THE SPANISH ECONOMY:

# MONTHLY REPORT

JANUARY 2005

No. 276 Contents



## Prospects of gradual slowdown in 2005

OECD foresees growth lower than recorded in 2004. Page 6

## Federal Reserve raises interest rates for fifth time in six months

Meanwhile, European Central Bank cuts off speculation about possible drop in Eurosystem rates. Page 26

## Capital goods industry recovering

In 2003 and 2004 production and demand again on rise. Page 43

## Registered unemployment down for first time in three years

Slight rise seen only in services sector. Page 48

## Immigrant remittances go above 1% of GDP

Balance of payments understates real flow of funds send home by immigrants. Page 62

**SPECIAL REPORTS**

### Tax load stabilizes in developed countries

General government revenues represent average of 36.5% of GDP. Page 71

**Research Department**

"la Caixa"

# Forecast

% change over same period year-before unless otherwise noted

| | 2003 | 2004 | 2005 | 2004 1st Qtr. | 2004 2nd Qtr. | 2004 3rd Qtr. | 2004 4th Qtr. | 2005 1st Qtr. | 2005 2nd Qtr. |
|---|---|---|---|---|---|---|---|---|---|
| **INTERNATIONAL ECONOMY** | | Forecast | | | | | Forecast | | |
| **Gross domestic product** | | | | | | | | | |
| United States | 3.0 | 4.4 | 3.2 | 5.0 | 4.8 | 4.0 | 3.8 | 3.5 | 3.4 |
| Japan | 1.3 | 3.0 | 1.8 | 4.0 | 3.1 | 2.5 | 2.4 | 2.2 | 1.8 |
| United Kingdom | 2.2 | 3.1 | 2.5 | 3.0 | 3.5 | 3.1 | 2.8 | 2.9 | 2.5 |
| Euro area | 0.5 | 1.8 | 1.8 | 1.4 | 2.1 | 1.8 | 1.8 | 1.6 | 1.6 |
| *Germany* | *–0.1* | *1.3* | *1.3* | *0.8* | *1.4* | *1.3* | *1.9* | *1.5* | *1.3* |
| *France* | *0.6* | *2.2* | *1.9* | *1.8* | *2.9* | *2.0* | *2.0* | *1.8* | *1.7* |
| **Consumer prices** | | | | | | | | | |
| United States | 2.3 | 2.7 | 2.4 | 1.8 | 2.9 | 2.7 | 3.3 | 2.9 | 2.4 |
| Japan | –0.3 | 0.0 | 0.4 | –0.1 | –0.3 | –0.1 | 0.4 | 0.3 | 0.4 |
| United Kingdom | 2.8 | 2.2 | 2.3 | 2.3 | 2.2 | 2.1 | 2.2 | 2.1 | 2.0 |
| Euro area | 2.1 | 2.1 | 1.9 | 1.7 | 2.3 | 2.2 | 2.2 | 2.0 | 1.9 |
| *Germany* | *1.1* | *1.7* | *1.5* | *1.1* | *1.8* | *1.9* | *1.9* | *1.4* | *1.5* |
| *France* | *2.1* | *2.1* | *1.7* | *1.8* | *2.4* | *2.3* | *2.1* | *1.9* | *1.6* |
| **SPANISH ECONOMY** | | | | | | | | | |
| **Macroeconomic figures** | | | | | | | | | |
| Household consumption | 2.9 | 3.4 | 3.2 | 3.3 | 3.4 | 3.4 | 3.3 | 3.2 | 3.2 |
| Government consumption | 3.9 | 4.3 | 4.2 | 4.3 | 4.3 | 4.4 | 4.4 | 4.3 | 4.3 |
| Gross fixed capital formation | 3.2 | 4.6 | 4.8 | 2.7 | 4.1 | 5.9 | 5.6 | 5.4 | 5.0 |
| *Capital goods and other* | *1.7* | *4.9* | *5.7* | *0.8* | *3.9* | *7.6* | *7.1* | *6.7* | *6.0* |
| *Construction* | *4.3* | *4.4* | *4.1* | *4.3* | *4.2* | *4.5* | *4.4* | *4.3* | *4.2* |
| Domestic demand | 3.2 | 4.0 | 3.7 | 3.5 | 4.1 | 4.4 | 4.1 | 3.9 | 3.8 |
| Exports of goods and services | 2.6 | 4.4 | 4.8 | 5.5 | 3.5 | 4.2 | 4.5 | 4.9 | 5.0 |
| Imports of goods and services | 4.8 | 8.7 | 8.0 | 7.8 | 8.1 | 9.6 | 9.1 | 9.0 | 8.6 |
| **Gross domestic product** | **2.5** | **2.6** | **2.5** | **2.7** | **2.6** | **2.6** | **2.5** | **2.4** | **2.5** |
| **Other variables** | | | | | | | | | |
| Employment | 1.7 | 2.1 | 2.0 | 2.1 | 2.0 | 2.1 | 2.1 | 2.0 | 1.9 |
| Unemployment (% labour force) | 11.3 | 10.8 | 10.5 | 11.4 | 10.9 | 10.5 | 10.5 | 10.7 | 10.5 |
| Consumer price index | 3.0 | 3.0 | 2.9 | 2.2 | 3.2 | 3.3 | 3.5 | 3.2 | 2.9 |
| Unit labour costs | 3.5 | 3.3 | 3.1 | 3.4 | 3.3 | 3.2 | | | |
| Current account balance (% GDP) | –3.3 | –5.4 | –4.6 | –5.1 | –6.1 | –6.6 | | | |
| Net lending or net borrowing rest of the world (% GDP) | –2.1 | –4.2 | –3.4 | –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 | 3.0 | 1.0 | 1.0 | 1.4 | 1.9 | 2.4 | 2.8 |
| ECB repo | 2.3 | 2.0 | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| 10-year U.S. bonds | 4.0 | 4.3 | 4.8 | 4.0 | 4.6 | 4.3 | 4.2 | 4.5 | 4.8 |
| 10-year German bonds | 4.1 | 4.1 | 4.1 | 4.1 | 4.2 | 4.1 | 3.8 | 3.9 | 4.0 |
| 10-year Spanish bonds | 4.1 | 4.1 | 4.1 | 4.1 | 4.2 | 4.2 | 3.8 | 3.9 | 4.0 |
| **Exchange rate** | | | | | | | | | |
| $/Euro | 1.13 | 1.24 | 1.35 | 1.25 | 1.20 | 1.22 | 1.30 | 1.38 | 1.37 |

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

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

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

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

# THE SPANISH ECONOMY: MONTHLY REPORT
January 2005


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# ECONOMIC OUTLOOK FOR 2005

The world economy faces the year 2005 which will be less brilliant in terms of growth than 2004 but **with generally favourable prospects**. The United States will go from growth of close of 4.5% in 2004 to somewhat more than 3% thanks to the strength of corporate investment and still robust private consumption helped along by a gradual recovery in employment. The main concern lies in control of the trade deficit and the public sector deficit while inflationary pressures seem to be staying afar off. Japan will show weak growth (below 2%) based more on investment aimed at exports than on domestic consumption. The positive factor will be overcoming the deflationary stage which, together with maintenance of employment and some strength in the services sector should shore up domestic demand.

Nor will the euro area **reach 2% in 2005**, just as happened in 2004. The reason for this poor result is to be found in the delicate situation of two of the large euro area economies, Germany and Italy. Both countries are facing stagnation in domestic demand and weakness in the foreign sector, combined outcome of the appreciation of the euro and a less dynamic world economic environment, so that GDP growth is not expected to go above 1.5% in both countries in 2005. In view of the slack state of domestic demand, consumer prices are showing no appreciable pressures and will likely hold below 2% on average in 2005.

In this context, in the **United States** the Fed **will continue to raise its reference rate** during the course of 2005 going from a very easy monetary policy to one of a neutral nature. In turn, the European Central Bank will maintain its reference rates at current levels over coming months in view of the weak situation in economic activity and the containment of inflationary pressures.

With regard to Spain's economy, it is **expected that in 2005 there will be some easing off in the high growth of domestic demand**. Private consumption will drop slightly given that the rise in employment and easy money conditions and good financing terms will be faced with a slowing down in the growth rate of wages and household incomes which has already been reflected in the impact of the high inflation rate in the final months of 2004. Construction, however, will likely hold strong although we can expect a slight drop in growth rate in the second half of the year. Capital goods investment will also show an easing off from the high levels of current growth in the face of a weaker advance in final demand.

On the other hand, it is expected that the foreign sector will show some moderation in the trade deficit, given the drop in domestic demand and in spite of the fact that no progress is expected in traditional export markets, particularly in the European Union. To sum up, it is expected that the gross domestic product will grow around 2.5%, a rate similar to that recorded in 2004. On the other hand, **there could indeed be some improvement in the inflation rate** with a gradual drop putting it at a few decimals below 3% by mid-2005, so long as the decrease in oil prices becomes consolidated.

December 27, 2004

## 2004 ends with growth moving down

***2004 ends on note of economic slowdown…***

The world economy ended 2004 on a note of moderate slowdown following a first half-year much more brilliant than expected. In the first quarter, the United States recorded its highest growth in practically 20 years (5.0% year-to-year) to later move into a stage of lower economic activity which put the increase in the gross domestic product (GDP) at 4.0% in the third quarter. A similar pattern is being followed by Japan which showed its highest level since 1996 in the first three months of 2004 (4.0% year-to-year) only to later drop to 2.5% in the third quarter. The euro area also started out on a good footing although at a much slower rate so that second quarter growth came close to 2%, going down to 1.8% in the third quarter.

***…partly due to rise in oil prices which ease somewhat in November and December.***

This profile of decrease came partly from the impact of high oil prices which went from 30 dollars a barrel at the end of last year to a high of 51.5 dollars (one-month forward price for Brent quality) on October 25. From that time on, the price moderated slightly with a drop in the price of black gold of 10 dollars a barrel. Average growth in 2004 stood at 34%.

***In 2004 euro area suffers combined effect of halting foreign sector and domestic demand failing to recover.***

The problem, however, not only lies in the high price of energy. In the euro area, the appreciation of the single currency eased the rise in oil prices but at the same time threatened to undermine the only source of growth, that is to say, the foreign sector. On the other hand, private consumption remained flat throughout the year and in the second half-year it became evident that household spending indicators were scarcely showing any signs of life while the foreign sector had rapidly grown worse. This meant a poor economic balance in a year involving enlargement of the European Union to 25 member states and the signing of the Treaty establishing a constitution for Europe.

***Japan's private consumption, on other hand, joins exports in lifting Japan out of recession.***

The case of Japan is quite different. At a moment when confidence in Japan's economic prospects stood at low levels the strength of the recovery in 2004 came as a surprise. It was expected that the foreign sector would benefit from the increase in exports to burgeoning China, as has happened, but there were very few who believed that private consumption would go from a slight drop in the third quarter of 2003 (at year-to-year rate) to growth of around 2% one year later. Stabilization of price levels following five years of deflation represents further confirmation of the positive change in the economic situation recorded in 2004.

***Consumption in United States holds at high levels while investment continues to gain ground.***

The United States, in turn, has continued with the positive drive from an expansionist economic policy whose effects are still evident and show up in a rate of private consumption with growth well above 3% year-to-year since the Spring of 2003. Available figures indicate that up to the middle of the fourth quarter household consumption has remained notably strong. Added to the substantial recovery of investment this trend is providing significant strength to growth in the United States. To date, the high rate of economic activity has not brought about pressure on prices, apart from the understandable contribution from the energy component, as reflected in the stability of underlying inflation (excluding energy and food) at levels of the order of 2% year-to-year.

***Fed raises reference rate by quarter-point putting it above ECB rate for first time since 2001.***

In this situation of economic strength, the Federal Reserve Board feels that the excessive easiness in monetary policy should be progressively reduced so that, on December 14, it carried out a further increase in its reference rate by a quarter point. This increase represents the fifth rise since June 2004 putting the overnight reference rate for Federal Funds at 2.25%, thus exceeding the equivalent rate of the European Central Bank (2.00%) for the first time since April 2001.

***Interest rate curves flatten out on both sides of Atlantic.***

The performance of short-term official interest rates has not had any effect on long-term interest rates which have remained at quite contained levels. Following some swings, the yield on US 10-year Treasury bonds has tended to drop going to 4.20% at the end of December, a level lower than at the beginning of 2004, so that the interest rate curve has flattened out to a notable degree. The interest rate curve in the euro area has followed the same course given that, in spite of the fact that official interest rates have not changed, the downward path followed by government bond rates has been sharper as a result of the prospects of low economic growth. In the last week of December, the yield on German 10-year government bonds stood below 3.60%, the lowest since the middle of 2003.

***Euro reaches new all-time highs against dollar in December.***

In foreign exchange markets the weakness of the dollar against the euro again showed up following a certain spell with the result that the single currency was marking up all-time highs in the final days of December going as high as 1.36 dollars. The weakness of the greenback has affected other currencies, including the pound sterling, which at the end of December stood at its highest level against the dollar since 1992. In addition, the Japanese yen on December 3 recorded its highest level against the US currency since 2000.

***In response to favourable economic situation, stock markets end year showing notable gains.***

The stock markets have capitalized on the recent economic situation and the trend in interest rates in favourable terms. The good rate of economic activity, which is making possible substantial recovery of corporate profits, and the low level of interest rates on government bonds mentioned earlier meant a brilliant end to the year. At the end of December, US share markets recorded gains over the beginning of the year, which ran from 2% for the Dow Jones Industrials index to 7% for the Nasdaq index. In Tokyo, the advance in the general index was 4%. The increases in European markets were higher with London, Frankfurt and Paris showing cumulative capital gains of the order of 6% compared with the beginning of the year and Milan and Madrid reporting above 15%.

## Spain's economy: notable strength in domestic demand

***In Spain, consumption and investment holding expansionist note, whereas foreign sector continues to subtract from growth.***

The final stretch of 2004 confirmed the good state to be seen in domestic demand thanks to the strength of consumption and investment. Indicators for private consumption point to a sharp drive in that area although the growth rate would seem to have reached something of a ceiling. Investment in capital goods, in turn, is maintaining the drive shown all through 2004. The only appreciable brake on growth continues to come from the foreign sector. As a result of import demand and also the poorer performance in exports, between January and September the trade deficit increased to 44 billion euros, 30% higher than the figure recorded in the same period in 2003.

***Construction continues very strong in contrast to tourism, which records a poor season, and industry.***

With regard to trends by sector, economic growth was strongly reflected in construction, which maintained a very firm drive in the final stages of 2004, and in services, in spite of a recent slowdown. The exception in the tertiary sector was tourism which likely will end the year with an improvement in the domestic market insufficient to redress a mediocre year which was very much penalized by a rather unsatisfactory summer season. Industry, in turn, lost strength in the second half of the year and was unable to consolidate the ephemeral recovery recorded between the beginning of 2004 and the summer months.

***Lower contribution from fuels makes for minimal decrease in inflation to 3.5% in November.***

Nor was the recent trend in inflation very positive. While the consumer price index dropped by one decimal in November going to 3.5% year-to-year, mainly thanks to containment in fuels, the fact is that the more stable core, which does not include fresh food or energy, remained stuck at 2.9%. Both measurements, the general index and underlying inflation, stand approximately one percentage point above their inflation equivalents in the euro area, with the result that this represents a handicap in terms of competitiveness.

***Positive labour balance in 2004 with first annual drop in registered unemployment in past four years.***

The labour market reports fewer changes. The increase in registered unemployment in November was not excessively different from the norm for this period of the year so that the balance for 2004 should turn out positive. Between January and November, unemployment dropped by 28,765 persons in contrast to the increases recorded in the previous three years. Growth of employment, in turn, would appear to be moderating slightly, if we are to go by the slowdown in registrations with Social Security as of November.

***Official forecasts foresee growth of order of 3% up until 2008.***

So far as the future is concerned, the economic authorities are expecting a continuation of previous trends. The updated Stability Programme, which involves a medium-term scenario (2004-2008), foresees notable economic growth of 2.6% in 2004 and growth of the order of 3% between 2005 and 2008. A lower draining off by the foreign sector and continued growth of domestic demand, basically thanks to the drive in investment and maintenance of consumption, will make it possible to reach this notable growth rate. In this context, the central government budget will stand at a position of surplus in the period 2005-2008.

## 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).* |
| **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.*** |
| **December** | **14** | ***Federal Reserve Board*** *raises reference rate for fifth time in year, up a quarter percentage point to 2.25%.* |
| | **23** | *Dow Jones index for* ***New York stock exchange*** *records annual high (10,827.1), rise of 3.6% compared with end of 2003.* |
| | | *IBEX 35 index for* ***Spanish stock exchange*** *marks up annual high (9,054.2), cumulative gain of 17.0% over end of December 2003.* |
| | **24** | ***Euro*** *runs at 1.354 dollars, highest figure since launching of single currency at beginning of 1999.* |

## AGENDA

**January**

**10** *Industrial production index (November).*

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

**14** *Consumer price index (December).*

**21** *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).*

**February**

**1-2** *Meeting of Open Market Committee of Federal Reserve Board.*

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

**4** *Industrial production index (December).*

**15** *Quarterly National Accounts (preliminary 4th Quarter).*

**16** *Consumer price index (January).*

**23** *Quarterly National Accounts (4th Quarter).*

**25** *Producer price index (January).*

**27** *Harmonized consumer price index for European Union (January).*

**28** *Early HCPI index (February).*

## Prospects of gradual slowdown in 2005

***OECD reduces growth forecast for 2005 from 3.3% to 2.9%...***

***...but foresees rise to 3.1% in 2006.***

The Organization for Economic Cooperation and Development (OECD) has reduced its growth forecast for 2005 from 3.3% to 2.9%, although it still expects a continuation of the present expansionist cycle with a very slight increase to 3.1% in 2006. The increase in oil prices has reduced confidence among economic operators over the short term and this has been reflected in growth. Nevertheless, the price of oil is now overvalued and the tendency should be toward moderation, although perhaps not going to levels applying before 2004. If there are no more increases growth should recover in 2005 with something of an increase in 2006, although this will not be spread evenly. China and North America will continue to be the most dynamic areas.

***United States will grow by 3.3% in 2005 while domestic demand will continue to support growth in 2006.***

Growth in the United States faltered in the second quarter but recovered strength in the third quarter. Good corporate profits will continue to foster investment and the labour market will continue to recover with increasingly strong growth in labour. This should provide support to perishable goods consumption which are affected by oil prices. As a result, the US economy could even reach growth of 3.3% in 2005, which is below previous forecasts, and 3.6% in 2006.

***Overcapacity and slack consumption slow down recovery in Europe.***

In contrast to the United States, recovery in Europe is finding no solid ground. While the first part of 2004 brought surprising growth, as of the second quarter, production capacity not utilized and weak job creation were reflected in the weakness of private consumption, although it is true that France and Spain are maintaining a more vigorous course than Germany and Italy. Growth of 1.9% is expected in 2005 with some increase in 2006 to 2.5%.

***Japan's recovery losing strength while China to continue growth of 8% in 2005.***

Growth in Japan has slackened because of weak investment and loss of strength in exports to China. Nevertheless, consumption, helped by job creation, has managed to maintain an expansionist trend so that growth in 2005 will go to 2.1% with an increase to 2.3% in 2006. In China, measures aimed at cooling off the economy have decreased investment. In any case, growth in 2005 will continue at 8.0% while in 2006 it could rise to 8.5%.

## OECD: ECONOMIC OUTLOOK (1)

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **GDP** (2) | | | | | |
| United States | 1.9 | 3.0 | 4.4 | 3.3 | 3.6 |
| Japan | –0.3 | 2.5 | 4.0 | 2.1 | 2.3 |
| Germany | 0.1 | –0.1 | 1.2 | 1.4 | 2.3 |
| France | 1.1 | 0.5 | 2.1 | 2.0 | 2.3 |
| Italy | 0.4 | 0.4 | 1.3 | 1.7 | 2.1 |
| United Kingdom | 1.8 | 2.2 | 3.2 | 2.6 | 2.4 |
| Spain | 2.2 | 2.5 | 2.6 | 2.7 | 3.0 |
| **Euro area** | **0.9** | **0.6** | **1.8** | **1.9** | **2.5** |
| **OECD** | **1.6** | **2.2** | **3.6** | **2.9** | **3.1** |
| **Inflation** (3) | | | | | |
| United States | 1.7 | 1.8 | 2.0 | 1.8 | 1.7 |
| Japan | –1.2 | –2.5 | –2.3 | –1.3 | –0.3 |
| Germany | 1.5 | 1.1 | 0.9 | 0.8 | 0.9 |
| France | 2.4 | 1.4 | 1.9 | 1.8 | 1.7 |
| Italy | 3.1 | 2.9 | 2.8 | 2.1 | 2.0 |
| United Kingdom | 3.2 | 3.0 | 2.1 | 2.2 | 2.3 |
| Spain | 4.5 | 4.0 | 3.1 | 3.6 | 3.6 |
| **Euro area** | **2.5** | **2.0** | **1.9** | **1.7** | **1.8** |
| **OECD** | **2.6** | **2.0** | **1.8** | **1.7** | **1.7** |
| **Unemployment** (4) | | | | | |
| United States | 5.8 | 6.0 | 5.5 | 5.3 | 5.1 |
| Japan | 5.4 | 5.3 | 4.8 | 4.5 | 4.2 |
| Germany | 8.2 | 9.1 | 9.2 | 9.3 | 8.9 |
| France | 9.0 | 9.7 | 9.8 | 9.7 | 9.2 |
| Italy | 9.1 | 8.8 | 8.1 | 7.5 | 7.3 |
| United Kingdom | 5.2 | 5.0 | 4.7 | 4.7 | 5.0 |
| Spain | 11.4 | 11.3 | 10.9 | 10.7 | 10.4 |
| **Euro area** | **8.4** | **8.8** | **8.8** | **8.6** | **8.3** |
| **OECD** | **6.7** | **6.9** | **6.6** | **6.5** | **6.3** |
| **Current account balance** (5) | | | | | |
| United States | –4.5 | –4.8 | –5.7 | –6.2 | –6.4 |
| Japan | 2.8 | 3.1 | 3.5 | 3.5 | 3.7 |
| Germany | 2.1 | 2.3 | 3.3 | 3.9 | 4.7 |
| France | 1.0 | 0.4 | 0.2 | 0.2 | 0.6 |
| Italy | –0.8 | –1.4 | –0.5 | –1.6 | –1.9 |
| United Kingdom | –1.7 | –1.9 | –2.2 | –2.4 | –2.2 |
| Spain | –2.4 | –2.8 | –4.2 | –4.7 | –4.8 |
| **Euro area** | **0.7** | **0.4** | **0.7** | **0.6** | **0.9** |
| **OECD** | **–1.2** | **–1.1** | **–1.2** | **–1.4** | **–1.3** |
| **World trade** (6) | **–0.2** | **5.1** | **9.5** | **9.0** | **9.5** |

NOTES: (1) Starting hypothesis: a) Fiscal policies in force or announced remain unchanged. b) Exchange rates do not change compared with level on November 5, 2004 (1 dollar = 105.7 yen = 0.771 euros). c) Date of going to press and final inclusion of figures was November 18, 2004.
(2) All percentage change rates in real terms.
(3) Percentage change rates in GDP deflator.
(4) As percentage of labour force.
(5) As percentage of GDP.
(6) Arithmetical average of percentage annual growth rates of world imports and exports by volume.
SOURCE: Organization for Economic Cooperation and Development.

## OECD: FINANCIAL OUTLOOK (1)

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **Government deficit (–) or surplus (+)** (2) | | | | | |
| United States | –3.8 | –4.6 | –4.4 | –4.1 | –4.2 |
| Japan | –7.9 | –7.7 | –6.5 | –6.4 | –6.3 |
| Germany | –3.7 | –3.8 | –3.9 | –3.5 | –2.7 |
| France | –3.3 | –4.1 | –3.7 | –3.1 | –2.9 |
| Italy | –2.4 | –2.5 | –2.9 | –3.1 | –3.6 |
| United Kingdom | –1.7 | –3.5 | –3.2 | –3.2 | –3.3 |
| Spain | –0.1 | 0.4 | –1.1 | –0.1 | –0.1 |
| **Euro area** | **–2.4** | **–2.8** | **–2.9** | **–2.6** | **–2.4** |
| **OECD** | **–3.2** | **–3.7** | **–3.5** | **–3.2** | **–3.2** |
| **Short-term interest rates** (3) | | | | | |
| United States | 1.8 | 1.2 | 1.5 | 2.8 | 3.8 |
| Japan | 0.1 | 0.0 | 0.0 | 0.0 | 0.4 |
| United Kingdom | 4.0 | 3.7 | 4.6 | 5.5 | 5.8 |
| **Euro area** | **3.3** | **2.3** | **2.1** | **2.1** | **2.7** |
| **Long-term interest rates** (4) | | | | | |
| United States | 4.6 | 4.0 | 4.3 | 4.7 | 5.3 |
| Japan | 1.3 | 1.1 | 1.5 | 1.8 | 2.5 |
| Germany | 4.8 | 4.1 | 4.1 | 4.0 | 4.3 |
| France | 4.9 | 4.1 | 4.1 | 4.1 | 4.3 |
| Italy | 5.0 | 4.3 | 4.3 | 4.2 | 4.4 |
| United Kingdom | 4.9 | 4.4 | 5.0 | 5.2 | 5.2 |
| Spain | 5.0 | 4.1 | 4.1 | 4.1 | 4.3 |
| **Euro area** | **4.9** | **4.1** | **4.1** | **4.1** | **4.3** |

NOTES: (1) Starting hypothesis: a) Fiscal policies in force or announced remain unchanged. b) Exchange rates do not change compared with level on November 5, 2004 (1 dollar = 105.7 yen = 0.771 euros). c) Date of going to press and final inclusion of figures was November 18, 2004.
(2) As percentage of GDP.
(3) 3-month interest rates on national money markets.
(4) Government bond interest rates on most representative issues in each country.
SOURCE: Organization for Economic Cooperation and Development.

## United States continues gradual slowdown

***United States revises growth in third quarter to 4.0%.***

The United States revised slightly upward figures for gross domestic product (GDP) in the third quarter. In that period, the economy grew by 4.0% at year-to-year rate as against 3.9% previously estimated. Among the most recent demand indicators we should point out retail sales which, in November, grew by 7.2% year-to-year while continuing to slightly decrease growth very much in line with the economy as a whole. Industrial production of consumer goods ran along the same line with growth of 2.6% year-to-year while the rise in October was an exception to the trend in recent months. Car sales in November, again showing their more volatile nature, dropped by 7.2% compared with the same period the year before confirming the clearly downward trend begun in August. Industrial production of capital goods grew by 10.0% year-to-year in November and, while holding to the vigorous trend seen in recent months, show some loss of strength compared with October.

### UNITED STATES: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

| | 2002 | 2003 | 2004 | | | | |
|---|---|---|---|---|---|---|---|
| | | | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | October | November |
| GDP | 1.9 | 3.0 | 5.0 | 4.8 | 4.0 | – | ... |
| Retail sales | 2.5 | 5.3 | 7.8 | 7.8 | 6.5 | 8.5 | 7.2 |
| Consumer confidence (*) | 96.6 | 79.8 | 91.6 | 96.3 | 100.4 | 92.9 | 90.5 |
| Industrial production | –0.6 | 0.3 | 2.9 | 5.2 | 5.1 | 4.9 | 4.2 |
| Sales of single-family homes | 7.6 | 11.6 | 22.2 | 9.2 | –0.3 | 7.4 | ... |
| Industrial activity index (ISM) (*) | 52.4 | 53.3 | 62.5 | 62.1 | 59.8 | 56.8 | 57.8 |
| Unemployment rate (**) | 5.8 | 6.0 | 5.6 | 5.6 | 5.4 | 5.5 | 5.4 |
| Consumer prices | 1.6 | 2.3 | 1.8 | 2.8 | 2.7 | 3.2 | 3.6 |
| Trade balance (***) | –39.0 | –44.4 | –45.4 | –47.8 | –50.5 | –51.6 | ... |

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

***Consumer confidence continues to weaken.***

The consumer confidence index for November continued a downward course going to 90.5, close to levels for March 2004 and far from the high of 105.7 in July. In this case, the component of the current situation stabilized at the 95.2 level, thus showing a slight improvement, whereas the prospects component dropped to 87.4.

***Industrial production eases growth to 4.2%...***

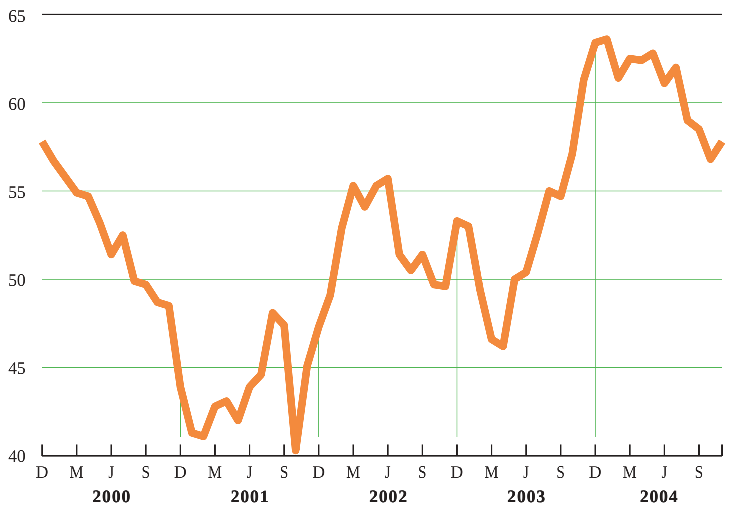
Among supply indicators, industrial production grew by 4.2% year-to-year in November thus losing some of the drive seen in October when growth was 4.9%. Keeping in mind the small downward revisions of figures for previous months, the stable growth which had been operative began to acquire some signs of slowdown although the general tone is still one of strength.

***…while manufacturing sector remains optimistic and new order prospects increase.***

In keeping with this strength the indicator for manufacturing activity published by the Institute of Supply Management (ISM) for November rose by 1 point to 57.8, thus for the moment breaking the decrease noted since July. The production component was the only one to show any relative weakness dropping from 58.9 to 57.0. The key component of new orders moved up more strongly with a rise of 3 points to 61.5 which was above the average levels in the summer.

US CORPORATE SECTOR MAINTAINING CONFIDENCE

Value of ISM corporate activity index




SOURCE: Institute of Supply Management.

***Construction sector continues moving down.***

In the construction sector, which showed the biggest slowdown in the third quarter, was not outside the generally downward trend. Existing house sales were up by 5.6% which, although this meant an increase in the growth rate with regard to the previous month thanks to a base effect, did not change the downward trend. Neither did the upward revision of the drop in October relating to building permits which went down from 10.1% to 8.2% year-to-year.

***Labour market still recovering.***

The labour market continues to show gradual recovery. Some 112,000 jobs were created in November while increases for previous months were revised slightly downward. As a result, November turned out to be a worse month than October. Nevertheless, the nature of these figures, especially the margins of error, means that the trend is the variable to take into consideration and this is still upward. The most negative note in employment in November continued to be in the manufacturing sector which lost 5,000 jobs.

***Inflation goes up to 3.6% while component excluding energy and food stands at 2.2%.***

In the area of prices, the consumer price index grew by 3.6% in November, a slight increase over 3.2% in October. The component of prices, excluding energy and food, was up by 2.2% practically repeating the previous 2.0%. The month-to-month increases moved both figures up by 0.2% as against the previous 0.6% and 0.2%. Interpretation of this figure, after discounting base effects, would be a stabilization of current levels.

***Trade deficit exceeds 58 billion dollars in October.***

The foreign sector has continued to worsen. The trade deficit in October was 58.4 billion dollars, another record which wiped out the slight improvement in September. In the last 12 months ending October, the deficit reached 619.36 billion dollars, 16.5% higher than in the same period the year before. In terms of volume the drop in exports compared with imports may be hitting bottom. Imports by volume in September grew

UNITED STATES STILL NOT CREATING MANUFACTURING JOBS

Monthly change in manufacturing employment


SOURCE: Department of Commerce.

by 5.0% year-to-year while exports were up by 6.4%, whereas the average increase in the first half of 2004 was 11.5% year-to-year for imports and 9.8% for exports.

## Japan's economy revises growth downward

***Growth of Japan's GDP revised downward.***

Growth of Japan's economy in the third quarter has been revised downward, putting it at 2.5% year-to-year in place of the 3.8% previously published. The first quarter was also revised downward from 5.1% to 4.0% while the second quarter went from 4.3% to 3.1%. Growth for 2003 as a whole changed from 2.5% to 1.3%.

***Private consumption slackens with growth of 2.1%.***

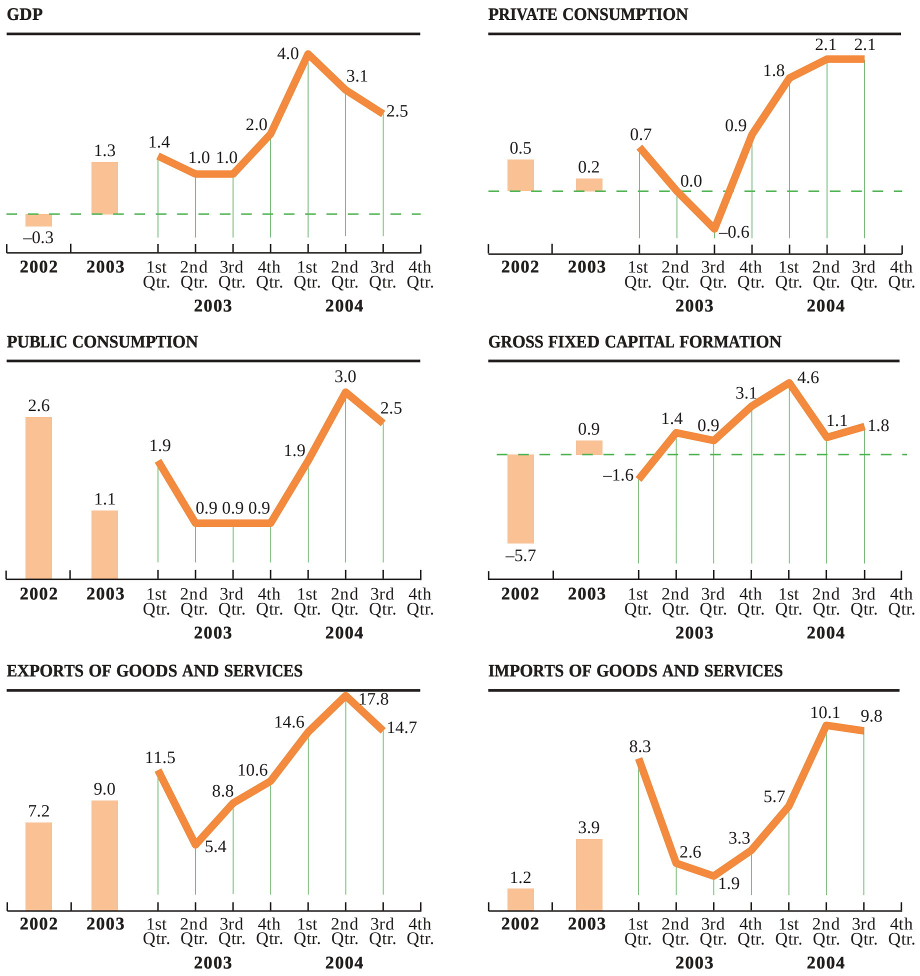
This revision also implies a change in the nature of growth in Japan. In the former estimates, private consumption continued to show up as the base of the upward cycle which constituted a definitely positive element. The latest revision has changed this evaluation and it is now investment in the exporting industries which forms the basis of growth and this in itself is much less vigorous. Private consumption moved up by 2.1% as against the 3.9% previously announced. With this revision the trend stopped being upward given that the growth for the second quarter was repeated and, as opposed to the previous figures, growth was 0.9% quarter-to-quarter annualized, a drop compared with 1.1% in the second quarter.

***End to weakness in investment.***

Investment moved up by 1.8% in the third quarter. While lower than the 2.7% previously announced, this now shows an upward trend whereas before it presented a slowdown. In quarter-to-quarter terms annualized, investment moved up by 1.5% as against a decrease of 4.3% in the second quarter, thus constituting a notable improvement in this component compared with figures prior to the revision.

TREND IN JAPAN’S GDP BY COMPONENT

Percentage year-to-year change




SOURCE: Institute of Economic and Social Research and internal figures.

***Foreign sector improves as result of revision but contribution is negative because of loss of export strength.***

The foreign sector, which is vital to the Japanese economy, improved with the latest figures. Exports grew by 14.7% year-to-year while imports were up by 9.8% year-to-year. Nevertheless, the foreign sector made a negative contribution to growth of the economy (0.4% quarter-to-quarter annualized) in contrast to previous quarters although before the revision the negative contribution was 0.8%.

***Car sales recovering.***

Among monthly indicators, retail sales decreased by 0.9% year-to-year in October. Car sales recovered in November with growth of 18.2%. Housing reduced the positive trends seen in October. Sales in Tokyo in November were down by 5.4% year-to-year, average prices moved up by 1.1% and housing starts grew by 1.4% year-to-year in October as against 10.3% in September.

## JAPAN: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

| | 2002 | 2003 | 2004 | | | | |
|---|---|---|---|---|---|---|---|
| | | | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | October | November |
| GDP | –0.3 | 1.3 | 4.0 | 3.1 | 2.5 | – | ... |
| Retail sales | –3.9 | –1.9 | 0.2 | –1.9 | –0.3 | –0.9 | ... |
| Industrial production | –1.3 | 3.3 | 5.0 | 8.3 | 6.5 | 1.6 | ... |
| Tankan company index (*) | –32.8 | –21.0 | –5.0 | 0.0 | 2.0 | – | 1.0 |
| Housing construction | –1.8 | 0.6 | 5.3 | –3.6 | 9.4 | 1.4 | ... |
| Unemployment rate (**) | 5.4 | 5.3 | 4.9 | 4.6 | 4.8 | 4.7 | ... |
| Consumer prices | –0.9 | –0.3 | –0.1 | –0.3 | –0.1 | 0.5 | ... |
| Trade balance (***) | 11.8 | 12.4 | 13.2 | 14.2 | 14.7 | 14.5 | ... |

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

***Industrial production and machinery orders lose strength but corporate confidence maintained.***

Industrial production in October grew by 1.6% year-to-year continuing the sharp decrease since August. Machinery orders in October were down by 3.0% year-to-year continuing along the lines shown in September in contrast to the drive in previous months. The Tankan index for the fourth quarter was 1.0, which meant something of a drop from the previous 2.0 although holding to the positive side which would imply a continuation of confidence on the part of the corporate sector.

***Unemployment in October at 4.7% while employment in services growing.***

In the labour market, the unemployment rate for the labour force was 4.7% in October. Manufacturing jobs were down by 2.1% year-to-year while jobs in services grew by 4.6%. Productivity lost strength moving up by 1.0% year-to-year.

***Japan ends long deflation period.***

Consumer prices grew by 0.5% year-to-year in October, which provides the best news about Japan's economy as it means the end of a long period of continuing price decreases which lasted from the beginning of 1999. The trade balance for the 12 months ending in October showed a surplus of 14,500 billion yen.

## Latin America records biggest growth of decade in 2004

***CEPAL expecting growth of 5.5% for 2004 with 4% in 2005.***

The Economic Commission for Latin America and the Caribbean (CEPAL) is expecting robust growth of 5.5% for the region of Latin America and the Caribbean as a whole in 2004. This expansionist cycle should continue throughout 2005 when growth of 4.0% is expected. The continuation of growth should put the per capita GDP at 8.0% above the average for the Nineties. By region, it is expected that Latin America will grow by 5.5% in 2004 while growth in the Caribbean will be 4.3%.

GDP GROWTH FORECASTS FOR LATIN AMERICA AND CARIBBEAN

Annual change as percentage

| | 2001 | 2002 | 2003 | 2004 (*) | 2005 (**) |
|---|---|---|---|---|---|
| Argentina | –4.4 | –10.8 | 8.7 | 8.2 | 5.0 |
| Brazil | 1.3 | 1.5 | 0.6 | 5.2 | 4.0 |
| Chile | 3.5 | 2.0 | 3.3 | 5.8 | 6.0 |
| Colombia | 1.4 | 2.7 | 4.1 | 3.3 | 3.0 |
| Cuba | 3.0 | 1.2 | 2.5 | 3.0 | 4.0 |
| Haiti | –0.6 | –0.3 | 0.5 | –3.0 | 2.0 |
| Mexico | –0.3 | 0.7 | 1.2 | 4.1 | 3.6 |
| Uruguay | –3.6 | –12.7 | 3.0 | 12.0 | 6.0 |
| Venezuela | 3.4 | –8.9 | –9.7 | 18.0 | 5.0 |
| **Latin America** | **0.4** | **–0.6** | **1.9** | **5.5** | **4.0** |
| **Caribbean** | **2.3** | **1.8** | **3.4** | **4.3** | **4.0** |
| **Latin America and Caribbean** | **0.4** | **–0.5** | **1.9** | **5.5** | **4.0** |

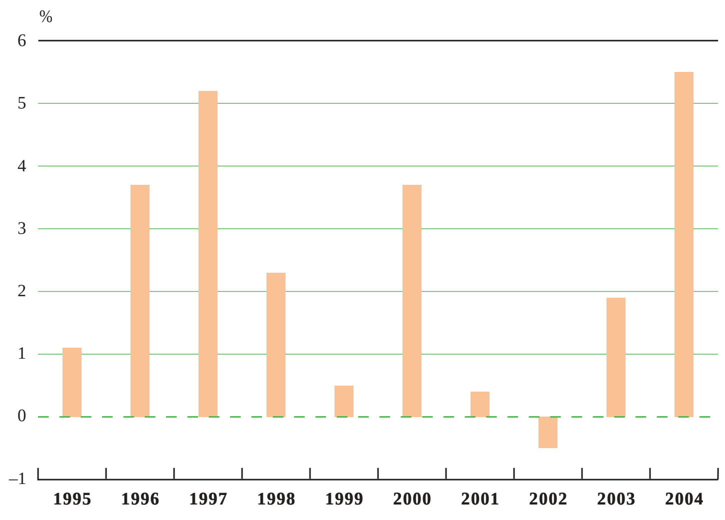
NOTES: (*) Preliminary figures from CEPAL for December 2004.
(**) CEPAL projections as of December 2004.
SOURCE: Economic Commission for Latin America and the Caribbean.

***Argentina grows by 8% in 2004 with Brazil up 5% and Mexico 4%.***

The countries for which increased growth in 2004 is foreseen are Argentina, Uruguay and Venezuela. In Argentina growth is expected to be 8.2% with the result that cumulative growth since the low in 2002 will go above 17.0%. Uruguay will grow by 12.0% and Venezuela by 18.0%, although in the latter case the GDP will stand below the level seen in 2001. Among the large countries in the region, Mexico expects to grow by 4.1%, the best rate since 2000. Brazil, in turn, foresees growth of 5.2% which would mean its best result since 1994. One medium-sized country with a favourable balance is Chile where growth of 5.8% is expected, a figure twice the increase seen in 2003. Only Haiti shows a negative result. In this context, it is important to point out that for the second time in twenty years the six largest economies in the region grew by more than 3%.

LATIN AMERICA SHOWING ROBUST GROWTH

Year-to-year change in gross domestic product



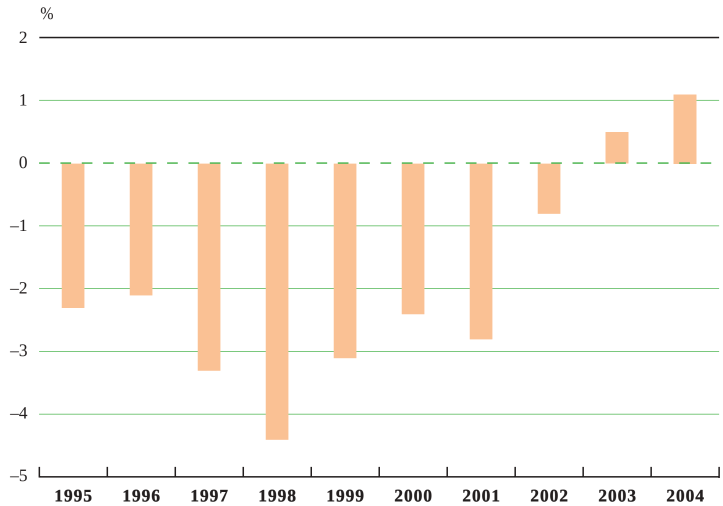

NOTES: Figures for 2004 are forecasts.
SOURCE: Economic Commission for Latin America and the Caribbean based on official figures.

***For second consecutive year growth coincides with current account surplus.***

The combination of a positive figure in the current account balance in the balance of payments with a situation of growth for the second consecutive year is a key factor in the present situation. In addition, this is something unusual in the history of the region where a scarcely competitive foreign sector usually underwent an increase in imports whenever domestic demand was growing. On this occasion the improvement was due to an increase in exports which in 2004 grew by 22.4% compared with 2003. Imports, in turn, were up by 19.4%. As a result, since 2001 the current account balance has gone from a deficit of 2.8% of the GDP to a surplus of 1.1%, which means an improvement of nearly 4 percentage points of the GDP. Good examples of this improvement are to be seen in Brazil, Argentina and Chile. Another significant factor is the fact that growth coincides with a period of negative net change in capital inflows of the order of 40 billion dollars compared with 2003 which curiously coincides with a decrease in sovereign risk premiums.

CURRENT ACCOUNT BALANCE IMPROVING

Percentage of gross domestic product




NOTES: Figures for 2004 are forecasts.
SOURCE: Economic Commission for Latin American and the Caribbean based on official figures.

***Currency depreciation in 2002 and 2003 aiding competitiveness without creating price pressures.***

Among the factors responsible for this growth is the depreciation of currencies carried out between 2001 and 2003, which raised the competitiveness of exports from the region. This process was more evident in South America and less so in Central America and Mexico. In addition, the macroeconomic stabilization policies which had been carried out in previous years and remain current were able to avoid that those currency devaluations provoked inflationary pressures. As a result, in spite of depreciation, the inflation rate in the region dropped from 12.2% in 2002 to 8.5% in 2003 and is expected to be 7.7% in 2004.

***Favourable foreign situation also helps in 2004.***

A second factor aiding growth in the region was the favourable foreign situation with China and the United States showing robust growth and with rising prices for raw materials and relative prices of marketable products from the region. A third factor was the flexible monetary policy of the central banks which, combined with the high level of savings in the public sector, reduced interest rates and maintained nominal exchange rates. In this respect, the primary surplus (the difference between revenue and spending without taking interest payments on the public debt into account) as an average for the region stood at 2.0% of the GDP, the best figure since 1990. The overall government deficit, more difficult to remedy as it includes interest on debt already contracted, in turn went from 1.2% of the GDP to 1.0%.

### MAIN INDICATORS FOR LATIN AMERICA AND THE CARIBBEAN

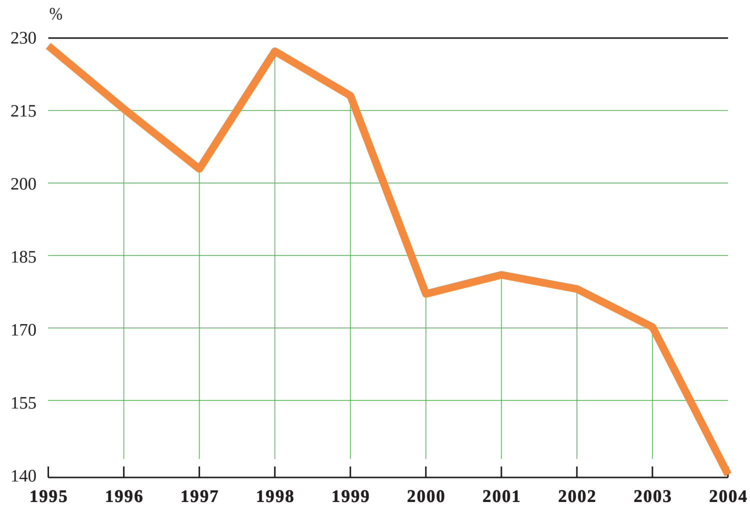
Annual change in percentage unless otherwise indicated

| | 2000 | 2001 | 2002 | 2003 | 2004 (*) |
|---|---|---|---|---|---|
| **Per capita GDP** | | | | | |
| Argentina | –1.9 | –5.4 | –11.7 | 7.7 | 7.2 |
| Brazil | 2.3 | –0.2 | 0.1 | –0.9 | 3.7 |
| Chile | 3.2 | 2.3 | 0.9 | 2.2 | 4.7 |
| Colombia | 0.6 | –0.4 | 0.9 | 2.4 | 1.6 |
| Mexico | 5.1 | –1.8 | –0.7 | –0.2 | 2.7 |
| Uruguay | –2.6 | –4.3 | –13.3 | 2.3 | 11.2 |
| Venezuela | 1.9 | 1.5 | –10.5 | –11.3 | 16.0 |
| **Latin America and the Caribbean** | **4.1** | **1.6** | **1.1** | **2.7** | **3.6** |
| **Consumer prices** (**) | | | | | |
| Argentina | –0.7 | –1.5 | 41.0 | 3.7 | 5.4 |
| Brazil | 6.0 | 7.7 | 12.5 | 9.3 | 7.2 |
| Chile | 4.5 | 2.6 | 2.8 | 1.1 | 2.5 |
| Colombia | 8.8 | 7.6 | 7.0 | 6.5 | 5.8 |
| Mexico | 9.0 | 4.4 | 5.7 | 4.0 | 5.4 |
| Uruguay | 5.1 | 3.6 | 25.9 | 10.2 | 8.2 |
| Venezuela | 13.4 | 12.3 | 31.2 | 27.1 | 19.5 |
| **Latin America and the Caribbean** | **9.0** | **6.1** | **12.2** | **8.5** | **7.7** |
| **Investment** (***) | | | | | |
| Argentina | 17.5 | 15.6 | 11.2 | 14.1 | 16.3 |
| Brazil | 19.8 | 19.7 | 18.6 | 17.6 | 18.6 |
| Chile | 22.4 | 22.4 | 22.3 | 22.6 | 23.4 |
| Colombia | 12.4 | 14.0 | 13.9 | 15.9 | 17.1 |
| Mexico | 23.1 | 21.9 | 21.6 | 21.3 | 21.5 |
| Uruguay | 13.0 | 12.2 | 9.7 | 8.3 | 9.7 |
| Venezuela | 15.0 | 16.5 | 14.1 | 9.5 | 11.8 |
| **Latin America and the Caribbean** | **19.8** | **19.2** | **18.1** | **17.9** | **17.9** |
| **Current account balance** (***) | | | | | |
| Argentina | –3.2 | –1.5 | 9.4 | 6.1 | 2.5 |
| Brazil | –4.0 | –4.6 | –1.7 | 0.8 | 1.9 |
| Chile | –1.2 | –1.6 | –1.3 | –0.8 | 3.3 |
| Colombia | 0.9 | –1.4 | –1.8 | –1.7 | –1.4 |
| Mexico | –3.1 | –2.9 | –2.1 | –1.4 | –1.0 |
| Uruguay | –2.8 | –2.6 | 2.6 | 0.5 | 0.2 |
| Venezuela | 9.8 | 1.6 | 8.0 | 13.5 | 14.7 |
| **Latin America and the Caribbean** | **–2.4** | **–2.8** | **–0.8** | **0.5** | **1.1** |

NOTES: (*) Preliminary figures from CEPAL for December 2004.
(**) Percentage change December – December.
(***) As percentage of GDP.
SOURCE: Economic Commission for Latin America and the Caribbean (CEPAL).

FOREIGN DEBT ON DOWNWARD TREND

As percentage of exports




NOTES: Figures for 2004 are forecasts.
SOURCE: Economic Commission for Latin America and the Caribbean based on official figures.

***World context in 2005 expected to be good but less so than in 2004.***

The year 2005 is expected to bring a continuation of the situation in 2004 with some decrease in growth rates. The world context will still be positive for the region but less favourable than in 2004. The United States and Japan will likely moderate their growth and, in the US market, exports will face some competition from Chinese products.

***Growth sustainable.***

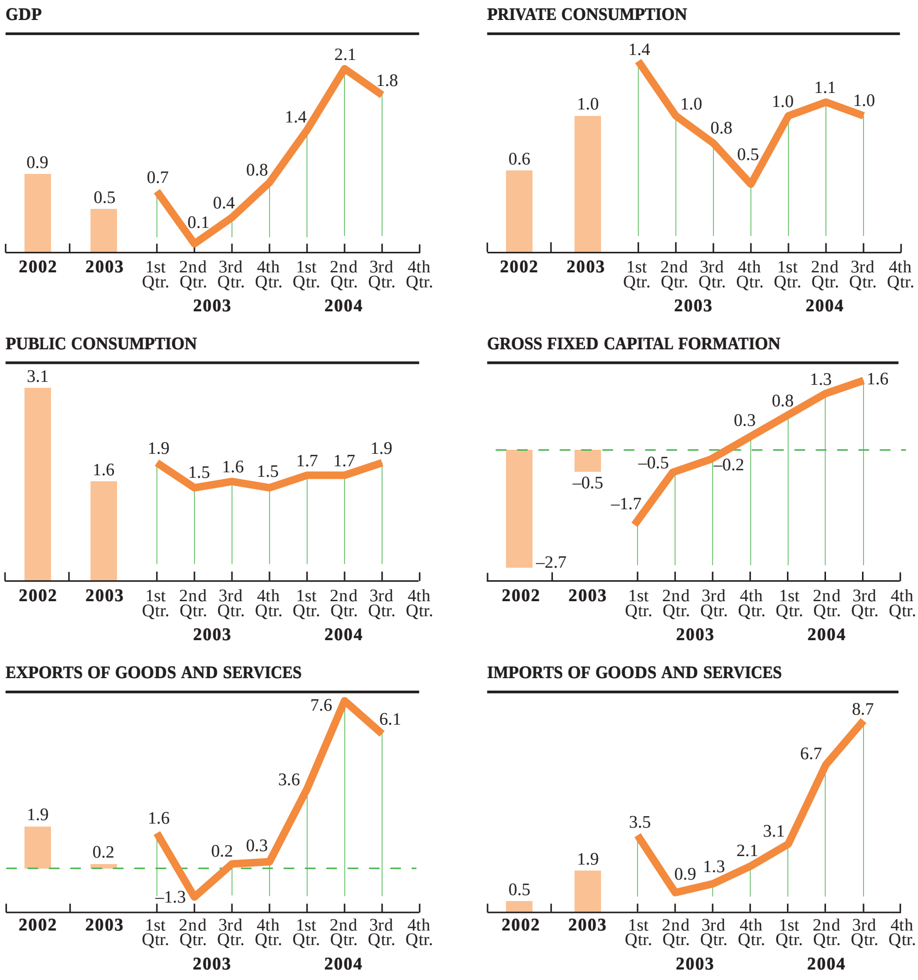
Growth may be sustained thanks to a sound domestic macroeconomic situation, continuation of the high exchange rate parity and reduced dependence on foreign demand, with consumption held back up until now by the still high level of unemployment and low wages. The current account surplus for the region should also help good economic progress.

## Euro area: recovery not consolidating

***Growth in euro area slows to 1.8% in third quarter.***

The euro area economy underwent something of a slowdown in the third quarter which puts the strength of recovery in question. In the three months from July to September, the gross domestic product (GDP) grew by a modest 1.8% year-to-year, three decimals less than in the second quarter. The quarter-to-quarter rate annualized showed the extent of the slowdown even more clearly given that it grew by only 1.2%, a long way from the 1.9% in the second quarter. This poor performance arose from the sudden worsening of the foreign sector added on to persistent domestic weakness.

TREND IN GDP IN EURO AREA BY COMPONENT
Percentage year-to-year change




SOURCE: Eurostat and internal figures.

EURO AREA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

| | 2002 | 2003 | 2003 | 2004 | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 4th Qtr. | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | October | November |
| GDP | 0.9 | 0.5 | 0.8 | 1.4 | 2.1 | 1.8 | – | ... |
| Retail sales | 0.0 | 0.3 | –0.1 | 0.4 | 0.0 | 0.0 | –0.2 | ... |
| Consumer confidence (*) | –11 | –18 | –16 | –14 | –15 | –14 | –14 | –13 |
| Industrial production | –0.5 | 0.3 | 1.4 | 1.0 | 3.0 | 2.6 | 1.0 | ... |
| Economic sentiment indicator (*) | 94.4 | 93.5 | 97.7 | 98.8 | 100.0 | 100.6 | 101.3 | 100.8 |
| Unemployment rate (**) | 8.4 | 8.9 | 8.9 | 8.9 | 8.9 | 8.9 | 8.9 | ... |
| Consumer prices | 2.2 | 2.1 | 2.0 | 1.7 | 2.3 | 2.2 | 2.4 | 2.2 |
| Trade balance (***) | 83.2 | 80.2 | 71.0 | 76.2 | 88.7 | 86.4 | 77.5 | ... |

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

***Negative contribution from foreign sector added to slowdown in private consumption.***

The increase in domestic demand, from 1.6% year-to-year in the previous quarter to 2.6%, was entirely due to the bigger contribution from change in inventories. Private consumption was down by one decimal to 1.0% year-to-year, a drop which was not compensated by a limited improvement in public consumption (rising to 1.9% from 1.7% in the second quarter) and in investment which grew by 1.6% year-to-year (1.3% year-to-year in the previous quarter). The lower growth in exports combined with some recovery in imports meant that foreign demand drew off 0.7% from the change in GDP in sharp contrast to the positive contribution of 0.5% in the second quarter.

***Retail sales down by 0.2% in October while consumer confidence shows no improvement in November.***

The above situation was not greatly different in the fourth quarter. Demand indicators continued to reflect slack private consumption while capital goods investment reported a more vigorous situation. Retail sales fell by 0.2% year-to-year in October which, if added to maintenance of the consumer confidence index at levels of the order of 13-14 points as of November, confirms that household spending is scarcely improving. On the other hand, industrial production of capital goods grew by 4.1% year-to-year in October (4.7% in the third quarter). With regard to foreign demand, the worsening of the trade surplus is troubling given that the contribution of the foreign sector is a key factor in the present cyclical stage. In October, the cumulative trade balance for 12 months stood at 77.5 billion euros compared with 86.4 billion euros in the third quarter.

***Industry slack while services and construction holding up better in situation of limited drive.***

The low level of economic activity shows up in varied ways in each economic sector. Industry, which had shown a promising advance in the second quarter, since then has been performing in an erratic manner although the most recent trend would appear to be toward a slowdown. In October, industrial production grew by 1.0% year-to-year, 2.4 percentage points less than in September. The stagnation in industrial orders and the industrial climate indicator as of November does not show any signs of

## NEW MEMBER STATES OF EU REDUCE AVERAGE PER CAPITA GDP

*Following the extension of the European Union (EU) to 25 member states the disparities in per capita GDP have increased notably due to the incorporation of countries with a relative level of prosperity, notably lower than the average for the EU-15. As a result, according to Eurostat figures for 2003, the new member states reported GDP levels which ran from 41% of the EU average in the least prosperous country, Latvia, to the case of Cyprus which enjoyed a per capita GDP at 83%. The country with the biggest economy among the new member states, Poland, stood at 46%.*

### NOTABLE INCOME DISPARITIES IN EU-25

Per capita GDP in terms of purchasing power parity in 2003. EU-25 = 100


SOURCE: Eurostat and internal figures.

*The level of Spain's GDP, in turn, in 2003 was close to the average for the EU-25, whereas the large European economies stood above that threshold. Italy (107%), Germany (108%), France (111%) and United Kingdom (118%). The leading position in terms of per capita GDP was held by Luxembourg which was more than double the average for the EU followed by Ireland whose per capita GDP was 33% above the EU average.*

sustained recovery in the secondary sector over the short term. The figures for construction and services are better. In both sectors, the respective confidence indicators improved positions as the fourth quarter progressed.

***Some easing in energy component in November puts inflation at 2.2%.***

The lack of drive in domestic demand lies behind the absence of inflationary pressure apart from the effect of oil. The harmonized consumer price index (HCPI) in November rose by 2.2% year-to-year down from the 2.4% year-to-year seen in October. This drop came entirely from reduced pressure in the energy component. If this is discounted, the resultant rate held stable at 1.7% year-to-year, showing no change over September and October. Another result of limited economic activity was the continuing lack of improvement in the unemployment rate which remained stable at the level of 8.9% of the labour force in October. The unemployment rate went from 8% at the beginning of 2001 to 8.9% in March 2003 holding at that level up to the present.

***European Commission feels that Germany and France will bring government deficit below 3% of GDP in 2005.***

In another sphere, the question of government deficits continues to hold the attention of the EU authorities. On December 14, the European Commission made public its positive evaluation of the efforts that Germany and France plan to carry out in 2005 in order to put their government imbalance below 3% of the GDP, the reference threshold under the Stability and Growth Pact. As a result, it proposed the suspension of sanction procedures against both those countries. Nevertheless, the problem now could be the situation in Italy. On top of the fact that the official figures for Greece's government deficit for 1997-2003 are now known to be lower than the real figures comes new concern for the EU executive brought about by the apparent contradiction between the performance in the government debt and the government deficit in Italy, given that whereas the government imbalance in recent years has held below 3% of the GDP the government debt has gone above 106% of the GDP.

## Germany: economic activity at standstill in fourth quarter

***German economy grows by only 1.3% in third quarter due to negative impact of foreign demand.***

In the third quarter of 2004, the German economy showed a halt in growth with the GDP moving up by 0.1% compared with the second quarter which gives a year-to-year increase of 1.3%. Only the extraordinary contribution of the change in inventories to GDP growth (2.5%) prevented the figure from going below the level of one year earlier. Other components of domestic demand were much weaker. Private consumption and gross fixed capital formation fell by 0.7% year-to-year while public consumption rose by a mere 0.1% year-to-year. While these figures are better than those for the second quarter, they are far from being able to compensate for the notable worsening in the foreign sector. After contributing 2.1% in the second quarter, foreign demand in the third quarter took off 0.8% from the change in the GDP.

## GERMANY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

| | 2002 | 2003 | 2003 4th Qtr. | 2004 1st Qtr. | 2004 2nd Qtr. | 2004 3rd Qtr. | 2004 October | 2004 November |
|---|---|---|---|---|---|---|---|---|
| GDP | 0.1 | –0.1 | 0.0 | 0.8 | 1.4 | 1.3 | – | ... |
| Retail sales | –2.2 | –0.5 | –1.1 | –0.5 | –2.2 | –1.8 | –3.7 | ... |
| Industrial production | –1.2 | 0.1 | 1.4 | 1.1 | 3.1 | 3.2 | 1.9 | ... |
| Industrial activity index (IFO) (*) | 89.4 | 91.7 | 96.2 | 96.4 | 95.7 | 95.4 | 95.3 | 94.1 |
| Unemployment rate (**) | 10.2 | 10.5 | 10.5 | 10.4 | 10.5 | 10.7 | 10.7 | 10.8 |
| Consumer prices | 1.4 | 1.1 | 1.2 | 1.1 | 1.8 | 1.9 | 2.0 | 1.8 |
| Trade balance (***) | 118.6 | 129.8 | 130.1 | 137.6 | 150.6 | 153.9 | 154.3 | ... |

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

***Domestic demand remains weak in fourth quarter while foreign sector recovers part of ground lost in previous months.***

The above trends continued into the fourth quarter. The drop in retail sales in October (3.7% year-to-year) and maintenance of consumer confidence at low levels of the order of –17 points as of November, similar to figures for the second and third quarters, show up in the weakness of household spending. On the other hand, growth of the component of capital goods in industrial production (5.8% year-to-year in October) reflects the improved performance in corporate investment. In this situation of weakness in domestic demand the recovery of the foreign sector reported in October (the result of an increase in exports of more than 13% year-to-year) represents an important measure of support for economic activity.

***Current situation in industry quite weak while short term prospects not promising.***

On the supply side, the most notable point is the stagnation in industry in October when industrial production grew by 1.9% year-to-year, far from the increase of 3.2% in the third quarter. The gradual drop in the IFO index of industrial activity which began in the second quarter and put the indicator at the 95.2 points level in the fourth quarter, reflects the slim corporate prospects at this moment. With regard to prices, the CPI dropped to 1.8% in November, two decimals below the October figure. Somewhat less satisfactory was the trend in the unemployment rate which after standing at 10.7% in September and October added another decimal in November.

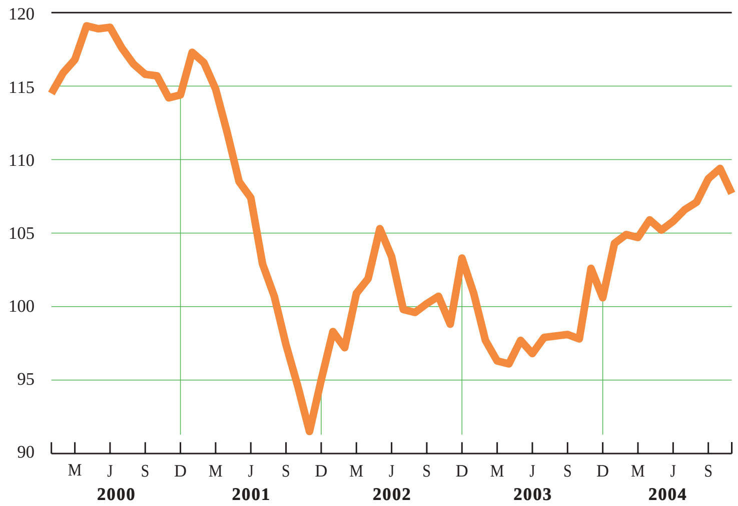
## France: domestic demand slowing down

***Economic activity in France loses drive toward year end as result of lower growth in consumption.***

Economic activity in France may be moving into a stage of lower drive. The economic sentiment indicator, which reflects overall economic activity dropped down in November. Stabilization of domestic consumption at levels of the order of 2% (2.1% year-to-year in October), more than one percentage point less than levels in the third quarter, and the slowdown in investment (reflected in the minimal growth of the component of capital goods in industrial production in October) indicate that domestic demand is losing strength.

## ECONOMIC ACTIVITY MOVING DOWN IN FRANCE

Value of economic sentiment index




SOURCE: European Commission.

***On top of lack of drive in industry comes weakness in services.***

On the supply side, on top of the only moderate level of industrial activity we are now beginning to see less drive in services, a sector which up until now has been notably strong. Industrial production in October thus grew at 1.4% year-to-year while the confidence indicator for the services sector dropped by three points in November. With regard to consumer prices, these dropped by one decimal in November to 2.0% year-to-year. On the other hand, the unemployment rate showed no change holding at 9.9% in October.

## FRANCE: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

| | 2002 | 2003 | 2003 | 2004 | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 4th Qtr. | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | October | November |
| GDP | 1.1 | 0.6 | 1.3 | 1.8 | 2.9 | 2.0 | – | ... |
| Domestic consumption | 0.9 | 0.9 | 1.5 | 2.7 | 5.5 | 3.3 | 2.1 | ... |
| Industrial production | –1.6 | 0.0 | 1.3 | 0.6 | 2.7 | 1.9 | 1.4 | ... |
| Unemployment rate (*) | 9.3 | 9.9 | 9.9 | 9.8 | 9.9 | 9.9 | 9.9 | ... |
| Consumer prices | 1.9 | 2.1 | 2.2 | 1.9 | 2.4 | 2.2 | 2.1 | 2.0 |
| Trade balance (**) | 0.4 | 0.3 | 0.1 | 0.2 | 0.2 | –0.1 | –0.4 | ... |

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

***Economic recovery programme for 2005 concentrates on making 35-hour work week more flexible.***

In addition, we should point out that the French government has launched an economic recovery plan which concentrates on improving employment. This programme, which forms part of a broader package called «Contract France 2005» that includes social measures, concentrates on making somewhat more flexible the 35-hour work week introduced in 2000. Specifically, the French prime minister Jean Pierre Raffarin, who put forward the programme, proposes that some of the available holidays may be work days (an option that already existed but was subject to a number of restrictions and with a limitation of a maximum of 22 holidays a year) while at the same time the annual limit on overtime would increase from 180 to 220 hours.

## Italy: stagnation in the third quarter

***Italy's GDP grows by 1.3% in third quarter showing no change over second quarter.***

Italy continues to show a moderate rate of economic activity. In the third quarter, the GDP rose by 1.3% year-to-year showing no increase over the period from April to June. The decrease in consumption, both public and private, and the drop in investment went against the possibility of recording any relevant recovery. Private consumption grew by 0.7% year-to-year, below the 1.0% seen in the second quarter, public consumption fell by 0.2% year-to-year after recording a year-to-year increase of 1.2% in the preceding quarter, while gross fixed capital formation went down to 2.4% year-to-year (2.9% year-to-year in the previous quarter). On the contrary, the contribution from the change in inventories went from being negative in the second quarter to nil in the third quarter. Foreign demand, in turn, contributed 0.5% to the change in GDP, the same as in the second quarter.

### ITALY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

| | 2002 | 2003 | 2003 | 2004 | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 4th Qtr. | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | October | November |
| GDP | 0.4 | 0.4 | 0.1 | 0.8 | 1.3 | 1.3 | – | ... |
| Retail sales | 2.4 | 2.0 | 0.9 | 1.2 | –0.2 | ... | ... | ... |
| Industrial production | –1.6 | –0.6 | –0.2 | –0.2 | 1.2 | –0.6 | –0.5 | ... |
| Unemployment rate (*) | 8.6 | 8.4 | 8.2 | 8.2 | 8.1 | ... | – | ... |
| Consumer prices | 2.5 | 2.7 | 2.5 | 2.2 | 2.4 | 2.2 | 2.0 | 1.9 |
| Trade balance (**) | 10.8 | 3.4 | 2.0 | 1.4 | 2.8 | 2.7 | ... | ... |

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

***Some recovery in consumer confidence provides positive note in Italian situation.***

With regard to the latest available monthly indicators, for what it may represent as a new factor, we should point out the recovery of consumer confidence which took place in October and November. In any case, non-qualitative consumption indicators are still not showing this improvement (retail sales fell by 2.0% year-to-year in September). On the supply side, the difficulties seen in industry remain without any let-up. Industrial production in October dropped by 0.5% year-to-year, only marginally better than the year-to-year decrease of 0.6% in the third quarter. Consumer prices, in turn, in keeping with what has happened in the rest of the euro area, dropped to 1.9% year-to-year in November due to lower pressure from energy.

## United Kingdom: rate of consumption cooling off

***United Kingdom grows by 3.1% in third quarter.***

The slowdown in domestic demand in the third quarter put the increase in the GDP at 3.1% year-to-year, four decimals less than in the second quarter. While private consumption has lost some of its drive with growth of only 3.5% year-to-year (3.8% in the second quarter), the main cause of lower domestic economic activity was the slowdown in investment. This component went from recording a year-to-year increase of 7.5% in the second quarter to the current 4.6%. On the other hand, the contribution from the foreign sector has been more positive taking away 0.7% from the change in the GDP compared with draining off 1.0% in the previous quarter.

***Less strength in household spending and loss of drive in industry.***

The year 2004 will end on a similar note with consumption slowing down and investment losing drive. As a result, retail sales showed an increase of 6.1% year-to-year in November, a notable figure, but far from the average for the third quarter which was 6.6%. Industrial production of capital goods slowed to 1.6% year-to-year in October, nearly two percentage points below the figure for the third quarter. On the supply side, the loss of economic activity is more clearly reflected in the drop in industrial production which reached 1.7% year-to-year in October. Finally, we should point out that in November consumer prices stood at 2.2% year-to-year while unemployment was again at the all-time low of 2.7%.

### UNITED KINGDOM: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

| | 2002 | 2003 | 2003 | 2004 | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 4th Qtr. | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | October | November |
| GDP | 1.8 | 2.2 | 2.7 | 3.0 | 3.5 | 3.1 | – | ... |
| Retail sales | 6.8 | 2.8 | 3.1 | 6.2 | 6.7 | 6.6 | 5.6 | 6.1 |
| Industrial production | –2.5 | –0.1 | 0.5 | –0.1 | 1.3 | –0.4 | –1.7 | ... |
| Unemployment rate (*) | 3.0 | 2.9 | 2.9 | 2.8 | 2.7 | 2.7 | 2.7 | 2.7 |
| Consumer prices | 2.2 | 2.8 | 2.6 | 2.3 | 2.2 | 2.1 | 2.1 | 2.2 |
| Trade balance (**) | –43.5 | –46.9 | –47.5 | –50.2 | –53.4 | –56.2 | –57.4 | ... |

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

## MONETARY AND CAPITAL MARKETS

### Federal Reserve raises interest rates for fifth time in six months

***Fed puts reference rate at 2.25% level still lower than inflation rate…***

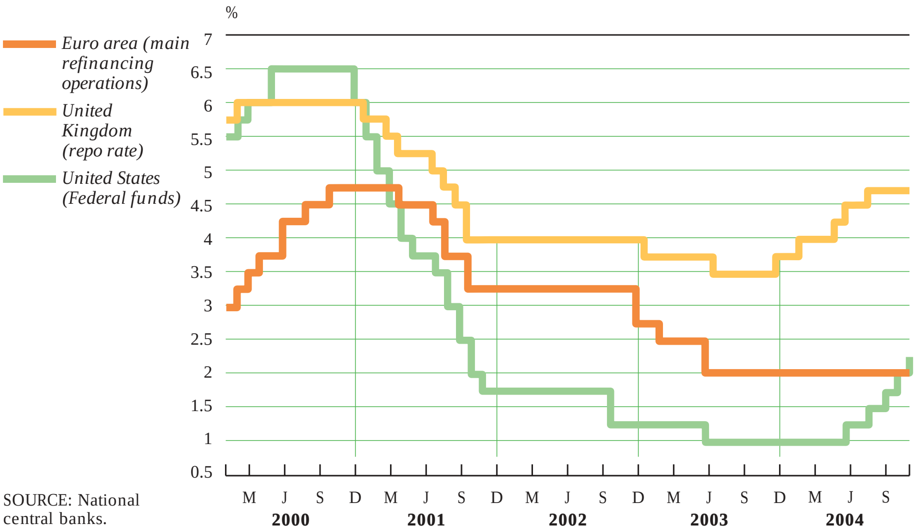
As expected, on December 14, the US Federal Reserve Board raised its reference rate by 25 basis points for the fifth consecutive time. As a result, the target level of Federal Funds (interbank overnight deposits) stood at 2.25% while the discount rate went to 3.25%. The key reference rate has thus doubled since June. Nevertheless, the rate is still negative in real terms, that is to say, subtracting the inflation rate. On the other hand, the Fed's reference rate now exceeds the corresponding rate of the European Central Bank for the first time since April 2001.

***…and indicates further increases…***

In its press release, the Fed noted that economic growth was proceeding at a moderate rate and that the labour market was continuing to gradually improve. At the same time, it stated that prospects for inflation were relatively low. In this context, it reaffirmed that its easy money policy would likely be gradually ended. Nevertheless, it warned it would carefully watch changes in economic prospects in order to carry out the objective of price stability.

OFFICIAL INTEREST RATES: FED GOES ABOVE ECB

Monetary policy reference rates




SOURCE: National central banks.

***…which likely will put it at 3% in second half of 2005.***

The interest rate on US 1-year interbank deposits broke with its upward course on December 3 following publication of disappointing figures on job creation in November. Nevertheless, with the appearance of positive indicators, the yield on these deposits later moved upward. As a result, at the middle of the fourth week of the month, it stood at 3.09%, some 169 basis points above the level at the end of 2003. If we are to go by the interest rate curve, the market is discounting further increases in the US official interest rate putting it above 3% by the middle 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** | | | | | | | | | |
| 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 (*) | 2.05 | 2.17 | 2.33 | 1.92 | 2.28 | 0.00 | 4.75 | 4.79 | 0.75 |
| December (1) | 2.07 | 2.18 | 2.34 | 2.25 | 2.52 | 0.00 | 4.75 | 4.84 | 0.74 |

NOTES: (*) Provisional figures.
(1) November 23.
(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%), 14-12-04 (2.25%).
(4) Latest dates showing change: 6-2-03 (3.75%), 10-7-03 (3.50%), 6-11-03 (3.75%), 5-2-04 (4.00%), 6-5-04 (4.25%), 10-6-04 (4.50%), 5-8-04 (4.75%).
SOURCE: European Central Bank, Bank of Spain, Thomson Financial Datastream and internal figures.

***ECB ends speculation about possible cut in main Eurosystem interest rate because of euro appreciation…***

In the euro area, the Governing Council of the European Central Bank (ECB) maintained its reference rate at the level set in June 2003 (2.00%) at its meeting early in December. ECB chairman Jean-Claude Trichet stated that the ECB reference rate stood at the correct level to maintain price stability over the medium term, at the same time he restated that recent movements in the euro were «not welcome» but had nothing further to say on the matter. Furthermore, he cut short speculation some days before about a possible cut in the ECB official interest rate due to appreciation of the European single currency.

*...and, while expecting inflation to drop below 2% limit in 2005, recognizes some upward risks.*

On the other hand, new macroeconomic projections have been presented by ECB experts. These presented slightly lower economic growth for 2005. With regard to inflation, the band forecast for 2005 as a whole is now 1.5%-2.5% and 1.0%-2.2% in 2006. While it is expected that inflation (2.2% in November) will drop below the target limit of 2% in 2005, chairman Trichet recognized the existence of upward risks and for this reason stated that the ECB would remain vigilant. In this respect, growth of the broad M3 money supply figure (5.8% year-to-year in November, notably above the 4.5% reference level) and growth of credit in the private sector of 6.8% suggested excessive liquidity with the resulting danger for price stability over the long term.

*Market not expecting start of restrictive turn by ECB until second half of 2005.*

In this situation, the 3-month Euribor stabilized at around 2.18% in recent weeks. The 12-month Euribor rose very slightly by 1 basis point in November going to 2.33%, although this is 8 basis points lower than the level one year earlier. The 1-year Euribor dropped at the beginning of December with the appreciation of the European currency. Nevertheless, it later again rose slightly. Money market operators as a whole are not expecting the restrictive turn by the ECB to begin before the second half of 2005.

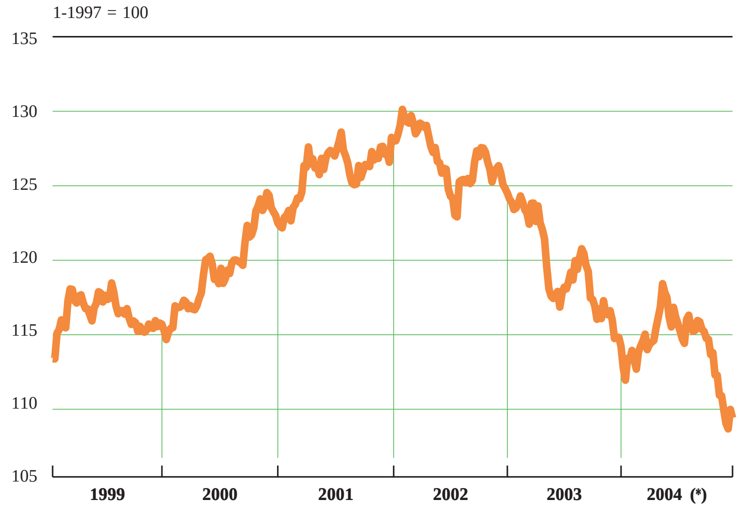
## Euro marks up all-time high against dollar

*Foreign deficit, result of insufficient savings, pushes dollar down.*

The dollar has depreciated notably in recent months in spite of five increases in the reference rate by the Federal Reserve Board. The drop in the US currency came about because of pressure from record levels in the trade deficit and the current account with abroad. Re-election of president George W. Bush did not help the greenback as it was feared that his

DOLLAR MARKS UP LOWEST LEVEL IN RECENT YEARS

Effective nominal dollar exchange rate




NOTES: (*) Figures go up to December 20.
SOURCE: US Federal Reserve Board.

proposed economic policies would not correct the budget deficit or the foreign deficit. Furthermore, it is felt that some private investors from the Middle East have increased sales of dollar assets because of fear that their funds could be frozen as part of the campaign against terrorism. In addition, latest available figures for foreign transactions would indicate decreased interest by foreign investors in US assets.

**Dollar drops 17% compared with high in January 2002.**

As a result, on December 6 the dollar marked up its lowest level since November 1997 in terms of a broad group of currencies. This level represented a drop of 16.9% compared with the high in January 2002. Nevertheless, it later recovered to some extent through the contribution of statements against the rise by some European authorities, from positive macroeconomic indicators and publication of figures showing a foreign current account deficit for the third quarter lower than expected.

## EXCHANGE RATES OF MAIN CURRENCIES

November 2004

| | Final session of month | | Monthly figures | | | | *Exchange rate December 23, 2004* |
|---|---|---|---|---|---|---|---|
| | | | | % change (2) | | | |
| | Exchange rate | % monthly change (2) | Average exchange rate | Monthly | Over December 2003 | Annual | |
| **Against US dollar** | | | | | | | |
| Japanese yen | 103.0 | –2.5 | 104.7 | –3.8 | –2.8 | –4.1 | *103.6* |
| Pound sterling (1) | 1.909 | 4.0 | 1.861 | 3.0 | 6.1 | 10.1 | *1.923* |
| Swiss franc | 1.140 | –4.6 | 1.170 | –5.2 | –7.3 | –12.1 | *1.144* |
| Canadian dollar | 1.188 | –2.5 | 1.196 | –4.1 | –8.8 | –8.9 | *1.233* |
| Mexican peso | 11.24 | –2.6 | 11.37 | –0.2 | 1.1 | 2.0 | *11.14* |
| *Nominal effective index* (4) | *108.8* | *–2.7* | *110.2* | *–2.6* | *–3.7* | *–5.1* | *109.0* |
| **Against euro** | | | | | | | |
| US dollar | 1.330 | 4.4 | 1.299 | 4.0 | 5.7 | 11.0 | *1.346* |
| Japanese yen | 136.5 | 1.0 | 136.1 | 0.1 | 2.7 | 6.5 | *139.9* |
| Swiss franc | 1.511 | –1.2 | 1.522 | –1.4 | –2.1 | –2.4 | *1.544* |
| Pound sterling | 0.697 | 0.1 | 0.699 | 1.0 | –0.5 | 0.8 | *0.701* |
| Swedish krona | 8.924 | –1.4 | 8.998 | –0.7 | –0.3 | 0.0 | *9.028* |
| Danish krone (3) | 7.429 | –0.1 | 7.431 | –0.1 | –0.1 | –0.1 | *7.438* |
| Polish zloty | 4.208 | –2.7 | 4.257 | –1.4 | –8.6 | –7.8 | *4.072* |
| Czech crown | 30.99 | –1.7 | 31.29 | –0.7 | –3.3 | –2.2 | *30.60* |
| Hungarian forint | 245.7 | –0.1 | 245.4 | –0.5 | –7.2 | –5.4 | *245.9* |
| *Nominal effective index* (5) | *106.4* | *1.4* | *105.6* | *1.4* | *1.2* | *4.3* | *107.6* |

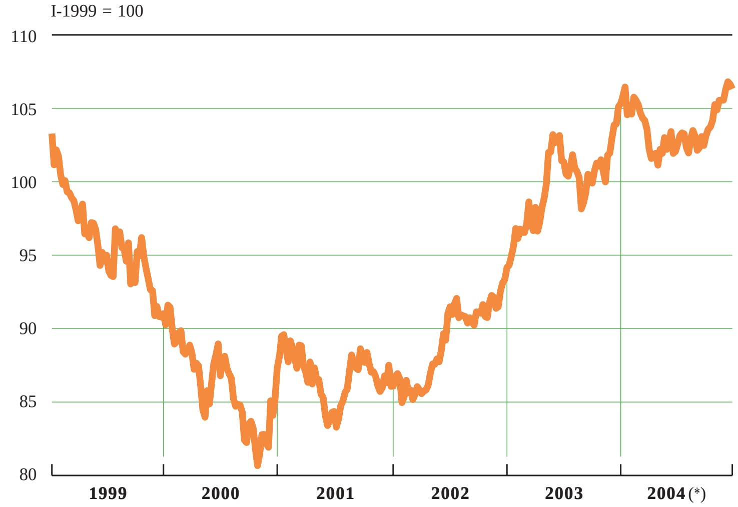
NOTES: (1) Units to pound sterling.
(2) Percentages of change refer to rates as shown in table.
(3) Danish krone has central parity of 7.46038 against euro with fluctuation band of ±2.25%.
(4) Broad nominal effective index of US Federal Reserve Board. Calculated as a weighted average of the foreign exchange 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 up 63% against dollar compared with low in October 2000.**

The drop in the dollar has had its repercussions on those currencies which float freely including the euro. In fact, the European single currency showed an all-time high of 1.346 dollars on December 7, an increase of 6.5% since the end of 2003 and 63.1% compared with the low in October 2000. Nevertheless, the euro later took a breather following the sharp increase of 8.4% since the end of September. The strength of the euro is a reflection of the decline of the dollar given that it has been acting as an alternative to that currency as it is the second most liquid currency. In broad terms, the euro has also appreciated in recent months. As a result, in the fourth week of September, the European currency recorded its highest level since its launching at the beginning of 1999 in terms of the group of currencies of its 23 main trading partners, although it was showing an increase of only 1.6% compared with the end of 2003.

EURO TURNS INTO STRONG CURRENCY

Nominal effective euro exchange rate




NOTES: (*) Figures go up to December 20.
SOURCE: European Central Bank.

**Pound sterling marks up highest level against dollar since 1992…**

The pound sterling has also appreciated against the dollar. On December 20, it reached its highest level since September 1992 running at 1.947 dollars. The drop in expectations of a cut in the Bank of England official interest rate in 2005 raised the pound in the early weeks of December. Nevertheless, in the fourth week of the month these expectations were renewed when the minutes of the December meeting of the Bank of England Monetary Policy Committee became known and the pound sterling weakened.

**…as does Swiss franc since October 1995.**

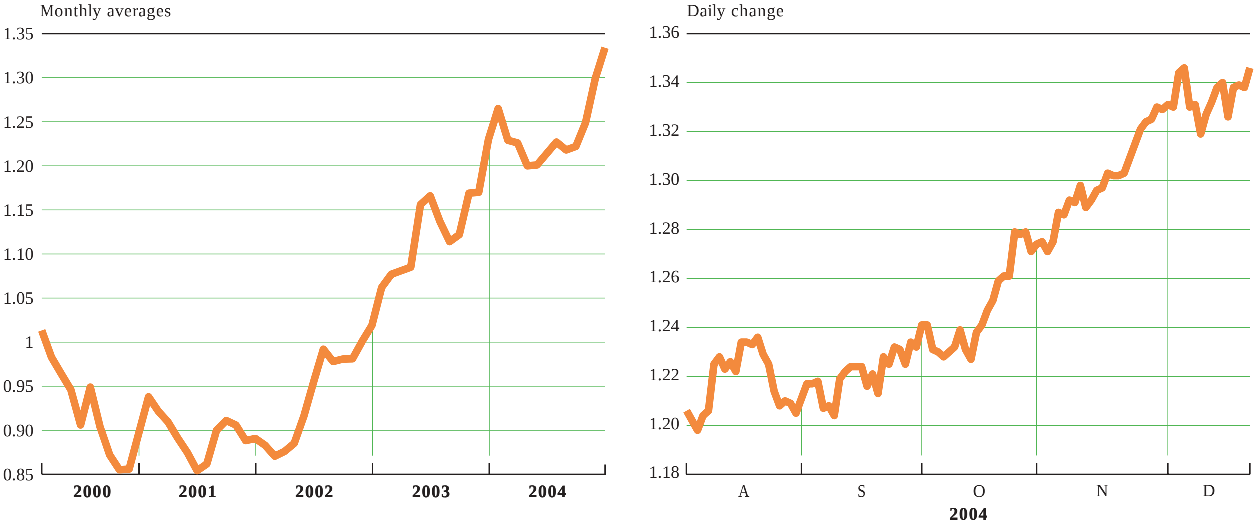
The Swiss franc has also acted as a refuge currency. As a result, on December 3 it recorded its highest level against the dollar since October 1995. The increase in the Swiss franc had a negative reception from the Swiss economic authorities given that it was prejudicial to exports from that country. Nevertheless, the Swiss franc later dropped against the US currency as well as against the euro although it showed an appreciation compared with the end of 2003 against both currencies.

***Slovak crown marks up all-time high against euro.***

The Slovak crown marked up an all-time high against the euro in December. The Czech crown recorded a high since October 2002 against the European currency. Another currency in the East European countries, the Polish zloty recorded its highest level against the single currency since January 2003. These currencies have benefited from the incorporation of their respective countries as members of the European Union since May 2004. Among these currencies, the Slovak crown will probably be the first to switch to the euro.

EURO TAKES BREATHER AGAINST DOLLAR

US dollars to the euro




NOTES: Figures go up to December 23.

SOURCE: OECD, Thomson Financial Datastream and internal figures.

***Rise in yen displeases Japanese authorities who may again intervene.***

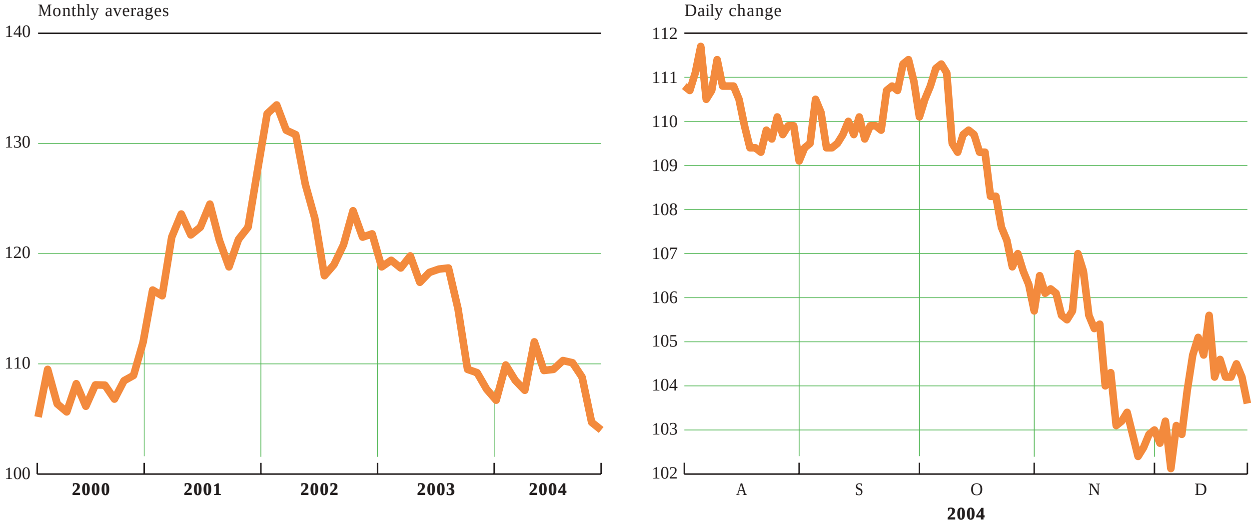
The yen marked up its highest level since January 2000 on December 3 when it ran at 102.1 units to the dollar, a rise of 5.1% compared with the end of 2003. The strength of the yen did not please the Japanese authorities who voiced their lack of agreement stating it could hurt the country's exports. Nevertheless, for the moment it would appear that no interventions in foreign exchange markets have yet taken place in contrast to the first quarter of the year when major interventions were carried out. We should point out that Japan's economy now is in better shape to deal with a higher yen than at that time.

***Won marks up highest level against dollar since 1997.***

Finally, the South Korean won has also risen lately against the dollar. As a result, the South Korean currency recorded its highest levels since 1997. On the other hand, other Asian currencies continue to be pegged to the dollar, mainly the Chinese yuan.

YEN RECORDS HIGHEST LEVEL AGAINST DOLLAR SINCE JANUARY 2000

Yen to the dollar




NOTES: Rates go up to December 23.

SOURCE: OECD, Thomson Financial Datastream and internal figures.

## Yield on German government bonds records lowest level in last eighteen months

***Yield on US Treasury bonds stands slightly below level at beginning of 2004.***

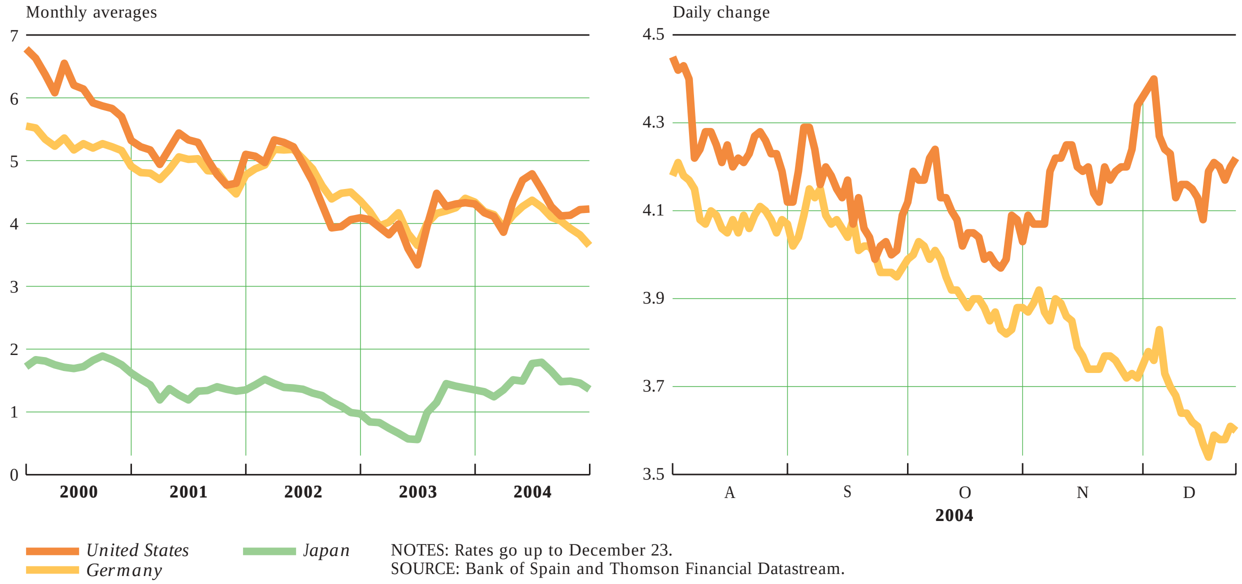
In the early weeks of December, the yield on US long-term Treasury bonds showed swings as a result of prospects for official interest rates. At the beginning of the month, the yield on 10-year Treasury bonds rose to 4.40%, the highest level since August, in the belief that the Federal Reserve Board could raise the reference rate more sharply than what had been discounted. Nevertheless, upward prospects on official interest rates eased and the yield on Treasury bonds tended to swing downward. As a result, in the fourth week of December, the yield on these assets stood slightly below the level at the beginning of 2004.

***Interest rate on German 30-year government bonds at all-time low.***

In Germany, the price of government bonds, which follows an inverse trend to yields, has continued to rise in recent weeks. The strength of the euro, which is hurting economic growth in the euro area, contributed to this move. As a result, on December 16, the yield on German 10-year government bonds fell to 3.54%, the lowest level since June 2003. On the other hand, the interest rate on German 30-year bonds recorded an all-time low of 4.14% that same day. The differential in long-term interest rates between the United States and Germany has thus increased to 60 basis points.

## INCREASE IN INTEREST RATE DIFFERENTIAL BETWEEN US AND GERMAN GOVERNMENT BONDS

Yield on 10-year government bonds as annual percentage




NOTES: Rates go up to December 23.
SOURCE: Bank of Spain and Thomson Financial Datastream.

## 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 | 23 December |
| United States | 4.65 | 4.04 | 4.05 | 4.64 | 4.34 | 4.13 | 4.22 | 4.22 |
| Japan | 1.27 | 0.99 | 1.30 | 1.59 | 1.64 | 1.49 | 1.46 | 1.32 |
| Germany | 4.80 | 4.10 | 4.09 | 4.26 | 4.13 | 3.92 | 3.82 | 3.60 |
| France | 4.88 | 4.13 | 4.11 | 4.31 | 4.16 | 3.98 | 3.86 | 3.61 |
| Italy | 5.04 | 4.24 | 4.24 | 4.47 | 4.31 | 4.08 | 3.96 | 3.70 |
| Spain | 4.96 | 4.12 | 4.12 | 4.31 | 4.17 | 3.97 | 3.85 | 3.54 |
| United Kingdom | 4.93 | 4.53 | 4.83 | 5.14 | 5.05 | 4.82 | 4.74 | 4.45 |
| Switzerland | 3.02 | 2.47 | 2.46 | 2.74 | 2.70 | 2.50 | 2.41 | 2.26 |

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

***Drop in yield on Japanese 10-year government bonds.***

In Japan, the yield on 10-year bonds also slid down in the early weeks of December. As a result, the yield on 10-year government bonds returned to the level seen at the beginning of 2004, below 1.40%.

### Positive overall balance in stock markets in 2004

***Following many ups and downs, stock markets return to upward course in final stages of year.***

The recovery of the share markets begun in 2003 was cut short in the early months of 2004 in a context of higher oil prices, prospects of an upturn in interest rates and the underlying threat of international terrorism. As a result, we saw the start of a period of ups and downs in the stock markets which meant some indices lost par for the year. Nevertheless, once oil prices had hit a ceiling toward the end of October and with prospects of gradual moderate increases in interest rates by the Federal Reserve Board, the stock markets again took on a strong upward trend.

***Low interest rates and recovery of corporate profits boost markets.***

The recovery of the markets was helped by government bond interest rates at low levels and the recovery of corporate profits. In recent weeks, the stock markets also brightened up following a series of corporate operations. As a result, at the end of the year international stock markets

INTERNATIONAL STOCK MARKETS

Indices at month-end


NOTES: December 23, 2004. SOURCE: Thomson Financial Datastream.

were showing a positive annual balance, although some with notable differences.

***Standard & Poor's index marks up high since August 2001.***

In the United States, the appearance of somewhat more favourable economic indicators has helped the stock markets in recent weeks. On December 23, the Standard & Poor's 500 index recorded its highest level since August 2001. In the fourth week of December this index showed a revaluation of 9% compared with the end of 2003. The general Nasdaq index, which is representative of hi-tech shares, recovered the levels seen in June 2001 showing a cumulative balance of 8%. The traditional Dow Jones Industrials index, in turn, reported lower gains.

***Energy sector capitalizes on high oil prices.***

The major sectors included in the Standard & Poor's 500 index generally showed a favourable performance in 2004. The good results in the energy sector were quite notable as it capitalized on high oil prices. Utilities and telecommunications also recorded especially positive results. The exception was the health care sector which stood in the range of losses.

***Milan stock market recovers level seen in May 2002.***

Stock market indices in the euro area also obtained notable advances in 2004 although the rise of the euro took off some of the thrust because it hurt European exports. In the fourth week of December, the DJ Eurostoxx 50 index, which is representative of the largest companies in the euro area showed capital gains of 7% compared with the end of 2003. Among the main European stock markets, the Italian and Spanish markets were those to obtain the biggest cumulative gains, of the order of 17%. In the fourth week of December, the Mibtel index for the Milan stock exchange showed its highest level since April 2002 while the IBEX 35 index for the Spanish stock market recorded its highest level since July 2001.

***Tokyo stock exchange ends year with moderate advance.***

Outside the euro area, the Financial Times 100 index for the London stock exchange showed a cumulative increase similar to the European markets. The SMI index for the Swiss stock market showed a positive balance although not as favourable. Japan's Nikkei 225 index ended the year with a relatively modest increase after having reached a cumulative rise of 14%. The rise in the price of oil and appreciation of the yen, with a subsequent darkening of economic prospects, had their effects on the Japanese stock market.

***Brilliant year for IBEX 35 which returns to levels seen in July 2001.***

With regard to the Spanish stock market, the IBEX 35 index came out brilliantly from a year marked by considerable volatility. The good state of corporate profits stimulated the rise in share prices. As a result, in the fourth week of December the IBEX 35 index went above 9,000 points, thus recovering levels at the middle of 2001. The increase compared with the low in March 2003 was more than 65%.

***Emerging markets obtain highest capital gains.***

The stock markets of the emerging countries were the key players in 2004 obtaining the best results. Of special note were the stock markets in the Latin American countries and those of Eastern and Central Europe. The low levels of international interest rates went in favour of the strength of those economies. At the same time, the predilection of investors for assets offering higher yields also pushed up indices in emerging markets.

## INDICES OF MAIN WORLD STOCK EXCHANGES

November 30, 2004

| | Index (*) | % monthly change | % cumulative change | % annual change | Figures on December 23, 2004: % cumulative change | Figures on December 23, 2004: *% change over same date in 2001* |
|---|---|---|---|---|---|---|
| New York | | | | | | |
| *Dow Jones* | *10,428.0* | *4.0* | *–0.2* | *6.6* | *3.6* | *7.9* |
| *Standard & Poor's* | *1,173.8* | *3.9* | *5.6* | *10.9* | *8.8* | *5.7* |
| *Nasdaq* | *2,096.8* | *6.2* | *4.7* | *7.0* | *7.8* | *11.0* |
| Tokyo | 10,899.3 | 1.2 | 2.1 | 7.9 | 5.0 | *8.5* |
| London | 4,703.2 | 1.7 | 5.1 | 8.3 | 6.9 | *–7.2* |
| Euro area | 2,876.4 | 2.3 | 4.2 | 9.3 | 6.9 | *–20.2* |
| *Frankfurt* | *4,126.0* | *4.2* | *4.1* | *10.1* | *7.2* | *–15.3* |
| *Paris* | *3,753.8* | *1.3* | *5.5* | *9.6* | *7.4* | *–15.1* |
| *Amsterdam* | *337.2* | *2.0* | *–0.1* | *1.5* | *3.2* | *–29.7* |
| *Milan* | *22,379.0* | *3.1* | *12.3* | *11.2* | *17.8* | *4.6* |
| *Madrid* | *8,693.0* | *3.3* | *12.4* | *19.9* | *17.0* | *9.3* |
| Zurich | 5,444.2 | 1.5 | –0.8 | 2.4 | 3.8 | *–10.5* |
| Hong Kong | 14,060.1 | 7.7 | 11.8 | 14.1 | 13.2 | *27.6* |
| Buenos Aires | 1,213.1 | –5.8 | 13.2 | 21.7 | 26.6 | *323.3* |
| São Paulo | 25,128.0 | 9.0 | 13.0 | 24.5 | 16.4 | *93.6* |

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.

***Mexican market doubles its valuation in less than two years.***

The notable growth of the Latin American economy was reflected in sharp increases in stock market indices in the region. The Mexican stock market stood out marking up all-time highs and doubling its valuation in less than two years. The high prices for oil had an influence on this trend given Mexico's oil exports. The Argentine and Brazilian stock markets also showed substantial gains over the end of 2003, with figures above 15%.

***Impressive rise in India's stock market since May.***

On the Asian continent, the Hang Seng index for the Hong Kong stock exchange showed a good cumulative balance with an increase of more than 13%. The rise in India's stock market was also impressive driven by sharp industrial growth and data-processing services. The Sensex index for the Bombay stock exchange marked up a cumulative increase of 10% whereas the uncertainty created following the legislative elections in May had put it in the red.

# ECONOMIC ACTIVITY

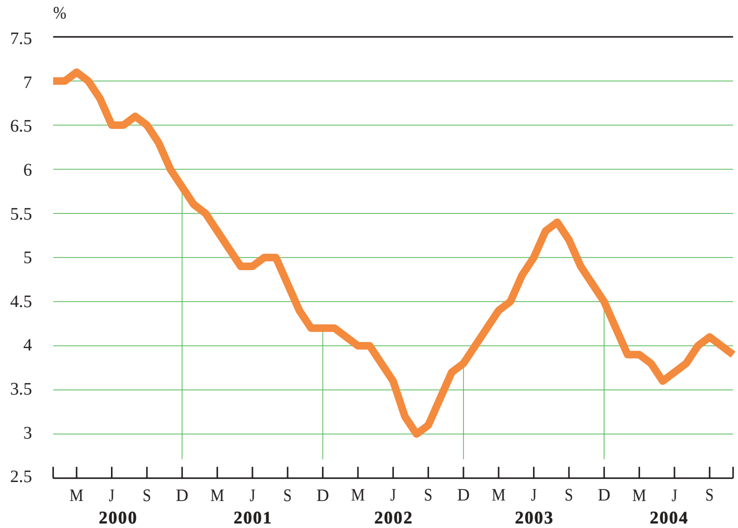
## Economic indicators: good note at end of 2004

***Domestic demand holding strong.***

Apart from a few exceptions, Spain's economic activity at the end of 2004 held on a fairly strong note, thanks to renewed strength in domestic demand both in consumption and investment, although the high foreign deficit continued to have a clearly moderating effect on overall growth of the gross domestic product (GDP). In this context, electrical power consumption maintained a relatively high expansionist rate in recent months (close to 4.0% year-to-year in cycle-trend terms adjusted for seasonal effects and number of working days), but did not exhibit the momentum seen around the middle of 2004.

ELECTRICAL POWER CONSUMPTION CONTINUES HIGH GROWTH RATE

Year-to-year change in electricity consumption



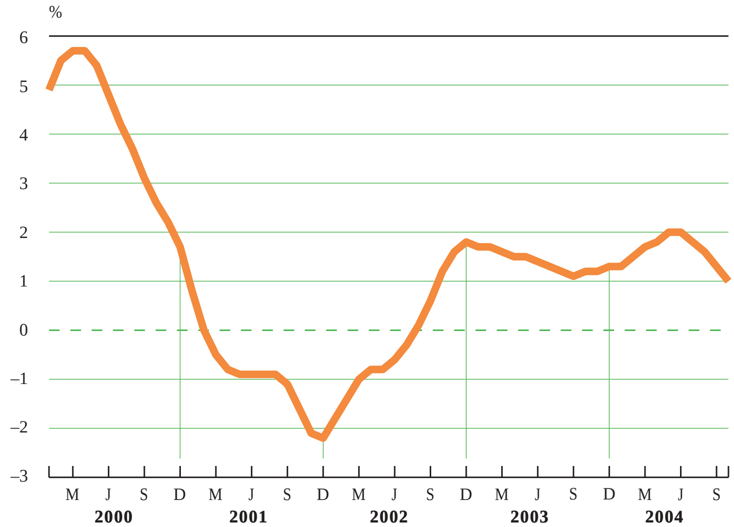

NOTES: Cycle-trend series adjusted for number of working days and temperature.
SOURCE: Red Eléctrica Española, Ministry of Economy and internal figures.

***Recovery indicated in industry not consolidating...***

On the other hand, industry in recent months has not managed to consolidate the previously noted recovery. The year-to-year decrease of 1.5% recorded in October by the general production index (adjusted for number of working days) comes within the slowdown in growth noted in terms of cycle-trend. Those activities having a more favourable performance in the first ten months of 2004 were food, iron and steel, machinery and electrical equipment, motor vehicles, paper and publishing, with average increases in their respective production indices standing between 1% and 5% compared with the same period the year before. On the contrary, we should mention decreases noted in indices for the textile sector, clothing and furs, the chemical industry and furniture manufacture (between 1% and 6%) while the sharpest decreases came in data-processing equipment manufacture (34.6%), the electronic industry (11.4%) and leather (13.5%).

SIGNS OF WEAKNESS IN INDUSTRY

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.

***...while construction maintaining firm pulse.***

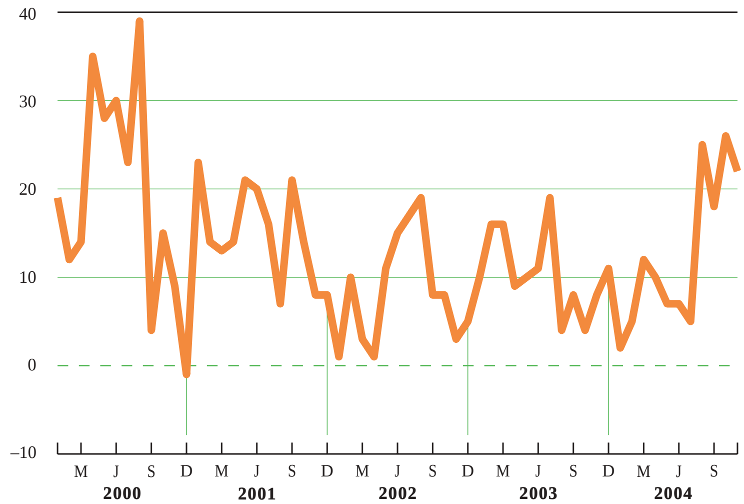
On the other hand, construction continues to show considerable strength. The sharp growth of cement consumption in October (13.7% year-to-year) comes within the upward background trend again shown by these figures in recent months. Along the same lines, some early indicators, such as the number of housing units covered by new building approvals, are maintaining a strongly expansionist rate. In this context it is not surprising that at the end of 2004 the sector confidence indicator should be at a relatively high level (more than 20 points) well above the level for the initial months of the year.

***Good note in services but these tending to moderate growth rate.***

With regard to services, the general situation is positive, although we note a slight drop in activity in recent months if we are to go by the trend in key indicators. We come to the same conclusion from certain qualitative data, such as the confidence indicator for the sector drawn up by the European Commission which ran at around 16 points in the third quarter dropping to 13 points in October, as against an average of 23 points recorded in the first half of 2004. The trend in the PMI index, based on opinions of purchasing managers, follows a similar course.

## CONSTRUCTION SECTOR CONFIDENCE SHOWS INCREASE

Difference between percentage of positive and negative replies




SOURCE: European Commission.

## SUPPLY INDICATORS

Percentage change over same period year before

| | 2002 | 2003 | 2004 | | | | |
|---|---|---|---|---|---|---|---|
| | | | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | October | November |
| **Industry** | | | | | | | |
| Electricity consumption (1) | 3.8 | 4.8 | 3.7 | 2.8 | 4.9 | 4.0 | 2.9 |
| Industrial production index (2) | 0.2 | 1.4 | 1.4 | 2.5 | 2.2 | –1.5 | ... |
| Confidence indicator for industry (3) | –5.7 | –0.9 | –3.0 | –2.0 | –2.7 | –2.0 | –1.0 |
| 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 | 9.2 | ... | ... |
| **Construction** | | | | | | | |
| Cement consumption | 4.7 | 4.8 | 5.6 | 2.8 | 3.9 | –7.6 | 13.7 |
| Confidence indicator for construction (3) | –2.3 | –1.5 | –1.0 | –2.7 | –8.3 | –11.0 | –10.0 |
| Housing (new construction approvals) | 4.3 | 21.4 | 8.0 | 9.2 | 14.9 | ... | ... |
| Government tendering | 13.1 | –10.9 | 8.9 | –31.2 | 56.8 | ... | ... |
| **Services** | | | | | | | |
| Retail sales | 5.7 | 5.7 | 6.7 | 5.5 | 4.1 | 2.6 | ... |
| Foreign tourists | 4.5 | –0.7 | 5.4 | 0.3 | 1.4 | 8.8 | 9.2 |
| Tourist revenue inflows | –2.9 | 3.7 | 4.0 | –2.2 | –0.2 | ... | ... |
| Goods carried by rail (km-tonnes) | –0.7 | 1.7 | 6.4 | 6.2 | –8.5 | –31.8 | ... |
| Air passenger traffic | –1.1 | 7.5 | 11.0 | 6.7 | 6.5 | 9.4 | 6.4 |
| Motor vehicle diesel fuel consumption | 6.2 | 8.0 | 7.8 | 6.8 | 6.9 | –0.2 | ... |

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.

**Tourism recovers in final months of 2004.**

Nevertheless, tourism which showed a somewhat unsatisfactory summer season, underwent a substantial improvement in the final months of the year. The number of foreign tourists grew by around 9.0% year-to-year in October and November, which meant a significant increase in overnight stays recorded at hotels, in contrast to the previous negative performance. In addition, the increase in domestic tourism in those two months continued with a spectacular increase in overnight stays by Spaniards at above 12%.

**Uneven results in transportation.**

With regard to transportation, we find very uneven results. There was high growth, although with a tendency to decrease, in air passenger traffic. Sea passenger traffic showed a very strong growth rate. Passenger traffic by road presented modest growth, while finally there was a drop in traffic by rail both in passengers and goods shipments.

DEMAND INDICATORS

Percentage change over same period year before

| | 2002 | 2003 | 2004 | | | | |
|---|---|---|---|---|---|---|---|
| | | | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | October | November |
| **Consumption** | | | | | | | |
| Production of consumer goods (*) | 2.4 | 0.2 | –0.1 | –0.7 | 0.1 | –2.2 | ... |
| Imports of consumer goods (**) | 5.0 | 10.0 | 20.4 | 16.6 | 11.5 | ... | ... |
| Car registrations | –6.6 | 3.8 | 20.9 | 9.6 | 5.3 | –1.7 | 13.4 |
| Credit for consumer durables | 12.6 | 1.6 | 3.7 | 4.8 | 4.4 | – | – |
| Consumer confidence index (***) | –11.6 | –13.7 | –11.7 | –9.3 | –11.7 | –12.0 | –10.0 |
| **Investment** | | | | | | | |
| Capital goods production (*) | –4.9 | 0.5 | 1.3 | 3.7 | 4.5 | –4.4 | ... |
| Imports of capital goods (**) | –5.8 | 16.8 | 18.7 | 14.3 | 21.7 | ... | ... |
| Commercial vehicle registrations | –6.0 | 13.5 | 14.9 | 13.1 | 9.4 | –2.8 | 19.9 |
| **Foreign trade** (**) | | | | | | | |
| Non-energy imports | 3.7 | 7.4 | 8.9 | 10.6 | 12.1 | ... | ... |
| Exports | 1.4 | 6.2 | 7.3 | 2.2 | 6.9 | ... | ... |

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.

**Favourable trend in consumption but signs of weakness under some headings such as retail trade.**

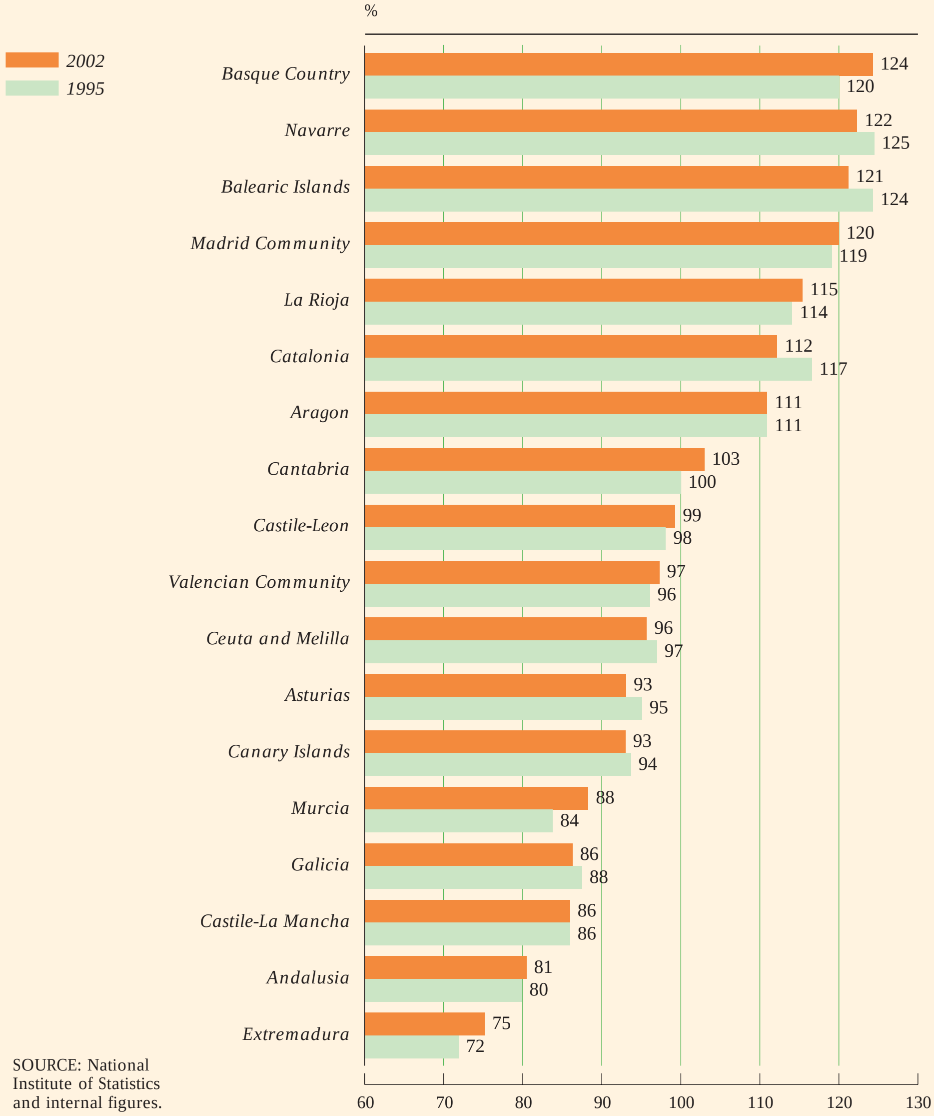
On the demand side, the note in consumption continued to be fairly positive if we look, for example, at the trend for the indicator of availabilities of goods of that nature (domestic production + imports – exports) drawn up by the Ministry of Economy. In recent months, this index has maintained a high growth rate but failed to show the sharp increase seen in the first half of 2004. On the other hand, the survey of retail trade shows less convincing results with low growth in the general sales index in the third quarter (1.0% year-to-year discounting inflation) and a decrease of 0.9% real in October.

## REGIONAL IMBALANCES IN DISPOSABLE INCOME SHOW REDUCTION

*Regional disparities in the level of per capita gross disposable income continued to be notable in 2002, although in general terms they continued to follow the trend to reduction seen in recent years, if we are to go by figures for household incomes under Regional Accounts for Spain recently published by the National Institute of Statistics. Nevertheless, the process of regional adjustment presents a wide range of nuance.*

### SIGNIFICANT CHANGE IN CLASSIFICATION OF AUTONOMOUS COMMUNITIES BY INCOME

Gross disposable per capita income of households
Index base 100 = national average




SOURCE: National Institute of Statistics and internal figures.

*As a result, the difference between the various extremes has been substantially reduced. Whereas in 1995 the autonomous community with the highest per capita income, Navarre, was 73% higher than the region showing the lowest income, Extremadura, by 2002 this difference had been reduced to 65%, also with a change in one of the key players. By that date, the Basque Country enjoyed the highest per capita income at 13,690 euros, 24.3% more than the Spanish average. In Extremadura, the relative level was 75.2% as against 71.9% in 1995.*

*Looked at from a wider perspective, we also note some stability in the relative position of the autonomous communities. The four autonomous communities showing the highest income level in 2002 were the same as those in 1995, that is to say, the Basque Country, Navarre, Balearic Islands and Madrid Community. At the opposite extreme, there was only one change. Whereas in 1995 those autonomous communities with the lowest income level were Extremadura, Andalusia, Murcia and Castile-La Mancha, in 2002 at the tail-end Galicia replaced Murcia which stood at 88.3% of the Spanish average, 4.5 points more than in 1995.*

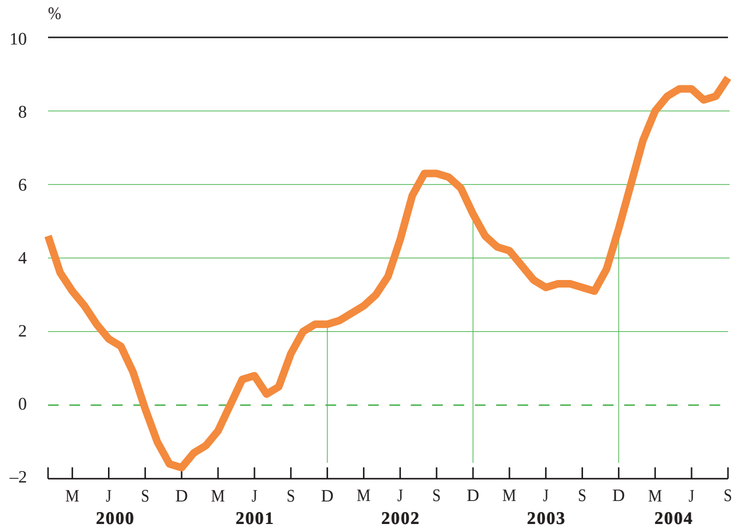
*This sharp increase in terms of average was repeated in the case of the Basque Country and was also very substantial in the case of Cantabria and Extremadura where the relative income level rose by 3.3 points between 1995 and 2002. Also improving their position by around 1 percentage point came La Rioja, Castile-Leon, Valencian Community and Madrid. At the opposite end we find Catalonia where the level of per capita income fell to 112% of the Spanish average (4.5 points) and the Balearic Islands which went to 121% (3.0 points).*

***Passenger car registrations continue to grow at good rate although less than at beginning of 2004.***

At a more broken down level we note that passenger car registrations are maintaining a high growth rate (5.5% on average in October and November compared with the same period the year before) although far from the high figures recorded in the first half of 2004. On the other hand, sales of motorcycles recorded spectacular growth (in October and November the figures for the same period the year before more than doubled), which may be partly explained by the change in regulations covering driving licences.

CONSUMPTION OF GOODS MAINTAINS HIGH GROWTH RATE

Year-to-year change in index of availabilities of consumer goods




NOTES: Cycle-trend series.
SOURCE: Ministry of Economy and internal figures.

**Investment in capital goods maintaining high growth rate.**

Finally, the high growth rates in capital goods investment are being maintained if we are to go by the indicator of availabilities of such goods. This growth is largely due to the sharp drive in imports which rose by 21.7% real in the third quarter of 2004 compared with the same period the year before. Along the same lines, registrations of commercial vehicles maintained a very high growth rate (around 8.7% on average from July to November).

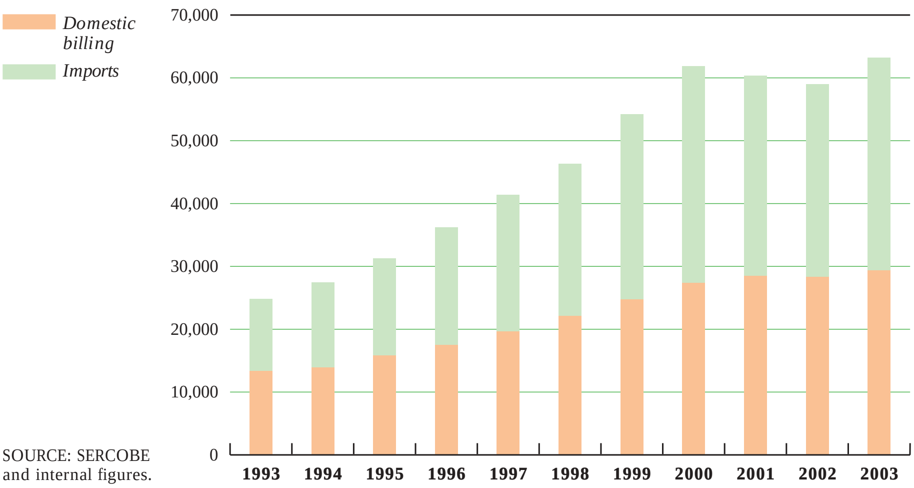
## Capital goods industry recovering

**Capital goods industry begins recovery in 2003…**

The capital goods manufacturing industry showed billing of 32.4 billion euros in 2003, some 4.4% more than the year before, according to figures supplied by SERCOBE, the business organization covering manufacturers of metal/mechanical equipment, electrical and electronic equipment and transportation equipment, mainly railway and aeronautical equipment. The increase in billing in 2003, which was higher than the modest 0.2% the year before, may be largely attributed to the growth in economic activity (3.7%) whereas prices moved up more moderately by around 0.7%.

CAPITAL GOODS DEMAND INCREASES FOLLOWING TWO YEARS OF DECLINE

Million constant 1993 euros




SOURCE: SERCOBE and internal figures.

**…thanks to good performance in sales both in domestic market and in exports.**

The favourable results in the sector in terms of economic activity may partly be explained by the good performance of Spain's economy. According to figures from SERCOBE, apparent consumption of capital goods recovered from the negative trend seen in the previous two years (successive decreases of 2.5% and 3.6%) with average growth of close to 6.2% real. The change in trend in domestic demand came on top of the recovery in exports which, following the drop in 2001 (decrease of 2.4%) and the weakness shown in 2002 (increase of 0.9%), showed growth of 9.0% by volume, according to figures supplied by SERCOBE. In 2003, the capital goods industry exported 65.7% of all production as against the 62.0% recorded the previous year, thus showing the process of consolidation of companies in the sector with regard to foreign markets.

**National Accounting figures confirm sector recovery.**

From another perspective, recovery of the sector is also confirmed by figures from National Accounting drawn up by the National Institute of Statistics (INE). Gross fixed capital formation in capital goods in real terms grew by around 1.0% in 2003 (as against a drop of 5.4% in 2002), while exports rose by 15.4% in real terms, according to the Customs Department.

**Demand for capital goods continues to grow in 2004…**

The good state of the sector continued to improve in the course of 2004. Investment demand in capital goods in real terms grew by 4.5% in the first nine months of the year, according to INE figures. During the same period, registrations of commercial vehicles also maintained a very high growth rate (12.5%, only 1.5 points lower than the sharp increase recorded one year earlier). In addition, exports rose by around 12% by volume in the first nine months of the year following the same expansionist course seen in 2003.

**…thus driving the increase in activity.**

The good state of demand throughout 2004 was reflected in the level of activity. The industrial production index for capital goods (adjusted for differences in number of working days) recorded an average increase of 3.1% in the first nine months of the year, 2.6 points higher than the figure recorded in 2003 as a whole. In addition, the level of utilization of production capacity also increased progressively going up to 83.3% in the third quarter of 2004, close to 4 points above the first quarter of 2003.

CAPITAL GOODS INDUSTRY

Percentage change over same period year before

| | 2002 | 2003 | 2004 | | |
|---|---|---|---|---|---|
| | | | 1st Qtr. | 2nd Qtr. | 3rd Qtr. |
| Capital goods investment (volume) | –5.4 | 1.0 | –0.4 | 4.3 | 9.8 |
| Availabilities of capital goods | –4.0 | 5.4 | 6.8 | 12.2 | 16.4 |
| Commercial vehicle registrations | –6.0 | 13.5 | 14.9 | 13.1 | 9.4 |
| Commercial vehicle production | –7.9 | 6.3 | –5.3 | –9.0 | 2.0 |
| Industrial production index (*) | –4.9 | 0.5 | 1.3 | 3.7 | 4.5 |
| **Utilization of production capacity (**)** | | | | | |
| Level | 80.5 | 81.6 | 81.8 | 82.5 | 83.3 |
| Forecast | 82.6 | 83.0 | 82.8 | 83.8 | 83.5 |
| **Level of order books (***)** | | | | | |
| Foreign | –23 | –16 | –19 | –14 | –8 |
| **Total** | **–16** | **–9** | **–11** | **–5** | **3** |
| Exports (volume) | –9.1 | 15.4 | 19.3 | 6.8 | 10.4 |
| Imports (volume) | –5.8 | 16.8 | 18.7 | 14.3 | 21.7 |

NOTES: (*) Adjusted for difference in number of working days.
(**) Percentage.
(***) Difference between percentage of «high» and «weak» replies.
SOURCE: National Institute of Statistics, Ministry of Economy, Bank of Spain, ANFAC and internal figures.

***Recovery of demand especially notable in area of mechanical equipment.***

The recovery of the market in 2003 was spread over all areas, according to SERCOBE. The electrical and electronic equipment sector showed an increase in apparent consumption of 3.3% in contrast to the decrease of 3.5% recorded in 2002. Nevertheless, the sharpest increase came in the market for mechanical equipment with an increase in apparent consumption of 10.9% (as against a drop of 2.2% in 2002). In spite of the good general performance, the degree of domestic supply, that is to say, the domestic market quota covered by overall internal production, was down by 2 points compared with 2002 putting the figure at 23%, which would seem to indicate that Spain's capital goods sector is of a size lower than it should be in terms of the country's degree of industrial development.

***Despite certain risks recovery expected to gain strength in coming months.***

In principal, the recent trend in the main indicators of industrial activity seems to offer a guarantee of the continuation of growth in the capital goods industry over coming months. From a foreign trade point of view it is expected that the trend will be moderately positive to the extent that improvements in European production and exports are likely. Nevertheless, we should point out the existence of some risks for the sector given that a significant increase in prices is taking place in steel and energy, while not forgetting the major process of industry relocation now underway.

# LABOUR MARKET

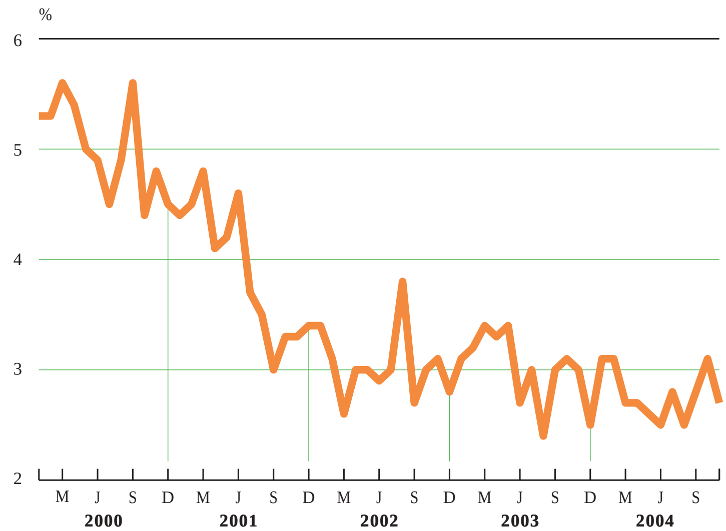
## Employment eases growth in November

***Registrations with Social Security ease off substantially in November…***

The number of those registered with Social Security rose by 53,818 in November, less than half that for the same period last year. Because of this, the registrations growth rate dropped to 2.7% year-to-year, four decimals lower than the month before. In any case, it is not expected that the November figure will show any clear change in trend in the stable increase showing up in registrations since the summer months.

REGISTRATIONS WITH SOCIAL SECURITY STABILIZING GROWTH

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




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

***…because of weaker state in services sector.***

The loss of drive in Social Security registrations was especially notable in the services area although the growth rate held at a very high level at 3.9%. Construction, on the other hand, consolidated the strong profile of previous months with growth of 5.0% year-to-year. Industry, in turn, continued to show the modest loss of jobs seen in recent months.

EMPLOYMENT INDICATORS

Percentage change over same period year before

| | 2002 | 2003 | 2003 | 2004 | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 4th Qtr. | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | October | November |
| **Persons registered with Social Security** | | | | | | | | |
| Wage-earners | 3.5 | 3.2 | 2.9 | 2.9 | 2.4 | 2.6 | 3.1 | 2.6 |
| *Industry* | *–0.2* | *–0.5* | *–0.7* | *–0.5* | *–0.5* | *–0.6* | *–0.6* | *–0.8* |
| *Construction* | *5.8* | *4.3* | *3.0* | *4.4* | *4.3* | *4.6* | *5.0* | *5.0* |
| *Services* | *4.4* | *4.1* | *4.3* | *4.3* | *3.7* | *4.0* | *4.8* | *3.9* |
| Non-wage-earners | 0.9 | 2.3 | 2.8 | 3.2 | 3.2 | 3.2 | 3.2 | 3.2 |
| **Total** | **3.0** | **3.0** | **2.9** | **2.9** | **2.6** | **2.7** | **3.1** | **2.7** |
| **Persons employed** (*) | **2.0** | **2.7** | **3.0** | **2.6** | **2.3** | **2.5** | **–** | **–** |
| **Jobs** (**) | **1.4** | **1.7** | **2.1** | **2.1** | **2.0** | **2.1** | **–** | **–** |
| **Hiring contracts registered** (***) | | | | | | | | |
| Permanent | –1.6 | –1.0 | 0.2 | 10.0 | 16.3 | 18.2 | –3.5 | 16.7 |
| Temporary | 1.1 | 3.9 | 8.8 | 14.4 | 13.7 | 14.7 | –5.7 | 11.9 |
| **Total** | **0.9** | **3.4** | **8.1** | **13.9** | **13.9** | **15.0** | **–5.5** | **12.3** |

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 proves stronger than wage-employment…***

The weaker state of registrations with Social Security showed up in the wage-earning group, given that among non-farm self-employed persons growth continued to be stable at levels below 3%, nearly one and a half points above wage-employment which, in turn, rose by 2.6% year-to-year.

***…while registrations by foreign workers show much higher growth than in case of Spaniards.***

The relative moderation in growth of registrations with Social Security was more notable among the Spanish population than in the case of immigrants. In the first case, growth dropped by four decimals to 2.0% while in the second it went to 14.5% year-to-year. Foreign workers registered with Social Security reached a figure of 1,100,272 persons at the end of November, that is to say, 6.4% of the total (5.7% in the same month in 2003).

***Contracts registered figure recovers in November.***

This weak situation did not show up in figures for new contracts registered at the National Employment Institute (INEM) which was up 12.3% year-to-year in November, putting the cumulative increase for the first eleven months of the year at 11.8%, a figure somewhat higher for permanent employment than for temporary work. Part-time contracts grew at a much higher rate with a cumulative figure of 20.0% as of November.

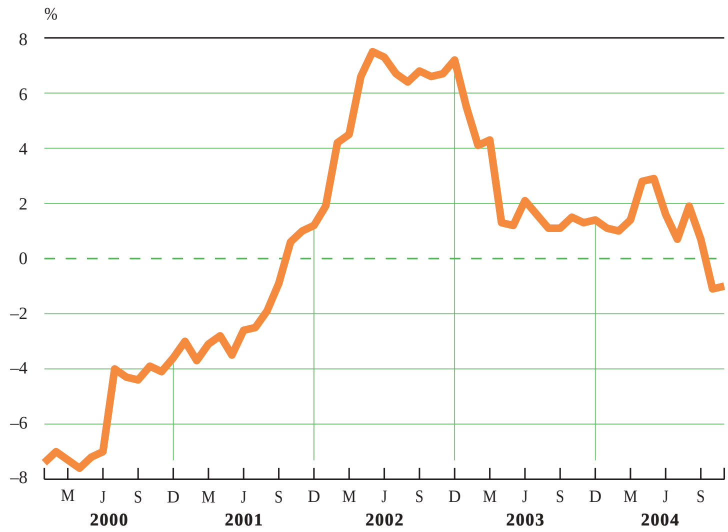
## Registered unemployment down for first time in three years

***Registered unemployment shows increase in November similar to same month in 2003 in keeping with normal levels for this period.***

The number of unemployed registered at INEM rose by 33,750 in November to stand at a figure of 1,682,722 at month-end. This increase, which is normal for this period of the year, was practically the same as in the same month last year so that the unemployment change rate held practically stable at the slightly negative levels reached in October.

UNEMPLOYMENT TENDING TO DROP

Year-to-year change in registered unemployment




SOURCE: National Institute of Statistics and internal figures.

***Drop in those seeking first job.***

The relative stability of the situation in November was favoured by the notable decrease in unemployment among those seeking a first job, probably thanks to the lower number of new registrations. This performance usually indicates a lower willingness to seek work in periods of poorer job prospects. Nevertheless, the special complexity of bringing immigrants into the labour market would advise caution in interpreting this decrease in registrations. In any case, unemployment in the various sectors of production continued the trends seen in previous months: a modest decrease in industry, equal growth or growth under 1% year-to-year in construction and services and a sharp drop in those not previously employed (close to 8%).

***Cumulative balance as of November best in last three years.***

The cumulative balance as of November showed a drop in registered unemployment of 28,765 persons, a performance in contrast to the increases (in some cases remarkable) in the past three years. This decrease arises from the drop in unemployment seen in industry, construction and among those seeking a first job, which compensated for the modest increase in services.

## REGISTERED UNEMPLOYMENT

Thousand persons

| | 2003 | Monthly change | Change over December 2002 | 2004 | Monthly change | Change over December 2003 |
|---|---|---|---|---|---|---|
| January | 1,742.3 | 54 | 54 | 1,762.0 | 50 | 50 |
| February | 1,734.1 | –8 | 46 | 1,751.9 | –10 | 40 |
| March | 1,719.6 | –14 | 32 | 1,743.7 | –8 | 32 |
| April | 1,658.0 | –62 | –30 | 1,705.2 | –39 | –6 |
| May | 1,608.3 | –50 | –80 | 1,654.1 | –51 | –57 |
| June | 1,600.7 | –8 | –87 | 1,626.1 | –28 | –85 |
| July | 1,573.5 | –27 | –115 | 1,585.2 | –41 | –126 |
| August | 1,569.2 | –4 | –119 | 1,598.4 | 13 | –113 |
| September | 1,607.8 | 39 | –80 | 1,618.4 | 20 | –93 |
| October | 1,666.9 | 59 | –21 | 1,649.0 | 31 | –63 |
| November | 1,699.2 | 32 | 11 | 1,682.7 | 34 | –29 |
| December | 1,711.5 | 12 | 23 | | | |

SOURCE: National Employment Institute and internal figures.

***Aragon, Madrid and Cantabria leading reduction in registered unemployment as opposed to Canary Islands, La Rioja and Valencian Community.***

By autonomous community, the situation was very uneven in November. In the Canary Islands, Valencian Community, La Rioja, Extremadura, Navarre, Catalonia and the Balearic Islands the level of unemployment exceeded that for the same month last year. On the other hand, in the rest of the country unemployment was lower than in November 2003, particularly in Aragon, Cantabria and Madrid Community where the year-to-year decrease stood between 8% and 6% respectively.

## REGISTERED UNEMPLOYMENT BY SECTOR, SEX AND AGE

November 2004

| | No. of unemployed | Change over December 2003 | | Change over same period year before | | % share |
|---|---|---|---|---|---|---|
| | | Absolute | % | Absolute | % | |
| **By sector** | | | | | | |
| Agriculture | 40,046 | 2,122 | 5.6 | 1,151 | 3.0 | 2.4 |
| Industry | 245,496 | –18,797 | –7.1 | –8,376 | –3.3 | 14.6 |
| Construction | 182,121 | –29,767 | –14.0 | 1,784 | 1.0 | 10.8 |
| Services | 994,450 | 25,735 | 2.7 | 7,347 | 0.7 | 59.1 |
| First job | 220,609 | –8,058 | –3.5 | –18,381 | –7.7 | 13.1 |
| **By sex** | | | | | | |
| Males | 677,451 | –47,811 | –6.6 | –8,199 | –1.2 | 40.3 |
| Females | 1,005,271 | 19,046 | 1.9 | –8,276 | –0.8 | 59.7 |
| **By age** | | | | | | |
| Under 25 years | 247,578 | –10,172 | –3.9 | –23,495 | –8.7 | 14.7 |
| All other ages | 1,435,144 | –18,593 | –1.3 | 7,020 | 0.5 | 85.3 |
| **TOTAL** | **1,682,722** | **–28,765** | **–1.7** | **–16,475** | **–1.0** | **100.0** |

SOURCE: National Employment Institute and internal figures.

## Wage costs ease in third quarter

**Sharp drop in wage costs...**

Total wage costs stood at 1,461 euros per person per month in the third quarter of 2004, some 2.2% more than in the same period last year, according to the quarterly survey of wage costs. This increase, which was nearly one point less than in the previous quarter, meant a significant change from the stability noted in wage changes during the past year.

### WAGE INDICATORS

Percentage change over same period year before

| | 2002 | 2003 | 2004 | | | |
|---|---|---|---|---|---|---|
| | | | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | 4th Qtr. |
| Increase under general wage agreements | 3.1 | 3.5 | 2.8 | 2.9 | 2.9 | 3.0 |
| **Labour cost index** | | | | | | |
| Wage costs | 3.9 | 3.8 | 3.2 | 3.1 | 2.2 | ... |
| *Industry* | *4.7* | *4.4* | *4.0* | *2.9* | *3.3* | ... |
| *Construction* | *4.1* | *5.0* | *5.2* | *4.1* | *4.6* | ... |
| *Services* | *3.8* | *3.5* | *2.7* | *3.2* | *1.6* | ... |
| Average wages per hour worked | 4.1 | 4.3 | 4.1 | 2.5 | 2.0 | ... |
| Other labour costs | 6.0 | 5.4 | 4.4 | 3.5 | 3.4 | ... |
| Work day (*) | –0.3 | –0.5 | –0.9 | 0.5 | 0.2 | ... |
| Wage per job equivalent to full-time work (**) | 4.3 | 4.3 | 3.9 | 3.9 | 3.7 | ... |
| Farm wages | 5.1 | 2.6 | 2.2 | 3.5 | 2.7 | ... |
| Labour cost in construction | 2.9 | 4.4 | 3.8 | 4.5 | 3.9 | ... |

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

***...concentrated in tertiary sector because of impact of immigration.***

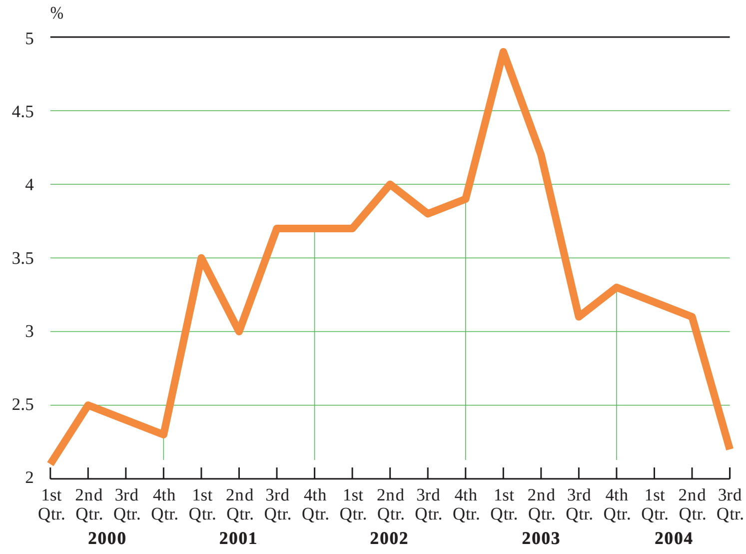
This sharp moderation in wage costs was concentrated entirely in the tertiary sector with increases standing at 1.6% year-to-year, more than one and a half points below the previous quarter. This performance may largely be explained by the impact of immigration. In industry and construction, on the other hand, the wage increase tended to rise notably going to 3.3% in the former case and 4.6% in the latter, thus breaking with the moderate line previously noted.

***Total labour costs also ease with growth at 2.5%.***

Total labour costs, that is to say, wage costs plus other labour costs such as Social Security and other benefits, also reported a slowdown although not as sharp as wage costs in the strict sense, holding at 2.5% year-to-year, some seven decimals below the previous quarter. This moderation was also reflected in the wage cost per effective hour worked which went up by 2.3%, that is to say, by around one point less than in the third quarter of 2003.

SIGNIFICANT DECREASE IN WAGES

Year-to-year change in total wage costs per worker per month




SOURCE: National Institute of Statistics and internal figures.

***Wages per worker stabilize in third quarter.***

According to National Accounting, on the other hand, wages for a job equivalent to full-time work held relatively stable compared with previous quarters, standing at 3.7% in the third quarter. The biggest wage increases were reported in non-market services (up 5.2%), construction (4.4%) and industry (4.0%). In market services, decreases (in this case at 2.6%) were the dominant note.

***Increases agreed on in collective bargaining agreements eased compared with one year earlier.***

In turn, the average wage increase agreed on in collective bargaining agreements as of the middle of the fourth quarter of 2004 stood at 3.0%, according to figures from the Ministry of Labour and Social Affairs, that is to say, a half-point less than in the whole of last year. These figures apply to agreements covering 7.0 million workers, that is to say, somewhat more than 76% of those effectively covered by collective bargaining at the end of the year.

# PRICES

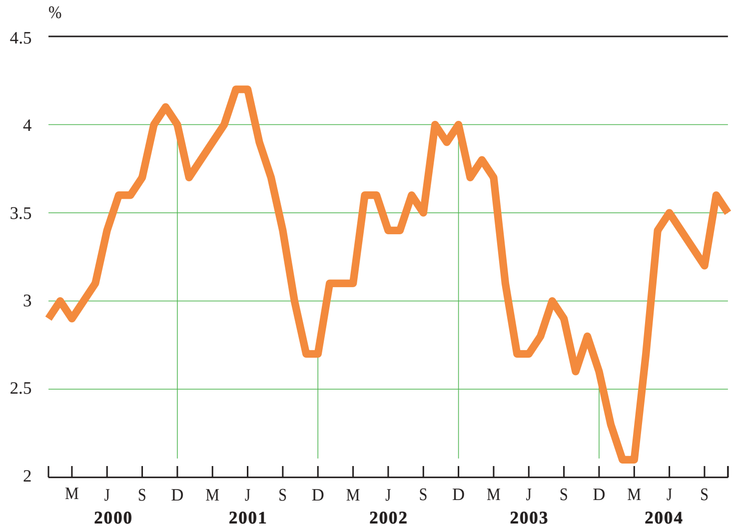
## Inflation rate down one decimal in November

***Inflation rate drops to 3.5% while underlying inflation holds stable at 2.9%.***

The consumer price index (CPI) rose by 0.2% in November, one decimal less than in the same month in 2003, so that the inflation rate eased to 3.5% year-to-year thus meeting with expectations. On the other hand, underlying inflation (excluding energy and processed foods) held stable at 2.9% for the fourth consecutive month, staying seven decimals above the annual low reached in March.

INFLATION BEGINNING TO MODERATE

Year-to-year change in CPI




SOURCE: National Institute of Statistics.

***Fuels help contain CPI in November but act as cause of increases since March.***

The slight moderation in the CPI may largely be attributed to energy prices, because of the containment of fuel-oils and fuels resulting from the drop in oil prices and the increased strength of the euro. As a result, at year-to-year rate the increase in fuel-oils and fuels stood at 13.0%, two points less than in the previous month but still a long way from the drop of the order of 4% seen in March. The increase in energy prices overall was somewhat lower because of the compensating effect of prices for natural gas and electricity with very low growth rates (0.1% and 1.4% respectively). In spite of everything, energy has been behind practically the entire increase in the general index since March.

## 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 | 0.2 | 3.3 | 3.5 |
| December | 0.2 | 2.6 | 2.6 | | | |

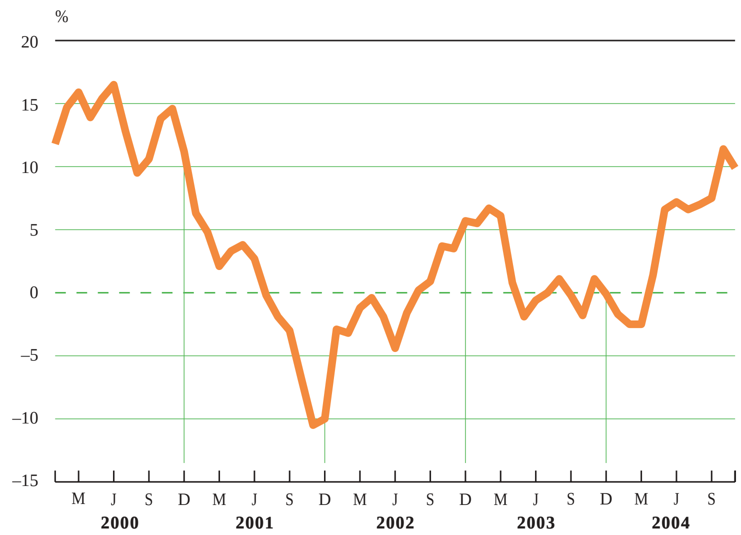
SOURCE: National Institute of Statistics.

***Prices of industrial goods continue to grow at very low rates.***

Prices of non-energy industrial goods made a modest contribution to reducing the inflation rate through a slight moderation, going down one decimal to 1.2% year-to-year. This performance meant a halt to the gradual upward trend which has added seven decimals to the rate for this component since March. The increases in intermediate goods were largely responsible for this performance which was not higher because of the strong competition present in these markets.

## ENERGY PRICES APPEAR TO HAVE REACHED CEILING

Year-to-year change in energy component of CPI




SOURCE: National Institute of Statistics.

**Slight rise in services prices because of education and organized travel.**

The performance in services prices was somewhat worse with an increase in growth of two decimals to 3.8% although this did not mean any significant change from the situation of sustained stable increase slightly above 3.5% in recent months. The worse result in November was concentrated in education and organized travel while there were no appreciable changes in other headings.

**Further rise in food prices brought about by unprocessed foods.**

Food is running along the same lines, especially fresh foods, which for the second consecutive month showed an appreciable rise although not going to troubling levels. In fact, the year-to-year increase in this component stood at 2.3%, a half-point above the month before, mainly because of the impact of meat and fish prices. Processed foods showed more stability but at high levels of 4.1% year-to-year.

CONSUMER PRICE INDEX BY COMPONENT

November

| | Indices (*) | % monthly change | | % change over previous December | | % annual change | |
|---|---|---|---|---|---|---|---|
| | | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 |
| **By type of spending** | | | | | | | |
| Food and non-alcoholic beverages | 114.4 | 0.1 | 0.4 | 3.6 | 2.8 | 4.3 | 3.2 |
| Alcoholic beverages and tobacco | 115.9 | 0.0 | –0.0 | 2.7 | 5.5 | 2.7 | 5.6 |
| Clothing and footwear | 119.6 | 3.3 | 2.9 | 3.0 | 2.8 | 2.3 | 2.3 |
| Housing | 110.7 | 0.3 | 0.0 | 2.8 | 4.3 | 3.0 | 4.3 |
| Household equipment | 106.6 | 0.3 | 0.4 | 1.6 | 1.5 | 1.9 | 1.6 |
| Health | 105.6 | 0.1 | 0.1 | 2.0 | 0.2 | 2.1 | 0.2 |
| Transport | 111.3 | 0.0 | –0.6 | 1.0 | 7.4 | 1.6 | 7.4 |
| Communications | 93.1 | –0.6 | –0.4 | –0.1 | –0.6 | –0.3 | –0.7 |
| Recreation and culture | 102.4 | –1.1 | –0.8 | –0.9 | –0.9 | 0.4 | 0.1 |
| Education | 116.3 | 0.2 | 0.6 | 4.3 | 4.1 | 4.9 | 4.1 |
| Hotels, cafés and restaurants | 115.6 | –0.1 | 0.0 | 3.8 | 3.9 | 4.0 | 4.1 |
| Other | 111.2 | 0.1 | 0.1 | 3.0 | 2.8 | 3.2 | 2.9 |
| **By group** | | | | | | | |
| Processed food | 112.6 | 0.2 | 0.2 | 2.5 | 3.9 | 2.8 | 4.1 |
| Unprocessed food | 118.4 | –0.0 | 0.6 | 5.5 | 1.4 | 6.7 | 2.3 |
| Non-food products | 110.9 | 0.4 | 0.2 | 2.1 | 3.4 | 2.3 | 3.5 |
| Industrial goods | 108.8 | 0.9 | 0.4 | 1.1 | 3.4 | 1.2 | 3.3 |
| *Energy products* | *110.1* | *0.3* | *–1.2* | *0.2* | *10.3* | *1.1* | *9.9* |
| *Fuels and fuel-oils* | *112.8* | *0.4* | *–1.5* | *–0.2* | *13.5* | *1.0* | *13.0* |
| *Industrial goods excluding energy products* | *108.3* | *1.1* | *1.0* | *1.3* | *1.3* | *1.2* | *1.2* |
| Services | 113.4 | –0.2 | 0.0 | 3.3 | 3.4 | 3.7 | 3.8 |
| Underlying inflation (**) | 111.3 | 0.4 | 0.4 | 2.4 | 2.8 | 2.6 | 2.9 |
| **GENERAL INDEX** | **111.8** | **0.3** | **0.2** | **2.4** | **3.3** | **2.8** | **3.5** |

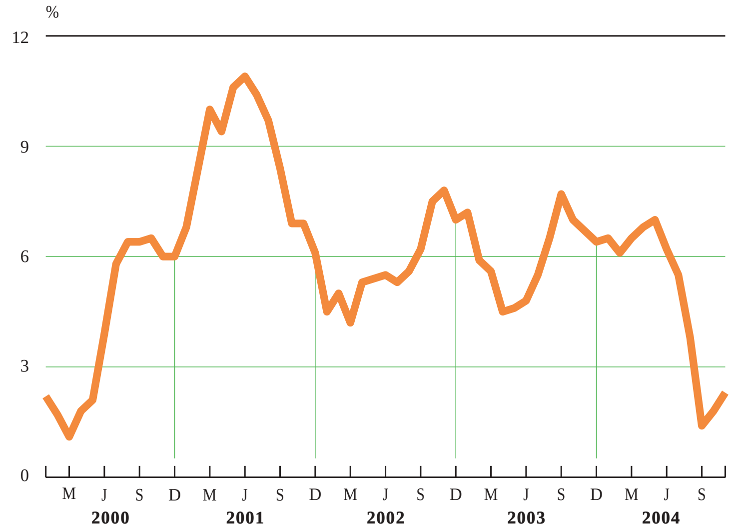
NOTES: (*) Base 2001 = 100.

(**) General index excluding energy products and unprocessed foods.

SOURCE: National Institute of Statistics.

## FRESH FOODS MOVE SLIGHTLY UPWARD

Year-to-year change in fresh food component of CPI



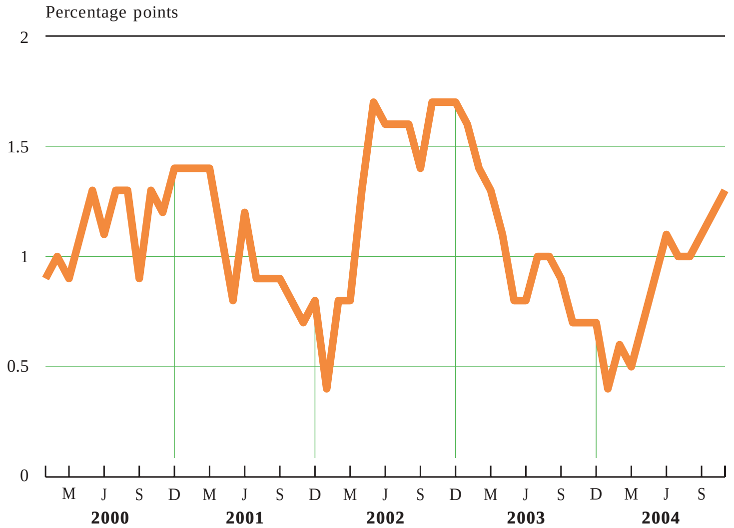

SOURCE: National Institute of Statistics and internal figures.

***Inflation rate should ease slightly as of second quarter of 2005 given strong euro and with oil prices contained.***

The modest reduction in the CPI in November confirmed expectations regarding the downward impact of oil but revived fears about the performance of fresh foods, which were up for the second consecutive month. Nevertheless, the strong euro and contained oil prices may go in favour of an inflation rate somewhat lower than at present, particularly in the second quarter of 2005 if the other components continue their present note of stability and foods do not undergo any undesirable increases.

## INFLATION DIFFERENTIAL WITH EURO AREA CONTINUES TO WIDEN

Difference with euro area in harmonized CPI rate




SOURCE: National Institute of Statistics and internal figures.

***Price differential with euro area goes up one decimal to 1.3 points in November.***

Spain's inflation differential with the euro area again rose by one decimal in November to stand at 1.3 percentage points, according to the harmonized consumer price index. The widening of the differential in October came about in a context of moderation of prices in both geographical areas, especially in the euro area. By component, the rise in prices was higher in Spain in all cases with the exception of medical services. The biggest differences continued to show up in foods, transportation and communications.

## Opposing trends in prices at origin

***Industrial prices moderate but still growing above 5%.***

Industrial prices showed moderate containment in November, thus breaking with the upward trend which had continued to be evident in recent months. In fact, the year-to-year growth rate stood at 5.2%, two decimals below the figure for the month before but still more than four points above the annual lows in February.

***Prices of consumer goods stabilize slightly above 2%.***

The gradual moderation in industrial prices may be attributed to the slight drop in energy prices and capital goods. On the other hand, prices of consumer goods held stable at relatively moderate growth of 2.3%, thanks to the relative containment of foods. Intermediate goods continued to be under notable pressure, especially because of the impact of increases in steel products.

***Import prices move up because of impact of oil in spite of strong euro…***

Import prices moved up in September as a result of increases in imported energy products. Oil was selling at an average price of 233.0 euros a tonne, some 30% more than in September 2003. In the first nine months of the year the increase held at more moderate levels (9.0%). In both cases, the strength of the euro eased the increases quoted in dollars (20.5% cumulative as of September). Other intermediate goods also showed a sharper rise with a cumulative increase of 3.0% as of September.

***…while consumer goods prices drop slightly.***

On the other hand, imported consumer goods continued in a state of weakness because of the strength of the European currency and the sharp rise in imports from low-cost manufacturing countries. As a result, in the first nine months of 2004 these goods showed an average drop pf 1.0%, a result similar to both foods and non-food consumer goods.

***Farm prices continue note of moderation.***

Farm prices again dropped sharply in September thus repeating the performance the month before. As a result, the average increase in farm prices in the first nine months of the year stood at 1.8%, two points below the figure for the same period the year before. This stage of moderation should continue over coming months seeing that it is not likely that there will be any price increases as high as those recorded in the final quarter of 2003.

## 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** | | | | | | | | | | | |
| 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 | –10.4 | 4.6 | 2.1 | 1.6 | 5.9 | 11.0 | 4.2 | –0.2 | –2.2 | 8.2 | – |
| October | ... | 5.4 | 2.3 | 1.8 | 6.2 | 14.2 | 2.6 | 2.6 | –9.7 | 7.2 | – |
| November | ... | 5.2 | 2.3 | 1.5 | 6.3 | 12.6 | ... | ... | ... | ... | – |

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

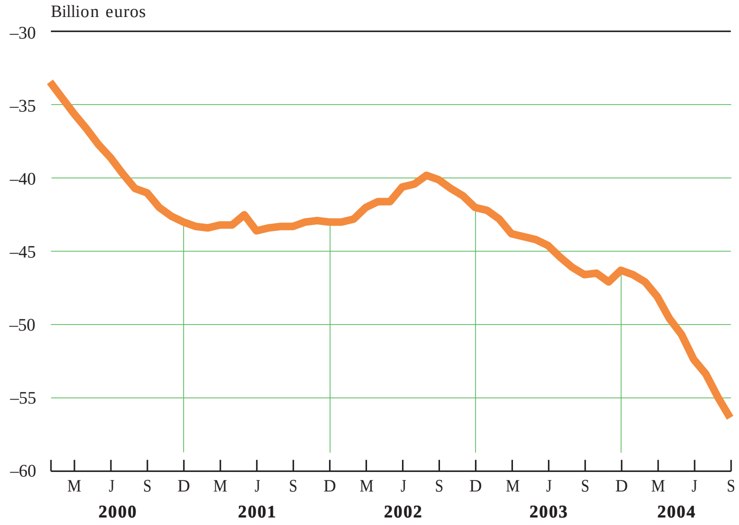
# FOREIGN SECTOR

## Trade deficit continues to rise sharply

***Trade deficit up by more than 30%...***

The trade deficit of Spain's economy showed sharp growth in September with a continuation of strong imports as against weakness in exports. As a result, the cumulative imbalance in the first nine months of 2004 was 30.4% higher than in the same period last year going to 43.4 billion euros. The export/import ratio, in turn, stood at 71.2%, more than four points below the January-September period in 2003.

TRADE DEFICIT: RELENTLESS RISE
Cumulative trade balance for 12 months




SOURCE: Customs Department and internal figures.

***...brought about by sharp rise in imports, especially in capital goods and non-food consumer goods.***

Imports were up by 11.1% nominal in September going to a total of 150.7 billion euros to that point in the year, 11.8% more than the year before. In real terms, the increase was somewhat lower (10.6%) because of the slight rise in import prices. Non-food consumer goods and capital goods, both with cumulative increases of somewhat more than 18% by volume, were the most active products, outstanding among which were the increases in motor vehicles, consumer electronics, furniture, telecommunications equipment and footwear. Imports of food products, on the other hand, showed lower growth at 9.4% real. Finally, purchases of intermediate goods were slower, especially in non-energy products. In spite of this, the cumulative increase as of September (6.0% by volume) held slightly above the same period in 2003.

FOREIGN TRADE

January-September 2004

| | Imports | | | Exports | | | Balance | Export/ Import ratio (%) |
|---|---|---|---|---|---|---|---|---|
| | Million euros | % annual change in value | % share | Million euros | % annual change in value | % share | Million euros | |
| **By product group** | | | | | | | | |
| Energy products | 16,632 | 16.1 | 11.0 | 3,863 | 22.4 | 3.6 | –12,769 | 23.2 |
| Consumer goods | 43,391 | 14.8 | 28.8 | 42,323 | 1.9 | 39.4 | –1,068 | 97.5 |
| *Food* | *9,682* | *7.9* | *6.4* | *12,557* | *0.6* | *11.7* | *2,875* | *129.7* |
| *Non-foods* | *33,709* | *16.5* | *22.4* | *29,766* | *1.2* | *27.7* | *–3,943* | *88.3* |
| Capital goods | 23,817 | 13.5 | 15.8 | 13,432 | 10.7 | 12.5 | –10,385 | 56.4 |
| Non-energy intermediate goods | 66,885 | 8.5 | 44.4 | 47,711 | 6.8 | 44.5 | –19,174 | 71.3 |
| **By geographical area** | | | | | | | | |
| European Union | 93,602 | 8.8 | 62.1 | 76,744 | 4.6 | 71.5 | –16,858 | 82.0 |
| *Euro area* | *81,494* | *9.2* | *54.1* | *64,212* | *4.4* | *59.8* | *–17,282* | *78.8* |
| Other countries | 57,123 | 17.1 | 37.9 | 30,585 | 8.8 | 28.5 | –26,538 | 53.5 |
| *Eastern Europe and Ex-USSR* | *7,378* | *26.0* | *4.9* | *4,470* | *1.6* | *4.2* | *–2,908* | *60.6* |
| *United States* | *5,496* | *9.8* | *3.6* | *4,115* | *0.4* | *3.8* | *–1,381* | *74.9* |
| *Japan* | *4,168* | *21.8* | *2.8* | *899* | *24.2* | *0.8* | *–3,268* | *21.6* |
| *Latin America* | *6,291* | *15.6* | *4.2* | *5,154* | *7.6* | *4.8* | *–1,137* | *81.9* |
| *OPEC* | *9,292* | *8.3* | *6.2* | *2,430* | *–0.4* | *2.3* | *–6,863* | *26.1* |
| *Rest* | *24,499* | *19.8* | *16.3* | *13,517* | *16.0* | *12.6* | *–10,981* | *55.2* |
| **TOTAL** | **150,725** | **11.8** | **100.0** | **107,329** | **5.7** | **100.0** | **–43,396** | **71.2** |

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

***Purchases outside the EU-15 up by 19.1% real in first nine months of year.***

By geographical area, purchases from the European Union (EU-15) were up by 6.3% real in the first nine months of the year as against 19.1% for those from the rest of the world. There was a notably sharp increase in purchases from the ten new member states of the EU, 29.0% nominal as of September 2004. Outside the EU, the biggest growth figures (all above 25% nominal) showed up in the Middle East, Brazil and China, a country which made up 4.1% of imports (3.7% in the January-September period of 2003).

***Exports lose strength in September with cumulative increase for year lower than in 2003.***

Exports grew by 3.4% nominal in September, a drop in growth for the third consecutive month. As a result, the cumulative figure for the first nine months of the year (107.3 billion euros) eased off to 5.7%, a rate somewhat lower than that for 2003 in the same period. Real growth held at 5.3%. By geographical area, shipments to the EU-15 area grew by 4.2% real as against 9.3% recorded in trade with the rest of the world. In both cases the level was lower than in previous months.

*Exports of capital goods ease growth while cars appear at start of recovery.*

By product, the biggest increase came in capital goods with a cumulative real increase of 11.9% although there were some signs of weakness. Notable among foreign sales was transportation equipment, mainly ships and aircraft. Exports of consumer goods were much weaker with an increase of 2.9% real although we note some improvement in certain goods such as cars. Nevertheless, exports of footwear, furniture and toys continued to drop. Finally, exports of intermediate goods showed a somewhat more positive performance than the year before with a real increase of 5.3%, partly as a result of the strong demand for iron and steel and energy products.

## Current account deficit shows spectacular rise

*Current account deficit continues rise in September…*

The current account balance showed a deficit of 5.1 billion euros in September, well above the figure for the same month the year before. The worsening situation in September was due to the continued increase in the trade deficit and, to a lesser extent, in deficits in the incomes balance and current transfers which were not fully compensated by the positive balance in services.

*…and in past 12 months reaches 4.3% of estimated GDP for 2004.*

The cumulative deficit in the current account balance for the past twelve months grew by 66.2% to reach 34 billion euros, a figure equivalent to 4.3% of the estimated gross domestic product (GDP) for 2004. This increase in deficit was due by more than 77% to the trade balance and, to a lesser extent, to the drop in the services surplus and the bigger incomes deficit. Only the transfers balance showed a comparatively more positive performance.

CURRENT ACCOUNT DEFICIT WORSENS

Cumulative current account balance for 12 months


SOURCE: Bank of Spain and internal figures.

*Tourist balance surplus down because of rise in payments and stagnation in revenue inflows.*

The cumulative surplus in services, in turn, was affected both by the results of the tourist balance and other services. In the former case, the stagnation in inflows from tourism and the sustained rise in payments was behind the drop in the surplus amounting to 3.5% in the past 12 months.

BALANCE OF PAYMENTS

Cumulative figure for last 12 months in million euros

| | September 2003 | September 2004 | % change |
|---|---|---|---|
| **Current account balance** | | | |
| Trade balance | –37,211 | –47,728 | 28.3 |
| Services | | | |
| *Tourism* | *29,512* | *28,489* | *–3.5* |
| *Other services* | *–2,200* | *–3,391* | *54.1* |
| Total | 27,312 | 25,098 | –8.1 |
| Income | –10,670 | –11,933 | 11.8 |
| Transfers | 93 | 539 | 482.6 |
| **Total** | **–20,477** | **–34,023** | **66.2** |
| **Capital account** | **7,373** | **9,333** | **26.6** |
| **Financial balance** | | | |
| Direct investment | 4,139 | –8,795 | – |
| Portfolio investment | –27,913 | 48,066 | – |
| Other investment | 41,796 | –12,909 | – |
| **Total** | **18,022** | **26,362** | **46.3** |
| Errors and omissions | –5,985 | –3,376 | –43.6 |
| Change in assets of Bank of Spain | 1,067 | 1,704 | 59.8 |

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.

*Positive and growing balance in capital account.*

Capital account, in turn, showed a surplus of 315 million euros in September thus amply improving on the figure for the same month the year before. As a result, the balance for the past 12 months (9.3 billion euros) was 26.6% higher than the year before.

*Spanish direct investment abroad down 48% while foreign investment in Spain drops more than 76%.*

Financial account, excluding Bank of Spain transactions, in the past 12 months ending September 2004 showed net cumulative inflows of 26.4 billion euros, 46% higher than the figure for the same period the year before. Spanish direct investment abroad remained weak, particularly in the area of corporate investment while real estate investment showed substantial increases. In spite of everything, the total volume was 48.8% lower than the same period the year before. Direct foreign investment in Spain continued to drop, specifically by 76.2% compared with the year before, because of the collapse of corporate investment in a context of definite stagnation in the real estate sector. Portfolio investment from abroad, on the other hand, grew by more than 140% in contrast to Spanish portfolio investment abroad which was down by half.

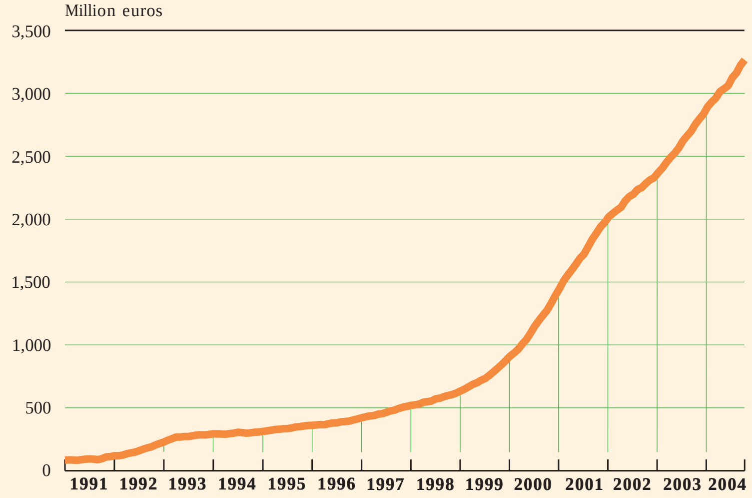
## IMMIGRANT REMITTANCES GO ABOVE 1% OF GDP

*Remittances abroad by immigrant workers have risen spectacularly since the end of the past decade in the wake of increased immigration. Whereas in 1997, payments sent abroad by foreign workers living in Spain were slightly more than 520 million euros, in 2003, the last year for which complete figures are available, these payments reached 2.89 billion euros, according to figures for the balance of payments supplied by the Bank of Spain. In 2004, remittances abroad in the first nine months rose by 17.8%.*

*The sharp rise in immigrant remittances naturally has only a limited effect on the current account balance. In fact, payments abroad for such remittances in the first nine months of 2004 represented 5.5% of foreign payments by Spain's economy for the various headings included in the current account balance: goods, services, incomes and transfers.*

IMMIGRANTS SEND FUNDS TO HOME COUNTRIES

Remittances abroad by foreign workers. Cumulative balance for 12 months




SOURCE: Bank of Spain and internal figures.

*On the other hand, in spite of this spectacular rise, the heading for immigrant remittances going abroad still held below remittances from workers received from abroad amounting to 4.2 billion euros in the past 12 months since September 2003.*

*Nevertheless, the figures for the balance of payments must be taken with care as there are substantial limitations in the reporting methods used by the Bank of Spain in preparing these figures. One of the main difficulties comes from the fact that some immigrant groups make little use of banks which means that part of these remittances is channelled through non-bank services. Secondly, the fact that the level of compulsory declaration is high (12,500 euros) means that many amounts transferred abroad by the immigrant group fall outside the reporting system. Estimates by the Bank of Spain itself indicate that potential remittances abroad by immigrant workers could be more than twice the official figures shown in the balance of payments, that is to say, they could go above 1% of the GDP in 2004.*

# PUBLIC SECTOR

## Government surplus in first eleven months of year

***Tax revenues up 8% in January-November period.***

Central government non-financial Treasury revenues rose by 4.8% in the first eleven months of 2004 to reach 105.99 billion euros. This figure does not include those segments of collections for personal income tax and the greater part of indirect taxes ceded to autonomous communities and municipalities so that it is of little significance as an indicator of the revenue capacity of general government through main tax sources. If we include those revenues ceded, collections amounted to 143.3 billion euros and stood some 8.2% higher than in the same period in 2003.

***Drop in collections for personal income tax while corporate tax shows rise.***

The main source of collections in the January-November period was direct taxes (69.8 billion euros) standing 9.3% more than in the same period in 2003. The most significant increase showed up in corporate tax (up 21.4%) which may partly be explained by the decrease in rebates. Revenues for personal income tax were up very slightly (2.7%) compared with the same period last year.

***Collections for indirect taxes up 9% with VAT as main source while special taxes rose at same rate as inflation.***

Collections for indirect taxes, in turn, amounted to 61.45 billion euros (8.9% more than in 2003) with value added tax (VAT) leading the way. The amount collected under this tax heading in the first eleven months of the year was 43.14 billion euros, some 10.7% more than in the same period in 2003. Under special taxes, most headings rose at a rate similar to inflation. In the case of petroleum products, collections were up by 3.2% reflecting the lower demand attributable to increases in fuel prices. In contrast to 2003, the figures for 2004 do not include tax on certain means of transportation, now considered revenue proper to the autonomous communities. On the other hand, the increase in revenues obtained from tax on insurance premiums was a quite notable 9.2%, which was connected to the rise in the motor vehicle market and revenue from foreign trade (23.6%) thanks to the rise in imports from third countries.

***Government property revenue and current transfers down.***

Apart from tax revenues, fees and public service charges also showed a notable rise of 8.0% in contrast to revenues from government property earnings and transfers which were down 11.1% and 5.6% respectively. On the other hand, capital transfers were up 22.2% compared with the same period last year, while revenue arising from disposal of real investments was of little significance.

## CENTRAL GOVERNMENT BUDGET IMPLEMENTATION

November 2004

| | Month | | Cumulative for year | |
|---|---|---|---|---|
| | Million euros | % change over same month year before | Million euros | % change over same month year before |
| **Non-financial revenue** | **7,788** | **22.1** | **105,985** | **4.8** |
| **Non-financial revenue adjusted** (*) | | | | |
| Personal income tax | 4,249 | 10.2 | 44,275 | 2.7 |
| Corporate tax | 264 | – | 23,350 | 21.4 |
| VAT | 2,722 | 26.0 | 43,142 | 10.7 |
| Special taxes | 1,469 | –1.9 | 16,023 | 3.4 |
| Other | 2,254 | 28.9 | 16,481 | 5.5 |
| **Total** | **10,958** | **19.1** | **143,271** | **8.2** |
| **Non-financial spending** | **7,674** | **–5.6** | **102,762** | **0.7** |
| **Treasury balance** | **114** | **–** | **3,223** | **–** |
| ***Surplus (+) or deficit (–)*** (**) | ***–5,696*** | ***66.5*** | ***1,982*** | ***–61.2*** |

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 staff payments and especially in purchase of goods and services.***

Central government non-financial spending, in turn, rose by 0.7% and amounted to 102.8 billion euros. This figure does not include the balancing entry for revenues related to tax segments ceded to the autonomous communities. The drop in spending was aided by the decrease in interest payments (15.3%) and lower real investment. On the other hand, spending related to public consumption was up by 4.9% in the case of staff costs and 18.0% in purchases of goods and services.

***First 11 months of year end with surplus both in Treasury terms and in National Accounting.***

The central government's cumulative Treasury surplus as of November, that is to say, the difference between non-financial revenue and spending, was positive for an amount of 3.2 billion euros in contrast to the deficit for the same period the year before. In spite of this surplus, the sharp positive change in financial assets, excluding movements in the current account at the Bank of Spain, arose from the appearance of a borrowing requirement of 6 billion euros, some 61.4% higher than in the same period in 2003. The increase in financial assets was concentrated in central government deposits at financial institutions and in higher government property contributions amounting to 2 billion euros in total. In National Accounting terms, the budget balance was also positive at 1.98 billion euros, although this was substantially lower than in the same period in 2003.

# SAVINGS AND FINANCING

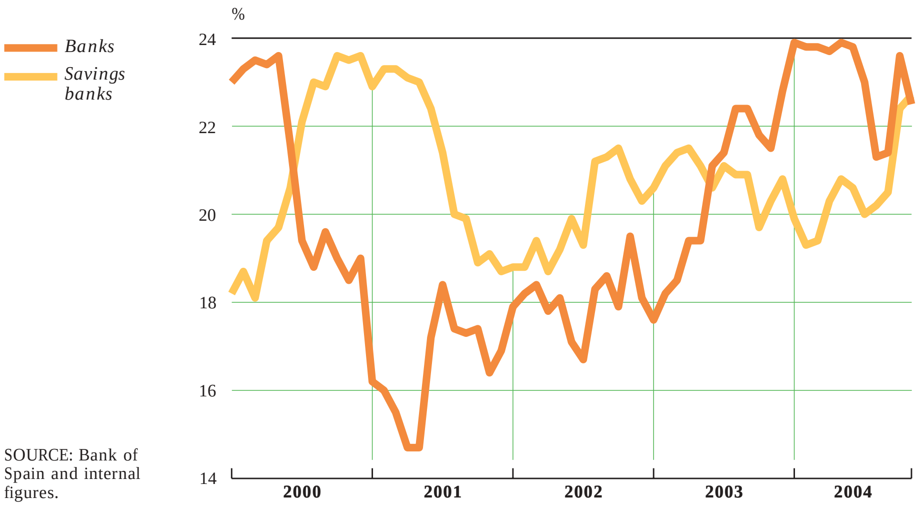
## Bank credit to private sector remains strong

***Bank credit to companies and households up 17% in last twelve months.***

Bank credit to companies and households rose by 17.0% in October compared with the same month the year before. This rate is 3 decimals lower than that shown the previous month but is holding at high levels more than double that for the euro area as a whole. Demand for bank loans by the private sector continues to be driven by the economic boom and easy financing terms with very low interest rates.

MORTGAGE LOANS SHOWING GREAT STRENGTH

Year-to-year change in mortgage loans by institution




SOURCE: Bank of Spain and internal figures.

***Total mortgage loans up 25% in one year…***

The growth of credit to companies and households has continued to be driven by mortgage loans. As a result, mortgage loans granted by banks and savings banks rose by 22.6% over the twelve months ending in October. If we include securitizations and other credit institutions this rate goes up to 25.1%, according to figures provided by the Spanish Mortgage Association. Mortgage loans thus continue to increase at a lively rate at this moment. Higher household incomes, demographic factors and low interest rates continue to foster this situation.

## CREDIT TO COMPANIES AND HOUSEHOLDS

October 2004

| | Total | Change this year | | Change over 12 months | | % share |
|---|---|---|---|---|---|---|
| | Million euros | Million euros | % | Million euros | % | |
| Trade credit | 56,908 | 1,377 | 2.5 | 5,487 | 10.7 | 6.2 |
| Secured loans (*) | 524,342 | 82,217 | 18.6 | 96,480 | 22.5 | 57.1 |
| Other term loans | 277,629 | 26,730 | 10.7 | 25,114 | 9.9 | 30.2 |
| On-demand loans | 24,225 | 3,302 | 15.8 | 3,332 | 15.9 | 2.6 |
| Leasing | 28,355 | 3,286 | 13.1 | 3,415 | 13.7 | 3.1 |
| Doubtful loans | 7,466 | –200 | –2.6 | –240 | –3.1 | 0.8 |
| **TOTAL** | **918,925** | **116,713** | **14.5** | **133,587** | **17.0** | **100.0** |

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

***…while default marks up low levels.***

Doubtful loans stood at 7.46 billion euros. This figure meant a default rate of 0.81%, the lowest level in recent years. On the other hand, the doubtful mortgage loan rate marked up a low level in September dropping to 0.431%.

***Heavy demand for loans both by individuals and companies.***

On the other hand, the Bank of Spain recently supplied figures for credit to the private sector at the end of the third quarter of 2004, which make possible a more detailed analysis from the point of view of end use. Loans going to finance individuals recorded year-to-year growth of 17.4%,

## CREDIT TO PRIVATE SECTOR BY PURPOSE

Third quarter of 2004

| | Total (*) | Change this year | | Change over 12 months | |
|---|---|---|---|---|---|
| | Million euros | Million euros | % | Million euros | % |
| **Funding of production-related activity** | | | | | |
| Agriculture, livestock and fishing | 17,655 | 1,254 | 7.6 | 1,193 | 7.2 |
| Industry | 88,360 | 2,531 | 2.9 | 1,120 | 1.3 |
| Construction | 75,494 | 9,711 | 14.8 | 13,592 | 22.0 |
| Services | 283,069 | 39,097 | 16.0 | 50,468 | 21.7 |
| **Total** | **464,578** | **52,592** | **12.8** | **66,373** | **16.7** |
| **Funding to individuals** | | | | | |
| Home purchase and renovation | 315,021 | 39,063 | 14.2 | 50,568 | 19.1 |
| Acquisition of consumer durables | 38,075 | 2,939 | 8.4 | 1,607 | 4.4 |
| Other funding | 66,134 | 5,215 | 8.6 | 9,909 | 17.6 |
| **Total** | **419,230** | **47,217** | **12.7** | **62,084** | **17.4** |
| **Funding to private non-profit institutions** | **3,426** | **424** | **14.1** | **775** | **29.2** |
| **Other unclassified** | **16,355** | **1,144** | **7.5** | **3,835** | **30.6** |
| **TOTAL** | **903,590** | **101,377** | **12.6** | **133,067** | **17.3** |

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

1.4 decimals higher than the rate reported in June. Credit going into production activities was up by 16.7% compared with the same quarter in 2003, some 5 decimals more than in the previous quarter.

***Strong drive in credit for construction and services.***

Broken down by large economic sectors, what stood out was the drive in construction and services with credit to these sectors increasing by 22.0% and 21.7% in the past twelve months respectively with both showing rates slightly higher than the preceding quarter. Funds directed to the primary sector, that is to say, agriculture, livestock raising and fishing, grew by 7.2% compared with twelve months earlier, 1.6 points less than in June. Funds going to industry rose by 1.3% compared with the third quarter of the year before after having shown a negative year-to-year change rate in the second quarter of 2004.

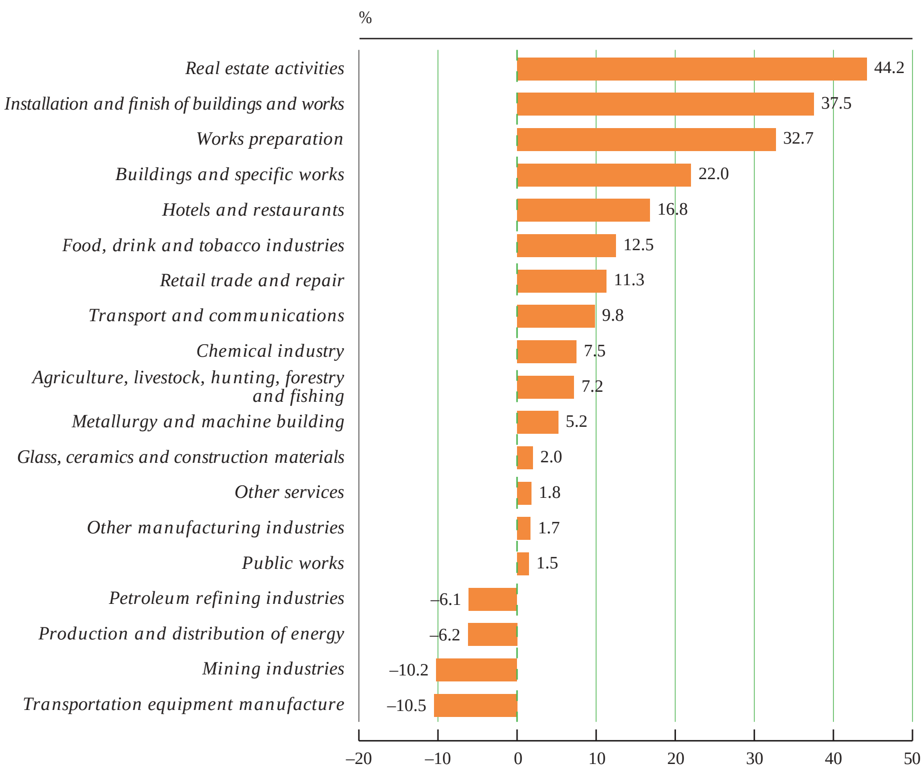
***Financing going into real estate activities up by 44%.***

At a more broken down level, the spectacular growth of credit going into real estate activities was notable with a year-to-year rise of 44.2%. Also outstanding, with change rates of more than 30%, were such branches as construction, installation and finishing of buildings and public works, as well as works preparation. In the services sector, the hotel and restaurant trade showed a sharp increase in loans at 16.8%. At the other end of the scale, petroleum refining industries, production and distribution

REAL ESTATE SECTOR TAKES UP BIGGEST PART OF GROWTH IN CREDIT GRANTED TO COMPANIES

Third quarter of 2004

Year-to-year change in loans granted by credit institutions to finance production activities




SOURCE: Bank of Spain and internal figures.

of energy, gas and water, the mining industries and manufacture of transportation equipment showed negative change rates. The last two sub-sectors reported a drop in credit of more than 10%.

***Credit for purchase of consumer durables up 4%.***

With regard to financing for individuals, the purchase and renovation of housing rose by 19.1% compared with the same period the year before, 1.3 points more than in the second quarter. On the other hand, credit for acquisition of consumer durables rose by only 4.4% compared with September 2003, some 4 decimals less than in June. Other funds going to households rose by a considerable 17.6% year-to-year, 2.5 points more than in the second quarter.

## Sustained rate of increase in private sector bank deposits

***Private sector bank deposits up 13% compared with October 2003.***

Total deposits of the resident private sector in euros and foreign currencies rose by 13.2% in October 2004 compared with the same month the year before, 2 decimals more than in September. In the past 12 months these deposits rose by 80 billion euros. This amount was considerably lower than the increase in loans with the result that lending institutions carried out share issues and securitizations, as well as recurring to the foreign interbank market to compensate for this difference.

### DEPOSITS OF COMPANIES AND HOUSEHOLDS AT CREDIT INSTITUTIONS

October 2004

| | Total | Change this year | | Change over 12 months | | % share |
|---|---|---|---|---|---|---|
| | Million euros | Million euros | % | Million euros | % | |
| On-demand | 181,642 | 12,738 | 7.5 | 22,446 | 14.1 | 26.5 |
| Savings (*) | 153,323 | 8,114 | 5.6 | 14,427 | 10.4 | 22.4 |
| 2-year term | 156,622 | 396 | 0.3 | –1,056 | –0.7 | 22.9 |
| More than 2-year term | 112,760 | 35,398 | 45.8 | 44,604 | 65.4 | 16.5 |
| Repos | 75,377 | –2,424 | –3.1 | –1,689 | –2.2 | 11.0 |
| **Total** | **679,725** | **54,223** | **8.7** | **78,734** | **13.1** | **99.2** |
| **Deposits in currencies other than euro** | **5,381** | **1,230** | **29.6** | **1,316** | **32.4** | **0.8** |
| **TOTAL** | **685,106** | **55,453** | **8.8** | **80,050** | **13.2** | **100.0** |

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

***Deposits for more than 2-year term up 65%.***

By type of deposit, those with a term of more than 2 years reported a spectacular annual increase of 65.4%, although this was 1.7 points below the month before. Deposits in currencies other than the euro also reported a notable year-to-year increase of 32.4%, higher than in preceding months. On the other hand, temporary transfers and time deposits of up to 2 years dropped slightly over the course of the past year.

***Assets of mutual funds mark up new all-time high.***

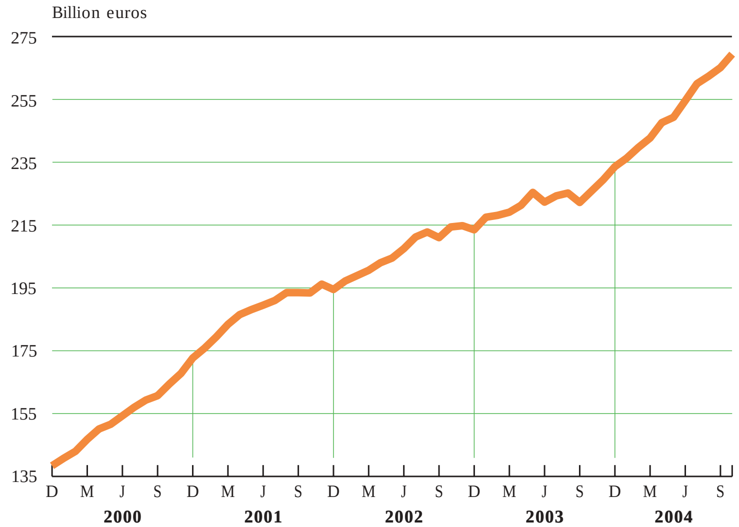
Assets of mutual funds rose by 2.85 billion euros in November going to 217.3 billion euros, an increase of 10.4% compared with the same month in 2004, according to figures provided by Inverco, the sector organization. The increase in November was due to net purchases of units (not counting sales) of 1.44 billion euros and capital gains. In the first eleven months of the year, net purchases of units amounted to 14.5 billion euros. The biggest increases showed up in global funds, short-term fixed-income-based funds and guaranteed funds in a situation of volatile financial markets.

***National share-based funds obtain capital gains of 20%.***

Average weighted yield of mutual funds in the past 12 months was 3.4% in November. All types of mutual funds obtained positive annual yields although with major differences. The biggest annual capital gains showed up in national share-based funds with an extraordinary 20.3% and shared-based funds in emerging markets which reported 17.9%.

SHARP GROWTH IN TIME DEPOSITS

Time deposits at credit institutions




SOURCE: Bank of Spain.

## HOUSEHOLD SAVINGS RATE STANDS AT 10.6%

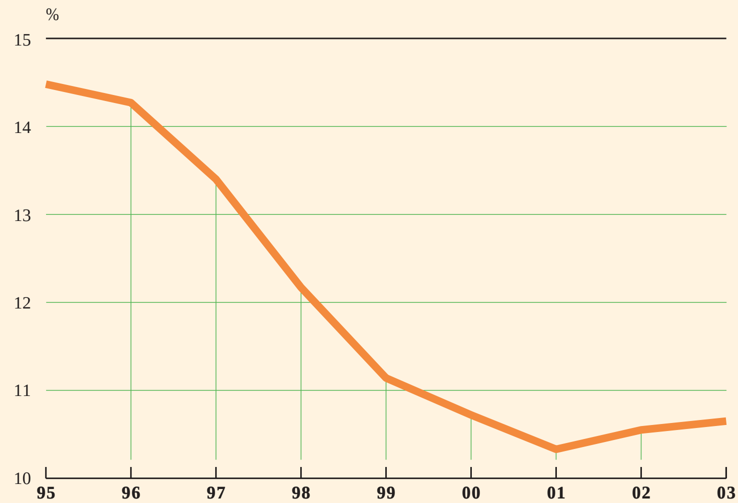
*Household savings, measured in terms of disposable income, stood at 10.6% in 2003, a level similar to that recorded in the previous two years. As a result, household savings continued to be stagnant at low levels. This result was due to apparent increases of around 6% in disposable income and spending on final consumption by households, given that savings is obtained by subtracting consumption from disposable income.*

*With regard to household incomes, flows generated in the production process rose at a rate of 6.4%. In particular, worker wages were up by 6.7% while the net figure for property incomes rose by 9.8%. Nevertheless, social benefits received by households rose to a lesser degree (2.5%) and the net balance of current transfers received was negative which explains the above-mentioned increase in disposable income.*

*Savings generated by households in 2003 amounted to 50 billion euros. These savings were sufficient to finance home purchase which was up by 12.9%. The rest was converted into financial assets and constitutes what is known as financial surplus which rose to only 1.7 billion euros. This amount which represents 0.2% of the gross domestic product (GDP), is the lowest in the series of homogeneous accounting figures available since 1995.*

### HOUSEHOLD SAVINGS STABILIZE AT LOW LEVEL

Gross savings of households compared with gross disposable income




SOURCE: National Institute of Statistics.

*The decrease in financial surplus of households, which acts as the traditional funding of the economy, in spite of a surplus in general government and the increase in the positive balance of financial institutions, meant a substantial increase in the net world borrowing requirement of Spain's economy due to the lack of sufficient internal savings. As a result, this ended the process of correction of the foreign deficit which has been showing up since 2001. Spain's economy thus needed financing from abroad to the extent of 15.55 billion euros in 2003, some 2.1% of the GDP.*

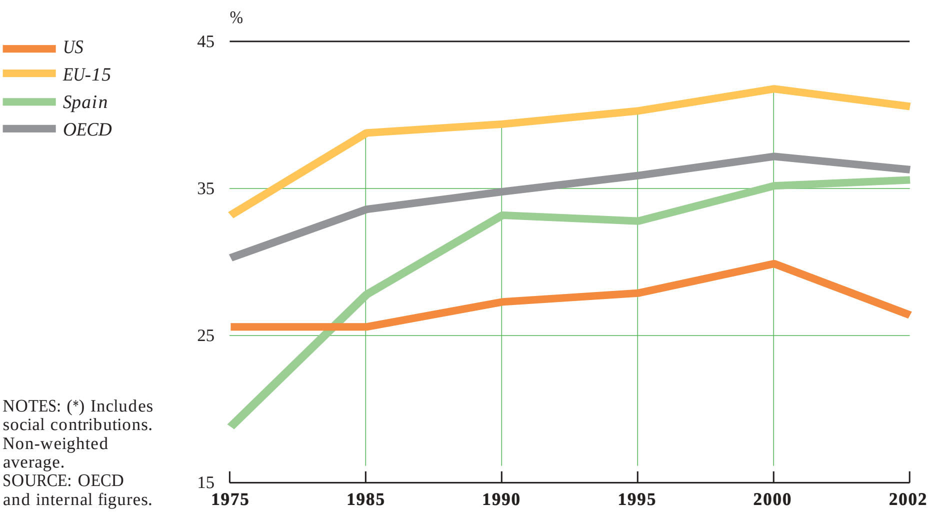
## Tax load stabilizes in developed countries

***General government revenues in OECD countries stabilize around 36.5% of GDP since beginning of current decade…***

The tax load in the economies of those countries belonging to the Organization for Economic Cooperation and Development (OECD) seems to have reached a ceiling, according to figures supplied by that body. Following a process of uninterrupted growth since the mid-Sixties, government revenues in the OECD countries have stabilized, as non-weighted average, at around 36.5% of the gross domestic product (GDP) as of the beginning of the current decade. These figures include social security contributions.

TAX LOAD MODERATES IN OECD COUNTRIES IN RECENT YEARS

Tax revenues as percentage of GDP (*)




NOTES: (*) Includes social contributions. Non-weighted average.
SOURCE: OECD and internal figures.

***…following long-time process of increase which raised tax load by nearly 11 points of GDP since 1965.***

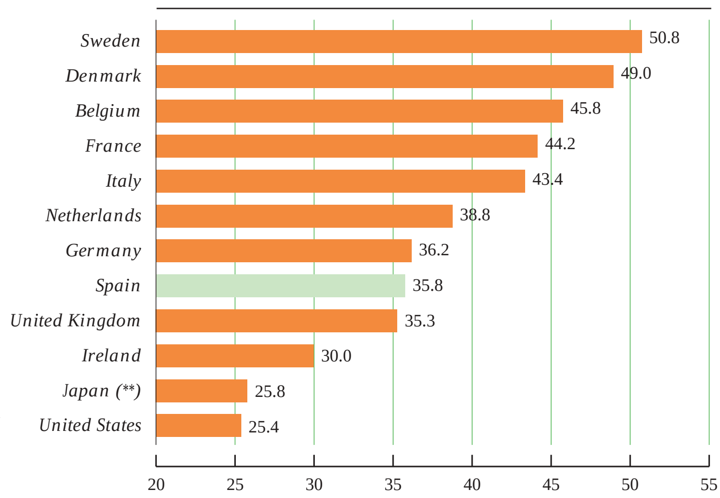
This process of stabilization, however, left in its wake a trail of sharp increases which, for the OECD as a whole, has meant an increase in the tax load by somewhat more than 10 percentage points of the GDP since the levels of 25.8% recorded in 1965. This increase has come in various stages with a sharp phase going up to the first oil «shock» in 1975, some 4.5 points of the GDP in ten years and somewhat less in the following decade, apparently because of the drop in the collections capacity of governments arising from lower real growth and higher levels of unemployment. Between 1985 and 1995 the tax load grew again, although this was not across the board, because of new fiscal reform policies of a liberal nature. Finally, in recent years there has been greater stability and, in some countries, a decrease in the tax load.

**Tax load rises in European Union but not in United States.**

This general trend naturally shows up in quite varying degrees by country and with major differences according to the heading levels in each. In broad terms, the traditional tendency to relative growth of government revenues above that of the economy has been especially sharp in Europe, mainly on the Continent, as opposed to the situation in the American area where stability at much lower levels has been the norm. As a result, while the relative tax load, that is to say, tax revenues in terms of the GDP, with slight swings has held at around 25%, in the European Union (EU-15) it has risen by more than 7 percentage points since 1975 to stand at 40.6% in 2002 as non-weighted average.

MAJOR DIFFERENCES IN TAX LOAD IN OECD

Total tax revenues as percentage of GDP on 2003 (*)

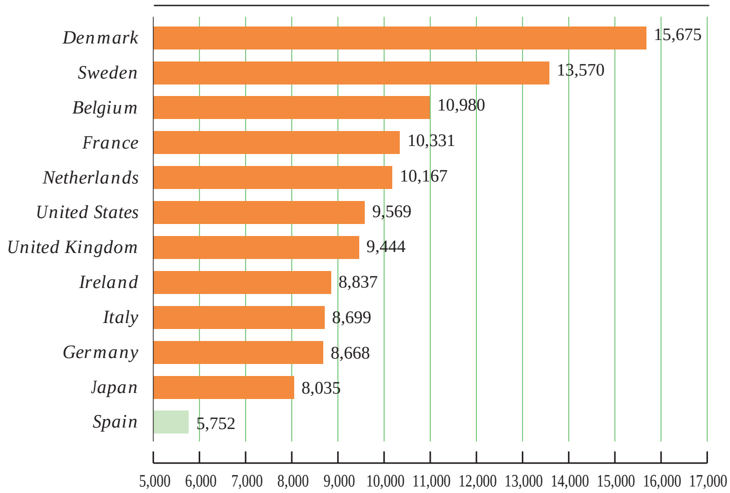



NOTES: (*) Includes social security contributions.
(**) 2002.
SOURCE: OECD and internal figures.

**Political transition and joining European Union define new fiscal model in Spain but, in spite of notable increase, tax load falls short of European average.**

In Spain, the change has been greater due to transformation of the political model and the establishment of democracy. While in 1975 the tax load stood at 18.8% of the GDP, in 2003 it reached 35.8%, that is to say, it practically doubled. In spite of this sharp increase, the tax load in Spain held at a level well below that in those countries with the heaviest tax load such as Sweden and Denmark (50.8% and 49.0% of the GDP respectively) and also below other member states of the EU-15 such as Belgium (45.8%), France (44.2%) and Italy (43.4%). On the other hand, the figures for Germany and the United Kingdom were very similar, both in the range of 35%-36% and well above those reported in the United States and Japan (around 25%) and Mexico, the country with the lowest level in the OECD (18%).

PER CAPITA TAX REVENUES (*)
In dollars (2002)




NOTES: (*) Includes social security contributions.
SOURCE: OECD and internal figures.

***Countries of Northern Europe have biggest per capita revenues.***

The intermediate position held by Spain in considering tax load in relation to size of economy changes substantially when we take into account levels per capita because of the effect of lower relative level of income. In 2002, revenues from general government as a whole came to an average of 5,752 dollars per capita, less than a third of the high figure recorded in Norway and the lowest level in the EU, only above Greece and Portugal. In addition, this level was also substantially lower than that recorded in the United States (9,569 dollars per capita) and Japan while, on the other hand, well above the figure for Turkey (822 dollars), the country with the lowest level in the OECD.

***Tax systems vary according to rates applied to various types of economic activity: incomes, consumption, production or property.***

These differences in total tax load are also evident in the structure of tax collection systems in terms of the relative importance various types of economic activity may have in total government revenues. In this respect, each tax structure appears as a specific combination of tax on income (personal and corporate), on consumption and international trade (general taxes, special taxes and customs duties), on production (social security contributions) and finally on property (property and property transactions). Naturally, a greater or lesser inclination toward one or another type of activity defines the criteria for fiscal policy in each country.

***Overall trend, apart from geographical exceptions, shows reduction in personal income tax, compensated by increase in social security contributions.***

In recent years the relative importance of these different segments of tax, apart from differences between countries, show that the general upward trend in tax load (only eased as of 2000) had been sustained by a bigger relative contribution of social security payments. On the other hand, personal income tax has lost ground in the total practically to the same extent. In addition, we aslo note a slight loss of importance in tax on consumption and international trade in goods and services. The same has taken place in taxes on property in contrast to the higher relative

## GENERAL GOVERNMENT REVENUES IN OECD

As percentage of GDP

| | Social security contributions | | Taxes/personal income and profits | | Taxes/goods and services | | Total (*) | |
|---|---|---|---|---|---|---|---|---|
| | 1975 | 2002 | 1975 | 2002 | 1975 | 2002 | 1975 | 2002 |
| **Europe** | | | | | | | | |
| Germany | 12.0 | 14.5 | 12.1 | 10.1 | 9.5 | 10.5 | 35.3 | 36.0 |
| Denmark | 0.5 | 1.7 | 23.6 | 28.9 | 13.5 | 16.2 | 40.0 | 48.9 |
| Spain | 8.9 | 12.6 | 4.2 | 10.4 | 4.6 | 10.2 | 18.8 | 35.6 |
| France | 14.6 | 16.3 | 5.7 | 10.5 | 11.9 | 11.2 | 35.9 | 44.0 |
| Italy | 12.0 | 12.5 | 5.6 | 13.8 | 7.7 | 11.4 | 26.1 | 42.6 |
| Netherlands | 15.9 | 13.9 | 14.4 | 10.6 | 10.0 | 12.1 | 41.3 | 39.2 |
| Poland | ... | 9.5 | ... | 9.5 | ... | 12.0 | ... | 32.6 |
| United Kingdom | 6.2 | 6.1 | 15.8 | 13.5 | 8.8 | 11.7 | 35.3 | 35.8 |
| Sweden | 8.2 | 15.1 | 21.2 | 17.7 | 10.2 | 13.3 | 42.0 | 50.2 |
| Switzerland | 7.8 | 7.8 | 11.9 | 13.1 | 5.4 | 6.9 | 27.0 | 30.3 |
| **North America** | | | | | | | | |
| Canada | 3.2 | 5.2 | 15.1 | 15.7 | 10.2 | 8.9 | 31.9 | 33.9 |
| United States | 5.2 | 6.9 | 11.8 | 11.8 | 5.0 | 4.6 | 25.6 | 26.4 |
| Mexico | ... | 3.2 | ... | 5.2 | ... | 8.9 | ... | 18.1 |
| **Pacific area** | | | | | | | | |
| Australia | ... | ... | 14.8 | 17.4 | 7.8 | 9.5 | 26.5 | 31.5 |
| South Korea | 0.1 | 4.6 | 3.5 | 6.2 | 8.8 | 9.5 | 14.5 | 24.4 |
| Japan | 6.0 | 9.9 | 9.3 | 7.9 | 3.6 | 5.2 | 20.8 | 25.8 |
| **EU-15 (**)** | **9.1** | **11.4** | **11.7** | **14.0** | **10.1** | **12.3** | **33.2** | **40.6** |
| **OECD-America (**)** | **4.2** | **5.1** | **13.4** | **10.9** | **7.6** | **7.5** | **28.8** | **26.1** |
| **TOTAL (**)** | **6.8** | **9.3** | **11.5** | **12.9** | **9.6** | **11.4** | **30.3** | **36.3** |

NOTES: (*) Total also includes taxes on property and the odd residual tax.
(**) Non-weighted average.
SOURCE: OECD and internal figures.

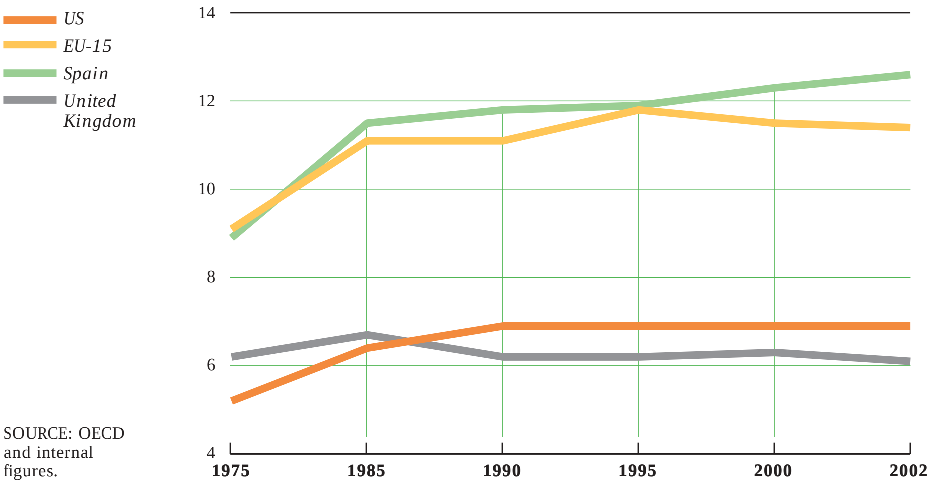
contribution from tax on company profits. In any case, the differences between countries are sufficiently important to make the performance of each source of revenue quite specific.

***Social security contributions account for as much as 16% of GDP in some EU countries while these stand at 6% in United States.***

The role of social security contributions is quite different in the Anglo-Saxon countries and Continental Europe where the level of this source of revenue may reach as high as around 12%-16% of the GDP, more than twice that in the United States or the United Kingdom. The different concept of the Social Security system from one area to the other would explain this big difference. Whereas in countries like Germany, Italy, France and Spain the system largely follows a pattern of insurance which links benefits to contributions paid according to worker wages, in the Anglo-Saxon case and also in some Scandinavian countries social benefits tend to be financed directly by the State out of general funds coming from various taxes. In this way, social security contributions are the key source of funding in countries like France, Germany and Spain, as they represent between 35%-40% of total government revenues whereas in the United States and the United Kingdom the proportion is much lower (26% and 17% respectively).

### SOCIAL CONTRIBUTIONS FUNDAMENTAL IN CONTINENTAL EUROPE

Social contributions as percentage of GDP




SOURCE: OECD and internal figures.

***Share of load of social security contributions between employers and employees uneven.***

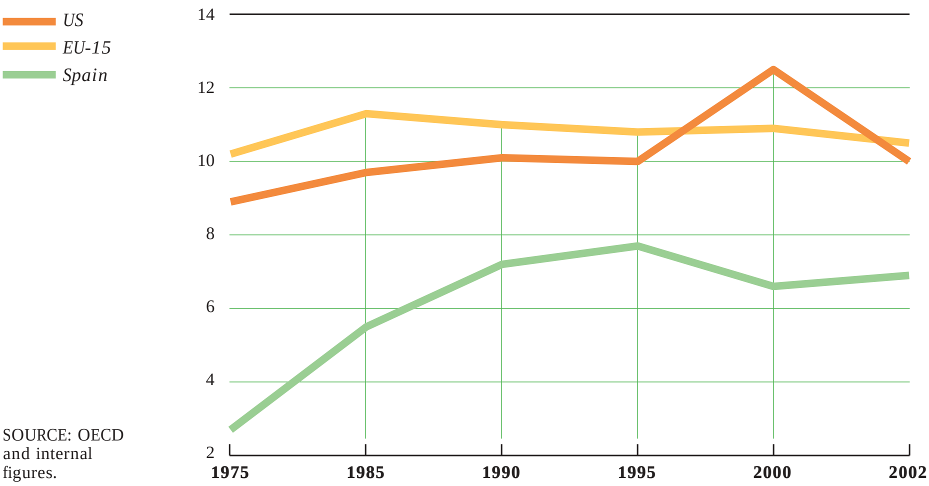
There are also substantial differences in the structure of the share of social security contributions carried by employers and employees. While in countries like the United States, Germany and the Netherlands contributions paid by employees go above 40% of the total, making the contribution of those employed to the social security system very clear, in Sweden, Italy and especially in Spain this proportion stands below 20% (15.9% in Spain).

***Income tax holds similar weight in United States and EU at 10% of GDP.***

Personal income tax, on the other hand, has a similar importance in the EU and the United States given that in both cases in 2002 the figures were slightly above 10% of the GDP. In Spain, on the other hand, following a sharp increase up to 1995, the total tax load has also eased holding at three points below these levels and far from those countries showing the heaviest personal income tax load such as Denmark, Sweden and Belgium. On the other hand, only Japan among the developed countries stood below Spain. In any case, in spite of the decrease in relative importance, personal income taxes continue to be a key factor in government revenues. In the United States, 37% of tax collections come from this source whereas in the EU the share is 25.8% (19.4% in Spain).

## TAX LOAD ON PERSONAL INCOMES TENDING TO EASE

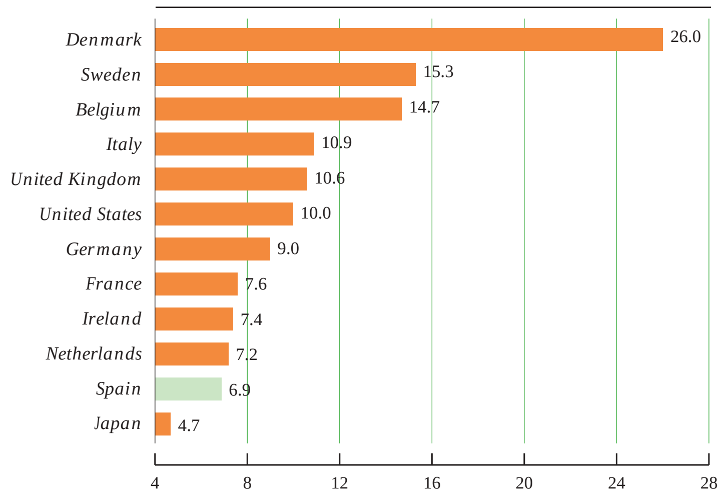
Tax collections on personal incomes as percentage of GDP




SOURCE: OECD and internal figures.

## NOTABLE DIFFERENCES IN TAX ON PERSONAL INCOMES

Tax revenues as percentage of personal income over GDP in 2002



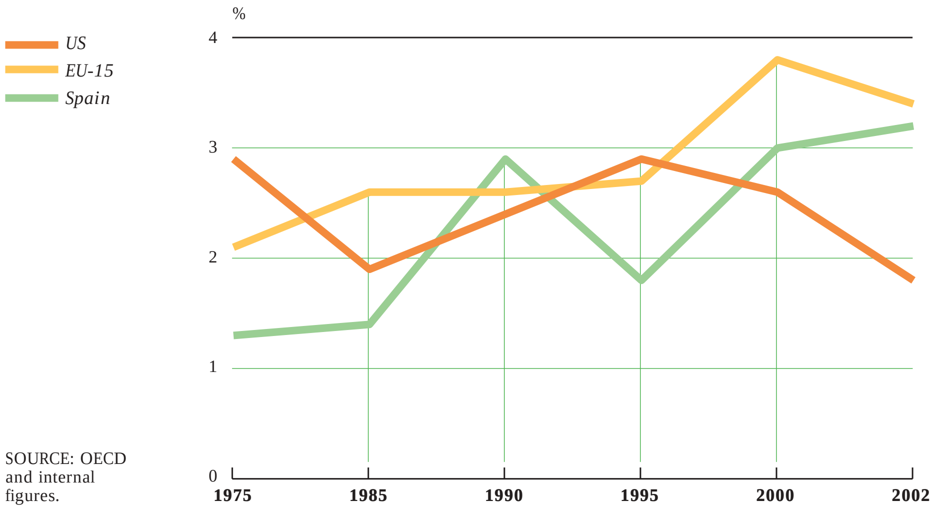

SOURCE: OECD and internal figures.

***Tax on corporate profits make up around 2%-3% of GDP in various countries of OECD.***

The situation in the case of tax on corporate profits is somewhat different. This is an area in which the proportion of the GDP it represents seems to be substantially lower in the United States than in Europe and Spain, a country where it has converged toward the average of the EU. In any case, the relative importance of this tax is rather modest since it amounts to only 2%-3% of the GDP although in some countries, such as Luxembourg, Norway, Australia and even Ireland, it may represent a relevant segment of total tax collections (between 13% and 20%). In spite of this, the differences

## TAX ON PROFITS OF INCREASING IMPORTANCE IN EU

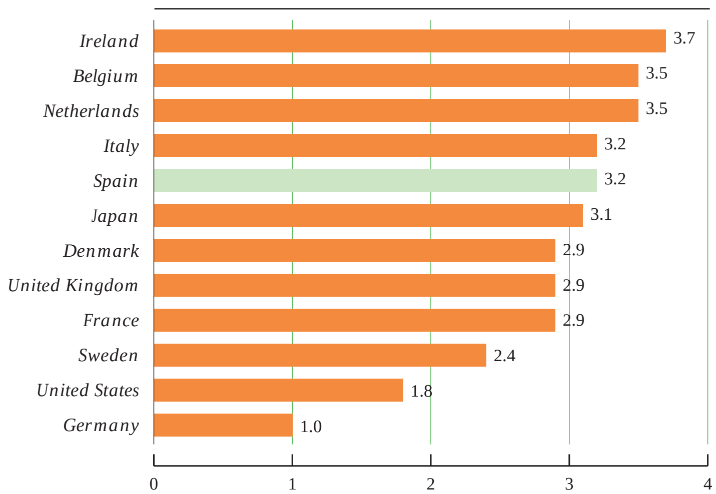
Tax collections on corporate profits over GDP




SOURCE: OECD and internal figures.

## LOW TAX ON PROFITS IN GERMANY

Collections for corporate profits tax as percentage of GDP in 2002




SOURCE: OECD and internal figures.

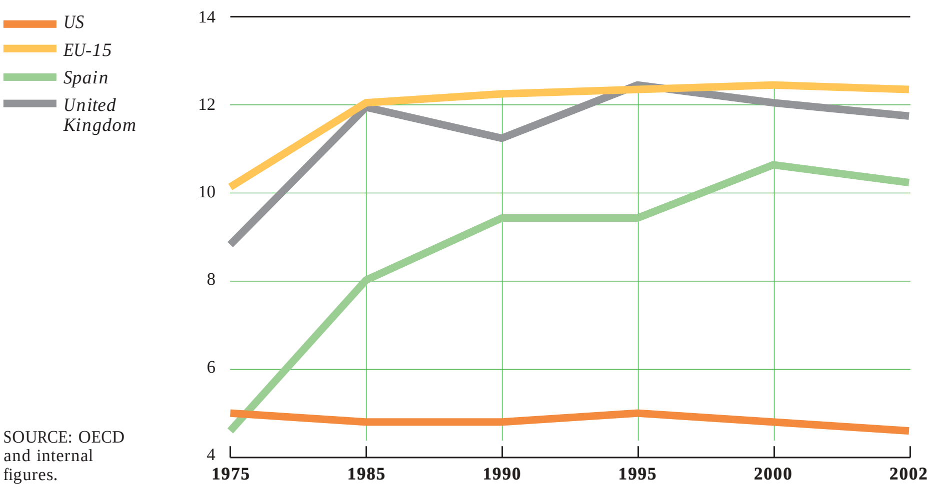
between countries must be taken with care in view of the great variation in corporate profits, not only because of the effect of the economic cycle but also as a result of the possible role exercised by extraordinary profits.

***Revenues from tax on goods and services drop in importance because of lower duties on world trade.***

Another key support for government budgets is to be seen in taxes on consumption and international trade in goods and services although the latter have been dropping in importance with the general reduction in duties on foreign trade. Their relative importance differs greatly according to country, while generally we see a greater dependence on this source of revenue in those cases where the level of development is lower. In the

## TAX ON CONSUMPTION: COURSE LEADING TO LEVELS SIMILAR TO EU

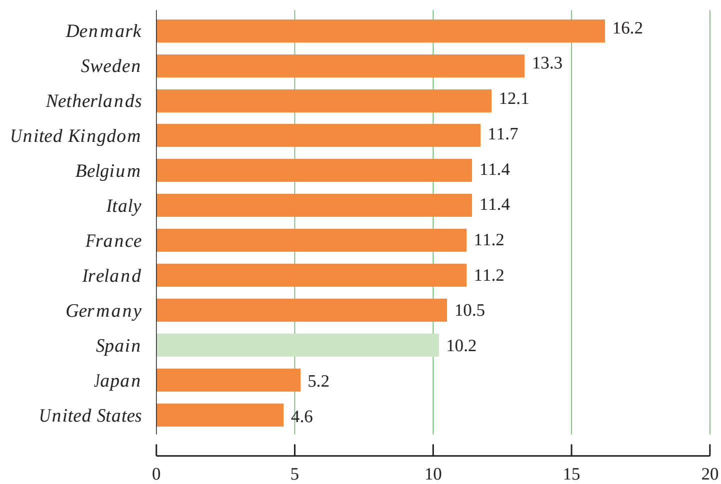
Tax revenues on consumption as percentage of GDP




SOURCE: OECD and internal figures.

## UNITED STATES AND JAPAN OBTAIN LITTLE REVENUE FROM CONSUMPTION

Revenues from taxes on consumption as percentage of gross domestic product in 2002




SOURCE: OECD and internal figures.

case of the European Union, total tax on goods and services represented 12% of the GDP in 2002, a proportion far from the 4.6% reported by the United States whereas in Spain the changes in indirect taxes as of 1986 have meant that this heading has gained substantial ground going up to 10.2% of the GDP and accounting for nearly 30% of tax collections.

***Tax on consumption in EU nearly three times that in United States.***

Under taxes on goods and services, the greater part of collections come from taxes on consumption, both general and special. These revenues, which have been markedly stable in the past 15 years, make up 11.5% of the GDP in the EU-15, nearly three times the proportion recorded in the United States (4.0%). In Spain, on the other hand, the proportion practically doubled between 1980 and 2002 and over the past year reached 9.4% of the GDP, the lowest level in the European countries belonging to the OECD with the exception of Switzerland.

***General taxes on consumption in Spain grow above economy while special taxes hold steady in relative terms.***

On the other hand, under taxes on consumption, particularly in Europe, we note two movements running in opposite directions. One movement is toward a rise in the area of general taxes, mainly in value added tax (VAT), which is now applied in 29 of the 30 countries in the OECD. The other trend is to a drop in special taxes on the consumption of specific products (tobacco, alcohol, fuels, etc.). In Spain, general taxes have grown well above the economy going to 5.9% of the GDP in 2002 (4.1% in 1985) but still represent a lower proportion than the average for the EU-15 (7.5%). Revenues from special taxes, in turn, have remained stable at around 3.5% since 1985, holding below the European average of 4.0% in 2002.

***Taxes on property play more important role in United States and United Kingdom than in most countries of EU.***

Finally, taxes on property (succession duties, property and real estate taxes, etc.) and on various legal transactions represent a relatively low proportion of total government revenues, with the tax load being greater in the United States at around 3% of the GDP, than in the EU (around 2%), a figure somewhat lower than that for Spain. This group of taxes, generally has been relatively stable in recent years although at times governments have not been able to successfully carry out attempts to update their tax bases.

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Francisco Pérez (director), Pilar Chorén, Francisco J. Goerlich, Matilde Mas, Juliette Milgram, Juan Carlos Robledo, Ángel Soler, Lorenzo Serrano, Deniz Ünal-Kesenci and Ezequiel Uriel