	1.0	1.3	1.3	–2.5	–0.1	–10.9	–0.9	–
May	7.5	0.7	1.8	1.2	1.0	–2.3	–2.0	–1.9	–10.0	0.4	4.1
June	6.6	0.9	2.0	1.2	0.4	–0.9	0.7	–0.6	–7.2	3.8	–
July	3.7	1.1	2.5	1.1	0.1	0.2	0.0	–3.4	–7.2	3.2	–
August	8.3	1.1	2.7	1.1	0.0	0.1	1.5	4.5	–9.1	2.9	4.0
September	14.6	0.8	2.7	1.2	0.3	–2.4	–2.8	–0.2	–17.7	0.9	–
October	12.0	0.6	2.5	1.2	0.7	–3.6	0.8	2.8	–0.6	–0.0	–
November	11.1	1.3	2.6	1.4	0.9	–0.4	–0.2	–0.4	–7.0	1.8	4.2
December	9.5	1.1	2.4	1.3	1.0	–1.1	–1.4	–1.4	–9.4	1.0	–
2004											
January	4.4	0.7	2.1	1.3	1.4	–3.6	–3.6	–1.0	–8.4	–3.5	–
February	–2.7	0.7	2.1	1.3	2.0	–5.4	1.8	–6.0	–6.2	7.5	4.0
March	1.3	0.8	2.3	1.3	2.6	–5.6	–2.3	–3.6	–7.0	–0.5	–
April	...	2.6	2.9	1.3	3.6	1.3	...	...	...	...	–
May	...	3.8	3.1	1.2	4.3	7.2	...	...	...	...	...

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

Capital goods and consumer durables show more contained growth.

The sharp rise in producer prices was not higher because of the relative moderation seen in prices of capital goods and consumer durables, which showed growth rates of 1.2% and 1.9% respectively, somewhat lower than in previous months in both cases.

Import prices moderate except in non-energy intermediate goods.

In many respects, import prices reflected a situation parallel to that in industrial prices. We thus see notable weakness in prices of manufactures and capital goods along with a substantial rise in non-energy intermediate goods. Energy prices, on the contrary, showed notable moderation given that in March they still did not show the effects of recent rises in crude oil prices and the relative weakness of the euro. Imported foods, on the other hand, showed a slight drop.

Sharp drop in farm prices in first quarter.

Farm prices rose by only a modest 1.3% which put the cumulative average for the quarter at 1.0%, practically ten points below the previous quarter. This sharp drop should have an effect on final prices of farm products which up to now have been one of the most inflationary components of the CPI.

FOREIGN SECTOR

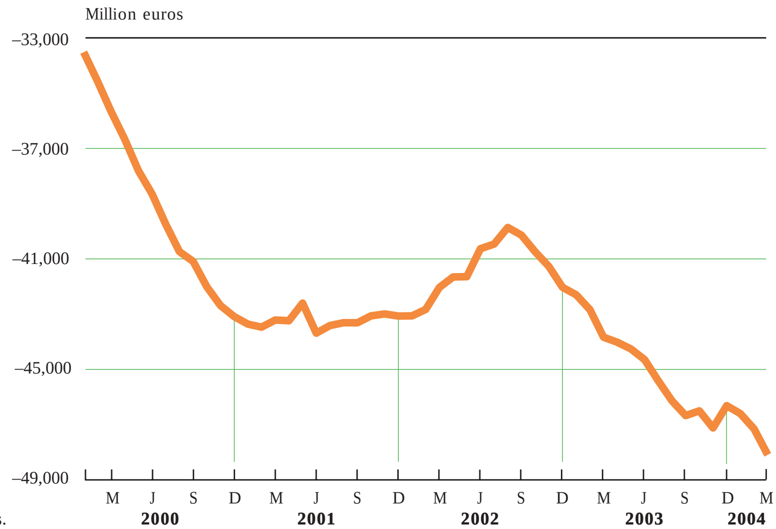
Increase in trade deficit

Trade deficit up 18% as of March.

The Spanish economy's trade deficit again increased in March to reach 4.4 billion euros, 27.6% more than in the same month last year. As a result, the cumulative imbalance rose to 11.6 billion euros in the first quarter, some 18.2% more than in the same period in 2003. Lower growth of exports, around 3 percentage points below imports, was behind this increase in the foreign imbalance.

FOREIGN TRADE CONTINUES TO WORSEN

Cumulative trade balance for past twelve months



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

Rise in imports of consumer goods and capital goods from third countries.

Imports (46.9 billion euros as of March) recorded a nominal increase of 7.6%, well above the average for the previous quarter. In real terms, the increase was somewhat greater (9.0%) due to the drop in import prices. The increase in imports was especially noticeable in consumer goods and capital goods, around 20% real in the quarter, and quite varied according to geographical area. Purchases from the European Union (EU) grew by 2.9% real as against 22.6% for those from third countries. In consumer goods, the biggest increases were recorded in fruit and vegetables, furniture, consumer electronics, footwear and cars. In capital goods, the main rise took place in railway equipment. On the other hand, foreign purchases of intermediate goods remained practically stagnant.

FOREIGN TRADE
January-March 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	4,767	–8.7	10.2	1,151	20.7	3.3	–3,616	24.1
Consumer goods	13,523	16.3	28.8	14,289	1.4	40.5	767	105.7
Food	*2,940*	*13.3*	*6.3*	*4,657*	*5.4*	*13.2*	*1,717*	*158.4*
Non-foods	*10,583*	*16.7*	*22.6*	*9,632*	*–1.6*	*27.3*	*–951*	*91.0*
Capital goods	7,346	10.2	15.7	4,349	12.4	12.3	–2,996	59.2
Non-energy intermediate goods	21,261	5.9	45.3	15,508	4.3	43.9	–5,752	72.9
By geographical area								
European Union	29,318	6.1	62.5	25,524	3.2	72.3	–3,794	87.1
Euro area	*25,607*	*6.2*	*54.6*	*21,319*	*3.6*	*60.4*	*–4,288*	*83.3*
Other countries	17,578	10.1	37.5	9,774	8.0	27.7	–7,804	55.6
Eastern Europe and ex-USSR	*2,236*	*13.5*	*4.8*	*1,500*	*2.4*	*4.2*	*–737*	*67.1*
United States	*1,812*	*6.7*	*3.9*	*1,330*	*–0.5*	*3.8*	*–482*	*73.4*
Japan	*1,358*	*28.1*	*2.9*	*333*	*25.8*	*0.9*	*–1,025*	*24.5*
Latin America	*1,672*	*17.7*	*3.6*	*1,588*	*7.6*	*4.5*	*–84*	*95.0*
OPEC	*2,850*	*–10.9*	*6.1*	*757*	*–3.3*	*2.1*	*–2,093*	*26.6*
Rest	*7,649*	*15.6*	*16.3*	*4,266*	*14.6*	*12.1*	*–3,383*	*55.8*
TOTAL	**46,896**	**7.6**	**100.0**	**35,298**	**4.5**	**100.0**	**–11,598**	**75.3**

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

Recovery of exports based on food, energy products and certain capital goods.

Sales abroad in the first three months of the year (35.3 billion euros) were up 4.5% nominal compared with the same period in 2003. The rise in volume stood at 7.2%, nearly four points above the previous quarter. The recovery of exports was due to the increase in sales of food products and certain capital goods, mainly ships and engines. On the other hand, sales of non-food consumer goods abroad were down under the effect of the drop in exports of cars, furniture, footwear and toys which balanced out increases in other products, mainly clothing and electrical appliances.

Third country markets grow more than EU market.

From a geographical perspective, exports to third countries showed a bigger increase than those going to the EU, specifically 12.1% as against 5.1%. In both cases, the sales profile showed upward growth. The positive state of some economies in Latin America, Japan, China and, to a lesser extent, in the east European countries marked out the difference and more than compensated for the contraction of markets in the United States and the countries making up the Organization of Petroleum Exporting Countries. In the EU area, the relative strength in sales to Belgium, Portugal, Netherlands and Finland balanced the poor state of markets in France, Italy, United Kingdom and Germany.

Current account deficit continues to increase sharply

Current account deficit in March well above same month in 2003...

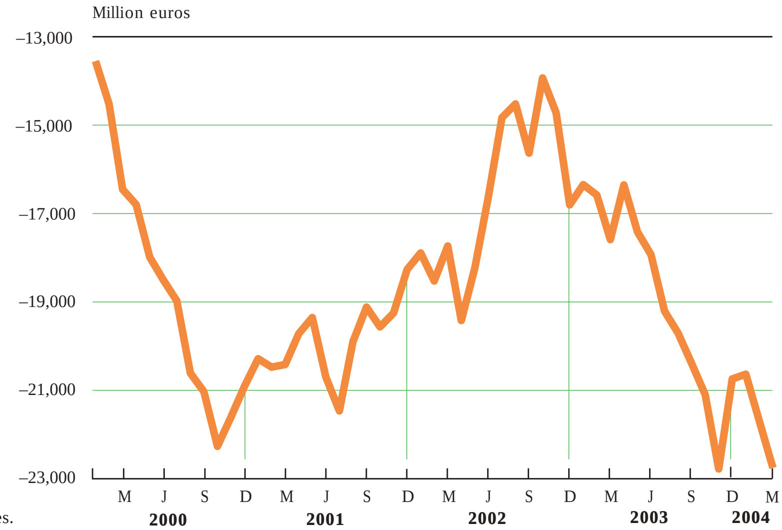
The current account balance showed a deficit of 3.6 billion euros in March, going well above the same period last year. This rise was mainly due to the increase in the trade imbalance and the drop in the services surplus, seeing that both the transfers heading and incomes showed no turnaround with amounts holding at the levels seen in March 2003.

...while cumulative figure for past 12 months up 29%.

The notable worsening of the current account balance in March raised the cumulative deficit for the past 12 months to 22.8 billion euros, 29.3% higher than in the same period last year. This worsening came as a result of the increase in the trade deficit and especially from the turnaround in the transfers balance which showed a negative figure for the cumulative total for 12 months. On the other hand, the surplus in services and the incomes deficit improved slightly although not sufficiently to compensate for the worsening in the other headings.

CURRENT ACCOUNT DEFICIT CONTINUES TO GROW

Cumulative current account balance with abroad for past twelve months



SOURCE: Bank of Spain and internal figures.

Services balance tending to ease increase.

The services surplus was due to the positive figure for the tourist balance which amounted to 29.5 billion euros in the past 12 months, going up 3.3% compared with last year. The progressive rise in the growth of payments for tourist services (which increased to 9.0%) went hand-in-hand with stability in the increase in tourist revenues, reported at 4.4% cumulative over the past 12 months, and meant some easing off of the improvement in this balance.

BALANCE OF PAYMENTS

Cumulative figure for last 12 months in million euros

	March 2003	March 2004	% change
Current account balance			
Trade balance	–35,189	–39,488	12.2
Services			
Tourism	*28,531*	*29,478*	*3.3*
Other services	*–2,081*	*–2,495*	*19.9*
Total	26,450	26,983	2.0
Income	–11,201	–10,320	–7.9
Transfers	2,272	–21	–
Total	**–17,669**	**–22,845**	**29.3**
Capital account	**7,887**	**8,077**	**2.4**
Financial balance			
Direct investment	3,351	–5,516	–
Portfolio investment	–4,506	7,344	–
Other investment	16,450	20,285	23.3
Total	**15,295**	**22,113**	**44.6**
Errors and omissions	–4,543	–5,863	29.1
Change in assets of Bank of Spain	–970	–1,482	52.7

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 431 million euros in March thus considerably improving on the figure for the same month last year. By the same token, the figure for the past 12 months stood at 2.4% above the year before. Net world borrowing for non-financial transactions, the figure obtained by adding the current account balance and the capital balance, stood at 14.8 billion euros in the past 12 months, some 51.0% above the same period ending March 2003.

Decline in direct investment and increase in portfolio investment.

Financial account, excluding Bank of Spain transactions, showed net inflows of 22.1 billion euros in the past 12 months, 44.6% more than in the same period the year before. Direct Spanish investment abroad recovered slightly which did not prevent the total volume from being 53.7% lower than in the same period the year before. Direct foreign investment also increased its sharp decline to reach very low levels. In direct foreign investment the drop came mainly in corporate investment but not in real estate. Portfolio investment, on the other hand, showed sharp growth in both directions.

PUBLIC SECTOR

Tax collections moderate rise in May

Central government revenues up 4%.

Central government non-financial revenues rose by 1.9% as of May to reach a total of 46.9 billion euros. This figure, however, cannot be compared directly with that for the same period last year due to changes in accounting criteria. Taking these changes into account, collections amounted to 62.7 billion euros which represents an increase of 4.4% over January-May 2003.

CENTRAL GOVERNMENT BUDGET IMPLEMENTATION
May 2004

	Month		Cumulative for year	
	Million euros	% change over same month year before	Million euros	% change over same month year before
Non-financial revenue	**2,324**	**–18.5**	**46,889**	**1.9**
Non-financial revenue adjusted (*)				
Personal income tax	847	–20.5	20,527	–3.3
Corporate tax	222	4.2	4,379	15.0
VAT	1,500	5.5	22,541	6.3
Special taxes	1,507	8.4	7,138	6.7
Other	1,418	–10.4	8,155	13.5
Total	**5,494**	**–3.1**	**62,740**	**4.4**
Non-financial spending	**7,532**	**–7.5**	**44,518**	**–2.7**
Treasury balance	**–5,208**	**–1.7**	**2,371**	**926.4**
Surplus (+) or deficit (–) (**)	***–6,090***	***6.3***	***4,085***	***–23.4***

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% thanks to increase from value added tax.

The increase in tax collections (3.9% overall) rested mainly on indirect taxes which amounted to 30.7 billion euros with an increase or 6.7% over the January-May period in 2003. Collections from value added tax were up by 6.3% as of May thanks to relative strength in collections for domestic transactions. Collections for special taxes, in turn, grew by 6.7% with most tax headings increasing at a good rate with the exception of the tax on fuels for which collections (the highest in absolute figures) grew by 5.3%. Figures for 2004 (in contrast to those for 2003) do not include tax on certain means of transport which is considered revenue proper to the autonomous communities.

Collections for direct taxes practically stable.

Collections for direct taxes overall amounted to 25.7 billion euros with an increase of 0.7% compared with the first five months of 2003. The increase was mainly in the tax on corporate income given that personal income tax showed a slight drop in collections, partly attributable to early payment of tax rebates.

Property earnings down along with current transfers but no drop in capital transfers.

Apart from tax resources, fees and public service charges showed a substantial rise of 5.9%. On the other hand, property earnings and current transfers were down moderately. On the other hand, capital transfers were double the figure for the same period last year.

Central government non-financial spending down slightly because of lower interest costs.

Central government non-financial spending, in turn, was down by 2.7% with a total of 44.5 billion euros. This figure does not include the balancing entry for revenues corresponding to tax segments ceded to autonomous communities and thus not directly comparable with the figure for last year. The drop in spending showed up in current operations, entirely for interest payments, and to a lesser extent in capital operations.

Treasury surplus as of May.

The central government Treasury balance as of May, that is to say, the difference between its non-financial revenues and payments, was positive to the extent of 2.4 billion euros, ten times that for the same period the year before. This surplus, however, was compensated by the sharp net increase in financial assets arising from larger central government deposits at financial institutions. Because of this, the final balance of the public accounts was a major deficit (7.8 billion euros) nearly five times that for last year. In terms of National Accounting, however, the budgetary balance was positive at 4 billion euros, although it was 23.4% less than in 2003.

SAVINGS AND FINANCING

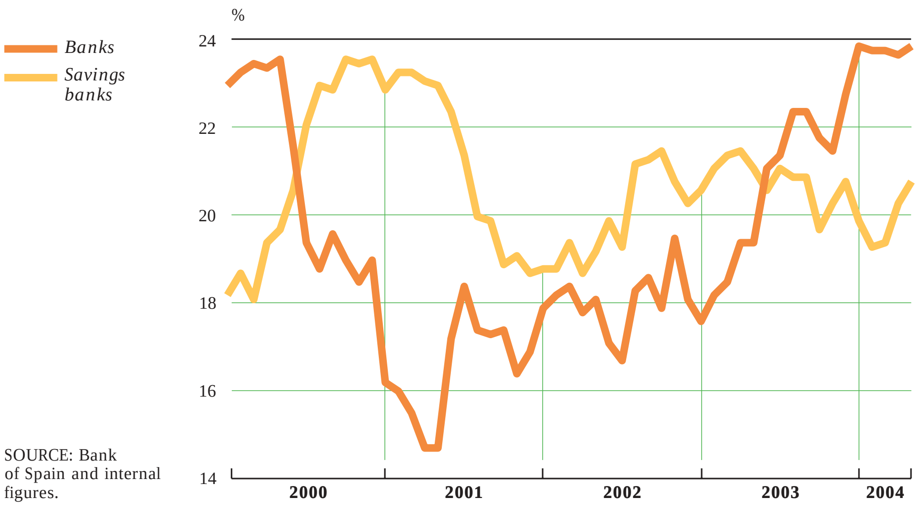
Bank credit to private sector growing at sustained rate

Good state of economy and low interest rates...

Bank credit to companies and households rose by 15.1% in the 12 months ended April 2004. This rate was two decimals lower than that recorded the month before but still meant a high growth rate, more than twice that for the euro area as a whole. Bank credit to the private sector continued to be boosted by the good state of the economy and very low interest rates.

BANKS PROMOTING MORTGAGE LOANS

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



SOURCE: Bank of Spain and internal figures.

...give strong boost to mortgage loans with 22% annual growth.

The growth of credit to companies and households continues to be based on mortgage loans. Mortgage loans by banks and savings banks thus rose by 22.1% in April compared with the same month in 2003, the highest year-to-year rate since May 1991. If we include securitizations, this rate rises to 24.8%, according to figures released by the Spanish Mortgage Association. Also of note was the growth of leasing with a year-to-year change rate of 15.6%. This funding goes to finance the acquisition of equipment and real estate by companies and self-employed professionals.

CREDIT TO COMPANIES AND HOUSEHOLDS
April 2004

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
Trade credit	54,720	–811	–1.5	5,182	10.5	6.5
Secured loans (*)	475,357	33,232	7.5	85,707	22.0	56.1
Other term loans	262,032	11,133	4.4	16,238	6.6	30.9
On-demand loans	21,007	84	0.4	751	3.7	2.5
Leasing	26,375	1,306	5.2	3,562	15.6	3.1
Doubtful loans	7,496	–170	–2.2	–171	–2.2	0.9
TOTAL	**846,986**	**44,774**	**5.6**	**111,270**	**15.1**	**100.0**

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

Loan default at very low levels.

In addition, doubtful loans dropped in absolute figures to 7.5 billion euros in April. This figure meant a default rate of 0.89%, the lowest level in recent years. Furthermore, the doubtful loan rate for mortgage loans marked up a low of 0.475% at the end of March.

CREDIT TO PRIVATE SECTOR BY PURPOSE
First quarter of 2004

	Total (*)	Change this year		Change 12 months	
	Million euros	Million euros	%	Million euros	%
Funding of production-related activity					
Agriculture, livestock and fishing	16,973	571	3.5	1,835	12.1
Industry	85,326	–503	–0.6	–1,233	–1.4
Construction	68,171	2,388	3.6	11,196	19.7
Services	258,123	14,084	5.8	40,894	18.8
Total	**428,593**	**16,539**	**4.0**	**52,692**	**14.0**
Funding to individuals					
Home purchase or renovation	288,736	12,778	4.6	44,238	18.1
Acquisition of consumer durables	36,201	1,065	3.0	1,291	3.7
Other funding	61,242	323	0.5	8,903	17.0
Total	**386,179**	**14,167**	**3.8**	**54,432**	**16.4**
Funding to private non-profit institutions	**3,108**	**106**	**3.5**	**823**	**36.0**
Other unclassified	**14,854**	**–290**	**–1.9**	**2,583**	**21.0**
TOTAL	**832,734**	**30,522**	**3.8**	**110,530**	**15.3**

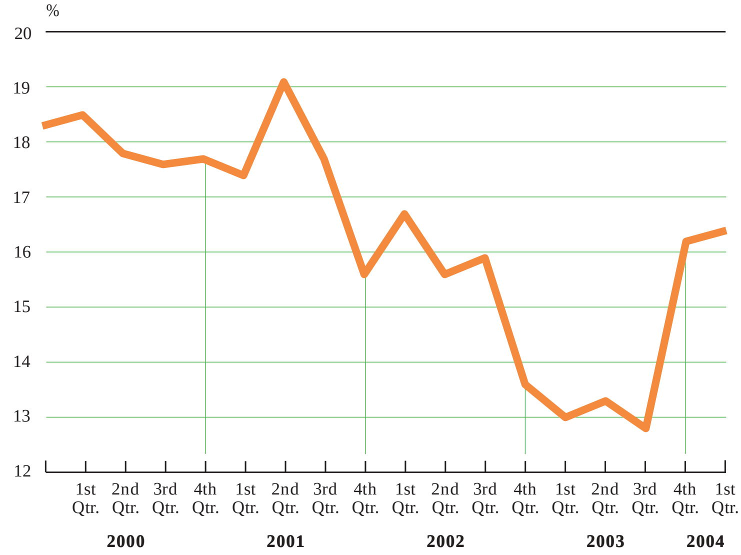
NOTES: (*) For credit system as a whole – banking system, finance companies and Official Credit.
SOURCE: Bank of Spain and internal figures.

Loans to households growing more than those granted to companies.

The Bank of Spain recently made available figures for loans to companies and households for the end of the first quarter of 2004, which make possible a more detailed analysis from the point of view of purpose. Both loans going into productive activities and those for funding individuals recorded year-to-year growth rates higher than those seen in December but loans to individuals rose more than those going into production activities to record 16.4% compared with 14.0%.

LOANS TO HOUSEHOLDS SHOWING STRONG GROWTH

Year-to-year change in loans to individuals by credit institutions as a whole



SOURCE: Bank of Spain and internal figures.

Strong loan demand for construction.

By major economic sector, what stood out was the drive in construction with credit moving up 19.7% in the past 12 months, five points more than in the quarter before. Credit to services also rose at high rates with an increase of 18.8% as of March, some 2.7 points more than in the previous quarter. Funds going into the primary sector, that is to say, agriculture, livestock raising and fishing, rose by 12.1% compared with March 2003, some 3.7 points more than in December. On the other hand, funding granted to industry was down by 1.4% compared with the first quarter of last year.

Finance for buying consumer durables up only 4% annual.

Under funding to individuals, home purchase and renovation was up 18.1% compared with the same period last year, some 0.7 points more than three months earlier. On the other hand, credit for purchase of consumer durables rose by only 3.7% compared with one year earlier although this rate is 2.6 points higher than that recorded in December. Other financing to individuals rose by 17.0% compared with the first quarter of last year, some 4.3 points less than at the end of 2003.

Assets of mutual funds near all-time high

Yield on deposits stands at close to 1%.

The composite yield on deposits at credit institutions rose very slightly to 1.14% in April to stand one basic point above the low recorded the month before. The composite interest rate on deposits by individuals stood at 1.12%, four basic points above the low in October.

DEPOSITS BY COMPANIES AND HOUSEHOLDS AT CREDIT INSTITUTIONS

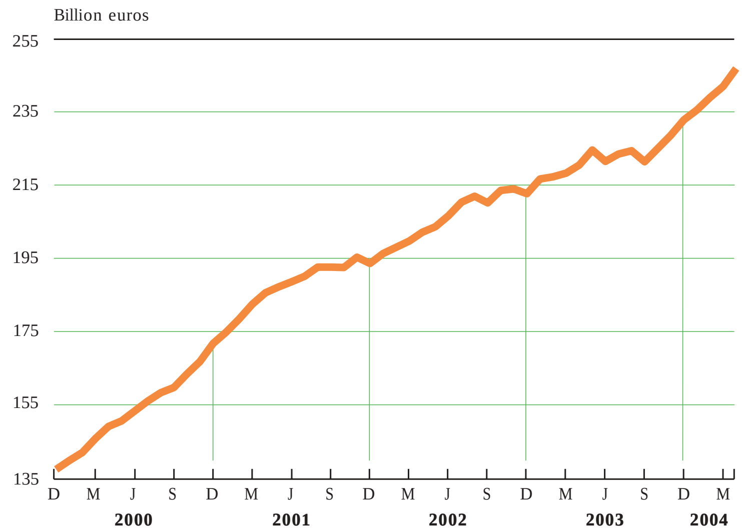
April 2004

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
On-demand	168,544	–360	–0.2	13,594	8.8	26.0
Savings (*)	145,220	11	0.0	16,446	12.8	22.4
2-year term	155,345	–881	–0.6	–2,144	–1.4	23.9
More than 2-year term	92,245	14,883	19.2	28,440	44.6	14.2
Repos	82,343	4,542	5.8	4,281	5.5	12.7
Total	**643,698**	**18,196**	**2.9**	**60,619**	**10.4**	**99.2**
Deposits in currencies other than euro	**5,286**	**1,135**	**27.3**	**1,657**	**45.7**	**0.8**
TOTAL	**648,984**	**19,331**	**3.1**	**62,276**	**10.6**	**100.0**

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

RECOVERY OF TIME DEPOSITS

Time deposits at credit institutions



SOURCE: Bank of Spain.

Private sector deposits up 11% in past 12 months.

Total deposits of the resident private sector in euros and foreign currency rose by 10.6% in April 2004 compared with the same month last year, some 0.3 points more than in March. In the course of the past 12 months deposits rose by 62.3 billion euros, an amount notably less than growth of credit granted by the resident banking system. To compensate for this, financial institutions issued bonds and securitizations or had recourse to the foreign interbank market.

Extraordinary rise in deposits in currencies other than euro.

The biggest year-to-year rise was noted in deposits in currencies other than the euro with an increase of 45.7%. Deposits for terms of more than 2 years were also up to an extraordinary degree (44.6%) rising some seven points more than in the month before. On the other hand, deposits for terms of less than 2 years dropped by 1.4 points below since April 2003.

Savers take refuge in money-market funds due to volatile scene in financial markets in May.

The assets of mutual funds rose by 2 billion euros in May to reach a total of 210.8 billion euros, while eliminating double-dealing in funds of funds, to thus show a rise of 7.7% over December, according to information supplied by Inverco, the sector organization. The March increase was mainly due to net purchases of shares amounting to 1.5 billion euros. The biggest net acquisitions, discounting sales, showed up in money-market funds, short-term bond-based funds, global funds and guaranteed bond-based funds in a volatile environment in financial markets. Assets of mutual funds came close to the all-time high in April 1999.

Annual yield on mutual funds drops to 3.3% in May.

The average weighted yield on mutual funds in the past 12 months was down 0.8 points to 3.3% in May. All categories of mutual fund recorded positive annual yields and what stood out was the yield obtained on Japanese share-based funds with capital gains of 39.7%. At the other extreme, the yield on long-term bond-based funds dropped to 0.7%.

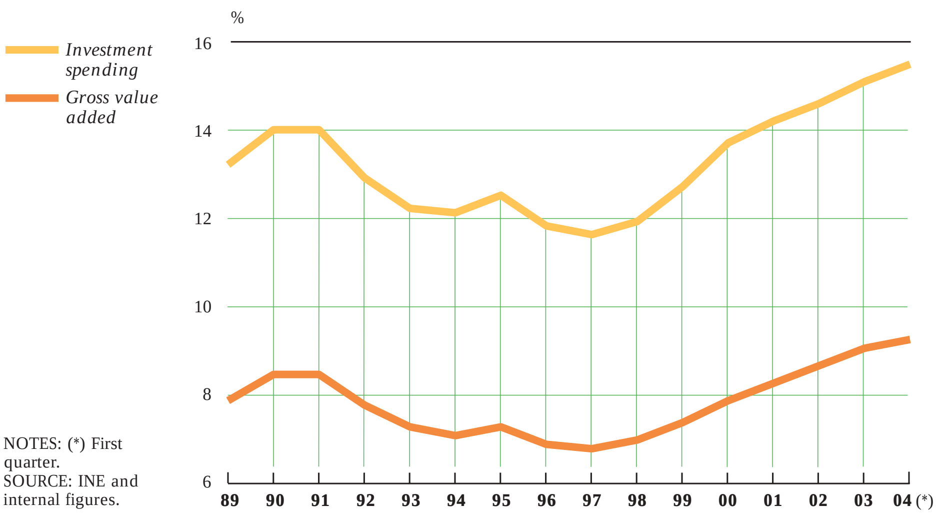
Construction and housing: growth cycle continues

Construction accounts for 15% of GDP in 2003, highest figure in recent years.

In 2003, both production and demand in the construction sector moved into the seventh consecutive year of high growth while moderating the rate of advance to levels somewhat below 4% real. Gross value added for the sector represented 9.1% of total gross domestic product (GDP) in 2003 while, on the demand side, construction spending contributed 15.2% to the GDP and construction investment accounted for 59.4% of all gross fixed capital formation. The positive state of activity was reflected in employment which, according to the National Institute of Statistics, grew by 3.8%. As a result, employment in the sector at the end of 2003 stood at 1,855,000 workers, or 10.9% of all employment.

GROWTH CYCLE IN CONSTRUCTION CONTINUES

Construction sector in relation to total GDP



NOTES: (*) First quarter.
SOURCE: INE and internal figures.

Good sector state in Spain as against drop in demand in euro area.

The growth of construction demand in Spain is in contrast to the drop in the euro area at 0.4% real. The decrease in demand in countries of the euro area was due to the poor year in the sector in Portugal, Netherlands and Germany, a country where the drop was 3.4%. France and Finland also ran in negative vein, although with smaller decreases. These drops were partly counteracted by increases in Greece (up 10%), Ireland (5.8%), Austria and Italy. Outside the euro area, there was notable demand in the United Kingdom with a rise of 8.2% real in contrast to the sharp downturn in Denmark (drop of 7.6%). In addition, forecasts suggest that construction demand in Spain in 2004 will go up by around one point above the estimated average for the European Union (EU-15) set at 2.4%.

GENERAL CONSTRUCTION INDICATORS

Percentage annual change unless otherwise indicated

	2002	2003	2003				2004
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.
Macroeconomic figures							
Gross value added	4.8	3.6	3.2	3.7	3.8	3.6	3.5
Gross fixed capital formation	4.2	3.7	3.3	3.7	3.9	3.7	3.5
Employment							
Number of employed (*)	3.4	3.7	2.2	4.1	4.3	4.3	3.2
Social Security wage-earners	5.8	4.3	5.8	4.8	3.8	3.0	4.4
Full-time employment (**)	3.0	3.8	2.1	4.1	4.4	4.5	3.1
Unemployment rate (% of labour force)	9.5	9.0	9.7	8.6	8.4	9.1	9.5
Consumption of inputs							
Cement	4.7	4.8	3.9	5.1	4.5	5.7	5.1
Work completed							
Building	7.4	4.4	4.4	6.1	3.3	4.0	...
Public works	3.1	3.0	0.7	3.4	2.5	5.0	...
Total	5.6	3.9	3.5	4.9	2.9	4.3	...
New hiring							
Building	18.6	7.1	26.9	–13.7	–6.6	33.3	...
Public works	13.4	15.3	21.7	5.1	34.0	4.2	...
Total	16.5	10.3	24.9	–7.0	8.3	19.8	...
Costs							
Labour	2.9	4.4	4.0	4.6	4.4	4.5	3.1
Materials	0.4	0.8	2.2	0.5	0.7	–0.2	–0.8
Total	1.5	2.2	3.0	2.1	2.1	1.7	0.9

NOTES: (*) According to Labour Force Survey.
(**) According to National Accounting.
SOURCE: INE, Ministry of Public Works, Ministry of Labour and internal figures.

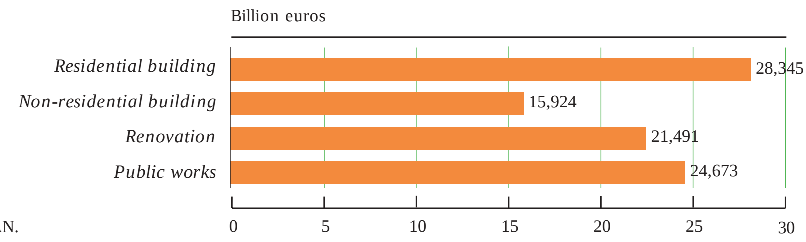
Construction activity

Demand by public sector represents 22% of sector production and growing above private sector.

The good state of construction activity in Spain was given key support by demand coming from the public sector which grew by 7%, four points above the increase recorded as coming from the private sector, according to the National Association of Construction Companies (SEOPAN). Demand from the public sector, mainly made up of public works, represented 22% of the 131 billion euros estimated by SEOPAN as total domestic production in the sector in 2003. Demand from the private sector (the remaining 78%) was mainly concentrated in building. Under building construction, the basic segment of activity was housing given that the value of non-residential building was significantly lower. The rest was almost entirely made up of renovation and maintenance which made up a quarter of sector production.

HOUSING FORMS MAIN SEGMENT OF CONSTRUCTION ACTIVITY

Production in construction sector in 2003 at constant 1995 prices



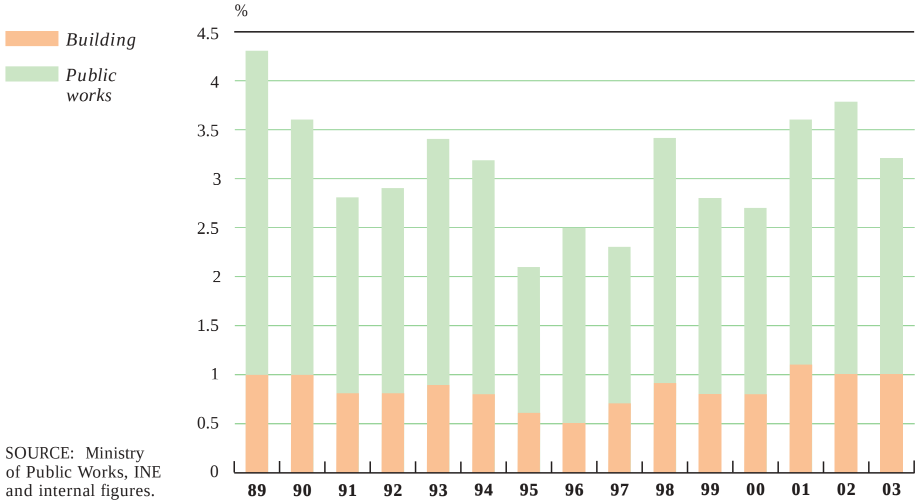
SOURCE: SEOPAN.

Government tendering still holding at high levels.

According to the Ministry of Public Works, government tendering was down 10.9% in 2003 following sharp increases in the two previous years going to a total of 23.9 billion euros, that is to say, 3.2% of the GDP. This percentage, however, was relatively high and above the average for the past 15 years, all of which indicates that, for the moment, the drop in activity in the future will be of short duration.

GOVERNMENT TENDERING DOWN IN 2003

Government tendering for construction in terms of GDP



SOURCE: Ministry of Public Works, INE and internal figures.

Public works, largely highways and railways, main area of government tendering in 2003.

The main core of tendering by the various levels of government and related bodies and corporations was in public works. In 2003, this segment made up 69.8% of total tendering with highways and railways forming the main core of spending. The biggest increase, however, came in irrigation works although the amount only represented 2.7% of the total. Apart from public works, the main part of government tendering was for non-residential building, 23.2% of the total, whereas residential building came to 7.0%, that is to say, 1.7 billion euros, a figure in line with that for recent years.

Under private sector demand, non-residential building and renovation show drop...

In addition, under private sector demand, non-residential building showed a moderate slowdown with growth at 2.0% real, a half-point below the year before, according to SEOPAN. Renovation and maintenance, on the other hand, showed relatively high growth (3.0%) but down two points from the previous year.

...as opposed to housing market which holds strong.

Finally, according to SEOPAN, the residential building segment recovered part of the ground lost the year before so that real domestic production grew by 3.0%, one point above the year before. In spite of this appreciable improvement, the rate of activity in the sector in 2003 was far from the increase seen at the end of the previous decade when production was growing at two-digit levels.

Housing

Main activity indicators reflect solid progress in housing in 2003.

The recovery of the housing sector indicated by SEOPAN in its early figures for 2003 is confirmed by practically all available indicators. From the point of view of production activity proper, the number of housing units under construction shows a rise of the order of 5% with a growth profile all through 2003. Figures for approvals and housing starts also showed a sharp recovery in 2003 which, however, moderated at the beginning of 2004. In fact, the number of housing starts in 2003 stood at 622,185 units, the highest figure ever reached and 14.6% above the year before.

HOUSING MARKET INDICATORS

Percentage annual change unless otherwise indicated

	2002	2003	2003				2004
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.
Approvals by works managers							
Budgets (new works)	6.4	23.0	28.2	29.0	15.3	20.0	5.4
Budgets (renovation and extension)	–5.1	21.2	15.3	26.6	35.5	11.4	8.8
Surface area of new works in m^2	4.2	19.5	22.1	20.1	12.8	23.2	8.6
Building permits							
New works in m^2	–7.7	2.8	–7.6	1.2	1.7	14.3	14.4
Housing (units)	–9.4	2.6	–9.7	3.6	–0.8	15.9	15.5
Housing starts	3.7	14.6	22.0	18.7	14.0	6.4	...
Housing under construction	–0.4	5.0	2.8	5.5	6.9	7.2	...
Housing completions	2.9	–2.6	–0.9	–7.5	8.5	–8.3	...
Foreign investment in real estate	27.7	16.7	37.8	18.7	10.7	–30.2	–1.3
Total mortgage loans	19.5	22.4	21.4	22.2	22.7	23.3	24.4
Loans to households for housing	17.4	17.3	16.1	16.3	16.7	20.0	22.7
Interest rates on housing loans	4.8	3.7	4.2	3.8	3.5	3.5	3.5
Price of housing per m^2	16.7	17.5	17.4	18.7	16.5	17.6	17.2

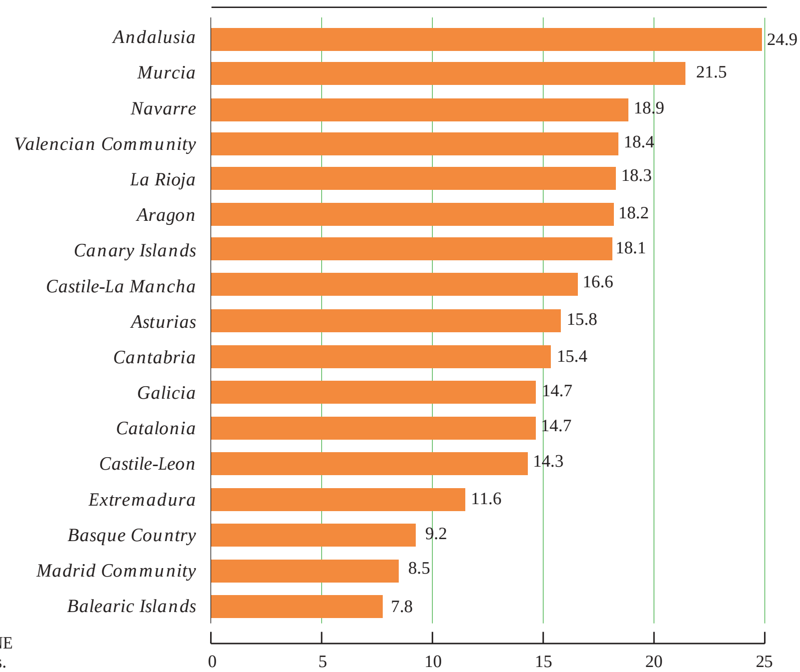
SOURCE: Ministry of Public Works, Bank of Spain, SEOPAN and internal figures.

Rise in housing construction very uneven across country.

The rise in housing construction was very unevenly spread by geographical area. If we look at projects approved by architectural bodies, we note very big increases in Navarre (50.4%), Galicia, Asturias, Basque Country, Castile-Leon and Canary Islands with around 20% and Extremadura and Andalusia at above 15%. On the other hand, there were sharp drops in the Balearic Islands (29.4%) and Madrid (19.3%) and of lesser amount in Catalonia and Valencian Community (3%-4%).

RISE IN HOUSING VERY UNEVEN BY GEOGRAPHICAL AREA

Housing approvals per 1,000 population in 2003



SOURCE: Ministry of Public Works, INE and internal figures.

Andalusia and Murcia show very strong drive in new housing starts.

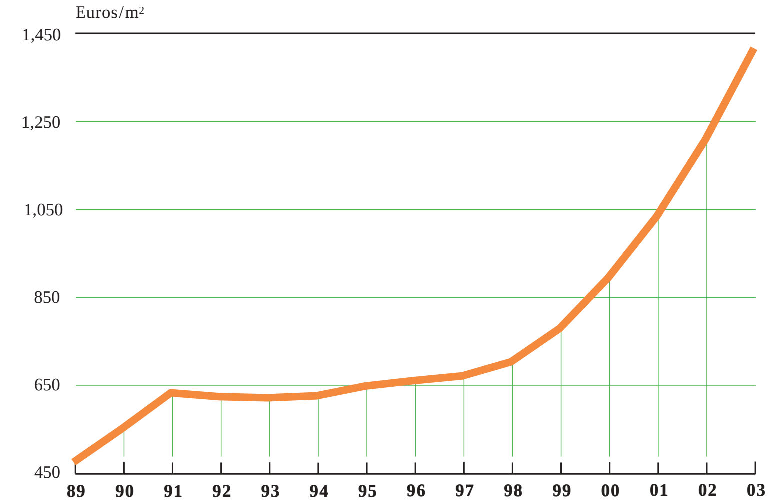
Nevertheless, apart from the increase in the number of approvals, which in some cases is distorted by the low absolute level, what stands out is the relatively high level of activity in some autonomous communities. In Andalusia, for example, the number of approvals per 1,000 population was more than 50% above the Spanish average. Also very significant were the figures for Murcia, Canary Islands and Valencian Community, areas which in common with Andalusia are very attractive from a tourist point of view, something strongly boosted by foreign demand. In addition, Navarre, Aragon and La Rioja also showed relatively high levels in the housing segment in spite of not fitting into the tourist destination category. At the other end of the scale came the Balearic Islands, which was affected by the previous moratorium on housing development, along with Madrid Community and the Basque Country.

Boom in market accompanied by price increases.

As in previous years, the recovery of activity in the housing market in 2003 was accompanied by major price increases. According to the Ministry of Public Works, housing prices rose by 17.5% on average in Spain although with somewhat higher growth in the market segment for existing housing as compared with new housing. In overall terms, the average price of a housing unit reached 1,400 euros a square metre in 2003. Furthermore, the increases were much higher is the larger cities, as much as 19.2% in those of more than 500,000 population (except Madrid, Barcelona and Bilbao and their areas of influence), more than 5 points above inland municipalities of fewer than 50,000 population. As a result, this has meant the already big price differences according to area are increasing. In this respect, the price per square metre in the areas of influence of Madrid and Barcelona (2,502 and 2,175 euros) were well above the Spanish average.

PRICE OF HOUSING DOUBLES IN FIVE YEARS

Price of new and existing housing (national average)



SOURCE: Ministry of Public Works and internal figures.

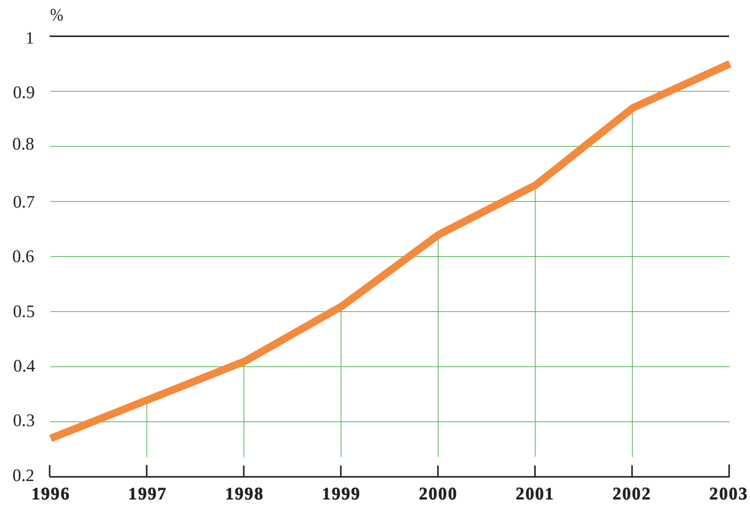
Housing demand driven by demographic and economic factors...

The renewed drive in the real estate market may be explained by a series of factors, such as those of a demographic, social, economic and financial nature which together have brought about a favourable environment for demand. In the demographic and social areas, there has been a notable increase in immigration in recent years. In economic terms, there was a continuation of the process of job creation in 2003. In addition, the improvement in real wages and in earnings on property contributed to increase household incomes and thus their purchasing power. In 2003, disposable income per household rose by 3.9% nominal, practically one point less than the year before.

…by foreign investment…

Another key factor supporting the drive in sector activity was undoubtedly demand from outside the country. Real estate purchases by foreigners, not only in housing, reached a figure of 7 billion euros in 2003, going up 16.7% compared with the year before, that is to say, a very similar percentage to the overall increase in sector prices. Foreign investment in real estate thus stood at 0.95% of the GDP, the highest percentage in history.

FOREIGN INVESTMENT IN REAL ESTATE ON RISE
Inflows from direct foreign investment in real estate in terms of GDP



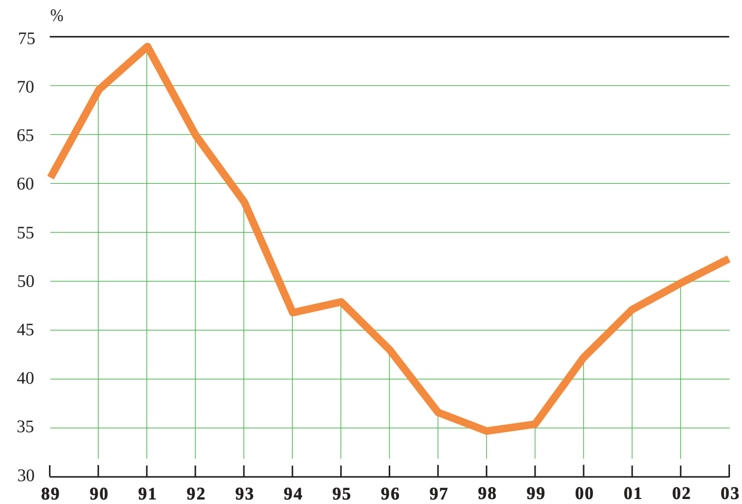
SOURCE: Bank of Spain, INE and internal figures.

Financing

...and because of low interest rates which help investment efforts of households.

The strong drive in housing demand may also be explained by easier loan facilities. Interest rates have gone to low levels, an average of 3.7% for housing loans, according to Bank of Spain figures. In the early months of 2004, the drop in interest rates continued, going to an average of 3.3% in April. According to Bank of Spain figures, the effort needed to meet mortgage loan payments as a percentage of incomes stood at 52.3% of average wages, 2.5 points more than in the final quarter of 2002 and nearly 20 points more than in 1998. In any case, present figures do not go as high as the average level of effort in the first half of the Nineties when to meet mortgage payments took up somewhat more than 70% of average wages.

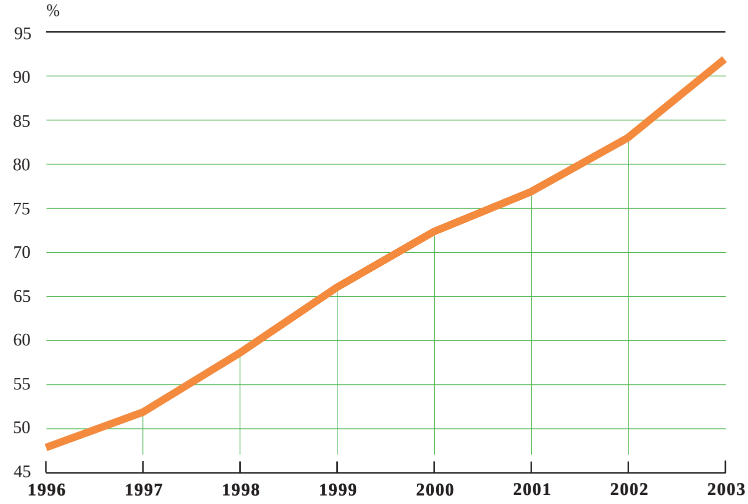
HOUSEHOLD EFFORT TO PURCHASE HOME SHOWS INCREASE
Annual loan payments compared with wage costs



SOURCE: Bank of Spain.

UNSTOPPABLE RISE IN HOUSEHOLD INDEBTEDNESS

Debt of households and non-profit institutions serving homes in relation to gross disposable income



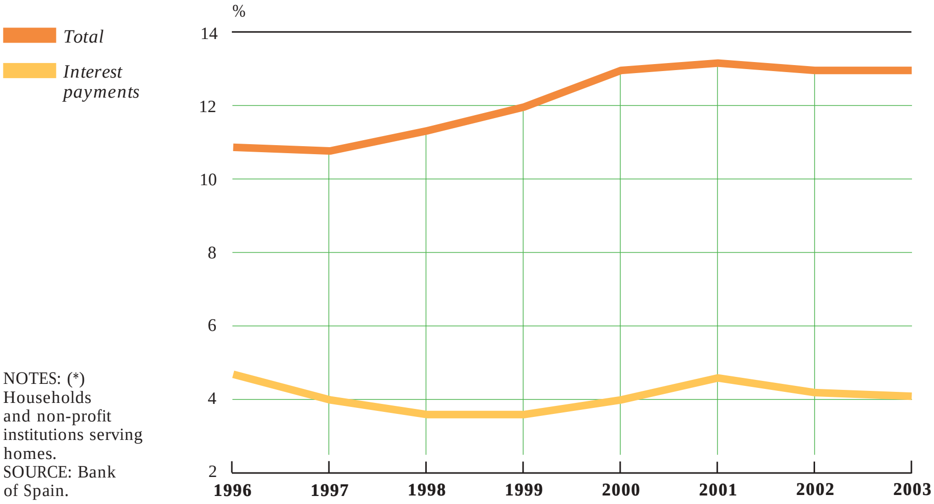
SOURCE: Bank of Spain.

Loans for building and related activities boost total loan figure.

In fact, the funding of construction and related activities has become the main driving force for credit in Spain. Funds granted by credit institutions for construction, real estate activities and acquisition and renovation of housing rose by 22.1% in the 12 months ending March 2004, marking up the highest rate in recent years and coming to represent 53.3% of total current loans. There was a notable rise in credit for real estate activities which moved up by 39.9% in year-to-year rate. In turn, credit going directly to construction rose by 19.7% in the past 12 months. Under credit going into construction, the heading to show the biggest increase in borrowing in this period was that for installations and finish of buildings and related works, with a rise of 37.2%. On the other hand, credit for public works rose by 8.0%.

HOUSEHOLD FINANCIAL LOAD REMAINS STABLE (*)

Amortization of capital and interest payments compared with gross disposable income



NOTES: (*) Households and non-profit institutions serving homes.

SOURCE: Bank of Spain.

Rise in home-purchase loans.

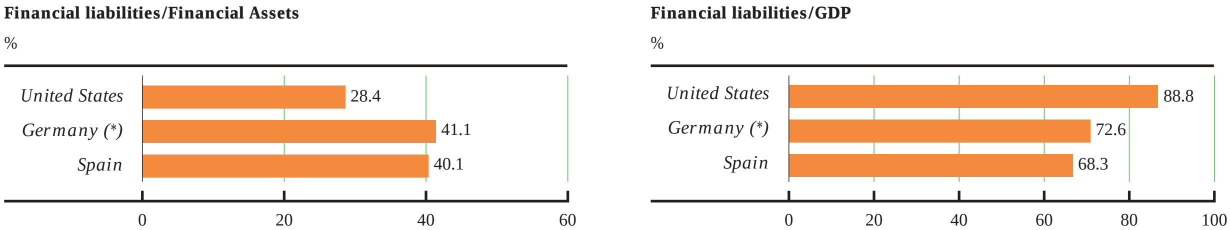
With regard to loans for the purpose of home purchase and renovation, this type of credit increased going up 18.1% between March 2003 and March 2004. This heading now makes up three-quarters of loans to individuals and this growth has increased household indebtedness. Household debt has continued to rise in recent years, as may be seen from the accompanying graphic, and now stands above 90% of gross disposable income. Nevertheless, the financial load of households, which includes payments to reduce capital and interest, held at relatively moderate levels compared with disposable gross income in 2002 and 2003. This was possible thanks to low interest costs and the extension of the repayment period on mortgage loans.

Borrowing by Spanish households growing more rapidly than in neighbouring countries…

Borrowing by Spanish households has grown at a faster rate than in most neighbouring countries. As a result, the debt ratio of households compared with gross disposable income for the first time stood above the average for the euro area. Nevertheless, this ratio was substantially lower than in the United Kingdom, Germany and the United States. Other means of measurement, such as, for example, financial liabilities of households in terms of the GDP, provide similar results.

DEBT OF SPANISH HOUSEHOLDS: INTERNATIONAL COMPARISON

2003



NOTE: (*) Figures for 2002. SOURCE: National central banks, Thomson Financial Datastream and internal figures.

…but overall property holdings of Spanish families improving.

The overall property position of Spanish families does not present any restraint on the strength of consumption and home investment over the short or medium term. Nevertheless, the margin for manoeuvre in the sector to meet any possible unfavourable change in wealth, income or the cost of financing has become narrower, given the low level of savings. On the other hand, at a more broken down level, the Survey of Household Budgets shows that a growing proportion of households are finding it difficult to save so that there will be a higher percentage of households in a situation more vulnerable to adverse changes in the macroeconomic environment. Nevertheless, this could be compensated to some extent by the flexibility of the new mortgage instruments appearing on the market.

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