THE SPANISH ECONOMY:

MONTHLY REPORT

FEBRUARY 2004

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Research Department

"la Caixa"

Forecast

% change over same period year-before unless otherwise noted

	2002	2003	2004	2003				2004	
				1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.
INTERNATIONAL ECONOMY		Forecast					Forecast		
Gross domestic product									
United States	2.2	3.1	4.2	2.1	2.4	3.6	4.3	4.8	4.9
Japan	–0.3	2.2	1.8	2.7	2.3	1.8	2.0	2.2	1.8
United Kingdom	1.7	2.0	2.6	1.9	2.1	2.1	2.1	2.4	2.2
Euro area	0.9	0.5	1.7	0.7	0.1	0.3	0.8	1.2	1.7
Germany	*0.2*	*0.0*	*1.4*	*0.1*	*–0.3*	*–0.2*	*0.5*	*0.9*	*1.3*
France	*1.2*	*0.1*	*1.6*	*0.6*	*–0.4*	*–0.3*	*0.3*	*0.8*	*1.7*
Consumer prices									
United States	1.6	2.3	2.2	2.9	2.1	2.2	1.9	1.6	2.1
Japan	–0.9	–0.2	–0.3	–0.2	–0.2	–0.2	–0.3	–0.2	–0.3
United Kingdom	2.2	2.8	2.3	2.9	2.9	2.9	2.6	2.4	1.9
Euro area	2.3	2.1	1.7	2.3	1.9	2.0	2.0	1.9	1.7
Germany	*1.4*	*1.1*	*1.3*	*1.1*	*0.9*	*1.0*	*1.2*	*0.9*	*1.3*
France	*1.9*	*2.1*	*1.8*	*2.4*	*1.9*	*1.9*	*2.2*	*1.8*	*1.9*
SPANISH ECONOMY									
Macroeconomic figures									
Household consumption	2.6	3.1	3.2	3.0	3.0	3.2	3.3	3.3	3.2
Government consumption	4.4	3.8	3.7	4.0	3.7	3.6	3.7	3.8	3.8
Gross fixed capital formation	1.0	3.2	3.8	3.1	3.4	3.1	3.3	3.4	3.6
Capital goods	*–2.7*	*2.5*	*4.2*	*2.7*	*2.9*	*2.1*	*2.5*	*2.9*	*3.5*
Construction	*4.2*	*3.7*	*3.5*	*3.4*	*3.8*	*3.9*	*3.9*	*3.8*	*3.6*
Domestic demand	2.6	3.4	3.5	3.5	3.1	3.4	3.5	3.5	3.6
Exports of goods and services	0.0	4.4	6.7	4.7	8.0	2.5	2.8	4.7	5.9
Imports of goods and services	1.8	7.4	8.3	8.7	10.2	5.7	5.3	6.7	8.2
Gross domestic product	2.0	2.4	2.9	2.2	2.3	2.4	2.6	2.7	2.7
Balances									
Employment	1.5	1.8	2.0	1.6	1.7	1.9	1.9	2.0	2.0
Unemployment (% labour force)	11.4	11.3	11.0	11.7	11.1	11.2	11.2	11.1	11.1
Consumer price index	3.5	3.0	2.3	3.7	2.8	2.9	2.7	2.4	2.4
Unit labour costs	3.3	3.3	2.9	3.6	3.3	3.2			
Current account balance (% GDP)	–2.7	–3.5	–3.2	–5.0	–2.5	–3.4			
Not lending or net borrowing rest of the world (% GDP)	–1.6	–2.4	–2.2	–4.0	–1.3	–2.6			
Government balance (% GDP)	0.1	0.0	0.0						
FINANCIAL MARKETS									
Interest rates									
Federal Funds	1.7	1.1	1.2	1.3	1.2	1.0	1.0	1.0	1.0
ECB repo	3.2	2.3	2.0	2.7	2.4	2.0	2.0	2.0	2.0
10-year U.S. bonds	4.6	4.0	4.6	3.9	3.6	4.2	4.3	4.3	4.4
10-year German bonds	4.8	4.1	4.4	4.1	3.9	4.1	4.3	4.2	4.2
10-year Spanish bonds	5.0	4.1	4.4	4.1	3.9	4.1	4.3	4.2	4.2
Exchange rate									
$/Euro	0.95	1.13	1.24	1.07	1.14	1.12	1.19	1.26	1.30

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

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

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

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

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February 2004

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ECONOMIC OUTLOOK FOR 2004

Expectations of a recovery of the world economy became more and more consolidated in 2003. Forecasts for 2004 point to a continuation of the pattern of behaviour seen up until now. That is to say, the United States again shows up as the driving engine of the world economy, thanks to strong household consumption and an improvement in investment. We estimate that **growth of the U.S. economy will exceed 4%** without the appearance of inflationary pressures thanks to growth of productivity and the opening up of the economy. The sharp imbalances in the foreign sector and the public accounts remain the main threats over the medium term although it is difficult to see these adversely affecting U.S. growth before 2005.

The strength in the United States runs in contrast to the **poor economic take-off** in the euro area. While recovery will continue thanks to the effect of a more propitious world scene and the recovery of domestic demand, growth of only 1.7% is forecast for 2004. Even this modest result could be adjusted downwards if the appreciation of the euro goes beyond the point that European industry's competitive capacity can handle. It will also be necessary for domestic demand, especially consumption, to confirm hopes of recovery. On the other hand, prospects on inflation have improved and it is hoped that the year-to-year rate for harmonized prices will go below 2% in coming months.

Within this framework, the U.S. Federal Reserve Board will probably opt for **maintaining its official interest rate** at 1%. Farther along toward mid-year it could go for a modest rise once the strength of the current recovery has been confirmed. With regard to the European Central Bank, no change is expected there either in coming months so long as prospects of recovery are met given that otherwise a slight cut cannot be ruled out. The current strength of the euro exchange rate has also raised fears of an early rate cut. With regard to long-term interest rates, in coming months these will swing at around current levels and later on take on a gradual upward trend. So far as foreign exchange markets are concerned, the depreciatory pressure on the dollar will continue for some time so that the euro could mark up further highs against the U.S. currency.

If we look at Spain's economy, the beginning of 2004 has not substantially changed the trends noted in previous months. **Domestic demand continues to be the main engine of growth**, thanks to renewed strength in construction and the sustained advance in consumption. In a progressively more favourable international scene, which will bring further strength to exports, growth of the gross domestic product in 2004 will come close to 3%. This scenario will make it possible for employment to continue growing at a moderate rate and for the unemployment rate to drop slightly. The reduction in the inflation rate in December, greater than expected, was partly due to the drop in import prices associated with the strength of the euro and, if circumstances doe not change, the current year could end with an increase in prices of less than 2.5%. At the same time, the balancing of the public accounts could be maintained without major difficulties.

January 26, 2004

ECONOMIC SITUATION

United States and Asia hauling along world economy

Indicators confirm signs of recovery although doubts linger about its sustainability.

The year 2004 began with the conviction that the world economy was in a stage of recovery. The truth is there are lingering doubts as to whether this recovery can be sustained over the long term to the point where existing imbalances could halt it before long. But the various indicators becoming available point to a solid indisputable improvement in the state of the main economies, especially with regard to the United States and the main Asian countries. The financial markets are picking up this feeling with notable rises on the stock markets in a situation of low inflation, very low interest rates and easy monetary policy.

U.S. economy gets impetus from lower interest rates, tax cuts and now from drop in dollar…

It is once more the U.S. economy that is leading the world recovery. Coming on top of the two big boosts from economic policy applied up to this moment, decreases in interest rates and tax cuts, in recent months there has been the depreciation of the dollar so that for the moment a continuation of the good growth figures seems assured. U.S. household consumption is holding at high levels with the prospect of continuing if we are to judge by rise in the consumer confidence index for the fourth quarter. Corporate investment is also pointing upwards in view of the consolidation of the improvement in the manufacturing industry and a continued rise in the construction sector.

…but not managing to create jobs while no signs of inflation showing…

Whereas the U.S. economy is increasing its growth rate, what stands out is the total absence of inflationary pressures and the lack of progress in the labour market. The consumer price index (CPI) for December showed a year-to-year rise of 1.9% but, if we exclude the more volatile components of food and energy, the rate goes down to 1.1%, the lowest point in 40 years. In turn, the labour market is still not creating jobs in spite of the fact that the unemployment rate over the labour force in December was down by two decimals going to 5.7%.

…due to extraordinary rise in productivity.

The explanation of growth without inflation and with scarcely any job creation lies in the extraordinary increase in terms of the productivity of the U.S. economy. This process has been forced upon the economy by the flow of imports from countries which are very competitive in terms of labour cost, which obliges companies to maintain prices and to keep labour costs down as far as possible through improvements in production efficiency. This phenomenon is closely linked to the growing relative weight of China and India, the two world population giants, in the economy and in international trade.

Asia makes up another focal point of recovery with China in lead and Japan coming out of stagnation.

The case of China is having the most impact, given that in a very short time it has become the world's fourth biggest exporter and the leading recipient of foreign investment. In 2003, China's growth stood at 9.1%, the highest figure for six years, in spite of the impact of the SARS crisis in the second quarter. China's vitality is spreading over the Asian continent and partly explains the recovery being seen in Japan's economy, an outcome of the rise in exports and the improvement in the trade surplus. On the domestic scene, corporate investment in Japan has recorded some quite expansionist months while consumption is moving into a less depressed stage which in any case is not managing to avoid a continuation of deflation (the CPI dropped by 0.5% year-to-year in November).

European economy remains flat with few signs of recovery…

Once more we must put the favourable progress of the U.S. and Asian economies in opposition to the main economies of continental Europe. The initial figures for Germany's gross domestic product (GDP) in 2003 show a drop of 0.1%, which means the worst year since 1993. France and Italy are not reporting substantially better results. Finally, the euro area is showing more than expected resistance to emerging from its stagnation and making a decided move into recovery.

… now darkened by effects of euro's appreciation on foreign competitiveness.

In the fourth quarter of 2003 economic activity indicators for the euro area are revealing the difficulty in getting private consumption to recover its growth rate although the investment activity of companies is showing a better state. The recovery in corporate investment is linked to the better state of world demand. The problem arises from the appreciation of the euro against the dollar, something which is having a negative effect on growth of exports and squeezing the trade surplus.

Fear appreciation of euro could run higher…

The strength of the euro constitutes an element of uncertainty for the area's economy. The euro ended 2003 at 1.26 units to the dollar, recording an annual appreciation of 20.4%. In the early days of the new year the euro continued to rise going up to an all-time high of 1.28 dollars on January 12. Fears of a higher course of appreciation of the single currency have not disappeared in view of the complacency shown by the U.S. economic authorities on the course taken by the dollar and given the difficulties in adopting a clear foreign exchange policy in the euro area.

…sets off expectation of interest rate cuts by ECB while stock markets continue to rise.

This situation has set off expectations of an interest rate cut by the European Central Bank (ECB) as a means of halting the appreciation of the euro. In any case, short-term interest rates, both in the euro area and the United States, continue to swing around the all-time lows marked by the last cuts by the monetary authorities in June 2003. Prospects of a maintenance of interest rates at low levels have helped bring investors to the stock markets where publication of generally positive company profits managed to prolong the stage of price increases seen in the final months of 2003.

Spain's economy: foreign imbalance worsening

Spain's economy keeps aloof from state of stagnation in Europe with growth above 2%.

Spain's economy stands aloof from the state of stagnation and reluctance to move into recovery seen in most of its partners in the euro area and continues to show favourable results. Indicators for the fourth quarter of 2003 point to maintenance of the strength of consumption and construction, the two main bases on which current growth rests. An increase in gross domestic product close to 2.4% is estimated for the year as a whole, as against a mere 0.5% in the euro area.

Industrial production slowed by imports but construction and services remain buoyant.

Mention should be made of the weak course being followed by the industrial sector especially with regard to production of consumer manufactures (growth of 0.3% in the first eleven months of 2003), being as they are subject to strong foreign competition which shows up in the sharp growth of imports of those products (9.9% by volume from January to October). Construction, in turn, is showing notably expansionist judging by the indicators, both in housing and public works. In services, an overall favourable course is to be seen, especially in sectors such as retail trade, transportation, telecommunications and services to companies. On the other hand, with regard to tourism the balance is rather modest.

On demand side, consumption remains strong while investment rising.

On the demand side, consumption continues to record a sustained advance. The retail trade index and especially passenger car sales confirm the favourable situation which goes together with a gradual improvement in the consumer confidence index. Investment, in turn, is indicating an upward move up with growth of imports of machinery and equipment, domestic production and registration of commercial vehicles.

Favourable results in terms of inflation…

Another positive note is to be seen in the favourable results in the CPI. The year-to-year increase in December 2003 was 2.6%, a figure that goes well above the government objective of 2.0% but represents a notable advance over the 4.0% reached in December 2002. A number of factors have contributed to this improvement such as the revaluation of the euro, which has made possible the moderation in the cost of oil imports, and the drop in prices of consumer electronics and audiovisual products. The textile and clothing component also contributed to this moderation due to the flow of low priced imports affecting the sector.

…but balance of payments worsens rapidly due to appreciation of euro and imports from countries with low wage costs.

The adverse effect of imports at very competitive prices is due both to the appreciation of the euro and progressive market penetration by countries with low wage costs. The negative side of the coin is to be found in the rapid worsening of the balance of payments and the heavy pressure exerted on domestic products. Month after month the trade deficit is reaching all-time highs while the current account balance for January-October 2003 showed a deficit some 61% higher than the figure for the same period last year. The result is a considerable increase in net world borrowing of Spain's economy.

CHRONOLOGY

2003

January	**1**	*Coming into force of **Law on Personal Income Tax Reform** which involves decrease in individual tax load (BOE 19-12-02).*
		*Culmination of **liberalization of energy markets** offering possibility for households and small businesses to choose electricity and gas supplier.*
March	**6**	*One-month forward price for Brent quality **oil** moves up to 33.6 dollars a barrel, the highest level since October 2000.*
	20	*United States and its allies begin **war against Iraq** to depose Saddam Hussein regime.*
April	**16**	*Ten new member states sign **Treaty of Accession to European Union**.*
	27	*Coming into force of group of **economic reform measures** aimed at reducing cost of mortgage loans, fostering female employment, improving scheme for self-employed persons under Social Security and access of young people to rental housing, as well as improving tax treatment of small and medium-size companies (BOE 26-4-03).*
May	**25**	***Elections** for local government and autonomous communities.*
June	**5**	***European Central Bank** cuts official interest rate by 50 basis points to 2.00%, the second reduction this year.*
	25	***Federal Reserve Board** cuts reference rate by quarter-point to 1.00%.*
September	**14**	*Sweden rejects adoption of **euro** in referendum.*
		***World Trade Organization** summit in Cancun (Mexico) ends without agreement.*
November	**1**	*Jean-Claude Trichet, former governor of French central bank, takes over from Willem F. Duisenberg as **chairman of European Central Bank**.*

2004

January	**1**	***Central government budget for 2004** comes into force (BOE 31-12-03).*
	12	***Euro** running at 1.283 dollars, highest figure since launching of single currency at beginning of 1999.*
	21	*Dow Jones index for **New York stock exchange** marks up annual high (10,623.6), a rise of 1.6% compared with end of 2003.*
	23	*IBEX 35 index for **Spanish stock exchange** records annual high (8,114.5), a cumulative gain of 4.9% over end of December 2003.*

AGENDA

February 2004

- **5** *Industrial production index (December). Meeting of Governing Council of European Central Bank.*
- **13** *Consumer price index (January).*
- **25** *Quarterly National Accounts (4th Quarter).*
- **26** *Producer price index (January).*
- **27** *Harmonized consumer price index for European Union (January).*

March 2004

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

United States: toward sustained recovery

United States maintains strong growth rate in fourth quarter thanks to consumption...

The drive in private consumption, the recovery of investment and the strong performance in construction were responsible for sustaining the firm rate of economic activity in the United States at the end of 2003. With regard to household spending, a key factor in the current recovery, retail sales ended the year with growth of 6.7% year-to-year in December, five decimals more than the already strong third quarter. The notable rise in consumer confidence in the fourth quarter (nearly 10 points over the previous quarter) suggests consumption will be maintained in the early months of 2004.

CONSUMER CONFIDENCE GAINS GROUND IN UNITED STATES

Absolute value of consumer confidence index

SOURCE: The Conference Board.

...and recovery of corporate investment.

Two other components of domestic demand contributing to solidify growth are the recovery of corporate investment and (in spite of some slowdown) high demand in construction. As a result, so far as the former is concerned, the capital goods group in industrial production in December reached a year-to-year increase of 3.5%, its highest value since January 2001. In turn, the sale of single-family dwellings, a key indicator of demand in the sector, held at a year-to-year increase of 8.1% for the October-November average. While this growth rate is lower than that for the second and third quarters it should be remembered that the previous growth rates (of the order of 14%-15% year-to-year) had to slow down.

UNITED STATES: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2002	2003					
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
GDP	0.5	2.2	2.8	2.1	2.4	3.6	–	...	–
Retail sales	2.9	3.0	1.9	4.5	4.8	6.2	6.6	7.3	6.7
Sales of single-family homes	3.1	7.7	10.9	7.7	15.0	14.1	10.3	5.9	...
Consumer confidence (*)	106.6	96.6	81.7	68.3	82.7	78.6	81.7	92.5	91.3
Industrial production	–3.4	–0.6	1.3	1.1	–1.0	–0.4	0.8	1.7	2.3
Industrial activity index (ISM) (*)	43.9	52.4	51.8	50.2	48.2	53.4	57.0	62.8	66.2
Unemployment rate (**)	4.8	5.8	5.9	5.8	6.1	6.1	6.0	5.9	5.7
Consumer prices	2.8	1.6	2.2	2.9	2.2	2.2	2.0	1.8	1.9
Trade balance (***)	–36.1	–35.6	–37.8	–40.7	–42.5	–43.7	–44.6	–44.6	...

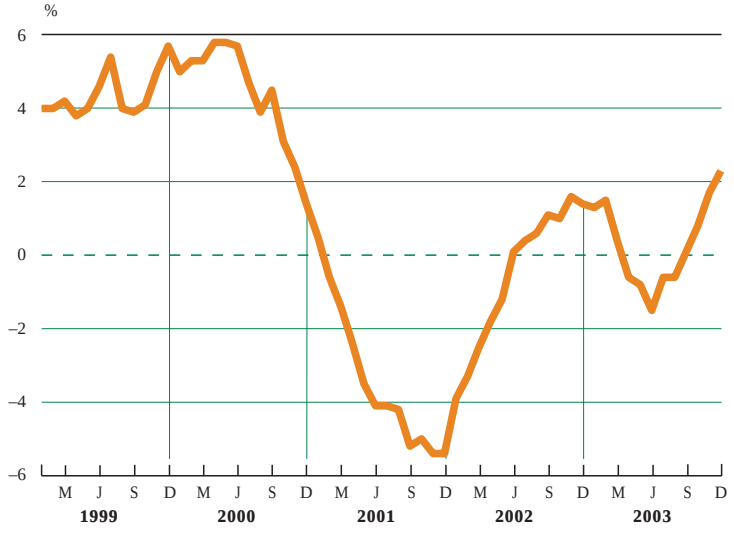
NOTES: (*) Value.
(**) Percentage of labour force.
(***) Cumulative balance for 12 months as monthly average. Billion dollars.
SOURCE: OECD, national statistical bodies and internal figures.

On supply side, notable advance in construction and clear recovery in industry.

In fact, supply indicators for the construction sector continued to rise in the fourth quarter which qualified the previous trend. Other sector indicators suggest that industry is definitely consolidating recovery. Industrial production in December marked up its sixth consecutive monthly rise at year-to-year rate going to 2.3% year-to-year. The manufacturing index put out by the Institute of Supply Management (ISM) moved up to the 66.2 points level in December to stand at its highest figure since December 1983. On the other hand, services seem to be going through a stage of consolidation with no substantial new increases. After standing at the 64.5 points level on average in the third quarter, the ISM non-manufacturing index slipped to 58.6 points in December, which was still higher than that recorded in the first half-year.

INDUSTRY RECOVERS STRENGTH IN UNITED STATES

Year-to-year change in industrial production index



SOURCE: Federal Reserve Board.

Energy puts consumer prices at 1.9% in December.

Up to this date, the increase in economic activity has not been affecting prices. The increase in the consumer price index (CPI) to 1.9% recorded in December (up one decimal at year-to-year rate) was mainly due to the energy component. If energy and food are discounted, the resulting rate held at 1.1% year-to-year for the second consecutive month which represents the lowest level in more than 40 years.

Labour market continues to improve in December although at slow rate: unemployment rate drops to 5.7% while employment reduces year-to-year decrease.

The labour market in turn continues to make a gradual recovery, less dynamic than in previous upward cycles but logical enough in a context of sharp growth of productivity (5.0% year-to-year in the third quarter). The unemployment rate was down by two decimals in December going to 5.7% which meant three consecutive months of decrease in that rate. With regard to employment, December recorded a year-to-year drop of one decimal compared with a year-to-year decrease of 0.2% in November. By sector, manufacturing continues to lose jobs compared with one year ago (although to a lesser extent than in previous months) while employment in the services sector is again showing an increased rate going to 0.3% year-to-year.

Strong drive in exports favours stabilization of trade deficit.

The foreign sector is beginning to show the combination of a more dynamic foreign environment and a more advantageous exchange rate level. The rise in exports in recent months has been notable. Foreign sales in November grew by 9.3% at year-to-year rate, a level not reached since October 2000. The rise in exports meant that, despite the fact that imports were also up strongly (year-to-year increase of 5.8%), the U.S. trade deficit did not increase in November in terms of cumulative 12-month total at monthly average but again stood at 44.6 billion dollars.

Japan: economy consolidating improvement

Japan ends year with recovery confirmed, investment moving up strongly and consumption less collapsed than in previous months.

In the fourth quarter of 2003 Japan's economy seems to be consolidating its recovery. In most areas the latest indicators of economic activity published suggest that the rate of advance is being maintained or improved upon. As a result, corporate investment could face some clearly expansionist months, judging by the sustained growth of machinery orders (increase of 14.0% year-to-year in November). Private consumption also seems to be moving into a less depressed state. While consumption is still far from strong growth the direction taken by the indicators is toward some recovery. Retail sales in October and November were down by 1.5% year-to-year as against a year-to-year decrease of 2.3% in the third quarter and the rise in the consumer goods component of industrial production is running along the same lines showing an increase of 2.0% year-to-year in November (1.2% year-to-year in October).

Industrial production up by 5.3% in November.

On the supply side, one thing of note is the strong drive in secondary production. Greatly helped by exports, industrial production grew by 5.3% year-to-year in November, a figure not seen since January 2003. Services were less buoyant although still at growth levels. The indicator for tertiary activity published by the Ministry of Economy, Foreign Trade and Industry rose by 0.7% year-to-year in the third quarter, a figure not greatly below that recorded in the second quarter (year-to-year increase of 0.9%).

JAPAN: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2002	2003					
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
GDP	0.4	–0.3	1.8	2.7	2.3	1.8	–	...	–
Retail sales	–2.2	–3.9	–2.9	–1.3	–2.6	–2.3	0.3	–3.2	...
Industrial production	–6.6	–1.3	6.0	5.5	1.7	1.3	3.8	5.3	...
Tankan company index (*)	–22.3	–23.8	–15.0	–13.0	–7.0	–3.0	–	8.0	–
Housing construction	–4.6	–1.9	–2.8	–2.1	2.2	–0.6	1.0	–0.3	...
Unemployment rate (**)	5.0	5.4	5.4	5.4	5.4	5.2	5.2	5.2	...
Consumer prices	–0.7	–1.0	–0.5	–0.2	–0.3	–0.2	0.0	–0.5	...
Trade balance (***)	8.1	8.2	9.6	9.9	9.6	9.5	9.8	10.0	10.3

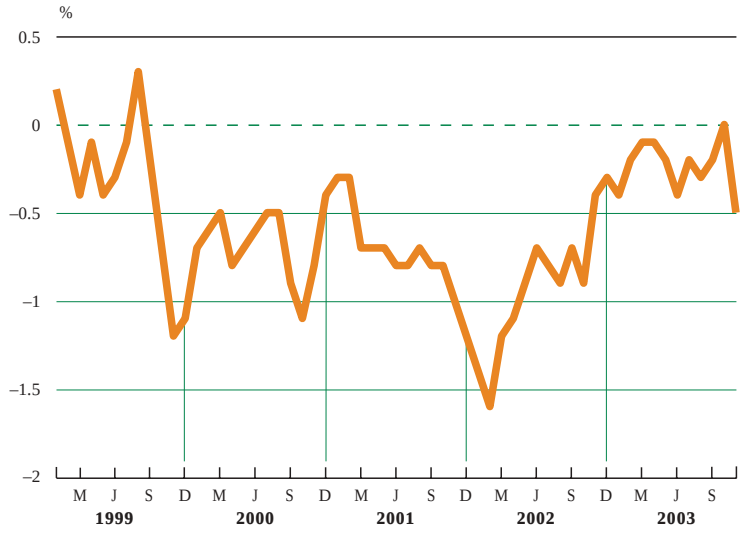
NOTES: (*) Value.
(**) Percentage of labour force.
(***) Cumulative balance for 12 months. Trillion yen.
SOURCE: OECD, national statistical bodies and internal figures.

Main economic drive coming from foreign demand which continues to improve up to November.

Recovery in Japan in any case is a result of the favourable international environment. The drive in exports in the third quarter, when foreign sales came close to 8% year-to-year, continued into the final quarter of 2003 although at a more tempered rate of the order of 4%. Imports in turn were much more contained (drop of 0.6% year-to-year in the fourth quarter). As a result, the cumulative trade surplus for 12 months stood at 10.300 billion yen in December (9.500 billion in the third quarter).

DEFLATION AGAIN WORSENS IN JAPAN

Year-to-year change in consumer price index



SOURCE: Statistics Office and internal figures.

CPI again down in November going 0.5% below one year earlier.

Also in November consumer prices again dropped at year-to-year rate. After moving out of the deflation range in October due to specific factors (increase in taxes on tobacco and cost of some health services), the following month the CPI dropped by 0.5% year-to-year. The unemployment rate in turn held unchanged in November at 5.2%.

Raw materials: prices moving up

Oil moves up above 30 dollars in January due to rise in demand and drop in inventory levels.

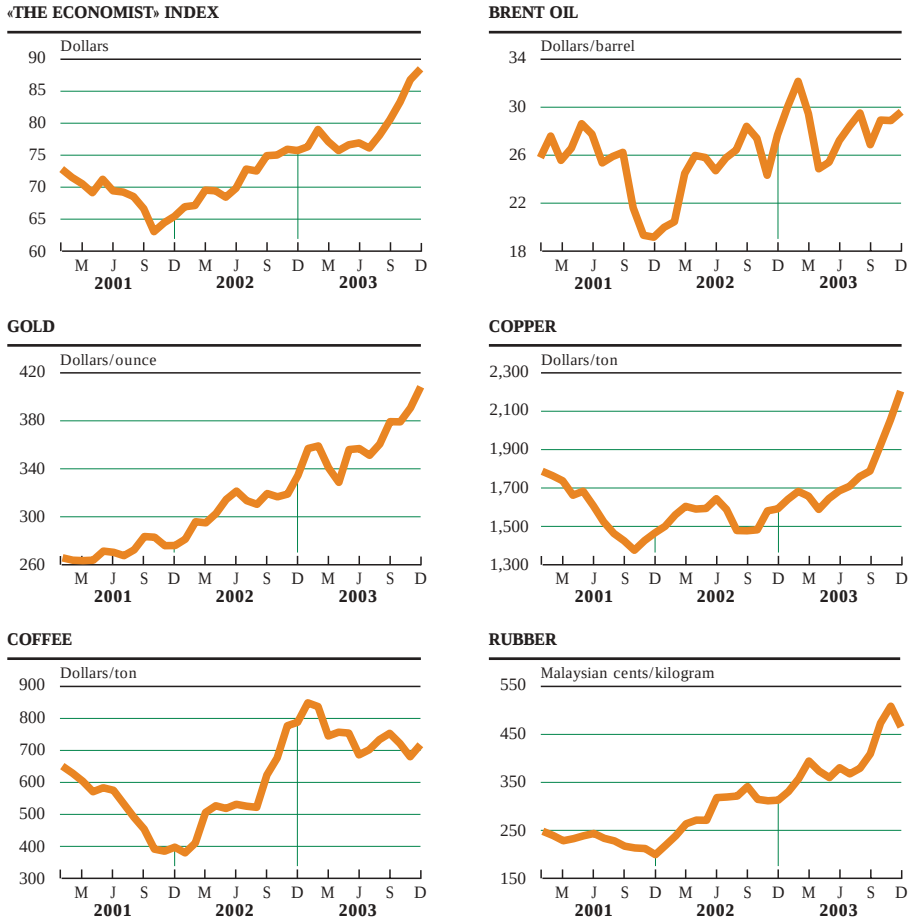
After swinging between 29 and 30 dollars in December 2003, at the beginning of January the per barrel price of Brent quality oil settled at above the 30-dollar level, a situation that changed only temporarily on January 15. The highs for the month were recorded on January 12 and 20 when the per barrel price was 31.36 dollars. In spite of the fact that real supply from producers included in the Organization of the Petroleum Exporting Countries went approximately one and a half million barrels above the official limit of 24.5 million barrels a day in December, rising world demand and comparatively low inventory levels are pushing up prices.

TREND IN SELECTED RAW MATERIALS
Monthly averages

Sharp rise in raw materials...

...led by metals...

...and non-food farm raw materials.



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

Overall cost of raw materials 20% more in January than one year earlier (expressed in dollars).

At the same time, raw materials have been moving into a course of notable growth since the beginning of the fourth quarter of 2003. «The Economist» index for raw materials in dollars moved up from 16.9% in December to 20.2% in the first three weeks of January. In a similar way, the index expressed in euros rose by 0.6% year-to-year as of January 23 as against a year-to-year decrease of 4% in December. This performance was basically due to the increase in industrial raw materials, metals among them. Specifically, the increases in platinum, nickel, aluminium and gold were significant.

RAW MATERIALS PRICES

	2001	2002	2002	2003						
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	October	November	December
«The Economist» index in dollars (*)										
General	–6.4	4.4	17.6	14.1	10.4	6.5	14.2	11.1	14.3	16.9
Food	–3.7	7.4	19.2	15.4	12.7	0.8	7.7	3.5	8.4	11.5
Industrials	–10.0	0.3	15.3	12.3	7.2	15.1	24.1	23.3	23.8	25.2
Non-food agricultural	*–7.0*	*6.1*	*26.0*	*20.0*	*11.4*	*17.3*	*22.6*	*23.8*	*24.5*	*19.6*
Metals	*–12.2*	*–4.2*	*7.1*	*5.9*	*3.9*	*14.2*	*25.2*	*22.8*	*22.9*	*29.8*
«The Economist» index in euros (*)	–3.5	–0.8	6.1	–6.7	–11.0	–6.9	–4.3	–6.9	–1.7	–3.9
Oil (**)										
Dollars/barrel	24.9	25.1	26.5	30.5	25.8	28.2	29.1	28.9	28.8	29.6
Change rate	–12.4	0.8	32.2	41.4	1.1	5.3	10.0	5.6	18.8	7.0
Gold										
Dollars/ounce	271.2	310.4	323.4	352.2	347.0	363.5	392.7	379.0	390.6	408.2
Change rate	–2.9	14.5	16.1	21.3	11.0	15.6	21.4	19.7	22.5	22.0

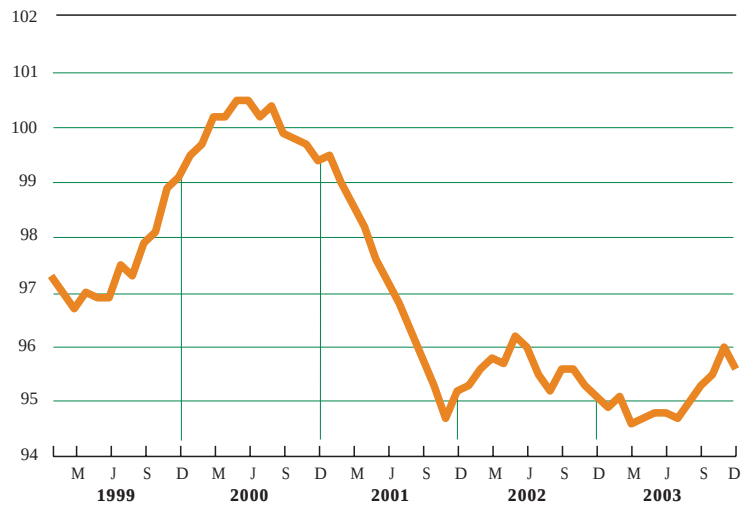
NOTES: (*) Year-to-year change rate.
(**) Brent quality: one-month forward price.
SOURCE: «The Economist», Thomson Financial Datastream and internal figures.

Rise in euro causes concern in euro area

Recovery in euro area making modest progress in spite of some slowdown at end of 2003...

The euro area ended 2003 with very weak signs of economic recovery. In spite of the fact that the economic climate grew unexpectedly worse in December, the fourth quarter as a whole showed an incipient consolidation of the recovery recorded in the previous quarter. This trend should continue in the first half of 2004. The forecasts of the European Commission point in that direction with decreases in gross domestic product (GDP) in the first and second quarters of this year being ruled out.

WEAK RECOVERY IN EURO AREA
Absolute value of economic sentiment indicator



SOURCE: European Commission.

...reflected in drop in economic sentiment.

Specifically, economic sentiment in December dropped to the 95.6 points level, four decimals less than in November but above the average of 95.0 points in the third quarter. The slight loss of confidence in December was mainly due to the drop in industrial confidence (down by two points) and in services (decrease of one point) although consumer confidence held stable and construction was up by one point.

No growth in retail sales in October.

With regard to economic activity indicators for the fourth quarter, we should point out the continuing difficulty private consumption is having to recover its growth rate. Retail sales in October reported nil growth at

year-to-year rate, a result which, in spite of being an improvement on the third quarter, still stands at historically low levels. The lack of sparkle in other indicators related to household spending (car registrations, production of consumer goods) confirms the sluggishness on this front.

EURO AREA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2002	2003					
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
GDP	1.6	0.9	1.1	0.7	0.1	0.3	–	...	–
Retail sales	1.7	0.0	–0.3	0.9	1.0	–0.5	0.0	...	...
Consumer confidence (*)	–5	–11	–14	–19	–19	–17	–17	–16	–16
Industrial production	0.5	–0.5	1.2	0.8	–0.7	0.0	1.4	1.2	...
Economic sentiment indicator (*)	97.0	95.6	95.3	94.9	94.8	95.0	95.5	96.0	95.6
Unemployment rate (**)	8.0	8.4	8.6	8.7	8.8	8.8	8.8	8.8	...
Harmonized consumer prices	2.3	2.2	2.3	2.3	1.9	2.0	2.0	2.2	2.0
Trade balance (***)	18.4	84.2	99.3	93.2	83.0	79.3	78.9	74.8	...

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

Corporate investment continues to regain ground.

The trend in corporate investment is relatively better. The capital goods component of industrial production moved up 3.4% year-to-year in November. This figure represented a notable recovery compared with the decrease of 0.6% average in the third quarter. The increase in the level of utilization of production capacity, from 80.7% in the third quarter to 81.2% in the fourth quarter, confirms the better state of investment.

Troubling drop in exports in October and November.

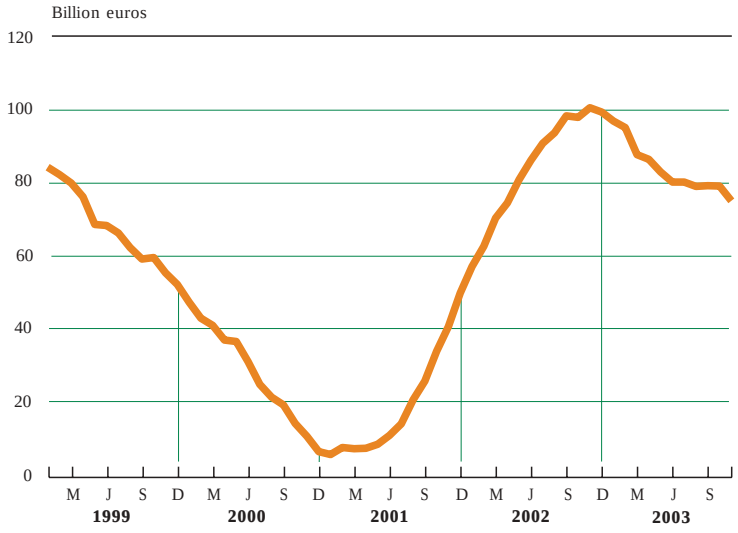
The recovery in investment by companies may be linked to the improved situation in the foreign sector in the third quarter of 2003. Because of this, it is troubling to see the downward move in foreign demand in October and November. Exports in those two months lost ground (they dropped by 4.6% year-to-year on average), which, combined with a more limited drop in imports (year-to-year decrease of 2.6% in the same period), led to a further reduction in the cumulative trade surplus for 12 months putting it at 74.8 billion euros, some 4.5 billion euros below the average for the third quarter.

Industrial production slows to 1.2% in November.

Supply indicators, in turn, also joined the relative slowdown at the end of 2003. The most significant of these indicators, industrial production, dropped from 1.4% in October to 1.2% in November. Immediate prospects for the secondary sector are not overly bright. While order books in November and December held slightly above the October level, current reports are even lower than the average in 2001, a year marked by economic weakness.

FOREIGN TRADE IN EURO AREA SUFFERS BECAUSE OF EURO

Trade surplus: cumulative figure for 12 months



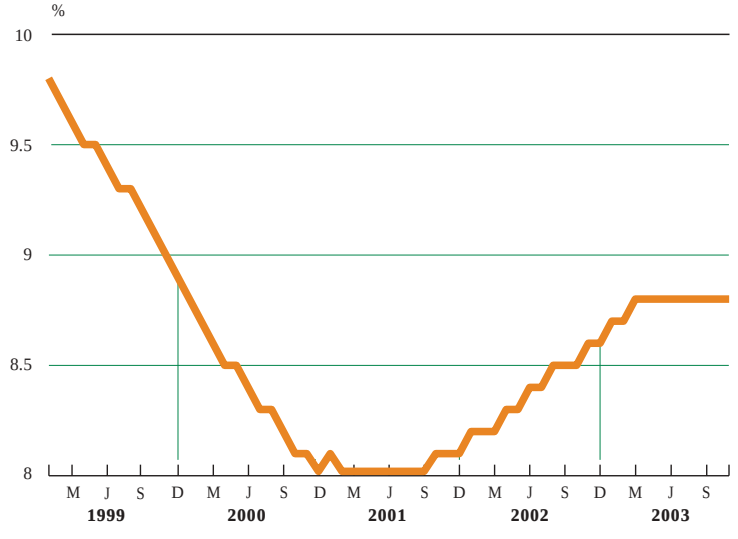
SOURCE: Eurostat and internal figures.

Consumer prices at 2.0% in December.

On the prices front the harmonized consumer price index (HCPI) continues to be stuck at levels not lower than 2% year-to-year. The harmonized CPI grew by 2.0% year-to-year in December, two decimals less than in November. The main agents behind the drop were energy, food and certain services. On the other hand, the rise in the alcohol and tobacco component contributed to the rise.

UNEMPLOYMENT STABILIZES IN EURO AREA

Rate of unemployment as percentage of labour force



SOURCE: Eurostat.

Unemployment rate holds at 8.8% for ninth consecutive month.

In view of the slack drive in domestic demand, the labour market is making a poor showing. The unemployment rate in November was again 8.8% of the labour force which represents the ninth consecutive month at that level. Employment, in turn, in the second quarter (latest figure available) was up by a modest 0.1% which, in any case, represented an increase over the nil growth in the first quarter.

Germany: 2003 marks economy's worst year in decade

In Germany, 2003 ends with investment rising but consumption flat.

The year 2003 brought the first annual drop in the GDP (down 0.1%) since 1993. In any case, in the fourth quarter the economy showed a better level of activity with a tendency to moderate growth. Specifically, on the demand side the recovery of corporate investment may be considered to be in a stage of consolidation following two months (October and November) when the capital goods component of industrial production marked up an average increase of more than 5% year-to-year. This trend was in sharp contrast to the poor state of household spending which is not easing. Retail sales in November were down by 4.8% year-to-year compared with a year-to-year decrease of 2.4% in October. While consumer confidence rose slightly in November and December immediate prospects for private consumption are quite contained.

GERMANY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2002	2003					
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
GDP	1.0	0.2	0.5	0.1	–0.3	–0.2	–	...	–
Retail sales	0.1	–1.4	–0.7	0.0	1.2	–2.4	–2.4	–4.8	...
Industrial production	–0.1	–1.3	0.8	0.7	–0.3	–1.1	1.4	1.1	...
Industrial activity index (IFO) (*)	89.9	89.1	87.3	88.1	87.8	90.8	94.3	95.7	96.8
Unemployment rate (**)	9.6	10.2	10.2	10.6	10.5	10.5	10.5	10.5	10.4
Consumer prices	2.0	1.3	1.2	1.2	1.0	1.1	1.3	1.4	1.1
Trade balance (***)	75.4	118.8	132.4	131.6	128.7	129.9	130.7	129.2	...

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

Confidence in industry and services up although industrial production still not reflecting better prospects.

On the supply side, we note an improvement in corporate confidence and confidence level in services. With regard to the former, the sharp recovery in the IFO indicator of industrial activity (in December this rose to the 96.8 points level, the highest since January 2001) may largely be explained by the increase in the prospects component. This corporate opinion has been backed by positive growth of industrial orders at year-to-year rate in October and November. In any case, industry still has to show tangible signs for the improvement in industrial activity sentiment. Up to November, in spite of bettering the poor results in the second and

third quarters, industrial production stood at levels only 1.1% better than those for one year ago. In turn, confidence in the services sector has been marking up a notably upward trend from the lows recorded in the final quarter of 2002 (going to 14 points in December).

Consumer prices end 2003 at 1.1% thus reflecting weak domestic demand.

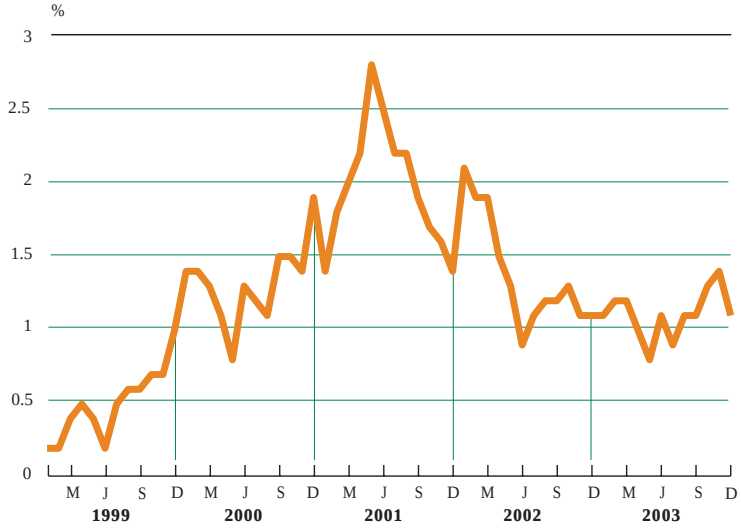
In terms of prices, the absence of inflationary pressures continues. Consumer prices thus grew by a moderate 1.1% in December clearly moving down from the 1.4% in November. Other relevant prices (such as wholesale prices and producer prices) were also down in December. This all meant that the state of prices at the end of 2003 was practically identical to that recorded in the early months of the year going back over the same path. Nor does the labour situation seem very positive. The labour market continues to show an increase in the number of unemployed in net terms. In December, the increase was 21,000 persons which put the unemployment rate at 10.4%, merely one decimal less than the month before.

Mediocre export performance in November.

The foreign sector is turning out to have been lacklustre in the first two months of the fourth quarter. In spite of the fact that exports were up by 0.9% year-to-year in November, recovering positions compared with October, this figure seems very poor in order to sustain Germany's recovery. The increase in imports (up 4.6% year-to-year) meant that the cumulative trade surplus for 12 months dropped to 129.2 billion euros in November (129.9 billion euros on average in the third quarter).

INFLATION CONTINUES TO SWING AT VERY LOW LEVELS IN GERMANY

Year-to-year change in consumer price index



SOURCE: Federal Statistics Office and internal figures.

France: consumption moderate while investment rising

In France, drive in consumption holding at contained rate whereas investment showing clearer rise.

In the fourth quarter demand indicators in France stabilized. Domestic consumption, which has been following a very irregular course in recent months, grew by 2.2% year-to-year on average in the fourth quarter compared with an increase of 1.5% year-to-year in the third quarter. Nevertheless, the lack of any increase in consumer confidence as of December underlines the poor drive in household spending. On the other hand, the course followed by investment is better. The capital goods component in industrial production rose to 6.4% year-to-year in November (4.9% year-to-year in October).

FRANCE: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2002	2003					
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
GDP	2.1	1.2	1.3	0.6	–0.4	–0.3	–	...	–
Domestic consumption	3.8	1.2	0.7	2.4	1.1	1.5	4.0	1.6	0.9
Industrial production	1.1	–1.2	–0.6	–0.8	–1.6	–0.4	1.8	1.2	...
Unemployment rate (*)	8.8	9.3	9.3	9.4	9.5	9.7	9.7	9.6	...
Consumer prices	1.7	1.9	2.2	2.4	1.9	2.0	2.2	2.3	2.2
Trade balance (**)	–0.3	0.5	0.6	0.6	0.4	0.3	0.3	0.3	...

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

Export problems limiting industrial activity.

With regard to performance by sector, industry is still having its difficulties (industrial production slowed to 1.2% year-to-year in November as against 1.8% in October) while we can confirm the better situation in services and construction. The drop in sales abroad as the final quarter advanced (down 3.5% year-to-year in November) partly explains the relatively worse performance in the secondary sector.

Unemployment down in December along with decrease in consumer prices.

Consumer prices rose by 2.2% year-to-year in December, a slight drop from the previous 2.3%, thanks to the better performance of the more volatile components. If these are discounted, resulting inflation rose to 1.7% year-to-year (1.6% in November). In turn, the decrease of 4,600 unemployed in November made it possible to reduce the unemployment rate by one decimal to 9.6%.

Italy: domestic demand sluggish

In Italy, private consumption loses strength in fourth quarter.

Italy's economy ended 2003 in stagnation. Consumption is weak, if we are to go by the drop on retail sales in November (drop of 0.9% year-to-year as against growth of 1.6% in October) along with maintenance of the consumer confidence index at minus 14-15 points all through the fourth quarter. The sluggishness of demand lies behind the stabilization of consumer prices in the fourth quarter. The CPI in December was again 2.5% year-to-year with no change over November.

ITALY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2002	2003					
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
GDP	1.7	0.4	0.9	0.7	0.3	0.6	–	...	–
Retail sales	0.7	2.4	3.0	2.3	3.2	1.8	1.6	–0.9	...
Industrial production	–1.0	–1.4	0.8	–0.3	–1.5	–0.3	0.1	0.0	...
Unemployment rate (*)	9.5	9.0	8.9	8.9	8.7	8.6	–	8.5	–
Consumer prices	2.7	2.5	2.7	2.7	2.7	2.8	2.6	2.5	2.5
Trade balance (**)	4.0	10.5	10.3	7.7	4.2	2.1	2.9	...	...

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

Industry at same levels as in November 2002.

Nor is supply showing appreciable levels of recovery. While presenting a better performance in October and November, industrial production is still holding at the same levels as one year ago. Utilization of production capacity moved down in the third quarter thus losing the increase shown in the second quarter. The only thing offering a note of optimism was that exports moved back into the range of positive year-to-year increases in September and October.

United Kingdom: household consumption rate holds firm

British domestic demand continues to show remarkable strength.

The British economy is maintaining a substantially higher rate of economic activity than its EU partners, the result of strong domestic demand. Growth of retail sales (4.1% year-to-year in the fourth quarter, moderately higher than the 3.6% in the previous quarter) and the recovery of consumer confidence underline that private consumption continues to hold strong. Investment, in turn, confirmed its course in the fourth quarter, as can be seen in the increase in the capital goods component of industrial production in October and November. Even the performance in exports, which up to now has been negative, moved up (increase in exports of 3.3% and 7.1% year-to-year respectively in October and November).

Services stronger while industry seems moderately better.

By sector, industry continues to recover progressively. On average, industrial production in October and November grew by 0.2% year-to-year, something of an improvement compared with the year-to-year drop of 0.6% in the third quarter. Services are showing even more active. Sector confidence rose by 10 points in November, a rise which consolidated in December with growth of another point.

UNITED KINGDOM: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2001	2002	2002	2003					
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
GDP	2.1	1.7	2.0	1.9	2.1	2.1	–	...	–
Retail sales	6.0	6.8	6.4	3.4	3.1	3.6	3.8	4.3	4.0
Industrial production	–1.6	–2.7	–1.3	–1.1	–0.7	–0.6	0.7	–0.4	...
Unemployment rate (*)	3.2	3.1	3.1	3.1	3.1	3.1	3.0	3.0	3.0
Consumer prices	2.1	2.2	2.6	2.9	2.9	2.8	2.7	2.5	2.6
Trade balance (**)	–37.4	–43.5	–46.2	–46.6	–46.3	–46.7	–47.2	–46.5	...

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

Inflation moves up to 2.6% in December.

Consumer prices, in turn, moved into a growth trend in the final months of 2003. The general index, which includes mortgage costs, rose to 2.8% year-to-year in December (2.5% year-to-year in November). If those costs are subtracted, resulting inflation stood at 2.6%, one decimal higher than the month before. With regard to the labour market, latest figures point to a growth of employment (in the third quarter employment rose by 0.9% year-to-year, one decimal more than in the second quarter) while unemployment still holds at low levels (unemployment rate of 3.0% in December).

INTEREST RATES AND FOREIGN EXCHANGE RATES

European Central Bank resisting pressure to lower reference rate

Interest rates of main central banks in 2003 drop to lowest levels in recent decades...

In 2003 official interest rates of the main central banks dropped to the lowest levels in recent decades in order to strengthen recovery of the world economy. In June 2003, in a context of concern about the danger of deflation, the European Central Bank (ECB) cut its reference rate to 2% while the U.S. Federal Reserve Board rate went to 1%. The Bank of Japan, in turn, maintained the overnight interbank rate close to the absolute minimum of 0%. The Bank of England reduced its intervention rate to 3.50% in July.

OFFICIAL INTEREST RATES
Average for period as annual percentage (*)

	2001	2002	2003						2004
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January 26
United States	3.90	1.67	1.25	1.23	1.00	1.00	1.00	1.00	1.00
Japan	0.06	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Euro area	4.29	3.22	2.68	2.37	2.00	2.00	2.00	2.00	2.00
United Kingdom	5.12	4.00	3.85	3.75	3.53	3.50	3.71	3.75	3.75
Switzerland	3.00	1.20	0.64	0.38	0.38	0.38	0.38	0.38	0.38

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

...while interest rates in 2004 remain stable for now.

While the Bank of England raised its official interest rate in November, since mid-2003 the other main central banks have opted for maintaining very easy monetary policies with real short-term interest rates (deducting inflation from nominal rates) close to nil or negative. In this framework, it is possible that 2004 will bring about a rise in interest rates, first in the United States once the labour market recovers. Later on the ECB will likely follow this move when economic recovery in the euro area is confirmed. Nevertheless, the absence of inflation and doubts about the sustainability of recovery would rule out interest rates movements over the short term and there is even talk of the possibility of a cut in the ECB reference rate.

Market postpones expectations of rise in U.S. official interest rate until summer.

In the United States, at the beginning of January, Ben Bernanke, a member of the Federal Open Market Committee, repeated that there were very few signs of inflation and that interest rates could hold at 1% for some time. In mid-January the Federal Reserve Board report on the economic situation recognized only a modest improvement in the labour market. Due to this situation money market operators have postponed expectations of a rise in official interest rates to well into the summer of 2004.

European Central Bank maintains reference at 2%.

In the euro area, the Governing Council of the ECB meeting on January 8 repeated that the Eurosystem reference rate stood at an appropriate level in order to preserve the stability of prices over the medium term, according to the economic and monetary analysis which forms part of its monetary policy strategy. Before this, the Governing Council had heard some opinions suggesting that the ECB should act to halt the sharp rise of the euro against the dollar in recent months which was making things difficult for European exports. However, the ECB was of the opinion that, while this was true, it would be compensated by the dynamic growth of the world economy while at the same time curbing inflationary risks.

New cut in Eurosystem interest rate seems unlikely.

Just a few days later, with the euro rising, ECB chairman Jean-Claude Trichet revealed a change of opinion in this respect and voiced his concern about the sharp rise of the euro and emphasized that he did not wish to see any excessive volatility in foreign exchange markets. Later on, statements were made by ECB executives about foreign exchange policy which indicated a number of qualifications. Given that, apart from intervention in foreign exchange markets, one possible move could be a further cut in the official interest rate, the market as a whole has put off any expectation of any increase in the ECB reference rate until the beginning of 2005 and has even put out the considerable likelihood of a cut in coming months. Running against a decision of this kind would be the existence of ample liquidity in the euro area and the recent crisis connected with the Stability and Growth Pact. Furthermore, while it is true that the euro is probably overvalued in terms of the dollar, the difference has not yet gone to very high levels.

Bank of Japan again eases monetary policy.

In turn, the Bank of Japan has again eased monetary policy, this time as a surprise. On January 20 it announced that it was raising the objective level of total current accounts held by financial institutions at the Bank of Japan by 3,000 billion yen to the range of 30,000-35,000 billion yen. The aim behind this move was to strengthen economic growth and overcome deflation.

Bank of Canada again cuts official interest rate.

On January 20, 2004 the Bank of Canada again cut its official interest rates by 25 basis points announcing that this was aimed at halting the sharp rise of the Canadian currency against the U.S. dollar. As a result, the overnight rate went down to 2.50%.

3-month Euribor at all-time low

Interest rate on U.S. 3-month interbank deposits stands at 1.08%.

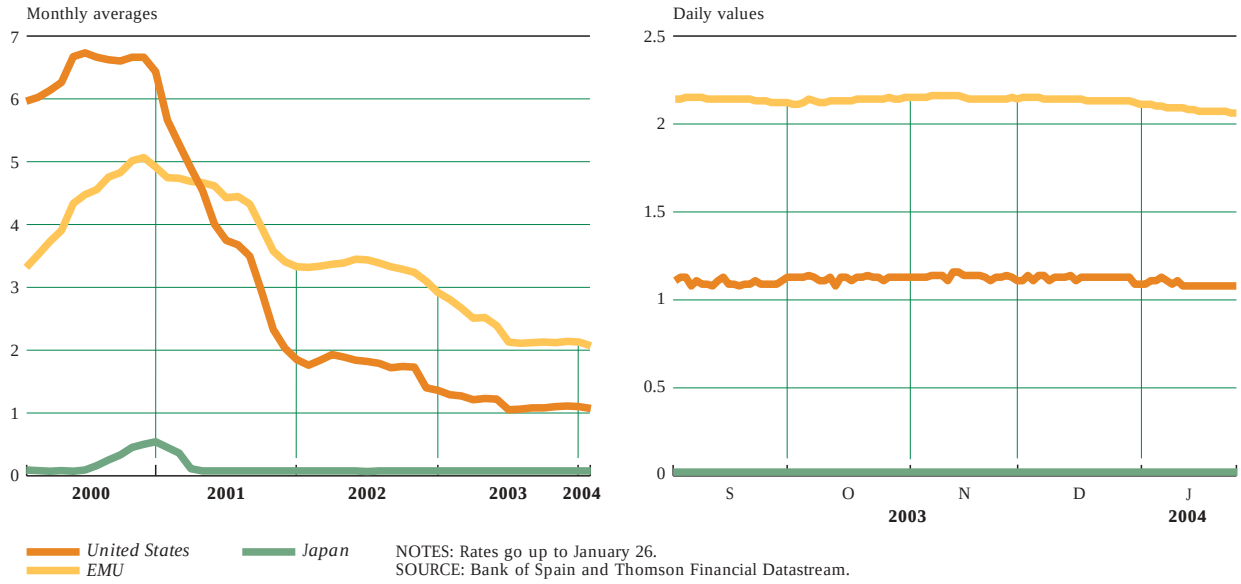
In the United States, the interest rate on 3-month interbank deposits marked up the lowest level in recent decades on June 23, 2003 when it went to 0.94% in a situation concern about the danger of deflation. Nevertheless, after the Federal of Reserve Board had reduced its official rate by 25 basis points to 1.0% two days later the yield on 3-month interbank deposits rose to 1.08% the day following that decision. Since then the yield has swung close to that level and again went to 1.08% on January 26, some 20 basis points less than twelve months earlier.

Positive slope for U.S. interest rates eases.

The yield on U.S. 1-year interbank deposits recorded the lowest level in recent decades on June 16 when it went to 0.95%. It later rose with publication of favourable economic figures and reduced concern about deflation going to 1.58% on December 1, some 63 basic points above the low in June. Nevertheless, the yield on 12-month interbank deposits later dropped with the cooling down of prospects of a restrictive turn in monetary policy in 2004 and a repetition of the Federal Reserve Board message that it would not be changing the official interest rare in coming months and the yield went to 1.41% at the end of December, some 3 basis points below one year earlier. In the early weeks of January the yield continued to drop with the corrections made for expected increases in official interest rates because of signs of weakness in the labour market. As a result, on January 26 the yield stood at 1.33% which meant an easing of the positive slope for interest rates.

MINOR DECREASES IN 3-MONTH INTERBANK INTEREST RATES

3-month interbank interest rates as annual percentage



NOTES: Rates go up to January 26.
SOURCE: Bank of Spain and Thomson Financial Datastream.

Possibility of further reduction in European Central Bank official rate leads to new all-time low of 2.07% in 3-month Euribor.

In the euro area, after marking up an all-time low of 2.12% on July 28, the 3-month Euribor stood at around that level. As a result, it ended the year at 2.12%, an annual drop of 74 basis points. In the early weeks of January the possibility of a further cut in the Eurosystem reference rate because of the rise in the euro led to a new all-time low of 2.07% in the 3-month Euribor on January 23. In turn, the 1-year Euribor recorded an all-time low of 1.93% on June 16. With the improvement in the economic climate, it rose to 2.50% on December 1 although it later moved down and ended 2003 at 2.31%, an annual drop of 44 basis points. In the early weeks of 2004 it continued to slip going to 2.16% on January 23. On the other hand, the short-term differential with the dollar ended 2003 at 103 basis points, a narrowing of 51 basis points.

SHORT-TERM INTEREST RATES IN NATIONAL MARKETS

Monthly averages as annual percentage

	Eonia	Euribor				United States	Japan	United Kingdom	Switzerland
	Overnight	1-month	3-month	6-month	1-year	3-month	3-month	3-month	3-month
2002									
December	3.09	2.98	2.94	2.89	2.87	1.38	0.01	3.92	0.69
2003									
January	2.79	2.86	2.83	2.76	2.71	1.31	0.01	3.89	0.62
February	2.76	2.77	2.69	2.58	2.50	1.29	0.01	3.65	0.59
March	2.75	2.60	2.53	2.45	2.41	1.23	0.01	3.56	0.36
April	2.56	2.58	2.53	2.47	2.45	1.25	0.01	3.55	0.30
May	2.56	2.52	2.40	2.32	2.26	1.24	0.01	3.54	0.29
June	2.21	2.18	2.15	2.08	2.01	1.07	0.01	3.55	0.27
July	2.08	2.13	2.13	2.09	2.08	1.08	0.01	3.39	0.28
August	2.10	2.12	2.14	2.17	2.28	1.10	0.01	3.43	0.26
September	2.02	2.13	2.15	2.18	2.26	1.10	0.00	3.60	0.25
October	2.01	2.10	2.14	2.17	2.30	1.12	0.00	3.71	0.24
November	1.97	2.09	2.16	2.22	2.41	1.13	0.01	3.89	0.25
December	2.06	2.13	2.15	2.20	2.38	1.12	0.01	3.93	0.26
2004									
January (*)	2.05	2.07	2.07	2.09	2.17	1.08	0.01	4.06	0.23

NOTES: (*) January 26.
SOURCE: European Central Bank, Bank of Spain, Thomson Financial Datastream and internal figures.

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

Yield on U.S. 10-year Treasury bonds...

The interest rate on U.S. 10-year Treasury bonds marked up a low for recent decades on June 13, 2003 when it went to 3.10% and on 30-year bonds which dropped to 4.17%. Nevertheless, since then yields rose with publication of good economic indicators, upward revision of projections for the public deficit and the vanishing of risks of deflation. As a result, the yield on U.S. 10-year Treasury bonds rose to 4.60% on September 2, a spectacular rise of 150 basis points in two and a half months. Nevertheless,

it later tended downward because of uncertainty about the sustainability of economic recovery and because the Federal Reserve Board had repeated that it was unlikely to raise the reference rate in coming months. As a result, at the beginning of October the yield on U.S. 10-year Treasury bonds stood at 3.93%.

...moves up 44 basis points in 2003...

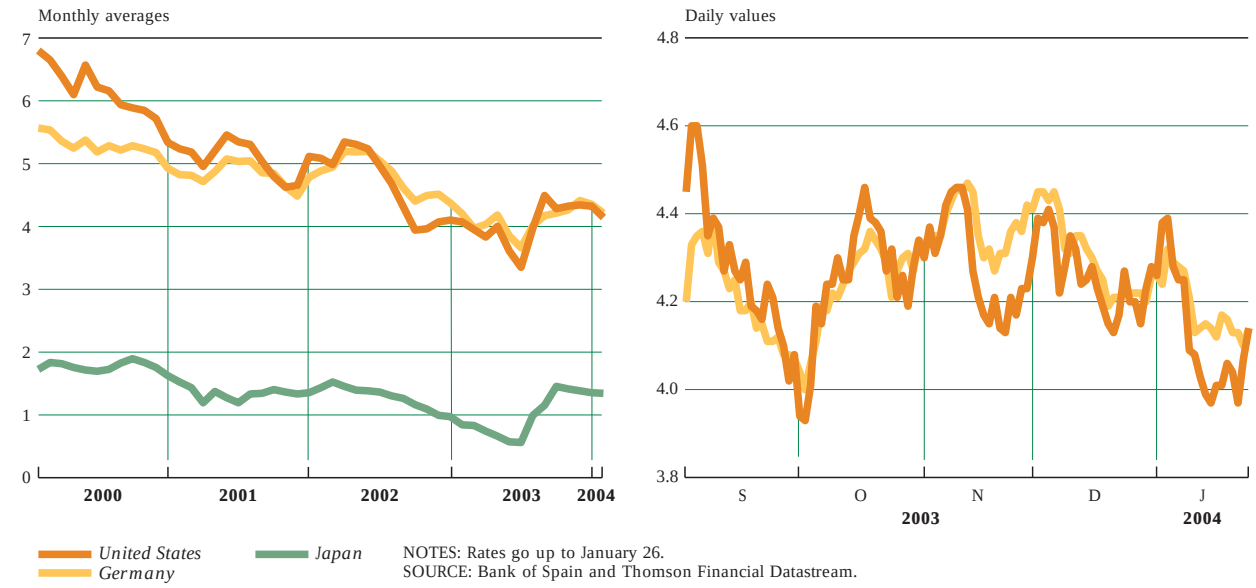
Nevertheless, as of that moment optimism was again predominant with publication of favourable economic indicators, especially the improvement in the labour market, which pushed up yields on government bonds. However, another series of factors worked in the opposite direction, such as further statements by the Federal Reserve Board that it would not be raising its official interest rate in coming months as well as signs that inflation was under control. As a result, as of the beginning of October the yield on U.S. 10-year Treasury bonds moved within a range between 4% and 4.5% going to 4.26% at the end of December, some 44 basis points above the end of 2002.

...and forecasts for 2004 are for moderate rise.

In the early weeks of January 2004 the yield tended to drop because of further statements by executives of the Federal Reserve Board and the poor report on job creation. Another demand factor showed up in heavy buying by Asian central banks which place in U.S. bonds the product of their interventions in foreign exchange markets carried out to prevent appreciation of their currency against the U.S. dollar. The result was that in mid-January the interest rate on U.S. 10-year Treasury bonds dropped to 4% although on January 26 it stood at 4.14%, an increase of 23 basis points over 12 months earlier. Forecasts for 2004 are for a moderate rise to the extent that economic recovery continues.

DIFFERENTIAL IN LONG-TERM INTEREST RATES BETWEEN GERMANY AND UNITED STATES AGAIN WIPED OUT

Yield on 10-year government bonds as annual percentage



NOTES: Rates go up to January 26.
SOURCE: Bank of Spain and Thomson Financial Datastream.

Appreciation of euro tending to support price of European bonds.

In 2003, German government bonds followed a path similar to that on the other side of the Atlantic. The yield on German 10-year government bonds reached its highest level since December 2002 on November 12, 2003 going to 4.47%. The market hardly reacted to suspension of the Stability and Growth Pact. Appreciation of the euro in the final part of December tended to support the price of German bonds which moved up in inverse proportion to implicit yield. As a result, at the end of December the differential in interest rates between German and U.S. bonds had again been wiped out as against 39 basis points at the end of 2002. This differential again stood at zero basis points on January 23 following some widening.

LONG-TERM INTEREST RATES IN NATIONAL MARKETS

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

	2001	2002	2003						2004
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January 26
United States	5.06	4.65	3.94	3.64	4.26	4.31	4.33	4.31	4.14
Japan	1.34	1.27	0.80	0.60	1.20	1.41	1.38	1.35	1.32
Germany	4.82	4.80	4.06	3.89	4.12	4.25	4.40	4.34	4.14
France	4.95	4.88	4.12	3.94	4.13	4.29	4.41	4.34	4.17
Italy	5.19	5.04	4.24	4.03	4.25	4.39	4.52	4.46	4.31
Spain	5.12	4.96	4.10	3.92	4.14	4.27	4.40	4.34	4.14
United Kingdom	4.97	4.93	4.33	4.25	4.55	4.92	5.09	4.92	4.83
Switzerland	3.28	3.02	2.29	2.34	2.57	2.66	2.76	2.63	2.56

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

Rise in euro causes concern in euro area

Dollar drops 8.8% in overall terms in 2003…

The dollar recorded a drop of 8.8% in 2003 in terms of the currencies of the 26 countries having the biggest volume of trade with the United States. As a result, it showed a drop of 13.0% compared with the high reached in January 2002. The depreciation of the U.S. currency, which had moved up to a clearly overvalued level, came about because of pressure to reduce the massive foreign deficit in the U.S. current account balance (of the order of 5% of the gross domestic product) and because of the loss of attractiveness of U.S. securities to which low interest rates contributed. The U.S. monetary authorities in turn have been quite complacent about the course taken by the dollar given that this is helping to strengthen the economic recovery now under way.

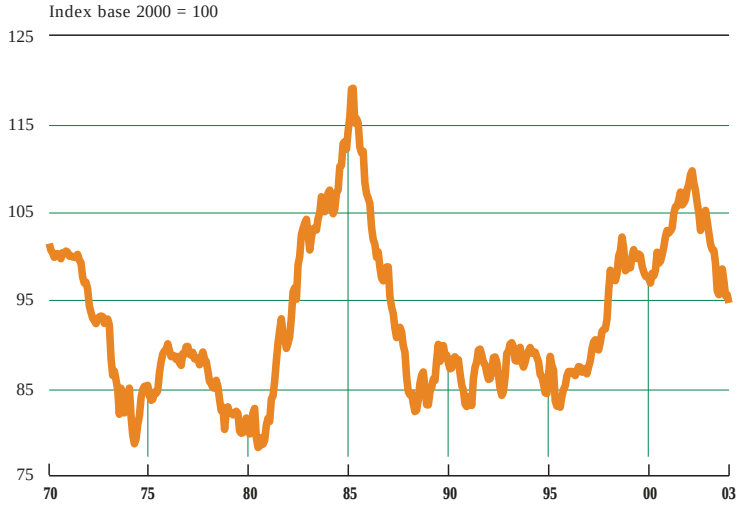
…and in early weeks of January marks up lowest level since December 1997.

In the early weeks of January 2004 the dollar continued to drop in effective nominal terms and went to its lowest level since December 1997. Nevertheless, it later had something of a recovery helped by figures showing some improvement in the foreign trade deficit and bigger capital inflows in November. Nevertheless, over the longer perspective, if we look at the trend in the effective real exchange rate, that is to say, weighted

against relative other currencies and taking into account inflation differentials, we note that in December it still stood above the average for recent decades. This, together with the size of the foreign deficit in current account, would indicate that the drop in the dollar could continue in coming months.

DOLLAR STILL HAS SOME MARGIN FOR DEPRECIATION

JP Morgan index for effective real broad exchange rate of U.S. dollar



SOURCE: JP Morgan.

Weight of dollar adjustment falls on euro because Asian currencies not very flexible.

The problem is that, for the moment, the main weight of the adjustment taking place in the dollar is largely falling on the euro given that many Asian currencies remain linked to the dollar and that particularly the Chinese authorities continue refusing to revalue the yuan. As a result, they are maintaining a growth strategy being boosted by exports favoured by an undervalued currency.

Euro rises 20% against dollar in 2003…

The euro ended 2003 at an exchange rate of 1.26 dollars, an annual appreciation of 20.4% against the dollar. For the moment, the Stability and Growth Pact crisis and the failure of the summit meeting to bring forward a European constitution have not affected the single currency due to the weakness of the dollar. Nevertheless, in overall terms the rise of the euro was lower at 11.3%.

…and marks up all-time high of 1.28 dollars on January 12, rise of 55% over low in October 2000.

The European currency continued to rise against the dollar in the early days of the new year and recorded an all-time high of 1.28 dollars on January 12. This level meant a rise of 55.5% over the all-time low in October 2000. The rise of the euro, which has increased in recent months, brought concern in some economic and political circles. In this context, the chairman of the European Central Bank stated that he was not indifferent to the sharp rise in the euro, words which had an effect on market sentiment along with other comments by ECB executives along the same lines. As a result, in the third week of January the single European currency eased. Nevertheless, it rose again the following week

boosted by statements by the representative of the Euro group finance ministers which were interpreted by the market as if there were no clear plans to deal with the strength of the euro and it went to 1.27 dollars on January 22. In any case, in effective nominal terms that day the euro stood only 2.3% above the level at its launching. In subsequent days, fear that the ECB could decide to act based on various rumours pushed the euro down to 1.26 dollars on January 26.

EXCHANGE RATES OF MAIN CURRENCIES
December 2003

	Final session of month		Monthly figures				*Exchange rate January 26, 2004*
	Exchange rate	% monthly change (2)	Average exchange rate	% change (2)			
				Monthly	Over December 2002	Annual	
Against U.S. dollar							
Japanese yen	107.2	–2.2	107.7	–1.3	–11.6		*106.4*
Pound sterling (1)	1.786	3.7	1.754	3.8	10.4		*1.814*
Swiss franc	1.239	–4.1	1.262	–5.2	–12.1		*1.257*
Canadian dollar	1.293	–0.5	1.312	–0.1	–15.8		*1.313*
Mexican peso	11.24	–1.3	11.25	0.9	10.1		*10.93*
Nominal effective index (4)	*113.3*	*–1.9*	*114.4*	*–1.4*	*–9.0*		*112.8*
Against euro							
U.S. dollar	1.263	5.3	1.230	5.1	20.6		*1.258*
Japanese yen	135.1	2.9	132.5	3.6	6.7		*133.4*
Swiss franc	1.558	0.6	1.555	–0.3	6.0		*1.565*
Pound sterling	0.705	1.1	0.702	1.3	9.2		*0.689*
Swedish krona	9.080	0.4	9.029	0.4	–0.8		*9.151*
Danish krone (3)	7.445	0.1	7.442	0.1	0.2		*7.449*
Nominal effective index (5)	*105.6*	*2.8*	*104.1*	*2.9*	*11.2*		*104.8*

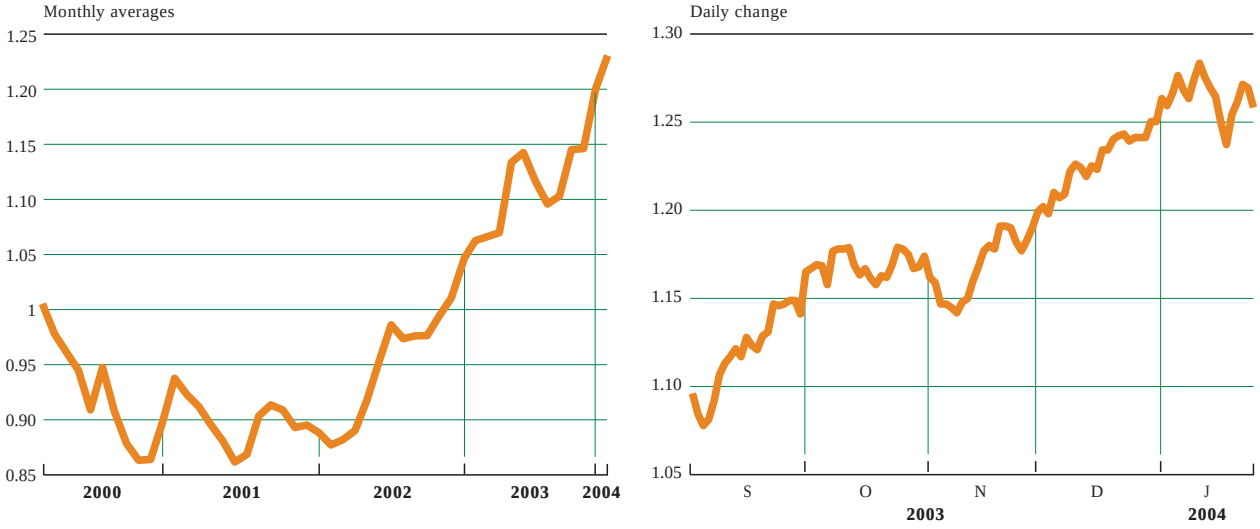
NOTES: (1) Units to pound sterling.
(2) Percentages of change refer to rates as shown in table.
(3) Danish krone has central parity of 7.46038 against euro with fluctuation band of ±2.25%.
(4) Broad nominal effective index of U.S. Federal Reserve Board. Calculated as a weighted average of the foreign 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.

No easy agreement seems likely at G-7 meeting on foreign exchange rates.

In this context, various governments have pinned their hopes on the idea that the meeting of the seven most industrialized countries (G-7) in February will send a clear signal to the markets to stabilize currencies. Nevertheless, it would seem difficult to reach any agreement in this respect, given that the U.S. authorities seem ready to let the dollar depreciate.

EURO TAKES BREATHER AFTER MARKING UP NEW ALL-TIME HIGHS AGAINST DOLLAR

U.S. dollars to euro



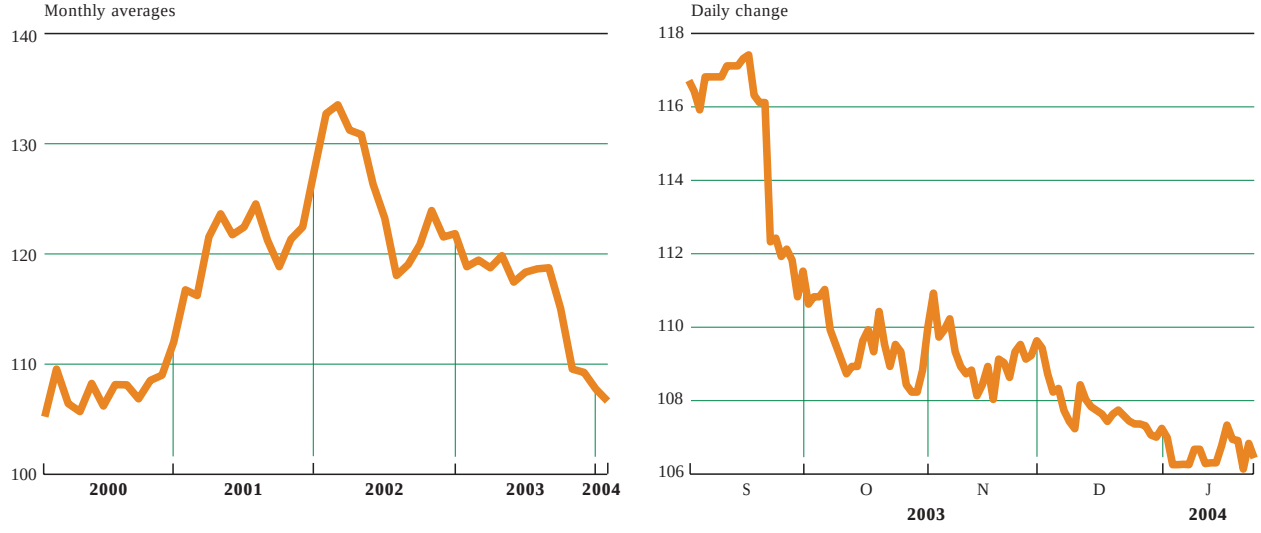
NOTES: Figures go up to January 26. SOURCE: OCDE, Thomson Financial Datastream and internal figures.

Bank of Japan limits rise of yen against dollar.

The yen rose by 10.8% against the dollar in 2003 helped by optimism about recovery of Japan's economy and ended the year at 107.2 units to the dollar. This appreciation would undoubtedly have been greater but for interventions by the Bank of Japan in foreign exchange markets to avoid any rise in the yen considered excessive getting in the way of economic recovery. These moves reached a record level and in 2004 the Japanese minister of finance announced that he would raise the limit on

GRADUAL APPRECIATION OF YEN AGAINST DOLLAR

Yen to dollar



NOTES: Rates go up to January 26. SOURCE: OCDE, Thomson Financial Datastream and internal figures.

borrowing for purchase of foreign currency by 21,000 billion yen to 100,000 billion yen for the period ending in March and by 61,000 yen to 140,000 billion yen for the new year beginning in April. In fact, in the early weeks of January there were further interventions to halt the rise of the yen against the dollar but (following the easing of monetary policy in Japan) this could not prevent the rate from going to 106.1 units to the dollar on January 22, the lowest level since September 2000.

Pound sterling marks up highest level against dollar since 1992.

On January 9 the pound sterling marked up its highest level against the dollar since it left the exchange rate mechanism of European Monetary System in September 1992 going to 1.848 dollars. The differential in interest rates, which moved up following the rise carried out by the Bank of England at the beginning of November, contributed to the rise of the British currency.

Chinese authorities studying how to link yuan to basket of ten currencies.

The Bank of China, which has kept its currency (the yuan) linked to the dollar since 1994 with a current exchange rate of 8.28 units to the dollar, is currently studying the possibility of modifying its exchange rate system, according to unofficial sources. Under the new system, the yuan would be linked to a basket made up of the ten currencies of its main trading partners and sources of investment. As a result, sharp swings in the currency would be avoided. The Chinese monetary authorities have thus reacted to criticism by the United States and other countries that they are maintaining the currency undervalued.

CAPITAL MARKET

Stock markets start year off well

Recovery of international stock markets continues with no major risks seen over short-term.

International bond markets began 2004 in a moderately positive tone thus continuing the situation seen at the final stages of last year, the first time to show positive results in three years. The good state of the U.S. market, which is moving toward solid recovery with no inflationary pressures, a framework of low interest rates and, in the corporate sphere, favourable profit prospects are overall supporting a calm stock market situation. This scene could perhaps only be upset by a moderate correction taking into account the sharp increases in recent months or else by an increase of instability in foreign exchange markets or sharper increases in oil prices.

INDICES OF MAIN WORLD STOCK EXCHANGES
December 31, 2003

	Index (*)	% monthly change	% cumulative change	% annual change	*Figures at January 26, 2004*	
					Index	*% change in month*
New York						
Dow Jones	*10,453.9*	*6.9*	*25.3*	*25.3*	*10,702.5*	*2.4*
Standard & Poor's	*1,111.9*	*5.1*	*26.4*	*26.4*	*1,155.4*	*3.9*
Nasdaq 100	*1,467.9*	*3.1*	*49.1*	*49.1*	*1,553.7*	*5.8*
Tokyo	10,676.6	5.7	24.5	24.5	*10,972.6*	*2.8*
London	4,476.9	3.1	13.6	13.6	*4,445.5*	*–0.7*
Euro area	2,760.7	4.9	15.7	15.7	*2,874.5*	*4.1*
Frankfurt	*3,965.2*	*5.9*	*37.1*	*37.1*	*4,128.7*	*4.1*
Paris	*3,557.9*	*3.9*	*16.1*	*16.1*	*3,675.7*	*3.3*
Amsterdam	*1,000.2*	*3.2*	*9.2*	*9.2*	*–*	*–*
Milan	*1,256.6*	*–0.3*	*15.1*	*15.1*	*1,303.1*	*3.7*
Madrid	*7,737.2*	*6.7*	*28.2*	*28.2*	*8,031.4*	*3.8*
Zurich	5,487.8	3.2	18.5	18.5	*5,748.5*	*4.8*

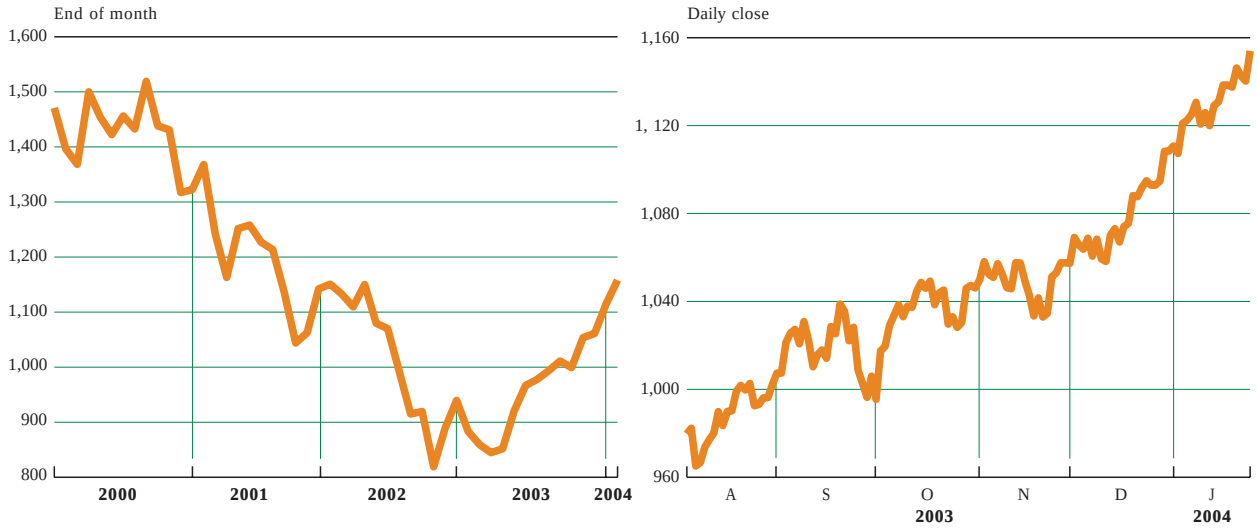
NOTES: (*) New York: Dow Jones Industrials, Standard & Poor's Composite, Nasdaq 100; Tokyo: Nikkei 225; Euro area: DJ Euro Stoxx 50; London: Financial Times-100; Frankfurt: DAX; Paris: CAC 40; Amsterdam: CBS Ttl. Rtn. Gen.; Zurich: Swiss Market Index; Milan: Banca Commerciale Italiana; Madrid: IBEX 35 for Spanish stock exchanges.
SOURCE: «Financial Times» and internal figures.

Hi-tech companies, with favourable profits, behind improvement in stock market indices.

The favourable stock market climate which began the year was especially noted in the hi-tech segment of the U.S. market which is more subject to increased swings in prices. The excellent results published by some of the key companies in the sector (Intel, Sun Microsystems, Juniper Networks, Nokia, among others) were favourably received by investors pushing up the Nasdaq 100 index. As a result, at the beginning of the last week in January this stock market index gained around 6% compared with prices at the end of last year. Somewhat less positive results, although still quite favourable, showed up in the New York stock exchange indices. In fact, the Standard & Poor's 500 index ended these early stages of the year with a rise of close to 4%, one and a half points above the Dow Jones index.

U.S. STOCK MARKET: FAVOURABLE TONE CONTINUING

Standard & Poor's 500 index for New York stock market



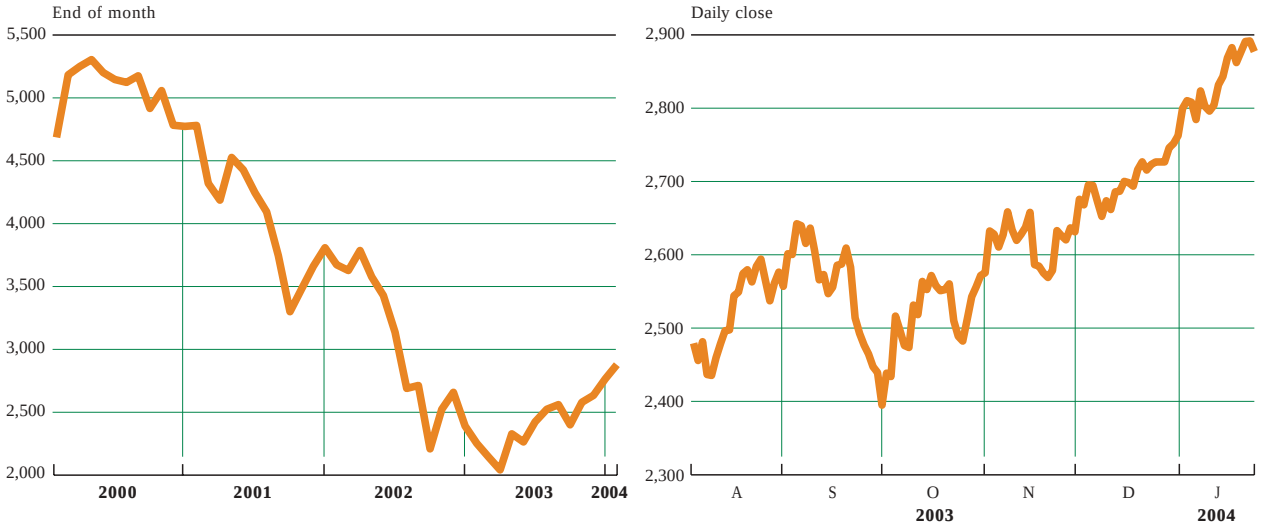
NOTES: Figures go up to January 26. SOURCE: New York stock exchange.

Some manufacturing industry shares left outside price rises on U.S. stock market.

By sector, within the scope of the Standard & Poor's 500 index, the most significant advances took place in data-processing and information technologies and communications, in both cases with cumulative capital gains of close to 7%. Gains recorded by financial shares were not as great but still substantial, especially those of investment banks, capital goods industries, services and transportation sectors. On the other hand, manufacturing industry shares stayed below the levels at which they began the year.

EUROPEAN STOCK MARKETS NOT REFLECTING STRENGTH OF EURO

DJ Euro Stoxx 50 index



NOTES: Figures go up to January 26. SOURCE: Stoxx Ltd.

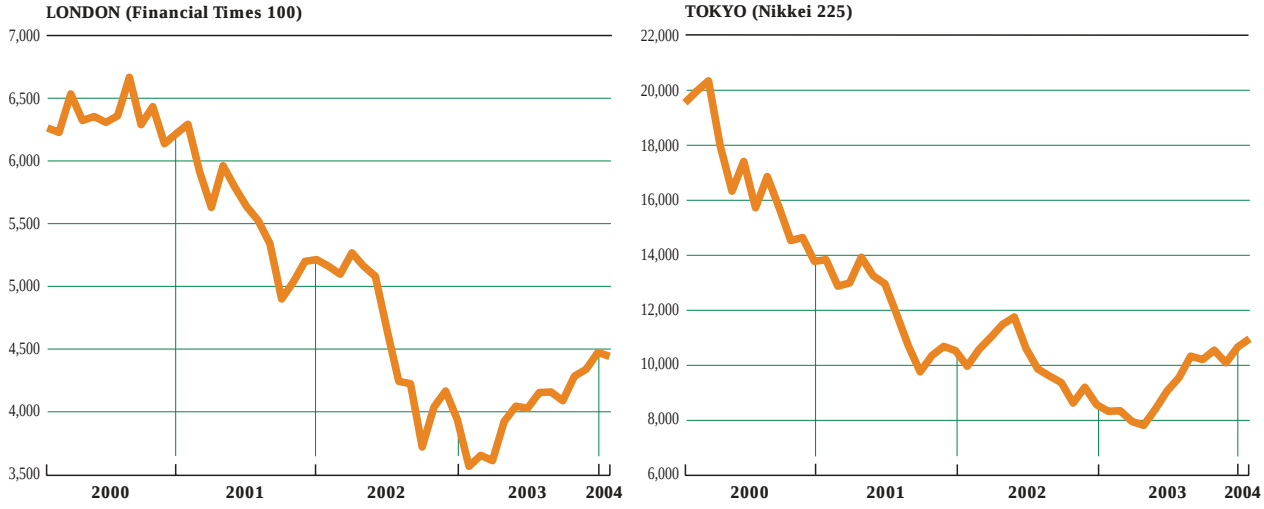
Euro area stock markets holding firm despite revaluation of euro.

The good state of the U.S. market has had a clearly parallel result in most of the stock exchange indices for markets in the euro area despite the doubts raised by the progressive strengthening of the European currency. The Euro Stoxx 50, which is representative of the main shares in the euro area, rose by around 4% in the first four weeks of January pushed up first of all by hi-tech shares (especially Alcatel and Nokia), later by telecommunications companies and insurance companies and, finally, by energy companies and utilities. The role played by banks and financial companies was also very positive although this did not apply to all countries. On the other hand, the results for sector indices such as motor vehicles and major distribution were less favourable as these showed moderate decreases in the early weeks of the year.

Good state of Japanese stock market while Argentine market shows very big rise.

Outside the European continent, the Japanese market also moved along upward lines in the early weeks of 2004 which allowed the Nikkei 225 index to go above the 11,000 level, thus consolidating gains of close to 10% in a bit more than one month. In Latin America, the situation was much more positive, particularly in the Argentine market where cumulative capital gains since the end of 2003 went to more than 11% thus bettering the upward move on the Brazilian and Mexican markets. The progressive improvement of the economic and monetary situation in that area has undoubtedly meant a notable boost for demand in those markets.

INTERNATIONAL STOCK EXCHANGES
Indices at month-end



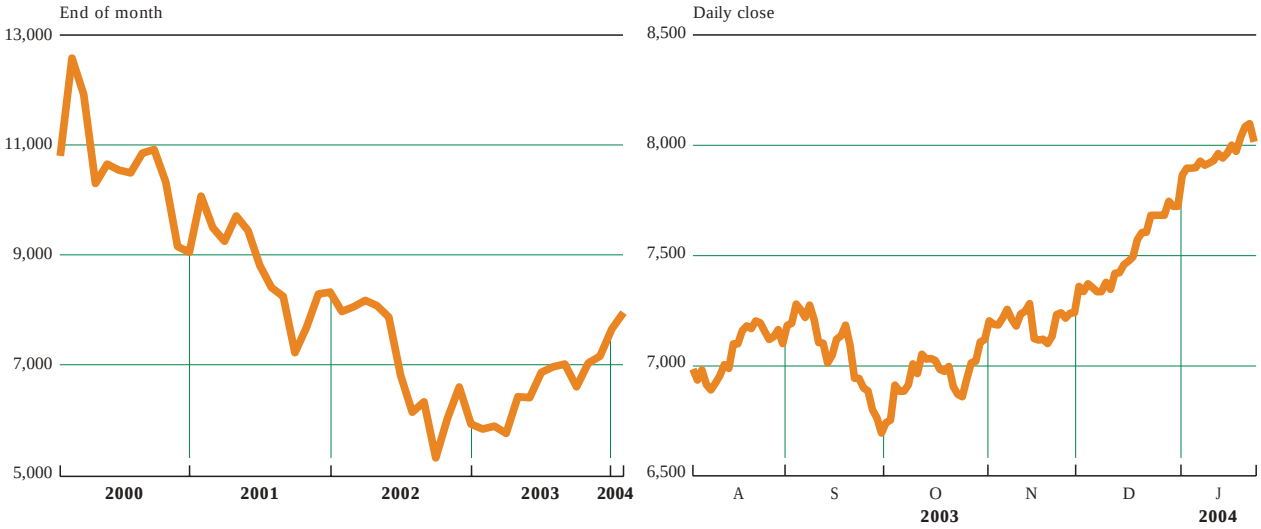
NOTES: January 26, 2004. SOURCE: National stock exchanges.

Spanish stock market continues upward course in January

IBEX 35 consolidates 8,000 points accumulating capital gains of nearly 4% in January.

The course of Spain's share market has not varied greatly from that of the main markets in its orbit and began the 2004 stock market year on a clearly positive note. The rise in the market made it possible for the IBEX 35 index to reach the 8,000 level and it has stayed above that spot fairly comfortably since the fourth week in January. As a result, cumulative gains for the main Spanish stock market index stood close to 4%.

IBEX 35 GOES OVER 8,000 LEVEL
IBEX 35 index, base 1-1-1990 = 3,000



NOTES: Figures go up to January 26. SOURCE: Sociedad de Bolsas.

Telephone service and communications head stock market rises along with Iberia airline.

The favourable balance on the Spanish stock market in the early stages of 2004 was largely based on shares of the communications group headed by Telefónica and its subsidiaries, particularly Telefónica Móviles and especially TPI, which enjoyed a high level of demand. In the same sector, there were also sharp price rises for the Prisa publishing house (recently added to the IBEX 35) and its subsidiary Sogecable. At the same time, there was also a very positive trend in the market services sector index where the Iberia airline especially stood out, as well as the Amadeus reservation network, although to a lesser degree.

Good state of construction and oil companies with ups and downs in banks.

The trend among construction companies and the Repsol oil company has been clearly upward with the latter company getting a better rating on the international scene. The banking sector, on the other hand, has shown its ups and downs marked by the contrast between the positive performance of medium-sized banks and the poor showing of the large banks which have shown signs of weakness with share prices holding practically at the same levels as at the end of last year. Electrical companies also have made a weak showing in spite of the high dividend profitability being offered.

SPANISH STOCK EXCHANGE INDICES

	Index December 30, 2003	% monthly change	% annual change	*Figures at January 26, 2004*	
				Index	*% change over previous month*
Official indices					
IBEX 35 (1)	7,737.2	6.7	28.2	*8,031.4*	*3.8*
Madrid (2)	808.0	5.2	27.4	*839.0*	*3.8*
Barcelona (2)	662.7	7.0	32.0	*696.6*	*5.1*
Bilbao (3)	1,381.8	5.7	26.8	*1,441.6*	*4.3*
Valencia (2)	637.6	6.9	32.5	*665.7*	*4.4*
Sector indices for Madrid Stock Exchange (4)					
Financial services	968.6	6.7	31.5	*978.9*	*1.1*
Energy	996.6	7.6	25.0	*1,005.2*	*0.9*
Consumer goods	949.5	–3.6	–4.1	*972.5*	*2.4*
Construction	1,307.6	5.2	25.4	*1,350.5*	*3.3*
Capital goods and intermediate goods	1,186.6	1.7	29.6	*1,216.8*	*2.5*
Communications	844.1	6.7	44.5	*936.6*	*10.9*
Market services	1,125.1	1.4	21.3	*1,208.4*	*7.4*

NOTES: (1) Base at January 1, 1990 = 3,000.
(2) Base at January 1, 1986 = 100.
(3) Base at January 1, 2000 = 2,000.
(4) Base at January 1, 2002 = 1,000.
SOURCE: Stock exchanges and internal figures.

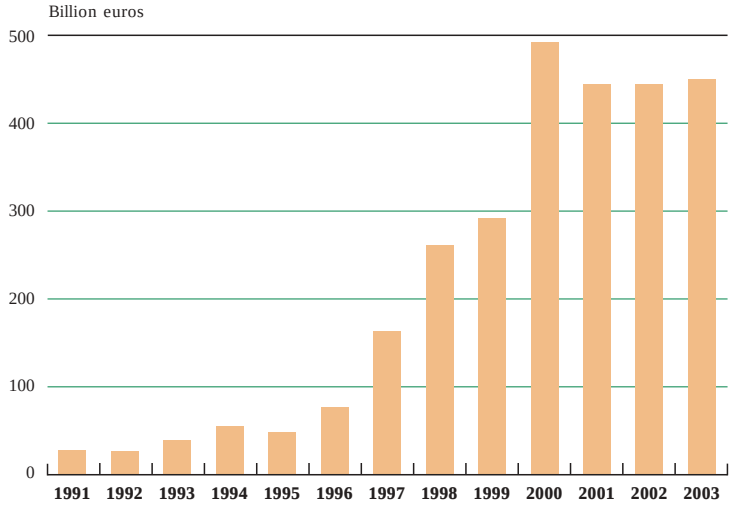
Effective turnover grows by nearly 9% in 2003.

Effective turnover of shares on the Madrid and Barcelona stock exchanges was up sharply in December so that the cumulative increase in effective trading volume in 2003 stood at 8.5%. Turnover for the Spanish stock market as a whole reached 451.2 billion euros in the January-November period, some 9.0% more than in the same period the year before. Of this figure, 98% was traded through the electronic system.

By sector, banks made up the greater part of turnover (37.0%), telecommunications accounted for 19.4% and electricals 13.9%.

TURNOVER ON SPANISH STOCK MARKET INCREASES IN 2003

Turnover of shares on stock market



SOURCE: Bank of Spain and internal figures.

International debt issues reach all-time high in 2003

International debt issues of low credit rating more than twice 2002 figure.

The volume of debt issues in international capital markets amounted to 5,050 billion dollars in 2003, an all-time high, according to figures supplied by Dealogic. This figure meant an increase of 23% compared with 2002. Total corporate bonds placed rose by 35% compared with the same period the year before. Debt with low credit rating (3% of the total) more than doubled in amount compared with the year before reaching a figure of 174.9 billion dollars, 18% more than the previous record in 1998. This was partly due to downward revisions of the credit rating of many companies which raised the number of those offering low credit rating debt. Securitized issues with mortgage collateral were up 5% while those with other security rose by 15%, representing 21% and 12% of the total respectively.

International debt issues from emerging countries in 2003 up 40% compared with year before.

With regard to emerging countries, international debt issues amounted to 120.4 billion dollars in 2003, an increase of 40% compared with the year before, according to figures supplied by Dealogic. Sovereign debt represented 40% of the total, 33% were issued by companies and the rest came from financial institutions. By geographical area, those markets recording the biggest growth were those in Latin America (with an increase of 76%) while those of Africa and the Middle East fell by 37%. Nevertheless, the biggest regional share fell to Asia with 32%. By currency, the dollar maintained a predominate position with 78% of the total followed by the euro with 17%.

Euro still leading currency of denomination for euro medium term notes.

Total issues of euro medium term notes grew by 32% in 2003 compared with 2002 going to a figure of 1,560 billion dollars, according to data supplied by Dealogic. The euro continued to maintain the lead in this segment of euro-market securities with a 44% share followed by the dollar with 37%. By sector, there was notable activity by the motor-vehicle industry.

VOLUME OF GLOBAL SYNDICATED LOANS
By sector

	2002	2003	Absolute change	Change as %
	Million dollars	Million dollars	Million dollars	
Financial	279,066	281,364	2,298	0.8
Utilities and power	170,310	177,696	7,386	4.3
Telecommunications	159,809	149,798	–10,011	–6.3
Oil and gas	111,697	119,633	7,936	7.1
Transportation	80,321	95,974	15,653	19.5
Other	958,797	1,065,535	106,738	11.1
TOTAL	**1,760,000**	**1,890,000**	**130,000**	**7.3**

SOURCE: Dealogic and internal figures.

Volume of global syndicated loans up 7% over 2002.

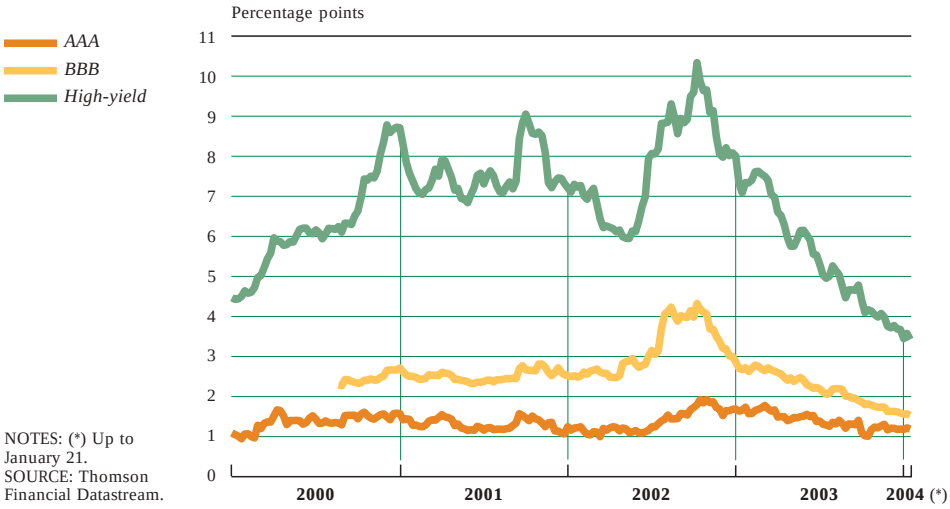
With regard to global syndicated loans, the volume of these loans was up 7.3% in 2003 compared with 2002 going to a total of 1,890 billion dollars, according to figures supplied by Dealogic. Of this amount, 1,400 billion dollars was obtained by companies, which was well over issues of corporate bonds in the same period with a figure of 780 billion dollars. Transportation was the sector showing the biggest annual increase with a rise of 19.5% while communications recorded a drop 6.3%. The trend by geographical area was also uneven. The figure in the Asia-Pacific area rose by 26% whereas it dropped by 2% in North America. Nevertheless, the United States made up 51% of the total figure, with Europe accounting for 33% and Asia 9%.

Global default rate on high-yield bonds drops to 5% in 2003.

The improved economic climate meant that the global default rate on high-yield bonds (of low credit rating) dropped to 5.2% in 2003 as against the 8.4% recorded in 2002, according to Moody's rating agency. The telecommunications sector had the highest default volume for the third consecutive year. The ratio of downgrades to upgrades in speculative grade bonds thus went from 4:1 in 2002 to 2:1 in 2003, according to Moody's rating agency.

RISK AVERSION DOWN

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



NOTES: (*) Up to January 21.
SOURCE: Thomson Financial Datastream.

Risk premium on emerging country bonds marks up all-time low.

Aversion to risk, measured by the differential with U.S. long-term Treasury bonds, dropped considerably in 2003 and at year-end stood a long way from the highs reached in October 2002, thanks to the improved economic prospects. It continued to drop in the early weeks of January 2004. Specifically, risk premiums on bonds issued by emerging countries dropped to show record levels.

ECONOMIC ACTIVITY

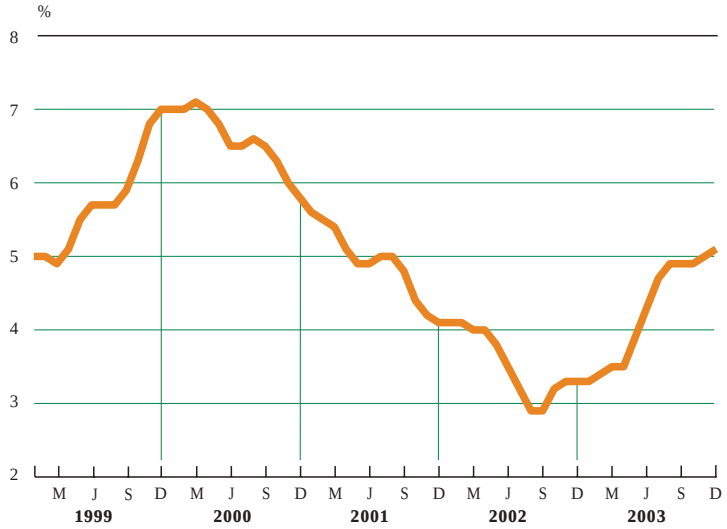
Economic activity indicators: 2003 ends with recovery

Growth of economic activity continues…

Figures available for the last quarter of 2003 in principle show no substantial change in background trends in Spain's economic activity. Everything indicates that consumption and construction held strong in that period, a situation which seems to be lasting into the beginning of 2004. The sustained increase in the rate of economic growth, for example, shows up in the rise in electrical power consumption which, if effects of the number of working days and temperature are removed, grew by more than 5% year-to-year in terms of cycle-trend.

RISE IN ELECTRICAL POWER CONSUMPTION REFLECTS STATE OF GROWTH OF ECONOMIC ACTIVITY

Year-to-year change in electrical power consumption



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

…and shows up in better overall state of industry except in consumer goods heading…

In addition, we now are seeing more positive signs in industry compared with previous months, if we are to go by the growth profile of the industrial production index which showed a slight upward move as of October largely due to the boost from production of energy and capital goods and, to a lesser extent, of intermediate goods. On the other hand, production of consumer goods is showing a less favourable trend which, if we take into account the good state of demand, would point to greater market penetration by imported goods. If this is confirmed in the future, it

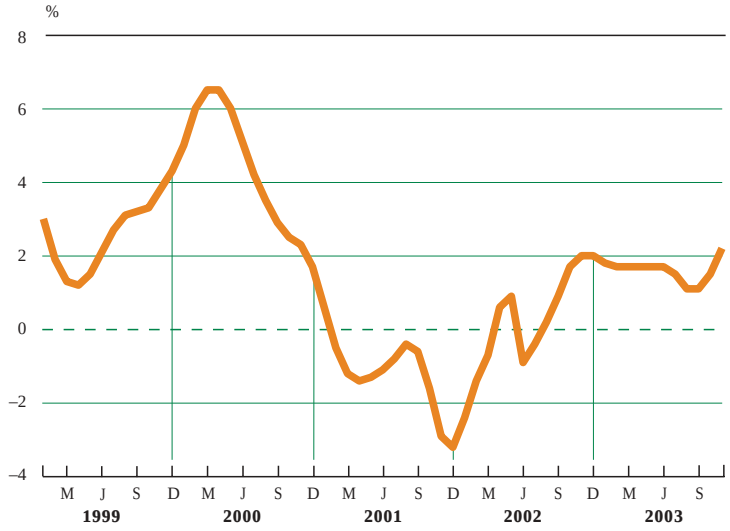
must be interpreted as an eventual loss of competitiveness in certain segments of Spanish industry (textiles and consumer electronics, among others).

...now showing major decreases in some branches such as textile industry and consumer electronics.

Within this general situation, some branches of economic activity maintained a fairly expansionist performance in 2003. This was the case, for example, in the chemical industry, paper-making, motor vehicles, machinery and electrical equipment and medical equipment with cumulative increases running between 3.5% and 5% as of November. Other headings, however, showed very poor results as happened in the textile industry, clothing and leather, which reported cumulative decreases of 7.4%, 4.2% and 10.1% respectively, while data-processing equipment and electronic equipment recorded decreases of 38.0% and 12.5%.

IMPROVED DRIVE IN INDUSTRY AT END OF 2003

Year-to-year change in industrial production index



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

On other hand, prospects improve for capital goods manufacture.

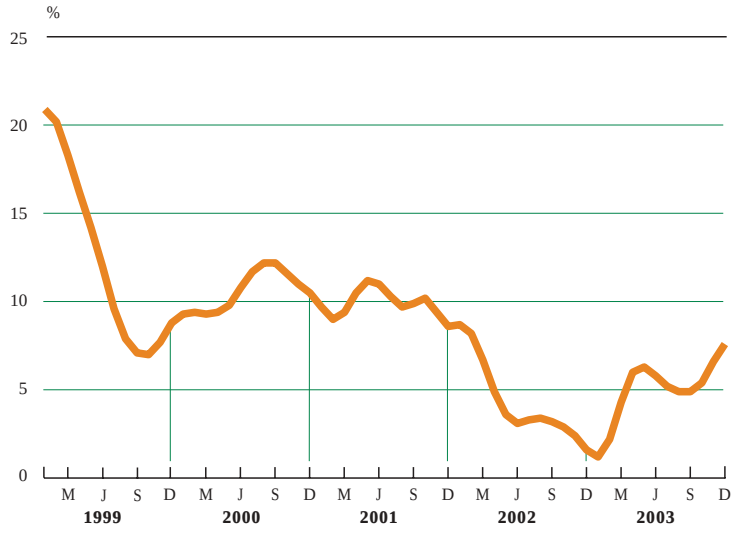
In spite of the overall progress noted, the industrial climate indicator is still not showing any clear sign of improvement and has even grown slightly worse, especially in terms of expectations of future performance in order books for consumer goods which is in line with that set out above. On the other hand, prospects are much more optimistic with regard to the trend in order books for capital goods.

Construction maintaining considerable strength, as shown by trend in main indicators....

With regard to construction, the increasing growth trend in cement consumption in the second half of 2003 is a clear indication of the strength still to be seen in this sector. In the housing segment, some early indicators maintain a strongly expansionist tone although tending toward some moderation. Latest available figures refer to the number of dwellings to be built, according to new projects approved by associations of building construction supervisors, which were up 14.1% in the third quarter of 2003 and 20.2% in October.

CEMENT CONSUMPTION TAKES ON NEW DRIVE

Year-to-year change for cement consumption



NOTE: Cycle-trend series.
SOURCE: Oficemen and internal figures.

...with relatively favourable prospects for coming months.

The construction climate indicator for December, drawn up by the Ministry of Science and Technology, showed an improvement (standing at the seven points level), thanks to the boost from public works. In addition, prospects in the sector with regard to the trend in order books, production and employment in the next three months are also relatively optimistic.

Modest balance for foreign tourism as of November partly compensated by good results in domestic tourism.

With regard to services, we note an overall expansionist trend, especially in such sectors as retail trade, transportation, information technology and communications and company services. On the other hand, with regard to tourism, the balance is rather modest. Tourist arrivals recorded nil growth as of November while revenue inflows recorded under this heading in the balance of payments as of October grew by 4.0% year-to-year in nominal terms (barely 1% real), in line with the slight increase in overnight stays in Spanish hotels (0.7%). On the other hand, domestic tourism showed increased strength with a rise in overnight stays of close to 5%.

Favourable overall situation in transportation.

In the transportation sector, the general picture is favourable in goods transport and in some passenger lines. Specifically, air passenger traffic was up by 7.4% on average in 2003, this being heavier in domestic traffic (8.1%) than in international lines (6.9%). Sea transport also rose by 5.1% as of September in contrast to that seen in intercity transport lines and railways which reported significant decreases.

Sustained advance in consumption...

On the demand side, consumption continued to show a sustained advance. The retail trade index grew by 5.4% in October and November compared with the same period the year before, equivalent to 2.6% real (discounting inflation). In those two months the increase in sales was higher in department stores (6.5% real).

SUPPLY INDICATORS

Percentage change over same period year before

	2001	2002	2002	2003					
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
Industry									
Electricity consumption (1)	4.8	3.7	3.8	3.2	3.5	5.3	3.4	6.0	5.4
Industrial production index (2)	–1.5	0.2	2.5	1.5	1.7	1.0	1.4	2.1	...
Industrial climate indicator (3)	–5.3	–5.8	–5.2	–2.7	–0.8	–2.7	–0.1	–0.6	–1.3
Utilization of production capacity (4)	79.2	78.1	80.3	78.9	77.7	79.8	–	80.4	–
Imports of non-energy intermediate goods (5)	4.6	6.4	14.9	10.6	7.8	–0.1	–1.5	...	...
Construction	9.7	4.7	2.5	3.9	5.1	4.5	–0.3	4.9	...
Cement consumption	12.7	7.0	–1.0	15.3	17.5	6.5	–8.0	–2.0	7.0
Construction climate indicator (3)	–6.2	4.3	6.5	23.9	21.7	14.1	20.2	...	...
Housing (new building approvals)	71.6	18.0	34.6	34.7	21.4	–34.0	–43.6	...	...
Government tendering									
Services	7.1	5.7	5.9	5.6	5.9	5.4	7.0	3.6	...
Retail sales	4.6	4.3	7.1	–0.8	5.1	–3.0	0.1	0.0	...
Foreign tourists	8.5	–2.9	1.0	0.3	7.5	3.9	3.0	...	...
Tourist revenues inflows	1.1	–0.7	3.3	0.7	–2.6	5.8	5.7	–0.2	...
Goods carried by rail (km-tonnes)	2.7	–1.1	4.8	4.5	8.3	7.7	7.3	9.4	9.2
Air passenger traffic	7.5	6.1	6.6	10.2	8.5	7.2	6.0	...	...
Motor vehicle diesel fuel consumption									

NOTES: (1) Corrected for number of working days and temperature.
(2) Corrected for difference in number of working days.
(3) Business survey: difference between percentage of positive and negative replies.
(4) Business survey: percentage of utilization inferred from replies.
(5) By volume.

SOURCE: Red Eléctrica Española, OFICEMEN, SEOPAN, Civil Aviation, National Institute of Statistics, Bank of Spain, Ministry of Science and Technology, Ministry of Economy and internal figures.

...with notable increase in passenger car registrations...

Another sign of the expansionist state of consumption comes from the drive shown by vehicle registrations in the final months of 2003. Sales of passenger cars were up 10.3% in the fourth quarter ending the year with cumulative growth of 3.8% which was above the expectations created in the early months of the year. Along the same lines, registrations of 4-wheel drive vehicles rose by 21.6% in the fourth quarter and 13.0% on average for the year as a whole. Growth in motorcycle sales was also very strong (21.3% as of November).

...and rise in imports...

From another perspective, the increase seen in consumer goods imports was significant. These grew by 11% real from July to October as against the 9.2% recorded in the first half-year showing a fairly similar performance in food consumer goods and other articles. This performance was in contrast to the weakness in domestic production of goods of this type, as mentioned earlier, which fell by 0.7% from July to November as against an increase of 1.1% recorded in the first half-year.

DEMAND INDICATORS

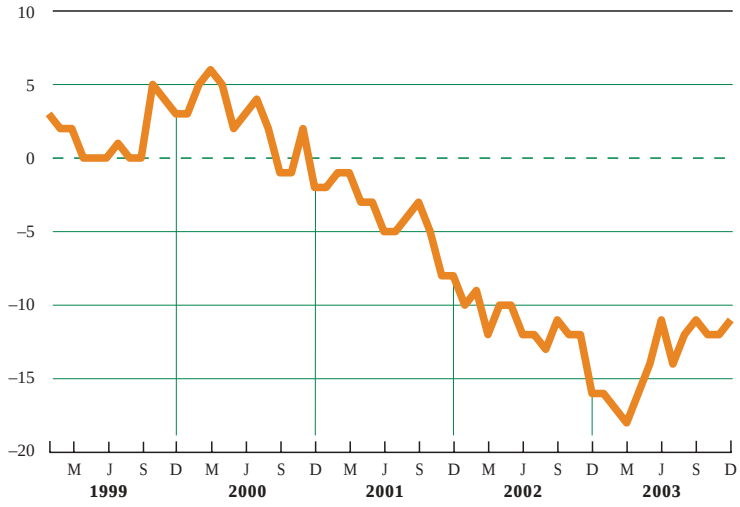
Percentage change over same period year before

	2001	2002	2002	2003					
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
Consumption									
Production of consumer goods (*)	–1.1	2.4	1.8	0.4	1.8	0.3	–1.0	–3.2	...
Imports of consumer goods (**)	9.0	5.0	10.5	7.9	10.3	12.6	6.9	...	...
Car registrations	3.2	–6.6	–0.4	–5.2	3.2	7.5	8.2	12.6	10.3
Credit for consumer durables	24.1	12.6	4.9	–2.2	–0.8	4.0	–	–	–
Consumer confidence index (***)	–4.0	–11.6	–13.3	–17.0	–13.7	–12.3	–12.0	–12.0	–11.0
Investment									
Capital goods production (*)	–3.7	–4.9	5.0	0.3	0.4	–2.2	4.1	4.1	...
Imports of capital goods (**)	–4.3	–5.8	1.3	10.6	22.6	26.2	1.1	...	...
Commercial vehicle registrations	–5.5	–6.0	2.8	15.8	10.6	16.3	12.8	12.2	10.7
Foreign trade (**)									
Non-energy imports	4.0	3.7	11.0	9.9	11.0	7.6	1.2	...	...
Exports	2.0	1.4	6.4	5.9	11.1	4.6	4.4	...	...

NOTES: (*) Adjusted 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.

CONSUMER CONFIDENCE SENTIMENT MOVES AHEAD SLOWLY

Difference in percentage of positive and negative responses



SOURCE: European Commission.

...despite slow progress in consumer confidence.

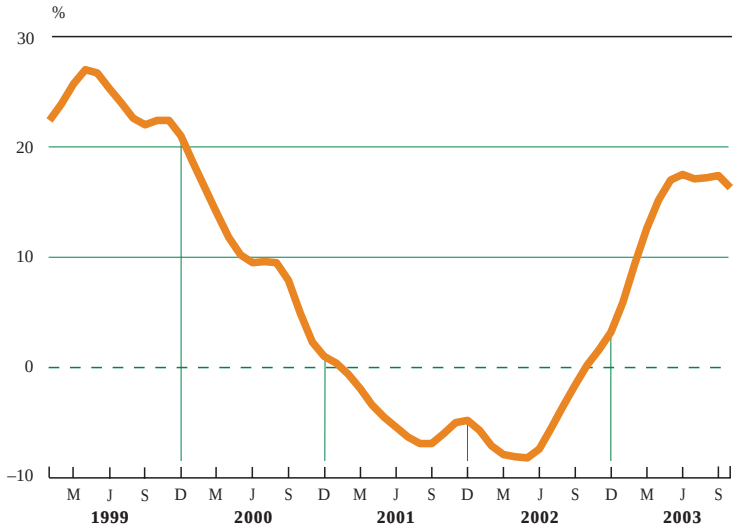
The good state of consumption may be accounted for by the growth trend in wage incomes (in real terms these grew by 3.7% on average between January and October), the stimulus of low interest rates and also to some extent to the wealth effect arising from the revaluation of real estate and financial assets. In this context, the consumer confidence index showed a tendency to gradual progress during 2003 although it did not come out of negative levels.

Investment in capital goods maintaining clear growth sign.

Finally, investment in capital goods continues to grow. On top of the sharp growth in capital goods imports (increase of 17.3% real between January and October), we should now mention the better tone of domestic production in recent months (growth of 4.1% in October and November compared with the same period last year). Along the same lines, commercial vehicle registrations in 2003 were up 13.5%.

CAPITAL GOOD IMPORTS MAINTAINING HIGH GROWTH RATE

Year-to-year change in capital goods imports



NOTES: Cycle-trend statistical series in constant euros.
SOURCE: Department of Customs and internal figures.

LABOUR MARKET

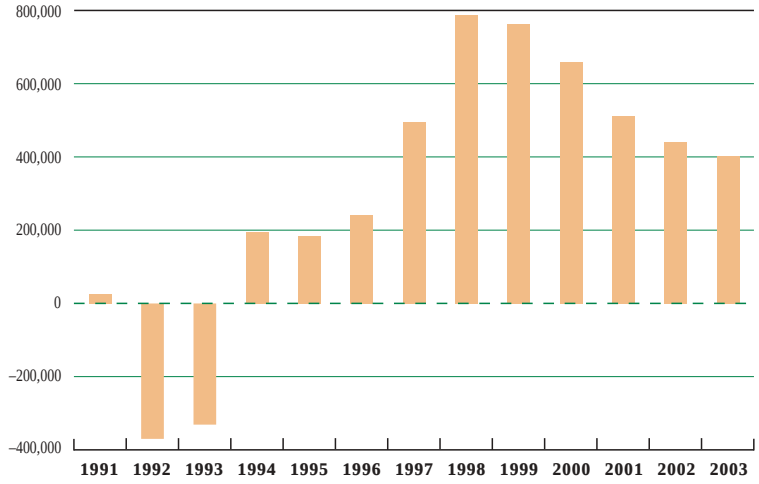
Employment notably strong in 2003

Registrations with Social Security up 2.5% in 2003.

The number of persons registered with Social Security dropped by 277,340 in December, a sharper drop than that recorded in the same month in 2002. As a result, the growth rate of work registrations at Social Security was down appreciably by a half percentage point thus going to 2.5% year-to-year. The lower level of registrations in the final month of 2003 slightly reduced the balance for the year which, in spite of everything, was quite positive. In fact, the average increase in registrations stood at 3.0%, the same level as the year before.

GROWTH IN REGISTRATIONS WITH SOCIAL SECURITY EASING OFF

Annual change in number of registrations with Social Security



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

Significant easing off in new work registrations by immigrants.

At the end of 2003 the total number of work registrations amounted to 16,589,561, of which 923,218 (5.6%) were immigrants. This group made up a good part of the increase in registrations although to a lesser extent than the year before. In fact, some 23.4% of the 401,171 new registrations at Social Security in 2003 were for non-Spanish citizens, mainly from countries not belonging to the European Union, whereas in 2002 the proportion came to somewhat more than 51%. This change may be accounted for by the progressive normalization of the process of integrating the immigrant population in the labour market.

EMPLOYMENT INDICATORS
Percentage change over same period year before

	2001	2002	2002	2003					
			4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
Persons registered with Social Security									
Wage-earners	4.6	3.5	3.3	3.6	3.4	2.9	3.2	3.1	2.4
Industry	*1.6*	*–0.2*	*0.0*	*–0.1*	*–0.6*	*–0.5*	*–0.7*	*–0.6*	...
Construction	*7.3*	*5.8*	*5.2*	*5.8*	*4.8*	*3.8*	*3.3*	*3.9*	...
Services	*5.6*	*4.4*	*3.9*	*4.0*	*4.3*	*3.9*	*4.5*	*4.5*	...
Non-wage-earners	1.0	0.9	1.4	1.7	2.2	2.5	2.7	2.8	3.0
Total	**3.9**	**3.0**	**3.0**	**3.3**	**3.2**	**2.8**	**3.1**	**3.0**	**2.5**
Persons employed (*)	**3.7**	**2.0**	**1.6**	**2.3**	**2.6**	**2.8**	**–**	**...**	**–**
Jobs (**)	**2.4**	**1.5**	**1.4**	**1.6**	**1.7**	**1.9**	**–**	**...**	**–**
Hiring contracts registered (***)									
Permanent	8.0	–1.6	–8.1	8.0	–6.7	–6.2	–6.4	0.6	11.0
Temporary	1.0	1.1	–1.4	7.9	–2.8	1.5	1.5	9.9	19.3
Total	**1.6**	**0.9**	**–2.0**	**7.9**	**–3.1**	**0.9**	**0.8**	**9.0**	**18.6**

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

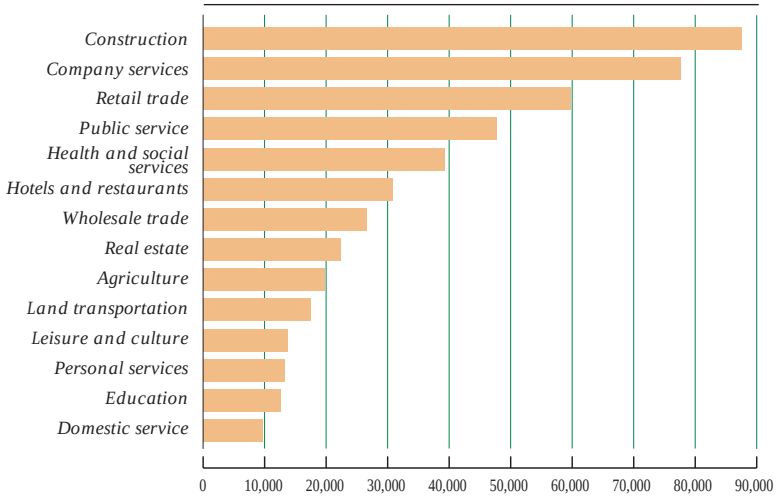
New job creation concentrated in few sectors.

By branch of economic activity and referring to figures for the first eleven months of the year, the biggest relative growth in registrations was concentrated in certain tertiary branches. Notable among these were public health, real estate agents, air and sea transport, personal and company services, the public service, health and construction. On the other hand, the textile industry, manufacturers of data-processing equipment, leather goods and footwear, and coal mining showed sharp reductions in employment levels. In any case, in absolute terms, new job creation was concentrated in a very few branches of economic activity. Specifically, construction, company services, wholesale and retail trade, the public service, health and social services, hotels and real estate agencies made up 80% of new registrations at Social Security in the first eleven months of 2003.

Job placements registered at INEM up 3.4% in 2003.

The favourable labour market balance in 2003 is also confirmed by figures for job placements registered at the National Employment Institute (INEM) which were up sharply in December putting the cumulative figure for the year at an increase of 3.4%, well above that for the year before. In any case, the increase in job placements in 2003 was entirely due to growth of temporary hiring arrangements, particularly for part-time work, given that full-time job placements were down by 1.0%.

NEW JOBS CONCENTRATED IN FEW SECTORS
Change in registrations at Social Security in period January-November 2003



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

Modest increase in registered unemployment in 2003

Registered unemployment maintaining moderate yet stable growth rate.

The number of unemployed registered at INEM rose by 12,290 in December, going slightly above the figure for the same month the year before. As a result, year-to-year growth of unemployment rose at a practically imperceptible rate to stand at 1.4%. This performance confirmed the situation of stability in unemployment in recent months.

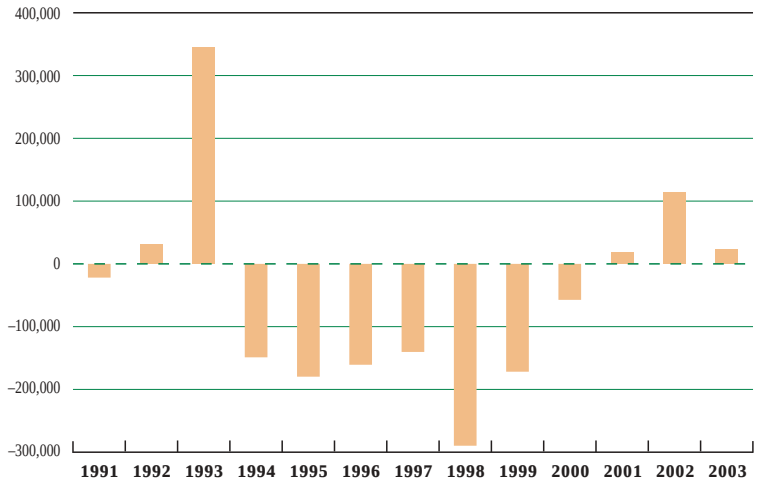
While not favourable, balance for 2003 better than year before.

The increase in unemployment in December naturally contributed to a worsening of the cumulative balance for the year which, in any case, was much better than the year before. In fact, the increase in registered unemployment in 2003 was only 23,419 persons, practically one fifth of that in 2002. Altogether, the final balance for 2003 was far from the best years in the growth cycle when a sharp decrease in unemployment was the norm.

Rise in unemployment concentrated in construction and services.

The increase in unemployment in 2003 was specially notable in services and construction given that both in industry and agriculture the level of unemployment was down slightly compared with the year before. In addition, there was also a drop in the number of persons seeking a first job, probably because of the decrease in the younger segments of the population. In this respect, the decrease in youth unemployment (that is, among those under 25 years of age) is especially significant.

REGISTERED UNEMPLOYMENT UP SLIGHTLY IN 2003
Annual change in number of registered unemployed



SOURCE: INEM and internal figures.

REGISTERED UNEMPLOYMENT BY SECTOR, SEX AND AGE
December 2003

	No. of unemployed	Change over same perior year before		% share
		Absolute	%	
By sector				
Agriculture	37,924	–288	–0.8	2.2
Industry	264,293	–5,496	–2.0	15.4
Construction	211,888	12,448	6.2	12.4
Services	968,715	23,375	2.5	56.6
First job	228,667	–6,620	–2.8	13.4
By sex				
Males	725,262	12,700	1.8	42.4
Females	986,225	10,719	1.1	57.6
By age				
Under 25 years	257,750	–9,815	–3.7	15.1
All other ages	1,453,737	33,234	2.3	84.9
TOTAL	**1,711,487**	**23,419**	**1.4**	**100.0**

SOURCE: National Employment Institute and internal figures.

Unemployment down in central regions of Ebro valley, Madrid and Andalusia in 2003.

By autonomous community, the situation was quite uneven. Those autonomous communities centred around the Ebro river valley (Aragon, Rioja, Navarre) recorded a sharp progressive improvement in unemployment ending the year with decreases of 6% and 10%. The performance of unemployment was also favourable in regions such as Madrid Community and Andalusia where the decrease was of the order of 2%. In the Basque Country as well unemployment was down slightly. In the other autonomous communities the year 2003 ended with unemployment higher than the year before, especially notable being the Canary Islands and Valencia where unemployment grew by 10.7% and 6.5% respectively.

REGISTERED UNEMPLOYMENT BY AUTONOMOUS COMMUNITY
December 2003

	No. of unemployed	Change over December 2002		% share
		Absolute	%	
Andalusia	366,297	–8,962	–2.4	21.4
Aragon	33,327	–2,659	–7.4	1.9
Asturias	55,236	952	1.8	3.2
Balearic Islands	37,576	820	2.2	2.2
Canary Islands	102,228	9,878	10.7	6.0
Cantabria	24,258	1,282	5.6	1.4
Castile-La Mancha	80,758	3,848	5.0	4.7
Castile-Leon	102,277	2,262	2.3	6.0
Catalonia	206,705	3,173	1.6	12.1
Valencian Community	142,940	8,726	6.5	8.4
Extremadura	64,770	2,864	4.6	3.8
Galicia	157,337	6,322	4.2	9.2
Madrid Community	192,793	–3,844	–2.0	11.3
Murcia	36,628	336	0.9	2.1
Navarre	17,555	–1,245	–6.6	1.0
Basque Country	74,792	–806	–1.1	4.4
La Rioja	7,376	–747	–9.2	0.4
Ceuta and Melilla	8,634	1,219	16.4	0.5
TOTAL	**1,711,487**	**23,419**	**1.4**	**100.0**

SOURCE: National Employment Institute and internal figures.

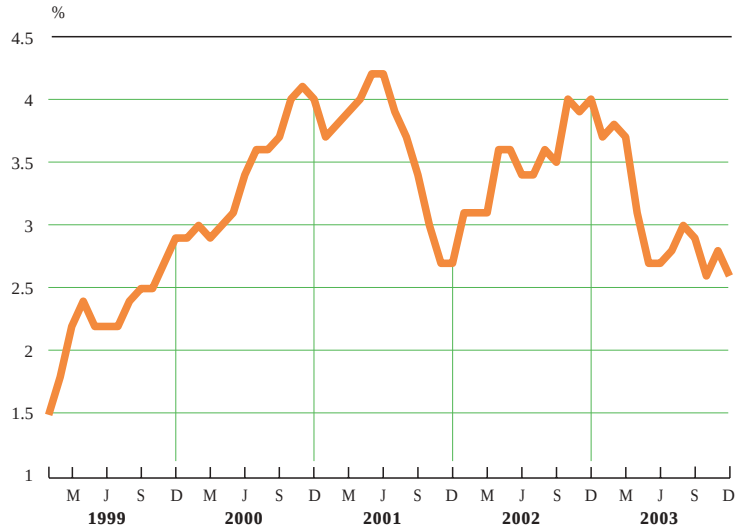
PRICES

Inflation ends year at moderate 2.6%

Inflation rate down 1.4 points in past year.

The inflation rate, measured by the consumer price index (CPI), dropped by two decimals in December to stand at 2.6% year-to-year, 1.4 points below December the year before. The favourable balance for 2003 also is reflected, although to a lesser degree, in average annual inflation which stood at 3.0%, a half-point below the year before. In both cases the inflation rate is the lowest in the past five years.

2003 ENDS WITH LOWEST CPI IN 5 YEARS
Year-to-year change in consumer price index



SOURCE: National Institute of Statistics.

Containment of imported oil cost key in reducing inflation.

The improvement in inflation in 2003 was possible thanks to a number of factors notable among which was the easing in the cost of imported oil which had a direct effect on the price of energy, particularly on petroleum-derived fuels. In fact, these prices went from growth of more than 8% in year-to-year rate in December 2002 to fall slightly in December 2003. It is not surprising therefore that the transportation group accounted for 42.5% of the reduction in the inflation rate in 2003, to the extent that its course was largely determined by the price of fuels.

CONSUMER PRICE INDEX

	2002			2003		
	% monthly change	% change over Dec. 2001	% annual change	% monthly change	% change over Dec. 2002	% annual change
January	–0.1	–0.1	3.1	–0.4	–0.4	3.7
February	0.1	0.0	3.1	0.2	–0.2	3.8
March	0.8	0.8	3.1	0.7	0.5	3.7
April	1.4	2.1	3.6	0.8	1.3	3.1
May	0.4	2.5	3.6	–0.1	1.2	2.7
June	0.0	2.5	3.4	0.1	1.3	2.7
July	–0.7	1.8	3.4	–0.6	0.6	2.8
August	0.3	2.1	3.6	0.5	1.1	3.0
September	0.4	2.5	3.5	0.3	1.4	2.9
October	1.0	3.5	4.0	0.7	2.1	2.6
November	0.2	3.7	3.9	0.3	2.4	2.8
December	0.3	4.0	4.0	0.2	2.6	2.6

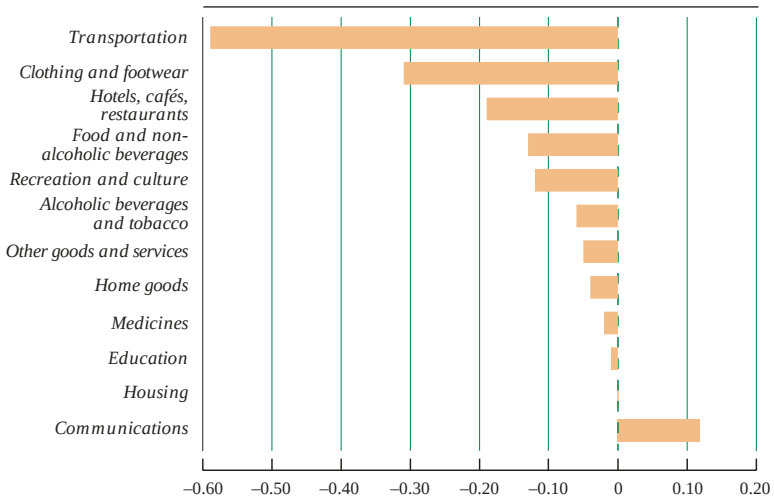
SOURCE: National Institute of Statistics.

Strength of euro and international competition favour lower prices for purchase of consumer goods from third countries.

Another factor bringing about a lessening of inflationary pressures, in the case of some consumer goods imported from third countries, was the strength of the European currency itself and growing international competition. In this respect, the drop in prices of data-processing equipment and the sharp drop in audio, photographic and video equipment has favoured the containment of prices of non-energy industrial products which ended the year with growth of 1.2%, some 1.4 points less than in December 2002.

TRANSPORTATION AND CLOTHING KEYS TO REDUCING INFLATION

Contribution to change in inflation rate in percentage points



SOURCE: National Institute of Statistics and internal figures.

Textile clothing makes decisive contribution to drop in CPI.

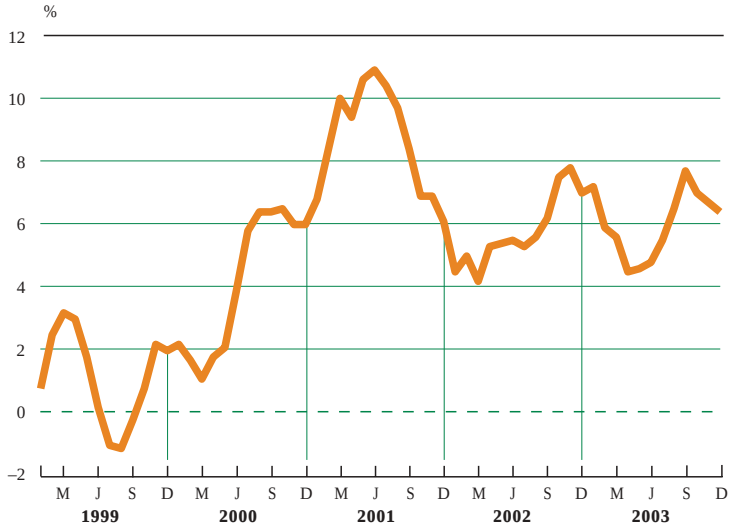
Within the same area, the sharp negative contribution to the inflation rate coming from the clothing and footwear component was also relevant. Specifically, somewhat more than three decimals of the total reduction in the inflation rate may be accounted for by this group in the CPI. The notable growth in imports of textiles, clothing and footwear (more than 30% in value according to figures as of September) may have saturated a market which is notably competitive and relatively not very dynamic within private consumption as a whole.

Passing of base effect from introduction of euro also favours cut in inflation in tourist services.

Thirdly, but no less important, was the impact of the passing of the base effect from introduction of the euro at the beginning of 2002. This effect was especially significant in the area of hotels and tourism, mainly bars and restaurants, which rounded out their prices upward in 2002. Year-to-year growth in this heading of the CPI has settled at low levels and a long way from the values close to 5% at the beginning of the year.

FRESH FOODS MODERATE WHILE HOLDING WITHIN HIGH LEVELS

Year-to-year change in fresh food component of consumer price index



SOURCE: National Institute of Statistics.

Same effect not seen in fresh foods because of problems in certain farm markets.

On the other hand, the same base effect turned out not as strong as expected in the area of food products, mainly in fresh foods. The notable pressures seen in some farm markets in 2003, partly arising from adverse weather conditions, pushed up prices at origin and naturally final prices were not exempt from this situation. As a result, fresh food prices ended 2003 with a growth rate at 6.4%, still very high and only six decimals lower than the year before.

CONSUMER PRICE INDEX BY COMPONENT
December

	Indices (*)	% monthly change		% annual change	
		2002	2003	2002	2003
By type of spending					
Food and non-alcoholic beverages	111.3	0.6	0.4	4.6	4.1
Alcoholic beverages and tobacco	109.9	–0.0	0.1	4.6	2.8
Clothing and footwear	116.3	–0.7	–0.5	5.3	2.5
Housing	106.1	0.2	0.0	2.9	2.8
Household equipment	105.1	0.3	0.1	2.4	1.7
Health	105.4	0.1	0.0	2.6	2.0
Transport	103.6	0.6	0.0	5.0	1.0
Communications	93.7	–0.2	–0.1	–5.1	–0.2
Recreation and culture	103.4	1.3	1.0	1.8	0.1
Education	111.7	0.6	0.1	4.7	4.3
Hotels, cafés and restaurants	111.3	0.3	0.3	5.8	4.1
Other	108.2	0.2	0.1	3.9	3.1
By group					
Processed foods	108.4	0.2	0.1	3.4	2.7
Unprocessed foods	116.7	1.1	0.9	7.0	6.4
Non-food products	107.2	0.3	0.1	3.8	2.2
Industrial goods	105.2	0.1	–0.1	3.3	0.9
Energy products	*99.9*	*0.9*	*–0.3*	*5.7*	*–0.1*
Fuels and oils	*99.4*	*1.3*	*–0.4*	*8.1*	*–0.6*
Industrial goods excluding energy products	*106.9*	*–0.1*	*–0.1*	*2.5*	*1.2*
Services	109.6	0.5	0.4	4.5	3.6
Underlying inflation (**)	108.3	0.2	0.1	3.5	2.5
GENERAL INDEX	**108.2**	**0.3**	**0.2**	**4.0**	**2.6**

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

Improvement in CPI does not exclude future risks in still rigid markets with sustained demand.

The improvement in the CPI came about in a context of relative strength in private consumption and with a background of downward resistance in prices of certain services. In this respect, the positive course of the CPI does not exclude the possibility of risks coming from the situation in markets where a lack of competitiveness and rigidities of supply make it difficult to adapt price-setting policies to the culture of moderation which has become part of western economies in recent years. In this respect, it should not be forgotten that underlying inflation (which excludes non-processed foods and energy) has held at relatively moderate levels since the second half of the Nineties (below 3% on average), particularly if we compare it with the levels reached at the threshold of the previous decade (around 6%).

CONSUMER PRICE INDEX BY AUTONOMOUS COMMUNITY
December

	Indices (**)	% monthly change		% annual change	
		2002	2003 (*)	2002	2003 (*)
Andalusia	108.0	0.3	0.1	3.9	2.6
Aragon	108.1	0.2	0.0	4.1	2.4
Asturias	108.4	0.4	0.2	3.8	2.4
Balearic Islands	108.0	0.4	0.0	4.5	2.3
Canary Islands	105.9	0.3	0.3	3.2	1.9
Cantabria	107.9	0.2	0.1	3.7	2.6
Castile-La Mancha	107.6	0.2	0.1	3.6	2.1
Castile-Leon	108.0	0.2	0.2	3.8	2.6
Catalonia	109.1	0.6	0.3	4.3	3.1
Valencian Community	107.8	0.3	0.1	4.1	2.4
Extremadura	106.9	0.2	0.0	3.5	2.1
Galicia	108.6	0.3	0.1	4.3	2.3
Madrid Community	108.2	0.3	0.2	3.9	2.6
Murcia	109.1	0.3	0.2	4.4	3.2
Navarre	108.7	0.3	0.3	4.0	2.8
Basque Country	108.1	0.2	0.1	3.9	2.6
La Rioja	108.7	0.4	0.1	3.8	2.4
Ceuta and Melilla	108.9	0.4	0.2	4.0	3.6
Total nacional	**108.2**	**0.3**	**0.2**	**4.0**	**2.6**

NOTES: (*) Provisional figures.
(**) Base 2001 = 100.
SOURCE: National Institute of Statistics.

Reduction of inflation rate general across autonomous communities and at similar level.

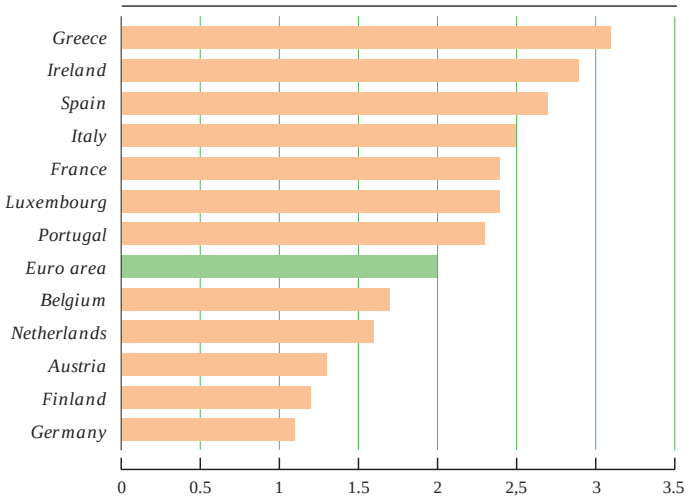
From a geographical perspective, the reduction in inflation was spread generally across all autonomous communities and showed similar levels. In most cases, the reduction in the year-to-year rate was rather in line with the Spanish average, that is to say, 1.4 percentage points. The exceptions in the Balearic Islands, Aragon and Galicia came mainly through more sizeable reductions. In any case, at the end of 2003 there were still some notable differences in the growth rate of prices among autonomous communities. The most inflationary regions, with a rate slightly above 3%, were Murcia and Catalonia. At the opposite extreme were Canary Islands (with 1.9%) and Castile-Leon and Extremadura with 2.1%.

Differential with euro area drops to 0.7 percentage points in December, lowest figure for year...

The drop in Spain's inflation rate calculated according to the harmonized consumer price index (HCPI) to 2.7% year-to-year in December was of the same degree as that in the euro area as a whole so that the differential held at the same level as the month before (0.7 percentage points). In any case, the situation improved notably over the end of 2002 when the differential was 1.7 points. At annual average, however, the reduction in the differential was somewhat less.

SPAIN THIRD MOST INFLATIONARY COUNTRY IN EURO AREA IN 2003

Percentage year-to-year change in harmonized consumer price index



SOURCE: National Institute of Statistics.

…thanks to food, clothing and transportation.

The sharp reduction in the inflation differential with the euro area in the course of 2003 was attributable to the relatively more favourable performance of prices for food, beverages and tobacco, clothing and personal transportation. On the other hand, in components such as communications the impact was of an opposite nature to the extent that the decrease in prices in the euro area was much greater than that recorded by the CPI in Spain.

Gradual increase in producer prices in 2003

Energy plays key role in moderation of producer prices in 2003.

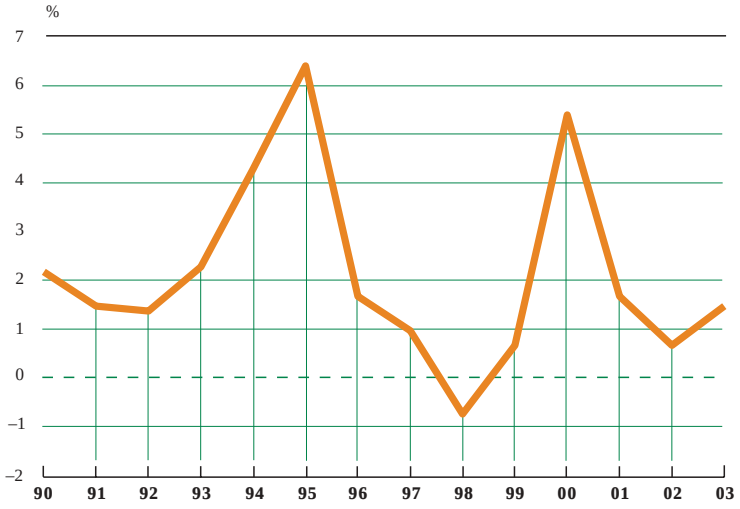
Producer prices returned to a course of moderation in December following the slight rise seen the month before. As a result, the rate of increase ended the year at 1.1% year-to-year, nearly two points below the highs reached in March. The good performance of wholesale prices in 2003 as mainly a result of the sharp easing of energy prices during the year. In fact, practically all the reduction in the year-to-year rate of price increases may be attributed to this component.

Food products dissonant factor within general trend to moderation of factory-gate prices.

The performance of prices of intermediate industrial goods was also relatively favourable and these ended the year with very modest growth (0.9% year-to-year), lower than the year before although showing a slight growth profile since the beginning of the second half-year. Capital goods have also shown this weak situation, although with notable stagnation at low levels to report year-to-year growth of 1.4% in December. The trend in consumer goods prices, however, was less positive and ended the year at a 2.4% rate of increase, seven decimals higher that in the same period in 2002. This increase was entirely due to industrial-type foods given that other consumer manufactures showed lower prices, particularly in the final stages of the year.

PRODUCER PRICES UP 1.5% IN 2003

Annual average change in producer price index



SOURCE: National Institute of Statistics and internal figures.

INFLATION INDICATORS

Percentage change over same period year before

	Farm prices	Producer price index					Import prices				GDP deflator (*)
		General index	Consumer goods	Capital goods	Intermediate goods	Energy goods	Total	Consumer goods	Capital goods	Intermediate goods	
2002											
October	–0.9	1.7	2.0	1.7	1.1	3.8	–0.0	–0.2	4.2	–1.1	–
November	–4.6	1.7	1.9	1.7	1.4	4.1	–0.5	–1.3	5.1	–2.0	4.9
December	–8.1	2.0	1.7	1.8	1.9	6.2	–3.3	–4.4	–4.4	–2.2	–
2003											
January	–10.3	2.5	1.9	1.4	1.2	7.4	3.6	–4.0	2.0	7.4	–
February	–0.7	2.9	2.0	1.2	1.5	8.9	–5.1	2.7	–8.9	–6.9	4.4
March	–0.8	3.0	2.2	1.2	1.5	9.5	2.9	1.4	–3.0	5.3	–
April	0.3	1.4	1.6	1.0	1.3	1.3	–2.5	–0.1	–10.9	–0.9	–
May	7.5	0.7	1.8	1.2	1.0	–2.3	–2.0	–1.9	–10.0	0.4	4.1
June	6.6	0.9	2.0	1.2	0.4	–0.9	0.7	–0.6	–7.2	3.8	–
July	3.7	1.1	2.5	1.1	0.1	0.2	0.0	–3.4	–7.2	3.2	–
August	8.3	1.1	2.6	1.1	0.0	0.1	1.5	4.5	–9.1	2.9	3.9
September	14.6	0.8	2.7	1.2	0.3	–2.4	–2.8	–0.2	–17.7	0.9	–
October	11.9	0.6	2.5	1.2	0.7	–3.6	0.8	2.8	–0.6	0.0	–
November	...	1.3	2.6	1.4	0.9	–0.4	...	...	...	...	...
December		1.1	2.4	1.3	0.9	–1.1					

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

Lower import prices in trade with third countries helped by strength of euro.

Import prices, in turn, continued to show relatively weak especially in the area of energy prices helped by the strong euro and this was also the case with capital goods where the reduction reached 7.5% in the first ten months of the year. In the case of consumer goods, the cumulative change as of October was 0.1%, a rate practically identical to that for the year before, with a somewhat less favourable performance in foods than in other manufactures. Finally, intermediate goods showed a 1.8% growth in prices in contrast to the notable decrease in the same period of 2002.

FOREIGN SECTOR

Trade deficit up 14% as of October

Trade deficit eases in October but cumulative balance clearly unfavourable.

Foreign trade in goods showed some weakness in October, somewhat more so in the case of imports than in exports which brought about a slight drop in the trade deficit for the month. In spite of this, the cumulative imbalance in the first ten months of the year was 13.7% above that for the same period last year with the figure going to 37.4 billion euros. The export/import ratio (the relation between exports and imports) stood at 75.4%, some 1.3 points below the same period last year.

FOREIGN TRADE
January-October 2003

	Imports			Exports			Balance	Export/ Import ratio (%)
	Million euros	% annual change in value	% share	Million euros	% annual change in value	% share	Million euros	
By product group								
Energy products	15,869	2.1	10.4	3,510	44.5	3.1	–12,360	22.1
Consumer goods	42,874	10.2	28.2	46,931	5.9	41.0	4,057	109.5
Food	*10,189*	*10.4*	*6.7*	*13,986*	*6.3*	*12.2*	*3,797*	*137.3*
Non-foods	*32,686*	*9.6*	*21.5*	*32,945*	*4.6*	*28.8*	*259*	*100.8*
Capital goods	23,774	8.6	15.6	13,705	5.8	12.0	–10,068	57.6
Non-energy intermediate goods	69,448	7.0	45.7	50,422	3.7	44.0	–19,027	72.6
By geographical area								
European Union	97,172	8.5	63.9	82,662	7.3	72.2	–14,509	85.1
Euro area	*84,135*	*8.3*	*55.4*	*69,234*	*8.4*	*60.4*	*–14,901*	*82.3*
Other countries	54,794	6.0	36.1	31,905	1.9	27.8	–22,889	58.2
Eastern Europe and ex-USSR	*6,571*	*5.4*	*4.3*	*4,966*	*7.4*	*4.3*	*–1,604*	*75.6*
United States	*5,524*	*–4.8*	*3.6*	*4,662*	*–1.7*	*4.1*	*–862*	*84.4*
Japan	*3,904*	*11.6*	*2.6*	*824*	*–2.2*	*0.7*	*–3,080*	*21.1*
Latin America	*6,300*	*–0.5*	*4.1*	*5,448*	*–8.2*	*4.8*	*–852*	*86.5*
OPEC	*9,585*	*4.4*	*6.3*	*2,754*	*–5.8*	*2.4*	*–6,831*	*28.7*
Rest	*22,912*	*11.1*	*15.1*	*13,251*	*8.3*	*11.6*	*–9,661*	*57.8*
TOTAL	**151,966**	**7.6**	**100.0**	**114,567**	**5.8**	**100.0**	**–37,398**	**75.4**

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

Imports weaken but real cumulative increase still grows by 8.0%.

Imports grew by 1.7% in value in October with the cumulative total for the first ten months standing at 152 billion euros, some 7.6% more than in the same period the year before. In terms of volume, the increase amounted to 8.0% if we take into account the slight drop in import prices. The slowdown in imports in October was especially notable in the area of capital goods and intermediate goods while, on the other hand, purchases of consumer goods continued to show notable strength. In any case, so far this year the real increase in foreign purchases held at very high levels in the case of capital goods (17.3%), at notable levels in consumer goods (9.9%) and somewhat weaker in intermediate goods.

Exports also lose some strength but increase as of October to reach 7.0% real.

Exports were also up moderately in October (3.6%) with the cumulative total going to 114.6 billion euros, some 5.8% more than in the same period in 2002. In real terms, average growth stood at 7.0% thanks to the drop in export prices. The improved state of foreign sales in October showed up in non-food consumer goods while the balance in capital goods and intermediate goods was quite poor. In the first ten months of the year as a whole the biggest growth came in energy intermediate goods and capital goods at 36.8% and 16.8% real respectively. These rates were well above those recorded for consumer goods and non-energy intermediate goods at 6.7% and 3.6% respectively.

Some EU markets beginning to recover while China market booming.

By geographical area, sales to third countries continued to show greater strength than those to the European Union with growth at 10.3% and 5.5% respectively in volume. Of special note within the European Union was the increase in value of shipments to the Netherlands, Italy and Germany, more than 10% nominal in all three cases. Among third countries, growth was especially notable in the Chinese market (cumulative rise of 46.3%) so that the size of that market was equal to that of Russia and coming close to Japan and Brazil. On the other hand, sales to Eastern Europe and Africa showed appreciable growth in contrast to the notable decreases recorded for the newly industrialized Asian countries, Latin America and the oil exporting countries. Finally, exports to Japan and the United States showed a balance somewhat worse than last year with a drop of around 2% nominal.

Current account deficit continues to increase in October

Current account deficit up 61% in first ten months of year.

The current account balance showed a deficit of 1.6 billion euros in October which was 52.8% higher than in the same month in 2002. This increase was due to the turnaround in the incomes balance and to a lesser extent to the reduction in the services surplus which together more than took up the slight improvement in the trade deficit and the transfers balance. The cumulative imbalance in the first ten months thus stood at 16.7 billion euros, some 61.1% more than in the same period last year.

BALANCE OF PAYMENTS

Cumulative figure for last 12 months in million euros

	October 2002	October 2003	% change
Current account balance			
Trade balance			
Exports	*131,496*	*139,900*	*6.4*
Imports	*–163,835*	*–178,422*	*8.9*
Total	–32,340	–38,523	19.1
Services			
Tourism	*28,514*	*29,573*	*3.7*
Other services	*–1,982*	*–2,703*	*36.4*
Total	26,532	26,870	1.3
Incomes	–9,980	–11,889	19.1
Transfers	2,580	595	–76.9
Total	**–13,207**	**–22,946**	**73.7**
Capital account	**8,112**	**6,770**	**–16.5**
Financial balance			
Direct investment			
From Spain to abroad	*–21,831*	*–13,014*	*–40.4*
From abroad to Spain	*23,270*	*17,244*	*–25.9*
Total	1,439	4,230	194.0
Portfolio investment			
From Spain to abroad	*–37,954*	*–62,437*	*64.5*
From abroad to Spain	*36,969*	*33,711*	*–8.8*
Total	–985	–28,726	–
Other investment			
From Spain to abroad	*–25,333*	*–1,420*	*–94.4*
From abroad to Spain	*36,766*	*50,868*	*38.4*
Total	11,433	49,448	332.5
Total	**11,887**	**24,952**	**109.9**
Errors and omissions	–9,771	–4,745	–51.4
Change in assets of Bank of Spain	2,979	–4,031	–

NOTES: The figure resulting from the sum of current account balance, capital account balance and financial balance is compensated by the change in assets of Bank of Spain plus errors and omissions.
SOURCE: Bank of Spain and internal figures.

Improvement in services balance not enough to make up for drop in other headings of current account balance.

The increase in the cumulative current account deficit may largely be explained by the increase in the trade imbalance and to a lesser extent by the increase in the imbalance in the incomes heading. The services balance partly compensated for this situation with the surplus rising by 3.3%. Under this heading, the tourist balance grew by 4.3% boosted by the relatively favourable performance in revenue inflows (rise of 4.1% as of October) in a context of moderate growth in payments (3.1% in the first ten months of the year).

Spanish economy's net world borrowing three times higher than last year.

Capital account, in turn, showed a surplus of 6.4 billion euros as of October, down 10.2% from last year. Net world borrowing for non-financial transactions (obtained by adding the current account balance and the capital balance) amounted to 10.3 billion euros, more than three times the figure recorded in the same period in 2002.

Direct Spanish investment abroad continues to drop sharply while portfolio investment more than doubles.

Financial account, excluding Bank of Spain transactions, recorded net inflows of 23.2 billion euros as of September, somewhat more than twice that in the same period last year. Direct Spanish investment abroad continued to drop sharply so that the cumulative drop reached 40.1% compared with the same period in 2002. On the other hand, portfolio investment showed a spectacular rise. Direct foreign investment in Spain, in turn, was very weak with a drop of 27.9% as of October. Portfolio investment was down by 10.6%.

SAVINGS AND FINANCING

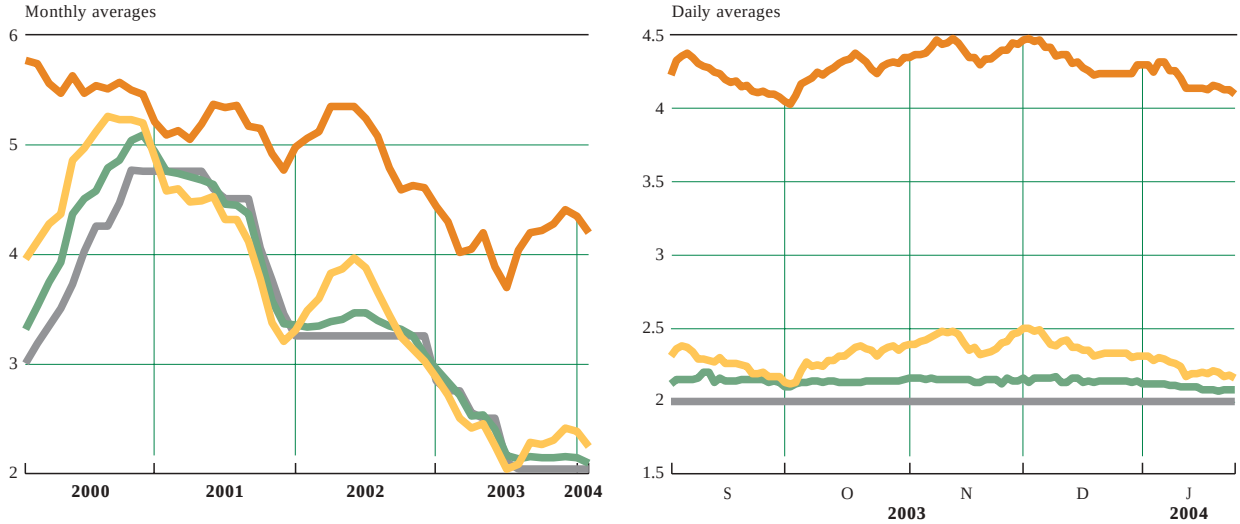
Short-term interbank rate marks up new all-time low

European Central Bank maintains official interest rate at 2%.

The official Eurosystem interest rate in 2003 dropped to its lowest level following two cuts in March and June. Since then the European Central Bank has maintained the rate at 2%. Nevertheless, speculation in recent weeks about a possible new cut, due to the sharp rise in the euro in recent months and the weak recovery of the European economy, has meant that the 3-month interbank rate has marked up a new all-time low. Long-term interest rates have also tended down in recent weeks although they have not moved outside a fluctuation range of 4%-4.5% in recent months.

SLIGHT DECREASES IN INTEREST RATES

Interest rates as annual percentage



10-year government bonds (**)
1-year Euribor
3-month interbank rates
Intervention rate (*)

NOTES: Figures up to January 23.
(*) Reference rate for main refinancing operations of Eurosystem.
(**) Secondary market.
SOURCE: Bank of Spain and Thomson Financial Datastream.

1-year Euribor drops 49 basis points in 2003.

The yield on 3-month interbank deposits dropped by 82 basis points during 2003. In the early weeks of January 2004 it continued to move down and recorded a new all-time low on January 20 going to 2.07%, some 77 basis points below twelve months earlier. With regard to the 1-year Euribor, this dropped by 3 basis points on monthly average in December to stand at 2.38%. As a result, it was down 49 basis points in 2003 although in December it stood 37 basis points above the all-time low recorded in June. In the early weeks of January 2004, the 1-year Euribor tended downward going to 2.16% at the end of the fourth week in the month.

INTEREST RATES

Monthly averages as annual percentage

	Main refinancing operations (2)	3-month interbank rate	1-year Euribor (3)	1-year Treasury bills (4)	3-year Govt. bonds (5)	10-year Govt. bonds (5)	30-year Govt. bonds (5)	Loans. Synthetic bank rate (6)	Deposits. Synthetic bank rate (6)
2002									
December	2.94	2.95	2.87	2.87	3.07	4.43	5.02	4.40	2.06
2003									
January	2.81	2.83	2.71	2.55	2.91	4.24	4.87	4.86	1.56
February	2.77	2.71	2.50	2.20	2.70	4.01	4.75	4.77	1.51
March	2.61	2.52	2.41	2.34	2.70	4.04	4.82	4.59	1.43
April	2.54	2.53	2.45	2.33	2.81	4.19	4.92	4.54	1.35
May	2.56	2.40	2.25	2.05	2.51	3.88	4.69	4.46	1.35
June	2.20	2.16	2.01	1.84	2.24	3.69	4.57	4.28	1.21
July	2.08	2.13	2.08	1.98	2.50	4.03	4.87	4.11	1.16
August	2.06	2.15	2.28	2.12	2.97	4.19	4.91	4.25	1.15
September	2.07	2.14	2.26	2.14	2.93	4.21	4.96	4.19	1.14
October	2.05	2.14	2.30	2.09	2.97	4.27	5.00	4.17	1.14
November	2.02	2.15	2.41	2.28	3.11	4.40	5.06	4.14 (*)	1.15 (*)
December (*)	2.01	2.14	2.38	2.35	3.04	4.34	5.00	...	...
2004									
January (1)	2.00	2.08	2.16	2.17	2.66	4.10	4.86	...	...

NOTES: (*) Provisional figures.
(1) January 23 for intervention rate, interbank rate and government bonds.
(2) Marginal interest rate at main refinancing operations of Eurosystem.
(3) In accordance with Bank of Spain Circular 7/1999, dated June 29, this rate as a monthly average may be considered as a reference rate for mortgage loans since July 10, 1999. Occasionally it may differ by one-hundredth of a point from the 12-month Euribor as a monthly average published with two decimals in the European Central Bank bulletin.
(4) Average weighted issue interest rate.
(5) Secondary market. Outright spot operations. Average redemption yield.
(6) Average weighted rate for corresponding balances. Up to December 2002 refers to banks and savings banks and as of January 2003 to lending institutions as a whole, among other methodological changes, so that there exists a discontinuity in the statistical series.
SOURCE: Bank of Spain, Thomson Financial Datastream and internal figures.

Yield on 10-year government bonds ends 2003 at same level as 12 months earlier.

With regard to government debt instruments, the yield on 10-year government bonds ended 2003 at practically the same level as 12 months earlier at 4.30% but 90 basis points above the low for recent decades on June 16, 2003. In the early weeks of January 2004 the rate eased going to 4.10% on January 23. With regard to the differential with German government bonds for the same term (which constitute the European

reference), this went from 7 basis points at the beginning of 2003 to become wiped out in March 2003. Following some swings, in the early weeks of January it again stood at around 0 basis points. The disappearance of this differential was made possible by the improvement in Spain's public accounts and the worsening of those in Germany.

Composite mortgage interest rate down 0.92 points in 2003.

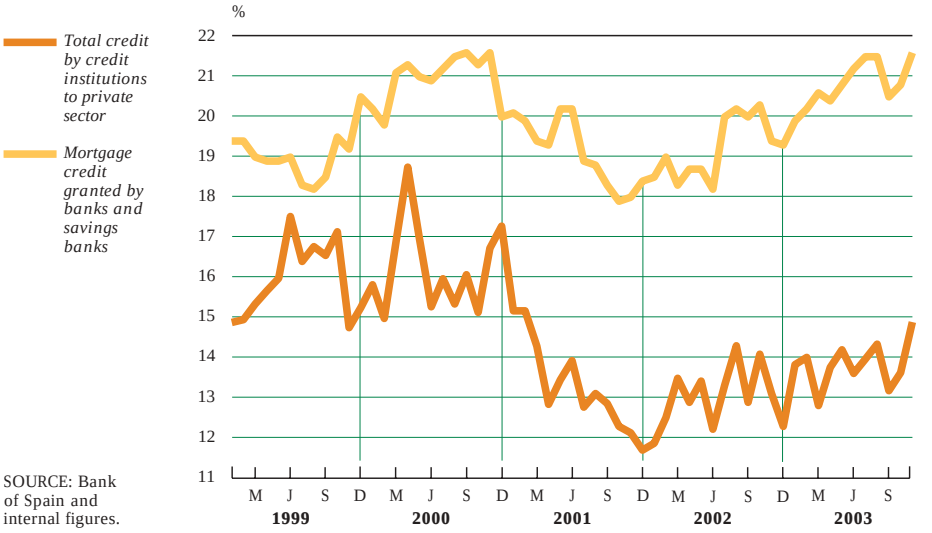
So far as concerns bank interest rates, the composite interest rate on mortgage loans of more than three years for purchase of non-subsidized housing rose slightly in December going to 3.46%. As a result, it stood 3 basis points above the all-time low in September although it dropped by 92 basis points in the course of 2003.

Credit to companies and households growing at lively rate

Bank credit to private sector grows 15% in November.

Bank credit to the private sector rose by 14.9% in November compared with the same month last year, 1.3 points more than in October. Loans to companies and households has continued to be fostered by growth of incomes and low interest rates and grew at more than twice the rate of the European average.

STRONG GROWTH OF MORTGAGE LOANS
Annual change rate



SOURCE: Bank of Spain and internal figures.

Default rate at banks marks up new all-time low.

Doubtful loans at credit institutions as a whole continued to drop recording a year-to-year decrease of 10.1% which meant that the default rate went to the lowest in recent years in November (0.95%). The corresponding default rate for banks and savings banks (excluding other credit institutions) also continued to drop slightly going to 0.78%, marking up a new all-time low. In addition, the rate of doubtful mortgage loans fell to 0.52% in September 2003 also recording an all-time low, according to figures from the Spanish Mortgage Association.

LOANS TO COMPANIES AND HOUSEHOLDS
November 2003

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
Commercial credit	54,648	4,214	8.4	7,600	16.2	6.8
Loans against collateral (*)	434,461	70,499	19.4	76,071	21.2	54.3
Other term loans	253,562	15,369	6.5	15,373	6.5	31.7
On-demand loans	25,275	5,903	30.5	2,180	9.4	3.2
Leasing	25,230	3,197	14.5	3,403	15.6	3.2
Doubtful loans	7,613	–55	–0.7	–852	–10.1	1.0
TOTAL	**800,788**	**99,125**	**14.1**	**103,775**	**14.9**	**100.0**

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

Demand for mortgage loans continues very strong.

By type, total mortgage loans at banks and savings banks showed an annual change rate of 21.6% in November, some 0.8 points more than in the month before. The year-to-year change rate for credit institutions rose to 23.4%, counting securitizations, according to the Spanish Mortgage Association. Demand for mortgage loans thus continues to show great strength. Commercial credit, used to finance working capital of companies, showed a sharp year-to-year increase of 16.2%. In turn, leasing, which is related to financing capital investment, rose by 15.6% compared with twelve months earlier.

Securitization funds very active.

With regard to other types of corporate financing, net placement of commercial paper was -518 million euros in the first eleven months of 2003. On the other hand, net bond issues by non-financial companies amounted to 922 million euros. In addition, securitization funds were very active in the January-November period and net issues amounted to 23.3 billion euros, an increase of 66.2%. In addition, the cumulative total of net capital increases by non-financial companies with outlay of funds stood at 1.3 billion euros as of November, a year-to-year decrease of 29.0% in a situation of some prudence in the stock market.

Drop in funds from abroad.

Furthermore, in the first ten months of the year the private sector obtained funds from abroad for a net amount of 16.4 billion euros. This amount represented a decrease of 39.2% compared with the same period in 2002 because of lower direct investment.

Notable growth of private sector bank deposits

Total deposits of companies and households up 8% in November.

Total deposits of resident companies and households in euros and foreign currency rose by 8.5% in November 2003 compared with the same month the year before, one decimal more than in October. In any case, over the past twelve months deposits rose by 48.1 billion euros, less than half the increase in credit granted by the resident banking system.

Time deposits for more than 2 years up 19%.

By type, the biggest increase came in time deposits for more than 2 years which rose by 18.9% in the past 12 months. Savings accounts also showed a considerable increase (13.1% compared with November 2002), four decimals more than in the month before.

DEPOSITS OF COMPANIES AND HOUSEHOLDS AT CREDIT INSTITUTIONS
November 2003

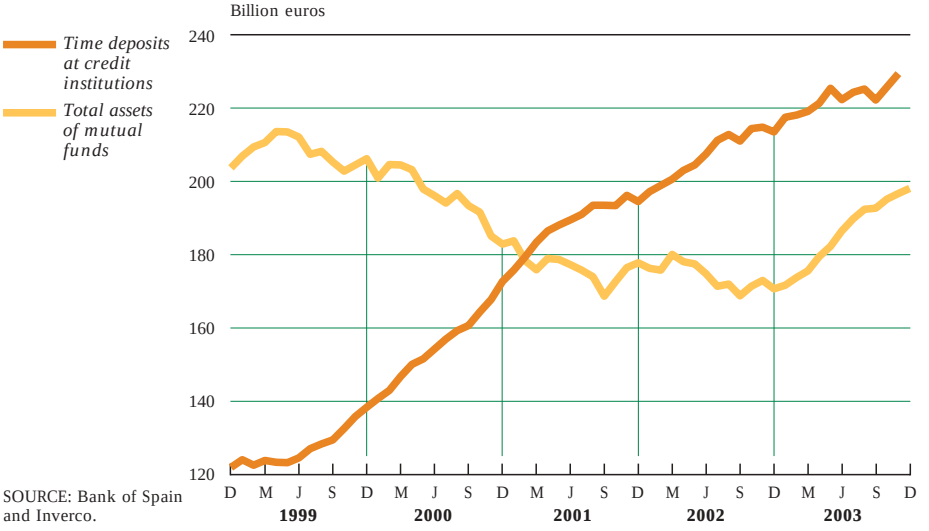
	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
On-demand	164,542	9,909	6.4	14,097	9.4	26.7
Savings (*)	143,724	15,470	12.1	16,617	13.1	23.3
Up to 2-year term	158,321	4,839	3.2	3,296	2.1	25.7
More than 2-year term	71,084	11,035	18.4	11,284	18.9	11.5
Repos	75,413	–3,972	–5.0	2,933	4.0	12.2
Total	**613,084**	**37,281**	**6.5**	**48,227**	**8.5**	**99.3**
Deposits in non-euro currencies	**4,026**	**490**	**13.9**	**–101**	**–2.4**	**0.7**
TOTAL	**617,110**	**37,771**	**6.5**	**48,125**	**8.5**	**100.0**

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

Following three successive years of decreases, assets of mutual funds recover in 2003.

Following three successive years of decreases, the assets of mutual funds rose by 27.3 billion euros to reach a total of 198.1 billion euros, a year-to-year increase of 16.0%, according to figures supplied by Inverco, the sector organization. The increase was mainly due to net acquisition of shares in 2003 amounting to 20.9 billion euros. Net purchase of shares in 2003 was concentrated in guaranteed share-based funds, in short-term bond-based funds, in global funds and money-market funds. There has been a notable recovery in the attraction of share-based funds in recent months as a result of the better performance on the stock markets. Apart from the substantial rises on the stock markets, the recovery of mutual funds was favoured by the new tax regulations which came into force in 2003 allowing for a change from one fund to another without tax penalty.

MUTUAL FUNDS MAKE RECOVERY IN 2003



SOURCE: Bank of Spain and Inverco.

Average yield on mutual funds at 3.75% in 2003.

In addition, the average weighted yield on mutual funds in the past 12 months was 3.75%. All types of mutual fund showed positive annual yields, of special note being yields obtained by national share-based funds (28.8%) and those for emerging countries (28.5%). The lowest capital gains came in international bond-based funds (1.26%) and money-market funds (1.50%).

Slight decreases in yield on Treasury bills

Marginal yield on 1-year Treasury bills stands at 2.18%.

At auctions held on January 2, marginal interest rates (the highest available) on T-bills for 3-month, 1-year and 18-month terms fell slightly compared with previous auctions to stand at 2.03%, 2.18% and 2.39% respectively. Total Treasury bills in circulation stood at 38.6 billion euros at the end of the fourth week in January 2004, a decrease of 203 million euros compared with the end of 2003. For 2004 as a whole, the Treasury foresees gross T-bill issues of 39.7 billion euros with net placement of 1.2 billion euros.

Slight drop in yield on 5-year government bonds and increase on 15-year bonds.

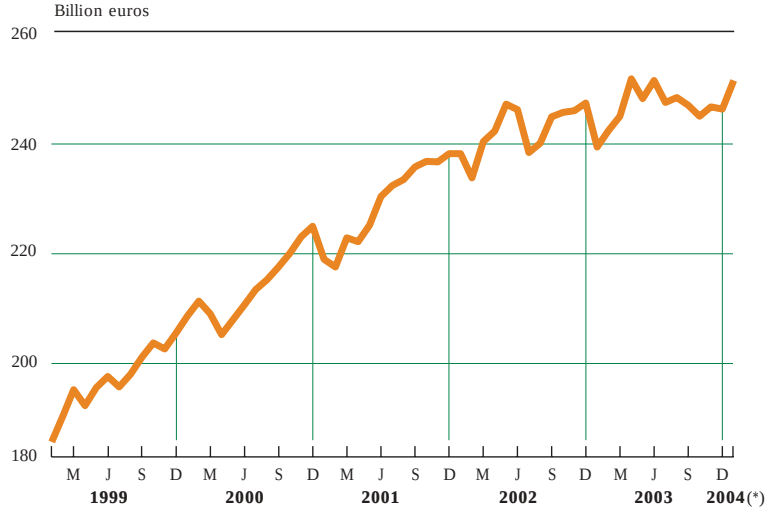
At the auction of 5-year government bonds held on January 14 the marginal yield was cut by 13 basis points compared with the auction held the month before going to 3.39%. At the auction of 15-year government bonds held the next day the marginal interest rate stood at 4.45%, a slight increase of 4 basis points compared with the previous auction in October.

SPANISH GOVERNMENT SECURITIES ISSUES

Date of issue	Tranche	Date of auction	Amount (million euros)			Yield (%)		
			Bids at auction	Allotment at auction	Total issued (*)	Marginal	Average	Nominal
TREASURY BILLS								
3-months								
2-1-04	6th	30-12-03	1,954.5	729.8	734.7	2.031	2.021	–
1-year								
2-1-04	4th	30-12-03	2,050.0	877.4	951.7	2.179	2.170	–
18-months								
2-1-04	2nd	30-12-03	1,747.5	747.5	785.8	2.389	2.381	–
MEDIUM AND LONG-TERM BONDS								
5-year bonds								
19-1-04	1st	14-1-04	5,827.8	3,789.2	4,592.8	3.388	3.379	3.60
15-years bonds								
11-3-02	8th	15-1-04	1,454.5	639.4	639.4	4.447	4.442	5.50

NOTES: (*) Includes possible placements in the second auction stage and possible cancellation of applications accepted at auction but not fully paid for.
SOURCE: Bank of Spain.

TOTAL GOVERNMENT BONDS IN CIRCULATION STABILIZES



NOTES: (*) January 20.
SOURCE: Bank of Spain.

Total government bonds in circulation moves up 5.2 billion euros in January.

Total medium and long-term government bonds in circulation stood at 251.7 billion euros at the end of the fourth week in January. This amount meant an increase of 5.2 billion euros compared with the end of 2003. The Treasury foresees gross government bond issues of 38.1 billion euros and net placements of 11.5 billion euros.

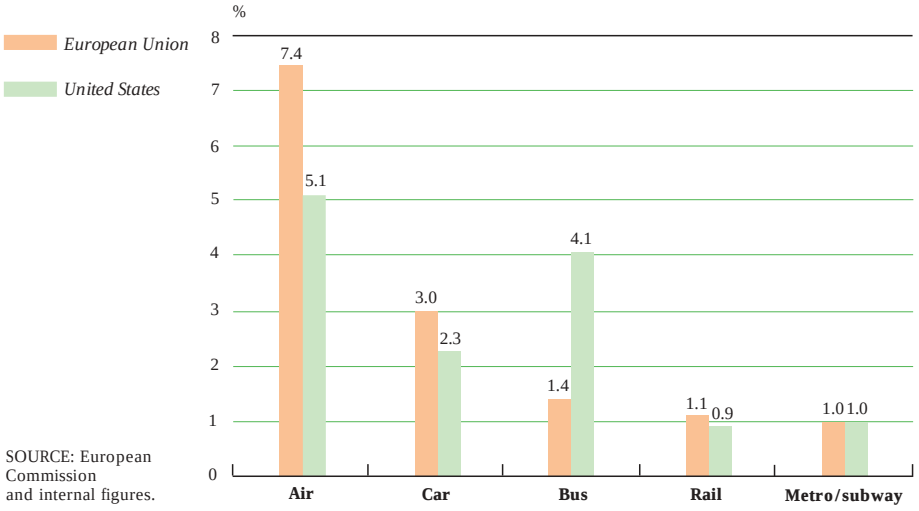
Air transport: overcoming 2001 crisis

Air transport is mode showing biggest growth in European Union…

The sustained growth of the developed economies, the progressive internationalization of trade and the development of tourism have brought a heavy demand for transport on a world scale in recent years. Among the various transport modes, air transport has shown the biggest growth. Figures for the European Union (EU) as a whole show that between 1970 and 2000 the number of passenger-kilometres grew by an annual average of 7.3%, more than twice the estimated figure for travel by car.

AIR IS MOST DYNAMIC MODE OF TRANSPORT

Average annual growth of passenger transport between 1970 and 2000 in passenger-kilometres

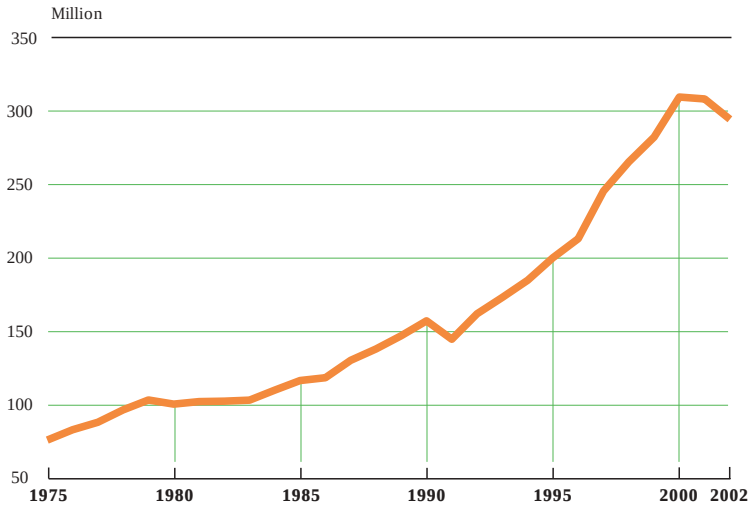


SOURCE: European Commission and internal figures.

…and in United States.

The bigger growth of air transport compared with other modes is not a phenomenon exclusive to the European Union. The transport system in the United States has gone through a similar pattern of development in terms of air transport although growth has been somewhat more moderate at 5.1% on average in the past 30 years, partly due to the higher previous level of development in that mode. The European Commission estimates that air transport takes up 10.8% of total passenger transport demand in the United States as against 5.8% in the EU.

DIP IN AIR TRANSPORT IN 2001 AND 2002
Passengers transported by EAA companies in regular flights



SOURCE: European Airlines Association (EAA) and internal figures.

Growth of air traffic not unaffected by cyclical swings and may be hurt by economic recessions.

Air transport, on the other hand, has enjoyed practically uninterrupted growth in recent years which naturally has not shielded it from swings in the economic cycle. In this respect, the number of passengers carried in certain years has failed to grow and even dropped due to exceptional circumstances, as in 1980 when it suffered the effects of the second oil crisis, and in 1991 during the recession accompanying the Gulf War. More recently, between 2001 and 2003 air transport has had to face up to such unfavourable factors as a slowdown in the world economy, terrorist attacks in the United States and other parts of the world, the wars in Afghanistan and Iraq and the effects of the SARS virus in Asia.

World air transport still not recovered from 2001 crisis.

The recession set off by the events in 2001 has been deep, prolonged and world-wide. According to figures from the Airport Council International (ACI), passenger movements through the 700 main world airports dropped by 2.6% in 2001 and then went down by 0.4% in 2002 and only partially recovered in 2003. Last year, referring to figures for the first eight months, there was a 0.3% increase in traffic. For the world as a whole, the level of air transport activity today is still below the all-time highs reached in 2000.

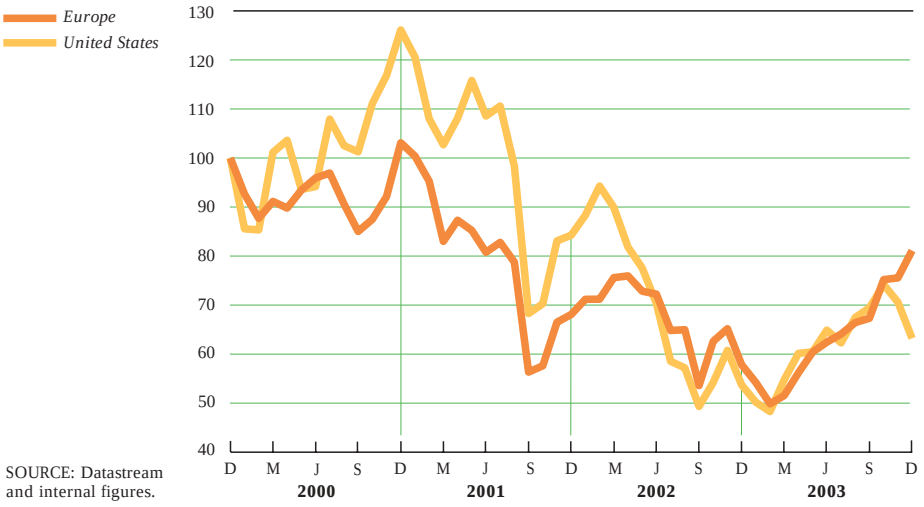
Terrorist attacks on September 11 set off recession in air transport sector.

The sharp drop in activity was set off by the terrorist attacks in September 2001. The closing of the U.S. air space for some days, the greater limitations and difficulties imposed on air traffic and, naturally, the increased reluctance of ordinary citizens to travel by air brought a sudden collapse of demand. Fear spread to all countries and EU figures point to drops in air traffic of the order of 20% in the final quarter of 2001. In any case, the recession in the fourth quarter meant the sharpening of a situation in which it had already become weakened by the recessive stage in the U.S. economy. In the corporate sphere, the result has been the

appearance of major losses, a big drop in share prices and the bankruptcy of such companies as Sabena (Belgium) and Swissair (Switzerland).

STOCK MARKET PENALIZES AIRLINES

Datastream Global index for airlines and airports. Base 31-12-99 = 100



SOURCE: Datastream and internal figures.

Recession especially harsh in United States where traffic still remains below levels before terrorist attacks.

The scope of the recession has varied in intensity depending on air transport regions. The sharpest drop in traffic was concentrated in the United States with 6.3% in 2001 and 2.7% in 2002. Recovery has not yet reached the level desired for 2003 putting the level of traffic at practically the same levels as the year before, at least going by figures available up to September. It is thus quite revealing that passenger traffic in 2003 at practically all U.S. airports was still very much below the level before the recession and in some cases was still falling. As a result, in September 2003 airports such as San Francisco, Los Angeles, Miami, Orlando and St. Louis recorded passenger movements between 12% and 25% below that reached in 2000. The cases of Atlanta and Chicago (the world's busiest airports with 76.9 and 66.6 million passengers in 2002) were somewhat less unfavourable. After losing between three and five million passengers in the recession began to recover in 2003 (increase of 2.9% and 4.5% respectively in the January-September period).

In Europe, on other hand, situation appears more favourable with traffic recession overcome in 2003.

The situation turned out to be less unfavourable in Europe. ACI figures show a drop in traffic of around a half percentage point both in 2001 and in 2002 with substantial recovery in 2003 (3.6% as of September). By airport, among the first ten, the two large London airports (Heathrow and Gatwick), Frankfurt, Rome and Munich showed levels of passenger movements in 2002 below those before the recession although with more moderate decreases than in the case of United States. On the other hand, the two Paris airports, Amsterdam, Madrid and Barcelona have increased the level of activity. In any case, we should point out the drop at Zurich

and Brussels airports following the bankruptcy of their respective national airlines mentioned earlier. In the first nine months of 2003, the balance at the main airports was also uneven. Frankfurt, Paris and Amsterdam showed moderate decreases of less than 3% (because of the decline in Asian routes) while London-Heathrow remained relatively stable and all other airports (with Barcelona and Munich in the lead) reported a definite improvement (growth of around 5%).

PASSENGER TRAFFIC AT MAIN WORLD AIRPORTS

	2001	2002	January-September 2003	
	% change		% change	Passengers
1 Atlanta	–5.4	1.3	2.9	58,875,694
2 Chicago	–6.5	–1.3	4.5	51,831,684
3 London-Heathrow	–6.0	4.3	–0.8	47,503,540
4 Tokyo (HND)	4.1	4.1	4.3	47,319,962
5 Los Angeles	–8.5	–8.7	–2.9	41,289,216
6 Dallas/Fort Worth	–9.2	–4.2	–0.9	39,389,348
7 Frankfurt	–1.6	–0.2	–1.3	36,487,978
8 Paris/Charles De Gaulle	–0.5	0.7	–1.4	36,349,565
9 Amsterdam	–0.2	3.0	–2.9	30,350,231
10 Phoenix	–1.7	0.3	6.2	28,152,396
11 Denver	–6.9	–1.2	3.6	28,091,293
12 Las Vegas	–4.6	–0.5	2.4	27,109,797
13 Madrid	3.5	–0.4	4.3	26,885,088
14 Houston	–1.3	–2.6	–0.8	25,453,934
15 Minneapolis/St. Paul	–6.7	–3.3	0.8	24,975,787
16 Detroit	–9.1	–0.5	–0.3	24,505,709
17 New York (JFK)	–10.7	2.0	3.9	23,592,278
18 London-Gatwick	–2.8	–5.0	1.3	23,551,707
19 Miami	–5.8	–5.1	–2.3	22,155,645
20 Newark	–10.6	–6.1	0.0	22,070,713
21 San Francisco	–15.6	–9.2	–9.2	21,802,918
22 Bangkok	3.4	5.1	–10.5	21,290,412
23 Seattle-Tacoma	–4.8	–1.3	–0.5	20,354,096
24 Orlando	–8.3	–5.7	0.4	20,233,504
25 Rome	–2.7	–0.9	2.4	19,654,803
26 Tokyo (NRT)	–7.3	13.8	–10.8	19,091,820
27 Toronto	–3.1	–7.5	–5.9	18,689,575
28 Philadelphia	–12.7	–3.9	–1.7	18,431,184
29 Hong Kong	–0.6	,,,	–27.5	18,295,000
30 Munich	2.3	0.6	4.8	18,218,918

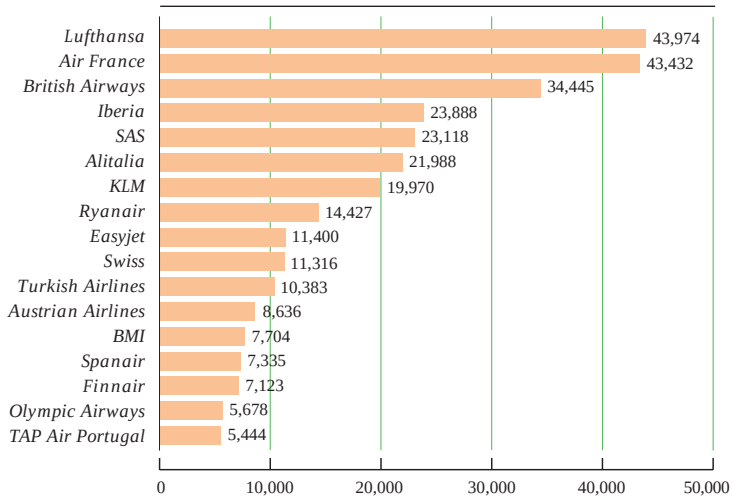
SOURCE: Airport Council International and internal figures.

Recession also affects air cargo transport.

The decline in air transport also affected the cargo segment. According to the same source, tonnage carried fell by 8.4% in 2001 because of the collapse of the U.S. market (12%) and the notable weakness in the rest of the world. In 2002, on the other hand, this segment grew by 4.3%, thanks to the response of the sector in areas such as Asia-Pacific and Middle East given that both Europe and the United States were stagnant compared with the year before. In the January-August period of 2003 the growth of air cargo transport stood at 2.2% with a geographical pattern similar to the year before.

LUFTHANSA AND AIR FRANCE LEAD EUROPEAN AIRLINES

Thousand passengers carried by main European airlines in 2002



SOURCE: Association of European Airlines.

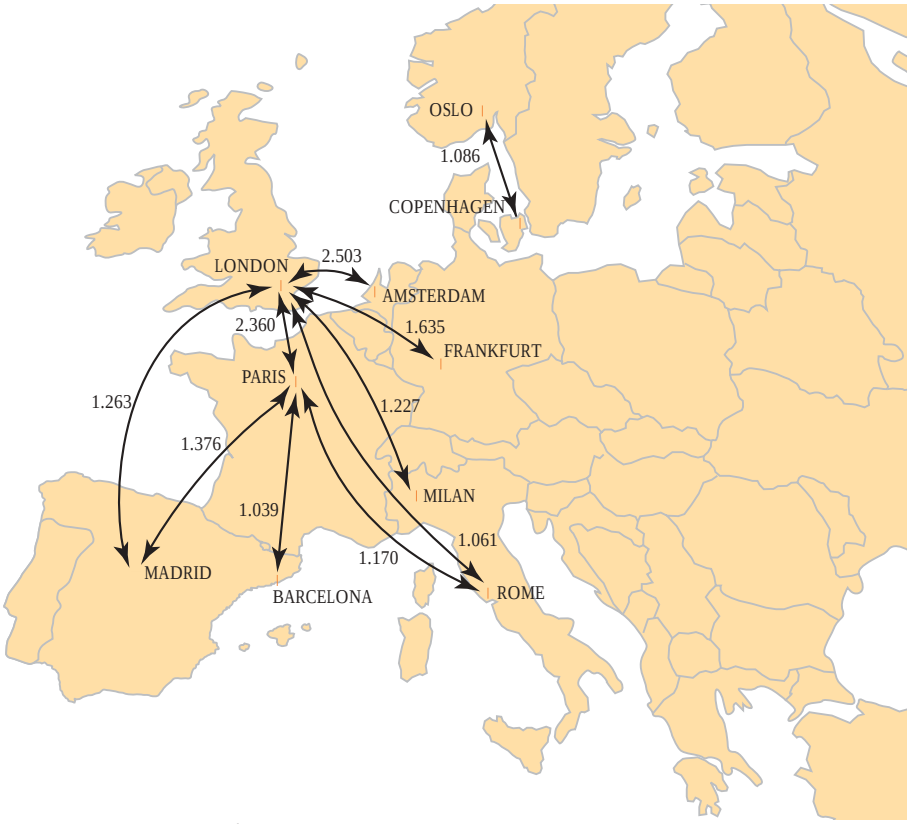
Sector problems concentrated in traditional companies...

The problems of the airline sector during those years, seen in fleet reductions, workforce adjustments, moves for corporate integration, more international alliances, bankruptcies and the disappearance of some companies, have shown up mainly in the traditional operators. On the other hand, the so-called low-cost companies have grown in a spectacular way both in terms of fleets and of routes and passengers carried.

...which generally are losing passengers to low-cost airlines...

In fact, according to figures from the Association of European Airlines which includes practically all European airline companies with the exception of the low-cost airlines (Easy-Jet, Ryanair, among others), most airlines lost passengers in 2002. Among the ten leading airlines, only Air France and KLM managed to increase the number of passengers carried, very modestly in the first case and somewhat more so in the second case. On the other hand, growth shown by the two main low-cost airlines was more than 40%. As a result, those two companies managed to put themselves among the ten leading European airlines.

MAIN AIR ROUTES BETWEEN EUROPEAN CITIES (*)
Thousand passengers carried in 2002



NOTES: (*) Regular international flights. Does not include low-cost airlines.
SOURCE: Association of European Airlines (AEA) and internal figures.

...which are opening up key place in market.

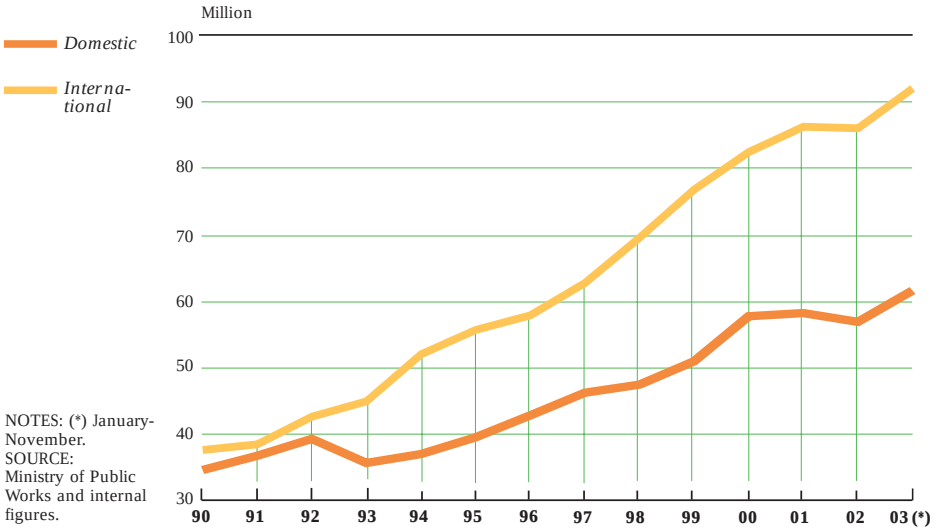
The strong progress made by low-cost companies is mainly due to the opportunities opened up by the liberalization of air transport in Europe. By establishing lines on high-demand routes, the use of airports outside main centres, low-price policies based on low-cost strategies, minimum services and rapid turnaround, these companies have managed to open up an important place in the market. In 2002, the two main operators in the regular segment reached a joint share of around 8%.

Air passenger transport in Spain recovers in 2003 after decline in year before.

In the case of Spain, the performance in air passenger transport has not been greatly different from the course followed on the international scene. Between 1990 and now, the number of passengers arriving at and leaving Spanish airports has practically doubled and shown sustained growth except during the 1993 recession and in 2002. In any case, most recent figures indicate a notable recovery of traffic in 2003. In fact, in the first eleven months of that year the number of passengers arriving at and leaving Spanish airports grew by 7.2%, with somewhat higher domestic traffic (8.0%) than international traffic (6.8%). By airport, there was a notable increase in traffic at Alicante, Tenerife North, Bilbao, Valencia and Malaga.

AIR TRAFFIC MAKES STRONG RECOVERY IN SPAIN

Passenger arrivals and departures at Spanish airports



NOTES: (*) January-November.
SOURCE: Ministry of Public Works and internal figures.

MAIN SPANISH AIRPORTS BY PASSENGER TRAFFIC

Order	Airport	Passengers 2002	% change 2002	% change 2003 (*)	% traffic of total 2002	% traffic International 2002
1	Madrid	33,677,304	–0.3	2.9	23.8	51.2
2	Barcelona	21,198,997	3.2	5.2	15.0	52.8
3	Palma de Mallorca	17,762,005	–7.1	7.4	12.6	73.8
4	Malaga	10,307,579	5.0	12.2	7.3	79.7
5	Tenerife South	8,777,876	–1.9	–1.4	6.2	83.2
6	Grand Canary	8,768,867	–3.5	3.2	6.2	66.8
7	Alicante	6,970,549	7.3	16.8	4.9	80.9
8	Lanzarote	4,946,774	0.5	6.9	3.5	73.0
9	Ibiza	4,044,498	–7.7	3.9	2.9	70.5
10	Fuerteventura	3,557,988	0.8	11.5	2.5	78.6
11	Minorca	2,698,034	–3.7	3.1	1.9	66.5
12	Tenerife North	2,484,879	–0.5	16.3	1.8	1.7
13	Bilbao	2,446,262	–0.4	12.4	1.7	31.5
14	Valencia	2,122,541	–6.9	12.2	1.5	27.7
15	Seville	2,007,037	–6.6	11.3	1.4	22.3
Other airports		9,468,706	–4.5	15.3	6.7	33.1
All airports		**141,239,896**	**–1.0**	**6.7**	**100.0**	**59.9**

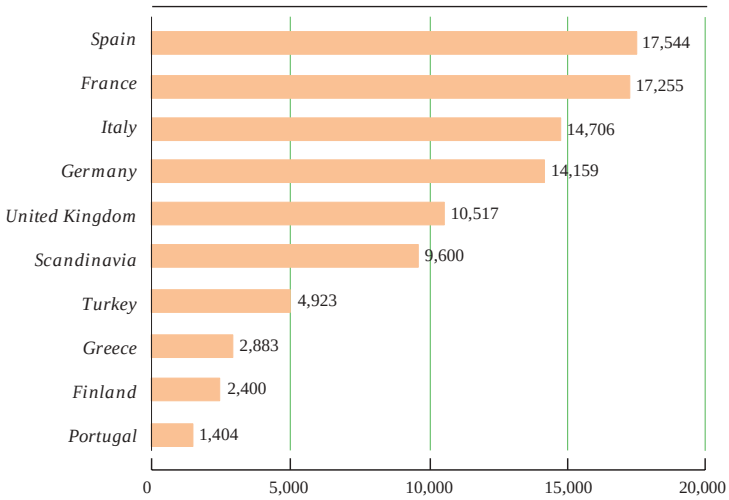
NOTES: (*) First half-year.
SOURCE: Ministry of Public Works and internal figures.

Madrid, Barcelona and Palma make up more than 50% of Spanish air traffic.

Growth of air transport in Spain has been linked mainly to international traffic, which has been higher in recent years. Air passenger traffic in Spain is highly concentrated in terms of geography. Three airports out of a total of 47 (Madrid, Barcelona and Palma de Mallorca) make up more than 50% of all current traffic. This percentage goes up to 85% if we extend it to the first 10 airports, all of which are located in mainly tourist cities. In this respect, with the exception of Madrid and Barcelona, the common denominator among the main airports is the high proportion represented by international traffic over the total, at more than 70%. The exception in the case of Madrid and Barcelona may be explained by the high volume of traffic between both cities as a result of the existence of a shuttle service. This also explains the heavy weighting of domestic traffic in Spain compared with other European countries, a situation that could change when the high-speed train comes into operation between the two capitals.

HEAVY DOMESTIC AIR TRAFFIC IN SPAIN

Thousand passengers carried on European domestic flights in 2002



SOURCE: European Commission.

Air cargo transport shows more moderate profile than passenger traffic…

In the air cargo segment, the level of performance in air transport is more closely linked to the economic cycle although the increase in activity has not been of the same magnitude as in passenger traffic. In fact, from 1990 to 2002, average annual growth in tonnage of arrivals and shipments at Spanish airports was 2.5%, three points below that for passenger traffic. In any case, the increase in cargo traffic is mainly determined by international traffic which has shown a very substantial increase in contrast to domestic traffic.

MAIN SPANISH AIRPORTS FOR CARGO TRAFFIC

Order	Airport	1000 tonnes 2002	1000 tonnes 2001	% annual change	% of total 2002	% international traffic 2002
1	Madrid	295.3	294.7	0.2	51.4	73.8
2	Barcelona	75.2	77.0	–2.3	13.1	67.0
3	Vitoria	42.5	36.2	17.4	7.4	92.0
4	Grand Canary	39.1	40.6	–3.6	6.8	25.2
5	Tenerife North	21.1	21.1	0.4	3.7	0.6
6	Palma de Mallorca	20.3	22.9	–11.4	3.5	17.9
7	Valencia	11.8	11.0	7.2	2.1	38.7
8	Tenerife South	10.8	12.1	–10.7	1.9	32.5
9	Malaga	8.7	9.4	–7.7	1.5	53.4
10	Lanzarote	6.8	7.1	–4.2	1.2	10.0
11	Santiago	5.7	6.3	–9.4	1.0	58.2
12	Alicante	6.5	7.9	–17.2	1.1	39.0
Other airports		30.2	30.9	–2.1	5.3	26.5
All airports		**574.1**	**577.0**	**–0.5**	**100.0**	**60.7**

SOURCE: Ministry of Public Works and internal figures.

...and is concentrated mainly in Madrid airport.

By airport, cargo traffic was much more concentrated than passenger traffic. In fact, in 2002 Madrid airport took up more than half the total Spanish volume, followed some distance behind by Barcelona with 13%. In third place was Vitoria where the volume of international traffic represented more than 90% for the year as a whole.

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