THE SPANISH ECONOMY:

MONTHLY REPORT

JULY-AUGUST 2005

No. 282 **Contents**

1 **Economic outlook**

2 **Economic situation**

6 **International review**
6 United States
9 Japan
11 Brazil
13 Argentina
16 Switzerland
18 Raw materials

20 **European Union**
20 Euro area
23 Germany
24 France
25 Italy
26 United Kingdom

28 **Financial markets**
28 Monetary and capital markets

40 **Spain: overall analysis**
40 Economic activity
44 **Agriculture**
47 Labour market
49 ***Revision of registered unemployment***
51 **Wages**
54 Prices
60 Foreign sector
63 ***Revision of balance of payments***
66 Public sector
68 Savings and financing

73 **Special reports**
73 **Farm sector**

Euro area: economic activity at low ebb in first half of 2005

Endemic weakness in domestic demand now joined by lower level of exports. **Page 20**

European stock exchanges mark up highs for recent years in June

Poor stock market results in first four months of year made up for in May and June. **Page 36**

Economic activity continues strong growth

Strength of domestic demand in consumption and investment holding up. **Page 40**

Wage increases contained

Wage costs per person per month grow below inflation, according to quarterly survey of labour costs. **Page 51**

Trade deficit growing

Deficit increasing at rate above 40% compared with last year. **Page 60**

SPECIAL REPORTS

Development and change in farm sector

Changes in CAP and international environment pose challenges to sector with substantially improved productivity and foreign competitiveness. **Page 73**

Research Department

"la Caixa"

Forecast

% change over same period year before unless otherwise noted

	2003	2004	2005	2004 1st Qtr.	2004 2nd Qtr.	2004 3rd Qtr.	2004 4th Qtr.	2005 1st Qtr.	2005 2nd Qtr.	2005 3rd Qtr.
INTERNATIONAL ECONOMY			Forecast						Forecast	
Gross domestic product										
United States	3.0	4.4	3.6	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	0.9	1.5	1.7
United Kingdom	2.2	3.1	2.3	3.0	3.6	3.1	2.9	2.7	2.3	2.3
Euro area	0.7	1.8	1.3	1.5	2.1	1.8	1.6	1.3	1.2	1.3
Germany	*0.0*	*1.0*	*1.0*	*1.1*	*1.4*	*1.2*	*0.5*	*1.1*	*0.9*	*1.0*
France	*0.9*	*2.1*	*1.6*	*1.7*	*2.7*	*1.9*	*2.1*	*1.7*	*1.5*	*1.7*
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	0.0	0.2
United Kingdom	2.8	2.2	2.1	2.3	2.2	2.1	2.3	2.2	2.2	2.2
Euro area	2.1	2.1	2.1	1.7	2.3	2.2	2.3	2.0	2.0	2.2
Germany	*1.0*	*1.7*	*1.6*	*1.0*	*1.9*	*1.9*	*1.9*	*1.7*	*1.7*	*1.6*
France	*2.1*	*2.1*	*1.7*	*1.8*	*2.4*	*2.3*	*2.1*	*1.7*	*1.7*	*1.7*
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
Capital goods	*1.9*	*2.1*	*10.7*	*–2.5*	*–1.6*	*5.1*	*7.3*	*10.5*	*10.6*	*10.9*
Construction	*6.2*	*5.5*	*6.2*	*6.0*	*5.4*	*5.2*	*5.3*	*6.1*	*6.2*	*6.3*
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	3.2	2.2	3.2	3.3	3.4	3.2	3.2	3.2
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	4.4	4.0	4.6	4.3	4.2	4.3	4.2	4.3
10-year German bonds	4.1	4.1	3.5	4.1	4.2	4.1	3.8	3.6	3.3	3.4
10-year Spanish bonds	4.1	4.1	3.5	4.1	4.2	4.2	3.8	3.6	3.3	3.4
Exchange rate										
$/Euro	1.13	1.24	1.25	1.25	1.20	1.22	1.30	1.31	1.26	1.21

"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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July-August 2005

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

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ECONOMIC OUTLOOK FOR 2005

Following a first half with solid growth, **the world economy faces the second half of 2005 under the threat of high-cost oil**. In fact, crude oil prices at close to sixty dollars, the volatility of price and the suspicion that it could hold at these levels in coming months poses some risk for the world economy which could bring about a slowdown in economic growth rate. On the other hand, fears of an outbreak of inflation from the effect of crude oil prices are scarcely contemplated, given strong international competition in industrial manufactures and the ability of most economies to absorb cost increases.

The US economy continues to be affected by the trade deficit but is **still showing an enviable pace** which is making possible growth of around 3.5% in 2005, thanks to vigorous domestic demand and good corporate profits. Japan is showing a modest performance with growth slightly above 1%. China is maintaining solid progress combined with moderate inflation.

The euro area may suffer very directly the impact of the rise in oil which this time is combined with the strength of the dollar within a dynamic of growth that continues to be based on the contribution from the foreign sector. Forecasts point to **growth of 1.3% in 2005**, in line with the rate of economic activity recorded in the first quarter. Prospects on prices are more positive with growth of below 2% expected in 2005.

The US Federal Reserve will continue to raise official interest rates in the second half-year although the **pattern of stepped increases begun one year ago may be wearing out**. In turn, the European Central Bank will probably resist pressure to cut interest rates and could maintain these unchanged until well into next year.

Spain's economic activity could also be affected by the rise in the cost of energy, consumption of which has been growing sharply in recent years. The problem is made worse by the drought which makes it necessary to fall back more on thermal generation of electricity instead of hydroelectric power. In any case, for the moment a growth rate is being maintained that is similar or even slightly higher than that seen in the initial stage of the year, thanks to the drive in domestic demand. Private consumption continues to grow at a sustained rate, capital goods investment is rising notably and construction is recovering strong drive. On the other hand, the foreign deficit continues to increase. Based on these trends, **it is expected that growth will stand close to 3.3% for the year as a whole**. In this situation, the good state of the labour market will continue in coming months with a growth rate in employment of close to 3%. On the other hand, the persistence of high oil prices casts a shadow over any prospect of a decrease in the inflation rate which, unless there is a significant correction, will stand above 3% at the end of 2005.

June 29, 2005

World economy meets forecasts in first half-year

Unexpected rise in oil prices makes practically no change in main trends in world economy.

In the course of the first half of 2005, the international economy has generally confirmed the forecasts made at the end of last year. That is to say, some slowdown in overall growth, some contained inflationary pressures and the persistence of imbalances in the balance of payments. All this in spite of the negative course of crude oil prices which has moved upward breaking all-time high records by going up to the range of 60 dollars a barrel.

United States maintaining substantial growth situation despite some slowdown.

The US economy has been meeting expectations of a gradual slowdown from the high level of activity in 2004 when it grew by 4.4%. Growth in the first quarter was 3.7% and for subsequent quarters a slight drop in this rate is expected. Private domestic demand thus is maintaining a situation of strength while capital goods investment is also showing the strength expected, sustained by good corporate profits and low interest rates.

Prices in United States show moderate but no improvement in foreign deficit.

This robust domestic demand has made it possible to recover acceptable job creation rates, although somewhat lower than previous recoveries. No important inflationary pressures are noted in spite of the fact that the odd specific figure has raised some concern. The biggest concern comes from the foreign imbalance. While at the end of 2004 no improvement was foreseen but rather some worsening of the situation, the trend has been somewhat worse than expected.

China maintaining role as engine of Asia…

One of the leading factors in the US trade balance is imports from China which in the first half-year were the object of great attention, especially in the textile sector. In any case, the Chinese economy is maintaining its high speed with growth of the order of 9%, thus maintaining its role as the engine of Asia and driving up raw materials markets because of its heavy buying.

…while Japan fails to consolidate recovery.

Despite the drive from China, the Japanese economy has shown very moderate growth rates, somewhat below 1% in the first quarter of 2005. On top of the expected loss of strength in the surprising recovery made in 2004, when it grew by 2.4%, comes an important downward revision of figures for national accounting carried out at the beginning of the year by the Ministry of Economy, Trade and Industry. This makes it seem that the forecasts at the end of 2004 indicating growth of more than 2% were optimistic.

Expectations for euro area were not very good but results less than forecast.

While an exceptionally strong performance was not expected from the euro area, the fact is that the first half of 2005 has been even worse than forecast. At the end of 2004 it was expected that, in spite of the appreciation of the single currency, the international drive could be taken advantage of by European exporters while domestic demand would improve moderately. What has, in fact, happened is that foreign demand has performed better than in the second half of 2004 but this has not been the case with consumption or investment. The result is that the first quarter recorded low growth (1.3%) and, with the figures available, everything indicates that in the second quarter this level of increase in the gross domestic product (GDP) will be maintained. It is logical that, with the lack of domestic drive, consumer prices have been contained, apart from the direct impact of increases in oil prices.

In institutional sphere, European Union brings disappointment as result of changes in Stability Pact, slowness of structural reforms and Constitution setbacks.

In any case, the economic situation has not been the most complicated front for the European Union (EU). In a half-year noted for EU institutional activities, there has been a revision of the Stability and Growth Pact which puts its future efficacy in doubt as an instrument for budgetary coordination, a tentative revision of the Lisbon Agenda which shows the lack of progress in structural reform, and, to cap it all, the practical paralyzation of the process of ratification of the European Constitution following the negative votes in France and the Netherlands in their separate referendums. The failure of the European Council to reach agreement on the financial perspectives for 2007-2013 at the June summit did not help improve the situation. The combination of low economic growth and signs of some wearing out of the process of integration as it has been developing in recent times has increased doubts about the political, social and economic model encompassing the EU in a substantially more dynamic global context.

Federal Reserve maintains calendar of stepped increases in interest rates while ECB gets pressure to lower its rates.

The cyclical disparity between the United States and the euro area has shifted to the behaviour of the respective central banks. The US Federal Reserve has settled into a pattern of stepped increases in interest rates which have gone from 1% in June 2004 to 3.25% in June 2005. On the other hand, the prospects of a moderate rise in interest rates in the euro area held at the end of last year have been completely discarded for this year. The poor results in the main economies have instead brought pressure on the European Central Bank (ECB) to cut its main interest rate, now 2%.

Neither drop in yield on long-term bonds expected…

The development which has brought most surprise, however, was that of long-term government bonds. At the end of last year everyone expected to see an upward path. Although in the first quarter the yield on US 10-year Treasury bonds rose appreciably, as of that moment it moved down so that it now stands at the same level as at the beginning of the year. The decrease in the interest rate on German 10-year bonds was still more pronounced so that in June it reached the lowest level in recent decades.

…nor that dollar would recover strength so quickly.

The sluggishness in the euro area and the widening differential in interest rates going against it have had a negative effect on the euro exchange rate. The euro has dropped by 11% against the dollar since the end of 2004 returning to the levels in September last year. As a result, concern about the US foreign deficit, which justified forecasts of dollar depreciation, has now moved to a secondary level. With regard to the stock markets, the optimistic prospects at the beginning of the year have been fulfilled in the case of the European markets whereas the US stock markets have shown an unfavourable performance losing par for the year.

Spain's economy maintaining strong growth

Strong growth rate in domestic demand along with sharp rise of foreign deficit characterize Spain's economic activity in first half of 2005…

In Spain, economic activity in the first half of 2005 has been marked by the strong growth rate in domestic demand, higher than foreseen six months ago. On the other hand, the foreign sector has increased its negative impact on growth with a notable increase in the deficit. The overall result has been growth of more than 3%, one of the highest figures in the euro area. Private consumption has continued to rise at high rates aided by the considerable strength in the labour market. At the same time, investment has maintained a course of constant increase, thanks, among other factors, to the sound financial situation of companies. Another notable fact is the renewed strength in construction which has grown at a rate well above that initially forecast. As part of the background, the growth of bank credit, fostered by low interest rates, is continuing to drive economic activity in all spheres.

…with notable exception of industrial sector which is practically stagnant.

Industry is a clear exception to the good general economic climate showing a state of practical stagnation in the first six months of the year and a very negative performance in some branches, such as textiles. On the other hand, the general situation in services has been fairly positive, especially noteworthy being information and communications technology and company services as among the more dynamic sectors. Tourism is also showing a moderately positive balance, partly thanks to the strength of domestic demand, seeing that the notable flow of foreign tourists does not end up as a proportional growth in inflow of funds.

Favourable trend in employment…

The process of giving legal status to foreign workers begun last February has meant an increase in the growth rate of registrations with Social Security which does not properly constitute new employment but rather making existing jobs legal. Even discounting this effect, the trend in the labour market continues to be positive, as is confirmed from another perspective by figures from the Labour Force Survey and the Survey of Registered Unemployment.

…while prices show negative slide.

In prices, on the other hand, the situation is not as favourable. While the inflation rate dropped in May to stand slightly above 3% and the differential with the euro area went down to little more than one percentage point, the prospects of any additional cut remain in doubt, if we keep in mind the upward trend in oil prices and the severe drought, which effect the more volatile components of the consumer price index (energy and food) over the short term.

Huge foreign deficit most negative feature of current economic situation in contrast to good performance in public accounts.

The huge foreign deficit, with a negative current account balance in the past 12 months going above 6% of the GDP in March, represents the most vulnerable point in the present economic situation. Its immediate consequences for economic activity are greatly reduced under the protective umbrella of the euro. The trend in the central government accounts can be seen in quite a different light. These accounts show a positive balance in terms of National Accounting as of May, thanks to the excellent results in tax collections.

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 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 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%.*

June 23 *IBEX 35 index for* ***Spanish stock market*** *marks up annual high (9,769.6) with cumulative gains of 7.6%.*

27 *One-month forward price of Brent quality* ***oil*** *goes up to all-time high of 59.02 dollars a barrel.*

30 ***Federal Reserve*** *raises reference rate by a quarter-point to 3.25%.*

AGENDA

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).*

28 *Early HCPI index (July).*

29 *Quarterly Labour Force Survey (2nd Quarter). US GDP (2nd Quarter).*

August

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

5 *Industrial production index (June).*

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

11 *Preliminary Quarterly National Accounts (2nd Quarter).*

12 *Consumer price index (July).*

18 *Harmonized consumer price index for European Union (July).*

25 *Producer price index (July).*

30 *Early HCPI index (August).*

31 *Quarterly National Accounts (2nd Quarter). Central government revenue and spending (July).*

September

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

8 *Industrial production index (July).*

13 *Consumer price index (August).*

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

20 *Meeting of Open Market Committee of Federal Reserve Board. Central government revenue and spending (August)*

21 *Quarterly Survey of Labour Costs (2nd Quarter)*

26 *Producer price index (August).*

INTERNATIONAL REVIEW

United States: some signs of slowdown

United States grows by 3.7% in first quarter.

Figures for the US gross domestic product (GDP) in the first quarter have been revised slightly upward. The economy grew by 3.7% year-to-year as against the previous estimate of 3.6%. In quarter-to-quarter terms annualized, there were big differences given that growth was 3.5% as against 3.1% previously published. Housing and the foreign sector were the headings to move up as a result of the review while public consumption and non-residential investment showed slight downward adjustments.

UNITED STATES: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2003	2004	2004			2005		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	3.0	4.4	4.8	4.0	3.9	3.7	–	...
Retail sales	4.3	7.3	7.4	6.3	8.3	7.3	8.9	6.4
Consumer confidence (*)	79.8	96.1	96.3	100.4	96.1	104.2	97.5	102.2
Industrial production	0.0	4.1	4.9	4.6	4.3	3.7	3.0	2.7
Industrial activity index (ISM) (*)	53.3	60.5	62.0	60.1	57.5	55.6	55.3	51.4
Sales of single-family homes	11.7	10.0	10.0	–0.4	10.8	5.5	13.3	...
Unemployment rate (**)	6.0	5.5	5.6	5.4	5.4	5.3	5.2	5.1
Consumer prices	2.3	2.7	2.9	2.7	3.3	3.0	3.5	2.8
Trade balance (***)	–532	–651	–575	–608	–651	–686	–695	...

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

Retail sales up by 6%.

Latest demand indicators are showing some slowdown in the level of economic activity which still remains strong. Retail sales moved up by 6.4% year-to-year in May, a high rate but still below the 8.9% seen in April. Industrial production of consumer goods grew by 1.4% year-to-year thus continuing to show a very slack trend. Industrial production of capital goods, in turn, grew by 8.2% year-to-year, somewhat below the growth rates in past months.

Consumer confidence recovering.

In contrast to this slight moderation in economic activity, the consumer confidence index rose to 102.2 points in May, a level which leaves the dip in April far behind, thus indicating that the US economy still holds a basis of strength, in spite of some signs of a slowdown. Along the same lines, the present situation component rose by three points to the 116.7

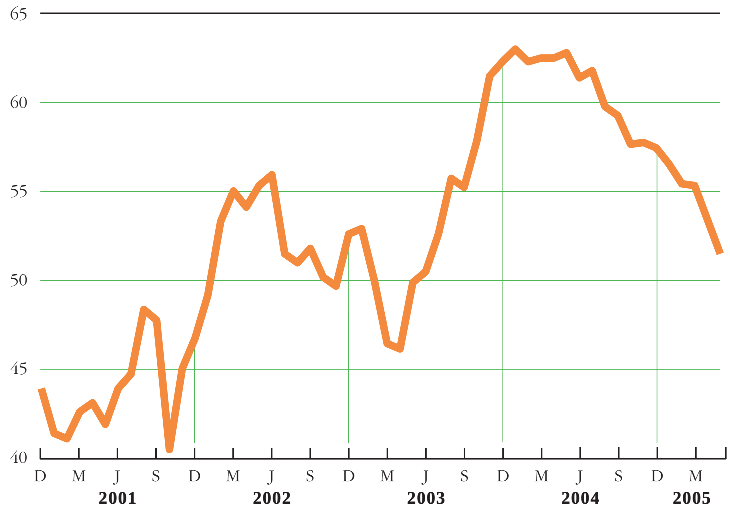
points level while the expectations component rose by nearly six whole points to 92.5 points.

Manufacturing activity indicator comes close to being neutral.

On the supply side, the signs of a slowdown were somewhat clearer. The manufacturing activity index published by the Institute of Supply Management in May continued to slide downward while the evaluation of the economy by the business community now comes close to the 50 level with expectations up and down now running equal. The general index thus dropped to 51.4 points. The non-manufacturing activity index, also moving slightly down, maintained the best prospects holding at the 58.5 points level, indicating that the manufacturing sector is weaker than the rest of the economy.

MANUFACTURING EXECUTIVES SHOW MORE MODERATE OPTIMISM

Value of ISM business activity index



SOURCE: Institute of Supply Management and internal figures.

Industrial production grows by 3% while housing prices up 15%.

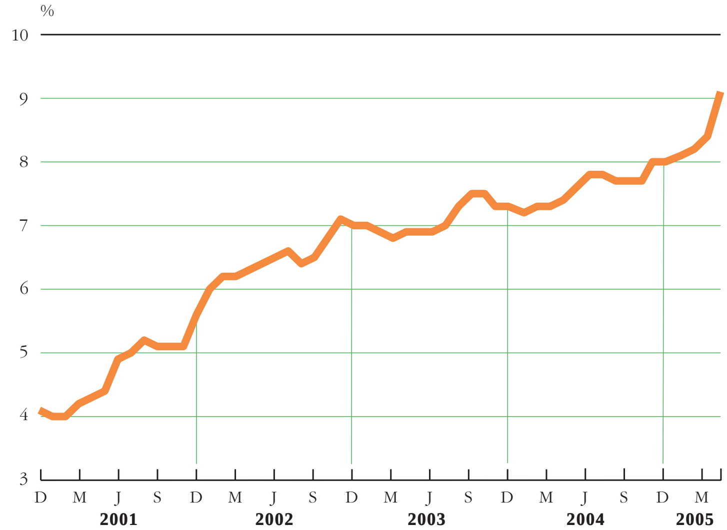
Industrial production, the other key supply indicator, also slipped in May with growth of 2.7% year-to-year. The housing sector, in turn, continued to show a strong performance. While housing starts in May grew by a moderate 1.8% year-to-year, sales of new housing in April were up 13.3% compared with last year and existing housing sales were up 5.0%, both rates being above those recorded in March. In this upward context, the average price of existing housing rose by 15.1% year-to-year in March, thus stepping up the process of increase in relation to previous months.

78,000 new jobs created and unemployment rate drops to 5.1%.

The labour market created some 78,000 non-farm jobs in May, a relatively modest figure compared with previous months. Nevertheless, the unemployment rate dropped slightly to 5.1% of the labour force. Real hourly wages (discounting inflation) continued to be slack with a drop of 0.2% year-to-year.

HOUSING PRICES INCREASING

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



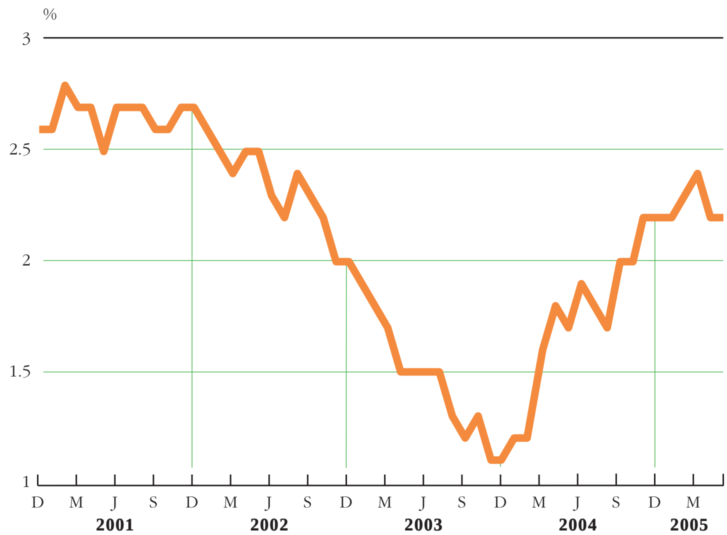
NOTES: (*) Cycle-trend series.
SOURCE: Department of Commerce and internal figures.

Price increases ease breaking upward trend in recent months.

Prices in May showed a more moderate profile than in previous months. Inflation was up by 2.8% year-to-year, below the previous 3.5%. The underlying component (less food and energy) repeated the 2.2% seen the month before and continues to be settled in a range of low rates. Producer prices also moderated with an increase of 3.5% year-to-year in May, quite a bit lower than the 4.8% seen in April. Nevertheless, we shall have to wait a few months to see if the upward trend which has lasted since the beginning of 2002 is turned around.

PRICES INCREASE WITH MODERATION

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



SOURCE: Department of Labour and internal figures.

Trade deficit above 695 billion dollars.

The foreign sector continued to increase although with something of a let-up in growth rate. The trade deficit in April was 60.96 billion dollars, a figure which, while not a new record, again left the cumulative deficit for the past 12 months at a new high of 695.46 billion dollars, 6.1% of the gross domestic product. Nevertheless, this upward trend in the deficit has been losing strength in recent months, more due to the slowdown in imports than to an increase in exports.

Consumption recovers in Japan

Japan's growth fails to reach 1%, with slight improvement in investment...

The macroeconomic figures for Japan's economy have been slightly revised. According to latest estimates, year-to-year growth in the first quarter was 0.9% as against the 0.8% previously estimated. The revision reduced public consumption, raised investment and the weakness of exports. As a result, private consumption growth showed no change at 0.7% but public consumption grew by 2.2%, a drop from the 2.4% previously published.

...but current weakness in exports threatens further recovery of investment.

Investment was down by 0.5% year-to-year as against the previous estimate of 0.9%. In this, what stands out is the change in quarter-to-quarter growth annualized which stood at 5.1%, clearly above the 3.2% previously published. Continuation of the incipient recovery of investment, however, still depends on an improvement in the foreign sector. In this respect, exports were revised downward going to 4.9% year-to-year as against the previous 5.2%. The quarter-to-quarter trend annualized, with a drop of 1.5% provides a clearer picture of the dip in exports in the early part of 2005. In turn, imports held practically unchanged with growth of 7.0% year-to-year.

JAPAN: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2003	2004	2004			2005			
			2nd Qtr.	3rd Qtr.	4th Qtr.	January	February	March	April
GDP	1.4	2.6	3.2	2.4	0.9	–	0.9	–	–
Retail sales	–1.7	–0.9	–1.7	–0.5	–0.4	2.1	1.0	0.2	3.6
Industrial production	3.3	5.3	7.8	6.6	1.6	2.2	3.7	2.2	1.5
Tankan company index (*)	–21.0	–0.5	0.0	2.0	1.0	–	–2.0	–	–
Housing construction	0.6	2.6	–3.5	9.4	–0.1	6.6	0.3	–2.5	0.7
Unemployment rate (**)	5.2	4.7	4.6	4.8	4.6	4.5	4.7	4.5	4.4
Consumer prices	–0.3	0.0	–0.3	–0.1	0.5	–0.1	–0.3	–0.2	0.0
Trade balance (***)	12.3	14.1	14.0	14.5	14.1	14.1	13.9	13.7	13.4

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

Retail sales up 4%, highest rate since 1997.

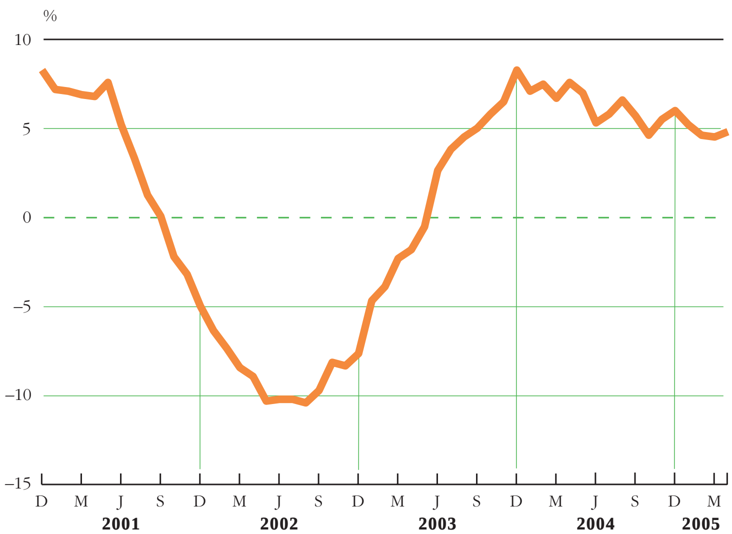
The most recent demand indicators continue to show signs of some economic recovery. Of special note were retail sales which grew by a robust 3.6% year-to-year in April, a rate not seen since 1997, thus confirming their recovery. Car sales in May supported this general picture with growth of 6.8% year-to-year.

Industrial production slack but machinery orders recovering.

On the supply side, the signs of recovery were much less clear. Industrial production in April continued to follow a weak course with an increase of 1.5% year-to-year. Nevertheless, an important indicator in April was machinery orders which rose by 7.9% year-to-year, thus showing a clear process of growth that opens up prospects of some continuation of growth in investment and giving further drive toward economic recovery which at the moment is stagnant. There were 1,072 corporate bankruptcies in May which lowered the total number in the past 12 months to 11,879.

JAPAN’S RECOVERY STAGNATING

Year-to-year change in machinery orders (*)



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

Housing continues slight recovery while Tokyo prices move up 2%.

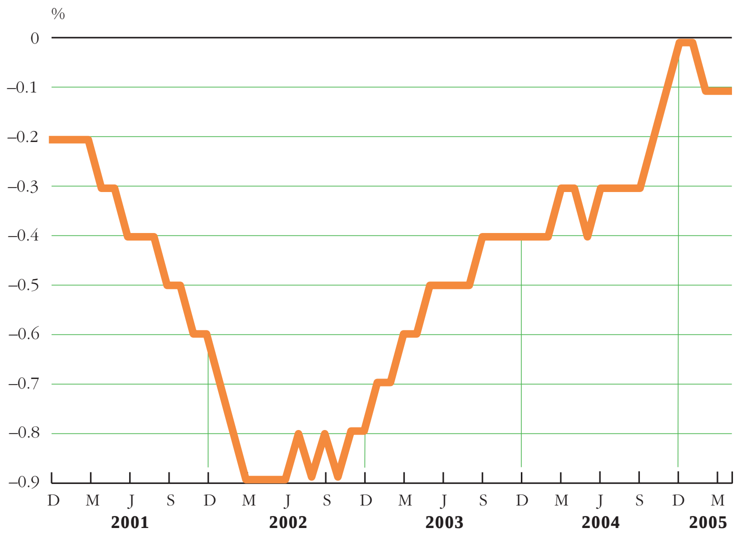
May brought a slight recovery in housing following the drops in March. The strongest indicator in May was the average price of housing sold in Tokyo which moved up by 2.1% year-to-year. Situated in an earlier stage of recovery, the number of housing units sold grew by 0.7%. Housing starts in April were up by 0.7% year-to-year, partly compensating the negative trend seen in March.

Unemployment down to 4.4% but little job creation.

The unemployment rate in April dropped slightly to 4.4% of the labour force but in the past 12 months Japan’s economy has created only 80,000 non-farm jobs, while 180,000 manufacturing jobs have disappeared. Labour productivity grew by a weak 0.9% year-to-year in April but unit labour costs continued to drop in March going down by 1.5% year-to-year.

SLOW END TO DEFLATION IN JAPAN

Year-to-year change in consumer price index (*)



NOTES: (*) Cycle-trend series.
SOURCE: Japanese Ministry of Communications, National Statistics Office and internal figures.

Inflation at zero because of petrol and non-durable goods.

Consumer prices in April repeated the levels seen in the same period last year with a slight rise in non-durable goods of 0.9% and petrol, light and water going up by 0.7%. Nevertheless, we still cannot speak of an end to deflation.

Trade deficit continues to drop because of rise in imports and weakness in exports.

The trade balance for the 12 months ending April recorded a surplus of 13,400 billion yen, down since the beginning of 2004. Nevertheless, this worsening was due more to the growth of imports than the weakness in exports. Exports in April grew by 6.4% year-to-year although in quarter-to-quarter terms growth of the sum total was negative. Nevertheless, imports were the main cause of the reduction of the surplus in April reporting growth of 17.2% year-to-year.

Growth eases in Brazil

Growth slows in Brazil but figure still above 3%.

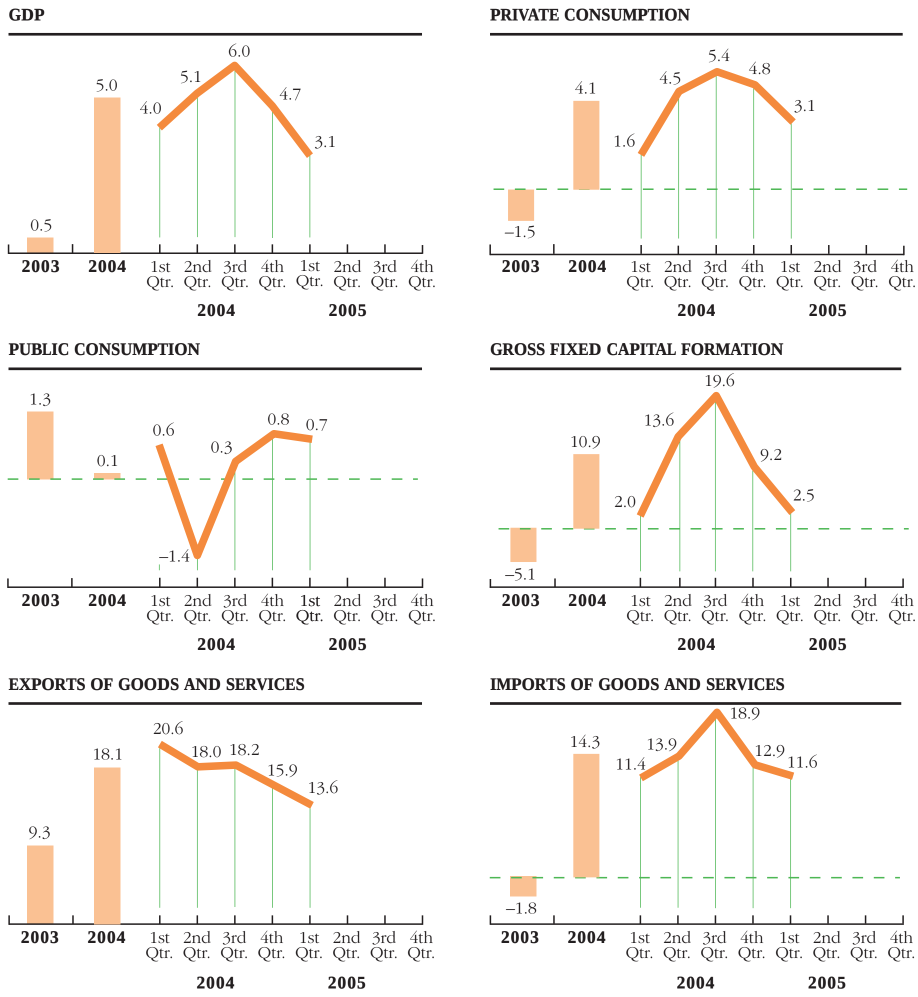
Brazil's economy continued to slow down in the first quarter of 2005 leaving behind the strong growth rates predominating in 2004. The GDP grew at a rate of 3.1% year-to-year, still a high growth rate. In quarter-to-quarter terms annualized, the economy grew by 1.1%, a figure below the 1.7% at the end of 2004 but indicating a course of some stability. The current slowdown, however, still does not change the underlying upward trend since the lows at the beginning of 2003.

Private consumption up 3.1% and public consumption grows by 0.7%.

Private consumption showed a similar trend also growing by 3.1% year-to-year. The quarter-to-quarter rate annualized, however, showed a more marked slowdown with a drop of 2.3%. Public consumption also lost strength with a modest rise of 0.7% year-to-year.

TREND IN BRAZIL'S GDP BY COMPONENT

Percentage year-to-year change



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

Investment slows to growth of 2.5%.

Investment rose by 2.5% year-to-year in the first quarter, a clear slowdown which in quarter-to-quarter terms annualized meant a drop of 11.1%. Nevertheless, this decrease was lower than at the end of 2004 at 14.8%. Taking into account the strength of previous quarters, the volatility of the component and the inventories cycle in recent months, we may still speak of a momentary spell rather than a downward trend.

Exports still strong with rise of 14%.

The foreign sector continued to show a positive trend. Exports in the first quarter were up 13.6% year-to-year while imports rose by 11.6%. In spite of the apparent slowdown in exports, brought about by base effects, the background trend is still showing solid growth.

Industrial production growth up 6%, turning around downward trend...

The most recent monthly supply and demand indicators show definite recovery, in keeping with some of the trends noted in the GDP. We may thus be at the end of the slight pause seen in the Brazilian economy in recent months. In this respect, industrial production in April rose by 6.3%,

...seen in previous months.

well above the slack 1.7% seen in March and also above the rates for January and February. Industrial production of capital goods grew by 3.3% in April, which was also above previous figures. In this case, however, the swings in this component make it difficult to state that recovery has been consolidated. Along the same lines, utilization of production capacity has also been recovering steadily since January to reach the 83.2 points level in April.

BRAZIL: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2003	2004	2004			2005		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	0.5	5.0	5.1	6.0	4.7	3.1	–	...
Industrial production	0.1	8.3	9.9	10.4	6.3	3.9	6.3	...
Unemployment rate São Paulo (*)	19.9	18.8	19.8	18.2	17.4	17.0	17.5	...
Consumer prices	17.0	6.3	5.4	6.3	5.9	6.0	6.6	6.9
Trade balance (**)	24.8	33.7	29.4	32.1	33.7	35.9	37.8	38.1

NOTES: (*) Percentage of labour force.
(**) Cumulative balance for 12 months. Billion dollars.
SOURCE: Brazilian Institute of Geography and Statistics, Central Bank of Brazil and internal figures.

Retail sales recover with increases of 8%.

On the demand side, retail sales followed this pattern of recovery with growth of 8.2% year-to-year in April, well above the rates at the beginning of the year and close to figures for 2004. Car sales in March joined this recovery with an increase of 5.3%.

Inflation close to 7% while unemployment rises to 17.5%.

Inflation rose to 6.9% year-to-year in May. Despite this rise, the scene is relatively stable helped along by wholesale prices which, while growing by 11.4% in April, continued to move away from the sharp increases in the second half of 2004. The unemployment rate in São Paulo in April reached 17.5% of the labour force showing an upward trend since the beginning of 2005.

Trade surplus continues to grow while government deficit easing.

The trade balance for the 12 months ending in May reached 38.1 billion dollars, thus continuing to grow in spite of the strength of imports. Also showing a positive state, the current government deficit, including interest on the public debt, was down to 2.7% of the GDP in 2004 as against 5.1% in 2003.

Argentina maintaining strong recovery

Argentina consolidates recovery with growth of 8%.

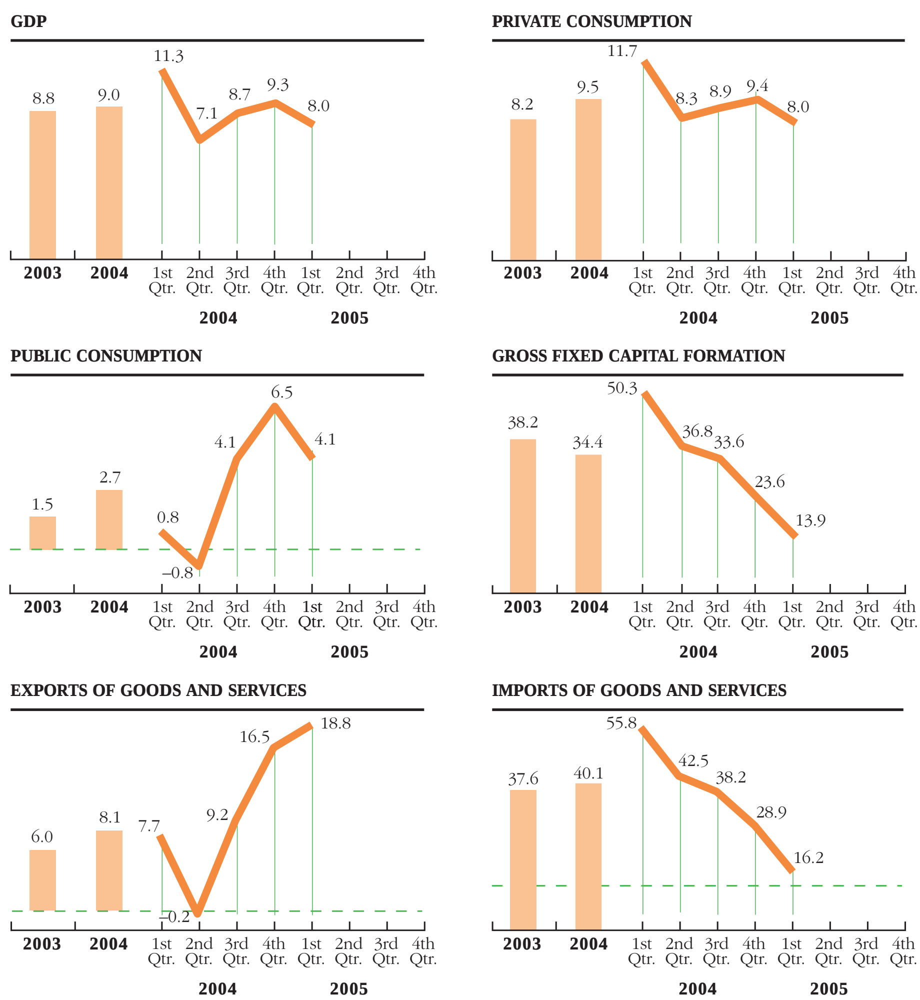
The Argentine economy grew by 8.0% year-to-year in the first quarter of 2005. Argentina is thus continuing to consolidate its recovery which now has been going on for nine quarters. Private consumption followed the same course with growth of 8.0%. Public consumption moderated the rise seen in the previous quarter with an increase of 4.1%, a substantially lower growth rate than for other headings.

Investment up 14%.

Gross fixed capital formation continued to slow down compared with the sharp growth rates at the start of recovery. Nevertheless, the growth rate for investment stood at a strong 13.9% year-to-year.

TREND IN ARGENTINA'S GDP BY COMPONENT

Percentage year-to-year change



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

Foreign sector continues to improve making positive contribution to growth.

The foreign sector continued to consolidate recovery. While in mid-2004 exports were stagnant and imports were growing sharply because of the recovery of domestic demand, during this quarter, for the first time since the start of recovery, exports grew more than imports. As a result, the former rose by 18.8% year-to-year while the latter were up 16.2%. As a result, the contribution of the foreign sector to year-to-year growth of the economy was positive at 0.9% for the first time since the end of 2002 when recovery had still not begun.

Retail sales rise 28% and car sales up 38%.

Demand indicators sharpened growth giving signs of continued advance in consumption. Retail sales in the Buenos Aires region were up 28.4% year-to-year in April, a rate very much above the February rate which was revised to 19.0%. Confirming this recovery, retail sales in supermarkets that same month grew by 16.2%, the second highest rate since the beginning of 2003. Car sales, in turn, grew by 38.4% year-to-year in May.

ARGENTINA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2003	2004	2004			2005		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	8.8	9.0	7.1	8.7	9.3	8.0	–	...
Industrial production	12.6	7.6	7.4	8.3	7.1	7.8	7.2	...
Unemployment rate (*)	14.8	13.6	14.8	13.2	12.1	13.0	...	...
Consumer prices	13.4	4.4	4.1	5.4	5.7	8.2	8.8	8.6
Trade balance (**)	15.7	12.1	13.5	12.6	12.1	11.8	11.6	...

NOTES: (*) Percentage of labour force.
(**) Cumulative balance for 12 months. Billion dollars.
SOURCE: National Institute of Statistics and Census, Republic of Argentina (INDEC) and internal figures.

Industrial production grows 7% while construction moves up to 16%.

Supply indicators maintained the strength shown by the recovery although they did not report the rates recorded on the demand side. Industrial production in April rose by 7.2% year-to-year, in line with the trend in recent months. The strongest sectors were minerals (with increases of 44.5% year-to-year) and metals (with growth of 11.3%). Nevertheless, the chemical industry, which recently had been showing a positive performance, was down by 2.3%. In the construction sector, the ISAC indicator was up by 16.4% in April, well above the values at the beginning of the year.

Inflation stable at 8.6%.

Consumer prices grew by 8.6% year-to-year in May. This rate, while relatively high, is slightly below the rates seen in previous months, a fact which, linked to the special economic situation in Argentina with its strong recovery of domestic demand, offers some moderation to the growth of price levels.

Unemployment hits 13%.

The unemployment rate in the first quarter rose slightly to 13.0% of the labour force. This negative trend was partly compensated by a reduction from 14.3% to 12.7% in the rate of under-employment, made up of those employees who declare they are working less than they would like.

Trade surplus halts decline.

The trade surplus is improving. Whereas in the 12 months ending in April it stood at 11.6 billion dollars, below previous months, the balance for the past three months grew by 6.3% compared with the same period last year, following a drop since mid-2004. Exports of farm manufactured products was again the most dynamic heading in April with growth of 12.1% year-to-year, followed by industrial manufactures at 10.4%, while energy and raw materials grew by 6.1% and 7.2% respectively.

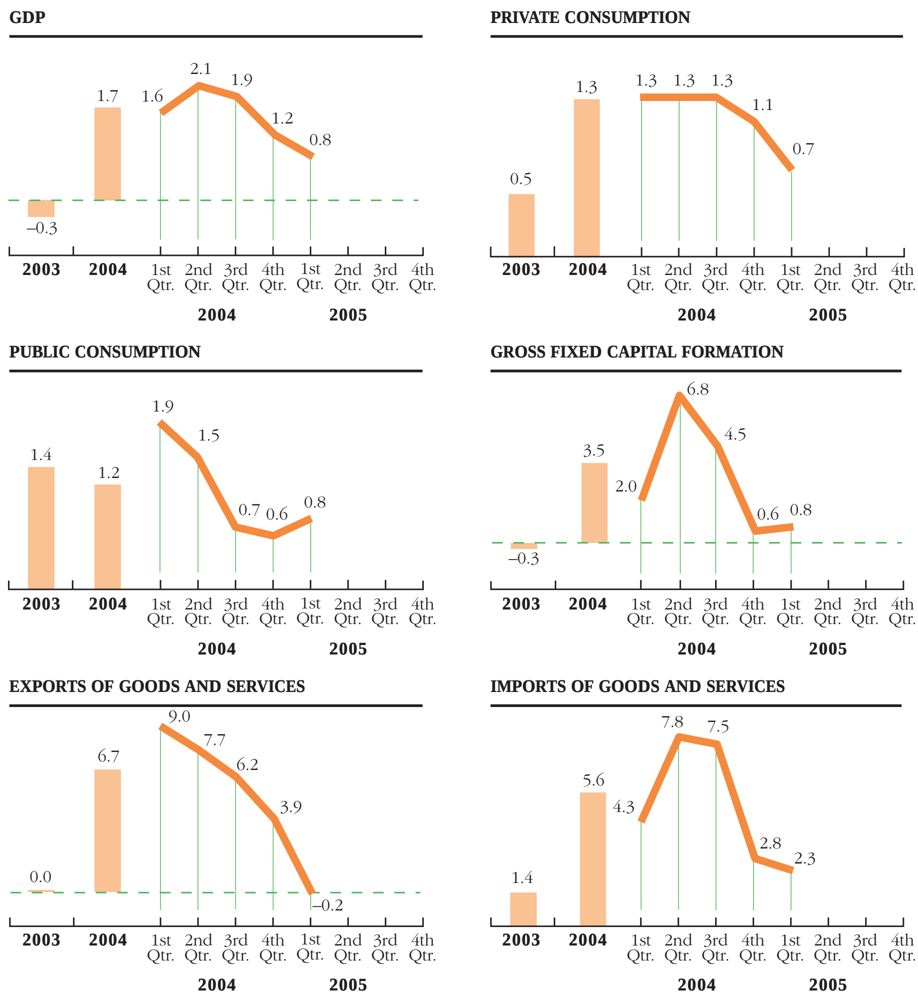
Switzerland: positive signs within overall slowdown

Swiss growth drops to 0.8% in first quarter...

The Swiss economy grew by 0.8% in the first quarter of 2005 thus keeping to the stage of slowdown seen in previous quarters. By domestic demand component, notable factors were the slowdown in private consumption (increase of 0.7% year-to-year, four decimals less than in the previous quarter) and the lack of drive in investment which showed a growth rate of 0.8% year-to-year, scarcely better than the previous quarter, a performance which was repeated in public consumption. We should mention that the poor state of construction investment, which is still reflecting the end of the railway investment programme in 2004, dragged down the performance of gross fixed capital formation as a whole.

TREND IN SWITZERLAND'S GDP BY COMPONENT

Percentage year-to-year change



SOURCE: Swiss Federal Statistics Office and internal figures.

...largely due to dip in exports.

With regard to the foreign sector, exports are reflecting the sharp orientation toward the euro area whose weakness lies behind the practically nil growth of foreign sales of goods and services. Imports are showing more stable with growth of 2.3% in the first quarter. In overall terms the foreign sector drew off around one point from the change in the gross domestic product in the first quarter.

SWITZERLAND: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2003	2004	2004			2005		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	–0.3	1.7	2.1	1.9	1.2	0.8	–	...
Retail sales	–0.5	2.2	2.5	1.5	1.4	–0.9	...	...
Industrial production (**)	0.0	4.5	5.1	3.8	4.1	–0.3	–	...
Industrial activity index (KOF)	–20.7	0.8	2.3	6.5	4.3	–1.7	–6.6	–5.9
Unemployment rate (*)	3.7	3.9	3.8	3.7	3.9	4.0	3.8	3.7
Consumer prices	0.6	0.8	0.9	0.9	1.4	1.4	1.4	1.1
Trade balance (***)	6.5	8.7	8.8	9.1	9.0	8.1	7.2	...

NOTES: (*) Percentage of labour force.
(**) Not including construction.
(***) Cumulative balance for 12 months. Billion Swiss francs.
SOURCE: OECD, national statistical bodies and internal figures.

Second quarter proving slightly more dynamic...

Indicators for the second quarter are showing an incipient recovery. While consumption remains contained (although the upward trend in consumer confidence points to improvements in this area), supply indicators seem to reflect a better cyclical tone. Although the latest figure for industrial production was negative (drop of 0.3% year-to-year in the first quarter of 2005), other indicators, such as industrial orders and the KOF index for industrial activity, suggest recovery of the secondary sector as of May.

...with no significant rise in inflation.

Equally positive signs to be noted are the absence of inflationary pressures (the May CPI grew by 1.1% year-to-year, something of a drop compared with 1.4% in April) and the reduction of the unemployment rate which stood at 3.7% in May, far from the annual highs of 4.1% in January and February.

Economic policy oriented to support growth while not neglecting efforts at fiscal consolidation.

The incipient recovery should make it possible for Swiss economic policy to maintain the course followed in recent times. With regard to monetary policy, the Bank of Switzerland is taking advantage of existing low inflation to maintain interest rates at low levels (the 3-month interest rate has held at values close to 0.75% since the end of 2004). Fiscal policy, in turn, remains oriented toward gradual consolidation of government finances, something which has made it possible to keep government deficits close to 1% of the GDP in 2003 and 2004.

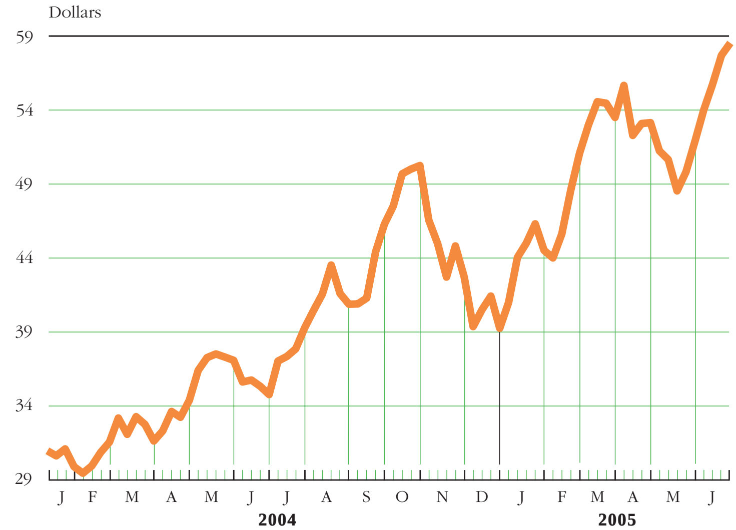
Raw materials: oil prices go to new highs

Oil goes above 59 dollars a barrel, new all-time high...

The one-month forward price of Brent quality oil went above 59 dollars a barrel at the end of June to stand at all-time highs. These quotations were 75% higher than those one year earlier and 47% higher than at the beginning of 2005. The direct cause of the price rise in June was the drop in stocks of crude and certain distilled products, particularly petrol, which increased doubts among market operators regarding the possibility of safely covering demand during the summer season. The decision of the Organization of Petroleum Exporting Countries (OPEC) on June 15 to increase the official production quota by a further half-million barrels had no appreciable effect on prices, given that it was merely a matter of adapting the official quota to the production level actually being followed.

FURTHER UPTURN IN OIL PRICES

Per barrel one-month forward price of Brent quality oil as weekly average



SOURCE: Thomson Financial Datastream.

...due to little margin for increasing supply in situation of growing demand.

In spite of the fact that the trend in inventories seems to orient the market, the background factors that have been affecting oil prices since the beginning of the year are not new. World demand remains strong and the capacity to increase supply to meet that demand is limited so that any factor which reduces the margin of availabilities is shifted to further increases in price. The International Energy Agency forecasts that world oil demand in 2005 will grow by 2.2% over 2004, a rate similar to that for overall supply. Nevertheless, given that production of countries outside OPEC will grow less than the rise in demand, dependence on OPEC production will tend to increase. The increased demand for OPEC crude is viewed with concern, given that its extra production capacity is relatively low.

Metals up 16% in one year.

With regard to other products, there has been notable growth in metals which in overall terms grew by 16% year-to-year in June as against only 1.2% year-to-year for *The Economist* raw materials index as a whole. On the other hand, food raw materials and non-food agricultural products were down by 2.5% and 10.6% respectively compared with June 2004.

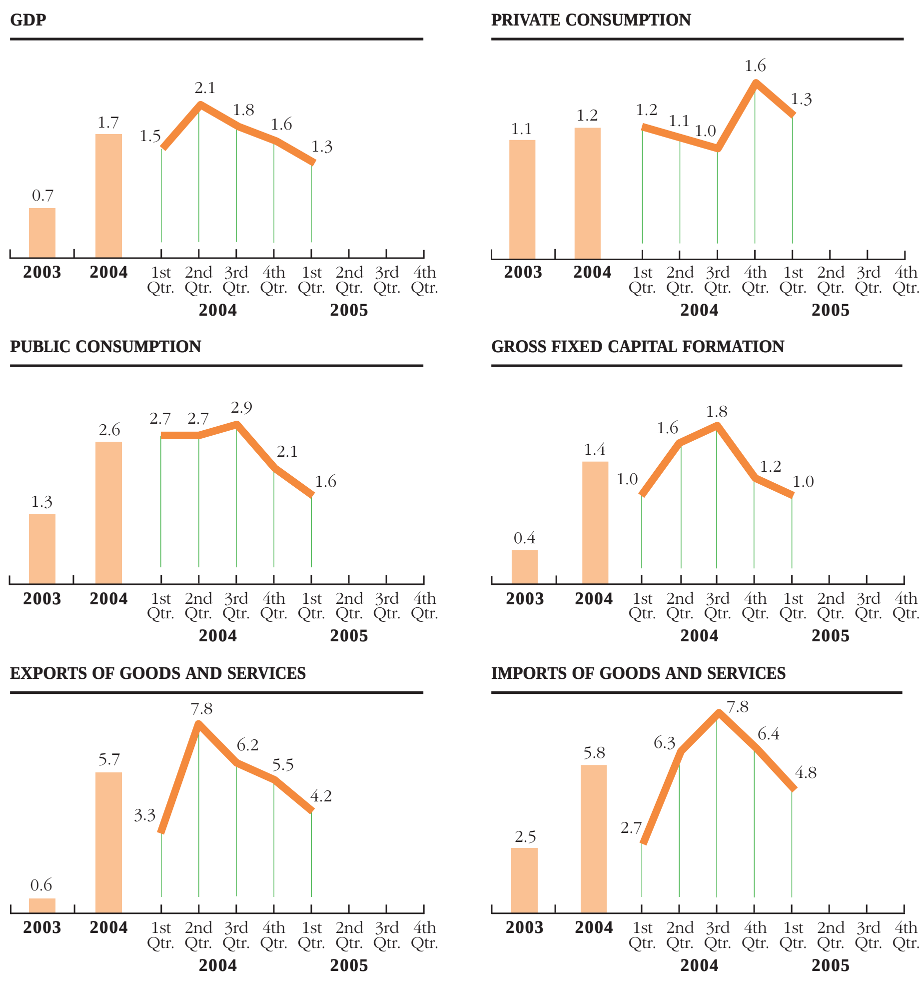
Euro area: economic activity at low ebb in first half of 2005

Euro area grows by only 1.3% in first quarter…

The euro area economy slowed growth to 1.3% year-to-year in the first quarter, three decimals less than in the fourth quarter of 2004. At quarter-to-quarter rate annualized, the increase in gross domestic product (GDP) was 2.0%, a high rate which may be explained by the very low growth seen in the previous quarter (0.6% quarter-to-quarter annualized). The breakdown by component reveals the lack of strength in domestic

TREND IN GDP IN EURO AREA BY COMPONENT

Percentage year-to-year change



SOURCE: Eurostat and internal figures.

demand, a trend which neutralized the relatively better performance in the foreign sector. As a result, domestic demand slowed to 1.5% year-to-year (1.7% in the fourth quarter) due to the drop recorded in private consumption, investment and public consumption.

...due to the lack of strength in consumption and investment...

Specifically, household consumer spending moved up by 1.3% year-to-year, three decimals less than in the previous quarter while investment eased to 1.0% year-to-year, compared with 1.2% year-to-year in the fourth quarter. The drop in public consumption was more notable with the figure easing to 1.6% year-to-year, five decimals below the figure for the last quarter in 2004. The change in inventories, in turn, brought two decimals to the change in GDP, in line with the contribution of 0.1% in the previous quarter. With regard to the foreign sector, the negative trend shown since the third quarter of 2004 is beginning to end with the result that it drew off only one decimal in the first quarter compared with a negative contribution of 0.2% in the previous quarter.

EURO AREA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2003	2004	2004			2005		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	0.7	1.7	2.1	1.8	1.5	1.3	–	...
Retail sales	0.3	0.1	0.0	0.0	0.1	0.6	–0.9	...
Consumer confidence (*)	–18	–13.8	–14	–14	–13.0	–13.1	–13	–15
Industrial production	0.3	1.9	3.0	2.8	1.1	1.0	0.9	...
Economic sentiment indicator (*)	93.4	100.0	99.9	100.6	100.9	99.0	96.5	96.1
Unemployment rate (**)	8.7	8.9	8.9	8.8	8.8	8.9	8.9	...
Consumer prices	2.1	2.1	2.3	2.2	2.3	2.0	2.1	1.9
Trade balance (***)	80.4	81.6	88.9	85.9	74.8	65.9	55.3	...

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

...a trend extending into second quarter.

Available figures indicate a continuation of previous trends in the second quarter. Consumption continues to show weak, if we look at the drop in retail sales in April (year-to-year drop of 0.9%) and the two-point decrease in consumer confidence in May. Going by the decrease in utilization of production capacity in the second quarter (down to 80.9%, one point less than in the first quarter), nor is investment about to take off.

Foreign sector worsens in April.

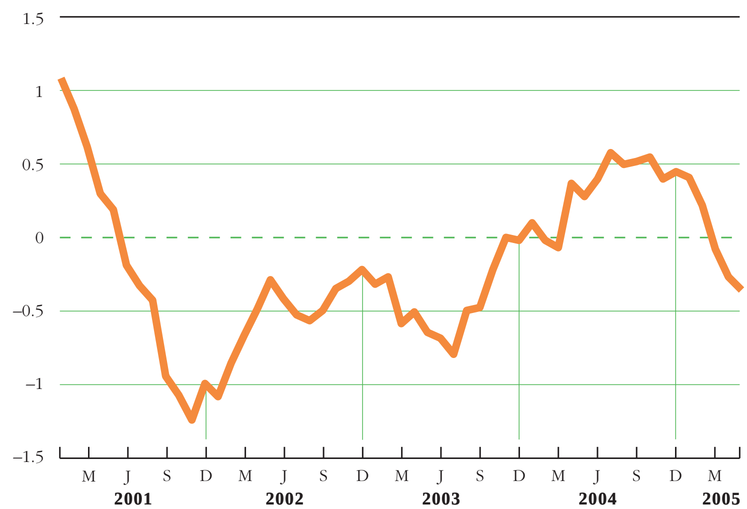
In any case, the worst news on the demand side comes from the foreign sector which, after maintaining a relatively strong export rate in the second half of 2004, weakened notably as the year 2005 advanced. Exports grew by 4.4% year-to-year in April which, combined with the increase of 10.8% in imports, reduced the cumulative 12-month trade surplus to 55.3 billion euros, far from the level of 73.2 billion euros at which it began the year 2005.

Industry most strongly reflects weakness of economy...

In line with this stage of weakness, industry, the most cyclical of all the sectors, continued to show economic activity indicators far from positive. Industrial production was up by 0.9% year-to-year in April, a rate which, even though it was better than the 0.1% year-to-year in March, is lower than the average for the first quarter. The drops in industrial confidence and industrial climate shown in May make it possible to discard any recovery in industry over the immediate short term.

INDUSTRIAL ACTIVITY IN EURO AREA GROWS WORSE

Absolute value of industrial climate index



SOURCE: European Commission.

...while services and construction holding up better.

Other sectors of the euro area economy are showing greater resistance to any slowdown. As a result, tertiary sector confidence stopped dropping in May when it rose by 1.4 points, while the figure for the construction sector rose by one point that same month, a figure which would seem to consolidate the gradual improvement seen in the first quarter.

Unemployment rate stuck at 8.9% since February.

The lack of drive in domestic demand is reflected in the absence of any recovery in the labour market. For three consecutive months, from February to April, the unemployment rate has been stuck at 8.9% of the labour force, the same level shown one year earlier. Growth of employment is only moderately better and in the fourth quarter of 2004 (latest period available) rose to 0.8% year-to-year, as against 0.6% year-to-year in the third quarter.

Consumer prices again stand below 2% in May.

In this situation of few positive figures, the trend in prices at least serves as a counterpoint. In May, the harmonized consumer price index (HCPI) grew by 1.9% year-to-year, two decimals less than that recorded in the previous three months. The absence of inflationary pressures was evident if we take into consideration that the energy component grew by 7% year-to-year in May. If we discount this, the rate held at a moderate 1.5%.

Germany: consumption weakens further

Household spending in Germany unable to overcome slack.

The lack of strength in the German economy is showing no let-up. Following some hopeful indicators for private consumption, the second quarter began with unexpected worsening. Retail sales fell by 3.0% year-to-year in April as against growth of 0.1% year-to-year in the first quarter while industrial production of consumer goods slowed to 1.3% year-to-year, three percentage points below the figure for March. In any case, the improvement in the consumer confidence index in April and May suggests that this trend could end before long.

GERMANY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2003	2004	2004			2005		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	0.0	1.0	1.4	1.2	0.5	1.1	–	...
Retail sales	–0.5	–1.7	–2.3	–1.7	–2.2	0.1	–3.0	...
Industrial production	0.1	2.4	3.3	3.8	1.4	2.4	1.8	...
Industrial activity index (IFO) (*)	91.7	95.7	95.7	95.4	95.2	95.2	93.3	92.9
Unemployment rate (**)	10.5	10.5	10.5	10.6	10.7	11.7	11.8	11.8
Consumer prices	1.0	1.7	1.8	1.9	2.0	1.7	1.6	1.7
Trade balance (***)	130	149	151	154	155	157	156	...

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

Industrial production seems to be leaving behind weak start to year…

On the supply side, the most notable development is the consolidation of some recovery in industrial production. After dropping to 1.5% year-to-year in February, in March and April industrial production grew by 1.9% and 1.8% respectively. This recovery, however, could be short-lived given that the IFO industrial activity index has shown four consecutive months of decreases from February to May.

…while construction situation worse.

Indicators for construction and services, in turn, show little change over previous months. Although the tertiary sector confidence index rose slightly in May, going up to 6.4 points, this level is below the average for the first quarter, which rather suggests further moderation of economic activity in this sector. Much more clearly, the drop of more than 30% year-to-year in construction orders as of March reflects the notable worsening of the construction sector.

Exports down in April.

In view of this lack of domestic strength, the poor performance in exports in April is not very positive. The growth of exports, only 2.1% year-to-year, was the worst in the past 16 months. This trend, together with the increase in imports (rise of 7% year-to-year in April) meant a drop in the cumulative trade surplus for 12 months which fell to 156 billion euros that month, as against 158 billion euros in March.

Stability in consumer prices swinging around 1.7% since beginning of year.

With regard to inflation, the stability of the CPI continues as the main factor. Consumer prices grew by 1.7% year-to-year in May, a rate which, while one decimal higher than in April, was identical to the average recorded in the first quarter. Nor have there been any relevant changes in the labour market. The unemployment rate held at 11.8% in May with no change over April.

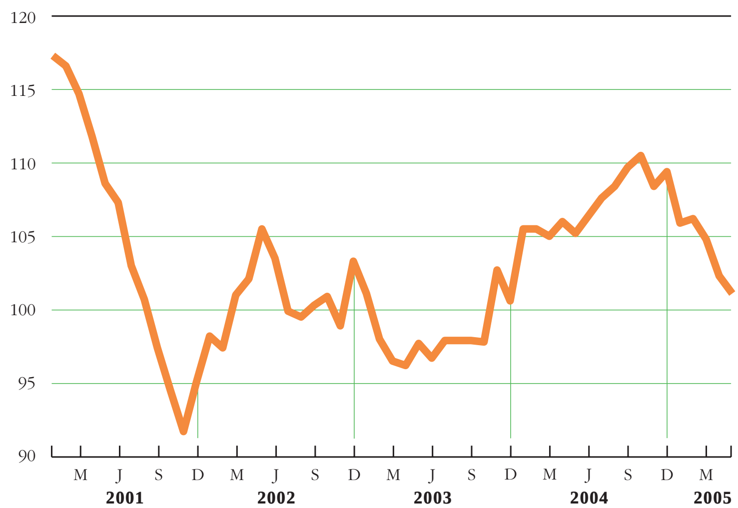
French economy moves into lower growth stage

France showing loss of level in consumption and investment.

France's economic activity continued to moderate as the second quarter advanced. The economic sentiment index, one of the broadest indicators, lost more than 3.5 points in April and May to stand at the level of 101.1 points in May. Behind this significant drop was the lower rate of domestic consumption (in May it grew by 2.5% year-to-year, below the 3.2% seen in the first quarter) and the worsening of corporate investment. The increased trade deficit, which reached 1.5 billion euros in April in cumulative balance for 12 months, meant that foreign demand was unable to compensate for the loss of domestic strength.

FRENCH ECONOMY LOSES STRENGTH

Level of economic sentiment index



SOURCE: European Commission.

Construction and industry reflect dip in economic activity.

Sector indicators confirm that the slowdown is having its worst impact on industry and construction. As a result, industrial production has been proving notably erratic in recent months although the nil growth at year-to-year rate in April, following a drop of 0.3% year-to-year in March, would point to a lack of activity in the secondary sector. In turn, both current early indicators for the construction sector are leaving behind the high levels seen in the second half of 2004. On the other hand, the rise in the confidence indicator in services in May could suggest an incipient upward move in the sector.

FRANCE: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2003	2004	2004			2005		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	0.9	2.1	2.7	1.9	2.1	1.7	–	...
Domestic consumption	1.9	3.3	4.4	2.5	3.9	3.2	2.8	2.5
Industrial production	–0.3	1.7	3.0	1.6	1.5	0.9	0.0	...
Unemployment rate (*)	9.8	10.0	10.0	10.0	10.0	10.1	10.2	...
Consumer prices	2.1	2.1	2.4	2.2	2.1	1.6	1.8	1.5
Trade balance (**)	0.2	–0.1	0.2	–0.1	–0.5	–1.0	–1.5	...

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

Fight against unemployment key priority of new French prime minister's economic policy.

With regard to consumer prices, May brought a drop in the CPI to 1.5% year-to-year (1.8% in April) which represents a low since June 2002. The unemployment rate, on the other hand, showed no improvement and in April held at 10.2% for the second consecutive month. The lack of progress on the labour front lies behind the priority apparently being given to the fight against unemployment as a key part of the economic policy adopted by the new prime minister Dominique de Villepin. On June 9 last, the minister of economy, Tierry Breton, announced that funding for the new package of measures aimed against unemployment would come from revenue arising from partial privatization of Gaz de France and Électricité de France, which is estimated at 13 billion euros. Recourse to privatization should avoid further increases in the public deficit which might again put France's public finances in doubt in terms of the stipulations of the EU Stability and Growth Pact.

Italy: economy worsens in first quarter

Italy's GDP down by 0.2% in first quarter…

Italy's GDP dropped by 0.2% year-to-year in the first quarter, which represents a definite worsening compared with the already weak growth seen in the fourth quarter (0.8% year-to-year). This worse situation came as a result of the loss of strength in practically all demand components. As a result, the slowdown in private consumption (0.3% year-to-year as against 1.2% year-to-year in the fourth quarter), the collapse of investment, which was down 2.6% year-to-year (far from the previous increase of 1.3%), and the drop in growth brought about by the change in inventories left public consumption as the only drive element in domestic demand. Public consumption thus rose to 0.9% year-to-year (0.4% in the fourth quarter). The performance in the foreign sector was no better as it took off four decimals from the change in GDP, slightly worse than the draw-off of 0.3% seen in the fourth quarter.

ITALY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2003	2004	2004			2005		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	0.4	1.0	1.2	1.2	0.8	–0.2	–	...
Retail sales	2.0	–0.4	–0.2	–1.3	–1.1	0.1	...	...
Industrial production	–0.5	–0.6	0.7	–0.8	–1.9	–2.5	–0.3	...
Unemployment rate (*)	8.4	8.0	8.0	8.0	8.0	7.9	–	...
Consumer prices	2.7	2.2	2.4	2.2	2.0	1.9	1.9	1.9
Trade balance (**)	4.1	1.6	2.9	2.3	–0.9	–2.2	–4.5	...

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

...and weakness of economy shows no let-up in second quarter.

The start of the second quarter brought no significant improvement. The drop in consumer confidence in May to –17 points confirms the lack of strength in private consumption in spite of the fact that in February and March retail sales came out of the range of year-to-year decreases. On the supply side, the most notable factor was the drop of 0.3% year-to-year in industrial production, which represents the sixth consecutive month to show a decrease. In any case, the tendency of the trade deficit to increase is something worse. After showing an imbalance for seven months, the cumulative negative balance for 12 months reached 4.5 billion euros in April. The absence of any relevant inflationary pressures (the CPI held stable at 1.9% year-to-year between January and May) and the drop of one decimal in the unemployment rate (7.9% in the first quarter as against 8.0% in the fourth) are practically the only positive factors on the Italian economic scene.

United Kingdom: contained easing of economic activity

U.K. economic activity down as result of drop in consumption.

As the year 2005 has advanced, the slowdown of the British economy has become part of the scene although it has not taken on the seriousness noted in other European economies. Behind this slowdown mainly lies lower household spending. Retail sales in May were up by 1.3% year-to-year, below the 3.0% seen in the first quarter while consumer confidence came close to the –3 points level in May, compared with a level of one point on the positive side in the first quarter.

UNITED KINGDOM: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2003	2004	2004			2005		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
GDP	2.2	3.1	3.6	3.1	2.9	2.7	–	...
Retail sales	3.0	6.2	6.9	6.7	4.8	3.0	2.0	1.3
Industrial production	–0.2	0.5	1.8	0.1	–0.5	–0.9	–1.9	...
Unemployment rate (*)	3.0	2.7	2.8	2.7	2.7	2.6	2.7	2.7
Consumer prices	2.8	2.2	2.2	2.1	2.3	2.2	2.3	2.1
Trade balance (**)	–46.7	–54.7	–53.6	–56.6	–58.3	–59.3	–59.9	...

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

Inflation moderates to close to 2%.

On the supply side, recent trends are stretching into the beginning of the second quarter. Industrial production dropped by 1.9% year-to-year in April in line with the drop of 1.8% year-to-year in March while construction indicators seemed to be consolidating the incipient course of recovery indicated at the end of the first quarter. In addition, the unemployment rate held close to all-time low levels (2.7% of the labour force from March to May) while consumer prices dropped to 2.1% year-to-year in May, two decimals lower than the figure for April.

MONETARY AND CAPITAL MARKETS

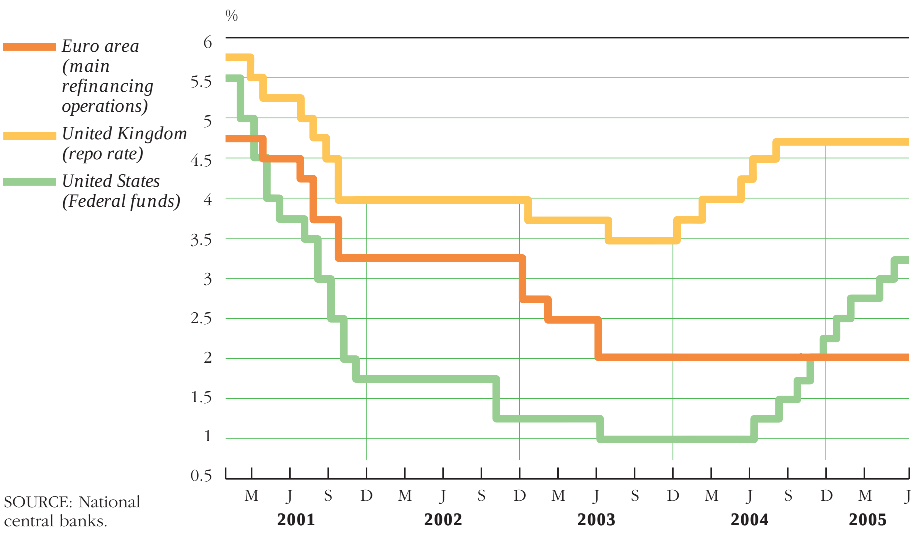
Federal Reserve raises reference rate for ninth time in a row

Notable differences in monetary policy of main world areas.

The increase in the price of oil is putting difficulties in the way of monetary policy planning, already having an unfavourable effect on both inflation and growth. While up to now, the increased cost of oil has not brought greater problems, the main central banks continue to monitor the trend in prices without overlooking economic growth. Nevertheless, the current economic situation presents notable differences in the various geographical areas.

FEDERAL RESERVE RAISES OFFICIAL INTEREST RATE TO 3.25%

Monetary policy reference rates



SOURCE: National central banks.

Federal Reserve still has margin for further increases in official interest rate...

In the United States, in a context of moderate economic growth with inflationary pressures contained, as expected, the Federal Reserve Board raised its reference rates by 25 basis points on June 30. As a result, the objective level of the interest rate on Federal Funds (overnight interbank deposits) stood at 3.25% while the discount rate went to 4.25%. This was the ninth successive increase in official interest rates since June 2004 so that the main official rate has increased by 225 basis points in one year. In its press release the Federal Reserve implied that it still had margin for further increases in interest rates.

...and market discounting new increases.

In this situation, the yield on US 12-month interbank deposits stood at 3.84% at the end of June, an increase of 145 basis points in the past year. As a result, the market is anticipating further increases in coming months. In fact, according to the interest rate curve, the Federal Reserve official rate will go up to around 4% in 2006.

SHORT-TERM INTEREST RATES IN NATIONAL MARKETS

Monthly averages as annual percentage

	Euro area			United States		Japan	United Kingdom		Switzerland
	ECB auctions (2)	Euribor 3-month	Euribor 1-year	Federal Reserve Board target level (3)	3-month	3-month	Bank of England intervention rate (4)	3-month	3-month
2004									
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 (*)	2.05	2.13	2.19	2.99	3.24	0.00	4.75	4.81	0.76
June (1)	2.05	2.10	2.09	3.25	3.50	0.00	4.75	4.75	0.75

NOTES: (*) Provisional figures.
(1) June 29.
(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: 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%), 30-6-05 (3.25%).
(4) Latest dates showing change: 6-2-03 (3.75%), 10-7-03 (3.50%), 6-11-03 (3.75%), 5-2-04 (4.00%), 6-5-04 (4.25%), 10-6-04 (4.50%), 5-8-04 (4.75%).
SOURCE: European Central Bank, Bank of Spain, Thomson Financial Datastream and internal figures.

ECB resisting pressure to cut reference rate.

In the euro area, the European Central Bank (ECB) maintained its reference rates unchanged at the meeting of the Governing Council held on June 2, thus resisting political pressure and that from various economic bodies in favour of a cut. As a result, the official interest rate continued at 2%, the level it has held at for two years.

Increased speculation about cut in ECB interest rate.

In the second week of June, the head economist of the ECB, Otmar Issing, declared that the ECB was not discarding the possibility of a cut in interest rates given the worsening of the economy in the euro area. However, ECB president Jean-Claude Trichet came out in defence of the wait-and-see position of the European Central Bank as well as of its independence. In fact, most members of the Governing Council say that a reduction of the reference rate would be of little value for reactivating the economy, would affect the credibility of the ECB and could sharpen the real estate boom in some countries. In addition, the easing of the euro so far this year has made monetary conditions still easier so that it is not very likely that the ECB will change its position in coming months.

12-month Euribor drops 8 basis points in May going to 2.19%.

The 12-month Euribor dropped by 8 basis points on monthly average in May going to 2.19%, the lowest level since April 2004 putting the figure 11 basis points below one year earlier. In the fourth week of June, the 12-month Euribor dropped to 2.06% as a result of increasing speculation about a decrease in the ECB interest rate. Nevertheless, as this speculation later eased off the 12-month Euribor rose slightly. Toward the end of the month it stood at 2.09%, some 34 basis points below one year earlier. As a result, the market is not expecting any increase in the ECB official rate until the end of 2006 and concedes the possibility of a cut in coming months.

Swedish central bank reduces intervention rate by 50 basis points to 1.50%.

In addition, on June 21, after a long pause, the oldest central bank, the Swedish Riksbank, again decided to ease monetary policy and reduced its intervention rate by 50 basis points. As a result, it put the rate at 1.50%. The Swedish reference rate had held at 2% since April 2004. The decision of the Swedish central bank falls within a framework of worsening economic prospects in that Nordic country with a year-to-year inflation rate of 0.2% in May. On the other hand, on June 30 the Bank of Norway raised its reference rate by 25 basis points putting its deposit rate at 2.00% and its overnight loan rate at 4.0%.

Dollar reasserts its strength in first half-year

Dollar appreciates 3.1% in first five months of year in terms of wide group of currencies.

The dollar appreciated 3.1% in the January-May 2005 period in terms of a wide group of currencies after having shown a marked decline in the last quarter of 2004. As a result, the greenback overcame contrary pressures arising from the massive foreign imbalance of the US economy. In its favour, the US currency was able to count on a relatively high rate of economic growth and an increase in the interest rate differential following successive increases by the US Federal Reserve.

With support of interest rate differential, dollar marks up highest level since October 2004 in overall terms.

In the early weeks of June the dollar showed some swings. At the beginning of the month, it moved downward in the midst of speculation that the Federal Reserve's upward cycle was close to the end. Nevertheless, in the second week of the month the US currency rose, helped by statements by Alan Greenspan, chairman of the Federal Reserve Board, who presented a harmonious economic picture and indicated that he would continue the upward course of reference rates. The figure for the trade deficit in April, which was lower than expected, also contributed to the strengthening of the greenback. At the start of the third week in June, the dollar marked up its highest level since October 2004 in overall terms. Nevertheless, it later dropped to some extent on publication of a very huge current account deficit for the first quarter that was higher than expected.

EXCHANGE RATES OF MAIN CURRENCIES

May 2005

	Final session of month		Monthly figures				*Exchange rate June 29, 2005*
	Exchange rate	% monthly change (2)	Average exchange rate	% change (2) Monthly	% change (2) Over December 2004	% change (2) Annual	
Against US dollar							
Japanese yen	108.5	3.7	106.7	–0.4	2.9	–4.7	*110.4*
Pound sterling (1)	1.817	–4.8	1.854	–2.2	–3.9	3.6	*1.807*
Swiss franc	1.248	4.4	1.218	1.9	6.4	–4.9	*1.282*
Canadian dollar	1.254	–0.3	1.255	1.5	3.1	–8.9	*1.228*
Mexican peso	10.91	–1.5	10.97	–1.3	–2.0	–4.7	*10.76*
Nominal effective index (4)	*111.3*	*1.4*	*110.5*	*0.5*	*1.4*	*–5.6*	*111.8*
Against euro							
US dollar	1.233	–4.8	1.269	–1.9	–5.3	5.7	*1.205*
Japanese yen	133.5	–2.0	135.4	–2.5	–2.7	0.7	*133.0*
Swiss franc	1.537	0.0	1.545	–0.2	0.6	0.3	*1.547*
Pound sterling	0.677	–0.1	0.684	0.2	–1.6	1.8	*0.667*
Swedish krona	9.161	–0.2	9.193	0.3	2.4	0.7	*9.433*
Danish krone (3)	7.442	0.0	7.444	–0.1	0.1	0.1	*7.449*
Polish zloty	4.116	–3.6	4.175	0.5	1.0	–11.6	*4.052*
Czech crown	30.37	–0.4	30.22	0.3	–1.4	–5.5	*30.03*
Hungarian forint	253.6	0.4	252.0	1.5	2.5	–0.4	*247.7*
Nominal effective index (5)	*102.2*	*–2.5*	*104.0*	*–1.1*	*–2.9*	*1.4*	*101.0*

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

Rumours about cut in ECB rate, worsening economic scene and EU political crisis hurt euro…

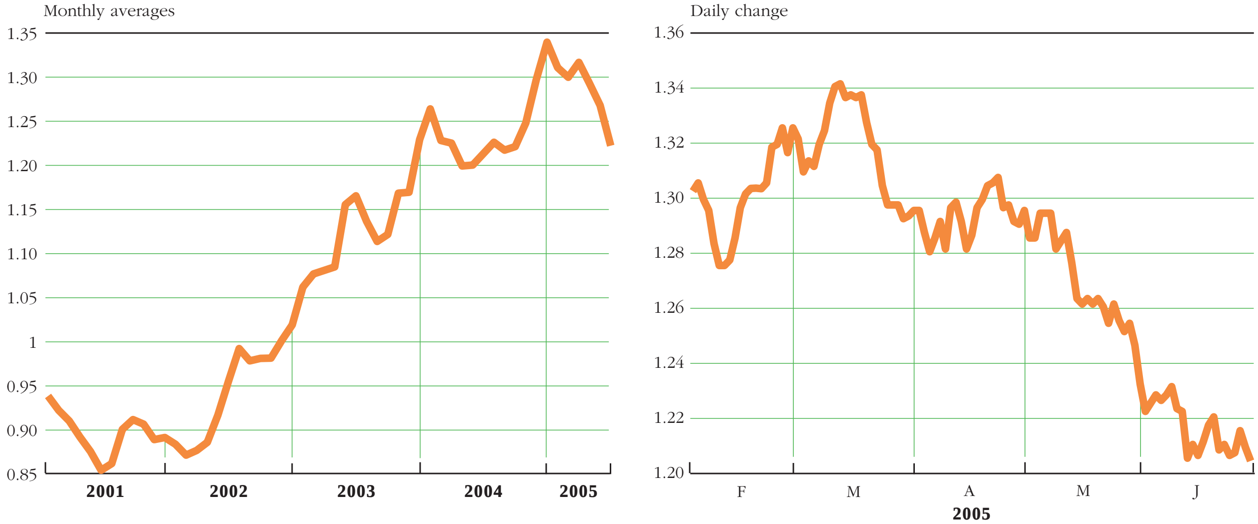
Following a substantial rise in the fourth quarter of 2004, the euro dropped by 5.4% in the first five months of the year in terms of the currencies of its main trading partners. The moderate economic growth of the euro area, the increased differential in interest rates not in its favour in terms of other currencies and the prospect of rejection of the European Constitution in referendums to be held in France and the Netherlands weakened the single currency. Finally, the results of those referendums, more favourable to «No» than expected, and the subsequent EU political crisis sharpened the weakness of the European currency. Furthermore, in June the intermittent rumours of a further cut in the official Eurosystem interest rate and the worsening of the economic scene hurt the euro.

…which, nevertheless, fails to collapse following French «No» vote.

It should be pointed out, however, that the negative in France and the Netherlands to ratify the European Constitution did not bring about the collapse of the euro which some people had forecast. This was in spite of the fact that some politicians, specifically those from the Italian Lega Nord, even proposed a referendum to take Italy out of the euro and go back to the lira. Those proposals, of course, were rejected en masse by other political groups and did not have any effect on the markets.

EURO MARKS UP LOW AGAINST DOLLAR FOR LAST NINE MONTHS

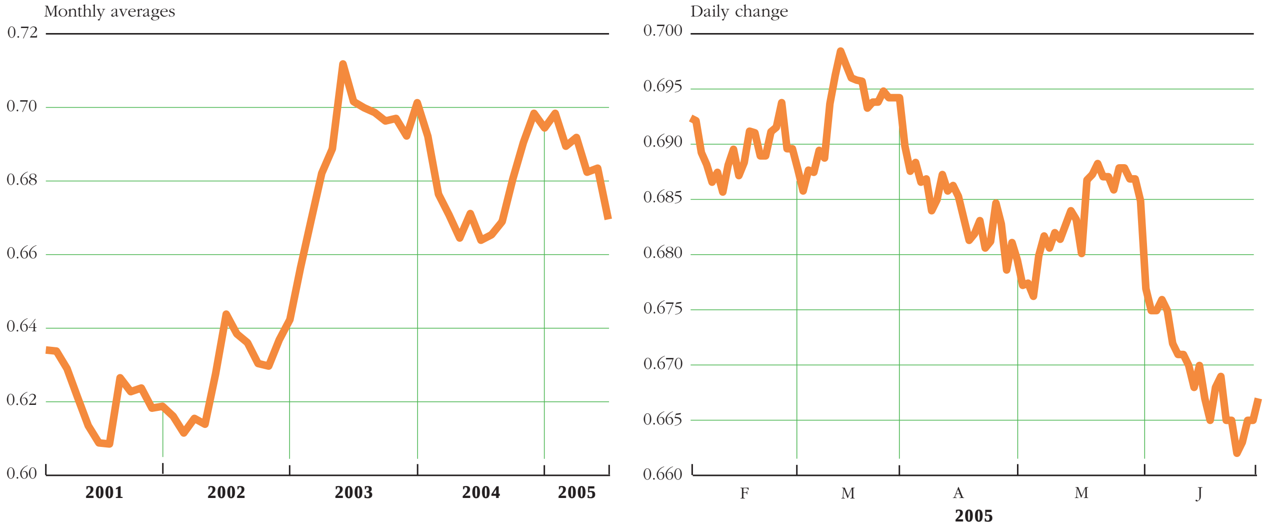
US dollars to euro



NOTES: Figures go up to June 29. SOURCE: OECD, Thomson Financial Datastream and internal figures.

POUND STERLING RECOVERS AGAINST EURO

Pound sterling to euro



NOTES: Rates go up to June 29. SOURCE: Thomson Financial Datastream.

Euro returns to September 2004 level against dollar.

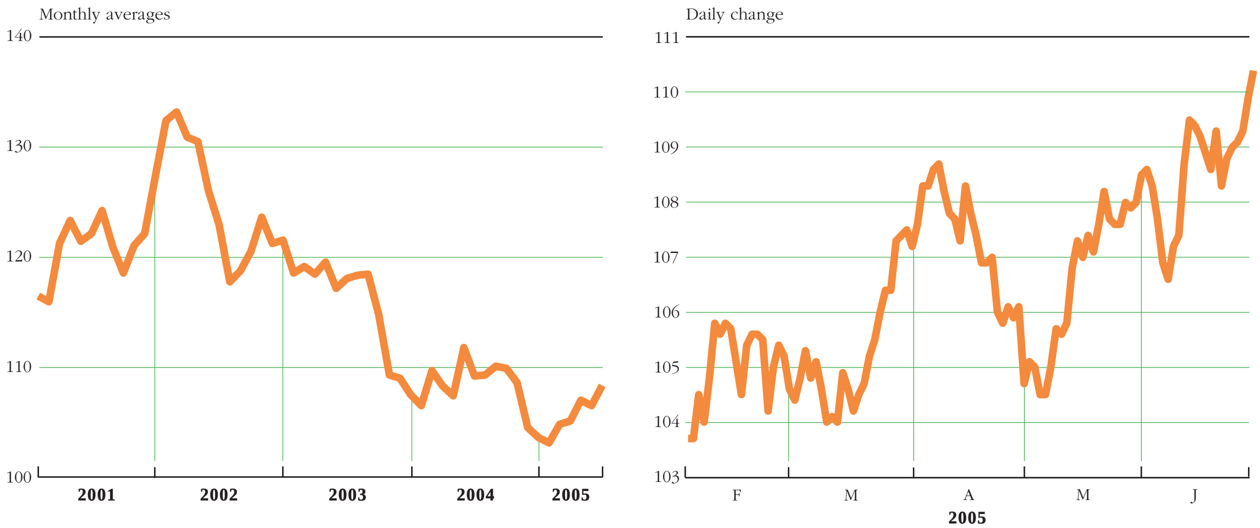
In terms of the dollar, the euro was running at 1.205 dollars on June 29 which meant a drop of 11.5% compared with the end of 2004, a return to the level in September 2004, in view of the repeated signs of an economic slump.

Pound sterling reacts in June marking up highest level since August 2004.

The pound sterling depreciated by 1.2% in terms of a broad group of currencies in May following unfavourable economic indicators for manufacturing industry, the prospect of a downward move by the Bank of England and the reduction of the absolute majority held by the Labour Party in the parliamentary elections. Nevertheless, in June the pound sterling responded and on May 23 it marked up the highest level since August 2004. Against the dollar, however, on June 14 it recorded its lowest level since October 2004.

YEN WEAKENING AGAINST DOLLAR

Yen to dollar



NOTES: Rates go up to June 29. SOURCE: OECD, Thomson Financial Datastream and internal figures.

Yen drops against dollar and rises against euro in first half-year.

The yen recorded cumulative depreciation against the dollar of 5.4% as of May while it rose 4.6% against the euro in the same period. In June, it continued its downward trend against the dollar and its trend to appreciation against the European single currency.

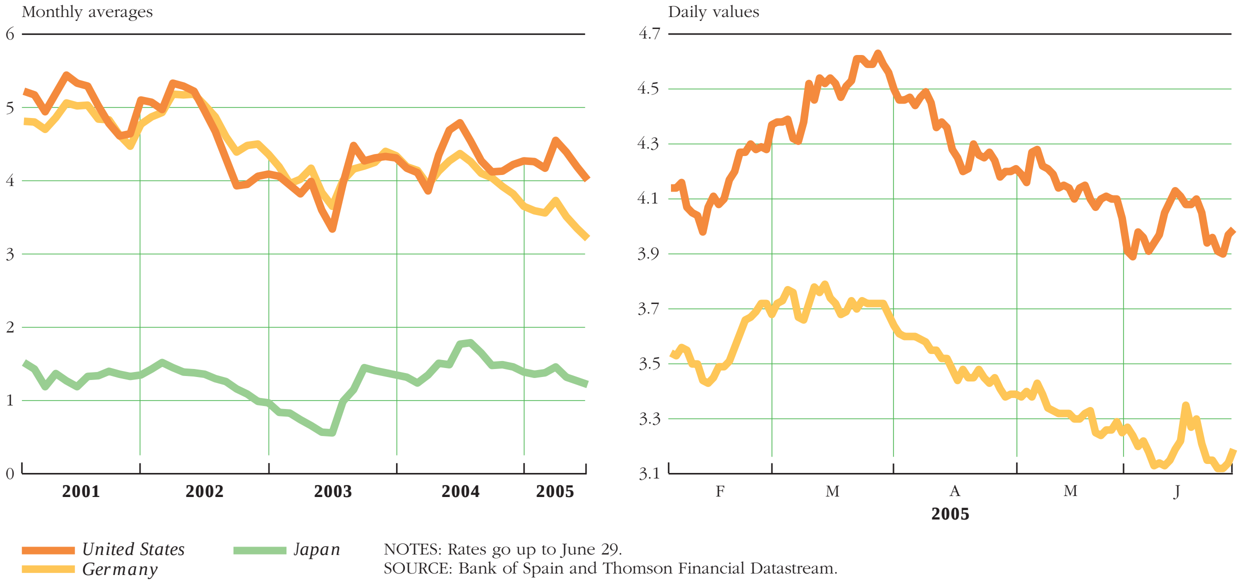
Long-term German bonds at low level

Yield on US 10-year bonds records lowest level since March 2004.

On March 28, the yield on US 10-year Treasury bonds marked up its highest level since the end of June 2004 going up to 4.63%. This increase was brought about by fears that the Federal Reserve was going to raise its reference rate by more than forecast. Nevertheless, the yield on US long-term bonds tended to drop as this concern eased following the appearance of indicators pointing to a slowdown in the economy and some moderation of inflation. As a result, interest on US 10-year bonds dropped to 3.89% at the beginning of June, a level not seen since March 2004 when the Federal Reserve official interest rate stood at 1%.

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

Yield on 10-year government bonds as annual percentage



NOTES: Rates go up to June 29.

SOURCE: Bank of Spain and Thomson Financial Datastream.

Abnormally low yield due to ample world liquidity, abundant savings, reduced uncertainty and buying by Asian central banks.

As a result, in the past year, while the reference rate has moved up by 200 basis points, the yield on 10-year Treasury bonds has dropped by 84 basis points, which is unusual. Other factors apart from those mentioned above which help explain this trend include the existence of ample world liquidity because of monetary policies which are still generally easy (short-term interest rates in Japan are still 0%); relative abundance of savings in a situation of excess installed production capacity; reduction of risk premium associated with increased credibility of central banks; an increase in world competitiveness limiting inflationary pressures; and uncertainty about future growth of the US economy. Specifically, buying of US bonds by Asian central banks which maintain fixed exchange rate policies against the dollar contribute to keeping long-term bond yields abnormally low.

Investors pessimistic about growth.

In this context, as of the beginning of June, the yield on 10-year US Treasury bonds rose slightly to 4.13% at the middle of the month. The disappearance of prospects of an early end to interest rate increases by the Federal Reserve and somewhat more optimism about the economic cycle lay behind this trend. Nevertheless, bond yields later dropped as investors bet that the increase in oil prices would have a greater effect on economic growth than on inflation.

Yield on 10-year German government bonds drops to 3.12% on June 24.

In Germany, after going up to 3.79% on March 14, the yield on 10-year government bonds began a downward course. The disappointing macroeconomic figures appearing progressively postponed the point for any upward monetary turn in the euro area and sharpened speculation about a cut in the official European Central Bank interest rate. As a result, the yield on German 10-year government bonds recorded the lowest level in recent decades going down to 3.12% on June 24. Nevertheless, it later rose to some extent. The differential in long-term interest rates between the United States and Germany has swung at around 80 basis points in recent weeks.

LONG-TERM INTEREST RATES IN NATIONAL MARKETS

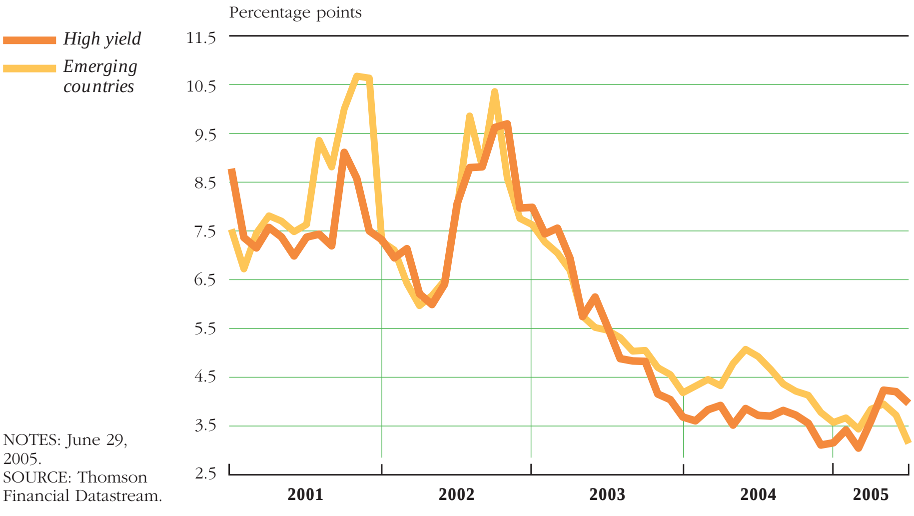
10-year government bonds: average for period as annual percentage

	2002	2003	2004			2005			
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May	June 29
United States	4.65	4.04	4.64	4.34	4.21	4.34	4.39	4.19	3.99
Japan	1.27	0.99	1.59	1.64	1.45	1.41	1.32	1.27	1.14
Germany	4.80	4.10	4.26	4.13	3.80	3.63	3.51	3.35	3.19
France	4.88	4.13	4.31	4.16	3.83	3.64	3.55	3.38	3.14
Italy	5.04	4.24	4.47	4.31	3.94	3.75	3.66	3.52	3.34
Spain	4.96	4.12	4.31	4.17	3.82	3.63	3.53	3.36	3.16
United Kingdom	4.93	4.53	5.14	5.05	4.71	4.72	4.69	4.47	4.21
Switzerland	3.02	2.47	2.74	2.70	2.38	2.15	2.15	2.02	1.96

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

RISK PREMIUM ON BONDS OF EMERGING COUNTRIES AT ALL-TIME LOW

Differential in yield on bonds compared with yield on long-term US Treasury bonds



NOTES: June 29, 2005.
SOURCE: Thomson Financial Datastream.

Risk premium on high-yield bonds partly turning around increase seen in previous months.

The global default rate on low credit rating bonds dropped to 1.9% in May marking up its lowest level since July 1997, according to Moody's rating agency. In fact, the default rate has dropped notably since the 2.3% operating in January and the 3.6% figure one year ago. The prospect is that default will increase in coming months although very gradually. This situation, along with increased investor interest due to the very low levels of government bond yields, meant that the risk premium on low credit rating bonds, measured as the difference between the yield on these bonds and that on long-term government bonds, has dropped in recent weeks partly turning around the trend in previous months. On the other hand, the risk premium on bonds of emerging countries, which also have benefited from increased demand, dropped to the lowest levels in recent years due to the improvement in their economic situation and the reduced prospect of increases in US interest rates.

European stock markets mark up highs for recent years in June

Poor stock market results in first four months of year...

Following the sharp increases seen in 2003 and 2004, most main international stock markets ended the first four months of the year showing capital losses over December, far from the highs in recent years recorded in February and the beginning of March. This trend was due to factors, such as the increase in oil prices, the rise in prices of other raw materials, the increase in US long-term interest rates as of mid-February, and doubts about the state of the world economy, especially that of the United States.

...generally overcome in May and June.

Nevertheless, in May there was a reaction in the stock markets thanks to better than expected corporate profits, the prospect of lower inflationary pressures with subsequent lower yields on government bonds and decreases in crude oil prices. This upward movement continued in the early weeks of June with a further drop in bond interest rates. As a result, in the third week of the month, many European stock markets reached high levels for recent years in spite of a further step-up in oil prices. In any case, new all-time highs in oil prices recorded the following week put something of a brake on this upward trend.

US stock markets fail to recover par for year.

The situation in US stock markets improved in the early weeks of June, in spite of the fact that job creation in May turned out worse than expected. As a result, the Standard & Poor's 500 index recovered par for the year toward the middle of June but lost it again later on. The traditional Dow Jones Industrial index continued to show negative cumulative gains over December. The Nasdaq general index, which is representative of hi-tech shares, continued to show the worst cumulative performance. The relative over-valuation of the US stock markets, the increases in Federal Reserve interest rates and some disappointing corporate profits lay behind the worse trend in this market compared with those of Europe.

INDICES OF MAIN WORLD STOCK EXCHANGES

May 31, 2005

	Index (*)	% monthly change	% cumulative change	% annual change	*Figures on June 29, 2005* % cumulative change	*% change over same date in 2002*
New York						
Dow Jones	*10,467.5*	*2.7*	*–2.9*	*2.7*	*–3.8*	*12.2*
Standard & Poor's	*1,191.5*	*3.0*	*–1.7*	*6.3*	*–1.0*	*21.2*
Nasdaq	*2,068.2*	*7.6*	*–4.9*	*4.1*	*–4.9*	*41.4*
Tokyo	11,276.6	2.4	–1.8	0.4	0.8	*9.0*
London	4,964.0	3.4	3.1	12.0	6.1	*9.7*
Euro area	3,076.7	5.0	4.3	12.4	7.7	*1.4*
Frankfurt	*4,460.6*	*6.6*	*4.8*	*13.8*	*7.7*	*4.6*
Paris	*4,120.7*	*5.3*	*7.8*	*12.3*	*10.7*	*8.6*
Amsterdam	*364.7*	*4.7*	*4.8*	*8.2*	*10.1*	*–12.8*
Milan	*24,264.0*	*2.7*	*3.1*	*18.0*	*4.6*	*20.7*
Madrid	*9,427.1*	*4.7*	*3.8*	*18.4*	*7.6*	*41.3*
Zurich	6,127.2	4.4	7.6	8.9	10.0	*4.7*
Hong Kong	13,867.1	–0.3	–2.6	13.7	0.3	*34.7*
Buenos Aires	1,485.6	10.2	8.0	55.9	–0.1	*292.0*
São Paulo	25,207.0	1.5	–3.8	29.0	–4.1	*125.6*

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

Rise in oil benefits energy sector.

By sector, trends have been uneven. The energy sector stood out for capital gains over December. Utility companies and the health and pharmaceutical sector marked up notable increases as of June. On the other hand, the biggest capital losses so far this year were concentrated in companies involved in non-cyclical consumer products and telecommunications.

DJ Eurostoxx 50 marks up high for past three years.

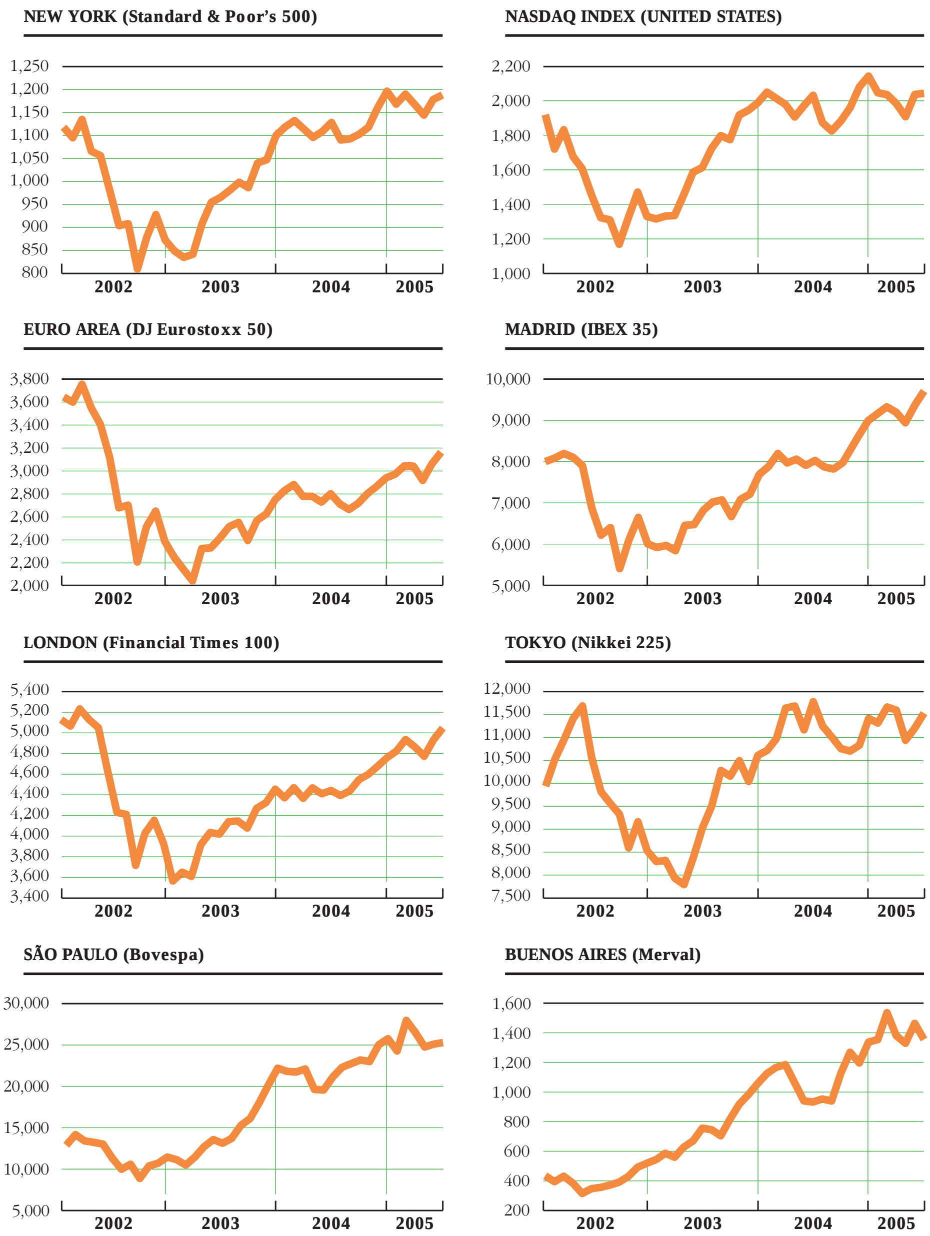
The DJ Eurostoxx 50 index, which includes the biggest companies in the euro area, ended May with cumulative gains of 4.3%, and in June these had risen to 7.7%. On June 23, this index recorded a high for the past three years. The prospect of maintenance of interest rates by the European Central Bank at very low levels for a long period and even a reduction, with long-term bond yields at all-time low levels, and the euro moving down, improved the profit prospects of companies in the euro area. The political crisis in the Monetary Union following the «No» vote on the European Constitution in France and the Netherlands scarcely made any impression on the markets. Corporate moves, such as those taking place in the banking sector, enlivened prices. As a result, half-way through the year the main euro area stock markets were showing notable capital gains with the Paris and Amsterdam markets in the lead.

IBEX 35 records highest level since May 2001.

With regard to the Spanish stock market, the IBEX 35 ended May on positive ground with an increase of 3.8% over December. The increase broadened to 7.6% toward the end of June, thus overcoming the drops seen in March and April. On June 23, the IBEX 35 marked up the highest level since May 2001 regaining the 9,700 level. The good state of corporate profits was behind investor enthusiasm. It should be pointed out that in the first six months of the year only 7 of the 35 shares making up the IBEX 35 index stood in the red compared with December.

INTERNATIONAL STOCK EXCHANGES

Indices at month-end



NOTES: June 29, 2005. SOURCE: Thomson Financial Datastream.

Swiss stock market shows brilliant results.

Outside the euro area, the Financial Times 100 index for the London stock exchange also showed notable gains at the half-year mark. The SMI index for the Swiss stock market showed a brilliant performance in the first half-year. On the other hand, the Nikkei 225 index for Japan managed to recover par for the year in June although it was far from the annual high seen in March. An increase in the designation of banks and clearer prospects in the export sector due to depreciation of the yen against the dollar helped the stock market recovery although the increase in oil prices weighed against it.

Notable gains in Mexican stock market in first six months of year.

With regard to emerging markets, these showed uneven trends in the half-year. The Hong Kong stock market managed to show slight capital gains over December toward the end of June. At the same time, the Mexican market marked up a considerable rise although it stood far from the all-time high in March. The Argentine stock market went through an unfavourable period in June so that cumulative gains disappeared. The Brazilian stock market, which ended May on negative ground, came to the end of the first half-year without managing to get out of the red.

ECONOMIC ACTIVITY

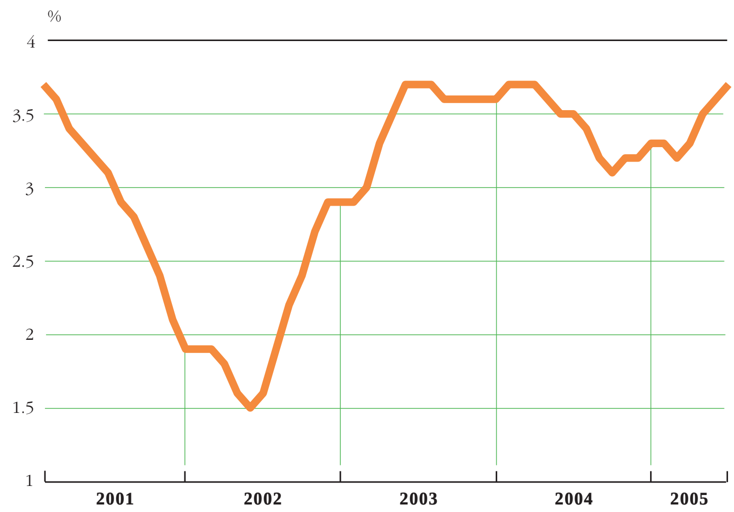
Economic activity continues strong growth

Economic activity maintains sharp growth rate...

In the second quarter of 2005, Spain's economic activity has maintained a growth rate similar to that seen in the three preceding months, if we are to go by trends seen in the main economic activity indicators. In this respect, electricity consumption (corrected for calendar and temperature differences), which reflects fairly precisely the general level of activity, has shown a sharp growth profile in recent months. At a more general level, the composite business activity index (drawn up by the Ministry of Economy from a broad group of partial indicators) also shows a trend with an upward background.

ECONOMIC ACTIVITY MAINTAINS SUSTAINED GROWTH

Year-to-year change in composite business activity index



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

...with notable exception of industry still stuck in strong climate of pessimism.

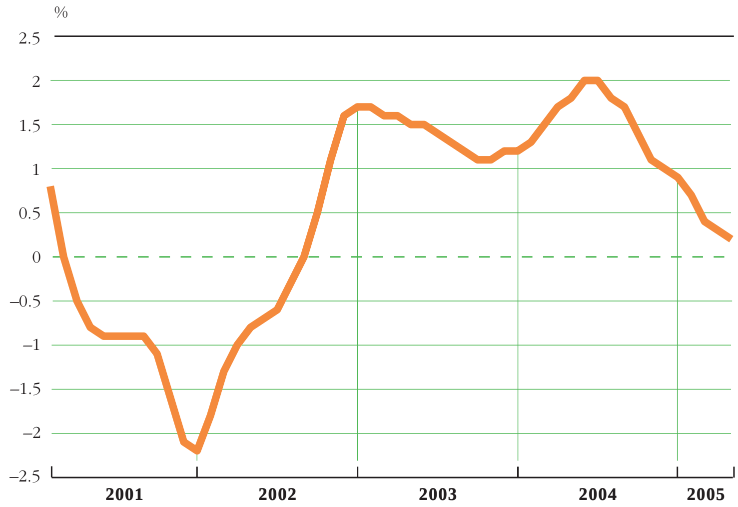
Industry has not managed to come out of its slump and is the clear exception to the generally good climate. In the first four months of the year, the industrial production index (adjusted for calendar differences) grew by a mere 0.2% year-to-year in a context of real pessimism. This is reflected in the sector confidence indicator which in May fell to the level of –7 points, the lowest in the past three years. Along the same lines, the PMI index, drawn up on the basis of responses by purchasing managers, fell to 49.2 points in April (this indicates a contractile situation when it drops below 50 points).

Textile sector and clothing and, to a lesser extent, motor vehicles show very negative trend.

The trend is particularly negative in branches of industry such as textiles, clothing, furs and leather with big decreases in respective production indices (between 9% and 15% year-to-year) in the first four months. The drop of 5.4% in the motor vehicles index is also very significant, if we take into account the high relative weight of that activity in the general index. On the positive side, we should point out the increases reported in publishing (7.7%) and metal products (1.0%).

CLEAR SIGNS OF WEAKNESS IN INDUSTRY

Year-to-year change in industrial production index



NOTES: Cycle-trend series adjusted for calendar differences.
SOURCE: INE and internal figures.

Optimism, on other hand, riding in construction...

On the other hand, the climate in construction is quite different with sharp growth profiles in nearly all indicators, such as in the highly representative indicator of cement consumption. Government tendering has also reported a very high volume in recent months, largely thanks to that carried out by autonomous communities and local government. In this situation, sector confidence sentiment continues quite high with many opinions very positive about the situation in order books.

...as well as in services.

With regard to services, the general tone also continues to be fairly positive. In broad terms, the upturn shown by the composite indicator prepared by the Ministry of Economy falls within the favourable performance seen in the sector confidence indicator. Information and communications technology and company services appear as the most dynamic sectors, according to the trend in the volume of business indicators drawn up by the National Institute of Statistics.

SUPPLY INDICATORS

Percentage change over same period year before

	2003	2004	2004			2005		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
Industry								
Electricity consumption (1)	5.4	3.3	3.6	3.0	2.4	5.2	2.6	4.8
Industrial production index (2)	1.4	1.6	2.4	2.2	0.4	0.3	0.0	...
Confidence indicator for industry (3)	–0.9	–2.5	–2.0	–2.7	–2.3	–3.3	–6.0	–7.0
Utilization of production capacity (4)	79.1	79.8	79.3	80.5	80.5	79.4	–	79.5
Imports of non-energy intermediate goods (5)	6.2	6.6	6.6	6.0	4.7	0.7	2.2	...
Construction								
Cement consumption	4.8	3.8	2.4	3.8	3.9	–0.2	16.0	11.3
Confidence indicator for construction (3)	10.3	13.6	8.0	16.0	24.0	23.7	20.0	15.0
Housing (new construction approvals)	21.4	8.0	9.2	14.9	0.5	3.7	...	...
Government tendering	–10.9	17.9	–9.4	65.6	37.4	5.9	...	...
Services								
Retail sales	5.7	5.5	5.6	4.4	5.5	4.0	7.2	...
Foreign tourists	–1.0	2.8	–0.6	1.4	10.0	7.4	0.0	5.4
Tourist revenue inflows	4.4	3.8	–2.4	5.2	8.5	–0.8	...	...
Goods carried by rail (km-tonnes)	1.7	–3.5	6.2	–8.5	–16.7	–14.3	–3.2	...
Air passenger traffic	7.5	7.8	6.7	6.5	8.3	8.4	5.4	11.0
Motor vehicle diesel fuel consumption	7.5	7.3	6.8	9.0	5.7	2.5	...	...

NOTES: (1) Adjusted for number of working days and temperature.
(2) Adjusted for difference in number of working days.
(3) European Commission survey: difference between percentage of positive and negative replies.
(4) Business survey: percentage of utilization inferred from replies.
(5) By volume.

SOURCE: Red Eléctrica Española, OFICEMEN, 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.

Strength of domestic demand continues to boost tourist sector.

In the light of this information, retail trade and transportation are also holding to a notable growth rate while, on the other hand, tourism is showing a more moderate increase. The tourism sector, in fact, continues to rest on the strength of domestic demand. On the other hand, the flow of foreign visitors has failed to show up as any significant growth in overnight stays in hotel or inflows recorded in the balance of payments, this being seen as a likely cutting down in average spending per tourist.

Consumption of consumer durables tending to moderate…

On the demand side, available figures point to some moderation in the rate for consumer goods, mainly consumer durables, compensated by greater strength in demand for services. From January to April, production of consumer goods grew by 0.5% year-to-year while, in the same period, the increase in imports of these goods came to 6.5%, still a very high level but clearly dropping compared with previous rates.

DEMAND INDICATORS

Percentage change over same period year before

	2003	2004	2004			2005		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
Consumption								
Production of consumer goods (*)	0.2	–0.2	–0.7	0.1	0.1	0.1	1.8	...
Imports of consumer goods (**)	10.9	13.4	17.2	9.7	8.3	6.5	6.8	...
Car registrations	3.8	9.8	9.5	5.3	4.7	–0.0	6.6	7.1
Credit for consumer durables	1.6	5.5	4.8	4.4	9.2	8.8	–	–
Consumer confidence index (***)	–13.7	–10.8	–9.3	–11.7	–10.3	–9.7	–11.0	–11.0
Investment								
Capital goods production (*)	0.6	1.8	3.7	4.7	–1.7	–0.8	2.0	...
Imports of capital goods (**)	14.8	14.9	4.3	19.2	29.0	28.6	50.5	...
Commercial vehicle registrations	13.5	11.7	13.1	9.4	9.4	9.2	23.7	17.3
Foreign trade (**)								
Non-energy imports	8.8	9.8	9.5	8.9	9.0	5.7	11.6	...
Exports	6.9	5.2	3.7	6.7	4.3	–3.1	5.6	...

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 generally domestic demand continues to show very strong.

In real terms (discounting inflation), the retail sales index grew by 1.7% year-to-year in the first four months of the year, a rate very similar to that recorded in the second half of 2004. In addition, car registrations rose by around 2.8% in the first five months of the year but, in this case, below rates reported in 2004. In any case, both the figure for May and the cumulative figure for the first five months of the year, in quantitative terms, were the highest in history, thus proving the strength of the Spanish domestic market. The boom in motorcycle sales also continued (from January to May, registrations of these vehicles being twice those one year ago) as a result of changes in regulations on driving licences.

Capital goods investment continues sound growth.

Finally, demand in capital goods investment continued to show strong growth, if we are to judge by the sharp increase in imports of goods of this type (34.6% year-to-year from January to April) and the considerable increase in registrations of commercial vehicles (13.8% in the first five months of the year). The strength of domestic demand for consumer goods and capital goods was in contrast to the weakness in exports which, in real terms, fell by 0.9% year-to-year in the first four months of the year.

Increase in farm production in 2004

Farm production grows by nearly 6% real in 2004...

The value of farm production grew by 4.6% in 2004, according to early figures from the Ministry of Agriculture, Fishing and Food, as a result of the increase in volume (up 5.9%) and the overall drop in prices (1.3%). The increase in farm production was mainly due to the increase in crop production which grew by 9.2% in real terms as against a modest increase in livestock and animal product production (0.4%).

...thanks to increase in crop production...

The value of crop production rose to 26.61 billion euros, 5.5% more than in the year before, as a result of the physical increase mentioned and a decrease in prices of around 3.5%. This situation was exactly the opposite of that seen in 2003, a year when the drop in production was combined with a considerable increase in prices.

OVERALL FARM FIGURES

Million current euros

	2003	2004	% change			% share
			Value	Price	Real	
Agricultural production						
Crop production	25,229.6	26,608.7	5.5	–3.5	9.2	61.9
Livestock/animal products production	14,215.9	14,628.3	2.9	2.4	0.4	34.0
Other activities	1,691.0	1,771.1	4.7	2.2	2.4	4.1
Total	**41,136.4**	**43,008.2**	**4.6**	**–1.3**	**5.9**	**100.0**
Intermediate consumption	**14,165.7**	**14,887.1**	**5.1**	**4.2**	**0.9**	**34.6**
Gross value added	**26,970.7**	**28,121.1**	**4.3**	**–**	**–**	**65.4**
Depreciation	3,287.4	3,571.4	8.6	–	–	8.3
Other subsidies	2,504.9	2,585.8	3.2	–	–	6.0
Other taxes	152.9	158.2	3.5	–	–	0.4
Farm incomes	**26,035.4**	**26,977.2**	**3.6**	**–**	**–**	**62.7**

SOURCE: Ministry of Agriculture, Fishing and Food.

...mainly olive oil...

The increase in crop production may be explained by the rise in volume for most products. Of special note was the sharp increase in olive oil production which showed a 63.2% increase in volume and a decrease of 14.0% in prices, compared with the year before, which falls within the characteristic swings in this product. It should be remembered that in the previous season there was a drop in production of close to 40% accompanied by a notable increase in prices.

...cereals...

The increase in cereal production (24.4%) was due to increases in barley (22.0%), oats (16.6%) and maize (9.4%), with price increases of little importance in all cases. This performance was influenced by the abundant rain recorded at the beginning of the year but which did not continue all through the period. Rye production (with a drop of close to 10%) did not follow the general pattern nor did the drop in the price of rice (close to 20%).

CROP PRODUCTION

Million current euros

	2003	2004	% change Value	% change Price	% change Real	% share
Cereals	4,499.0	5,465.2	21.5	–2.4	24.4	20.5
Industrial crops	1,442.5	1,462.2	1.4	–2.6	4.0	5.5
Forage crops	603.4	658.7	9.2	8.5	0.6	2.5
Produce	7,631.4	7,913.5	3.7	–2.9	6.8	29.7
Potatoes	558.6	637.9	14.2	15.8	–1.4	2.4
Fruit	6,313.5	5,429.6	–14.0	–2.3	–12.0	20.4
Wine and must	1,300.1	1,274.1	–2.0	–5.5	3.7	4.8
Olive oil	2,158.3	3,029.9	40.4	–14.0	63.2	11.4
Other	722.8	737.6	2.1	2.1	0.0	2.8
Total	**25,229.6**	**26,608.7**	**5.5**	**–3.5**	**9.2**	**100.0**

SOURCE: Ministry of Agriculture, Fishing and Food.

...and produce, while fruit and potato production down.

Production of produce also held to a fairly positive trend with a real increase of 6.8%, partly compensated by a decrease in prices which limited the increase in value to 3.7%. On the other hand, potato production was down by 1.4% but the sharp increase in prices made possible an increase of 14.2% in value. On the negative side we must put the drop in fruit production (12.0%) along with a drop in prices (2.3%). In the case of wine and must, the increase in volume (3.7%) was wiped out by the drop in prices, there in fact being a decrease of 2.0% in value compared with the year before.

Meat production stagnant with considerable increase in pork prices...

With regard to the balance of livestock and animal product production in 2004, the 2.9% increase in value was due mainly to the upward course of prices (2.4%) given that actual production held practically stable, as indicated earlier. In meat production, the increase in value (3.4%) may largely be explained by the overall growth in prices (2.8%), particularly those for pork which showed a rise of 8.6%, in this case coinciding with a slight increase in production.

...in contrast to drop in beef prices.

The performance in beef was somewhat different with a 1.7% increase in volume accompanied by a drop of 3.0% in prices. The opposite happened in mutton and goat with a 1.0% drop in production which was compensated by a increase of much the same size in prices (1.1%). In turn, poultry production recorded moderate increases both in volume (1.0%) and prices (1.4%).

Moderate advance in value of other animal products.

Under animal products, the moderate increase in value (1.3%) showed up in very different performances in its various components. Whereas the drop in milk production (2.1%) was more than compensated by a rise in prices (5.3%), the increase in egg production (4.1%) was not sufficient to absorb the drop in prices (5.2%).

LIVESTOCK AND ANIMAL PRODUCT PRODUCTION

Million current euros

	2003	2004	% change			% share
			Value	Price	Real	
Meat and livestock						
Beef	2,609.0	2,575.1	–1.3	–3.0	1.7	17.6
Pork	4,164.1	4,540.2	9.0	8.6	0.4	31.0
Horse	43.6	45.5	4.2	0.0	4.2	0.3
Mutton and goat	1,787.5	1,790.4	0.2	1.1	–1.0	12.2
Poultry	1,631.8	1,670.5	2.4	1.4	1.0	11.4
Other	418.5	398.4	–4.8	–5.3	0.5	2.7
Total	**10,654.5**	**11,020.0**	**3.4**	**2.8**	**0.6**	**75.3**
Animal products						
Milk	2,294.4	2,364.8	3.1	5.3	–2.1	16.2
Eggs	1,094.6	1,080.2	–1.3	–5.2	4.1	7.4
Other	172.5	163.3	–5.3	–5.3	0.0	1.1
Total	**3,561.4**	**3,608.3**	**1.3**	**1.4**	**–0.1**	**24.7**
Total	**14,215.9**	**14,628.3**	**2.9**	**2.4**	**0.4**	**100.0**

SOURCE: Ministry of Agriculture, Fishing and Food.

Farm income up 3.6% nominal, equivalent to slight drop at constant prices.

In turn, intermediate consumption grew by 5.1% in value due mainly to the increase in prices (4.2%) as against very modest growth in volume (0.9%). Net subsidies to products amounted to 3.85 billion euros, an increase of 1.6% compared with the year before while other subsidies amounted to 2.59 billion euros, 3.2% more than in 2003. Finally, total farm incomes amounted to 26.98 billion euros, 3.6% more than in 2003, which is equal to a slight decrease at constant prices. In any case, thanks to growth in productivity, income per work unit per year rose by 1.9% in real terms.

Drought darkens prospects for 2005.

With regard to 2005, current prospects are fairly pessimistic. Following the freeze-ups in winter, the drought (the worst remembered in 60 years) has gravely hurt dry-farming crops and is beginning to put irrigation lands in danger. Large herds of cattle and flocks of sheep are also suffering badly from lack of pasture which has its effect in an increase in production costs because of the need to provide supplementary animal feed. Furthermore, it is feared that the increase in fuel prices will have a negative impact on farm income in spite of the supports provided.

LABOUR MARKET

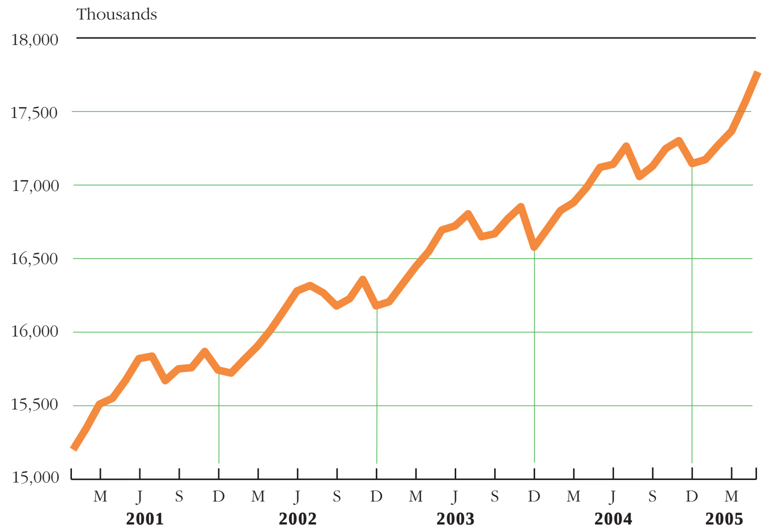
Employment holding strong before summer

Registrations with Social Security up sharply because of legal status gained by foreign workers.

The number of persons registered with Social Security rose by 212,272 in May, a figure very much above that for the same month in 2004, raising the total to 17.8 million, an all-time high. This sharp increase was largely due to the process under which foreign workers have gained legal status, a process begun last February and which only in May involved 88,979 new registrations. As a result, the growth rate of registrations with Social Security has been increasing sharply to reach 3.8% year-to-year. If we discount these registrations, which do not involve new jobs but only give existing jobs legal status, registrations would have grown by 3.3%, a rate which shows the strength of the labour market.

PROCESS OF GIVING LEGAL STATUS TO IMMIGRANT WORKERS BOOSTS REGISTRATIONS WITH SOCIAL SECURITY

Total registrations with Social Security



SOURCE: Ministry of Labour and Social Affairs.

Registrations of foreign workers up 28% while increase in registrations of Spaniards rises by 2.2%.

Apart from the process of obtaining legal status, the increase in registrations with Social Security has been nourished by the incorporation of foreign workers in the protection system. In May, the total number of foreign workers registered stood at 1,364,003, some 28.4% more than in the same period in 2004. This increase is in sharp contrast to the rise in registrations by Spaniards at 2.2% year-to-year, a figure that more faithfully indicates the background course of employment growth in Spain.

EMPLOYMENT INDICATORS

Percentage change over same period year before

	2003	2004	2004			2005		
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	April	May
Persons registered with Social Security								
Wage-earners	3.2	2.7	2.4	2.6	3.1	2.8	3.5	4.1
Industry	*–0.5*	*–0.5*	*–0.5*	*–0.6*	*–0.5*	*–0.9*	*–0.7*	*–0.8*
Construction	*4.3*	*5.0*	*4.3*	*4.6*	*6.8*	*5.0*	*6.7*	*8.0*
Services	*4.1*	*4.1*	*3.7*	*4.0*	*4.4*	*4.5*	*5.0*	*4.9*
Non-wage-earners	2.3	3.2	3.2	3.2	3.2	2.9	2.8	2.7
Total	**3.0**	**2.8**	**2.6**	**2.7**	**3.1**	**2.8**	**3.4**	**3.8**
Persons employed (*)	**4.0**	**3.9**	**3.6**	**3.8**	**4.1**	**5.1**	**–**	**–**
Jobs (**)	**2.5**	**2.7**	**2.5**	**2.7**	**2.9**	**3.0**	**–**	**–**
Hiring contracts registered (***)								
Permanent	–1.0	11.8	16.3	18.2	4.4	0.6	5.0	...
Temporary	3.9	11.4	13.7	14.7	4.0	–9.8	5.3	...
Total	**3.4**	**11.5**	**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.

Construction and services maintaining notable strength.

By sector, the biggest growth was seen in construction, with a rise of 8.0%, and in services where the increase in registrations reached 4.9% year-to-year. Industrial employment, in turn, continued to drop, although at very moderate rates.

Hiring contracts registered at INEM down moderately between January and May.

Job placements registered at the National Institute of Employment (INEM) rose sharply in May. In spite of this, in the first five months of the year as a whole, hiring contracts registered showed a slightly negative balance more due to the drop in temporary hiring contracts (2.9%) than the increase in permanent hiring contracts (3.1%). Part-time work, in turn, showed a modest increase. In any case, these figures must be interpreted with care given that there is great variation in the length of contracts which makes them quite different in terms of equivalent time worked.

Registered unemployment continues to drop

Registered unemployment sharpens rate of decrease as also shown by new SISPE figures.

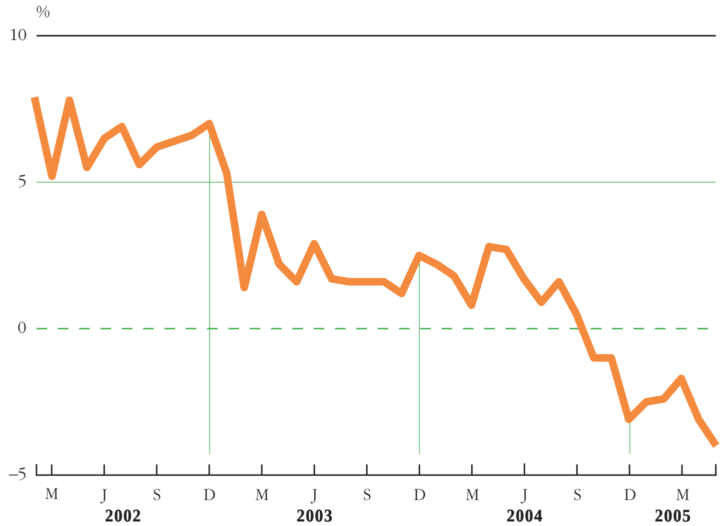
The number of persons registered at offices of public employment services was down by 88,552 in May, slightly better than the figure for the same month last year. These figures are the first to be published by the new Information System for Public Employment Services (SISPE) which have had the effect of raising registered unemployment rates available up to this moment (see accompanying box).

New statistical series does not change existing trend.

This new statistical series does not change the trends that have been recorded in recent months, characterized by a sustained decrease in unemployment. In effect, according to the SISPE, unemployment at the end of May (2,007,393 persons) continued to drop at the appreciable rate of 4.0% year-to-year, nearly one point higher than in the month before.

REGISTERED UNEMPLOYMENT: SHARPER DECREASE

Year-to-year change in registered unemployment



SOURCE: Public Employment Services and internal figures.

CHANGES IN MEASUREMENT OF REGISTERED UNEMPLOYMENT

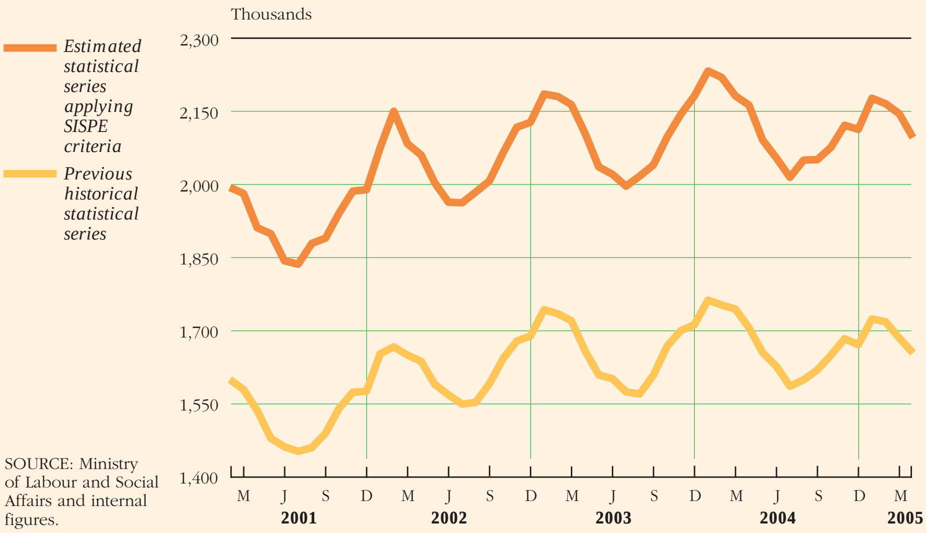
The coming into force of the Information System for Public Employment Services (SISPE) as of May 2005 made it possible to integrate information from each of the public employment services (both of central government and autonomous communities) opening the way to coordination of common measures and strategies aimed at helping people to join the labour force as well as aiding the study of Spain's labour market.

Introduction of the SISPE also brings an important qualitative improvement to the method of measuring registered unemployment. By applying the new criteria, the total number of unemployed changes by around 451,000 more persons, on average, in the first four months of 2005, with similar changes being estimated in simulations carried out for the immediately preceding years. Specifically, for January 2005 some 453,150 additional unemployed persons were found to exist due to the following main causes:

- *The inclusion of those of foreign nationality seeking work (not included in the former system) means 113,578 more persons registered.*
- *Cross-referencing with updated Social Security files identifies 314,984 more persons unemployed who had been excluded under the former system due to incorrect classification. These were mainly persons looking for work who declared that they included a part-time benefit with a job or else that they were looking for a second or better job, etc., but did not have registration with Social Security.*
- *Bringing up-to-date and checking of codes used to classify those persons looking for work meant a change of 24,588 more persons unemployed. Checking was carried out by cross-referencing with other information sources and improving identification data of those seeking work. This mainly involves subsidized temporary farm workers, those workers affected by labour force adjustment orders, students, etc. who have shown that they are no longer in that situation.*

NEW SYSTEM FOR MEASURING REGISTERED UNEMPLOYMENT ACCOUNTS FOR NEARLY 450,000 MORE PERSONS UNEMPLOYED

Number of registered unemployed at employment offices



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

It should be pointed out that introduction of the SISPE system does not mean a real increase in registered unemployment but rather essentially an improvement in the information used to prepare the statistics. The autonomous communities to show the biggest positive differences in January 2005 were Andalusia (105,345 more unemployed, a 29.7% increase over the former system), Catalonia (68,794; up 32.2%), Madrid Community (54,295; up 30.0%), Valencian Community (42,155; up 27.0%), Castile-Leon (21,561; up 21.2%) and Canary Islands (21,379; up 19.2%).

Notable improvement in situation of construction and services.

The improvement in the situation was especially notable in construction and services although the sharp reduction in those looking for a first job also contributed to the good monthly figure. Unemployment in industry continued to show a moderate and fairly stable decrease.

Cumulative figure as of May most favourable in recent years.

The sharp decrease in unemployment in May helped the cumulative figure for the year to show more favourable results than in 2004. In fact, the cumulative decrease stood at 105,322 persons, well above the figure for the previous year. The good cumulative results in construction and services, in the latter case very similar to those for 2004, were behind the improved situation.

Navarre, Valencian Community and La Rioja only autonomous communities with unemployment higher than in 2004.

The new unemployment statistics show most of the autonomous communities as having a lower level of unemployment than the year before, except in the case of Navarre, La Rioja and Valencian Community which, in fact, does not mean any change regarding the situation as reflected in the previous statistical series. The better performances continue to be recorded in Madrid Community, where the year-to-year decrease in unemployment is especially high (12.2%), and in Castile-Leon, the Basque Country, Extremadura and Andalusia, with decreases of between 5% and 7%.

REGISTERED UNEMPLOYMENT BY SECTOR, SEX AND AGE

May 2005

	No. of unemployed	Change over December 2004		Change over same period year before		% share
		Absolute	%	Absolute	%	
By sector						
Agriculture	56,349	6,057	12.0	3,823	7.3	2.8
Industry	295,928	–7,654	–2.5	–6,856	–2.3	14.7
Construction	219,919	–32,780	–13.0	–12,473	–5.4	11.0
Services	1,207,691	–57,094	–4.5	–34,178	–2.8	60.2
First job	227,506	–13,851	–5.7	–33,624	–12.9	11.3
By sex						
Males	782,160	–95,860	–10.9	–58,176	–6.9	39.0
Females	1,225,233	–9,462	–0.8	–25,133	–2.0	61.0
By age						
Under 25 years	258,851	–9,962	–3.7	–17,880	–6.5	12.9
All other ages	1,748,542	–95,360	–5.2	–65,429	–3.6	87.1
TOTAL	**2,007,393**	**–105,322**	**–5.0**	**–83,308**	**–4.0**	**100.0**

SOURCE: National Employment Institute and internal figures.

Wage increases contained

Increase in wage costs moderating but not total labour costs.

According to the quarterly survey of labour costs, the average increase in total wage costs per person per month continued to show a state of moderation standing at 2.5% in the first quarter of 2005, one decimal less than in the previous quarter. For the fourth consecutive quarter it was also lower than the increase in inflation. If we add other labour costs, such as Social Security and other benefits, to wage costs, the increase in

WAGES RISE LESS THAN INFLATION

Annual change in represented indicators

SOURCE: INE and internal figures.

total labour costs stood at 3.0% thus showing a profile of moderate increase. The determining factor in this result was payment in kind, given that the cost of Social Security rose in line with wages.

WAGE INDICATORS

Percentage change over same period year before

	2003	2004	2004			2005	
			2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.
Increase under general wage agreements	3.5	3.0	2.9	2.9	3.0	2.9	2.9
Wage per job equivalent to full-time work (*)	3.1	3.1	3.2	3.2	3.1	2.9	...
Labour cost index							
Wage costs							
Total	3.8	2.8	3.1	2.2	2.6	2.5	...
Industry	*4.4*	*3.3*	*2.9*	*3.3*	*3.3*	*3.2*	*...*
Construction	*5.0*	*4.2*	*4.1*	*4.6*	*3.1*	*2.4*	*...*
Services	*3.5*	*2.5*	*3.2*	*1.6*	*2.5*	*2.5*	*...*
Average wages per hour worked	4.3	3.6	2.5	2.0	5.7	5.8	...
Other labour costs	5.4	3.6	3.5	3.4	3.0	4.2	...
Work day (**)	–0.5	–0.8	0.5	0.2	–3.0	–3.1	...
Farm wages	2.6	2.8	3.5	2.7	2.9	3.9	...
Labour cost in construction	4.4	3.9	4.5	3.9	3.5	2.6	...

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

Lower wage pressure in construction and high increases in industry.

The slight moderation in wage costs in the first quarter was particularly noticeable in construction where the year-to-year increase was 2.4%. The decrease in industry was much lower (down one decimal to 3.2%) while in services labour cost per worker per month continued to grow by 2.5% as in the previous quarter. The moderation in wage increases was not reflected in cost per effective hour worked which grew by 5.8% in the quarter, more than two points above the average for the year before.

National Accounting also reflects some moderation although with appreciable differences by sector.

The lower pressure on wage costs is also to be seen in figures for National Accounting. According to that source, average wages per worker rose by 2.9% in the first quarter of 2005, down two decimals compared with the previous quarter. This trend was to be seen in the various branches of economic activity although there continued to be notable differences between the various sectors. The biggest growth, apart from energy branches, was recorded in industry (3.6%) and in non-market services (3.3%), both year-to-year. Construction stood at 2.7% while market services held at 2.5%.

Collective bargaining agreements signed show lower increases than last year.

The average wage rise agreed upon in labour negotiations stood at 2.9% half-way through the second quarter, according to figures from the Ministry of Labour and Social Affairs. This increase is lower than that actually taking place in 2004 which came to 3.6% because of the effect of safeguard clauses. By sector, construction and industry showed the highest increase at 3.0%. The wage increase in services stood at 2.8%.

PRICES

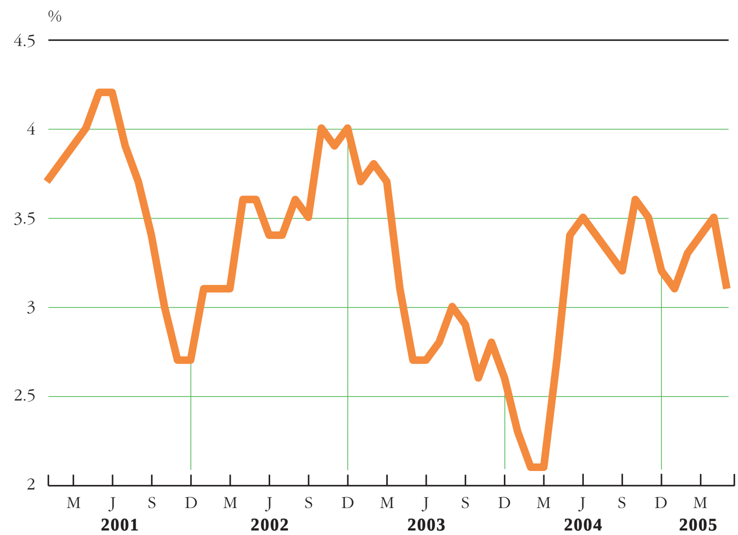
Energy and food ease CPI in May

Inflation rate drops to 3.1% in May thanks to tobacco, energy and fresh foods.

The annual inflation rate showed a sharp drop in May following three consecutive months of increase to stand at 3.1% year-to-year, four decimals below the month before. This favourable performance may be explained by the sharp drop in the price of tobacco, which had a positive effect on underlying inflation, and by the appreciable moderation in fresh food prices and energy.

INFLATION RATE EASES SLIGHTLY IN MAY

Year-to-year change in CPI



SOURCE: National Institute of Statistics.

Services up sharply following moderation in April.

The slowdown in underlying inflation (down two decimals to 2.6% year-to-year) was not sharper because services prices were up strongly following the notable moderation the month before. Prices at hotels and those for organized travel, along with certain medical services, showed the sharpest increases and contributed decisively to raising year-to-year growth of services prices to 3.8% year-to-year.

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	0.2	1.8	3.1
June	0.2	2.2	3.5			
July	–0.8	1.4	3.4			
August	0.4	1.8	3.3			
September	0.2	2.0	3.2			
October	1.0	3.1	3.6			
November	0.2	3.3	3.5			
December	–0.1	3.2	3.2			

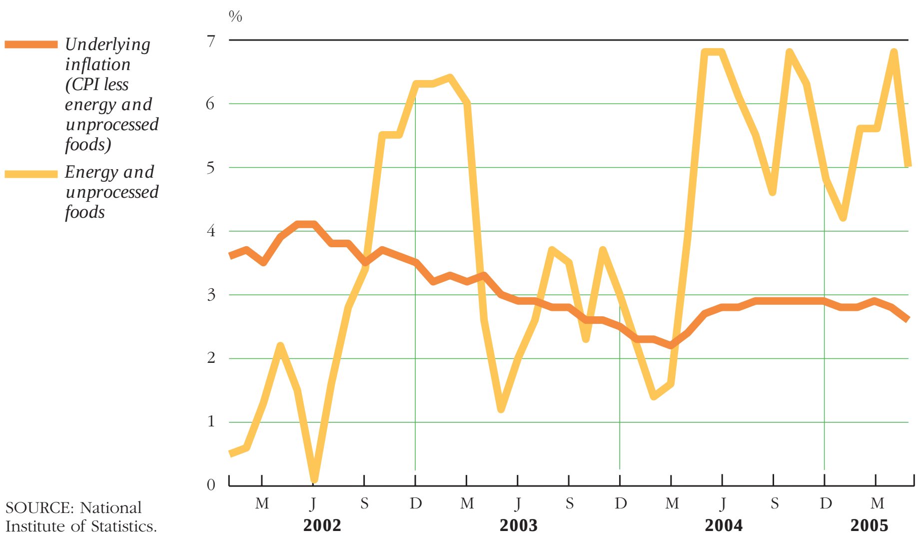
SOURCE: National Institute of Statistics.

Non-energy industrial goods continue to grow at very modest rate.

The effect of the rise in services was eased by prices of non-energy industrial goods which continued to follow their usual quite moderate performance to stand at a growth rate of 0.9% year-to-year, one decimal below the month before and at the same level as one year earlier. In this component, we should point out that the usual increases in prices of clothing and footwear just before the Spring season were lower than in 2004 which helped to contain prices overall.

ENERGY AND FRESH FOODS KEY TO INCREASES IN CPI

Year-to-year change in CPI by component



SOURCE: National Institute of Statistics.

Step effect favours drop in prices of fresh foods and energy.

As expected, the good performance of the CPI in year-to-year terms in May was rounded out by the sharp drop in fuel prices and fresh foods. In the former case, the good results were mainly due to the step effect seeing that prices dropped slightly in May compared with the notable rise in the same month of 2004. In the case of foods, the moderation in certain meat products and in produce and potatoes was decisive in this respect. In any case, the overall index for energy products and fresh foods continued to grow at a very high rate 5.0% year-to-year, although with differences between energy (6.8%) and non-processed foods (3.0%).

CONSUMER PRICE INDEX BY COMPONENT

May

	Indices (*)	% monthly change		% change over previous December		% annual change	
		2004	2005	2004	2005	2004	2005
By type of spending							
Food and non-alcoholic beverages	116.6	0.4	0.1	1.6	1.7	4.7	3.2
Alcoholic beverages and tobacco	120.0	4.1	0.0	4.6	3.5	5.4	4.4
Clothing and footwear	118.9	1.4	1.1	1.0	0.1	2.0	1.2
Housing	114.0	0.3	0.0	2.2	3.1	3.4	5.1
Household equipment	108.2	0.4	0.5	0.8	1.2	1.4	2.1
Health	106.0	0.0	0.2	–0.5	0.3	0.1	1.0
Transport	114.1	1.6	0.1	5.2	3.9	5.5	4.7
Communications	92.1	–0.1	–0.1	0.4	–1.0	–0.7	–2.0
Recreation and culture	101.8	–1.3	–0.4	–1.1	–1.4	0.0	–0.4
Education	117.0	0.0	0.0	0.5	0.5	4.0	4.2
Hotels, cafés and restaurants	118.8	0.0	0.3	2.3	2.4	4.0	4.3
Other	114.3	0.1	0.1	2.5	2.7	3.1	3.1
By group							
Processed foods	115.1	1.0	0.1	2.7	2.0	3.7	3.4
Unprocessed foods	120.9	0.8	0.0	0.5	1.7	7.0	3.0
Non-food products	112.7	0.5	0.2	2.0	1.8	2.9	3.0
Industrial goods	109.7	1.0	0.3	2.0	1.6	2.2	2.2
Energy products	*113.5*	*2.5*	*–0.2*	*6.4*	*5.6*	*6.6*	*6.8*
Fuels and oils	*116.8*	*3.3*	*–0.3*	*8.2*	*7.1*	*8.5*	*8.6*
Industrial goods excluding energy products	*108.4*	*0.6*	*0.5*	*0.6*	*0.3*	*0.9*	*0.9*
Services	116.2	–0.1	0.1	2.1	2.1	3.8	3.8
Underlying inflation (**)	113.1	0.4	0.3	1.7	1.4	2.7	2.6
GENERAL INDEX	**113.7**	**0.6**	**0.2**	**2.0**	**1.8**	**3.4**	**3.1**

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

More volatile core of CPI unlikely to improve before year-end.

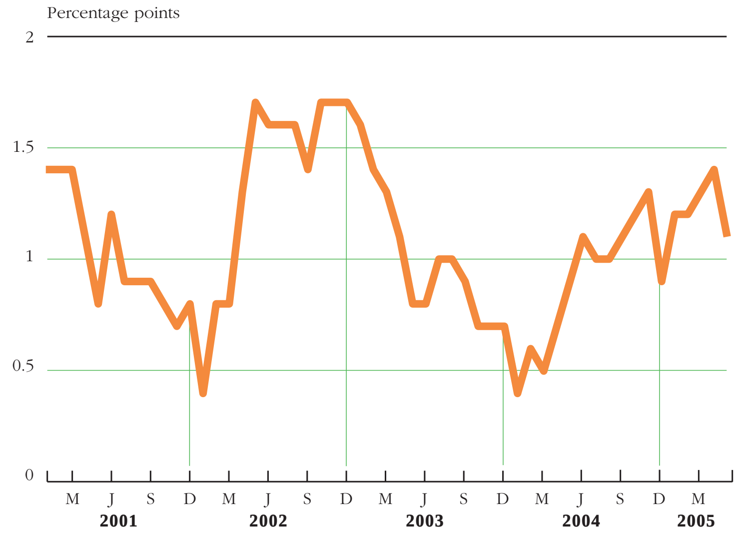
The reduction of inflation in May, as happened with the increases in previous months, continues to underline the major influence of the more volatile components on the CPI, which makes any forecast difficult. With regard to energy, the recent weakening of the euro in a context of high oil prices does not raise very favourable prospects until year-end, with the exception of October, taking into account the course of fuel prices in the same period last year. So far as fresh foods are concerned, the situation is less predictable although the modest increase in prices reported between June and December 2004 does not suggest any significant slowdown in the year-to-year rate for this CPI component, particularly in a context of adverse weather.

Nor does underlying inflation indicate any appreciable downward potential.

At the same time, with regard to the possibility of a reduction in underlying inflation, there is nothing to suggest that services will help to any significant extent unless there is an appreciable decline in consumption, something which at this moment is generally to be discounted. Non-energy industrial goods, which are growing at very low rates, will have difficulty taking any decimals off the general index in a context of relative pressure from costs and a moderate increase in import prices. Finally, we should not discount a possible moderation of processed foods, if we are to go by the performance of wholesale food prices. In any case, the impact on the CPI would be of relative importance until the end of the year.

DIFFERENTIAL WITH EURO AREA IMPROVES

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



SOURCE: National Institute of Statistics and internal figures.

Inflation differential with euro area drops sharply in May but still above one percentage point.

The inflation differential with countries of the euro area dropped substantially in May to go to 1.1 points, according to the harmonized consumer price index (HCPI). By component, the widest differentials unfavourable to Spain came about in food, transportation and hotels, cafés and restaurants. On the other hand, in medicines, recreation and culture, prices increases were somewhat less in Spain than in the euro area as whole.

Wholesale prices: uneven trends

Industrial prices moderate in May thanks to energy.

Industrial prices showed a sharp drop in May with the growth rate going down to 4.2% year-to-year, eight decimals below the figure for the previous month. The easing of prices for energy, non-energy intermediate goods and, to a lesser extent, for foods was decisive in this respect. Nevertheless, this moderation may be short-lived due to the pressures that still persist in crude oil prices.

Non-food manufactures show price increases because of cost pressures.

Another element of price pressure is the sustained rise in prices of non-food consumer manufactures which month by month are subject to progressive pressure from production costs. In May, this component reached a year-to-year rate of 4.3%, four percentage points higher than one year earlier. On the other hand, capital goods prices are holding to a moderate course which may help ease the situation.

INFLATION INDICATORS

Percentage change over same period year before

	Farm prices	Producer price index					Import prices				GDP deflactor (*)
		General index	Consumer goods	Capital goods	Intermediate goods	Energy goods	Total	Consumer goods	Capital goods	Intermediate goods	
2004											
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	4.4
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	4.5
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	4.7
December	2.5	5.0	2.8	1.6	6.2	10.7	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	...
March	13.2	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	3.7	14.5	...	...	...	...	–
May	...	4.2	2.5	2.1	3.3	11.0	...	...	...	...	...

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

Import prices up 5% because of energy, but other products showing some moderation.

In addition, import prices showed a notable increase in April so that, for the first four months as a whole, the increase was 5.1% compared with the same period last year. Energy products and, although to a lesser extent, other intermediate goods were behind this performance. The increase in consumer goods prices was much more moderate at 1.9% cumulative. Capital goods, on the other hand, were down sharply.

Weather conditions push up farm prices as of March.

Finally, farm prices showed a sharp rise in March thus repeating the performance the month before because of the sharp impact of weather conditions on farm products which showed an average increase of more than 18%. This major increase, which has not fully shifted to the final consumer, was partly compensated by prices of livestock products which showed a substantial decrease.

FOREIGN SECTOR

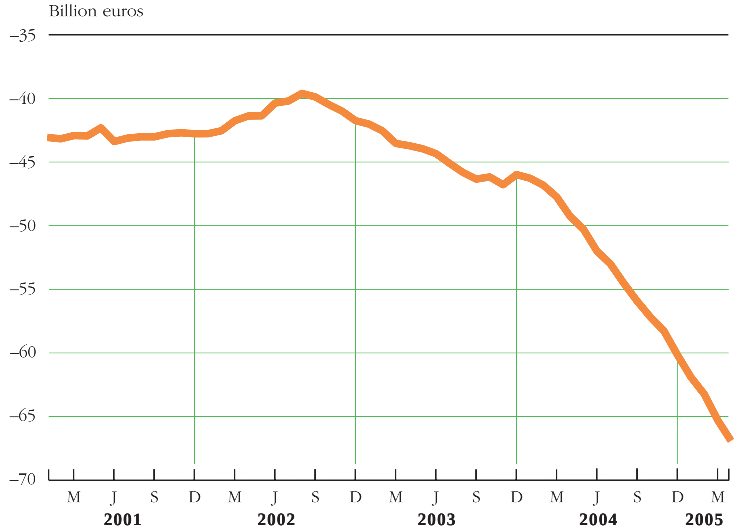
Trade deficit growing

Trade deficit grows 42% in first four months.

The trade deficit showed a very slight easing of growth rate in April thanks to some recovery in exports, although this was still in a context of a sustained increase in imports. In any case, the balance for the foreign sector in the first four months continued to be negative and indeed more unfavourable than the figure in the same period last year. In fact, the trade imbalance went to 23.3 billion euros, going 41.8% above the January-April period in 2004.

TRADE DEFICIT GROWING WORSE

Cumulative balance for 12 months



SOURCE: Ministry of Economy and internal figures.

Imports maintain rise under impact of oil bill.

Imports reached a figure of 72.66 billion euros in the first four months of the year to show growth of 13.3% over 2004. There was a smaller increase by volume (7.8%) because of the increase in prices (5.1%) which was largely due to oil-based products. In fact, crude oil imports in the first four months of the year showed an average cost of 239.4 euros a tonne, some 29.9% more than in 2004. Non-energy imports, on the other hand, rose by 2.3%.

Imports of capital goods and energy show greatest strength.

The most dynamic component of foreign purchases was capital goods, with cumulative growth of 34.6% by volume, thanks to increased purchases of transportation equipment, mainly ships and aircraft, and engines. Some distance behind came imports of energy products, which rose by 12.3% real, and imports of non-food consumer goods, up by 8.4%. In this case, cars, toys, furniture, footwear and clothing were the products showing the biggest increases. Non-energy intermediate goods showed a real increase of 2.2% while foods dropped slightly.

FOREIGN TRADE
January-April 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	9,357	40.7	12.9	1,662	12.5	3.4	–7,695	17.8
Consumer goods	20,540	8.5	28.3	19,342	–1.3	39.2	–1,198	94.2
Food	*4,030*	*0.8*	*5.5*	*6,607*	*0.6*	*13.4*	*2,577*	*163.9*
Non-foods	*16,510*	*10.4*	*22.7*	*12,735*	*–4.0*	*25.8*	*–3,775*	*77.1*
Capital goods	8,291	27.8	11.4	4,008	–1.3	8.1	–4,283	48.3
Non-energy intermediate goods	34,475	7.6	47.4	24,323	8.0	49.3	–10,152	70.6
By geographical area								
European Union (EU-15)	43,851	9.1	60.3	35,608	3.4	72.2	–8,243	81.2
Euro area	*38,199*	*9.0*	*52.6*	*30,091*	*4.5*	*61.0*	*–8,109*	*78.8*
Other countries	28,812	20.4	39.7	13,728	3.8	27.8	–15,084	47.6
Russia	*1,648*	*59.7*	*2.3*	*316*	*14.3*	*0.6*	*–1,332*	*19.2*
United States	*2,525*	*4.4*	*3.5*	*1,771*	*–1.6*	*3.6*	*–754*	*70.1*
Japan	*2,038*	*9.3*	*2.8*	*385*	*–17.4*	*0.8*	*–1,653*	*18.9*
Latin America	*2,995*	*22.8*	*4.1*	*2,186*	*4.4*	*4.4*	*–809*	*73.0*
OPEC	*5,009*	*35.0*	*6.9*	*1,273*	*20.9*	*2.6*	*–3,736*	*25.4*
Rest	*14,597*	*17.1*	*20.1*	*7,796*	*3.5*	*15.8*	*–6,801*	*53.4*
TOTAL	**72,663**	**13.3**	**100.0**	**49,336**	**3.5**	**100.0**	**–23,327**	**67.9**

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

Increased purchases from third countries while those from EU down.

By geographical area, purchases from the European Union (EU-25) rose 4.9% by volume while those from the rest of the world increased in growth rate to 12.8%. These purchases were pushed up by the size of those from China and from the former Soviet Union, Middle East and Mexico, largely for oil imports.

Exports down by volume.

Exports reached 49.34 billion euros in the first four months of the year, some 3.5% more than in the same period in 2004. This increase was entirely due to prices which, with an increase of 4.5%, compensated for the real decrease of 0.9%. The drop in volume was somewhat greater in sales to the EU-25 at 1.2% as against 0.2% for those going to third countries. The drop in sales to the EU was concentrated in the new member states although the differences were of little significance. Within the EU, however, the strength of the French and German markets was in contrast to the decreases seen in the Italian, British and Benelux markets. Outside the EU, sales to Japan continued to run into difficulties and, to a lesser extent, this applied to the United States.

General drop in exports by product except in intermediate goods.

By product, the drop in foreign sales was general with the exception of intermediate goods, which showed a minimum increase which may be explained by the strength in iron and steel. The most notable weakness came in foreign food sales which likely reflected the impact of unfavourable weather conditions. Capital goods were also down under the effect of the poor result in ships and office equipment. In consumer goods, there were notable decreases in foreign sales of cars and footwear while also of note was the relatively favourable situation in motor vehicle parts.

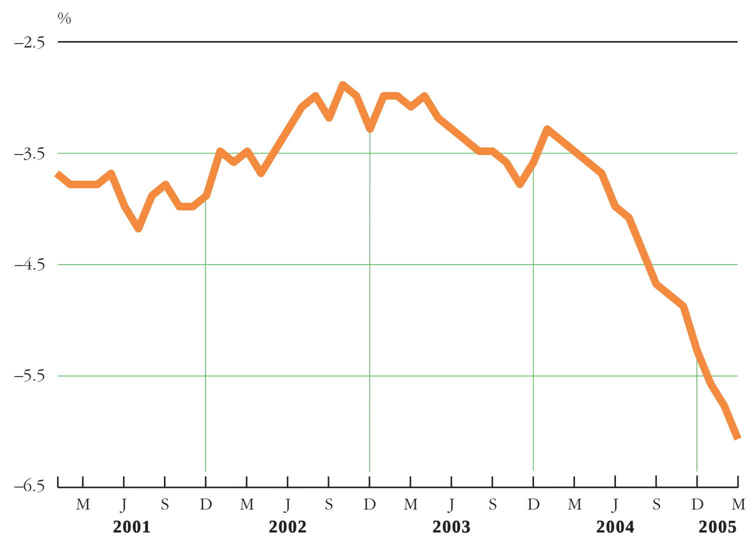
Current account deficit goes above 6% of GDP in March

Current account deficit grows sharply in March…

The current account balance showed a deficit of 6.56 billion euros in March, some 64.1% higher than in the same month in 2004. The increase in the trade deficit and the incomes deficit, along with the reduction of the services surplus, went well above the correction of the deficit in current transfers. These figures are from the historical statistical series for the balance of payments recently revised by the Bank of Spain (see accompanying box).

CURRENT ACCOUNT DEFICIT STILL GETTING WORSE

Cumulative current account balance for 12 months as percentage of GDP



SOURCE: Bank of Spain, INE and internal figures.

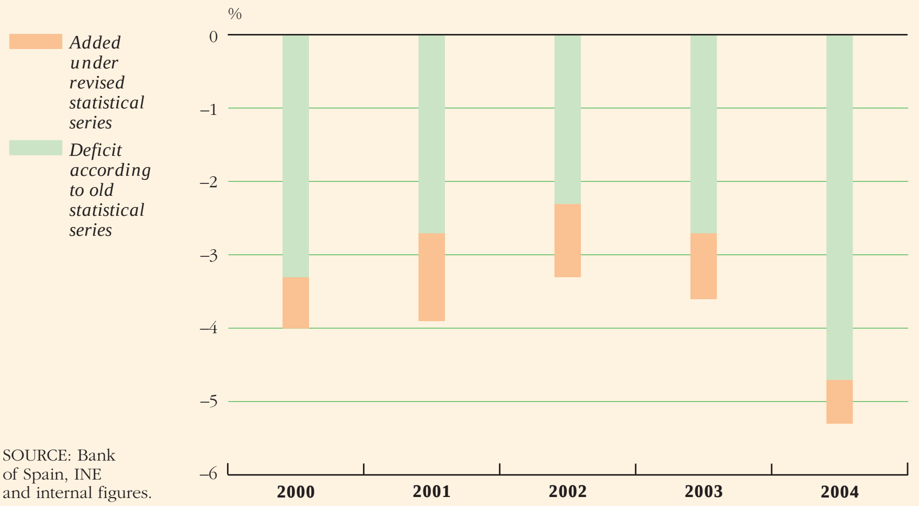
NEW STATISTICAL SERIES FOR BALANCE OF PAYMENTS INCREASES CURRENT ACCOUNT DEFICIT

The Bank of Spain has revised the historical statistical series for one of the main headings under the balance of payments for the period 1995-2004 in collaboration with the National Institute of Statistics. This revision is aimed at improving the quality of information and increasing coherence with other sources, mainly those relating to accounts with the rest of the world as recorded in national accounting.

This revision, which has meant a major reduction in the heading of errors and omissions in the balance of payments, has an effect on various headings, particularly the greater part of current transactions. The changes in capital and financial accounts are less significant. In overall terms, the new estimates involve adding some 6.2 billion euros to the previous current account deficit for the past five years, that is to say, nearly nine decimals of a point of the gross domestic product per year.

HIGHER CURRENT ACCOUNT DEFICIT FOLLOWS REVISION

Current balance of payments as percentage of GDP



SOURCE: Bank of Spain, INE and internal figures.

The contribution of the trade deficit to this higher deficit stands at somewhat more than 1.9 billion euros on average for the past five years. This increase is mainly due to the adjustment of estimates for import and export figures and the incorporation of transactions not brought into account because they fall below the minimum threshold for inter-EU trade declarations.

In the services balance, the new figures point to a lower surplus than previously given because of the figures for the tourist balance and also the estimate for freight. On average, the reduction in the services surplus is estimated at 3.65 billion euros a year since 2000. The incomes balance for the first time includes an estimate of profits reinvested under direct investment which means an increase in the previous negative balance. The effect of the revision on the transfers balance is of minor importance.

...with trade deficit contributing 75% to increase.

The current account deficit in March was a further step in the tendency to increase and the cumulative balance for 12 months continued to rise steadily to stand at 51.89 billion euros, a figure equivalent to 6.1% of the gross domestic product (GDP). The sharp worsening of the situation was mainly due to the increase in the trade imbalance which contributed 75% of the increase in the current account deficit. The rest came from the incomes heading (17% of the total) and, to a lesser extent, to the lower surplus in services and transfers.

Modest increase in tourist revenue inflows and sharp rise in payments cuts into services surplus.

In the trade balance, the increased imbalance comes from growth of imports well above exports. The progressive reduction of the services surplus, in turn, was brought about by a tourist balance which is showing a progressive increase in payments while tourist revenues inflows are stagnant. The transfer balance, which is traditionally positive, has shown a turnaround to negative because of lower net transfers from the European Union and the increase in remittances abroad by foreign workers.

BALANCE OF PAYMENTS

Cumulative figure for last 12 months in million euros

	March 2004	March 2005	% change
Current account balance			
Trade balance	–41,000	–57,939	41.3
Services			
Tourism	*26,940*	*25,981*	*–3.6*
Other services	*–3,880*	*–4,007*	*3.3*
Total	23,060	21,974	–4.7
Income	–11,263	–15,246	35.4
Transfers	–148	–681	360.1
Total	**–29,351**	**–51,892**	**76.8**
Capital account	**7,510**	**8,572**	**14.1**
Financial balance			
Direct investment	–9,588	–25,238	163.2
Portfolio investment	10,779	90,080	–
Other investment	21,677	–13,387	–
Total	**22,868**	**51,455**	**125.0**
Errors and omissions	456	–234	–
Change in assets of Bank of Spain	–1,483	–7,901	432.9

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

SOURCE: Bank of Spain and internal figures.

Positive figure in capital balance but not enough to compensate current account deficit.

Capital account, in turn, showed a notable surplus in March which made it possible to put the cumulative balance for the quarter slightly above the same period last year. For the past 12 months, the cumulative balance stood at 8.57 billion euros, a figure insufficient to compensate the major current account deficit. As a result, net world borrowing of Spain's economy, which is the result of adding the current account and capital balances, amounted to 43.32 billion euros, that is to say, 5.1% of the GDP, a figure similar to that arising from the new statistical series for national accounting with base 2000.

Direct foreign investment recovers along with Spanish direct investment abroad.

In the financial sphere, we should mention the recovery of direct foreign investment in Spain, although not in real estate, and the strength of portfolio investment. On the side of funds going out, Spain's direct investment abroad recovered sharply, including real estate investment, while portfolio investment continued to drop sharply. These movements, along with other financial system transactions, mainly loans and deposits, gave place to a positive balance in financial account, with the exclusion of Bank of Spain transactions. In fact, net inflows amounted to 12.18 billion euros as of March, some 5.9% more than in the first quarter of 2004.

PUBLIC SECTOR

Central government maintains surplus in May

Tax revenues show cumulative increase of 12% as of May.

Central government non-financial revenues rose by 13.8% in the first five months of 2005 to reach 53.37 billion euros. This figure does not include those segments of personal income tax and the greater part of indirect taxes ceded to autonomous communities and local government, so that it is of little significance as an indicator of general government revenue available through general taxes. If we include those taxes ceded, collections amount to 70.54 billion euros going 12.4% above the same period in 2004.

CENTRAL GOVERNMENT BUDGET IMPLEMENTATION

May 2005

	Month		Cumulative for year	
	Million euros	% change over same month year before	Million euros	% change over same month year before
Non-financial revenue	**3,840**	**65.2**	**53,369**	**13.8**
Non-financial revenue adjusted (*)				
Personal income tax	1,232	45.5	23,481	14.4
Corporate tax	338	52.3	5,744	31.2
VAT	2,291	52.7	26,767	18.7
Special taxes	1,586	5.2	7,344	2.9
Other	1,826	28.8	7,201	–11.7
Total	**7,273**	**32.4**	**70,537**	**12.4**
Non-financial spending	**7,490**	**–0.6**	**49,880**	**12.0**
Treasury balance	**–3,650**	**–29.9**	**3,489**	**47.2**
Surplus (+) or deficit (–) (**)	***–5,202***	***–14.7***	***7,215***	***81.3***

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.

Collections for direct taxes up due to corporate tax and personal income tax.

The increase in tax collections was due both to direct and indirect taxes. The former showed an increase of 16.1% as of May because of the strength in corporate tax collections. The increase in resources arising from personal income tax was 14.4%.

Indirect tax revenues up thanks to VAT.

Revenues from indirect taxes were up 14.9% over the first five months in 2004 with value added tax (VAT) being the main source which showed an increase of 18.7%. Growth was especially high in collections for domestic operations which rose by a spectacular 22.7%, partly attributable to the decrease in rebates. Notable among other indirect taxes was the increase in revenues from taxes on alcohol and alcohol-derived beverages (up 10.2%) and, at the other end of the scale, the increase in fuel tax (0.5%) as a result of the drop in consumption due to the rise in fuel prices. Revenue from outside trade, that is to say, those arising from customs duties on imports from countries not belonging to the European Union, were also up strongly by 20.5%.

Government property income down while collections from fees and public service charges up.

Apart from tax revenue sources, rates and public service charges rose by 12.3% pushed up by collections for allocation of publicly-controlled radio frequencies. On the other hand, government property earnings were down sharply as were capital transfers. Current transfers, on the other hand, stood at practically the same level as last year.

Central government non-financial spending up 12% with interest showing biggest increase.

Central government non-financial spending, in turn, rose by 12.0% going up to 49.88 billion euros. This figure does not include the balancing entry for revenues corresponding to those tax segments ceded to the autonomous communities and which are difficult to analyze because of the lack of homogeneity in the figures. The increase in spending was due both to current operations and capital transactions. In the former case, the source of the biggest spending was financial costs, current transfers and, to a lesser extent, staff costs which rose by 7.3%. In the second case, there was a notable increase in real investments.

Treasury surplus and National Accounting surplus for first five months of year.

The cumulative Treasury surplus as of May, that is to say, the difference between central government non-financial revenue and spending, was positive in the amount of 3.49 billion euros, some 47.2% higher than in the same period the year before. This surplus was wiped out, however, by the sharp net increase in financial assets which gave rise to a deficit of 2.15 billion euros. The increase in financial assets was concentrated in deposits at financial institutions and in property contributions, the biggest being that to the Administrator of Railway Infrastructures. In terms of National Accounting, the budgetary balance was also positive in the amount of 7.2 billion euros and well above that for the same period in 2004.

SAVINGS AND FINANCING

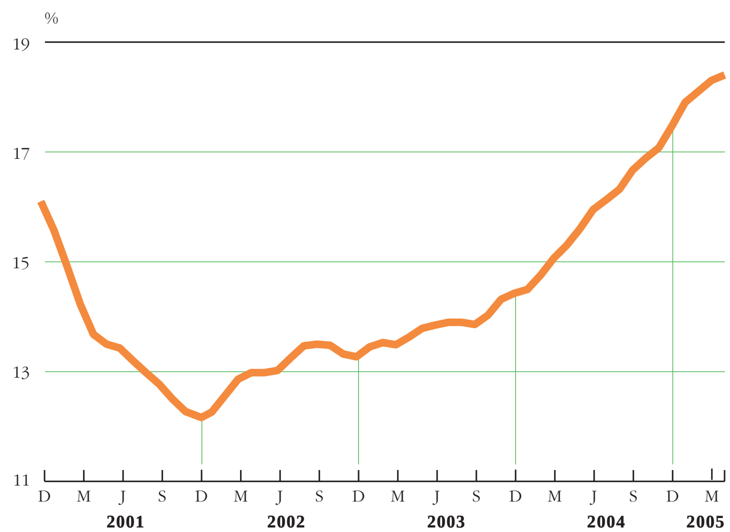
Mortgage loans still driving credit granted to private sector

Bank credit to companies and households grows at annual rate of 19%.

Bank credit to companies and households was up by 18.7% in April 2005 compared with the same month last year. This rate is practically the same as that recorded the month before and more than twice that for the euro area as a whole. Demand for bank credit by the private sector continues to be stimulated by the favourable economic climate and easy financing terms, with very low interest rates.

CREDIT TO COMPANIES AND HOUSEHOLDS MOVING UP AT STRONG RATE

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



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

Total loans by savings banks up more than in case of banks.

The savings banks continued to chalk up higher annual change rates than banks in this market segment thus increasing their lead in terms of market quota. Credit granted to the private sector by the savings banks rose by 21.1% in the past 12 months ending in April whereas that granted by banks rose by 16.9% in the same period.

Spectacular rise in commercial credit in past 12 months ending in April.

The greater part of the increase in credit to companies and households came from mortgage loans which showed little sign of slowing down. Mortgage loans granted by banks and savings banks thus grew by 23.7% in April 2005, an annual rate similar to that recorded in December 2004. The increase in household incomes, demographic factors and low interest rates were behind the drive in mortgage loans. In addition, we should point out the strength in commercial credit which marked up an annual change of 24.5%. Leasing, which goes into funding the acquisition of capital goods and real estate by companies and self-employed professionals, also showed notable strength with a year-to-year rise of 18.5%.

CREDIT TO COMPANIES AND HOUSEHOLDS

April 2005

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
Trade credit	68,127	7,878	13.1	13,409	24.5	6.8
Secured loans (*)	585,957	41,039	7.5	110,601	23.3	58.3
Other term loans	288,626	7,815	2.8	26,597	10.2	28.7
On-demand loans	23,664	709	3.1	2,657	12.6	2.4
Leasing	31,247	1,965	6.7	4,875	18.5	3.1
Doubtful loans	7,808	324	4.3	312	4.2	0.8
TOTAL	**1,005,428**	**59,731**	**6.3**	**158,451**	**18.7**	**100.0**

NOTES: (*) For most part made up of mortgage security.

SOURCE: Bank of Spain and internal figures.

Default rate at banks and savings banks records new all-time low.

The default rate at credit institutions dropped by two-hundredths of a point going to 0.78% in April 2005 thus marking up the lowest level in recent years. The default rate at banks and savings banks (excluding other credit institutions) stood at 0.65%, also marking up an all-time low. In addition, the mortgage loan rate rose slightly in March 2005 going up one basis point to 0.45% to stand two basis points above the low in September 2004.

Bank loan rates stand slightly below 12 months earlier...

Bank loan rates generally held steady in April. As a result, the composite loan rate for companies and households, that is to say, on average, held at 3.89%, some 9 basis points below April 2004. The composite household loan rate dropped to 4.23%, some 7 basis points below April 2004. On the other hand, the composite rate for non-financial companies moved up 5 basis points to 3.53%, some 11 basis points less than one year earlier.

...while housing loan rate slightly higher.

On the other hand, the interest rate on mortgage loans for more than three years for acquisition of non-subsidized housing at credit institutions as a whole in May 2005 scarcely changed at 3.32%. In any case, it stood 6 basis points above the same month last year.

Share of households in total bank loans reaches new high.

In addition, the Bank of Spain recently gave out information on loans to companies and households for the first quarter of 2005 which makes it possible to carry out a more detailed analysis from the point of view of end-use. Loans going to fund individuals rose by 19.9% compared with one year earlier, a rate 1.2 decimals higher than the figure recorded in December. Credit going into production activities rose by 18.4% compared with March 2004, some 1.1 points more than in the previous quarter. As a result, the share of total bank credit going to households reached a new all-time high of 46.8%.

CREDIT TO PRIVATE SECTOR BY PURPOSE

First quarter of 2005

	Total (*)	Change this year		Change over 12 months	
	Million euros	Million euros	%	Million euros	%
Funding of production-related activity					
Agriculture, livestock and fishing	18,188	84	0.5	1,216	7.2
Industry	93,815	3,328	3.7	8,489	9.9
Construction	83,421	5,049	6.4	15,250	22.4
Services	311,740	15,643	5.3	53,693	20.8
Total	**507,164**	**24,104**	**5.0**	**78,647**	**18.4**
Funding to individual					
Home purchase or renovation	351,757	17,931	5.4	63,021	21.8
Acquisition of consumer durables	39,375	996	2.6	3,173	8.8
Other funding	71,778	2,540	3.7	10,536	17.2
Total	**462,910**	**21,467**	**4.9**	**76,730**	**19.9**
Funding to private non-profit institutions	**3,548**	**–129**	**–3.5**	**440**	**14.2**
Other unclassified	**15,574**	**–1,943**	**–11.1**	**644**	**4.3**
TOTAL	**989,196**	**43,499**	**4.6**	**156,462**	**18.8**

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

Recovery of credit to industry with rise of 10% in past year.

Among the large economic sectors, construction was the most dynamic in the past 12 months in terms of obtaining bank credit with a rise of 22.4%, some 3.2 points more than three months earlier. Demand for credit in services rose by 20.8%, some 6 decimals less than in the previous quarter. The services branch to show a higher year-to-year rate of increase in credit was real estate, with a rise of 42.4%. Funding going to industry continued to recover and showed an annual growth rate of 9.9%, some 4.5 points more than at the end of 2004. On the other hand, credit to the primary sector, that is to say, agriculture, livestock raising and fishing, was up by 7.2% compared with the same quarter of 2004, some 3.2 points less than the rate recorded in December.

Credit for purchase of consumer durables up 9% over March 2004.

With regard to funding for households, the acquisition and renovation of housing rose by 21.8% over the first quarter of 2004, some 0.9 points more than in the previous quarter. Loans for purchase of consumer durables (cars, appliances, furniture, etc.) was up 8.8% compared with the same period, some 0.5 points less than at the end of 2004. Other funds going to households (for studies, travel, clothing, banquets, etc.) was up by 17.2% year-to-year, some 3.5 percentage points more than in the previous quarter.

Increase in private sector bank deposits

Biggest increase in deposits since beginning of Nineties.

Total deposits of resident companies and households in euros and foreign currency grew by 15.4% at the end of the first four month of 2005 compared with the same month the year before, 0.1 points more in the month before and 1.2 points more than in December. As a result, they recorded the biggest annual growth rate since at least the beginning of the Nineties. Nevertheless, the increase in the past 12 months (100.03 billion euros) was notably lower than the rise in credits. In order to compensate this imbalance, the credit institutions carried out bond issues and securitizations as well as having recourse to the foreign market.

DEPOSITS OF COMPANIES AND HOUSEHOLDS AT CREDIT INSTITUTIONS

April 2005

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
On-demand	196,330	9,191	4.9	28,000	16.6	26.2
Savings (*)	158,768	833	0.5	13,545	9.3	21.2
2-year term	169,871	9,404	5.9	14,509	9.3	22.7
More than 2-year term	147,799	20,331	15.9	55,552	60.2	19.7
Repos	69,925	–10,557	–13.1	–12,444	–15.1	9.3
Total	**742,693**	**29,203**	**4.1**	**99,161**	**15.4**	**99.2**
Deposits in currencies other than euro	**6,155**	**308**	**5.3**	**869**	**16.4**	**0.8**
TOTAL	**748,848**	**29,511**	**4.1**	**100,030**	**15.4**	**100.0**

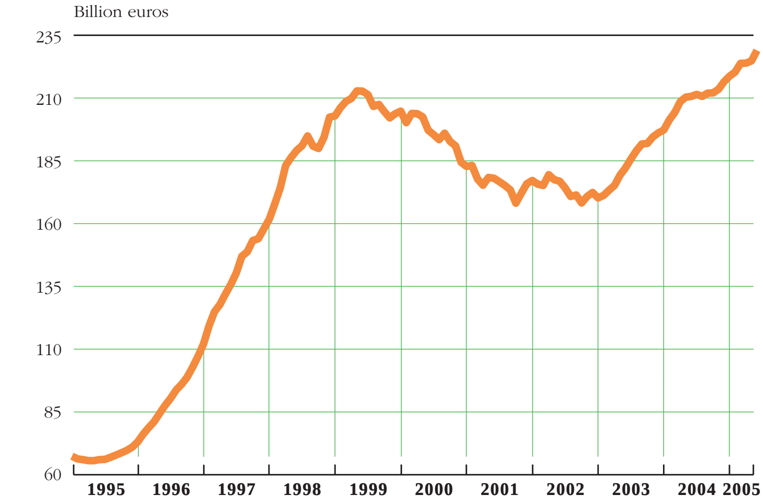
NOTES: (*) Deposits redeemable at notice, according to ECB definition.
SOURCE: Bank of Spain and internal figures.

Savings bank share of private sector deposits rises to 55%.

By type of deposit, the biggest annual increase (60.2%) showed up in deposits for more than two years, which enjoy a tax benefit of 40% of interest. On-demand accounts showed a considerable increase of 16.6%, some 3.5% more than in March, while deposits in currencies other than the euro also showed a notable rise of 16.4%. In turn, savings accounts and deposits for terms of less than two years rose by 9.3% in the past 12 months. On the other hand, repos fell by 15.1% compared with April 2004. Deposits at savings banks continued to rise at a higher rate than those at banks, namely 15.9% and 14.7% respectively. As a result, the savings banks consolidated their leading position in this market segment with a 54.7% share as against 38.2% for banks. In turn, credit cooperatives reported a 6.9% share of the total while the remaining 0.2% was taken up by finance companies and the Official Credit Institute.

UPTURN IN ASSETS OF SECURITIES MUTUAL FUNDS

Total assets of securities mutual funds



SOURCE: Inverco.

Slight rise in bank deposit rates in past year.

With regard to bank deposit interest rates applicable to the private sector, these held at low levels in April. The composite interest rate for non-financial companies held at 1.21% to stand 4 basis points above the same month last year. The composite rate for households held at 1.13%, practically the same as in that month last year.

Assets of securities mutual funds up by 9% compared with May 2004.

With regard to assets of securities mutual funds, these rose by 4.2 billion euros in May going to 229.8 billion euros. This figure represents an annual increase of 8.7%, according to figures from Inverco, the sector organization. The increase in May can mainly be attributed to capital gains seeing that net unit subscriptions, deducting sales, rose to 1.62 billion euros. In the first four months of the year, inflows of new money showed up strongest in short-term bond-based funds and guaranteed funds, which showed the aversion to risk current among savers.

Average yield on securities mutual funds stands at 4.0%.

Average weighted yield on securities mutual funds in the past 12 months stood at 4.0%, going above inflation. Nearly all types of securities mutual fund obtained positive annual yields with the exception of Japanese share-based funds.

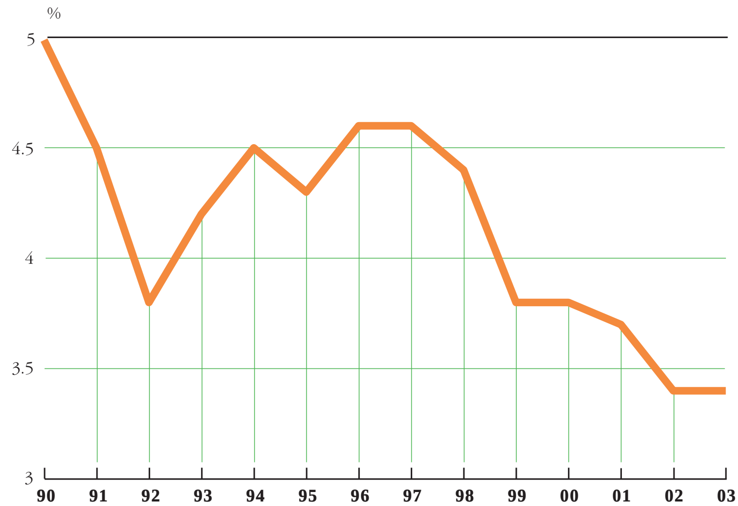
Development and change in farm sector

Drop in share of farm product in GDP total.

The increase in productivity, the result of heavy application of capital and technology, and the relatively static demand for most farm products (consumption of food products is growing in lower proportion than incomes) are key factors determining the historical trend in the farm sector and its continual loss of relative weight in the overall economy. Today, the farm branch's share of gross value added in Spain's gross domestic product (GDP) is below 3.5% (1.5 points less than in 1990). For the same reasons, the number of persons employed in the sector is now around 5% of total employment, approximately half that in 1990.

DROP IN RELATIVE WEIGHT OF FARM SECTOR

Percentage of farm GDP over total



SOURCE: Ministry of Agriculture, Fishing and Food and internal figures.

Spanish farms less profitable than European average.

As a whole, total cultivable area in Spain has decreased in the past 25 years but the area of irrigated lands (which include the most profitable farms) has risen slightly. Castile-La Mancha and Castile-Leon and Andalusia take up nearly 70% of all Spain's cultivable land. In the Nineties, Spanish agriculture went through a process involving the disappearance of many farms parallel to an increase in physical size and economic dimension of those farm units which remained in operation. Even so, in average terms, total gross operating margin today stands at two-thirds of that for the EU-15, going above the figures for only Greece, Portugal and Italy. Not something apart from all this is the fact that large farms in Spain (with a gross operating margin of more than 120,000 euros) scarcely account for 1.5% of the total as against 11% in France and 8% in Germany.

FARMS IN EU

Percentage breakdown of farms in each country, according to profit levels

	Profits (*) in thousand euros					Total
	< 4.8	4.8 < 19.2	19.2 < 48	48 < 120	≥ 120	
Germany	24.1	26.7	21.7	19.8	7.7	100
Austria	42.8	34.0	18.4	4.5	0.4	100
Belgium	16.9	19.4	18.0	29.8	16.0	100
Denmark	6.2	32.9	20.8	20.8	19.7	100
Spain	**51.4**	**31.5**	**11.6**	**4.1**	**1.4**	**100**
Finland	23.3	31.7	27.1	16.4	1.7	100
France	25.7	17.8	20.1	25.4	11.0	100
Greece	54.9	36.5	7.6	0.9	0.1	100
Ireland	25.6	38.8	21.0	12.6	1.9	100
Italy	66.4	22.5	6.9	2.9	1.2	100
Netherlands	1.3	20.8	16.9	29.2	31.7	100
Portugal	72.1	20.7	4.8	1.7	0.6	100
United Kingdom	37.1	19.6	14.3	16.1	12.9	100
Sweden	32.7	31.3	15.7	14.9	5.5	100
EU-15	**50.1**	**26.5**	**11.7**	**8.0**	**3.7**	**100**

NOTES: Gross operating margin.
SOURCE: Eurostat and internal figures.

Spain's farm sector of widely varying type.

In addition, the varied nature of farms is one of the main characteristics of Spain's agricultural sector. Along with very innovative and productive segments (those involving produce and fruit), which scarcely need any supports, there are other segments that would be practically unviable without the subsidies they receive (cereals, industrial crops, etc.), almost entirely coming from funds under the Common Agricultural Policy (CAP) of the European Union.

Around 25% of farm income comes from direct supports.

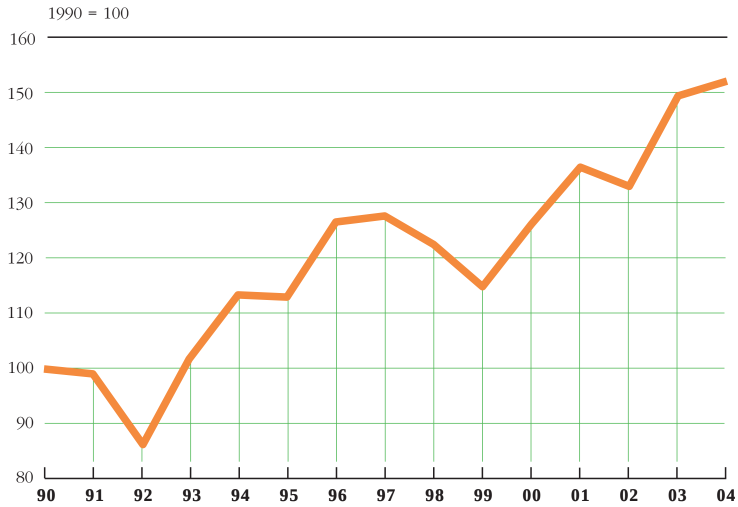
In overall terms, around 25% of farm income comes from direct supports. If we also take into account indirect supports received (rural development, etc.) and other implicit subsidies (water prices, different taxes on fuels and other items), the effective aid given to farm income would be at least twice the previous figure. These supports and, to a lesser extent, the increase in productivity explain the increase in farm income per person employed which in 15 years has risen by more than 52% in real terms.

Spain is fourth farm producer in European terms.

In a European context, Spain is fourth farm producer in order of importance, behind France, Italy and Germany. The Iberian peninsula, along with Italy and Greece, stand out for the relative importance of crop products in total farm activity. With regard to agricultural production, fruit and produce represent half of that total as against only the one-third these reach in the European Union.

CONTINUING IMPROVEMENT IN FARM INCOME PER PERSON EMPLOYED

Farm income per work unit per year at constant prices



SOURCE: Ministry of Agriculture, Fishing and Food and internal figures.

FARM PRODUCTION IN EU

2003 (in million current euros)

	Crop production	Livestock production	Total farm production
France	35,856	24,024	64,229
Italy	27,151	14,755	43,808
Germany	19,604	18,986	40,149
Spain	**23,959**	**13,490**	**39,009**
United Kingdom	8,867	13,020	23,635
Netherlands	10,619	7,559	20,048
Greece	8,638	2,818	11,893
Denmark	3,234	4,529	8,132
Belgium	3,579	3,757	7,420
Portugal	3,854	2,493	6,354
Ireland	1,296	4,324	5,924
Austria	2,578	2,472	5,618
Sweden	2,095	2,315	4,734
Finland	1,697	2,174	4,199
Luxembourg	87	153	256
EU-15	**153,113**	**116,871**	**285,406**

SOURCE: Eurostat and internal figures.

Under crop production, produce sub-sector most dynamic...

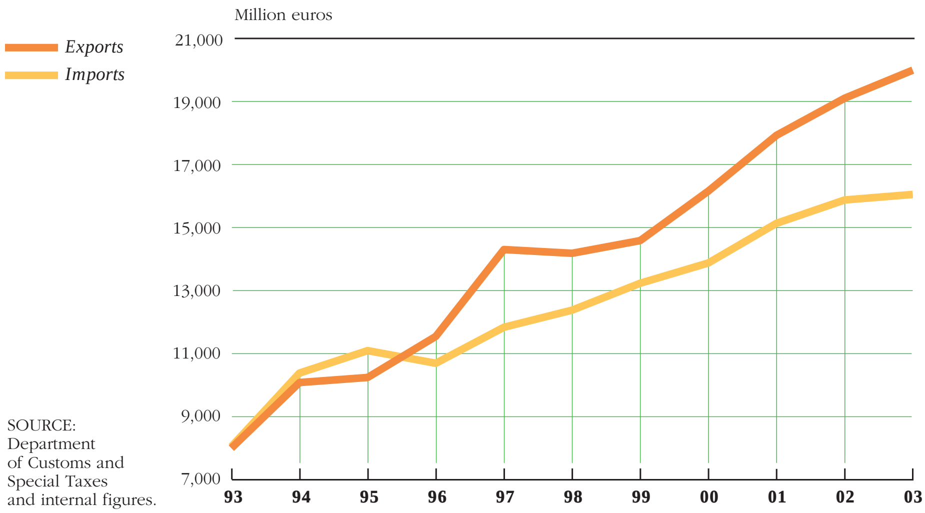
The produce sub-sector is the most dynamic (one reason for this being the contribution of modern farms using droplet irrigation in hot-houses), as indicated by the substantial increase in yields and prices in recent years. Between 1995 and 2001 production grew by close to 22% by volume and prices rose by more than 30%. On the other hand, in another up-to-date production area (fruit-growing) the growth of physical units (around 66% in the period under discussion) was partly compensated by the downward trend in prices (23%). The same trend (increase in volume with a downward trend in prices) was generally repeated in other crop production.

...while pork leads in livestock.

With regard to livestock, the pork sub-sector is the area to undergo the biggest growth in recent years and currently heads the ranking in value of production. Generally, in recent years there have been increases in volume and prices in almost all areas of production but with notable ups and downs in keeping with adverse events in the area of animal health, such as swine fever, the «mad cow» scare, etc.

SPAIN'S FOREIGN TRADE IN FARM PRODUCTS SHOWS INCREASING SURPLUS

Value of Spain's agricultural imports and exports



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

Spain's farm trade surplus showing growth.

Finally, from a general point of view, the trend in foreign trade confirms the competitiveness of Spain's farm sector (always, of course, within the protectionist parameters of the European Union). At this time, more than half of Spain's farm production is exported, a proportion that is growing, while the sector trade surplus also continues to grow.

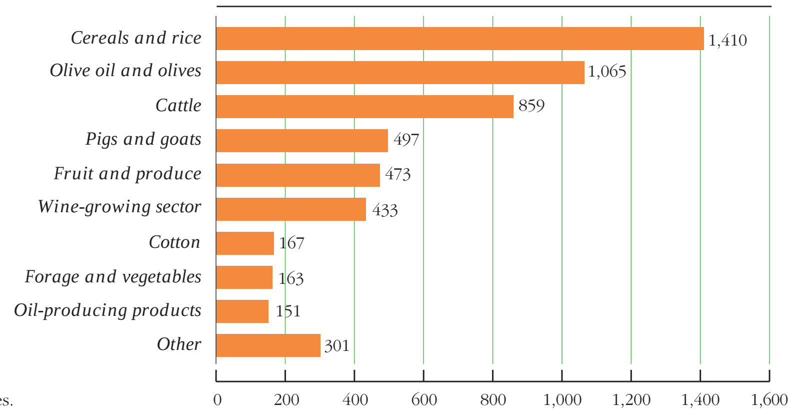
Common Agricultural Policy

CAP supporting production levels and farmer incomes.

The two spheres of activity under the Common Agricultural Policy (CAP) are prices and market policies, carried out through the European Agricultural Guidance and Guarantee Fund (EAGGF) whose objectives are to ensure the income of farmers and a specific level of production, as well as policy of a structural nature, through the EAGGF-Guidance Fund.

CEREALS AND OLIVE OIL TAKE UP HALF OF CAP FUNDS IN SPAIN

2003 (in million euros)



SOURCE: Ministry of Agriculture, Fishing and Food and internal figures.

Spain receives figure equivalent to 1% of GDP from CAP.

In the overall period 1994-2003, Spain's farm sector received 58.33 billion euros from the European Union (EU) under the CAP framework, a figure equivalent to little less than one third of the farm GDP or 1% of Spain's total GDP. In this period, CAP funds coming to Spain grew by 6% at cumulative annual rate.

Andalusia, Castile-Leon and Castile-La Mancha take up nearly half of supports received in 2003.

By product, cereals, rice, olive oil and olives took up half of EAGGF-Guarantee funds received by Spain. If we add the supports received by cattle, sheep and goats, this amounts to 75% of EAGGF-Guarantee funds. Geographical distribution of CAP funds shows a major concentration in three autonomous communities, namely Andalusia, Castile-Leon and Castile-La Mancha, which took up approximately half of supports received by Spain in 2003.

Reform of CAP foresees shift to system of one-time payments per farm, with limited exceptions.

The operation of the CAP has been the subject of major reform approved in 2003 which partially goes into effect in 2006 and is to be fully implemented as of 2007. In general terms, it will change from a system of payment for production to one involving one-time payments per farm, worked out according to a series of parameters (number of hectares, environmental conditions, food safety, animal health, etc.), The reforms foresee temporary exceptions (milk will not move into the system until 2008, for example) and limits applying to certain sectors.

Overall reduction of close to 12% in supports to EU-15 expected in 2007-2013 period...

The new financing proposals (that is, the multi-year EU spending directives) should go into effect as of 2007 although these are still under negotiation. At this time, no breakdown by country is available which would make it possible to foresee the total amount of supports Spain will receive between 2007-2013, although a very drastic reduction from present figures is not expected. On the other hand, we do know the total amount for the 15 member states of the former EU as compared with the nine new member states. In the period 2007-2013 it is expected that there will be a reduction of 12.5% in market and direct supports for the EU-15 and that the supports for rural development in that period will be maintained.

BREAKDOWN OF CAP FUNDS BY AUTONOMOUS COMMUNITY

2003 (in million euros)

	EAGGF-Guarantee	EAGGF-Guidance	Total	% of total
Andalusia	1,773	146	1,919	26.4
Aragon	528	0	528	7.3
Asturias	64	20	84	1.2
Balearic Islands	20	0	20	0.3
Canary Islands	230	20	250	3.4
Cantabria	33	14	48	0.7
Castile-Leon	917	152	1,070	14.7
Castile-La Mancha	806	70	876	12.1
Catalonia	366	0	366	5.0
Valencian Community	153	67	220	3.0
Extremadura	616	51	667	9.2
Galicia	131	55	186	2.6
La Rioja	38	–	38	0.5
Madrid Community	55	0	55	0.8
Murcia	94	43	138	1.9
Navarre	135	2	137	1.9
Basque Country	63	–	63	0.9
Not under region	399	198	597	8.2
TOTAL	**6,422**	**840**	**7,262**	**100**

SOURCE: Ministry of Agriculture, Fishing and Food and internal figures.

CAP FUNDS: FORECAST ASSIGNMENT

Market and direct supports (in million euros at constant 2004 prices)

SOURCE: European Commission and internal figures.

...while no major impact on Spain expected.

The farm sector has generally absorbed these restrictions. Naturally, the headings most affected will be those which currently enjoy a higher level of support. Specifically, these include production of cereals, olive oil, proteaginous crops (peas, broad beans, soy beans, lupines, vetches, etc.), oil-producing crops (sunflowers, rapeseed, etc.) and some industrial crops (cotton, among others). On the other hand, the impact on perishable products (fruit and produce and certain livestock products (poultry and pork, among others) will be of little significance.

Agreements under WTO, on contrary, must be closely watched.

Apart from this, current concern is centred on the future of agreements made under the World Trade Organization (WTO) which are aimed at greater liberalization of EU trade with other trading areas which are very competitive in certain products such as cattle (Argentina), market gardens (the Maghreb) and vast cereal production (North America), among others. Other aspects now being followed closely are the shortage of manpower, the upward trend in prices of some intermediate consumables (energy, fertilizers, etc.) and the trend taking place in interest rates over the medium and long term, given that the indebtedness of the sector has doubled in the past five years.

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