

# I. Analysis of the situation of the City of Madrid

## 1. Economic environment

The EMU ended 2006 with a robust growth, enabling the foundations to be laid for a sustainable long-term recovery that is not limited to a few quarters. Inflation remains below the ECB objective (2%), but the European monetary authority will continue to increase interest rates in the months ahead. There are signs of strength in Europe, in contrast to the indications of a downturn in the United States. In the short term, however, the Federal Reserve will not face falls in interest rates due to underlying inflation still being at levels that are too high (2.7% year-on-year).

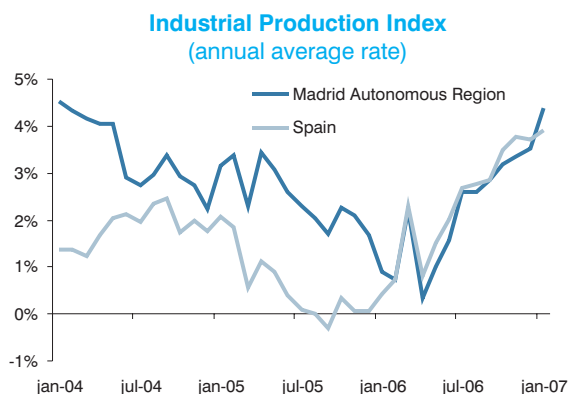
Spain also ended 2006 with high growth rates (4% in the fourth quarter), which will slow down in the coming months, especially as a result of the rise in interest rates by the ECB and its impact on investment and private consumption. In this context, inflation continues to fall (the harmonised rate fell to 2.5% in February), leaving the differential with the EMU at a record low since 2004 (6 tenths of a point).

Economic activity in the Autonomous Region of Madrid ended 2006 with a brisk year-on-year growth rate of 4.5% and with greater dynamism than that recorded for Spain as a whole. In the labour market, the region showed trends favouring the creation of employment, but an unemployment rate of 6.5% at the end of the year. The forecasts for 2007 suggest sustained growth, but more restrained than that recorded for 2006.

## 2. Production

### INDUSTRY

The Industrial Production Index (IPI) in the Autonomous Region of Madrid reached an annual average increase of 4.4% in January 2007, five tenths of a point above the Spanish national average. The acceleration of the growth of this index thus continues, as it has maintained an upward trend since last May.



Source: National Institute of Statistics

In the last quarter of 2006, the cycle-trend data for industrial GAV in the Madrid Autonomous Region showed a growth of 3.0%, a fall of two tenths of a point compared to that recorded for the previous quarter. The first moderation in the rate of increase of industrial production can thus be seen, after three consecutive quarters of acceleration in its growth. Finally, the figure for Social Security registration in industry recorded a year-on-year growth rate of -0.1% in the last quarter of 2006.

## CONSTRUCTION AND THE PROPERTY MARKET

At the end of 2006, 158,952 workers in the construction sector were registered with the Social Security, an annual increase of 6.1% compared to 2005. This growth confirms the scenario of moderation within the construction sector.

The number of licences for new state-subsidised housing in 2006 was lower than in 2005. While in 2005 39.5% of the total number of licences for new construction works for housing were for some type of subsidised housing, in 2006 this percentage fell to 26.5%. However, the City of Madrid remains a city that is committed to the construction of subsidised housing, as it is one of the cities where proportionally most homes of this type are built, far exceeding the average size of the sector in Spain, where the proportion of state-subsidised housing begun accounted for 10% of the total of homes.

### Initial building licences awarded. Free and Subsidised



Source: GMU - Madrid City Council

## SERVICES

### Financial system

The upward trend in deposits and credits in the Madrid Autonomous Region continued in the third quarter of 2006, as did the positive growth differential compared to the Spanish national average. The number of deposit offices continued to plateau, with a year-on-year increase of 3.8%, which was once again greater in savings banks than in banks. As far as mortgage credits are concerned, both the number of mortgages and the capital mortgaged fell in 2006, which could be explained by both the rise in base interest rates in the mortgage market, and the increase in house prices.

The stock market showed spectacular results in 2006. The assets traded by means of the Spanish Stock Exchange Interconnection System (SIBE) exceeded 1.150 billion Euros, an annual increase of 35.6%, the highest recorded in the last six years. The general index of the Madrid Stock Exchange recorded a yield for the year of 35%, making it once again one of the most profitable in the world.

### Tourism

Tourism in the City of Madrid maintained its dynamism in 2006. The number of travellers continued to increase in December to 6.7 million, generating growth of 5.2% in the year as a whole compared to 2005. The number of overnight stays also increased by 5.1%. The figures obtained in the final December-January quarter confirmed the continuation of the positive trend of recent years. A year-on-year growth rate of 8.5% compared to the same period in 2006 was obtained for the number of passengers, and 9.2% for overnight stays.

The number of hotel beds on offer in the City of Madrid maintained its growth rate at slightly under 5.0%, ending 2006 with a total of 67,735 beds, of which 31,928 were estimated to be in four-star hotels, which increased in year-on-year terms by 8.1%. The wide range of hotel places in Spain continued in January and February 2007, with the number on offer remaining above 68,000 beds in both months.

According to the Hotel Income Index published by the NSI, the Madrid Autonomous Region showed a year-on-year variation rate of 3.1% in the rate in December. This positive result was generated despite an increase in the number of hotel beds in the same month. The increase continued in January and February of this year, reaching a year-on-year growth rate of 4.5% in January and 4.4% in February. The figures obtained therefore reinforce the positive trend which began in the first half of 2006.

### Transport

Passenger traffic at Madrid-Barajas airport increased in December 2006 by 13.2% in year-on-year terms, 3.3 percentage points more than that recorded in the same period in the previous year. This dynamism contributed to a rate of 8.8% being achieved in the year as a whole. This was due to a large extent to the increase in international flights, the average annual rate of which was 11.7%, compared to 5.2% for domestic flights. In the period between December 2006 and February 2007, this dynamism was maintained with a year-on-year increase of 13.4%, exceeding 3.5 million passengers in the final month.

Goods traffic fell by 3.8% in 2006. However, in the last three months a slight increase of 0.04% was recorded as a consequence of the 3.1% increase in international transport. As far as employment in the transport sector in the City of Madrid is concerned, there was moderate year-on-year growth in the fourth quarter, although all-time high levels of Social Security registration were once again recorded.

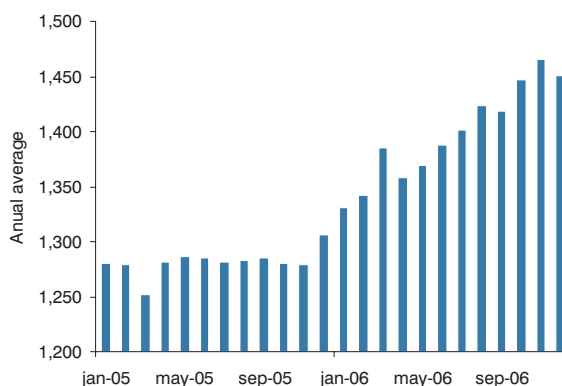
The mobility data for the final months of the year show a decrease in the average intensity of daily urban traffic which helped the increase in the

average speed. During this period the number of passengers on public transport (buses and Metro) fell. Finally, there were more than 89 million passengers on the Cercanías suburban railway network in the fourth quarter of 2006, the highest number in recent years.

### 3. Business Dynamic

The number of company constitution proceedings in the City of Madrid increased in the fourth quarter of 2006, to a maximum annual average in November 2006 of 1,465 constitution proceedings. The latest data therefore confirm the continuing positive trend in the increase of the City's business dynamic.

#### Number of company constitution proceedings in the City



Source: Statistics Office, Madrid City Council Registrars' Professional Association

In the fourth quarter of the year there was an increase in the average subscribed capital by companies established to 209,356 Euros. This is the second highest figure in the last 3 years, and is only exceeded by the figure for December 2005, when an average of 293,739 Euros was reached, but with a lower number of constitution proceedings.

In the first quarter of 2007 there was a decline in the outlook for business, with a fall in the City of Madrid Business Confidence Index, produced by the Madrid City Council Department of the Economy and Public Participation to 20.0%. The upward trend in business expectations which had prevailed in the previous two quarters thus ended.

### 4. Demand

The General Retail Trade Index in constant terms in the Autonomous Region of Madrid showed a year-on-year rise of 3.5% in January 2007, a reflection of a downturn in its growth compared to the last two months of 2006, when year-on-year increases of more than 5% were recorded.

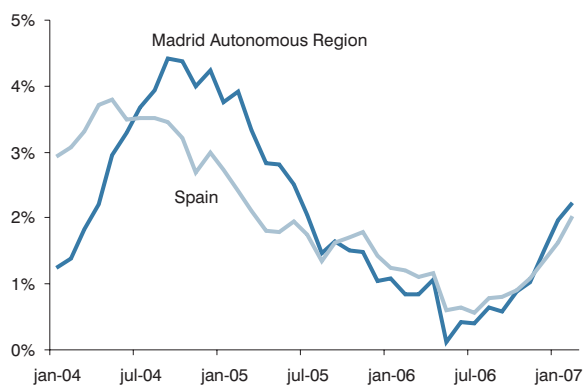
Despite the usual seasonal trend towards a moderation of family expenditure in January, initial surveys of the year show an increase in the confidence of Madrid's citizens in their private finances, which encouraged consumption of consumer durables such as automobiles and housing. The first wave of 2007 of the Madrid Consumer Confidence

Index (MCCI) published by the Chamber of Commerce of the Autonomous Region of Madrid shows a rise of seven points compared to January 2006, to 89.4 points.

Social Security registration in wholesale shops showed an upturn in late 2006, completing the acceleration that had been observed since October. As a result, a year-on-year increase of 2.7% in the number of registrations was recorded in December, similar to that recorded for Spain as a whole.

Finally, foreign trade in the region showed a slight moderation in the growth of exports during the last three months for which data is available, down from 6.9% in November to 6.5% December.

### Retail sales in constant prices (annual average rate)



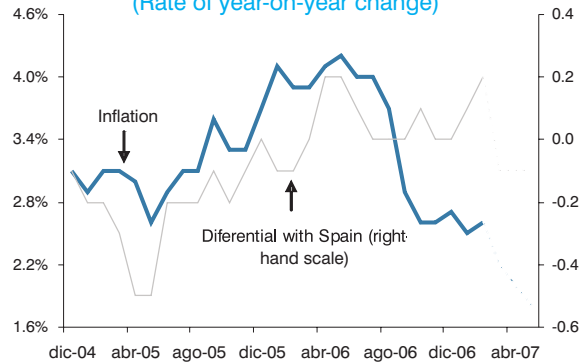
Source: National Institute of Statistics

## 5. Prices and salaries

The Consumer Price Index in the Autonomous Region of Madrid ended 2006 with a year-on-year rate of 2.7%. For the year as a whole, inflation in the Madrid region increased at the same rate as in Spain as a whole, with an annual average of 3.5%. This trend towards price moderation continued during January and February, with predicted rates of 2.5% and 2.6%, respectively. However, the price differential in February was two tenths of a point above that of Spain as a whole. In principle, the outlook for inflation will remain optimistic until midway through the year. The forecasts of the Flores de Lemus Institute suggest that the year-on-year growth rate in May could be around 1.8%.

The price of energy has led to a downturn in industrial prices, which showed a year-on-year rate of 2.7% in December 2006. However, the rise in housing prices presented a slight downturn in the final quarter of the year, making the change in the year-on-year rate in the City of Madrid lower than that of Spain as a whole. In the labour market, labour costs increased by a year-on-year rate of 2.6%, relaxing the tensions generated in the third quarter of the year.

### CPI in the Autonomous Region of Madrid (Rate of year-on-year change)



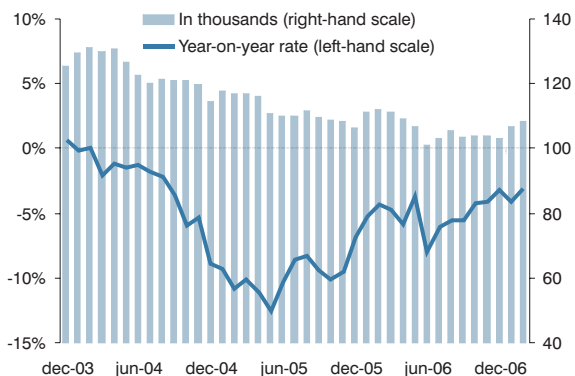
N.B: The dotted lines show predictions.  
Differential calculated using forecasts by the FLI (region) and SECT (Spain).  
Source: NSI, SECT and FLI

## 6. Labour market

The latest data published by the Active Population Survey for the fourth quarter of 2006 confirm the good performance of the labour market in the City of Madrid. The active population intensified its growth compared to the previous quarter, showing an increase of 6.6%. The female active population was the main beneficiary of this dynamism, which led to a decrease in the negative differential in the employment rate compared to men. Employment also intensified its growth to a year-on-year rate of 5.5%, due above all to a heavy increase in non-salaried employment. Finally, the unemployment rate was 6.2%, an increase of one percentage point compared to the same quarter of the previous year. However, the average level for the year as a whole was 6.0%, six tenths of a point less than the average of the previous year.

Analysis of other sources such as Social Security registration or registered unemployment confirms these results. The data available for the first two months confirm the trend towards moderation in both figures, although the number of workers registered with the Social Security remains high, while recorded unemployment is falling.

### Unemployed in the City of Madrid (year-on-year rate in thousands)



Source: Madrid City Council Statistics Office - Spanish Institute of Employment

## II. Sustainability

### The Emission Rights Market and the City of Madrid

Since 2005, when the market for Greenhouse Gas Emission Rights began to operate, Madrid has become an important centre for making decisions based on compliance with the Kyoto Protocol. This is due to the City being home to a large number of headquarters of leading companies with production plants affected by Law 1/2005, which regulates the Emission Rights Market in Spain, despite industrial activities taking place in other areas.

## III. Territorial balance in the City of Madrid

### Location and changes in territorial balance in the City of Madrid

Any analysis of a city will show differences within it which as well as providing value due to the diversity and wealth of environments they contain, may also reflect disparities or discriminations. Adopting the perspective of balances-imbances entails taking an attitude that is highly evaluative, and able to ascertain the subtle and winding path of the imaginary line which separates acceptable differences from those considered to be problematic.

In Madrid, there are significant differences between the demographic volume and the surface area of the various districts. Because the city has experienced various waves of population growth over the last fifty years, especially due to the contributions made by migration, it is obvious that their effects have left indelible imprints on the map.

Looking at the most recent period, it is unquestionable that the most important phenomenon is immigration. It has various effects, while on the one hand its positive contribution to "balancing" the labour market is undeniable, because it predominantly consists of groups of young adults, it is also true that because of their economic status, and in cultural terms because of their roots, immigration is creating obvious challenges to other principles that are desirable for a balanced city, such as cohesion-integration, fairness, etc.

Based on the territorial balance-imbalance binomial in terms of cohesion-integration, spatial efficiency and competitiveness, sustainability, quality of life and welfare, territorial equality and environmental justice, suitable for application in considering the situation and evolution displayed by a wide-ranging series of factors in Madrid, a series of awareness objectives have been considered in order to find a synthetic diagnosis of their evolution and current situation.

This view provides clear evidence that the trend towards a decline in the imbalances between districts is unmistakable, and is taking place on a general scale, making for a City landscape with increasing integration and cohesion, despite the constant urban dynamism.

## IV. Madrid as a business attraction pole

### The improved efficiency of the public administrations and its effects on business and economic activity.

The effect on the business sector of the application of ICTs and organisational improvements has led to a reduction in the costs of administrative transactions. This saving may in turn lead to increased production, causing increased tax returns for the Government bodies. These initiatives have a direct effect on efficiency, giving more scope to reassign resources to other priorities. In this respect, Madrid City Council is committed to making key processes more flexible, and to electronic procedures and fulfilment of tax obligations. An example of this is the increase in the number of tax procedures carried out over the Internet in 2005 by 67.7% compared to previous year.

Public employment trends are another factor to be taken into account in improving the productivity of the Public Administrations. In the City, the increase in the number of the employed has not led to more public employees. In December 2000, the share of public employment was 19.4%, while in 2006 it was 16.3%.

## V. Monographic report

### Analysis of infrastructures being developed in the City of Madrid

The investment being made by Madrid City Council is part of a wide-ranging model for the City's economic, social and urban development. The determination of the Public Administrations to implement this new City model and equip it with the necessary infrastructures for its future competitiveness is part of the Council's policy to improve mobility in the City of Madrid, with an amount allocated to investments in road infrastructures of more than 3.7 billion Euros.

The capital's Council is carrying out a wide range of works in its new infrastructure, aimed at improving the mobility and quality of life. These include the remodelling of the M-30, the four towers motorway ring, and the *calle O'Donnell* tunnel. Of particular importance are the remodelling of the M-30 and the expansion of Metro. The project for the M-30 clearly has positive social and economic benefits, despite its high costs. Its overall results are the generation of GAV in the City of more than 6.7 billion Euros due to its short and long term effects, as well as the social and environmental impact of the reduction in journey times, accidents and noise, the elimination of the barrier effect, and improvement of the landscape. The investments in expanding the lines of the Madrid Metro and the Light Metro by the Madrid Autonomous Region exceed 4 billion Euros, and benefit more than 787 thousand inhabitants. The impact on the City's GAV in the short and long term could exceed 7.8 billion Euros.

The investments planned by the State in the Cercanías railway network for the next few years total 679 million Euros, and of particular importance for the network's operations in the City are the new tunnel linking Atocha and Chamartín stations, and the improvement of the Atocha-Aranjuez line. The estimated impact in the short- and medium-term is around 1.2 billion Euros.