

# Bank of Spain recommends moderation in labour costs

*Report says economic expansion should continue, although at a slower pace*

The Spanish economy has enough stability to continue a gradual expansion, although this growth will probably be less than in the previous business cycle, according to the annual report from the Bank of Spain. The report also strongly recommends moderating labour costs.

The report was presented yesterday by bank governor Jaime Caruana to the bank's governing board. The report emphasises that the prolongation of the pattern of growth based on low interest rates and heavy consumer spending and construction activity could produce some long term risks related to the situation of families and competitiveness.

The report says that due to the heavy debt burden, families are more sensitive to changes in interest rates and the prices of financial assets to the extent that competitiveness could be affected if productive and technological investment do not become more dynamic or if the lack of flexibility that is hindering the formation of costs and prices persists.

In his presentation of the annual report, the governor said that in spite of the present risks, economic growth for 2004 and 2005 is expected to be around three percent.

In the report, the Bank of Spain asks that price increases of the last few months not translate to increases in profits and salaries, and in this sense, it asks for a reform of the system of collective bargaining to establish a better ratio between increased labour costs and the specific



Bank of Spain governor Jaime Caruana

conditions of companies and employees.

Other reforms are considered necessary, especially those aimed at reducing the high rate of temporary employment contracts and slowing the rise in housing prices. To achieve this, the report recommends making the supply of land more flexible and improving the functioning of the rental market.

It also mentions the ageing population and says that significant efforts will have to be made to absorb the resulting increase in public spending.

To do this it considers a reform of the pension system necessary, as has been done on other European countries, to assure the sustainability of the system and increase the ability to meet future demand.

To continue the convergence with Europe, the economic policy should establish a growth pattern with an increase in productive investment and exports, so as to contribute to the financial stability of companies and families and that strengthens competitiveness.

In this context, Spanish companies will have to make an effort to become more competitive in Europe.

## LEISURE

### "La Caixa" buys 37% of Port Aventura from Universal Studios and takes control of 80% of park

La Caixa has bought Universal Studios interest in the theme park Port Aventura near Tarragona, 37% of its shares. The buy out means La Caixa owns 80% of the park and a further 6.3% through its involvement with the company Abertis. The deal will almost sever Universal Studios links with the theme park except for its licence contract, merchandising of the brand and tourist routes in the park.

## TECHNOLOGY

### Swahili enters windows

Software giant Microsoft will introduce Swahili into its office window system in a bid to cater for the growing number of users in Africa. The introduction is expected in six months. It's part of world wide plan to increase the number of people using the company's products, especially in Africa. "We are focussed on Swahili because it's a language of choice in the East African region," says Patrick Opiyo from Microsoft speaking to the BBC. Swahili is just one of the languages it has introduced to make it easier for people to use in their own language.

## TECHNOLOGY

### Music merger go-ahead

A huge merger between Sony Music and BMG has been given the green light by the European Union's anti-trust chief, Mario Monti. According to media reports he gave his approval to the deal after meeting the two music companies and it clears the way for official EU approval. The merger would leave 80% of the global music market in the hands of only four major companies.

## ENVIRONMENT

### Anger at treaty deal

Spanish trade union the UGT has criticised the previous Spanish government of the Popular Party for negotiating a bad deal over the United Nations Kyoto agreement on climate change. The secretary general of the UGT, José Angel Fernández Villa is critical of the handling of the treaty, by the former Popular Party government, which had left the current Spanish government in a "difficult situation." Villa claims that the European countries negotiated with "excessive generosity" and if countries like the United States, China and Russia don't accept the deal then "the possibility of its continued success on protecting the environment from further damage will end in failure."

## COMMUNICATION

### Spanish technology company top in Europe

Spain's Telefonica Moviles is the world's eighth largest and Europe's best-performing information technology company, according to "The Info Tech 100," a special issue of Business Week magazine. The information technology issue includes financial data on the world's top companies in such fields as telecommunications, Internet, software, communication equipment.

## THE WEEK IN THE STOCK EXCHANGE

# American economy robust, but markets going nowhere

DANIEL MATEOS VÁZQUEZ  
Investment Centre of Deutsche Bank

The week has been characterised by a total lack of volume on the stock exchange. After sharp declines on Monday, the rest of the week saw gradual increases. But the market is very sluggish, with no strong upwards or downwards trends.

On the other hand, the American economy is experiencing a strong recovery as shown by the publication of some leading indicators. In Deutsche Bank, we expect a growth in the American GDP of about 5% this year, and 4% in 2005. On the other hand, investors fear that a rise in economic activity combined with high oil prices could lead Federal Reserve chief Alan Greenspan to raise interest rates more than originally expected. We find ourselves in a recovery situation that will bring increased profits for companies, but



Image of the New York stock exchange

we will also see higher interest rates. Investors are unsure as to what to do for the moment. One factor that could produce downturns is the possibility of increased tensions in Iraq and more rises in the price of oil. If prices come near

**If prices come near \$40/barrel, the current slump could end and stocks will fall**

\$40 per barrel, the current slump could end and the stock market will fall. There will be some lateral movement, unless there are more rises in oil prices, which will produce profit taking in the markets.

Source: Deutsche Bank