



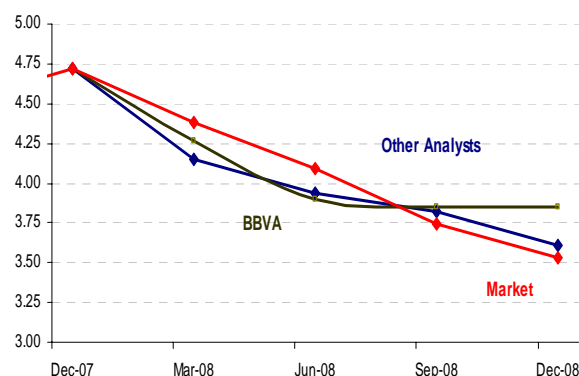
Meeting: March 6th 2008
March 3rd 2008

ECB watch

ECB on hold for the moment

- We expect the ECB to keep the refi rate on hold at 4.0% at its next meeting next week.
- Recent data confirm the continuous deterioration of confidence indicators, although the German IFO index improved in February and the eurozone PMI index for services, which fell sharply in the previous two months, has rebounded somewhat. The unemployment rate has fallen again, while retail sales in January have not continued with its sharp decline of December.
- Despite the marked deterioration of lending conditions revealed by the latest Bank Lending Survey (published in January), monetary aggregates have not moderated this month. Credit to enterprises has even accelerated, although this is probably due to difficulties to find new finance through primary markets.
- Inflation should moderate quickly during the rest of the year. We have updated our short-run inflation expectations since price increases of the most volatile components of CPI have been higher than projected, but we still expect inflation to be within the objective band of the ECB by the end of the year.
- Markets reacted optimistically to the latest ECB press conference, interpreting Mr. Trichet's concerns about growth as a signal of rapid rate cuts. However, ECB talk after the meeting tried to correct this view and markets and analysts have now postponed their projections of rate cuts (see chart).
- We maintain our projection of a rate cut in June (25bp), followed by further ones in September and December.

EMU, 3 month interest rates
(Euribor future contracts, Consensus forecasts and BBVA forecasts)







Source: Bloomberg and BBVA

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● **Box 1: Economic indicators**

| | | Average 2006 | Nov-07 | Dec-07 | Jan-08 | Feb-08 | Impact on rates* |
|--|-------|--------------|--------|--------|--------|--------|---|
| GER – IFO Economic Climate | Obs. | 105.5 | 104.2 | 103.0 | 103.4 | 104.1 |  |
| | Cons. | | 103.3 | 103.8 | 102.3 | 102.9 | |
| Euro–EC Industrial confid. | Obs. | 2.3 | 3 | 2 | 1 | 0 | |
| | Cons. | | 1 | 2 | 2 | 1 | |
| Euro –EC Consumer confid. | Obs. | -9.0 | -8 | -9 | -12 | -12 | |
| | Cons. | | -7 | -8 | -10 | -12 | |
| Euro – Industrial prod. (m/m) | Obs. | 0.4 | -0.4 | -0.2 | | |  |
| | Cons. | | -0.8 | 0.6 | | | |
| Euro – HICP (y/y) | Obs. | 2.2 | 3.1 | 3.1 | 3.2 | 3.2** |  |
| | Cons. | | 2.8 | 3.1 | 3.1 | 3.2 | |
| Euro – M3 (y/y) | Obs. | 8.5 | 12.3 | 11.6 | 11.5 | |  |
| | Cons. | | 12.2 | 12.2 | 11.3 | | |
| Euro – Loans to Priv. Sect. (y/y) | Obs. | 11.0 | 11.1 | 11.2 | 11.1 | | |

* According to BBVA, the direction in which this data may affect the ECB monetary policy stance; **Flash estimate; Obs: current data; Cons: consensus forecasts.

Box 2: Speeches and comments by members of the ECB Governing Council

The tone remains hawkish. Second-round effects are still the key variable for the ECB.

| | Weber | Wellink | Papademos | Trichet | |
|------------------------------|---|---|--|---|---|
| Activity | | “Economy is in rather good shape and has been improving in the last couple of years”. | | “At this stage we see an ongoing growth” | Growth below but close to potential subject to downside risks |
| Inflation | “Inflation rates that are currently far too high ... Over the year 2008 inflation probably won't fall below the 2 percent limit”. | “Oil and commodity prices are putting upward pressure on inflation and we are not so close to the 2% target as we would like to be... We think inflation will decrease as the economy slows”. | “Inflation may stay significantly above the ECB's 2 percent limit in coming months before moderating very gradually and more slowly than envisaged”. | “Headline inflation, which has been pushed up, is today significantly above 2% ... We must absolutely avoid second-round effects”. | Risks on the upside due to potential second-round effects |
| Monetary policy | | “The ECB very closely monitors the situation”. | “The ECB stands ready to respond flexibly, effectively and in a timely manner, if needed”. | “We have only one word. I said there was no call in the meeting of the governing council for increasing rates and there was no call for decreasing rates... We will always do what is necessary to continue to solidly anchor inflationary expectations”. | Still hawkish |
| Financial turbulences | “For Germany and the euro-area the fallout should be limited”. | | “The impact may not be sizeable... Still, the ECB can't be complacent' as growth risks remain on the downside”. | “I didn't give any numbers. In any case, it's an ongoing process. It goes in all directions. It can go up and it can down. It would call for prudence”. | Without a clear assessment about the impact on activity |

Box 3: Market view

No major changes since end January.

| | 3m euribor Future Cont. | 1m Eonia Future Cont. |
|---------|-------------------------------|-----------------------------|
| Apr. 08 | | 3.970 |
| Jun. 08 | 4.090 | 3.800 |
| Sep. 08 | 3.745 | 3.535 |
| Dec. 08 | 3.535 | 3.219 |

ECB-Barometer for the March 6th Governing Council meeting

