

Monthly Report



NUMBER 302

Spain's infrastructures: is level high enough? [Page 43](#)

Per capita value of public capital stock coming close to EMU average

How much and how we spend: clues to making productive infrastructures [Page 55](#)

Simply investing heavily in infrastructures is not enough: quality and management is just as important or more so

Bridges to the private sector: ways to finance infrastructures [Page 66](#)

Presence of private sector may facilitate more and better investment while reducing cost to taxpayers and users

Internationalization of Spanish companies of construction and infrastructures [Page 61](#)

Large Spanish companies in sector earn increasing part of income abroad

Forecast

% change over same period year before unless otherwise noted

	2006	2007	2008	2006				2007	
				1Q	2Q	3Q	4Q	1Q	2Q
INTERNATIONAL ECONOMY									
	Forecast			Forecast					
Gross domestic product									
United States	3.3	2.3	2.5	3.7	3.5	3.0	3.1	2.1	2.2
Japan	2.2	1.9	1.8	2.7	2.1	1.5	2.5	2.3	2.0
United Kingdom	2.8	2.5	2.3	2.4	2.7	2.9	3.0	2.8	2.6
Euro area	2.8	2.5	2.3	2.2	2.8	2.8	3.3	2.9	2.5
<i>Germany</i>	2.9	2.3	2.2	1.9	2.8	3.1	3.7	3.3	2.5
<i>France</i>	2.0	2.1	2.1	1.3	2.5	1.8	2.2	2.3	1.9
Consumer prices									
United States	3.2	2.0	2.4	3.7	4.0	3.4	2.0	2.4	1.8
Japan	0.2	0.3	0.4	-0.1	0.2	0.6	0.3	0.1	0.4
United Kingdom	2.3	2.4	2.1	2.0	2.2	2.4	2.7	2.8	2.5
Euro area	2.2	1.9	2.0	2.3	2.5	2.1	1.8	1.9	1.7
<i>Germany</i>	1.7	1.8	1.8	2.0	1.9	1.6	1.3	1.8	1.7
<i>France</i>	1.7	1.4	1.6	1.8	1.9	1.7	1.3	1.2	1.2
SPANISH ECONOMY									
	Forecast			Forecast					
Macroeconomic figures									
Household consumption	3.7	3.5	2.9	3.7	3.6	3.6	3.7	3.7	3.6
Government consumption	4.4	4.4	4.3	4.3	4.4	4.2	4.9	4.2	4.3
Gross fixed capital formation	6.3	4.8	4.1	6.3	6.2	6.4	6.4	5.9	5.4
<i>Capital goods</i>	9.7	5.6	5.0	8.6	9.1	9.6	11.4	9.5	8.0
<i>Construction</i>	5.9	4.8	3.8	5.8	5.8	6.2	5.7	5.4	4.8
Domestic demand (contribution to GDP growth)	4.9	4.3	3.7	4.8	4.8	4.8	4.9	4.6	4.4
Exports of goods and services	6.2	4.3	3.6	9.5	4.9	3.4	7.3	3.1	4.8
Imports of goods and services	8.4	5.4	4.9	11.6	7.3	6.0	8.8	4.5	6.4
Gross domestic product	3.9	3.7	3.1	3.7	3.8	3.8	4.0	3.9	3.8
Other variables									
Employment	3.1	2.8	2.3	3.2	3.1	3.0	3.0	2.9	2.8
Unemployment (% labour force)	8.5	8.0	7.8	9.1	8.5	8.1	8.3	8.5	8.0
Consumer price index	3.5	2.5	2.6	4.0	3.9	3.5	2.6	2.4	2.4
Unit labour costs	2.6	2.2	2.3	2.3	2.7	2.7	2.8		
Current account balance (% GDP)	-8.5	-9.3	-9.6	-10.0	-7.8	-8.4	-7.9		
Not lending or net borrowing rest of the world (% GDP)	-7.8	-8.8	-9.2	-9.7	-7.4	-7.8	-6.7		
Government balance (% GDP)	1.8	1.2	0.9						
FINANCIAL MARKETS									
	Forecast			Forecast					
Interest rates									
Federal Funds	5.0	5.2	5.0	4.4	4.9	5.3	5.3	5.3	5.3
ECB repo	2.8	3.9	4.3	2.3	2.6	2.9	3.3	3.6	3.8
10-year US bonds	4.8	4.9	5.3	4.6	5.1	4.9	4.6	4.7	4.8
10-year German bonds	3.8	4.3	4.7	3.5	4.0	3.9	3.8	4.0	4.2
10-year Spanish bonds	3.8	4.4	4.8	3.5	4.0	3.9	3.8	4.1	4.3
Exchange rate									
\$/Euro	1.26	1.37	1.37	1.20	1.26	1.27	1.29	1.31	1.38

Research Department

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

"la Caixa" GROUP: KEY FIGURES

As of December 31, 2006

FINANCIAL ACTIVITY	Million euros
Total customer funds	197,495
Receivable from customers	139,765
Profit attributable to Group	3,025

STAFF, BRANCHES AND MEANS OF PAYMENT	
Staff	25,241
Branches	5,186
Self-service terminals	7,493
Cards	9,007,335

COMMUNITY PROJECTS: BUDGET FOR ACTIVITIES IN 2007	Million euros
Social	256
Science and environmental	64
Cultural	54
Educational	26
TOTAL BUDGET	400

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Infrastructures: quantity, quality and price

Contents

1 Editorial
2 Overall summary
6 International review
6 IMF forecasts
8 United States
12 Japan
14 China
16 Mexico
19 Raw materials
21 European Union
21 Euro area
23 Germany
24 France
25 Italy
26 United Kingdom
28 Financial markets
28 Monetary and capital markets
38 Spain: overall analysis
38 Economic activity
43 Spain's infrastructures: is level high enough?
47 Labour market
50 Prices
55 How much and how we spend: clues to making productive infrastructures
58 Foreign sector
61 Internationalization of Spanish companies of construction and infrastructures
64 Public sector
66 Bridges to the private sector: ways to finance infrastructures
68 Savings and financing

It is generally accepted that investment in infrastructures is a necessary condition for the progress of the economy. The construction of roads, railways, urban transport, ports, distribution networks for electricity, water and gas, reservoirs, urban and suburban facilities, etc. mobilizes the productive resources of many economic sectors and on itself contributes to raise the growth rate. Furthermore, and even more important, raising the stock of infrastructures can reduce the prices of certain products and services such as energy, water and transportation, lower the production costs of other economic sectors, increase the size of the potential market available to companies and improve the conditions that determine their location. Since Adam Smith pointed out the great importance of market size in the process of specialization and economic growth, studies of industrial development and location have kept the role of economic infrastructures in this process very much in mind.

In any case, the relation between infrastructures and growth is very complex. Empirical studies in this matter showed a great surge at the end of the Eighties when it was tried to link the stagnation of the US economy and the slowdown in productivity there in the Seventies and Eighties with the decrease in public investment during that period. Nevertheless, because of problems with available data and the complexity of the methodology, the results of these studies generally fail to give clear-cut conclusions. In addition, the relation between infrastructures and growth is far from an automatic process given that many other factors come into play. Here we should remember the heavy and far from useful programme of public investments carried out by Japan at the beginning of this decade, by means of which it was attempted to pull the Japanese economy out of its stagnation or recession. The result was a spiralling increase in the public debt with no perceptible change in economic growth.

It is for this reason that we have devoted this Monthly Report to explore some considerations about the question of infrastructures. Spain has carried forward a considerable programme in recent decades. The gap between the per capita public capital stock in Spain and the average of the euro area countries has largely been closed. Whereas in 1976 the Spanish stock represented a mere 38% of that in the euro area, 30 years later Spain now stands at 90%. Available studies indicate that the annual contribution of infrastructures to economic growth would be around a quarter or a half percentage points. This investment effort will continue in coming years, according to the Spanish Government's Strategic Plan for Infrastructures and Transport covering the period up to 2020.

This is not only a matter of quantity. Quality is just as important or more so. Design, management and methods of use of infrastructures are determinants when it comes to obtaining maximum social and economic utilities. Choked highways, crowded trains and over-extended high-tension power lines have become all too familiar sights and, given the inevitable limitations that exist, perhaps these matters could be dealt with through a suitable system of relative prices. Another interesting aspect is the growing role of the private sector in construction and operation of infrastructures. This is a field in which a group of Spanish companies has recently made a mark by taking part in some of the most important corporate operations on the European continent.

OVERALL SUMMARY

IMF predicts continuation of strong world growth and lowers risks seen in October report.

Possible slowdown in US economy need not affect rest of world economy.

Financial markets enjoying exuberant stage which causes concern among monetary authorities.

World economy grows by 5%

It is not common for such a staid organization as the International Monetary Fund (IMF) to issue a report on economic prospects as positive as that put out in mid-April. The newspaper *The Financial Times* headed its editorial «The IMF reports on a wonderful world». This was not meant to be ironic. After five years of high growth, during which the underlying imbalances (cost increases, balance of payments) have not altered the firmly upward trend and with no notable risks on the horizon, this positive view comes through clearly. In the foreword to its Spring report the Washington-based organization recognizes that global risks persist but these are somewhat less than was thought back in October when the last report was issued.

One of these risks, probably the one which troubles politicians and economists most at this time, is the real estate recession in the United States. The IMF report wonders if a sharp slowdown in the leading world economy would drag the rest of the world along the same road. The conclusion of the research, one of the most important in the report, is that this is not necessarily so. After analyzing the economic cycle for the last 40 years, it states that world slowdowns come about when some event affects a number of countries at the same time. When the problem is specific to just one country, however large it may be, normally no spreading takes place. The message is that if we apply suitable economic policies the present world

growth cycle could still last for a number of years.

In this context, it is not strange that the financial markets are enjoying a bullish period. The reverse seen in world markets at the end of February has been left behind as a mere anecdote on the upward course followed by equities. The Dow Jones and other stock market indices have hit new all-time highs. Risk premiums for emerging country bonds again showed all-time lows in the second week of April. The risk premium on low credit-rating corporate bonds stands at low levels. The default rate on these «junk bonds» is the lowest in 10 years. Funds obtained by companies in the first quarter of 2007 reached an all-time high of 1,500 billion dollars.

All this financial rapture makes one slightly dizzy. This is how it is seen in a separate IMF report presented at the same time, namely that dealing with global financial stability. The IMF shares the concern expressed by various central banks over the massive increase in leveraged buying of risk capital funds. It is estimated that these operations have gone up from less than 50 billion dollars in 2002 to nearly 500 billion this year. In contrast to the previous rise in risk capital at the end of the Eighties, the majority of these transactions are now being financed by bank credits in a context of lower credit ratings and end up putting companies heavily in debt. One problem lies in that one or another of these transactions could set off a revision of risk which could affect the banking sector as a whole.

Some people argue that the origin of this financial rapture lies in excess global liquidity promoted by the lax state of monetary policy in recent years. In any case, the fact is that, because it exists, this excess must be reinvested given that the monetary policies of the large central banks have moved into a stage of tighter money aimed at putting official interest rates at more neutral levels. The US Federal Reserve seems to have completed this course, the Bank of Japan has scarcely begun, while the Bank of England and the European Central Bank are close to the finishing line. The prospect of new increases on the European continent have continued to support the pound sterling and the euro, currencies which have hit highs against the dollar.

The decline in the US currency at the end of April was very much linked to the poor results for the economy. Growth of gross domestic product (GDP) in the first quarter (2.1% year-to-year) was lower than expected. Consumer demand continued to show strength and non-residential investment was more positive than in the previous quarter. But this time the foreign sector took away from growth because of the weakness in exports, while public consumption also slowed. We hardly need to say so but construction continued to be the biggest drain on growth of the economy continuing a course with still no light at the end of the tunnel.

What is happening in China, the main area of growth among the emerging countries, is quite different. The Asian colossus continues to defy all forecasts and is maintaining growth that puts it strongly on the way to occupying a notable place among the leading world economic powers. Growth in the first quarter was 11.1% which scrapped forecasts of a slowdown. Quite the opposite. Industrial machinery seems

unstoppable and the manufactured goods surplus with the developed countries is setting new records. At the beginning of April, the United States presented formal complaints to the World Trade Organization regarding the unacceptable level of counterfeiting of products of foreign companies (industrial piracy) and regarding the imposition of trade barriers on books, films and music.

On the European continent, the excellent economic results have surprised even those responsible for the economy and finance. In its forecasts, the IMF indicates that the euro area will grow somewhat more than the United States in 2007, something that has not happened for around six years. No problems are showing up in terms of inflation. Unemployment rates have shown a notable decrease, especially significant in the case of France and Germany. The government deficit fell to 1.6% of GDP in 2006, half that recorded three years earlier. The drive in the euro area economy is buoyed up mainly by the German engine and that country's export effort appears to have increased in recent times but the other economies are also showing signs of their own strength.

Spain's economy: firm growth but foreign sector gap

This is the case of Spain's economy with domestic demand strongly driving consumption, to which we can now add the better state of the foreign sector. The IMF is predicting GDP growth of 3.6% in 2007 (increase of 3.9% in 2006), one decimal less than the Bank of Spain and within the range expected by most analysts. That is to say, this strength will be maintained throughout the year although within a profile of some slowdown from the current high growth levels.

Main central banks in stage of tightening monetary policies.

Euro marks up all-time high against dollar due to poor results in US economy...

...quite the opposite of China's results and in contrast with favourable state of European economy.

Spain participating in excellent economic stage on European continent with notable production drive in industry, construction and services...

...while, on demand side, some signs now appearing of less buoyant real estate sector.

Foreign sector scarcely any better with worse situation caused mainly by income payments and increased remittances abroad. Net direct investment abroad remains positive.

For the moment, the expansionist rate of GDP does not seem to be slackening. Preliminary figures for the first quarter point to a growth rate similar to that at the end of 2006, that is to say, 4%. On the supply side, industry is maintaining the drive seen in recent months with general increases in nearly all branches of production. The level of activity in construction remains high with public works being driven by government investment in the residential sector, aided by 800,000 housing starts last year. In services, the year began with notable drive mainly in transport, information technology and company services. Tourism is holding strong and retail distribution is indicating a notable improvement.

On the demand side, private consumption is maintaining growth of 3.5%-4%. Job creation is making possible a strong advance in total wages while credit for buying consumer durables (which grew by around 12% in 2006) has slowed slightly. With regard to corporate investment, nearly all indicators show clearly expansionist signs. We should point out, for example, imports and sales of capital goods. Most recent figures on the financial situation of companies indicate very positive operating results and profitability levels in a context of growing bank borrowing.

With regard to housing demand by households, we note some slight easing off in the strong growth trend operating in the sector over the past decade. Sales are thus tending to slacken off while prices are moving up at a much slower rate than in previous years (7.2% annual in the first quarter) although still well above the consumer price index (CPI). In this matter, we should point out the notable slowdown in mortgage loans granted to individuals which went from an annual growth rate of 25% at the end

of 2005 to 19% in February 2007. The increase in interest rates and the level reached by housing prices have somewhat cooled off demand although job creation and the flexibility of financing conditions makes it possible to foresee that the slowdown will continue to be gradual.

With regard to prices, the growth rate of the CPI is holding relatively low compared with levels reported one year ago. In March, year-to-year growth was 2.5%. If there are no big surprises in prices of the more volatile components of the index, it could still drop by a few decimals although toward year-end the year-to-year rate will return to levels close to 3% once the base effect from high oil prices last year has worn off.

With regard to the foreign imbalance, it is possible to note some containment of the worsening process seen up to now. However, we should point out that the current account deficit is more and more being added to by the worsening of the incomes component (increasing payments for profits and interest on foreign capital invested in Spain) and by the increasingly negative transfers account for which the worsening can be explained by immigrant remittances to families abroad. The services account, in turn, is holding to a more neutral performance with some improvement in the tourism balance which compensates for the drop in other accounts. In any case, the total current account deficit, one of the matters most criticized in the latest IMF report on Spain's economy, continues to have no problem in being financed by inflows of foreign portfolio investment (bonds, shares, etc.) which also makes it possible for direct Spanish investment abroad to keep running higher than inflows of direct foreign investment in Spain.

April 27, 2007

CHRONOLOGY

2006

- March**
- 2 **European Central Bank** raises official interest rate to 2.50%.
 - 28 **Federal Reserve** raises reference interest rates to 4.75%.
 - 31 Government approves **economic policy package** including budgetary measures and others on mortgage market, energy sector and rail transport.
- May**
- 4 Agreement between government, business organizations and trade unions on **labour reform** aimed at reducing extent of temporary work.
 - 10 **Federal Reserve** raises reference rate to 5%.
- June**
- 8 **European Central Bank** raises official interest rate to 2.75%.
 - 29 **Federal Reserve Board** increases reference rate to 5.25%.
- July**
- 11 European Council authorizes **Slovenia** to adopt euro as currency as of January 1, 2007.
 - 24 Multilateral negotiations in **Doha Round** of World Trade Organization, aimed at greater liberalization of international trade, indefinitely suspended.
- August**
- 3 **European Central Bank** raises official interest rate to 3.00%.
 - 8 One-month forward price of Brent quality **oil** goes up to all-time high of 78.49 dollars a barrel.
 - 12 UN Security Council approves resolution for **cease-fire in Lebanon** in conflict between Israel and Hezbollah.
- September**
- 26 European Commission gives go-ahead to entry of **Romania and Bulgaria** into European Union on January 1, 2007.
- October**
- 5 **European Central Bank** raises official interest rate to 3.25%.
- November**
- 29 Publication in BOE Official Bulletin of Law 35/2006 on reforms to **Personal Income Tax** and partial modification of laws on Corporate Tax, Non-resident tax and Property Tax.
- December**
- 7 **European Central Bank** raises official interest rate to 3.50%.

2007

- January**
- 1 **European Union** enlarged to 27 member states following inclusion of Romania and Bulgaria; and **euro area** numbers 13 members following adoption of European single currency by Slovenia. Reforms to **Personal Income Tax** and **Corporate Tax** go into force.
- March**
- 8 **European Central Bank** raises official interest rate to 3.75%.
- April**
- 13 Publication of Law 6/2007 in Official Government Bulletin (BOE) modifying the regulations applying to **takeover bids** which come into force in mid-August.
 - 20 IBEX 35 index for **Spanish stock market** marks up all-time high (15,080.9) with cumulative gains of 6.6% since the end of December 2006.
 - 26 Dow Jones index for **New York stock exchange** records all-time high (13,105.5) with rise of 5.2% since end of 2006.

AGENDA

May

- 4 Registrations with Social Security and registered unemployment (April). Industrial production index (March).
- 9 Open Market Committee of the Fed.
- 10 Governing Council of European Central Bank.
- 11 CPI (April).
- 14 Preview GDP (1st Quarter).
- 16 Balance of payments (February). Harmonized CPI for EU (April).
- 22 Central government revenue and spending (April). Foreign trade (March).
- 23 GDP (1st Quarter).
- 25 Producer prices (April).
- 27 Municipal and Autonomous Community elections.
- 30 Preview Harmonized CPI (May).

June

- 4 Registrations with Social Security and registered unemployment (May).
- 5 Industrial production index (April).
- 6 Meeting of Governing Council, European Central Bank.
- 13 CPI (May).
- 14 Harmonized CPI for EU (May).
- 15 Balance of payments (March). Quarterly labour cost survey (1st Quarter).
- 25 Producer prices (May).
- 28 Early HCPI (June). Meeting of Federal Reserve Open Market Committee.

INTERNATIONAL REVIEW

IMF predicts world growth of around 5% for 2007 and 2008.

Risks reduced but downward bias continues.

IMF forecasts: growth continuing and risks reduced

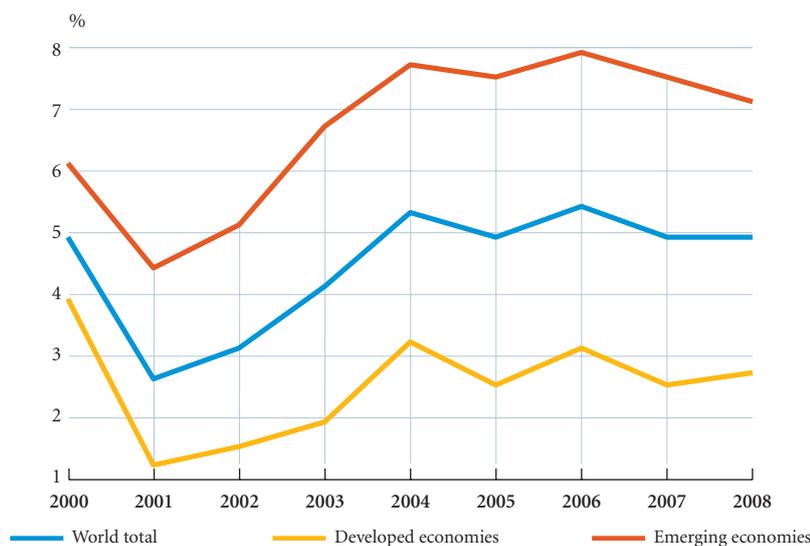
The International Monetary Fund (IMF), in its report on world economic outlook in April, maintains its growth forecasts for 2007 at 4.9% and expects this will be repeated at the same rate in 2008. This means some slight moderation following the strong 5.4% in 2006. World growth is solid thanks to low interest rates up to now and growth of international trade while inflationary pressures have been reduced following moderation in oil prices. The risks in this basic scenario are less than in September although they remain with a downward bias and are centred on a further slowdown in the United States,

an increase in volatility in financial markets, a return of inflationary pressures in the case of further rises in oil and on the possibility (low at this moment) of a sharp correction in the imbalances in current account balances. The capacity of the global economy to detach itself from the US cycle shown in 2006, should it continue, would likely contribute to a reduction of these risks.

By geographical area, the United States is where the forecasts move down most with growth of 2.2% expected in 2007 (a downward correction of 0.7 percentage points compared with September 2006 because of the weakness of the real estate sector) only to gain strength in 2008 with increases

WORLD GROWTH SOLID AND NOT STOPPING

Year-to-year change in gross domestic product



NOTES: 2007 and 2008 are forecasts.
SOURCE: International Monetary Fund.

IMF FORECASTS

Annual change as percentage

	2005	2006	2007 (1)	2008 (1)
GDP				
United States	3.2	3.3	2.2	2.8
Japan	1.9	2.2	2.3	1.9
Germany	0.9	2.7	1.8	1.9
France	1.2	2.0	2.0	2.4
Italy	0.1	1.9	1.8	1.7
United Kingdom	1.9	2.7	2.9	2.7
Spain	3.5	3.9	3.6	3.4
Euro area	1.4	2.6	2.3	2.3
Advanced economies	2.5	3.1	2.5	2.7
World total	4.9	5.4	4.9	4.9
<i>Developing countries</i>	<i>7.5</i>	<i>7.9</i>	<i>7.5</i>	<i>7.1</i>
<i>Latin America</i>	<i>4.6</i>	<i>5.5</i>	<i>4.9</i>	<i>4.2</i>
<i>Eastern and Central Europe</i>	<i>5.5</i>	<i>6.0</i>	<i>5.5</i>	<i>5.3</i>
<i>Russia</i>	<i>6.4</i>	<i>6.7</i>	<i>6.4</i>	<i>5.9</i>
<i>China</i>	<i>10.4</i>	<i>10.7</i>	<i>10.0</i>	<i>9.5</i>
Consumer prices				
United States	3.4	3.2	1.9	2.5
Japan	-0.6	0.2	0.3	0.8
Germany (2)	1.9	1.8	2.0	1.6
France (2)	1.9	1.9	1.7	1.8
Italy (2)	2.2	2.2	2.1	2.0
United Kingdom (2)	2.0	2.3	2.3	2.0
Spain (2)	3.4	3.6	2.6	2.7
Euro area (2)	2.2	2.2	2.0	2.0
Advanced economies	2.3	2.3	1.8	2.1
<i>Developing countries</i>	<i>5.4</i>	<i>5.3</i>	<i>5.4</i>	<i>4.9</i>
Unemployment rate (3)				
United States	5.1	4.6	4.8	5.0
Japan	4.4	4.1	4.0	4.0
Germany	9.1	8.1	7.8	7.6
France	9.7	9.0	8.3	7.8
Italy	7.7	6.8	6.8	6.8
United Kingdom	4.8	5.4	5.3	5.1
Spain	9.2	8.5	7.8	7.7
World trade by volume (4)	7.4	9.2	7.0	7.4
Oil price (\$ per barrel) (5)	41.3	20.5	-5.5	6.6

NOTES: (1) Forecasts at April 2007.

(2) Harmonized consumer price index.

(3) Percentage of labour force.

(4) Goods and services.

(5) Average spot prices for Brent, Dubai and West Texas Intermediate oil. Average oil price in dollars per barrel forecast at \$60.75 in 2007 and \$64.75 in 2008.

SOURCE: International Monetary Fund.

US shows drop in 2007 while euro area, Japan and emerging countries keep growing.

Inflation moderates but high utilization of production capacity in euro area obliges ECB to raise rates.

Wider sharing of benefits of technological progress and trade needed to avoid protectionist moves.

US growth depending on private consumption and good state of companies.

of 2.8%. In the euro area, a tighter monetary policy and tax consolidation could bring some moderation to economic activity following the robust growth in 2006, with a forecast advance of 2.3% in 2007 and 2008. For Japan, prospects are for a continuation of 2006 with growth of 2.3% and 1.9% in 2007 and 2008 respectively. The emerging economies will continue their strong showing although somewhat more moderate than in 2006. China will follow this same pattern but growth will remain above 9% in coming years. In the case of Latin America, the moderation will show rates of increase slightly above 4.0% while Eastern Europe will be slightly above 5.0%.

For Europe, forecasts for nearly all countries have been revised upward. Following an active 2006, Germany will maintain its growth with figures of 1.8% and 1.9% in 2007 and 2008 respectively. Prospects are also better for Italy and especially for Spain with a growth forecast at 3.6% and 3.4%. France will maintain growth but prospects have been corrected downward.

On the inflation front, forecasts are better for the developed economies with the United States and the euro area at levels close to 2% in 2007, which will be maintained in the euro area in 2008 but in the US case levels will go up to 2.5%. Maintenance of interest rates seems likely in the United States whereas in the euro area, with growth close to potential and expected upward pressure on the degree of utilization of production factors, official interest rates would seem to be assured at 4.4% this summer. Tax consolidation should continue taking advantage of present growth and, even more, taking into account the process of aging of the population which could weaken government revenues in coming years.

Looking over the longer term, growth of productivity in recent years has been based on a combination of technological progress, growing openness of trade, free circulation of capital between countries and more robust macroeconomic frameworks and financial systems. Nevertheless, the growth of trade and introduction of new technology has left broad sectors of society behind. What is needed are better educational systems, more efficient labour markets and social protection measures which could ease the impact of economic change without obstructing it and keeping possible protectionist policies at bay.

United States: growth gets strength from weakness

The cartoon story goes that Coyote is constantly chasing Road-runner up hill and down gully. Road-runner always manages to stop in time but not Coyote. Once, on arriving at the edge of a cliff, Coyote had no ground to stand on and inevitably fell to oblivion. At this time, we could say that the US economy has more of the make-up of Road-runner than of Coyote although there are still major risks ahead. The US gross domestic product (GDP) grew by 3.1% year-to-year in the fourth quarter although touching rates closer to 2.5%. Corporate prudence remains dominant with equipment investment, which during the current growth period has not increased its share in the nominal GDP as might be expected as a recovery from the sharp correction at the end of the high-tech bubble. The drop in investment has come before it even reached the fast rates in the roaring Nineties. In turn, construction investment continues to drop drastically. This prudence in investment, however, coincides with corporate profits which remain at all-time highs.

The opinion of business executives in March was relatively restrained and continued along the path of prudence. The index of industrial activity put out by the Institute for Supply Management (ISM) in March was down from 52.3 to 50.9 points, still holding slightly above the 50 points level which indicates that those expecting improvements equal those who see things getting worse. New orders, especially those for export, and prices were the highest components in the index. In services the pattern was similar but with an ISM index which was slightly higher at the 52.4 points level.

Also showing signs of this capacity to halt which is typical of the hare, industrial production in March grew by 2.3% year-to-year, a notable decrease as against the downward revised figure of 3.0% in February. Where the slowdown remains significant is in the construction sector with new building permits in March dropping by 28.2% year-to-year. Housing starts in the same period were 23.0% below the year before but in the first quarter as a whole

there was a slight improvement in the forecast by the Mortgage Bankers Association which is expecting some recovery in the third quarter. While supply continues to be lower, the main news on the demand side is that prices are being maintained with a Pyrrhic price drop in March of 1.3% for existing housing and 0.3% for new housing, with a sales volume that is showing signs of recovery in the first case but not in the second instance.

On top of this relatively good performance in real estate prices comes the strength of the labour market with job creation still considerable and an unemployment rate of 4.4%, the lowest since 2001. This was a result coherent with the downward phase of the cycle in which the slowdown should have a bigger effect on high profits than on employment and wages. All of this is giving a boost to consumers who represent the real support of the present level of economic activity.

In this respect, the low-quality mortgage loan crisis and the low savings levels did

Optimists still predominate but not much ahead.

Construction supply still dropping although prices holding up.

Labour market keeps supporting economy...

UNITED STATES: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2005	2006	2006				2007		
			1Q	2Q	3Q	4Q	January	February	March
Real GDP	3.2	3.3	3.7	3.5	3.0	3.1	–	...	–
Retail sales	6.6	6.2	7.9	6.4	5.4	5.0	2.2	3.5	3.8
Consumer confidence (*)	100.3	105.9	105.7	106.6	104.4	106.8	110.2	111.2	107.2
Industrial production	3.2	4.0	3.3	4.2	5.1	3.5	2.4	3.0	2.3
Industrial activity index (ISM) (*)	55.5	53.9	55.6	55.2	53.8	50.9	49.3	52.3	50.9
Sales of single-family homes	6.6	–17.6	–11.6	–14.4	–22.3	–21.8	–24.8	–18.3	...
Unemployment rate (**)	5.1	4.6	4.7	4.6	4.7	4.5	4.6	4.5	4.4
Consumer prices	3.4	3.2	3.7	4.0	3.4	1.9	2.1	2.4	2.8
Trade balance (***)	–717	–765	–740	–762	–781	–765	–758	–753	...

NOTES: (*) Value.

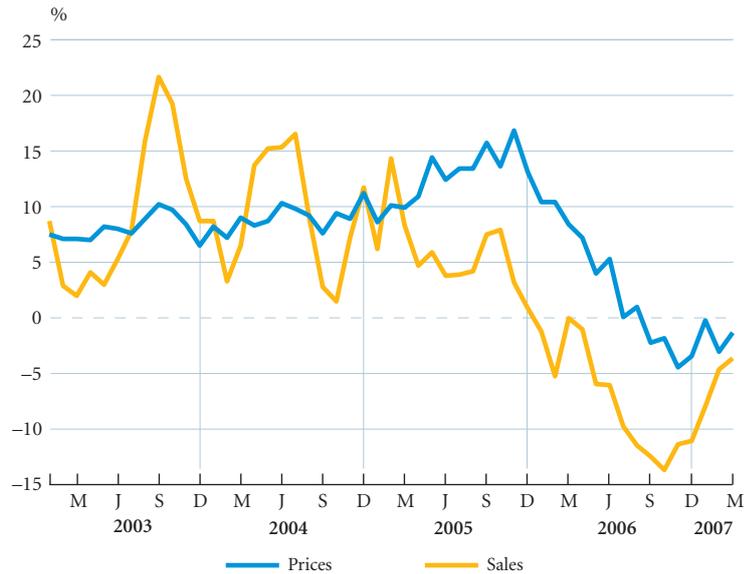
(**) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

UNITED STATES: HOUSING PRICES HOLDING UP

Year-to-year change in prices and sales of existing housing



SOURCE: Federal Housing Board, National Association of Realtors and own calculations.

...with consumers aware of this and showing confidence in present situation.

not prevent retail sales in March from having a better than expected performance which showed that the fund of resistance in consumption is still

considerable. Excluding volatile factors such as cars and petrol, the remaining 70% of the index grew by 3.5% year-to-year with renewed strength in such

UNITED STATES: CONSUMERS FINDING SUPPORT

Month-to-month change annualized in retail sales (excluding cars and petrol) (*)



NOTES: (*) Series trend.

SOURCE: Department of Commerce and own calculations.

sectors as food, construction materials and clothing. The other side of the coin lay in consumer electronics which has been at a low point for various months. The question whether consumers wish to emulate the rash coyote or the prudent hare, the latest consumer confidence survey by the Conference Board in March shows a cautious decrease of four points to the 107.2 points level which would indicate the second option but here lies a trap. It seems that the grey days have been left for a later date seeing that the drop is based on worse expectations, given that the perception of the present situation actually improved.

In spite of the comments by the Federal Reserve indicating that inflation is a greater risk than lack of growth, figures for the consumer price index (CPI) in March were relatively good. The general index moved up with growth of 2.8% year-to-year. Nevertheless, the most

relevant core component, the general index excluding food and energy, moderated to show increases of 2.5%. Even more so, the core component (excluding housing rentals) which more directly describes the bottlenecks in the production process and possible pressure on costs in the labour market rose by a more reasonable 1.4% year-to-year.

The trade deficit continues to drop thanks to the oil balance. In February, the foreign deficit was 58.44 billion dollars, somewhat lower than the figure for the previous month and 7.1% below the same period the year before. Nevertheless, the sustainable correction is left for later on given that the non-oil balance again rose to close to 40 billion dollars. In addition, the bilateral deficit with China in February was 18.43 billion dollars, 20% below the 2006 average, which should help to reduce calls for protectionism.

Core inflation moderates with growth at 2.5%.

Trade deficit down thanks to oil.

UNITED STATES: INFLATIONARY PRESSURE DOWN

Year-to-year change in consumer price index



SOURCE: Department of Labour and own calculations.

Japan grows by 2.5% with drop in domestic demand but greater support from foreign sector.

Retail sales weak...

...but industrial production increasing with growth at 4.5%.

Japan: strength coming from outside

On April 11, Wen Jiabao, prime minister of the People's Republic of China visited Japan as the prelude to a new era of mutual understanding. Shinzo Abe, his Japanese counterpart, indicated he would not visit the Yasukuni sanctuary where supposed World War II war criminals are buried and Wen will try to play down celebrations of the anniversary of Japan's invasion of Manchuria. All of this goes in favour of the economy because Chinese growth is benefiting the Japanese economy more than any real or imagined military victory.

The Japanese economy ended the year on a relatively good note with growth of 2.5% year-to-year in the fourth quarter and some recovery of the critical state of private consumption. Nevertheless, this recovery is less than it would appear seeing that growth in the final quarter was 0.5% year-to-year. In the first quarter of 2007, consumer confidence was down slightly going from 47.0 to a level of 46.7 points while the savings propensity of wage-earners continued to grow in February. That same month

retail sales returned to the slack state that has been dominant since the beginning of 2006 wiping out the slight boost in January. In the same way, car sales for the last twelve months ending in February stood at 12.4% below the level for the same period the year before.

The contrast continues in the industrial sector where industrial production of manufactured goods in February rose from 3.2% to 4.5% in year-to-year growth. Manufacturing productivity rose by a respectable 3.4% year-to-year while the Tankan index for large manufacturing companies, in spite of dropping from 25 to 23 points in the first quarter, remains in the high range. Beyond these figures which are clearly higher than those for the domestic market we see the drive in investment, with capital formation in equipment which, according to the National Accounts, rose by 11.5% year-to-year in the fourth quarter. The strength in investment should continue if we are to go by machinery orders for January which showed an overall increase of 9.6% year-to-year in January.

JAPAN: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2005	2006	2006				2007	
			1Q	2Q	3Q	4Q	January	February
Real GDP	1.9	2.2	2.7	2.1	1.5	2.5	-	...
Retail sales	1.4	0.2	0.6	-0.2	0.4	-0.1	-0.8	-0.3
Industrial production	1.5	4.5	2.6	4.0	6.0	5.3	3.2	4.5
Tankan company index (*)	18.0	22.5	20.0	21.0	24.0	25.0	-	23.0
Housing construction	3.9	4.5	4.9	8.9	-0.8	5.4	-0.8	-9.9
Unemployment rate (**)	4.4	4.1	4.2	4.1	4.1	4.0	4.0	4.0
Consumer prices	-0.3	0.2	-0.1	0.2	0.6	0.3	0.0	-0.2
Trade balance (***)	10.2	9.4	9.5	9.1	8.9	9.4	9.9	9.8

NOTES: (*) Value.

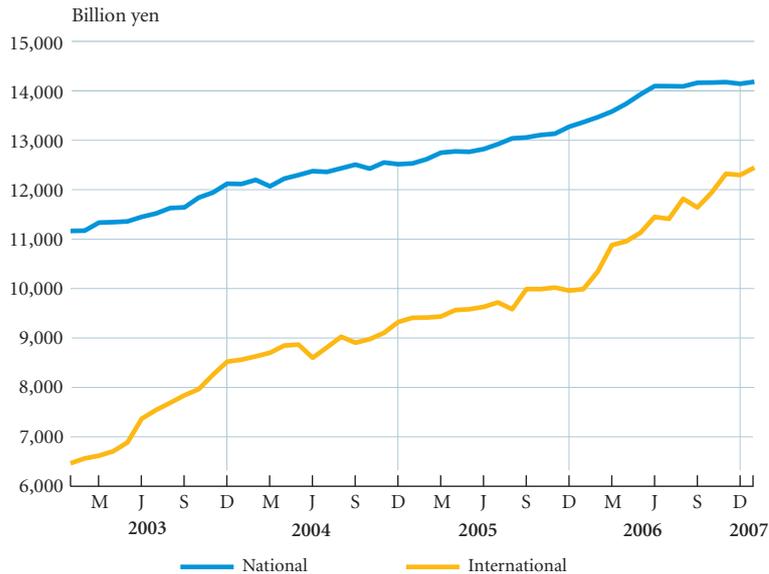
(**) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies own calculations.

JAPAN: INVESTMENT RUNNING FULL STEAM AHEAD BECAUSE OF FOREIGN DEMAND

Machinery orders for last 12 months



SOURCE: Japanese Ministry of Communications, National Statistics Office and own calculations.

It is here, however, where we see the strengths and weaknesses of Japan's economy. Orders to meet domestic demand continued to weaken with a

slim growth of 3.5% year-to-year whereas those for export rose by a sound 17.8% and now come close to 47% of the total within a growth process which

Machinery orders for export now make up 47% of total.

JAPAN: DEFLATION HARD TO MAKE DISAPPEAR

Year-to-year change in consumer price index excluding fresh food



SOURCE: Japanese Ministry of Communications, National Statistics Office and own calculations.

Prices again drop by 0.2%.

does not seem to have any early end. Japanese exports, of high value added, have a complementary relation with Chinese exports where low costs still predominate although less and less. As a result, China's growth in trade is not hurting Japan. What is more, Japanese exporters are finding major customers among Chinese importers. Japan is therefore the only large rich country enjoying a trade surplus with the Chinese colossus and this well deserves good diplomatic efforts.

Exports remain strong.

The real estate market is not helping economic activity. Tokyo prices have shown sharp increases for several months but this goes along with an even sharper drop in sales which would indicate that the upward course is now worn out. Nor does the labour market offer much relief in spite of the fact that the unemployment rate in February held at a low 4.0%. The persistence of pockets of under-employment and inefficiency puts Japan far from the United States in this respect.

China growing by 11.1% thanks to industry and foreign sector...

Another front that has recently become clouded is prices with the February CPI returning to negative ground losing 0.2% year-to-year. The price index, excluding the volatile fresh foods, was also down by 0.1%. In spite of this

fleeting return of the spectre of deflation, the tendency continues to be upward so that, in a few months, we should see consolidation of a return to positive ground. The trade surplus in the last 12 months ending February held at 9.83 billion yen. The most significant factor was the continued growth of exports which, in the same period, rose by 13.9% year-to-year again showing where the real strength of Japan's economy lies.

China: more substance but with diplomacy

The China of Hu Jingtao and Wen Jiabao continues to move up by leaps and bounds. Growth is dominated by industry and exports where consumers seem to be left behind. This brings about a growing trade deficit and political tension where environmental matters are also getting more notice. The main new factor is that this time China is turning to diplomacy in search of solutions. The growth of the Chinese engine remains formidable. In the first quarter of 2007, far from showing signs of moderation, the GDP moved up by a sound 11.1% year-to-year. Following the tone in recent times, the industrial sector continues to be the one showing

CHINA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

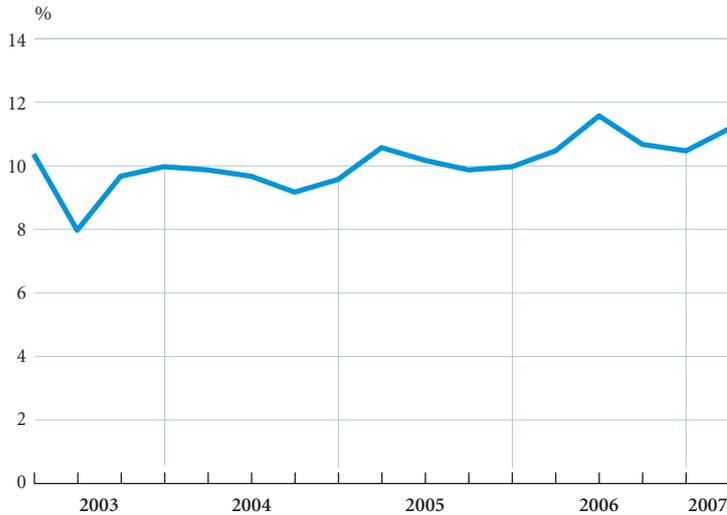
	2005	2006	2006				2007		
			1Q	2Q	3Q	4Q	January	February	March
Real GDP	10.1	10.7	10.4	11.5	10.6	10.4	–	11.1	–
Industrial production	15.9	16.4	16.8	18.0	16.2	14.8	...	12.6	17.6
Electrical power production	13.4	14.7	13.4	13.2	16.5	15.3	21.8	0.3	...
Consumer prices	1.8	1.5	1.2	1.4	1.3	2.0	2.2	2.7	3.3
Trade balance (*)	102.0	177.8	108.8	123.6	143.6	177.8	184.0	205.2	200.9

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

SOURCE: National Statistics Office of China, Thomson Financial Datastream and own calculations.

CHINA: GROWTH WITHOUT FAIL

Year-to-year change in gross domestic product



SOURCE: Chinese National Statistics Office and own calculations.

the strongest advance with an increase of 13.2%. The services sector rose by 9.9% while the farm sector continued to drop with growth of a more modest 4.4%. In the same context, industrial production recovered lost ground and again showed growth of 17.6% year-to-year in March, always with the preponderance of heavy industry which represents 70% of all industry value added. Electrical energy production in the last 12 months ending February was up by 14.2% year-to-year while cement rose by 18.4%.

As against the drive in industry, the weakness in consumption, especially in the rural areas, has been one of the main causes of concern. Nevertheless, in China everything seems to be resolved by moving forward. Retail sales in February grew by 16.9% year-to-year. The gap between city and rural areas still remains but what is positive is that in recent months the increase in retail sales has taken place equally in both areas. On the other hand, the restrictive monetary policy in recent times is not containing

the volume of credit given that, in March, short-term loans were up by 14.6% year-to-year while short-term and loan-term credits rose by 22.6%. A result of this is a slight increase in inflation which, although according to official figures, March showed a relatively moderate increase in prices at 3.3% year-to-year, food prices in February increased by 6.0%, which is more in agreement with economic reality.

The foreign sector, which because of its more visible effect on the developed economies, has a large influence on the political agenda, had a moment of relief. The trade surplus for the last 12 months ending in March was down from 205.2 billion dollars to 200.9 billion dollars thus momentarily halting the explosive increase that has been going on since 2004. This increase has been brought about more as a result of the slowdown in imports than by the undeniable strength of exports. Chinese trade remains asymmetric with a manufacturing surplus that in the 12 months ending in February amounted to

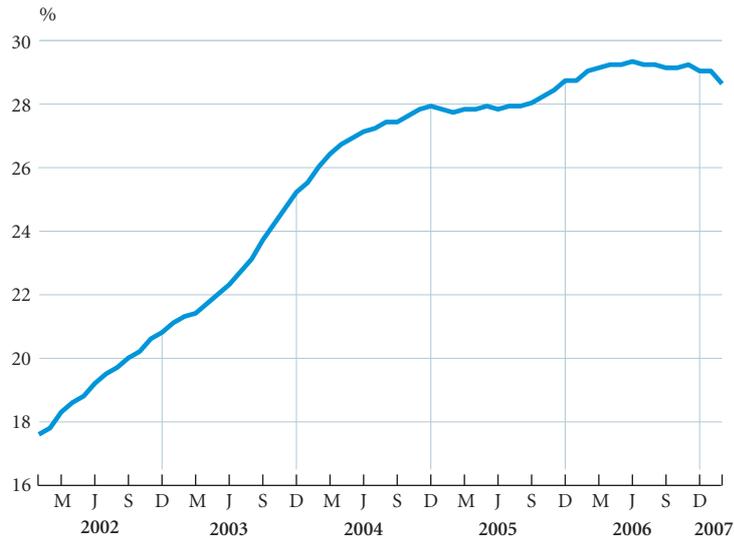
**...but retail consumption
livening up.**

Inflation reaches 3.3%.

**Foreign trade combines
surplus in manufactured
goods and deficit in raw
materials.**

CHINA: ARE EXPORTS REACHING TECHNOLOGICAL CEILING?

Share of high technological content products in exports (*)



NOTES: (*) Average for last 12 months.

SOURCE: Chinese National Statistics Office, London Market and own calculations.

Surplus with United States and Europe continues along with deficit with Asia.

334 billion dollars which coexisted with a deficit in of 96 million dollars in raw materials in the same period. Nevertheless, the growth of trade seems to be reaching some limit. The proportion of exports represented by high-technology content products has been stagnant for several months after having made a strong advance up to the end of 2004.

The asymmetry of the surplus by country also persists with a positive balance in the 12 months ending February of 152 billion dollars and 111 billion dollars in the United States and Europe respectively. On the other hand, there is a deficit of 64 billion dollars with Asia where there are notable bilateral deficits with Japan (24 billion dollars) and South Korea (45 billion dollars). In this respect, because of pressure from the US government, which this month showed up in complaints about trade piracy before the World Trade Organization, and, perhaps

being aware that one of the problems lies in Chinese imports, the Trade Secretary organized a «buying tour» of business executives in US cities in order to lower the deficit. What is significant is that for now diplomacy is taking precedence over protectionist pressure.

Mexico: growth with lower domestic demand

The Mexican economy ended the year with growth of 4.3% year-to-year in the fourth quarter. The loss of strength in domestic demand was largely compensated by the increase in the foreign sector which, thanks to lower imports, shored up growth. Private consumption was down in the fourth quarter, going from growth of 5.2% to 3.1% year-top-year. Gross fixed capital formation also took a spell although there was a respectable advance of 7.5%. In this rise the private component predominated with an increase of 9.2%

Mexico grows by 4.3% with drop in domestic demand but bigger boost from foreign sector.

MEXICO: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2005	2006	2006				2007		
			1Q	2Q	3Q	4Q	January	February	March
Real GDP	2.8	4.8	5.5	4.9	4.5	4.3	–	...	–
Industrial production	1.8	5.0	7.1	3.9	5.4	3.6	1.6	0.1	...
General unemployment rate (*)	3.6	3.6	3.5	3.2	4.0	3.7	4.0	4.0	...
Consumer prices	4.0	3.6	3.7	3.1	3.5	4.1	4.0	4.1	4.2
Trade balance (**)	–7.6	–5.8	–5.0	–4.5	–5.3	–5.8	–8.2	–9.0	...

NOTES: (*) Percentage of labour force.

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

SOURCE: Central Bank of Mexico.

year-to-year. Exports held up with growth of 9.3% whereas imports slowed down going from growth of 13.2% to 7.6%. Agriculture, construction and commercial transport were the sectors showing most strength in the final quarter of 2006.

Among the most recent indicators of economic activity we still see a slowdown in industry. Industrial production in February was stagnant

with imperceptible growth of 0.1% year-to-year. Manufactured goods followed a similar profile with a drop of 0.1%. Construction, which up until November had kept out of the slowdown, also ended up dropping more sharply, if that were possible, going from increases of 5.8% in January to a drop of 1.1% year-to-year in February. These figures indicate that the Mexican economy is losing competitiveness in the region.

Industrial sector continues to slow down with construction now included.

MEXICO: NON-ENERGY TRADE DEFICIT STABILIZES

Cumulative 3-month figure for trade balance (excluding oil exports)

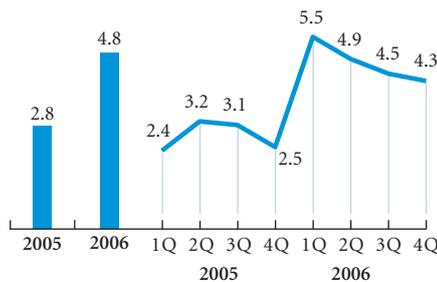


SOURCE: Central Bank of Mexico and own calculations.

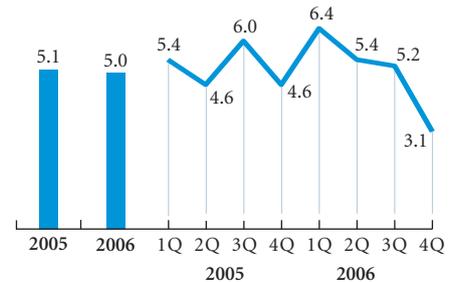
TREND IN MEXICO'S GDP BY COMPONENT

Percentage year-to-year change in real terms

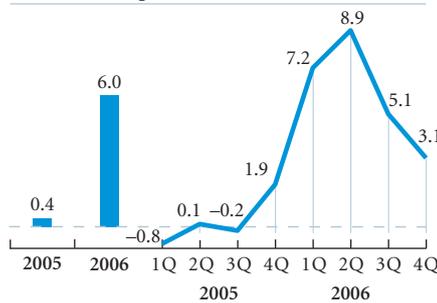
GDP



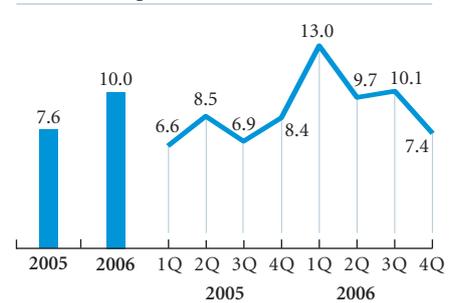
Private consumption



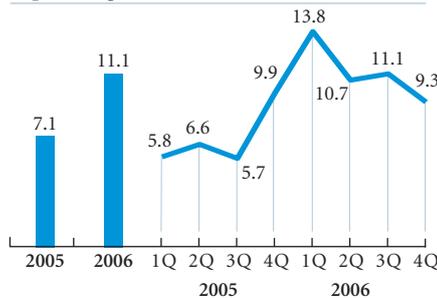
Public consumption



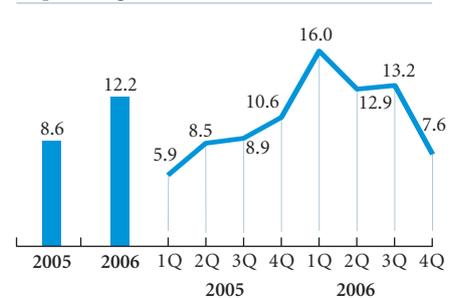
Gross fixed capital formation



Exports of goods and services



Imports of goods and services



SOURCE: Central Bank of Mexico and own calculations.

Prices up by 4.2% but still under control.

Inflation is not going down and, on the other hand, has shown a slight increase in the early part of the year with prices going up by 4.2% year-to-year in February because of the slight increase in energy. In contrast, the price front is showing a positive bias with a core component in which the rate of increase dropped from 4.0% to 3.8% and where the GDP deflator which, after having set off alarm bells in the second quarter, ended the year with nil growth. The

official unemployment rate in February again recovered the level of 4.0% of the labour force, after having gone beyond this at the end of the year.

Foreign sector moderating deficit.

The foreign sector deficit continues to stabilize more through moderation of domestic demand than the strength of exports. The trade balance excluding oil exports for the past three months ending February showed a deficit of 11.31 billion dollars, one billion less than that

reported in the final quarter of the year, so that for the moment it has left the course of decreases behind.

Raw materials: strong demand puts pressure on prices

Oil continued to hold in the range of 67 dollars a barrel (Brent 1-month forward price) in April. Although there were logical swings (the month began at 68.7 dollars a barrel, then went to the range of 65.5 dollars and ended up at levels of 68.3 dollars), the price of oil continued to show what little capacity oil supplies had to meet growing world demand. All of this was topped by a series of political conflicts in critical areas of oil production.

As well as the policy of holding down supply applied by the Organization of Petroleum Exporting Countries (OPEC) comes the limited supply capacity available in the non-OPEC countries.

Furthermore, the high season for the maintenance of refineries has aggravated the reduced capacity of US refineries. Nevertheless, supply problems would not be so serious if world oil demand was not going through a strong growth phase. It is not surprising that stocks of petrol and other distilled products have been dropping in the United States for more than two months. Finally, the relief coming from the end of tension with Iran over the British hostage crisis was compensated by the uncertainty the elections in Nigeria have brought to the production scene.

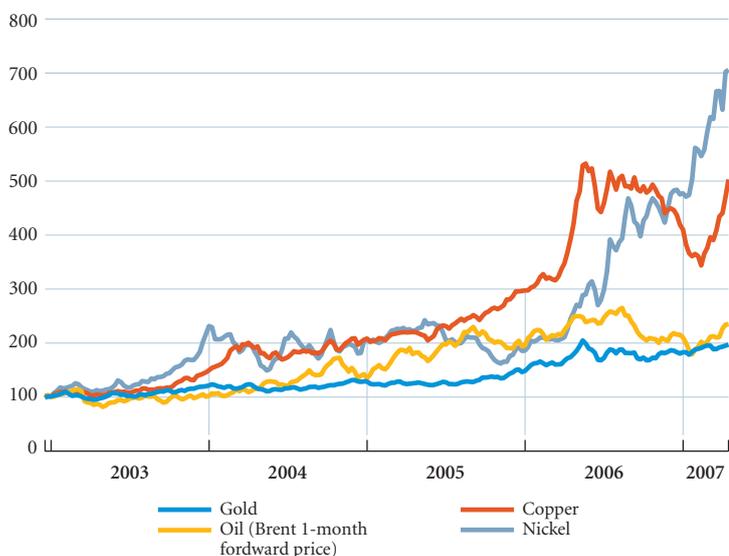
The strength of world demand also underlies the strong pressure on other raw materials. In April, «The Economist» index for raw materials stood at 21% above the levels reported one year earlier. Although all components (food raw materials, non-food farm products and metals) stood above levels of one year ago, the main boost continues to show up in metal raw materials.

Oil remains stuck in range of 67 dollars a barrel.

Supply having difficulties in satisfying growing demand.

INSATIABLE WORLD HUNGER FOR RAW MATERIALS

January 2003 = 100 (weekly averages in US dollars)



SOURCE: Thomson Financial Datastream and own calculations.

Both industrial and precious metals up wildly.

To be specific, we should point out the upward trend in nickel (increase of 50% so far this year), copper (26%) and lead (10%) among industrial metals. The

increase has also hit precious metals, a group with notable increases in platinum (increase of 18% since the beginning of 2007), gold (9%) and silver (7%).

RAW MATERIALS PRICES

	2005	2006	2006				2007			
			1Q	2Q	3Q	4Q	January	February	March	April
«The Economist» index in dollars (*)										
General	3.4	27.5	18.2	27.9	30.5	33.3	22.9	18.8	23.5	21.3
Food	-1.7	11.0	9.7	5.7	8.5	20.2	17.2	15.0	17.2	16.1
Industrials	10.0	46.1	28.0	54.1	55.5	46.9	28.7	22.5	29.5	25.6
<i>Non-food agricultural</i>	-2.4	12.5	15.6	19.9	12.6	2.0	5.3	4.3	4.0	6.6
<i>Metals</i>	17.4	62.0	33.8	70.8	76.4	66.8	38.5	30.0	40.0	32.4
«The Economist» index in euros (*)										
	3.2	26.3	28.9	28.3	24.9	22.9	13.9	8.9	12.0	10.2
Oil (**)										
Dollars/barrel	53.9	66.3	62.9	70.6	70.9	61.0	54.9	58.7	62.6	67.7
Change rate	44.8	21.6	32.6	33.3	14.7	5.7	-13.5	-5.1	-1.0	-4.1
Gold										
Dollars/ounce	446.0	604.1	554.2	626.4	621.3	614.4	631.4	664.6	655.0	681.6
Change rate	8.5	36.1	29.7	46.5	41.5	26.6	15.0	19.6	17.5	11.8

NOTES: (*) Year-to-year change rate.

(**) Brent quality: one-month forward price.

SOURCE: «The Economist», Thomson Financial Datastream and own calculations.

EUROPEAN UNION

Euro area: domestic demand joins the party

The euro area continues to enjoy an excellent growth rate of economic activity. After ending a year with a growth rate of 3.3% year-to-year, the result of a higher contribution from domestic and foreign demand, the first quarter of 2007 held at a stage which, while slightly less expansionist, is quite similar. This is shown, for example, the highest economic sentiment index (one of the most general indices) in six years reported in March (111.2 points).

Along with the rate of economic activity, another important factor is the swing toward a bigger contribution from domestic demand. Stable growth in retail

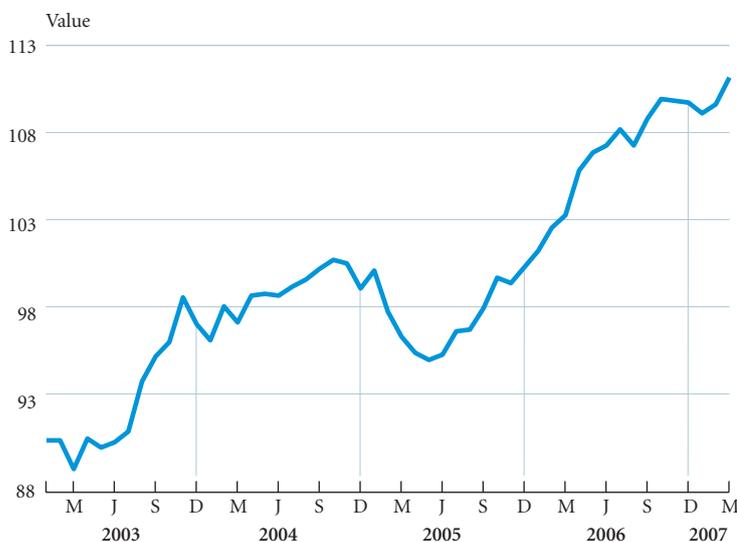
sales in January and February (1.2% year-to-year) and the recovery of three points in consumer confidence in the first quarter indicate that household consumption has continued to rise at the beginning of 2007. In addition, household spending is being helped by the reduction in the unemployment rate which stood at 7.3% in February, seven decimals less than one year ago.

This better state of consumption carries undoubted importance because it is one component of demand that usually shows notable momentum and represents 60% of gross domestic product. As a result, an upward trend in consumption will help to prolong the current stage of economic boom while it could partly limit any possible effect

Good rate of economic activity in euro area in first quarter.

ECONOMIC SITUATION RECOVERING IN EURO AREA

Economic sentiment index



SOURCE: European Commission.

EURO AREA: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2005	2006	2006				2007		
			1Q	2Q	3Q	4Q	January	February	March
GDP	1.5	2.8	2.2	2.8	2.8	3.3	–	...	–
Retail sales	1.2	2.0	1.1	2.2	2.1	2.2	1.2	1.2	...
Consumer confidence (*)	–14	–9.0	–11	–10	–8	–7	–7	–5	–4
Industrial production	1.3	3.9	3.5	4.3	4.1	3.9	3.4	4.1	...
Economic sentiment indicator (*)	97.9	106.9	102.6	106.8	108.2	109.9	109.2	109.7	111.2
Unemployment rate (**)	8.6	7.9	8.2	7.9	7.8	7.6	7.4	7.3	...
Consumer prices	2.2	2.2	2.3	2.5	2.1	1.8	1.8	1.8	1.9
Trade balance (***)	42.1	–10.4	3.0	–10.0	–21.6	–13.1	–4.9	–3.5	...

NOTES: (*) Value.

(**) Percentage of labour force.

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

SOURCE: Eurostat, European Central Bank, European Commission and own calculations.

Recovery of private consumption will help to prolong growth.

from a slowdown in mortgage loans in the United States.

This is positive news given that the contribution from foreign demand is unlikely to repeat the solid figure reported in the fourth quarter of 2006 when it contributed one third of total growth. In any case, we should point out that the export picture remains positive. In the average for January and February, exports stood 10% above the level one year earlier which, combined with a lower import rate (imports grew by 8% year-to-year in the same period) brought a notable reduction of the trade deficit. In February, the negative cumulative trade balance for 12 months stood at 3.5 billion euros, considerably better than the imbalance of 13.1 billion euros in the fourth quarter.

The big winner in this recovery, both domestic and foreign, was industry. In February, industrial production grew by 4.1% year-to-year, thus returning to the better figures reported in 2006. If we look at the clear recovery of industrial confidence, an index designed to

anticipate the future, the prospects in the secondary sector are favourable. To this trend we should add services which have been showing a notable rise in the early stages of the year. The recovery of industry and services is making it possible to counteract the uncertain trend in construction which, which following some recovery in 2006, has shown something of a worsening of prospects in the first quarter of 2007.

Following this display of favourable news, a note of caution comes from the trend in consumer prices. While it was felt certain that the harmonized consumer price index (HCPI) would tend to slow down, or at least to stabilize, March brought a surprise with an increase taking it to 1.9% year-to-year (1.8% year-to-year in February). True enough, neither the size nor the actual level are troubling. But the recent trend to an increase in the underlying core, that is excluding energy and unprocessed foods, along with the rapid worsening of the energy component, both represent two unsatisfactory trends that must be carefully watched.

Inflation at 1.9% needs to be examined with same attention given to oil pressures.

Germany: clear horizon

Up to this point, the leading player in European recovery is Germany. For this reason, taking the pulse of its economic activity today is of greater interest than ever. In general terms, the situation may be described as positive. While a possible drop in household spending due to the rise in value added tax (VAT) was a concern, the facts have dismissed the most pessimistic predictions. Although retail sales contracted in January and February, the rate of decrease was less than expected. Furthermore, consumer confidence rose notably in the first quarter amounting to an increase of 5.4 points since December 2006. Meanwhile, industrial production of consumer goods has held stable in the early months of 2007.

Domestic demand is not alone in this boom given that the trade surplus has shown seven consecutive months of recovery. In terms of the cumulative

balance for 12 months, the trade surplus reached 167.3 billion euros in February. This result comes largely from the drive in exports. In February, exports grew by 11% year-to-year, which represents its fifteenth month of two-digit increases. Imports, on the other hand, have been more contained since the fourth quarter of 2006 but now will undoubtedly consolidate the trend to increase shown in February, a month when they grew by 11% year-to-year.

The favourable picture is repeated on the supply side. Industrial production grew at a rate not seen since back in 1991 (increase of 7.6% year-to-year in February and prospects of business executives as estimated by the IFO industrial activity index are again close to the highest since reunification of Germany with a level reported at 109 points in April. On top of this buoyant situation in industry comes a continuation of trend to a recovery in services which began in the second half of 2006.

Germany leaves behind doubts about first quarter thanks to combined strength of domestic and foreign demand.

Industrial production at highest levels since 1991.

GERMAN CONSUMPTION FACING FUTURO WITH EUPHORIA

Consumer confidence indicator



SOURCE: European Commission.

GERMANY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2005	2006	2006				2007		
			1Q	2Q	3Q	4Q	January	February	March
GDP	1.1	2.9	1.9	2.8	3.1	3.7	–	...	–
Retail sales	1.4	8.2	9.0	8.1	7.5	8.3	–1.6	–1.6	...
Industrial production	2.9	5.9	4.6	6.0	6.6	6.1	7.2	7.6	...
Industrial activity index (IFO) (*)	95.5	105.5	103.6	106.1	105.2	107.0	107.9	107.0	107.7
Unemployment rate (**)	11.7	10.8	11.4	11.1	10.6	10.1	9.5	9.3	9.2
Consumer prices	2.0	1.7	2.0	1.9	1.6	1.3	1.7	1.6	1.9
Trade balance (***)	156.3	153.0	154.7	151.2	148.3	157.9	166.0	167.3	...

NOTES: (*) Value.

(**) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

Unemployment rate down while job creation steps up.

One of the most positive results of Germany's recovery is the progressive improvement in the labour market. The unemployment rate had dropped by 2.1 percentage points in the past 12 months and in March was 9.2% of the labour force. Employment is also reflecting the better state of the economy. The job creation rate in February was 1.5% higher than one year earlier.

Inflation as well, doubly affected by the stronger drive in domestic demand and the effect of the increase in VAT, is showing only a moderately upward trend. If all the analysts are right, the growth rate of the CPI in March (1.9% year-to-year), in spite of being three decimals above the February figure, should be the annual ceiling in terms of price rises.

France: economy recovering

What kind of picture will the new occupant of the Élysée Palace? Whether Nicolas Sarkozy or Ségolène Royal becomes the next president of the Fifth Republic, economic trends should not

generate excessive concern over the short term. In the first quarter, the vital signs of France as a whole have shown a trend to recovery. Household consumption grew by more than 6% year-to-year on average in January and February, thus confirming what up to that date has been the main support of the recovery, namely household consumption.

The favourable performance in consumption was helped by the progressive reduction of unemployment which stood at 8.4% in February which put the reduction in the unemployment rate at 1.1 points over the past year. The good state of domestic demand is important because the contribution of the foreign sector will continue to be very low, if we are to go by the stabilization of the trade deficit since the third quarter of 2006.

Nor has industry (whose decline was a recurring theme in the election campaign) yet been able to capitalize on the recovery. While in February there was a rise in industrial production, neither the level of sector confidence nor the trend in sector orders raise hopes for

French economy facing stage of recovery.

Growth running with price stability.

FRANCE: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2005	2006	2006				2007		
			1Q	2Q	3Q	4Q	January	February	March
GDP	1.2	2.1	1.4	2.6	2.0	2.5	–	...	–
Domestic consumption	2.9	4.2	2.8	4.8	4.3	5.0	6.9	5.0	...
Industrial production	0.2	0.8	0.4	1.7	0.6	0.4	–0.4	2.6	...
Unemployment rate (*)	9.8	9.0	9.5	9.1	8.8	8.6	8.5	8.4	...
Consumer prices	1.7	1.7	1.8	1.9	1.7	1.3	1.2	1.0	1.2
Trade balance (**)	–1.3	–2.1	–2.0	–2.0	–2.2	–2.2	–2.2	–2.2	...

NOTES: (*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

more than a moderate stabilization of the rate of activity in the secondary sector. This situation leaves services as the main engine for growth, a role that, in view of the rise of services sector confidence up to last March, it is carrying out satisfactorily.

We may end this review of the economic situation in France, which is generally favourable, on an optimistic note. In spite of the recovery and strength of domestic demand, consumer prices remain anchored at low trends. In March, the CPI grew by a mere 1.2% year-to-year, a rate similar to that being recorded since the fourth quarter of 2006.

Italy: *la dolce vita...* in economic terms

Ignoring the uncertainty on the political scene, the Italian economy continues to run on a growth path. While it seems undoubted that the first quarter will show something of a slowdown in the expansionist rate seen in the fourth quarter of 2006, latest figures available support a favourable overall situation. The economic sentiment indicator, which makes it possible to come close to

the overall rate of economic activity, added 3 points in the first quarter, thus pointing to a continuation of the upward stage of the cycle.

One of the supports of the current recovery is to be found in domestic demand and, more specifically, in private consumption. If we are to go by the positive trend in consumer confidence, which stood at the –13 points level in March (compared with –15 points in February), household spending will continue to play this role in the Italian economic picture.

Foreign demand is also making a notable contribution. In February, the trade deficit, as a cumulative figure for 12 months, stood at 19.8 billion euros, as against the deficit of 20.9 billion euros one month ago. As something of a paradox, industrial production (clearly oriented to exports) has eased the drive shown in the first two months of the year so that it grew by a mere 0.5% year-to-year in February. With exports growing at the rate of 14% year-to-year as the average for January and February, it may be hoped that industrial activity will overcome a dip which surely is just temporary.

In Italy, first quarter points to satisfactory rate of economic activity.

Private consumption maintaining favourable rate while exports in similar situation.

ITALY: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2005	2006	2006				2007		
			1Q	2Q	3Q	4Q	January	February	March
GDP	0.2	1.9	1.7	1.7	1.6	2.8	–	...	–
Retail sales	0.4	1.2	0.5	1.8	1.6	1.0	0.0	...	...
Industrial production	–0.8	2.6	3.2	1.9	1.6	3.8	1.6	0.5	...
Unemployment rate (*)	7.7	6.8	7.2	6.9	6.7	6.5	–	...	–
Consumer prices	1.9	2.1	2.1	2.2	2.2	1.8	1.7	1.8	1.7
Trade balance (**)	–9.4	–18.2	–12.9	–16.5	–21.3	–22.0	–20.9	–19.8	...

NOTES: (*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

British inflation at 3.1% in March sets off alarm bells.

On the other hand, the trend in unemployment and prices is quite positive. In March, the CPI grew by 1.7% year-to-year thus consolidating inflation at levels below the 2% where it stood in the fourth quarter of 2006. The trend in the unemployment rate is also favourable. In the fourth quarter of 2006, the latest figure available, this stood at 6.5% of the labour force, which means a drop for four consecutive quarters.

United Kingdom: inflation gets a red card

The big news of the months undoubtedly was that inflation stood at 3.1% year-to-year. The letter from Melvyn King, governor of the Bank of England, to Gordon Brown, Chancellor of the Exchequer, explaining why the rate had exceeded the official objective of 2% (a situation which in itself creates the obligation to publicly explain the excess) is illustrative. The deviation was only partly due to the volatile components of food and energy. The real background was an economy that was growing at a rapid rate, especially due to the strength of domestic demand, which is increasing pressures.

High level of domestic demand not letting up thus making it difficult to rid British economy of imbalances.

Latest figures available support the views of Melvyn King. Retail sales grew by 4.9% year-to-year in February, the highest figure since November 2004. Consumer confidence has comfortably recovered from the unexpected dip last January. Passenger car registrations recovered strength in March. Finally, three key consumer indicators are showing a fairly notable upward trend. If on to this situation of growing domestic demand we add an unemployment rate that stands at historically low levels (2.9% in March), there seems to be abundant evidence of an economy that is tending to become overheated.

Supply indicators, which provide a more precise reading of the cyclical situation, repeat the above analysis. While industrial production is still limping along, all other main supply indicators are expansionist. Economic sentiment went to the 111 points level in March, a figure not reached since February 2005. At the same time, indicators for services and construction lately are showing an upward trend. Starting out from this situation, everything would indicate that any change in these imbalances will be slow.

UNITED KINGDOM: MAIN ECONOMIC INDICATORS

Percentage change over same period year before unless otherwise indicated

	2005	2006	2006				2007		
			1Q	2Q	3Q	4Q	January	February	March
GDP	1.9	2.8	2.4	2.7	2.9	3.0	–	...	–
Retail sales	1.9	3.2	1.7	3.4	3.8	3.8	3.5	4.9	...
Industrial production	–1.9	0.1	–0.7	–0.4	0.6	1.0	0.4	0.3	...
Unemployment rate (*)	2.7	3.0	2.9	3.0	3.0	3.0	2.9	2.9	2.9
Consumer prices	2.0	2.3	1.9	2.2	2.4	2.7	2.7	2.8	3.1
Trade balance (**)	–64.9	–78.5	–72.0	–77.5	–81.4	–83.2	–83.2	–82.6	...

NOTES: (*) Percentage of labour force.

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

SOURCE: OECD, national statistical bodies and internal figures.

IS INFLATION OUT OF CONTROL IN UNITED KINGDOM?

Year-to-year change in consumer price index



SOURCE: Office for National Statistics and own calculations.

FINANCIAL MARKETS

Monetary and capital markets

European Central Bank indicates further rise in interest rates to 4% in June.

Upward moves by Bank of England and ECB in offing

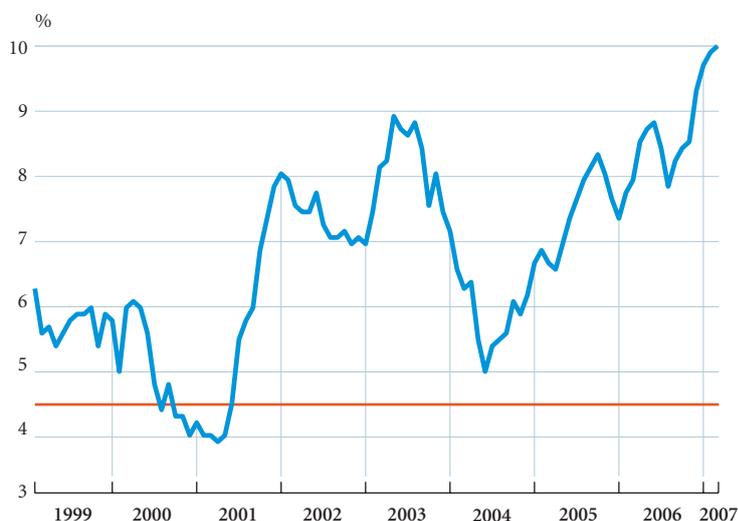
As expected, the Governing Council of the European Central Bank (ECB) decided to maintain its reference rates stable at its meeting on April 12. Nevertheless, in its analysis of the economic and financial situation it recognized that there continued to be upward risks for inflation. In fact, harmonized inflation for the euro area rose to 1.9%, close to the limit set by the ECB. At the same time, the broad money supply figure for the euro area, the so-called M3, recorded annual growth of 10.0% in February, the highest level since the introduction of the euro, more than twice the reference growth rate set by the ECB.

In this context, chairman Jean-Claude Trichet mentioned that interest rates were still at a moderate level and he suggested that a new tightening of the monetary policy screw was near and likely would take place at the beginning of June. This prospect does not please everyone and the representative of a well-known European business lobby launched warnings against any increases above the 4% level. Nevertheless, it would not be surprising if this takes place in the second half-year.

On the other side of the English Channel, current legislation obliged the governor of the Bank of England, Mervyn King, to write to the minister of economy, Gordon Brown, explaining the reasons for a deviation in inflation of

BROAD MONEY SUPPLY IN EURO AREA MARKS UP ALL-TIME HIGH GROWTH

Year-to-year change rate in euro area M3



NOTES: Red line relates to 4.5% reference rate.
SOURCE: European Central Bank.

more than one percentage point from the 2% established, as well as the measure he proposed to take to correct the rise in prices. This is the first time this has happened in the nearly ten years that the British central bank has been independent. The governor of the central bank recognized that there had been the conditions for companies to try to raise their profit margins, which had been squeezed as a result of the last rise in oil prices. King expressed his determination to put inflation at 2% which he felt he could do toward the end of the year, although he indicated there were some upward risks. In these circumstances, there were renewed

forecasts of a further increase in Bank of England reference rates at the next meeting in May, which would put it at 5.50% and that this would not be the last increase.

The US Federal Reserve, in turn, had no meeting planned for its monetary policy committee in April. Statements by Ben Bernanke in recent weeks, along with the latest minutes released, have reaffirmed his concern about inflation and, to a lesser degree, about growth. As a result, we maintain our predictions of stability for upcoming meetings which, however, could lead to a downward adjustment in the last four months of the year.

March inflation rise in United Kingdom sets off expectation of interest rate increase.

SHORT-TERM INTEREST RATES IN NATIONAL MARKETS

Monthly averages as annual percentage

	Euro area			United States		Japan	United Kingdom		Switzerland
	ECB auctions (2)	Euribor (5)		Federal Reserve Board target level (3)	3-month (5)	3-month (5)	Bank of England repo rate (4)	3-month (5)	3-month (5)
	3-month	1-year							
2006									
March	2.56	2.72	3.11	4.54	4.92	0.12	4.50	4.59	1.21
April	2.58	2.79	3.22	4.75	5.07	0.13	4.50	4.63	1.28
May	2.58	2.89	3.31	5.00	5.18	0.19	4.50	4.70	1.40
June	2.76	2.99	3.40	5.03	5.38	0.31	4.50	4.73	1.48
July	2.80	3.10	3.54	5.25	5.50	0.40	4.50	4.73	1.53
August	2.98	3.23	3.62	5.25	5.42	0.44	4.73	4.94	1.61
September	3.03	3.34	3.72	5.25	5.38	0.44	4.75	5.03	1.74
October	3.23	3.50	3.80	5.25	5.37	0.44	4.75	5.13	1.85
November	3.31	3.60	3.86	5.25	5.37	0.48	4.93	5.23	1.90
December	3.50	3.68	3.92	5.25	5.36	0.53	5.00	5.29	2.02
2007									
January	3.56	3.75	4.06	5.25	5.36	0.55	5.16	5.49	2.15
February	3.55	3.82	4.09	5.25	5.36	0.57	5.25	5.57	2.21
March (*)	3.75	3.89	4.11	5.25	5.35	0.67	5.25	5.55	2.26
April (1)	3.82	4.01	4.28	5.25	5.36	0.65	5.25	5.71	2.34

NOTES: (*) Provisional figures.

(1) April 26.

(2) Marginal interest rate. Latest dates showing change in minimum rate: 2-3-06 (2.50%), 8-6-06 (2.75%), 3-8-06 (3.00%), 5-10-06 (3.25%), 7-12-06 (3.50%), 8-3-07 (3.75%).

(3) Latest dates showing change: 9-8-05 (3.50%), 20-9-05 (3.75%), 1-11-05 (4.00%), 13-12-05 (4.25%), 31-1-06 (4.50%), 28-3-06 (4.75%), 10-5-06 (5.00%), 29-6-06 (5.25%).

(4) Latest dates showing change: 5-2-04 (4.00%), 6-5-04 (4.25%), 10-6-04 (4.50%), 5-8-04 (4.75%), 4-8-05 (4.50%), 3-8-06 (4.75%), 9-11-06 (5.00%), 11-1-07 (5.25%).

(5) Interbank offer rate.

SOURCE: National central banks, Thomson Financial Datastream and own calculations.

Bank of India announces another rate rise, not likely to be last in current stage.

On the other side of the Pacific, the governor of the Bank of Japan, Toshiniko Fukui, stated before parliament that Japan's monetary conditions continued to be very easy and indicated a gradual course of increases in interest rates. Nevertheless, we did not believe that the next increase would take place at the meeting on April 27 but that it would likely be in the summer.

On the other hand, more to the south of the Asian continent there were indeed new moves. At the end of March, the Bank of India announced an increase of 25 basis points in its invention rate putting it at 7.75%, thus continuing the upturn begun in September 2004. At the same time, it raised the cash ratio by a half-point to 6.50%. These measure are aimed at dealing with inflationary trends in an economy with signs of overheating, such as an annual inflation rate of 7.6%, according to the industrial workers' index, and annual growth of credit at 29.5% in an environment of optimism reflected, in another sphere, the euphoria

Downward prospects for dollar interest rate hurt currency.

recently set off by the lavish wedding of two Bollywood film stars, Abhishek Bachchan and Aishwarya Rai, a former Miss World. Given the slow rate of needed structural reforms, new restrictive moves in monetary policy are likely in order to cool off the economy.

Euro showing strength against dollar and yen

Uncertainty about the trend in the US economy, which has caused downward expectations on interest rates, along with the prospect of bigger increases in other geographical areas, has pushed down the US currency in recent weeks. The dollar also suffered as a result of the worsening of trade tensions with China. As a result, in the fourth week of April the US currency depreciated to its lowest level since July 1997 in relation to a broad group of currencies.

Also possibly going against the dollar was the diversification of foreign currency

DOLLAR DROPS TO LOWEST LEVEL IN LAST 10 YEARS

Effective nominal dollar exchange rate



NOTES: Figures go up to April 20.
SOURCE: US Federal Reserve.

reserves by the central banks. The latest figures for 2006 indicate that the dollar has continued losing its share of total world reserves, although this has been gradual. In any case, forecasts of a depreciation of the dollar in 2007 are coming to pass, at least for the moment.

The weakness of the dollar has been taken advantage of by other currencies such as the euro and the pound sterling which in 2006 also increased its share in world currency reserves. As a result, the single European currency went above 1.36 dollars in the third week of April

and marked up an all-time high the following week. The euro has thus reflected the improved economic prospects of the euro area and the subsequent expectation of further increases in interest rates. On this occasion the appreciation of the euro has not raised sharp protests from European political leaders.

At the same time, the pound sterling has capitalized on the depreciation of the dollar, helped by the discounting of further increases in Bank of England interest rates.

Euro gets stronger with improved economic prospects in euro area.

EXCHANGE RATES OF MAIN CURRENCIES

March 2007

	Final session of month		Average exchange rate	Monthly figures			Exchange rate on April 26, 2007
	Exchange rate	% monthly change (2)		% change (2)			
				Monthly	Over December 2006	Annual	
Against US dollar							
Japanese yen	117.7	-0.7	117.2	-2.7	-0.2	-0.1	119.5
Pound sterling (1)	1.968	0.2	1.948	-0.6	-0.8	11.7	1.991
Swiss franc	1.214	-0.4	1.218	-1.7	0.6	-6.7	1.209
Canadian dollar	1.154	-1.4	1.169	-0.2	1.3	1.0	1.122
Mexican peso	11.04	-1.0	11.11	1.1	2.4	3.4	10.93
<i>Nominal effective index (4)</i>	<i>106.0</i>	<i>-0.9</i>	<i>106.7</i>	<i>-0.5</i>	<i>0.0</i>	<i>-3.6</i>	<i>104.9</i>
Against euro							
US dollar	1.332	0.8	1.324	1.3	0.2	10.2	1.360
Japanese yen	157.3	0.6	155.2	-1.5	0.2	10.1	162.3
Swiss franc	1.625	0.7	1.612	-0.5	0.9	2.8	1.643
Pound sterling	0.680	0.9	0.680	1.8	1.1	-1.3	0.682
Swedish krona	9.346	0.8	9.299	1.2	2.9	-1.1	9.152
Danish krone (3)	7.451	0.0	7.449	-0.1	-0.1	-0.2	7.451
Polish zloty	3.867	-1.3	3.886	-0.2	1.9	0.1	3.774
Czech crown	28.01	-1.0	28.06	-0.6	1.1	-2.1	28.12
Hungarian forint	247.8	-2.7	249.9	-1.4	-1.6	-4.2	245.9
<i>Nominal effective index (5)</i>	<i>106.4</i>	<i>0.4</i>	<i>106.1</i>	<i>0.7</i>	<i>0.5</i>	<i>4.1</i>	<i>107.5</i>

NOTES: (1) Units to pound sterling.

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

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

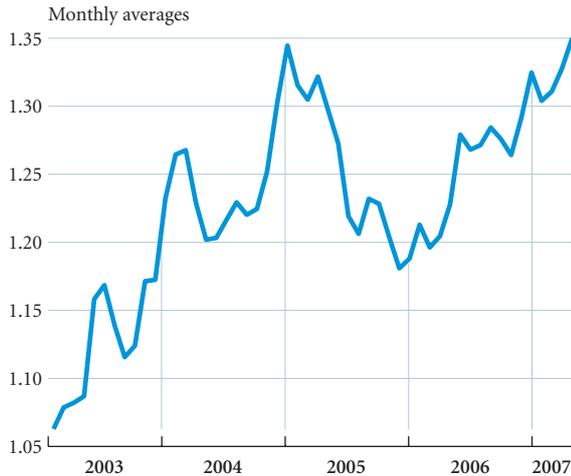
(4) Broad nominal effective index of US Federal Reserve Board. Calculated as a weighted average of the foreign exchange value of the US dollar against the 26 currencies of those countries with greatest volume of trade with the United States. Base: 1-1997 = 100.

(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 24 main trading partners of the euro area. Base: 1-1999 = 100.

SOURCE: Thomson Financial Datastream and own calculations.

EURO MARKS UP ALL-TIME HIGH AGAINST DOLLAR

US dollars to euro



NOTES: Figures go up to April 26.

SOURCE: Thomson Financial Datastream and own calculations.

POUND STERLING MARKS UP HIGHEST QUOTE AGAINST DOLLAR IN LAST 26 YEARS

US dollars to pound sterling



NOTES: Figures go up to April 20.

SOURCE: Thomson Financial Datastream.

Pound sterling capitalizes on upward expectations for Bank of England interest rates.

In the third week in April the pound went above the level of 2 dollars and marked up its highest level in terms of the dollar since the beginning of June 1981.

In recent weeks the yen has shown swings brought about by risk aversion. To the extent that this enlivened the carry trade (loan transactions in low-

interest currencies and subsequent investment in high-yield currencies), the Japanese currency tended downward, moving up again at times when fear took over. This is due to the fact that these transactions exploit the differential in interest rates. Under conditions of low volatility of exchange rates there are guarantees but one can run into losses if there should be a sharp adverse shift in exchange rate. In the fourth week of April the yen marked up an all-time low against the euro going above 162 units to the euro.

Bond yields bounce back

US long-term Treasury bonds played a safe-haven role during the crisis in international financial markets that began toward the end of February with the collapse of the Chinese stock market. Nevertheless, once calm was

restored the funds shifted from shares came back and in the first week of April the yield on US bonds had risen to levels prior to the upsets. Nevertheless, long-term interest rates again dropped on odd occasions when risk aversion rose. In any case, half-way through the fourth week of April the interest rate on long-term US government bonds stood at around the level at the start of the year.

In Europe, in recent weeks German government bonds followed a similar trend to that on the other side of the Atlantic. However, given the improved prospects for economic activity compared with the United States, the long-term interest rate differential between the dollar and the euro has tended to substantially narrow. Toward the middle of April it stood below 50 basis points which had not happened since the end of 2004 when the official

Yen marks up all-time low against euro in fourth week of April.

Shifts from shares to bonds switch back with return to calmer market climate.

REDUCTION IN LONG-TERM INTEREST RATE DIFFERENTIAL BETWEEN DOLLAR AND EURO

Difference in yield on US and German 10-year government bonds as annual percentage



LONG-TERM INTEREST RATES IN NATIONAL MARKETS

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

	2005	2006	2006			2007			
			2Q	3Q	4Q	January	February	March	April 26
United States	4.33	4.85	5.13	4.96	4.68	4.81	4.79	4.61	4.69
Japan	1.39	1.75	1.90	1.80	1.70	1.71	1.71	1.62	1.65
Germany	3.38	3.78	3.96	3.89	3.77	4.03	4.05	3.95	4.21
France	3.41	3.80	3.99	3.90	3.78	4.06	4.10	3.99	4.26
Italy	3.56	4.05	4.27	4.18	4.03	4.24	4.27	4.18	4.41
Spain	3.39	3.79	3.97	3.89	3.79	4.07	4.11	4.01	4.27
United Kingdom	4.47	4.55	4.65	4.67	4.65	4.93	4.98	4.86	5.08
Switzerland	2.04	2.46	2.67	2.61	2.38	2.55	2.57	2.59	2.77

SOURCE: Bank of Spain, Thomson Financial Datastream and own calculations.

Default rate on global high-yield bonds shows lowest level in last 10 years.

interest rate of the Fed reached that of the European Central Bank.

As mentioned above, following the storm at the end of February the situation gradually normalized. The risk premium on emerging country sovereign bonds, measured by the differential of interest rates with US Treasury bonds, again

marked up an all-time low in the second week of April.

At the same time, the risk premium on speculative credit rating corporate bonds has also been decreasing in recent weeks, going to very low levels. This trend is confirmed by low default rates. According to Moody's rating agency, the

RISK PREMIUM ON EMERGING COUNTRIES AGAIN AT LOW LEVELS

Differential in sovereign bonds of emerging countries compared with US Treasury bonds measured with JP Morgan EMBI+ index



NOTES: Figures go up to April 20.

SOURCE: JP Morgan and Thomson Financial Datastream.

default rate on global «junk bonds» went down to 1.4% in the past 12 months ending in March, the lowest figure in the last 10 years. Nevertheless, it is likely that there will be a rise in default in coming months with the tightening of liquidity and the change in economic cycle in certain geographical areas.

On the other hand, according to figures from Dealogic, in the first quarter of 2007 funds obtained by companies on a global basis showed an all-time high of 1,500 billion dollars. Demand for funding has partly been driven up by corporate moves involving mergers and acquisitions.

Stock markets recover drive

Following a period of sharp losses which began toward the end of February, international stock markets recovered ground to the point where they marked up new records in the early

weeks of April. The good state of the global macroeconomic situation with prospects for growth of corporate profits, the intense activity in corporate operations and still abundant global liquidity are driving the share markets. Nevertheless, the International Monetary Fund has put out an alert indicating that there are still risks in international financial markets. Certainly, although the upward trend persists, we cannot rule out new episodes with market upsets during the rest of the year.

In addition, the trend in the stock markets has also reflected the various stages of the economic cycle to be seen in the markets. The US market shows a relatively discreet balance compared with December as a result of the uncertainty floating over this economy especially because of the delicate situation in the real estate market. In any case, in the fourth week of April the traditional Dow Jones index marked up a new record and Standard & Poor's and

All-time high in global financing granted to companies in first quarter.

Good state of global macroeconomic situation, active corporate moves and abundant liquidity boosting stock markets.

INTERNATIONAL STOCK MARKETS AGAIN MARKING UP ALL-TIME HIGHS

Global stock market index



NOTES: Figures go up to April 20.

SOURCE: Thomson Financial Datastream.

INDICES OF MAIN WORLD STOCK EXCHANGES

March 30, 2007

	Index (*)	% monthly change	% cumulative change	% annual change	Quotation on April 26, 2007	
					% cumulative change	% change over same date in 2004
New York						
<i>Dow Jones</i>	12,354.4	0.7	-0.9	11.2	5.2	25.5
<i>Standard & Poor's</i>	1,420.9	1.0	0.2	9.7	5.4	31.6
<i>Nasdaq</i>	2,421.6	0.2	0.3	3.5	5.8	25.4
Tokyo	17,287.7	-1.8	0.4	1.3	1.2	43.3
London	6,308.0	2.2	1.4	5.8	4.0	41.5
Euro area	4,181.0	2.3	1.5	8.5	7.1	52.9
<i>Frankfurt</i>	6,917.0	3.0	4.9	15.9	12.0	79.0
<i>Paris</i>	5,634.2	2.1	1.7	7.9	7.3	57.0
<i>Amsterdam</i>	510.5	4.1	3.1	8.9	7.8	50.6
<i>Milan</i>	32,541.0	2.1	2.0	11.0	6.6	59.4
<i>Madrid</i>	14,641.7	2.8	3.5	23.5	3.3	74.7
Zurich	8,977.0	2.1	2.2	11.9	7.9	61.2
Hong Kong	19,800.9	0.8	-0.8	25.3	3.5	70.3
Buenos Aires	2,102.8	1.7	0.6	16.8	4.7	89.7
São Paulo	45,804.0	4.4	3.0	20.7	10.3	130.1

NOTES: (*) New York: Dow Jones Industrials, Standard & Poor's Composite, Nasdaq Composite; Tokyo: Nikkei 225; Euro area: DJ Eurostoxx 50; London: Financial Times 100; Frankfurt: DAX; Paris: CAC 40; Amsterdam: AEX; Milan: MIBTEL; 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 own calculations.

High-risk mortgage loan crisis hurts US financial sector.

Nasdaq showed annual highs. By sector, the one to show the biggest gains so far this year was utilities, a defensive sector, if we are to go by the prospect of some moderation in economic activity in coming months. At the other end of the scale, the sector with the smallest increases was the financial sector, which was hurt by the high-risk mortgage loan crisis.

Euphoria in European markets with IBEX 35 index going above 15,000 points level for first time but losing spot with drop in real estate shares.

European markets, on the other hand, have enjoyed a certain euphoria because of the improvement in economic prospects. The German market in particular showed a two-digit rise and headed the list of the main markets in the euro area. Transnational corporate operations, such as those in the real

estate and banking, continued to enliven share trading and prices. The IBEX 35 index for the Spanish stock market went above the all-time high in February topping the 15,000 points level for the first time in the second week of April. Nevertheless, in the fourth week of April it suffered a substantial drop due to the collapse of real estate companies which were affected by the slowdown in the sector, so that the gains for the IBEX 35 index over December were down to 3%.

With regard to emerging country stock markets, which had been greatly hurt in the crisis unleashed at the end of February, also managed to regain positions and in general marked up new

all-time highs in the third week of April. Nevertheless, volatility persisted. As an example, toward the end of the third week in April, the Shanghai market dropped by 4.5% in one session because

of fear about new restrictive measures by the government. Nevertheless, later on, both this market and emerging country markets in general recovered ground.

Emerging markets also manage to recover positions although volatility continues.

SPAIN: OVERALL ANALYSIS

Economic activity

Spain's economy maintaining very strong growth rate.

Spain's economy continues strong growth

Information about the growth of economic activity in the first quarter of 2007 is still incomplete but everything would indicate that the growth rate of the gross domestic product (GDP) in that period may have come close to 4%, as in the fourth quarter of 2006. The main difference is to be found in the stronger role of industry and the foreign sector as engines of growth. We may expect that for the rest of the year there could be a more moderate growth rate, according to latest trends noted.

Favourable balance in corporate activity in 2006...

In the context mentioned, the financial situation of companies continues to be excellent. Figures for the Bank of Spain

quarterly survey of company balance sheets confirm that 2006 ended with a very favourable balance for all production activities. According to this information, gross value added (GVA) of companies taking part in the Bank of Spain survey was up by 6.3% in 2006 as against 3.5% the year before. Industry, which fully established its recovery, stood among the most dynamic sectors along with retail trade, transport and communications.

Personnel costs grew by 4.6%, seven decimals more than in 2005 mainly due to the increase in employment (1.8%) in a context of lower wages per employee which grew by 2.8% as against 3.2% in 2006. The performance in the above figures meant that gross

PROFIT AND LOSS ACCOUNT OF NON-FINANCIAL COMPANIES

Annual change rates	2004	2005	2006
Value of production	8.0	13.1	11.0
Intermediate consumption	9.3	18.5	13.3
Gross Value Added (GVA)	5.7	3.5	6.3
Labour costs	3.0	3.9	4.6
Gross operating costs	7.9	3.3	7.5
Financial income	0.1	34.2	10.0
Financial costs	-7.5	4.9	34.5
Depreciation and provisions	-0.8	-0.1	1.2
Net ordinary profit	16.5	14.1	5.1
Capital gains and extraordinary income	-39.4	32.2	36.4
Capital losses and extraordinary costs	-27.3	71.4	-25.2
Provisions and tax	-5.9	-24.1	57.7
Net profit	6.5	27.6	13.4

SOURCE: Bank of Spain (Quarterly Composite Balance Sheet Figures).

operating profit rose by 7.5%, more than twice that in 2005.

The sharp increase in financial costs (34.5%) was largely due to growth of borrowing given that the increase in reference interest rates had a more limited effect. Nevertheless, the considerable increase in capital gains and extraordinary income (36.4%) along with the drop in capital losses and other losses (25.2%) meant that, finally, net result showed notable growth (13.4%). Profitability levels also held very high even above those seen in earlier years.

On the supply side, according to most recent activity indicators, industry maintained a very strong growth rate above 4% in the first two months of the year. Nearly all branches of economic activity reported a sharp increase in production in this period, with the

exception of those in the textile sector and manufacture of computer equipment which continued to drop.

In construction, indicators overall point to a continued high level of economic activity. With regard to housing, in spite of the signs of moderation coming from the real estate market, the rate of construction remains strong, a situation likely to continue in coming months if we are to go by the increase reported in housing starts.

Among the signs of moderation alluded to, what is notable is the stagnation in sales during the last quarter of 2006 and the slowdown in housing price increases which in the first quarter of 2007 went down to 7.2% year-to-year, 1.9 points less than in the previous quarter and close to five points below the level one year ago. This was the lowest increase recorded since 1999.

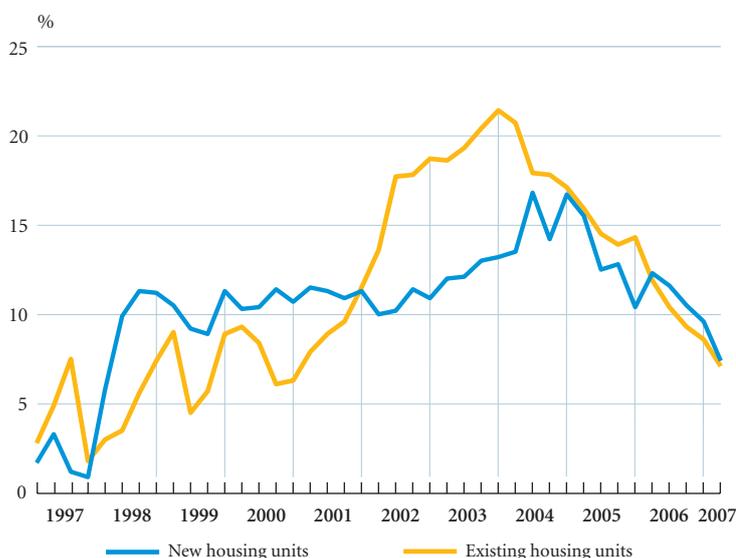
...with increased company profits and profitability levels.

Industry keeps growing...

...and rate of activity in construction still high.

GROWTH OF HOUSING PRICES EASES OFF SIGNIFICANTLY

Year-to-year change in price per M² for non-subsidized housing



NOTES: Since the first quarter of 2005, new housing refers to that less than two years old while existing housing refers to that more than two years old. Previously, the difference was one year.

SOURCE: Ministry of Housing and own calculations.

SUPPLY INDICATORS

Percentage change over same period year before

	2005	2006	2006				2007		
			1 Q	2 Q	3 Q	4 Q	January	February	March
Industry									
Electricity consumption (1)	3.5	3.7	2.3	3.3	5.9	3.5	6.5	4.9	3.4
Industrial production index (2)	0.7	3.9	2.6	4.0	4.2	4.6	4.8	3.5	...
Confidence indicator for industry (3)	-4.8	-2.7	-5.3	-2.7	-2.3	-0.3	3.0	1.0	3.0
Utilization of production capacity (4)	80.2	80.5	79.7	80.5	80.3	81.6	-	80.6	-
Imports of non-energy intermediate goods (5)	1.6	10.5	10.3	6.4	13.8	12.1	21.6	...	...
Construction									
Cement consumption	7.3	8.3	17.1	4.0	5.2	8.4	13.4	2.3	-2.1
Confidence indicator for construction (3)	22.4	14.2	15.3	11.7	14.7	15.0	10.0	11.0	11.0
Housing (new construction approvals)	6.2	18.6	18.9	6.9	50.5	0.2	-0.8	...	...
Government tendering	18.5	31.2	15.1	34.8	19.1	54.4	5.7	...	...
Services									
Retail sales	4.4	5.0	5.2	3.8	5.9	5.2	6.2	5.6	...
Foreign tourists	6.6	4.5	0.9	9.6	3.7	2.5	4.0	4.4	6.9
Tourist revenue inflows	6.0	5.6	3.0	11.0	4.9	3.1	5.3	...	...
Goods carried by rail (ton-km)	-3.2	-1.2	8.1	-2.7	-3.3	-6.4	1.6	-6.3	...
Air passenger traffic	9.2	6.7	5.2	10.1	4.5	7.1	6.7	9.1	...
Motor vehicle diesel fuel consumption	5.1	5.4	8.7	4.5	3.9	4.9	...	...	...

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, Commerce and Tourism, Ministry of Economy and Finances and own calculations.

Good general state in consumption but increasing drop under heading of consumer durables.

With regard to services, the main indicators also point to a sustained rate of economic activity. According to indices for business volume in the sector, the year began with notable drive, mainly in the sectors of transport, information technology and company services. Tourism also maintained a strong drive with an increase of 5.3% year-to-year in the total number of foreign visitors in the first quarter of 2007 and an increase in overnight hotel stays (including those for domestic tourism) of 4.7%.

On the demand side, consumption generally continues to show an expansionist trend, mainly in non-durables and services. On the other hand, consumption of some durable goods is showing greater weakness, probably suffering from tougher financing conditions following successive interest rate increases. For example, total registrations of cars was down 0.7% year-to-year in the first quarter, a drop that must be put in the context of record sales obtained in previous years. On the other hand, motorcycle sales remained

strong with an increase of 20% in those three months.

The strength of consumption has heavily contributed to the current rise of Spain's economy. On the other side of the coin we see the drop in household savings. In 2006, gross household disposable income grew by nearly 7% but due to the fact that consumption grew more, gross savings continued to decrease going so far as to represent only close to 10% of that income, the lowest rate since 1999. This level of savings was insufficient to cover the increasing cost

of investment, mainly in housing, which meant that household indebtedness continued to rise.

Finally, with regard to investment, nearly all indicators show a clearly expansionist note. We should point out the sharp increase in domestic production and importation of capital goods. Along the same lines, sales of equipment and software to large companies were up significantly (more than 10% year-to-year) in the first two months of the year.

Spanish households saving less and less.

DEMAND INDICATORS

Percentage change over same period year before

	2005	2006	2006				2007		
			1Q	2Q	3Q	4Q	January	February	March
Consumption									
Production of consumer goods (*)	0.9	2.3	0.5	2.2	1.9	4.3	5.2	3.7	...
Imports of consumer goods (**)	7.9	8.9	20.5	5.9	2.4	7.6	-7.9	...	...
Car registrations	2.1	-0.9	2.7	-3.6	-4.1	1.8	2.7	-4.4	-0.4
Credit for consumer durables	15.0	15.4	17.6	15.6	13.2	...	-	...	-
Consumer confidence index (***)	-10.8	-12.3	-12.3	-12.7	-13.7	-10.3	-12.0	-10.0	-10.0
Investment									
Capital goods production (*)	-0.1	8.4	6.7	7.6	7.9	11.2	10.8	9.5	...
Imports of capital goods (**)	20.4	3.2	10.0	-5.0	6.5	3.4	32.2	...	...
Commercial vehicle registrations	13.2	1.5	7.4	-0.2	0.5	-1.0	20.3	-6.2	-4.5
Foreign trade (**)									
Non-energy imports	6.0	9.0	13.7	4.7	8.9	9.3	11.7	...	...
Exports	0.2	5.6	12.7	3.7	1.7	4.7	6.0	...	...

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

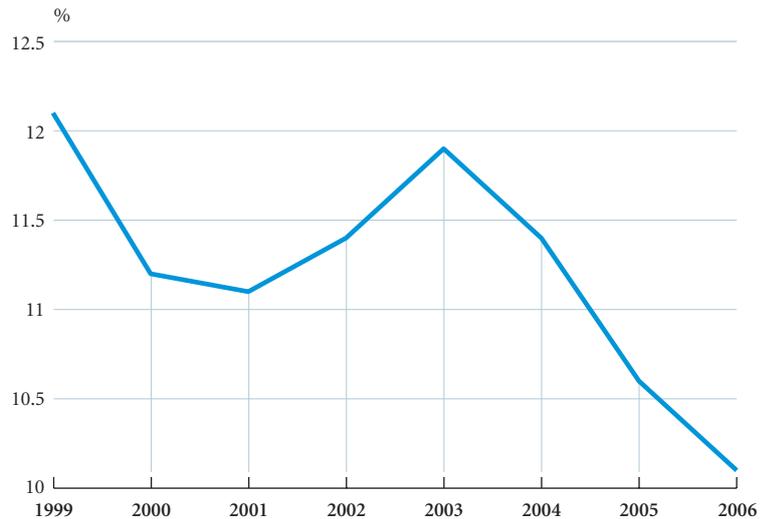
(**) By volume.

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

SOURCE: ANFAC, National Institute of Statistics, Bank of Spain, Ministry of Economy and Finance, European Commission and own calculations.

HOUSEHOLD SAVINGS DROP TO ALL-TIME LOWS

Gross savings over disposable household income



SOURCE: INE and own calculations.

Basque Country, Murcia, Galicia and Cantabria grow more than 4% in 2006.

Favourable macroeconomic results in autonomous communities

In 2006, only two out of Spain's 17 autonomous communities (Extremadura and Madrid Community) grew less than during the year before in real terms. The rest followed the situation seen in Spain's economy as a whole for which growth went from 3.5% in 2005 to 3.9% in 2006, according to estimates by the National Institute of Statistics. The Basque Country, Murcia, Galicia and Cantabria reached growth rates of 4.1% thanks to the favourable situation in their respective industrial and energy sectors. Construction of infrastructures for Expo 2008 in Zaragoza led Aragon's GDP to rise 4% while construction of transport infrastructures and housing in Castile-La Mancha raised their real product by 3.9%. In addition, the favourable trend in the tourist season favoured those autonomous communities with greatest weight in this activity. The Balearic Islands stood out in this respect (3.5%) following several low-growth years.

In terms of per capita GDP, Madrid at nearly twice level of Extremadura.

So far this decade, the biggest growth came in those autonomous communities in the south and west periphery, such as Andalusia, Extremadura, Murcia, along with Cantabria, as well as the central block formed by Madrid Community and Castile-La Mancha. In any case, just three autonomous communities (Catalonia, Madrid Community and Andalusia) together generate somewhat more than half the total GDP of Spain's economy.

Per capita GDP of Spain's economy is equal to 90.4% of the average for the European Union (EU-25) which Eurostat establishes at 24,500 euros. Nevertheless, only four autonomous communities reach or exceed this level, namely, Madrid Community, the Basque Country, Navarre and Catalonia. It should be pointed out that, in any case, those autonomous communities with lower levels in recent years have generally seen more notable growth in terms of per capita GDP, as in the case of Asturias, Galicia, Extremadura, Castile-Leon and Andalusia. Nevertheless, the differences

remain considerable seeing that Madrid Community, the autonomous community heading the classification,

has nearly twice the per capita GDP of Extremadura, which holds last place.

GROSS DOMESTIC PRODUCT BY AUTONOMOUS COMMUNITY

2006

	Gross domestic product (*)		% real change		Per capita GDP
	Million current euros	% of total	2006	2000-2006	Current euros
Andalusia	135,295	13.9	3.9	3.7	17,251
Aragon	30,090	3.1	4.0	3.3	23,786
Asturias	21,003	2.2	3.7	2.8	19,868
Balearic Islands	24,391	2.5	3.5	2.3	24,456
Basque Country	59,994	6.1	4.1	3.1	28,346
Canary Islands	39,276	4.0	3.4	3.4	19,924
Cantabria	12,258	1.3	4.1	3.4	21,897
Castile-La Mancha	33,077	3.4	3.9	3.5	17,339
Castile-Leon	52,647	5.4	3.6	3.2	21,244
Catalonia	182,736	18.7	3.8	3.2	26,124
Valencian Community	94,922	9.7	4.0	3.3	20,239
Extremadura	16,134	1.7	3.5	3.5	15,054
Galicia	49,842	5.1	4.1	3.1	18,335
Madrid Community	172,608	17.7	3.9	3.5	28,850
Murcia	24,840	2.5	4.1	3.9	18,400
Navarre	16,478	1.7	3.9	3.2	27,861
La Rioja	7,120	0.7	3.4	2.9	23,495
Ceuta	1,442	0.1	3.3	3.4	20,171
Melilla	1,335	0.1	3.3	3.2	19,929
Total	976,189	100.0	3.9	3.3	22,152

NOTES: (*) Total does not coincide with sum of all autonomous communities because it includes GDP figures which cannot be broken down by region.

SOURCE: National Institute of Statistics.

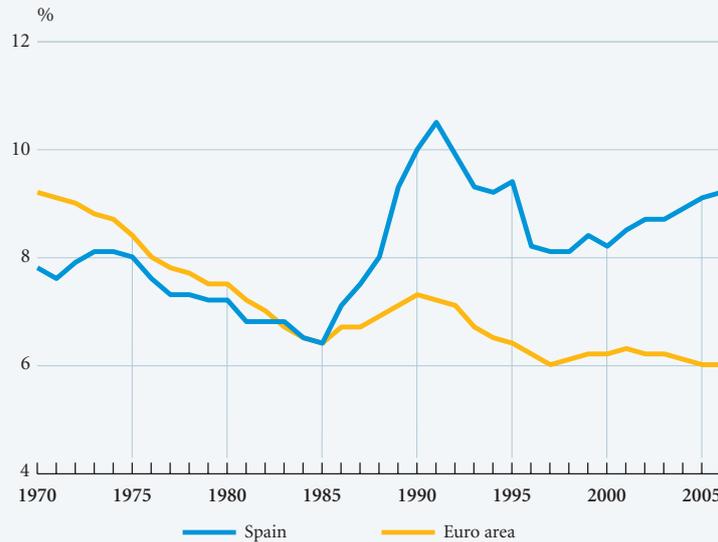
Spain's infrastructures: is level high enough?

To reply to this question we can compare the situation in Spain with that existing in some countries of reference. Before doing this, we shall have to decide on certain terminology. Infrastructures, in a broad sense, cover both those of an economic and social nature. Economic infrastructures are those directly linked with production activities, specifically those related to transport and those involved in certain basic supplies (energy, water, telecommunications, etc.). Social infrastructures are linked to areas such as education, health, culture and the provision of certain public services (police, fire brigade, etc.). The term

«infrastructures» is often also used in a restrictive sense to refer exclusively to those related to transportation and communications.

SHARP GROWTH OF SPANISH INVESTMENT IN INFRASTRUCTURES FOLLOWING SPAIN'S ENTRY IN EU

Gross capital formation in non-residential construction over GDP (in real terms)



SOURCE: Bank of Spain, European Commission and own calculations.

In the wider sense mentioned earlier, we should take note of the considerable effort carried out in Spain in recent years. As may be seen in the above graph, gross capital formation in non-residential construction (which, among other things, includes investment carried out in all infrastructures, both of a public and private nature) showed a notable rise following Spain's entry in the European Union (EU). This jump may be partly explained by the European funds received by Spain following joining the EU which came close to 0.8% of GDP on annual average with highs of more than 1.5% of GDP in the early years of the current decade. To be specific, nearly half of the funds received in the period 1986-2006 (more than 90 billion constant 2004 euros) went into investment in infrastructures.

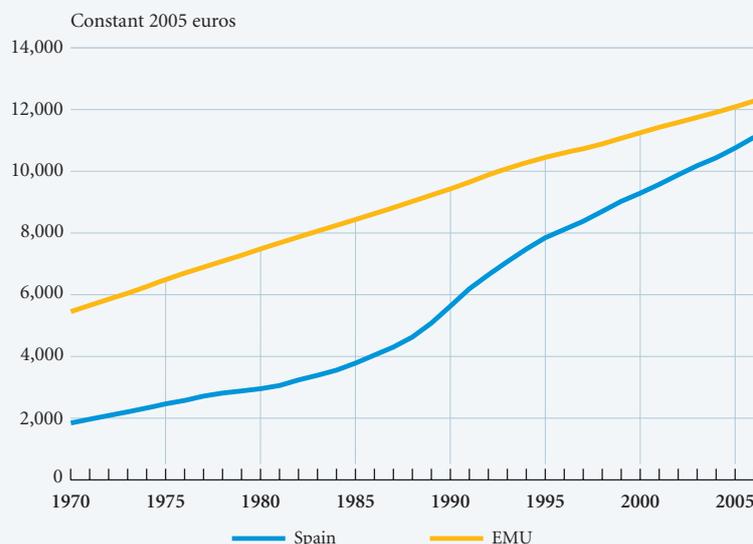
Investment in non-residential construction in the period under consideration stood at around 8.8% of GDP on annual average, nearly 2.3 points more than that recorded in the countries of the euro area. If we limit our analysis exclusively to public investment, the proportion comes out at around 3.6% of GDP, close to one point more than in the euro area. In the following graph we can see how the per capita value of public capital stock existing in Spain has been coming close to the euro area average. In light of these figures, we may conclude that the progress made in the last two decades has been very substantial and that it has been possible to significantly reduce the gap with the other countries of the euro area.

With regard to transport infrastructures, very significant advances have been made in the highway network, mainly in heavy-traffic roads (see accompanying graph), to the point where today Spain's toll road network has a density higher than the average for the EU-15, as indicated in the corresponding table. On the other hand,

the situation in Spain is comparatively worse so far as concerns the railway system with standards a long way from the European average, which does not stop Spain from figuring among the leading countries in the development of high-speed train lines with nearly 1,255 Km in operation at the end of 2006, only behind France (1,573 Km) and Germany (1,291 Km).

PUBLIC CAPITAL STOCK IN SPAIN COMING CLOSE TO EU STANDARDS

Per capita public capital stock



SOURCE: Bank of Spain, European Union and own calculations.

To complete the development of the transport infrastructures networks and thus be able to meet expected increase in demand, the Spanish government's Strategic Plan for Infrastructures and Transport (PEIT) plans the carrying out of a series of measures in the 2005-2020 period at a cost of approximately 241 billion euros (around 1.75% of GDP on annual average). The priorities under this plan are concentrated mainly on rail transport to which nearly 43% of forecast investment will go, especially on high-speed lines (32%), and road transport with a share of 25% of total estimated spending.

On a more qualitative level, the Plan proposes to correct some of the current limitations of Spain infrastructures. In the case of the road network, it is felt that this suffers from a sharply radial nature with discontinuities and deficits in accessibility to some parts of the country which must be corrected. Also noticeable is the obsolescence and inadequacy of safety measures in significant parts of the first-generation motorway network and on conventional roads. Regarding the railway network, the Plan reveals notable differences in quality and safety between lines in the system and identifies the difficulties in linking up with international lines due to various determining factors (rail gauge, among others).

The Plan also foresees investment of 15.7 billion euros (6.5% of the total) on air transport and 23.46 billion euros (10%) on maritime transport. There are 48 airports of general interest managed by Aeropuertos Españoles y Navegación Aérea (AENA) but traffic is very concentrated. Madrid-Barajas has nearly a quarter of

DENSITY OF TRANSPORT NETWORKS

2004 (*)

	Toll-road and motorway network		Railway network	
	Km per million persons	Km per thousand km ²	Km per million persons	Km per thousand km ²
Germany	147.5	34.1	420.8	97.3
Austria	206.0	20.0	697.2	67.6
Belgium	168.0	57.3	340.1	115.9
Denmark	190.3	23.8	516.0	64.6
Spain	253.8	21.2	339.9	28.4
Finland	125.1	1.9	1,099.9	17.0
France	172.1	19.1	484.7	53.8
Greece	67.2	5.6	221.8	18.6
Ireland	47.7	2.7	476.4	27.3
Italy	112.8	21.7	280.5	53.9
Netherlands	144.1	56.4	172.9	67.7
Portugal	200.5	22.9	272.0	31.0
United Kingdom	60.9	14.9	276.6	67.7
Sweden	183.8	3.7	1,231.1	24.6
EU-15	145.5	17.2	392.0	46.4
UE-25	129.0	14.8	432.8	49.8

NOTES: (*) Latest year available for group of countries selected.

SOURCE: European Commission and own calculations.

all passenger traffic and together with Barcelona and Palma de Mallorca accounts for more than 50% of the total. Finally, with regard to maritime infrastructures, it is estimated that the main challenges for developing port activity, more than their actual capacity, lies in the need to adapt installations to the changing circumstances of demand and to link them with land connections (road and rail).

In fact, the Plan sets out an overall scheme for the infrastructures needed by Spain's economy. The country's lacks in this area have been proverbial and, as we have seen, the existing gap with neighbouring countries has only just begun to be reduced in recent times. Looking to the future, it will be necessary to persevere with this effort to definitively close this gap, to prioritize those investment projects that could have the greatest effect on the competitiveness of the economy and establish closer coordination between the various levels of government and public bodies that have jurisdiction over these matters. Delay in carrying out some projects (or not furnish them with a sufficient degree of planning for future needs) could mean a very significant impediment to the future development of Spain's economy.

Labour market

Labour market continues in good form

The labour market continues to prosper in keeping with the growth of Spain's economy. In March, total registrations with Social Security broke the barrier of 19 million for the first time, reaching a figure of 19,085,000 persons at the end of that month, 3.9% more than in March 2006.

In the past 12 months, the net increase in persons registering went above 725,000. More than 70% was due to registrations in economic activities related to services, 20% to those in

construction and 10% in industry. In relative terms, those sectors carrying the torch were construction and services (with year-to-year increases of more than 6% and 4% respectively in the first quarter. In the case of construction, the trend noted is for a progressive slowdown in the rate of increase while in services there is more stability.

In industry, average growth of registrations in the first three months of the year stood at 2.2% which breaks the near stagnation seen in 2006. The trend in this case points to a progressive increase in keeping with the recovery of this sector.

Social Security breaks barrier of 19 million persons registered.

Nearly two thirds of new persons registered in past year work in services sector.

EMPLOYMENT INDICATORS

Percentage change over same period year before

	2005	2006	2006				2007		
			1Q	2Q	3Q	4Q	January	February	March
Persons registered with Social Security									
Wage-earners	4.8	4.7	6.3	5.3	3.9	3.5	3.7	3.7	4.2
<i>Industry</i>	-0.5	0.0	-0.3	0.0	0.0	0.2	1.3	2.6	2.8
<i>Construction</i>	8.6	8.7	11.0	9.5	7.5	6.8	6.5	5.9	6.0
<i>Services</i>	5.7	5.2	6.6	5.8	4.6	4.0	4.0	3.8	4.4
Non-wage-earners	2.6	2.2	2.3	2.2	2.1	2.2	2.3	2.5	2.7
Total	4.4	4.3	5.5	4.8	3.6	3.3	3.5	3.5	3.9
Persons employed (*)	5.6	4.1	4.9	4.2	3.7	3.6	-	-	-
Jobs (**)	3.1	3.1	3.2	3.1	3.0	3.0	-	-	-
Hiring contracts registered (***)									
Permanent	8.7	41.1	25.6	16.1	46.6	76.8	59.9	9.5	9.6
Temporary	4.6	4.7	13.7	5.5	0.5	0.5	6.5	2.2	-0.6
Total	5.0	7.9	15.0	6.4	4.1	7.3	12.3	3.0	0.6

NOTES: (*) Estimate from Labour Force Survey (changes for 2005 adjusted for impact of methodological changes).

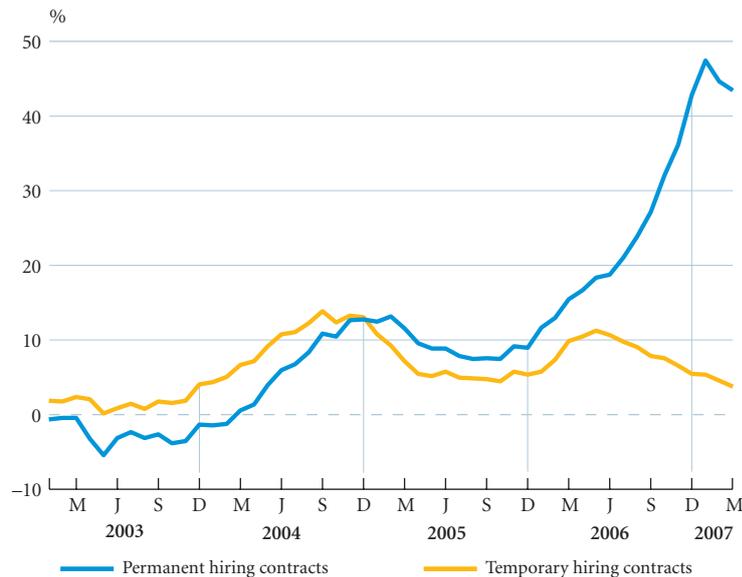
(**) Equivalent to full-time work. National Accounting estimate; figures adjusted for seasonal effects and number of working days.

(***) At INEM.

SOURCE: National Institute of Statistics, Ministry of Labour and Social Services, Employment Institute and own calculations.

SHARP GROWTH OF PERMANENT HIRING CONTRACTS

Contracts registered with INEM: percentage change in cumulative figure for last 12 months compared with same period year before



SOURCE: Employment Institute and own calculations.

Permanent hiring contracts increasing although still in minority.

The total number of foreign workers registered in the system also set an all-time record in March with more than 1.9 million new persons, 10% of all registrations. Nearly one-third of foreign workers registered were working in construction and the hotel/restaurant trade while the rest were broken down by self-employed, retail trade, services to companies and domestic help.

Downward trend in registered unemployment continues...

In addition, contracts of a permanent nature continued to rise with growth of close to 26% year-to-year in the first three months of the year. The increase in temporary contracts (which in spite of all continue to be well in the majority) was notably lower at around 2.6%.

Unemployment continues to decrease

At the end of March, the total number of unemployed registered at public employment service offices totalled

2,059,000, 4.1% less than one year earlier. Industry is the sector showing the biggest drop (6.7% year-to-year) which is a reflection of the excellent situation it now enjoys. Decreases in construction and services stood at 3.5% and 3.9% respectively.

Male unemployment went above 781,000 persons while the female figure was around 1,278,000 in March, with year-to-year decreases of 6.3% and 2.8% respectively. By ages, unemployment was down more sharply in the adult population (4.5%) than among those under 25 years (1.3%).

Finally, we should point out that unemployment dropped in all autonomous communities, recording decreases of more than the average in Aragon, Cantabria, Basque Country, Galicia and Asturias, all with decreases of more than 9%, and in Castile-Leon, Catalonia, Balearic Islands, La Rioja and Canary Islands (between 4.3% and 7%).

...with decreases spread over all sectors.

REGISTERED UNEMPLOYMENT BY SECTOR, SEX AND AGE

March 2007

	No. of unemployed	Change over December 2006		Change over same period year before		% share
		Absolute	%	Absolute	%	
By sector						
Agriculture	64,001	2,507	4.1	-3,893	-5.7	3.1
Industry	279,615	-2,533	-0.9	-20,079	-6.7	13.6
Construction	219,796	-16,975	-7.2	-7,944	-3.5	10.7
Services	1,264,924	40,055	3.3	-51,415	-3.9	61.4
First job	231,115	13,524	6.2	-5,748	-2.4	11.2
By sex						
Males	781,154	-23,120	-2.9	-52,690	-6.3	37.9
Females	1,278,297	59,698	4.9	-36,389	-2.8	62.1
By age						
Under 25 years	252,105	10,093	4.2	-3,232	-1.3	12.2
All other ages	1,807,346	26,485	1.5	-85,847	-4.5	87.8
TOTAL	2,059,451	36,578	1.8	-89,079	-4.1	100.0

SOURCE: Employment Institute and own calculations.

Prices

Fuels and fresh foods cause slight CPI increase in March.

Sharp 9% rise in chicken prices compared with March 2006.

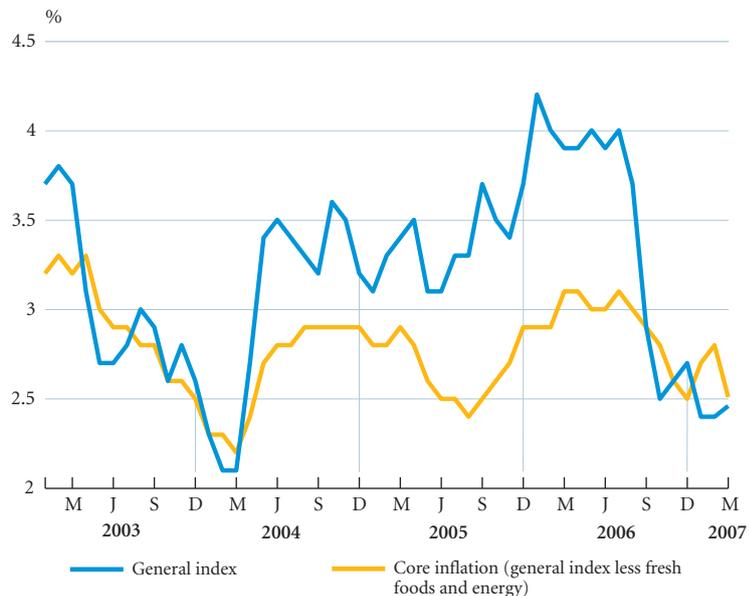
Core inflation moderating

The year-to-year change rate in the general consumer price index (CPI) show a slight increase of a half-decimal in March compared with the previous month to stand at 2.5%. It thus stood 1.4 points below the same month in 2006. The slight rise in the March CPI may be explained by an unfavourable performance in fuels and fresh foods. On the other hand, a positive note came with core inflation (the most stable segment in price trends) which was down 3 decimals in March taking it to the same level as the general CPI.

In contrast to February, in March fuels and lubricants contributed one decimal to the year-to-year increase in CPI by going from a year-to-year drop of 4.6% to only 2.3%. Unprocessed foods also added one decimal to the CPI increase with the annual rate going up 1.5 points to 5.2%. Chicken prices went from a year-to-year rate of 0.9% to 9.4% in March while mutton changed from a drop of 6.5% in February to a rise of 1.0% in March. As a result, we note that the increases in fresh food prices are continuing due to demand factors. Nevertheless, the increases in these CPI components were partly counteracted by

GENERAL AND CORE INFLATION AGAIN AT SAME LEVEL

Year-to-year change in CPI



SOURCE: National Institute of Statistics.

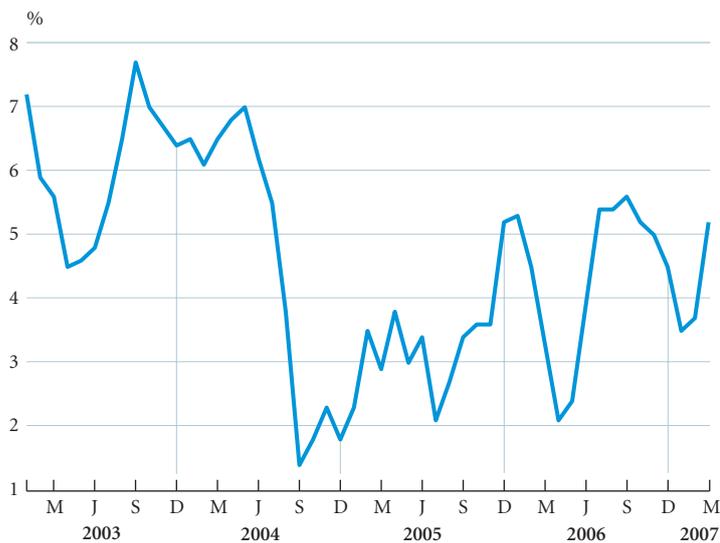
CONSUMER PRICE INDEX

	2006			2007		
	% monthly change	% change over December 2005	% annual change	% monthly change	% change over December 2006	% annual change
January	-0.4	-0.4	4.2	-0.7	-0.7	2.4
February	0.0	-0.4	4.0	0.1	-0.6	2.4
March	0.7	0.3	3.9	0.8	0.1	2.5
April	1.4	1.8	3.9			
May	0.4	2.1	4.0			
June	0.2	2.3	3.9			
July	-0.6	1.7	4.0			
August	0.2	1.9	3.7			
September	-0.2	1.7	2.9			
October	0.4	2.1	2.5			
November	0.2	2.4	2.6			
December	0.3	2.7	2.7			

SOURCE: National Institute of Statistics.

INCREASES IN FRESH FOODS

Year-to-year change in unprocessed foods



SOURCE: National Institute of Statistics.

decreases in prices of other goods and services.

Core inflation, which includes processed foods, non-energy industrial goods and services, dropped to 2.5%. Processed

foods went from 3.5% to 2.3% mainly because of tobacco for which the annual change rate was down 8.5 percentage points to 8.1% because of the rise in prices of this product taking place in March last year.

CONSUMER PRICE INDEX BY COMPONENT GROUP

March

	Indices (*)	% monthly change		% change over previous December		% annual change	
		2006	2007	2006	2007	2006	2007
By type of spending							
Food and non-alcoholic beverages	101.8	0.0	0.4	0.7	0.4	3.9	2.9
Alcoholic beverages and tobacco	106.8	5.6	0.1	0.3	5.4	5.1	6.5
Clothing and footwear	96.6	3.3	3.4	-9.5	-9.8	1.3	1.0
Housing	102.8	0.5	0.6	3.2	2.1	7.5	3.9
Furnishings and household equipment	101.7	0.5	0.5	0.4	0.3	2.6	2.6
Health	97.2	-0.3	-3.8	0.3	-3.4	1.4	-2.1
Transport	100.1	0.6	1.4	2.8	1.7	6.4	0.8
Communications	100.7	-0.3	1.4	-0.2	1.6	-1.1	0.3
Recreation and culture	99.3	-0.2	0.5	-1.6	-0.9	-0.8	0.1
Education	103.5	0.0	0.0	0.3	0.4	3.9	4.6
Restaurants and hotels	103.3	0.6	0.7	1.8	2.0	4.3	4.7
Other goods and services	102.9	0.6	0.4	2.4	2.0	3.4	3.5
By group							
Processed food, beverages and tobacco	102.2	1.4	0.3	1.6	1.7	4.5	2.3
Unprocessed food	102.7	-0.9	0.6	-1.3	-0.7	3.3	5.2
Non-food products	100.9	0.7	0.9	0.2	-0.1	3.8	2.2
Industrial goods	99.1	0.9	1.1	-0.9	-1.8	3.9	0.6
<i>Energy products</i>	98.3	0.6	2.0	4.8	1.9	11.8	-0.3
<i>Fuels and oils</i>	96.7	0.7	2.7	5.0	1.6	14.4	-1.6
<i>Industrial goods excluding energy products</i>	99.3	1.0	0.8	-2.7	-3.0	1.5	0.8
Services	102.9	0.5	0.6	1.5	1.7	3.7	3.9
Underlying inflation (**)	101.5	0.9	0.6	0.0	0.0	3.1	2.5
GENERAL INDEX	101.3	0.7	0.8	0.3	0.1	3.9	2.5

NOTES: (*) Base 2006 = 100.

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

SOURCE: National Institute of Statistics.

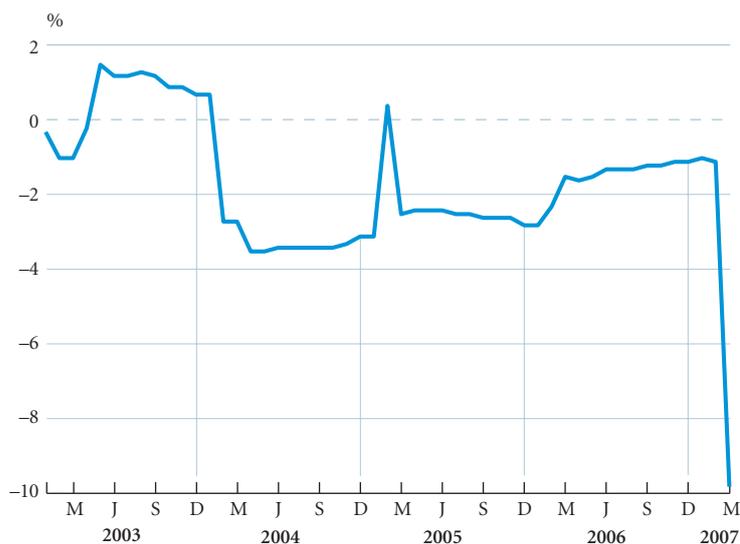
Lower increase in tobacco and drop in medicines compensate for rise in cell phone charges and keep core inflation contained.

Industrial goods, excluding energy products which are subject to fierce competition in international markets, were down 2 decimals in March to show an annual increase of 0.8%. Nevertheless, this reduction was due to the sharp price drop in medicines and other pharmaceutical products in March taking them to -9.9%. These prices are largely regulated.

On the other hand, services (which are more protected from foreign competition) continue to show inflationary pressures. In March, they showed a year-to-year rise of 3.9%, one decimal more than in February. This slight increase may be attributed to the rise in cell telephone charges.

MEDICINES CONTRIBUTE TO DECREASE IN CORE INFLATION

Year-to-year change in medicines and other pharmaceutical products



SOURCE: National Institute of Statistics.

Prospects for the CPI are for containment over coming months so long as oil prices do not go up sharply. Nevertheless, in the second half-year the CPI will likely tend to rise because of the adverse base effect arising from the reduction of oil prices recorded in the same period in 2006.

The inflation rate for consumer prices in terms harmonized with the European Union also came out as 2.5% in March, the same as in February. As a result, the inflation differential with the euro area held at 0.6 percentage points.

Rise in producer prices

After having marked up a low since March 2004, the year-to-year inflation rate for producer prices rose by 3 decimals in March going to 2.8%. In any case, it stood 3 percentage points below the level one year earlier.

Both consumer goods and capital goods and energy products showed a decrease compared with the same month last year. This may be explained by some pass-through of increases in raw materials in recent months. Energy showed an annual drop of 1.6% but this was lower than that for the previous month. Only intermediate goods reported some moderation in annual increase but still showed the biggest annual increase (6.2%).

At a more broken-down level, those branches of economic activity to register the biggest price increases in the past 12 months were metallurgy (12.2%) and machine-building and electrical material (10.8%) which reflected the sharp increase in metal prices. On the other hand, the biggest annual decreases came in coke production and oil refining with a drop of 9.9%. Other decreases came in office machinery manufacture and in computer equipment with a drop of 3.9%, thanks to improved productivity.

Downward prospects for CPI in coming months.

Producer prices up 2.8% compared with March 2006, some 3 decimals more than month before.

INFLATION INDICATORS

Percentage change over same period year before

	Farm prices	Producer price index					Import prices				GDP deflator (*)
		General index	Consumer goods	Capital goods	Intermediate goods	Energy goods	Total	Consumer goods	Capital goods	Intermediate goods	
2006											
January	4.0	6.3	3.5	2.1	3.6	20.6	7.3	3.0	-0.8	3.5	-
February	0.8	6.3	3.6	2.1	3.9	20.1	7.9	3.4	-0.4	3.9	3.9
March	-10.2	5.8	3.3	2.0	4.6	16.4	7.2	3.4	-0.1	5.2	-
April	-8.1	5.7	2.9	2.2	5.1	15.4	7.4	2.5	-0.1	6.2	-
May	-3.6	6.6	3.2	2.3	6.1	17.8	7.7	1.5	-0.6	7.7	4.0
June	6.0	6.3	3.5	2.3	6.8	14.6	6.1	0.9	-0.6	7.3	-
July	0.7	6.4	3.6	2.4	7.0	13.9	5.9	0.5	-0.3	9.3	-
August	0.4	5.7	3.2	2.5	7.2	10.2	5.1	0.7	-0.4	8.8	3.8
September	1.1	4.2	2.7	2.5	6.7	4.1	3.2	0.8	-0.2	9.0	-
October	2.3	3.4	2.3	2.4	6.9	0.5	3.0	0.7	-0.1	9.3	-
November	0.8	3.6	2.4	2.5	6.8	1.0	2.4	-0.1	-0.3	8.5	3.6
December	-5.8	3.6	2.0	2.6	6.8	2.3	2.3	0.2	-0.3	7.9	-
2007											
January	-6.7	2.7	1.4	2.9	6.3	-1.2	0.7	0.5	-0.3	7.6	-
February	...	2.5	1.4	2.9	6.6	-2.5	0.2	0.4	-0.3	6.9	...
March	...	2.8	1.7	3.3	6.2	-1.6	...	...	...	...	-

NOTES: (*) Figures adjusted for seasonal and calendar effects.

SOURCE: Ministry of Agriculture, Fishing and Food, National Institute of Statistics and own calculations.

Imported goods and farm products moderate inflation in early months of year.

In the foreign sector, prices of imported products continued to moderate in the first two months of the current year. According to the survey by the National Institute of Statistics, the general price index for imported goods rose by only 0.2% in the past two months ending February, thanks to the strength of the euro during this period. By component, the reduction of year-to-year inflation was across the board with a notable drop of 10.9% in energy prices. Capital goods maintained negative inflation of -0.3%, while consumer goods showed a rise of only 0.4%. Among these goods,

consumer durables presented a price drop of 1.3%. On the other hand, non-durables showed a price increase of 0.8%, although both types reported a slowdown.

Farm prices at origin, in turn, increased the year-to-year decrease seen at the beginning of the year. Prices obtained by farmers fell by 6.7% in the last 12 months ending in January. This drop was mainly due to farm products and market livestock which showed a drop of 8% while livestock products were up 3%.

How much and how we spend: clues to making productive infrastructures

Ever since 1989 when economist David A. Aschauer presented evidence that the drop in US productivity over the previous 15 years could be explained by insufficient investment in infrastructures, both politicians and economists still wonder about the role these play in economic growth. Traditionally, the discussion about the amount spent on infrastructures has been at the centre of the debate. Nevertheless, there are signs that the quality of these infrastructures (design, management and how they are used) is just as important, if not more, for their impact on economic activity and growth.

Transportation infrastructures are determining factors in the productivity of a country because they reduce transport costs and facilitate access to markets. Basically, they are an additional input in the production function of companies along with capital goods and labour. In the case of Spain, various studies have estimated that an increase of 10% in the stock of infrastructures raises GDP by between 0.5% and 1.5%. In general, the magnitude of the estimated impact is higher when aggregate figures for the whole country are used than when using figures broken down by region. This is due to the fact that the infrastructures of a region have an effect not only on its GDP but on that of other regions.

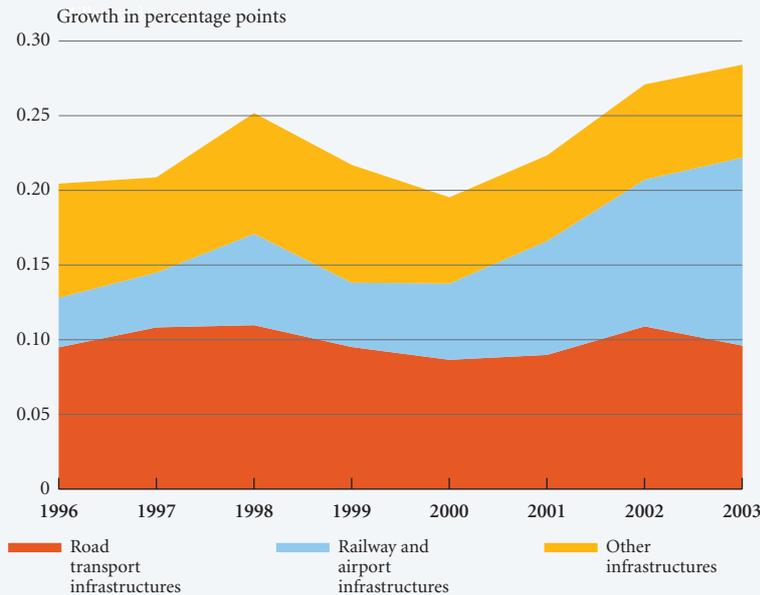
What then has been the contribution of transportation infrastructures to growth in Spain? According to joint estimates by the BBVA Foundation and IVIE, the stock of these infrastructures grew at an average annual rate of 4.25% between 1996 and 2003 (latest year for which figures are available). This figure, combined with the estimates mentioned in the previous paragraph, would suggest that the annual contribution to growth on average was between 0.2 and 0.6 percentage points. A recent study by Matilde Mas gives an aggregate figure in the low range of these estimates (0.28 percentage points) and makes possible a breakdown of the contribution to growth of the various types of transportation infrastructures. According to the results of this study, road transport infrastructure made the biggest contribution during a large part of the period. Airports and railways took over last year, reflecting the investment effort carried out in these areas since 2000 (see Graphic).

Spending on infrastructures, however, is not the only thing that matters. Their design and management determine the efficiency of their use and therefore their real transport capacity. Consider, for example, the case of a highway with no border lanes: its real capacity decreases dramatically whenever a car has a breakdown. A number of authors have pointed out the omission of these qualitative factors as a weakness of existing studies on infrastructures and growth. Aschauer himself corroborated this intuition by including an efficiency indicator (constructed from variables such as electricity generation losses or the percentage of paved roads, among others) in his more recent estimates. The results show that, in order to explain the variation in GDP across countries, the differences in the amount of infrastructures are just as important as differences in efficiency levels. The main conclusion to be drawn is that the government has an additional instrument available (and certainly less costly than the construction of new infrastructure) to increase the productivity of the economy, namely, to improve the management of what it already has.

One phenomenon that reduces the productivity of infrastructures is extremely well-known, that is traffic congestion. Of course, avoiding every form of congestion would be extremely costly and not very efficient. Thus some peak-hour traffic congestion may be optimal. Nevertheless, the observed level of congestion is often too high. This is due to the fact that when deciding on the use of the infrastructure the user does not take into account the effect of his decision on the level of congestion and the cost this may generate for other users. In this case, optimal decisions made by an individual do not mean they will be the best from a social point of view.

TRAINS FULL-STEAM AHEAD

Contribution of infrastructures to GDP growth in Spain



SOURCE: Own calculations based on Mas, M. (2006) «Infrastructures and ICT. Measurement issues and impact on economic growth», IVIE and FBBVA.

The role to be played by the public sector in order to improve the efficiency of use is therefore to design mechanisms so that users keep in mind the negative effects of their individual decisions at the overall society level. To this effect, the best remedy put forward by economics is a good price system.

The key idea is that prices inform the user on the consequences of his/her decision about the travel time and destination in terms of costs and benefits. These are, on one hand, the real cost for him/her and for the other users of the road; and on the other hand, the benefit for users of alternative roads. For this reason, access prices should vary according to the level of congestion observed both in the selected infrastructure and in alternative routes. This also implies that prices would fluctuate over time and that they would depend on the access points to the infrastructure. In Spain, the toll motorways most recently built have established price systems by which tolls change according to pre-specified daily time schedules. This is a practice that surely will be extended over time and will become more sophisticated, for example, with tolls that reflect the real traffic flow level and the possible benefit over alternative routes that may be congested.

A good system of relative prices, as well as reducing congestion to optimum levels may have other benefits. Full awareness of the real cost of the trip may provide an incentive to use public transport systems and to increase the number of persons per car. Both these factors contribute to increase efficiency by allowing the transport of an equal number of passengers at a lower cost. It is thus possible to exploit the so-called economies of density. This objective can also be achieved by dedicated lanes exempt from tolls for vehicles with more than one passenger. This idea is now just being introduced in Spain.

Another aspect that determines efficiency and the quality of infrastructures is their design. With regard to this, other measures to be implemented by the public sector and that would make it possible to reduce costs would come through facilitating the interconnection of various modes of transport. The idea is that linking the networks formed by each mode creates a much denser network which, as a result, provides various ways of reaching the same destination and eliminates bottlenecks. This is one of the motivations for bus stops being placed close to subway stations. For the same reason, it may be a good idea for high-speed trains to have direct connection with airports.

PRICE SYSTEMS ON SPANISH MOTORWAYS

	% km	% traffic
Tolls with no price change	78.37	65.95
Tolls with daily changes	11.92	17.46
Tolls with changes on holidays	1.53	4.30
Tolls with seasonal and holiday changes	8.17	12.29

SOURCE: Own calculations based on Ministry of Public Works figures.

To summarize, in the matter of infrastructures both their quantity and their efficiency contribute to economic growth. While it is true that establishing systems to improve efficiency could involve major adjustment costs, the effort to improve what we already have should go parallel with the increase in provision of infrastructures.

Foreign sector

Trade deficit stabilizes thanks to exports.

Trade deficit: worse, but less so

Spain's trade deficit in February was 6.89 billion euros, less than the 7.62 billion in January but slightly above the level in February last year. In the monthly total, exports grew somewhat above imports thanks to lower oil purchases. Nevertheless, in the 12 months ending in February the deficit reached 91.11 billion euros, 13.1% more than in the same period the year before.

This growth has been easing off in recent months thanks to the maintenance of exports and containment in the price of imports, although in relative terms these remain high due to the strength of domestic demand.

Nominal exports in the past 12 months up to February grew by 9.3% year-to-year, maintaining a rate double the typical values seen up to the end of 2005.

FOREIGN TRADE

Cumulative figure for 12 months ended February 2007

	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	40,412	17.9	15.4	7,383	10.0	4.3	-33,029	18.3
Consumer goods	72,775	5.7	27.7	63,680	6.8	37.0	-9,095	87.5
<i>Food</i>	14,840	4.7	5.6	20,194	7.7	11.7	5,354	136.1
<i>Non-foods</i>	57,935	5.9	22.0	43,486	6.3	25.3	-14,449	75.1
Capital goods	28,566	2.8	10.9	16,911	7.1	9.8	-11,655	59.2
Non-energy intermediate goods	121,313	13.5	46.1	83,981	11.8	48.8	-37,332	69.2
By geographical area								
Euro area	128,118	6.7	48.7	97,191	7.9	56.5	-30,928	75.9
Rest of European Union EU 25	26,314	8.9	10.0	24,660	7.2	14.3	-1,654	93.7
Russia	7,464	37.4	2.8	1,608	40.1	0.9	-5,856	21.5
United States	8,630	7.5	3.3	7,636	18.5	4.4	-994	88.5
China	15,099	25.1	5.7	1,670	5.5	1.0	-13,429	11.1
Japan	5,924	1.5	2.3	1,348	11.4	0.8	-4,575	22.8
Rest of Asia	14,356	18.2	5.5	4,382	9.6	2.5	-9,974	30.5
OPEC	22,362	17.7	8.5	4,505	2.1	2.6	-17,858	20.1
Latin America	15,054	25.1	5.7	10,650	24.3	6.2	-4,404	70.7
Rest	19,745	4.0	7.5	18,306	8.6	10.6	-1,439	92.7
TOTAL	263,066	10.6	100.0	171,955	9.3	100.0	-91,111	65.4

SOURCE: Department of Customs and Special Taxes and own calculations.

In turn, imports moved up 10.6%, a higher rate but one that is still tending to decrease.

Under non-energy goods, the most notable increases showed up in capital goods, with exports reporting growth of 7.1% as against 2.8% for imports. Nevertheless, under the heading of non-energy intermediate goods, which carry greater weight in monetary terms, the growth of imports was even greater than in exports. In consumer goods as well, exports moved up faster than imports.

By geographical area, in the last 12 months up to February the deficit with the euro area reached 30.93 billion euros. There is, however, a clearly downward trend that in coming months could take us to see a reduction in this level. The bilateral deficit with the United States was also down while the balance with Latin America continues to worsen. There continues to be an easing

of the bilateral balance with the countries of the Organization of Petroleum Exporting Countries (OPEC) because of more advantageous prices for oil. Nevertheless, the real challenge ahead is still Asia, not counting Japan and the OPEC countries, a region where an important group of the most dynamic economies is now concentrated. The deficit with China continues to get bigger and, in spite of the fact that exports to that Asian giant have increased, these still represent a very small part of what Spain is importing.

Capital goods show more positive balance than intermediate goods.

Deficit with euro area slows but shortfall with Asia worsens.

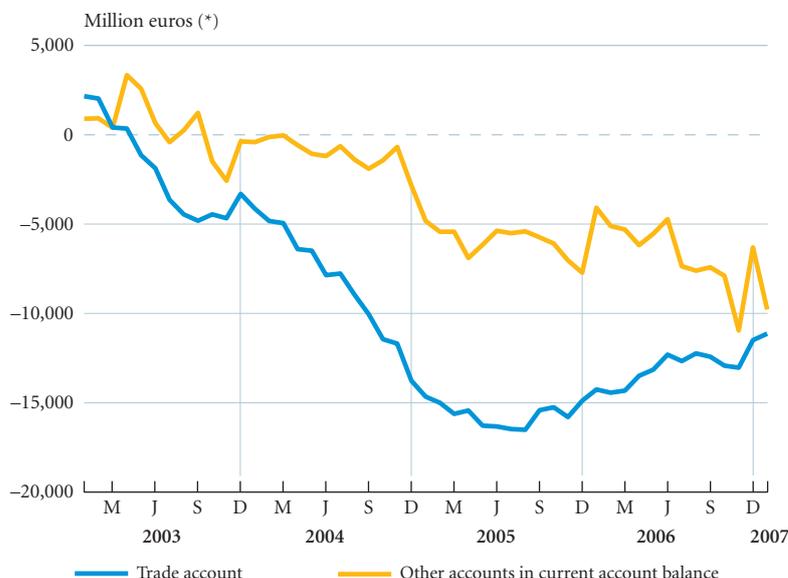
Balance of payments: blame not only lies on trade deficit

In January, the current account deficit was 8.62 billion euros following the abnormally low deficit in December (3.32 billion euros). On the credit side, the January trade deficit (6.45 billion

Current account balance deficit reaches 87 billion euros.

TRADE DEFICIT SLOWS WORSENING TREND

Contribution to annual change in deficit in current account balance by component



NOTES: (*) Cumulative figure for 12 months.

SOURCE: Ministry of Economy and Finance and own calculations.

euros was slightly below the average for 2006. On the debit side, the services surplus in the same period (952 million euros) was half the average in 2006. The worst drop showed up in the current transfers balance which, with a net balance of 1.17 billion euros, was more than double the typical figures in 2006. Outflows for direct investment were again higher than inflows although net outflows were below typical values for 2006.

From a trend point of view, in the past 12 months up to January 2007 the cumulative deficit of the current account balance increased to 87.07 billion euros, some 20.99 billion more than in the same period last year. The figure continues to

get worse but now this is not showing a higher rate and there has been a significant change in composition. Whereas one year ago the trade deficit was the cause of four-fifths of the increase in the current account deficit, now the year-to-year increase in the trade deficit is not disappearing but is slowing down thanks to some increase in receipts. It is the worsening of the incomes balance and the current transfers balance that are increasing. These two (in equal parts) are responsible for half the worsening of the current account balance. In the same period, the services balance showed a neutral performance with higher inflows for tourism which comfortably compensated for the losses in the rest of the sector.

Trade deficit stabilizing but transfers and incomes balance grows worse.

BALANCE OF PAYMENTS

January 2007

	Cumulative for year		Last 12 months		
	Balance	% annual change	Balance	Annual change	
				Absolute	%
Current account balance					
Trade balance	-6,452	9.7	-80,715	-11,176	16.1
Services					
<i>Tourism</i>	1,560	-0.8	27,431	1,054	4.0
<i>Other services</i>	-608	-23.8	-5,112	-451	9.7
Total	952	22.8	22,319	603	2.8
Income	-1,949	246.0	-22,369	-6,039	37.0
Transfers	-1,172	89.6	-6,307	-4,383	227.7
Total	-8,622	37.2	-87,072	-20,994	31.8
Capital account	1,301	255.4	7,110	-945	-11.7
Financial balance					
Direct investment	-2,105	105.9	-56,614	-44,405	363.7
Portfolio investment	16,709	-4.0	197,611	130,230	193.3
Other investment	-7,995	-621.5	-45,040	-66,385	-311.0
Total	6,609	-63.1	95,957	19,363	25.3
Errors and omissions	-329	-78.2	-1,726	1,840	-51.6
Change in assets of Bank of Spain	1,041	-	-14,269	736	-

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 own calculations.

With regard to financial account, in the 12 months ending in January there was a continuation of the increase in net outflows for direct investment which continued to combine stagnation in

inflows with a constant increase in outflows. Under the former, direct investment in real estate seems to have stabilized its decreases holding at a level close to 5 billion euros.

Internationalization of the Spanish companies of construction and infrastructures

In recent years, construction has enjoyed an extraordinary economic cycle. The decrease in interest rates, the increase in immigration and job creation, as well as the high level of public investment, backed by the flow of receipts from structural and cohesion funds of the European Union, among others, were the main factors behind this development. In ten years, the sector has gone from representing 6.6% of gross domestic product (GDP) in 1996 to 10.9% in 2006. In terms of employment, the increase was from 9.1% to 13.9% of GDP.

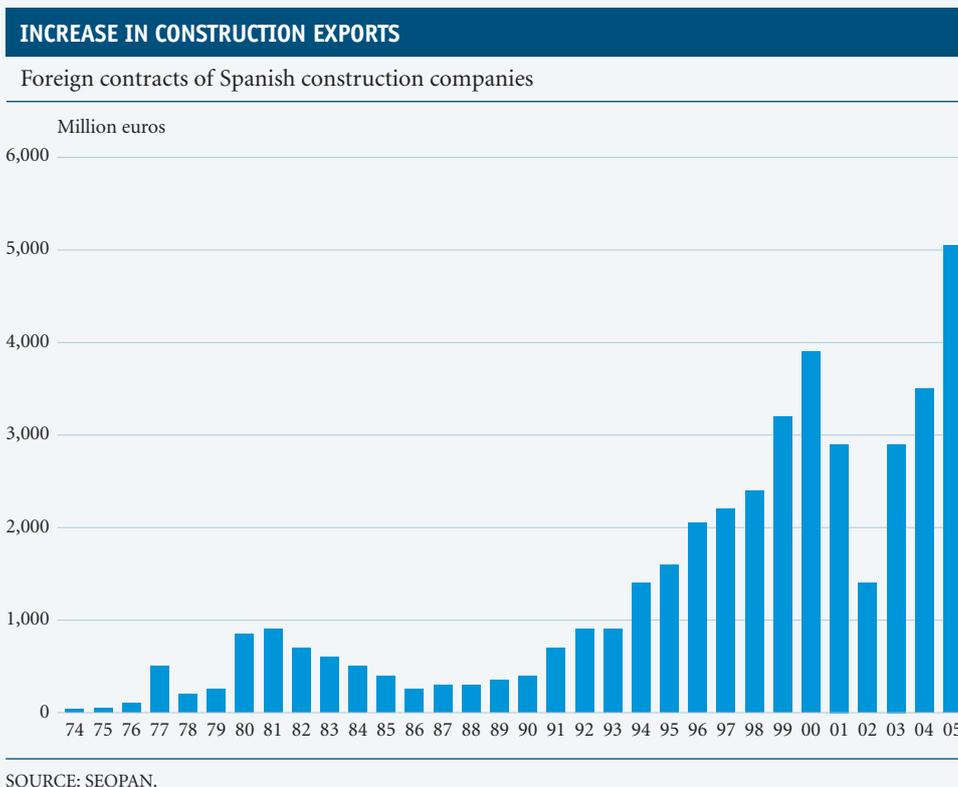
The strength of the sector has had a logical consequence in its business structure. According to the Ministry of Public Works, there are more than 215,000 construction companies in Spain. It is thus a sector broken down into many small companies given that 90.7% of companies have less than 20 workers and only 1% have more than 100 workers. In spite of this fragmentation, the buoyant construction scene in these years has made possible the development of a few companies that have reached a considerable «critical mass» and that are quoted on the continuous market index of the Spanish stock exchange. At the end of 2006, these big companies (ACS, Sacyr, Ferrovial, Acciona and FCC) reported total income of 46.86 billion euros, of which 28% came from abroad, giving employment to 335,000 persons and showing total net profit of 5.12 billion euros. Their total stock market capitalization was nearly 60 billion euros which represents 8.5% of the IBEX 35 index.

The internationalization of construction activities and the management of infrastructures is precisely one of the most notable characteristics of the sector. Twenty years ago, these companies had two main divisions – real estate and public works. The exports made by traditional construction companies was aimed at developing countries and accounted for a very small part of their income. Later on, construction companies created a new division to include growth of their domestic business with management of infrastructures and other services (handling, logistics, urban furniture, conservation, parking, technical inspection of vehicles, etc.). In this way, they channelled their profits into businesses which increased synergies with their main construction business. Today, export has taken on a new dimension extending to the operation of long-term projects in highly developed countries where there exists an adequate framework of judicial security. As a result, income from abroad has come to represent a very significant percentage of final business volume.

Two factors have driven these companies to begin a process of international expansion. In the first place, construction has unfavourable characteristics from the point of view of risk. It is a very cyclical business with projects that take a long time to mature and the risk of cost increases that put their financial viability in danger. The second factor is the strength companies in the sector have acquired through decades of fierce competition which shows a great capacity for managing their businesses.

International expansion has a double objective – to reduce volatility in income accounts and to make use of their knowledge of the management of complex projects in order to increase their «critical mass». This geographical and business diversification allows them to reduce risk, easing the dependence of results on the trend in the economic cycle while trying to maintain high profitability of investments.

This is not a passing phenomenon but a trend, as may be seen in the following graph which shows the growth of construction contracts abroad. The graph does not show income from abroad in infrastructure concessions for which billing amounted to 4.95 billion euros in 2006. It is thus not surprising that, according to the US publication «Public Works Financing», seven of the world's twelve leading concessionaires are now Spanish, in terms of the number of contracts in operation.



Each of the five construction companies included in the IBEX 35 index are to be found in at least more than nine countries (more than 50 in the case of FCC). In 2006, the five companies mentioned invested 34.39 billion euros in various assets. This amount represents 671.2% of profits and 73% of income, which underlines the investment effort in the sector. Of the 4.85 billion euros invested by FCC, 64% was abroad. In turn, Ferrovial invested 4.45 billion euros, of which 97% was invested abroad, this for a company with more than 50% of its workforce located abroad. In the case of Sacyr-Vallehermosa, we should mention the acquisition of 32.6% of the French group Eiffage, which meant an investment of 1.78 billion euros in 2006.

It is interesting to note that investments by Spanish companies abroad share certain characteristics. First, they are of high quality seeing that they give them a majority interest which allows them to control management operations, that is to say, they are not merely financial investments. On the other hand, in quantitative terms they are seeking high profitability in return for capital invested. Finally, these are long-term investments such as, for example, infrastructure management contracts of more than 75 years duration.

This expansion in the foreign market has boosted the growth of certain companies that are a reference in the sector at the international level. This may be seen in the following table which shows that out of the 12 companies with the highest stock market capitalization in the construction sector in the euro area, five are Spanish.

STOCK MARKET CAPITALIZATION OF CONSTRUCTION COMPANIES IN EURO AREA

April 19, 2007	Nationality	Stock market capitalization (million euros)
VINCI SA	French	27,199
SAINT-GOBAIN	French	26,634
LAFARGE SA	French	20,216
BOUYGUES	French	19,637
CRH PLC	Irish	17,227
ACS A	Spanish	16,486
HEIDELBERGCEMENT AG	German	13,347
SACYR VALLEHERMOSO	Spanish	12,416
GRUPO FERROVIAL	Spanish	10,835
ACCIONA SA	Spanish	10,425
EIFFAGE	French	10,389
FCC	Spanish	9,675

SOURCE: Bloomberg.

Public sector

Central government increases surplus in first quarter of 2007

In the first quarter of 2007 central government non-financial revenues amounted to 37.78 billion euros, an increase of 13.6% compared with the same period last year. If we take into account revenues ceded to regional governments because of their share in taxes according to current legislation, this rate drops to 12.6%, which means growth of more than six points in nominal gross domestic product.

Collections for personal income tax amounted to 18.93 billion euros in the January-March period, a year-to-year increase of 13.0%. More than anything else, this notable growth rate reflects the increase in incomes. In fact, the reforms carried out regarding this tax had very little impact on these figures, given that most of the revenues involved did not come within this new tax framework. However, the increase of 3 points in tax withheld for income on capital (from 15% to 18%) could be noted.

In any case, while it is expected that the new personal income tax framework will generally involve a slight tax reduction, this may be compensated by a larger tax base because of the strength of the economy. Two recent simulations based on the new personal income tax rates examine this effect.

The occasional paper «A simulation of the effects of the income tax reforms on the tax load» drawn up by I. Argimón and others (Bank of Spain occasional paper 0702) estimates that these reforms will

involve only a moderate decrease in collections for this tax. According to this study, the reforms seem to relatively favour most those on lower incomes. In addition, joint tax returns benefit more than individual returns. With regard to the type of income most common in returns, those largely involving savings products show scarcely any change although the situation varies according to type of savings instrument. In fact, incomes based on interest come off better while the situation for dividends is worse. In addition, pensioners, entrepreneurs, professionals and workers will have a slightly lower tax load. To sum up, the personal income tax reforms will involve a slightly greater degree of progressive taxation.

A study published in the «Working papers» series put out by the Institute of Fiscal Studies (Number 26/06 entitled «Personal income tax reform in 2007: an evaluation of effects» by S. Díaz de Sarralde and others) also deals with this matter and generally coincides with the other document mentioned. This paper underlines that tax on income from work is reduced and that the degree of progressive taxation is increased. At the same time, it calculates that with these reforms some 40% of those on low incomes are excluded from paying personal income tax.

Furthermore, on March 30 the government approved the new personal income tax regulations. Among various new measures, these set out the conditions that apply for increasing the reduction on income from work in the case of delayed retirement (after 65 years of age) with the aim of promoting such delay.

Central government non-financial revenue up six nominal GDP points in first quarter.

Personal income tax collections rise by 13%, although still not reflecting impact of tax reforms...

...although this expected to be moderate.

CENTRAL GOVERNMENT BUDGETARY IMPLEMENTATION

March 2007

	Month		Cumulative for year	
	Million euros	% change over same month year before	Million euros	% change over same month year before
Non-financial revenue	5,737	17.3	37,782	13.6
Non-financial revenue adjusted (*)				
Personal income tax	3,873	8.5	18,931	13.0
Corporate tax	258	–	1,258	40.4
VAT	2,066	–14.5	20,507	11.3
Special taxes	1,449	–0.1	4,606	5.4
Other	2,158	77.3	4,676	18.7
Total	9,804	14.1	49,978	12.6
Non-financial spending	9,652	9.6	35,466	7.4
Treasury balance	–3,915	–0.1	2,316	849.2
Surplus (+) or deficit (–) (**)	–5,954	17.5	6,857	48.4

NOTES: (*) Includes tax segments ceded to regional and local governments under current financing system.

(**) In terms of National Accounting.

SOURCE: Ministry of Economy and Finance and internal figures.

Corporate tax showed a 40.4% increase in collections in the first three months of the year although this rate comes down to 31.0% in homogeneous terms, that is, taking into account variations in the tax calendar. This big difference is largely due to the growth of company profits.

With regard to indirect taxes, value added tax (VAT) rose by 11.3% due to a greater volume of domestic sales and imports. Special taxes were up by 5.4%. Among these taxes, the most important heading (fuel tax) was up by 3.7%, while the next biggest heading (tax on tobacco) rose by 8.2% following the increase in package prices. With regard to other non-financial revenues, there was a notable increase in those arising from Bank of Spain profits.

Central government non-financial spending in the first quarter of 2007 amounted to 35.47 billion euros, an increase of 7.4%, slightly above nominal GDP. Staff costs were up 5.3% while those for goods and services rose by

12.3%. Financial costs were the only large heading to show a decrease. Also remarkable was the major increase in spending for real investment (19.7%) and that for capital transfers (37.9%).

The performance in revenues and spending brought about a central government Treasury surplus of 2.3 billion euros in the first three months of the year, equivalent to 0.22% of GDP, 20 hundredths more than the year before. In terms of national accounting, that is, evaluating revenue and spending according to accrual principles (when rights and obligations actually arise instead of when these are, in fact, effected) a surplus of 6.86 billion euros was recorded, or 0.66% of GDP, some 19 hundredths more than in the same period in 2006. To sum up, central government finances are running magnificently well and it is still too soon to see what impact the partial personal income tax and corporate tax reforms will have, although this expected to be small.

Corporate tax collections up 31% in comparable terms largely due to growth of company profits.

Central government non-financial spending increases slightly more than nominal GDP with sharp rise in investment.

Bridges to the private sector: ways to finance infrastructures

In «The Lighthouse in Economics», an article published in 1974 by Ronald Coase, Nobel prize-winner for economic sciences, he explained that the British government in the 17th century, preoccupied with how to pay for its wars, neglected the construction of lighthouses, a matter over which it held a monopoly. Faced with complaints by ship-owners, the Crown allowed the private sector to carry out the building and management of these infrastructures and permitted its customs agents to collect tolls and to distribute these among the various operators. One businessman, Henry Winstanley, who had lost a number of ships on British rocks, obtained the right to construct a lighthouse near the port of Plymouth. The contract specified that during the first five years he would keep all revenues arising from operation of the lighthouse and that during the next 50 years these would be shared equally with the government. Unfortunately for Winstanley, the lighthouse did not withstand its first winter and had to be rebuilt at his expense. Just a few years later in 1703 the biggest storm in the history of the United Kingdom totally destroyed the lighthouse and brought about the death of its sponsor. This was the beginning (certainly harsh) of private participation in the building of public infrastructures.

Today such participation is occurring at various levels. In the traditional public model, the role of the private sector is limited to carrying out construction work (the building of a road, for example) or the provision of a specific service (say, the management of shops in an airport). Private participation goes much further when the sector constructs, finances and operates the infrastructure, whether in perpetuity or as a concession for a number of years. The operator of the infrastructure may collect payment directly from users for the services provided (for example, through tolls on a motorway) or from the government (per student in the case of a school or per inmate in the case of a prison). This model of participation involves a revolution in terms of the traditional model. As some of the examples mentioned illustrate, in a number of countries the private sector is participating not only in the area of highway infrastructures (perhaps the most familiar area in Spain) but also in schools, prisons, ports, airports, subways, water treatment plants, hospitals and even army barracks. The accompanying table shows the distribution of sector projects in the United Kingdom, one of the countries where private participation in public infrastructures is most firmly established.

BREAKDOWN BY SECTOR OF PRIVATE PARTICIPATION IN PUBLIC INFRASTRUCTURES IN THE UNITED KINGDOM

Sector	Number of projects	Percentage of all projects
Health	294	34.8
Education	212	25.1
Telecommunications	125	14.8
Transport	65	7.7
Energy and environment	57	6.7
Offices	40	4.7
Housing	21	2.5
Prison institutions	20	2.4
Defence	11	1.3

SOURCE: PUK (*Partnerships UK*) data-base on *Private Finance Initiatives* and own calculations.

As in 17th century England, budgetary constraints have had a lot to do with the rise in private participation in the infrastructures sector in the past 25 years. When carried out by the private sector, the investment in infrastructures does not show up in the public accounts and therefore does not increase the fiscal deficit or the public debt. This is an important detail when a country is obliged to not exceed a certain fiscal deficit, as is the case with members of the euro area.

As well as slowing the growth of the public debt, there are other reasons that justify increased private participation. Firstly, there is the potential this participation provides for improving efficiency, given that generally it may be expected that a private company that is playing with the capital of its shareholders may have greater incentive to avoid delays and cost overruns in the construction of the infrastructure. For instance, an analysis by the British Treasury revealed that in that country more than 70% of public investment projects with no private participation suffered from delays in completion and cost more than budgeted for, a percentage that dropped to 20% in cases involving private participation. Secondly, participation of the private sector facilitates the development of projects with high economic profitability. Without private involvement, on the other hand, political considerations may become the main factor in determining what projects are carried out. Finally, private participation reduces the risk for the public purse, as shown by the experience of Henry Winstanley.

In any case, private participation in itself does not ensure an improvement in social welfare. This depends on how the private company is chosen (obviously the choice must be the result of a competitive and transparent tendering process), on the characteristics of the contract between the private company and the public sector and the soundness of the regulatory and judicial system. In particular, the contract should stipulate in the best possible way who assumes what risks, which means that these must be assigned to the party best able to control them. It would seem logical, for example, that the private company assume all the risks arising from the construction and maintenance process (delays, cost overruns, environmental impacts, etc.). In addition, if the profits for the private manager are linked in some way to the level of demand or user satisfaction, that is, to the social well-being arising from the infrastructure, the private company will have a greater incentive to act for the general benefit of the user.

One of the biggest risks and one most difficult to assign among those involved in an infrastructure is demand risk, as uncertainty about the volume of users during a typical concession period (which may be for several decades) is enormous. Let us suppose, for example, the hypothetical case of a tunnel joining two islands in which private companies bid for construction and management for a fixed period of 40 years. If we establish that the company offering the lowest toll to be charged to users would win the competition, that company would carry all demand risk. If the volume of traffic turned out to be less than expected, the income of the private operator would suffer. This assignment of risk has the advantage that the concessionaire would have strong incentives to offer quality service that maximizes traffic through the tunnel. On the other hand, however, uncertainty about future income will make financing of the project more costly given that investors will demand a higher risk premium. When this second effect is important, the public sector may consider offering certain guarantees to the private operator.

To sum up, the presence of the private sector in the provision of infrastructures may facilitate increased and better investment while at the same time reducing costs for tax-payers and/or users. These benefits, however, are not guaranteed and will heavily depend on the way in which the contract between the public sector and the private concessionaire is drawn up. As is well-known, the three words most preferred by economists are incentives, incentives and incentives.

Savings and financing

Interest rate increases beginning to adversely affect financing granted to private sector...

...although growth still twice that of euro area as a whole.

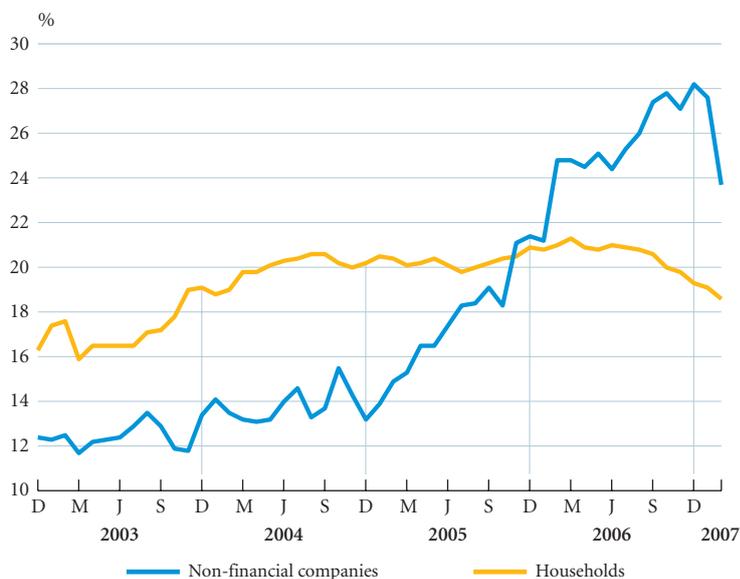
Expansionist stage in credit to private sector slowing down

Interest rates on loans and credits applied by financial institutions continue to rise gradually as a pass-through of the restrictive turn in monetary policy adopted by the European Central Bank begun in December 2005. The average rate on loans and credits to companies and households has risen by 1.36 percentage points since the end of 2005 up to February this year. The one-year Euribor, the interbank market rate widely used as a reference rate, stands at 4.11%, that is, more than twice the all-time low in mid-2003.

The tighter monetary policy, which has meant that we are now seeing positive real interest rates after years of negative rates, has begun to have an adverse effect on the trend in credit to the private sector. Financing to the private sector, after having marked up its highest year-to-year change rate of 24.3% in September 2006, slowed down in recent months to show an annual increase of 21.4% in February. In any case, this growth rate is still high and stands at twice the corresponding rate in the euro area as a whole. The favourable economic climate is helping the growth of credit although it is most likely that this will keep moderating.

FINANCING GRANTED TO COMPANIES SHOWS SLOWDOWN

Year-to-year change in funding to private sector



SOURCE: Bank of Spain.

CREDIT GRANTED TO COMPANIES AND HOUSEHOLDS

February 2007

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
Commercial credit	81,673	-3,693	-4.3	8,464	11.6	5.3
Secured loans (*)	947,617	24,626	2.7	191,626	25.3	61.6
Other term loans	424,207	9,618	2.3	90,434	27.1	27.6
Demand loans	32,737	-1,385	-4.1	5,261	19.1	2.1
Leasing	40,347	-366	-0.9	5,446	15.6	2.6
Doubtful loans	11,639	804	7.4	1,672	16.8	0.8
TOTAL	1,538,220	29,604	2.0	302,902	24.5	100.0

NOTES : (*) Greater part made up of loans with mortgage security.

SOURCE: Bank of Spain and own calculations.

The slowdown is noted for both companies and households. The year-to-year change rate for funding granted to non-financial companies marked up a high for at least the past decade in December 2006 when it reached 28.2%. Nevertheless, in February 2007 this rate had dropped 4.5 percentage points to 23.7%. Both commercial credit, used to

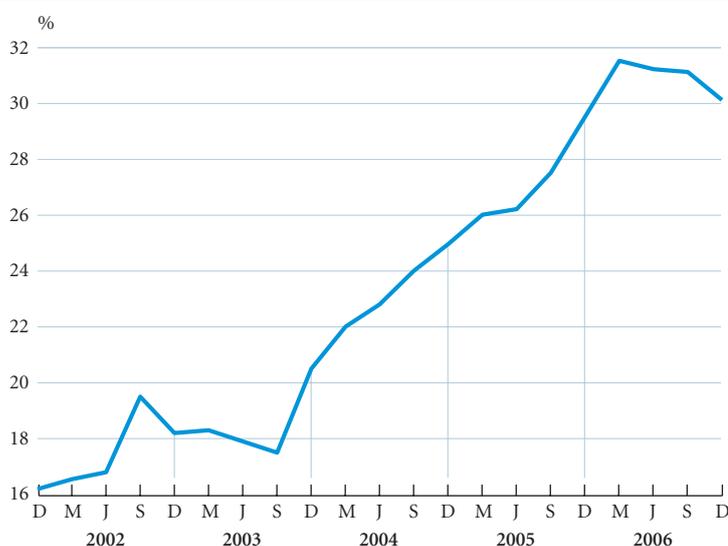
finance working capital of companies, and leasing (which goes into financing capital equipment) have showed some easing off in recent months although they still present considerable increases.

From a sector point of view, based on Bank of Spain data up to December 2006, we note that services and industry

Credit granted for real estate activities up nearly 50% in 2006.

CREDIT FOR CONSTRUCTION AND HOUSING LOSING STEAM

Year-to-year change in credit for construction, real estate activities and home-purchase and renovation



NOTES: Rates corrected for effect of break in statistical series in June 2005 because of shift to balance of securitized assets.

SOURCE: Bank of Spain.

In fact, housing loans to households continue to ease gradually.

took on strength in the final quarter with the highest increase in credit going into these sectors in the past 12 months. Construction recorded an annual increase in credit of 33.3%, some 1.7 percentage points less than in the previous quarter. Nevertheless, credit going into construction and real estate activities as a whole scarcely showed any slowing down, thus recording an annual rise of 43.5% due to the sharp increase of 49.7% annual going into the latter in December.

Credit to households began to slow down before that granted to companies and the latest figures confirm this gradual process. The year-to-year change rate for financing granted to households has dropped by 2.7 percentage points since the high in March 2006 up to February this year when it stood at 18.6%. This decrease in the growth of credit may largely be

attributed to housing. Housing loans have gone from growing at an annual rate of 24.6% in November 2005 to 19.0% in February 2007. The rise in interest rates and housing prices have put a brake on mortgage loans but the good prospects in the labour market and easy financing conditions continue to drive them forward. As a result, the gradual slowdown is expected to continue this year.

Other loans to individuals have also eased off but to a much lesser degree. Funding to buy consumer durables (cars, motorbikes, furniture, appliances, etc.) rose by 11.8% in 2006 somewhat less than in 2005. Nevertheless, other loans (for land, securities, studies, travel, celebrations, etc.) rose by 23.8% last year, more than the year before.

Another sign of a change of stage in the credit cycle is the slight rise in default in

Slight rise in default also points to change in credit cycle.

CREDIT TO PRIVATE SECTOR BY PURPOSE

Fourth quarter of 2006

	Balance (*)	Change over 12 months	
	Million euros	Million euros	%
Financing of production activities			
Agriculture, livestock raising and fishing	23,014	2,276	11.0
Industry	119,487	14,792	14.1
Construction	134,314	33,553	33.3
Services	504,998	127,131	33.6
Total	781,812	177,752	29.4
Financing to individuals			
Acquisition and renovation of own home	544,292	98,320	22.0
Acquisition of consumer durables	51,357	5,430	11.8
Other financing	104,436	20,082	23.8
Total	700,085	123,832	21.5
Financing to private non-profit institutions	5,704	1,038	22.2
Other unclassified	21,016	3,368	19.1
TOTAL	1,508,618	305,990	25.4

NOTES: (*) By credit institutions as a whole: banking system, loan finance establishments and official credit.

SOURCE: Bank of Spain and own calculations.

recent months. As a result, the default rate rose to 0.76% in February although it still stands at a very low level.

Bank deposits scarcely easing off

Bank deposits by the private sector continue to grow at a good rate, close to twice that in the euro area. The increase in European Central Bank interest rates in recent times has made it possible to improve the return on bank deposits which have thus become more attractive. Also contributing to this is the competition between the various institutions which have revamped prospects being offered. This may be explained by the need to finance loans and credits that continue to grow faster than deposits which has also led many institutions to have recourse to bond issues.

Once the new tax rates for financial products came into effect at the beginning of 2007 and the tax advantages for longer term instruments were removed, we note that in the first

two months of the year deposit accounts for less than 2 years have shown increased growth (7.7%) over December. In this way, the annual increase in deposits for terms up to 2 years went above that for longer term deposits for the first time since December 2001. The biggest increase, however, came in deposits in foreign currency (in spite of some slowing down), which is logical if we take into account that the differential in interest rates with those applying abroad continues to decrease.

On the other hand, the situation of volatility in financial markets in March brought about withdrawals from share-based investment funds. Nevertheless, these were more than compensated by net entries in other types of fund so that in the first quarter as a whole net purchases of shares in securities mutual funds stood at 399 million euros. As a result, the assets of securities mutual funds in the January-March period rose by 1.2% while the number of participants was up by 1.5%. Average yield recorded by funds for the past 12 months was 4.3%, well above inflation.

Increase in wages increases attractiveness of bank deposits.

Deposits in foreign currency show increased growth in first two months.

Average yield on securities mutual funds well above inflation.

DEPOSITS OF COMPANIES AND HOUSEHOLDS AT CREDIT INSTITUTIONS

February 2007

	Total	Change this year		Change over 12 months		% share
	Million euros	Million euros	%	Million euros	%	
On-demand savings (*)	426,557	-21,390	-4.8	36,189	9.3	37.0
Up to 2 years	265,091	18,842	7.7	70,506	36.2	23.0
More than 2-year term	342,565	9,716	2.9	89,336	35.3	29.7
Repos	80,921	466	0.6	8,386	11.6	7.0
Total	1,115,135	7,636	0.7	204,417	22.4	96.8
Deposits in currencies other than euro	36,779	4,062	12.4	17,388	89.7	3.2
TOTAL	1,151,913	11,697	1.0	221,804	23.8	100.0

NOTES: (*) Includes deposits redeemable at notice, according to ECB definition.

SOURCE: Bank of Spain and own calculations.

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■ ANUARIO ECONÓMICO DE ESPAÑA 2006.

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