

THE SPANISH ECONOMY: MONTHLY REPORT

MARCH 2005

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Research Department

Forecast

% change over same period year-before unless otherwise noted

	2004	2005		2003	2004	2005						
							1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.
INTERNATIONAL ECONOMY												
						Forecast					Forecast	
Gross domestic product												
United States				3.0	4.4	3.5	5.0	4.8	4.0	3.9	3.7	3.6
Japan				1.4	2.6	1.3	4.0	3.1	2.3	0.8	0.8	1.4
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	1.7	1.6	2.2	1.9	1.6	1.5	1.5
<i>Germany</i>				-0.1	1.0	1.1	0.9	1.4	1.2	0.6	0.8	1.0
<i>France</i>				0.5	2.3	1.9	2.0	3.1	2.0	2.2	2.0	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	2.1	2.0
Euro area				2.1	2.1	1.9	1.7	2.3	2.2	2.3	2.0	1.9
<i>Germany</i>				1.1	1.7	1.3	1.1	1.8	1.9	2.0	1.4	1.2
<i>France</i>				2.1	2.1	1.6	1.8	2.4	2.3	2.1	1.6	1.6
SPANISH ECONOMY												
Macroeconomic figures												
Household consumption				2.9	3.5	3.3	3.4	3.6	3.5	3.5	3.4	3.3
Government consumption				3.9	4.9	4.8	4.6	4.7	4.8	5.4	5.1	4.9
Gross fixed capital formation				3.2	4.6	5.2	2.7	4.0	5.8	6.0	5.8	5.4
<i>Capital goods and other</i>				1.7	4.9	6.4	0.7	3.8	7.5	7.4	7.1	6.6
<i>Construction</i>				4.3	4.4	4.3	4.2	4.1	4.6	4.9	4.8	4.6
Domestic demand				3.2	4.2	4.0	3.6	4.3	4.5	4.5	4.2	4.1
Exports of goods and services				2.6	4.5	5.7	5.5	3.3	4.1	5.2	5.7	5.9
Imports of goods and services				4.8	9.0	9.0	8.0	8.2	9.5	10.2	9.8	9.4
Gross domestic product				2.5	2.7	2.7	2.7	2.6	2.6	2.7	2.8	2.7
Other variables												
Employment				1.7	2.1	2.2	2.1	2.0	2.1	2.2	2.3	2.3
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	3.3	2.8
Unit labour costs				3.5	3.4	3.2	3.5	3.5	3.5	3.3		
Current account balance (% GDP)				-3.3	-5.7	-5.4	-5.1	-6.1	-6.7	-4.9		
Net lending or net borrowing rest of the world (% GDP)				-2.1	-4.6	-4.3	-4.4	-4.7	-5.6	-3.8		
Government balance (% GDP)				0.3	-0.3	-0.0						
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, 2004

FINANCIAL ACTIVITY	Million euros
Total customer funds	143,912
Receivable from customers	93,242
Profit attributable to Group	1,020

STAFF, BRANCHES AND MEANS OF PAYMENT	
Staff	24,827
Branches	4,841
Self-service terminals	6,988
Cards	7,805,561

COMMUNITY PROJECTS	Million euros	%
Activities		
Social	114	62
Cultural	29	16
Science and environmental	23	13
Educational	17	9
Total activities	183	100
Investment and other costs	67	
TOTAL BUDGET	250	

THE SPANISH ECONOMY: MONTHLY REPORT

March 2005

CAJA DE AHORROS Y PENSIONES DE BARCELONA

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ECONOMIC OUTLOOK FOR 2005

In the early stages of 2005, the United States **continues to lead world recovery** although at a more moderate rate than in 2004. The strength of consumption and the improvement in investment will continue to provide a boost to world trade, which will make it possible to maintain the expansionist trend in a large part of Asia, especially in China. The flip side of this growth pattern, the trade imbalances and especially the US foreign deficit, will not likely be significantly corrected during the course of the year. It is not only a matter of a geographical imbalance between supply and demand but other factors are having a decided influence, such as the convertibility and exchange rates of certain currencies, factors in which it will be difficult to make progress.

Revision of Japan's macroeconomic figures reveals an economy technically in recession, in contrast to the profile of recovery showing up until this moment. The short-term prospects for the Japanese economy are for cautious optimism but in any case with growth well below 2%.

Following a disappointing end to 2004, the euro area **should get recovery back on track in the course of 2005**. The first half of the year will be flat, holding to the rate seen in the fourth quarter, only to move up in the second half of the year. This performance will come from a more positive trend in the foreign sector on top of a gradual increase in private consumption and capital goods investment. Economic recovery will not involve any appreciable inflationary pressures so that inflation should stand slightly below 2%.

Without any hurry but in steady succession, the US Federal Reserve **will continue to raise the official interest rate** over coming months, given that its monetary policy is still very easy. On the other hand, the European Central Bank **will likely wait for some months** to begin an upward turn, due to the weakness of economic recovery in the euro area. Within this framework, yields on government bonds will likely move up, given that they are still at very low levels.

With regard to Spain's economy, the expansionist trend in economic activity is being maintained in the early stages of 2005. The good level of domestic demand continues to be based on the sustained growth of consumption, the strength of construction and capital goods investment. While it is likely that the growth rate of economic activity will tend to moderate slightly in the course of the year, the slight improvement in the foreign deficit (which went to a record high level in 2004) will make it possible to hold the **growth rate at the 2.7% level recorded in 2004**. In this context, the state of the labour market continues to be positive with the prospect that close to 350,000 net new jobs will be created in 2005, in terms of National Accounting, a figure similar to that recorded in 2004. With regard to prices, the general trend points to a **moderate easing of the inflation rate** so that the increase in the consumer price index could stand close to 2.5% at the end of 2005, although the instability of oil prices remains the main risk factor in fulfilling that forecast.

February 25, 2005

ECONOMIC SITUATION

United States and China maintaining drive in world economy

World economy gradually slowing down but combined growth of United States and China limit possibility of drop in economic activity.

The year 2005 began with the world economy moving into a stage of moderate slowdown. In any case, it is a gradual and orderly process and the two world economic engines, United States and China, are showing enviable growth rates at 3.7% and 9.5% respectively in the fourth quarter. Both economies are working in almost perfect tandem. The United States is consuming and investing at a high stable rate while China is acting as the second world supplier for the US giant after Canada. Certainly, not all the Chinese growth comes from the foreign sector as domestic demand is also showing very strong. Furthermore, in both economies we note an absence of any appreciable price rises apart from the effects of increased oil prices.

Japan makes surprising lapse into third recession since 1995...

On the other hand, the biggest unwelcome surprise came from Japan which went into its third recession since 1995. Publication of the latest figures for Japan's quarterly national accounts, those for the fourth quarter of 2004 include a substantial revision of previous figures and show a situation in consumption and investment worse than initially released. Finally, Japan is showing an overall worsening of domestic and foreign demand with growth at a modest 0.8% year-to-year at the end of 2004.

...while two of the supposed economic engines of Europe, Germany and Italy, show slump in economic activity at end of 2004...

The really weak flank in the world economy, however, continues to be Europe. Whereas it was hoped that Germany would get back on track, the quarterly drop in the gross domestic product (GDP) in the fourth quarter of 2004, following nil growth in the third quarter, reveals an economy perilously close to stagnation. In spite of the historic record in exports, the weakness of domestic demand is making it impossible to grow at an acceptable rate with growth in 2004 holding at a slim 1.0%. The immediate consequence is an increase in unemployment which now stands at the figures at the end of World War II. The situation is scarcely any better in the other large European economy, Italy. With private consumption at low levels, the appearance of the first trade deficit since 1993 has put in doubt the possibility of significant growth in that country seeing that in 2004 the economy recorded an advance of only 1.1%.

...which leaves France as only economy in euro area in good shape.

Among the large economies in the euro area, only France escapes from this state of weakness with growth of 2.3% in 2004. The rise at the end of last year was due to the increase in household spending in clear opposition to what took place in Germany and Italy. This is the result of an active economic policy which is aimed at ensuring that private consumption does not weaken, as shown by the measures to make the 35-hour work-week more flexible thus making it possible to work more in exchange for higher earnings, measures which were adopted in

February in spite of the popular protest. In any case, the growth in France was not sufficient to compensate for the poor results in Germany and Italy, thus dragging overall growth in the euro area down to a moderate 1.6% year-to-year in the fourth quarter of 2004. In view of the slackness of domestic demand along with the decisive contribution of an appreciated euro, it is not surprising that consumer prices remained weak, returning to levels scarcely above the 2% seen in January.

Fed makes sixth consecutive increase in reference rates while ECB announces no change.

In view of the satisfactory trend in the US economy and the slump in Europe, the central banks are maintaining the same stance as in recent months with the Federal Reserve progressively tightening its monetary policy (which, in any case, remains easy), while the European Central Bank (ECB) is maintaining its intervention rate unchanged while waiting to glimpse clearer signs of economic recovery. As a result, February saw the sixth consecutive increase in the Federal Funds rate in the United States, up to 2.50%, while the reference rate in the euro area held at 2%. With regard to longer terms, interest rates moved up moderately in the United States and Germany as compared with levels at the beginning of the year, although they did not move out of the low levels where they have been since mid-2004.

Following respite in January, dollar again drops...

With regard to foreign exchange markets, following recovery of the dollar in January, the depreciatory trend came back on the scene in February. The market seemed to be waiting for news about the international exchange rate system which was supposed to come out of the summit of the G-7 (the seven most industrialized countries), along with the main emerging countries, held at the beginning of February. The lack of any signs in this direction, especially the absence of any commitment by China regarding greater flexibility in the exchange rate of the yuan, moved things back to the situation at the beginning of the year.

...while international stock markets recovering.

The international stock markets also seem to have returned to previous trends. Following the correction recorded on the main markets in January, they benefited from a notable rise in February, especially on the European continent where at the end of the month the more significant indices stood at highs for the past two and a half years.

Spain's economy: strong stable growth

Spain grows by 2.7% in the fourth quarter of 2004, thanks to strong growth of domestic demand.

The economic situation in Spain continues to be dominated by notable growth in domestic demand which does not translate into higher economic growth due to the draw-off from the foreign sector. According to figures for the Quarterly National Accounts for the fourth quarter of 2004, the economy grew by 2.7% year-to-year. This was a slight rise over the previous quarter brought about by the continuation of domestic demand at high growth levels in previous quarters and the lower draw-off from the foreign sector which, in any case, continued high. In fact, the economy grew by 2.7% in 2004 proving the best year since 2001 in terms of economic growth.

Good situation in consumption and investment.

The two supports for growth are private consumption and gross fixed capital formation, a component where, on top of the good state of investment in capital goods, there has been a further rise in construction investment. The trends in consumption and investment mentioned seemed to be holding up in the early stages of 2005, if we are to go by the trend in registrations of cars and commercial vehicles, two indicators which in January showed the highest figures for that month in history.

Trade deficit continues to grow, with figure at end of 2004 going 31% above levels one year earlier.

While domestic demand continues to show robust figures, the trend in foreign demand is also consolidating. At the end of 2004, the trade deficit, as the cumulative balance for the year as a whole, stood at 60.7 billion euros, some 31% higher than one year earlier. The current account deficit, in turn, as a cumulative figure from December 2003 to November 2004, reached the equivalent of 4.6% of the GDP.

Construction and greater part of services show good rate of economic activity.

The same lines of overall economic growth can be seen in indicators such as that for electrical power consumption. Sector trends, still mainly with reference to the end of 2004, confirm growth in construction and certain services, with the well-known exception of tourism. On the contrary, industrial activity continues to be locked into a stage of low growth.

461,300 jobs created in 2004, mainly in services sector, more than compensating drop in industrial employment.

The above trends are clearly reflected in the labour market. The good rate of economic activity made it possible that, according to the Labour Force Survey for the fourth quarter of 2004, at the end of the year employment could grow by 2.7%, thus allowing an increase of 461,300 jobs for the year as a whole. The rise in employment in the fourth quarter was mainly due to construction and industry. In any case, we should mention that the improvement in employment in the secondary sector in the final quarter of 2004 was not enough to prevent a loss of industrial jobs in the year as a whole. The bulk of employment, always reckoning in annual terms, was created in the tertiary sector. Other relevant trends included the major growth in female employment (for each new male employee, three females found work) and public service employment. With regard to unemployment, figures from the Labour Force Survey indicate a notable decrease in 2004.

Inflation down half-point between October and January, thanks to easing of producer prices.

With regard to recent trends in inflation, the year 2005 began favourably. The consumer price index dropped by one decimal in January going to 3.1% year-to-year. Following this easier trend, which took the index down by a half-point between October and January, we are seeing a slowing down of growth in non-energy producer prices and in energy prices. The dark shadow comes from inflation in services which has shown no drop since November.

Drive in mortgage loans brings high growth in total credit granted by banks and savings banks.

Finally, we should mention the strong demand for bank loans to the private sector. In December 2004, year-to-year growth of this variable was nearly 18%, the highest rate since 2000 and more than twice the rate recorded in the euro area as a whole. By type of institution, the biggest increase showed up under savings banks with the result that in 2004 total credit to companies and households granted by those institutions went above that granted by banks for the first time. By type of loan, the lead is still being held by mortgage loans, given that in 2004 these again grew by 24%, a rate very close to that in 2003, which underlines the extraordinary rise in the real estate sector in recent years.

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 28** ***Euro** running at 1.363 dollars, highest figure since launching of single currency at beginning of 1999.*
- February 2** ***Federal Reserve Board** raises reference rate by quarter-point to 2.50%.*
- 15** *Dow Jones index for **New York stock exchange** records annual high (10,837.3) with rise of 0.5% compared with end of 2004.
IBEX 35 index for **Spanish stock market** marks up annual high (9,634.3), a cumulative gain of 6.1% over end of December 2004.*

AGENDA

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).*

April

- 5** *Industrial production index (February).*
- 7** *Meeting of Governing Council of European Central Bank.*
- 13** *Consumer price index (March).*
- 18** *Harmonized consumer price index for European Union (March).*
- 25** *Producer price index (March).*
- 28** *US GDP (1st Qtr.).*
- 29** *Labour Force Survey (1st Qtr.).*

INTERNATIONAL REVIEW

United States: consumption and investment remain strong

United States grows by 3.7% with investment and private consumption in lead role.

The United States grew by 3.7% in the fourth quarter, with capital goods investment and private consumption showing up as the most dynamic components in that period. Growth in 2004 was 4.4%. In quarter-to-quarter terms annualized, growth in the fourth quarter was 3.1%, which meant a continuation of the trend to more moderate growth which was seen in the course of 2004.

Private consumption up 3.9% and continuing to give strength to economy.

Private consumption in the fourth quarter was up 3.9% year-to-year and 4.6% quarter-to-quarter annualized, thus maintaining notable strength. Overall growth in 2004 compared with 2003 came to 3.8%. Durable goods consumption in the fourth quarter lost some drive compared with the very strong third quarter but still grew by 6.3% year-to-year. Consumption of non-durable goods continued to recover from the effects of oil prices and moved up by 4.3% while services followed a similar trend showing some increase with growth going to 3.2% year-to-year. Public consumption was up 1.6% year-to-year with the total for the year standing at 2.0%, thus holding to a much more contained trend.

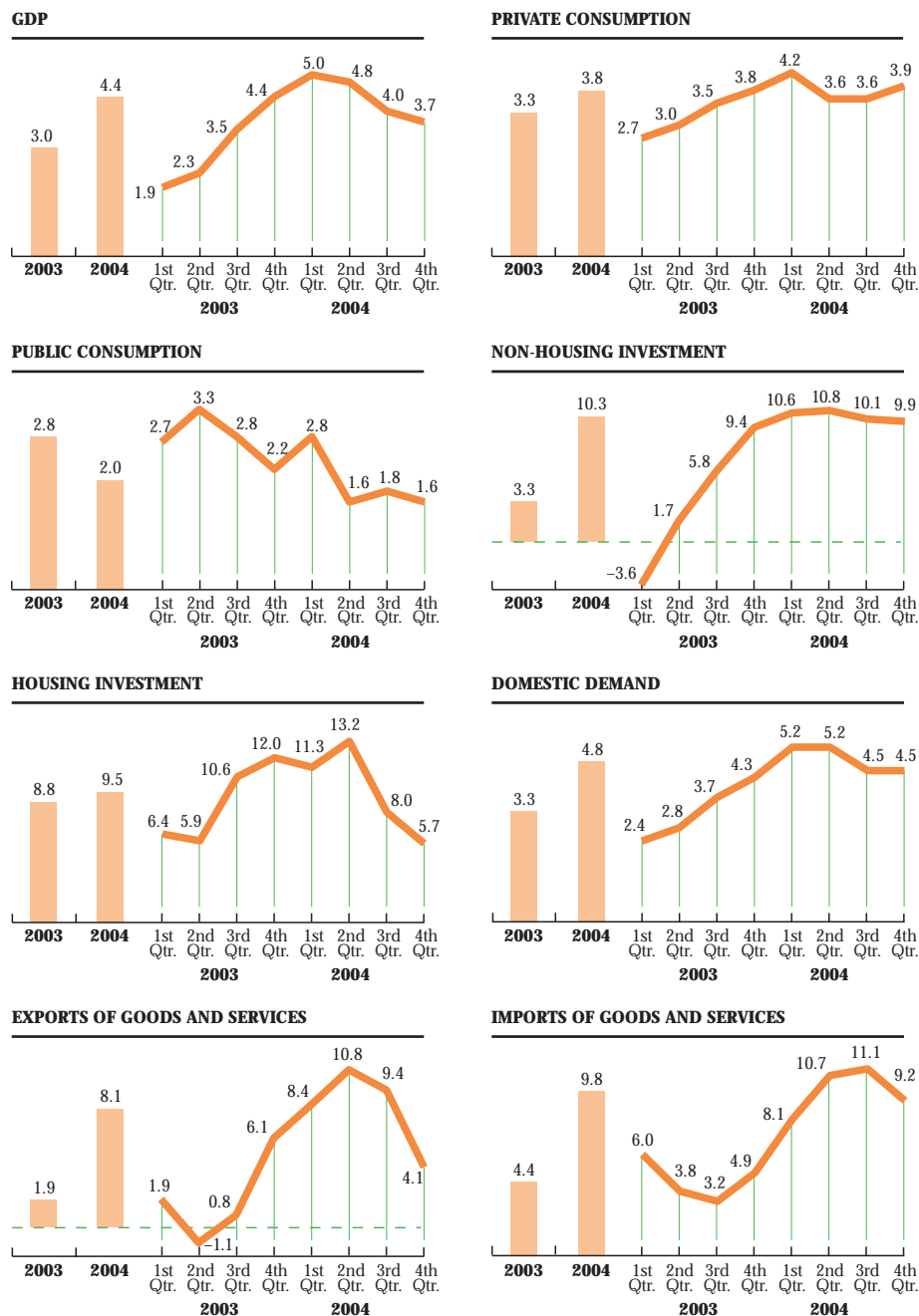
Non-housing investment maintains upward trend with 9.9% growth. Capital goods investment grows more than 13% but investment in structures down 1.6%.

Non-residential investment was up by 9.9% year-to-year, slightly below the 10.1% in the third quarter. The quarter-to-quarter rate annualized was 10.3%, confirming maintenance of the strong growth rate. Nevertheless, the structures component continued to show signs of weakness with a drop of 1.6% year-to-year and 4.1% quarter-to-quarter annualized in the fourth quarter. In marked contrast, capital goods investment was up 13.6% year-to-year thus showing some increase over the 12.9% seen in the previous period. The quarter-to-quarter increase annualized of 14.9% would indicate a slight rise in growth. Under capital goods investment, there was significant strength in data-processing equipment which was up 13.8% year-to-year and 17.6% quarter-to-quarter annualized, a strong advance which also showed up in nominal terms with 10.2% year-to-year. With year-to-year growth of 24.7%, computers were well to the fore of software which was up by 12.9%. Computers are now the biggest component in capital goods investment in constant dollars.

Housing investment continues to drop going down by 5.7%.

Housing investment continued to lose drive in the fourth quarter with growth of 5.7% year-to-year, a rate well below the 8.0% and 13.2% in the third and second quarters respectively. The quarter-to-quarter increase annualized was a modest 0.3% although the downward trend is sharper than in the case of structures.

TREND IN UNITED STATES' GDP BY COMPONENT
Percentage year-to-year change



SOURCE: Bureau of Economic Analysis and internal figures.

Exports ease with only 4.1% growth as against 9.2% for imports.

In spite of the weakness of the dollar, exports suffered a notable drop in the fourth quarter moving up by 4.1% year-to-year, well below the 9.4% in the third quarter. There was a significant contraction in exports of 3.9% annualized compared with the previous quarter. On the other hand, imports maintained strong growth rates at 9.2% year-to-year. These differences in performance were based on trade in goods rather than in services.

UNITED STATES: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2003	2004	2004				2005
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January
GDP	3.0	4.4	5.0	4.8	4.0	3.7	-
Retail sales	5.3	7.6	7.9	7.8	6.5	8.2	7.2
Consumer confidence (*)	79.8	96.1	91.6	96.3	100.4	96.1	103.4
Industrial production	0.0	4.1	2.8	4.9	4.6	4.2	...
Sales of single-family homes	11.6	8.1	22.2	9.2	-0.2	3.3	...
Industrial activity index (ISM) (*)	53.3	60.5	62.4	62.0	60.1	57.5	56.4
Unemployment rate (**)	6.0	5.5	5.7	5.6	5.4	5.4	5.2
Consumer prices	2.3	2.7	1.8	2.8	2.7	3.4	3.0
Trade balance (***)	-44.4	-54.3	-45.4	-47.8	-50.6	-54.3	...

NOTES: (*) Value.

(**) Percentage of labour force.

(***) Cumulative balance for 12 months as monthly average. Billion dollars.

SOURCE: OECD, national statistical bodies and internal figures.

Retail sales up by 7.2%.

Latest monthly demand indicators generally reflected a strong situation. Retail sales continued to show strength with growth of 7.2% year-to-year in January while passenger car sales dropped by 1.8% compared with the same period the year before. Industrial production of capital goods grew by 9.8% year-to-year in December thus holding to the good state maintained in recent months.

Consumer confidence consolidating early figures.

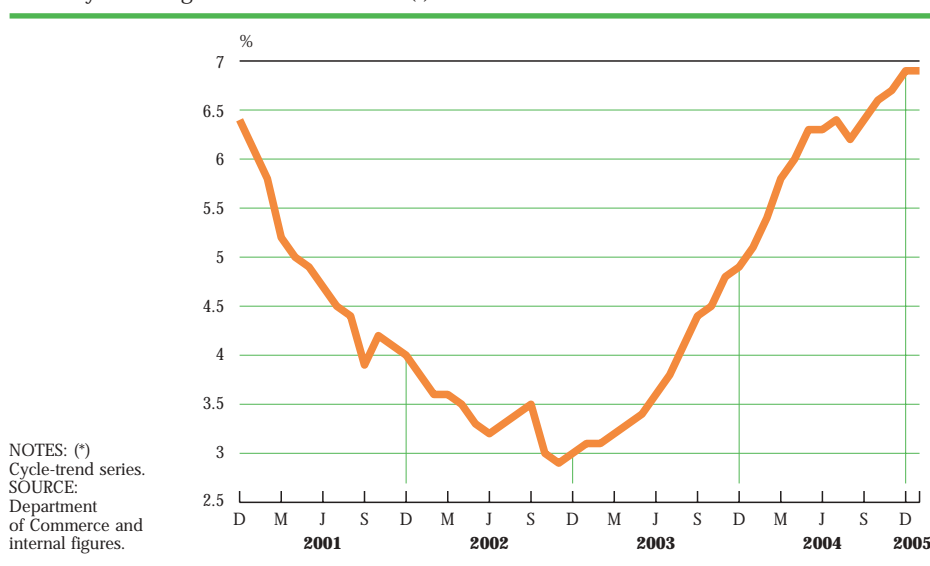
The consumer confidence index for January consolidated the strong increases the month before. The general index for January gained 0.7 points going to a level of 103.4 points. The present situation component was the figure to show strongest going to 110.9 points compared with 105.7 points the month before. The prospects component, on the other hand, showed a slight drop to the 98.4 points level, down from 100.7 points in December. These levels of confidence were the best since the first half of 2002 but were still well below the levels reached at the end of the Nineties.

Manufacturing activity indicator remains strong but with a slight drop. New orders component down to 59.4.

Supply indicators generally followed a similar pattern to demand, something coherent with an economy which, within a framework of economic boom, gradually moderates growth. The manufacturing indicator supplied by the Institute of Supply Management continues to show signs of the strength of confidence in US corporate circles. In January, the general manufacturing index went from the 57.3 points level to 56.4 points. The production component, which had been the weakest component in December in relative terms, showed a slight improvement going from 56.7 to 57.8 points. The key component of new orders, which showed strong increases the month before, dropped from 62.6 to 56.5 points. The non-manufacturing index lost 3.7 points to stand at the 59.4 points level. It should therefore be noted that there has been a loss of the levels seen in the first half of 2004, which raises some doubts about the economic situation that did not exist just a few months ago.

GOOD SITUATION IN RETAIL SALES

Year-to-year change in retail sales index (*)



Existing housing sales up 5% while prices rise 8%.

Sales of existing housing grew by 5.0% in December which meant a definite slowdown compared with 12.9% in November. Nevertheless, the background trend remains relatively upward. Supporting this view, the average price of existing housing rose by 8.1% as against 10.3% the month before so that, while it showed a similar pattern, the latter figure represented a much lower drop.

Employment recovers points lost since beginning of 2001 with 146,000 new jobs added in January while productivity slowing down.

The labour market marked up 132,573,000 non-farm jobs in January, for the first time going above the high reached in February 2001, thus bringing to the full the recovery begun in May 2003. Some 146,000 new non-farm jobs were added in January. Manufacturing employment continues to fail to join the general trend with the loss of another 25,000 jobs. Here it should be noted that the manufacturing sector represented 10.8% of US non-farm employment, a figure well below that current in the 1992 recovery when it was more than 15%. The negative counterpart was the slowdown in labour productivity which in the fourth quarter grew by 2.5% year-to-year, a slowdown compared with the figure of 3.1% in the third quarter and 4.9% in the second.

Dollar and oil push GDP deflator up 2.4%.

The GDP deflator for the fourth quarter moved up by 2.4% year-to-year, higher than the previous 2.2%. The weak dollar, which makes imports more costly, and oil prices were the main factors behind this slight rise. Inflation in January was 3.0% year-to-year. The component excluding energy and food rose by 2.3%. Along the same lines, producer prices rose by 2.6% year-to-year and 0.3% compared with December.

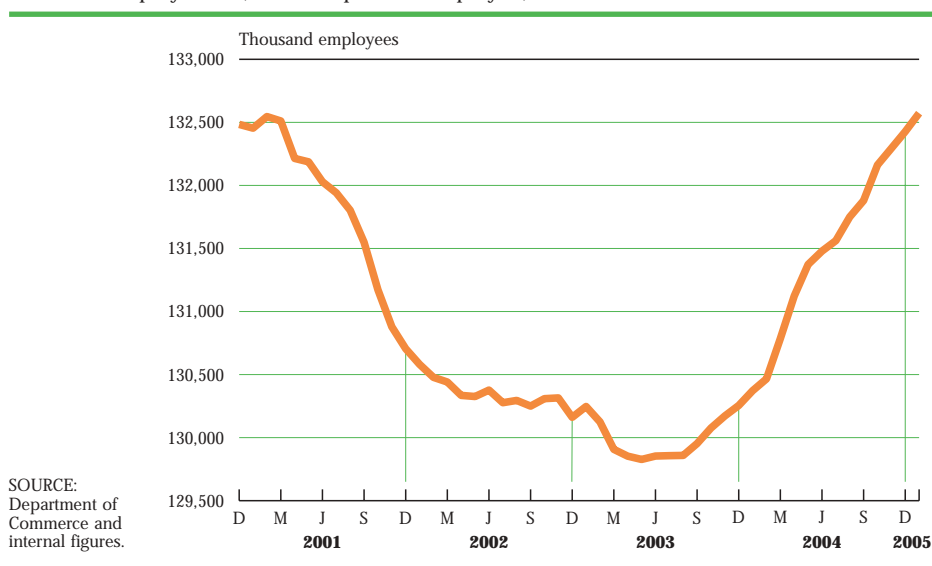
2004 trade deficit up 22% compared with 2003.

In keeping with the GDP figures, the foreign sector continued to grow gradually worse with not signs of having hit bottom. The fourth quarter was especially negative with a quarterly trade deficit that was 10.4% higher than the deficit for the previous quarter. The trade deficit in 2004 was 651.5 billion dollars, an increase of 22.4% over 2003. In December, the figure was 59.4 billion dollars, less than the record in November but

higher than all the previous months so that the main economic risk in the United States remains far from being checked.

US EMPLOYMENT MAKES FULL RECOVERY

Non-farm employment (thousand persons employed)



Japan's economy bogged down

Japan's economy slows to 0.8% and moves into recession on marking up two consecutive quarter-to-quarter drops.

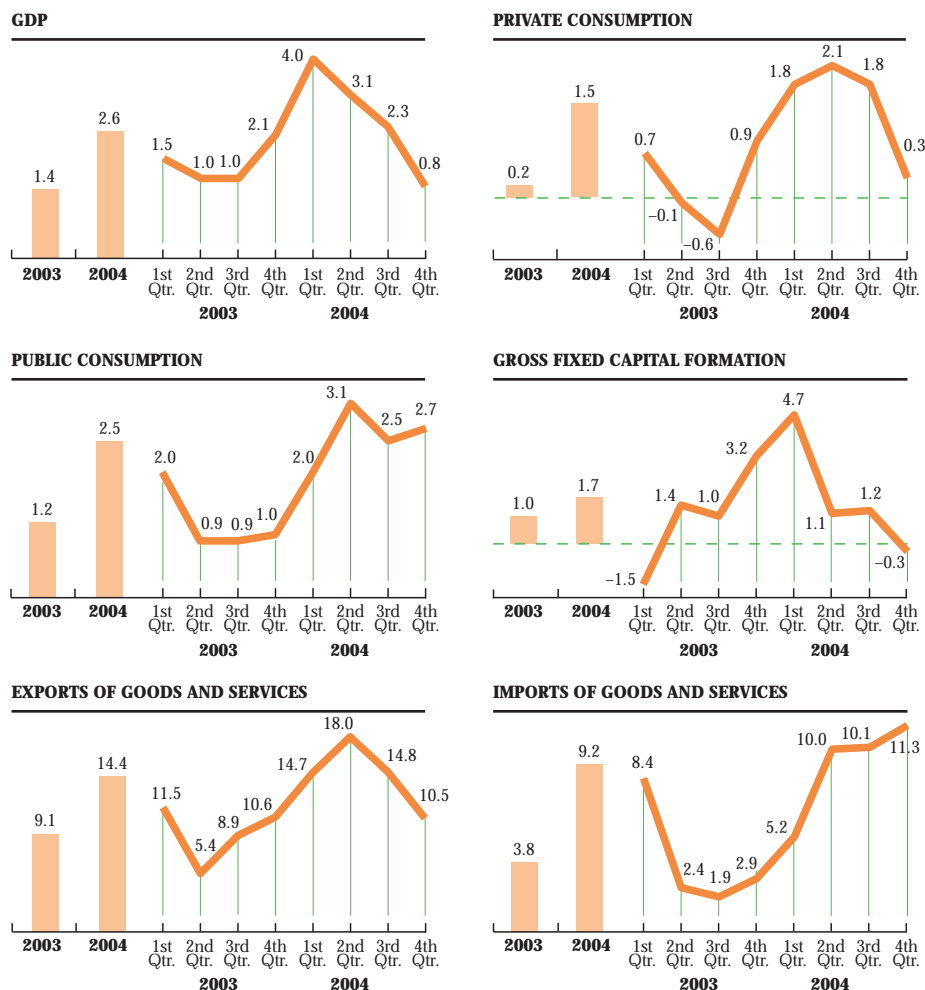
Japan's economy grew by 0.8% year-to-year in the fourth quarter putting growth for 2004 at 2.6%. In quarter-to-quarter terms annualized the economy contracted by 0.5%. The downward revision in the second and third quarters also showed negative quarter-to-quarter rates of -0.8% and -1.1% respectively. As a result, in view of its suffering two or more consecutive contractile quarters, the Japanese economy is technically in recession. Within this downward context, private consumption in the fourth quarter showed further signs of weakness advancing by a mere 0.3% year-to-year, which at quarter-to-quarter rate annualized is a contraction of 1.3%, putting it far from the scenario it still promised at the end of the summer. Public consumption moved up by 2.7% year-to-year and was the only component to show some slight growth.

Investment contracts by 0.3% although showing signs of recovery...

Investment contracted by 0.3% compared with the same period the year before. Nevertheless, in quarter-to-quarter terms annualized, it showed a definite improvement of 2.1%, thus confirming the hesitant signs of recovery seen in indicators in previous months. The component made up of private plant and equipment, which grew by 2.7% year-to-year, showed a better performance than other investment. This strengthens the hypothesis of growth based on export investment combined with weaker and weaker domestic demand. In spite of an increase of 10.5% year-to-year, exports grew less than imports which rose by 11.3% year-to-year. As a result, the foreign sector contributed to quarter-to-quarter growth annualized with a negative figure of -0.6%, the same as in the third quarter.

...and foreign sector continues to make negative contribution to growth.

TREND IN JAPAN'S GDP BY COMPONENT
Percentage year-to-year change



SOURCE: Economic and Social Research Institute and internal figures.

Retail sales down 1% but housing holding strong with Tokyo prices up by 4.2%.

Among demand indicators, retail sales in December were down by 1.0% year-to-year renewing the downward trend interrupted in November. Car sales in January halted the good situation in recent months with a drop of 1.2% year-to-year. On the other hand, in December housing continued to show the same signs of recovery seen the month before. As a result, in spite of a drop of 8.2% year-to-year in housing unit sales in Tokyo, the background upward trend continued. Average housing prices moved up going to a growth rate of 4.2% year-to-year, thus helping to reinforce the good underlying situation.

JAPAN: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2003	2004	2004			
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
GDP	1,4	2,6	4,0	3,1	2,3	0,8
Retail sales	-1,9	-0,6	0,2	-1,9	-0,3	-0,5
Industrial production	3,3	5,4	5,0	8,3	6,5	1,8
Tankan company index (*)	-21,0	-0,5	-5,0	0,0	2,0	1,0
Housing construction	0,6	2,6	5,2	-3,5	9,4	-0,1
Unemployment rate (**)	5,3	4,7	4,9	4,6	4,8	4,5
Consumer prices	-0,3	0,0	-0,1	-0,3	-0,1	0,5
Trade balance (***)	12,4	14,3	13,2	14,2	14,6	14,3

NOTES: (*) Value.

(**) Percentage of labour force.

(***) Cumulative balance for 12 months. Trillion yen.

SOURCE: OECD, national statistical bodies and internal figures.

Industrial production up by only 1.8% but machinery orders show strong 11% growth while bankruptcies down.

On the supply side, industrial production rose by 1.8% year-to-year in December, thus continuing along the path of moderate growth. Machinery orders were up 10.6% in December and continued to be one of the strongest indicators in Japan's economy, in keeping with the performance in capital goods investment. The number of bankruptcies continues to decrease with a total of 1,022 companies in December, the lowest figure since the beginning of 1999, which suggests the existence of some structural changes going on in Japan's economy.

Unemployment stands at 4.4% while productivity up 1.2%.

The unemployment rate moved down slightly in December to 4.4%. Services jobs rose by 3.8% year-to-year while manufacturing employment was down 3.0%. Labour productivity grew by 1.2% year-to-year thus dropping compared with the sharp increases in the Autumn of 2003 and the Spring of 2004.

Inflation at 0.2% while trade surplus holds at 14,300 billion yen.

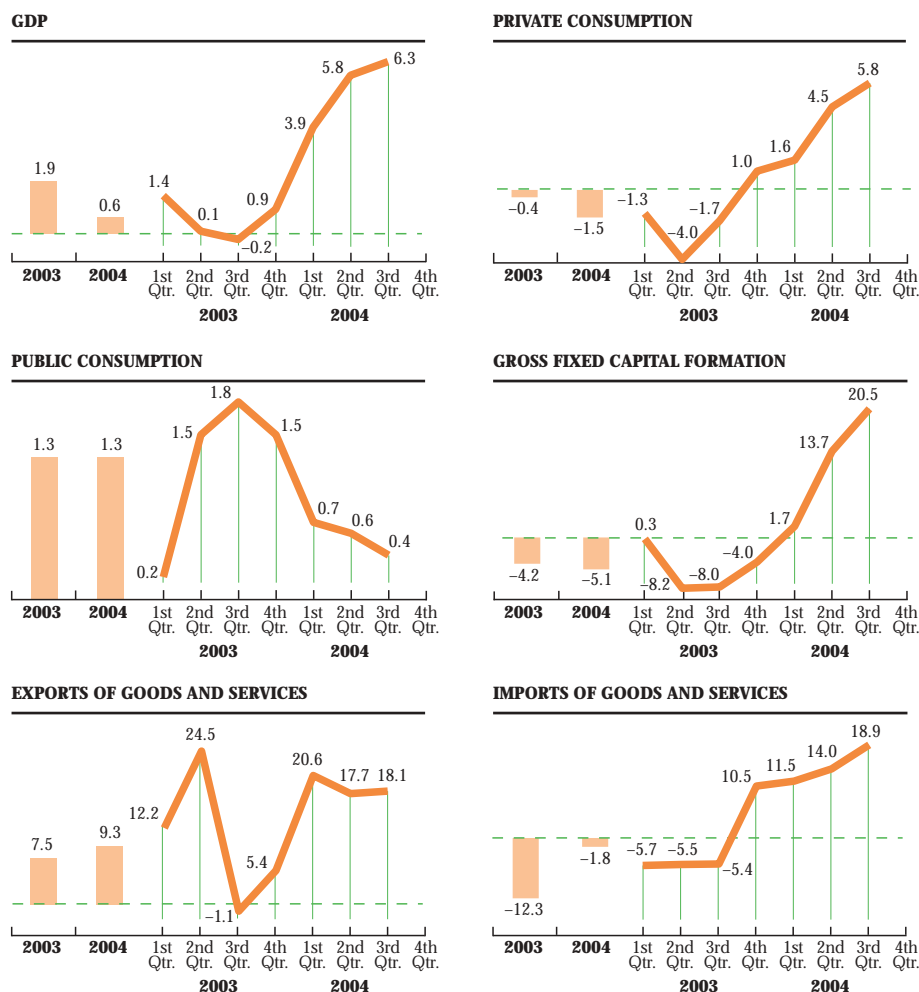
Consumer prices showed a reduced growth rate in December going to 0.2%, which eased the peak reached the month before while maintaining a moderate upward trend. The trade balance for 12 months ended in December showed a repetition of the 14,300 billion yen surplus seen the month before.

Brazil: growth consolidating

Brazil grows by robust 6.3% in third quarter while private consumption moves up to 5.8%.

Growth of Brazil's economy was consolidated in the third quarter. The GDP grew by 6.3% year-to-year, a rate higher than the 5.8% seen in the second quarter. Private consumption decidedly followed an upward path with growth of 5.8% compared with the same period the year before. Public consumption continued along a firm path of containment with growth at 0.4% year-to-year, clearly following a downward course in keeping with the fiscal austerity policy of the present government.

TREND IN BRAZIL'S GDP BY COMPONENT
Percentage year-to-year change



SOURCE: Brazilian Institute of Geography and Statistics, Central Bank of Brazil and internal figures.

Investment rising with increase of 21%.

Investment continued to record robust growth of 20.5% year-to-year thus confirming the strength of the present growth cycle. The increase in the second quarter was revised upward to 13.7%, confirming the positive overall situation.

Foreign sector continues to demonstrate Brazil's competitiveness.

The foreign sector continued the positive situation seen in previous quarters. Exports were up with growth of 18.1% year-to-year while continuing to benefit from the rise of China. The trade surplus, which in spite of the recent months with good trade relations between the two countries, could be reaching its limit due to China's efforts to moderate growth. Imports also showed an increase in growth rate to 18.9%, thus reflecting the increased strength of domestic demand.

Industrial production up 6.3% showing some decrease since summer.

Monthly supply indicators lost strength compared with the second quarter although they continued to maintain robust levels. Industrial production in December rose by 8.3% year-to-year, a rate which, although high and above the figure for the two previous months, was below levels

seen during the summer. As a result, the increase in the fourth quarter was down to 6.3% year-to-year. Industrial production of capital goods, a more volatile heading, grew by 18.8% in the same period, also below the figures seen during the summer. Utilization of production capacity dropped in December from 83.4% to the 81.2% level.

BRAZIL: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004						2005
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
GDP	1,9	0,6	3,9	5,8	6,3	-	...	-	-
Industrial production	2,7	0,1	6,5	9,9	10,4	3,2	7,7	8,3	...
Unemployment rate São Paulo (*)	19,0	19,9	19,8	19,8	18,2	17,6	17,4	17,1	...
Consumer prices	10,2	17,0	7,6	5,4	6,3	5,7	5,8	6,1	5,9
Trade balance (**)	13,1	24,8	27,1	29,4	32,1	32,6	32,9	33,7	34,3

NOTES: (*) Percentage of labour force.

(**) Cumulative balance for 12 months. Billion dollars.

SOURCE: Brazilian Institute of Geography and Statistics, Central Bank of Brazil and internal figures.

Retail sales also ease with growth of 6.4%.

On the demand side, retail sales showed a similar pattern dropping to 6.4% year-to-year in November, whereas they had grown by 8.4% in September. Car sales in January were down by 11.0% year-to-year although they grew by 21.0% in December.

January inflation at 5.9% while unemployment drops to 17.1% in December.

Consumer prices rose by 5.9% year-to-year in January thus maintaining the line of relative moderation that held throughout 2004 when the total for the year showed an increase of 6.3% compared with 2003, much lower than the 17.0% the year before. The unemployment rate in Sao Paulo continued a gradual decline dropping to 17.1% in December, a level that is still high but better than in previous months and is consistent with the current strength of private consumption.

Trade balance positive.

The trade balance for the past 12 months ended in January rose to 34.3 billion dollars. Nevertheless, in the fourth quarter the primary surplus (public sector balance without including interest on existing debt) was 11 billion reals, considerably lower than in previous quarters and indeed much lower than the 33 billion which is the figure for interest payments on debt.

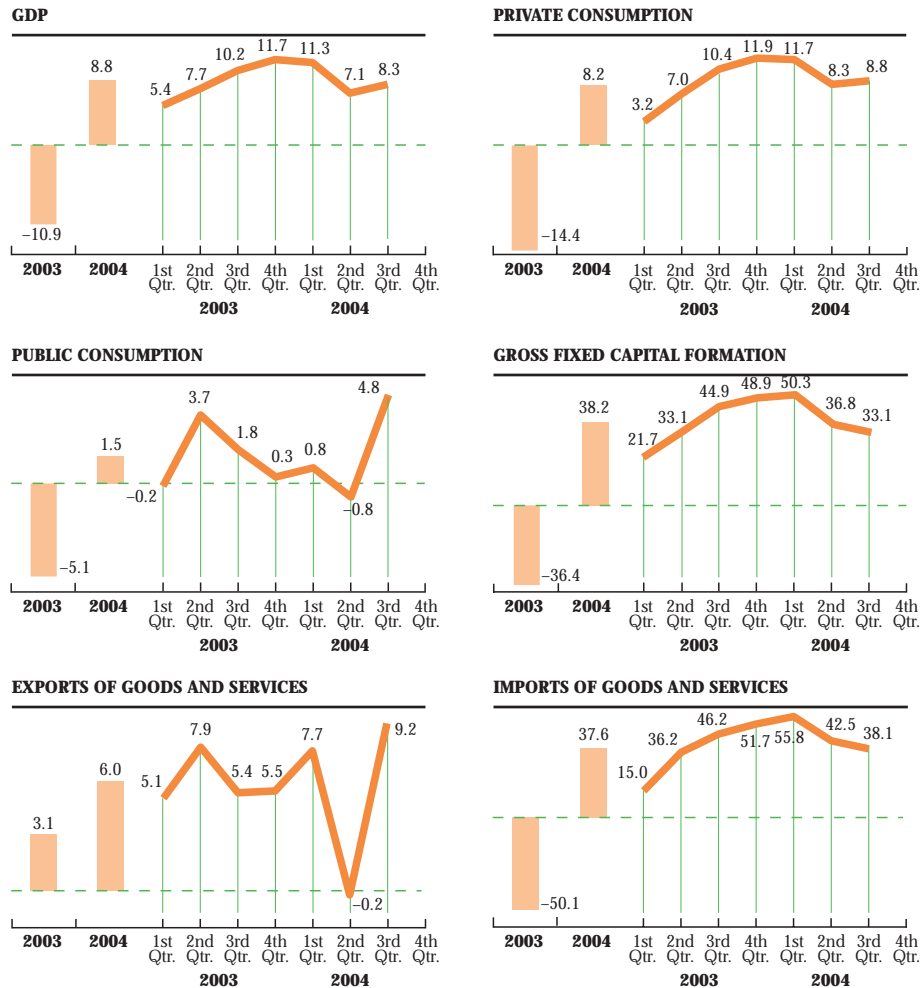
Argentina grows by 8%

Argentina strengthens recovery with growth of 8.3%.

Argentina's economy grew by 8.3% year-to-year in the third quarter thus overcoming the gradual slowdown trend in the previous period. Private consumption continued to show the same positive aspect with growth of 8.8%. Public consumption broke with the previous downward trend and rose to 4.8% year-to-year. Gross fixed capital formation grew by 33.1% year-to-year thus continuing to moderate the notable advance made, although with a tendency to slow down much less marked than in the previous quarter.

Investment continues strong progress with 33% growth.

TREND IN ARGENTINA'S GDP BY COMPONENT
Percentage year-to-year change



SOURCE: National Institute of Statistics and Census Republic of Argentina (INDEC) and internal figures.

Affected by strength of domestic demand, foreign sector improves thanks to exports.

The foreign sector checked the concerns raised in the second quarter. The biggest role was played out by exports which grew by 9.2% compared with the same period the year before. Apart from the very good figure, what seems most important is the turnaround from the lows in the second quarter. Important in the improvement in the foreign sector was the fact that imports showed more moderate growth going down to 38.1%, a high figure but still consistent with the gradual recovery of domestic demand. The foreign sector continued to make a negative contribution to the year-to-year change in the GDP but the improvement in exports meant a notable reduction in the amount of this draw-off from 3.0% to 1.9%.

Industrial activity recovers rate seen last summer with growth of 10%.

The ISAC construction indicator rose by 13.7% year-to-year in December in a situation of decided recovery. Similarly, the EMI industrial activity indicator rose by 9.6% year-to-year thus recovering the strong growth rates seen in the summer. On the demand side, retail sales grew

by 30.3% year-to-year in December, returning to the explosive growth seen in the first half of the year while indicating that the recovery of domestic demand was still not fully blown. Along the same lines of strong growth, car sales rose by 69.3% in January, a figure coherent with the general trend, given that in the 12 months as of January 2004 the year-to-year increase was 79.4%.

Prices continue to rise with inflation at 7.2%.

Consumer prices continue to rise with growth of 7.2% year-to-year in January. While this is a long way from past inflationary prices the current trend in prices deserves some attention. Energy prices in January rose by 49.0%.

ARGENTINA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004						2005
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
GDP	-10,9	8,8	11,3	7,1	8,3	-	...	-	-
Industrial production	-7,5	12,7	8,4	6,7	8,1	8,1	3,6	...	...
Unemployment rate (*)	-	17,3	14,4	14,8	13,2	...	...	...	...
Consumer prices	25,9	13,4	2,4	4,1	5,4	5,7	5,4	6,1	7,2
Trade balance (**)	16,7	15,7	14,4	13,5	12,6	12,5	12,2	12,1	...

NOTES: (*) Percentage of labour force.

(**) Cumulative balance for 12 months. Billion dollars.

SOURCE: National Institute of Statistics and Census, Republic of Argentina (INDEC) and internal figures.

Despite strength of domestic demand, trade balance shows surplus of 12.1 billion dollars.

The worsening trend in the trade balance has stabilized and in the 12 months ended December it reached a surplus of 12.1 billion dollars. In exports, farm goods was the strongest sector in December with growth of 12.0% year-to-year, followed by industrial manufactures with 9.4%, whereas energy and raw materials grew at lower rates, 6.0% and 6.9% respectively. In imports, the strongest components were capital goods, with an increase of 5.4%, and intermediate goods, which were up 8.6%. This breakdown shows the health of the foreign sector and its competitiveness, this being a sector very much affected by the strength of domestic demand.

EUROPEAN UNION

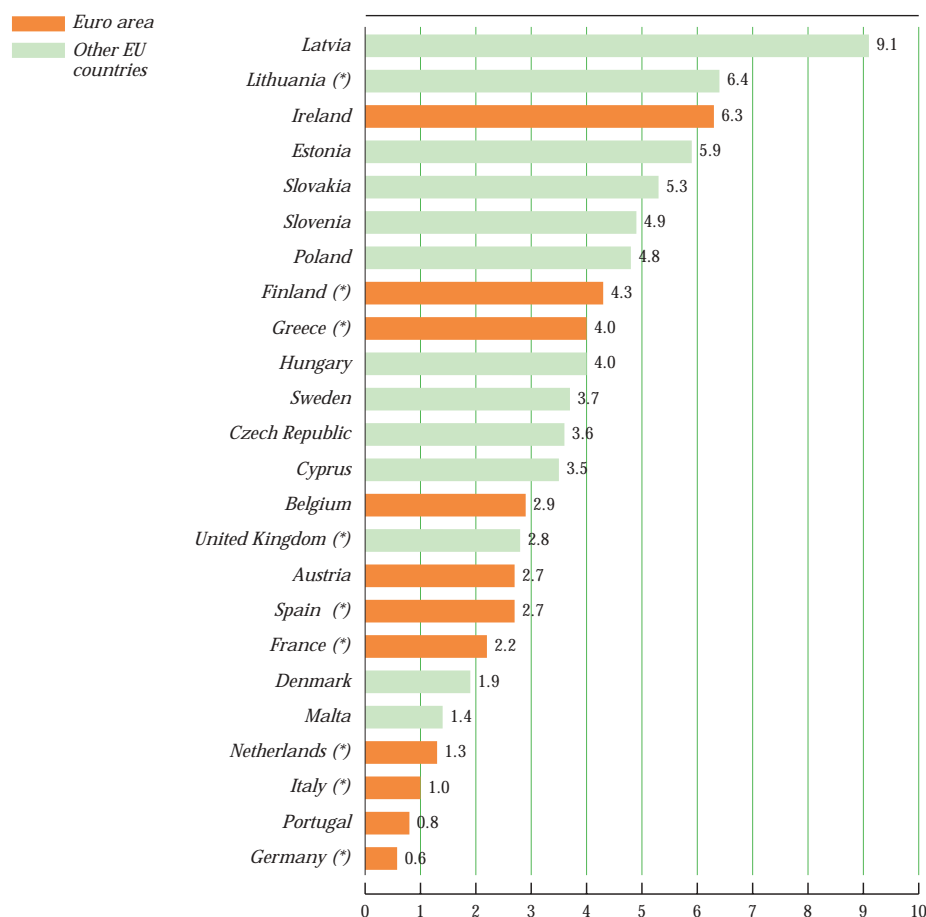
Euro area: recovery misses boat in fourth quarter

Euro area grows 1.6% in fourth quarter.

In the fourth quarter of 2004 the euro area economy grew by 1.6% year-to-year, something of a slowdown from the 1.8% in the third quarter. With regard to performance by country, we should point out the low economic results shown by Germany and Italy in the fourth quarter which affected the overall euro area result. In this respect, the countries outside the euro area, particularly the United Kingdom, are generally enjoying a notably higher growth rate.

WIDE GROWTH DIFFERENCES IN EUROPEAN UNION

Percentage year-to-year change in gross domestic product for latest available quarter



NOTES: Figures refer to third quarter of 2004 with exception of those countries shown with asterisk (*) which are for fourth quarter of 2004.

SOURCE: Eurostat, national statistics bodies and internal figures.

Consumption and investment remain at low growth rates at end of 2004.

Although the breakdown by component has not yet been released, available indicators suggest that the maintenance of consumption at contained growth rates and a less positive performance in the foreign sector than in the first half of 2004 would explain the stabilization of economic activity at present moderate levels. At least, this is the direction suggested by the latest demand indicators released. Retail sales in the fourth quarter held at nil growth year-to-year with no change over the second and third quarters. Nor did the recent trend in industrial production of capital goods end up positive, something that may indicate a stage of weaker investment than in previous months. On the other hand, we should mention the stabilization of the rate of exports up to the middle of the last quarter of 2004.

EURO AREA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004						2005
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
GDP	0.9	0.5	1.4	2.1	1.8	-	1.6	-	-
Retail sales	0.0	0.3	0.4	0.0	0.0	-0.7	0.2	0.5	...
Consumer confidence (*)	-11	-18	-14	-14	-14	-13	-13	-13	-13
Industrial production	-0.5	0.2	1.0	3.1	2.9	1.1	0.4	1.0	...
Economic sentiment indicator (*)	94.4	93.4	98.6	99.9	100.6	101.5	100.9	100.2	100.6
Unemployment rate (**)	8.5	8.9	9.0	8.8	8.9	8.8	8.8	8.9	...
Consumer prices	2.2	2.1	1.7	2.3	2.2	2.4	2.2	2.4	1.9
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.

Improvement in industry in December fails to rescue fourth quarter.

On the supply side, the most notable feature was the poor drive in the industrial sector at the end of 2004. In spite of the fact that industrial production increased to 1.0% in December compared with 0.4% in November, the fourth quarter ended with average growth of 0.8%, more than two percentage points lower than that recorded in the third quarter. The stabilization of industrial orders at relatively limited levels in the fourth quarter augurs for a future trend scarcely any better.

2005 begins on slightly more positive note.

The year 2005 began with a rate of economic activity showing a moderate rise, as shown by the increase in the economic sentiment indicator in January which went to 100.6 points (100.2 points in December). Behind this recovery lies the more dynamic situation in the services sector which more than compensated for the weakness in industry and construction. The confidence indicator for services added three points in the first month of the year, thus breaking the slightly downward trend begun in October 2004 while the confidence indicators for industry and construction dropped by one point in January.

Notable decrease in inflation with 1.9% in January.

The year 2005 also began with a positive note on the prices front. The harmonized consumer price index (HCPI) slowed from 2.4% year-to-year in December to 1.9% in January. This growth rate, the lowest since September 2004, may be considered positive although energy prices continued at high levels.

Slight worsening of unemployment rate ending 2004 at 8.9%.

With regard to the labour market, the economic situation is characterized by the absence of any significant improvements. In the third quarter of 2004, employment grew by 0.4% year-to-year, only one decimal higher than in the second quarter. The unemployment rate, in turn, ended the year 2004 with a slight increase of one decimal putting the figure at 8.9% of the labour force. As a whole, the unemployment rate in 2004 swung within narrow margins between 8.8%-9.0%, only to show an average of 8.9%, the same as in 2003.

Germany: slump in economic activity at end of 2004

Growth in Germany slows to 0.6% in fourth quarter of 2004.

In the fourth quarter of 2004, Germany's gross domestic product (GDP) grew by 0.6% year-to-year, half the figure recorded in the preceding quarter. By component, it should be pointed out that the bigger contribution from foreign demand was more than compensated by the poor performance of consumption and especially in the case of investment. Annual growth in 2004 stood at 1.0%, the highest figure since 2000 when the economy recorded an annual rise of 3.1%.

GERMANY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004						2005
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
GDP	0.1	-0.1	0.9	1.4	1.2	-	0.6	-	-
Retail sales	-2.2	-0.6	-0.7	-2.3	-1.6	-4.5	0.3	-2.7	...
Industrial production	-1.2	0.1	1.2	3.4	3.8	2.3	-0.5	0.9	...
Industrial activity index (IFO) (*)	89.4	91.6	96.4	95.7	95.4	95.3	94.1	96.2	96.4
Unemployment rate (**)	10.2	10.5	10.4	10.5	10.7	10.7	10.8	10.8	11.4
Consumer prices	1.4	1.1	1.1	1.8	1.9	2.0	1.8	2.1	1.5
Trade balance (***)	118.6	129.8	137.8	150.8	154.3	154.9	156.2	155.4	...

NOTES: (*) Value.

(**) Percentage of labour force.

(***) Cumulative balance for 12 months. Billion euros.

SOURCE: OECD, national statistical bodies and internal figures.

Drop in retail sales must be offset with some recovery in consumer confidence.

On the demand side, the drop in retail sales and industrial production of consumer goods in the fourth quarter (when they went down 2.4% year-to-year and 0.3% year-to-year) indicates a lack of strength in household spending. In any case, the recovery of consumer confidence in January should be valued positively. With growth of four points it stood at the -12 points level, the highest level since October 2002.

Industry beginning to show more expansionist profile...

On the supply side, 2004 ended with a slightly more positive balance for industrial activity. While growth of industrial production (0.9% year-to-year in December) did not manage to compensate for the poor result in November, the stabilization of the IFO industrial activity index on average for January and February at the level of 96.0 points, similar to the end of 2004, and the notable increase in industrial orders in December would seem to indicate an upturn in the secondary sector.

...perhaps linked to stronger drive in foreign demand.

The improvement in industrial prospects may be linked to the stabilization of exports in the fourth quarter. After recording a notable slowdown in exports in the third quarter, from 13% year-to-year in the second quarter to 8% in the third quarter, in the final months of the year average growth of foreign sales moved ahead at the same rate (8% year-to-year). The lower increase in imports made it possible to increase the trade surplus which in the fourth quarter reached 155.5 billion euros in cumulative figure for 12 months.

Good figure on inflation (1.5% in January) goes hand in hand with worst unemployment level since 1945.

Consumer prices, in turn, stood at 1.5% year-to-year in January, a notable reduction from the 2.1% year-to-year in December. On the other hand, in January the unemployment rate broke with the stable trend seen in the second half of 2004, going up from 10.8% in December to 11.4%. Total unemployed in January went above 5 million persons, the highest figure since 1945 at the end of World War II.

France grows by 2.3% in 2004

France reports surprising increase in growth in fourth quarter going up to 2.2%, thanks to recovery in consumption...

The French economy increased its growth rate in the fourth quarter of 2004 with a rise of 2.2% year-to-year (2.0% year-to-year in the third quarter), thanks to a substantial improvement in private consumption (increase of 2.5% year-to-year, close to one point above the figure for the previous quarter. This dynamic performance in household spending more than compensated for the drop in public consumption (2.0% year-to-year as against the previous 2.4%) and in investment (2.3% year-to-year compared with the former 2.9%) and the lower contribution to GDP growth from the change in inventories. In addition, foreign demand reduced its draw-off from the change in GDP from 1.8% in the third quarter to 1.4% in the fourth quarter. In 2004 as a whole, the French economy grew by 2.3%.

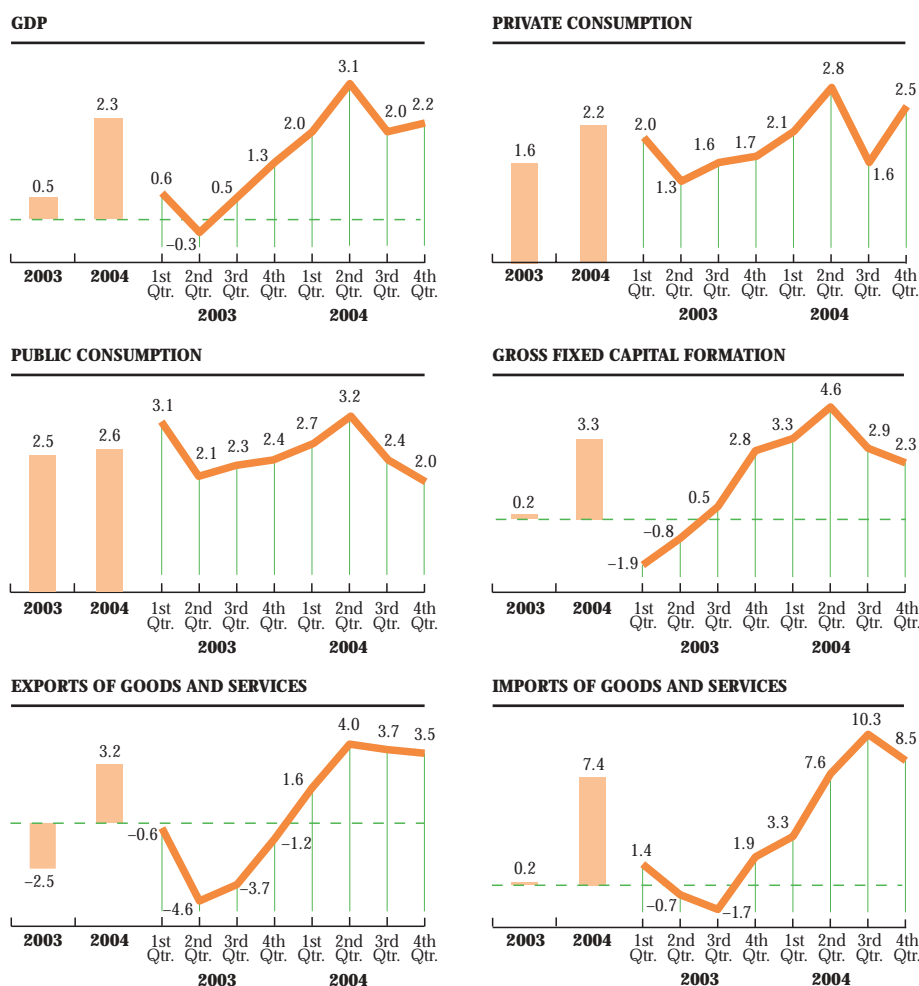
...which could extend into beginning of 2005.

If we are to go by the few demand indicators available, these earlier trends are being continued into the beginning of 2005. The main obstacle could come from private consumption, given that the drop in consumer confidence and in domestic consumption in January would suggest greater weakness on this front.

Services maintaining levels in contrast to industry, which is losing speed.

On the supply side, we note that the slowdown of the economy is showing up mainly in the industrial sector whereas services are holding more stable. In January, industrial confidence fell by three points to the -4 points level whereas confidence in the tertiary sector dropped to a lesser extent (decrease of 1 point). In any case, we should point out that industrial production in December rose to 2.1% year-to-year thus consolidating its upward trend in the final stages of 2004. Consumer prices, in turn, rose by 1.6% year-to-year in January (2.1% year-to-year in December) while the unemployment rate rose to 10.0% in January (9.9% in December).

TREND IN FRANCE'S GDP BY COMPONENT
Percentage year-to-year change



SOURCE: INSEE and internal figures.

35-hour work week made more flexible...

In another field, we should mention the significant news in the area of labour policy with the broad reform of the 35-hour work week. On February 9, the National Assembly approved various measures aimed at making the limits of the 35-hour work week more flexible. The most significant changes were increasing the weekly limit on hours worked to

48, the consideration of those hours above a 38-hour work week as overtime (as against the current 35 hours), the reduction of extra pay per hour worked after 38 hours to 10% for the first four hours (formerly 25%) and the creation of a «time-saving account» which would make it possible for hours worked to be changed into either additional pay or higher social security contributions. At the same time, the reforms contemplate greater flexibility for those companies with fewer than 10 workers.

FRANCE: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004						2005
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
GDP	1.1	0.5	2.0	3.1	2.0	-	2.2	-	-
Domestic consumption	0.9	0.7	3.1	5.7	3.6	2.2	6.7	6.2	3.8
Industrial production	-1.5	-0.5	0.6	2.9	2.0	0.8	1.8	2.1	...
Unemployment rate (*)	9.3	9.9	9.8	9.9	9.9	9.9	9.9	9.9	10.0
Consumer prices	1.9	2.1	1.9	2.4	2.2	2.1	2.0	2.1	1.6
Trade balance (**)	0.3	0.3	0.2	0.2	0.0	-0.3	-0.4	-0.6	...

NOTES: (*) Percentage of labour force.

(**) Cumulative balance for 12 months. Billion euros.

SOURCE: OECD, national statistical bodies and internal figures.

...in spite of social protest measure has created.

It should be remembered that on December 22 last the government had already adopted a decree under which it broadened the maximum number of overtime hours to 220 a year, as against the previous limit of 120 hours. These measures, which were contested by a number of mass protests, will likely be definitively approved by the Senate in March. In spite of the fact that some relaxation in the degree of flexibilization can be expected, in practice the final result will be the end of the 35-hour week.

Italy: first trade deficit since 2003

Italy shows growth of 1.0% in fourth quarter.

In the fourth quarter of 2004 Italy's GDP grew by 1.0% year-to-year compared with 1.4% in the June-September period so that growth for the year as a whole stood at 1.1% (0.4% in 2003). While the trend by demand component has not yet been released, it is expected that the main factor responsible for the slowdown in economic activity will turn out to be the worsening of the contribution from the foreign sector on top of the persistent weakness of domestic demand.

Domestic demand fails to respond and Italy reports first trade deficit since 1993.

At least this may be deduced from the decrease in retail sales of 0.4% year-to-year in November, from the drop in consumer confidence to 16 points in November and the appearance in November of the first trade deficit (as cumulative figure for 12 months) since March 1993. On the supply side, the combination of weakness in the domestic and foreign segments continues to prevent industrial activity from recovering. Industrial production in December fell by 3.0% year-to-year, the worst figure since May 2003.

ITALY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004						2005
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
GDP	0.4	0.4	0.8	1.3	1.4	-	1.0	-	-
Retail sales	2.4	2.0	1.2	-0.2	-1.3	-2.7	-0.4	...	...
Industrial production	-1.6	-0.6	-0.2	1.2	-0.6	-0.9	-2.4	-3.0	...
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	1.9
Trade balance (**)	10.8	4.1	2.2	3.3	2.9	0.5	-0.2	-0.4	...

NOTES: (*) Percentage of labour force.

(**) Cumulative balance for 12 months. Billion euros.

SOURCE: OECD, national statistical bodies and internal figures.

Inflation at 1.9% in January.

Prices continue to be linked to the trend in oil prices. In January, the CPI grew by 1.9% year-to-year, an improvement of only one decimal over December, which is far from the downward trend recorded in other European economies.

United Kingdom: stage of lower economic activity

United Kingdom moderates economic activity although consumption still acting as main support.

The British economy is progressively moving into a stage of lower growth, although the fund of resistance provided by consumption will avoid an excessive slowdown. In the fourth quarter of 2004 retail sales were up by 4.9%, a notable figure although below the 6.7% seen in the third quarter. A similar trend is noted in investment which continues in an expansionist mode but with a gradual drop, as may be deduced from the lower increase in the capital goods component of industrial production in the fourth quarter (2.0% year-to-year as against 3.8% in the previous quarter).

UNITED KINGDOM: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2002	2003	2004						2005
			1st Qtr.	2nd Qtr.	3rd Qtr.	October	November	December	January
GDP	1.8	2.2	3.0	3.5	3.1	-	2.8	-	-
Retail sales	6.8	2.9	6.5	7.0	6.7	5.6	6.1	3.2	3.9
Industrial production	-2.5	-0.2	0.2	1.8	-0.1	-1.5	-0.2	0.3	...
Unemployment rate (*)	3.0	2.9	2.8	2.7	2.7	2.7	2.7	2.7	2.6
Consumer prices	2.2	2.8	2.3	2.2	2.1	2.1	2.2	2.5	2.1
Trade balance (**)	-43.5	-46.9	-50.1	-53.3	-56.0	-57.0	-57.2	-57.6	...

NOTES: (*) Percentage of labour force.

(**) Cumulative balance for 12 months. Billion pounds.

SOURCE: OECD, national statistical bodies and internal figures.

Lower growth mainly seems to be affecting services.

By sector, the most notable event is the worsening of confidence in the tertiary sector which, after standing at the 19 points level in December, collapsed to 10 points in January. Industry, on the other hand, was more stable. Industrial production grew by 0.3% year-to-year in December (drop of 0.1% year-to-year in the third quarter) while sector confidence held at around a negative level of three-four points between October and January.

Unemployment and inflation at very low levels.

With regard to prices, there was a correction in the main indices in January. The CPI went down from 2.5% year-to-year in December to 2.1% while producer prices in January stood at 2.6% year-to-year, three decimals less than in the month before. The unemployment rate in January, in turn, went down by one decimal to 2.6% of the labour force, the lowest figure since 1975.

Portugal: economic slowdown in second half of 2004

Portugal slows down to 0.8% growth in third quarter...

In the final stages of 2004, the Portuguese economy continued to show a moderate growth rate. The latest figures for the quarterly national accounts, those for the third quarter, show an economy growing by only 0.8% year-to-year, a decrease of one percentage point from the previous quarter. The loss of level showed up in nearly all components. Private consumption moved up 2.1% year-to-year (2.9% year-to-year in the second quarter) while investment rose by 1.9% year-to-year (3.6% year-to-year in the previous quarter). The exception was public consumption which rose by 1.2% year-to-year in the third quarter as against 0.6% year-to-year in the second quarter. The strength of imports (rise of 6.5% year-to-year), higher than the increase in exports (4.5% year-to-year), meant a dip in foreign demand which took 1.3% off GDP growth.

Indicators for the fourth quarter confirm the weakness of the Portuguese

PORTUGAL: 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	-1.2	0.5	1.8	0.8	-	...	-
Retail sales	1.7	-0.7	1.7	3.4	3.8	1.6	2.8	5.3
Industrial production	-0.4	0.2	-1.0	-0.6	-3.1	-10.0	-1.5	-2.6
Unemployment rate (*)	5.1	6.3	6.4	6.3	6.8	-	7.1	-
Consumer prices	3.6	3.3	2.2	2.5	2.4	2.1	2.5	2.5
Trade balance (**)	-1.2	-1.0	-1.0	-1.1	-1.2	-1.2	-1.3	...

NOTES: (*) Percentage of labour force.

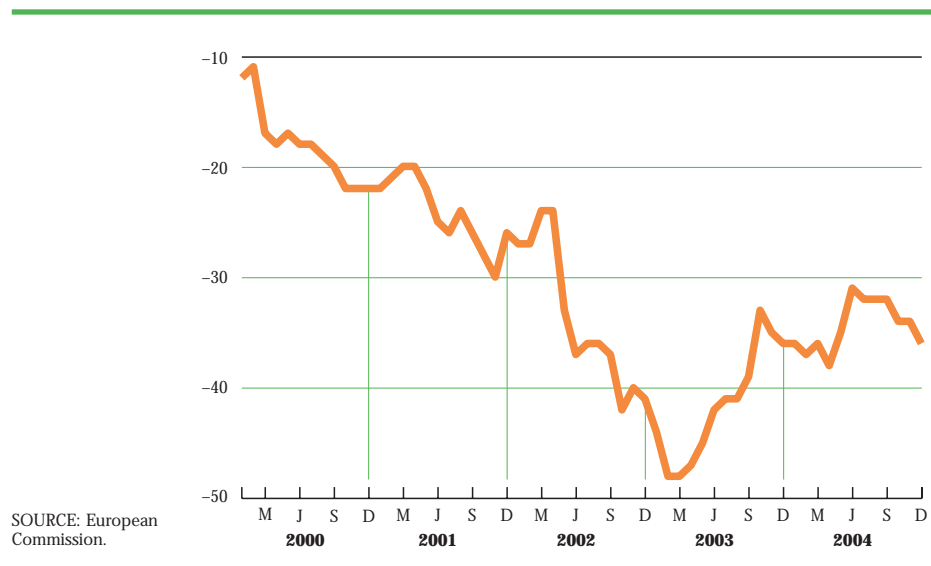
(**) Cumulative balance for 12 months. Billion euros.

SOURCE: OECD, national statistical bodies and internal figures.

...with no sign of improvement in fourth quarter.

economy. On the demand side, we should point out the downward trend in retail sales in the last quarter (3.2% year-to-year, a figure lower than the 3.8% in the previous quarter) and the worsening of consumer confidence, which fell by three points in the fourth quarter. On the supply side, industrial production continues to give no sign of improvement. After dropping by 3.1% year-to-year in the third quarter, the decrease went to 4.7% year-to-year on average in the last quarter of 2004. In a similar way, the economic sentiment indicator dropped by 1.1 points to stand at the 94.8 points level in the fourth quarter.

PORTUGAL: CONSUMER CONFIDENCE GROWS WORSE
Value of consumer confidence index



Unemployment rate goes up to 7.1% in fourth quarter.

In addition, as a result of the slowdown in the economy, the unemployment rate continues to worsen. In the fourth quarter it stood at 7.1% of the labour force, three decimals more than in the previous quarter. Prices showed more stability. The CPI held stable (2.4% year-to-year on average in the second half-year) end with 2.5% year-to-year in December while producer prices grew by 5.0% year-to-year in the October-December period, as against 4.2% in the third quarter. With regard to the foreign sector, the cumulative trade balance for 12 months on monthly average showed a deficit of 1.3 billion euros in November, thus reflecting a growth in imports (16.9% year-to-year) very much above that for exports (1.7% year-to-year).

New government faces delicate economic situation.

The Portuguese economy, in fact, has not been able to get onto a recovery track. After improving in the first half of 2004, in the second half-year it again lost economic drive. This means that the new government formed by the Socialist Party, which won the elections on February 20, will have to give more attention to the economic aspects of its legislative programme. From an economic point of view, the Socialist electoral programme rested on three pillars, namely growth, innovation and employment.

*Labour reforms,
Social Security
and fiscal reform
key features of
new government's
economic
programme.*

Specifically, of special note is the proposed technology plan, the main hub of which is the reintroduction of tax incentives for research and development which were removed by the previous government and revision of the labour code and the Social Security system. In that area, it is proposed to limit the highest pensions and make the retirement age uniform among the various social welfare schemes. Finally, in order to meet the demands of the European Union in terms of budgetary consolidation, the Socialist government proposes a revision of the tax regulations, involving a broadening of the tax base and the inclusion of incentives for saving (removed by the previous government).

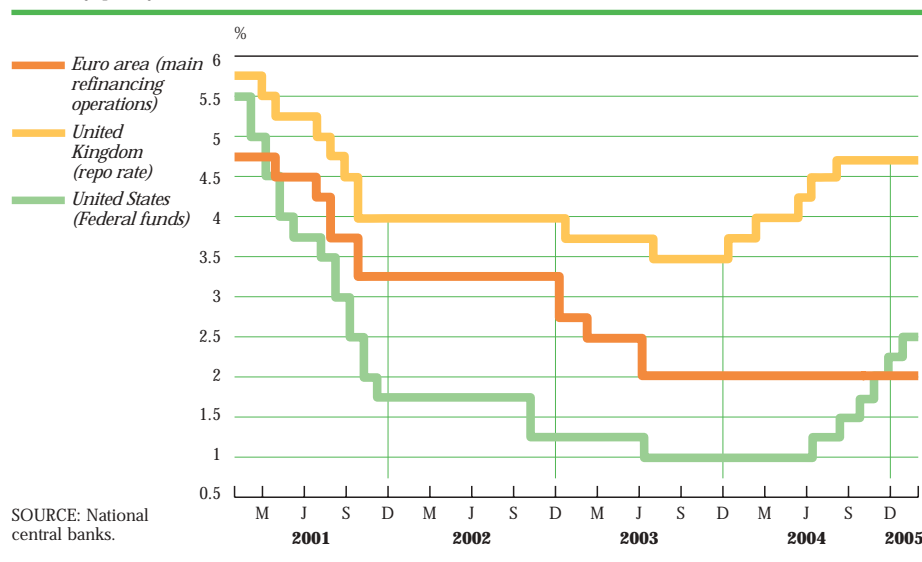
MONETARY AND CAPITAL MARKETS

Federal Reserve raises rates for sixth consecutive time

*Fed's official rate up
150 basis points since
June 2004...*

As expected, at its meeting early in February, the Federal Open Market Committee of the U.S. Federal Reserve Board decided to raise its official interest rates. As a result, the target level for interest rates on Federal Funds (overnight interbank deposits) again rose by 25 basis points to stand at 2.50%. This was the sixth consecutive increase in this reference rate from the level of 1% where it stood in June 2004. At the same time, the discount rate also rose by 25 basis points to 3.50%.

FEDERAL RESERVE PUTS REFERENCE RATE AT 2.50%
Monetary policy reference rates



*...but easy monetary
policy continues...*

US monetary policy continues to be very easy. The official interest rate, for example, is still lower than annual inflation. As a result, further increases in the official interest rate are still expected. These increases will keep taking place gradually but progressively, if we are to go by the press release issued by the Fed, which showed no change from the spirit seen in previous months.

...while yield on 1-year interbank deposits continues to rise.

As a result, the interest rate on US 1-year interbank deposits tended to rise slightly in the early weeks of February. At the middle of the fourth week of that month it stood at 3.41%. This level meant an increase of 208 basis points compared with twelve months 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							
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 (*)	2.06	2.15	2.31	2.25	2.64	0.00	4.75	4.79	0.74
February (1)	2.05	2.14	2.34	2.50	2.88	0.00	4.75	4.88	0.75

NOTES: (*) Provisional figures.

(1) February 24.

(2) Marginal interest rate. Latest dates showing change in minimum rate: 6-3-03 (2.50%), 5-6-03 (2.00%).

(3) Latest dates showing change: 25-6-03 (1.00%), 30-6-04 (1.25%), 10-8-04 (1.50%), 21-9-04 (1.75%), 10-11-04 (2.00%), 14-12-04 (2.25%), 2-2-05 (2.50%).

(4) Latest dates showing change: 6-2-03 (3.75%), 10-7-03 (3.50%), 6-11-03 (3.75%), 5-2-04 (4.00%), 6-5-04 (4.25%), 10-6-04 (4.50%), 5-8-04 (4.75%).

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

ECB still in holding pattern.

Nor was there any surprise in the euro area when the Governing Council of the European Central Bank (ECB) failed to change its official rate at its meeting on February 3. The rate has thus continued set at 2.00% since June 2003. The ECB did not make any substantial change in its posture and continued to feel that price stability was not at risk over the short term. In fact, its forecast is that inflation rates will stand below 2% in the course of the current year. Nevertheless, the ECB continues to point to the existence of medium-term risks for price stability. Specifically, these risks could come from increases in oil prices as well as from possible effects of the shift of recent inflationary pressures to wages. At the same time, it pointed out that the existence of excessive money supply also was a risk factor for inflation over the medium term. Loans to the private sector in the euro area, for example, are showing an increased growth rate with a figure of 7.0% in December.

1-year Euribor up 9 basis points in past 12 months ending January.

In this context, the 1-year Euribor rose very slightly on monthly average in January to stand at 2.31%, an increase of 9 basis points compared with 12 months earlier. In the early weeks of February, the 1-year Euribor swung close to this level to stand at 2.34% at the middle of the fourth week of the month. As a result, going by the interest rate curve, we may deduce that the market is not expecting the restrictive turn by the ECB to begin until the fourth quarter of the current year.

Dollar loses strength in February

G-7 summit at beginning of February brings little new.

The US currency appreciated by 1.5% against a broad range of currencies in January. In the early days of February it stayed in something of a holding pattern in view of the meeting of the seven most developed countries, on this occasion with the addition of the main emerging countries, namely Russia, China, India, Brazil and South Africa, with the aim of trying to manage foreign exchange rates in a situation of sharp global imbalances. The meeting ended with an announcement similar to that issued one year ago. China's position, specifically, showed no change with no commitment being made to appreciate the yuan according to any definite timetable. Nevertheless, the Chinese government continued to maintain making its currency more flexible as a medium-term goal.

Ups and downs of dollar.

Nevertheless, certain statements by the chairman of the Federal Reserve Board, Alan Greenspan, to the effect that the US foreign current account deficit seemed to be stabilizing and could be reduced over the long term gave a boost to the dollar. Those prospects, along with hopes for a reduction in the budget deficit, helped the dollar which continued to recover. Nevertheless, it later lost strength. Among other negative factors, it was affected by statements by the Central Bank of South Korea to the effect that it planned to diversify its foreign currency reserves.

Depreciation of dollar has uneven effect on other currencies.

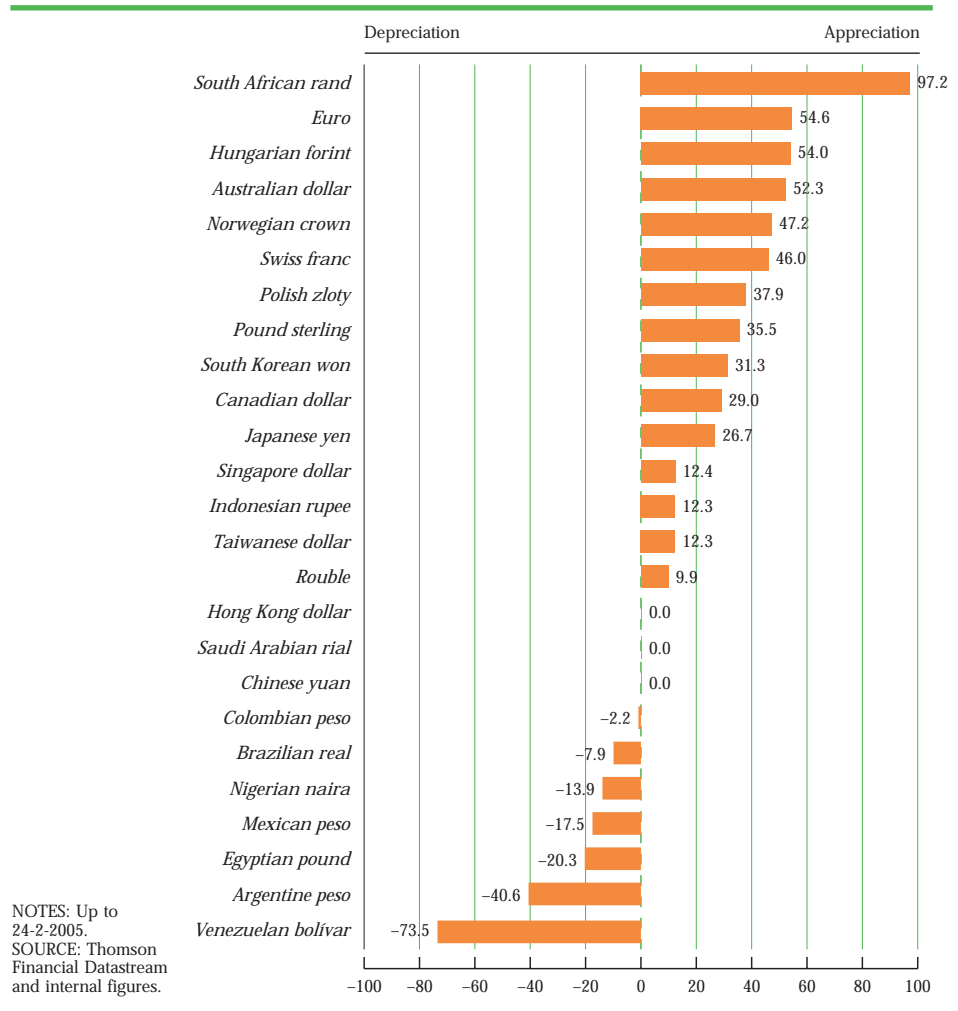
In fact, in overall terms, the dollar has depreciated by 16.3% since the end of January 2002 but the trend in the various currencies against the main reserve currency has been uneven. The South African rand, the euro, the Hungarian forint and the Australian dollar have shown appreciation of more than 50% against the dollar since that date. The Canadian dollar showed a rise of 29% while the yen reported 27%. On the other hand, other Asian currencies, such as the Indonesian rupee, the Singapore dollar and the Taiwanese dollar marked up lower increases of the order of 12%. Both the Hong Kong dollar and the Chinese yuan have stayed pegged to the US dollar. On the contrary, most Latin American currencies have depreciated against the dollar in the past three years.

After a pause, euro moves up against dollar taking advantage of its weaknesses.

The euro continued to hesitate in the early weeks of February after the sharp upward move at the end of 2004. On February 9 it recorded its lowest level against the dollar in the past three months, with a drop of 6.4% compared with the all-time high on December 28, 2004. Nevertheless, the European single currency then rose again. Statements by various ECB executives showing their concern about inflation reinforced this swing. As a result, the euro went above the level of 1.32 dollars.

NOT ALL CURRENCIES REVALUE AGAINST DOLLAR

Change in exchange rate of national currency against dollar since 28-1-2002 as percentage



Pound sterling gets stronger in February...

The pound sterling has tended to appreciate in recent weeks although not in terms of the euro. A series of positive economic figures, such as the reduction of the trade deficit and an increase in industrial production, gave support to the British currency. Also contributing was the possibility that the Bank of England would be obliged to raise its official interest rate (now at 4.75%) in order to contain inflation.

...while yen drops.

The yen dropped by 1.0% against the dollar in January. In the early weeks of February, the Japanese currency continued to lose ground. On February 10, the Japanese yen recorded its lowest level against the dollar in the past three months. The yen also dropped against the euro in the early weeks of February. Nevertheless, it maintained its appreciation compared with the end of 2004.

Russia takes euro into account.

Russia announced a change in its management of the exchange rate of the rouble in the first week of February. Whereas until now the dollar has been the basic reference currency in the floating exchange rate system

managed by Russia's central bank, from now on the euro will have an increased role. This change was justified by the importance of Russia's foreign trade transactions with countries in the euro area.

Brazilian real marks up highest level in past two and a half years.

In recent months, the Brazilian real has shown an upward trend against the dollar. As a result, in mid-February it recorded its highest level since June 2002. This rise was brought about by increases in interest rates by the Bank of Brazil and because of the continuing good prospects.

EXCHANGE RATES OF MAIN CURRENCIES

January 2005

	Final session of month		Average exchange rate	Monthly figures			Exchange rate February 24, 2004
	Exchange rate	% monthly change (2)		% change (2)			
				Monthly	Over December 2003	Annual	
Against US dollar							
Japanese yen	103.6	1.0	103.3	-0.5	-0.5	-2.9	105.4
Pound sterling (1)	1.884	-1.8	1.878	-2.7	-2.7	3.1	1.909
Swiss franc	1.188	4.2	1.180	3.0	3.0	-5.0	1.170
Canadian dollar	1.241	3.2	1.225	0.6	0.6	-5.5	1.239
Mexican peso	11.21	0.5	11.26	0.5	0.5	3.2	11.10
<i>Nominal effective index</i> (4)	109.5	1.5	109.3	0.4	0.4	-2.9	109.1
Against euro							
U.S. dollar	1.304	-4.3	1.312	-2.2	-2.2	4.0	1.326
Japanese yen	135.0	-3.4	135.6	-2.5	-2.5	1.1	139.1
Swiss franc	1.547	0.3	1.547	0.7	0.7	-1.2	1.539
Pound sterling	0.691	-2.0	0.699	0.5	0.5	0.9	0.694
Swedish krona	9.106	0.9	9.048	0.7	0.7	-1.0	9.073
Danish krone (3)	7.442	0.0	7.440	0.1	0.1	-0.1	7.441
Polish zloty	4.081	-0.1	4.079	-1.4	-1.4	-13.4	3.939
Czech crown	30.14	-1.1	30.30	-1.1	-1.1	-7.4	29.86
Hungarian forint	245.6	-0.2	246.5	0.3	0.3	-6.7	242.1
<i>Nominal effective index</i> (5)	105.2	-2.6	105.8	-1.1	-1.1	0.3	106.2

NOTES: (1) Units to pound sterling.

(2) Percentages of change refer to rates as shown in table.

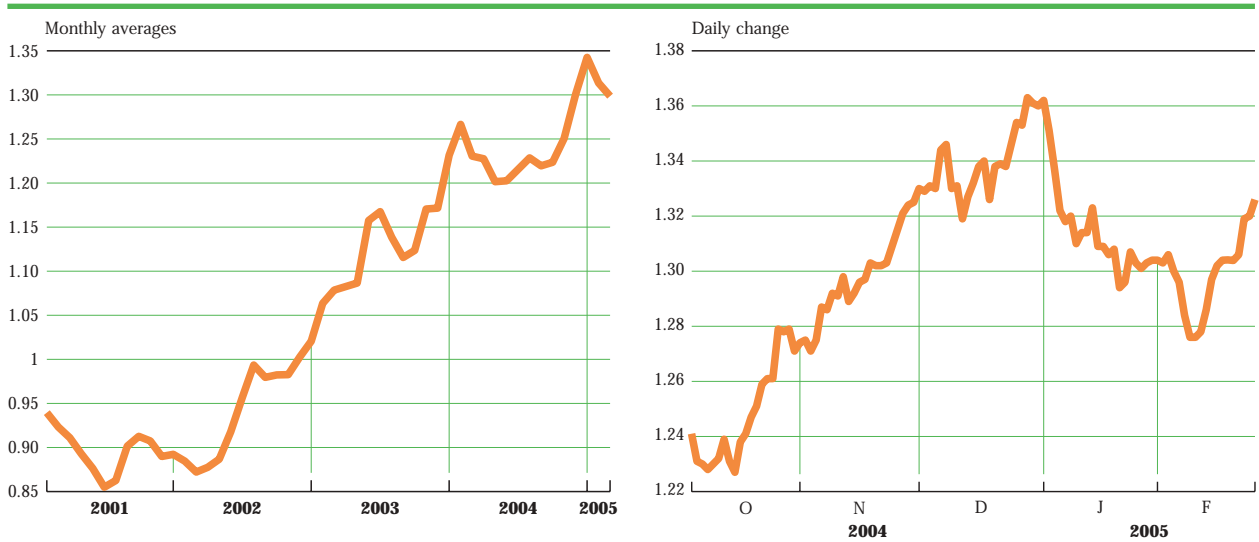
(3) Danish krone has central parity of 7.46038 against euro with fluctuation band of $\pm 2.25\%$.

(4) Broad nominal effective index of U.S. Federal Reserve Board. Calculated as a weighted average of the foreign exchange value of the U.S. dollar against the 26 currencies of those countries with greatest volume of trade with the United States. Base: 1-1997 = 100.

(5) European Central Bank nominal effective exchange rate index for the euro. Calculated as a weighted average of the bilateral value of the euro against the currencies of the 23 main trading partners of the euro area. Base: 1-1999 = 100.

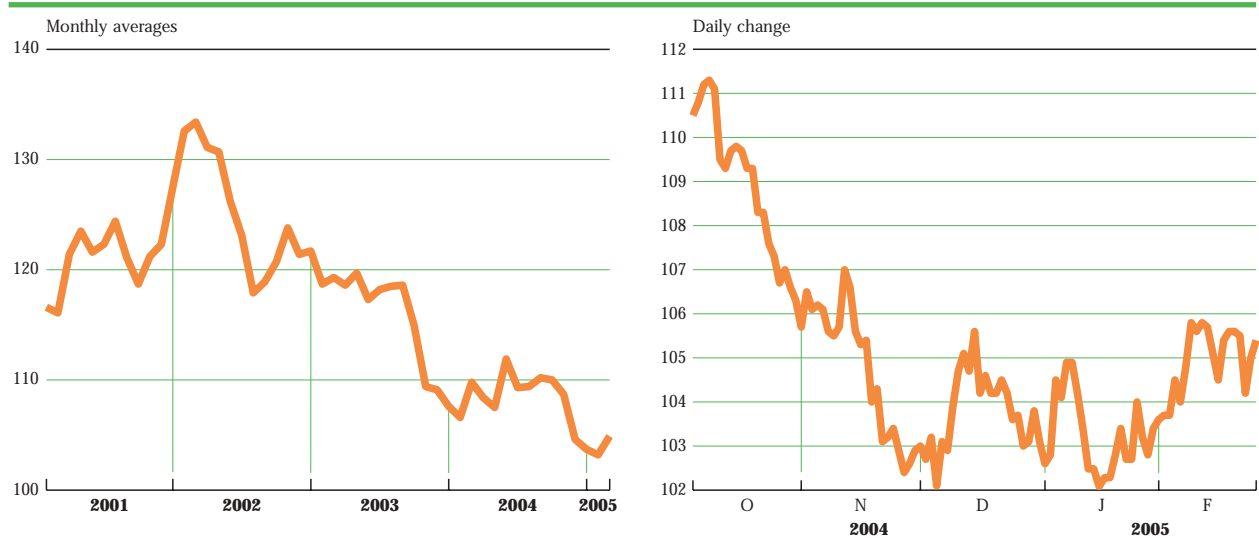
SOURCE: Thomson Financial Datastream and internal figures.

EURO RESPONDS IN FEBRUARY
U.S dollars to euro



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

YEN MARKS UP LOWEST LEVEL AGAINST DOLLAR IN PAST THREE MONTHS
Yen to dollar



NOTES: Rates go up to February 24. SOURCE: OECD, Thomson Financial Datastream and internal figures.

Yield on German 10-year bonds marks up lowest level in recent decades

Yield on US Treasury bonds rises because of inflation fears.

Yields on US Treasury bonds continued to slide down in the first week of February. Publication of job creation figures for January, lower than expected, contributed to the drop with the easing of prospects of inflationary pressures. Nevertheless, after marking up the lowest level in the past three months, the interest rate on 10-year Treasury bonds rose

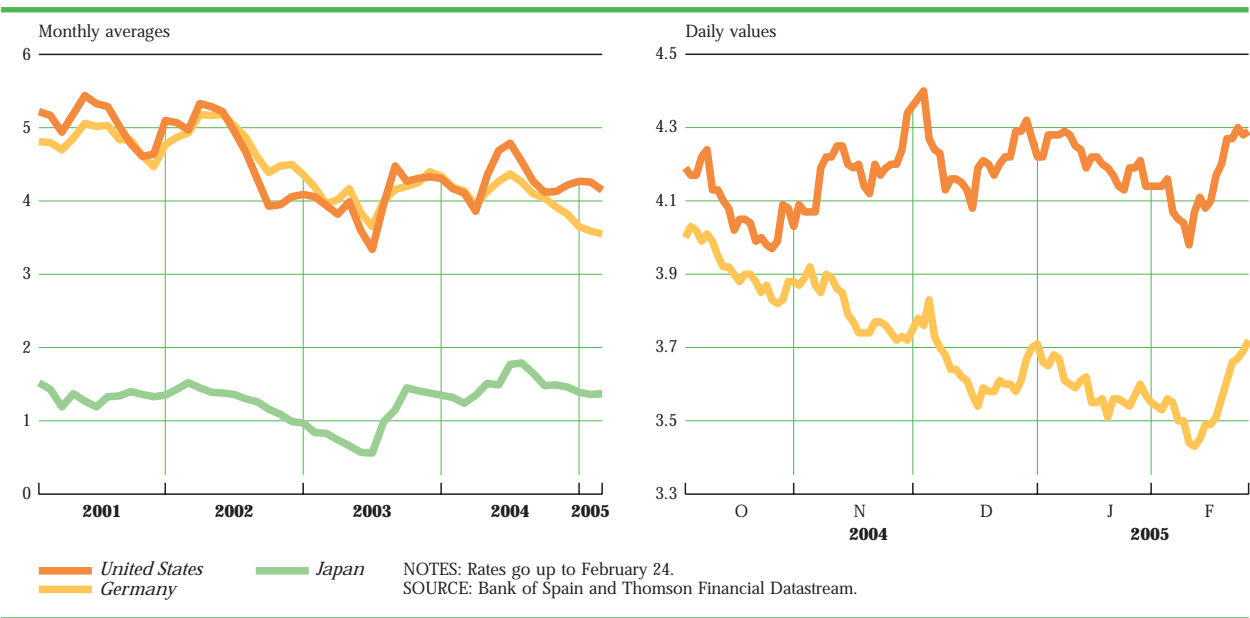
under the influence of fears of inflation. As a result, in the middle of the fourth week in the month the yield on 10-year bonds stood at 4.29%, some 8 basis points above the end of 2004.

Various factors pushing down bond yields.

In any case, long-term interest rates stand at low levels due to a number of factors, such as the existence of ample global money supply because of monetary policies still generally easy, the relative abundance of savings in a situation of excessive global installed production capacity, a decrease in the uncertainty premium arising from a gain in the credibility of the central banks and because of doubts about the future growth of the US economy.

GOVERNMENT BOND YIELDS RISE IN FEBRUARY

Yield on 10-year government bonds as annual percentage



Heavy buying of European government bonds by institutional investors.

In Germany, the yield on 10-year government bonds dropped to 3.43% on February 10 marking up the lowest level in recent decades and going beyond the previous low in June 2003. The yield on German 30-year bonds also recorded an all-time low. Heavy buying of long-term bonds by pension funds and insurance companies to comply with stricter regulations for management of assets and liabilities worked in favour of this trend. On the other hand, the differential in the 10-year interest rate between US and German bonds stood at around 60 basis points in the early weeks of February.

Yield curve continues inverted in United Kingdom although to lesser degree.

In the United Kingdom, the interest rate on 10-year government bonds is showing a slight rise compared with the end of 2004. As a result, at the middle of the fourth week in February it stood at 4.78%, some 25 basis points higher than at the beginning of the year. Nevertheless, this yield was lower than that for shorter term bonds. The interest rate curve thus presents a slightly downward profile in keeping with the more advanced stage of the British economic cycle compared with that on the Continent.

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.	4th Qtr.	January	February 24
United States	4.65	4.04	4.05	4.64	4.34	4.21	4.26	4.29
Japan	1.27	0.99	1.30	1.59	1.64	1.45	1.36	1.40
Germany	4.80	4.10	4.09	4.26	4.13	3.80	3.59	3.72
France	4.88	4.13	4.11	4.31	4.16	3.83	3.58	3.72
Italy	5.04	4.24	4.24	4.47	4.31	3.94	3.72	3.83
Spain	4.96	4.12	4.12	4.31	4.17	3.82	3.59	3.73
United Kingdom	4.93	4.53	4.83	5.14	5.05	4.71	4.62	4.78
Switzerland	3.02	2.47	2.46	2.74	2.70	2.38	2.14	2.23

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

Reduced risk premium on high-yield bonds.

Following the rise in the risk premium on high-yield bonds in January, measured by the differential in yields from Treasury bonds, the early weeks of February brought a slight downward trend. In fact, according to Moody's rating agency, the default rate on high-yield bonds held at 2.3% in January, a very low level.

Stock markets recover good times

Corporate profits, new rash of mergers and acquisitions and low interest rates help stock markets...

Following a good end to 2004, the stock markets did not begin the new year on a good footing because of the effect of oil prices and some disappointing corporate profits. As a result, a number of stock markets ended January with a negative balance for the month. Nevertheless, in the final weeks of January there was a positive reaction helped along by publication of favourable corporate profits and decreases in government bond yields. Most stock market indices thus began on an upward course. A new wave of mergers and corporate acquisitions contributed to the boost in the share markets. Nevertheless, following this period, the rise in bond yields and a further increase in oil prices darkened market prospects thus bringing about a correction.

...but increase in bond yields and rise in oil prices stop US indices from recovering par for year.

In the United States, the increase in the official interest rate on February 2 scarcely affected the trend on the stock markets given that this had been widely discounted and, on the other hand, the Fed had not adopted a very aggressive approach, as had been generally feared. As a result, the recovery of optimism made it possible for the main stock market indices, such as Standard & Poor's 500 and the Dow Jones Industrial index, to go close to par for the year in the fourth week of February. Nevertheless, the Nasdaq index, which is representative of hi-tech shares, worsened in the early weeks of February to show a drop of 5.7% compared with the end of December.

INDICES OF MAIN WORLD STOCK EXCHANGES
January 31, 2005

	Index (*)	% monthly change	% cumulative change	% annual change	Figures on February 24, 2005	
					% cumulative change	% change over same date in 2002
New York						
<i>Dow Jones</i>	10,489.9	-2.7	-2.7	0.0	-0.3	7.8
<i>Standard & Poor's</i>	1,181.3	-2.5	-2.5	4.4	-1.0	10.1
<i>Nasdaq</i>	2,062.4	-5.2	-5.2	-0.2	-5.7	19.0
Tokyo	11,387.6	-0.9	-0.9	5.6	0.4	11.3
London	4,852.3	0.8	0.8	10.5	3.3	-1.6
Euro area						
<i>Frankfurt</i>	4,254.9	0.0	0.0	4.8	1.1	-9.3
<i>Paris</i>	3,913.7	2.4	2.4	7.6	4.1	-6.3
<i>Amsterdam</i>	360.4	3.5	3.5	2.0	6.4	-22.6
<i>Milan</i>	24,091.0	2.4	2.4	17.2	2.3	10.9
<i>Madrid</i>	9,223.9	1.6	1.6	16.3	3.0	22.1
Zurich	5,771.4	1.4	1.4	0.6	3.4	-4.9
Hong Kong	13,721.7	-3.6	-3.6	3.3	-1.2	31.8
Buenos Aires	1,373.8	-0.1	-0.1	20.4	11.2	315.7
São Paulo	24,350.0	-7.0	-7.0	11.4	8.6	109.7

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.

Energy companies in lead.

By sector, the trend was uneven. Energy companies were the most favoured in the early months of the year. Producers of construction materials and chemical products and utility companies also showed a good cumulative balance. On the other hand, telecommunications and hi-tech companies were those to obtain the worst results showing considerable capital losses.

Share markets in Australia and New Zealand at all-time highs.

In the middle of the fourth week in February, the Financial Times 100 index for the London stock exchange showed gains of 3% over December. The SMI index for the Swiss stock exchange also showed a rise of 3% in the same period. In Japan, the Nikkei 225 index marked up a low for the past seven months in the third week of February. On the other hand, stock markets in Australia and New Zealand marked up record levels in February.

European stock markets at highs for last two and a half years.

Stock markets in the euro area, which managed to end January on positive ground, increased capital gains in the early weeks of February. The main advances came in stock markets in Amsterdam, Paris and Milan, as well as Madrid. The main European stock markets thus stood at the highest levels for the past two and a half years.

IBEX 35 records highest level since May 2001.

With regard to the Spanish stock market, the IBEX 35 index recorded a rash of eleven consecutive daily increases after the end of January and a further boost later on put the index above the 9,600 level, thus marking up the highest figure since May 2001 in the third week of February. As a

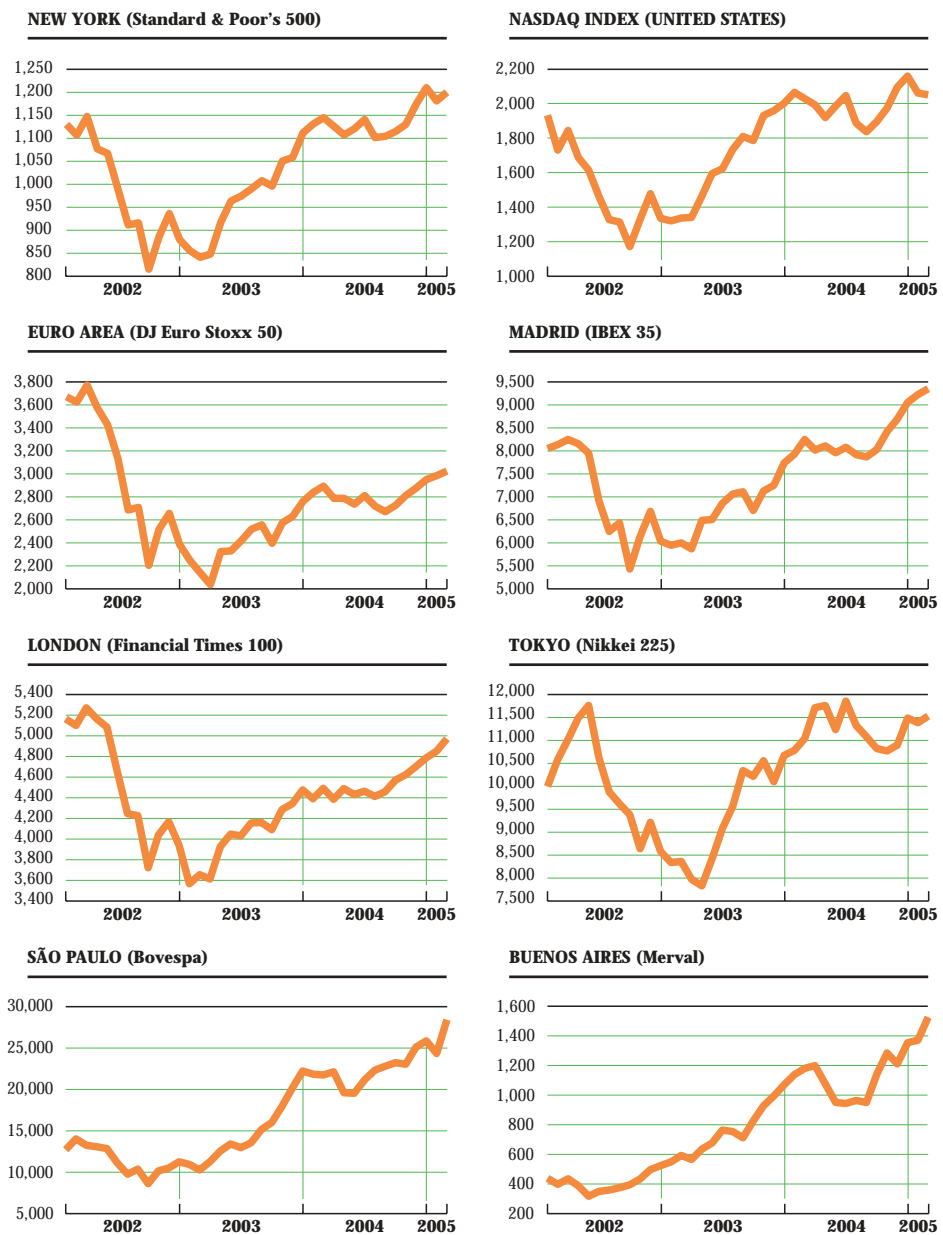
result, in the fourth week of the month it showed an increase of 3% over December. It should be pointed out that more than a third of the shares making up the IBEX 35 index recorded all-time highs during the month.

All-time highs in stock markets in Argentina, Mexico and Brazil.

The situation also improved appreciably in February in share markets in emerging countries. The Argentine stock market, which had ended January in the red, again marked up new all-time highs in February. The Mexican stock market also recorded new records. At the same time, the São Paulo stock market in Brazil recovered from the losses taking place in January to mark up an all-time high level.

INTERNATIONAL STOCKS

Indices at month-end



NOTES: February 24, 2005. SOURCE: Thomson Financial Datastream.

SPAIN: OVERALL ANALYSIS

ECONOMIC ACTIVITY

Spain's economy grows 2.7% in 2004

Slight increase in economic activity in final stages of year.

The gross domestic product (GDP) grew by 2.7% at year-to-year rate in the fourth quarter of 2004, according to figures adjusted for seasonal differences and number of working days published by the National Institute of Statistics. This figure, which was one decimal higher than in the previous quarter, confirms the course of sustained growth being maintained by Spain's economy in recent quarters. The slight increase in the final quarter was due to the lower negative contribution from the foreign sector seeing that domestic demand had held to a stable performance with very high growth levels. However, the lower draw-off from the GDP by the foreign sector was compensated to the extent of 1.9 percentage points by the rise in domestic demand. In total, GDP growth was 2.7%, two decimals more than in 2003.

Domestic demand sustaining growth.

The good state of domestic demand, which added 4.4 points to GDP growth for the year as a whole, was sustained both by final consumption and especially by gross capital formation which considerably increased the figure for the year before. In fact, this demand component rose by 4.6%, 1.4 points more than in 2003. Final consumption, in turn, grew by 3.8% on average, some seven decimals more than in the year before.

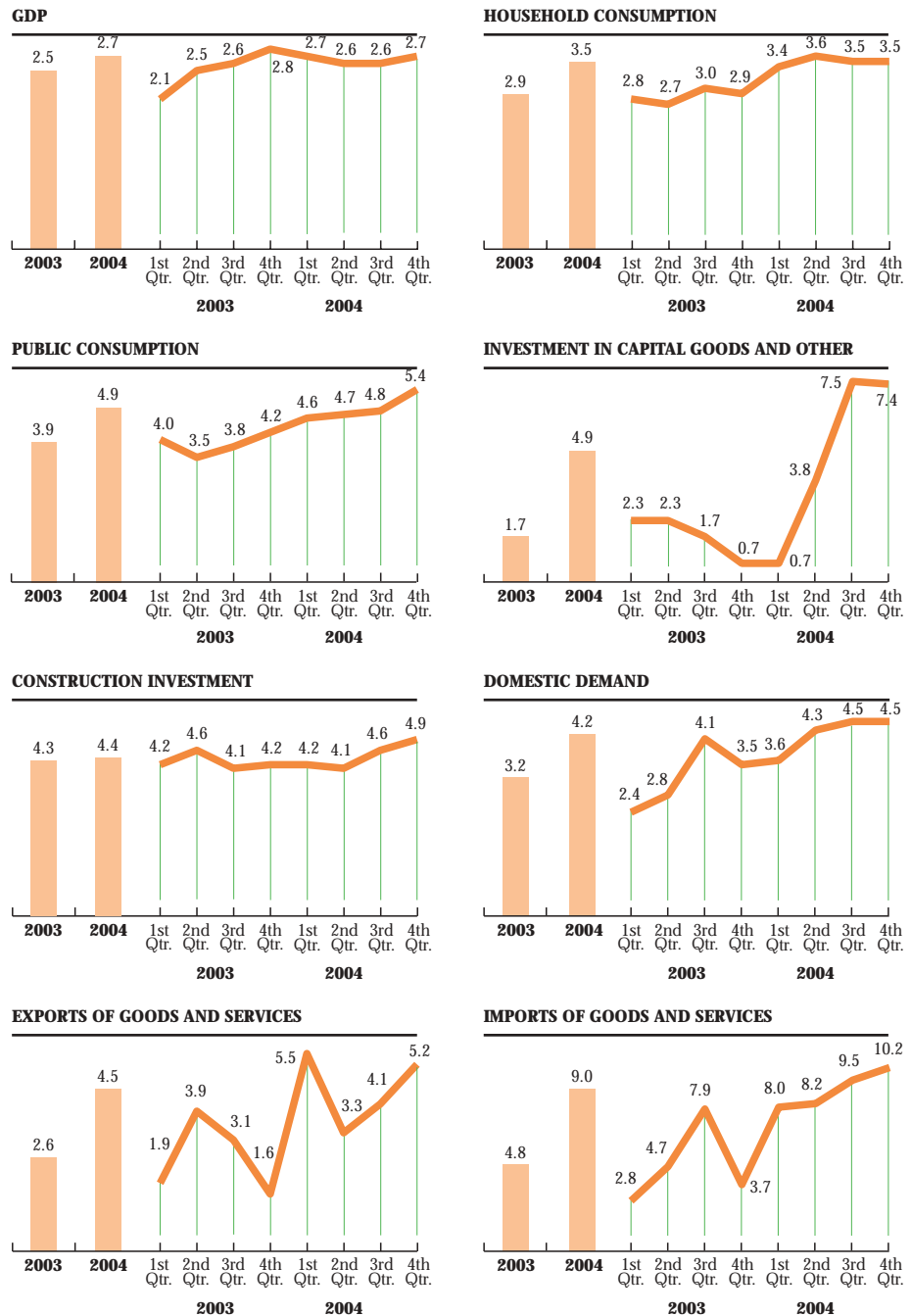
Public consumption shows big rise while household consumption increases at sustained rate.

Under final consumption the trend in the case of general government was of note, recording an increase of 4.9% in 2004 after rising progressively in the course of the year (the increase in the fourth quarter was 5.4% year-to-year). Household consumption, in turn, held to a high stable rate showing an increase of 3.5% in 2004. A sustained increase in employment, the improvement in real wages and easy credit facilities all went in favour of this performance.

Increased demand for capital goods in second half and stable growth in construction demand.

The sharp recovery in gross capital formation came from demand for capital goods which showed an excellent performance in the second half of the year with growth at rates above 9% real. As a result, the average increase in the demand component reached 5.8% annual, well above the 1.0% recorded in 2003. Construction, in turn, also played a very important role and, thanks to a more dynamic second half, managed to end the year avoiding an expected slowdown. Growth stood at 4.4%, one decimal higher than the year before.

TREND IN SPAIN'S GDP BY COMPONENT
Percentage year-to-year change (*)



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

SOURCE: National Institute of Statistics.

Pressure from imports along with little drive in exports behind sharp drop in foreign sector growth.

The poor balance in the foreign sector was due more to pressure from imports than a weak performance in exports. In fact, imports ended 2004 with growth of 9.0% real, more than four points above the previous year, with very high growth in the case of goods as compared with services. Exports, in turn, ended up with an increase of 4.5% as

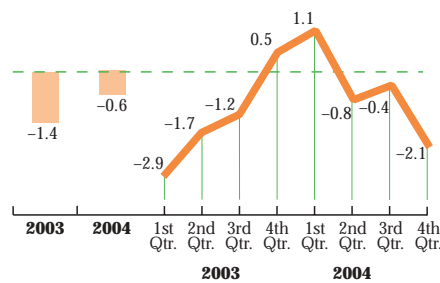
against the 2.6% recorded in 2003. In this case as well, the biggest drive showed up in goods seeing that services were down even more sharply than in the year before.

Utilities and construction most dynamic sectors of economy.

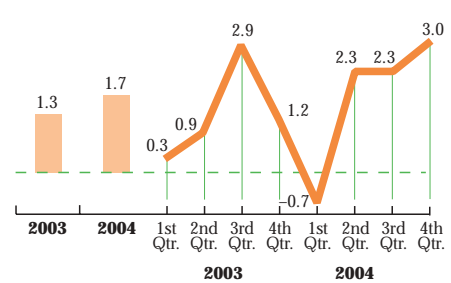
On the supply side, figures for the fourth quarter confirm the decline in agriculture, a sustained improvement in construction, a slight easing of the upward trend in industrial activity, a good situation in energy branches and an upward profile in services. In this case, it was non-market services that showed the strongest drive seeing that market services reported some slowdown. The biggest growth figures came in construction and non-market services at 3.7% and 3.5% respectively. Industry and market services moved up at slower rates, namely 2.2% and 2.5%.

TREND IN SPAIN'S GDP BY SUPPLY SECTOR
Percentage year-to-year change (*)

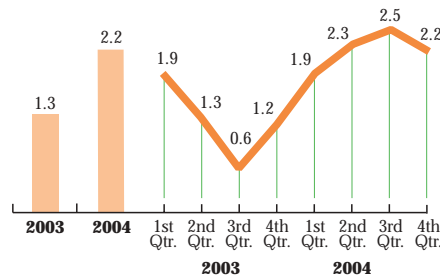
AGRICULTURE



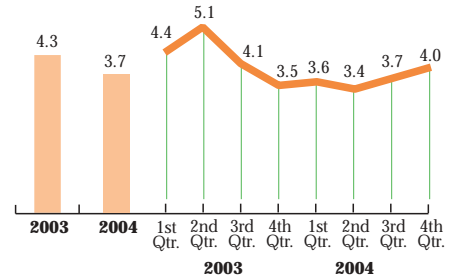
ENERGY



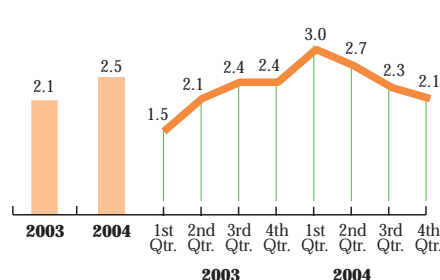
INDUSTRY



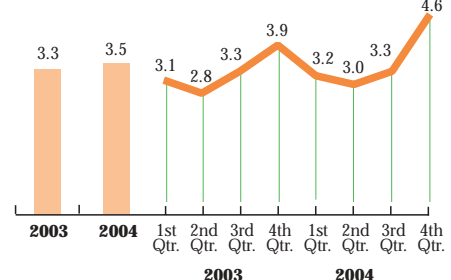
CONSTRUCTION



MARKET SERVICES



NON-MARKET SERVICES



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

Moderation in wages and sharp increase in taxes.

From an incomes point of view, wages grew by 6.1% nominal in the final quarter (6.2% in 2004 as a whole), a half-point lower than the figure for the year before. Average nominal wages per worker were up by 4.1%, one decimal less than in 2003. Unit labour cost, in turn, rose by 3.4%, one decimal less than the year before. The relative moderation in wages was largely compensated by the rise in mixed incomes and gross operating surplus which went up to 7.0% annual. Finally, taxes on production and imports were up 12.2%, one point higher than the year before.

Economic activity indicators: expansionist trend continues

Economic growth rate holds good at beginning of 2005...

At the beginning of 2005, the expansionist trend in the main indicators of economic activity continued to hold good, according to the little information yet available for the period so far this year. The upward profile for electrical power consumption, adjusted for number of working days and temperature, among other data, is a clear indication of the current state of affairs with a year-to-year increase of 6.0% in cycle-trend terms.

SUPPLY INDICATORS

Percentage change over same period year before

	2003	2004	2004				2005
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January
Industry							
Electricity consumption (1)	4.9	3.5	3.6	2.4	4.2	3.8	9.1
Industrial production index (2)	1.4	1.6	1.4	2.5	2.2	0.5	...
Confidence indicator for industry (3)	-0.9	-2.5	-3.0	-2.0	-2.7	-2.3	-1.0
Utilization of production capacity (4)	79.1	79.8	78.7	79.3	80.5	80.5	79.4
Imports of non-energy intermediate goods (5)	6.2	6.6	9.2	6.6	6.0	4.7	...
Construction							
Cement consumption	4.8	3.5	5.6	2.8	4.1	2.3	-0.2
Confidence indicator for construction (3)	10.3	13.6	6.3	8.0	16.0	24.0	17.0
Housing (new construction approvals)	21.4	8.0	8.0	9.2	14.9	0.5	...
Government tendering	-10.9	24.2	17.1	-9.4	65.6	37.8	...
Services							
Retail sales	5.7	5.5	6.6	5.6	4.4	5.5	...
Foreign tourists	-1.0	3.3	4.7	0.3	1.4	10.0	5.3
Tourist revenue inflows	3.7	1.0	4.0	-2.2	-0.2	4.5	...
Goods carried by rail (km-tonnes)	1.7	-2.5	6.4	6.2	-8.5	-17.2	...
Air passenger traffic	7.5	7.8	11.0	6.7	6.5	8.3	9.8
Motor vehicle diesel fuel consumption	7.5	7.3	7.8	6.8	9.0	5.7	...

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 Industry, Tourism and Commerce, Ministry of Economy and internal figures.

...thanks basically to drive in construction...

On the other hand, the performance of the industrial production index in December fell within the trend seen in recent months, showing a very static growth profile going only slightly above the 1% level. On the other hand, in construction the situation remains fairly expansionist, if we are to go by the trend in relative indicators, confirmed by the high levels of sector confidence indicators.

...and certain services.

In the area of services, information and communications technology was the most dynamic economic activity toward the end of 2004 with a growth trend in volume of business of around 7.5% year-to-year, according to the survey by the National Institute of Statistics (INE). The indices for the retail trade and transport also maintained a notable growth rate (6.5% and 4.5% respectively) but with a tendency for the latter to slow down. Company services and tourism were the economic activities maintaining the most moderate growth rate (between 2% and 3%).

Record passenger car registrations...

On the demand side, some indicators continued to show solid strength. This was the case, for example, with passenger car registrations which were up to nearly 104,900 units in January (the highest figure ever in that month), a year-to-year growth of 6.1%. Other indicators, such as those for production and importation of consumer durables, reflect a much more modest trend.

DEMAND INDICATORS

Percentage change over same period year before

	2003	2004	2004				2005
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January
Consumption							
Production of consumer goods (*)	0.2	-0.2	-0.1	-0.7	0.1	-0.3	...
Imports of consumer goods (**)	10.9	13.4	19.7	17.2	9.7	8.3	...
Car registrations	3.8	9.8	21.0	9.6	5.3	4.6	6.1
Credit for consumer durables	1.6	4.3	3.7	4.8	4.4	...	-
Consumer confidence index (***)	-13.7	-10.8	-11.7	-9.3	-11.7	-10.3	-9.0
Investment							
Capital goods production (*)	0.6	2.0	1.3	3.7	4.7	-1.1	...
Imports of capital goods (**)	14.8	14.9	5.2	4.3	19.2	29.0	...
Commercial vehicle registrations	13.5	11.7	14.9	13.1	9.4	9.4	15.1
Foreign trade (**)							
Non-energy imports	8.8	9.8	12.1	9.5	8.9	9.0	...
Exports	6.9	5.2	6.3	3.7	6.7	4.3	...

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.

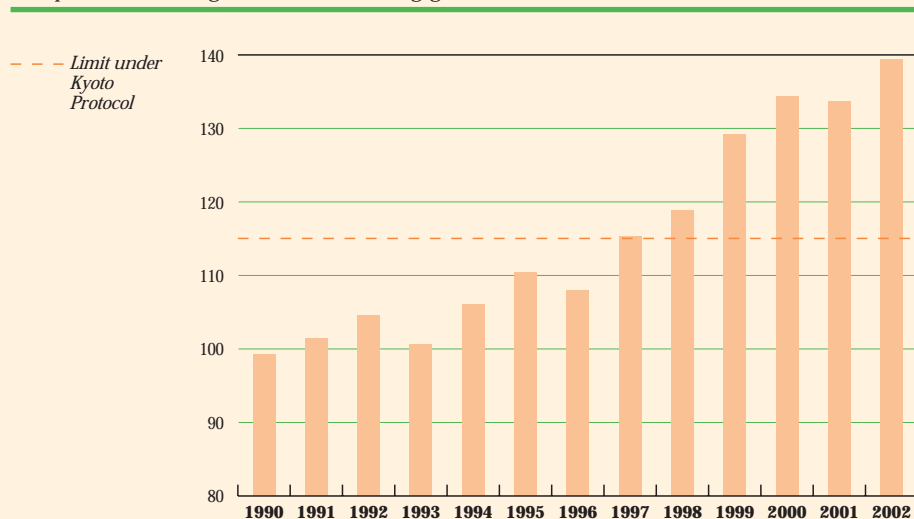
...and of commercial vehicles in January.

Investment in capital goods also continued to show much strength, if we are to go by the trend in domestic production and imports of such goods. Along the same lines, registrations of commercial vehicles were up by 15.1% year-to-year in January, which also beat the all-time absolute record for that month by nearly 30,000 units.

KYOTO PROTOCOL AND SPAIN'S ECONOMY

In 1992, the United Nations Framework Convention on Climate Change laid out the need for reducing the gas emissions which cause a greenhouse effect (GE), a mandate which gave rise to the Protocol signed in Kyoto in 1997. This Protocol established the objective of reducing GE emissions in the period 2008-2012 by 5% in terms of 1990 levels. The Protocol made a distinction between committed countries, those which should be subject to emission limits, and non-committed countries. The first group is made up basically of the industrialized countries and those economies in transition (Russia, the Baltic states, various countries of central and eastern Europe, etc.) while the second group was made up of those countries in a stage of development, including China and India. Difficulties of ratification, particularly the refusal of the United States to support it, delayed the coming into force of the Protocol until February 16, 2005, although these difficulties led the European Union (EU) to a decision to apply it unilaterally in 2003.

SPAIN'S ECONOMY FAR FROM MEETING ITS KYOTO COMMITMENTS
Composite index of gas emissions causing greenhouse effect (*)



NOTA: (*) The index is calculated on emissions equivalent to CO₂ based on average emissions of six gases weighted in terms of their pollution potential. For three of these gases (carbon dioxide, CO₂, methane, CH₄, and nitrous oxide, N₂O), the base year is 1990 (= 100), whereas for the fluoride gases (hydrofluorocarbons, HFCs, perfluorocarbons, PFCs, and sulphur hexafluoride, SF₆) the base year is 1995 (= 100).

SOURCE: Eurostat, Ministry of Environment and internal figures.

Spain's economy thus is subject to the obligatory framework arising from the EU regulations which the government has set out in various national regulations, the main one being the National Plan for Assignment of Emission Rights, which was finally adopted last January. In essence, the Spanish regulations set out the application of the Protocol by distinguishing two types of plant, those described as combustion installations which generate approximately 40% of GE emissions and other production activities (responsible for 60% of emissions). Combustion installations consist of the electrical power sector, refineries, coke ovens, cement, iron and steel mills, paper, lime, glass, floor tiles, roofing tiles and bricks, among others. Other production activities also include the transportation sector, services, domestic consumption, etc.

Starting out from these distinctions, for each combustion installation the government has assigned a specific amount of emission rights, each emission right being equivalent to one metric tonne of CO₂. Those companies that go over the established emission limit may acquire emission rights from those companies with excess rights and vice versa. In overall terms, the National Plan affects 957 industrial installations which may emit 175 million metric tonnes of CO₂ between 2005 and 2007.

The mechanism for applying the Kyoto Protocol makes it possible to raise some questions about the foreseeable effect on Spain's economy. By assigning national GE emission limits under the Protocol, the EU set an objective for Spain of an increase of 15% of such emissions between 1990 and 2008-2012. Although this limit apparently provides Spain's economy with sufficient margin to prevent the control of emissions having an effect on growth, it is true that, measured in terms of per capita emissions, Spain's efforts were higher than those demanded of Germany, France or the United Kingdom. The high level of demand made accounts for the fact that in 2002 the level of GE emissions went 40% above the 1990 levels. In any case, Spain's strategy, which first foresees the stabilization of emissions in the 2005-2007 period and their reduction in order to meet the objective in the following five-year period 2008-2012, is properly oriented and should make it possible to meet the Protocol requirements.

Domestic tourism rescues tourist season

2004 tourist balance benefits from drive in domestic demand.

The tourist balance for 2004 was somewhat more positive than at first expected mainly due to the drive coming in the last four months of the year. The excellent performance in domestic tourism was one of the outstanding features of the year, in contrast to the mediocre results in foreign tourism, marked by the drop in total overnight stays at national hotels and the moderate nominal increase in tourist revenues reflected in the balance of payments (equivalent to an effective decrease in real terms).

Increase in employment confirms sector growth.

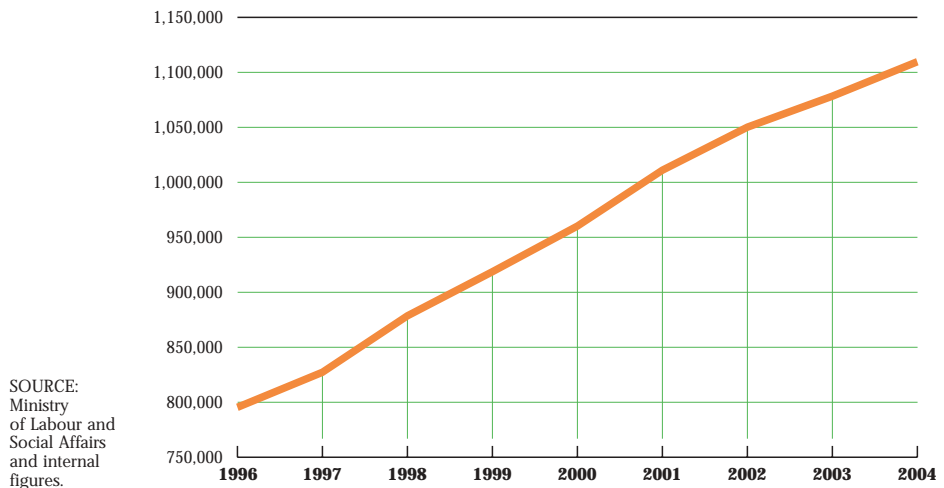
In addition, there was an up-trend in supply in response to the overall demand in the sector. The number of workers registered with Social Security connected with tourism rose to nearly 1,669,000 on annual average, 2.9% more than in the year before, according to the Secretary-General for Tourism. This figure includes both hotel and restaurant personnel and travel agencies, means of transportation and various services, mainly of a recreational, cultural and personal nature. If we look only at the hotel, restaurant and travel agency sub-sector, the average for 2004 as a whole stood at around 1,110,000 persons registered with Social Security, also 2.9% higher than the figure for the year before.

Hotel space continues to grow and reaches all-time highs.

The strength of the labour market cannot be separated from the continuing increase in space available in the various segments of paid lodging, as shown by various surveys carried out by the National Institute of Statistics. As a result, the number of hotel rooms available grew by 4.6% in 2004, with an average of close to 1,174,000 during the year and a high of 1,444,225 in August. In the case of non-hotel accommodation (which includes camp-grounds, tourist apartments and rural lodgings) the average supply rose by 3.9% compared with 2003.

TOURIST SECTOR CONTINUES TO CREATE JOBS

Persons registered with Social Security in hotel/restaurant trade and travel agencies, as annual average



Containment of hotel prices due to drop in overnight stays and increased competition.

Growth of available hotel space, on top of the drop in number of overnight stays, favoured containment of prices in 2004. For the fourth consecutive year, the hotel price index (HPI) showed a more moderate year-to-year growth rate in December down to 1.2% as against 2.9% the year before. On the other hand, the consumer price index (CPI) related to tourist activities and hotel/restaurant trade rose by 4.2%, six decimals more than in 2003. The most inflationary component in this heading was that for tourist services (an increase of 4.3% in 2004 as against a drop of 0.2% the year before) due mainly to the impact of the increase in fuel costs on prices of organized tours. On the other hand, the change in the CPI under the heading for restaurants, bars and cafeterias remained practically stable (4.2%, only one decimal more than in 2003).

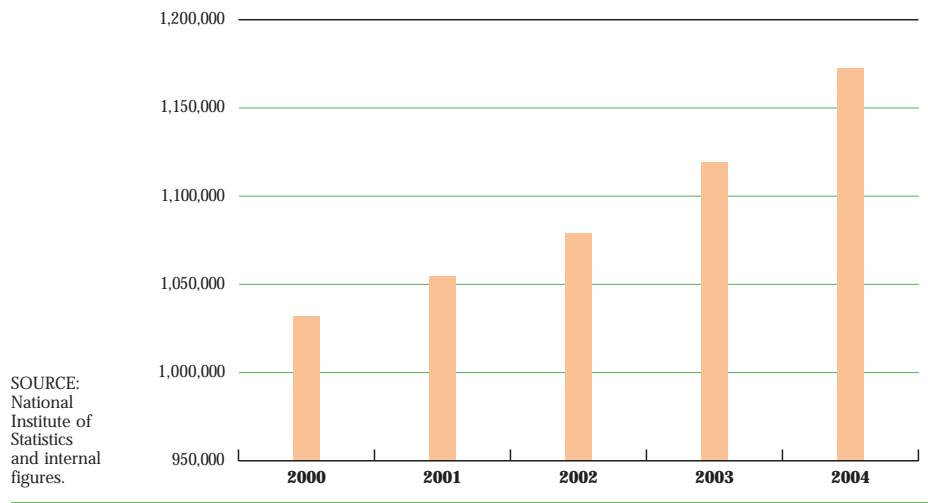
Increase in number of foreign visitors...

With regard to foreign demand, the number of foreign tourists (more than 53.5 million) rose by 3.4% thus setting a new all-time record although this rise was not reflected in total overnight stays of non-residents in national hotels, which was down by 1.3%. The same trend was noted in tourist apartments and camp grounds with a reduction in the number of overnight stays of foreign tourists of the order of 9.2% and 1.9% respectively. On the other hand, there was a considerable increase in overnight stays at rural lodgings (22.7%).

...but tourist sector revenue inflows slow due to lower average spending per tourist.

The increase in the flow of visitors in 2004 was not reflected in a proportionate rise in revenue inflows generated due to lower average spending per tourist. From January to November, revenues reflected in the balance of payments grew by a modest 1.0% as against 3.8% recorded during the same period the year before. The emerging market for low-cost airline companies could partly be behind this trend as it is often associated with a new type of tourist, generally young, with lower purchasing power and making an average stay of no longer than three days. This increases the number of visitors but has a lesser impact on the balance of revenues for the sector.

INCREASE IN TOTAL HOTEL SPACE AVAILABLE
Space available in hotels and hostelryes, as annual average



Tourism from UK easing off while German visitors up slightly...

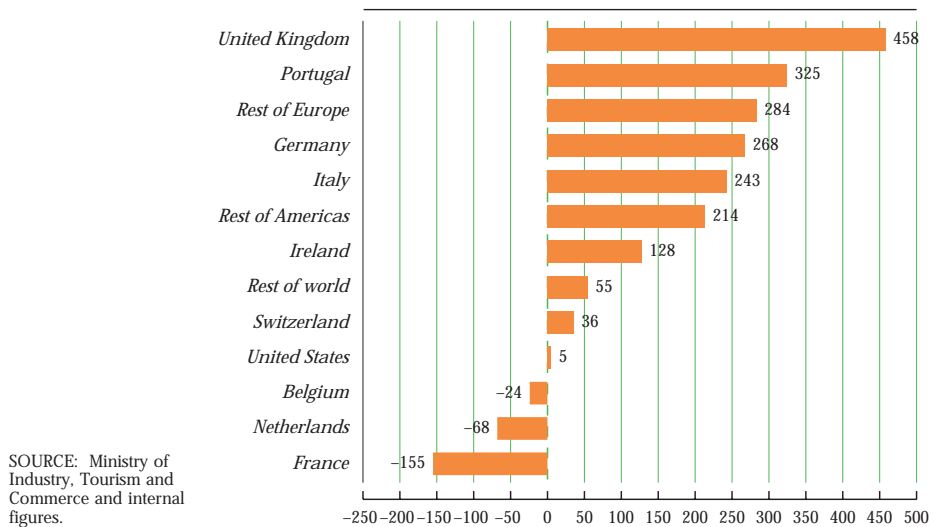
The performance of the Spanish tourist sector in 2004 was conditioned by the economic stagnation to be seen in some of Spain's main source markets. In this respect, we should mention the drop in the number of tourists coming from France and Belgium (2.0% and 1.3% respectively) and the slight recovery of German tourism, although this is still far from the high levels reached at the end of the Nineties. In addition, the increase from the British market (2.9%), which continues to be Spain's main source of tourists, was relatively down compared with the rise seen in previous years.

...with strong growth coming from Ireland, Portugal and Italy.

The weak state of tourism from some of the countries mentioned was partly compensated by the sharp increase in the Irish market (9.4%), although this was more moderate than in earlier years, and by the demand from countries like Portugal and Italy which, in contrast to what happened in 2003, recovered strongly last year. In the particular case of Portugal, the scarcity of hotel space and price rises as a result of the holding of the Europe Cup soccer match may explain the increased flow of tourism to Spain from the neighbouring country. We should also mention the notable increase in tourism from the American continent (excluding the United States) which was fostered by the economic recovery in some countries of the southern hemisphere, not forgetting the close ties of all kinds which exist with those countries (with migration at the top of the list in recent times).

UNITED KINGDOM AND PORTUGAL BIGGEST TOURIST SOURCE MARKETS IN 2004

Increase or decrease in number of tourists in 2004 compared with 2003 (in thousands)



Drop in rental housing market while number of tourists with own holiday home on rise.

The hotel continued to be the most usual type of lodging for tourists but it lost 8 decimals compared with the year before. Some 63.9% of tourists used this type of lodging as against 21.4% who had access to free accommodation. The sharp increase in the latter type (including visits to family and friends) could be related to the heavy investment in holiday homes carried out by foreigners in recent years. On the other hand, the market for rental housing continued to drop.

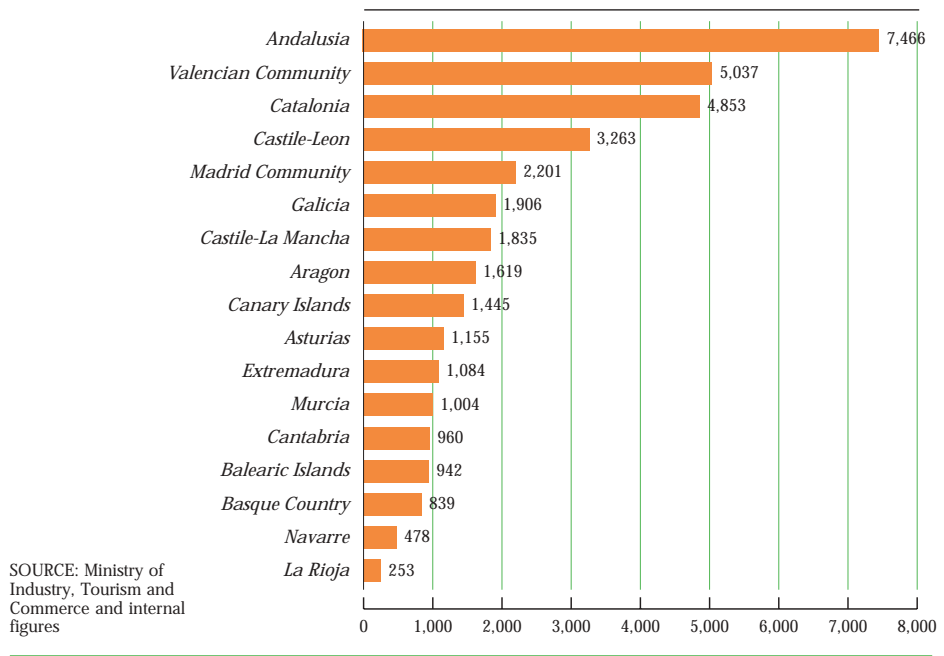
Catalonia heads list of preferred destinations for foreign tourists.

The behaviour of foreign tourism in 2004 was quite varied in terms of destination. Following a sharp increase (9.2%), Catalonia repeated its lead with nearly 13 million tourists. On the other hand, in the Canary Islands (the second destination in terms of size) the number of tourists dropped for the third year in a row, this time by 3.6%. On the other hand, the Balearic Islands broke with the chain of decreases noted in the previous four years to show a rise of 2.9%, mainly thanks to the recovery of German tourism.

Foreign travel by Spanish residents up nearly 16%, higher than rise in domestic tourism (4%).

With regard to tourism in the case of Spanish residents, from January to September the number of trips made within Spain (which made up 90.7% of all tourist trips by Spaniards, not counting trips to holiday homes) rose by 3.6% compared with the same period the year before, a rate similar to that for 2003, according to figures supplied by the Institute of Tourist Studies. This increase was much lower than that for travel abroad which showed a sharp increase (15.7% compared with the year before).

ANDALUSIA PREFERRED TOURIST DESTINATION FOR SPANIARDS
National tourist destinations of Spaniards (in thousand trips). January-September 2004



Andalusia, Valencian Community and Catalonia take up half total domestic tourist demand.

In order of importance, the main destinations of domestic tourism by Spaniards, excluding trips to holiday homes, were Andalusia, Valencian Community and Catalonia. These autonomous communities took up nearly 48% of tourist trips (including those made by residents of the respective autonomous community). Those destinations showing biggest growth were Aragon, the Basque Country, Andalusia, Cantabria, Valencian Community and Catalonia. On the other hand, La Rioja and the Balearic Islands showed the biggest decreases.

TOURISM INDICATORS

Percentage annual change unless otherwise indicated

	1999	2000	2001	2002	2003	2004
Visitor entries						
Tourists	7.8	2.4	4.6	4.5	-1.0	3.4
Day-trippers	3.8	5.1	-3.7	8.3	8.7	6.6
Total	6.3	3.3	1.6	5.7	2.4	4.6
Origin of foreign tourists (% of total)						
Germany	24.8	23.3	21.5	19.5	18.8	18.7
United Kingdom	26.0	27.6	28.0	28.1	30.7	30.6
France	12.3	11.9	13.4	15.5	14.7	14.0
Rest of Europe	30.1	30.1	30.6	31.0	30.3	30.1
Rest of world	6.8	7.1	6.5	5.8	5.5	6.6
Hotel establishments						
Occupancy level (as % of available beds)	60.5	57.0	58.1	55.3	54.5	53.6
Overnight stays						
<i>Spanish residents</i>	<i>4.6</i>	<i>2.3</i>	<i>2.3</i>	<i>1.7</i>	<i>5.3</i>	<i>9.4</i>
<i>Foreigners</i>	<i>21.7</i>	<i>-3.5</i>	<i>-0.2</i>	<i>-5.3</i>	<i>0.8</i>	<i>-1.3</i>
Total	15.0	-1.5	0.7	-2.7	2.5	3.0
Overnight stays in camp-grounds						
Spanish residents	9.2	10.4	6.3	-3.6	6.0	-0.6
Foreigners	26.6	7.0	12.6	9.3	-2.0	-1.9
Total	16.3	8.9	9.1	2.2	2.3	-1.2
Overnight stays in tourist flats						
Spanish residents	...	...	-0.9	3.7	9.0	8.3
Foreigners	...	...	-4.7	-6.9	-4.7	-9.2
Total	...	...	-4.2	-5.5	-2.7	-6.4
Tourism balance of payments (*)						
Inflows	13.5	11.0	8.5	-2.9	3.7	1.0
Payments	15.0	15.5	11.6	5.4	4.2	21.0
Balance	13.2	10.0	7.9	-4.7	3.6	-3.8
Consumer price index (**)						
Restaurants and cafeterias	3.5	3.9	4.7	5.8	4.1	4.2
Hotels and other lodgings	6.5	10.6	9.9	4.8	3.7	3.3
Tourist services	7.2	12.3	7.1	7.3	-0.2	4.3
Total tourism and hotel trade	4.0	4.9	5.2	5.9	3.6	4.2
Hotel price index (**)						
Normal rates	...	...	4.4	5.2	3.4	2.6
Tour operator and travel agency rates	...	...	5.8	5.1	3.3	0.3
Total hotel prices	...	7.4	5.5	5.2	2.9	1.2

NOTES: (*) Refers to January-November 2004 period.

(**) Change over year before.

SOURCE: National Institute of Statistics, Bank of Spain, Ministry of Industry, Tourism and Commerce and internal figures.

LABOUR MARKET

Sound results in labour market

Employment increases growth rate to 2.7% in final quarter of 2004...

Spain's economy created 82,900 net new jobs in the fourth quarter of 2004, according to the Labour Force Survey. This increase, which was twice that for the same period the year before, brought the employment rate up to 2.7% year-to-year, which confirmed the strength of the labour market in the second half.

NEARLY HALF-MILLION MORE JOBS IN ONE YEAR

Estimated employment



...with creation of 461,300 new jobs.

The good performance in employment made it possible to close the year 2004 with 461,300 new jobs, a figure somewhat lower than in 2003. On annual average, growth of employment stood at 2.5%, two decimals below the year before.

Drive in employment at year-end due to construction and, to lesser extent, to industry.

According to the Labour Force Survey, the increased strength of the labour market in the final quarter was especially notable in industry and construction although with substantial differences between these two sectors. In the former case, there was a turnaround in the process of job losses observed in the last six quarters. In the second case, the growth rate jumped above 5%, which was contrary to what had been forecast. In

services, the increase in employment held at high levels (3.3%), relatively close to the figures for previous quarters. Finally, agriculture continued to follow its long-term trend to a loss of jobs.

ESTIMATED EMPLOYEMENT
Fourth quarter 2004

	No. of employees (thousands)	Quarterly change		Annual change		Share
		Absolute	%	Absolute	%	%
By sector						
Agriculture	909.9	14.5	1.6	-41.9	-4.4	5.3
Non-farm	16,413.3	68.3	0.4	503.1	3.2	94.7
<i>Industry</i>	<i>3,124.0</i>	<i>19.5</i>	<i>0.6</i>	<i>48.6</i>	<i>1.6</i>	<i>18.0</i>
<i>Construction</i>	<i>2,094.1</i>	<i>21.9</i>	<i>1.1</i>	<i>102.2</i>	<i>5.1</i>	<i>12.1</i>
<i>Services</i>	<i>11,195.2</i>	<i>27.0</i>	<i>0.2</i>	<i>352.4</i>	<i>3.3</i>	<i>64.6</i>
By type of employer						
Private sector	14,444.9	48.2	0.3	330.2	2.3	83.4
Public sector	2,878.4	34.7	1.2	131.1	4.8	16.6
By work situation						
Wage-earners	14,161.3	84.7	0.6	408.6	3.0	81.7
<i>Permanent contract</i>	<i>9,788.1</i>	<i>104.1</i>	<i>1.1</i>	<i>254.4</i>	<i>2.7</i>	<i>56.5</i>
<i>Temporary contract</i>	<i>4,373.2</i>	<i>-19.4</i>	<i>-0.4</i>	<i>154.2</i>	<i>3.7</i>	<i>25.2</i>
Non-wage-earners	3,144.8	-0.6	-0.0	53.1	1.7	18.2
<i>Entrepreneurs with employees</i>	<i>933.6</i>	<i>-8.2</i>	<i>-0.9</i>	<i>1.4</i>	<i>0.2</i>	<i>5.4</i>
<i>Entrepreneurs without employees</i>	<i>1,971.1</i>	<i>25.2</i>	<i>1.3</i>	<i>72.9</i>	<i>3.8</i>	<i>11.4</i>
<i>Family help</i>	<i>240.2</i>	<i>-17.5</i>	<i>-6.8</i>	<i>-21.1</i>	<i>-8.1</i>	<i>1.4</i>
Other	17.3	-1.2	-6.6	-0.4	-2.1	0.1
By time worked						
Full-time	15,844.8	70.2	0.4	358.3	2.3	91.5
Part-time	1,478.5	12.7	0.9	103.1	7.5	8.5
By sex						
Males	10,477.0	9.5	0.1	153.8	1.5	60.5
Females	6,846.4	73.4	1.1	307.5	4.7	39.5
TOTAL	17,323.3	82.9	0.5	461.3	2.7	100.0

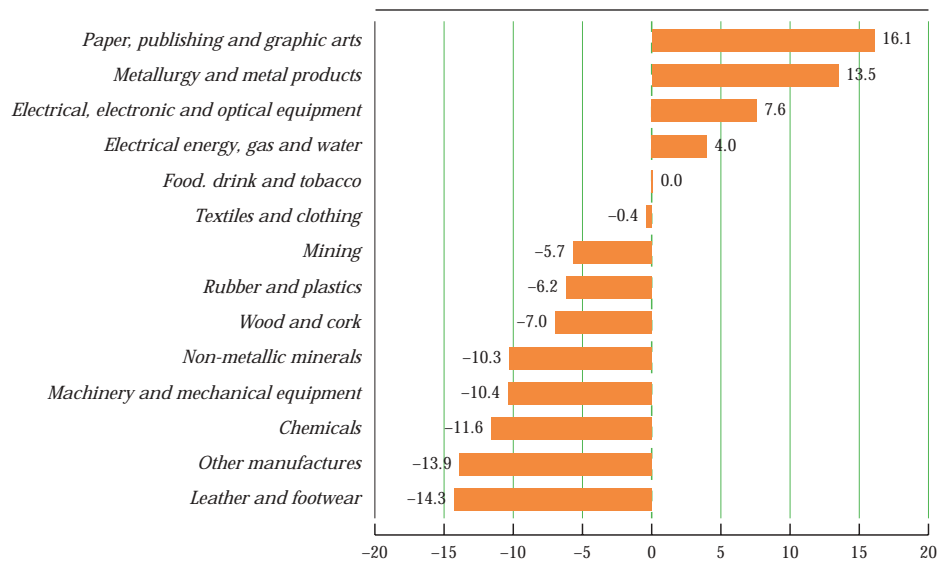
SOURCE: National Institute of Statistics and internal figures.

Boost in industry at end of year fails to avoid poor sector result for year as a whole.

The surprising recovery of employment in industry in the fourth quarter, however, was not enough to avoid a loss of jobs for the year as a whole. On annual average, employment in industry was down 0.8% which meant loss of 25,300 jobs on top of the average of 30,300 jobs lost in 2003. This readjustment in industry, partly a result of the process of relocation and foreign competition, showed up to varying degree in most of the production fabric of the country. What especially stood out was the poor result in leather and footwear along with other industrial manufactures. On the other hand, metallurgy and metal products, electrical machine building, transportation equipment and paper and graphic arts managed to improve their average employment levels.

UNEVEN TREND BY BRANCH OF INDUSTRY

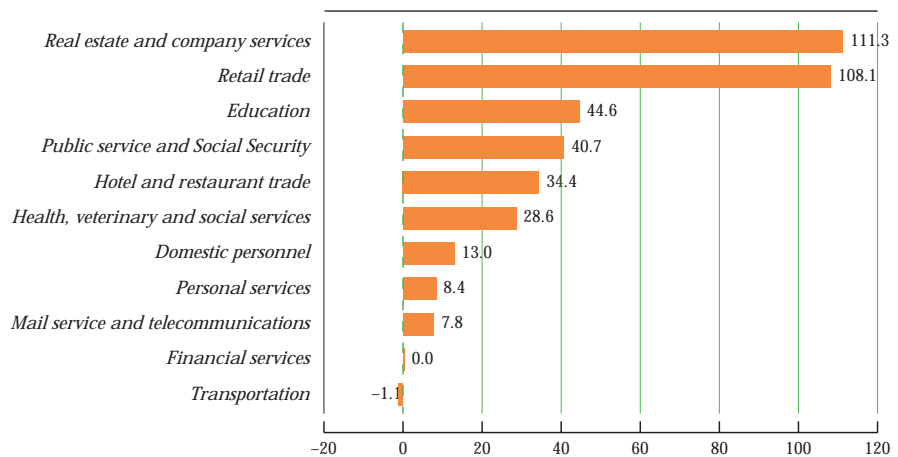
Average change in employment by branch of industry in 2004, in thousands



SOURCE: National Institute of Statistics and internal figures.

REAL ESTATE AND RETAIL TRADE CREATE MOST TERTIARY EMPLOYMENT

Average change in employment by services branch in 2004, in thousands



SOURCE: National Institute of Statistics and internal figures.

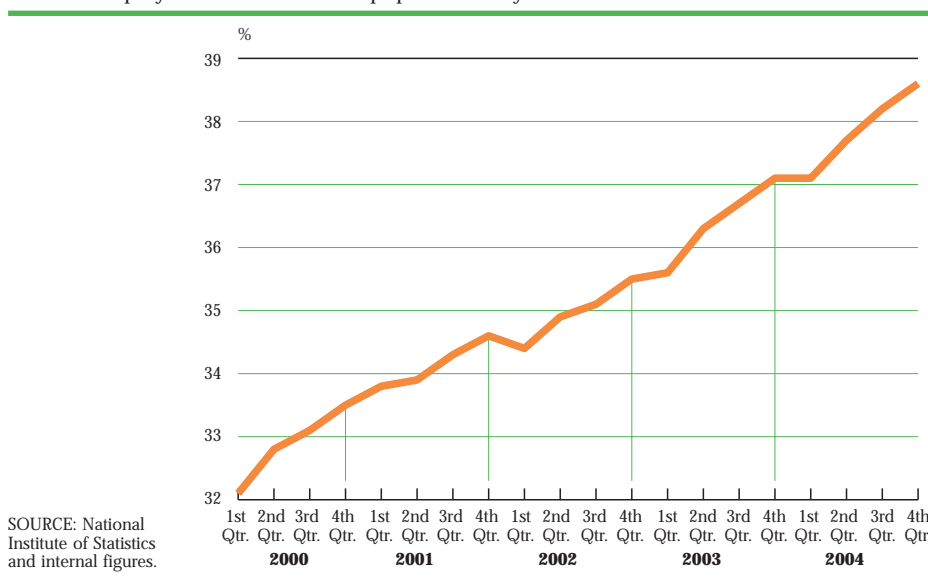
Services create nearly 400,000 new jobs in 2004.

In the tertiary sector, also in annual average terms, the biggest growth showed up in real estate activities and company services, education, retail trade and the public service, with values equal to or higher than 3.7% as sector average. This growth meant the creation of 395,600 net new jobs of which 77% were concentrated in these branches of activity. At the other end of the scale, the transportation sector was the only one to show a

drop in average level of employment in 2004 while the financial sector maintained levels with regard to the year before.

RISE IN FEMALE EMPLOYMENT RATE

Females employed over total female population 16 years or older



Females take up greater part of new employment.

Job creation in 2004 was centred on the female group seeing that for each new male employed there were practically three females who found jobs. This new employment was concentrated in the higher age segments in contrast to what happened among young people who, for demographic reasons, again lost weight in total employment. In fact youth employment was down by 1.6% on annual average in 2004, a drop which came on top of the decrease in previous years.

85% of new employment is for wage employment while self-employed make up 18% of total.

New employment was largely created among wage employees, with specifically 84.7% of new workers coming under this category of the labour market. On the other hand, non-wage employment showed less strength (2.1% on annual average) while the total figure for those self-employed reached 3,144,500, that is to say, some 18.4% of total employment.

Public service employment up strongly in 2004.

Among those with regular jobs, those employed in the public service rose by 3.4% on average in 2004, one point more than wage-earners in the private sector, thanks to the increase in central government and local government employment in the final quarter. As a result, new public service employment (91,400 persons on average in 2004) represented more than a quarter of new wage employment and 21.7% of all jobs created. As a result, the proportion of personnel in the public service and government-run companies over total employment stood at 16.6% in the fourth quarter of 2004, three decimals more than in the same period the year before.

Temporary hiring contracts up more than permanent jobs but these account for most employment, except in construction.

Part-time jobs now main way for females to join labour market.

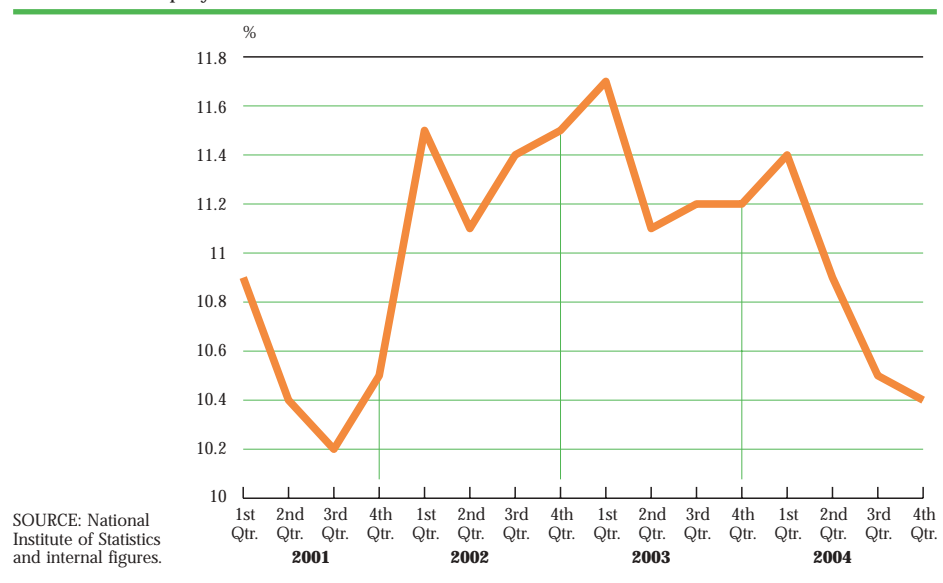
Notable decrease in unemployment in 2004.

Wage employment grew more sharply in the group covered by temporary contracts than among those obtaining permanent jobs. As a result, the temporary employment rate rose to 30.6% of the total number of wage-employees. The differences by sector, however, were quite sharp with construction in first place with a temporary employment rate of 55.8% in the fourth quarter of 2004, much higher than that recorded in services and industry at 27.8% and 22.0% respectively.

New jobs created in 2004 were mainly for full-time work, specifically 71.2% of the total on annual average. Nevertheless, the trend to an increase in recourse to part-time work already noted last year became consolidated although it continued to represent a relatively low proportion of employment (8.5%). This hiring formula is more notable in the female population, a segment in which it represents 17.3% of total employment as against 2.8% in the case of males.

Estimated unemployment (2,007,100 persons in the fourth quarter) fell notably compared with the same period in 2004, in spite of the fact that the labour force continued to grow at a rate higher than that for those 16 years of age and up. The increase in the labour force in 2004 was 341,300 persons, practically twice the increase in those 16 years of age and older (188,600). The propensity to actively seek work is especially high among females seeing that new persons entering the labour force (253,300) was notably higher than the increase in population (100,600). In the male segment, on the other hand, the difference was practically nil with 87,900 new males joining the labour force as against a population increase of 88,200.

UNEMPLOYMENT RATE AGAIN REDUCED
Estimated unemployment over labour force



ESTIMATED UNEMPLOYMENT
Fourth quarter 2004

	No. of unemployed	Quarterly change		Annual change		Share	Unemployment rate
		Absolute	%	Absolute	%	%	% of labour force
By sex							
Males	856.1	-38.0	-4.3	-66.0	-7.2	42.7	7.6
Females	1,150.9	13.7	1.2	-54.0	-4.5	57.3	14.4
By age							
Under 25 years	454.0	-30.1	-6.2	-50.7	-10.0	22.6	21.3
Other	1,553.1	5.9	0.4	-69.2	-4.3	77.4	9.0
By personal situation							
Long-term unemployment	257.0	5.5	2.2	-16.3	-6.0	12.8	-
Seeking first job	278.4	-37.7	-11.9	-58.0	-17.2	13.9	-
Other	1,471.7	8.0	0.5	-45.6	-3.0	73.3	-
TOTAL	2,007.1	-24.2	-1.2	-120.0	-5.6	100.0	10.4

SOURCE: National Institute of Statistics and internal figures.

LABOUR FORCE, EMPLOYMENT AND UNEMPLOYMENT BY AUTONOMOUS COMMUNITY
Fourth quarter 2004

	Labour force			Employed			Unemployed			Unemployment rate %
	Total (1,000s)	Annual change	% annual change	Total (1,000s)	Annual change	% annual change	Total (1,000s)	Annual change	% annual change	
Andalusia	3,273.8	66.5	2.1	2,750.3	135.2	5.2	523.5	-68.7	-11.6	16.0
Aragon	529.3	7.9	1.5	501.4	12.4	2.5	27.9	-4.4	-13.6	5.3
Asturias	427.9	-13.4	-3.0	383.5	-13.5	-3.4	44.4	0.1	0.2	10.4
Balearic Islands	431.0	6.9	1.6	398.4	14.0	3.6	32.6	-7.1	-18.0	7.6
Canary Islands	893.2	-0.3	-0.0	799.3	14.0	1.8	93.9	-14.2	-13.1	10.5
Cantabria	244.2	-0.8	-0.3	216.7	-3.0	-1.4	27.5	2.2	8.7	11.3
Castile-La Mancha	1,083.6	26.8	2.5	971.6	30.1	3.2	112.0	-3.3	-2.9	10.3
Castile-Leon	759.6	22.2	3.0	684.6	18.0	2.7	75.0	4.2	6.0	9.9
Catalonia	3,181.7	9.6	0.3	2,900.6	10.9	0.4	281.1	-1.3	-0.5	8.8
Valencian Community	2,086.9	60.3	3.0	1,884.1	64.6	3.6	202.8	-4.3	-2.1	9.7
Extremadura	469.3	16.0	3.5	387.1	11.4	3.0	82.2	4.7	6.0	17.5
Galicia	1,305.5	29.0	2.3	1,142.2	37.4	3.4	163.3	-8.4	-4.9	12.5
Madrid Community	2,640.2	85.8	3.4	2,465.1	89.5	3.8	175.1	-3.8	-2.1	6.6
Murcia	548.1	10.2	1.9	494.9	13.4	2.8	53.2	-3.2	-5.7	9.7
Navarre	262.7	4.9	1.9	250.4	7.8	3.2	12.3	-2.9	-19.1	4.7
Basque Country	1,008.2	4.2	0.4	918.9	8.5	0.9	89.3	-4.3	-4.6	8.9
La Rioja	128.5	8.3	6.9	122.6	9.8	8.7	5.9	-1.6	-	4.6
Ceuta and Melilla	56.8	-2.7	-4.5	51.7	0.8	1.8	5.1	-3.6	-	9.0
TOTAL	19,330.4	341.2	1.8	17,323.3	461.3	2.7	2,007.1	-120.0	-5.6	10.4

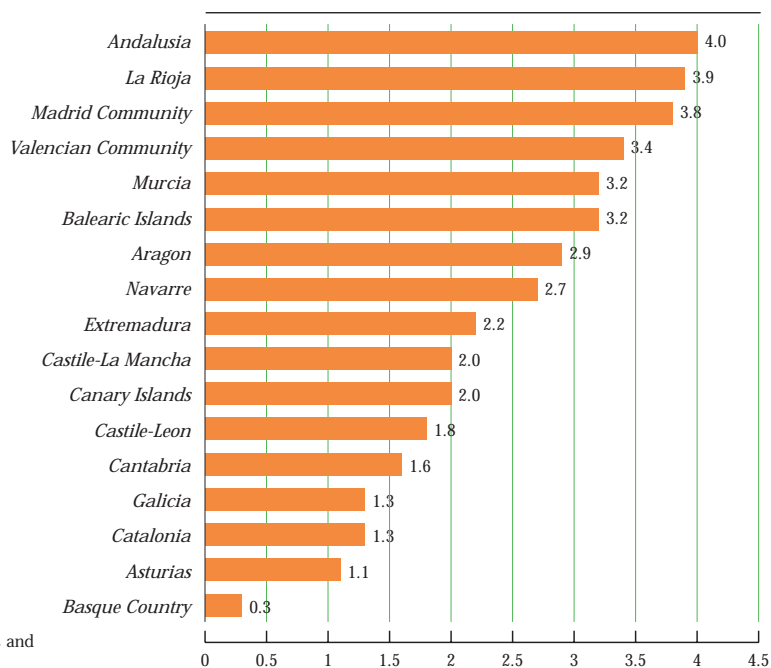
SOURCE: National Institute of Statistics and internal figures.

Female unemployment rate moves up to 14.4% while male rate stands at 7.6%.

The unemployment rate stood at 10.4%, eight decimals below the same quarter the year before, while maintaining sharp differences between indices for males and females at 7.6% and 14.4% respectively. The level of unemployment among those under 25 years of age, in turn, stood at 21.3%, some 1.6 points less than in the same quarter the year before.

ANDALUSIA, LA RIOJA AND MADRID COMMUNITY LEAD IN JOB CREATION

Average annual change in percentage of estimated employment



SOURCE: National Institute of Statistics and internal figures.

Number of households with all members unemployed stands at 3.2%.

The proportion of households in which all members were without jobs was well down at 3.2% of the total, three decimals less than in the same quarter of 2003. The situation of heads of family also showed some improvement (with the rate of unemployment dropping to 5.9%) as was the case of spouses and offspring of the reference person, although unemployment rates at 12.1% and 15.8% were higher. Long-term unemployment, in turn, affected 12.8% of those without jobs, a proportion the same as in the year before.

Andalusia, La Rioja and Madrid Community show highest employment growth in 2003.

From a geographical perspective, the situation shows notable differences among autonomous communities although we note a general growth of employment. The biggest annual average increases showed up in Andalusia, Madrid and La Rioja with figures close to 4%. Valencian Community, Murcia and the Balearic Islands stood around a half-point lower. At the opposite end of the scale, with rates of under 1.5% came Asturias, Catalonia and Galicia while the Basque Country brought up the rear with 0.3%.

Registered unemployment: moderate downward move continues in January

Registered unemployment up in January similar to last year.

The number of unemployed registered at offices of the Employment Institute (INEM) at the end of January stood at 1,723,449, an increase of 53,159 compared with the month before. This increase, which was somewhat higher than in the same month the year before and carried a substantial seasonal component, did not mean any substantial change in the moderate levels shown by the rate of decrease in unemployment in recent months.

Increase in registered unemployment concentrated in services but increase is lower than in 2004.

The increase in registered unemployment in January was concentrated in services but was somewhat lower than in the same month in 2004. On the other hand, the result for January in both industry and services was more unfavourable than in January the year before. Finally, we also note a more modest increase in those seeking their first job.

Hiring contracts handled at INEM down 7.6% in January.

In addition, hiring contracts handled at INEM showed an appreciable decrease in January, namely 7.6% compared with the same period one year earlier. This decrease was concentrated in temporary hiring contracts given that permanent job contracts (little more than 9.3% of the total) showed a respectable rise.

REGISTERED UNEMPLOYMENT BY SECTOR, SEX AND AGE January 2005

	No. of unemployed	Change over December 2004		Change over same period year before		% share
		Absolute	%	Absolute	%	
By sector						
Agriculture	40,703	3,303	8.8	-92	-0.2	2.4
Industry	254,189	1,075	0.4	-9,976	-3.8	14.7
Construction	197,269	-2,059	-1.0	418	0.2	11.4
Services	1,019,329	48,748	-5.0	-7,018	-0.7	59.1
First job	211,959	2,092	-1.0	-21,851	-9.3	12.3
By sex						
Males	708,605	12,975	1.9	-17,683	-2.4	41.1
Females	1,014,844	40,184	4.1	-20,836	-2.0	58.9
By age						
Under 25 years	245,340	12,977	5.6	-29,404	-10.7	14.2
All other ages	1,478,109	40,182	2.8	-9,115	-0.6	85.8
TOTAL	1,723,449	53,159	3.2	-38,519	-2.2	100

SOURCE: National Employment Institute and internal figures.

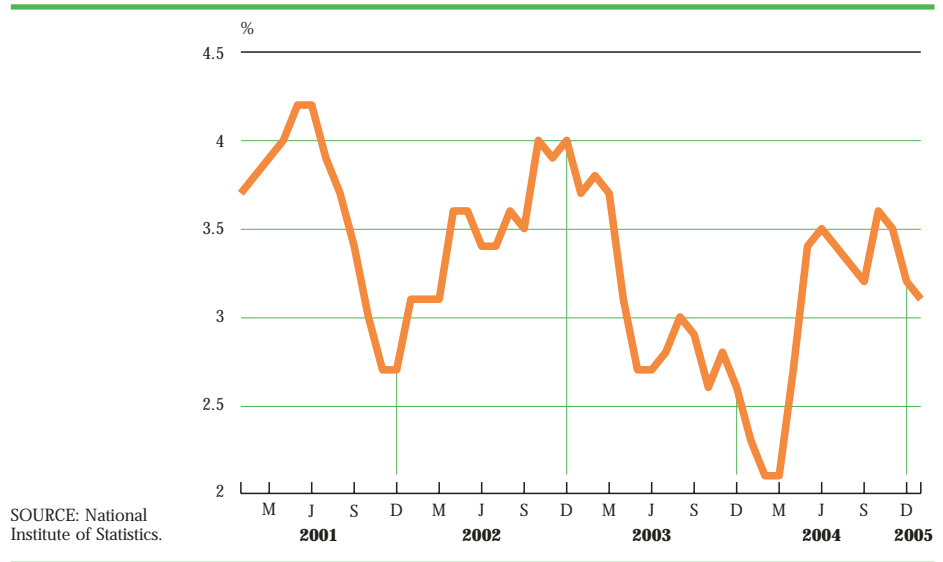
PRICES

Inflation rate down one decimal in January

Inflation rate drops to 3.1% in January.

Measured by the consumer price index (CPI), the inflation rate dropped by one decimal in January to stand at 3.1% year-to-year. The slight easing of the inflation rate in the first month of the year was due to prices of industrial goods, including energy, with the notable drop in these headings compensating for the worse performance in food. Services played a neutral role by maintaining a stable growth rate.

INFLATION RATE BEGINS YEAR ON GOOD FOOTING Year-to-year change in CPI



Non-energy industrial goods key factor in improvement...

The sharp easing of prices of non-energy industrial goods was especially notable in the area of clothing and home goods with the January sales had a greater impact than the year before. In addition, another relevant factor in this respect was the drop in prices of products coming under fierce competition, such as appliances (white goods and audiovisual products), optical and photographic equipment and especially data-processing equipment. As a result, prices of industrial goods rose by 1.0% year-to-year, two decimals less than in the month before.

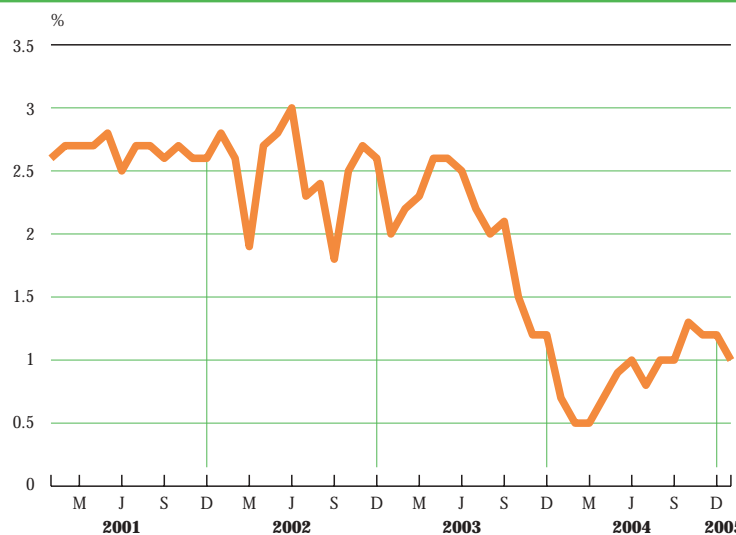
CONSUMER PRICE INDEX

	2004			2005		
	% monthly change	% change over Dec. 2003	% annual change	% monthly change	% change over Dec. 2004	% annual change
January	-0.7	-0.7	2.3	-0.8	-0.8	3.1
February	0.0	-0.7	2.1			
March	0.7	0.0	2.1			
April	1.4	1.4	2.7			
May	0.6	2.0	3.4			
June	0.2	2.2	3.5			
July	-0.8	1.4	3.4			
August	0.4	1.8	3.3			
September	0.2	2.0	3.2			
October	1.0	3.1	3.6			
November	0.2	3.3	3.5			
December	-0.1	3.2	3.2			

SOURCE: National Institute of Statistics.

NON-ENERGY INDUSTRIAL PRICES STABILIZE

Year-to-year change in CPI group



SOURCE: National Institute of Statistics and internal figures.

...along with drop in energy prices.

The second impetus behind the drop in the inflation rate in January, in keeping with forecasts, was the decrease in fuel prices. In fact, these prices grew more than two points less than in the month before, with an overall beneficial impact on energy prices, which had begun the year with a growth rate of 6.1%, one and a half points less than in December.

Foods move up but less sharply than expected.

The improvement in the inflation rate was not even sharper because of the increase in food products, both processed and fresh, particularly the latter. In fact, fresh food prices ended up growing at a rate of 2.3%, a half-point higher than the month before. This increase, however, still does not appear to reflect the increases in some markets as a result of the cold

snap in January. In the case of processed foods, the rise in prices was quite modest (one decimal) although the year-to-year growth rate still held at very high levels (4.2%) as a result of the sharp increases last year in bread, cooking oil and tobacco.

CONSUMER PRICE INDEX BY COMPONENT

January

	Indices (*)	% monthly change		% annual change	
		2004	2005	2004	2005
By type of spending					
Food and non-alcoholic beverages	115.5	0.5	0.7	4.0	3.2
Alcoholic beverages and tobacco	116.1	0.1	0.2	2.8	5.5
Clothing and footwear	105.2	-11.0	-11.4	0.9	1.7
Housing	111.1	0.7	0.5	2.8	4.0
Household equipment	106.4	-0.6	-0.4	1.6	2.0
Health	106.0	0.3	0.3	2.0	0.2
Transport	109.7	0.7	-0.1	0.2	5.1
Communications	93.2	-0.1	0.2	-1.6	-0.4
Recreation and culture	102.1	-1.4	-1.2	0.0	0.1
Education	116.9	0.3	0.4	4.5	4.3
Hotels, cafés and restaurants	116.4	0.6	0.4	4.1	4.0
Other	112.9	1.8	1.5	3.3	2.5
By group					
Processed foods	113.3	0.4	0.4	2.5	4.2
Unprocessed foods	120.0	0.6	1.0	6.5	2.3
Non-food products	109.2	-1.1	-1.4	1.8	2.9
Industrial goods	104.7	-2.6	-3.1	0.1	2.2
<i>Energy products</i>	<i>106.5</i>	<i>0.6</i>	<i>-0.8</i>	<i>-1.7</i>	<i>6.1</i>
<i>Fuels and oils</i>	<i>107.2</i>	<i>0.3</i>	<i>-1.7</i>	<i>-2.8</i>	<i>7.6</i>
<i>Industrial goods excluding energy products</i>	<i>104.0</i>	<i>-3.6</i>	<i>-3.8</i>	<i>0.7</i>	<i>1.0</i>
Services	114.4	0.6	0.6	3.6	3.8
Underlying inflation (**)	110.3	-1.0	-1.0	2.3	2.8
GENERAL INDEX	110.8	-0.7	-0.8	2.3	3.1

NOTES: (*) Base 2001 = 100.

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

SOURCE: National Institute of Statistics.

Inflation in services, stable at 3.8%, showing downward resistance.

Finally, the downward resistance of prices in services has been confirmed and in January these continued to go up by the 3.8% year-to-year already noted in the two previous months. Markets which in some cases offer little competition, segmented markets in other cases, the rigidity of supply and increases in certain public service charges prevent any moderation in this CPI component.

PRICES FOR SERVICES SHOW DOWNWARD RESISTANCE
Year-to-year change in services group in CPI



Moderately favourable prospects for CPI in 2005 despite possible short-term rise.

The improvement in the CPI in January could continue in coming months despite the positive inflow of energy products if the strength of the euro continues and oil prices hold stable or move down. In addition, both non-energy industrial goods and services should help to moderate the general index, particularly the latter, given their high growth rates. Over the short term, fresh foods could bring problems to the general index if they should end up reflecting the effects of the period of intense cold.

Pressures on wholesale prices

Energy moderating producer prices and helping to balance out sharp rise in wholesale prices of consumer goods.

Producer prices began 2005 in a situation of slight moderation such as that at the end of 2004, thanks to the containment of energy prices. In spite of this, the growth rate stood at a high 4.8% year-to-year. This moderation was not greater because of the strong drive in consumer goods prices which showed a rate increase to 3.2%, four decimals above the previous month, probably reflecting the cost increases in the entire year before.

Import prices clearly dropping except for intermediate goods.

Import prices ended the year 2004 with an average increase of 2.5% mainly attributable to intermediate goods, especially energy products. The average cost per tonne of imported oil rose by 15% in euros in 2004 (26.9% in dollars) while non-energy products were up by 3.1% in the case of industry and 8.4% for agricultural products. On the other hand, 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 manufacturing countries.

GDP deflator up 4.4% boosted by construction and public consumption.

The deflator for the gross domestic product, in turn, rose to 4.4%, four decimals above the year before. The strength of prices in construction (7.9%) was decisive in this matter as well as the bigger increase in prices borne by the public sector which were up by 4.7%. On the other hand, the consumer deflator for households eased down by one decimal to 3.0%.

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	4.1
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	4.4
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	4.5
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	1.5	-1.1	-9.2	6.6	4.7
December	...	5.0	2.8	1.6	6.2	10.6	...	...	...	...	-
2005											
January	...	4.8	3.2	1.7	6.1	...	...	...	...	...	-

NOTES: (*) Gross figures corrected.

SOURCE: National Institute of Statistics, Ministry of Economy and internal figures.

FOREIGN SECTOR

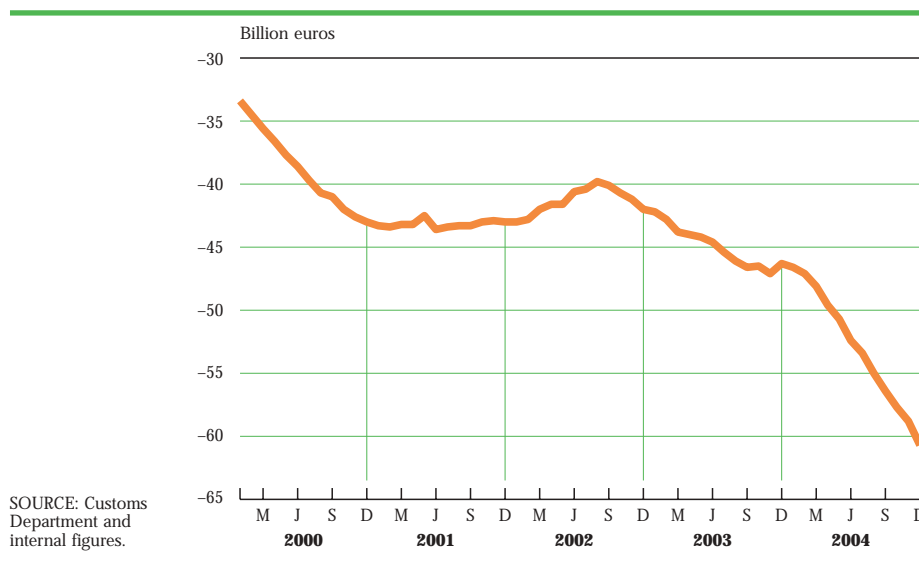
Trade deficit reaches 7.6% of GDP in 2004

Trade deficit up 31% in 2004.

Spain's trade deficit rose sharply in December as a result of the further increase in imports in the context of an easing off in exports. As a result, the cumulative imbalance in 2004 was 31.1% higher than that in the same period the year before, going to 60.7 billion euros, an amount equal to 7.6% of the gross domestic product (GDP), a figure never before reached.

TRADE DEFICIT CONTINUES TO GROW

Cumulative trade balance for 12 months



Imports maintain rise, especially capital goods and non-food consumer goods.

Imports grew by 16.9% nominal in December, thus reaching 207.1 billion euros for the year as a whole, some 12.5% more than in 2003. The increase in volume was somewhat lower (9.8%) because of the 2.5% rise in import prices. Capital goods and non-food consumer goods were the product groups to show the biggest growth, up 15% real. Cars, consumer electronics, furniture, textiles and footwear were the most dynamic headings along with metals. Among capital goods, telecommunications equipment and aircraft showed sharp growth. There was a somewhat smaller increase in the volume of food products at 7.8%. Finally, imports of intermediate goods were up 6.3% real with bigger growth in energy products than in non-energy goods. In the second case, however, the profile is downward which would suggest some moderation in industrial activity.

FOREIGN TRADE
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	23,304	20.9	11.3	5,172	30.2	3.5	-18,132	22.2
Consumer goods	61,284	13.9	29.6	58,884	1.7	40.2	-2,400	96.1
<i>Food</i>	<i>13,236</i>	<i>7.7</i>	<i>6.4</i>	<i>18,108</i>	<i>0.5</i>	<i>12.4</i>	<i>4,872</i>	<i>136.8</i>
<i>Non-foods</i>	<i>48,048</i>	<i>15.3</i>	<i>23.2</i>	<i>40,776</i>	<i>1.1</i>	<i>27.8</i>	<i>-7,272</i>	<i>84.9</i>
Capital goods	22,452	12.3	10.8	13,104	12.3	8.9	-9,348	58.4
Non-energy intermediate goods	100,090	10.0	48.3	69,300	7.8	47.3	-30,790	69.2
By geographical area								
European Union (EU-15)	133,752	9.8	64.6	108,276	4.8	73.9	-25,476	81.0
<i>Euro area</i>	<i>112,176</i>	<i>10.2</i>	<i>54.2</i>	<i>87,060</i>	<i>5.1</i>	<i>59.4</i>	<i>-25,116</i>	<i>77.6</i>
Other countries	73,378	17.8	35.4	38,184	10.6	26.1	-35,194	52.0
<i>Russia</i>	<i>3,696</i>	<i>27.8</i>	<i>1.8</i>	<i>900</i>	<i>10.8</i>	<i>0.6</i>	<i>-2,796</i>	<i>24.4</i>
<i>United States</i>	<i>7,464</i>	<i>9.5</i>	<i>3.6</i>	<i>5,796</i>	<i>2.2</i>	<i>4.0</i>	<i>-1,668</i>	<i>77.7</i>
<i>Japan</i>	<i>5,700</i>	<i>18.5</i>	<i>2.8</i>	<i>1,188</i>	<i>19.0</i>	<i>0.8</i>	<i>-4,512</i>	<i>20.8</i>
<i>Latin America</i>	<i>8,292</i>	<i>10.0</i>	<i>4.0</i>	<i>7,104</i>	<i>4.3</i>	<i>4.9</i>	<i>-1,188</i>	<i>85.7</i>
<i>OPEC</i>	<i>12,780</i>	<i>10.9</i>	<i>6.2</i>	<i>3,801</i>	<i>12.3</i>	<i>2.6</i>	<i>-8,980</i>	<i>29.7</i>
<i>Rest</i>	<i>35,446</i>	<i>23.5</i>	<i>17.1</i>	<i>19,396</i>	<i>15.1</i>	<i>13.2</i>	<i>-16,050</i>	<i>54.7</i>
TOTAL	207,130	12.5	100.0	146,460	6.3	100.0	-60,670	70.7

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

**Imports from China
go above those from
United States.**

By geographical area, purchases from the European Union (EU-25) grew by 7.3% real in 2004 as against 14.3% from the rest of the world. These purchases were boosted by the strong rate for goods coming from China which, for the first time, became a bigger supplier than the United States or Japan. In any case, purchases from the EU-25 represented a more significant share, making up 64.6% of the total.

**Exports to EU up 3.4%
real while those
to third countries rise
by 10%.**

Exports, in turn, showed an easing of growth in December following the peak brought about by a special operation linked to the aircraft industry as well as the sharp growth in oil products. In any case, foreign sales in 2004 as a whole reached 146.5 billion euros, some 6.3% more than in 2003. The increase in volume held at 5.2% as against 6.9% the year before. The most dynamic markets were those in third countries, particularly the Middle East, Brazil, the Eastern European countries associated with the EU and Japan. Shipments to the EU-25, on the other hand, grew by 3.4% real as against 10.0% for those going to the rest of the world.

Weakness in exports of consumer goods.

By product, there was a notable weakness in consumer goods, both food and non-food, with increases of 0.7% and 3.0% real respectively for the year as a whole. There were notable decreases in footwear, toys, furniture and appliances. Motor vehicles held a more positive role with a nominal increase of 5.8% in sales. Exports of capital goods, in turn, were notably higher thanks to air transport equipment and ships to show a cumulative increase of 12.9% by volume. Finally, foreign sales of intermediate goods also recovered with the help of iron and steel products.

Current account deficit slows rise in November

Current account deficit continues to rise but slows rate of increase in November...

The current account balance showed a deficit of 3.7 billion euros in November, 18.8% above the figure for same month last year. The worsening of the situation, lesser in size than in previous months, was basically due to the increased trade imbalance given that the other headings improved in monthly figures.

...and now makes up 4.6% of gross domestic product.

The imbalance in current account in November raised the cumulative deficit for the past 12 months to 36.1 billion euros, a figure equal to 4.6% of the estimated gross domestic product for 2004. This situation was basically due to the large deficit in goods and, to a lesser extent, to the incomes deficit which together go well above the surplus in services and the modest positive transfers balance. The services surplus (25.4 billion euros in recent months) shows a clearly downward trend as it is being cut into by a tourist balance more and more affected by increasing payments in a situation where tourist revenue inflows are becoming stagnant.

Increase in positive capital account balance.

Capital account balance, in turn, showed a surplus of 402 million euros in November, somewhat higher than in the same month the year before. The balance for the past 12 months (8.8 billion euros) was 21.5% above the year before.

Spanish direct investment abroad recovers in November while foreign investment in Spain continues to drop.

Financial account, excluding Bank of Spain transactions, for the past 12 months ending in November 2004 showed cumulative new inflows 38.4 billion euros, 47.3% more than in the same period the year before. Spanish direct corporate investment abroad seemed to come out of its lethargy to show an increase following a year with negative figures. In the case of real estate there continued to be strong growth although the figures were of relatively little importance. Portfolio investment, on the other hand, sharpened the downward trend. On the other hand, foreign investment in Spain continued to show a sharp decline in the case of direct corporate investment and a modest decrease in the case of real estate investment. In portfolio investment, on the other hand, it rose exponentially.

BALANCE OF PAYMENTS

Cumulative figure for last 12 months in million euros

	November 2003	November 2004	% change
Current account balance			
Trade balance	-38,106	-50,092	31.5
Services			
<i>Tourism</i>	29,558	28,476	-3.7
<i>Other services</i>	-2,231	-3,115	39.6
Total	27,327	25,362	-7.2
Income	-11,765	-11,667	-0.8
Transfers	-325	319	-
Total	-22,870	-36,079	57.8
Capital account			
	7,265	8,829	21.5
Financial balance			
Direct investment	-635	-21,792	-
Portfolio investment	-27,214	67,874	-
Other investment	53,906	-7,690	-
Total	26,057	38,392	47.3
Errors and omissions	-4,934	-5,208	5.6
Change in assets of Bank of Spain	-5,518	-5,934	7.5

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.

SAVINGS AND FINANCING

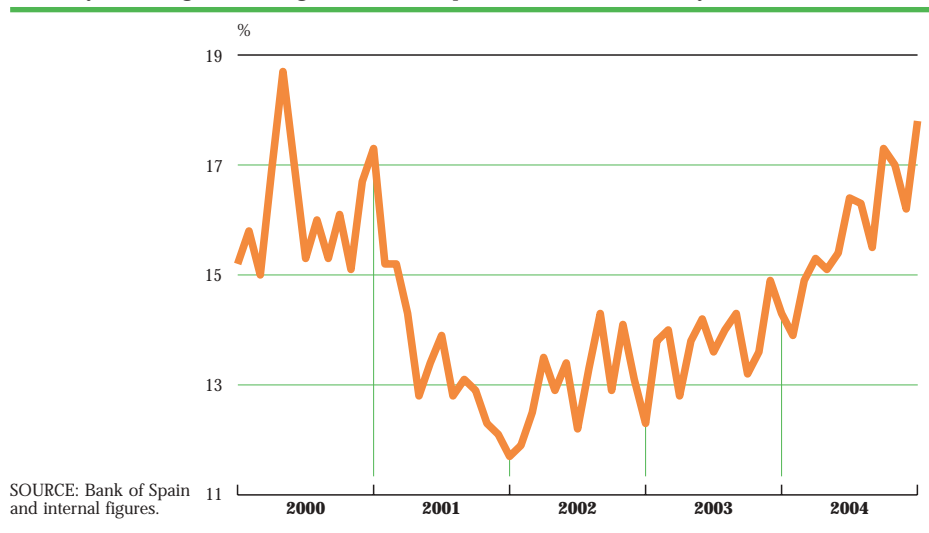
Strong drive in credit to companies and households in 2004

Bank credit to private sector up 18% in 2004.

Bank credit to the private sector rose by 17.8% as of December 2004 compared with the same month the year before. This rate was 1.6 points higher than that recorded the month before and represented 3.5 points more than that recorded in 2003. In fact, this is the highest annual growth rate since April 2000 and is twice the rate 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 easy financing terms, with very low interest rates.

HIGHEST GROWTH RATE IN BANK CREDIT TO PRIVATE SECTOR IN PAST FOUR YEARS

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



Total loans by savings banks higher than figure for banks.

Credit granted to the private sector by savings banks in 2004 was higher than that by banks. Loans to companies and households by savings banks were up 21.2% as against 15.2% for banks. In fact, in 2004 the savings banks went above banks in total loans to the private sector for the first time.

Mortgage loans at banks and savings banks up 24%, highest growth in last 13 years.

The main contribution to the growth in credit to companies and families continued to come from mortgage loans which, for the moment, show scarcely any sign of easing off. Mortgage loans by banks and savings banks rose by 23.6% in 2004 reporting the highest growth rate in the past 13 years. If we include securitizations and other credit institutions, the year-to-year change rose to 24.3%, according to figures supplied by the Spanish Mortgage Association, a rate slightly higher than that for one year earlier (24.1%). Higher household incomes, demographic factors and low interest rates continue to stimulate mortgage loans.

CREDIT TO COMPANIES AND HOUSEHOLDS

December 2004

	Total	Change over 12 months		% share
	Million euros	Million euros	%	
Trade credit	59,267	3,736	6.7	6.3
Secured loans (*)	545,423	103,298	23.4	57.7
Other term loans	280,874	29,975	11.9	29.7
On-demand loans	22,672	1,749	8.4	2.4
Leasing	29,294	4,225	16.9	3.1
Doubtful loans	7,475	-191	-2.5	0.8
TOTAL	945,005	142,793	17.8	100.0

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

Big increase in leasing.

In addition, mention should be made of the rise in leasing which goes into financing the purchase of capital goods and real estate by companies and self-employed professionals. The increase in 2004 was 16.9% over the year before. Commercial credit, which goes to fund working capital of companies, rose by 6.7% in the same period.

New low in default rate.

The default rate at credit institutions fell to 0.79% in 2004, the lowest in recent years. Furthermore, the doubtful loans rate at banks and savings banks (excluding other credit institutions) went down to an all-time low of 0.66%.

Slight drop in bank loan rates.

Bank loan interest rates generally slid down in December. As a result, the composite rate for loans to companies and households dropped by 8 basis points from the previous month to stand at 3.87%, close to the all-time low in June 2004. The composite rate for loans to households dropped by 9 basis points to 4.27% to stand 14 basis points below 12 months earlier. The composite rate for non-financial companies dropped by 7 basis points to 3.44%, a decrease of 31 basis points in the course of the past year.

Housing mortgage loan rate down to 3.3%.

In addition, in January 2005 at credit institutions as a whole, the interest rate on mortgage loans for non-subsidized housing for a term of more than 3 years went down very slightly (2 basis points) to 3.33%. As a result, it stood 14 basis points below the level one year earlier.

Notable growth in private sector bank deposits in 2004

Imbalance between bank loans and deposits continues.

Total deposits by resident companies and households in euros and foreign currency rose by 14.2% in December 2004 compared with the same month the year before, 1.2 points more than in November and 5.6 points higher than in December 2003. In spite of the rise in the rate of obtaining deposits, growth over the past 12 months (89.7 billion euros) was considerably lower than the increase in loans. In order to balance these figures, credit institutions carried out bond issues and securitizations as well as having recourse to the foreign interbank market.

DEPOSITS OF COMPANIES AND HOUSEHOLDS AT CREDIT INSTITUTIONS
December 2004

	Total	Change over 12 months		% share
	Million euros	Million euros	%	
On-demand	187,139	18,235	10.8	26.0
Savings (*)	157,935	12,726	8.8	22.0
2-year term	160,467	4,258	2.7	22.3
More than 2-year term	127,468	50,089	64.7	17.7
Repos	80,482	2,681	3.4	11.2
Total	713,490	87,988	14.1	99.2
Deposits in currencies other than euro	5,847	1,696	40.9	0.8
TOTAL	719,337	89,684	14.2	100.0

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

Extraordinary rise in time deposits for terms longer than 2 years.

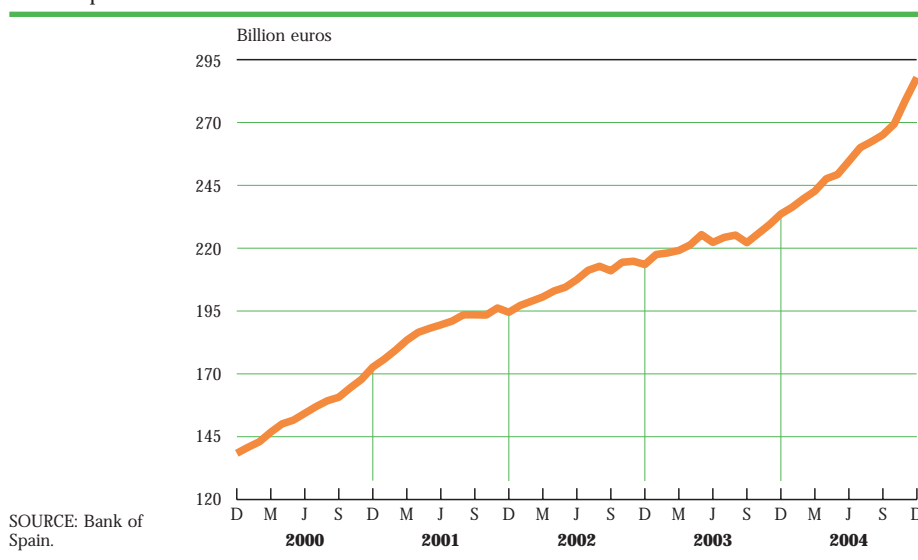
By type of deposit, the biggest annual rise in 2004 (64.7%) showed up in those for terms longer than 2 years which enjoy tax benefits of 40% on interest earned. Deposits in currencies other than the euro also recorded an extraordinary year-to-year rise of 40.9%. Nevertheless, on-demand deposits, which rose by 10.8%, continued to represent the highest share of the total at 26.0%.

Very small increase in bank deposit interest rates in 2004.

With regard to private sector bank deposit interest rates, these generally dropped very slightly in December. As a result, the composite interest rate on deposits by companies and households showed a decrease of one basis point in December to stand at 1.17%, some 4 basis points above one year earlier.

SUSTAINED RISE IN TIME DEPOSITS

Time deposits at credit institutions



Guaranteed funds win most new money going into securities mutual funds in January.

The assets of securities mutual funds rose by 1.7 billion euros in January going to a figure of 221.2 billion euros, a year-to-year change of 8.7%. This increase may largely be attributed to capital gains and to net purchases of units (deducting sales) of 379 million euros. In January 2005 new money went mainly into guaranteed bond-based funds. The biggest withdrawals took place in money-market funds due to low yields and low interest rate levels.

Average yield on securities mutual funds stands at 3%.

The weighted average yield on securities mutual funds in the past 12 months stood at 2.9%. All types of fund recorded positive annual yields, with the exception of U.S. share-based funds under the effect of depreciation of the dollar against the euro. On the other hand, average annual yield over the past 14 years was 5.2%.

Pension funds obtain average annual yield of 7% over past 15 years.

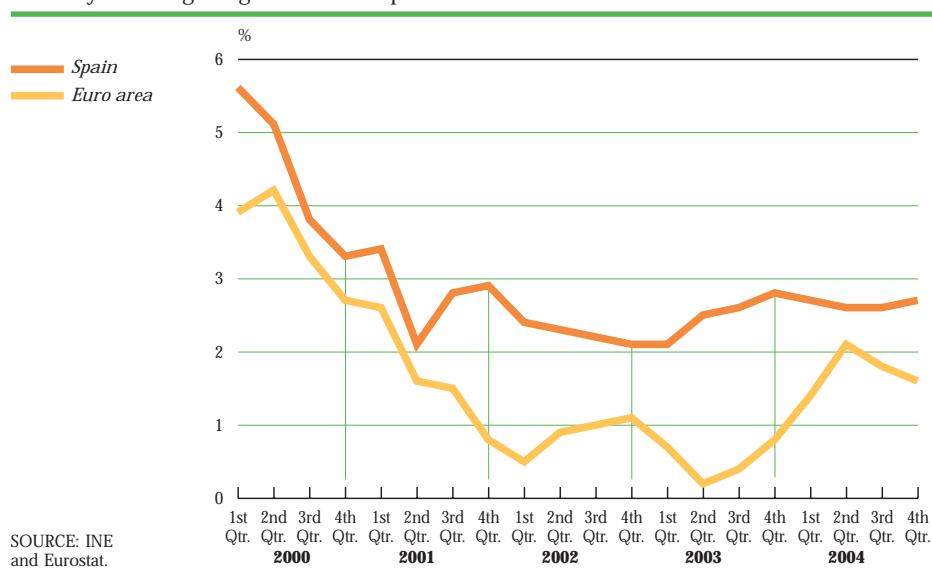
In another area, the volume of pension fund assets at the end of 2004 amounted to 62.9 billion euros. This figure represented a rise of 12.5% compared with December 2003. By type of coverage, the assets of individual pension funds showed a rise of 17.2%, that for employees was up 6.6%, while associated funds went down by 0.4%. The number of those with holdings in pension funds rose by 16.2% to a figure of 8,598,336 persons. An outstanding factor was the annual increase of 83.6% in employee-type funds due to the joining of participants covered under the new Pension Plans for Public Servants (509,829). Weighted average annual yield of pension funds in 2004 was 4.5%. In the past 15 years the average yield recorded was 7.1%, well above the inflation rate in that period.

Spain's economy consolidates recovery in 2004

Spain's economy presents good results for 2004.

Spain's economy showed solid growth in 2004 which made it possible to solidify the course of recovery begun the year before. The relative strength of economic activity again that year further increased Spain's convergence with the European Union. The good situation, however, was blurred by certain circumstances. Pushed up by the rise in oil prices, inflation continued to grow at a rate higher than in Spain's close neighbour countries thus hurting competitiveness. As a consequence, the current account deficit continued to rise, something that underlines certain weaknesses in Spain's economy.

SPAIN MAINTAINS GROWTH DIFFERENTIAL
Year-to-year change in gross domestic product



Growth increases to 2.7% pushed up by domestic demand.

Growth of the gross domestic product (GDP) went to 2.7%, two decimals higher than in the year before showing a relatively stable profile during the year. Growth of Spain's economy once more was based on the strength of domestic demand sustained by the positive situation in consumption and the substantial improvement in capital goods investment in a context of sustained growth in construction demand. On the other hand, the foreign sector again showed a negative result drawing off 1.7 points from growth of economic activity.

GROSS DOMESTIC PRODUCT BY SPENDING COMPONENTS
Percentage annual change at constant prices

	Gross domestic product	Household consumption	Public consumption	Fixed capital investment	Exports goods and services	Imports goods and services	Gross value added				
							Agriculture and fishing	Energy	Industry	Construction	Services
1990	3.8	3.4	6.3	6.5	4.7	9.6	5.4	-0.2	2.7	8.1	3.8
1991	2.5	2.8	6.0	1.7	8.3	10.3	3.7	2.3	1.9	2.1	3.0
1992	0.9	2.1	3.5	-4.1	7.5	6.8	1.0	-0.6	-0.3	-6.1	2.2
1993	-1.0	-2.0	2.7	-8.9	7.8	-5.2	2.8	-1.8	-3.9	-6.7	0.6
1994	2.4	0.9	0.5	1.9	16.7	11.4	-4.7	2.8	1.7	1.1	3.2
1995	2.8	1.7	2.4	7.7	9.4	11.1	-6.1	1.8	3.8	6.2	3.0
1996	2.4	2.2	1.3	2.1	10.4	8.0	17.6	4.9	1.4	-1.4	1.8
1997	4.0	3.2	2.9	5.0	15.3	13.3	2.6	3.4	5.8	2.2	3.5
1998	4.3	4.4	3.7	10.0	8.2	13.2	-0.6	1.4	5.4	7.2	3.8
1999	4.2	4.7	4.2	8.8	7.7	12.6	-5.1	2.4	4.2	8.5	4.1
2000	4.4	4.1	5.6	5.7	10.1	10.5	2.7	4.5	3.8	6.1	4.4
2001	2.8	2.8	3.5	3.0	3.6	3.9	-2.9	4.6	2.0	5.3	3.2
2002	2.2	2.8	4.1	1.7	1.2	3.1	1.7	0.9	0.6	5.2	2.3
2003	2.5	2.9	3.9	3.2	2.6	4.8	-1.4	1.3	1.3	4.3	2.4
2004	2.7	3.5	4.9	4.6	4.5	9.0	-0.6	1.7	2.2	3.7	2.8

SOURCE: National Institute of Statistics and internal figures.

Public consumption grows more than private consumption while both up more than year before.

The high level of consumption was based both on household consumption and the public sector. In the latter case, demand for goods and services by general government grew by 4.9%, higher than the year before. Private consumption, in turn, was up 3.5% on annual average, six decimals more than that in 2003. Growth of real household incomes, arising mainly from the increase in employment, the rise in net wealth due to gains on the stock market and real estate market, and a continuation of easy financing terms for loans, marked by low interest rates, were factors supporting this performance.

Investment demand for capital goods begins strongly and construction again puts off any slowdown.

The strength of investment demand was boosted by the capital goods component which rose sharply in the first three quarters only to moderate slightly in the fourth quarter, so that the average annual increase stood at 4.9%, going 3.1 points higher than the figure for 2003. The good situation in corporate balance sheets and the accessibility of funding contributed to an improved overall situation in a general climate of relatively positive prospects. Construction demand, in turn, again in 2004 contradicted forecasts of a slowdown and growth held stable at high levels (4.4% year-to-year) practically identical to the year before.

Strength in economic activity translates into 461,300 new jobs.

The notable strength in domestic economic activity had a direct effect on employment which continued to grow at a sustained rate, especially in the second half of the year. The year 2004 thus ended with 422,000 new jobs, a figure somewhat lower than that for the year before, according to the Labour Force Survey. The bulk of this employment was created in services although the new jobs were less than those created in the sector in 2003. On the other hand, in construction the balance was more favourable, as happened in industry where, in the final quarter of the

year, employment showed growth in year-to-year terms after six quarters of sustained decreases. Growth of employment was especially notable in temporary job contracts and part-time work, particularly in the female group.

LABOUR MARKET

	Employment (*)			Unemployment						
	Estimated (**)	Registered (***)		Total (thousands)	Annual change		Unemployment rate (%)	Total (thousands)	Annual change	
		Total (thousands)	Thousands		%	Thousands			%	Thousands
1990	12,954.9	316.7	2.5	2,510.5	-122.0	-4.6	16.2	2,351.2	-75.4	-3.1
1991	13,057.1	102.1	0.8	2,545.2	34.7	1.4	16.3	2,329.3	-21.9	-0.9
1992	12,822.3	-234.7	-1.8	2,883.4	338.2	13.3	18.4	2,360.4	31.1	1.3
1993	12,293.8	-528.5	-4.1	3,598.8	715.4	24.8	22.6	2,705.8	345.4	14.6
1994	12,207.7	-86.1	-0.7	3,880.1	281.3	7.8	24.1	2,556.8	-149.0	-5.5
1995	12,512.0	304.4	2.5	3,715.6	-164.5	-4.2	22.9	2,377.0	-179.9	-7.0
1996	12,835.0	323.0	2.6	3,657.3	-58.3	-1.6	22.2	2,216.1	-160.9	-6.8
1997	13,259.5	424.5	3.3	3,471.9	-185.4	-5.1	20.8	2,075.7	-140.4	-6.3
1998	13,807.6	548.1	4.1	3,177.3	-294.6	-8.5	18.7	1,785.7	-290.0	-14.0
1999	14,568.1	760.5	5.5	2,722.4	-454.9	-14.3	15.7	1,613.8	-171.9	-9.6
2000	15,369.7	801.6	5.5	2,486.9	-235.5	-8.7	13.9	1,556.4	-57.4	-3.6
2001	15,945.6	575.9	3.7	1,869.0	-617.9	-24.8	10.5	1,574.8	18.5	1.2
2002	16,257.6	312.1	2.0	2,082.9	213.9	11.4	11.4	1,688.1	113.2	7.2
2003	16,694.6	437.0	2.7	2,127.4	44.5	2.1	11.3	1,711.5	23.4	1.4
2004	17,116.6	422.0	2.5	2,073.8	-53.6	-2.5	10.8	1,670.3	-41.2	-2.4

NOTES: (*) Annual averages. Labour Force Survey.

(**) Annual averages. Labour Force Survey. The new definition of unemployment as of 2001 means that it is not comparable with previous figures.

(***) INEM figure.

SOURCE: National Institute of Statistics, National Institute of Employment and internal figures.

Unemployment rate down to 10.4%.

The increase in employment helped bring about a substantial reduction in unemployment, in spite of the increase in the labour force which, nevertheless, eased its growth rate compared with the year before. As a result, the unemployment rate fell to 10.4% at year-end, eight decimals less than in 2003, all the while maintaining the big differences between the male and female groups.

Stock market takes off in second half-year with disappearance of some uncertainties.

The favourable economic climate, also to be seen in the improvement in corporate profits, did not show up in the stock markets until well into the second half-year when uncertainty raised by the rise in oil prices (partly compensated by the appreciation of the euro) began to dissipate, along with the possible articulation of US monetary policy. It was from August onwards when the IBEX 35 decidedly moved upward to end the year with a cumulative revaluation of 17.4%, one of the biggest among stock markets in the developed countries.

Effective trading on continuous market reaches 81% of GDP while stock market capitalization goes up to 84% of GDP.

Those sectors showing the highest revaluation, practically twice the general index, were such industries as drink and tobacco, television receivers, real estate companies, motorways and retail trade. At the other end of the scale, with much more modest increases, came the consumer goods sector and banks. The gains in indices were accompanied by a sharp increase in effective turnover which, for the year as a whole, came to represent 80.6% of the GDP, three points more than the year before. Capitalization of the Madrid Stock Exchange, in turn, reached 84.2% of the GDP, up from 73.5% in 2003.

FINANCIAL MARKETS

	Interest rates (1)					Bank credit (6)	Bank deposits (6)	IBEX 35 index (7)	Share turnover on stock exchange (8)
	Central bank reference rate	1-year Interbank market (2)	10-year government bonds (3)	Bank loans (1-3 years) (4)	Bank current accounts (5)				
1990	14.6	15.4	13.0	17.5	10.2	11.2	13.5	2,249	27
1991	13.2	13.1	11.8	16.5	9.6	12.2	9.0	2,603	28
1992	12.8	13.3	11.2	15.9	8.3	6.9	3.6	2,345	27
1993	11.3	10.9	10.7	14.6	7.4	1.2	9.9	3,615	39
1994	7.8	8.4	10.1	10.9	5.1	3.2	7.3	3,088	55
1995	8.8	10.0	11.5	11.3	5.1	6.2	12.1	3,631	48
1996	7.6	7.4	8.9	9.6	4.3	7.4	5.1	5,155	77
1997	5.4	5.2	6.5	7.3	3.2	13.8	4.3	7,255	163
1998	4.2	4.0	4.9	6.0	2.5	16.8	2.0	9,837	261
1999	2.7	3.2	4.8	4.7	1.5	15.2	7.5	11,641	292
2000	4.0	4.8	5.6	5.7	2.1	17.3	12.8	9,110	493
2001	4.3	4.1	5.1	5.9	2.4	11.7	12.2	8,398	445
2002	3.2	3.5	5.0	5.0	2.0	12.3	7.8	6,037	445
2003	2.3	2.3	4.1	4.7	0.9	14.3	8.0	7,737	500
2004	2.0	2.3	4.0	4.2	0.8	17.8	13.1	9,081	644

NOTES: (1) As annual percentage. Annual average.

(2) National market up to 1998, Euribor as of that date.

(3) Issues in primary market. Marginal interest rate.

(4) Loans up to e 1 million to non-financial companies in 2003.

(5) On-demand deposits of households in 2003.

(6) Year-to-year change rate in balances of credit institutions on December each year.

(7) At year-end.

(8) Billion euros.

SOURCE: Bank of Spain and internal figures.

Notable easing of long-term interest rates...

The recovery on the stock markets would not have been as strong but for the gradual process of moderation seen in long-term interest rates in Europe, particularly in the second half of the year. At mid-December, German bonds reached all-time lows for longer-term instruments, thanks to the good performance on a market helped by the strength of the euro. The moderation in interest rates gave rise to a substantial widening of the differential in favour of US bonds for which prices held more stable.

...with short-term rates holding stable at very low levels.

The moderation of long-term interest rates coincided with the almost total stability of short-term rates which adjusted to the reference rate of the European Central Bank, unchanged at 2% since June 2003. The

precariousness of recovery in the euro area justified the action of the European monetary authorities which, at the end of the year, saw how the official rate of the Federal Reserve went above the euro reference rate for the first time in four years.

EURO EXCHANGE RATE

Units of national currencies per ECU or euro (*). Annual averages

	U.S. dollar	Japanese yen	Swiss franc	Pound sterling	Swedish krona	Danish krone	Peseta	Indices of competitiveness (**)	
								Against industrialized countries	Against European Union
1990	1.273	183.7	1.762	0.714	7.52	7.86	129.41	116.2	113.6
1991	1.241	166.7	1.772	0.701	7.48	7.91	128.47	117.7	115.9
1992	1.297	164.2	1.819	0.737	7.53	7.81	132.53	117.2	114.7
1993	1.172	130.5	1.732	0.780	9.11	7.59	149.12	105.0	105.0
1994	1.188	121.3	1.622	0.776	9.16	7.54	158.92	100.0	100.2
1995	1.308	122.9	1.545	0.829	9.33	7.33	163.00	101.2	100.7
1996	1.269	138.0	1.568	0.814	8.52	7.36	160.75	103.5	102.4
1997	1.134	137.2	1.644	0.693	8.66	7.48	165.89	99.3	99.1
1998	1.120	146.4	1.622	0.676	8.91	7.50	167.18	99.6	99.1
1999	1.067	121.4	1.600	0.659	8.81	7.44	166.39	99.1	99.8
2000	0.924	99.5	1.558	0.609	8.45	7.45	-	97.6	100.4
2001	0.896	108.7	1.510	0.622	9.26	7.45	-	98.7	101.4
2002	0.945	118.1	1.467	0.629	9.16	7.43	-	101.3	103.0
2003	1.131	131.0	1.521	0.692	9.12	7.43	-	105.6	105.4
2004	1.243	134.4	1.544	0.679	9.12	7.44	-	107.7	106.3

NOTES: (*) Foreign exchange rates of ECU up to 1998, exchange rate of euro as of January 1999.

(**) Measured against consumer prices. First quarter of 1999 = 100. Drop in index reflects improvement in competitiveness.

SOURCE: Bank of Spain.

Widening of interest-rate differential in favour of dollar fails to stop revaluation of euro.

The widening of the interest rate differential in favour of the dollar had no repercussions on the relative exchange rate of the euro against the dollar, which progressively weakened quite sharply as of the second quarter because of doubts about the foreign and budgetary imbalance of the US economy. At the end of December the euro reached an all-time high against the dollar. There was a general process of appreciation against other currencies although the degree of these changes was low compared with the revaluation against the dollar, at around 15% since the annual lows in the second quarter.

Strength of euro eases upward impact of oil on inflation rate which nevertheless goes up six decimals during year.

The strength of the euro contributed to ease the impact of oil on inflation which, nevertheless, ended the year at 3.2%, up six decimals from the figure in December 2003. Fuel and diesel-oil prices accounted for practically the entire amount of this sharp rise which failed to go higher because of the progressive moderation of fresh foods in the final stages of the year. In addition, services continued to show complete downward resistance and, along with processed foods, turned into the components showing the biggest price increase in 2004 after energy. Non-energy industrial goods, in turn, slightly reflected the increased costs but prices of these goods held to a line of containment because of fiercely growing competition.

CONSUMER PRICE INDEX

Percentage change in December over December previous year

	Total		Special groups						Groups		
	Annual average	Year-end	Food			Industrial goods			Total services	All non-food	Underlying inflation
			Process.	Unprocess.	Total	Non-energy	Energy	Total			
1990	6.7	6.5	3.7	7.2	5.3	4.8	11.3	5.8	9.4	7.2	6.1
1991	5.9	5.5	4.4	2.0	3.3	4.7	1.9	4.2	9.6	6.7	6.5
1992	5.9	5.3	5.6	-3.5	1.3	5.0	10.1	5.9	10.4	7.4	6.8
1993	4.6	4.9	4.8	3.7	4.4	3.3	6.4	3.9	6.8	5.1	5.0
1994	4.7	4.3	5.0	4.7	4.9	3.6	1.8	3.2	5.2	4.1	4.5
1995	4.7	4.3	6.2	1.9	4.5	4.2	3.0	4.0	4.5	4.2	4.8
1996	3.6	3.2	3.2	2.4	2.9	2.4	6.5	3.1	3.6	3.3	3.0
1997	2.0	2.0	0.4	3.2	1.5	1.4	0.6	1.2	3.5	2.2	2.0
1998	1.8	1.4	0.4	0.9	0.6	1.6	-6.6	0.1	3.7	1.7	2.2
1999	2.3	2.9	2.6	2.0	2.4	1.3	11.5	3.1	3.2	3.1	2.4
2000	3.4	4.0	1.1	6.5	3.2	2.5	11.2	4.1	4.4	4.2	3.0
2001	3.6	2.7	5.3	6.1	5.6	2.6	-10.0	-0.4	4.2	1.8	3.8
2002	3.1	4.0	3.4	7.0	4.7	2.5	5.7	3.3	4.4	3.8	3.5
2003	3.0	2.6	2.7	6.4	3.9	1.2	-0.1	0.9	3.6	2.2	2.5
2004	3.0	3.2	4.1	1.8	3.3	1.2	7.6	2.6	3.8	3.2	2.9

SOURCE: National Institute of Statistics.

Inflation differential widening with euro area.

The increase in the inflation rate, also reflected in the harmonized consumer price index (HCPI), had a negative effect on the inflation differential with the Monetary Union which widened by two decimals compared with December 2003. Nevertheless, this modest increase was clearly biased by the rise in prices of medical services in Germany and the Netherlands which has pushed up the HCPI in recent months. In any case, the higher inflation in Spain has harmed the country's price competitiveness in terms of the euro area as well as against the industrialized countries as a whole, in this case, more so because of the appreciation of the European currency.

Foreign trade balance in goods shows loss of competitiveness.

The loss of competitiveness was reflected in the foreign sector balance. In fact, in the area of goods, the latest customs figures underline how the trade deficit had not stopped increasing all through 2004, going to 7.6% of the GDP at year-end in a context of a sharp rise in imports and a weaker state of exports. The strength of domestic demand and the extremely competitive nature of goods coming from low-cost producing countries, all in a situation of a relatively strong euro, have been behind the rise in imports. In the case of exports, the weakness of the European market was the major factor in the modest overall balance.

BALANCE OF PAYMENTS

Million euros

	Current account balance					% Curr. A/c balance GDP	Capital A/c balance	Curr. A/c balance + Capital A/c		Financial A/c balance (*)
	Goods	Services	Transfers	Incomes	Curr. A/c balance			Total		
								over GDP		
1990	-17,813	7,263	1,683	-2,158	-11,025	-3.5	911	-10,114	-3.2	13,857
1991	-18,988	7,557	1,625	-2,674	-12,480	-3.6	2,120	-10,361	-3.0	19,958
1992	-18,562	7,645	1,314	-3,532	-13,135	-3.6	2,298	-10,837	-2.9	3,804
1993	-11,440	8,964	991	-2,724	-4,210	-1.1	2,269	-1,941	-0.5	-303
1994	-11,868	11,953	1,013	-6,238	-5,140	-1.3	1,843	-3,297	-0.8	3,554
1995	-13,761	13,935	3,494	-3,105	563	0.1	4,473	5,036	1.2	-6,178
1996	-12,384	15,554	1,802	-4,661	311	0.1	5,020	5,331	1.1	14,971
1997	-11,802	17,583	2,408	-5,949	2,240	0.5	5,609	7,849	1.6	7,955
1998	-18,480	19,626	3,006	-6,751	-2,598	-0.5	5,680	3,081	0.6	-11,971
1999	-28,585	21,524	2,853	-8,904	-13,112	-2.3	6,552	-6,561	-1.2	26,311
2000	-37,778	24,243	1,528	-8,985	-20,991	-3.4	5,181	-15,811	-2.6	27,444
2001	-36,396	27,131	1,798	-10,878	-18,346	-2.8	5,566	-12,780	-2.0	2,597
2002	-34,602	26,582	2,414	-11,276	-16,881	-2.4	7,741	-9,141	-1.3	11,194
2003	-37,843	27,265	336	-10,586	-20,828	-2.8	8,762	-12,065	-1.6	16,059
2004 (**)	-46,482	23,930	-164	-11,113	-33,828	-4.2	6,851	-26,976	-3.4	50,206

NOTES: (*) Except change in reserves and other assets of Bank of Spain.

(**) January-November.

SOURCE: Bank of Spain and internal figures.

Current account deficit goes above 4% of GDP.

The sharp growth of the trade deficit had a decisive impact on the current account deficit in the balance of payments which at the end of year reached a figure of more than 4% of the GDP, the highest in history. Nevertheless, other headings in the balance as well, mainly services and transfers, have contributed to this worse state. On the one hand, the appearance of tourist destinations ready to take the place of the Spanish market has brought about stagnation of tourist revenue inflows and the fact that more and more Spaniards are able and willing to travel abroad would explain the increase in payments, thus contributing to a reduction in the tourist balance.

Adjustment of government accounts reveals public deficit.

Finally, Spain's economy ended the year 2004 with a deficit for general government as a whole amounting to 0.3% of the GDP, according to estimates made by the Ministry of Economy and Finance. This imbalance arose from the Central Government deficit and that of the Autonomous Bodies which came to light following operations aimed at ensuring transparency in the public accounts carried out by the new government following the elections in March 2004. The central government deficit (1.3% of the GDP) was compensated by the surplus in Social Security of 1.0%.

BUDGETARY IMPLEMENTATION IN PUBLIC SECTOR
% of GDP

	Non-financial operations of general government		Central government non-financial Treasury deficit (Million euros)	Surplus (+) or deficit (-)				Debt all general govt.
	Taxes + Social Security contributions (**)	Total spending (***)		Central govt.	Social Security	Other general govt.	Total general govt.	
1990	33.4	42.7	-7,035	-2.9	0.1	-1.0	-3.8	43.1
1991	33.6	43.7	-8,219	-2.5	-0.3	-1.6	-4.4	44.2
1992	35.2	45.0	-11,223	-2.8	-0.1	-1.1	-4.0	46.7
1993	34.3	47.8	-22,681	-6.1	0.5	-1.2	-6.8	55.4
1994	34.0	46.2	-20,843	-5.0	-0.2	-1.0	-6.2	60.2
1995	32.7	45.0	-19,017	-5.7	-0.3	-0.6	-6.6	64.0
1996	33.0	43.7	-22,137	-3.9	-0.4	-0.7	-5.0	68.2
1997	33.5	41.8	-12,314	-2.7	-0.2	-0.3	-3.2	66.6
1998	33.8	41.4	-6,698	-2.4	-0.3	-0.3	-3.0	64.6
1999	34.5	40.2	-6,354	-1.1	0.1	-0.2	-1.2	63.1
2000	35.0	40.0	-2,431	-1.0	0.4	-0.3	-0.9	61.1
2001	34.8	39.6	-2,884	-0.7	0.8	-0.5	-0.4	57.5
2002	35.6	39.9	-2,626	-0.5	0.9	-0.5	-0.1	54.4
2003	35.8	39.6	-4,132	-0.3	1.0	-0.4	0.3	50.7
2004	...	...	527	-1.3	1.0	0.0	-0.3	49.1

NOTES: (*) Provisional.

(**) Resources of general government in Spain. (Does not include segments relating to EU institutions).

(***) Current employment and capital spending.

SOURCE: Ministry of Finance, Bank of Spain and internal figures.

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