Madrid, March 21, 2005

THE IBERIAN MACRO OBSERVER

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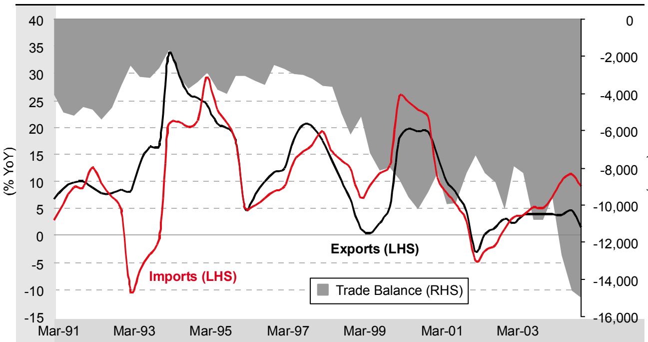
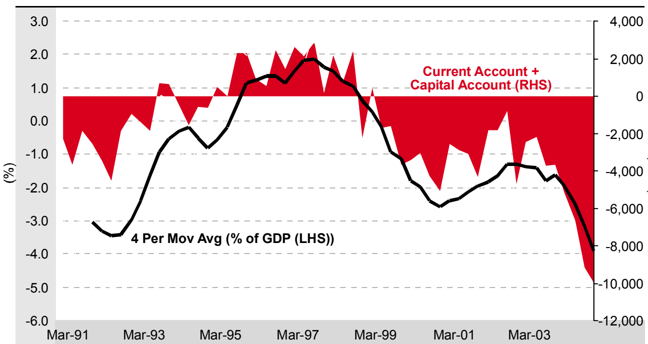
Spain-Trade Balance, 1991-2004



Source: Mineco and SCH Bolsa.

Spain-Current Account Balance, 1991-2004



Source: Mineco and SCH Bolsa.

Things to Watch during the Week

In the US:

(1) The FED is bound to raise interest rates by another 25bp.
(2) Producer Prices will go up moderately in February.
(3) February's CPI should go up 0.3% MoM.
(4) Existing home sales should fall slightly in February.
(5) Durable goods orders should rebound in February.

In the Euro Zone:

(1) The IFO index could improve slightly in March.
(2) France consumer spending should be weak in February.
(3) The Euro zone's January trade balance should post good figures.
(4) Italian business confidence could go up in March.

- In our view, the main imbalances in the Spanish economy persist: (1) the housing market is still out of control, although we have started seeing some signs of deceleration in prices and activity; (2) the current account deficit is rising quickly and is already at record levels; and (3) prices continue to grow faster than in the Euro zone, undermining Spain's competitive position.

- The OECD has highlighted all these problems, which were commented on in our *2005 Strategy for Spain & Portugal*, dated November 2004. We think there is no quick or painless solution to these problems, and the adjustment will probably imply lower GDP growth.

- **In the US.** Data published during the week were mixed: (1) retail sales point to a relatively strong performance for private consumption in 1Q05E; (2) February industrial production was higher, with strong manufacturing activity; (3) business inventories could contribute positively to GDP growth in 1Q05E; and (4) the current account deficit jumped to record levels in 4Q04.

- **In the Euro zone.** January industrial activity rose strongly (0.5% MoM), and the March ZEW survey also performed well. Prices remain under control, up 2.0% YoY in February. French employment creation was weak again in 4Q04 and the previous quarter's numbers were downgraded.

- In 2004, the Portuguese economy grew by 1.0%, slightly below the 1.1% expected by the Bank of Portugal and by us. Domestic demand was the main driver of economic growth, with private consumption up 2.3% and investment increasing by 2.1%. In 2003, these components contracted by 0.3% and 9.8%, respectively. Developments in late 2004 may lead us to make some changes to our 2005E growth forecast of 1.8% (possibly a minor downward revision).

THE WEEK BEHIND

Macro Data Published Last Week

Day	Time	Country	Indicator/Event	Period	Reference Data	Forecast	Actual
14-March Monday	11:00	Euro Zone	Construction Output (q/y)	4Q	-0.4 / -0.2	–	-0.3 / -1.0
15-March Tuesday	8:45	France	CPI (m/y)	Feb	-0.5 / 1.6	0.5 / 1.6	0.5/1.6
	10:00	Italy	Industrial Production (m/y)	Jan	-0.4 / 2.0	0.2 / -2.0	0.1/-2.1
	11:00	Germany	ZEW Survey (Economic Sentiment)	Mar	35.9	34.5	36.3
	11:00	Germany	ZEW Survey (Current Situation)	Mar	-58.7	-56.3	-66.0
	11:00	Euro Zone	ZEW Survey (Economic Sentiment)	Mar	36.0	38.0	37.3
	11:00	Euro Zone	Euro Zone Labour Costs (y)	4Q	1.8r	1.9	2.2
	–	Spain	Current Account	Dec	-3,729.4	–	5,710.4
	14:30	US	Empire Manufacturing	Mar	19.19	19.90	19.61
	14:30	US	Advance Retail Sales	Feb	0.3r	0.6	0.5
	14:30	US	Retail Sales Less Autos	Feb	1.0	0.8	0.4
	14:30	US	Business Inventories	Jan	0.2	0.7	0.9
	15:00	US	Net Foreign Security Purchases (US$ bn)	Jan	60.7r	62.0	91.5
	19:00	US	NAHB Housing Market Index	Mar	69r	68	69
	23:00	US	ABC Consumer Confidence	13-Mar	-7	–	–
16-March Wednesday	10:00	Italy	CPI (NIC incl tobacco) (m/y)	Feb	0.0 / 1.9	–	0.3 / 1.9
	11:00	Euro Zone	Euro Zone CPI (m/y)	Feb	-0.6 / 1.9	0.3 / 2.0	0.3 / 2.1
	11:00	Italy	Current Account (€ mn)	Jan	-3,006.0	–	-4,350.0
	13:00	US	MBA Mortgage Applications	11-Mar	-0.7	–	3.2
	14:30	US	Current Account Balance (US$ bn)	4Q	-165.9 r	-183.0	-187.9
	14:30	US	Housing Starts	Feb	2,183kr	2,040k	2,195k
	14:30	US	Building Permits	Feb	2,132kr	2,067k	2,074k
	15:15	US	Industrial Production	Feb	0.1r	0.4	0.3
	15:15	US	Capacity Utilization	Feb	79.2r	79.2	79.4
17-March Thursday	8:45	France	Non-Farm Payrolls (q)	4Q	0.0	0.1	0.0
	8:45	France	Current Account (€ mn)	Jan	-1,184	-900mn	-3,910mn
	11:00	Euro Zone	Euro Zone Industrial Production (m/y)	Jan	0.5 / 1.0	1.2 / 2.6	0.5 / 2.2
	14:30	US	Initial Jobless Claims	12-Mar	328kr	317k	318k
	14:30	US	Continuing Claims	5-Mar	2,695kr	2,668k	2,647k
	16:00	US	Leading Indicators	Feb	-0.3	0.1	0.1
	18:00	US	Philadelphia Fed	Mar	23.9	20.0	11.4
18-Mar Friday	10:00	Italy	Trade Balance (€ mn)	Jan	-1009.0 r	-2,000.0	-1,982
	14:30	US	Import Price Index (m/y)	Feb	0.7 / 5.8 r	0.6 / NA	0.8 / 6.1
	15:45	US	Univ of Michigan Confidence	Mar	94.1	95.0	92.9

(m) % MoM; (y) % YoY; (q) % QoQ; (a) annualised; (I) Index; (k) thousands; (mn) millions; (bn) billions; (r) revised; (E) estimate; (F) final; (P) preliminary; (sa) seasonally-adjusted; (nsa) non-seasonally adjusted; (wda) working day adjusted; (1) first release; (2) second release; (*) CET.
Source: Bank of Spain, Ministry of Economy, Datastream, Bloomberg, Reuters and Santander Central Hispano Bolsa estimates and forecasts.

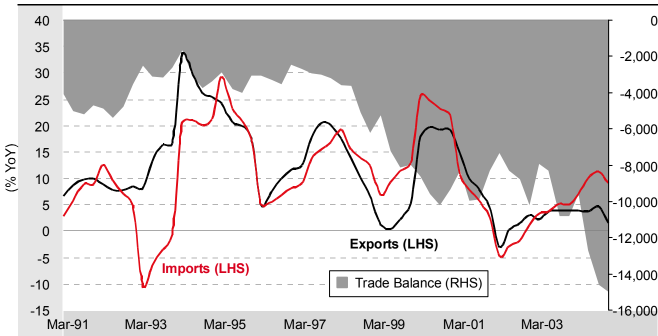
SPANISH CURRENT ACCOUNT DEFICIT SURGES

The main problems in the Spanish economy persist: (1) the housing market is still out of control, although we have started to see some signs of deceleration in prices and activity; (2) the current account deficit is rising quickly and has already reached record levels both in absolute terms and as a percentage of GDP; (3) prices are still growing in Spain at higher rates than in the Euro zone, undermining the competitive position.

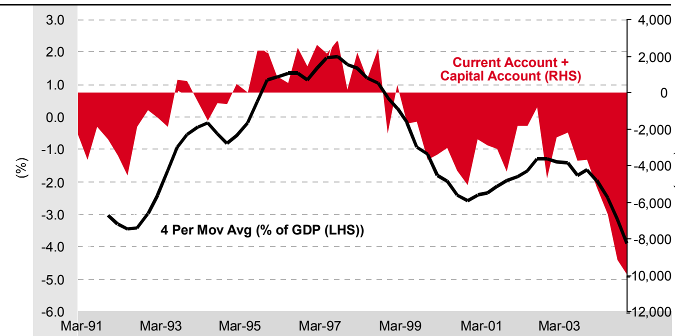
The OECD published it latest report on Spain this week and highlighted all the above problems, which were commented on in our *2005 Strategy for Spain & Portugal*, dated November 2004. We do not believe there is a quick and painless solution for all of them and that the adjustment will probably imply lower GDP growth in the years ahead.

Spain's current account deficit stood at a record high in 2004, rising to €5,710mn in December 2004 versus €2,251mn in December 2003. In cumulative terms, the 2004 current account deficit increased to €39,538mn vs €20,828mn in 2003. The main reason for the surge was the trade deficit, which had reached €5,402mn in December 2004 versus €3,610mn in December 2003. Services (mainly tourism), transfers and income also performed negatively. We estimate that the trade deficit will have ended the year at 7.4% of Spanish GDP, while the current account deficit could be around 4.2% of GDP.

Spain – Trade Balance, 1991-2004



Spain – Current Account Balance, 1991-2004



Source: Mineco and Santander Central Hispano Bolsa.

The numbers are quite negative and highlight the Spanish economy's main imbalance: the external sector. The strong growth in internal demand is pushing up imports, but exports have not increased (foreign economic growth is lower than in Spain and the country is now less competitive). We believe that the only way to solve this problem in the short run is through slower growth in internal demand and higher savings. Currency devaluation – the solution implemented at the beginning of the 1990s – is no longer an option.

The week in the US: Data published during the week were mixed: (1) retail sales point to a relatively strong performance of private consumption in 1Q05E; (2) industrial production rose in February, with manufacturing activity remaining strong; (3) business inventories could contribute positively to GDP growth in 1Q05E; and (4) the 4Q04 current account deficit jumped to record levels. The data show that the positive momentum in the economy is continuing.

Retail sales came in pretty much in line with expectations. February retail sales rose 0.5% MoM after January's 0.3% MoM gain (revised upwards from -0.3% MoM). Retail sales less autos rose 0.4% MoM from 1.0% MoM in January (revised upwards from 0.6% MoM). The numbers were positive, with practically all components going up. Only building and gardening equipment fell in the month (-1.3% MoM). These numbers point to relatively strong private consumption in 1Q05E.

The NY Empire index rose slightly to 19.6 in March from 19.2 in February. The report was mixed: new orders fell, while employment rose. Activity maintained a positive tone in February, with **industrial production** rising 0.3% MoM (vs expectations of 0.4% MoM) and manufacturing production rose 0.5% MoM. The lower-than-expected performance of industrial production was due to the utilities sector (-1.1% MoM in February). On the other hand, the main driver of the improvement in activity in February was the car sector (5.1% MoM). Without the car sector, industrial production would have been flat in the month. We expect a modest performance by industrial production in the coming months, in line with the deceleration seen in the ISM Index recently.

Business Inventories rose 0.9% MoM in January, from 0.2% MoM in December. Sales rose 0.8% MoM, while the inventories-to-sales ratio remained at 1.30. Inventories could make a positive contribution to GDP growth in 1Q05E.

The **Current Account** (CA) deficit rose to record levels in 4Q04. It already stands at 5.7% of GDP, from 4.8% of GDP in 4Q03. These are negative numbers that highlight the US's CA deficit problem. We maintain our view that, despite the current depreciation of the Trade Weighted Index of the Dollar (TWI$), the CA deficit does not look like it is going to be reduced. The problem is that the current depreciation of the TWI$ has been almost exclusively against the euro, while the Asian currencies have not experienced any adjustment. Until we see the greenback depreciate against Asian currencies, the CA deficit is not likely to be reduced, in our view. **Net Foreign Buys of US securities** rose to $91.5bn in January, from $61.3bn in the previous month, which means that, up to now, foreigners have been financing the US CA.

The week in the Euro zone: Industrial activity rose sharply in January (0.5% MoM) and is pointing, in our view, to a continuation of the recovery process in the area – at least that is what the March ZEW survey indicated. Prices remain under control, growing 2.0% YoY in February, up from 1.9% YoY in the previous month. Employment creation was weak again in France in 4Q04 and included a downward revision of the previous quarter's numbers.

The **ZEW Survey Index** rose in March, against expectations of a slight decline. These numbers point to a continuation of the recovery process in Germany. In any case, the strength of the euro and high oil prices remain a risk.

Italian Industrial Production performed modestly in January, after rising just 0.1% MoM. Industrial production performed much better in both France and Germany in January. Activity is expected to be almost flat in Italy in 1Q05F. In the **Euro zone, industrial production** increased 0.5% MoM in January, exactly the same rate as in December. Both capital goods (1.4% MoM) and durable consumer goods (1.3% MoM) components rose sharply.

Euro zone CPI was 2.1% YoY in February, up from 1.9% YoY in January. On the other hand, the core index declined to 1.6% YoY. In our view, inflation is not a problem for the ECB and, therefore, it could leave interest rates unchanged until the end of the year. We believe headline CPI will fall below 2.0% YoY in the coming months. At the same time, some members of the ECB have suggested that interest rates are at unsustainably low levels and that the high levels of liquidity represent a risk for prices in the future. They added that interest rate hikes would depend on the upcoming economic data.

THE WEEK AHEAD

Macro Data to Be Published This Week

Day	Time*	Country	Indicator/Event	Period	Reference Data	Forecast
During the Week		Germany	Import Price Index (m/y)	Feb	0.7 / 2.9	0.6 / 3.5
21-March	9:00	Spain	Factory Orders (y)	Jan	4.9	–
Monday	10:00	Italy	Unemployment Rate	4Q	8.1	8.1
22-March	8:45	France	Consumer Spending (m/y)	Feb	1.5 / 3.8	-0.5 / 3.6
Tuesday	14:30	US	Producer Prices Index (m/y)	Feb	0.3 / 4.2	0.3 / 4.7
	14:30	US	PPI Ex Food & Energy (m/y)	0.8 / 2.7	0.8 / 2.7	0.1 / 2.8
	20:15	US	FOMC Interest Rate Decision Expected	22-Mar	2.50	2.75
	23:00	US	ABC Consumer Confidence	20-Mar	-8	–
23-March	9:00	Spain	Hotel Occupancy (%)	Feb	39.6	–
Wednesday	9:00	Spain	Hotel Price Index (y)	Feb	0.5	–
	9:30	Italy	Consumer Confidence	Mar	104.4	104.0
	10:00	Italy	Trade Balance (Non-Europe) (€ mn)	Feb	-1,959.0	-285.0
	10:00	Germany	IFO – Business Climate	Mar	95.5	96.5
	10:00	Germany	IFO – Current Assessment	Mar	94.5	94.8
	10:00	Germany	IFO – Expectations	Mar	96.4	96.4
	10:00	Euro Zone	ECB Euro Zone Current Account (€ bn)	Jan	2.7	3.0
	11:00	Italy	Retail Sales (m/y)	Jan	0.0 / -0.5	0.2 / -1.5
	11:00	Euro Zone	Euro Zone Trade Balance (€ bn)	Jan	4.2	4.8
	11:00	Euro Zone	Industrial New Orders (m/y)	Jan	8.8 / 17.0	-5.0 / 13.8
	13:00	US	MBA Mortgage Applications	18-Mar	3.2	–
	14:30	US	CPI (m/y)	Feb	0.1 / 3.0	0.3 / 2.9
	14:30	US	CPI Ex Food & Energy	Feb	0.2 / 2.3	0.2 / 2.3-
	16:00	US	Existing Home Sales (mn units)	Feb	6.8	6.68
24-March		Germany	CPI (m/y)	Mar	0.4 / 1.8	0.2 / 1.7
Thursday	9:30	Italy	Business Confidence	Mar	86.8	87.0
	10:00	Italy	GDP (y)	4Q	1.3	1.0
	14:30	US	Durable Goods Orders	Feb	-1.3	0.7
	14:30	US	Durables Ex Transportation	Feb	0.3	0.2
	14:30	US	Initial Jobless Claims	19-Mar	318k	315k
	14:30	US	Continuing Claims	12-Mar	2,647k	–
	16:00	US	New Home Sales	Feb	1,106k	1,146k
25-March	8:45	France	Wages (q)	4Q	0.8	–
Friday	10:00	Italy	Industrial Orders (m/y)	Jan	5.6 / 9.1	-3.2 / 7.5
	10:00	Italy	Industrial Sales (m/y)	Jan	-0.6 / 3.1	0.2 / 3.5

(m) % MoM; (y) % YoY; (q) % QoQ; (a) annualised; (I) Index; (k) thousands; (mn) millions; (bn) billions; (r) revised; (E) estimate; (F) final; (P) preliminary; (sa) seasonally-adjusted; (nsa) non-seasonally adjusted; (wda) working day adjusted; (1) first release; (2) second release; (*) CET.
Source: Bank of Spain, Ministry of Economy, Datastream, Bloomberg, Reuters and Santander Central Hispano Bolsa estimates and forecasts.

THINGS TO LOOK OUT FOR:

In the US: (1) The Federal Reserve is bound to raise interest rates by another 25bp at its next meeting, maintaining the message that interest rates will be hiked at a ‘measured’ pace. (2) Producer prices should go up moderately in February. (3) The CPI is likely to rise by 0.3% MoM in February. (4) Existing home sales should fall slightly in February. (5) Durable goods orders should rebound in February, pointing to strong business investment growth in 1Q05E.

In the Euro zone: (1) The IFO index could improve slightly March, in line with the slight recovery seen in the ZEW survey this week. (2) France’s consumer spending should be weak in February after the strong performance in the previous month. (3) The Euro zone trade balance should post a positive performance in January, in line with the numbers of the largest countries. (4) Italian business confidence could rise in March.

Rates and Currencies

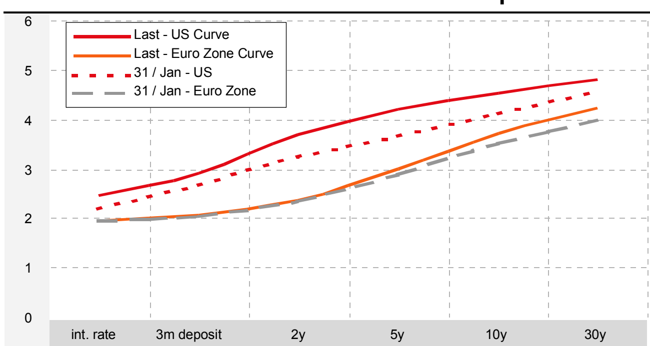
- Bonds seemed to have stopped to take a breather on their downward run initiated a couple of weeks ago. We still believe that, despite this pause, the downward trend in prices will resumed in the coming months. It is also interesting to note the sharp increase experienced in the Euro zone 2Y yield, driven by statements made by ECB members, who suggested higher interest rates in the near future. We maintain our recommendation of playing the steepening of the 3-month/2-year section of the curve.
- The dollar was negatively affected by the sharp rise in the current account balance numbers, despite the fact that foreigners increased the amount of US assets they bought in January. We maintain our positive view on the dollar against the euro. However, we think that further depreciation against the Asian currencies is clearly necessary.

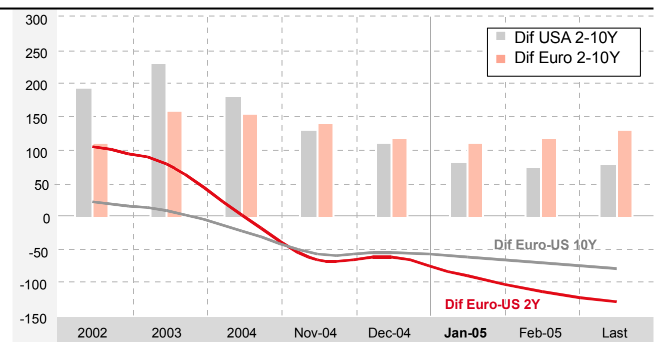
US and Euro Zone – Interest Rates and Currencies

		Annual[1]			Quarterly[1]				Monthly				Weekly			
		2002	2003	2004	Mar-04	Jun-04	Sep-04	Dec-04	Nov-04	Dec-04	Jan-05	Feb-05	25-Feb	04-Mar	11-Mar	Last (2)
ST Interest Rates																
	ECB repo rate	3.2	2.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.00	2.00	2.00	2.00
	Fed funds	1.7	1.1	1.4	1.0	1.1	1.5	2.0	2.0	2.3	2.3	2.5	2.50	2.50	2.50	2.50
	Euribor 3M	3.3	2.3	2.1	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.11	2.12	2.12	2.12
	US dep 3M	1.7	1.2	1.6	1.1	1.3	1.8	2.3	2.4	2.5	2.7	2.9	2.87	2.91	2.96	3.00
LT Interest Rates																
Euro	2Y	3.6	2.5	2.5	2.3	2.6	2.5	2.4	2.4	2.5	2.4	2.5	2.50	2.43	2.43	2.52
	5Y	4.2	3.3	3.3	3.2	3.5	3.4	3.1	3.0	3.0	2.9	3.1	3.07	3.00	3.04	3.03
	10Y	4.8	4.1	4.1	4.1	4.3	4.1	3.8	3.8	3.7	3.5	3.7	3.71	3.69	3.77	3.68
	30Y	5.2	4.8	4.7	4.8	4.9	4.7	4.4	4.4	4.3	4.0	4.2	4.17	4.18	4.27	4.16
US	2Y	2.5	1.6	2.4	1.7	2.5	2.6	2.9	3.0	3.1	3.3	3.6	3.52	3.56	3.72	3.68
	5Y	3.7	2.9	3.4	3.0	3.7	3.5	3.5	3.7	3.6	3.7	4.0	3.89	3.96	4.22	4.14
	10Y	4.5	4.0	4.2	4.0	4.6	4.2	4.2	4.3	4.2	4.1	4.4	4.26	4.31	4.54	4.47
	30Y	5.3	4.9	5.0	4.9	5.3	5.0	4.9	5.0	4.8	4.6	4.7	4.64	4.65	4.81	4.76
Spreads																
Dif-Euro	3M-30Y	194	255	265	284	287	261	228	226	216	194	205	206	206	215	204
	2Y-10Y	115	164	160	178	171	154	136	144	120	115	122	121	126	134	116
Dif US	3M-30Y	352	374	338	380	399	321	254	263	230	188	184	177	174	185	176
	2Y-10Y	198	235	184	230	207	168	133	135	115	86	78	74	75	83	79
Dif-Euro-US	Int	154	115	60	100	92	50	0	0	-25	-25	-50	-50	-50	-50	-50
	2Y	107	82	5	61	6	-2	-45	-64	-59	-88	-112	-103	-113	-129	-116
	10Y	24	11	-20	9	-30	-16	-42	-55	-54	-59	-67	-56	-62	-78	-79
Currencies																
	€/US$	0.95	1.14	1.25	1.24	1.21	1.22	1.32	1.328	1.355	1.304	1.323	1.325	1.324	1.346	1.337
	€/¥	118	132	134	132	133	135	137	137	139	135	138	139	139	140	140
	US$/¥	125	116	107	106	110	110	104	103	103	104	105	105	105	104	105

(1) Figures represent the average for the period; (2) March 17, 2004.
Source: Santander Central Hispano Bolsa estimates and forecasts. CHECK.

US and Euro Zone – Debt Curve & 2Y-10Y Spreads





Source: Bloomberg.

MACRO CORNER: PORTUGUESE GDP UP 1% IN 2004

- In 2004, the Portuguese economy grew by 1.0%, slightly below the 1.1% expected by the Bank of Portugal and by us. Domestic demand was the main driver of economic growth, with both private consumption and investment increasing by 2.3% and 2.1%, respectively. In 2003, these components of domestic demand contracted by 0.3% and 9.8%, respectively.

- Government spending was much stronger than expected, particularly in the second half of 2004. The bringing forward of some expenditures in preparation for the local elections (due in autumn 2005) may have contributed to this increase. The higher-than-expected public spending also goes some way to explaining the government's actions to raise extraordinary revenues in late 2004 (when it incorporated part of the pension fund from Caixa Geral de Depósitos into the civil service pension fund). This allowed it to meet the Maastricht budget deficit criteria of 3.0% of GDP, with a deficit of 2.9% of GDP.

- In terms of 4Q04, we would highlight the resilience of private consumption, despite a drop in confidence and some political instability towards the end of 2004 ahead of the general election (in February 2005). While overall investment fell in 4Q04, this was mainly due to a contraction in the construction sector. In general, investment in products and equipment added 0.2pp to GDP growth. We continue to see this as a sign of restructuring in the tradable sector.

- Net exports made a negative contribution to GDP, in both FY04 and 4Q04. Strong import growth was probably due to strong domestic demand and also to higher oil prices. Exports underperformed, in line with the slowdown in the broader Euro zone. FY04 exports increased 5.1% vs 5.0% in 2003. Imports rose by 7%, following a fall of 0.1% in 2003. The current account deficit increased to 6.0% of GDP in 2004, from 3.9% in 2003.

- The developments in late 2004 may lead us to make some changes to our 2005F growth forecast of 1.8% (possibly a minor downward revision). We continue to expect a recovery in investment related to public works (in view of the upcoming local elections), and also to higher public expenditure. The risks, however, are more on the downside.

Portugal – GDP Growth (YoY)

(% YoY)	2002	1Q03	2Q03	3Q03	4Q03	FY03	1Q04	2Q04	3Q04	4Q04	FY04	BSNP FY04E
GDP	0.4	-1.4	-2.2	-1.0	0.0	-1.1	0.7	1.8	0.9	0.6	1.0	1.1
Private consumption	1.1	-1.3	-0.9	-0.2	1.2	-0.3	1.7	2.9	2.2	2.6	2.3	2.2
Public expenditure	2.3	0.7	0.2	0.0	0.2	0.3	0.6	1.1	1.5	1.8	1.2	0.8
Investment	-5.1	-12.8	-12.8	-8.2	-4.9	-9.8	0.5	3.6	2.0	2.2	2.1	3.0
Exports	2.0	7.3	1.8	4.8	6.2	5.0	5.3	8.2	4.1	3.0	5.1	6.2
Imports	-0.2	-1.2	-3.1	0.4	3.4	-0.1	5.8	9.4	6.1	6.7	7.0	7.7

Source: INE (National Statistics Institute) and BSNP estimates.

MACROECONOMIC ESTIMATES AND FORECASTS

Europe, the US and Japan – Estimates and Forecasts, 2002-06F

GDP (*)	2002	2003	2004E	Cons	2005F	Cons	2006F	Cons
Germany	0.1	-0.1	**1.7**	*1.5*	**1.3**	*1.2*	**2.1**	*1.6*
France	1.1	0.5	**2.3**	*2.1*	**1.6**	*1.9*	**2.4**	*2.2*
Italy	0.4	0.4	**1.2**	*1.3*	**1.4**	*1.4*	**2.0**	*1.8*
Spain	2.4	2.5	**2.5**	*2.6*	**2.4**	*2.6*	**2.5**	*2.8*
Portugal	0.4	-1.2	**1.5**	*1.2*	**2.3**	*1.9*	**2.6**	*2.4*
Euro-12	0.6	0.5	**2.0**	*1.8*	**1.5**	*1.7*	**2.2**	*2.0*
UK	1.8	2.2	**3.1-**	*3.3*	**-**	*2.5*	**-**	*2.4*
Argentina	(10.9)	8.8	**8.4**	*7.1*	**4.7**	*4.3*	**4.5**	
Brazil	1.9	0.5	**4.9**	*4.5*	**3.6**	*3.5*	**3.5**	
México	0.7	1.3	**4.0**	*4.0*	**4.0**	*3.6*	**4.0**	
Japan	-0.3	2.5	**-**	*4.3*	**-**	*1.1*	**-**	*1.8*
US	1.9	3.0	**4.4**	*4.4*	**2.9**	*3.5*	**3.1**	*3.4*

CPI	2002	2003	2004F	Cons	2005E	Cons	2006F	Cons
Germany	1.4	1.1	**1.7**	*1.7*	**1.2**	*1.3*	**1.3**	*1.2*
France	1.9	2.2	**2.1**	*2.2*	**1.8**	*1.8*	**1.8**	*1.7*
Italy	2.6	2.8	**2.2**	*2.3*	**2.0**	*2.0*	**2.0**	*1.9*
Spain	3.6	3.1	**3.0**	*3.1*	**2.8**	*2.8*	**2.3**	*2.6*
Portugal	3.6	3.3	**2.5**	*2.4*	**2.2**	*2.3*	**2.2**	*2.3*
Euro-12	2.3	2.1	**2.1**	*2.1*	**1.7**	*1.8*	**1.7**	*1.7*
UK	1.3	1.3	**-1.4**	*1.4*	**-**	*1.7*	**-**	*1.8*
Argentina	41.0	3.7	**5.7**	*6.6*	**9.0**	*7.5*	**6.0**	
Brazil	12.5	9.3	**7.6**	*7.3*	**6.2**	*5.9*	**5.0**	
México	5.7	4.0	**5.2**	*4.7*	**4.0**	*4.0*	**4.0**	
Japan	-1.0	-0.3	**0.0**	*-0.1*	**-**	*0.0*	**-**	*0.3*
US	1.6	2.3	**2.7**	*2.6*	**2.2**	*2.4*	**2.3**	*2.2*

Financial (*)	2002	2003	2004	Cons	2005F	Cons	2006F	Cons
Intervention rates								
Euro-zone	**2.75** (3.21)	**2.00** (2.25)	**2.00** (2.00)	-	**2.25** (2.06)	*2.75*	**3.25** (2.88)	*3.50*
US	**1.25** (1.67)	**1.00** (1.10)	**2.25** (1.40)	-	**3.50** (2.63)	*3.50*	**4.25** (4.13)	-
3 months rates								
Euro-zone	**2.86** (3.26)	**2.11** (2.26)	**2.13** (2.08)	-	**2.50** (2.23)	*2.41*	**3.65** (3.18)	*2.92*
US	**1.29** (1.72)	**1.09** (1.14)	**2.52** (1.56)	-	**3.74** (2.93)	*3.50*	**4.05** (4.15)	-
2-year bond yields								
Euro-zone	**2.72** (3.62)	**2.61** (2.46)	**2.48** (2.48)	-	**3.25** (2.83)		**4.35** (3.93)	
US	**1.60** (2.55)	**1.82** (1.64)	**3.06** (2.36)	-	**4.50** (3.59)		**3.75** (3.99)	
10-year bond yields								
Euro-zone	**4.20** (4.77)	**4.29** (4.09)	**3.68** (4.06)	-	**4.20** (4.05)	*4.19*	**4.90** (4.60)	*4.46*
US	**3.82** (4.53)	**4.25** (3.99)	**4.22** (4.25)	-	**5.15** (4.60)	*5.10*	**5.00** (4.18)	*5.50*
Currencies								
Euro-dollar	**1.05** (0.95)	**1.26** (1.14)	**1.36** (1.24)	-	**1.23** (1.22)	*1.339*	**1.15** (1.18)	*1.336*

(*) Annual averages in brackets.
Source: Consensus forecasts (March 2005). €uro Zone Barometer (March 2005). Santander Central Hispano Investment and SCH Bolsa estimates and forecasts.

Appendix 1

Summary of Euro Zone Figures, 2001-4Q04

	Annual Growth			YoY Rates				QoQ Annualised Rates					
GDP Components	**2001**	**2002**	**2003**	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**3Q03**	**4Q03**	**1Q04**	**2Q04**	**3Q04**	**4Q04**
Private consumption	1.9	0.7	1.0	1.2	1.2	0.9	1.3	1.5	0.0	3.1	0.2	0.3	1.8
Public consumption	2.4	3.1	1.6	1.9	1.8	1.5	1.2	2.7	1.9	0.9	1.6	1.5	0.7
Business investment	-0.2	-2.5	-0.6	1.2	1.9	2.1	1.6	1.8	4.3	-0.4	1.9	2.6	2.4
Inventory (contribution)	0.0	-0.4	-0.1	-0.1	0.2	1.3	0.5	-1.7	2.8	-0.5	0.4	2.6	0
Internal demand (contribution)	1.0	0.4	1.2	1.2	1.7	2.6	1.9	0.0	4.1	1.3	1.2	3.8	1.3
Exports	3.5	1.9	0.2	3.6	7.2	5.6	6.0	11.5	0.5	5.7	11.4	5.2	1.9
Imports	1.8	0.5	2.0	2.8	6.0	7.8	7.1	5.5	7.0	1.5	10.1	13.1	3.9
Net exports (contribution)	0.7	0.5	-0.7	0.3	0.6	-0.7	-0.3	2.3	-2.4	1.6	0.7	-2.8	-0.7
GDP	**1.6**	**0.9**	**0.5**	**1.6**	**2.2**	**1.9**	**1.6**	**2.3**	**1.7**	**3.0**	**1.9**	**1.0**	**0.6**
Nominal GDP (EUR bn)	6850.3	7085.5	7271.6										
	Annual Growth			YoY Rates				MoM Rates					
Activity indicators	**2001**	**2002**	**2003**	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**Sep04**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**
Industrial production	0.6	-0.3	0.2	1.4	3.3	2.9	0.8	3.2	1.0	-0.9	2.4	2.5	-
- Ex construction	**0.4**	**-0.5**	**0.3**	**1.1**	**3.1**	**2.8**	**0.8**	**3.6**	**1.1**	**0.4**	**1.0**	**2.2**	**-**
Manufacturing production	**0.3**	**-0.8**	**0.0**	**1.0**	**3.2**	**2.9**	**0.7**	**3.6**	**1.1**	**0.1**	**0.9**	**2.7**	**-**
Retail sales	**1.6**	**0.1**	**0.3**	**0.4**	**0.0**	**0.0**	**0.1**	**-0.5**	**-0.6**	**0.5**	**0.3**	**-0.6**	**-**
New car registrations	**0.0**	**-2.4**	**-1.2**	**1.3**	**3.4**	**-0.8**	**3.1**	**-0.7**	**2.7**	**2.7**	**3.9**	**4.5**	**-**
Capacity utilisation	**83.2**	**81.2**	**81.1**	**81.1**	**81.1**	**82.0**	**82.1**						
	Annual Average			Quarterly Average				Index					
Confidence indicators	**2001**	**2002**	**2003**	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**Sep04**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**
Economic confidence	100.8	94.4	93.4	98.6	99.9	100.6	100.9	100.9	101.5	100.9	100.2	100.8	98.8
Business climate	-0.19	-0.53	-0.43	-0.01	0.34	0.52	0.45	0.51	0.53	0.39	0.44	0.40	0.20
Industrial confidence	-9	-11	-10	-7	-5	-4	-3	-3	-3	-3	-4	-5	-7
Construction confidence	-10	-19	-20	-19	-16	-15	-14	-15	-14	-14	-13	-13	-14
Retail trade survey	-8	-17	-12	-9	-8	-8	-8	-9	-7	-10	-7	-6	-8
Services confidence	15	1	2	11	12	12	11	11	12	11	10	13	10
Consumer confidence	-5	-11	-18	-14	-14	-14	-13	-13	-13	-13	-13	-13	-13
PMI	**48**	**50**	**49**	**52.8**	**54.4**	**53.9**	**51.4**	**53.1**	**52.4**	**50.4**	**51.4**	**51.9**	**51.9**
- Output	49	52	51	53.9	56.0	55.9	52.3	54.8	54.0	50.5	52.4	53.3	53.4
- New orders	47	51	50	55.0	56.1	55.2	51.3	54.1	52.6	49.8	51.6	52.9	52.8
- Employment	49	47	47	48.4	48.9	49.5	48.4	49.5	49.0	48.0	48.3	48.1	49.3
- Stock purchases	47	46	46	46.9	48.4	49.2	49.5	48.8	48.9	49.4	50.1	49.4	49.6
- Delivery times	53	50	50	45.0	40.4	43.1	44.6	43.9	44.0	44.4	45.4	46.1	47.5
- Prices	48	52	52	59.8	70.7	69.4	72.8	71.3	76.4	72.1	69.9	69.1	64.8
	Annual Growth			YoY Rates				MoM Rates					
Prices	**2001**	**2002**	**2003**	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**Sep04**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**
CPI	2.4	2.3	2.1	1.7	2.3	2.3	2.3	0.1	0.4	-0.1	0.3	-0.6	0.3
Core CPI	**1.8**	**2.4**	**1.8**	**1.8**	**1.9**	**1.8**	**1.8**	**0.2**	**0.3**	**0.0**	**0.5**	**-1.0**	**0.2**
PPI (ex construction)	**2.0**	**-0.1**	**1.4**	**0.2**	**2.0**	**3.1**	**3.8**	**0.2**	**0.8**	**-0.2**	**-0.3**	**0.6**	**-**
GDP deflator	**2.4**	**2.5**	**2.1**	**1.9**	**2.1**	**1.7**	**1.7**						
Domestic demand deflator	2.2	2.2	1.9	1.6	2.2	1.9	2.2						
Costs and salaries	**2001**	**2002**	**2003**	**1Q04**	**2Q04**	**3Q04**	**4Q04**						
Unit labour costs	2.6	2.2	2.0	1.0	0.4	0.1	-						
Salaries		2.8	2.6	2.4	2.2	2.2	1.5	-					
Productivity		0.2	0.4	0.4	1.2	1.8	1.4	-					
	Annual Growth			YoY Rates				MoM Rates					
Employment market	**2001**	**2002**	**2003**	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**Sep04**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**
Unemployment rate	7.8	8.2	8.7	8.9	8.8	8.8	8.8	8.8	8.8	8.7	8.8	8.8	-
	Annual Growth			YoY Rates				MoM Rates					
Money supply	**2001**	**2002**	**2003**	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**Sep04**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**
M3	10.9	6.6	6.4	5.7	5.2	6.0	6.1	0.7	0.6	0.3	0.6	0.6	-
M3 mov. average 3m (YoY)	7.9	7.1	7.0	5.9	5.2	5.8	6.3	5.8	6.0	6.1	6.3	-	-
Loans to the private sector	7.0	4.0	4.7	4.6	5.4	5.8	6.3	0.7	0.6	0.8	0.5	0.5	-
Currency (YoY rates)	**2001**	**2002**	**2003**	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**Sep04**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**
€ effective exchange rate	1.5	3.0	11.4	8.5	1.2	2.7	3.7	3.5	3.2	4.7	3.3	0.3	-0.3
Real effective exch rate € (CPI)	0.6	4.0	12.6	8.9	1.7	2.7	3.3	3.4	2.9	4.2	2.9	0.5	-0.1
Real effective exch rate € (PPI)	1.7	3.9	11.2	7.3	0.5	2.2	2.7	3.0	2.3	3.4	2.4	0.2	-0.3
Real effective exch rate € (ULC)	-1.6	2.6	12.9	10.4	1.0	1.2	-						
External sector	**2001**	**2002**	**2003**	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**Sep04**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**
CA Balance (% GDP)	-0.2	0.8	0.3	0.8	0.3	0.5	0.6	0.0	0.0	0.0	0.0	-	-
- EUR bn	-11	58	22	35	47	45	42	45	40	41	42	-	-
Public accounts (% GDP)	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**Jan-00**
Government receipts (% GDP)	47.1	47.7	47.3	46.9	47.6	47.9	47.3	47.8	47.5	46.8	46.3	46.3	0.0
Government expenditures	52	53.5	52.5	52.0	52.0	50.6	49.6	49.1	48.5	48.6	48.7	49.1	0.0
Deficit/Surplus	-5.0	-5.9	-5.2	-5.2	-4.3	-2.7	-2.3	-1.3	-1.0	-1.7	-2.4	-2.7	0.0

Sources: Bloomberg; Datastream; Reuters and Santander Central Hispano Bolsa.

APPENDIX 2

Summary of US Figures, 2001-4Q04

			YoY Rates				QoQ Annualised Rates			
GDP	**2002**	**2003**	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**1Q04**	**2Q04**	**3Q04**	**4Q04**
Private consumption	3.1	3.3	4.2	3.6	3.6	3.7	4.1	1.6	5.1	4.2
Government consumption	4.4	2.8	2.8	1.6	1.8	1.7	2.5	2.2	0.7	1.2
Business investment	-2.4	4.4	12.8	16.8	11.7	11.6	12.3	19.0	2.4	13.4
- Equipment & software	-5.5	6.4	13.1	13.9	12.9	14.4	8.1	14.2	17.5	18.0
- Construction	-4.4	3.7	8.7	9.3	5.9	4.2	1.0	13.5	0.8	1.9
Internal demand	2.5	3.4	5.2	5.1	4.5	4.6	5.1	4.2	3.9	5.1
Exports	-2.4	1.9	8.4	10.8	9.4	5.7	7.3	7.3	6.0	2.4
Imports	3.4	4.4	8.1	10.7	11.1	9.8	10.6	12.6	4.6	11.4
GDP	1.9	3.0	5.0	4.8	4.0	3.9	4.5	3.3	4.0	3.8
Nominal GDP (US$ bn)	10487	11004								

	YoY Rates						YoY Rates			
General Activity	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**Sep04**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**
Leading indicator	4.0	4.2	2.4	1.3	1.9	1.2	1.3	1.3	0.7	0.7
Coincident indicator	2.0	2.7	2.6	2.9	2.5	2.7	2.4	3.5	2.9	3.0
Stocks to sales ratio	1.22	1.23	1.24	1.23	1.24	1.24	1.24	1.23	1.23	-
Industrial production	2.8	4.9	4.6	4.3	3.9	4.6	3.8	4.4	4.2	3.5
Capacity utilisation (1)	77.4	77.8	78.0	79.2	78.0	78.5	78.7	79.2	79.2	79.4
ISM index	25.6	27.2	10.5	-4.8	7.3	-0.4	-6.0	-7.7	-10.2	-11.0
ISM index (1)	62.3	61.2	59.1	57.3	59.1	57.5	57.6	57.3	56.4	55.3

	YoY Rates						YoY Rates			
Private consumption	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**Sep04**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**
Real hourly earnings	0.1	-0.6	-0.4	-0.8	0.0	-0.6	-1.2	-0.7	-0.4	-
Retail sales	7.8	7.8	6.5	8.3	7.7	8.8	7.1	8.8	8.1	7.7
- Less autos	8.2	9.4	7.8	8.8	8.1	8.9	8.6	8.8	8.3	8.4
Personal spending	4.2	3.6	3.6	3.7	4.0	4.1	3.3	3.8	3.4	-
Consumer confidence (1)	88.5	102.8	96.7	102.7	96.7	92.9	92.6	102.7	105.1	104.0
- Expectations (1)	91.3	100.8	97.7	100.7	97.7	92.2	90.2	100.7	100.4	95.7
Savings rate (1)	1.0	1.5	0.5	3.6	0.5	0.5	0.5	3.6	1.0	-
Consumer credit	5.0	4.0	4.3	4.9	4.3	4.6	4.7	4.9	4.1	-

	YoY Rates						YoY Rates			
Business investment	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**Sep04**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**
New orders	8.5	13.1	11.7	10.3	10.7	9.1	11.6	10.2	11.3	-
- Less autos	9.0	14.2	12.4	12.0	12.2	11.5	12.8	11.7	12.0	-
Non-defense cap orders less aircraft	11.3	12.3	12.1	11.4	10.7	12.5	11.3	10.6	14.0	-
ISM: production index	29.2	25.5	6.5	-12.3	4.1	-5.6	-13.1	-17.7	-16.2	-12.8
ISM: new orders	28.7	24.8	2.7	-10.6	-3.9	-9.1	-14.1	-8.4	-18.4	-16.7
	3Q02	**4Q02**	**1Q03**	**2Q03**	**3Q03**	**4Q03**	**1Q04**	**2Q04**	**3Q04**	**4Q04**
After-tax profits	23.5	31.8	14.3	6.7	9.8	14.7	17.2	19.5	5.8	-

	YoY Rates						YoY Rates			
Construction	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**Sep04**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**
Housing starts	11.2	10.0	4.6	-2.9	-0.9	4.1	-12.1	-0.5	12.9	15.8
New home sales	22.2	9.2	-0.2	9.8	7.5	14.3	6.2	8.8	-4.2	-
Construction spending	7.2	10.2	9.6	8.7	8.9	8.0	8.4	9.6	10.6	-
Building permits	9.4	11.2	5.9	4.8	4.2	2.0	7.9	4.6	8.2	6.0
Employment, wages and salaries	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**Sep04**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**
Pool of available workers	0.5	0.3	0.8	0.8	0.7	0.8	0.8	1.0	0.8	1.1
Total employment	0.7	0.9	1.5	1.3	1.4	1.3	1.3	1.3	1.3	1.3
Unemployment rate (1)	5.7	5.6	5.4	5.4	5.4	5.5	5.4	5.4	5.2	5.4
Unemp avg duration (weeks) (1)	19.9	19.8	19.6	19.3	19.6	19.7	19.8	19.3	19.3	19.1
Avg working hours per week (1)	33.7	33.6	33.8	33.7	33.8	33.8	33.7	33.7	33.7	33.7
Avg hourly earnings	1.8	2.1	2.2	2.5	2.4	2.6	2.4	2.6	2.7	2.5
	3Q02	**4Q02**	**1Q03**	**2Q03**	**3Q03**	**4Q03**	**1Q04**	**2Q04**	**3Q04**	**4Q04**
Employment cost index	3.7	3.6	3.9	3.8	4.0	3.9	3.8	3.9	3.8	3.7

	YoY Rates						YoY Rates			
Prices	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**Sep04**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**
CPI	1.8	2.9	2.7	3.3	2.5	3.2	3.5	3.3	3.0	-
Core CPI	1.3	1.8	1.8	2.1	2.0	2.0	2.2	2.2	2.3	-
PPI	2.3	4.2	3.5	4.5	3.3	4.4	5.0	4.1	4.2	-
Core PPI	0.9	1.5	1.6	2.0	1.7	1.8	1.9	2.2	2.7	-
Import prices	1.4	5.7	7.0	8.5	8.2	9.9	9.0	6.7	6.0	-
Export prices	2.9	4.2	4.2	4.2	4.0	4.4	4.2	4.1	4.0	-
External sector	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**Sep04**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**
Balance of goods & services (3)	-510.0	-538.0	-572.0	-617.0	-572	-586	-605	-617	-629	-
Balance of goods & serv (3) (% GDP)	-4.4	-4.6	-4.8	-5.1						
Trade balance (3)	-593.1	-623.9	-659.2	-706.6	-659	-674	-694	-707	-721	-
Trade balance (3) as a % of GDP	-5.2	-5.4	-5.6	-5.9						
Nominal effective exchange rate	-12.3	-5.9	-7.1	-6.3	-6.4	-4.5	-7.9	-6.7	-3.8	-3.4
Monetary policy and public accts	**1Q04**	**2Q04**	**3Q04**	**4Q04**	**Sep04**	**Oct04**	**Nov04**	**Dec04**	**Jan05**	**Feb05**
Money supply (M2)	4.5	4.7	3.6	5.2	4.1	4.6	5.3	5.6	5.6	5.1
Federal funds rate (1)	1.00	1.03	1.62	2.16	1.62	1.75	1.92	2.16	2.29	2.50
Federal receipts (2)	410	550	479	487	207	137	135	216	202	101
Federal expenditures (2)	581	576	565	605	183	194	192	219	194	215
Federal public deficit (2)	-171	-26	-86	-118	25	-57	-58	-3	9	-114

(1) Levels. (2) Cumulative change in fiscal year, billion dollars. (3) Annual cumulative, billion dollars.
Source: Datastream.

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Key to Investment Codes

Buy	Upside of more than 15%.
Hold	Upside of 10%-15%.
Underweight	Upside of less than 10%.

Note: New investment code criteria were implemented on January 1, 2005. Target prices set from January to June are for December 31 of the current year. Target prices set from July to December are for December 31 of the following year.

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