

THE SPANISH ECONOMY: MONTHLY REPORT

JUNE 2005

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Research Department

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.	3rd 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	3.7	3.5
Japan	1.4	2.7	1.4	4.1	3.2	2.4	0.9	0.8	1.4	1.6
United Kingdom	2.2	3.1	2.4	3.0	3.6	3.1	2.9	2.7	2.4	2.3
Euro area	0.5	1.8	1.5	1.5	2.2	1.8	1.6	1.4	1.3	1.5
<i>Germany</i>	<i>0.0</i>	<i>1.0</i>	<i>1.1</i>	<i>1.1</i>	<i>1.4</i>	<i>1.2</i>	<i>0.5</i>	<i>1.1</i>	<i>0.9</i>	<i>1.1</i>
<i>France</i>	<i>0.9</i>	<i>2.1</i>	<i>1.7</i>	<i>1.7</i>	<i>2.7</i>	<i>1.9</i>	<i>2.1</i>	<i>1.7</i>	<i>1.5</i>	<i>1.7</i>
Consumer prices										
United States	2.3	2.7	2.8	1.8	2.9	2.7	3.3	3.0	3.0	2.7
Japan	-0.3	0.0	0.0	-0.1	-0.3	-0.1	0.5	-0.2	-0.1	0.2
United Kingdom	2.8	2.2	2.4	2.3	2.2	2.1	2.3	2.2	2.3	2.7
Euro area	2.1	2.1	2.0	1.7	2.3	2.2	2.3	2.0	2.1	2.1
<i>Germany</i>	<i>1.0</i>	<i>1.7</i>	<i>1.5</i>	<i>1.0</i>	<i>1.9</i>	<i>1.9</i>	<i>1.9</i>	<i>1.7</i>	<i>1.5</i>	<i>1.4</i>
<i>France</i>	<i>2.1</i>	<i>2.1</i>	<i>1.7</i>	<i>1.8</i>	<i>2.4</i>	<i>2.3</i>	<i>2.1</i>	<i>1.7</i>	<i>1.7</i>	<i>1.8</i>
SPANISH ECONOMY										
Macroeconomic figures										
Household consumption	2.6	4.4	4.7	3.3	4.7	4.7	4.8	4.8	4.7	4.7
Government consumption	3.9	6.4	5.6	5.4	6.3	7.1	6.7	6.0	5.7	5.4
Gross fixed capital formation	5.3	4.4	7.5	3.4	3.1	4.9	5.9	7.5	7.7	7.5
<i>Capital goods</i>	<i>1.9</i>	<i>2.1</i>	<i>10.7</i>	<i>-2.5</i>	<i>-1.6</i>	<i>5.1</i>	<i>7.3</i>	<i>10.5</i>	<i>10.6</i>	<i>10.9</i>
<i>Construction</i>	<i>6.2</i>	<i>5.5</i>	<i>6.2</i>	<i>6.0</i>	<i>5.4</i>	<i>5.2</i>	<i>5.3</i>	<i>6.1</i>	<i>6.2</i>	<i>6.3</i>
Domestic demand (contribution to GDP growth)	3.8	4.8	5.8	3.8	4.6	5.2	5.5	5.8	5.8	5.8
Exports of goods and services	3.6	2.8	0.3	3.5	2.8	3.2	1.8	-1.7	-0.3	1.2
Imports of goods and services	6.3	8.1	7.1	6.2	8.0	9.2	8.8	6.0	5.8	7.5
Gross domestic product	2.9	3.1	3.3	3.0	3.1	3.1	3.2	3.3	3.4	3.4
Other variables										
Employment	2.5	2.7	3.0	2.6	2.5	2.7	2.9	3.0	3.0	3.1
Unemployment (% labour force)	11.5	11.0	10.0	11.5	11.1	10.7	10.6	10.2	10.1	9.9
Consumer price index	3.0	3.0	3.1	2.2	3.2	3.3	3.4	3.2	3.2	3.0
Unit labour costs	2.7	2.7	2.7	2.7	2.6	2.7	2.8	2.6		
Current account balance (% GDP)	-4.3	-5.1	-6.1	-3.4	-5.5	-5.1	-6.5	-6.8		
Net lending or net borrowing rest of the world (% GDP)	-3.1	-4.1	-5.1	-2.8	-4.2	-3.9	-5.4	-6.3		
Government balance (% GDP)	0.3	-0.3	0.0							
FINANCIAL MARKETS										
Interest rates										
Federal Funds	1.1	1.3	3.1	1.0	1.0	1.4	1.9	2.4	2.9	3.3
ECB repo	2.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
10-year US bonds	4.0	4.3	4.5	4.0	4.6	4.3	4.2	4.3	4.2	4.4
10-year German bonds	4.1	4.1	3.6	4.1	4.2	4.1	3.8	3.6	3.3	3.6
10-year Spanish bonds	4.1	4.1	3.6	4.1	4.2	4.2	3.8	3.6	3.3	3.6
Exchange rate										
\$/Euro	1.13	1.24	1.26	1.25	1.20	1.22	1.30	1.31	1.25	1.24

" 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	

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June 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

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ECONOMIC OUTLOOK FOR 2005

The current world scene is characterized by a **gradual slowdown in economic activity** following the brilliant year in 2004. In keeping with this, pressure on oil prices has decreased although there is still great resistance to leaving behind the 50 dollars a barrel level, an all-time high price. This context has not changed the situation of the main imbalances, given that trade imbalances continue to grow and fiscal deficits persist in most of the developed economies.

Prospects in the United States are greatly affected by the trade deficit which continues to draw off from growth of an economy in which **consumer demand and investment remain strong**. The Organization for Economic Cooperation and Development (OECD) is expecting growth of 3.5% for 2005, aided by strong domestic demand and good corporate profits. Japan, in turn, will show a modest performance with growth of 1.5% but the end of the period of deflation has not yet come about. Good corporate profits, the result of restructuring moves, and a gradual recovery of consumption should continue to lay the basis of Japan's recovery. China continues its strong drive combined with moderate inflation.

With regard to the euro area, figures for the first quarter confirm **notable weakness**. The poor situation in Italy, Germany and France is seriously reducing future growth possibilities. Growth of the order of 1.5% is expected for the euro area as a whole in 2005, something which will follow on a first semester half showing little strength in domestic demand and heavy dependence on the foreign sector. With regard to prices, the absence of pressures apart from oil should make an increase of less than 2% possible in 2005.

Monetary policy is running between the risk of inflation, which would lead to raising interest rates, and the risk of having the economy cool off, which would imply interest rate cuts. Starting out from interest rates at all-time low levels, the US Federal Reserve has opted for a stepped increase in rates which likely will continue in coming months. On the other hand, it is **not expected that the European Central Bank will modify its policy over the short term** due to the weak state of growth and the absence of inflation and there is even speculation about a possible cut. Yields on government bonds could still mark up new lows but with a later tendency to rise to levels more in keeping with economic fundamentals.

In Spain, growth in the first quarter (3.3% after revision by National Accounting) will tend to stabilize at around this rate so that for 2005 as a whole growth of the gross domestic product will likely stand at 3.3%. **Domestic demand lies behind the high growth of Spain's economy**, both in terms of household consumption, for which we can expect a gradual easing off, and investment in construction and capital goods. Low interest rates, job creation (around a half-million in 2005) and the favourable trend in household incomes and corporate profits are keeping these trends in motion. On the other hand, **inflation prospects have slightly worsened** in view of the downward resistance of oil prices so that it is expected that at the end of the year the CPI rate will come close to 3.0%.

May 27, 2005

ECONOMIC SITUATION

Gradual slowdown in world growth

Rise in oil prices and increase in US interest rates cool off economic activity in first quarter.

As we approach the summer, the world economy is showing a gradual easing off after the high point reached in 2004. In the United States, the world economic engine, growth of the gross domestic product (GDP) stood at 3.7% year-to-year, far from the rate recorded one year earlier (5.0%). The rise in oil prices and the increase in reference interest rates may have had a direct effect on this result. On the other hand, China for now is proving notably dynamic and is capitalizing on a still favourable international environment and strong domestic demand, as may be seen from maintenance of a growth rate of around 9.5% in the first quarter of the year.

Notable disparity in growth rates in euro area.

The stage of world economic slowdown comes at a bad time for Europe. Figures for the first quarter, which showed a slowdown in growth in France and a drop in Italy's GDP, meant that the only positive note was the improvement in economic activity in Germany. Nevertheless, the entire increase in the German economy was due to the foreign sector which leaves the situation of very slack domestic demand quite unchanged. In any case, we should point out that the disparity in growth rates in the euro area is unusually high, with Greece growing more than 4% and Italy and the Netherlands on the negative side. The euro area as a whole grew by a modest 1.4% in the first quarter, a trend which, if we are to go by available indicators, could go even lower as the year progresses.

While US Federal Reserve raises official interest rate to 3%...

Lower growth and the rise in the risk of inflation because of higher oil prices has complicated the decisions of the US Federal Reserve regarding monetary policy. In any case, as expected, the leading economy's central bank system raised its reference rate by 25 basis points on May 3. As a result, the objective level of the interest rate on Federal Funds (overnight interbank deposits) stood at 3%. This was the eighth consecutive increase in the official interest rate since June 2004 when it stood at the low of 1%. Concerned about inflationary pressures, the US monetary authorities are thus continuing to bring the reference rate up to a more neutral level.

...European Central Bank resisting pressures in favour of cut.

On the other hand, the European Central Bank (ECB) has held its official interest rate unchanged at 2% for two years. The fragile state of the economy in the euro area is bringing about political pressure in favour of a cut. Nevertheless, the ECB has maintained its stance that its reference rate stands at the proper level and that it now stands at a very low historical level. In this situation, long-term interest rates on European government bonds in May marked up the lowest levels in the past four decades.

Dollar recovers position with exchange rate...

The trend to a slowdown in the US economy has not been reflected in the dollar exchange rate. In recent weeks the US currency has recovered positions benefiting from the wider differential in interest rates with other currencies and because of greater optimism about the trend in the

...at less than 1.26 units to euro.

economy. Against the euro, it has also benefited from the slack state of the euro area economy and concern about the results of the referendums in France and the Netherlands on ratification of the European constitution. The US currency thus has gone to an exchange rate of less than 1.26 units to the euro, a level not reported since October 2004.

Stock markets respond after an unfavourable first four months in 2005.

The stock markets seem to be on their way to overcome the dip which meant they ended the first four months of the year below par of the year. Once more, the rise in oil prices and the change in interest rate prospects made it necessary to pay the toll in price cuts. Nevertheless, in the early weeks of May the stock markets reacted positively helped by publication of favourable corporate profits, which made it possible to leave behind the nervous moments caused by the reduction in the credit ratings of the US car companies General Motors and Ford.

Spain's economy grows above 3%

Following revision of statistics, Spain's economy seen to be growing more than earlier believed.

The substantial methodological changes in two of the major statistical sources for monitoring of Spain's economy, National Accounting and the Labour Force Survey, have served to show that the country's economy is more dynamic than believed up to now and that behind this drive lies the strong contribution from immigration.

New Labour Force Survey shows substantial increase in labour force and employment...

Chronologically, the new features of the methodology used in the Labour Force Survey were first to become known. The main new factors lie in a profound revision of the population series to incorporate information from the 2001 Census which provided a better record of the resident immigrant population. In addition, the new Labour Force Survey improves the system of interviews and gathering of information and harmonizes the variables monitored with the specifications laid down by the statistical regulations of the European Union. As a result of these changes, the Labour Force Survey shows a substantial increase in those groups which define the state of the labour market, namely those of working age, those ready and willing to work, those employed and those unemployed, while better reflecting part-time work and reporting work of those other than wage-earners.

...with figures also being used in new National Accounting.

The bigger population figure, in turn, was one of the new features of the revised National Accounts. The National Accounts thus incorporate the employment estimates provided by the Labour Force Survey which, together with inclusion of the demographic estimates from the 2001 Census and use of ongoing municipal resident registrations, leads to an increase of approximately one million jobs compared with previous figures.

New accounting system in financial sector, another methodological innovation, partly explains rise in level of GDP.

An important methodological change has also come with the new method of calculating value added created by financial institutions, more in line with economic reality, which has meant an increase in the level of the GDP. While, as a result of the two innovations mentioned above, along with others of varying importance, the total volume of the GDP is higher (some 39 billion euros in 2004 compared with the previous estimate), real growth also differs from that previously estimated.

New accounting system uses price structure more in keeping with reality.

The old methodology used a price structure with base 1995 and starting out from that point arrived at deflators which made it possible to convert nominal figures into real figures. The system suffered from the defect that it reflected a rather out of date price structure. Now, the new accounting system uses the price structure of the preceding year in order to calculate the real change in macroeconomic figures for the current year.

As result of methodological changes, resulting economic growth goes above previous estimate putting it at 3.1% in 2004.

Finally, under the new methodology, real growth of Spain's economy is higher than previously estimated. As against estimated growth of 2.7% in 2004, the new accounting system shows real growth of the GDP at 3.1%. This positive difference of four decimals is maintained for the years 2002 and 2003 and even increases in 2001. The movable base system mentioned earlier gives rise to approximately half of this higher growth while the rest of the innovations account for the other half.

GDP up 3.3% in first quarter, result of major growth of domestic demand...

Apart from this new profile for Spain's economy, recent trends are following the course laid out some months ago. Growth of the GDP in the first quarter was 3.3% year-to-year, which represents a slight increase over the previous quarter. Behind this notable strength lies growth of domestic demand, which is a combination of a high rate of consumption and a substantial rise in investment. The big draw-off from growth coming from the foreign sector, still far from easing off, again increased in the first quarter.

...which has extended to second quarter and been especially beneficial in construction and services.

The start of the second quarter has not brought any break in this trend. On the demand side, growth of consumption appears to be cooling off slightly but not leaving behind recent high levels, while investment in capital goods is continuing its increase trend. On the supply side, the most notable features are the gradual consolidation of tourism, especially domestic tourism, and the recurring slack in industry. In line with previous months, construction and services are showing the best indicators of economic activity.

Strong job creation in first quarter.

With regard to the labour market, in keeping with the strength of the domestic market, the trend is positive. While the methodological change makes year-to-year comparison difficult, the creation of 200,000 jobs in the first quarter means an increase in the growth rate for generation of employment. At the same time, with figures for the first quarter now available, we note the continuing reduction of unemployment which has dropped to little more than 10% of the labour force.

Energy and food push inflation to 3.5% in April.

The trend in inflation was less satisfactory. The sharp increase in the consumer price index in April, due to the rise in the energy and food components, put the index at 3.5% year-to-year. Among other considerations, a troubling matter is the worsening of the inflation differential with the euro area which has increased by a half-point in only four months, a factor making any improvement in Spain's international competitiveness more difficult.

CHRONOLOGY

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.*
23 *Heads of state and government of European Union member states approve reform of **Stability and Growth Pact** introducing more flexibility.*
- April 4** *One-month forward price for Brent quality **oil** rises to record level of 56.90 dollars a barrel.*
20 *Dow Jones index for **New York stock exchange** marks up annual low (10,012.36) with 7.1% drop compared with end of 2004.*
- May 2** ***Cypriot pound, Latvian lat** and **Maltese lira** join Exchange Rate Mechanism.
Federal Reserve Board raise's reference rate by quarter-point to 3.00%.*

AGENDA

June

- 2** *Meeting of Governing Council of European Central Bank.*
- 3** *Industrial production index (April).*
- 14** *Consumer price index (May).*
- 16** *Quarterly labour cost survey (1st Quarter).
Harmonized consumer price index for European Union (May).*
- 21** *Central government revenue and spending (May).*
- 24** *Ongoing survey of household budgets (1st Quarter).*
- 27** *Producer price index (May).*
- 29** *Preliminary HCPI index (June).*
- 29/30** *Meeting of Open Market Committee of Federal Reserve.*

July

- 5** *Industrial production index (May).*
- 7** *Meeting of Governing Council of European Central Bank.*
- 14** *Consumer price index (June).*
- 18** *Harmonized consumer price index for European Union (June).*
- 19** *Central government revenue and spending (June).*
- 26** *Producer price index (June).*
- 29** *Quarterly Labour Force Survey (2nd Quarter).
US GDP (2nd Quarter).*

INTERNATIONAL REVIEW

OECD forecasts: growth moderating while imbalances remain

OECD reduces growth forecasts.

In its Spring report, the Organization for Economic Cooperation and Development (OECD) again reduced growth forecasts for 2005, this time from 2.9% to 2.6%. However, it is still betting on a continuation of the current expansionist cycle with a very slight increase to 2.8% for 2006. The level of global activity has been dropping since the beginning of 2005 but for the end of the year the OECD forecasts stable growth, on the supposition that there will not be significant increases in oil prices above current levels.

Notable inequalities involving fiscal and trade imbalances.

The differences in growth by geographical area are not being reduced but rather the opposite is true. The forecast for 2005 for Japan and the euro area, except Spain, is for a downturn, whereas the United States will rise slightly and China will continue to show sharp growth. Fiscal and trade imbalances present the biggest risks for the world economy.

United States to grow 3.6% in 2005 with strong domestic demand and foreign sector in deficit.

In the United States, the OECD forecasts growth of 3.6% in 2005, an increase over the previous increase of 3.3%. Growth will rest on good corporate profits and favourable financial conditions. This has helped domestic demand to adequately resist pressure from oil prices and the end of tax stimuli. Nevertheless, exports are weak and the foreign sector will continue to worsen with a current account deficit of 6.4% of the gross domestic product (GDP) in 2005. Government finances will improve but only a little with increased revenue balanced largely by increased spending.

Fed's interest rates will continue to rise reaching neutral levels.

For 2006 the OECD has reduced its growth forecast for the United States to 3.3% with the rise previously forecast for 2006 being brought forward to the end of 2005. Incipient inflationary pressures point toward further increases in Federal Reserve rates to more neutral levels.

Europe to grow by poor 1.2% with inflation moderating to 1.8%.

The growth forecast for 2005 for the euro area is 1.2%, well below the previous 1.9%. A rise in oil prices or greater appreciation of the euro could increase this weakness. Inflation on its way down and growth of 2.0% forecast for 2006, even below the economy's potential, leaves some margin for the European Central Bank to ease interest rates.

Spain to grow at 3% in 2005 but foreign deficit to increase.

Italy and Germany are the weakest economies whereas in clear contrast growth forecasts for Spain go up to 3.0% for 2005 and 3.2% for 2006. Spain's current account deficit will continue to worsen reaching 6.2% of the GDP in 2005.

OECD: ECONOMIC OUTLOOK (1)

	2002	2003	2004	2005	2006
GDP (2)					
United States	1.9	3.0	4.4	3.6	3.3
Japan	-0.3	1.5	2.6	1.5	1.7
Germany	0.1	-0.1	1.0	1.2	1.8
France	1.1	0.5	2.3	1.4	2.0
Italy	0.4	0.4	1.0	-0.6	1.1
United Kingdom	1.8	2.2	3.1	2.4	2.4
Spain	2.2	2.5	2.7	3.0	3.2
Euro area	0.9	0.6	1.8	1.2	2.0
OECD	1.6	2.1	3.4	2.6	2.8
Inflation (3)					
United States	1.6	2.3	2.7	2.8	2.6
Japan	-0.9	-0.3	0.0	-0.2	0.1
Germany	1.3	1.0	1.8	1.2	0.8
France	1.9	2.2	2.3	1.6	1.7
Italy	2.6	2.8	2.3	2.0	2.0
United Kingdom	1.3	1.4	1.3	2.0	2.1
Spain	3.6	3.1	3.1	3.1	2.6
Euro area	2.3	2.1	2.1	1.8	1.3
OECD	2.6	2.0	2.0	1.9	1.9
Unemployment (4)					
United States	5.8	6.0	5.5	5.1	4.8
Japan	5.4	5.3	4.7	4.4	4.1
Germany	8.2	9.1	9.3	9.6	9.1
France	9.0	9.8	10.0	10.0	9.6
Italy	9.1	8.8	8.1	8.4	8.4
United Kingdom	5.2	5.0	4.7	4.9	5.2
Spain	11.4	11.3	10.8	10.2	9.8
Euro area	8.4	8.9	8.9	9.0	8.7
OECD	6.8	6.9	6.7	6.7	6.4
Current account balance (5)					
United States	-4.5	-4.8	-5.7	-6.4	-6.7
Japan	2.8	3.1	3.6	3.6	4.1
Germany	2.3	2.1	3.9	4.2	4.9
France	0.9	0.4	-0.3	-1.0	-0.6
Italy	-0.8	-1.3	-0.8	-2.2	-2.3
United Kingdom	-1.7	-1.7	-2.2	-2.3	-2.4
Spain	-2.4	-2.8	-4.9	-6.2	-6.7
Euro area	0.8	0.4	0.6	0.1	0.3
OECD	-1.1	-1.1	-1.2	-1.7	-1.7
World trade (6)	-0.2	5.1	9.4	7.4	9.5

NOTES: (1) Starting hypothesis: a) Fiscal policies in force or announced remain unchanged. b) Exchange rates do not change compared with level on May 6, 2005 (1 dollar = 104.5 yen = 0.780 euros). c) Date of going to press and final inclusion of figures was May 20, 2005.

(2) All percentage change rates in real terms.

(3) Percentage change rates in GDP deflator.

(4) As percentage of labour force.

(5) As percentage of GDP.

(6) Arithmetical average of percentage annual growth rates of world imports and exports by volume.

SOURCE: Organization for Economic Cooperation and Development.

**Japan to grow
by 1.5% this year,
once more with
no inflation.**

In Japan it is expected growth for 2005 will be 1.5%, well below the 2.1% given in the previous forecast. For 2006, growth of 1.7% is expected. The Japanese economy weakened in the second half of 2004 but in 2005 domestic demand and good corporate profits are helping recovery. Nevertheless, deflation will continue in 2005 and expected growth also assumes an increase in the foreign surplus.

OECD: FINANCIAL OUTLOOK (1)

	2002	2003	2004	2005	2006
Government deficit (-) or surplus (+) (2)					
United States	-3.8	-4.6	-4.4	-4.1	-3.9
Japan	-7.9	-7.7	-6.5	-6.4	-5.2
Germany	-3.7	-3.8	-3.9	-3.5	-3.2
France	-3.3	-4.1	-3.7	-3.0	-3.0
Italy	-2.4	-2.5	-2.9	-4.4	-5.0
United Kingdom	-1.7	-3.5	-3.2	-2.9	-3.0
Spain	-0.1	0.4	-1.1	0.5	0.6
Euro area	-2.4	-2.8	-2.9	-2.8	-2.7
OECD	-3.2	-3.7	-3.5	-3.2	-3.0
Short-term interest rates (3)					
United States	1.8	1.2	1.5	3.4	4.7
Japan	0.1	0.0	0.0	0.0	0.0
United Kingdom	4.0	3.7	4.6	4.8	4.8
Euro area	3.3	2.3	2.1	1.8	1.9
Long-term interest rates (4)					
United States	4.6	4.0	4.3	4.5	5.3
Japan	1.3	1.1	1.5	1.4	1.8
Germany	4.8	4.1	4.1	3.4	3.5
France	4.9	4.1	4.1	3.5	3.6
Italy	5.0	4.3	4.3	3.6	3.7
United Kingdom	4.9	4.4	5.0	4.6	4.8
Spain	5.0	4.1	4.1	3.5	3.6
Euro area	4.9	4.1	4.1	3.5	3.6

NOTES: (1) Starting hypothesis: a) Fiscal policies in force or announced remain unchanged. b) Exchange rates do not change with level on May 6, 2005 (1 dollar = 104.5 yen = 0.780 euros). c) Date of going to press and final inclusion of figures was May 20, 2005.

(2) As percentage of GDP.

(3) 3-month interest rates on national money markets.

(4) Government bond interest rates on most representative issues in each country.

SOURCE: Organization for Economic Cooperation and Development.

Growth slowing down in United States

United States grows by 3.7% in first quarter of 2005.

The United States grew by 3.7% year-to-year in the first quarter of 2005, below the 3.9% rate for the previous quarter. In quarter-to-quarter terms annualized, the slowdown was similar, given that in the first quarter growth was 3.5% as against the previous 3.8%.

TREND IN UNITED STATES' GDP BY COMPONENT

Percentage year-to-year change



SOURCE: Bureau of Economic Analysis and internal figures.

Private consumption grows at 3.6% and holding strong while public consumption continues to ease.

Private consumption in the first quarter rose by 3.6% year-to-year. The situation remained firm but dropped below the 3.8% seen in the last quarter of 2004. The weakest component in this figure was consumption involving motor vehicles and accessories, which in quarter-to-quarter terms drew off a sixth of the growth of the economy. On the other hand, consumption of services, which showed the greatest strength, held strong and contributed to the growth side of the economy. Public consumption in turn continued a process of moderation with an increase of 0.9% year-to-year, the second lowest rate since the beginning of 1998.

Investment up by 11%. More investment in computers but drop in investment in transportation equipment.

Non-residential investment in the first quarter of 2005 grew by 10.8% year-to-year. Even considering this sharp growth rate, the figure showed a weak performance in the first quarter, given that in quarter-to-quarter terms annualized it rose by 3.5%, well below the 14.5% in the previous quarter. Investment in infrastructures, continuing along weak lines, rose by 1.1% year-to-year with a drop of 3.6% quarter-to-quarter annualized. Investment in capital goods grew by 13.8% year-to-year but in quarter-to-quarter terms annualized moved up by 5.6%, thus losing the strength shown in the previous three quarters. Investment in computers rose by 36.8% year-to-year, thus proving the strongest component while investment in transportation equipment, with a gain of 19.4% year-to-year, dropped by 17.0% in quarter-to-quarter terms annualized and was thus the weakest component of investment in the first quarter.

Investment in housing up 7.4%.

Housing investment in the first quarter grew by 7.4% year-to-year, somewhat above the rate for the previous quarter, and by 5.7% quarter-to-quarter annualized, a development which broke with the slowdown in previous quarters.

Exports remain weak with 6% growth while imports up 9%.

Exports grew by 5.9% year-to-year in the first quarter, in line with the previous quarter and well below rates in mid-2004. Imports continued to rise at a stronger rate with an increase of 9.4% year-to-year, thus showing a slight slowdown. The foreign sector drew off 0.7% from growth of the

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	March	April
GDP	3.0	4.4	5.0	4.8	4.0	3.9	-	3.7	-	-
Retail sales	4.3	7.3	7.0	7.5	6.3	8.3	8.0	8.0	6.0	8.6
Consumer confidence (*)	79.8	96.1	91.6	96.3	100.4	96.1	105.1	104.4	103.0	97.7
Industrial production	0.0	4.1	2.8	4.9	4.6	4.3	4.0	3.4	3.9	3.1
Sales of single-family homes	11.6	10.0	22.2	9.2	-0.2	11.2	2.0	9.4	12.7	...
Industrial activity index (ISM) (*)	53.3	60.5	62.4	62.0	60.1	57.5	56.4	55.3	55.2	53.3
Unemployment rate (**)	6.0	5.5	5.7	5.6	5.4	5.4	5.2	5.4	5.2	5.2
Consumer prices	2.3	2.7	1.8	2.9	2.7	3.3	3.0	3.0	3.1	3.5
Trade balance (***)	-532	-651	-545	-574	-607	-651	-664	-679	-687	...

NOTES: (*) Value.

(**) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

economy in the first quarter in quarter-to-quarter terms annualized, less than in the previous quarter.

Retail sales up 8.6% while car sales recover to 11%.

Among more recent demand indicators we should point out the good performance in retail sales in April with an increase of 8.6%. Industrial production of consumer goods recorded a moderate increase of 1.4% year-to-year. Car sales in the same period moved up by 11.0% and established a recovery over the weak start to the year. Industrial production of capital goods, in turn, grew by 8.4% year-to-year.

Consumer confidence down in April.

The consumer confidence index dropped to 97.7 points in April, well below the 100 points level at which it had held in previous months and far from the move to recovery shown since the beginning of 2003. The component for the current situation dropped to 113.6 points while the expectations component dropped to 87.2 points, indicating downward prospects.

Manufacturing activity indicator also moves down.

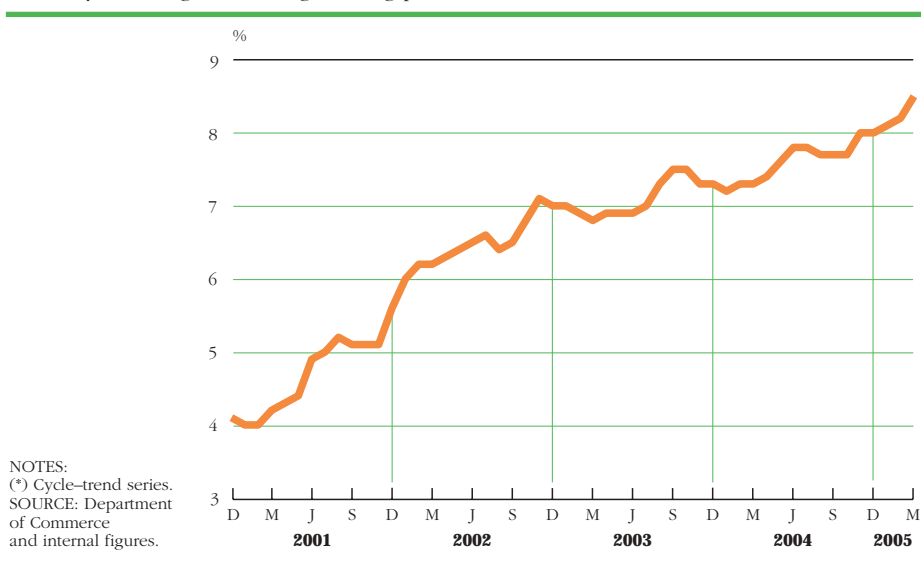
On the supply side, the manufacturing activity index of the Institute of Supply Management for April also moved down. The evaluation of the US economic situation by the business sector is still positive but more and more this approaches a neutral position. The general index dropped to 53.3 points while the new orders component went down from 57.1 to 53.7 points. The non-manufacturing activity index, although also down slightly, maintained the best prospects, holding at the 61.7 points level.

Industrial production slowing down but housing up 11%.

Industrial production, the other key supply indicator, also slowed down in April with growth of 3.1% year-to-year. The housing sector, in turn, showed a vigorous state. Housing starts grew by 3.6% year-to-year in April. In March, new housing sales were up by 12.7% compared with the same period last year and sales of existing housing rose by 4.5%. In this upward context, the average price of existing housing rose by 11.3% year-to-year in March, thus showing an increase over previous months.

PRICE OF HOUSING CONTINUES TO RISE

Year-to-year change in existing housing prices (*)

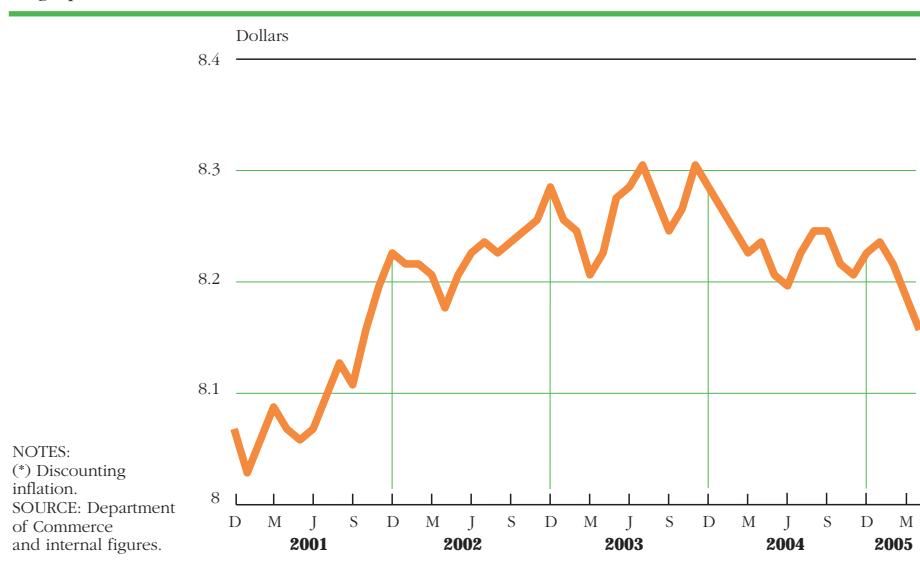


**274,000 jobs created
but wages down.**

The labour market continued to recover in April. Some 274,000 non-farm jobs were created and the figure for jobs created in the previous month was revised upward to 146,000. The services sector gained 229,000 jobs while manufacturing lost 6,000 jobs. The unemployment rate continued at 5.2%. In this positive context, the biggest blemish showed up in real hourly wage gains (discounting inflation) which showed a drop of 1.0% year-to-year decreasing to levels seen in October 2001. In this respect, productivity in the first quarter was up by 2.5% year-to-year, the lowest rate since the middle of 2001.

EMPLOYMENT RISES BUT WAGES DROP

Wage per real hour worked (*)



**Inflation goes to 3.5%
but underlying
component discounting
energy and food holds
at 2.2%.**

Inflation continued to rise in April although at a somewhat more moderate level. The general index rose at a rate of 3.5% year-to-year as against 3.1% in March, but the underlying component, discounting food and energy, eased to a year-to-year rate of 2.2%. The most upward aspect continued to be producer prices which rose by 4.8% year-to-year in April with a clearly upward trend.

**Trade deficit fails to
hit bottom and now
stands close to 687
billion dollars.**

The foreign sector still failed to hit bottom. The trade deficit in March was 58.17 billion dollars, more moderate than in recent months but an improvement which, for now, seems unlikely to continue. The cumulative deficit for the past twelve months, as of March, also showed a new high of 686.8 billion dollars, continuing to show levels of 6.0% of the gross domestic product.

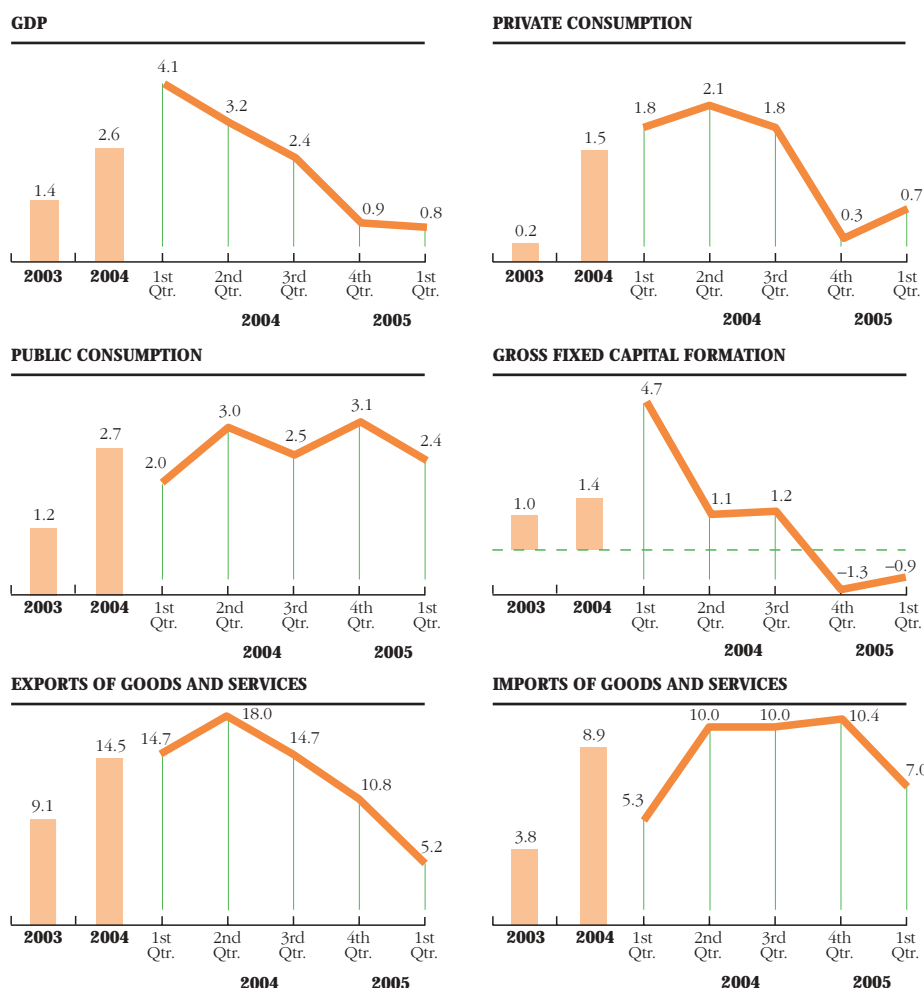
Japan: recovery of consumption

Japan grows by 0.8% with private consumption halting drop.

The Japanese economy grew by 0.8% year-to-year in the first quarter of 2005, thus continuing the moderate rate of increase seen in the last quarter of 2004. Quarter-to-quarter growth annualized recorded a stronger increase of 5.3%. In this early estimate, private consumption grew by 0.7% year-to-year, breaking with the downward trend seen at the end of 2004. Quarter-to-quarter growth annualized was 4.7%, a clear recovery from the decrease of 1.4% in the fourth quarter of 2004. Public consumption, in turn, grew by 2.4% year-to-year.

TREND IN JAPAN'S GDP BY COMPONENT

Percentage year-to-year change



SOURCE: Economic and Social Research Institute and internal figures.

Investment drops by 0.9% but decrease moderates with higher spending on plant and equipment.

Investment in the first quarter of 2005 contracted by 0.9% year-to-year but at the same time left behind the downward trend seen at the end of 2004. This figure rose by 3.2% in quarter-to-quarter terms annualized. The private plant and equipment component grew by 5.5% year-to-year to show a better performance than private construction which moved ahead

by only 1.2%. The change in inventories contributed 0.3% to growth of the economy.

Exports again down with growth at 5%.

Exports grew by 5.2% year-to-year continuing a process of slowdown, thus constituting the weakest aspect of Japan's economy in the first quarter. While imports moved up at a rate of 7.0% year-to-year, they did not reflect the greater strength of domestic demand and were also down in terms of growth rates in 2004.

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	February	March	April
GDP	1.4	2.6	4.1	3.2	2.4	0.9	-	0.8	-	-
Retail sales	-1.7	-0.9	-0.9	-1.7	-0.5	-0.4	2.1	1.0	0.2	...
Industrial production	3.3	5.3	5.2	7.8	6.6	1.6	2.2	3.7	2.2	...
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	0.3	-2.5	...
Unemployment rate (**)	5.2	4.7	4.9	4.6	4.8	4.6	4.5	4.7	4.5	...
Consumer prices	-0.3	0.0	-0.1	-0.3	-0.1	0.5	-0.1	-0.3	-0.2	...
Trade balance (***)	12.3	14.1	13.2	14.0	14.5	14.1	14.1	13.9	13.7	...

NOTES: (*) Value.

(**) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

Retail sales now stagnant but car sales again growing by 12%.

Demand indicators, while weaker than in the previous month, maintained a recovery trend. Retail sales in March moved up by 0.2% year-to-year. This was clearly below the 1.0% seen in February but still with an upward trend. In a stronger situation, car sales grew by 12.3% year-to-year in April, thus recovering rates of increase seen at the end of 2004. Industrial production of consumer goods grew by 1.6% year-to-year in March, below the 5.0% seen the month before but, as with other indicators, still falling within a moderate recovery from the low levels seen at the middle of 2002.

Industrial production grows by 2.2% but machinery orders recovering.

On the supply side, industrial production in March rose by 2.2% year-to-year in a situation of moderate growth well below the rate at the beginning of 2004. Machinery orders recovered with growth at 3.2%. Some 946 companies went bankrupt in April, a figure below 1,000 for the first time since February 1999. In the twelve months ending in April, the total number of bankruptcies dropped to 12,896, the best figure since 1992.

Housing remains slack but Tokyo prices up 2.6%.

In April, housing remained slack following drops in March. The price of housing sold in Tokyo in April rose by 2.6% year-to-year after a drop of 7.0% in March. The number of housing units sold in the capital was down by 7.6%. Housing starts in March dropped by 2.5% year-to-year.

Unemployment drops to 4.5% of labour force while productivity up 1.9%.

The unemployment rate in March dropped slightly to 4.5% of the labour force. Compared with the year before, however, the number of non-farm employees did not change, the services sector showed 1.6% more employees while the manufacturing sector lost 2.0% of its jobs. Labour productivity in March grew by 1.9% year-to-year.

Deflation continues.

Consumer prices in March dropped by 0.2% year-to-year which still leaves the Japanese economy in a situation of deflation. Prices of non-durable products rose by 0.5% year-to-year while durables dropped by 2.8%.

Trade surplus at 13,700 billion yen continues to drop.

The trade balance for twelve months ending in March recorded a surplus of 13,700 billion yen, dropping since the beginning of 2004. Exports grew by 5.5% year-to-year in March, a better figure than the 4.1% in February but still weak for an economy such as that of Japan. Following a different course, imports rose at a rate of 13.8%, something consistent with recovery of consumption.

China growing with no inflationary pressures

China grows 9.4% in first quarter with industrial sector in lead.

The Chinese economy grew by 9.4% in the first quarter of 2005 in line with rates recorded in 2004 and far from showing any clear signs of a slowdown. In the first quarter, industry grew by 11.1% year-to-year, thus repeating the figure for the previous quarter. The agricultural sector grew by 4.6% showing a drop from 6.3% at the end of 2004 while services moved up by 7.5%, slightly below the 8.3% in the previous period but not showing any clear signs of a slowdown. Exports grew by 34.9% year-to-year while imports, showing an increase of 12.1%, represented the only figure to clearly report a slowdown.

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	March	April
GDP	9.3	9.5	9.8	9.6	9.1	9.5	-	9.4	-	-
Industrial production	16.7	16.3	16.6	17.6	15.8	15.0	20.9	7.6	15.1	16.0
Electrical power production	14.2	15.0	16.3	16.5	12.9	14.6	29.4	1.9	13.7	12.7
Consumer prices	1.2	3.9	2.8	4.4	5.3	3.2	1.9	3.9	2.7	1.8
Trade balance (*)	25.5	31.9	17.9	13.5	20.3	31.9	38.4	50.7	57.1	64.1

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

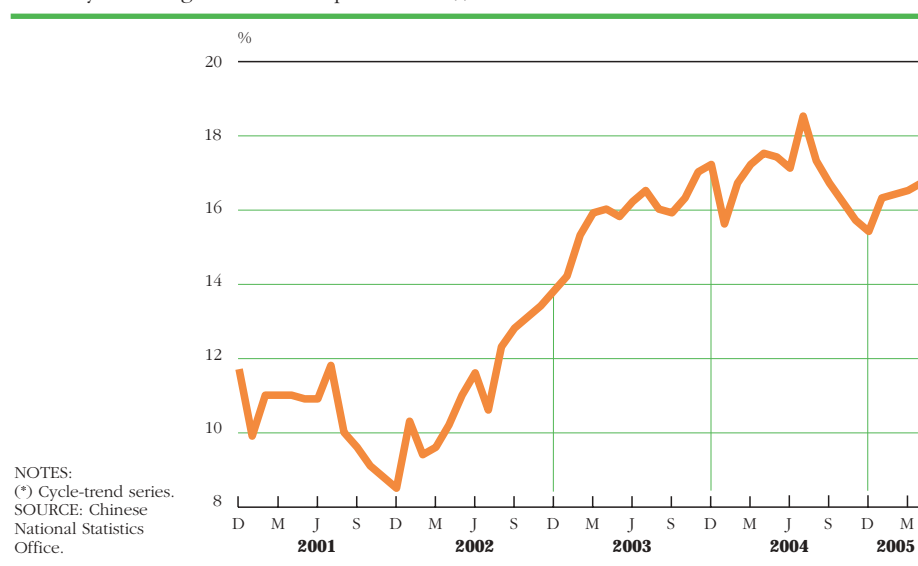
SOURCE: National Statistics Office of China, Thomson Financial Datastream and internal figures.

Chinese industrial production recovers strength with growth at 16%.

Most recent supply indicators recovered sharp growth rates and showed that the signs of a slowdown in February were merely temporary. In this context, industrial production in April grew by 16.0% year-to-year, an increase compared with rates in February and March and returning to the growth rates predominating in 2004. Following the same pattern, heavy industry production rose by 16.5% while light industry was up by 14.9%.

CHINESE INDUSTRIAL GROWTH REMAINS STRONG

Year-to-year change in industrial production (*)



Electrical energy production and computers recover growth while vehicle production continues to drop.

Production of electrical energy followed a very similar pattern increasing by 12.7% year-to-year in April. Personal computer production in the twelve months ending April rose to 48.9% year-to-year from the lower rates seen at the beginning of the year. Industrial production of motor vehicles in the same period dropped by 1.4%, thus sharpening the slowdown trend seen in recent months. Cement production also reduced its growth rate to levels of 7.5%.

Retail sales ease down to 12%.

On the demand side, retail sales showed a more vigorous profile in April with an increase of 12.2% year-to-year, a rate well below the 13.9% in March and 15.9% in February. Retail sales in the urban areas rose by 13.1% in April as against the high of 17.3% in February. In the rural areas, the increase was 10.2% (12.2% in February and 11.0% in March). The food products component, on the other hand, remained strong with an increase of 18.4%, in line with rates seen in recent months.

Consumer prices moderate with increase of 1.8%.

Growth of the consumer price index in April moderated to 1.8% bringing under control the inflationary trends showing up at the beginning of the year, for example, the high of 3.9% in February. The food component showed inflation of 3.1% in April, a rate well below the 5.6% recorded in March and 8.8% in February. If we look at significant regions, the special region of the city of Shanghai showed inflation of 1.2% (1.6% in March) while Guangdong recorded 2.1% (3.2% in March). Producer prices grew by 5.8% year-to-year in April, a rate close to figures in recent months.

Trade surplus hits 64 billion dollars...

The cumulative trade surplus for twelve months ending in April amounted to 64.1 billion dollars, twice the figure at the end of 2004. Imports in this period rose by 4.1% compared with figures at the end of the year while exports were up by 9.3%. By country and region, this increase in the trade surplus was brought about mainly by a reduction of the deficit with Asia and Latin America which, from the end of 2004 to

April, went from 73.6 billion dollars to 60.1 billion dollars and from 3.5 billion dollars to 2.6 billion, respectively. The surplus with the United States decreased compared with February and March and in the last twelve months ending in April stood at 83.7 billion dollars. In turn, the surplus with Europe continued to rise sharply reaching 41.8 billion dollars. The reduction of the deficit with Japan, South Korea and Germany also continued.

...thanks to lower demand for raw materials and bigger drive in manufactures.

By product, on top of the moderation of imports of raw materials has come an increase in export of manufactures in recent months. In the cumulative figure for twelve months ending January, imports of aluminium by volume were down by 1.3%, whereas at the beginning of the year they were growing by 14.2%, and copper dropped by 21.7%. The significant figure for steel imports dropped by 1.3%.

Mexico moderates growth

Mexico slowing down with growth at 2.4%.

The Mexican economy grew by 2.4% year-to-year in the first quarter of 2005 showing a clear drop from the 4.9% in the previous quarter. The components of the last quarter in 2004 showed growth heavily based on private consumption which grew by 7.0% year-to-year and private investment which rose by 10.9% year-to-year. This vigorous domestic demand took place at the same time as the foreign sector was dropping.

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	March	April
GDP	1.4	4.4	3.9	4.1	4.6	4.9	-	2.4	-	-
Industrial production	-0.2	3.8	3.2	3.7	4.8	3.6	2.9	1.8	-4.7	...
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	4.4	4.6
Trade balance (**)	-5.8	-8.5	-6.1	-5.6	-6.2	-8.5	-9.6	-9.9	-9.9	...

NOTES: (*) Percentage of labour force.

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

SOURCE: Central Bank of Mexico and internal figures.

Retail sales grow by 4.4% while industrial production drops 4.7%...

Among demand indicators, retail sales for March grew by 4.4% year-to-year recovering strength following a poor February although still below the levels of 7.0% seen at the end of 2004. On the supply side, industrial production in March dropped by 4.7% year-to-year which meant a notable decrease continuing the process of slowdown begun last autumn. By component, it was industrial production of manufactures which slowed down most with a drop of 5.3% in March, whereas in February it had grown by 2.7%. Construction also joined this downward process with a loss of 3.1% compared with the same period last year.

...while
"maquiladoras"
up 7%.

General
unemployment
reaches 4% while
productivity up 2%.

Inflation at 4.6% while
component not
including energy
or food up by 3.5%.

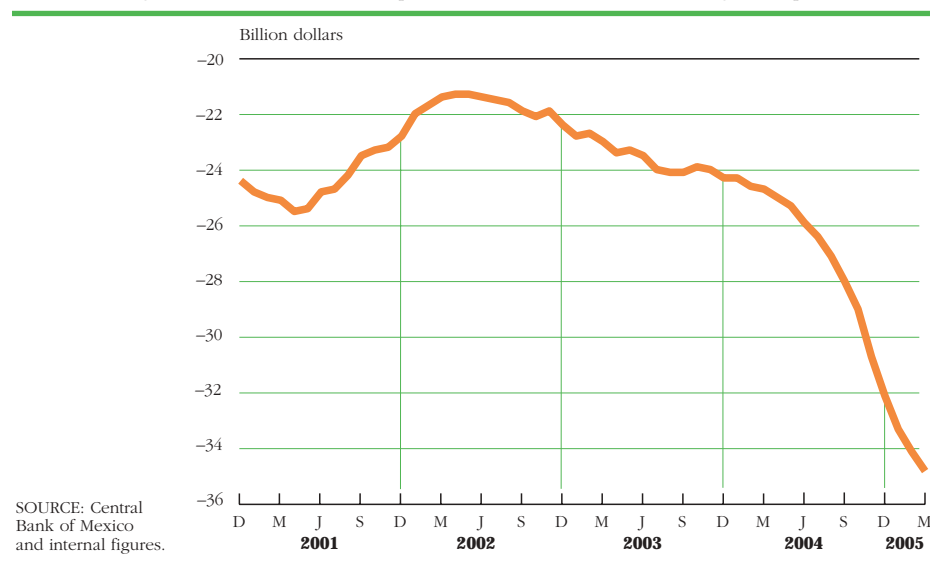
In marked contrast, the industrial production index for the *maquiladoras*, US companies which manufacture in Mexico at low cost for export, rose to a rate of 7.3% year-to-year in March, on the way to recovering the sharp growth rates seen in 2004.

The labour market showed a rather negative performance in keeping with the slowdown in the economy in the first quarter. In the absence of figures on urban unemployment in Mexico city, the general unemployment rate moved up to 4.0% of the labour force, whereas at the end of 2004 it was 3.0%. Manufacturing productivity rose by 1.9% year-to-year in February, the second-lowest figure since 2001. Unit labour costs in the same period remained unchanged and real wages moved down with a drop of 0.9% year-to-year.

Consumer prices recorded a drop in April. The general index rose by 4.6% compared with the same period last year, somewhat higher than figures at the beginning of the year but lower than the average for 2004. With a more evident downward trend, the component of consumer prices, excluding food and energy, showed a drop in growth rate to 3.5% year-to-year whereas in the final months of 2004 it had reached 3.8%.

MEXICO'S WORSENING TRADE SITUATION CONTINUES

Cumulative figure for trade balance for past twelve months, not including oil exports



Trade deficit, not
including oil exports,
close to 35 billion
dollars.

The trade deficit continued to rise and in the twelve months ending March 2005 the negative balance reached 9.88 billion dollars. While the rate of decline is slow, the deficit, not counting oil exports, was 34.83 billion dollars, 8.6% higher than at the end of 2004. Oil exports in the last twelve months ending March were up by 34.2% year-to-year. In the twelve months ending March, the trade deficit (excluding the *maquiladoras*) came to 29.2 billion dollars. In this respect, taking into account the slowdown in manufacturing productivity and the growing dependence on oil exports, the foreign sector continues to be the weakest point in Mexico's economy.

Raw materials: drop in oil prices

Oil drops below psychological barrier of 50 dollars a barrel in May...

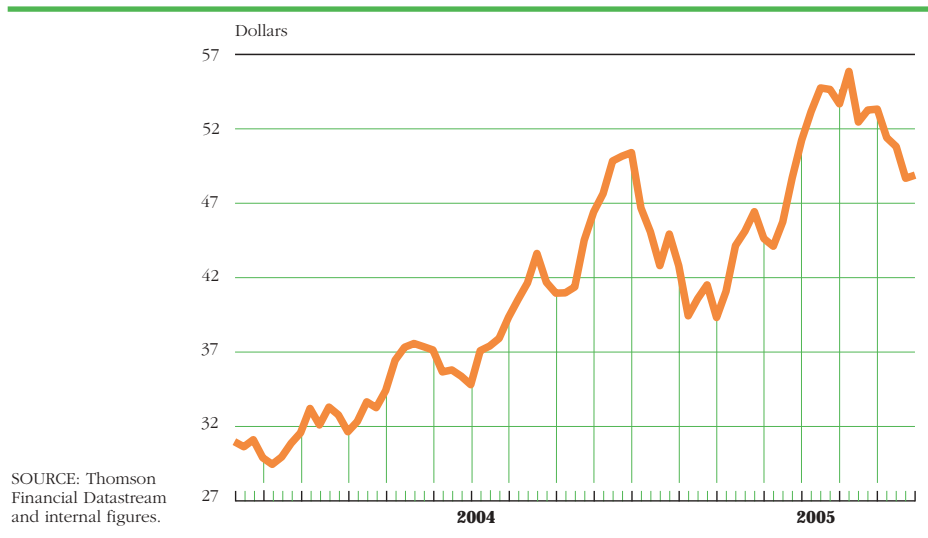
...due to increase in inventories, lower demand and maintenance of supply.

Oil prices in May dropped substantially with a cumulative drop of more than 7% between the end of April and the end of May. In any case, we should point out that prices in the final weeks of May, around a 1-month forward price of 48 dollars a barrel for Brent quality, were 26% higher than those recorded one year earlier.

The revision of oil prices was basically due to a combination of greater accumulation of inventories, lower demand pressure and maintenance of supply. With regard to the first of these factors, it should be pointed out that figures for inventories of crude oil and refined products in the United States in the middle of May stood above the average for the last 5 years in most types of product. In addition, the slowdown in demand was due mainly to lower buying pressure from China and, to a lesser extent, the United States and Europe. Finally, the position of the Organization of Petroleum Exporting Countries (OPEC) to continue maintaining current extraction levels (historically high) ended up consolidating the drop in prices.

SUBSTANTIAL CORRECTION IN OIL PRICES

1-month forward price of Brent quality oil per barrel, in weekly averages



While most raw materials show halt in growth, metals take off with increases of around 17% in one year.

Other raw materials have not duplicated the downward trend in oil to the same extent. «The Economist» index in dollars was down by 3.5% year-to-year in May, a rate similar to that seen in April when it dropped at a year-to-year rate of 3.9%. The main exception to this performance came in metals which moved up to 17% year-to-year in May going above the sharp increase of 14% in April. Gold was not left out of this trend and the price went above 420 dollars an ounce in May, 10% more than one year earlier.

EUROPEAN UNION

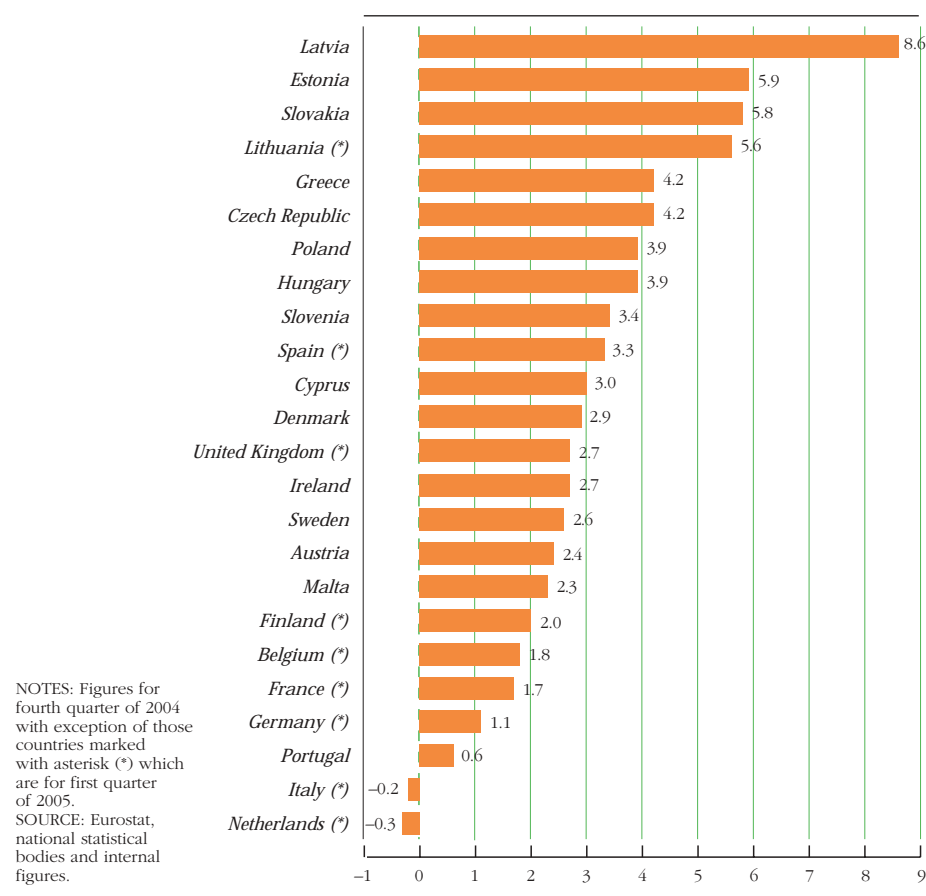
Euro area: slowdown in first quarter

Euro area grows by 1.4% in first quarter.

The euro area grew by 1.4% year-to-year in the first quarter, according to preliminary estimates, a slight slowdown compared with the increase in the fourth quarter (1.6% year-to-year). In any case, it should be pointed out that at quarter-to-quarter rate annualized, which more precisely reflects the most recent trend, the gross domestic product (GDP) in the euro area rose by 2.0% compared with 0.6% in the previous quarter. By country, the few figures available for the first quarter confirm limited drive in the major economies of the European Union, particularly Italy and Germany, in spite of the latter's recovery.

NOTABLE GROWTH DISPARITIES IN EUROPEAN UNION

Year-to-year change in gross domestic product (last available quarter) as percentage



**Less negative trend
in domestic demand
main new factor
on demand side.**

While a breakdown of the demand components has not yet been published, available indicators seem to point to the fact that the two dominant trends are a less negative state of domestic demand (far from any strong recovery) and the positive contribution from exports. To be specific, the better situation in consumption and investment is confirmed by the rise in retail sales (increase of 0.5% year-to-year in the first quarter as against growth of 0.1% in the fourth quarter) and the increase in the capital goods component of industrial production (rise of 1.7% year-to-year in the average for January-March, compared with the increase of 1.6% year-to-year in the final quarter of 2004).

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	March	April
GDP	0.5	1.8	1.5	2.2	1.8	1.6	-	1.4	-	-
Retail sales	0.3	0.1	0.4	-0.1	0.0	0.1	-0.6	0.8	1.4	...
Consumer confidence (*)	-18	-13.8	-14	-14	-14	-13.0	-13	-13	-14	-13
Industrial production	0.3	1.9	1.0	3.0	2.8	1.1	2.0	0.4	-0.2	...
Economic sentiment indicator (*)	93.4	100.0	98.6	99.9	100.6	100.9	100.8	98.8	97.5	96.5
Unemployment rate (**)	8.7	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.9	...
Consumer prices	2.1	2.1	1.7	2.3	2.2	2.3	1.9	2.1	2.1	2.1
Trade balance (***)	80.4	81.6	76.6	88.9	85.9	74.8	69.9	66.6	60.3	...

NOTES: (*) Value.

(**) Percentage of labour force.

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

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

**Exports continue
to rise at good rate.**

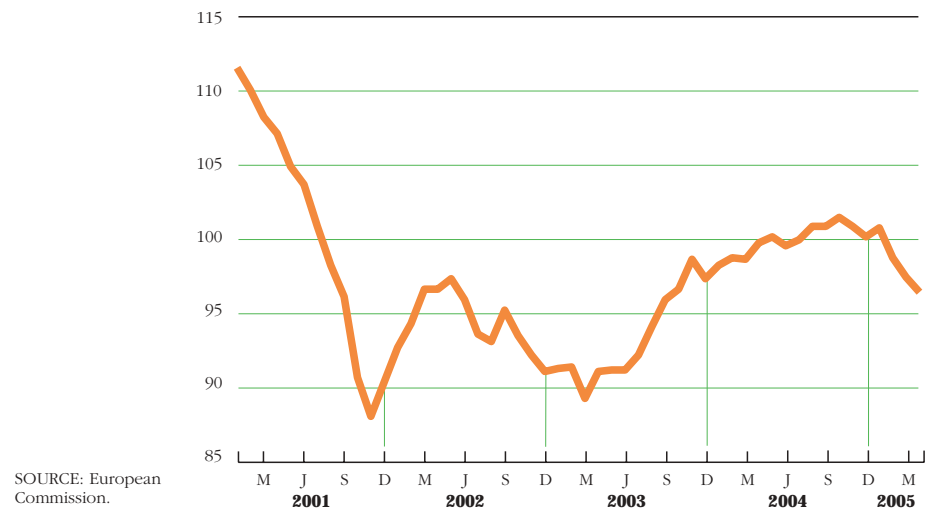
With regard to foreign demand, the growth of exports in the January-March period (3.4% year-to-year) remains high, especially if we take into consideration the sharp growth recorded since the second quarter of 2004. As a result, the reduction of the trade surplus in the cumulative balance for 12 months to 60.3 billion euros in March (66.6 billion euros in February) was mainly due to the increased growth rate for imports.

**Drop in industrial
production and
economic sentiment
confirm lack of drive
in euro area.**

In spite of this relative improvement, supply indicators show that the cyclical stage of the euro area is far from positive. The broadest indicator, that for economic sentiment, after standing at the 99.0 points level in the first quarter, dropped to 96.5 points in April. The drop in confidence runs across all sectors although because of the low starting level it is more alarming in the case of industry. Non-qualitative indicators for the secondary sector, referring to earlier periods, are also worse. As a result, if we look only at the main such indicator (industrial production), this was down by 0.2% year-to-year in March showing worse than the weak figure for February (rise of 0.4% year-to-year).

EURO AREA MAINTAINS LOW RATE OF ECONOMIC ACTIVITY

Value of economic sentiment index



Inflation stable at 2.1% between February and April in spite of rise in energy.

The harmonized consumer price index (HCPI) held at 2.1% year-to-year in April with no change from February and March. The stability of inflation in a context marked by increasing oil prices (in April the energy component in the CPI grew by 10.2% year-to-year) may be linked to the poor drive in domestic demand. In fact, other prices in the economy fully reflect inflationary pressures. For example, producer prices have been growing of the order of 4% year-to-year since the beginning of 2005 (4.2% year-to-year in March).

Unemployment rate at 8.9% in March.

Another result of the slack state of domestic demand was the lack of any improvement in the labour market. The unemployment rate rose by one decimal in March going to 8.9% of the labour force while growth of employment continued to be very moderate (increase of 0.7% year-to-year in the fourth quarter of 2004).

Germany: growth in first quarter

Growth in Germany at 1.1% year-to-year in first quarter higher than expected.

The German economy brought a surprise in the first quarter of 2005 with growth of 1.0% compared with the fourth quarter. At year-to-year rate, the increase in the GDP rose to 1.1% as against 0.5% in the previous quarter. The improvement in economic strength was almost entirely due to the foreign sector which doubled its positive contribution to the change in the GDP going from 0.6% in the fourth quarter to 1.2% in the first quarter. With regard to domestic demand, the improvement in public consumption, which after a drop of 1.2% year-to-year in the fourth quarter moved up by 0.7% in the first quarter, the bigger positive contribution from the change in inventories (0.5% in the first quarter, one decimal more than in the fourth quarter) and some recovery in investment (year-to-year decrease of 0.6% compared with a previous drop of 2.1%) brought about a better situation. Private consumption, in turn, held at 0.1% year-to-year, with no change over the last quarter of 2004.

Consumption seems to be moving into a stage not as weak...

In fact, strong recovery of household spending could be the most relevant feature of Germany's economic situation. While up to now only some partial indicators are available, the tendency of private consumption to improve now seems more established. As a result, as well as recovery of retail sales (growth of 0.1% year-to-year in the first quarter, going above the year-to-year drop of 2.2% in the fourth quarter) we may point out the notable increase in consumer goods production as the first quarter progressed, along with an incipient recovery in consumer confidence (in April this added an increase of more than two points).

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	March	April
GDP	0.0	1.0	1.1	1.4	1.2	0.5	-	1.1	-	-
Retail sales	-0.5	-1.7	-0.5	-2.3	-1.7	-2.2	-0.4	0.9	0.0	...
Industrial production	0.1	2.4	1.3	3.4	3.8	1.4	3.7	1.6	1.6	...
Industrial activity index (IFO) (*)	91.7	95.7	96.4	95.7	95.4	95.2	96.4	95.4	94.0	93.3
Unemployment rate (**)	10.5	10.5	10.3	10.5	10.6	10.7	11.4	11.7	12.0	11.8
Consumer prices	1.0	1.7	1.1	1.8	1.9	2.0	1.6	1.7	1.8	1.6
Trade balance (***)	130	149	137	151	154	155	156	157	158	...

NOTES: (*) Value.

(**) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

...although high level of unemployment raises doubts about substantial progress on this front over short term.

Nevertheless, it should be indicated that this upward move in consumption may come more as a compensation of the excessive containment German household spending had been showing in previous quarters than any profound change in consumer behaviour. In fact, maintenance of the unemployment rate at levels close to 12% of the labour force between February and April (in the latter month it stood at 11.8%) is a fundamental factor which could reduce the strength of the rise in consumption.

Industry stabilizing growth although business executives still not recovering confidence.

On the supply side, the most positive note comes from industrial production which seems to be halting its recent trend to a slowdown after maintaining growth of 1.6% year-to-year in March, the same rate as in February. Nevertheless, the continuing drop in the IFO index of industrial activity, which in May showed its fourth consecutive month of decreases, confirms the poor prospects seen by German industrialists. With regard to consumer prices, there was a drop of three decimals in April which put the year-to-year rate at 1.6%, the lowest since January.

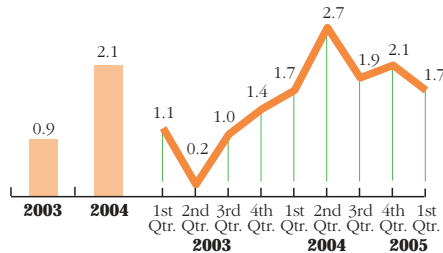
France: economy cooling off

French growth down to 1.7% in first quarter due to weaker drive in consumption...

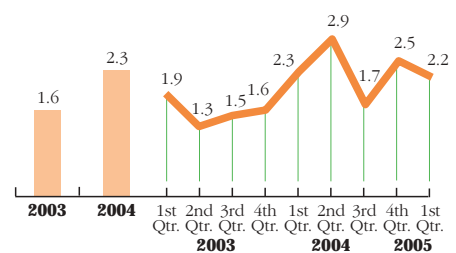
The French economy slowed its growth rate in the first quarter of 2005 when the GDP moved up by 1.7% year-to-year, four decimal less than the figure for the previous quarter. The loss of strength was largely due to weaker growth of domestic demand, given that the negative contribution from the foreign sector to the change in the GDP was similar to that in the fourth quarter. Specifically, the weak trend in private consumption, which grew by 2.2% year-to-year as against 2.5% in the previous quarter, and public consumption which rose by 1.2% year-to-year, some 1.1 percentage points less than in the fourth quarter, were the causes of the slowdown. In this context, the only positive note was the recovery of gross fixed capital formation which, after moving up by 1.5% year-to-year in the fourth quarter, grew by 3.3% in the first quarter of 2005.

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

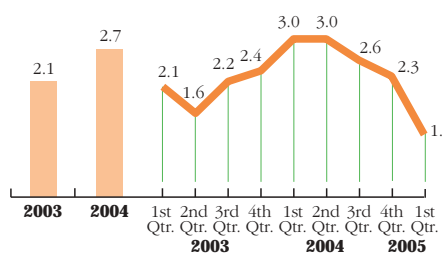
GDP



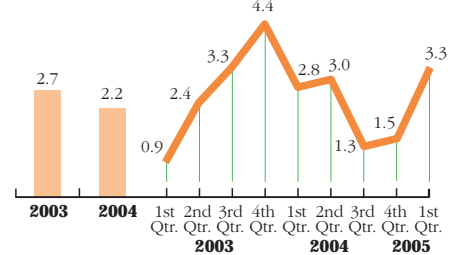
PRIVATE CONSUMPTION



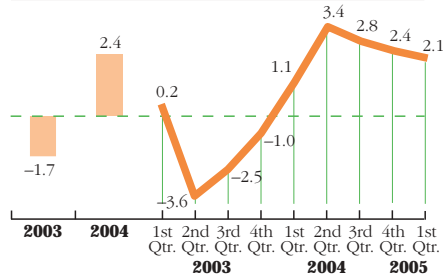
PUBLIC CONSUMPTION



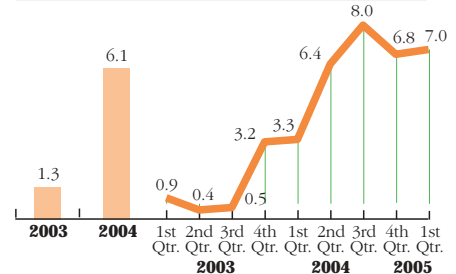
GROSS FIXED CAPITAL FORMATION



EXPORTS OF GOODS AND SERVICES



IMPORTS OF GOODS AND SERVICES



SOURCE: INSEE and internal figures.

...a trend which seems to be extending into second quarter of year.

The latest available indicators suggest a continuation of previous trends. As a result, the slowdown in consumption should continue into the second quarter, if we are to go by the drop of more than three points in consumer confidence in April. On the supply side, the weaker economic drive also shows up in the poor figure for industrial production in March (year-to-year drop of 0.5% as against an increase of 0.4% year-to-year in February).

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	March	April
GDP	0.9	2.1	1.7	2.7	1.9	2.1	-	1.7	-	-
Domestic consumption	0.7	4.4	3.1	5.8	3.7	4.9	4.3	3.1	4.0	...
Industrial production	-0.3	1.7	0.7	3.0	1.6	1.5	2.6	0.4	-0.5	...
Unemployment rate (*)	9.8	10.0	10.0	10.0	10.0	10.0	10.1	10.1	10.2	...
Consumer prices	2.1	2.1	1.9	2.4	2.2	2.1	1.6	1.6	1.9	1.8
Trade balance (**)	0.2	-0.1	0.2	0.2	-0.1	-0.5	-0.9	-1.0	-1.2	...

NOTES: (*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

Few inflationary pressures but rise in unemployment.

Prices and the labour market are less eventful. The CPI grew by 1.8% year-to-year in April, similar to the increase of 1.9% year-to-year in March. This growth rate for inflation, which is not excessively high, is still more qualified if we take into account that, after discounting the more volatile headings, the resulting rate grew by 1.1% year-to-year in April, a rate maintained since last January. The unemployment rate in turn stood at 10.2% of the labour force in March, one decimal above the figure for February.

Italy: drop in economic activity in first quarter

In Italy, GDP drops by 0.2% in first quarter.

According to preliminary estimates, Italy's GDP fell by 0.2% at year-to-year rate in the first three months of 2005, its worst result since the first quarter of 1997. In the preceding quarter, growth was 0.8% year-to-year. The current situation and immediate prospects are no better. As a result, with regard to the present moment, the drop in the economic sentiment indicator to 96 points in April, 1.7 points below the average for the first quarter, confirms the slack in the economy.

Both supply and demand indicators weak.

This lack of drive is reflected both on the demand side (consumer confidence remains very low, at the -16 points level in April) and on the supply side (industrial production fell by 3.0% year-to-year in March). With regard to short-term prospects, the composite index of early indicators dropped by 1.2% year-to-year in March, thus holding to the course of year-to-year decreases it moved into in October 2004.

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	March	April
GDP	0.4	1.0	0.7	1.2	1.2	0.8	-	-0.2	-	-
Retail sales	2.0	-0.4	1.2	-0.2	-1.3	-1.1	-2.5	0.6	...	...
Industrial production	-0.5	-0.6	-0.4	0.8	-0.7	-2.0	-2.4	-2.7	-3.0	...
Unemployment rate (*)	8.4	8.0	8.2	8.0	8.0	8.0	-	...	-	-
Consumer prices	2.7	2.2	2.2	2.4	2.2	2.0	1.9	1.9	1.9	1.9
Trade balance (**)	4.1	1.6	2.0	2.9	2.3	-0.9	-1.4	-1.9	-3.3	...

NOTES: (*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

Inflation stable at 1.9%.

With regard to the trend in prices, we note a similar trend to that in the euro area as a whole. Consumer prices are contained (growth of 1.9% year-to-year between January and April) while other prices in the economy, such as producer prices, fully reflect the increased cost of energy, going close to 5% year-to-year in March.

United Kingdom: stable growth

In United Kingdom investment gives place to consumption as engine of growth.

As opposed to the economies on the Continent, the British economy is maintaining a stable rate of activity, higher than most of the large EU economies, which is reflected in growth in the first quarter at 2.7% year-to-year, scarcely less than that recorded in the fourth quarter. Behind this good situation lies the strength of domestic demand which has benefited from the fact that the slowdown in consumption (rise of 2.4% year-to-year as against the previous 3.2% year-to-year) was partly counteracted by the recovery in investment which has moved up to 6.1% year-to-year, some 1.8 points above the previous quarter. The foreign sector, in turn, took four decimals off the change in GDP. These trends were not significantly changed in the second quarter. Specifically, retail sales in April held to a year-to-year rate of increase of 2.4% with no change over March.

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	March	April
GDP	2.2	3.1	3.0	3.6	3.1	2.9	-	2.7	-	-
Retail sales	3.1	6.1	6.2	6.8	6.6	4.8	3.6	3.5	2.4	2.4
Industrial production	-0.2	0.5	0.3	1.8	0.1	-0.5	-0.2	-0.3	-1.8	...
Unemployment rate (*)	3.0	2.7	2.8	2.8	2.7	2.7	2.6	2.6	2.7	2.7
Consumer prices	2.8	2.2	2.3	2.2	2.1	2.3	2.1	2.1	2.4	2.3
Trade balance (**)	-46.3	-54.4	-50.3	-53.4	-56.2	-57.7	-57.9	-58.7	-59.0	...

NOTES: (*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

***Export difficulties
drag down industrial
production.***

With regard to trends on the supply side, the most notable factor was the substantial loss of drive in industry. Industrial production fell by 1.8% year-to-year in March, the worst figure since May 2003, a trend that does not look like being corrected over the short term, if we are to go by the worsening of industrial orders in the first four months of 2005. The difficulties in the secondary sector may be attributed to the progressive worsening of the foreign imbalance. The cumulative trade deficit for 12 months ending in March rose to 59 billion pounds sterling, something of an increase over the 57.7 billion pounds in the fourth quarter.

***Moderate rise in
inflation.***

Inflation, in turn, has risen moderately in recent months. After holding at 2.1% year-to-year in January and February, the March CPI rose by three decimals to 2.4% year-to-year only to later slip to 2.3% year-to-year in April. Finally, we should also point out that in April the unemployment rate held at 2.7%, a level close to the all-time low.

MONETARY AND CAPITAL MARKETS

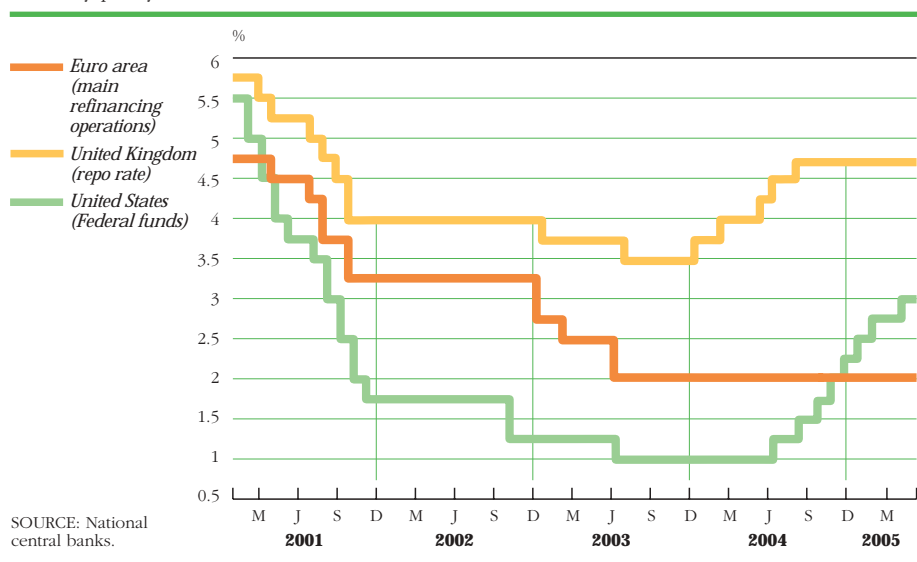
Federal Reserve raises official interest rate for eighth consecutive time

Central banks keep watch on inflation and growth.

The negative effects of increased oil prices on both inflation and growth present difficulties for the monetary policies of the main developed countries. The central banks are keeping a watch out for inflationary pressures while at the same time showing their concern about the slowing down of economic growth, although the degree depends on the geographical area involved.

FEDERAL RESERVE RAISES REFERENCE RATE TO 3.00%

Monetary policy reference rates



Federal Reserve indicates further gradual increases in reference rate...

As expected, the US Federal Reserve raised its reference rates by 25 basis points on May 3. As a result, the objective level of the rate on Federal Funds (overnight interbank deposits) stood at 3.00% while the discount rate went to 4.00%. This was the eighth successive rise in official interest rates since June 2004 when the official rate stood at 1.00%. In its press release, the Federal Reserve recognized that inflationary pressures had risen in recent months and that corporations had recovered the ability to stabilize prices. While the US monetary authority noted some moderation of economic growth, it made clear that monetary policy was

still on the side of easy money and left the door open for further increases in interest rates.

...and market betting it will reach 4%.

In this context, market operators have intensified speculation on how high the Federal Reserve will take the official rate in this upward stage and are betting on 4%. As a result, the yield on US 12-month interbank deposits has gone to around 3.7% in recent weeks. Toward the end of the fourth week in May this rate stood at 3.75%, some 170 basis points above one year earlier.

SHORT-TERM INTEREST RATES IN NATIONAL MARKETS

Monthly averages as annual percentage

	Euro area			United States		Japan	United Kingdom		Switzerland
	ECB auctions (2)	Euribor		Federal Reserve Board target level (3)	3-month	3-month	Bank of England intervention rate (4)	3-month	3-month
		3-month	1-year						
2004									
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	2.05	2.14	2.34	2.59	2.99	0.00	4.75	4.90	0.75
April (*)	2.05	2.14	2.27	2.75	3.12	0.00	4.75	4.86	0.76
May (1)	2.05	2.13	2.17	3.00	3.30	0.00	4.75	4.81	0.75

NOTES: (*) Provisional figures.

(1) May 26.

(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: 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%), 3-5-05 (3.00%).

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

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

ECB rejects pressure in favour of cut in official interest rate.

In the euro area, the European Central Bank (ECB) did not move away from its current holding pattern at its meeting on May 5. Its reference rate thus held at the 2.00% figure maintained since June 2003. The chairman, Jean-Claude Trichet, rejected political pressure in favour of a cut stating that rates were at all-time lows and that at this moment they were correct. The International Monetary Fund and the OECD joined in those urging a cut. In any case, for the moment it is unlikely that the ECB will change its position, especially if its forecasts for economic recovery beyond the short-term are confirmed.

Operators foresee rate upturn to begin at middle of next year.

In a situation of concern about economic growth, the 12-month Euribor dropped by 7 basis points in April on monthly average going to 2.27%, the lowest level since April 2004, putting the rate at 11 basis points above one year earlier. In the early weeks of May, the 1-year Euribor swung at around 2.20%. At the end of the fourth week in the month it stood at 2.17%, some 13 basis points below 12 months earlier. As a result, the interest rate curve suggests that the market has placed the beginning of the rate upturn at the middle of next year.

Dollar recovers in early months of 2005

Dollar up 1.7% in overall terms in first four months...

The US currency rose by 1.7% in overall terms in the first four months of 2005, after having suffered a sharp drop in the final quarter of 2004. Nevertheless, the dollar was subject to ups and downs during this period. On the one hand, the greenback was affected by heavy downward pressure because of the major and growing current account deficit and news regarding the spreading of currency reserves by a number of central banks. Nevertheless, going in its favour was considerable US economic

EXCHANGE RATES OF MAIN CURRENCIES

April 2005

	Final session of month		Average exchange rate	Monthly figures			Exchange rate May 26, 2005
	Exchange rate	% monthly change (2)		% change (2)			
				Monthly	Over December 2004	Annual	
Against US dollar							
Japanese yen	104.7	-2.3	107.2	1.8	3.3	-0.4	108.0
Pound sterling (1)	1.909	1.0	1.896	-0.4	-1.7	5.0	1.821
Swiss franc	1.195	-0.1	1.195	1.6	4.3	-7.7	1.236
Canadian dollar	1.258	4.0	1.237	1.7	1.6	-7.8	1.266
Mexican peso	11.08	-0.8	11.11	-0.4	-0.8	-1.4	10.97
<i>Nominal effective index</i> (4)	<i>109.7</i>	<i>0.1</i>	<i>109.9</i>	<i>0.9</i>	<i>0.9</i>	<i>-4.5</i>	<i>111.2</i>
Against euro							
US dollar	1.296	-0.1	1.294	-1.8	-3.5	7.9	1.252
Japanese yen	136.2	-1.6	138.8	0.0	-0.2	7.6	135.6
Swiss franc	1.537	-0.7	1.547	-0.1	0.7	-0.5	1.547
Pound sterling	0.678	-1.6	0.683	-1.4	-1.7	2.7	0.687
Swedish krona	9.181	0.4	9.167	0.8	2.1	0.0	9.200
Danish krone (3)	7.446	0.0	7.450	0.0	0.2	0.1	7.444
Polish zloty	4.272	4.7	4.156	3.3	0.5	-12.6	4.178
Czech crown	30.50	1.8	30.13	1.1	-1.6	-7.4	30.50
Hungarian forint	252.5	2.1	248.2	1.3	1.0	-0.8	254.3
<i>Nominal effective index</i> (5)	<i>104.8</i>	<i>-0.3</i>	<i>105.1</i>	<i>-0.8</i>	<i>-1.8</i>	<i>3.4</i>	<i>103.6</i>

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: 1-1999 = 100.

SOURCE: Thomson Financial Datastream and internal figures.

growth in relative terms and the widening of the interest rate differential in favour of the dollar in relation to other currencies following the consecutive increases in Federal Reserve interest rates.

...and appreciation continues in May.

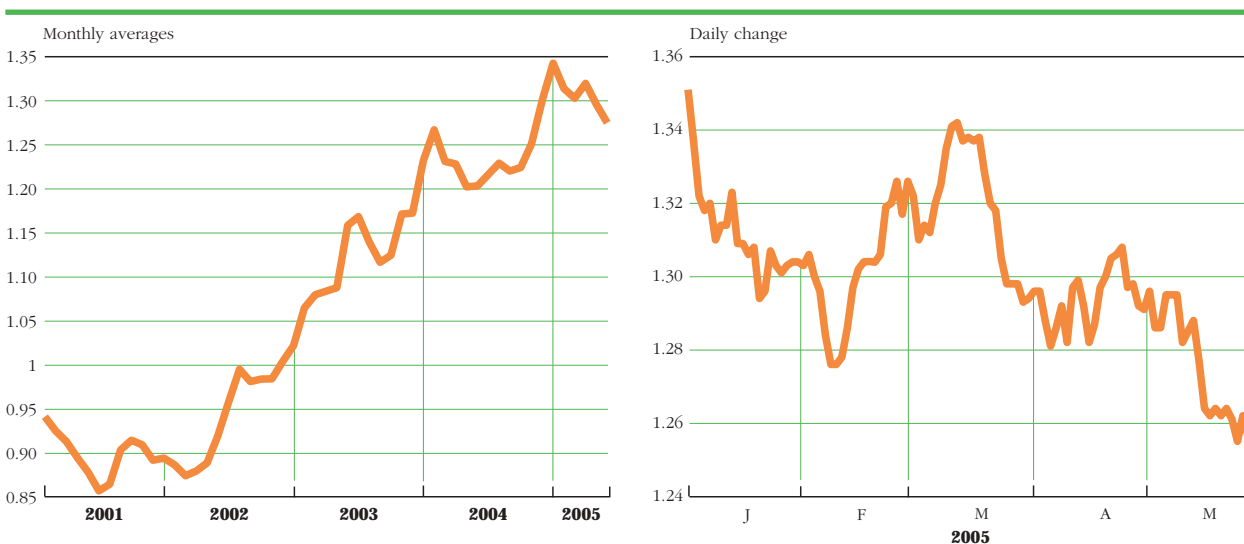
In the early weeks of May, the dollar was helped by the widening of the interest rate differential following a further rise in the Federal Reserve reference rate at the beginning of the month and by a series of indicators which showed a healthy picture of economic activity. At the same time, publication of the monthly figure for the trade deficit did not hurt the US currency as it turned out lower than expected.

Economic weakness and French referendum affect euro.

Following a notable rise in the fourth quarter of 2004, the euro dropped by 3.0% in the first four months of 2005 in relation to the more important trade partners. The lack of economic growth in the euro area hurt the European single currency. This was accentuated in the early weeks of May following poor news about the euro area economy. Furthermore, the possibility of a victory for the «No» vote in the French referendum on the European constitution on May 29 took away support from the euro. As a result, in the fourth week of the month the single currency was running below the level of 1.26 dollars, thus returning to the level in October 2004.

EURO DROPS AGAINST DOLLAR

US dollars to euro



NOTES: Figures go up to May 26.

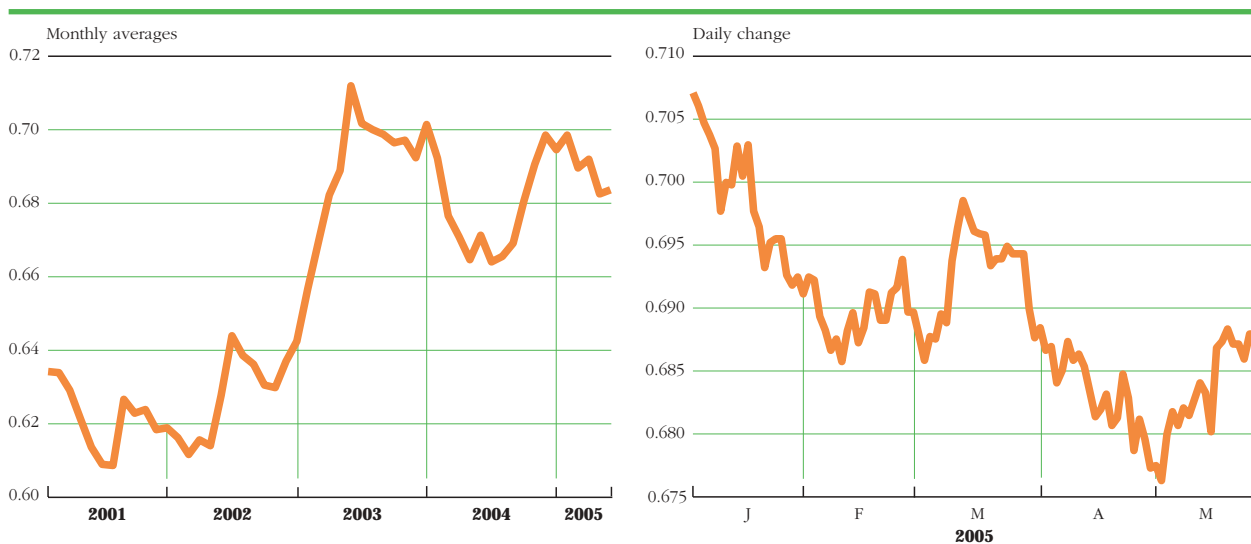
SOURCE: OECD, Thomson Financial Datastream and internal figures.

**Cypriot pound,
Latvian lat and
Maltese lira join
Exchange Rate
Mechanism.**

At the end of April, the various national bodies made agreements with the ECB so that the Cypriot pound, the Latvian lat and the Maltese lira could join the Exchange Rate Mechanism (ERM II) as a prior step to moving into the European single currency. The ERM II is a multilateral agreement on fixed (but adjustable) exchange rates with a central exchange rate against the euro and a normal fluctuation margin of $\pm 15\%$. These currencies must stay in the ERM II for at least two years as one of the necessary conditions for being able to join the euro. The central exchange rates against the euro were set at 0.585274 Cypriot pounds, 0.702804 Latvian lat and 0.429300 Maltese lira. In fact, the Cypriot pound was already linked to the euro. The Latvian lat has also been linked since January 1, 2005, having been previously linked to special drawing rights. The Maltese lira was linked to another basket of currencies. Central parity against the euro and obligatory intervention rates for the other currencies taking part in the ERM II, the Danish crown, the Estonian crown, the Lithuanian litas and the Slovenian tolar, remain unchanged.

POUND STERLING DEPRECIATES AGAINST EURO

Pound sterling to euro



NOTES: Rates go up to May 26.

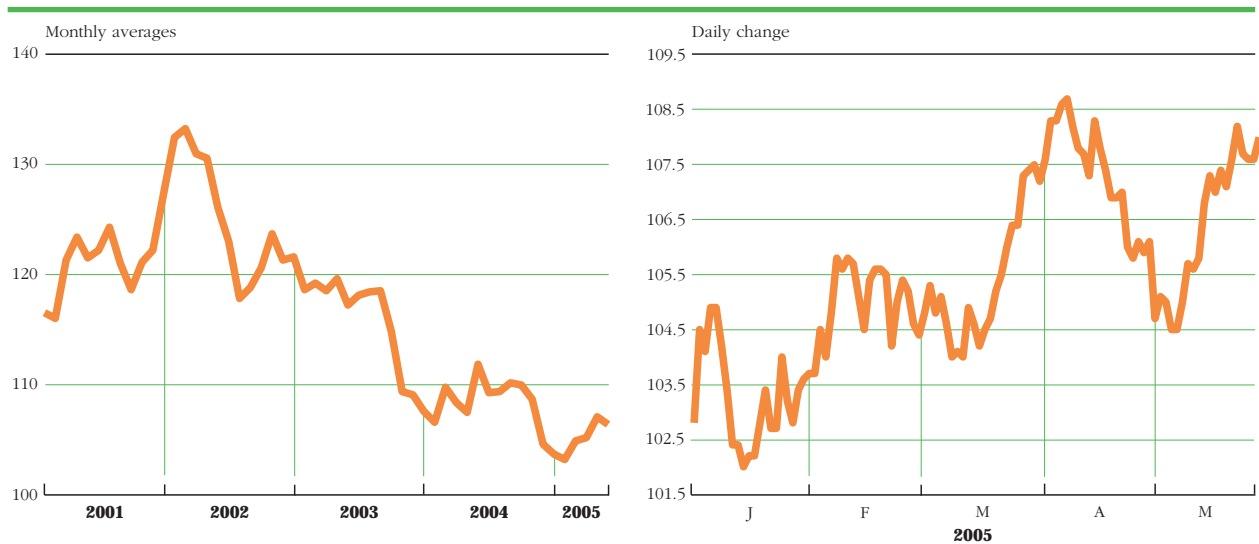
SOURCE: Thomson Financial Datastream.

**Pound sterling drops
in May after
appreciating in first
four months of year.**

The pound sterling appreciated by 3.6% in the January-April period of 2005 compared with a broad group of currencies. On the other hand, in the early weeks of May the British currency has taken a downward path following the appearance of unfavourable indicators for manufacturing industry and the prospect that the next move by the Bank of England could be downward. The reduction of the Labour Party's absolute majority in the parliamentary elections also did not help the pound. As a result, in the early weeks of May the pound sterling dropped both against the dollar and the euro.

YEN WEAKENS AGAINST DOLLAR

Yen to dollar



NOTES: Rates go up to May 26.

SOURCE: OECD, Thomson Financial Datastream and internal figures.

Yen continues to rise against euro.

At the beginning of May the yen appreciated against the dollar in the midst of speculation about the imminent revaluation of the Chinese yuan against the dollar. Nevertheless, the Japanese currency later weakened against the dollar following various denials by the Chinese authorities. The yen thus came close to the low seen in the second week of April. On the other hand, in the early weeks of May the Japanese currency continued to appreciate against the euro.

Growing pressure for revaluation of yuan but Chinese authorities resist.

There was heavier pressure in favour of revaluation of the Chinese yuan in May, especially by the US authorities. Some signs on the part of China let loose speculation that a revaluation of the yuan was imminent. Nevertheless, the Chinese authorities have consistently denied this. Nevertheless, they have carried out some prior necessary reforms. As a result, a new interbank currency market has begun to operate although it excludes the yuan.

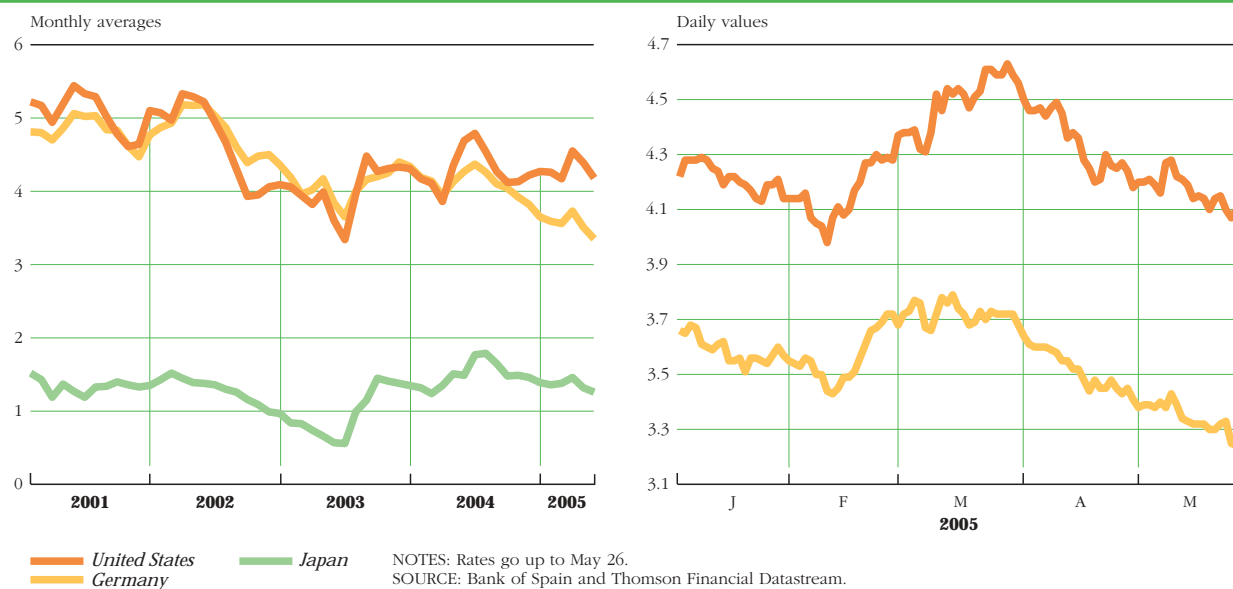
Yield on German bonds marks up new low

At 4.1%, yield on US 10-year bonds records lowest level since February.

On March 28, the yield on US 10-year bonds recorded its highest level since the end of June 2004, going to 4.63%. This rise was brought about by concern that inflationary trends might cause the Federal Reserve to raise its official interest rate more than expected. Nevertheless, the yield on US long-term bonds tended to drop as those fears dissipated with publication of figures indicating a slowdown in the economy and some containment of inflation. As a result, the interest rate on US 10-year bonds dropped to 4.07% in the fourth week of May, the lowest level since February.

BOND YIELDS DECREASE

Yield on 10-year government bonds as annual percentage



US Treasury studying possible return to issue of 30-year bonds while other countries make 50-year issues.

On the other hand, the US Treasury announced that it was thinking of again issuing 30-year bonds. As is well known, these stopped being issued in 2001 in a context of budgetary surpluses. The need to have diversified instruments to finance current deficits lies behind this change. In addition, since France launched 50-year bonds some months ago, other countries, such as the United Kingdom, have made similar issues or have the matter under study, as in Germany. In this way, Treasuries hope to take advantage of current low interest rates as well as of existing long-term demand from institutional investors, such as insurance companies, which have to adapt to tougher regulations regarding the state of their balance sheets and demographic prospects for the aging of the population in the developed countries.

Yield on European 30-year bonds marks up all-time low levels in May.

In Germany, after going up to 3.79% on March 14, the yield on 10-year government bonds began a downward course. Unfavourable economic figures being published had put off the start of any restrictive turn in the euro area. As a result, the yield on German 10-year government bonds marked up the lowest level in recent decades on May 25 when it dropped to 3.24%. At the same time, the yield on German 30-year bonds recorded an all-time low. In recent weeks, government bonds have benefited from shifts of capital away from corporate bonds as this segment of the market has been affected by certain upsets. In turn, the long-term interest rate differential between United States and Germany in recent weeks has swung at around 80 basis points to stand at 85 basis points toward the end of the fourth week in May.

LONG-TERM INTEREST RATES IN NATIONAL MARKETS

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

	2002	2003	2004			2005		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May 26
United States	4.65	4.04	4.64	4.34	4.21	4.34	4.39	4.11
Japan	1.27	0.99	1.59	1.64	1.45	1.41	1.32	1.24
Germany	4.80	4.10	4.26	4.13	3.80	3.63	3.51	3.26
France	4.88	4.13	4.31	4.16	3.83	3.64	3.55	3.31
Italy	5.04	4.24	4.47	4.31	3.94	3.75	3.66	3.45
Spain	4.96	4.12	4.31	4.17	3.82	3.63	3.53	3.32
United Kingdom	4.93	4.53	5.14	5.05	4.71	4.72	4.69	4.35
Switzerland	3.02	2.47	2.74	2.70	2.38	2.15	2.15	2.01

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

Reclassification of issues by General Motors and Ford as «speculative grade» shakes financial markets.

The global default rate for high-risk bonds rose to 1.64% in April, measured as the average for the past 12 months, up from the low in the past eight years of 1.47% noted in March, according to Standard & Poor's rating agency, with prospects of a slight increase. This agency brought a shudder to corporate bond markets when it reduced the classification of the car companies General Motors and Ford to the «speculative grade» category. As a result, the risk premium on low credit rating bonds, measured as the difference in yield on these bonds with that on long-term government bonds, continued to increase in the early weeks of May thus returning to levels seen in October 2003.

Long-term interest rates drop in Japan.

Long-term interest rates also dropped in Japan in an economic situation still deflationary. The yield on Japanese 10-year government bonds thus dropped to 1.22% on May 6, a low level not seen since February 2004.

Stock markets improve in May

Following negative balance in many stock markets in first four months of year because of rise in oil and other factors...

Following the sharp increases in 2003 and 2004, most of the main international stock markets ended the first four months of the year with negative cumulative gains over December and far from the highs in recent months recorded in February and the beginning of March. The rise in the price of oil, which marked up all-time highs in March, and in prices of other raw materials, the rise in US long-term interest rates as of mid-February and uncertainty about the state of the world economy, especially that of the United States, brought about a drop on many stock exchanges, both in developed countries and in emerging markets.

...stock markets rise in May...

Nevertheless, in the early weeks of May there was a reaction in the stock markets helped by better than expected corporate profits, sharp decreases in government bond yields and some let-up in oil prices. In this way, the markets overcame some nervous moments such as happened with the downward reclassification of General Motors and Ford and when rumours began to spread regarding problems in some alternative mutual funds which could have taken positions against that move.

...although main indices in United States fail to recover par for year.

The main US indices kept failing to recover par for the year in spite of something of a rise aided by publication of a better than expected figure for job creation in April. The relative overvaluation of US stock markets, the increases in Federal Reserve interest rates and some disappointing corporate profits lay behind this poor performance. The general Nasdaq index, which is representative of hi-tech shares, was the one to show the biggest capital losses although it showed appreciable gains compared with twelve months earlier.

INDICES OF MAIN WORLD STOCK EXCHANGES

April 29, 2005

	Index (*)	% monthly change	% cumulative change	% annual change	Figures on May 26, 2005	
					% cumulative change	% change over same date in 2002
New York						
<i>Dow Jones</i>	<i>10,192.5</i>	<i>-3.0</i>	<i>-5.5</i>	<i>-0.3</i>	<i>-2.3</i>	<i>4.3</i>
<i>Standard & Poor's</i>	<i>1,156.9</i>	<i>-2.0</i>	<i>-4.5</i>	<i>4.5</i>	<i>-1.2</i>	<i>10.5</i>
<i>Nasdaq</i>	<i>1,921.7</i>	<i>-3.9</i>	<i>-11.7</i>	<i>0.1</i>	<i>-4.8</i>	<i>24.7</i>
Tokyo	11,008.9	-5.7	-4.2	-6.4	-4.0	-7.9
London	4,801.7	-1.9	-0.3	6.9	3.8	-3.4
Euro area						
<i>Frankfurt</i>	<i>4,184.8</i>	<i>-3.8</i>	<i>-1.7</i>	<i>5.0</i>	<i>4.2</i>	<i>-9.4</i>
<i>Paris</i>	<i>3,911.7</i>	<i>-3.8</i>	<i>2.4</i>	<i>6.5</i>	<i>8.3</i>	<i>-4.6</i>
<i>Amsterdam</i>	<i>348.2</i>	<i>-5.8</i>	<i>0.0</i>	<i>2.0</i>	<i>5.8</i>	<i>-25.2</i>
<i>Milan</i>	<i>23,631.0</i>	<i>-4.1</i>	<i>0.4</i>	<i>12.5</i>	<i>3.2</i>	<i>9.0</i>
<i>Madrid</i>	<i>9,001.6</i>	<i>-2.8</i>	<i>-0.9</i>	<i>11.0</i>	<i>3.7</i>	<i>18.5</i>
Zurich	5,870.8	-1.0	3.1	1.7	7.8	-6.7
Hong Kong	13,909.0	2.9	-2.3	16.5	-4.6	16.7
Buenos Aires	1,348.4	-3.7	-2.0	25.1	5.2	337.9
São Paulo	24,843.0	-6.6	-5.2	26.7	-6.6	94.7

NOTES: (*) New York: Dow Jones Industrials, Standard & Poor's Composite, Nasdaq Composite; Tokyo: Nikkei 225; Euro area: DJ Euro Stoxx 50; London: Financial Times 100; Frankfurt: DAX; Paris: CAC 40; Amsterdam: AEX; Milan: Banca Commerciale Italiana; Madrid: IBEX 35 for Spanish stock exchanges; Zurich: Swiss Market Index; Hong Kong: Hang Seng; Buenos Aires: Merval; São Paulo: Bovespa.

SOURCE: Thomson Financial Datastream and internal figures.

Energy and utility companies show best performance so far this year.

The various sectors showed an irregular performance. The energy sector stood out because of notable capital gains over December. Utility companies and the health and pharmaceuticals sector have also obtained considerable advances so far this year. On the contrary, the biggest capital losses were concentrated in telecommunications companies, non-cyclical consumer goods and the financial sector.

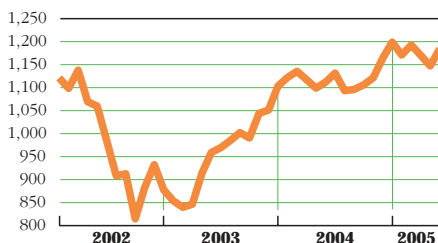
Paris and Amsterdam stock exchanges head euro area capital gains.

The DJ Eurostoxx 50, which includes the biggest companies in the euro area, ended the first four months of the year with slight cumulative losses at 0.7%. Nevertheless, in the early weeks of May it went back into the black. The main stock markets in the euro area showed notable gains, headed by the Paris and Amsterdam stock exchanges.

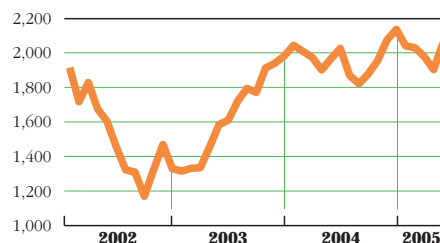
INTERNATIONAL STOCK EXCHANGES

Indices at month-end

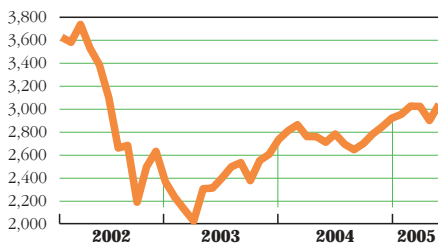
NEW YORK (Standard & Poor's 500)



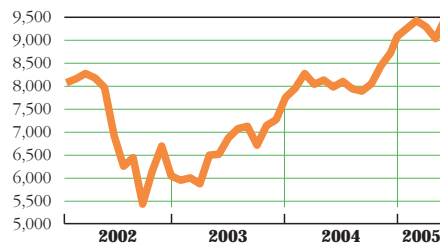
NASDAQ INDEX (UNITED STATES)



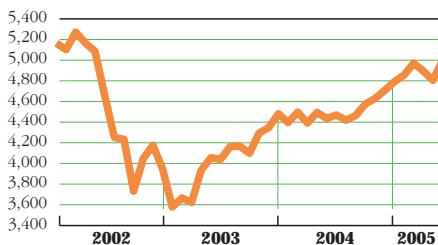
EURO AREA (DJ Euro Stoxx 50)



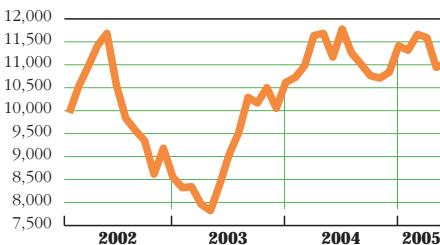
MADRID (IBEX 35)



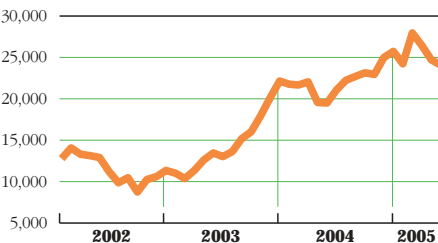
LONDON (Financial Times 100)



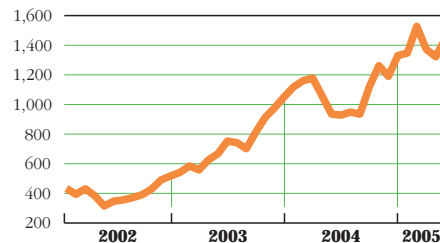
TOKYO (Nikkei 225)



SÃO PAULO (Bovespa)



BUENOS AIRES (Merval)



NOTES: May 26, 2005. SOURCE: Thomson Financial Datastream.

***Good performance
in corporate profits
aids IBEX 35.***

With regard to the Spanish stock market, the IBEX 35 improved substantially in May after two months of decreases. In the third week of the month it regained the 9,400 points level. In the first quarter, the companies making up the IBEX 35 showed major profits with a sharp year-to-year rise. It should be pointed out that in the second last week of May only 11 of the 35 shares making up the IBEX 35 stood in the red in terms of December.

***Japanese stock
market fails
to recover.***

Outside the euro area, the Financial Times 100 index for the London stock exchange also managed to go above par for the year in the fourth week of May. The SMI index for the Swiss stock market showed more cumulative gains than the DJ Eurostoxx 50 in the same period. On the other hand, the Nikkei 225 index in Japan, while it recovered to some degree in May, failed to reach the starting level for the year due to concern about prospects for the Japanese economy.

***Recovery of stock
markets in Argentina
and Mexico.***

Increased risk aversion did not help the emerging markets, many of which ended the first four months of the year in the red. Halfway through the fourth week in May, the Hong Kong stock market was continuing to mark up the capital losses seen since December. With regard to the main Latin American markets, the Brazilian stock market failed to recover. On the other hand, the Argentine market managed to recover notably as did the Mexican market.

SPAIN: OVERALL ANALYSIS

ECONOMIC ACTIVITY

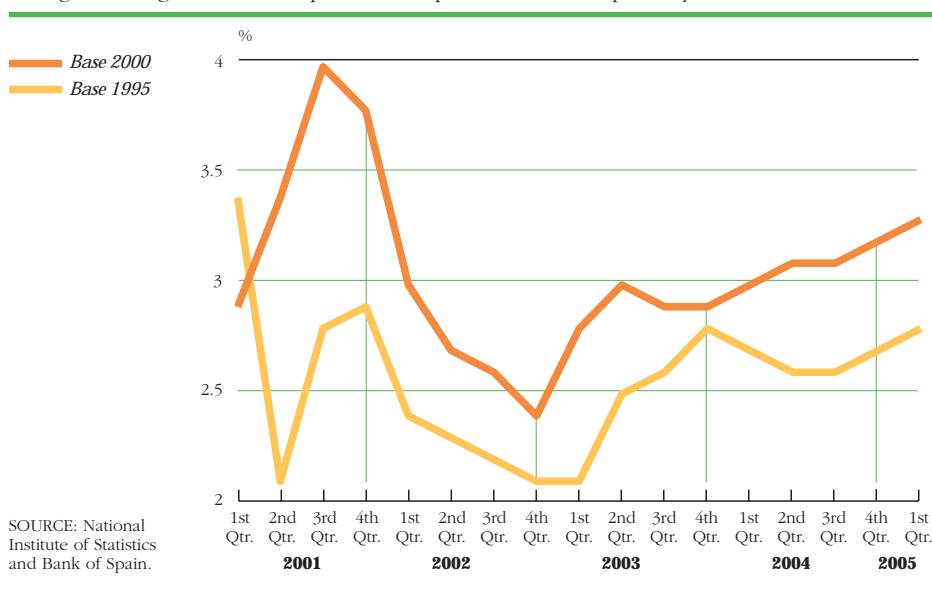
Spain's economy grows by 3.3% in first quarter

Spain's economy maintaining high growth.

The gross domestic product (GDP) grew by 3.3% at year-to-year rate in the first quarter of 2005, according to figures adjusted for seasonal and calendar effects published by the National Institute of Statistics. This figure, which is one decimal higher than that for the previous quarter, confirms the gradual increase in growth of Spain's economy in recent quarters. These figures are the result of the revision of the National Accounting series to which a new base year has been applied as well as various methodological changes (see box).

GDP GROWTH REVISED UPWARD

Change in real gross domestic product compared with same quarter year before



Domestic demand sustains growth.

The slight increase in growth of the economy in the past quarter was due to the bigger contribution from domestic demand, seeing that the negative contribution from the foreign sector rose by two decimals. The draw-off from growth of the GDP coming from the foreign sector was 2.5 percentage points, which was fully compensated by the contribution from domestic demand at 5.8 points.

Public consumption showing strong growth...

The good state of domestic demand was sustained by the strength of final consumption, both private and that of general government, especially the latter. With regard to households and private non-profit bodies, growth

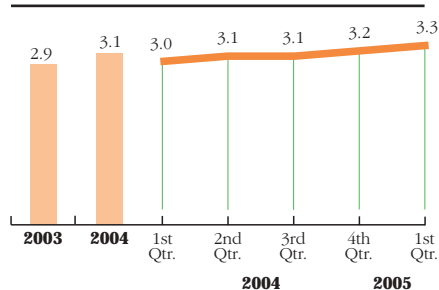
...while household consumption moves up at good sustained rate.

held at 4.8% year-to-year, thanks to maintenance of employment, the positive performance in mixed incomes and operating surplus and in growth of credit. In general government, growth (somewhat lower than in the previous quarter) held at a high 6.0% year-to-year.

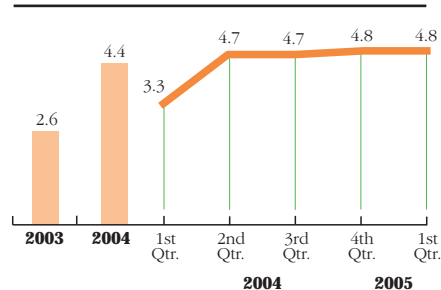
TREND IN SPAIN'S GDP BY COMPONENT

Percentage year-to-year change (*)

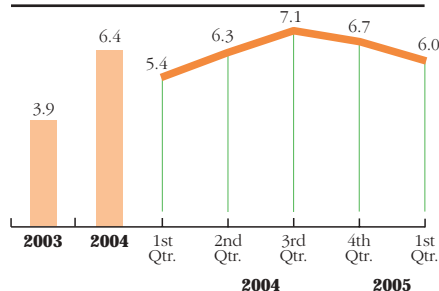
GDP



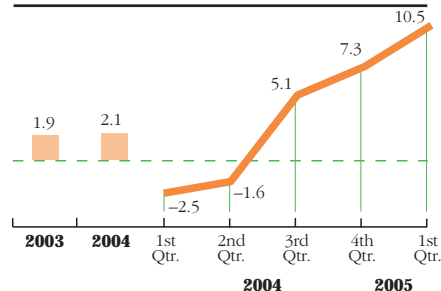
HOUSEHOLD CONSUMPTION



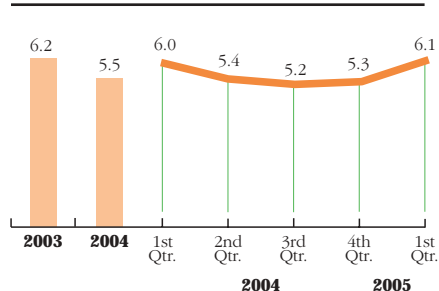
PUBLIC CONSUMPTION



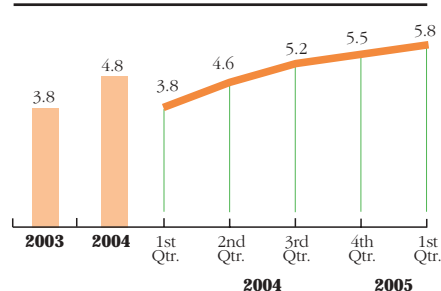
INVESTMENT IN CAPITAL GOODS



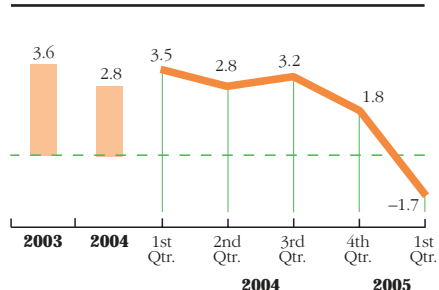
CONSTRUCTION INVESTMENT



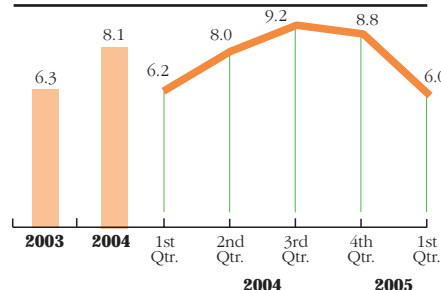
DOMESTIC DEMAND (**)



EXPORTS OF GOODS AND SERVICES



IMPORTS OF GOODS AND SERVICES



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

SOURCE: National Institute of Statistics.

Demand for capital goods recovers sharply while construction holds strong.

Drop in exports behind poor foreign balance.

Market services and construction most dynamic sectors of economy.

The performance in gross fixed capital formation was very favourable with an increase in growth rate to 7.5% year-to-year. The strength of investment in capital goods, which added somewhat more than three points to the year-to-year rate raising it to 10.5%, and the growing strength of construction (moving up at 6.1%) made it possible to consolidate the positive course of this demand component.

On the other hand, the foreign sector felt the drop in exports (1.7% year-to-year) which showed a very similar performance in goods and services. The balance did not turn out worse because of moderation in the growth rate of imports which stood at 6.0% year-to-year, nearly three points less than in the previous quarter, because of the drop in services and the moderate slowdown in goods to 7.4%.

On the supply side, figures for the first quarter confirm the weakness of agriculture, the sustained improvement in construction, the continuing upturn in industrial activity (although at very modest levels) and the

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



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

SOURCE: National Institute of Statistics.

strong profile of services. In this case, it was market services which showed the greatest strength, given that other services reported a slight slowdown.

Wages down in real terms while operating surplus and mixed incomes appreciably better.

From an incomes point of view, wages grew by 6.0% nominal in the first quarter of the year, one decimal less than in the previous quarter. Nominal average wages per worker eased growth to 2.9%, a figure four decimals lower than the increase in the private consumption deflator (3.3%). Unit labour costs, in turn, rose by 2.6% on average, two decimals less than in the previous quarter. The moderation of wages was largely compensated by the rise in mixed incomes and gross operating surplus to 10.0% annual. Finally, taxes on production and imports were up 6.4%, an appreciable moderation in rate compared with previous periods.

NATIONAL ACCOUNTING ADOPTS CHANGE IN BASE AND NEW METHODOLOGY

In May, the National Institute of Statistics presented estimates using the new base for National Accounting while at the same time applying a series of important methodological changes in preparing the accounts. The changes introduced in the new base for Spain's National Accounting (CNE-2000) are very important and significantly affect the final results. A notable initial effect is that the nominal GDP has been revised upward to reflect an increase of 3.2% for 2000 and 4.9% for 2004 (between 19.72 and 38.89 billion euros more).

SPAIN'S NATIONAL ACCOUNTING 2004

	Million euros		Difference	
	CNE-1995	CNE-2000	Million euros	as %
Demand components				
Final consumption spending of households and non-profit bodies	459,204	483,031	23,827	5.2
Final consumption spending of general government	146,049	147,998	1,949	1.3
Gross capital formation	223,048	236,769	13,721	6.2
Exports of goods and services	215,867	215,291	-576	-0.3
Imports of goods and services	245,496	245,532	36	0.0
Supply components				
Agricultural branches	22,311	26,178	3,867	17.3
Energy and industry	136,105	139,164	3,059	2.2
Construction	76,050	81,141	5,091	6.7
Market services	373,992	400,162	26,170	7.0
Non-market services	106,734	107,225	491	0.5
Net taxes on products	83,480	83,687	207	0.2
Gross domestic product at market prices	798,672	837,557	38,885	4.9

SOURCE: National Institute of Statistics and internal figures.

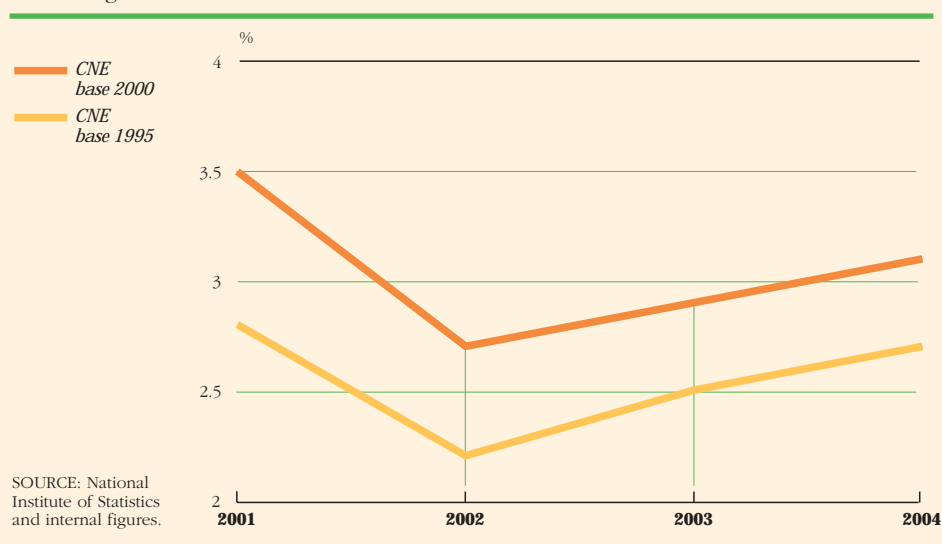
First of all, the new methodology changes the accounting for value added created by financial institutions, so-called indirectly measured financial operations services (SIFMI). This involves commissions obtained by financial institutions in deposit and loan operations carried out with their customers. CNE-2000 sets out that payment for financial operations services supplied is equivalent to the difference between the interest rate effectively applied and the reference rate set in this case.

Whereas in the previous base (CNE-1995) SIFMI services did not have any effect at the GDP level (a fictitious mid-point with zero value added was assigned), in the CNE-2000 they are taken into account as final consumption spending (of households, non-profit bodies and general government) or else as trade with abroad (under the heading of imports or exports of services), thus increasing the final value of the GDP.

Another important methodological change is that real growth will not be referred to a fixed base year (as was done with Base 1995 and all previous cases) but rather the reference will always be the previous year. This system with movable base makes possible estimates of real growth that are more precise and up-to-date because it applies any deflator to the national accounts starting out with the most recent price structure. On the other hand, the methodology applied has the disadvantage that addition of the figures is carried out only for the current period and that immediately preceding. In earlier periods, the sum of the GDP components did not exactly coincide with the total value for that figure.

GDP GROWTH REVISED UPWARD

Real change in GDP

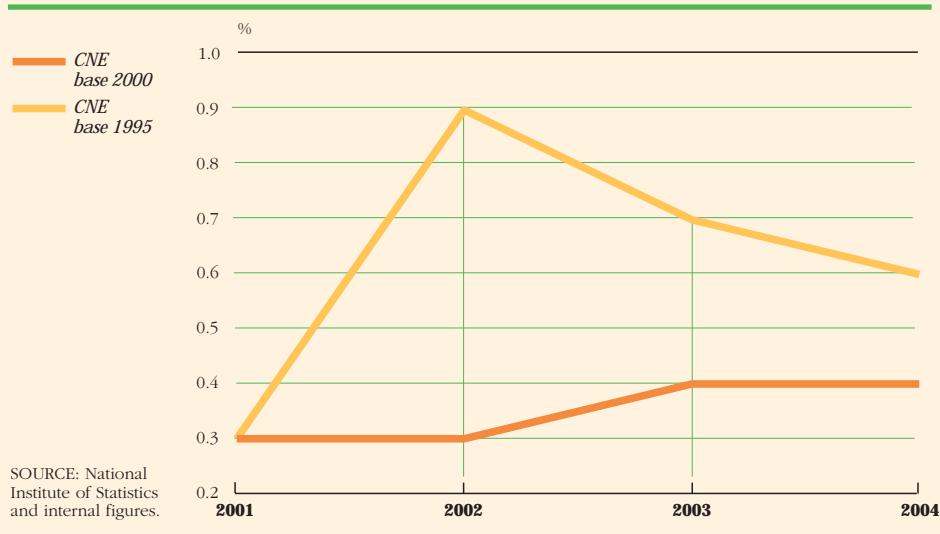


The conceptual changes applied and the new statistical methods and sources used have meant that real GDP growth has been revised upward, ranging from 0.7 percentage points more in 2001 to 0.4% more in 2004 compared with the figures for CNE-1995. Half the difference noted in 2004 was entirely due to use of the movable base system mentioned above while the rest was due to other changes introduced.

Another important change was inclusion of population estimates based on the 2001 Census and the use of figures from the system of continuing civil registrations, along with use of employment estimates provided by the revisions to the Labour Force Survey. Starting out from these premises, the CNE-2000 includes more than 987,000 additional full-time jobs compared with those registered in the previous accounting base. This increase basically came about in wage employment and came to the surface in those branches of economic activity involving a high percentage of the immigrant population group (agriculture, construction, domestic service, retail trade, hotel and restaurant trade, certain company services, etc.). Following the changes introduced, we note an increase in the per capita GDP which in 2004 rose to 19,642 euros as against 19,456 estimated using the previous base. On the other hand, we note that growth in productivity turns out even slower.

CNE-2000 ESTIMATES SLOWER GROWTH OF PRODUCTIVITY

Change in apparent productivity of labour factor



Finally, some of the other changes applied involve revision of accounting flows from the agricultural branches, the estimating of figures for foreign trade in goods and services in coordination with the Bank of Spain balance of payments, incorporation of figures from general government accounts drawn up by the central government Auditor General, utilization of the results of industrial surveys, services and labour cost surveys, and the new estimate of production value of implied rentals (rentals created by households occupying their own homes).

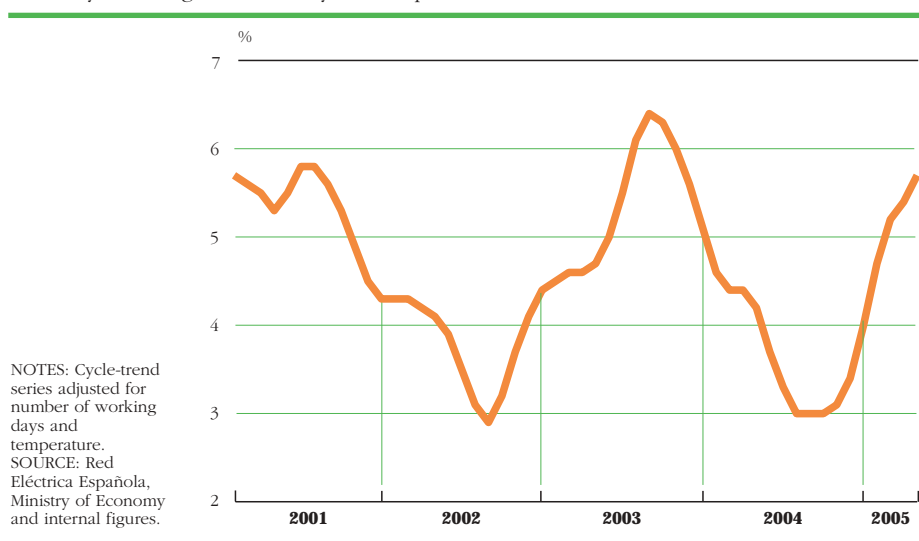
Economic activity indicators: domestic demand strong

Economic activity holding sustained growth rate...

The second quarter of 2005 began with trends very similar to those shown in the first three months of the year by National Accounting figures. In general terms, domestic demand is continuing to show great strength resting on the rise in consumption and the strength of investment, both in construction and in capital goods. In this context, electricity consumption (which is very representative of the state of general economic activity) is holding to a profile of strong growth with a year-to-year increase of 5.8% in April.

ELECTRICITY CONSUMPTION CONTINUES TO RISE

Year-to-year change in electricity consumption



...with some exceptions, such as industry which fails to come out of slack...

On the other hand, on the supply side, there are no significant changes in the situation of industry which continues to reflect considerable weakness. The industrial production index has tended to show slower growth in recent months dropping below 0.5% year-to-year in cycle-trend terms, with very different performances in each branch.

...due to poor results in textiles branches, motor vehicles and chemical industry, among others.

The most negative results showed up in the textile industry, clothing, furs and leather with decreases between 10% and 18% year-to-year in the first quarter. Also notable was the sharp drop in motor-vehicle production (9.2% year-to-year from January to March), machinery (5.3%), metallurgy (3.7%) and chemical products (4.2%), among other activities. On the other hand, there were significant increases in energy production (up 7.1% year-to-year in the three months of reference) and the publishing industry (6.1%). Increases in manufacture of data-processing equipment (4.5%) and electronic equipment (1.8%) came about following sharp decreases seen in previous years.

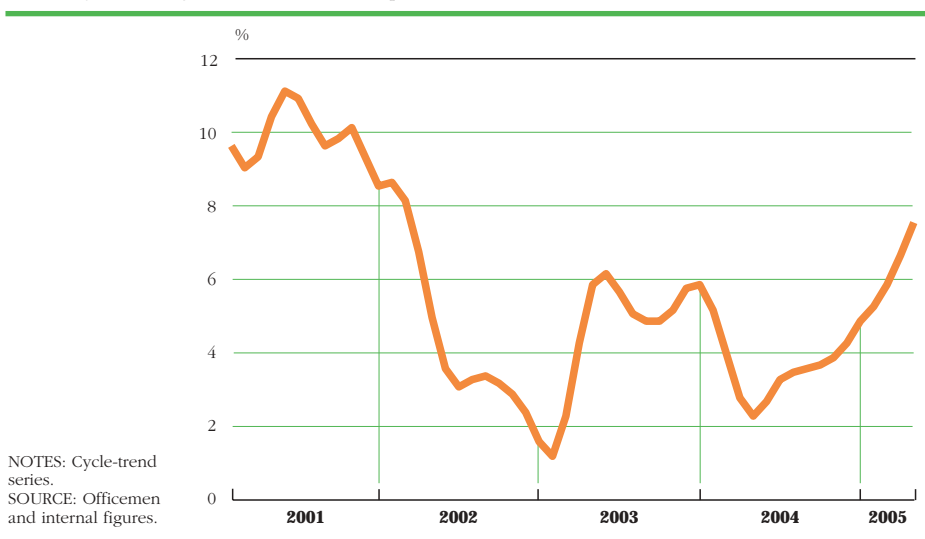
INDUSTRY HOLDING AT VERY LOW LEVEL

Year-to-year change in industrial production index



SHARP GROWTH OF CEMENT CONSUMPTION

Year-to-year change in cement consumption

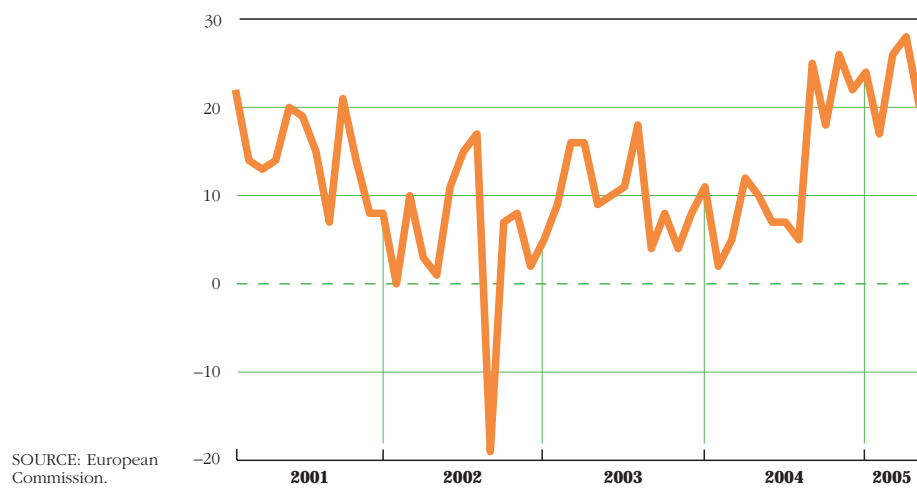


**Growth rate
in construction
continues very high.**

The poor results in the industrial sector stand in contrast to the dynamic state of construction which is holding to a very expansionist stage, according to trends shown by the main activity indicators. Cement consumption shows a profile of sharp growth and, in the same direction, confidence sentiment in the sector is holding at very high levels. Nevertheless, the slowdown of growth in some early indicators, such as the number of housing units covered by new building approvals, indicates some possible moderation in the growth rate for the sector in coming months at least in the residential sphere. On the other hand, with regard to public works, the total amount let out to tender by general government in recent months continues to be very high.

CONFIDENCE IN CONSTRUCTION SECTOR HOLDS AT HIGH LEVELS

Difference between percentage of positive and negative replies



SUPPLY INDICATORS

Percentage change over same period year before

	2003	2004	2004				2005			
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February	March	April
Industry										
Electricity consumption (1)	5.4	3.3	4.2	3.6	3.0	2.4	6.8	5.3	5.4	5.8
Industrial production index (2)	1.4	1.6	1.4	2.4	2.2	0.4	0.9	-0.8	1.1	...
Confidence indicator for industry (3)	-0.9	-2.5	-3.0	-2.0	-2.7	-2.3	-1.0	-5.0	-4.0	-6.0
Utilization of production capacity (4)	79.1	79.8	78.7	79.3	80.5	80.5	-	79.4	-	79.5
Imports of non-energy intermediate goods (5)	6.2	6.6	9.2	6.6	6.0	4.7	9.4	-1.3	-4.4	...
Construction										
Cement consumption	4.8	3.9	5.6	2.4	3.8	3.9	1.5	2.2	-2.7	16.0
Confidence indicator for construction (3)	10.3	13.6	6.3	8.0	16.0	24.0	17.0	26.0	28.0	20.0
Housing (new construction approvals)	21.4	8.0	8.0	9.2	14.9	0.5	7.8	7.4	-2.4	...
Government tendering	-10.9	17.9	-3.0	-9.4	65.6	37.4	63.0	-38.8	7.9	...
Services										
Retail sales	5.7	5.5	6.6	5.6	4.4	5.5	3.4	4.1	4.6	...
Foreign tourists	-1.0	3.0	3.5	-0.1	1.4	10.0	5.3	-0.8	16.3	0.0
Tourist revenue inflows	3.7	1.0	4.0	-2.2	-0.2	3.9	7.4	-0.1	...	...
Goods carried by rail (km-tonnes)	1.7	-3.5	6.4	6.2	-8.5	-16.7	-8.7	-12.9	-20.4	...
Air passenger traffic	7.5	7.8	11.0	6.7	6.5	8.3	9.8	2.9	12.2	5.4
Motor vehicle diesel fuel consumption	7.5	7.3	7.8	6.8	9.0	5.7	1.9	3.4	...	...

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, AENA, National Institute of Statistics, Bank of Spain, European Commission, Ministry of Public Works, Ministry of Industry, Tourism and Commerce, Ministry of Economy and internal figures.

Positive note in services with information and communications technology acting as spearhead.

With regard to services, the general situation is fairly positive although very different performances are showing up in each activity covered by the sector, according to indices for volume of business drawn up by the National Institute of Statistics. Information and communications technology is showing a very solid growth trend (close to 8% year-to-year in March) while, on the other hand, indices for retail trade and transportation show a clearly downward growth profile (more than 5% year-to-year in the first case and 3.5% in the second case in the same month. Indices for services to companies and tourism have been recording similar growth (around 3.0% year-to-year from January to March) which was fairly sustained in the first case and more irregular in the second case.

Domestic tourism continues to show great strength.

The results for tourism are difficult to evaluate due to the different placing of Easter Week in the two years 2004 and 2005 being compared. If we discount this effect, we note a moderately positive performance in the early months of the year (mainly thanks to the considerable strength of domestic tourism) which is fully expected to continue in coming months, according to expectations in the sector at this time.

Consumption tending to ease growth...

On the demand side, we note increased moderation in consumption of certain durables. Registrations of passenger cars, for example, were up by 1.6% year-to-year in the first four month of 2005, a figure below rates recorded in 2004, but we should not ignore, however, the high absolute value (more than 507,000 units sold, the highest figure in history in the same period).

DEMAND INDICATORS

Percentage change over same period year before

	2003	2004	2004				2005			
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	January	February	March	April
Consumption										
Production of consumer goods (*)	0.2	-0.2	-0.1	-0.7	0.1	0.1	1.1	-1.4	1.2	...
Imports of consumer goods (**)	10.9	13.4	19.7	17.2	9.7	8.3	3.4	11.9	4.3	...
Car registrations	3.8	9.8	20.9	9.5	5.3	4.7	6.4	-0.7	-3.6	6.6
Credit for consumer durables	1.6	5.5	3.7	4.8	4.4	9.2	-	-	-	-
Consumer confidence index (***)	-13.7	-10.8	-11.7	-9.3	-11.7	-10.3	-9.0	-10.0	-10.0	-11.0
Investment										
Capital goods production (*)	0.6	1.8	1.3	3.7	4.7	-1.7	-4.8	-1.1	3.1	...
Imports of capital goods (**)	14.8	14.9	5.2	4.3	19.2	29.0	21.7	18.6	43.0	...
Commercial vehicle registrations	13.5	11.7	14.9	13.1	9.4	9.4	15.1	8.1	5.8	23.7
Foreign trade (**)										
Non-energy imports	8.8	9.8	12.1	9.5	8.9	9.0	8.8	5.2	3.7	...
Exports	6.9	5.2	6.3	3.7	6.7	4.3	-3.1	-0.1	-6.0	...

NOTES: (*) Adjusted for difference in number of working days.

(**) By volume.

(***) European Commission survey: difference between percentage of positive and negative replies.

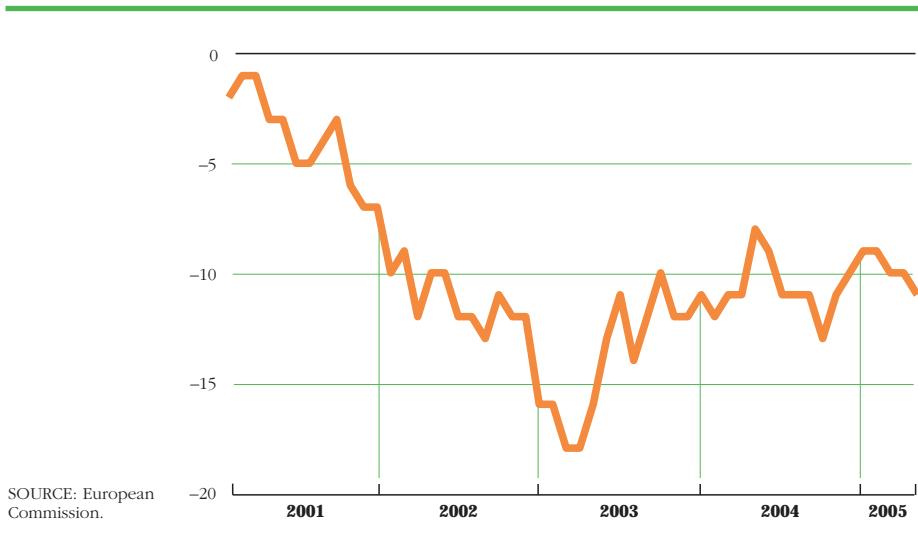
SOURCE: ANFAC, National Institute of Statistics, Bank of Spain, Ministry of Economy, European Commission and internal figures.

...but imports continue to grow at notable rate.

In general, the strength of imports of consumer goods was in contrast to the weakness of domestic production. The industrial production index for those goods grew by a mere 0.3% year-to-year in the first quarter while imports were up a substantial 6.5%, although also showing a downward profile. In this context, consumer confidence sentiment has undergone a slight drop in recent months, according to figures from the European Commission survey.

CONSUMER CONFIDENCE TENDING TO WEAKEN

Difference between percentages of positive and negative replies



Investment in capital goods holds clear growth trend.

On the other hand, investment in capital goods is maintaining a notable growth rate, according to the trends shown by corresponding indicators. Imports of goods of this type, for example, rose by 28.6% year-to-year in the first quarter of 2005 and, along the same lines, registrations of commercial vehicles rose by 9.3% from January to April, a rate very similar to that noted in previous months.

LABOUR MARKET

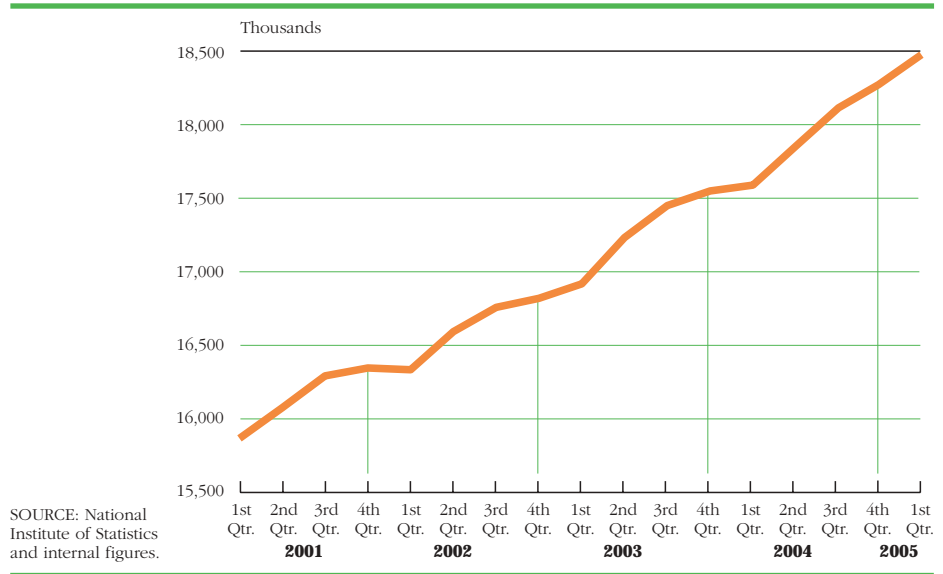
Job creation being maintained

Methodological changes in Labour Force Survey confirms favourable trend in labour market...

Spain's economy created 204,600 net new jobs in the first quarter of 2005, according to the Labour Force Survey carried out by the National Institute of Statistics. This increase, which was five times higher than in the same period last year, was clearly influenced by the methodological change applied to this indicator as of this year. It is estimated that without the changes introduced the increase in employment would have been 72,600 jobs, a figure that is also higher than in the first quarter of 2004.

TOTAL EMPLOYMENT SHOWS STRONG GROWTH

Persons employed



...giving work to more than 18 million persons.

The continuation of the good state of the labour market and the impact of the methodological change meant that in the past 12 months new jobs increased by 892,200 putting the figure for those employed above 18.49 million, 5.1% more than in the first quarter of 2004. Without the methodological change, the increase in those employed would have been 760,300 persons, that is to say, at 4.3% year-to-year, which would also have meant an improvement over the previous trend.

Increase in Social Security registrations also continues strong.

The sharp increase in employment as shown by the Labour Force Survey was also confirmed by registrations with Social Security which in April showed an increase in growth rate to 3.4% in spite of the presumably negative impact of the date of Easter Week which fell earlier this year. The strength of construction and services and the weakness in industry were key factors reflected in figures for registrations.

EMPLOYMENT INDICATORS

Percentage change over same period year before

	2003	2004	2004				2005	
			1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April
Persons registered with Social Security								
Wage-earners	3.2	2.7	2.9	2.4	2.6	3.1	2.8	3.5
<i>Industry</i>	-0.5	-0.5	-0.5	-0.5	-0.6	-0.5	-0.9	-0.7
<i>Construction</i>	4.3	5.0	4.4	4.3	4.6	6.8	5.0	6.7
<i>Services</i>	4.1	4.1	4.3	3.7	4.0	4.4	4.5	5.0
Non-wage-earners	2.3	3.2	3.2	3.2	3.2	3.2	2.9	2.8
Total	3.0	2.8	2.9	2.6	2.7	3.1	2.8	3.4
Persons employed (*)	4.0	3.9	4.0	3.6	3.8	4.1	5.1	-
Jobs (**)	2.5	2.7	2.6	2.5	2.7	2.9	3.0	-
Hiring contracts registered (***)								
Permanent	-1.0	11.8	10.0	16.3	18.2	4.4	0.6	5.0
Temporary	3.9	11.4	14.4	13.7	14.7	4.0	-9.8	5.3
Total	3.4	11.5	13.9	13.9	15.0	4.0	-8.8	5.3

NOTES: (*) Estimate from Labour Force Survey.

(**) Equivalent to full-time work. National Accounting estimate; figures adjusted for seasonal effects and number of working days.

(***) At INEM.

SOURCE: National Institute of Statistics, Ministry of Labour and Social Services, National Employment Institute and internal figures.

National Accounting confirms strength of labour market.

Figures from National Accounting for the first quarter also confirm the good state of the labour market. In fact, employment in that period, measured by jobs equivalent to full-time work, grew by 3.0% year-to-year, that is to say, one decimal higher than in the previous quarter and substantially more than one year earlier. As a result, in the past four quarters some 518,800 new jobs equivalent to full-time work were created.

Latest survey raises figures for part-time work and self-employed.

The improvement in the revised Labour Force Survey figures was largely due to better measurement of part-time work. In fact, in the past 12 months this hiring formula brought the creation of 904,700 jobs while full-time work was down very slightly. The methodological change also affected calculations for those self-employed, mainly working independently or in family help work. In total, the increase in self-employed work showed more than 278,000 jobs, that is to say, more than 30% of those jobs created in the past year, which represents a much higher proportion than normal. Wage employment, in turn, was mainly formalized through permanent job contracts which involved somewhat more than 60% of new wage employment or 601,500 jobs in the past 12 months.

Sustained rate of employment in services while situation in construction weakens.

By sector, trends in the labour market point to increased strength of employment in services, maintenance of the job situation in industry and some decrease in construction while still holding at a notable rate. The rise of employment in services, where some 713,400 jobs were created in a 12-month period, came as a result of the rise in part-time work, given that full-time work was down by 11,000 jobs. The hotel and restaurant trade and personal services, along with the real estate sector, accounted for the greater part of this increase. We also note a replacement of full-time work by part-time jobs in agriculture while in industry 90% of new employment is also part-time. In construction, on the other hand, new jobs are largely for full-time work, specifically some 62% of the 109,500 jobs created in the first quarter of 2005.

ESTIMATED EMPLOYEMENT

First quarter 2005

	No. of employees (thousands)	Quarterly change		Annual change		Share
		Absolute	%	Absolute	%	%
By sector						
Agriculture	1,017.3	36.9	3.8	-14.5	-1.4	5.5
Non-farm	17,475.3	167.7	1.0	906.8	5.5	94.5
<i>Industry</i>	<i>3,257.5</i>	<i>10.7</i>	<i>0.3</i>	<i>83.9</i>	<i>2.6</i>	<i>17.6</i>
<i>Construction</i>	<i>2,270.5</i>	<i>-60.7</i>	<i>-2.6</i>	<i>109.5</i>	<i>5.1</i>	<i>12.3</i>
<i>Services</i>	<i>11,947.3</i>	<i>217.7</i>	<i>1.9</i>	<i>713.4</i>	<i>6.4</i>	<i>64.6</i>
By type of employer						
Private sector	15,661.2	241.0	1.6	803.9	5.4	84.7
Public sector	2,831.5	-36.4	-1.3	88.4	3.2	15.3
By work situation						
Wage-earners	14,977.0	-45.5	-0.3	601.5	4.2	81.0
<i>Permanent contract</i>	<i>10,202.7</i>	<i>128.8</i>	<i>1.3</i>	<i>374.8</i>	<i>3.8</i>	<i>55.2</i>
<i>Temporary contract</i>	<i>4,774.2</i>	<i>-174.2</i>	<i>-3.5</i>	<i>226.8</i>	<i>5.0</i>	<i>25.8</i>
Non-wage-earners	3,485.7	238.9	7.4	278.6	8.7	18.8
<i>Entrepreneurs with employees</i>	<i>942.4</i>	<i>-23.1</i>	<i>-2.4</i>	<i>-24.0</i>	<i>-2.5</i>	<i>5.1</i>
<i>Entrepreneurs without employees</i>	<i>2,182.2</i>	<i>150.3</i>	<i>7.4</i>	<i>204.9</i>	<i>10.4</i>	<i>11.8</i>
<i>Family help</i>	<i>361.1</i>	<i>111.6</i>	<i>44.7</i>	<i>97.7</i>	<i>37.1</i>	<i>2.0</i>
Other	29.9	11.1	58.2	12.1	67.0	0.2
By time worked						
Full-time	16,066.2	-622.2	-3.7	-12.4	-0.1	86.9
Part-time	2,426.5	826.8	51.7	904.7	59.4	13.1
By sex						
Males	11,162.9	85.2	0.8	409.9	3.8	60.4
Females	7,329.8	119.4	1.7	482.4	7.0	39.6
TOTAL	18,492.7	204.6	1.1	892.3	5.1	100.0

SOURCE: National Institute of Statistics and internal figures.

CHANGES IN LABOUR FORCE SURVEY

The Labour Force Survey is one of the more important statistics prepared by the National Institute of Statistics (INE) and a key factor for tracking trends in Spain's economy. To carry out this survey approximately 65,000 households are interviewed which means obtaining information from some 200,000 persons. The figures are obtained through personal and telephone interviews carried out by INE survey people attached to that body's provincial offices. Information is handled and processed by computer in order to obtain a quarterly picture of the labour market: those in the labour market, those employed, and those unemployed, along with a broad breakdown.

The Labour Force Survey has been carried out since 1964 and has periodically undergone changes in method in order to improve its measurements. Precisely in the first quarter of 2005 new changes were introduced in the survey. These involved bringing in new variables required by Eurostat (the statistics office of the European Union), introduction of a centralized procedure for carrying out telephone interviews and changes in the survey questions aimed at standardizing the survey process to a greater degree.

Generally, the changes involve a break in the statistical series of some Labour Force Survey variables so that direct comparison with figures for the first quarter of 2005 and those for earlier periods, as well as changes in the labour market, reflect the impact of the change in the survey. As a broad orientation, we should point out the following effects noted from the changes introduced:

- The new procedure for gathering information picks up borderline situations in terms of economic activity more accurately, both in terms of low work levels and weak efforts to find a job. It should be remembered that job-search methods are a fundamental factor when it comes to determining whether a person is unemployed.*
- Specifically, the 2005 Labour Force Survey better records situations of sporadic employment such as those jobs involving only a few hours a week, those of short duration, those carried out helping another member of the household with no remuneration covered by regulation (family help situations), etc. This results in an increase in employment, more part-time employment and an increase in those «working but under-employed» (who want to work more hours and are available to do so). The effects by autonomous community depend on the relative importance of these kinds of employment in each area.*
- The more exhaustive gathering of information on sporadic work situations in turn has an effect on unemployment figures which tend to be reduced. On the other hand, however, the new procedure looks more carefully at methods used by people to look for a job. Both these factors do not run in the same direction and, depending on their importance in each autonomous community, lead to different results in each area.*

The results given are of a provisional nature although the National Institute of Statistics does not expect there to be appreciable changes in the main variables of the survey. In any case, we shall have to wait for Labour Force Survey results in coming quarters in order to evaluate the overall effects of these changes.

Foreign workers take up 43% of new jobs created in past year.

A large part of new employment has been taken up by foreign workers, specifically 43.4% of all jobs created in the past year. From the first quarter of 1998, the increase in the foreign worker population over 15 years of age has been put at close to 2.5 million persons and going to 2.9 million in the first quarter of 2005. As a result, foreign worker employment now makes up 10.3% of all employment, a proportion well above the 2% seen at the end of the previous decade.

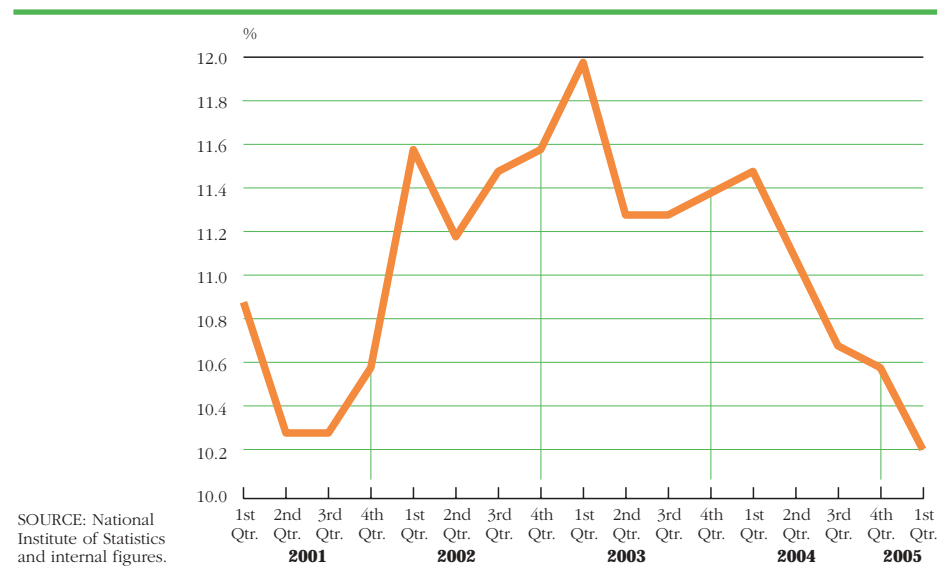
Modest growth in youth employment rate which reaches nearly 40%.

Youth employment, in turn, also showed something of a rise which did not substantially change its historical position. The employment rate among those under 25 years is maintaining a slight growth trend but it is still relatively low seeing that only 39.6% of the population between 16 and 24 years is working. The employment rate is also substantially higher among young males (45.8%) than among young females (33.1%).

Estimated unemployment drops by 8.2% in first quarter...

Estimated employment (2,099,500 persons in the first quarter) fell by 8.2% compared with the same period in 2004 in spite of the fact that the labour force continued to grow at a higher rate than the population 16 years or age or older. This propensity to actively seek work is greater in the case of females, given that new females coming into the labour force (362,600 persons) was well above the increase in the female population (280,300). In the male segment, on the other hand, the differential was smaller.

PROGRESSIVE DECREASE IN UNEMPLOYMENT RATE
Unemployment over labour force



...while unemployment rate down to 10.2%.

The unemployment rate stood at 10.2%, some 1.3 points below the same quarter last year while maintaining sharp differences between figures for males and females at 7.8% and 13.7% respectively. The level of unemployment among those under 25 years, in turn, stood at 21.8%, one point less than in the same quarter last year.

ESTIMATED UNEMPLOYMENT

First quarter 2005

	No. of unemployed (thousands)	Quarterly change		Quarterly change		Share	Unemployment rate (% of labour force)
		Absolute (thousands)	%	Absolute (thousands)	%	%	
By sex							
Males	940.9	9.4	1.0	-67.9	-6.7	44.8	7.8
Females	1,158.7	-69.1	-5.6	-119.8	-9.4	55.2	13.7
By age							
Under 25 years	532.0	25.3	5.0	-8.0	-1.5	25.3	21.8
Other	1,567.5	-85.1	-5.1	-179.7	-10.3	74.7	8.6
By personal situation							
Long-term unemployment	613.5	3.7	0.6	5.7	0.9	29.2	-
Seeking first job	256.8	-53.9	-17.4	-91.9	-26.4	12.2	-
Other	1,229.2	-9.5	-0.8	-101.5	-7.6	58.5	-
TOTAL	2,099.5	-59.7	-2.8	-187.7	-8.2	100.0	10.2

SOURCE: National Institute of Statistics and internal figures.

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

The proportion of households with all members unemployed turned out much lower at 3.2% of the total, nearly a half point less than in the same quarter of 2004. The situation also improved for heads of household (for whom the unemployment rate dropped to 6.2%) as well as for spouses and offspring of the reference person although unemployment rates were higher at 10.4% and 16.3%. Long-term unemployment, in turn, affected 613,500 persons, some 29.2% of those without jobs.

Change in methodology has uneven impact on autonomous communities.

From a geographical perspective, the situation shows notable differences between autonomous communities because of the varying importance of immigration. Some autonomous communities, such as La Rioja, Andalusia, Aragon, Castile-Leon, Murcia, Navarre, Valencia and Catalonia, reported a year-to-year employment growth rate at levels of more than 5%, showing the impact of the change in methodology to a greater or lesser degree.

LABOUR FORCE, EMPLOYMENT AND UNEMPLOYMENT BY AUTONOMOUS COMMUNITY
First quarter 2005

	Labour force			Employed			Unemployed			Unem- ployment rate %
	Total (1,000s)	Annual change	% annual change	Total (1,000s)	Annual change	% annual change	Total (1,000s)	Annual change	% annual change	
Andalusia	3,376.2	97.4	3.0	2,895.5	179.5	6.6	480.7	-82.1	-14.6	14.2
Aragon	596.4	28.4	5.0	559.8	29.8	5.6	36.6	-1.4	-3.7	6.1
Asturias	448.8	7.5	1.7	397.8	6.8	1.7	51.0	0.7	1.4	11.4
Balearic Islands	480.6	6.8	1.4	429.6	16.9	4.1	51.0	-10.1	-16.5	10.6
Canary Islands	940.2	25.8	2.8	820.0	23.4	2.9	120.3	2.4	2.0	12.8
Cantabria	255.6	6.1	2.5	230.7	10.0	4.5	24.9	-3.8	-13.3	9.7
Castile-La Mancha	1,103.4	52.4	5.0	991.7	61.8	6.6	111.8	-9.4	-7.8	10.1
Castile-Leon	812.0	33.6	4.3	734.2	33.7	4.8	77.8	-0.1	-0.1	9.6
Catalonia	3,481.0	84.6	2.5	3,204.8	156.0	5.1	276.1	-71.4	-20.6	7.9
Valencian Community	2,233.8	110.0	5.2	2,007.5	101.0	5.3	226.3	8.9	4.1	10.1
Extremadura	456.8	21.8	5.0	376.9	16.2	4.5	79.9	5.7	7.6	17.5
Galicia	1,248.3	-0.6	-0.1	1,112.3	46.9	4.4	136.1	-47.5	-25.9	10.9
Madrid Community	3,034.8	182.5	6.4	2,783.6	121.3	4.6	251.2	61.2	32.2	8.3
Murcia	604.9	12.2	2.0	550.2	27.3	5.2	54.7	-15.1	-21.7	9.0
Navarre	287.6	12.7	4.6	269.5	13.0	5.1	18.1	-0.3	-1.5	6.3
Basque Country	1,027.9	9.0	0.9	946.4	35.7	3.9	81.5	-26.6	-24.6	7.9
La Rioja	145.2	12.9	9.8	134.6	12.4	10.2	10.6	0.5	4.8	7.3
Ceuta and Melilla	58.4	1.4	2.5	47.4	0.6	1.1	11.0	0.9	8.9	18.8
TOTAL	20,592.2	704.6	3.5	18,492.7	892.3	5.1	2,099.5	-187.7	-8.2	10.2

SOURCE: National Institute of Statistics and internal figures.

Registered unemployment: favourable balance in first four months

**Registered
unemployment
down substantially
in April...**

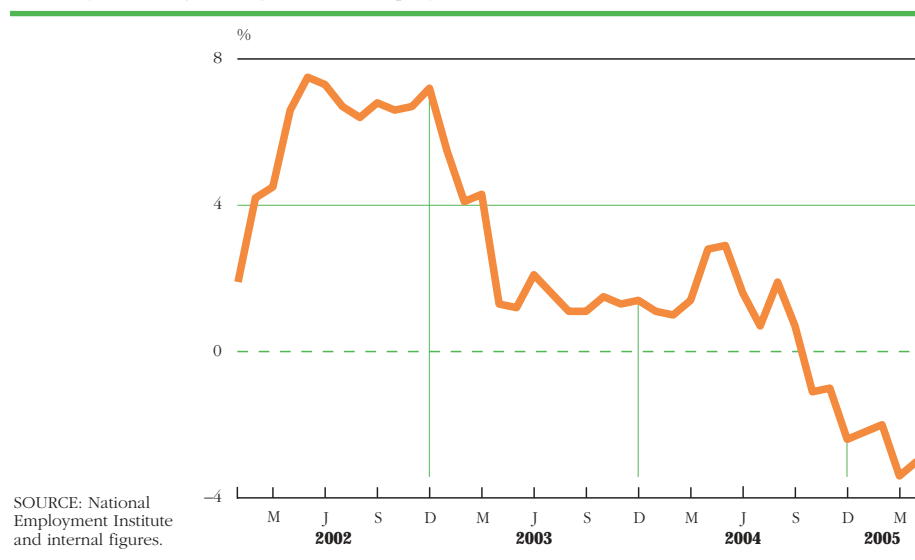
The number of unemployed registered at offices of the National Employment Institute (INEM) stood at 1,653,537 at the end of April after a decrease of 30,627 from the month before. This decrease, which was somewhat lower than that for the same month last year because of the effect of the placing of Easter Week in the calendar, did not mean any substantial change in the trend to a drop in unemployment in recent months.

**...and first quarter
balance better than
last year.**

The good performance in unemployment in April meant that the balance for the first four months ended with a drop in unemployment of 16,753 persons registered, a bigger decrease than in the same period in 2004. This drop was mainly brought about through construction and industry although in both cases the reduction was lower than in the first four months of 2004. In services, on the other hand, the modest decrease recorded meant a definite improvement compared with the increase recorded in the same period last year. Finally, those seeking their first job showed an increase although less than for last year.

REGISTERED UNEMPLOYMENT CONTINUES TO DROP

Year-to-year change in registered unemployment



REGISTERED UNEMPLOYMENT BY SECTOR, SEX AND AGE

April 2005

	No. of unemployed	Change over December 2004		Change over same period year before		% share
		Absolute	%	Absolute	%	
By sector						
Agriculture	39,599	2,199	5.9	-1,359	-3.3	2.4
Industry	248,658	-4,456	-1.8	-7,795	-3.0	15.0
Construction	181,510	-17,818	-8.9	-5,461	-2.9	11.0
Services	969,362	-1,219	-0.1	-14,698	-1.5	58.6
First job	214,408	4,541	2.2	-22,326	-9.4	13.0
By sex						
Males	659,971	-35,659	-5.1	-26,580	-3.9	39.9
Females	993,566	18,906	1.9	-25,059	-2.5	60.1
By age						
Under 25 years	233,712	1,349	0.6	-24,293	-9.4	14.1
All other ages	1,419,825	-18,102	-1.3	-27,346	-1.9	85.9
TOTAL	1,653,537	-16,753	-1.0	-51,639	-3.0	100.0

SOURCE: National Employment Institute and internal figures.

Hiring contracts handled at INEM recover in April but balance for first four months below last year.

In addition, hiring contracts handled by INEM recovered modestly in April although the increase was not sufficient to turn around the negative cumulative balance for the year. In fact, in the first four months of the year hiring was down by 5.6% under the impact of a weaker situation in temporary hiring.

PRICES

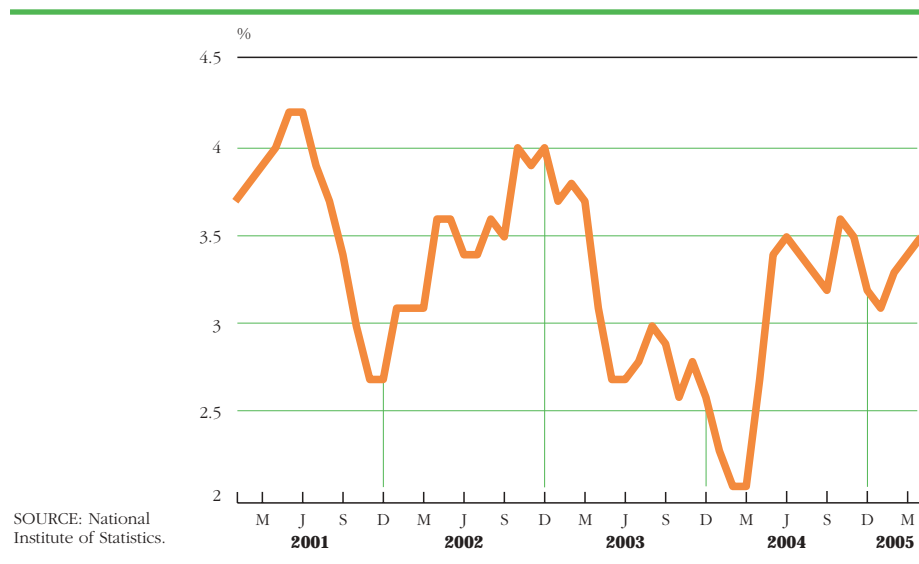
Energy and food hurt CPI in April

Inflation rate up another decimal in April going to 3.5%.

Inflation rose in April for the third month in a row. The year-to-year rate for the consumer price index (CPI) stood at 3.5%, one decimal more than in March and four decimals above the relative low seen in January. Underlying inflation, on the other hand, fell by one decimal compared with the month before holding at 2.8%, that is to say, practically stagnant compared with the level at which it has stood for the past ten months.

INFLATION RATE UP IN FIRST FOUR MONTHS

Year-to-year change in CPI



Sharp rise in clothing and footwear due to end of retail sales period.

The biggest increase in the CPI in April showed up in clothing and footwear and was of a seasonal nature (end of the retail sales period) so that it did not have a negative effect on the index as a whole. In fact, this component held at the year-to-year rate of 1.6% recorded in March.

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	0.8	0.2	3.4
April	1.4	1.4	2.7	1.4	1.6	3.5
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			

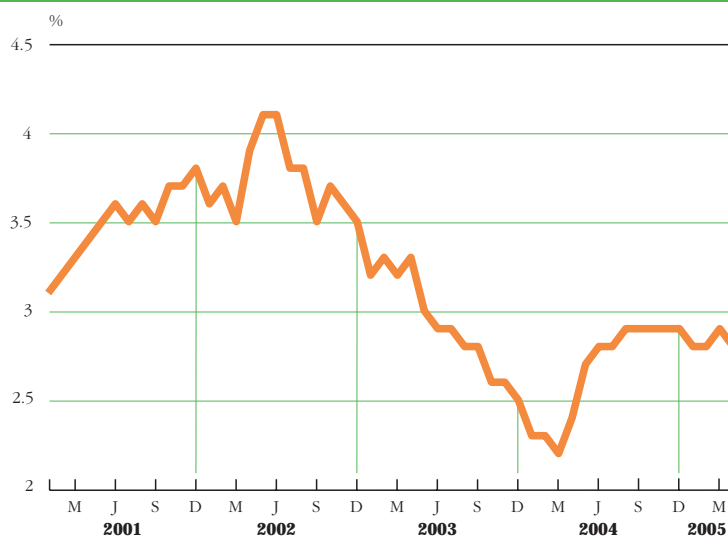
SOURCE: National Institute of Statistics.

Most unstable core of CPI responsible for worsening of inflation rate.

The increases in energy products and fresh foods were not as sharp although they were more negative for the CPI because of the difference in growth compared with the same month in 2004. The more volatile core of the CPI showed an increase in growth rate of 1.2 points in the month thus going to 6.8% year-to-year, once more playing a bad trick on inflation. In the case of energy, what set off the rise in April was the price of bottled gas, given that petrol and diesel fuel did not show any relevant increases. In the case of food, poultry and mutton played the worst roles.

UNDERLYING INFLATION CONTAINED

Year-to-year change in CPI excluding energy and unprocessed foods

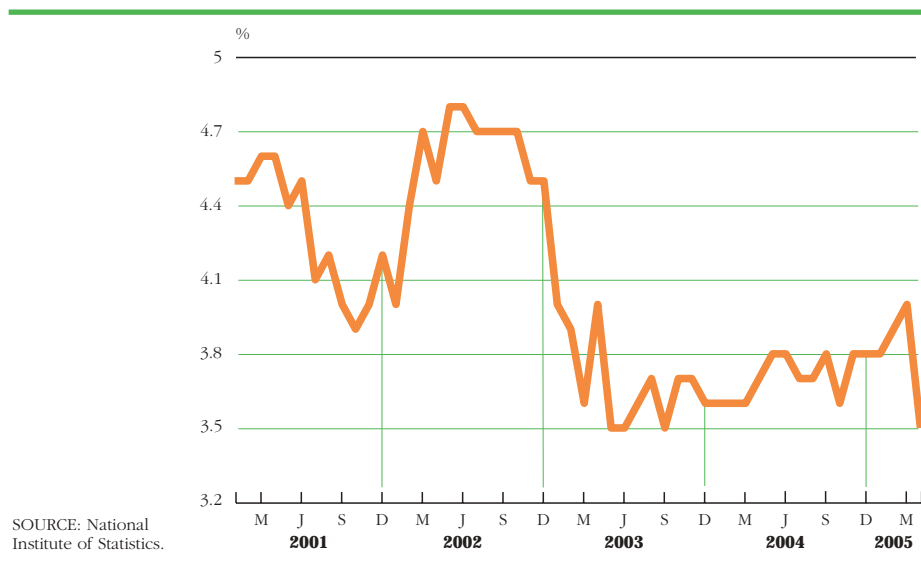


SOURCE: National Institute of Statistics.

Tobacco puts pressure on processed food component.

The performance of processed foods was also quite unfavourable, mainly because of the effect of a rise in tobacco which, with an increase of 11.8% year-to-year, raised annual growth of the processed food index to 4.3% thus breaking with the apparent trend to moderation seen in previous months. Non-energy industrial goods, on the other hand, held at a stable growth rate of 1.0% year-to-year.

SERVICES PRICES EASE IN APRIL
Year-to-year change in services component of CPI



Services prices show sharp drop in April although decrease not overly significant.

The positive note in April came in services which showed a sharp drop. Tourism and the hotel and restaurant trade, mainly hotel space and organized travel, brought a drop of a half-point in the group year-to-year rate putting it at 3.5%. This performance was due to the step-up effect arising from the different placing of Easter Week in the calendar. Complementing this was the moderation in telecommunications prices.

Inflation rate should gradually ease as of May if energy prices allow.

The rise in the April CPI continues to underline the high risk for inflation arising from the more volatile components of the index, that is, energy and fresh foods. There is no reason to think that this core of the CPI will continue to have such a negative effect in coming months unless there is a jump in crude oil prices or the euro weakens to a substantial degree, seeing that the trends in primary fresh food prices are not negative. Underlying inflation, although not without its difficulties, should continue to ease progressively, thanks to a possible moderation in processed foods (following the rise in tobacco) and some containment in services, taking into account the tight margin for reducing prices of non-energy industrial goods.

CONSUMER PRICE INDEX BY COMPONENT

April

	Indices (*)	% monthly change		% change over previous December		% annual change	
		2004	2005	2004	2005	2004	2005
By type of spending							
Food and non-alcoholic beverages	116.5	0.5	0.7	1.1	1.6	4.6	3.5
Alcoholic beverages and tobacco	120.0	0.1	3.2	0.5	3.5	1.3	8.6
Clothing and footwear	117.6	9.3	9.3	-0.5	-1.0	1.7	1.6
Housing	114.0	0.4	1.4	1.8	3.1	2.8	5.4
Household equipment	107.6	0.6	0.6	0.4	0.6	1.5	2.0
Health	105.8	0.3	0.5	-0.5	0.1	0.1	0.9
Transport	114.0	1.0	1.2	3.5	3.8	2.7	6.3
Communications	92.2	0.8	-0.1	0.5	-0.9	-0.8	-2.1
Recreation and culture	102.3	1.0	-0.9	0.2	-1.0	-0.3	-1.3
Education	117.0	0.0	0.0	0.5	0.5	4.0	4.2
Hotels, cafés and restaurants	118.5	0.7	0.4	2.3	2.2	4.0	4.0
Other	114.2	0.2	0.3	2.3	2.6	3.0	3.1
By group							
Processed foods	114.9	0.5	0.9	1.7	1.9	2.9	4.3
Unprocessed foods	120.8	0.3	1.1	-0.3	1.7	6.8	3.8
Non-food products	112.4	1.7	1.6	1.5	1.6	2.2	3.2
Industrial goods	109.3	2.6	2.9	0.9	1.2	0.9	3.0
<i>Energy products</i>	<i>113.7</i>	<i>1.3</i>	<i>2.6</i>	<i>3.9</i>	<i>5.8</i>	<i>1.4</i>	<i>9.6</i>
<i>Fuels and oils</i>	<i>117.1</i>	<i>1.7</i>	<i>3.6</i>	<i>4.7</i>	<i>7.3</i>	<i>1.5</i>	<i>12.5</i>
<i>Industrial goods excluding energy products</i>	<i>107.9</i>	<i>3.0</i>	<i>3.0</i>	<i>0.0</i>	<i>-0.2</i>	<i>0.7</i>	<i>1.0</i>
Services	116.0	0.7	0.2	2.2	2.0	3.7	3.5
Underlying inflation (**)	112.8	1.5	1.3	1.3	1.2	2.4	2.8
GENERAL INDEX	113.5	1.4	1.4	1.4	1.6	2.7	3.5

NOTES: (*) Base 2001 = 100.

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

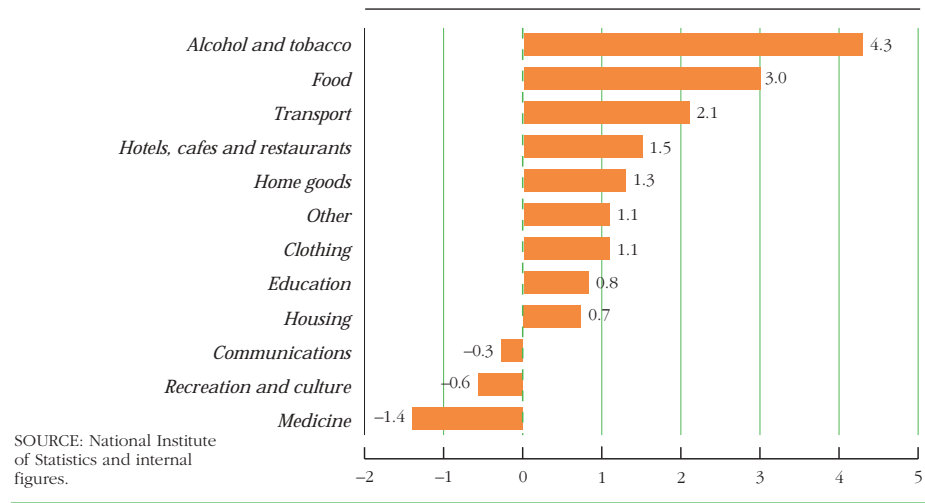
SOURCE: National Institute of Statistics.

Inflation differential with euro area increases by half- point in four months.

The inflation differential with the countries of the euro area continued on a trend to increase in April going to 1.4 points, according to the harmonized consumer price index (HCPI), that is to say, a half-point higher than at the end of 2004. By component, the biggest differential going against Spain (more than three percentage points) showed up in food, alcohol and tobacco. Next in line was transportation with more than two points.

MOST PRICES GROW MORE THAN IN EURO AREA

Differential in year-to-year change in HCPI components in percentage points



Incipient rise in prices at origin

Prices of non-energy intermediate goods have moderating effect on producer prices in April.

Producer prices moderated slightly in April following the gradual upward course taken in the first quarter. In any case, the growth rate stood at a still high 5.0% year-to-year. The slight improvement in the situation was due to the appreciable drop in prices of non-energy intermediate goods, mainly due to the course followed by metallurgical products which left far behind the growth rates of more than 20% seen in the middle of last year. The improvement was not as great as it might have been because energy prices went against it thus putting growth at 14.5%, that is to say, at the highest levels since the end of 2000.

Notable upward course in wholesale prices of consumer manufactures compensated by foods.

The situation in consumer goods and equipment turned out to be more stable with prices continuing to grow at relatively moderate rates (2.8% and 2.0% respectively), the same as in the month before. In the case of consumer goods, this stability came as the result of the compensation which has come about in recent months between food product prices (clearly on the way down) and other manufactures which, under the effect of increases in intermediate goods including energy, are definitely showing an upward orientation. This upward tendency can also be seen in capital goods although at more moderate levels.

Increases in import prices, mainly for oil.

Import prices also continued to be affected by the price of oil so that annual growth stood at a still very high 5.3% in March. The increase in non-energy products, on the other hand, held at lower levels (2.7%) while non-energy intermediate goods stood out at 5.6%. Prices of consumer goods stood at 2.6% although in this case the drop in foods was in contrast to the appreciable rise in other prices.

INFLATION INDICATORS

Percentage change over same period year before

	Farm prices	Producer price index					Import prices				GDP deflator (*)
		General index	Consumer goods	Capital goods	Intermediate goods	Energy goods	Total	Consumer goods	Capital goods	Intermediate goods	
2004											
January	4.4	0.7	2.1	1.3	1.4	-3.6	-4.1	-2.1	-3.4	-4.9	-
February	-2.6	0.7	2.1	1.3	2.0	-5.4	-4.3	-5.0	-3.0	-4.0	4.0
March	1.3	0.8	2.3	1.3	2.6	-5.6	-1.6	-1.2	-1.5	-1.6	-
April	3.3	2.6	2.9	1.3	3.7	1.2	0.2	-4.5	5.1	1.7	-
May	7.1	3.8	3.1	1.2	4.4	7.2	5.6	2.9	5.1	7.0	4.0
June	12.0	4.0	3.2	1.3	4.8	7.1	1.4	-2.9	3.2	3.3	-
July	11.2	4.1	2.8	1.6	5.3	7.2	3.8	5.0	-9.8	6.4	-
August	-5.4	4.4	2.2	1.7	5.7	9.0	6.8	4.4	-1.8	9.9	4.1
September	-10.4	4.6	2.1	1.6	5.9	11.0	5.4	0.8	-3.1	9.6	-
October	-5.1	5.4	2.3	1.8	6.2	14.2	5.2	1.7	-7.3	9.7	-
November	-0.4	5.2	2.2	1.5	6.3	12.6	4.6	1.8	-3.0	7.5	4.2
December	2.5	5.0	2.8	1.6	6.2	10.6	5.8	4.2	-3.7	9.4	-
2005											
January	8.4	4.8	3.2	1.8	6.2	8.8	5.0	3.4	-1.6	7.2	-
February	12.2	4.9	3.2	1.9	5.5	11.0	5.4	1.0	-1.9	9.3	4.2
March	...	5.1	2.8	2.0	4.9	13.1	5.3	2.6	-7.6	9.7	-
April	...	5.0	2.8	2.0	3.8	14.5	...	...	...	...	-

NOTES: (*) Gross figures corrected.

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

Farm prices jump in first two months of 2005.

Farm prices showed sharp increases in the first two months of the year boosted by agricultural products. In fact, in the January-February period these prices rose by 10.2% as against the 0.9% seen in the same period last year. The increase in agricultural products was much higher (16.0%) because of the harsh weather conditions seen in the period.

Gross domestic product deflator stabilizes at 4.2%, nearly one point above that for household consumption.

The delicate picture shown by the various indicators of prices at origin is also reflected in the gross domestic product deflator which in the first quarter of 2005 stood at 4.2% year-to-year, two decimals above that for the same period last year. By demand component, the biggest increase came in construction investment (8.2% year-to-year) and in imported goods (5.6%). The deflator for household consumption, in turn, stood at 3.3% in this period.

FOREIGN SECTOR

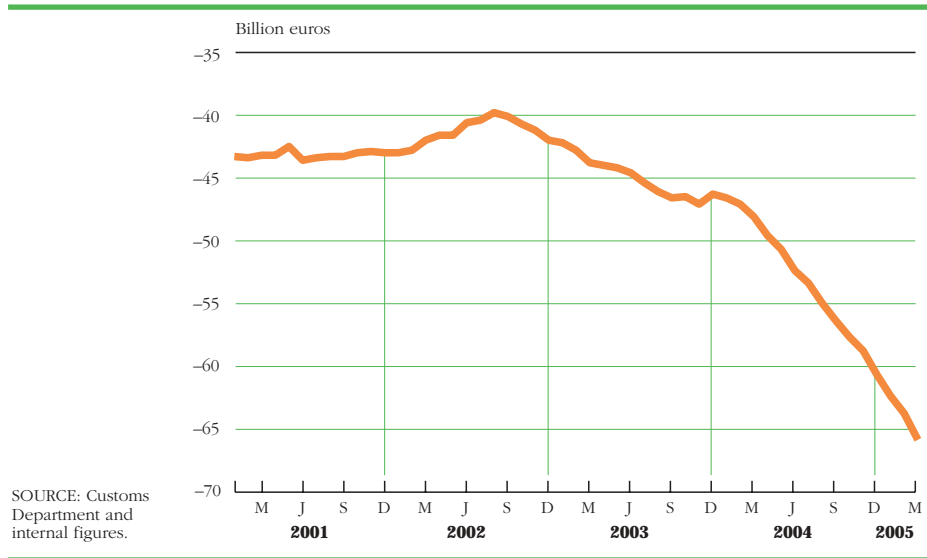
Trade deficit continues to increase in first quarter

Trade deficit up 45% in first quarter.

Spain's trade deficit again rose sharply in March as a result of the drop in exports and the continuing rise in imports. Nevertheless, the earlier date of Easter Week in 2005 may have distorted trade figures in that period downward. In any case, the upward trend in the trade deficit is continuing, given that in the first quarter the cumulative balance (16.8 billion euros) was 44.9% higher than the figure for the same period last year.

TRADE DEFICIT HIGH AND GROWING

Cumulative trade balance for 12 months



Imports maintain rise reflecting impact of oil bill.

Imports in the January-March period stood at 52.7 billion euros, an increase of 12.4% compared with the first quarter last year. The increase by volume was lower at 6.8% because of price increases (5.2%) partly attributable to the increases arising from oil. In the first three months of the year imported crude oil showed an average cost of 231.0 euros per tonne, 26.7% more than in 2004. On the other hand, non-energy imports rose by 3.1%.

Imports of capital good and non-food consumer goods show strongest drive.

The most dynamic component of purchases abroad showed up in capital goods and non-food consumer goods, thanks to purchases of engines and transportation equipment, in the first case, and cars, toys, clothing and footwear in the second group. Intermediate goods were also up moderately both in energy products and other goods, such as iron and steel. Food imports, on the other hand, dropped by 3.2% by volume.

FOREIGN TRADE
January-March 2005

	Imports			Exports			Balance	Export/ Import ratio (%)
	Million euros	% annual change in value	% share	Million euros	% annual change in value	% share	Million euros	
By product group								
Energy products	6,864	42.1	13.0	1,176	7.3	3.3	-5,688	17.1
Consumer goods	15,096	8.8	28.6	14,129	-3.5	39.3	-967	93.6
<i>Food</i>	<i>2,863</i>	<i>-1.6</i>	<i>5.4</i>	<i>4,962</i>	<i>0.2</i>	<i>13.8</i>	<i>2,099</i>	<i>173.3</i>
<i>Non-foods</i>	<i>12,233</i>	<i>11.3</i>	<i>23.2</i>	<i>9,167</i>	<i>-7.1</i>	<i>25.5</i>	<i>-3,066</i>	<i>74.9</i>
Capital goods	5,732	23.3	10.9	2,857	-6.6	8.0	-2,875	49.8
Non-energy intermediate goods	25,043	6.4	47.5	17,768	7.7	49.5	-7,275	70.9
By geographical area								
European Union (EU-15)	32,407	10.5	61.5	26,746	4.8	74.4	-5,661	82.5
<i>Euro area</i>	<i>27,983</i>	<i>9.3</i>	<i>53.1</i>	<i>22,132</i>	<i>3.8</i>	<i>61.6</i>	<i>-5,852</i>	<i>79.1</i>
Other countries	20,328	15.6	38.5	9,183	-6.1	25.6	-11,145	45.2
<i>Russia</i>	<i>1,236</i>	<i>96.9</i>	<i>2.3</i>	<i>215</i>	<i>8.6</i>	<i>0.6</i>	<i>-1,020</i>	<i>17.4</i>
<i>United States</i>	<i>1,718</i>	<i>-5.2</i>	<i>3.3</i>	<i>1,251</i>	<i>-6.0</i>	<i>3.5</i>	<i>-468</i>	<i>72.8</i>
<i>Japan</i>	<i>1,540</i>	<i>13.4</i>	<i>2.9</i>	<i>272</i>	<i>-18.4</i>	<i>0.8</i>	<i>-1,268</i>	<i>17.7</i>
<i>Latin America</i>	<i>2,016</i>	<i>20.6</i>	<i>3.8</i>	<i>1,581</i>	<i>-0.4</i>	<i>4.4</i>	<i>-435</i>	<i>78.4</i>
<i>OPEC</i>	<i>3,616</i>	<i>26.9</i>	<i>6.9</i>	<i>837</i>	<i>10.5</i>	<i>2.3</i>	<i>-2,780</i>	<i>23.1</i>
<i>Rest</i>	<i>10,202</i>	<i>10.1</i>	<i>19.3</i>	<i>5,027</i>	<i>-9.8</i>	<i>14.0</i>	<i>-5,175</i>	<i>49.3</i>
TOTAL	52,735	12.4	100.0	35,930	1.8	100.0	-16,805	68.1

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

Rise in purchases from third countries, especially oil, with bigger drop in imports from EU.

By geographical area, purchases from the European Union (EU-25) rose 4.2% by volume, while those from the rest of the world showed an increase in growth rate to 11.3%. These purchases were due to the strength of imports from Asia, particularly from China and Japan, as well as those from the former Soviet Union and the Middle East, in both these cases mainly because of oil.

Exports down in most markets although biggest drop shows up in markets outside EU.

Exports in the first quarter amounted to 35.9 billion euros, 1.8% more than in the same period in 2004. This increase was entirely due to prices which, with an increase of 5.1%, compensated for the real decrease of 3.1%. By large geographical areas, there was a general drop in volume, something especially notable outside the EU-25 where sales were down 4.3%. Within the EU, on the other hand, there were appreciable differences by country with some strength being shown in the French and

German markets, in contrast to the weakness of the Italian, British and Benelux markets. Outside the EU, the poorest results showed up in Latin America (except Mexico) and Japan with decreases also reported in China and the Middle East.

Intermediate goods escape downward trend.

By product type, the decline in foreign sales was general with the exception of intermediate goods which maintained a small increase attributable to the strength in sales of iron and steel. The biggest weakness came in foreign sales of capital goods which were affected by the significant drop in sales of transportation equipment. In consumer goods, there were notable decreases in foreign sales of motor vehicles and footwear. Finally, sales of food products were also down sharply, probably reflecting the impact of unfavourable weather conditions in the first two months of the year.

Current account deficit remains at very high levels

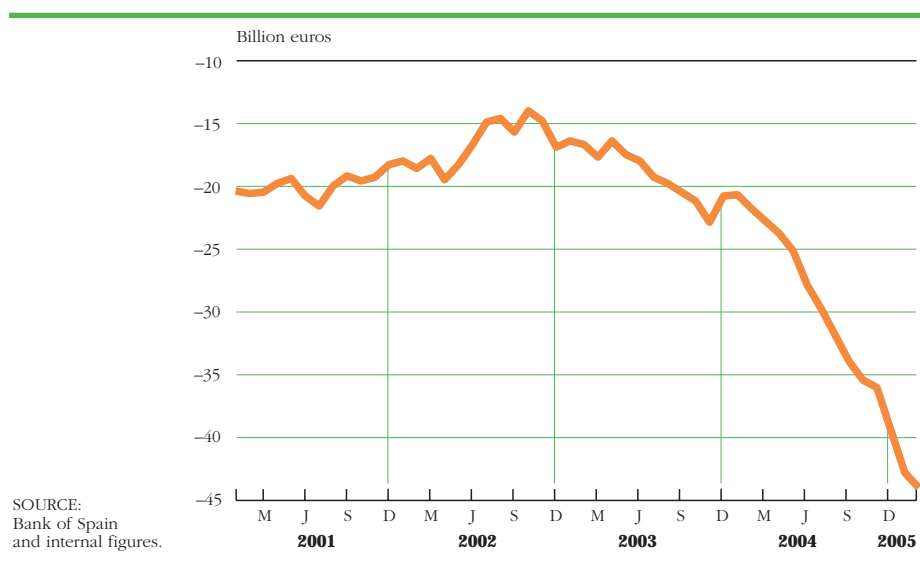
Further increase in current account deficit in February.

The current account balance in February showed a deficit of 3.2 billion euros, some 65.3% higher than in the same month in 2004. The increases in the trade deficit and the incomes deficit were decisive in this regard completely wiping out improvements in the services and transfers balances. As a result, the foreign imbalance for the past 12 months amounted to 44.14 billion euros, that is to say, 5.3% of the gross domestic product.

Trade deficit is main cause of increase but other headings also contribute.

The sharp worsening of the situation in the past 12 months (the deficit has doubled compared with the equivalent figure in January 2004) was mainly due to the increase in the trade imbalance which contributed 72% of the total increase in the deficit. The rest showed up in the incomes heading and, to a lesser extent, in services and transfers.

CURRENT ACCOUNT DEFICIT: INCREASING AT SHARP RATE
Cumulative current account balance for 12 months



Stagnant tourist revenue inflows and increase in payments mean drop in surplus under this heading.

The services surplus (25.3 billion euros in the past 12 months) was down by 7.3% compared with the year before, being adversely affected by a tourist balance which has been dropping because of the increase in payments in a situation of stagnation in revenue inflows. In addition, the transfers balance, which traditionally has been positive, has seen a turnaround to negative figures because of lower net transfers from the European Union and remittances abroad by foreign workers resident in Spain.

BALANCE OF PAYMENTS

Cumulative figure for last 12 months in million euros

	February 2004	February 2005	% change
Current account balance			
Trade balance	-38,715	-54,900	41.8
Services			
<i>Tourism</i>	<i>29,621</i>	<i>28,203</i>	<i>-4.8</i>
<i>Other services</i>	<i>-2,302</i>	<i>-2,881</i>	<i>25.1</i>
Total	27,319	25,323	-7.3
Income	-10,363	-14,058	35.7
Transfers	-29	-511	-
Total	-21,787	-44,146	102.6
Capital account	7,727	8,384	8.5
Financial balance			
Direct investment	207	-25,548	-
Portfolio investment	986	80,853	-
Other investment	18,633	3,180	-82.9
Total	19,826	58,485	195.0
Errors and omissions	-6,011	-5,654	-5.9
Change in assets of Bank of Spain	245	-17,069	-

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.

Transfers from EU sustain capital balance.

The capital balance, in turn, showed a surplus in February that was substantially lower than in the same month last year. In spite of this, the cumulative balance for the past twelve months stood at 8.4 billion euros, some 8.5% above the same period in 2004. This improvement may largely be attributed to funds coming from the European Union, in spite of the notable increase in payments.

Recovery in direct Spanish investment abroad.

Financial account, excluding Bank of Spain transactions, showed net entries of 11.8 billion euros in February so that the cumulative positive balance for the past 12 months amounted to 58.5 billion euros, nearly three times more than in the same period last year. The easing off in the drop of direct foreign investment in Spain, along with the lower volume of portfolio investment, had an influence on this result. In addition, direct Spanish investment abroad made a strong recovery while portfolio investment continued to drop sharply.

PUBLIC SECTOR

Surplus in central government accounts as of April

Tax collections up 11% in first four months of year.

Central government non-financial revenue rose by 11.1% in the first four months of 2005 to reach 49.5 billion euros. This figure does not include those segments of personal income tax and the greater part of indirect taxes ceded to the autonomous communities and local government so that it is of little significance as an indicator of the resources available to the government through general taxes. If those revenues ceded are included, tax collections amounted to 63.3 billion euros, some 10.5% more than in the same period in 2004.

CENTRAL GOVERNMENT BUDGET IMPLEMENTATION April 2005

	Month		Cumulative for year	
	Million euros	% change over same month year before	Million euros	% change over same month year before
Non-financial revenue	18,510	7.0	49,529	11.1
Non-financial revenue adjusted (*)				
Personal income tax	7,054	11.0	22,249	13.1
Corporate tax	4,552	12.6	5,406	30.0
VAT	7,587	10.6	24,476	16.3
Special taxes	1,478	-2.8	5,758	2.3
Other	1,273	-25.2	5,375	-20.2
Total	21,944	7.2	63,264	10.5
Non-financial spending	8,360	12.5	42,390	14.6
Treasury balance	10,150	2.8	7,139	-5.8
Surplus (+) or deficit (-) (**)	9,277	3.1	12,417	23.2

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.

Increase in collections for direct taxes based on corporate tax and personal income tax.

The increase in tax collections was based both on direct and indirect taxes. The former grew by 14.9% in the first four months of the year due to the increase in corporate tax as a result of the overall amount of first partial payments. The increase in revenues coming from personal income tax amounted to 13.1%.

Revenue from indirect taxes up thanks to VAT with collections favoured by rise in imports.

Revenues from indirect taxes, in turn, were up 13.4% compared with the first four months in 2004, value added tax being the main source with an increase of 16.3%. Growth was especially high in collections for import transactions (up 18.1%) as a result of the increase in the value of purchases abroad, particularly in the case of oil. This factor also affected revenues from foreign trade, that is to say, those arising from duties on imports from countries not belonging to the European Union, which were up 22.3%. Notable among other indirect taxes was the increase in revenues arising from tax on alcohol and alcoholic beverages (up 16.6%) and, at the opposite end of the scale, from the tax on fuels (up 0.6%) due to the effect of a reduction in consumption attributable to the rise in fuel prices.

Government property earnings down while fees up moderately.

Apart from tax sources, fees and public service prices rose by 5.3%, as opposed to earnings on government property which were down sharply. Current transfers and particularly capital transfers also dropped sharply in the first four months of the year.

Central government non-financial spending up 15% with interest heading showing biggest increase.

Central government non-financial spending, in turn, rose by 14.6% to total 42.4 billion euros. This figure does not include the balancing entry for those revenues corresponding to the tax segments ceded to the autonomous communities and this becomes difficult to interpret because of the lack of homogeneity of the figures. The increase in spending was due both to current and capital transactions. In the former case, the biggest spending amounts showed up in financial spending and current transfers. In the second case, there was a notable increase in real investments.

Treasury surplus in first four months of year down slightly while positive balance also shows up in National Accounts.

The cumulative central government Treasury balance, that is of the difference between non-financial revenues and spending, as of April was positive in the amount of 7.1 billion euros, although this was 5.8% lower than in the same period last year. This surplus, which was partly compensated by the net increase in financial assets, gave place to a surplus of 691 million euros which was in contrast to the deficit in the same period last year. In terms of National Accounting, the budgetary balance was also positive in the amount of 12.4 billion euros and well above the figure for the same period in 2004.

SAVINGS AND FINANCING

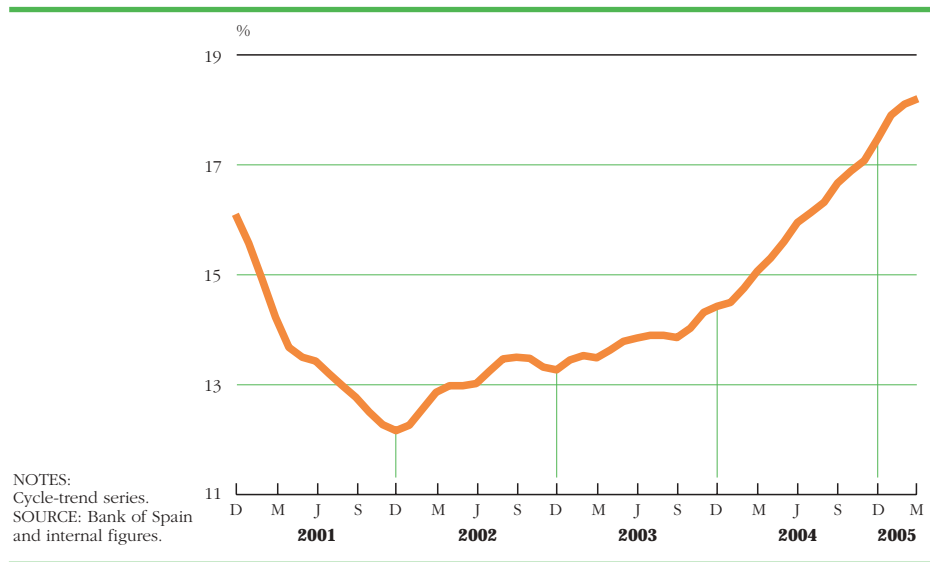
Credit to private sector increasing at sharp rate

Bank credit to private sector records highest annual growth since beginning of 1990.

Bank credit to the private sector rose by 18.7% in March 2005 compared with the same month last year. This rate was 8 decimals higher than that recorded in February and the highest since the beginning of 1990. Furthermore, this rate is more than twice that for the euro area as a whole. Demand for bank credit by companies and households continues to be driven by the good state of the economy and favourable borrowing terms, with very low interest rates.

GROWTH OF CREDIT TO COMPANIES AND HOUSEHOLDS AT PEAK

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



Savings banks continue to gain market share in loans.

The savings banks continued to record higher annual change rates than banks in this market segment with the result that they continued to gain market share. Nevertheless, the banks reduced the gap in terms of growth rate. As a result, the savings banks moved up by 21.5% in the past twelve months compared with 16.7% for banks.

Mortgage loans increasing at high rate although some signs of easing noted.

The growth of bank credit to the private sector continued to be based on mortgage loans. These loans continued to increase at a sharp rate although showing some signs of easing off. Mortgage loans granted by banks and savings banks rose by 23.5% in March 2005, a half-point less than in the month before. Growth of household incomes, demographic factors and easy financing terms are driving demand for mortgage loans. In addition, leasing, which goes to finance the acquisition of capital goods and fixed assets by companies and self-employed professionals, was also up notably with a year-to-year increase of 16.4%.

CREDIT TO COMPANIES AND HOUSEHOLDS

March 2005

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
Trade credit	63,956	3,707	6.2	10,355	19.3	6.5
Secured loans (*)	573,689	28,771	5.3	107,604	23.1	58.0
Other term loans	288,730	7,919	2.8	30,250	11.7	29.2
On-demand loans	23,839	884	3.9	3,098	14.9	2.4
Leasing	30,422	1,140	3.9	4,297	16.4	3.1
Doubtful loans	7,850	366	4.9	148	1.9	0.8
TOTAL	988,485	42,788	4.5	155,751	18.7	100.0

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

Default rate close to all-time low.

Total doubtful loans was up slightly in March. Nevertheless, the default rate at credit institutions dropped to 0.79%, close to the all-time low in recent years recorded in December. In addition, the default rate at banks and savings banks (excluding other credit institutions) stood at 0.67%, which was also close to the all-time low in December.

Slight increase in bank loan rates in March...

Bank loan interest rates generally rose slightly in March. As a result, the composite rate for loans and credit to the private sector rose by 5 basis points compared with the low recorded the month before with the rate standing at 3.88%, some 7 basis points lower than 12 months earlier. The composite interest rate charged to households rose by 10 basis points to 4.26%, some 3 basis points less than in March 2004. The composite rate for non-financial companies rose by one basis point to 3.48%, some 11 basis points lower than one year earlier.

...while housing loan interest rate eases a touch in April.

On the other hand, the interest rate on mortgage loans for more than a 3-year term for purchase of non-subsidized housing for credit institutions as a whole dropped very slightly in March going down 2 basis points to 3.33%. As a result, it stood 5 basis points above the same month last year.

Bank deposits of companies and households grow at highest rate in recent years

Bank deposits of companies and households rise by 15% in past 12 months.

Total deposits of the resident private sector in euros and foreign currency rose by 15.3% in March 2005 compared with the same month last year, 2.7 points more than in February, and marked up the highest growth rate since at least the beginning of the Nineties. Nevertheless, the rise in the past 12 months (99.3 billion euros) was considerably lower than the increase in loans. To balance this difference, credit institutions carried out share issues and securitizations as well as having recourse to the foreign market.

DEPOSITS OF COMPANIES AND HOUSEHOLDS AT CREDIT INSTITUTIONS

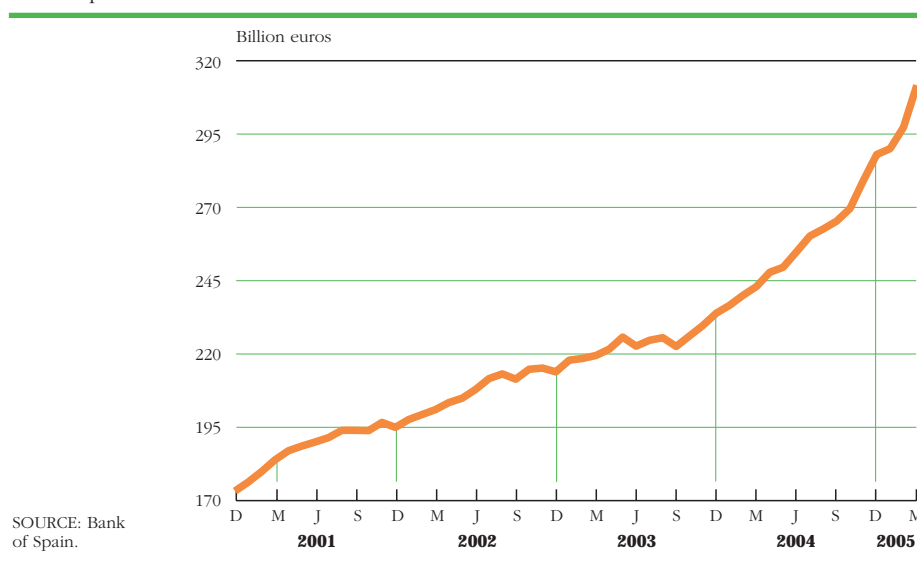
March 2005

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
On-demand	193,910	6,771	3.6	22,456	13.1	26.0
Savings (*)	158,947	1,012	0.6	13,852	9.5	21.3
2-year term	168,828	8,361	5.2	13,957	9.0	22.6
More than 2-year term	142,794	15,326	12.0	54,973	62.6	19.1
Repos	75,913	-4,569	-5.7	-7,222	-8.7	10.2
Total	740,392	26,902	3.8	98,016	15.3	99.2
Deposits in currencies other than euro	6,223	376	6.4	1,288	26.1	0.8
TOTAL	746,615	27,278	3.8	99,304	15.3	100.0

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

TIME DEPOSITS SHOWING STRONG GROWTH

Time deposits at credit institutions



Time deposits for more than two-year term up 63% in past year.

By type of deposit, the biggest annual increase (62.6%) showed up in time deposits for more than a 2-year term which enjoy a 40% tax benefit on interest. Deposits in currencies other than the euro also showed a major year-to-year rise of 26.1%. Nevertheless, on-demand accounts, which were up 13.1%, continued to hold the biggest share of the total at 26.0%. On the other hand, total repos showed an annual drop of 8.7%.

Bank deposit interest rates down very slightly in March.

With regard to bank deposit interest rates obtained by companies and households, these were down very slightly in March. The composite interest rate for non-financial companies held at 1.21% thus standing 6 basis points above 12 months earlier. On the other hand, the composite interest rate for households was down by 2 basis points in March going to 1.13%, some 2 basis points above 12 months earlier.

Assets of securities mutual funds up 6% in 12 months ending April.

On the other hand, the assets of securities mutual funds rose by 1.1 billion euros in April going to 225.80 billion euros, a year-to-year increase of 6.1%. This rise was due to net share purchases (deducting sales) of 1.48 billion euros, given that the month brought capital losses as a result of the negative trend in the stock markets. Net inflows of new money in April were concentrated in bond-based funds, both short-term and long-term, and in guaranteed funds. The biggest outflows showed up in some types of international share-based funds. In the first four months of the year, net share purchases of securities mutual funds amounted to 5.56 billion euros, concentrated in short-term bond-based funds and share-based guaranteed funds.

Average annual yield on securities mutual funds at 2.6%.

The average weighted yield on securities mutual funds in the past 12 months was 2.6%. Nearly all types of securities mutual funds obtained positive annual yields with the exception of share-based funds of United States and Japan. Over the past five years, the average yield of securities mutual funds was 7.6%.

Volume of pension fund assets up 12% year-to-year in March.

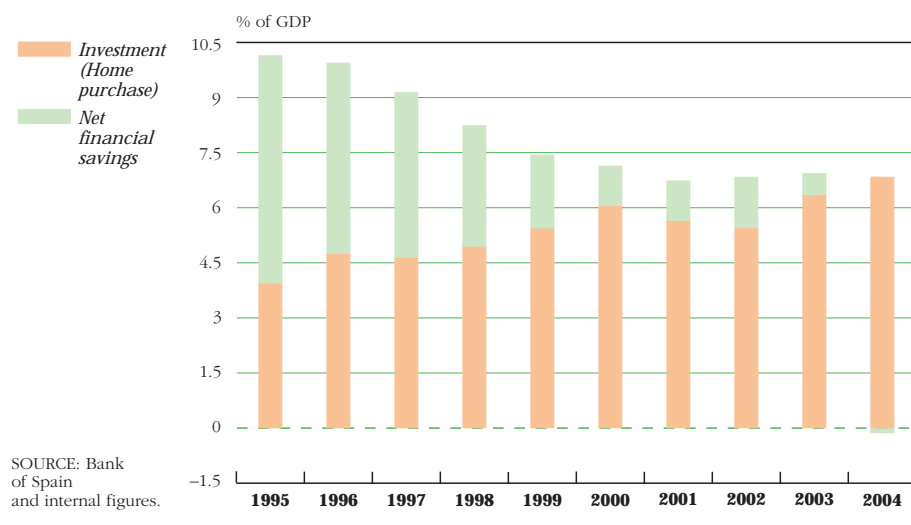
In another sphere, the volume of pension fund assets at the end of the first quarter of 2005 amounted to 63.99 billion euros. This figure meant an increase of 11.9% year-to-year, according to Inverco, the sector organization. By type of plan, the assets of individual pension funds rose by 16.6% in the past 12 months while employee funds were up 5.8% and associate funds rose by 5.5%. In the past 12 months the number of participants in employee funds showed sharp growth of 84.2%, thus increasing to 1.28 million due to the incorporation of participants arising from the new pension plan for central government public servants. Average annual weighted yield was 4.0%. Employee plans recorded an average yield of 4.8% while associate plans showed 5.9%.

Considerable increase in household indebtedness in 2004

Savings rate of households stays at low levels...

Disposable income of households (which includes non-profit institutions serving households, that is, religious institutions, social welfare organizations, trade unions, etc.) rose by 6.5% in 2004, according to estimates by the National Institute of Statistics. Seeing that household consumption rose slightly more (6.6%) that same year, household savings (which is obtained by deducting consumption from income) held at the low levels seen in previous years. As a result, the savings rate, measured as the quotient between savings and disposable income, fell by one decimal to stand at 10.5%, close to the low in 2001. One of the main reasons for this performance was very low interest rates (the European Central Bank reference rate stands at the lowest level in recent decades), which remove the incentive to save and help stimulate consumption.

HOUSEHOLD FINANCIAL SAVINGS SHOWS NEGATIVE FOR FIRST TIME Destination of savings of households and non-profit institutions serving households



...while heavy investment in housing means that net financial savings of households shows negative for first time.

Net financial savings of households, which represents that part of savings left after spending on investment (mainly home purchase), was negative for the first time since the Bank of Spain has been recording separate financial accounts for households. This came about because of the major investment carried out by households along with a low level of savings. As a percentage of the gross domestic product (GDP), negative net financial savings of households represented 0.1% as against a positive

figure of 0.6% in 2003 and 6.2% in 1995. As a result, households are no longer a source of financing for other sectors of the economy (businesses, public sector, etc.). Financing from abroad thus reached record levels and Spain's current account deficit recorded all-time highs.

Per capita financial assets stand at 31,049 euros, 7% more than in 2003.

On the other hand, financial savings of households show up in the net acquisition of financial assets less net financial liabilities assumed. Value of the financial assets portfolio at market value in 2004 stood at 1,370 billion euros, an annual increase of 9.2%, representing 171.0% of the GDP, 3 points more than in the year before. Per capita, financial assets came to 31,049 euros, some 7.2% more than in 2003. The trend in the assets portfolio of households is given below, followed by the trend in liabilities.

NET FINANCIAL WEALTH OF HOUSEHOLDS (*)

	2004			Annual change		Change over 5 years	
	Million euros	Structure as %	% of GDP	Million euros	As percentage	Million euros	As percentage
Financial assets							
Cash	70,949	5.2	8.9	11,666	19.7	17,610	33.0
Deposits	472,623	34.6	59.2	31,895	7.2	151,077	47.0
Securities other than shares	39,013	2.9	4.9	431	1.1	14,161	57.0
Shares and mutual fund units	525,970	38.5	65.9	49,142	10.3	50,160	10.5
Insurance technical reserves	206,388	15.1	25.8	15,410	8.1	82,962	67.2
Other	50,467	3.7	6.3	6,009	13.5	16,627	49.1
Total	1,365,410	100.0	171.0	114,554	9.2	332,598	32.2
Financial liabilities							
Loans	530,350	89.1	66.4	86,600	19.5	282,699	114.2
Other	64,833	10.9	8.1	2,001	3.2	12,708	24.4
Total	595,183	100.0	74.5	88,601	17.5	295,407	98.5
Net financial wealth	770,227	-	96.4	25,953	3.5	37,191	5.1

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

Share of bank deposits in portfolio of individuals down 6 decimals to 35%.

Net acquisitions of bank deposits amounted to 34.5 billion euros. These were the biggest of all types of financial asset in 2004, without taking into consideration increases in value. Of this increase some 8.87 billion euros was for on-demand accounts and 25.6 billion euros was for other deposits, mainly savings and time deposits. Total bank deposits stood at 472.6 billion euros, an increase of 7.2%. As a result, the share of these deposits was down by 6 decimals going to 34.6%. In addition, as a percentage of the GDP, they stood at 59.2%.

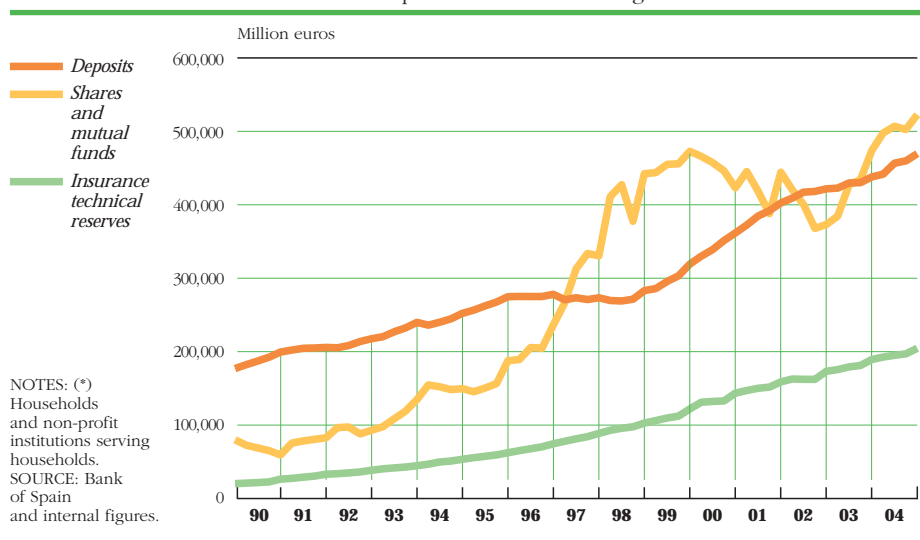
**Short-term bonds
down by 10%.**

Securities other than shares rose by only 1.1% in 2004. This performance came about as a result of the drop of 10.1% in short-term securities, such as Treasury notes and bills, and a rise of 2.0% in long-term securities, such as bonds. As a result, the share of fixed-income securities in the total dropped to 2.9%. At the same time, with regard to the GDP, they were down by 0.3 points going to a level of 4.9%.

**Sales of listed shares
held directly by
households in 2004
exceed purchases.**

The share portfolio, including units held in mutual funds, was up by 10.3% putting the share of the total up to 38.5%. Listed shares held directly by households rose by 12.3% although this increase was due to capital gains from the rise in stock market prices, given that sales of listed shares were greater than purchases for the second year in a row. The value of non-listed shares was up by 12.1%. The segment made up of listed shares came to 8.2% of the total while unlisted shares went to 13.6%.

SHARE PORTFOLIO CONSOLIDATES LEADING POSITION
Financial assets of households and non-profit institutions serving households (*)



**Recovery of mutual
funds units held
consolidated.**

Units held in mutual funds showed a consolidation of the recovery begun in 2003 to stand at 168.8 billion euros, an increase of 10.0%. Nevertheless, these still stood below levels at the end of the Nineties. The share of the total rose slightly to 12.4%. With regard to the GDP, units held in mutual funds rose by a half-point to 21.1%.

**Pension funds
now make up 6%
of financial asset
portfolio.**

Products linked to insurance policies increased at an annual rate of 8.1%. As a result, their share dropped slightly to 15.1%. In relation to the GDP, they rose by 2 decimals and came to represent 25.8%. By type of insurance, life policies were up by 5.4% with a share of 7.4% of the portfolio. Insurance other than life amounted to 8.2% with a share of the total at 1.4%. Pension funds were up by 11.3% and came to represent 6.3% of the total.

Extraordinary 20% annual rise in cash held.

Finally, cash held was the heading to show the biggest increase in 2004 with a rise of 19.7%. As a result, its relative weight in the total increased to 5.2%. With regard to the GDP, the percentage rose by 0.9 points to 8.9%, which nevertheless put it below levels in the mid-Nineties when it was above 10%. Low interest rate levels have further decreased, among other reasons, because of the cost of having to maintain cash on hand.

Indebtedness stands at 13,534 euros per capita, 15% more than in 2003.

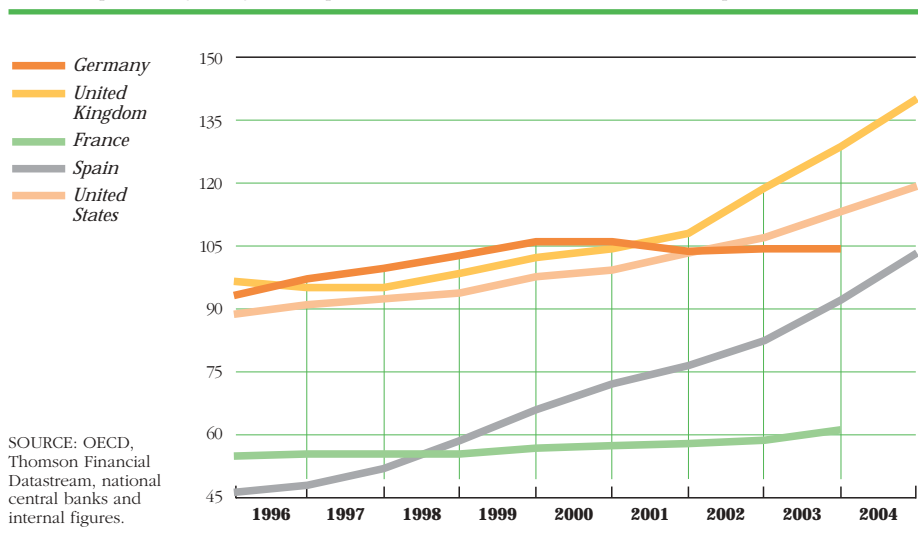
Household indebtedness at the end of 2004 stood at 595.18 billion euros, which meant 13,534 euros per capita, some 15.4% more than in the year before. The sharp increase in indebtedness was stimulated by easy financing terms, with very low interest rates, even negative in real terms, that is, discounting inflation, and a favourable economic climate showing considerable job creation. In relative terms, household indebtedness rose to 43.6% of financial assets, some 3.1 points more than the year before, and went to 74.5% of the GDP, some 6.5 points more than one year earlier. These indicators reached the highest levels in recent years.

Loans make up 104% of gross disposable income of households...

The greater part of financial liabilities of households is made up of loans which accounted for 89.1% of the total in 2004. Loans rose by 19.5% in one year. Of these loans, short-term loans were up 10.3% while long-term loans, mainly for home purchase, rose by 20.1%. The rise in real estate prices tended to favour an increase in debt to the extent that it provided higher collateral for loans. In terms of gross disposable household income, loans went above the 100 level for the first time in recent years.

RAPID RISE IN INDEBTEDNESS OF SPANISH HOUSEHOLDS

Loans as percentage of gross disposable income of households and non-profit institutions



...far from euro area average.

To complete this analysis it may be useful to compare these levels of indebtedness with international ratios, in spite of the fact that they must be taken with caution. Loans contracted by households in Spain reached 103.7% of gross disposable income in 2004, far from the euro area average at around 90%, with a level similar to Germany. The indebtedness of Spanish households has shown a spectacular progression in the past decade, as may be seen from the accompanying graph, although it stands notably below the United Kingdom and the United States.

Net financial wealth of households drops in relation to GDP...

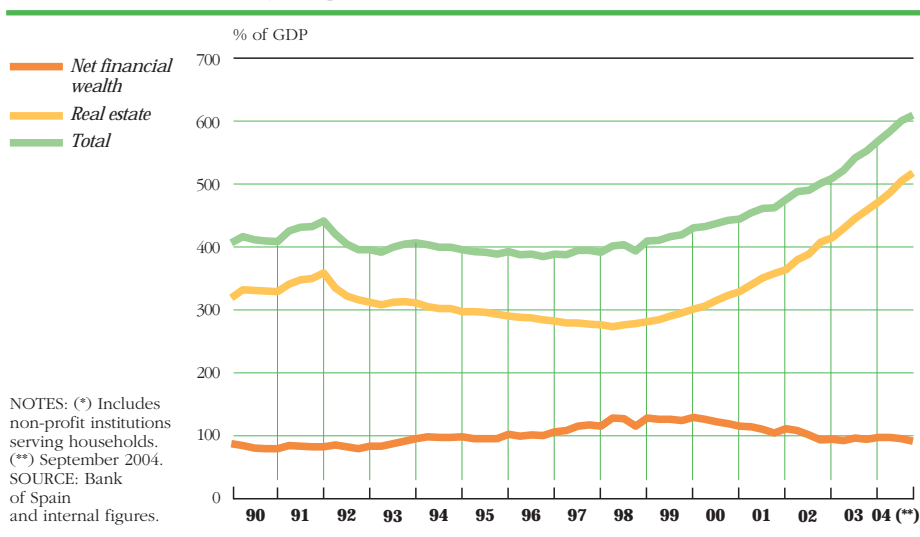
Net financial wealth of households, defined as their financial assets less their financial liabilities, amounted to 770.2 billion euros in 2004, an all-time high in absolute terms. Nevertheless, it dropped in terms of the GDP. This decrease may be explained, among other reasons, by negative net financial savings. In per capita terms, net financial wealth amounted to 17,515 euros, an increase of 1.7%, that is, a slight drop in real terms.

...but total, including real estate property, stands at high levels.

The net property of households affects their borrowing capacity and decisions on household consumption and savings. Nevertheless, as well as net financial wealth real estate property must be taken into account. In fact, real estate assets show one of the highest proportions of total wealth of individuals among the countries making up Spain's neighbours. The main value of real estate property of Spanish households consists of housing. As a result, given housing prices at all-time highs and the increase in housing stock, the real estate wealth of Spanish households rose to 521% of the GDP at the end of September 2004, according to Bank of Spain figures. Total wealth of Spanish households measured in terms of the GDP marked up a high of 613% at the end of the third quarter of last year.

BIG INCREASE IN WEALTH OF HOUSEHOLDS THANKS TO REAL ESTATE PROPERTY

Wealth of households (*) by component



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