

THE IBERIAN MACRO OBSERVER

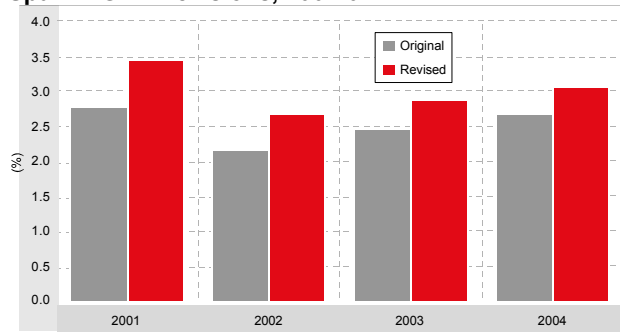
Portuguese Public Deficit Sharply Higher

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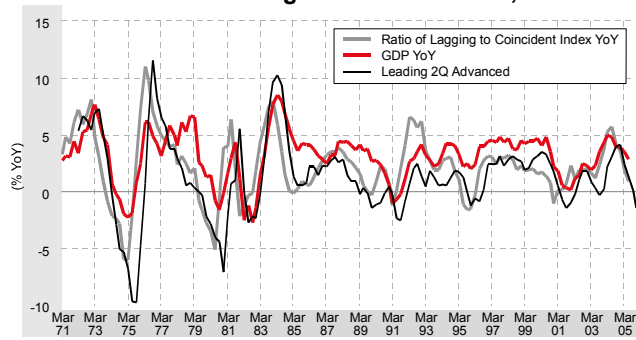
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Spain – GDP Revisions, 2001-04



Source: INE.

US – Conf Board Leading Indicators vs GDP, 1968-05



Source: Bloomberg, Datastream and SI Bolsa.

Things to Watch during the Week

In the US:

- (1) Existing home sales expected to rise again in April
- (2) Durable goods orders should rebound in April
- (3) 1Q05 GDP likely to be revised upwards
- (4) Personal income/spending could rise strongly in April
- (5) Univ. of Michigan confidence indicator could be down in May

In the Euro Zone:

- (1) 1Q05E GDP expected to rise 1.0% QoQ
- (2) The IFO index could go up in May
- (3) Business confidence expected up in France, down in Italy
- (4) German CPI should rise slightly in May
- (5) Spanish GDP estimated to grow 0.8% QoQ in 1Q05E

- Spanish GDP growth since 2001 has been upgraded as a result of switching from 1995 to 2000 as the base year for calculations. Following these revisions, GDP growth now stands at 3.5% for 2001 (2.7% previously), 2.7% for 2002 (2.2%), 2.9% for 2003 (2.5%) and 3.1% for 2004 (2.7%).
- The current account deficit rose again in February to -€3.19bn from -€1.93bn (up 65% YoY). In the first two months of 2005, the deficit rose to €7.35bn from a deficit of €2.74bn in the same period of 2004. The main reason for the sharp rise in the deficit was the trade balance, which posted an increase to €4.40bn in February from €3.07bn a year ago.
- Week after week there are increasing signs of deceleration in the US economy. Leading and sentiment indicators are falling sharply, pointing to a clear deceleration in the economy in the quarters ahead. Moreover, the loss of a pulse in the manufacturing sector was already reflected in the April industrial production data. Regarding prices, the numbers published in the past week led to mixed conclusions. We still believe that inflation is a short-term problem. That is, in our view, there are no structural inflation problems in the US economy (where activity is decelerating and pricing power is low). Housing starts numbers were strong once again.
- Last Monday, the Bank of Portugal delivered its report on the public accounts. Although the actual number was not released, there is plenty of evidence that the 2005E budget deficit could be equivalent to 7% of GDP, ie, 4.1% of GDP more than originally estimated by the previous government

THE WEEK BEHIND

Macro Data Published Last Week

Day	Time	Country	Indicator/Event	Period	Reference Data	Forecast	Actual
16-May Monday	10:00	Italy	CPI (NIC incl tobacco) (m/y)	Apr	0.3 / 1.9	-	0.2 / 1.9
	-	Spain	Current Account (€)	Feb	-4,154.8	-	-3,194.2
	14:30	US	Empire Manufacturing	May	2.0r	11.7	-11.1
	15:00	US	Net Foreign Security Purchases (US\$ bn)	Mar	84.1r	70.0	45.7
	19:00	US	NAHB Housing Market Index (m)	May	67	69	70
17-May Tuesday	14:30	US	Producer Price Index (m/y)	Apr	0.7 / 4.9	0.4 / 4.5	0.6 / 4.8
	14:30	US	PPI Ex Food & Energy (m/y)	Apr	0.1 / 2.6	0.2 / 2.6	0.3 / 2.6
	14:30	US	Housing Starts	Apr	1,836kr	2,000k	2,038k
	14:30	US	Building Permits	Apr	2,021kr	2,023k	2,129k
	14:30	US	Industrial Production	Apr	0.1r	0.2	-0.2
	14:30	US	Capacity Utilization (%)	Apr	79.4	79.5	79.2
	23:00	US	ABC Consumer Confidence	15-May	-16	-	-
18-May Wednesday	13:00	US	MBA Mortgage Applications	13-May	9.4	-	-10.5
	14:30	US	CPI (m/y)	Apr	0.6 / 3.1	0.4 / 3.3	0.5 / 3.5
	14:30	US	CPI Ex Food & Energy (m/y)	Apr	0.4 / 2.3	0.2 / 2.3	0.0 / 2.2
19-May Thursday	88:00	Germany	Producer Prices (m/y)	Apr	0.6 / 4.2	0.2 / 4.0	0.7 / 4.6
	8:45	France	Current Account (€ mn)	Mar	-298r	-1,000	-1,660
	11:00	Euro Zone	Euro Zone CPI (m/y)	Apr	0.7 / 2.1	0.4 / 2.1	0.4 / 2.1
	11:00	Euro Zone	Euro Zone CPI Core (y)	Apr	1.6	1.5	1.4
	11:00	Euro Zone	Euro Zone Industrial Production (m/y)	Mar	-0.6 / 0.4r	-0.3 / 0.2	-0.2 / -0.1
	14:30	US	Initial Jobless Claims	17-May	341kr	330k	321k
	14:30	US	Continuing Claims	7-May	2,596kr	2,583k	2,601k
	16:00	US	Leading Indicators	Apr	-0.6r	-0.2	-0.2
	18:00	US	Philadelphia Fed	May	25.3	17.3	7.3
20-May Friday	8:45	France	GDP (q/y)	1Q	0.7 / 2.1 r	0.5 / 2.0	0.2 / 1.7
	9:00	Spain	Factory Orders (y)	Mar	5.4r	-	-0.2
	10:00	Italy	Industrial Orders (m/y)	Mar	0.7 / 3.2	-0.5 / 2.2	-1.7 / -3.6
	10:00	Italy	Industrial Sales (m/y)	Mar	-1.3 / -0.2	0.3 / 1.0	1.2 / -2.3

(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.

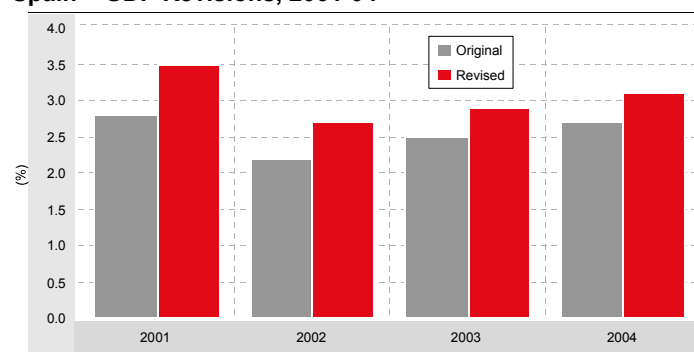
Source: Bank of Spain, Ministry of Economy, Datastream, Bloomberg, Reuters and Santander Investment Bolsa estimates and forecasts.

SPANISH GDP REVISED HIGHER FROM 2001

Spanish GDP growth since 2001 revised upwards

Spanish GDP growth since 2001 has been upgraded as a result of a switch from 1995 to 2000 as the base year to calculate growth. Following these revisions, GDP growth now stands at 3.5% for 2001 (2.7% previously), 2.7% for 2002 (2.2% previously), 2.9% for 2003 (2.5% previously) and 3.1% for 2004 (2.7% previously).

Spain – GDP Revisions, 2001-04



Source: INE.



Following these revisions, GDP per capita has increased and this should weaken Spain's position in the next round of negotiations on EU funds. In fact, Spain could actually have to return some of the funds received in recent years. In any case, the increase in GDP per capita may not be as strong as expected given the sharp rise in the country's population. Productivity could also decline.

The market's 2005 forecasts will also be affected and GDP growth for the year could be higher than previously expected (up to around 3%), as the upgrades mentioned above have changed the structure of the data. Despite this positive revision, we maintain our views on the structural problems of the Spanish economy going forward.

Deterioration in the external sector continues

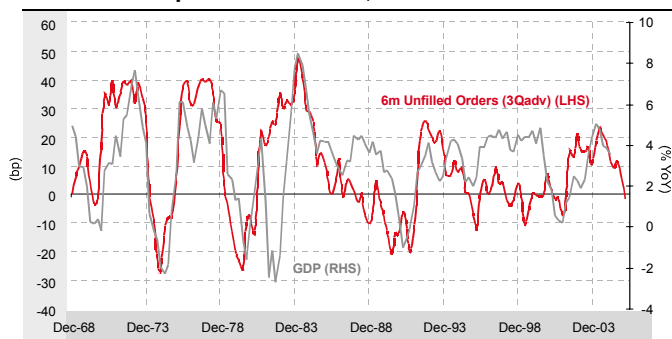
The current account deficit rose again in February to -€3.19bn from -€1.93bn, up 65% YoY. For the first two months of 2005, the accumulated deficit rose to €7.35bn from a deficit of €2.74bn in the same period of 2004. The main driver of the increase in the deficit was the trade balance, which rose to €4.40bn in February from €3.07bn a year ago. Imports were up 12.6% YoY, while exports only grew 4.5% YoY. Tourism deteriorated in comparison with last year.

According to these numbers, the deterioration in the external sector is continuing. The current account deficit, which represented 5.0% of GDP in 2004, is likely to continue to grow in the months ahead, according to our estimates. Moreover, given the sharp increase seen in the current account deficit, it could represent near 6.0% of GDP in 1Q05E.

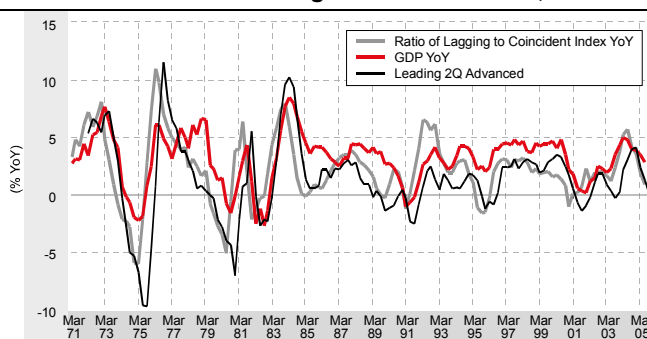
The Week in the United States: Week after week the signs of a deceleration in the US economy are growing. Leading and sentiment indicators are falling sharply, pointing to a clear deceleration in the economy in the quarters ahead. Moreover, the loss of a pulse in the manufacturing sector has already been reflected in the industrial production numbers for April. Regarding prices, numbers published during the past week led to mixed conclusions: (1) headline indices are still going up driven by energy and food prices; (2) core indices are performing moderately. We still believe that the inflation problems are only short run, from a cyclical perspective. That is, in our view, there are no structural inflation problems in the US economy (where activity is decelerating and pricing power is low). Housing starts numbers were strong once again.

Leading activity indicators are falling sharply, clearly pointing to lower GDP growth in the US in the coming quarters. The Conference Board's leading indicators fell 0.2% MoM in April after -0.6% MoM (revised downwards from -0.4% MoM) in the previous month. The Philly Fed index also declined sharply in May. Actually, the index fell 18 points from the previous month, which is the sharpest decline since January 2001 (-28.8 points). The Empire Manufacturing index also dropped in May (the second sharpest decline in that index) and the current levels are the lowest since May 2003. The Chicago Fed Activity index rose slightly to 0.10 in April, although the 3-month moving average is at its lowest level since August 2003. All of these indicators point slower GDP growth in the future.

US – Philadelphia Fed vs GDP, 1971-2005



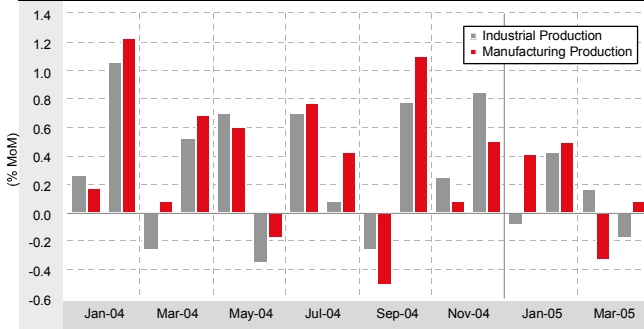
Conference Board Leading Indicators vs GDP, 1968-2005



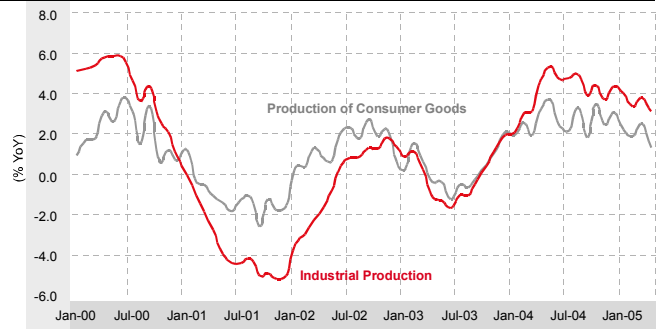
Source: Bloomberg, Datastream and Santander Investment Bolsa.

Activity levels are already declining. Some weeks ago, we were surprised by the strength shown in the hours worked in the April employment report. The aggregate index of hours worked rose 0.9% MoM. We doubted this number since all other indicators were pointing to a weakening in the economy: (1) ISM and other leading indicators were pointing downwards, (2) inventories were going up, (3) final sales were decelerating, and (4) factory orders were going down. This week we have seen a decline in industrial production. April industrial production fell 0.2% MoM, clearly affected by the utilities sector (-2.3% MoM in April after 3.6% MoM in March). Manufacturing production actually rose 0.1% MoM, but the numbers remain weak and point to a deceleration in activity. From the Markets group perspective, the production of consumer goods is also clearly pointing south. We expect this deceleration to continue in the months ahead.

US – Industrial Production vs Manufacturing, 2004-05



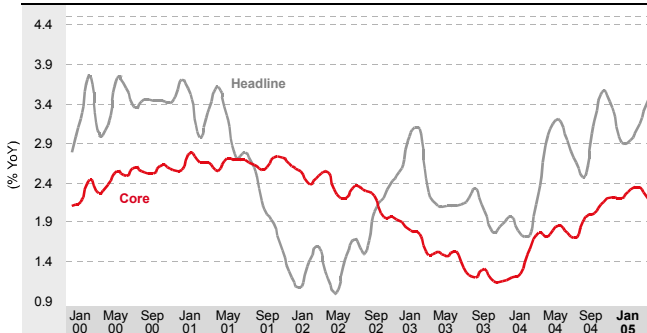
Industrial Production vs Consumer Goods, 2000-05



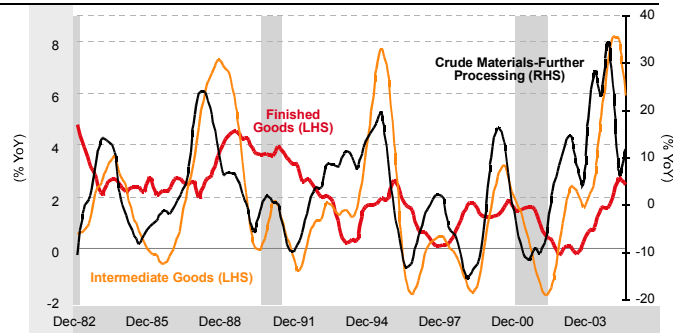
Source: Bloomberg and Santander Investment Bolsa.

Headline inflation posted strong numbers in April, while core indices performed much better, with a 0.3% MoM rise in the PPI and a flat reading in the CPI. Price pressures are clearly concentrated in the energy and food components in both indices. Looking at the performance of the core indices of both the crude materials and intermediate goods in the PPI, we can see how the sharp increases experienced by these indices in recent years are now coming to an end and a deceleration in prices is quite evident. We expect this to affect the final PPI next year. In the CPI, the story is also simple: the headline is going up while the core index is under control.

US – CPI Headline vs Core, 2000-05



PPI Core Indices, 1982-2005



Source: Bloomberg and Santander Investment Bolsa.



The Week in the Euro Zone: The numbers released in the Euro zone were also weak, although that was not a surprise since all of them were 1Q05 figures. Prices (CPI) came in line with expectations in April. We can see how headline CPI is rising due to the sharp increases seen in energy prices, but the core index is increasing just 1.4% in annual terms, indicating that inflation is not a problem at present. Industrial production fell in March for the second month in a row. We expect to start seeing some improvement in the months ahead, particularly in 2H05E and we do not believe that the ECB will change interest rates because of this decline.

French GDP was 0.2% higher QoQ in 1Q05 from +0.7% QoQ in 4Q04. 2004 GDP growth was revised downwards to 2.1% from 2.4% previously due to the change in the base year to 1995 from 2000. Looking at the GDP breakdown, we find that the main driver of growth was internal demand again, with private consumption growing 0.7% MoM, public consumption falling 0.5% QoQ and investment rising 1.3% driven by business investment (1.6% QoQ).

The external sector made a greater negative contribution to GDP, trimming 0.2pp off GDP growth due to the increase of 0.6% QoQ in imports and the decline of 0.1% QoQ in exports. We were expecting French GDP growth of 1.6% this year. However, after these changes in the previous years' GDP figures, it could come in even lower than 1.5%.

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)	Apr	1.3 / 3.8	0.3 / 3.6
23-May	9:00	Spain	Hotel Occupancy	Apr	49.4	–
Monday	9:00	Spain	Hotel Price Index (y)	Apr	1.4	–
24-May	8:00	Germany	GDP (q/y)	1Q	-0.1 / 0.5	1.0 / 1.1
Tuesday	8:45	France	Consumer Spending (m/y)	Apr	-0.8 / 4.0	0.4 / 2.5
	9:30	Italy	Consumer Confidence	May	104.8	104.8
	11:00	Euro Zone	Euro Zone Trade Balance (Eur bn)	Mar	5.1	–
	11:00	Germany	ZEW Survey (Current Situation)	May	24.6	19.4
	11:00	Euro Zone	Industrial New Orders (m/y)	Mar	-2.6 / 2.9	2.1 / 2.9
	16:00	US	Existing Home Sales (Mn units)	Apr	6.89	6.90
	20:00	US	Minutes of May 3 FOMC Meeting	–	–	–
	23:00	US	ABC Consumer Confidence	22-May	-18	–
25-May	9:00	Spain	GDP (Constant SA) (q/y)	1Q	–	–
Wednesday	9:30	Italy	Business Confidence	May	84.6	84.3
	10:00	Germany	IFO - Business Climate	May	93.3	93.5
	10:00	Germany	IFO - Current Assessment	May	93.1	93.2
	10:00	Germany	IFO - Expectations	May	94.6	94.0
	10:00	Italy	Trade Balance Non Europe (€ mn)	Apr	-645.0	–
	11:00	Italy	Retail Sales (m/y)	Mar	0.1 / 0.6	-0.2 / -0.5
	13:00	US	MBA Mortgage Applications	20-May	–	–
	14:30	US	Durable Goods Orders	Apr	-2.3r	1.1
	14:30	US	Durables Ex Transportation	Apr	-05r	1.0
	16:00	US	New Home Sales	Apr	1,431k	1,345k
26-May	–	Germany	CPI (m/y)	May	0.1 / 1.6	0.1 / 1.5
Thursday	9:00	Spain	Producer Prices (m/y)	Apr	0.8 / 5.1	–
	10:00	Italy	Hourly Wages (m/y)	Apr	0.2 / 3.5	NA / 3.3
	14:30	US	GDP Annualized	1Q	3.1	3.7
	14:30	US	Personal Consumption	1Q	3.5	3.5
	14:30	US	GDP Price Index	1Q	3.3	3.3
	14:30	US	Initial Jobless Claims	21-May	321k	329k
	14:30	US	Continuing Claims	14-May	2,601k	–
	16:00	US	Help Wanted Index	Apr	39	40
27-May	8:45	France	Producer Prices (m/y)	Apr	0.6 / 3.1	0.4 / 3.2
Friday	8:50	France	Business Confidence Indicator	May	97.0	98.0
	8:50	France	Production Outlook Indicator	May	-18.0	-1.0
	10:00	Euro Zone	Euro Zone Current Account (€ mn)	Mar	5.1	–
	14:30	US	Personal Income	Apr	0.5	0.7
	14:30	US	Personal Spending	Apr	0.6	0.8
	14:30	US	PCE Deflator (y)	Apr	2.4	–
	14:30	US	PCE Core (y)	Apr	1.7	–
	15:45	US	Univ of Michigan Confidence	May	85.3	86.0

(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 Investment Bolsa estimates and forecasts.

THINGS TO LOOK OUT FOR

In the US: (1) Existing home sales are expected to rise again in April; (2) April durable goods orders could rebound; (3) 1Q05E GDP is likely to be revised upwards; (4) Personal income is expected to rise strongly in April, as is spending; and (5) the University of Michigan confidence indicator could be down in May.

In the Euro zone: (1) 1Q05E GDP is expected to go up by 1.0% QoQ; (2) The IFO index could go up in May; (3) Business confidence should be higher in France, but down in Italy; (4) German CPI is estimated to go up slightly in May; and (5) Spanish 1Q05E GDP should grow 0.8% QoQ in the 1Q05.



RATES AND CURRENCIES

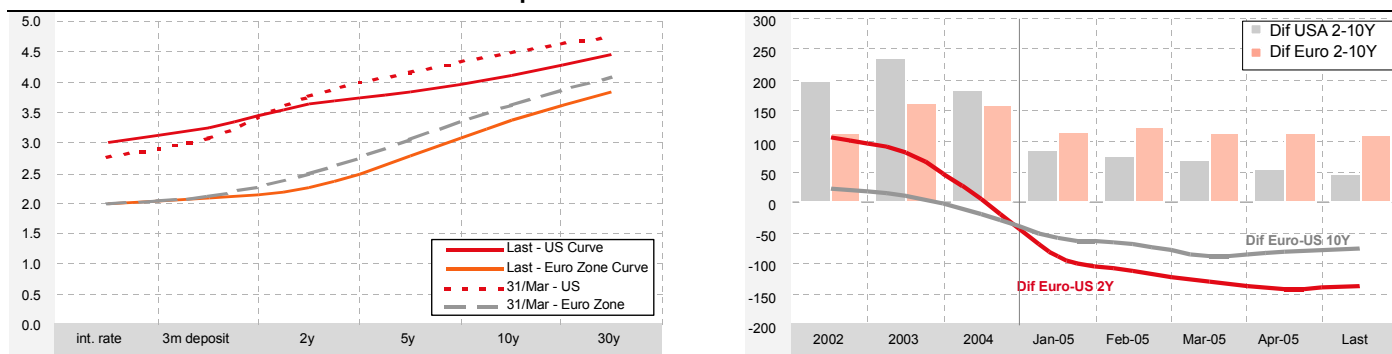
- The dollar maintained a very positive performance against the euro. Since the beginning of May, it has fallen from levels of around US\$1.30 per euro to US\$1.25 at the end of last week. We maintain our view that this trend will be maintained in the future. The reasons for the appreciation of the greenback against the euro are: (1) interest rate differentials; (2) GDP growth differentials; (3) more pressure on the Asian currencies to revalue (particularly the Chinese Yuan); (4) productivity differentials, and (5) the current account figures. We therefore maintain our view that the US dollar will reach US\$1.23 per euro by the end of the year and stand at US\$1.15 at the end of 2006F.

US and Euro Zone – Interest Rates and Currencies

		Annual ¹			Quarterly ¹				Monthly				Weekly			
		2002	2003	2004	Jun-04	Sep-04	Dec-04	Mar-05	Jan-05	Feb-05	Mar-05	Apr-05	06-May	13-May	20-May	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	1.1	1.5	2.0	2.5	2.3	2.5	2.8	2.8	3.00	3.00	3.00	3.00
	Euribor 3M	3.3	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.11	2.11	2.11	2.11
	US dep 3M	1.7	1.1	1.6	1.3	1.8	2.3	2.9	2.7	2.9	3.1	3.2	3.18	3.22	3.25	3.25
LT Interest Rates																
Euro	2Y	3.6	2.5	2.5	2.6	2.5	2.4	2.5	2.4	2.5	2.5	2.2	2.27	2.24	2.27	2.27
	5Y	4.2	3.3	3.3	3.5	3.4	3.1	3.0	2.9	3.1	3.1	2.8	2.84	2.74	2.78	2.78
	10Y	4.8	4.1	4.1	4.3	4.1	3.8	3.6	3.5	3.7	3.6	3.4	3.45	3.31	3.38	3.38
US	30Y	5.2	4.8	4.7	4.9	4.7	4.4	4.1	4.0	4.2	4.1	3.9	4.01	3.85	3.84	3.84
	2Y	2.5	1.6	2.4	2.5	2.6	2.9	3.5	3.3	3.6	3.8	3.6	3.72	3.58	3.64	3.64
	5Y	3.7	2.9	3.4	3.7	3.5	3.5	4.0	3.7	4.0	4.2	3.9	3.95	3.82	3.85	3.86
	10Y	4.5	4.0	4.2	4.6	4.2	4.2	4.3	4.1	4.4	4.5	4.2	4.26	4.12	4.13	4.12
	30Y	5.3	4.9	5.0	5.3	5.0	4.9	4.7	4.6	4.7	4.8	4.5	4.63	4.48	4.45	4.45
Spreads																
Dif-Euro	3M-30Y	195	257	265	287	262	228	199	194	205	198	183	191	175	173	173
	2Y-10Y	115	164	160	171	154	136	117	115	122	113	114	118	108	111	111
Dif US	3M-30Y	354	376	338	399	321	254	180	188	184	168	135	145	127	121	121
	2Y-10Y	198	235	184	207	168	133	78	86	78	71	55	54	53	48	48
Dif-Euro-US	Int	154	115	60	92	50	0	-50	-25	-50	-75	-75	-100	-100	-100	-100
	2Y	107	82	5	6	-2	-45	-109	-88	-112	-129	-140	-145	-135	-137	-137
	10Y	24	11	-20	-30	-16	-42	-71	-59	-67	-86	-81	-81	-81	-74	-74
Currencies																
	€/US\$	0.95	1.14	1.25	1.21	1.22	1.32	1.31	1.304	1.323	1.296	1.287	1.282	1.263	1.256	1.256
	€/¥	118	132	134	133	135	137	137	135	138	139	135	135	136	136	136
	US\$/¥	125	116	107	110	110	104	105	104	105	107	105	105	107	108	108

(1) Figures represent the average for the period; (2) May 20, 2005.
Source: Santander Investment Bolsa estimates and forecasts.

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



Source: Bloomberg.

MACRO CORNER: PORTUGUESE PUBLIC DEFICIT

Last Monday, the governor of Portugal's central bank, Vítor Constâncio, delivered his report on the public accounts. Although the actual number was not released, there is plenty of evidence that the 2005E budget deficit could be equivalent to 7% of GDP, that is, 4.1% of GDP more than that originally forecast by the previous government. This increase (€5.7bn) can be broken down as follows:

- One-off revenues (€2.3bn)
- Slower GDP growth and its impact on tax revenues (€700m)
- Tax revenues from capital return allowance (€200m)
- Revised dividend income (€800m)
- Freeways subsidies (€500m)
- Others (€1.2bn)

In June, the government will put forward its medium-term plan to bring back the deficit to 3% of GDP by 2008. According to our estimates, if the adjustments were to be made solely on the cost side, we would have the following possibilities:

- Public expenditures would have to be cut by 2% per year if tax revenues rise in line with a 3% nominal GDP growth for the period (impact on GDP growth per year: about 1%).
- If tax revenues fail to rise 2pp faster than 3% nominal GDP growth, public expenditures would have to be frozen, if Portugal is to meet the Maastricht public deficit criteria (impact on GDP growth per year: about 0.5%).

Although theoretically tax revenues should expand at a pace similar to GDP, we believe that the government will make an effort to tackle tax avoidance and evasion.

We believe that cutting public spending by up to 2% a year for three years in a row is almost impossible given that a large portion of spending is not flexible (almost two-thirds is staff related costs) – not to mention the impact on the country's economy and the future election results for the Socialists. Therefore, we believe that tax hikes are on the cards, but not before 2006F given the local elections (slated for October) and the presidential elections in February 2006. We believe the centre-right candidate Anibal Cavaco Silva will win the presidential election (he is leading in all the polls) – if indeed he confirms his bid for the post.

Tax hikes could have a smoother impact on the economy if the Portuguese choose to decrease their savings ratio. However, the real savings ratio (ie, adjusted for mortgage payments) is already quite low at 3% and, therefore, the room to accommodate tax hikes is not sizeable.

The bottom line: the consensus expects Portugal's GDP growth to be slower-than-expected over the next three years. In addition to budget-related woes, we should also consider the risks likely to be delivered from the recent trade liberalisation (China is denting Portuguese textile and clothing exports, a sector which represents 15% of the employment in Portugal) and the potential cut in EU Structural Funds (which finance annual investments of roughly 5% of GDP). Considering that the economy was already expected to rise just 1%-1.5% in 2005E, we would not rule out a recession. Moreover, Portugal cannot afford to ignore the budget deficit problem when negotiating the European funds for 2007-13, especially as the initial proposal is likely to result in a sharp reduction of the funds allocated to Portugal.



INVESTMENT ACTION

Slower GDP growth is always bad news for listed companies and particularly as it is likely to be generated by slower domestic demand growth. We think that there is a clear risk of a widespread sell-off of Portuguese equities on the back of this.

At this stage, we believe that Portugal Telecom is likely to be among those that are affected by an economic slowdown. The banks are obviously a proxy for the economy and, therefore, may also suffer. EDP is not cyclical at all and has underperformed considerably, so we think the downside seems quite limited. Sonae SGPS is not widely held internationally and its discount to fair NAV is at a solid 31%. However, the fundamentals are worsening rapidly in the wood boards and mobile businesses. The media sector is a mixed bag – PT Multimedia should benefit from both pay-TV's traditional resilience through a recession and expectations of some kind of a re-leverage, MediaCapital may continue to be sustained by audience share gains and speculation of a takeover bid, and Impresa looks more fragile.

MACROECONOMIC ESTIMATES AND FORECASTS

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

GDP	2002	2003	2004	2005E	Cons	2006F	Cons
Germany	0.1	-0.1	1.0	1.3	1.1	2.1	1.6
France	1.1	0.5	2.3	1.6	1.9	2.4	2.1
Italy	0.4	0.4	1.1	1.4	1.2	2.0	1.7
Spain	2.4	2.5	2.7	2.6	2.6	2.5	2.5
Portugal	0.4	-1.2	1.0	2.3	1.9	2.6	2.4
Euro-12	0.6	0.5	1.8	1.5	1.6	2.2	2.0
UK	1.8	2.2	4.9	–	2.5	–	2.4
Argentina	-10.9	8.8	9.0	4.7	6.7	4.5	4.1
Brazil	1.9	0.5	5.2	3.6	3.7	3.5	3.7
México	0.9	1.6	4.4	4.0	3.9	4.0	3.5
Japan	-0.3	2.5	2.9	–	1.1	–	1.8
US	1.9	3.0	4.4	2.9	3.5	3.1	3.4

CPI	2002	2003	2004	2005E	Cons	2006F	Cons
Germany	1.4	1.1	1.8	1.2	1.4	1.3	1.3
France	1.9	2.2	2.3	1.8	1.7	1.8	1.6
Italy	2.6	2.8	2.3	2.0	2.0	2.0	1.9
Spain	3.6	3.1	3.1	2.8	2.7	2.3	2.5
Portugal	3.6	3.3	2.5	2.2	2.3	2.2	2.3
Euro-12	2.3	2.1	2.1	1.7	1.8	1.7	1.7
UK	1.3	1.3	1.60	–	1.7	–	1.8
Argentina	41.0	3.7	6.1	9.0	9.3	6.0	7.1
Brazil	12.5	9.3	7.6	6.2	6.0	5.0	5.4
México	5.7	4.0	5.2	4.0	3.9	4.0	3.9
Japan	-1.0	-0.3	0.0	–	0.0	–	0.3
US	1.6	2.3	2.7	2.2	2.4	2.3	2.2

Financial Indicators	2002	2003	2004	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)	–
3M rates							
Euro-zone	2.86 (3.26)	2.11 (2.26)	2.13 (2.08)	2.50 (2.23)	2.40	3.65 (3.18)	3.02
US	1.29 (1.72)	1.09 (1.14)	2.52 (1.56)	3.74 (2.93)	3.50	4.05 (4.15)	–
2Y 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)	–
10Y bond yields							
Euro-zone	4.20 (4.77)	4.29 (4.09)	3.68 (4.06)	4.20 (4.05)	4.09	4.90 (4.60)	4.50
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 (April 2005). Euro Zone Barometer (April 2005). Santander Investment Securities and Santander Investment Bolsa estimates and forecasts.



APPENDIX 1

Summary of Euro Zone Figures, 2001-4Q04

GDP Components	Annual Growth			YoY Rates				QoQ Annualised Rates					
	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	4Q03	1Q04	2Q04	3Q04	4Q04	1Q05
Private consumption	0.7	1.1	1.1	1.0	0.8	1.4	-	-0.1	2.9	0.1	0.4	2.3	-
Public consumption	3.1	1.6	1.6	1.6	1.6	1.4	-	2.0	0.8	1.3	2.4	1.0	-
Business investment	-2.5	-0.5	1.6	2.0	2.0	1.4	-	4.8	-0.6	2.0	1.9	2.3	-
Inventory (contribution)	0.0	-0.4	-0.1	0.2	1.1	0.4	-	2.2	-0.4	0.4	2.3	-0.7	-
Internal demand (contribution)	0.4	1.2	1.7	1.6	2.4	1.8	-	3.6	1.2	1.1	3.5	1.3	-
Exports	1.9	0.5	5.8	7.8	6.3	5.9	-	2.7	5.7	13.0	4.0	1.2	-
Imports	0.5	2.3	6.0	6.6	8.0	6.6	-	8.4	1.3	11.9	10.9	2.8	-
Net exports (contribution)	0.5	-0.7	0.0	0.6	-0.5	-0.2	-	-2.0	1.7	0.7	-2.5	-0.6	-
GDP	0.9	0.5	1.8	2.2	1.8	1.6	1.4	1.6	2.9	1.8	1.0	0.6	2.0
Nominal GDP (EUR bn)	7086.0	7272.2	7546.5										
Activity Indicators	Annual Growth			YoY Rates				MoM Rates					
	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
Industrial production	-0.3	0.2	2.1	3.2	2.9	1.1	-	-0.5	2.7	2.5	0.1	-	-
- Ex construction	-0.6	0.3	1.9	3.0	2.8	1.0	-	0.8	1.0	2.0	0.6	-	-
Manufacturing production	-0.8	0.0	1.9	3.2	2.9	0.7	-	0.3	0.7	2.5	0.4	-	-
Retail sales	0.1	0.3	0.1	-0.1	0.0	0.1	0.5	0.5	0.4	-0.6	0.8	1.4	-
New car registrations	-2.4	-1.3	1.6	3.5	-1.2	2.3	-1.6	1.8	2.9	3.2	-3.5	-4.3	-
Capacity utilisation	81.2	81.1	81.6	81.1	82.0	82.1	81.9						
Confidence indicators	Annual Average			Quarterly Average				Index					
	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
Economic confidence	94.4	93.4	100.0	99.9	100.6	100.9	99.0	100.9	100.2	100.8	98.8	97.5	96.5
Business climate	-0.53	-0.43	0.32	0.34	0.52	0.45	0.17	0.39	0.44	0.40	0.20	-0.09	-0.28
Industrial confidence	-11	-11	-5	-5	-4	-3	-6	-3	-4	-5	-6	-8	-9
Construction confidence	-19	-20	-16	-16	-15	-14	-13	-14	-13	-13	-14	-13	-14
Retail trade survey	-17	-11	-8	-8	-8	-8	-8	-10	-7	-6	-8	-10	-8
Services confidence	1	2	12	12	12	11	11	11	10	13	10	9	8
Consumer confidence	-11	-18	-14	-14	-14	-13	-13	-13	-13	-13	-13	-14	-13
PMI	48	50	49	52.8	54.4	53.9	51.4	50.4	51.4	51.9	51.9	50.4	49.2
- Output	49	52	51	53.9	56.0	55.9	52.3	50.5	52.4	53.3	53.4	51.6	50.3
- New orders	47	51	50	55.0	56.1	55.2	51.3	49.8	51.6	52.9	52.8	50.4	48.2
- Employment	49	47	47	48.4	48.9	49.5	48.4	48.0	48.3	48.1	49.3	48.8	47.6
- Stock purchases	47	46	46	46.9	48.4	49.2	49.5	49.4	50.1	49.4	49.6	48.5	48.1
- Delivery times	53	50	50	45.0	40.4	43.1	44.6	44.4	45.4	46.1	47.5	48.3	49.2
- Prices	48	52	52	59.8	70.7	69.4	72.8	72.1	69.9	69.1	64.8	59.8	57.2
Prices	Annual Growth			YoY Rates				MoM Rates					
	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
CPI	2.3	2.1	2.1	2.3	2.3	2.3	2.0	-0.1	0.3	-0.6	0.3	0.8	-
Core CPI	2.4	1.8	1.8	1.9	1.8	1.8	1.5	0.0	0.5	-1.0	0.2	0.7	-
PPI (ex construction)	-0.1	1.4	2.3	2.0	3.1	3.8	4.1	-0.2	-0.2	0.6	0.4	0.6	-
GDP deflator	2.5	2.1	1.9	2.2	1.8	1.8	-	-	-	-	-	-	-
Domestic demand deflator	2.2	1.9	2.1	2.4	2.1	2.3	-	-	-	-	-	-	-
Costs and salaries	Annual Growth			YoY Rates				MoM Rates					
	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
Unit labour costs	2.2	2.1	0.9	0.8	0.5	1.1	-	-	-	-	-	-	-
Salaries	2.6	2.4	2.2	2.5	1.8	2.0	-	-	-	-	-	-	-
Productivity	0.4	0.4	1.3	1.8	1.3	0.9	-	-	-	-	-	-	-
Employment market	Annual Growth			YoY Rates				MoM Rates					
	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
Unemployment rate	8.2	8.7	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.9	-
Money supply	Annual Growth			YoY Rates				MoM Rates					
	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
M3	6.6	6.4	6.3	5.2	6.0	6.3	6.6	0.4	0.7	0.6	0.5	0.3	-
M3 mov. average 3m (YoY)	7.1	7.0	6.5	5.2	5.8	6.5	-	6.1	6.5	6.7	6.7	-	-
Loans to the private sector	4.0	4.7	6.4	5.5	5.8	6.4	7.0	0.9	0.6	0.5	0.3	0.7	-
Currency (YoY rates)	Annual Growth			YoY Rates				MoM Rates					
	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
€ effective exchange rate	3.0	11.4	4.0	1.2	2.7	3.7	0.8	4.7	3.3	0.3	-0.3	2.4	3.3
Real effective exch rate € (CPI)	4.1	12.6	4.1	1.6	2.8	3.3	1.0	4.3	2.9	0.5	-0.2	2.7	3.6
Real effective exch rate € (PPI)	3.9	11.2	3.1	0.5	2.2	2.6	0.7	3.2	2.3	0.1	-0.3	2.3	3.5
Real effective exch rate € (ULC)	2.8	12.8	3.8	1.0	1.6	2.5	-	-	-	-	-	-	-
External sector	Annual Growth			YoY Rates				MoM Rates					
	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
CA Balance (% GDP)	0.9	0.3	0.6	0.2	0.6	0.7	-	0.0	0.0	0.0	0.0	-	-
- EUR bn	65	20	45	43	50	46	38	46	45	36	38	-	-
Public accounts (% GDP)	Annual Growth			YoY Rates				MoM Rates					
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Government receipts (% GDP)	47.1	47.7	46.9	46.5	47.3	47.6	47.1	47.6	47.3	46.6	46.0	46.2	45.7
Government expenditures	52	53.1	52.1	51.6	51.6	50.2	49.4	48.9	48.3	48.4	48.5	49.0	48.5
Deficit/Surplus	-5.0	-5.9	-5.2	-5.1	-4.3	-2.6	-2.3	-1.3	-1.0	-1.8	-2.5	-2.9	-2.7

Sources: Bloomberg; Datastream; Reuters and Santander Investment Bolsa.

APPENDIX 2

Summary of US Figures, 2001-4Q04

GDP	2003	2004	YoY Rates				QoQ Annualised Rates			
			2Q04	3Q04	4Q04	1Q05	2Q04	3Q04	4Q04	1Q05
Private consumption	3.3	3.8	3.6	3.6	3.8	3.6	1.6	5.1	4.2	3.5
Government consumption	2.8	2.0	1.6	1.8	1.6	1.1	2.2	0.7	0.8	0.6
Business investment	4.4	13.2	16.8	11.7	11.6	11.6	19.0	2.4	13.3	12.5
- Equipment & software	6.4	13.6	13.9	12.9	14.5	14.2	14.2	17.5	18.4	6.9
- Construction	3.7	7.0	9.3	5.9	4.5	5.0	13.5	0.8	3.0	3.2
Internal demand	3.4	4.8	5.1	4.5	4.6	4.4	4.2	3.9	5.0	4.4
Exports	1.9	8.6	10.8	9.4	5.9	5.9	7.3	6.0	3.2	7.0
Imports	4.4	9.9	10.7	11.1	9.8	10.8	12.6	4.6	11.4	14.7
GDP	3.0	4.4	4.8	4.0	3.9	3.6	3.3	4.0	3.8	3.1
Nominal GDP (US\$ bn)	11004	11735								
General Activity	YoY Rates				YoY Rates					
	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
Leading indicator	4.2	2.4	1.3	0.1	1.2	1.3	0.7	0.5	-0.9	-1.1
Coincident indicator	2.7	2.6	2.9	2.6	2.5	3.5	2.9	2.7	2.4	2.3
Stocks to sales ratio	1.23	1.23	1.24	1.26	1.24	1.23	1.23	1.26	1.25	-
Industrial production	4.9	4.6	4.3	3.8	3.8	4.4	4.0	3.4	3.9	3.1
Capacity utilisation (1)	78.2	78.3	78.7	79.4	78.7	79.3	79.1	79.4	79.4	79.2
ISM index	27.2	10.5	-4.8	-10.8	-6.0	-7.7	-10.2	-11.0	-11.4	-14.5
ISM index (1)	62.6	61.6	57.6	55.3	57.6	57.3	56.4	55.3	55.2	53.3
Private consumption	YoY Rates				YoY Rates					
	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
Real hourly earnings	-0.6	-0.4	-0.8	-0.4	-1.2	-0.7	-0.4	-0.4	-0.5	-1.0
Retail sales	7.5	6.3	8.3	7.3	7.3	8.9	8.0	8.0	6.0	8.6
- Less autos	9.1	7.6	8.9	7.9	8.7	8.9	8.2	8.7	6.8	8.1
Personal spending	3.6	3.6	3.8	3.6	3.4	3.9	3.6	3.6	3.7	-
Consumer confidence (1)	93.1	105.7	92.6	104.4	92.6	102.7	105.1	104.4	103.0	97.7
- Expectations (1)	94.8	105.3	90.2	96.1	90.2	100.7	100.4	96.1	93.7	87.2
Savings rate (1)	1.0	0.7	0.6	0.5	0.6	3.7	0.8	0.5	0.4	-
Consumer credit	4.1	4.1	4.5	4.2	4.5	4.5	4.2	4.4	4.2	-
Business investment	YoY Rates				YoY Rates					
	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
New orders	13.1	11.7	10.3	8.1	11.6	10.2	11.1	9.3	4.2	-
- Less autos	14.2	12.4	12.0	10.5	12.8	11.7	11.9	11.9	7.7	-
Non-defense cap orders less aircraft	12.3	12.1	11.4	11.7	11.3	10.6	14.0	12.9	8.2	-
ISM: production index	25.5	6.5	-12.3	-14.4	-13.1	-17.7	-16.2	-12.8	-14.1	-14.7
ISM: new orders	24.8	2.7	-10.6	-15.9	-14.1	-8.4	-18.4	-16.7	-12.6	-18.4
	4Q02	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04	1Q05
After-tax profits	31.8	14.3	6.7	9.8	14.7	17.2	19.5	5.8	6.8	-
Construction	YoY Rates				YoY Rates					
	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
Housing starts	9.7	4.5	-3.1	8.1	-13.3	-0.3	13.5	20.3	-8.5	3.6
New home sales	9.2	-0.2	11.2	8.2	8.0	11.3	2.0	9.4	12.7	-
Construction spending	10.2	9.6	8.6	9.3	8.4	9.3	10.1	9.9	8.0	-
Building permits	12.7	6.9	5.9	4.0	9.1	4.7	8.8	5.5	-2.1	2.9
Employment, wages and salaries	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
Pool of available workers	0.3	0.8	0.8	1.0	0.8	1.0	0.8	1.1	1.0	1.3
Total employment	0.9	1.5	1.3	1.4	1.3	1.3	1.3	1.3	1.5	1.8
Unemployment rate (1)	5.6	5.5	5.4	5.4	5.4	5.4	5.2	5.4	5.2	5.2
Unemp avg duration (weeks) (1)	19.8	18.5	19.8	19.1	19.8	19.3	19.3	19.1	19.5	19.6
Avg working hours per week (1)	33.8	33.7	33.7	33.7	33.7	33.7	33.7	33.7	33.7	33.9
Avg hourly earnings	2.1	2.2	2.5	2.6	2.4	2.6	2.7	2.6	2.6	2.7
	4Q02	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04	1Q05
Employment cost index	3.5	3.9	3.8	4.0	4.0	3.9	4.0	3.9	3.9	3.4
Prices	YoY Rates				YoY Rates					
	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
CPI	2.9	2.7	3.3	3.0	3.5	3.3	3.0	3.0	3.2	3.5
Core CPI	1.8	1.8	2.1	2.3	2.2	2.2	2.3	2.4	2.4	2.2
PPI	4.2	3.5	4.6	4.6	5.0	4.2	4.2	4.8	4.9	4.8
Core PPI	1.5	1.6	2.0	2.7	2.0	2.3	2.7	2.8	2.6	2.6
Import prices	5.7	7.0	8.5	6.4	9.0	6.7	5.7	6.1	7.4	8.1
Export prices	4.2	4.2	4.2	3.6	4.2	4.0	4.0	3.4	3.2	3.1
External sector	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
Balance of goods & services (3)	-523.0	-562.0	-605.0	-644.0	-605	-617	-630	-644	-652	-
Balance of goods & serv (3) (% GDP)	-4.5	-4.8	-5.0	-5.3						
Trade balance (3)	-608.0	-648.8	-694.1	-736.7	-694	-707	-721	-737	-745	-
Trade balance (3) as a % of GDP	-5.2	-5.5	-5.8	-6.0						
Nominal effective exchange rate	-5.9	-7.1	-6.3	-4.4	-7.9	-6.7	-3.8	-3.4	-6.1	-5.3
Monetary policy and public accts	2Q04	3Q04	4Q04	1Q05	Nov04	Dec04	Jan05	Feb05	Mar05	Apr05
Money supply (M2)	4.7	3.6	5.2	5.3	5.3	5.7	5.7	5.2	4.9	4.1
Federal funds rate (1)	1.00	1.27	1.92	2.50	1.92	2.16	2.29	2.50	2.63	2.78
Federal receipts (2)	550	479	487	452	135	216	202	101	149	278
Federal expenditures (2)	576	565	605	628	192	219	194	215	220	220
Federal public deficit (2)	-26	-86	-118	-177	-58	-3	9	-114	-71	58

(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.

IMPORTANT DISCLOSURES:

Santander Investment Bolsa has received compensation for investment banking services from the following companies in the past 12 months: Portugal Telecom and MediaCapital.

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