THE SPANISH ECONOMY:
MONTHLY REPORT

APRIL 2005

No. 279 Contents

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Research Department

"la Caixa"

Forecast

% change over same period year-before unless otherwise noted

	2003	2004	2005	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	1.4	4.1	3.1	2.3	1.0	1.0	1.4
United Kingdom	2.2	3.1	2.5	3.0	3.6	3.1	2.9	2.8	2.5
Euro area	0.5	1.8	1.7	1.6	2.2	1.9	1.6	1.5	1.5
Germany	*–0.1*	*1.0*	*1.1*	*0.9*	*1.4*	*1.2*	*0.6*	*0.8*	*1.0*
France	*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	2.1
Euro area	2.1	2.1	1.9	1.7	2.3	2.2	2.3	2.0	1.9
Germany	*1.1*	*1.7*	*1.4*	*1.1*	*1.8*	*1.9*	*1.9*	*1.6*	*1.3*
France	*2.1*	*2.1*	*1.7*	*1.8*	*2.4*	*2.3*	*2.1*	*1.7*	*1.7*
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
Capital goods and other	*1.7*	*4.9*	*6.4*	*0.7*	*3.8*	*7.5*	*7.4*	*7.1*	*6.6*
Construction	*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	2.9	2.2	3.2	3.3	3.4	3.2	3.2
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	4.7	4.0	4.6	4.3	4.2	4.3	4.6
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	1.31	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: 2005 BUDGET

Activities	Million euros	%
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

Research Department

Avda. Diagonal. 629. torre I. planta 6
08028 BARCELONA. SPAIN
Tel. 34 93 404 76 82
Telefax 34 93 404 68 92
www.research.lacaixa.com
e-mail: informemensual@lacaixa.es

CAJA DE AHORROS Y PENSIONES DE BARCELONA ("la Caixa") is a non-profit financial institution which channels its operating surplus back to the community through educational. cultural and social projects. It is one of Spain's leading financial institutions. (See Chapter on Spanish Banking System)

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ECONOMIC OUTLOOK FOR 2005

Following the brilliant result in 2004, the international economy has now entered a stage of **gradual moderation of growth**. Nevertheless, the difference between countries is very sharp. The United States and China again show up as the main engines of world growth, largely followed by the emerging countries, including Russia and the countries of Eastern Europe. On the other hand, Japan and the euro area are not managing to dispel the doubts about their ability to recover significant growth rates.

The unexpected rise in oil prices in the first stages of the year has raised questions about a continuation of the expansionist growth cycle. The possibility of a period of inflation making it necessary to tighten monetary policies and, therefore, affecting growth has shown up in stock market quotations. The situation in the oil market (high demand and limited ability to increase supply) has made it necessary to increase forecasts on oil prices, but, in any case, present corporate margins and the increase in productivity make it possible to feel confident that **inflation will remain moderate**.

In this context, it is expected that the United States will grow by around 3.5% in 2005 while Japan will show a modest recovery with growth well below 2%. The euro area, in turn, is not expecting growth of more than 1.5% in the first half-year due to the lack of drive in domestic demand. **The second half-year is expected to be somewhat more dynamic** with growth tending to 2%, precisely thanks to some recovery in domestic demand and the foreign sector. In addition, the lack of demand pressure and a strong euro will ease inflationary pressures arising from rising oil prices so that consumer prices will grow less than 2% in 2005.

In any case, the Federal Reserve in the United States **will continue to raise its reference** rate in coming months, progressively bringing it to the 4% level at the end of the year. In turn, the European Central Bank will wait some months more before undertaking a restrictive turn given the weakness of economic recovery in the euro area. In this framework, yields on government bonds will likely tend to increase, given that they still stand at low levels.

With regard to Spain's economy, **domestic demand continues very strong**, based on the increase in consumption and the strength of investment in construction and capital goods. We are, however, beginning to see some signs of moderation which could sharpen in coming months. In any case, the slight improvement forecast for the foreign deficit will make it possible for the growth rate of the gross domestic product to stand at around 2.7% in 2005, the same as in 2004. In addition, the labour market is showing a positive trend and is holding to the forecast creation of 350,000 net new jobs in the year as a whole. With regard to inflation, some rise in the consumer price index is expected with this possibly going up to 3.5% year-to-year at the start of the second quarter, although later it could ease to close to 2.7% at the end of the year.

March 24, 2005

Oil price threat returns

Oil up 30% since January due to supply difficulties in satisfying demand…

After some months of relative calm, since the beginning of the year oil has again risen sharply. In the first three months of 2005, it has recorded an increase of 30% with the per barrel price of Brent quality above 50 dollars. Behind this major rise lies the scarce margin available for an increase in extraction and refining in view of very strong world demand. A severe winter in North America and Europe, combined with a notable level economic activity in the United States and China allowed oil prices to recover rapidly from the drop at the end of 2004.

…again raising doubts about future trend in prices and economic growth.

In this situation, not even the announcement of an increase in production by the Organization of Petroleum Exporting Countries that could put another million barrels a day on the market has had the impact of easing prices. Now, the main unknown is what effect the present oil price levels may have, along with the upward trends in other raw materials, mainly metals, on growth and prices.

In United States and China economic activity remains strong…

Up to this moment, world economic activity continues to show a notable rate, thanks to the good situation in the United States and China. The US economy is maintaining an overall positive trend based on consumers who are spending and are confident in the future, a logical position in view of the fact that nearly 133 million persons are shown as employed, not including farm employment, thus setting an all-time high. The Asian giant, in turn, continues to benefit from strong exports and solid domestic demand, which makes it possible to maintain a level of economic activity in line with previous months. Japan, too, seems to be facing a stage of some consolidation of growth following the downturn in 2004.

…although prices gradually reflecting rise in oil.

While economic activity is being maintained, prices are beginning to gradually reflect the rise in cost of raw materials. In the United States the most recent trend in consumer and producer prices is on the upgrade although it should be remembered that these start out at historically low levels so that the current figures are still moderate. China also seems to be ending a stage of low inflation and is going back to levels more in keeping with the strong rate of economic growth.

Europe's biggest problem is low growth…

Europe's economic problems are different. While the increase in oil costs is raising prices, the strength of the single currency is introducing a major downturn so that inflation has scarcely gone above 2%. The really troubling area is growth. The year 2005 began with two major economies (Germany and Italy) in difficulties and the third (France) with a better rate of economic activity but in a downturn stage. All of this, to begin with, is the result of a lower contribution from the foreign sector than from others that are actually recovering and the lack of strength in domestic demand.

Nevertheless, beyond these cyclical factors there is a broad consensus about structural factors standing in the way of growth.

…which justifies revision of so-called Lisbon Agenda, the European strategy for structural reforms…

The basic problem in Europe is that the ability to grow at a sustainable level over the long term without creating inflationary pressures, known as potential growth, continues to be much lower than desirable. This arises mainly from the lack of taking advantage of the labour factor and the low growth of productivity. Both matters were defined as the central feature of the so-called Lisbon strategy, a group of structural reforms which would allow Europe to reduce its economic differences with the United States, a strategy adopted in 2000. The Lisbon Agenda established certain quantitative objectives, for example, in matters of overall employment, female employment, spending on research, etc.

…lowering ambitious hopes to concentrate on employment, innovation and sustainability.

Evidence that the difference with the United States has not only not been reduced but has indeed widened forced a revision of that strategy at the recent meeting of the European Council on March 22-23. The new strategy gives up the high aims of being the world's most dynamic economy in 2010, gives priority to three areas (employment, innovation and sustainability) and abandons numerical objectives, except in the case of spending on research and development which is maintained at 3% of the gross domestic product (GDP) for 2010. On the other hand, it establishes new instruments for coordination between member states which should facilitate progress in these reforms.

Stability Pact subject to profound changes notably reducing in previous terms with emphasis on each country's situation.

While the economic strategy over the medium term needed some adjustment, at the same time the mechanism for controlling the government deficit in the European Union, the Stability Pact, also needed reform. The revision approved by the European Council, in fact, represents a profound change in the Pact if we take into account the greater consideration given to the conditions of each country (debt level, potential growth, carrying out of structural reforms, etc.). As a result, without abandoning the limits established for government deficit and government debt (3% and 60% of the GDP, respectively), it increases the discretionary limits applicable under the Pact. At the same time, it lengthens the periods for correcting situations of excess deficit.

Federal Reserve raises interest rate for seventh time in row while long-term rates rise partly due to inflation fears.

The increased uncertainty arising from the price of oil has affected the financial markets. While the Federal Reserve acted as expected and raised its reference rate by a quarter-point on March 22, its seventh increase in a row, its subsequent statement emphasized that it saw an increasing risk of inflation. In Europe, maintenance of the intervention rate by the European Central Bank did not side-step mentioning the excessive money supply in the euro area as a factor of inflationary risk when growth gets under way. This concern about the future trend in prices underlies the rise in long-term interest rates in the United States, which in some sessions marked up highest levels since mid-2004, ending the month at levels of 4.5%. On the other hand, the European long-term interest rates were more stable. After some swings, the yield on German long-term government bonds stood at 3.7% at the end of March.

Stock markets reflect rise in oil prices and dollar shows major swings.

Oil prices, combined with the increase in US interest rates, also brought about some adjustment in the share markets. After starting March on a positive note, in the United States and most of Europe markets moved down in the second half of the month. In turn, the decision of some central banks to diversify their currency reserves to the detriment of the dollar, along with the increase in the foreign deficit, brought a further weakening of the greenback, although later on this was corrected.

Spain's economy: slight slowdown in economic activity

Spain's economic activity remains strong although some signs of downturn appearing.

Spain continues to enjoy a stage of higher economic activity than its European partners based on the strength of domestic demand. In any case, there are some incipient signs of an economic downturn. As a result, while consumption and investment continue to be notably expansionist, their growth rate in the early months of 2005 has eased.

Industry running flat, construction strong and tourism consolidating recovery as of end of 2004.

In keeping with the trend in recent months, the sector having the biggest problems is industry which stands stuck in a situation of practical standstill affecting most branches. On the other hand, construction is holding at a strong level of economic activity given that the slowdown showing up in the residential building segment is being compensated by an increase in public works. There has also been a favourable recent trend in tourism which is extending the improvement noted in the fourth quarter of 2004.

Labour market continues in good state while inflation up because of energy and fresh foods.

The stage of strong economic activity is especially favouring the labour market. With the addition of foreign workers the number of persons registered with Social Security continues to grow at high rates of the order of 3% year-to-year as of February, while registered unemployment continues to show a modest downward trend. With regard to inflation, pressure from energy prices and fresh foods pushed it up to 3.3% in February so that it has halted the downward trend registered since last November.

Government approves Economic Dinamization Plan, broad range of measures to improve productivity and employment…

In spite of the present good economic situation, the Spanish government recently approved an Economic Dinamization Plan, a series of measures aimed at improving productivity and employment which will ensure balanced growth over the medium and long term. The Plan sets out a broad range of measures under six groups: support for competitiveness; goods and services markets; factor markets; research, development and innovation; quality and efficiency in financing; and, finally, the regulatory framework and transparency.

…to which labour and tax reforms will later be added.

In spite of its wide range, the Economic Dinamization Plan is not the end of economic measures on the government's agenda, given that two other key factors, reform of the labour market and fiscal reform, are beginning to be discussed with business and labour circles and other relevant players. Precisely in the matter of economic policy, the Organization for Economic Cooperation and Development recently suggested various reforms to ease the inflationary pressures in the economy and to raise the level of productivity and employment.

CHRONOLOGY

2003

March	**20**	*United States and its allies begin* ***war against Iraq*** *to depose Saddam Hussein regime.*
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.*
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	**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.*

2005

February	**15**	*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.*
	25	*Government approves* ***Economic Potential Plan****, broad programme of economic reforms aimed at increasing productivity and employment (BOE 14-3-05).*
March	**4**	*Dow Jones index for* ***New York stock exchange*** *marks up annual high (10,940.55), a rise of 1.5% over end of 2004.*
	22	***Federal Reserve*** *raises reference rate by quarter-point to 2.75%.*
		One-month forward price for Brent quality ***oil*** *goes up to record 55.78 dollars a barrel.*
	23	*Heads of state and government of European Union member states approve reform of* ***Stability and Growth Pact*** *introducing more flexibility.*

AGENDA

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 *Preliminary HCPI index (April). US GDP (1st Qtr.).*

29 *Labour Force Survey (1st Qtr.).*

May

3 *Meeting of Open Market Committee of US Federal Reserve Board.*

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

6 *Industrial production index (March).*

12 *Preliminary Quarterly National Accounts (1st Quarter).*

13 *Consumer price index (April).*

19 *Harmonized consumer price index for European Union (April).*

25 *Quarterly National Accounts (1st Quarter).*

25 *Producer price index (April).*

30 *Preliminary HCPI index (May).*

United States grows at 4%

United States revises fourth quarter growth upward to 3.9%.

In the fourth quarter of 2004, the US gross domestic product (GDP) grew by 3.9% at year-to-year rate, according to the second estimate issued by the Bureau of Economic Analysis, correcting the 3.7% previously estimated. The revised figures raised investment and lowered consumption, along with a slight improvement in the foreign sector. As a result, private consumption went from a growth rate of 3.9% to 3.7% while investment changed from 8.4% year-to-year growth to 9.2%.

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	February
GDP	3.0	4.4	5.0	4.8	4.0	3.9	–	...
Retail sales	5.3	7.6	7.8	7.8	6.5	8.2	8.1	7.7
Consumer confidence (*)	79.8	96.1	91.6	96.3	100.4	96.1	105.1	104.0
Industrial production	0.0	4.1	2.8	4.9	4.6	4.6	4.2	3.5
Sales of single-family homes	11.6	9.8	22.2	9.2	–0.2	9.8	–4.2	...
Industrial activity index (ISM) (*)	53.3	60.5	62.4	62.0	60.1	57.5	56.4	55.3
Unemployment rate (**)	6.0	5.5	5.7	5.6	5.4	5.4	5.2	5.4
Consumer prices	2.3	2.7	1.8	2.8	2.7	3.4	3.0	...
Trade balance (***)	–44.4	–54.2	–45.4	–47.8	–50.6	–54.2	–55.3	...

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 growing strongly at 8% while car sales drop 2%.

Among the most recent demand indicators we should point out that retail sales in February sharpened their strong advance to 7.7% year-to-year along with an upward revision of the growth rate for January which went from 7.2% to 8.1%. Industrial production of consumer goods in February, on the other hand, held at a slim increase of 2.0% year-to-year. Car sales continued to drop going down by 1.9% confirming downward forecasts by the Detroit-based industry. Industrial production of capital goods in February grew by 8.6% year-to-year indicating some loss of drive compared with last autumn.

Consumer confidence stabilizes at 104 points.

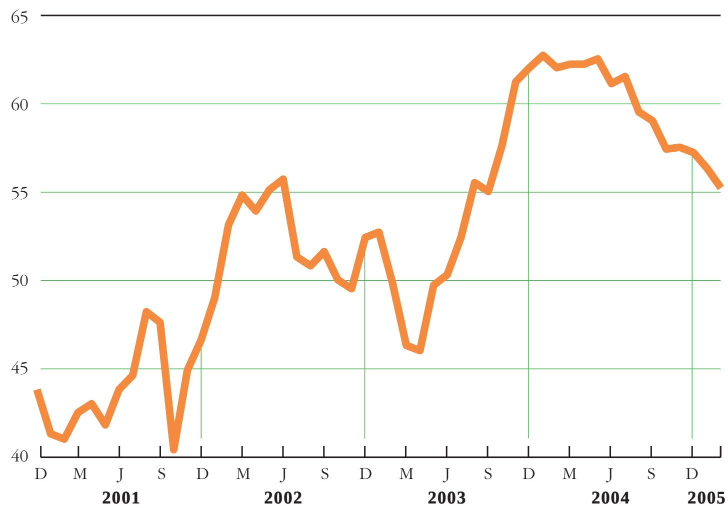
The consumer confidence index in February continued to show signs of strength holding at the 104.0 points level. The component of the current situation was the most dynamic. It went from the 112.1 points level to 116.4 points, coming close to the 125 points level for the first time since September 2001. The prospects component, on the other hand, went down to 95.7 points. It should be mentioned here that this level is substantially higher than the levels in 2001 and 2003 and only slightly lower than the high figures in 2004.

Manufacturing activity indicator stands at 55.3 points.

Among supply indicators, the manufacturing activity index from the Institute of Supply and Management dropped slightly in February. The general manufacturing index held at 55.3 points while the important component of new orders ended up at 55.8 points. The non-manufacturing activity index moved up slightly to the 59.8 points level. With levels well above the 50 points level, the corporate sector thus continues to show a positive view of the US economic situation although the proportion of optimistic opinion has dropped slightly.

US CORPORATE SECTOR SOMEWHAT LESS OPTIMISTIC

Figure for ISM corporate activity index



SOURCE: Institute of Supply Management and internal figures.

Industrial production slowing down.

Industrial production in February grew by 3.5% year-to-year, thus settling into a more moderate growth path than was to be expected from the 5.0% increases seen last summer. Keeping in mind the slight downward revisions of previous months, the stable growth that was developing now is beginning to show signs of a slowdown, although there is still a general sense of strength.

Housing starts grow above 15% while sales of existing houses up 13%.

At the beginning of 2005, the construction sector presents a picture of improved activity. Housing starts were up by 15.8% year-to-year in February, higher than the 12.9% rate in January and well above the decreases seen last autumn. While housing sales of new housing units in January dropped by 4.2% year-to-year, sales of existing housing grew by 12.5%. Adding to this strength, prices of existing housing rose by 9.8% year-to-year.

Labour market reaches 132,843,000 employees while unemployment stands at 5.4% of labour force.

The labour market reached a high of 132,843,000 non-farm employees in February. The recovery which began in May 2003 has reached a peak following moments of doubt in 2004. Some 262,000 new jobs were created in February, well above forecasts. Due to the increase in the labour force, however, the unemployment rate rose to 5.4% in February as against 5.2% in January. Manufacturing job creation in February was 20,000 new jobs so that this is now joining the general picture although the biggest player was again the services sector with a contribution of 207,000 new jobs. Labour productivity was revised upward increasing by 2.7% year-to-year in the fourth quarter, a figure not much below the 3.0% seen in the third quarter.

US EMPLOYMENT HITS NEW HIGHS

Non-farm employment in thousands

SOURCE: Department of Commerce and internal figures.

Slight increase in underlying inflation.

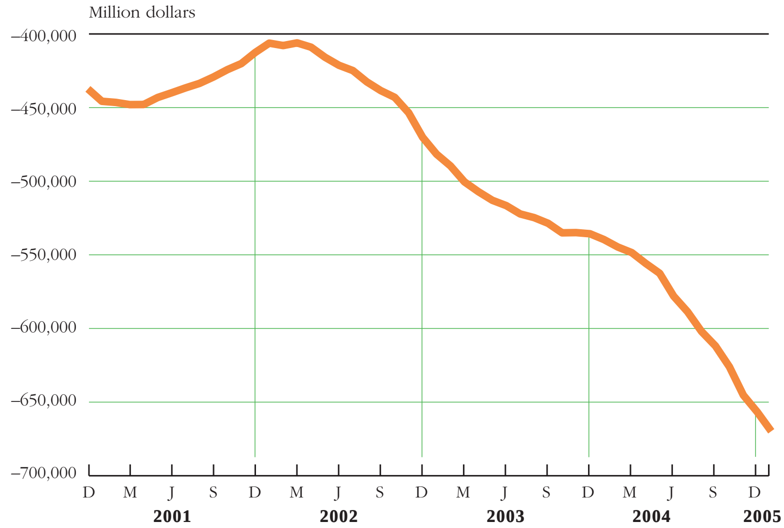
Inflation in January was 3.0%, a figure lower than the 3.5% in November and the 3.3% in December. However, the component of prices not including energy or food, more indicative of the background trend in prices, moved up by 2.3%, compared with 2.2% in December, a high which had not appeared since August 2002. Nevertheless, this increase starts out from very low historical levels. Along the same lines, confirming the upward trend, producer prices again showed the 4.3% increase seen in December.

Trade deficit reaches new highs month after month.

The foreign sector continues to worsen. In January, the trade deficit was 61.2 billion dollars, the second highest level in history. This puts the cumulative deficit for the past twelve months ending January at a new high of 663.6 billion dollars, 23.8% higher than in the same period the year before. In monetary terms, exports amounted to 63.3% of the figure for imports, whereas the year before they were 67.4%. In terms of volume, the decrease was much less pronounced given that, in the twelve months ending in January, exports came to 56.6% of imports, a figure not much below the 57.4% in the same period the year before. The weak dollar is thus beginning to have its effect although in a limited way up to now.

UNITED STATES INCREASES ITS TRADE DEFICIT

Cumulative figure for trade balance for twelve months



SOURCE: Department of Commerce and internal figures.

Government deficit stabilizes at 4.4% of GDP.

The government deficit in the third quarter amounted to 514.5 billion dollars, a very high figure which represents 4.4% of the gross domestic product for that period, although slightly lower than the 4.5% of the GDP showing up for the deficit in the first quarter of 2004 and the high of 5.1% in the third quarter of 2003.

Japan revises figures upward

Japan's economy grows by 1% but private consumption and investment remain weak.

Japan's economy has significantly revised its macroeconomic figures. According to new estimates, the economy grew by 1.0% year-to-year in the fourth quarter with an upward revision from the previous 0.8%. In quarter-to-quarter terms annualized, the change was more significant given that the economy grew by 0.5% as against the contraction of 0.5% previously issued. Nevertheless, this increase in the strength of the economy was based on stronger public consumption and on imports slightly down, with private consumption and investment showing no great changes.

Public consumption up with growth of 3.1% while imports record slight moderation.

Private consumption remained unchanged at 0.3% year-to-year while public consumption showed a more vigorous trend with an increase of 3.1% year-to-year as against the previous estimate of 2.7%. Investment sharpened its downward trend and, in the fourth quarter, dropped by 1.3% year-to-year as against the contraction of 0.3% previously announced. The increase in capital goods investment in the fourth quarter was revised downward to stand at 1.3% year-to-year while construction was up by 3.3%. In this revision, exports remained practically unchanged with an increase of 10.4% year-to-year while imports were slightly changed downward although with growth of 10.4%.

JAPAN: 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	1.4	2.6	4.1	3.1	2.3	1.0	–
Retail sales	–1.9	–0.6	0.2	–1.9	–0.3	–0.5	2.4
Industrial production	3.3	5.4	5.0	8.3	6.5	1.8	1.5
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	6.6
Unemployment rate (**)	5.3	4.7	4.9	4.7	4.8	4.5	4.5
Consumer prices	–0.3	0.0	–0.1	–0.3	–0.1	0.5	–0.1
Trade balance (***)	12.3	14.1	13.2	14.0	14.5	14.1	14.1

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

Retail sales continue on recovery trend while consumer confidence remains at high levels.

The most recent demand indicators show ups and downs. On the positive side, retail sales in January moved up by 2.4% year-to-year. These growth rates are small and often swing to months showing decreases but some trend to recovery of this consumer indicator is beginning to show up. This represents a positive feature of the present economic situation given the existing doubts about the crucial recovery of domestic demand in Japan. Also in this respect, consumer confidence in the fourth quarter held at the level of 45.6 points which is practically a repeat of the figure for the previous quarter and represents a high not seen since 1991 with the exception of the second quarter of 1996. On the other hand, car sales in February moved up by a poor 0.6% year-to-year. Along the same lines, industrial production of consumer goods moved up by 0.4%.

Industrial production up by 1.5% while machinery orders stalled.

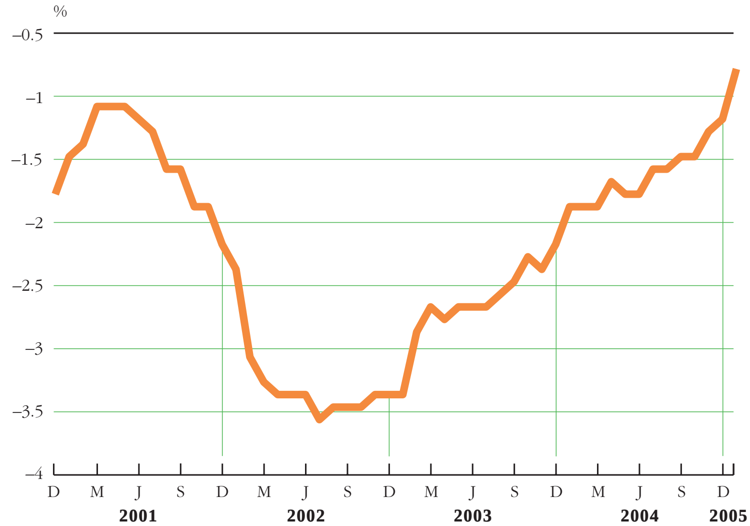
On the supply side, industrial production in January moved up by 1.5% year-to-year and continued to give no clear signs of strength. Machinery orders in January were practically unchanged with a drop of 0.2%, whereas in December they had recorded an increase of 10.6%. This would indicate a continuation of weakness in investment, partly brought about by doubts about growth of exports to China. The number of bankruptcies continued to drop with 1,014 companies going into bankruptcy in January, putting the total for the twelve months ending January 2005 at 13,375 companies, a level not seen since July 1992.

Unemployment stands at 4.5% with productivity growing less than 1%.

The unemployment rate in January remained unchanged at 4.5% of the labour force. The number of non-farm employees rose by 0.6% year-to-year. The services sector had 3.3% more employees in January than at the same time the year before, whereas the manufacturing sector lost 1.6% of its employees. In January, productivity grew by 0.8% year-to-year.

RETAIL SALES HALT DECREASE

Year-to-year change in retail sales



NOTES: Cycle-trend series.
SOURCE: Japanese Ministry of Economy, Trade and Industry and internal figures.

Inflation again negative while prices down 0.1% in January.

Consumer prices dropped by 0.1% year-to-year in January which again puts Japan's economy into deflation. Nevertheless, the tendency is still for recovery toward moderate levels of inflation. Prices of non-durable products rose by 0.7% year-to-year which meant a slowdown over previous months, something which can not be separated from the state of energy markets.

Trade surplus stagnant in January.

The trade balance for twelve months ending in January recorded a surplus of 14,000 billion yen. Nevertheless, in the last three months ending in January, the surplus was 2,400 billion yen, well below the 3,500 billion yen in the three months ending in December.

China: growth continues but prices moderating

China's industrial production slows to 8% growth but still showing strong level.

Supply indicators for the Chinese economy in the early months of 2005 in some cases showed a slowdown in economic activity. The most notable case was in industrial production in February which showed growth of 7.6% year-to-year. This was a sharp slowdown compared with 20.9% in January and rates close to 15% last autumn. Even considering the volatility of the figures and the fact that January showed a sharp increase in growth, this process of moderation has not been seen since 2001 although at that time the rates of increase were much lower. Heavy industry production, in turn, was up by 7.7% while light industry grew by 7.2%. Both indices followed along similar lines although the sharpest slowdown trend took place in heavy industry. As a result of this slowdown, as growth was concentrated in the private sector, the relative weight of State industry conglomerates rose to 43.3%. This meant a halt to the gradual reduction which had been taking place in 2003 and 2004.

CHINA: MAIN ECONOMIC INDICATORS

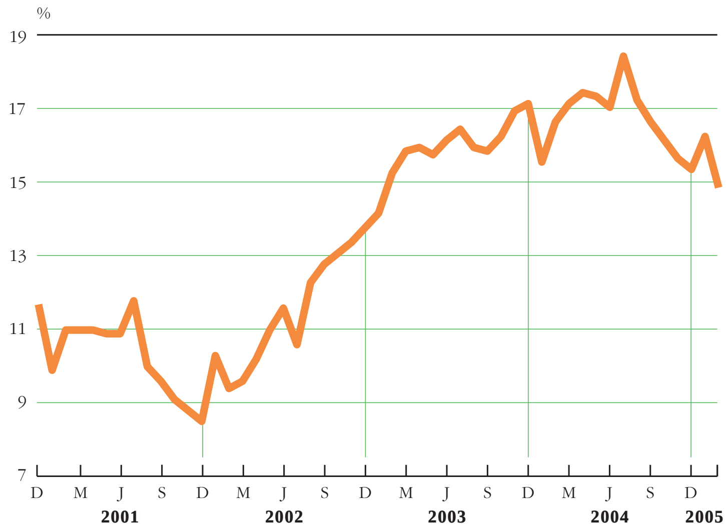
Percentage change over same period year before, unless otherwise indicated

	2003	2004	2004				2005	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February
GDP	9.3	9.5	9.8	9.6	9.1	9.5	–	...
Industrial production	16.7	16.3	16.6	17.6	15.8	15.0	20.9	7.6
Consumer prices	1.2	3.9	2.8	4.4	5.3	3.2	1.9	3.9
Trade balance (*)	25.5	31.9	17.9	13.6	20.3	31.9	38.4	51.0

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

CHINESE INDUSTRIAL GROWTH TAKES A BREATHER

Year-to-year change in industrial production



NOTA: (*) Cycle-trend series.
SOURCE: Chinese National Statistics Office and internal figures.

Production of electrical power and computers stabilize growth while vehicle production moderates.

Electrical energy production rose by 1.9% year-to-year while, in January, it moved up to 29.4% as against previous levels close to 15%. For the moment, there has only been a stabilization of year-to-year rates at values close to 14.5% with no clear signs of any slowdown in activity. Personal computer production for the twelve months ending in February rose by 41.9% year-to-year with growth stabilizing at those levels, leaving far behind the rates seen in 2003 which had reached 120%, while at the same time far from losing strength. Industrial production of motor vehicles in the same period was up 14.4%, in this case with a clear trend to slowdown. Cement production also decreased its growth rate to 9.7% although, in this case, the background trend remains upward.

Retail sales grow by nearly 16%.

On the demand side, retail sales showed a strong profile in February with in increase of 15.8% year-to-year, the highest rate since May 2004, with a slightly upward trend, which meant the decreases seen in January, when growth was 11.5%, were only temporary. Retail sales in the urban areas were especially strong with an increase of 17.3% in February as against 11.8% in January. In rural areas the increase was 12.2% (10.4% in January).

The food products component showed an increase of 18.5% in line with rates seen in recent months.

Consumer prices rise to 3.9%...

The consumer price index for February was 3.9% which meant a sharp rise compared with 1.9% in January and figures for the fourth quarter of 2004 when the component had been going down since August. This has brought back pressure on the monetary authorities and the concerns of last summer when the index had been reaching rates close to 5%. The food component showed inflation of 8.8%, much higher than the 4.0% in January. Among leading regions, the special region of the city of Shanghai showed inflation of 2.9% (decrease of 0.1% in January). The nearby region of Jiangsu showed 4.2% while Guangdong marked up 4.4%. On the positive side, producer prices in February grew by 5.4% year-to-year, a rate lower than the 5.8% in January and the 7.1% at year-end which raises hopes that the rise in consumer prices will be limited.

...but producer prices ease to 5.4%.

Trade surplus reaches 51 billion dollars…

The cumulative trade surplus for the 12 months ending in February amounted to 51 billion dollars, practically twice the figure for November. Imports in this period rose by 3.1% over the November figures while exports were up 7.1%. By country and region, this increase in surplus was largely based on a reduction in the trade deficit with Asia and Latin America which, from November to February, went from 74.3 billion dollars to 63.5 billion dollars and from 3.8 billion dollars to 2.9 billion dollars respectively. To a lesser degree, the surplus with the United States and Europe continued to rise and from November to February moved up from nearly 77 billion dollars to 80.3 billion dollars and from 32.1 billion dollars to 35.9 billion dollars respectively. The deficits with Japan, South Korea and Germany were also reduced.

…thanks to lower demand for raw materials with steel imports down 25%.

By product, the increase in the trade surplus was based more on the easing off in raw materials imports than in exports of manufactured goods, as has happened in earlier months. This is in keeping with the reduction in the trade deficit with Asia and Latin America. In the 12 months ending in January, iron imports grew by 44.4% year-to-year by volume, still on the rise. In the same period, aluminium rose by 14.2%, now showing a decrease, while copper was down by 12.9%. The significant imports of steel dropped by 25.4%.

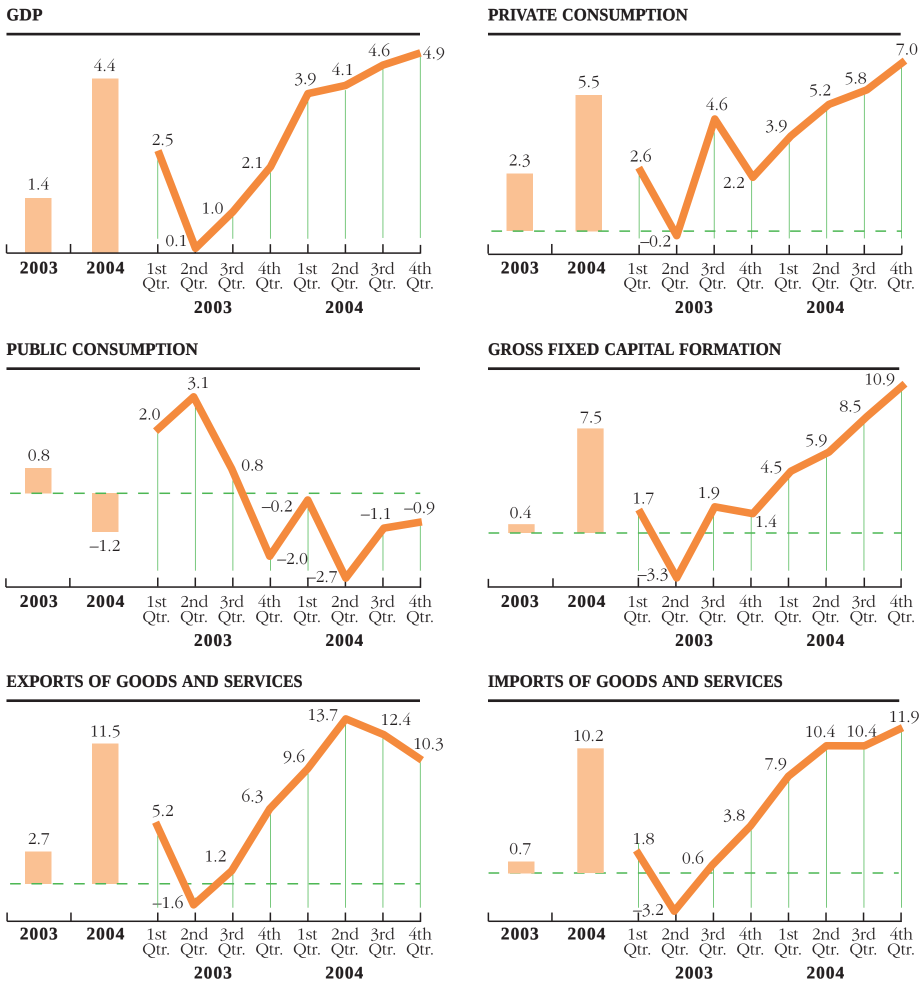
Mexico sharpened growth

Mexico grows by 4.9% based on strong private consumption (up 7%) and investment with close to 11% rise.

The Mexican economy grew by 4.9% year-to-year in the fourth quarter to show an increase over the 4.6% in the third quarter, which was revised upward. Private consumption in the same period grew by 7.0% year-to-year with a clear upward trend. Showing a significant contrast, public consumption was down by 0.9%. Another component showing great strength was investment which moved up 10.9%. Along the same lines, the component of private investment rose by 12.9% year-to-year. Exports were up 10.3% year-to-year which, while an increase, did not halt the slowdown process of this component since the second quarter of 2004. Imports continued to increase in rate of advance going to 11.9% year-to-year.

TREND IN MEXICO'S GDP BY COMPONENT

Percentage year-to-year change rate



SOURCE: Central Bank of Mexico.

By production sector, transport and communications and retail sales again led economic activity with growth of 9.9% and 7.0% year-to-year respectively, which in the latter case meant a notable rise. On the other hand, manufactures showed a lower rate of increase going from 5.0% to 3.6%.

Retail sales up 7% with industrial production showing 3.1% rise.

Among demand indicators, retail sales in December increased in growth rate with a level of 7.0% year-to-year. On the supply side, industrial production in January did not join the general situation with a rise of 3.1% which meant a slowdown over previous months. The construction and manufactures components showed a moderate rise with growth rates of 5.2% and 2.9% year-to-year respectively. The index for the «maquiladoras» (US companies producing at low cost aimed at export) dropped to 6.6% growth in January as against 11.1% in December.

MEXICO: 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	February
GDP	1.4	4.4	3.9	4.1	4.6	4.9	–	...
Industrial production	–0.2	3.8	3.2	3.7	4.8	3.6	3.1	...
Unemployment rate Mexico City (*)	3.6	4.7	4.8	4.5	5.2	4.3	...	...
Consumer prices	4.5	4.7	4.3	4.3	4.8	5.3	4.5	4.3
Trade balance (**)	–5.8	–8.5	–6.1	–5.6	–6.2	–8.5	–9.6	...

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

Unemployment drops to 3.6% while productivity up 2.2%.

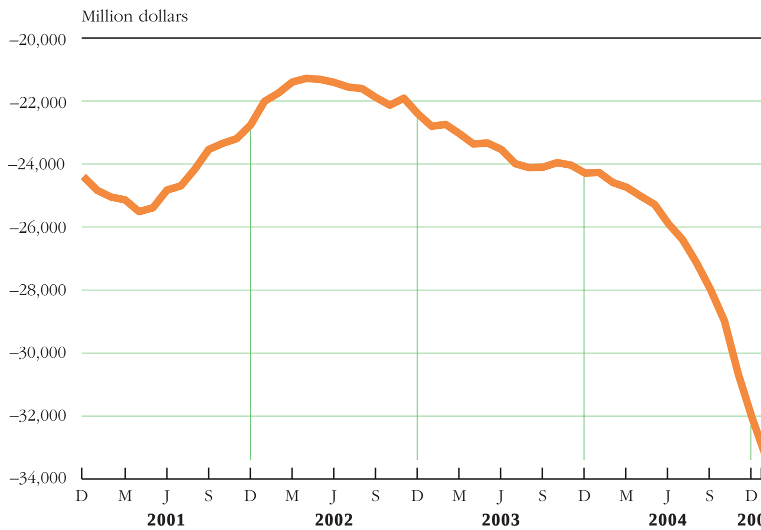
The labour market showed a positive trend recovering from the drop which had been noted in relation to growth of the economy. As a result, the unemployment rate for Mexico City in December fell to 3.6%, well below the 5.2% in November and the quarterly average of 4.3%. The other side of the coin was the slowdown in manufacturing productivity which in the same period rose by 2.2% year-to-year thus showing a clearly downward trend since the beginning of summer.

Inflation drops to 4.3% while component discounting energy and food stands at 3.7%.

Consumer prices in February showed a year-to-year rise of 4.3%, which is a continuation of the slowdown process taking place and stands in contrast to the 5.2% figure in December. As a result, inflation is recovering the levels at the beginning of last year. The component of consumer prices discounting food and energy in February showed a growth rate of 3.7% year-to-year, which was also lower than the 3.8% seen in earlier months.

MEXICO SHOWING DROP IN TRADE

Cumulative figure for 12 months for trade balance not including oil exports



SOURCE: Central Bank of Mexico and internal figures.

Trade deficit increasing in spite of oil exports and exports by maquiladoras.

The trade deficit continued to increase and for the 12 months ending in January the negative balance reached 9.6 million dollars. If we ignore oil exports, the result was 33.3 billion dollars, 10% higher than in November. In 2004, the trade surplus of the «maquiladoras» recovered from the downward trend begun in 2001 but the trade deficit of other companies showed an opposite trend which brought about a worsening of the general deficit. High oil prices and the good state of the Mexican economy for the moment are compensating for this worsening of the trade balance.

Raw materials: oil prices at peak

Oil marks up high at end of March after rise of 39% since start of year…

On March 22 the one-month forward price of Brent quality oil marked up an all-time high of 55.78 dollars a barrel thus showing a cumulative increase of 39% since the beginning of the year. Basically behind this notable rise lies the narrow gap between demand and potential oil supply, a factor which has certainly been heightened by speculative operations.

…due to growing strength of demand.

The combined effect of low temperatures in the Western hemisphere in February and March and the strength of the US and Chinese economies is pushing up world oil demand while supply continues to be more inflexible. According to latest estimates by the International Energy Agency (IEA), world demand for crude oil in 2005 will stand at 84.3 million barrels a day, which means growth of 1.8% over demand in 2004. This figure is 5% higher than that forecast by the IEA only one month ago.

RAW MATERIALS PRICES

	2003	2004	2004				2005		
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February	March
«The Economist» index in dollars (*)									
General	**11.7**	**17.4**	**23.7**	**28.2**	**16.0**	**1.5**	**–3.1**	**–3.4**	**–1.2**
Food	9.1	11.2	18.4	24.3	9.4	–7.3	–9.6	–9.6	–7.7
Industrials	15.9	26.1	31.6	34.0	25.1	13.8	5.5	4.6	7.9
Non-food agricultural	*21.8*	*9.2*	*19.8*	*21.6*	*6.8*	*–11.2*	*–12.8*	*–10.8*	*–8.4*
Metals	*11.8*	*38.2*	*40.1*	*43.1*	*38.3*	*31.5*	*17.1*	*14.0*	*17.9*
«The Economist» index in euros (*)	**–6.7**	**6.7**	**5.7**	**20.7**	**6.9**	**–6.5**	**–6.5**	**–5.7**	**–8.4**
Oil (**)									
Dollars/barrel	28.4	38.0	31.2	35.3	40.7	44.7	44.1	45.9	54.0
Change rate	13.1	34.4	2.6	36.9	44.4	53.8	44.3	50.8	65.0
Gold									
Dollars/ounce	364.0	409.6	408.4	394.0	401.9	434.0	424.3	423.8	438.4
Change rate	17.3	12.7	16.0	13.7	10.6	10.6	2.4	4.8	7.8

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

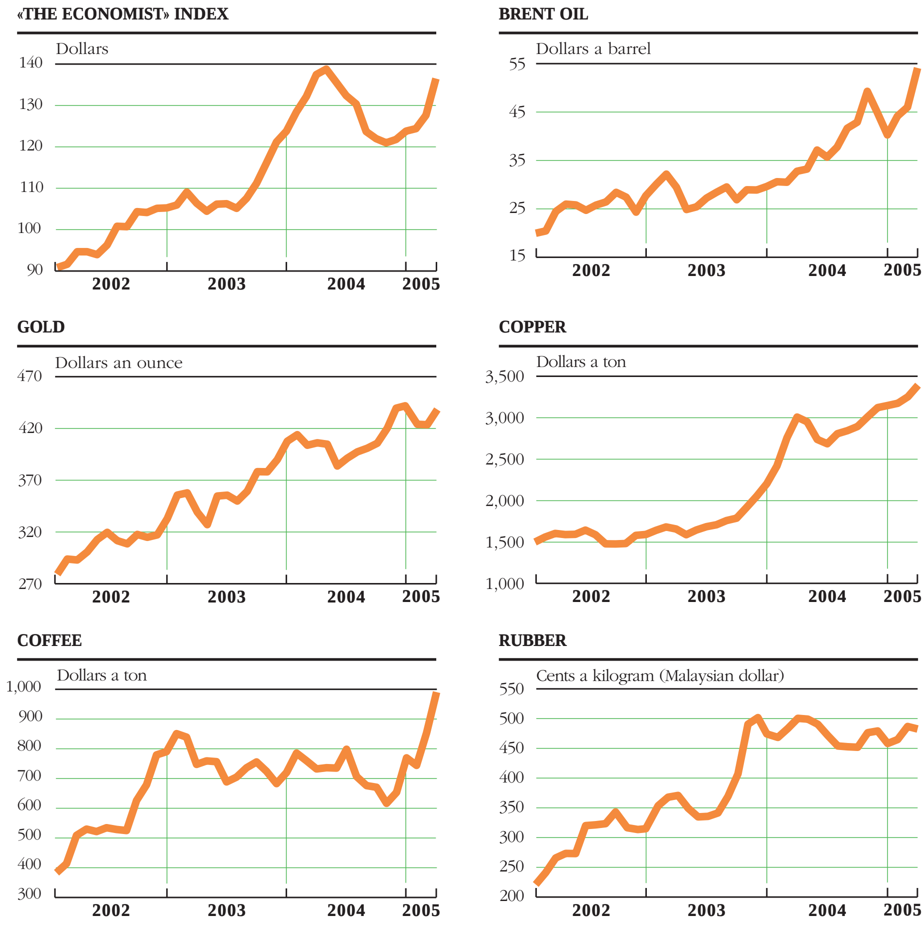
Increase in OPEC production not sufficient to lower oil prices.

The gap between supply and demand lies behind the continuation of high oil price quotes in spite of the announcement by the Organization of Petroleum Exporting Countries (OPEC) on March 17 that it would immediately increase production by 500,000 barrels a day and conditionally authorize a further increase of a half-million barrels in coming months. At the same time, the gap is greater in some products than in others, if we are to go by the rate of increase in inventories. In the United States, inventories of crude oil and petrol at mid-March stood 8% and 9% above the level one year earlier. On the other hand, inventories of distilled products were down by 2% year-to-year.

Metals lead rise in other raw materials with increase of 18% in last 12 months.

With regard to other raw materials, the general trend recently has been to an increase in prices although not as sharp as in the case of oil. «The Economist» raw materials index in dollars went from year-to-year decreases of more than 3% in January and February to a drop of 1.2% year-to-year in March. The index in euros followed a parallel course, dropping by only 8.4% year-to-year in March, some 2.4 points less than in February. The most expansionist groups of raw materials are industrial raw materials which were up 8% year-to-year in March, especially metals,

TREND IN SELECTED RAW MATERIALS



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

which as a whole came close to year-to-year increases of 18%. Within this category, gold continued to show significant increases with a rise of 8% year-to-year in March, a notable rate if we keep in mind the high starting-out levels (at the end of March the quote was close to 440 dollars an ounce).

EUROPEAN UNION

Euro area: weak start to 2005

Euro area grows by mere 1.6% in fourth quarter due to weak domestic demand.

The euro area grew by a modest 0.6% quarter-to-quarter annualized in the fourth quarter of 2004 as against 1.0% in the third quarter. Fourth quarter growth at year-to-year rate was 1.6%. In line with previous quarters, this limited rate of economic activity arose from the weakness of domestic demand. Private consumption was up by 1.3% year-to-year, a rate slightly better than the 0.9% in the third quarter but practically identical to the rate in the first half of 2004. The other components of domestic demand show an even less satisfactory performance with a rate lower than that in the third quarter. Private consumption grew by 1.2% (1.5% in the preceding quarter) and investment was up 1.6% (2.1% previously). In turn, the contribution to the gross domestic product from change in inventories was also down in that quarter, going from 1.3% in the June-September to 0.5%.

EURO AREA: 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	February
GDP	0.5	1.8	1.6	2.2	1.9	1.6	–	...
Retail sales	0.3	0.1	0.4	0.0	0.0	0.1	–0.6	...
Consumer confidence (*)	–18	–14	–14	–14	–14	–13	–13	–13
Industrial production	0.3	1.9	1.1	3.1	2.8	0.8	2.2	...
Economic sentiment indicator (*)	93.4	100.0	98.6	99.9	100.6	100.9	100.8	98.8
Unemployment rate (**)	8.7	8.8	8.9	8.8	8.8	8.8	8.8	...
Consumer prices	2.1	2.1	1.7	2.3	2.2	2.3	1.9	2.1
Trade balance (***)	80.4	81.8	76.5	88.9	86.3	75.7	...	...

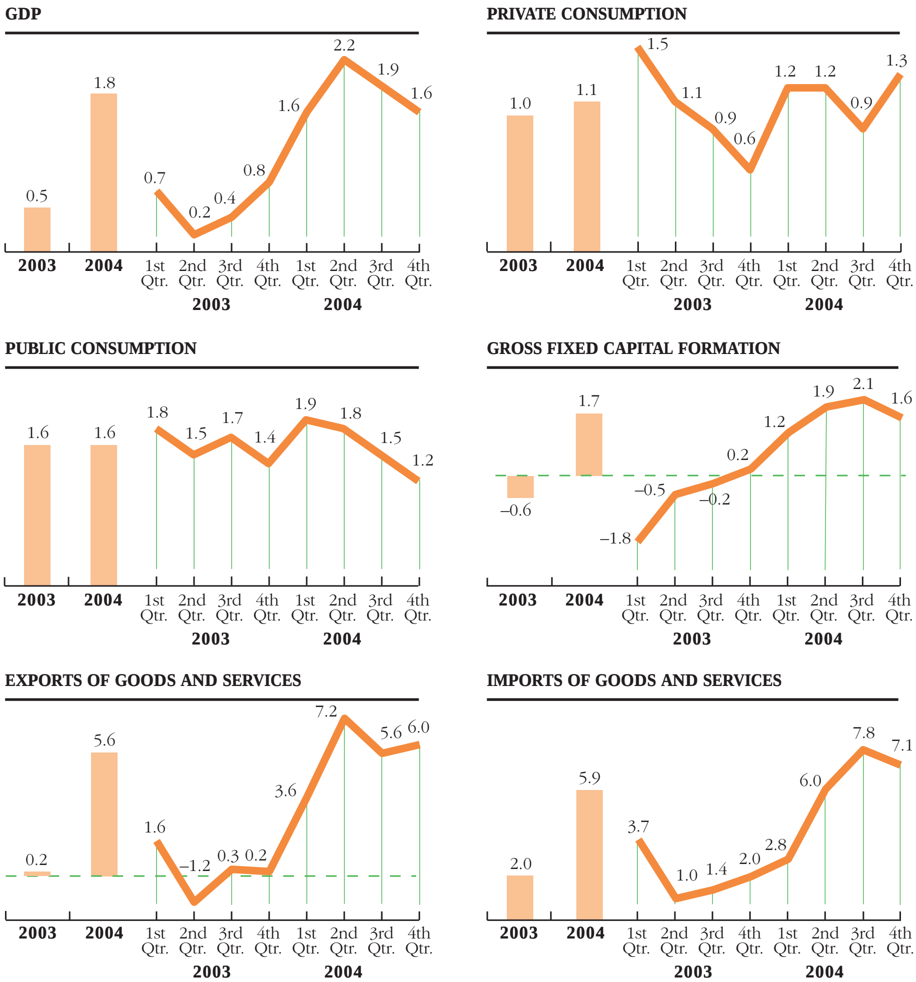
NOTES: (*) Value.
(**) Percentage of labour force.
(***) Cumulative balance for 12 months. Billion euros.
SOURCE: Eurostat, European Central Bank, European Commission and internal figures.

Foreign sector recovers part of lost ground.

In this context of domestic weakness, the best results showed up in the foreign sector. The substantial cut in GDP growth from foreign demand in the third quarter (6 decimals) led, in the fourth quarter, to a negative contribution of only 2 decimals. This lower impact from the foreign sector came basically from recovery of exports of goods and services which rose to 6.0% year-to-year (5.6% year-to-year in the third quarter). This improvement in exports was combined with something of a drop in imports which, in any case, continued to grow at a notable rate of more than 7% year-to-year.

TREND IN GDP IN EURO AREA BY COMPONENT

Percentage year-to-year change



SOURCE: Eurostat and internal figures.

Consumption showing little growth at start of 2005.

Starting out from these trends, the start-up in 2005 is showing rather moderate economic activity. Private consumption continues in a stage of weakness, if we are to go by the poor situation in retail sales which dropped by 0.6% in year-to-year rate in January. Maintenance of consumer confidence at the -13 points level between September and February confirms the lack of significant improvement in the matter of household spending. Nor is the trend in investment managing to consolidate. The clear recovery of the capital goods component of industrial production in the third quarter (year-to-year growth of 5.2%) gave way to a much more contained rate in the fourth quarter (year-to-year rise of 1.3%). The figure for January, which showed a rise to 3.0% year-to-year, could be a sign of a new swing, this time upward.

Economic sentiment worsens in February.

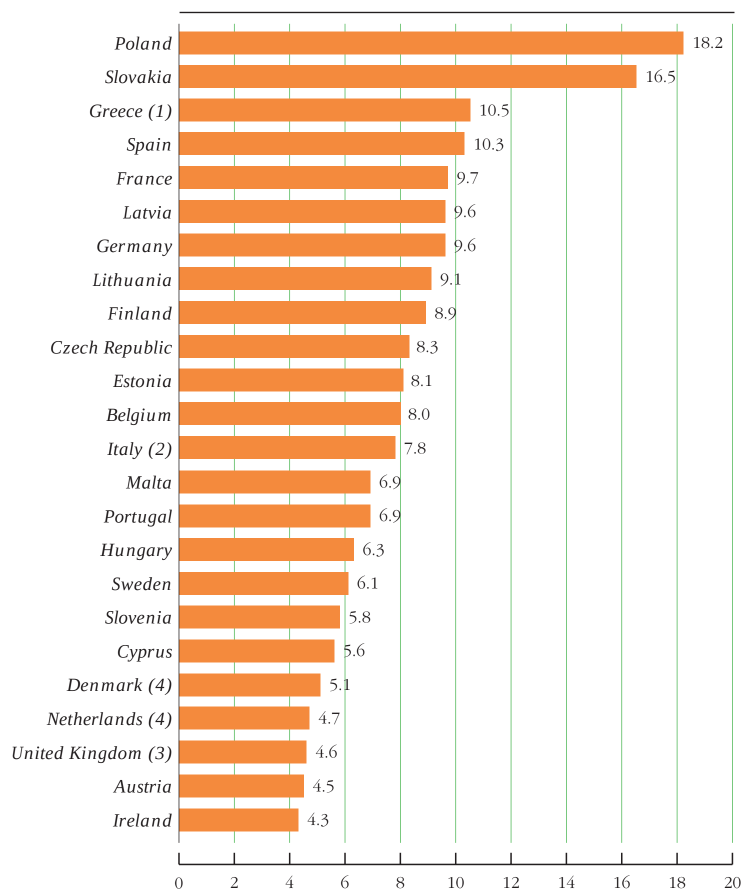
Supply indicators also reflect the contained state of economic activity. The broadest of those indicators, the economic sentiment index, dropped by one point in February (to the 98.8 points level), more than compensating for the slight rise in January. The worsening of the index in February came as a result of the decreases recorded in all components, especially the drops in construction and industry, by 2 points in both cases. In this context, the recovery in industrial production recorded in January (year-to-year growth of 2.2% as against 1.0% in December) should be viewed with caution as the figure is partly biased upward by the low increase seen in January 2004.

Inflation up to 2.1% in February due to effect of energy.

With regard to prices, the recent trend has been dominated by the performance in the energy component. After standing at 1.9% year-to-year in January, its first figure below 2% since March 2004, the harmonized consumer price index (HCPI) rose to 2.1% in February due to the rise in energy. It should be pointed out that, when we compare the growth in energy raw materials at origin (oil rose by 44% year-to-year in January and 51% in February), with the energy component of the CPI (rise of 8% year-to-year in February), we find a notable containment effect as a result of the appreciation of the euro.

SHARP DIFFERENCES IN UNEMPLOYMENT RATES IN EUROPEAN UNION

Unemployment rate as percentage of labour force (January 2005)



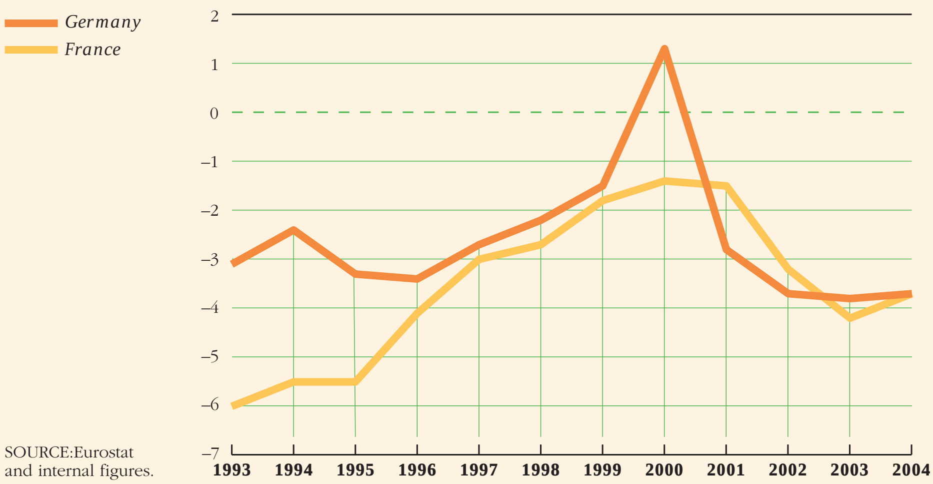
NOTES: (1) June 2004.
(2) September 2004.
(3) November 2004.
(4) December 2004.
SOURCE: Eurostat and internal figures.

REFORM OF STABILITY AND GROWTH PACT

On March 22-23, the European Council approved reform of the Stability and Growth Pact set up in 1997. Behind the reforms lie the difficulties experienced by Germany and France which went over the limit on the government deficit of 3% of the gross domestic product (GDP) between the years 2002 and 2004 and the institutional conflict which came about between the Council of Ministers and the European Commission for applying the Pact in 2003. This conflict was settled by a sentence of the Court of Justice of the European Union favourable to the latter in 2004.

GERMAN AND FRENCH PROBLEMS WITH GOVERNMENT DEFICIT BRING ABOUT REFORMS OF STABILITY PACT

Government balance as percentage of GDP



SOURCE:Eurostat and internal figures.

The new Stability Pact maintains unaltered the two existing limits on the government deficit and the government debt at 3% and 60% respectively, while introducing new features in matters of timing and exceptional situations to be taken into account. As a result, the period during which a member state with an excessive deficit must correct it has been extended from a year as at present to a period of another year, and even more, depending on whether unexpected adverse economic conditions develop.

In addition, a broad range of situations has been established which affect application of the sanctions set out. To start with, if it happens that so-called pertinent economic factors exist, such as, among others, the carrying out of structural reforms or efforts leading up to fiscal consolidation, the Commission would not institute the excessive deficit procedure. At the same time, the medium-term budgetary objective, when in a situation close to budgetary balance, will lose its general nature and be established according to the circumstances of each country. If the member state in question enjoys a low level of government debt and a high growth potential, situations involving government deficit up to 1% of the GDP will be admitted. On the other hand, for those countries which significantly go above the 60% threshold of government debt and have low growth potential, it will be possible to even require a situation of government surplus.

Unemployment rate stable at 8.8% in January.

The situation in the labour market shows fewer changes. Employment is holding to a tendency to moderate recovery although current levels continue low. In the third quarter of 2004, the latest figure available, year-to-year growth of employment was 0.5%, two decimals higher than in the second quarter. The unemployment rate, on the other hand, held at 8.8% in January with no change over December.

Germany: consumption flat at start of 2005

Poor state of household spending not easing in Germany.

The German economy continues in a stage of weak activity. The most notable feature is the persistent slackness in consumption. The drop in retail sales in January (decrease of 0.4% year-to-year) and the dip in consumer confidence in February (down three points) would suggest that the German consumer is not in a very expansionist mood. On the other hand, the state of investment seems to be moving into a stronger stage. Following some weakness in November and December, industrial production of capital goods rose in January.

GERMANY: 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	February
GDP	–0.1	1.0	0.9	1.4	1.2	0.6	–	...
Retail sales	–0.5	–1.7	–0.5	–2.3	–1.7	–2.2	–0.4	...
Industrial production	0.1	2.3	1.2	3.4	3.8	0.8	3.5	...
Industrial activity index (IFO) (*)	91.7	95.7	96.4	95.7	95.4	95.2	96.4	95.4
Unemployment rate (**)	10.5	10.8	10.4	10.5	10.7	10.8	11.4	11.7
Consumer prices	1.1	1.6	1.1	1.8	1.9	2.0	1.6	1.8
Trade balance (***)	129.8	149.4	137.4	150.6	154.1	155.4	155.8	...

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

Services holding up, industry leaving worst behind but no recovery in construction.

From a sector point of view, recent trends show that services are riding out the stage of low economic growth to a better degree, as shown by the gradual recovery of the sector confidence indicator. After rising two points in the fourth quarter (to stand at the 10 points level), it recovered one additional point on average in January and February. The trend in industry is not as positive. After growing by a modest 0.8% year-to-year in the fourth quarter, industrial production in January moved up to 3.5%, although this figure shows some upward bias because of a base effect. In fact, the IFO industrial activity index fell to 94.0 points in March which would indicate a further slowdown in industry. In any case, the worst situation is to be seen in construction which, after a negative figure in 2004 amounting to a 4% drop in the sector, does not seem at a point to turn around this downward trend. At least this is suggested by the poor performance seen in a key early indicator (new housing building permits), which was down 30% year-to-year in December.

Strong performance in exports.

In view of this depressing domestic performance, the best indicators for the German economy come from the foreign sector. After ending 2004 with the highest level of exports since statistics were first kept and growth of close to 9%, foreign sales extended this good situation into January 2005 with an increase of 9.4% compared with one year earlier. The strength in exports made it possible that, in spite of the rise in imports (growth of 11% year-to-year in January), the cumulative trade surplus for 12 months stood at 155.8 billion euros in January, compared with 155.2 billion euros in December.

Consumer prices begin to reflect oil price rise while unemployment up substantially in first two months of year.

With regard to prices, inflation is progressively reflecting the higher contribution of energy. In February, the CPI grew by 1.8% at year-to-year rate (1.6% in January). In any case, the trend in the unemployment rate is notably worse which, after a jump above 11% in January (11.4%), went to 11.7% of the labour force in February. It should be mentioned, however, that because of the particular method of calculating this figure, the German unemployment rate is not strictly suitable for making international comparisons. In this respect, the harmonized unemployment rate for January published by Eurostat stands at 9.6% of the labour force.

France: economic activity stable

Relative loss of strength in consumption in France partly compensated by better state of investment.

In the early months of 2005 the French economy shows a level of activity similar to that for the fourth quarter of 2004, thanks to the fact that the lower drive in consumption was compensated by higher investment. In January, domestic consumption grew by 3.8% year-to-year (5.0% year-to-year in the fourth quarter) whereas industrial production of capital goods rose to 3.8% year-to-year, two points more than the rate for December. Foreign demand, in turn, continues to reduce its contribution given that, in spite of the rise in exports (year-to-year increase of 6.1% in January), the needs of domestic demand have been driving imports with growth rates of more than 10% since May 2004, a trend that continued with an increase of 12.4% year-to-year in January.

Industry consolidates recovery.

On the supply side, the best news comes from the industrial sector. After several months of modest growth, industrial production has had a run of three consecutive months of increase, going from 1.9% year-to-year in November to 2.9% in January. In addition, the indicators for services and construction show stable high levels of economic activity.

Consumer prices proving stable.

The absence of inflationary pressures is another positive feature of the French economic situation. In February, the year-to-year CPI rate held at 1.6% with no change over January. If we discount the more volatile components, such as energy, the lack of imbalances in prices is even clearer, given that the resulting rate was 1.0% year-to-year in February. With regard to unemployment, January brought an increase of one decimal in the unemployment rate putting it at 10.1% of the labour force, a level not reached since January 2000.

FRANCE: 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	February
GDP	0.5	2.3	2.0	3.1	2.0	2.2	–	...
Domestic consumption	0.7	4.4	3.1	5.8	3.6	5.0	3.8	...
Industrial production	–0.5	1.8	0.6	2.9	2.0	1.6	2.9	...
Unemployment rate (*)	9.8	10.0	10.0	10.0	10.0	9.9	10.1	...
Consumer prices	2.1	2.1	1.9	2.4	2.2	2.1	1.6	1.6
Trade balance (**)	0.2	0.0	0.2	0.2	–0.1	–0.5	–0.8	...

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

Italy: domestic demand at low levels

Double drop in domestic demand and foreign sector in Italy...

Italy is going through one of the worst situations in the euro area, the combined result of a domestic demand that fails to respond and a worsening in the foreign sector. The drop in consumer confidence in February to -18 points and the year-to-year drop of -2.5% in retail sales in January confirm that household spending has not turned around. At the same time, the increased cumulative trade deficit for 12 months (up to 40 billion euros in December) reflects the loss of drive in foreign demand.

ITALY: 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	February
GDP	0.4	1.1	0.8	1.3	1.4	1.0	–	...
Retail sales	2.0	–0.4	1.2	–0.2	–1.3	–1.1	–2.5	...
Industrial production	–0.5	–0.4	–0.2	1.2	–0.6	–2.0	–2.1	...
Unemployment rate (*)	8.4	...	8.2	8.0	8.0	...	–	...
Consumer prices	2.7	2.2	2.2	2.4	2.2	2.0	1.9	1.9
Trade balance (**)	4.1	2.1	2.2	3.3	2.9	0.0	...	...

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

...a situation provoking a worsening of industrial activity.

In this situation of weak demand, industrial production continues to suffer. This indicator dropped by 2.1% year-to-year in January which meant it was still in the range of year-to-year decreases begun in July 2004. On the other hand, the low level of domestic demand underlies the stability to be seen in inflation in Italy's economy. Maintenance of the CPI at 1.9% year-to-year in February represents the sixth consecutive month with inflation swinging at around 2%.

United Kingdom: stable growth of 3%

United Kingdom grows 2.9% in fourth quarter.

The British economy grew by 2.9% year-to-year in the fourth quarter, ending the year 2004 with an increase of 3.1%. This performance, which was notably different from the other three large economies in the European Union (Germany, France and Italy), was basically due to the good situation in private consumption (which in the fourth quarter held at a growth rate of 3.0% year-to-year) and the major increase in investment (gross fixed capital formation in the fourth quarter was up by 5% year-to-year). The down side to this good domestic demand was the major cut in GDP growth coming from the foreign sector, slightly less than one percentage point in the final quarter of 2004.

UNITED KINGDOM: 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	February
GDP	2.2	3.1	2.8	3.5	3.1	2.9	–	...
Retail sales	3.1	6.1	6.2	6.8	6.6	4.8	3.5	3.6
Industrial production	–0.2	0.5	0.3	1.8	0.1	–0.5	0.1	...
Unemployment rate (*)	2.9	2.7	2.8	2.7	2.7	2.7	2.6	2.6
Consumer prices	2.8	2.2	2.3	2.2	2.1	2.3	2.1	2.1
Trade balance (**)	–46.3	–54.4	–50.3	–53.4	–56.2	–57.7	–57.9	...

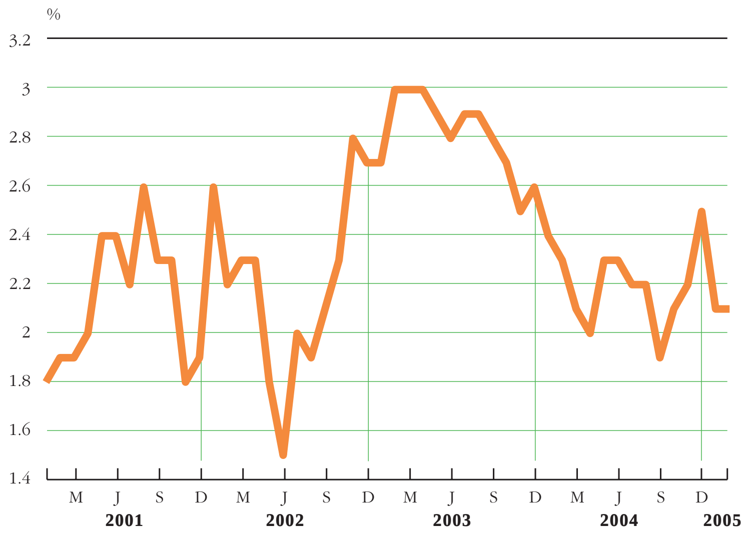
NOTES: (*) Percentage of labour force.
(**) Cumulative balance for 12 months. Billion pounds.
SOURCE: OECD, national statistical bodies and internal figures.

Strength of consumption and investment continue at start of 2005.

The indicators for 2005 show a continuation of these earlier trends. Retail sales grew by 3.6% in February which reflects the good state of consumption and the increase in the capital goods component of industrial production in the first month of the current year also would indicate a continuation of the growth of investment. Foreign demand, on the other hand, continues to show a massive deficit. The cumulative trade balance for the 12 months ended in January was 57.9 billion pounds sterling, slightly above that for the fourth quarter.

INFLATION UNDER CONTROL IN UNITED KINGDOM

Year-to-year change in consumer price index



SOURCE: National Statistics Office and internal figures.

Inflation remains moderate at 2.1% in February.

Supply indicators, in turn, scarcely show any change over previous months. Industrial production is stuck at a low growth stage (increase of 0.1% year-to-year in January), construction is slowing down and services are holding at a high level of activity. We may conclude this overall favourable situation by noting that there is a complete absence of inflationary pressures (the CPI grew by 2.1% year-to-year in February) while the unemployment rate in January dropped to 2.6% of the labour force, the lowest level since 1975, and held at this level in February.

MONETARY AND CAPITAL MARKETS

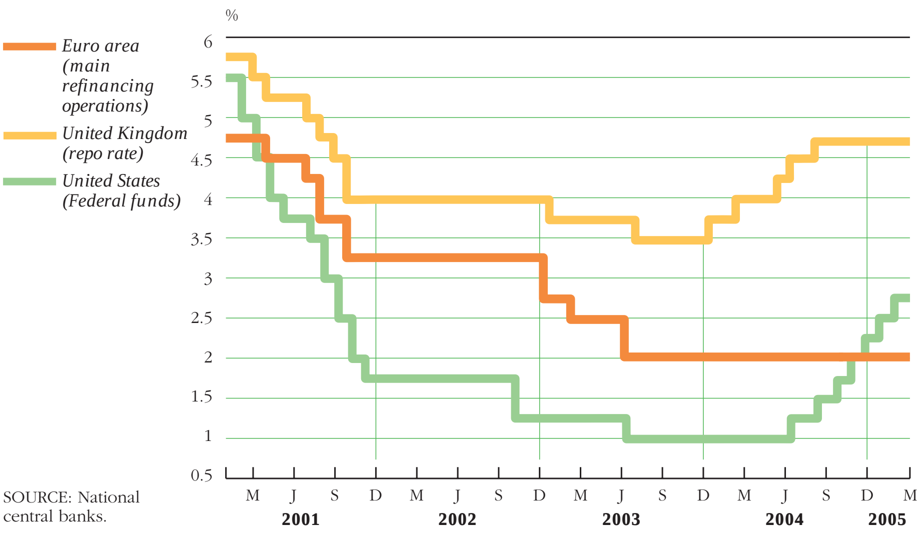
Federal Reserve raises rates for seventh time in a row

Federal Reserve indicates it will continue raising official interest rate in coming months…

On March 22, the Federal Reserve, the US central banking system, decided to again raise official interest rates by 25 basis points. Following this seventh consecutive raise, the objective interest on Federal Funds (overnight interbank deposits) stood at 2.75% while the discount rate went to 3.75%. This measure was taken in view of the moderate growth of the economy and to prevent possible inflationary pressures. The Committee suggested that the gradual increase in official interest rates would continue in coming months.

FEDERAL RESERVE RAISES REFERENCE RATE TO 2.75%

Monetary policy reference rates



SOURCE: National central banks.

…as foreseen by market.

The market also was expecting this move. As a result, the interest rate on US 1-year interbank deposits has gone up appreciably in recent weeks. At the middle of the fourth week in the month it stood at 3.77%. This level represented an increase of 250 basis points compared with 12 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 3-month	Euribor 1-year	Federal Reserve Board target level (3)	3-month	3-month	Bank of England intervention rate (4)	3-month	3-month
2004									
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 (*)	2.06	2.14	2.31	2.50	2.80	0.00	4.75	4.80	0.75
March (1)	2.05	2.14	2.40	2.75	3.00	0.00	4.75	4.91	0.76

NOTES: (*) Provisional figures.
(1) March 23.
(2) Marginal interest rate. Latest dates showing change in minimum rate: 6-3-03 (2.50%), 5-6-03 (2.00%).
(3) Latest dates showing change: 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%), 22-3-05 (2.75%).
(4) Latest dates showing change: 6-2-03 (3.75%), 10-7-03 (3.50%), 6-11-03 (3.75%), 5-2-04 (4.00%), 6-5-04 (4.25%), 10-6-04 (4.50%), 5-8-04 (4.75%).
SOURCE: European Central Bank, Bank of Spain, Thomson Financial Datastream and internal figures.

Concern in euro area about excessive money supply as long-term inflation risk.

In the euro area, the Governing Council of the European Central Bank (ECB) did not change its reference rate at its meeting on March 3. The new projections for economic growth in the euro area drawn up by ECB experts showed a slight downward revision over those of last December while the forecast for inflation showed practically no change. As a result, it is expected that the inflation rate will stand in the 1.6%-2.2% band this year and at 1.0%-2.2% in 2006. Nevertheless, it pointed to the existence of upward risks for price stability over the medium term in a context of probable economic recovery. As a result, there is some concern about the excessive growth of money supply. In January, the broad M3 money supply figure grew by 6.6% compared with the reference increase of 4.5%. Credit to the private sector also has revived with an annual rise of 7.3%.

ECB has no plans to lower interest rates.

In any case, if there had been any doubts on the matter, the ECB chairman, Jean-Claude Trichet, made it clear that at the meeting on March 3 they had not even discussed the possibility of a cut in interest rates, in spite of the weak economic recovery in the euro area. In this context, the 1-year Euribor held at the same monthly average level in February as in January, namely 2.31%. In the early weeks of March the 1-year Euribor tended to rise going to 2.40% in the middle of the fourth week of the month. As a result, the interest rate curve is discounting the beginning of a restrictive turn by the ECB at the end of summer this year.

Central banks of Australia and New Zealand raise rates.

In Oceania, the Bank of Australia raised its official interest rate on March 2 for the first time since December 2003 putting it up 25 basis points to 5.50%. The reason for this restrictive move was to halt inflationary pressures. Furthermore, on March 10, the Bank of New Zealand also raised its reference rate by 25 basis points to 6.75%.

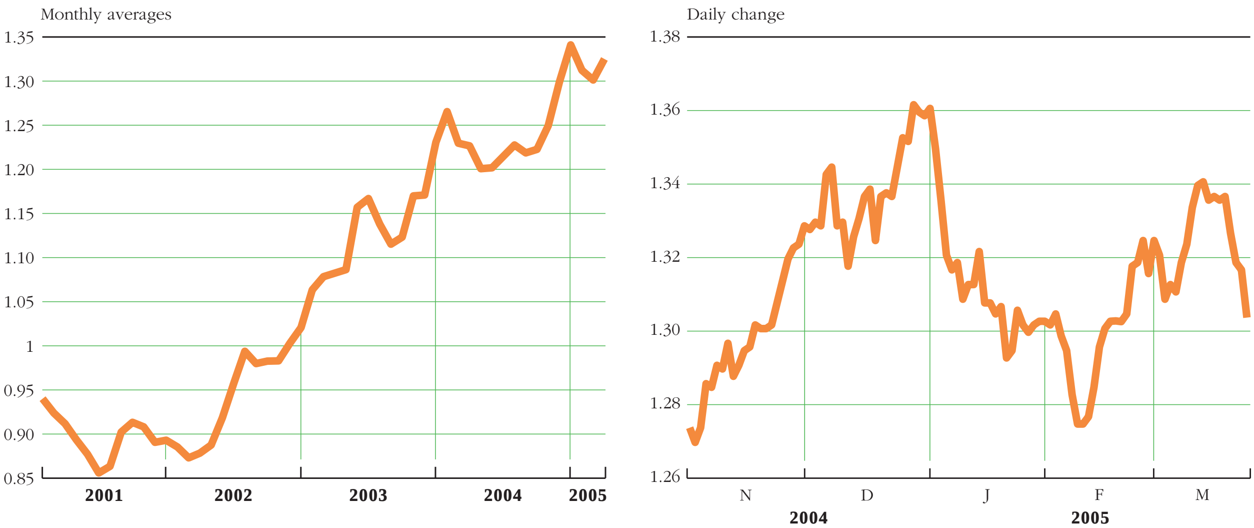
Dollar overcomes lack of confidence

Increase in US foreign deficit pushes dollar down but greenback manages to recover with help from interest rate differential.

The US currency depreciated by 0.9% compared with a broad range of currencies in February. The revelation by various central banks that they wanted to diversify their foreign currency reserves, reducing the share of the dollar, helped to weaken it. The reigning lack of confidence in the greenback continued in the early weeks of March. Even Japan was standing off from the dollar, according to statements by prime minister Koizumi, although his words were quickly qualified. Other factors contributing to the drop in the US currency were the increase in the trade deficit in January and in the current account balance in the fourth quarter, both higher than expected. Nevertheless, as of the third week in the month, the dollar recovered positions helped by increasing prospects of a rise in interest rates because of concern about inflation. As a result, the dollar went above the level seen at the beginning of the year in overall terms in the middle of the fourth week in March.

EURO SHOWS SWINGS AGAINST DOLLAR

US dollars to euro



NOTES: Figures go up to March 23. SOURCE: OECD, Thomson Financial Datastream and internal figures.

EXCHANGE RATES OF MAIN CURRENCIES

February 2005

	Final session of month		Monthly figures				Exchange rate March 23, 2005
	Exchange rate	% monthly change (2)	Average exchange rate	% change (2) Monthly	Over December 2004	Annual	
Against US dollar							
Japanese yen	104.6	0.9	105.0	1.7	1.2	–1.6	*106.0*
Pound sterling (1)	1.920	1.9	1.888	0.5	–2.2	1.0	*1.869*
Swiss franc	1.164	–2.0	1.191	1.0	4.0	–4.3	*1.196*
Canadian dollar	1.236	–0.4	1.239	1.1	1.7	–6.7	*1.215*
Mexican peso	11.09	–1.1	11.13	–1.1	–0.6	1.0	*11.25*
Nominal effective index (4)	*108.5*	*–0.9*	*109.6*	*0.2*	*0.6*	*–3.1*	*109.6*
Against euro							
US dollar	1.326	1.7	1.301	–0.8	–2.9	2.9	*1.305*
Japanese yen	138.0	2.3	136.5	0.7	–1.9	1.3	*137.7*
Swiss franc	1.539	–0.5	1.550	0.2	0.9	–1.5	*1.556*
Pound sterling	0.690	–0.2	0.690	–1.3	–0.8	1.9	*0.695*
Swedish krona	9.058	–0.5	9.085	0.4	1.2	–1.0	*9.111*
Danish krone (3)	7.443	0.0	7.443	0.0	0.1	–0.1	*7.449*
Polish zloty	3.907	–4.3	3.987	–2.3	–3.6	–17.9	*4.120*
Czech crown	29.74	–1.3	29.96	–1.1	–2.2	–8.8	*30.08*
Hungarian forint	241.8	–1.5	243.7	–1.1	–0.9	–7.4	*247.7*
Nominal effective index (5)	*105.9*	*0.6*	*105.1*	*–0.7*	*–1.8*	*–0.2*	*105.6*

NOTES: (1) Units to pound sterling.
(2) Percentages of change refer to rates as shown in table.
(3) Danish krone has central parity of 7.46038 against euro with fluctuation band of ±2.25%.
(4) Broad nominal effective index of US Federal Reserve Board. Calculated as a weighted average of the foreign exchange value of the US dollar against the 26 currencies of those countries with greatest volume of trade with the United States. Base: 1-1997 = 100.
(5) European Central Bank nominal effective exchange rate index for the euro. Calculated as a weighted average of the bilateral value of the euro against the currencies of the 23 main trading partners of the euro area. Base: I-1999 = 100.
SOURCE: Thomson Financial Datastream and internal figures.

Euro loses ground because of weakness of euro area economy against dollar…

The euro appreciated 0.6% in February against the group of its main trading partners. This trend continued in the early weeks of March. Nevertheless, the recovery of the European single currency slipped back on publication of weak economic figures for the euro area. In fact, the recovery of the euro was largely due to taking advantage of the weakness of other currencies, mainly the US dollar. On March 11, the euro was quoted at 1.34 dollars, the highest level since the beginning of January only to later drop to 1.305 dollars on March 23.

…but appreciates against currencies of Eastern Europe.

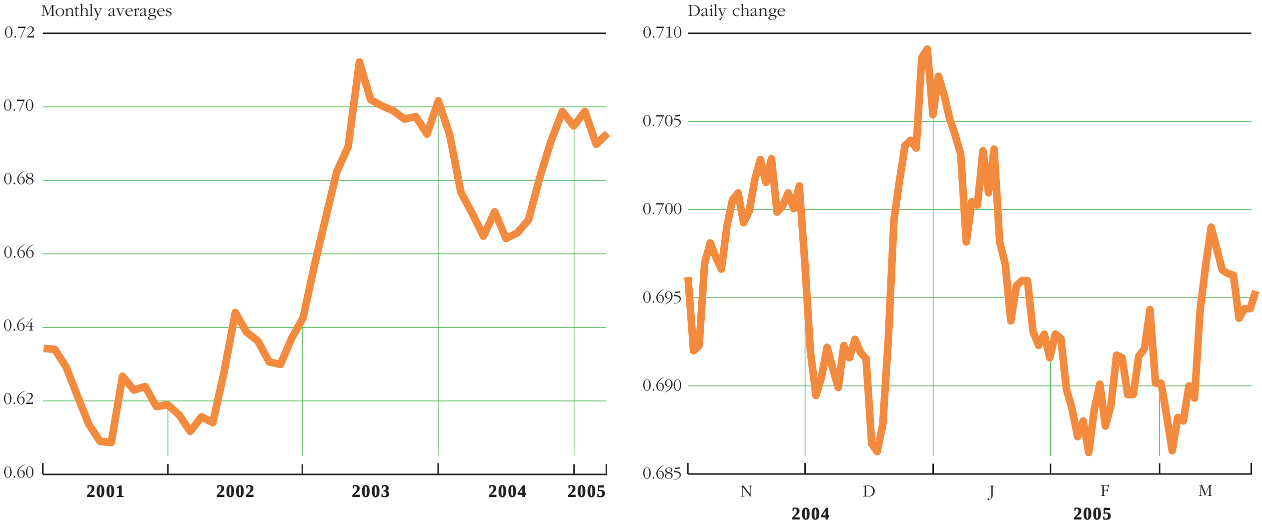
In any case, the European currency recovered ground in March against the currencies of the new member states of the European Union, such as the Polish zloty, the Czech crown and the Hungarian forint. These currencies had risen against the euro in recent months when they were attracting considerable short-term capital inflows because of interest rate differentials. It should be pointed out that the short-term interest rate differential with the Czech crown was wiped out in March.

Increased trade deficit in United Kingdom gives no help to pound sterling.

The pound sterling depreciated against the dollar in the early weeks of March, in contrast to the month before when it rose by 1.9%. The British currency also weakened slightly against the euro in March. This contributed to maintaining the official interest rate of the Bank of England at 4.75% whereas part of the market had been betting on a rise. At the same time, the increase in the trade deficit in January did not help the pound.

POUND STERLING DEPRECIATES SLIGHTLY AGAINST EURO

Pound sterling to euro



NOTES: Rates go up to March 23. SOURCE: Thomson Financial Datastream.

Swiss franc drops against euro in March.

The Swiss franc rose 2.1% against the dollar and 0.5% against the euro in February. Nevertheless, in the early weeks of March, the Swiss franc depreciated against the dollar and dropped in terms of the European currency. Publication of a slight economic contraction in Switzerland in the fourth quarter of 2004 was not helping.

Yen also drops against dollar in March.

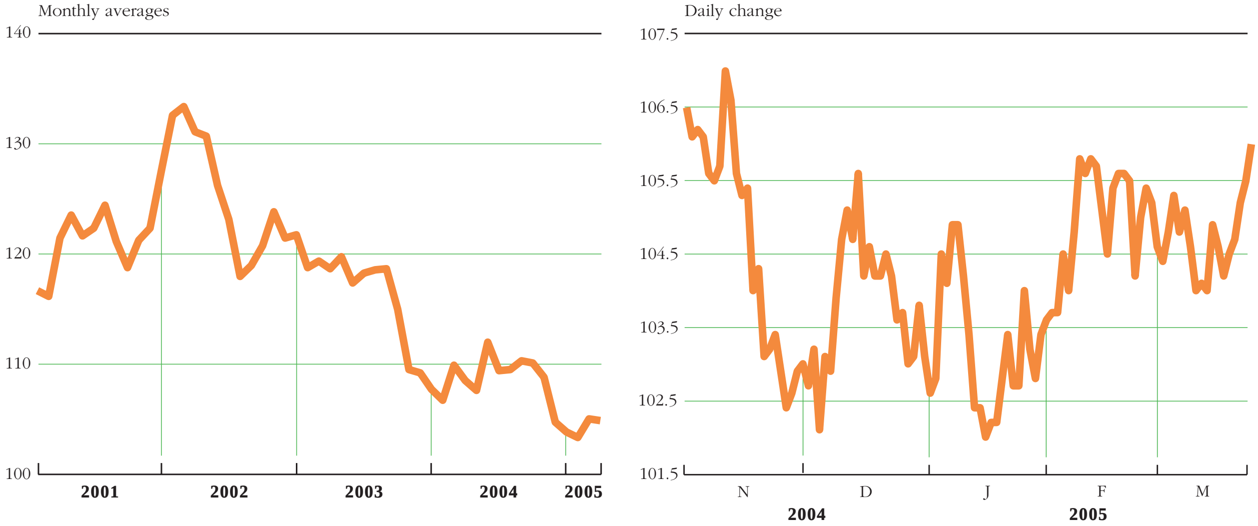
The yen depreciated 0.9% against the dollar in February and 2.2% against the euro. In the early weeks of March, in spite of the new economic indicators, it was unable to hold positions against the dollar although it did recover ground against the European single currency. As a result, the yen stood above the level at the beginning of the year in terms of the euro.

New devaluation of Venezuela's bolívar.

Venezuela's bolívar has undergone further devaluation. At the beginning of March it moved to a rate of 2,145 units to the dollar as against the previous pegged rate of 1,915 which meant a depreciation of 10.7%. The market was already expecting a new devaluation. The reason for this decision was the need to recover competitiveness.

YEN DEPRECIATES AGAINST DOLLAR

Yen to dollar



NOTES: Rates go up to March 23. SOURCE: OECD, Thomson Financial Datastream and internal figures.

US long-term Treasury bonds show increased yield

Concern about inflation fanned by rise in oil prices brings increased yield on US bonds in March.

The yield on US 10-year bonds rose in recent weeks because of new concern about inflation. Some price indicators and the renewed rise in oil prices were factors pushing up interest rates on government bonds. At the same time, statements about broader diversification of official currency reserves and the rise in the trade deficit also tended to boost sales of government bonds. The yield on US 10-year Treasury bonds thus rose to 4.61% on March 22 setting a high since June 2004. The increased yield on US Treasury bonds came about in spite of the flight toward quality in government bonds with the increased aversion to risk as a result of concern that bonds of the giant car company General Motors might be downgraded to the category of low credit risk.

Price of German government bonds holding.

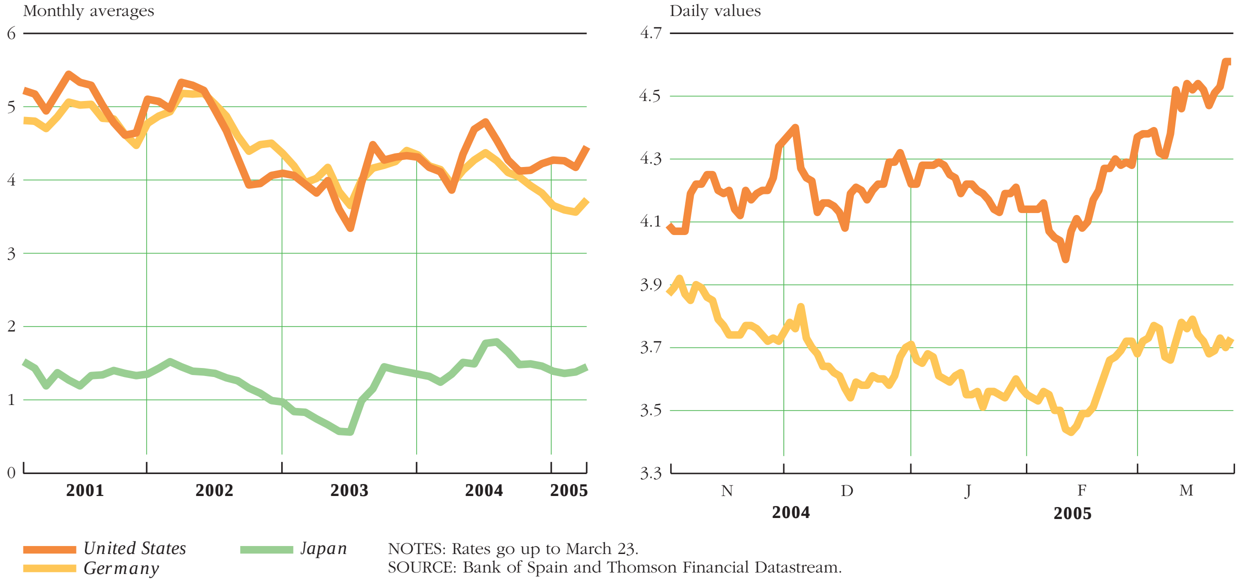
In Germany, after the rise in mid-February, the yield on 10-year government bonds swung around 3.7% in the early weeks of March. As a result, March brought an increase in the differential in long-term interest rates between US and German government bonds which went to 88 basis points in the middle of the fourth week in the month, as against 51 points at the beginning of the year.

Slight increase in global default rate on low-credit rating bonds.

The global default rate on high-yield bonds rose slightly in February and could be a sign of an upward swing after holding at a very low historical level. The rate thus stood at 2.5% in February up from the previous 2.3% in January, according to Moody's rating agency. At the same time, the risk premium on low-credit rating bonds, measured as the differential in interest rate between these bonds and long-term government bonds, showed a rise in March, although it stood at relatively low levels.

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

Yield on 10-year government bonds as annual percentage



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

LONG-TERM INTEREST RATES IN NATIONAL MARKETS

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

	2002	2003	2004				2005		
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February	March 23
United States	4.65	4.04	4.05	4.64	4.34	4.21	4.26	4.20	4.61
Japan	1.27	0.99	1.30	1.59	1.64	1.45	1.36	1.40	1.38
Germany	4.80	4.10	4.09	4.26	4.13	3.80	3.59	3.57	3.73
France	4.88	4.13	4.11	4.31	4.16	3.83	3.58	3.59	3.73
Italy	5.04	4.24	4.24	4.47	4.31	3.94	3.72	3.68	3.87
Spain	4.96	4.12	4.12	4.31	4.17	3.82	3.59	3.58	3.76
United Kingdom	4.93	4.53	4.83	5.14	5.05	4.71	4.62	4.66	4.83
Switzerland	3.02	2.47	2.46	2.74	2.70	2.38	2.14	2.09	2.31

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

Rise in oil prices halts good run on stock markets

Rise in oil and increase in US long-term interest rates drags down stock markets.

The positive response of the stock markets which began in the final weeks of January, helped by publication of good corporate profits and the drop in government bond yields, was interrupted in the early weeks of March. The new rise in oil prices, which put them at all-time highs in nominal terms, the rise in other raw materials and the persistent rise in yield on US Treasury bonds cut short the upward move on the main stock exchanges.

Main US indices stand below par for year.

In the United States, both the Standard & Poor's 500 index and the traditional Dow Jones Industrial index recorded a positive monthly change in February and went close to par for the year. In the first week of March they marked up the highest levels since mid-2001. Later on, however, publication of disappointing corporate results and the factors mentioned in the paragraph above sent things awry in the market recovery. Especially negative was the announcement on profits of the General Motors giant which had a depressing affect on the markets. As a result, halfway through the fourth week of March the main stock market indices in the United States showed a negative cumulative balance, especially in the case of the general Nasdaq index, which is representative of hi-tech shares.

INDICES OF MAIN WORLD STOCK EXCHANGES

February 28, 2005

	Index (*)	% monthly change	% cumulative change	% annual change	*Figures on March 23, 2005* % cumulative change	*Figures on March 23, 2005* *% change over same date in 2002*
New York						
Dow Jones	*10,766.2*	*2.6*	*–0.2*	*1.7*	*–3.0*	*0.3*
Standard & Poor's	*1,203.6*	*1.9*	*–0.7*	*5.1*	*–3.3*	*2.1*
Nasdaq	*2,051.7*	*–0.5*	*–5.7*	*1.1*	*–8.5*	*7.5*
Tokyo	11,740.6	3.1	2.2	6.3	2.2	*3.5*
London	4,968.5	2.4	3.2	10.6	2.0	*–6.5*
Euro area	3,058.3	2.5	3.6	5.7	2.9	*–18.9*
Frankfurt	*4,350.5*	*2.2*	*2.2*	*8.3*	*1.4*	*–19.5*
Paris	*4,027.2*	*2.9*	*5.4*	*8.1*	*5.5*	*–12.4*
Amsterdam	*374.4*	*3.9*	*7.6*	*5.0*	*6.0*	*–29.5*
Milan	*24,392.0*	*1.2*	*3.6*	*17.4*	*3.4*	*1.9*
Madrid	*9,391.0*	*1.8*	*3.4*	*13.8*	*1.9*	*10.9*
Zurich	5,931.3	2.8	4.2	2.3	4.1	*–10.4*
Hong Kong	14,195.4	3.5	–0.2	2.1	–4.4	*25.2*
Buenos Aires	1,558.6	13.5	13.3	31.7	–0.8	*215.6*
São Paulo	28,139.0	15.6	7.4	29.3	0.2	*97.2*

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 shares lead cumulative sector balance.

By sector, the trend was quite uneven. Energy companies were far ahead showing the biggest capital gains compared with December. Utility companies also showed a positive cumulative result. At the other end of the scale, telecommunications and hi-tech companies suffered notable losses.

INTERNATIONAL STOCK EXCHANGES

Indices at month-end

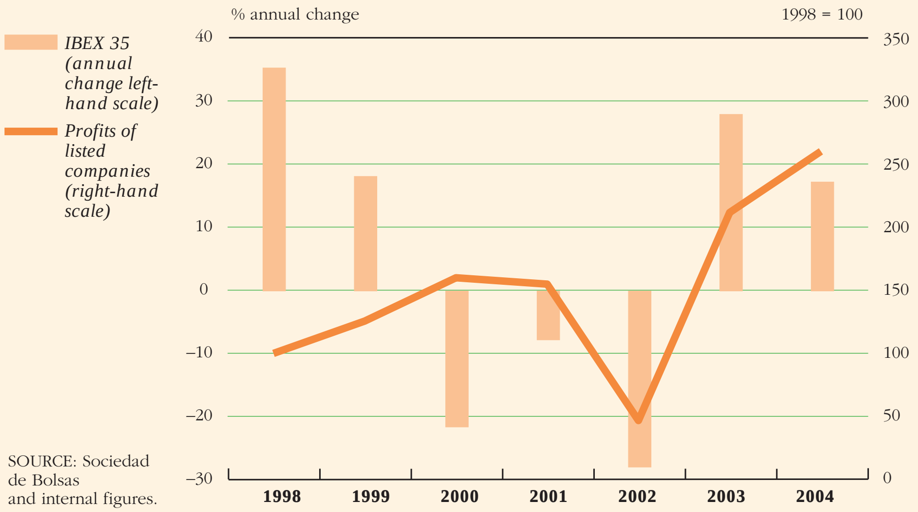
NOTES: March 23, 2005. SOURCE: Thomson Financial Datastream.

NEW ALL-TIME HIGH IN PROFITS OF LISTED COMPANIES IN 2004

The net result of listed companies rose to 29 billion euros last year, a rise of 23% compared with the year before. As a result, profits of companies listed on Spain's continuous market recorded an all-time high for the second consecutive year following two years of decreases in 2001 and 2002 following the bursting of the hi-tech bubble and the crisis in Argentina. The improvement in corporate profits came as a result of increased billing of the order of 10% and gross operating profit of 14%.

Over 85% of the profits obtained by more than 100 companies listed on the continuous market was concentrated in the 35 making up the selective IBEX 35 index which amounted to more than 25 billion euros, an annual increase of 20%. In line with the rise in profits, the IBEX 35 index showed an increase of 17.4% in 2004, thus reflecting the positive growth prospects for corporate profits. Nevertheless, profits of listed companies outside the star-rated IBEX index rose by more than 60%, triple the growth rate of the biggest listed companies.

RECOVERY OF PROFITS CONSOLIDATED



SOURCE: Sociedad de Bolsas and internal figures.

Most sectors increased their profits over 2003 with the good economic climate going in their favour. Notable among the 35 companies in the IBEX 35 index was the increase in profits obtained by the steel company Arcelor, which were up almost 9 times, boosted by a major increase in steel prices. Other companies more than doubling profits for the previous year was also the steel company Acernox, Tele 5 and the ACS construction company. The construction industry obtained notable results through the real estate boom. In any case, three IBEX 35 companies recorded a reduction in profits. In the case of the Acciona construction company, this may be explained by the spectacular atypical profits obtained in 2003. At the same time, the drop in profits of NH Hoteles reflects the absence of extraordinary profits as opposed to the year before. The slight drop in Repsol's profits was the result of adjustments in its balance sheets. In addition, there was just one company in the selective index with losses (Sogecable) although these losses were less than half those for the previous year. In addition, the classification for profit volume was headed by Banco Santander, Telefónica, BBVA bank, Arcelor and Repsol.

Main stock markets in euro area show capital gains over December.

The DJ Eurostoxx 50, which includes the biggest companies in the euro area, obtained a rise of 2.5% in February, raising the cumulative change to 5.7%. In the first week of March the European stock markets obtained the highest levels since July 2002. Nevertheless, there were later drops. In any case, the main stock markets in the euro area maintained capital gains compared with the end of 2004, headed by the stock exchanges in Amsterdam and Paris.

IBEX 35 makes correction after high in mid-February.

With regard to the Spanish stock market, after going up to 9,634.3 points in mid-February which marked up the highest level since May 2001, the IBEX 35 lost strength. As a result, in the fourth week of March it stood close to the 9,300 level after having reduced the cumulative balance to 2%. At this point, only 9 of the 35 shares in the IBEX 35 index were in the red so far this year.

Tokyo stock exchange halts drop in March with recovery of optimism on Japan's economy.

Outside the euro area, the Financial Times 100 index for the London stock exchange managed to maintain gains of 2% compared with the end of December in the middle of the fourth week in March. The SMI index for the Swiss stock exchange reached a high twice that in the same period. The Nikkei 225 index in Japan was among the few stock markets maintaining positions in the early weeks of March, thanks to recovery of optimism about Japan's economic prospects.

After marking up all-time highs, Argentine and Brazilian stock markets also show drops.

Nor was the situation in recent weeks favourable for most emerging markets. Especially damaging was the rise in the yield on US long-term Treasury bonds and increased aversion to risk. In the early weeks of March, the Hang Seng market in Hong Kong thus increased the loss of par for the year. The Merval index for Argentina's stock market marked up an all-time high on February 25 as a result of the exchange of bonds proposed by the government. Nevertheless, it later showed a notable drop marking up slight capital losses over December. The Bovespa index in Sao Paulo, in spite of a new rise in official interest rates by the Banco do Brasil, managed to hold onto slight quarterly gains.

ECONOMIC ACTIVITY

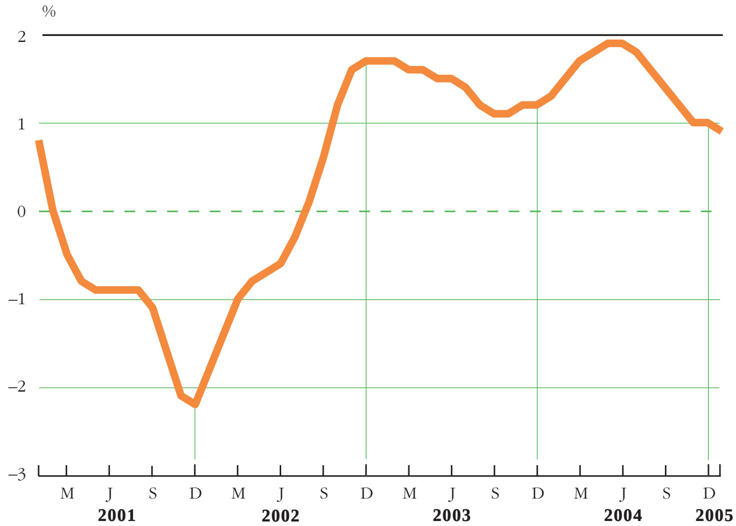
Economic activity indicators: cold winter makes itself felt

While trend holding strong, some clouds darkening economic growth picture.

The main available indicators of economic activity in the early months of 2005 do not generally point to any substantial changes over the basic trends seen in earlier months, both on the supply side and in demand. Nevertheless, some figures point to difficulties in maintaining the growth rate at the levels recorded in recent quarters.

PICTURE IN INDUSTRIAL SECTOR NOT VERY BRIGHT

Year-to-year change in industrial production index



NOTES: Cycle-trend series corrected for number of working days.
SOURCE: INE and internal figures.

Situation in industry shows least promise.

On the supply side, the least brilliant picture shows up in the industrial sector. Utilization of production capacity tended to moderate at the beginning of 2005, as did industrial production, while at the same time we note a moderate drop in sector confidence. Electrical power consumption, a more general indicator than that for manufacturing, on the other hand, continued to show high growth in February, at 5.3% year-to-year adjusted for number of working days and temperature.

Rise in energy production improves industrial production index.

The modest growth in the industrial production index in January was largely based on the rise in energy industries which would be the result of the sharp growth in demand due to low temperatures. Without the drive in the energy industries, industrial production would have held at levels similar to those for the previous quarter and much below those in the first half of 2004.

Weakness dominant note in most branches of industry.

The low state of the industrial sector is the result of various trends in the different branches but few sectors are showing any real strength. Among these, we should mention the publishing industry, which began the year on as good a footing as last year, and metallurgy. The rest of the positive results at the beginning of 2005 show up in sectors which last year reported notable decreases in activity, such as machinery and electrical and electronic equipment, food, chemicals and non-metallic minerals. So far as the rest are concerned, the situation showed appreciable weakness in motor vehicles, textiles, clothing, leather and footwear. In this respect, 20% of industry as a whole showed drops in production of more than 8% in the first month of the year.

SUPPLY INDICATORS

Percentage change over same period year before

	2003	2004	2004				2005	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February
Industry								
Electricity consumption (1)	4.9	3.5	3.6	2.4	4.2	3.9	6.8	5.3
Industrial production index (2)	1.3	1.6	1.4	2.4	2.2	0.4	1.1	...
Confidence indicator for industry (3)	–0.9	–2.5	–3.0	–2.0	–2.7	–2.3	–1.0	–5.0
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	9.4	...
Construction								
Cement consumption	4.8	3.7	5.6	2.8	4.1	2.6	–0.2	2.2
Confidence indicator for construction (3)	10.3	13.6	6.3	8.0	16.0	24.0	17.0	26.0
Housing (new construction approvals)	21.4	8.0	8.0	9.2	14.9	0.5	7.8	...
Government tendering	–10.9	17.9	–3.0	–9.4	65.6	37.4	64.9	...
Services								
Retail sales	5.7	5.5	6.6	5.6	4.4	5.5	3.4	...
Foreign tourists	–1.0	3.2	4.3	0.3	1.4	10.0	5.3	–0.8
Tourist revenue inflows	3.7	1.0	4.0	–2.2	–0.2	3.9	...	...
Goods carried by rail (km-tonnes)	1.7	–3.5	6.4	6.2	–8.5	–16.7	...	...
Air passenger traffic	7.5	7.8	11.0	6.7	6.5	8.3	9.8	2.9
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.

Construction maintains momentum but building tending to moderate.

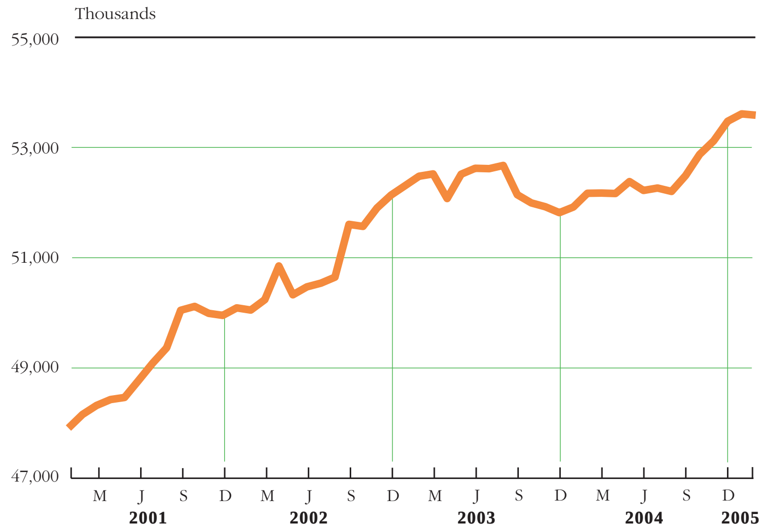
The picture in construction seems more favourable with activity continuing to be very strong. Nevertheless, building construction may be affected over the medium term because of the notable drop in housing starts recorded in the third quarter of 2004, the latest figure available. In this respect, supply would be starting to adapt to a somewhat more moderate and selective demand, affected by the continuing rise in prices. The situation in the area of public works, however, is more positive with the volume let out to tender by government up considerably at the end of 2004. Undoubtedly, this segment of demand is not unconnected to the good results showing up in the sector confidence indicator which has been holding high and showing growth in the early months of 2005.

Acceptable balance in tourism at start of 2005.

With regard to tourism, early figures for 2005 indicate some consolidation of the trend to improvement noted in the final quarter of 2004. In the first two months, the number of foreign visitors was up 2.3%, a figure which is better than the increase in the same period last year. Hotel overnight stays also rose sharply bettering the positive situation in the final quarter of last year, both for foreign and domestic tourism.

INCIPIENT RECOVERY OF TOURISM

Cumulative foreign tourist visitors for 12 months



SOURCE: Tourism Secretariat and internal figures.

Drop in retail confidence while transport marks time.

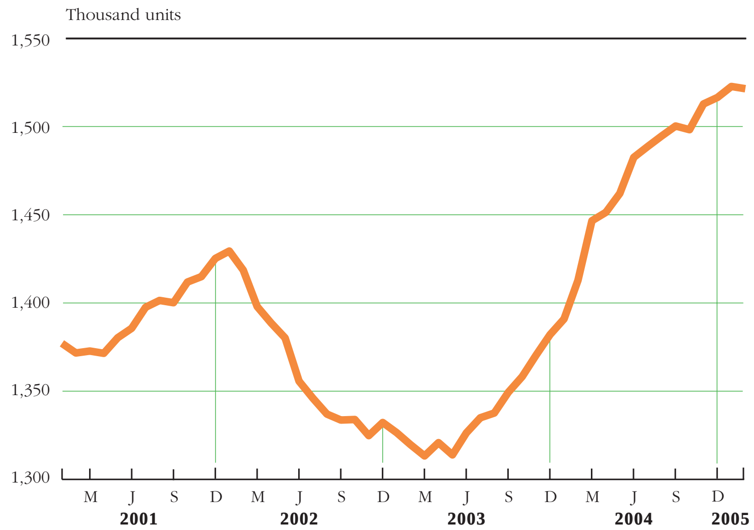
In other services, the overall situation was somewhat more uneven. In retail trade, confidence indicators in January and February stood at relatively low levels compared with the same period in 2004 but very similar to those at the end of the year before. Transport, on the other hand, also held at a somewhat lower level, especially air traffic and rail traffic, in the latter case both in passengers carried and in goods. The indicator for services to companies ran along the same lines at year-end. On the other hand, activities related to communications and information technology showed sustained high growth which made it possible to end the year with an average rise of 7.0%.

Sharp increase in household spending in final stages of 2004.

On the demand side, indicators for consumption generally show a slight drop following the rise in the final stages of 2004. The on-going survey of household spending pointed to a growth in spending of 6.0% real in the final quarter of 2004, the highest figure since the beginning of the decade. As a result, the annual average was 4.9% in constant terms, nearly three points more than in 2003.

PASSENGER CAR REGISTRATIONS HALT RISE IN FEBRUARY

Cumulative figure for last 12 months



SOURCE: ANFAC and internal figures.

Passenger car sales drop in February but four-wheel-drive vehicles and motorcycles continue to rise.

The weaker state of demand at the beginning of 2005 was to be seen in passenger car registrations which were down by 0.7% in February putting the cumulative figure for the first two months at 2.7%, two points below the previous quarter and a long way from the rates above 20% seen in the first quarter of 2004. On the other hand, in registrations of four-wheel-drive vehicles in the January-February period there was high and increasing growth (23.5%), as was also the case in motorcycles (83.7%), due in the latter case to changes in regulations on driving licences.

Slowdown in demand in retail trade…

The retail trade also seems to have begun 2005 at a slower pace, seeing that total sales grew at a rate of 0.6% real in January because of the specially negative performance in the food segment, which is showing a real drop although not in nominal terms. Department stores, on the other hand, maintained a relatively high rate of sales stable at around 3% real in January but clearly lower than in previous months.

…and other consumer indicators.

The same lines of decrease were followed by availabilities of consumer goods with a downward profile in recent months, at least according to figures available as of November and the composite consumer index prepared by the Department of Economic Policy. In this case, the year-to-year increase in the first quarter went down to 3.2%, nearly one point below the preceding quarter. On the other hand, consumer confidence held stable in the early months of 2005.

DEMAND INDICATORS

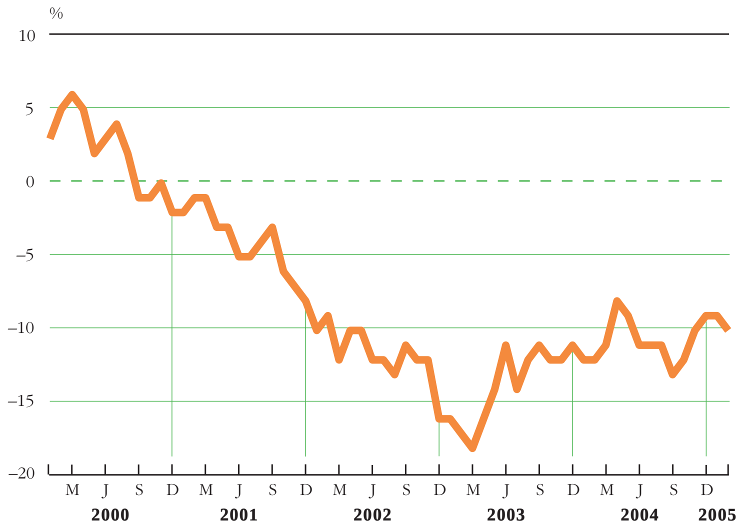
Percentage change over same period year before

	2003	2004	2004				2005	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February
Consumption								
Production of consumer goods (*)	0.1	–0.2	–0.1	–0.7	0.1	0.0	0.9	...
Imports of consumer goods (**)	10.9	13.4	19.7	17.2	9.7	8.3	3.4	...
Car registrations	3.8	9.8	21.0	9.6	5.3	4.6	5.8	–0.7
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	–10.0
Investment								
Capital goods production (*)	0.5	1.9	1.3	3.7	4.7	–1.6	–4.6	...
Imports of capital goods (**)	14.8	14.9	5.2	4.3	19.2	29.0	21.7	...
Commercial vehicle registrations	13.5	11.7	14.9	13.1	9.4	9.4	15.1	8.1
Foreign trade (**)								
Non-energy imports	8.8	9.8	12.1	9.5	8.9	9.0	8.8	...
Exports	6.9	5.2	6.3	3.7	6.7	4.3	–3.1	...

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

CONSUMER CONFIDENCE STABILIZING

Difference in percentage positive and negative responses



SOURCE: European Commission.

Investment in capital goods begins to moderate.

Investment in capital goods showed some moderation compared with the drive reported in recent months, although the growth rate continued at high levels. Imports of capital goods ended the year 2004 with growth close to 20% real as opposed to production which fell by nearly 5% in January after having eased by 1.6% in the final quarter of 2004.

LABOUR MARKET

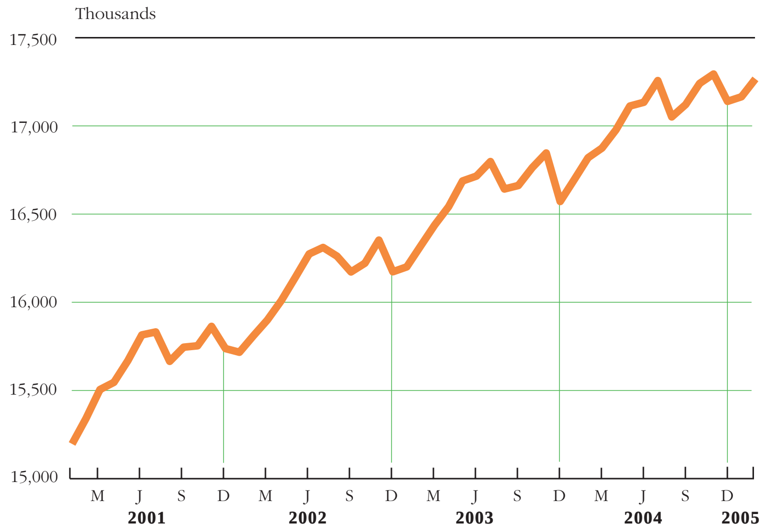
Employment holding up at start of 2005

Registrations with Social Security slightly ease rise but still at high levels...

The number of persons registered at Social Security rose by 102,142 in February, a figure somewhat lower than in the same month of 2004. As a result, the growth rate of registrations at Social Security was down by one decimal to 2.7% year-to-year. For the moment, this modest reduction does not seem to have changed the state of sustained growth noted in the labour market in recent months.

REGISTRATIONS WITH SOCIAL SECURITY MOVES AHEAD AT STRONG RATE

Total registrations with Social Security



SOURCE: Ministry of Labour and Social Affairs.

...partly thanks to registrations by immigrant workers.

The notable increase in registrations with Social Security rests to some extent on those made by foreign workers, both from the European Union and third countries. In February, the total number of foreign workers registered stood at 1,121,419, some 15.1% more than in the same period of 2004. This increase was in contrast to the rise in registrations by Spaniards at 1.9% year-to-year.

National Accounting confirms good state of employment...

The feeling of strength in the labour market to be gained from the figures for Social Security was also reflected in figures for employment showing up in National Accounting for the fourth quarter of 2004. In fact, employment measured in full-time jobs was running at a growth rate of

2.2%, which was one decimal better than the figure for the previous quarter.

EMPLOYMENT INDICATORS

Percentage change over same period year before

	2003	2004	2004				2005	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February
Persons registered with Social Security								
Wage-earners	3.2	2.7	2.9	2.4	2.6	3.1	2.8	2.6
Industry	*–0.5*	*–0.5*	*–0.5*	*–0.5*	*–0.6*	*–0.5*	*–0.8*	*–0.9*
Construction	*4.3*	*5.0*	*4.4*	*4.3*	*4.6*	*6.8*	*5.1*	*4.9*
Services	*4.1*	*4.1*	*4.3*	*3.7*	*4.0*	*4.4*	*4.4*	*4.2*
Non-wage-earners	2.3	3.2	3.2	3.2	3.2	3.2	3.1	2.9
Total	**3.0**	**2.8**	**2.9**	**2.6**	**2.7**	**3.1**	**2.8**	**2.7**
Persons employed (*)	**2.7**	**2.5**	**2.6**	**2.3**	**2.5**	**2.7**	**–**	**–**
Jobs (**)	**1.7**	**2.1**	**2.1**	**2.0**	**2.1**	**2.2**	**–**	**–**
Hiring contracts registered (***)								
Permanent	–1.0	11.8	10.0	16.3	18.2	4.4	5.1	0.6
Temporary	3.9	11.4	14.4	13.7	14.7	4.0	–8.7	–12.3
Total	**3.4**	**11.5**	**13.9**	**13.9**	**15.0**	**4.0**	**–7.6**	**–11.0**

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

...in construction and services.

By sector, according to figures from National Accounting, the biggest growth came in construction with 5.3% and in market services at 3.3%. Industrial employment, in turn, returned to positive levels after six quarters showing continuous drops. Finally, employment in non-market services was up very modestly by 0.8%, well below last year.

Hiring contracts registered at INEM down by 9.3% in first two months of year.

The impression given by figures for job placements registered at the National Employment Institute (INEM) was somewhat less favourable although these must be viewed with care because of the great variation in duration of contracts. Contracts registered thus were down sharply in February putting the cumulative annual figure at a drop of 9.3%. This decrease was especially notable in temporary work contracts and less so in part-time work.

Registered unemployment down slightly

Registered unemployment continues to drop to moderate rates.

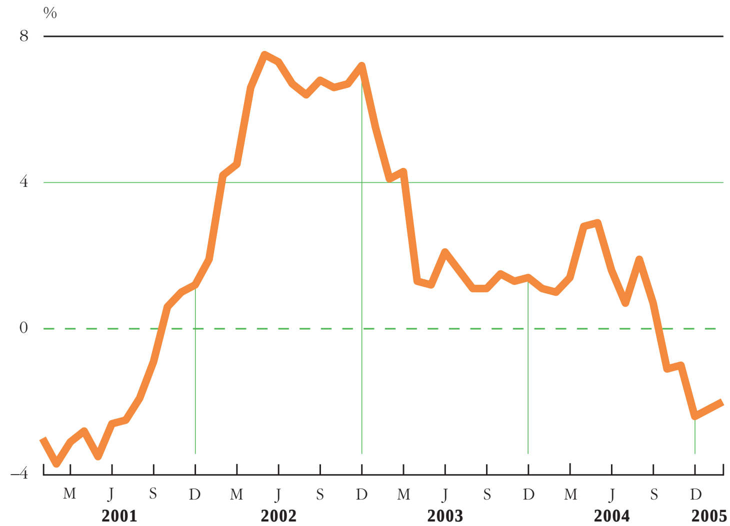
The number of unemployed registered at INEM dropped by 6,068 in February, that is to say, at a somewhat lower rate than that in the same month the year before. As a result, the year-to-year change rate in unemployment continued to drop although as a rate of 2.0%, two decimals less than in the month before. As a result, there was no appreciable change in the favourable situation seen in unemployment in recent months.

Balance up to February, while unfavourable, very similar to that for recent years in this period.

The drop in unemployment in February was not sufficient to prevent the cumulative balance for the year from still being unfavourable and somewhat worse than in 2004. In fact, the cumulative increase in the first two months (47,091 registrations) was of a similar size to that recorded in this period since the beginning of the present decade, apart from 2002, when the increase in unemployment was somewhat higher.

REGISTERED UNEMPLOYMENT CONTINUES MODERATE DECREASE

Year-to-year change in unemployment registered at INEM



SOURCE: National Employment Institute and internal figures.

Rise in unemployment concentrated in services and those seeking a first job...

The increase in unemployment was almost entirely concentrated in services and, to a minor extent, in those seeking a first job. In both cases, however, the figures for the January-February period were better than those for this period in previous years. The biggest differences showed up in construction where the cumulative decrease in unemployment was well below that for the year before. The performance in the industrial sector was along the same lines, although to a lesser degree.

...as well as among women.

The rise in unemployment was concentrated among women because the increase in the female labour force could not be fully absorbed. On the other hand, unemployment among males rose very slightly. Unemployment among young people grew in the first two months of the year somewhat more than in the same period the year before.

Very uneven trends in registered unemployment by autonomous community.

By autonomous community, the situation was very uneven. Madrid Community recorded the biggest decrease in unemployment (11.1% year-to-year), followed by Aragon, Cantabria and Castile-Leon, with decreases of around 5%. The decreases recorded in the Basque Country, Andalusia and the Balearic Islands were somewhat lower. On the other hand, the situation was worse in Valencian Community, Catalonia and Extremadura where the level of registered unemployment stood between 2% and 4% above February 2004.

REGISTERED UNEMPLOYMENT BY SECTOR, SEX AND AGE

February 2005

	No. of unemployed	Change over December 2004		Change over same period year before		% share
		Absolute	%	Absolute	%	
By sector						
Agriculture	41,915	4,515	12.1	–71	–0.2	2.4
Industry	252,375	–739	–0.3	–8,072	–3.1	14.7
Construction	190,954	–8,374	–4.2	511	0.3	11.1
Services	1,017,506	46,925	4.8	–6,085	–0.6	59.2
First job	214,631	4,764	2.3	–20,796	–8.8	12.5
By sex						
Males	695,911	281	0.0	–14,862	–2.1	40.5
Females	1,021,470	46,810	4.8	–19,651	–1.9	59.5
By age						
Under 25 years	247,947	15,584	6.7	–23,640	–8.7	14.4
All other ages	1,469,434	31,507	2.2	–10,873	–0.7	85.6
TOTAL	**1,717,381**	**47,091**	**2.8**	**–34,513**	**–2.0**	**100**

SOURCE: National Employment Institute and internal figures.

Wage costs moderate in 2004

Wage costs moderate growing less than inflation.

Average increase in total wage cost per person per month in 2004 stood at 2.8%, according to the quarterly survey of wage costs, one point less than the year before and also lower than the increase in inflation for the first time since 2001. This moderation, however, hides a clearly upward profile notable in the figures for the fourth quarter when the rise in labour costs rose by four decimals to stand at 2.6% year-to-year. If wage cost is added to other labour costs such as Social Security and other benefits, the total increase in wage labour costs stood at 3.0% on annual average, while also presenting a moderately better profile.

Construction and industry lead in labour cost increases.

The increase in labour costs in the fourth quarter of the year was only to be seen in the services area where labour cost per worker per month rose by 2.5%, the same figure as the annual average and one point below 2003. In industry, the situation was somewhat more stable but the increases were higher by an average of 3.3% in 2004. In construction, on the other hand, the rise in labour cost tended to moderate although the average increase still stood at 4.2%.

Wage cost per effective hour worked up 3.6% in 2004 with drop in number of effective hours worked.

The moderation in wage increases was also reflected in the cost per effective hour worked which in 2004 as a whole grew by 3.6% on annual average, seven decimals less than in the previous year. This increase, which was higher than that for wage cost, may be explained by the decrease in effective hours worked.

WAGE INDICATORS

Percentage change over same period year before

	2003	2004	2004 1st Qtr.	2004 2nd Qtr.	2004 3rd Qtr.	2004 4th Qtr.
Increase under general wage agreements	3.5	3.0	2.8	2.9	2.9	3.0
Wage per job equivalent to full-time work (*)	4.3	4.0	4.1	4.1	4.0	3.8
Labour cost index						
Wage costs						
Total	3.8	2.8	3.2	3.1	2.2	2.6
Industry	*4.4*	*3.3*	*4.0*	*2.9*	*3.3*	*3.3*
Construction	*5.0*	*4.2*	*5.2*	*4.1*	*4.6*	*3.1*
Services	*3.5*	*2.5*	*2.7*	*3.2*	*1.6*	*2.5*
Average wages per hour worked	4.3	3.6	4.1	2.5	2.0	5.7
Other labour costs	5.4	3.6	4.4	3.5	3.4	3.0
Work day (**)	–0.5	–0.8	–0.9	0.5	0.2	–3.0
Farm wages	2.6	2.8	2.2	3.5	2.7	3.1
Labour cost in construction	4.4	3.9	3.8	4.5	3.9	3.5

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

WAGES MOVE UP BUT GROW LESS THAN INFLATION

Annual change

SOURCE: INE and internal figures.

Private services push up wage increases.

The situation shown by National Accounting was somewhat different, which may be accounted for by the different nature of the figures. In this respect, the survey does not include, among other things, figures related to wages in the public sector which are included in non-market services in national accounting. As a result, average remuneration per wage-earner, according to National Accounting, rose by 4.1% in 2004, showing a flat profile during the year. This notable increase in wages was brought about by that recorded under non-market services which, with 6.6% annual average, was well above the average in construction (4.3%), industry (3.7%) and market services (2.9%), these three increases being similar to those recorded by the survey.

Wages under collective agreements up 3.6% following application of safeguard clauses.

In addition, the average wage rise agreed upon in collective bargaining agreements in 2004 stood at 3.0%, according to figures from the Ministry of Labour and Social Affairs, that is to say, a half-point lower than the average rise agreed upon the year before. This increase, however, was lower than that actually paid which amounted to 3.6% because of the application of the safeguard clause. By sector, construction (with 3.4%) showed the highest increase with industry next showing 3.0%. In services the wage increase was 2.8%.

PRICES

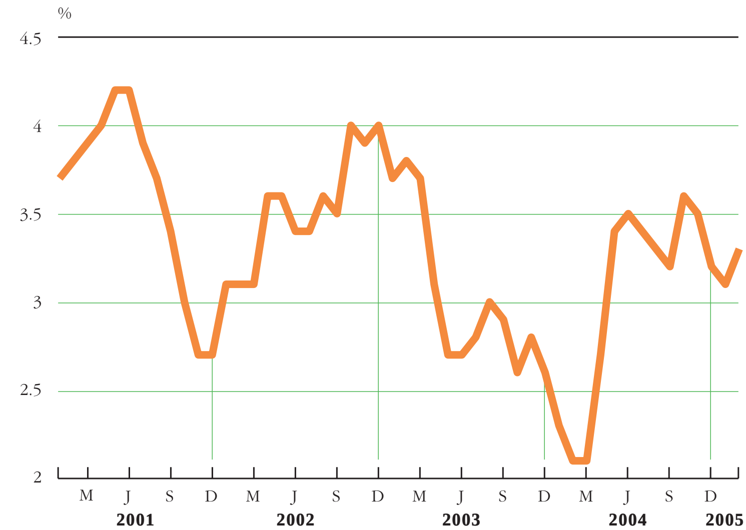
Inflation rate up in February

Inflation rate moves up to 3.3% in February.

The consumer price index (CPI) rose by 0.3% in February in contrast to the stability shown in the same month in 2004. As a result, the annual inflation rate went up to 3.3%, two decimals higher than in the previous month and more than one point above February 2004.

INFLATION RATE MOVES UP IN FEBRUARY

Year-to-year change in CPI



SOURCE: National Institute of Statistics.

Energy prices persist as part of upward pressure...

Energy and fresh foods were the main factors in the slight worsening of inflation in February. The rise in energy prices showed up in fuel-oils and fuels which were pushed up by the new rise in oil prices and the relative weakness of the euro up to mid-February. Fuel prices thus showed growth of more than two points above the preceding month and the impact was notable on energy prices as a whole which showed a growth rate of 7.6%, as already seen in December 2004. In any case, the effect on the CPI as a whole was not even worse thanks to containment of prices for gas and electricity.

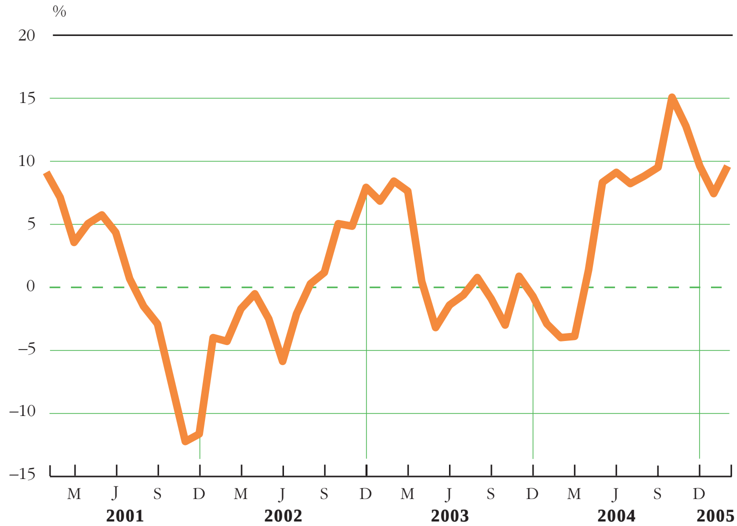
CONSUMER PRICE INDEX

	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	0.3	–0.6	3.3
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.

FUELS PUT PRESSURE ON CPI

Year-to-year change in fuel-oil and fuel component of CPI



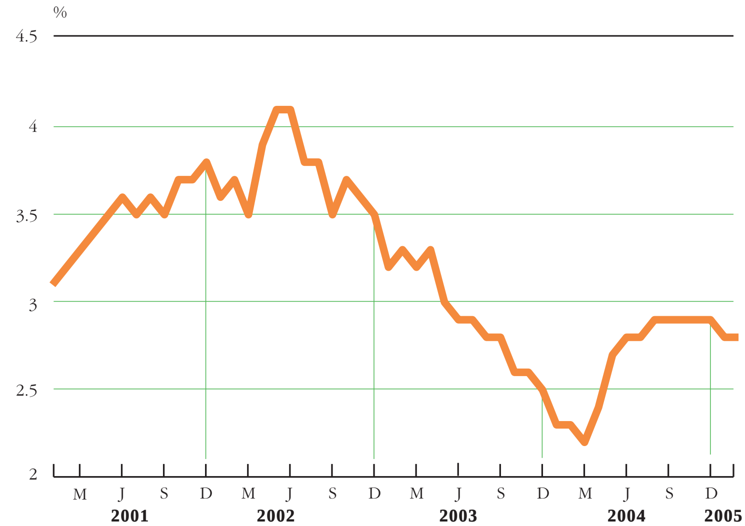
SOURCE: National Institute of Statistics and internal figures.

...as happens with fresh foods.

Somewhat more significant in terms of the inflation rate was the rise in fresh food prices, mainly due to weather factors, seeing that fresh fruit and vegetables, fish and poultry were the highest. The year-to-year rate for this component went up to an annual growth rate of 3.5%, some 1.2 points more than in January and again added somewhat more than one decimal to the inflation rate.

UNDERLYING INFLATION STABILIZES

Year-to-year change in general consumer price index not including energy or unprocessed foods



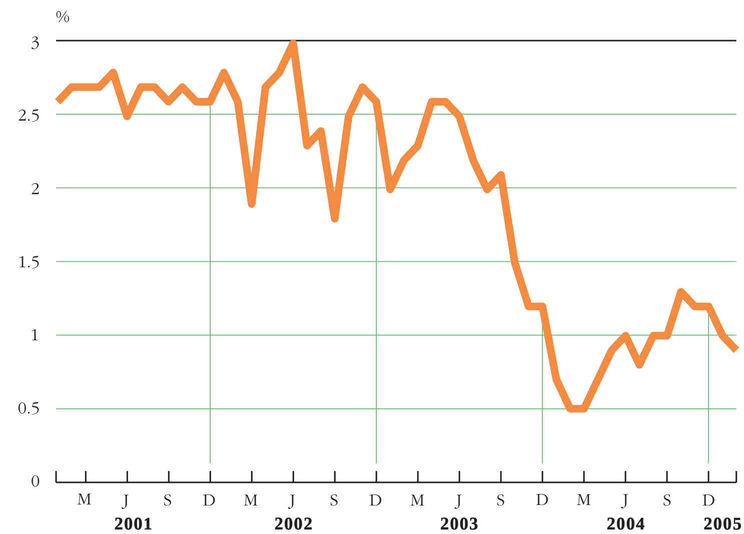
SOURCE: National Institute of Statistics.

Prices of services also up slightly...

The other components of the CPI, which make up so-called underlying inflation, held stable at the 2.8% seen the month before. Nevertheless, prices of services were slightly upward with a year-to-year rate at 3.9%, the highest figure since April 2003. Public transport, organized travel and some personal services, together with car insurance, contributed to this rise in spite of the moderation seen in other headings such as banking services, now showing a negative rate following increases in previous months.

DECREASES EASE PRICES OF MANUFACTURES

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



SOURCE: National Institute of Statistics and internal figures.

...but processed food prices contained...

On the other hand, processed foods showed a growth rate of less than 4% for the first time in nine months, thanks to prices of bread, pastries, milk, chocolates and most beverages except spirits.

...and non-energy industrial goods.

The same trend to moderation, although not as sharp, showed up in non-energy industrial goods, thanks to the fact that the February retail sales campaigns cut more sharply than last year. On the other hand, medicines, which did not drop to the same extent as in February 2004, partly compensated for this performance. Overall, however, prices of non-energy industrial goods grew by 0.9% year-to-year, one decimal less than the month before.

CONSUMER PRICE INDEX BY COMPONENT

February

	Indices (*)	% monthly change		% change over previous December		% annual change	
		2004	2005	2004	2005	2004	2005
By type of spending							
Food and non-alcoholic beverages	115.2	–0.4	–0.2	0.1	0.5	4.0	3.5
Alcoholic beverages and tobacco	116.3	0.1	0.2	0.3	0.3	1.4	5.5
Clothing and footwear	104.3	–0.5	–0.9	–11.5	–12.2	1.2	1.3
Housing	111.5	0.3	0.4	1.0	0.9	2.6	4.1
Household equipment	106.6	0.0	0.1	–0.6	–0.3	1.5	2.1
Health	106.0	–1.3	0.0	–1.0	0.3	0.6	1.6
Transport	111.3	0.6	1.4	1.4	1.2	–0.1	5.9
Communications	93.1	–0.1	–0.2	–0.2	0.1	–1.8	–0.4
Recreation and culture	102.4	0.3	0.3	–1.1	–0.9	0.0	0.1
Education	116.9	0.1	0.0	0.4	0.4	4.0	4.2
Hotels, cafés and restaurants	117.0	0.5	0.5	1.1	0.9	4.1	4.0
Other	113.6	0.2	0.6	1.9	2.1	3.3	3.0
By group							
Processed foods	113.5	0.5	0.1	0.9	0.6	2.4	3.8
Unprocessed foods	119.2	–1.9	–0.7	–1.3	0.3	6.1	3.5
Non-food products	109.6	0.2	0.4	–0.9	–1.0	1.6	3.2
Industrial goods	105.0	–0.0	0.3	–2.7	–2.8	–0.2	2.5
Energy products	*108.6*	*0.4*	*2.0*	*1.1*	*1.1*	*–2.5*	*7.6*
Fuels and oils	*110.2*	*0.6*	*2.7*	*0.9*	*0.9*	*–3.9*	*9.8*
Industrial goods excluding energy products	*103.8*	*–0.2*	*–0.2*	*–3.8*	*–4.0*	*0.5*	*0.9*
Services	115.0	0.4	0.5	1.0	1.1	3.6	3.9
Underlying inflation (**)	110.5	0.2	0.2	–0.8	–0.9	2.3	2.8
GENERAL INDEX	**111.0**	**0.0**	**0.3**	**–0.7**	**–0.6**	**2.1**	**3.3**

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

CPI vulnerable to more fortuitous components.

The rise in the CPI in February underlines the vulnerability of the CPI to the blows of its more fortuitous components, fresh foods and oil, and is a warning about the main risks to be overcome in controlling inflation during the course of this year, specifically the weather, the dollar and oil prices. Apart from these elements, the less volatile core of inflation remains dependent on a possible moderation of services prices, the containment of processed foods and, finally, on the weakness of prices of no-energy industrial goods which have little effect in view of present modest increases. In any case, it will be the state of private consumption that ends up setting the potential moderation of the underlying core of inflation.

Inflation differential with euro area remains stable at 1.2 percentage points.

The inflation differential with the countries of the euro area remained stable at 1.2 points in February, according to the harmonized consumer price index (HCPI). By component, prices were up to a greater extent in Spain except in alcoholic beverages and tobacco and medical costs, in the latter case because of the sharp rise in prices in this component in Germany and the Netherlands. The biggest differential showed up in food, transport, clothing and communications.

FOREIGN SECTOR

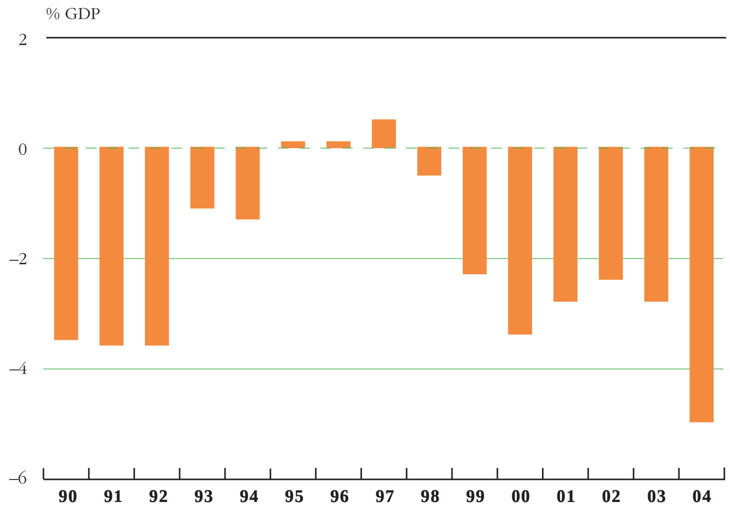
Current account deficit hits 5% of GDP

Current account deficit continues to climb ending 2004 at all-time high.

The current account balance marked up a deficit of 5.7 billion euros in December, more than twice that in the same month the year before. It thus continued the trend to an increase in the foreign imbalance which for the year as a whole amounted to 39.5 billion euros, some 89.8% more than in 2003. In relative terms, the current account deficit represented 5.0% of the gross domestic product (GDP), a level never before reached. The sharp worsening of the situation was mainly due to the increase in the trade imbalance and the incomes balance as well as the slump in the transfers surplus and the notable reduction in the services heading.

CURRENT ACCOUNT DEFICIT AT NEW HIGH

Current account balance



SOURCE: Bank of Spain and internal figures.

Drop in services surplus due to higher payments and transfers down due to immigrant remittances abroad.

The surplus in services (25.2 billion euros) was down by 7.7% compared with the year before because of a tourist balance more and more affected by the growth of payments in a context of stagnation in tourist revenue inflows. In addition, the transfers surplus, which is traditionally high, is being cut by lower net transfers from the European Union and by remittances abroad by immigrant workers residing in Spain. In fact, payments under this heading in 2004 were 3.4 billion euros with an increase of nearly 18.7% over the same period the year before.

BALANCE OF PAYMENTS

Cumulative figure for last 12 months in million euros

	December 2003	December 2004	% change
Current account balance			
Trade balance	–37,843	–51,885	37.1
Services			
Tourism	*29,556*	*28,343*	*–4.1*
Other services	*–2,291*	*–3,177*	*38.7*
Total	27,265	25,166	–7.7
Income	–10,586	–12,827	21.2
Transfers	336	7	–97.9
Total	**–20,828**	**–39,538**	**89.8**
Capital account	**8,762**	**8,531**	**–2.6**
Financial balance			
Direct investment	1,996	–25,878	–
Portfolio investment	–30,070	81,579	–
Other investment	44,133	–5,366	–
Total	**16,059**	**50,335**	**213.4**
Errors and omissions	–5,569	–5,319	–4.5
Change in assets of Bank of Spain	1,576	–14,009	–

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

SOURCE: Bank of Spain and internal figures.

Positive figure for capital balance dropping because of lower transfers from EU.

Capital account, in turn, showed a surplus of 1.7 billion euros in December, some 15.1% lower than in the same month the year before. For the year as a whole, the balance was also positive for an amount of 8.5 billion euros but down 2.6% from 2003. The appreciable drop in inflows for transfers from the European Union (EU) (down 8.0% to 7.7 billion euros) was the key factor in this outcome.

Direct Spanish investment abroad ends year with sharp increase whereas foreign investment in Spain continues decline.

Financial account, excluding Bank of Spain transactions, recorded net entries of 50.3 billion euros, three times the figure for the year before. Capital inflows came mainly from foreign portfolio investment which tripled to go above 106 billion euros, a figure equivalent 13.2% of the GDP. Spanish direct corporate investment continued to recover in the final stages of the year to reach 33.8 billion euros, 63.2% higher than the year before. Foreign investment in Spain again showed a sharp decline in the case of direct corporate investment and a moderate drop in the case of real estate.

PUBLIC SECTOR

Accounting adjustments show government deficit in 2004

Tax revenues up 8.3%, more than one point above nominal GDP growth.

Central government non-financial revenues rose by 5.1% in 2004 to reach 115.3 billion euros. This figure does not include those tax segments on personal income tax and the greater part of indirect taxes ceded to the autonomous communities and local councils so that it is of little significance as an indicator of the available revenues of government through general taxes. If those segments ceded are included, collections amount to 155.7 billion euros, with growth of 8.3% compared with 2003, that is to say, 1.1 points above the nominal growth of the gross domestic product (GDP).

CENTRAL GOVERNMENT BUDGET IMPLEMENTATION

December 2004

	Month		Cumulative for year	
	Million euros	% change over same month year before	Million euros	% change over same month year before
Non-financial revenue	**9,285**	**8.7**	**115,270**	**5.1**
Non-financial revenue adjusted (*)				
Personal income tax	3,440	2.5	47,715	2.7
Corporate tax	2,669	–0.5	26,019	18.7
VAT	1,350	–15.0	44,492	9.7
Special taxes	1,491	10.4	17,514	3.9
Other	3,506	46.9	19,987	11.0
Total	**12,456**	**9.6**	**155,727**	**8.3**
Non-financial spending	**11,981**	**1.8**	**114,743**	**0.8**
Treasury balance	**–2,696**	**–16.5**	**527**	–
Surplus (+) or deficit (–) (**)	***–11,845***	***68.1***	***–9,863***	***409.2***

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

Drop in collections for personal income tax and rise in corporate tax.

The main source of collections was direct taxes at 75.98 billion euros, some 8.3% more than in 2003. The most significant increase came in corporate tax (18.7%) which may partly be accounted for by the decrease in rebates. Revenues from personal income tax were up quite modestly at 2.7% compared with the year before, again because of higher rebates.

Collections for indirect taxes up 8.2% with VAT as main heading.

Collections for indirect tax amounted to 64.5 billion euros, 8.2% more than in 2003, with value added tax (VAT) in the lead. The amount collected under this heading was 44.5 billion euros, 9.7% more than in 2003. In special taxes, most headings moved up at a rate similar to that for inflation. In the case of fuel taxes, collections were up 3.4% reflecting the lower demand attributable to increases in fuel prices. In contrast to 2003, the figures for 2004 do not include the tax on certain modes of transport as this is now considered proper to the autonomous communities. On the other hand, there was a notable increase in revenues obtained from tax on insurance premiums (9.5%), which was connected to the rise in the motor vehicle market, and in those coming from foreign trade (up 20.7%), thanks to the rise in imports from third countries.

Decrease in government property revenues.

Apart from tax revenues, fees and public service charges also showed a notable increase of 25.2%. Also along this line of strong growth were capital transfers, as opposed to current transfers, which grew by 3.5%. Revenue from government property, on the other hand, fell by 11.9% with funds arising from disposal of real investments being of little significance.

Growth of payments for public consumption in contrast to drop in payments for interest and real investments.

Central government non-financial payments rose by 0.8% going to 102.8 billion euros. This figure does not include the balancing entry for revenues from those segments of tax ceded to the autonomous communities. The moderation in spending was favoured by the decrease in interest payments (15.3%) and by lower real investments. On the other hand, spending for public consumption was up by 5.6% in the case of public service personnel and 17.2% for purchase of goods and services.

Modest Treasury surplus but notable deficit according to National Accounting.

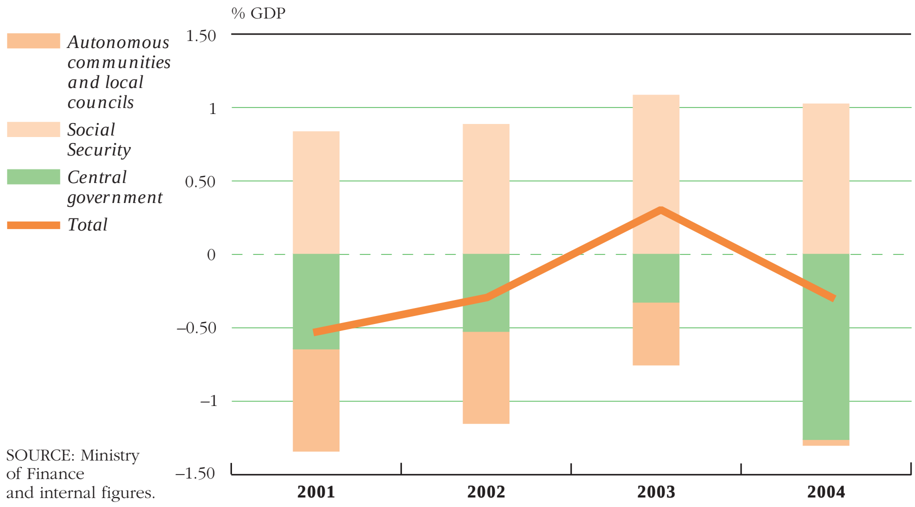
The Treasury balance, that is to say, the difference between revenues and non-financial payments, ended the year on the positive side for an amount of 527 million euros, a situation in contrast to the deficit the year before. In spite of this surplus, however, the sharp positive change in financial assets, apart from movements in the current account at the Bank of Spain, ended with the appearance of a deficit of 2.7 billion euros, 51% higher than for the same period in 2003. The rise in financial assets was concentrated in central government deposits in financial institutions, in higher property allocations and the acquisition of shares and participations in government-run corporations.

Central government deficit may be explained by accounting adjustments carried out and incorporation of spending from previous years.

In terms of National Accounting the budgetary balance, on the other hand, showed a deficit of 9.9 billion euros, five times that in 2003. The high central government deficit under National Accounting (equivalent to 1.23% of the GDP and well above the 0.44% forecast in the 2004 Budget) was due to a series of adjustments made by the new government which include in the accounts for the year various transactions accrued in previous years. Among these we should mention recognition of the debt with the Community of Andalusia and with RENFE, the national railway company. The bigger spending under these headings would have shifted the real deficit to higher levels (1.97% of the GDP) were it not for increased tax collections and lower interest payments.

CENTRAL GOVERNMENT DEFICIT PUTS PUBLIC ACCOUNTS FOR 2004 OUT OF BALANCE

Accounting balances in public sector



SOURCE: Ministry of Finance and internal figures.

Deficit of all general government stands at 0.28% of GDP thanks to surplus in Social Security.

The central government deficit was largely compensated by the surplus in Social Security (1.02% of GDP) in a context of practical balance in local government and autonomous communities and other autonomous bodies. As a result, the final deficit of all general government in 2004 stood at 2.3 billion euros, a figure equivalent to 0.28% of the GDP in contrast to the surplus of 0.32% obtained in 2003.

SAVINGS AND FINANCING

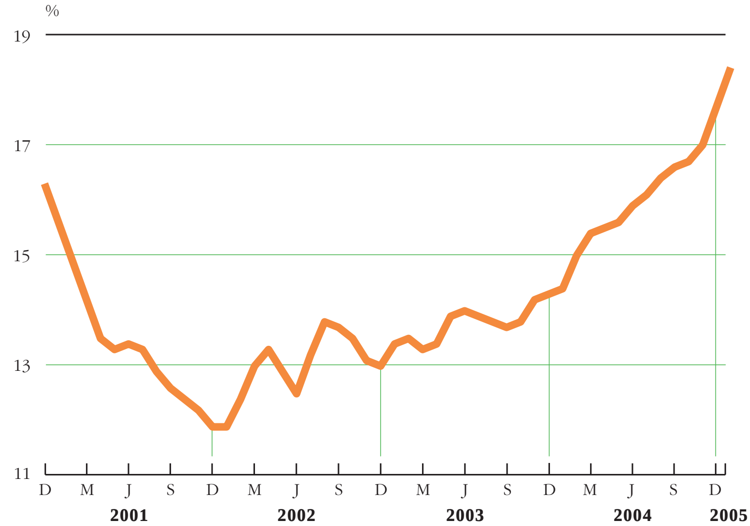
Mortgage loans still driving credit to private sector

Highest annual growth rate in bank credit to private sector since April 2000.

Bank credit to companies and households rose by 18.4% in January 2005 compared with the same month the year before. This rate is a half-point higher than that recorded in December 2004. In fact, it is the highest annual growth rate since April 2000. In addition, this is more than double the rate for the euro area as a whole. Demand for bank credit from the private sector continues to be stimulated by the good state of the labour market and easy financing terms with low interest rates.

CREDIT TO COMPANIES AND HOUSEHOLDS CONTINUES TO GROW

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



NOTES: Cycle-trend series.
SOURCE: Bank of Spain and internal figures.

Total mortgage loans granted up 25% in past 12 months.

The rapid growth of credit to the private sector continued to be based on mortgage loans which, for the moment, are showing no signs of easing off. Mortgage loans granted by banks and savings banks rose by 24.1% in January 2005 marking up the highest growth rate since December 1990. If we include securitizations and other credit institutions the year-to-year change goes up to 24.8%, according to figures supplied by the Spanish Mortgage Association, a half-point more than that recorded the previous month. The rise in home rentals, demographic factors, and low interest rates are variables behind the drive in mortgage loans. On the other hand, leasing, which goes to finance the purchase of capital goods and real estate by companies and self-employed professionals, also showed substantial drive with a year-to-year rise of 17.2%.

CREDIT TO COMPANIES AND HOUSEHOLDS
January 2005

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
Trade credit	58,438	–1,811	–3.0	4,392	8.1	6.1
Secured loans (*)	554,298	9,380	1.7	106,103	23.7	57.9
Other term loans	282,737	1,926	0.7	31,392	12.5	29.5
On-demand loans	24,507	1,552	6.8	2,306	10.4	2.6
Leasing	29,211	–71	–0.2	4,296	17.2	3.1
Doubtful loans	7,712	228	3.0	16	0.2	0.8
TOTAL	**956,903**	**11,206**	**1.2**	**148,507**	**18.4**	**100.0**

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

Mortgage default rate records all-time low.

The default rate at credit institutions stood at 0.80% in January 2005, one hundredth of a point above the low for recent years recorded the month before. In addition, in December 2004 the mortgage default rate marked up a low of 0.42%.

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

On the other hand, the Bank of Spain recently published figures for credit to the private sector for the end of 2004 which makes possible more detailed analysis from the point of view of loan purpose. Credit going to households showed a year-to-year increase of 18.7%, some 1.3 decimals higher than the rate recorded in September. Credit going into production activities moved up 17.3% compared with the same quarter in 2003, some 6 decimals more than in the previous quarter.

Recovery in funding to industry...

By large economic sector, credit to services and construction has risen by around 20% in the past twelve months with both showing change rates slightly lower than in the previous quarter. Funding going to the primary sector, that is to say, agriculture, livestock raising and fishing, was up 10.4% over 12 months earlier, some 3.2 points more than in the third quarter of 2004. Funding for industry continued to recover showing an annual growth rate of 5.5%.

...and for purchase of consumer durables.

With regard to funding to individuals, the acquisition and renovation of housing was up 21.0% compared with the same period the year before, some 1.9 points more than in the previous quarter. Loans for the purchase of consumer durables rose by 9.2% compared with December 2003, some 4.8 points more than in September. Other funds going to households rose by 13.7% year-to-year, some 3.9 points less than in the preceding quarter.

CREDIT TO PRIVATE SECTOR BY PURPOSE

Fourth quarter of 2004

	Total (*)	Change this year		Change over 12 months	
	Million euros	Million euros	%	Million euros	%
Funding of production-related activity					
Agriculture, livestock and fishing	18,108	1,706	10.4	1,706	10.4
Industry	90,588	4,759	5.5	4,759	5.5
Construction	78,368	12,584	19.1	12,584	19.1
Services	296,071	52,099	21.04	52,099	21.4
Total	**483,135**	**71,149**	**17.3**	**71,149**	**17.3**
Funding to individual					
Home purchase or renovation	333,939	57,981	21.0	57,981	21.0
Acquisition of consumer durables	38,380	3,244	9.1	3,244	9.2
Other funding	69,253	8,334	13.7	8,334	13.7
Total	**441,572**	**69,559**	**18.7**	**69,559**	**18.7**
Funding to private non-profit institutions	**3,679**	**677**	**22.6**	**677**	**22.6**
Other unclassified	**17,312**	**2,100**	**13.8**	**2,100**	**13.8**
TOTAL	**945,697**	**143,485**	**17.9**	**143,485**	**17.9**

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

Sustained increase in bank deposits of companies and households

Bank deposits of private sector up 14% compared with January 2004.

Total deposits of resident private sector in euros and foreign currency rose by 14.0% in January 2005 compared with the same month the year before, some 0.2 points less than in the month previous. In spite of the fact that the attraction of deposits holds at a strong rate of increase, the rise in the past 12 months (87.8 billion euros) was notably lower than the increase in loans. In order to compensate this imbalance, the financial institutions carried out issues of bonds and securitizations and had recourse to the foreign interbank market.

Time deposits of more than two years up 62% in past 12 months.

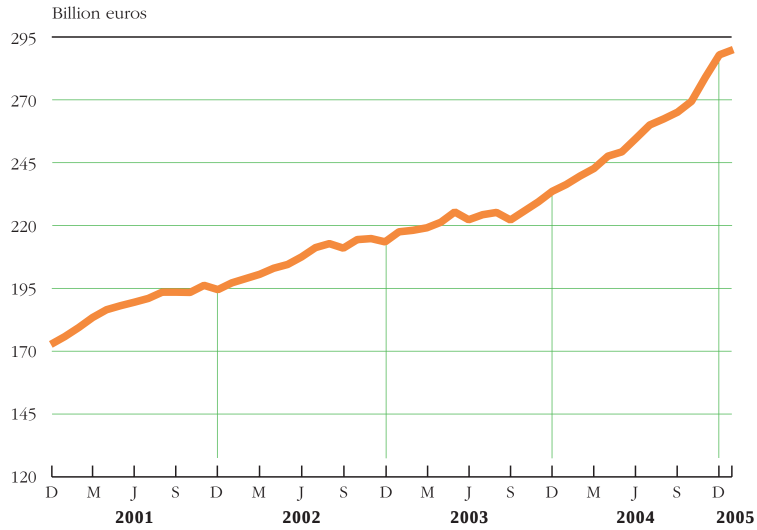
By type of deposit, the biggest annual rise (61.7%) came in those for a term of more than two years which enjoy tax benefits of 40% on interest. Deposits in currencies other than the euro also showed a sharp year-to-year rise of 35.7%. Nevertheless, on-demand accounts, which were up 11.7%, continued to show the highest share of the total at 25.9%.

Acquisitions of securities mutual fund shares concentrated in guaranteed share-based funds.

Assets of securities mutual funds rose by 3.4 billion euros in February to reach 224.6 billion euros, a year-to-year change of 8.7%. This increase may specially be attributed to net shares purchases (deducting sales) of 3 billion euros and to a lesser extent to capital gains. In February 2005, inflows of new money were concentrated in share-based guaranteed funds and short-term bond-based funds, which indicates an aversion to risk among savers. In addition, the average weighted yield securities on mutual funds in the past 12 months stood at 2.8%. Nearly all types of securities mutual funds obtained positive annual yields.

SHARP INCREASE IN TIME DEPOSITS

Time deposits at credit institutions



SOURCE: Bank of Spain.

DEPOSITS OF COMPANIES AND HOUSEHOLDS AT CREDIT INSTITUTIONS

January 2005

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
On-demand	184,603	–2,536	–1.4	19,375	11.7	25.9
Savings (*)	156,569	–1,366	–0.9	12,624	8.8	21.9
2-year term	161,425	958	0.6	4,663	3.0	22.6
More than 2-year term	128,567	1,099	0.9	49,072	61.7	18.0
Repos	76,181	–4,301	–5.3	492	0.7	10.7
Total	**707,344**	**–6,146**	**–0.9**	**86,225**	**13.9**	**99.2**
Deposits in currencies other than euro	**6,036**	**189**	**3.2**	**1,587**	**35.7**	**0.8**
TOTAL	**713,380**	**–5,957**	**–0.8**	**87,812**	**14.0**	**100.0**

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

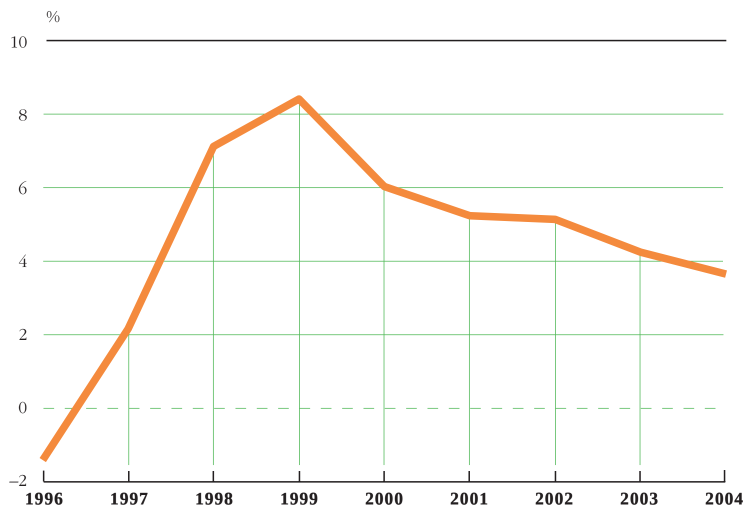
Construction and real estate: eight years of growth

In spite of gradual slowdown construction continues to grow above GDP.

In 2004, construction enjoyed its eighth consecutive year of growth although at a somewhat more moderate rate than the year before. At constant prices the sector grew by 3.7%, six decimals less than in 2003. As a result, the sector represented 9.5% of the gross domestic product (GDP) in 2004, thus confirming its importance as one of the main supports of Spain's economy. On the demand side, construction investment made up 60.6% of total investment, a percentage which indicates the relative importance of this component in overall spending.

CONSTRUCTION EASING GROWTH

Year-to-year change in construction in real terms



SOURCE: INE and internal figures.

Employment up 3.9% but temporary work predominating while self-employed work amounts to 20% of total.

The positive tone in construction activity was reflected in employment which, according to National Accounting, grew by 3.9%, two decimals above the year before. As a result, sector employment at the end of 2004 stood at 1,955,700 jobs equivalent to full-time work, which represented 11.8% of total employment. The increase in employment in the sector, according to the Labour Force Survey, was very high among the self-employed which came to represent somewhat more than 20% of total employment in the sector. In addition, temporary employment amounted to 44.6% of the sector total, a proportion well above that in the rest of the economy.

CONSTRUCTION INDICATORS

Percentage annual change

	2002	2003	2004	2004			
				1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Macroeconomic figures							
Gross value added	4.8	4.3	3.7	3.6	3.4	3.7	4.0
Gross capital formation	4.2	4.3	4.4	4.2	4.1	4.6	4.9
Employment							
Employed	3.4	3.7	3.7	3.2	2.5	4.2	5.1
Wage-earners (with Social Security)	5.8	4.3	5.0	4.4	4.3	4.6	6.8
Full-time work	3.0	3.8	3.9	3.4	2.7	4.3	5.3
Unemployment rate (percentage of labour force)	9.5	11.1	10.3	10.7	10.3	9.9	10.2
Consumption of inputs							
Cement	4.7	4.8	3.7	5.6	2.8	4.1	2.3
Work completed							
Buildings	7.4	4.4	2.5	3.8	1.9	1.9	...
Public works	3.1	3.0	1.0	7.3	–2.1	–1.2	...
Total	5.6	3.9	2.1	4.9	0.7	1.2	...
New contracts							
Public works	13.4	15.3	11.9	26.6	5.4	5.4	...
Total	16.5	10.3	7.2	14.5	0.8	6.4	...
Costs							
Labour	2.9	4.4	3.9	3.8	4.5	3.9	3.5
Materials	0.4	0.8	5.6	0.0	5.6	7.4	9.6
Total	1.5	2.2	5.0	1.7	5.4	6.1	6.9

SOURCE: INE, Ministry of Public Works, Ministry of Labour and internal figures.

Sector in Spain in better state than in euro area as a whole.

Growth of construction in Spain was well above that for the euro area as a whole where gross added value rose by 0.8%. The poor state of activity in the countries of the European Union was due to the notable stagnation in the Netherlands and France and the drop in Germany and Portugal, 4.0% and 2.2% respectively. On the other hand, in the United Kingdom, Ireland, Belgium and some of the new member states, sector growth was even higher than in Spain.

Public sector demand represents 23% of production with growth above private sector.

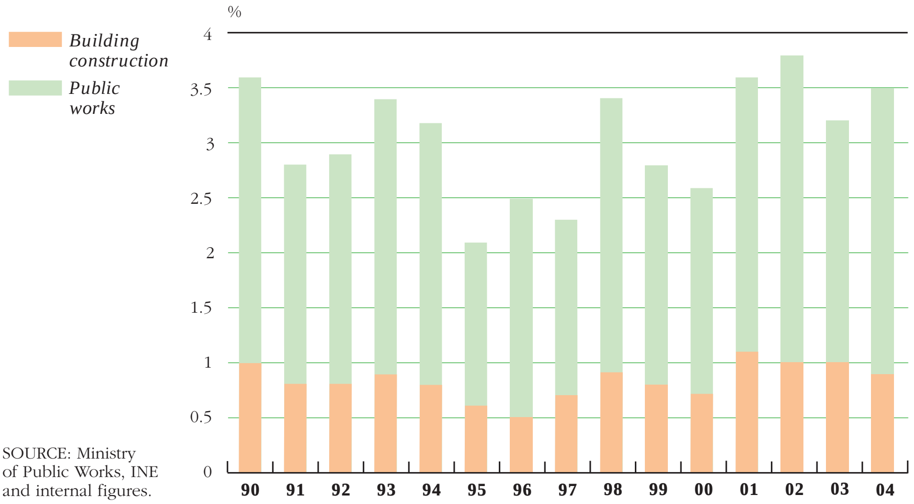
Construction activity in Spain was heavily dependent on public sector demand which grew by 6%, two points higher than the increase recorded for the private sector, according to SEOPAN, the sector business association. Public sector demand, mainly made up of public works, represented 23% of the 144.7 billion euros reported by that source as the figure for domestic production in the sector in 2004. Private sector demand (the remaining 77%) was mainly concentrated in building construction. Under building, the key segment of activity was housing given that the value of non-residential building was significantly lower. Practically all of the rest was made up of renovation and maintenance, a segment which amounted to a quarter of sector production.

Strength of demand in public works to continue, going by increase in government tenders.

The strength of demand in public works should be maintained over the medium term if we are to go by the prospects in public works contracts. In fact, according to the Ministry of Public Works, government tendering rose by 24.2% in 2004 to reach 28.2 billion euros, that is to say, 3.5% of the GDP, three decimals more than in 2003 and one of the highest percentages seen in the last 15 years.

GOVERNMENT TENDERING FOR PUBLIC WORKS UP IN 2004

Government tendering over GDP



SOURCE: Ministry of Public Works, INE and internal figures.

Civil works, mainly road works, railways and ports, make up most government tendering in 2004.

The basic core of tendering by the various levels of government, government bodies and corporations was in civil works. In fact, civil works made up 73.6% of total tendering in 2004. Roads, highways and ports took up the greater part of funding, according to the Ministry of Public Works. The biggest increases showed up in works for improving the electrical infrastructure, ports and sports facilities. Apart from public works, the greater part of tendering showed up in non-residential building (18.6% of the total) while the rest was for residential building for an amount of 2.2 billion euros, 30.9% above the year before.

Non-residential and renovation easing off while housing construction recovers.

With regard to private sector demand, non-residential building recorded modest growth of around 1.0% real, according to SEOPAN. Renovation and maintenance, on the other hand, showed growth of 2.5%, a half-point less than the year before. The residential building sub-sector improved substantially so that real domestic production grew by 5.0%, two points above the year before.

Housing

Real estate activity shows notable strength...

The good state of the housing segment is confirmed by trends shown in available indicators although the lack of figures for the full year in most cases does not allow conclusive results. In any case, from the point of view of actual activity, figures for the first half of 2004 would indicate a brilliant year with 8.9% growth in the number of housing units under construction, nearly 4 points higher than the year before.

HOUSING MARKET INDICATORS

Percentage change unless otherwise indicated

	2002	2003	2004	2004			
				1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Work approvals							
Construction budgets (new works)	9.2	25.0	14.7	13.1	17.0	21.7	7.5
Construction contracts (renovation and extensions)	–3.4	17.1	7.1	–22.2	10.2	17.0	12.8
Floor space (new works)	4.1	19.9	9.9	8.1	11.5	16.9	3.4
Construction permits							
Square metres (new works)	–7.7	2.8	9.9	13.1	2.4	15.0	...
Housing units	2.6	15.1	11.4	13.0	5.1	16.7	...
Housing starts							
Thousand units	543	622	494	162	167	165.0	...
Annual change	3.7	14.6	4.6	15.5	12.5	–11.8	...
Housing units under construction							
Thousand units	1,396	1,473	1,571	1,558	1,585	...	...
Annual change	0.0	5.5	8.9	8.4	9.3	...	...
Housing completions							
Thousand units	520	506	423	128.7	145.1	148.7	...
Annual change	2.9	–2.6	9.6	1.9	7.9	19.2	...
Foreign investment in property	27.7	16.7	–5.4	–7.9	9.1	–5.8	–16.8
Total mortgage loans	19.5	22.4	24.4	24.0	24.3	24.6	24.7
Housing loans to households	17.9	17.6	22.9	22.0	22.9	23.7	23.2
Housing loan interest rates	4.9	3.7	3.4	3.5	3.3	3.4	3.4
New housing prices (m^2)	16.8	15.9	16.5	15.5	16.7	16.7	17.1

SOURCE: Ministry of Public Works, Bank of Spain, SEOPAN and internal figures.

...but early indicators suggest slowdown in construction activity.

The picture for the immediate future looks somewhat less bright if we are to go by early indicators. Building approvals show a notable slowdown in spite of the fact they are still growing strongly at 9.9% for 2004 as a whole, according to floor space of new construction. Housing starts are running along the same lines and, in the first nine months of the year, showed growth of 4.6% as against 14.6% in 2003 because of the sharp drop in this indicator in the third quarter. Building permits, the next stage after approval and the stage before building actually begins, also showed some easing off of growth in the number of units in the first 9 months of the year.

Trend very uneven by autonomous community.

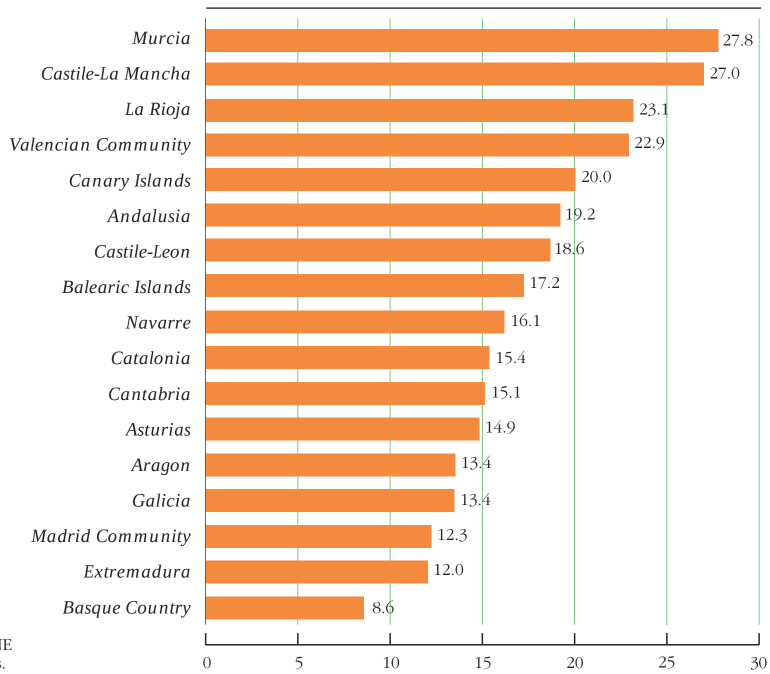
By autonomous community, the picture in housing was very uneven. If we look at projects given approval at the architect level, the biggest growth showed up in the Balearic Islands and Canary Islands where the market had dropped sharply in the previous two years. Castile-La Mancha was another matter with a very high increase of nearly 50% for the second consecutive year. On the other hand, autonomous communities like Andalusia, Valencia, Madrid and the Basque Country showed a decrease in the number of approvals after having reached spectacular figures the previous year, at least in the first three cases.

Murcia approves 28 housing units per 1,000 population, three times that in Basque Country.

Over and above the relative increase in the number of approvals, which in some cases is distorted by the low absolute level, what stands out is the relative level of construction activity in certain autonomous communities. Murcia, Castile-La Mancha, Valencian Community, Canary Islands and Andalusia went above the Spanish average of 17 approvals per 1,000 population, partly thanks to the growing tourist attraction of some of these areas. At the opposite end of the scale, the Basque Country stood at practically half of that value while Madrid and Extremadura showed relatively low levels at around 12 approvals.

MURCIA AND CASTILE-LA MANCHA HEAD LIST FOR NEW HOUSING

Housing approvals per 1,000 population in 2004



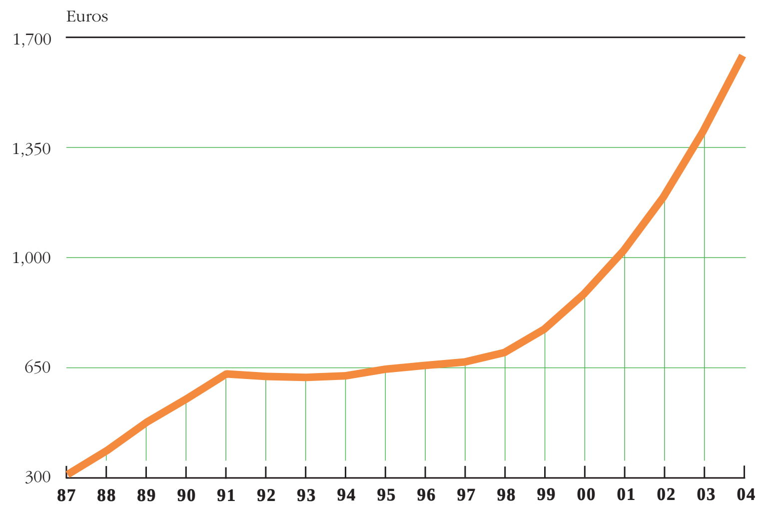
SOURCE: Ministry of Public Works, INE and internal figures.

Housing prices grow by 17% in 2004 with little sign of moderating.

As in previous years, the strong level of the housing market in 2004 was accompanied by major price increases. According to the Bank of Spain, housing prices in Spain rose by 17.3% on average although with somewhat higher growth in the existing housing segment than in new housing. Increases were very similar by type of urban centre although the larger cities and coastal municipalities of less than 50,000 population showed up most sharply.

HOUSING PRICES SHOW SHARP RISE

Average price per square metre of housing as valued (national total)



SOURCE: Bank of Spain.

Demographic and social factors push up growth in number of households and thus housing demand.

The sustained strength in the real estate market may be explained by the interaction of a number of demographic, social, economic and financial factors which together have created a favourable environment for demand. In the demographic and social sphere, the increase in population, added to by the high current level of immigration, the fact that the generation of the Sixties and the start of the Seventies has now reached a mature age, some stabilization in the age at which young people leave home and the rise in divorces and separations have all increased the setting up of new households.

Economic situation and employment favouring improvement in incomes and household expectations.

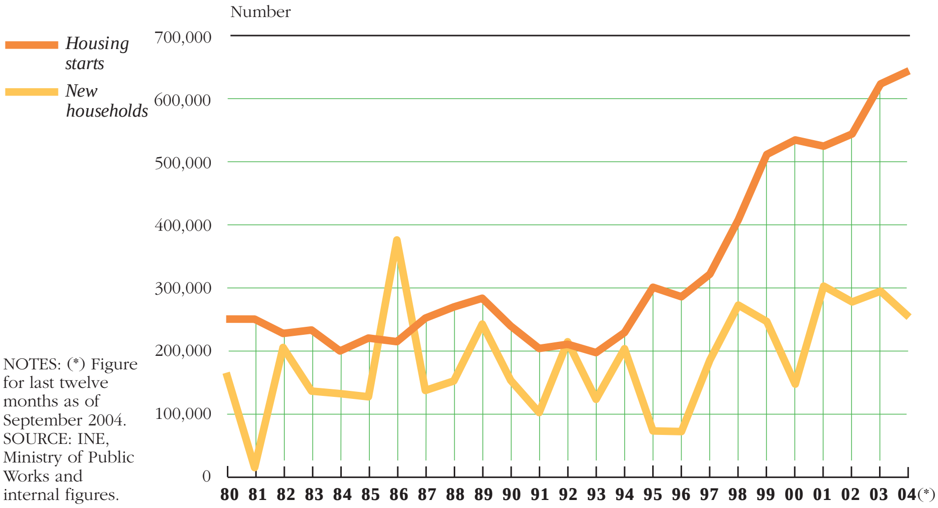
In the economic sphere, the continuation of the process of job creation in 2004 was a strong factor in housing demand, particularly because of the increasing number of women moving into the labour market. In addition, the improvement in real wages and income from property contributed to increase household incomes and therefore to purchasing power.

Recovery in household wealth in 2004 another factor driving demand.

Along with the improvement in disposable income per household, the improvement in financial wealth in 2004 also gave an important boost to housing demand, both because of the psychological component and for its effect on borrowing power. According to Bank of Spain figures, net financial wealth of households, favoured by the stock market recovery in 2004, rose by 7.8%. As a result, net wealth per household (discounting debt) stood at 51,055 euros, 5.7% more than in 2003.

THEORETICAL GAP BETWEEN NEW HOUSEHOLDS AND HOUSING STARTS WIDENS

Housing starts and new households



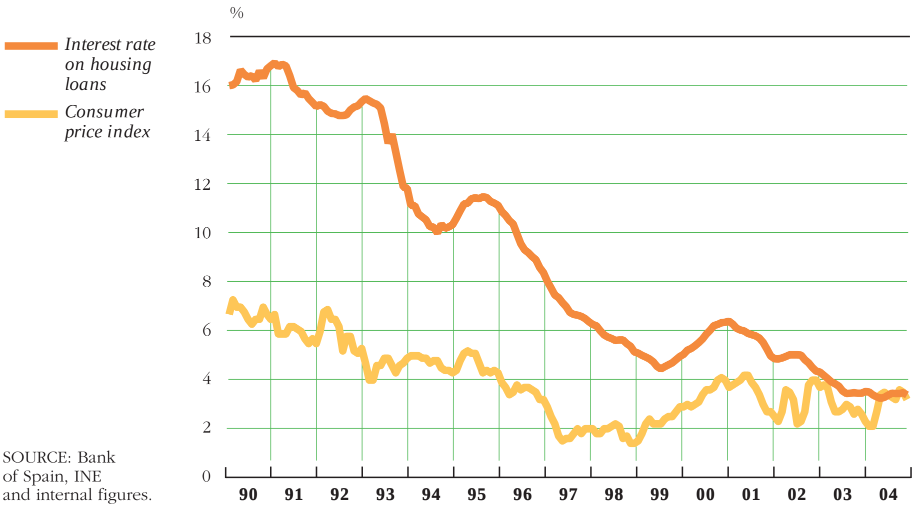
NOTES: (*) Figure for last twelve months as of September 2004.
SOURCE: INE, Ministry of Public Works and internal figures.

Interest rates lower than inflation extend housing market cycle.

In the monetary sphere, facilities to obtain credit have continued to be easy while interest rates on loans for home acquisition, according to Bank of Spain figures, stood below inflation for the first time in 2004. In fact, the cost of credit was 3.0% on annual average, 4 decimals less than inflation in the same period.

INTEREST RATES FOR HOME PURCHASE DROP BELOW INFLATION

Annual rates



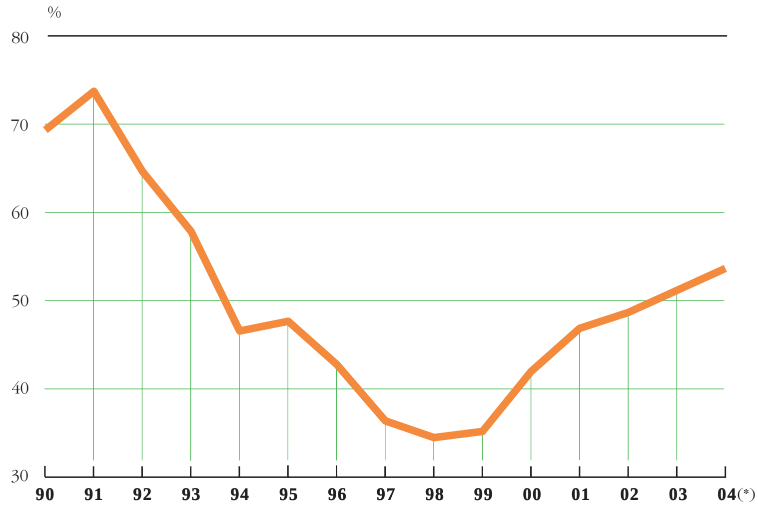
SOURCE: Bank of Spain, INE and internal figures.

Total credit to households for home acquisition reaches 45% of GDP but default rate low.

The improvement in facilities for obtaining credit has fostered the growth of household indebtedness. According to Bank of Spain figures, total credit to households for home acquisition and renovation in the third quarter of 2004 amounted to 44.9% of the GDP. This percentage was nearly five points higher than at the end of 2003 and well above the 11.3% in 1990. In spite of this, the proportion of loan default stood at very low rates, namely 0.33% of the total.

THEORETICAL EFFORT TO PURCHASE HOME SHOWS INCREASE

Annual payment as percentage of wage costs



NOTES: (*) Average figures for first 9 months of year.
SOURCE: Bank of Spain and internal figures.

Efforts households must make to pay off mortgage reaches highest level in 10 years.

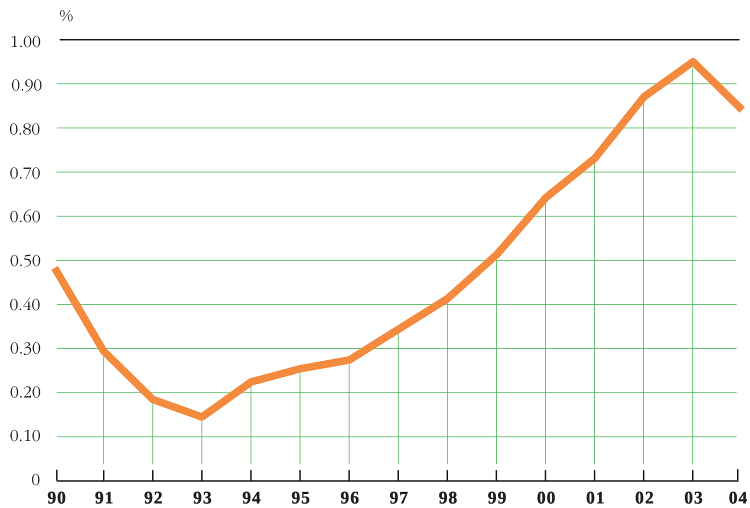
The notable increase in household indebtedness, arising mainly from the higher prices paid in the purchase of housing, has had an effect on the ability to meet payments arising from repayment of loans. According to Bank of Spain figures, the theoretical effort required to meet mortgage payments continued to increase going up to 55.5% of average wages in the third quarter of 2004, some 4.1 points higher than in the final quarter of 2003 and the highest figure in the last 10 years. In any case, current figures do not reach the level of effort required in the first half of the Nineties when meeting mortgage payments theoretically took up somewhat more than 70% of average wages received.

Foreign demand contracting but still very high.

As opposed to previous years, purchases of housing and other buildings by foreigners eased off in 2004 from the high levels previously reached. Foreign investment under this heading amounted to a total of 6.7 billion euros, 5.4% less than the year before which, given the increase in prices in the sector, would suggest that real demand was substantially down. In any case, foreign investment in real estate stood at 0.8% of the GDP, the third highest percentage in history.

FOREIGN INVESTMENT IN REAL ESTATE DOWN IN 2004

Foreign investment in real estate in terms of GDP



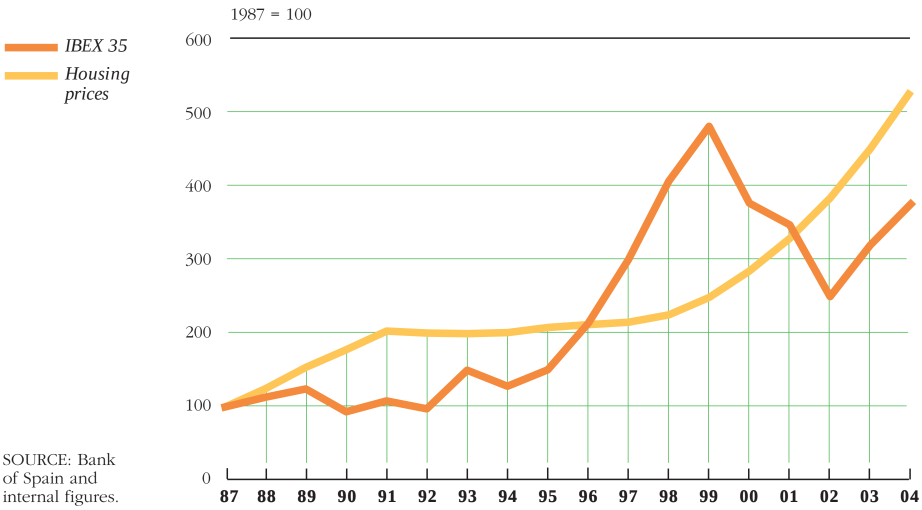
SOURCE: Bank of Spain, INE and internal figures.

Stock market more attractive but still less profitable than real estate market.

Finally, for the second consecutive year, the share market has recovered its attraction as against the real estate market as an investment although the latter has created somewhat higher returns. According to the Bank of Spain, the cumulative profitability for rentals received plus price increase reached 19.8% for housing in 2004, a rate somewhat higher than the increase on the stock market for the same period, and certainly somewhat higher than the profitability of other financial and monetary assets or mutual funds. Furthermore, in recent years, except in certain periods, investment in housing has been more profitable than that obtained from a share portfolio structured along the lines of the IBEX 35.

STOCK MARKET RECOVERS ATTRACTION AS INVESTMENT WHILE HOUSING MAINTAINS APPEAL

Cumulative profitability



SOURCE: Bank of Spain and internal figures.

Prospects of gradual easing of demand in housing market.

Market prospects in residential building over the short term depend on the main factors of demand analyzed above. From a demographic, social and economic perspective, the situation over the medium term looks relatively stable although not as strong as in the past. The financial markets, on the other hand, are not expected to show major ups and downs compared with the immediate past and therefore may prove an alternative to real estate investment. In addition, prospects for increases in interest rates are quite moderate and it is difficult to see these putting a brake on demand, although it should be borne in mind that household indebtedness is already very high. Finally, prospects point to a gradual slowdown in the real estate sector in coming quarters, whereas other activity in the construction sector will show a similar profile.

CUSTOMER RESOURCES IN BANKING SYSTEM

Balances at December 31, 2004, in million euros

Type of institution	Balance			Share		
	December 31, 2004	December 31, 2003	% change	December 31, 2004	December 31, 2003	Change
Banks	**493,736**	**435,293**	**13.43**	**46.52**	**46.83**	**–0.31**
Savings banks	**514,336**	**448,571**	**14.66**	**48.46**	**48.25**	**0.21**
Credit cooperatives	**53,255**	**45,739**	**16.43**	**5.02**	**4.92**	**0.10**
Total	**1,061,326**	**929,603**	**14.17**	**100**	**100**	

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

RANKING OF MAIN BANK AND SAVINGS BANK GROUPS BY CUSTOMER RESOURCES

Balances at December 31, 2004, in million euros

	Consolidated groups	Balance at December 31, 2004	Balance at December 31, 2003	Change over December 2003	% change over December 2003
1	**Santander Central Hispano** (1)	**398,047.0**	**364,787.9**	**33,259.1**	**9.12**
2	**Banco Bilbao Vizcaya Argentaria**	**199,485.3**	**182,831.2**	**16,654.1**	**9.11**
3	**Caja de Ahorros y Pensiones de Barcelona**	**104,464.9**	**91,214.0**	**13,250.9**	**14.53**
4	**C. A. y M. P. de Madrid**	**68,512.2**	**60,831.3**	**7,680.9**	**12.63**
5	**Banco Popular Español**	**46,109.6**	**37,464.0**	**8,645.6**	**23.08**
6	**Banco Sabadell** (2)	**33,748.2**	**30,794.4**	**2,953.8**	**9.59**
7	**Caja de Ahorros de Valencia, Castellón y Alicante**	**30,673.4**	**24,268.6**	**6,404.8**	**26.39**
8	**Caja de Ahorros de Cataluña**	**24,554.2**	**21,969.6**	**2,584.6**	**11.76**
9	**Caja de Ahorros del Mediterráneo**	**23,604.1**	**20,057.8**	**3,546.3**	**17.68**
10	**Bankinter**	**19,873.6**	**17,992.4**	**1,881.2**	**10.46**
11	**C. A. y M. P. de Zaragoza, Aragón y Rioja**	**17,824.3**	**15,838.5**	**1,985.7**	**12.54**
12	**Caja de Ahorros de Galicia**	**16,994.2**	**15,643.0**	**1,351.2**	**8.64**
13	**M. P. y C. A. de Ronda, Cádiz, Almería, Málaga y Antequera**	**16,219.8**	**14,041.8**	**2,178.0**	**15.51**
14	**Bilbao Bizkaia Kutxa**	**13,514.7**	**12,571.3**	**943.5**	**7.51**
15	**Caixa de Aforros de Vigo, Ourense e Pontevedra**	**12,815.9**	**11,189.0**	**1,626.9**	**14.54**
16	**Caja España de Inversiones, C. A. y M. P.**	**12,157.4**	**10,915.1**	**1,242.3**	**11.38**
17	**Caja de Ahorros de Salamanca y Soria**	**10,954.0**	**10,230.5**	**723.6**	**7.07**
18	**Banco Pastor**	**10,487.6**	**8,496.9**	**1,990.7**	**23.43**
19	**Caja de Ahorros del Penedés**	**9,895.3**	**7,501.5**	**2,393.7**	**31.91**
20	**Caja de Ahorros de Castilla-La Mancha**	**9,874.9**	**8,214.8**	**1,660.1**	**20.21**

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

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

Consolidated figures in million euros. On December 31, 2004

Consolidated groups (2)	Balance		Change over December 2003	% change over December 2003
	December 31, 2004	December 31, 2003		
Andalusia	**48,928.9**	**42,561.5**	**6,367.4**	**14.96**
M. P. y C. A. de Ronda, Cádiz, Almería, Málaga y Antequera - Unicaja	16,219.8	14,041.8	2,178.0	15.51
C. A. y M. P. de Córdoba - Cajasur	9,711.1	8,358.2	1,353.0	16.19
M. P. y C. A. de Huelva y Sevilla	9,082.0	7,878.1	1,203.9	15.28
Caja General de Ahorros de Granada	7,124.0	6,378.3	745.7	11.69
Caja de Ahorros San Fernando de Sevilla y Jerez	6,347.5	5,548.7	798.8	14.40
Caja Provincial de Ahorros de Jaén	444.4	356.4	88.1	24.71
Aragon	**23,089.5**	**20,508.0**	**2,581.5**	**12.59**
C. A. y M. P. de Zaragoza, Aragón y Rioja - Ibercaja	17,824.3	15,838.5	1,985.7	12.54
Caja de Ahorros de la Inmaculada de Aragón	5,265.3	4,669.5	595.8	12.76
Asturias				
Caja de Ahorros de Asturias	**6,314.9**	**5,932.6**	**382.4**	**6.45**
Balearic Islands	**5,441.5**	**4,874.6**	**566.9**	**11.63**
C. A. y M. P. de las Baleares - Sa Nostra	5,230.5	4,673.1	557.5	11.93
Caja de Ahorros de Pollença «Colonya»	211.0	201.5	9.5	4.69
Canary Islands	**9,821.2**	**8,051.7**	**1,769.6**	**21.98**
Caja General de Ahorros de Canarias	5,722.4	4,701.7	1,020.7	21.71
Caja Insular de Ahorros de Canarias	4,098.8	3,350.0	748.9	22.35
Cantabria				
Caja de Ahorros de Santander y Cantabria	**4,799.1**	**4,403.7**	**395.4**	**8.98**
Castile-Leon	**36,046.8**	**32,588.9**	**3,457.8**	**10.61**
Caja España de Inversiones, C. A. y M. P.	12,157.4	10,915.1	1,242.3	11.38
Caja de Ahorros de Salamanca y Soria - Caja Duero	10,954.0	10,230.5	723.6	7.07
Caja de Ahorros Municipal de Burgos	5,459.5	4,787.8	671.7	14.03
C. A. y M. P. de Segovia	2,637.8	2,319.7	318.1	13.71
C. A. y M. P. de Ávila	2,492.5	2,115.0	377.4	17.85
C. A. y M. P. del C.C.O. de Burgos	2,345.5	2,220.8	124.8	5.62
Castile-La Mancha	**10,708.6**	**8,924.6**	**1,784.0**	**19.99**
Caja de Ahorros de Castilla-La Mancha	9,874.9	8,214.8	1,660.1	20.21
Caja de Ahorros Provincial de Guadalajara	833.7	709.8	123.9	17.46
Catalonia	**164,725.9**	**142,373.2**	**22,352.7**	**15.70**
Caja de Ahorros y Pensiones de Barcelona - ”la Caixa”	104,464.9	91,214.0	13,250.9	14.53
Caja de Ahorros de Cataluña	24,554.2	21,969.6	2,584.6	11.76
Caja de Ahorros del Penedés	9,895.3	7,501.5	2,393.7	31.91
Caja de Ahorros de Sabadell	5,551.2	4,576.5	974.8	21.30
Caja de Ahorros de Terrassa	4,766.9	4,289.9	477.0	11.12
Caja de Ahorros de Tarragona	4,153.8	3,595.6	558.2	15.53
Caja de Ahorros Laietana	3,943.7	3,064.2	879.5	28.70
Caja de Ahorros de Girona	3,444.2	2,915.5	528.7	18.13
Caja de Ahorros de Manresa	2,554.0	2,067.3	486.8	23.55
Caja de Ahorros Comarcal de Manlleu	1,397.7	1,179.1	218.6	18.54

Consolidated groups (2)	Balance		Change over December 2003	% change over December 2003
	December 31, 2004	December 31, 2003		
Valencian Community	**54,867.9**	**44,826.7**	**10,041.2**	**22.40**
Caja de Ahorros de Valencia, Castellón y Alicante - Bancaja	30,673.4	24,268.6	6,404.8	26.39
Caja de Ahorros del Mediterráneo - CAM	23,604.1	20,057.8	3,546.3	17.68
C. A. y M. P. de Ontinyent	590.4	500.4	90.1	18.00
Extremadura	**6,343.8**	**5,630.7**	**713.2**	**12.67**
C. A. y M. P. de Extremadura	3,873.2	3,433.6	439.6	12.80
M. P. y Caja General de Ahorros de Badajoz	2,470.7	2,197.1	273.6	12.45
Galicia	**29,810.1**	**26,832.0**	**2,978.1**	**11.10**
Caja de Ahorros de Galicia	16,994.2	15,643.0	1,351.2	8.64
Caixa de Aforros de Vigo, Ourense e Pontevedra - Caixanova	12,815.9	11,189.0	1,626.9	14.54
La Rioja				
Caja de Ahorros de La Rioja	**1,871.0**	**1,698.1**	**172.9**	**10.18**
Madrid Community				
C. A. y M. P. de Madrid	**68,512.2**	**60,831.3**	**7,680.9**	**12.63**
Murcia				
Caja de Ahorros de Murcia	**8,424.7**	**7,114.9**	**1,309.8**	**18.41**
Navarre				
C. A. y M. P. de Navarra	**8,050.5**	**7,252.3**	**798.2**	**11.01**
Basque Country	**27,764.5**	**25,316.3**	**2,448.2**	**9.67**
Bilbao Bizkaia Kutxa - BBK	13,514.7	12,571.3	943.5	7.51
C. A. y M. P. de Guipúzkoa y San Sebastián - Kutxa	9,662.4	8,686.4	975.9	11.24
Caja de Ahorros de Vitoria y Álava - Vital	4,587.4	4,058.6	528.8	13.03
Total Savings Bank Groups	**515,521.3**	**449,721.0**	**65,800.3**	**14.63**

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

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