THE SPANISH ECONOMY: MONTHLY REPORT

DECEMBER 2004

No. 275 Contents

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GDP growth stands below 4%. Page 6

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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	4.4	3.2	3.5	4.4	5.0	4.8	3.9	3.7
Japan	2.5	4.1	1.8	1.8	3.5	5.1	4.3	3.8	3.0
United Kingdom	2.2	3.2	2.5	2.2	2.9	3.4	3.6	3.0	2.7
Euro area	0.5	1.9	2.0	0.4	0.7	1.4	2.0	1.9	2.2
Germany	*–0.1*	*1.5*	*1.5*	*–0.3*	*0.0*	*0.8*	*1.4*	*1.3*	*2.3*
France	*0.6*	*2.2*	*2.1*	*0.5*	*1.3*	*1.8*	*2.9*	*2.0*	*2.1*
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	2.2	2.3	2.9	2.6	2.3	2.2	2.1	2.3
Euro area	2.1	2.1	1.9	2.0	2.0	1.7	2.3	2.2	2.2
Germany	*1.1*	*1.7*	*1.5*	*1.0*	*1.2*	*1.1*	*1.8*	*1.9*	*2.2*
France	*2.1*	*2.2*	*1.7*	*1.9*	*2.2*	*1.8*	*2.4*	*2.3*	*2.2*
SPANISH ECONOMY									
Macroeconomic figures									
Household consumption	2.9	3.4	3.2	3.0	2.9	3.3	3.4	3.4	3.3
Government consumption	3.9	4.3	4.2	3.8	4.2	4.3	4.3	4.4	4.4
Gross fixed capital formation	3.2	4.6	4.8	3.1	2.6	2.7	4.1	5.9	5.6
Capital goods and other	*1.7*	*4.9*	*5.7*	*1.7*	*0.7*	*0.8*	*3.9*	*7.6*	*7.1*
Construction	*4.3*	*4.4*	*4.1*	*4.1*	*4.2*	*4.3*	*4.2*	*4.5*	*4.4*
Domestic demand	3.2	4.0	3.7	4.1	3.5	3.5	4.1	4.4	4.1
Exports of goods and services	2.6	4.4	4.8	3.1	1.6	5.5	3.5	4.2	4.5
Imports of goods and services	4.8	8.7	8.0	7.9	3.7	7.8	8.1	9.6	9.1
Gross domestic product	**2.5**	**2.6**	**2.5**	**2.6**	**2.8**	**2.7**	**2.6**	**2.6**	**2.5**
Other variables									
Employment	1.7	2.1	2.0	2.0	2.1	2.1	2.0	2.1	2.1
Unemployment (% labour force)	11.3	10.8	10.5	11.2	11.2	11.4	10.9	10.5	10.5
Consumer price index	3.0	3.0	3.0	2.9	2.7	2.2	3.2	3.3	3.4
Unit labour costs	3.5	3.3	3.1	3.4	3.3	3.4	3.3	3.2	
Current account balance (% GDP)	–3.3	–5.4	–4.6	–3.5	–2.6	–5.1	–6.1	–6.6	
Net lending or net borrowing rest of the world (% GDP)	–2.1	–4.2	–3.4	–2.6	–0.8	–4.4	–4.7	–5.6	
Government balance (% GDP)	0.3	–0.8	–0.3						
FINANCIAL MARKETS									
Interest rates									
Federal Funds	1.1	1.3	3.1	1.0	1.0	1.0	1.0	1.4	1.9
ECB repo	2.3	2.0	2.2	2.0	2.0	2.0	2.0	2.0	2.0
10-year U.S. bonds	4.0	4.3	4.8	4.2	4.3	4.0	4.6	4.3	4.2
10-year German bonds	4.1	4.1	4.2	4.1	4.3	4.1	4.2	4.1	3.9
10-year Spanish bonds	4.1	4.1	4.3	4.1	4.3	4.1	4.2	4.2	3.9
Exchange rate									
$/Euro	1.13	1.24	1.35	1.12	1.19	1.25	1.20	1.22	1.30

"la Caixa" GROUP: KEY FIGURES

As of December 31, 2003

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

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

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

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December 2004

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ECONOMIC OUTLOOK FOR 2005

Oil prices eased in November thus reducing one of the concerns that have ruled the international economy in recent months. On the other hand, the **drop in the US dollar exchange rate** has taken its place and this is **disquieting**. The continuing lack of savings in the US economy in recent years has been filled by the surplus coming mainly from the Asian economies. US consumption, however, has driven the world economy, fostering growth practically without precedent in Asian economies such as China. This pattern of development could come into question if the weakness of the dollar were to grow worse.

In the supposition that the readjustment of the foreign exchange market will be contained, growth forecasts for the coming year are generally more moderate. After a very brilliant year, not only the United States but also Japan and China will slow down their pace. **The world's leading economy will go from growth of 4.3% in 2004 to 3%-3.5% in the coming year**. No surprises are expected in the area of inflation with the consumer price index going back to rates closer to 2.5% year-to-year once the effect of the rise in oil prices and other raw materials has been digested.

With regard to forecasts for the euro area, **the incipient recovery taking place up to the middle of 2004 could come to nought**. The current year will end with average growth of 1.9% and show a similar level in 2005. This implies that growth of economic activity is stabilizing at a rate of advance similar to that recorded up to the third quarter (2% year-to-year or slightly less). The revaluation of the euro against the dollar is hurting the competitiveness of Europe and affecting foreign demand, the main source of growth. Meanwhile, domestic demand of the main countries in the euro area continues very slack. The weakness of domestic demand and the appreciation of the euro will help contain inflation which will stand at close to 2% in 2004 and 2005.

In this situation, the Fed will continue its policy of **staged increases in the official interest rate** over coming months thus gradually renouncing its very easy monetary policy. In another sphere, the European Central Bank will likely postpone any rise in its interest rates until at least the middle of next year due to the strong appreciation of the euro and the weakness of growth.

Looking at Spain's economy, figures for National Accounting for the third quarter confirm the **strong drive in domestic demand** thanks to the boost in gross capital formation, especially in capital goods, and the sustained rise in consumption. Following these results, it is still expected that the gross domestic product will grow by 2.6% in 2004 as a whole and around a similar level in 2005.

In the matter of prices, the rise in inflation in October was basically due to pressure from the energy component. Under the hypothesis that current pressures on oil prices will gradually ease and that the euro remains strong, the **inflation rate will still be a few decimals above 3% in 2004** but will tend to moderate in the course of coming months.

November 26, 2004

World growth slowing down

2004 ending under cloud of uncertainty despite positive result in terms of growth.

The year 2004, the best year in three decades in terms of economic growth, is ending in a state of some uncertainty. Figures for the third quarter in the United States, Japan, European Union and China suggest a somewhat sharper than expected slowdown. On the other hand, oil prices seem to have reached a ceiling and then moved downward although there is still some uncertainty. Furthermore, the collapse of the dollar in recent weeks adds an element of risk to the delicate growth pattern of the world economy in recent years.

G-20 and IMF make synthesis of economic sentiment: high-price oil, weak dollar and US foreign and government deficits darken prospects.

This formed the background for the deliberations at the G-20 meeting of ministers of economy and central bank heads held during the third weekend of November. High oil prices, the notable fiscal imbalance in the United States, the lack of structural reform in Europe and maladjustments in foreign exchange rates constitute a series of risks which darken immediate prospects for the world economy. Significantly enough, only one day after the end of the G-20 meeting the International Monetary Fund (IMF) lowered its world growth forecasts for 2005. It went from a forecast of 4.3%, put out less than two months earlier, to a figure of around 4% on taking in consideration high oil prices, the excessive US trade deficit and the weakness of the dollar.

Oil gives some slight relief in November and expected to ease even more after winter.

What we are seeing then is a fairly widely shared evaluation of the situation in which oil seems to be gradually moving into second place since some imbalances between supply and demand that had taken place some months earlier are being corrected. Oil prices have begun to ease from highs of the order of 50 dollars a barrel to levels around 43-45 dollars. While these prices are still more than 50% higher than one year ago, it is felt that after the zenith of winter demand is past the correction in prices will stabilize.

Economic agenda of re-elected President Bush seems to rule out possibility of any rapid and significant reduction of US imbalances…

On the other hand, the imbalances in the United States and the exchange rate of the dollar have come to dominate the current economic agenda. Up until recently, the rise in the government deficit and the current account deficit in the United States (4.4% and 5.7% respectively of the gross domestic product) had been considered sustainable and even desirable over the short term in order to strengthen world recovery and deal with exceptional situations such as the war in Iraq. Nevertheless, the constant worsening of the foreign imbalance seems to be affecting the expectations of market operators. Furthermore, the economic programme of newly re-elected President George W. Bush will likely tend to increase, rather than correct, the government deficit due to its emphasis on consolidation of tax cuts, maintenance of spending on national security and restructuring of the Social Security system.

…which could bring about greater depreciation of dollar.

Perhaps the clearest indication of this change in perception is the weakness of the dollar. In recent months the exchange rate has shown fluctuations with a gradual tendency to depreciate. Acting in its favour was economic growth, the increase in productivity and the rise in interest rates. But the persistence of the government and foreign deficits is something hardly sustainable and over the medium term it would not be surprising to see a situation of increased depreciation of the greenback.

In one month, dollar drops 3% against currencies of countries with largest volume of trade with United States and pushes euro up to new all-time high.

It would seem that we are moving into a situation of this kind. In spite of statements by the US Secretary of the Treasury to the effect that he would prefer a strong dollar, this currency has continued to drop against the group of currencies making up the biggest volume of trade. At the end of November, against that group of currencies the US currency stood at its lowest level since November 1997. In scarcely one month, again in terms of that group, the dollar dropped by more than 3%. Given that some currencies of Asian countries with a high volume of trade with the United States are pegged to the dollar, as in the case of the Chinese yuan, the bulk of this downward adjustment has fallen on the euro and the yen. On November 26 the single currency recorded a new all-time high against the dollar at 1.32 dollars to the euro. Since the end of 2003 the euro has appreciated by 5% and 60% since the low in October 2000.

Fed acts as expected raising reference rates by quarter-point.

In any case, financial markets played down the risks mentioned and, on the contrary, capitalized on the more positive factors of the current economic situation. As there were no big surprises in terms of official interest rate trends (the Fed raised its reference rates by 0.25 points on November 10 while the European Central Bank and the Bank of Japan made no changes) the results of the US presidential elections, the drop in oil prices, the good indicators for the US economy and the poor figures for Europe formed the background for movements in bond and share markets.

Notable rise on stock exchanges in United States and Europe.

As a result, US Treasury bonds halted the downward trend followed in recent months in view of expectations of a high government deficit while European government bonds moved away from that correction and went to lowest levels in 17 months. With regard to stock markets, they enjoyed an excellent month on both sides of the Atlantic. In the United States, the more representative indices stood at positive levels compared with the beginning of the year while the increases in Europe were even sharper with London, Milan, Madrid and Paris marking up annual highs.

Spain’s economy: domestic demand continues to grow

Domestic demand up 4.4% in third quarter.

The most notable feature of Spain’s economy is maintenance of the high growth rate of domestic demand. National Accounting for the third quarter shows year-to-year growth of 4.4%, certainly a high figure.

Nevertheless, GDP growth stood at only 2.6% due to the fact that the bigger positive contribution of domestic demand was compensated by increased draining off by the foreign sector.

Strong advance in investment.

The make-up of the increase in domestic demand is significant seeing that it seems to be consolidating two different trends. Growth of household consumption has stabilized since the beginning of the year while investment, especially in capital goods, has led the rise in domestic demand. Along with this sharp rise in domestic demand imports have risen to the point where they represent twice the growth rate for exports.

In final months of 2004 private consumption and construction investment holding strong while capital goods investment continues to expand.

If we are to go by available indicators, the final stretch of 2004 is a continuation of earlier trends. Private consumption is maintaining a notable growth rate but with a slight trend to slow down, as indicated by the course seen in passenger car registrations and consumer confidence. A similar trend is to be noted in construction investment. On the other hand, indicators for capital goods investment confirm an expansionist note. In keeping with the strength of domestic demand, the imbalance with abroad continues to increase. The cumulative trade deficit for the eight months from January to August was 30% higher than one year earlier while the cumulative current account figure showed an imbalance of more than 60% year-to-year for the January-August period.

Industry moving up, services dynamic, with notable exception of tourism, while construction stabilizing.

Growth continues to show up unevenly in the various production sectors. After some hesitation in recent months, industry improved in September. Services generally are showing a high growth rate although tourism represents a notable exception to the trend. The overall balance at the end of the summer season is weak with a decrease in revenue inflows for foreign tourism in spite of the increase in numbers of tourists. The compensation coming from the increase in domestic tourism made it possible to partly offset the poor trend in the foreign segment. Some indicators for construction, in turn, are suggesting a rate of economic activity with a moderate slowdown although other early indicators record a rise which puts a qualifier on that trend.

Registrations with Social Security and low growth of unemployment reflect good state of labour market.

As a result of current economic growth, the labour market continues to improve. October brought two surprises with a notable increase in registrations at Social Security and a lower than normal increase in registered unemployment. In fact, the year-to-year change in unemployment reached negative levels for the first time in more than three years.

Inflation moves up to 3.6% in October due to effect of energy.

The balance is not quite as positive in terms of prices. In October the consumer price index unexpectedly went to a high for the year (3.6% year-to-year) due to the increase in oil prices, which has been practically the sole culprit for the increase in the general index in recent months. On the other hand, electricity and natural gas made it possible to ease the rise in the index while food and services scarcely made any contribution to the worse state of consumer prices. On the other hand, the differential with the euro area stood at 1.2 points to consolidate at relatively high levels.

CHRONOLOGY

2003

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.*

March 11 *Tragic* ***terrorist attacks*** *on commuter trains in Madrid.*

14 *Victory of Spanish Socialist Workers Party (PSOE) in Spanish* ***general elections****.*

May 1 *Enlargement of the* ***European Union*** *by ten new member states making a total of 25.*

October 25 *One-month forward price of Brent quality* ***oil*** *reaches record level of 51.51 dollars a barrel.*

29 *Signing in Rome of first* ***European Constitution*** *by heads of State and government of 25 member states of European Union.*

November 2 *George W. Bush re-elected* ***President of the United States.***

10 ***Federal Reserve Board*** *(The Fed) for fourth time in year raises reference rate a quarter-point to 2.00%.*

25 *IBEX 35 index for* ***Spanish stock market*** *marks up annual high (8,755.4) with cumulative gains of 13.2% over end of December 2003.*

26 ***Euro*** *exchange rate at 1.324 dollars, highest value since launching of single currency at beginning of 1999.*

AGENDA

December

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

3 *Industrial production index (October).*

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

15 *Consumer price index (November).*

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

17 *Quarterly Labour Cost Survey (3rd Quarter).*

22 *Ongoing survey of household budgets (3rd Quarter).*

27 *Producer price index (November).*

30 *Early HCPI index (December).*

January 2005

10 *Industrial production index (November).*

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

14 *Consumer price index (December).*

20 *Harmonized consumer price index for European Union (December).*

25 *Producer price index (December).*

28 *Labour Force Survey (4th Quarter).*
Early harmonized consumer price index (January).

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

United States: growth of economy easing off

United States shows growth of 3.9% year-to-year in third quarter, improving on previous quarter.

The US economy continues to show a gradual easing of growth. In the third quarter, economic activity grew by 3.9% compared with the same period last year. While this figure may indicate some further slowing down of the US economy, quarter-to-quarter growth annualized at 3.7%, higher than the 3.3% in the second quarter, would suggest that for the moment the slowdown is gradual.

Private consumption shows robust 3.5% growth thanks to consumer durables.

Private consumption, the main component of the gross domestic product (GDP), showed less of a slowdown to grow by 3.5% year-to-year, losing drive compared with the previous quarter. The quarter-to-quarter trend annualized, adjusted for base effects, showed an increase with growth going to 4.6% compared with 1.6% in the previous quarter. These figures call for some caution given that the strength in consumption was concentrated in durable goods which can be quite volatile. Public consumption increased by 1.9% year-to-year and in this case the background trend does make it possible to speak of an effective slowdown which is quite coherent with government concern about reducing the public deficit created as a result of tax cuts in 2002 and 2003.

Housing investment weakening.

Non-residential investment in the third quarter maintained a situation better than housing investment which weakened in the third quarter. Fixed capital formation grew by 9.3% year-to-year, thus losing something of the strong drive shown in the previous quarter, the last being revised upward to 11.6%. This moderation was concentrated in residential investment which grew by 8.4% year-to-year compared with 13.2% in the second quarter. In quarter-to-quarter terms annualized, it moved up by 3.1% as against 16.5% in the previous quarter.

Non-housing investment maintains strong growth based more on industry than information technology.

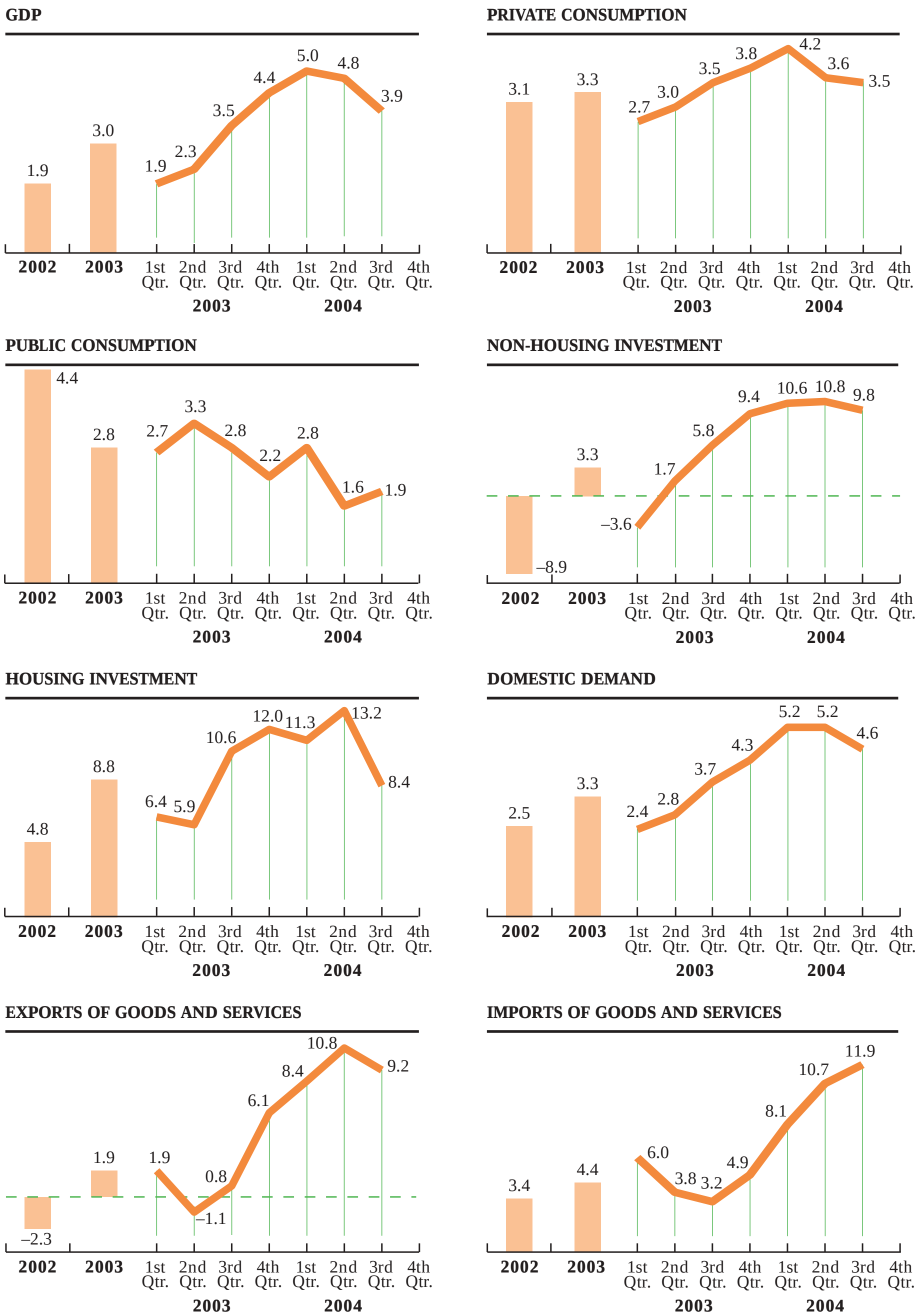
On the other hand, non-housing private investment maintained the strength shown in previous stages with year-to-year growth of 9.8%. While investment in infrastructures moved up by a poor 1.9%, capital goods investment grew by a robust 12.2% year-to-year in the third quarter which meant a year with growth of more than 12%. The strong investment in plant and equipment came in industrial equipment which increased growth to 7.8% year-to-year (1.9% in the second quarter). Investment in information technology, the other component of capital goods investment grew by 12.7% year-to-year which meant a slowdown compared with the 18.9% in the second quarter.

Foreign sector remains negative while weak dollar not having major effects for the moment.

In the third quarter the foreign sector continued to make a negative contribution to growth of the US economy. Exports were up by 9.2% year-to-year, losing more strength over the quarter than in the case of imports which grew by 11.9%. The background trend shows no change and solution of this endemic imbalance seems a long way off. The third period, however, brought a slight improvement with a negative contribution of –0.7% to quarter-to-quarter growth of the GDP annualized, which was less in absolute terms than in the three previous quarters making a less negative contribution to growth. This improvement was lower in nominal terms with a negative contribution of –1.2% which indicates that, for the moment, the weak dollar is having limited effects on easing the foreign imbalance and being limited to increasing import prices.

TREND IN UNITED STATES' GDP BY COMPONENT

Percentage year-to-year change



SOURCE: Bureau of Economic Analysis and internal figures.

Retail sales and consumer confidence easing off.

With regard to the most recent indicators of economic activity, we should point out that retail sales in October grew by 7.6% year-to-year, thus losing practically all the rise seen in September given that in month-to-month terms adjusted for seasonal effects it went from growth of 1.6% to 0.2%. Along the same lines, car sales moved up by 1.9% year-to-year. Industrial production of consumer goods, on the other hand, maintained the strength shown in September and moved up to 3.7% year-to-year in October. Consumer confidence in October continued along the downward path begun in August dropping from 96.7 to 92.8, the lowest level since March 2004. The prospects component followed along this trend to a much more moderate degree going from 95.3 to 94.2. The increase in the summer was thus lost but it still holds at a level well above the 76.0 seen at the beginning of the year.

UNITED STATES: MAIN ECONOMIC INDICATORS

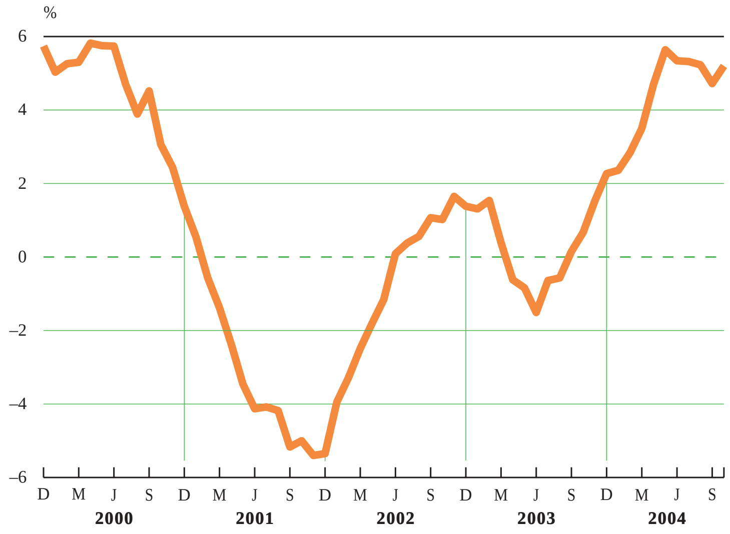
Percentage change over same period year before unless otherwise indicated

	2002	2003	2004					
			1st Qtr.	2nd Qtr.	July	August	September	October
GDP	1.9	3.0	5.0	4.8	–	3.9	–	–
Retail sales	2.5	5.4	7.8	7.8	6.9	4.7	7.7	7.6
Consumer confidence (*)	96.6	79.8	91.6	96.3	105.7	98.7	96.7	92.8
Industrial production	–0.6	0.3	2.9	5.2	5.3	5.2	4.7	5.2
Sales of single-family homes	7.6	11.6	22.2	9.2	–4.8	–2.0	7.0	...
Industrial activity index (ISM) (*)	52.4	53.3	62.5	62.1	62.0	59.0	58.5	56.8
Unemployment rate (**)	5.8	6.0	5.6	5.6	5.5	5.4	5.4	5.5
Consumer prices	1.6	2.3	1.8	2.8	3.0	2.7	2.5	3.2
Trade balance (***)	–39.0	–44.4	–45.4	–47.8	–48.6	–49.7	–50.5	...

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

INDUSTRY SHOWING STABLE GROWTH

Year-to-year change in industrial production index



SOURCE: Department of Commerce and internal figures.

Industrial production maintaining good note.

With regard to industrial production, the October index showed growth of 5.2% year-to-year while the figure for September was revised slightly upward to 4.7%. The robust month-to-month improvement of 0.7%, recovering the good note seen in July, confirms this positive situation. As a result, stable growth is continuing to settle down. Utilization of production capacity in October was 77.7%, the highest monthly level since the beginning of 2001.

Manufacturing orders stabilizing.

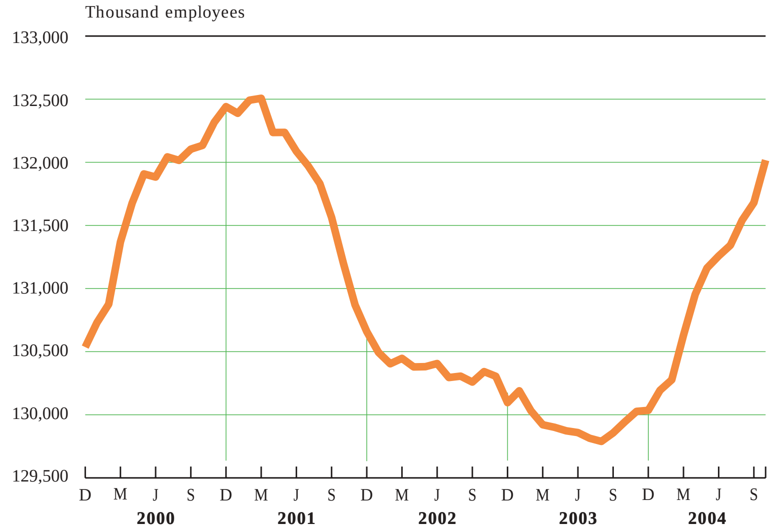
The indicator for manufacturing activity put out by the Institute of Supply Management (ISM) in October continued to ease down to 56.8, a drop from 58.5 in September. Nevertheless, the new orders component, which has been dropping since the high in July, stabilized at 58.3 as against 58.1 the month before. The non-manufacturing index recovered lost strength and rose from 56.7 to 59.8.

Housing continues moderation trend while October figures positive.

Housing, which was weak in the GDP in the third quarter, had its ups and downs. On the down side, building permits in October dropped by 10.1% year-to-year, partly because of base effects, and by 4.9% month-to-month, the fourth consecutive month to show a drop. Nevertheless, housing starts grew by 2.2% year-to-year and 6.4% compared with the previous month. The background trend is to an easing off but not to weakness, especially in view of recent figures.

EMPLOYMENT IN UNITED STATES IMPROVING RECOVERY

Non-farm employment



SOURCE: Department of Commerce.

Labour market improves over previous month.

Employment has improved recovery. Some 337,000 new jobs were created in October and the official figure for September was revised upward from 96,000 to 139,000. With the October figures recovery of the labour market seems more and more firm. Starting from the low point in August 2003, some 2,228,000 new jobs have been added although only 79,000 of these were in the manufacturing sector which continues to be the flaw in recovery.

CPI moves up because of oil prices but for now this pressure not shifting to other sectors.

The CPI grew by 3.2% in October which meant a notable increase over the 2.5% in September. This increase was due to energy prices but the increase in oil prices is still not shifting to other sectors. As a result, the component, excluding energy and food, held at 2.0%, thus repeating the figure for September. The month-to-month change in this component was 0.2%, even lower than the 0.3% seen in September. Doubts about this good performance showed up in producer prices which grew by 4.4% year-to-year in October with a sharp 1.7% month-to-month rise. The trade balance in September was also less negative than in August but the negative balance for the past twelve months continued to worsen in September going to 606.4 billion dollars. This constitutes a heavy burden for the world's leading economy.

Trade deficit still lies in wait.

Japan's economy showing less vigorous growth

Japan's GDP up by 3.8% based on good state of consumption...

Japan's economy grew by 3.8% year-to-year in the third quarter, a lower rate than the 4.3% in the previous quarter. The quarter-to-quarter rate annualized was 0.3% as against 1.1% in the previous quarter, revised slightly downward, which meant an appreciable slowdown, especially thinking of the levels at the beginning of the year. Private consumption grew by 3.9% year-to-year, an improvement on the previous figure, and indeed represented the most positive note. Public consumption also showed some improvement with a rise of 2.0% year-to-year.

...but investment disappointing with figure revised downward.

Investment in the third quarter was up by 2.7% and was the weakest component in the period thus not living up to the prospects which it had been indicating. The second quarter was revised downward from 3.2% to 2.8%. Investment underwent a drop of 3.4% quarter-to-quarter annualized and its negative contribution to the quarter-to-quarter growth of the GDP annualized (0.3%) was –0.9%. This constituted the darkest cloud over the Japanese economy this quarter. The change in inventories also reported a negative contribution of –0.4%.

Foreign sector weakening, exports stagnating and slowdown in Chinese growth noted.

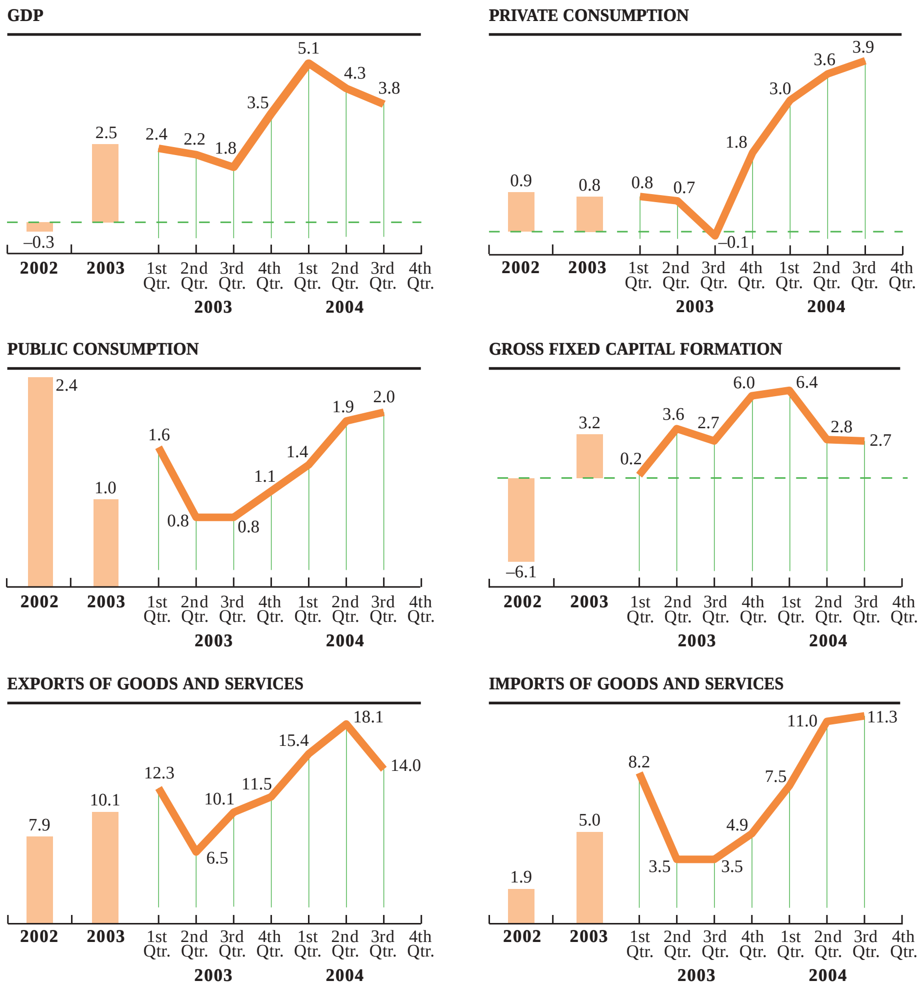
The foreign sector on which Japan's economy is so dependent represented the other shadow for the period. Exports grew by 14.0% year-to-year but were moderating, whereas imports were on the increase with growth of 11.3% year-to-year. In quarter-to-quarter terms annualized, the contrast turns out to be sharper with an increase of 1.5% in exports (15.0% in the previous quarter) and 11.1% for imports. As a result, the foreign sector ended up making a negative contribution to growth of the economy (0.8% quarter-to-quarter annualized) in contrast to the positive contributions seen in previous quarters, thus reflecting Japan's heavy dependence on the foreign sector and something not apart from the trend followed by the Chinese giant and current pressures on the dollar.

Housing shows positive signs with prices on rise and increase in activity.

With regard to the most recent indicators, we should point out that retail sales in September dropped by 0.3% year-to-year. Car sales must be added to this weak situation with growth of 2.7% year-to-year in October as against 9.1% in September. A positive counterbalance showed up in housing with a notable increase in sales in Tokyo of 18.2% year-to-year in October. Average prices in Tokyo in October also moved up by 3.3%, which is good news in the current Japanese economic situation. Confirming this picture, housing starts in September were up by 10.3%.

TREND IN JAPAN'S GDP BY COMPONENT

Percentage year-to-year change



SOURCE: Economic and Social Research Institute and internal figures.

Industrial production and machinery orders at standstill.

Industrial production grew by 4.1% year-to-year in September which meant a notable drop, thus confirming doubts raised in August. In September, machinery order books showed a drop of 2.7% year-to-year in contrast to the drive in recent months, something which raises doubts about the trend in investment in Japan. In the labour market, the unemployment rate continued to drop to 4.6% in September while the process of tertiarization proceeded. Productivity showed some moderation in the good trend being followed and moved ahead by 3.6% year-to-year.

Deflation seems to be coming to an end.

Consumer prices in September were again at levels for the same period last year but prices in Tokyo in October reported a year-to-year increase of 0.3%. This constitutes a hopeful sign with regard to the end of Japanese deflation while still taking into account the influences that could come from oil prices, which for the moment are not having a great effect on the indices. The trade balance in the last twelve months up to September showed a surplus of 14,700 billion yen, although this indicated some stagnation in exports.

JAPAN: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004				
			1st Qtr.	2nd Qtr.	July	August	September
GDP	–0.3	2.5	5.1	4.3	–	3.8	–
Retail sales	–3.9	–1.9	0.2	–1.9	1.0	–1.6	–0.3
Industrial production	–1.3	3.3	5.0	8.3	7.1	8.4	4.1
Tankan company index (*)	–32.8	–21.0	–5.0	0.0	–	2.0	–
Housing construction	–1.8	0.6	5.3	–3.6	7.7	10.4	10.3
Unemployment rate (**)	5.4	5.3	4.9	4.6	4.9	4.8	4.6
Consumer prices	–0.9	–0.3	–0.1	–0.3	–0.1	–0.2	0.0
Trade balance (***)	11.8	12.4	13.2	14.2	14.3	14.6	14.7

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

China: slight moderation in industry and prices

China continues to grow at strong rate.

The Chinese economy continued its strong growth in the third quarter reporting 9.5% year-to-year, slightly below the 9.7% in the previous quarter. The farm sector increased growth to 5.5%, the major industrial sector was up by 10.9%, down from 11.5% in the second quarter, while the tertiary sector showed 8.5%, higher than the previous 8.1%. Following previous patterns, the industrial sector, which most sorely needs to slow down, was the only field to show a trend to moderation.

CHINA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004					
			1st Qtr.	2nd Qtr.	July	August	September	October
GDP	8.2	9.2	9.8	9.7	–	9.5	–	–
Industrial production	12.7	16.7	16.6	17.6	15.5	15.9	16.1	15.7
Consumer prices	–1.5	1.9	2.3	3.7	4.8	4.4	4.1	2.5
Trade balance (*)	30.4	25.4	17.8	13.5	13.9	15.6	20.3	21.6

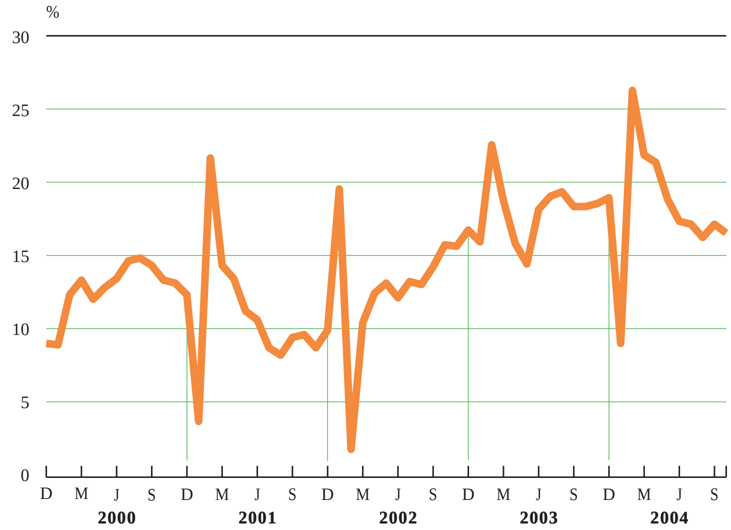
NOTES: (*) Cumulative balance for 12 months. Billion dollars.
SOURCE: Chinese National Statistics Office, Thomson Financial Datastream and internal figures.

Industrial production stabilizing growth.

Industrial production grew by 15.7% year-to-year in October. While this growth rate is high it seemed to be stabilizing with a slight downward tendency. The heavy industry component, of key importance for raw material markets, continued along the same path with growth of 16.6%, as was the case with light industry with growth of 15.1% year-to-year. Nevertheless, this easing off is showing up less and less and growth appears to be resisting any tendency to drop from current levels. Another objective of this process of moderation is a reduction of the relative weighting of the state corporations and, although the process is continuing, it is now slower. In October, the figure was 41.8%, very slightly below the 41.9% six months ago, whereas a year ago it was 44.2%.

CHINESE INDUSTRIAL PRODUCTION HALTING HIGH GROWTH

Year-to-year change in heavy industry component



SOURCE: Chinese National Statistics Office.

Vehicle production down but increase in electrical energy and computers.

Electrical energy generation rose by 16.6% year-to-year in October wiping out the modest dip in August. Production of computers also was up by 54.1%, an increase over the 20.0% in September but still far from the increases seen in 2003. Commercial vehicle production continued to be the sector where the «soft landing» was most noticeable with an increase of 4.5%, well below rates at the beginning of the year. Production of primary energy was up by 18.5%, still a long way from easing off.

Retail sales continue to grow led by rural areas.

Retail sales showed an increase with growth of 18.5% year-to-year in October, up from 13.1% in August. The urban areas reported growth of 19.1% while rural areas recorded 21.6% (12.6% in August). The strength in retail sales, while it demonstrates the government's difficulties in moderating growth, also has its positive side, in the sense that it guarantees a domestic demand which justifies the major investment being carried out by the Chinese giant.

Inflation down returning to low levels seen in first quarter.

Year-to-year inflation in October was 2.5% which, even taking into account the reliability of available figures, constitutes the most positive note for the period. The year-to-year inflation rate in August was 4.4% but in October returned to the levels seen in March. Food prices (the sector showing the highest increase) with a figure of 13.6% in June, also underwent a drastic drop to stand at 4.7% year-to-year.

Trade surplus with United States increases.

The trade balance for the last 12 months ending September 2004 showed growth to a figure of 21.6 billion dollars, thus turning around the drop taking place up to August. This improvement in the trade surplus was based on bilateral trade with the United States which, in the same period, showed a surplus of 72.5 billion dollars. The deficit with Japan, South Korea and Germany continued although not showing excessive change.

Copper imports continue to drop, oil demand moderating but no decrease in iron.

By product, copper imports dropped by 20.9% year-to-year in September while aluminium was also down 16.9%, which represented the first decrease in a long time. Oil imports in September also showed much lower growth going to 5.7% year-to-year. Nevertheless, imports of iron, a raw material China imports in great quantity, were up by a strong 109.5%.

Mexico: recovery confirmed

Mexico shows 4.4% growth in third quarter.

The Mexican economy grew by 4.4% year-to-year in the third quarter of 2004, decidedly improving its growth path. Components for the previous quarter had already indicated very good distribution of growth with private consumption and investment as the main driving forces along with a foreign sector not failing to show its strength.

Manufactures, retail sales, transport and communications and construction most dynamic sectors.

In the absence of publication of demand components of the GDP, supply components for the third quarter show a vigorous picture. Among the key sectors showing increased growth over the previous quarter, the most notable were manufactures which grew by 5.0% year-to-year as against 4.0% in the second quarter, retail sales with 4.9% compared with the previous 4.0%, transportation, home goods and telecommunications with 9.3% as against a previous 8.2% and, of lesser account, construction with 5.9% as against a previous 4.4%. Financial services grew by 4.4% year-to-year, but in this case there was a slowdown compared with the previous quarter (4.9%). The agricultural sector, of lesser importance, was weak with a drop of 1.3% year-to-year.

Machinery manufactures up by 7.5%.

Within the manufacturing sector, the most important component, metal manufactures, machinery and equipment grew by 7.5% year-to-year, well above growth of 5.5% in the previous quarter, which points to a good performance in investment in the third quarter. The second most important component, food products, also showed an increase although with more modest growth at 2.4%. While it is of little importance in quantitive terms, the growth of basic metal manufactures is significant with an increase putting it at 9.9%.

MEXICO: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004					
			1st Qtr.	2nd Qtr.	July	August	September	October
GDP	0.7	1.3	3.7	3.9	–	4.4	–	–
Industrial production	–0.3	–0.8	3.2	3.8	3.9	5.2	5.5	...
Unemployment rate Mexico City (*)	3.0	3.6	4.8	4.5	4.5	5.8	5.3	4.1
Consumer prices	5.0	4.5	4.3	4.3	4.5	4.8	5.1	5.4
Trade balance (**)	–7.9	–5.6	–6.0	–5.5	–5.7	–5.9	–6.0	...

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

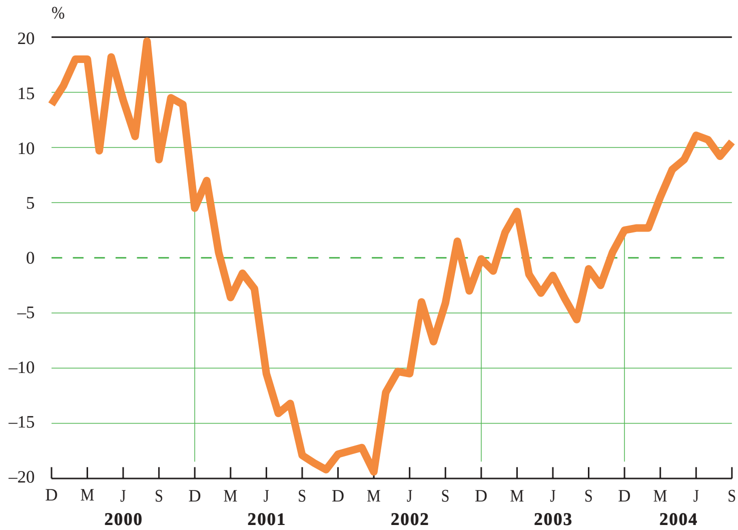
Retail sales recovering...

...and cross-border companies strong leaders of industrial activity.

Among monthly demand indicators, retail sales rose in July and August with year-to-year growth of 4.8% and 4.2% respectively compared with a weak 2.5% in June. On the supply side, industrial production continued along the same strong note with 5.5% in September, 5.2% in August and a slight upward revision to 3.9% in July, thus confirming a clear upward trend following the course begun in April 2003. The construction component showed greater strength with growth of 8.6% in September as against 5.7% in August. The manufacturing component of the «maquiladoras» (US companies producing in Mexico with low labour costs) maintained a sharp growth at 10.5% while other manufactures rose by a more moderate 5.0%.

NOTABLE ADVANCE BY «MAQUILADORAS»

Year-to-year change in industrial production of «maquiladoras»



SOURCE: Central Bank of Mexico.

Official unemployment holds at moderate levels.

The unemployment rate for Mexico City continued its positive trend downward reaching 4.1% in October, thus correcting the rise in the summer, without overlooking the downward bias of official figures for Mexican unemployment. Productivity in manufacturing was up by a satisfactory 6.5% year-to-year in August, although the figure for July was revised downward.

Pressure from oil prices not shifting to other sectors.

Consumer prices in October rose by 5.4% although the general component, with the exception of energy and food, stood at 3.8% in October, very close to the annual lows of 3.5%, thus for the moment indicating a limited effect from pressure on oil prices.

Trade deficit continues with growing dependence on oil exports.

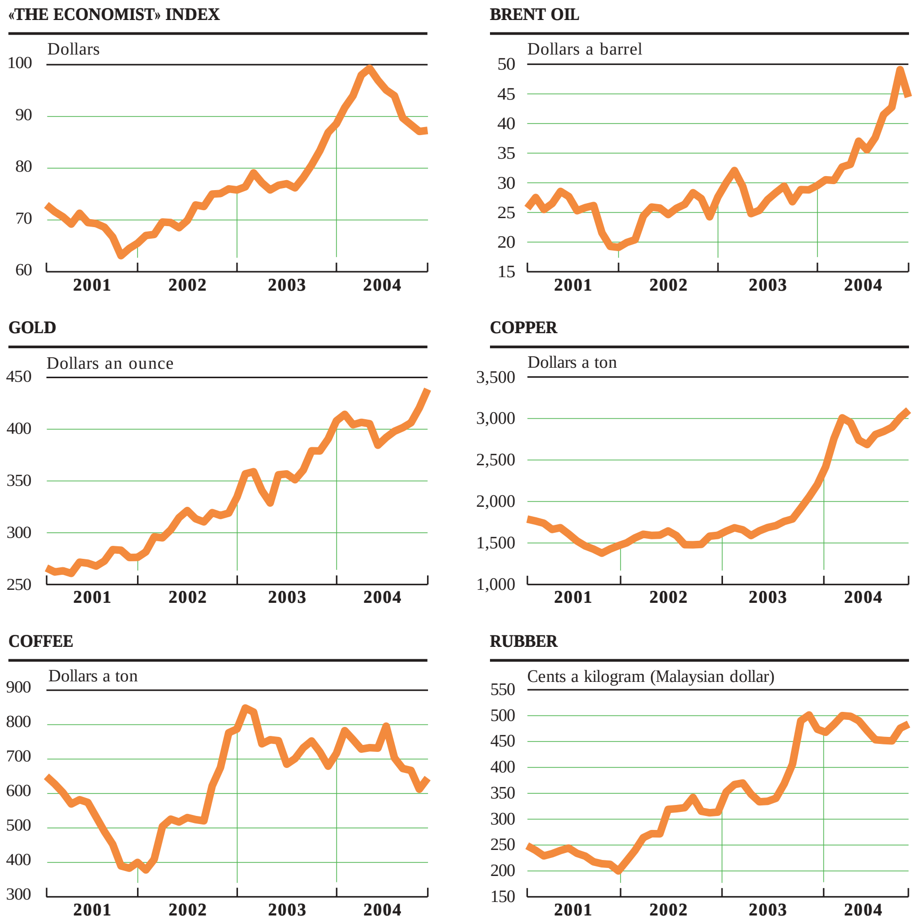
The trade deficit for the twelve months ending in September showed a negative figure of –5.97 billion dollars. If we leave out oil exports the negative figure was –27.9 billion dollars, which meant worsening of the situation in previous months. This deficit continues to be the biggest concern with regard to Mexico's economy as it raises some doubt about the competitiveness of an economy which in general terms presents a clearly positive balance.

Raw materials: sudden drop in oil prices

Oil prices reach high at end of October and drop nearly 10 dollars in two weeks to later show moderate rise...

After marking up a 1-month forward record level of 51.51 dollars a barrel for Brent quality oil on October 25, the price of oil went through a rapid price drop so that, at the end of November, it stood at the level of 44 dollars. In spite of the fact that supply and demand conditions have not substantially changed, uncertainty about future supply has been reduced. In any case, on the average of the three first weeks in November, the price level of oil held at 55% above that one year earlier.

TREND IN SELECTED RAW MATERIALS



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

...thanks to partial correction of negative factors in previous months and effect expected from slowdown in world economy.

Behind this trend lies a combination of factors which have come together at the same time. First of all, market operators have paid considerable attention to the easing of the threat of a war in Iran, the relief of tension in Nigeria and the realization that there wes a level of inventories in the United States greater than expected. In a sphere closer to market fundamentals, the International Energy Agency sees additional explanatory factors in the recovery of a large part of refining capacity in plants in the Gulf of Mexico, increased production of certain refined products for which there existed the threat of insufficient supply as well as maintenance of a level of production by the Organization of Petroleum Exporting Countries at levels close to full capacity. Finally, the forecast of lower demand arising from the slowdown of the world economy has also had an influence on a downward trend in prices.

RAW MATERIALS PRICES

	2002	2003	2004				
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November
«The Economist» index in dollars (*)							
General	4.4	11.3	21.9	27.0	15.9	4.4	0.5
Food	7.4	8.8	15.7	22.5	9.7	–4.2	–7.5
Industrials	0.3	14.8	31.0	33.8	24.3	16.1	11.2
Non-food agricultural	*6.1*	*17.8*	*21.2*	*24.4*	*10.0*	*–6.6*	*–9.1*
Metals	*–4.2*	*12.4*	*40.1*	*42.4*	*37.2*	*36.9*	*29.8*
«The Economist» index in euros (*)	**–0.8**	**–7.2**	**4.3**	**19.6**	**6.9**	**–1.8**	**–9.0**
Oil (**)							
Dollars/barrel	25.1	28.4	31.2	35.3	40.7	49.2	44.5
Change rate	0.8	13.1	2.6	36.9	44.4	70.2	54.4
Gold							
Dollars/ounce	310.4	364.0	408.4	394.0	401.9	420.6	438.7
Change rate	14.5	17.3	16.0	13.7	10.6	11.0	12.3

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

Other raw materials as a whole drop below level one year ago...

This trend is more in keeping with what has happened in other raw materials. In November, «The Economist» index for raw materials in dollars stood at 0.5% below the level one year earlier. In euros, the drop was sharper going to a year-to-year decrease of 9.0%. By group, the sharpest drop came in food raw materials which, in dollars, dropped by 7.5% year-to-year, and non-food agricultural raw materials which (also in dollars) were down by 9.1% year-to-year.

...with exception of metals which show cumulative rise of 30% in one year.

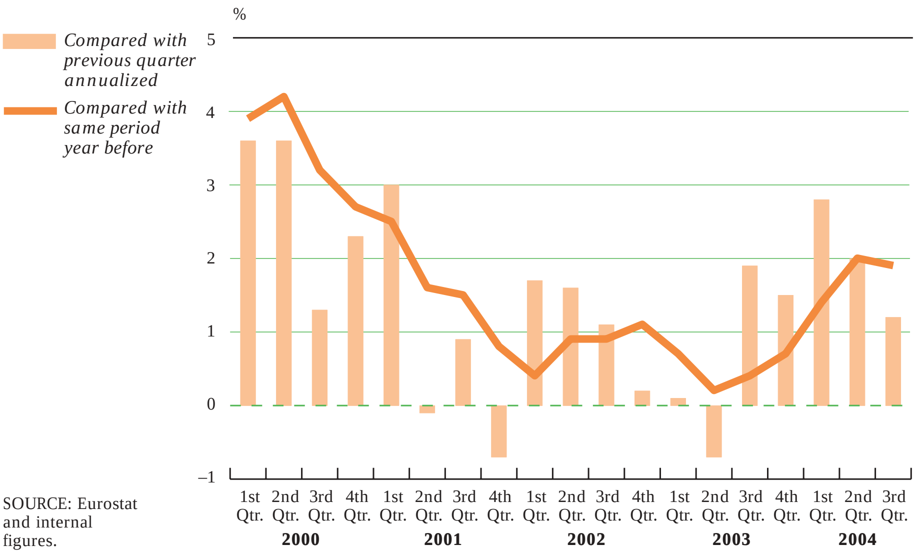
On the other hand, metals were an exception to this trend. While the annual highs in the second quarter have been left behind, metals showed growth of 30% year-to-year in November. Outstanding among these was the fact that the price of gold reached 438 dollars an ounce in the middle of November, its highest level since 1988, thus confirming its role as a reserve asset in moments of high uncertainty.

Euro area: recovery halting in third quarter

Euro area shows growth of 1.9% in third quarter.

The euro area economy grew by 1.9% in the third quarter of 2004, a slight slowdown from the 2.0% year-to-year shown in the previous quarter. In spite of the fact that this figure would seem to indicate consolidation of recovery, the truth is that the quarter-to-quarter rate annualized, which shows the recent state of growth with greater precision, would suggest a weakening of economic activity between July and September. As a result, the gross domestic product (GDP) of the euro area went from growth of 2.0% in quarter-to-quarter rate annualized in the second quarter to show 1.2% growth in the third quarter. Without having figures for the trend by component, available indicators suggest that the slack in consumption has not been fully compensated by the foreign sector which is beginning to show a loss of competitiveness because of the appreciation of the euro.

UNCERTAIN RECOVERY IN EURO AREA
Change in gross domestic product in real terms



SOURCE: Eurostat and internal figures.

Private consumption not responding and low level of consumer confidence raises little hope for rapid improvement.

As a result, on the demand side, the indicators confirm that private consumption continues to be stuck at very weak levels. In the third quarter, retail sales rose by only 0.2% year-to-year, a very limited recovery in terms of zero year-to-year growth in the second quarter. Other partial indicators, such as industrial production of durable and non-durable consumer goods and car sales, even went down compared with figures for the second quarter thus confirming the image of weakness in household spending. The drop in consumer confidence in October suggests little margin for any immediate recovery on this front. The trend in consumption arises partly from maintenance of the unemployment rate at relatively high levels, of the order of 9% of the labour force, since the beginning of the 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	September	October
GDP	0.8	0.5	0.4	0.7	1.4	2.0	–	1.9	–	–
Retail sales	0.0	0.3	–0.3	0.0	0.5	0.0	0.8	–0.1	0.0	...
Consumer confidence (*)	–11	–18	–17	–16	–14	–15	–14	–14	–13	–14
Industrial production	–0.5	0.3	–0.3	1.4	1.0	3.0	2.4	1.8	2.9	...
Economic sentiment indicator (*)	94.4	93.5	94.2	97.7	98.8	100.0	99.8	100.9	101.0	101.3
Unemployment rate (**)	8.4	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	...
Consumer prices	2.2	2.1	2.0	2.0	1.7	2.3	2.3	2.3	2.1	2.4
Trade balance (***)	83.2	80.3	75.2	71.3	76.7	89.8	92.5	88.2	...	...

NOTES: (*) Value.
(**) Percentage of labour force.
(***) Cumulative balance for 12 months. Billion euros.

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

Drop in exports troubling given foreign dependence of euro area.

In view of the poor domestic picture, the slowdown in exports takes on greater importance. On average for the months of July and August foreign sales grew by 9.8% year-to-year, a figure which while notable represents a drop of two percentage points from the average for the second quarter. This slowdown, combined with the rise in imports (year-to-year increase of 14% for the July-August average) meant that the cumulative surplus for 12 months as of August stood at 88.2 billion euros, compared with 89.8 billion euros in the second quarter. It would thus appear that the notable positive contribution from the foreign sector to growth recorded up to the present may have begun to move downward.

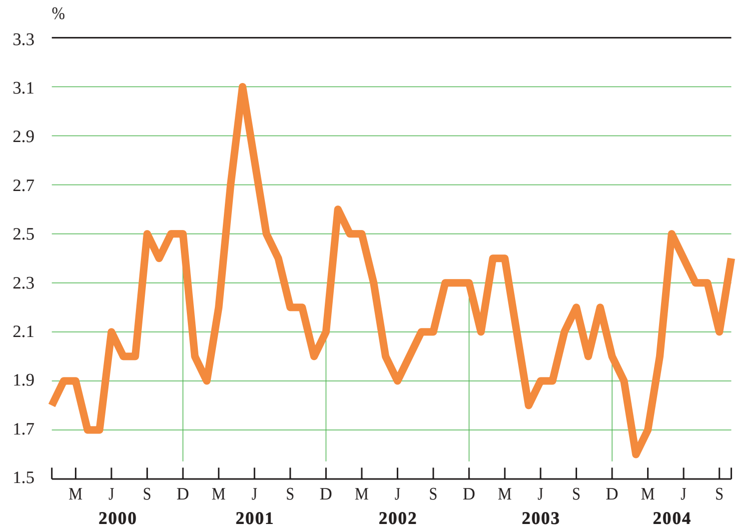
In third quarter, industry maintaining growth rate seen in second quarter.

On the supply side, the indicators confirm the impression of an economy which, in a stage of gradual recovery, is seeing growth steadying. While the economic sentiment indicator rose by six decimals in the third quarter (going up to 100.6 points) this improvement was below that recorded in the second quarter when it stood at 1.2 points. The stagnation in services and construction has ended up more significant than the modest growth in industry. Specifically, the industrial climate indicator went from the 0.4 points level in the second quarter to 0.5 points in the third quarter. Along the same lines, the increase in industrial production in the third quarter was 2.4% year-to-year, showing no improvement over the second quarter. In any case, the recovery in industrial production in September, when it grew by 2.9% year-to-year, confirms a better situation in the secondary sector than had been suggested by industrial orders.

Inflation up 2.4% in October as result of rise in oil prices.

In view of the lack of strength to be seen in the current recovery, any significant increase in pressure on prices could have a negative effect by eroding real incomes. Up to now, the limited strength of domestic demand and the anti-inflationary effect of an appreciated euro had meant that the notable increase in oil prices would have a relatively moderate effect on consumer prices. In October, however, the harmonized consumer price index (HCPI) rose to 2.4% year-to-year, a rise of three decimals over September. The rise in the energy component, which came to 9.8% year-to-year in October (6.4% year-to-year in September) was the only culprit for the increase in the general index. On the other hand, the less volatile components kept to a growth rate in line with previous months so that the inflation rate not including energy, food, tobacco and alcohol stood at 1.8% year-to-year, the same as in September.

OIL PUSHES UP INFLATION IN EURO AREA
Year-to-year change in harmonized consumer price index



SOURCE: Eurostat and internal figures.

Germany: low growth in third quarter

German economy grows by only 1.3% in third quarter.

According to preliminary estimates, the German GDP grew by only one decimal in the third quarter compared with the previous quarter which meant a year-to-year rate of 1.3% and a quarter-to-quarter rate annualized of 0.4%. Lacking a breakdown by component, everything indicates that the weakness in growth has resulted from an export performance lower than in previous quarters which has come on top of the persistent slackness in private consumption.

Retail sales down 1.3% in third quarter, less than in previous quarter.

On the demand side, the modest improvement in retail sales in the third quarter, when the rate of decrease went down to 1.3% year-to-year, six decimals less than the drop in the second quarter, was counteracted by some slowing down in investment and exports. As a result, the production of capital goods was up by 5.3% year-to-year in September, one percentage point less than in the second quarter, while exports grew by 8.4% year-to-year in the third quarter compared with 13.0% year-to-year in the previous quarter.

GERMANY: MAIN ECONOMIC INDICATORS

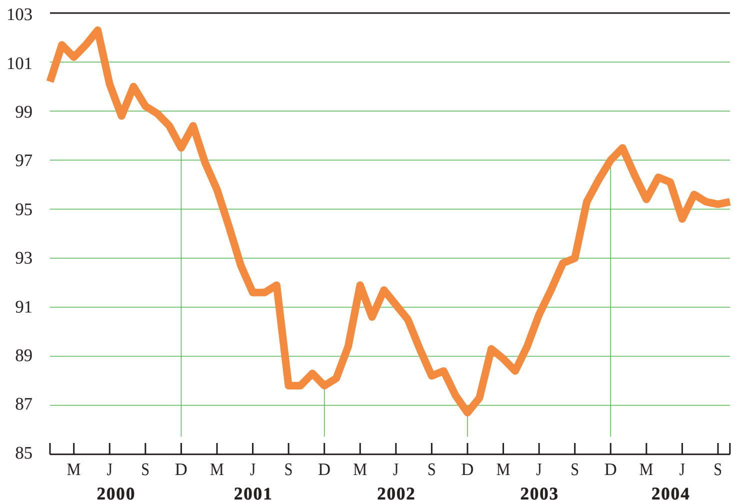
Percentage change over same period year before unless otherwise indicated

	2002	2003	2003		2004					
			3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	July	August	September	October
GDP	0.1	–0.1	–0.3	0.0	0.8	1.4	–	1.3	–	–
Retail sales	–2.2	–0.4	–1.6	–0.8	–0.4	–1.9	–1.2	–1.2	–1.4	...
Industrial production	–1.2	0.1	–1.3	1.4	1.1	3.1	2.3	3.5	2.5	...
Industrial activity index (IFO) (*)	89.4	91.7	92.5	96.2	96.4	95.7	95.6	95.3	95.2	95.3
Unemployment rate (**)	10.2	10.5	10.5	10.5	10.4	10.6	10.6	10.6	10.7	10.7
Consumer prices	1.4	1.1	1.1	1.2	1.1	1.8	1.8	2.0	1.9	2.0
Trade balance (***)	118.6	129.8	129.4	130.1	137.6	150.6	154.4	154.8	152.4	...

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

PROSPECTS STAGNANT IN GERMANY

Value of IFO industrial activity index



SOURCE: IFO Institute.

CPI stands at 2.0% in October.

On the supply side, we should point the stagnant situation of the IFO industrial activity index at the 95.2-95.3 points level between August and October and the slowdown in industrial production in September (year-to-year increase of 2.5%). With regard to price indicators, the rise in oil prices brought about an increase in the CPI to 2.0% year-to-year in October (1.9% in September) and in producer prices to 3.3% year-to-year in October (2.3% year-to-year in September). In turn, after standing at 10.6% of the labour force in August, the unemployment rate added another decimal in September and held at 10.7% in October.

Drop in tax revenues forces German government to propose package of economic measures to put government deficit below 3% of GDP in 2005.

The low level of economic activity has led the German government to put forward a package of urgent measures in order to contribute to economic recovery, while at the same time trying to put the government deficit for 2005 below 3% of the GDP. The package of measures includes securitization of loans linked to the pension funds of a number of companies with control by government capital, such as the telephone operator Deutsche Telekom and the postal company Deutsche Post, wage freezes for state public servants and elimination of various headings of public spending. It should be pointed out that one of the proposals initially presented, cancellation of one national holiday, was withdrawn in view of the opposition it provoked. In overall terms, this series of measures will mean a savings of 10 billion euros which would make it possible to more than compensate the lower tax revenues forecast for 2004 and 2005, put at 4.8 billion euros.

France: economy slows down to 2%

French GDP records increase of 2.0% in third quarter, far from 2.9% in previous quarter.

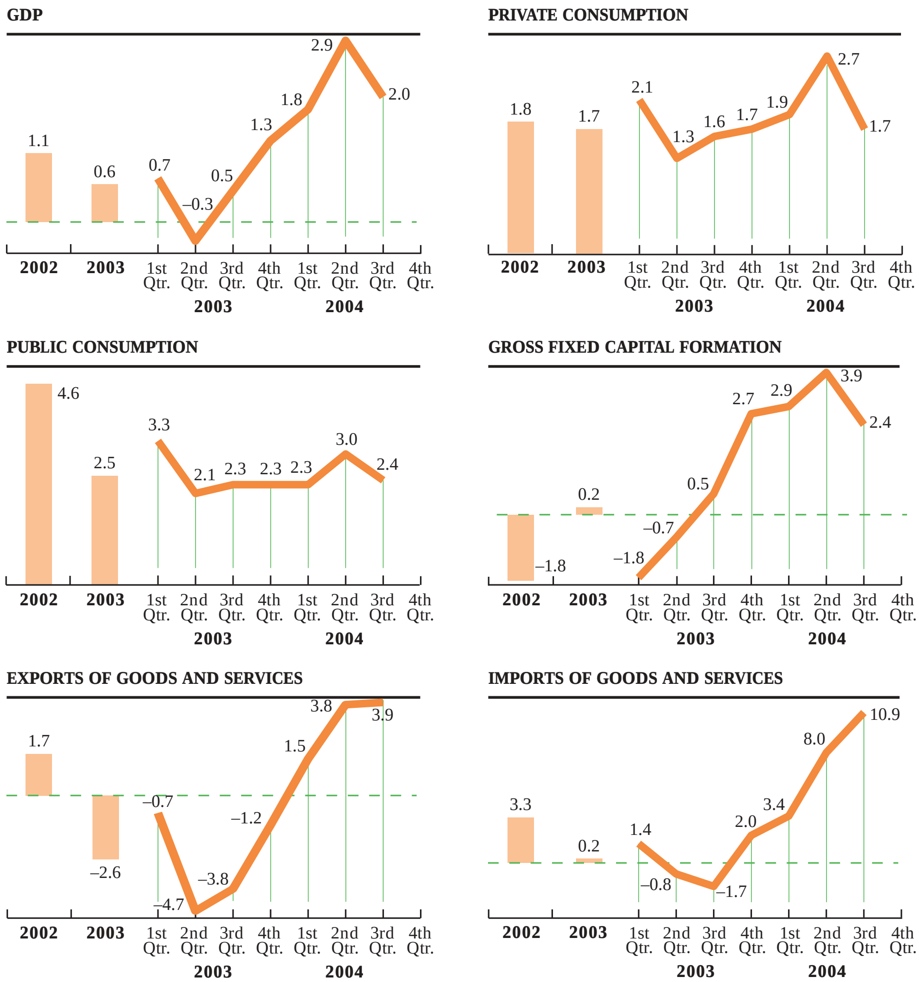
The French economy has undergone a notable slowdown in growth in the three months from July to September. In the third quarter, the GDP rose by 2.0% year-to-year as against 2.9% in the second quarter. At quarter-to-quarter rate annualized, the slowdown is even more notable given that growth was only 0.3%, far from the 2.5% seen in the second quarter. The loss of growth came about in practically all components of domestic demand. Investment grew by 2.4% year-to-year (3.9% in the preceding quarter), private consumption moved ahead by 1.7% year-to-year (2.7% in the second quarter) while public consumption rose by 2.4% year-to-year (3.0% in the second quarter). The exception was the change in inventories which, after contributing 1.0% to the change in the GDP in the second quarter, contributed 1.9% in the third quarter. The foreign sector went in the other direction, draining off 1.9% in the third quarter, 8 decimals more than in the second quarter.

Lower increase in domestic consumption in contrast to recovery in industry.

With regard to other indicators, the main new factor on the demand side was the slowdown in domestic consumption, while on the supply side it was the recovery of industrial production. As a result, domestic consumption in the third quarter grew by 3.3% year-to-year, 2.2 points less than in the previous quarter. This relative drop in rate of household spending should not turn out to be excessive given that, as opposed to current indicators, consumer confidence improved by three points in the third quarter. Industrial production, in turn, rose notably in September to 2.9% year-to-year which represents its highest level since last June. The recovery of industrial confidence and industrial orders would indicate a better state of the secondary sector in coming months. In any case, the indicators for the construction and services sectors are better and extend their growth into the third quarter.

TREND IN FRANCE'S GDP BY COMPONENT

Percentage year-to-year change



SOURCE: INSEE and internal figures.

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	September	October
GDP	1.1	0.6	0.5	1.3	1.8	2.9	–	2.0	–	–
Domestic consumption	0.9	0.9	0.8	1.5	2.6	5.5	2.7	5.6	1.8	...
Industrial production	–1.6	0.0	–0.5	1.3	0.6	2.7	2.4	0.4	2.9	...
Unemployment rate (*)	9.3	9.9	9.9	9.9	9.8	9.9	9.8	9.9	9.9	...
Consumer prices	1.9	2.1	2.0	2.2	1.9	2.4	2.3	2.4	2.1	2.1
Trade balance (**)	0.4	0.3	0.2	0.1	0.2	0.2	0.1	–0.1	–0.2	...

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

CPI again 2.1% while unemployment rate at 9.9%.

Fewer changes are to be seen on the prices front and in the labour market. The CPI grew by 2.1% year-to-year in October thus repeating the figure for September, which is indicative of the low pressure on prices. Underlying inflation, which does not include energy and other volatile components, is showing an even more contained performance given that it moved down to 1.3% year-to-year in October as against 1.5% year-to-year in September. The unemployment rate, in turn, held steady in September for the second consecutive month at 9.9%.

Italy: growth of 1.3% between July and September

Italy's economy grows by 1.3% in third quarter.

Italy's economy stabilized its growth rate at 1.3% year-to-year in the third quarter. In the absence of a breakdown by component, available figures suggest that the poor level of economic activity is due to the lack of improvement in private consumption. The worsening of the composite indicator of early indices put out by the Organization for Economic Cooperation and Development up to September would indicate that recovery will only begin slowly and that, for the moment, it seems that it will not reach a particularly high rate.

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	September	October
GDP	0.4	0.4	0.4	0.1	0.8	1.3	–	1.3	–	–
Retail sales	2.4	2.0	1.8	0.9	1.2	–0.2	–0.3	...	...	...
Industrial production	–1.6	–0.6	–0.5	–0.2	–0.2	1.2	–0.5	–1.3	...	...
Unemployment rate (*)	8.6	8.4	8.3	8.2	8.2	8.1	–	...	–	–
Consumer prices	2.5	2.7	2.8	2.5	2.2	2.4	2.3	2.3	2.1	2.0
Trade balance (**)	10.8	3.4	1.5	2.0	1.4	2.8	3.0	2.8	...	...

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

Improvement in consumer confidence and gradual drop in consumer prices, two positive factors in context of limited expectations.

The most recent monthly indicators support this view of moderate expectations. Recovery of consumer confidence in October to a level of –18 points and growth of the economic sentiment index to 101.5 points represent the best values for both these indicators since 2003. In any case, non-qualitative indicators still do not confirm this improvement. Retail sales in July fell by 0.3% year-to-year, while industrial production was down by 1.3% year-to-year in August. The trend in prices was more positive and was able to resist the boost from the increased price of oil. The CPI in October stood at 2.0% year-to-year, one decimal less than in September.

Proposal to modify income tax runs into opposition and is postponed.

As has happened in other economies, in a context of low economic activity and thus lower tax revenues, the Italian government is running into difficulties to reduce the tax load while, at the same time, avoiding an open confrontation with the fiscal discipline mechanisms of the European Union. After proposing a reduction in personal income tax in which the main innovation was the reduction in the number of segments on the income tax scale and their level, the opposition within the government coalition itself forced delaying the measure until 2006 and a study for implementing a new tax known as a “solidarity tax” which would affect the higher income levels.

United Kingdom: economic activity moderating

British economy grows by 3.0% in third quarter.

The British economy has moved into a phase of lower growth. According to early estimates, in the third quarter the GDP rose by 3.0% year-to-year as against 3.6% in the second quarter. In spite of the lower level of economic activity, background trends have not changed to any great extent, private consumption continues to hold at an acceptable rate, as may be seen from growth of retail sales (6.0% year-to-year in October) and consumer confidence, which gained one point in the same month. In view of the strength of domestic demand, the growth of exports (3.6% year-to-year on average from July to September) was more than compensated by the drive in imports (average year-to-year increase of 7.5% in the third quarter) so that the cumulative trade deficit for 12 months rose to 56.2 billion pounds sterling in the third 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	September	October
GDP	1.8	2.2	2.2	2.9	3.4	3.6	–	3.0	–	–
Retail sales	6.8	2.9	2.9	3.1	6.3	6.8	6.4	6.7	6.9	6.0
Industrial production	–2.5	–0.1	–0.1	0.5	–0.1	1.3	–0.1	–0.3	–0.9	...
Unemployment rate (*)	3.0	2.9	3.0	2.9	2.8	2.7	2.7	2.7	2.7	2.7
Consumer prices	2.2	2.8	2.8	2.6	2.3	2.2	2.2	2.2	1.9	2.1
Trade balance (**)	–43.5	–46.8	–47.1	–47.3	–50.0	–53.2	–55.3	–56.8	–56.6	...

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

Services continue to show notable rate of activity in contrast to industry which is still dropping.

Supply indicators, in turn, confirm the weakness in industry (drop of 0.9% year-to-year in September) in contrast to the good performance shown in services. After adding five points in the third quarter, the services confidence indicator went up to a level of 25 points in October. With regard to prices, the CPI rose to 2.1% year-to-year in October, compared with 1.9% year-to-year in September while producer prices in the same month grew by 3.5% year-to-year (3.1% in September). Finally, it should be pointed out that the unemployment rate held at its lowest level since 1975, just 2.7% of the labour force in October.

MONEY MARKETS AND CAPITAL MARKETS

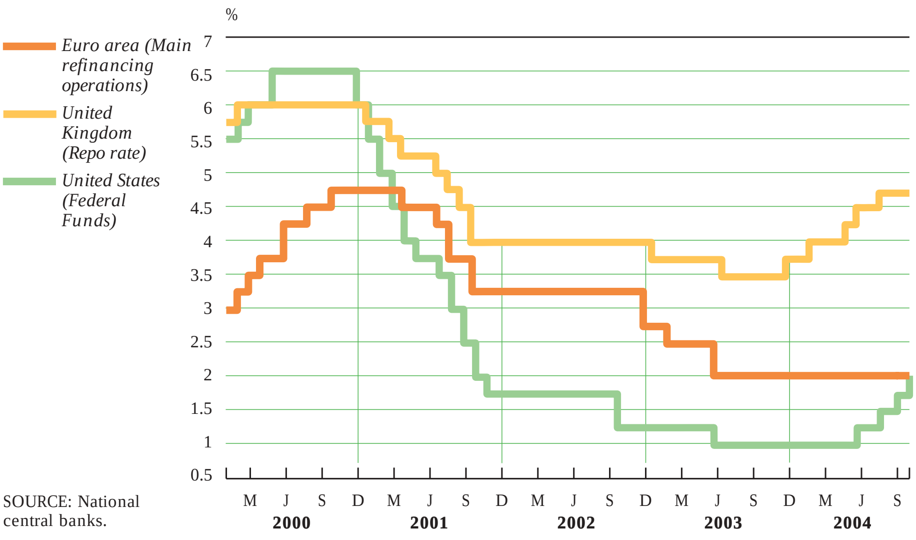
Federal Reserve Board raises official rates for fourth time in a row

US key rate stands at 2%...

In the United States, the Federal Reserve raised its reference rates by 25 basis points on November 10 for the fourth time in a row. As a result, the target level for Federal Funds (interbank overnight deposits) stood at 2.00% while the discount rate was put at 3.00%. As a result, the main reference rate has doubled since June. Nevertheless, the rate is still negative in real terms, that is to say, discounting the inflation rate. In its press release, the Fed stated that its objectives of balanced growth and price stability were not under threat in coming months. Given its forecast that underlying inflation would hold at low levels, it again stated that its easy money policy would likely be removed as a gradual process. Nevertheless, it warned that it would keep a close watch on events to ensure price stability.

OFFICIAL INTEREST RATES: FED MATCHES ECB

Monetary policy reference rates



SOURCE: National central banks.

...and further increases expected in coming months.

Publication of favourable figures for job creation in October contributed to the improvement of US economic prospects. As a result, the interest rate on US 1-year interbank deposits has followed an upward trend in recent weeks. At the middle of the fourth week in the month it stood at 2.91%, some 150 basis points above the level at the end of 2003. According to the interest rate curve, the market is expecting a further rise in the target level in December and that it will go above 3% at the end of 2005.

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									
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	4.88	0.54
September	2.02	2.12	2.38	1.59	1.88	0.00	4.75	4.85	0.67
October (*)	2.03	2.15	2.32	1.75	2.06	0.00	4.75	4.81	0.71
November (1)	2.05	2.18	2.32	2.00	2.36	0.00	4.75	4.81	0.75

NOTES: (*) Provisional figures.
(1) November 24.
(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%), 10-11-04 (2.00%).
(4) Latest dates showing change: 6-2-03 (3.75%), 10-7-03 (3.50%), 6-11-03 (3.75%), 5-2-04 (4.00%), 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.

ECB makes no change in reference rates...

In the euro area, the Governing Council of the European Central Bank (ECB) made no change in its reference rates at its meeting held on November 4. The ECB warned that risks of inflation were increasing especially because of higher oil prices. It also noted that the downward trend in the broad M3 money supply figure in the first half-year seems to have halted in recent months. At the same time, credit to the private sector had increased to a year-to-year growth rate of 6.5% in September. Nevertheless, the ECB felt that price stability over the medium term was not in danger. It did, however, see risks for European economic growth, especially if the euro continued to rise in value.

...and appreciation of euro reduces prospects of rise.

While the inflation rate measured by the harmonized consumer price index rose to 2.4% in October, the appreciation of the euro gave the ECB some margin when considering an upward move. For this reason, market operators are not expecting any increase in the ECB official rate until the second half of next year.

1-year Euribor down slightly in October.

In this context, the 3-month Euribor has tended to move slightly upward in recent weeks to stand at 2.18% in the middle of the fourth week in November. The 12-month Euribor dropped slightly in October to stand at 2.32%. In the early weeks of November the 1-year Euribor swung around this level. At the end of the third week in the month it stood at 2.32%.

Bank of New Zealand and Bank of China raise official interest rates...

On the other hand, on October 28 the Bank of New Zealand announced an increase of 25 basis points in its official interest rate putting it at 6.50%. As a result, the rate went up 75 basis points above the high in the previous upward stage. On the same date, the Bank of China made a surprise increase of 27 basis points in its 1-year deposit rate setting it at 2.25% while the 12-month loan rate went to 5.58%. With this decision, the Chinese central bank hoped to deal with the problem of negative real rates in order to slow down economic growth and dampen the growth of the real estate bubble taking place in some cities.

..while Bank of South Korea cuts its rates.

On the other hand, on November 1 the Bank of South Korea cut its reference rate to the all-time low of 3.25%. In this way it hoped to help slow the appreciation of the won against the dollar, as opposed to other countries in the region, with the subsequent loss of competitiveness.

Dollar shows substantial drop against euro and yen

Market focuses on US foreign imbalance and pushes dollar down.

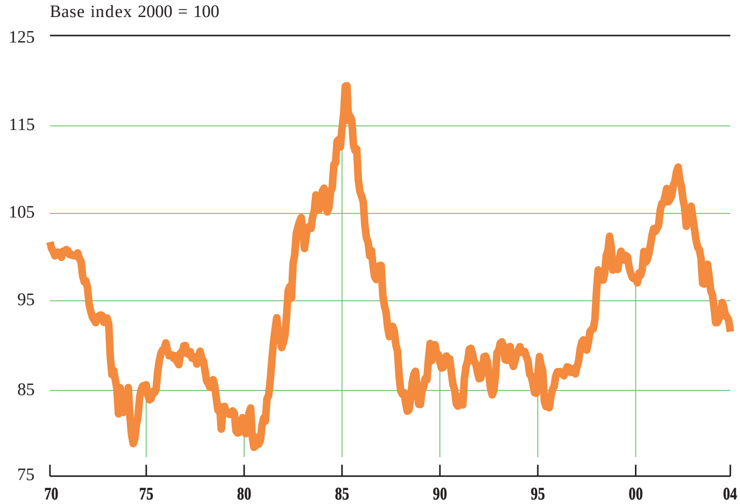
In recent months the dollar has substantially weakened in spite of successive interest rate increases by the Fed as the market takes note of the massive US foreign imbalance. Re-election of President Bush has sharpened concern about the trend in the government deficit and the deficit in the foreign current account balance. The market has taken the position that correction of the foreign imbalance has to come through a drop in the dollar. The US Secretary of the Treasury has kept repeating his support for a policy of a strong dollar. His remarks, however, have not turned out to be credible as he himself has discounted any intervention in foreign exchange markets. At the same time, statements by the Russian central bank to the effect that it was planning to increase its reserves in euros at the expense of the US currency also contributed to the drop in the dollar. As a result, the dollar has dropped by 4.3% since the end of September compared with a broad group of currencies and 16.3% since the high in January 2002. As a result, the dollar has gone to its lowest level since November 1997. In real terms its has also marked up the lowest level in the past seven years. The lack of investor confidence in investments in dollars has shown up in the increased attraction of gold which recorded its highest level in the past 16 years going to 448.7 dollars an ounce troy. In any case, the gold price is still a long way from the figure of 875 dollars an ounce troy recorded in February 1980.

Drop in dollar especially hits euro which has appreciated 59% since low in October 2000.

The drop in the dollar has especially hit the euro given that many Asian currencies are tied to the dollar and specifically the Chinese authorities refuse to revalue the yuan at this time. As a result, they are maintaining their growth strategy based on exports stimulated by a currency that is undervalued. In this context, the European currency marked up an all-time high of 1.315 against the dollar on November 24 going above the previous high in February 2004. As a result, the euro appreciated by 4.1% against the dollar compared with the end of 2003 and 59.3% since the low in October 2000. The euro thus currently stands at a somewhat overvalued level in terms of the dollar.

DOLLAR MARKS UP LOWEST LEVEL IN PAST SEVEN YEARS IN REAL TERMS

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



SOURCE: JP Morgan.

In effective terms, however, euro stands below high in January 2004.

The appreciation of the euro against the dollar has caused concern among a number of European politicians, as well as the chairman of the European Central Bank in view of the “brutal” rise of the euro against the US currency which means a loss of competitiveness for European exports. Compared with the group of 23 main trading partners of the euro area, the euro has also appreciated in recent months. Nevertheless, at the middle of the fourth week in the month it stood 0.5% below the high reached in January 2004.

Pound sterling continues to depreciate against euro.

The pound sterling has continued to weaken in recent weeks thus continuing the course begun in August. The feeling that British interest rates had reached a ceiling went against the pound sterling. As a result, the British currency dropped by 0.6% against the euro in the first three and a half weeks in November. Nevertheless, the pound appreciated 2.5% against the dollar in the same period and 5.4% compared with the end of 2003.

EXCHANGE RATES OF MAIN CURRENCIES

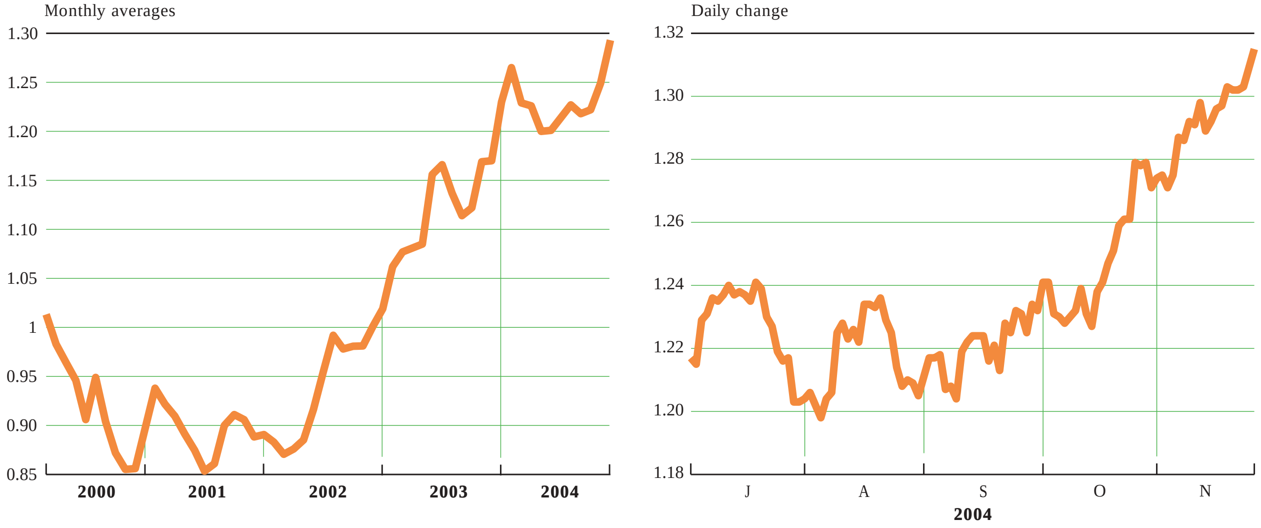
October 2004

	Final session of month		Monthly figures				Exchange rate November 24, 2004
	Exchange rate	% monthly change (2)	Average exchange rate	% change (2) Monthly	% change (2) Over December 2003	% change (2) Annual	
Against US dollar							
Japanese yen	105.7	–4.0	108.8	–1.2	1.0	–0.6	*102.9*
Pound sterling (1)	1.837	1.4	1.807	0.8	3.0	7.7	*1.882*
Swiss franc	1.195	–4.1	1.234	–2.3	–2.3	–6.8	*1.145*
Canadian dollar	1.218	–3.5	1.247	–3.2	–4.9	–5.7	*1.178*
Mexican peso	11.54	1.3	11.40	–0.8	1.3	1.9	*11.29*
Nominal effective index (4)	*111.8*	*–1.8*	*113.2*	*–1.5*	*–1.1*	*–2.6*	109.0
Against euro							
US dollar	1.274	2.6	1.249	2.2	1.6	6.8	*1.315*
Japanese yen	135.1	–1.5	136.0	1.1	2.6	6.1	*135.3*
Swiss franc	1.530	–1.4	1.543	0.0	–0.8	–0.4	*1.514*
Pound sterling	0.696	1.3	0.691	1.5	–1.5	–0.9	*0.700*
Swedish krona	9.053	–0.1	9.062	–0.3	0.4	0.6	*8.927*
Danish krone (3)	7.433	–0.1	7.438	0.0	–0.1	0.1	*7.431*
Polish zloty	4.325	–1.3	4.318	–1.3	–7.3	–6.0	*4.216*
Czech crown	31.54	–0.4	31.49	–0.3	–2.7	–1.6	*31.02*
Hungarian forint	246.0	–0.6	246.7	–0.4	–6.7	–3.6	*245.1*
Nominal effective index (5)	*104.9*	*0.8*	*104.2*	*1.1*	*–0.2*	*2.8*	105.9

NOTES: (1) Units to pound sterling.
(2) Percentages of change refer to rates as shown in table.
(3) Danish krone has central parity of 7.46038 against euro with fluctuation band of ±2.25%.
(4) Broad nominal effective index of US Federal Reserve Board. Calculated as a weighted average of the foreign exchange value of the US 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 MARKS UP ALL-TIME HIGH AGAINST DOLLAR

U.S. dollars to euro



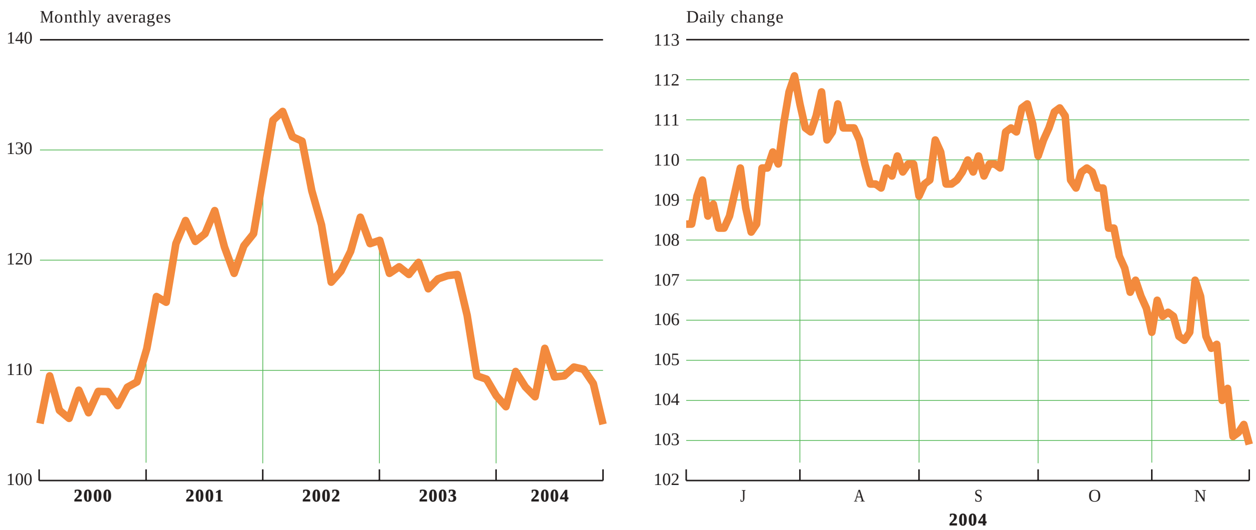
NOTES: Figures go up to November 24. SOURCE: OECD. Thomson Financial Datastream and internal figures.

Swedish crown, zloty and Czech crown move up against euro in November.

The Swedish crown rose by 1.4% against the euro in the first three and a half weeks of November with a rise of 1.7% since the end of 2003. In the first three and a half weeks of November the Polish zloty appreciated by 2.6% against the euro while the Czech crown rose by 1.7%. The Hungarian forint, in turn, rose by 0.4% in the same period.

YEN MARKS UP HIGHEST LEVEL AGAINST DOLLAR IN PAST SEVEN MONTHS

Yen to dollar



NOTES: Rates go up to November 24.

SOURCE: OECD, Thomson Financial Datastream and internal figures.

Yen marks up highest level against dollar since 2000.

The yen has also appreciated against the dollar in recent weeks. On November 24 the yen was running at 102.9 units to the dollar, the highest level since January 2000 thus reflecting the weakness of the US currency. As a result, the Japanese currency showed a rise of 4.2% compared with the dollar over the end of 2003.

Yield on German government bonds marks up lowest level in past 17 months

Drop in yield on US long-term Treasury bonds comes to end.

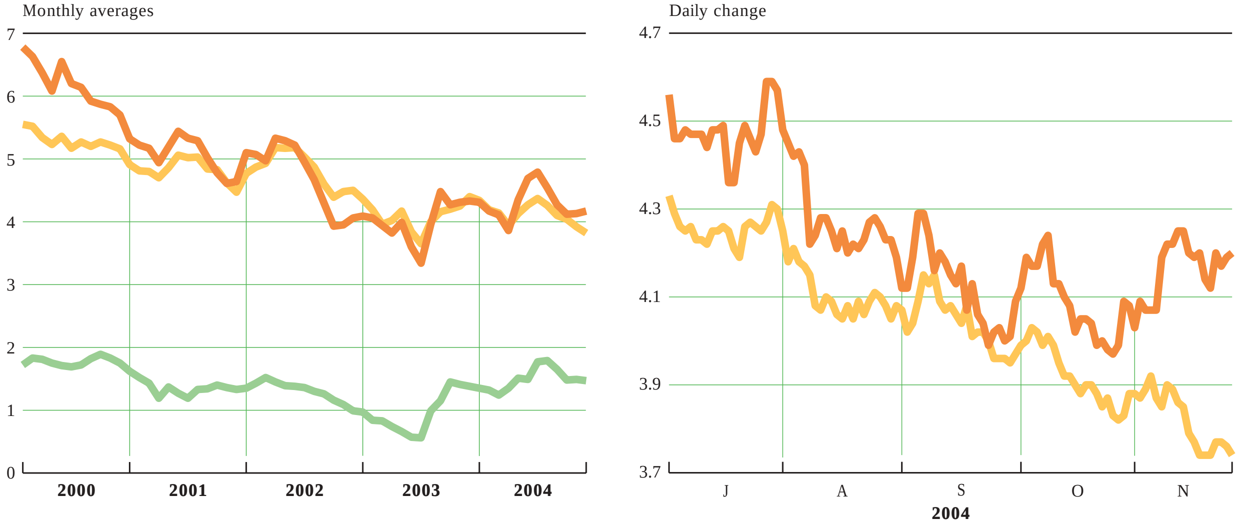
The yield on US Treasury bonds showed a slight upward move in November although it remains at low levels. Various factors lie behind the end to the downward trend seen in recent months. Firstly, the re-election of President George W. Bush may mean that the high government deficits are going to continue, which would be a factor in pushing up yields on government bonds. Secondly, the appearance of the figure showing strong job creation in October (higher than expected) moved bonds yields up. Thirdly, the rise in the Fed's official interest rate and the expectation that this will continue to move up also contributed to the increase in government bond yields. Finally, the drop in oil prices has also had its effect. As a result, the yield on 10-year government bonds stood at 4.25% on November 10 although later on it dropped to some extent. At the middle of the fourth week in the month it stood at 4.20%, some 17 basis points above the end of October.

Risk premium on high-yield bonds marks up lowest level since 1998.

On the other hand, the risk premium on high-yield bonds in November went to the lowest levels since the summer of 1998. This was due to improvements in credit rating, companies putting their account balances in order and existing low interest rates. The search among investors for higher yields also contributed. The reduction in the risk premium for bonds with low credit rating has been quite striking. Nevertheless, a change in cycle seems to be in the making. The increase in default among issuers of such bonds rose in October for the first time in a year. An increase in default is forecast for the coming year.

WIDENING INTEREST RATE DIFFERENTIAL BETWEEN U.S. AND GERMAN GOVERNMENT BONDS

Yield on 10-year government bonds as annual percentage



NOTES: Rates go up to November 24.
SOURCE: Bank of Spain and Thomson Financial Datastream.

European government bonds decouples from US bonds because of rise in euro.

In recent weeks European government bonds have moved slightly away from the trend seen in similar bonds on the other side of the Atlantic as a result of the appreciation of the euro against the dollar. Figures showing moderate economic growth in the euro area also contributed to the drop in yield on government bonds. The yield on German 10-year government bonds thus went down to 3.74% on November 24 marking up the lowest level since June 2003. As a result, in recent weeks the differential in long-term interest rates between the United States and Germany has increased to 46 basis points.

LONG-TERM INTEREST RATES IN NATIONAL MARKETS

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

	2002	2003	2004				
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November 24
United States	4.65	4.04	4.05	4.64	4.34	4.13	4.20
Japan	1.27	0.99	1.30	1.59	1.64	1.49	1.40
Germany	4.80	4.10	4.09	4.26	4.13	3.92	3.74
France	4.88	4.13	4.11	4.31	4.16	3.98	3.75
Italy	5.04	4.24	4.24	4.47	4.31	4.08	3.88
Spain	4.96	4.12	4.12	4.31	4.17	3.97	3.73
United Kingdom	4.93	4.53	4.83	5.14	5.05	4.82	4.61
Switzerland	3.02	2.47	2.46	2.74	2.70	2.50	2.35

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

Optimism returns to stock markets

Many indices show highs for recent years following drop in oil prices and positive corporate profits.

The stock markets performed favourably in the early weeks of November thanks to the coming together of various factors. On the one hand, oil prices dropped and there was a growing belief that it had now reached a ceiling. On the other hand, profits announced by companies in the third quarter generally brought surprisingly good results. At the same time, the yield on government bonds held at relatively low levels. All of these factors helped make optimism the order of the day in international stock markets and many indices marked up not only annual highs but highs for recent years.

Re-election of President Bush and good economic indicators push up US stock markets.

The situation in the stock markets was especially good in the United States for various specific reasons. The re-election of President George W. Bush was greeted with rises on the US stock markets as investors felt that his economic policy would be more beneficial to corporate profits and dividends than if the victory had gone to the Democratic Party candidate. Furthermore, economic indicators being published for the US economy, such as strong job creation in October, are generally good. In this respect, the rise in the official interest rate by the Fed on November 10 scarcely affected the stock markets given that the move was already expected.

Standard & Poor's 500 presents cumulative gains of 6%.

As a result, on November 12 the Standard & Poor's 500 index marked up a high since August 2001, a rise of 4.6% in the first three and a half weeks of November, putting the cumulative balance at an increase of 6.3%. The increase recorded by the traditional Dow Jones Industrials index in the first three and half weeks of the month was even greater at 4.9%, although the increase over December stood at 0.6%. The general Nasdaq index, which is representative of hi-tech shares, did not lag behind with a rise of 6.5% since the end of October and 5.0% since the end of 2003.

INTERNATIONAL STOCK MARKETS

Indices at month-end

NOTES: November 24, 2004. SOURCE: Thomson Financial Datastream.

Energy sector and public utilities mark up highest gains over December.

All the large sectors making up the Standard & Poor's 500 index showed a positive performance in the early weeks of November. The sector presenting the most favourable trend so far this year was still the energy sector with a rise of 31.6%. Also notable was the rise over December reported by public utility companies (19.4%) and in industrial shares which rose by 13.5%. On the other hand, the sector with the worst results was health care and pharmaceuticals which showed capital losses of 5.8% compared with the end of December.

Italian stock market up 12% since end of 2003.

The stock market indices in the euro area have also followed an upward course in recent weeks although the appreciation of the euro has been cause for concern because it hurts European exports. At the middle of the fourth week in November, the DJ Eurostoxx 50 index, which is representative of the leading companies in the euro area, showed an advance of 2.3% compared with the end of the previous month with cumulative gains of 4.2%. The indices for the Milan, Madrid and Paris stock exchanges marked up annual highs in the third or fourth week of November. The Mibtel index for the Italian stock market reported gains of 12.4% over December, as against a drop of 0.1% in the AEX for the Amsterdam stock exchange.

INDICES OF MAIN WORLD STOCK EXCHANGES

October 30, 2004

					Figures on November 24, 2004	
	Index (*)	% monthly change	% cumulative change	% annual change	% cumulative change	*% change over same date in 2001*
New York						
Dow Jones	*10,027.5*	*–0.5*	*–4.1*	*2.3*	*0.6*	*5.6*
Standard & Poor's	*1,130.2*	*1.4*	*1.6*	*7.6*	*6.3*	*2.7*
Nasdaq	*1,975.0*	*4.1*	*–1.4*	*2.2*	*5.0*	*10.5*
Tokyo	10,771.4	–0.5	0.9	2.0	1.8	*1.6*
London	4,624.2	1.2	3.3	7.9	5.4	*–10.8*
Euro area	2,811.7	3.1	1.8	9.2	4.2	*–23.7*
Frankfurt	*3,960.3*	*1.7*	*–0.1*	*8.3*	*4.0*	*–19.9*
Paris	*3,706.8*	*1.8*	*4.2*	*9.9*	*5.7*	*–17.8*
Amsterdam	*330.5*	*2.0*	*–2.1*	*0.1*	*–0.1*	*–33.4*
Milan	*21,715.0*	*3.2*	*9.0*	*12.2*	*12.4*	*–2.8*
Madrid	*8,418.3*	*4.8*	*8.8*	*18.1*	*12.0*	*1.6*
Zurich	5,363.4	–1.9	–2.3	2.9	0.2	*–14.8*
Hong Kong	13,054.7	–0.5	3.8	7.1	11.3	*23.6*
Buenos Aires	1,287.1	12.7	20.1	38.4	10.3	*454.4*
São Paulo	23,052.0	–0.8	3.7	28.2	9.6	*81.5*

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.

FT 100 index for London stock exchange marks up highest level since June 2002.

Outside the euro area, the Financial Times 100 index for the London stock exchange also recorded an annual high in the third week of the month obtaining a rise of 5.4% over the end of 2003. The SMI index for the Swiss stock exchange managed to recover par for the year and on November 24 stood 0.2% above the end of the previous year. In the early weeks of November, Japan's Nikkei 225 index temporarily went above the 11,000 points level but on November 24 the cumulative balance for the year was a modest 1.8%.

IBEX 35 records highest level since December 2001.

With regard to the Spanish stock market, the IBEX 35 continued its upward trend and on November 24 marked up the highest level since December 2001. It went to 8,668.0 points, a rise of 3.0% over the end of October and 12.0% compared with the end of 2003.

Mexican stock market reports new high record.

In the stock markets of emerging countries, the Hang Seng index for the Hong Kong stock exchange rose by 7.2% in the first three and a half weeks of November showing gains of 11.3% over December. With regard to the Latin American stock exchanges, these showed uneven trends. The IPC index for the Mexican stock exchange recorded a new all-time high on November 18 with a cumulative rise of 35.4%. The Bovespa index for the Brazilian market rose by 5.7% in the first three and a half weeks of November with an increase of 9.6% over December in spite of an increase in the interest rate by the Banco Central do Brasil. The Merval index for the Argentine stock exchange dropped by 8.2% in the first three and a half weeks of November but showed cumulative capital gains of 10.3%.

PROFITS OF COMPANIES MAKING UP IBEX 35 SHOW STRONG RECOVERY

Following a drop of 15% in the first quarter compared with the same period in 2003 and only a slight annual increase for the half-year, profits of Spanish companies making up the selective IBEX 35 index rose by 46% in the third quarter. As a result, in the January-September period profits of those companies within Spain's main stock market index recorded growth of 15% compared with the same period last year. The improvement in profits of the biggest listed Spanish companies in the third quarter was due to increased sales, the widening of profit margins and operations of an extraordinary nature.

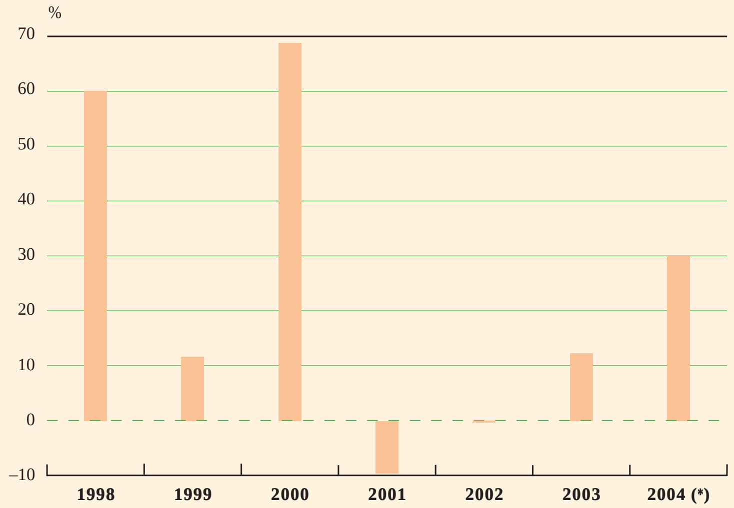
Practically all the companies in the IBEX 35 showed positive results in the first nine months of the year. Sogecable, the pay-TV platform, proved an exception as it showed losses although these were lower than in the same period last year. Among those companies showing profits, most reported notable increases. Nevertheless, both Zeltia, the pharmaceutical company, and the Acciona construction company reported considerable reductions in profits due to extraordinary income obtained in 2003. Other companies noting reductions, although not to the same degree, were NH Hotels, the Gamesa hi-tech company and the Altadis tobacco company.

Among those companies showing increased profits in the first three months of the year, Arcelor reported a rise of 225% while Acerinox was up 114%, thanks to the increase in the price of steel. Bank profits were up considerably led by the Santander Group although this included atypical profits. Apart from Acciona, for the reasons mentioned above, profits of construction companies are going well. The profits of Telefónica, affected by the cost of a work-force readjustment, rose by 5%.

The recovery of profits has boosted share prices, as mentioned in the corresponding paragraph. At the same time, the good state of the stock market has stepped up turnover. Share trading in Spanish stock exchanges this year is going above the highs reported in 2003 following the decreases recorded in the previous two years. As a result, the volume of share turnover in the Spanish stock market rose by 30% in the first nine months of the year compared with the same period last year.

TURNOVER ON SPANISH STOCK EXCHANGES RISES TO RECORD LEVELS

Year-to-year change in volume of share turnover



NOTES: (*) January-September.
SOURCE: Bank of Spain and internal figures.

By sector, share trading was uneven. Turnover in the communications sector was up 45% compared with the first three quarters in 2003. Turnover of bank shares also rose above the average at 35%. Trading in electrical utilities stocks was up by 10%. On the other hand, trading in construction company shares was down by 41% in the same period.

ECONOMIC ACTIVITY

Domestic demand driving Spain's economy

GDP growth of Spain's economy stabilizes at 2.6% year-to-year in third quarter.

In the third quarter of 2004 the gross domestic product generated by Spain's economy amounted to 199.9 billion euros, according to figures adjusted for seasonal effects and number of working days issued by the National Institute of Statistics (INE). This figure meant growth of 2.6% year-to-year in real terms, the same rate recorded in the previous quarter. As a result, the profile of a slight slowdown noted in the first half of the year has flattened out. The advance in domestic demand (4.4% year-to-year) is worth noting while the foreign sector increased the figure it took off the GDP by 4 decimals thus putting it at 2 percentage points.

Consumption showing high growth.

Household consumption, which represents 60% of the GDP, held at a high growth rate (3.4%). Continuing job creation and easy financing terms are still fostering sustained growth in household consumption. In another sphere, general government consumption showed an expansionist trend with a year-to-year change rate of 4.4%, one decimal more than in previous quarters.

Strong recovery of capital goods investment.

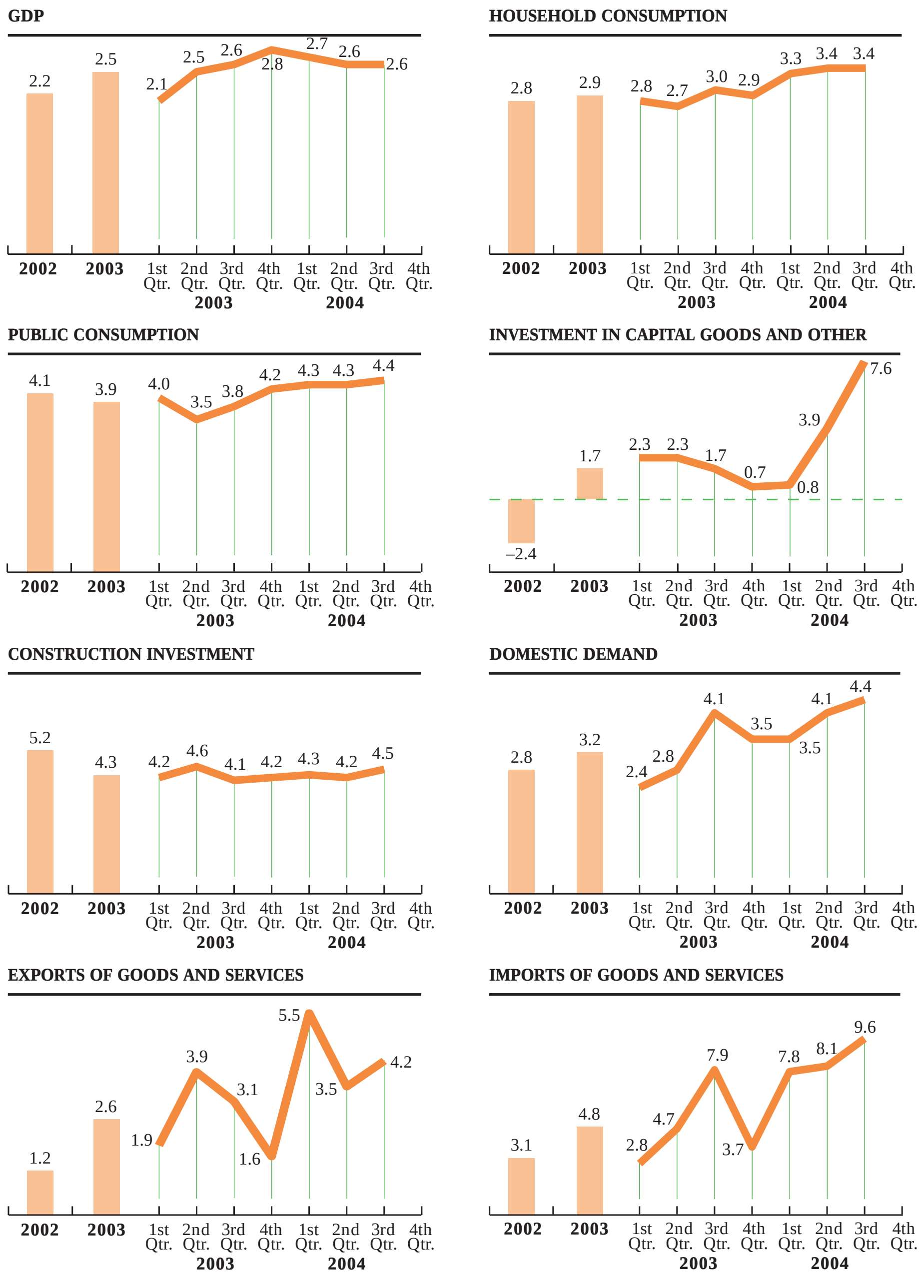
Gross fixed capital formation stands out as the star of the current economic situation. Investment increased growth by 5.9% compared with the third quarter of 2003. With regard to components, capital goods investment continued to recover and showed a year-to-year rise of 9.8% whereas only two quarters before it was reporting a negative change rate. At the same time, construction investment, far from dropping, livened up and rose by 4.5% in year-to-year terms, 3 decimals more than in the previous quarter.

Foreign sector takes two points off GDP growth.

With regard to the foreign sector, both exports and imports increased in strength although the latter did so to a greater degree. Exports showed a year-to-year increase of 4.2% as against 3.5% in the second quarter. Exports of goods rose to a year-to-year change rate of 6.5%. Exports of services showed a drop of 1.8% due mainly to lower tourist demand. Nevertheless, this decrease was 3 decimals less than shown in the previous quarter. On the other hand, imports reported a rise of 9.6% fostered by the strength of domestic demand and the loss of price competitiveness.

TREND IN SPAIN'S GDP BY DEMAND COMPONENT

Percentage year-to-year change (*)



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

SOURCE: National Institute of Statistics.

Industrial sector recovering while market services slowing down.

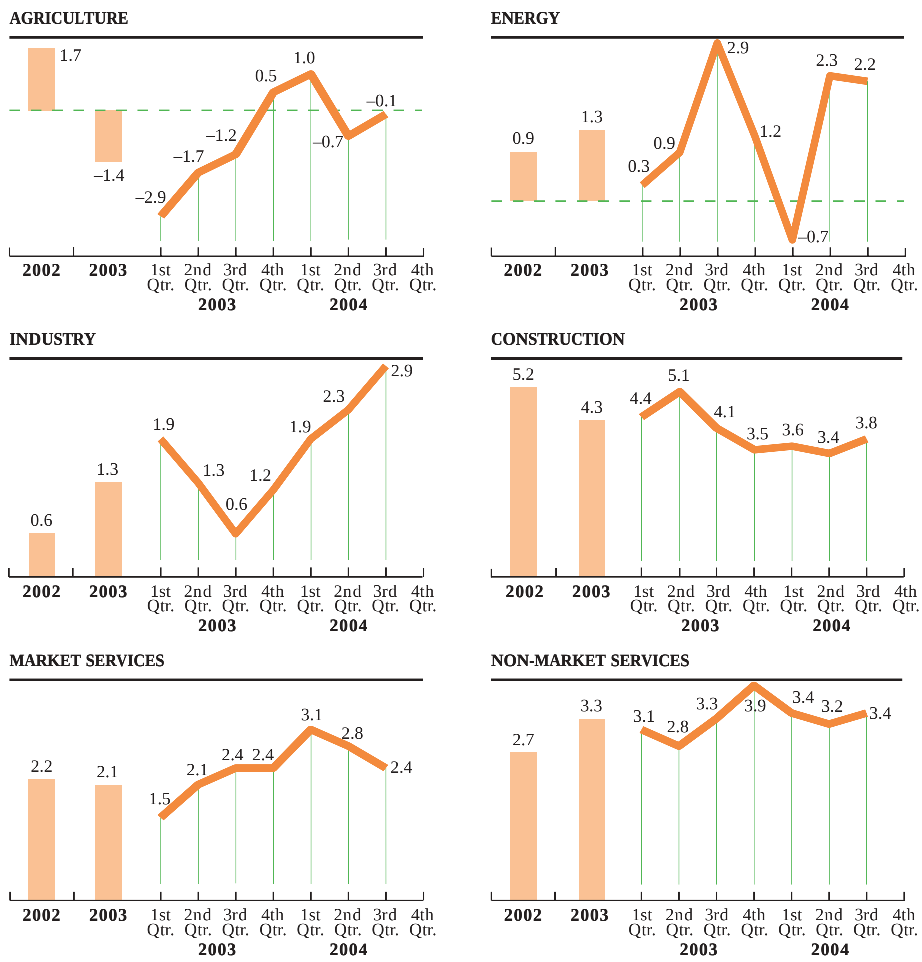
On the supply side, the recovery of the industrial sector continued in the third quarter raising its gross value added by 2.8% year-to-year, a half-point more than in the previous three months. On the other hand, market services continued to slow down going to a growth rate of 2.4%, some 4 decimals less than in the previous quarter. On the other hand, public services showed sharper growth going to 3.4%, some two decimals more than in the second quarter.

Primary sector weak.

On the other hand, the agriculture and fishing sectors continued to show weakness with a slight year-to-year contraction of 0.1%. Nevertheless, the drop was not at great as that recorded in the preceding quarter.

TREND IN SPAIN'S GDP BY SUPPLY SECTOR

Percentage year-to-year change (*)



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

Economic activity indicators: domestic demand still maintaining considerable drive

Economic activity continues to grow at relatively sustained rate in recent months.

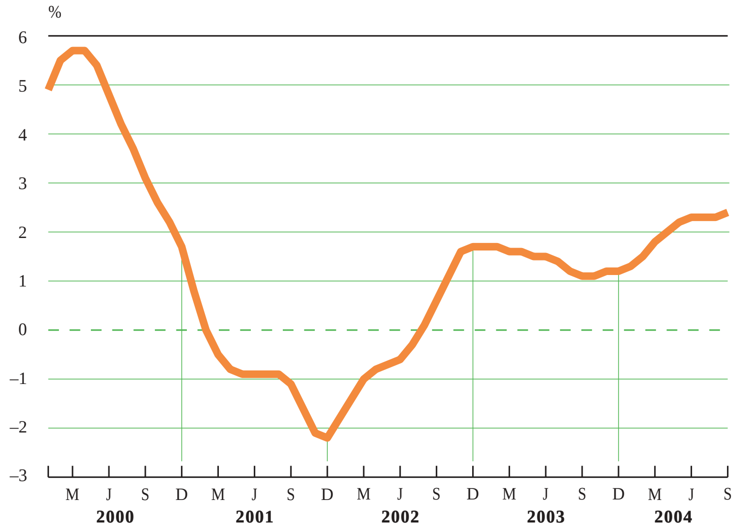
We face the final quarter of the year with no appreciable change in the trends indicated by National Accounting. Private consumption is maintaining a notable rate of increase although its drive seems to have eased off in recent months. On the other hand, capital goods investment continues to show sharp growth while construction is still showing appreciable strength. For the moment, the foreign sector continues to be the weakest link in Spain's economic picture.

Industrial production maintaining moderate recovery...

The industrial production index for September was up by 3.4% compared with the same month last year thus moving on a moderately upward growth path (below 2.5% in cycle-trend terms) although this path has weakened in recent months. From January to September those branches showing the most expansionist performance were metallurgy, industrial machinery and machinery and electrical equipment, with average growth over those months running between 5% and 9%.

RECOVERY IN INDUSTRY STILL SLOW

Year-to-year change in industrial production index



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

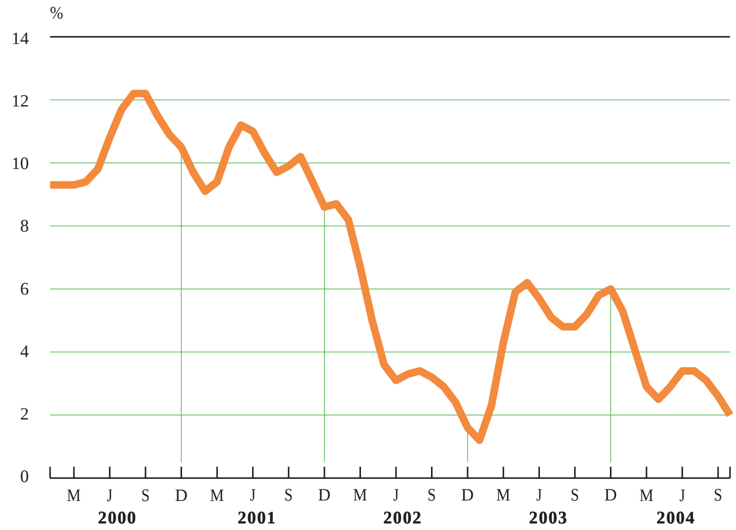
...although some branches of industry continue to suffer sharp drop.

Motor vehicle production (which has a relatively high weighting in the general index) rose by 3.7% in that period showing a clearly upward trend in the second half of the year. On the other hand, there were notable drops in the manufacture of data-processing equipment, tobacco products and in the leather industry (between 12% and 19% from January to September) with more moderate, although equally significant, decreases in the textile industry (4.7%) and clothing and furs (1.6%).

Cement consumption down but other construction indicators take on new drive.

With regard to construction, in recent months some current indicators show a comparatively weaker drive than in the previous stage. For example, we note that cement consumption is showing a progressive slowdown in growth in terms of cycle-trend although the increase for the third quarter (3.9% compared with the same period last year) continues to be relatively high. On the other hand, some early indicators, such as government tendering and the number of housing units included in new building approvals, gave a new boost in the third quarter.

CEMENT CONSUMPTION TENDING TO SLOW DOWN
Year-to-year change in cement consumption



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

Poor results in tourism…

With regard to services, the dominant note is generally expansionist with the odd exception. The most important is the state of tourism which showed a very poor balance for the first nine months of the year. In any case, the results of the summer season were somewhat better than at first feared. From July to September the number of foreign tourists was up by 1.4% compared with the same period last year (1.9% for the year as a whole) and the drop in overnight hotel stays by non-residents in Spanish hotels (1.2%) was proportionally lower than that recorded in the first half of the year. The results of October were also very satisfactory with significant increases in both the total number of foreign visitors and the number of hotel stays reported due largely to the mild weather obtaining that month. In any case, revenue inflows from tourism appearing in the balance of payments in the first eight months of the year were down by 0.5% in nominal terms (close to 3.5% real).

…in contrast to expansionist note in other services. Nevertheless, retail sector lately losing steam…

On the other hand, as of August, information technology and communications, transportation and retail trade showed a clearly upward course, if we are to go by the indices of economic activity in the services sector drawn up by the National Institute of Statistics (INE). In the retail sector, however, the outlook is less optimistic if we look at the results of the survey of the economy carried out by the INE itself which reveals very limited growth in the sales index (1.0% real, discounting inflation) in the third quarter. This result coincides with the worsening of the sector confidence index which fell to –11 points (net balance as a percentage) in October, according to the survey by the European Commission.

…while results in transportation continue to show big disparities.

With regard to transportation, we note very disparate results as has been taking place in recent months. From July to October, air passenger traffic grew by 7.2% year-to-year, which is indeed high, although somewhat lower than the average recorded in the first half of the year. This result was in contrast to the modest growth of passengers carried by

SUPPLY INDICATORS

Percentage change over same period year before

	2002	2003	2004					
			1st Qtr.	2nd Qtr.	July	August	September	October
Industry								
Electricity consumption (1)	3.8	4.8	3.7	2.8	4.9	4.2	5.5	4.0
Industrial production index (2)	0.2	1.4	1.4	2.5	1.7	1.5	3.4	...
Confidence indicator for industry (3)	–5.7	–0.9	–3.0	–2.0	–3.0	–3.0	–2.0	–2.0
Utilization of production capacity (4)	78.5	79.1	78.7	79.3	–	80.5	–	80.5
Imports of non-energy intermediate goods (5)	6.4	3.3	0.6	6.4	12.5	11.6	4.2	...
Construction								
Cement consumption	4.7	4.8	5.6	2.8	–0.6	9.5	4.3	–7.6
Confidence indicator for construction (3)	–2.3	–1.5	–1.0	–2.7	–6.0	–9.0	–10.0	–11.0
Housing (new construction approvals)	4.3	21.4	8.0	9.2	10.7	34.5	9.2	...
Government tendering	13.1	–10.9	8.9	–31.2	78.6	66.2	5.9	...
Services								
Retail sales	5.7	5.7	6.7	5.5	6.3	2.6	3.1	...
Foreign tourists	4.5	–0.3	5.4	0.3	0.6	–0.8	5.7	8.8
Tourist revenue inflows	–2.9	3.7	4.0	–2.2	–3.7	–0.7	...	...
Goods carried by rail (km-tonnes)	–0.7	1.7	6.4	6.2	–9.2	–4.9	–10.8	...
Air passenger traffic	–1.1	7.5	11.0	6.7	7.9	5.1	6.7	9.4
Motor vehicle diesel fuel consumption	6.2	8.0	7.8	6.8	6.5	7.0	...	...

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

road (1.6% year-to-year in the third quarter), the negative trend in railway passengers (down by 0.7%) and the drop in shipment of goods by that mode (down by 8.5%) in the period mentioned.

Consumption moderating growth rate in last stretch of year.

On the demand side, we note a fairly stable growth trend in consumption as of September, if we are to go by the indicator of availability of goods of that type (domestic production + imports – exports) drawn up by the Ministry of the Economy. In recent years, however, we note that growth rates of some indicators have eased to a greater extent. One clear example of this is the year-to-year decrease of 1.7% in passenger car registrations in October in contrast to the previous high rates. In the same respect, imports of consumer goods rose by 11.5% year-to-year in the third quarter as against 18.4% in the six preceding months.

Capital goods investment, on other hand, showing considerable strength.

On the other hand, indicators for capital goods investment are generally maintaining a strongly expansionist note. The corresponding indicator of availabilities grew by more than 16% in the third quarter, if we look at the progressive increase in domestic production and the strong drive in imports. In October, only registrations of commercial vehicles lay outside the general norm with a year-to-year drop of 2.8%.

DEMAND INDICATORS

Percentage change over same period year before

	2002	2003	2004					
			1st Qtr.	2nd Qtr.	July	August	September	October
Consumption								
Production of consumer goods (*)	2.4	0.2	–0.1	–0.7	–1.3	–0.1	1.9	...
Imports of consumer goods (**)	5.0	10.0	20.4	16.6	8.7	13.5	12.7	...
Car registrations	–6.6	3.8	20.9	9.6	3.8	7.3	6.2	–1.7
Credit for consumer durables	12.6	1.6	3.7	4.8	–	–	–	–
Consumer confidence index (***)	–11.6	–13.7	–11.7	–9.3	–11.0	–11.0	–13.0	–12.0
Investment								
Capital goods production (*)	–4.9	0.5	1.3	3.7	4.2	2.8	5.1	...
Imports of capital goods (**)	–5.8	16.8	18.7	14.3	48.2	21.2	2.6	...
Commercial vehicle registrations	–6.0	13.5	14.9	13.1	3.9	12.0	14.9	–2.8
Foreign trade (**)								
Non-energy imports	3.7	7.4	8.9	10.6	17.3	13.7	6.2	...
Exports	1.4	6.2	7.3	2.2	15.4	1.8	2.4	...

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

Energy sector: sharp growth in demand in 2003

Final energy consumption up in 2003.

In 2003, growth of final energy consumption (that is, energy demand by final consumers) stood at 5.4% in contrast to the moderate growth the year before (1.9%). In this context, consumption of petroleum-based products increased growth rate to 4.2% as against the 0.7% recorded in 2002. In similar way, the increase in electrical power consumption moved up to 6.3% (2.7% in 2002). Gas, in turn, showed growth of 11.4% (around 4 percentage points more than in 2002) thus continuing to show strong drive while, at the other end of the scale, coal consumption continued to decline with a drop of 2.0% (against a decrease of 2.3% in 2002).

Increase in hydro-electric power generation thus making possible lower use of coal and fossil fuels in generating process.

On the other hand, the demand for primary energy (which also includes power consumption by the energy sectors themselves) reported an easing of growth to 3.0%, some 0.4 percentage points less than in 2002. In this respect, we should point out the drop in thermal electricity generation (using coal and/or fossil fuels) due to the significant recovery of hydro-electric power generation during the year as a whole. In spite of this, there was no appreciable advance in terms of energy efficiency. In fact, energy intensity (oil equivalent tonnes per unit of GDP) continued to increase and this is higher now than at the beginning of the Eighties although this trend has to be set in the process of convergence with European standards.

FINAL ENERGY CONSUMPTION IN SPAIN

	2002		2003		% change
	KtOE (*)	% share	KtOE (*)	% share	
Coal	2,486	2.6	2,436	2.4	–2.0
Petroleum products	57,642	60.3	60,034	59.5	4.2
Gas	14,175	14.8	15,793	15.7	11.4
Electricity	17,801	18.6	18,919	18.8	6.3
Renewable energy	3,559	3.7	3,666	3.6	3.0
Total	**95,664**	**100.0**	**100,849**	**100.0**	**5.4**

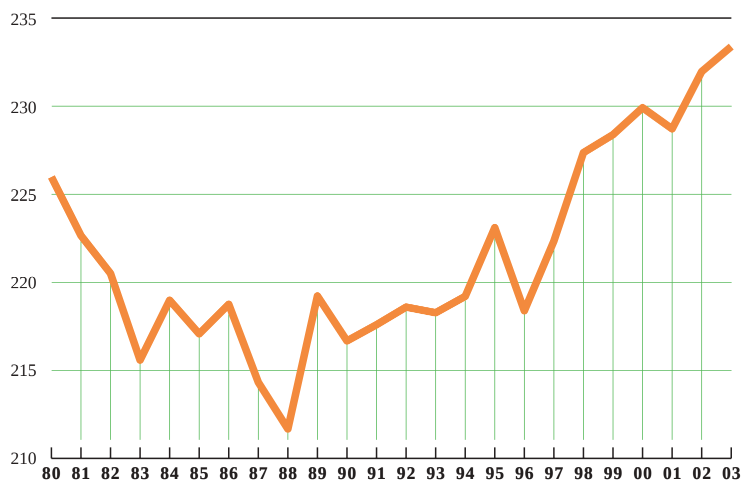
NOTES: (*) KtOE: 1,000 tonne oil equivalent.
SOURCE: Ministry of Economy.

Increase in economic activity and greater temperature extremes behind rise in electrical power consumption.

The rise in final electrical power consumption in the period under consideration was due to the good state of economic activity and greater temperature extremes recorded compared with the year before. In summary, industrial consumption was up by 5.9%, transport rose by 6.9%, while domestic and tertiary consumption grew by 6.6%. On the supply side, the sharp increase in hydro-electric power generation (close to 66%) put that energy source at all-time high average levels. On the other hand, production at nuclear generating stations was down by 1.8% while output at coal-fired plants dropped by 7.9% and came to represent a little less than a 30% share in Spain's total electrical energy balance.

RISE IN ENERGY INTENSITY

TOE per unit of gross domestic product (GDP) (*)



NOTES: (*) Million euros at constant 1995 prices.
SOURCE: Ministry of Economy.

Petrol demand continues to drop due to increase in diesel-oil-fired cars in Spain.

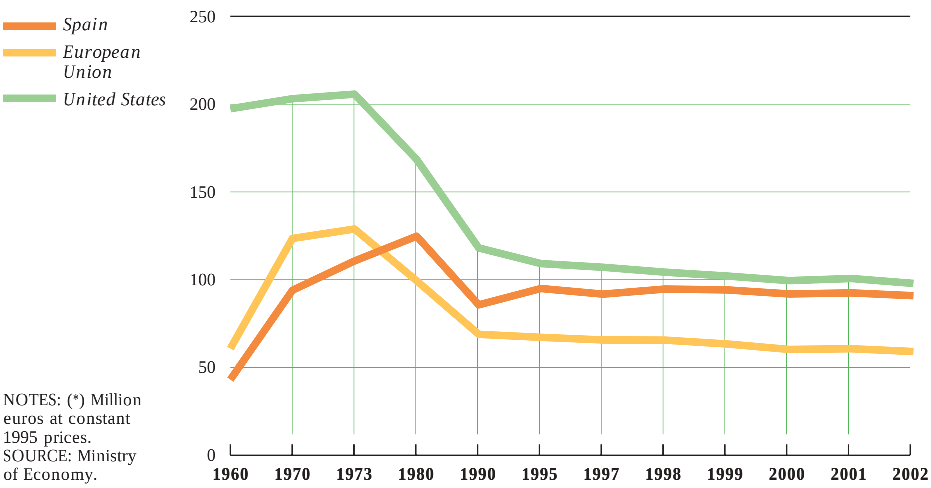
With regard to oil products, the biggest growth showed up in transportation demand and for industrial end-use. On the other hand, consumption in the residential and tertiary sectors was lower, which may be explained both by weather conditions during the period and the increased market penetration of natural gas. By product, the growth of demand for automotive diesel oil (close to 8.0%) continued as a result of increased transportation of goods and the growing number of passenger cars fired by diesel-oil. There was also a sharp increase in kerosene consumption (4.8%) due to the recovery in air transportation. In addition, the dependence of Spain's economy on oil in relative terms continues to be very high and stands well above the European average and comes close to the high average to be seen in the United States.

Final demand for coal dropping.

The drop in final demand for coal in 2003 was due to the decrease in iron and steel consumption (down 0.9%), at cement factories (9.7%) and the residential sector, with the latter practically about to disappear due to the switch to other fuels. In a broad sense, including demand from other energy producers, total consumption of that fuel was down by 7.2% basically due to the significant recovery of hydro-electric power generation.

SPAIN STILL STRONGLY OIL DEPENDENT

TOE per unit of GDP (*)



NOTES: (*) Million euros at constant 1995 prices.
SOURCE: Ministry of Economy.

Gas sector continues strong growth rate.

As noted earlier, the performance in the gas sector continues to be the most dynamic. Sales for domestic and commercial use were up by 10.4%, for industrial uses 12.3%, and for electrical power generation 41.8%. The market share of this sector continues to grow covering 15.6% of total primary energy consumption in 2003, one point more than in 2002. The growth rate of the sector comes out of the constant development of the gas supply infrastructure in transport and distribution, the successive coming into operation of new combined-cycle generating plants (which use natural gas as fuel) and the winning of new customers.

LABOUR MARKET

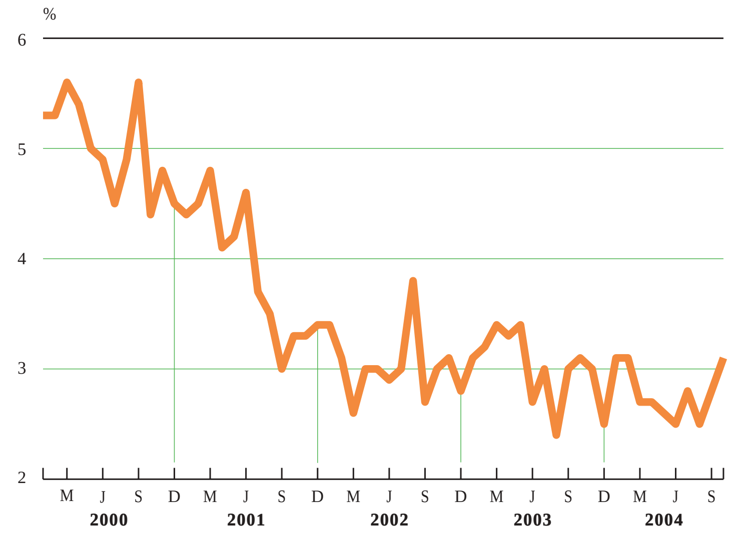
Employment holds up in October

Registrations with Social Security up notably in October…

The number of those registered with Social Security rose by 120,674 in October, somewhat more than twice that for the same month last year. As a result, the rate of increase in registrations made a notable recovery to stand at 3.1% year-to-year, three decimals higher than in the month before and going to highs for the year.

INCREASE IN REGISTRATIONS WITH SOCIAL SECURITY

Year-to-year change in number of those registered with Social Security



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

…both by foreign workers and Spaniards.

The recovery of growth in registrations with Social Security was especially noticeable among the local Spanish population although the increase among foreign workers was at a much sharper rate and even higher than in previous months. In the former case, growth was 2.4% while the latter showed 14.9% year-to-year. Foreign workers registered with Social Security reached a figure of 1,095,212 at the end of October, that is to say, 6.3% of the total (5.7% in the same month in 2003).

Sharp recovery in registrations in services and construction while industry shows weak.

The improvement on registrations was particularly sharp in the area of services which consolidated the positive trend begun in the summer months. Construction, in turn, also showed a favourable picture firming up the solid profile seen in previous months. In both cases, the increase in registrations was very sharp at 4.7% and 5.0% respectively. Industry, on the other hand, maintained the same gradual loss of jobs seen in recent months.

EMPLOYMENT INDICATORS

Percentage change over same period year before

	2002	2003	2004			
			1st Qtr.	2nd Qtr.	3rd Qtr.	October
Persons registered with Social Security						
Wage-earners	3.5	3.2	2.9	2.4	2.6	3.1
Industry	*–0.2*	*–0.5*	*–0.5*	*–0.5*	*–0.6*	*–0.6*
Construction	*5.8*	*4.3*	*4.4*	*4.3*	*4.6*	*5.0*
Services	*4.4*	*4.1*	*4.3*	*3.7*	*4.0*	*4.8*
Non-wage-earners	0.9	2.3	3.2	3.2	3.2	3.2
Total	**3.0**	**3.0**	**2.9**	**2.6**	**2.7**	**3.1**
Persons employed (*)	**2.0**	**2.7**	**2.6**	**2.3**	**2.5**	**–**
Jobs (**)	**1.4**	**1.7**	**2.1**	**2.0**	**2.1**	**–**
Hiring contracts registered (***)						
Permanent	–1.6	–1.0	10.0	16.3	18.2	–3.5
Temporary	1.1	3.9	14.4	13.7	14.7	–5.7
Total	**0.9**	**3.4**	**13.9**	**13.9**	**15.0**	**–5.5**

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

Self-employment makes better showing than wage employment.

In addition, the strength shown by the increase in registrations by non-farm self-employed persons continued in October while at the same time there was an appreciable recovery in wage employment. In the first ten months of the year non-farm self-employment grew by 4.0%, well above last year and also more sharply than wage employment which, in turn, rose by 3.1%.

Figures from National Accounting also reflect good state of employment.

Somewhat earlier figures from National Accounting show sustained growth of employment in the third quarter. In fact, the number of jobs equivalent to full-time work rose by 2.1% year-to-year in that period, one decimal higher than in the previous quarter. By sector, the trends were generally similar to those obtained from registration figures except for the tertiary sector where, in spite of growing at high rates, employment showed some indication of a slowdown.

Registered hiring contracts down in October for first time in 3 years.

The situation in new hiring contracts registered with the National Employment Institute (INEM) was somewhat different and for the first time in more than a year the numbers were down compared with the same period last year. The decrease for the month (5.5%) did not prevent hiring contracts from showing an even bigger increase in the January-October period as a whole (11.7%) with similar rates for permanent hiring contracts and those of a temporary nature. On the other hand, part-time contracts showed particularly strength with an increase of 19.9% as of October.

Registered unemployment: October figure favourable

Registered unemployment in October shows smaller increase than usual for this period.

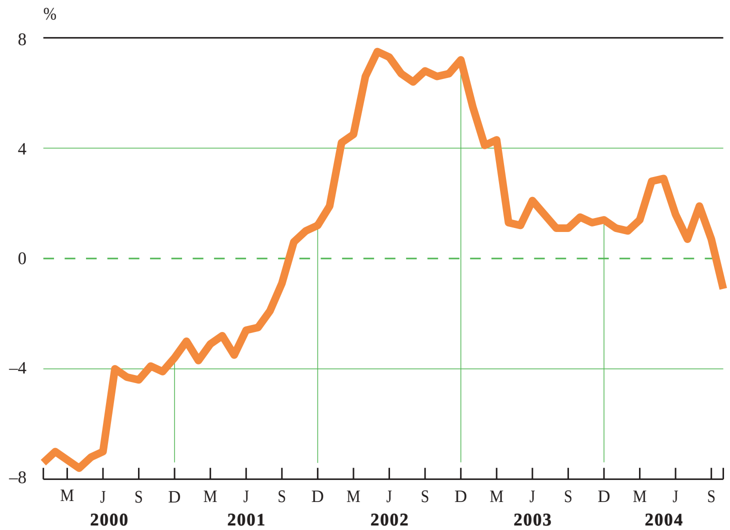
The number of unemployed registered at INEM rose by 30,557 in October putting the total at 1,648,972 at month-end. This increase, which is normal for this time of year, was practically half that for the same month last year so that the change rate for unemployment again eased going to negative levels for the first time since September 2001.

Improvement especially noticeable among those seeking first job.

The improved situation in October was noticeable in the various production sectors but was especially good among those seeking their first job, a group showing an easing off in new registrations. In any case, construction and services maintained unemployment levels somewhat higher than those for the same period in 2003 while in industry and among those seeking their first job registrations were better than in October last year.

REGISTERED UNEMPLOYMENT DOWN

Year-to-year change in unemployment registered at INEM



SOURCE: National Employment Institute and internal figures.

Cumulative balance as of October best in past four years.

The cumulative balance as of October, which showed a drop in registered unemployment of 62,515 persons, was substantially better than in 2003 and the most favourable since 2000. The decreases were spread over most sectors and the various groups and were sharper than in 2003, with the exception of agriculture.

REGISTERED UNEMPLOYMENT BY SECTOR, SEX AND AGE
October 2004

	No. of unemployed	Change over December 2003		Change over same period year before		% share
		Absolute	%	Absolute	%	
By sector						
Agriculture	38,797	873	2.3	893	2.4	2.4
Industry	245,339	–18,954	–7.2	–7,421	–2.9	14.9
Construction	179,380	–32,508	–15.3	2,229	1.3	10.9
Services	966,639	–2,076	–0.2	4,767	0.5	58.6
First job	218,817	–9,850	–4.3	–18,431	–7.8	13.3
By sex						
Males	662,358	–62,904	–8.7	–7,900	–1.2	40.2
Females	986,614	389	0.0	–10,063	–1.0	59.8
By age						
Under 25 years	242,863	–14,887	–5.8	–24,453	–9.1	14.7
All other ages	1,406,109	–47,628	–3.3	6,490	0.5	85.3
TOTAL	**1,648,972**	**–62,515**	**–3.7**	**–17,963**	**–1.1**	**100.0**

SOURCE: National Employment Institute and internal figures.

Aragon, Madrid Community and Cantabria lead reduction in registered unemployment as opposed to Catalonia and Valencian Community.

By autonomous community, the improved trend in October was widespread with the exception of Navarre and the Basque Country where the change rate (in both cases showing a drop) stabilized compared with the figures showing up in previous months. Among those autonomous communities where the level of unemployment in October 2004 was lower than in the same month last year we should point out Aragon, Madrid Community and Cantabria which showed year-to-year decreases of around 6%. At the opposite extreme, Catalonia and Valencian Community showed increases of more than 3.5%.

PRICES

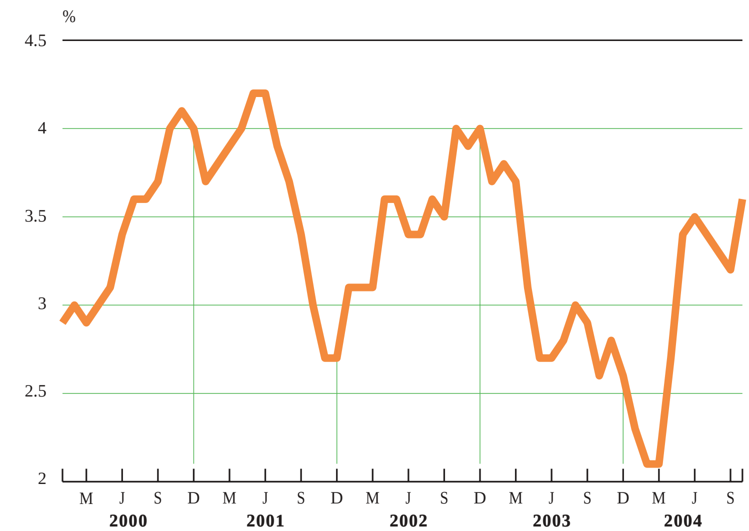
Oil raises CPI to annual highs

Inflation rate goes up to 3.6% but underlying inflation holds stable at 2.9%.

The consumer price index (CPI) rose by 1.0% in October, three decimals more than the increase in the same month in 2003 thus suddenly breaking with the moderation noted in the three previous months. As a result, the increase in the first ten months of the year came to 3.1%, one percentage point more than in the same period in 2003. The year-to-year inflation rate was up four decimals compared to that recorded the month before going to 3.6% year-to-year. On the other hand, underlying inflation (excluding fresh food and energy) held stable at 2.9% for the third month in a row although it was seven decimals above the annual low recorded in March.

SUDDEN RISE IN INFLATION IN OCTOBER

Year-to-year change in CPI



SOURCE: National Institute of Statistics.

Energy gives isolated push to CPI in October...

The sharp rise in the CPI may be attributed to pressure on oil prices and to a lesser extent to industrial goods. On the other hand, services moderated slightly and the rise in foods as a whole was stabilized. In the latter case, however, the increase in fresh foods was in contrast to the containment shown in processed foods.

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	0.2	2.0	3.2
October	0.7	2.1	2.6	1.0	3.1	3.6
November	0.3	2.4	2.8			
December	0.2	2.6	2.6			

SOURCE: National Institute of Statistics.

...in wake of oil prices while gas and electrical power maintain very modest price increases.

The sharp increase in energy prices was due to the impact of the rise in oil on fuels, mainly diesel fuel. The year-to-year rate of increase in fuel-oils and fuels stood at 15.3%, far from the drop of nearly 4% seen in March. The rise in the price of energy as a whole was somewhat lower at 11.6% thanks to the compensatory effect of natural gas and electricity prices which showed very low growth rates (0.1% and 1.4% respectively). In spite of everything, this component added somewhat more than 1.2 points to the inflation rate, that to say, practically the entire increase in the general increase in recent months.

SHARP RISE IN ENERGY PRICES

Year-to-year change in energy component of CPI

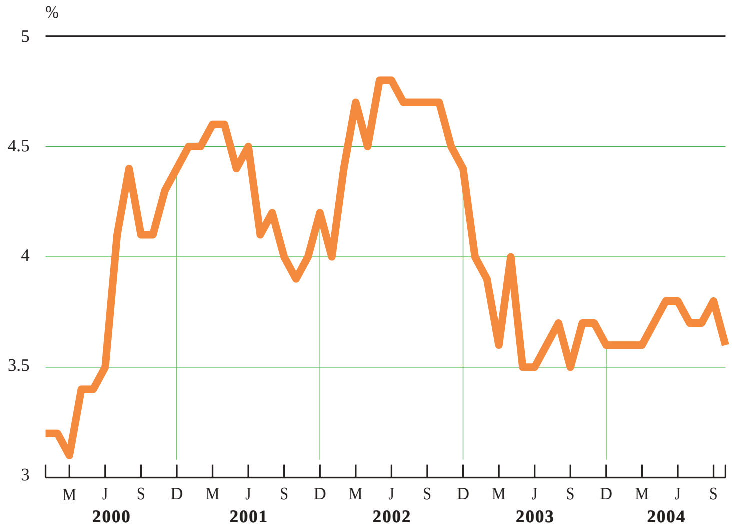
SOURCE: National Institute of Statistics.

Prices of industrial goods rising progressively but still holding at moderate levels.

The increase in prices of non-energy industrial goods (up three decimals to a still very modest 1.3% year-to-year) meant a continuation of the moderately upward trend in recent months and came from increases in intermediate goods shown in the producer price index. The upward move in October was mainly due to certain textile products and footwear as well as some appliances.

SERVICES SHOWING MORE MODERATE GROWTH

Year-to-year change in services component of CPI



SOURCE: National Institute of Statistics.

Services prices down slightly but growth continues at 3.6%.

The profile in services prices was somewhat more favourable with growth easing by two decimals to 3.6%. In any case, this cannot be seen as representing any significant change in the trend to a sustained and stable increase at around this level. The improvement in October was concentrated in certain recreation services although in the rest of the group things generally continue as they were in previous months.

Drop in fresh food prices comes to end but this compensated by better performance in processed foods.

The situation in processed foods is following the same moderate tone thanks to the relative weakness in the prices of certain products, mainly food pastes, cooking oil and drinks. On the other hand, fresh foods left behind the slowdown trend seen in the past four months because of the rise in fish and certain meats, which counteracted the good performance in prices of potatoes, eggs and certain fresh fruits. In any case, year-to-year growth of prices for processed foods (4.0%) was well above that for fresh foods (1.8%).

CONSUMER PRICE INDEX BY COMPONENT

October

	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	0.1	0.0	3.5	2.4	4.3	3.0
Alcoholic beverages and tobacco	116.0	0.0	–0.0	2.7	5.5	2.6	5.7
Clothing and footwear	116.3	7.8	8.5	–0.3	–0.0	2.9	2.8
Housing	110.6	0.3	0.9	2.5	4.2	2.7	4.6
Household equipment	106.2	0.4	0.5	1.3	1.1	1.8	1.6
Health	105.5	0.1	0.1	1.9	0.1	2.1	0.2
Transport	112.0	–0.8	1.2	0.9	8.1	0.2	8.1
Communications	93.4	–0.1	–0.1	0.5	–0.2	–3.0	–0.9
Recreation and culture	103.2	–0.1	–0.9	0.2	–0.2	1.2	–0.2
Education	115.6	2.3	2.0	4.0	3.4	4.8	3.7
Hotels, cafés and restaurants	115.6	–0.0	–0.0	3.9	3.8	4.1	4.0
Other	111.1	0.0	0.1	2.9	2.7	3.1	2.9
By group							
Processed food	112.4	0.3	0.1	2.3	3.7	2.6	4.0
Unprocessed food	117.8	–0.4	–0.0	5.5	0.9	7.0	1.8
Non-food products	110.6	0.9	1.4	1.7	3.2	2.1	3.7
Industrial goods	108.3	1.5	2.6	0.2	3.0	0.8	3.7
Energy products	*111.4*	*–1.1*	*2.6*	*–0.1*	*11.6*	*–1.8*	*11.6*
Fuels and oils	*114.6*	*–1.5*	*3.5*	*–0.6*	*15.3*	*–2.9*	*15.3*
Industrial goods excluding energy products	*107.2*	*2.3*	*2.6*	*0.2*	*0.3*	*1.5*	*1.3*
Services	113.4	0.2	0.0	3.4	3.4	3.7	3.6
Underlying inflation (**)	110.9	1.0	0.9	2.0	2.4	2.6	2.9
GENERAL INDEX	**111.5**	**0.7**	**1.0**	**2.1**	**3.1**	**2.6**	**3.6**

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

Strength of euro and containment of oil prices could ease CPI as of year-end.

The sharp rise in the CPI in October has confirmed existing fears about the potential impact of the rise in energy prices. Nevertheless, the progressive strength of the euro and the easing of oil prices since the end of October should have an impact on the price of fuels and thus foster a slight easing of inflation. This would apply so long as the upward trend in industrial goods does not grow worse and fresh foods do not again make an upward move. As for the rest, the relative stability of the other components of the CPI does not suggest any major diversion from present expectations.

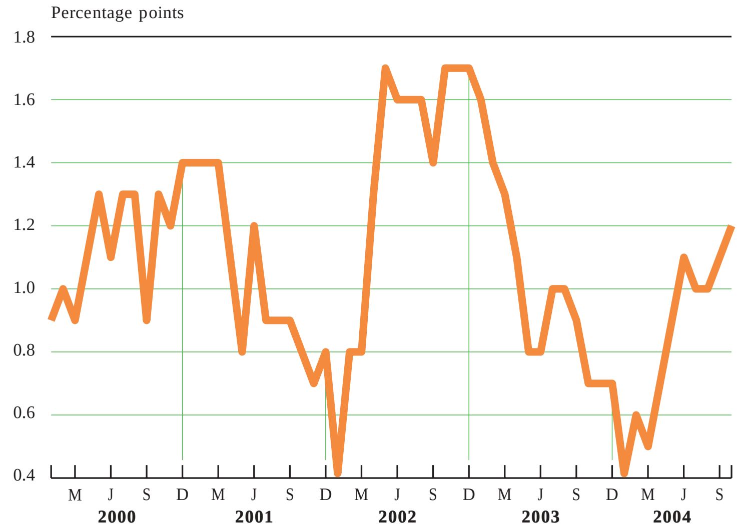
Differential with euro area prices goes up to 1.2 points in October.

Spain’s inflation differential with the euro area as a whole rose by one decimal in October going to 1.2 percentage points, according to the harmonized consumer price index. The increase in the differential in

October came in a context of rising prices in both areas and was due both to the greater relative impact of the increase in fuels in Spain and the sudden moderation of prices for medical services in the other countries of the euro area. By component, the biggest differences (more than three percentage points) continued to show up in food and transportation.

INFLATION DIFFERENTIAL WITH EURO AREA CONTINUES TO RISE

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



SOURCE: National Institute of Statistics and internal figures.

Wholesale prices increase upward trend in October

Wholesale producer prices now growing by 5.4%.

The producer price index increased its upward trend in October putting the growth rate at 5.4% year-to-year, eight decimals above the figure for the month before. As a result, the increase in factory gate prices since last March has been practically five percentage points.

Pressure from energy and intermediate goods beginning to have impact on other industrial goods.

The sharp increase in energy prices, now standing at 14.2% year-to-year, and the sustained rise in non-energy intermediate goods to 6.2% was largely behind this performance. Nevertheless, in October consumer goods and capital goods seemed to be beginning to reflect the previous increases in final factory gate prices thus contributing to inflate the rise in general index. In fact, consumer goods prices at the wholesale level increased their rate of advance by three decimals to 2.3%. Capital goods, in turn, moved up to 1.8% year-to-year, two decimals more than the month before.

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											
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	1.3	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	12.0	4.0	3.2	1.2	4.8	7.1	–0.5	–3.3	–2.0	1.4	–
July	11.2	4.1	2.8	1.6	5.3	7.2	–0.3	2.6	–8.9	1.8	–
August	–5.4	4.4	2.2	1.7	5.7	9.0	3.7	3.7	–3.4	5.9	4.0
September	...	4.6	2.1	1.6	5.9	11.0	...	...	...	...	–
October	...	5.4	2.3	1.8	6.2	14.2	...	...	...	...	–

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

Import prices up in August mainly from oil price effect.

Import prices made an upward turn in August although for the moment the average increase in the first eight months of the year was relatively modest at 0.7%, similar to the same period last year. The relative strength of the euro and the increase in imports from low-cost producer countries helped to ease the effect of rising imported oil prices which on average for the January-August period was running at 199.8 euros a tonne, some 6.5% more than in the same period in 2003.

Slight rise in imported non-food consumer goods.

The rise in import prices in August was mainly brought about by the continuing increase in energy costs and, to a lesser extent, by increases in certain non-food consumer goods. In spite of this, in cumulative terms for the year, consumer goods prices held slightly below the level of last year. Capital goods, with an average cumulative drop of 4.3%, continued to show notable weakness.

Farm prices moderate in August.

The year-to-year growth rate for farm prices recorded a sharp drop in August (5.4% year-to-year) after standing above 10% in June and July. This decrease likely indicates the start of a period of moderate rates because of the base effect arising from the high levels at the end of 2003. For the moment, however, the average increase in farm prices for the first eight months of the year as a whole rose to 3.9%, some 1.6 points more than in the same period last year.

FOREIGN SECTOR

Trade deficit up 30% in January-August period

Trade deficit sharpens increase.

Spain's trade deficit again grew sharply in August due to the notable recovery in imports and the weaker performance in exports. The cumulative imbalance for the first eight months of 2004 thus was 30.5% higher that in the same period last year reaching a figure of 37.1 billion euros. The export/import ratio, in turn, stood at 72.0%, nearly four points lower than in the January-August period in 2003.

TRADE DEFICIT RAPIDLY INCREASING

Cumulative trade balance for 12 months

SOURCE: Customs Department and internal figures.

Imports continue to grow sharply, particularly capital goods and non-food consumer goods.

Imports were up 17.9% nominal in August going to a figure of 132.3 billion euros so far this year, 11.9% more than in the same period last year. In real terms, the increase was somewhat less (11.2%) if we take into account the slight increase in import prices. Capital goods, with a cumulative rise of 20.7% by volume, and non-food consumer goods (up 18.6%) were the product groups with the biggest increases. In this respect, the most notable were motor vehicles, consumer electronics, furniture and footwear. Purchases of capital goods showed particularly strong growth in the case of railway equipment. The increase in imports of food products was somewhat lower at 10.7% real. Finally, purchases of intermediate goods showed something of an upward profile, especially in non-energy goods. Despite this trend, the cumulative increase as of August (5.5% in volume) held below the same period in 2003.

FOREIGN TRADE
January-August 2004

	Imports			Exports			Balance	
	Million euros	% annual change in value	% share	Million euros	% annual change in value	% share	Million euros	Export/ Import ratio (%)
By product group								
Energy products	14,389	13.7	10.9	3,393	21.3	3.6	–10,996	23.6
Consumer goods	37,964	15.2	28.7	37,518	1.9	39.4	–446	98.8
Food	*8,521*	*8.9*	*6.4*	*11,414*	*1.3*	*12.0*	*2,893*	*134.0*
Non-foods	*29,443*	*16.7*	*22.2*	*26,104*	*0.7*	*27.4*	*–3,339*	*88.7*
Capital goods	20,996	15.5	15.9	12,060	13.6	12.7	–8,936	57.4
Non-energy intermediate goods	58,987	8.4	44.6	42,255	6.8	44.4	–16,732	71.6
By geographical area								
European Union	82,408	9.4	62.3	67,852	4.8	71.3	–14,556	82.3
Euro area	*71,744*	*9.7*	*54.2*	*56,680*	*4.6*	*59.5*	*–15,064*	*79.0*
Other countries	49,928	16.3	37.7	27,374	9.4	28.7	–22,554	54.8
Eastern Europe and Ex-USSR	*6,483*	*26.9*	*4.9*	*3,981*	*1.2*	*4.2*	*–2,503*	*61.4*
United States	*4,881*	*8.7*	*3.7*	*3,697*	*0.5*	*3.9*	*–1,184*	*75.7*
Japan	*3,693*	*21.3*	*2.8*	*815*	*24.8*	*0.9*	*–2,878*	*22.1*
Latin America	*5,339*	*12.2*	*4.0*	*4,594*	*8.0*	*4.8*	*–745*	*86.0*
OPEC	*8,090*	*5.3*	*6.1*	*2,190*	*0.3*	*2.3*	*–5,900*	*27.1*
Rest	*21,441*	*20.2*	*16.2*	*12,096*	*17.2*	*12.7*	*–9,345*	*56.4*
TOTAL	**132,336**	**11.9**	**100.0**	**95,226**	**6.1**	**100.0**	**–37,110**	**72.0**

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

Purchases outside EU-15 on increase with 19% real growth.

By geographical area, purchases from the European Union (EU-15) were up by 7.0% real in the first eight months of the year as against an 18.6% increase for those from the rest of the world. We should mention the sharp increase in purchases from the ten new member states of the EU at 36.0% nominal as of August 2004. Outside the EU, the biggest growth (in all cases of more than 25% annual) came in trade with the Middle East, China and Brazil.

Exports ease growth in August.

Exports, in turn, were up by 7.5% in August thus substantially reducing the better rate reached in the two previous months. This decrease, however, must be interpreted with care seeing that August is an atypical month. The cumulative amount for the first eight months (95.2 billion euros) meant an increase of 6.1% compared with the January-August period in 2003. The modest increase in prices put the real increase at 5.7%. By geographical area, shipments to the EU-15 were up by 4.5% real as against the 10.1% recorded for trade with the rest of the world which overall represented 28.7% of all sales abroad.

Capital goods exports up 14% real, more than 10 points above consumer goods.

By product type, the biggest increase came in capital goods with a real cumulative rise of 13.8% in spite of the poor figure for August. A notable player among foreign sales was transportation equipment, mainly ships and aircraft. Exports of consumer goods were weaker and showed a much poorer profile with an increase of 3.0% real (3.6% for non-food products) while there was a notable drop in nominal terms in certain consumer manufactures (footwear and furniture) and a modest increase (but showing a gradual advance) in motor vehicles at 4.6%. Finally, exports of intermediate goods showed a somewhat more positive performance than last year with a real increase of 5.2%, partly due to the strong foreign demand for iron and steel and energy products.

Current account deficit doubles in less than two years

Cumulative current account deficit for past 12 months nearly 32 billion euros.

The current account balance showed a deficit of 2.45 billion euros in August going well above the same month last year. The worsening situation in August was due to the continued increase in the trade deficit and the incomes deficit and the drop in the positive balances for services in spite of the relative improvement in the transfers balance. As a result, the cumulative current account deficit for 12 months was up by 61.3% compared with one year earlier, with the figure going to nearly 32 billion euros.

Surplus in tourist balance down under pressure from increase in payments and stagnation in inflows.

The worsening of the trade balance may be attributed to the bigger increase in imports compared with exports. The surplus for services, in turn, was affected by results in the tourist balance which were reduced by opposing trends in inflows and payments. The former was affected by a drop or practical stagnation right in the main tourist season while the latter was definitely on the upswing. As a result, the decrease in the cumulative tourist balance for the last 12 months was 3.8%.

RAPID WORSENING IN BALANCE OF PAYMENTS

Cumulative current account balance for 12 months

SOURCE: Bank of Spain and internal figures.

BALANCE OF PAYMENTS

Cumulative figure for last 12 months in million euros

	August 2003	August 2004	% change
Current account balance			
Trade balance	–36,595	–46,265	26.4
Services			
Tourism	*29,548*	*28,432*	*–3.8*
Other services	*–2,255*	*–3,455*	*53.2*
Total	27,293	24,977	–8.5
Income	–11,287	–11,445	1.4
Transfers	798	812	1.7
Total	**–19,790**	**–31,922**	**61.3**
Capital account	**7,981**	**9,202**	**15.3**
Financial balance			
Direct investment	4,104	–8,280	–
Portfolio investment	–19,937	34,743	–
Other investment	25,076	16,463	–34.3
Total	**9,243**	**42,926**	**364.4**
Errors and omissions	–5,707	–4,051	–29.0
Change in assets of Bank of Spain	8,273	–16,155	–

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.

Minor surplus in capital account.

Capital account showed a surplus of 1.2 billion euros in August, substantially above the figure for the same month last year. As a result, the balance for the past twelve months stood 15.3% above that for the previous 12 months.

Spanish direct investment abroad down 43% while foreign investment in Spain drops more than 70%.

Financial account, excluding Bank of Spain transactions, showed net inflows totalling 42.9 billion euros in the 12 months ended August 2004, more than four times the figure for the same period last year. Spanish direct investment abroad remained weak, particularly in the area of corporate investment although fixed assets showed substantial increases. In any case, the total volume was down 42.6% from the same period last year. Direct foreign investment in Spain continued to drop, specifically by 70.5% compared with last year. Under direct foreign investment, the drop was concentrated in corporate investment but not in real estate which was still slightly higher than in the same period the year before despite showing a clearly downward trend. Portfolio investment from abroad, on the other hand, was up by more than 120%.

PUBLIC SECTOR

Central government budget implementation: first ten months show surplus

Tax revenue up 7% in January-October period.

Central government non-financial Treasury revenue rose by 3.7% in the first ten months of 2004 compared with the same period last year, going to 98.2 billion euros. This figure does not include those segments of personal tax collections and the greater part of indirect taxes ceded to the autonomous communities and local councils so that this figure is of little significance as an indicator of the revenue obtainable by general government from ordinary taxes. If the segments ceded were to be included, collections would amount to 132.3 billion euros, which was 7.4% higher than in the same period in 2003.

Corporate income tax shows biggest increase among direct taxes.

The main source of tax collections in the January-October period was direct taxes at 65.2 billion euros, some 8.3% more than in January-October 2003. The biggest increase showed up in corporate income tax (19.7%) partly due to the decrease in rebates. Revenue from personal income tax was up very modestly (2.0%) compared with the same period the year before.

Indirect tax collections rise by 8%, VAT being main heading, while fuel tax reflects drop in demand.

Collections for indirect taxes, in turn, amounted to 57 billion euros, some 8.4% more than in 2003. Value added tax (VAT) made this increase possible given that the amount collected under this tax heading in the first ten months of the year was 40.4 billion euros, some 9.8% more than in the same period in 2003. Under special taxes, most headings rose at a rate similar to inflation. In the case of fuels, collections were up 3.8% perhaps reflecting the drop in demand because of the rise in prices. In contrast to 2003, the figures for 2004 do not include the tax on certain means of transport, revenue considered proper to the autonomous communities. On the other hand, there was a notable increase in revenue obtained from the tax on insurance premiums (9.6%), which was linked to the increase in the motor vehicle market, as well as the tax on foreign trade, thanks to the sharp increase in imports from third countries.

Drop in government property income, revenue from fees and public service charges, and current transfers down.

Apart from tax sources, fees and public service charges showed a very slight drop which was well below that seen in government property income and current transfers at 10.0% and 7.9% respectively. On the other hand, capital transfers were up 24.3% compared with the same period the year before while revenue coming from the disposal of government investment property was of little importance.

CENTRAL GOVERNMENT BUDGET IMPLEMENTATION
October 2004

	Month		Cumulative for year	
	Million euros	% change over same month year before	Million euros	% change over same month year before
Non-financial revenue	**18,605**	**2.2**	**98,197**	**3.7**
Non-financial revenue adjusted (*)				
Personal income tax	5,993	5.3	40,026	2.0
Corporate tax	8,179	24.5	23,086	19.7
VAT	7,334	15.8	40,420	9.8
Special taxes	1,448	0.6	14,554	3.9
Other	1,235	–2.0	14,227	2.6
Total	**24,189**	**13.6**	**132,313**	**7.4**
Non-financial spending	**12,983**	**18.8**	**95,088**	**1.3**
Treasury balance	**5,622**	**–22.7**	**3,109**	**265.8**
Surplus (+) or deficit (–) (**)	***6,833***	***–17.8***	***7,678***	***–10.0***

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.

Drop in interest payments and real investments in contrast to rise in public service staff costs and especially increase in purchases of goods and services.

Central government non-financial spending, in turn, rose by 1.3% going up to 95.1 billion euros. This figure does not include the balancing entry for revenue corresponding to segments of tax ceded to the autonomous communities. The decrease in spending was favoured by lower interest payments (down 15.0%) and lower real investments. On the other hand, spending involving public consumption was up by 4.6% in the case of public service staff and 18.5% in the case of purchases of goods and services.

Central government ends first ten months with surplus, both in Treasury and National Accounting.

The cumulative Treasury balance of the central government as of October, that is to say, the difference between non-financial revenue and spending, was positive in an amount of 3.1 billion euros and nearly four times higher than in the same period the year before. This surplus made it possible to obtain a borrowing capacity of 321 million euros and to finance a positive change in financial assets, excluding transactions in the current account at the Bank of Spain, with the remainder. The increase in financial assets was concentrated in central government deposits in financial institutions and in higher property allocations for a total of 1.68 billion euros. In terms of National Accounting, the central government budgetary balance was also positive in the amount of 7.7 billion euros.

SAVINGS AND FINANCING

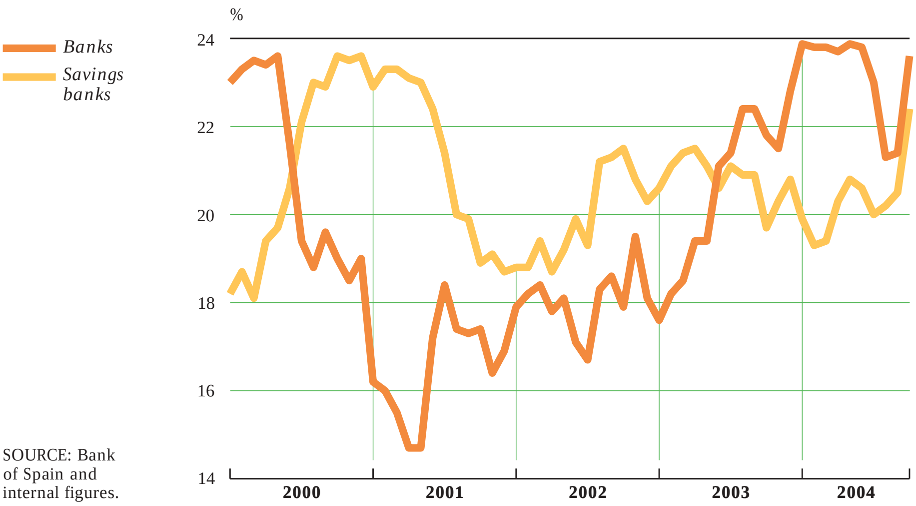
Bank credit to companies and households moving up sharply

Bank loans to private sector up 17% in past 12 months.

Bank credit to the private sector rose by 17.2% in September compared with the same month last year. This rate was 1.7 decimals higher than that recorded the month before and the highest since December 2000. Furthermore, it meant more than twice the growth of the euro area taken as a whole. Demand for bank credit by companies and households continues to be driven by the good economic situation and easy borrowing terms, along with very low interest rates.

MORTGAGE LOANS SHOW MAJOR GROWTH

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



SOURCE: Bank of Spain and internal figures.

Total loans by savings banks moving up faster than in case of banks.

In the past twelve months, total loans granted to the private sector by savings banks rose by 19.8%, some 2.7 decimals more than the annual change rate in December 2003. In the same period, loans by banks rose by 15.1%, some 2.3 decimals more than in December. As a result, at the end of the third quarter total loans granted to companies and households by savings banks stood at 410.5 billion euros, some 6.3 billion more than in the case of banks.

Mortgage loans up 25% in past year.

The growth of loans to the private sector continues to be based on mortgage loans. Mortgage loans by banks and savings banks rose by 22.9% in September compared with the same month in 2003, the highest annual rate since the beginning of 1991. If we include securitizations and other credit institutions, this rate goes up 25.3%, according to figures supplied by the Spanish Mortgage Association. As a result, at this time mortgage loans continue to grow sharply and to even increase in tempo. Higher household incomes, demographic factors and low interest rates continue to provide the stimulus.

Leasing reports notable growth.

There was also notable growth in leasing, which goes mainly into purchase of capital goods and real estate by companies and self-employed professionals. Growth was 15.4% over the same month in 2003, some 5.9 points more than the rate seen the month before. Commercial credit, which goes to fund working capital of companies, rose by 9.5% in September compared with 12 months earlier, as against a year-to-year rate of 4.9% in August.

CREDIT TO COMPANIES AND HOUSEHOLDS
September 2004

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
Trade credit	54,629	–902	–1.6	4,730	9.5	6.1
Secured loans (*)	515,754	73,629	16.7	95,182	22.6	57.1
Other term loans	274,718	23,819	9.5	28,594	11.6	30.4
On-demand loans	22,226	1,303	6.2	420	1.9	2.5
Leasing	28,156	3,087	12.3	3,765	15.4	3.1
Doubtful loans	7,451	–215	–2.8	–280	–3.6	0.8
TOTAL	**902,935**	**100,723**	**12.6**	**132,412**	**17.2**	**100.0**

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

Default rate close to lowest levels ever.

On the other hand, doubtful loans stood at 7.45 billion euros. This figure represented a default rate of 0.83%, very close to the lowest figure in recent years which was recorded two months earlier. The rate for banks and savings banks (excluding other credit institutions) went down very slightly to 0.68%, just above the all-time low in July.

Slight rise in bank loan rates in September.

Bank loan rates in general rose very slightly in September. As a result, the composite loan rate at credit institutions rose by one basis point to 3.98% to stand 13 basis points above the all-time low in June. In fact, the increase in September may be attributed to the corporate component for which the composite interest rate rose to 3.51%, some 5 basis points higher than the all-time low the previous month. The composite rate for households, on the other hand, dropped by 2 basis points to 4.42%, due to the slight decrease in interest rate on housing loans.

Slight drop in composite mortgage rate in October.

On the other hand, the composite mortgage rate for home-purchase for more than a 3-year term was down slightly in October (4 basis points) going to 3.33%. As a result, it showed an increase of 8 basis points over the all-time low in May 2004, although it was 11 basis points below the same month in 2003.

Increase in private sector bank deposits

Private sector bank deposits up 13% in past year.

Total deposits of resident companies and households in euros and foreign currency rose by 13.1% in September 2004 compared with the same month last year. This is the highest rate since January 2000. In the past 12 months these deposits rose by 78.9 billion euros. This amount was somewhat lower than the increase in loans so that credit institutions had to float bond issues, carry out securitizations, or have recourse to the foreign interbank market to compensate for this imbalance.

DEPOSITS BY COMPANIES AND HOUSEHOLDS AT CREDIT INSTITUTIONS
September 2004

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
On-demand	183,810	14,906	8.8	21,297	13.1	26.9
Savings (*)	153,208	7,999	5.5	14,001	10.1	22.4
2-year term	155,596	–630	–0.4	–1,063	–0.7	22.8
More than 2-year term	109,461	32,099	41.5	43,982	67.2	16.0
Repos	75,487	–2,314	–3.0	–511	–0.7	11.1
Total	**677,562**	**52,060**	**8.3**	**77,705**	**13.0**	**99.2**
Deposits in currencies other than euro	**5,251**	**1,100**	**26.5**	**1,159**	**28.3**	**0.8**
TOTAL	**682,813**	**53,160**	**8.4**	**78,864**	**13.1**	**100.0**

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

Savings banks attracting more deposits than banks.

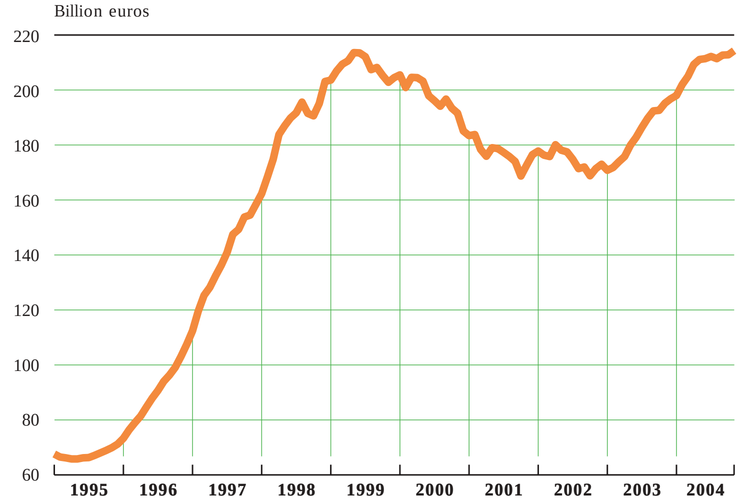
The attraction of deposits, both by banks and savings banks, showed a stepped-up rate in September. Nevertheless, the change rate in the case of savings banks was almost twice that for banks, with a reported 14.7% as against 7.4% respectively.

Extraordinary annual rise in time deposits for more than 2-year term.

By type of deposit, time deposits for more than a 2-year term recorded an extraordinary annual rise of 67.2%, some 3.9 points above the previous month. Deposits in currencies other than the euro also showed a considerable year-to-year increase of 28.3%, notably higher than that for previous months. In turn, time deposits for less than a 2-year term dropped by 0.7% in the course of the past year.

ASSETS OF MUTUAL FUNDS HIT ALL-TIME HIGH

Total assets of mutual funds



SOURCE: Inverco.

Investor preference divided between global funds and short-term fixed-income-based funds.

On the other hand, if we discount duplications in funds of funds, the assets of mutual funds rose by 1.55 billion euros in October going to a figure of 214.3 billion euros, an increase of 8.2% over December and thus marking up an all-time high going over the previous record in April 1999, according to figures supplied by Inverco, the sector organization. The October increase was due mainly to capital gains given that net purchases of units that month (discounting sales) amounted to only 612 million euros. In the January-October period net purchases of units amounted to 13 billion euros with the biggest increases showing up in global funds, short-term fixed-income-based funds and guaranteed funds in a situation of volatile financial markets.

Number of persons participating up 5%.

The total number of persons participating in funds at the end of October was 8,085,014, some 12,504 more than one month earlier. The increase in participants over December was 350,990, a rise of 4.5%. The biggest increase in number of participants so far this year came in the global funds category, with a rise of 105%.

National share-based funds obtain highest capital gains.

In October, the average weighted yield on mutual funds in the past 12 months was 2.8%. Mutual funds of all types obtained positive annual yields with the exception of US and Japanese share-based funds. The biggest annual capital gains were obtained by national share-based funds, with a spectacular 18.8%, and share-based funds in emerging markets, which reported 13.0%.

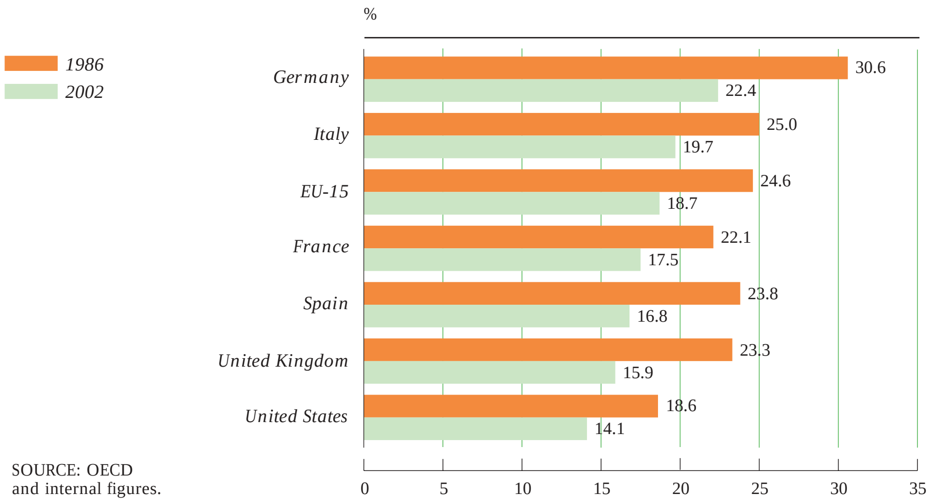
Readjustment in industry continuing

Weighting of industrial sector in Spain's economy continues to decrease.

Recession in some industrial sectors, the shift of manufacturing plants to East European countries, the sharp competition in certain consumer products coming from Asia. All of these factors have been making frequent newspaper headlines in recent years. But this is nothing new. The progressive loss of relative importance of the industrial sector compared with other economic activities is a constant in the advanced economies and this has been so for some time. Spain is one of the countries where the relative weight of industry has decreased to very low levels. According to the Organization for Economic Cooperation and Development (OECD), the relative weight of manufacturing industry (industry less energy, mining and water distribution branches) in terms of value added for the economy as a whole was one of the lowest in the European Union (EU), only higher than the Netherlands and the United Kingdom and standing two points below the average for the EU-15.

DROP IN INDUSTRIAL ACTIVITY IN ADVANCED ECONOMIES

Percentage of gross value added of manufactures over total



SOURCE: OECD and internal figures.

Many and varied reasons behind this change.

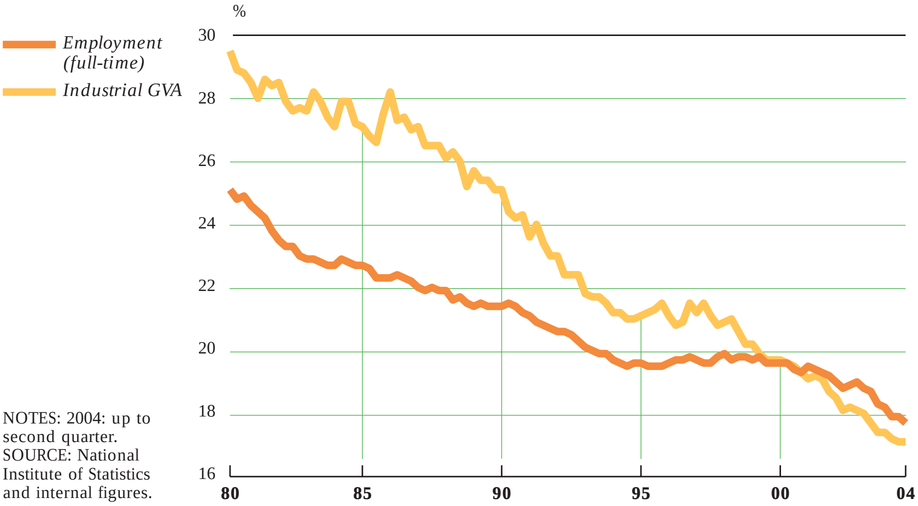
The reasons for this relative decline in industry are quite varied. They run from the type of production specialization found in each country to the phenomenon of outsourcing and the shift of activities proper to industry to the services sector. The high productivity in industry as compared with sectors such as construction and services is also trimming down its relative weight in the economy. The shifting of industrial plants to other locations, in fact, contributes to reducing the importance of manufactures in the advanced economies.

Since Eighties, relative weight of industry in economy has dropped to 17%...

The loss of weighting in the industrial sector in Spain in recent years has been considerable so that it now represents little more than 17% in terms of value added, as against nearly 30% at the beginning of the Eighties. In terms of employment, the trend has been similar going from more than 25% at that time to somewhat less than 18% in 2004, according to figures from National Accounting.

INDUSTRY LOSING RELATIVE WEIGHT IN SPAIN'S ECONOMY

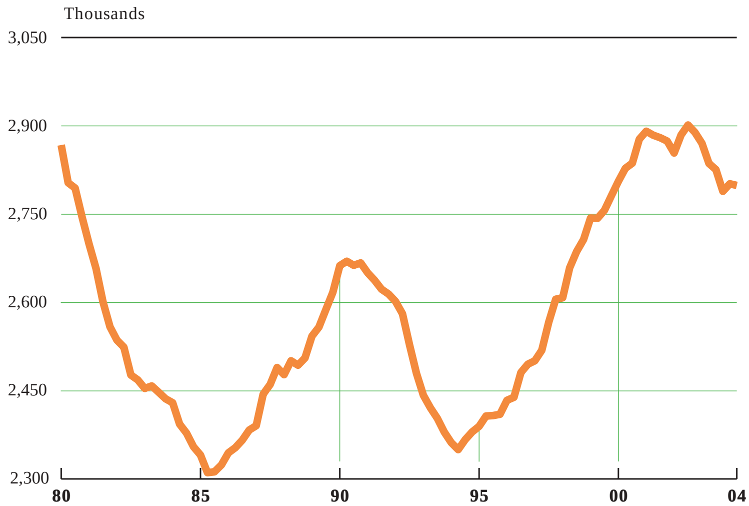
Value added and industrial employment over total



NOTES: 2004: up to second quarter.
SOURCE: National Institute of Statistics and internal figures.

IS FURTHER INDUSTRIAL READJUSTMENT GETTING UNDER WAY?

Jobs equivalent to full-time work in industry



SOURCE: National Institute of Statistics and internal figures.

...although industrial employment in 2004 nearly half-million persons higher than in 1986...

Nevertheless, the loss of relative weight of industry in the overall economy has not meant a major drop in the number of persons employed in the sector. According to figures from National Accounting, the number of jobs equivalent to full-time work in industry in the second quarter of

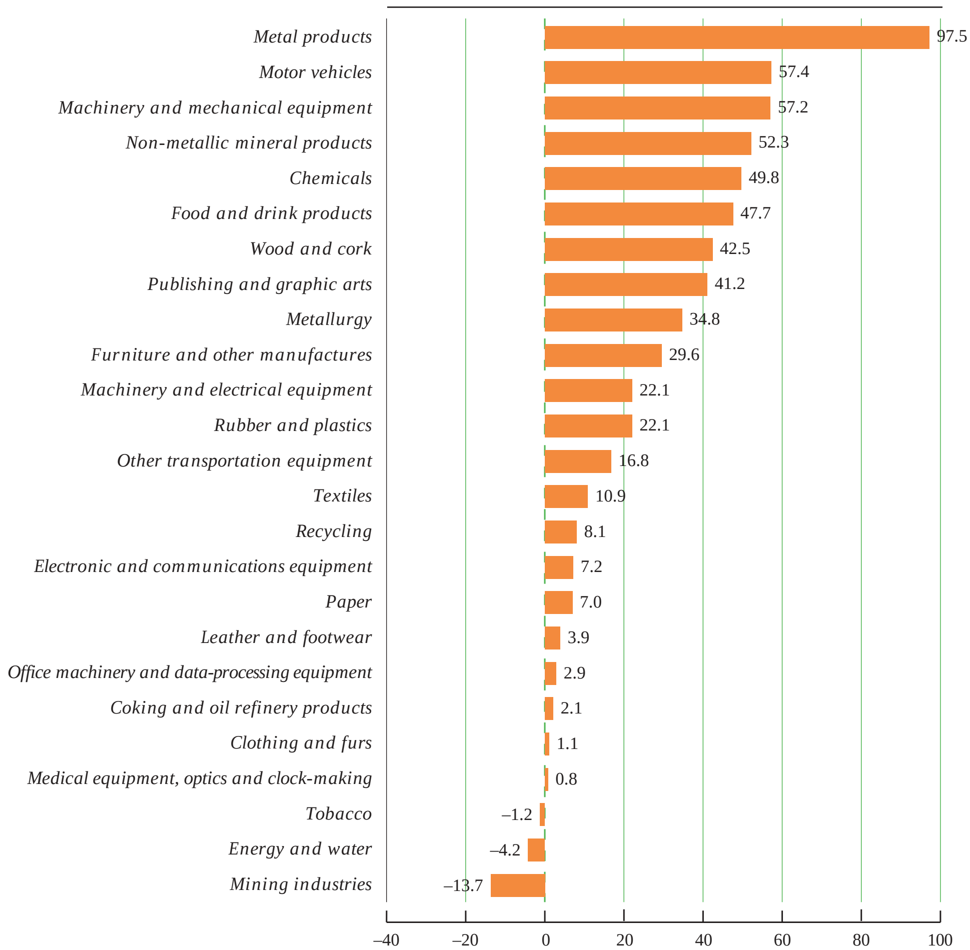
2004 stood at 2,798,900, some 65,000 less than at the beginning of the Eighties but nearly a half-million more than at the time Spain joined the European Union (1986).

...with sharp swings in wake of economic cycles.

The trend in industrial employment has shown sharp swings in recent years. The expansionist stage in the second half of the Eighties had positive effects on industrial employment but the recession at the beginning of the Nineties reduced employment to below 2.4 million persons. From that time on, the new stage of recovery between 1996 and 2001 meant the creation of nearly 600,000 new jobs. One year later, particularly as of the summer of 2002, the industrial sector moved into a new stage of readjustment, which up to now has been relatively gradual. Up to the second quarter of 2004 it has meant a reduction of 100,000 jobs.

EXPANSIONIST STAGE BENEFITS NEARLY ALL SECTORS

Change in industrial employment between 1996 and 2002 in thousands (*)



NOTES: (*) Figures for second quarter.
SOURCE: National Institute of Statistics and internal figures.

Expansionist cycle in second half of Nineties very uneven depending on branch of industry.

The levels of job creation and readjustment of employment taking place in Spanish industry in recent years have varied greatly depending on sector, according to the detailed figures obtained from the Labour Force Survey. During the last expansionist stage from the first quarter of 1996 to the summer of 2002, job creation was practically across the board in the various branches of industrial activity, with the exception of mining, production and distribution of energy and water and the tobacco industry. In relative terms, those that stood out were wood and cork, metallurgy and metallic products, mechanical machinery, machinery and electrical equipment, chemicals, rubber and plastics and cars. Somewhat lower came paper, furniture, office machinery, oil refining and food. Finally, at a stage of practical stagnation if not contraction, came textiles, clothing, leather and footwear.

Metalworking, cars, mechanical machinery, non-metallic mineral working and chemicals generate more than 50% of new jobs.

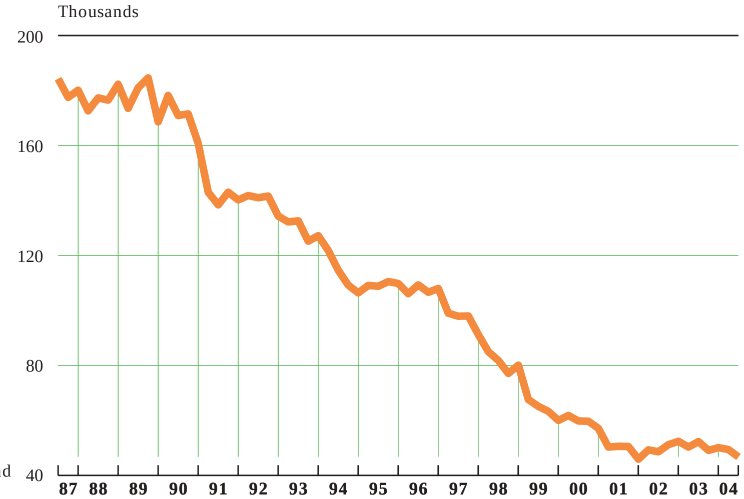
In absolute terms, the 596,000 jobs created by the manufacturing industry in this period of growth came largely in metalworking, cars, mechanical machinery, non-metallic mineral working and chemicals. In fact, these five branches of industrial activity generated more than 50% of all employment in this period. Next came food, wood and cork, publishing and graphic arts and basic metallurgy which created nearly 30% of all new jobs in that period.

Corporate public sector reduces presence in industry in this period.

The sharp growth of industrial employment in the second half of the Nineties showed up entirely in the private sector given that the corporate public industrial sector continued the trimming down which had begun in previous years. Privatizations and readjustment of work forces brought about a reduction of wage employment in the public industrial sector to less than half. While at the beginning of 1996 workers totalled slightly more than 106,000 in manufacturing industry, mining and energy and water sectors, in the second quarter of 2004 the figure was down to 46,700 with the biggest part of the drop showing up in manufacturing. As

PUBLIC SECTOR REDUCING ROLE IN INDUSTRY

Wage-earners in public industrial companies



SOURCE: National Institute of Statistics and internal figures.

a result, the role of public employment in industry was visible (and then only to a modest extent) solely in mining, energy, water and transportation equipment (ships and aircraft). In the rest of manufacturing industry the percentage of public employment over the total was less than 1%.

Stage of readjustment in industrial employment begins in summer of 2002 although restricted to certain sectors.

The period of strength in industry began to show something of a slowdown as of the summer of 2002. The poorer state of industry, however, has not been across the board in all branches of activity. On the other hand, it was just a few sectors (showing major job losses) which ended up bringing about a negative balance for the industrial sector as a whole. The branches of industry to suffer most in this period were textiles (with a drop of nearly 20% in employment between the first half of 2002 and the first half of the current year), wood and cork (14.5%), clothing and furs, as well as machinery and electrical equipment (around 10%) and chemicals (8.5%). On the other hand, those industries related to the

INDUSTRIAL READJUSTMENT QUITE SELECTIVE BY SECTOR

Change in industrial jobs between 2002 and 2004 (by thousands) (*)

NOTES: (*) Figures for second quarter.
SOURCE: National Institute of Statistics and internal figures.

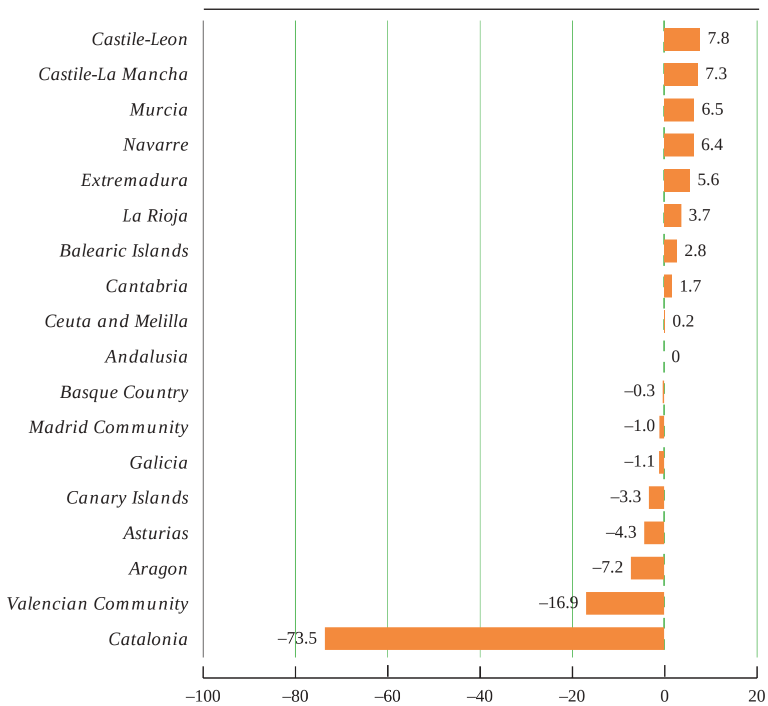
environment, manufacture of electronic and communications equipment, rubber and plastics, paper and motor vehicles have shown increases in employment, which in some cases have been substantial.

Textiles and chemicals suffer biggest drop in employment in past two years.

In absolute terms, the overall loss of industrial jobs in the past two years was 65,400. Textiles and chemicals (in equal shares) made up the greater part of the drop of employment with 50,000 jobs lost between them. Four other sectors (wood, non-metallic minerals, clothing and furs) also showed a loss of jobs of the same degree. On the other hand, the motor vehicle industry, metal products and the energy and water sector have together created more than 40,000 jobs in the past two years, the first two showing a positive trend since the middle of the second half of the previous decade.

CATALONIA MOST AFFECTED BY INDUSTRIAL READJUSTMENT

Change in industrial employment between 2002 and 2004 (in thousands) (*)



NOTES: (*) Figures for second quarter.
SOURCE: National Institute of Statistics and internal figures.

Catalonia especially affected by industrial readjustment.

The industrial readjustment over the past two years naturally has had an uneven effect on the various autonomous communities according to their specific industrial structure. In this respect, the autonomous community most affected was Catalonia where employment dropped by 73,500 persons in the reference period. In second place, with a substantially lower drop in employment (16,900 persons), came Valencian Community, a region where certain industries (which were also subjected to heavy pressure from international competition) also make up a notable part of the industrial fabric.

Drop in employment concentrated in temporary workers and those with lower training levels...

The drop in industrial employment since the summer of 2002 was especially visible among those workers on temporary work contracts which accounted for more than three-quarters of the readjustment. Furthermore, the biggest drop in employment showed up almost exclusively among those with lower educational or training levels, that is to say, those whose schooling levels did not go beyond the first stage of secondary school or the first stage of trade training. On the other hand, we note a moderate increase in employment among those who had higher educational levels while it was stable among those who had finished upper levels of secondary education or a second stage of trade training.

…especially non-qualified and administrative workers.

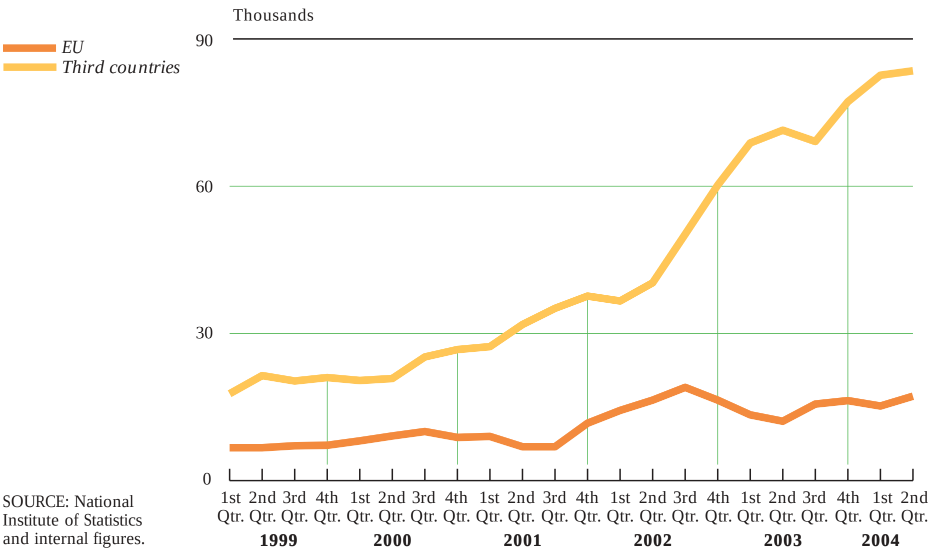
From a job function point of view, the readjustment in employment was concentrated among non-qualified personnel, among administrative workers and among management groups. On the other hand, we see a notable recovery in employment in technical and scientific personnel. On the other hand, the biggest drop in employment came in the under-age group which made up nearly 60% of the decrease in employment.

More jobs being held by foreign workers but share of industrial employment very small.

By nationality, what stands out is the positive trend in industrial employment among foreign workers in contrast to the drop among Spanish workers. According to the Labour Force Survey, in the second quarter of 2004 some 100,700 jobs were held by foreign workers in the industrial sector, somewhat more than three times that in the summer of 2000 when the importance of immigration began to become evident. Most foreign workers in industry come from countries outside the European Union. To be specific, there were 83,500 of these workers in the second quarter of 2004. In any case, the proportion of foreign workers in industry (3.3%) was somewhat below that for the economy as a whole.

INDUSTRY HIRING FOREIGN WORKERS

Estimated foreign workers in industry according to origin



SOURCE: National Institute of Statistics and internal figures.

CUSTOMER RESOURCES IN BANKING SYSTEM

Balances at September 30, 2004, in million euros

Type of institution	Balance			Share		
	September 30, 2004	December 31, 2003	% change	September 30, 2004	December 31, 2003	Change
Banks	**475,217**	**435,293**	**9.17**	**46.64**	**46.83**	**–0.18**
Savings banks	**493,657**	**448,571**	**10.05**	**48.45**	**48.25**	**0.20**
Credit cooperatives	**49,973**	**45,739**	**9.26**	**4.90**	**4.92**	**–0.02**
Total	**1,018,847**	**929,603**	**9.60**	**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 September 30, 2004, in million euros

	Consolidated groups	Balance at September 30, 2004	Balance at December 31, 2003	Change over December 2003	% change over December 2003
1	**Santander Central Hispano**	**230,639.7**	**214,997.9**	**15,641.8**	**7.28**
2	**Banco Bilbao Vizcaya Argentaria**	**195,899.0**	**182,831.2**	**13,067.8**	**7.15**
3	**Caja de Ahorros y Pensiones de Barcelona**	**104,709.9**	**91,214.0**	**13,495.9**	**14.80**
4	**C. A. y M. P. de Madrid**	**64,890.1**	**60,831.3**	**4,058.7**	**6.67**
5	**Banco Popular Español**	**44,404.1**	**37,464.0**	**6,940.0**	**18.52**
6	**Banco Sabadell** (2)	**34,645.6**	**30,794.4**	**3,851.1**	**12.51**
7	**Caja de Ahorros de Valencia, Castellón y Alicante**	**29,136.3**	**24,268.6**	**4,867.7**	**20.06**
8	**Caja de Ahorros de Cataluña**	**23,665.7**	**21,969.6**	**1,696.1**	**7.72**
9	**Caja de Ahorros del Mediterráneo**	**22,126.2**	**20,057.8**	**2,068.5**	**10.31**
10	**Bankinter**	**18,554.8**	**17,992.4**	**562.5**	**3.13**
11	**Caja de Ahorros de Galicia**	**16,993.1**	**15,643.0**	**1,350.1**	**8.63**
12	**C. A. y M. P. de Zaragoza, Aragón y Rioja**	**16,536.3**	**15,838.5**	**697.8**	**4.41**
13	**M. P. y C. A. de Ronda, Cádiz, Almería, Málaga y Antequera**	**15,114.7**	**14,041.8**	**1,072.9**	**7.64**
14	**Bilbao Bizkaia Kutxa**	**12,807.9**	**12,571.3**	**236.6**	**1.88**
15	**Caixa de Aforros de Vigo, Ourense e Pontevedra**	**12,247.1**	**11,189.0**	**1,058.1**	**9.46**
16	**Caja España de Inversiones, C. A. y M. P.**	**11,936.2**	**10,915.1**	**1,021.1**	**9.35**
17	**Caja de Ahorros de Salamanca y Soria**	**10,681.7**	**10,230.5**	**451.3**	**4.41**
18	**Banco Pastor**	**10,209.1**	**8,496.9**	**1,712.2**	**20.15**
19	**Caja de Ahorros de Castilla-La Mancha**	**9,411.9**	**8,214.8**	**1,197.1**	**14.57**
20	**C. A. y M. P. de Guipúzcoa y San Sebastián**	**9,214.8**	**8,686.4**	**528.3**	**6.08**

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 September 30, 2004

Consolidated groups (2)	Balance September 30, 2004	Balance December 31, 2003	Change over December 2003	% change over December 2003
Andalusia	**45,607.8**	**42,561.5**	**3,046.4**	**7.16**
M. P. y C. A. de Ronda, Cádiz, Almería, Málaga y Antequera - Unicaja	15,114.7	14,041.8	1,072.9	7.64
C. A. y M. P. de Córdoba - Cajasur	8,730.1	8,358.2	371.9	4.45
M. P. y C. A. de Huelva y Sevilla	8,613.3	7,878.1	735.2	9.33
Caja General de Ahorros de Granada	6,691.0	6,378.3	312.7	4.90
Caja de Ahorros San Fernando de Sevilla y Jerez	6,058.6	5,548.7	509.9	9.19
Caja Provincial de Ahorros de Jaén	400.1	356.4	43.7	12.27
Aragon	**21,555.1**	**20,508.0**	**1,047.1**	**5.11**
C. A. y M. P. de Zaragoza, Aragón y Rioja - Ibercaja	16,536.3	15,838.5	697.8	4.41
Caja de Ahorros de la Inmaculada de Aragón	5,018.8	4,669.5	349.3	7.48
Asturias				
Caja de Ahorros de Asturias	**6,179.9**	**5,932.6**	**247.3**	**4.17**
Balearic Islands	**5,184.5**	**4,874.6**	**310.0**	**6.36**
C. A. y M. P. de las Baleares - Sa Nostra	4,982.5	4,673.1	309.4	6.62
Caja de Ahorros de Pollença «Colonya»	202.0	201.5	0.5	0.27
Canary Islands	**9,095.9**	**8,051.7**	**1,044.3**	**12.97**
Caja General de Ahorros de Canarias	5,388.8	4,701.7	687.1	14.61
Caja Insular de Ahorros de Canarias	3,707.2	3,350.0	357.2	10.66
Cantabria				
Caja de Ahorros de Santander y Cantabria	**4,651.7**	**4,403.7**	**248.0**	**5.63**
Castile-Leon	**34,924.5**	**32,588.9**	**2,335.5**	**7.17**
Caja España de Inversiones, C. A. y M. P.	11,936.2	10,915.1	1,021.1	9.35
Caja de Ahorros de Salamanca y Soria - Caja Duero	10,681.7	10,230.5	451.3	4.41
Caja de Ahorros Municipal de Burgos	5,314.8	4,787.8	527.0	11.01
C. A. y M. P. de Segovia	2,393.7	2,319.7	74.0	3.19
C. A. y M. P. de Ávila	2,313.6	2,115.0	198.6	9.39
C. A. y M. P. del C.C.O. de Burgos	2,284.4	2,220.8	63.6	2.86
Castile-La Mancha	**10,220.8**	**8,924.6**	**1,296.1**	**14.52**
Caja de Ahorros de Castilla-La Mancha	9,411.9	8,214.8	1,197.0	14.57
Caja de Ahorros Provincial de Guadalajara	808.9	709.8	99.1	13.96
Catalonia	**162,119.9**	**142,373.2**	**19,746.7**	**13.87**
Caja de Ahorros y Pensiones de Barcelona - ”la Caixa”	104,709.9	91,214.0	13,495.9	14.80
Caja de Ahorros de Cataluña	23,665.7	21,969.6	1,696.1	7.72
Caja de Ahorros del Penedés	8,998.0	7,501.5	1,496.5	19.95
Caja de Ahorros de Sabadell	5,439.6	4,576.5	863.2	18.86
Caja de Ahorros de Terrassa	4,742.4	4,289.9	452.5	10.55
Caja de Ahorros de Tarragona	3,942.2	3,595.6	346.7	9.64
Caja de Ahorros Laietana	3,741.3	3,064.2	677.2	22.10
Caja de Ahorros de Girona	3,221.6	2,915.5	306.1	10.50
Caja de Ahorros de Manresa	2,351.7	2,067.3	284.5	13.76
Caja de Ahorros Comarcal de Manlleu	1,307.2	1,179.1	128.1	10.87

Consolidated groups (2)	Balance		Change over December 2003	% change over December 2003
	September 30, 2004	December 31, 2003		
Valencian Community	**51,817.9**	**44,826.7**	**6,991.2**	**15.60**
Caja de Ahorros de Valencia, Castellón y Alicante - Bancaja	29,136.3	24,268.6	4,867.7	20.06
Caja de Ahorros del Mediterráneo - CAM	22,126.2	20,057.8	2,068.5	10.31
C. A. y M. P. de Ontinyent	555.4	500.4	55.0	11.00
Extremadura	**5,868.9**	**5,630.7**	**238.2**	**4.23**
C. A. y M. P. de Extremadura	3,700.8	3,433.6	267.2	7.78
M. P. y Caja General de Ahorros de Badajoz	2,168.1	2,197.1	–29.0	–1.32
Galicia	**29,240.3**	**26,832.0**	**2,408.3**	**8.98**
Caja de Ahorros de Galicia	16,993.1	15,643.0	1,350.1	8.63
Caixa de Aforros de Vigo, Ourense e Pontevedra - Caixanova	12,247.1	11,189.0	1,058.1	9.46
La Rioja				
Caja de Ahorros de La Rioja	**1,763.7**	**1,698.1**	**65.6**	**3.87**
Madrid Community				
C. A. y M. P. de Madrid	**64,890.1**	**60,831.3**	**4,058.7**	**6.67**
Murcia				
Caja de Ahorros de Murcia	**8,231.6**	**7,114.9**	**1,116.7**	**15.70**
Navarre				
C. A. y M. P. de Navarra	**7,704.9**	**7,252.3**	**452.7**	**6.24**
Basque Country	**26,479.3**	**25,316.3**	**1,163.0**	**4.59**
Bilbao Bizkaia Kutxa - BBK	12,807.9	12,571.3	236.6	1.88
C. A. y M. P. de Guipúzkoa y San Sebastián - Kutxa	9,214.8	8,686.4	528.3	6.08
Caja de Ahorros de Vitoria y Álava - Vital	4,456.6	4,058.6	398.0	9.81
Total Savings Bank Groups	**495,536.7**	**449,721.0**	**45,815.7**	**10.19**

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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