BULLETIN

OF E.U. AND US INFLATION AND MACROECONOMIC ANALYSIS

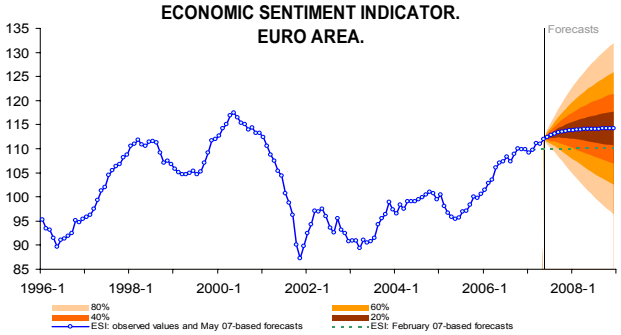
Universidad Carlos III de Madrid

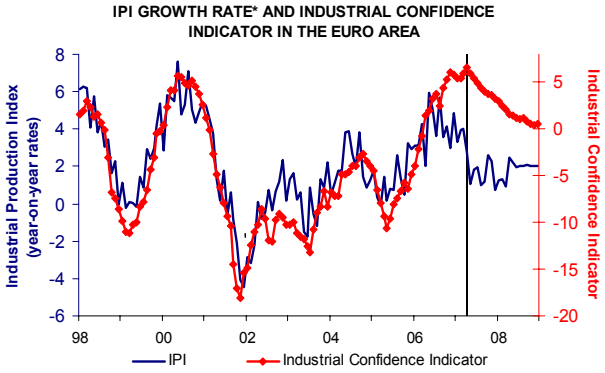
Instituto Flores de Lemus

Second Phase

THE ECONOMIC SENTIMENT INDICATOR POINTS TO QUARTER-ON-QUARTER GROWTH RATES IN THE EURO AREA OF 0.6-0.7%

IN THE INDUSTRIAL SECTOR, IPI PERSPECTIVES FOR 2007 HAVE BEEN REVISED DOWNWARDS TO 2.3%





* Annual rates. IPI adjusted for working days effect and excluding construction.
Source: EUROSTAT, EUROPEAN COMMISSION & IFL (UC3M)
Date: ESI: May 31, 2007; IPI: June 12, 2007.

GDP GROWTH FORECASTS FOR THE EURO AREA IN 2007-2008 HAVE BEEN UPDATED TO 2.7% AND 2.5%, RESPECTIVELY

		Real GDP	Some components of Domestic Demand	
			Final Private Consumption	Gross Capital Formation
ANNUAL AVERAGE RATE	2005	1.6	1.6	3.0
	2006	2.8	1.7	5.5
	2007	2.7	1.6	5.4
	2008	2.5	2.0	4.1

Data adjusted for seasonality and working days effect.
Figures in the shaded area are forecasts.
Source: EUROSTAT & IFL (UC3M)
Date: June 1, 2007

N. 153
June, 2007

"Everybody is very concerned about the Spanish trade and current account balances, which have been running a relatively large and increasing deficit for almost ten years. I often hear colleagues, even some holding political positions of great responsibility, claiming that "something should be done" and that with such a trade balance we should consider more "restrictive" fiscal policies that, together with other policy interventions, may lead to a reduction of the current account deficit. Rubbish, if I may. Or, to be more polite, misplaced fears confusing the symptoms of a possible disease with its causes, thereby leading the debate along the wrong path. Let me try to explain why"

"In less than ten years, Spanish enterprises have turned into multinational corporations, harvesting a great deal of success in Latin America and the rest of the world. In Mexico and Brazil, other multilatinas (Latin multinationals) have taken up a strategy of globalisation going beyond the mercantile exporting phase" […] "From China, India, Korea, Turkey and South Africa multinational groups are arising, staking out one after the other important positions not only in their domestic markets but also in foreign markets" […] "In the future […] we will see more emerging giants taking over OECD-based firms. We are entering into a new world where emerging multinationals, thanks to lower access to capital and their business models and assets, are shaping and challenging the large OECD-based companies". […] Another important trend is the increasing South-South connection. Beyond Europe and the US, the Latin American and Asian connection might become one of the most promising trends in this century […]".

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TERMINOLOGY USED:

In inflation analysis it is advisable to break down a consumer price index for a country or an economic area in price indexes corresponding to homogenous markets. An initial basic breakdown used in this publication is 1) Non-processed Food price index (ANE) 2) Energy price index (ENE), 3) Processed Food (AE), 4) Other commodities (MAN), 5) Other services (SERV). The first two are more volatile than the others, and in Espasa et al. (1987) a **core inflation** measure exclusively based on the latter ones was proposed; the Spanish Statistical Institute and Eurostat proceed in the same way. Later, in the BULLETIN EU & US INFLATION AND MACROECONOMIC ANALYSIS was proposed to eliminate from components of core inflation those indexes which are excessively volatile.

Thus, the previous basic breakdown has been amplified for Spain in the following manner: a) ANE, b) ENE, c) Tobacco, Oils and Fats, and Tourist Packages, d) Processed Foods excluding Tobacco, Oils and Fats, (AEX).ge) Other Goods (MAN), and f) Other services, excluding Tourist Packages (SERT). The measure of inflation obtained with the AEX, MAN, and SERVT indexes we term **trend inflation**, as an alternative indicator similar to core inflation, but termed trend inflation to indicate a slightly different construction. The measure of inflation established with the price indexes excluded from the CPI to calculate trend inflation or core inflation, depending on the case, is termed **residual inflation**.

For the United States the breakdown by markets is principally based on four components: Food, Energy, Services, and Commodities. **Trend inflation** or **core inflation** is based in this case as the aggregation of services and non-energy commodities.

CONTENTS

I. ECONOMIC OUTLOOK

EURO AREA

- The euro area economy registered a **deceleration** in the first quarter of 2007, as a result of the lower rate of growth of private consumption and exports. Fixed gross capital formation, however, accelerated. The economy thus returns to a **quarter-on-quarter** growth rate **(0.6%)** similar to the rate before the acceleration in the fourth quarter of 2006.

- In spite of this deceleration, the euro area maintained a solid **rate of growth** in the first quarter, at an **annual** rate of **3.0%**, very slightly higher than expected, with zero contribution from external demand. Our forecasts for economic growth have been revised upwards by 0.1 pp for 2007 to **2.7%** and remain at **2.5%** for 2008. We expect to see a sustained contribution of domestic demand to growth of around 2.4-2.5 pp and a slight reduction in the contribution of foreign demand, going from 0.3 pp in 2006 to an expected 0.2 and 0.1 pp in 2007 and 2008, respectively.

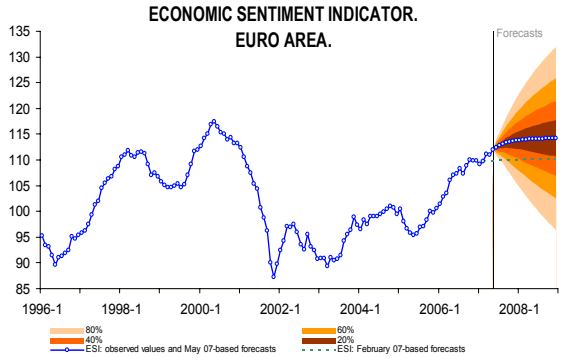
Table I.1

			Real GDP	Some components of Domestic Demand	
				Final Private Consumption	Gross Capital Formation
ANNUAL AVERAGE RATE		2003	0.8	1.2	2.2
		2004	1.8	1.4	2.8
		2005	1.6	1.6	3.0
		2006	2.8	1.7	5.5
		2007	2.7	1.6	5.4
		2008	2.5	2.0	4.1
ANNUAL RATES*	2006	QI	2.3	1.7	4.3
		QII	2.9	1.7	6.1
		QIII	2.8	1.7	7.6
		QIV	3.3	1.9	3.9
	2007	QI	3.0	1.3	8.7
		QII	2.8	1.8	4.7
		QIII	2.7	1.7	3.7
		QIV	2.1	1.8	4.5
	2008	QI	2.4	2.3	2.4
		QII	2.5	1.9	5.1
		QIII	2.3	1.9	3.9
		QIV	2.5	1.9	5.1

Data adjusted for seasonality and working day effect.
The figures in the shaded area are forecasts.
*Year-on-year rates.
Source: EUROSTAT & IFL (UC3M)
Date: June 1, 2007

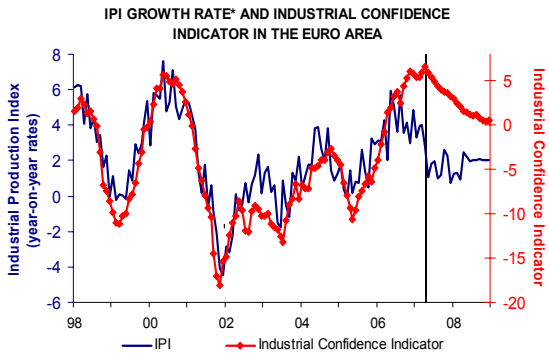
- More recent information, corresponding to April and May, is also important. The **Economic Sentiment Indicator**, with information up to May, shows that the euro area economy in the second quarter of 2007 is registering a rate of growth no lower than that of the first quarter (see graph I.1, which shows the current forecasts and those estimated with information up to February). In May, this indicator registered a higher than expected value, with better confidence in the consumption and retail trade sectors. Our forecasts show that it tends to stabilise at high values which we have not seen since the last quarter of 2000, when the GDP was growing at a quarter-on-quarter rate of 0.7%.

Graph I.1



Source: EUROPEAN COMMISSION & IFL (UC3M)
Date: May 31, 2007

Graph I.2



*Year-on-year growth rates.
The IPI figures are adjusted by working days, and exclude the construction sector.
Source: EUROPEAN COMMISSION, EUROSTAT & IFL (UC3M)
Date: June 12, 2007

- With regards to the industrial sector, the latest figures for the **Industrial Production Index** (April) and the **Industrial Confidence Indicator** (May) were worse than expected. The latter may have reached a local peak in May. Our perspectives show a gradual fall in the confidence of economic agents in the evolution of the industrial sector in 2007 and 2008, tending to stabilise in the last quarter of this at levels higher than those registered in years when the sector experienced low growth (graph I.2). In view of this information, the forecast IPI growth has been revised

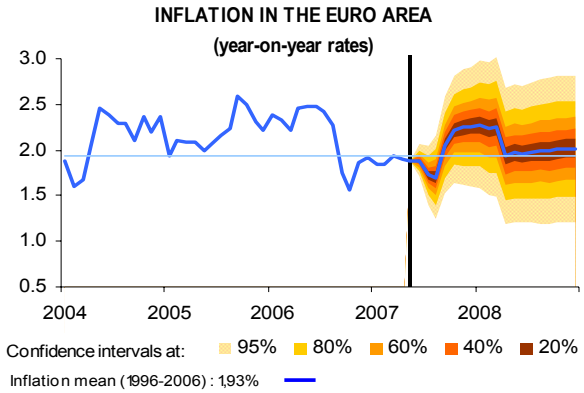
downwards for 2007-2008 to 2.3% and 1.9%, respectively, which points to more moderate growth in the sector in 2007 than has been forecast in recent Bulletins.

- In this context of expected maintenance of solid growth in the European economy, our forecasts from last month's Bulletin remain unaltered at average annual **inflation** rates for 2007 and 2008 on the border of the ECB target, 1.96% and 2.05%, respectively, as May inflation has brought hardly no significant surprises, apart from a downwards innovation in unprocessed food.

- We therefore continue to forecast headline inflation rates beneath those registered in 2005-2006, although this is largely due to the expected less growth of energy prices in 2007 and 2008.

- With regards to the evolution of the annual rates, after maintaining the present values in June, we continue to expect somewhat lower rates in the central summer months (1.7%), favoured by the evolution of components outside core inflation (graph I.3). Subsequently, we are expecting a rise to end the year at around 2.2-2.3% and, after a first quarter of 2008 at these rates, a fall to 2.0%, favoured by a moderation in core inflation and energy price increases.

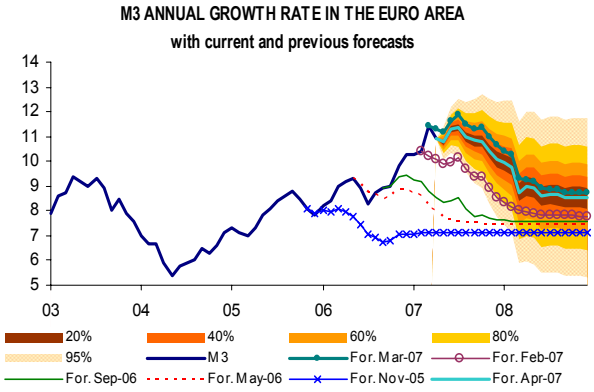
Graph I.3



Source: EUROSTAT & IFL(UC3M)
Date: June 22, 2007

- As a complement to the above, we have also updated our forecasts for the **monetary aggregates.** The forecast growth for the **M3** has been revised downwards as it grew less than expected in April (graph I.4). **Household loans**, an M3 counterpart considerably affected by the ECB's interest rate increase policy, also grew less than expected in April. Our expectations for the growth of this item have been revised downwards and do not appear to add important pressure on inflation.

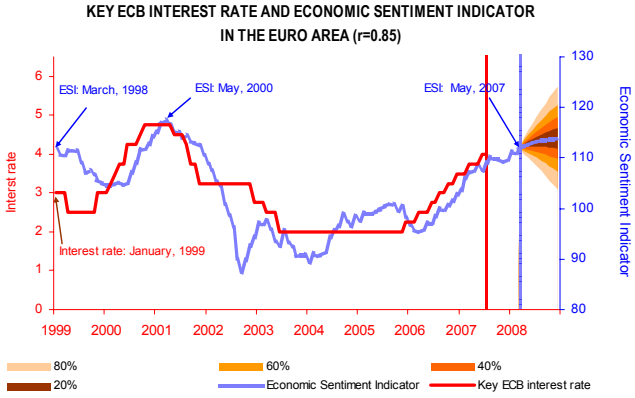
Graph I.4



Source: ECB & IFL (UC3M)
Date: May 30, 2007

- In view of all the above forecasts, in our opinion, the probability of the ECB increasing the reference **interest rate** to 4.25% in 2007 is around 50%.

Graph I.5



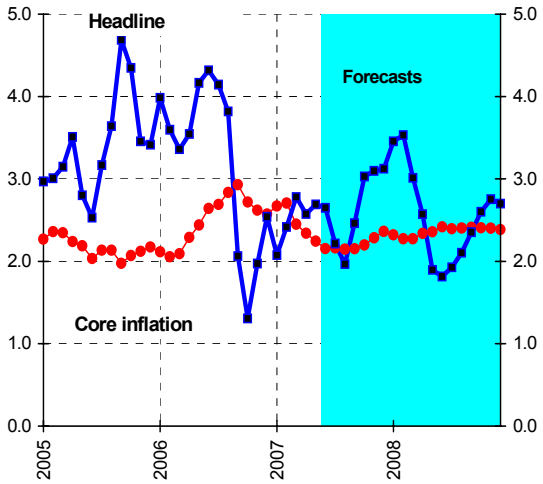
Note: The Economic Sentiment Indicator values have been carried backwards ten periods in the future. The last values are forecasts together with the confidence intervals.
Source: EUROPEAN COMMISSION, ECB & IFL (UC3M)
Date: June 6, 2007

UNITED STATES

- With the May figure, there has been hardly any change in the headline **inflation** expectations in 2007-2008 for the U.S. compared with the previous Bulletin, and we are forecasting an average annual rate of 2.6% for both years. This rate is significantly lower than in 2005-2006, largely due to the lower growth in energy prices expected for 2007 and 2008, compared to the rates registered in the other two-year period.

Graph I.6

DIFFERENT ANNUAL INFLATION RATES IN THE US



Source: BLS & IFL (UC3M)
Date: June 15, 2007

- With regards to core inflation, in May it performed as expected, with innovations of opposite signs among its components, which compensated for each other. However, the different multiplier effect of these innovations has led to a slight improvement in the core inflation forecast. We are expecting average annual rates of 2.3% and 2.4%, respectively, one tenth less for 2007 than forecast in the previous Bulletin.

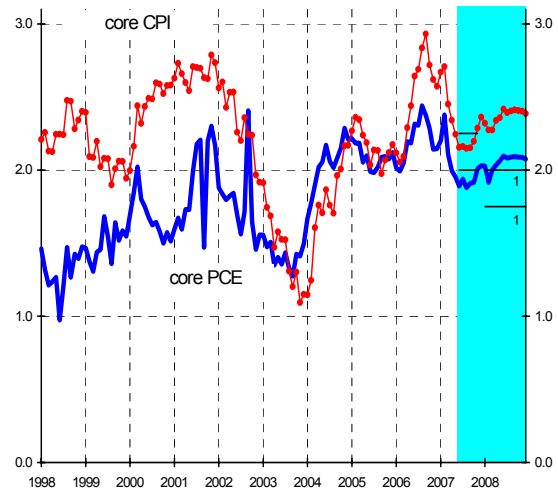
- In May, food and energy prices registered variations much as expected, but there was a strong increase in motor fuel prices, explaining the growth of the annual CPI rate in May. As a result of refinery problems (not crude oil prices), motor fuel prices have reached historic highs and are far from equilibrium prices relative to crude oil. In the next few months, this situation is expected to return to normal, with motor fuel prices recovering this equilibrium.

- In terms of the core personal consumption expenditure index – core PCE[1] - which is the inflation indicator most closely monitored by the FED, with the May CPI figures, last report's forecast has improved slightly and we are expecting an average annual rate of 2.02% for 2007 and 2.06% for 2008. The expected rate therefore remains on the lower limit of the target range established by the FED for 2007 (2.25% - 2.00%), and slightly above the range established for 2008 (1.75% - 2.00%).

[1] The PCE (Personal Consumption Expenditure) is a price index which has the advantage over the consumer price index (CPI) that, instead of using a fixed shopping basket, it adapts to real expenditure, reflecting changes in the composition of the basket between the periods compared.

Graph I.7

DIFFERENT ANNUAL CORE INFLATION RATES IN THE US



(1) Central tendency established by the FED.
Source: BLS & IFL (UC3M)
Date: June 15, 2007

- With regards to the evolution of the property sector, and specifically the **housing** sector, the May figures for building permits and housing starts were similar to the forecast, remaining at low levels. The number of new homes sold in April more than exceeded the forecast, whereas prices surprised us with a 11.1% fall. In the existing homes sector, the opposite was observed in April, with a fall in sales and a slight increase in prices.

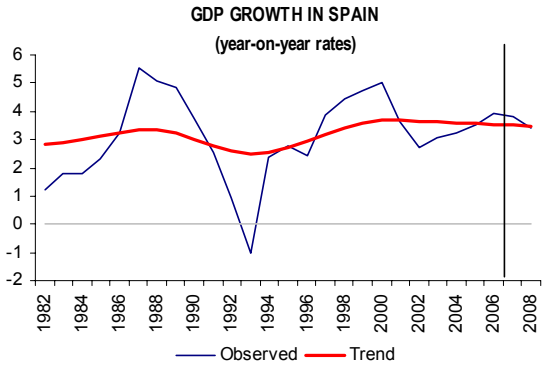
- In view of the above, we confirm our opinion as described in previous Bulletins in the sense that the FED will not reduce the **interest rate** until inflation targets are more likely to be met.

SPAIN

- The previous Bulletin presented an update of our macroeconomic forecasts for Spain with the Quarterly National Accounts (QNA) figures for the first quarter of 2007. In this Bulletin, a more detailed analysis of these recent QNA figures is presented, including recent trends and perspectives for 2007-2008.

- As we mentioned last month, the Spanish economy continued to show firm growth in the first quarter of 2007, with an annual **GDP** rate of 4.1%. However, the quarter-on-quarter rate showed some deceleration. For 2007, we are expecting 3.8% GDP growth, only slightly below the 2006 figure, and still just above estimated potential growth. For 2008, however, we are expecting it to fall to 3.4%.

Graph I.8



Trend calculated with the Hodrick-Prescot filter (Lambda 50)
Source: INE (EAPS)
Date: May 23, 2007

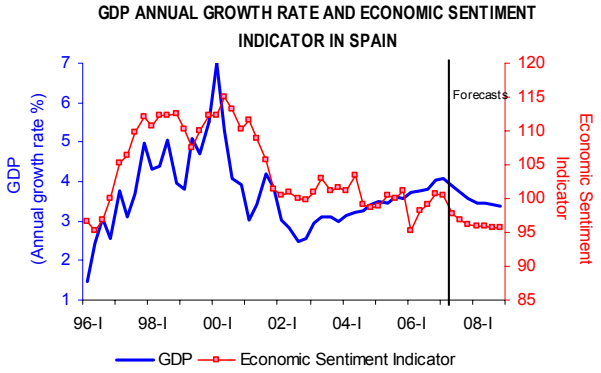
- The new forecasts point to a slight improvement in the contribution to growth of foreign demand in 2007 and a reduction in the contribution of national demand in 2007-2008. We expect moderation of growth of private consumption, due to higher interest rates, high household indebtedness, less impact of the wealth effect and strong employment, albeit less than last year. As for gross fixed capital formation, in 2007 it is expected to be as dynamic as in 2006, supported by more growth in equipment, to compensate for the slower growth of the construction sector.

- In the first quarter of 2007, the Spanish economy's **productivity** continued the recovery started in 2006. The improvement registered in that quarter is due to the strong recovery of the manufacturing industry, closely linked to the recovery of the euro area. On the other hand, growth of productivity in construction continued to decrease.

- **Compensation per employee** decreased its annual growth rate in the first quarter of 2007 and, together with the growth in productivity, this lead to a reduction in the year-on-year growth of **unit labour costs** (ULC), although they continue to grow more than in the euro area. This cost is expected to fall to 2.3% in 2007 and 2.2% in 2008, versus the 2.7% of 2006.

- With regards to the most recent information provided about the economy as a whole by the **Economic Sentiment Indicator**, for which the May figure is available, as its performance was worse than expected, we have again revised our expectations downwards. This indicator is expected to continue to decline slightly in the next few months, stabilising in the second half of 2008 at levels similar to those of the first quarter of 2006, which seems to be in line with the GDP growth forecasts, which announce a gradual fall in its annual rate in the next few quarters.

Graph I.9



Source: European Commission, INE & IFL (UC3M)
Date: May 31, 2007

- For the details of the industrial sector, other indicators are available with information for the second quarter of 2007: the **Industrial Production Index** (IPI) and the **Industrial Confidence Indicator** (ICI), for those which we have the April and May figures, respectively. In April, the IPI performed worse than expected and the ICI fell for the second consecutive month, pointing to a possible local peak in March, 2007. The perspectives for these two indicators have been revised downwards, which in the case of the IPI, has led to expected average annual rates of 3.6% and 2.8% for 2007 and 2008, respectively, after the 3.7% of 2006. The forecasts for the industrial GVA point to industrial sector growth of 4.0% for 2007 and 3.0% for 2008, after the 3.3% of 2006.

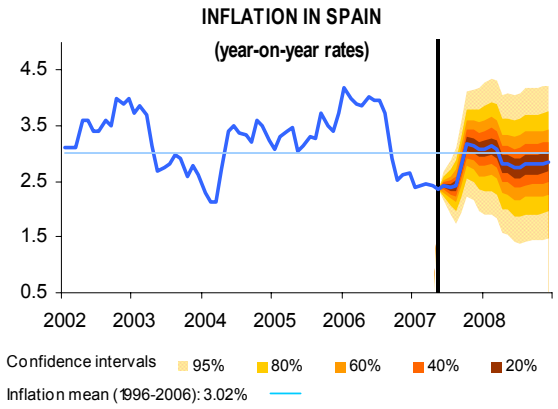
- **Other indicators** with information for April and May, such as Social Security contributors, the tax returns of major corporations and car sales, also show that the Spanish economy in the second quarter is registering a loss of dynamism (in terms of annual growth) relative to the previous quarter.

- In this context of solid growth, the **inflation** perspectives updated with the May information are 2.62% and 2.87% for 2007 and 2008, respectively, 0.03 pp lower than the previous Bulletin.

- This small downwards revision is basically due to the downwards innovation registered in unprocessed food in May, together with expectations for energy prices of increases lower than those forecast last month. For core inflation, the average annual rates for 2007 and 2008 remain at 2.7%, practically the same as forecast in the previous Bulletin.

- With regards to the evolution of the annual rates, the expectations continue to point to inflation of around 2.4% in the next few months, rising at the end of the year to values of around 3.1-3.2%, versus the 3.2-3.3% forecast in the last Bulletin. These end of year rates are important, as they are used to review pensions, agreements and contracts with revision clauses. For 2008, after a first quarter at 3.1%, inflation is expected to stabilise at around 2.8%.

Graph I.10

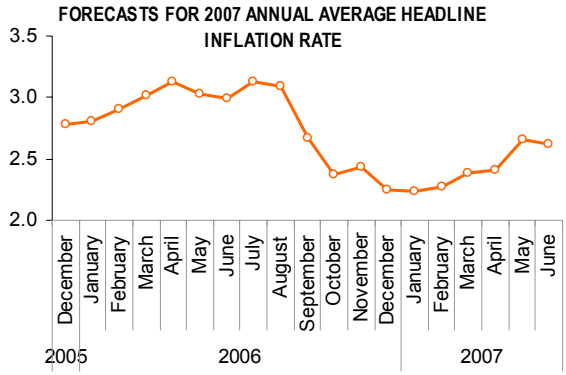


Source: INE & IFL(UC3M)
Date: June 22, 2007

- The inflation section this month includes an analysis of how our forecasts for the annual average rates in 2007 and 2008 have changed, both for headline inflation and for its basic components. Since the August 2006 Bulletin, forecast headline inflation in 2007 started to be revised downwards, accumulating a change of 0.9 pp by the January 2007 Bulletin, to 2.2%. Subsequently, we started to revise the forecasts upwards, but with information up to May 2007 have only recovered around half of the fall, so the current forecast is nearly half a percentage point beneath the forecast estimated in the August 2006 Bulletin.

- The period of downwards revision is basically explained by the evolution of the energy forecasts, which accumulated a downwards revision of 7.2 pp between the August 2006 and the February 2007 Bulletins. Core inflation also contributed with the evolution of all its components, leading to a downwards revision of 0.4 pp in core inflation forecasts between August and December, 2006. The subsequent period of upwards revisions is again explained by the evolution of energy forecasts, and also core inflation, but in this case not all its components were involved, as non-energy industrial goods maintained their forecast for 2007 at around 1.0-1.1%.

Graph I.11



Source: INE & IFL (UC3M)
Date: June 22, 2007

II. THE ECONOMY IN THE EURO AREA.

II.1 MACROECONOMIC FORECASTS.

II.1.1 MACROECONOMIC TABLE AND INDICATORS IN THE ECONOMY OF THE EURO-AREA: ANNUAL RATES.

	Annual Average Rate				
	2004	2005	2006	Forecasts	
				2007	2008
GDP mp (1)	**1.8**	**1.6**	**2.8**	**2.7**	**2.5**
Demand					
Private Final Consumption	1.4	1.6	1.7	1.6	2.0
Public Final Consumption	1.4	1.4	1.9	1.8	1.8
Gross Capital Formation	2.8	3.0	5.5	5.4	4.1
Contribution Domestic Demand	1.6	1.8	2.5	2.5	2.4
Exports of Goods and Services	6.4	4.4	8.5	5.9	5.6
Imports of Goods and Services	6.4	5.2	8.0	5.6	5.6
Contribution Foreign Demand	0.2	-0.2	0.3	0.2	0.1
Supply					
Gross Value Added Total (market prices)	1.8	1.6	2.8	2.7	2.5
Gross Value Added Total (basic prices)	1.8	1.6	2.7	2.6	2.4
Gross Value Added Agriculture	11.6	-5.1	-1.9	1.1	1.1
Gross Value Added Industry	1.2	1.4	4.1	3.1	2.1
Gross Value Added Construction	0.7	1.6	4.7	4.3	3.7
Gross Value Added Trade Services	2.6	1.9	2.9	2.8	2.7
Gross Value Added Financial Services	1.6	2.3	2.7	2.7	2.8
Gross Value Added Public Services	1.3	1.3	1.4	1.5	1.6
Prices (2)					
CPI harmonized, annual average	2.1	2.2	2.2	2.0	2.0
CPI harmonized, dec. / dec.	2.4	2.2	1.9	2.3	2.0
Employment (3)					
Unemployment rate	8.8	8.6	7.9	7.2	7.0
Other Economic Indicators (4)					
Industrial Production Index (excluding construction)	2.1	1.3	4.0	2.3	1.9

The figures in the shaded area are forecasts.
(1) Data adjusted for seasonality and working day effect.
Source*:* EUROSTAT & IFL (UC3M)
Date: (1) June 1, 2007.
(2) June 22, 2007
(3) June 1, 2007
(4) June 12, 2007

II.1.2 QUARTERLY FORECASTS OF GDP AND COMPONENTS OF DOMESTIC AND FOREIGN DEMAND.

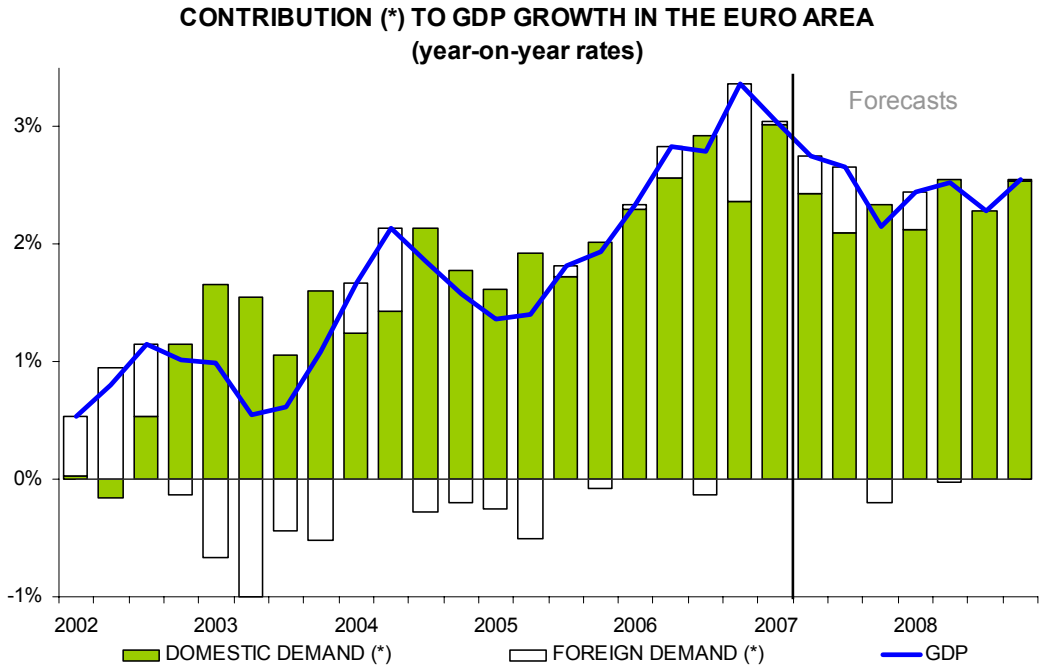
Table II.1.2.1

ANNUAL RATES OF GROWTH IN GDP AND COMPONENTS IN THE EURO AREA

			Final Consumption Expenditure		Gross Capital Formation	Domestic Demand (1)	Exports of goods and services	Imports of goods and services	Foreign Demand (1)	Real GDP
			Private	Public						
ANNUAL AVERAGE RATES		2003	1.2	1.8	2.2	**1.5**	1.1	3.2	**-0.7**	**0.8**
		2004	1.4	1.4	2.8	**1.6**	6.4	6.4	**0.2**	**1.8**
		2005	1.6	1.4	3.0	**1.8**	4.4	5.2	**-0.2**	**1.6**
		2006	1.7	1.9	5.5	**2.5**	8.5	8.0	**0.3**	**2.8**
		2007	1.6	1.8	5.4	**2.5**	5.9	5.6	**0.2**	**2.7**
		2008	2.0	1.8	4.1	**2.4**	5.6	5.6	**0.1**	**2.5**
ANNUAL RATES (*)	2006	QI	1.7	2.1	4.3	**2.3**	9.1	9.4	**0.0**	**2.3**
		QII	1.7	1.7	6.1	**2.6**	8.1	7.7	**0.3**	**2.9**
		QIII	1.7	1.9	7.6	**2.9**	6.9	7.5	**-0.1**	**2.8**
		QIV	1.9	2.2	3.9	**2.3**	9.8	7.5	**1.0**	**3.3**
	2007	QI	1.3	1.9	8.7	**3.0**	6.3	6.3	**0.0**	**3.0**
		QII	1.8	1.9	4.7	**2.5**	6.5	5.9	**0.3**	**2.8**
		QIII	1.7	1.7	3.7	**2.1**	6.5	5.3	**0.6**	**2.7**
		QIV	1.8	1.8	4.5	**2.3**	4.4	5.1	**-0.2**	**2.1**
	2008	QI	2.3	1.6	2.4	**2.1**	5.5	4.8	**0.3**	**2.4**
		QII	1.9	2.0	5.1	**2.5**	5.7	5.9	**0.0**	**2.5**
		QIII	1.9	1.9	3.9	**2.3**	5.7	5.9	**0.0**	**2.3**
		QIV	1.9	1.8	5.1	**2.5**	5.7	5.8	**0.0**	**2.5**

Data adjusted for seasonality and working days effect.
The figures in the shaded area are forecasts.
(1)Contribution to GDP growth
(*) Year-on-year rates.
Source: EUROSTAT & IFL (UC3M)
Date: June 1, 2007

Graph II.1.2.1



Data adjusted for seasonality and working day effect.
Source: EUROSTAT & IFL (UC3M)
Date: June 1, 2007

Table II.1.2.2

ANNUAL RATES OF GROWTH IN GDP AND COMPONENTS IN THE EURO AREA

			GVA							
			Agriculture	Industry	Construction	Trade Services	Financial Services	Public Services	TOTAL	Real GDP
ANNUAL AVERAGE RATES		2003	-5.9	0.4	0.3	0.4	1.7	1.0	**0.7**	**0.8**
		2004	11.6	1.2	0.7	2.6	1.6	1.3	**1.8**	**1.8**
		2005	-5.1	1.4	1.6	1.9	2.3	1.3	**1.6**	**1.6**
		2006	-1.9	4.1	4.7	2.9	2.7	1.4	**2.7**	**2.8**
		2007	1.1	3.1	4.3	2.8	2.7	1.5	**2.6**	**2.7**
		2008	1.1	2.1	3.7	2.7	2.8	1.6	**2.4**	**2.5**
ANNUAL RATES (*)	2006	QI	-3.3	3.5	3.6	2.4	2.0	1.3	**2.2**	**2.3**
		QII	-1.8	4.0	4.6	2.9	2.9	1.4	**2.8**	**2.9**
		QIII	-2.5	4.3	5.0	3.0	2.7	1.4	**2.8**	**2.8**
		QIV	-0.2	4.5	5.4	3.3	3.2	1.3	**3.1**	**3.3**
	2007	QI	0.6	3.9	7.4	2.9	3.0	1.4	**3.0**	**3.0**
		QII	1.5	2.9	3.8	2.9	2.5	1.4	**2.5**	**2.8**
		QIII	2.7	2.8	3.3	2.8	2.5	1.6	**2.5**	**2.7**
		QIV	-0.4	2.7	3.0	2.7	2.7	1.6	**2.4**	**2.1**
	2008	QI	3.2	2.3	1.9	3.3	2.9	1.6	**2.5**	**2.4**
		QII	0.8	2.4	4.4	2.6	2.6	1.6	**2.4**	**2.5**
		QIII	-0.3	1.9	4.4	2.7	2.9	1.6	**2.4**	**2.3**
		QIV	0.8	1.9	4.3	2.3	2.7	1.6	**2.3**	**2.5**

Data adjusted for seasonality and working days effect.
The figures in the shaded area are forecasts
(*) Year-on-year rates.
Source: EUROSTAT & IFL (UC3M)
Date: June 1, 2007

II.1.3 INDUSTRIAL PRODUCTION INDEX: MONTHLY AND QUARTERLY FORECASTS.

Table II.1.3.1

ANNUAL RATES OF GROWTH IN IPI AND SECTORS IN THE EURO AREA*

			Consumer Goods		Capital Equipment	Intermediate Goods	Energy	TOTAL
			Durable	Non durable				
ANNUAL AVERAGE RATE		2003	-4.4	0.4	-0.1	0.4	2.8	0.3
		2004	0.1	0.6	3.3	2.3	2.0	2.1
		2005	-0.9	0.7	2.8	0.9	1.3	1.3
		2006	4.2	2.1	5.9	5.0	0.7	4.0
		2007	**0.3**	**2.1**	**4.7**	**3.1**	**-4.5**	**2.3**
		2008	**0.0**	**1.0**	**3.1**	**1.8**	**0.9**	**1.9**
ANNUAL RATES**	2006	QI	2.4	2.2	5.4	3.0	4.0	3.5
		QII	3.7	2.4	5.7	5.7	0.9	4.3
		QIII	5.1	1.1	5.7	5.8	1.5	4.2
		QIV	5.5	2.7	6.8	5.3	-3.3	4.0
	2007	QI	4.2	3.2	7.2	6.3	-7.4	3.8
		QII	**0.0**	**1.3**	**4.4**	**2.6**	**-4.2**	**1.9**
		QIII	**-1.8**	**2.0**	**3.4**	**1.9**	**-4.7**	**1.4**
		QIV	**-1.1**	**1.8**	**4.1**	**1.7**	**-1.4**	**1.9**
	2008	**QI**	**-0.8**	**0.9**	**2.2**	**0.8**	**0.8**	**1.2**
		QII	**0.4**	**1.1**	**3.6**	**2.2**	**1.1**	**2.2**
		QIII	**0.2**	**1.0**	**3.4**	**2.1**	**1.0**	**2.0**
		QIV	**0.2**	**1.0**	**3.4**	**2.1**	**1.0**	**2.0**

The figures in the shaded area are forecasts.
* Adjusted by working days.
** Year-on-year rates
Source: EUROSTAT & IFL (UC3M)
Date: June 12, 2007

Table II.1.3.2

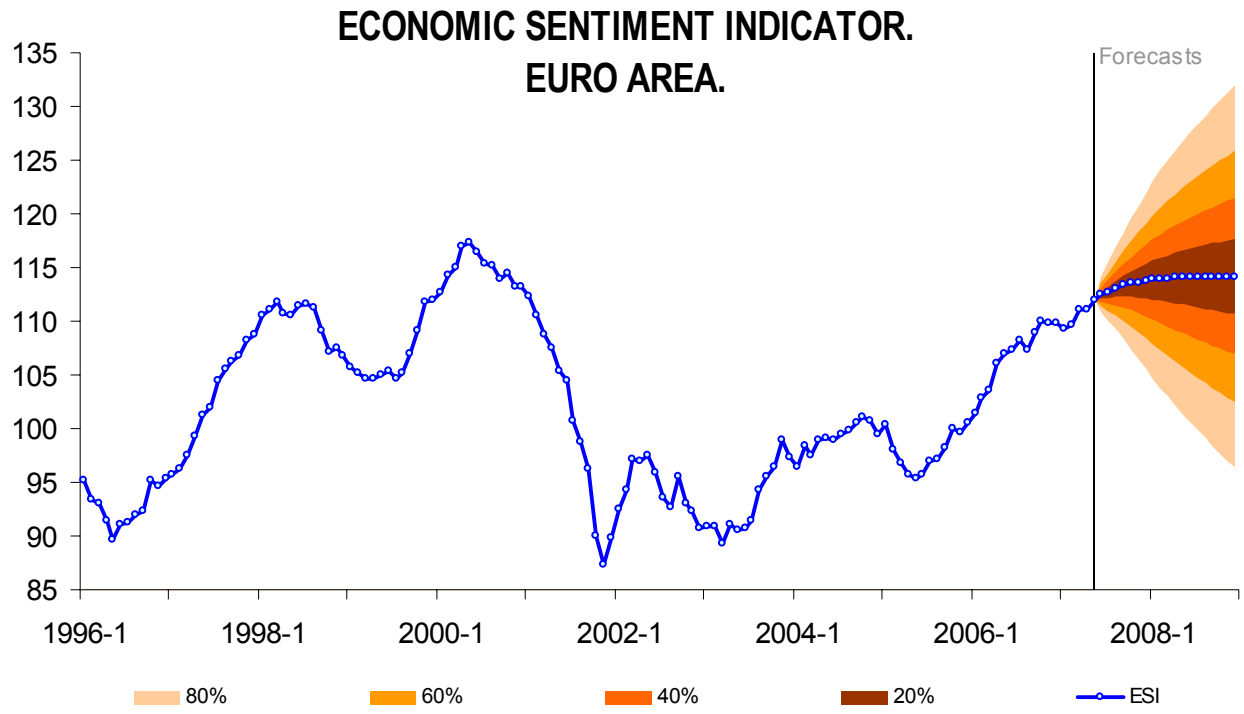
OBSERVED VALUES AND FORECASTS IN THE IPI* ANNUAL RATES IN THE EURO AREA

	2002	2003	2004	2005	**2006**	**2007**	**2008**
January	-2.83	1.33	0.49	1.77	3.12	3.31	**1.26**
February	-3.20	1.64	1.11	0.38	3.12	3.96	**1.30**
March	-2.19	0.25	1.78	-0.06	4.30	4.00	**0.93**
April	0.09	0.60	1.75	1.43	2.00	2.82	**2.45**
May	-0.83	-1.51	3.82	0.14	5.94	**1.09**	**2.23**
June	-0.48	-1.78	3.92	0.79	5.03	**1.81**	**1.93**
July	0.74	0.85	2.66	0.72	3.61	**1.99**	**2.01**
August	-0.37	-0.56	1.95	2.62	5.66	**1.02**	**2.04**
September	0.66	-1.19	3.81	1.39	3.55	**1.18**	**2.06**
October	1.21	1.34	1.45	0.52	4.13	**2.63**	**2.01**
November	2.38	0.86	0.88	3.22	2.99	**2.30**	**2.04**
December	0.18	2.22	1.24	2.93	4.83	**0.75**	**2.06**

* Adjusted by working days
The figures in the shaded area are forecasts.
Source: EUROSTAT & IFL (UC3M)
Date: June 12, 2007

II.1.4 ECONOMIC SENTIMENT INDICATOR.

Graph II.1.4.1



Source: EUROPEAN COMMISSION & IFL (UC3M)
Date: May 31,2007

II.1.5 INFLATION.

Table II.1.5.1

FORECASTS IN THE ANNUAL AVERAGE RATE IN INFLATION IN THE EURO AREA

Harmonized Index of Consumer Price (HICP)	2004	2005	2006	Forecast	
				2007	2008
TOTAL (100%)	2.1	2.2	2.2	**2.0**	**2.0**
CORE (82.8%)	2.1	1.5	1.5	**1.9**	**1.7**
Processed food without tobacco (9.4%)	1.3	0.5	1.6	**1.2**	**1.6**
Processed food with tobacco (11.9%)	3.4	2.0	2.1	**2.0**	**2.1**
Non-energy industrial goods (30.0%)	0.8	0.3	0.6	**1.0**	**0.7**
Services (40.8%)	2.6	2.3	2.0	**2.5**	**2.4**
RESIDUAL (17.2%)	2.6	5.7	5.5	**2.1**	**3.6**
Non-Processed food (7.6%)	0.6	0.8	2.8	**2.1**	**1.8**
Energy (9.6%)	4.5	10.1	7.7	**2.1**	**4.9**

Source: EUROSTAT & IFL (UC3M)
Date: June 22, 2007

Table II.1.5.2

HICP ANNUAL GROWTH BY COMPONENTS IN THE EURO AREA

		Harmonized Index of Consumer Prices										
		Core						Residual				
		Processed food excluding tobacco	Tobacco	Non energy industrial goods	Services	TOTAL	80 % Confidence Intervals*	Non processed food	Energy	TOTAL	TOTAL	80 % Confidence Intervals*
	Weights 2007	9.4%	2.5%	30.0%	40.8%	82.8%		7.6%	9.6%	17.2%	100%	
ANNUAL AVERAGE RATE	1998	0.9	4.0	0.9	1.9	1.4		2.0	-2.6	-0.3	1.1	
	1999	0.5	3.1	0.7	1.5	1.1		0.0	2.4	1.2	1.1	
	2000	0.7	3.4	0.5	1.5	1.0		1.8	13.0	7.4	2.1	
	2001	2.7	3.8	0.9	2.5	1.9		7.0	2.2	4.4	2.3	
	2002	2.4	5.9	1.5	3.1	2.5		3.1	-0.6	1.2	2.2	
	2003	2.1	8.4	0.8	2.5	2.0		2.1	3.0	2.6	2.1	
	2004	1.3	12.2	0.8	2.6	2.1		0.6	4.5	2.6	2.1	
	2005	0.5	7.8	0.3	2.3	1.5		0.8	10.1	5.7	2.2	
	2006	1.6	3.9	0.6	2.0	1.5		2.8	7.7	5.5	2.2	
	2007	1.2	4.8	1.0	2.5	1.9	± 0.12	2.1	2.1	2.1	2.0	± 0.16
	2008	1.6	4.0	0.7	2.4	1.7	± 0.40	1.8	4.9	3.6	2.0	± 0.48
ANNUAL RATES (year-on-year rates)	2006 January	1.3	4.0	0.2	2.0	1.3		2.0	13.6	8.2	2.4	
	2006 February	1.5	3.7	0.3	2.0	1.3		1.7	12.5	7.5	2.3	
	2006 March	1.6	4.6	0.6	1.9	1.4		0.6	10.5	5.9	2.2	
	2006 April	1.6	4.1	0.7	2.2	1.6		1.2	11.0	6.5	2.5	
	2006 May	1.7	4.2	0.7	1.8	1.5		1.5	12.9	7.6	2.5	
	2006 June	1.6	4.2	0.7	2.0	1.6		2.1	11.0	6.9	2.5	
	2006 July	1.8	4.1	0.6	2.1	1.6		3.2	9.5	6.7	2.4	
	2006 August	1.7	4.0	0.6	1.9	1.5		3.9	8.1	6.3	2.3	
	2006 September	1.8	2.0	0.8	2.0	1.5		4.6	1.5	2.9	1.7	
	2006 October	1.8	4.0	0.8	2.1	1.6		4.2	-0.5	1.5	1.6	
	2006 November	1.7	4.0	0.8	2.1	1.6		4.4	2.1	3.1	1.9	
	2006 December	1.5	4.3	0.9	2.0	1.6		3.7	2.9	3.3	1.9	
	2007 January	1.4	5.1	0.9	2.3	1.8		3.7	0.9	2.1	1.8	
	2007 February	1.2	5.6	1.1	2.4	1.9		2.8	0.8	1.6	1.8	
	2007 March	1.1	4.9	1.2	2.4	1.9		2.9	1.8	2.3	1.9	
	2007 April	1.1	5.0	1.1	2.5	1.9		3.9	0.4	1.9	1.9	
	2007 May	1.1	4.9	1.0	2.6	1.9		3.1	0.3	1.5	1.9	
	2007 June	1.2	4.7	1.1	2.6	1.9	± 0.13	2.6	0.8	1.6	1.9	± 0.12
	2007 July	1.2	4.2	1.1	2.6	1.9	± 0.19	2.1	-0.4	0.7	1.7	± 0.21
	2007 August	1.3	4.2	1.1	2.6	2.0	± 0.23	1.2	-0.3	0.4	1.7	± 0.30
	2007 September	1.3	6.6	1.0	2.6	2.0	± 0.25	0.8	3.3	2.2	2.1	± 0.35
	2007 October	1.3	4.4	1.0	2.6	1.9	± 0.27	1.3	5.4	3.6	2.2	± 0.38
	2007 November	1.3	4.4	1.0	2.6	1.9	± 0.29	0.8	6.2	3.8	2.2	± 0.41
	2007 December	1.4	4.1	1.0	2.6	1.9	± 0.33	0.8	6.4	3.9	2.3	± 0.43
	2008 January	1.4	3.4	1.0	2.4	1.8	± 0.36	1.2	7.1	4.5	2.3	± 0.46
	2008 February	1.6	2.9	0.7	2.4	1.7	± 0.38	1.7	7.1	4.7	2.2	± 0.48
	2008 March	1.6	4.7	0.7	2.6	1.8	± 0.39	2.2	5.8	4.2	2.3	± 0.50
	2008 April	1.6	4.4	0.7	2.2	1.7	± 0.41	1.4	4.7	3.3	1.9	± 0.49
	2008 May	1.6	4.3	0.7	2.3	1.7	± 0.42	1.9	4.1	3.1	2.0	± 0.49
	2008 June	1.6	4.3	0.7	2.3	1.7	± 0.42	2.0	4.0	3.1	2.0	± 0.49
	2008 July	1.7	4.3	0.7	2.3	1.7	± 0.42	2.0	4.1	3.2	2.0	± 0.50
	2008 August	1.7	4.3	0.7	2.3	1.7	± 0.43	2.0	4.3	3.2	2.0	± 0.52
	2008 September	1.7	3.7	0.7	2.3	1.7	± 0.44	2.0	4.4	3.3	2.0	± 0.52
	2008 October	1.7	3.7	0.7	2.3	1.7	± 0.45	2.0	4.5	3.4	2.0	± 0.52
	2008 November	1.7	3.7	0.7	2.3	1.7	± 0.46	2.0	4.6	3.4	2.0	± 0.52
	2008 December	1.7	3.7	0.7	2.3	1.7	± 0.48	2.0	4.6	3.4	2.0	± 0.52

* Confidence intervals calculated with historical errors.
The figures in the shaded area are forecasts
Source: EUROSTAT & IFL (UC3M)
Date: June 22, 2007

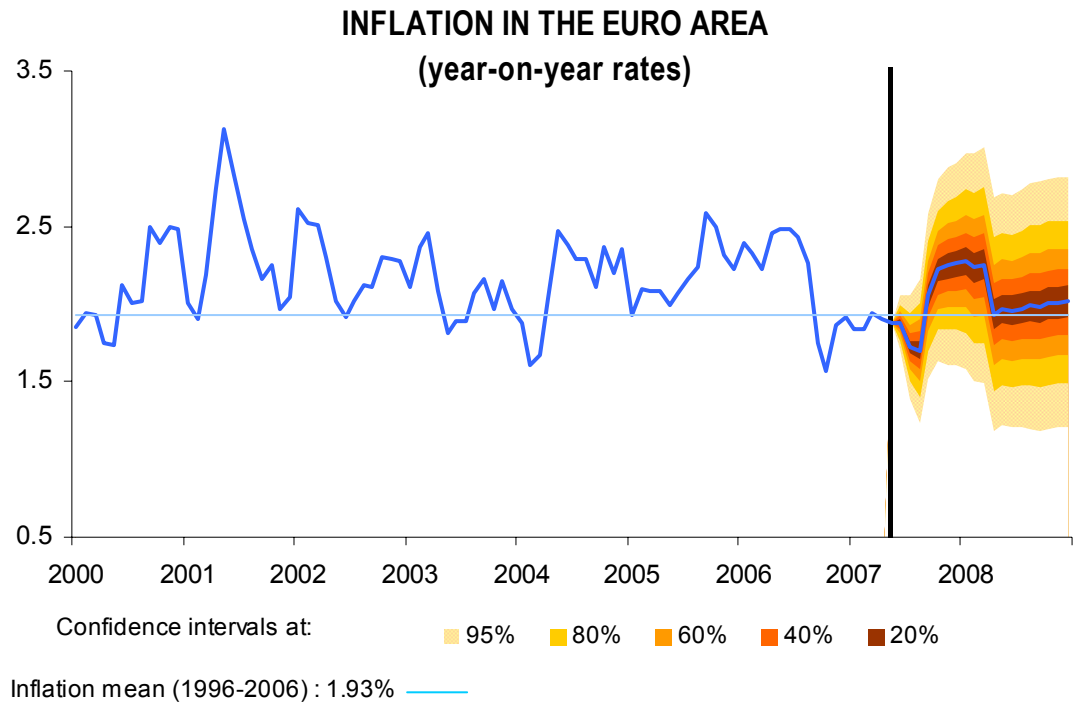
Table II.1.5.3

HICP MONTHLY GROWTH BY COMPONENTS IN THE EURO AREA

			Harmonized Index of Consumer Prices								
			Core					Residual			TOTAL
			Processed food excluding tobacco	Tobacco	Non energy industrial goods	Services	TOTAL	Non processed food	Energy	TOTAL	
		Weights 2007	9.4%	2.5%	30.0%	40.8%	82.8%	7.6%	9.6%	17.2%	100%
MONTHLY RATES (Growth of the month over the previous month)	January	2005	0.1	0.2	-1.8	-0.3	-0.8	0.4	0.3	0.4	-0.6
		2006	0.3	0.0	-2.0	-0.4	-0.9	0.9	2.4	1.8	-0.4
		2007	0.2	0.7	-2.0	-0.1	-0.7	0.9	0.4	0.6	-0.5
		2008	**0.2**	**0.0**	**-2.0**	**-0.3**	**-0.8**	**1.3**	**1.0**	**1.2**	**-0.5**
	February	2005	0.1	0.2	-0.1	0.4	0.2	0.7	1.4	1.1	0.3
		2006	0.3	0.0	0.0	0.4	0.2	0.4	0.4	0.4	0.3
		2007	0.1	0.4	0.2	0.5	0.4	-0.5	0.3	0.0	0.3
		2008	**0.2**	**0.0**	**0.0**	**0.5**	**0.3**	**0.0**	**0.3**	**0.2**	**0.2**
	March	2005	0.1	0.0	1.3	0.2	0.6	0.9	2.3	1.7	0.7
		2006	0.2	0.8	1.6	0.1	0.7	-0.2	0.5	0.2	0.6
		2007	0.2	0.1	1.6	0.0	0.6	-0.1	1.5	0.8	0.7
		2008	**0.1**	**1.8**	**1.6**	**0.2**	**0.8**	**0.5**	**0.3**	**0.4**	**0.7**
	April	2005	0.1	0.5	0.7	0.0	0.3	-0.2	2.3	1.1	0.4
		2006	0.1	0.1	0.8	0.2	0.4	0.4	2.8	1.7	0.7
		2007	0.1	0.3	0.7	0.4	0.5	1.4	1.4	1.4	0.6
		2008	**0.2**	**0.0**	**0.7**	**0.0**	**0.3**	**0.7**	**0.3**	**0.5**	**0.3**
	May	2005	0.1	0.1	0.1	0.4	0.3	0.6	-0.6	-0.1	0.3
		2006	0.1	0.2	0.2	0.1	0.1	0.9	1.0	1.0	0.3
		2007	0.1	0.1	0.1	0.2	0.2	0.1	0.9	0.6	0.2
		2008	**0.2**	**0.0**	**0.1**	**0.4**	**0.2**	**0.5**	**0.3**	**0.4**	**0.3**
	June	2005	0.1	0.2	-0.2	0.1	0.0	-0.4	1.6	0.7	0.1
		2006	0.0	0.3	-0.2	0.3	0.1	0.2	-0.1	0.1	0.1
		2007	**0.1**	**0.0**	**-0.2**	**0.3**	**0.1**	**-0.2**	**0.4**	**0.1**	**0.1**
		2008	**0.1**	**0.0**	**-0.2**	**0.3**	**0.1**	**-0.2**	**0.3**	**0.1**	**0.1**
	July	2005	0.0	0.6	-1.8	0.7	-0.3	-1.3	2.7	0.9	-0.1
		2006	0.1	0.5	-2.0	0.8	-0.3	-0.2	1.4	0.7	-0.1
		2007	**0.1**	**0.0**	**-1.9**	**0.8**	**-0.3**	**-0.8**	**0.2**	**-0.2**	**-0.3**
		2008	**0.1**	**0.0**	**-1.9**	**0.8**	**-0.3**	**-0.8**	**0.3**	**-0.2**	**-0.3**
	August	2005	0.1	0.1	0.1	0.3	0.2	-0.6	1.3	0.5	0.2
		2006	0.0	0.0	0.1	0.1	0.1	0.0	0.1	0.0	0.1
		2007	**0.1**	**0.0**	**0.1**	**0.2**	**0.1**	**-0.8**	**0.2**	**-0.3**	**0.1**
		2008	**0.1**	**0.0**	**0.1**	**0.2**	**0.1**	**-0.8**	**0.3**	**-0.2**	**0.1**
	September	2005	0.0	2.2	1.3	-0.5	0.3	-0.1	3.0	1.6	0.5
		2006	0.1	0.2	1.5	-0.4	0.3	0.6	-3.2	-1.6	0.0
		2007	**0.1**	**2.4**	**1.5**	**-0.4**	**0.4**	**0.2**	**0.2**	**0.2**	**0.3**
		2008	**0.1**	**1.8**	**1.4**	**-0.4**	**0.4**	**0.2**	**0.3**	**0.3**	**0.3**
	October	2005	0.1	0.1	0.7	-0.1	0.2	0.1	0.2	0.2	0.3
		2006	0.1	2.0	0.7	0.0	0.4	-0.4	-1.8	-1.2	0.1
		2007	**0.1**	**0.0**	**0.7**	**0.0**	**0.3**	**0.2**	**0.2**	**0.2**	**0.2**
		2008	**0.1**	**0.0**	**0.7**	**0.0**	**0.3**	**0.2**	**0.3**	**0.3**	**0.3**
	November	2005	0.2	0.0	0.3	-0.1	0.1	0.4	-3.0	-1.5	-0.3
		2006	0.1	0.1	0.3	-0.1	0.0	0.6	-0.5	0.0	0.0
		2007	**0.1**	**0.0**	**0.3**	**-0.1**	**0.0**	**0.0**	**0.3**	**0.2**	**0.1**
		2008	**0.1**	**0.0**	**0.3**	**-0.1**	**0.0**	**0.0**	**0.3**	**0.2**	**0.1**
	December	2005	0.2	0.0	-0.1	0.9	0.4	1.1	-0.7	0.1	0.3
		2006	0.0	0.3	0.0	0.9	0.4	0.4	0.1	0.2	0.4
		2007	**0.1**	**0.0**	**-0.1**	**0.9**	**0.4**	**0.4**	**0.3**	**0.3**	**0.4**
		2008	**0.1**	**0.0**	**-0.1**	**0.9**	**0.4**	**0.4**	**0.3**	**0.3**	**0.4**

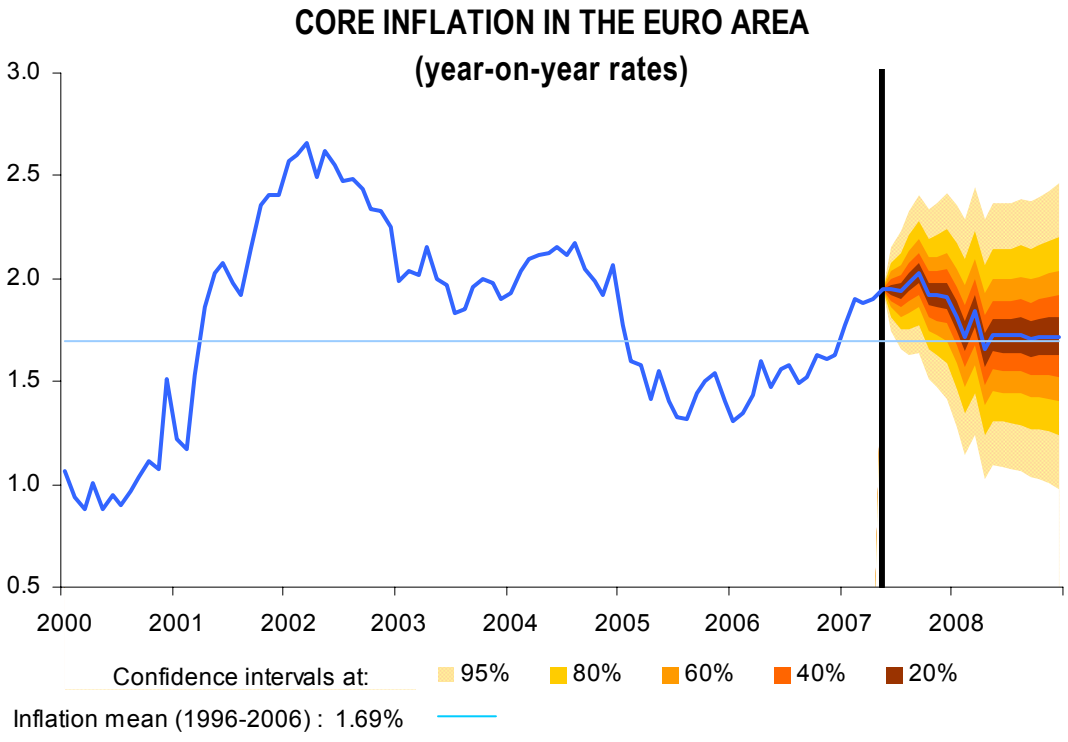
The figures in the shaded area are forecasts.
Source: EUROSTAT & IFL (UC3M)
Date: June 22, 2007

Graph II.1.5.1



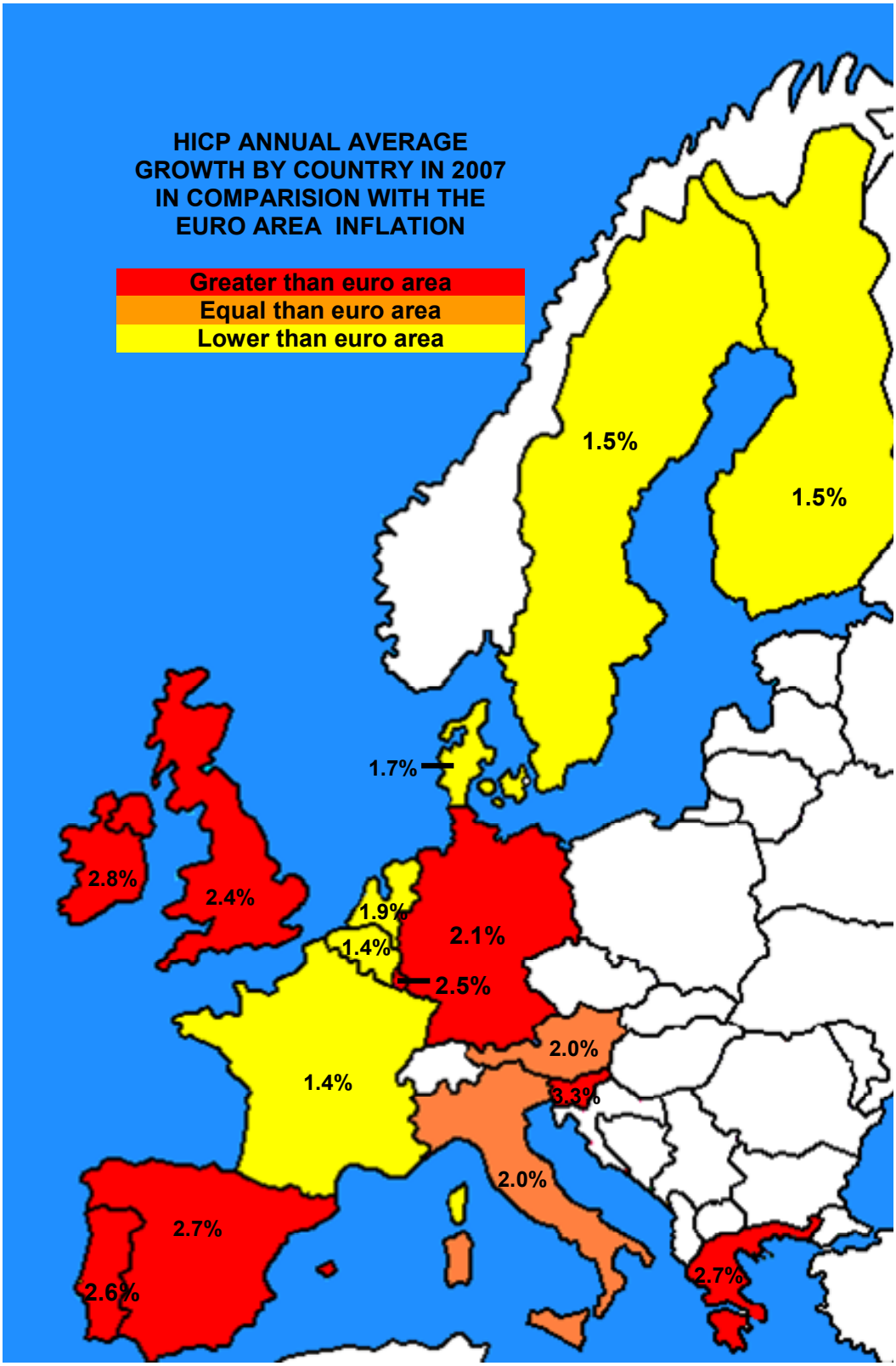
Source: EUROSTAT & IFL (UC3M)
Date: June 22, 2007

Graph II.1.5.2



Source: EUROSTAT & IFL (UC3M)
Date: June 22, 2007

Graph II.1.5.3



Source: EUROSTAT & IFL (UC3M)
Date: June 22, 2007

Table II.1.5.4

HICP ANNUAL GROWTH BY COUNTRY IN THE EURO AREA AND THE EU

			European Union														
			Euro Area														
			Germany	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Portugal	Finland	Ireland	Slovenia	Luxembourg	United Kingdom	Sweden	Denmark
		Weights 2007	28.2%	20.7%	18.3%	12.3%	5.3%	3.4%	3.1%	3.1%	2.1%	1.6%	1.4%	0.3%	0.2%			
ANNUAL AVERAGE RATE		1999	0.6	0.6	1.7	2.2	2.0	1.1	0.5	2.1	2.2	1.3	2.5	6.1	1.0	1.3	0.5	2.1
		2000	1.4	1.8	2.6	3.5	2.3	2.7	2.0	2.9	2.8	2.9	5.3	8.9	3.8	0.8	1.3	2.7
		2001	1.9	1.8	2.3	2.8	5.1	2.4	2.3	3.7	4.4	2.7	4.0	8.6	2.4	1.2	2.7	2.3
		2002	1.4	1.9	2.6	3.6	3.9	1.6	1.7	3.9	3.7	2.0	4.7	7.5	2.1	1.3	1.9	2.4
		2003	1.0	2.2	2.8	3.1	2.2	1.5	1.3	3.4	3.3	1.3	4.0	5.7	2.5	1.4	2.3	2.0
		2004	1.8	2.3	2.3	3.1	1.4	1.9	2.0	3.0	2.5	0.1	2.3	3.7	3.2	1.3	1.0	0.9
		2005	1.9	1.9	2.2	3.4	1.5	2.5	2.1	3.5	2.1	0.8	2.2	2.5	3.8	2.0	0.8	1.7
		2006	1.8	1.9	2.2	3.6	1.7	2.3	1.7	3.3	3.0	1.3	2.7	2.5	3.0	2.3	1.5	1.9
		2007	**2.1**	**1.4**	**2.0**	**2.7**	**1.9**	**1.4**	**2.0**	**2.7**	**2.6**	**1.5**	**2.8**	**3.3**	**2.5**	**2.4**	**1.5**	**1.7**
		2008	**2.0**	**1.5**	**2.1**	**3.0**	**2.3**	**1.5**	**2.0**	**2.4**	**2.7**	**1.4**	**2.7**	**3.8**	**2.7**	**2.0**	**1.4**	**1.8**
ANNUAL RATES (year-on-year rates)	2006	January	2.1	2.3	2.2	4.2	1.8	2.8	1.5	3.0	2.7	1.2	2.5	2.6	4.1	1.9	1.1	2.0
		February	2.1	2.0	2.2	4.1	1.4	2.8	1.5	3.1	3.0	1.3	2.7	2.3	3.9	2.1	1.1	2.1
		March	1.9	1.7	2.2	3.9	1.4	2.2	1.3	3.3	3.8	1.2	2.8	2.0	3.7	1.8	1.5	1.8
		April	2.3	2.0	2.3	3.9	1.8	2.6	2.1	3.5	3.7	1.5	2.7	2.8	3.5	2.0	1.8	1.8
		May	2.1	2.4	2.3	4.1	1.8	2.8	2.1	3.3	3.7	1.7	3.0	3.4	3.6	2.2	1.9	2.1
		June	2.0	2.2	2.4	4.0	1.8	2.5	1.9	3.4	3.5	1.5	2.9	3.0	3.9	2.5	1.9	2.1
		July	2.1	2.2	2.3	4.0	1.7	2.4	2.0	3.9	3.0	1.4	2.9	1.9	3.4	2.4	1.8	2.0
		August	1.8	2.1	2.3	3.8	1.9	2.3	2.1	3.4	2.7	1.3	3.2	3.1	3.1	2.5	1.6	1.9
		September	1.0	1.5	2.4	2.9	1.5	1.9	1.3	3.1	3.0	0.8	2.2	2.5	2.0	2.4	1.2	1.5
		October	1.1	1.2	1.9	2.6	1.3	1.7	1.3	3.1	2.6	0.9	2.2	1.5	0.6	2.5	1.2	1.4
		November	1.5	1.6	2.0	2.7	1.6	2.0	1.6	3.2	2.4	1.3	2.4	2.4	1.8	2.7	1.5	1.8
		December	1.4	1.7	2.1	2.7	1.7	2.1	1.6	3.2	2.5	1.2	3.0	3.0	2.3	3.0	1.4	1.7
	2007	January	1.8	1.4	1.9	2.4	1.2	1.7	1.7	3.0	2.6	1.3	2.9	2.8	2.3	2.7	1.6	1.8
		February	1.9	1.2	2.1	2.5	1.4	1.8	1.7	3.0	2.3	1.2	2.6	2.3	1.8	2.8	1.7	1.9
		March	2.0	1.2	2.1	2.5	1.9	1.8	1.9	2.8	2.4	1.6	2.9	2.6	2.4	3.1	1.6	1.9
		April	2.0	1.3	1.8	2.5	1.9	1.8	1.8	2.6	2.8	1.5	2.9	2.9	2.5	2.8	1.6	1.7
		May	2.0	1.2	1.9	2.4	2.0	1.3	2.1	2.6	2.4	1.3	2.7	3.1	2.3	2.5	1.2	1.7
		June	**2.0**	**1.3**	**1.9**	**2.5**	**1.9**	**1.2**	**2.1**	**2.7**	**2.6**	**1.4**	**2.8**	**3.5**	**2.3**	**2.3**	**1.2**	**1.5**
		July	**1.9**	**1.2**	**1.8**	**2.5**	**2.0**	**1.1**	**2.1**	**2.7**	**2.6**	**1.5**	**2.7**	**4.1**	**2.8**	**2.2**	**1.4**	**1.5**
		August	**2.0**	**1.1**	**1.8**	**2.5**	**1.9**	**1.1**	**2.0**	**2.9**	**2.6**	**1.5**	**2.6**	**3.6**	**2.1**	**2.1**	**1.4**	**1.5**
		September	**2.4**	**1.5**	**1.9**	**2.9**	**2.1**	**1.4**	**2.1**	**2.6**	**2.4**	**1.7**	**2.9**	**3.5**	**2.5**	**2.2**	**1.4**	**1.7**
		October	**2.5**	**1.7**	**2.1**	**3.3**	**2.3**	**1.4**	**2.2**	**2.6**	**2.7**	**1.6**	**3.0**	**4.0**	**2.9**	**2.1**	**1.4**	**1.8**
		November	**2.6**	**1.7**	**2.1**	**3.2**	**2.1**	**1.3**	**2.1**	**2.6**	**2.8**	**1.5**	**2.9**	**4.0**	**3.2**	**2.0**	**1.4**	**1.8**
		December	**2.7**	**1.7**	**2.1**	**3.2**	**2.0**	**1.2**	**2.1**	**2.5**	**2.8**	**1.6**	**2.8**	**3.7**	**3.3**	**1.9**	**1.4**	**1.7**
	2008	**January**	**2.4**	**1.6**	**2.2**	**3.3**	**2.6**	**1.5**	**2.1**	**2.6**	**2.8**	**1.6**	**2.7**	**4.0**	**3.7**	**2.0**	**1.6**	**1.9**
		February	**2.2**	**1.8**	**2.2**	**3.2**	**2.6**	**1.2**	**2.1**	**2.7**	**2.9**	**1.6**	**2.8**	**4.3**	**3.0**	**1.9**	**1.5**	**1.7**
		March	**2.2**	**1.7**	**2.1**	**3.2**	**2.3**	**1.4**	**2.1**	**2.5**	**2.5**	**1.3**	**2.7**	**4.1**	**2.8**	**1.8**	**1.3**	**1.8**
		April	**2.0**	**1.4**	**2.1**	**2.9**	**2.2**	**1.3**	**2.0**	**2.4**	**2.4**	**1.2**	**2.7**	**3.9**	**2.5**	**1.9**	**1.2**	**1.8**
		May	**1.9**	**1.4**	**2.1**	**2.9**	**2.2**	**1.5**	**2.0**	**2.4**	**2.6**	**1.3**	**2.7**	**3.7**	**2.3**	**2.0**	**1.4**	**1.8**
		June	**1.9**	**1.4**	**2.0**	**2.8**	**2.2**	**1.6**	**2.0**	**2.4**	**2.7**	**1.3**	**2.7**	**3.6**	**2.2**	**2.0**	**1.4**	**1.8**
		July	**1.9**	**1.3**	**2.0**	**2.8**	**2.2**	**1.6**	**2.0**	**2.5**	**2.7**	**1.4**	**2.7**	**3.6**	**2.5**	**2.0**	**1.5**	**1.8**
		August	**1.9**	**1.4**	**2.0**	**2.9**	**2.2**	**1.6**	**2.0**	**2.6**	**2.7**	**1.4**	**2.7**	**3.6**	**2.3**	**2.0**	**1.5**	**1.8**
		September	**1.9**	**1.4**	**2.0**	**2.9**	**2.2**	**1.6**	**2.0**	**2.4**	**2.7**	**1.4**	**2.7**	**3.6**	**2.7**	**2.0**	**1.4**	**1.8**
		October	**1.9**	**1.4**	**2.0**	**2.9**	**2.2**	**1.7**	**2.0**	**2.3**	**2.7**	**1.4**	**2.7**	**3.6**	**3.1**	**2.0**	**1.4**	**1.8**
		November	**1.9**	**1.4**	**2.0**	**2.9**	**2.2**	**1.6**	**2.0**	**2.3**	**2.7**	**1.4**	**2.7**	**3.6**	**2.9**	**2.0**	**1.4**	**1.8**
		December	**1.9**	**1.4**	**2.0**	**2.9**	**2.2**	**1.7**	**2.0**	**2.3**	**2.7**	**1.4**	**2.7**	**3.6**	**2.9**	**2.0**	**1.5**	**1.8**

The figures in the shaded area are forecasts.
Source: EUROSTAT & IFL (UC3M)
Date: June 22, 2007

Table II.1.5.5

HICP MONTHLY GROWTH BY COUNTRY IN THE EURO AREA AND THE EU

MONTHLY RATES (Growth of the month over the previous month)

		European Union															
		Euro Area															
		Germany	France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Portugal	Finland	Ireland	Slovenia	Luxembourg	United Kingdom	Sweden	Denmark
	Weights 2007	28.2%	20.7%	18.3%	12.3%	5.3%	3.4%	3.1%	3.1%	2.1%	1.6%	1.4%	0.3%	0.2%			
January	2005	-0.6	-0.6	-1.0	-1.0	0.5	-1.3	0.0	0.2	-0.6	-0.5	-1.0	-0.5	-1.0	-0.5	-0.5	-0.2
	2006	-0.6	-0.1	-0.9	-0.5	0.2	-1.3	-0.1	-0.2	-0.4	-0.4	-0.5	-0.3	-0.4	-0.5	-0.7	-0.4
	2007	-0.2	-0.4	-1.1	-0.7	-0.2	-1.7	0.1	-0.4	-0.3	-0.3	-0.6	-0.5	-0.3	-0.8	-0.5	-0.3
	2008	**-0.5**	**-0.5**	**-1.0**	**-0.7**	**0.4**	**-1.4**	**0.1**	**-0.3**	**-0.3**	**-0.3**	**-0.6**	**-0.3**	**0.0**	**-0.6**	**-0.4**	**-0.1**
February	2005	0.4	0.7	-0.1	0.2	0.8	2.2	0.4	-1.7	-0.1	0.6	0.9	0.7	1.7	0.2	0.4	0.6
	2006	0.4	0.4	-0.1	0.1	0.5	2.3	0.3	-1.6	0.2	0.8	1.2	0.4	1.5	0.4	0.4	0.7
	2007	0.5	0.2	0.1	0.1	0.7	2.4	0.3	-1.6	0.0	0.6	0.9	-0.1	1.0	0.5	0.5	0.8
	2008	**0.3**	**0.3**	**0.1**	**0.1**	**0.6**	**2.1**	**0.3**	**-1.4**	**0.0**	**0.5**	**1.0**	**0.2**	**0.4**	**0.4**	**0.3**	**0.6**
March	2005	0.3	0.7	1.2	0.9	0.8	0.6	0.4	2.5	0.4	0.4	0.2	1.0	0.3	0.5	0.3	0.8
	2006	0.1	0.4	1.2	0.7	0.8	-0.1	0.3	2.7	1.2	0.3	0.3	0.7	0.2	0.2	0.7	0.5
	2007	0.2	0.5	1.2	0.8	1.3	0.0	0.5	2.5	1.3	0.7	0.7	1.1	0.7	0.5	0.6	0.5
	2008	**0.2**	**0.4**	**1.1**	**0.7**	**1.0**	**0.1**	**0.4**	**2.2**	**0.9**	**0.4**	**0.5**	**0.9**	**0.4**	**0.4**	**0.5**	**0.6**
April	2005	0.0	0.2	0.8	1.4	0.2	0.2	-0.2	0.8	0.7	0.3	0.6	0.1	0.7	0.4	0.2	0.5
	2006	0.4	0.4	0.9	1.4	0.5	0.6	0.6	1.0	0.6	0.6	0.5	0.9	0.5	0.6	0.5	0.5
	2007	0.4	0.5	0.6	1.4	0.6	0.5	0.4	0.8	0.9	0.5	0.5	1.1	0.6	0.3	0.5	0.3
	2008	**0.2**	**0.3**	**0.6**	**1.1**	**0.4**	**0.4**	**0.4**	**0.7**	**0.8**	**0.4**	**0.5**	**0.9**	**0.3**	**0.4**	**0.4**	**0.3**
May	2005	0.4	0.0	0.3	0.2	-0.1	0.2	0.0	0.4	0.6	-0.3	0.2	0.3	0.5	0.3	0.1	-0.1
	2006	0.2	0.4	0.3	0.4	0.0	0.4	0.0	0.1	0.5	-0.1	0.5	0.9	0.6	0.5	0.2	0.2
	2007	0.2	0.3	0.4	0.3	0.0	-0.1	0.3	0.2	0.2	-0.3	0.3	1.1	0.4	0.3	-0.1	0.2
	2008	**0.2**	**0.2**	**0.4**	**0.3**	**0.0**	**0.1**	**0.2**	**0.2**	**0.4**	**-0.1**	**0.3**	**0.9**	**0.2**	**0.3**	**0.0**	**0.2**
June	2005	0.2	0.2	0.0	0.3	-0.3	0.3	0.3	-0.2	0.1	0.3	0.3	0.1	-0.1	0.0	0.1	0.2
	2006	0.1	0.0	0.1	0.2	-0.3	0.1	0.0	-0.1	0.0	0.0	0.2	-0.3	0.3	0.3	0.0	0.2
	2007	**0.2**	**0.1**	**0.2**	**0.2**	**-0.4**	**0.0**	**0.1**	**0.0**	**0.1**	**0.1**	**0.2**	**0.1**	**0.3**	**0.0**	**0.0**	**0.1**
	2008	**0.2**	**0.1**	**0.1**	**0.1**	**-0.4**	**0.1**	**0.1**	**0.0**	**0.2**	**0.1**	**0.2**	**0.0**	**0.2**	**0.1**	**0.0**	**0.1**
July	2005	0.4	-0.2	-0.2	-0.6	-0.3	-1.0	-0.3	-1.3	0.4	-0.3	-0.1	0.8	-0.1	0.1	-0.3	-0.2
	2006	0.5	-0.2	-0.3	-0.5	-0.4	-1.1	-0.2	-0.8	-0.1	-0.5	-0.1	-0.3	-0.6	0.0	-0.3	-0.3
	2007	**0.3**	**-0.2**	**-0.4**	**-0.6**	**-0.3**	**-1.1**	**-0.2**	**-0.8**	**-0.1**	**-0.3**	**-0.2**	**0.3**	**-0.1**	**-0.1**	**-0.2**	**-0.3**
	2008	**0.3**	**-0.3**	**-0.4**	**-0.6**	**-0.3**	**-1.1**	**-0.2**	**-0.7**	**-0.1**	**-0.3**	**-0.2**	**0.4**	**0.2**	**-0.1**	**-0.1**	**-0.3**
August	2005	0.2	0.4	-0.2	0.5	0.3	1.8	0.2	-0.6	0.2	0.4	0.5	-0.5	1.4	0.3	0.3	0.1
	2006	-0.1	0.3	-0.2	0.2	0.5	1.7	0.3	-1.0	-0.1	0.3	0.8	0.7	1.1	0.4	0.0	0.0
	2007	**0.0**	**0.2**	**-0.2**	**0.3**	**0.3**	**1.7**	**0.3**	**-0.9**	**-0.1**	**0.3**	**0.7**	**0.1**	**0.4**	**0.3**	**0.1**	**0.0**
	2008	**0.0**	**0.3**	**-0.2**	**0.3**	**0.3**	**1.7**	**0.3**	**-0.8**	**-0.1**	**0.2**	**0.7**	**0.1**	**0.2**	**0.3**	**0.1**	**0.0**
September	2005	0.3	0.4	0.6	0.6	0.9	0.0	0.6	2.4	0.2	0.6	0.7	1.0	0.6	0.2	0.8	0.8
	2006	-0.5	-0.2	0.7	-0.2	0.5	-0.5	-0.1	2.0	0.4	0.1	-0.3	0.3	-0.6	0.1	0.5	0.4
	2007	**0.0**	**0.1**	**0.8**	**0.2**	**0.7**	**-0.2**	**0.0**	**1.8**	**0.2**	**0.3**	**0.0**	**0.2**	**-0.2**	**0.2**	**0.5**	**0.6**
	2008	**0.0**	**0.1**	**0.8**	**0.2**	**0.7**	**-0.2**	**0.0**	**1.6**	**0.2**	**0.2**	**0.0**	**0.2**	**0.2**	**0.2**	**0.4**	**0.6**
October	2005	0.0	0.0	0.7	0.8	0.0	-0.2	0.0	0.7	0.4	0.0	0.0	0.2	0.8	0.1	0.3	0.0
	2006	0.1	-0.2	0.2	0.4	-0.2	-0.3	-0.1	0.7	0.0	0.1	0.0	-0.7	-0.5	0.2	0.2	-0.1
	2007	**0.2**	**0.0**	**0.4**	**0.8**	**0.0**	**-0.3**	**0.0**	**0.6**	**0.2**	**0.1**	**0.0**	**-0.3**	**-0.2**	**0.1**	**0.2**	**0.1**
	2008	**0.2**	**0.0**	**0.4**	**0.8**	**0.0**	**-0.2**	**0.0**	**0.5**	**0.2**	**0.1**	**0.0**	**-0.3**	**0.2**	**0.1**	**0.2**	**0.1**
November	2005	-0.5	-0.3	0.0	0.2	-0.3	-0.1	-0.2	-0.2	0.2	-0.3	-0.2	-0.6	-1.0	0.0	-0.3	-0.4
	2006	-0.1	0.1	0.1	0.2	0.0	0.2	0.1	-0.2	0.0	0.0	0.0	0.3	0.1	0.2	0.0	0.0
	2007	**-0.1**	**0.1**	**0.1**	**0.2**	**-0.2**	**0.1**	**0.1**	**-0.1**	**0.2**	**-0.1**	**0.0**	**0.4**	**0.4**	**0.1**	**-0.1**	**-0.1**
	2008	**-0.1**	**0.1**	**0.1**	**0.3**	**-0.2**	**0.1**	**0.1**	**-0.1**	**0.2**	**-0.1**	**0.0**	**0.4**	**0.2**	**0.1**	**0.0**	**-0.1**
December	2005	1.0	0.2	0.0	0.2	-0.4	0.1	0.3	0.6	0.1	0.1	-0.2	-0.1	-0.4	0.3	0.1	0.1
	2006	0.9	0.2	0.1	0.3	-0.3	0.1	0.4	0.6	0.2	0.0	0.4	0.4	0.1	0.6	0.0	0.0
	2007	**1.0**	**0.2**	**0.1**	**0.2**	**-0.4**	**0.0**	**0.4**	**0.5**	**0.1**	**0.1**	**0.2**	**0.2**	**0.2**	**0.4**	**0.0**	**-0.1**
	2008	**1.0**	**0.3**	**0.1**	**0.3**	**-0.4**	**0.0**	**0.4**	**0.5**	**0.1**	**0.1**	**0.2**	**0.2**	**0.2**	**0.4**	**0.1**	**-0.1**

The figures in the shaded area are forecasts
Source: EUROSTAT & IFL (UC3M)
Date: June 22, 2007

II.2. ECONOMIC GROWTH, INFLATION AND MONETARY POLICY

II.2.1 Economic growth

The euro area economy consolidated its recovery last year by ending with an average annual GDP growth rate of 2.8%, 1.2 points more than in 2005. In turn, in terms of the year-on-year rate, it ended the year at 3.3%, with a 0.8 pp increase during the year. In the first quarter, this economy is maintaining its tone, but with a slight deceleration, according to the National Accounts figures edited by Eurostat.

Indeed, in the first quarter of this year, the euro area *Gross Domestic Product (GDP)*, in real terms and according to data adjusted for seasonality and working day effect, showed a year-on-year growth rate of 3%, three tenths less than in the previous quarter and one less than the advanced figure. In terms of the quarter-on-quarter rate, the GDP registered 0.6% growth, representing a deceleration of three tenths. This GDP growth was in line with the forecasts estimated by the IFL with the figures for the last quarter of last year.

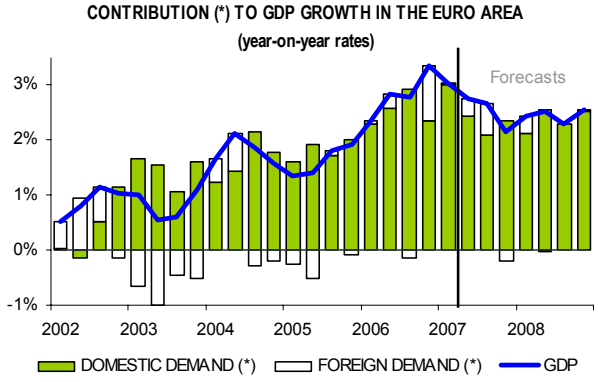
Analysing the latest GDP figures by component, we see that the first quarter's deceleration is largely due to the poor performance of the foreign sector and weak private consumption, due to the effect of the VAT increase in Germany. The foreign sector made a negative contribution to GDP quarter-on-quarter growth of half a point, due to a heavy deceleration in exports, reducing their quarter-on-quarter growth rate from the previous quarter's 3.5% to 0.3%. Private consumption showed a slight quarter-on-quarter reduction (-0.1%), half a point less than in the previous quarter, so its year-on-year rate fell from the 1.9% of the fourth quarter of 2006 to 1.3% in the first quarter of this year, due to the aforementioned VAT increase.

The deceleration of consumption and exports has been compensated by gross fixed capital formation, which accelerated one point to a quarter-on-quarter rate of 2.5%. Change in inventories also contributed significantly to GDP growth by half a point, which could be related to the shock derived from the tax increase. As a result, the contribution of internal demand to quarter-on-quarter GDP growth was 1.2 points. In year-on-year terms, the contribution of domestic demand to GDP growth was 3 pp, with a zero contribution from foreign demand.

In a way, both the weak consumption figures in the first quarter and weak exports could be a temporary situation, as they are both associated to transient shocks: the first is the VAT increase in Germany and the second a possible upwards bias in German exports in the last quarter of last year.

With the new National Accounts figures for the first quarter in the euro area, we have updated our forecasts for real GDP growth in the region for 2007-2008. The new estimates represent an upwards revision for 2007, just one tenth to 2.7%, whereas for 2008 the average annual growth rate remains at 2.5%. The quarter-on-quarter growth rate is expected to stabilise in the second and third quarters at rates similar to those registered for the euro area economy just before the heavy acceleration experienced in the last quarter of 2006 (0.6%).

Graph II.2.1.1



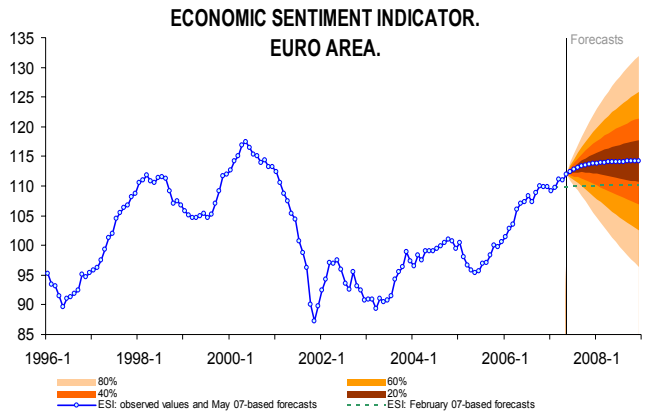
Adjusted for seasonality and working day effect.
Source: EUROPEAN COMMISSIÓN & IFL (UC3M)
Date: June 1, 2007

With regards to the composition of growth, both for 2007 and 2008 domestic demand is expected to continue to be the main driving force in the euro area economy, contributing 2.5 pp and 2.4 pp, respectively. With regards to the previous forecast, the contribution of domestic demand in 2007 has been increased by two tenths, based on an upwards revision of gross fixed capital formation, whereas both private and public consumption are revised downwards for the forecasting horizon. Relative to foreign trade, the growth rates forecast for exports and imports have been revised downwards and the contribution of foreign demand to GDP growth is expected to be 0.2 pp in 2007, one tenth less than in the previous forecast, whereas it is expected to be 0.1 pp, as forecast previously, in 2008.

More recent information about the evolution of the euro area economy is now available through other indicators showing partial information for the second quarter of this year, such as the *Economic Sentiment Indicator.*

This indicator grew by 0.9 points in May to 111.9, better than the IFL forecast, although within the 60% confidence interval. This improvement was due to confidence in consumption and the retail trade, but not in industry, construction and services, where it declined slightly. The improvement, then, can be said to come from the demand side.

Graph II.2.1.2



Source: EUROPEAN COMMISSION & IFL (UC3M)
Date: May 31, 2007

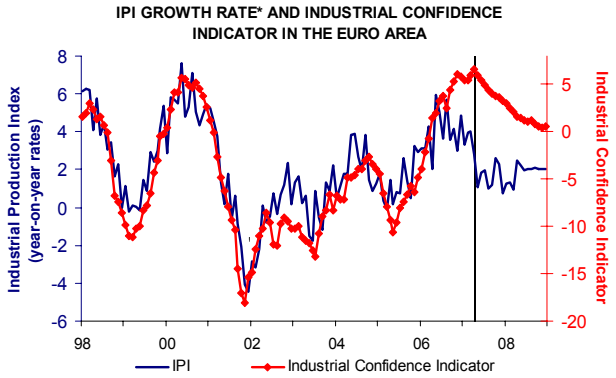
We have revised the forecasts for this indicator with the new information, with the profile remaining unaltered, with a slight improvement in confidence in the next few months, subsequently stabilising from the fourth quarter of 2007 on. However, this stabilisation is now at higher levels than were forecast for the indicator in the middle of the first quarter. It would appear, therefore, that according to the Economic Sentiment Indicator, the euro area economy in the second quarter is registering a growth rate no lower than that of the previous quarter. The indicator tends to stabilise at high levels which we have not seen since the end of 2000, when the GDP had a quarter-on-quarter growth rate of 0.7%.

With regards to the details of the industrial sector, the *Industrial Production Index* in the euro area in April, 2007 performed worse than expected, with a year-on-year growth rate of 2.8%. By economic destination, there were downwards innovations in all the groups except non-durable consumer goods, where there was a small upwards turn.

On the other hand, the *Industrial Confidence Indicator* in May for the euro area also performed worse than expected, and could have reached a peak. With this information, we have revised downwards the forecasts for this indicator, which is expected to continue to fall in 2007 and 2008, tending to stabilise in the last quarter of this year at levels higher than those seen when the sector was experiencing low growth.

In view of the above hard and soft data of the industrial sector in April and May, we have updated our forecasts for the Industrial Production Index for 2007 and 2008. These estimations show a downwards revision of 0.5 pp for 2007, to 2.3%, expecting the greatest contribution to said growth to come from the capital and intermediate goods sectors. For 2008, the average annual growth rate forecast for the Index is revised 0.2pp downwards to 1.9%.

Graph II.2.1.3



*Year-on-year growth rates.
The IPI figures are adjusted by working days, and exclude the construction sector.
Source: EUROPEAN COMMISSION, EUROSTAT & IFL (UC3M)
Date: June 12, 2007

Finally, the data pertaining to the *labour market* in the euro area has been very positive in the first four months of this year. Indeed, the unemployment rate fell in the first three months, as it did in April, by one tenth to a minimum low (7.1%). The number of unemployed fell by around 95,000 people in April, less than the average for the first quarter. This unemployment data, together with the employment figures from the opinion polls, the only information available, point to good creation of employment in the first quarter of this year and the beginning of the second.

II.2.2. Inflation

The euro area HICP in May grew as expected, with its annual rate remaining at the 1.9% registered in the two previous months.

Table II.2.2.1

ANNUAL HICP GROWTH RATES IN THE EURO AREA*

HICP	Observed			Forecasts		
	Aver 2005(2)	Aver 2006(2)	2007 May (1)	2007 Jun (1)	Aver 2007(2)	Aver 2008(2)
Core (82.8%)	1.5	1.5	1.9	**1.9 (±0.13)**	**1.9 (±0.12)**	**1.7 (±0.40)**
Total (100%)	2.2	2.2	1.9	**1.9 (±0.12)**	**2.0 (±0.16)**	**2.0 (±0.48)**

* 80% confidence intervals calculated with historical errors.
Source: EUROSTAT & IFL (UC3M)
Date: June 22, 2007
(1) Year-on-year rate
(2) Annual average rate

In core inflation there was a very small upwards innovation which is not perceived when rounding up to a decimal which, in the HICP, was compensated by a downwards innovation in the price index for the rest of the components of inflation. In May, the core index maintained an annual rate of 1.9%, as in the three previous months.

This performance of core inflation was the result of small innovations of different signs among its components, which practically compensated for each other: upwards in services and tobacco and downwards in non-energy industrial goods.

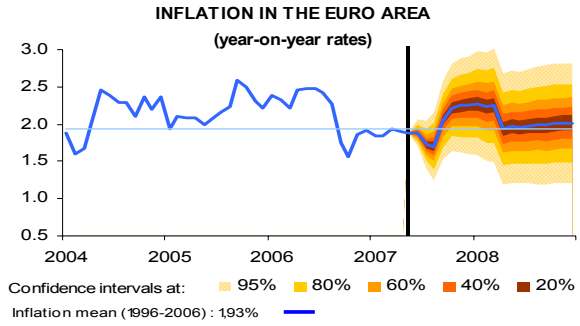
Outside core inflation, there was a downwards innovation in the prices of unprocessed food, which grew by 3.1% instead of the forecast 3.7%.

Once our forecasts were updated with the May figures, there were only minimal changes in our previous forecasts for the average annual inflation rate of each component. We therefore continue to have inflation expectations for 2007-2008 on the border of the ECB target, with forecast average annual headline inflation rates of 1.96[2]% and 2.05%, hardly 0.02 and 0.01pp above those in our last Bulletin. For core inflation, last Bulletin's 1.9% for 2007 and 1.7% for 2008 remain unaltered.

The component in which the innovation registered in May led to a somewhat more significant revision was unprocessed food, for which the average annual rates in 2007 and 2008 have been revised downwards to 2.1% and 1.8%, respectively, 0.5 and 0.3 pp less than expected last month. For energy prices, the annual average rate forecast for 2007 has been revised upwards by 0.3pp to 2.1% using the latest available information.

With regards to the evolution of annual inflation rates, after maintaining the current values in June, we continue to expect somewhat lower rates in the central months of the summer (1.7%), favoured by the evolution of the components outside core inflation. Subsequently, we are expecting it to rise and end the year at around 2.2-2.3% and, after a first quarter of 2008 at that rate, end the year at 2.0%, favoured by more moderate core and energy inflation (see graph II.2.2.1)

Graph II.2.2.1



Source: EUROSTAT & IFL(UC3M)
Date: June 22, 2007

Analysing inflation by country, most euro area members registered an inflation rate equal to or one tenth above or below the forecast. Focusing on the four with the greatest weight in the HICP (Germany, France, Italy and Spain), Germany and France registered rates as forecast of 2.0 and 1.2%, respectively, practically maintaining the levels of the two previous months. In Italy, we saw a small upwards innovation which led to revising the average annual rates expected for 2007 and 2008 by 0.1 pp - rounding to one decimal point - to 2.0 and 2.1%, respectively. In Spain, in line with the CPI, we saw a small downwards innovation, with inflation in HICP terms in May (2.4%) being 0.1 pp less than the three previous months.

The forecast average annual rates for 2007 and 2008 for Germany, France and Spain remain the same as in the last Bulletin.

The box diagram shown at the end of section II.3 shows how the dispersion in the average annual inflation rates of euro area countries has evolved in the last few years. We can see that the inflation median in the last three years was around 2.2%-2.3%, and it is expected to be 2.1-2.2% in 2007. The difference between the highest and lowest inflation rates in 2006 was 2.3 pp, 0.4 pp more than is forecast for 2007. Not only do we expect the difference between the extremes to decrease in 2007, but also between the countries in the middle half, a difference which in 2006 increased relative to the previous two years. We are also expecting changes in the countries in extreme positions. Indeed, should our expectations materialise, France and Belgium, which in 2006 were in the middle half group, would register the lowest inflation in 2007 (1.4%). At the opposite extreme, Spain would cease being the country with the highest inflation, being substituted by Slovenia, and would be positioned at the upper end of the middle 50%, together with Greece and slightly below Ireland.

Graph II.1.5.3 shows the differences expected between each country's and the euro area inflation rate in 2007, in line with the expected real interest rate differentials shown on table II.2.2.2.

Table II.2.2.2

	EXPECTED INFLATION		REAL INTEREST RATE	
	Three Months	One Year	Three Months	One Year
Portugal	2.66	2.70	1.48	1.80
Slovenia	3.83	3.63	0.31	0.87
Ireland	2.78	2.74	1.36	1.76
Spain	3.01	2.88	1.13	1.62
Greece	2.54	2.34	1.60	2.16
Luxembourg	2.74	2.67	1.40	1.83
Italy	2.07	2.01	2.07	2.50
Netherlands	2.21	2.18	1.93	2.32
Austria	2.07	2.00	2.08	2.51
Finland	1.46	1.36	2.68	3.14
Germany	2.23	1.91	1.91	2.60
Belgium	1.38	1.64	2.76	2.87
France	1.54	1.38	2.61	3.13

Source: EUROSTAT & IFL(UC3M)
Date: June 22, 2007

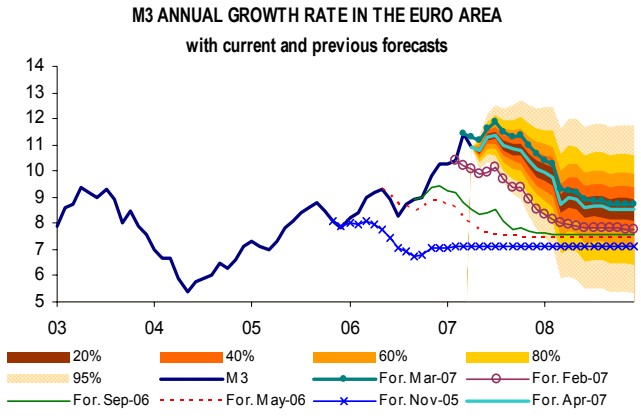
[2] In the advance of updated inflation forecasts distributed on the 14th June amongst the subscribers to the "Forecast and diagnosis update service" we mentioned that the forecast average annual rate for headline inflation in 2007 was 1.93% (1.9%). The slight upwards revision since that advance (0.03pp, which leads to an annual average rate of 2.0% when rounding up to a decimal) is due to the fact that following the mentioned advance, the forecasts were again updated with the latest available information on energy prices. This lead to an increase in the average annual rate for those energy prices in 2007 up to 2.1% from the 1.8% distributed in the mentioned advance on the 14th June.

II.2.3 Monetary Policy

As a complement to all the above, our forecasts for monetary aggregates have also been updated.

M3 grew by 10.4% in April, somewhat less than expected, so our previous forecasts have been revised downwards slightly. We are expecting a deceleration in this aggregate, stabilising its annual growth rate at around 8.0% at the end of 2008, similar to those of October 2005, just before the ECB instated its rate increase policy. Although M3 has been growing at high rates since November, 2005, the rate increase policy has had an effect on its composition, as explained by the ECB in its monthly Bulletin: M1 registers more moderate growth, whereas the demand for assets within M3 but outside M1 has been favoured by the flattening of the yield curve and higher short-term rates. Furthermore, the dynamics observed in M3 rates at the end of 2006 and beginning of 2007 is highly influenced by the increase in the net external asset position of the Monetary Financial Institutions in the euro area. The ECB recommends caution when analysing the evolution of M3, given the flat yield curve, and considering the recent evolution of the international financial markets.

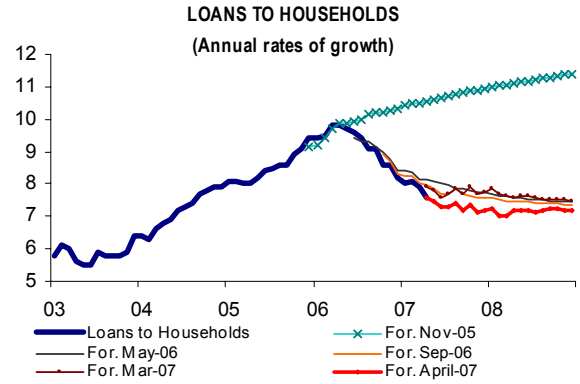
Graph II.2.3.1



Source: ECB & IFL (UC3M)
Date: May 30, 2007

The high rate of growth of M3 is explained by the rise in credit to the private sector, in which loans to the private sector represent approximately 85%. They grew in April by 10.3%, below the values registered in the fist quarter of 2007 and the last of 2006. The effect of the ECB rate increase on the moderation of the rates of these loans is more noticeable in loans to households, which grew by 7.6% in April, slightly less than we expected, so our forecasts have been revised downwards slightly and do not in themselves appear to be a factor adding significant pressure on inflation.

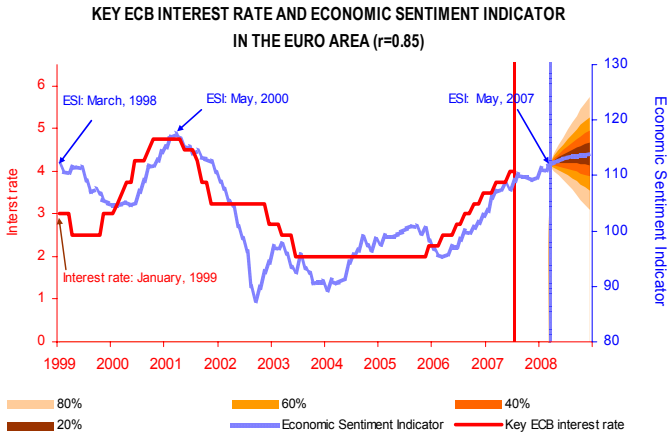
Graph II.2.3.2



Source: ECB & IFL (UC3M)
Date: May 30, 2007

In view of all the above information relating to the real economic growth, inflation and monetary aggregates forecasts, in our opinion the probability of the ECB increasing the interest rate to 4.25% in 2007 is around 50% (see graph II.2.3.3)

Graph II.2.3.3



Note: The Economic Sentiment Indicator values have been carried backwards ten periods in the future. The last values are forecasts together with the confidence intervals.
Source: EUROPEAN COMMISSION, ECB & IFL (UC3M)
Date: June 6, 2007

II.3. TABLES AND PLOTS.

Tables:

- Methodology: analysis of euro area inflation by component.
- Forecast errors in the monthly inflation rate by component in the euro area in May.
- Forecast errors in the monthly inflation rate in the euro area and the European Union in May.

Plots:

- Year-on-year rates in the HICP of the euro area (observed values and forecasts).
- One month ahead forecast errors in the euro area inflation.
- Inflation in the euro area (year-on-year rate).
- Year-on-year rate of euro area inflation and contributions of main components.
- Box diagram of the euro area countries inflation (HICP annual average rates).
- Euro area and United Kingdom inflation (year-on-year rate).

METHODOLOGY: ANALYSIS OF EURO AREA INFLATION BY COMPONENT

AGGREGATES	BASIC COMPONENTS
HICP TOTAL **IPSEBENE** *82.775%* *1 + 2 +3 +4* CORE INFLATION *(IT IS CALCULATED ON THE IPSEBENE INDEX)* **BENE** *41.932%* *1 + 2 + 3* RESIDUAL INFLATION *17.245%* *5 + 6* RESIDUAL INFLATION *(IT IS CALCULATED ON THE RESIDUAL INDEX)*	**(1) AE (a)** *9.449 %* *HICP Processed Food excluding tobacco* **(2) TOBACCO** *2.479 %* *HICP Tobacco* **(3) MAN** *30.004 %* *HICP Non Energy Industrial Goods* **(4) SER** *40.823 %* *HICP Services* **(5) ANE** *7.63 %* *HICP Non processed Food* **(6) ENE** *9.615 %* *HICP Energy*
HICP = 0.09449 **AE** + 0.02479 **TOBACCO** + 0.30004 **MAN** + 0.40823 **SER** + 0.0763 **ANE** + 0.09615 **ENE**	

(a) Our definition of AE, processed food, does not include tobacco prices.
Source: EUROSTAT & IFL (UC3M)
2007 weights

FORECAST ERRORS IN THE MONTHLY INFLATION BY COMPONENTS IN THE EURO AREA IN MAY

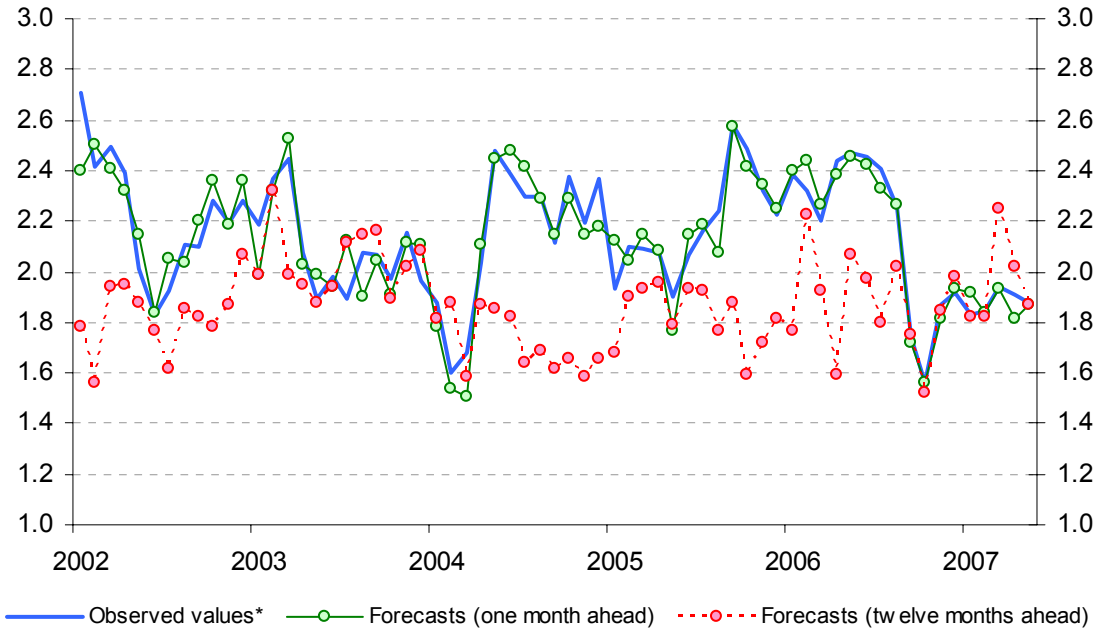
	Weights 2007	Observed Annual Growth	Observed Monthly Growth	Forecast Monthly Growth	Confidence interval at 80%
HICP Processed Food	*119.28*	1.93	0.13	0.12	± 0.34
HICP Processed Food excluding tobacco	*94.49*	1.13	0.14	0.15	
HICP Tobacco	*24.79*	4.94	0.07	0.01	
HICP Non Energy Industrial Goods	*300.04*	1.03	0.13	0.16	± 0.24
HICP Non Energy Processed Goods	*419.32*	1.29	0.13	0.14	
HICP Services	*408.23*	2.64	0.22	0.12	± 0.14
CORE INFLATION	*827.55*	1.9	0.17	0.13	± 0.13
HICP Unprocessed Food	*76.30*	3.09	0.08	0.67	± 0.79
HICP Energy (2)	*96.15*	0.30	0.92	0.73	± 0.90
RESIDUAL INFLATION	*172.45*	1.54	0.56	0.70	± 0.59
GLOBAL INFLATION	*1000*	1.87	0.24	0.23	± 0.12

Source: EUROSTAT & IFL(UC3M)
Date: June 14, 2007

FORECAST ERRORS IN THE MONTHLY INFLATION RATE IN THE EURO AREA AND EUROPEAN UNION IN MAY						
	Weights 2007 euro area	Weights 2006 EU	Observed Monthly Rate	Forecast	Confidence Intervals at 80%	Observed Annual Rate
Spain	122.91		0.28	0.33	± 0.15	2.41
Germany	281.62		0.19	0.19	± 0.29	1.96
Austria	31.20		0.30	0.03	± 0.37	2.06
Belgium	33.83		-0.12	0.23	± 0.32	1.30
Finland	16.16		-0.31	-0.05	± 0.37	1.31
France	207.44		0.26	0.26	± 0.20	1.16
Greece	30.60		0.18	0.08	± 0.78	2.63
Netherlands	52.85		0.03	-0.01	± 0.33	2.02
Ireland	14.08		0.28	0.37	± 0.30	2.72
Italy	182.75		0.38	0.35	± 0.23	1.85
Luxembourg	2.41		0.44	0.34	± 0.32	2.28
Portugal	20.79		0.18	0.63	± 0.66	2.38
Slovenia	3.35		1.14	0.77	± 0.24	3.10
Denmark		11.73	0.19	0.22	± 0.27	1.67
United Kingdom		186.86	0.29	0.33	± 0.33	2.54
Sweden		18.74	-0.14	0.16	± 0.50	1.23

Source: EUROSTAT & IFL(UC3M)
Date: June 14, 2007

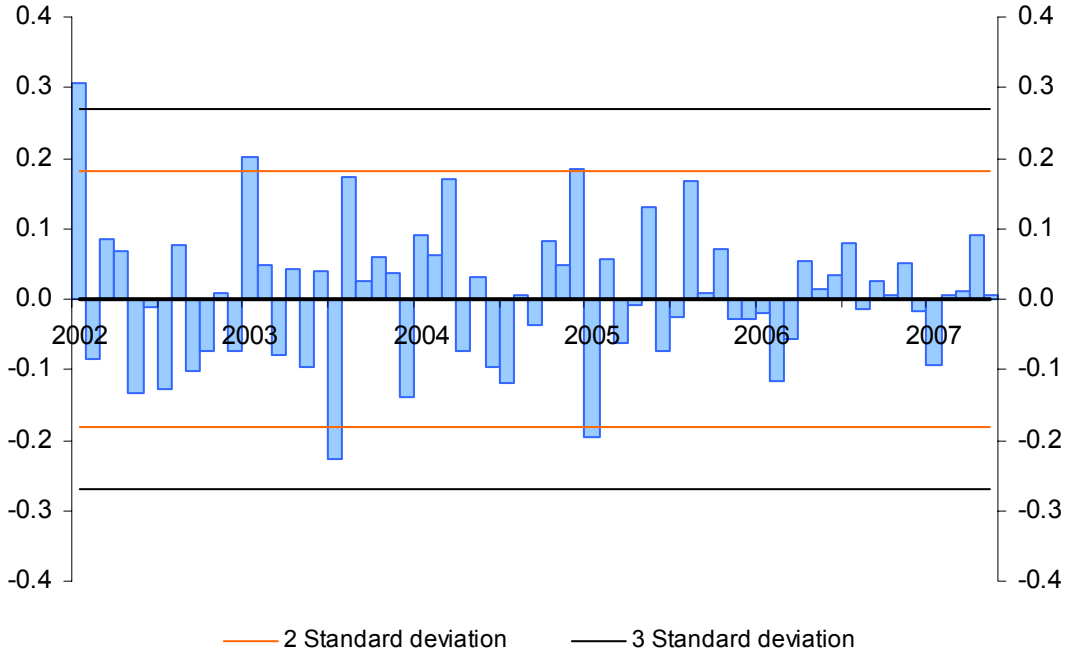
YEAR-ON-YEAR RATES IN THE HICP OF THE EURO AREA



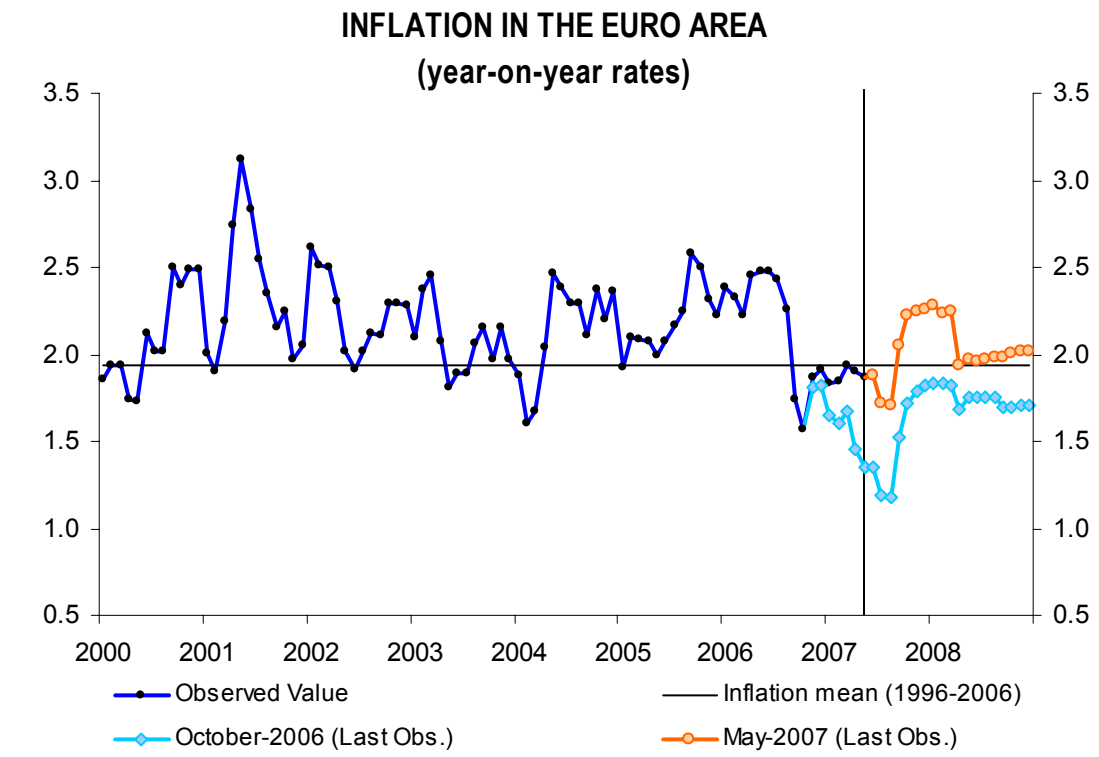
* Observed values without revisions in the HICP

Source : EUROSTAT & IFL(UC3M)
Date: June 14, 2007

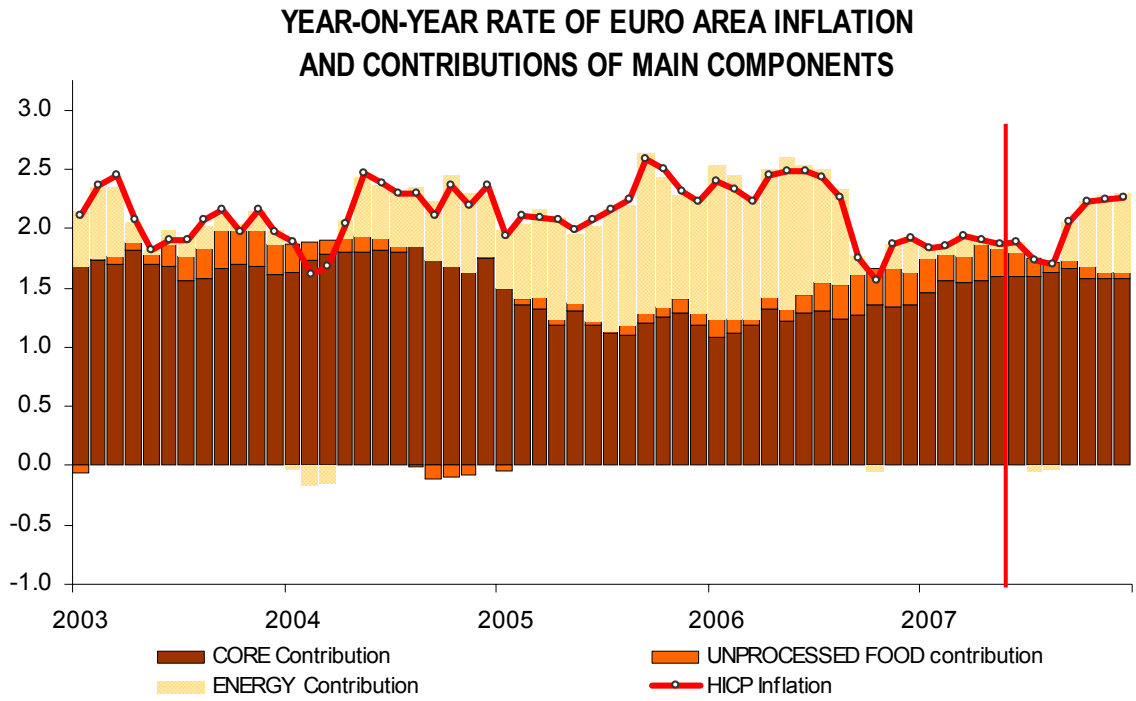
ONE MONTH AHEAD FORECAST ERRORS IN THE EURO AREA INFLATION



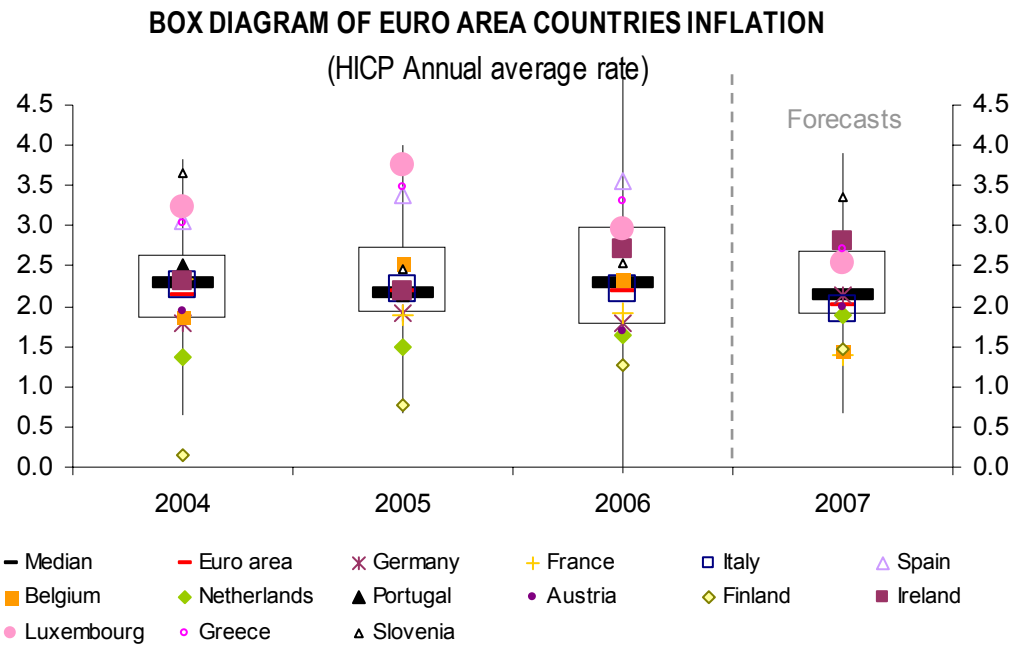
Source : EUROSTAT & IFL(UC3M)
Date: June 14, 2007



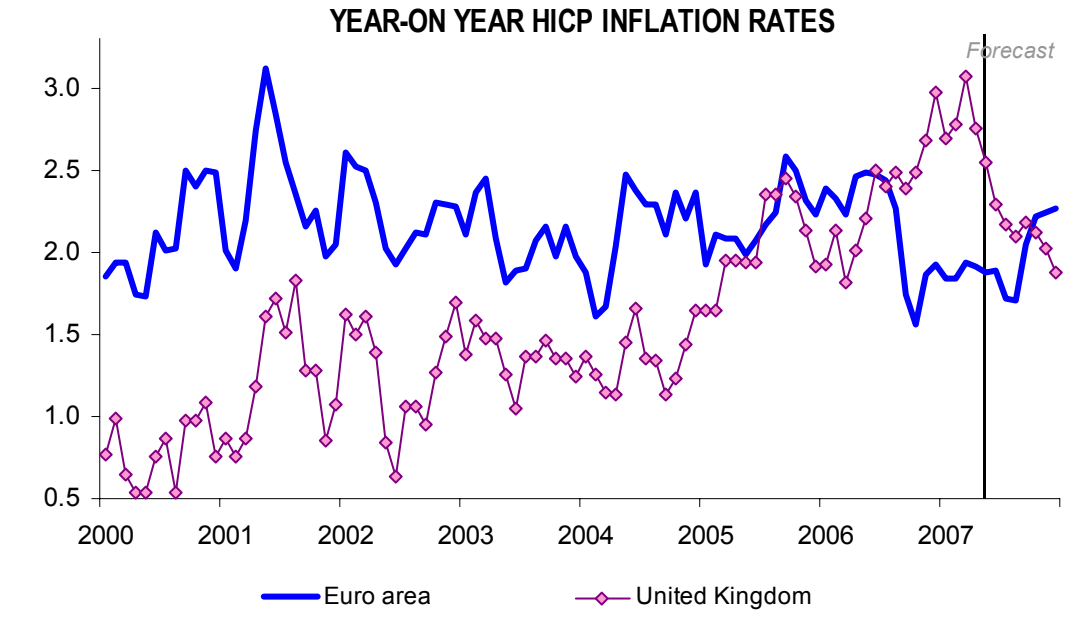
Source: EUROSTAT & IFL(UC3M)
Date: June 22, 2007



Source: EUROSTAT & IFL(UC3M)
Date: June 22, 2007



Source: EUROSTAT & IFL(UC3M)
Date: June 22, 2007



Source: EUROSTAT & IFL(UC3M)
Date: June 22, 2007

III. UNITED STATES.

III.1. MACROECONOMIC FORECASTS.

III.1.1 INDUSTRIAL PRODUCTION INDEX: MONTHLY AND QUARTERLY FORECASTS.

Table III.1.1.1

ANNUAL GROWTH RATE IN THE IPI SECTORS IN THE US*

			Consumer Goods		Equipment & Supplies	Materials	TOTAL
			Durable	Non durable			
AVERAGE ANNUAL RATE		2003	3.4	0.5	1.6	0.9	1.1
		2004	1.4	1.4	2.6	3.1	2.5
		2005	1.0	3.5	4.6	2.2	3.2
		2006	-0.3	1.6	3.9	4.5	3.9
		2007	**0.5**	**2.9**	**2.3**	**1.7**	**1.7**
		2008	**3.6**	**1.7**	**3.0**	**3.3**	**2.9**
ANNUAL RATES*	2006	QI	1.4	0.8	4.1	3.1	3.3
		QII	0.6	1.3	4.1	4.0	3.8
		QIII	-0.6	2.4	4.8	6.1	5.2
		QIV	-2.5	2.1	2.7	4.7	3.5
	2007	QI	-2.2	3.7	2.7	2.2	2.4
		QII	**-0.2**	**2.9**	**2.1**	**1.4**	**1.4**
		QIII	**0.3**	**2.4**	**1.4**	**0.7**	**0.5**
		QIV	**3.8**	**2.6**	**2.8**	**2.6**	**2.2**
	2008	QI	**3.9**	**1.8**	**2.9**	**3.2**	**2.8**
		QII	**3.9**	**1.4**	**2.9**	**3.3**	**2.6**
		QIII	**3.2**	**1.8**	**3.0**	**3.3**	**3.1**
		QIV	**3.5**	**1.6**	**3.0**	**3.4**	**3.1**

The figures in the shaded area are forecasts.
* Year-on-year rates.
Source: FEDERAL RESERVE & IFL (UC3M) Date: June 15, 2007.

Table III.1.1.2

OBSERVED VALUES AND FORECASTS IN THE IPI ANNUAL RATES IN THE US

	2002	2003	2004	2005	2006	**2007**	**2008**
January	-4.51	2.91	1.17	3.64	2.83	2.59	**3.03**
February	-3.84	3.44	1.91	2.73	2.82	2.87	**2.79**
March	-3.06	2.63	1.31	2.77	4.16	1.79	**2.72**
April	-0.32	0.27	2.43	3.86	2.94	2.27	**2.49**
May	-0.65	0.31	3.40	2.70	4.18	1.61	**2.19**
June	0.88	-0.65	2.61	4.02	4.26	**0.49**	**3.10**
July	0.66	-0.10	3.69	3.72	4.96	**-0.33**	**2.88**
August	1.47	0.00	2.76	3.72	4.62	**0.80**	**3.07**
September	2.23	0.24	1.94	2.24	5.90	**1.43**	**3.25**
October	2.36	0.63	3.00	2.34	4.49	**2.20**	**3.08**
November	2.88	1.39	2.37	3.39	3.02	**2.59**	**3.17**
December	2.71	1.82	3.28	3.83	2.86	**1.79**	**3.04**

The figures in the shaded area are forecasts.
Source: FEDERAL RESERVE & IFL (UC3M) Date: June 15, 2007.

III.1.2 INFLATION.

Table III.1.2.1

AVERAGE ANNUAL RATE OF GROWTH IN US

CONSUMER PRICES INDEX (CPI)	2003	2004	2005	2006	2007 (forecasts)	2008 (forecasts)
Food (1)	2.1	3.4	2.4	2.3	**3.7**	**3.4**
Energy (2)	12.2	10.9	16.9	11.2	**3.3**	**2.8**
Residual Inflation (3=2+1)	**5.3**	**6.0**	**7.6**	**5.7**	**3.5**	**3.2**
Non-food and non-energy goods (4)	-2.0	-0.9	0.5	0.3	**-0.4**	**0.0**
-Durable goods	-3.2	-2.3	0.4	-0.7	**-1.9**	**-1.2**
-Nondurable goods	-0.7	0.5	0.6	1.3	**1.1**	**1.2**
Non-energy services (5)	2.9	2.9	2.8	3.4	**3.4**	**3.3**
-Services less owner's equivalent rent of primary residence (5-a)	3.2	3.3	3.1	3.4	**3.4**	**3.3**
-Owner's equivalent rent of primary residence (a)	2.4	2.3	2.3	3.5	**3.5**	**3.2**
Core Inflation (6=4+5) [Confidence intervals at 80% level]	**1.5**	**1.8**	**2.2**	**2.5**	**2.3** ± 0.16	**2.4** ± 0.44
Core inflation less owner's equivalent rent of primary residence (6-a)	1.1	1.6	2.1	2.1	**1.8**	**2.0**
Headline Inflation (7=6+3) [Confidence intervals at 80% level]	**2.3**	**2.7**	**3.4**	**3.2**	**2.6** ± 0.33	**2.6** ± 1.41
All items less owner's equivalent rent of primary residence (7-a)	2.2	2.8	3.7	3.1	**2.3**	**2.4**

Source: BLS & IFL (UC3M)
Date: June 15, 2007

Table III.1.2.2

USA ANNUAL RATES OF GROWTH ON CPI AND ITS COMPONENTS

		CONSUMER PRICE INDEX												
		CORE INFLATION								RESIDUAL INFLATION				
		Non energy commodities less food			Non energy services			ALL	Confidence Intervals at 80% level	Food	Energy	ALL	ALL	Confidence Intervals at 80% level
		durables	non durables less energy	ALL	Owner's equivalent rent of primary residence	Other services	ALL							
RI December 2006		11.1%	10.6%	21.7%	23.8%	31.8%	55.7%	77.4%		13.9%	8.7%	22.6%	100.0%	
AVERAGE ANNUAL	2001	-0.6	1.1	0.3	3.8	3.6	3.7	2.7		3.1	3.8	3.3	2.8	
	2002	-2.6	0.4	-1.1	4.1	3.6	3.8	2.3		1.8	-5.9	-0.8	1.6	
	2003	-3.2	-0.7	-2.0	2.4	3.2	2.9	1.5		2.1	12.2	5.3	2.3	
	2004	-2.3	0.5	-0.9	2.3	3.3	2.9	1.8		3.4	10.9	6.0	2.7	
	2005	0.4	0.6	0.5	2.3	3.1	2.8	2.2		2.4	16.9	7.6	3.4	
	2006	-0.7	1.3	0.3	3.5	3.4	3.4	2.5		2.3	11.2	5.7	3.2	
	2007	**-1.9**	**1.1**	**-0.4**	**3.5**	**3.4**	**3.4**	**2.3**	**± 0.16**	**3.7**	**3.3**	**3.5**	**2.6**	**± 0.33**
	2008	**-1.2**	**1.2**	**0.0**	**3.2**	**3.3**	**3.3**	**2.4**	**± 0.44**	**3.4**	**2.8**	**3.2**	**2.6**	**± 1.41**
ANNUAL RATES (growth over the same month of the previous year)	2006 January	-0.6	1.0	0.1	2.5	3.3	2.9	2.1		2.6	24.8	10.5	4.0	
	February	-0.6	0.7	0.0	2.5	3.2	2.9	2.1		2.8	20.1	9.0	3.6	
	March	-0.5	1.0	0.3	2.7	3.0	2.8	2.1		2.6	17.3	8.0	3.4	
	April	-0.4	1.3	0.4	3.0	3.1	3.1	2.3		1.8	17.8	7.9	3.5	
	May	-0.7	1.3	0.3	3.3	3.3	3.3	2.4		1.9	23.6	10.0	4.2	
	June	-0.7	1.7	0.5	3.6	3.5	3.5	2.6		2.2	23.3	10.1	4.3	
	July	-0.3	1.4	0.5	3.7	3.4	3.5	2.7		2.2	20.5	9.2	4.1	
	August	-0.1	1.5	0.6	3.9	3.6	3.7	2.8		2.4	15.1	7.4	3.8	
	September	-0.7	1.8	0.5	4.0	3.8	3.9	2.9		2.5	-4.3	-0.4	2.1	
	October	-1.0	1.5	0.1	4.1	3.6	3.8	2.7		2.6	-11.3	-3.2	1.3	
	November	-1.2	1.1	-0.1	4.3	3.3	3.7	2.6		2.3	-3.8	-0.2	2.0	
	December	-1.4	1.3	-0.1	4.3	3.2	3.7	2.6		2.1	2.9	2.4	2.5	
	2007 January	-1.8	1.5	-0.2	4.3	3.5	3.8	2.7		2.4	-3.1	0.2	2.1	
	February	-1.8	1.9	0.0	4.2	3.4	3.8	2.7		3.1	-1.0	1.5	2.4	
	March	-1.7	1.2	-0.3	4.1	3.1	3.6	2.5		3.3	4.4	3.7	2.8	
	April	-1.8	0.9	-0.5	3.9	3.2	3.5	2.3		3.7	2.9	3.4	2.6	
	May	-2.0	0.7	-0.7	3.5	3.4	3.4	2.2		3.9	4.7	4.2	2.7	
	June	**-2.0**	**0.8**	**-0.7**	**3.3**	**3.2**	**3.2**	**2.2**	**± 0.13**	**3.9**	**5.0**	**4.4**	**2.6**	**± 0.13**
	July	**-2.3**	**1.2**	**-0.5**	**3.2**	**3.3**	**3.2**	**2.2**	**± 0.20**	**4.0**	**0.2**	**2.4**	**2.2**	**± 0.41**
	August	**-2.3**	**1.0**	**-0.6**	**3.1**	**3.3**	**3.2**	**2.1**	**± 0.27**	**4.0**	**-2.3**	**1.3**	**2.0**	**± 0.70**
	September	**-2.1**	**0.9**	**-0.7**	**3.1**	**3.4**	**3.3**	**2.2**	**± 0.33**	**3.8**	**2.9**	**3.5**	**2.5**	**± 0.84**
	October	**-1.9**	**0.9**	**-0.5**	**3.0**	**3.4**	**3.2**	**2.2**	**± 0.37**	**3.7**	**9.5**	**5.9**	**3.0**	**± 0.95**
	November	**-1.5**	**1.1**	**-0.2**	**3.0**	**3.5**	**3.3**	**2.3**	**± 0.41**	**3.9**	**9.0**	**5.9**	**3.1**	**± 1.03**
	December	**-1.2**	**1.1**	**-0.1**	**3.0**	**3.6**	**3.3**	**2.4**	**± 0.46**	**4.1**	**8.4**	**5.8**	**3.1**	**± 1.09**
	2008 January	**-1.3**	**1.0**	**-0.1**	**3.0**	**3.5**	**3.3**	**2.3**	**± 0.49**	**3.9**	**13.0**	**7.3**	**3.5**	**± 1.13**
	February	**-1.3**	**0.9**	**-0.2**	**3.0**	**3.4**	**3.3**	**2.3**	**± 0.53**	**3.5**	**14.9**	**7.8**	**3.5**	**± 1.20**
	March	**-1.3**	**1.0**	**-0.2**	**3.0**	**3.4**	**3.2**	**2.3**	**± 0.55**	**3.5**	**8.5**	**5.5**	**3.0**	**± 1.29**
	April	**-1.4**	**1.3**	**0.0**	**3.1**	**3.4**	**3.3**	**2.3**	**± 0.57**	**3.6**	**3.0**	**3.3**	**2.6**	**± 1.37**
	May	**-1.2**	**1.4**	**0.1**	**3.2**	**3.3**	**3.2**	**2.4**	**± 0.60**	**3.4**	**-3.7**	**0.4**	**1.9**	**± 1.47**
	June	**-1.1**	**1.4**	**0.1**	**3.2**	**3.4**	**3.3**	**2.4**	**± 0.60**	**3.4**	**-4.9**	**-0.1**	**1.8**	**± 1.60**
	July	**-1.1**	**1.2**	**0.0**	**3.3**	**3.3**	**3.3**	**2.4**	**± 0.60**	**3.3**	**-3.6**	**0.4**	**1.9**	**± 1.64**
	August	**-1.0**	**1.2**	**0.1**	**3.3**	**3.3**	**3.3**	**2.4**	**± 0.60**	**3.3**	**-2.0**	**1.1**	**2.1**	**± 1.75**
	September	**-1.0**	**1.2**	**0.1**	**3.3**	**3.3**	**3.3**	**2.4**	**± 0.60**	**3.3**	**0.5**	**2.2**	**2.4**	**± 1.82**
	October	**-1.0**	**1.3**	**0.1**	**3.3**	**3.3**	**3.3**	**2.4**	**± 0.60**	**3.3**	**3.2**	**3.2**	**2.6**	**± 1.84**
	November	**-1.0**	**1.2**	**0.1**	**3.3**	**3.3**	**3.3**	**2.4**	**± 0.60**	**3.3**	**4.9**	**3.9**	**2.8**	**± 1.85**
	December	**-1.0**	**1.2**	**0.1**	**3.2**	**3.3**	**3.3**	**2.4**	**± 0.60**	**3.3**	**4.4**	**3.7**	**2.7**	**± 1.87**

Confidence intervals are calculated with historical errors.
The figures in the shaded area are forecasts.
Source: BLS & IFL (UC3M)
Date: June 15, 2007

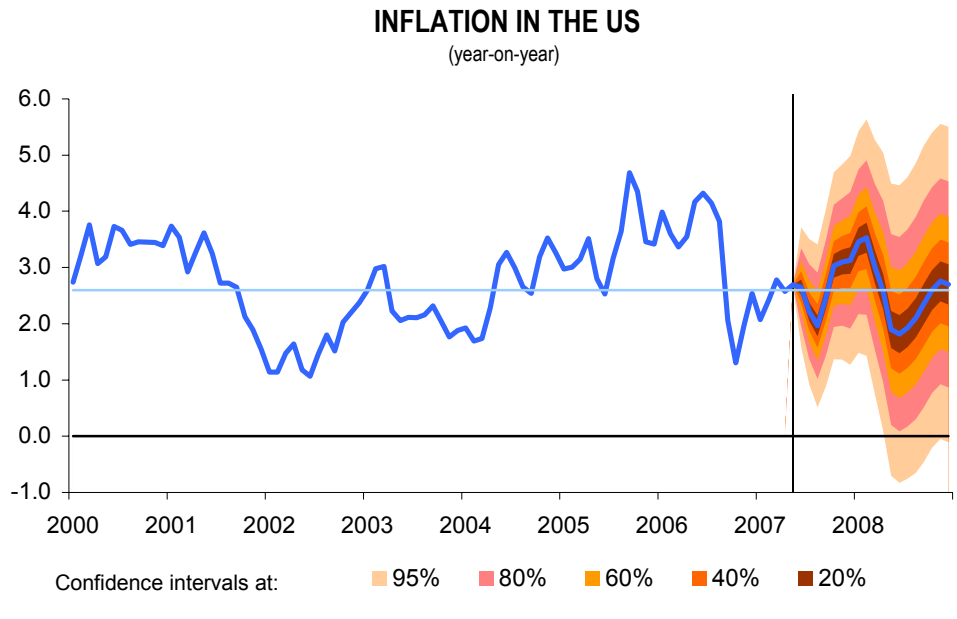
Table III.1.2.3

USA MONTHLY RATES OF GROWTH ON CPI AND ITS COMPONENTS

			CONSUMER PRICE INDEX										
			CORE INFLATION							RESIDUAL INFLATION			
			Non energy commodities less food			Non energy services							
			durables	non durables less energy	ALL	Owner's equivalent rent of primary residence	Other services	ALL	ALL	Food	Energy	ALL	ALL
		RI December 2006	11.1%	10.6%	21.7%	23.8%	31.8%	55.7%	77.4%	13.9%	8.7%	22.6%	100.0%
MONTHLY RATES (growth over the previous month)	January	2005	0.4	-0.6	-0.1	0.3	0.5	0.4	0.3	0.3	-1.2	-0.2	0.2
		2006	0.3	-0.5	-0.1	0.3	0.5	0.4	0.2	0.6	5.3	2.4	0.8
		2007	0.0	-0.3	-0.2	0.2	0.8	0.5	0.3	0.9	-0.9	0.2	0.3
		2008	**-0.1**	**-0.4**	**-0.2**	**0.2**	**0.7**	**0.5**	**0.3**	**0.6**	**3.3**	**1.7**	**0.6**
	February	2005	0.0	1.0	0.4	0.3	0.8	0.6	0.6	-0.2	2.2	0.7	0.6
		2006	0.0	0.6	0.3	0.3	0.8	0.6	0.5	-0.1	-1.6	-0.7	0.2
		2007	0.0	1.0	0.5	0.3	0.7	0.5	0.5	0.6	0.5	0.6	0.5
		2008	**-0.1**	**0.9**	**0.4**	**0.3**	**0.7**	**0.5**	**0.5**	**0.3**	**2.1**	**1.0**	**0.6**
	March	2005	-0.3	1.4	0.6	0.1	0.9	0.6	0.6	0.2	3.6	1.4	0.8
		2006	-0.2	1.8	0.9	0.3	0.7	0.5	0.6	0.0	1.2	0.5	0.6
		2007	0.0	1.1	0.5	0.2	0.4	0.3	0.4	0.2	6.8	2.7	0.9
		2008	**-0.1**	**1.3**	**0.6**	**0.3**	**0.3**	**0.3**	**0.4**	**0.1**	**0.9**	**0.5**	**0.4**
	April	2005	-0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.6	6.3	2.7	0.7
		2006	0.0	0.4	0.1	0.4	0.3	0.3	0.3	-0.2	6.8	2.6	0.9
		2007	-0.2	0.1	0.0	0.2	0.4	0.3	0.2	0.2	5.2	2.2	0.6
		2008	**-0.2**	**0.4**	**0.1**	**0.2**	**0.4**	**0.3**	**0.2**	**0.3**	**-0.2**	**0.1**	**0.2**
	May	2005	0.1	-0.2	-0.1	0.2	-0.2	0.0	0.0	0.2	-0.9	-0.2	-0.1
		2006	-0.2	-0.2	-0.1	0.5	0.0	0.2	0.1	0.3	3.9	1.8	0.5
		2007	-0.3	-0.4	-0.3	0.1	0.2	0.1	0.0	0.5	5.7	2.6	0.6
		2008	**-0.1**	**-0.3**	**-0.2**	**0.2**	**0.0**	**0.1**	**0.0**	**0.3**	**-1.1**	**-0.3**	**-0.1**
	June	2005	-0.3	-1.2	-0.8	0.1	0.3	0.2	-0.1	-0.1	1.2	0.4	0.1
		2006	-0.3	-0.8	-0.6	0.4	0.4	0.4	0.1	0.2	1.0	0.5	0.2
		2007	**-0.3**	**-0.8**	**-0.5**	**0.2**	**0.2**	**0.2**	**0.0**	**0.2**	**1.2**	**0.6**	**0.2**
		2008	**-0.2**	**-0.8**	**-0.5**	**0.3**	**0.3**	**0.3**	**0.1**	**0.2**	**0.0**	**0.1**	**0.1**
	July	2005	-0.4	-1.2	-0.8	0.2	0.6	0.4	0.1	0.2	4.1	1.7	0.5
		2006	0.0	-1.5	-0.8	0.4	0.5	0.4	0.1	0.3	1.8	0.9	0.3
		2007	**-0.2**	**-1.1**	**-0.7**	**0.3**	**0.6**	**0.5**	**0.2**	**0.3**	**-2.9**	**-1.0**	**-0.1**
		2008	**-0.2**	**-1.2**	**-0.7**	**0.3**	**0.6**	**0.4**	**0.1**	**0.2**	**-1.6**	**-0.5**	**0.0**
	August	2005	-0.4	0.6	0.1	0.2	0.1	0.1	0.1	0.1	4.5	1.8	0.5
		2006	-0.3	0.7	0.2	0.4	0.2	0.3	0.2	0.3	-0.2	0.1	0.2
		2007	**-0.2**	**0.5**	**0.1**	**0.3**	**0.3**	**0.3**	**0.2**	**0.2**	**-2.6**	**-0.9**	**0.0**
		2008	**-0.2**	**0.5**	**0.2**	**0.3**	**0.2**	**0.3**	**0.2**	**0.2**	**-1.0**	**-0.3**	**0.1**
	September	2005	0.2	1.6	0.9	0.2	-0.4	-0.1	0.1	0.3	11.5	4.8	1.2
		2006	-0.4	1.8	0.7	0.3	-0.1	0.0	0.2	0.4	-7.3	-2.9	-0.5
		2007	**-0.3**	**1.7**	**0.7**	**0.3**	**-0.1**	**0.1**	**0.2**	**0.2**	**-2.4**	**-0.8**	**0.0**
		2008	**-0.3**	**1.6**	**0.7**	**0.3**	**0.0**	**0.1**	**0.3**	**0.2**	**0.1**	**0.2**	**0.2**
	October	2005	0.3	0.8	0.6	0.2	0.6	0.4	0.5	0.4	-1.8	-0.5	0.2
		2006	0.0	0.5	0.2	0.4	0.4	0.4	0.3	0.5	-8.9	-3.3	-0.5
		2007	**0.2**	**0.5**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**-3.1**	**-1.1**	**0.0**
		2008	**0.2**	**0.6**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**-0.5**	**0.0**	**0.2**
	November	2005	0.0	-0.3	-0.1	0.2	0.0	0.1	0.0	0.2	-8.2	-3.4	-0.8
		2006	-0.3	-0.7	-0.4	0.3	-0.2	0.0	-0.1	-0.2	-0.5	-0.3	-0.1
		2007	**0.2**	**-0.5**	**-0.1**	**0.3**	**-0.2**	**0.0**	**0.0**	**0.1**	**-1.0**	**-0.3**	**-0.1**
		2008	**0.2**	**-0.5**	**-0.2**	**0.3**	**-0.1**	**0.0**	**0.0**	**0.1**	**0.7**	**0.3**	**0.1**
	December	2005	0.0	-1.1	-0.5	0.3	-0.1	0.0	-0.1	0.3	-4.1	-1.5	-0.4
		2006	-0.2	-0.9	-0.5	0.3	-0.2	0.0	-0.1	0.1	2.7	1.1	0.1
		2007	**0.1**	**-0.9**	**-0.4**	**0.3**	**-0.1**	**0.1**	**-0.1**	**0.3**	**2.1**	**1.0**	**0.2**
		2008	**0.1**	**-0.9**	**-0.4**	**0.3**	**-0.1**	**0.0**	**-0.1**	**0.3**	**1.6**	**0.8**	**0.1**

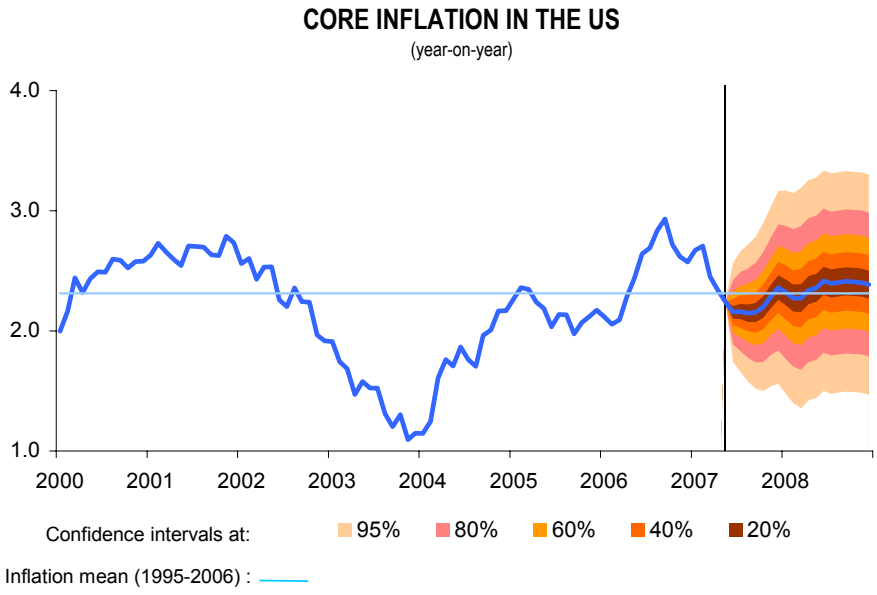
The figures in the shaded area are forecasts
Source: BLS & IFL (UC3M)
Date: June 15, 2007

Graph III.1.2.1



Source :BLS & IFL (UC3M)
Date: June 15, 2007

Graph III.1.2.2



Source :BLS & IFL (UC3M)
Date: June 15, 2007

III.2. INFLATION: MAIN POINTS AND NEW RESULTS.

In the US in May, consumer prices rose slightly more than our forecast. Indeed, the monthly rate of the general CPI was 0.61%[3] compared with a forecast 0.56%. The annual rate rose from 2.57% to 2.69%.

Table III.2.1.

DIFFERENT ANNUAL INFLATION RATE MEASURES IN THE US

	CPI		PCE[1]	MB-PCE[2]
	Headline	Core	Core	Core
	% annual	% annual	% annual	% annual
November	2.0	2.6	2.1	1.9
December	2.5	2.6	2.1	1.9
2007 January	2.1	2.7	2.2	2.0
February	2.4	2.7	2.4	2.2
March	2.8	2.5	2.1	2.0
April	2.6	2.3	2.0	1.8
May	2.7	2.2	2.0	1.7
June	2.6	2.2	1.9	1.7
July	2.2	2.2	1.9	1.7
August	2.0	2.1	1.9	1.7
September	2.5	2.2	1.9	1.7
average annual				
2004	2.7	1.8	2.0	1.5
2005	3.4	2.2	2.1	1.7
2006	3.2	2.5	2.2	1.9
2007	2.6	2.3	2.0	1.8
2008	2.6	2.4	2.1	1.7

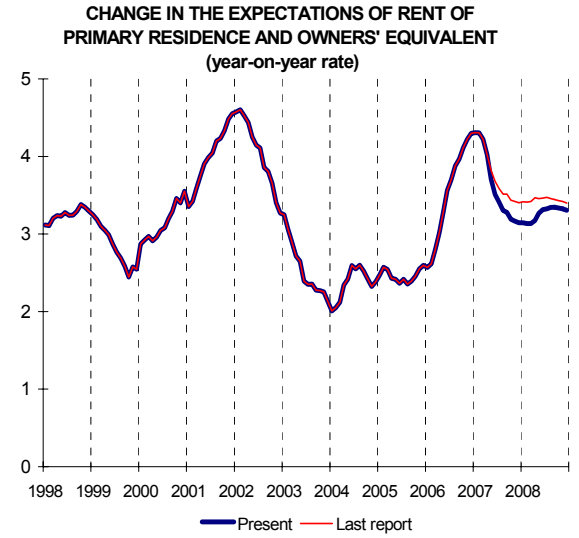
(1) PCE: chain-type price index for personal consumption expenditures
(2) MB-PCE: Market-based components of PCE prices
Source: BLS & IFL (UC3M)
Date: June 15, 2007

On the other hand, the core index figure remained unaltered from last month, exactly as forecast. The annual rate fell from 2.34% to 2.24%.

Although the core index figure was exactly as forecast, there were some innovations of opposite signs which compensated for each other. On the one hand, telecommunications services showed an upwards innovation again, on this occasion due to long distance calls, which rose by 2.7% and, on the other, non-durable goods, transport services and, especially, housing rentals, showed a downwards innovation for the second consecutive month.

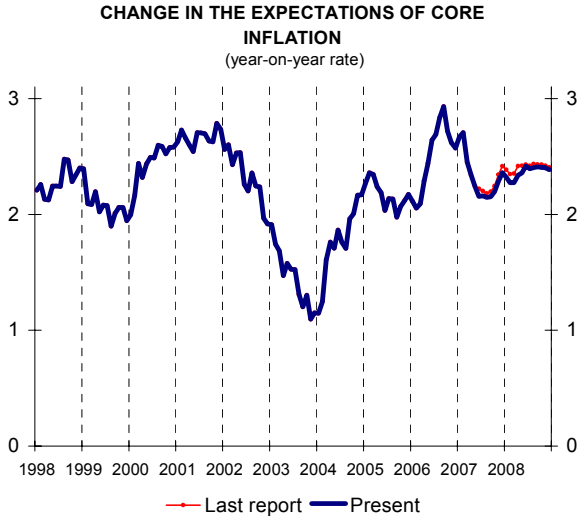
The different multiplier effects of the items registering innovations led to the slight improvement in core inflation expectations. Specifically, for 2007 and 2008, we are forecasting average annual core inflation rates of 2.3% (± 0.2)[4] and 2.4% (± 0.4), respectively, one tenth lower than the forecast published for 2007 in last month's Bulletin (see Table III.2.1 and graph III.2.2).

Graph III.2.1.



Source: BLS & IFL (UC3M)
Date: June 15, 2007

Graph III.2.2.



Source: BLS & IFL (UC3M)
Date: June 15, 2007

Outside core inflation, food and energy prices have registered variations much as expected. However, although it was forecast, there was a heavy increase in motor fuel prices, 9.4% from the previous month, increasing their annual rate from 3.20% to 5.93%. This item explains the rise in the annual total CPI rate.

[3] Unless otherwise specified, our US reports use non-seasonally adjusted data.

[4] The values in brackets correspond to 80% confidence intervals.

Motor fuel prices have reached historic peaks as a result of the refinery problems, and not due to the price of crude oil. As a result of these problems, motor fuel prices are far from equilibrium prices in relation to oil.

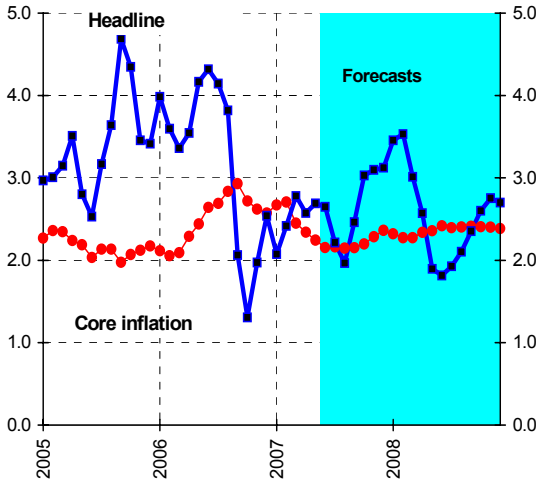
In our forecasts, we expect this situation to return to normal in the next few months, with motor fuel prices returning to equilibrium values relative to crude oil. Along these lines, in the last few weeks the price of motor fuel has fallen by 4% while the price of crude oil has risen.

Lastly, production and import prices have been in line with our forecasts.

In all, average annual inflation in the US is forecast at 2.6% (± 0.3) for 2007 and 2.6% (± 1.4) in 2008, practically as forecast last month (see Table III.2.1 and graph III.2.3).

Graph III.2.3.

DIFFERENT ANNUAL INFLATION RATES IN THE US



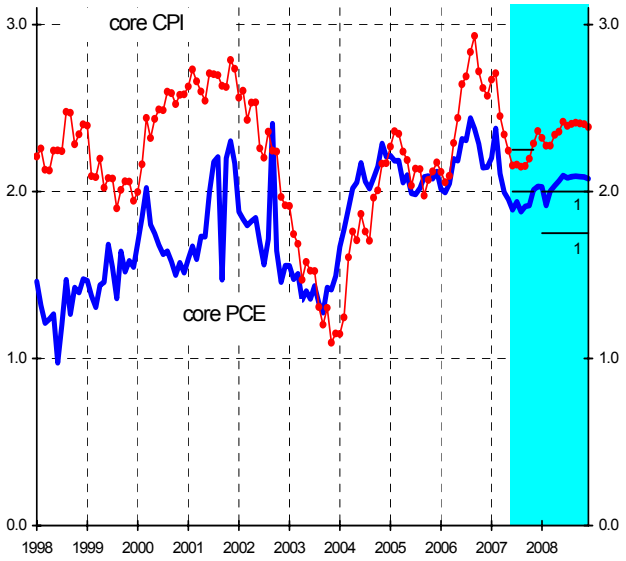
Source: BLS & IFL (UC3M)
Date: June 15, 2007

For June, we are expecting a monthly increase of 0.16% (±0.13), with the annual rate falling from 2.69% to 2.65%. For core inflation, we are forecasting a monthly increase of 0.01% (± 0.13), reducing the annual rate from 2.24% to 2.16%.

In terms of the core personal consumption expenditure index – core PCE[5] – which is the inflation indicator most closely monitored by the FED, with May's CPI figure we have revised our forecasts slightly downwards, expecting the May PCE figure – to be published at the end of June- to show an annual rate of 1.95% with an annual average of 2.02% for 2007, on the lower limit of the FED's target range. For 2008, the forecast is an average annual rate of 2.06%, slightly above the FED's target for the year (1.75 – 2.00%).

Graph III.2.4.

DIFFERENT ANNUAL CORE INFLATION RATES IN THE US



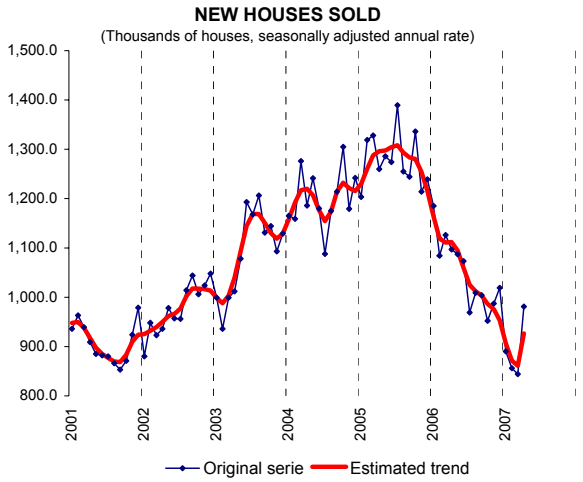
(1) Central tendency established by the FED.
Source: BLS & IFL (UC3M)
Date: June 15, 2007

With regards to the property sector and more specifically to the housing market, since last month's report the following information has been published. On the one hand, the number of new homes sold in April was much higher than expected, whereas prices fell surprisingly by 11.1% (a figure not registered since 1980). The opposite is true of existing homes. The number of units sold fell again after positive figures in January and February and a very negative month of March. However, the prices of exiting homes increased slightly. Finally, the May figures for building permits and housing starts remained practically unaltered at very low levels.

In view of the above, we confirm our opinion expressed in previous reports, in the sense that the FED will not be lowering its interest rate until the probability of meeting inflation targets is greater.

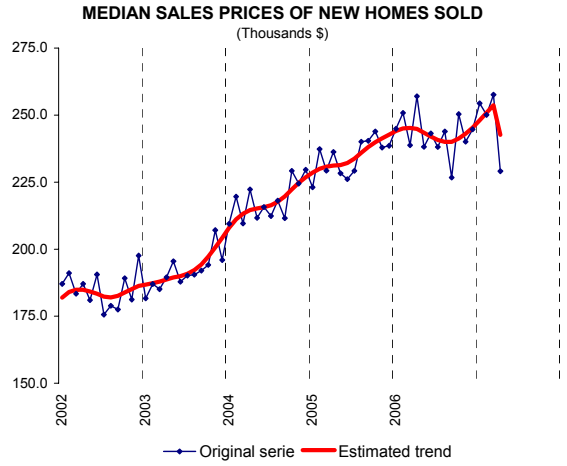
[5] The PCE (Personal Consumption Expenditure) is a price index which has the advantage over the consumer price index (CPI) that, instead of using a fixed shopping basket, it adapts to real expenditure, reflecting changes in the composition of the basket between the periods compared.

Graph III.2.5



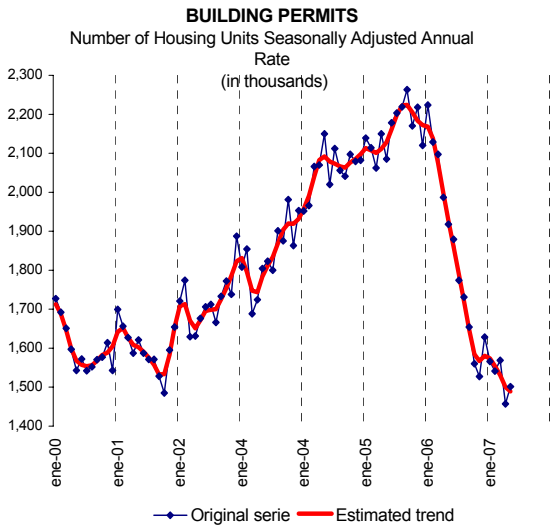
Source: The U.S. Census Bureau and the Department of Housing and Urban Development & IFL (UC3M)
Date: May 24, 2007

Graph III.2.6



Source: The U.S. Census Bureau and the Department of Housing and Urban Development & IFL (UC3M)
Date: May 24, 2007

Graph III.2.7



Source: The U.S. Census Bureau and the Department of Housing and Urban Development & IFL (UC3M)
Date: June 19, 2007

III.3. OTHER TABLES AND PLOTS.

Tables:

- CPI observed values and forecasts in the US.

Plots:

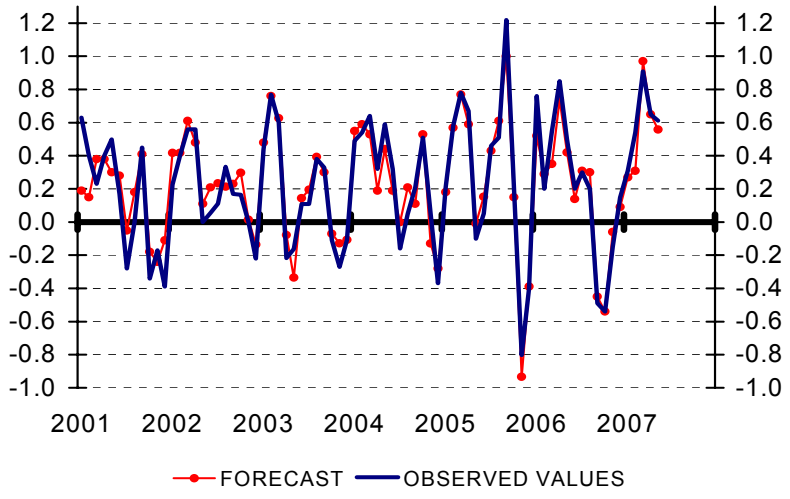
- CPI monthly growth rates.
- Commodities less food and energy (year-on-year rates).
- Some medical care services (year-on-year rates).
- Rent of primary residence (year-on-year rates).
- Services (year-on-year rates).
- Motor fuel (index).
- West Texas Intermediate (dollars per barrel).
- Change in the expectations of headline inflation (year-on-year rates).

OBSERVED VALUES AND FORECAST ON CPI IN US
(May 2007)

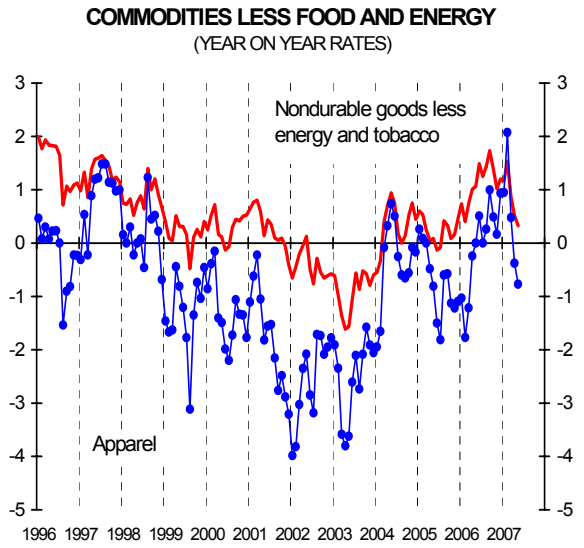
CONSUMER PRICES INDEX (CPI)	Relative importance Dec. 2006	Annual Growth (T^{1}_{12}) observed	Monthly Growth (T^{1}_{1}) observed (a)	Monthly Growth (T^{1}_{1}) forecasts (b)	Confidence Intervals at 80% level (+ -)
Food (1)	13.9	3.91	0.48	**0.47**	0.32
Energy (2)	8.7	4.67	5.70	**5.15**	1.28
Residual Inflation (3=2+1)	**22.6**	**4.23**	**2.61**	**2.38**	**0.51**
Non-food and non-energy goods (4)	**21.7**	**-0.69**	**-0.34**	**-0.17**	**0.25**
Less tobacco	21.0	-0.92	-0.36	**-0.18**	0.23
-Durable goods	11.1	-1.97	-0.31	**-0.29**	0.30
-Nondurable goods	10.6	0.71	-0.36	**-0.05**	0.37
Non-energy services (5)	**55.7**	**3.43**	**0.13**	**0.07**	**0.15**
-Services less owner's equivalent rent of primary residence (5-a)	31.8	3.36	0.16	**-0.05**	0.22
-Owner's equivalent rent of primary residence (a)	23.8	3.52	0.10	**0.23**	0.12
Core Inflation (6=4+5)	**77.4**	**2.24**	**0.00**	**0.00**	**0.13**
Core inflation less owner's equivalent rent of primary residence (6-a)	53.6	1.69	-0.04	**-0.10**	0.17
Core inflatión less owner's equivalent rent of primary residence and tobacco	52.9	1.63	-0.05	**-0.10**	0.17
Headline Inflation (7=6+3)	**100.0**	**2.69**	**0.61**	**0.56**	**0.13**
All items less owner's equivalent rent of primary residence (7-a)	76.2	2.44	0.77	**0.66**	**0.17**

Source: BLS & IFL (UC3M)
Date: June 15, 2007

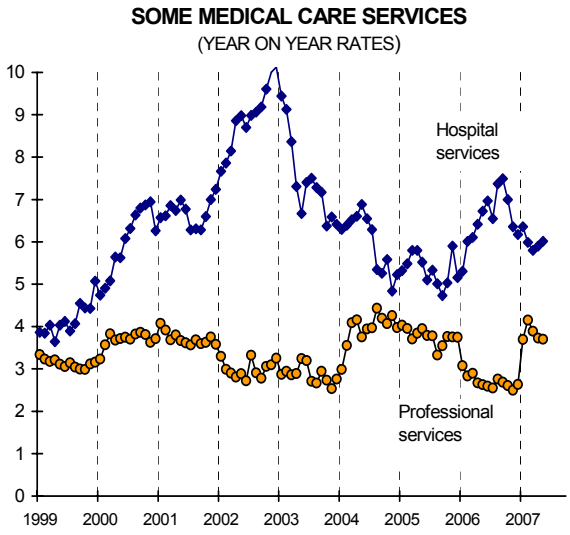
CPI MONTHLY GROWTH RATES IN USA



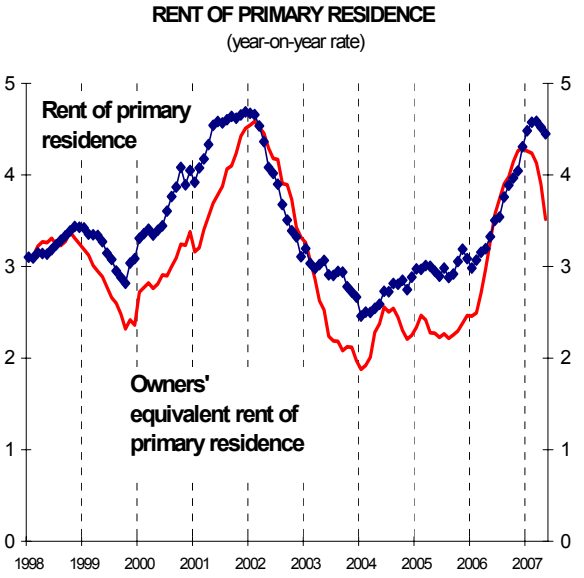
Source :BLS & IFL (UC3M)
Date: June 15, 2007



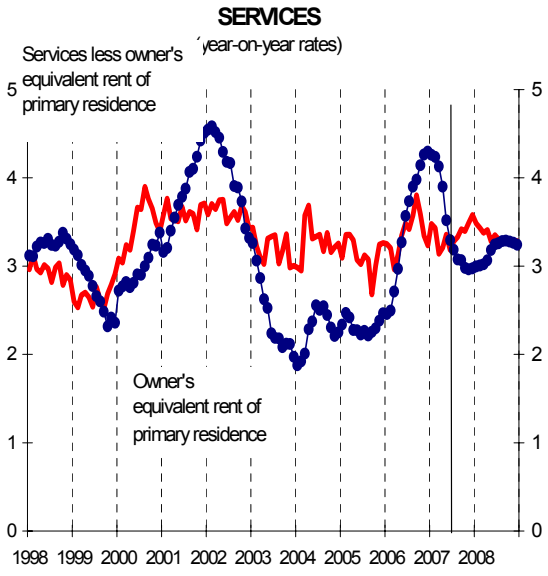
Source: BLS & IFL (UC3M)
Date: June 15, 2007



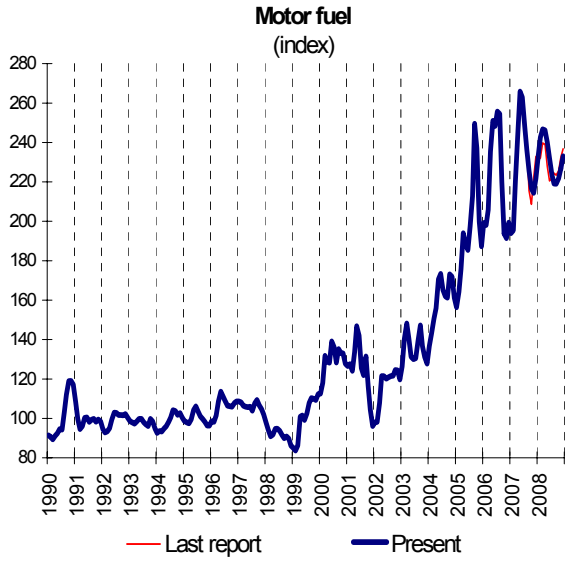
Source: BLS & IFL (UC3M)
Date: June 15, 2007



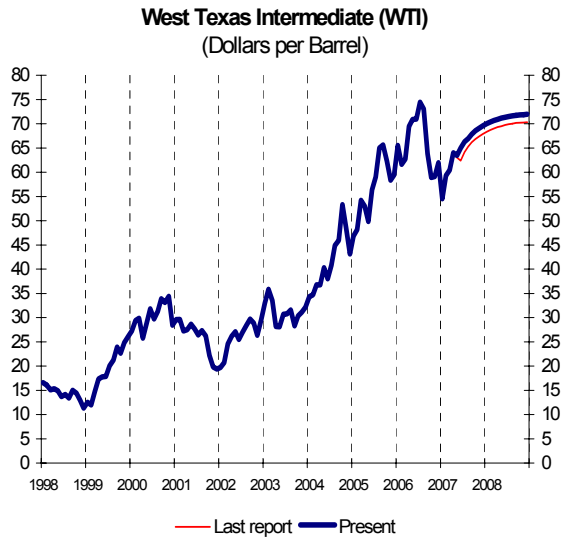
Source: BLS & IFL (UC3M)
Date: June 15, 2007



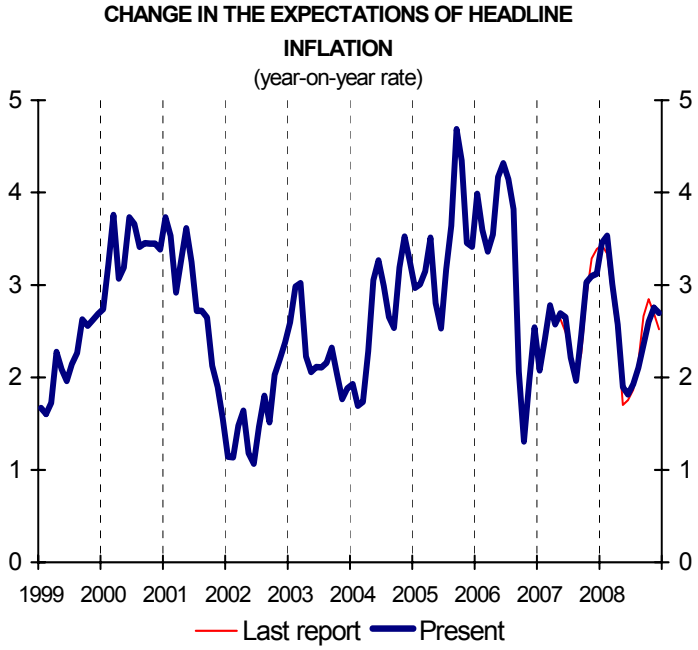
Source: BLS & IFL (UC3M)
Date: June 15, 2007



Source: BLS & IFL (UC3M)
Date: June 15, 2007



Source: BLS & IFL (UC3M)
Date: June 15, 2007



Source: BLS & IFL (UC3M)
Date: June 15, 2007

IV. THE SPANISH ECONOMY.

IV.1 MACROECONOMIC FORECASTS.

IV.1.1 MACROECONOMIC TABLE AND INDICATORS OF SPANISH ECONOMY: ANNUAL RATES.

MACROECONOMIC TABLE AND INDICATORS				
	Annual Rates			
	2005	2006	Forecasts	
			2007	2008
Private Final Consumption Expenditure	4.2	3.7	3.4	3.3
Public Final Consumption Expenditure	4.8	4.4	4.8	5.4
Gross Fixed Capital Formation	7.0	6.3	6.2	5.1
Equipment	9.0	9.7	11.1	8.1
Building	6.0	5.9	4.9	4.2
Other products	7.5	3.2	3.3	4.3
National Demand (1)	5.2	4.9	4.6	4.4
Exports of Goods and Services	1.5	6.2	5.2	4.9
Imports of Goods and Services	7.0	8.4	6.7	6.8
Foreign demand (1)	-1.7	-1.0	-0.8	-1.0
GDP (a)	**3.5**	**3.9**	**3.8**	**3.4**
GDP, current prices	7.8	7.8	7.1	6.7
Prices and Costs (b)				
CPI, annual average	3.4	3.5	2.6	2.9
CPI, dec./dec.	3.7	2.7	3.1	2.9
Compensation per employee	2.6	3.5	3.1	3.1
Unit labour cost	2.2	2.7	2.3	2.2
Labour Market (Data poll labour force) (2) (c)				
Labour Force (% change)	3.2 / 3.5	3.3	2.9	2.8
Employment (EAPS)				
Annual average change in %	4.8 / 5.6	4.1	3.2	2.9
Annual average change in thousands	870.3/1002.4	774.4	635.5	601.0
Unemployment rate	9.6 / 9.2	8.5	8.2	8.1
Basic balances (a)				
Foreign sector				
Current Account (m.€.)	-67.580	-82.944	-95.140	-105.977
Net lending or borrowing (% GDP) (3)	-7.5	-8.5	-9.1	-9.5
Public Administration				
Net lending or borrowing (% GDP) (3)	1.1	1.8	1.2	1.0
Other Economic Indicators (d)				
Industrial Production Index	0.1	3.7	3.6	2.8

(1) Contribution to the GDP growth
(2) Annual Rate EAPS Testigo / Annual Rate EAPS 2005
(3) In terms of National Accounts

Source: INE & IFL(UC3M)
Date: (a) May 23, 2007
(b) June 22, 2007
(c) April 27, 2007
(d) June 5, 2007

IV.1.2 QUARTERLY FORECASTS OF SPANISH GDP AND COMPONENTS OF DOMESTIC AND FOREIGN DEMAND.

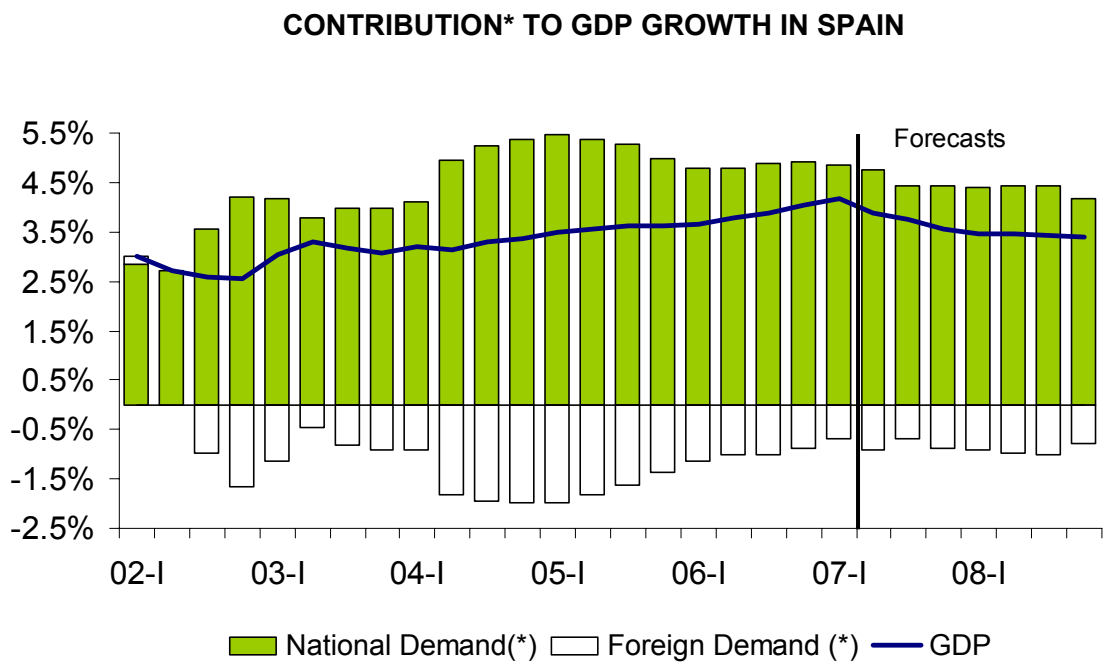
Table IV.1.2.1

ANNUAL GROWTH RATES IN GDP AND COMPONENTS IN SPAIN

			Final Consumption Expenditure		Gross Fixed Capital Formation				National Demand (1)	Exports of goods and services	Imports of goods and services	Foreign Demand (1)	Real GDP
			Private	Public	Total	Equipment	Building	Other Products					
ANNUAL AVERAGE RATES		2003	2.8	4.8	5.9	4.1	6.3	7.2	**3.8**	3.7	6.2	**-0.8**	**3.0**
		2004	4.2	6.3	5.0	4.4	5.5	4.5	**4.9**	4.1	9.6	**-1.7**	**3.2**
		2005	4.2	4.8	7.0	9.0	6.0	7.5	**5.2**	1.5	7.0	**-1.7**	**3.5**
		2006	3.7	4.4	6.3	9.7	5.9	3.2	**4.9**	6.2	8.4	**-1.0**	**3.9**
		2007	3.4	4.8	6.2	11.1	4.9	3.3	**4.6**	5.2	6.7	**-0.8**	**3.8**
		2008	3.3	5.4	5.1	8.1	4.2	4.3	**4.4**	4.9	6.8	**-1.0**	**3.4**
ANNUAL RATES *	2006	QI	3.7	4.3	6.3	8.6	5.8	4.8	**4.8**	9.5	11.6	**-1.1**	**3.7**
		QII	3.6	4.4	6.2	9.1	5.8	3.3	**4.8**	4.9	7.3	**-1.0**	**3.8**
		QIII	3.6	4.2	6.4	9.6	6.2	3.0	**4.8**	3.4	6.0	**-1.0**	**3.8**
		QIV	3.7	4.9	6.4	11.4	5.7	1.7	**4.9**	7.3	8.8	**-0.9**	**4.0**
	2007	QI	3.5	5.2	6.6	12.1	5.6	2.5	**4.8**	4.2	5.6	**-0.7**	**4.1**
		QII	3.4	5.3	6.4	12.6	4.7	3.2	**4.8**	5.5	7.2	**-0.9**	**3.9**
		QIII	3.3	4.8	5.8	10.7	4.6	2.5	**4.4**	7.0	7.7	**-0.7**	**3.7**
		QIV	3.2	4.1	5.9	9.2	4.8	4.9	**4.4**	4.3	6.2	**-0.8**	**3.6**
	2008	QI	3.3	5.7	5.1	8.2	3.9	4.8	**4.4**	3.5	5.7	**-0.9**	**3.5**
		QII	3.2	5.5	5.2	8.3	4.2	4.2	**4.4**	5.7	7.6	**-1.0**	**3.4**
		QIII	3.2	5.3	5.1	8.0	4.3	4.0	**4.4**	5.4	7.5	**-1.0**	**3.4**
		QIV	3.2	5.3	5.1	7.8	4.2	4.1	**4.2**	5.1	6.5	**-0.8**	**3.4**

The figures in the shaded area are forecasts.
(*) Year-on-year rates.
(1) contribution to GDP growth
Source: INE & IFL (UC3M)
Date: May 23, 2007

Graph IV.1.2.1



Source INE & IFL (UC3M)
Date: May 23, 2007

Table IV.1.2.2

ANNUAL GROWTH RATES IN GDP AND COMPONENTS IN SPAIN

			GROSS VALUE ADDED								
			Agriculture	Energy	Industry	Construction	Market services	Non-market services	TOTAL	Tax	Real GDP
ANNUAL AVERAGE RATES		2003	-0.7	4.5	0.9	5.1	2.6	4.2	**2.6**	6.6	**3.0**
		2004	1.9	2.2	0.4	5.1	3.6	3.7	**3.1**	4.4	**3.2**
		2005	-10.0	3.8	0.3	5.4	4.6	3.5	**3.2**	5.7	**3.5**
		2006	0.3	2.0	3.3	5.3	3.4	4.0	**3.5**	6.3	**3.9**
		2007	-1.1	-1.6	4.0	4.8	3.5	4.2	**3.5**	5.2	**3.8**
		2008	-1.4	1.6	3.0	4.5	3.2	4.1	**3.2**	4.6	**3.4**
ANNUAL RATES *	2006	QI	-3.2	3.2	1.9	5.3	3.9	3.9	**3.4**	6.2	**3.7**
		QII	0.1	3.2	2.8	5.0	3.5	3.6	**3.5**	6.7	**3.8**
		QIII	-0.5	3.9	4.0	5.8	3.2	3.8	**3.6**	5.5	**3.8**
		QIV	4.3	-2.1	4.4	5.0	3.3	4.5	**3.7**	6.7	**4.0**
	2007	QI	0.8	-2.2	5.1	4.9	3.9	4.2	**4.0**	4.9	**4.1**
		QII	-0.7	-2.5	4.6	5.0	2.9	4.4	**3.3**	6.5	**3.9**
		QIII	0.0	-3.4	3.2	4.5	3.2	4.5	**3.2**	5.5	**3.7**
		QIV	-4.3	1.9	3.1	4.8	3.8	3.7	**3.5**	4.1	**3.6**
	2008	QI	2.1	1.6	3.0	4.6	3.0	5.0	**3.3**	5.1	**3.5**
		QII	-1.8	1.5	3.1	4.5	3.0	3.7	**3.1**	4.4	**3.4**
		QIII	-3.9	1.5	2.9	4.5	3.7	4.0	**3.3**	4.4	**3.4**
		QIV	-1.6	1.6	3.1	4.4	3.3	3.7	**3.2**	4.4	**3.4**

The figures in the shaded area are forecasts.
(*) Year-on-year rates
Source: INE & IFL (UC3M)
Date: May 23, 2007

IV.1.3 INDUSTRIAL PRODUCTION INDEX AND PRODUCTION SECTORS IN SPAIN: MONTHLY AND QUARTERLY FORECASTS.

Table IV.1.3.1

ANNUAL GROWTH RATES IN THE IPI AND SECTORS IN SPAIN

			Durable Consumer	Non durable Consumer	Consumer Goods	Capital Equipment	Intermediate Goods	Energy	TOTAL
ANNUAL AVERAGE RATE		2003	-0.6	0.7	0.5	0.8	2.1	3.9	1.6
		2004	0.1	0.0	0.0	1.9	1.9	4.9	1.8
		2005	-1.0	0.3	0.2	-0.7	-0.6	2.9	0.1
		2006	10.6	0.8	2.1	8.2	3.8	0.9	3.7
		2007	**6.7**	**2.8**	**3.3**	**6.9**	**3.1**	**0.6**	**3.6**
		2008	**2.1**	**1.7**	**1.8**	**6.0**	**2.1**	**2.2**	**2.8**
ANNUAL RATES*	2006	QI	7.8	4.3	4.7	11.6	6.5	3.5	6.4
		QII	6.7	-1.9	-0.8	4.1	1.3	0.9	1.2
		QIII	13.9	-0.9	0.9	7.0	3.7	2.5	3.2
		QIV	14.2	2.0	3.7	10.6	4.0	-3.2	4.1
	2007	QI	16.9	3.2	5.0	8.9	4.9	-4.4	4.3
		QII	**5.2**	**2.3**	**2.7**	**6.2**	**1.8**	**3.4**	**3.2**
		QIII	**1.2**	**2.1**	**2.0**	**5.9**	**2.0**	**0.4**	**2.5**
		QIV	**4.2**	**3.4**	**3.5**	**6.7**	**3.6**	**3.7**	**4.2**
	2008	QI	**-3.5**	**-2.9**	**-2.9**	**0.3**	**-2.2**	**3.1**	**-1.2**
		QII	**4.3**	**3.6**	**3.7**	**8.3**	**4.4**	**1.0**	**4.6**
		QIII	**5.0**	**3.2**	**3.5**	**8.8**	**3.3**	**1.9**	**4.2**
		QIV	**2.8**	**3.0**	**3.0**	**7.0**	**3.2**	**2.8**	**3.8**

The figures in the shaded area are forecasts.
* Year-on-year rates.
Source: INE & IFL (UC3M)
Date: June 5, 2007

Table IV.1.3.2

OBSERVED VALUES AND FORECASTS IN THE IPI ANNUAL RATES IN SPAIN

	2002	2003	2004	2005	**2006**	**2007**	**2008**
January	-2.1	-0.1	-2.9	0.8	5.4	7.5	**1.6**
February	-0.9	1.7	1.8	-1.0	2.7	3.6	**3.6**
March	-10.6	9.7	7.2	-6.7	11.0	2.3	**-8.1**
April	11.4	-4.5	0.7	7.4	-9.8	6.5	**13.8**
May	-2.0	-1.2	2.7	0.1	8.1	**3.2**	**-2.2**
June	-5.2	4.5	5.7	-0.2	5.2	**0.3**	**3.2**
July	3.6	1.9	0.0	-3.5	4.2	**4.6**	**5.8**
August	-3.4	-1.4	5.3	3.7	5.0	**1.9**	**-2.2**
September	2.4	2.5	3.8	0.2	1.1	**0.6**	**7.1**
October	5.1	0.8	-7.0	-0.1	7.3	**6.8**	**4.0**
November	0.3	1.4	4.3	0.9	4.1	**2.7**	**0.5**
December	3.5	4.2	1.2	1.4	0.6	**3.0**	**7.7**

The figures in the shaded area are forecasts.
Source: INE & IFL (UC3M)
Date: June 5, 2007

IV.1.4 INFLATION.

Table IV.1.4.1

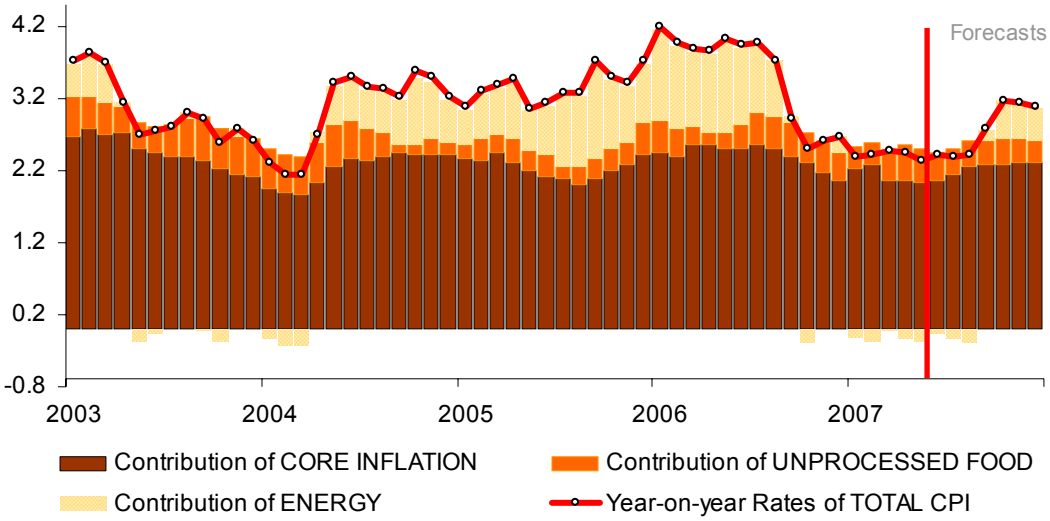
FORECASTS IN THE ANNUAL AVERAGE RATE IN INFLATION IN SPAIN

Consumer Price Index (CPI)	2004	2005	2006	Forecast	
				2007	2008
TOTAL (100%)	3.0	3.4	3.5	**2.6**	**2.9**
CORE (82.3%)	2.7	2.7	2.9	**2.7**	**2.7**
Processed food (16.8%)	3.6	3.4	3.6	**2.6**	**2.6**
Non-energy industrial goods (29.0%)	0.9	0.9	1.4	**1.0**	**1.2**
Services (36.5%)	3.7	3.8	3.9	**4.0**	**4.0**
RESIDUAL (17.7%)	4.7	6.5	6.3	**2.4**	**3.5**
Non-Processed food (8.1%)	4.6	3.3	4.4	**4.5**	**3.9**
Energy (9,6%)	4.8	9.6	8.0	**0.6**	**3.2**

Source: INE & IFL (UC3M)
Date: June 22, 2007

Graph IV.1.4.1

YEAR-ON-YEAR RATE OF INFLATION IN SPAIN AND CONTRIBUTIONS OF MAIN COMPONENTS



Source INE & IFL (UC3M)
Date: June 22, 2007

Table IV.1.4.2

CPI ANNUAL GROWTH BY COMPONENTS IN SPAIN

		Consumer Prices Index									
		Core					Residual				
		Processed food	Non energy industrial goods	Services	TOTAL	Confidence intervals at 80% *	Non processed food	Energy	TOTAL	TOTAL 100%	Confidence intervals at 80% *
	Weights 2007	16.8%	29.0%	36.5%	82.3%		8.1%	9.6%	17.7%		
ANNUAL AVERAGE RATE	1999	2.1	1.5	3.4	2.4		1.2	3.2	2.2	2.3	
	2000	0.9	2.1	3.7	2.5		4.2	13.3	8.8	3.4	
	2001	3.4	2.4	4.2	3.5		8.7	-1.0	3.6	3.6	
	2002	4.3	2.5	4.6	3.7		5.8	-0.2	2.6	3.5	
	2003	3.0	2.0	3.7	2.9		6.0	1.4	3.6	3.0	
	2004	3.6	0.9	3.7	2.7		4.6	4.8	4.7	3.0	
	2005	3.4	0.9	3.8	2.7		3.3	9.6	6.5	3.4	
	2006	3.6	1.4	3.9	2.9		4.4	8.0	6.3	3.5	
	2007	**2.6**	**1.0**	**4.0**	**2.7**	**± 0.11**	**4.5**	**0.6**	**2.4**	**2.6**	**± 0.25**
	2008	**2.6**	**1.2**	**4.0**	**2.7**	**± 0.41**	**3.9**	**3.2**	**3.5**	**2.9**	**± 0.79**
ANNUAL RATES (growth of the month over the same month of the previous year)	2006 January	3.7	1.4	3.8	2.9		5.3	14.8	10.1	4.2	
	2006 February	3.4	1.5	3.8	2.9		4.5	13.3	9.1	4.0	
	2006 March	4.5	1.5	3.7	3.1		3.3	11.8	7.7	3.9	
	2006 April	3.9	1.4	4.1	3.1		2.1	12.2	7.4	3.9	
	2006 May	3.9	1.5	3.9	3.0		2.4	14.4	8.7	4.0	
	2006 June	3.9	1.5	3.9	3.0		3.9	12.0	8.2	3.9	
	2006 July	4.0	1.5	4.0	3.1		5.4	10.1	7.9	4.0	
	2006 August	3.6	1.5	3.9	3.0		5.4	8.2	7.0	3.7	
	2006 September	3.5	1.3	3.9	2.9		5.6	0.9	3.0	2.9	
	2006 October	3.4	1.3	3.8	2.8		5.2	-1.9	1.3	2.5	
	2006 November	2.9	1.2	3.7	2.6		5.0	0.3	2.5	2.6	
	2006 December	2.2	1.2	3.7	2.5		4.5	2.6	3.5	2.7	
	2007 January	2.9	1.2	3.8	2.7		3.5	-1.3	0.9	2.4	
	2007 February	3.5	1.0	3.8	2.8		3.7	-1.8	0.8	2.4	
	2007 March	2.3	0.8	3.9	2.5		5.2	-0.3	2.3	2.5	
	2007 April	2.2	0.9	3.9	2.5		6.4	-1.5	2.2	2.4	
	2007 May	2.3	0.7	4.0	2.5		6.0	-1.7	1.9	2.3	
	2007 June	**2.3**	**0.8**	**4.0**	**2.5**	**± 0.17**	**4.8**	**-0.4**	**2.0**	**2.4**	**± 0.17**
	2007 July	**2.3**	**1.1**	**4.0**	**2.6**	**± 0.24**	**4.6**	**-1.4**	**1.4**	**2.4**	**± 0.31**
	2007 August	**2.7**	**1.1**	**4.0**	**2.8**	**± 0.31**	**4.2**	**-1.9**	**0.9**	**2.4**	**± 0.44**
	2007 September	**2.8**	**1.2**	**4.0**	**2.8**	**± 0.34**	**4.0**	**1.6**	**2.8**	**2.8**	**± 0.54**
	2007 October	**2.8**	**1.1**	**4.1**	**2.8**	**± 0.36**	**4.3**	**5.6**	**5.0**	**3.2**	**± 0.62**
	2007 November	**2.9**	**1.1**	**4.1**	**2.8**	**± 0.36**	**4.2**	**5.4**	**4.9**	**3.2**	**± 0.65**
	2007 December	**2.9**	**1.1**	**4.1**	**2.8**	**± 0.41**	**3.5**	**5.0**	**4.3**	**3.1**	**± 0.73**
	2008 January	**2.5**	**1.1**	**4.1**	**2.7**	**± 0.43**	**3.8**	**5.6**	**4.8**	**3.1**	**± 0.78**
	2008 February	**2.4**	**1.1**	**4.1**	**2.7**	**± 0.48**	**4.2**	**6.0**	**5.1**	**3.1**	**± 0.80**
	2008 March	**2.5**	**1.3**	**4.1**	**2.8**	**± 0.50**	**4.1**	**4.7**	**4.4**	**3.1**	**± 0.81**
	2008 April	**2.5**	**1.2**	**3.8**	**2.6**	**± 0.51**	**3.6**	**3.7**	**3.6**	**2.8**	**± 0.81**
	2008 May	**2.5**	**1.3**	**3.9**	**2.7**	**± 0.52**	**3.9**	**2.8**	**3.3**	**2.8**	**± 0.82**
	2008 June	**2.6**	**1.3**	**4.0**	**2.7**	**± 0.54**	**3.6**	**2.0**	**2.7**	**2.7**	**± 0.86**
	2008 July	**2.6**	**1.3**	**4.0**	**2.7**	**± 0.55**	**3.7**	**2.1**	**2.8**	**2.7**	**± 0.88**
	2008 August	**2.6**	**1.3**	**4.0**	**2.7**	**± 0.57**	**3.9**	**2.5**	**3.1**	**2.8**	**± 0.90**
	2008 September	**2.6**	**1.3**	**4.0**	**2.7**	**± 0.56**	**3.9**	**2.5**	**3.1**	**2.8**	**± 0.90**
	2008 October	**2.6**	**1.3**	**4.0**	**2.7**	**± 0.58**	**4.0**	**2.4**	**3.1**	**2.8**	**± 0.90**
	2008 November	**2.6**	**1.3**	**4.0**	**2.8**	**± 0.59**	**4.1**	**2.4**	**3.2**	**2.8**	**± 0.90**
	2008 December	**2.6**	**1.3**	**4.0**	**2.8**	**± 0.61**	**4.4**	**2.4**	**3.3**	**2.9**	**± 0.90**

* Confidence intervals calculated with historical errors.

The figures in the shaded areas are forecasts

Source: INE & IFL (UC3M)

Date: June 22, 2007

Table IV.1.4.3

CPI MONTHLY GROWTH BY COMPONENTS IN SPAIN

MONTHLY RATES (Growth of the month over the previous month)

		Consumer Prices Index							
		Core				Residual			
		Processed food	Non energy industrial goods	Services	TOTAL	Non processed food	Energy	TOTAL	TOTAL 100%
	Weights 2007	16.8%	29.0%	36.5%	82.3%	8.1%	9.6%	17.7%	
January	2005	0.4	-3.8	0.6	-1.0	1.0	-0.8	0.1	-0.8
	2006	0.3	-3.6	0.5	-1.0	1.0	3.5	2.4	-0.4
	2007	1.0	-3.6	0.6	-0.8	0.0	-0.3	-0.2	-0.7
	2008	**0.7**	**-3.6**	**0.6**	**-0.9**	**0.2**	**0.3**	**0.3**	**-0.7**
February	2005	0.1	-0.2	0.5	0.2	-0.7	2.0	0.7	0.3
	2006	-0.1	-0.1	0.5	0.1	-1.5	0.7	-0.3	0.0
	2007	**0.4**	**-0.3**	**0.4**	**0.2**	**-1.3**	**0.2**	**-0.5**	**0.1**
	2008	**0.3**	**-0.3**	**0.4**	**0.2**	**-0.9**	**0.5**	**-0.1**	**0.1**
March	2005	0.4	1.0	0.6	0.7	0.3	1.9	1.1	0.8
	2006	1.4	1.0	0.5	0.9	-0.9	0.6	-0.1	0.7
	2007	0.3	0.8	0.6	0.6	0.6	2.0	1.4	0.8
	2008	**0.3**	**1.1**	**0.6**	**0.7**	**0.5**	**0.8**	**0.7**	**0.7**
April	2005	0.9	3.0	0.2	1.3	1.1	2.6	1.9	1.4
	2006	0.3	2.8	0.7	1.4	-0.1	3.1	1.6	1.4
	2007	0.2	2.9	0.7	1.3	1.1	1.9	1.5	1.4
	2008	**0.3**	**2.8**	**0.4**	**1.2**	**0.7**	**0.9**	**0.8**	**1.1**
May	2005	0.1	0.5	0.1	0.3	0.0	-0.2	-0.1	0.2
	2006	0.1	0.6	-0.1	0.2	0.4	1.7	1.1	0.4
	2007	0.2	0.4	-0.1	0.2	0.0	1.5	0.8	0.3
	2008	**0.1**	**0.5**	**0.0**	**0.2**	**0.3**	**0.6**	**0.5**	**0.3**
June	2005	0.1	-0.1	0.4	0.1	-0.1	1.3	0.6	0.2
	2006	0.1	-0.1	0.4	0.1	1.3	-0.7	0.2	0.2
	2007	**0.1**	**0.0**	**0.4**	**0.2**	**0.2**	**0.5**	**0.3**	**0.2**
	2008	**0.2**	**-0.1**	**0.4**	**0.2**	**-0.1**	**-0.3**	**-0.2**	**0.1**
July	2005	0.0	-3.7	0.6	-1.1	-0.5	3.3	1.5	-0.6
	2006	0.1	-3.7	0.7	-1.0	0.9	1.5	1.2	-0.6
	2007	**0.1**	**-3.5**	**0.7**	**-0.9**	**0.7**	**0.5**	**0.6**	**-0.6**
	2008	**0.1**	**-3.5**	**0.7**	**-0.9**	**0.8**	**0.6**	**0.7**	**-0.6**
August	2005	0.1	-0.1	0.6	0.2	0.9	1.9	1.4	0.4
	2006	-0.3	-0.1	0.5	0.1	0.9	0.2	0.5	0.2
	2007	**0.1**	**-0.1**	**0.6**	**0.3**	**0.5**	**-0.4**	**0.0**	**0.2**
	2008	**0.1**	**-0.1**	**0.6**	**0.3**	**0.7**	**0.1**	**0.4**	**0.3**
September	2005	0.2	1.3	-0.4	0.3	0.5	3.1	1.9	0.6
	2006	0.1	1.1	-0.4	0.2	0.6	-3.8	-1.8	-0.2
	2007	**0.1**	**1.2**	**-0.4**	**0.2**	**0.5**	**-0.4**	**0.0**	**0.2**
	2008	**0.1**	**1.2**	**-0.4**	**0.2**	**0.5**	**-0.4**	**0.0**	**0.2**
October	2005	0.2	2.8	0.1	1.1	0.2	-0.7	-0.3	0.8
	2006	0.0	2.7	0.0	0.9	-0.2	-3.5	-2.0	0.4
	2007	**0.1**	**2.7**	**0.1**	**0.9**	**0.0**	**0.3**	**0.2**	**0.8**
	2008	**0.1**	**2.7**	**0.1**	**0.9**	**0.1**	**0.2**	**0.1**	**0.8**
November	2005	0.5	1.1	0.0	0.5	0.6	-2.9	-1.3	0.2
	2006	0.0	1.0	0.0	0.3	0.4	-0.7	-0.2	0.2
	2007	**0.1**	**1.0**	**-0.1**	**0.3**	**0.4**	**-0.9**	**-0.3**	**0.2**
	2008	**0.1**	**1.0**	**0.0**	**0.4**	**0.5**	**-0.9**	**-0.2**	**0.2**
December	2005	0.7	-0.2	0.5	0.3	1.9	-1.9	-0.1	0.2
	2006	0.1	-0.2	0.5	0.1	1.4	0.4	0.9	0.3
	2007	**0.1**	**0.5**	**0.5**	**0.2**	**0.8**	**0.0**	**0.3**	**0.2**
	2008	**0.1**	**-0.2**	**0.5**	**0.2**	**1.0**	**0.0**	**0.5**	**0.2**

The figures in the shaded area are forecasts.
Source: INE & IFL (UC3M)
Date: June 22, 2007

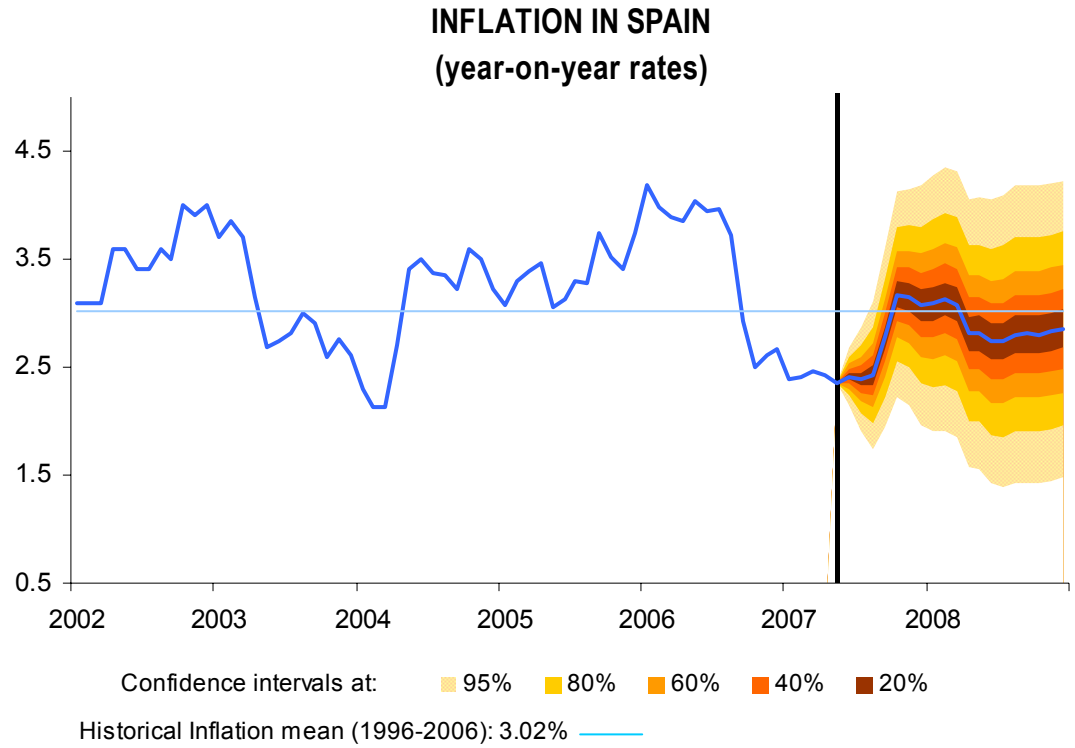
Table IV.1.4.4

CPI ANNUAL AVERAGE GROWTH RATES BY COMPONENTS IN SPAIN WITH FORECASTS FOR 2007 AND 2008

				Weights 2007	2003	2004	2005	2006	2007	2008
CPI Total	Core Inflation	Processed food	AE less tobacco & fats	13.4	3.1	2.9	2.5	2.8	3.2	3.0
			Oils & Fats	1.0	18.4	9.4	10.5	23.4	-18.4	-0.5
			Tobacco	2.4	0.2	0.4	6.6	1.5	8.7	1.2
			Processed food	16.8	3.0	3.6	3.4	3.6	2.6	2.6
		Non energy industrial goods	Vehicles	6.3	1.7	1.6	1.8	2.3	1.8	1.9
			Footwear	1.9	3.6	1.9	2.2	1.6	1.5	2.7
			Clothing	7.0	3.8	1.8	1.1	1.1	0.9	0.9
			Rest	13.8	0.9	0.3	0.5	1.2	0.8	0.9
			Non energy industrial goods	29.0	2.0	0.9	0.9	1.4	1.0	1.2
		Services	Postal services	0.0	6.2	3.1	2.7	5.7	3.6	0.0
			Cultural services	1.6	2.0	3.0	2.7	2.4	2.9	2.8
			Education	1.1	3.3	3.6	4.1	3.5	4.1	4.0
			Hotels	0.7	4.3	3.0	2.3	3.6	6.0	5.5
			Health	2.1	4.1	3.2	4.0	4.1	4.2	4.0
			Household equipment	1.6	4.6	4.4	4.5	4.4	4.3	4.6
			Restaurants	10.9	4.4	4.1	4.3	4.5	4.8	4.8
			Telephone	3.5	-1.3	-1.1	-1.6	-1.4	0.2	0.2
			Transports	5.1	4.3	4.4	4.4	4.2	3.3	3.5
			Package holidays	1.3	1.8	1.4	2.2	3.1	2.8	7.2
			University	0.5	5.4	4.9	4.6	5.0	5.0	4.0
			Housing	5.2	4.3	4.5	4.8	4.7	4.8	4.6
			Rest	2.8	4.3	4.2	3.8	4.3	3.8	3.9
			Services	36.5	3.7	3.7	3.8	3.9	4.0	4.0
		Core Inflation		82.3	2.9	2.7	2.7	2.9	2.7	2.7
	Residual Inflation	Non processed foods	Meat	3.0	8.7	7.4	3.8	6.0	6.6	5.3
			Fruits	1.5	1.1	1.1	2.7	0.1	1.7	1.9
			Eggs	0.2	3.1	3.7	-3.2	2.8	1.1	-0.2
			Vegetables	1.0	-2.7	-1.5	5.4	-0.8	3.9	2.5
			Mollusc	0.7	1.5	1.1	5.4	2.3	0.3	3.9
			Potatoes	0.3	23.0	24.2	-8.2	17.6	11.8	8.2
			Fish	1.5	3.7	4.4	3.8	5.7	3.2	3.5
			Non processed foods	8.1	6.0	4.6	3.3	4.4	4.5	3.9
		Energy	Heat energy	5.5	1.4	7.1	12.3	6.6	-0.6	3.6
			Fuels	0.4	6.1	12.0	26.8	11.8	-3.8	8.8
			Electricity and gas	3.6	0.8	0.8	4.0	9.6	2.6	2.0
			Energy	9.6	1.4	4.8	9.6	8.0	0.6	3.2
		Residual Inflation		17.7	3.6	4.7	6.5	6.3	2.4	3.5
	CPI Total			100.0	3.0	3.0	3.4	3.5	2.6	2.9

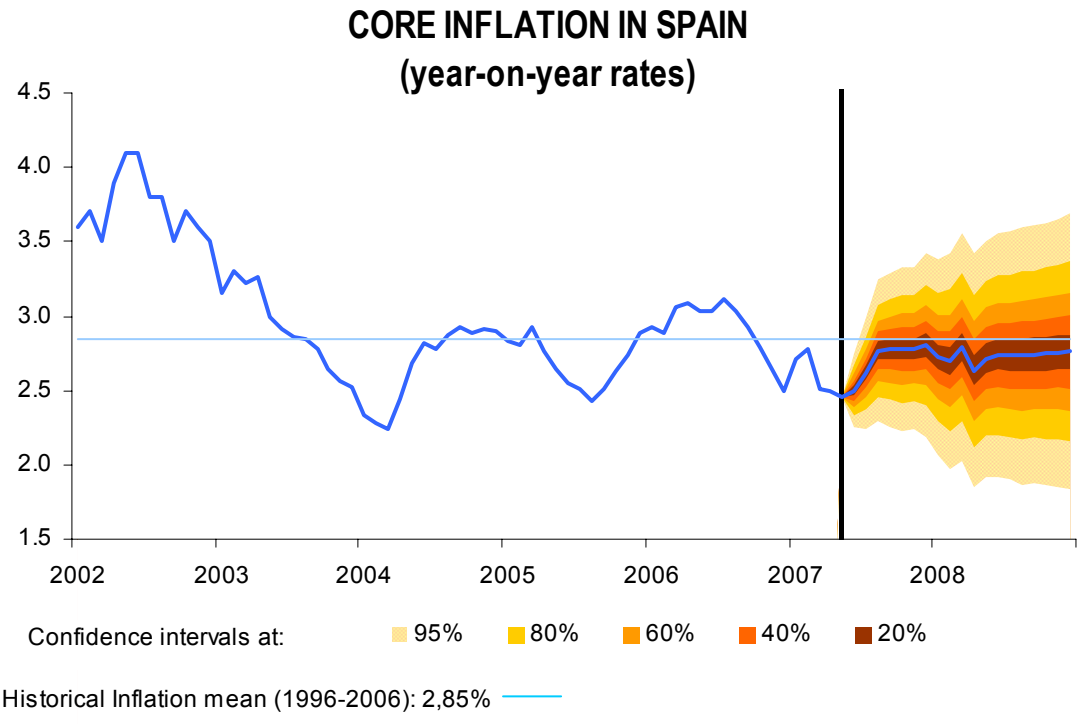
Bold figures are forecasts
Source: INE & IFL (UC3M)
Date: June 22, 2007

Graph IV.1.4.2



Source INE & IFL (UC3M)
Date: June 22, 2007

Graph IV.1.4.3



Source INE & IFL (UC3M)
Date: June 22, 2007

IV.2 ANALYSIS OF THE SPANISH ECONOMY.

IV.2.1 RECENT EVOLUTION OF THE SPANISH ECONOMY. QUARTERLY NATIONAL ACCOUNTS FOR THE FIRST QUARTER OF 2007 AND PERSPECTIVES FOR 2007-2008.

IV.2.1.1 Recent evolution of the Spanish economy

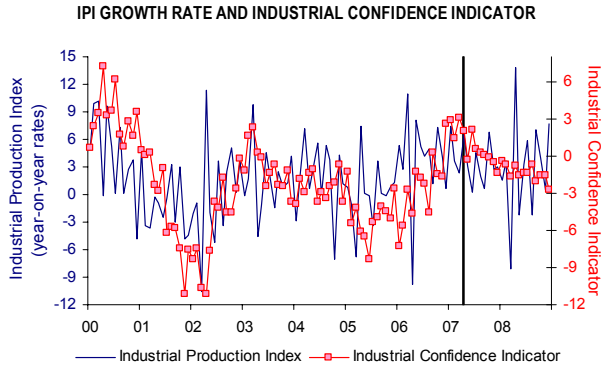
Some information about the Spanish economy has been published in the last month, largely referring to April and May. The most important indicators published include contributions to the Social Security (SS), the Industrial Production Index (IPI), the Economic Sentiment Indicator, the VAT and personal income tax returns of major corporations presented to the Tax Authorities (AEAT) and car sales. An analysis of all this information shows that the Spanish economy continues to show some strength but that there seems to be a certain loss of dynamism in the second quarter compared to the first.

In April, the *Industrial Production Index (IPI)* showed a year-on-year growth rate of 6.5%, although it falls to 4% when corrected for the working day effect, four tenths lower than the previous quarter. These figures were slightly worse than expected, because the downwards innovation registered in the intermediate goods sector was not fully compensated by the upwards innovation in the energy sector.

Furthermore, the expectations of economic agents in relation to the evolution of the Spanish industrial sector, measured through the *Industrial Confidence Indicator*, have declined for the second consecutive month according to the figures available for May. Although this indicator is still on a high level, the new forecasts estimated with the new information, have been revised downwards and continue to show that the confidence of economic agents in the evolution of the industrial sector may have reached a local peak in March. We expect the confidence of economic agents in the sector to decline in the next few months, especially after the last quarter of 2007 and throughout 2008.

In view of this information, we have revised downwards slightly (by 0.1 pp) our forecast for the average annual growth rate of production of the Spanish industrial sector, according to the IPI, to 3.6%, one tenth less than the growth registered in 2006. The capital goods sector which, together with intermediate goods, drove the consolidation of the industrial sector's recovery last year, will continue to be the most dynamic in the next two years. Indeed, we are expecting this and the intermediate goods sector to contribute around 70% to the industrial sector's growth. For 2008, we are expecting the IPI to register an average annual growth rate of 2.8%.

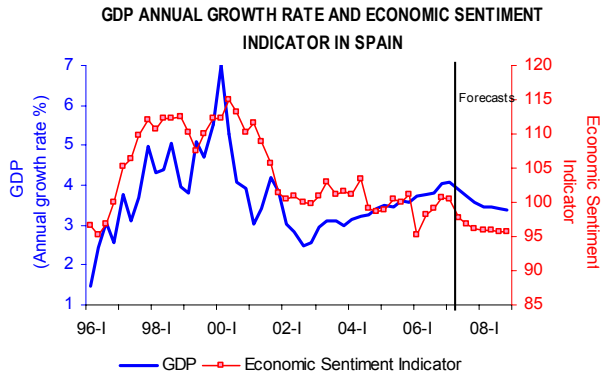
Graph IV.2.1.1.1



Source: European Commission, INE & IFL (UC3M)
Date: June 5, 2007

The *Economic Sentiment Indicator* of the Spanish economy fell to 97.4 points in May from the 98.6 registered the previous month. This fall in the general index is worse than expected, although within an 80% confidence interval. When we break down the Economic Sentiment Indicator by component, we see a fall in confidence in them all except for the retail trade. The latter has increased its confidence by three points, with 2 points less in confidence in industry and services and one in consumer confidence and construction.

Graph IV.2.1.1.2



Source: European Commission, INE & IFL (UC3M)
Date: May 31, 2007

With the May figure, the forecast for the Economic Sentiment Indicator of the Spanish economy is revised downwards again, and in the next few months it is expected to decline slightly, subsequently stabilising in the second half of 2008 at levels similar to those registered in the first quarter of 2006. This soft data, therefore, also appears to show, like the last National Accounts forecasts, that in the second quarter of 2007 there will be a slight reduction in the year-on-year rate of

GDP growth in the Spanish economy registered in the previous quarter (4.1%).

With regards to the labour market, the SS contribution information for May showed a year-on-year growth rate of 3.2%, similar to the previous month (3%), with both rates being considerably lower than those registered in the first quarter. The employment figures estimated by the Tax Authorities in the statistics related to Sales, Employment and Salaries in major corporations also shows a lower rate of growth in April (3.9%), as occurred in March. Both these rates are lower than those of the first two months of this year. The evolution of these two employment indicators is compatible with the unemployment figures registered in the Public Employment Service at the end of May, 2006, showing that the fall is slowing down, as it did in the previous month. Indeed, relative to a year earlier, there is a 1.6% fall compared with the year-on-year reduction of 2.5% in April and 4.1% in March.

This evolution of the employment and unemployment indicators show that job creation and unemployment reduction have slowed down, which will probably be seen in the second quarter's Economically Active Population Survey (EAPS) to be published at the end of July. This information about employment and unemployment in the second quarter of this year, although incomplete, supports our employment and unemployment forecasts, in EAPS terms, published in last month's Bulletin, showing slower annual growth of employment and a slower decline in unemployment.

With regards to household consumption, the available indicators show that the gradual moderation of growth continues. New car registrations in May showed a small year-on-year reduction (-0.3%), although the figure is slightly better than in the previous months. As for the sales declared by major corporations to the Tax Authorities in their April VAT returns, they show a deceleration in total sales, domestic sales and exports.

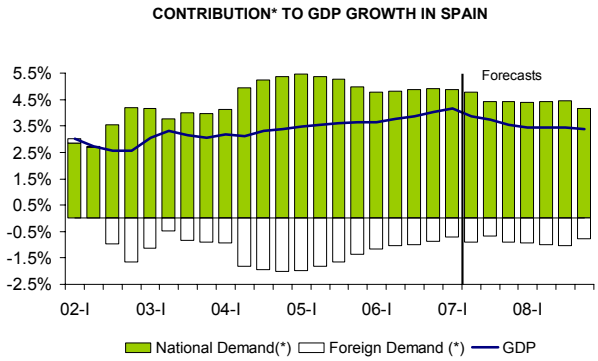
All these indicators, referring mostly to the second quarter of the year, show that the Spanish economy continues to be strong but with slightly less dynamism than the previous quarter. Therefore, in view of the year-on-year increase in GDP growth in the first quarter, which was 4.1%, we are expecting this rate of growth to be more moderate in the second quarter, consistent with the growth forecast advanced in last month's Bulletin. We then showed the new results of the Quarterly National Accounts and updated our forecasts for these macroeconomic aggregates with this new information. In the next section of this Bulletin, we continue last month's remarks with a more detailed analysis of the Quarterly National Accounts results for the first quarter of this year, and of recent trends observed in the Spanish economy together with the perspectives for 2007-2008.

IV.2.1.2 Quarterly National Accounts figures for the first quarter of 2007 and perspectives for 2007-2008.

The Spanish economy in the first quarter continued the expansionary tone of the last part of 2006. Indeed, according to the **Quarterly National Accounts** for the quarter, the GDP, in real terms and adjusted for seasonality and working day effect, showed year-on-year growth of 4.1%, one tenth greater than the previous period, and also one tenth more than the estimation advanced by the INE at the beginning of May. However, in terms of the quarter-on-quarter rate, which has an order of magnitude of approximately a quarter of the annual rate, GDP growth was 1.1%, representing deceleration of one tenth relative to the previous quarter.

This last Spanish economy growth figure is slightly higher than forecast by the IFL (3.9%) when the figures were published for the fourth quarter of 2006. The forecasting error was focused on the contribution of foreign demand to growth, which was better than expected. The contribution of national demand, however, was exactly as forecast (4.8 pp).

Graph IV.2.1.2.1



Source: INE & IFL (UC3M)
Date: May 23, 2007

When we analyse GDP growth in the first quarter, we see that the increase of one tenth in the year-on-year rate was due to an improvement in the foreign sector, which showed a negative contribution to growth to 0.7 pp, two tenths less than in the previous quarter (negative contribution of 0.9 pp). However, national demand provided one tenth less than the previous quarter, with a contribution to growth of 4.8 pp. After these results, we see that the Spanish economy is advancing, although slowly, towards a more

balanced growth than in the last few years (see graph IV.2.1.2.1). Indeed, since the second quarter of 2005, the negative contribution of foreign demand to GDP growth has been gradually falling, with national demand's contribution slowly being reduced. The perspectives show that this process of progressing towards more balanced growth will continue, although slowly, for the next few years.

GDP growth, therefore, continues to rest on national demand. When analysing the evolution of the components of this aggregate, we see that *final consumption expenditure* in the first quarter of 2007 reduced its year-on-year growth rate by one tenth to 3.9%. This deceleration was due to *private consumption*, which reduced its annual growth rate by two tenths to 3.5%. On the other hand, *public consumption* increased its rate to 5.2%, three tenths higher than the previous quarter. The deceleration of private consumption is in fact weaker than expected. It has only fallen by 0.9 points in two years. It is evident that there are different factors affecting household consumption, which have tended to compensate for each other: private consumption is encouraged by the good status of the labour market and the wealth effect, while it is discouraged by rising interest rates and high and growing household indebtedness. These last two factors are having a negative effect on private consumption, which so far has largely been compensated by the others.

On the other hand, Gross Fixed Capital Formation (GFCF) showed a year-on-year rate of variation of 6.6% in the first quarter, two tenths higher than the previous quarter. The most dynamic aggregate of this component was *investment in equipment,* which continued to grow, with a year-on-year rate of variation of 12.1%, seven tenths more than in the previous quarter. *Construction* moderated its year-on-year growth rate slightly, going from 5.7% in the last quarter of 2006 to 5.6% in the first of 2007. This reduction was due to housing investment, the year-on-year growth rate of which fell by two tenths to 4.8%, whereas the rate rose slightly to 6.5% in other constructions.

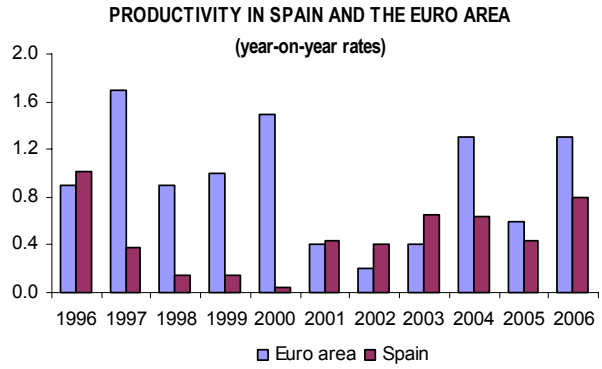
With regards to the evolution of *imports and exports* of goods and services in real terms in the first quarter, both of them moderated their year-on-year growth rate. The former reduced their rate by 3.2 points to 5.6%, while the latter did it by 3.1 points to 4.2%. This caused a decrease of two tenths in the negative contribution of external demand, to 0.7 points. Both in imports and exports, this deceleration was due to goods. However, both the spending of foreign tourists visiting Spain and of Spanish tourists abroad showed expansionary growth relative to the previous quarter. The first of these two items increased its year-on-year growth by four tenths to 2.4% and the second grew by nearly 2 points to 9.2%, showing that, as in recent years, Spaniards are becoming more likely to travel abroad.

From the supply perspective, growth continues to rest on *construction* and *services*, although accompanied since the middle of last year by *non-energy industry,* which in the first quarter of this year showed a year-on-year growth rate above that of construction. In the first quarter of 2007, non-energy industry was the most dynamic sector, with a year-on-year rate of variation of 5.1%, 0.7 points more than the previous quarter, thus continuing the rising trend which started at the beginning of the second half of 2005. Construction has been leading growth since the end of the nineties, when the property boom started, but the results of the last quarter point to the start of gentle correction of growth. Indeed, in the first quarter, its GVA registered a year-on-year rate of variation of 4.9%, one tenth less than the previous quarter, and it would appear that this deceleration will continue. Services registered a 4% rate in the first quarter of this year, half a point more than in the previous period. Within services, market services accelerated by 0.6 points to 3.9% and non-market services decelerated by 0.3 points to 4.2%. Both *agriculture* and *energy* reduced their year-on-year rates of growth in the first quarter. The former went from 4.3% to 0.8% and the latter slightly increased its negative year-on-year rate from 2.1% to 2.2%.

Full-time equivalent employment decelerated slightly in the first quarter of 2007 with a year-on-year rate of variation of 3%, one tenth less than in the previous quarter, an evolution consistent with EAPS employment for the period. Wage earners employment continues to show an expansionary tone, increasing its annual growth rate by two tenths to 3.4%. However, non wage earners employment grew at a significantly lower year-on-year rate (0.9%) and also decelerated.

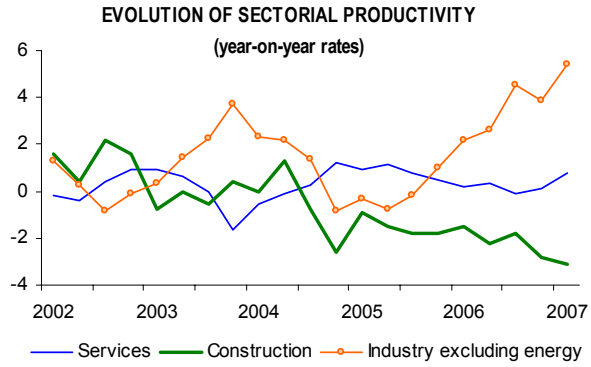
As a result of the increase in the annual GDP rate and the deceleration of the full-time equivalent employment, there was a small increase in the year-on-year growth rate of productivity per employee, which grew by one tenth to 1%, continuing the rising trend which started at the beginning of last year after years of very low rates which were next to stagnant. In spite of the modest recovery of our productivity in the last year, it is still much lower than that of our competitors, and continues to be an obstacle for our competitiveness (see graph IV.2.1.2.2).

Graph IV.2.1.2.2



Source: EUROSTAT & INE
Date: May 23, 2007

Graph IV.2.1.2.3



Source: INE
Date: May 23, 2007

However, this improvement in productivity since the first quarter of 2006 is largely due to non-energy industry, whereas the other sectors have not recovered or are clearly worse, as is the case for construction and energy. Furthermore, the recovery in industry is largely due to the higher growth rate of the product, which is closely linked to exports and, in particular, to the recovery of the euro area.

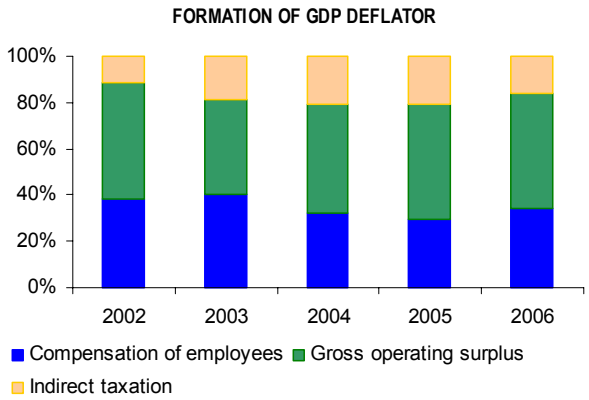
In the first quarter of 2007, the greatest growth in productivity continued to be found in non-energy industry, which continued the expansionary process which started in mid-2004 and increased its year-on-year rate of variation by 1.5 pp to 5.4%, due both to GVA growth and moderation of employment. Services recovered productivity by increasing their year-on-year growth rate from 0.1% in the fourth quarter of last year to 0.8%, due both to the expansionary tone of the product and the reduced growth rate in employment. The productivity values in both construction and energy continued to fall with year-on-year rates of -3.1% and -1.8%, respectively.

With regards to the *distribution of income*, the latest National Accounts figures show a slight increase in the growth of *compensation of employees* of one tenth, to a year-on-year rate of 7%. There was also moderation of net indirect taxation, with a year-on-year rate of 5.4%, whereas *gross operating surplus and mixed income* continued its expansionary tone with a year-on-year rate of 8.8%.

As a result of growth in compensation of employees and full-time wage earners employment, compensation per employee have reduced their growth rate by three tenths in the first quarter of 2007, largely due to the smaller effect of wage revision clauses this year than last year, resulting from the fact that the deviation of inflation at the end of the year relative to the inflation target (2%) was less in 2006 than in 2005. This lower growth in compensation per employee, together with the small increase in productivity, reduced the year-on-year growth of Unit Labour Costs (ULC) by four tenths to 2.4%. In any event, this growth rate continues to be significantly higher than in the euro area.

Graph IV.2.1.2.4 shows the participation of compensation per employee, gross operating surplus and net indirect taxation on the formation of the GDP deflator. These magnitudes are expressed in unit of product, so when we multiply their rate of variation by their weight in the GDP we obtain their contribution to the GDP deflator. We can see how compensation per employee, as a general rule in the last few years, have lost weight in their contribution to the GDP deflator and were therefore not an inflationist factor. However, both the gross operating surplus and net indirect taxes gained weight in the formation of the GDP deflator and were indeed inflationist factors.

Graph IV.2.1.2.4



Source: INE
Date: May 23, 2007

Most recent trends in the Spanish economy

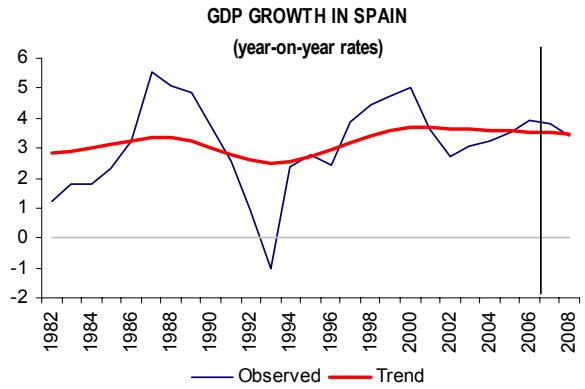
In 2006, the Spanish economy performed better than expected in the first few months of the year. The forecasts estimated at the time pointed to a moderation or stabilisation of growth and we expected an average annual GDP growth rate of around 3.4%. However, as new results appeared for the different economic indicators, the observed figures were better than forecast, so the subsequent revisions to our forecasts were systematically in an upwards direction. In the first quarter of 2007, the year-on-year GDP growth rate (4.1%) was one tenth higher than the previous quarter and also exceeded the forecast, although the quarter-on-quarter rate shows a slight reduction.

When explaining the failure in the initial growth forecasts for 2007, we find several reasons including, firstly, the fact that the recovery of the euro area is being stronger than expected and the rest of the world economy is also stronger than expected. On the other hand, the internal demand of the Spanish economy is also stronger than forecast, especially in the second half of last year, largely due to the fact that construction remained strong for much longer than expected, and also to the unexpected rise in private consumption towards the end of 2006.

In 2006, the Spanish economy exceeded its potential growth rate which, according to different estimations, was around 3.5%, so in the first quarter of this year the Spanish economy is clearly growing above its potential (see graph IV.2.1.2.5). The graph shows the estimated growth in GDP and its trend using the Hodrick-Prescot filter. The deviations observed from the trend, which can be considered as the cyclical component of the GDP (output gap), are shown in graph IV.2.1.2.6.

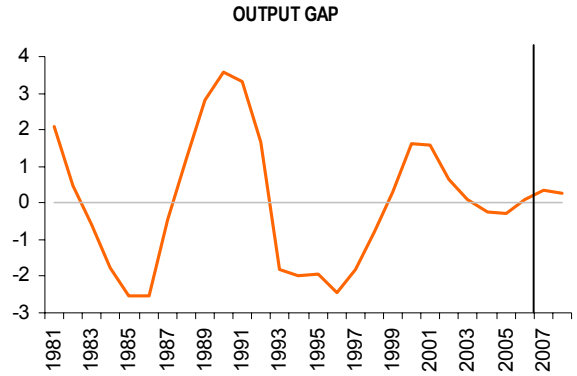
One characteristic observed in the current expansionary phase is that the GDP growth rates are lower than in previous cycles and that, therefore, the cyclic intensity in this cycle is less than on the previous one (see graph IV.2.1.2.5). On the other hand, we see an increase in potential growth in the second half of the nineties and the first few years of this century which can be calculated at half a point, with a rate of 3.5%, around which it still remains. The increase in potential growth is largely due to the heavy increase in the population derived from strong migratory flows. Together with the increasing number of women joining the labour market, this has increased the rate of activity and labour supply. In turn, there has been a significant reduction in the structural unemployment rate or non-accelerating inflation rate of unemployment (NAIRU), so potential employment has increased significantly and also, therefore, the potential product. In this respect, the latest estimations of the NAIRU are at around 8.5%, close to the observed unemployment rate, while the rate was double just ten years ago.

Graph IV.2.1.2.5



Trend calculated with the Hodrick-Prescot filter (Lambda 50)
Source: INE (EAPS)
Date: May 23, 2007

Graph IV.2.1.2.6



Source: INE (EAPS)
Date: May 23, 2007

In 2006, the Spanish economy continued the pattern of growth registered in the last few years, based on internal demand and intensive in the creation of employment, supported by construction and services, labour-intensive sectors with low productivity rates. Low productivity and the maintenance of a large inflation differential have made our economy less competitive, leading the trade balance to unprecedented levels. However, in 2005, 2006 and the first quarter of this year, this unbalanced growth was partly corrected by gradually reducing the contribution of national demand to GDP growth while gradually and simultaneously registering an improvement in the external demand (see graph IV.2.1.2.1), in spite of which the current account deficit remains at historic high levels.

Employment has continued to grow at a good rate (see Bulletin No. 152, May, 2007) but with a more moderate year-on-year rate of growth. As we have mentioned repeatedly in previous reports, the weak

point of this employment-intensive pattern of growth is the low productivity growth rate, which has been practically stagnant for the last few years. Together with a maintained high differential with our leading competitors, this is making the economy less competitive. In a way, this labour-intensive performance is due to heavy growth in immigration, which has provided a large and malleable work force and moderated salary growth.

With regards to the international context, for 2007 and 2008, according to European Commission estimations, we are expecting a slight deceleration of the world GDP (excluding the EU), with a growth rate of around 5.3, largely resulting from the expected fall in the American economy. Our forecasts for the euro area have been revised slightly upwards for 2007 to 2.7% and stay at 2.5% for 2008. The interest rates established by the European Central Bank might continue to rise, although they would continue to be low for the Spanish economy. The main risk is the persistence of the upwards evolution of oil prices. The mean price for 2007 is expected to reach 66 dollars per barrel, more than the mean price in 2006 (65.3 dollars per barrel), when two months ago the mean price expected for 2007 was 60 dollars. This series of hypotheses points to a slightly downwards scenario for the next two years.

Perspectives

In view of the latest National Accounts figures for the first quarter of 2007, the recent behaviour of some of the most relevant indicators and the expected evolution of the international context for 2007-2008, our forecasts for the macroeconomic table of the Spanish economy for the period have been revised (see tables IV.1.2.1 and IV.1.2.2).

These new estimations have not altered the previous GDP growth forecast for 2007, but they have changed its composition somewhat. For 2008, expected GDP growth falls by one tenth to 3.4%.

The new forecasts show that the contribution of national demand to growth will continue to fall gradually, with the contribution of foreign demand improving slightly. Private consumption will continue to moderate its growth rate and, in 2007 it will register an average annual rate of 3.4%, three tenths less than in 2006, with 3.3% forecast for 2008. Both these rates represent a downwards revision of one tenth relative to the previous forecast. Household consumption will be discouraged by rising interest rates and high household indebtedness. The wealth effect will be weaker and employment will continue to be strong, but less so than the previous year. In turn, private consumption will be encouraged in 2006 by lower inflation and the small increase in disposable income derived from the Tax Reform.

The forecast for public consumption remains unaltered at an average annual rate for 2007 of 4.8%, four tenths more than in 2006, with 5.4% expected for 2008. The expansion of this item in the forecasting horizon is largely justified by the regional and municipal elections in 2007 and the general elections in 2008.

The construction forecast remains unaltered at an average annual rate of 4.9% for 2007, one percentage point less than last year, and 4.2% for 2008. The expected moderation of this aggregate is based on the housing segment, which will probably continue its adjustment process as observed in the last two quarters. However, civil works and other constructions will continue to show some strength. Investments in equipment have been revised upwards for the forecasting horizon. For 2007, the average annual growth rate will be 11.1%, nearly one and a half points more than in 2006 and 0.9 pp more than our previous forecast. For 2008, we are forecasting 8.1% instead of the previous 5.7%.

With regards to the expected evolution of imports and exports, they will reduce their respective growth rates in 2007 relative to 2006 although, in 2008, this will only be true of exports, which will continue growing less than in the previous year. This evolution will enable a slight improvement in the contribution of external demand in 2007 and a worsening in 2008. Exports have been revised downwards slightly, to an average annual forecast growth rate of 5.2%, one point less than in 2006, and imports are likewise revised to 6.7%. As a result of this expected evolution of foreign trade flows, we expect the contribution of foreign demand to GDP growth to improve in 2007 compared with the previous forecast, by one tenth to -0.8 pp. With regards to the current account balance, we expect it to continue to become more negative in the forecasting horizon, but slower than in the last few years. In 2006 it was -8.5% of the GDP and for 2007 and 2008 it is expected to be -9.1% and -9.5%, respectively, showing that the deterioration registered in previous years is slowing down.

With regards to the labour market, both the active population and employment are expected to continue to grow at a good pace, although less than in previous years. According to the forecasts estimated with EAPS data, average annual growth of employment is expected to be 3.2% for 2007 and 2.9% for 2008, rates representing 636 thousand new jobs in 2007 and 601 thousand for the following year. As for the active population, the average annual growth rate is forecast at 2.9% for 2007 and 2.8% for 2008. This expected evolution of the active

population and employment represents a reduction in the growth rate compared to 2006 and a small downwards revision of our previous forecasts. As a result of the expected labour supply and demand, the unemployment rate estimated in our previous forecasts remains unaltered and is expected to be 8.2% in 2007 and 8.1% in 2008, lower than the 2006 rate (8.5%) but which show a certain reluctance to fall below 8%.

As for compensation of employees, it is expected to continue to be moderated as in previous years, with a year-on-year growth rate of 3.1% in each year of our forecasting horizon, four tenths less than in 2006. This moderation, together with a small gain in productivity per employee, moderates the expected ULC to 2.3% in 2007 and 2.2% in 2008, versus the 2.7% of 2006.

IV.2.2 INFLATION.

In May, the CPI grew slightly less than expected: a monthly rate of 0.27% versus the forecast 0.31%. The annual rate was 2.3%, the lowest so far this year.

By component, this evolution was the result of small innovations in different directions in core inflation which compensated for each other, and a downwards innovation in the prices of unprocessed food.

In May, core inflation remained at the 2.5% registered in the two previous months, as forecast. However, its components registered small innovations, the most significant of which was downwards in non-energy industrial goods (0.7% instead of the expected 0.9%), which was compensated by more than expected growth in processed food prices (particularly fats) and services (particularly tourist packages).

Outside core inflation, energy prices performed as expected, with a 1.7% decrease relative to the same month of last year, whereas unprocessed food prices registered a downwards innovation in practically all components, except for meat.

Table IV.2.2.1.

ANNUAL CPI GROWTH RATES IN SPAIN*

CPI	Observed			Forecasts		
	Aver 2005(2)	Aver 2006(2)	2007 May (1)	**2007 Jun (1)**	**Aver 2007(2)**	**Aver 2008(2)**
CORE (82,3%)	2.7	2.9	2.5	**2.5 (±0.17)**	**2.7 (±0.11)**	**2.7 (±0.41)**
TOTAL (100%)	3.4	3.5	2.3	**2.4 (±0.17)**	**2.6 (±0.25)**	**2.9 (±0.79)**

* 80% confidence intervals calculated with historical errors.

Source: INE & IFL(UC3M)
Date: June 22, 2007

(1) Year-on-year rate
(2) Annual average rate

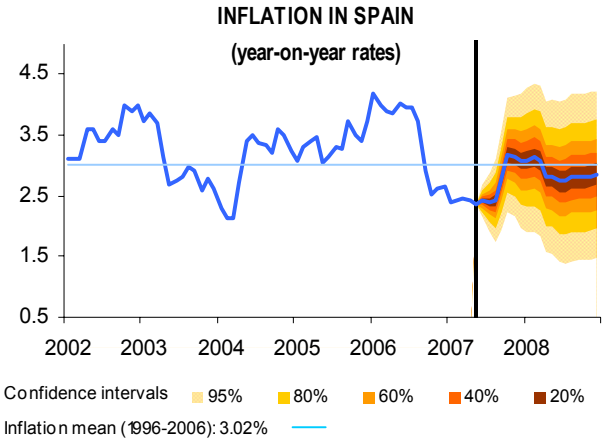
When updating our forecasts with the May figures, the inflation forecast remains at around 2.4% in the next few months, rising at the end of the year. There has been a small downwards revision in these annual rates, so instead of expecting them to end the year at around 3.3-3.2%, we are now forecasting 3.2-3.1%. The year end rates are important as they are used to review pensions, agreements and contracts with review clauses. For 2008, after a first quarter with values of 3.1%, we are expecting inflation to fall to around 2.8%.

In view of the above, the inflation forecasts for 2007 and 2008 have been revised downwards by approximately 0.03 pp compared to the previous Bulletin, to average annual rates of 2.62% and 2.87%, respectively.

This revision is largely due to the downwards innovations registered in unprocessed food in May, together with expectations of lower energy price increases than those forecast last month.

Core inflation, on the other hand, has forecast average annual rates which are practically the same as those estimated last month, 2.7% for 2007 and 2008. By component, however, we see that the downwards innovations in non-energy industrial goods and upwards movements in processed food and services have led to small revisions, although hardly noticeable when rounded up to one decimal point in these components.

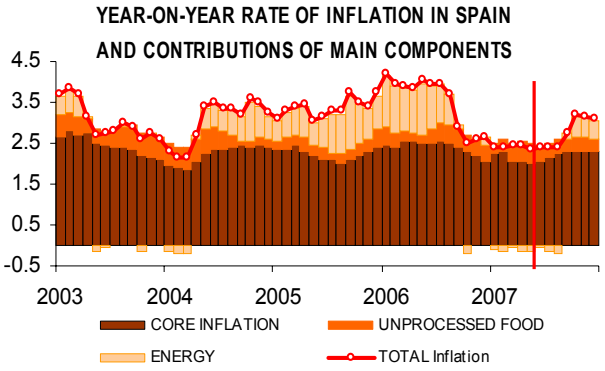
Graph IV.2.2.1



Source: INE & IFL(UC3M)
Date: June 22, 2007

Therefore, with the information for the first five months of the year, we are expecting a 0.2 pp decrease in core inflation in 2007, in relation to 2006, and 0.9 pp in headline inflation. Should these forecasts materialise, average annual inflation in Spain in 2007 will be less than 3%, something we have not seen since 1999. And it will continue in 2008 with a probability of around 50%. However, core inflation will remain at 2004-2005 levels. Graph IV.2.2.2, showing the contribution of the principal components to the annual inflation rate, shows the impact of the different evolution of energy prices on the headline inflation rates in these periods.

Graph IV.2.2.2



Source: INE & IFL(UC3M)
Date: June 22, 2007

The graphs included at the end of this section show how our forecasts for the average annual inflation rate in 2007 and 2008 have been revised over the last eighteen months, both for the total price index and for its basic components. On the abscissa, each month represents the Bulletin publishing the respective average annual rate forecast. In other words, the figure shown on the graphs for January, 2006 is the forecast average annual rate estimated with information up to December, 2005.

These graphs show a reduction in the forecast average annual headline inflation rate for 2007, starting with the August 2006 Bulletin (with information up to July, 2006) and a subsequent recovery starting with the January 2007 Bulletin. The downwards revision reached nearly one percentage point to 2.2% in the January 2007 Bulletin, and the subsequent upwards revision represented nearly half a percentage point, to the 2.6% forecast in this Bulletin.

This evolution depended a great deal on the forecasts for energy prices, which followed a similar pattern. In the last few months of 2006, there were small annual increases or even reductions in energy prices, leading to negative forecasts for their average annual rate in 2007. From the July 2006 to the February 2007 Bulletin, the average annual rate of inflation forecast for these components went from a positive 4.1% to a negative 3.1%. With the information for the first few months of 2007, however, we started to revise these forecasts upwards, and they are now at a positive value of close to zero.

Core inflation also contributed to the downwards revision of headline inflation forecasts for 2007 in the second half of 2006, as a result of the evolution of all its components. The average annual rate forecast fell by 0.4 pp in this period, to 2.5%.

From the August to the December 2006 Bulletin, the average annual rate forecast for processed food fell from 3.2% to 2.1%. Actually, the innovation leading to this downwards revision of 1.1 pp occurred in September and since then, the forecast remained at around 2.1% until the February 2007 Bulletin (except for November).

In the case of non-energy industrial goods, the downwards revision in the second half of 2006 was 0.4 pp, with a 0.3 pp decrease for services.

With regards to the other component which, together with energy, is outside core inflation (unprocessed food), it contributed to the downwards revision of the headline inflation forecast for 2007 in the second half of 2006 with a 0.5 pp reduction in its forecast.

As we mentioned earlier, from the January 2007 Bulletin, the headline inflation forecasts for 2007 were again revised upwards, but this revision, with information up to May, 2007, only recovers approximately half of the previous decrease, so the current forecast is still around half a point lower than that of the August Bulletin. As we said, this is explained by the evolution of energy forecasts, and strengthened by core inflation forecasts.

In this case, however, not all core components are contributing to the upwards revision, as for non-energy industrial goods the average annual rate forecast in the June 2007 Bulletin is 1.0%, slightly lower than the forecast at the end of 2006. The prices of services and processed food have contributed to the upwards revision. Processed food still has forecasts which are significantly lower than those estimated in the August 2006 Bulletin (half a point lower). Services, on the other hand, with the upwards revision have practically returned to the forecast estimated in the August 2006 Bulletin as they are only 0.1 pp beneath the forecast figure.

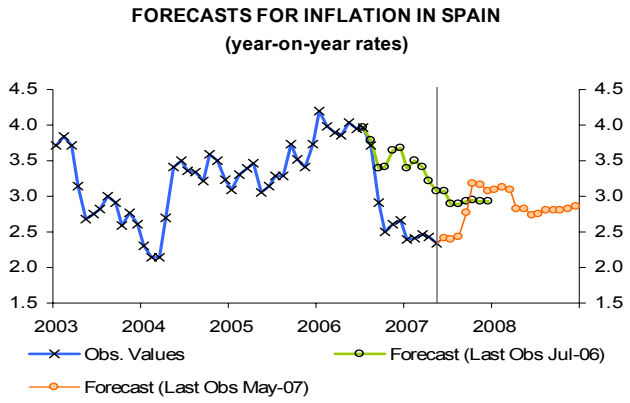
In all, the forecast average annual core inflation rate for 2007 has remained stable in the last four Bulletins, at 2.7%, 0.2 pp lower than the forecast estimated in the August 2006 Bulletin.

With regards to unprocessed foods, the graph show the enormous variability registered in the first few months of 2007, leading to significant upwards and downwards revisions in their forecast average annual rate for the year.

Graph IV.2.2.3 shows the divergence between the annual inflation forecasts with information up to July, 2006 (August Bulletin) and the observed figure, which is explained by the evolution of the forecasts for the different components, as analysed above. Specifically, the difference

between the annual rate forecast for May, 2007 with information up to July, 2006 (3.1%) and the observed rate (2.3%) is due to an annual core inflation rate in May, 2007 which is 0.4 pp lower than expected, and also lower than expected (by nearly 5 pp) energy consumer prices increase. In core inflation, the moderation of nearly half a percentage point relative to the 2006 forecasts was largely due to goods prices, as service inflation has performed as forecast at that time (although also somewhat lower).

Graph IV.2.2.3



Source: INE & IFL (UC3M)
Date: June 22, 2007

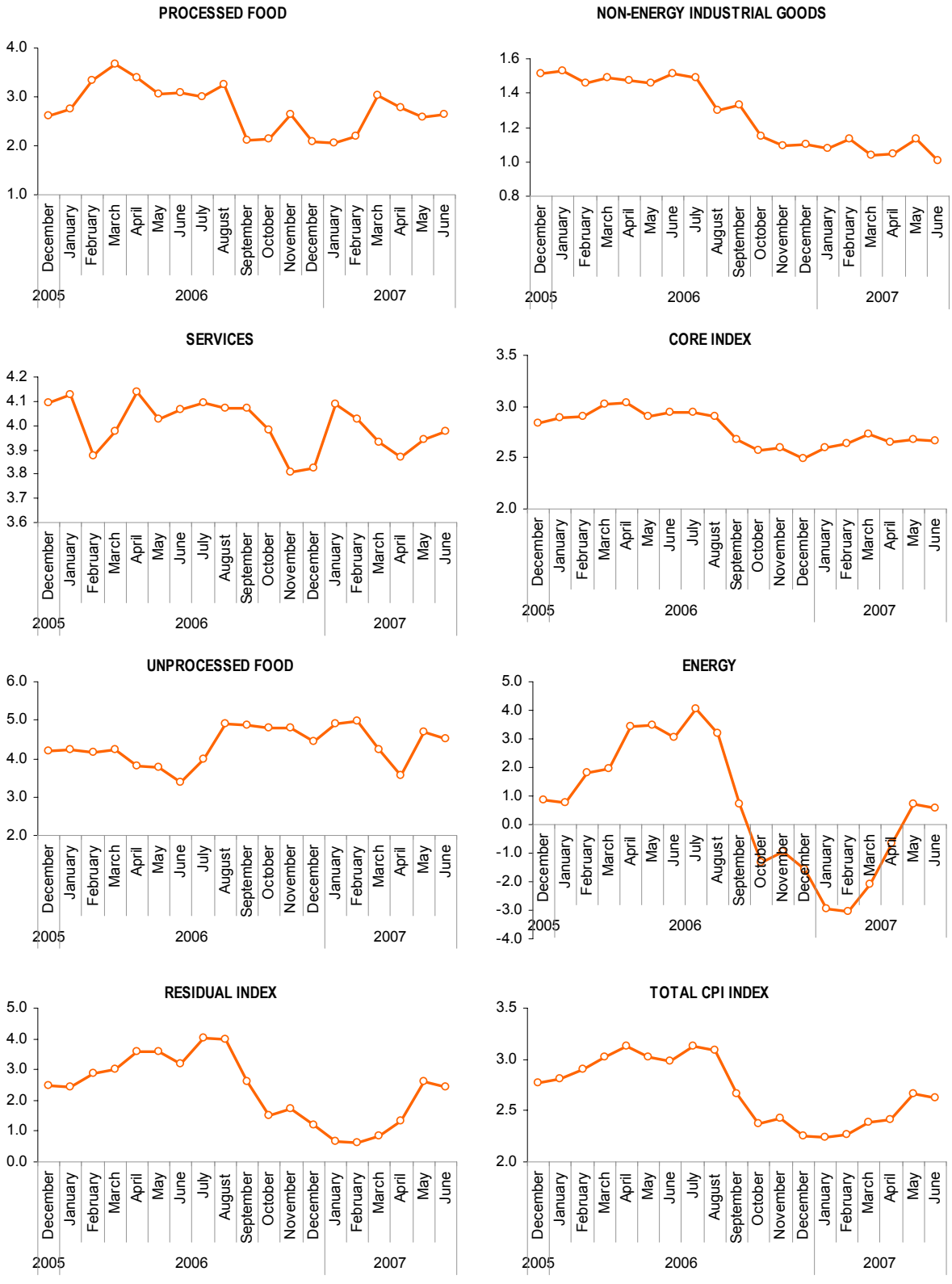
With regards to how our forecasts have changed for 2008, we see that the evolution is more stable, basically for headline and core inflation. The latter was forecast in this month's Bulletin at only 0.1 pp higher than forecast in the November 2006 Bulletin (when we first started to publish forecasts for 2008). As the forecast average annual rates now expected for unprocessed food and energy are also higher than in the November Bulletin, headline inflation accumulates 0.3 pp more than November in this month's forecast.

Service price forecasts have remained stable throughout the period at around 4.0%. The forecasts for processed food have ranged from 2.1% to 3.0%, and the estimations for non-energy industrial goods have varied from 1.0% to 1.4%.

Outside core inflation, the forecasts for unprocessed foods have ranged from 3.1% to current 3.9%, and energy forecasts have varied from 1.5% to the 3.4% published in last month's Bulletin.

Graph IV.2.2.4

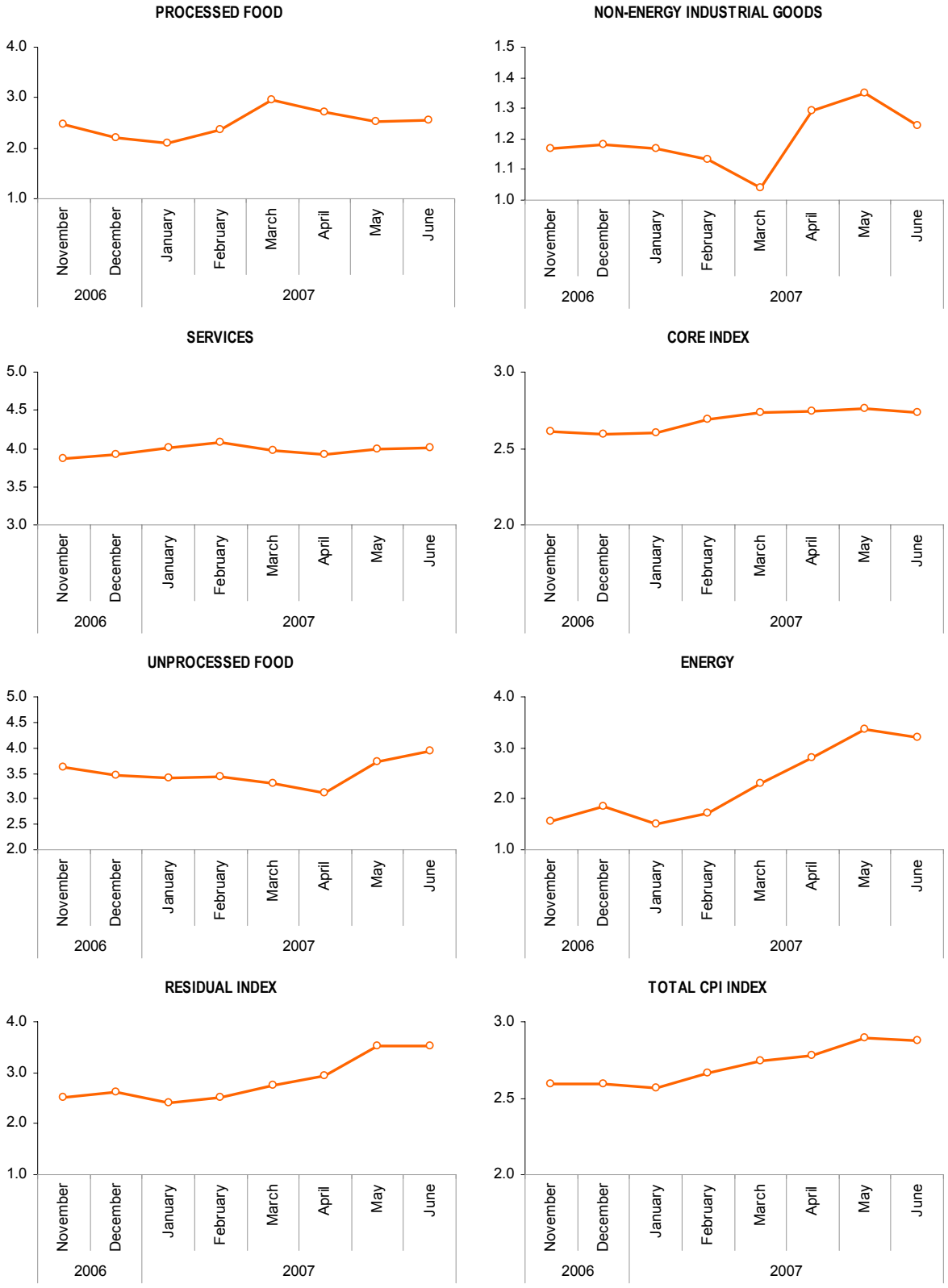
FORECASTS FOR 2007 ANNUAL AVERAGE INFLATION RATE BY COMPONENT



Source: INE & IFL(UC3M)
Date: June 22, 2007

Graph IV.2.2.5

FORECASTS FOR 2008 ANNUAL AVERAGE INFLATION RATE BY COMPONENT



Source: INE & IFL(UC3M)
Date: June 22, 2007

IV.3. TABLES AND PLOTS.

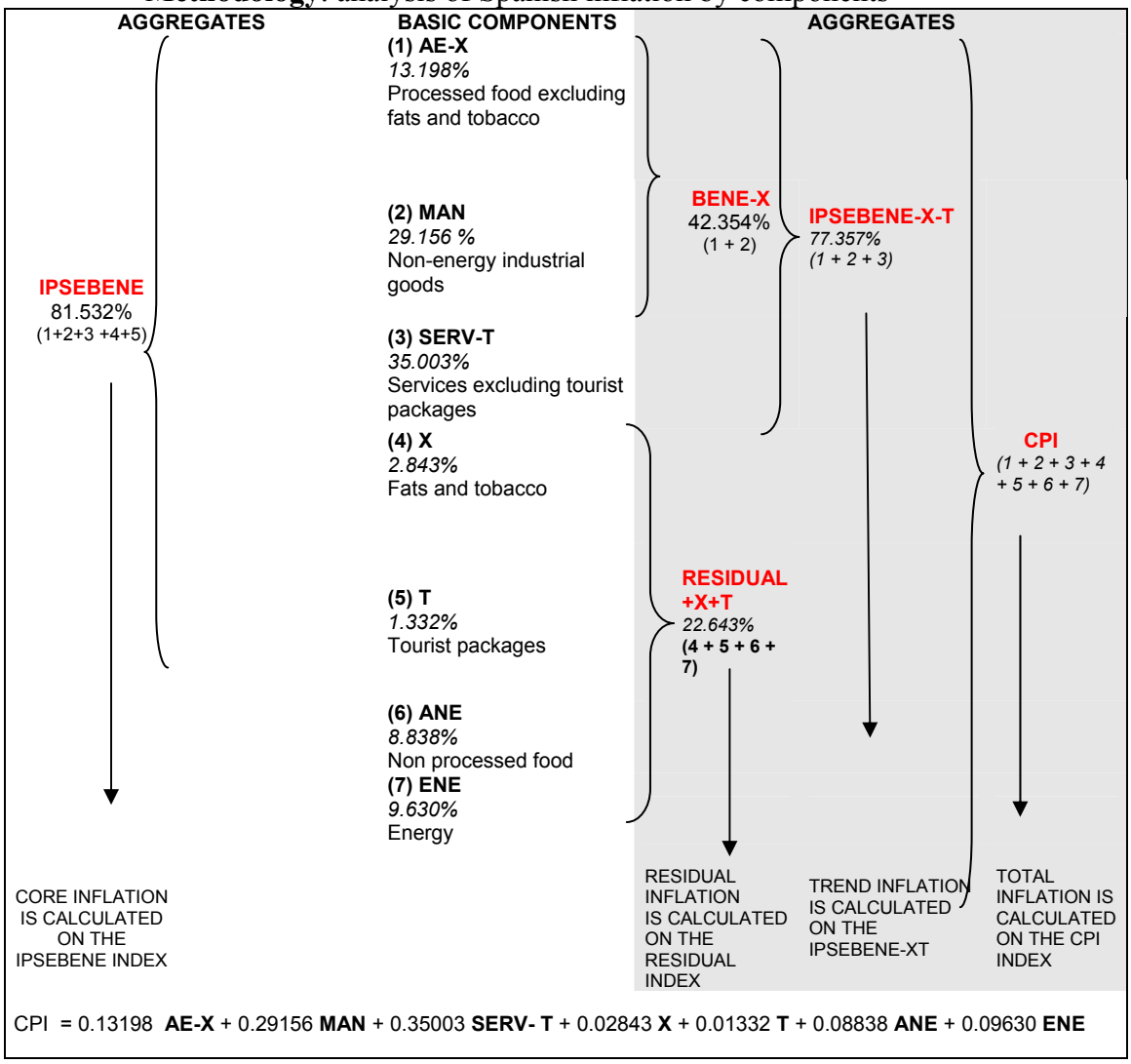
Tables:

- Methodology: analysis of Spanish inflation by component
- Forecast errors in the monthly inflation by component in Spain in May.

Plots:

- Year-on-year rates in the CPI of Spain.
- One month ahead forecast errors in Spanish inflation.

Methodology: analysis of Spanish inflation by components



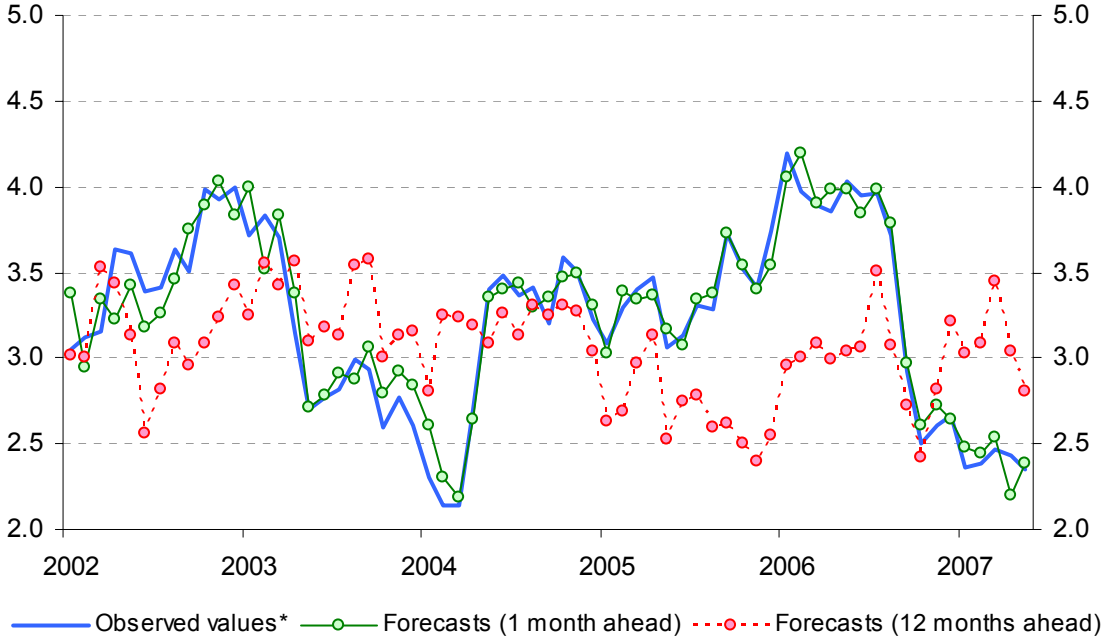
Source: INE & IFL (UC3M) Weights 2007. These weights are not exactly the same as the INE´s weights as the result of slight aggregation errors that appear when applying the above methodology.

FORECAST ERRORS IN THE MONTHLY INFLATION BY COMPONENTS IN MAY IN SPAIN

	Weights 2006	Observed Monthly Growth	Forecast	Confidence interval at 80%
Processed food	16.78	0.16	0.08	0.48
Non energy industrial goods	29.04	0.41	0.57	0.33
Services	36.48	-0.05	-0.11	0.15
CORE	82.30	0.15	0.17	0.17
Non-processed food	8.10	0.02	0.43	1.10
Energy	9.60	1.50	1.45	0.68
RESIDUAL	17.70	0.84	0.99	0.61
TOTAL INFLATION	100.00	0.27	0.31	0.17

Source INE & IFL (UC3M)
Date: June 13, 2007

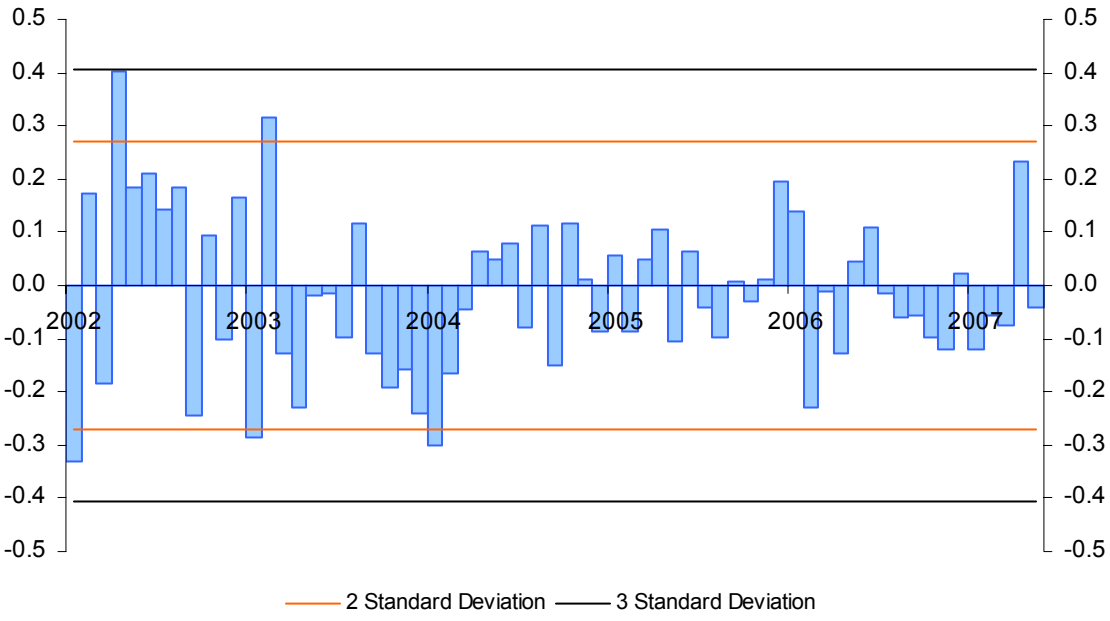
YEAR-ON-YEAR RATES IN THE CPI OF SPAIN



* Observed values without revisions in CPI

Source: INE & IFL (UC3M)
Date: June 13, 2007

ONE MONTH AHEAD FORECAST ERRORS IN SPANISH INFLATION



Source: INE & IFL (UC3M)
Date: June 13, 2007

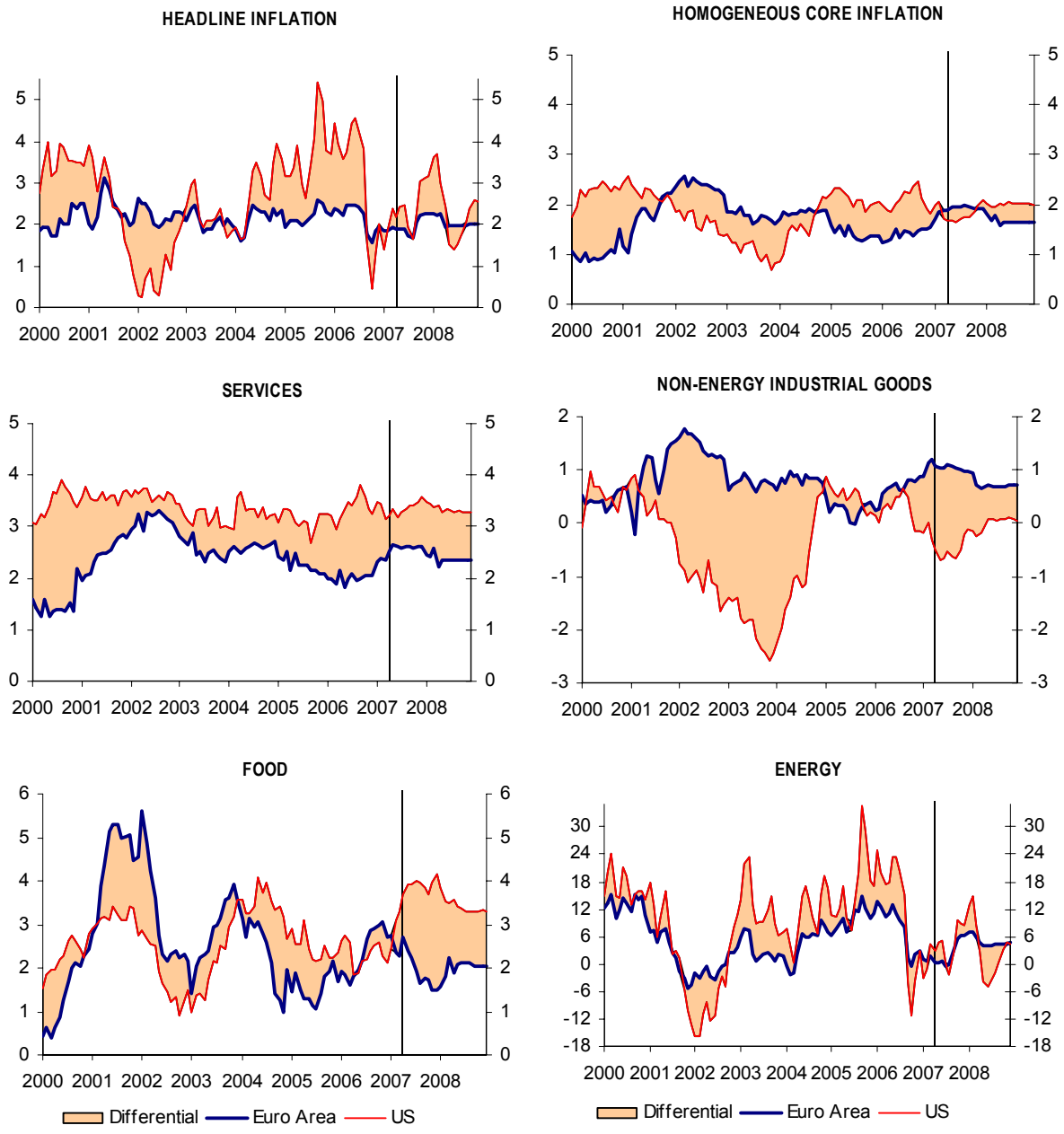
V. SUMMARY OF FORECASTS FOR DIFFERENT AREAS.

V.1 EURO AREA AND USA

INFLATION FORECASTS AND EVOLUTION IN THE EURO AREA AND US								
	2001	2002	2003	2004	2005	2006	Forecast	
							2007	2008
TOTAL INFLATION								
Euro-area (100%).	2.3	2.2	2.1	2.1	2.2	2.2	**2.0**	**2.0**
US (76.2%). [1]	2.6	0.9	2.2	2.8	3.7	3.1	**2.3**	**2.4**
A HOMOGENEOUS MEASURE OF CORE INFLATION [2]								
Services and Non-energy industrial goods excluding food and tobacco.								
Euro- area (70.83%).	1.8	2.4	1.8	1.8	1.4	1.4	**1.9**	**1.7**
US (52.9%).[1]	2.1	1.6	1.1	1.6	2.1	2.1	**1.8**	**2.0**
DIFFERENT COMPONENTS OF THE HOMOGENEOUS MEASURE OF CORE INFLATION								
(1) Services.								
Euro- area (40.82%).	2.5	3.1	2.5	2.6	2.3	2.0	**2.5**	**2.4**
US (31.8%).[1]	3.6	3.6	3.2	3.3	3.1	3.4	**3.4**	**3.3**
(2) Non-energy industrial goods excluding food and tobacco.								
Euro- area (30.00%).	0.9	1.5	0.8	0.8	0.3	0.6	**1.0**	**0.7**
US (21.0%).	0.3	-1.1	-2.0	-0.9	0.5	0.3	**-0.4**	**0.0**
INFLATION IN EXCLUDED COMPONENTS FROM THE HOMOGENEOUS MEASURE OF CORE INFLATION								
(1) Food.								
Euro- area (19.56%).	4.5	3.1	2.8	2.3	1.5	2.4	**2.1**	**2.0**
US (13.9%).	3.1	1.8	2.1	3.4	2.4	2.3	**3.7**	**3.4**
(2) Energy.								
Euro- area (9.62%).	2.2	-0.6	3.0	4.5	10.1	7.7	**2.1**	**4.9**
US (8.70%).	3.8	-5.9	12.2	10.9	16.9	11.2	**3.3**	**2.8**

[1] excluding owner´s equivalent rent of primary residence.
[2] This homogeneous measure of core inflation does not coincide with the usual measure of core inflation for the euro area nor for the USA. It has been constructed in order to compare the data in the Euro area and in the USA.
Source: EUROSTAT, BLS & IFL (UC3M)
Date: June 22, 2007

YEAR-ON-YEAR RATES OF INFLATION IN THE EURO AREA AND US



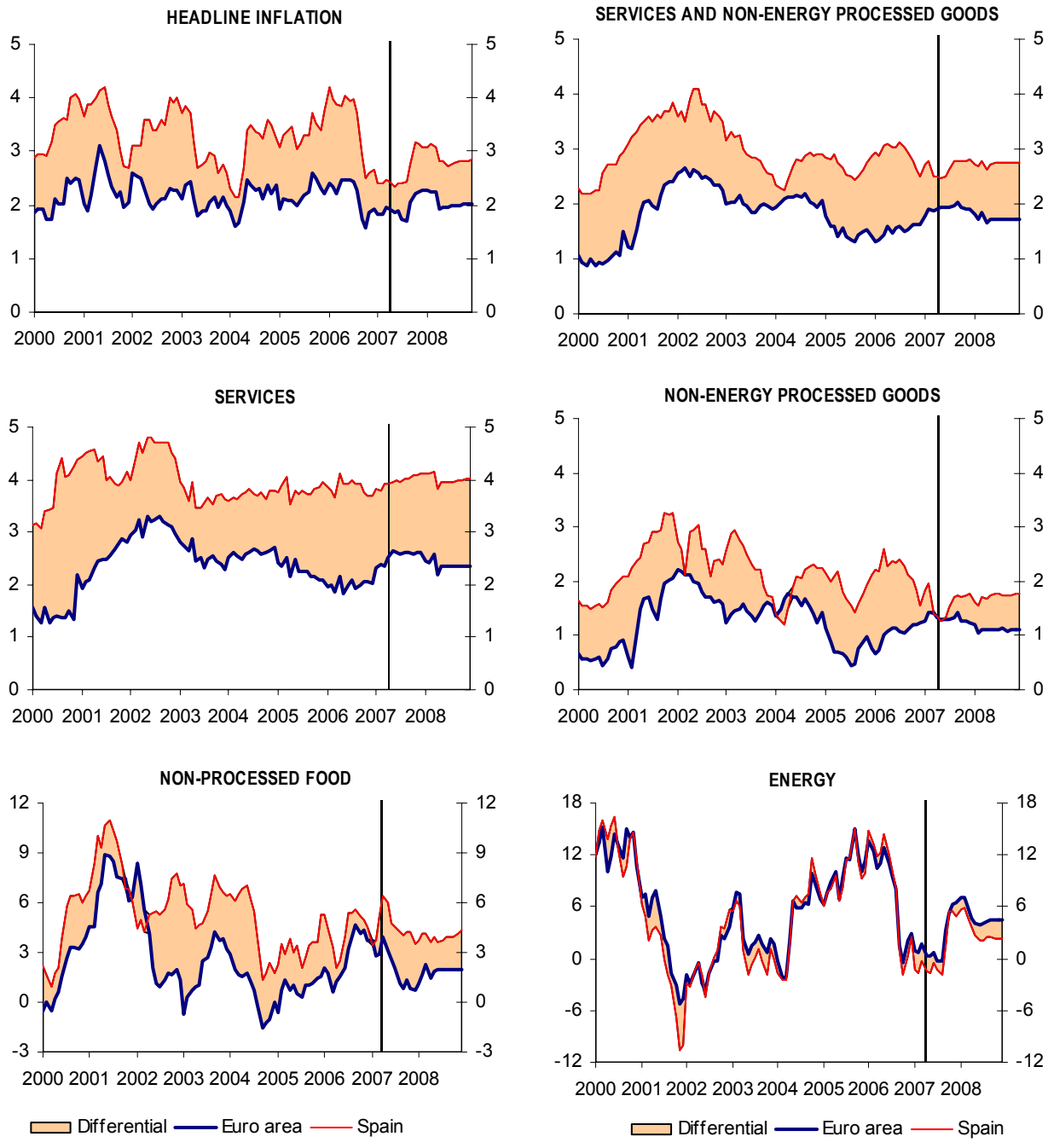
Source: EUROSTAT, BLS & IFL (UC3M)
Date: June 22, 2007
Headline inflation, homogeneous core inflation and inflation in services do not include ow ner´s equivalent rent of primary residence.
In the case of homogeneous core inflation, some additional transformations w ere required in both the euro area and U.S. inflation figures in order to make them comparable: the euro area figures exclude food and tobacco and the U.S. figures exclude tobacco (in addition to ow ner's equivalent rent of primary residence).

V.2 EURO AREA AND SPAIN

INFLATION FORECASTS AND EVOLUTION IN THE EURO AREA AND SPAIN								
	2001	2002	2003	2004	2005	2006	Forecasts	
							2007	2008
TOTAL INFLATION								
Spain (100%).	3.6	3.5	3.0	3.0	3.4	3.5	**2.6**	**2.9**
Euro-area (100%).	2.3	2.2	2.1	2.1	2.2	2.2	**2.0**	**2.0**
CORE INFLATION								
Services and Non-energy processed goods.								
Spain (82.30%).	3.5	3.7	2.9	2.7	2.7	2.9	**2.7**	**2.7**
Euro-area (82.76%).	1.9	2.5	2.0	2.1	1.5	1.5	**1.9**	**1.7**
COMPONENTS OF CORE INFLATION								
(1) Services.								
Spain (36.48%).	4.2	4.6	3.7	3.7	3.8	3.9	**4.0**	**4.0**
Euro- area (40.82%)	2.5	3.1	2.5	2.6	2.3	2.0	**2.5**	**2.4**
(2) Non-energy processed goods.								
Spain (45.82%).	2.8	2.6	2.4	1.9	1.9	2.2	**1.6**	**1.7**
Euro- area (41.93%).	1.5	1.9	1.4	1.5	0.7	1.1	**1.3**	**1.1**
RESIDUAL INFLATION								
1) Non-processed food.								
Spain (8.10%).	8.7	5.8	6.0	4.6	3.3	4.4	**4.5**	**3.9**
Euro- area (7.63%).	7.0	3.1	2.1	0.6	0.8	2.8	**2.1**	**1.8**
(2) Energy.								
Spain (9.60%).	-1.0	-0.2	1.4	4.8	9.6	8.0	**0.6**	**3.2**
Euro- area (9.61%).	2.2	-0.6	3.0	4.5	10.1	7.7	**2.1**	**4.9**

Source: EUROSTAT, INE & IFL
Date: June 22, 2007

YEAR-ON-YEAR RATES OF INFLATION IN THE EURO AREA AND SPAIN



Source: EUROSTAT, INE & IFL (UC3M)
Date: June 22, 2007

VI. FORECASTS FROM DIFFERENT INSTITUTIONS

FORECASTS OF DIFFERENT INSTITUTIONS[1]

INFLATION

	BIAM[2]		CONSENSUS FORECASTS[3]		IMF[4]		ECB[5]		ECB[6]		OECD[7]	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
EURO AREA	2,0	2,0	2,0	2,0	2,0	2,0	1,9	1,9	2,0	2,0	1,8	2,0
USA	2,6	2,6	2,6	2,4	1,9	2,5	-	-	-	-	2,6	2,6
SPAIN	2,6	2,9	2,6	2,7	2,6	2,7	-	-	-	-	2,5	2,7

REAL GDP
(Percentage change from previous year)

	BIAM[2]		CONSENSUS FORECASTS[3]		IMF[4]		ECB[5]		ECB[6]		OECD[7]	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
EURO AREA	2,7	2,5	2,7	2,3	2,3	2,3	2,5	2,3	2,6	2,3	2,7	2,3
USA	-	-	2,1	2,9	2,2	2,8	-	-	-	-	2,1	2,5
SPAIN	3,8	3,4	3,7	3,0	3,6	3,4	-	-	-	-	3,6	2,7

1 The forecasts are based on CPI in USA and Spain and on HICP in the Euro area.
2 Bulletin EU & US Inflation and Macroeconomic Analysis, June, 2007.
3 June, 2007.
4 IMF. World Economic Outlook. April, 2007.
5 Results of the ECB Survey of Professional Forecasters: ECB. Monthly Bulletin May 2007.
6 ECB staff macroeconomic projection for the euro area. June, 2007. Point forecast implied by the interval presented in these projections.
7 OECD Economic Outlook 81. May, 2007. For the Euro area and Spain the inflation forecasts are for the HICP.

Our inflation forecasts follow a methodology such that headline inflation is broken down into core and residual inflation. Residual inflation is composed of inflation in non-processed food and in energy prices. The innovations in different components are transferred ahead through different multipliers. The innovations derived from residual inflation are less persistent.

Currently, our inflation forecasts are amongst the highest ones presented here.

Our forecasts for real GDP growth rate in Spain and the euro area imply, in general, a smoother deceleration of GDP than the ones presented by the other institutions.

VII. MACROECONOMIC COMMENTARY BY MICHELE BOLDRIN

THE TRADE DEFICIT: A FALSE PROBLEM

Everybody is very concerned about the Spanish trade and current account balances, which have been running a relatively large and increasing deficit for almost ten years. I often hear colleagues, even some holding political positions of great responsibility, claiming that "something should be done" and that with such a trade balance we should consider more "restrictive" fiscal policies that, together with other policy interventions, may lead to a reduction of the current account deficit. Rubbish, if I may. Or, to be more polite, misplaced fears confusing the symptoms of a possible disease with its causes, thereby leading the debate along the wrong path. Let me try to explain why.

Everybody is very concerned about the Spanish trade and the current account balances, which have been running a relatively large and increasing deficit for almost ten years. Week after week, months after months I keep reading alarmed articles about the "trade disequilibrium", the "serious risks of trade imbalances", the "growing deficit of the country", and so on. In either public or private debates about economic policy I often hear colleagues, even distinguished ones and among them even some holding political positions of great responsibility, claiming that "something should be done" and that, with such a trade balance, a more "expansive" fiscal policy (read: cutting taxes) is not possible let alone recommendable. In fact, I have been told or have heard people arguing in more than one occasion, we should consider more "restrictive" fiscal policies that, together with other policy interventions, may lead to a reduction of the current account deficit.

Rubbish, if I may. Or, to be more polite, misplaced fears confusing the symptoms of a possible disease – and there may be a disease, as we will see - with its causes, thereby leading the debate along the wrong path. A path of analysis, I should argue, the source of which is a model devoid of economic sense and rather dangerous as a guideline for designing the fiscal policies of the future. Let me try to explain why.

The main reason for why so many people consider the high trade deficit as a danger per se is that it implies the country is piling up debt with foreigners. Piling up debt with foreign entities means that Spain is consuming above its mean, and that the repayment of the debt will eventually become too heavy a burden for the "Spanish economy" to sustain, leading to some kind of systemic and dramatics crisis. Prima facie the argument sounds convincing as it plays the traditional analogy between the economy of a country and that of a household: running a persistent deficit with other household leads to insolvency and bankruptcy, which are bad things and may even involve jail time. But this analogy is misleading, for two reasons.

The simplest one, often recognized also by some supporters of the "great danger" argument but then rapidly dismissed, is that Spain is not a household at its steady state income, but is a fast growing country that has been investing a lot in infrastructures, real estate, and productive capital more generally, during the last two decades. Young households, basic economic theory says, should get deep into debt; they should borrow a lot at the beginning of their lives both for consumption smoothing and investment purposes, as the higher additional income accruing in the subsequent years can be used to repay such debt. That this is exactly the case of Spain very many people recognize to be true, but then dismiss the argument by saying that Spain is nevertheless borrowing "too much" to explain the current account deficit with this criterion. How much would not be "too much" I do not know, nor I have found anyone willing to tell precisely, but I cannot help noticing that the growth rate of Spanish GNP and that of the trade deficit are highly correlated. It would be nice, and highly desirable, that someone had the patience of undertaking this kind of quantitative analysis to figure out which share of the Spanish trade deficit is attributable to a standard "growing economy" effect.

The second reason why the plain equivalence between a household and a country is misleading is that a country is a very complicated, multi-level household; which "floor" of the household is indebted with the rest of the world does make a difference. To understand this, notice that the outstanding stock of debt of the Spanish government has been shrinking, both as a percentage of GNP and in absolute terms, while the current account deficit increased. Further, most Spanish public debt is not held by foreigners but by Spanish citizens, and there is no one out there claiming that the Spanish government is "too deep in debt". With minor qualifications, and this is more important, the same is true of the Spanish business sector that, as a whole, is a marginal net lender to the rest of the world. This implies that Spanish firms are, on average, financially sound and that there is no reason to fear that a sudden increase in the world real interest rates will affect them in any special form because of the debt burden. In particular, the idea that an unexpected jump in the real rate will lead lots of Spanish firms to default, thereby suspending profitable investment projects

and dramatically curtailing economic activity cannot be sustained for the very simple reason that the average Spanish firms has a net financial position that is not dissimilar from that of the average French, Italian, or German firm. This is particularly true of the Spanish banking and financial system, which seems in pretty sound conditions and whose holdings abroad are substantial.

Because it is, therefore, the average Spanish household that has increased its net debt position with the rest of the world during the last two decades, we need to ask in what sense this may be the source of a very grave danger. Why are Spanish families much more in debt now than they were fifteen or twenty years ago? Basically for two reasons: because they have been investing in new houses, new consumption durables and in the massive education of their children in a form they had never done before, and because the improvement in the Spanish banking system, coupled with the optimistic outlook on personal income growth, has lead more people to borrow in order to finance their consumption. Will this lead to a disaster? Maybe, but most probably not.

Notice what the first observation implies. It implies that foreign lenders have been financing the Spanish real estate boom, and also a part of the infrastructure and general investment expansion. Now, one may certainly try to argue that all these investments were misplaced, that the houses that were built and duly sold/purchased were not worth building or purchasing, that those highways and universities and other infrastructures were essentially a waste, and that lots of tourist villages, hotels or other currently productive Spanish enterprises will end up in ruin. One can certainly try to argue that and, if that were the case and all those investments were wrong investments, there would be reasons to be worried. But the most worried ones would have to be the foreign lenders, because, even in the rather unlikely case that they could take possession of all those physical objects in case of a generalized default on their debt, they would be taking possession of lots of useless bricks. The Spaniards, certainly, would also have to worry if such a tragic prediction turned out to be true because they would discover that most of their investments were wrong. In which case, though, the problem (or disease) would not be the current account deficit but the more serious fact that most Spanish households invested in the wrong kind of capital for about a decade and a half! That these silly investments had been financed by foreign lenders would, in fact, be the only silver lining in the whole disaster: imagine if all the financing had come from Spanish savings. The situation would be even worse!

Nevertheless, because I am not aware of anyone willing to argue such a strong point, at least publicly, I will dismiss it and move on asking: how else could the Spanish household sector debt position lead to a national disaster? What most commentators have in mind, I believe, is a kind of "Argentinean scenario" in which the country enters into prolonged stagnation for some unpredictable exogenous reason and the real rate of interest suddenly increases. With a stagnant income and a much higher interest rate the debt burden would then become unbearable, leading to widespread default, a massive devaluation and a sudden withdrawal of international credit to the Spanish business sector. Does this make sense? No, it does not, and in any case it has little to do with the current account deficit. If for some reason the country enters into stagnation for some other exogenous reason, we better start worry about that reason, not the deficit. For the real rate to suddenly increase we need to argue, as in the previous paragraph, that both foreign lenders and Spanish investors are massively dumb and spent the last decade or so throwing their capital away. For the national currency to be devalued we need … oops, sorry, I forgot the peseta is gone and Spain is solidly in the Euro area!

You see, the problem is there in fact. Most commentators thinking to the Argentinean scenario cannot help it: they keep thinking as if Spain had its own national currency, the debt was public and a substantial portion of it was held by foreigners. While none of the three conditions is true, they keep insisting that "it is all the same". When you point out that no one ever bothered to check if the Catalan or Andalusian household sectors had a large current account deficit with the rest of Spain, they shake their head and vehemently argue that it is not the same, that you do not understand, that a country is a country and not just a region (whatever that means) and that the literature on currency crises show that large external deficits lead to default events and devaluations. You think I am kidding? I am not, I am speaking on the basis of personal experience and the persons involved where not what you would exactly defined as "dilettantes" or completely outside of the decision making loop.

This deeply ingrained and almost religious belief has its roots in a broader and equally nonsensical religion called "Keynesian macroeconomics", which argues, among other nonsensical things, that growth is driven by the demand side. If you pay careful attention to most analyses of the cyclical situation you will find expressions such as "the consumption sector contributed 1.7 percentage points to growth, while the external sector's contribution was 0.5 points negative", and so on. Just flip backward a few pages, and you will unfortunately find statements of this kind even in this, otherwise excellent, Bulletin. People trained in

the Keynesian view of the world, while paying lip-services to the statement that growth is driven by capital accumulation, technological improvements and profitable entrepreneurial activities, cannot remove from their mind that "demand matters". This is understandable: the long-run is, after all, a sequence of short runs and, if in the short run it is exogenous demand that determines the level of national income one would have to really twist logic to conclude that demand does not matter in the long-run. The problem is, obviously, that the so called Keynesian apparatus is poorly grounded in economic theory and, in fact, totally incoherent; as a consequence, logical contradictions such as the one I just pointed out abound. It is therefore unavoidable that, when your frame of mind leads you to explain growth in terms of "demand side contributions", you reach the conclusion that a persistently negative trade balance is a "disequilibrium" that hampers growth and should be addressed. That same frame of mind implies that "healthy" economic growth can take place only when you export a lot therefore achieving a trade surplus, never mind that if this were true the United States would have stopped growing about thirty years ago. Keynesianism and mercantilism are two branches of the same incoherent tree, which is far from being cut down and forgotten, unfortunately. That this is unfortunate is easily seen on practical matter: once the "excess and irrational demand" view of the trade deficit is dismissed there is no longer a reason to think that a conservative fiscal policy stance should be adopted to control it. In fact, once the erroneous Keynesian point of view is dismissed, one realizes that there is no need to progressively increase the public sector surplus to compensate for the households' deficit and that, maybe, cutting taxes could help instead of hurting the trade balance. It could help because cutting taxes will reduce the labour cost of Spanish firms, thereby improving their price competitiveness, something they may badly need and to which I now turn.

Once you start thinking about growth as a process driven by profitable opportunities, technological changes and investment activity, the whole obsession with the foreign sector "imbalances" disappears and the data start making sense. You realize, then, that Spain is importing a large amount of materials, equipment and durable goods and that the surge of this import's lines is a function of the investment activity: the trade balance is negative because we are investing in order to grow. You also realize that, since the late 1990s, the number of foreign immigrants working in Spain has grown remarkably and this people, now probably about 20% of the Spanish work force, are sending home part of their incomes. Hence the deterioration in the "transfers" component of the current account. The same is true for the "income" component: people residing in Spain, both citizens and immigrants, have borrowed substantially and are now paying back both interest and capital, hence the "income" component of the current account has become increasingly negative. These are the factual sources of the Spanish current account deficit. Removing these plain facts from our view and explaining the current account deficit with complicated and contradictory arguments about investors' irrationality, lack of external demand, financial stupidity of foreign lenders leading to the devaluation of a currency that no longer exist, will not help the quality of our decision making.

The quality of our decision making could instead be improved by recognizing, finally, that the trade component of the current account balance may be the symptom of a potentially serious problem, a problem that, should other tests confirm its presence, should be addressed. The problem is the following: people in Spain are clearly investing at an unusual pace in this and that form of capital stock, especially housing; apparently, to do so they need to import a substantial portion of the "components" used to carry out such investment projects. This implies that the Spanish industrial sector is unable to produce such components or, if it does, it is less efficient than its foreign competitors at doing so. Further, the Spanish exporting firms do not seem to be selling their products at a comparable level: the total value of the goods we sell abroad is smaller than the value of the goods we purchase from abroad. This points to either a lack of productive capacity (given the composition of national demand) or to a low productivity (higher prices) relative to the rest of the world, or to both. Which of these is the main source of the deficit and how quantitatively important it is seems unknown because no one has bothered looking seriously at this data, and neither have I.

I have already argued last year that I do not see a long-run productivity problem for Spain and that a proper understanding of the Spanish development model suggests we should expect productivity to increase steadily in the next few years. The data, starting in 2006, have begun to agree with me and behaving as forecasted (for those that did not pay attention: all measures of Spanish labour productivity are improving steadily) but it is a bit too early to claim victory and move on to a different topic. I therefore promise I will look at the sectorial data on trade and productivity during the summer, and will report the findings in the September 2007 issue of the BIAM. In the meanwhile, though, let's stop panicking and talking nonsense about the current account deficit: it is not helpful. Those are not good reasons to spoil our summer vacations somewhere on the beaches of Spain.

VIII. MONTHLY DEBATE

The Emergence of Latin Multinationals (Part II).

OECD Emerging Markets Network (EmNet)
Working Paper

"The corporate world has changed remarkably in the past ten years. New multinationals are emerging in countries such as Brazil, India, China, South Africa and Mexico. The entire global corporate chessboard is rapidly being altered. In Latin America, Mexico and Brazil are the key drivers".

Javier Santiso

Chief Development Economist & Deputy Director, OECD Development Centre

Chair, Emerging Markets Network, OECD Development Centre

04, 2007

This paper has been published in two stages in the Spanish version of this Bulletin. Part I was included in last month's Bulletin and Part II has been published in this month's one. The English version of this paper is not publicly available as it is for exclusive use of the EmNet members. However, a reduced version of the paper can be found at the following address:

http://www.dbresearch.com/PROD/DBR_INTERNET_DE-PROD/PROD0000000000207831.pdf

IX. INDICATORS CALENDAR.

JUNE

				1 **Macroeconomic Accounts Euro Area** (QI 2007)	2	3
4	5 **Spanish IPI** (April)	6	7	8	9	10
11	12 **Euro Area IPI** (April)	13 **Spanish CPI** (May)	14 **Euro Area HICP** (May)	15 **USA CPI** (May) **USA IPI** (May)	16	17
18	19	20	21	22	23	24
25	26	27	28 **Spanish HICP** (Flash June)	29 **Euro Area HICP** (Flash June) **Euro Area ESI** (June) **USA PCE** (May)	30	

JULY

						1
2	3	4	5 **Spanish IPI** (May)	6	7	8
9	10	11	12 **Spanish CPI** (June) **Euro Area IPI** (May) **Euro Area PIB**	13	14	15
16 **Euro Area HICP** (June)	17 **USA IPI** (June)	18 **USA CPI** (June)	19	20	21	22
23	24	25	26	27 **Spanish EAPS** (QII 2007)	28	29
30 **Spanish HICP** (Flash July)	31 **USA PCE** (June) **Euro Area HICP** (Flash July) **Euro Area ESI** (July)					

* ESI: Economic Sentiment Indicator
CPI: Consumer Prices Index
HICP: Harmonised Index of Consumer Price
QNA: Quarterly National Accounts
PCE: The Personal Consumption Expenditure Price Index
EAPS Economically Active Population Survey
IPI: Industrial Production Index

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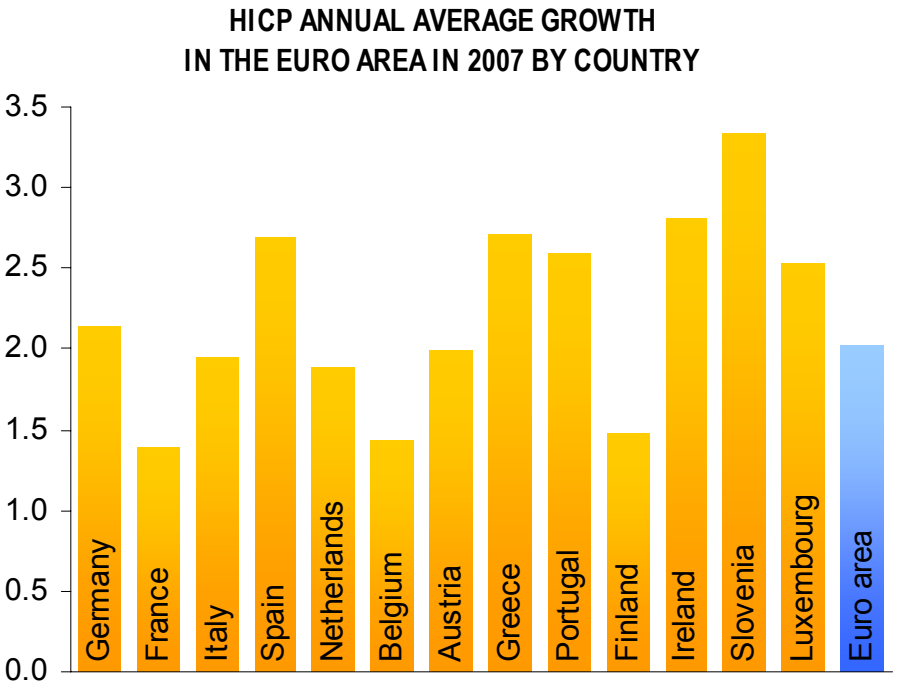

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