T H E   S P A N I S H   E C O N O M Y :

MONTHLY REPORT

FEBRUARY 2005

No. 277   Contents

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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	3.3	5.0	4.8	4.0	3.7	3.6	3.4
Japan	1.3	3.0	1.7	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*	*1.1*	*1.3*	*0.8*	*1.4*	*1.3*	*1.1*	*1.2*	*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	0.5	0.3	0.4
United Kingdom	2.8	2.2	2.3	2.3	2.2	2.1	2.3	2.2	2.1
Euro area	2.1	2.1	1.9	1.7	2.3	2.2	2.3	2.1	1.9
Germany	*1.1*	*1.7*	*1.5*	*1.1*	*1.8*	*1.9*	*2.0*	*1.6*	*1.4*
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	3.3	3.3	3.4	3.4	3.5	3.4	3.4
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	4.7	6.0	2.7	4.1	5.9	6.0	6.1	6.2
Capital goods and other	*1.7*	*5.1*	*8.2*	*0.8*	*3.9*	*7.6*	*7.9*	*8.2*	*8.5*
Construction	*4.3*	*4.4*	*4.4*	*4.3*	*4.2*	*4.5*	*4.6*	*4.5*	*4.4*
Domestic demand	3.2	4.1	4.0	3.5	4.1	4.4	4.3	4.0	4.0
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	8.3	7.8	8.1	9.6	9.1	8.9	8.7
Gross domestic product	2.5	2.6	2.7	2.7	2.6	2.6	2.7	2.6	2.7
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	10.4	11.4	10.9	10.5	10.4	10.6	10.4
Consumer price index	3.0	3.0	2.8	2.2	3.2	3.3	3.4	3.2	2.7
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 US bonds	4.0	4.3	4.6	4.0	4.6	4.3	4.2	4.2	4.5
10-year German bonds	4.1	4.1	3.9	4.1	4.2	4.1	3.8	3.6	3.7
10-year Spanish bonds	4.1	4.1	3.9	4.1	4.2	4.2	3.8	3.6	3.7
Exchange rate									
$/Euro	1.13	1.24	1.32	1.25	1.20	1.22	1.30	1.32	1.34

"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

February 2005

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(See Chapter on Spanish Banking System)

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ECONOMIC PROSPECTS FOR 2005

In the early stages of 2005, the attention of world economic activity is focussed on the United States and China, the two key centres of international growth. The United States **is expected to show more moderate progress in 2005** but its growth rate will be vigorous at above 3%. Investment will remain strong while growth of consumption will consolidate as indicated by latest figures for corporate and consumer confidence. Inflationary pressures are expected to stay within very moderate figures. A breakdown in confidence could come from the imbalances in the foreign sector and the public accounts. Japan, in turn, **will continue to follow modest recovery** with growth rates below 2%. Following the good performance in the foreign sector, very much dependent on the situation in China and the United States, the big unknown in Japan for 2005 lies in the strength of domestic demand. China **will attempt to slow growth down** but, for the moment, there are no convincing signs of this in an economy which continues to show increases of 9%.

The latest indicators for the euro area confirm forecasts of a **moderate recovery following a disappointing year in 2004**. Growth of 1.8% is forecast for 2005, representing no significant change over the year before, but showing a gradual upward profile in contrast to 2004. Inflation, in turn, will not go above 2% on average, thanks to the combined effect of the appreciation of the euro and some easing in oil prices. The pattern of European growth will swing from almost exclusive drive in the foreign sector, as took place in most of 2004, to a bigger contribution from investment and consumption.

The US Federal Reserve **will continue to raise its official interest rate** in coming months given that, in spite of the five increases in the last seven months, its monetary policy continues to be too easy. The European Central Bank, in turn, **will likely hold off for some months before beginning a turn to tighter money**, given the weakness of economic recovery in the euro area. In this context, the yield on government bonds, which currently stands at very low levels, will tend to move upward, particularly in the United States.

With regard to Spain's economy, domestic demand continues to show considerable strength. In a situation of low interest rates and growing employment (more than 450,000 jobs were created in 2004, according to the Labour Force Survey), the drive in domestic demand would appear to be assured. On the other hand, slow growth in Spain's main export markets (more than 70% of its sales go to the European Union) and the loss of competitiveness built up in recent years represent a handicap to potential growth of Spain's economy. In this context, we foresee **growth of 2.7% in 2005**, one decimal higher than the rate estimated for 2004. On the other hand, the containment of prices of manufactured products, which are very sensitive to international competition, and the downward cycle in fresh foods will make possible a **moderate drop in inflation during the course of 2005**. So long as no unexpected events take place to affect oil prices, the annual increase in consumer prices could stand at around 2.7% at the end of 2005, as indicated by current trends.

January 28, 2005

World economic activity running at good rate

Moderate slowdown in world economy still relying on support of good growth rate in United States.

World economic activity continues in a process of gradual slowdown which began in the middle of last year. This has been a very much contained slowdown that has benefited from the fact that it starts out from the high economic levels recorded in 2004, the best for many years. The United States ended 2004 with consumption in a good state, employment recovering strongly and corporate activity moving up, all without setting off pressure on prices apart from the impact of oil. Some factors of specific concern, such as the slowdown in the construction sector, even seem to have improved in the final stages of the year.

Risks in United States arise from massive government deficit which will not be turned around until 2014…

Risks for the future, by no means small, are not to be found in the short-term economic pattern but rather in those imbalances of a more permanent nature. In the first place, there is the worsening of US government finances, a situation taking on troublesome dimensions. The most recent estimates by the Congressional Budget Office indicate that the government deficit will be corrected very slowly so that it will take ten budget years (up to 2014) to convert the deficit of 4.2% in the gross domestic product (GDP) for the fiscal year 2004 into a budget surplus. For the moment, the Budget Office's forecasts for the fiscal year 2005, which runs from October 2005 to September 2006, set out a government deficit of 3.0% of the GDP. This figure does not take into account the budgetary impact of economic policy measures already announced but not approved, such as making permanent the tax cuts instituted in Bush's first mandate, although they were to expire in 2010, or the full cost of the war effort in Iraq and Afghanistan.

…and major current account deficit close to 6% of GDP.

Secondly, the insatiable appetite of domestic demand has a counterpart that shows up as a growing dependence on trade and financing from abroad which is reflected in a current account deficit already reaching 5.6% of the GDP. In any case, it should be remembered that US consumption acts as a bellows boosting the expansion of China (an economy which showed notable growth of 9.5% in 2004) and, by extension, that of the other industrialized Asian economies. It is true that in recent months domestic demand in Asia is beginning to play a greater role.

Domestic demand in Japan and China showing recovery trend.

In Japan, recovery of sales of housing and cars indicate that private spending is gradually increasing. Also indicative of the turnaround in domestic demand is that, after 67 consecutive months of deflation, consumer prices left behind the range of year-to-year drops as of last September. In China, the growth rate of retail sales, showing a slight drop but still maintaining very high levels, points in the same direction of strength in private consumption.

Europe makes moderate but appreciable improvement in economic situation at end of 2004…

Europe also may be coming close to the end of the economic dead-end in which it has been stuck since 2001. As a whole, the European Union (EU) improved its economic state in the fourth quarter of 2004 although domestic consumption continued to be the main element still needed to give strength to recovery. Nevertheless, it is worth pointing out that, behind this overall performance there are underlying national economic situations of quite disparate nature. Those economies more advanced in the cycle are suffering from a slowdown in activity which likely will continue in the first half of 2005. This is the case with France and the United Kingdom. On the other hand, Germany and Italy, not as far forward in the economic cycle may have hit bottom at the end of 2004 and should be able to advance as of the beginning of this current year.

…a situation being used to move forward in reform of Stability and Growth Pact.

The economic situation in Europe, without being splendid, is not as dark as some months ago. This situation may have contributed to the fact that work on reforming the Stability and Growth Pact, the mechanism for controlling government finances in the euro area, has gone ahead. In the absence of a final agreement, which should be reached by the European Council in March, the ministers of economy and finance have narrowed their positions on the basis of two principles. The first, sets out that the Pact should accentuate its preventive character, increasing surveillance in the expansionist stages of the economic situation. The second principle provides for a more flexible reading of the mechanism in stages of lower economic growth which should incorporate evaluation of efforts made in the matter of structural reforms and other measures which make it possible to improve the future sustainability of government finances.

As expected, central banks make no moves in January.

The economic trends, which are following the expected path, have meant that monetary policy of the central banks has not come up with any surprises. In the United States, the increase in official interest rates is following its expected course so that, since June 2004, every meeting of the Monetary Policy Committee has ended up with a rise of 25 basis points taking it to 2.25%. The European Central Bank, in turn, has kept its interest rate unchanged at 2% while waiting for recovery to consolidate more clearly. With regard to long-term interest rates, which started out at very low levels at the end of 2004, these again moderated at the beginning of 2005 both in the United States and Europe.

At beginning of 2005 dollar recovers part of drop in previous months.

The beginning of 2005 has brought important news in other financial markets. The stock markets showed a notable rise in the final months of 2004, so that the swings recorded in the main markets in January may largely be interpreted as a partial correction of the previous rise. In any case, the downward trend was sharper in US and Japanese markets than in European markets. The rise in the dollar against the euro recorded in January also represented a change in trends seen at the end of 2004. After marking up an all-time low of 1.363 dollars to the euro on December 28, the euro depreciated to a level of 1.30 dollars at the end of January.

Spain's economy: domestic demand maintaining growth drive

At end of 2004 Spain's economy continues previous trends: strong domestic demand with drag from foreign sector.

The end of 2004 has confirmed the trends seen in Spain's economy in recent months. While domestic demand shows notable strength, the foreign sector continues to act as a brake. As a result, the latest available indicators suggest that capital goods investment is maintaining a strong growth rate. As something of a contrast, household spending may be pointing to incipient signs of wearing out, although continuing to maintain a strong state, given that the positive trend in car sales and consumer confidence stands opposed to the downward trend in retail sales. As mentioned earlier, all of this has one main block in the drag being imposed by the foreign sector. The trade deficit is already up to 49 billion euros as the cumulative figure for the January-October period.

Construction continues to show positive state while tourism and industry report rather poor year.

On the supply side, the most positive signs come from construction which, as a result of the residential and public works segments, is maintaining a high rate. On the other hand, the tertiary sector, excluding tourism, is moving down to a moderate degree although the growth level is still notable. The situation in tourism deserves separate mention. While the poor summer season indicated it was going through a difficult year, the rise in the final stages of 2005 and the increased importance of the national tourist segment made it possible to partly ease the summer squeeze. In overall terms, 2004 was a poor year for tourism but not totally negative. Industry, in turn, raises some doubts given that it was undergoing a notably uneven situation in 2004, the result of strong foreign competition and shifts in investment and relocation of foreign companies. The most recent trends would indicate incipient recovery which should be confirmed in the near future.

Despite inflation going to 3.2% in December, future prospects are for lower pressure on prices.

Positive expectations on inflation should also become a reality. While the consumer price index ended the year at 3.2% year-to-year, a relatively high level, the rise in inflation was largely brought about by the increase in energy prices. The rise in oil prices had a direct effect on fuels and fuel oils, as reflected in transport and housing (through heating costs). Because of this, forecasts for a moderate drop in oil prices, together with the recent trend to containment of prices at origin, both farm and industrial, make it possible to hope for a gradual downward course in inflation for 2005.

2004 ends with good figures in registrations with Social Security and registered unemployment.

With regard to the labour market, the end of 2004 confirmed an overall positive year. In December, the number of persons registered with Social Security went above 17 million, an all-time high figure for year-end, thanks to an increase of 573,000 registrations in the year as a whole. Behind this substantial increase lies the rise in immigration which was responsible for a third of the total rise. At the end of 2004, foreign workers registered with Social Security went above one million, equivalent to 6.4% of all registrations. In registered unemployment as well results were satisfactory, given that, following three consecutive years of increase, 2004 ended with a drop in the number of unemployed.

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

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%.*
	28	***Euro** running at 1.363 dollars, highest figure since launching of single currency at beginning of 1999.*
		*Dow Jones index for **New York stock exchange** records annual high (10,854.5), a rise of 3.8% compared with end of 2003.*
	29	*IBEX 35 index for **Spanish stock market** marks up annual high (9,100.7), a cumulative gain of 17.6% compared with end of December 2003.*

AGENDA

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).*

March

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

4 *Industrial production index (January).*

11 *Consumer price index (February).*

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

17 *Quarterly survey of labour costs (4th Qtr.)*

18 *Ongoing survey of household budgets (4th Qtr.)*

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

28 *Producer price index (February).*

United States showing strong performance

US economy recovering upward trend.

US economic activity indicators held to an upward trend in December. For the moment, inflationary pressures are moderate and the biggest risk continues to lie in the foreign deficit, which still has not touched bottom, and the government deficit.

Retail sales in December up by 9% while car sales recover to show 12% rise.

Among monthly demand indicators, economic activity in December showed a better state than the previous month. Retail sales grew by 8.7% year-to-year which meant a recovery of the strength shown at the beginning of 2004. Running along the same lines, industrial production of consumer goods was up 2.7% at the same time improving on the month before. Car sales kept pace with growth of 12.4% over the same period the year before, recovering from the weakness shown in November. Nevertheless, prospects for the motor vehicle sector for 2005 are slightly downward, following a good performance in 2004. Industrial production of capital goods, in turn, grew by 9.8% year-to-year in December, a rate higher than the 9.0% in November.

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	December
GDP	1.9	3.0	5.0	4.8	4.0	–	...	–
Retail sales	2.5	5.3	7.8	7.8	6.5	8.8	7.2	8.7
Consumer confidence (*)	96.6	79.8	91.6	96.3	100.4	92.9	92.6	102.3
Industrial production	–0.3	0.0	2.8	4.9	4.6	4.5	3.7	4.4
Sales of single-family homes	7.6	11.6	22.2	9.2	0.2	12.0	3.6	...
Industrial activity index (ISM) (*)	52.4	53.3	62.5	62.1	59.8	56.8	57.8	58.6
Unemployment rate (**)	5.8	6.0	5.7	5.6	5.4	5.5	5.4	5.4
Consumer prices	1.6	2.3	1.8	2.8	2.7	3.2	3.6	3.4
Trade balance (***)	–39.0	–44.4	–45.4	–47.8	–50.5	–51.6	–53.3	...

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 shows strong recovery.

The consumer confidence index for December showed a sharp rise to 102.3 points, up from the 92.6 level in November, with a slight upward revision. With this strong monthly increase, there was a recovery of the upward trend that began in April 2003, that in recent months has seemed in doubt. The index now stands at the level of the highs seen at the beginning of summer. The current situation component also rose to 105.9. The prospects component, also the most volatile, was the one to show the biggest rise. In December it went to 99.9 points compared with 90.2 in November, revised from 87.4. Consumers seem to be more comfortable with the current situation, now that electoral uncertainties have passed, especially with the slow but continuing improvement in employment figures.

Industrial production up 4%.

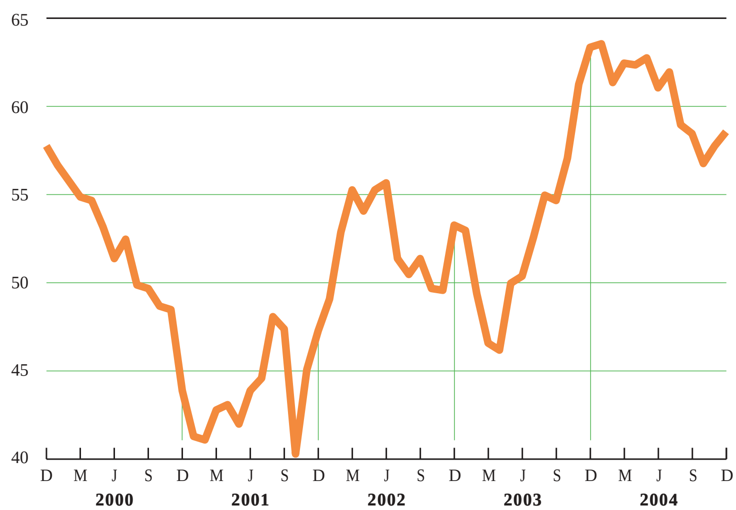
Supply indicators also joined the upward move. Industrial production in December grew by 4.4% year-to-year, thus improving on the relatively weak growth rate in November, which was revised downward to 3.7%. Following revisions of the index, growth appears to stand at values slightly above 4%, this showing up as something more and more stable although below the growth rates seen in previous recoveries.

Corporate circles confirm optimism while new order prospects index reaches highest level in last 20 years.

While the increases in industrial production were moderate, the manufacturing index of the Institute of Supply Management (ISM) in December showed sharper recovery than that in November. The general manufacturing index moved up from 57.8 points to 58.6. The production component continued to be the only one showing relative weakness, repeating practically the same figure as the month before, going from 57.0 to 56.9. The important component of new orders continued to the highest, going from 61.5 to 67.4 points, a figure which in the past 20 years has been beaten only between November 2003 and January 2004. At a similar level, the non-manufacturing component went from 61.3 in November to 63.1 in December. The good situation presented, which was a continuation of the excellent trend seen the month before, would indicate growing corporate confidence in the current economic situation.

US CORPORATE SECTOR SHOWING BETTER PROSPECTS

Value of ISM corporate activity index



SOURCE: Institute of Supply Management.

Construction sector shows halt to downward trend.

It was in the construction sector that the slowdown in the US economy seemed to show up most. Nevertheless, figures for December indicate some recovery of activity. Housing starts in December were down 3.0% year-to-year, much more moderate than the drop of 12.0% in November. Nevertheless, the month-to-month increase in December was 10.9% whereas November had brought a drop of 12.5% compared with the month before. Sales of existing housing units grew by 12.5% year-to-year in November and by 2.7% month-to-month, whereas in October the year-to-year growth rate had been 5.8%, a repetition of the figure for September. On top of this upward situation, the average price of existing housing increased growth rate to 10.4% year-to-year, the highest rate in recent years.

Labour market continues to recover.

The labour market continued to recover. Of the 2,718,000 jobs lost between March 2001 and August 2003, some 2,477,000 have now been recovered. Some 157,000 new jobs were created in December and the figure for jobs created in November was revised from 112,000 to 137,000. Manufacturing employment remained weak although some 3,000 jobs were created in December compared with the loss of 9,000 jobs the month before. Unit labour costs dropped by 0.8% year-to-year in December while hourly wages were down by 2.6%.

US EMPLOYMENT CONTINUES TO RECOVER

Non-farm employment in thousands of persons employed

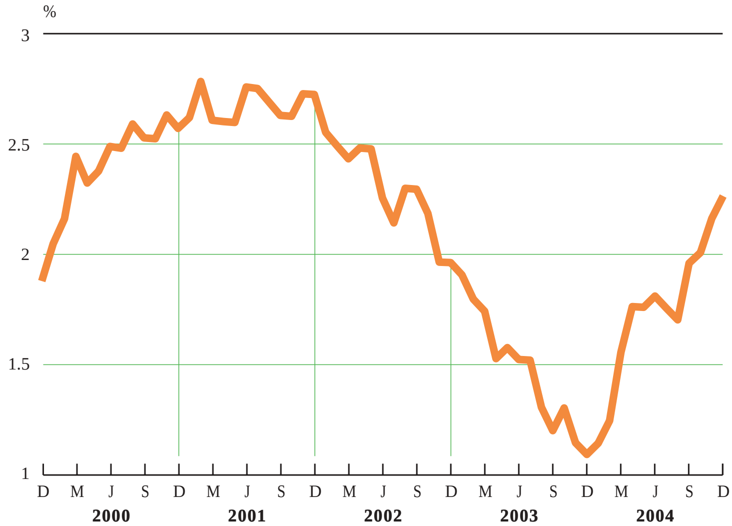
SOURCE: Department of Commerce.

Inflation at 3.4% while component excluding energy and food up to 2.3%.

In the area of prices, the situation is relatively calm. The seasonally-adjusted consumer price index grew by 3.4% in December, down from the 3.6% reported in November. The month-to-month change showed a drop of 0.1%, reflecting the easing in the price of oil and pointing to a run of lower year-to-year inflation rates in coming months. Nevertheless, the prices component excluding energy and food showed a different performance, moving up by 2.3% year-to-year, slightly above the previous 2.2%. This component has been showing an upward trend since the beginning of 2004, although at that time it had reached lows not seen since 1963. The month-to-month increase was 0.2%, thus repeating the rate for the previous two months. Producer prices, which in November had given cause for concern, slowed to 4.1% year-to-year and dropped by 0.7% compared with November, thus helping to create a picture of very gradual upward trends.

UNDERLYING INFLATION SHOWS SLIGHT RISE

Year-to-year change in consumer price index excluding energy and food

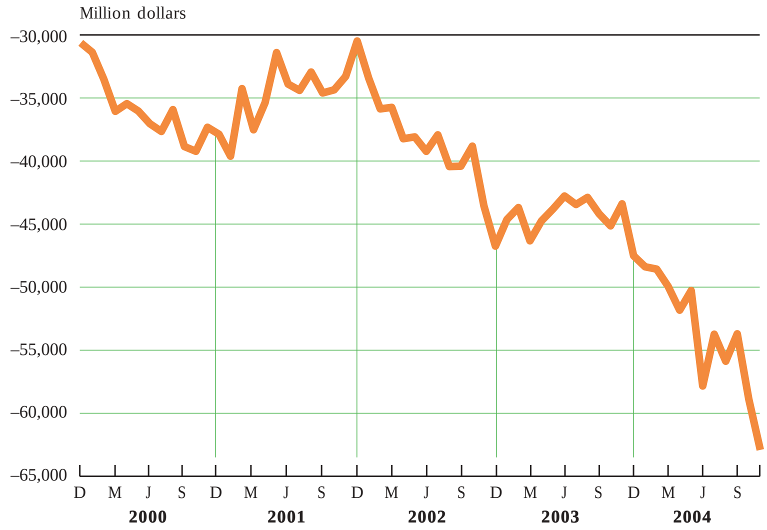


SOURCE: Department of Commerce and internal figures.

Trade deficit still not hitting bottom, going to 62 billion dollars in November.

The negative side remains concentrated in the foreign sector which continues to grow worse. The trade deficit was 62.9 billion dollars in November, another record. In the past 12 months ending in November, the deficit reached 639.3 billion dollars, some 20.3% higher than in the same period the year before. Exports showed 61.3% of the figure for imports, a low which reflects the weak export capacity of the US economy. Exports in November grew by 6.0% year-to-year as against 11.0% the month before. On the other hand, imports continued to grow sharply in November with a figure of 19.8% year-to-year, thus reflecting the higher consumer confidence level and the strength of domestic demand.

UNITED STATES INCREASING ITS TRADE DEFICIT
Monthly trade balance figure



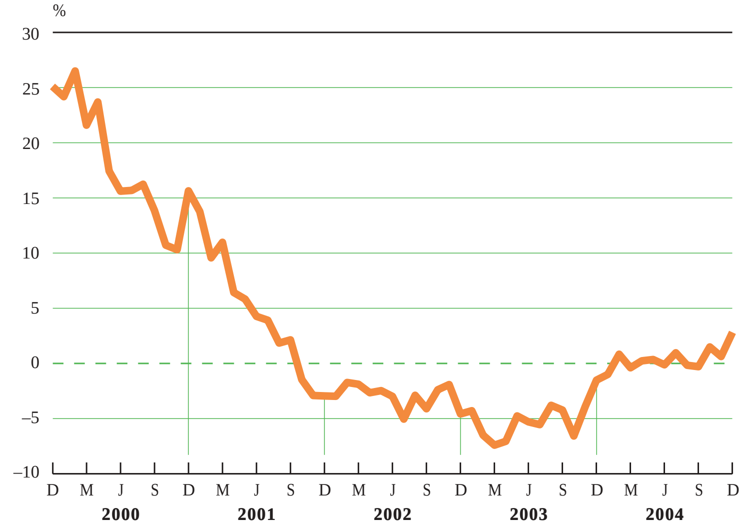
SOURCE: Department of Commerce.

Japan's economy showing recovery

Car sales in Japan up 11% in December.

Demand indicators, machinery orders and prices in Japan's economy showed improved strength in November. Among demand indicators, retail sales were up by 1.0% year-to-year in November following three months of continuing decreases. Car sales grew by 11.5% in December compared with the same period the year before, partly maintaining the strong recovery seen in November when they grew by 18.2%. Even taking into account the volatility of this indicator, the trend here is clearly upward.

HOUSING UNIT SALES RECOVER
Year-to-year change in housing unit sales (*)



NOTES: (*) Cycle-trend series.
SOURCE: Japanese Institute of Real Estate Economy and internal figures.

Housing showing incipient recovery.

Housing also showed more optimistic indicators in December than in the previous month. Sales of housing units in Tokyo were up 17.9% year-to-year, thus confirming the sensation that the sector is leaving behind its bottom point following the bursting of the real estate bubble. Average housing prices rose by 0.6% year-to-year, a rate that, while lower than in previous months, would confirm a gradual upward trend. What seems significant is that the rise in the number of housing units sold comes at the same time as the rise in average price.

Industrial production up by only 2% while machinery orders recover with growth of 13%.

The picture in supply indicators is not as clear. Industrial production grew by 2.0% year-to-year in November. The recovery that had begun at the end of 2001 was interrupted, given that, after an August with increases going to 8.4%, this indicator has been visibly weakening. On the positive side, machinery orders were up by 13.3% following two months of real weakness. In addition, some 1,109 companies went into bankruptcy in December and the total figure for 2004 reached 13,679, which was a notable decrease of 15.8% compared with 16,255 bankruptcies in 2003.

November unemployment at 4.5% while employment in services up 4.4%.

The labour market continued the pattern seen in recent months. The unemployment rate went down to 4.5% in November. Non-farm jobs dropped by 0.1% year-to-year. Manufacturing employment was down by 2.9% compared with the same period the year before. The shift of the Japanese labour force to the tertiary sector continued with employment in the services sector growing by 4.4%. Productivity of employment increased by 1.4% year-to-year in November, which, in spite of being an improvement over October, was still a long way from rates seen in most of 2003 and the first half of 2004.

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	0.6
Industrial production	–1.3	3.3	5.0	8.3	6.5	1.6	2.0
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	0.2
Unemployment rate (**)	5.4	5.3	4.9	4.6	4.8	4.7	4.5
Consumer prices	–0.9	–0.3	–0.1	–0.3	–0.1	0.5	0.8
Trade balance (***)	11.8	12.4	13.2	14.2	14.6	14.4	14.3

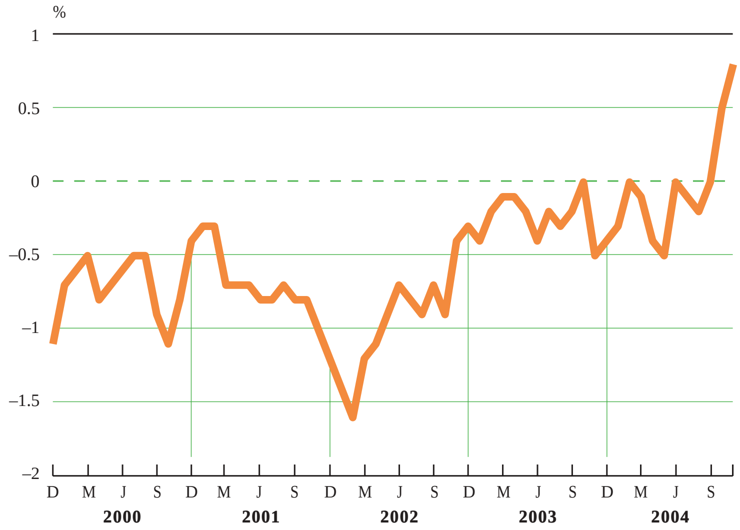
NOTES: (*) Value.
(**) Percentage of labour force.
(***) Cumulative balance for 12 months. Trillion yen.
SOURCE: OECD, national statistical bodies and internal figures.

Prices up by 0.8% and deflation seems thing of past.

Consumer prices grew by 0.8% year-to-year in November, a rate that has not been seen since the Spring of 1998, which helps to confirm Japan's exit from the period of deflation that began early in 1999. While at this moment we are seeing a peak which will tend to ease off, it would seem that a slight upward trend in prices has come to stay.

DEFLATION IN JAPAN BEGINNING TO BE THING OF PAST

Year-to-year change in consumer price index



SOURCE: Ministry of Communications (Japan), National Office of Statistics and internal figures.

Trade figures stabilize while largely dependent on situation in China and United States.

The trade balance for 12 months ending in November showed a surplus of 14,300 billion yen, but November was especially weak. The trade surplus has not grown since July, which is a notable factor for an economy such as that of Japan, based on growth of exports, and taking into consideration the present prospect of slower growth of its main foreign buyers, China and United States.

China: economy grows more than 9% in 2004

China grows by 9.5% with industrial sector leading.

China's gross domestic product (GDP) grew by 9.5% year-to-year in the fourth quarter, which also put annual growth for 2004 at 9.5%, according to early provisional figures. In the fourth quarter, industry grew by 11.1% while the farm sector was up by 6.3%, both showing a slight increase in growth rate. The services sector, in turn, rose by 8.3%. Exports were up by 35.6% and imports grew by 30.6%. The hoped-for gradual cooling off of the economy thus remains still some way off.

Industrial production up 15%.

In this context, industrial production grew by 14.4% year-to-year. While this growth rate is high, it seems to be stabilizing with a slightly downward trend. The heavy industry component, of key importance for raw materials markets, continued along the same path with growth of 16.4% in November with no clear reduction of growth in sight. The light industry component showed somewhat more of a slowdown seeing that it grew by 13.0% in November as against 15.1%. Nevertheless, the trend in this indicator goes more toward an increase. The relative weight of the state conglomerates in industry was being reduced in 2003 and the first quarter of 2004 but at this moment this trend seems to be stagnant at slightly above 41%.

CHINA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before, unless otherwise indicated

	2002	2003	2004					
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
GDP	8.2	9.3	9.8	9.6	9.1	–	9.5	–
Industrial production	12.7	16.7	16.6	17.6	15.8	15.7	14.8	14.4
Consumer prices	–1.5	1.9	2.3	3.7	4.4	2.5	2.8	2.4
Retail sales	–	13.0	10.7	14.9	13.4	14.2	13.9	14.5
Trade balance (*)	30.4	25.5	17.9	13.6	20.3	21.6	26.6	31.9

NOTES: (*) Cumulative figure for 12 months in billion dollars.
SOURCE: National Statistics Office of China, Thomson Financial Datastream and internal figures.

Vehicle production moderating but electrical power and computers stabilize at rates of 40%.

Production of electrical power rose by 14.4% year-to-year in November with a background trend which still has something of an upward slant. Production of personal computers also continued a vigorous pace with growth of 43.3%, although still far from the three-digit increases in 2003. While personal computers are undergoing a process of slowdown after this period of explosive growth, the growth rates are stabilizing at high levels of the order of 40%. Industrial production of motor vehicles is showing a very similar pattern but here the process of slowdown seems not to have hit bottom. In November, it rose by only 6.0% compared with the same period the year before. Cement production in turn rose by 16.8% year-to-year in November and also is showing no signs of slowing down.

Retail sales end process of sharp increases but growing by 14%.

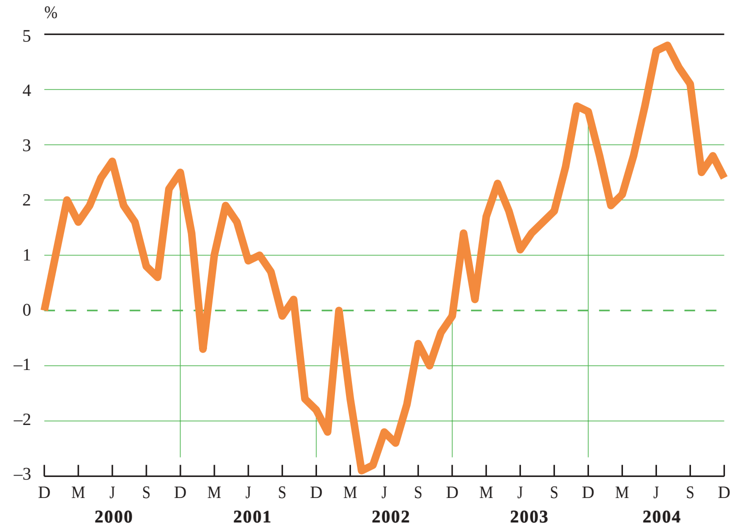
Retail sales showed some easing of their sharp growth rate in December. The general component grew by 14.5% year-to-year which meant a minimal increase compared with the November rise of 13.9%, although this was substantially revised downward compared with the initial figure of 18.5%. In the urban areas, growth was somewhat higher at 14.7%, thus maintaining the growth rates seen in previous months. In the rural areas, retail sales in November rose by 11.4%, slightly below the 12.1% in October. The component of food products showed a rise of 18.8%. While these growth rates are high, the downward revision of the rise at the end of summer and the beginning of autumn at least removes a dangerous state of increase which was exacerbating the government's difficulties in putting a brake on domestic demand.

Prices drop by 0.2% in November due to food prices.

The consumer price index for December rose by 2.4% year-to-year, thus showing a very different situation from the inflationary fears of the summer when it went to rates close to 5%. Food was the component most reflected in this slowdown with a decrease in prices of 2.0% year-to-year in November whereas the month before they had grown by 4.7% and moved up by more than 10% in the summer. Another component showing a drop was medicines and health care with a decrease in prices of 2.1%. By province, the urban area of Jiangsu, in which we find Shanghai, was one of the areas to see the biggest drop in prices. In spite of the lack of exactness in official figures, the process of price moderation, which began in the two months previous, is showing sure signs of consolidating.

INFLATIONARY PRESSURES EASING

Year-to-year change in consumer price index



SOURCE: National Statistics Office of China and internal figures.

Trade surplus close to 31.9 billion dollars based on exports to Europe and United States.

The trade surplus for the past 12 months as of December reached 31.9 billion dollars. The downward trend in previous months has been halted over the past five months. By country and area, this positive balance is based mainly on the rise in the surplus with the United States and Europe which in the July-November period rose by 8.3 billion dollars to 77.9 billion dollars in the US case and by 8.04 billion dollars to 32.1 billion dollars with Europe, in which the appreciation of the euro has some bearing. In contrast to this situation stands maintenance of the deficit with Asia, specifically with Japan and South Korea, amounting to 20.9 and 33.8 billion dollars respectively.

Rise in manufacturing exports higher than imports of raw materials.

By product, this improvement is based on an increase in manufacturing exports which in the 12 months ending November rose by 47.1% year-to-year. Growth of imports of raw materials continued but did not compensate for the major increase in exports of manufactured goods. Imports of iron were up by 112.5% year-to-year in November, aluminium imports were down by 17.8% while copper imports dropped by 8.1%.

Mexico: robust growth based on consumption and investment

Mexico grows 4.4% in third quarter, investment up 9%, with rise of 6% in consumption.

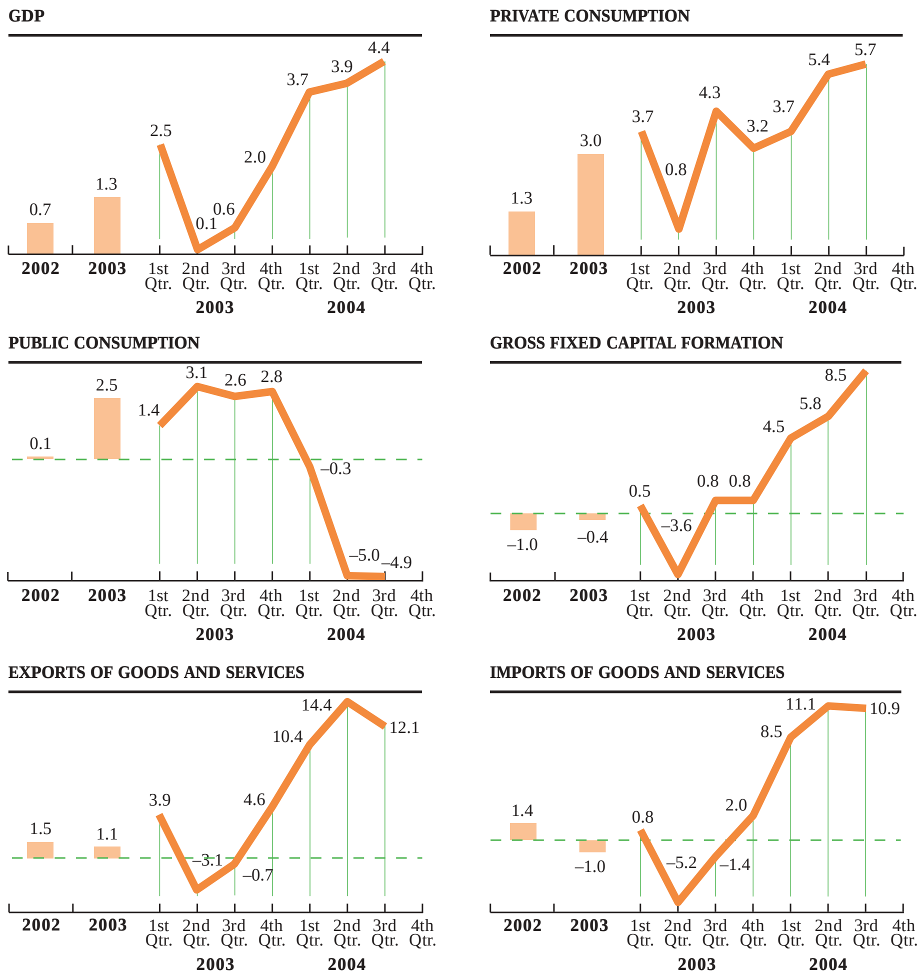
The Mexican economy grew by 4.4% year-to-year in the third quarter, up from the 3.9% in the second quarter and is advancing strongly in its upward cycle. The various components of the GDP confirm this picture in Mexico. Private consumption rose to 5.7% and continued to be a key support for Mexican growth. Public consumption, formerly showing substantial increases, was outside the general picture with a drop of 4.9%. Investment was the other strong support of economic growth with an increase of 8.5% which gives good prospects for a continuation of the present cycle. The foreign sector, while negative, keeps improving and

Improvement in foreign sector stagnant.

making a positive contribution to the GDP, although much less than in the second quarter. Exports showed more moderate growth going from 14.4% to 12.1% year-to-year while imports were up by 10.9%.

TREND IN MEXICO'S GDP BY COMPONENT

Percentage year-to-year change rate



SOURCE: Central Bank of Mexico and internal figures.

Transport and communications, retail sales and manufactures leading growth.

By production sectors, transport and communications and retail sales again led economic activity with year-to-year growth at 9.3% and 4.9% respectively, in both cases representing an increase. We should also add manufacturing which increased its growth rate to 5.0%.

Retail sales recover while industrial production moves up to 5%.

Among monthly economic activity indicators, retail sales recovered compared with figures for the summer to show an increase of 6.6% year-to-year in October. On the supply side, industrial production for November, in keeping with the general picture, rose to 5.5% year-to-year. Within this indicator, the component showing the most decided trend was manufacturing which went from growth of 1.1% to 5.7%. The construction component also showed strong with an increase of 6.6% as was the figure for «maquiladoras» (companies located in low-cost Mexico for export to United States) which rose by 6.8% year-to-year.

MEXICO: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004					
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
GDP	0.7	1.3	3.7	3.9	4.4	–	...	–
Industrial production	–0.3	–0.8	3.2	3.8	4.9	2.0	5.5	...
Unemployment rate Mexico City (*)	3.0	3.6	4.8	4.5	5.2	4.1	5.2	...
Consumer prices	5.0	4.5	4.3	4.3	4.8	5.4	5.4	5.2
Trade balance (**)	–7.9	–5.6	–6.0	–5.5	–6.0	–5.9	–7.0	...

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

Unemployment recovers upward bent.

The labour market, however, did not manage to deal with present threats and the unemployment rate in Mexico City returned to 5.2% in November while holding to a troubling upward trend. Manufacturing productivity, very important in view of growing competition from abroad, grew by 4.4% year-to-year in October, which meant something of a dip from the figures last summer.

Inflation in December at 5.2% while component excluding food and energy moves up slightly to 3.8%.

Consumer prices in December recorded a year-to-year increase of 5.2%, which slightly moderates the upward trend seen last autumn, thus reflecting some easing in the price of oil. One matter of concern is the component of consumer prices excluding food and energy which consolidated its growth rate at 3.8% year-to-year in December. This, however, meant relatively low inflation rates, if we consider the recent history of Mexico's economy.

Trade deficit growing in spite of oil exports.

The trade balance for the 12 months ended in November showed an increase in negative balance to 7.0 billion dollars, which is in keeping with the export slowdown in the GDP and robust domestic demand. If we take off oil exports, the negative balance rises to 30.5 billion dollars, thus continuing the worsening of the picture in recent months. This deficit continues to be the main flaw in the positive picture of Mexico's economy. Oil exports in the third quarter were up 35.5% year-to-year, which meant a boost for the foreign sector too much subject to sharp fluctuations.

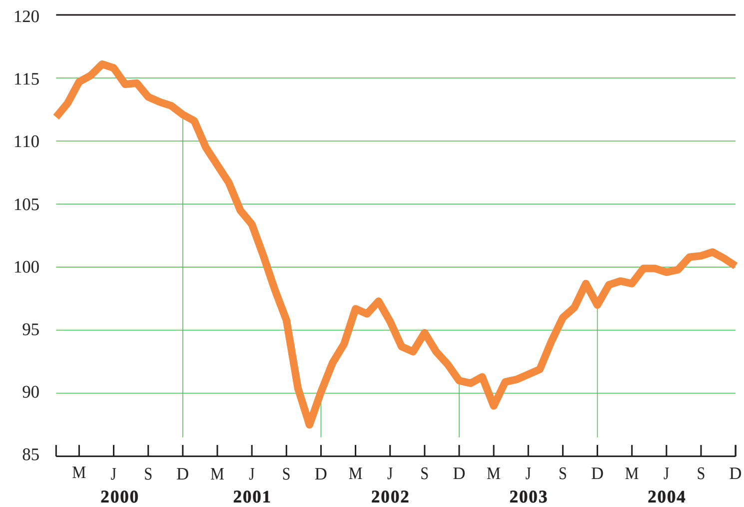
Euro area: weak signs of recovery

Economic situation in euro area somewhat improved…

In the fourth quarter of 2004 economic activity in the euro area showed some positive signs while still within the slack state it has displayed in recent months. The economic sentiment indicator rose by two decimals in the fourth quarter which indicates a slightly better situation in overall terms. On the demand side, the most notable factor was some stabilization of the weakness of private consumption which could open the way to a moderate advance in this area. In November, retail sales grew by 0.4% year-to-year compared with an increase of 0.1% year-to-year in the third quarter. The stabilization of consumer confidence at a level of –13 points in November and December, one point above the average for the third quarter, would give support to this incipient recovery extending into coming months.

ECONOMIC ACTIVITY MAKES MODERATE RECOVERY IN EURO AREA

Level of economic sentiment index



SOURCE: European Commission.

…with services and construction doing better than industry.

From a sector point of view, uneven results were reported. According to the trend in sector confidence indicators for the fourth quarter, recovery is showing up mainly in services and, to a lesser extent, in construction. On the other hand, confidence and industrial climate are practically stagnant for economic activity in secondary industry. The slowdown in industrial production reported in November, down to 0.5%

year-to-year (1.1% year-to-year in October), confirms the difficulties in this sector.

EURO AREA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004					
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
GDP	0.9	0.5	1.4	2.1	1.8	–	...	–
Retail sales	0.0	0.3	0.5	0.0	0.1	–0.6	0.4	...
Consumer confidence (*)	–11	–18	–14	–15	–14	–14	–13	–13
Industrial production	–0.5	0.3	1.0	3.1	2.8	1.1	0.5	...
Economic sentiment indicator (*)	94.4	93.5	98.9	100.0	100.7	101.4	100.9	100.3
Unemployment rate (**)	8.5	8.9	9.0	8.9	8.9	8.9	8.9	...
Consumer prices	2.2	2.1	1.7	2.3	2.2	2.4	2.2	2.4
Trade balance (***)	83.2	80.4	76.6	89.2	87.2	78.7	76.4	...

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

Foreign surplus reduced.

These difficulties may be explained to some extent by the weakness of exports in the euro area in the final stages of 2004 which, together with stronger drive in imports, has been reducing the cumulative trade surplus for 12 months since last July. In November, this balance was 76.4 billion euros, notably below the 91.6 billion euros it reached in July.

Inflation remains relatively contained (2.4% in December) taking into account rise in oil.

Two results of the weakness in the euro area are the limited increase in inflation and maintenance of unemployment at relatively high levels. The harmonized consumer price index (HCPI) for December grew by 2.4% year-to-year so that the year 2004 ended with an average increase of 2.1% in inflation, the same as in 2003. If we take into account the fact that the average oil price in euros rose by more than 20% in that period, it is evident that inflationary pressures are lacking in other categories of goods and services. In this respect, if we discount the most volatile components (food, energy, alcohol and tobacco), resulting inflation was 1.9% year-to-year in December or 1.8% in 2004 as a whole.

Unemployment not dropping while employment scarcely growing.

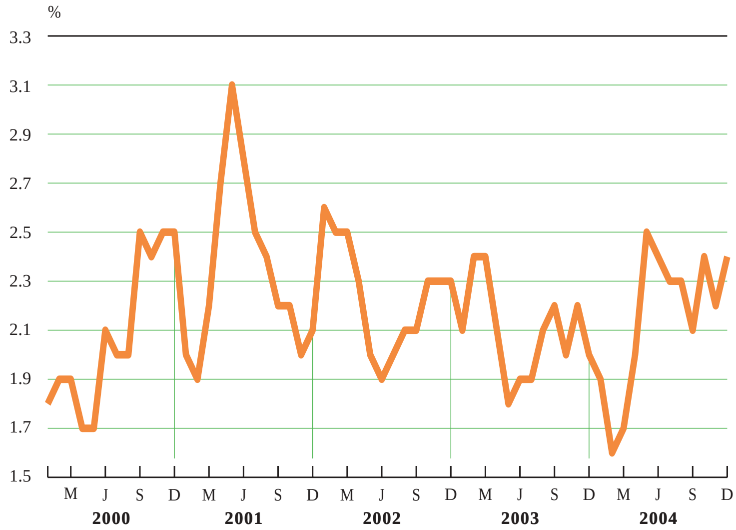
With regard to developments in the labour market, the unemployment rate in November held at 8.9% of the labour force, a level that has not changed since April 2004. In turn, job creation continued to show low figures moving up by 0.4% in the second quarter of 2004 compared with one year earlier.

Reform of Stability Pact moving ahead…

Finally, we should point out that the work of reforming the Stability and Growth Pact continues to make progress. On January 18, the ministers of economy and finance (Ecofin) of the 25 member states of the European Union came close to a satisfactory consensus on modifications to the Pact which should be concluded at the European Council meeting on March 22-23.

INFLATION MANAGES TO ABSORB IMPACT OF OIL PRICE RISE IN EURO AREA

Year-to-year change in harmonized consumer price index



SOURCE: Eurostat and internal figures.

...with new focus concentrating on preventive nature and consideration of new factors giving it more flexibility.

The essence of these reforms is to accentuate the preventive nature of the Stability Pact, sharpening surveillance in stages of increased economic growth when member states should accumulate a higher margin for manoeuvre in fiscal policy in order to deal with stages of lower economic growth. In such stages of low growth, some flexibility will be afforded compared with existing limits (maximum government deficit of 3% of gross domestic product; maximum government debt of 60% of the GDP) which, in any case, will remain unchanged. At the same time, modifications will be made to existing mechanisms, especially in matters of terms and criteria to be kept in mind. Among theses criteria, consideration must be given to the carrying out of structural reforms which will allow for the future stability of government finances and the improvement of the economy's growth potential.

Germany: growth of 1.1% in 2004

Germany grows 1.1% in 2004, best rate since 2000, but fails to avoid going above government deficit limit under Stability Pact for third consecutive year.

According to an early estimate by the Federal Statistics Office, the German economy grew by 1.7% in 2004. After being adjusted for number of working days, the annual increase in the GDP was 1.1%, due mainly to the fact that there were five more working days in 2004 than in 2003. If we take this figure as strictly comparable with that of previous years, 2004 turned out to be the best since 2000 when the economy grew by 3.1%. The practically nil growth rates in 2002 and 2003 thus are a thing of the past. With regard to the government deficit, according to the abovementioned early estimate, this will stand at 3.9% of the GDP, thus going above the limit imposed by the Stability Pact for the third consecutive year.

Domestic demand not improving.

With regard to latest monthly indicators, we note an end to 2004 with a low level of economic activity. In spite of some increase in consumer confidence in November and December, average retail sales for October and

November were down 2.1% year-to-year, a figure worse than the decrease of 1.6% year-to-year in the third quarter. In turn, corporate investment could be beginning to lose some of the strong recovery seen some months earlier, if we are to go by the downward trend in the capital goods component of industrial production recorded as of November. The poor state of domestic demand has a partial counterpart in the foreign sector. Exports in October and November recovered to the point where they showed growth of the order of 10% year-to-year on average for the period, which, together with some containment of imports, put the trade surplus for 12 months at 155.6 billion euros in November (153.8 billion euros in the third quarter).

GERMANY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004					
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
GDP	0.1	–0.1	0.8	1.4	1.3	–	...	–
Retail sales	–2.2	–0.6	–0.7	–2.3	–1.6	–4.5	0.3	...
Industrial production	–1.2	0.1	1.2	3.4	3.8	2.3	–0.5	...
Industrial activity index (IFO) (*)	89.4	91.7	96.4	95.7	95.4	95.3	94.1	96.2
Unemployment rate (**)	10.2	10.5	10.4	10.5	10.7	10.7	10.8	10.8
Consumer prices	1.4	1.1	1.1	1.8	1.9	2.0	1.8	2.1
Trade balance (***)	118.6	129.8	137.7	150.6	153.8	154.3	155.6	...

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

Poor situation in industry worsening with early indicators giving little hope of positive turn-around over short term.

The trend on the supply side continues to be dominated by a worsening of industry in recent months. After growing by more than 4% year-to-year in August and September, industrial production slowed to 2.3% in October and dropped by 0.7% year-to-year in November. The rise in the IFO industrial activity index to 96.4 points in December and January did not mean any noticeable change in prospects. This was a correction following the fact that this index had moved quite erratically although with an underlying downward trend from September to November. The slowdown reported in industrial orders runs in the same direction with growth of only 2.9% year-to-year in November, far from the 6.8% year-to-year increase in the third quarter.

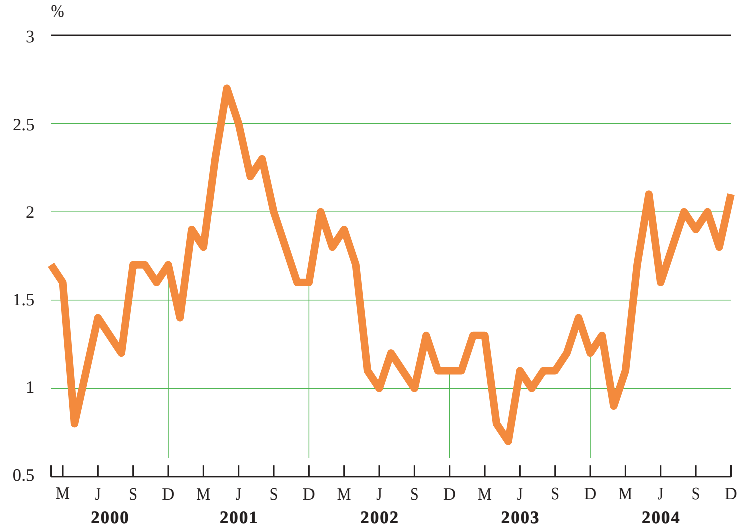
2004 ends with inflation at 2.1% and unemployment rate at 10.8%.

In turn, consumer prices rose moderately in December going to 2.1% year-to-year so that 2004 ended with notable figures in this area. It should be remembered that at the beginning of last year there was a danger of deflation. After marking up an annual low of 0.9% year-to-year in February, the increase in oil costs progressively raised prices to 2.1% year-to-year in May. During the rest of the year the CPI swung at around the level of 2% year-to-year, basically as a result of the ups and downs in the price of oil, only to return, as mentioned earlier, to an annual high in December. As against the changes in prices, the unemployment rate maintained a progressively upward trend all through 2004. After starting

2004 at 10.2% of the labour force, the unemployment rate kept moving up to reach 10.8% in November and December.

GERMANY LEAVES THREAT OF DEFLATION BEHIND

Year-to-year change in consumer price index



SOURCE: Federal Statistics Office and internal figures.

France: economic activity stationary at end of 2004

In France, final stages of 2004 show level similar to third quarter.

The French economy ended 2004 with a rate of economic activity similar to the third quarter. The economic sentiment index for the fourth quarter stood at the level of 109.1 points, moderately better than the 108.5 points in the third quarter. Following this stable growth we find that domestic consumption is maintaining its strength. On average for the third quarter, this index rose by 5.1% year-to-year, 1.5 percentage points above the figure for the third quarter. In any case, the drop in consumer confidence to the level of –13 points in November and maintenance of that figure in December suggests some slowdown in household spending. On the other hand, industrial production of capital goods, which runs close to investment, has shown a sharper dip (rise of 0.8% year-to-year in November).

In contrast to other economies of euro area, French industry increasing growth rate.

On the supply side, what makes the French economy different is the fact that there is a better cycle in industry than in the euro area as a whole. After losing strength in the third quarter, industrial production rose to 2.1% year-to-year in November. With regard to the other two large sectors, construction and services, both maintained a notable rate of economic activity in the fourth quarter, although with a moderate slowdown compared with the previous quarter. Inflation, in turn, ended 2004 at 2.1% year-to-year, one decimal more than in November, whereas the unemployment rate in December held at 9.9% of the labour force, a level which it has maintained since last August.

FRANCE: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004					
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
GDP	1.1	0.6	1.8	2.9	1.9	–	...	–
Domestic consumption	0.9	0.7	3.1	5.7	3.6	2.2	6.6	6.6
Industrial production	–1.6	0.0	0.6	2.7	1.9	1.3	2.1	...
Unemployment rate (*)	9.3	9.9	9.8	9.9	9.9	9.9	9.9	9.9
Consumer prices	1.9	2.1	1.9	2.4	2.2	2.1	2.0	2.1
Trade balance (**)	0.3	0.3	0.3	0.3	0.0	–0.3	–0.4	...

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

Italy: domestic demand fails to rise

Low level of consumption in Italy stands in way of economic recovery.

Italy's economy continues to be hampered by the low level of household spending. The year-to-year drop in retail sales in October was 2.7% which, along with the decrease in consumer confidence to the –16 points level in December, confirms the poor state of consumption. The trend in supply indicators is no better. Industrial production went still lower in its downward path in October and November going to a year-to-year rate of 1.8% in the latter month, the worst figure since June 2003.

ITALY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004					
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
GDP	0.4	0.4	0.8	1.3	1.3	–	...	–
Retail sales	2.4	2.0	1.2	–0.2	...	–2.7	...	...
Industrial production	–1.6	–0.6	–0.1	1.2	–0.7	–0.8	–1.8	...
Unemployment rate (*)	8.6	8.4	8.2	8.0	8.0	–	...	–
Consumer prices	2.5	2.7	2.2	2.4	2.2	2.0	1.9	2.0
Trade balance (**)	10.8	4.1	2.2	3.3	2.9	0.5	–0.2	...

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

Inflation at 2.0% in December.

The weakness of domestic demand is preventing any rise in consumer prices. In spite of the fact that impact of the rise in oil raised producer prices to 4.2% year-to-year in November whereas in the first quarter of 2004 they stood at 0.4% year-to-year, the CPI has held at a lower growth rate. Specifically, in December consumer prices rose by 2.0% year-to-year, one decimal more than in November. The unemployment rate, in turn, held at 8.0% in the third quarter with no change over the previous quarter.

United Kingdom: slight dip in consumption

Private consumption in U.K. beginning to lose some strength.

At the end of 2004, the United Kingdom economy slowed down slightly. According to early estimates, the GDP grew by 2.8% year-to-year in the fourth quarter, as against 3.1% in the previous quarter. Behind this moderate slowdown we see the recent trend in private consumption which is slightly easing its sharp growth rate. After growth of the order of 6.6%-6.7% year-to-year in the second and third quarters, retail sales on average from October-December, the growth rate stood at 4.9% year-to-year. Behind this performance lies the recent trend in the labour market. While the unemployment rate in December held at 2.7%, the lowest since 1975, the slowdown in job creation is getting sharper (employment in the third quarter grew by 0.3% year-to-year, far from the 1.2% in the first quarter).

UNITED KINGDOM: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004					
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
GDP	1.8	2.2	3.0	3.5	3.1	–	2.8	–
Retail sales	6.8	2.9	6.3	6.9	6.6	5.5	6.0	3.2
Industrial production	–2.5	–0.2	0.2	1.4	–0.3	–1.9	–0.9	...
Unemployment rate (*)	3.0	2.9	2.8	2.7	2.7	2.7	2.7	2.7
Consumer prices	2.2	2.8	2.3	2.2	2.1	2.1	2.2	2.5
Trade balance (**)	–43.5	–46.9	–50.2	–53.4	–56.2	–57.4	–57.5	...

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

Services best sector in U.K. while industry still failing to recover.

On the supply side, the continuing drop in industry (industrial production in November was down by 0.9% year-to-year) stands in contrast to the maintenance of strength in the services, as may clearly be seen from the stabilization of the sector confidence index at –21 points level in the fourth quarter. Finally, we should point out that inflation rose again in December putting the CPI increase at 2.5% year-to-year, compared with 2.2% year-to-year in November.

MONETARY AND CAPITAL MARKETS

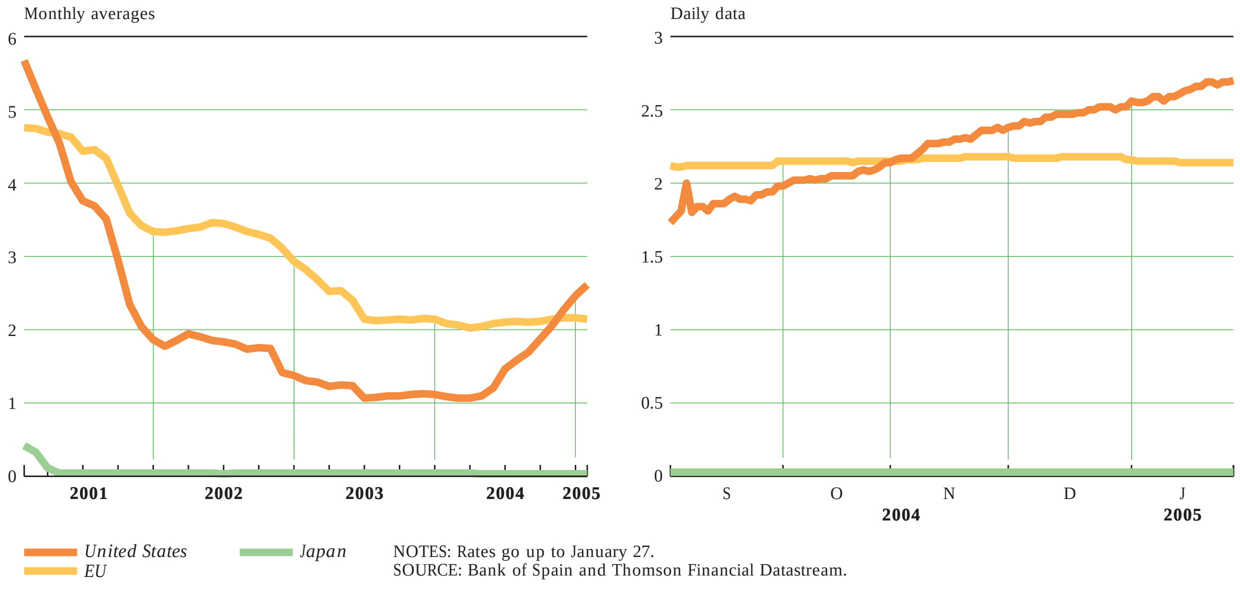
US monetary policy will be tighter

In United States, Fed raises interest rate five times since June 2004.

In the United States, the Federal Reserve has carried out five consecutive increases in interest rates since June 2004, starting out from an all-time low of 1%. As a result, at the end of the past year the objective level of the Fed's reference rate stood at 2.25%. At this moment, this rate is still negative in real terms, that is to say, taking the inflation rate into account. Nevertheless, those responsible for US monetary policy have stated their intention to put the rate at progressively more neutral levels so that we can expect increases to continue in line with what the market is anticipating.

DIFFERENTIAL BETWEEN SHORT-TERM INTEREST RATES IN DOLLAR AND EURO WIDENS

3-month interbank rate as annual percentage



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

Minutes of Fed's last monetary policy meeting indicate more aggressive stance.

The US 1-year interbank deposit rate ended 2004 slightly above 3%. In the early weeks of January it resumed an upward path. Contributing to this trend was publication of the minutes of the previous meeting of the Federal Open Market Committee at the beginning of the month which, for the first time, appeared before the following meeting. These minutes revealed the concern held by various members of that committee about inflation which raised the fear that the Fed would adopt a more aggressive monetary policy. As a result, the yield on US 12-month interbank deposits rose to 3.25% in the middle of the fourth week of January, an increase of 192 basis points compared with one year earlier.

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									
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 (*)	2.07	2.17	2.30	2.25	2.47	0.00	4.75	4.78	0.75
2005									
January (1)	2.06	2.14	2.31	2.25	2.70	0.00	4.75	4.81	0.75

NOTES: (*) Provisional figures.
(1) January 27.
(2) Marginal interest rate. Latest dates showing change in minimum rate: 6-3-03 (2.50%), 5-6-03 (2.00%).
(3) Latest dates showing change: 25-6-03 (1.00%), 30-6-04 (1.25%), 10-8-04 (1.50%), 21-9-04 (1.75%), 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.

No change in ECB official rate...

In the euro area, as expected, at its meeting on January 13 the Governing Council of the European Central Bank (ECB) did not make any change in its official rate, set at 2.00% since June 2003. The ECB maintained that the reference rate stood at the correct level to ensure price stability over the medium term. It pointed out that it was expecting that the harmonized inflation rate for the euro area would go below the 2% limit during the course of the year so long as there were no further increases in oil prices. Nevertheless, it warned of the existence of risks for price stability over the medium and long term. Notable among these was the excessive money supply level along with annual growth of loans to the private sector in the euro area of 6.9% year-to-year in November.

...in spite of pressure in favour of cut.

The market noted some moderation in the tone of statements by ECB chairman Jean-Claude Trichet at the Governing Council press conference. Following those statements, the 1-year Euribor eased very slightly. As a result, the interest rate on 12-month deposits in the euro area stood at 2.31% in the middle of the fourth week of January going close the monthly average for December. In spite of the fact that pressures are continuing for the ECB to cut interest rates in view of the fragile state of recovery in the euro area, it is unlikely that this will happen, especially with the recent easing of the strength of the euro. In fact, as pointed out by Trichet, interest rates stand at all-time low levels and are negative in real terms. At the same time there was no sign that the ECB was in any hurry to begin a tighter monetary policy so that this will not take place for some time yet.

Bank of England raises possibility of easing monetary policy.

The Bank of England sits in a different position due to the UK's more advanced stage in the economic cycle. Following five increases in the official interest rate, it has maintained it at 4.75% since August 2004. At the beginning of January it raised the possibility of a decrease in reference rate in the near future. Nevertheless, the increase in consumer inflation higher than expected in December removed the chance of any early move in this respect.

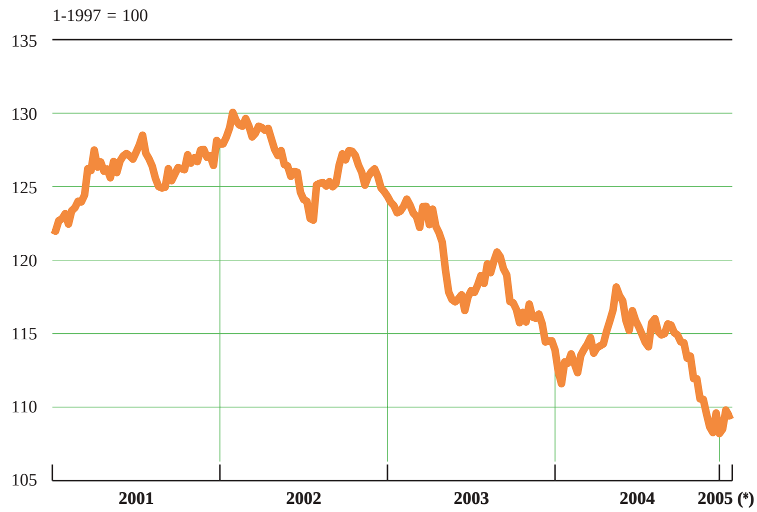
Dollar halts drop in January

Dollar depreciates 17% in overall terms since January 2002 high.

The dollar depreciated in 2004 for the third consecutive year, something which has not happened since 1988. In fact, compared with a wide group of currencies, the US dollar dropped by 4.6% last year, a decrease of 17.0% compared with the high in January 2002. In fact, the drop in the dollar was concentrated in recent months. During this period there was a predominance of downward pressures on the US currency in spite of five successive increases in the Fed's official interest rate. This was due to the increase in foreign deficits to troubling levels with regard to the sustainability of their funding.

DOLLAR DROPS FOR THIRD CONSECUTIVE YEAR

Effective nominal dollar exchange rate



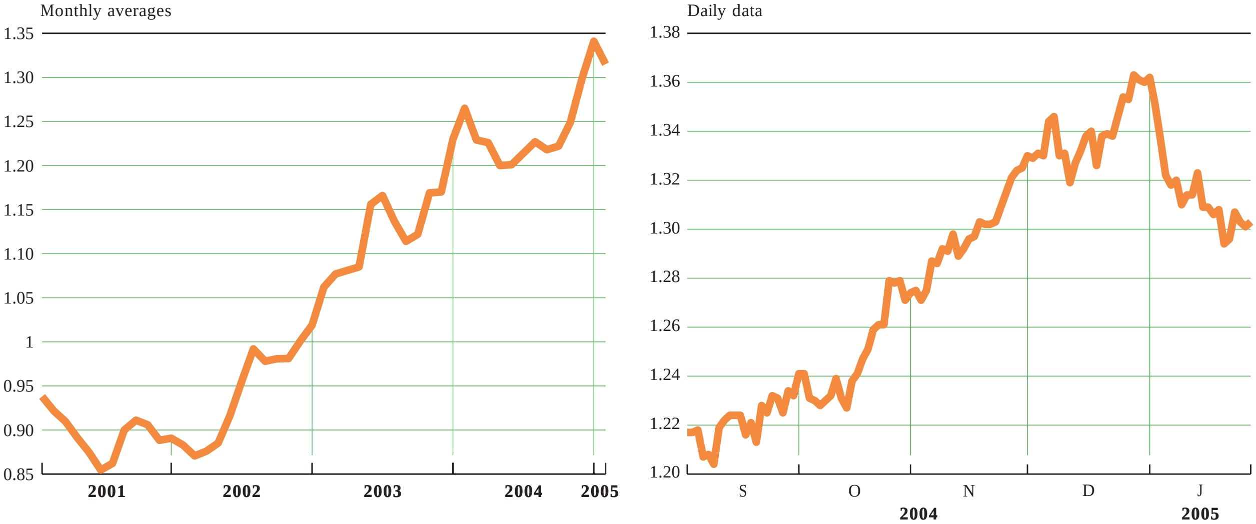
NOTES: (*) Figures go up to January 24.
SOURCE: US Federal Reserve Board.

Foreign currency markets waiting expectantly for enlarged summit in London at beginning of February.

The situation of the dollar, however, has changed in the early stages of 2005. In the first week of the year it suddenly recovered by 2.0% in overall terms. This reaction following the sharp drop in recent months was fostered by publication of favourable economic indicators in the United States, by more upward prospects on interest rates from the Federal Reserve Board and by further statements by Secretary of the Treasury John Snow to the effect that he would try to reduce the government deficit and that he was in favour of a strong dollar. In addition, the market is waiting expectantly for the meeting of the group of most industrialized countries (the G-7) set to take place on February 4-5. This summit will be enlarged with leaders of emerging countries, including China, in order to try to coordinate the depreciation of the dollar.

EURO MARKS UP NEW HIGH AGAINST DOLLAR AT END OF 2004

US dollars to euro



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

After appreciating 65% compared with low against dollar in October 2000, euro undergoes correction.

The euro marked up an all-time high against the dollar of 1.363 on December 28, a rise of 65.2% compared with the all-time low in October 2000. Finally, the European single currency ended 2004 at 1.362 dollars, an annual appreciation of 7.8%, helped by some redistribution of currency reserves in its favour. In relation to a broad basket of currencies, the euro rose by 2.1%. Nevertheless, in the early weeks of January the European currency dropped substantially. Certain weak economic figures in the euro area, and a trend in interest rate differentials working against it, all hurt the euro. At the end of the third week in January the euro fell below 1.30 against the dollar.

EURO UNDERGOES CORRECTION IN EARLY STAGES OF 2005

Effective nominal euro exchange rate

NOTES: (*) Figures go up to January 24.
SOURCE: European Central Bank.

EXCHANGE RATES OF MAIN CURRENCIES

December 2004

	Final session of month		Monthly figures				*Exchange rate January 27, 2005*
	Exchange rate	% monthly change (2)	Average exchange rate	% change (2) Monthly	Over December 2003	Annual	
Against US dollar							
Japanese yen	102.6	–0.4	103.8	–0.9	–3.7	–3.7	*102.8*
Pound sterling (1)	1.919	0.5	1.930	3.7	10.1	10.1	*1.889*
Swiss franc	1.140	0.0	1.146	–2.1	–9.2	–9.2	*1.185*
Canadian dollar	1.202	1.2	1.218	1.8	–7.2	–7.2	*1.238*
Mexican peso	11.15	–0.8	11.20	–1.5	–0.5	–0.5	*11.30*
Nominal effective index (4)	*108.2*	*–0.5*	*108.9*	*–1.1*	*–4.8*	*–4.8*	109.8
Against euro							
US dollar	1.362	2.5	1.341	3.2	9.0	9.0	*1.303*
Japanese yen	139.7	2.3	139.1	2.2	5.0	5.0	*134.8*
Swiss franc	1.543	2.1	1.536	1.0	–1.2	–1.2	*1.547*
Pound sterling	0.705	1.2	0.695	–0.5	–1.0	–1.0	*0.692*
Swedish krona	9.021	1.1	8.982	–0.2	–0.5	–0.5	*9.078*
Danish krone (3)	7.439	0.1	7.434	0.0	–0.1	–0.1	*7.442*
Polish zloty	4.085	–2.9	4.135	–2.9	–11.3	–11.3	*4.060*
Czech crown	30.46	–1.7	30.64	–2.1	–5.3	–5.3	*30.20*
Hungarian forint	246.0	0.1	245.8	0.2	–7.0	–7.0	*245.3*
Nominal effective index (5)	*108.1*	*1.6*	*107.0*	*1.3*	*2.6*	*2.6*	105.2

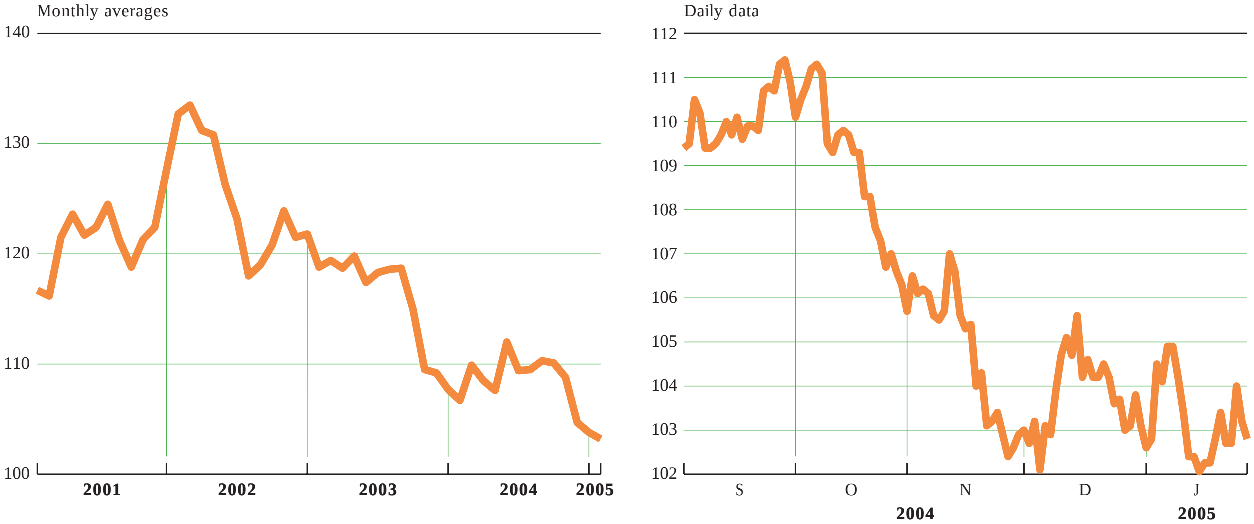
NOTES: (1) Units to pound sterling.
(2) Percentages of change refer to rates as shown in table.
(3) Danish krone has central parity of 7.46038 against euro with fluctuation band of ±2.25%.
(4) Broad nominal effective index of US Federal Reserve Board. Calculated as a weighted average of the foreign exchange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

Pound sterling rises 7% against dollar in 2004...

After marking up its highest level against the dollar since 1992 (1.947 dollars) on December 20, the pound sterling ended the year with a rise of 7.4%. On the other hand, against the European single currency, it ended the year running at 1.705 units to the euro, a very slight appreciation. In the early weeks of January the pound depreciated against the dollar while it rose slightly against the euro.

YEN RECOVERS ITS ATTRACTION

Yen to dollar



NOTES: Figures go up to January 27. SOURCE: Thomson Financial Datastream and internal figures.

...and 5% against yen.

The yen went up 4.5% against the dollar in 2004. In the early weeks of 2005 it resisted the rise of the dollar because of the increased attractiveness of Japanese financial assets for outsiders and on January 14 it marked up the highest level since January 2000 running at 102.0 units to the dollar. Against the euro, the Japanese currency depreciated by 3.3% in 2004. Nevertheless, in the early weeks of January it more than recovered the ground lost last year.

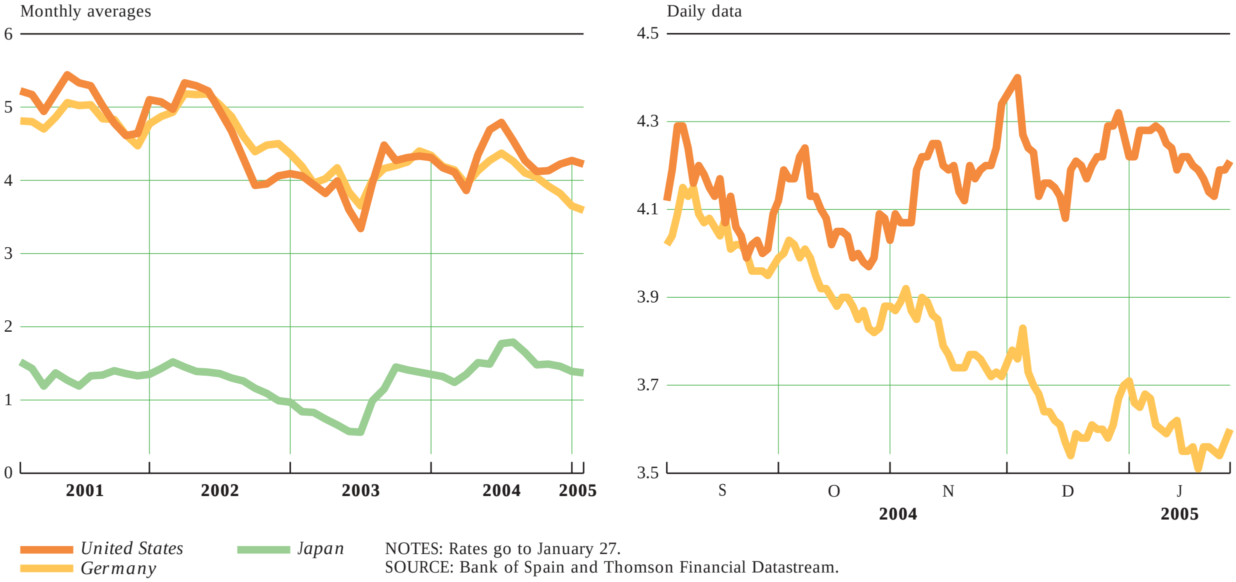
Yields on government bonds hold at low levels

Notable levelling out of bond curve in 2004.

The yield on US 10-year Treasury bonds ended 2004 at 4.22%, some 5 basis points less than at the beginning of the year. In the course of the year it showed notable swings but ended up moderating with the realization that the Federal Reserve Board would continue to gradually raise its reference rate. The massive purchases of US government bonds by Asian central banks and other foreign investors also contributed to push down bond interest rates. On the other hand, the slope on the US bond curve between 2 and 10 years flattened out substantially by 132 basis point and ended the year at 117 basis points. In the early weeks of January the yield on 10-year government bonds underwent fluctuations based on the performance of the economy and settled at slightly below the level seen at the end of 2004.

YIELD ON GERMAN GOVERNMENT BONDS MARKS UP LOWEST LEVEL SINCE JUNE 2003

Yield on 10-year government bonds as annual percentage



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

Yield on German government bonds down 56 basis points in 2004.

In Germany, the interest rate on 10-year government bonds stood at 3.71% at the end of December 2004, a drop of 56 basis points compared with 12 months earlier. Appreciation of the euro and the prospect of modest economic growth in the euro area contributed to this drop. With the appearance of some unfavourable macroeconomic figures in the early weeks of January, the yield on German government bonds continued to drop, going to a low of 3.51% on January 19. As a result, it stood only 7 basis points above the low in June 2003.

LONG-TERM INTEREST RATES IN NATIONAL MARKETS

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

	2002	2003	2004						2005
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January 27
United States	4.65	4.04	4.05	4.64	4.34	4.13	4.22	4.27	4.21
Japan	1.27	0.99	1.30	1.59	1.64	1.49	1.46	1.39	1.33
Germany	4.80	4.10	4.09	4.26	4.13	3.92	3.82	3.65	3.60
France	4.88	4.13	4.11	4.31	4.16	3.98	3.86	3.64	3.60
Italy	5.04	4.24	4.24	4.47	4.31	4.08	3.96	3.79	3.67
Spain	4.96	4.12	4.12	4.31	4.17	3.97	3.85	3.64	3.54
United Kingdom	4.93	4.53	4.83	5.14	5.05	4.82	4.74	4.58	4.63
Switzerland	3.02	2.47	2.46	2.74	2.70	2.50	2.41	2.23	2.13

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

Yield on Japanese government bonds stands below 1.5%.

In Japan, the yield on 10-year government bonds rose by 6 basis points and ended 2004 at 1.40%. The persistence of a very easy monetary policy (the main interest rate of the Bank of Japan remains stuck at 0%) lies behind the prevalence of these low levels in a market dominated by domestic investors. In the early weeks of January 2005 the yield on Japanese 10-year bonds again went down to stand at close to the levels at the beginning of 2004.

Slight rise in risk premium on high-yield bonds in early weeks of 2005.

The risk premium on high-yield bonds, measured by the differential in yields with US Treasury bonds, showed a notable reduction in 2004. This was related to the drop in the default rate from 5.2% at the beginning of the year to 2.2% in December, according to figures supplied by Moody's rating agency. It was also due to high demand from investors who were looking for alternatives to the low yields from bonds with good ratings. Nevertheless, in the early weeks of 2005 there was a slight rise in this risk premium in view of prospects of interest rate increases in the United States.

Correction on stock markets following good end to 2004

Stock markets obtain good results for second consecutive year.

The stock markets ended 2004 with favourable balances for the second year in a row. Recovery of corporate profits, low yields on government bonds and the prospect of a gradual removal of the easy monetary policy in the United States made it possible to overcome some shocks such as the rise in oil prices and various terrorist attacks.

Indices in Egypt and Romania double in 2004.

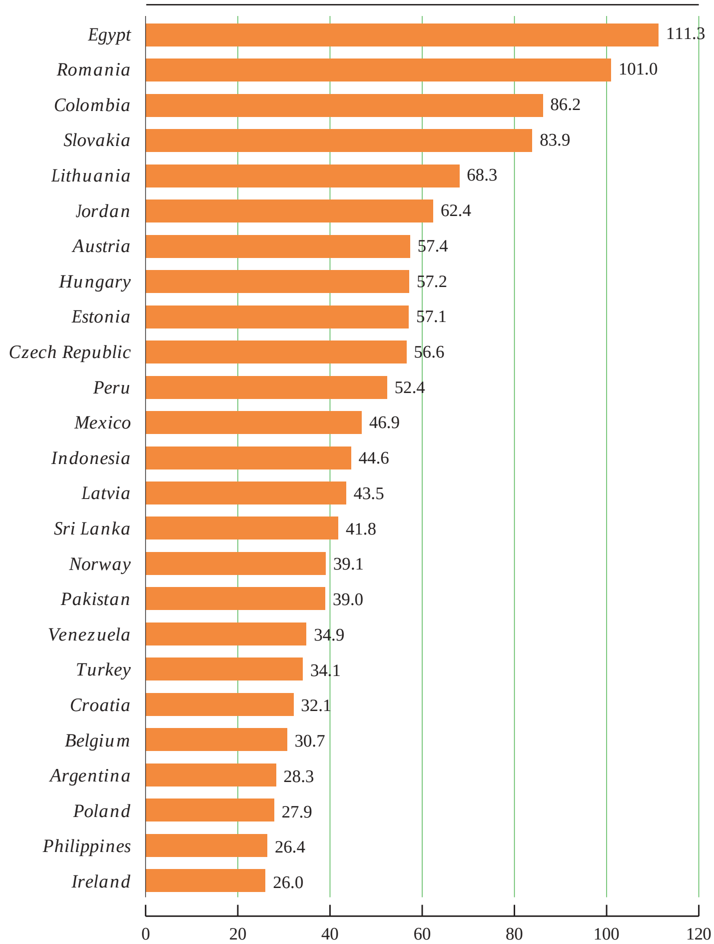
Nevertheless, the results in the various stock markets showed a wide spread. Most notable among the more profitable group in 2004 were those of emerging markets which were partly boosted by the desire of investors for assets promising higher yields in a situation of low interest rates. Indices for the stock markets in Egypt and Romania ended the year at levels twice those at the beginning of the year. Countries which are candidates for the next enlargement of the European Union, such as Romania, benefited from this situation. There were also many Latin American countries in this group showing appreciable economic growth. At the same time, it includes oil exporters, such as Indonesia, Mexico, Venezuela, Norway and Argentina. Finally, among those stock markets recording the highest capital gains in 2004 we must include those of the European Union, such as Austria and Belgium, with increases of 57% and 31% respectively.

Rise in oil prices hurts stock markets at start of 2005.

Nevertheless, in the early stages of 2005 there were a number of corrections on the main international stock exchanges. This is not surprising if we take into account the sharp rise seen in the final months of last year. We should mention other factors such as some disappointing corporate profit results, another rise in the price of oil and the possibility of a higher than expected increase in interest rates by the Fed.

MOST PROFITABLE STOCK MARKETS IN 2004

Annual change in representative national stock market indices (as percentage)



SOURCE: Thomson Financial Datastream and internal figures.

High-technology segment shows worst start to year.

At the middle of the fourth week in January, the main indices in the United States showed in the red compared with the end of 2004. The Nasdaq general index, which is representative of hi-tech shares, was the one to show up worst as a result of the weaker performance of information technology companies. At the other end of the scale, those sectors showing a better relative performance were energy, non-cyclical consumption and utility companies.

Stock markets in euro area show improved performance.

Stock markets in the euro area showed a slightly better performance than those on the other side of the Atlantic in the early weeks of 2005. The appreciation of a lower relative rise as well as the prospect of lower interest rates in the euro area were factors which helped give those markets support. As a result, among the main markets, the stock exchanges in Amsterdam, Paris and Milan stood in the lead.

INDICES OF MAIN WORLD STOCK EXCHANGES

December 31, 2004

	Index (*)	% monthly change	% cumulative change	% annual change	*Figures on January 27, 2005* % cumulative change	*% change over same date in 2002*
New York						
Dow Jones	*10,783.0*	*3.4*	*3.1*	*3.1*	*–2.9*	*6.4*
Standard & Poor's	*1,211.9*	*3.2*	*9.0*	*9.0*	*–3.1*	*3.6*
Nasdaq	*2,175.4*	*3.7*	*8.6*	*8.6*	*–5.9*	*5.6*
Tokyo	11,488.8	5.4	7.6	7.6	–1.3	11.8
London	4,814.3	2.4	7.5	7.5	0.8	–6.5
Euro area	2,951.2	2.6	6.9	6.9	0.7	–19.7
Frankfurt	*4,256.1*	*3.2*	*7.3*	*7.3*	*–0.9*	*–18.2*
Paris	*3,821.2*	*1.8*	*7.4*	*7.4*	*1.8*	*–13.2*
Amsterdam	*348.1*	*3.2*	*3.1*	*3.1*	*3.0*	*–28.8*
Milan	*23,534.0*	*5.2*	*18.1*	*18.1*	*1.6*	*4.9*
Madrid	*9,080.8*	*4.5*	*17.4*	*17.4*	*0.5*	*11.5*
Zurich	5,693.2	4.6	3.7	3.7	1.4	–9.4
Hong Kong	14,230.1	1.2	13.2	13.2	–4.2	26.5
Buenos Aires	1,375.4	13.4	28.3	28.3	0.2	239.1
São Paulo	26,196.0	4.3	17.8	17.8	–8.3	82.6

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.

Economic uncertainty affects Nikkei 225.

Outside the euro area, the Financial Times 100 index for the London stock exchange stood close to the level at the end of December 2004. The SMI index for the Swiss stock exchange showed a slightly positive balance in the early weeks of the year. The Nikkei 225 index in Japan, on the other hand, stood on negative ground under the effect of uncertainty about the recovery of Japan's economy.

IBEX 35 ends upward course in early weeks of 2005.

With regard to the Spanish stock market, the IBEX 35 index recorded a rise of 17.4% in 2004. Nevertheless, it was unable to maintain the string of increases in recent weeks. In any case, in the middle of the fourth week of January the selective index went above the level of 9,100 points, although 16 shares in the index stood below par for the year.

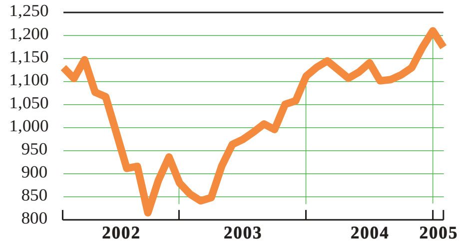
Emerging markets also suffer drops.

Share markets in emerging countries were also unable to avoid the drops in the early weeks of 2005 following the extraordinary rises in the final part of the previous year. The Bovespa index for the Brazilian stock market, in particular, showed a notable drop in a context of tighter money. The Russian stock market was also unable to make a good start to the year as a result of government intervention in companies.

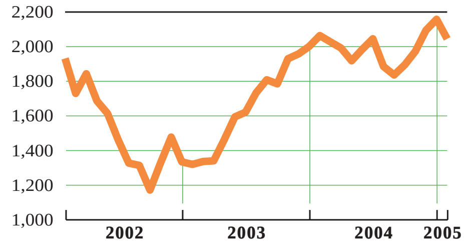
INTERNATIONAL STOCK MARKETS

Indices at month-end

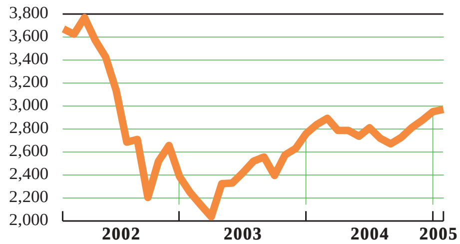
NEW YORK (Standard & Poor's 500)



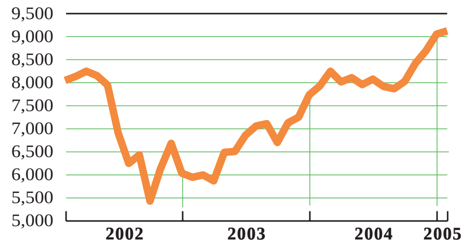
NASDAQ INDEX (UNITED STATES)



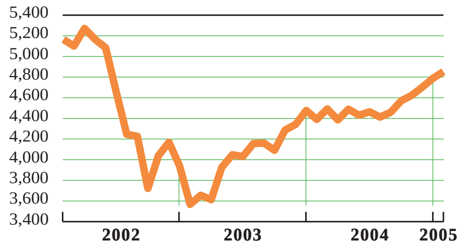
EURO AREA (DJ Euro Stoxx 50)



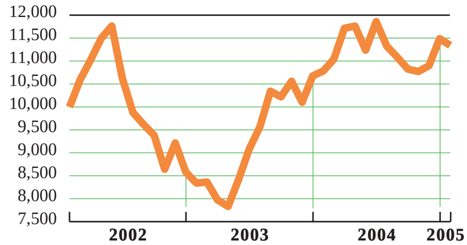
MADRID (IBEX 35)



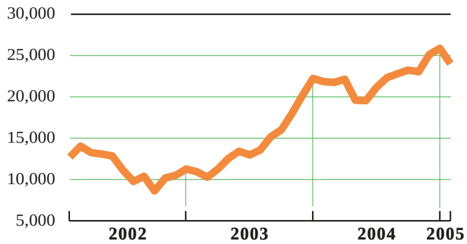
LONDON (Financial Times 100)



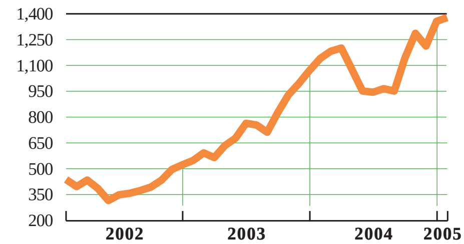
TOKYO (Nikkei 225)



SÃO PAULO (Bovespa)



BUENOS AIRES (Merval)



NOTES: January 27, 2005. SOURCE: Thomson Financial Datastream.

ECONOMIC ACTIVITY

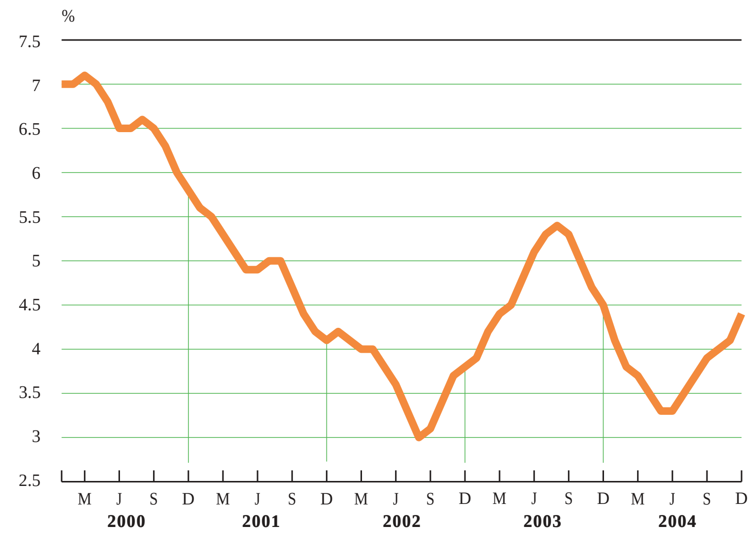
Domestic demand maintains notable strength

Domestic demand continues to show fairly strong in contrast to foreign sector.

At the end of 2004, the main economic activity indicators reflected similar trends to those noted in previous months. According to those figures, domestic demand was maintaining fairly strong growth although with some signs of wearing out and we shall have to see if these are confirmed in coming months. In principle, both private consumption and investment in capital goods and construction is still proving relatively strong whereas the foreign sector continues to be the weakest segment in Spain's economy. In a similar way, although from another point of view, the good state of economic activity is evident from the upward turn again seen in electrical power consumption in recent months.

GROWTH OF ELECTRICAL POWER CONSUMPTION AGAIN ON INCREASE

Year-to-year change in electricity consumption



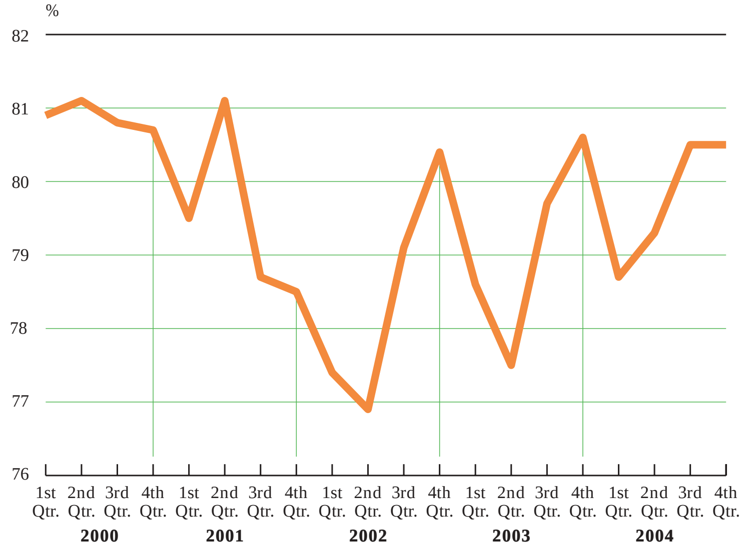
NOTES: Cycle-trend series adjusted for number of working days and temperature.
SOURCE: Red Eléctrica Española, Ministry of Economy and internal figures.

Industrial production index shows upward background trend in recent months…

On the supply side, industrial production, which reported a very uneven performance during 2004, showed an upward background trend at the end of the year, although it is not yet possible to state that recovery in this segment is definitively established, if we take into account the sharp swings in that indicator in recent months. In addition, at the end of 2004, utilization of production capacity stood at 80.5%, very similar to the average level recorded in the final quarter in the previous two years.

UTILIZATION OF PRODUCTION CAPACITY IN INDUSTRY STANDS ABOVE 80%

Percentage utilization of total production capacity



SOURCE: Ministry of Science and Technology.

...although some sectors, such as textiles, clothing and chemicals, report significant drops in 2004.

From January to November, among those branches with the biggest relative weight, the performance of segments such as energy, metallurgy, machinery, electrical equipment and publishing (with growth between 4% and 7%) stood out on the positive side compared with the same period the year before. Manufacture of motor vehicles recorded more moderate growth (2.2%). On the other hand, the adverse situation facing the textile industry, clothing and furs was reflected in cumulative decreases in those sectors as of November of the order of 5.9% and 3.2% respectively. The chemical industry, in turn, also recorded a significant drop, although somewhat more moderate (0.9%).

Good situation in construction contributes to favourable prospects for sector.

With regard to construction, sector activity continues very strong. The main indicators for the housing segment are still showing very expansionist signs while, in addition, the volume of government tendering took on new strength in the second half of 2004. The excellent situation in the sector is reflected well in the relative confidence indicator which has become much stronger in recent months, as a result of activity now under way as well as orders under contract.

Poor tourist balance in 2004 in spite of improvement noted in recent months.

With regard to tourism, the results tended to improve in the final quarter of 2004 so that the overall balance for the year was somewhat more satisfactory than was feared around the middle of the year. In overall terms, the number of foreign visitors was up by 3.4% in contrast to a decrease of 1.0% shown in the same period the year before. In any case, the number of overnight national hotel stays recorded under that group heading showed an overall drop of 1.3% in spite of increases reported as of September. The poor figure for tourism was rounded out by a very meagre nominal growth in revenues recorded in the balance of payments under that heading (0.4% in the first ten months of 2004), equivalent to an effective decrease in real terms. On the other hand, domestic tourism showed a considerable rise with an increase of 9.4% in overnight hotel stays, thus partly making up for the consequences of the modest performance in foreign tourism.

SUPPLY INDICATORS

Percentage change over same period year before

	2002	2003	2004					
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December
Industry								
Electricity consumption (1)	3.8	4.9	3.6	2.4	4.2	4.0	2.9	4.9
Industrial production index (2)	0.2	1.4	1.4	2.5	2.2	–1.5	3.9	...
Confidence indicator for industry (3)	–5.7	–0.9	–3.0	–2.0	–2.7	–2.0	–1.0	–3.0
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	0.6	...	...
Construction								
Cement consumption	4.7	4.8	5.6	2.8	4.1	–7.6	12.0	1.0
Confidence indicator for construction (3)	8.4	10.5	6.3	8.0	16.0	26.0	22.0	25.0
Housing (new construction approvals)	4.3	21.4	8.0	9.2	14.9	–8.4	...	...
Government tendering	13.1	–10.9	10.4	–9.8	65.2	4.9	...	...
Services								
Retail sales	5.7	5.7	6.7	5.5	4.1	2.6	8.3	...
Foreign tourists	4.5	–1.0	5.4	0.3	1.4	8.8	9.2	12.9
Tourist revenue inflows	–2.9	3.7	4.0	–2.2	–0.2	2.6	...	...
Goods carried by rail (km-tonnes)	–0.7	1.7	6.4	6.2	–8.5	–31.8	–1.4	...
Air passenger traffic	–1.1	7.5	11.0	6.7	6.5	9.4	6.4	8.9
Motor vehicle diesel fuel consumption	6.2	7.5	7.8	6.8	9.0	–0.5	...	...

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.

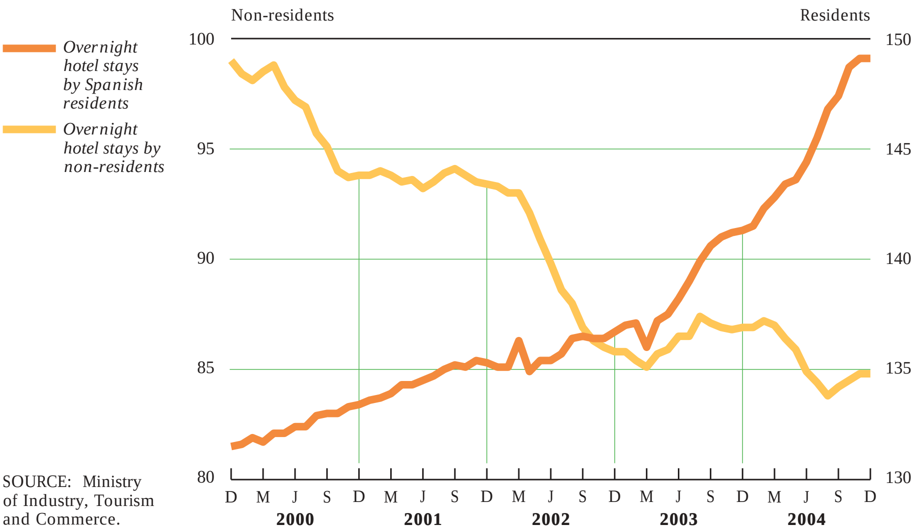
SOURCE: Red Eléctrica Española, OFICEMEN, SEOPAN, Civil Aviation, National Institute of Statistics, Bank of Spain, Ministry of Science and Technology, Ministry of Economy and internal figures.

In other services, information technology and communications show up as among most dynamic activities.

In other services, the overall situation is positive. In general, these are maintaining a fairly strong growth rate but within a slowdown profile, something which is more pronounced in some activities than in others. The sector covering information technology and communications stands among the most active, along with transport and retail trade, although both of these have shown a more moderate growth trend in recent months. On the contrary, company services (with an increase of 3.3% in volume of business from January to October) along with tourism are showing up as the least expansionist activities.

RISE IN DOMESTIC TOURISM COMPENSATES FOR STAGNATION IN FOREIGN TOURISM

Million overnight stays in national hotels (cumulative figures for past 12 months)



SOURCE: Ministry of Industry, Tourism and Commerce.

DEMAND INDICATORS

Percentage change over same period year before

	2002	2003	2004 1st Qtr.	2004 2nd Qtr.	2004 3rd Qtr.	2004 October	2004 November	2004 December
Consumption								
Production of consumer goods (*)	2.4	0.2	–0.1	–0.7	0.1	–2.2	3.9	...
Imports of consumer goods (**)	5.0	10.0	20.4	16.6	11.5	2.1	...	...
Car registrations	–6.6	3.8	20.9	9.6	5.3	–1.7	13.4	3.2
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	–9.0
Investment								
Capital goods production (*)	–4.9	0.5	1.3	3.7	4.7	–4.6	4.3	...
Imports of capital goods (**)	–5.8	16.8	18.7	14.3	21.7	18.4	...	...
Commercial vehicle registrations	–6.0	13.5	14.9	13.1	9.4	–2.8	19.9	12.8
Foreign trade (**)								
Non-energy imports	3.7	7.4	8.9	10.6	12.1	4.3	...	...
Exports	1.4	6.2	7.3	2.2	6.9	–3.1	...	...

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.

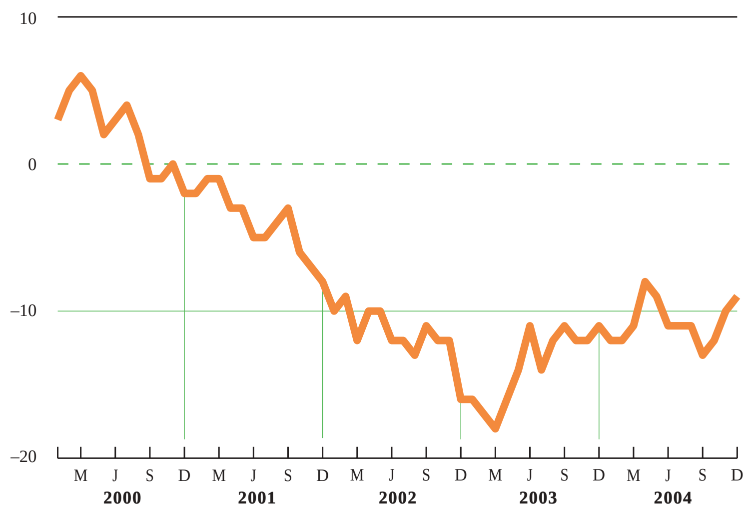
2004 brings all-time record in sales of passenger cars, four-wheel-drive vehicles and motorcycles.

On the demand side, indicators for consumption generally are showing notable growth figures although with a tendency to slowdown in some headings. This is the case, for example, in passenger car registrations. The year 2004 ended with a record figure (more than a million and a half units sold), an increase of 9.8% over 2003. Nevertheless, the growth rate gradually slowed down in the course of the year to the point where it fell to 4.7% in the final quarter. Growth was also very high in the segment of registrations of four-wheel-drive vehicles (18.9% for the year) and particularly sharp in the case of motorcycles (59.0%), in the latter case due to changes in regulations governing driving licences.

Consumption losing drive in spite of fact that consumer confidence tending to improve.

With regard to the retail trade, the general sales index showed a real increase (discounting inflation) of 2.6% between January and November, similar to that recorded in the same period in 2003 but was clearly on a downward trend in the course of the year. Along the same lines, availabilities of consumer goods has shown a profile of decreasing growth in recent months, mainly due to more of a drop in imports. On the other hand, we should point out, as a clearly positive sign, that consumer confidence sentiment tended to strengthen in the final months of 2004.

CONSUMER CONFIDENCE IMPROVES
IN FINAL MONTHS OF 2004
Differences between percentage positive and negative responses



SOURCE: European Commission.

Capital goods investment holding at very strong growth rate.

With regard to capital goods investment, we have lately noted something of a slowing down in the sharp drive recorded in previous months although the growth rate continues to be very strong. Specifically, capital goods imports were up by 21.7% in the third quarter and 18.4% in October, in real terms, compared with one year earlier. On the other hand, domestic production of goods of that type, which were on the increase, has clearly become stagnant in recent months.

Electronic and telecommunications market growing

Electronic and telecommunications sector grows by 4% in 2003...

The electronics, information technology and telecommunications market (including consumer and professional electronics products, electronics components and data-processing and data-transmission equipment and telecommunications services) showed growth of 4% in 2003 to reach an overall figure of 56 billion euros, according to data supplied by the Association of Spanish Electronics, Information and Telecommunications Technology Companies (AETIC). This figure does not include the market for audiovisual content on electronic recording materials nor Internet applications, which would raise the volume of business of this «super-sector» to 75.82 billion euros, that is to say, to 10.2% of the estimated gross domestic product in 2003.

MAIN FIGURES FOR ELECTRONICS AND TELECOMMUNICATIONS INDUSTRY

2003

	Production		Imports		Exports		Market	
	Million euros	% change	Million euros	% change	Million euros	% change	Million euros	% change
Consumer electronics								
Audio	29	–9	758	3	–	–	787	2
Television sets	1,357	–2	288	–18	997	–8	648	–1
Digital cameras	–	–	440	65	–	–	440	65
Video equipment	156	–20	640	23	141	–17	655	20
Magnetic tapes	–	–	282	24	–	–	282	24
Total	**1,542**	**–4**	**2,408**	**15**	**1,138**	**–9**	**2,812**	**14**
Electronic components	**1,594**	**–3**	**1,535**	**–7**	**780**	**–2**	**2,349**	**–6**
Professional electronics								
Industrial	526	–20	594	–34	327	–30	793	–27
Other	572	9	669	–12	248	18	993	–9
Total	**1,098**	**–7**	**1,263**	**–24**	**575**	**–15**	**1,786**	**–18**
Information technology								
Hardware	1,978	–16	3,478	2	529	–46	4,928	3
Software	1,360	8	1,004	6	356	15	2,008	6
Data-transmission and data-processing services	5,300	2	673	4	210	–17	5,762	2
Total	**8,638**	**–2**	**5,155**	**3**	**1,095**	**–29**	**12,698**	**3**
Telecommunications equipment	**1,528**	**–18**	**2,961**	**–7**	**594**	**–9**	**3,895**	**–12**
Telecommunications services								
Regular telephone services and carriers	13,230	2	–	–	–	–	13,230	2
Cellular telephone services	13,967	14	–	–	–	–	13,967	14
Internet and other services	5,286	15	–	–	–	–	5,286	15
Total	**32,483**	**9**	**–**	**–**	**–**	**–**	**32,483**	**9**
TOTAL	**46,883**	**4**	**13,322**	**–2**	**4,183**	**–15**	**56,023**	**4**

SOURCE: AETIC and internal figures.

…mainly driven by higher consumption of telecommunications services.

Growth of electronics and telecommunications was especially notable in suppliers of telecommunications services with a volume of business reaching 32.5 billion euros (9% more than in 2002). The year was also very positive for the consumer electronics market (14% higher going to 2.8 billion euros) and somewhat less in information technology (3% higher going to 12.7 billion euros). On the other hand, professional electronics, along with electronic components and telecommunications equipment showed a reduction in volume of business in substantial percentages, especially in the first case.

Improvement in demand not turning into higher level of activity, except in case of service providers.

The improvement in the state of demand was not matched by a parallel trend in supply, except in the case of service providers where production and consumption coincided. In this respect, the various sub-sectors showed decreases in volume of business, especially in the case of manufacturers of telecommunications and professional electronics equipment. The contraction of the market, both domestic and foreign, and pressure from imports lay behind the different performance seen in each branch of this economic activity.

Internet and cellular telephones boost telecommunications services.

The strong situation in demand for telecommunications services is based on the growth of the new technologies market, mainly access to Internet and cable but also on the continuing growth of cellular telephone services which, as a whole, went above total billing for regular telephone service to become the leading market in telecommunications services (nearly 14 billion euros, that is to say 43.0% of total telecommunications billing). The continuing growth in use of cellular telephones and the reduction of tariffs in certain areas of regular telephone services lies behind the change in predominant mode.

Higher growth of services than of hardware and software in information technology business.

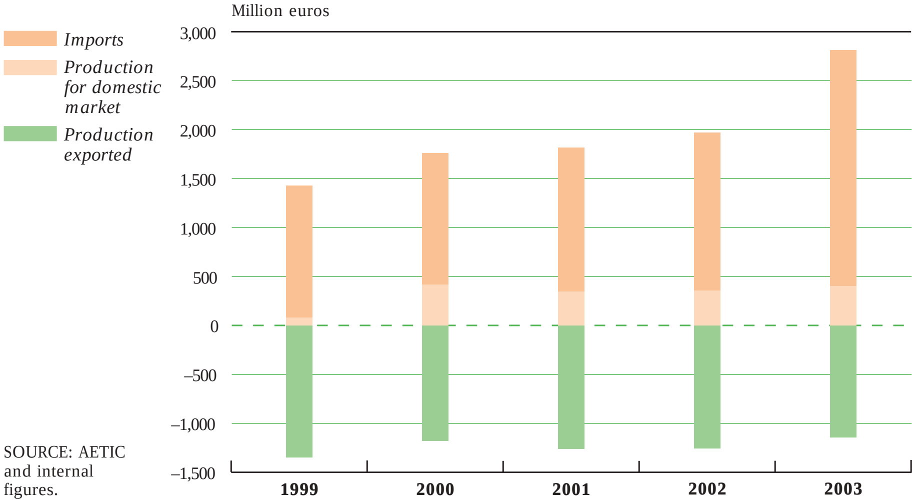
The modest recovery in the information technology market (3% going to 12.7 billion euros in total) was due to the better situation in the market for hardware and software products, particularly in data-transmission services which showed a spectacular rise (46% going to 588 million euros). The main market continued to be in hardware, which had billing of 4.9 billion euros, made up 70.6% of imported products with domestic manufacturers losing market share. In the case of software, 50% of domestic consumption (2 billion euros in total) was met by imports while exports held at relatively modest levels (356 million euros) although the domestic market gained slightly in market share. Data-processing services (4.4 billion euros) came mainly from domestic suppliers, as was the case in data-transmission services.

Imports take up growth in consumer electronics market.

Consumer electronics had a brilliant year in 2003 with growth in domestic consumption of 14% although this increase was covered entirely by imported products. The boost in the market was due to the drive in sales of DVD players, digital cameras and, to a lesser extent, video-cameras (the latter two being products not manufactured in Spain). Demand for audio and television equipment, on the other hand, was practically stagnant in money terms, partly due to the drop in prices of many such products. For example, sales of television receivers were up by 9.9% with figures going to 2.7 million units.

CONSUMER ELECTRONICS: IMPORTS TAKE UP RISE IN MARKET

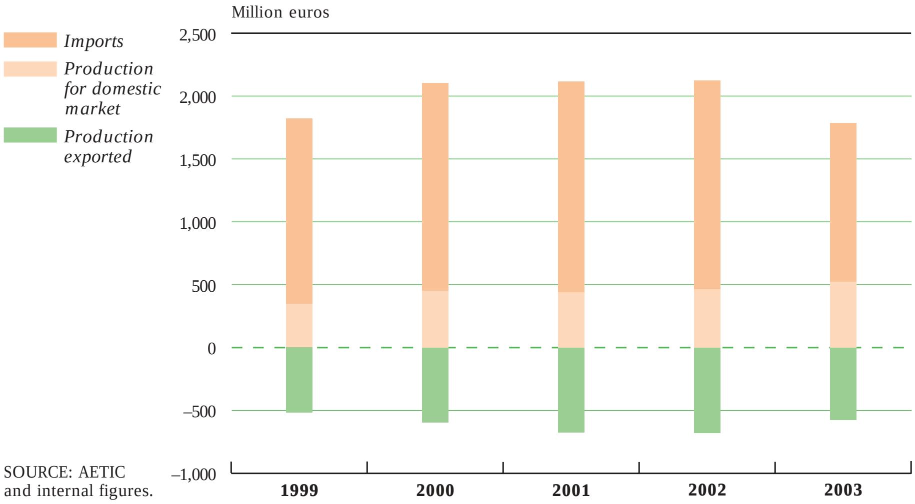
Main figures



SOURCE: AETIC and internal figures.

PROFESSIONAL ELECTRONICS: DEMAND DROPS TO 1999 LEVELS

Main figures



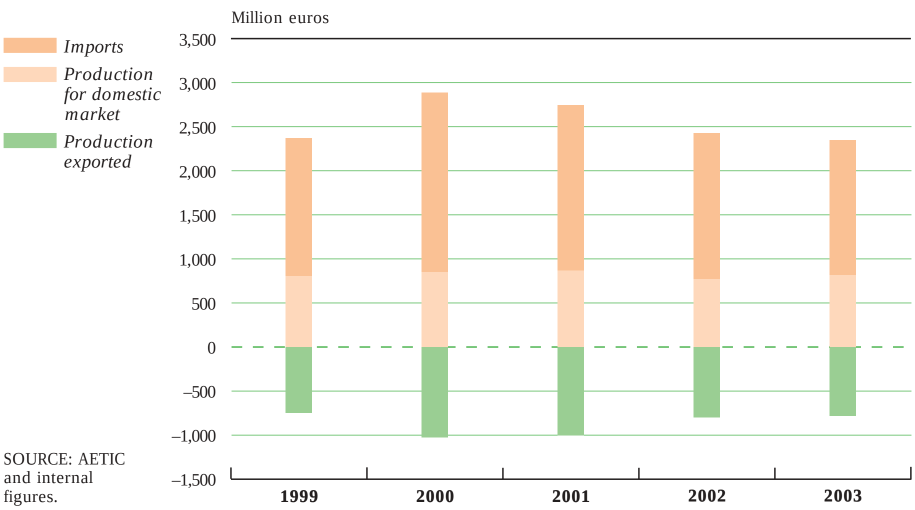
SOURCE: AETIC and internal figures.

Sharp decline in professional electronics in 2003.

The professional electronics market, on the other hand, showed a very large drop of 18% going to 1.8 billion euros. The sharp decline in demand for industrial equipment and radio/television broadcasting equipment put this market at 1999 levels in spite of the relatively good state of investment in electro-medical equipment and defence and navigation systems. The drop in demand was substantially lower than the decrease in production seeing that imports were sharply down. Exports, in turn, maintained a relatively acceptable level in the various sub-sectors, with the exception of industrial electronics which dropped by 30% because of the poor level of investment in equipment in import markets.

ELECTRONIC COMPONENTS: MARKET IN DECLINE

Main figures



SOURCE: AETIC and internal figures.

Changes in television technology affecting electronic components sector.

A somewhat less favourable situation was to be seen in the electronic components market which dropped by 6% going down to 2.3 billion euros. The decreased demand for tubes and semi-conductors, in the first instance because of the rise in flat-screen television compared with those of traditional type and, in the second case, because of the poor year experienced by equipment manufacturers, lay behind the drop in the market. The decreased demand affected domestic production although not too severely, thanks in some degree to the maintenance of exports (except in the case of cathode tubes) which account for nearly 60% of sector production.

Drop in telecommunications equipment market despite recovery of cellular telephone sales.

The market for telecommunications equipment also stood on the negative side of the scales in spite of the recovery of cellular telephone sales. Overall, the telecommunications equipment market in 2003 amounted to 3.9 billion euros, some 12% less than the year before. This figure also includes billing by companies involved in installation and integration of telecommunications systems that amounted to 462 million euros. If we exclude these operations, which are carried out exclusively by resident companies, the equipment market was mainly served by imports. In fact, purchases abroad amounting to nearly 3 billion euros covered 86.3% of domestic demand.

LABOUR MARKET

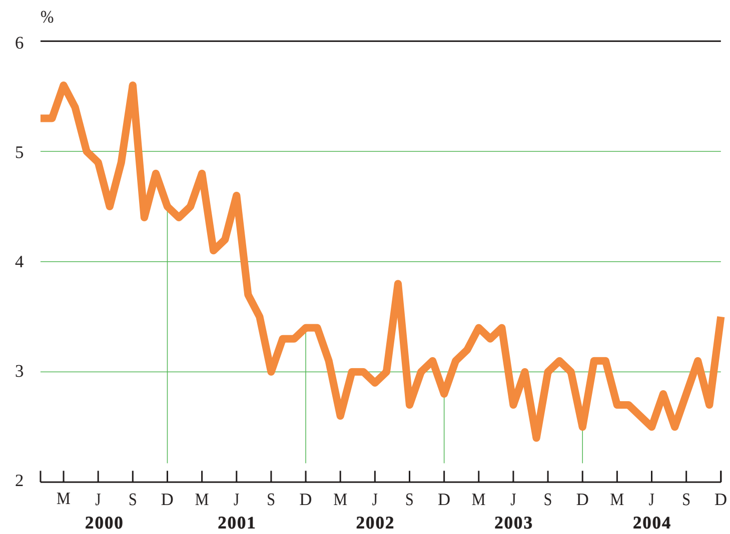
Employment recovers at year-end

Registrations with Social Security show increased growth in December but average increase in 2004 holds at 2.8%.

The number of persons registered with Social Security dropped by 156,322 in December, that is to say, substantially less than in the same month last year. As a result, the growth rate for registrations rose to 3.5% year-to-year, eight decimals above the previous month, which confirmed the firm situation in employment in the final stages of 2004. In spite of this growth profile, however, the average increase in registrations in 2004 was 2.8%, thus holding two decimals below last year.

REGISTRATIONS WITH SOCIAL SECURITY RECOVER IN SECOND HALF-YEAR

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



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

Registration with Social Security goes above 17 million in December, with foreign workers making up more than one million.

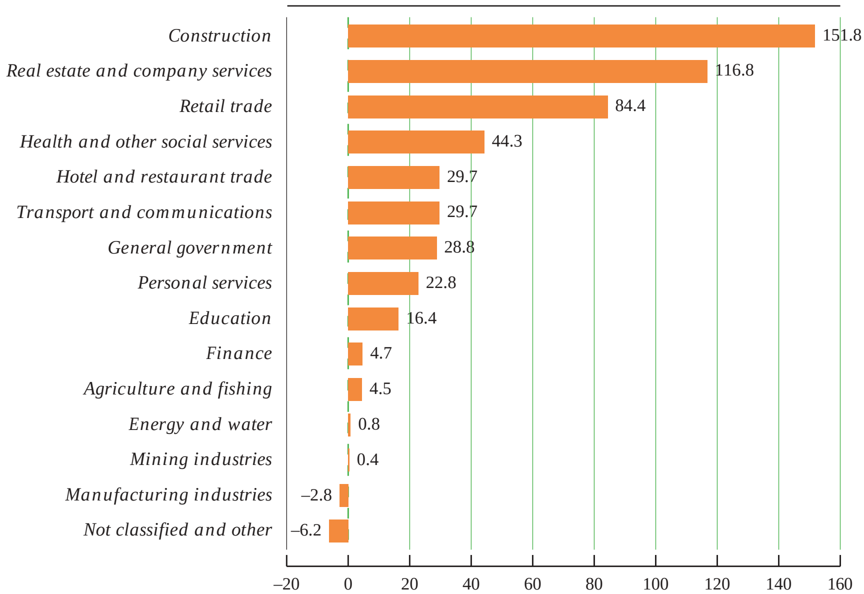
In any case, the year 2004 ended with a very positive balance, reaching total registrations of 17,161,920 persons, the highest year-end figure in history. The cumulative increase in total registrations for the year (572,359) was the highest in the past four years and, as in previous years, was based on the rise in the number of immigrants. Foreign workers made up 26.5% of net new registrations in 2004, close to three points more than in the year before and they came to represent some 1,074,794 persons at year-end, that is to say, 6.4% of the total.

Self-employment grows more than wage-employment but recovery more notable in latter group.

The greater strength shown by registrations in the final month of 2004 was especially notable among wage-earners, given that the figure for non-farm self-employed persons remained stable, almost a half-point above wage-employment, which ended the year with growth of 3.5%.

NEW EMPLOYMENT IN 2004 CONCENTRATED IN CONSTRUCTION, COMPANY SERVICES AND RETAIL TRADE

Change in number of persons registered with Social Security in 2004 (in thousands)



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

EMPLOYMENT INDICATORS

Percentage change over same period year before

	2002	2003	2004			
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Persons registered with Social Security						
Wage-earners	3.5	3.2	2.9	2.4	2.6	3.1
Industry	*–0.2*	*–0.5*	*–0.5*	*–0.5*	*–0.6*	*–0.5*
Construction	*5.8*	*4.3*	*4.4*	*4.3*	*4.6*	*6.8*
Services	*4.4*	*4.1*	*4.3*	*3.7*	*4.0*	*4.4*
Non-wage-earners	0.9	2.3	3.2	3.2	3.2	3.2
Total	**3.0**	**3.0**	**2.9**	**2.6**	**2.7**	**3.1**
Persons employed (*)	**2.0**	**2.7**	**2.6**	**2.3**	**2.5**	...
Jobs (**)	**1.4**	**1.7**	**2.1**	**2.0**	**2.1**	...
Hiring contracts registered (***)						
Permanent	–1.6	–1.0	10.0	16.3	18.2	4.6
Temporary	1.1	3.9	14.4	13.7	14.7	4.0
Total	**0.9**	**3.4**	**13.9**	**13.9**	**15.0**	**4.0**

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.

Construction, real estate, company services and retail trade account for 67% of new registrations during year.

By sector, the biggest growth in the number of wage-earners registered with Social Security in 2004 showed up in construction, real estate, company services, health and the hotel and restaurant trade, with year-to-year growth figures of 11% in the first case and slightly above 4% in the latter. In absolute terms, construction, real estate, company services and retail trade made up 67% of new registrations to Social Security during the year.

Hiring contracts up 11.5% in 2004.

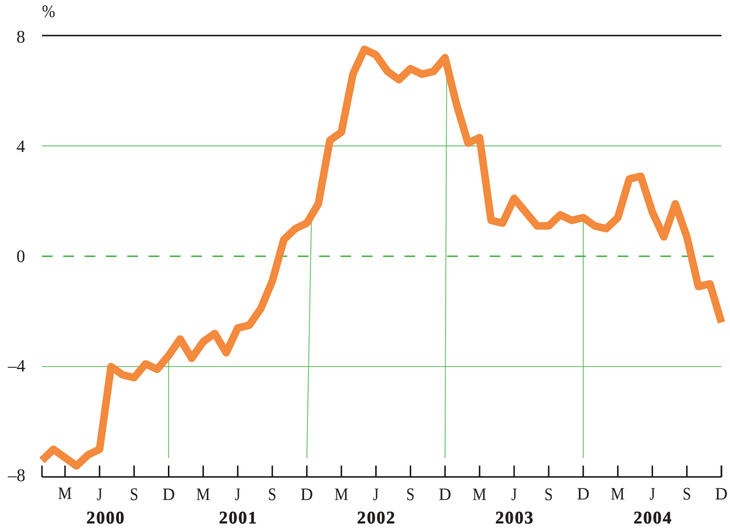
Also notably positive were figures for new hiring contracts recorded at the National Employment Institute (INEM) which rose by 7.6% year-to-year in December, which meant that the cumulative increase for the year came to 11.5%, with a somewhat higher figure for permanent jobs than for temporary jobs. Part-time hiring contracts were up by a much higher rate (19.1%) for the year as a whole.

Registered unemployment down in 2004

Registered unemployment down in December, something not seen since 2000.

The number of unemployed registered at INEM was down by 12,432 in December, which put the year-end figure at 1,670,290. This decrease was in contrast to the performance over the past four years during which the trend has been upward. This change helped to increase the rate of decrease in unemployment which stood at 2.4%, nearly one and a half points more than in the month before.

SHARPER DROP IN UNEMPLOYMENT
Year-to-year change in registered unemployment



SOURCE: National Employment Institute and internal figures.

Decrease in number unemployed in services and those seeking first job.

The better situation in December was especially favoured by the sharp decrease in unemployment in services, the biggest in the month of December since 1998 and by the continuing reduction in those seeking a first job. The latter must be interpreted with care, however, because of the legal difficulties faced by immigrants in joining the labour force. These decreases compensated the increases in industry and construction which, nevertheless, were lower than in the same month in 2003.

REGISTERED UNEMPLOYMENT BY SECTOR, SEX AND AGE

December 2004

	No. of unemployed	Change over same period year before		% share
		Absolute	%	
By sector				
Agriculture	37,400	–524	–1.4	2.2
Industry	253,114	–11,179	–4.2	15.2
Construction	199,328	–12,560	–5.9	11.9
Services	970,581	1,866	0.2	58.1
First job	209,867	–18,800	–8.2	12.6
By sex				
Males	695,630	–29,632	–4.1	41.6
Females	974,660	–11,565	–1.2	58.4
By age				
Under 25 years	232,363	–25,387	–9.8	13.9
All other ages	1,437,927	–15,810	–1.1	86.1
TOTAL	**1,670,290**	**–41,197**	**–2.4**	**100.0**

SOURCE: National Employment Institute and internal figures.

REGISTERED UNEMPLOYMENT DOWN FOLLOWING THREE YEARS OF INCREASES

Annual change in registered unemployment (by sex)

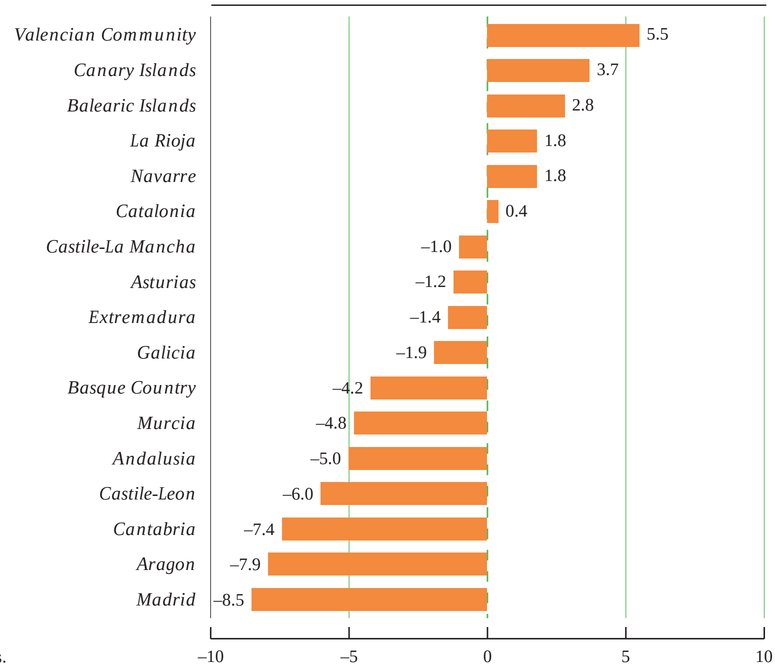
SOURCE: INE and internal figures.

Unemployment down more than 41,000 in 2004.

As a result, the year 2004 ended up with a good balance. Registered unemployment was down for the first time in four years although quite modestly by 41,197 persons. This decrease arose from the decreases in unemployment in industry, construction and among those seeking a first job, which compensated for the very small increase in services.

REGIONAL DISPARITIES IN REGISTERED UNEMPLOYMENT

Year-to-year change in registered unemployment in 2004 (as percentage)



SOURCE: INEM and internal figures.

Aragon, Madrid Community and Cantabria lead reduction in unemployment in contrast to Valencian Community, Canary Islands and Balearic Islands.

By autonomous community, the results for 2004 were notably uneven. In the Canary Islands, Valencian Community, La Rioja, Navarre, Catalonia and the Balearic Islands the level of unemployment went above that for the year before, in some cases quite substantially. On the other hand, in the rest of the country unemployment was lower than in December 2003, particularly in Aragon, Cantabria and Madrid Community where the year-to-year decrease stood at around 8%.

PRICES

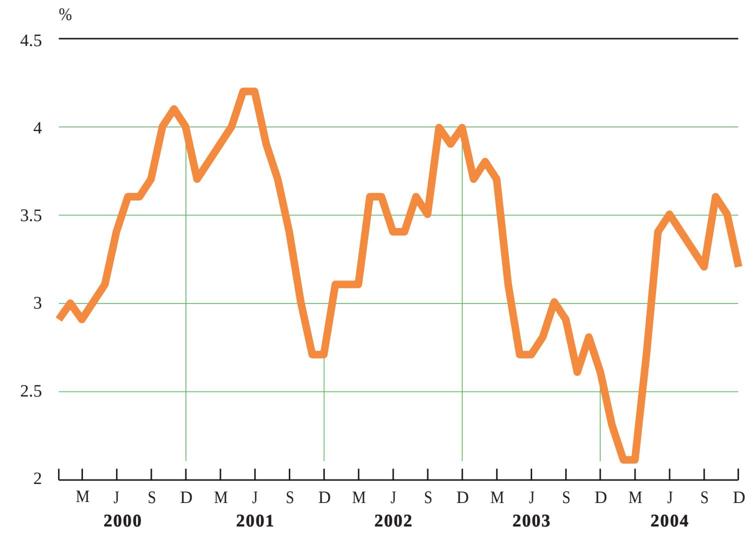
Inflation ends year at 3.2%

Inflation rate up six decimals last year.

Measured by the consumer price index (CPI), the inflation rate dropped by three decimals in December going to 3.2% year-to-year, thus leaving behind the annual highs reached in October although holding six decimals above December the year before. As a result, it ended the year with a clearly unfavourable balance in absolute terms but with somewhat more hopeful prospects seeing that, in the final stages of the year, it turned around the upward trend that had begun in March. On annual average, inflation repeated the 3.0% recorded in 2003.

INFLATION IMPROVES FOLLOWING OCTOBER HIGHS

Year-to-year change in CPI



SOURCE: National Institute of Statistics.

Fuels and fuel-oils play leading role…

The trend in the inflation rate during the past year was mainly marked by the trend in energy prices which, because of increases taking place, have been behind the overall rise. In fact, the six-decimal year-to-year increase was more than covered by the rises taking place in fuels and fuel-oils, a component that on its own contributed to somewhat more than nine decimals to the general index, thus having a decisive effect on such groups as passenger transport and housing (through heating costs).

The situation could have been somewhat worse but for the substantial revaluation of the euro against the dollar, which took more than ten points off the increase in oil prices in that currency.

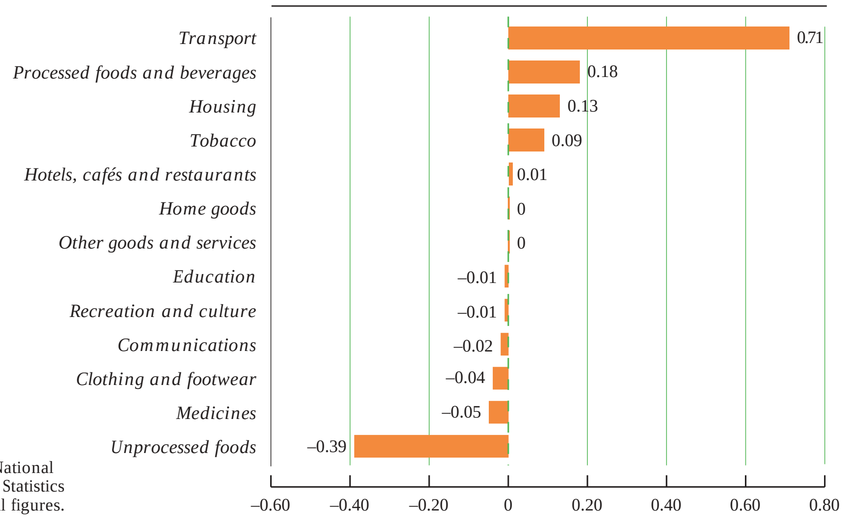
CONSUMER PRICE INDEX

	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	–0.1	3.2	3.2

SOURCE: National Institute of Statistics.

TRANSPORTATION, PROCESSED FOODS AND HOUSING COSTS MAKE UP SOURCES OF INFLATION IN 2004

Contribution to increase in CPI rate (in percentage points)



SOURCE: National Institute of Statistics and internal figures.

…although processed foods and tobacco make negative contribution to inflation rate.

Apart from fuel prices, processed foods, beverages and tobacco also made a negative contribution to the general index, contributing nearly three decimals to the inflation rate. Under processed foods, items that stood out were cooking oil, milk and bread with sharper price increases than the year before.

Non-energy industrial goods and services show more neutral performance although at varying levels.

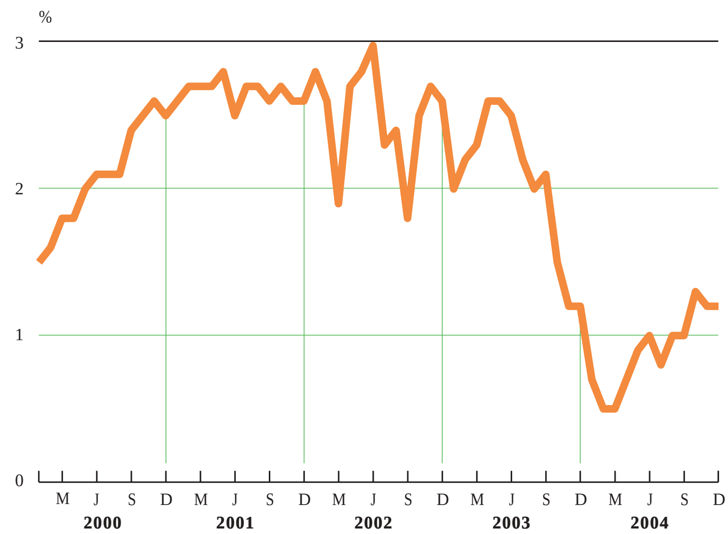
The role of non-energy industrial goods and services, on the other hand, played a much more neutral role seeing that at year-end the increase in these prices held at levels practically identical to those at the end of the year before. Nevertheless, the difference between these two components was significant, both because of the levels reached and the trends shown. Whereas in the former case the year-to-year rate ended up at 1.2% following the moderate rise since March, in services the rise was 3.8%, practically with no ups and downs during the course of the year.

Moderation in industrial goods aided by competition and low-cost imports.

The slight increase in prices of industrial goods may largely be explained by the effect of increased costs (mainly energy) on final prices. Nevertheless, the sharp competition now operating, increased in some markets by low-cost imports, meant that the absolute level of the increase in prices held at levels which were not excessively troubling, namely 1.2% in December. Contributing to the relative weakness of prices was the sharp decrease in prices of data-processing and audiovisual equipment and, to a lesser extent, in other domestic appliances which made a decisive contribution to this moderation. We should also mention the reduction in medicine prices which meant that the component of medical costs made a negative contribution to the CPI, as was the case with clothing and footwear.

PRICES OF INDUSTRIAL PRODUCTS MOVE SLIGHTLY UPWARD

Year-to-year change in non-energy industrial goods component of CPI



SOURCE: National Institute of Statistics and internal figures.

CONSUMER PRICE INDEX BY COMPONENT

December

	Indices (*)	% monthly change		% annual change	
		2003	2004	2003	2004
By type of spending					
Food and non-alcoholic beverages	114.7	0.4	0.3	4.1	3.0
Alcoholic beverages and tobacco	115.9	0.1	–0.0	2.8	5.5
Clothing and footwear	118.8	–0.5	–0.7	2.5	2.1
Housing	110.5	0.0	–0.1	2.8	4.1
Household equipment	106.9	0.1	0.3	1.7	1.8
Health	105.6	0.0	0.1	2.0	0.2
Transport	109.9	0.0	–1.3	1.0	6.0
Communications	93.0	–0.1	–0.0	–0.2	–0.7
Recreation and culture	103.3	1.0	0.9	0.1	–0.1
Education	116.4	0.1	0.1	4.3	4.2
Hotels, cafés and restaurants	116.0	0.3	0.3	4.1	4.2
Other	111.3	0.1	0.0	3.1	2.8
By group					
Processed food	112.8	0.1	0.2	2.7	4.1
Unprocessed food	118.8	0.9	0.4	6.4	1.8
Non-food products	110.7	0.1	–0.2	2.2	3.2
Industrial goods	108.0	–0.1	–0.7	0.9	2.6
Energy products	*107.4*	*–0.3*	*–2.5*	*–0.1*	*7.6*
Fuels and fuel-oils	*109.1*	*–0.4*	*–3.3*	*–0.6*	*9.8*
Industrial goods excluding energy products	*108.1*	*–0.1*	*–0.2*	*1.2*	*1.2*
Services	113.8	0.4	0.4	3.6	3.8
Underlying inflation (**)	111.5	0.1	0.1	2.5	2.9
GENERAL INDEX	**111.7**	**0.2**	**–0.1**	**2.6**	**3.2**

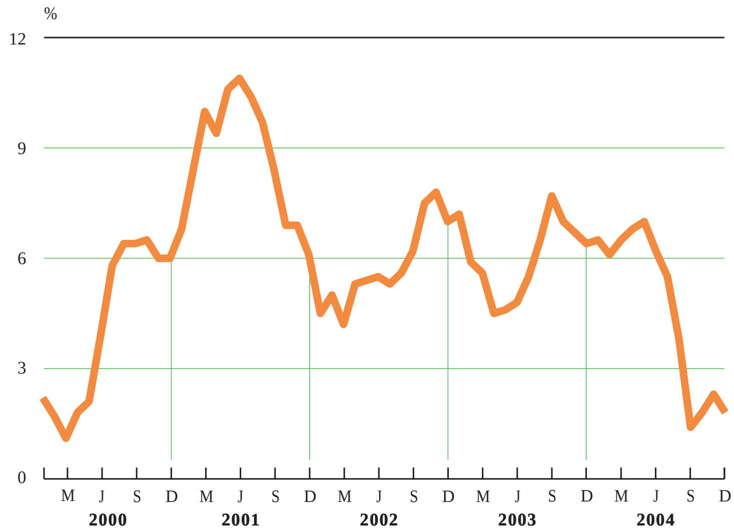
NOTES: (*) Base 2001 = 100.
(**) General index excluding energy products and unprocessed foods.
SOURCE: National Institute of Statistics.

Rigidity in services, both private and public, behind sustained rise in prices in this sector.

The rigidity in prices of services was due to the current conditions of competition in most private services markets and to some inertia in the case of public services, all of this in a context of sustained demand. In this respect, the increases of around 5% in domestic and vehicle repairs, restaurants and cafeterias, and personal services are significant, as well as those in other activities such as education, health and public transport and hospital services which, in spite of being occasionally covered by the private sector, may also be of a public nature and, at times, come under public control. In addition, in other cases, bank services with changes in the system moving to payment of commissions has had a negative effect on the CPI although with a clearly downward trend.

SHARP MODERATION IN FRESH FOOD PRICES IN SECOND HALF-YEAR

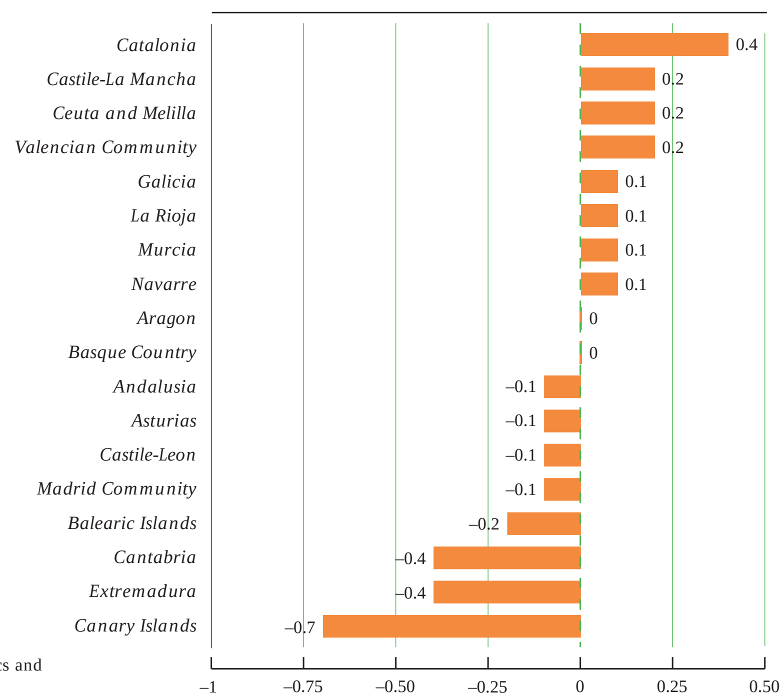
Year-to-year change in fresh food component of CPI



SOURCE: National Institute of Statistics and internal figures.

CATALONIA AND CANARY ISLANDS AT OPPOSITE ENDS OF INFLATION

Inflation differential compared with Spanish average in 2004 (as percentage)



SOURCE: National Institute of Statistics and internal figures.

Fresh foods finally move down.

On the positive side of the scale, practically entirely in this case, we may put fresh foods, which have shown a substantial decrease in the growth of prices due to the pressures on agricultural markets seen in 2003. Thanks to specific products, such as produce, eggs and potatoes, fresh foods have taken off nearly four decimals from the change rate of the general index.

Increase in inflation rate spread across all autonomous communities although to varying degrees.

From a geographical perspective, the increase in inflation has been to varying degree in the autonomous communities although affecting them all, with the exception of Ceuta and Melilla. The year-to-year rate rose by as much as one percentage point in Valencian Community, Galicia and Castile-Leon as opposed to increases of a half-point in autonomous communities such as Andalusia, Madrid Community and Catalonia, among others. Despite this relative moderation, the latter recorded the highest rate in Spain (3.6%) followed by Valencian Community and Castile-La Mancha, both with 3.4%. At the other end of the scale came Canary Islands with 2.5% and Cantabria and Extremadura, both with 2.8%.

CONSUMER PRICE INDEX BY AUTONOMOUS COMMUNITY

December

	Indices (**)	% monthly change		% annual change	
		2003	2004 (*)	2003	2004 (*)
Andalusia	111.3	0.1	–0.1	2.6	3.1
Aragon	111.6	–0.0	–0.2	2.4	3.2
Asturias	111.8	0.2	–0.1	2.4	3.1
Balearic Islands	111.3	0.0	–0.1	2.3	3.0
Canary Islands	108.6	0.3	–0.0	1.9	2.5
Cantabria	111.0	0.1	–0.2	2.6	2.8
Castile-La Mancha	111.7	0.2	–0.2	2.6	3.4
Castile-Leon	110.9	0.1	–0.3	2.1	3.1
Catalonia	113.0	0.3	0.0	3.1	3.6
Valencian Community	111.4	0.1	–0.1	2.4	3.4
Extremadura	109.9	0.0	–0.2	2.1	2.8
Galicia	112.2	0.1	–0.2	2.3	3.3
Madrid Community	111.5	0.2	–0.1	2.6	3.1
Murcia	112.8	0.2	–0.1	3.2	3.3
Navarre	112.3	0.3	–0.1	2.8	3.3
Basque Country	111.5	0.1	–0.2	2.6	3.2
La Rioja	112.3	0.1	–0.1	2.4	3.3
Ceuta and Melilla	112.6	0.2	–0.0	3.6	3.4
National total	**111.7**	**0.2**	**–0.1**	**2.6**	**3.2**

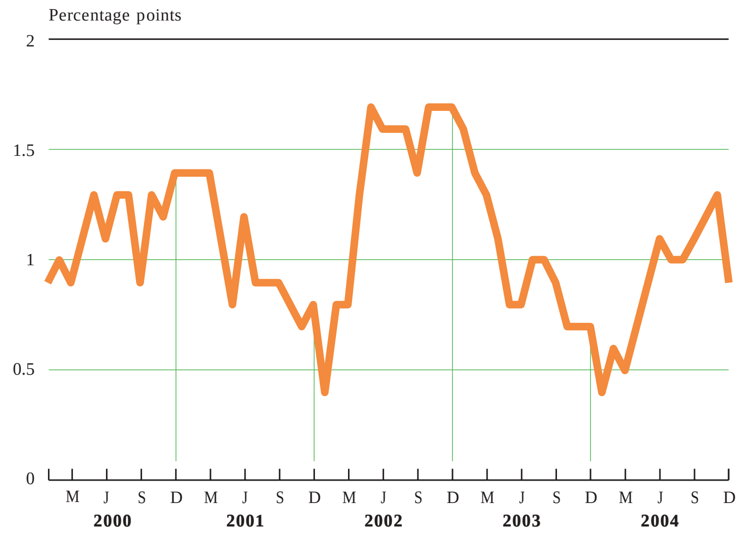
NOTES: (*) Provisional figures.
(**) Base 2001 = 100.
SOURCE: National Institute of Statistics.

Differential with euro area down in December.

The slowdown in Spain's inflation rate, measured against the harmonized consumer price index (HCPI), to 3.3% year-to-year in December meant that the inflation differential narrowed to nine decimals. As a result, the final figure for the year made it possible to improve the situation compared with the previous month but not with regard to the beginning of the year when the differential stood below a half percentage point.

DIFFERENTIAL WITH EURO AREA STANDS AT NINE DECIMALS AT YEAR-END

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



SOURCE: National Institute of Statistics and internal figures.

Food, transport, communications, and clothing and footwear go above average inflation differential.

The higher inflation level in Spain was spread over practically all components of the HCPI, with the exception of alcoholic beverages and medical services, which were affected by a very sharp rise in Germany and the Netherlands. The biggest differences, going above the average, were recorded in foods and non-alcoholic beverages (2.7 points), transport (2.2), communications (1.9) and clothing and footwear (1.4).

Improved prospects for prices at origin

Industrial prices moderate for second consecutive month but end year with 5% growth.

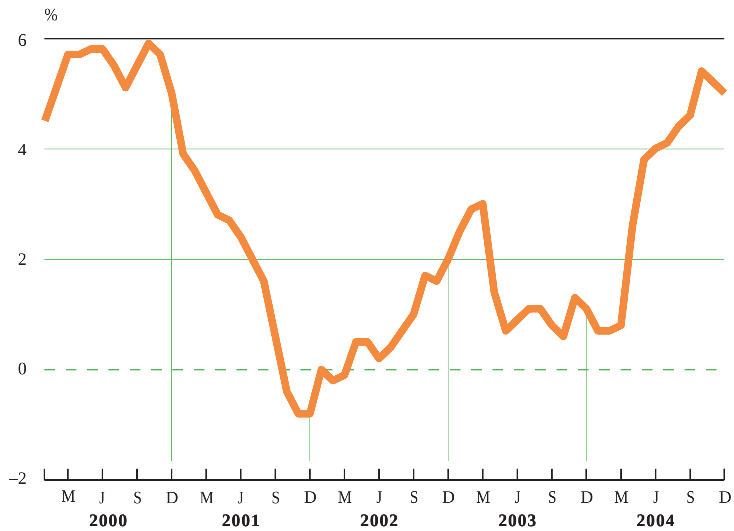
Industrial prices in December continued to follow the downward course shown the month before, thanks to containment of energy prices. In spite of this slight easing off, the growth rate stood at 5.0% year-to-year at year-end, nearly four points above year-end in 2003. As annual average, the increase stood at 3.4%, two points above 2003.

Energy and intermediate goods mark out course of general index in 2004.

The unfavourable balance for 2004 may largely be attributed to the rise in energy prices which began in April and continued until October. It was also due to the trend in prices of non-energy intermediate goods, mainly metal products which, due to the demand from certain countries, recorded growth of more than five percentage points during the year to end up at 6.2% in December, practically at annual highs.

INDUSTRIAL PRICES REACH CEILING

Year-to-year change in industrial prices index



SOURCE: National Institute of Statistics and internal figures.

Competition and weakness in export markets limit impact of oil price rise on prices of consumer goods and capital goods.

Pressures from costs of energy and intermediate goods, nevertheless, have had an impact on factory-gate prices of non-food consumer goods and capital goods, probably because of the effect of international competition and the relative weakness of Spain's main export markets. In fact, in the former case, the increase at year-end stood at 2.8%, four decimals more than in December the year before. In addition, prices of capital goods ended 2004 with a growth rate of 1.6%, only three decimals above the level seen in December 2003. Worth special mention is the case of foods which, after sharp increases in the first half, later moderated to levels below those seen last year.

Import prices show upward bias because of oil.

Import prices moved up in October because of pressure from oil prices which reached 260.6 euros a tonne that month, some 45.9% more than in October 2003. In spite of this sharp increase, the average cost per imported tonne in the January-October period grew by 12.6% over the same period the year before. Apart from oil, prices of consumer goods and capital goods showed modest decreases which may be explained both by the strength of the euro and the sharp growth in the flow of imports from low-cost countries. Non-energy intermediate goods showed average growth of close to 5% in the first ten months of the year.

Farm prices continue to move down.

Farm prices continued on a downward trend for the third consecutive month, which meant an easing of average growth to 1.1% in October, some three and a half points less than the average for the first ten months of 2003. This downward profile could continue to year-end as it is unlikely that the sharp increases seen at the end of 2003 will be repeated.

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											
October	10.0	0.6	2.5	1.2	0.7	–3.6	0.8	2.8	–0.6	–0.0	–
November	9.7	1.3	2.6	1.4	0.9	–0.4	–0.2	–0.4	–7.0	1.8	3.8
December	9.8	1.1	2.4	1.3	1.0	–1.1	–1.4	–1.4	–9.4	1.0	–
2004											
January	4.4	0.7	2.1	1.3	1.4	–3.6	–3.7	–1.0	–8.4	–3.6	–
February	–2.6	0.7	2.1	1.3	2.0	–5.4	1.8	–6.0	–6.2	7.5	3.6
March	1.3	0.8	2.3	1.3	2.6	–5.6	–2.3	–3.6	–7.0	–0.5	–
April	3.3	2.6	2.9	1.3	3.7	1.2	1.4	–3.9	2.6	3.4	–
May	7.1	3.8	3.1	1.2	4.4	7.2	5.3	2.9	–1.1	8.6	3.7
June	12.0	4.0	3.2	1.3	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	–3.7	5.4	2.3	1.8	6.2	14.2	2.6	2.6	–9.7	7.2	–
November	...	5.2	2.2	1.5	6.3	12.6	...	...	...	...	...
December	...	5.0	2.8	1.6	6.2	10.7	...	...	...	...	–

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

FOREIGN SECTOR

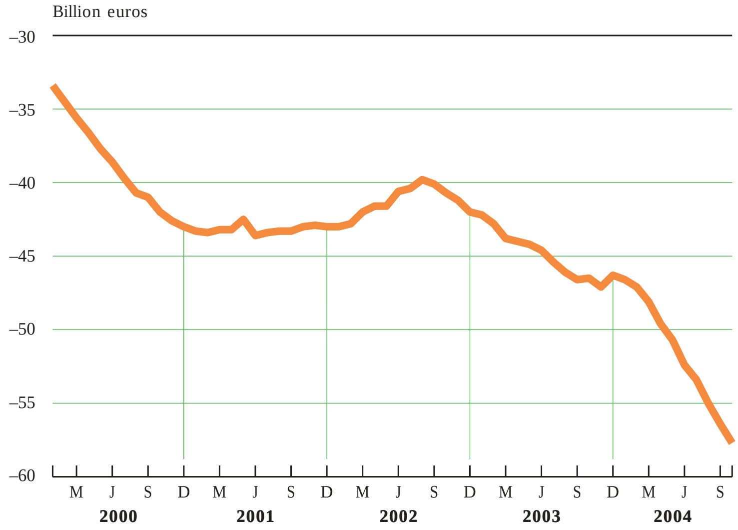
Trade deficit continues sharp rise

Trade deficit up 31% as of October.

Spain's trade deficit continued to rise sharply in October with the slight drop in exports and in spite of the weaker state of imports. As a result, the cumulative imbalance for the first ten months of 2004 was 31.2% higher than in the same period the year before, going to a figure of 48.8 billion euros. The export/import ratio, in turn, stood at 71.2%, some 4.2 points below the January-October period in 2003.

TRADE DEFICIT UNSTOPPABLE

Cumulative trade balance for 12 months



SOURCE: Customs Department and internal figures.

Imports ease rise but increases in capital goods and non-food consumer goods very high.

Imports in October grew by 7.1% nominal going to a figure of 169.1 billion euros in the cumulative figure for the year, 11.3% more than the year before. In real terms, the increase was somewhat less (9.9%) if we take into account the slight increase in import prices. Capital goods, with a cumulative figure of 18.1% in volume, and non-food consumer goods at 16.7%, were the product groups showing the highest growth although there are signs of the beginnings of a more moderate profile in the latter group. Consumer electronics, cars, furniture, and textiles and footwear were the sectors most affected by the volume of imports. Purchases of capital goods were up strongly in telecommunications equipment and industrial machinery. There was a somewhat lower increase in imports of food products at 8.1% real. Finally, the rise in purchases of intermediate goods reflected the increase in oil prices, given that non-energy purchases tended to show a substantial moderation in growth putting the cumulative rise for the year at 4.8% real.

FOREIGN TRADE

January-October 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	18,715	17.9	11.1	4,392	25.2	3.7	–14,323	23.5
Consumer goods	48,722	13.6	28.8	47,351	0.9	39.4	–1,371	97.2
Food	*10,819*	*6.2*	*6.4*	*13,966*	*–0.1*	*11.6*	*3,147*	*129.1*
Non-foods	*37,903*	*15.5*	*22.4*	*33,385*	*0.2*	*27.7*	*–4,518*	*88.1*
Capital goods	26,798	12.7	15.8	15,096	10.1	12.5	–11,702	56.3
Non-energy intermediate goods	74,882	7.8	44.3	53,493	6.1	44.5	–21,389	71.4
By geographical area								
European Union (EU-15)	105,289	8.4	62.3	85,880	3.9	71.4	–19,409	81.6
Euro area	*91,561*	*8.8*	*54.1*	*71,825*	*3.7*	*59.7*	*–19,736*	*78.4*
Other countries	63,828	16.5	37.7	34,452	8.0	28.6	–29,376	54.0
Russia	*2,966*	*21.9*	*1.8*	*730*	*9.7*	*0.6*	*–2,235*	*24.6*
United States	*6,097*	*10.4*	*3.6*	*4,635*	*–0.6*	*3.9*	*–1,462*	*76.0*
Japan	*4,645*	*19.0*	*2.7*	*988*	*19.9*	*0.8*	*–3,656*	*21.3*
Latin America	*6,991*	*11.0*	*4.1*	*5,805*	*6.5*	*4.8*	*–1,186*	*83.0*
OPEC	*10,366*	*8.2*	*6.1*	*2,832*	*2.8*	*2.4*	*–7,535*	*27.3*
Rest	*32,764*	*21.1*	*19.4*	*19,462*	*10.9*	*16.2*	*–13,302*	*59.4*
TOTAL	**169,118**	**11.3**	**100.0**	**120,332**	**5.0**	**100.0**	**–48,785**	**71.2**

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

Rise in imports from third countries and those recently joining European Union.

By geographical area, purchases from the European Union (EU-15) were up by 6.2% real in the first ten months of the year as against 17.3% for those from the rest of the world. We should point out the sharp increase in purchases from the ten new member states of the EU, 25.7% nominal as of October 2004. Outside the EU, the biggest growth figures showed up in trade with the Middle East (because of oil), and with China, Japan, countries of the former Soviet Union and Brazil.

Exports sharpen weak profile…

Exports, in turn, were down by 0.5% nominal in October thus consolidating the downward profile seen in the previous three months. In any case, the cumulative figure for exports in the first ten months (120.3 billion euros) showed an increase of 5.0%, equivalent to 4.4% real (7.0% in the same period of 2003). The weaker state of exports was especially noticeable in the euro area and those areas outside the monetary union, such as Latin America, most Asian countries and the United States. The strength of the euro may have had an influence on this trend. In overall terms, exports to third countries showed a relatively more favourable cumulative balance with growth standing at 8.2% real as against 3.3% for shipments to the previous EU-15.

…especially in non-food consumer goods.

By product, the weakness in exports was especially noticeable in consumer products, particularly in footwear, toys and consumer durables, above all in furniture and appliances. Special mention should be made of cars which recovered some strength although the nominal increase in sales abroad held at a modest 4.4%. On the contrary, exports of capital goods still held a positive course thanks to the shipbuilding industry while, under the heading of intermediate goods, iron and steel products continued to show big increases of around 28.2% nominal.

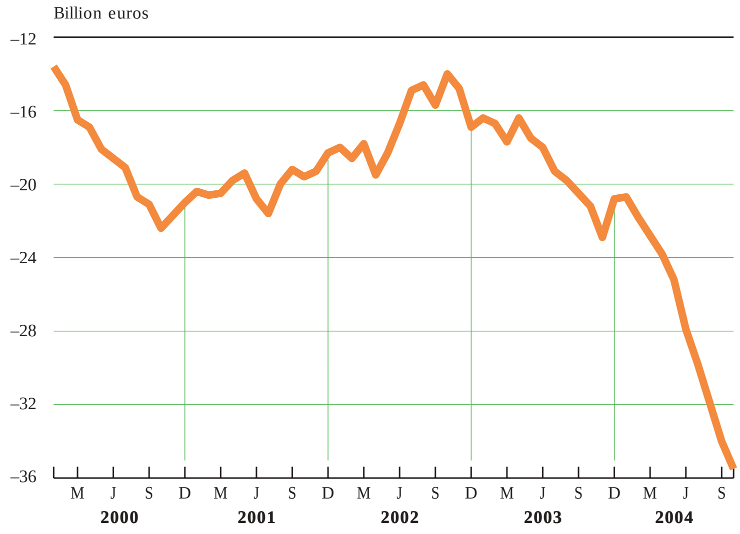
Current account deficit shows spectacular rise

Current account deficit continues to rise…

The current account balance showed a deficit of 2.9 billion euros in October, double the figure for the same month last year. This worsening situation was due to the increase in the trade imbalance and the reduction in the transfers surplus which together went well above the improvement in the services balance and the incomes balance.

INCREASE IN CURRENT ACCOUNT DEFICIT

Cumulative current account balance for twelve months



SOURCE: Bank of Spain and internal figures.

…making up 4.5% of GDP in October.

The increase in the current account imbalance in October put the cumulative deficit for twelve months at 35.5 billion euros. This worsening of the situation came as a result of the poorer state of each of the headings making up the balance, both through the increase in the deficit (in goods and incomes) and the turnaround in the balance (to a deficit in the case of transfers) and because of the decrease in the positive balance (in the case of services).

Immigrant remittances affect transfers balance while stagnation in tourist inflows shows up in tourist balance.

In transfers, the worsening of the balance was notably affected by remittances sent abroad by foreign workers resident in Spain. In fact, cumulative payments for the past twelve months ending in October were 3.3 billion euros with more than a 20% increase compared with the same period the year before. The services balance was affected by the tourist balance which dropped by 8.1% in cumulative terms for the last twelve months as a result of stagnation in tourist revenues and a sharp increase in payments.

BALANCE OF PAYMENTS

Cumulative figure for last 12 months in million euros

	October 2003	October 2004	% change
Current account balance			
Trade balance	–37,218	–49,033	31.7
Services			
Tourism	*29,573*	*28,472*	*–3.7*
Other services	*–2,370*	*–3,129*	*32.0*
Total	27,203	25,343	–6.8
Income	–11,486	–11,704	1.9
Transfers	317	–95	–
Total	**–21,183**	**–35,490**	**67.5**
Capital account	**7,008**	**8,771**	**25.2**
Financial balance			
Direct investment	1,527	–11,187	–
Portfolio investment	–26,042	49,609	–
Other investment	48,359	13,260	–72.6
Total	**23,844**	**51,682**	**116.8**
Errors and omissions	–5,645	–3,997	–29.2
Change in assets of Bank of Spain	–4,024	–20,966	421.1

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.

Increase in positive figure for capitals balance.

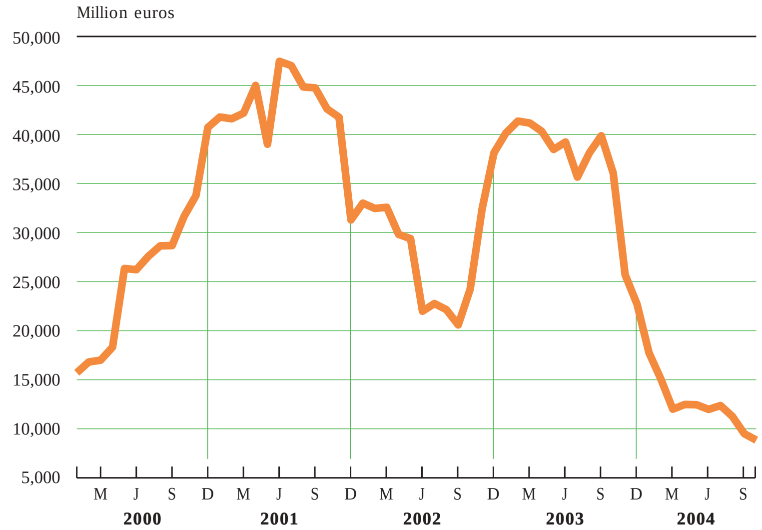
Capital account, in turn, showed a surplus of 310 million euros in October, less than half the figure for the same month the year before. In spite of this, the figure for the past twelve months (8.8 billion euros) stood at 25.2% above the year before.

Spanish direct investment abroad down 42% while foreign direct investment in Spain drops more than 75%, including real estate investment.

Over the past twelve months ending in October 2004, financial account, excluding Bank of Spain transactions, showed cumulative net inflows of 51.7 billion euros, more than twice that for the same period the year before. Spanish direct investment abroad continued to be very weak, particularly in the field of corporate investment whereas real estate investment showed major increases. In spite of everything, the total volume was 42.0% lower than in the same period the year before. Foreign direct investment in Spain continued to drop, specifically by 75.5% compared with the year before, both in corporate investment and in real estate investment, in the latter case, for the first time in recent years.

DROP IN FOREIGN INVESTMENT

Inflows of direct foreign investment in Spain (cumulative figure for past twelve months)



SOURCE: Bank of Spain and internal figures.

SAVINGS AND FINANCING

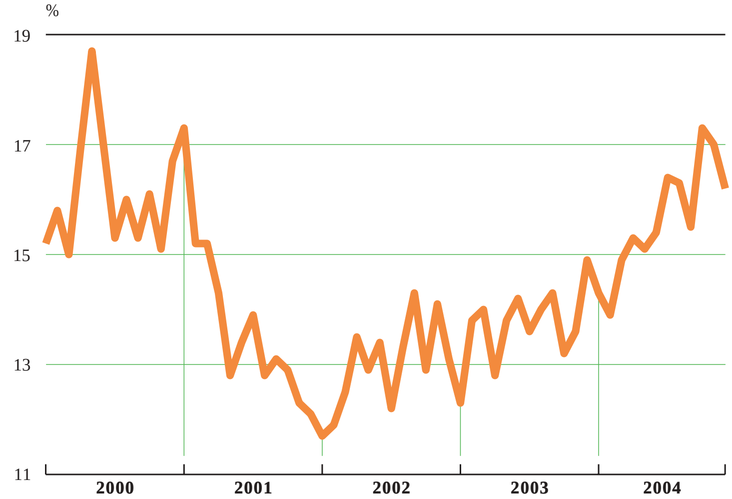
Mortgage loans show sustained growth

Bank credit to private sector twice rate in euro area.

Bank credit to the private sector rose by 16.2% in November compared with the same month in 2003. This rate is 8 decimals lower than that recorded the month before but still shows it is holding at a sharp growth rate, more than twice that for the euro area as a whole. Demand for bank loans by companies and households continues to be fostered by the favourable economic climate and advantageous financing terms with very low interest rates.

SLIGHT DROP IN BANK CREDIT TO PRIVATE SECTOR

Year-to-year change in credit granted by credit institutions to companies and households



SOURCE: Bank of Spain and internal figures.

Savings banks granting more loans than banks.

The slight easing off in credit to the private sector involved both banks and savings banks. Nevertheless, the latter continued to show a higher year-to-year rise thus increasing their lead in this market segment. In the past 12 months as of November 2004, the savings banks have increased their total loans to companies and households by 19.0% as against 14.1% in the case of banks.

Total mortgage loans up 25% in 12 months ending November.

The main contribution to the increase in credit to companies and households came from mortgage loans which, at this moment, scarcely show any sign of easing off. As a result, mortgage loans granted by banks and savings banks rose by 22.8% in the period November 2003 - November 2004, one decimal more than the year-to-year rate the previous month. If we include securitizations and other credit institutions, the year-to-year change moves up to 25.05%, according to figures supplied by the Spanish Mortgage Association. Higher household incomes, demographic factors and low interest rates continue to foster mortgage loans.

CREDIT TO COMPANIES AND HOUSEHOLDS

November 2004

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
Trade credit	56,155	624	1.1	1,481	2.7	6.0
Secured loans (*)	533,609	91,484	20.7	99,134	22.8	57.3
Other term loans	276,847	25,948	10.3	23,242	9.2	29.7
On-demand loans	28,118	7,195	34.4	2,839	11.2	3.0
Leasing	28,561	3,492	13.9	3,298	13.1	3.1
Doubtful loans	7,445	–221	–2.9	–171	–2.2	0.8
TOTAL	**930,735**	**128,523**	**16.0**	**129,825**	**16.2**	**100.0**

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

Notable rise in leasing.

In addition, leasing, which goes to finance the acquisition of capital goods and real estate by companies and self-employed professionals, rose by 13.1% in November compared with the same month the year before. On the other hand, commercial credit, used to finance working capital of companies, showed a rise of only 2.7% in the same period.

Default rate at banks and savings banks marks up all-time low.

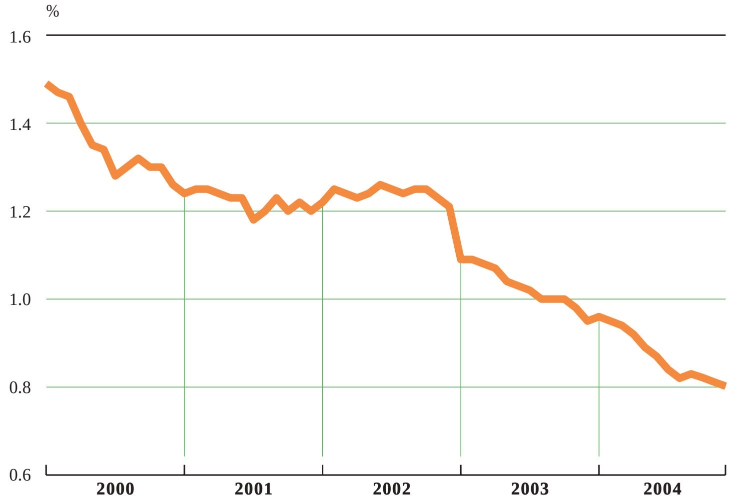
Doubtful loans were down to 7.4 billion euros in November. As a result, the default rate at credit institutions fell to 0.80%, the lowest level in recent years. On the other hand, the rate of doubtful loans at banks and savings banks (excluding other credit institutions) dropped to an all-time level of 0.67%.

Composite bank interest rate applied to private sector stands at 3.95%.

Bank loan interest rates generally held at low levels in November. This is indicated by the composite interest rate for loans to the private sector which stood at 3.95%, the same rate as the month before and 10 basis points below the then all-time low in June 2004. This stability comes as a result of slightly opposite movements. The composite rate for households rose very slightly by 2 basis points to 4.36% to stand some 7 basis points below 12 months earlier. On the other hand, the composite figure for non-financial companies was down by 2 basis points to a figure of 3.51% to stand some 5 basis points above the all-time low in August.

DEFAULT RATE AT CREDIT INSTITUTIONS DROPS TO ALL-TIME LOW

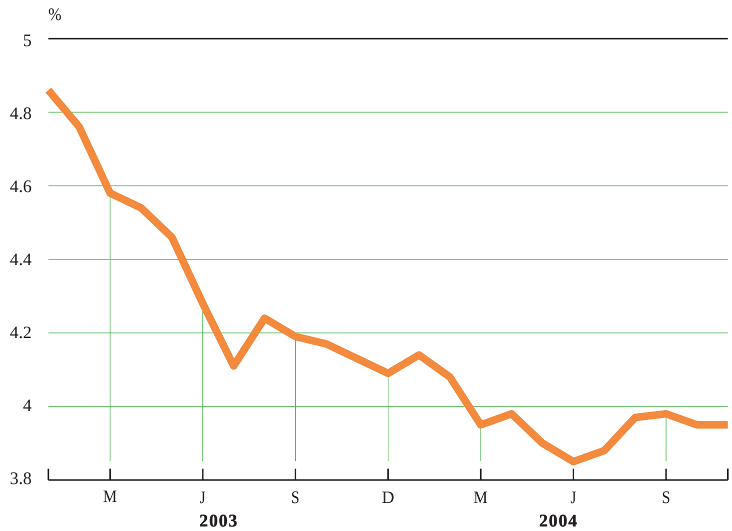
Doubtful loans at credit institutions compared with total loans to private sector



SOURCE: Bank of Spain and internal figures.

INTEREST RATE ON LOANS TO PRIVATE SECTOR STANDS AT VERY LOW LEVELS

Composite loans rate at credit institutions (*)



NOTES: (*) New private sector loan transactions (annual percentage rate).
SOURCE: Bank of Spain.

Slight decrease in mortgage loan rate for credit institutions as a whole in December.

On the other hand, the interest rate on mortgage loans (for term of more than 3 years) for purchase of non-subsidized homes applied by credit institutions as a whole dropped slightly (by 3 basis points) to 3.35%. As a result, it stood at 11 basis points below the level one year earlier.

Bank deposits by companies and households continue vigorous advance.

Credit institutions issue securities to compensate for difference between loans and deposits.

Total deposits in euros and foreign currency by the resident private sector rose by 13.0% in November 2004 compared with one year earlier, just 3 decimals less than in October but 4.3 points more than in December 2003. In the past 12 months these deposits rose by 80 billion euros. This figure was considerably less than the increase in loans. In order to compensate for the imbalance, the banking institutions carried out issues of securities and securitizations or had recourse to the foreign interbank market.

DEPOSITS OF COMPANIES AND HOUSEHOLDS AT CREDIT INSTITUTIONS
November 2004

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
On-demand	184,103	15,199	9.0	19,546	11.9	26.4
Savings (*)	155,225	10,016	6.9	11,471	8.0	22.3
2-year term	157,612	1,403	0.9	–713	–0.5	22.6
More than 2-year term	120,901	43,522	56.2	49,808	70.1	17.3
Repos	73,437	–4,364	–5.6	–1,858	–2.5	10.5
Total	**691,278**	**65,776**	**10.5**	**78,254**	**12.8**	**99.2**
Deposits in currencies other than euro	**5,785**	**1,634**	**39.4**	**1,759**	**43.7**	**0.8**
TOTAL	**697,063**	**67,410**	**10.7**	**80,013**	**13.0**	**100.0**

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

Time deposits for more than 2-year term up by 70%.

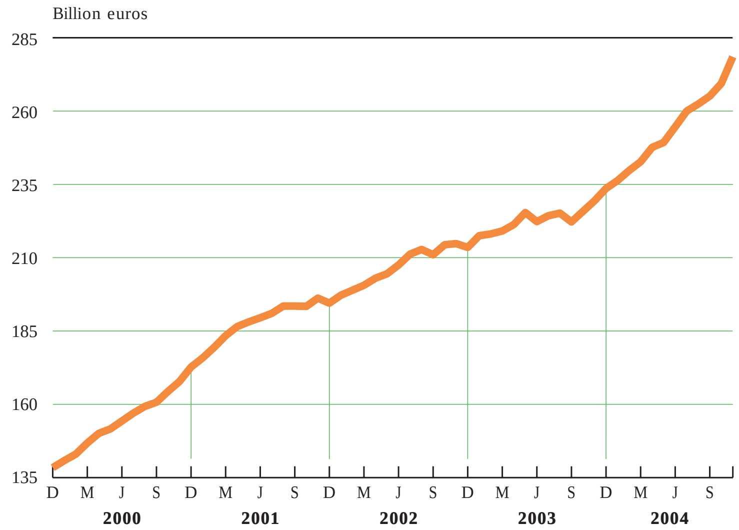
By type of deposit, we should point out the growth of deposits for terms of more than two years which recorded extraordinary annual growth of 70.1%. Deposits in currencies other than the euro also showed spectacular year-to-year growth of 43.7%, higher than in previous months. On the other hand, repos and time deposits for less than 2 years were down slightly in the course of the past 12 months ending in November.

Securities mutual fund assets up 11% in 2004.

Securities mutual fund assets increased by 21.7 billion euros in December going to 219.7 billion euros, an annual change of 11.0%. This increase may be attributed to new purchases of units (deducting sales) of 16.1 billion euros and to capital gains. New money went mainly into global funds, short-term bond-based funds, guaranteed funds and national share-based funds. The biggest withdrawals took place in money-market funds because of poorer yields as a result of low interest rate levels. As a result, we note that investors tried to take advantage of the recovery in share markets without assuming too much risk.

MAJOR INCREASE IN TIME DEPOSITS

Time deposits at credit institutions



SOURCE: Bank of Spain.

Number of persons holding securities mutual fund units up 5% in 2004.

The total number of persons holding securities mutual fund units at the end of 2004 stood at 8,148,140, an annual increase of 5.4%. By type of fund, those showing the biggest increase in holders of units were share-based funds, with an increase of 25.6%, followed by guaranteed bond-based funds, which showed a rise of 17.0%.

Average yield on securities mutual funds varies between 19% for national share-based funds and 1% for U.S. funds.

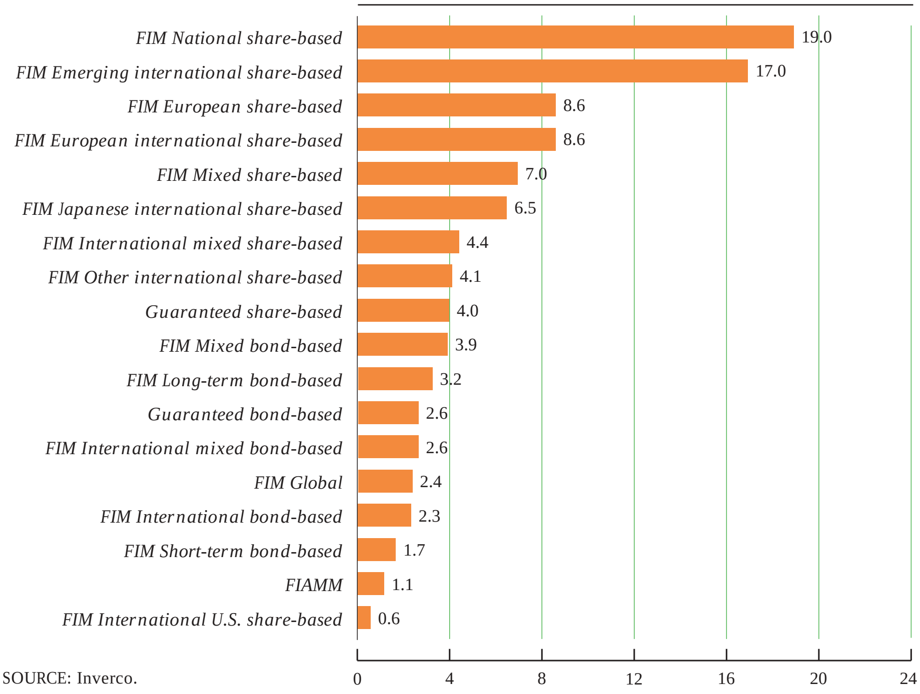
Weighted yield on mutual funds in 2004 was 3.2%. All types of mutual fund obtained positive annual yields although with large differences. The highest annual capital gains showed up in national share-based funds with an extraordinary 19.0% and in share-based funds of emerging markets at 17.0%. The lowest yields came in international U.S. share-based funds (at 0.6%) brought about by the depreciation of the dollar against the euro. In addition, the average annual yield in the past 13 years was 4.7%.

Real estate mutual funds up 55% in 2004.

In another sphere, real estate mutual fund assets stood at 4.4 billion euros in December 2004. This figure meant an annual increase of 54.7%. The number of unit holders was 106,217 at year-end. Weighted average yield on this type of collective investment was 6.7% and 7.6% in the last 5 years.

ALL MUTUAL FUNDS SHOW POSITIVEYIELDS IN 2004

Annual yield on securities mutual funds in 2004 a percentage



SOURCE: Inverco.

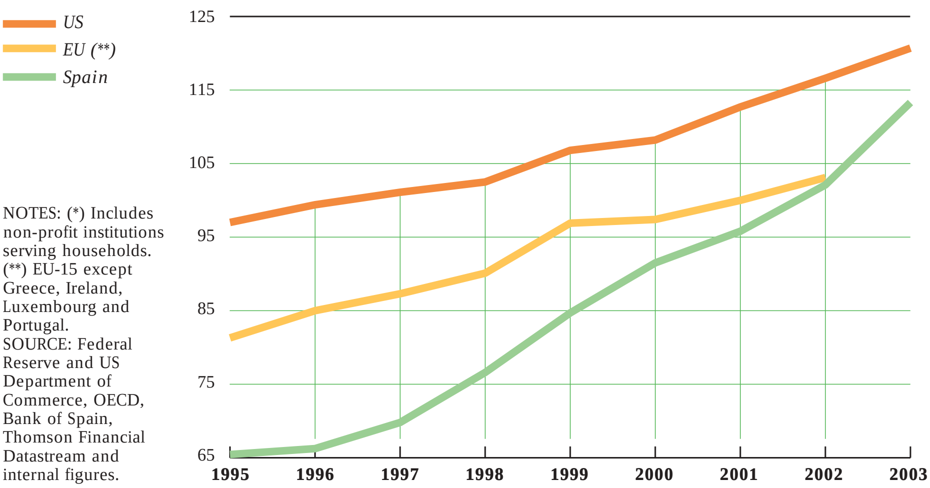
Rise in household debt in developed countries

Spain's household debt rises rapidly in recent years…

In recent years, household debt in Spain has substantially increased. In this context, it is interesting to make an international comparison with the main advanced countries in Spain's orbit in order to appreciate the relative degree of household debt in the country. It should be pointed out that, in making an international comparison of levels of household debt, figures must be taken with care given that, while in the countries of the European Union the process of making statistics homogeneous has made great progress, there still remain methodological differences, especially with other countries such as the United States and Japan. Furthermore, available figures include non-profit institutions serving households, such as religious organizations, charitable bodies, trade union organizations, etc. Nevertheless, some conclusions may be drawn.

HOUSEHOLD DEBT IN SPAIN CLOSING GAP

Household financial liabilities as percentage of net disposable income (*)



NOTES: (*) Includes non-profit institutions serving households.
(**) EU-15 except Greece, Ireland, Luxembourg and Portugal.
SOURCE: Federal Reserve and US Department of Commerce, OECD, Bank of Spain, Thomson Financial Datastream and internal figures.

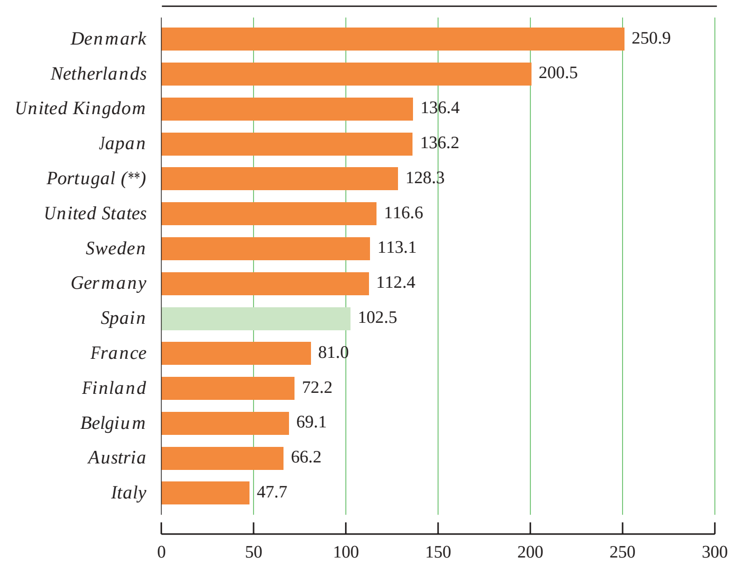
…going over euro area average in 2003...

If we measure household debt in relation to disposable income, we note a general increase in debt in recent years. According to Bank of Spain figures, the proportion of household debt to disposable income in 2003 for the first time stood above the average for the euro area, although it was below such countries as the United States and the United Kingdom.

NOTABLE DIFFERENCES IN LEVELS OF HOUSEHOLD DEBT

2002

Percentage of household financial liabilities over net disposable income (*)

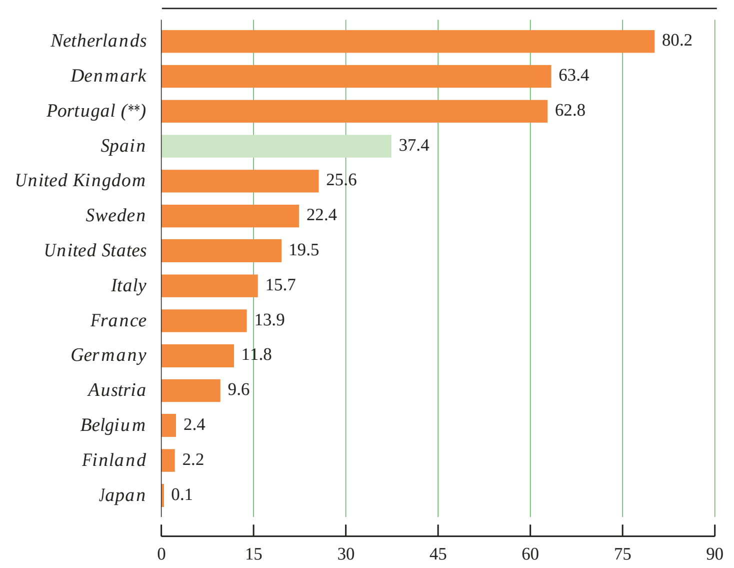


NOTES: (*) Includes non-profit institutions serving households.
(**) 2001.
SOURCE: OECD, Bank of Spain and internal figures.

RISE IN HOUSEHOLD DEBT IN DEVELOPED COUNTRIES

1995-2002

Change in household financial liabilities as percentage of net disposable income (*)



NOTES: (*) Includes non-profit institutions serving households.
(**) Period 1995-2001.
SOURCE: OECD, Bank of Spain and internal figures.

...but still not up to level of many developed countries.

If we look in greater detail, we find that available figures for the period 1995-2002 show that the ratio of financial liabilities of households (made up largely of loans) over disposable income went through a general increase in the developed countries as a whole. Nevertheless, we note substantial differences with regard to the degree of increase and final levels. In the period under study, those countries showing the sharpest increase in the abovementioned household debt ratio were the Netherlands, Portugal, Denmark, Spain, United Kingdom, Sweden and United States, in that order. With regard to debt levels, the countries with the highest ratios in 2002 were Denmark, Netherlands, United Kingdom, Japan, Portugal, United States, Sweden, Germany and Spain.

Between 1995 and 2002 debt of individuals in Netherlands and Portugal rises more than in Spain.

In addition, household debt, measured in terms of the gross domestic product (GDP) also rose significantly in most developed countries with the major exception of Japan. In that country, the continuation of the financial crisis which took place in the Nineties following the bursting of the stock market and real estate bubble of the previous decade contributed to this result. On the other hand, in Portugal and the Netherlands, from the mid-Nineties to 2002 individual financial liabilities rose by 40 points of the GDP. During this period, Spanish households increased their debt by 19 points of the GDP while households in the United States raised theirs by 15 points.

Low interest levels boost demand for loans by households, especially mortgage loans…

Among various factors behind the rise in household debt we should mention the drop in interest rates. This came about very sharply before the launching of the euro at the beginning of 1999 with various European countries bringing their interest rates into line at lower levels. Later, there was a general drop in interest rates, both short-term and long-term, to all-time low levels following the bursting of the stock market bubble in 2000. This meant an incentive to increased loan demand given that interest rates even went down to negative real rates putting nominal values below the inflation rate. The main thrust came from mortgage loans. This came about in a situation of sharp increases in real estate prices in countries such as the United Kingdom, Netherlands, Spain and the United States.

…which are also increased by rise in housing prices.

In fact, the trend in prices of assets, both financial and real estate, is relevant to any analysis of debt. We note that the rise in housing prices produced a «wealth effect» for home-owners. As a result, affected by their increased market value, assets held by households could become loan collateral.

Financial liabilities of households up slightly compared with financial assets.

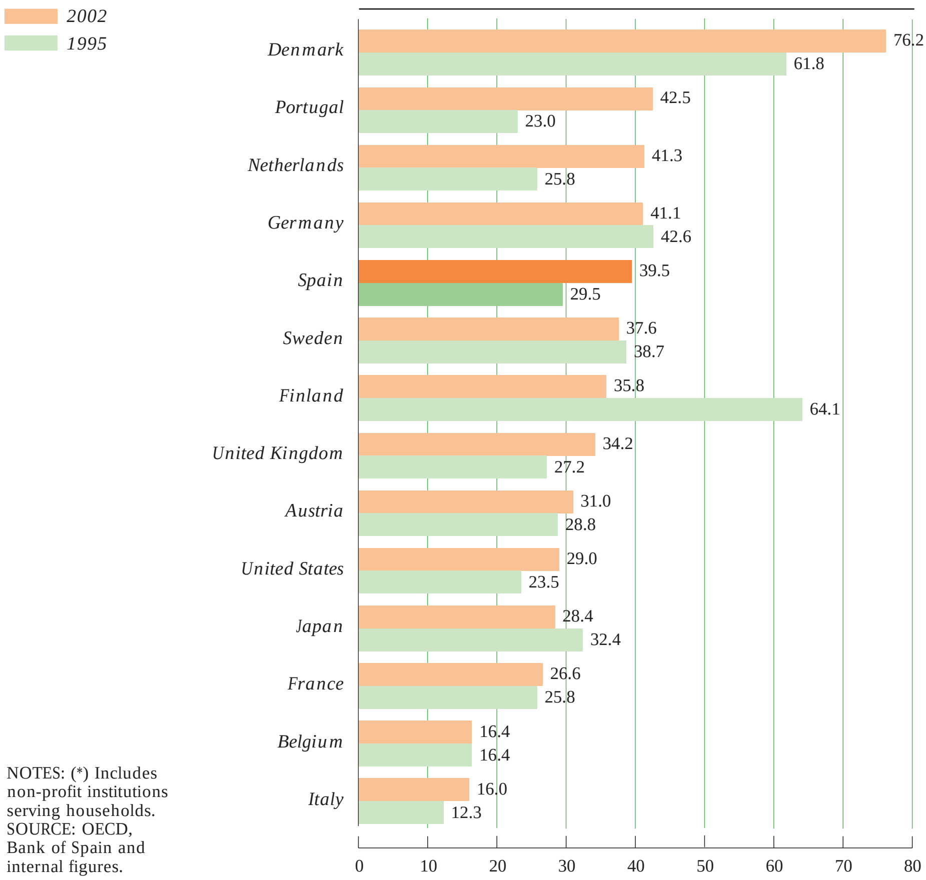
Within this framework, the proportion of financial liabilities over assets may also be used to evaluate the degree of sustainability of the financial position of households. According to this indicator, the debt of households in general rose slightly in the period under study, under the effect of the drop in share markets in 2000, 2001 and 2002. Nevertheless, there were exceptions, such as Finland, Japan, Germany and Sweden, which recorded decreases in this ratio.

Financial assets of individuals rise in relation to GDP despite stock market drops in 2000-2002.

On the other hand, the volume of financial assets of households, that is to say, cash, deposits, bonds, shares, mutual fund units and insurance, generally showed a rise in relation to the GDP in most developed countries from 1995 to 2002. Nevertheless, it dropped in terms of the GDP in the United Kingdom, United States and Belgium.

RATIO OF FINANCIAL LIABILITIES/FINANCIAL ASSETS ALSO INCREASES

Financial liabilities of households in developed countries
as percentage of financial assets (*)



NOTES: (*) Includes non-profit institutions serving households.
SOURCE: OECD, Bank of Spain and internal figures.

Varied legislation and taxation rules bring about major differences in composition of household financial asset portfolios.

From the point of view of the composition of household financial asset portfolios, there are major differences between the various countries in the Organization for Economic Cooperation and Development (OECD). As a result, the relative weight of cash and deposits in Austria in 2002 was 56% while in the United States it stood at only 13% of total assets. On the other hand, in the United States, shares made up 46% of the total financial portfolio as against 8% in Japan. Differences in legislation and tax rules affecting financial assets in the various countries are key factors explaining the structural peculiarities of portfolios.

Sharp changes in household financial portfolios in recent years.

The portfolio of household assets has also shown sharp changes over time. In the period 1995-2002 bank deposits in many countries showed a lower share of the total. On the other hand, in the period studied, the relative weight of bank deposits rose in other countries, such as Japan, United Kingdom, Belgium, Netherlands and United States.

PORTFOLIO OF HOUSEHOLD FINANCIAL ASSETS IN OECD (*)

Percentage over total financial assets at end of 2002

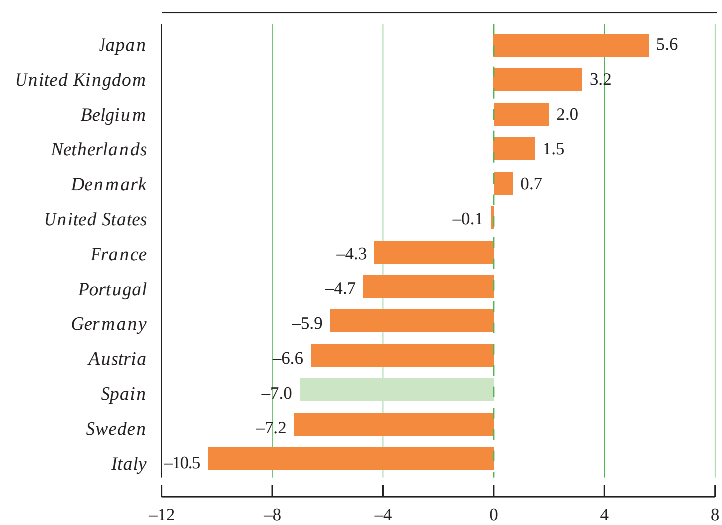
	Currency and deposits	Securities other than shares	Shares and mutual fund units	Insurance technical reserves	Other
Germany	35.9	11.3	21.0	30.2	1.6
Austria	55.8	7.6	13.5	22.3	0.8
Belgium	30.5	24.1	28.3	17.3	–0.1
Denmark	27.4	8.9	18.7	43.6	1.4
Spain	43.4	2.4	34.4	15.9	3.8
Finland	33.5	1.2	39.3	21.4	4.6
France	31.7	2.3	32.7	28.9	4.4
Italy	29.4	24.7	29.6	15.7	0.6
Netherlands	24.1	3.9	11.8	57.4	2.8
Portugal	43.9	9.3	28.0	16.5	2.3
United Kingdom	27.1	1.3	14.9	53.3	3.3
Sweden	17.5	2.6	30.4	40.1	9.3
United States	13.2	8.3	46.0	30.8	1.8
Japan	54.9	6.0	8.3	27.4	3.4

NOTES: (*) Includes non-profit institutions serving households.
SOURCE: OECD, Bank of Spain and internal figures.

UNEVEN TREND IN DEPOSITS IN DEVELOPED COUNTRIES

1995-2002

Change in relative weight of household deposits in total financial assets (*) as percentage



NOTES: (*) Includes non-profit institutions serving households and cash.
SOURCE: OECD, Bank of Spain and internal figures.

Shift from bank deposits slows following stock market collapse in 2000.

Two stages should be noted. In the first stage, the shift away from bank deposits continued with the result that bank deposits dropped in favour of other more sophisticated and innovative financial products. Nevertheless, following the collapse of the stock markets in 2000, in an environment of increasing uncertainty, investors were more cautious and bank deposits again gained preference. Nevertheless, following recovery of the stock markets in 2003 the shift from bank deposits probably continued in many countries.

Cash held shows high levels in Spain.

In turn, in most developed countries cash showed a reduced relative level from 1995 to 2002, except in Japan and the United Kingdom. However, there were notable differences with regard to its share of total assets. It is of note that in 2002 cash amounted to 4.5% in Spain and 3.7% in Austria while in most countries it did not go beyond 2%.

Drop in importance of fixed-income securities.

With regard to fixed-income securities (Treasury notes, Treasury bills and bonds), these lost ground in the period under study almost without exception in a situation of lower interest rates. Nevertheless, we note major differences in levels in portfolios of private individuals. For example, these securities represented 25% of total assets in Italy in 2002 and 24% in Belgium whereas in Finland and the United Kingdom they stood at 1%.

Increasing role of institutional investors.

The trend in the relative weight of shares as a whole in the period under study also showed notable differences between countries. Whereas in some countries this showed a notable rise in importance, as in the case of Finland, in other countries it dropped substantially, as was the case in Portugal and the Netherlands. The performance of mutual fund units was more similar, with an increase in total portfolio, except in the case of France.

SHARES IN FINANCIAL ASSETS PORTFOLIO OF HOUSEHOLDS (*)

Shares and other equity as percentage of total financial assets of households in developed countries

	1995			2002			Change 1995-2002 in percentage points		
	Total	Shares and holdings (**)	Mutual fund shares	Total	Shares and holdings (*)	Mutual fund shares	Total	Shares and holdings (*)	Mutual fund shares
United States	45.7	37.0	8.7	46.0	32.8	13.2	0.3	–4.2	4.5
Finland	5.3	4.2	1.0	39.3	34.3	5.0	34.0	30.1	4.0
Spain	29.7	19.7	10.0	34.4	22.3	12.0	4.6	2.6	2.0
France	34.1	22.5	11.6	32.7	23.6	9.1	–1.4	1.1	–2.5
Sweden	26.2	20.3	5.9	30.4	21.1	9.3	4.2	0.8	3.4
Italy	18.6	...	...	29.6	...	...	10.9	...	...
Belgium	26.8	18.3	8.5	28.3	13.1	15.1	1.5	–5.1	6.6
Portugal	36.3	30.2	6.1	28.0	20.0	8.0	–8.3	–10.2	1.9
Germany	18.4	11.3	7.0	21.0	9.6	11.4	2.6	–1.7	4.3
Denmark	23.0	...	...	18.7	...	...	–4.3	...	...
United Kingdom	19.4	15.7	3.7	14.9	10.9	4.0	–4.5	–4.8	0.3
Austria	6.2	2.1	4.1	13.5	3.6	10.0	7.4	1.5	5.9
Netherlands	19.3	...	...	11.8	...	...	–7.6	...	...
Japan	11.1	...	...	8.3	...	...	–2.8	...	...

NOTAS: (*) Includes non-profit institutions serving households.
(**) Excluding mutual fund shares.
SOURCE: OECD, Bank of Spain and internal figures.

Insurance policies predominate in Netherlands and United Kingdom.

With regard to insurance products (insurance policies and pension funds), there was a notable increase during the period studied. The increase of 13 percentage points in Sweden was of special note. In 2002, this type of asset was predominant in the Netherlands and the United Kingdom, making up more than half the portfolio of households. On the other hand, in Italy and Spain it reported lower levels at less than 16% of the total.

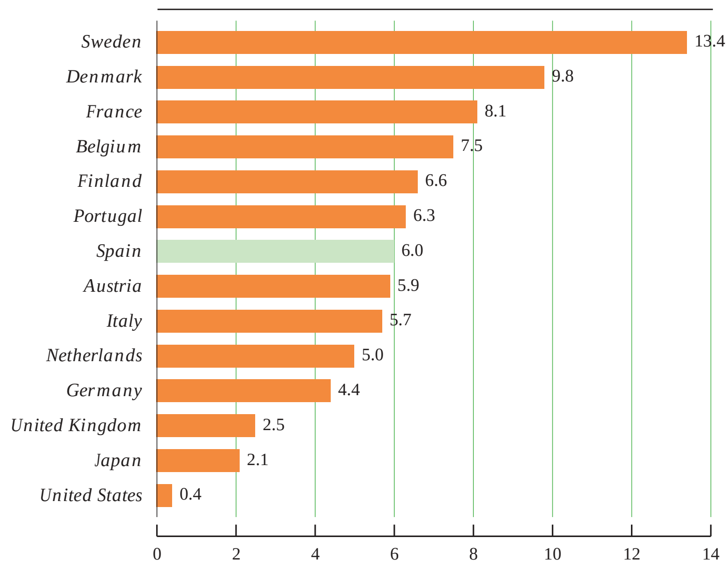
Spain stands at tail-end of European Union in share of life insurance.

Holdings in pension funds have shown generally positive growth, thus reflecting the need to save for future pensions. Nevertheless, holdings in pension fund reserves within total portfolio are uneven, depending on the type of social insurance system in operation in various developed countries. In the United States, for example, this category accounts for 26% of the total household portfolio whereas in Belgium it makes up only 2%. In Spain it stands in a middle range at 6% of the portfolio. With regard to life-insurance related products, in the Netherlands, France and Sweden these are very important making up more than a quarter of the portfolio. In Spain, however, they stand at the tail-end of Europe with a percentage at 8%.

GROWING IMPORTANCE OF INSURANCE IN PORTFOLIOS OF HOUSEHOLDS IN DEVELOPED COUNTRIES

1995-2002

Change in relative weight of insurance technical reserves of households in total financial assets (*) as percentage

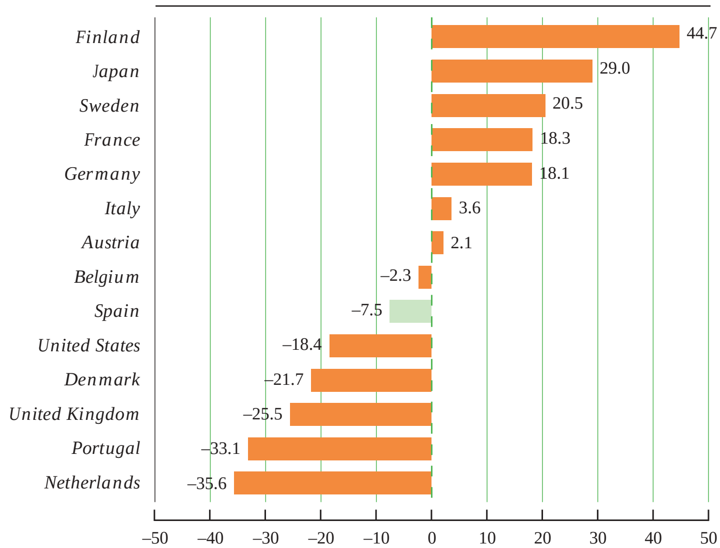


NOTES: (*) Includes non-profit institutions serving households.
SOURCE: OECD, Bank of Spain and internal figures.

UNEVEN TREND IN NET FINANCIAL WEALTH OF HOUSEHOLDS IN DEVELOPED COUNTRIES

1995-2002

Change in net financial wealth of households as percentage of GDP (*)



NOTES: (*) Net financial wealth equals financial assets less financial liabilities. It includes non-profit institutions serving households.
SOURCE: OECD, Bank of Spain and internal figures.

Rise in real estate wealth compensates for drop in net financial wealth in many countries.

Net financial wealth of households, defined as the difference between their financial assets and financial liabilities, showed unequal trends in terms of the GDP in the period under study. As a result, it increased in Finland, Japan, Sweden, France and Germany. At the other end of the scale, it dropped in he Netherlands, Portugal, United Kingdom, Denmark, United States and Spain due to capital losses on the stock market and increased indebtedness, among other reasons. Nevertheless, in most of these countries this drop was compensated by an increase in real estate wealth due to the considerable rise in housing prices.

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