THE SPANISH ECONOMY: MONTHLY REPORT

OCTOBER 2004

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Research Department

"la Caixa"

Forecast

% change over same period year-before unless otherwise noted

	2003	2004	2005	2003		2004			
				3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
INTERNATIONAL ECONOMY		Forecast						Forecast	
Gross domestic product									
United States	3.0	4.3	3.2	3.5	4.4	5.0	4.8	3.8	3.8
Japan	2.5	4.2	1.8	1.8	3.5	5.1	4.3	4.0	3.2
United Kingdom	2.2	3.2	2.5	2.2	2.9	3.4	3.7	3.2	2.6
Euro area	0.5	1.7	2.2	0.3	0.7	1.3	2.0	1.8	1.8
Germany	*–0.1*	*1.6*	*1.7*	*–0.3*	*0.0*	*0.8*	*1.5*	*1.9*	*2.3*
France	*0.5*	*2.5*	*2.3*	*0.4*	*1.0*	*1.7*	*3.0*	*2.7*	*2.5*
Consumer prices									
United States	2.3	2.6	2.3	2.2	1.9	1.8	2.9	2.7	3.1
Japan	–0.3	–0.1	0.1	–0.2	–0.3	–0.1	–0.3	–0.1	0.1
United Kingdom	2.8	2.3	2.4	2.9	2.6	2.3	2.2	2.2	2.4
Euro area	2.1	2.2	2.3	2.0	2.0	1.7	2.3	2.3	2.5
Germany	*1.1*	*1.7*	*1.8*	*1.0*	*1.2*	*1.1*	*1.8*	*1.9*	*1.8*
France	*2.1*	*2.2*	*1.9*	*1.9*	*2.2*	*1.8*	*2.4*	*2.4*	*2.2*
SPANISH ECONOMY									
Macroeconomic figures									
Household consumption	2.9	3.2	2.9	3.0	2.9	3.3	3.2	3.1	3.0
Government consumption	3.9	4.3	4.1	3.8	4.2	4.3	4.3	4.2	4.3
Gross fixed capital formation	3.2	3.7	3.9	3.1	2.6	2.7	3.9	4.0	4.0
Capital goods and other	*1.7*	*3.2*	*5.3*	*1.7*	*0.7*	*0.8*	*3.6*	*4.0*	*4.4*
Construction	*4.3*	*4.0*	*2.9*	*4.1*	*4.2*	*4.3*	*4.2*	*4.0*	*3.7*
Domestic demand	3.2	3.5	3.3	4.1	3.5	3.5	3.8	3.5	3.4
Exports of goods and services	2.6	4.3	5.7	3.1	1.6	5.5	4.7	3.8	3.2
Imports of goods and services	4.8	7.1	7.0	7.9	3.7	7.8	8.1	6.7	5.9
Gross domestic product	2.5	2.6	2.7	2.6	2.8	2.7	2.6	2.5	2.5
Other variables									
Employment	1.8	1.8	1.8	2.0	2.1	2.1	2.0	1.7	1.5
Unemployment (% labour force)	11.3	11.3	11.3	11.2	11.2	11.4	10.9	11.2	11.5
Consumer price index	3.0	3.0	2.8	2.9	2.7	2.2	3.2	3.3	3.2
Unit labour costs	3.5	3.3	3.3	3.4	3.2	3.2	3.2		
Current account balance (% GDP)	–3.3	–4.1	–3.9	–3.5	–2.6	–5.0	–6.0		
Net lending or net borrowing rest of the world (% GDP)	–2.1	–2.9	–2.8	–2.6	–0.9	–4.4	–4.6		
Government balance (% GDP)	0.3	–1.2	–0.6						
FINANCIAL MARKETS									
Interest rates									
Federal Funds	1.1	1.3	3.1	1.0	1.0	1.0	1.0	1.4	1.8
ECB repo	2.3	2.0	2.8	2.0	2.0	2.0	2.0	2.0	2.1
10-year U.S. bonds	4.0	4.4	5.5	4.2	4.3	4.0	4.6	4.3	4.7
10-year German bonds	4.1	4.3	5.2	4.1	4.3	4.1	4.2	4.1	4.6
10-year Spanish bonds	4.1	4.3	5.3	4.1	4.3	4.1	4.2	4.2	4.7
Exchange rate									
$/Euro	1.13	1.22	1.10	1.12	1.19	1.25	1.20	1.22	1.20

"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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October 2004

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ECONOMIC OUTLOOK FOR 2004

The per barrel price of oil continues to affect the present economic situation as it is generating uncertainty about economic prospects and creating instability in the stock markets. The United States is growing at a slightly lower rate although growth in the second quarter was still 4.8%. The slowness of job creation, the wearing out of the benefit coming from tax cuts and uncertainty about oil prices are bringing about a feeling of caution among consumers which will continue in coming months. In this respect, oil prices have had less effect than expected on price indices and inflationary pressures are seen to be farther off. The good performance in investment is giving some support to growth and the containment of prices. Within this framework of moderation, the biggest risks continue to be lodged in the foreign sector.

In the **euro area, growth should reach levels close to 2%** in coming months with no significant pressures in the area of inflation. In any case, recovery is still some distance away from being consolidated. Up to now, the foreign sector has been practically the only area providing increased growth. Nevertheless, in an international situation showing lower growth, the contribution of the foreign sector will tend to be reduced over the medium term. This will lead to greater dependence on domestic demand which continues to be very weak and with the added burden of the threat from the impact of high oil prices. As a result, the situation is much more open than a few months ago although the balance of risks and opportunities leans in favour of the latter.

In this context, in the United States the Fed **will likely continue its policy of gradually raising its interest rate** so that the target level at the end of the year will probably stand at 2%. The European Central Bank, in turn, **will not change its position for the time being** but toward the end of the year could begin a restrictive phase. Interest rates on long-term government bonds have dropped to abnormally low levels so that they likely will return to an upward trend. The exchange level of the euro against the dollar will move within a relatively narrow band over the short term.

With regard to Spain's economy, there were no substantial changes in the summer months compared with the growth trends noted in the first half of the year. **The strength of domestic demand is continuing to drive economic activity in Spain** although the weakness in exports of goods and services (including the poor performance of foreign tourism) is taking off some decimals from growth of the gross domestic product which is expected to reach 2.6% in 2004 as a whole.

The rate of growth of employment is tending to weaken slightly although it is possible the year will end with an increase in employment of close to 300,000 jobs, a level very similar to that in 2003. At this time, **along with the worsening of the balance of payments, the main cause of concern comes from the increased cost of fuels** which has already meant a considerable increase in producer prices. In any case, current trends suggest that the inflation rate will stand at close to 3% at the end of the year.

September 29, 2004

Oil threatening world recovery

Oil prices continue as threat given that September prices reach new all-time highs…

All through September the threat that high-cost oil meant for the economy continued without let-up. On the contrary, at the end of the month it again reached all-time high levels. The psychological barrier of 50 dollars a barrel was reached by West Texas crude while Brent quality oil prices in Europe went above 46 dollars, levels which must be compared with 32 and 29 dollars respectively in January 2004. The basic reasons for the price rises lie in the heavy demand brought about by recovery, both in the United States and in Asia as against a production situation which now is nearly at its limit. What is more, any negative news has an exaggerated effect on the market and in recent weeks this has been even more widespread. The oil exporting countries do not seem able to significantly increase production from their wells over the short term. And for the moment Iraq is unlikely to contribute to any adjustment of supply.

…although recovery is claimed to be sufficiently strong.

Could high-cost oil foul up recovery? Some key international bodies have hastened to underline the strength of the current cyclical moment in the world economy. The Organization for Economic Cooperation and Development, for example, estimates a good growth rate in its member countries during the first half of 2004 and forecasts a continuation of that growth, and even an increase, in the second half of the year.

In United States, household consumption weakening but growth remains solid and unemployment low.

Available indicators for the world's leading economy point to some containment of growth but within an already high rate. Private consumption, the major engine driving not only the economy of the United States but world demand, is showing signs of slowing down. Consumer confidence has weakened since July probably because of the coming together of lower than expected job creation, the rise in fuels and the proximity of the U.S. elections. In any case, home purchase continues to drive economic activity and the manufacturing sector is showing a positive trend. Fewer jobs are being created than during earlier recoveries but the unemployment rate in August was 5.4% of the labour force, a very low figure clearly below the level one year ago.

China showing no consistent signs of slowdown.

Another major engine driving the world economy, this time on the production side, is the Chinese economy. One thing troubling is that the overheated course of this Asian giant could end up in a sudden collapse thus unleashing a serious depression. For the moment, this does not seem to be the case. Growth recorded in recent months (close to 9% annual) scarcely shows any signs of a slowdown. Industrial production offers a clearer picture showing some moderation but always within sustained growth. Where some slowdown shows up more clearly is in motor vehicle production with an increase in recent months of 5%-6% as against values of 30% and 40% in the past two years.

In Japan, growth also high…

In Japan, supply indicators suggest a continuation of recovery and the same is happening in the construction sector. The labour market presents some ups and downs with an unemployment rate which rose to 4.9% in July as against 4.6% in June. It should be noted that the background trend is a process of moving to tertiary jobs thus replacing manufacturing employment with work in the services sector.

…but recovery still weak in euro area.

In the euro area, the third quarter of 2004 started off with very weak private consumption and with practically no sign of recovery although with a foreign sector dependent on demand. Indicators for the industrial sector in the summer months presented a very uneven performance, the consumer confidence index made no progress while capital goods investment pointed to some improvement.

Rise in oil prices has not had heavy impact on inflation.

Finally, for the moment, the rise in oil prices does not seem to have affected the growth pattern in the main economies. Nor is it having a big effect on inflation indicators. In August, the consumer price index (CPI) in the United States was already showing a clear turnaround in the upward trend which began in April and ended in June. The underlying component of the index (excluding food and energy) in the same month showed a healthy 1.7% year-to-year rate. In the euro area, the CPI shows a year-to-year rate stabilized at 2.3%, which drops to 2.0% if we remove the energy component.

Fed maintains policy of gradual increases while European Central Bank makes no move.

The slight inflationary pressures have make it possible for the Federal Reserve Board, the central banking system in the United States, to continue calmly raising its target level. At the meeting of the committee responsible for monetary policy in September there were no surprises and the target level for 1-day interbank deposits rose by 25 basis points to 1.75%, the third increase since it began its policy of gradual interest rate increases in June. On the contrary, the governing council of the European Central Bank for the moment has made no change in its interest rates in view of the fact that inflation is not a major risk while at the same time economic recovery does not appear to be sufficiently consolidated.

Long-term interest rates go down contrary to expectations while stock markets drop.

In spite of the tightening of monetary policy by the Fed, long-term interest rates have dropped. It may be supposed that a more restrictive monetary policy applies to an economy in growth where there is some risk of inflation, reasons which also tend to induce long-term interest rates to follow the same course. But things are not working out that way given that U.S. bonds have fallen below 4%. It may be that the financial markets are doubtful about recovery or feel that inflationary risks do not exist. Or else they are confident that the rise by the Fed will come in stages and be of moderate amount. The low yields also reflect investor preference for government bonds which runs in contrast to the stock markets which have suffered drops parallel to the rise in the per barrel price of oil.

Spain's economy: increased foreign imbalance

Spain's economy grows by 2.6% in second quarter of 2004…

In the second quarter of 2004, the gross domestic product (GDP) of Spain's economy grew by 2.6% year-to-year, one decimal less than in the previous quarter. This meant a slight slowdown which, in any case, was well above average growth in the euro area.

…thanks to sharp rise in domestic demand and despite brake on foreign sector…

Nevertheless, a breakdown of the GDP by component shows a peculiar trend in which domestic demand is increasing growth while at the same time the foreign sector is taking away a significant segment of total growth. Domestic demand thus rose to levels close to 4% thanks to the strength of the construction sector which scarcely slowed following various years of continuous growth. Investment in capital goods and machinery also showed notable drive in the second quarter, following many months of slackness. Household consumption, in turn, held at growth above 3% while public consumption was well above the 4% level.

…very much affected by tourist demand.

On the other hand, in the second quarter the foreign sector showed a slowing down of growth in exports due largely to the drop noted in sales of services abroad. The lower tourist demand had a decisive influence on this result. On the other hand, imports continued to show strong drive due to the very good level of domestic demand.

Recovery in industry consolidating while services growing somewhat less.

On the supply side, we see confirmation of the recovery in the industrial sector which, in the second quarter, showed an increase in value added of 2.4% year-to-year, a half percentage point more than in the period January-March. On the other hand, market services showed a more moderate growth rate which went to 2.8% due to the loss of drive in retail activity, the hotel and restaurant trade and passenger transport, in keeping with the lower demand for tourist services, mainly from non-residents.

Most recent indicators confirm trends outlined…

If we look at the most recent indicators, we should point out a continuation of the trends already outlined, both in domestic demand and in foreign trade. Household consumption continues to grow at a fairly sustained rate thanks to job creation and easy monetary conditions with negative real interest rates in the short segments of the curve. Investment in equipment also confirms the upward trend indicated by figures supplied by National Accounting while construction continues strong. The most recent figures for the tourist season confirm the weakness in that area, especially with regard to foreign tourism.

…while inflation leaves highs behind and balance of payments continues to grow worse.

With regard to inflation, the rise in the CPI between March and June seems to have become inoperative given that the year-to-year rate stood at 3.3% in August following a figure of 3.5% in June. In any case, the increases in the energy component in September still raise some concerns. With regard to the balance of payments, the worsening of the trade balance and the imbalance in the current account balance continued to increase up to June following a course that does not look like changing over the short term.

CHRONOLOGY

2003

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

2004

January	**1**	***Central government budget for 2004*** *comes into force (BOE 31-12-03).*
February	**11**	*Dow Jones index for* ***New York stock exchange*** *records annual high (10,737.7), rise of 2.7% compared with end of 2003.*
	17	***Euro*** *running at 1,286 dollars, highest figure since launching of single currency at beginning of 1999.*
March	**11**	*Tragic* ***terrorist attacks*** *on commuter trains in Madrid.*
	14	*Victory of Spanish Socialist Workers Party (PSOE) in Spanish* ***general elections****.*
April	**13**	*IBEX 35 index for* ***Spanish stock market*** *records annual high (8,444.3), a cumulative gain of 9.1% over end of December 2003.*
May	**1**	*Enlargement of the* ***European Union*** *by ten new member states making a total of 25.*
June	**18**	*Summit meeting of European Council in Brussels approves* ***European Constitution*** *which must be ratified by member states of European Union.*
September	**21**	***Federal Reserve Board*** *raises target level for third time this year putting it up a quarter-point to 1.75%.*
	28	*One-month forward price of Brent quality* ***oil*** *goes up to record level of 46.23 dollars a barrel.*

AGENDA

October

5 *Industrial production index (August).*

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

14 *Consumer price index (September).*

15 *On-going survey of household budgets (2nd Quarter).*

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

25 *Producer price index (September).*

26 *Labour Force Survey (3rd Quarter).*

28 *Early HCPI index (October).*

November

2 *Presidential elections in United States.*

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

5 *Industrial production index (September).*

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

12 *Consumer price index (October).*

17 *Harmonized consumer price index for European Union (October).*

24 *Quarterly National Accounts (3rd Quarter).*

25 *Producer price index (October).*

28 *Early HCPI index (November).*

United States: consumption moderating

Consumer confidence down in United States in August...

Growth of the U.S. economy has moved into a course of moderation. Indicators on the demand side in August confirm the slight slowdown that began in June. Retail sales, for example, grew by 4.9% year-to-year, far from the 9.3% recorded in May. Industrial production of consumer goods was up by 2.8% year-to-year, down from the 3.8% in May but better than the 2.5% in July. Consumer confidence followed along the same lines and in August lost seven of the 13 points rise that took it to its high point in July. This indicator recorded bigger losses in the component of prospects than for the current situation, thus to some extent reflecting the uncertainty about the results of the upcoming elections and concern about news on the price of oil.

...while car sales drop.

Car sales in August dropped by 13.8% year-to-year which was the most negative economic activity indicator for the period. In this case, there was some affect from fuel prices but we should not forget other factors not less important such as the end of discounts offered by car-makers and reduced ability to refinance mortgages.

UNITED STATES: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003		2004			
			3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	July	August
GDP	1.9	3.0	3.5	4.4	5.0	4.7	–	–
Retail sales	2.5	5.4	6.2	6.7	7.8	7.8	6.7	4.9
Consumer confidence (*)	96.6	79.8	78.6	89.7	91.6	96.3	105.7	98.2
Industrial production	–0.6	0.3	–0.4	1.5	2.9	5.2	5.1	5.2
Sales of single-family homes	7.6	11.6	15.2	8.7	22.2	10.7	–1.9	...
Industrial activity index (ISM) (*)	52.4	53.3	54.1	60.6	62.5	62.1	62.0	59.0
Unemployment rate (**)	5.8	6.0	6.1	5.9	5.6	5.6	5.5	5.4
Consumer prices	1.6	2.3	2.2	1.9	1.8	2.9	3.0	2.7
Trade balance (***)	–39.0	–44.4	–43.8	–44.4	–45.4	–47.8	–48.6	...

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

Investment maintaining growth cycle.

Industrial production of capital goods presented a stark contrast to car sales with growth of 10.8% year-to-year in August, higher than the growth of 9.1% year-to-year for the whole of the second quarter and only slightly lower than the robust figure of 12.9% in July. This performance and figures for the gross domestic product (GDP) in the second quarter indicate that, as opposed to the slight moderation in private consumption, the expansionist cycle in U.S. investment looks like continuing.

Industrial production stabilizes growth at around 5%.

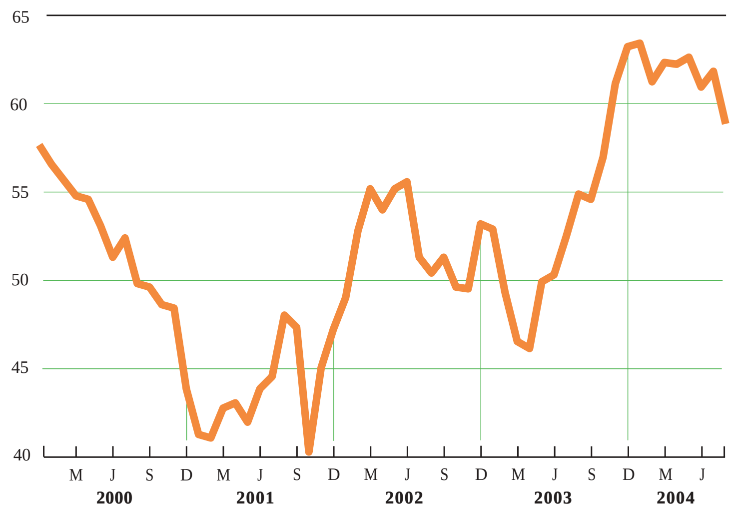
Indicators of economic activity on the supply side are showing stabilized growth and in the case of construction show clear signs of moderation. Industrial production in August held to the growth trend seen in recent months with an increase of 5.2% over the same period last year. There was also a slight upward revision in growth in July going from 4.9% to 5.1% in year-to-year growth. If the rise in this indicator seems to be taking a pause, the background trend continues to show appreciable strength.

Manufacturing activity moderating but still holding strong.

Economic activity indicators prepared by the Institute of Supply Management (ISM) run along the same lines. The industrial activity index for August was 59.0, the production component stood at 59.5 while new orders reached 61.2 points. While slightly lower than values for July, the figures given continue as the highest for the decade and are well above the critical level of 50, which confirms the maintenance of growth in the manufacturing sector. The indicator of growth in the non-manufacturing sector continued the same pattern going from 64.8 points to 58.2.

SLIGHT MODERATION IN U.S. GROWTH

Value of ISM industrial activity index



SOURCE: Institute of Supply Management.

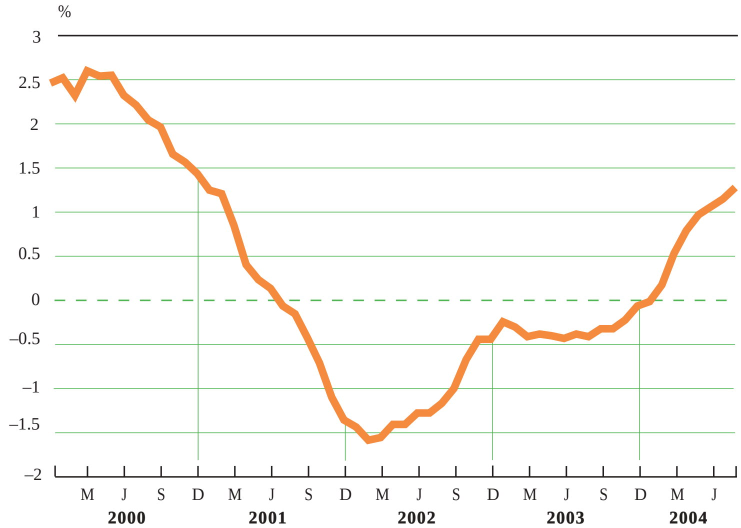
Construction sector eases explosive growth in recent months.

The construction sector continued the pattern of moderation in July already indicated in the second quarter, thus confirming a situation of a soft landing. If we take into consideration the volatility of the sector in past periods and the trend in housing prices, this fact may be considered as rather positive news. Building permits in July were up by 5.0% year-to-year, far from the 11.4% seen in April when the sector was recording its most expansionist moment. Housing starts grew by 3.5% year-to-year compared with 18.7% in April. Nevertheless, we should keep in mind the greater volatility of this second indicator and the recovery it showed compared with the year-to-year drop of 0.8% in June.

Labour market continues to recover but not without gaps.

The labour market is being given much importance in recent months for election purposes and because of the delay in recovery which showed troubling stagnation in 2003. Nevertheless, the sector continues a gradual climb although not without some deviations. The poor figure for July when only 32,000 jobs were created was revised upward going to 73,000. The creation of 144,000 new jobs in August, putting the year-to-year change at 1.3%, improved prospects. The good and bad news in this important indicator must always be taken with caution over the short term due to the margin of error in the figures. Nevertheless, it seems that the path of recovery will gradually open up. Supporting this view, manufacturing employment in August showed a year-to-year increase of 0.1%. While the figure might appear of little importance, it actually is significant as it is the first year-to-year growth in manufacturing employment since August 2000.

EMPLOYMENT IN UNITED STATES CONTINUES TO RISE
Year-to-year change in non-farm employment



SOURCE: Department of Commerce.

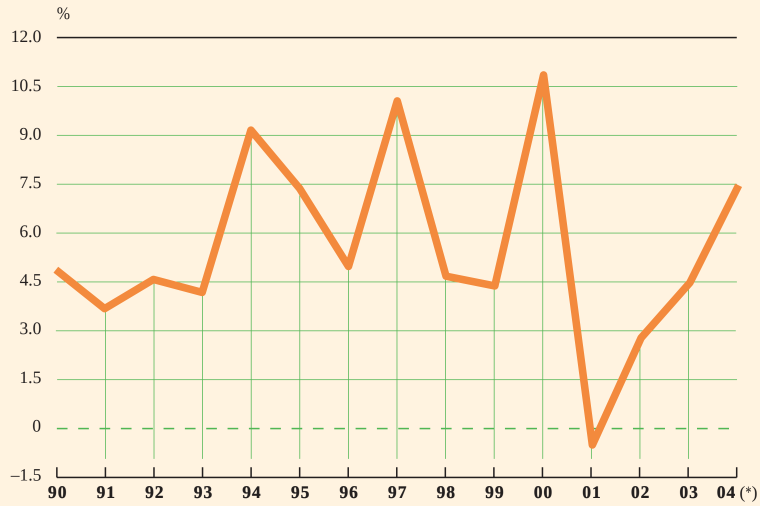
Inflation presents positive path in spite of high oil prices.

In the area of prices, inflation turned around the upward trend which hit its high in June and in August grew by 2.7% year-to-year thus reflecting the moderation in consumer indices. In any case, it would seem that for now the inflationary effects of the rise in oil prices are modest. There has been a reduction of 60% from the wild rise that took place between April and June. The underlying component also showed a positive 1.7% year-to-year in the same period. It should be remembered in this context that, as against the low values this index recorded in 2003, the present increases are below those showing in 2001 and 2002 when the growth of the economy was much lower. Along the same lines,

RISE IN WORLD TRADE IN 2003

According to the World Trade Organization (WTO), the increase in world trade in goods in real terms in 2003 was 4.5%. In spite of this being higher than the year before, the increase was in excess of production by a low margin and continues to stand below the rate recorded in the second half of the Nineties.

WORLD EXPORTS SHOW FAVOURABLE TREND
Annual change in world exports



NOTES: (*) Forecast.
SOURCE: WTO.

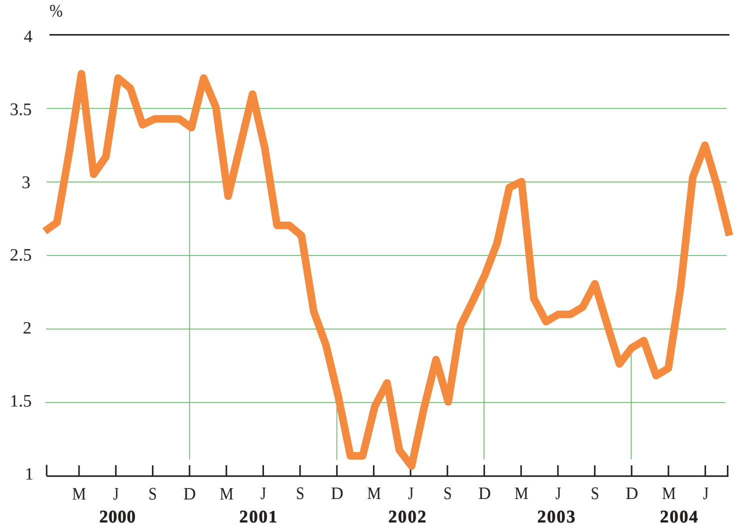
Asia and those economies in transition were the regions to show most strength in 2003 with annual growth of trade, in imports and exports, of more than 10%. In turn, North America continued to show a growth rate in imports substantially higher than exports and above the world rate. While imports of goods by the United States rose by 5.7%, exports were up somewhat less than 3%. On the other hand, Latin America, helped by depreciated currencies and a recovery of demand for raw materials, recorded a notable increase in the volume of exports. Nevertheless, their imports grew by less than 2%. With regard to Western Europe, sales abroad rose by less than 1% in 2003 while imports were up close to 2%. This modest annual increase was a result of the weakness seen in investment spending and in consumer spending in the main economies of the euro area.

According to forecasts, the increase in growth of the world economy recorded in the second half of 2003 will be maintained in 2004. This stronger economic activity will give rise to an increase in growth of world trade which, as a whole, is expected to rise at a rate close to 7.5% in 2004, more than twice the growth rate expected for the GDP. The expected improvement in world production may be largely attributed to the trend in North America, Western Europe and Latin America. At the same time, it is expected that Asia and the economies in transition, in spite of going through a gradual slowdown, will maintain GDP growth above the world average.

producer prices of finished goods continued to moderate with growth of 3.4% year-to-year in August, compared with 4.9% reached in May.

U.S. INFLATION LEAVES HIGHS BEHIND

Year-to-year change in consumer price index



SOURCE: Department of Commerce.

Trade deficit continues to increase.

The negative contrast with the good performance in prices comes from the foreign sector. The trade deficit in the past 12 months as of July reached 583 billion dollars, brought about by stagnation in exports linked to growth of imports. The deficit at this time constitutes the biggest imbalance in the world's leading economy on top of what has become a dangerous public deficit.

Japan's economy maintaining strong investment drive

Japan revises second quarter growth slightly downward but investment growth revised upward.

Growth of Japan's economy in the second quarter was revised slightly downward from 4.5% to 4.3% year-to-year. Nevertheless, the two main components of domestic demand showed a good performance. While private consumption maintained a strong 3.4%, gross fixed capital formation, which had been the biggest blot on the figures in the second quarter, was revised from 2.4% to 3.2% compared with the same period the year before. The counterpart came with a slight drop in growth of public consumption which went from 2.0% to 1.8%, largely from a big decrease in the growth of inventories. In the foreign sector, the figures for exports and imports were revised slightly upward so that year-to-year growth rates stood at 18.0% and 10.7% respectively.

Retail sales show no clear direction.

Among monthly demand indicators, retail sales in July grew by 1.0% year-to-year which meant some recovery from the drop of 2.5% in June. Nevertheless, no clear recovery of this indicator can yet be seen. With regard to retail sales, it should be mentioned that this indicator does not include consumption in new style shopping malls so that it has a downward bias. Car sales, on the other hand, were up 12.1% in August compared with the same period last year, better than the figure of 9.1% in July.

JAPAN: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003		2004				
			3rd Qtr.	4th Qtr.	1st Qtr.	April	May	June	July
GDP	–0.3	2.5	1.8	3.5	5.1	–	4.3	–	–
Retail sales	–3.9	–1.9	–2.2	–1.2	0.2	–1.0	–2.2	–2.5	1.0
Industrial production	–1.3	3.3	1.1	4.7	5.0	8.7	8.4	7.7	7.1
Tankan company index (*)	–32.8	–21.0	–21.0	–11.0	–5.0	–	–	–	–
Housing construction	–1.8	0.6	–0.5	3.3	5.3	–4.0	0.8	–7.2	7.7
Unemployment rate (**)	5.4	5.3	5.2	5.1	4.9	4.7	4.6	4.6	4.9
Consumer prices	–0.9	–0.3	–0.2	–0.3	–0.1	–0.4	–0.5	0.0	–0.1
Trade balance (***)	11.8	12.4	11.9	12.4	13.2	13.5	13.9	14.2	14.3

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

Industrial production maintaining strong level.

On the supply side, the main indicators point to recovery. Industrial production in July grew by 7.1% year-to-year, down from the June rate of 7.7%. Nevertheless, the indicator is maintaining a clearly upward background trend which is in keeping with the continuing reduction in the number of bankruptcies which stood at 1,097 in August.

Housing starts and machinery orders point to maintenance of strong investment.

Housing starts in July grew by 7.7% year-to-year thus maintaining a slightly upward background trend. Machinery orders rose by 11.0% in July. Both indicators confirm the existence of some strength in Japanese investment which is consistent with the upward revision of the investment component of the gross domestic product in the second quarter and ensures some strength in this component in the third quarter.

Unemployment in July up slightly to 4.9%...

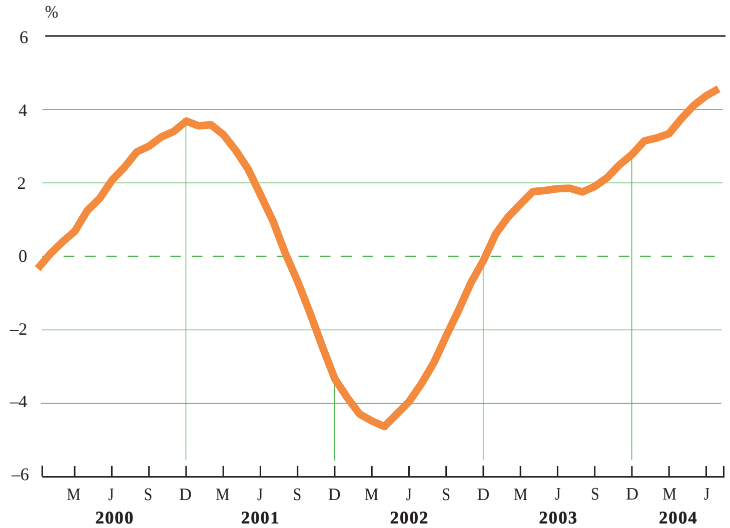
The Japanese labour market in July had its good and bad sides with an unemployment rate which rose to 4.9% compared with 4.6% in June. The most positive feature was the increase of 4.2% which showed up in employment in the services sector. Those employed in the manufacturing sector dropped by 1.2% year-to-year thus slowing the rate of previous losses. The background trend is to a process of moving employees into tertiary jobs replacing manufacturing employment for employment in the services sector and this is what is being reflected in year-to-year increases. Nevertheless, we should mention that since the end of April the manufacturing sector has created 550,000 jobs while the services sector

...but manufacturing sector has created employment in recent months.

has lost 470,000 jobs. The recovery in manufacturing is consistent with the growth of productivity, which was 6.8% year-to-year in July, and the strength of the foreign sector.

JAPANESE PRODUCTIVITY ON RISE

Year-to-year change in productivity index of labour factor



NOTES: Cycle-trend series.
SOURCE: Department of Commerce.

Deflation remains although at moderate levels.

Deflation is not easily disappearing from Japan's economy. Consumer prices in July again showed a slight drop of 0.1% year-to-year. The same indicator for Tokyo in August was down by 0.2% which suggests that prices will not clearly move away from deflation in the near future.

Trade balance continues to show major surpluses.

The trade balance continues to increase and in the past 12 months as of July showed a surplus of 14,300 billion yen to reach levels close to those seen in 1998. While it is true that this is a clear reflection of Japanese productivity in manufactures, we should also take into account the risks involved in excessive dependence on the foreign sector. Net direct investment in the same period was negative but its absolute value was reduced to 2,000 billion yen.

China: industry shows minor signs of easing up

China still growing at strong rate.

China's economic growth eased off slightly in the second quarter of 2004 to grow by 9.7% year-to-year whereas in the first quarter it was 9.8%. This is far from the hoped for soft landing but it seems that the road has been opened. The farm sector grew by 4.9%, the industrial sector by 11.5% and the tertiary sector by 8.1%. It is significant that the only sector to reduce growth, although in Pyrrhic terms, was the industrial sector while agriculture recorded some growth over the previous quarter.

CHINA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003		2004			
			3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	July	August
GDP	8.2	9.1	8.7	9.1	9.8	9.7	–	...
Industrial production	12.7	16.7	16.6	17.7	16.6	17.6	15.5	15.9
Consumer prices	–1.5	1.9	1.6	3.3	2.3	3.7	4.8	4.4
Trade balance (*)	30.4	25.4	19.5	25.4	17.8	14.1	14.5	16.2

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

Industrial production moderating especially in heavy industry…

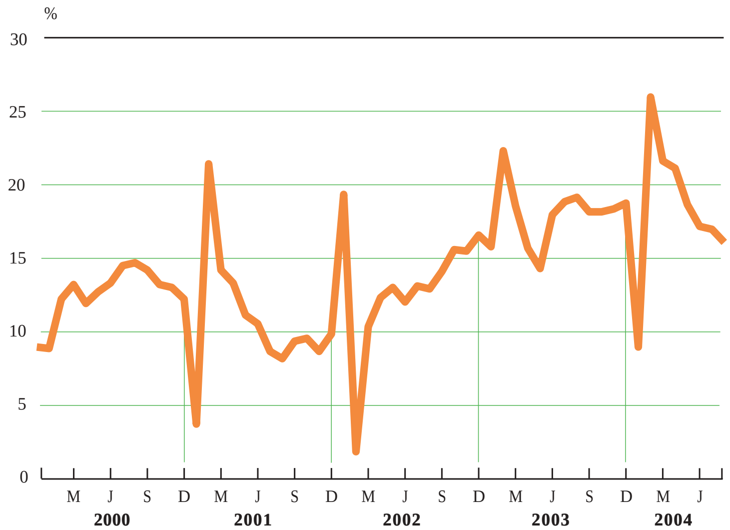
Industrial production in August grew by 15.9% year-to-year. Compared with the 17.5% seen in May this indicator offers a clearer perspective of some moderation although still within a framework of sustained growth. The most critical component, heavy industry, which has definite implications for raw materials markets, also showed signs of a slight slowdown with growth of 16.3% in the same period which was below the 18.9% seen in May. Light industry, which has been showing somewhat more moderate growth rates, presented a pattern of moderation which was not as clear-cut with growth holding at 15.6% as against 16% in May.

…but growth rate still high.

In any case, we should mention that industrial production in August grew more than in July when the general index dropped growth to 15.5%. Nevertheless, heavy industry grew by 17.2% which puts the August figures closer to a scenario of moderation than did those for July. In this situation of relative moderation, the relative weight of state industry in the indicator, one of the factors of risk in the economy of this Asian giant, showed a halt to any decrease and stood at 42% of the total, which is still a good way from the 47% it represented at the beginning of the year.

INDUSTRIAL GIANT MODERATING ITS APPETITE

Year-to-year change in heavy industry component in industrial production index



SOURCE: Chinese National Statistics Office.

Personal computers and vehicles moderating growth…

Production of electrical energy rose by 13% in August, also showing some signs of moderation, although care should be taken on this point. While the production of personal computers in August grew by 30% compared with the same period last year, it was far from the spectacular increases of the order of 100% year-to-year being shown over the past two years. Industrial production of vehicles is perhaps where it is easiest to see some slowing down. In August this rose by 5.1% year-to-year while in July it had risen by 6.6%, values far from the 30% and 40% figures seen in the past two years. By contrast, production of primary energy did not show any easing of in growth but presented year-to-year growth of 20.4%, which meant a rise in growth rate.

…but retail sales not moderating, mainly in rural areas.

Nor did retail sales show any of the signs of moderating seen in industry and rose by 13.1% year-to-year in August, below the high reached in May but not showing any trend to a slowdown. We should mention here that the greatest strength came in the rural areas where growth reached 12.6% compared with levels of 9% in the first quarter, thus reducing the differential with the urban component.

Inflation slowing its growth path but still above previous marks.

Year-to-year inflation in August stood at 4.4%. During the month, prices held stable and the year-to-year change moderated levels compared with those reached in June and July at 4.7% and 4.8% respectively. Even so, the change in the index is higher than the levels at the beginning of the year and the lack of reliability of the figures would indicate that the struggle to contain prices is far from being won.

Foreign sector continuing levels shown in previous months…

The trade balance for 12 months as of August 2004 slightly changed the gradual worsening seen in recent months putting the figure at 16.2 billion dollars, somewhat better than the 14.5 billion recorded in July. The geographical composition of the trade balance for the 12 months as of July continued the same pattern as in previous months. In this context, the surplus with the United States rose to 68.7 billion dollars while the deficits with Japan and Germany also went up to 20.1 billion dollars and 8.1 billion dollars respectively.

…but imports of copper down drastically, with drop in aluminium, while iron continues to rise.

Among imported products, the most notable is the drastic reduction in copper imports which dropped by 45.6% year-to-year in July. While this indicator is volatile it is significant that these sharp reductions have been maintained for three months in contrast to the previous sharp increases. Absolute values have returned to levels close to the year 2000. Aluminium imports also showed some moderation although not as brusque, dropping to growth of 13.7% year-to-year. On the other hand, imports of iron, a material which China imports in great quantities, maintained a sharp growth rate going up by 48.0% year-to-year in July.

Mexico: exports and public sector driving growth

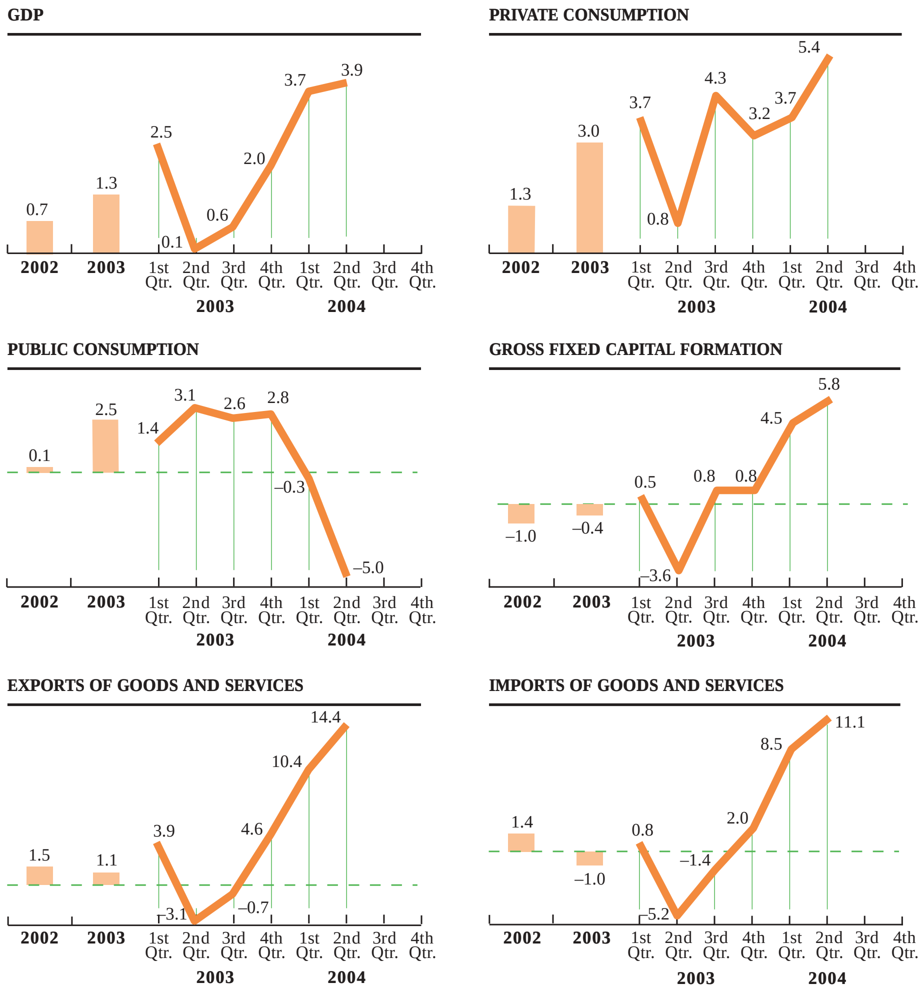
Mexico grows by 3.9% in second quarter with investment up 5.4%.

The Mexican economy grew by 3.9% year-to-year in the second quarter of 2004. This growth did not mean any big difference from the 3.7% recorded in the first quarter but the breakdown by component shows a much more positive picture. Private consumption grew by 5.4% while public consumption was down by 5.0%. Investment, the weakest component and the one raising most doubts about the Mexican economy, continued to show a good level with a robust rise of 5.8%. Continuing the positive note, the private sector component of investment showed a clear recovery over 2003. Exports were up by a strong 14.4% year-to-year while imports rose by 11.1%. The foreign sector is still in deficit but, as the negative balance is going down, this is providing a positive contribution.

Foreign sector improving.

TREND IN MEXICO'S GDP BY COMPONENT

Percentage year-to-year change rate



SOURCE: Central Bank of Mexico.

Retail sales slow down but industrial production keeps strong.

Within the monthly indicators of economic activity retail sales for June seem relatively weak compared with the 2.5% year-to-year growth over the same period the year before. On the supply side, industrial production in July rose by 3.8% year-to-year, below the 5.4% the month before. Even considering that the month-to-month increase was negative, the background trend is clearly upward in keeping with the path begun in April 2003. The components of construction and manufacturing in July may be added to this good performance with a notable growth of 4.2% year-to-year in manufacturing.

MEXICO: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003		2004			
			3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	July	August
GDP	0.7	1.3	0.6	2.0	3.7	3.9	–	...
Industrial production	–0.3	–0.8	–1.8	0.3	3.2	3.8	3.8	...
Unemployment rate Mexico City (*)	3.0	3.6	4.2	4.2	4.8	4.5	4.5	...
Consumer prices	5.0	4.5	4.1	4.0	4.3	4.3	4.5	4.8
Trade balance (**)	–7.9	–5.6	–6.4	–5.6	–6.0	–5.5	–5.7	...

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

Unemployment stabilizes and productivity continues to rise.

In the labour market, the dangerous trend to a gradual increase in unemployment took a breather in July given that the unemployment rate for Mexico City stood at 4.5%, slightly lower than the 4.9% for the month before. These are low levels but it must not be forgotten that the official figures present a downward bias. The positive indicator for July came in manufacturing productivity which recorded a year-to-year increase of 8.3% and confirmed the good path already followed in previous months thus giving support to competitiveness and the foreign sector.

Inflation up but underlying component holds stable.

Consumer prices in August recorded a year-to-year increase of 4.8%, thus continuing the upward trend which, if it continues, could have troubling effects. The performance in the price of oil is not something apart from this process. In this respect, underlying inflation in August stood at 3.7%. This was an historically low level, only slightly above the low of 3.5% reached recently.

Trade deficit continues while dependence on oil increases.

The trade balance for the 12 months ending in July showed a negative figure of –5.7 billion dollars. If we leave out oil exports, the negative figure was –26.3 billion dollars, worse than the situation in earlier months. This deficit continues to be a troubling factor in the Mexican economy. Along these lines, oil exports in the second quarter were up by 8.8% year-to-year while in July the increase was 8.7%, making up a major support to the improvement in the foreign sector segment of the GDP, while at the same time representing a risk, as is such heavy dependence on a raw material with a volatile performance.

Euro area reaches 2% growth

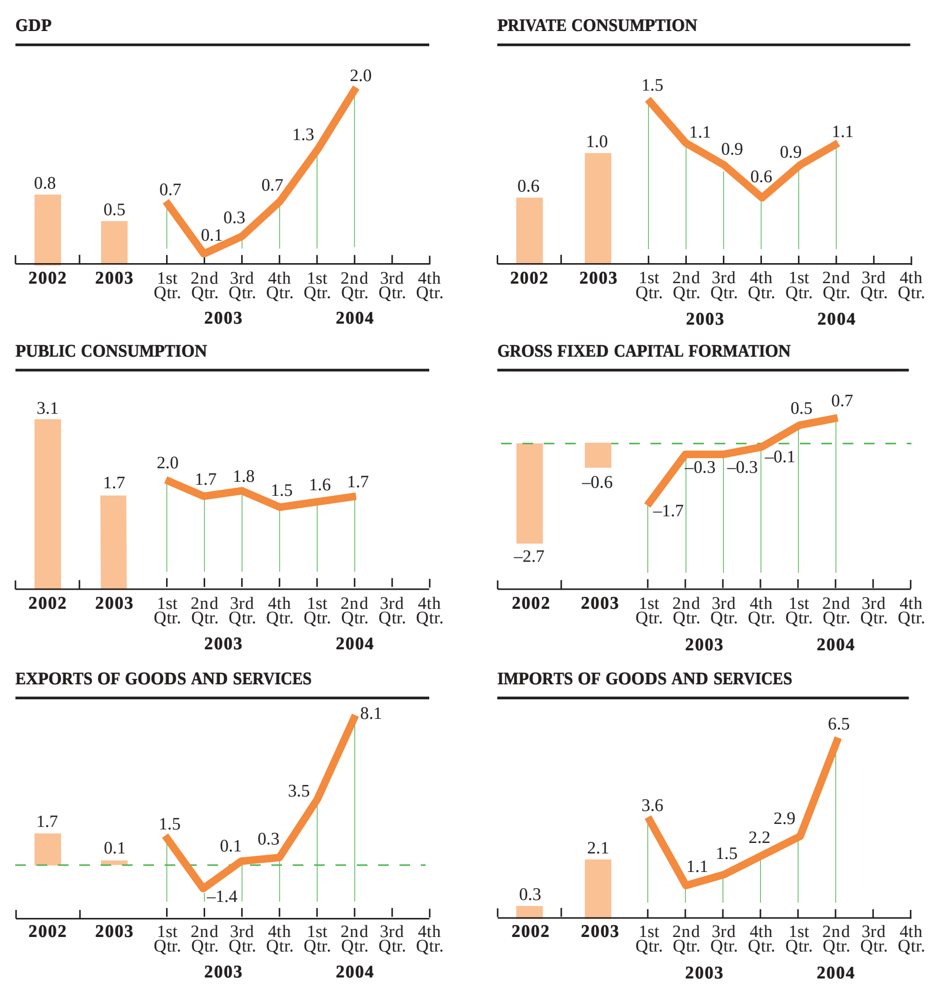
Euro area growth rises to 2% in second quarter.

In the second quarter of 2004, the euro area grew by 2.0% year-to-year compared with 1.3% year-to-year in the previous quarter. This increase in growth is more apparent than real given that it is influenced by the base effect arising when we compare the poor performance in the second quarter of 2003. In fact, at quarter-to-quarter rate annualized, the increase is somewhat qualified seeing that it was 2.1% as against 2.6% in the first quarter.

Drop in 2003 now left behind.

TREND IN EURO AREA GDP BY COMPONENT

Percentage year-to-year change rate



SOURCE: Eurostat and internal figures.

Lack of drive in private consumption limits contribution from domestic demand…

In any case, this growth is coming from foreign demand whereas domestic demand is scarcely improving. Private consumption in the second quarter grew by 1.1% year-to-year while investment rose by 0.7% year-to-year. Both rates were scarcely two decimals higher than those for the first quarter. Public consumption, in turn, was up by 1.7% year-to-year (1.6% year-to-year in the previous quarter) whereas the change in inventories contributed 0.1% to the increase in the gross domestic product (GDP) which represented no change over the first quarter. On the contrary, the contribution from foreign demand to the rise in the GDP was more than twice that in the first three months of the year going from the previous 0.3% to 0.7%. This result came from the notable increase in exports (rise of 8.1% year-to-year), which was higher than the increase in imports (6.5% year-to-year).

EURO AREA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003		2004			
			3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	July	August
GDP	0.8	0.5	0.3	0.7	1.3	2.0	–	...
Retail sales	0.0	0.3	–0.4	–0.3	0.6	–0.2	1.1	...
Consumer confidence (*)	–11.0	–18.0	–17.0	–16.0	–14.0	–15.0	–14.0	...
Industrial production	–0.5	0.3	–0.3	1.4	1.1	2.7	2.4	...
Economic sentiment indicator (*)	94.4	93.5	94.2	97.7	98.7	100.1	100.1	...
Unemployment rate (**)	8.4	8.9	8.9	8.9	8.9	9.0	9.0	...
Consumer prices	2.2	2.1	2.0	2.0	1.7	2.3	2.3	2.3
Trade balance (***)	83.2	81.2	76.6	73.1	78.8	91.3	93.2	...

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

…a trend still continuing at start of third quarter.

The third quarter of 2004 began in similar vein to the first half of the year. Private consumption, which is key for giving strength to recovery, scarcely improved over the summer months, if we are to go by the stagnation in retail sales (growth of 1.1% year-to-year in July, with no change over June). Nor was there any improvement in consumer confidence which was stable at the level of –14 points in June and July. The trend in capital goods investment was more positive, if we look at the sustained growth of industrial production of such goods which was above 4% year-to-year in the period May-July.

Industrial production presents moderate levels although prospects improving.

On the supply side, the most notable point is the uneven performance of industrial indicators in the summer months. The slowdown in industrial production in June and July (3.0% and 2.4% year-to-year respectively as against 3.6% in May) was accompanied by a better state of industrial confidence and industrial climate indicators in July. On the other hand, sector confidence indicators for construction and services showed no significant changes in the April-July period.

Strength of exports best feature of European economic situation.

With regard to foreign demand, the good performance in exports continued into July when foreign sales stood at levels 7.0% higher than in July 2003. The strength of imports was notable. Imports grew by 8.5% in July. Overall, the cumulative trade surplus for 12 months amounted to 93.2 billion euros as of that month compared with 91.3 billion euros in the second quarter.

Consumer prices again at 2.3% in August.

The harmonized consumer price index (HCPI) in August held at levels 2.3% higher than one year earlier with no change over July. The stabilization of consumer prices in recent months was mainly due to the lower increases recorded by almost all components except energy. If we omit energy, the resulting rate stood at 2.0% year-to-year, the same figure as in July. In turn, the unemployment rate in July was 9.0% of the labour force for the fourth consecutive month.

In view of difficulties in meeting Stability Pact, reforms now proposed.

In other matters, taking into account the lack of effectiveness of the Stability and Growth Pact as currently established, it is expected that this year 12 member states of the European Union (EU-25) will exceed the limit of 3% of the GDP for the public deficit. In view of the need to clarify its position following the ruling on July 13 of the Court of Justice of the European Communities, the European Commission has launched reforms to the Pact. The Commission has proposed modifying the existing mechanism in order to meet the cyclical position of the various economies (demanding more discipline in growth stages), to consider specific situations of member states by evaluating their financial commitments over the medium term and to pay more attention to the trend in the public debt. This proposal was not well received by the European Central Bank which is afraid of a dangerous easing of fiscal discipline in the euro area.

Germany: private consumption fails to respond

In Germany, weak household spending continues although investment and exports showing better results.

German consumers continues without showing signs of breaking their reluctance to spend. Retail sales in July dropped by 0.9% year-to-year, industrial production of consumer goods scarcely grew by 0.7% year-to-year while consumer confidence was down two points. This left any boost in the economy to investment and foreign demand, two components which began the third quarter quite satisfactorily. With regard to investment, industrial production of capital goods grew by 3.9% in year-to-year rate in July, a figure which, while still representing some slowing down compared with previous months, does consolidate its growth trend. There was a sharper rise in exports and, after growing by a notable 13% year-to-year in the second quarter as a whole, in July these held at notable rates of the order of 11% year-to-year.

GERMANY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003		2004			
			3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	July	August
GDP	0.1	–0.1	–0.3	0.0	0.8	1.5	–	...
Retail sales	–2.2	–0.4	–1.6	–0.8	–0.4	–2.2	–0.9	...
Industrial production	–1.2	0.1	–1.3	1.4	1.1	2.8	2.0	...
Industrial activity index (IFO) (*)	89.4	91.7	92.5	96.2	96.4	95.7	95.6	95.3
Unemployment rate (**)	10.2	10.5	10.5	10.5	10.4	10.5	10.6	10.6
Consumer prices	1.4	1.1	1.1	1.2	1.1	1.8	1.8	2.0
Trade balance (***)	118.5	130.8	131.1	132.2	139.7	152.3	155.5	...

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

Industry loses steam in June and July although change in trend expected over short term.

In this situation of substantial strength in exports, what is troubling is the lack of drive being reported by industry. After growth of 3.6% year-to-year in May, industrial production in June and July slowed to 2.6% and 2.0% respectively. In any case, the expansionist path in industrial orders (rise of 8.3% year-to-year in July) and, in spite of a small reverse, the relatively stable level of the IFO industrial activity index (95.3 points in August) would auger for some recovery in industry.

Prices showing bigger increases, although still at contained levels, while unemployment stuck at rates above 10%.

The trend in prices, in turn, reflects the growing impact of energy. The CPI rose to 2.0% year-to-year in August (1.8% in July) while wholesale prices were up 4.2% that same month (3.9% in July). Producer prices were up 1.9% in July, four decimals more than in the month before. In any case, the low starting point makes it possible to discount any excessive inflationary pressures in Germany. The trend in the unemployment rate is less positive and in July and August showed historically high levels at 10.6% of the labour force.

Government makes official statement that public deficit in 2004 to stand at 3.7% of GDP.

The lack of growth is complicating the process of structural reforms which the German government is trying to implement but this also underlines that in the absence of those reforms German recovery could be of little consequence. For the moment, the public response to the two main processes of social reform under way (labour market and health services) raises further doubts about the possibility of carrying these strongly into effect. The results of a lack of reform in the public sector is reflected in the official statement by the German government to the European Commission in which it announces that the public deficit this year (2004) will be 3.7% of the GDP, which represents its third consecutive year in failing to meet the Stability Pact.

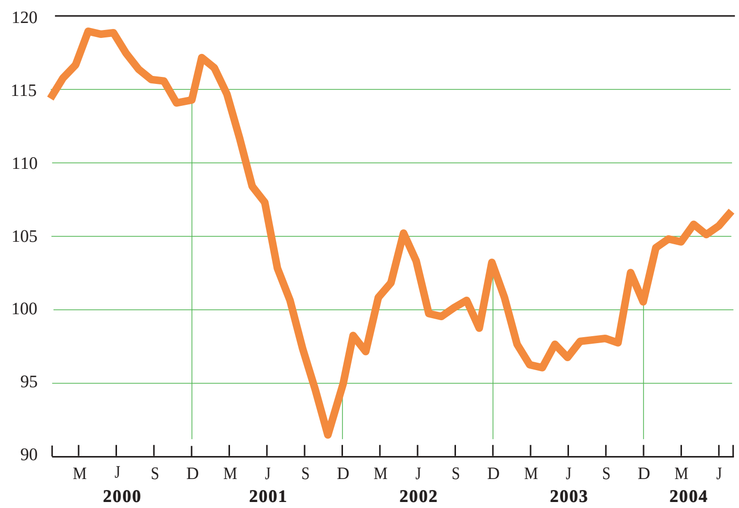
France: consumption and investment provide basis for improved economy

Domestic demand in France holding notably strong.

In clear contrast to its German neighbour, the economic recovery in France is based on domestic demand and, especially, on the notable level of household spending. Domestic consumption grew by 5.4% year-to-year in August and the recovery of consumer confidence in July would suggest a continuation of this trend. In investment as well the trend is satisfactory although it stands at more contained rates. In July, industrial production of capital goods recorded a rise of 3.1% year-to-year, thus consolidating the increase in the second quarter (2.3% year-to-year).

FRANCE ENJOYING STAGE OF INCREASED ECONOMIC ACTIVITY

Value of economic sentiment index



SOURCE: European Commission.

On supply side, services and construction showing best levels.

Economic recovery is showing up unevenly by sector. Services have maintained a gradually increasing rate of activity since the beginning of the year (in July the sector confidence indicator stood at its highest level since June 2001). Industry has been more erratic but since the second quarter it appears to be moving into a course of increased growth. As a result, industrial production in July stood at levels 2.5% higher than those for one year earlier. In any case, the sharpest rise is being recorded in construction for which early indicators have been rising strongly since the end of 2003.

Inflation moves up to 2.4% in August while unemployment rate drops to 9.8% in July.

With regard to consumer prices, the latest available figure shows a change of trend in underlying inflation, that is, excluding the more volatile components. As a result, the general CPI rose by one decimal in August to 2.4% year-to-year while the more stable core rose by three decimals going to 2.0% from the 1.7% recorded in July. The unemployment rate, in turn, stood at 9.8% in July compared with 9.9% in June.

FRANCE: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003		2004			
			3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	July	August
GDP	1.1	0.5	0.4	1.0	1.7	3.0	–	...
Domestic consumption	0.9	0.9	0.8	1.5	2.5	5.5	2.6	5.4
Industrial production	–1.4	–0.4	–0.8	0.9	0.5	2.4	2.5	...
Unemployment rate (*)	9.3	9.9	9.9	9.9	9.8	9.9	9.8	...
Consumer prices	1.9	2.1	2.0	2.2	1.9	2.4	2.3	2.4
Trade balance (**)	0.4	0.3	0.2	0.1	0.3	0.3	0.1	...

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

Italy: foreign sector saves second quarter

Italy grows by 1.2% in second quarter thanks to foreign sector recovery.

Italy's economy grew by 1.2% year-to-year in the second quarter, representing some increase over the first quarter when the rise was 0.8% year-to-year. By component, it should be pointed out that domestic demand showed no change over the previous three months with an increase of 1.5% year-to-year. The lack of drive in private consumption, which recorded a year-to-year rise of 1.0% in the second quarter as against growth of 1.7% in the first quarter, could not be sufficiently offset by the recovery in gross fixed capital formation (year-to-year increase of 3.1% compared with the previous 1.3%). In view of the slack in domestic demand, it was only the notable improvement in the foreign sector, which contributed seven decimals to the change in GDP, that made recovery possible.

ITALY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

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

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

Consumption holds at low levels while industrial production weak.

With regard to monthly indicators, the level of consumption is holding at low levels, if we are to go by the drop in consumer confidence to –20 points in July, the lowest level since last February. Nor is the situation in industrial activity very satisfactory. Measured by the industrial production index, it dropped by 0.7% year-to-year in June. Finally, we should point out that consumer prices in August again stood at 2.3% year-to-year with no change over July.

United Kingdom: strong growth continues in third quarter

U.K. economy continues to benefit from good state of domestic demand.

At the beginning of the third quarter the British economy is continuing to enjoy a positive state of affairs. Retail sales, a key indicator of private consumption, grew by 6.5% year-to-year in August, one decimal more than in July. The recovery of consumer confidence in July (by 2 points) confirms a continuation of this trend. Growth of production of capital goods (4.4% year-to-year in July) reflects the fact that investment is prolonging the recovery which began in the second quarter.

UNITED KINGDOM: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2003		2004			
			3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	July	August
GDP	1.8	2.2	2.2	2.9	3.4	3.7	–	...
Retail sales	6.8	2.9	2.9	3.1	6.3	6.8	6.4	6.5
Industrial production	–2.5	–0.1	–0.1	0.5	–0.1	1.3	0.1	...
Unemployment rate (*)	3.0	2.9	3.0	2.9	2.8	2.7	2.7	2.7
Consumer prices	2.2	2.8	2.8	2.6	2.3	2.2	2.2	2.2
Trade balance (**)	–43.5	–46.8	–47.1	–47.3	–50.0	–53.2	–55.5	...

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

Industrial production grows by only 0.1% in July.

With regard to the trend on the supply side, industrial production slowed in July to 0.1% year-to-year (0.9% year-to-year in June) although the better relative situation in industrial order books could indicate that the industrial sector will soon move into a stage showing better performance. On the other hand, both construction and services are showing a stronger trend to recovery.

High rate of economic activity not producing appreciable pressure on consumer prices.

The strength of the British economy has not put pressure on prices, in spite of the fact that the unemployment rate held steady in August when, for the third consecutive month, it stayed at the all-time low of 2.7%. As a result, the CPI grew by 2.2% year-to-year in August showing no rise over July and holding in line with figures recorded since last May.

MONETARY AND CAPITAL MARKETS

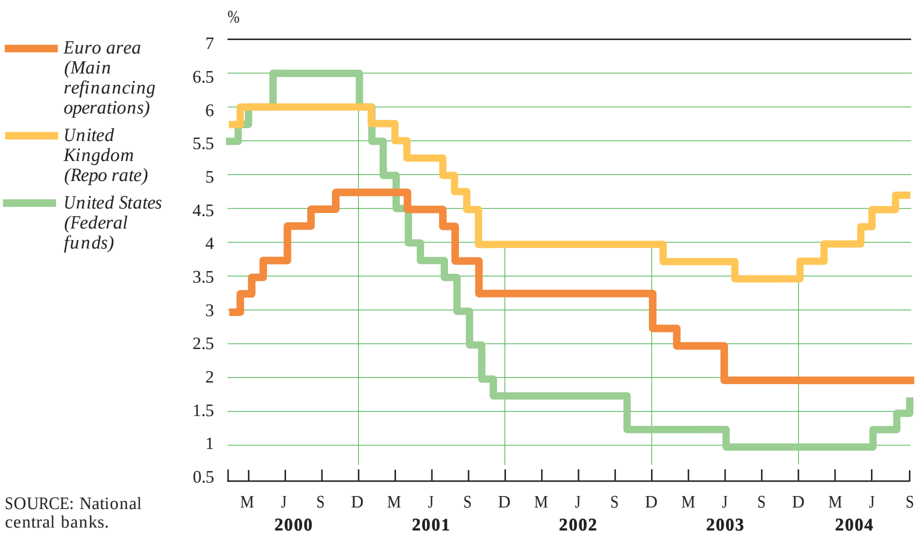
Fed raises key interest rate for third time

Central banks begin to put interest rates at more neutral levels.

The recovery of the world economy and the rise in prices of raw materials, especially oil, with the subsequent pressures on inflation, have brought about the end of a period of all-time low official interest rates. In recent weeks the upward trend in central bank interest rates continued with a further rise by the U.S. Federal Reserve Board. Within this framework, the European Central Bank has now begun to prepare the ground for a rise, which will probably still not happen for a few months and the Bank of Japan will likely follow.

OFFICIAL INTEREST RATES ON RISE

Monetary policy reference rates



SOURCE: National central banks.

Fed raises target level to 1.75%, still negative in real terms.

In the United States, economic figures published in recent weeks confirmed prospects of an increase of 25 basis points at the meeting of the Federal Open Market Committee on September 21. The favourable figure for growth of employment in August, following the disappointing result the previous month, and more moderate inflation that same month, added to the prospect of a gradual rise in the Fed's target level to a more neutral point. There were no surprises at the September meeting of the

Federal Open Market Committee and the target level for 1-day interbank deposits went up by 25 basis points to 1.75%, which is still negative in real terms (discounting inflation) while the discount rate also went up by the same amount to 2.75%. In its press release the committee pointed out that it expected to continue to gradually raise interest rates.

Market anticipating U.S. official rate to stand at 2% at year-end.

As a result, the interest rate on U.S. 1-year interbank deposits has shown an uneven trend in recent weeks. Following publication of the August figure for employment, the rate rose to 2.56% thus marking up a high since June 2002. Nevertheless, the appearance of Alan Greenspan, chairman of the Federal Reserve Board, before the budget committee of the House of Representatives moderated expectations on interest rate increases. The yield on U.S. 1-year interbank deposits later dropped to 2.28% in the middle of the month although it again rose to 2.42% on September 27. Market operators as a whole are anticipating that the U.S. reference rate will stand at around 2% at the end of the year.

SHORT-TERM INTEREST RATES IN NATIONAL MARKETS

Monthly averages as annual percentage

	Euro area			United States		Japan	United Kingdom		Switzerland
	ECB auctions (2)	Euribor		Federal Reserve Board target level (3)	3-month	3-month	Bank of England intervention rate (4)	3-month	3-month
		3-month	1-year						
2003									
August	2.06	2.14	2.28	1.00	1.10	0.01	3.50	3.43	0.26
September	2.07	2.15	2.26	1.00	1.10	0.00	3.50	3.60	0.25
October	2.05	2.14	2.30	1.00	1.12	0.00	3.50	3.71	0.24
November	2.02	2.16	2.41	1.00	1.13	0.01	3.71	3.89	0.25
December	2.01	2.15	2.38	1.00	1.12	0.01	3.75	3.93	0.26
2004									
January	2.01	2.09	2.22	1.00	1.09	0.01	3.75	3.96	0.24
February	2.00	2.07	2.16	1.00	1.07	0.01	3.96	4.08	0.25
March	2.00	2.03	2.06	1.00	1.07	0.01	4.00	4.21	0.25
April	2.00	2.05	2.16	1.00	1.10	0.00	4.00	4.30	0.28
May	2.00	2.09	2.30	1.00	1.21	0.00	4.21	4.44	0.26
June	2.00	2.11	2.40	1.25	1.47	0.00	4.42	4.71	0.41
July	2.01	2.12	2.36	1.25	1.59	0.00	4.50	4.77	0.50
August (*)	2.01	2.11	2.30	1.43	1.70	0.00	4.72	4.91	0.54
September (1)	2.02	2.12	2.38	1.75	1.94	0.00	4.75	4.88	0.67

NOTES: (*) Provisional figures.
(1) September 27.
(2) Marginal interest rate. Latest dates showing change in minimum rate: 6-3-03 (2.50%), 5-6-03 (2.00%).
(3) Latest dates showing change: 25-6-03 (1.00%), 30-6-04 (1.25%), 10-8-04 (1.50%), 21-9-04 (1.75%).
(4) Latest dates showing change: 6-2-03 (3.75%), 10-7-03 (3.50%), 6-11-03 (3.75%), 5-2-04 (4.00%), 6-5-04 (4.25%), 10-6-04 (4.50%), 5-8-04 (4.75%).
SOURCE: European Central Bank, Bank of Spain, Thomson Financial Datastream and internal figures.

European Central Bank preparing ground for rise in reference rate.

In the euro area, the Governing Council of the European Central Bank (ECB) did not change its reference rates at its meeting early in September. The chairman of that body, Jean-Claude Trichet, recognized that there had been an increase in the risk of inflation in the euro area because of the rise in oil prices. Nevertheless, he pointed out that price stability over the medium term was not in danger. On the other hand, the ECB has brought the projections by its analysts on growth and inflation in the euro area up to date. Both show some increase. As a result, the band foreseen for average inflation in 2004 is given as 2.1%-2.3% and 1.3%-2.3% in 2005.

One-year Euribor drops in August for second consecutive month but moves up in early weeks of September.

In this context, the 3-month Euribor has continued at around 2.1% in recent weeks, slightly above the level of the Eurosystem reference rate set at 2% since June 2003. The 12-month Euribor went down slightly in monthly average in August for the second month in a row to stand at 2.30%, some 6 decimals less than in July. Nevertheless, in the early weeks of September the 1-year Euribor rose to some extent to stand at 2.38% at the beginning of the final week of the month, an increase of 21 basis points compared with the same date last year. As a result, the market is not discounting any change in coming months but is anticipating a rise in the first quarter of 2005.

Bank of England maintains interest rate in September.

Following the increase in the U.K. reference rate in August, the Bank of England maintained the rate in September, as was expected. The containment of inflation and the drop in retail sales made it possible to adopt a holding pattern. The market now is expecting only one further rise in U.K. interest rates in this upward stage.

Central banks of Thailand, Canada, New Zealand and Switzerland raise interest rates.

Other central banks have joined the upward move in recent weeks. On August 25, the Bank of Thailand announced an increase in the intervention rate to 1.50% in order to support its currency, the baht. On September 8, the Bank of Canada announced a rise of 25 basis points in its reference rates. The overnight interest rate thus went to 2.25% and the discount rate to 2.50%. It thus turned around its decision last April due to the recovery of the economy. The next day, the Bank of New Zealand raised its official interest rate by 25 basis points to 6.25%, the fifth rise this year. In addition, on August 16 the Bank of Switzerland raised its reference band for the 3-month Libor in French francs for the second time this year moving it up to 0.25%-1.25%.

Euro shows slight appreciation

Increase in U.S. current account deficit hurts dollar.

The dollar reached its lowest level since December 1997 on January 9, 2004 in terms of a wide range of currencies. Later on, consolidation of economic recovery in the United States, purchases of U.S. currency by Asian central banks and anticipation of a turnaround in the Fed's restrictive monetary policy gave support to the dollar. As a result, the dollar marked up a high since September 2003 against a wide range of currencies on May 13. Later on, signs of some loss of drive in economic activity, some moderation of expectations regarding the schedule of increases in the official interest rate and the widening of the foreign deficit contributed to make the U.S. currency tend to weaken. As a result, in overall terms, at the beginning of the fifth week in September the dollar had dropped by 3.3% compared with the high in May, although it was showing a rise of 1.0% compared with the end of December.

EXCHANGE RATES OF MAIN CURRENCIES
August 2004

	Final session of month		Monthly figures				Exchange rate September 27, 2004
	Exchange rate	% monthly change (2)	Average exchange rate	% change (2) Monthly	Over December 2003	Annual	
Against U.S. dollar							
Japanese yen	109.1	–2.0	110.3	0.7	2.4	–7.1	*111.3*
Pound sterling (1)	1.802	–1.0	1.819	–1.3	3.7	14.2	*1.809*
Swiss franc	1.266	–1.2	1.262	1.4	0.0	–8.7	*1.261*
Canadian dollar	1.312	–1.5	1.313	–0.7	0.1	–5.9	*1.272*
Mexican peso	11.38	–0.3	11.40	–0.6	1.3	5.7	*11.44*
Nominal effective index (4)	*115.2*	*–0.8*	*115.3*	*0.2*	*0.7*	*–3.9*	*114.5*
Against euro							
U.S. dollar	1.211	0.6	1.218	–0.7	–1.0	9.3	*1.225*
Japanese yen	133.1	–0.8	134.5	0.3	1.5	1.6	*136.3*
Swiss franc	1.543	0.1	1.539	0.8	–1.0	–0.1	*1.549*
Pound sterling	0.676	2.0	0.669	0.5	–4.6	–4.3	*0.679*
Swedish krona	9.126	–1.2	9.186	–0.1	1.7	–0.6	*9.048*
Danish krone (3)	7.438	0.0	7.436	0.0	–0.1	0.1	*7.439*
Nominal effective index (5)	*102.5*	*0.5*	*102.7*	*–0.2*	*–1.6*	*2.9*	*103.2*

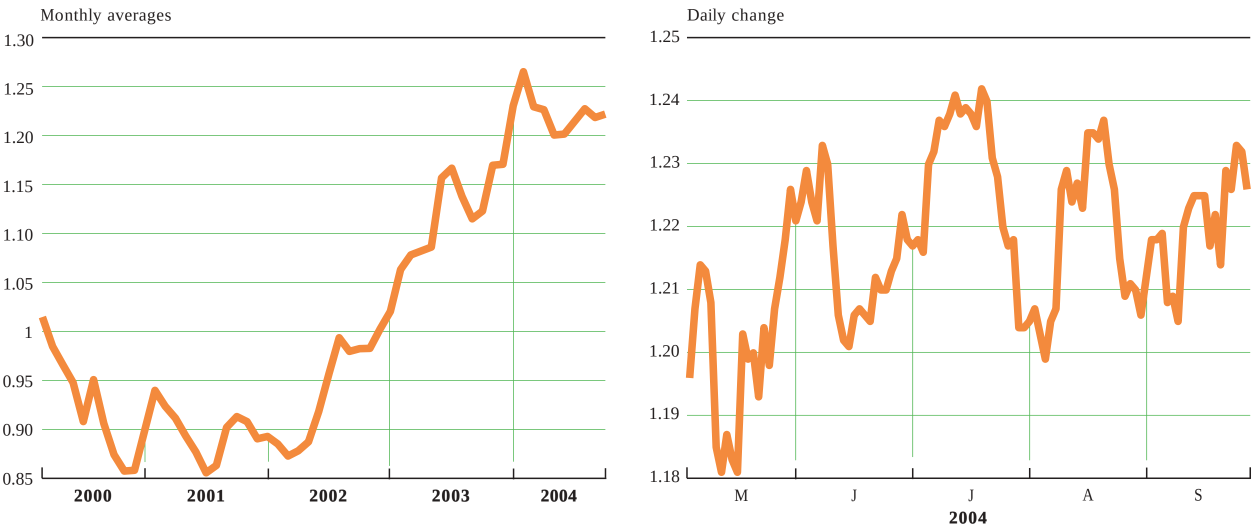
NOTES: (1) Units to pound sterling.
(2) Percentages of change refer to rates as shown in table.
(3) Danish krone has central parity of 7.46038 against euro with fluctuation band of ±2.25%.
(4) Broad nominal effective index of U.S. Federal Reserve Board. Calculated as a weighted average of the foreign 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 23 main trading partners of the euro area. Base: I-1999 = 100.
SOURCE: Thomson Financial Datastream and internal figures.

Euro recovers from April low but depreciates by 2.5% over December in terms of main trading partners.

The euro marked up an all-time high in terms of the currencies of its main trading partners in the euro area in the second week of January 2004. Nevertheless, it later dropped because feeling in the market was influenced by statements made by the European Central Bank voicing its concern about the euro's rapid rise, by the slackness of the euro area economy and speculation about a new cut in the Eurosystem reference rate. As a result, April 13 marked its lowest level since November 2003. However, the disappearance of expectation of a reduction in the ECB interest rate and the improvement in the economy meant the euro was able to recover to some extent. In any case, at the beginning of the last week in September the single currency had dropped 2.5% in terms of its main trading partners compared with the end of December. Against the dollar, in recent weeks the euro has maintained a range of between 1.20 and 1.24 dollars, shifting especially according to figures on the U.S. economy. On September 27 the euro was running at 1.23 dollars, a drop of 3.0% since the end of 2003.

EXCHANGE RATE OF EURO AGAINST DOLLAR STILL WITH NO CLEAR TREND

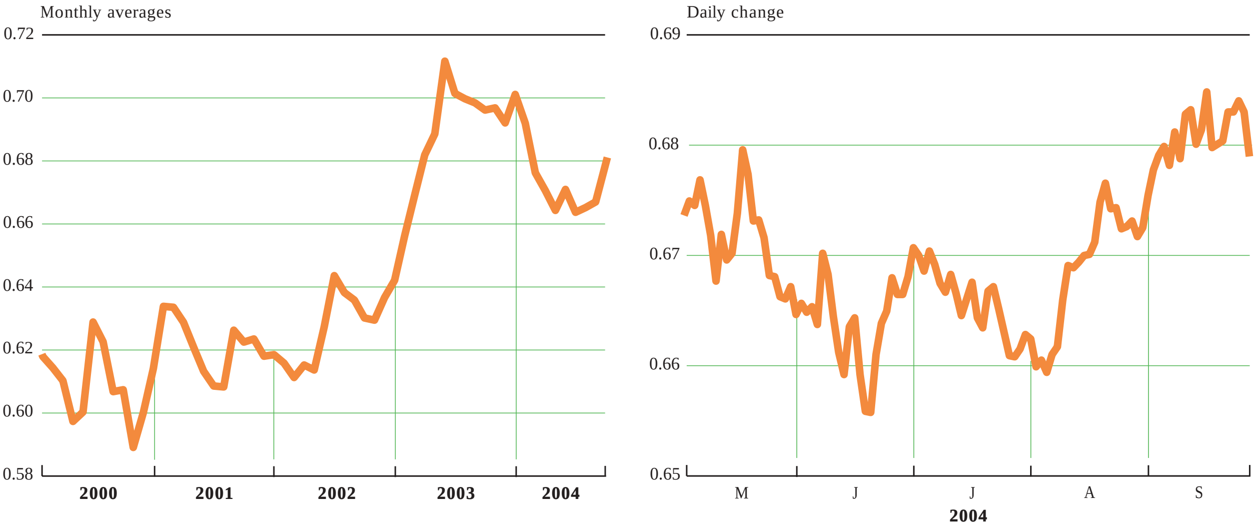
U.S. dollars to euro



NOTES: Figures go up to September 27. SOURCE: OECD, Thomson Financial Datastream and internal figures.

POUND STERLING MARKS UP LOWEST LEVEL AGAINST EURO IN PAST SEVEN MONTHS

Pounds sterling to euro



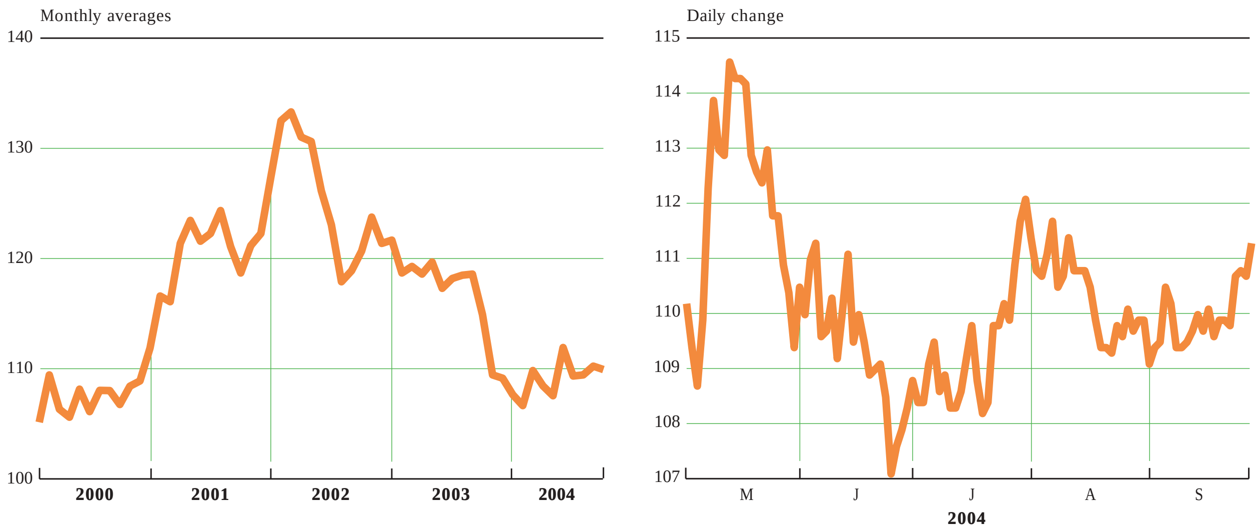
NOTES: Rates go up to September 27. SOURCE: Thomson Financial Datastream.

Pound drops against euro in September.

On June 17, the pound sterling recorded its highest level against a broad group of currencies since October 2002, thanks to the good state of its economy and interest differentials in its favour. Nevertheless, from the beginning of August it tended to drop with a weakening of prospects of increases in the interest rate by the Bank of England. As a result, at the beginning of the last week in September the pound showed an overall depreciation of 3.0% compared with the high in June although it maintained an increase of 3.1% over the end of December. In the early weeks of September, the pound rose by 0.4% against the dollar and dropped 0.5% against the euro. Nevertheless, since the start of the year the British currency has appreciated by 1.3% compared with the dollar and 3.8% against the euro.

YEN APPRECIATES AGAINST DOLLAR

Yen to dollar



NOTES: Rates go up to September 27. SOURCE: OECD, Thomson Financial Datastream and internal figures.

Yen shows drop against dollar as of September.

Lower optimism about the trend in the Japanese economy and a dull performance on the Tokyo stock exchange has not helped the yen during recent weeks. The Japanese currency has depreciated by 1.9% against the dollar and 2.4% against the euro since the end of August. During the course of the year it has dropped by 3.6% in terms of the dollar and 0.9% against the European currency.

Pressure to make yuan more flexible.

Pressure is still being put on the Chinese government to make the yuan more flexible. This currency maintains a fixed rate of exchange against the U.S. dollar which contributes to the fact that the depreciation of the dollar since 2002 has mainly affected the euro. In this situation, the U.S. current account deficit has continued to grow to the point where it was 5.7% of the gross domestic product in the second quarter of 2004. In this context, the 11th meeting of finance ministers in the Asia-Pacific Economic Cooperation Forum stated their desire to see more flexibility in exchange rates, a veiled reference to the yuan.

Drop in yields on government bonds

Yield on U.S. 10-year Treasury bonds stands below level at beginning of year…

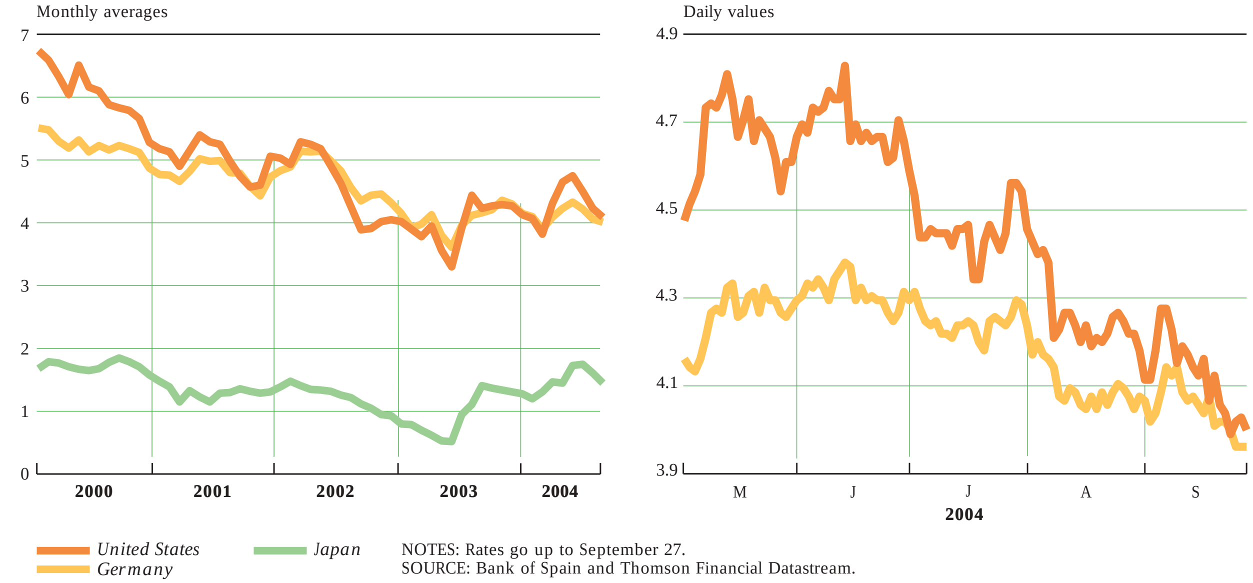
The yield on U.S. 10-year Treasury bonds marked up a high for the past two years at 4.87% on June 14. Later on, uncertainty about the sustainability of economic growth, the settling down of expectations to a gradual course of increases in Federal Reserve Board reference rates and shifts from the stock markets for safe haven reasons because of fear of terrorist attacks meant that interest rates on long-term government bonds tended to drop.

…with effect of heavy buying by Asian central banks.

It should be noted that purchases of U.S. government bonds by foreign central banks contributed significantly to the drop in their yields. The total amount of U.S. government bonds held by foreign central banks has risen sharply this year to stand at a record level of 1,290 billion dollars in mid-September. As a result, the yield on U.S. 10-year Treasury bonds stood at 4.0% at the beginning of the fifth week of September, some 27 basis points below the beginning of the year but 31 basis points above the low in mid-March.

YIELDS ON U.S. AND GERMAN GOVERNMENT BONDS GROW CLOSER

Yield on 10-year government bonds as annual percentage



NOTES: Rates go up to September 27.
SOURCE: Bank of Spain and Thomson Financial Datastream.

Yield on German government bonds drops to 4%.

The yield on German 10-year government bonds closely followed the trend set by similar bonds on the other side of the Atlantic. As a result, the interest rate on German 10-year government bonds dropped to 3.96% on September 27 to stand some 30 basis points below the end of December. The differential between the yield on U.S. and German government bonds thus again continued to converge in recent weeks going to 4 basis points at the beginning of the final week in September.

Interest rate on Japanese 10-year government bonds again below 1.5%.

The interest rate on Japanese government bonds on June 24 recorded its highest level since October 2000 following recovery of the Japanese economy and speculation that an immediate finale to the era of deflation would mean the end of the period of interest rates at 0%. Nevertheless, the yield on Japanese government bonds also tended to drop with the cooling off of economic prospects. As a result, the rate went to 1.38% at the beginning of the fifth week in September although this was 5 basis points above the end of December.

LONG-TERM INTEREST RATES IN NATIONAL MARKETS

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

	2002	2003	2004				
			1st Qtr.	2nd Qtr.	July	August	September 27
United States	4.65	4.04	4.05	4.64	4.54	4.27	4.00
Japan	1.27	0.99	1.30	1.59	1.79	1.65	1.38
Germany	4.80	4.10	4.09	4.26	4.26	4.10	3.96
France	4.88	4.13	4.11	4.31	4.28	4.14	4.00
Italy	5.04	4.24	4.24	4.47	4.44	4.27	4.10
Spain	4.96	4.12	4.12	4.31	4.28	4.13	3.98
United Kingdom	4.93	4.53	4.83	5.14	5.15	4.97	4.79
Switzerland	3.02	2.47	2.46	2.74	2.83	2.66	2.60

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

Recovery of stock markets slows down

Stock markets again show upward trend…

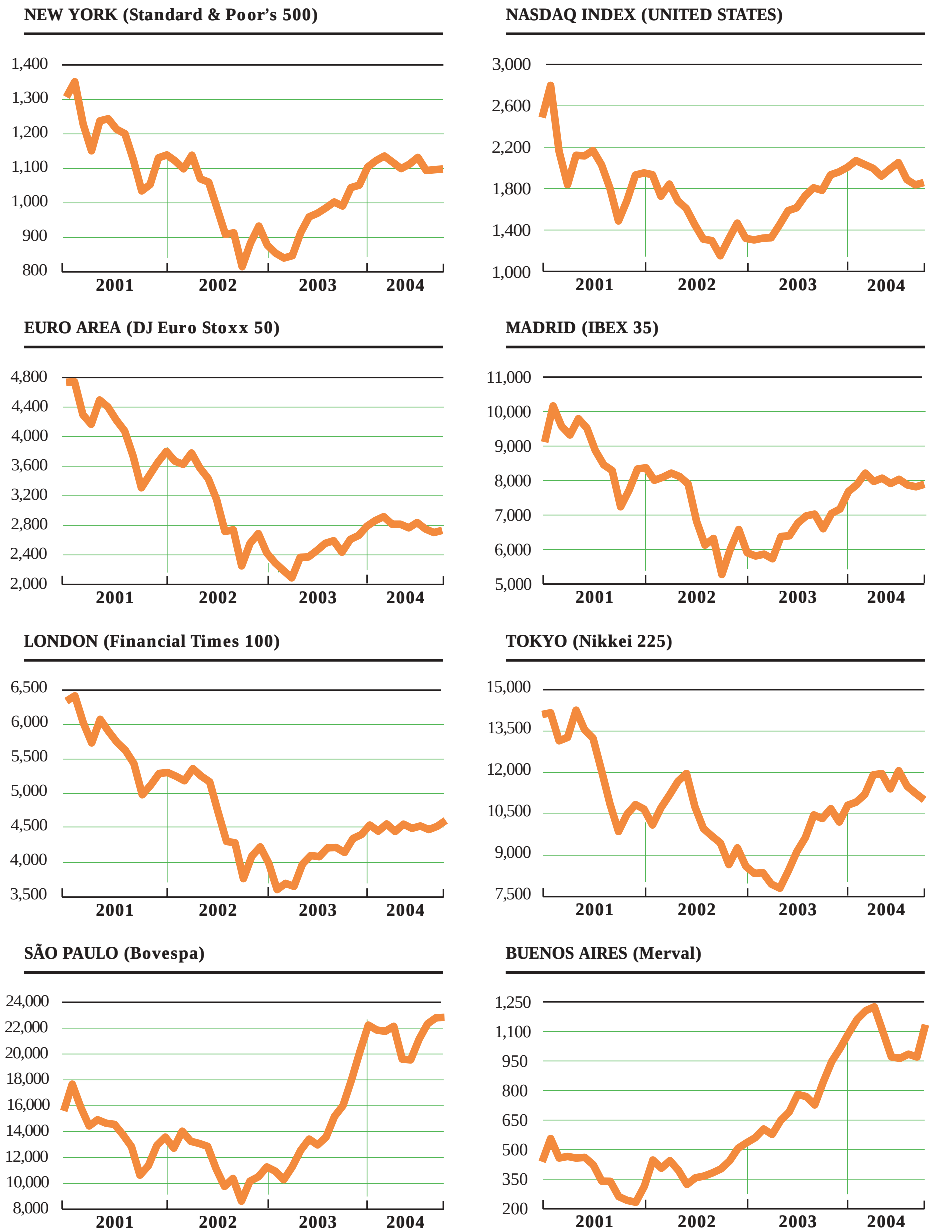
The stock markets began the year on a good footing following the upward trend from the lows in March 2003. The trend to economic recovery without inflation, the favourable prospects for corporate profits, interest rates at very low levels and the prospect of moderate interest rises helped the stock markets. Nevertheless, they later suffered a series of knocks due to the terrorist attacks in Madrid on March 11, the worsening of the situation in the Middle East and Iraq, the rise in yields on long-term government bonds since March as a result of discounting an upward course in official interest rates and the persistent increases in oil prices.

…but new rise in oil prices slows recovery.

With the rise in oil prices to an all-time high in August and the subsequent situation of a drop in corporate profits, many stock markets recorded annual lows and went below par for the year. Nevertheless, with a later drop in the price of oil and a continuation of decreases in government bond yields, the stock markets revived toward the middle of August. A new jump in oil prices in the second week of September, however, slowed the stock market recovery. As a result a number of international stock markets have again gone below the level at which they began the year.

INTERNATIONAL STOCK EXCHANGES

Indices at month-end



NOTES: September 27, 2004. SOURCE: Thomson Financial Datastream.

Standard & Poor's 500 again loses par for year.

In the United States, the upward move bringing sharp increases in 2003 gave off signs of wearing out toward the end of January. Doubts about the sustainability of the growth rate of the U.S. economy meant that the main U.S. stock market indices would mark up annual lows in the early weeks of August. Later on, confirmation of a gradual process of interest rate hikes by the Federal Reserve Board contributed to a rise on the stock markets which later was to end. As a result, on September 27 the Standard & Poor's 500 stood 0.8% below the level at the beginning of

2004 and 10.7% lower than on the same date last year. The Nasdaq general index, which is representative of high-tech shares, has suffered a notable beating so far this year with cumulative losses of 7.2%, but it stood 3.8% above the level 12 months earlier. Finally, the traditional Dow Jones Industrials index also failed to recover par for the year and showed capital losses of 4.5% over December although it presented year-to-year gains of 7.3%.

Best sector was energy and worst information technology.

By sector, in the Standard & Poor's 500 those showing the best performance during the year were energy, with an increase of 22.3%, communications, with a rise of 7.7% and utilities, which were up 7.0%. On the other hand, the sector to suffer worst was information technology, with a drop of 11.5%.

The stock markets in the euro area recovered to some extent in recent weeks thanks to the improved growth prospects. As a result, many indices recovered par for the year except in the case of the Frankfurt and Amsterdam stock exchanges. At the beginning of the last week in September, the DJ Eurostoxx 50 index, which is representative of the largest companies in the euro area, stood 1.3% below the end of the year with gains of 11.3% in the last 12 months. The indices for the Milan, Paris and Madrid stock exchanges showed cumulative capital gains of more than 2%.

Good performance on London stock exchange.

Outside the euro area, the Nikkei 225 index for the Japanese stock market marked up a high for the year at the end of April going above 12,100 points thanks to recovery of Japan's economy. Later, it reflected the rise in oil prices and the weakening of economic prospects and thus moved down. Nevertheless, at the beginning of the fifth week in September it showed an increase of 1.7% over December. The Financial Times 100 index for the London stock exchange improved in recent weeks and presented gains of 1.4% compared with the end of 2003. On September 27, the SMI index for the Swiss stock market, in turn, stood 0.8% below the end of last year.

IBEX 35 moves up but later drops below 8,000 level.

With regard to the Spanish stock market, the IBEX 35 index has recorded sharp swings during the year going from an annual high of 8,444.3 on April 13 (with a cumulative rise of 9.1%) to an annual low below par in August. Later on, it recovered to some extent although the 8,100 level became a block to any further rise. At the beginning of the fifth week of September, the IBEX 35 stood at 2.6% above the end of December, thanks to improved company profits, something to which greater stability in Latin America contributed. Only seven shares out of the 35 included in the selective index were in the red compared with the end of last year.

Notable capital gains in Mexican stock market…

With regard to stock markets in emerging countries, these showed considerable volatility in the first eight and a half months of the year. The Hang Seng index in Hong Kong showed cumulative capital gains of 3.5% on September 27 and an increase of 15.3% compared with the same date last year. With regard to Latin American stock markets, the Merval index for Buenos Aires rose by 3.8% as of the fourth week in September and showed an increase of 37.4% compared with 12 months earlier. The Bovespa index for the Brazilian stock market reached gains of 2.7% over

December and obtained an annual increase of 44.4%. The Mexican stock market also is having a good year with a rise of 21.5% over December.

INDICES OF MAIN WORLD STOCK EXCHANGES
August 31, 2004

	Index (*)	% monthly change	% cumulative change	% annual change	*Figures on September 27, 2004*	
					% cumulative change	*% change over same date in 2001*
New York						
Dow Jones	*10,173.9*	*0.3*	*–2.7*	*8.1*	*–4.5*	*15.1*
Standard & Poor's	*1,104.2*	*0.2*	*–0.7*	*9.5*	*–0.8*	*8.3*
Nasdaq	*1,838.1*	*–2.6*	*–8.2*	*1.5*	*–7.2*	*27.3*
Tokyo	11,081.8	–2.2	3.8	7.1	1.7	*12.0*
London	4,459.3	1.0	–0.4	7.2	1.4	*–4.7*
Euro area	2,670.8	–1.8	–3.3	4.5	–1.3	*–14.8*
Frankfurt	*3,785.2*	*–2.8*	*–4.5*	*8.6*	*–2.3*	*–7.4*
Paris	*3,594.3*	*–1.4*	*1.0*	*8.5*	*2.8*	*–8.9*
Amsterdam	*323.1*	*–2.1*	*–4.3*	*–1.9*	*–4.2*	*–25.5*
Milan	*1,279.0*	*–1.5*	*1.8*	*8.0*	*4.8*	*7.8*
Madrid	*7,869.5*	*–0.6*	*1.7*	*10.7*	*2.6*	*10.3*
Zurich	5,421.7	–2.3	–1.2	5.8	–0.8	*–6.6*
Hong Kong	12,850.3	5.0	2.2	17.8	3.5	*35.6*
Buenos Aires	952.1	–1.4	–11.2	33.5	3.8	*347.7*
São Paulo	22,803.0	2.1	2.5	50.3	2.7	*119.5*

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

...and in Russian stock market.

On the other hand, in mid-September the «A» index for the Shanghai stock market showed its lowest level since May 1999 in the midst of a crisis of confidence in the market. Nevertheless, it later made a notable recovery. In any case, it showed cumulative losses of 4.6%. The RTS index for the Moscow stock exchange managed to go above the low for the year recorded at the end of July and showed cumulative gains of 10.6%.

SPAIN: OVERALL ANALYSIS

ECONOMIC ACTIVITY

Domestic demand remains strong

GDP growth down slightly due to bigger subtraction by foreign sector in first half of 2004.

The gross domestic product (GDP) generated by Spain's economy in the second quarter of 2004 grew by 2.6% year-to-year, according to figures adjusted for seasonal effects and number of working days published by the National Institute of Statistics (INE). This growth, one decimal below that for the previous quarter, consolidated the profile showing a slight slowdown noted in the first half of the year. While domestic demand showed an increase in growth rate to 3.8% (three decimals more than in the previous period), the foreign sector partly counterbalanced that rise, with the figure it subtracted from GDP growth increasing to 1.3 percentage points, four decimals more than in the first quarter.

Both private consumption and public consumption show clear signs of growth…

Household consumption held at a high growth rate (3.2%) although one decimal lower than that recorded in the previous period, there being evident greater strength in consumption of goods (especially consumer durables) than of services, which showed a slight easing off. The continuing growth of employment and favourable financing terms continue to be the main factors driving the sustained rise in consumption. In another sphere, consumption by various levels of government show an equally expansionist trend, with growth of 4.3% year-to-year in the second quarter, the same as in the preceding three months.

…capital goods investment on rise with strong figures still going into construction.

Gross fixed capital formation stood out as the most dynamic component of domestic demand, thanks to the take-off in capital goods investment which, after marking up negative rates in the past two quarters, moved into growth of 4.0% year-to-year in the period under discussion. At the same time, investment in construction continued very strong with a 4.2% annual rate of increase, only one decimal less than in the previous period. All branches of construction are showing a good performance with public works as the most dynamic segment, in spite of the dropping growth profile noted since the second half of 2003.

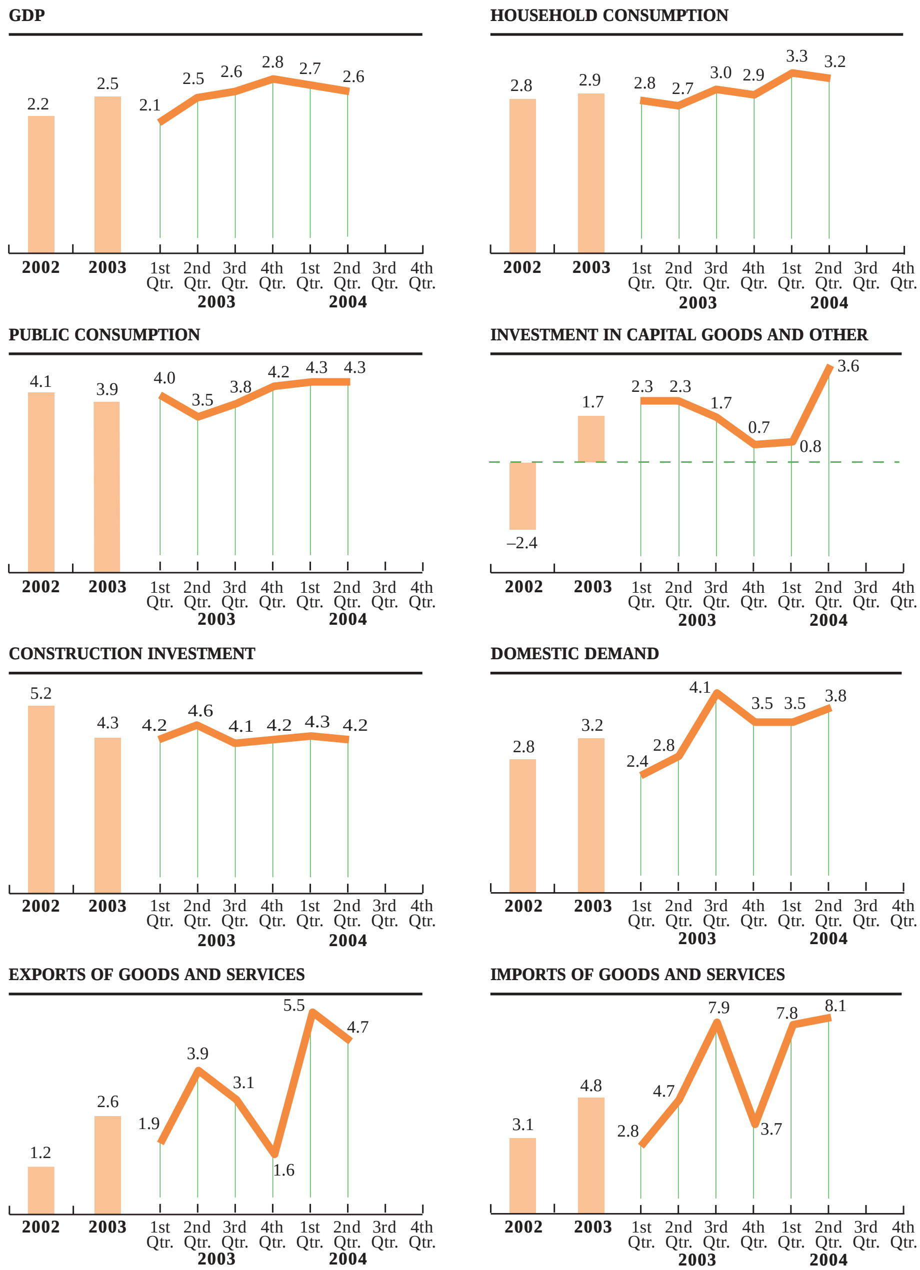
Growth of exports down due to weakness in tourism and other services.

In the foreign sector, the slowdown in the growth of exports (growth of 4.7% as against 5.5% in the first quarter) was largely due to the drop noted in services (decrease of 2.1%), brought about by lower tourist demand, whereas exports of goods, in spite of the decrease reported, maintained notable growth (7.4% as against 8.3% in the previous quarter). On the other hand, imports showed an increase in growth rate to 8.1%, three decimals more than in the previous quarter, under the effect of the strength in domestic demand mentioned.

TREND IN SPAIN'S GDP BY COMPONENT

Year-to-year change rate (*)

Domestic demand boosting imports.



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

SOURCE: National Institute of Statistics.

On supply side, key factor is consolidation of recovery in industrial sector...

On supply side, recovery of the industrial sector became confirmed in the second quarter with growth in gross value added of 2.4% year-to-year, a half point more than that in the first three months of the year. On the other hand, market services showed a slowing down in growth rate to 2.8% in that period, three decimals less than in the previous quarter, due to the loss of strength in retail activity, the hotel and restaurant trade and passenger transport, in keeping with the lower demand for tourist services, mainly from non-residents. A similar situation was noted in public services which also reported a lower growth rate (3.2% as against 3.4% in the second quarter).

…with agriculture only sector showing contraction.

On the other hand, agriculture showed a further contraction (year-to-year drop of 0.8%) following the recovery noted in the two preceding periods, mainly because of drops in production seen in the main crops. Livestock branches also generally reported negative change rates although with an upward profile in this case.

Unit labour cost tending to stabilize growth slightly above 3%.

Finally, from an incomes point of view, we note that the figure for gross operating surplus and mixed incomes showed an increase in annual change rate to 7.5%, one point more than in the first quarter. On the other hand, the growth rate for wages was down slightly to 5.9%, three decimals less than in the previous period. In keeping with the trend in employment, the increase in earnings per worker also eased slightly so that in the end unit labour cost held at a growth rate of 3.2%, the same as in the two preceding quarters and a half-point below the GDP deflator.

GDP: SUPPLY COMPONENTS

Gross figures corrected for seasonal effects and number of working days

	Million euros (current prices)	Year-to-year growth rates in constant terms (*)						
			2003				2004	
	2003	2003	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.
Farm and fishing branches	21,932	–1.4	–2.9	–1.7	–1.2	0.5	1.0	–0.8
Energy branches	20,221	1.3	0.3	0.9	2.9	1.2	–0.8	2.3
Industrial branches	109,494	1.3	1.9	1.3	0.6	1.2	1.9	2.4
Construction	67,600	4.3	4.4	5.1	4.1	3.5	3.6	3.4
Services branches	450,934	2.4	1.9	2.2	2.6	2.7	3.2	2.9
Market services	*350,891*	*2.1*	*1.5*	*2.1*	*2.4*	*2.4*	*3.1*	*2.8*
Non-market services	*100,043*	*3.3*	*3.1*	*2.8*	*3.3*	*3.9*	*3.4*	*3.2*
Net tax on products	74,573	6.5	4.4	7.5	6.2	7.8	2.2	1.5
GDP at market prices	**744,754**	**2.5**	**2.1**	**2.5**	**2.6**	**2.8**	**2.7**	**2.6**

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

Economic activity indicators: Spain's economy holding to growth path

Strength of domestic demand holds during summer.

Available figures on the main economic activity indicators point to a continuation of the growth rate in Spain's economy in the third quarter. This is suggested, for example, by the trend in electrical power consumption, adjusted for seasonal effects and temperature, which has stabilized its growth trend at around 3% year-to-year in recent months. According to available figures, which are still incomplete, domestic demand is still holding at a strong rate, so that the main unknown lies in the performance of the foreign sector, for which the contribution to GDP growth will be a determinant in setting the expansionist trend in this area.

SUPPLY INDICATORS

Percentage change over same period year before

	2002	2003	2003		2004			
			3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	July	August
Industry								
Electricity consumption (1)	3.8	4.8	6.1	4.7	3.7	2.7	4.9	2.2
Industrial production index (2)	0.2	1.4	1.1	1.2	1.4	2.5	2.0	...
Confidence indicator for industry (3)	–5.7	–0.9	–1.3	–2.3	–3.0	–2.0	–3.0	...
Utilization of production capacity (4)	78.5	79.1	79.7	80.6	78.7	79.3	–	80.5
Imports of non-energy intermediate goods (5)	6.4	3.3	–0.1	–3.7	0.6	6.4	...	...
Construction								
Cement consumption	4.7	4.8	4.5	5.7	5.6	2.3	–2.6	9.5
Confidence indicator for construction (3)	–2.3	–1.5	–2.3	1.0	–1.0	–2.7	–6.0	...
Housing (new construction approvals)	4.3	21.4	14.1	26.0	8.0	5.3	...	...
Government tendering	13.1	–10.9	–31.6	–50.2	11.0	–47.4	...	...
Services								
Retail sales	5.7	5.7	5.0	6.1	6.7	5.5	6.3	...
Foreign tourists	4.5	–0.3	–3.1	1.3	5.4	0.3	0.6	–0.8
Tourist revenue inflows	–2.9	3.7	3.9	2.3	4.0	–2.2	...	...
Goods carried by rail (km-tonnes)	–0.7	1.7	5.8	3.0	6.4	6.2	...	...
Air passenger traffic	–1.1	7.4	7.7	8.5	11.0	6.7	7.9	5.1
Motor vehicle diesel fuel consumption	6.2	8.0	7.2	6.0	7.8	4.8	...	...

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

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

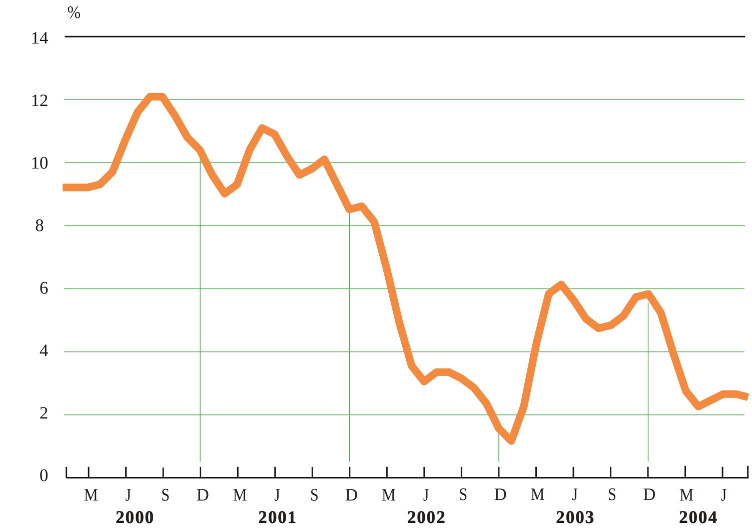
Energy, metallurgy, machine building and electrical equipment among most dynamic industrial branches...

The industrial production index adjusted for number of working days grew by 2.0% year-to-year in July, below the average recorded in the previous two months, thus for the moment slowing down the drive noted since the beginning of 2004. Branches linked to energy, metallurgy, machine building and electrical equipment (with growth figures between 7.5% and 10% from January and July) are those showing most growth.

Paper and publishing, machine building, medical equipment and motor vehicles, with increases of between 3% and 5%, were also among the more expansionist branches.

CEMENT CONSUMPTION SHOWING SUSTAINED GROWTH TREND IN RECENT MONTHS

Year-to-year change for cement consumption



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

...in contrast to slackness shown in tobacco industry, data-processing equipment, textiles and leather, among others.

At the opposite end of the scale, the leather industry, tobacco manufacturing and manufacture of data-processing equipment recorded major decreases (around 12% in the first case and more than 20% in the rest as of July). The textile sector also showed a significant drop of the order of 5.2%. Showing up at a more moderate level (between 1.5% and 3.5%) were decreases in the chemical industry, clothing and furs, electronic equipment and furniture.

Cement consumption maintaining stable growth trend.

With regard to construction, new figures on trends in some early indicators, such as new building approvals and government tendering which tended to show slower growth in the first half of the year, are not yet available. Nevertheless, we note that cement consumption in recent months has maintained a relatively stable growth rate of around 2.5% year-to-year in cycle-trend terms.

Tourism shows modest balance...

In services, of special note is the modest balance in tourism which showed average growth of 1.3% in the total number of foreign tourists between January and August. In those eight months the increase in overnight stays stood at 1.5%, thanks entirely to the increase in domestic tourism (8.7%) which compensated for the drop in those of non-residents (3.2%). In the same way, tourist inflows accounted for in the balance of payments grew by a modest 0.4% in the first half of the year, which indicates a clear drop in real terms.

…with more satisfactory results in transportation.

With regard to transport, the strength of air passenger traffic, with a 7.8% increase in the total number of passengers in the first eight months of the year and the moderate growth of the total number of travellers by road (1.6% as of July) stand in contrast to the decrease in rail passengers (2.4% in the first half-year). On the other hand, the trend in goods traffic was generally satisfactory in all modes of transport. In other services, what stood out was the good state of retail trade and activities related to information technology and communications and, to a lesser extent, of company services.

Favourable state of consumption, to go by growth in passenger car registrations.

On the demand side, consumption continues to grow at a fairly sustained rate with a comparatively better state in the heading of consumer durables and, although to a lesser extent, in non-durables with the exception of food. For example, we note that passenger car registrations in August showed a notable growth rate (7.3%) which puts the average increase for the year at 12.1%, the highest noted between January and August in the past five years.

Retail sales show favourable trend.

In addition, in real terms, the general index for retail sales in July showed a year-to-year increase of 3.0%, which, however, was lower than the average for the year (3.7%). On the other hand, real growth in department stores that month (6.9%) was higher than the annual average. Finally, we should point out that, in spite of the favourable conditions now existing (sustained growth of employment, real increase in wages, low interest rates) consumer confidence has become stuck at negative levels in recent months.

DEMAND INDICATORS

Percentage change over same period year before

	2002	2003	2003		2004			
			3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	July	August
Consumption								
Production of consumer goods (*)	2.4	0.2	0.3	–1.7	–0.1	–0.7	–0.9	...
Imports of consumer goods (**)	5.0	10.0	12.6	8.9	20.4	16.6	...	...
Car registrations	–6.6	3.8	7.4	10.3	20.8	9.6	3.8	7.3
Credit for consumer durables	12.6	1.6	4.0	1.1	3.7	4.8	–	–
Consumer confidence index (***)	–11.6	–13.7	–12.3	–11.7	–11.7	–9.3	–11.0	...
Investment								
Capital goods production (*)	–4.9	0.5	–2.2	3.2	1.3	3.7	4.9	...
Imports of capital goods (**)	–5.8	16.8	26.2	9.9	18.7	14.3	...	...
Commercial vehicle registrations	–6.0	13.5	16.3	11.9	14.9	13.1	3.9	12.1
Foreign trade (**)								
Non-energy imports	3.7	7.4	7.6	2.1	8.9	10.6	...	...
Exports	1.4	6.2	4.6	3.3	7.3	2.2	...	...

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

Expansionist performance in capital goods investment.

With regard to capital goods investment, latest available figures seem to confirm the upward growth path indicated by the figures prepared by National Accounting. In July, the industrial production index for capital goods was up by 4.9% year-to-year and it is to be expected that the figures for foreign trade, to be released shortly, will confirm the growth trend indicated.

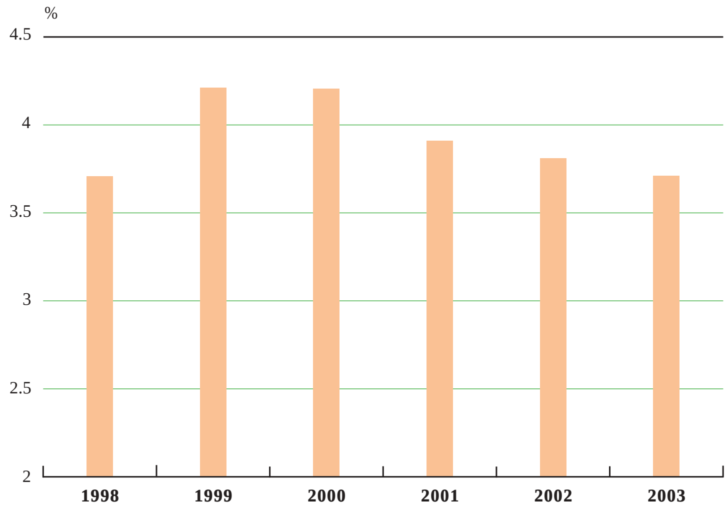
Telecommunications sector moves into consolidation stage

Telecommunications market grows by 9%, substantial drop over previous years.

Following several years of sharp growth, the telecommunications sector moved into a stage of lower growth in 2003. Total sector income rose by 8.8% compared with 2002, a figure six percentage points below average growth between 1998 and 2002, according to the Telecommunications Market Commission (TMC). As a percentage of the gross domestic product (GDP), the sector represents 3.7% of Spain's economy, a ratio which is three decimals above the EU average. Since 2000, when it was 4.2% of the GDP, telecommunications has lost some weight in the overall economy, a trend which has taken place to a lesser extent in the European Union, according to the Bank of Spain.

TELECOMMUNICATIONS STABILIZES RELATIVE WEIGHT IN NATIONAL ECONOMY

Telecommunications spending as percentage of Spain's GDP



SOURCE: Bank of Spain.

Downward adjustment in investment and employment makes possible notable increase in operating profits close to 20%.

Decreases in total investment in sector, 18% compared with 2002, and adjustment in employment (down by 5%) also point to consolidation of telecommunications in which the increase in profits and yield criteria are notable features. In this respect, as a result of the cost adjustments mentioned above, operating profits in the sector, excluding audiovisual services and satellite operators, were up by 19% in 2003, according to the TMC.

Business volume of regular telephone service down 3% in 2002…

Regular telephone service and associated activities, which also include cable operations and data-transmission services, remained the leading segment in the telecommunications market with 46% of total sector receipts. Total receipts of that segment came to nearly 16 billion euros, 5% higher than the amount recorded in 2002. Nevertheless, business volume of final regular telephone services stood at 8.3 billion euros, some 3% below billings one year earlier.

TELECOMMUNICATIONS SECTOR: BILLING, PROFITS AND EMPLOYMENT
2003

Market	Billing (million euros)	Profits (million euros)	No. of employees	% annual change		
				Billing	Profits	Employment
Regular telephone and similar (*)	15,964	1,644	51,623	5.1	36.4	–8.0
Telefónica Group	*11,242*	*2,142*	*37,362*	*–0.9*	*13.3*	*–11.6*
Cable	*1,591*	*–284*	*4,669*	*24.9*	*–55.9*	*–13.4*
Others	*3,131*	*–214*	*9,592*	*21.4*	*414.8*	*13.6*
Cellular telephone services	14,024	4,615	10,583	13.7	14.2	0.1
Audiovisual services (**)	4,282	...	22,838	8.6	...	0.3
Satellite operators	93	...	125	–13.2	...	–10.1
TOTAL	**34,363**	**6,258**	**85,169**	**8.8**	**19.3**	**–5.0**

NOTES: (*) Includes rental of circuits, data transmission, carrying and transmission of data and audiovisual signals, data-transmission services and cable operators.
(**) Does not include subsidies.
SOURCE: Telecommunications Market Commission and internal figures.

…due to reduction in income per line, stagnation in lines in service and drop in minutes used.

The drop in receipts was due to the practical stagnation in the number of lines in service (because of the growth of cellular telephones), to the drop in minutes used (because of the shift in access to Internet from narrow band to wide band, such as ADSL) and lower average income per line. In view of this state of reduction in income, operators have intensified the adjustment of costs and have paid serious attention to financial soundness. All of this made possible an increase of 36% year-to-year in the operating profits of companies involved in regular telephone service and related companies.

Trend to price reductions cut short.

Two trends shown in recent years are being maintained, according to the TMC. These are the gradual erosion of the market quota of the dominant operator in the market which in 2003 held a share standing at 81.3% of the total, 1.7 points less than in 2002, and the strategy of increasing the importance of fixed income as compared with variable income (the former went from representing 33% of the total in 2002 to 36% in 2003). On the other hand, the process of price reductions for regular telephone service noted between 1999 and 2002 gave way to an increase of 2.3% in 2003 of average income per minute billed.

Notable strength in cellular telephone service with 24% rise in number of customers and up 14% in income.

The maturity of the regular telephone segment stands in contrast to the rise in cellular telephone service in 2003. With 37.2 million cellular telephones, the rate of saturation in Spain is three points higher than the European average and stands at 87.2 cellular telephones per 100 population. This figure for lines was reached after recording 24% year-to-year growth, a rate which was practically twice that in 2002. As a percentage of total income in the telecommunications market, cellular telephone service now amounts to 41% of the total, at 14 billion euros. This figure is 14% higher than that recorded in 2002. Final cellular telephone service (total income of nearly 9 billion euros) was also the most dynamic with growth of close to 20% that year.

Investment in cellular telephone service only telecommunications sector showing growth.

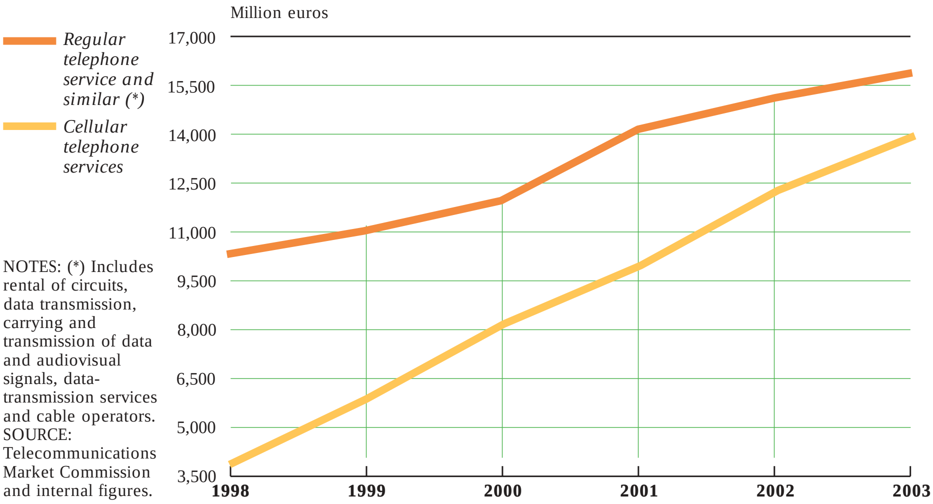
Behind this notable trend in income, apart from the increase in the number of customers mentioned, lies the higher traffic recorded and the stagnation in prices, this being a trend in contrast to the reduction in earlier years. In turn, profits in 2003 rose in the order of 14% compared with 2002. Indicative of the degree of drive in the cellular telephone segment is that those operators were the only ones in the telecommunications sector which did not reduce investment in 2003.

Three operators share market.

Leadership of the market still is held by Telefónica Móviles (54% of total income), followed by Vodafone (27%) and Amena (19%). The latter, however, is the only operator to gain market share in 2003 (1.2 percentage points), an advance made at the cost of the other two operators.

CELLULAR TELEPHONE SERVICE ALMOST CATCHING UP WITH REGULAR TELEPHONES

Billing



NOTES: (*) Includes rental of circuits, data transmission, carrying and transmission of data and audiovisual signals, data-transmission services and cable operators.
SOURCE: Telecommunications Market Commission and internal figures.

Audiovisual services see merger of two existing digital platforms.

With regard to other segments of the telecommunications market, we should mention the trend in audiovisual services which have carried out notable steps in terms of corporate concentration. These include the merger of two satellite platforms (Canal Satélite Digital and Vía Digital) to form Digital + operating since the summer of 2003 and, in the area of carrying and transmission of audiovisual signals, the acquisition of Retevisión 1 by Abertis Telecommunications. As a whole, audiovisual services enjoyed an increase of 8.6% year-to-year in the volume receipts, before subsidies, thanks to the notable increase in billing by pay-TV and some recovery in income from advertising.

LABOUR MARKET

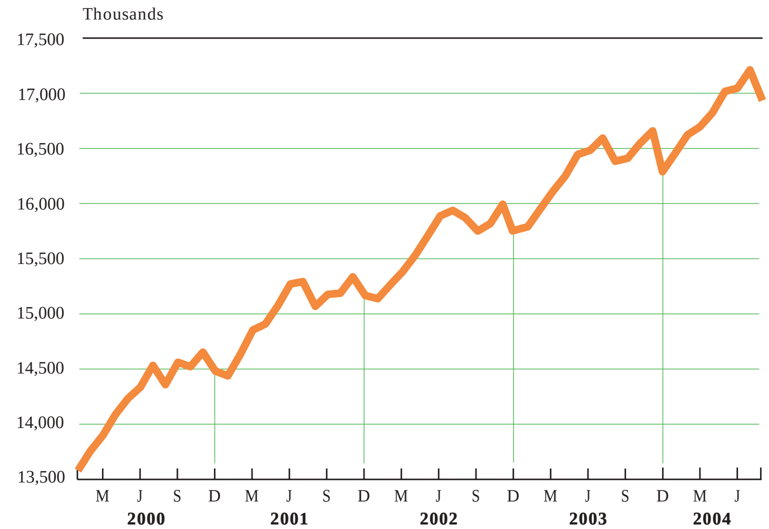
Employment eases growth rate in summer

Registrations with Social Security drop more sharply than usual in August suggesting weaker state of labour market.

The number of persons registered with Social Security dropped in August as has normally happened that month over recent years. The drop in registrations (207,845 persons) during the month, however, was somewhat more than in the same month last year so that the rate of increase in registrations dropped by three decimals to 2.5% year-to-year. The sharpness of the drop, however, must be viewed with care seeing that the beginning of the holiday period can bring about some distortions regarding the state of registrations related to some temporary work contracts.

REGISTRATIONS WITH SOCIAL SECURITY SHOW LOWER GROWTH

Total number of persons registered with Social Security



SOURCE: Ministry of Labour and Social Affairs.

Registrations of foreign workers continue growing at very high rate of 13% year-to-year.

The easing off in growth of registrations with Social Security in August was especially noticeable among the general Spanish population given that the increase in registrations by foreign workers continued at the high sustained rate of 12.6% year-to-year. As a result, foreign workers registered with Social Security reached a figure of 1,055,656, that is to say, 6.2% of the total. Registrations among Spaniards, on the other hand, were down going to a rate of 1.9% year-to-year, three decimals less than in the month before and a half-point below the rate in the first quarter.

Employment holds sustained increase as of second quarter, according to National Accounting.

The picture of an easing off in employment, apparently suggested by figures for registrations with Social Security at the beginning of summer, is not reflected in the figures supplied by National Accounting prepared by the National Institute of Statistics for the second quarter, although they are put at lower levels. According to these figures, the number of jobs equivalent to full-time work rose by 2.0% year-to-year, practically the same rate as in the past four quarters.

EMPLOYMENT INDICATORS

Percentage change over same period year before

	2002	2003	2003		2004			
			3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	July	August
Persons registered with Social Security								
Wage-earners	3.5	3.2	2.9	2.9	2.9	2.4	2.6	2.3
Industry	*–0.2*	*–0.5*	*–0.5*	*–0.7*	*–0.5*	*–0.5*	*–0.7*	...
Construction	*5.8*	*4.3*	*3.8*	*3.0*	*4.4*	*4.3*	*4.3*	...
Services	*4.4*	*4.1*	*3.9*	*4.3*	*4.3*	*3.7*	*4.2*	...
Non-wage-earners	0.9	2.3	2.5	2.8	3.2	3.2	3.2	3.2
Total	**3.0**	**3.0**	**2.8**	**2.9**	**2.9**	**2.6**	**2.8**	**2.5**
Persons employed (*)	**2.0**	**2.7**	**2.8**	**3.0**	**2.6**	**2.3**	**–**	**–**
Jobs (**)	**1.7**	**1.8**	**2.0**	**2.1**	**2.1**	**2.0**	**–**	**–**
Hiring contracts registered (***)								
Permanent	–1.6	–1.0	–6.2	0.2	10.0	16.3	15.5	20.5
Temporary	1.1	3.9	1.5	8.8	14.4	13.7	14.1	15.6
Total	**0.9**	**3.4**	**0.9**	**8.1**	**13.9**	**13.9**	**14.2**	**15.9**

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

Private services show up well, industry offers less negative picture while construction and public services weaken.

The stability of the increase in employment, according to National Accounting, comes as a result of a continuation of the good state of the labour market in the sector of private services and some recovery in the employment profile in industry, in spite of a continuing drop. These positive signs are offset by the major weakness in employment in public services and construction, along with the increased worsening of the situation in agriculture and the energy field.

Registered hiring contracts continue quite notable rise in August.

In addition, new hiring contracts registered with the National Employment Institute (INEM) showed strong growth in August (15.9% year-to-year) which put the cumulative increase at 14.2%. This drive, which was in contrast to the state of greater easing off shown by other indicators, may be explained by the particular nature of the figures which, from one year to the next, may include hiring contracts very different in length and type which therefore are not strictly comparable. The biggest increase in job placements continued to show up in part-time work standing at 22.6% as of August.

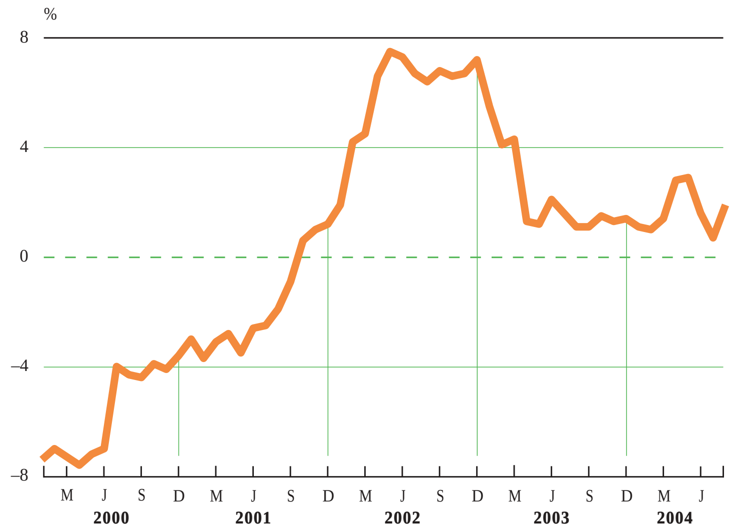
Registered unemployment: situation slightly worse in August

Registered unemployment up in August in contrast to drop last year.

The number of unemployed registered at INEM offices rose by 13,217 in August to stand at a total of 1,598,392 at the end of that month. This increase was in contrast to the slight drop in the same month last year which meant a slight worsening of the trend. Nevertheless, similarly to what happened with registrations with Social Security, there arises the question of the real extent of the worsening of the labour market in view of the fact the figure for August has shown an uneven performance in recent years.

UNEMPLOYMENT AGAIN MOVING UP SLIGHTLY

Year-to-year change in unemployment registered at INEM



SOURCE: National Employment Institute and internal figures.

Construction and services showing least favourable trend.

The poor performance in registered unemployment, which moved up to growth of 1.9% annual, is especially notable in services and, although to a lesser extent, in construction, sectors which this summer have shown a weaker level of activity. In industry, on the other hand, the situation improved slightly as did the figure for those seeking a first job, while both of these groups maintained a level of unemployment below that in August 2003.

Situation worse in most autonomous communities although some show lower level of unemployment than in 2003.

By autonomous community, the weaker situation in August was fairly general with the exception of Navarre and Madrid Community, autonomous communities which, along with Andalusia, Aragon, Castile-Leon, Galicia and La Rioja showed a lower level of unemployment than that at the same time last year. At the other end of the scale, Canary Islands, Valencian Community, Extremadura, Balearic Islands and Catalonia showed relatively big increases in unemployment compared with August 2003, while also indicating some worsening of the trend.

REGISTERED UNEMPLOYMENT BY SECTOR, SEX AND AGE

August 2004

	No. of unemployed	Change over December 2003		Change over same period year before		% share
		Absolute	%	Absolute	%	
By sector						
Agriculture	37,096	–828	–2.2	1,918	5.5	2.3
Industry	248,127	–16,166	–6.1	–3,807	–1.5	15.5
Construction	187,584	–24,304	–11.5	6,554	3.6	11.7
Services	914,427	–54,288	–5.6	35,926	4.1	57.2
First job	211,158	–17,509	–7.7	–11,413	–5.1	13.2
By sex						
Males	649,436	–75,826	–10.5	9,214	1.4	40.6
Females	948,956	–37,269	–3.8	19,964	2.1	59.4
By age						
Under 25 years	220,835	–36,915	–14.3	–14,743	–6.3	13.8
All other ages	1,377,557	–76,180	–5.2	43,921	3.3	86.2
TOTAL	**1,598,392**	**–113,095**	**–6.6**	**29,178**	**1.9**	**100.0**

SOURCE: INEM and internal figures.

Wage costs stabilize growth rates

Wage costs maintain growth slightly above 3%.

Total wage costs, according to the quarterly survey of labour cost, stood at 1,523 euros per person per month in the second quarter of 2004 with a rise of 3.1% compared with the same period last year. This increase, which was one decimal lower than in the previous quarter, confirmed the degree of stability being seen in wage increases over the past year.

Effective cost per hour dropping.

Total labour cost, that is to say, wage cost plus other labour costs, such as Social Security and other benefits, held at 3.2% year-to-year, three decimals below the previous quarter, helped by the moderation seen in non-wage costs. This moderation was also reflected more sharply in the effective hourly cost per hour worked which went down to growth of 2.6% in the quarter, that is to say, one and a half points less than in the first quarter of 2004.

Wages in industry and construction ease but not in services.

The moderation in wage costs was especially notable in industry and construction, sectors in which wage increases eased by somewhat more than one percentage point to 2.9% and 4.1% respectively, most likely thanks to the lower level of economic activity, especially in the latter case. In services, on the other hand, wage increases showed a rise of a half percentage point in growth rate putting it at 3.2%.

Collective bargaining agreements below 3%.

The average rise in wages settled on in collective bargaining agreements up to the middle of the third quarter of 2004 stood at 2.9%, according to figures supplied by the Ministry of Labour and Social Affairs, that is to say, six decimals of a point less than in the whole of last year. These figures were for agreements covering 5.6 million workers , that is to say, around 60% of those effectively coming under collective bargaining at the end of the year.

WAGE INDICATORS

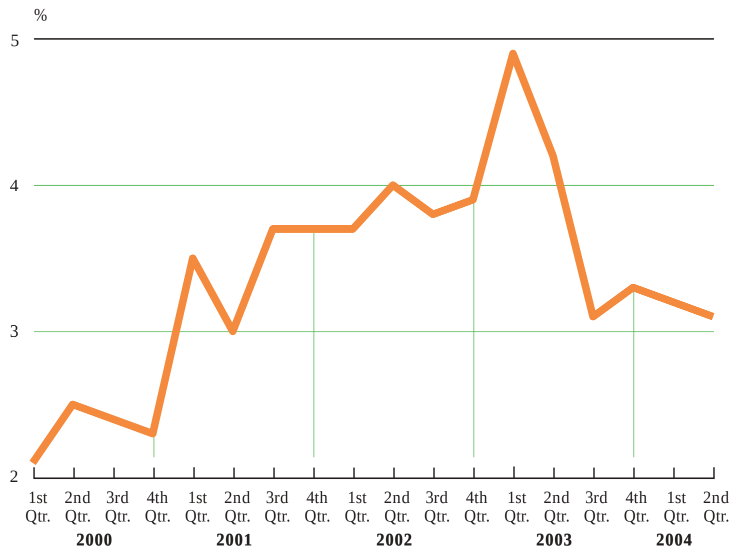
Percentage change over same period year before

	2002	2003	2003		2004	
			3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.
Increase under general wage agreements	3.1	3.5	3.5	3.5	2.8	2.9
Wage per job equivalent to full-time work (*)	4.3	4.2	3.8	4.0	3.9	3.8
Labour cost index						
Wage costs						
Total	3.9	3.8	3.1	3.3	3.2	3.1
Industry	*4.7*	*4.4*	*3.7*	*3.7*	*4.0*	*2.9*
Construction	*4.1*	*5.0*	*5.1*	*5.1*	*5.2*	*4.1*
Services	*3.8*	*3.5*	*2.6*	*3.0*	*2.7*	*3.2*
Average wages per hour worked	4.1	4.3	3.1	3.0	4.1	2.5
Other labour costs	6.0	5.4	5.2	5.0	4.4	3.5
Work day (**)	–0.3	–0.5	–0.1	0.4	–0.9	0.5
Farm wages	5.1	2.6	2.1	2.6	2.2	4.0
Labour cost in construction	2.9	4.4	4.4	4.5	3.8	5.1

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

WAGE GROWTH BECOMING STABLE

Year-to-year change in wage cost per worker per month



SOURCE: National Institute of Statistics and internal figures.

PRICES

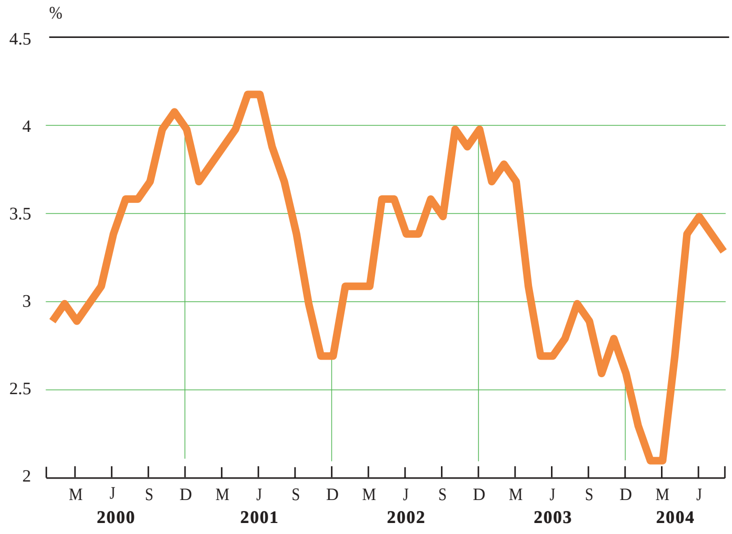
CPI leaves worst behind

Inflation rate down to 3.3% in August…

The consumer price index (CPI) rose by 0.4% in August, one decimal less than in the same month in 2003, which meant that the inflation rate dropped to 3.3% year-to-year. This represented a slight easing off compared with the inflation hike from March to June when the year-to-year rate reached 3.5%. On the other hand, underlying inflation (the general index less the energy and fresh food components) rose by one decimal putting the figure at 2.9%, some seven decimals higher than the March low.

SLIGHT DROP IN CPI

Year-to-year change in consumer price index



SOURCE: National Institute of Statistics.

…thanks to containment of fresh food prices…

The relative containment of the CPI in August was due to fresh food prices which, as a result, compensated for the slight rise in energy prices and industrial goods. In addition, both services prices and those for processed foods played a neutral role during the month.

CONSUMER PRICE INDEX

	2003			2004		
	% monthly change	% change over Dec. 2002	% annual change	% monthly change	% change over Dec. 2003	% annual change
January	–0.4	–0.4	3.7	–0.7	–0.7	2.3
February	0.2	–0.2	3.8	0.0	–0.7	2.1
March	0.7	0.5	3.7	0.7	0.0	2.1
April	0.8	1.3	3.1	1.4	1.4	2.7
May	–0.1	1.2	2.7	0.6	2.0	3.4
June	0.1	1.3	2.7	0.2	2.2	3.5
July	–0.6	0.6	2.8	–0.8	1.4	3.4
August	0.5	1.1	3.0	0.4	1.8	3.3
September	0.3	1.4	2.9			
October	0.7	2.1	2.6			
November	0.3	2.4	2.8			
December	0.2	2.6	2.6			

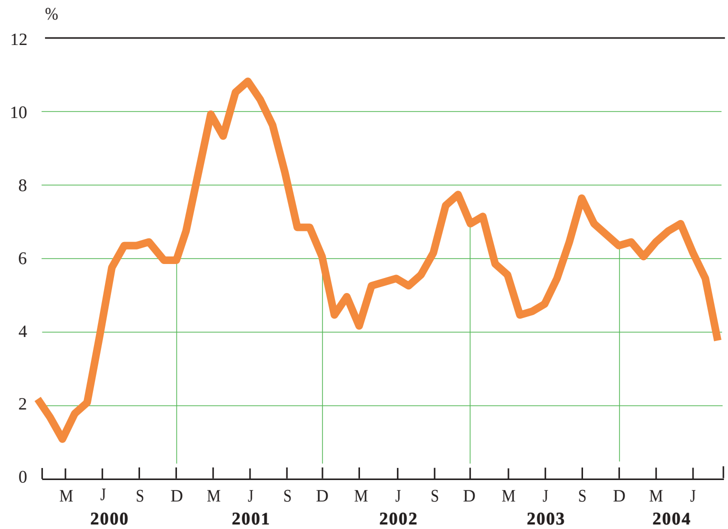
SOURCE: National Institute of Statistics.

...which reveals weakness in some markets of origin.

The improvement in fresh food prices, for the third month running, seems to reflect the weakness of prices of origin in some farm markets. For the moment, however, the increase in this CPI component is holding at relatively high levels (3.8%) although at some distance from previous months with figures of the order of 7%. The moderation in these prices may be attributed mainly to poultry, pork, vegetables and produce.

FRESH FOODS BALANCE OUT RISE IN OTHER COMPONENTS

Year-to-year change in consumer price index for fresh foods



SOURCE: National Institute of Statistics.

Processed foods halt rise in August…

The performance in processed foods was also relatively favourable with growth stabilizing at 4.2% year-to-year in August after four consecutive months of notable increases. An end to the rises in the price of cooking oil and the appreciable increase in tobacco, along with moderation in the price of cereal-based products was behind this performance.

CONSUMER PRICE INDEX BY COMPONENT

August

	Indices (*)	% monthly change		% change over previous December		% annual change	
		2003	2004	2003	2004	2003	2004
By type of spending							
Food and non-alcoholic beverages	113.9	0.9	0.3	2.5	2.3	4.0	3.9
Alcoholic beverages and tobacco	115.9	0.0	0.0	2.7	5.5	2.7	5.6
Clothing and footwear	104.0	–0.7	–0.4	–10.0	–10.6	3.9	1.8
Housing	109.4	0.2	0.4	2.1	3.1	2.7	3.8
Household equipment	105.5	–0.0	–0.0	0.6	0.5	2.0	1.6
Health	105.4	0.1	0.1	1.8	–0.0	2.2	0.2
Transport	110.5	0.6	1.1	1.8	6.6	1.9	5.8
Communications	93.6	–0.1	–0.1	0.6	–0.1	–2.6	–0.9
Recreation and culture	105.5	1.6	1.6	1.9	2.0	0.5	0.2
Education	112.3	0.0	0.0	1.0	0.6	5.0	3.9
Hotels, cafés and restaurants	116.5	0.9	0.9	4.7	4.6	4.4	4.0
Other	110.9	–0.0	0.0	2.5	2.5	3.2	3.1
By group							
Processed food	112.2	0.2	0.2	2.0	3.5	2.5	4.2
Unprocessed food	118.1	1.9	0.3	3.7	1.1	6.5	3.8
Non-food products	108.9	0.4	0.5	0.6	1.5	2.7	3.1
Industrial goods	104.7	0.1	0.4	–2.0	–0.5	1.8	2.5
Energy products	*108.5*	*1.4*	*1.8*	*1.4*	*8.6*	*1.1*	*7.0*
Fuels and oils	*110.6*	*1.9*	*2.4*	*1.4*	*11.2*	*0.9*	*9.0*
Industrial goods excluding energy products	*103.4*	*–0.3*	*–0.1*	*–3.0*	*–3.2*	*2.0*	*1.0*
Services	113.8	0.7	0.6	3.7	3.8	3.7	3.7
Underlying inflation (**)	109.6	0.2	0.3	0.8	1.2	2.8	2.9
GENERAL INDEX	**110.2**	**0.5**	**0.4**	**1.1**	**1.8**	**3.0**	**3.3**

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

…while services prices keep up high but stable growth.

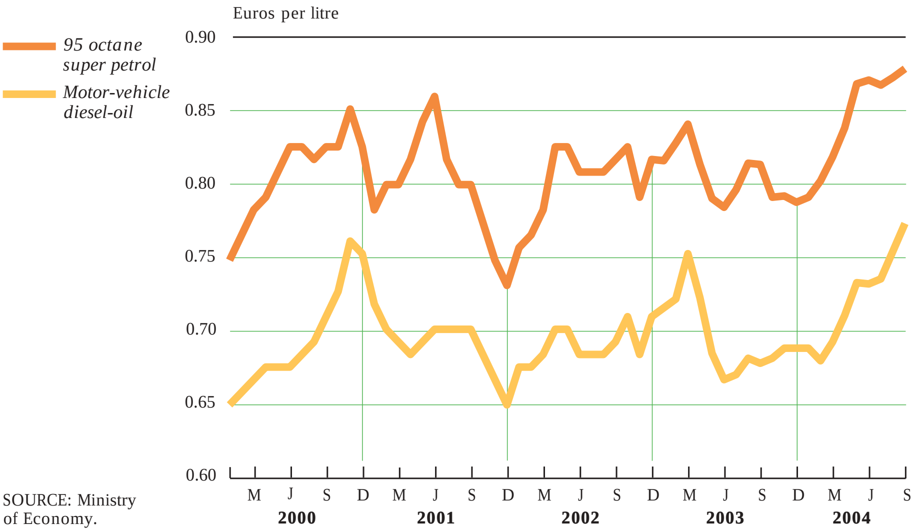
The performance in services prices was also entirely stable with growth continuing at a sustained rate of 3.7%, a rate which has practically been repeated over the past 12 months. Nevertheless, some headings show high growth of more than 10%, as is the case of air transport and financial services. These growth rates were compensated by relatively modest increases in medical services, cultural services and organized travel. Under tourism and the hotel and restaurant trade, cafés and restaurants showed higher but more stable price increases (above 4%) than those for hotels which tended to ease to levels below 3%.

All-time highs in petrol and diesel oil prices.

On the negative side of the scales we should again put prices of fuel and fuel-oil which continued to put pressure on the general index. In fact, the increase in this component in August was 2.4% which put the year-to-year rate up to 9.0%. This heading includes rises in fuel prices following the boost in the per barrel price of oil in recent months. According to initial estimates, the price of petrol and diesel-oil reached all-time highs in August and September.

FILLING UP PETROL TANK COSTS MORE

Petrol and diesel-oil prices



SOURCE: Ministry of Economy.

Prices of industrial goods up slightly but growth rate mere 1%.

Non-energy industrial goods, in turn, also showed a slight rise in August, mainly because of the weaker level of second seasonal sale campaigns, but the increase in prices held at very low levels (1.0% year-to-year) thus reflecting the notable impact of competition in certain markets, mainly in data-processing equipment, photographic goods and audiovisual equipment.

Price differential with euro area holds at one percentage point in August.

Spain's inflation differential with the euro area held at one percentage point in August as both inflation rates stabilized in August, according to the harmonized consumer price index prepared by Eurostat. Growth of prices in Spain was higher than in the euro area in practically all groups making up the index with the exception of alcoholic beverages and tobacco and medical services, both of which are rising sharply in Europe. The biggest differentials continued to show up in food and transportation. In the latter case, this was because of the bigger relative rise in these prices in Spain over recent months.

Producer prices continue to rise in August

Energy and intermediate goods continue to put pressure on producer prices in August.

Producer prices continued an upward trend in August with the growth rate standing at 4.4% year-to-year, three decimals higher than that recorded the month before. The increase in energy prices and the sustained rise in non-energy intermediate goods have boosted this trend since last March when the increase in producer prices at year-to-year rate was 0.8%.

INFLATION INDICATORS

Percentage change over same period year before

	Farm prices	Producer price index					Import prices				GDP deflator (*)
		General index	Consumer goods	Capital goods	Intermediate goods	Energy goods	Total	Consumer goods	Capital goods	Intermediate goods	
2003											
May	11.2	0.7	1.8	1.2	1.0	–2.3	–2.0	–1.9	–10.0	0.4	3.8
June	7.8	0.9	2.0	1.2	0.4	–0.9	0.7	–0.6	–7.2	3.8	–
July	5.6	1.1	2.5	1.1	0.1	0.2	0.0	–3.4	–7.2	3.2	–
August	7.1	1.1	2.7	1.1	0.0	0.1	1.5	4.5	–9.1	2.9	3.7
September	13.5	0.8	2.7	1.2	0.3	–2.4	–2.8	–0.2	–17.7	0.9	–
October	10.0	0.6	2.5	1.2	0.7	–3.6	0.8	2.8	–0.6	–0.0	–
November	9.7	1.3	2.6	1.4	0.9	–0.4	–0.2	–0.4	–7.0	1.8	3.8
December	9.8	1.1	2.4	1.3	1.0	–1.1	–1.4	–1.4	–9.4	1.0	–
2004											
January	4.4	0.7	2.1	1.3	1.4	–3.6	–3.7	–1.0	–8.4	–3.6	–
February	–2.6	0.7	2.1	1.3	2.0	–5.4	1.8	–6.0	–6.2	7.5	3.6
March	1.3	0.8	2.3	1.3	2.6	–5.6	–2.3	–3.6	–7.0	–0.5	–
April	3.3	2.6	2.9	1.3	3.7	1.2	1.4	–3.9	2.6	3.4	–
May	7.1	3.8	3.1	1.2	4.4	7.2	5.3	2.9	–1.1	8.6	3.7
June	...	4.0	3.2	1.2	4.8	7.1	–0.5	–3.3	–2.0	1.4	–
July	...	4.1	2.8	1.6	5.3	7.2	...	...	...	...	–
August	...	4.4	2.2	1.7	5.7	9.0	...	...	...	...	...

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

Import prices moderate except in case of intermediate goods.

Import prices, in turn, showed some easing off in June, particularly in consumer goods and capital goods. On the other hand, intermediate goods showed a substantial rise because of oil prices. In the half-year as a whole, there were appreciable price decreases in consumer products, sharper than in 2003. On the other hand, non-energy intermediate goods showed somewhat higher increases in 2004. Oil went to 192.6 euros a metric ton, some 0.5% more than in the January-June period in 2003.

Farm prices up in May.

Farm prices rose in May thus breaking with the trend to moderation seen in preceding months because of some pressures showing up in certain farm markets, with livestock prices holding relatively stable. In any case, in the first five months of the year taken as whole the average increase in farm prices held at a modest 2.8%.

FOREIGN SECTOR

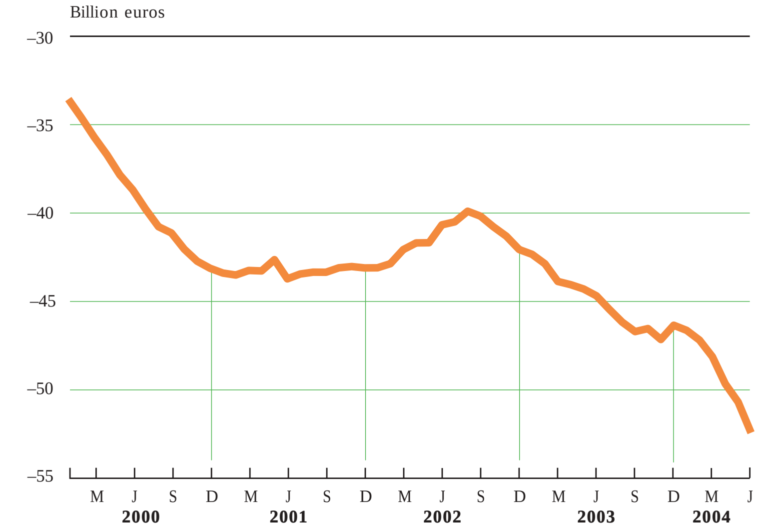
Trade deficit sharpens growth in June

Trade deficit up close to 30% in first half-year.

Spain's trade deficit continued to grow sharply in June because of a continuation of the pressure from imports and despite the appreciable improvement in exports. As a result, the cumulative imbalance in the first half-year showed an increase of 29.7% with a total of 26.7 billion euros. The export-import ratio, in turn, stood at 73.4%, practically four points less than in the same period last year.

FOREIGN TRADE IMBALANCE GETS MUCH WORSE

Cumulative trade balance for past twelve months



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

Motor vehicles, furniture, consumer electronics and footwear lead rise in imports.

Imports, which grew by 20.4% nominal, totalled 100.1 billion euros in the half-year as whole, some 10.5% more than last year, thus reflecting the strength of domestic demand. In real terms, the increase was somewhat less (10.0%) if we take into account the slight rise in import prices. The increase in imports was sharpest in non-food consumer goods (up 20.9% in volume as of June) and more specifically in the areas of electronic consumer goods, cars, furniture and footwear. Purchases of capital goods also showed sharp growth (16.3% real) with an emphasis on railway equipment and general-use machinery. The increase in imports of food products was somewhat lower at 11.6% although still higher than last year. Finally, for the first time during the year purchases of intermediate goods showed some strength, both in energy products and in raw materials and other semi-finished goods.

FOREIGN TRADE

January-June 2004

	Imports			Exports			Balance	Export/ Import ratio (%)
	Million euros	% annual change in value	% share	Million euros	% annual change in value	% share	Million euros	
By product group								
Energy products	10,365	8.4	10.4	2,453	15.2	3.3	–7,912	23.7
Consumer goods	28,409	15.5	28.4	29,473	1.2	40.1	1,064	103.7
Food	*6,285*	*10.1*	*6.3*	*9,106*	*1.9*	*12.4*	*2,821*	*144.9*
Non-foods	*22,123*	*16.7*	*22.1*	*20,367*	*–0.5*	*27.7*	*–1,756*	*92.1*
Capital goods	15,989	12.3	16.0	9,342	12.6	12.7	–6,646	58.4
Non-energy intermediate goods	45,358	7.4	45.3	32,186	5.4	43.8	–13,172	71.0
By geographical area								
European Union	62,930	8.3	62.9	52,833	3.4	71.9	–10,096	84.0
Euro area	*54,875*	*8.8*	*54.8*	*44,146*	*3.1*	*60.1*	*–10,729*	*80.4*
Other countries	37,190	14.3	37.1	20,621	8.5	28.1	–16,570	55.4
Eastern Europe and Ex-USSR	*4,845*	*24.2*	*4.8*	*3,080*	*2.1*	*4.2*	*–1,765*	*63.6*
United States	*3,775*	*7.8*	*3.8*	*2,801*	*–0.3*	*3.8*	*–974*	*74.2*
Japan	*2,847*	*21.4*	*2.8*	*648*	*29.9*	*0.9*	*–2,198*	*22.8*
Latin America	*3,918*	*13.1*	*3.9*	*3,370*	*3.2*	*4.6*	*–547*	*86.0*
OPEC	*5,838*	*–0.2*	*5.8*	*1,584*	*–2.7*	*2.2*	*–4,254*	*27.1*
Rest	*15,968*	*18.6*	*15.9*	*9,137*	*17.3*	*12.4*	*–6,831*	*57.2*
TOTAL	**100,120**	**10.5**	**100.0**	**73,454**	**4.8**	**100.0**	**–26,666**	**73.4**

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

Volume of purchases outside EU-15 up more than 18%.

By geographical area, purchases from the European Union (EU-15) were up 5.4% real in the first half-year as against 18.5% in the case of those from the rest of the world. We should point out the sharp increase in purchases from the ten new member states of the EU at 41.1% nominal in the first six months of 2004. Outside the EU, the biggest increases came in trade with China and the Middle East, both above 25% nominal, and with Brazil (32.6%).

Exports recover slightly in June but half-year balance still quite modest.

Exports, in turn, grew by 12.0% nominal in June, thus recovering appreciably compared with previous months although the cumulative figure for the first half-year (73.5 million euros) still represented a relatively modest increase over last year at 4.8% nominal, equivalent to 4.6% real. The improvement in the export picture in June was specially notable in markets such as Japan, Middle East (including Turkey), Mexico and Brazil. Altogether, exports to third countries showed a relatively more favourable half-yearly balance with growth of 9.8% real, seven points more than exports to the EU-15.

Capital goods strongest segment in exports.

By product, the best situation showed up in capital goods with a real increase of 12.5% in the half-year, with foreign sales being especially notable in transportation equipment, mainly ships and aircraft. Exports of consumer goods was much weaker with an increase of 2.0% real (1.8% in the case of non-food goods) with a notable decrease in nominal terms in sales of certain consumer manufactures (footwear and furniture) and a modest increase in exports of cars (3.8%). Finally, exports of intermediate goods showed a somewhat more positive performance than in previous months recording a real increase of 4.4%, partly due to the strong foreign demand for iron and steel.

Current account deficit sharpens rise

Current account rapidly growing worse.

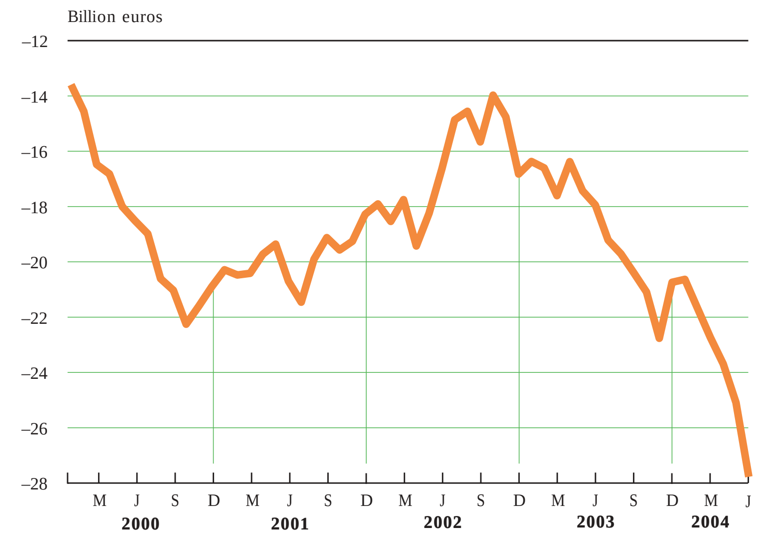
The current account balance showed a deficit of 4.5 billion euros in June, a figure two and a half times higher than in the same month last year. The worsening of the current account balance put the cumulative deficit for the last 12 months at 27.9 billion euros, a figure equivalent to 3.6% of the gross domestic product.

Bigger trade deficit and lower surplus in services.

The worsening situation came from the increase in the trade deficit and the lower balance for services. The transfers balance improved slightly during the month but in cumulative terms it was far below last year. The incomes balance ran along the same lines with the deficit getting slightly worse.

CURRENT ACCOUNT DEFICIT CONTINUES TO INCREASE

Cumulative current account balance with abroad for past twelve months



SOURCE: Bank of Spain and internal figures.

Surplus in tourist balance being cut by upward trend in payments.

The decrease in the services surplus may be attributed to the balance in the heading for various services and, to a lesser extent, to the tourist balance. In this case, the drop was due more to the rise in payments than a poor performance in inflows which continued to move up although at a lower rate than previously. As a result, in the period between June 2003 and June 2004 the tourist balance showed a positive balance of 28.9 billion euros, down by 0.9% from the same period last year. Inflows, in turn, were 2.0% higher as against an increase of 13.9% in payments.

BALANCE OF PAYMENTS

Cumulative figure for last 12 months in million euros

	June 2003	June 2004	% change
Current account balance			
Trade balance	–35,201	–43,898	24.7
Services			
Tourism	*29,184*	*28,914*	*–0.9*
Other services	*–2,070*	*–2,951*	*42.6*
Total	27,114	25,963	–4.2
Income	–11,676	–10,915	–6.5
Transfers	1,753	931	–46.9
Total	**–18,010**	**–27,919**	**55.0**
Capital account	**7,866**	**8,659**	**10.1**
Financial balance			
Direct investment	7,666	–7,403	–
Portfolio investment	–1,891	5,068	–
Other investment	14,374	28,900	101.1
Total	**20,149**	**26,565**	**31.8**
Errors and omissions	–6,423	–3,998	–37.8
Change in assets of Bank of Spain	–3,582	–3,307	–7.7

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

Spanish direct investment abroad shows somewhat better profile but still well below last year.

Capital account showed a surplus of 369 million euros in June, a fifth of the amount in the same month last year. Despite this setback, the balance for the past 12 months stood 10.1% higher than last year. Financial account, excluding Bank of Spain transactions, over the past 12 months ending in June 2004 showed cumulative net entries of 26.6 billion euros, some 31.8% more than in the same period last year. Spanish direct investment abroad continued to show slight signs of recovery, especially because of the higher volume of investment in real estate, although the total volume was 38.6% lower than in the same period last year. On the other hand, foreign direct investment in Spain maintained its sharp decline with a drop of 69.7% over last year. In foreign direct investment, the drop showed up mainly in corporate investment. Portfolio investment, on the other hand, grew by around 50% in both concepts.

PUBLIC SECTOR

Tax collections up more than 5% as of August

Government revenues as of August up somewhat below nominal growth of economy.

Central government non-financial revenues were up 2.8% as of August, going to a figure of 70.8 billion euros. This figure does not include those segments of collections for personal income tax and the greater part of indirect taxes ceded to autonomous communities and local councils, with the result that this is of little significance as an indicator of revenues available to government through general taxes. If the tax segments ceded are included, collections came to 96.1 billion euros, which meant an increase of 5.2% compared with the same period in 2003.

Indirect tax collections up 7% with VAT main player.

The main source of tax collections continued to be indirect taxes with value added tax (VAT) in the lead. The amount collected for this tax as of August was 41.9 billion euros, some 6.9% more than in the same period in 2003. Revenues from VAT amounted to 28.6 billion euros with growth of 7.4%. Among special taxes, most headings moved ahead at a good rate except in the case of fuels for which collections (the highest in absolute terms) were up by 3.9%, well below the increase in fuel prices. As opposed to 2003, figures for 2004 do not include the tax on certain means of transport which are considered revenue proper to the autonomous communities. In addition, the increase in funds obtained from the tax on insurance premiums (10.4%) was quite notable. This rise is connected to the growth of the motor vehicle market and the increase in receipts from foreign trade, thanks to the sharp increase in imports from third countries.

Direct tax revenues increased by boost in company earnings.

Revenues from direct taxes totalled 45.9 billion euros as of August with an increase of 5.3% compared with 2003. The increase was concentrated in corporate tax, given that revenue from personal income tax was stagnant compared with the same period last year.

Drop in government property earnings, current transfers and revenues from fees and public service charges.

Apart from tax revenues obtained, fees and public service charges showed an appreciable drop but less than that recorded by property earnings and current transfers, at 10.4% and 7.0% respectively. On the other hand, capital transfers were up 18.9% compared with last year while revenues from disposal of publicly-owned investment properties was of little importance.

Lower interest payments and drop in real investment.

Central government non-financial spending, in turn, was down by 0.2% with the total amounting to 74.7 billion euros. This figure does not include the balancing entry for revenues corresponding to those tax segments ceded to the autonomous communities. The drop in spending affected current operations because of the decrease in interest payments and lower real investment.

CENTRAL GOVERNMENT BUDGET IMPLEMENTATION

August 2004

	Month		Cumulative for year	
	Million euros	% change over same month year before	Million euros	% change over same month year before
Non-financial revenue	**7,290**	**10.0**	**70,785**	**2.8**
Non-financial revenue adjusted (*)				
Personal income tax	83	–	29,671	0.7
Corporate tax	8,449	16.5	14,690	15.6
VAT	–242	–58.3	28,645	7.4
Special taxes	1,590	2.4	11,660	4.5
Other	580	–54.9	11,480	0.6
Total	**10,460**	**10.7**	**96,146**	**5.2**
Non-financial spending	**7,198**	**–2.6**	**74,722**	**–0.2**
Treasury balance	**92**	**–**	**–3,937**	**–34.4**
Surplus (+) or deficit (–) (**)	***–86***	***–94.8***	***436***	***–39.4***

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

Treasury deficit down 34% in first eight months of year.

The central government Treasury balance as of August, that is to say, the difference between its non-financial revenues and spending, was negative showing a figure of –3.9 billion euros and 34.4% lower than in the same period last year. The deficit, in turn, dropped to 997 million euros because of the sharp net decrease in financial assets arising from movements of government deposits in financial institutions and other assets. On the other hand, the rise in property allocations continued, mainly to Gestor de Infraestructuras Ferroviarias, with a total of 1.1 billion euros. In National Accounting terms, on the other hand, the budget balance was positive by an amount of 436 million euros, although this was lower than in the same period in 2003.

SAVINGS AND FINANCING

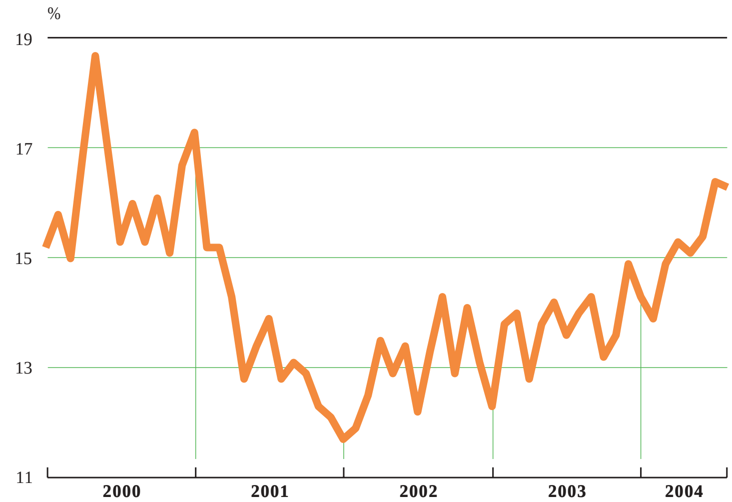
Bank credit to companies and households showing strong growth rate

Bank credit to private sector growing at more than twice euro area rate.

Bank credit to the private sector grew by 16.3% in the 12 months ending in July 2004. This rate is one decimal lower than that for the previous month but still means a high growth rate, more than twice that the euro area as a whole. Bank loans to companies and families continues to be boosted by the good state of the economy and favourable financing terms with interest rates very low.

BANK CREDIT TO PRIVATE SECTOR HOLDS VERY STRONG

Year-to-year change



SOURCE: Bank of Spain and internal figures.

Mortgage loans continue to grow at high rate.

Growth of credit to the private sector has continued to depend largely on mortgage loans. As a result, mortgage loans by banks and savings banks rose by 20.7% in July compared with the same month in 2003, some 5 decimals less than in the previous month. If we include securitizations and other lending institutions, the rate goes up to 24.3%, according to figures released by the Spanish Mortgage Association. There was also a notable increase in commercial credit, which goes to finance working capital of companies, which was up 12.5% compared with July 2003. Leasing, which goes to finance acquisition of capital goods and buildings by companies and self-employed professionals, was up 9.7% in year-to-year change rate, some 4.8 points less than in the month before.

CREDIT TO COMPANIES AND HOUSEHOLDS

July 2004

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
Trade credit	58,731	3,200	5.8	6,516	12.5	6.6
Secured loans (*)	500,287	58,162	13.2	86,107	20.8	56.1
Other term loans	274,480	23,581	9.4	28,478	11.6	30.8
On-demand loans	22,941	2,018	9.6	1,904	9.1	2.6
Leasing	28,033	2,964	11.8	2,476	9.7	3.1
Doubtful loans	7,323	–343	–4.5	–330	–4.3	0.8
TOTAL	**891,794**	**89,582**	**11.2**	**125,150**	**16.3**	**100.0**

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

New all-time low in default rate at banks and savings banks.

On the other hand, doubtful loans continued to drop in absolute terms to 7.3 billion euros in July. This figure represents a default rate of 0.82%, the lowest level in recent years. The rate for banks and savings banks (excluding other lending institutions) stood at 0.68%, thus marking up a new all-time low.

Credit going into production activities up more than that going to households.

In addition, the Bank of Spain recently made available the figures for credit to companies and households broken down by purpose for the end of the second quarter of 2004. These figures make possible a more detailed analysis from the point of view of loan purpose. Credit going into production activities was up by 16.2% compared with June 2003, some 2.1 points more than in the previous quarter. Credit going into funding for individuals showed slightly lower year-to-year growth at 16.0%, down 4 decimals from the rate recorded three months earlier.

Financing for construction and real estate activities up 33% in past 12 months.

Looking at the main economic sectors, what is noteworthy is the strength in construction for which credit rose by 21.8% in the past 12 months, 2.1 points more than in the previous quarter. Credit for services also showed a strong drive with a rise of 21.5% as of June, some 2.7 points more than in the first quarter. Construction and real estate services recorded a spectacular year-to-year rise of 33.2%. Financing going into the primary sector, that is agriculture, livestock raising and fishing, was up by 8.8% compared with 12 months earlier, some 3.3 points less than in March. Funds directed into industry dropped by 0.4% compared with the second quarter of last year.

Little strength in demand for credit to acquire consumer durables.

With regard to funding for households, finance for the acquisition and renovation of housing was up 17.8% compared with the same period last year, some 0.3 points less than in the first quarter. On the other hand, credit for the acquisition of consumer durables rose by only 4.8% compared with last year, although this rate was 1.1 points higher than that shown in March. Other funding going to households eased off to a year-to-year increase of 15.2%.

CREDIT TO PRIVATE SECTOR BY PURPOSE

Second quarter of 2004

	Total (*)	Change this year		Change 12 months	
	Million euros	Million euros	%	Million euros	%
Funding of production-related activity					
Agriculture, livestock and fishing	17,102	700	4.3	1,390	8.8
Industry	86,663	834	1.0	–352	–0.4
Construction	72,362	6,578	10.0	12,931	21.8
Services	276,018	31,978	13.1	48,927	21.5
Total	**452,145**	**40,090**	**9.7**	**62,896**	**16.2**
Funding to individuals					
Home purchase or renovation	301,537	25,579	9.3	45,527	17.8
Acquisition of consumer durables	37,374	2,238	6.4	1,699	4.8
Other funding	66,575	5,656	9.3	8,761	15.2
Total	**405,486**	**33,473**	**9.0**	**55,986**	**16.0**
Funding to private non-profit institutions	**3,183**	**181**	**6.0**	**671**	**26.7**
Other unclassified	**17,696**	**2,553**	**16.9**	**4,085**	**30.0**
TOTAL	**878,510**	**76,298**	**9.5**	**123,638**	**16.4**

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

Extraordinary rise in time deposits

Private sector deposits up 13% in past 12 months…

Total deposits of resident companies and households in euros and foreign currency rose by 12.8% in July 2004 compared with the same month last year, some 0.5 points more than in June. In the past 12 months the rate at which savings banks have attracted deposits was more than twice that for banks (15.2% as against 6.9% respectively).

…and deposits for more than 2 years up 62%.

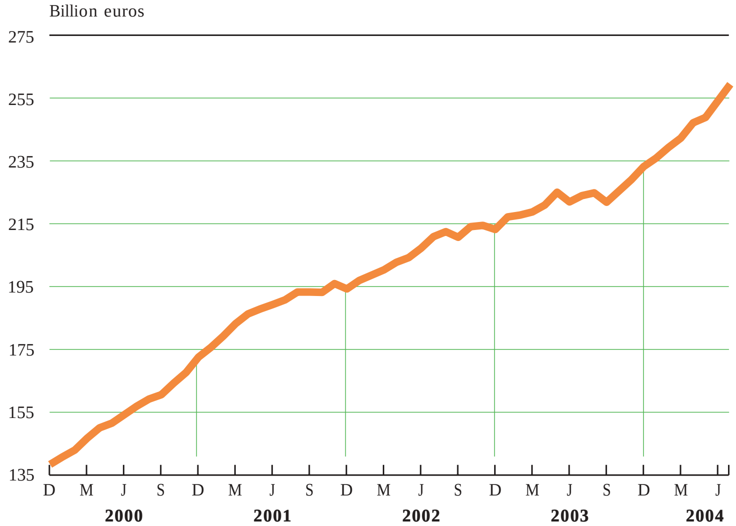
By type of deposit, time deposits for more than 2 years recorded an extraordinary increase of 62.1%, some 6.8 points more than in the previous month. Deposits in currencies other than the euro also showed a major year-to-year increase of 24.7%, although this was lower than for the previous month. Deposits for terms of less than 2 years, in turn, were down 3.0% from July 2003.

Assets of mutual funds up 8% in first eight months of year.

The assets of mutual funds rose by 1.5 billion euros in August going to 212.9 billion euros, an increase of 7.5% over December, according to figures from Inverco, the sector organization. As a result, the figure had overcome the drop of 701 million euros noted in July. In the January-August period the highest net acquisitions of shares (discounting sales) showed up in global funds, short-term bond-based funds and guaranteed bond-based funds in a situation of considerable volatility in financial markets.

TIME DEPOSITS VERY ACTIVE

Time deposits at credit institutions



SOURCE: Bank of Spain.

DEPOSITS BY COMPANIES AND HOUSEHOLDS AT CREDIT INSTITUTIONS

July 2004

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
On-demand	182,436	13,532	8.0	23,142	14.5	26.9
Savings (*)	155,322	10,113	7.0	15,489	11.1	22.9
2-year term	154,171	–2,055	–1.3	–4,840.0	–3.0	22.7
More than 2-year term	105,748	28,386	36.7	40,495	62.1	15.6
Repos	76,448	–1,353	–1.7	1,874	2.5	11.3
Total	**674,126**	**48,624**	**7.8**	**76,161**	**12.7**	**99.2**
Deposits in currencies other than euro	**5,198**	**1,047**	**25.2**	**1,029**	**24.7**	**0.8**
TOTAL	**679,324**	**49,671**	**7.9**	**77,190**	**12.8**	**100.0**

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

National share-based funds prove most profitable in past 12 months.

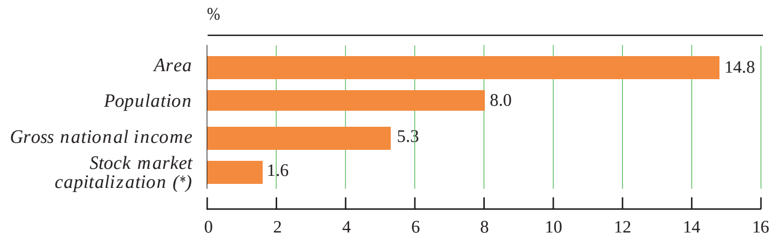
The average weighted yield on mutual funds in the past 12 months stood at 2.25% in July. Nearly all types of mutual fund obtained positive annual yields with the exception of U.S. share-based funds and other international share-based funds. The biggest annual gains were obtained by national share-based funds (with 12.1%) and share-based funds from emerging countries (with 11.4).

Latin America faces new time

Latin America: geographical giant without economic strength...

For decades Latin America has been an ever-unfulfilled promise. In each of the major countries of the region, periods of enormous hope have ended in sharp disappointment (Mexico in 1994, Brazil in 1998 and Argentina in 2002). It is difficult, however, to imagine the world's future without Latin America, a region twice as big as China and the United States, with vast natural resources and a population of 480 million. Nevertheless, its gross domestic product (GDP) in dollars is scarcely three times that of Spain and is lower than that of Germany. Stock market capitalization of the region is 1.6% of the world total, well below the figure of 2.1% for Hong Kong, with only 6 million population, or the figure for Spain with 1.8%. Clearly this is a region with great development potential in need of adequate policies.

LATIN AMERICA ON WORLD SCENE
2002
Share of Latin America in world total



NOTES: (*) June 2004.
SOURCE: World Bank and internal figures.

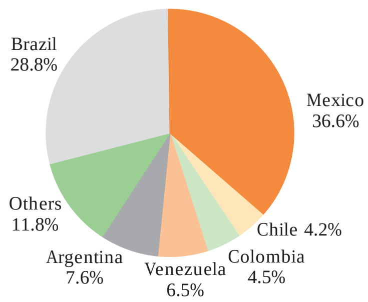
...but new period of hope now opening up.

Now, another period of hope is opening up. The economic situation is favourable, there exists a consensus on fiscal discipline and an apparent political stability. We are, however, looking at a region which is less homogeneous than it may at first seem. Here we have a mosaic of small countries set around the giants of Mexico and Brazil. Mexico, which is very much influenced by the United States, stands in contrast to Brazil, which has a more autonomous psyche and a desire to create its very own style, and to put forward its own particular view of the world, as in the case of China or the United States. The economic structure of both countries, the opportunities and risks they offer, reflect this basic difference. Argentina, the third leading country in the area, and the special case of Chile present two opposite extremes. Chile offers less risk along with stability, while Argentina is undergoing rapid recovery but not without major uncertainties.

BIG INEQUALITIES IN SIZE OF GDP

2003

Breakdown of GDP by country as percentage of region total



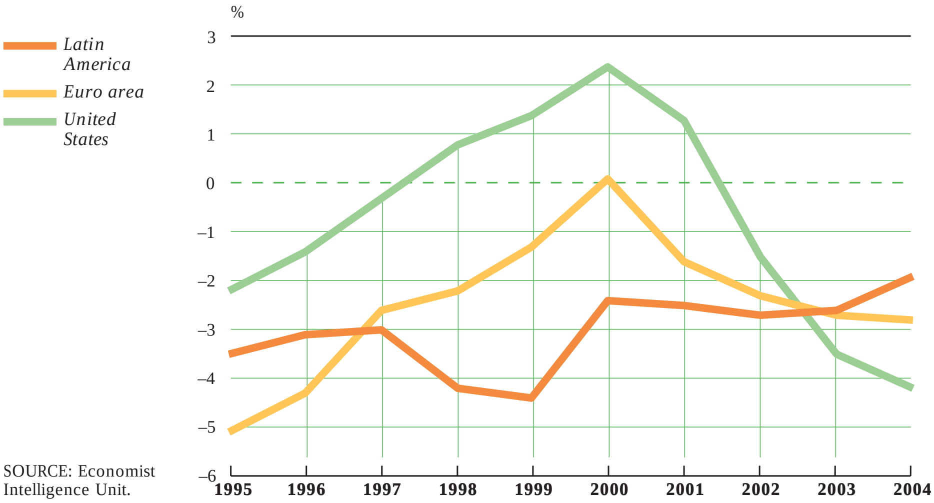
SOURCE: Economist Intelligence Unit.

Precarious consensus on savings and stability in contrast to populism in past.

Nevertheless, in Latin America there exist some well-known risks. The first is political risk, which is difficult to quantify. The frequent populist movements have not helped the containment of spending and corruption has been a constant drain. In recent years, however, a general consensus has become established in favour of economic stability and control of the public finances, without overlooking the reduction of poverty. This consensus on fiscal discipline for the region today is greater than that in Europe and the United States. However, there exists the legacy of the past: debt servicing continues to be a major burden representing a double risk, both political and in terms of interest rate. In Brazil, for example, interest on the public debt amounts to 8% of the GDP while foreign debt servicing is close to 10% of the GDP. As a result, in spite of primary surpluses in the public sector (the difference between revenue and spending without taking into account debt interest payments), as in the case of Brazil (4.3% of the GDP), the foreign debt still remains at high levels and refuses to drop.

MAJOR FISCAL EFFORT

Public sector balance in terms of GDP



SOURCE: Economist Intelligence Unit.

Inequality and poverty make fiscal discipline difficult.

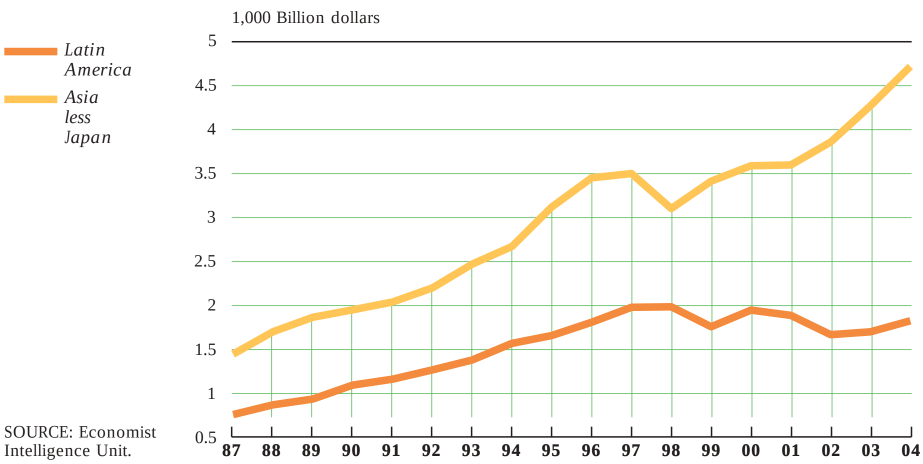
While at present governments are enjoying a grace period, the economic structure of the region makes it difficult to maintain austerity policies. In countries with high levels of poverty and social inequality, the current situation is better than might be excpected. While Latin America is not the poorest region on the planet, it may be said that it is the region suffering from the biggest inequalities in the world. The Gini coefficients (the measure of inequality adopted by the World Bank) show that this is a problem endemic to the region. In Brazil, for example, 17% of the population has to make do with less than two dollars a day.

Growth is crucial.

The best cure for poverty and inequality is economic growth. In Latin America, such growth carries political stability as an essential dividend. Growth must be stable and be so in terms of dollars and euros; if this is not the case, the yield on investments and commercial terms grows worse. Latin America has had a deficit in this respect and does not come off particularly well in a comparison with Asia, another block of emerging countries.

LATIN AMERICA RUNNING BEHIND ASIA

Nominal GDP



SOURCE: Economist Intelligence Unit.

Public factors, especially currency, are key.

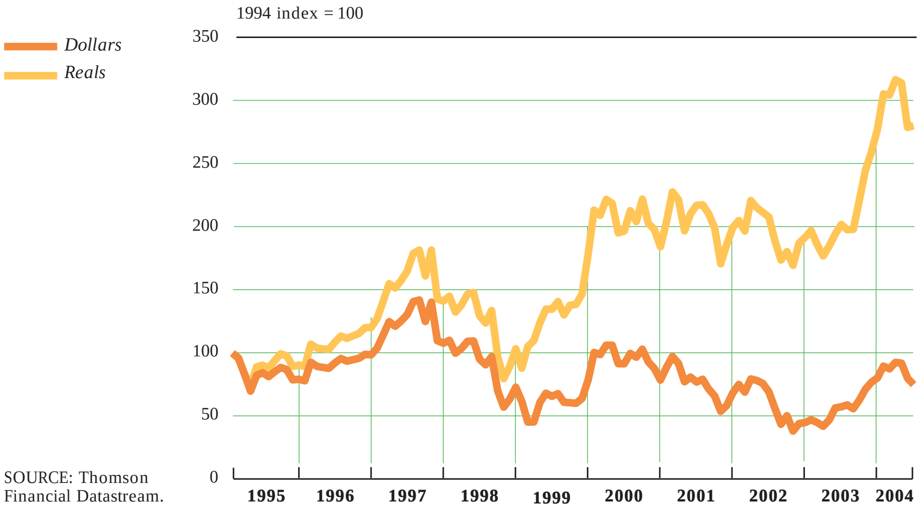
The currency is a key factor. Investment in the region has seen yields seriously affected by currency devaluations. For example, a real (the local currency) invested in the Brazilian stock market since the end of 1994 would have turned into 2.8 reals; nevertheless, if we take into consideration the devaluation of the real against the dollar in this period, the stock market has lost 25%.

Lack of competitiveness and few international companies.

The relative competitiveness of an economy, its ability to export, is a factor which affects a currency over the long term and is a key element in stable growth and the increase in living standards which the region so much needs. For this reason, that competitive capacity is an essential variable which must be examined. Latin America has suffered from relative isolation in terms of commerce, with a notable absence of brand-names of international standing. In the ranking of the 500 leading companies drawn up by the *Financial Times*, as against the 23 companies of East Asia excluding Japan, there are only 5 Latin American companies listed by market value: Petrobras (petroleum products in place number 152), and Vale do Rio Doce (mining in place 275), in the case of Brazil, and AMX (telecommunications in place 188), Telmex (telecommunications in place 223) and Walmex (retail sales in place 342) in the case of Mexico.

BRAZILIAN STOCK MARKET: DIFFERENT YIELDS IN DOLLARS AND REALS

Prices on Brazilian stock market



SOURCE: Thomson Financial Datastream.

More positive signs in recent times taking advantage of favourable economic situation.

Nevertheless, something seems to be changing. The region is going through the best performance in the foreign sector in the last 15 years. Care should be taken regarding its dependence on China, seeing that Latin America is the region which has taken most advantage of the buying appetite of the Asian giant. While this trend may appear to be temporary, on the positive side we should point out the area's rapid ability to respond, something to which these economies have not been accustomed. Secondly, not all the improvement in the foreign sector is based on raw materials. (In this respect, Russia's dependence on oil is greater). Thirdly, it should be considered that questions related to the economic situation may mean the opening up of opportunities for deep structural change. This much needed boost for policies related to austerity and the reduction of poverty may help establish bases for more competitive growth and real development in the wider sense of the term.

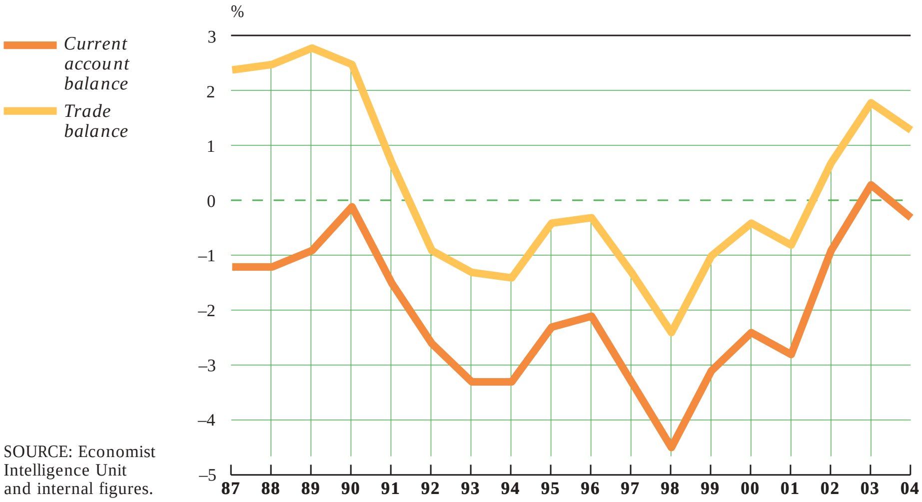
Main economies

Brazil and Mexico: similar economic situation but with structural differences.

Brazil and Mexico show a sharp contrast in trade structure, political situation and risks and opportunities for the investor. These differences are especially significant at a time when both countries are going through a similar economic situation. Mexico is farther ahead in the cycle, with growth of 3.7% as against 2.7% for Brazil, and inflationary pressures have disappeared in both countries. In this respect, Brazil has also been one of the last to arrive.

LATIN AMERICA IMPROVING FOREIGN SECTOR

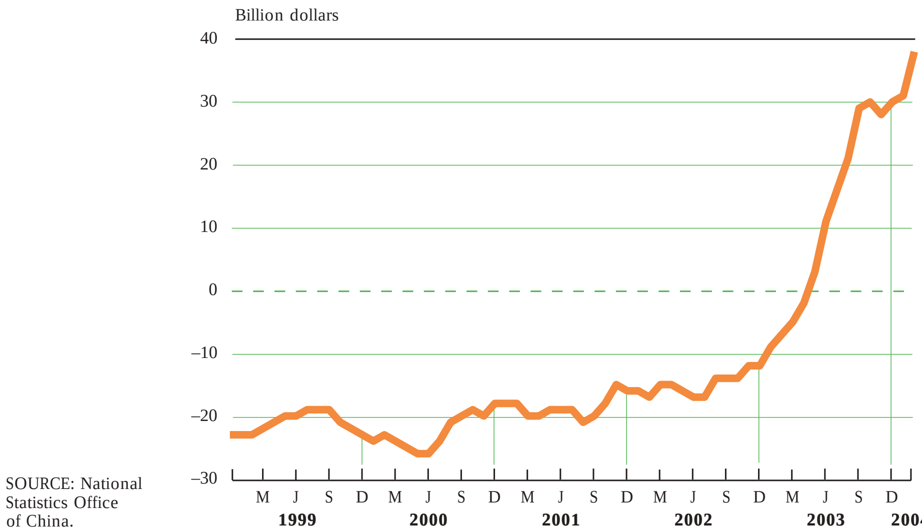
Balances in terms of GDP in dollars



SOURCE: Economist Intelligence Unit and internal figures.

LATIN AMERICA TAKING ADVANTAGE OF CHINESE DEMAND

Trade balance with China



SOURCE: National Statistics Office of China.

Mexico benefitting from NAFTA Treaty...

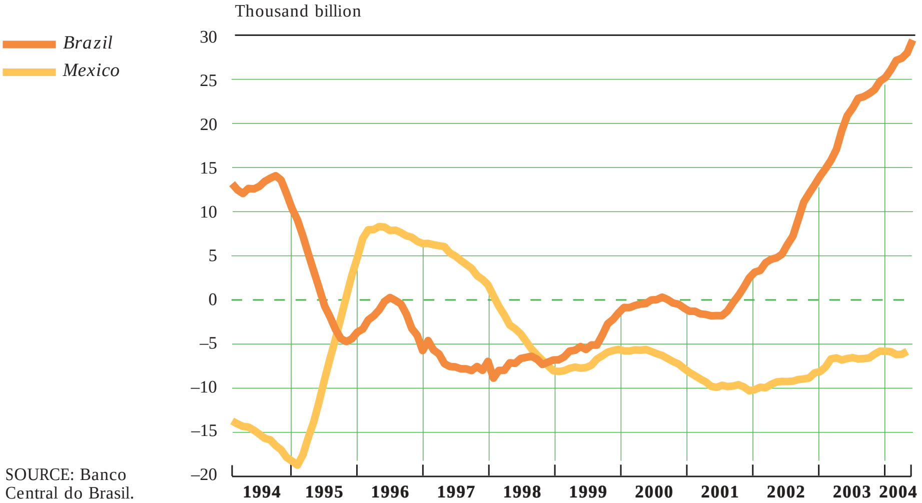
In recent years Mexico has been more stable than Brazil, thanks to the protection offered by the NAFTA Treaty (North American Free Trade Association) with United States and Canada. Its currency has gone through fewer swings than in the case of Brazil, its debt levels have been more moderate and it has been the main exporter in the area. This has made Mexico a better destination than the other countries for investment. Nevertheless, this may be changing. The U.S. umbrella shows no signs of disappearing but the very structure of *maquiladoras*, U.S. companies which produce across the border of Mexico at low cost in order to then export back to that country, exclude an increase in value added sectors.

...but is replacing dependence on oil with dependence on United States.

The replacing of trade based on oil exports for one based on *maquiladoras* brings about a reduction of risk and some increase in know-how but does not guarantee the development of industries with high value added. The dependence on oil prices has been substituted by «a domicile effect», under which economic decisions come from outside. The stability and protection provided by NAFTA has also meant that, at this time, the Mexican currency is the one which has lost least value in the region, something which puts pressure on exports.

BRAZIL HAS IMPROVED TRADE BALANCE WHILE MEXICO HAS NOT

Trade balance in dollars



SOURCE: Banco Central do Brasil.

Brazil showing greater strength in foreign trade...

At the same time, Brazil is taking a lead in trade in the area at the expense of Mexico. Exports from China to the United States are taking the place of those from *maquiladoras* while, at the same time, Brazil is making agreements with the Asian giant. The trend in the trade balance in both countries in recent times confirms this trend. In addition, the share of manufacturing exports by Brazil is holding at levels of 50% of the total which indicates that the improvement is based not only on raw materials.

...but problem of debt persists.

In fact, the Brazilian economy offers greater potential than the Mexican economy in the foreign sector, something which has already been partly confirmed, and a more competitive currency. The biggest problem of Brazil's economy is the debt burden and the interest costs arising therefrom. This also causes greater fiscal pressure in order to ensure primary surpluses and to deal with especially pressing short-term commitments.

Argentina enjoying good economic situation but starting out from low levels while foreign sector raises doubts about competitiveness.

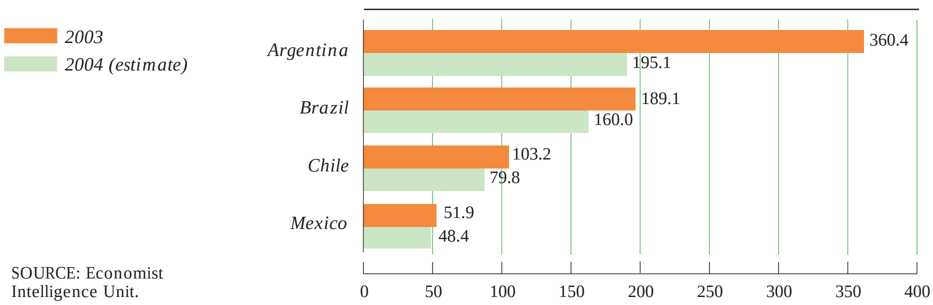
Argentina at this time is showing the most spectacular growth. Its GDP rose by 11.2% year-to-year in the second quarter of 2004 while investment was up 51%. These numbers, however, are deceptive to the extent that they start out from very low levels for the economy. Recovery from the recession is on a good track but is by no means complete. Some shadow of doubt comes from the trade balance. After a period of negative balances brought about by parity with the dollar, the collapse of the economy and devaluation made possible a return to positive figures. With recovery of the economy, this improvement has become stagnant. Doubts about the country's ability to compete persist seeing that, in spite of having a much more competitive currency than Mexico, exports are not growing at the rate seen in Brazil.

Foreign debt presents major uncertainty.

At the sociological level, Argentina continues to have certain advantages. In the first place, as opposed to Brazil and Mexico, the population is better educated and the social inequalities, while vast by European standards, are not as great and less obvious. In Brazil, the differences between the population of Caucasian origin and that resulting from African slavery are quite marked. Nevertheless, levels of education have gone down and there is great disenchantment among the population. In any case, the size of the foreign debt, doubts about competitiveness and exposure to interest rates are significant factors demanding the utmost caution.

DEBT WEIGHS HEAVY

Foreign debt in terms of exports as percentage



SOURCE: Economist Intelligence Unit.

Chile's economy in order…

The economy of Chile is the one with the best aspect and showing the least risk. Investment has been higher and better, going above 27% of the GDP (1996) in contrast to 18.5% in Brazil. This should be qualified by the fact that it later dropped to 21.5% in 2001. While its foreign debt stands at the levels of the Brazilian economy, neither the effective interest rate nor the cost of debt servicing is at those levels, these being much lower in Chile. The country's GDP is growing at 4.8%, which is ahead of Brazil and Mexico.

…but risks exist from social inequality, dependence on copper and negative current account balance.

Nevertheless, Chile also has its dark spots. Firstly, the current account balance is negative which involves the need to borrow and interest rate risk. The social structure in Chile, while ethnically homogeneous, presents social inequalities almost as great as in Brazil and greater than in Argentina. Another risk is the heavy dependence on copper (40% of all exports), which already showed its effects during the Asian crisis in 1997 when the Chilean stock market was among those to suffer most.

Financial markets

Markets with least risk are most expensive.

The four countries mentioned may be divided into two groups. In the first place, there are those which present greater risk and a worse history in meeting payments (Brazil and Argentina) and which now are also carrying a heavier interest cost on their foreign debt. In second place are those countries of lower risk or which recently have acted along those lines. The volatility of their stock markets, calculated in dollars, is a faithful reflection of this situation.

Brazil's foreign sector and currency are attractive but risks exist.

Among the «cheap» markets, Brazil presents a dynamic foreign sector and a political situation of some risk. Argentina is enjoying a very good economic situation but there are many uncertainties. Among the «expensive» markets, Mexico has the umbrella of the NAFTA Treaty, a more reasonable debt level along with a troubling foreign sector and currency, in addition to its limited capacity to compete, as mentioned earlier. Chile presents an economy with greater investment with an export surplus which depends on copper.

Currency devaluations carry weight except in case of Mexico.

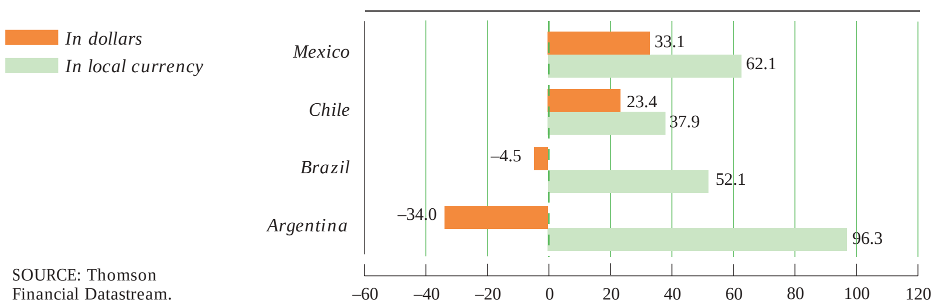
Because of currency devaluations, these markets have not evolved satisfactorily in recent years. Only the Mexican stock market has shown a better performance, thanks to the support the NAFTA Treaty has given its currency.

Positive trend with regard to United States, taking advantage of low interest rates.

Confirmation of improvement in their competitive situations which might limit the losses that have taken place in the past decade would make investment in the region of interest, taking into account furthermore its diversifying effect. In this respect, in recent years these markets have evolved better than in the case of the United States, for instance, because of low interest rates which have eased their financial burdens.

DIFFERENT TRENDS IN STOCK MARKETS

Change in stock market indices from end of 2000 to June 2004 as percentage



SOURCE: Thomson Financial Datastream.

From now on, ability to compete will be crucial.

The future profitability of investment in the region will depend on the overall trend in interest rates and especially on foreign competitiveness, which will determine both borrowing needs and therefore a greater or lesser dependence on interest rates, along with confirmation of stable growth which will bring about real development in the region.

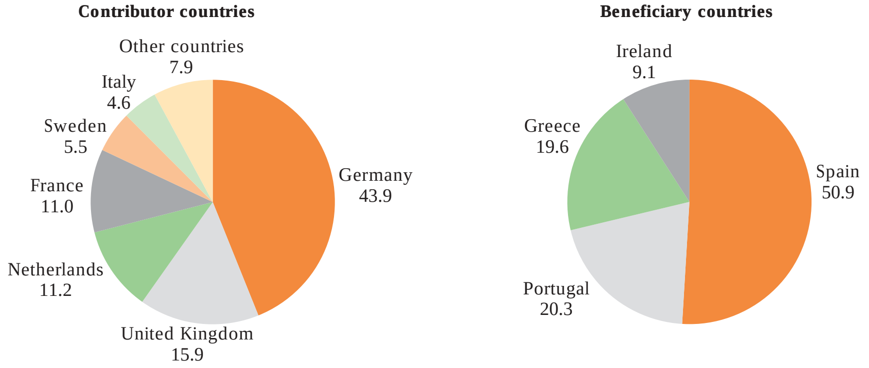
Budgetary flows in European Union in 2003

In 2003, Germany remained main net contributor with Spain as leading net beneficiary of European budget.

Spain continues as the main beneficiary of the European Union (EU) budget, while Germany continues to act as the main contributor. In terms of net balance, this is to say, the difference between what it pays into the European Union budget and what it gets back, Spain received 8.7 billion euros in notable contrast to Germany's net contribution which amounted to 7.7 billion euros.

NET FINANCIAL FLOWS WITHIN EU
2003

Percentage of total



SOURCE: European Commission and internal figures.

Spending

EU budget amounts to 85 billion euros.

The EU budget in 2003 carried out spending to a value of almost 85 billion euros, of which 92%, that is, 77.8 billion euros could be broken down by country. The remaining 8% was basically made up of spending for administrative operations and the amount for various programmes aimed at extra-EU countries, two headings not broken down by country.

Agriculture and structural programmes make up main headings.

The three main categories of spending in the budget are agriculture, structural programmes (mainly Structural Funds and the Cohesion Fund) and internal programmes (internal market, education, research and development, etc.). With regard to the total spending assigned, agriculture represented 57% while structural programmes made up 37%.

Half EU spending goes to Spain, France, Italy and Germany.

As in previous years, the country to receive most funds from the budget was Spain (20% of the total) due to its high share in structural programmes and the specific weight of the agricultural subsidy. The other member states benefitting to the greatest extent were France (17% of assignable spending), Italy (14%) and Germany (13%).

Revenue

Budget financed from EU's own resources (traditional resources, VAT and GNI resources)...

The EU budget does not provide for going into deficit so that revenues are determined on the basis of spending approved. These revenues come basically from the so-called EU's «own resources». These are the resources which pertain to the EU and are made up of three different funds: traditional own resources (customs duties, agricultural taxes, charges on certain agricultural products, etc.), the VAT resource (obtained by application of a uniform rate of 0.75% on the taxable base for value added tax in each country) and the GNI resource (calculated by applying a uniform rate to gross national income).

EUROPEAN UNION: NET BENEFICIARY COUNTRIES

2003

	Net subsidy (million euros)	Percentage of total net subsidies	Net per capita subsidy (euros per person)
Spain	8,733	50.9	214
Portugal	3,482	20.3	334
Greece	3,368	19.6	306
Ireland	1,565	9.1	394
Other headings (*)	280	–	–
TOTAL	**17,428**	**100.0**	**259**

NOTES: (*) Amount not broken down by country.
SOURCE: European Commission and internal figures.

EUROPEAN UNION: NET CONTRIBUTOR COUNTRIES

2003

	Net contribution (million euros)	Percentage of total net contributions	Net per capita contribution (euros per person)
Germany	7,652	43.9	93
United Kingdom	2,763	15.9	47
Netherlands	1,956	11.2	120
France	1,911	11.0	31
Sweden	950	5.5	106
Italy	794	4.6	14
Belgium	775	4.4	75
Austria	336	1.9	42
Denmark	214	1.2	40
Luxembourg	56	0.3	125
Finland	21	0.1	4
TOTAL	**17,428**	**100.0**	**55**

SOURCE: European Commission and internal figures.

…and other complimentary revenues.

The EU budget also has other revenues such as budgetary surpluses from previous years, as well as fines and interest on delayed payments. Finally, the system of revenues includes the so-called «British rebate», a mechanism to correct what at the time was considered the excessive contribution by the United Kingdom.

GNI resource and VAT resource remain main sources of EU financing.

In 2003, in line with previous years, the bulk of EU financing came from just two headings, the GNI resource which provided 61% of revenue, and the VAT resource which financed 25% of the total. Given that these two resources are linked to the economic weighting of the countries, a logical equivalence is produced between national economic size and the contribution to the EU budget. Because of this, only four member states (Germany, France, Italy and the United Kingdom) together provide two-thirds of total revenue. Spain's contribution in 2003 stood at 9% of total revenue.

Net balances

In 2003, imbalances in net balances were maintained…

The figures for 2003, the last for the European Union EU-15, show that the imbalances in terms of net balances in the EU financial system are largely being maintained. From the prospective of the net beneficiary countries, the situation of Ireland, a country with a high level of relative prosperity, appears excessively biased in its favour given that in per capita terms it received approximately twice that going to Spain.

…this being sharpest in case of net contributor countries.

In any case, it is the disparities between the net contributor countries which are generating the most difficulties. The extreme situations are to be found in the case of Germany, for the volume of net contribution, and in the case of the Netherlands in per capita terms. The figures shown above indicate that it is the distribution of spending among certain prosperous countries, with France as the most notable case, which generate the greater part of the imbalance.

Spain 2004: Economic Year Book

Economic Year Book published for eighth consecutive year.

As has been the case since 1997, ”la Caixa” has again published a new edition of its Economic Year Book. During this period of eight years the Year Book has become an essential work of reference for those involved in the detailed study of Spain’s economic life, especially at the municipal level. It also forms a basic part of the editorial policy established by ”la Caixa” Research Department in 1994 with publication of its Economic Studies Series. The Gauss Centre of the Lawrence R. Klein Institute, of Madrid’s Autonomous University, was commissioned to prepare the municipal data-base and that for commercial areas, as well as for making the corresponding estimates.

Great many indicators gathered together in this single publication.

This statistical work of a broad informational nature brings together and presents in an orderly manner a series of variables at the municipal, provincial and autonomous community level, which otherwise would be found in a wide range of sources not always easily accessible. At the same time, it provides estimates of a series of indicators of such importance as disposable income, market share and commercial areas at the municipal level. In addition, the Internet version incorporates an even wider breakdown of certain variables with the result that it proves a source of great value.

Substantial improvement in estimates, thanks to more up-to-date information.

The most notable features of the eighth edition are, on the one hand, an improvement in estimates of per capita spending in the retail trade and, on the other hand, improved estimates of non-recorded overnight stays by tourists as a result of the availability of more up-to-date information on housing available for tourist use. There is also a better breakdown of commercial activity in the food field.

Year Book structure

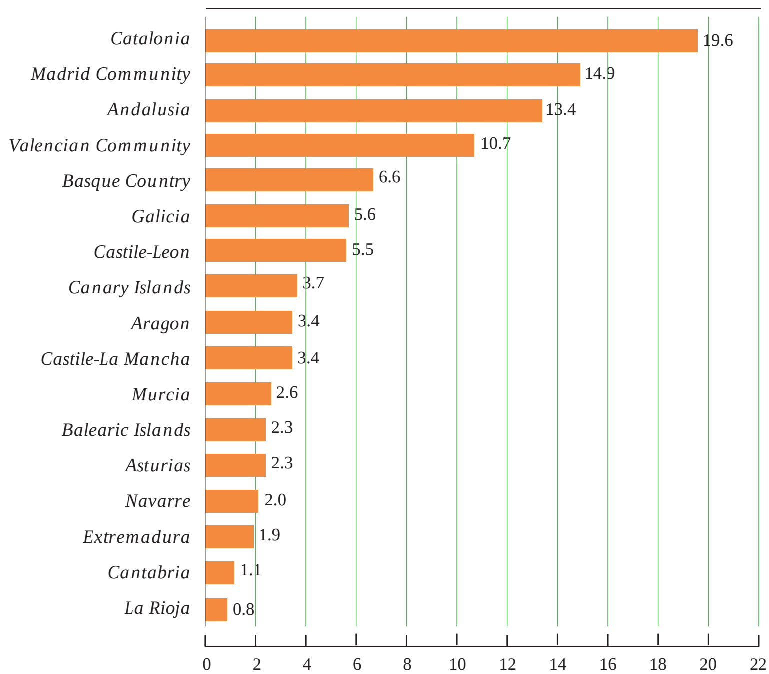
View of Spanish life provided by Year Book makes possible large number of analyses.

The Year Book is structured in three broad information blocks. In the first section it provides statistical data on the 3,187 Spanish municipalities with more than 1,000 population, which make up 96% of the country’s total population as well as figures at the provincial and autonomous community level. The second block, also at the municipal level, shows the trend in the more important indicators over the past five years. Finally, the third section offers a study of commercial flows and provides detailed information on retail activities and tourism. In this way, it combines a static view of economic reality as well as a dynamic view, which greatly enhances the analytical possibilities.

Next, the Year Book gives a histogram of the economic activity index at the level of autonomous communities. This index is characterized by the fact that it synthesizes in a single figure the importance of industrial activities, retail activities, services and professional activities of a specific geographical area.

ECONOMIC ACTIVITY INDEX

As percentage of national total (2002)



BANKING SYSTEM

CUSTOMER RESOURCES IN BANKING SYSTEM

Balances at June 30, 2004, in million euros

Type of institution	Balance			Share		
	June 30, 2004	December 31, 2003	% change	June 30, 2004	December 31, 2003	Change
Banks	**466,039**	**435,293**	**7.06**	**46.44**	**46.83**	**–0.38**
Savings banks	**487,888**	**448,571**	**8.76**	**48.62**	**48.25**	**0.37**
Credit cooperatives	**49,549**	**45,739**	**8.33**	**4.94**	**4.92**	**0.02**
Total	**1,003,476**	**929,603**	**7.95**	**100**	**100**	

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

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

Balances at June 30, 2004, in million euros

	Consolidated groups	Balance at June 30, 2004	Balance at December 31, 2003	Change over December 2003	% change over December 2003
1	**Santander Central Hispano**	**228,271.9**	**214,997.9**	**13,274.1**	**6.17**
2	**Banco Bilbao Vizcaya Argentaria**	**195,986.2**	**182,831.2**	**13,155.1**	**7.20**
3	**Caja de Ahorros y Pensiones de Barcelona**	**103,108.8**	**91,214.0**	**11,894.8**	**13.04**
4	**C. A. y M. P. de Madrid**	**65,122.6**	**60,831.3**	**4,291.3**	**7.05**
5	**Banco Popular Español**	**41,983.4**	**37,464.0**	**4,519.4**	**12.06**
6	**Banco Sabadell** (2)	**34,516.8**	**30,794.4**	**3,722.3**	**12.09**
7	**Caja de Ahorros de Valencia, Castellón y Alicante**	**28,492.3**	**24,268.6**	**4,223.7**	**17.40**
8	**Caja de Ahorros de Cataluña**	**23,547.2**	**21,969.6**	**1,577.6**	**7.18**
9	**Caja de Ahorros del Mediterráneo**	**21,651.1**	**20,057.8**	**1,593.3**	**7.94**
10	**Bankinter**	**18,485.1**	**17,992.4**	**492.7**	**2.74**
11	**Caja de Ahorros de Galicia**	**16,965.4**	**15,643.0**	**1,322.5**	**8.45**
12	**C. A. y M. P. de Zaragoza, Aragón y Rioja**	**16,450.0**	**15,838.5**	**611.5**	**3.86**
13	**M. P. y C. A. de Ronda, Cádiz, Almería, Málaga y Antequera**	**15,062.2**	**14,041.8**	**1,020.4**	**7.27**
14	**Bilbao Bizkaia Kutxa**	**12,342.7**	**12,571.3**	**–228.5**	**–1.82**
15	**Caixa de Aforros de Vigo, Ourense e Pontevedra**	**11,891.8**	**11,189.0**	**702.8**	**6.28**
16	**Caja España de Inversiones, C. A. y M. P.**	**11,651.0**	**10,915.1**	**735.9**	**6.74**
17	**Caja de Ahorros de Salamanca y Soria**	**10,330.9**	**10,230.5**	**100.5**	**0.98**
18	**Banco Pastor**	**9,941.2**	**8,496.9**	**1,444.3**	**17.00**
19	**Caja de Ahorros de Castilla-La Mancha**	**9,155.9**	**8,214.8**	**941.1**	**11.46**
20	**C. A. y M. P. de Guipúzkoa y San Sebastián**	**9,072.1**	**8,686.4**	**385.7**	**4.44**

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

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

Consolidated figures in million euros. On June 30, 2004

Consolidated groups (2)	Balance		Change over December 2003	% change over December 2003
	June 30, 2004	December 31, 2003		
Andalusia	**45,816.5**	**42,561.5**	**3,255.0**	**7.65**
M. P. y C. A. de Ronda, Cádiz, Almería, Málaga y Antequera - Unicaja	15,062.2	14,041.8	1,020.4	7.27
M. P. y C. A. de Huelva y Sevilla	8,633.4	7,878.1	755.3	9.59
C. A. y M. P. de Córdoba - Cajasur	8,980.9	8,358.2	622.8	7.45
Caja General de Ahorros de Granada	6,731.8	6,378.3	353.5	5.54
Caja de Ahorros San Fernando de Sevilla y Jerez	5,989.8	5,548.7	441.1	7.95
Caja Provincial de Ahorros de Jaén	418.4	356.4	62.0	17.39
Aragon	**21,454.3**	**20,508.0**	**946.3**	**4.61**
C. A. y M. P. de Zaragoza, Aragón y Rioja - Ibercaja	16,450.0	15,838.5	611.5	3.86
Caja de Ahorros de la Inmaculada de Aragón	5,004.3	4,669.5	334.8	7.17
Asturias				
Caja de Ahorros de Asturias	**6,034.5**	**5,932.6**	**102.0**	**1.72**
Balearic Islands	**5,159.3**	**4,874.6**	**284.8**	**5.84**
C. A. y M. P. de las Baleares - Sa Nostra	4,964.4	4,673.1	291.4	6.24
Caja de Ahorros de Pollença «Colonya»	194.9	201.5	–6.6	–3.28
Canary Islands	**8,942.7**	**8,051.7**	**891.0**	**11.07**
Caja General de Ahorros de Canarias	5,334.5	4,701.7	632.8	13.46
Caja Insular de Ahorros de Canarias	3,608.2	3,350.0	258.2	7.71
Cantabria				
Caja de Ahorros de Santander y Cantabria	**4,632.2**	**4,403.7**	**228.5**	**5.19**
Castile-Leon	**33,994.1**	**32,588.9**	**1,405.2**	**4.31**
Caja España de Inversiones, C. A. y M. P.	11,651.0	10,915.1	735.9	6.74
Caja de Ahorros de Salamanca y Soria - Caja Duero	10,330.9	10,230.5	100.5	0.98
Caja de Ahorros Municipal de Burgos	5,096.3	4,787.8	308.5	6.44
C. A. y M. P. del C.C.O. de Burgos	2,277.8	2,220.8	57.0	2.57
C. A. y M. P. de Segovia	2,370.6	2,319.7	50.9	2.19
C. A. y M. P. de Ávila	2,267.4	2,115.0	152.3	7.20
Castile-La Mancha	**9,944.4**	**8,924.6**	**1,019.7**	**11.43**
Caja de Ahorros de Castilla-La Mancha	9,155.9	8,214.8	941.1	11.46
Caja de Ahorros Provincial de Guadalajara	788.5	709.8	78.7	11.08
Catalonia	**159,637.3**	**142,373.2**	**17,264.2**	**12.13**
Caja de Ahorros y Pensiones de Barcelona - ”la Caixa”	103,108.8	91,214.0	11,894.8	13.04
Caja de Ahorros de Cataluña	23,547.2	21,969.6	1,577.6	7.18
Caja de Ahorros del Penedés	8,894.1	7,501.5	1,392.5	18.56
Caja de Ahorros de Sabadell	5,141.7	4,576.5	565.3	12.35
Caja de Ahorros de Terrassa	4,758.8	4,289.9	468.9	10.93
Caja de Ahorros de Tarragona	3,834.0	3,595.6	238.4	6.63
Caja de Ahorros Laietana	3,642.0	3,064.2	577.8	18.86
Caja de Ahorros de Girona	3,081.0	2,915.5	165.5	5.67
Caja de Ahorros de Manresa	2,340.6	2,067.3	273.4	13.22
Caja de Ahorros Comarcal de Manlleu	1,289.2	1,179.1	110.1	9.34

Consolidated groups (2)	Balance		Change over December 2003	% change over December 2003
	June 30, 2004	December 31, 2003		
Valencian Community	**50,696.6**	**44,826.7**	**5,869.9**	**13.09**
Caja de Ahorros de Valencia, Castellón y Alicante - Bancaja	28,492.3	24,268.6	4,223.7	17.40
Caja de Ahorros del Mediterráneo - CAM	21,651.1	20,057.8	1,593.3	7.94
C. A. y M. P. de Ontinyent	553.2	500.4	52.9	10.56
Extremadura	**5,848.4**	**5,630.7**	**217.7**	**3.87**
C. A. y M. P. de Extremadura	3,663.8	3,433.6	230.2	6.70
M. P. y Caja General de Ahorros de Badajoz	2,184.6	2,197.1	–12.5	–0.57
Galicia	**28,857.3**	**26,832.0**	**2,025.3**	**7.55**
Caja de Ahorros de Galicia	16,965.4	15,643.0	1,322.5	8.45
Caixa de Aforros de Vigo, Ourense e Pontevedra - Caixanova	11,891.8	11,189.0	702.8	6.28
La Rioja				
Caja de Ahorros de La Rioja	**1,790.5**	**1,698.1**	**92.5**	**5.45**
Madrid Community				
C. A. y M. P. de Madrid	**65,122.6**	**60,831.3**	**4,291.3**	**7.05**
Murcia				
Caja de Ahorros de Murcia	**8,112.1**	**7,114.9**	**997.2**	**14.02**
Navarre				
C. A. y M. P. de Navarra	**7,622.4**	**7,252.3**	**370.1**	**5.10**
Basque Country	**25,799.5**	**25,316.3**	**483.2**	**1.91**
Bilbao Bizkaia Kutxa - BBK	12,342.7	12,571.3	–228.5	–1.82
C. A. y M. P. de Guipúzkoa y San Sebastián - Kutxa	9,072.1	8,686.4	385.7	4.44
Caja de Ahorros de Vitoria y Álava - Vital	4,384.7	4,058.6	326.1	8.03
Total Savings Bank Groups	**489,464.8**	**449,721.0**	**39,743.7**	**8.84**

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

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