



EUROPEAN CENTRAL BANK

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EUROPEAN CENTRAL BANK



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## MONTHLY BULLETIN AUGUST 2005

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## ABBREVIATIONS

### COUNTRIES

BE	Belgium	HU	Hungary
CZ	Czech Republic	MT	Malta
DK	Denmark	NL	Netherlands
DE	Germany	AT	Austria
EE	Estonia	PL	Poland
GR	Greece	PT	Portugal
ES	Spain	SI	Slovenia
FR	France	SK	Slovakia
IE	Ireland	FI	Finland
IT	Italy	SE	Sweden
CY	Cyprus	UK	United Kingdom
LV	Latvia	JP	Japan
LT	Lithuania	US	United States
LU	Luxembourg		

### OTHERS

BIS	Bank for International Settlements
b.o.p.	balance of payments
BPM5	IMF Balance of Payments Manual (5th edition)
CD	certificate of deposit
c.i.f.	cost, insurance and freight at the importer's border
CPI	Consumer Price Index
ECB	European Central Bank
EER	effective exchange rate
EMI	European Monetary Institute
EMU	Economic and Monetary Union
ESA 95	European System of Accounts 1995
ESCB	European System of Central Banks
EU	European Union
EUR	euro
f.o.b.	free on board at the exporter's border
GDP	gross domestic product
HICP	Harmonised Index of Consumer Prices
HWWA	Hamburg Institute of International Economics
ILO	International Labour Organization
IMF	International Monetary Fund
MFI	monetary financial institution
NACE Rev. 1	Statistical classification of economic activities in the European Community
NCB	national central bank
PPI	Producer Price Index
SITC Rev. 3	Standard International Trade Classification (revision 3)
ULCM	unit labour costs in manufacturing
ULCT	unit labour costs in the total economy

**In accordance with Community practice, the EU countries are listed in this Bulletin using the alphabetical order of the country names in the national languages.**



## EDITORIAL

At its meeting on 4 August 2005, the Governing Council of the ECB decided to leave the minimum bid rate on the main refinancing operations of the Eurosystem unchanged at 2.0%. The interest rates on the marginal lending facility and the deposit facility were also left unchanged at 3.0% and 1.0% respectively.

On the basis of the regular economic and monetary analyses, the Governing Council confirmed its previous assessment that the monetary policy stance is appropriate, given the current outlook for price stability over the medium term. Across the maturity spectrum, interest rates in the euro area are very low by historical standards, in both nominal and real terms, and thus lend ongoing support to economic activity. The Governing Council will continue to monitor carefully all factors that might affect this assessment and remains vigilant with respect to the emergence of risks to price stability over the medium term.

Starting with the economic analysis, the Governing Council expects that the euro area economy will expand in a sustained, albeit gradual, manner. This expectation is based on several considerations. On the external side, robust growth in global demand and improvements in euro area price competitiveness should support euro area exports. On the domestic side, while the rise in oil prices has weighed on domestic demand, the latest available economic data and survey indicators show some improvement. Looking ahead, investment should benefit from very favourable financing conditions, strong global demand, robust corporate earnings, and ongoing improvements in corporate efficiency. In addition, consumption growth should evolve broadly in line with expected developments in disposable income.

The main downside risks to stronger economic growth in the euro area stem from high oil prices and the low level of consumer confidence in the euro area. In addition, concerns remain about the persistence of global imbalances.

With regard to price developments, the rise in oil prices has continued to exert upward pressure. Eurostat's flash estimate for annual HICP inflation was 2.2% in July, following 2.1% in June. However, there is no significant evidence of underlying domestic inflationary pressures building up in the euro area. Wages continue to develop moderately according to the latest available data, although the downward trend in wage growth observed over the past few years appears to have levelled off lately.

Upside risks to price stability over the medium term relate mainly to oil price developments and the potential risk of second-round effects via wage and price-setting behaviour. In this respect, it is key that the social partners continue to meet their responsibilities. Other factors to be taken into account when assessing inflation prospects are trends in import prices and uncertainties concerning the future evolution of indirect taxes and administered prices.

Turning to the monetary analysis, the latest data confirm the strong monetary and credit growth which has been observed since mid-2004. Monetary dynamics are driven by the prevailing low level of interest rates, as reflected in the robust growth of the more liquid components of M3. Low interest rates are also fuelling credit expansion, with the strengthening of the demand for loans being broadly based across the private sector. The growth of mortgage borrowing remains very strong. In this context, asset price dynamics, in particular in housing markets, need to be monitored closely. Liquidity remains ample by all plausible measures. Overall, the monetary analysis continues to support the case for vigilance with regard to upside risks to price stability over medium to longer horizons.

In summary, the economic analysis indicates limited domestic inflationary pressures in the euro area at present. At the same time, careful monitoring of upside risks to price stability continues to be necessary, notably in

connection with persistently high oil prices. Cross-checking with the monetary analysis confirms the need for ongoing vigilance in order to maintain inflation expectations in line with price stability. In fact, by keeping medium-term inflationary expectations firmly anchored at levels consistent with price stability, monetary policy is making a significant contribution towards a recovery in economic growth.

As regards fiscal policies, at a time when most countries are in the process of preparing their budgets for 2006, a medium-term orientation of fiscal policies aimed at ensuring the sustainability of public finances is essential to foster higher growth and employment in the euro area. In many countries resolute action needs to be taken to put public finances on a sounder footing by adopting measures of a structural nature. In this respect, the current pace of fiscal consolidation in many Member States remains too slow. Greater determination in addressing the structural sources of fiscal imbalances would help to reduce uncertainty for consumers and enterprises, thereby strengthening the dynamism of the euro area economy.

More determined action is also needed to improve the functioning of the euro area labour markets. While there are indications that the level of structural unemployment has been falling since the mid-1990s in the euro area as a whole, the process has been very uneven across countries. These divergences to a large extent reflect differences in the pursuit of labour market reforms across countries. While several countries have made significant progress towards making their labour markets more flexible and adaptable, in many countries more ambitious labour market reforms are needed to significantly reduce structural unemployment rates.

This issue of the Monthly Bulletin contains three articles. The first article explains and assesses the recent reform of the Stability and Growth Pact. The second article discusses the

increasingly important role of “Emerging Asia” in the global economy. The third article looks at some recent issues relating to banknote production and issuance.

# ECONOMIC AND MONETARY DEVELOPMENTS

## I THE EXTERNAL ENVIRONMENT OF THE EURO AREA

The global economy is continuing to expand at a fairly robust pace, amid signs that the recent weakening in the global manufacturing sector may have been temporary. In addition, inflationary pressures at the global level generally appear to be relatively well contained. The outlook for the global economy and for euro area foreign demand remains fairly favourable, although the high price of oil poses an important risk to this outlook.

### I.1 DEVELOPMENTS IN THE WORLD ECONOMY

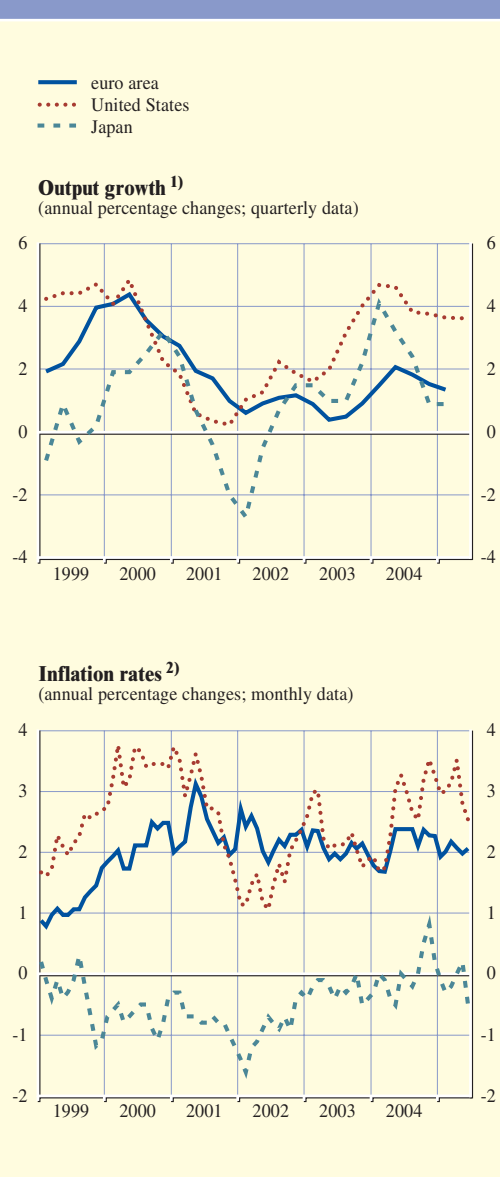
The global economy is continuing to expand at a fairly robust pace (see Chart 1). Activity is particularly robust in the United States and in some Asian countries, notably China. Although global growth continues to be supported by the services sector in particular, recent developments in industrial production and survey evidence suggest that at least part of the recent weakness in the manufacturing sector might have been temporary, reflecting further progress in inventory adjustments. At the same time, inflationary pressures at the global level generally continue to be relatively well contained.

#### UNITED STATES

Economic activity in the United States remained robust in the second quarter of 2005 despite having moderated somewhat since the previous quarter. According to advance estimates, real GDP grew at a quarterly annualised rate of 3.4% in the second quarter, after 3.8% in the previous quarter. This moderation reflected a large negative contribution from inventories to growth, while the growth of final domestic demand remained robust and the contribution of net trade to GDP turned positive.

According to the latest indicators, economic momentum in the United States seems to have remained rather strong in recent months. The dampening effect of the elevated price of oil on activity appears to have been limited. The low level of long-term interest rates has continued to support residential investment and other components of household and business spending. The growth in manufacturing production was robust in May and June, following somewhat weaker developments in

Chart 1 Main developments in major industrialised economies



Sources: National data, BIS, Eurostat and ECB calculations.  
1) Eurostat data are used for the euro area; for the United States and Japan, national data are used. For all countries, GDP figures have been seasonally adjusted.  
2) HICP for the euro area; CPI for the United States and Japan.



previous months which seem to have been partly related to inventory adjustment. The rebound of the ISM index in June and July is a further indication of renewed strength in the manufacturing sector. After some moderation in the spring, indicators of household consumption and business fixed investment spending improved in June. The growth in personal consumption resumed, and there was a rebound in the orders for non-defence capital goods excluding aircraft. Looking ahead, the outlook for overall economic activity in the near future remains rather benign.

Increases in consumer prices other than energy have remained rather muted, despite the acceleration in unit labour costs and the elevated price of oil. In June, annual consumer price inflation decreased to 2.5%, and excluding food and energy it eased to 2.0%.

### **JAPAN**

In Japan, economic activity has gathered momentum. After a strong rebound in the first quarter of 2005, domestic demand continued to recover in the second quarter on the back of a strengthening in private consumption and business investment. Improvements in the labour markets and favourable wage developments supported household consumption, while high corporate profitability and an improvement in business expectations underpinned investment. Looking ahead, the Japanese economy is expected to continue to expand at a fairly robust pace. Growth is likely to be supported in particular by domestic demand, and the recent pick-up in export growth suggests that the external sector may also be recovering.

Concerning consumer price developments, the annual rate of change of the CPI once again turned negative in June, declining to -0.5% after 0.2% in May. Although this renewed fall mainly reflected developments in the prices of fresh food, the annual rate of inflation of the CPI excluding fresh food also decreased, albeit more moderately, to -0.2%. Producer prices – as measured by the domestic corporate goods price index – have continued to rise in recent months, albeit at a slower pace (1.4% year on year in June, down from 1.8% in May). At its meeting on 27 July, the Bank of Japan decided to maintain its target for the outstanding balance of current accounts unchanged at around JPY 30-35 trillion.

### **UNITED KINGDOM**

In the United Kingdom, quarter-on-quarter output growth remained unchanged at 0.4% in the second quarter of 2005, according to preliminary estimates. As a result the year-on-year growth rate slowed to 1.7%, reflecting a slowdown in services and a year-on-year fall in output in the manufacturing sector. Looking ahead, although output growth may accelerate slightly towards the end of the year, real GDP growth in 2005 is likely to be markedly lower than the 3.2% observed last year.

In the labour market, some signs of easing have started to emerge. Year-on-year growth in average earnings, including bonuses, abated to 4.1% in May (after 4.6% in April) and the claimant count of unemployed increased for the fifth consecutive month. However, the unemployment rate remained unchanged at 4.8% for the three months ending in May. Annual HICP inflation stood at 2.0% year on year in June, after the 1.9% registered in each of the three preceding months. This slight upward shift resulted mainly from food prices. While producer prices have continued to grow rapidly (9.5% in the year to May), residential property prices have declined further in annual terms. On 4 August, the Bank of England's Monetary Policy Committee cut the repo rate by 0.25 percentage point to 4.5%.

## OTHER EUROPEAN COUNTRIES

Output growth in the other non-euro area EU countries continued to slow in the first quarter of 2005 to an annual average rate of 2.1%. In Denmark and Sweden, the decline was particularly strong, largely attributable to the weakening in domestic demand. Leading indicators point to a recovery in the second quarter of this year but, for the year as a whole, real GDP growth is likely to turn out weaker than in 2004. HICP inflation increased in June, to 0.8% in Sweden and 1.7% in Denmark, largely on account of rising energy prices.

Average real GDP growth in the ten new EU Member States declined to a weighted annual rate of 4.0% in the first quarter, compared with 4.4% in the previous quarter. For the year as a whole, real GDP growth in the new Member States is expected to weaken in comparison with 2004. Overall, however, the growth outlook remains favourable, particularly in the Baltic States and Slovakia. With regard to the three largest new Member States, in Hungary annual real GDP growth declined to 2.9% in the first quarter of 2005, while in the Czech Republic and Poland annual output growth remained broadly unchanged.

Annual HICP inflation rates in the ten new Member States declined to a weighted average of 1.9% year on year in June, down from 2.3% in May. In the three largest new Member States, the annual inflation rate in Hungary and the Czech Republic broadly stabilised after having declined since the second half of 2004, while it continued to decline in Poland. In the Czech Republic, HICP inflation was 1.3% year on year in June, while Hungary experienced a slight increase to 3.7%. In Poland, HICP inflation declined to 1.4%, reflecting to a large extent lower food price increases. Against the background of a further improvement in the inflation outlook, Magyar Nemzeti Bank reduced its policy rate by 0.25 percentage point on 18 July 2005 to 6.75%. On 27 July, Narodowy Bank Polski lowered its key policy rate by 0.25 percentage point to 4.75%.

## NON-JAPAN ASIA

In China the economy has continued to expand strongly, with annual real GDP growing 9.5% year on year in the second quarter of 2005. The combination of continued high export growth rates and a decline in import growth resulted in a surge in the trade balance and a larger net trade contribution to GDP growth. Meanwhile, robust domestic demand continued to support the acceleration of economic activity. At the same time, inflationary pressures continued to moderate, with annual CPI inflation declining to 1.6% in June.

Some other major countries in non-Japan Asia have experienced a slight improvement in growth momentum in recent months. In particular, household consumption remains robust in most economies in the region. At the same time, inflationary pressures continued to ease in a number of major non-Japan Asian economies, but increased significantly in Malaysia and Thailand.

Overall, economic prospects for the economies in the region remain rather favourable, supported by the continuous improvement in domestic demand. Growth in the Chinese economy, however, is likely to decline in the second half of this year, reflecting the advanced stage of the economic cycle and the ongoing policy tightening.

## LATIN AMERICA

In Latin America, the latest data releases show that economic activity, while moderating, remains rather strong. Output growth continues to be led by exports. In May growth in industrial production was 4.1% and 3.0% (year on year) in Brazil and Mexico respectively, while in June it was 6.4% in Argentina. The outlook for the region remains positive. Domestic demand is

expected to accelerate over the second half of the year, offsetting a probable moderation of foreign demand. Financing costs are broadly expected to ease in the light of somewhat milder inflationary pressures.

## 1.2 COMMODITY MARKETS

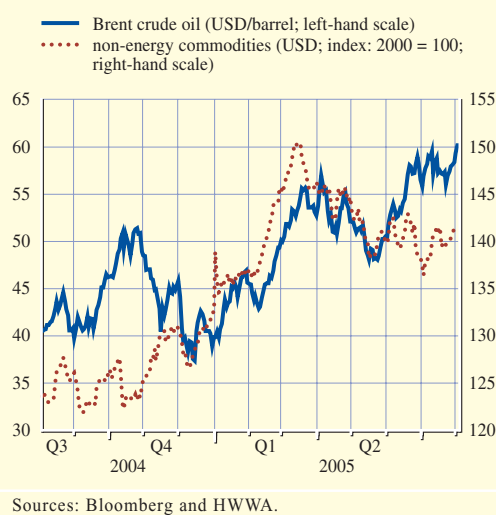
Oil prices remained at high levels in July, amid considerable volatility. At the beginning of August, they rose to new historic highs, with the price of Brent crude reaching USD 60.2 on 2 August. Limited spare capacity throughout the oil supply chain and continued concerns over the security of oil supplies have kept upward pressure on prices despite a recent downward revision of projected oil demand in 2005 by the International Energy Agency. The surge in oil prices has coincided with even larger increases in oil futures prices at longer horizons, suggesting that market participants expect oil prices to remain high beyond 2005. On 3 August, the prices of futures contracts of Brent crude oil for delivery at end-2007 stood at USD 60.3.

Non-energy commodity prices, expressed in US dollars, remained broadly unchanged in July compared with the previous month as a rise in prices of industrial raw materials was balanced by a decline in food prices. On average, in July overall non-energy commodity prices were 5.3% below the all-time high reached in March 2005 but 7.5% higher than one year earlier.

## 1.3 OUTLOOK FOR THE EXTERNAL ENVIRONMENT

The outlook for the external environment and for euro area external demand remains fairly favourable. As some of the recent weakness in manufacturing, in part related to inventory corrections, appears to be receding, continued favourable financing conditions and profit conditions may once again begin to play a more prominent role in shaping global activity. Nonetheless, some further, albeit gradual, deceleration of global economic activity cannot be ruled out at this point. In particular, growth of the Chinese economy may slow from the robust rates observed in the first half of 2005. Some further global deceleration is also suggested by the OECD composite leading indicator, which declined continuously throughout the year up to May. The main risk to this generally fairly positive outlook stems from oil price developments, as market participants currently expect oil prices to remain close to current levels in the coming years. In addition, the persistence of global imbalances constitutes a further risk.

Chart 2 Main developments in commodity markets



## 2 MONETARY AND FINANCIAL DEVELOPMENTS

### 2.1 MONEY AND MFI CREDIT

The data for June 2005 point towards a continuation of the strong monetary growth observed since the second half of 2004. The stimulative effect of the prevailing low level of interest rates remains the main factor driving monetary dynamics, notwithstanding some further normalisation of portfolio allocation behaviour by euro area residents which exerts a partial offsetting dampening effect on M3 growth. The impact of the low level of interest rates is also reflected in the strengthening of the already robust private sector demand for MFI loans. The robustness of monetary growth in a context of already ample liquidity in the euro area poses upside risks to price stability over the medium to longer term. Moreover, accumulated liquidity and strong credit dynamics imply a need to monitor asset price dynamics, given the potential for price misalignments to emerge.

#### THE BROAD MONETARY AGGREGATE M3

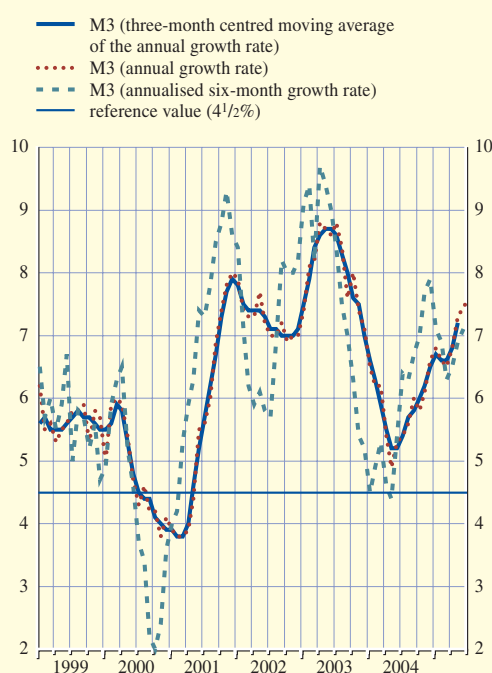
The annual growth rate of the broad monetary aggregate M3 increased to 7.5% in June 2005, from 7.3% in May. The three-month average of the annual M3 growth rates rose to 7.2% in the period between April and June 2005, from 6.9% in the period from March to May. The data for recent months confirm the strengthening of M3 growth since the second half of 2004. This resumption of stronger growth is also visible in the shorter-term dynamics of M3, which remained robust in June, as reflected in the further increase of the annualised six-month growth rate of M3 to 7.1%, from 6.9% in the previous month (see Chart 3).

The June data support the view that the stimulative impact of the prevailing low level of interest rates was the main factor driving monetary dynamics. This is illustrated on the components side by the continued strong growth of the most liquid components of M3. On the counterparts side, the low level of interest rates is reflected in a further increase in the annual growth rate of MFI loans to the private sector.

At the same time, there remains evidence of some further normalisation of the portfolio allocation behaviour of euro area residents, which has a dampening influence on monetary growth. This is reflected in the strong month-on-month rate of growth in MFI longer-term financial liabilities (excluding capital and reserves) and in the subdued and declining growth rate of money market fund shares/units. Yet the positive flow of MFI net external assets over the last twelve months suggests that the euro area money-holding sector remains reluctant to invest in foreign assets, thus hindering the full reversal of past portfolio shifts.

Chart 3 M3 growth and the reference value

(percentage changes; adjusted for seasonal and calendar effects)



Source: ECB.

Given the robust annual rate of growth in M3 over the most recent quarters, liquidity in the euro area remains ample. Strong monetary growth and the current ample liquidity situation point to risks to price stability over the medium to longer term, especially if a significant part of that liquidity were to be transformed into transaction balances at a time when confidence and real economic activity are strengthening. In addition, strong credit growth in the context of ample liquidity implies a need to monitor asset price dynamics, given the potential for price misalignments to emerge.

### MAIN COMPONENTS OF M3

In June, M1 continued to make the largest contribution to annual M3 growth. Among the components of M1, the annual growth rates of both currency in circulation and overnight deposits increased. The annual rate of growth of other short-term deposits also increased compared with the previous month (see Table 1). The current strength of demand for short-term deposits is likely to reflect the low opportunity cost of holding these assets in an environment of low interest rates.

The annual growth rate of short-term deposits and repurchase agreements held by the private sector with MFIs excluding the Eurosystem increased further in June. Since the middle of 2004, the accumulation of this type of liquidity has been broad-based across sectors, with the non-monetary financial intermediaries sector contributing particularly strongly to the increase in the annual growth rate.

The annual growth rate of marketable instruments included in M3 decreased to 5.1% in June, from 5.7% in May. This development reflects a decline in the annual growth rate of money market fund shares/units, instruments that are often used in times of heightened uncertainty as a vehicle to “park” money when alternative assets are deemed too risky by investors. Money market funds have shown relatively subdued and declining growth over the past few months, following the strong (double-digit) annual growth rates observed between mid-2001 and late 2003. This

**Table 1 Summary table of monetary variables**

(quarterly figures are averages; adjusted for seasonal and calendar effects)

	Outstanding amount as a percentage of M3 <sup>1)</sup>	Annual growth rates					
		2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 May	2005 June
<b>M1</b>	<b>47.5</b>	<b>9.6</b>	<b>9.3</b>	<b>9.6</b>	<b>9.7</b>	<b>10.1</b>	<b>10.5</b>
Currency in circulation	7.3	20.3	19.1	18.0	17.3	17.0	17.2
Overnight deposits	40.3	7.9	7.7	8.2	8.4	8.9	9.3
M2 - M1 (= other short-term deposits)	38.1	2.0	3.5	4.5	5.1	4.9	5.2
Deposits with an agreed maturity of up to and including two years	15.4	-5.8	-2.4	0.5	2.7	1.9	3.8
Deposits redeemable at notice of up to and including three months	22.6	7.6	7.4	7.1	6.6	6.7	6.1
<b>M2</b>	<b>85.6</b>	<b>5.8</b>	<b>6.4</b>	<b>7.1</b>	<b>7.5</b>	<b>7.6</b>	<b>7.9</b>
M3 - M2 (= marketable instruments)	14.4	4.0	3.9	3.9	4.3	5.7	5.1
<b>M3</b>	<b>100.0</b>	<b>5.6</b>	<b>6.1</b>	<b>6.6</b>	<b>7.0</b>	<b>7.3</b>	<b>7.5</b>
<b>Credit to euro area residents</b>		<b>6.2</b>	<b>6.0</b>	<b>6.4</b>	<b>6.5</b>	<b>6.4</b>	<b>6.5</b>
Credit to general government		6.3	3.7	3.4	2.0	1.5	1.0
Loans to general government		2.2	0.6	-0.4	-0.9	-0.3	-1.0
Credit to the private sector		6.2	6.7	7.3	7.7	7.8	8.0
Loans to the private sector		6.2	6.9	7.3	7.5	7.5	7.9
<b>Longer-term financial liabilities (excluding capital and reserves)</b>		<b>8.5</b>	<b>8.9</b>	<b>9.5</b>	<b>9.6</b>	<b>9.4</b>	<b>10.0</b>

Source: ECB.

1) As at the end of the last month available. Figures may not add up due to rounding.

behaviour points to a further normalisation of the portfolio allocation behaviour of euro area residents. Contrary to developments in money market fund shares/units, the annual growth rate of debt securities with a maturity of up to two years rose to 12.3% in June, after 9.8% in the previous month.

### MAIN COUNTERPARTS OF M3

On the counterparts side, the further strengthening of the annual growth rate of loans to the private sector, from 7.5% in May to 7.9% in June, reflected the stimulative impact of the low level of interest rates on demand for credit, as well as improvements in credit supply conditions (see Box 1 on the July 2005 Bank Lending Survey). Stronger loan growth was broad-based across the main non-financial sectors (see Table 2).

MFI loans to households continued to be driven mainly by the dynamism of loans for house purchase, which grew at an annual rate of 10.4% in June, after 10.1% in May. Strong borrowing for house purchase reflected the environment of low mortgage lending rates and the strength of housing market developments in some regions of the euro area. The annual growth rate of MFI loans to non-financial corporations – which had strengthened since early 2004 – remained stable in June, a development that was similar across all loan maturities. The annual rate of growth of MFI credit granted to general government declined, mainly reflecting lower growth of holdings of securities by the MFI sector.

Among the other counterparts of M3, the annual growth rate of MFI longer-term financial liabilities (excluding capital and reserves) reached a new peak of 10.0% in June, from 9.4% in May (see Table 1). These developments provide evidence of an ongoing normalisation of the portfolio allocation behaviour of euro area residents, since they reflect the switching of holdings of wealth into longer-term and somewhat riskier instruments than monetary assets.

At the same time, the annual flow of euro area MFI net external assets increased and continued to contribute positively to M3 growth. This development is consistent with a continuing reluctance

**Table 2 MFI loans to the private sector**

(quarterly figures are averages; not adjusted for seasonal and calendar effects)

	Outstanding amount as a percentage of the total <sup>1)</sup>	Annual growth rates					
		2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 May	2005 June
<b>Non-financial corporations</b>	<b>41.5</b>	<b>4.3</b>	<b>5.1</b>	<b>5.7</b>	<b>6.1</b>	<b>6.2</b>	<b>6.2</b>
Up to one year	31.2	-1.4	1.6	3.3	4.5	4.9	4.9
Over one and up to five years	17.2	6.0	5.8	6.7	6.5	6.4	6.4
Over five years	51.5	7.3	7.0	6.9	6.9	7.0	7.0
<b>Households<sup>2)</sup></b>	<b>50.4</b>	<b>7.4</b>	<b>7.9</b>	<b>8.1</b>	<b>8.2</b>	<b>8.2</b>	<b>8.4</b>
Consumer credit <sup>3)</sup>	13.5	6.0	6.2	6.4	6.8	7.2	7.2
Lending for house purchase <sup>3)</sup>	68.5	9.3	9.9	10.1	10.1	10.1	10.4
Other lending	18.1	2.2	1.9	2.2	2.2	2.3	2.6
<b>Insurance corporations and pension funds</b>	<b>0.8</b>	<b>18.3</b>	<b>14.4</b>	<b>23.0</b>	<b>14.3</b>	<b>8.8</b>	<b>17.8</b>
<b>Other non-monetary financial intermediaries</b>	<b>7.3</b>	<b>8.7</b>	<b>10.0</b>	<b>10.1</b>	<b>10.9</b>	<b>10.2</b>	<b>13.3</b>

Source: ECB.

Notes: MFI sector including the Eurosystem; sectoral classification based on the ESA 95. For further details, see the relevant technical notes.

1) As at the end of the last month available. Sector loans as a percentage of total MFI loans to the private sector; maturity breakdown and breakdown by purpose as a percentage of MFI loans to the respective sector. Figures may not add up due to rounding.

2) As defined in the ESA 95.

3) The definitions of consumer credit and lending for house purchase are not fully consistent across the euro area.

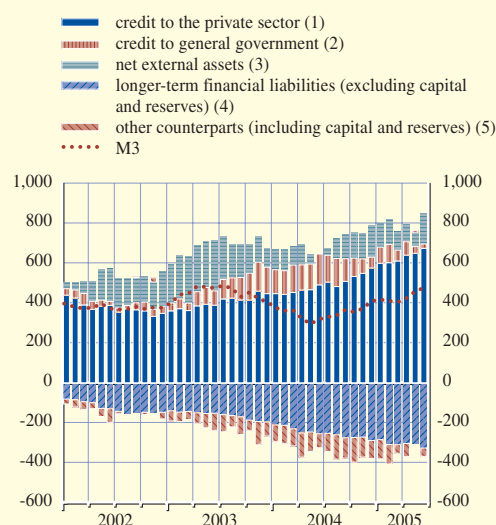
of the euro area money-holding sector to invest in foreign assets, which hinders a faster unwinding of past portfolio shifts. In June 2005 the annual flow of net external assets was €151 billion, the highest value since December 2004. However, short-term movements in the net external asset position should not be over-emphasised as they can be heavily influenced by large-scale cross-border transactions and may, therefore, display considerable volatility on a month-to-month basis.

Summing up the information coming from the counterparts, on the one hand the further rise in the dynamism of MFI loans to the private sector – in particular the increase in the already rapid growth rate of loans for house purchase as well as the ongoing robust growth of MFI loans to non-financial corporations – continued to have a positive impact on M3 growth. On the other hand, the ongoing robust expansion of MFI longer-term financial liabilities and the declining growth of money market fund shares/units support the view of an ongoing normalisation of portfolio allocation behaviour by euro area residents. Yet the apparent reluctance of the euro area money-holding sector to invest

in foreign assets is preventing a more rapid normalisation of portfolio allocation behaviour. Ample liquidity thus persists and, in the context of strong monetary and credit growth, points to upside risks to price stability at medium to longer horizons.

**Chart 4 Counterparts of M3**

(annual flows; EUR billions; adjusted for seasonal and calendar effects)



Source: ECB.

Note: M3 is shown for reference only ( $M3 = 1+2+3-4+5$ ). Longer-term financial liabilities (excluding capital and reserves) are shown with an inverted sign, since they are liabilities of the MFI sector.

**Box I**

**THE RESULTS OF THE JULY 2005 BANK LENDING SURVEY FOR THE EURO AREA**

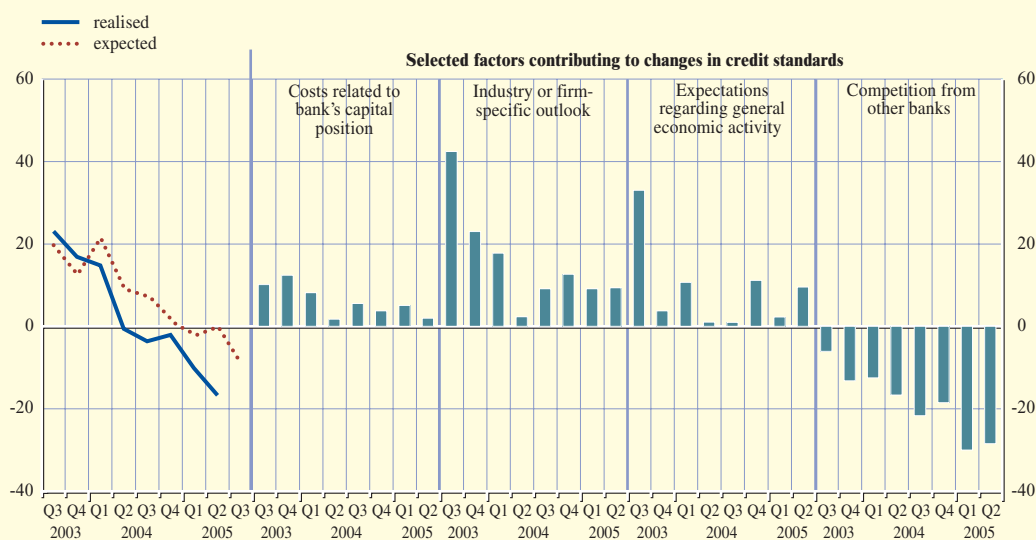
This box describes the main results of the July 2005 bank lending survey for the euro area carried out by the Eurosystem.<sup>1</sup> The results showed a stronger net easing<sup>2</sup> of credit standards for loans to enterprises in the second quarter of 2005 as compared with the previous quarter. At the same time, however, banks slightly tightened the credit standards applied to loans to households for housing loans, while the degree of net easing of credit standards for consumer credit and other loans to households declined. Nevertheless, for the third quarter of 2005, reporting banks expected a net easing of credit standards applied to both corporate and household loans.

1 A comprehensive assessment of the results of the July 2005 bank lending survey for the euro area was released on 5 August 2005 and can be found on the ECB's website ([www.ecb.int/stats/money/lend/html/index.en.html](http://www.ecb.int/stats/money/lend/html/index.en.html)).

2 The net percentage refers to the difference between the proportion of banks reporting that credit standards have been tightened and the proportion of banks reporting that they have eased. A positive net percentage would indicate that banks have tended to tighten credit standards ("net tightening"), whereas a negative net percentage would indicate that banks have tended to ease credit standards ("net easing").

**Chart A Changes in credit standards applied to the approval of loans or credit lines to enterprises**

(net percentages)



Notes: The net percentages refer to the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”. The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to tightening and the percentage reporting that it contributed to easing. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the third quarter of 2005 were reported by banks in the July 2005 survey.

### Loans or credit lines to enterprises

**Credit standards:** For the second quarter of 2005, banks reported a stronger net easing of credit standards for loans or credit lines to enterprises. This net easing was more pronounced than had been reported in the previous quarter (-17%, compared with -10%). This was the fifth consecutive quarter in which a net easing of credit standards was recorded and was in line with the downward trend recorded since the launch of the bank lending survey (see Chart A, first panel). Among the factors explaining changes in credit standards, competition from other banks contributed the most to the looser credit standards (see Chart A, fifth panel). At the same time, but acting as a countervailing factor, risk perceptions regarding general economic activity contributed more strongly to tighter credit standards than in the previous quarter (see Chart A, fourth panel). As regards the terms and conditions of credit, the further easing of credit standards was effected mainly through a strong decline in margins on average loans, followed by a lengthening of loan maturity. In terms of the borrower’s size, banks reported a net easing of credit standards for small and medium-sized enterprises, as well as a significant increase in the net easing of credit standards for large enterprises.

**Loan demand:** Net demand<sup>3</sup> for loans to enterprises remained in negative territory and declined slightly compared with the previous quarter (to -5%, from -1%; see Chart B, first panel). This result was heavily influenced by developments in one country. The decline in net

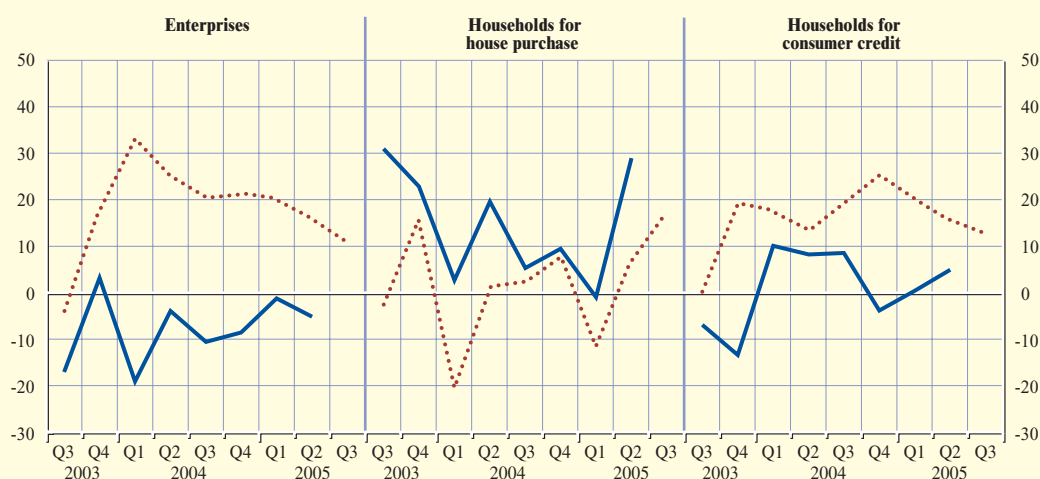
<sup>3</sup> The term “net demand” refers to the difference between the proportion of banks reporting an increase in loan demand and the proportion of banks reporting a decline.



**Chart B Changes in the demand for loans or credit lines to enterprises and households**

(net percentages)

— realised  
 ..... expected



Notes: The net percentage refers to the difference between the sum of the percentages for “increased considerably” and “increased somewhat” and the sum of the percentages for “decreased somewhat” and “decreased considerably”. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the third quarter of 2005 were reported by banks in the July 2005 survey.

demand affected loans to both small and medium-sized enterprises and large enterprises. The major factors contributing to the continued negative net demand were, according to reporting banks, the fact that fixed investment remained weak, the use of alternative sources of finance – in particular the availability of internal finance (related to improved profitability) by enterprises – and the use of loans from other banks. However, banks reported that debt restructuring, mergers and acquisitions and corporate restructuring activities were important countervailing factors contributing to a net increase in corporate loan demand in the second quarter of 2005.

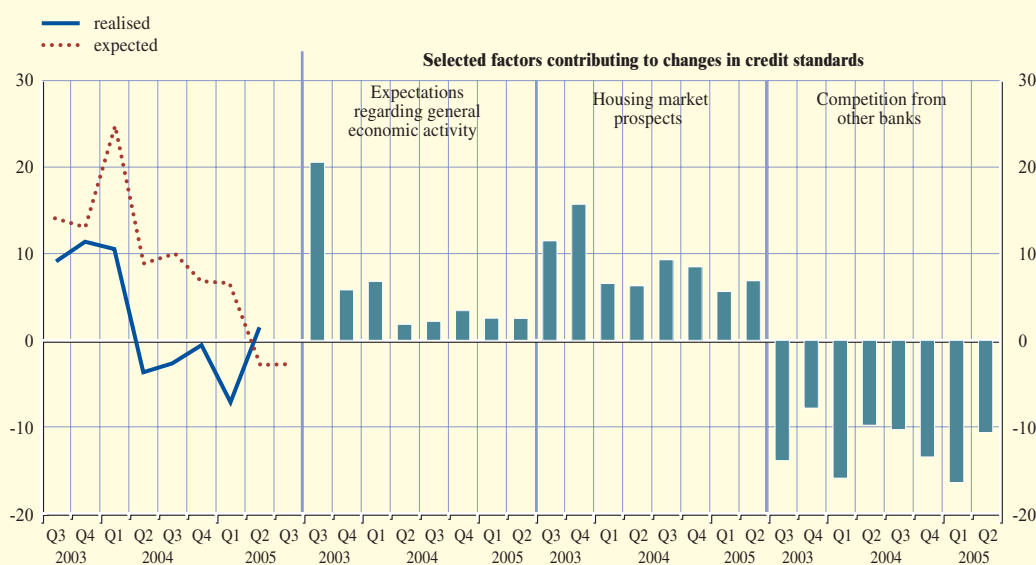
**Expectations:** Overall, for the third quarter of 2005, banks expected a stronger net easing of credit standards applied to the approval of loans or credit lines to enterprises (see Chart A, first panel). At the same time, banks expected an increase in net demand for corporate loans (see Chart B, first panel). This anticipated positive net demand was expected to be more pronounced for small and medium-sized enterprises than for large enterprises.

#### Loans to households for house purchase

**Credit standards:** Banks reported a slight net tightening of credit standards applied to households for the approval of loans for house purchase in the second quarter of 2005 (2%, from -7% in the first quarter). This was the first time since the first quarter of 2004 that banks reported a net tightening of these credit standards (see Chart C, first panel). The slight net tightening reflected, in particular, banks’ growing perception of risk, particularly in terms of worsening housing market prospects (see Chart C, third panel), but also in terms of risk perceptions regarding general economic activity (see Chart C, second panel). At the same time,

**Chart C Changes in credit standards applied to the approval of loans to households for house purchase**

(net percentages)



Notes: The net percentages refer to the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”. The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to tightening and the percentage reporting that it contributed to easing. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the third quarter of 2005 were reported by banks in the July 2005 survey.

competition from other banks continued to contribute to a net easing, although at a lower level than in the previous quarter (see Chart C, fourth panel). As regards the terms and conditions of credit, banks reported that the slight net tightening of credit standards applied to housing loans was achieved predominantly via more stringent collateral requirements and larger margins on riskier loans.

**Loan demand:** Net demand for housing loans to households increased strongly in the second quarter of 2005 (to 29%, from -1% in the previous quarter) (see Chart B, second panel). The main factor underpinning this development was a more positive contribution from housing market prospects of households.

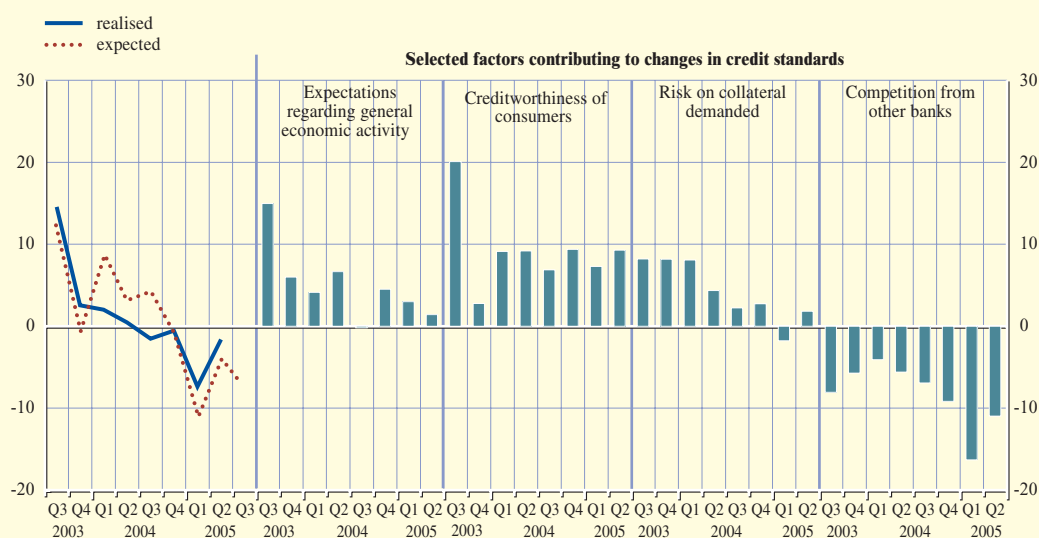
**Expectations:** For the third quarter of 2005, respondent banks predicted a slight net easing of credit standards for housing loans (see Chart C, first panel). This was only the second time that banks had expected a net easing of credit standards, as credit conditions have tended to be looser than banks have predicted. Banks continued to expect that net demand for housing loans would increase again in the third quarter of 2005 (see Chart B, second panel).

### Loans to households for consumer credit and other lending

**Credit standards:** For loans to households for consumer credit, credit standards showed a slightly lower net easing in the second quarter of 2005 (to -2%, from -7% in the first quarter) (see Chart D, first panel). The main factor contributing to this net easing was increased

**Chart D Changes in credit standards applied to the approval of loans to households for consumer credit and other lending**

(net percentages)



Notes: The net percentages refer to the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”. The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to tightening and the percentage reporting that it contributed to easing. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the third quarter of 2005 were reported by banks in the July 2005 survey.

competition from other banks (see Chart D, fifth panel). Expectations regarding general economic activity were perceived as somewhat less negative than in the previous quarter, but continued to contribute slightly to a net tightening of credit standards (see Chart D, second panel). Other countervailing factors to the slight net easing were increases in the perception of risks stemming from lower creditworthiness on the part of consumers and of risks on collateral demanded (see Chart D, third and fourth panels). Banks modified the terms and conditions of consumer credit primarily through lower margins on average loans.

**Loan demand:** According to responding banks, net demand for consumer credit and other lending to households increased slightly in the second quarter of 2005 (see Chart B, third panel). The main factor contributing to this development was increased spending on durable consumer goods.

**Expectations:** For the third quarter of 2005, banks expected a net easing of credit standards (see Chart D, first panel) and an increase in net demand for consumer credit and other lending to households (see Chart B, third panel).

## 2.2 SECURITIES ISSUANCE

*In May 2005, the annual growth rate of debt securities issued by euro area residents remained relatively strong. Debt securities issuance activity continued to be supported by the financial sector, and in particular by the issuance activity of non-monetary financial institutions, which accelerated even further. By contrast, issuance of quoted shares by euro area residents remained subdued.*

### DEBT SECURITIES

The annual growth rate of debt securities issued by euro area residents declined to 7.2% in May 2005, from 7.5% in April (see Table 3). Since January 2004, developments in the annual growth rate of debt securities have been supported mainly by the strong growth rate of long-term debt securities, while the growth rate of short-term debt securities has remained relatively subdued. The strong growth in the issuance of long-term debt securities was mainly due to developments in the issuance of debt securities at variable rates, which increased progressively from an annual growth rate of 12.8% in January 2004 to 19.2% in May 2005. Consequently, the share of variable rate financing in the total amount outstanding of long-term debt securities issued by euro area residents increased to almost 23% in May.

As regards issuance by sector, the annual growth rate of debt securities issued by MFIs declined from the previous month, but remained relatively high at 8.4% in May (see Chart 5). Within this sector, financing via long-term debt securities at variable rates was particularly strong at an annual growth rate of 17.9% in May, thereby accounting for a share of 36% of all long-term debt securities outstanding issued by euro area MFIs. The strong growth in the issuance of debt securities by MFIs may have been related to their financing needs on account of the relatively strong growth in MFI loans to the private sector as well as the relatively low cost of financing.

The annual growth rate of debt securities issued by non-financial corporations declined to 5.3% in May, from 5.9% in April. This was mainly due to the decrease in the annual growth rate of long-

**Table 3 Securities issued by euro area residents**

Issuing sector	Amount outstanding (EUR billions) 2005 Q1	Annual growth rates <sup>1)</sup>					
		2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Apr.	2005 May
<b>Debt securities:</b>	<b>9,706</b>	<b>6.9</b>	<b>7.1</b>	<b>6.8</b>	<b>7.2</b>	<b>7.5</b>	<b>7.2</b>
MFIs	3,845	7.9	8.5	8.8	9.0	8.9	8.4
Non-monetary financial corporations	755	13.7	11.4	9.9	11.6	16.5	19.1
Non-financial corporations	611	2.2	3.6	3.0	3.2	5.9	5.3
General government	4,495	5.7	5.9	5.3	5.5	5.2	4.6
<i>of which:</i>							
Central government	4,235	5.1	5.4	4.8	5.1	4.8	4.2
Other general government	260	18.5	16.4	14.6	13.7	12.8	11.7
<b>Quoted shares:</b>	<b>4,242</b>	<b>1.1</b>	<b>0.9</b>	<b>1.1</b>	<b>1.1</b>	<b>1.0</b>	<b>1.0</b>
MFIs	678	2.3	1.7	2.0	2.6	2.1	2.0
Non-monetary financial corporations	422	1.6	1.7	1.5	0.9	0.9	0.8
Non-financial corporations	3,143	0.8	0.7	0.8	0.8	0.8	0.8

Source: ECB.

1) For details, see the technical notes for Tables 4.3 and 4.4 of the "Euro area statistics" section.

term debt securities issued by this sector, from 6.8% in April to 5.6% in May. The growth of issuance by non-financial corporations was largely accounted for by debt securities at variable rates, which continued to grow relatively strongly. Consequently, the share of variable rate financing in the total amount outstanding of long-term debt securities issued by non-financial corporations increased to around 16% in May 2005. The annual growth rate of short-term debt securities issued by non-financial corporations, which tends to follow a rather volatile pattern, increased to 3.8% in May, from 1.8% in the previous month.

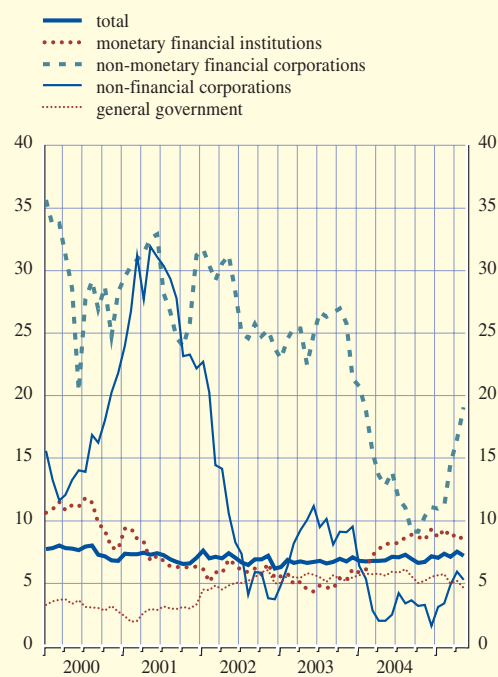
Corporate bond issuance has shown remarkable resilience in recent months despite the subdued level of industrial confidence and the widening of corporate bond spreads on account of concerns about the credit quality of certain non-financial corporations (see the box entitled “Seasonal adjustment of securities issues statistics”). In this respect, the relatively high level of issuance by non-financial corporations in May seems to have been supported by continuing favourable costs of financing via debt securities as well as by a pick-up in M&A activity. At the same time, redemptions of debt securities by non-financial corporations were relatively high in May, which may indicate debt restructuring efforts. This is supported by evidence from the July 2005 bank lending survey (see the box entitled “The results of the July 2005 bank lending survey for the euro area”), as banks reported that debt restructuring contributed to a net increase in corporate loan demand.

The annual growth rate of debt securities issued by non-monetary financial corporations increased further to 19.1% in May, from 16.5% in April. Within this sector, the bulk of the growth was accounted for by the issuance of long-term debt securities at variable rates, which increased by around 40% in May 2005. The importance of issuance activity by non-monetary financial corporations has been growing substantially, as indicated by the amount outstanding of debt securities issued, which was 27% larger than for non-financial corporations in May 2005, having been broadly the same amount two years ago. In this respect, non-financial corporations and MFIs in part also use these corporations to raise external funds indirectly via special purpose vehicles (SPVs). Although aggregate and harmonised data on the specific financial instruments used by SPVs are currently not available, issuance of debt securities by non-financial corporations has been stimulated by the rapid development of new financial processes such as securitisation and structured finance in several euro area countries in recent years.

The annual growth rate of debt securities issued by the general government declined to 4.6% in May, from 5.2% in the previous month. Issuance by the central government sector, which broadly accounts for around 95% of the total amount of government debt securities outstanding, declined to

**Chart 5 Sectoral breakdown of debt securities issued by euro area residents**

(annual growth rates)



Source: ECB.  
Note: Growth rates are calculated on the basis of financial transactions.

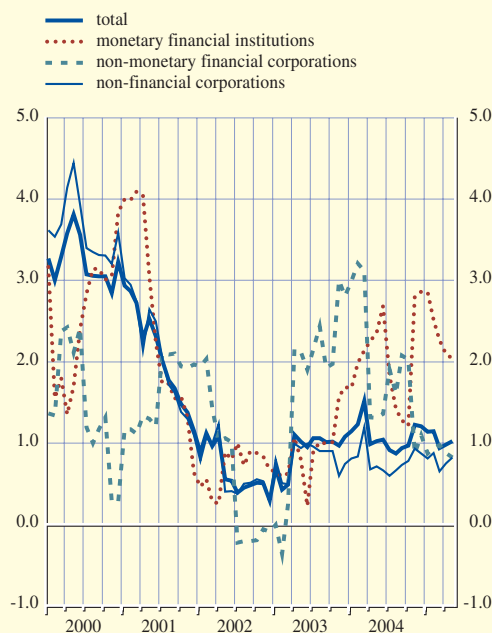
4.2% in May, from 4.8% in April. Seasonally adjusted data on net issuance by the central government sector shows a marked decline during the same period, from €22.7 billion in April 2005 to €3.9 billion in May. At the same time, the annual growth rate of debt securities issued by the other general government sector, which mainly includes local governments, declined to 11.7% in May, from 12.8% in the previous month. Viewed over a longer period, the annual growth of debt securities issued by the other government sector (including local and regional governments) has been progressively declining from a peak of 33% in February 2003.

#### QUOTED SHARES

The annual growth rate of quoted shares issued by euro area residents remained subdued at 1.0% in May (see Chart 6). In particular, the annual growth rate of quoted shares issued by non-financial corporations, which accounted for almost three-quarters of the amount outstanding of quoted shares issued by euro area residents, stood unchanged at 0.8% in May 2005. It is likely that subdued equity issuance was related to the high real cost of issuing equity as compared with the very favourable real cost of debt financing in the recent past. In addition, the relatively low level of investment in the euro area may also have played a role, since equity issuance seems to be related to external financing needs arising from long-term investments. The annual growth rate of the amounts outstanding of quoted shares issued by MFIs and non-monetary financial corporations remained largely unchanged from the previous month.

**Chart 6 Sectoral breakdown of quoted shares issued by euro area residents**

(annual growth rates)



Source: ECB.  
Note: Growth rates are calculated on the basis of financial transactions.

#### Box 2

##### SEASONAL ADJUSTMENT OF SECURITIES ISSUES STATISTICS

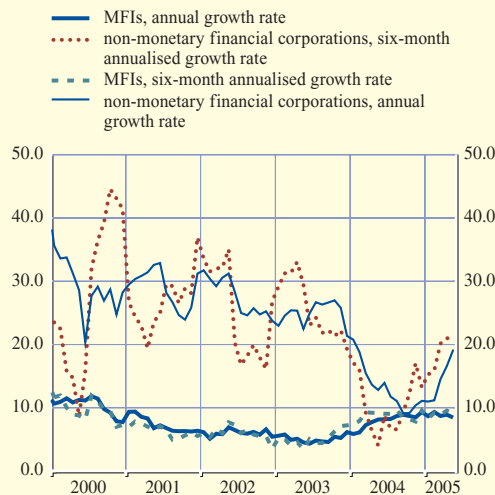
This issue of the Monthly Bulletin for the first time includes seasonally adjusted statistics on securities issuance and thereby provides a new tool for the analysis of net debt securities issuance activity in the euro area. In particular, the availability of seasonally adjusted data facilitates an analysis of the short-term dynamics and the identification of changes in trends.<sup>1</sup>

These new seasonally adjusted data have been produced for all sectors, with a further breakdown by maturity (short-term and long-term), using the X-12-ARIMA method. The seasonally adjusted data on total securities issuance are derived indirectly through the aggregation of the seasonally adjusted sector and maturity breakdowns.

<sup>1</sup> More detailed information and data are available on the ECB's website (<http://www.ecb.int/stats/money/securities/sadj/html/index.en.html>).

**Chart A Debt securities issued by monetary financial institutions and non-monetary financial corporations**

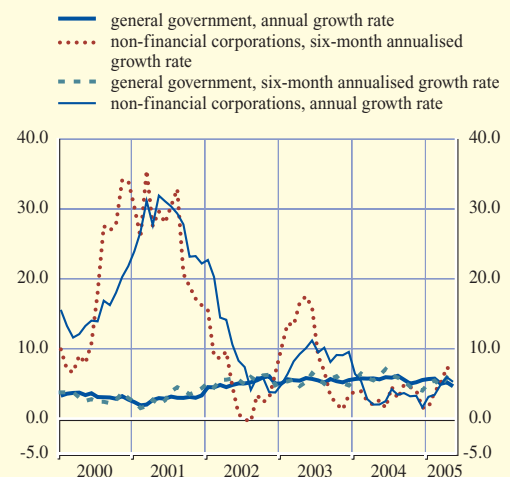
(annual growth rates)



Source: ECB.

**Chart B Debt securities issued by non-financial corporations and general government**

(annual growth rates)



Source: ECB.

The seasonally adjusted data on outstanding amounts, net issuance and growth rates of securities issues are based on the seasonal adjustment of the index of notional stocks, which reflects the changes in outstanding amounts due to net securities issuance. This approach is consistent with the regular procedure for the seasonal adjustment of monetary aggregates.

The seasonal pattern varies depending on the sector and maturity breakdowns. In particular, long-term debt securities issuance displays seasonal troughs of equal size in January and December. Seasonal peaks can be noted for June and July. Euro area total debt securities issuance shows a seasonal trough in December and a smaller but significant peak in May.

The new seasonally adjusted statistics allow the analysis of the short-term dynamics of net issuance activity to be improved. Seasonally adjusted annualised growth rates, such as the three-month and six-month growth rates, tend to indicate changes in the issuance cycle in a more timely manner than the annual growth rates. This more timely information, however, may come at the cost of a more erratic behaviour, particularly in periods of sideward movements of the annual growth rate (see, for example, the growth of securities issued by non-monetary financial corporations between 2000 and the end of 2003 in Chart A). However, in periods prior to turning-points, the analysis of the short-term dynamics signals a change in the growth of securities issuance earlier than the annual growth rates. The use of six-month growth rates seems to be an acceptable compromise between the increase in volatility in these growth rates and the improved timeliness of the signals. This can be illustrated by the development of the six-month growth rates of debt securities issued by non-financial corporations (see Chart B). The changes in the trend in issuance activity for these securities, which took place in the second half of 2000, the middle of 2001, the beginning of 2003 and again at the end of 2003, are indicated considerably earlier by the six-month growth rates than by the annual growth rates. In 2004, by contrast, when developments in securities issuance were rather stable, the six-month and the annual growth rates show similar patterns (see Chart B).

## 2.3 MONEY MARKET INTEREST RATES

*In July 2005 money market interest rates at shorter maturities remained stable, while those at longer maturities increased markedly. As a result, the slope of the yield curve became positive again in the course of the month, after having been slightly negative at the end of June. Similarly, the rates implied by futures prices on three-month EURIBOR futures contracts maturing between September 2005 and June 2006 increased sharply.*

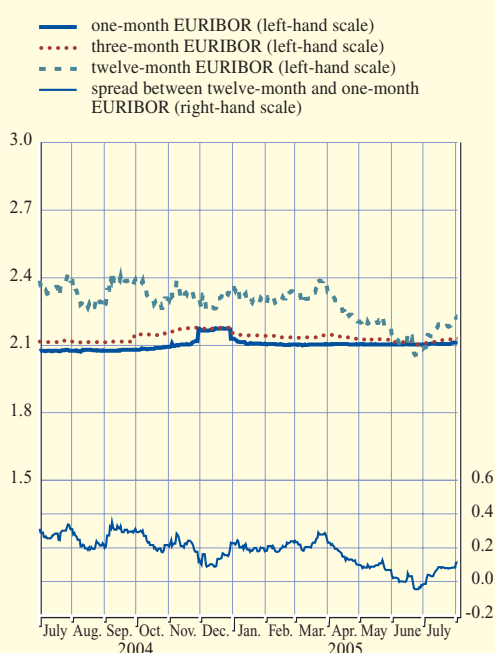
In July 2005 money market rates at the short end of the yield curve remained broadly stable. By contrast, the twelve-month EURIBOR increased markedly over the first two weeks of July and stabilised at around 2.20% thereafter. As a result, the slope of the yield curve has turned positive since the beginning of July, with the difference between the twelve-month and the one-month EURIBOR rates standing at 12 basis points on 3 August, compared with a difference of 0 basis point on 30 June.

In a similar vein, between the end of June and 3 August, the rates implied by futures prices on three-month EURIBOR futures contracts maturing in September and December 2005 and in March and June 2006 increased by between 7 and 33 basis points. On 3 August, these rates stood at 2.13%, 2.20%, 2.26% and 2.36% respectively.

Money market rates at the shortest end of the money market yield curve remained fairly stable in July 2005. The marginal and weighted average rates in the Eurosystem's main refinancing

**Chart 7 Short-term money market interest rates**

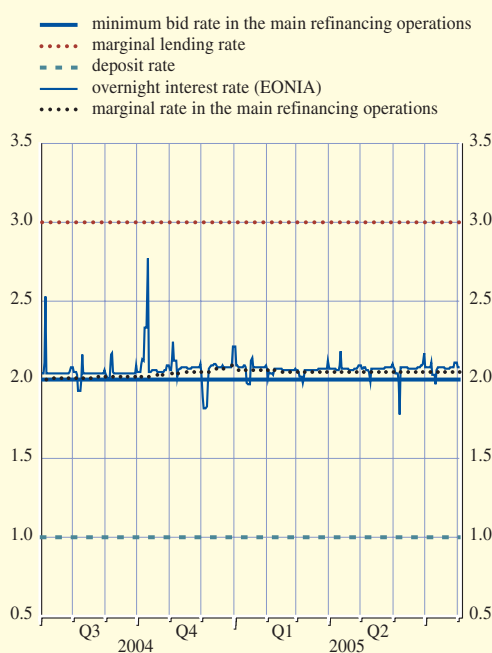
(percentages per annum; percentage points; daily data)



Source: Reuters.

**Chart 8 ECB interest rates and the overnight interest rate**

(percentages per annum; daily data)



Sources: ECB and Reuters.



operations stood at 2.05% in all such operations during the month, the only exception being on 26 July when the weighted average interest rate rose to 2.06% because of the end-of-month effect. The Euro Overnight Index Average (EONIA) remained broadly stable at levels around 2.07%-2.08% for most of the month. Two exceptions were the last day of the reserve maintenance period and at the end of the month. On 12 July, the last day of the reserve maintenance period, the EONIA declined to 2.06%. A liquidity-absorbing fine-tuning operation did not absorb the accumulated excess liquidity in full as banks offered fixed rate deposits in the amount of only €9.6 billion for collection, compared with the announced liquidity imbalance of €10 billion. On the last trading day of the month, the EONIA rose to 2.11%, reflecting the usual end-of-month effect (see Chart 8).

In the Eurosystem's longer-term refinancing operation that was settled on 28 July 2005, the marginal and weighted average interest rates stood at 2.07% and 2.08% respectively, i.e. 1 basis point higher than the corresponding rates in the previous tender (30 June 2005) in both cases. Compared with the three-month EURIBOR prevailing on that date, tender rates were both 5 basis points lower.

### Box 3

#### THE TRANSMISSION OF OVERNIGHT INTEREST RATE VOLATILITY TO LONGER-TERM INTEREST RATES IN THE EURO AREA MONEY MARKET

The transmission of overnight interest rate volatility to longer-term interest rates in the money market is an issue of great importance to a central bank. Any significant impact of the usual volatility of the overnight interest rate on interest rates at longer maturities would be of concern in terms of the appropriate implementation and signalling of the monetary policy stance. In particular, it would bring into question the "neutrality" of liquidity policy. A liquidity policy is "neutral" whenever the monetary policy stance is determined by the decisions taken by the competent policy-making body with respect to official rates, rather than influenced by its management of liquidity conditions. In the case of the latter, its decisions are focused solely on smoothing short-term shocks to the liquidity situation confronting MFIs.

In the empirical economics literature, several studies have already addressed this issue with respect to the euro area money market. Most were based on models for conditional volatility.<sup>1</sup> These studies generally find no significant evidence of a transmission of volatility along the yield curve. Most of these studies have used measures of the volatility of interest rates that were derived from specific models and estimated on the basis of data available at a relatively low frequency (daily or lower in virtually all cases). Recent studies analysing high-frequency data have used similar models. Furthermore, previous studies typically used data taken from the period prior to the introduction of changes to the Eurosystem's operational framework in March 2004.

In order to provide a new perspective, this box presents an evaluation of the transmission of volatility in the euro area money market that is based on a measure of realised volatility, as

<sup>1</sup> The models used were autoregressive conditions heteroskedasticity (ARCH) models or variants thereof. In this class of models, conditional variance is modelled as a function of its past values. For details, see the seminal papers by R.F. Engle, "Autoregressive Conditional Heteroskedasticity with Estimates of the Variance of U.K. Inflation." in *Econometrica*, Vol. 50, 1982, pp. 987-1008, and T. Bollerslev, "Generalized Autoregressive Conditional Heteroskedasticity" in *Journal of Econometrics*, Vol. 31, 1986, pp. 307-327.

defined by Andersen and Bollerslev.<sup>2</sup> Such a measure does not rely on a specific model, but simply captures the volatility of returns on the basis of information on intraday interest rate movements.<sup>3</sup> Realised volatilities have been calculated for the overnight, one-month, three-month and one-year interest rates over the period from 24 December 2003 to 7 June 2005, using data on the respective return for each five-minute interval between 9 a.m. and 6 p.m. In this context, the advantage of using a model-free measure of volatility is twofold: first, the approach is more robust with respect to the potential impact of changes to the operational framework, which may affect interest rate dynamics, and, second, the measure permits the presence of structural breaks related to specific institutional factors. Using these measures, a vector autoregression (VAR) model with five lags was specified and estimated. Such models are a simple way of analysing the dynamic relationships between interest rate volatilities at various maturities.

In order to take account of the fact that the days between the last regular refinancing operation and the end of the reserve maintenance period are usually characterised by a more marked level of volatility in the overnight rate, a dummy variable for these days was also introduced in the model. This variable captures the effects on the estimates of the VAR model that derive from the systematic increase in volatility in the last days of each maintenance period and, thereby, facilitates a more accurate estimation of the parameters of the model.

### The assessment of volatility transmission

Using this approach, the transmission of volatility along the yield curve has been assessed on the basis of impulse response functions. These functions illustrate the dynamic effects of an unanticipated movement in, or “shock” to, one variable at a specific point in time on itself and the other variables in the model in subsequent periods. More specifically, based on the four-dimensional VAR model specified for the series of four interest rates, the chart below shows the response of the volatility of interest rates with maturities ranging from overnight to one year to shocks to the volatility of the overnight interest rate, i.e. the rate most sensitive to liquidity conditions. For each maturity, impulse response functions are computed over a period of 25 days – i.e. roughly one business month – and are displayed together with a 95% confidence interval.

The four impulse response functions in the chart show that the response to overnight interest rate volatility shocks is statistically significant only for the overnight maturity and is limited, even in that case, to only very few days. The impact on the volatility of longer-maturity rates is extremely modest in size (please note the different scales in the individual panels of the chart) and statistically insignificant in all cases, as indicated by confidence intervals spanning zero. Furthermore, all effects dissipate after very few days, exhibiting no persistence.

Against this background and based on the measure of realised volatility, it can be concluded that episodes of a more marked volatility of the overnight interest rate – especially at the end of

2 For more details, see T.G. Andersen and T. Bollerslev, “Intraday periodicity and volatility persistence in financial markets” in *Journal of Empirical Finance*, Vol. 4, 1997, pp. 115-158.

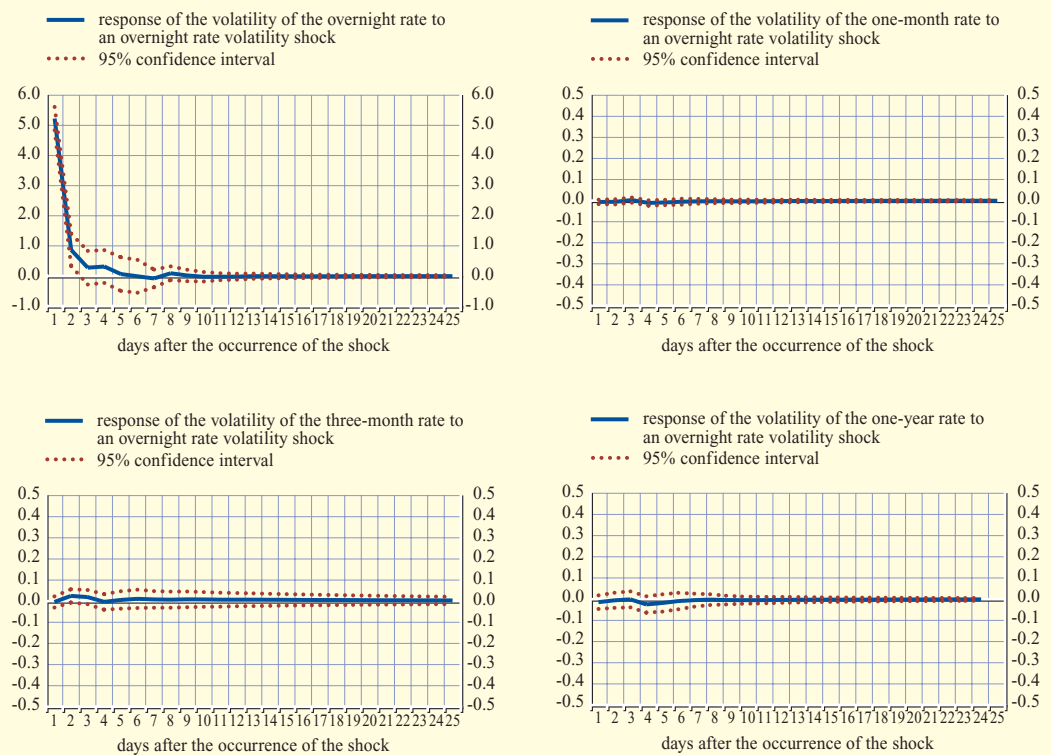
3 It can be shown that this measure provides an accurate and consistent estimate of interest rate volatility. For this purpose, see T. G. Andersen and T. Bollerslev, “Answering the skeptics: yes, standard volatility models do provide accurate forecasts” in *International Economic Review*, Vol. 39, 1998, pp. 885-905.

the reserve maintenance period – have not had any significant impact on longer-maturity rates. There is thus no evidence of a transmission of volatility along the euro area money market yield curve in recent months. Together with the evidence showing that a substantive decline in the (realised) volatility of the overnight rate took place after the introduction of some changes to the operational framework in March 2004, this result confirms that the Eurosystem’s operational framework functions well from a monetary policy perspective and that the introduction of these changes has not impaired this performance.<sup>4</sup>

These results, although based on a relatively simple statistical model, largely confirm the conclusions reached in existing literature. In general, the exercise has indicated that there is no evidence of a transmission of overnight interest rate volatility to longer-term interest rates in the euro area money market. All in all, the exercise has confirmed that the operational framework of the Eurosystem performs well in facilitating the signalling of the monetary policy stance, one of its core functions.

#### Impulse response functions of the overnight, one-month, three-month and one-year interest rates with respect to the overnight interest rate over 25 days

(in basis points)



4 For a comprehensive review of the changes to the Eurosystem’s operational framework, see the article “Initial experience with the changes to the Eurosystem’s operational framework for monetary policy implementation” in the February 2005 issue of the Monthly Bulletin. For the results on the volatility of the overnight interest rate, see Box 2 “The volatility of the overnight interest rate from a medium-term perspective” in the March 2005 issue of the Monthly Bulletin.

## 2.4 BOND MARKETS

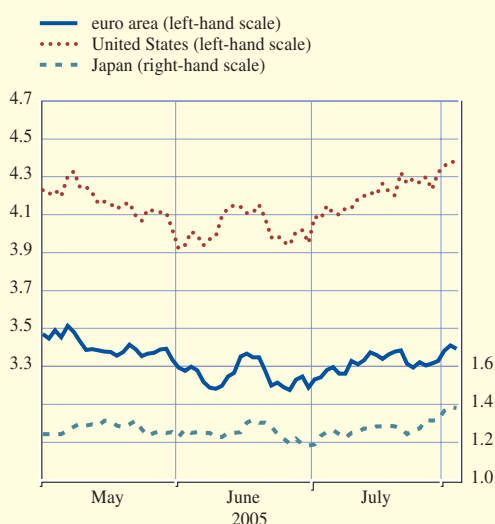
Long-term government bond yields rose in major markets in the course of July. In the euro area and the United States this increase mainly reflected a rise in real yields, particularly in the United States, on account of the improved growth prospects perceived by market participants. Overall, long-term break-even inflation rates did not change significantly in either economic area.

In the major bond markets, long-term interest rates increased across all maturities. Ten-year government bond yields in the euro area rose by around 20 basis points between end-June and 3 August 2005 to stand at 3.4% on the latter date (see Chart 9). In the United States ten-year bond yields rose more significantly and stood at 4.4% on 3 August, i.e. around 40 basis points higher than at the end of June. As a result, the differential between US and euro area ten-year government bond yields widened to around 100 basis points on 3 August. Ten-year government bond yields in Japan ended the review period at 1.4%, about 20 basis points higher than their end-June levels.

Uncertainty about near-term bond market developments, as indicated by implied bond market volatility, remained broadly unchanged in the United States and Japan, but fell significantly in the euro area. This downward movement in euro area implied bond market volatility reflects a reversal of the increase in previous months, which was possibly related to a rise in uncertainty

Chart 9 Long-term government bond yields

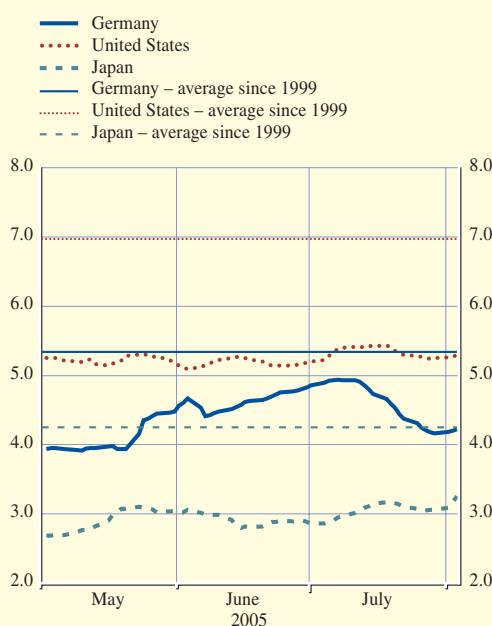
(percentages per annum; daily data)



Sources: Bloomberg and Reuters.  
Note: Long-term government bond yields refer to ten-year bonds or to the closest available bond maturity.

Chart 10 Implied bond market volatility

(percentages per annum; ten-day moving average of daily data)



Source: Bloomberg.  
Note: The implied volatility series represents the nearby implied volatility on the near-contract generic future, rolled over 20 days prior to expiry, as defined by Bloomberg. This means that 20 days prior to expiry of the contracts, a change in the choice of contracts used to obtain the implied volatility is made, from the contract closest to maturity to the next contract.

following the referendums on the European Constitution and market expectations of a potential change in the ECB's policy stance (see Chart 10).

The marked increase in long-term government bond yields in the United States in July mainly reflected increases in the corresponding real bond yields, which rose by around 30 basis points between end-June and 3 August 2005. These increases in nominal and real bond yields seemed to reflect stronger confidence among investors about the short to medium-term prospects for US economic activity, particularly following Federal Reserve Chairman Greenspan's most recent assessment of the state of the US economy. At the same time, a number of positive data releases appeared to offset market concerns about the impact of high oil prices. In addition, China's move towards higher exchange rate flexibility may have triggered some expectations of somewhat lower demand for US treasuries. Market participants' inflation expectations in the United States – as measured by break-even inflation rates – remained broadly unchanged across all horizons.

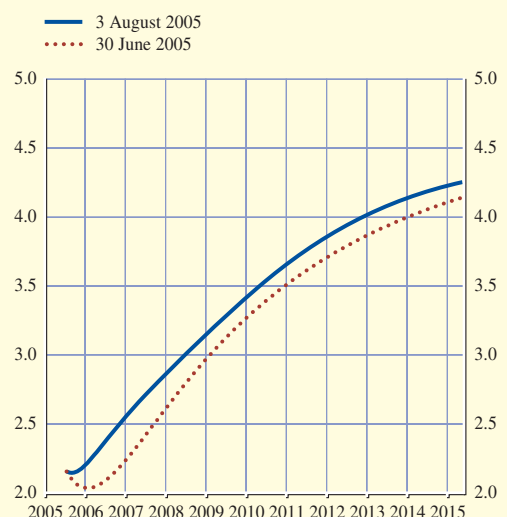
In Japan, ten-year government bond yields rose, as relatively positive recent news about economic activity seems to have offset investors' concerns about the persistently high level of oil prices and its effects on economic growth. China's decision to allow for somewhat greater exchange rate flexibility seems to have also contributed to this development.

In the euro area, long-term government bond yields increased in July, reversing the further decline experienced in the previous month, when they had reached the lowest levels recorded since the start of Stage Three of EMU. Box 4 provides a longer historical perspective on long-term and short-term nominal interest rates in the largest euro area countries. Market participants' perception of the outlook for economic activity in the euro area seems to have improved, with some survey indicators providing more positive signals over recent weeks. Index-linked bond yields rose somewhat during the course of July, although they tended to decline slightly towards the end of the review period. As regards euro area inflation expectations, the ten-year break-even inflation rate, derived from the difference between the yields on French nominal and index-linked government bonds maturing in 2015, rose slightly in early July and then hovered around 2% for most of the remainder of the review period.

Overnight forward interest rates at the beginning of August were higher than a month ago across the whole maturity spectrum, possibly reflecting an improvement in growth prospects among markets participants (see Chart 11).

**Chart 11 Implied forward euro area overnight interest rates**

(percentages per annum; daily data)



Source: ECB estimate.

Note: The implied forward yield curve, which is derived from the term structure of interest rates observed in the market, reflects the market expectation of future levels for short-term interest rates. The method used to calculate these implied forward yield curves was outlined in the January 1999 issue of the Monthly Bulletin. The data used in the estimate are derived from swap contracts.

## Box 4

**LONG-TERM AND SHORT-TERM NOMINAL INTEREST RATES IN THE LARGEST EURO AREA COUNTRIES FROM A HISTORICAL PERSPECTIVE**

Recently it has been emphasised that the prevailing level of euro area nominal interest rates across the maturity spectrum is very low from a historical perspective. This box analyses developments in long-term and short-term nominal interest rates in the largest countries of the euro area since the beginning of the 20th century.

Several caveats should be borne in mind from the outset when comparing these interest rate series across time. First, money and, in particular, bond markets have developed gradually and, as a result, the liquidity of the bond markets has varied over time. Second, for several periods no or insufficiently representative data are available, giving rise to gaps in the time series. This is the case, in particular, during and in the immediate aftermath of both world wars. Thus, these periods are excluded from the sample altogether. In addition, periods of exceptionally high inflation have been evident in some cases. Most notably, Germany entered a period of hyperinflation in the early 1920s, which meant that the interest rates recorded were not comparable with those recorded in the rest of the sample. Furthermore, there are some gaps in the data where specific events in some countries had an impact on the production of statistics. Third, to construct such long time series, different time series for different instruments had to be used (see also the note in Tables A and B).

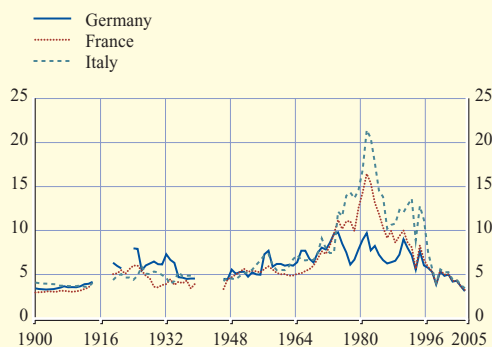
An additional important caveat is that the examination takes account only of nominal interest rate levels. While real interest rates would add important information, data limitations on the countries' consumer price indices and inflation expectations would restrict the comparison to a considerably shorter sample.<sup>1</sup>

Chart A shows nominal long-term interest rates for Germany, France and Italy from 1900. For the period from the beginning of the sample to the start of the First World War, perpetual government bonds are used. Thereafter, long-term yields are calculated from bonds with finite maturity, wherever possible from bonds with a ten-year maturity.

Table A shows that the level of long-term nominal interest rates currently prevailing in the three largest euro area countries is indeed close to and, in one case, below the historical minimum value. For France and Germany the lowest values were recorded in February 1901 and July 1902 respectively, i.e. at the time of the Gold Standard. For Italy, the current level

**Chart A Long-term interest rates**

(in percentages per annum; annual data)



Source: Global Financial Data.  
Note: Data for 2005 cover the period up to July.

<sup>1</sup> For a similar analysis which also covers real interest rates for the period 1950-2003, see Box 3 in the September 2003 issue of the Monthly Bulletin.

**Table A Long-term interest rates**

(monthly data)

	Current level <sup>1)</sup>	Average				Minimum			
		1900-14	1919-39	1950-98	1999-2004	1900-14	1919-39	1950-98	1999-2004
Germany	3.24	3.55	5.93	6.98	4.58	3.23	4.50	3.63	3.55
France	3.29	3.14	4.65	7.96	4.68	2.93	3.34	3.73	3.68
Italy	3.45	3.81	4.83	9.69	4.84	3.53	3.87	3.89	3.83

Source: Global Financial Data.

1) Average level of daily data from 1 July to 3 August 2005.

Note: For Germany from 1900 to 1914 the 3% Imperial Loan is used; 5% mortgage bonds are used from 1924 until 1927, and 6% mortgage bonds from 1928 until 1935; 5% tax-free bonds are used from 1950 to 1955 and the series for 6% government bonds is used from May 1956 to 1967, when ten-year government bonds are used. For France the 3% consol bond is used from 1900 to 1950; 5% consols are used from 1951 until 1971, and an index of public and semi-public bond yields for issues guaranteed by the government is used as from the beginning in 1972; from 1987 ten-year government bond yields are reported. For Italy the 3.5% consol bond is used from 1900 to 1953; for 1954 the 5% reconstruction loan is used; an index of government treasury bonds begins in 1955; the average maturity of these bonds is six years; from 1991 ten-year government bonds are used.

**Table B Short-term interest rates**

(annual data)

	Current level <sup>1)</sup>	Average				Minimum			
		1900-14	1919-39	1950-98	1999-2004	1900-14	1919-39	1950-98	1999-2004
Germany	2.12	3.61	4.54	5.80	3.23	2.19	2.83	3.22	2.11
France	2.12	2.64	3.70	7.06	3.23	1.75	1.30	2.43	2.11
Italy	2.12	4.82	5.27	8.43	3.23	4.34	3.10	3.50	2.11

Sources: NBER online macro history database, Deutsche Bundesbank, Banca d'Italia, BIS and Homer S., Sylla, R. (1996): A History of Interest Rates, third edition, Rutgers University Press, New Jersey.

1) Average level of the daily three-month EURIBOR from 1 July to 3 August 2005.

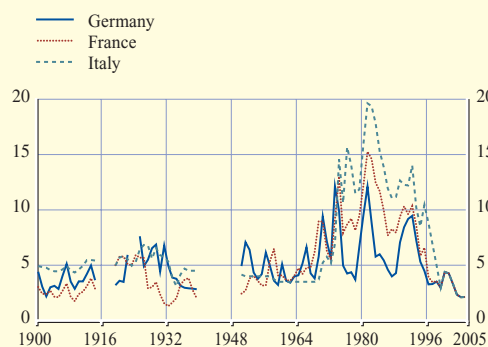
Note: For Germany: private discount rate (prime bankers' acceptances) (1900-39) except for 1923-24 and 1945-48 for which data are not available; three-month money market rate (1949-98). For France: open market discount rate (1900-39), except for 1919-24 where the official discount rate of the Bank of France is used; money market day-to-day interest rate (1946-69); three-month money market rate (1970-98). For Italy: official discount rate (1900-70) adjusted up to 1968 for reductions of the rate; three-month money market rate (1971-98). From 1999 onwards the three-month EURIBOR is used for all three countries.

is the lowest value in the sample. If the period of the Gold Standard, i.e. 1900 to 1914, is excluded from the sample, current levels of ten-year government bond yields are at historical lows in all three countries. For the period between 1950 and 1998 long-term interest rates reached their highest average levels. However, in the late 1990s long-term government bond yields declined significantly.

Chart B shows nominal short-term interest rates for the same group of countries since 1900. Various private or official short-term interest rates need to be used in different periods, since the available time series

**Chart B Short-term interest rates**

(in percentages per annum; annual data)



Sources: See Table B.

Note: Data for 2005 cover the period up to July.

change over time and various rates have been regarded as representative of the money market across time.<sup>2</sup> Overall, nominal short-term interest rates in the three countries observed were relatively low and stable until the second half of the 1960s, except for some volatility in Germany after the period of hyperinflation. Between the end of the 1960s and the 1980s, nominal short-term interest rose significantly during periods when inflation was high and, in some cases, persistent. By the start of Stage Three of EMU, short-term interest rates in the three countries had again fallen to levels observed before the 1970s.

As shown in Table B, the current level of nominal short-term interest rates is at a historical low in Germany and Italy, while in France it is slightly above the historical low reached in 1932.<sup>3</sup>

<sup>2</sup> A detailed data and source description can be seen under Table B.

<sup>3</sup> Though the analysis of short-term interest rates is based on annual data, monthly data available from 1960 onwards would lead to the same conclusions for the corresponding period for all three countries.

## 2.5 INTEREST RATES ON LOANS AND DEPOSITS

*In May 2005 most short-term MFI interest rates on new deposits remained broadly unchanged. During the same period, most short-term lending rates remained broadly unchanged or decreased slightly, while long-term lending rates declined in line with comparable market rates.*

In May 2005, short-term MFI interest rates on new deposits from non-financial corporations (overnight and with an agreed maturity of up to one year) and deposits from households redeemable at notice of up to three months remained basically unchanged from the previous month (see Table 4). By contrast, interest rates on deposits from households with an agreed maturity of up to one year declined slightly. The long-term rates on deposits from households (with an agreed maturity of over two years and redeemable at notice of over three months) remained broadly unchanged in May, while the five-year government bond yield declined by 15 basis points. At the same time, longer-term rates on deposits from non-financial corporations (with an agreed maturity of over two years) increased by 14 basis points from April to May 2005, mainly on account of significant increases in this rate in three euro area countries.

Viewed from a longer perspective, over the last 12 months short-term MFI interest rates on deposits have remained relatively stable, in line with developments in comparable money market rates (see Chart 12). By contrast, while five-year government bond yields declined by around 75 basis points over the same period, long-term interest rates on deposits from households and non-financial corporations fell by only around 15 to 25 basis points, partly reflecting the usual sluggish adjustment of MFI deposit rates to comparable market rates (see Chart 13).

Turning to lending rates, from April to May 2005 most short-term MFI lending rates on new loans to households and non-financial corporations remained broadly unchanged or declined slightly. The major exception, however, was the short-term rate on consumer loans, which experienced a considerable rise over the same period. This increase was to a large extent related to developments in one euro area country. Overall, short-term movements in short-term rates on consumer loans have to be interpreted with some caution, as the levels of these rates vary significantly across euro area countries, which may cause the aggregate euro area rate to fluctuate in a rather volatile manner.



**Table 4 MFI interest rates on new business**

(percentages per annum; basis points; weight-adjusted<sup>1), 2)</sup>

							Change in basis points up to May 2005		
	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Apr.	2005 May	2004 May	2005 Feb.	2005 Apr.
<b>MFI interest rates on deposits</b>									
Deposits from households									
with an agreed maturity of up to one year	1.88	1.90	1.95	1.92	1.99	1.93	7	-1	-6
with an agreed maturity of over two years	2.45	2.48	2.31	2.38	2.29	2.27	-16	-8	-2
redeemable at notice of up to three months	1.97	2.00	2.01	1.97	1.95	1.98	4	0	3
redeemable at notice of over three months	2.54	2.52	2.52	2.47	2.45	2.43	-13	-6	-2
Overnight deposits from non-financial corporations									
	0.88	0.89	0.91	0.94	0.94	0.95	8	3	0
Deposits from non-financial corporations									
with an agreed maturity of up to one year	1.99	2.00	2.08	2.00	2.01	2.01	5	-3	1
with an agreed maturity of over two years	3.56	3.52	3.46	3.34	3.22	3.35	-24	-23	14
<b>MFI interest rates on loans</b>									
Loans to households for consumption									
with a floating rate and an initial rate fixation of up to one year	6.51	6.89	6.74	6.62	6.54	6.71	16	49	18
Loans to households for house purchase									
with a floating rate and an initial rate fixation of up to one year	3.45	3.50	3.44	3.42	3.40	3.40	-3	-3	0
with an initial rate fixation of over five and up to ten years	4.82	4.82	4.50	4.35	4.36	4.29	-49	-9	-7
Bank overdrafts to non-financial corporations									
	5.39	5.38	5.27	5.26	5.24	5.17	-24	-14	-8
Loans to non-financial corporations of up to €1 million									
with a floating rate and an initial rate fixation of up to one year	3.97	3.99	3.98	3.91	3.91	3.92	-7	-2	0
with an initial rate fixation of over five years	4.72	4.70	4.44	4.33	4.36	4.23	-42	-13	-13
Loans to non-financial corporations of over €1 million									
with a floating rate and an initial rate fixation of up to one year	3.01	3.00	3.04	3.01	2.99	2.99	-2	-4	-1
with an initial rate fixation of over five years	4.17	4.31	4.06	4.04	3.90	3.76	-57	-2	-14
<b>Memo items</b>									
Three-month money market interest rate	2.11	2.12	2.17	2.14	2.14	2.13	4	-1	-1
Two-year government bond yield	2.74	2.60	2.36	2.49	2.34	2.22	-33	-23	-12
Five-year government bond yield	3.60	3.35	2.93	3.08	2.89	2.74	-76	-23	-15

Source: ECB.

1) The weight-adjusted MFI interest rates are calculated using country weights constructed from a 12-month moving average of new business volumes. For further information, see the box entitled "Analysing MFI interest rates at the euro area level" in the August 2004 issue of the Monthly Bulletin.

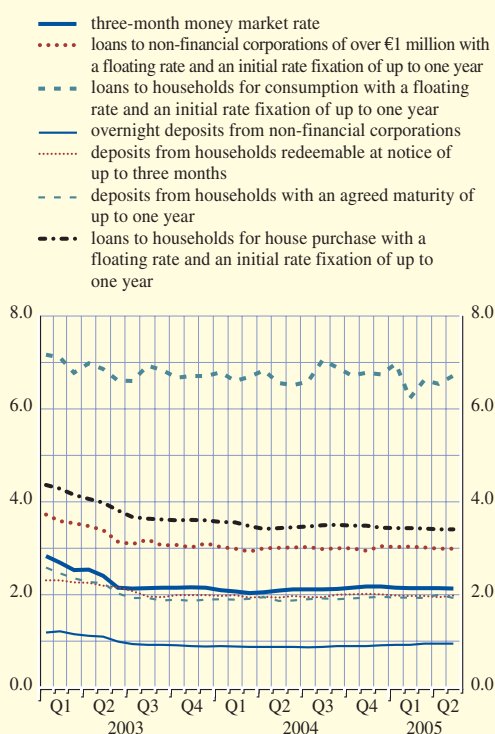
2) Quarterly data refer to the end of the quarter.

Regarding longer-term lending rates, from April to May 2005 the long-term rates on loans to non-financial corporations (over five years) and households for house purchase (over five and up to ten years) declined by around 15 and 5 basis points respectively. This is broadly in line with the development in the five-year government bond yield, which declined by 15 basis points over the same period.

From a longer time perspective, the recent declines in long-term MFI lending rates continued the downward trend that began in June 2004 when government bond yields peaked. More recently, during the last twelve months the five-year government bond yield has declined by around 75 basis points, whereas the long-term rates on loans to households and non-financial corporations have declined by about 40 to 55 basis points (see Table 4). This slower decline in long-term lending rates by MFIs as compared with market rates reflects generally a sluggish pass-through, even though to a lesser extent than tends to be the case on the deposits side.

**Chart 12 Short-term MFI interest rates and a short-term market rate**

(percentages per annum; rates on new business; weight-adjusted<sup>1)</sup>)

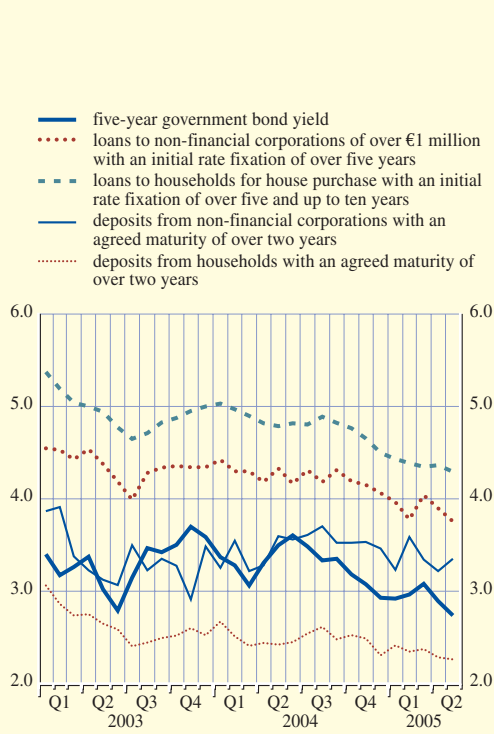


Source: ECB.

1) For the period from December 2003 onwards, the weight-adjusted MFI interest rates are calculated using country weights constructed from a 12-month moving average of new business volumes. For the preceding period, from January to November 2003, the weight-adjusted MFI interest rates are calculated using country weights constructed from the average of new business volumes in 2003. For further information, see the box entitled "Analysing MFI interest rates at the euro area level" in the August 2004 issue of the Monthly Bulletin.

**Chart 13 Long-term MFI interest rates and a long-term market rate**

(percentages per annum; rates on new business; weight-adjusted<sup>1)</sup>)



Source: ECB.

1) For the period from December 2003 onwards, the weight-adjusted MFI interest rates are calculated using country weights constructed from a 12-month moving average of new business volumes. For the preceding period, from January to November 2003, the weight-adjusted MFI interest rates are calculated using country weights constructed from the average of new business volumes in 2003. For further information, see the box entitled "Analysing MFI interest rates at the euro area level" in the August 2004 issue of the Monthly Bulletin.

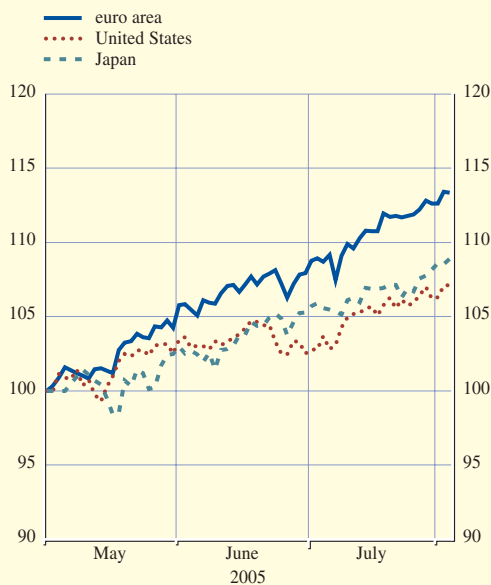
## 2.6 EQUITY MARKETS

*Global stock prices continued to increase in July against the background of strong corporate earnings and improved economic growth prospects for the major economies. As in previous months, these factors seem to have offset investors' concerns about the impact of the high level of oil prices on global economic activity.*

In July, equity prices in the major economies continued the upward movement that started in late April (see Chart 14). Stock prices in the euro area, as measured by the Dow Jones EURO STOXX index, rose by around 5% between the end of June and 3 August, while the US and the Japanese stock markets, as measured by the Standard and Poor's 500 index and the Nikkei 225 index, rose by 4.5% and 3.5% respectively.

Chart 14 Stock price indices

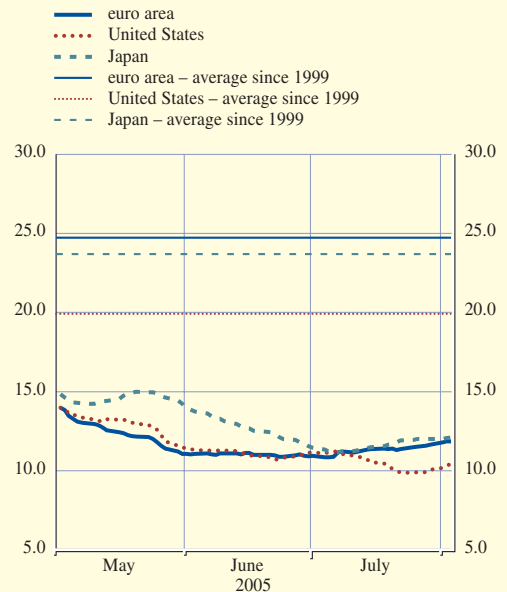
(index: 1 May 2005 = 100; daily data)



Sources: Reuters and Thomson Financial Datastream.  
Note: The Dow Jones EURO STOXX broad index for the euro area, the Standard & Poor's 500 index for the United States and the Nikkei 225 index for Japan.

Chart 15 Implied stock market volatility

(percentages per annum; ten-day moving average of daily data)



Source: Bloomberg.  
Note: The implied volatility series reflects the expected standard deviation of percentage stock price changes over a period of up to three months, as implied in the prices of options on stock price indices. The equity indices to which the implied volatilities refer are the Dow Jones EURO STOXX 50 for the euro area, the Standard & Poor's 500 for the United States and the Nikkei 225 for Japan.

At the same time, stock market uncertainty in global markets, as measured by the implied volatility extracted from stock options, remained at relatively low levels by historical standards (see Chart 15), with only minor changes in the euro area and Japan and a slight decline in the United States between the end of June and 3 August 2005.

In the United States stock prices continued to be supported by the relatively strong growth of reported earnings in the course of July, which, from the point of view of investors, more than offset the effects of the increase in real long-term bond yields and the persistently high levels of oil prices.

In July, euro area stock prices continued to display the relatively strong performance of the preceding months, proving fairly resilient to the relatively subdued economic growth in the euro area, although the most recent increase in real bond yields in the course of July may signal a somewhat improved growth outlook among market participants. The relatively strong actual and expected earnings growth of euro area corporations continued to support stock prices. The rise in the broad indices can be explained, in particular, by an improvement in profit expectations for exporting firms as a result of the somewhat lower euro exchange rate than a few months ago, and the continued increases in the stock prices of energy sector corporations.

## 3 PRICES AND COSTS

According to Eurostat's flash estimate, annual HICP inflation rose to 2.2% in July from 2.1% in June, largely reflecting the increase in oil prices since mid-May. At the producer level, price pressures increased in June on account of higher price increases in the energy sector. Developments in labour cost indicators in the first quarter of 2005 suggest that wage increases remained moderate, even though the downward trend in wages observed over the last few years appears to have levelled off. Looking ahead, underlying inflationary pressures in the euro area are expected to remain contained, but upside risks to price stability continue to exist.

### 3.1 CONSUMER PRICES

#### FLASH ESTIMATE FOR JULY 2005

According to Eurostat's flash estimate, euro area HICP inflation increased to 2.2% in July 2005, from 2.1% in June (see Table 5). Provisional information suggests that the rise in the headline index reflects higher energy prices due to the increase in oil prices in US dollar terms and the depreciation of the euro exchange rate.

#### HICP INFLATION UP TO JUNE 2005

Euro area HICP inflation increased to 2.1% in June 2005, from 2.0% in May. The rise in the annual rate of change in the overall HICP reflects opposing forces (see Chart 16). The annual rate of change in the HICP excluding energy and unprocessed food declined to 1.4% from 1.6% in the previous month. However, higher oil price increases more than offset this development.

The annual growth rate of energy prices increased to 9.4% in June, from 6.9% in May. This mainly reflects the increase in oil prices observed after mid-May but also a base effect associated with the decline in oil prices one year previously. The annual growth rate of unprocessed food prices declined to 0.6% in June, from 1.0% in May.

The decrease in the annual rate of change in the HICP excluding energy and unprocessed food prices was mainly driven by services prices, while the annual growth rates of non-energy industrial goods prices and processed food prices were broadly unchanged as compared with the previous month. Services price inflation stood at 2.2% in June, down from 2.5% in May.

**Table 5 Price developments**

(annual percentage changes, unless otherwise indicated)

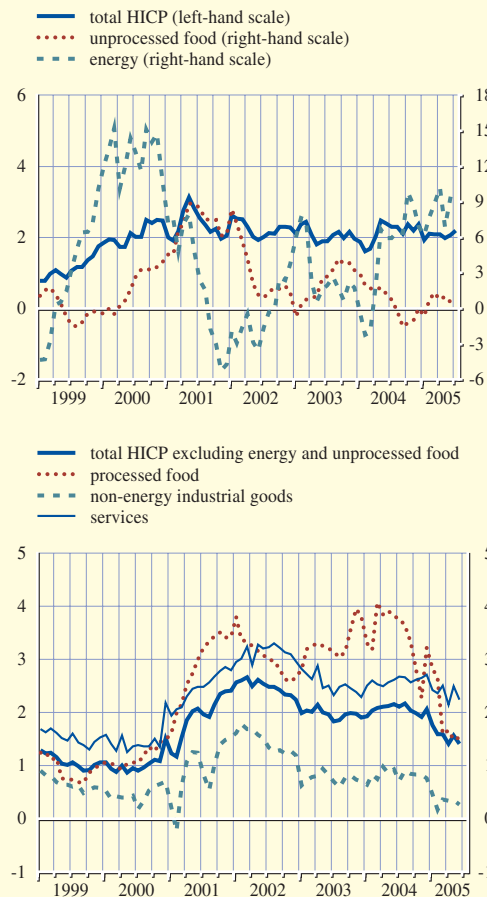
	2003	2004	2005 Feb.	2005 Mar.	2005 Apr.	2005 May	2005 June	2005 July
<b>HICP and its components</b>								
Overall index <sup>1)</sup>	2.1	2.1	2.1	2.1	2.1	2.0	2.1	2.2
Energy	3.0	4.5	7.7	8.8	10.2	6.9	9.4	.
Unprocessed food	2.1	0.6	0.7	1.3	0.8	1.0	0.6	.
Processed food	3.3	3.4	2.6	1.6	1.7	1.5	1.5	.
Non-energy industrial goods	0.8	0.8	0.2	0.4	0.3	0.4	0.3	.
Services	2.5	2.6	2.4	2.5	2.2	2.5	2.2	.
<b>Other price indicators</b>								
Industrial producer prices	1.4	2.3	4.2	4.2	4.3	3.5	4.0	.
Oil prices (EUR per barrel)	25.1	30.5	35.2	40.4	41.4	39.4	45.7	48.3
Non-energy commodity prices	-4.5	10.8	3.1	-0.4	-1.9	1.2	7.6	9.6

Sources: Eurostat, Thomson Financial Datastream and HWWA.

1) HICP inflation in July 2005 refers to Eurostat's flash estimate.

**Chart 16 Breakdown of HICP inflation: main sub-components**

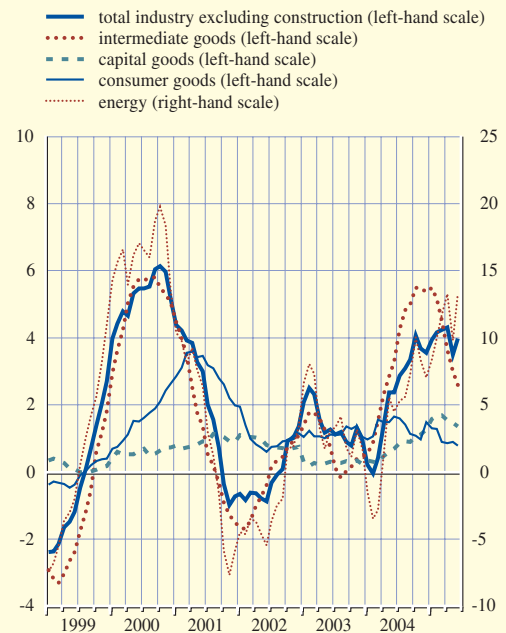
(annual percentage changes; monthly data)



Source: Eurostat.

**Chart 17 Breakdown of industrial producer prices**

(annual percentage changes; monthly data)



Sources: Eurostat and ECB calculations.

The decline in services price inflation again partly reflects developments in some volatile components such as package holidays and accommodation services.

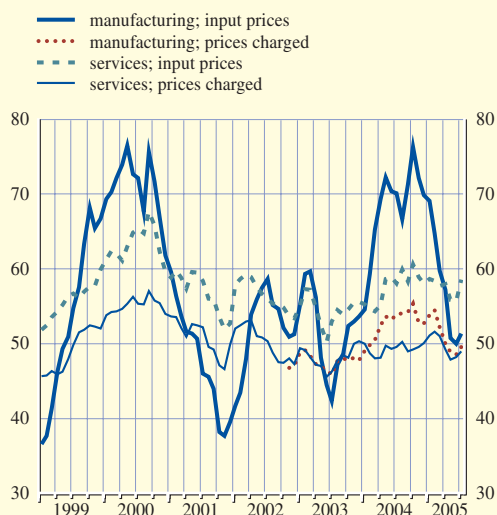
### 3.2 PRODUCER PRICES

The annual rate of change in producer prices increased to 4.0% in June 2005, from 3.5% in May. This development mainly reflects higher producer price increases in the energy sector, while the annual rate of change in producer prices excluding construction and energy slowed further, to 1.7% in June (see Chart 17). The year-on-year rate of change in energy producer prices increased from 9.8% in May 2005 to 13.3% in June 2005, as a result of the rise in oil prices since mid-May.

Looking at the other main components of producer prices, the annual rate of increase in producer prices for intermediate goods declined further in June, to 2.6% from 3.0% in May. This is in line with evidence from surveys such as the Purchasing Managers' Survey, in which respondents have recently reported fewer price increases and some price reductions for a wide range of non-oil raw

**Chart 18 Producer input and output price surveys**

(diffusion indices; monthly data)



Source: NTC Research.  
Note: An index value above 50 indicates an increase in prices, whereas a value below 50 indicates a decrease.

materials. The annual rate of change in consumer goods producer prices edged down in June, to 0.8% from 0.9% in May, and remained at a relatively moderate level. The annual rate of change in capital goods producer prices also declined slightly in June, to 1.4%. Overall, evidence of any transmission of higher energy costs to producer prices for consumer goods has thus far been very limited.

Survey data for July 2005 suggest an increase in price pressures in both manufacturing and services, mainly on account of higher oil prices. In the manufacturing sector, the Eurozone Input Price Index from the Purchasing Managers' Survey edged up in July after having continuously declined between November of last year and June 2005 (see Chart 18). The index for prices charged by manufacturers (or output prices), while still indicating a decline in prices, rose significantly in July. As regards the services sector, the index of input prices rebounded in July, after several months of

moderating price pressure. The index for prices charged increased further but remained just below 50, still indicating some decline in prices charged. On the whole, recent indicators have pointed to more muted increases in prices charged than in input prices, which might suggest that firms have absorbed part of the rising costs by squeezing profits, especially in the services sector.

### 3.3 LABOUR COST INDICATORS

Labour cost indicators for the first quarter of 2005 point to continued moderate wage developments (see Table 6). The annual growth rate of compensation per employee increased slightly in the first quarter of 2005, to 2.0% from 1.8% in the previous quarter. This is in line with developments in the annual rate of growth in negotiated wages, which also increased slightly in the first quarter, to 2.2% from 2.1% in the previous quarter. The annual rate of growth of hourly labour costs in the non-agricultural business sector, which is sometimes subject to short-term

**Table 6 Labour cost indicators**

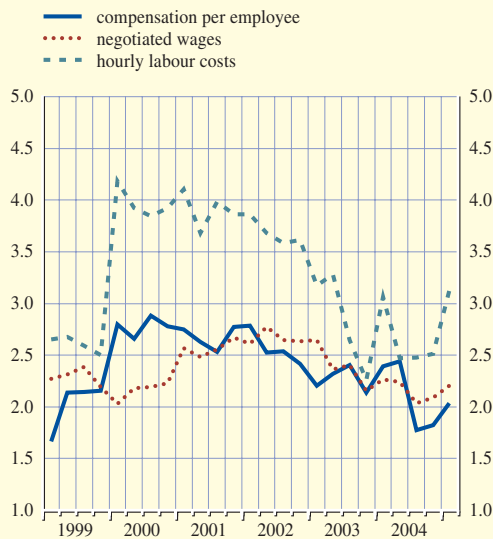
(annual percentage changes, unless otherwise indicated)

	2003	2004	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1
Negotiated wages	2.4	2.2	2.3	2.2	2.0	2.1	2.2
Total hourly labour costs	2.8	2.6	3.1	2.5	2.5	2.5	3.1
Compensation per employee	2.3	2.1	2.4	2.4	1.8	1.8	2.0
<i>Memo items:</i>							
Labour productivity	0.4	1.2	1.2	1.6	1.2	0.7	0.4
Unit labour costs	1.8	0.9	1.2	0.8	0.5	1.1	1.6

Sources: Eurostat, national data and ECB calculations.

**Chart 19 Selected labour cost indicators**

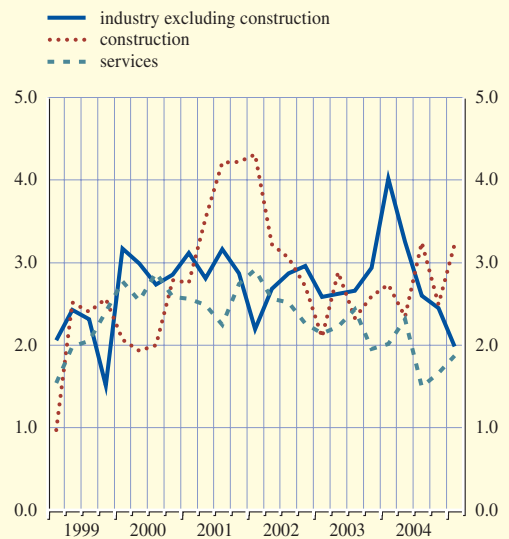
(annual percentage changes)



Sources: Eurostat, national data and ECB calculations.

**Chart 20 Sectoral compensation per employee**

(annual percentage changes; quarterly data)



Sources: Eurostat and ECB calculations.

volatility, rose to 3.1% in the first quarter of 2005, from 2.5% in the last quarter of 2004. From a longer-term perspective, the annual rates of growth in negotiated wages and in compensation per employee have increased since the middle of 2004; in the first quarter of 2005 they were at or close to their average level for 2004 as a whole (see Chart 19). This indicates a levelling off in the downward trend in wage growth observed over the last four years.

Data available at the sectoral level for compensation per employee, which have been subject to significant revisions, suggest that the annual growth rate of compensation per employee rebounded slightly in the services sector in the first quarter of 2005, while it declined further in industry excluding construction (see Chart 20).

Together with the further slowdown in productivity in the first quarter of 2005, the increase in the annual rate of growth in compensation per employee implies an increase in unit labour cost growth from 1.1% year on year in the fourth quarter of 2004 to 1.6% in the first quarter of 2005. As productivity growth is expected to recover only slowly, unit labour cost growth is not expected to ease in the short term. Nonetheless, the current rate is broadly in line with the assessment that inflationary pressures emanating from the labour market remain moderate.

### 3.4 THE OUTLOOK FOR INFLATION

Reflecting recent trends in oil prices, annual HICP inflation is expected to remain at around current levels in the coming months. There is no significant evidence of underlying inflationary pressures building up in the euro area. In the context of moderate wage growth, inflationary pressures from the labour market should remain contained. This assessment is broadly in line with the views of private sector forecasters, as discussed in Box 5.

However, upside risks need to be taken into account. These risks relate particularly to future oil price developments. In addition, import prices, indirect taxes and administered prices could have stronger upward effects on future inflation than assumed in current inflation projections. Furthermore, vigilance remains necessary as regards wage developments, in particular given the risk of second-round effects in an environment of persistently high oil prices.

## Box 5

## PRIVATE SECTOR EXPECTATIONS FOR THE EURO AREA: RESULTS OF THE SURVEY OF PROFESSIONAL FORECASTERS FOR THE THIRD QUARTER OF 2005

This box reports the results of the 28th Survey of Professional Forecasters (SPF), conducted by the ECB between 18 and 22 July 2005. The SPF gathers expectations for euro area inflation, economic activity and unemployment from experts affiliated to financial or non-financial institutions based in the EU. It is important to bear in mind that, given the diversity of the panel of participants, aggregate SPF results can reflect a relatively heterogeneous set of subjective views and assumptions. Whenever possible, SPF results are compared with other available indicators of private sector expectations for the same horizons.

## Inflation expectations for 2005, 2006 and 2007

SPF forecasters revised upwards their overall inflation expectations for 2005 compared with the previous survey, conducted in April. The year-on-year rate of HICP inflation is now expected to stand at 2.1% on average in 2005, 0.2 percentage point higher than in the previous SPF. Inflation is then expected to decline to 1.8% in both 2006 (unchanged from the previous

## Results from the SPF, Consensus Economics and the Euro Zone Barometer

(annual percentage changes, unless otherwise indicated)

HICP inflation	Survey horizon					
	2005	June 2006	2006	June 2007	2007	Longer term <sup>2)</sup>
Q3 2005 SPF	2.1	1.7	1.8	1.8	1.8	1.9
Previous SPF (Q2 2005)	1.9	-	1.8	-	-	1.9
Consensus Economics (July 2005)	2.0	-	1.7	-	-	1.9
Euro Zone Barometer (July 2005)	2.0	-	1.7	-	1.9	1.9
Real GDP growth	2005	2006 Q1	2006	2007 Q1	2007	Longer term <sup>2)</sup>
Q3 2005 SPF	1.4	1.6	1.8	2.0	2.0	2.1
Previous SPF (Q2 2005)	1.6	-	2.0	-	-	2.2
Consensus Economics (July 2005)	1.3	-	1.7	-	-	2.1
Euro Zone Barometer (July 2005)	1.3	-	1.7	-	2.0	2.0
Unemployment rate <sup>1)</sup>	2005	May 2006	2006	May 2007	2007	Longer term <sup>2)</sup>
Q3 2005 SPF	8.9	8.7	8.7	8.4	8.4	7.6
Previous SPF (Q2 2005)	8.8	-	8.6	-	-	7.6
Consensus Economics (July 2005)	8.9	-	8.8	-	-	-
Euro Zone Barometer (July 2005)	8.9	-	8.8	-	8.5	7.9

1) As a percentage of the labour force.

2) In the current SPF round longer-term inflation expectations refer to 2010. In the Euro Zone Barometer and the previous SPF round these referred to 2009. The Consensus Economics forecast refers to the period 2011-15 (data published in the April 2005 Consensus Economics survey).



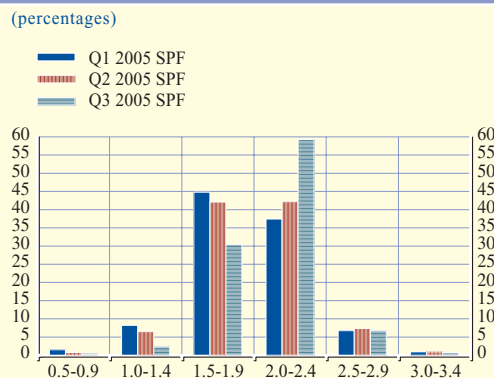
SPF round) and 2007. The latest SPF average forecasts are 0.1 percentage point higher than those of both Consensus Economics and the Euro Zone Barometer for 2005 and 2006. According to SPF forecasters, the short-term inflation outlook is mainly shaped by oil price developments. Together with the recent depreciation of the euro exchange rate, oil prices are given as a key factor in the upward revision of expected inflation. These factors are also cited by respondents as upside risks to their forecasts. Downward pressure on prices is expected from increased international competition and continued wage moderation. For 2006, some participants mentioned the possible downward impact of the Dutch healthcare reform on euro area inflation. On the other hand, several forecasters cited the possibility of an increase in the German VAT rate as an upside risk.

SPF participants are also asked to assign a probability distribution to their forecasts. This distribution provides information on the probability, expressed as a percentage, of the future outcome being within a specific interval. The probability distribution resulting from the aggregation of responses also helps to assess how, on average, survey participants gauge the risk of the actual outcome being above or below the most likely range. Chart A, which shows the aggregate probability distribution for average annual rates of HICP inflation in 2005 in the last three rounds of the survey, highlights a strong increase in the probability associated with an outcome in the 2.0-2.4% range. This movement reflects the rise in the average expected rate. Consequently, the probability assigned by forecasters to inflation in 2005 falling within the 1.5-1.9% range has decreased significantly. The probability of inflation standing between 2.0 and 2.4% is now approximately twice that of inflation standing between 1.5 and 1.9%. The probability distribution for 2006, by contrast, has changed very little compared with the previous SPF and continues to assign a high probability (46%) to inflation being between 1.5% and 1.9%.<sup>1</sup>

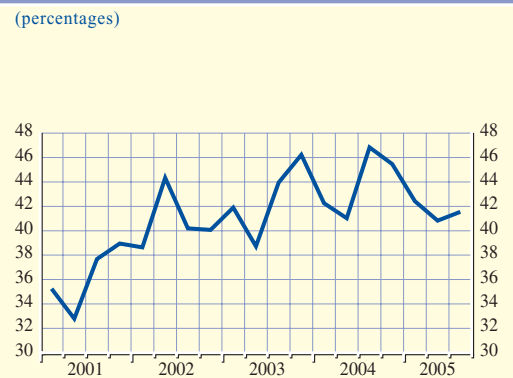
### Indicators of longer-term inflation expectations

Five-year ahead inflation expectations remained unchanged at 1.9% for the 15th consecutive round. These expectations are in line with the recently published estimates from Consensus Economics and the Euro Zone Barometer. However, the probability distribution continues to

**Chart A Probability distribution for average inflation in 2005 in the last three rounds of the SPF**



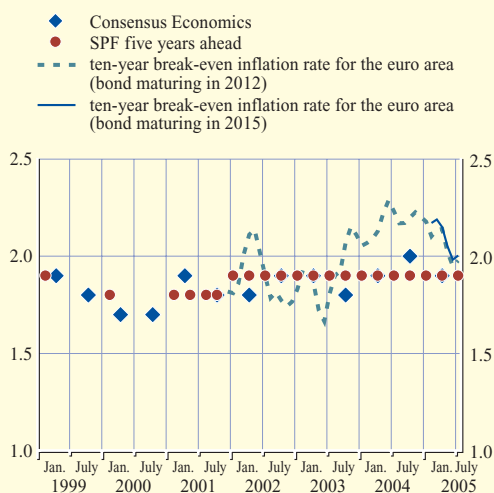
**Chart B Probability of five-year ahead inflation being at or above 2%**



<sup>1</sup> Additional data are available on the ECB's website, at [www.ecb.int/stats/prices/indic/forecast/html/index.en.html](http://www.ecb.int/stats/prices/indic/forecast/html/index.en.html).

**Chart C Indicators of long-term inflation expectations**

(average annual percentage changes)



Sources: French Treasury, Reuters, Consensus Economics and ECB.

point to upside risks. The probability of longer-term inflation being above 2% stands at 41.5%, slightly above the 40.8% of the last round (see Chart B).

SPF survey results can also be compared with an indicator of long-term inflation expectations among market participants calculated as the yield spread between nominal and inflation-linked bonds. In the first half of 2005 the break-even inflation rates derived from the French government inflation-linked bonds (linked to the euro area HICP excluding tobacco) maturing in 2012 and 2015 declined to a level closer to survey measures of inflation expectations (see Chart C).<sup>2</sup> However, break-even inflation rates should not be interpreted as direct measures of inflation expectations as they may also incorporate various risk premia (such as inflation uncertainty and liquidity

premia). Consequently these measures may be affected when investors become more uncertain about future inflation and are willing to pay a premium for a hedge.

### Expectations for real GDP growth and unemployment in the euro area

Expectations for economic activity in the euro area in 2005 and 2006 were revised downwards compared with the previous survey round. The average annual GDP growth rate is now expected to stand at 1.4% in 2005, 0.2 percentage point lower than expected in the last SPF round. The point estimate for 2006 was 1.8%, also revised down by 0.2 percentage point since the last round. The downward revision for average growth this year is partly explained by forecasters' expectation that growth will have been relatively weak in the first half. Other reasons cited by SPF participants were the ongoing rise in oil prices and weak domestic demand. Notwithstanding the downward revisions, the overall balance of risks is seen to remain on the downside and as being closely related to the above factors.

Forecasters nevertheless mentioned a number of factors that should support euro area growth, in particular favourable financing conditions, price stability and improvements in profitability. Also, the latest depreciation of the euro exchange rate could support exports. The SPF forecasts for 2005 and 2006 are slightly more optimistic than the most recent estimates published by Euro Zone Barometer and Consensus Economics, which were both at 1.3% for 2005 and 1.7% for 2006 (see table). Finally, five-year ahead real GDP growth expectations are now at 2.1%, 0.1 percentage point lower than in the previous round. Most SPF forecasters said that longer-term growth prospects depended largely on structural reforms.

<sup>2</sup> It should be noted that the break-even inflation rate reflects average expected inflation over the (residual) maturity of the bonds used in its construction and is not a point estimate for a precise year (as is the case for some of the survey indicators of long-term inflation expectations). For a description of the conceptual nature of the break-even inflation rate, refer to the article entitled "Extracting information from financial asset prices" in the November 2004 issue of the Monthly Bulletin.

SPF respondents' expectations for unemployment in 2005 and 2006 were revised up from the previous round by 0.1 percentage point. The unemployment rate is now expected to stand at 8.9% in 2005 and 8.7% in 2006. The revisions to the average point estimates are in line with the downward revisions to GDP growth. Respondents cited the outlook for below-potential growth in the short term, a lack of structural reforms and strong international competition as the main factors preventing unemployment from declining faster in the coming years. Nevertheless the unemployment rate is expected to continue to fall, to 8.4% in 2007. Five-year ahead unemployment rate expectations were at 7.6%, unchanged compared with the previous round. Respondents continued to stress that the decline in the unemployment rate over the long-term horizon is dependent on further labour market reforms.

## 4 OUTPUT, DEMAND AND THE LABOUR MARKET

*Euro area real GDP has expanded in a sustained, albeit gradual, manner over recent quarters. While the rise in oil prices has weighed on domestic demand, the latest available data releases and survey indicators show some improvement. This supports the expectation that, due to favourable domestic and external conditions, the process of economic expansion will broaden over time. However, high oil prices and the low level of consumer confidence in the euro area continue to imply downside risks.*

### 4.1 OUTPUT AND DEMAND DEVELOPMENTS

#### REAL GDP AND EXPENDITURE COMPONENTS

Real GDP data for the first quarter of 2005, first published in May, showed that economic activity in the euro area accelerated in the first few months of this year compared with the second half of 2004. After growing by, respectively, 0.3% and 0.2% quarter on quarter in the third and fourth quarters of 2004, real GDP is estimated to have risen by 0.5% in the first quarter of 2005. However, this increase was partly due to a distortion stemming from the working-day adjustment and does not point to a strengthening of economic growth at the turn of the year.

While the second estimate of growth in the first quarter, released in July, confirmed the previous estimate (see Chart 21), the composition of expenditure was revised, leading to a slightly larger contribution from domestic demand (which was revised up to 0.1 percentage point from zero in the first estimate). Despite the revisions, the increase in GDP growth in the first quarter was still mainly accounted for by a positive contribution from net exports. As export growth was negative in the first quarter, the positive net trade contribution was entirely due to a fall in imports.

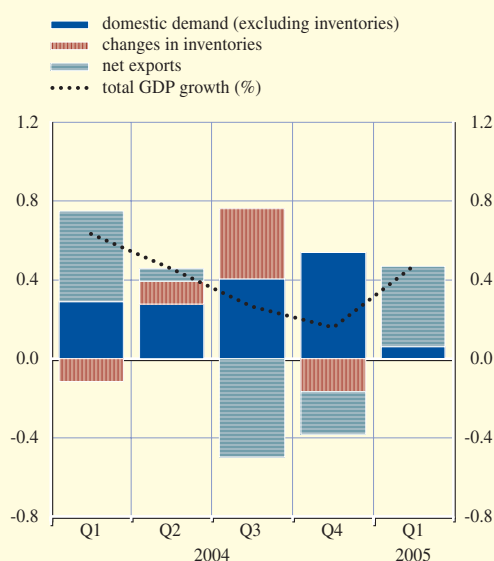
The small upward revision to domestic demand in the first quarter was primarily due to revisions to investment data. However, investment growth remained negative in the first quarter even after the revisions. The breakdown of investment shows that the fall stemmed from a marked decline in construction investment (particularly in Germany), whereas non-construction investment increased. Since the significant decline in German construction investment was partly accounted for by (weather-related) temporary factors, overall euro area investment is likely to increase in the second quarter of 2005.

#### SECTORAL OUTPUT AND INDUSTRIAL PRODUCTION

In terms of the sectoral composition of growth, estimates of value added in the first quarter of 2005 indicate that growth was mainly driven by the services sector, where growth gained momentum compared with the previous two quarters. The contribution from the other sectors was either relatively modest, as in the

**Chart 21 Real GDP growth and contributions**

(quarter-on-quarter growth rate and quarterly percentage point contributions; seasonally adjusted)



Sources: Eurostat and ECB calculations.

case of the industrial sector (excluding construction), or negative, as for construction.

Since the recovery started in mid-2003 the contribution from the industrial sector has been relatively weak compared with previous recoveries in the euro area. This lack of dynamism can in part be linked to the adverse impact of oil price developments and the past appreciation of the euro. The contribution to growth from the services sector, especially market services, has been more substantial (in particular from early 2004 onwards) and more in line with previous recoveries.

Euro area industrial production (excluding construction) was unchanged in the period between March and May 2005 compared with the previous three-month period, pointing to a continuation of subdued developments in the industrial sector. After increasing by 0.8% month on month in April, it fell by 0.3% in May. As a result, unless production falls significantly again in June, growth in industrial activity may be positive for the second quarter of 2005 as a whole. This would indicate that the industrial sector may be gradually recovering, after having experienced growth at around zero in the previous quarter and negative growth in the fourth quarter of 2004. However, there are as yet no clear signs of a significant recovery.

From a sectoral perspective, signals in the industrial sector are mixed. Data for the three months to May show relatively positive developments in the capital goods and durable consumer goods sectors (see Chart 22). Developments in the sectors producing intermediate goods and non-durable goods have, by contrast, been disappointing.

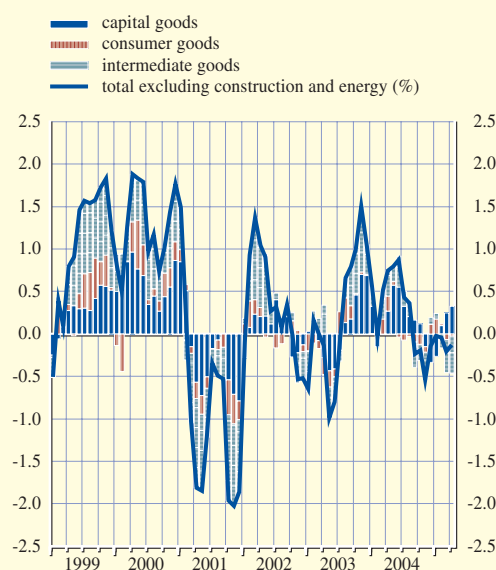
#### SURVEY DATA FOR THE MANUFACTURING AND SERVICES SECTORS

The latest survey data provide some positive signals for the start of the third quarter of 2005, consistent with a modest improvement in activity in the industrial sector. Both the European Commission's industrial confidence indicator and the Purchasing Managers' Index (PMI) increased in June and July, after having fallen in the previous three months. However, they remain at relatively low levels, suggesting at most a moderate expansion in the manufacturing sector (see Chart 23).

Services sector surveys also point to some improvement in July 2005. Both the European Commission's services confidence indicator and the PMI for the services sector increased in July, after having remained broadly unchanged or declining slightly in the second quarter. However, both indicators are still close to their respective averages since the beginning of this year. These data do not therefore point to a significant strengthening in services activity compared with the second quarter of this year.

**Chart 22 Industrial production growth and contributions**

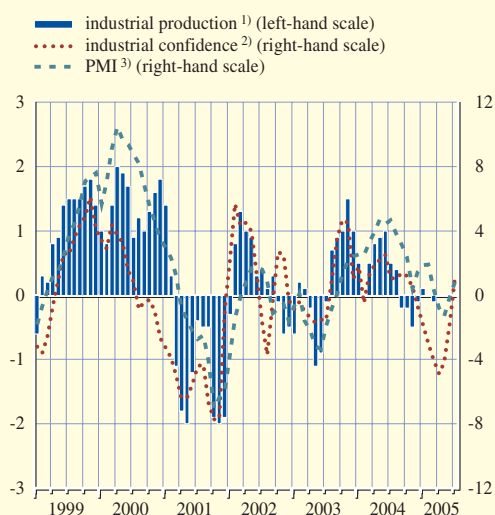
(growth rate and percentage point contributions; seasonally adjusted)



Sources: Eurostat and ECB calculations.  
Note: Data shown are calculated as three-month centred moving averages against the corresponding average three months earlier.

**Chart 23 Industrial production, industrial confidence and the PMI**

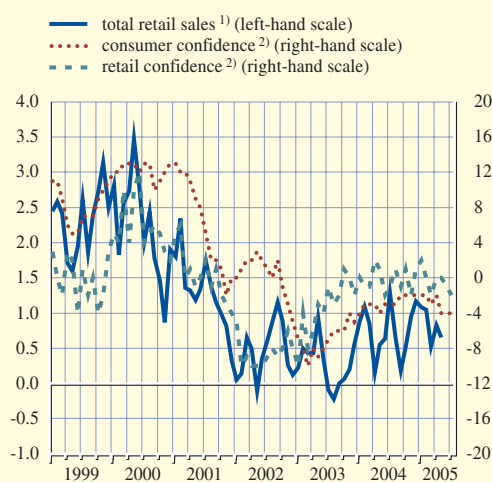
(monthly data; seasonally adjusted)



Sources: Eurostat, European Commission Business and Consumer Surveys, NTC Research and ECB calculations.  
1) Manufacturing; three-month-on-three-month percentage changes.  
2) Percentage balances; changes compared with three months earlier.  
3) Purchasing Managers' Index; deviations from an index value of 50.

**Chart 24 Retail sales and confidence in the retail trade and household sectors**

(monthly data)



Sources: European Commission Business and Consumer Surveys and Eurostat.  
1) Annual percentage changes; three-month centred moving averages; working-day-adjusted.  
2) Percentage balances; seasonally and mean-adjusted. For consumer confidence, euro area results from January 2004 onwards are not fully comparable with previous figures due to changes in the questionnaire used for the French survey.

## INDICATORS OF HOUSEHOLD SPENDING

Although the most recent data have been positive, indicators of household spending continue to point overall to subdued consumption growth in the second quarter of 2005. Retail sales volumes increased month on month in both May and June but for the second quarter as a whole declined slightly (see Chart 24). By contrast, new passenger car registrations increased significantly in the second quarter compared with the first quarter. As a result, the contributions to private consumption growth from retail sales and new car registrations in the second quarter of 2005 are likely to broadly offset each other. Finally, consumer confidence according to the European Commission's indicator was unchanged in July, for the third month in a row. Overall, consumer confidence has remained at a relatively low level since mid-2004.

## 4.2 LABOUR MARKET

The latest indicators suggest that labour market conditions remained broadly unchanged in the first half of 2005. Survey data also indicate broadly stable conditions in the third quarter.

### UNEMPLOYMENT

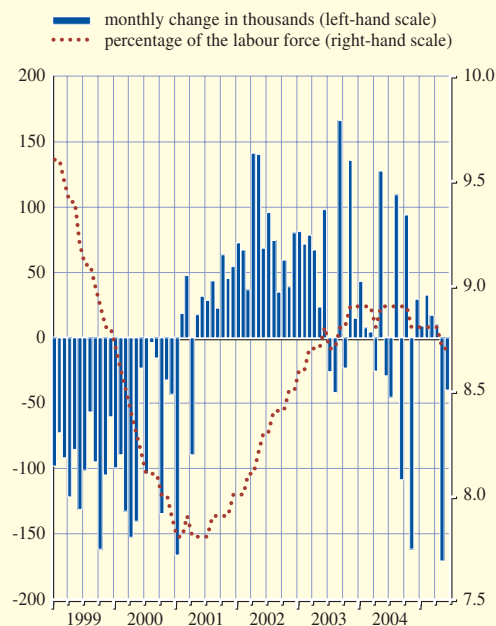
The euro area standardised unemployment rate was 8.7% in June 2005, unchanged compared with May (see Chart 25). For the second quarter as a whole, the unemployment rate stood at 8.8%, as in the previous two quarters. However, some favourable developments in labour market conditions have emerged recently. The number of unemployed declined by about 40,000 in June, after a fall of 171,000 in May, bringing the total number of unemployed people in the euro area down to about

12.7 million. At the same time caution is warranted in interpreting the latest data, as recent methodological changes implemented in Germany have resulted in a significant increase in the volatility of unemployment data.

Taking a longer-term perspective, there are indications that structural unemployment has decreased in the euro area since the mid-1990s. However, the fall has been relatively modest compared with the increases observed after the early 1970s (see Box 6). Thus, a significant margin exists for the unemployment rate to fall in the medium to long run. A strong contribution to lowering structural unemployment can be made by improving the functioning of markets in the euro area economies. Box 7 provides an overview of the Integrated Guidelines adopted by the ECOFIN Council in July 2005. These guidelines (which combine the formerly separate Broad Economic Policy Guidelines and Employment Guidelines) identify the measures most urgently needed in the EU Member States to achieve higher sustainable growth economic in the medium to long run.

**Chart 25 Unemployment**

(monthly data; seasonally adjusted)



Source: Eurostat.

**Box 6**

**A LONGER-TERM PERSPECTIVE ON STRUCTURAL UNEMPLOYMENT IN THE EURO AREA**

In the economic literature, several attempts have been made to measure structural unemployment. One measure is the non-accelerating inflation rate of unemployment (NAIRU). This has been defined as the level of the unemployment rate which does not exert pressure on inflation.<sup>1</sup> This box aims to provide a brief overview of developments in the NAIRU for the euro area and the largest euro area countries.

The NAIRU is not directly observable and different approaches have been proposed to estimate it. In the past, the NAIRU was often assumed to be approximately equal to the long-run average of the unemployment rate. However, it was later recognised that the NAIRU may change over time, and therefore more elaborate methods were adopted to estimate it. These range from the estimation of the trend in the unemployment rate, for example by calculating moving averages, to approaches which explicitly take into account the relationship between the unemployment

<sup>1</sup> For a discussion of the concept of the NAIRU and the role it has played in macroeconomic analysis see for example L. Ball and N. G. Mankiw (2002): "The NAIRU in Theory and Practice", *Journal of Economic Perspectives*, Vol. 16, No 4, pp. 115-136.

rate and inflation. This latter method, also known as the “direct” approach to measuring the NAIRU, is currently the most commonly used. It is based on a relationship between changes in the unemployment rate and inflation, often known as the Phillips curve. Occasionally, the relationship modelled is between the unemployment rate and wage inflation, as in the original contributions from A. W. H. Phillips, in which case the structural unemployment rate estimated is labelled the “non-accelerating wage inflation rate of unemployment” (NAWRU). The estimation of the NAIRU (or NAWRU) via the direct approach requires the use of advanced econometric techniques such as the Kalman filter.<sup>2</sup>

Estimates of the NAIRU can play a role in various contexts. In particular, they are sometimes used to analyse the sources of inflationary pressure. However, a number of empirical studies have indicated that the measurement of the NAIRU is rather imprecise and that the degree of uncertainty is particularly marked for real-time point estimates (i.e. current estimates for the ongoing period).<sup>3</sup> As a result, the usefulness of NAIRU estimates for regular inflation analysis is relatively limited. Nevertheless, they can provide information regarding longer-term trends.

#### Evidence on long-run NAIRU developments in the euro area

Chart A shows the latest estimates of the euro area NAIRU (or NAWRU) by the European Commission, the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD). While significant variation can be observed among the estimates during the 1980s and 1990s, there seems to be a broad consistency as regards long-run trends. In particular, after increasing from the 1970s onwards for around two and a half decades, the euro area NAIRU appears to have gradually declined from the mid-1990s. Internal estimates by ECB staff using similar estimation methods are also in line with this.<sup>4</sup>

Estimates by international institutions suggest that the euro area NAIRU currently stands at a level slightly above 8%. The NAIRU is therefore estimated to be below the current unemployment rate, which is slightly below 9%. However, the uncertainty of NAIRU estimates, particularly in real time, is illustrated by the revisions made since 2001. For example, the IMF estimates have been revised upwards on average by around 0.7 percentage point per year (see Chart B). Revisions by the Commission and the OECD have been of a smaller magnitude but are still significant. These revisions suggest that real time estimates should always be treated with considerable caution.

2 For a more detailed discussion see for example S. Fabiani and R. Mestre (2000): “Alternative measures of the NAIRU in the euro area: estimates and assessment”, ECB Working Paper No 17 and S. Fabiani and R. Mestre (2004): “A system approach for measuring the euro area NAIRU”, *Empirical Economics*, 29(2), pp. 311-341 (also published as ECB Working Paper No 65, 2001).

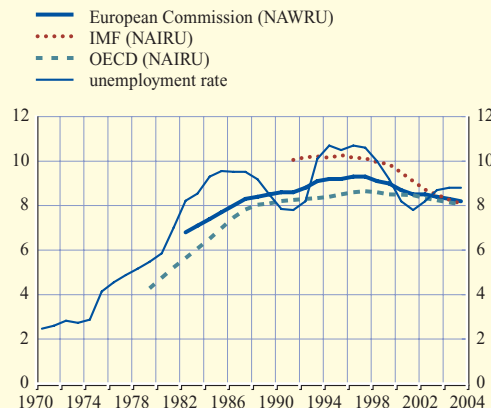
3 See for example the evidence reported in D. Staiger, J. Stock and M. Watson (1997): “How Precise are Estimates of the Natural Rate of Unemployment,” in C. Romer and D. Romer (eds.) *Reducing Inflation: Motivation and Strategy*, University of Chicago Press, 1997.

4 For internal analysis various approaches are used, including versions of the production function approach described in T. Proietti, A. Musso and T. Westermann, “Estimating potential output and the output gap for the euro area: a model-based production function approach”, EUI Working Paper ECO 2002/09 and growth accounting exercises similar to that described in A. Musso and T. Westermann, “Assessing potential output growth in the euro area – a growth accounting perspective”, ECB Occasional Paper No 22, January 2005.



**Chart A Estimates of the NAIRU/NAWRU in the euro area**

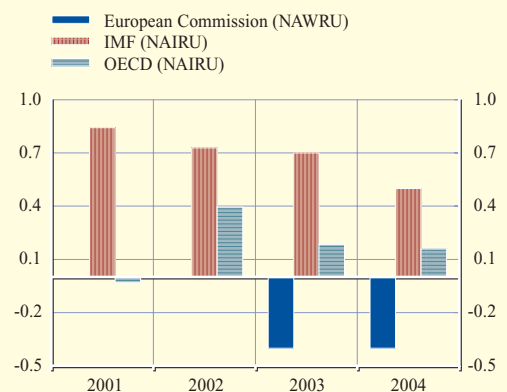
(percentages of the labour force)



Sources: European Commission, IMF and OECD.  
Note: The euro area unemployment rate before 1991 excludes the former East Germany.

**Chart B Revisions to real-time NAIRU/NAWRU estimates for the euro area**

(latest estimates minus real-time estimates; percentage points)



Sources: ECB calculations on the basis of data from the European Commission, IMF and OECD.  
Note: Euro area NAWRU estimates from the European Commission are not available for 2001 and 2002.

Various studies have shown that the increase in the NAIRU from the 1970s to the mid-1990s largely reflects the interaction of adverse shocks and rigid labour market institutions in most euro area economies, which led, following a sequence of oil price shocks, to ever rising structural unemployment. The more positive developments in the past ten years have been attributed above all to the impact of labour market reforms implemented in some euro area countries.<sup>5</sup>

Indeed significant differences at the country level indicate that country-specific factors have been very important in shaping unemployment trends. Among the five largest euro area economies, available estimates suggest an increase in the NAIRU (or NAWRU) from the early 1970s to the mid-1990s in all countries except the Netherlands (see Charts C and D). From the mid-1990s to 2004, by contrast, the NAIRU is estimated to have decreased in all these countries with the exception of Germany, where it rose. These different dynamics probably reflect the varying extent and timing of the implementation of reforms in the labour market. The case of the Netherlands, which introduced significant reforms during the 1980s, suggests that much can be achieved through reforms to reduce the structural unemployment rate substantially. A similar observation can be made concerning developments in the United Kingdom, where estimates of the NAIRU also indicate a significant decline since the mid-1980s.

Looking ahead, there is a pronounced need for structural unemployment to be reduced in the euro area. While several countries have made significant progress towards making their labour markets more flexible and adaptable, in many countries more ambitious labour market reforms

5 See for example O. Blanchard and J. Wolfers (2000): "The Role of Shocks and Institutions in the Rise of European Unemployment: The Aggregate Evidence", *Economic Journal*, Vol. 110 (March 2000), pp.1-33 and S. Nickell (2003): "Labour Market Institutions and Unemployment in OECD Countries," *CESIFO DICE Report* 1, No 2 (2003), pp. 13-26.

Chart C Average NAIRU/NAWRU estimates<sup>1)</sup>  
for France, Germany and Italy

(percentages of the labour force)

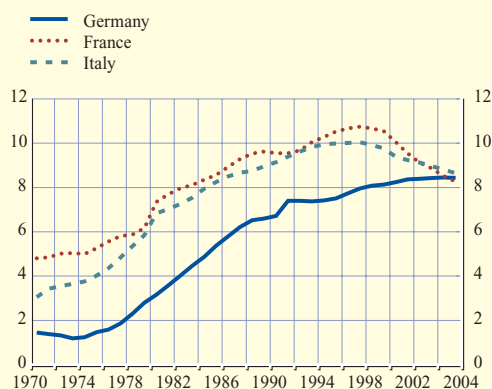
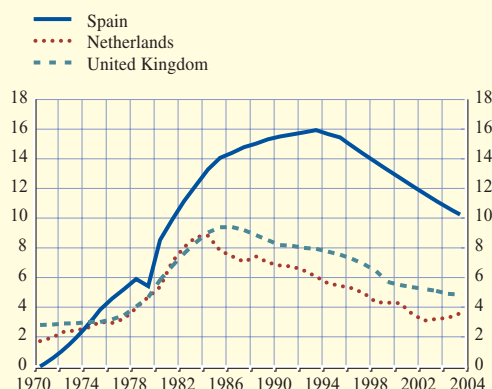


Chart D Average NAIRU/NAWRU estimates<sup>1)</sup>  
for the Netherlands, Spain and the United Kingdom

(percentages of the labour force)



Sources: European Commission, IMF and OECD.

1) Average of estimates by the European Commission, IMF and OECD.

are needed. Only a more determined commitment to structural labour market reforms will allow unemployment rates to be significantly reduced in the years ahead without endangering price stability.

## EMPLOYMENT

Employment increased by 0.2% quarter on quarter in the first quarter of 2005, following similar growth rates in the second half of 2004. These developments reflect an increase in employment growth in the services sector and a decrease in industry, confirming the broad picture observed in earlier quarters.

Employment expectations according to business surveys in the months up to July point to a further expansion of employment in services and a possible further deterioration in industry at the start of the third quarter of 2005. Overall, these data are in line with broadly stable labour market conditions.

Table 7 Employment growth

(percentage changes compared with the previous period; seasonally adjusted)

	Annual rates		Quarterly rates				
	2003	2004	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1
Whole economy	0.3	0.6	0.1	0.3	0.2	0.2	0.2
<i>of which:</i>							
Agriculture and fishing	-1.8	-0.3	-0.2	0.0	0.4	0.0	-0.5
Industry	-1.0	-0.9	-0.5	0.3	-0.1	0.0	-0.6
Excluding construction	-1.5	-1.6	-0.7	0.1	-0.5	0.2	-0.8
Construction	0.1	1.0	-0.1	0.7	1.1	-0.4	0.1
Services	0.9	1.2	0.4	0.3	0.3	0.3	0.5
Trade and transport	0.3	0.8	0.1	0.3	0.4	0.2	0.2
Finance and business	1.3	2.5	1.1	0.4	0.6	0.6	0.9
Public administration	1.2	0.8	0.3	0.2	0.1	0.3	0.6

Sources: Eurostat and ECB calculations.

### 4.3 THE OUTLOOK FOR ECONOMIC ACTIVITY

Looking ahead, the euro area economy is expected to expand in a sustained, albeit gradual, manner. This expectation, which is also broadly shared by the respondents to the ECB's latest Survey of Professional Forecasters (see Box 5), is based on several considerations. On the external side, ongoing robust growth in global demand and improvements in euro area price competitiveness should support euro area exports. On the domestic side, while the rise in oil prices has weighed on domestic demand, the latest data releases and survey indicators show some improvement. In this environment, investment should benefit from very favourable financing conditions, strong global demand, robust corporate earnings and ongoing improvements in corporate efficiency. In addition, consumption growth should evolve broadly in line with expected developments in disposable income. The main downside risks to expectations of further improvements in economic growth in the euro area stem from high oil prices and the low level of consumer confidence. In addition, concerns remain about the persistence of global imbalances.

#### Box 7

#### THE INTEGRATED GUIDELINES FOR GROWTH AND JOBS 2005-2008

On 12 July 2005 the ECOFIN Council adopted the first Integrated Guidelines for Growth and Jobs (IGs) for the period 2005-2008. The IGs bring together the Broad Economic Policy Guidelines (BEPGs) and the Employment Guidelines (EGs). This streamlining is one of the results of the mid-term review of the Lisbon strategy undertaken by the European Council at its meeting in Brussels on 22 and 23 March 2005. The IGs imply greater consistency and a reduction in the overlap between the formerly separate guidelines, with the BEPGs covering the whole range of macroeconomic and microeconomic policies, and the EGs covering employment policy. This has led to a significant reduction in the overall number of guidelines, from 28 BEPGs and 10 EGs to 24 IGs. Unlike the previous BEPGs, the first IGs issued in 2005 do not include country-specific economic policy guidelines.

The IGs will serve as the basis for the new national reform programmes which the EU Member States are asked to submit for the first time in the autumn of 2005. These will identify specific measures which Member States intend to take (or have taken) in order to support growth and employment at a national level over the period 2005-08. As a counterpart to the national programmes, the Commission has presented a Community Lisbon Programme covering all action to be undertaken at the Community level, which is to be endorsed by the European Parliament and the EU Council.

This box provides an overview of the guidelines package.

#### The Broad Economic Policy Guidelines

##### Macroeconomic policies

The BEPGs urge Member States which have achieved their medium-term budgetary objectives to maintain them or – if they have not yet achieved their objectives – to adopt the necessary corrective measures in line with the Stability and Growth Pact. Member States should avoid

pro-cyclical fiscal policies. Furthermore, the BEPGs state that Member States having an excessive deficit should take action in order to ensure a prompt correction. Where current account deficits risk becoming unsustainable, structural reforms improving competitiveness should be adopted – together with appropriate corrective fiscal policies. With specific reference to the euro area, Member States are called on to ensure better coordination of their economic and budgetary policies, and in particular to contribute to a policy mix that supports economic recovery and is compatible with price stability.

In light of Europe's ageing population, the BEPGs state that further effort should be made to reduce government debt and to increase labour market participation and labour supply, especially amongst women, young and older workers. Member States are also urged to reform their pension, social insurance and health care systems. The BEPGs stress that nominal wage increases should be consistent with price stability and in line with the rate of productivity growth over the medium term, taking into account differences across skill levels and local labour market conditions.

#### **Microeconomic reforms to raise the EU's growth potential**

Comprehensive reforms in product markets are seen as an integral part of addressing weak growth performance and insufficient job creation in the EU.

The BEPGs ask Member States to actively promote investment in research and development (R&D), innovation and education. More rapid progress is needed towards the Lisbon objective of allocating 3% of GDP to total R&D investment, with an adequate split between private and public investment. Member States are invited to report on their R&D expenditure targets for 2008 and 2010 and the measures to achieve them in their national Lisbon programmes. These objectives should be pursued by developing the appropriate framework conditions, promoting science-industry links, developing and strengthening centres of excellence, supporting the mobility of researchers and encouraging cross-border knowledge transfer via foreign direct investment. Member States should facilitate the access to and use of information and communication technologies (ICT). The need to orientate the EU towards higher productivity growth sectors, to identify the competitiveness factors in key industrial sectors and to address the challenge of globalisation is also emphasised.

The BEPGs also recommend that countries encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth. Through the use of market-based instruments they should ensure that prices adequately reflect environmental damage and social costs, while encouraging the development of sustainable energies and the introduction of environment-friendly technologies. The implementation of these priorities should be in line with existing Community legislation and with the actions and instruments proposed in the Environmental Technologies Action Plan (ETAP). Member States should renew efforts to meet their commitments under the Kyoto protocol.

The BEPGs say that Member States should speed up the transposition of Internal Market directives, ensure stricter and better enforcement of Internal Market legislation and accelerate the process of financial market integration. They also urge Member States to eliminate obstacles to cross-border activities and apply EU public procurement rules effectively.

The BEPGs emphasise the need to remove barriers to competition in key sectors and to ensure the effective enforcement of competition policy. Member States are urged to adopt structural reforms easing market entry. Furthermore, effective competition in network industries should be ensured, while state aid should be further reduced and redeployed in support of horizontal objectives such as research, innovation and the optimisation of human capital.

Member States are asked to take active steps to create a more attractive business environment, to encourage the creation and growth of innovative enterprises. They should create a supportive environment for small and medium-sized enterprises, strengthen their innovative potential, improve access to finance, adapt tax systems so that they reward success and reduce the administrative burden for start-ups. With the aim of achieving a greater integration of national markets within the enlarged EU, Member States should develop adequate transport, energy or ICT infrastructures, notably in cross-border sections and peripheral regions.

#### **The Employment Guidelines**

Creating the conditions for full employment, better quality of and productivity at work, as well as greater social and territorial cohesion remain top priorities in the Lisbon strategy. According to the EGs, Member States should contribute to achieving an average employment rate in the EU of 70% overall, at least 60% for women and 50% for older workers by 2010, and to reducing unemployment and inactivity. Member States should consider setting national employment rate targets. Action is also required to increase female participation, to reduce gender gaps in employment, unemployment and pay and to tackle youth unemployment. Member States should take action to encourage a longer working life and modify incentives embedded in pension and tax and benefit systems that encourage early withdrawal from the labour market.

Member States are urged by the EGs to implement active labour market policies aimed at supporting the inclusion of disadvantaged people in the labour market, to modernise social protection systems and to fight poverty and social exclusion. They are also urged to take steps to tackle labour market shortages and bottlenecks, and to ensure greater transparency of employment and training opportunities at the national and European level.

The EGs emphasise the need for policy measures increasing the adaptability of labour markets to changing economic conditions. Greater flexibility should be achieved by adapting employment legislation as well as providing support for transitions in occupational status. Member States are urged to ensure that wage bargaining systems allow wages to better reflect productivity, and to adjust the structure and level of non-wage labour costs, especially for the low paid. Increasing and improving investment in human capital and reducing skill mismatches are seen as the key to boosting growth potential in the EU. The EGs point out that Member States are committed to establishing comprehensive lifelong learning strategies by 2006 and implementing the Education and Training 2010 Work Programme. They call on Member States to facilitate mobility within the European labour market by promoting the recognition and transparency of qualifications and competencies.

## 5 EXCHANGE RATE AND BALANCE OF PAYMENTS DEVELOPMENTS

### 5.1 EXCHANGE RATES

*In July and early August the euro appreciated in effective terms as a result of a relatively broad-based appreciation against the currencies of most trading partners. The change in the Chinese exchange rate policy announced on 21 July did not appear to have a lasting direct effect on the euro exchange rate.*

#### US DOLLAR/EURO

Despite a widening of interest rate differentials in favour of the US currency, the euro appreciated against the US dollar between the end of June and 3 August (see Chart 26) against the background of some relatively positive news about business confidence in the euro area. As a result, on 3 August 2005, the euro stood at USD 1.23, which was 1.8% higher than its level at the end of June and 1% below its 2004 average.

#### JAPANESE YEN/EURO

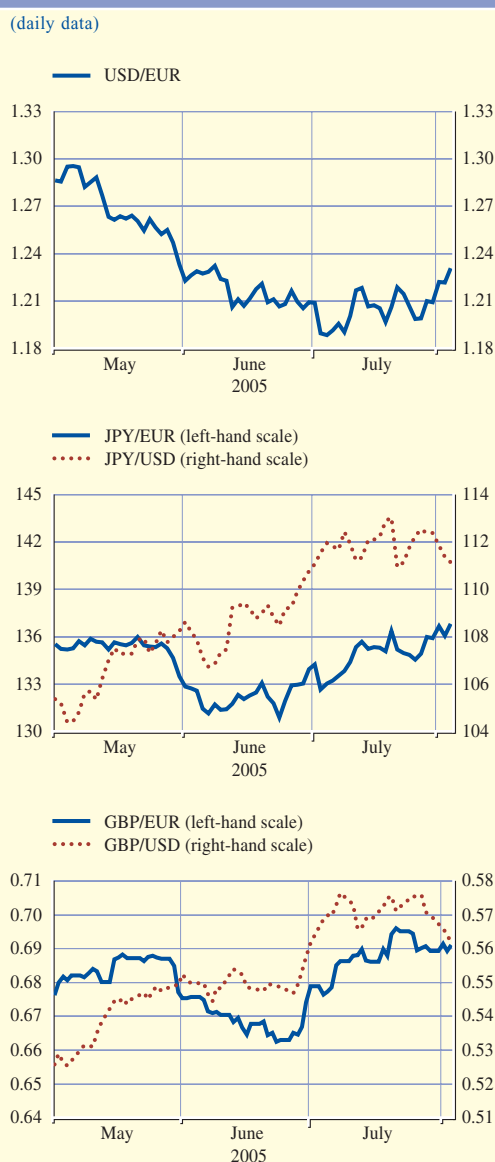
The euro continued to appreciate against the Japanese yen, developing the trend initiated in June. The change in the Chinese exchange rate regime announced on 21 July (see below) only seemed to affect the yen/euro exchange rate temporarily. On 3 August 2005 the euro was quoted at JPY 136.8, 2.1% above its end-June level and 1.8% above its 2004 average.

#### EU MEMBER STATES' CURRENCIES

In ERM II, in July and early August the Danish krone and the Slovenian tolar moved in very narrow ranges close to their respective central rates, while the Estonian kroon, the Maltese lira and the Lithuanian litas remained unchanged relative to their central rates (see Chart 27). The Latvian lats and the Cyprus pound remained stable in the stronger side of their respective fluctuation bands.

As regards the currencies of other EU Member States, the euro appreciated steadily against the pound sterling in July against the background of rising expectations of a reduction in policy interest rates in the United Kingdom. The euro traded on 3 August at GBP 0.69, or 2.5% higher than its end-June level and 1.8% higher than its

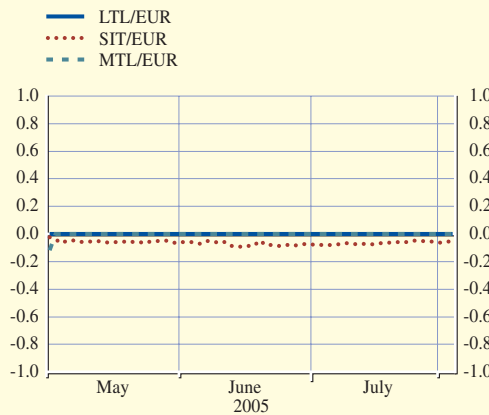
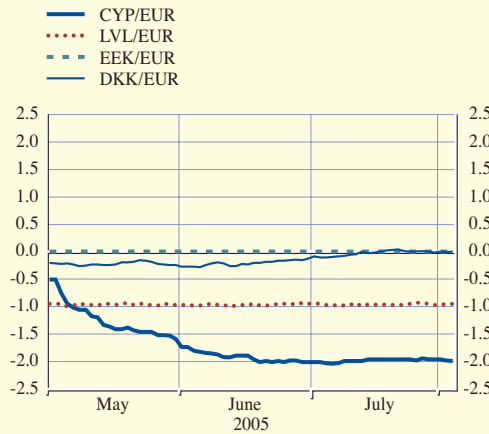
Chart 26 Patterns in exchange rates



Source: ECB.

**Chart 27 Patterns in exchange rates within ERM II**

(daily data; deviation from central parity in percentage points)



Source: ECB.  
Note: A positive/negative deviation from the central parity against the euro implies that the currency is at the weak/strong side of the band. For the Danish krone the fluctuation band is  $\pm 2.25\%$ ; for all other currencies the standard fluctuation band of  $\pm 15\%$  applies.

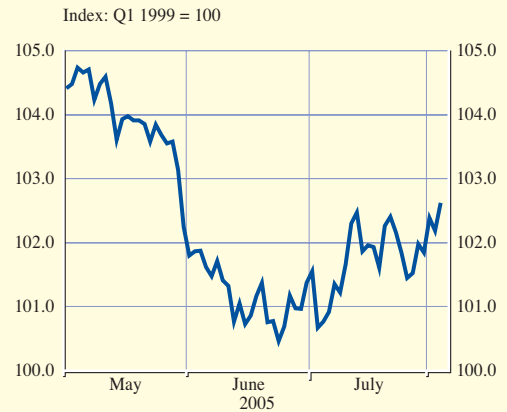
2004 average. Between end-June and 3 August, the euro depreciated against the Hungarian forint (by 1.2%), and appreciated against the Slovak koruna (by 1.2%) and, to a lesser extent, the Polish zloty (by 0.9%). The euro remained broadly stable vis-à-vis the Swedish krona over this period.

### OTHER CURRENCIES

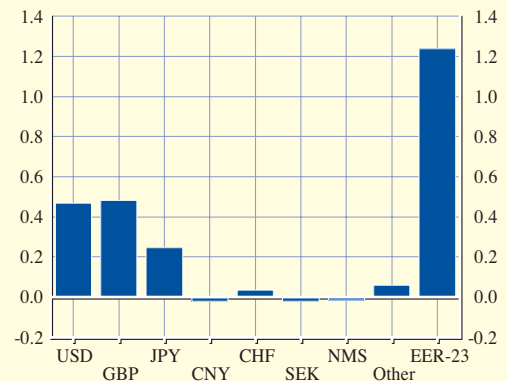
The euro appreciated by 0.6% vis-à-vis the Swiss franc between the end of June and 3 August. On 21 July China abandoned the dollar peg and moved to a managed floating exchange rate regime with reference to a basket of currencies. At the same time, the renminbi was revalued by 2%, to 8.11 yuan per US dollar, with a daily trading band set at  $\pm 0.3\%$ . The currencies included in the basket and their weights were not disclosed. The initial impact of this change was mostly felt in

**Chart 28 Euro effective exchange rate and its decomposition<sup>1)</sup>**

(daily data)



**Contributions to EER changes<sup>2)</sup>**  
From 30 June to 3 August 2005  
(in percentage points)



Source: ECB.  
1) An upward movement of the index represents an appreciation of the euro against the currencies of the most important trading partners of the euro area and all non-euro area EU Member States.  
2) Contributions to EER-23 changes are displayed individually for the currencies of the six main trading partners of the euro area. The category "NMS" refers to the aggregate contribution of the currencies of the ten new Member States which joined the EU on 1 May 2004. The category "Other" refers to the aggregate contribution of the remaining seven trading partners of the euro area in the EER-23 index. Changes are calculated using the corresponding overall trade weights in the EER-23 index.

Asia, where Malaysia abandoned its peg to the US dollar. The exchange rate of the yuan against the euro fell by 0.3% between end-June and 3 August.

### EFFECTIVE EXCHANGE RATE OF THE EURO

On 3 August 2005 the nominal effective exchange rate of the euro – as measured against the currencies of 23 of the euro area’s major trading partners – was 1.2% above its end-June level and 1.2% below its average level in 2004 (see Chart 28).

## 5.2 BALANCE OF PAYMENTS

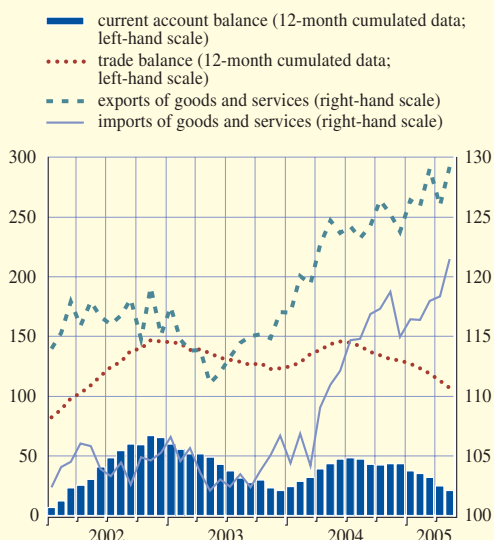
*Balance of payments data up to May 2005 show an increase in euro area export and import values over recent months, following more subdued developments from the end of 2004 onwards. The 12-month cumulated current account surplus has declined from its peak in the summer of 2004, reflecting the fact that imports have grown more strongly than exports. In the financial account, combined direct and portfolio investment flows were close to balance over the 12-month period to May 2005, as net inflows in portfolio investment were counterbalanced by net outflows in direct investment.*

### CURRENT ACCOUNT

Export and import values for goods and services have increased over recent months, following more subdued developments around the turn of the year (see Chart 29). For the period March-May 2005, the three-month moving average of the value of exports of goods and services was 2.2% higher than in the previous three-month period, while the corresponding figure for imports was

**Chart 29 The euro area current account and trade balances**

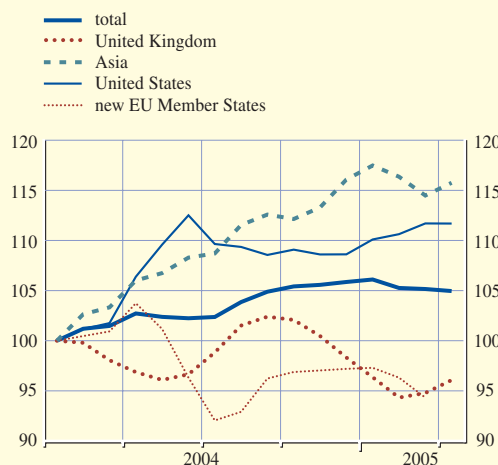
(EUR billions; monthly data; seasonally adjusted)



Source: ECB.

**Chart 30 Import volumes by selected partner country**

(index: January 2004 = 100; three-month moving averages; seasonally adjusted)



Source: Eurostat.  
Note: Latest observation is related to April 2005, with the exception of the new EU Member States, for which the latest data relate to March 2005.



**Table 8 Extra-euro area trade flows and current account**

(EUR billions; seasonally adjusted)

	2004				2005		
	Q1	Q2	Q3	Q4	Q1	April	May
Goods exports <sup>1)</sup>	92.8	95.6	96.3	97.2	97.2	99.3	100.7
<i>of which:</i> to United States	14.2	14.6	14.4	14.6	14.5	14.9	15.0
to United Kingdom	16.6	16.8	17.2	17.1	16.7	16.6	17.4
to new EU Member States	10.4	10.5	10.4	11.0	11.0	11.3	11.1
to non-Japan Asia	15.5	15.7	16.2	15.8	16.4	17.1	16.4
Goods imports <sup>1)</sup>	84.1	87.7	92.4	93.5	92.5	95.0	97.5
<i>of which:</i> from United States	8.8	9.9	9.6	9.6	9.7	9.9	9.9
from United Kingdom	11.3	11.5	12.5	12.0	11.8	12.4	12.4
from new EU Member States	9.0	8.8	8.9	9.2	9.0	9.3	10.1
from non-Japan Asia	18.9	21.0	22.3	22.8	22.2	23.4	24.0
Services exports <sup>2)</sup>	28.4	29.7	29.9	29.8	31.0	28.4	28.2
Services imports <sup>2)</sup>	26.5	27.3	27.3	27.6	28.3	26.7	27.7
Current account balance <sup>2)</sup>	4.8	5.5	1.3	2.8	1.0	0.8	0.9

Sources: 1) Eurostat, 2) ECB.

Note: Quarters refer to the monthly average value over the corresponding quarter.

2.9%. Trade in goods was fairly robust in April and May, while trade in services was relatively weak.

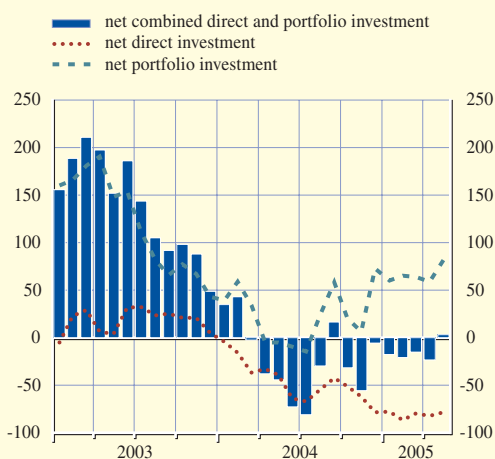
Regarding the regional breakdown of trade developments, the recent pick-up in export activity appears to have been fairly broadly based. The increase in the value of goods exports during the first two months of the second quarter of 2005 benefited in particular from stronger exports to the United States, the United Kingdom, non-Japan Asia and, to a lesser extent, the new EU Member States (see Table 8). Meanwhile, the increase in the value of euro area goods imports was also broadly based.

The breakdown of import values into volumes and prices provided by Eurostat shows that from the beginning of 2004 import volumes from Asia and the United States grew strongly, while imports from the United Kingdom and the new EU Member States fell (see Chart 30). These developments are consistent with relative price changes, most notably the past appreciation of the euro against the US dollar. However, the weakness of imports from the new EU Member States from May 2004 may also have been associated with statistical issues around the time of their accession, which may gradually be dissipating.

The 12-month cumulated surplus of the euro area current account for the period to May 2005 totalled €20.9 billion, i.e. around 0.3% of GDP. This was about half of the surplus of €43.6 billion recorded a year earlier (see Chart 29). This decrease mainly resulted from a fall (of €40.8 billion) in the surplus in goods, which was partly compensated for by a fall (of €16.1 billion) in the income deficit and, to a lesser extent, by a higher surplus in services.

**Chart 31 Net direct and portfolio investment flows**

(EUR billions; 12-month cumulated data)



Source: ECB.

Note: A positive (negative) number indicates a net inflow (outflow) into (out of) the euro area.

in particular net direct investment outflows to offshore centres increased in the 12-month period ending in March 2005 compared with the 12-month period ending a year earlier.

**FINANCIAL ACCOUNT**

Euro area combined direct and portfolio investment flows were close to balance over the 12-month period to May 2005. This compares with net outflows of €43.9 billion over the previous 12-month period to May 2004 (see Chart 31). This development was driven by higher net inflows in portfolio investment, which more than offset a rise in net direct investment outflows over the same period.

The increase in net inflows in portfolio investment over the 12 months to May 2005 was mostly accounted for by the rise in net purchases of euro area securities by non-residents. The higher net outflows in direct investment mostly reflected an increase in foreign equity investment by euro area residents. Data on the geographical breakdown of the euro area financial account indicates that



## ARTICLES

# THE REFORM OF THE STABILITY AND GROWTH PACT



*Economic and Monetary Union needs fiscal rules that secure sustainable fiscal policies. Such policies promote stability, growth and cohesion in the euro area. They also support monetary policy in its task of maintaining price stability. Against this background, this article explains and assesses the recent reform of the Stability and Growth Pact (SGP).*

*Changes to the preventive arm of the SGP, which concerns the surveillance process and the attainment of sound medium-term targets, have the potential to strengthen the framework by making it more adaptable to country-specific circumstances and by more explicitly calling on Member States to speed up budget consolidation in good times. However, these changes also reduce the clarity and simplicity of the rules and do not specifically tackle shortcomings in the incentives for compliance.*

*Changes to the corrective arm, which aims to deter excessive deficits and ensure their prompt correction should they occur, place greater emphasis on flexibility and discretion in subjecting countries to the excessive deficit procedure and in requiring prompt corrective action. In the view of the Governing Council of the ECB, changes to the corrective arm entail risks of weakening the SGP. That is why it had recommended not to modify the corrective arm and expressed its serious concern about these changes in its statement of 21 March 2005.*

*Now that a new framework has been agreed by the ECOFIN Council, the consequences of the reform of the SGP will depend on its implementation. Member States, the Commission and the ECOFIN Council need to respond to the considerable short and long-term fiscal challenges that lie ahead. These include the prompt correction of existing budgetary imbalances, the reduction of debt ratios, and reforms to deal with the approaching fiscal pressures related to population ageing. It is essential that, in applying the new framework, the right precedents are established from the outset. A rigorous and consistent implementation of the revised rules would be conducive to fiscal discipline and would help to restore the credibility of the EU fiscal framework as well as confidence in prudent fiscal policies.*

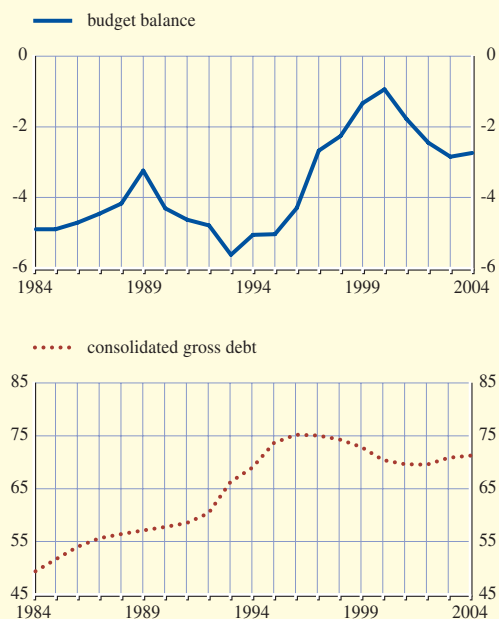
### I INTRODUCTION

A well functioning monetary union requires not only a stability-oriented monetary policy, but also the maintenance of fiscal discipline among its constituent member countries. Acknowledging this, the Treaty establishing the European Community (the Treaty) contains provisions for the monitoring and coordination of EU Member States' fiscal policies. In particular, it states that EU Member States shall avoid excessive government deficits, and provides for an excessive deficit procedure (EDP) to deter and correct such deficits should they occur. The SGP, which was adopted in 1997 and consisted of two Council Regulations and a European Council Resolution, sought to strengthen the fiscal framework of the Treaty by laying down more detailed rules and procedures for budgetary surveillance, and by speeding up and clarifying the implementation of the EDP.

In the mid to late 1990s, euro area Member States made considerable progress in consolidating their fiscal positions as they sought to meet the convergence criteria for adoption of the euro. Since 1999, however, fiscal performance has been rather mixed (see Chart 1). While deficits have not returned to the very high levels of the early 1990s and the rapid increase of debt ratios experienced in those years has not reoccurred, fiscal consolidation has stalled or even gone into reverse in most euro area countries. Initially, a relatively favourable economic environment masked this development, but in the context of the economic downturn that began in 2001, fiscal balances soon deteriorated and an increasing number of Member States ran the risk of or incurred excessive deficits. At the same time, the ECOFIN Council did not always implement the rules and procedures of the SGP in a rigorous manner. Notably, in November 2003, the ECOFIN Council decided not to act upon

**Chart 1 General government budget balance and debt in the euro area**

(as a percentage of GDP; annual data)



Sources: European Commission and ECB calculations.  
Note: Budget balance figures exclude proceeds from UMTS licences.

Commission recommendations to move to the next steps of the EDPs for France and Germany and instead adopted “conclusions” putting the procedures in abeyance subject to certain undertakings by the countries concerned. These conclusions were later annulled by the European Court of Justice, although the latter also confirmed the prerogative of the ECOFIN Council to exercise discretion in the implementation of the procedure.

The deterioration of budgetary positions in recent years and the increasing reluctance to follow agreed rules and procedures eroded confidence in the EU fiscal framework and intensified criticisms of the SGP that have been voiced ever since its inception. Against this background, the European Council, in June 2004, issued a declaration in which it looked forward to proposals to strengthen and clarify the implementation of the SGP. In September 2004, the Commission issued a communication presenting its ideas for

“strengthening economic governance and clarifying the implementation of the Stability and Growth Pact”. Following intensive discussions on the suggestions put forward by the Commission and by member countries, the ECOFIN Council adopted, on 20 March 2005, a report on “improving the implementation of the Stability and Growth Pact”, setting out proposals for reform, which were subsequently endorsed by the European Council. The ECOFIN Council’s report now forms part of the SGP, updating and complementing the previous European Council Resolution. Corresponding amendments to the Council Regulations have also been introduced.

During the discussions on reforming the SGP, the ECB consistently stressed the need for a sound fiscal framework in EMU. Following the adoption of the ECOFIN Council report, the Governing Council of the ECB issued a statement and the ECB issued opinions on the Commission’s proposals to amend the Council Regulations (see Box 1).

This article explains in more detail the ECB’s views on the recent SGP reform. Section 2 provides a brief overview of the main changes. Section 3 assesses these changes, and Section 4 concludes with some remarks about the challenges facing the revised framework in the months and years ahead.

## 2 MAIN ELEMENTS OF THE REFORM

The reform of the SGP introduces several changes into the original framework. According to the ECOFIN Council report of 20 March, the aim of these changes is to improve governance, strengthen the preventive arm, and improve the implementation of the corrective arm.

### CHANGES UNDER THE PREVENTIVE ARM

The preventive arm of the SGP is governed by Council Regulation 1466/97 (now amended by Council Regulation 1055/2005) on the

## Box I

**STATEMENT OF THE GOVERNING COUNCIL OF 21 MARCH 2005**

“The Governing Council of the ECB is seriously concerned about the proposed changes to the Stability and Growth Pact. It must be avoided that changes in the corrective arm undermine confidence in the fiscal framework of the European Union and the sustainability of public finances in the euro area Member States. As regards the preventive arm of the Pact, the Governing Council also takes note of some proposed changes which are in line with its possible strengthening.

Sound fiscal policies and a monetary policy geared to price stability are fundamental for the success of Economic and Monetary Union. They are prerequisites for macroeconomic stability, growth and cohesion in the euro area. It is imperative that Member States, the European Commission and the Council of the European Union implement the revised framework in a rigorous and consistent manner conducive to prudent fiscal policies.

More than ever, in the present circumstances, it is essential that all parties concerned fulfil their respective responsibilities. The public and the markets can trust that the Governing Council remains firmly committed to deliver on its mandate of maintaining price stability.”

**ECB Opinions of 3 June 2005 on amendments to Council Regulations 1466/97 and 1467/97<sup>1</sup>**

In its Opinions, the ECB did not comment on specific provisions of the proposed regulations, but expressed its views in a more general manner. Both Opinions argued that:

“Sound fiscal policies are fundamental to the success of economic and monetary union. They are prerequisites for macroeconomic stability, growth and cohesion in the euro area. The fiscal framework enshrined in the Treaty and in the Stability and Growth Pact is a cornerstone of EMU and thus key to anchoring expectations of fiscal discipline. This rules-based framework, which aims to secure sustainable public finances while allowing the smoothing of output fluctuations through the operation of automatic stabilisers, needs to remain clear, simple and enforceable. Compliance with these principles will also facilitate transparency and equal treatment in the implementation of the framework.”

In addition, in its Opinion on Council Regulation 1466/97, the ECB “endorses the aim of improving the surveillance and coordination of economic policies so as to achieve and maintain medium-term objectives that ensure the sustainability of public finances”. In its Opinion on Council Regulation 1467/97, the ECB “reiterates that the EDP needs to be both credible and effective as a safeguard against unsustainable public finances, maintaining a strict time frame”. The ECB also stressed that “a rigorous and consistent implementation of the surveillance procedures and of the EDP would be conducive to prudent fiscal policies”.

1 The initial SGP consisted of the following texts: (i) Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (the preventive arm); (ii) Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (the corrective arm); (iii) Resolution of the European Council on the Stability and Growth Pact, adopted in Amsterdam on 17 June 1997. These were later supplemented by a Code of Conduct on the content and format of stability and convergence programmes, the latest version of which was endorsed by the ECOFIN Council on 10 July 2001. The reformed SGP consists of the ECOFIN Council report of 20 March 2005, together with the European Council Resolution of June 1997, which the former updates and complements, and Council Regulations 1466/97 and 1467/97 as amended by Council Regulations 1055/2005 and 1056/2005, to take into account the substance of the ECOFIN Council report. The aforementioned Code of Conduct is also being updated.

strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies. Under the preventive arm, Member States submit stability or convergence programmes in which they detail their medium-term budgetary plans. Under the original SGP, Member States were required to pursue the medium-term objective of budgetary positions that were “close to balance or in surplus”. While Council Regulation 1466/97 did not prescribe the adjustment path towards this objective, the Eurogroup had agreed in October 2002 that all euro area Member States that had not achieved such positions should improve their underlying balances by at least 0.5% of GDP per annum.<sup>1</sup> The ECOFIN Council later clarified that this improvement should be measured by changes in the cyclically adjusted balance, while one-off measures should be considered on their own merits on a case-by-case basis.<sup>2</sup>

The reform makes various refinements to the SGP provisions concerning the setting of and progress towards safe medium-term budgetary positions.

#### **DEFINITION OF THE MEDIUM-TERM BUDGETARY OBJECTIVE**

Each Member State will present its own country-specific medium-term objective (MTO) in its stability or convergence programme, which will then be assessed by the ECOFIN Council. These country-specific MTOs will be differentiated and may diverge from the close to balance or in surplus requirement depending on the current debt ratio and potential growth. Implicit liabilities should also be taken into account as soon as criteria and modalities for doing so have been established. The MTOs should pursue a triple aim; namely, to preserve a safety margin with respect to the 3% of GDP reference value for the government deficit ratio, ensure rapid progress towards sustainable public finances and, taking this into account, allow room for budgetary manoeuvre, in particular so as to accommodate public investment needs. For euro area and ERM II Member States, the range of country-

specific MTOs will be, in cyclically adjusted terms and net of one-off and temporary measures, between -1% of GDP and “in balance or surplus”. MTOs will be revised when a major structural reform is implemented and, in any case, every four years.

#### **ADJUSTMENT PATH TO THE MEDIUM-TERM OBJECTIVE**

Member States that have not yet achieved their MTO should undertake consolidation efforts to do so. The adjustment effort should be greater in good times and could be more limited in bad times. Good times are defined as “periods where output exceeds its potential level, taking into account tax elasticities”. As a benchmark, the euro area and ERM II Member States should pursue an annual adjustment in cyclically adjusted terms, net of one-off and temporary measures, of 0.5% of GDP. Member States that do not follow the required adjustment path should explain the reasons for the deviation in the annual updates of their stability and convergence programmes. The Commission should issue “policy advice” to encourage Member States to adhere to their adjustment path.

#### **STRUCTURAL REFORMS**

When defining the adjustment path towards the MTO or allowing Member States to deviate temporarily from the MTO if they have already reached it, the implementation of major structural reforms will be taken into account. However, only reforms which have direct long-term cost-saving effects, including by raising potential growth, and therefore a verifiable positive impact on the long-term sustainability of public finances, will be taken into account. Furthermore, a safety margin with respect to the 3% reference value must be preserved, and the budgetary position will be expected to return to the MTO within the programme period. Special attention will be paid to pension reforms introducing multi-pillar

1 See Eurogroup terms of reference of 7 October 2002 on budgetary developments in the euro area.

2 See ECOFIN Council report of 7 March 2003 on strengthening the coordination of budgetary policies.

systems that include a mandatory, fully funded pillar. Member States implementing such reforms will be allowed to deviate from the adjustment path to their MTO or from the MTO itself, with the deviation reflecting the net cost of the reform to the publicly managed pillar, provided the deviation remains temporary and that an appropriate safety margin with respect to the 3% of GDP reference value for the government deficit ratio is preserved.

### CHANGES UNDER THE CORRECTIVE ARM

The corrective arm of the SGP is governed by Article 104 of the Treaty and by Council Regulation 1467/97 (now amended by Council Regulation 1056/2005) on speeding up and clarifying the EDP. The early stages of the procedure concern the identification of excessive deficits. The procedure is triggered by the preparation of a Commission report (under Article 104(3)) when a government deficit exceeds the reference value of 3% of GDP. It can also be initiated if the debt-to-GDP ratio exceeds the reference value of 60% and is not “sufficiently diminishing and approaching the reference value at a satisfactory pace”. However, the Treaty also provides for deficit ratios above 3% to be considered not “excessive”, as long as the breach is small, temporary and due to exceptional circumstances.

When the ECOFIN Council decides (under Article 104(6)) that an excessive deficit exists, the procedure provides for a sequence of steps to be taken that should intensify the pressure on the Member State concerned to take effective action to correct its excessive deficit. For each step, the ECOFIN Council adopts the necessary legal acts on the basis of recommendations by the Commission. The process begins with a recommendation from the ECOFIN Council (under Article 104(7)) to the Member State in question to take measures to bring the excessive deficit situation to an end. Compliance with the Council’s recommendation is then monitored and, if action is not taken or is not effective, the

Member State shall be given “notice” (under Article 104(9)) to take measures to remedy the situation. Failure to comply with the notice should, as a rule, lead to the imposition of sanctions (under Article 104(11)), including the requirement for the Member State concerned to make a non-interest bearing deposit, which, if non-compliance persists, is eventually turned into a fine.

Under the reform of the SGP, a number of elements in the EDP have been changed.

### NEW DEFINITION OF “SEVERE ECONOMIC DOWNTURN”

Under the original SGP, a government deficit ratio in excess of the 3% of GDP reference value could be considered “exceptional” if it resulted from a severe economic downturn, which was defined as a fall in annual real GDP of at least 2%. A fall of between 0.75% and 2% could also be considered exceptional in the light of further supporting evidence, in particular on the abruptness of the downturn or on the accumulated loss of output relative to past trends. Under the revised SGP, a severe economic downturn will now be defined as a negative annual real GDP growth rate or an accumulated loss of output during a protracted period of very low annual real GDP growth relative to potential growth.

### “OTHER RELEVANT FACTORS”

The Treaty (Article 104(3)) specifies that the Commission, in its report that constitutes the first step of an EDP, should take into account “all other relevant factors, including the medium-term economic and budgetary position of the Member State”. However, neither the Treaty nor the SGP elaborated further on what these other relevant factors might be. It has now been decided that relevant developments in the medium-term economic position include, in particular, potential growth, the prevailing cyclical conditions, the implementation of the Lisbon agenda and policies to foster research and development and innovation, while relevant developments in the medium-term budgetary position include, in particular, fiscal



consolidation efforts in good times, debt sustainability, public investment and the overall quality of public finances. Moreover, consideration should be given to any other factors which, in the opinion of the Member State concerned, are relevant to a comprehensive assessment of the excess over the reference value in qualitative terms. Special consideration will be given to budgetary efforts towards increasing or maintaining a high level of financial contributions to fostering international solidarity and achieving European policy goals, notably the unification of Europe, if they have a detrimental effect on the growth and fiscal burden of the Member State. When assessing whether or not a deficit above 3% of GDP is excessive, the other relevant factors shall be taken into account only if the government deficit remains close to the reference value and the excess over the reference value is temporary. If the ECOFIN Council has decided that an excessive deficit exists, the other relevant factors will be considered when issuing recommendations or notices to the Member State concerned.

#### **PENSION REFORMS**

For a Member State whose deficit exceeds but remains close to the 3% of GDP reference value, the Commission and the ECOFIN Council will also take into consideration the cost of a pension reform introducing a multi-pillar system that includes a mandatory, fully funded pillar. In particular, consideration will be given to the net cost of the reform to the publicly-managed pillar. This will be done in a degressive manner over a period of five years. Such reforms will also be taken into consideration when assessing whether an excessive deficit has been corrected and whether the deficit has declined substantially and continuously, reaching a level that comes close to the reference value.

#### **INCREASING THE FOCUS ON DEBT AND SUSTAINABILITY**

The debt surveillance framework should be strengthened by applying the concept of a

government debt ratio that is “sufficiently diminishing and approaching the reference value at a satisfactory pace” in qualitative terms, as well as by taking into account macroeconomic conditions and debt dynamics. For Member States with a debt ratio above the 60% of GDP reference value, the ECOFIN Council will formulate recommendations on debt dynamics in its opinions on the stability and convergence programmes.

#### **EXTENSION OF DEADLINES FOR THE CORRECTION OF EXCESSIVE DEFICITS**

The original SGP provided for the correction of an excessive deficit to be completed “in the year following its identification unless there are special circumstances”, but did not specify what these “special circumstances” might be. Following the reform, the initial deadline for correcting an excessive deficit should remain, as a rule, the “year after identification”. However, the setting of this deadline and consideration as to whether there are special circumstances justifying an extension by one year should take into account a balanced overall assessment of the “other relevant factors” mentioned above. Moreover, the initial deadline for correction should be set such that the Member State with an excessive deficit will have to achieve a minimum annual improvement in its cyclically adjusted balance of 0.5% of GDP as a benchmark, net of one-off and temporary measures. The initial deadline can be revised if an ECOFIN Council recommendation or a notice is reissued, which can happen if unexpected adverse economic events with major unfavourable budgetary effects occur, and if effective action has been taken in compliance with the earlier recommendation or the earlier notice.

#### **EXTENSION OF PROCEDURAL DEADLINES**

A number of procedural deadlines have also been extended. These include the deadline for the ECOFIN Council to issue its recommendation to the Member State in excessive deficit (extended from three to four months after the date on which the excessive deficit was reported), the deadline for effective

action in response to an ECOFIN Council recommendation (extended from four to six months), the deadline for the ECOFIN Council to issue a notice if it has established that no effective action has been taken in response to its recommendation (extended from one month to two months), and the deadline for taking effective action in response to a notice (extended from two to four months).

### GOVERNANCE

The Member States, the Commission and the ECOFIN Council each have distinct responsibilities as regards the implementation of the SGP and they all made specific commitments in this respect in the aforementioned European Council Resolution. Member States are responsible for the conduct of their own fiscal policies, but committed themselves to pursuing these policies in line with the objectives of the SGP and recommendations of the ECOFIN Council. The Commission has the exclusive right of initiative to submit recommendations for actions by the ECOFIN Council, and committed itself to exercise this right in a manner that facilitates a strict, timely and effective functioning of the SGP. Finally, the ECOFIN Council is ultimately responsible for enforcing the SGP and has a margin of discretion in doing so, but committed itself to a rigorous and timely implementation of all elements of the SGP.

Without changing this basic division of responsibilities, the reform of the SGP includes some suggestions for improving its governance. It calls for closer cooperation between Member States, the Commission and the ECOFIN Council, as well as for improved peer support and peer pressure. It also calls for the development of national budgetary rules, the continuity of budgetary targets when a new government takes office, and greater involvement of national parliaments. Furthermore, it stresses the importance of reliable macroeconomic forecasts and budgetary statistics.

## 3 ASSESSMENT FROM AN ECB PERSPECTIVE

### RATIONALE FOR FISCAL RULES IN EMU

The main rationale for constraining fiscal policies via rules lies in the temptation for governments to spend more than they can afford and pass the burden onto future taxpayers. If unchecked, this results in a deficit bias where high deficits lead to growing debt levels that can cast a permanent shadow over economic prospects. High deficits and debt result in higher long-term interest rates and lower private investment as they compete for private savings. This can lead to a permanent loss of output over the long run.

Fiscal policies can also have implications for the conduct of monetary policy. In particular, high deficits can give rise to demand and inflationary pressures, potentially forcing the monetary authority to keep short-term interest rates at a higher level than would otherwise be necessary. Fiscal policies may also undermine confidence in a stability-oriented monetary policy if private agents come to expect that excessive government borrowing will ultimately be financed through money creation, and thus adjust their inflation expectations accordingly.

In a monetary union among sovereign states, the deficit bias of fiscal policy is likely to be exacerbated. The adoption of a common currency eliminates the exchange rate risk and the associated interest rate risk premia among the participant countries, thus blunting the discipline normally exerted by financial markets on governments' fiscal behaviour. As national financial markets become more integrated, sovereign issuers can draw on a larger and more liquid currency area-wide capital market. A government that increases its deficit will be able to finance the additional expenditure more easily because the cost of the additional borrowing in terms of higher interest rates is, at least partly, spread across the entire currency area.<sup>3</sup>

<sup>3</sup> See the article entitled "Fiscal policy influences on macroeconomic stability and prices" in the April 2004 issue of the ECB's Monthly Bulletin.

Consequently, the spillover effects from deficit spending in one country on other countries are also greater in EMU, making the participant Member States' fiscal policies all the more a matter of common concern.

A further rationale for fiscal rules is to create room for fiscal policy to stabilise output and avoid pro-cyclical fiscal policies. In particular, the operation of automatic stabilisers, resulting from cyclical fluctuations of government revenue and expenditure which unfold in an "automatic" and timely manner over the course of the economic cycle, has proven to be effective in smoothing fluctuations in output and demand. In a monetary union, the importance of fiscal policy as an instrument for smoothing output fluctuations at the national level becomes even greater in view of the loss of national monetary policies. Euro area-wide interest rates cannot be geared to the national economic situation, whereas automatic stabilisers can help to offset any unduly contractive or expansionary effects on domestic demand.<sup>4</sup> However, if deficits and debt are high, the resultant further increase in the deficit may undermine confidence in the future soundness of public finances, which could prompt private agents to save more and thus offset the forces of automatic stabilisation.

The Treaty and the SGP provide a rules-based framework that is intended to achieve sustainable and stability-oriented fiscal policies. The preventive arm prescribes the path for sound fiscal policies around which automatic stabilisers can operate. The corrective arm is intended to prevent "gross policy errors" by deterring excessive deficits and requiring their prompt correction should they occur. In particular, the 3% ceiling for deficits should provide for a minimum level of fiscal discipline in EMU and therefore anchor expectations of sustainable public finances. Within these constraints, which are not only in the interest of the euro area as a whole but also of the individual Member States, the SGP is fully consistent with and does not restrict national sovereignty over fiscal policies.

## PRINCIPLES OF GOOD FISCAL RULES IN EMU

Fiscal rules are not unique to EMU. A number of countries both inside and outside the EU have adopted a variety of fiscal rules. As more and more experience has been gained in the implementation of fiscal rules, important lessons can be drawn as to the principles according to which they should operate if they are to be effective. Fiscal rules must be founded on sound economic reasoning. In particular, they must be adequate in the sense that they satisfy the objectives they are intended to achieve and should be consistent with the broader economic policy framework. They should also be flexible enough to allow for appropriate policy responses to exceptional events outside the control of governments. Fiscal rules that are inconsistent with rational economic policy choices are unlikely to garner sufficient public support and political commitment to be viable in the long run.

At the same time, fiscal rules need to be clear and enforceable. This requires transparency and a sufficient degree of simplicity. Compliance with the rules must be relatively easy to monitor if they are to serve as an effective disciplining device. Accounting and measurement must be reliable. Non-compliance also needs to entail sufficiently predictable and severe consequences if it is to be effectively deterred. In addition, fiscal rules should be readily understood, as this enhances incentives for sound fiscal policies stemming from the external discipline exercised by financial markets and the public at large. In the multilateral setting of EMU, the need to ensure equal treatment among Member States provides a further rationale for simple, clear and enforceable rules.

Obviously, the above principles often imply trade-offs. In particular, a greater degree of flexibility can be at the expense of simplicity and clarity. This can be seen clearly in the

<sup>4</sup> See the article entitled "The operation of automatic fiscal stabilisers in the euro area" in the April 2002 issue of the ECB's Monthly Bulletin.

original design of the SGP. The two main arms are intended to combine relatively flexible rules and “soft” procedures for fiscal surveillance under the preventive arm, with stricter rules and “harder” procedures where these are needed to define, deter and correct excessive deficits under the corrective arm. While the reform of the SGP has not fundamentally changed this “two-armed structure”, the relative emphasis with regard to the different principles that characterise good fiscal rules under the two arms has changed significantly.

### THE PREVENTIVE ARM: A MORE SOPHISTICATED APPROACH TO FISCAL SURVEILLANCE

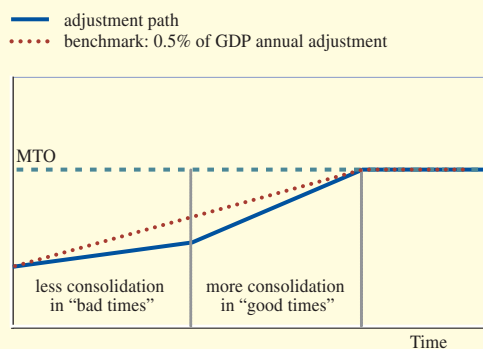
The changes to the preventive arm aim to address a number of criticisms of the original framework. These included disapproval of a “one size fits all” budgetary target for all Member States given differences in growth, debt and ageing-related challenges as well as the argument that incentives to conduct policies in a counter-cyclical and growth-friendly manner needed to be strengthened.

Changes in the definition of the appropriate medium-term policy objectives towards more country specificity are based on the reasoning that differences in potential growth, debt ratios and implicit liabilities call for different deficit targets. Moreover, the intention is to strengthen incentives for major structural reforms, which could result in the revision of MTOs towards less ambitious targets if such reforms strengthen the outlook for sustainability. The required path of adjustment towards the MTO has also been revised in a manner that should, in principle, discourage pro-cyclical fiscal policies and favour structural measures instead of one-off or temporary measures that do not have a beneficial long-term impact on public finances.

Chart 2 illustrates how the overall adjustment path and the variation of consolidation efforts in good and bad times could work in practice. The chart assumes a deviation from the MTO as

Chart 2 Adjustment path towards the MTO

(Budget balance adjusted for the impact of the cycle)



a starting-point and output is initially below potential (“bad times” defined as a negative output gap). Some consolidation would have to be undertaken but less than the 0.5% of GDP annual adjustment benchmark. Consolidation efforts would then have to be more substantial during the subsequent period when output rises above its long-run potential level (“good times” defined as a positive output gap). Assuming a symmetric occurrence of good and bad times as in Chart 2, and their accurate identification in real time, overall consolidation efforts would average those implied by the 0.5% benchmark, but fiscal policy would have been allowed greater freedom to fine tune consolidation efforts to the cyclical environment. Box 2 illustrates the implications for long-term debt dynamics of compliance with the MTO under the revised preventive arm.

A drawback of the more sophisticated approach to fiscal surveillance and coordination implied by these changes is the reliance on a number of concepts that generate problems of definition and measurement. In particular, uncertainties surrounding the measurement of unobservable variables such as potential output, output gaps and cyclically adjusted balances could make the assessment of compliance with consolidation requirements in good and bad times very difficult in practice. Experience

## IMPLICATIONS OF THE REFORM OF THE PREVENTIVE ARM FOR GOVERNMENT DEBT DYNAMICS – SOME SIMULATIONS

There are several ways of analysing the dynamics of the debt ratio. One of the simplest is to simulate the evolution of government debt depending on different potential growth rates and deficit assumptions. This helps to abstract from the short-run variations of debt owing to the business cycle, and to concentrate on long-term trends. The evolution of a country's debt ratio can be expressed by the following equation:

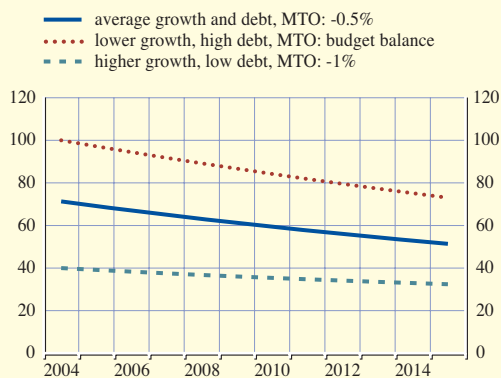
$$d_t = \frac{d_{t-1}}{1+y} + def_t$$

where  $d$  represents the debt-to-GDP ratio, which depends on  $y$ , the growth of nominal output,  $def$ , the deficit-to-GDP ratio, and its own past level.

This approach can be used to simulate the impact of compliance with the preventive arm of the SGP on debt. The level of the MTO, the initial debt ratio and the growth assumption affect the evolution of the debt ratio over time.<sup>1</sup> The chart illustrates how the debt ratio could develop in stylised scenarios that broadly cover the range of economic and fiscal situations across euro area countries. It shows that in a country characterised by high initial debt and low growth, even compliance with an MTO set at budget balance only leads to a slow decline of debt. In such a scenario, public debt would not reach the 60% threshold even within 15 years. A country with an initial debt ratio and economic growth that correspond to the average of the euro area in 2004 reaches a debt ratio below 60% after six years and falls to about 50% of GDP within 15 years, if it complies with an MTO of -0.5% of GDP. Finally, an MTO of -1% of GDP keeps the debt ratio broadly stable in a country starting with a low debt ratio and high growth. The main insight of these very simple simulations is that even continuous compliance with the MTO will drive down the debt ratio only rather slowly in high debt countries.

### Simulation of the effect of compliance with the MTO on government debt dynamics

(as a percentage of GDP)



<sup>1</sup> The simulation is based on a euro area nominal growth rate of 3.9% and a debt-to-GDP ratio of 71.3% in line with the Spring 2005 Economic Forecasts of the European Commission. High growth is defined as the euro area growth rate plus 1%, low growth as the euro area growth rate minus 1%. The debt ratio is assumed at 100% in a high debt country, at 71.3% in an average debt country and at 40% in a low debt country. The simulation also assumes an absence of deficit-debt adjustments.

has shown that negative output gaps tend to predominate in the ex ante assessment of countries' economic positions (times are rarely deemed to be good). There is hence a risk of seeing few instances of significant adjustment above 0.5% of GDP and more cases of adjustment plans falling short of this benchmark. Much will depend on the quality of the calculation of the underlying variables in real time.

Particular attention must be paid to the implementation difficulties associated with the increased differentiation across countries' MTOs and the more generous provisions for deviations from these objectives. More leeway to deviate from close to balance or in surplus budgetary positions means that safety margins with regard to the 3% of GDP reference value could be reduced, thus increasing the risk of excessive deficits. Significant measurement problems are also likely to arise when attempting to assess the budgetary costs and benefits of structural reforms. The precise quantitative effects of specific reforms are often difficult to estimate ex post, let alone ex ante. Moreover, there is no obvious trade-off between fiscal consolidation and structural reforms. On the contrary, the experience of a number of countries suggests that fiscal consolidation and structural reforms are best pursued in tandem as part of a comprehensive economic strategy.<sup>5</sup> In this context, structural reforms may even support demand and, in turn, public finances if they inspire confidence and induce favourable supply-side responses.

Overall, the more sophisticated approach to surveillance introduced by the reform has the potential to strengthen the preventive arm if the changes are accompanied by renewed commitment to comply with and enforce the rules. However, one must be particularly attentive to the potential loss of clarity and simplicity, which may render equal treatment more difficult and create potential for lax implementation.

### THE CORRECTIVE ARM: INCREASED FLEXIBILITY AND DISCRETION

While maintaining essential elements of the framework, such as the 3% and 60% reference values for deficit and debt, the reform of the SGP has introduced notable changes to the functioning of the corrective arm. A certain amount of flexibility and discretion was always inherent in the EU legal and institutional framework, on which the SGP is based. However, when first signing up to the SGP, the Member States, the Commission and the ECOFIN Council committed themselves to a strict enforcement of a clear and simple deficit limit. Such a commitment was considered necessary to bolster the credibility and the deterrence effect of the EDP. The reform of the corrective arm marks a move towards more flexible standards and a greater emphasis on discretion. Consequently, decisions in the context of the procedure may become less strict and more conditional on the judgement of the parties involved.

In principle, the new rules relax the conditions for enhanced surveillance under the EDP. The modification of the exceptional circumstances clause and the drawing up of a long list of "other relevant factors" increase the likelihood that deficits in excess of the reference value will not be considered excessive, even though it is understood that such breaches should remain small and temporary. In addition, the changes in the provisions allow for more leeway in the time frame for correcting excessive deficits, even if the "normal" deadline of two years ("the year after identification") remains. There is also now more room for granting additional time for correcting an excessive deficit.

The effect of these changes to the corrective arm will depend on their implementation. To illustrate this point, Box 3 describes hypothetical "rigorous" and "lax" scenarios

<sup>5</sup> See the article entitled "The need for comprehensive reforms to cope with population ageing" in the April 2003 issue of the ECB's Monthly Bulletin.

and the potentially very different implications of such scenarios for debt developments. In principle, the reform of the SGP does not impose a more lax implementation of the rules and procedures than in the past. However, it could facilitate such an outcome, which might imply higher, more frequent and/or more persistent deficits above 3% of GDP, thereby having an adverse effect on expectations of fiscal discipline and macroeconomic stability.

### Box 3

#### SCENARIOS FOR THE IMPLEMENTATION OF THE REVISED EXCESSIVE DEFICIT PROCEDURE AND IMPLICATIONS FOR GOVERNMENT DEBT

Chart A illustrates two scenarios for deficit developments following a breach of the 3% reference value. It should be stressed that these are not predictions but merely hypothetical scenarios intended to highlight the broad range of possible outcomes, and thus the importance of a rigorous application of the excessive deficit procedure (EDP) in the interest of fiscal prudence.

“Rigorous” scenario:

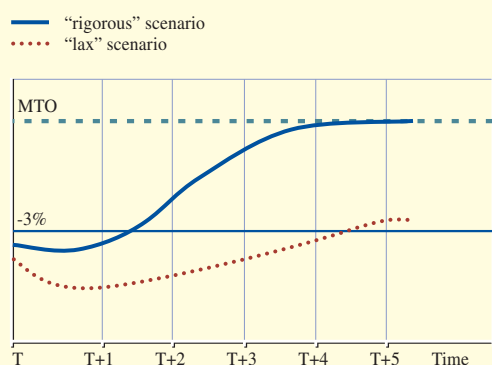
- In year T a Member State records a deficit in excess of the 3% reference value. This situation is observed in year T+1, and it is concluded that the excess is not due to exceptional circumstances; there are found to be no “other relevant factors” that explain the breach and there are no special circumstances to justify an extension of the deadline for correction. The ECOFIN Council therefore issues a recommendation to the Member State concerned to correct its excessive deficit in the year after its identification.
- The Member State adopts effective consolidation measures and complies with the recommendation, correcting its excessive deficit in year T+2.
- After correcting its excessive deficit, the Member State pursues an adjustment of its cyclically adjusted balance, net of temporary measures, of at least 0.5% of GDP per annum and achieves a close to balance budgetary position over the medium term, which is maintained thereafter.

“Lax scenario”:

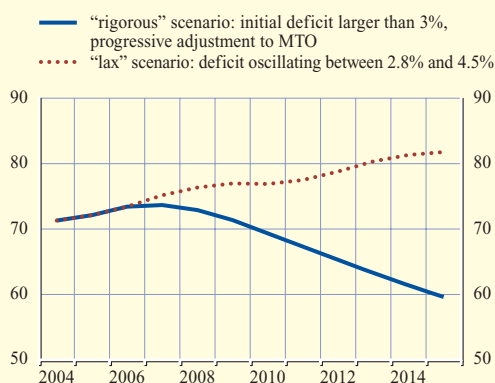
- In year T a Member State runs a deficit in excess of the 3% reference value. This fact is observed in year T+1 but it is concluded that the breach is only small and temporary and due to “other relevant factors”.
- In year T+1 the budgetary situation deteriorates further and in year T+2 it is decided that an excessive deficit exists. However, since an improvement of the cyclically adjusted balance by 0.5% of GDP now appears insufficient to correct the excessive deficit by the year after identification (year T+3), the ECOFIN Council considers that special circumstances exist and decides to extend the initial deadline to year T+4.
- The Member State fails to take effective action and the excessive deficit is not corrected in year T+4. The ECOFIN Council therefore issues a notice to the Member State to take measures to correct the situation in year T+5.
- The Member State complies with the notice, correcting its excessive deficit in year T+5. Sanctions are averted and the EDP is brought to an end.
- Thereafter, progress towards a sound medium-term budgetary position should be made in accordance with the prescribed adjustment path towards the medium-term objective (MTO). However, given the lack of an adequate safety margin, renewed breaches of the reference value cannot be excluded in the event of adverse economic and/or fiscal developments.

**Chart A Scenarios for the implementation of the EDP**

(as a percentage of GDP)

**Chart B Simulation of two behavioural scenarios under the EDP and their effect on government debt**

(as a percentage of GDP)



The implications of these two scenarios for debt dynamics are simulated in Chart B. In both scenarios, the starting-point corresponds to the average euro area debt-to-GDP ratio of 71.3% and the deficit initially exceeds 3% of GDP. Economic growth is assumed to remain at the euro area average throughout the simulation horizon. The lower line simulates the rigorous scenario. In this scenario, the debt ratio initially increases before falling below the starting value again after six years. The upper line simulates the lax scenario, following which renewed breaches and further lenient implementation imply a deficit that oscillates between just below 3% and some level above (here 4.5% of GDP). In this scenario, the debt ratio rises continuously. Many variations of this scenario are conceivable, where, for example, more ambitious consolidation could lead to lower debt ratios or, alternatively, debt dynamics could be more adverse if economic growth were to be lower than the euro area average and the deficit higher.

### GOVERNANCE: LITTLE INSTITUTIONAL CHANGE

The need to improve the governance of the SGP, including incentives to comply with and enforce the rules, has been widely recognised. One common criticism is that Member States may be reluctant to enforce the rules strictly because of the consequences this may have for future judgements on their own policies. A further criticism is that, under the current voting rules, a minority of countries (including countries in excessive deficit) can block the procedures and, thereby, render a strict implementation more difficult. The reform has not introduced any fundamental institutional changes in this respect.

There is, however, a new provision allowing the Commission to issue policy advice, while

much needed improvements to the institutional framework for statistical governance are also being considered and implemented outside the remit of the SGP reform. At the same time, in view of the dispersion of possible outcomes illustrated in Box 2, the increased sophistication of the new rules and the greater emphasis on discretion and economic judgement will certainly require increased cooperation and “peer pressure” in order to implement the procedures effectively.

A source of uncertainty pertains to the impact of the reform on compliance. On the one hand, by addressing certain criticisms and adopting rules that are easier to respect, the reform could strengthen political ownership and willingness to comply with the rules. On the other hand, the relative complexity of the



rules, the relaxed standards for determining the existence of an excessive deficit and the more remote prospect of sanctions are liable to reduce the reputation cost of unsound fiscal policies. Moreover, the increased complexity of the rules may also have implications for the monitoring of fiscal policies by financial markets and the general public.

#### 4 CHALLENGES FOR THE REFORMED STABILITY AND GROWTH PACT

The reform of the SGP has been concluded at a time when fiscal policies in the euro area are faced with considerable short and long-term challenges. Fiscal consolidation has stalled or has even gone into reverse in many euro area countries since 1999. The euro area as a whole has recorded deficits close to 3% of GDP for the past three years, reflecting significant or even severe budgetary imbalances in a number of member countries. These have persisted for a number of years and, in some cases, are becoming worse. Presently, five out of 12 euro area Member States are subject to EDPs. Only a small number of Member States have succeeded in achieving and maintaining close to balance or in surplus budgetary positions. Moreover, the euro area debt ratio has been rising and a growing number of countries have been breaching the 60% reference value in recent years (see table). Excessive deficits are a major factor behind these adverse debt developments. For a number of countries, however, low GDP growth, in some cases reflecting a decline in potential growth, has also had a negative impact on debt dynamics. The implication of this is that merely keeping deficits below the 3% of GDP reference value will not be sufficient to stabilise debt ratios, while regular breaches of the reference value clearly jeopardise fiscal sustainability.

The current outlook for fiscal policies suggests that further policy measures will be needed in many countries if they are to comply with the new framework. Most forecasts of fiscal policies, including the forecasts of the

Commission, project that current fiscal policies and plans will not be sufficient to correct the imbalances as required. The Member States presently in excessive deficit are at risk of failing to meet the deadlines for correction set by the ECOFIN Council. Moreover, few Member States would comply with the benchmark 0.5% adjustment path towards safe medium-term budgetary positions prescribed by the revised rules. Debt-to-GDP ratios continue to rise in most of the countries with levels currently above 60% and in only one of the countries with a debt-to-GDP ratio near 100% is the debt ratio on a clear downward trajectory.

Progress with debt reduction is becoming ever more urgent as the impact of population ageing on public finances will start to be felt within the next 10 to 20 years in most countries. Quantifications of this impact are highly uncertain as very long-term projections are acutely sensitive to the assumptions on which they are based. Nonetheless, work undertaken by the EU's Economic Policy Committee, in which representatives from all EU Member States, the Commission and the ECB participate, suggest that by 2050 the burden of ageing-related spending for the euro area as a whole could increase by around 5% of GDP. In some euro area countries, the increase could even be

**Euro area deficit and debt-to-GDP ratios in 2004**

(as a percentage of GDP)

	Deficit	Debt
Belgium	0.1	95.6
Germany	-3.7	66.0
Greece	-6.1	110.5
Spain	-0.3	48.9
France	-3.7	65.6
Ireland	1.3	29.9
Italy	-3.0	105.8
Luxembourg	-1.1	7.5
Netherlands	-2.5	55.7
Austria	-1.3	65.2
Portugal	-2.9	61.9
Finland	2.1	45.1
Euro area	-2.7	71.3

Source: European Commission, Economic Forecasts Spring 2005.

closer to or in excess of 10% of GDP. Rapidly reducing high debt ratios is crucial if such a burden is to be borne without the need for substantial and potentially disruptive budgetary adjustments. In a number of countries, debt reduction also needs to be complemented by comprehensive fiscal reforms. This will help to contain the cost of ageing-related spending and, more generally, to improve the quality of public finances and hence their contribution to stability and growth in the long run.

Over the medium to longer term, the success of the SGP reform will depend on whether it secures the underlying objective of sustainable fiscal policies that make an effective contribution to growth, stability and cohesion in the euro area. To this end, the revised fiscal framework must provide the right incentives for fiscal policies that reverse the current trend of high deficits and rising debt, and deliver a convergence of debt ratios to more moderate levels.

The implementation of EDP and fiscal surveillance in the coming months will serve as a first test of the new framework's effectiveness. A timely correction of existing excessive deficits and renewed progress towards achieving sound medium-term budgetary positions should be of the highest priority. Especially if pursued as part of a comprehensive economic reform strategy, ambitious and credible fiscal consolidation would provide an important boost to business and consumer confidence.

The reform of the SGP creates an opportunity for renewed commitment to the conduct and enforcement of sound fiscal policies that meet both shorter and longer-term budgetary challenges. A rigorous and consistent implementation of the revised rules is needed to underpin the credibility of the EU fiscal framework and confidence in prudent fiscal policies.





# THE ROLE OF “EMERGING ASIA” IN THE GLOBAL ECONOMY

*Over the last fifteen years, the economies of “Emerging Asia”<sup>1</sup> have developed rapidly, outpacing the rest of the world in terms of both output and export growth. In doing so, these economies have made a significant contribution to the increase in economic activity and international trade worldwide. Along the way, the region’s economic structure and trade and investment patterns have undergone considerable transformation. Enhanced intra-regional specialisation has facilitated greater flows of trade and investment across the region. The rise of Emerging Asia in the world economy has been supported by strong competitiveness stemming from various sources. Of particular note is the emergence of China and, to a lesser extent, India. China has recorded the fastest output and export growth rates over the last 15 years and is playing an increasingly prominent role as a regional and world growth engine.*

*Emerging Asia has attracted the largest share of foreign direct investment (FDI) of any emerging market region and substantial portfolio and cross-border bank inflows. These inflows, together with increasingly large current account surpluses, have led to unparalleled growth in foreign exchange reserve accumulation in recent years.*

## I INTRODUCTION

The economic performance of “Emerging Asia” over recent years, with its growing share of world real output and trade, has been outstanding. Rapid structural change has accompanied the development process in all of its economies. These changes have, in turn, been closely related to processes of market integration at both the regional and global level. Surprisingly, the Asian financial crisis of 1997-98 did not have a long-lasting negative effect on the region’s real output and export growth, as the strength of the subsequent recovery demonstrated. Moreover, financing flows to Emerging Asia increased gradually, but steadily, following the crisis and were soon once again ahead of those to all other emerging market regions. In recent years, Emerging Asia has also become an important trading partner of the euro area, currently accounting for about 15% of the euro area’s foreign demand and about 18% of its imports. It has also attracted an increasing amount of FDI flows originating in euro area countries. The rapid growth of China has played a key role in the region’s dynamism. China’s economy has now become one of the strongest engines of regional and world growth and the most important destination for FDI flows to emerging markets.

This article provides an overview of the increasing role of Emerging Asia in the global economy over the last fifteen years. Section 2 highlights the contribution of the region to global economic activity and international trade. Section 3 looks at Emerging Asia in terms of global capital flows, describing the region’s current account positions and financial flows. Section 4 analyses the process of regional integration and regionalisation of economic activity across the economies of Emerging Asia, highlighting the important role that China has come to play in this process. Section 5 concludes.

## 2 EMERGING ASIA’S ROLE IN ECONOMIC ACTIVITY AND WORLD TRADE

The rise of the region as a global player has been accompanied by a significant transformation of its economies. Growing levels of per capita real incomes have resulted, to differing degrees, from a rapid absorption of workers into the industrial and service sectors, an increasingly educated labour force, rapid capital accumulation and technological upgrading to improve the efficiency of

<sup>1</sup> This article defines “Emerging Asia” as comprising the economies of China, Hong Kong, India, Korea, Taiwan and the ASEAN-5 countries of Indonesia, Malaysia, Philippines, Singapore and Thailand.

**Table 1 Per capita income<sup>1)</sup> in the economies of Emerging Asia**

(USD; PPP-adjusted)

	current USD			constant USD 1995 = 100		
	1980	1990	2003	1980	1990	2002
China	220	320	1,100	708	1,482	4,054
Hong Kong	5,780	12,520	25,860	11,068	18,274	23,833
India	270	390	540	1,083	1,564	2,365
Korea	1,760	5,740	12,030	4,197	8,389	15,009
Taiwan <sup>2)</sup>	2,345	8,106	13,162	3,996	9,151	11,437
ASEAN-5						
Indonesia	500	620	810	1,346	2,087	2,857
Malaysia	1,830	2,380	3,880	3,730	5,079	8,080
Philippines	690	740	1,080	3,830	3,574	3,694
Singapore	4,830	11,840	21,230	8,926	13,435	21,296
Thailand	720	1,520	2,190	2,291	4,116	6,208

Sources: World Bank World Development Indicators and Asian Development Bank Key Indicators.

1) Unless otherwise indicated, per capita Gross National Income (GNI) estimated according to World Bank Atlas method of converting data in national currency to current US dollars.

2) ECB calculations.

resources. From a longer-term perspective, per capita income has risen considerably since 1990 (see Table 1). Looking at the per capita income in current US dollars, three distinct groups of economies can be readily identified: i) the richer city states of Hong Kong and Singapore, with per capita incomes exceeding USD 20,000 in 2002; ii) the maturing economies of Korea and Taiwan, with per capita incomes of some USD 10,000-15,000; and iii) the remaining economies, with per capita incomes of USD 4,000 or less. It is worth noting that, within this last group, India still has the lowest per capita income levels in both current and constant US dollar terms, despite its rapid economic growth in recent years.

The growth performance of Emerging Asia over the last fifteen years has been remarkable. During this period its economies have expanded at a faster pace than the world average, thereby increasing their share in global GDP from around 15% in 1990 to 25% in 2004 (see Table 2). Around three-quarters of this increase can be attributed to the Chinese economy, whose share in world output rose from 5.9% to 13.5% over the same period. India and the ASEAN-5 sub-region also increased their share in global real GDP, from 3.6% and

2.8% in 1990 to 4.9% and 3.7% in 2004 respectively. This growth performance took place in a rather sustained fashion, while the Asian crisis of 1997-98 had no long-lasting effect on the region.

Emerging Asia's economic performance has been export-driven. The region's share of total world exports rose from some 13% to over 21% between 1990 and 2004 (see Table 2). Around 60% of this increase stems from the growth of exports from China, now the world's third largest exporter (the euro area and the United States are the two largest).

Although India's exports still account for less than 1% of total world exports, an important feature in its case is the growth in exports of services as opposed to goods. Exports of services grew to account for 5.5% of nominal GDP and 33% of total exports of goods and services in 2004, compared with 1.5% and 20% respectively in 1990. Most of this growth can be accounted for by the outsourcing of international business operations by multinational information technology and telecommunications firms. These firms have sought to take advantage of India's relatively large, low-cost pool of highly skilled IT and

**Table 2 Emerging Asia’s share in world real GDP and exports**

(as a percentage of world total; PPP-adjusted)

	Share in world real GDP				Share in world exports			
	1990	1995	2000	2004	1990	1995	2000	2004
<b>Emerging Asia</b>	<b>14.8</b>	<b>20.2</b>	<b>22.6</b>	<b>25.1</b>	<b>12.9</b>	<b>17.9</b>	<b>19.1</b>	<b>21.3</b>
China	5.9	9.3	11.5	13.5	1.9	2.9	3.9	6.9
Hong Kong	0.4	0.4	0.4	0.4	2.4	3.4	3.2	2.9
India	3.6	4.1	4.6	4.9	0.5	0.6	0.7	0.9
Korea	1.4	1.8	1.5	1.6	2.0	2.6	2.7	2.7
Taiwan	0.8	1.0	1.0	1.0	2.0 <sup>1)</sup>	2.2 <sup>1)</sup>	2.3 <sup>1)</sup>	1.9 <sup>1)</sup>
ASEAN-5	2.8	3.6	3.5	3.7	4.1	6.1	6.4	6.0
Indonesia	0.3	0.4	0.5	0.5	0.8	0.9	1.0	0.8
Malaysia	0.2	0.2	0.3	0.2	0.9	1.5	1.5	1.5
Philippines	0.2	0.2	0.2	0.2	0.2	0.3	0.6	0.5
Singapore	1.3	1.6	1.7	1.8	1.6	2.3	2.2	2.0
Thailand	0.8	1.1	0.9	0.9	0.7	1.1	1.1	1.1

Sources: IMF World Economic Outlook and Direction of Trade Statistics (unless otherwise stated).

1) Data supplied by Taiwan’s Ministry of Finance.

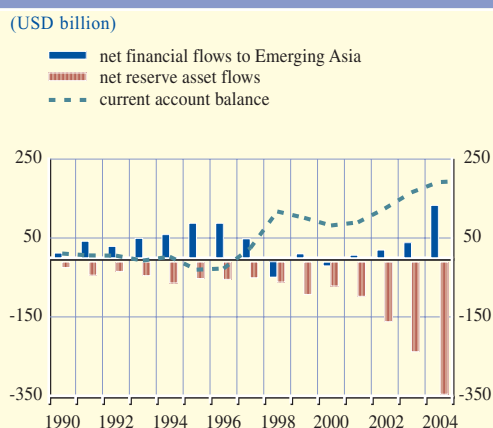
technical graduates, who are proficient in English. Despite their rapid growth in recent years, the IT and offshoring industries in India remain a relatively small part of the economy. In 2003 they accounted for around 4.5% of nominal GDP and employed approximately one million workers out of a total labour force of 482 million.

Emerging Asia’s imports have also increased very rapidly since the 1990s. The region’s demand for energy and non-energy commodities has, in particular, experienced a marked increase, and China has now become the second largest energy consumer in the world. In China, although coal continues to be the main energy source for producing electricity (the country accounts for 42% of global coal consumption), a rapid shift towards crude oil has been taking place. As a result, its crude oil consumption has tripled since 1985 (250 million tons in 2004) and its payments for net imports of crude oil – which currently account for 2.4% of GDP – have increased eightfold, turning the country into the third largest crude oil importer in the world. According to the International Energy Agency, since 2002 almost 40% of the increase in global oil demand is attributable to China, with its resultant considerable impact on global oil

prices recently. China’s demand has also been very strong for steel and all base metals traded in global markets. By 2003, the country had accounted for a significant share of global demand for iron ore (34%), steel (27%), copper (20%), aluminium (19%) and nickel (10%), while, over the past three years, it has been responsible for over 50% of the growth in global demand for all of these metals.

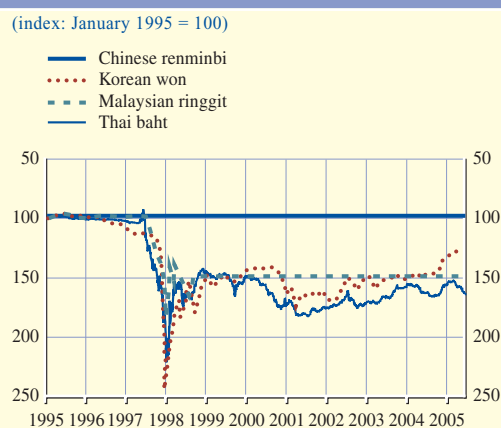
Emerging Asia’s exceptional performance in terms of GDP growth and export growth is associated with efficiency gains derived from a process of increasing regionalisation of production (see Section 4). This process has contributed to a considerable rise in the importance of intra-regional trade among its economies, whose share of total trade has increased by some 10-20% over the last fifteen years. Turning to Emerging Asia’s bilateral trade balances with the world’s three largest economies, the region’s total surplus vis-à-vis the euro area amounted to some 10% of its total bilateral trade in 2003, compared with a position close to balance in 1990. Over the same period, Emerging Asia’s trade deficit vis-à-vis Japan declined slightly from 10.1% to 8.8%, while its surplus with the United States rose from 7.4% to 15.9% of total bilateral trade.

**Chart 1 Selected items of Emerging Asia's balance of payments**



Sources: IMF World Economic Outlook and ECB calculations.  
 Note: A negative value indicates an increase in net reserve assets.

**Chart 2 US dollar exchange rates vis-à-vis selected currencies of Emerging Asia**



Source: Bloomberg.

### 3 GLOBAL CAPITAL FLOWS AND EMERGING ASIA

Since the early 1990s, Emerging Asia has attracted very large net financial flows, mainly in the form of foreign direct investment (FDI), as well as considerable portfolio inflows and cross-border bank lending flows. These financing inflows experienced a boom between 1992 and 1996 as a result of the combination of very strong regional growth in an environment of low interest rates in a number of industrialised countries and the opening up of the Chinese economy (see Chart 1). This initial cycle came to an abrupt end with the Asian financial crisis, when, in 1998, the region experienced a net outflow of USD 50 billion. Since 2001, net financial inflows to Emerging Asia have gradually re-emerged and, in 2004, accounted for almost one-half of the total net financing flows to emerging markets.

Before the financial crisis, Emerging Asia recorded close-to-balance current accounts and net financial inflows. This was in line with the pattern of growth explained by standard economic theory, which predicts that developing countries need to become net

importers of capital to finance investment rates higher than their savings.

Since the crisis, however, most countries in Emerging Asia have reported increasingly large current account surpluses due to several factors. First, a boom in exports favoured by the large nominal and real depreciation of most Asian currencies in the aftermath of the crisis, and increased global demand for Asian exports, especially for those related to information technology. Since the crisis, most of the region's exchange rates vis-à-vis the US dollar have remained well below their pre-1997 levels, despite the rising current account surpluses (see Chart 2). This has allowed the region's economies to retain a substantial competitive advantage, especially given that most of the exports from Emerging Asia – and even exports to countries other than the United States – are invoiced in US dollars. Real effective exchange rates have also remained below pre-crisis levels in all of the countries except China and India (see Table 3). Second, a sharp decline in domestic investment rates in the aftermath of the crisis, combined with stable and high saving rates, led to large current account surpluses. An additional factor over the last few years has been that many countries

**Table 3 Real effective exchange rates in Emerging Asia**(index: 1990 = 100)<sup>1)</sup>

	1996	2000	2004
China	84.5	92.2	88.7
Hong Kong	133.8	144.0	114.7
India	77.1	78.0	77.9
Korea	98.7	84.7	84.2
Taiwan	95.4	91.2	75.6
ASEAN-5			
Indonesia <sup>2)</sup>	101.6	70.0	79.8
Malaysia	106.1	87.6	80.5
Philippines	113.5	87.7	88.6
Singapore	117.6	105.6	96.2
Thailand	107.2	85.7	80.9

Sources: BIS and IMF International Financial Statistics (unless otherwise stated).

1) An increase (decrease) in the value of this variable implies a real exchange rate appreciation (depreciation).

2) Data supplied by JP Morgan.

in the region have also benefited from China's rising demand for capital goods and commodities and have seen their trade surpluses with this country increase substantially as a result.

Large current account surpluses in Emerging Asia are, of course, the mirror image of deficits in other economies and may call for adjustment in the future. Current account surpluses also reflect excess domestic savings over domestic investment needs. Indeed, saving rates in Emerging Asia are among the highest in the world and, according to IMF data, grew from 31% of nominal GDP in 2000 to almost 37% in 2004, while the share of savings in the United States decreased from 18% to 14% over the same period. Most of Emerging Asia's increased saving rate has been accounted for by China, where savings grew from 38% of nominal GDP in 2000 to 50% in 2004.

In addition to structural factors, the region's export performance has partly responded to developments in the real effective exchange rate (REER) of the region's currencies over the last fifteen years. In most of the economies in Emerging Asia, the REER has fallen (see Table 3). The extent of the real depreciation varies, nonetheless, across

countries and ranges from 10% to 25%. The weakening of the currencies was already evident in non-ASEAN-5 countries in the mid-1990s, when China decided to abandon its dual exchange rate regime. However, the magnitude of these real depreciations increased during and after the period of the Asian financial crisis in 1997-98. Although the Chinese and Indian currencies did not experience significant nominal depreciations during the crisis, they too have undergone sizeable real depreciations over the past fifteen years. In fact, since 1990, the REER of China's and India's currencies has depreciated by 11.3% and 22.1% respectively.

The combination of current account surpluses and net financing inflows has led to most of the region's currencies being subjected to appreciation pressures, which have at times been countered by substantial official foreign exchange interventions. The result has been an unprecedented increase in foreign exchange reserve accumulation across Emerging Asia, from USD 695 billion in 2000 to USD 1.6 trillion in 2004, which is equivalent to more than 40% of the total global reserves held by central banks. As the official reserves have been largely reinvested abroad, Emerging Asia has, in fact, turned into a net exporter of capital for the rest of the world, despite the high net private inflows into the region (see Chart 1).

Among emerging markets, seven of the current top ten holders of foreign exchange reserves are Asian economies (see Table 4). The three main holders in Emerging Asia (China, Taiwan and Korea) currently hold enough reserves to cover more than ten months of imports and well in excess of 100% of their external short-term debt.

With respect to the composition of private net financing inflows to Emerging Asia, FDI inflows have been largely dominated by flows to China, which have, on average, accounted for 66% of the total net FDI inflows to Emerging Asia since 1990. Despite this high degree of concentration, FDI flows to many of



**Table 4 Foreign exchange reserves in emerging market economies**

(net of gold, SDR and reserve position at the IMF; end-of-period holdings; USD billion)

	1995	1997	1998	2000	2002	2003	2004
China	74	140	145	166	286	403	610
Taiwan	90	84	90	107	162	207	242
Korea	32	20	52	96	121	155	199
Russia	14	13	8	24	44	73	104
India	17	24	27	37	67	98	125
Hong Kong	55	93	90	108	112	118	124
Singapore	69	71	75	80	82	96	113
Malaysia	23	20	25	29	33	44	58
Mexico	16	27	30	36	46	56	61
Brazil	52	52	45	33	38	47	54
<b>Remaining economies of Emerging Asia</b>							
Thailand	35	26	28	32	38	41	48
Indonesia	13	16	22	28	31	35	35
Philippines	6	7	9	13	13	14	13
<b>Total holdings of Emerging Asia</b>	<b>414</b>	<b>501</b>	<b>563</b>	<b>695</b>	<b>946</b>	<b>1,211</b>	<b>1,567</b>
as a percentage of global reserves	30	31	35	36	40	40	42
Pro memoria:							
Global reserves	1,367	1,594	1,626	1,910	2,388	3,005	3,695
GDP of Emerging Asia	2,614	2,962	2,572	3,070	3,341	3,696	4,193
as a percentage of world GDP	9	10	9	10	10	10	10

Sources: IMF International Financial Statistics and World Economic Outlook and ECB calculations.

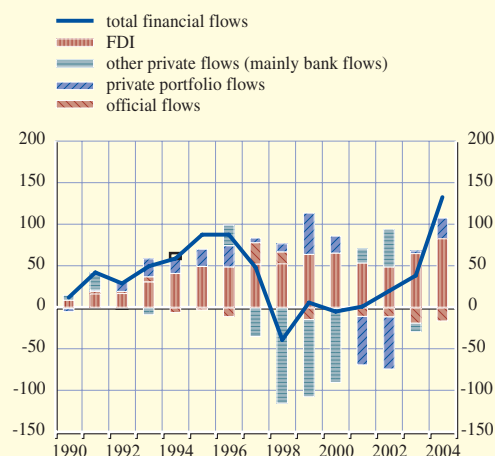
the other fast growing economies, such as Singapore, Thailand, Malaysia and India, have also increased considerably. Interestingly, some of the more industrialised economies, such as Taiwan and Korea, have also been providers of FDI capital to less developed economies in the region. Furthermore, following the loss of competitiveness resulting from the various periods of rapid yen appreciation in the 1980s and 1990s, Japan has also become a major provider of FDI to the region. Contrary to portfolio inflows, FDI flows remained relatively stable during the 1997-98 Asian crisis and began to increase again soon after (see Chart 3).

Portfolio inflows and cross-border bank lending have been an important source of funding in Asian economies, with the exception of China. Portfolio inflows have been especially important in India and Korea, where, on an annual net basis, they have averaged USD 3.1 billion and USD 7.9 billion respectively since 1990. In both cases, a considerable amount of these flows has stemmed from privatisation drives and the

acquisition of large quantities of shares in private domestic companies by overseas investors. In Korea, for example, purchases of shares in domestic private companies by non-

**Chart 3 Composition of financial flows in Emerging Asia**

(USD billion)



Source: IMF World Economic Outlook.

residents experienced a boom after the Asian crisis, as a result of the liberalisation of the foreign ownership laws.

Cross-border bank lending, statistically referred to mainly by the item “other private (capital) flows” (see Chart 3), was particularly important for Thailand, Indonesia, India and Korea, before the Asian crisis. However, this type of inflow was the one that was most negatively affected by the reversal of financial flows between 1997 and 1998. Flows under this category recorded an outflow of over USD 200 billion in the three years after 1997 and have only recently begun to return to their pre-crisis levels.

#### 4 REGIONAL INTEGRATION IN EMERGING ASIA

The process of regional economic integration in Asia has been ongoing for a number of decades, but over the past decade it has accelerated with the emergence of China as a major global economic player. Throughout much of the 1980s, Japan was the driving force behind regional economic integration, as Japanese corporations undertook a large-scale relocation of manufacturing investment to the rest of Asia – especially the South-East and, later, China. A key motivation behind this process was for Japan to safeguard its cost competitiveness, following a strong yen appreciation and rising domestic real wages

and land prices in the 1980s. Other maturing economies, such as Taiwan, Korea and Hong Kong, followed the example of Japan in relocating increasing parts of their production processes to South-East Asia and, in particular, China.

As a result, one of the key factors explaining the rapid pace of integration and growth in Emerging Asia has been the deepening of intra-regional trade, which currently accounts for over one-half of the region’s total trade. A major feature distinguishing intra-regional trade in Asia is the fact that it has largely taken the form of intra-industry trade, particularly within the electronics, electrical machinery and telecommunications industries. Trade in machinery and transport equipment currently accounts for around one-half of all imports and exports in most of the economies of Emerging Asia (see Table 5). Moreover, most of this trade involves electronics or telecommunications-related goods, such as office machinery and automated data processing machines, telecom equipment and electrical machinery.

An additional, important feature of the regional integration process is that intra-regional FDI flows account for a substantial – and in some countries for the largest – share of total FDI inflows. In the case of the ASEAN countries, around 35% of FDI inflows come from Japan, Taiwan, Korea, Hong Kong and other ASEAN countries. In Taiwan, around 33% of

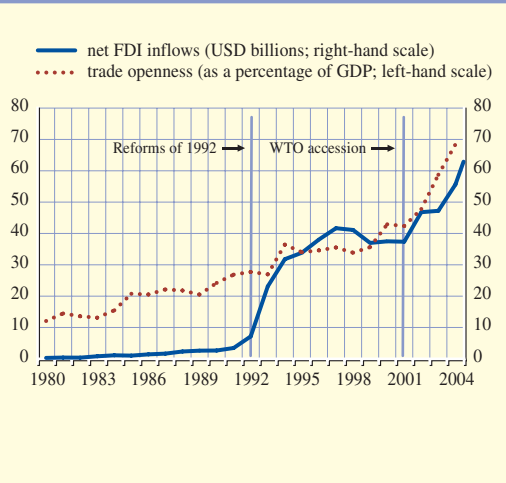
Table 5 Percentage share of total trade of Asian economies by SITC classification

	Exports: machinery and transport equipment	Imports: machinery and transport equipment	Exports: electronic and telecom goods	Imports: electronic and telecom goods
China	45	45	36	29
Hong Kong	50	51	45	44
Taiwan	52	42	41	28
Korea	63	34	37	22
Singapore	61	59	51	40
Malaysia	54	58	50	45
Indonesia	16	26	13	6

Source: CEIC.

Note: All data shown is for 2004. Data for India, Philippines and Thailand are not available.

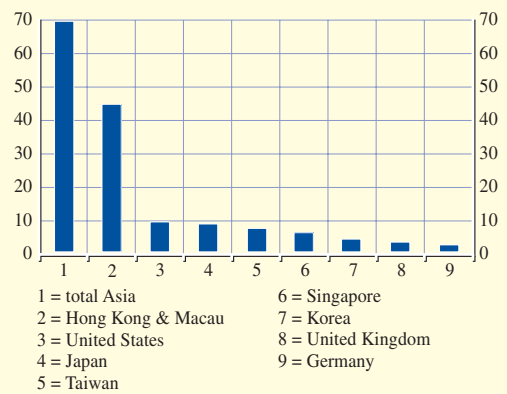
**Chart 4 Evolution of China's trade openness and net FDI inflows**



Source: IMF World Economic Outlook.  
 Note: Trade openness is calculated as the sum of imports and exports of goods and services, as a percentage of GDP.

**Chart 5 Cumulative FDI inflows to China by source (1995-2001)**

(as a percentage of total)



Source: National Bureau of Statistics Statistical Yearbook of China.  
 Note: Emerging Asia economies shown are those for which data is available.

FDI inflows come from other Asian economies, while in Korea they account for 12%. In many cases, these flows have been closely linked to the regional intra-industry electronics trade.

The combination of intra-regional FDI with the intra-regional trade in electronic and telecommunications goods has emerged mainly as a result of the coexistence of economies within the same region that are at very different stages of development. Firms belonging to the most mature economies in the region (namely Japan, Korea and Taiwan), which have themselves been major global players in ICT-related industries for many years, have relocated in increasing numbers the most labour-intensive stages of production of these industries to developing economies, such as China and the ASEAN countries.

China is playing a central role in the current acceleration of regional growth and economic integration in Asia. According to IMF figures, China is currently the third largest importer and exporter in the world and accounts for over one-half of all FDI to emerging market economies. Total trade rose from just 12% of GDP in 1980 to over 60% in 2004, while

FDI inflows grew from USD 300 million to USD 56 billion over the same period.

One-half of China's exports is accounted for by foreign-funded enterprises. Similarly, one-half of its exports are imports that are reprocessed for export. Given this close interrelationship between trade and FDI, it is not surprising that both indicators received a major boost in 1992 with the liberalisation of foreign investment regulations, and again after 2001 when China entered the World Trade Organisation (see Chart 4).

FDI inflows to China are concentrated in manufacturing and almost 70% is attributable to other Asian economies (see Chart 5), chiefly, in order of importance, Hong Kong, Japan, Taiwan, Singapore and Korea.

The more mature neighbouring economies of Japan, Korea and Taiwan have also benefited significantly from China's demand for intermediate and capital goods. Their trade with China has increased rapidly to the point where China has now become the second largest trading partner of Korea and Japan, and Taiwan's first. These economies have managed

to compensate for the rise in low-cost Chinese labour-intensive imports into their markets by increasing their own exports of higher value added goods even faster. As a result, they have posted large trade surpluses vis-à-vis China.

## 5 CONCLUSION

The performance of the economies of Emerging Asia has been outstanding over the last fifteen years and, as a result, their shares in world real output and exports have increased. Emerging Asia’s impressive export growth has been supported by both extra-regional and intra-regional trade. The use of China as a low-cost export platform by other Asian countries partly explains the rise of intra-regional FDI and the rapid growth of Chinese exports to the rest of the world, but it has also created demand for higher value added imports of intermediate goods from the rest of Asia. The interaction of intra-regional FDI and intra-industry trade has given rise to what can be called an “Asian production chain”, where different countries in the region have taken advantage of their diverse stages of development and comparative advantages to increase their growth potential.

These developments have gone hand in hand, over the past five years, with current account surpluses and net financing inflows that have led to appreciation pressures on most of the currencies of the region and that have at times been countered by substantial official foreign exchange interventions. The result has been an unprecedented increase in foreign exchange reserve accumulation across Asia, with the region currently accounting for more than 40% of total global foreign exchange reserves held by central banks. As the official reserves have largely been reinvested outside the region, Emerging Asia has turned into a net exporter of capital for the rest of the world, despite the high net private inflows to the region. Given the important economic weight of Emerging Asia, economic policy decisions taken in the region are having a growing impact on developments in the world economy.

Overall, there is no question that the outstanding growth performance of Emerging Asia over the last fifteen years has brought renewed dynamism to the world economy.





# THE EURO BANKNOTES: DEVELOPMENTS AND FUTURE CHALLENGES

Demand for euro banknotes and coins has, following their successful introduction in 2002, increased continuously in terms of both value and volume. Work has been conducted to continuously improve the areas of both banknote production and banknote issuance. A framework for the detection of counterfeits and fitness sorting by credit institutions and other professional cash handlers has been established. This contributes to ensuring the integrity and longevity of the euro banknotes in circulation and thus the public's trust in those banknotes. Furthermore, the ECB has established a Guideline on the future procurement of euro banknotes. This Guideline establishes a single Eurosystem tender procedure for the production of euro banknotes in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources.

With regard to developments in euro banknote counterfeiting, the public can be confident of the quality of the euro banknotes and their security features. The vast majority of counterfeit euro banknotes can be easily distinguished from genuine ones by using the simple "feel-look-tilt" test. Even well-made counterfeits can be detected by carefully applying this method. Looking further ahead, research and development continues to support the next series of euro banknotes, which is expected to be issued towards the end of the decade.

## I THE ISSUANCE OF EURO BANKNOTES AND THE CASH CYCLE

### DEVELOPMENTS IN EURO BANKNOTE CIRCULATION

Banknote demand has remained strong following the euro cash changeover in 2002. The average annual growth rate of the value of euro banknotes in circulation was 31.1% in 2003 and 19.0% in 2004. Moreover, growth in the period from January to June 2005 was at almost the same pace as in 2004, resulting in an average annual growth rate of 16.6% in the

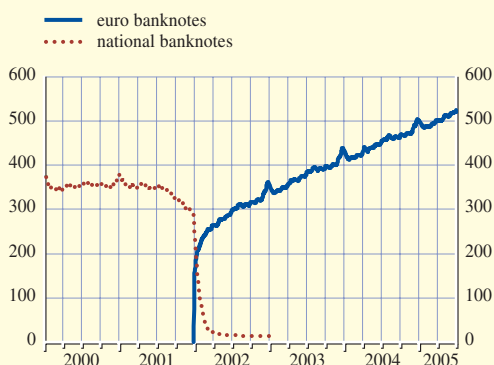
first six months of this year (see Chart 1). In absolute terms, the average monthly increase in the value of banknotes in circulation was €6.5 billion in 2003 and €5.4 billion in 2004.

Demand was strongest for the €500 and €50 banknotes, which accounted for more than three-quarters of the increase in circulation value in 2003 and 2004.

That strong demand is also reflected in the fact that the number of euro banknotes in circulation rose from 7.3 billion in June 2002 to 9.7 billion in June 2005, an increase of 32.9%

Chart 1 Total value of banknotes in circulation between 2000 and June 2005

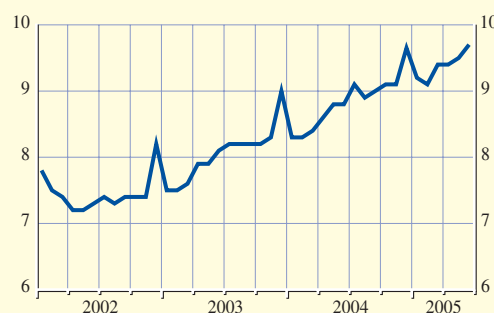
(EUR billions)



Source: ECB.

Chart 2 Total number of euro banknotes in circulation between 2002 and June 2005

(billions)



Source: ECB.

(see Chart 2). The average annual growth rate of the number of banknotes in circulation was 8.2% in 2003 and 10.1% in 2004. The average monthly increase in the number of banknotes in circulation was 69.4 million in 2003 and 51.1 million in 2004. With the number of banknotes in circulation growing more slowly than the value of those banknotes, the value of the average banknote in circulation increased from €43.7 at the end of 2002 to €54.0 at the end of June 2005.

In addition to withdrawing euro banknotes from the NCBs, credit institutions also regularly deposit surplus stocks with those NCBs. On the whole, the frequency with which euro banknotes are returned to the NCBs has remained fairly stable since 2003. Between January 2002 and June 2005 euro banknotes returned to NCBs an average of 3.3 times per year.

Demand for euro coins has also remained strong in the years following the cash changeover. The average annual growth rate of the value of euro coins in circulation was 21.8% in 2003 and 18.7% in 2004. In terms of the number of coins in circulation, the annual growth rate dropped slightly, from 13.7% in 2003 to 10.3% in 2004. At the end of June 2005 there were a total of 59.6 billion euro coins in circulation (excluding NCBs' stocks and collectors' coins not intended for circulation) with a face value of €16.0 billion.

#### **ECB FRAMEWORK FOR THE DETECTION OF COUNTERFEITS AND FITNESS SORTING**

After being put into circulation by the NCBs, banknotes are handled by other stakeholders in the cash cycle. In order to implement a common policy for banknote handling and processing by credit institutions and other professional cash handlers and in order to provide those parties with assistance in fulfilling their obligations as laid down in Article 6 of Council Regulation (EC) No 1338/2001 regarding the detection and withdrawal of counterfeit euro banknotes, the ECB adopted the Framework for the detection of counterfeits and fitness sorting by credit

institutions and other professional cash handlers (the Framework) in December 2004. Translations of the Framework in all official languages of the EU were published on the ECB's website in February 2005.

According to the Framework, credit institutions and other professional cash handlers are allowed to put euro banknotes back into circulation, provided that the banknotes have been duly checked for authenticity and quality (i.e. their fitness for circulation). Banknotes that are reissued via automated teller machines (ATMs) and other customer-operated devices have to be checked using banknote handling machines which have been successfully tested by an NCB. The Eurosystem is currently finalising preparations for such a testing procedure and will publish a central list of successfully tested machines on the ECB's website in due course. In addition, the Eurosystem, in cooperation with the Cash Working Group of the European Payments Council and the European Security Transportation Association, is defining the details of the methods by which NCBs will collect data from credit institutions and professional cash handlers that recycle euro banknotes in accordance with the Framework.

#### **THE EUROSISTEM'S ROLE IN THE CASH CYCLE**

In December 2004 the Governing Council agreed upon common principles and objectives in respect of the Eurosystem's role and responsibilities in the cash cycle. The definition of its role and responsibilities will contribute to the establishment of the Single Euro Payments Area. Besides the above-mentioned Framework, the ECB has in this respect already agreed on a number of measures with a view to moving to a fair competitive environment. A couple of examples of these are outlined below.

- A fee policy for the Eurosystem

NCBs offer basic services free of charge, but may have additional services for which a fee is

charged. The latter could also be provided by third parties, so NCBs offering these services should charge market fees in order to avoid distortions.

- A common approach to opening hours and debiting/crediting rules

A common window of at least six hours per working day has been introduced for deposits and withdrawals of banknotes at a certain number of NCB facilities (i.e. branches, headquarters and/or cash centres). Debiting/crediting must normally be effected at the time of the physical withdrawal/deposit at the NCB counters.

By defining its role and responsibilities in this context, the Eurosystem also provides a reliable framework for its partners in the cash cycle (i.e. the banking industry and cash-in-transit companies). In line with the principle of decentralisation, the Governing Council has not established a fully harmonised system for euro area cash services. Whilst it is necessary that some harmonisation and standardisation be carried out under the guidance of the ECB, the NCBs are responsible for implementation at the national level, taking into account their respective national economic environments and banking structures, the existing NCB branch network and the relative shares of cash payments and/or long-term agreements. In this context, a number of issues have been identified which need to be addressed and will be considered by the Eurosystem in the near future.

### MAINTAINING THE DENOMINATIONAL STRUCTURE OF THE EURO BANKNOTES

Following calls from various sources seeking the introduction of very low-denomination banknotes, the ECB conducted an analysis involving the European Commission and European associations representing credit institutions, cash-in-transit companies, retailers, consumer organisations and operators and manufacturers of vending machines. This analysis showed that, on balance, the negative

aspects of introducing very low-denomination banknotes outweighed the positive aspects. Concerns related, in particular, to the insufficient demand for such banknotes, the reduced efficiency that the introduction would entail for most of the affected third parties (particularly for the retail sector and the vending machine industry) and the high costs of printing and processing. Accordingly, the Governing Council decided in November 2004 not to introduce €1 or €2 banknotes.

The Governing Council has also decided to keep the €200 and €500 banknotes. The denominational structure of the euro banknotes will thus remain unchanged for the second series of euro banknotes.

### THE SECOND SERIES OF EURO BANKNOTES

As previously announced, the ECB started planning the second series of euro banknotes a couple of years ago. This is in line with the standard practices of banknote issuing authorities, which typically update banknotes after a few years of circulation in order to ensure that they always incorporate the latest security features. The functional requirements will also be reviewed at this time.

The Governing Council recently endorsed the “master plan” for this Eurosystem project. The plan sets out the main specifications of the project and identifies major issues. The timing and sequencing of that issuance will depend on the availability of new security features and substrates, as well as on the counterfeiting situation. The first denomination of the second series is expected to be issued towards the end of this decade.

## 2 PRODUCTION OF EURO BANKNOTES

The quantities of banknotes to be produced have evolved significantly since the start of euro banknote production in 1999, having a peak rate of approximately 1 billion banknotes per month in 2001. This high rate was



necessary in order to build up the stocks required for the launch of the euro banknotes on 1 January 2002.

In the years following the introduction of the euro banknotes, the production requirements have been determined by the number of banknotes needed to accommodate the increases in demand described above or to replace unfit banknotes that have been destroyed. The replacement needs are particularly important for lower denominations, given their shorter lifespan, whereas the production requirements for higher denominations are, on account of their longer lifespan, dependent more on the increase in demand for such banknotes. As a result, production volumes decreased after the launch in 2002 but have now started to increase again, with production requirements of approximately 3.6 billion banknotes for 2005 and 7.0 billion banknotes for 2006 (see table).

At the same time, the Eurosystem has continued to reflect upon the improvement of its operating standards and processes. This has resulted in the refining of some of its technical standards and continual improvements to its quality management system.

#### **DEVELOPMENT AND MAINTENANCE OF THE TECHNICAL STANDARDS AND THE QUALITY MANAGEMENT SYSTEM**

The technical specifications for the production of euro banknotes have recently undergone a complete review. The review mainly concerned the measuring methods and instruments for machine-readable features, taking into account information from both users and producers of banknotes. The review has resulted in the improvement of both standards and procedures.

Consistency across all production entities is checked by collecting and evaluating banknote samples from all production batches. The evaluation concerns both the visual appearance and the machine readability of the banknotes. The consistency of the visual appearance is

regularly checked by comparing the banknote samples with one another and against a single reference banknote.

The results of both visual and laboratory assessments have confirmed that the production of euro banknotes has stabilised, and the consistency of the production in terms of both visual appearance and technical performance is very good.

There are regular liaison meetings with suppliers (such as banknote producers or paper mills) and banknote users, where these groups are informed and consulted on issues relevant to them. This flow of information allows the Eurosystem to monitor the performance of the current banknote series and prepare for the second series of euro banknotes.

In order to achieve the same level of quality at all printing works, a quality management system was introduced before the start of production and comprehensively reviewed in 2003. The upgraded system focuses less on final checks of the finished product and more on process controls, in order to reduce waste costs.

As part of the general improvement programme and in order to enhance communication in the supply chain, all printing works, paper mills and other key suppliers are periodically audited to ensure compliance with the quality management system requirements. All manufacturing sites now work according to the most stringent industrial standards. Common requirements relate in particular to banknote production documentation, the quality control process (inspection of raw materials, process checks and final inspection) and quality control standards.

#### **BANKNOTE PROCUREMENT**

In September 2004 the Governing Council adopted a Guideline (Guideline ECB/2004/18) setting out how euro banknotes would be procured in the future. The single Eurosystem

## Production volume and allocation of euro banknote production in 2006

Denomination	Quantity (millions)	Value (EUR millions)	NCBs commissioning production
€5	1,080	5,400	ES, FR, IE, AT, FI
€10	1,780	17,800	DE, GR, FR, NL
€20	1,940	38,800	DE, ES, FR, IT, PT
€50	1,920	96,000	BE, DE, ES, IT, NL
€100	280	28,000	IT, LU, AT
€200	-	-	-
€500	-	-	-
<b>Total</b>	<b>7,000</b>	<b>186,000</b>	

Source: ECB.

tender procedure (SETP) establishes an open and transparent procurement system in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources. It also takes into account the fact that several NCBs within the Eurosystem have in-house printing works or use public printing works rather than seeking tenders for the euro banknote production allocated to them.

Under the current system the annual production requirement is pooled and each NCB defines its own procurement rules for its own allocated production. According to the SETP, NCBs which do not have in-house printing works and do not use public printing works must seek tenders for the banknote production allocated to them. NCBs which have in-house printing works or use public printing works may decide not to participate in the SETP, in which case their printing works will continue to print their respective allocated shares. The new tender procedure will apply from the beginning of January 2012 at the latest but will be preceded by a transitional period designed to allow NCBs and the printing works to prepare for the changes. The transitional period will start no earlier than 1 January 2008, but the precise starting date – which will be decided by the Governing Council – is dependent on the achievement of a critical mass in terms of both the number of NCBs seeking tenders for their allocated shares and the total volume of production for which tenders are sought.

### 3 DEVELOPMENTS IN EURO BANKNOTE COUNTERFEITING

Since the launch of the euro banknotes in January 2002 the quantity of counterfeit banknotes being removed from circulation has increased gradually. However, since October 2003 the figure has levelled off at just under 50,000 counterfeit banknotes per month. Counterfeit banknotes show the same seasonal fluctuations as the circulation data for genuine banknotes, with peaks around the summer holiday and Christmas periods. The ECB recently announced that around 293,000 counterfeit banknotes had been removed from circulation during the first six months of 2005, compared with the 287,000 recovered during the previous six-month period.

These figures should be considered in the context of the number of genuine banknotes in circulation (approximately 9 billion), the population of the euro area countries (more than 300 million inhabitants) and the number of cash transactions involving banknotes (estimated to be approximately 120 billion per year). In this environment, the chances of an individual being passed a counterfeit are extremely small. A few counterfeit euro banknotes are of good quality, but the vast majority can be readily distinguished from genuine banknotes by using the simple “feel-look-tilt” tests described in the Eurosystem’s information material. Even well-made counterfeits can be detected by carefully

applying this test. If in doubt, another good test of authenticity is to compare a suspect banknote with one that is known to be genuine.

There are three principal ways of guarding against counterfeits: protection of the banknotes by means of a range of high-quality security features; educating the public about them; and good police work. As regards the latter, the police have had some significant successes in the fight against counterfeiting over the past year, both inside and outside the euro area. Several incidents have been prominently reported in the media. For instance, inside the euro area, in March 2005 two illegal print shops were dismantled in Spain, where counterfeits with a total face value of approximately €2.5 million were seized and 27 people were arrested. In November 2004 a carabinieri unit dismantled an illegal print shop in Italy, seizing counterfeit €50 banknotes with a face value of €195,000. Outside the euro area, in November 2004 a print shop producing counterfeit euro banknotes was dismantled in Lithuania. High-quality €100 counterfeits with a face value of around €1 million were seized, along with partially completed counterfeits with a potential face value of around €8 million, and 13 people were arrested. Subsequently, Lithuanian police also reported the dismantling of another clandestine print shop, which was being used to make €50 counterfeits.

Counterfeit banknotes are frequently passed in retail or catering businesses, typically by purchasing low-value items with relatively high-denomination counterfeits, in order to receive as much genuine currency in change as possible. Many counterfeits are only detected when they reach the banks and NCBs, i.e. after they have caused financial damage to those accepting the counterfeits. This could be minimised, or avoided entirely, if cashiers carefully authenticated all banknotes received from their customers. If several features are checked carefully, this not only increases the chances of detection, but also increases the deterrence factor in the mind of someone who is

knowingly attempting to pass a counterfeit. With this in mind, the Eurosystem regularly adapts its communication materials and training sessions to meet cash handlers' requirements.

#### 4 RESEARCH AND DEVELOPMENT

The objective of the research and development (R&D) activities undertaken by the Eurosystem is to maintain the integrity of the current and future euro banknotes. This consists of assessing and addressing the counterfeiting threat, whilst ensuring both circulation quality and the consistency and efficiency of the production processes. There is a race between banknote designers, who include new features in the banknotes, and counterfeiters, who try to emulate these features. For the banknote designers to stay ahead in this race and to continue to design resilient euro banknotes, it is clear that a substantial R&D effort is required to develop new technologies. In order to investigate new paradigms and produce new designs, NCBs and a range of other research organisations are involved in undertaking R&D activities coordinated by the ECB. The R&D strategy stresses the need for the euro banknotes to be "self-defending", rather than relying on heavy law enforcement. Therefore, when addressing the counterfeit threat, the European approach has traditionally focused on having the banknotes place as many obstacles as possible in the paths of counterfeiters. This European approach, which remains the basis of the current euro R&D strategy, was also the strategy of the legacy currencies and is complemented by significant communication to the general public on the security features of the banknotes.

At the end of 1999 the Eurosystem adopted a structured R&D management system in order to prepare for future euro banknote upgrades and the second series. This approach differentiated between the long-term R&D work that generates the technology that supports the new

features necessary to stay ahead of the counterfeiters and specific R&D activities dedicated to supporting the development of future banknotes. Whereas the dedicated R&D activities are directly linked to a particular time frame and a particular design project, the long-term R&D is a continuous activity that provides the technological foundations for future design projects. The balance between these two elements is vital to ensuring a smooth long-term banknote design programme.

Euro R&D operates as a decentralised network coordinated by the ECB. The network connects the ECB, the NCBs and their long-term suppliers, and other industry players, thereby enhancing the potential for innovation. The network is open to all companies and individuals willing to propose ideas and projects to improve the performance of the euro banknotes, thus providing the innovation that a global currency such as the euro needs. The Eurosystem has developed this R&D policy and has created a procedural framework to assess and select projects for funding in order to develop the euro R&D technology portfolio. This set of procedures is certified under the ISO 9001:2000 standard.

The effectiveness of banknotes' security features diminishes over time: initially a newly designed feature will perform well, but then, as it becomes known by legitimate users and as the counterfeiters' technology advances, it is eventually emulated and needs to be replaced. This life cycle can be expected to speed up as other banknote design authorities regard the euro as a technical standard and opt for similar security systems. It falls to R&D to provide replacement features from the R&D technology portfolio.

The euro banknote features should allow the public to make swift judgements on their authenticity and it is thus essential that banknote features be designed in such a way that they are easily recognised by the public and other users. Accordingly, the Eurosystem strives to exploit new developments by

converting new technologies into security features that could be used efficiently by the general public and by other users, such as professional cash handlers, to verify the authenticity of euro banknotes.

## 5 CONCLUSION AND CHALLENGES AHEAD

After more than three and a half years, the euro is continuing to develop into a well-established currency. Much has been learnt in all respects, and a key factor in that was continuous improvement. Historical data and trend analysis continue to become more useful as time goes by, but the focus is now firmly on the future and on the development of the second series, which will take the euro into the next decade. However, there is still much to be done in terms of the consolidation of processes and systemic improvement to ensure that the next series is born into an environment which is even more favourable than that of the first series.

The promotion of a "level playing field" and the reaping of the benefits of a common currency, in terms of both the cash cycle and banknote procurement, will continue in the future.

The arrangements for credit institutions and other professional cash handlers as set out in the Framework will be implemented by 2006 at the latest. Work on the single Eurosystem tender procedure for the production of banknotes will be completed by 2008, although the precise implementation date will be determined by market conditions.

The Eurosystem will strive to further enhance its effectiveness and efficiency in all areas, taking advantage of all the experience available and exploiting potential synergies and economies of scale wherever possible.



# EURO AREA STATISTICS





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1) For further information, please contact us at: [statistics@ecb.int](mailto:statistics@ecb.int). See the ECB's website ([www.ecb.int](http://www.ecb.int)) for longer runs and more detailed data.



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**Conventions used in the tables**

“-”	data do not exist/data are not applicable
“.”	data are not yet available
“..”	nil or negligible
“billion”	10 <sup>9</sup>
(p)	provisional
s.a.	seasonally adjusted
n.s.a.	non-seasonally adjusted



# EURO AREA OVERVIEW

Summary of economic indicators for the euro area  
(annual percentage changes, unless otherwise indicated)

## 1. Monetary developments and interest rates

	M1 <sup>1)</sup>	M2 <sup>1)</sup>	M3 <sup>1),2)</sup>	M3 <sup>1),2)</sup> 3-month moving average (centred)	MFI loans to euro area residents excluding MFIs and general government <sup>1)</sup>	Securities other than shares issued in euro by non- financial and non- monetary financial corporations <sup>1)</sup>	3-month interest rate (EURIBOR, % per annum, period averages)	10-year government bond yield (% per annum, period averages)
	1	2	3	4	5	6	7	8
2003	10.9	8.0	8.1	-	4.9	19.2	2.33	4.16
2004	10.0	6.3	5.8	-	6.1	9.9	2.11	4.14
2004 Q3	9.6	5.8	5.6	-	6.2	8.8	2.12	4.21
Q4	9.3	6.4	6.1	-	6.9	7.7	2.16	3.84
2005 Q1	9.6	7.1	6.6	-	7.3	9.1	2.14	3.67
Q2	9.7	7.5	7.0	-	7.5	.	2.12	3.41
2005 Feb.	10.2	7.3	6.6	6.6	7.3	8.9	2.14	3.62
Mar.	9.3	7.1	6.5	6.6	7.5	11.8	2.14	3.76
Apr.	9.2	7.4	6.8	6.8	7.4	13.4	2.14	3.57
May	10.1	7.6	7.3	7.2	7.5	14.6	2.13	3.41
June	10.5	7.9	7.5	.	7.9	.	2.11	3.25
July	.	.	.	.	.	.	2.12	3.32

## 2. Prices, output, demand and labour markets

	HICP	Industrial producer prices	Hourly labour costs	Real GDP	Industrial production excluding construction	Capacity utilisation in manufacturing (percentages)	Employment	Unemployment (% of labour force)
	1	2	3	4	5	6	7	8
2003	2.1	1.4	2.8	0.7	0.3	81.1	0.3	8.7
2004	2.1	2.3	2.6	2.0	1.9	81.7	0.6	8.9
2004 Q3	2.2	3.1	2.5	1.8	2.8	82.1	0.6	8.9
Q4	2.3	3.8	2.5	1.5	1.1	82.0	0.9	8.8
2005 Q1	2.0	4.1	3.1	1.4	0.8	81.6	1.0	8.8
Q2	2.0	3.9	.	.	.	81.2	.	8.8
2005 Feb.	2.1	4.2	-	-	0.4	-	-	8.8
Mar.	2.1	4.2	-	-	0.1	-	-	8.8
Apr.	2.1	4.3	-	-	1.2	81.2	-	8.8
May	2.0	3.5	-	-	0.2	-	-	8.7
June	2.1	4.0	-	-	-	-	-	8.7
July	2.2	.	-	-	.	81.2	-	.

## 3. Balance of payments, reserve assets and exchange rates

(EUR billions, unless otherwise indicated)

	Balance of payments (net transactions)				Reserve assets (end-of-period positions)	Effective exchange rate of the euro: EER-23 <sup>3)</sup> (index, 1999 Q1 = 100)		USD/EUR exchange rate
	Current and capital accounts	Goods	Direct investment	Portfolio investment		Nominal	Real (CPI)	
2003	33.5	102.7	5.4	43.4	306.5	99.9	101.7	1.1312
2004	64.2	102.7	-78.1	72.8	280.6	103.8	105.8	1.2439
2004 Q3	15.5	23.5	1.1	7.2	298.5	102.8	104.9	1.2220
Q4	21.7	20.1	-44.1	27.3	280.6	105.7	107.8	1.2977
2005 Q1	2.0	14.5	-24.1	2.6	284.9	105.7	107.8	1.3113
Q2	.	.	.	.	302.2	103.4	105.6	1.2594
2005 Feb.	5.5	5.9	0.2	20.9	283.2	105.1	107.1	1.3014
Mar.	3.8	7.9	-15.1	-2.5	284.9	106.0	108.2	1.3201
Apr.	-9.8	4.2	-4.8	-11.0	288.9	105.1	107.2	1.2938
May	-2.3	6.6	3.8	24.0	291.7	104.0	106.2	1.2694
June	.	.	.	.	302.2	101.2	103.4	1.2165
July	.	.	.	.	.	101.7	104.0	1.2037

Sources: ECB, European Commission (Eurostat and Economic and Financial Affairs DG) and Reuters.

Note: For more information on the data, see the relevant tables later in this section.

- Annual percentage changes of monthly data refer to the end of the month, whereas those of quarterly and yearly data refer to the annual change in the period average of the series. See the technical notes for details.
- M3 and its components exclude holdings by non-euro area residents of money market fund shares/units and debt securities with a maturity of up to two years.
- For the definition of the trading partner groups and other information, please refer to the General notes.



# MONETARY POLICY STATISTICS

## 1.1 Consolidated financial statement of the Eurosystem (EUR millions)

### 1. Assets

	2005 8 July	2005 15 July	2005 22 July	2005 29 July
<b>Gold and gold receivables</b>	138,375	138,298	138,123	138,078
<b>Claims on non-euro area residents in foreign currency</b>	162,473	161,554	160,976	159,586
<b>Claims on euro area residents in foreign currency</b>	20,918	21,591	21,158	21,510
<b>Claims on non-euro area residents in euro</b>	8,807	9,554	10,405	9,643
<b>Lending to euro area credit institutions in euro</b>	397,509	388,514	398,513	407,007
Main refinancing operations	307,500	298,501	308,502	317,001
Longer-term refinancing operations	90,000	90,000	90,000	89,998
Fine-tuning reverse operations	0	0	0	0
Structural reverse operations	0	0	0	0
Marginal lending facility	3	3	2	7
Credits related to margin calls	6	10	9	1
<b>Other claims on euro area credit institutions in euro</b>	2,920	3,153	3,436	3,268
<b>Securities of euro area residents in euro</b>	87,410	85,583	85,878	85,656
<b>General government debt in euro</b>	40,747	40,747	40,747	40,752
<b>Other assets</b>	129,572	130,459	130,425	131,296
<b>Total assets</b>	988,731	979,453	989,661	996,796

### 2. Liabilities

	2005 8 July	2005 15 July	2005 22 July	2005 29 July
<b>Banknotes in circulation</b>	530,296	531,441	530,235	533,793
<b>Liabilities to euro area credit institutions in euro</b>	148,124	149,684	150,813	145,185
Current accounts (covering the minimum reserve system)	147,901	149,646	150,796	144,954
Deposit facility	223	21	17	230
Fixed-term deposits	0	0	0	0
Fine-tuning reverse operations	0	0	0	0
Deposits related to margin calls	0	17	0	1
<b>Other liabilities to euro area credit institutions in euro</b>	273	247	274	129
<b>Debt certificates issued</b>	0	0	0	0
<b>Liabilities to other euro area residents in euro</b>	77,782	65,563	75,186	84,884
<b>Liabilities to non-euro area residents in euro</b>	9,930	9,980	9,992	10,141
<b>Liabilities to euro area residents in foreign currency</b>	342	362	239	232
<b>Liabilities to non-euro area residents in foreign currency</b>	8,879	8,653	9,008	8,009
<b>Counterpart of special drawing rights allocated by the IMF</b>	5,896	5,896	5,896	5,896
<b>Other liabilities</b>	56,627	57,045	57,436	57,944
<b>Revaluation accounts</b>	92,292	92,292	92,292	92,292
<b>Capital and reserves</b>	58,290	58,290	58,290	58,291
<b>Total liabilities</b>	988,731	979,453	989,661	996,796

Source: ECB.

## 1.2 Key ECB interest rates

(levels in percentages per annum; changes in percentage points)

	With effect from <sup>1)</sup>		Main refinancing operations				Marginal lending facility	
	Deposit facility		Fixed rate tenders	Variable rate tenders				
			Fixed rate	Minimum bid rate				
	Level	Change	Level	Level	Change	Level	Change	
	1	2	3	4	5	6	7	
1999 1 Jan.	2.00	-	3.00	-	-	4.50	-	
4 <sup>2)</sup>	2.75	0.75	3.00	-	...	3.25	-1.25	
22	2.00	-0.75	3.00	-	...	4.50	1.25	
9 Apr.	1.50	-0.50	2.50	-	-0.50	3.50	-1.00	
5 Nov.	2.00	0.50	3.00	-	0.50	4.00	0.50	
2000 4 Feb.	2.25	0.25	3.25	-	0.25	4.25	0.25	
17 Mar.	2.50	0.25	3.50	-	0.25	4.50	0.25	
28 Apr.	2.75	0.25	3.75	-	0.25	4.75	0.25	
9 June	3.25	0.50	4.25	-	0.50	5.25	0.50	
28 <sup>3)</sup>	3.25	...	-	4.25	...	5.25	...	
1 Sep.	3.50	0.25	-	4.50	0.25	5.50	0.25	
6 Oct.	3.75	0.25	-	4.75	0.25	5.75	0.25	
2001 11 May	3.50	-0.25	-	4.50	-0.25	5.50	-0.25	
31 Aug.	3.25	-0.25	-	4.25	-0.25	5.25	-0.25	
18 Sep.	2.75	-0.50	-	3.75	-0.50	4.75	-0.50	
9 Nov.	2.25	-0.50	-	3.25	-0.50	4.25	-0.50	
2002 6 Dec.	1.75	-0.50	-	2.75	-0.50	3.75	-0.50	
2003 7 Mar.	1.50	-0.25	-	2.50	-0.25	3.50	-0.25	
6 June	1.00	-0.50	-	2.00	-0.50	3.00	-0.50	

Source: ECB.

- 1) From 1 January 1999 to 9 March 2004, the date refers to the deposit and marginal lending facilities. For main refinancing operations, changes in the rate are effective from the first operation following the date indicated. The change on 18 September 2001 was effective on that same day. From 10 March 2004 onwards, the date refers to the deposit and marginal lending facilities and to the main refinancing operations (changes effective from the first main refinancing operation following the Governing Council discussion), unless otherwise indicated.
- 2) On 22 December 1998 the ECB announced that, as an exceptional measure between 4 and 21 January 1999, a narrow corridor of 50 basis points would be applied between the interest rates for the marginal lending facility and the deposit facility, aimed at facilitating the transition to the new monetary regime by market participants.
- 3) On 8 June 2000 the ECB announced that, starting from the operation to be settled on 28 June 2000, the main refinancing operations of the Eurosystem would be conducted as variable rate tenders. The minimum bid rate refers to the minimum interest rate at which counterparties may place their bids.

### 1.3 Eurosystem monetary policy operations allotted through tenders <sup>1), 2)</sup>

(EUR millions; interest rates in percentages per annum)

#### 1. Main and longer-term refinancing operations <sup>3)</sup>

Date of settlement	Bids (amount)	Number of participants	Allotment (amount)	Variable rate tenders			Running for (...) days
				Minimum bid rate	Marginal rate <sup>4)</sup>	Weighted average rate	
	1	2	3	4	5	6	7
<b>Main refinancing operations</b>							
2005 6 Apr.	292,103	350	275,000	2.00	2.05	2.05	7
13	313,575	348	270,500	2.00	2.05	2.05	7
20	328,593	370	282,000	2.00	2.05	2.05	7
27	329,984	351	280,500	2.00	2.05	2.05	7
4 May	339,182	301	273,000	2.00	2.05	2.05	7
11	349,569	325	267,500	2.00	2.05	2.05	7
18	358,949	342	272,500	2.00	2.05	2.05	7
25	376,920	351	271,000	2.00	2.05	2.05	7
1 June	369,397	337	281,500	2.00	2.05	2.06	7
8	365,346	316	279,000	2.00	2.05	2.05	7
15	372,104	340	283,500	2.00	2.05	2.05	7
22	378,472	364	310,000	2.00	2.05	2.05	7
29	353,941	343	308,000	2.00	2.05	2.06	7
6 July	389,743	336	307,500	2.00	2.05	2.05	7
13	388,642	334	298,500	2.00	2.05	2.05	7
20	406,178	355	308,500	2.00	2.05	2.05	7
27	391,489	357	317,000	2.00	2.05	2.06	7
3 Aug.	414,656	336	314,000	2.00	2.05	2.06	7
<b>Longer-term refinancing operations</b>							
2004 29 July	40,354	167	25,000	-	2.07	2.08	91
26 Aug.	37,957	152	25,000	-	2.06	2.08	91
30 Sep.	37,414	138	25,000	-	2.06	2.08	84
28 Oct.	46,646	187	25,000	-	2.10	2.11	91
25 Nov.	51,095	174	25,000	-	2.13	2.14	91
23 Dec.	34,466	155	25,000	-	2.12	2.14	98
2005 27 Jan.	58,133	164	30,000	-	2.09	2.10	91
24 Feb.	40,340	145	30,000	-	2.08	2.09	91
31 Mar.	38,462	148	30,000	-	2.09	2.10	91
28 Apr.	47,958	148	30,000	-	2.08	2.09	91
26 May	48,282	140	30,000	-	2.08	2.08	98
30 June	47,181	141	30,000	-	2.06	2.07	91
28 July	46,758	166	30,000	-	2.07	2.08	92

#### 2. Other tender operations

Date of settlement	Type of operation	Bids (amount)	Number of participants	Allotment (amount)	Fixed rate tenders	Variable rate tenders			Running for (...) days
					Fixed rate	Minimum bid rate	Marginal rate <sup>4)</sup>	Weighted average rate	
	1	2	3	4	5	6	7	8	9
2001 30 Apr.	Reverse transaction	105,377	329	73,000	-	4.75	4.77	4.79	7
12 Sep.	Reverse transaction	69,281	63	69,281	4.25	-	-	-	1
13	Reverse transaction	40,495	45	40,495	4.25	-	-	-	1
28 Nov.	Reverse transaction	73,096	166	53,000	-	3.25	3.28	3.29	7
2002 4 Jan.	Reverse transaction	57,644	61	25,000	-	3.25	3.30	3.32	3
10	Reverse transaction	59,377	63	40,000	-	3.25	3.28	3.30	1
18 Dec.	Reverse transaction	28,480	50	10,000	-	2.75	2.80	2.82	6
2003 23 May	Collection of fixed-term deposits	3,850	12	3,850	2.50	-	-	-	3
2004 11 May	Collection of fixed-term deposits	16,200	24	13,000	2.00	-	-	-	1
8 Nov.	Reverse transaction	33,175	42	6,500	-	2.00	2.06	2.07	1
7 Dec.	Collection of fixed-term deposits	18,185	16	15,000	2.00	-	-	-	1
2005 18 Jan.	Reverse transaction	33,065	28	8,000	-	2.00	2.05	2.05	1
7 Feb.	Reverse transaction	17,715	24	2,500	-	2.00	2.05	2.05	1
8 Mar.	Collection of fixed-term deposits	4,300	5	3,500	2.00	-	-	-	1
7 June	Collection of fixed-term deposits	3,708	6	3,708	2.00	-	-	-	1
12 July	Collection of fixed-term deposits	9,605	11	9,605	2.00	-	-	-	1

Source: ECB.

1) The amounts shown may differ slightly from those in Section 1.1 due to operations allotted but not settled.

2) With effect from April 2002, split tender operations, i.e. operations with one-week maturity conducted as standard tenders in parallel with a main refinancing operation, are classified as main refinancing operations. For split tender operations conducted before this month, see Table 2 in Section 1.3.

3) On 8 June 2000 the ECB announced that, starting from the operation to be settled on 28 June 2000, the main refinancing operations of the Eurosystem would be conducted as variable rate tenders. The minimum bid rate refers to the minimum interest rate at which counterparties may place their bids.

4) In liquidity-providing (absorbing) operations, the marginal rate refers to the lowest (highest) rate at which bids were accepted.

### 1.4 Minimum reserve and liquidity statistics

(EUR billions; period averages of daily positions, unless otherwise indicated; interest rates as percentages per annum)

#### 1. Reserve base of credit institutions subject to reserve requirements

Reserve base as at <sup>1)</sup> :	Total	Liabilities to which a 2% reserve coefficient is applied		Liabilities to which a 0% reserve coefficient is applied		
		Deposits (overnight, up to 2 years' agreed maturity and notice period)	Debt securities up to 2 years' agreed maturity	Deposits (over 2 years' agreed maturity and notice period)	Repos	Debt securities over 2 years' agreed maturity
	1	2	3	4	5	6
2003	11,538.7	6,283.8	412.9	1,459.1	759.5	2,623.5
2004	12,415.9	6,593.7	458.1	1,565.2	913.7	2,885.3
2005 Jan.	12,596.6	6,697.7	460.1	1,577.8	943.1	2,918.0
Feb.	12,720.4	6,709.0	471.2	1,583.5	999.2	2,957.5
Mar.	12,866.9	6,783.2	472.3	1,599.3	1,010.8	3,001.1
Apr.	13,081.7	6,888.4	496.7	1,607.3	1,067.3	3,022.1
May	13,224.0	6,988.7	494.7	1,616.3	1,069.4	3,054.9

#### 2. Reserve maintenance

Maintenance period ending on:	Required reserves	Credit institutions current accounts	Excess reserves	Deficiencies	Interest rate on minimum reserves
	1	2	3	4	5
2003	131.8	132.6	0.8	0.0	2.00
2004	137.9	138.5	0.6	0.0	2.05
2005 Q1	140.5	141.3	0.8	0.0	2.05
2005 12 Apr.	142.6	143.3	0.6	0.0	2.05
10 May	143.1	144.0	0.9	0.0	2.05
7 June	144.6	145.5	0.9	0.0	2.05
12 July	147.2	147.9	0.7	0.0	2.05
9 Aug.	149.2	.	.	.	.

#### 3. Liquidity

Maintenance period ending on:	Liquidity-providing factors						Liquidity-absorbing factors				Credit institutions current accounts	Base money
	Eurosystème's net assets in gold and foreign currency	Monetary policy operations of the Eurosystem					Banknotes in circulation	Central government deposits with the Eurosystem	Other factors (net)			
Main refinancing operations		Longer-term refinancing operations	Marginal lending facility	Other liquidity-providing operations	Deposit facility	Other liquidity-absorbing operations				11	12	
	1	2	3	4	5	6	7	8	9	10	11	12
2003	320.1	235.5	45.0	0.6	0.0	0.1	0.0	416.1	57.0	-4.5	132.6	548.7
2004	298.0	265.7	75.0	0.1	0.0	0.1	0.5	475.4	60.2	-36.0	138.5	614.1
2005 Q1	280.2	277.8	82.2	0.1	0.0	0.1	0.1	489.5	68.5	-59.2	141.3	630.9
2005 12 Apr.	282.1	278.2	86.9	0.2	0.0	0.1	0.0	498.6	67.4	-62.1	143.3	642.0
10 May	287.0	276.5	90.0	0.1	0.0	0.1	0.0	505.5	62.9	-58.9	144.0	649.7
7 June	286.8	273.1	90.0	0.1	0.0	0.2	0.1	512.8	53.5	-62.0	145.5	658.5
12 July	293.3	297.6	90.0	0.1	0.0	0.2	0.3	522.6	67.4	-57.3	147.9	670.6

Source: ECB.

1) End of period.



## MONEY, BANKING AND INVESTMENT FUNDS

### 2.1 Aggregated balance sheet of euro area MFIs

(EUR billions; outstanding amounts at end of period)

#### 1. Assets

	Total	Loans to euro area residents				Holdings of securities other than shares issued by euro area residents				Money market fund shares/units <sup>1)</sup>	Holdings of shares/other equity issued by euro area residents	External assets	Fixed assets	Remaining assets
		Total	General government	Other euro area residents	MFIs	Total	General government	Other euro area residents	MFIs					
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Eurosysteem														
2003	1,086.8	471.3	22.6	0.6	448.0	133.6	121.5	1.3	10.8	-	12.8	317.9	12.4	138.8
2004	1,197.3	546.5	21.5	0.6	524.3	154.8	140.0	1.7	13.1	-	14.2	291.6	14.0	176.2
2005 Jan.	1,240.6	581.9	21.5	0.6	559.8	159.3	143.6	1.7	14.0	-	13.8	298.2	14.7	172.8
Feb.	1,275.4	614.5	21.5	0.6	592.4	162.5	146.6	1.6	14.4	-	13.9	294.2	12.5	177.7
Mar.	1,274.5	599.9	21.5	0.6	577.8	167.8	151.9	1.6	14.4	-	14.0	296.6	12.5	183.7
Apr.	1,286.4	602.9	21.5	0.6	580.8	169.3	153.1	1.6	14.7	-	13.7	300.8	13.1	186.7
May	1,275.5	581.0	21.5	0.6	558.9	173.6	156.3	1.8	15.4	-	13.9	304.1	13.1	189.8
June <sup>(p)</sup>	1,353.5	638.4	21.2	0.6	616.6	176.9	158.9	2.0	16.0	-	14.1	315.2	13.3	195.7
MFIs excluding the Eurosysteem														
2003	19,795.4	12,113.1	817.5	7,101.8	4,193.9	2,944.0	1,242.6	427.7	1,273.6	67.3	894.9	2,567.8	161.8	1,046.4
2004	21,351.9	12,826.4	812.4	7,557.4	4,456.5	3,187.8	1,299.9	465.3	1,422.6	72.5	943.1	2,942.8	159.6	1,219.7
2005 Jan.	21,658.7	12,909.4	817.2	7,596.9	4,495.3	3,236.6	1,339.8	469.5	1,427.2	75.7	961.5	3,070.3	157.4	1,247.8
Feb.	21,824.1	12,967.4	807.9	7,622.8	4,536.7	3,289.5	1,367.7	479.5	1,442.2	75.6	963.4	3,122.4	157.6	1,248.3
Mar.	22,027.0	13,051.3	806.6	7,669.4	4,575.3	3,295.2	1,358.5	481.2	1,455.5	73.1	970.5	3,182.3	156.5	1,298.3
Apr.	22,483.9	13,229.4	811.3	7,720.1	4,698.0	3,340.8	1,372.3	491.7	1,476.9	76.3	1,043.4	3,297.3	156.5	1,340.2
May	22,700.7	13,327.6	809.2	7,784.2	4,734.1	3,343.3	1,369.2	497.2	1,476.9	75.7	1,045.8	3,352.5	157.1	1,398.7
June <sup>(p)</sup>	22,755.0	13,252.2	809.1	7,915.7	4,527.5	3,386.0	1,379.3	505.1	1,501.6	75.6	1,000.8	3,398.8	163.3	1,478.4

#### 2. Liabilities

	Total	Currency in circulation	Deposits of euro area residents				Money market fund shares/units <sup>2)</sup>	Debt securities issued <sup>3)</sup>	Capital and reserves	External liabilities	Remaining liabilities
			Total	Central government	Other general government/other euro area residents	MFIs					
	1	2	3	4	5	6	7	8	9	10	11
Eurosysteem											
2003	1,086.8	450.5	324.0	21.3	16.9	285.8	-	1.6	143.8	27.5	139.4
2004	1,197.3	517.3	346.6	24.7	15.0	306.8	-	0.5	138.4	27.2	167.4
2005 Jan.	1,240.6	502.4	402.0	57.6	16.0	328.4	-	0.5	145.7	25.8	164.1
Feb.	1,275.4	504.9	435.7	71.4	18.4	345.9	-	0.5	145.8	21.8	166.6
Mar.	1,274.5	516.4	411.5	61.1	17.6	332.7	-	0.5	149.9	24.9	171.3
Apr.	1,286.4	523.3	410.6	59.3	15.8	335.5	-	0.5	152.5	26.0	173.5
May	1,275.5	529.0	386.0	46.3	17.2	322.5	-	0.5	160.0	24.7	175.2
June <sup>(p)</sup>	1,353.5	540.8	433.6	76.4	18.7	338.5	-	0.6	173.6	24.4	180.5
MFIs excluding the Eurosysteem											
2003	19,795.4	0.0	10,774.8	134.4	6,275.5	4,364.9	648.8	3,161.4	1,145.0	2,606.4	1,458.9
2004	21,351.9	0.0	11,487.5	137.7	6,641.8	4,708.0	677.4	3,496.9	1,199.5	2,815.0	1,675.6
2005 Jan.	21,658.7	0.0	11,535.5	122.9	6,656.2	4,756.4	692.1	3,527.4	1,201.3	2,967.5	1,734.9
Feb.	21,824.1	0.0	11,603.8	138.7	6,659.9	4,805.2	691.0	3,579.7	1,205.8	3,007.2	1,736.7
Mar.	22,027.0	0.0	11,653.8	126.3	6,706.7	4,820.7	687.7	3,614.8	1,213.5	3,085.5	1,771.7
Apr.	22,483.9	0.0	11,840.1	121.6	6,759.7	4,958.8	704.1	3,667.7	1,227.8	3,198.7	1,845.6
May	22,700.7	0.0	11,893.7	127.2	6,808.0	4,958.5	710.5	3,695.4	1,236.3	3,285.5	1,879.3
June <sup>(p)</sup>	22,755.0	0.0	11,830.8	136.3	6,907.5	4,787.0	696.4	3,765.8	1,266.3	3,234.6	1,961.1

Source: ECB.

- 1) Amounts issued by euro area residents. Amounts issued by non-euro area residents are included in external assets.
- 2) Amounts held by euro area residents.
- 3) Amounts issued with maturity up to two years held by non-euro area residents are included in external liabilities.

## 2.2 Consolidated balance sheet of euro area MFIs

(EUR billions; outstanding amounts at end of period; transactions during period)

## 1. Assets

	Total	Loans to euro area residents			Holdings of securities other than shares issued by euro area residents			Holdings of shares/ other equity issued by other euro area residents	External assets	Fixed assets	Remaining assets
		Total	General government	Other euro area residents	Total	General government	Other euro area residents				
	1	2	3	4	5	6	7	8	9	10	11
Outstanding amounts											
2003	14,551.8	7,942.6	840.1	7,102.5	1,793.1	1,364.1	429.0	623.6	2,885.7	174.2	1,132.6
2004	15,720.4	8,392.0	833.9	7,558.0	1,906.8	1,439.9	466.9	666.4	3,234.5	173.6	1,347.1
2005 Jan.	15,987.7	8,436.2	838.7	7,597.5	1,954.6	1,483.4	471.2	678.1	3,368.5	172.1	1,378.1
Feb.	16,099.4	8,452.8	829.4	7,623.5	1,995.4	1,514.3	481.1	679.8	3,416.6	170.1	1,384.7
Mar.	16,260.4	8,498.1	828.1	7,670.0	1,993.2	1,510.4	482.8	683.9	3,478.9	169.0	1,437.3
Apr.	16,564.7	8,553.5	832.8	7,720.7	2,018.6	1,525.4	493.2	740.4	3,598.0	169.6	1,484.7
May	16,751.7	8,615.5	830.7	7,784.9	2,024.5	1,525.5	499.0	739.4	3,656.7	170.3	1,545.3
June <sup>(p)</sup>	17,028.1	8,746.5	830.2	7,916.3	2,045.3	1,538.2	507.1	715.9	3,713.9	176.6	1,629.8
Transactions											
2003	766.6	384.3	12.1	372.2	170.4	116.3	54.1	19.3	224.8	-3.6	-28.6
2004	1,266.9	500.0	-5.9	506.0	92.0	58.1	33.9	34.5	435.0	2.7	202.7
2005 Jan.	196.2	42.2	3.8	38.5	42.5	38.2	4.3	10.9	82.3	-1.3	19.6
Feb.	131.3	17.4	-9.2	26.6	42.8	32.5	10.4	-0.2	66.0	-2.1	7.4
Mar.	120.3	46.1	-1.0	47.1	-2.8	-4.5	1.7	4.9	37.0	-0.7	35.9
Apr.	290.4	56.1	4.6	51.4	21.4	11.9	9.6	58.2	109.5	0.1	45.0
May	106.0	56.9	-2.4	59.3	0.9	-3.8	4.7	-4.1	-6.9	0.7	58.5
June <sup>(p)</sup>	138.5	87.1	-0.5	87.6	9.4	2.1	7.4	-28.3	21.1	0.5	48.7

## 2. Liabilities

	Total	Currency in circulation	Deposits of central government	Deposits of other general government/ other euro area residents	Money market fund shares/ units <sup>1)</sup>	Debt securities issued <sup>2)</sup>	Capital and reserves	External liabilities	Remaining liabilities	Excess of inter-MFI liabilities
Outstanding amounts										
2003	14,551.8	397.9	155.7	6,292.3	581.5	1,878.5	1,004.7	2,634.0	1,598.3	8.9
2004	15,720.4	468.4	162.4	6,656.8	604.9	2,061.7	1,047.0	2,842.2	1,843.0	34.0
2005 Jan.	15,987.7	459.9	180.6	6,672.2	616.4	2,086.7	1,049.8	2,993.3	1,899.0	29.7
Feb.	16,099.4	463.6	210.1	6,678.3	615.4	2,123.7	1,054.0	3,029.0	1,903.3	22.1
Mar.	16,260.4	471.8	187.4	6,724.4	614.6	2,145.5	1,062.9	3,110.4	1,943.0	0.4
Apr.	16,564.7	481.1	180.9	6,775.5	627.8	2,176.7	1,063.5	3,224.7	2,019.1	15.5
May	16,751.7	485.8	173.5	6,825.2	634.8	2,203.6	1,076.1	3,310.2	2,054.5	-12.0
June <sup>(p)</sup>	17,028.1	496.6	212.7	6,926.3	620.8	2,248.8	1,140.9	3,259.0	2,141.6	-18.6
Transactions										
2003	766.6	79.0	15.1	313.7	56.7	133.5	39.0	130.8	-60.8	59.8
2004	1,266.9	70.5	6.1	377.2	22.3	197.1	50.4	276.8	229.1	37.3
2005 Jan.	196.2	-8.5	18.2	9.0	12.4	6.9	-0.4	99.7	73.6	-14.7
Feb.	131.3	3.7	29.5	4.7	-1.9	41.4	5.7	52.4	-1.0	-3.1
Mar.	120.3	8.2	-22.7	43.3	-0.7	17.0	7.8	59.6	34.7	-26.9
Apr.	290.4	9.3	-6.5	50.2	13.7	29.1	-2.9	107.7	75.8	14.0
May	106.0	4.8	-7.4	42.6	7.5	14.7	4.7	32.1	48.6	-41.6
June <sup>(p)</sup>	138.5	10.7	39.2	53.9	-15.1	42.3	33.8	-72.3	54.5	-8.7

Source: ECB.

1) Amounts held by euro area residents.

2) Amounts issued with maturity up to two years held by non-euro area residents are included in external liabilities.



## 2.3 Monetary statistics

(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period, transactions during period)

### 1. Monetary aggregates<sup>1)</sup> and counterparts

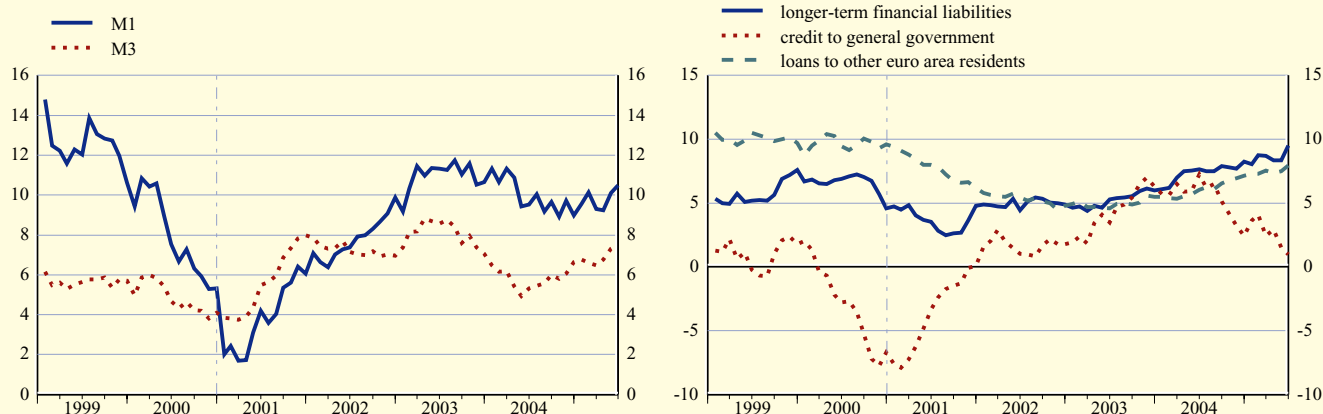
	M1		M2	M3-M2	M3	M3 3-month moving average (centred)	Longer-term financial liabilities	Credit to general government	Credit to other euro area residents		Net external assets <sup>2)</sup>
	1	2	3	4	5	6	7	8	Loans		11
									9	10	
Outstanding amounts											
2003	2,680.6	2,553.3	5,233.9	907.2	6,141.1	-	4,133.3	2,226.1	8,156.0	7,097.8	230.6
2004	2,912.6	2,661.0	5,573.6	961.5	6,535.1	-	4,454.5	2,298.1	8,692.3	7,552.9	373.3
2005 Jan.	2,959.1	2,663.4	5,622.6	947.8	6,570.4	-	4,495.8	2,328.2	8,752.6	7,600.8	375.0
Feb.	2,992.1	2,664.8	5,656.9	949.3	6,606.2	-	4,532.8	2,342.3	8,792.3	7,633.7	393.2
Mar.	3,007.3	2,675.4	5,682.7	945.0	6,627.7	-	4,579.5	2,328.5	8,827.5	7,670.2	383.3
Apr.	3,024.0	2,694.8	5,718.8	956.4	6,675.2	-	4,611.1	2,352.6	8,910.8	7,704.4	406.2
May	3,050.5	2,702.2	5,752.7	972.0	6,724.7	-	4,656.0	2,338.7	8,976.2	7,768.5	367.2
June <sup>(p)</sup>	3,235.7	2,591.3	5,827.0	982.1	6,809.1	-	4,785.2	2,349.8	9,105.8	7,890.1	453.3
Transactions											
2003	259.4	113.4	372.9	32.2	405.1	-	236.5	131.9	445.9	372.3	96.0
2004	240.4	111.8	352.2	55.7	407.9	-	340.7	54.5	574.3	505.5	160.4
2005 Jan.	44.0	-0.4	43.6	-13.3	30.3	-	19.5	23.8	58.5	46.8	1.3
Feb.	33.3	-0.6	32.7	-5.2	27.4	-	49.1	15.7	39.0	33.6	19.3
Mar.	14.6	9.2	23.8	-2.7	21.1	-	38.6	-14.2	36.5	37.2	-13.4
Apr.	16.4	18.9	35.3	11.6	46.9	-	26.0	21.0	84.8	34.9	19.9
May	23.6	4.4	28.0	15.9	43.9	-	23.9	-18.1	56.6	59.2	-51.1
June <sup>(p)</sup>	33.5	19.4	52.9	10.0	62.9	-	71.4	0.6	80.3	78.0	71.1
Growth rates											
2003 Dec.	10.6	4.6	7.6	3.8	7.1	7.0	6.0	6.3	5.8	5.5	96.0
2004 Dec.	9.0	4.4	6.7	6.2	6.6	6.5	8.2	2.4	7.1	7.1	160.4
2005 Jan.	9.6	4.5	7.1	4.7	6.8	6.7	8.1	3.6	7.3	7.3	120.0
Feb.	10.2	4.3	7.3	2.6	6.6	6.6	8.7	4.1	7.3	7.3	124.8
Mar.	9.3	4.8	7.1	2.7	6.5	6.6	8.7	2.4	7.4	7.5	94.1
Apr.	9.2	5.3	7.4	3.3	6.8	6.8	8.4	2.9	7.7	7.4	88.9
May	10.1	4.9	7.6	5.7	7.3	7.2	8.4	1.5	7.8	7.5	70.8
June <sup>(p)</sup>	10.5	5.2	7.9	5.1	7.5	.	9.5	1.0	8.0	7.9	150.8

### C1 Monetary aggregates

(annual growth rates; seasonally adjusted)

### C2 Counterparts

(annual growth rates; seasonally adjusted)



Source: ECB.

- 1) Monetary liabilities of MFIs and central government (post office, treasury) vis-à-vis non-MFI euro area residents excluding central government (M1, M2, M3: see glossary).
- 2) Values in section 'growth rates' are sums of the transactions during the 12 months ending in the period indicated.

## 2.3 Monetary statistics

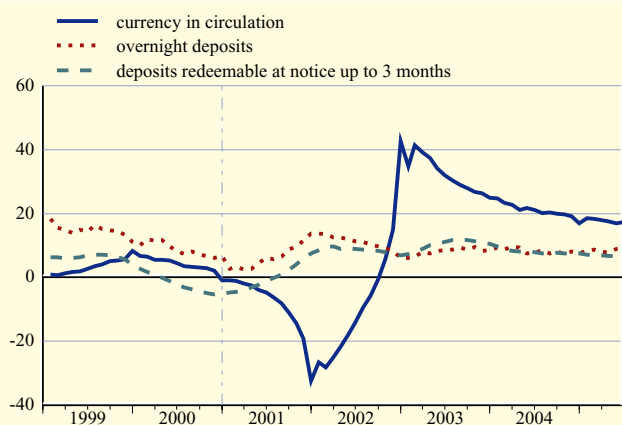
(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period, transactions during period)

### 2. Components of monetary aggregates and longer-term financial liabilities

	Currency in circulation	Overnight deposits	Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	Repos	Money market fund shares/units	Debt securities up to 2 years	Debt securities over 2 years	Deposits redeemable at notice over 3 months	Deposits with agreed maturity over 2 years	Capital and reserves
	1	2	3	4	5	6	7	8	9	10	11
Outstanding amounts											
2003	386.9	2,293.7	1,031.0	1,522.3	218.4	596.1	92.7	1,789.6	90.7	1,250.0	1,003.1
2004	452.7	2,460.0	1,026.5	1,634.5	240.3	618.9	102.3	1,962.6	89.6	1,357.3	1,044.9
2005 Jan.	466.7	2,492.5	1,024.0	1,639.4	230.7	617.8	99.3	1,993.4	90.0	1,366.2	1,046.2
Feb.	471.6	2,520.5	1,019.4	1,645.5	221.0	614.2	114.1	2,013.8	90.4	1,372.2	1,056.4
Mar.	477.6	2,529.7	1,019.3	1,656.1	225.8	613.2	106.1	2,038.7	90.9	1,387.1	1,062.8
Apr.	481.5	2,542.5	1,030.5	1,664.3	215.7	619.8	120.8	2,056.7	91.3	1,395.2	1,067.9
May	487.0	2,563.5	1,023.9	1,678.3	231.3	627.4	113.4	2,085.9	91.4	1,396.1	1,082.6
June <sup>(p)</sup>	493.8	2,741.9	1,051.8	1,539.5	239.2	622.4	120.5	2,126.5	91.7	1,424.9	1,142.1
Transactions											
2003	77.5	181.9	-29.7	143.1	-10.3	57.6	-15.1	149.2	-13.2	61.9	38.5
2004	65.7	174.7	-0.8	112.6	22.8	21.7	11.2	185.2	-1.1	106.6	50.0
2005 Jan.	14.0	30.0	-5.1	4.7	-9.7	-0.1	-3.5	13.1	0.4	8.0	-2.0
Feb.	4.9	28.3	-7.5	6.9	-9.6	-4.5	8.9	30.7	0.4	6.2	11.7
Mar.	6.0	8.6	-0.6	9.7	4.7	-1.0	-6.5	18.6	0.0	14.7	5.3
Apr.	4.0	12.4	10.8	8.1	-10.1	7.2	14.5	16.1	0.5	8.0	1.5
May	5.4	18.2	-9.4	13.8	15.5	8.0	-7.6	17.2	0.0	-0.1	6.9
June <sup>(p)</sup>	6.8	26.7	17.0	2.3	7.9	-6.1	8.2	36.7	0.3	5.9	28.5
Growth rates											
2003 Dec.	24.9	8.6	-2.8	10.4	-4.6	11.0	-14.9	8.9	-12.7	5.2	3.9
2004 Dec.	17.0	7.6	-0.1	7.4	10.5	3.6	12.3	10.3	-1.2	8.5	5.0
2005 Jan.	18.5	8.0	0.5	7.1	6.8	4.2	3.3	9.9	-0.4	8.6	4.8
Feb.	18.3	8.8	0.3	6.9	-1.0	2.7	9.9	11.1	0.4	8.5	5.4
Mar.	17.8	7.8	1.7	6.8	3.7	1.8	6.5	10.6	0.5	9.1	5.4
Apr.	17.5	7.8	3.3	6.6	-0.1	2.6	14.4	10.4	1.2	8.7	4.9
May	17.0	8.9	1.9	6.7	8.0	4.2	9.8	10.6	1.7	8.2	5.0
June <sup>(p)</sup>	17.2	9.3	3.8	6.1	9.7	2.2	12.3	11.9	2.4	7.8	7.8

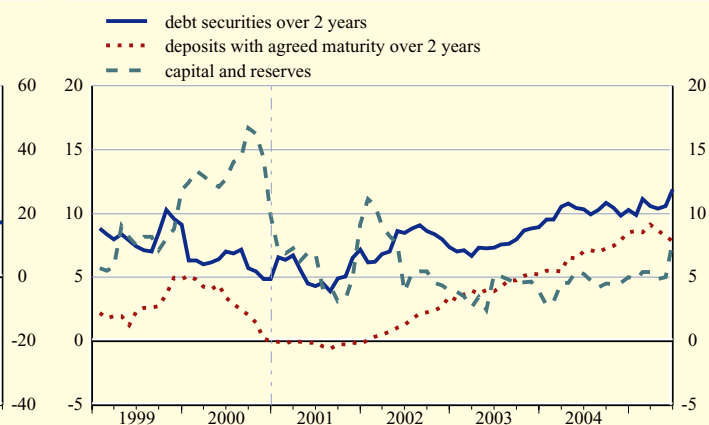
### C3 Components of monetary aggregates

(annual growth rates; seasonally adjusted)



### C4 Components of longer-term financial liabilities

(annual growth rates; seasonally adjusted)



Source: ECB.

## 2.4 MFI loans, breakdown <sup>1)</sup>

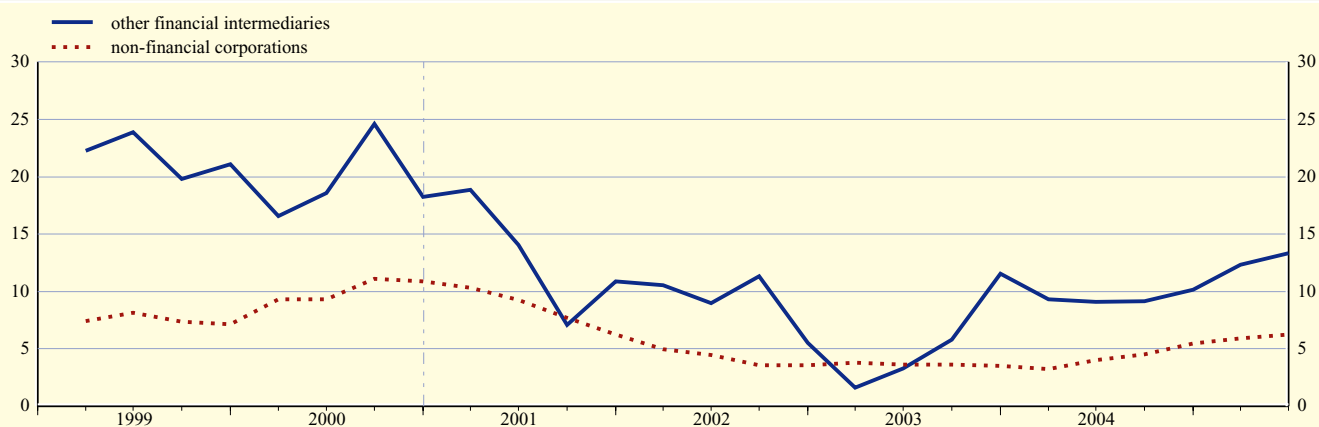
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

### 1. Loans to financial intermediaries and non-financial corporations

	Insurance corporations and pension funds		Other financial intermediaries <sup>2)</sup>		Non-financial corporations			
	Total		Total		Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
	1	Up to 1 year 2	3	Up to 1 year 4	5	6	7	8
Outstanding amounts								
2003	35.4	22.1	511.4	325.0	3,034.3	961.5	524.1	1,548.8
2004	48.6	31.4	546.7	334.8	3,153.7	974.7	547.7	1,631.3
2005 Jan.	55.5	38.6	547.5	339.2	3,170.9	980.9	556.6	1,633.4
Feb.	59.1	41.3	551.2	345.0	3,174.4	982.6	552.3	1,639.5
Mar.	58.2	39.7	560.1	350.0	3,190.7	985.0	554.7	1,650.9
Apr.	59.3	40.6	556.7	343.4	3,216.3	993.0	559.7	1,663.6
May	62.1	42.9	567.7	351.9	3,235.1	994.4	564.3	1,676.4
June <sup>(p)</sup>	63.9	44.2	578.0	359.4	3,282.4	1,025.7	564.9	1,691.8
Transactions								
2003	4.2	2.2	53.4	26.2	102.9	-7.9	15.9	94.9
2004	13.1	9.1	50.5	26.2	163.9	24.2	31.2	108.5
2005 Jan.	6.6	7.0	-1.3	3.1	17.1	6.3	8.8	2.0
Feb.	3.0	2.0	4.4	6.2	2.4	-1.3	-4.0	7.6
Mar.	-1.0	-1.1	7.1	4.5	17.8	2.9	2.9	12.0
Apr.	1.1	1.0	-3.1	-6.2	27.1	8.2	6.2	12.7
May	2.7	2.2	8.7	7.0	17.1	0.6	4.7	11.8
June <sup>(p)</sup>	1.9	1.3	9.3	7.1	29.4	18.1	0.4	10.9
Growth rates								
2003 Dec.	11.8	11.6	11.6	8.8	3.5	-0.8	3.1	6.5
2004 Dec.	36.9	41.5	10.1	8.5	5.4	2.5	6.0	7.0
2005 Jan.	16.3	11.9	10.1	10.8	5.7	3.0	7.4	6.9
Feb.	24.2	21.5	9.2	10.7	5.7	3.6	6.4	6.8
Mar.	23.7	21.8	12.3	17.0	5.9	3.9	6.6	6.9
Apr.	14.3	7.8	9.7	10.7	6.0	4.3	6.6	6.9
May	8.8	0.6	10.2	11.4	6.2	4.9	6.4	7.0
June <sup>(p)</sup>	17.8	10.7	13.3	17.6	6.2	4.9	6.4	7.0

### C5 Loans to financial intermediaries and non-financial corporations

(annual growth rates)



Source: ECB.

- 1) MFI sector excluding the Eurosystem; sectoral classification is based on ESA 95.
- 2) This category includes investment funds.

## 2.4 MFI loans, breakdown <sup>1)</sup>

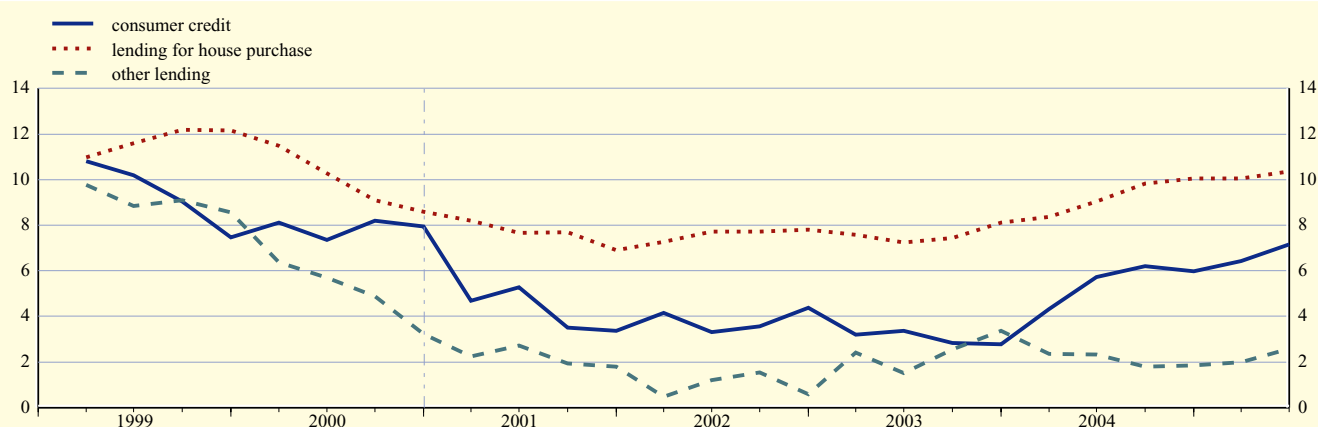
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

### 2. Loans to households <sup>2)</sup>

	Total	Consumer credit				Lending for house purchase				Other lending			
		Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
	1	2	3	4	5	6	7	8	9	10	11	12	13
Outstanding amounts													
2003	3,520.6	484.5	112.0	181.0	191.5	2,360.5	14.4	63.3	2,282.7	675.6	145.0	95.5	435.1
2004	3,808.4	515.4	120.3	189.5	205.6	2,591.5	14.6	65.8	2,511.1	701.5	144.0	99.3	458.2
2005 Jan.	3,823.0	515.1	121.2	188.4	205.5	2,607.1	14.2	65.6	2,527.3	700.9	143.6	98.5	458.8
Feb.	3,838.1	514.8	119.9	188.9	205.9	2,621.9	14.1	65.6	2,542.2	701.4	143.4	98.4	459.6
Mar.	3,860.4	519.3	120.2	191.1	208.0	2,640.2	14.3	67.1	2,558.9	700.8	144.4	98.7	457.8
Apr.	3,887.7	522.8	119.7	192.6	210.5	2,662.2	14.3	65.0	2,582.9	702.7	142.6	100.2	460.0
May	3,919.4	527.5	121.2	194.5	211.8	2,686.1	14.3	65.0	2,606.9	705.8	142.6	100.8	462.4
June <sup>(p)</sup>	3,991.4	537.7	125.3	196.9	215.5	2,733.0	16.2	65.5	2,651.3	720.6	154.9	100.6	465.1
Transactions													
2003	211.7	13.0	8.4	6.1	-1.4	177.3	-5.9	1.7	181.4	21.4	-6.2	-4.7	32.3
2004	278.5	29.0	7.1	8.6	13.3	236.9	0.9	2.9	233.1	12.6	-0.9	2.0	11.5
2005 Jan.	16.1	-0.2	0.3	-0.9	0.3	15.7	-0.4	-0.2	16.3	0.7	0.0	-0.8	1.4
Feb.	16.8	0.1	-1.0	0.4	0.7	15.4	-0.1	0.1	15.4	1.3	0.1	-0.1	1.2
Mar.	23.2	4.5	0.4	2.1	2.0	18.5	0.2	1.4	16.8	0.2	1.2	0.3	-1.3
Apr.	26.3	4.1	-0.4	1.6	2.8	21.5	0.0	-0.8	22.3	0.7	-1.7	0.1	2.2
May	30.8	4.9	1.5	2.0	1.3	23.1	0.0	0.2	22.9	2.9	-0.1	0.7	2.2
June <sup>(p)</sup>	47.0	9.3	4.1	2.4	2.7	28.6	0.3	0.5	27.8	9.2	6.6	-0.2	2.8
Growth rates													
2003 Dec.	6.4	2.8	8.0	3.4	-0.2	8.1	-26.3	2.6	8.6	3.4	-4.1	-4.8	8.5
2004 Dec.	7.9	6.0	6.3	4.8	7.0	10.0	6.0	4.6	10.2	1.9	-0.6	2.1	2.6
2005 Jan.	8.1	6.6	8.0	5.2	7.0	10.1	5.4	5.9	10.3	2.3	0.8	2.1	2.9
Feb.	8.1	6.4	7.9	4.9	7.0	10.2	5.4	6.2	10.3	2.2	2.1	1.7	2.4
Mar.	8.0	6.4	7.7	4.6	7.5	10.1	5.0	8.1	10.1	2.0	2.0	1.1	2.2
Apr.	8.0	6.4	6.5	4.6	8.0	10.1	5.4	6.2	10.2	1.9	1.3	0.5	2.5
May	8.2	7.2	8.4	5.7	8.0	10.1	5.0	5.9	10.3	2.3	2.2	1.2	2.6
June <sup>(p)</sup>	8.4	7.2	7.7	5.8	8.1	10.4	2.3	3.6	10.6	2.6	3.2	0.8	2.8

### C6 Loans to households

(annual growth rates)



Source: ECB.

1) MFI sector excluding the Eurosystem; sectoral classification is based on ESA 95.

2) Including non-profit institutions serving households.

## 2.4 MFI loans, breakdown <sup>1)</sup>

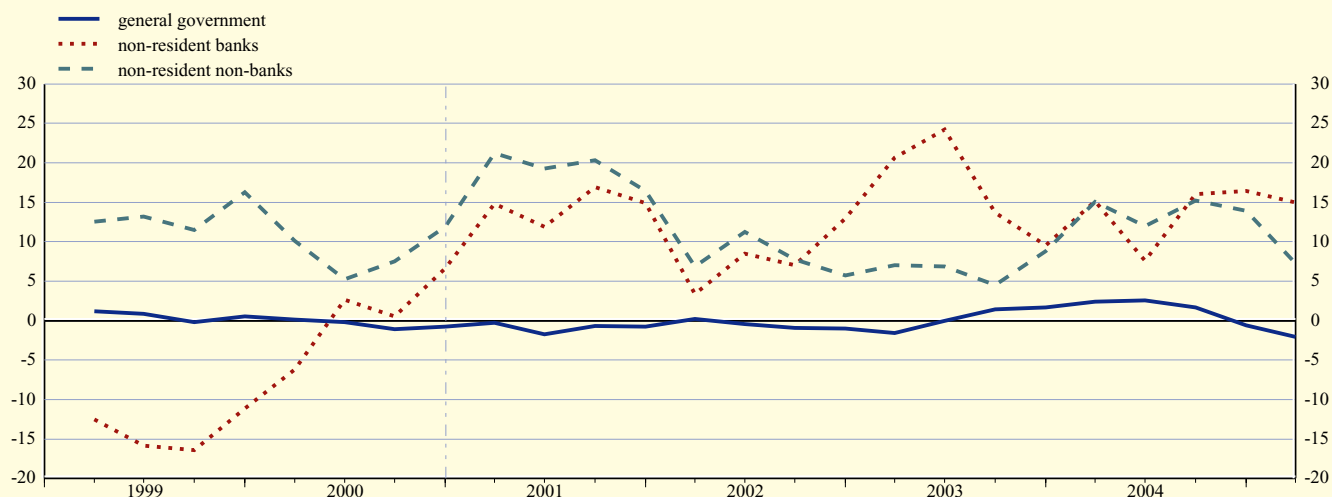
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

### 3. Loans to government and non-euro area residents

	General government					Non-euro area residents				
	Total	Central government	Other general government			Total	Banks <sup>2)</sup>	Non-banks		
			State government	Local government	Social security funds			Total	General government	Other
	1	2	3	4	5	6	7	8	9	10
Outstanding amounts										
2002	813.0	132.7	277.7	382.8	19.7	1,724.6	1,146.2	578.4	64.6	513.8
2003	817.5	128.4	265.1	388.9	35.0	1,757.9	1,182.2	575.7	59.3	516.4
2004 Q1	821.2	132.5	261.4	388.5	38.9	1,950.4	1,308.6	641.8	61.1	580.8
Q2	815.8	127.2	253.5	391.4	43.7	1,959.2	1,321.7	637.5	60.8	576.7
Q3	810.0	124.5	252.4	394.4	38.8	1,960.9	1,317.3	643.5	60.9	582.6
Q4	812.4	130.6	252.3	405.6	23.8	1,974.6	1,342.2	632.4	61.3	571.1
2005 Q1 <sup>(p)</sup>	806.6	131.9	248.1	404.1	21.6	2,136.5	1,468.7	667.9	62.9	605.1
Transactions										
2002	-7.9	-11.3	-21.1	19.9	4.6	168.8	135.3	34.3	-1.2	35.5
2003	13.7	-5.9	-12.2	16.6	15.3	159.4	109.2	50.1	-5.0	55.0
2004 Q1	5.2	5.1	-3.8	0.0	3.9	164.0	107.4	56.5	1.8	54.7
Q2	-7.0	-6.2	-8.5	2.8	4.8	6.2	11.5	-5.3	-0.5	-4.8
Q3	-5.5	-2.5	-1.0	3.0	-5.0	23.4	8.8	14.7	0.1	14.6
Q4	2.4	6.7	-0.6	11.3	-14.9	81.8	67.3	14.5	0.4	14.1
2005 Q1 <sup>(p)</sup>	-6.6	1.1	-4.2	-2.0	-2.2	124.7	103.3	21.5	1.5	20.0
Growth rates										
2002 Dec.	-1.0	-7.8	-7.1	5.5	30.0	10.4	12.9	5.8	-1.9	6.7
2003 Dec.	1.7	-4.4	-4.4	4.4	77.5	9.3	9.6	8.8	-7.7	11.0
2004 Mar.	2.4	-0.8	-2.2	3.0	63.2	15.1	15.1	15.1	4.0	16.4
June	2.6	0.1	-4.0	4.2	54.4	9.0	7.6	12.0	2.9	13.0
Sep.	1.7	-1.8	-4.1	4.8	26.9	15.8	16.1	15.2	1.9	16.8
Dec.	-0.6	2.4	-5.2	4.4	-32.0	15.6	16.4	13.9	3.0	15.2
2005 Mar. <sup>(p)</sup>	-2.0	-0.8	-5.5	3.9	-44.5	12.4	14.9	7.3	2.6	7.8

### C7 Loans to government and non-euro area residents

(annual growth rates)



Source: ECB.

1) MFI sector excluding the Eurosystem; sectoral classification is based on ESA 95.

2) The term "banks" is used in this table to indicate institutions of a similar type to MFIs resident outside the euro area.

## 2.5 Deposits held with MFIs, breakdown <sup>1)</sup>

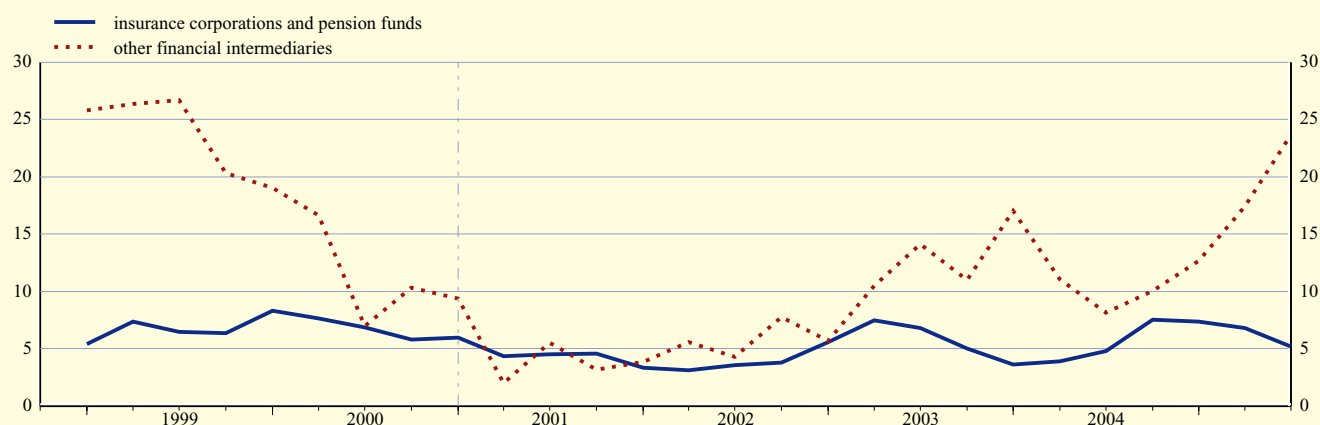
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

### 1. Deposits by financial intermediaries

	Insurance corporations and pension funds							Other financial intermediaries <sup>2)</sup>						
	Total	Overnight	With agreed maturity		Redeemable at notice		Repos	Total	Overnight	With agreed maturity		Redeemable at notice		Repos
			Up to 2 years	Over 2 years	Up to 3 months	Over 3 months				Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	
Outstanding amounts														
2003	542.4	58.9	41.7	420.5	1.3	0.8	19.1	565.6	180.9	130.8	143.3	6.1	0.1	104.4
2004	583.2	59.2	51.4	449.4	1.2	1.3	20.8	637.5	180.3	139.0	187.3	10.1	0.1	120.7
2005 Jan.	595.7	67.3	50.9	451.2	1.4	1.3	23.6	666.3	210.8	130.6	188.5	11.6	0.1	124.8
Feb.	590.4	60.6	48.9	456.0	1.3	1.3	22.3	677.4	213.7	133.5	191.1	11.5	0.1	127.4
Mar.	597.0	65.7	48.5	460.3	1.3	1.3	19.8	692.9	213.3	134.2	205.2	11.5	0.1	128.7
Apr.	602.6	65.7	50.6	462.5	1.3	1.3	21.1	703.4	208.5	143.9	210.7	13.1	0.1	127.1
May	602.1	65.1	50.4	461.9	1.6	1.3	21.8	728.9	216.5	144.7	215.2	12.7	0.1	139.6
June <sup>(p)</sup>	596.4	61.9	48.2	463.0	1.2	1.6	20.5	764.9	225.3	152.8	234.1	11.6	0.1	141.0
Transactions														
2003	19.0	1.6	3.9	11.8	0.3	0.4	1.1	82.8	25.3	-0.2	38.5	3.2	0.1	16.0
2004	39.9	0.7	10.3	27.7	-0.1	-0.1	1.5	71.9	0.9	5.8	43.7	4.1	0.0	17.4
2005 Jan.	12.2	8.0	-0.7	1.8	0.2	0.0	2.8	25.6	29.6	-9.0	-0.4	1.4	0.0	4.0
Feb.	-5.2	-6.7	-1.9	4.8	-0.1	0.0	-1.3	8.0	3.3	-0.8	2.8	-0.1	0.0	2.6
Mar.	5.6	5.1	-0.5	3.4	0.1	0.0	-2.5	14.2	-0.8	0.3	13.5	-0.1	0.0	1.2
Apr.	5.6	-0.1	2.1	2.3	0.0	0.0	1.3	10.2	-4.9	9.6	5.4	1.6	0.0	-1.5
May	-0.8	-0.8	-0.4	-0.7	0.3	0.0	0.7	23.2	7.1	0.3	4.0	-0.6	0.0	12.4
June <sup>(p)</sup>	-6.1	-3.7	-2.3	1.1	0.0	0.0	-1.2	15.2	6.2	2.9	4.6	0.2	0.0	1.3
Growth rates														
2003 Dec.	3.6	2.8	9.9	2.9	41.3	58.8	6.0	17.0	16.3	-0.2	36.4	70.4	-	17.1
2004 Dec.	7.4	1.2	24.6	6.6	-8.0	-43.1	7.9	12.7	0.5	4.3	30.4	67.6	-	16.7
2005 Jan.	7.3	3.5	18.9	6.6	5.1	36.2	8.2	16.5	16.3	-0.6	33.4	69.0	-	12.6
Feb.	5.8	-2.9	16.9	7.2	-2.8	-51.5	-11.6	16.5	16.4	5.9	33.3	38.2	-	6.1
Mar.	6.8	2.3	16.4	7.5	1.7	-51.5	-10.4	17.4	8.5	9.3	40.1	50.0	-	10.7
Apr.	6.7	6.1	22.9	6.8	-9.4	-52.2	-16.2	16.7	7.2	8.7	41.2	60.1	-	7.4
May	6.4	14.4	11.2	5.5	11.2	-53.8	-3.9	21.1	12.4	9.1	44.2	60.3	-	17.1
June <sup>(p)</sup>	5.2	3.1	15.2	4.8	21.7	33.1	-3.1	23.7	15.4	15.7	41.6	55.2	-	20.3

### C8 Deposits by financial intermediaries

(annual growth rates)



Source: ECB.

1) MFI sector excluding the Eurosystem; sectoral classification is based on ESA 95.

2) This category includes investment funds.

## 2.5 Deposits held with MFIs, breakdown <sup>1)</sup>

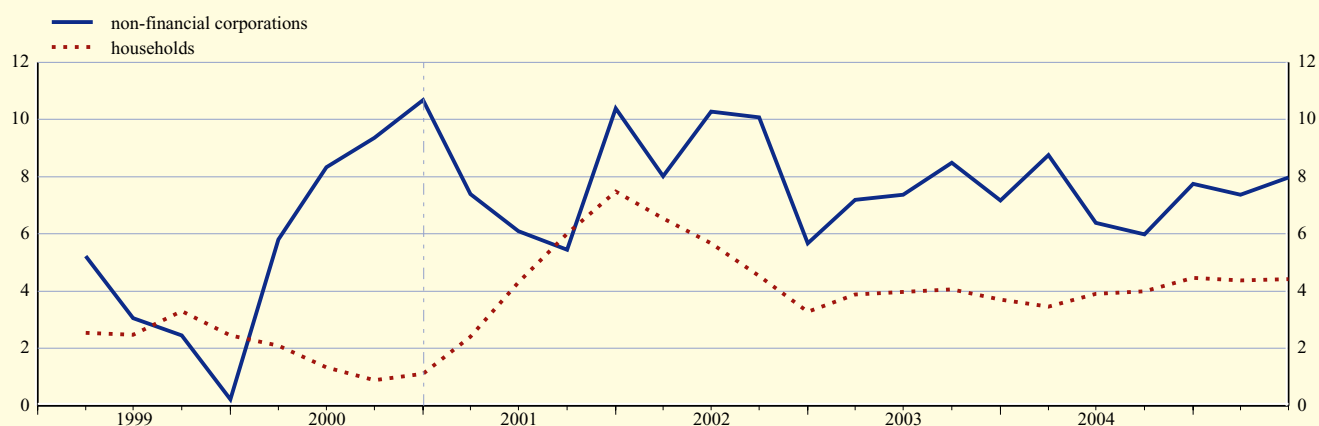
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

### 2. Deposits by non-financial corporations and households

	Non-financial corporations							Households <sup>2)</sup>						
	Total	Overnight	With agreed maturity		Redeemable at notice		Repos	Total	Overnight	With agreed maturity		Redeemable at notice		Repos
			Up to 2 years	Over 2 years	Up to 3 months	Over 3 months				Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Outstanding amounts														
2003	1,050.1	633.3	280.2	67.6	38.1	1.0	30.0	3,978.6	1,311.8	544.0	600.8	1,379.2	89.9	52.9
2004	1,114.6	674.7	291.1	73.8	44.2	1.1	29.7	4,162.0	1,403.1	515.0	634.3	1,466.1	88.0	55.6
2005 Jan.	1,075.2	658.1	276.1	72.0	43.0	1.1	24.9	4,168.4	1,400.5	515.3	636.0	1,476.6	87.7	52.2
Feb.	1,067.1	655.5	272.2	71.8	43.7	1.1	22.8	4,177.2	1,406.5	516.2	636.0	1,478.5	88.3	51.6
Mar.	1,096.3	675.3	280.2	72.1	44.0	1.1	23.6	4,177.0	1,409.1	513.2	632.8	1,481.9	88.7	51.2
Apr.	1,102.1	678.7	284.9	69.2	44.7	1.1	23.5	4,206.1	1,433.8	514.7	633.5	1,485.1	88.2	50.8
May	1,112.7	692.4	282.8	69.3	45.5	1.1	21.7	4,214.9	1,440.0	514.6	630.7	1,489.7	87.8	52.1
June <sup>(p)</sup>	1,141.3	721.5	279.7	75.0	42.1	1.6	21.4	4,252.4	1,607.8	515.5	633.8	1,356.9	87.3	51.2
Transactions														
2003	70.4	40.9	20.3	3.3	10.2	0.0	-4.2	141.9	95.3	-45.4	10.0	117.4	-13.7	-21.8
2004	80.8	48.5	17.1	6.7	8.0	0.7	-0.2	178.1	90.5	-29.6	31.1	85.2	-1.9	2.8
2005 Jan.	-41.0	-17.6	-16.2	-1.2	-1.2	0.0	-4.8	5.0	-2.9	-0.5	1.7	10.4	-0.3	-3.5
Feb.	-7.1	-2.1	-3.5	-0.1	0.7	0.0	-2.1	9.3	5.3	1.2	0.0	2.7	0.6	-0.6
Mar.	28.2	19.3	7.6	0.2	0.3	0.0	0.8	0.4	3.0	-2.7	-1.9	2.6	-0.1	-0.4
Apr.	5.5	3.2	4.6	-2.9	0.7	0.0	-0.1	29.0	24.7	1.4	0.6	3.2	-0.4	-0.4
May	7.9	12.2	-3.1	-0.2	0.7	0.0	-1.8	7.2	5.9	-1.1	-2.9	4.4	-0.5	1.3
June <sup>(p)</sup>	18.0	22.4	-5.8	1.1	-0.2	0.7	-0.3	22.2	23.9	-2.6	-1.0	3.3	-0.5	-0.9
Growth rates														
2003 Dec.	7.2	6.7	7.7	5.3	41.5	-3.9	-12.4	3.7	7.9	-7.7	1.7	9.3	-13.2	-29.2
2004 Dec.	7.8	7.7	6.2	9.9	21.2	72.2	-0.8	4.5	6.9	-5.4	5.2	6.2	-2.1	5.2
2005 Jan.	7.9	8.9	5.8	7.2	15.2	14.4	-2.0	4.2	6.4	-4.6	4.8	5.9	-1.2	-3.5
Feb.	6.7	9.8	0.3	5.8	16.1	71.1	-12.2	4.4	6.6	-3.0	4.4	5.8	-0.1	-4.7
Mar.	7.4	9.4	3.7	4.4	15.2	68.0	-8.3	4.4	6.6	-2.7	3.8	5.6	0.1	-1.3
Apr.	7.7	9.3	7.0	-1.4	15.3	66.5	-11.2	4.7	7.2	-1.6	3.7	5.5	0.9	-2.9
May	7.0	10.3	2.9	-2.8	16.0	69.5	-16.7	4.5	6.6	-1.1	3.0	5.4	1.3	3.2
June <sup>(p)</sup>	8.0	10.1	5.6	0.2	15.5	75.7	-16.1	4.4	7.1	-1.1	2.7	4.8	1.2	1.5

### C9 Deposits by non-financial corporations and households

(annual growth rates)



Source: ECB.

1) MFI sector excluding the Eurosystem; sectoral classification is based on ESA 95.

2) Including non-profit institutions serving households.

## 2.5 Deposits held with MFIs, breakdown <sup>1)</sup>

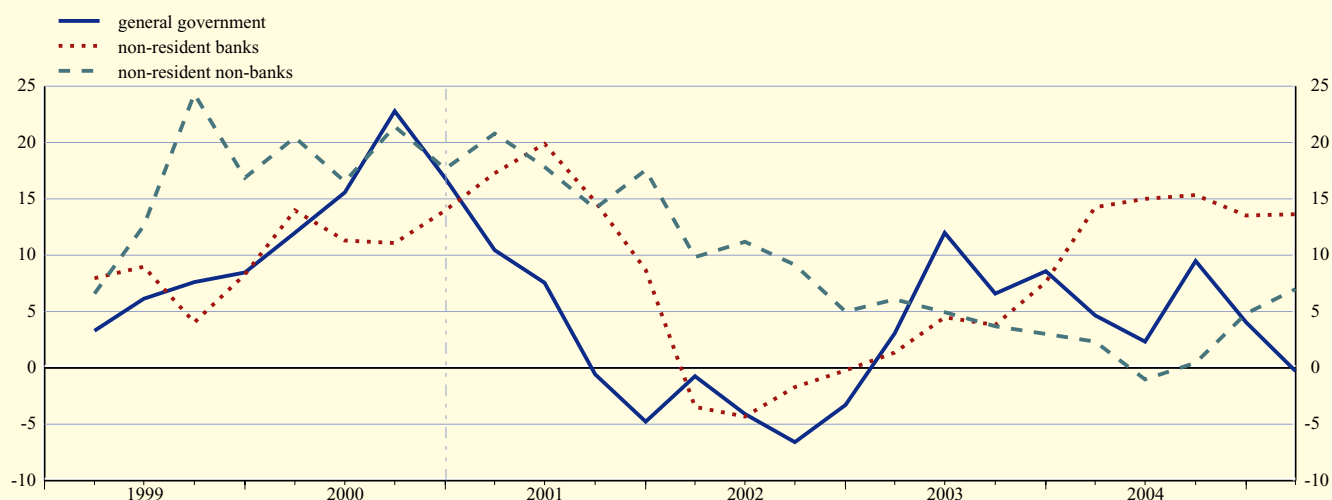
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

### 3. Deposits by government and non-euro area residents

	General government					Non-euro area residents				
	Total	Central government	Other general government			Total	Banks <sup>2)</sup>	Non-banks		
			State government	Local government	Social security funds			Total	General government	Other
	1	2	3	4	5	6	7	8	9	10
Outstanding amounts										
2002	248.4	106.9	31.6	69.2	40.7	2,271.0	1,585.3	685.7	97.4	588.3
2003	273.3	134.4	31.1	66.9	40.9	2,245.1	1,580.8	664.3	96.1	568.2
2004 Q1	272.7	140.7	30.0	62.4	39.6	2,444.2	1,742.7	701.5	100.8	600.7
Q2	294.4	156.6	31.6	64.5	41.7	2,470.4	1,787.8	682.6	102.0	580.6
Q3	288.2	146.3	33.0	66.2	42.6	2,452.1	1,764.8	687.4	105.1	582.3
Q4	282.2	137.7	30.5	69.6	44.3	2,428.9	1,748.0	680.9	103.4	577.5
2005 Q1 <sup>(p)</sup>	269.9	126.3	33.4	67.3	42.9	2,669.1	1,934.6	733.3	105.1	628.1
Transactions										
2002	-8.3	-0.2	1.8	0.4	-10.3	30.2	-4.9	35.2	3.6	31.6
2003	21.5	23.3	-0.5	-2.3	1.0	138.6	117.5	21.1	-1.3	22.4
2004 Q1	-0.6	6.2	-1.1	-4.5	-1.3	155.4	129.6	25.8	4.8	21.0
Q2	21.2	15.4	1.6	2.1	2.1	21.4	41.4	-20.1	1.2	-21.3
Q3	-4.9	-10.3	2.3	1.8	1.3	8.0	-3.5	11.5	3.1	8.4
Q4	-4.6	-8.7	-1.0	3.4	1.7	62.4	47.2	14.9	-2.1	17.0
2005 Q1 <sup>(p)</sup>	-12.2	-11.4	2.8	-2.2	-1.4	188.0	145.7	41.0	1.7	39.3
Growth rates										
2002 Dec.	-3.3	-0.2	5.9	0.5	-20.2	1.3	-0.2	5.0	3.9	5.1
2003 Dec.	8.6	21.3	-1.5	-3.4	2.6	6.2	7.6	3.0	-1.3	3.7
2004 Mar.	4.7	14.4	-6.2	-4.7	-1.4	10.6	14.3	2.3	3.1	2.2
June	2.4	7.9	-7.6	-0.2	-4.4	10.1	15.0	-1.0	7.9	-2.4
Sep.	9.5	13.2	5.1	3.2	11.5	10.8	15.4	0.4	12.5	-1.5
Dec.	4.0	2.1	5.6	4.1	9.2	11.0	13.5	4.8	7.2	4.4
2005 Mar. <sup>(p)</sup>	-0.3	-10.5	19.5	8.0	9.1	11.8	13.7	7.0	3.9	7.6

### C10 Deposits by government and non-euro area residents

(annual growth rates)



Source: ECB.

- 1) MFI sector excluding the Eurosystem; sectoral classification is based on ESA 95.
- 2) The term "banks" is used in this table to indicate institutions of a similar type to MFIs resident outside the euro area.



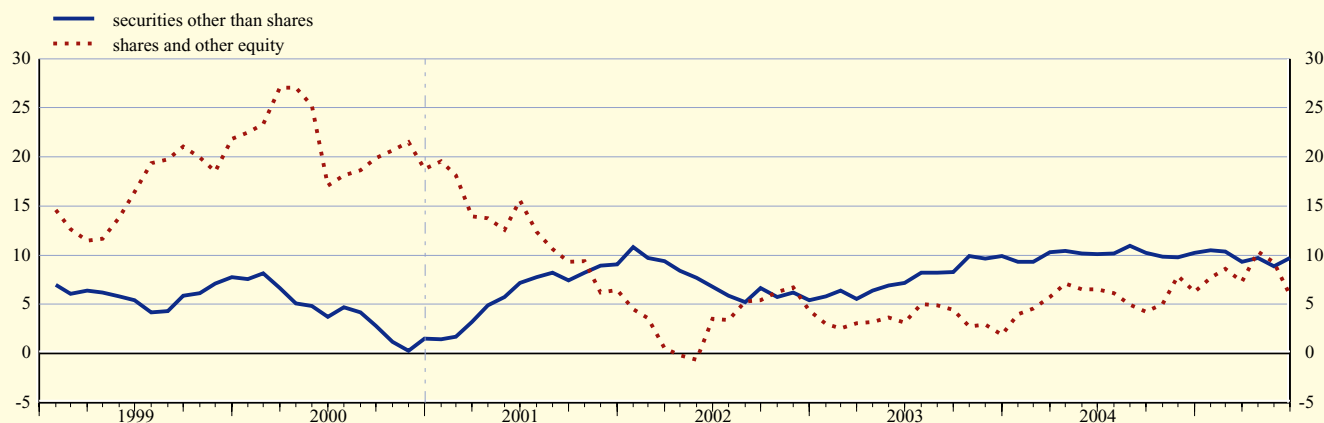
## 2.6 MFI holdings of securities, breakdown <sup>1)</sup>

(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

	Securities other than shares								Shares and other equity			
	Total	MFIs		General government		Other euro area residents		Non-euro area residents	Total	MFIs	Non-MFIs	Non-euro area residents
		Euro	Non-euro	Euro	Non-euro	Euro	Non-euro					
	1	2	3	4	5	6	7	8	9	10	11	12
Outstanding amounts												
2003	3,576.3	1,216.2	57.4	1,227.1	15.6	409.1	18.6	632.3	1,071.4	279.7	615.3	176.4
2004	3,939.5	1,362.7	59.9	1,284.1	15.8	449.0	16.3	751.7	1,158.3	286.5	656.6	215.2
2005 Jan.	4,031.9	1,361.6	65.6	1,321.0	18.9	453.1	16.4	795.4	1,189.9	292.7	668.8	228.4
Feb.	4,071.2	1,377.6	64.7	1,349.8	17.9	463.6	15.9	781.8	1,209.6	293.1	670.3	246.1
Mar.	4,093.1	1,388.9	66.6	1,342.7	15.8	464.9	16.3	797.9	1,217.0	296.1	674.4	246.5
Apr.	4,160.0	1,411.9	65.0	1,354.4	17.9	474.0	17.7	819.2	1,281.7	312.3	731.1	238.3
May	4,198.8	1,409.7	67.2	1,351.1	18.1	477.8	19.3	855.5	1,283.0	315.9	729.9	237.2
June <sup>(p)</sup>	4,254.0	1,434.1	67.5	1,363.6	15.7	484.7	20.5	868.0	1,235.1	294.6	706.2	234.4
Transactions												
2003	324.6	90.8	4.1	79.0	0.8	52.3	1.7	95.9	18.8	7.2	19.3	-7.8
2004	368.5	148.1	4.9	40.3	1.3	34.9	-1.3	140.4	67.4	2.2	34.4	30.8
2005 Jan.	79.0	2.7	3.9	33.4	2.5	4.7	-0.4	32.4	31.0	6.1	11.5	13.4
Feb.	46.2	15.8	-0.4	29.5	-0.7	10.8	-0.3	-8.5	16.9	-0.1	-0.3	17.3
Mar.	12.4	10.6	1.2	-7.5	-2.3	1.5	0.2	8.7	9.1	3.4	4.8	0.9
Apr.	60.5	23.1	-2.1	9.5	1.9	8.3	1.2	18.5	67.3	16.6	58.2	-7.4
May	16.6	-1.9	0.5	-6.2	-0.4	3.5	1.0	20.2	-6.6	2.7	-4.2	-5.2
June <sup>(p)</sup>	35.7	23.7	-0.3	2.7	-2.7	6.3	1.0	4.9	-48.3	-15.1	-28.4	-4.9
Growth rates												
2003 Dec.	9.9	8.1	8.7	6.9	5.0	14.8	8.2	17.2	1.9	2.7	3.4	-4.2
2004 Dec.	10.2	12.2	8.4	3.3	7.7	8.5	-7.3	22.0	6.3	0.8	5.6	17.2
2005 Jan.	10.5	11.1	10.6	4.7	23.7	9.7	-3.2	20.9	7.7	1.6	6.2	22.4
Feb.	10.4	10.5	16.2	5.5	18.7	11.1	-7.2	18.8	8.6	1.6	5.8	28.6
Mar.	9.3	9.1	14.1	3.9	-4.1	11.2	-4.6	19.2	7.3	1.9	4.0	26.4
Apr.	9.7	10.1	8.6	4.0	10.3	12.0	-0.2	18.7	10.4	5.5	9.3	21.4
May	8.9	9.0	10.6	1.3	7.3	11.5	10.8	21.4	9.2	5.1	8.7	17.4
June <sup>(p)</sup>	9.8	11.3	7.9	1.0	-10.2	11.8	13.5	23.2	5.9	1.1	6.5	10.7

## C11 MFI holdings of securities

(annual growth rates)



Source: ECB.

1) MFI sector excluding the Eurosystem; sectoral classification is based on ESA 95.

**2.7 Revaluation of selected MFI balance sheet items <sup>1)</sup>**  
(EUR billions)

**1. Write-offs/write-downs of loans to households <sup>2)</sup>**

	Consumer credit				Lending for house purchase				Other lending			
	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
	1	2	3	4	5	6	7	8	9	10	11	12
2003	-2.7	-1.1	-0.5	-1.1	-3.2	-0.3	-0.1	-2.8	-7.4	-2.8	-0.3	-4.3
2004	-3.2	-1.3	-0.7	-1.3	-3.4	-0.3	-0.1	-3.0	-6.6	-2.3	-0.3	-4.0
2005 Jan.	-0.6	-0.3	-0.1	-0.2	-0.6	-0.1	0.0	-0.5	-1.2	-0.5	-0.1	-0.6
Feb.	-0.4	-0.2	-0.1	-0.1	-0.4	0.0	0.0	-0.4	-0.8	-0.4	0.0	-0.4
Mar.	-0.3	-0.1	-0.1	-0.1	-0.2	0.0	0.0	-0.2	-0.8	-0.2	0.0	-0.5
Apr.	-0.3	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.3	-0.1	0.0	-0.2
May	-0.2	-0.1	0.0	-0.1	-0.1	0.0	0.0	-0.1	-0.4	-0.2	0.0	-0.2
June <sup>(p)</sup>	-0.2	-0.1	-0.1	-0.1	-0.5	0.0	0.0	-0.5	-0.9	-0.4	0.0	-0.4

**2. Write-offs/write-downs of loans to non-financial corporations and non-euro area residents**

	Non-financial corporations				Non-euro area residents		
	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year
	1	2	3	4	5	6	7
2003	-17.7	-8.8	-1.3	-7.6	-1.1	-0.3	-0.7
2004	-16.1	-8.8	-0.8	-6.4	-1.6	-0.5	-1.1
2005 Jan.	-2.6	-1.3	-0.3	-1.0	-0.2	0.0	-0.1
Feb.	-1.2	-0.6	-0.2	-0.5	-0.1	0.0	-0.1
Mar.	-1.3	-0.7	-0.2	-0.4	-0.1	0.0	0.0
Apr.	-0.8	-0.5	0.0	-0.3	0.0	0.0	0.0
May	-1.1	-0.5	0.0	-0.6	-0.2	0.0	-0.2
June <sup>(p)</sup>	-1.8	-1.0	-0.1	-0.8	-0.1	0.0	-0.1

**3. Revaluation of securities held by MFIs**

	Securities other than shares							Shares and other equity				
	Total	MFIs		General government		Other euro area residents		Non-euro area residents	Total	MFIs	Non-MFIs	Non-euro area residents
		Euro	Non-euro	Euro	Non-euro	Euro	Non-euro					
	1	2	3	4	5	6	7	8	9	10	11	12
2003	-1.2	-0.8	-0.3	3.0	0.0	-1.1	-0.1	-1.9	19.4	8.0	5.0	6.4
2004	13.4	1.5	-0.1	10.8	-0.2	0.8	-0.1	0.6	8.4	1.3	3.6	3.5
2005 Jan.	5.5	0.0	0.1	4.2	0.1	-0.2	0.1	1.3	2.9	0.4	1.1	1.4
Feb.	-2.0	0.3	0.0	-1.4	0.0	-0.3	0.0	-0.4	2.8	0.5	1.8	0.5
Mar.	2.4	0.7	0.0	1.0	0.0	-0.2	0.0	0.8	-1.1	-0.4	-0.2	-0.5
Apr.	3.8	0.4	0.0	2.2	0.0	0.8	0.0	0.4	-3.1	-0.8	-1.5	-0.8
May	6.0	0.5	0.1	2.9	0.1	0.3	0.1	2.2	7.8	0.8	3.0	4.1
June <sup>(p)</sup>	8.7	1.7	0.0	4.4	0.1	0.5	0.0	2.0	7.6	0.9	4.5	2.1

Source: ECB.

- 1) MFI sector excluding the Eurosystem; sectoral classification is based on ESA 95.  
2) Including non-profit institutions serving households.

## 2.8 Currency breakdown of selected MFI balance sheet items <sup>1)</sup>

(percentages of total; outstanding amounts in EUR billions; end of period)

### 1. Deposits

	MFIs <sup>2)</sup>							Non-MFIs						
	All currencies outstanding amount	Euro <sup>3)</sup>	Non-euro currencies				All currencies outstanding amount	Euro <sup>3)</sup>	Non-euro currencies					
			Total						Total					
			USD	JPY	CHF	GBP			USD	JPY	CHF	GBP		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
	By euro area residents													
2002	4,136.6	90.2	9.8	6.1	0.8	1.5	0.7	6,061.2	97.1	2.9	1.8	0.3	0.2	0.3
2003	4,364.9	91.3	8.7	5.4	0.5	1.5	0.9	6,409.9	97.3	2.7	1.7	0.3	0.1	0.3
2004 Q1	4,412.5	90.4	9.6	5.7	0.5	1.5	1.2	6,451.0	97.1	2.9	1.7	0.3	0.1	0.4
Q2	4,521.8	90.3	9.7	5.7	0.5	1.5	1.3	6,565.2	97.1	2.9	1.8	0.3	0.1	0.4
Q3	4,586.6	90.5	9.5	5.7	0.5	1.5	1.3	6,587.6	97.1	2.9	1.8	0.3	0.1	0.4
Q4	4,708.0	91.4	8.6	5.0	0.5	1.5	1.1	6,779.5	97.2	2.8	1.7	0.3	0.1	0.4
2005 Q1 <sup>3)</sup>	4,820.7	91.0	9.0	5.5	0.4	1.4	1.1	6,833.0	97.0	3.0	1.8	0.3	0.1	0.4
	By non-euro area residents													
2002	1,585.3	43.7	56.3	39.2	2.1	4.3	7.8	685.7	48.3	51.7	35.0	2.3	1.9	9.8
2003	1,580.8	46.9	53.1	35.6	1.8	3.6	9.4	664.3	51.0	49.0	32.1	2.1	2.2	9.6
2004 Q1	1,742.7	46.3	53.7	35.1	2.0	3.3	10.4	701.5	53.2	46.8	30.0	2.1	1.8	9.7
Q2	1,787.8	45.1	54.9	36.7	1.7	3.3	10.4	682.6	52.5	47.5	30.5	1.9	2.0	9.9
Q3	1,764.8	46.7	53.3	35.5	1.8	3.1	9.7	687.4	53.1	46.9	29.8	1.8	2.0	9.8
Q4	1,748.0	46.7	53.3	35.8	2.1	3.2	9.5	680.9	55.4	44.6	28.9	1.5	2.2	9.3
2005 Q1 <sup>3)</sup>	1,934.6	46.9	53.1	36.1	2.1	2.9	9.0	733.3	54.9	45.1	29.1	1.5	2.1	9.2

### 2. Debt securities issued by euro area MFIs

	All currencies outstanding amount	Euro <sup>3)</sup>	Non-euro currencies				
			Total				
			USD	JPY	CHF	GBP	
	1	2	3	4	5	6	7
2002	3,138.7	85.4	14.6	7.7	1.8	1.6	2.3
2003	3,304.0	85.4	14.6	7.9	1.5	1.7	2.3
2004 Q1	3,458.0	84.6	15.4	7.7	1.7	2.0	2.6
Q2	3,533.8	84.0	16.0	8.2	1.7	2.0	2.6
Q3	3,597.2	84.2	15.8	8.0	1.8	2.0	2.6
Q4	3,653.9	84.6	15.4	7.6	1.7	1.9	2.7
2005 Q1 <sup>3)</sup>	3,794.9	83.4	16.6	8.2	1.7	1.9	2.9

Source: ECB.

- 1) MFI sector excluding the Eurosystem; sectoral classification is based on ESA 95.
- 2) For non-euro area residents, the term "MFIs" refers to institutions of a similar type to euro area MFIs.
- 3) Including items expressed in the national denominations of the euro.

## 2.8 Currency breakdown of selected MFI balance sheet items <sup>1)</sup>

(percentages of total; outstanding amounts in EUR billions; end of period)

### 3. Loans

	MFIs <sup>2)</sup>							Non-MFIs						
	All currencies outstanding amount	Euro <sup>3)</sup>	Non-euro currencies				All currencies outstanding amount	Euro <sup>3)</sup>	Non-euro currencies					
			Total						Total					
			USD	JPY	CHF	GBP			USD	JPY	CHF	GBP		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
To euro area residents														
2002	4,017.8	-	-	-	-	-	7,593.6	96.2	3.8	1.8	0.5	1.1	0.3	
2003	4,193.9	-	-	-	-	-	7,919.3	96.5	3.5	1.6	0.3	1.2	0.3	
2004 Q1	4,224.9	-	-	-	-	-	7,993.4	96.4	3.6	1.6	0.3	1.2	0.4	
Q2	4,295.0	-	-	-	-	-	8,138.0	96.4	3.6	1.6	0.2	1.3	0.4	
Q3	4,356.4	-	-	-	-	-	8,213.5	96.5	3.5	1.5	0.2	1.3	0.4	
Q4	4,456.5	-	-	-	-	-	8,369.8	96.6	3.4	1.4	0.2	1.3	0.4	
2005 Q1 <sup>(p)</sup>	4,575.3	-	-	-	-	-	8,476.0	96.5	3.5	1.5	0.2	1.3	0.4	
To non-euro area residents														
2002	1,146.2	48.3	51.7	32.4	4.5	2.6	9.0	578.4	36.4	63.6	47.3	2.3	4.7	5.7
2003	1,182.2	50.2	49.8	29.3	4.7	2.5	9.2	575.7	38.8	61.2	43.6	2.4	4.6	7.0
2004 Q1	1,308.6	49.1	50.9	30.4	4.7	2.7	9.4	641.8	40.2	59.8	41.6	2.5	4.4	8.1
Q2	1,321.7	49.3	50.7	30.8	4.7	2.4	9.2	637.5	38.7	61.3	42.3	2.5	4.5	8.9
Q3	1,317.3	51.2	48.8	30.0	3.7	2.2	9.0	643.5	40.3	59.7	41.9	2.5	4.4	7.4
Q4	1,342.2	51.4	48.6	29.9	3.7	2.2	8.7	632.4	42.2	57.8	40.1	2.6	4.5	7.2
2005 Q1 <sup>(p)</sup>	1,468.7	51.9	48.1	29.5	3.5	2.0	8.9	667.9	41.6	58.4	42.4	1.4	4.3	7.1

### 4. Holdings of securities other than shares

	Issued by MFIs <sup>2)</sup>							Issued by non-MFIs						
	All currencies outstanding amount	Euro <sup>3)</sup>	Non-euro currencies				All currencies outstanding amount	Euro <sup>3)</sup>	Non-euro currencies					
			Total						Total					
			USD	JPY	CHF	GBP			USD	JPY	CHF	GBP		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
Issued by euro area residents														
2002	1,170.4	95.9	4.1	1.7	0.4	0.2	0.9	1,501.2	97.9	2.1	1.0	0.7	0.1	0.4
2003	1,273.6	95.5	4.5	1.7	0.3	0.9	1.3	1,670.3	98.0	2.0	1.0	0.5	0.3	0.2
2004 Q1	1,341.8	95.5	4.5	1.6	0.3	0.9	1.4	1,735.8	97.9	2.1	1.0	0.5	0.2	0.2
Q2	1,359.4	95.4	4.6	2.2	0.4	0.4	1.4	1,794.2	98.0	2.0	1.1	0.5	0.1	0.2
Q3	1,385.9	95.5	4.5	2.1	0.3	0.5	1.3	1,793.3	98.1	1.9	1.0	0.5	0.1	0.2
Q4	1,422.6	95.8	4.2	1.8	0.3	0.5	1.3	1,765.1	98.2	1.8	0.9	0.5	0.1	0.3
2005 Q1 <sup>(p)</sup>	1,455.5	95.4	4.6	2.0	0.4	0.4	1.5	1,839.7	98.3	1.7	0.9	0.4	0.1	0.3
Issued by non-euro area residents														
2002	239.6	36.9	63.1	45.5	1.7	0.6	13.2	317.1	41.5	58.5	42.0	5.8	0.9	5.6
2003	276.9	45.1	54.9	30.6	1.2	4.9	15.4	355.5	45.8	54.2	31.1	5.8	5.8	6.4
2004 Q1	309.2	44.7	55.3	29.6	1.2	5.0	16.6	380.8	44.4	55.6	31.1	6.1	5.4	7.1
Q2	312.7	46.3	53.7	32.8	1.1	0.6	16.8	388.4	45.2	54.8	33.6	6.7	1.0	7.4
Q3	322.3	47.7	52.3	32.2	1.0	0.5	16.2	411.1	44.2	55.8	32.3	7.6	0.8	8.4
Q4	341.3	50.3	49.7	28.6	1.0	0.5	17.0	410.4	44.8	55.2	30.5	8.6	0.7	9.2
2005 Q1 <sup>(p)</sup>	361.8	49.1	50.9	30.2	1.0	0.5	16.4	440.7	44.1	55.9	32.1	7.3	0.7	9.0

Source: ECB.

1) MFI sector excluding the Eurosystem; sectoral classification is based on ESA 95.

2) For non-euro area residents, the term "MFIs" refers to institutions of a similar type to euro area MFIs.

3) Including items expressed in the national denominations of the euro.

## 2.9 Aggregated balance sheet of euro area investment funds <sup>1)</sup>

(EUR billions; outstanding amounts at end of period)

### 1. Assets

	Total 1	Deposits 2	Holdings of securities other than shares			Holdings of shares/ other equity 6	Holdings of investment fund shares 7	Fixed assets 8	Other assets 9
			Total 3	Up to 1 year 4	Over 1 year 5				
2003 Q4	3,174.3	235.1	1,389.0	67.4	1,321.6	1,033.6	243.9	133.7	139.1
2004 Q1	3,356.2	266.5	1,434.5	70.4	1,364.1	1,103.9	263.2	136.9	151.2
Q2	3,373.2	244.9	1,430.8	69.4	1,361.5	1,121.1	278.5	140.3	157.6
Q3	3,392.8	246.7	1,472.8	72.1	1,400.6	1,095.3	281.0	144.4	152.6
Q4	3,509.0	240.1	1,497.6	71.9	1,425.7	1,157.8	293.7	146.9	172.9
2005 Q1 <sup>(p)</sup>	3,708.7	265.5	1,560.5	72.8	1,487.7	1,222.8	315.9	151.1	193.0

### 2. Liabilities

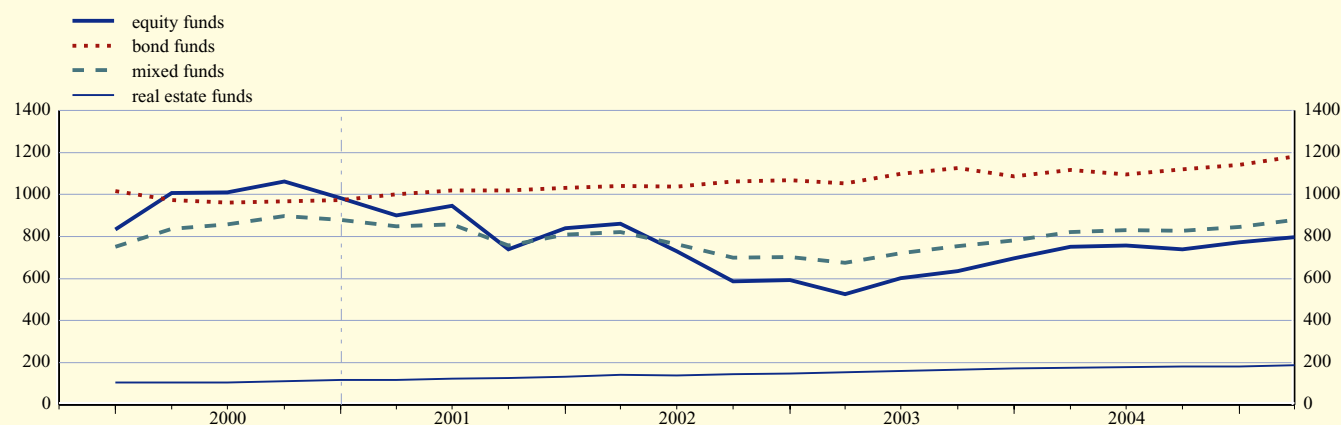
	Total 1	Deposits and loans taken 2	Investment fund shares 3	Other liabilities 4
2004 Q1	3,356.2	49.6	3,173.8	132.9
Q2	3,373.2	50.4	3,196.2	126.6
Q3	3,392.8	49.5	3,216.6	126.7
Q4	3,509.0	48.5	3,322.4	138.2
2005 Q1 <sup>(p)</sup>	3,708.7	56.0	3,478.4	174.4

### 3. Total assets/liabilities broken down by investment policy and type of investor

	Total 1	Funds by investment policy					Funds by type of investor	
		Equity funds 2	Bond funds 3	Mixed funds 4	Real estate funds 5	Other funds 6	General public funds 7	Special investors' funds 8
2003 Q4	3,174.3	697.8	1,086.3	783.0	171.7	435.5	2,317.7	856.6
2004 Q1	3,356.2	750.4	1,116.3	820.6	176.2	492.8	2,469.8	886.4
Q2	3,373.2	756.5	1,094.2	830.0	179.7	512.7	2,479.5	893.7
Q3	3,392.8	740.1	1,119.0	825.8	182.4	525.5	2,495.4	897.4
Q4	3,509.0	772.4	1,140.9	844.4	182.3	568.9	2,588.3	920.7
2005 Q1 <sup>(p)</sup>	3,708.7	797.1	1,179.4	879.5	186.2	666.5	2,758.1	950.6

### C12 Total assets of investment funds

(EUR billions)



Source: ECB.

1) Other than money market funds. Data refer to euro area countries excluding Ireland. For further details, see the General notes.

## 2.10 Assets of euro area investment funds broken down by investment policy and type of investor

(EUR billions; outstanding amounts at end of period)

## 1. Funds by investment policy

	Total 1	Deposits 2	Holdings of securities other than shares			Holdings of shares/ other equity 6	Holdings of investment fund shares 7	Fixed assets 8	Other assets 9
			Total 3	Up to 1 year 4	Over 1 year 5				
Equity funds									
2003 Q4	697.8	29.3	31.3	2.9	28.4	593.6	21.1	-	22.5
2004 Q1	750.4	32.8	32.2	3.0	29.2	635.6	23.4	-	26.5
Q2	756.5	31.5	31.6	3.2	28.3	642.8	25.3	-	25.3
Q3	740.1	31.5	33.0	3.7	29.3	625.3	25.1	-	25.1
Q4	772.4	28.5	33.9	3.7	30.2	653.4	28.0	-	28.6
2005 Q1 <sup>(p)</sup>	797.1	31.2	33.9	3.7	30.3	674.9	28.9	-	28.2
Bond funds									
2003 Q4	1,086.3	82.5	905.7	31.6	874.1	31.0	21.6	-	45.5
2004 Q1	1,116.3	97.3	918.4	35.3	883.1	32.6	21.4	-	46.6
Q2	1,094.2	79.1	910.0	36.3	873.7	33.0	21.8	-	50.3
Q3	1,119.0	80.8	932.4	38.8	893.6	31.9	23.4	-	50.5
Q4	1,140.9	77.5	943.6	39.9	903.7	36.9	23.4	-	59.5
2005 Q1 <sup>(p)</sup>	1,179.4	90.3	964.0	41.3	922.7	36.4	26.0	-	62.6
Mixed funds									
2003 Q4	783.0	49.4	323.8	22.1	301.7	272.3	100.5	0.3	36.7
2004 Q1	820.6	52.9	333.7	21.2	312.5	286.6	107.2	0.3	39.9
Q2	830.0	52.3	340.1	22.3	317.7	278.9	114.9	0.3	43.5
Q3	825.8	52.3	347.8	22.0	325.9	270.5	115.6	0.3	39.4
Q4	844.4	50.4	347.0	20.1	326.8	281.6	121.3	0.2	43.9
2005 Q1 <sup>(p)</sup>	879.5	55.9	358.5	20.8	337.7	290.3	124.1	0.1	50.6
Real estate funds									
2003 Q4	171.7	13.2	9.3	0.6	8.7	0.8	8.5	132.7	7.4
2004 Q1	176.2	14.7	9.1	0.6	8.5	0.7	7.7	135.9	8.0
Q2	179.7	15.0	8.6	0.6	7.9	0.7	7.7	139.2	8.7
Q3	182.4	14.4	8.5	0.6	7.9	0.7	7.5	143.1	8.0
Q4	182.3	14.6	7.1	0.7	6.4	0.9	6.9	144.8	8.0
2005 Q1 <sup>(p)</sup>	186.2	13.3	7.8	0.7	7.1	1.0	6.9	148.9	8.3

## 2. Funds by type of investor

	Total 1	Deposits 2	Holdings of securities other than shares 3	Holdings of shares/ other equity 4	Holdings of investment fund shares 5	Fixed assets 6	Other assets 7
2003 Q4	2,317.7	191.6	913.2	815.7	183.8	115.5	98.0
2004 Q1	2,469.8	219.2	948.7	877.3	198.8	117.8	107.9
Q2	2,479.5	202.1	945.8	890.2	211.0	120.5	109.8
Q3	2,495.4	205.7	974.3	872.6	213.2	124.0	105.5
Q4	2,588.3	201.2	992.9	926.0	221.4	127.4	119.4
2005 Q1 <sup>(p)</sup>	2,758.1	223.5	1,045.0	979.2	240.2	130.7	139.5
Special investors' funds							
2003 Q4	856.6	43.4	475.8	217.9	60.0	18.3	41.2
2004 Q1	886.4	47.3	485.8	226.5	64.4	19.1	43.3
Q2	893.7	42.8	485.0	230.8	67.5	19.8	47.8
Q3	897.4	41.0	498.4	222.7	67.7	20.4	47.2
Q4	920.7	38.9	504.7	231.8	72.3	19.5	53.5
2005 Q1 <sup>(p)</sup>	950.6	42.1	515.5	243.6	75.7	20.4	53.5

Source: ECB.



## FINANCIAL AND NON-FINANCIAL ACCOUNTS

### 3.1 Main financial assets of non-financial sectors

(EUR billions and annual growth rates; outstanding amounts at end of period, transactions during the period)

	Currency and deposits											Memo: deposits of non-banks with banks outside the euro area
	Total	Total	Currency	Deposits of non-financial sectors other than central government with euro area MFIs					Deposits of central government with euro area MFIs	Deposits with non-MFIs <sup>1)</sup>		
				Total	Overnight	With agreed maturity	Redeemable at notice	Repos				
	1	2	3	4	5	6	7	8	9	10	11	
Outstanding amounts												
2003 Q3	15,183.4	5,762.1	322.7	5,070.8	1,956.6	1,555.8	1,469.0	89.3	183.9	184.7	345.3	
Q4	15,597.7	5,884.1	352.4	5,183.2	2,027.5	1,559.1	1,511.4	85.2	155.7	192.8	348.0	
2004 Q1	15,810.8	5,915.0	350.8	5,180.6	2,020.6	1,545.0	1,533.9	81.2	183.8	199.8	397.6	
Q2	16,078.1	6,052.4	372.1	5,263.9	2,101.2	1,529.5	1,553.9	79.4	223.7	192.7	398.0	
Q3	16,158.8	6,077.0	383.5	5,284.3	2,104.2	1,532.2	1,565.1	82.8	204.1	205.1	395.3	
Q4	16,512.4	6,235.7	413.5	5,434.9	2,165.2	1,577.9	1,603.7	88.2	162.4	224.9	385.3	
Transactions												
2003 Q3	128.3	12.5	11.4	12.0	6.8	-3.8	12.9	-3.9	-13.7	2.8	17.1	
Q4	167.7	127.5	29.7	118.0	79.0	7.9	36.3	-5.2	-28.1	8.0	10.9	
2004 Q1	147.7	28.5	-1.6	-5.0	-7.6	-15.8	22.4	-3.9	28.1	7.0	44.1	
Q2	286.5	139.7	21.2	86.1	82.0	-14.7	20.7	-1.9	39.4	-7.1	-0.1	
Q3	122.9	29.0	11.5	24.8	4.6	5.5	11.3	3.4	-19.7	12.4	1.4	
Q4	175.5	167.5	30.0	159.4	65.2	49.9	38.9	5.4	-41.7	19.8	1.5	
Growth rates												
2003 Q3	4.9	6.5	23.9	4.7	8.2	-0.7	9.1	-23.5	22.8	12.9	24.9	
Q4	4.7	5.6	21.2	4.3	7.6	-1.0	8.1	-23.4	11.0	9.0	24.9	
2004 Q1	4.5	5.3	20.9	4.3	8.8	-1.3	6.5	-23.0	5.9	7.6	25.9	
Q2	4.8	5.4	19.5	4.2	8.3	-1.7	6.3	-15.7	12.8	5.0	21.9	
Q3	4.8	5.6	18.8	4.4	8.1	-1.1	6.2	-8.5	10.7	11.0	16.3	
Q4	4.7	6.2	17.3	5.1	7.1	1.6	6.2	3.6	3.9	16.7	13.5	
Securities other than shares      Shares <sup>2)</sup> Insurance technical reserves												
	Total	Short-term	Long-term	Total	Quoted shares	Mutual fund shares	Money market fund shares	Total	Net equity of households in life insurance reserves and pension fund reserves	Prepayments of insurance premiums and reserves for outstanding claims		
	12	13	14	15	16	17	18	19	20	21		
Outstanding amounts												
2003 Q3	1,951.1	186.5	1,764.6	3,638.0	1,769.9	1,868.1	408.7	3,832.2	3,460.8	371.5		
Q4	1,913.1	191.2	1,721.8	3,924.6	2,028.9	1,895.7	406.6	3,875.9	3,504.3	371.6		
2004 Q1	1,927.8	198.3	1,729.5	4,028.0	2,077.5	1,950.5	420.9	3,939.9	3,559.4	380.5		
Q2	1,958.0	214.6	1,743.4	4,076.1	2,133.7	1,942.4	424.3	3,991.6	3,607.6	384.0		
Q3	1,980.5	216.0	1,764.5	4,044.8	2,107.2	1,937.6	424.6	4,056.5	3,669.6	386.9		
Q4	1,979.9	207.0	1,772.9	4,180.0	2,228.5	1,951.5	406.7	4,116.7	3,727.1	389.7		
Transactions												
2003 Q3	11.9	2.4	9.5	45.6	23.6	22.1	2.7	58.3	54.9	3.4		
Q4	2.0	9.9	-8.0	-18.6	-18.5	-0.1	-10.2	56.8	57.3	-0.5		
2004 Q1	9.4	6.5	2.9	37.9	7.9	30.0	15.1	71.9	62.0	9.9		
Q2	33.6	15.0	18.6	58.6	58.2	0.4	-0.6	54.6	50.1	4.5		
Q3	17.2	1.6	15.5	14.5	11.5	3.0	-2.3	62.1	58.2	3.9		
Q4	-9.8	-10.7	0.9	-49.0	-38.0	-11.0	-16.5	66.9	63.1	3.8		
Growth rates												
2003 Q3	-1.7	-9.1	-0.7	4.4	1.6	7.2	9.3	6.3	6.7	3.5		
Q4	-1.1	-4.7	-0.7	4.1	1.2	7.1	8.5	6.8	7.1	3.9		
2004 Q1	-0.8	-0.6	-0.8	3.7	2.2	5.1	2.8	6.7	6.9	4.8		
Q2	2.9	18.2	1.3	3.4	4.1	2.9	1.7	6.4	6.6	4.7		
Q3	3.2	17.7	1.7	2.5	3.3	1.8	0.5	6.4	6.6	4.8		
Q4	2.6	6.5	2.2	1.6	2.0	1.2	-1.1	6.6	6.7	6.0		

Source: ECB.

- 1) Covering deposits with euro area central government (S.1311 in ESA 95), other financial intermediaries (S.123 in ESA 95) and insurance corporations and pension funds (S.125 in ESA 95).
- 2) Excluding unquoted shares.

## 3.2 Main liabilities of non-financial sectors

(EUR billions and annual growth rates; outstanding amounts at end of period, transactions during the period)

	Loans taken from euro area MFIs and other financial corporations by												Memo: loans taken from banks outside the euro area by non-banks
	Total			General government			Non-financial corporations			Households <sup>1)</sup>			
	Total	Taken from euro area MFIs		Total	Short-term	Long-term	Total	Short-term	Long-term	Total	Short-term	Long-term	
1	2	3	4	5	6	7	8	9	10	11	12	13	
Outstanding amounts													
2003 Q3	16,293.4	8,332.7	7,292.1	885.4	71.1	814.3	3,659.1	1,185.0	2,474.1	3,788.2	283.8	3,504.4	275.5
2003 Q4	16,639.4	8,479.4	7,395.7	957.0	81.0	876.0	3,663.0	1,167.8	2,495.2	3,859.4	284.6	3,574.8	266.4
2004 Q1	16,988.0	8,528.6	7,464.5	962.3	85.0	877.3	3,654.7	1,163.2	2,491.5	3,911.7	278.6	3,633.1	308.2
2004 Q2	17,187.5	8,675.7	7,595.2	954.6	90.4	864.2	3,698.7	1,171.5	2,527.1	4,022.5	290.5	3,732.0	308.0
2004 Q3	17,292.1	8,753.5	7,672.9	950.2	89.0	861.2	3,701.0	1,153.2	2,547.8	4,102.3	287.7	3,814.6	285.3
2004 Q4	17,662.5	8,887.4	7,796.6	952.3	79.7	872.6	3,749.1	1,174.6	2,574.5	4,186.1	292.9	3,893.2	290.3
Transactions													
2003 Q3	143.5	86.1	57.3	7.3	1.1	6.3	8.1	-25.8	33.9	70.7	-5.7	76.4	22.8
2003 Q4	133.2	117.2	118.4	23.3	9.9	13.4	16.1	-16.3	32.4	77.8	3.8	74.1	-1.4
2004 Q1	203.6	54.2	75.9	6.8	4.0	2.7	-10.2	-4.9	-5.3	57.6	-4.6	62.2	36.0
2004 Q2	270.1	155.1	134.4	-9.3	5.4	-14.7	70.2	15.5	54.7	94.3	8.6	85.7	-0.5
2004 Q3	148.7	79.7	86.1	-4.0	-1.4	-2.6	1.4	-15.9	17.3	82.3	-2.3	84.6	-19.5
2004 Q4	123.4	147.7	140.0	2.0	-9.4	11.3	61.7	21.0	40.7	84.0	6.1	77.8	14.2
Growth rates													
2003 Q3	5.2	5.5	4.3	2.7	33.1	0.7	4.6	1.1	6.4	7.1	-2.3	7.9	16.1
2003 Q4	4.9	5.1	4.6	3.6	36.5	1.1	3.4	0.2	5.0	7.2	-1.9	8.0	12.9
2004 Q1	4.6	4.6	4.7	3.7	26.6	1.8	1.9	-1.8	3.7	7.5	-0.7	8.2	23.3
2004 Q2	4.6	5.0	5.3	3.2	29.1	1.0	2.3	-2.6	4.7	8.1	0.7	8.7	22.4
2004 Q3	4.6	4.9	5.7	1.9	25.1	-0.1	2.1	-1.8	4.0	8.2	1.9	8.7	5.3
2004 Q4	4.5	5.1	5.9	-0.5	-1.7	-0.4	3.4	1.3	4.3	8.2	2.8	8.7	11.4
Securities other than shares issued by													
	Total			General government			Non-financial corporations			Quoted shares issued by non-financial corporations	Deposit liabilities of central government	Pension fund reserves of non- financial corporations	
	Total			Total	Short-term	Long-term	Total	Short-term	Long-term				
	14	15	16	17	18	19	20	21	22	23			
Outstanding amounts													
2003 Q3	5,021.5	4,410.4	561.0	3,849.3	611.1	192.0	419.2	2,473.0	174.3	291.9			
2003 Q4	4,959.5	4,336.5	548.4	3,788.1	623.0	196.7	426.4	2,726.3	181.7	292.5			
2004 Q1	5,139.7	4,520.7	590.8	3,929.9	619.0	208.9	410.1	2,834.1	189.0	296.5			
2004 Q2	5,186.3	4,555.1	616.3	3,938.7	631.2	218.7	412.5	2,843.0	181.9	300.7			
2004 Q3	5,276.1	4,638.5	614.2	4,024.3	637.6	216.7	421.0	2,763.5	194.0	305.0			
2004 Q4	5,281.2	4,645.4	581.9	4,063.5	635.8	213.9	421.8	2,980.9	213.5	299.5			
Transactions													
2003 Q3	48.0	39.0	-8.8	47.8	9.0	5.5	3.5	3.9	2.4	3.1			
2003 Q4	4.0	-5.6	-15.6	10.0	9.6	0.8	8.8	0.2	7.4	4.4			
2004 Q1	137.1	143.7	42.1	101.6	-6.7	12.2	-18.8	2.1	7.3	2.9			
2004 Q2	114.6	100.3	25.4	74.9	14.3	10.5	3.8	4.4	-7.1	3.1			
2004 Q3	47.8	39.4	-0.8	40.1	8.4	-1.0	9.5	5.9	12.1	3.2			
2004 Q4	-50.7	-48.0	-32.6	-15.4	-2.7	-3.9	1.2	3.2	19.4	3.8			
Growth rates													
2003 Q3	6.7	6.0	13.8	5.0	12.1	27.7	6.1	0.7	13.2	4.4			
2003 Q4	6.5	5.7	12.3	4.8	13.0	22.2	9.1	0.8	8.9	4.9			
2004 Q1	6.1	6.1	9.9	5.6	6.0	13.8	2.5	1.0	7.5	4.8			
2004 Q2	6.0	6.3	7.6	6.1	4.3	15.6	-0.7	0.4	4.8	4.7			
2004 Q3	6.0	6.3	9.1	5.9	4.2	11.7	0.8	0.5	11.3	4.7			
2004 Q4	5.0	5.4	6.2	5.3	2.1	9.1	-1.0	0.6	17.5	4.5			

Source: ECB.

1) Including non-profit institutions serving households.



### 3.3 Main financial assets and liabilities of insurance corporations and pension funds

(EUR billions and annual growth rates; outstanding amounts at end of period, transactions during the period)

Main financial assets												
	Total	Deposits with euro area MFIs					Loans			Securities other than shares		
		Total	Overnight	With agreed maturity	Redeemable at notice	Repos	Total	Short-term	Long-term	Total	Short-term	Long-term
	1	2	3	4	5	6	7	8	9	10	11	12
Outstanding amounts												
2003 Q3	3,504.5	533.3	57.5	455.3	1.8	18.7	341.5	61.3	280.2	1,422.4	59.7	1,362.7
Q4	3,598.1	542.4	58.9	462.3	2.1	19.1	336.6	61.6	275.0	1,459.4	59.1	1,400.3
2004 Q1	3,736.0	557.3	64.7	468.3	2.3	22.0	346.4	64.0	282.4	1,522.8	61.5	1,461.3
Q2	3,757.4	565.4	59.9	482.0	2.3	21.2	343.6	65.5	278.1	1,529.2	63.0	1,466.2
Q3	3,814.5	573.6	61.5	489.8	2.3	20.0	345.4	66.1	279.3	1,574.0	62.8	1,511.2
Q4	3,901.5	583.2	59.2	500.8	2.5	20.8	340.1	68.4	271.6	1,622.5	61.2	1,561.3
Transactions												
2003 Q3	33.1	-6.2	-6.4	3.8	0.3	-3.8	0.9	-0.6	1.5	27.4	2.9	24.5
Q4	67.8	10.2	1.5	7.9	0.3	0.5	-5.3	0.0	-5.4	48.9	-1.4	50.3
2004 Q1	90.5	14.6	5.7	5.9	0.2	2.8	9.8	2.6	7.2	45.9	2.1	43.8
Q2	30.2	7.2	-4.9	13.7	-0.6	-0.9	-2.7	1.6	-4.3	24.5	1.0	23.5
Q3	46.2	8.2	1.6	7.8	-0.1	-1.1	1.8	0.7	1.2	25.1	-0.6	25.7
Q4	54.5	9.9	-1.7	10.6	0.2	0.7	-5.6	2.2	-7.8	41.0	-0.8	41.8
Growth rates												
2003 Q3	6.2	5.0	11.7	3.6	-1.6	28.2	0.2	-17.4	5.2	10.2	25.8	9.6
Q4	6.2	3.6	2.9	3.5	17.9	6.1	-3.2	-11.3	-1.2	11.1	14.1	11.0
2004 Q1	7.1	3.9	5.0	3.0	38.5	18.7	2.6	3.4	2.4	10.4	10.8	10.4
Q2	6.4	4.8	-6.4	6.9	6.5	-6.3	0.8	5.8	-0.3	10.5	8.1	10.6
Q3	6.7	7.5	6.8	7.7	-12.8	6.7	1.1	8.0	-0.4	10.1	1.8	10.5
Q4	6.2	7.4	1.2	8.2	-12.0	7.8	1.0	11.5	-1.3	9.4	2.9	9.6

Main financial assets							Main liabilities							
Shares <sup>1)</sup>				Prepayments of insurance premiums and reserves for outstanding claims	Total	Loans taken from euro area MFIs and other financial corporations	Securities other than shares	Quoted shares	Insurance technical reserves					
Total	Quoted shares	Mutual fund shares	Money market fund shares						Total	Net equity of households in life insurance reserves and pension fund reserves	Prepayments of insurance premiums and reserves for outstanding claims	Total	Net equity of households in life insurance reserves and pension fund reserves	Prepayments of insurance premiums and reserves for outstanding claims
13	14	15	16	17	18	19	20	21	22	23	24	25		
Outstanding amounts														
2003 Q3	1,092.1	483.9	608.2	60.6	115.2	3,794.9	62.7	44.3	19.0	164.8	3,548.4	3,022.8	525.7	
Q4	1,151.9	520.6	631.3	64.1	107.8	3,851.0	51.9	35.4	21.0	189.9	3,588.1	3,061.6	526.5	
2004 Q1	1,198.2	537.0	661.2	63.4	111.3	3,936.5	61.6	46.3	21.5	190.9	3,662.5	3,123.6	538.9	
Q2	1,207.0	535.8	671.2	63.6	112.2	3,993.4	69.6	53.7	22.0	193.3	3,708.6	3,165.5	543.1	
Q3	1,207.6	528.3	679.2	63.1	114.0	4,038.1	69.5	52.5	20.4	185.7	3,762.5	3,214.7	547.7	
Q4	1,240.7	550.8	689.9	68.3	115.0	4,106.7	64.1	48.6	21.3	207.1	3,814.2	3,264.0	550.2	
Transactions														
2003 Q3	9.6	4.6	5.0	-4.3	1.4	57.2	2.0	-0.5	0.5	0.0	54.7	49.9	4.8	
Q4	21.3	5.9	15.4	4.1	-7.2	45.9	-10.8	-8.9	1.9	5.0	49.8	49.5	0.2	
2004 Q1	16.6	-0.4	17.0	-0.8	3.6	80.6	9.6	10.8	0.4	0.8	69.8	56.4	13.4	
Q2	0.0	-7.4	7.4	-0.1	1.1	58.7	7.6	7.0	0.5	0.1	50.5	45.3	5.2	
Q3	9.0	3.4	5.6	-0.5	2.0	59.3	-0.1	-1.1	-1.3	2.1	58.6	52.9	5.7	
Q4	7.6	2.1	5.5	5.3	1.5	49.9	-5.1	-3.6	0.6	0.1	54.3	50.8	3.5	
Growth rates														
2003 Q3	4.0	-0.6	7.6	17.7	4.6	6.2	6.7	9.4	2.8	2.8	6.4	6.9	3.6	
Q4	5.1	1.9	7.6	11.3	-1.0	6.9	12.9	12.7	13.4	6.2	6.8	7.3	4.2	
2004 Q1	6.5	3.2	8.8	5.9	-0.1	6.7	0.9	8.5	16.3	8.3	6.7	7.1	4.9	
Q2	4.5	0.6	7.5	-1.7	-0.9	6.5	14.0	18.8	18.4	3.5	6.4	6.8	4.5	
Q3	4.3	0.3	7.5	4.6	-0.4	6.4	10.2	17.5	8.4	4.8	6.4	6.8	4.7	
Q4	2.9	-0.4	5.6	6.2	7.6	6.5	23.3	36.9	1.5	1.6	6.5	6.7	5.3	

Source: ECB.

1) Excluding unquoted shares.

## 3.4 Annual saving, investment and financing

(EUR billions, unless otherwise indicated)

## 1. All sectors in the euro area

	Net acquisition of non-financial assets					Net acquisition of financial assets							
	Total	Gross fixed capital formation	Consumption of fixed capital (-)	Changes in inventories <sup>1)</sup>	Non-produced assets	Total	Monetary gold and SDRs	Currency and deposits	Securities other than shares <sup>2)</sup>	Loans	Shares and other equity	Insurance technical reserves	Other investment (net) <sup>3)</sup>
	1	2	3	4	5	6	7	8	9	10	11	12	13
1997	338.2	1,136.1	-797.1	-0.9	0.0	1,951.2	-0.2	390.9	330.7	464.6	491.4	224.1	49.7
1998	404.8	1,201.3	-823.6	27.0	0.2	2,419.2	11.0	419.6	360.1	515.3	845.0	213.7	54.6
1999	444.5	1,290.9	-863.7	17.1	0.2	3,117.8	1.3	559.2	429.1	878.8	942.2	259.2	47.9
2000	486.6	1,394.2	-913.1	22.2	-16.7	2,910.7	1.3	350.9	264.6	829.9	1,189.1	251.3	23.5
2001	466.2	1,449.6	-973.6	-11.8	2.0	2,590.6	-0.5	579.0	449.1	731.2	602.3	248.8	-19.4
2002	413.7	1,439.3	-1,005.4	-21.3	1.1	2,292.7	0.9	656.6	279.7	632.8	468.4	220.8	33.5
2003	433.1	1,464.8	-1,034.5	2.4	0.5	2,403.0	1.7	678.6	426.8	578.8	456.6	240.7	19.8

	Changes in net worth <sup>4)</sup>				Net incurrence of liabilities					
	Total	Gross saving	Consumption of fixed capital (-)	Net capital transfers receivable	Total	Currency and deposits	Securities other than shares <sup>2)</sup>	Loans	Shares and other equity	Insurance technical reserves
	14	15	16	17	18	19	20	21	22	23
1997	455.7	1,241.8	-797.1	11.0	1,833.7	509.7	318.0	393.1	382.5	230.3
1998	486.5	1,299.1	-823.6	11.1	2,337.4	648.8	323.2	484.6	659.8	221.0
1999	498.0	1,352.0	-863.7	9.7	3,064.3	934.9	503.4	765.2	597.1	263.7
2000	515.1	1,419.4	-913.1	8.8	2,882.2	539.5	416.9	882.9	788.7	254.1
2001	486.0	1,449.4	-973.6	10.2	2,570.8	668.9	489.9	634.3	521.6	256.0
2002	472.7	1,468.2	-1,005.4	9.9	2,233.7	572.9	442.0	618.0	376.2	224.7
2003	443.5	1,472.8	-1,034.5	5.2	2,392.7	676.2	514.0	539.3	420.3	242.8

## 2. Non-financial corporations

	Net acquisition of non-financial assets			Net acquisition of financial assets					Changes in net worth <sup>4)</sup>		Net incurrence of liabilities			
	Total	Gross fixed capital formation	Consumption of fixed capital (-)	Total	Currency and deposits	Securities other than shares <sup>2)</sup>	Loans	Shares and other equity	Total	Gross saving	Total	Securities other than shares <sup>2)</sup>	Loans	Shares and other equity
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1997	150.3	591.9	-453.2	272.3	26.0	-12.1	65.8	100.8	104.8	521.3	317.8	12.1	175.9	120.1
1998	193.7	635.1	-470.6	439.8	45.7	-11.5	110.9	204.5	147.6	569.1	485.9	22.8	257.2	194.9
1999	212.0	683.1	-490.7	654.0	24.5	93.6	186.0	336.3	106.7	547.6	759.3	47.5	434.1	261.1
2000	306.1	751.6	-522.4	921.0	74.2	87.4	230.4	511.4	79.9	554.9	1,147.2	61.0	597.1	480.7
2001	215.7	778.9	-558.8	638.2	101.6	44.6	169.2	232.1	91.3	590.5	762.6	99.7	355.5	295.9
2002	171.9	757.6	-581.0	515.7	31.8	-55.7	174.2	253.1	108.6	633.2	579.0	21.0	352.0	190.8
2003	156.7	746.4	-597.9	360.9	69.3	-57.9	107.6	191.3	80.5	647.0	437.1	55.0	174.1	194.9

3. Households<sup>5)</sup>

	Net acquisition of non-financial assets			Net acquisition of financial assets					Changes in net worth <sup>4)</sup>		Net incurrence of liabilities		Memo:	
	Total	Gross fixed capital formation	Consumption of fixed capital (-)	Total	Currency and deposits	Securities other than shares <sup>2)</sup>	Shares and other equity	Insurance technical reserves	Total	Gross saving	Total	Loans	Disposable income	Gross saving ratio <sup>6)</sup>
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1997	154.1	374.7	-210.3	441.3	69.3	-20.8	192.5	217.6	425.7	615.5	169.7	168.3	3,852.4	16.0
1998	171.4	387.8	-215.1	453.0	92.9	-119.0	287.4	209.3	409.7	593.4	214.6	213.3	3,954.9	15.0
1999	185.5	418.2	-230.2	478.8	122.6	-28.5	195.8	245.2	395.9	580.1	268.4	266.9	4,105.3	14.1
2000	200.4	442.2	-239.5	433.8	66.2	35.3	122.6	245.9	407.7	607.5	226.4	224.7	4,329.8	14.0
2001	192.1	452.6	-256.5	414.1	180.7	82.7	45.4	229.1	430.0	650.1	176.2	174.3	4,619.4	14.1
2002	186.9	463.8	-260.6	469.7	220.6	83.1	-1.0	211.3	443.3	661.2	213.2	211.1	4,747.8	13.9
2003	209.3	485.0	-268.7	515.9	224.2	16.6	83.6	229.8	465.0	697.9	260.2	257.9	4,904.2	14.2

Source: ECB.

- Including net acquisition of valuables.
- Excluding financial derivatives.
- Financial derivatives, other accounts receivable/payable and statistical discrepancies.
- Arising from saving and net capital transfers receivable, after allowance for consumption of fixed capital (-).
- Including non-profit institutions serving households.
- Gross saving as a percentage of disposable income.



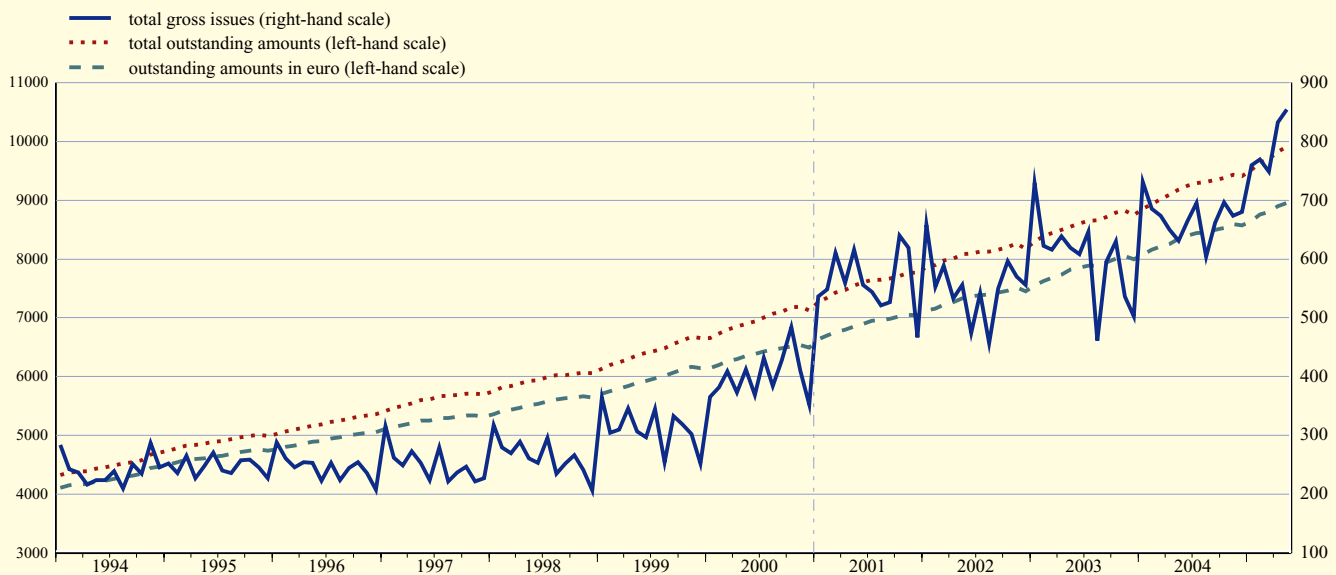
## FINANCIAL MARKETS

### 4.1 Securities, other than shares, by original maturity, residency of the issuer and currency

(EUR billions, unless otherwise indicated; transactions during the month and end-of-period outstanding amounts; nominal values)

	Total in euro <sup>1)</sup>				By euro area residents							
	Outstanding amounts	Gross issues	Redemptions	Net issues	Total				Of which in euro			
					Outstanding amounts	Gross issues	Redemptions	Net issues	Outstanding amounts (%)	Gross issues (%)	Redemptions (%)	Net issues
	1	2	3	4	5	6	7	8	9	10	11	12
<b>Total</b>												
2004 May	9,625.4	649.2	549.6	99.6	9,179.2	630.9	543.6	87.3	90.9	93.9	94.9	76.4
June	9,736.3	711.3	602.1	109.2	9,249.3	664.7	598.0	66.8	90.8	94.3	94.7	60.3
July	9,759.0	707.8	686.3	21.5	9,294.3	695.2	653.9	41.3	90.8	94.1	94.6	35.5
Aug.	9,791.7	619.8	590.5	29.3	9,309.8	603.7	590.2	13.5	90.8	94.7	94.8	12.8
Sep.	9,904.6	725.1	616.4	108.7	9,342.6	661.2	621.5	39.6	91.0	94.9	94.5	40.2
Oct.	9,930.4	712.2	690.2	22.0	9,379.6	696.7	656.0	40.7	91.0	93.7	94.9	30.4
Nov.	10,021.0	703.7	618.7	85.0	9,435.5	673.9	615.1	58.8	91.1	94.3	94.3	55.9
Dec.	10,025.0	706.3	701.2	5.1	9,408.3	680.1	702.3	-22.2	91.1	95.3	95.2	-21.0
2005 Jan.	10,091.1	763.2	709.4	53.8	9,522.9	759.5	675.9	83.6	90.8	93.8	95.6	66.1
Feb.	10,212.0	793.1	675.4	117.7	9,637.1	769.2	654.2	115.1	90.9	94.5	95.1	104.5
Mar.	10,320.5	797.1	689.1	108.0	9,705.9	749.2	693.7	55.5	90.7	93.9	94.9	45.0
Apr.	.	.	.	.	9,822.4	833.1	728.8	104.3	90.6	94.4	95.9	87.9
May	.	.	.	.	9,912.5	854.6	789.4	65.2	90.3	95.4	95.6	60.5
<b>Long-term</b>												
2004 May	8,718.7	174.8	72.0	102.8	8,234.7	156.6	67.6	88.9	91.1	89.3	90.8	78.3
June	8,806.3	204.2	120.3	83.9	8,309.0	181.2	112.6	68.6	91.2	92.9	92.2	64.4
July	8,845.6	190.3	153.1	37.1	8,348.5	173.4	139.1	34.4	91.1	91.8	93.7	28.8
Aug.	8,873.0	87.2	61.9	25.3	8,364.1	75.3	59.8	15.5	91.1	86.9	91.6	10.6
Sep.	8,967.5	191.4	101.9	89.5	8,413.7	156.7	104.6	52.1	91.2	91.6	89.0	50.4
Oct.	9,004.4	174.0	140.0	34.1	8,435.0	158.1	131.9	26.2	91.2	88.0	93.7	15.6
Nov.	9,079.6	168.7	98.3	70.3	8,488.6	155.1	95.3	59.7	91.2	89.1	92.2	50.3
Dec.	9,104.6	148.2	123.0	25.1	8,496.1	135.7	119.2	16.5	91.4	91.6	90.4	16.6
2005 Jan.	9,175.1	198.4	137.7	60.8	8,585.7	195.0	130.7	64.3	91.1	89.7	93.8	52.2
Feb.	9,291.6	220.9	106.9	114.0	8,689.2	199.4	95.5	103.9	91.2	90.4	89.5	94.8
Mar.	9,368.5	203.1	126.8	76.3	8,758.4	184.0	124.4	59.6	91.0	88.9	90.0	51.5
Apr.	.	.	.	.	8,843.4	180.1	104.9	75.2	90.9	90.1	94.0	63.7
May	.	.	.	.	8,930.9	164.3	99.0	65.3	90.7	90.8	91.3	58.8

### C13 Total outstanding amounts and gross issues of securities, other than shares, issued by euro area residents (EUR billions)



Sources: ECB and BIS (for issues by non-euro area residents).

1) Total euro-denominated securities, other than shares, issued by euro area residents and non-euro area residents.

## 4.2 Securities, other than shares, issued by euro area residents, by sector of the issuer and instrument type

(EUR billions unless otherwise indicated; nominal values)

### 1. Outstanding amounts

(end of period)

	Total						Of which in euro (%)					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government
1	2	3	4	5	6	7	8	9	10	11	12	
	Total											
2003	8,748	3,353	665	589	3,923	219	91.4	85.0	87.5	88.3	97.7	95.4
2004	9,408	3,710	735	593	4,120	250	91.1	84.1	90.4	87.6	97.8	95.6
2004 Q2	9,249	3,574	688	604	4,144	239	90.8	84.0	88.2	87.4	97.4	95.5
Q3	9,343	3,641	690	601	4,169	242	91.0	84.0	89.0	87.3	97.6	95.7
Q4	9,408	3,710	735	593	4,120	250	91.1	84.1	90.4	87.6	97.8	95.6
2005 Q1	9,706	3,845	755	611	4,235	260	90.7	83.2	90.7	87.8	97.6	95.7
2005 Feb.	9,637	3,800	743	606	4,229	259	90.9	83.6	90.6	87.7	97.6	95.7
Mar.	9,706	3,845	755	611	4,235	260	90.7	83.2	90.7	87.8	97.6	95.7
Apr.	9,822	3,903	776	619	4,261	263	90.6	83.0	90.7	87.7	97.6	95.7
May	9,913	3,935	796	626	4,293	262	90.3	82.6	90.7	87.6	97.4	95.9
	Short-term											
2003	861	390	6	94	367	3	89.3	78.4	100.0	94.1	99.6	88.0
2004	912	447	7	90	362	5	88.7	78.5	94.1	95.5	99.5	87.3
2004 Q2	940	420	5	108	402	5	88.0	76.3	100.0	95.2	98.2	83.7
Q3	929	412	6	100	405	6	88.9	77.8	96.2	95.5	98.5	85.8
Q4	912	447	7	90	362	5	88.7	78.5	94.1	95.5	99.5	87.3
2005 Q1	947	455	8	105	374	5	87.5	76.2	96.7	96.7	98.6	86.4
2005 Feb.	948	456	8	106	372	6	88.2	77.5	96.8	96.4	98.8	87.4
Mar.	947	455	8	105	374	5	87.5	76.2	96.7	96.7	98.6	86.4
Apr.	979	481	8	111	374	5	87.4	76.5	97.5	96.7	98.5	81.2
May	982	476	8	114	378	5	87.1	75.7	97.6	97.2	98.4	81.8
	Total long-term <sup>1)</sup>											
2003	7,887	2,963	659	495	3,556	216	91.6	85.9	87.4	87.2	97.5	95.5
2004	8,496	3,263	728	503	3,758	245	91.4	84.9	90.4	86.2	97.6	95.8
2004 Q2	8,309	3,154	683	495	3,742	234	91.2	85.0	88.1	85.7	97.3	95.8
Q3	8,414	3,229	683	501	3,764	236	91.2	84.8	89.0	85.7	97.5	95.9
Q4	8,496	3,263	728	503	3,758	245	91.4	84.9	90.4	86.2	97.6	95.8
2005 Q1	8,758	3,390	747	506	3,861	254	91.0	84.2	90.6	85.9	97.5	95.9
2005 Feb.	8,689	3,344	735	500	3,858	253	91.2	84.4	90.5	85.8	97.5	95.9
Mar.	8,758	3,390	747	506	3,861	254	91.0	84.2	90.6	85.9	97.5	95.9
Apr.	8,843	3,422	768	509	3,888	257	90.9	83.9	90.6	85.7	97.5	96.0
May	8,931	3,459	788	512	3,915	257	90.7	83.5	90.7	85.5	97.3	96.2
	Of which long-term fixed rate											
2003	6,115	1,885	406	419	3,240	165	91.8	85.4	80.4	86.7	97.4	95.4
2004	6,376	1,927	416	411	3,435	186	91.7	84.0	83.9	85.5	97.5	95.6
2004 Q2	6,362	1,942	414	416	3,413	177	91.5	84.5	81.1	84.9	97.3	95.6
Q3	6,388	1,950	408	414	3,436	180	91.6	84.1	82.2	85.2	97.5	95.8
Q4	6,376	1,927	416	411	3,435	186	91.7	84.0	83.9	85.5	97.5	95.6
2005 Q1	6,516	1,966	427	412	3,515	196	91.5	83.3	84.4	85.1	97.4	95.8
2005 Feb.	6,492	1,957	418	407	3,518	193	91.6	83.5	84.1	85.0	97.4	95.8
Mar.	6,516	1,966	427	412	3,515	196	91.5	83.3	84.4	85.1	97.4	95.8
Apr.	6,553	1,971	430	413	3,541	199	91.4	82.9	84.1	85.0	97.4	95.9
May	6,600	1,982	433	415	3,571	199	91.2	82.7	83.9	84.7	97.3	95.9
	Of which long-term variable rate											
2003	1,579	959	249	59	262	51	91.3	87.5	98.7	89.5	97.5	95.8
2004	1,868	1,147	309	78	275	59	90.9	86.9	99.0	89.1	97.7	96.6
2004 Q2	1,715	1,049	266	66	277	57	90.8	86.7	98.8	89.7	97.5	96.2
Q3	1,771	1,101	273	73	269	56	90.6	86.7	98.9	87.6	97.5	96.3
Q4	1,868	1,147	309	78	275	59	90.9	86.9	99.0	89.1	97.7	96.6
2005 Q1	1,957	1,211	318	80	291	58	90.5	86.3	98.9	89.2	98.0	96.3
2005 Feb.	1,921	1,181	314	79	287	59	90.7	86.5	99.0	89.1	97.7	96.5
Mar.	1,957	1,211	318	80	291	58	90.5	86.3	98.9	89.2	98.0	96.3
Apr.	2,007	1,232	334	81	302	58	90.4	86.1	98.9	88.5	98.0	96.3
May	2,038	1,250	352	82	297	58	90.3	85.8	98.9	88.6	98.0	97.2

Source: ECB.

1) The residual difference between total long-term debt securities and fixed and variable rate long-term debt securities consists of zero coupon bonds and revaluation effects.

## 4.2 Securities, other than shares, issued by euro area residents, by sector of the issuer and instrument type

(EUR billions unless otherwise indicated; nominal values)

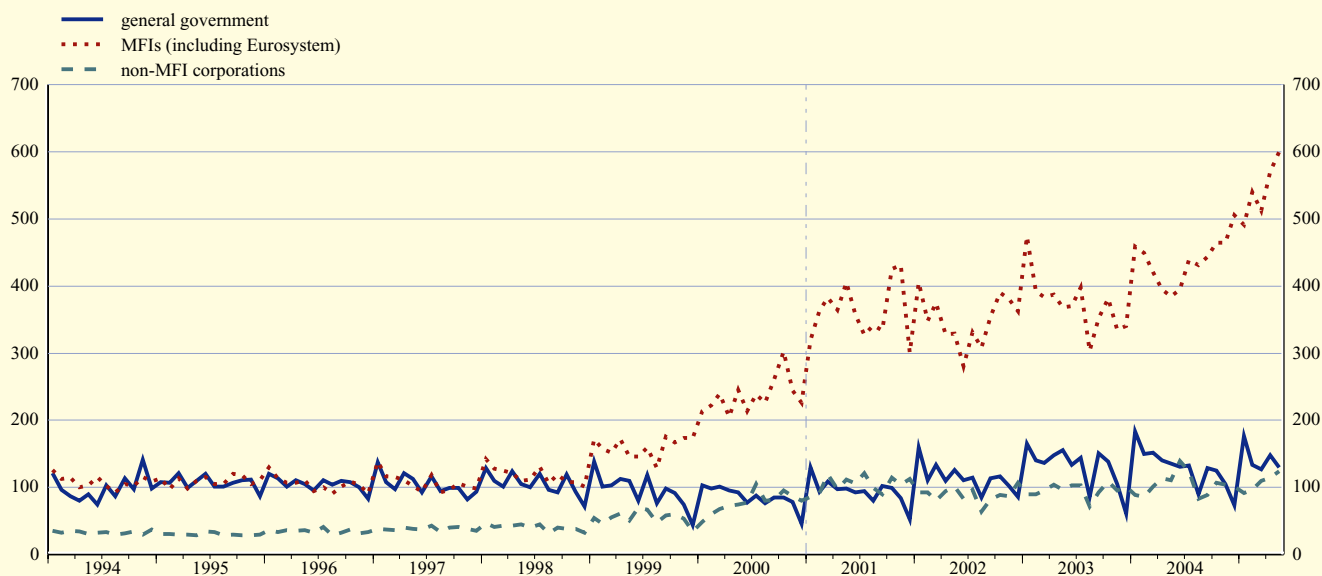
### 2. Gross issues

(transactions during the period)

	Total						Long-term <sup>1)</sup>					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government
1	2	3	4	5	6	7	8	9	10	11	12	
	Total						Long-term fixed rate					
2003	7,206.3	4,485.6	244.7	909.7	1,478.8	87.4	1,284.7	414.2	113.7	89.0	626.4	41.4
2004	8,045.9	5,249.8	221.9	1,027.8	1,463.6	82.8	1,190.9	405.7	69.2	60.4	619.7	35.9
2004 Q2	1,945.0	1,173.3	64.1	300.5	387.5	19.6	306.8	90.3	21.8	19.7	166.8	8.1
Q3	1,960.1	1,313.3	40.7	255.5	334.2	16.3	248.1	86.6	9.2	14.3	131.9	6.1
Q4	2,050.8	1,434.1	84.0	228.4	283.9	20.4	258.7	92.7	25.6	14.7	117.1	8.5
2005 Q1	2,278.0	1,542.6	49.9	248.1	412.5	25.0	386.6	136.5	21.1	15.1	198.9	14.9
2005 Feb.	769.2	539.5	15.2	81.2	125.8	7.6	127.3	50.9	5.1	3.3	63.6	4.6
Mar.	749.2	512.2	24.9	84.6	120.5	7.0	117.1	40.9	12.0	8.2	52.5	3.4
Apr.	833.1	569.9	30.4	84.7	140.0	8.0	105.0	29.9	7.1	3.5	60.8	3.8
May	854.6	599.8	27.3	97.1	126.3	4.1	97.6	24.5	5.6	2.9	63.4	1.1
	Of which short-term						Long-term variable rate					
2003	5,332.7	3,698.2	41.3	796.1	767.6	29.4	507.8	336.8	89.5	11.7	53.3	16.5
2004	6,147.2	4,383.4	43.9	930.9	755.6	33.4	617.9	403.5	108.7	31.7	60.5	13.5
2004 Q2	1,451.7	969.5	11.1	271.1	191.3	8.8	160.7	98.0	31.1	7.8	21.1	2.7
Q3	1,554.7	1,118.9	10.8	230.4	185.9	8.7	136.0	95.2	20.7	10.0	8.6	1.6
Q4	1,601.9	1,222.9	12.0	204.7	154.7	7.5	174.8	105.0	46.4	7.4	11.7	4.4
2005 Q1	1,699.5	1,261.3	12.4	228.9	188.4	8.6	167.6	129.5	16.3	3.4	16.9	1.5
2005 Feb.	569.8	429.4	4.6	76.8	56.1	2.9	65.0	54.2	5.5	0.7	4.5	0.1
Mar.	565.2	423.6	3.5	74.7	60.2	3.2	57.7	41.9	9.2	1.4	4.9	0.3
Apr.	653.0	501.8	4.2	79.1	65.2	2.8	67.4	33.4	19.1	1.6	11.8	1.5
May	690.3	537.3	2.4	91.7	56.0	2.8	60.1	33.8	19.2	2.1	4.8	0.2

### C14 Gross issues of securities, other than shares, by sector

(EUR billions; transactions during the month; nominal values)



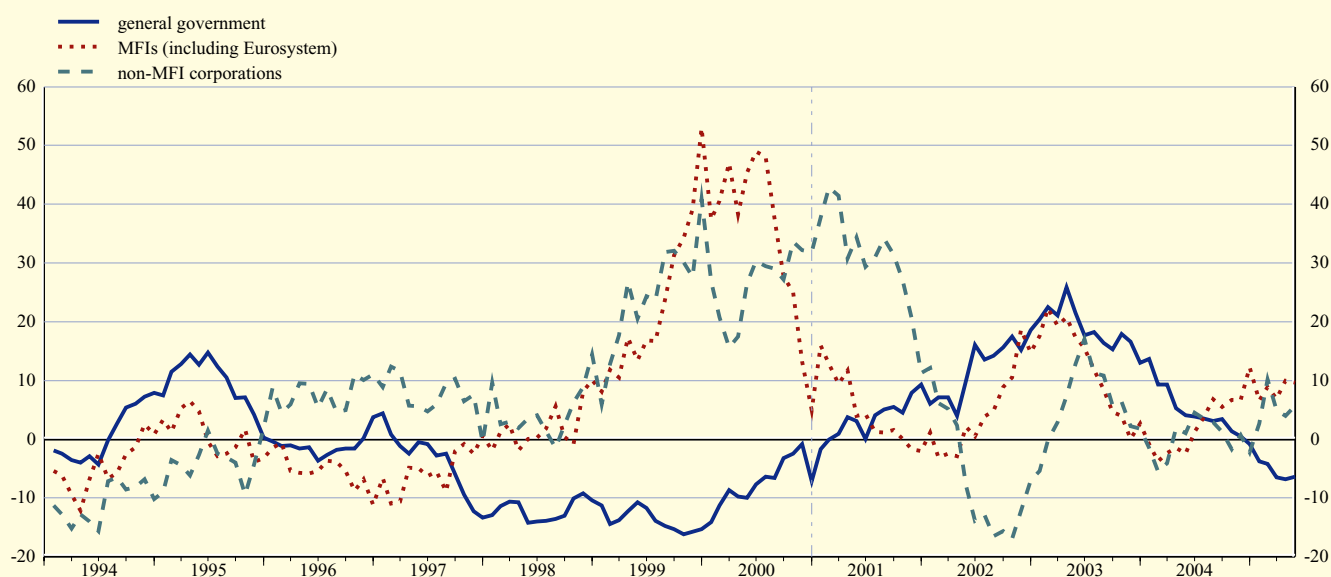
Source: ECB.

1) The residual difference between total long-term debt securities and fixed and variable rate long-term debt securities consists of zero coupon bonds and revaluation effects.

4.3 Annual growth rates of securities, other than shares, issued by euro area residents <sup>1)</sup>  
(percentage changes)

	Total						Short-term					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government
1	2	3	4	5	6	7	8	9	10	11	12	
In all currencies combined												
2003	6.7	5.1	25.1	8.6	4.5	26.0	14.0	12.2	1.1	5.7	19.2	-2.2
2004	6.9	7.8	13.4	3.7	5.0	17.6	3.2	2.2	-9.6	0.9	4.9	29.9
2004 Q2	6.9	7.9	13.7	2.2	5.1	18.5	1.7	-1.5	-16.6	2.1	5.2	16.9
Q3	7.1	8.5	11.4	3.6	5.4	16.4	3.9	4.6	-10.7	4.0	3.1	32.4
Q4	6.8	8.8	9.9	3.0	4.8	14.6	3.7	7.4	8.9	-1.0	0.5	66.9
2005 Q1	7.2	9.0	11.6	3.2	5.1	13.7	2.6	8.3	34.1	3.1	-4.3	35.5
2004 Dec.	7.2	9.3	11.1	1.6	5.0	14.4	5.0	12.3	22.3	-3.9	-1.3	51.2
2005 Jan.	7.0	8.7	11.0	3.1	5.1	15.1	1.7	6.6	23.3	1.5	-4.1	32.7
Feb.	7.4	9.3	11.2	3.4	5.3	13.0	3.3	8.9	45.7	8.3	-4.6	31.6
Mar.	7.1	8.7	14.5	4.9	4.6	12.0	0.8	6.9	47.6	2.8	-7.0	36.4
Apr.	7.5	8.9	16.5	5.9	4.8	12.8	2.0	10.0	46.3	1.8	-7.1	16.3
May	7.2	8.4	19.1	5.3	4.2	11.7	2.2	9.7	43.7	3.8	-6.6	11.9
In euro												
2003	6.4	3.8	30.6	9.4	4.4	25.0	15.6	15.8	0.9	4.8	19.3	-8.2
2004	6.6	6.6	16.8	2.8	5.1	17.3	3.1	1.7	-11.1	0.9	4.8	29.5
2004 Q2	6.5	6.6	17.0	1.4	5.1	18.1	1.5	-2.4	-15.5	1.7	5.0	14.6
Q3	6.7	7.0	15.1	2.4	5.5	16.3	3.0	2.5	-13.3	4.4	3.0	28.8
Q4	6.4	7.6	13.1	1.8	4.8	14.6	3.6	7.7	3.9	0.0	0.6	72.7
2005 Q1	6.7	7.7	14.9	2.5	5.0	13.9	2.8	9.7	28.5	5.1	-4.2	33.3
2004 Dec.	6.8	8.4	14.2	0.4	5.0	14.6	5.1	14.5	15.1	-2.5	-1.4	49.7
2005 Jan.	6.6	7.3	14.2	2.4	5.0	15.2	1.8	7.8	17.4	3.3	-4.0	28.6
Feb.	6.9	7.8	14.4	2.8	5.2	13.1	3.5	10.3	41.2	10.5	-4.5	28.8
Mar.	6.7	7.3	18.2	4.6	4.6	12.2	0.8	7.9	42.8	5.0	-6.8	39.4
Apr.	7.2	7.6	20.1	5.7	4.8	13.0	2.0	11.4	42.6	3.7	-6.9	10.3
May	6.9	7.4	23.0	5.2	4.2	12.1	2.4	11.9	40.2	6.1	-6.6	3.4

C15 Annual growth rates of short-term debt securities, by sector of the issuer, in all currencies combined  
(percentage changes)



Source: ECB.

1) For the calculation of the growth rates, see the Technical notes.

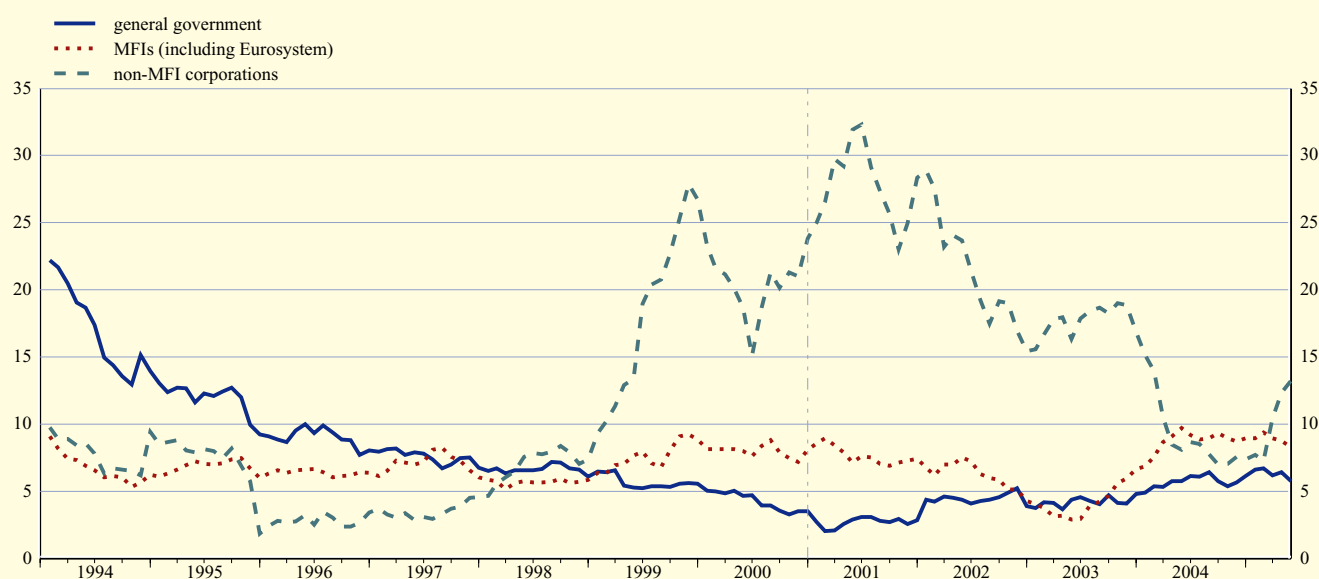
### 4.3 Annual growth rates of securities, other than shares, issued by euro area residents <sup>1)</sup> (cont'd)

(percentage changes)

	Long-term fixed rate						Long-term variable rate					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government
13	14	15	16	17	18	19	20	21	22	23	24	
In all currencies combined												
2003	5.2	2.1	15.3	11.9	4.4	22.6	8.5	8.3	51.2	-13.4	-9.2	43.4
2004	5.0	3.0	6.4	3.1	5.8	14.7	16.2	18.4	27.2	8.2	0.6	26.5
2004 Q2	5.4	3.8	8.3	2.5	5.9	15.2	15.8	18.9	25.1	-2.4	1.1	30.2
Q3	4.9	3.0	3.5	1.1	6.2	13.5	17.5	19.1	27.0	18.3	3.3	25.2
Q4	4.3	2.3	2.6	0.7	5.7	12.3	17.7	20.2	22.5	29.4	2.3	18.8
2005 Q1	4.7	2.7	3.9	-0.9	6.3	13.7	18.3	19.4	23.8	29.7	7.7	12.4
2004 Dec.	4.5	2.5	3.2	-1.1	6.0	12.8	18.0	19.2	23.9	32.9	5.1	17.2
2005 Jan.	4.8	2.9	3.6	-0.7	6.2	14.9	18.0	18.5	22.7	30.0	9.4	14.4
Feb.	4.9	2.8	3.6	-1.8	6.8	12.9	18.4	20.3	22.6	28.0	6.5	11.9
Mar.	4.5	2.3	5.8	1.1	5.6	13.7	19.1	19.6	28.3	29.5	9.3	5.1
Apr.	5.1	2.4	5.5	2.8	6.4	15.1	19.2	18.8	34.4	28.6	7.8	5.4
May	4.6	2.2	6.2	1.5	5.6	15.1	19.2	17.9	39.6	27.2	7.7	1.7
In euro												
2003	4.6	0.1	20.5	12.2	4.2	21.3	8.6	7.7	51.2	-8.9	-9.3	43.8
2004	4.8	1.3	10.4	1.8	5.9	14.7	15.6	17.7	27.3	8.5	0.5	25.4
2004 Q2	5.1	2.0	12.4	1.0	6.0	15.0	15.4	18.2	25.1	-0.4	1.1	28.9
Q3	4.7	1.2	7.5	-0.5	6.4	13.8	16.9	18.2	27.3	15.9	3.3	24.1
Q4	4.0	0.3	6.3	-0.9	5.8	12.5	17.1	19.5	22.8	26.9	2.3	18.1
2005 Q1	4.3	0.5	7.9	-2.4	6.2	13.8	17.6	18.2	24.1	29.0	7.8	13.0
2004 Dec.	4.1	0.7	6.8	-3.0	6.0	12.9	17.5	18.3	24.2	31.9	5.1	18.0
2005 Jan.	4.3	0.7	7.5	-2.3	6.1	14.9	17.4	17.5	23.0	29.2	9.5	15.1
Feb.	4.4	0.4	7.5	-3.5	6.7	13.0	17.5	18.9	22.9	27.2	6.6	12.4
Mar.	4.2	0.2	10.2	0.0	5.6	13.9	18.2	18.0	28.6	29.1	9.7	5.3
Apr.	4.8	0.2	9.2	2.0	6.4	15.4	18.6	17.7	34.7	26.9	8.2	5.6
May	4.3	0.1	10.3	0.8	5.6	15.5	19.0	17.1	39.7	25.4	8.1	2.8

### C16 Annual growth rates of long-term debt securities, by sector of the issuer, in all currencies combined

(percentage changes)



Source: ECB.

1) For the calculation of the growth rates, see the Technical notes.

#### 4.4 Quoted shares issued by euro area residents <sup>1)</sup>

(EUR billions, unless otherwise indicated; market values)

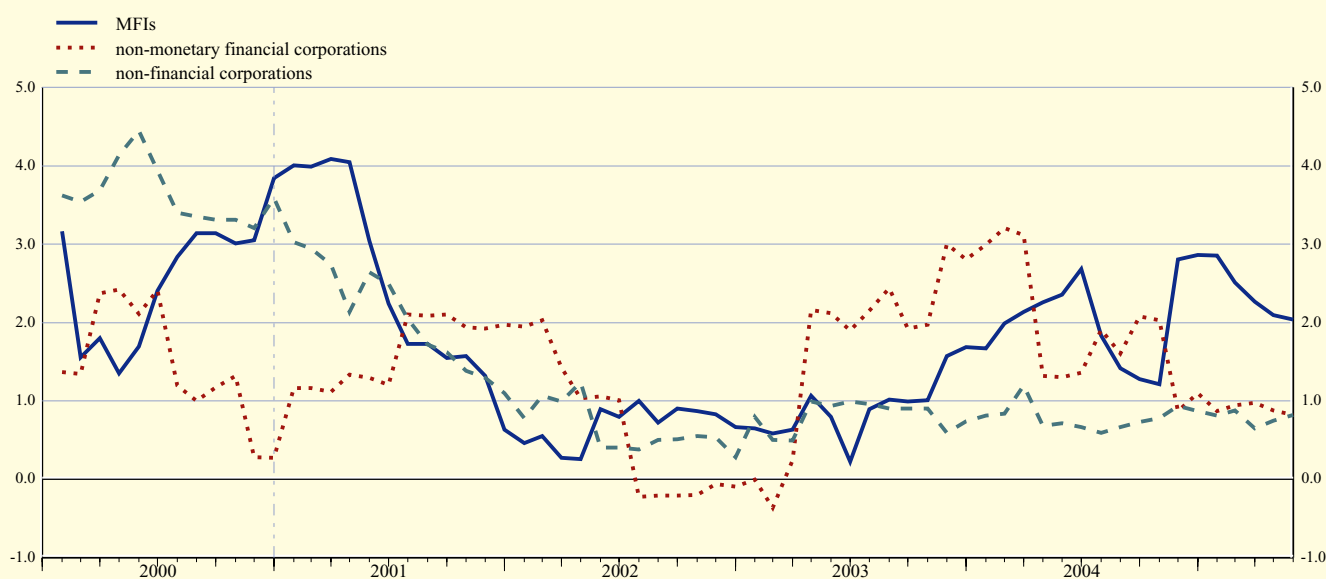
##### 1. Outstanding amounts and annual growth rates

(outstanding amounts as end-of-period)

	Total			MFIs		Non-monetary financial corporations		Non-financial corporations	
	Total	Index Dec. 01 = 100 (%)	Annual growth rates (%)	Total	Annual growth rates (%)	Total	Annual growth rates (%)	Total	Annual growth rates (%)
	1	2	3	4	5	6	7	8	9
2003 May	3,145.7	100.9	1.0	476.7	0.8	291.3	2.1	2,377.7	0.9
June	3,256.2	100.9	0.9	504.2	0.2	300.6	1.9	2,451.4	1.0
July	3,366.5	101.1	1.1	528.0	0.9	330.9	2.1	2,507.6	1.0
Aug.	3,413.4	101.1	1.1	506.5	1.0	325.5	2.4	2,581.5	0.9
Sep.	3,276.7	101.1	1.0	494.8	1.0	307.1	1.9	2,474.7	0.9
Oct.	3,484.0	101.2	1.0	535.2	1.0	333.2	2.0	2,615.6	0.9
Nov.	3,546.9	101.3	1.0	549.5	1.6	337.9	3.0	2,659.6	0.6
Dec.	3,647.4	101.4	1.1	569.5	1.7	348.6	2.8	2,729.3	0.7
2004 Jan.	3,788.6	101.4	1.1	584.1	1.7	372.3	3.0	2,832.2	0.8
Feb.	3,852.1	101.5	1.2	587.9	2.0	374.3	3.2	2,889.9	0.8
Mar.	3,766.5	101.8	1.5	571.9	2.1	355.0	3.1	2,839.6	1.2
Apr.	3,748.5	101.9	1.0	579.4	2.3	361.1	1.3	2,808.0	0.7
May	3,687.9	101.9	1.0	568.1	2.4	350.6	1.3	2,769.2	0.7
June	3,790.1	102.0	1.0	582.5	2.7	362.0	1.4	2,845.7	0.7
July	3,679.8	102.0	0.9	562.3	1.8	354.0	1.9	2,763.5	0.6
Aug.	3,621.2	102.0	0.9	562.5	1.4	353.1	1.6	2,705.6	0.7
Sep.	3,707.9	102.1	0.9	579.6	1.3	362.3	2.1	2,766.1	0.7
Oct.	3,787.6	102.2	1.0	598.0	1.2	372.6	2.0	2,817.0	0.8
Nov.	3,906.5	102.5	1.2	623.9	2.8	386.5	0.9	2,896.2	0.9
Dec.	4,034.6	102.6	1.2	643.7	2.9	405.6	1.1	2,985.3	0.9
2005 Jan.	4,138.0	102.6	1.1	662.6	2.9	412.2	0.9	3,063.3	0.8
Feb.	4,254.5	102.7	1.1	681.1	2.5	431.8	0.9	3,141.5	0.9
Mar.	4,242.4	102.7	0.9	677.7	2.3	421.8	1.0	3,142.9	0.7
Apr.	4,094.1	102.9	1.0	655.5	2.1	400.6	0.9	3,038.1	0.8
May	4,279.1	103.0	1.0	684.6	2.0	414.0	0.8	3,180.5	0.8

#### C17 Annual growth rates for quoted shares issued by euro area residents

(annual percentage changes)



Source: ECB.

1) For the calculation of the index and the growth rates, see the Technical notes.



#### 4.4 Quoted shares issued by euro area residents <sup>1)</sup>

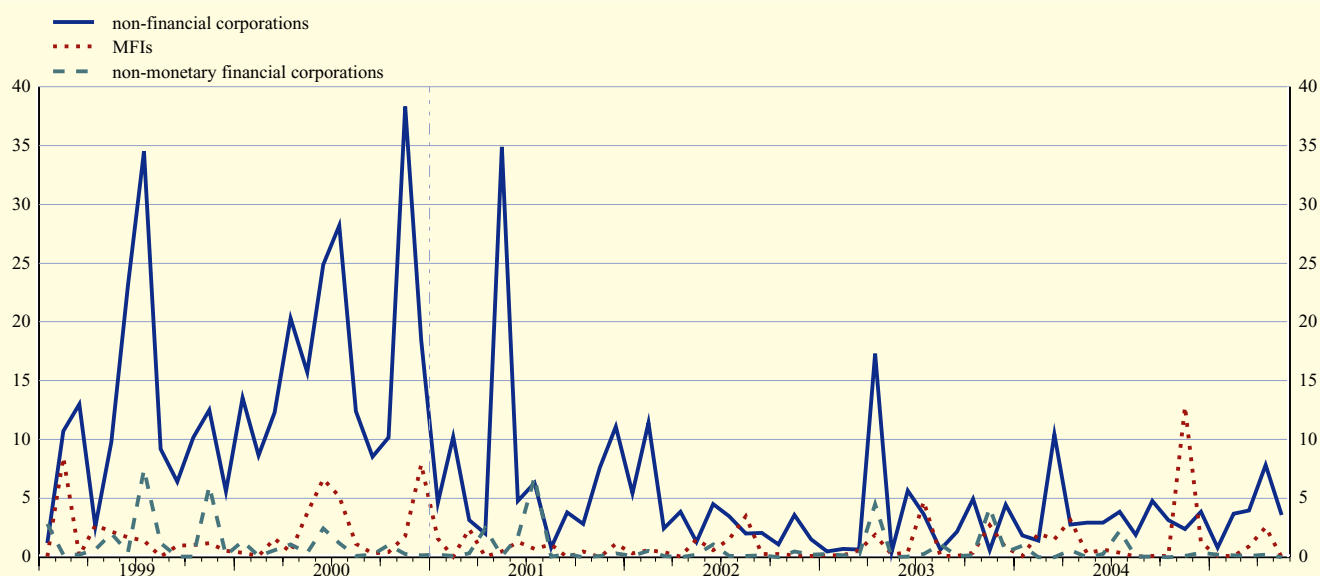
(EUR billions; market values)

### 2. Transactions during the month

	Total			MFIs			Non-monetary financial corporations			Non-financial corporations		
	Gross issues	Redemptions	Net issues	Gross issues	Redemptions	Net issues	Gross issues	Redemptions	Net issues	Gross issues	Redemptions	Net issues
	1	2	3	4	5	6	7	8	9	10	11	12
2003 May	0.7	2.2	-1.6	0.2	0.4	-0.2	0.0	0.0	0.0	0.5	1.8	-1.3
June	6.1	5.2	0.9	0.4	2.8	-2.3	0.0	0.0	0.0	5.7	2.4	3.2
July	8.6	2.0	6.6	4.7	0.2	4.5	0.2	0.0	0.2	3.6	1.8	1.8
Aug.	1.8	1.4	0.4	0.1	0.0	0.1	1.1	0.1	1.0	0.6	1.3	-0.7
Sep.	2.3	2.1	0.3	0.1	0.1	0.0	0.1	1.6	-1.5	2.2	0.4	1.8
Oct.	5.4	3.9	1.6	0.4	0.0	0.4	0.2	0.0	0.1	4.9	3.8	1.1
Nov.	7.5	5.5	2.1	2.7	0.0	2.7	4.2	0.3	3.9	0.6	5.1	-4.5
Dec.	5.7	1.6	4.0	0.8	0.1	0.8	0.4	0.9	-0.5	4.4	0.6	3.8
2004 Jan.	2.9	1.0	1.9	0.1	0.0	0.1	0.9	0.0	0.9	1.8	1.0	0.8
Feb.	3.5	0.7	2.8	2.0	0.0	2.0	0.0	0.2	-0.2	1.4	0.5	1.0
Mar.	12.0	1.3	10.7	1.5	0.0	1.5	0.0	0.1	-0.1	10.5	1.1	9.3
Apr.	6.5	0.6	5.8	3.1	0.1	3.1	0.6	0.1	0.5	2.8	0.5	2.3
May	3.3	3.6	-0.4	0.3	0.0	0.3	0.0	0.0	0.0	2.9	3.6	-0.6
June	3.8	2.2	1.6	0.7	1.6	-1.0	0.3	0.0	0.2	2.9	0.5	2.4
July	6.4	3.6	2.8	0.4	0.0	0.4	2.2	0.0	2.2	3.8	3.6	0.2
Aug.	2.0	2.9	-0.9	0.1	2.2	-2.2	0.0	0.0	0.0	1.9	0.7	1.2
Sep.	4.9	2.2	2.7	0.1	0.9	-0.8	0.0	0.0	0.0	4.8	1.3	3.5
Oct.	3.2	0.5	2.7	0.1	0.0	0.1	0.0	0.0	0.0	3.1	0.5	2.7
Nov.	15.2	3.3	11.9	12.8	0.3	12.4	0.1	0.0	0.1	2.4	3.0	-0.6
Dec.	5.5	1.6	3.9	1.2	0.0	1.2	0.4	0.1	0.3	3.9	1.4	2.4
2005 Jan.	1.1	1.8	-0.7	0.1	0.0	0.1	0.2	0.0	0.2	0.8	1.8	-1.0
Feb.	3.9	0.6	3.3	0.1	0.0	0.1	0.2	0.1	0.1	3.7	0.5	3.2
Mar.	5.0	1.8	3.2	0.9	0.9	0.0	0.1	0.1	0.0	3.9	0.8	3.1
Apr.	10.6	2.4	8.2	2.5	0.0	2.5	0.2	0.1	0.1	7.8	2.3	5.6
May	3.6	2.4	1.3	0.0	0.0	0.0	0.0	0.3	-0.3	3.6	2.1	1.5

#### C18 Gross issues of quoted shares by sector of the issuer

(EUR billions; transactions during the month; market values)



Source: ECB.

1) For the calculation of the index and the growth rates, see the Technical notes.

## 4.5 MFI interest rates on euro-denominated deposits and loans by euro area residents

(percentages per annum; outstanding amounts as end-of-period, new business as period average, unless otherwise indicated)

## 1. Interest rates on deposits (new business)

	Deposits from households						Deposits from non-financial corporations				Repos
	Overnight <sup>1)</sup>	With agreed maturity			Redeemable at notice <sup>1),2)</sup>		Overnight <sup>1)</sup>	With agreed maturity			
		Up to 1 year	Over 1 and up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 1 year	Over 1 and up to 2 years	Over 2 years	
	1	2	3	4	5	6	7	8	9	10	11
2004 June	0.70	1.87	2.21	2.42	1.96	2.55	0.87	1.99	2.32	3.76	1.97
July	0.70	1.90	2.21	2.54	1.94	2.55	0.86	1.99	2.60	4.00	1.98
Aug.	0.72	1.91	2.18	2.67	1.95	2.53	0.87	1.98	2.37	3.99	1.98
Sep.	0.72	1.90	2.20	2.48	2.00	2.52	0.90	2.00	2.32	3.68	1.99
Oct.	0.72	1.92	2.29	2.48	2.00	2.52	0.89	2.04	2.34	3.56	2.00
Nov.	0.73	1.94	2.20	2.50	2.01	2.51	0.90	2.04	2.23	3.39	2.02
Dec.	0.73	1.95	2.19	2.31	2.00	2.52	0.90	2.08	2.70	3.51	2.02
2005 Jan.	0.74	1.95	2.29	2.54	1.98	2.49	0.92	2.04	2.25	3.26	2.05
Feb.	0.74	1.95	2.19	2.33	1.97	2.49	0.92	2.03	2.25	3.47	2.03
Mar.	0.74	1.93	2.16	2.40	1.97	2.47	0.94	2.00	2.35	3.15	1.99
Apr.	0.74	2.01	2.09	2.32	1.95	2.45	0.95	2.01	2.23	2.92	2.00
May	0.75	1.93	2.01	2.21	1.98	2.43	0.95	2.01	2.12	3.31	2.00

## 2. Interest rates on loans to households (new business)

	Bank overdraft <sup>1)</sup>	Consumer credit				Annual percentage rate of charge <sup>3)</sup>	Lending for house purchase				Annual percentage rate of charge <sup>3)</sup>	Other lending by initial rate fixation			
		By initial rate fixation			Annual percentage rate of charge <sup>3)</sup>		By initial rate fixation					Annual percentage rate of charge <sup>3)</sup>	Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years
		Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years			Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 and up to 10 years	Over 10 years					
	1	2	3	4	5	6	7	8	9	10	11	12	13		
2004 June	9.79	6.59	6.74	8.42	7.87	3.42	4.12	4.82	4.69	4.17	3.93	4.97	5.01		
July	9.79	6.64	6.86	8.52	7.97	3.47	4.16	4.81	4.69	4.20	4.04	4.94	5.01		
Aug.	9.86	7.08	6.89	8.58	8.15	3.50	4.19	4.87	4.65	4.29	3.91	5.07	5.02		
Sep.	9.60	6.92	6.96	8.45	8.07	3.49	4.14	4.82	4.66	4.24	3.90	4.98	5.00		
Oct.	9.53	6.80	6.87	8.34	7.87	3.50	4.12	4.77	4.64	4.18	4.08	4.87	4.92		
Nov.	9.48	6.89	6.84	8.23	7.85	3.45	4.07	4.66	4.58	4.09	3.96	4.89	4.82		
Dec.	9.53	6.73	6.60	7.67	7.59	3.43	3.95	4.49	4.41	4.07	3.82	4.59	4.65		
2005 Jan.	9.61	6.97	6.81	8.32	8.01	3.44	3.97	4.43	4.45	4.07	3.96	4.64	4.62		
Feb.	9.66	6.20	6.83	8.18	7.77	3.40	3.94	4.39	4.33	3.98	3.99	4.73	4.49		
Mar.	9.62	6.62	6.72	8.12	7.83	3.40	3.89	4.35	4.27	3.97	3.84	4.60	4.57		
Apr.	9.62	6.60	6.64	8.19	7.81	3.40	3.89	4.36	4.28	3.95	3.97	4.71	4.62		
May	9.64	6.83	6.55	8.00	7.78	3.38	3.85	4.28	4.20	3.93	3.87	4.68	4.61		

## 3. Interest rates on loans to non-financial corporations (new business)

	Bank overdraft <sup>1)</sup>	Other loans up to EUR 1 million by initial rate fixation			Other loans over EUR 1 million by initial rate fixation			
		Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years	Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years	
								1
2004 June		5.40	3.97	4.81	4.71	2.99	3.29	4.08
July		5.42	4.02	4.85	4.65	3.02	3.29	4.27
Aug.		5.44	4.06	4.89	4.73	2.98	3.12	4.30
Sep.		5.37	4.00	4.85	4.68	2.99	3.41	4.46
Oct.		5.39	4.02	4.87	4.64	2.99	3.30	4.27
Nov.		5.37	4.02	4.79	4.55	2.95	3.41	4.31
Dec.		5.26	3.97	4.67	4.46	3.05	3.55	4.10
2005 Jan.		5.40	3.97	4.69	4.47	3.02	3.30	4.10
Feb.		5.32	3.91	4.76	4.36	3.02	3.34	3.81
Mar.		5.28	3.89	4.51	4.32	3.02	3.48	4.11
Apr.		5.22	3.88	4.51	4.34	3.00	3.54	3.99
May		5.14	3.91	4.45	4.24	2.99	3.61	3.80

Source: ECB.

- 1) For this instrument category, new business and outstanding amounts coincide. End-of-period.
- 2) For this instrument category, households and non-financial corporations are merged and allocated to the household sector, since the outstanding amounts of non-financial corporations are negligible compared with those of the household sector in all participating Member States combined.
- 3) The annual percentage rate of charge covers the total cost of a loan. The total cost comprises an interest rate component and a component of other (related) charges, such as the cost of inquiries, administration, preparation of documents, guarantees, etc.

#### 4.5 MFI interest rates on euro-denominated deposits and loans by euro area residents

(percentages per annum; outstanding amounts as end-of-period, new business as period average, unless otherwise indicated)

#### 4. Interest rates on deposits (outstanding amounts)

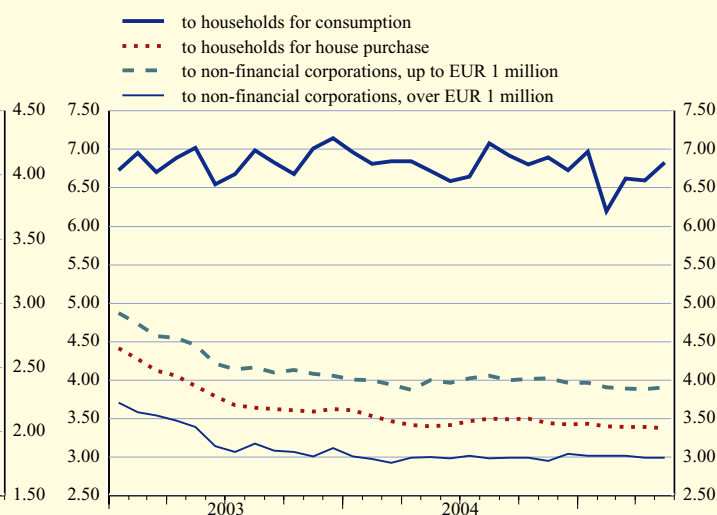
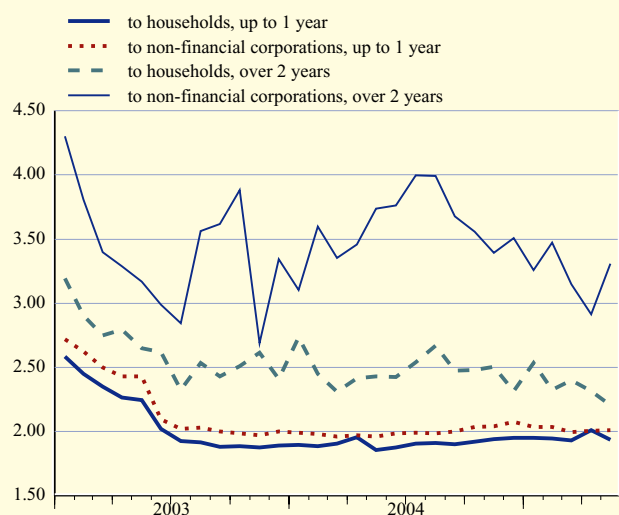
	Deposits from households					Deposits from non-financial corporations			Repos
	Overnight <sup>1)</sup>	With agreed maturity		Redeemable at notice <sup>1),2)</sup>		Overnight <sup>1)</sup>	With agreed maturity		
		Up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 2 years	Over 2 years	
	1	2	3	4	5	6	7	8	9
2004 June	0.70	1.88	3.28	1.96	2.55	0.87	2.09	4.03	1.96
July	0.70	1.89	3.26	1.94	2.55	0.86	2.09	4.03	1.97
Aug.	0.72	1.90	3.24	1.95	2.53	0.87	2.10	3.99	1.98
Sep.	0.72	1.90	3.22	2.00	2.52	0.90	2.12	3.97	1.97
Oct.	0.72	1.90	3.27	2.00	2.52	0.89	2.10	3.89	1.98
Nov.	0.73	1.90	3.26	2.01	2.51	0.90	2.12	3.86	2.00
Dec.	0.73	1.92	3.24	2.00	2.52	0.90	2.16	3.77	2.02
2005 Jan.	0.74	1.90	3.23	1.98	2.49	0.92	2.13	3.72	2.01
Feb.	0.74	1.91	3.25	1.97	2.49	0.92	2.13	3.69	2.00
Mar.	0.74	1.91	3.22	1.97	2.47	0.94	2.09	3.75	1.99
Apr.	0.74	1.92	3.22	1.95	2.45	0.95	2.10	3.61	1.99
May	0.75	1.92	3.19	1.98	2.43	0.95	2.11	3.50	2.00

#### 5. Interest rates on loans (outstanding amounts)

	Loans to households						Loans to non-financial corporations		
	Lending for house purchase, with maturity			Consumer credit and other loans, with maturity			With maturity		
	Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years
	1	2	3	4	5	6	7	8	9
2004 June	4.84	4.72	4.97	8.14	7.15	5.90	4.43	4.00	4.54
July	4.84	4.64	4.94	8.16	7.10	5.85	4.43	4.00	4.52
Aug.	4.81	4.61	4.91	8.17	7.06	5.86	4.42	3.97	4.51
Sep.	4.82	4.58	4.90	8.06	7.13	5.85	4.45	3.99	4.52
Oct.	4.69	4.54	4.88	8.05	7.07	5.80	4.41	3.97	4.48
Nov.	4.67	4.52	4.86	7.94	6.98	5.82	4.40	3.96	4.48
Dec.	4.72	4.50	4.83	7.95	7.01	5.80	4.34	3.97	4.44
2005 Jan.	4.69	4.45	4.79	8.07	6.96	5.77	4.42	3.90	4.41
Feb.	4.65	4.45	4.76	8.08	7.03	5.76	4.40	3.92	4.46
Mar.	4.74	4.41	4.78	8.09	6.97	5.77	4.38	3.91	4.40
Apr.	4.70	4.38	4.74	8.03	6.94	5.76	4.34	3.86	4.37
May	4.66	4.36	4.71	8.03	6.86	5.74	4.32	3.85	4.35

**C19 New deposits with agreed maturity**  
(percentages per annum excluding charges; period averages)

**C20 New loans at floating rate and up to 1 year initial rate fixation**  
(percentages per annum excluding charges; period averages)



Source: ECB.

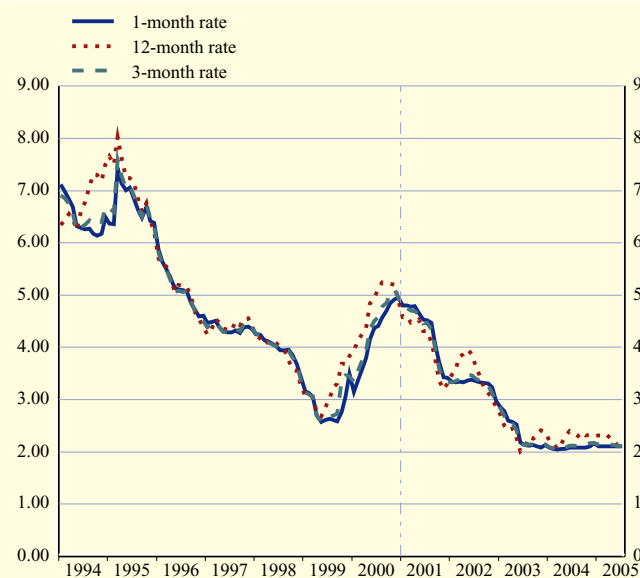
### 4.6 Money market interest rates

(percentages per annum; period averages)

	Euro area <sup>1)</sup>					United States	Japan
	Overnight deposits (EONIA)	1-month deposits (EURIBOR)	3-month deposits (EURIBOR)	6-month deposits (EURIBOR)	12-month deposits (EURIBOR)	3-month deposits (LIBOR)	3-month deposits (LIBOR)
	1	2	3	4	5	6	7
2002	3.29	3.30	3.32	3.35	3.49	1.80	0.08
2003	2.32	2.35	2.33	2.31	2.34	1.22	0.06
2004	2.05	2.08	2.11	2.15	2.27	1.62	0.05
2004 Q2	2.04	2.06	2.08	2.13	2.29	1.30	0.05
Q3	2.05	2.08	2.12	2.19	2.35	1.75	0.05
Q4	2.08	2.12	2.16	2.20	2.32	2.30	0.05
2005 Q1	2.06	2.11	2.14	2.19	2.32	2.84	0.05
Q2	2.07	2.10	2.12	2.14	2.19	3.28	0.05
2004 July	2.07	2.08	2.12	2.19	2.36	1.63	0.05
Aug.	2.04	2.08	2.11	2.17	2.30	1.73	0.05
Sep.	2.05	2.08	2.12	2.20	2.38	1.90	0.05
Oct.	2.11	2.09	2.15	2.19	2.32	2.08	0.05
Nov.	2.09	2.11	2.17	2.22	2.33	2.31	0.05
Dec.	2.05	2.17	2.17	2.21	2.30	2.50	0.05
2005 Jan.	2.08	2.11	2.15	2.19	2.31	2.66	0.05
Feb.	2.06	2.10	2.14	2.18	2.31	2.82	0.05
Mar.	2.06	2.10	2.14	2.19	2.34	3.03	0.05
Apr.	2.08	2.10	2.14	2.17	2.27	3.15	0.05
May	2.07	2.10	2.13	2.14	2.19	3.27	0.05
June	2.06	2.10	2.11	2.11	2.10	3.43	0.05
July	2.07	2.11	2.12	2.13	2.17	3.61	0.06

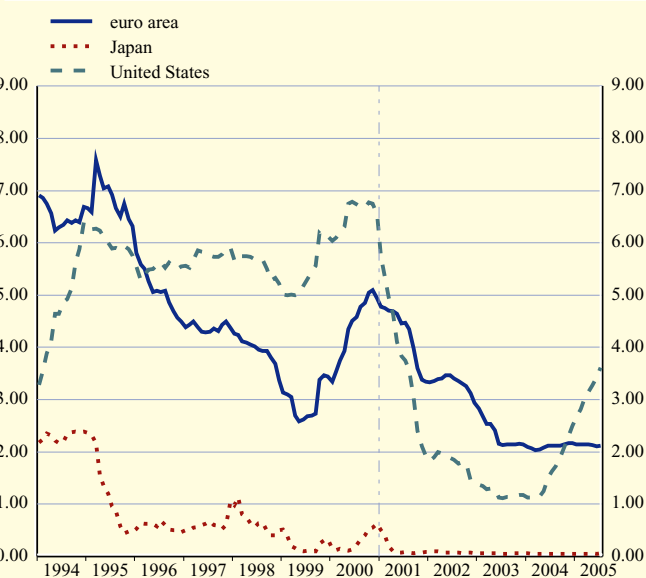
### C21 Euro area money market rates

(monthly; percentages per annum)



### C22 3-month money market rates

(monthly; percentages per annum)



Source: ECB.

1) Before January 1999 synthetic euro area rates were calculated on the basis of national rates weighted by GDP. For further information, see the General notes.

## 4.7 Government bond yields

(percentages per annum; period averages)

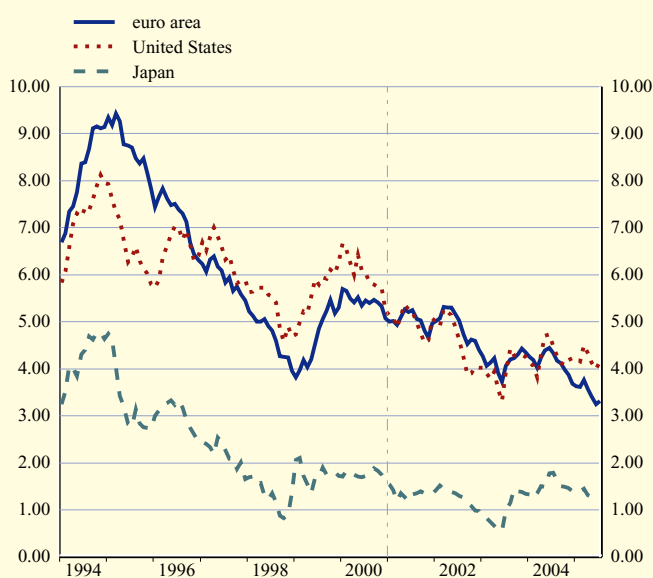
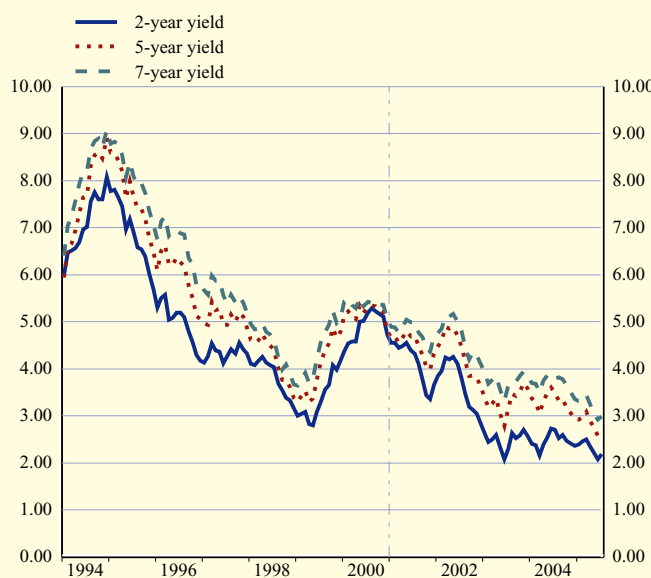
	Euro area <sup>1)</sup>					United States	Japan
	2 years	3 years	5 years	7 years	10 years	10 years	10 years
	1	2	3	4	5	6	7
2002	3.67	3.94	4.35	4.69	4.92	4.60	1.27
2003	2.49	2.74	3.32	3.74	4.16	4.00	0.99
2004	2.47	2.77	3.29	3.70	4.14	4.26	1.50
2004 Q2	2.56	2.92	3.47	3.84	4.36	4.58	1.59
Q3	2.61	2.89	3.39	3.80	4.21	4.29	1.64
Q4	2.41	2.62	3.06	3.51	3.84	4.17	1.45
2005 Q1	2.45	2.66	2.99	3.36	3.67	4.30	1.41
Q2	2.21	2.40	2.73	3.07	3.41	4.16	1.28
2004 July	2.70	2.97	3.49	3.80	4.34	4.48	1.79
Aug.	2.53	2.83	3.33	3.82	4.17	4.27	1.63
Sep.	2.60	2.87	3.35	3.79	4.11	4.13	1.50
Oct.	2.47	2.71	3.18	3.66	3.98	4.08	1.49
Nov.	2.41	2.62	3.08	3.53	3.87	4.19	1.46
Dec.	2.36	2.53	2.93	3.35	3.69	4.23	1.40
2005 Jan.	2.39	2.57	2.92	3.31	3.63	4.21	1.37
Feb.	2.45	2.67	2.97	3.32	3.62	4.16	1.40
Mar.	2.49	2.74	3.08	3.44	3.76	4.49	1.45
Apr.	2.34	2.55	2.89	3.25	3.57	4.34	1.32
May	2.22	2.41	2.74	3.05	3.41	4.14	1.27
June	2.07	2.24	2.58	2.93	3.25	4.00	1.24
July	2.19	2.34	2.66	2.99	3.32	4.16	1.26

### C23 Euro area government bond yields

(monthly; percentages per annum)

### C24 10-year government bond yields

(monthly; percentages per annum)



Source: ECB.

- 1) To December 1998, euro area yields are calculated on the basis of harmonised national government bond yields weighted by GDP. Thereafter, the weights are the nominal outstanding amounts of government bonds in each maturity band.

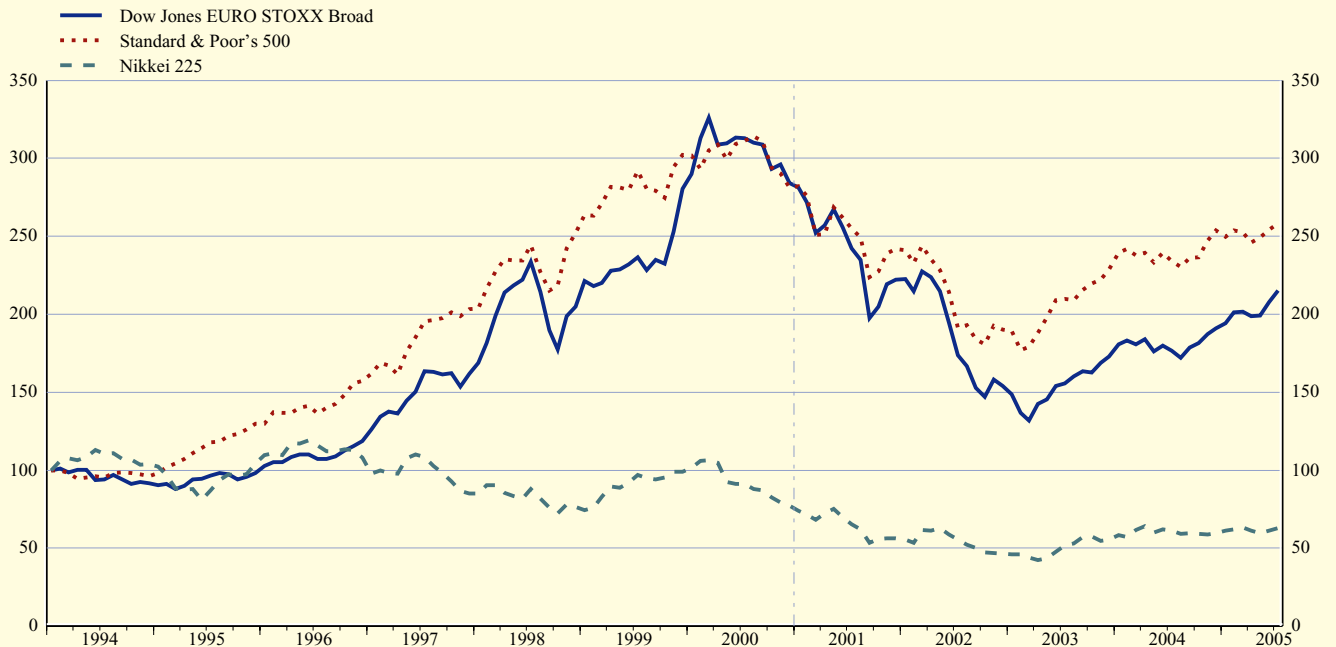
4.8 Stock market indices

(index levels in points; period averages)

	Dow Jones EURO STOXX indices												United States	Japan
	Benchmark		Main industry indices										Standard & Poor's 500	Nikkei 225
	Broad	50	Basic materials	Consumer services	Consumer goods	Oil & gas	Financials	Industrials	Technology	Utilities	Telecom.	Health care		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
2002	260.0	3,052.5	267.5	194.8	239.0	309.0	243.4	252.4	345.2	255.5	349.2	411.9	995.3	10,119.3
2003	213.3	2,422.7	212.5	144.9	193.8	259.5	199.3	213.5	275.2	210.7	337.5	304.5	964.9	9,312.9
2004	251.1	2,804.8	251.4	163.4	219.9	300.5	238.2	258.6	298.3	266.3	399.2	395.9	1,131.1	11,180.9
2004 Q2	249.8	2,794.7	244.7	164.7	226.3	300.9	234.6	256.1	299.4	262.1	388.3	394.9	1,123.6	11,550.0
Q3	244.0	2,708.7	246.8	159.3	216.4	305.0	228.7	253.1	259.9	266.8	379.8	402.6	1,104.4	11,152.3
Q4	259.2	2,869.7	268.9	162.7	215.0	315.7	249.1	268.0	281.8	287.3	423.5	419.1	1,163.7	11,027.1
2005 Q1	276.2	3,025.3	290.4	177.0	227.9	335.8	269.0	290.9	274.8	309.6	446.5	427.0	1,191.7	11,594.1
Q2	280.1	3,063.7	291.1	177.7	232.4	354.5	271.2	291.7	284.8	321.7	423.0	455.7	1,182.2	11,282.4
2004 July	245.2	2,730.4	245.5	162.1	221.6	302.8	227.8	251.4	272.3	267.5	382.1	397.7	1,106.7	11,390.7
Aug.	238.9	2,646.9	243.7	155.7	212.5	300.2	223.9	248.1	245.3	262.6	372.8	396.4	1,088.9	10,989.3
Sep.	248.0	2,748.6	251.1	160.0	215.1	311.8	234.6	259.9	261.9	270.1	384.4	413.7	1,117.5	11,076.8
Oct.	252.1	2,794.4	259.1	157.4	211.5	315.5	240.4	262.5	273.3	278.8	401.2	415.1	1,118.1	11,028.9
Nov.	260.0	2,882.7	269.5	163.8	215.6	317.3	249.4	267.7	290.3	287.4	421.1	422.3	1,169.5	10,963.5
Dec.	264.8	2,926.0	277.2	166.5	217.7	314.4	256.8	273.2	281.3	295.0	446.2	419.6	1,199.7	11,086.3
2005 Jan.	269.4	2,957.0	277.0	172.0	221.6	318.1	262.8	284.2	270.4	302.9	450.6	423.8	1,181.6	11,401.1
Feb.	279.0	3,050.4	294.2	179.5	230.0	338.5	270.1	295.1	277.4	317.5	453.8	428.7	1,199.7	11,545.7
Mar.	279.8	3,065.8	299.4	179.3	232.0	349.5	273.7	293.5	276.5	308.7	436.3	428.6	1,193.9	11,812.4
Apr.	275.9	3,013.7	290.0	176.7	227.9	345.5	269.0	287.6	268.5	314.2	426.1	443.1	1,164.4	11,377.2
May	276.1	3,023.5	285.7	175.4	228.7	344.1	267.1	285.2	283.8	319.4	421.3	460.5	1,179.2	11,071.4
June	288.2	3,151.7	297.7	181.0	240.4	373.4	277.4	302.0	301.5	331.2	421.7	462.8	1,202.3	11,402.7
July	298.4	3,267.1	302.0	184.9	249.5	398.3	288.2	313.8	308.6	336.8	437.5	463.4	1,220.9	11,718.9

C25 Dow Jones EURO STOXX Broad, Standard & Poor's 500 and Nikkei 225

(January 1994 = 100; monthly averages)



Source: ECB.



# PRICES, OUTPUT, DEMAND AND LABOUR MARKETS

## 5.1 HICP, other prices and costs

(annual percentage changes, unless otherwise indicated)

### 1. Harmonised Index of Consumer Prices

	Total					Total (s.a., percentage change on previous period)					
	Index 1996 = 100	Total		Goods	Services	Total	Processed food	Unprocessed food	Non-energy industrial goods	Energy (n.s.a.)	Services
		Total excl. unprocessed food and energy									
% of total <sup>1)</sup>	100.0	100.0	83.8	59.0	41.0	100.0	12.0	7.6	30.8	8.6	41.0
	1	2	3	4	5	6	7	8	9	10	11
2001	108.5	2.3	1.9	2.3	2.5	-	-	-	-	-	-
2002	110.9	2.3	2.5	1.7	3.1	-	-	-	-	-	-
2003	113.2	2.1	2.0	1.8	2.5	-	-	-	-	-	-
2004	115.7	2.1	2.1	1.8	2.6	-	-	-	-	-	-
2004 Q2	115.8	2.3	2.1	2.1	2.6	0.7	1.1	-0.1	0.2	3.3	0.6
Q3	115.9	2.2	2.1	2.0	2.6	0.5	0.3	-0.2	0.1	1.9	0.7
Q4	116.6	2.3	2.0	2.1	2.7	0.5	0.3	0.1	0.1	1.8	0.6
2005 Q1	116.7	2.0	1.6	1.8	2.4	0.3	0.6	0.7	-0.1	0.3	0.5
Q2	118.1	2.0	1.5	1.8	2.3	0.7	0.3	0.3	0.1	4.5	0.5
2005 Feb.	116.6	2.1	1.6	1.8	2.4	0.2	0.0	0.7	-0.1	1.4	0.2
Mar.	117.4	2.1	1.6	1.9	2.5	0.4	0.1	0.5	0.1	2.4	0.3
Apr.	117.9	2.1	1.4	2.1	2.2	0.2	0.2	-0.4	0.0	2.3	-0.1
May	118.2	2.0	1.6	1.6	2.5	0.2	0.0	0.3	0.1	-0.6	0.5
June	118.3	2.1	1.4	1.9	2.2	0.1	0.2	-0.2	0.0	1.6	0.0
July <sup>2)</sup>	.	2.2	.	.	.	.	.	.	.	.	.

	Goods						Services					
	Food (incl. alcoholic beverages and tobacco)			Industrial goods			Housing	Transport	Communication	Recreation and personal	Miscellaneous	
	Total	Processed food	Unprocessed food	Total	Non-energy industrial goods	Energy						
% of total <sup>1)</sup>	19.6	12.0	7.6	39.4	30.8	8.6	10.4	6.4	6.4	2.8	14.8	6.6
	12	13	14	15	16	17	18	19	20	21	22	23
2001	4.5	2.9	7.0	1.2	0.9	2.2	1.8	1.4	3.6	-4.1	3.6	2.7
2002	3.1	3.1	3.1	1.0	1.5	-0.6	2.4	2.0	3.2	-0.3	4.2	3.4
2003	2.8	3.3	2.1	1.2	0.8	3.0	2.3	2.0	2.9	-0.6	2.7	3.4
2004	2.3	3.4	0.6	1.6	0.8	4.5	2.4	1.9	2.8	-2.0	2.4	5.1
2004 Q2	2.9	3.9	1.5	1.7	0.9	4.8	2.3	1.8	3.0	-1.9	2.4	4.9
Q3	2.0	3.6	-0.3	2.0	0.8	6.3	2.5	2.0	2.8	-2.6	2.5	5.3
Q4	1.4	2.8	-0.7	2.4	0.8	8.5	2.6	2.1	3.0	-2.6	2.4	5.3
2005 Q1	1.6	2.4	0.5	1.9	0.3	7.6	2.6	2.1	3.1	-1.9	2.4	3.5
Q2	1.3	1.6	0.8	2.1	0.3	8.8	2.7	2.1	2.4	-2.0	2.3	3.4
2005 Feb.	1.9	2.6	0.7	1.8	0.2	7.7	2.5	2.0	2.9	-1.8	2.3	3.5
Mar.	1.5	1.6	1.3	2.2	0.4	8.8	2.6	2.1	3.1	-1.5	2.6	3.4
Apr.	1.3	1.7	0.8	2.4	0.3	10.2	2.6	2.1	2.3	-1.7	1.9	3.5
May	1.3	1.5	1.0	1.8	0.4	6.9	2.7	2.2	2.5	-2.2	2.8	3.5
June	1.2	1.5	0.6	2.2	0.3	9.4	2.7	2.2	2.5	-2.1	2.2	3.2
July	.	.	.	.	.	.	.	.	.	.	.	.

Sources: Eurostat and ECB calculations.

1) Referring to the index period 2005.

2) Estimate based on first releases by Germany, Spain and Italy (and, when available, by other Member States), as well as on early information on energy prices.

**5.1 HICP, other prices and costs**

(annual percentage changes, unless otherwise indicated)

**2. Industry, construction, residential property and commodity prices**

	Industrial producer prices excluding construction										Construct- ion <sup>1)</sup>	Residential property prices <sup>2)</sup>	World market prices of raw materials <sup>3)</sup>	Oil prices <sup>4)</sup> (EUR per barrel)		
	Total (index 2000 = 100)	Total	Industry excluding construction and energy							Energy					Total	Total excluding energy
			Manu- facturing	Total	Intermediate goods	Capital goods	Consumer goods									
							Total	Durable	Non-durable							
% of total <sup>5)</sup>	100.0	100.0	89.5	82.5	31.6	21.3	29.5	4.0	25.5	17.5	100.0	32.8				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
2001	102.0	2.0	1.2	1.7	1.2	0.9	3.0	1.9	3.1	2.6	2.4	6.0	-8.3	-8.1	27.8	
2002	101.9	-0.1	0.3	0.5	-0.3	0.9	1.0	1.3	1.0	-2.3	2.8	6.8	-4.1	-0.9	26.5	
2003	103.4	1.4	0.9	0.8	0.8	0.3	1.1	0.6	1.2	3.8	2.2	7.1	-4.0	-4.5	25.1	
2004	105.7	2.3	2.5	2.0	3.5	0.7	1.3	0.7	1.4	3.9	2.7	7.4	18.4	10.8	30.5	
2004 Q2	105.3	2.0	2.5	1.7	2.8	0.6	1.5	0.6	1.7	3.7	2.1	6.8 <sup>6)</sup>	28.8	20.9	29.3	
Q3	106.4	3.1	3.5	2.5	4.7	0.9	1.4	0.8	1.5	6.1	2.8	-	26.9	11.9	33.3	
Q4	107.2	3.8	4.0	2.8	5.5	1.2	1.2	1.1	1.2	8.5	3.7	7.5 <sup>6)</sup>	22.9	1.3	34.5	
2005 Q1	108.2	4.1	3.8	2.8	5.1	1.6	1.2	1.4	1.1	10.0	.	-	22.9	1.9	36.6	
Q2	109.4	3.9	3.1	1.9	3.1	1.5	0.9	1.4	0.8	12.1	.	-	22.4	2.2	42.2	
2005 Feb.	108.1	4.2	3.9	2.9	5.2	1.7	1.3	1.5	1.3	10.0	-	-	23.7	3.1	35.2	
Mar.	108.9	4.2	3.9	2.5	4.5	1.7	0.9	1.4	0.8	11.7	-	-	24.1	-0.4	40.4	
Apr.	109.4	4.3	3.6	2.1	3.6	1.5	0.9	1.4	0.8	13.3	-	-	22.2	-1.9	41.4	
May	109.2	3.5	2.6	1.9	3.0	1.5	0.9	1.4	0.8	9.8	-	-	13.2	1.2	39.4	
June	109.7	4.0	3.1	1.7	2.6	1.4	0.8	1.4	0.7	13.3	-	-	31.9	7.6	45.7	
July	.	.	.	.	.	.	.	.	.	.	-	-	34.1	9.6	48.3	

**3. Hourly labour costs<sup>7)</sup>**

	Total (s.a. index 2000 = 100)	Total	By component		By selected economic activity			Memo item: indicator of negotiated wages
			Wages and salaries	Employers' social contributions	Mining, manufacturing and energy	Construction	Services	
% of total <sup>5)</sup>	100.0	100.0	73.3	26.7	36.8	8.9	54.4	
	1	2	3	4	5	6	7	8
2001	103.9	3.9	4.1	3.3	3.8	4.2	4.0	2.6
2002	107.7	3.7	3.5	4.3	3.3	4.4	3.9	2.7
2003	110.8	2.8	2.7	3.4	2.8	3.3	2.8	2.4
2004	113.7	2.6	2.5	3.0	2.8	2.7	2.4	2.2
2004 Q1	112.6	3.1	3.1	3.0	3.6	3.3	2.7	2.3
Q2	113.3	2.5	2.4	2.6	2.5	2.4	2.4	2.2
Q3	114.0	2.5	2.3	3.0	2.4	2.6	2.3	2.0
Q4	114.9	2.5	2.2	3.4	2.9	2.5	2.1	2.1
2005 Q1	115.8	3.1	2.8	4.3	3.5	1.3	2.9	2.2

Sources: Eurostat, HWWA (columns 13 and 14), Thomson Financial Datastream (column 15), ECB calculations based on Eurostat data (column 6 in Table 2 in Section 5.1 and column 7 in Table 3 in Section 5.1) and ECB calculations (column 12 in Table 2 in Section 5.1 and column 8 in Table 3 in Section 5.1).

- 1) Residential buildings, based on non-harmonised data.
- 2) Residential property price indicator for the euro area, based on non-harmonised sources.
- 3) Refers to the prices expressed in euro.
- 4) Brent Blend (for one-month forward delivery).
- 5) In 2000.
- 6) The quarterly data for the second (fourth) quarter refer to semi-annual averages of the first (second) half of the year, respectively. Since some national data are only available at annual frequency, the semi-annual estimate is partially derived from annual results; therefore, the accuracy of semi-annual data is lower than the accuracy of annual data.
- 7) Hourly labour costs for the whole economy, excluding agriculture, public administration, education, health and services not elsewhere classified. Owing to differences in coverage, the estimates for the components may not be consistent with the total.



## 5.1 HICP, other prices and costs

(annual percentage changes, unless otherwise indicated)

### 4. Unit labour costs, compensation per employee and labour productivity

(seasonally adjusted)

	Total (index 2000 = 100)	Total	By economic activity					
			Agriculture, hunting, forestry and fishing	Mining, manufacturing, and energy	Construction	Trade, repairs, hotels and restaurants, transport and communication	Financial, real estate, renting and business services	Public administration, education, health and other services
	1	2	3	4	5	6	7	8
Unit labour costs <sup>1)</sup>								
2001	102.3	2.3	1.8	1.6	3.2	1.8	2.5	2.6
2002	104.6	2.3	0.8	1.1	3.5	2.0	3.4	2.5
2003	106.5	1.8	3.0	1.2	2.3	1.8	1.6	2.6
2004	107.5	0.9	-5.6	-0.3	2.5	0.7	1.5	1.7
2004 Q1	107.1	1.2	-7.1	0.9	0.9	1.3	1.4	2.0
Q2	107.5	0.8	-6.8	-1.5	1.3	0.2	1.2	2.4
Q3	107.6	0.5	-3.6	-1.4	4.6	1.1	2.1	0.6
Q4	108.0	1.1	-5.0	0.7	3.1	0.3	1.4	1.8
2005 Q1	108.8	1.6	.	0.2	6.2	0.6	3.0	1.8
Compensation per employee								
2001	102.7	2.7	1.1	3.0	3.7	2.6	1.2	3.0
2002	105.3	2.6	2.4	2.7	3.3	2.5	2.3	2.7
2003	107.7	2.3	0.9	2.7	2.5	1.9	1.8	2.6
2004	110.0	2.1	0.5	3.1	2.7	1.5	1.2	2.4
2004 Q1	109.3	2.4	-2.4	4.0	2.7	1.5	1.0	2.9
Q2	110.0	2.4	0.4	3.3	2.3	1.3	1.1	3.6
Q3	110.1	1.8	3.7	2.6	3.2	1.8	1.6	1.3
Q4	110.5	1.8	0.3	2.4	2.5	1.6	0.9	2.1
2005 Q1	111.5	2.0	.	2.0	3.2	2.3	2.4	1.3
Labour productivity <sup>2)</sup>								
2001	100.4	0.4	-0.7	1.3	0.5	0.9	-1.3	0.4
2002	100.6	0.2	1.6	1.6	-0.2	0.5	-1.0	0.2
2003	101.1	0.4	-2.0	1.4	0.2	0.1	0.2	0.0
2004	102.2	1.2	6.5	3.4	0.2	0.8	-0.4	0.7
2004 Q1	102.1	1.2	5.1	3.1	1.8	0.2	-0.4	0.9
Q2	102.3	1.6	7.7	4.8	1.1	1.1	-0.1	1.2
Q3	102.3	1.2	7.6	4.1	-1.3	0.6	-0.5	0.7
Q4	102.3	0.7	5.5	1.7	-0.6	1.3	-0.5	0.2
2005 Q1	102.5	0.4	1.0	1.8	-2.8	1.6	-0.6	-0.4

### 5. Gross Domestic Product deflators

	Total (s.a. index 2000 = 100)	Total	Domestic demand			Exports <sup>3)</sup>	Imports <sup>3)</sup>	
			Total	Private consumption	Government consumption			Gross fixed capital formation
	1	2	3	4	5	6	7	8
2001	102.4	2.4	2.3	2.4	2.5	1.7	1.1	0.8
2002	105.0	2.5	2.2	2.1	2.6	1.8	-0.6	-1.8
2003	107.2	2.1	1.8	1.8	2.6	1.3	-0.8	-1.6
2004	109.1	1.8	2.0	2.1	1.9	2.7	1.3	1.5
2004 Q1	108.3	2.0	1.5	1.6	2.4	1.9	-0.7	-2.3
Q2	109.1	2.2	2.3	2.4	2.8	2.6	1.4	1.4
Q3	109.4	1.6	1.9	2.3	0.7	3.0	2.1	3.2
Q4	109.7	1.5	2.1	2.1	1.7	3.3	2.3	3.9
2005 Q1	110.2	1.8	2.2	1.9	1.5	3.5	2.4	3.9

Sources: ECB calculations based on Eurostat data.

- 1) Compensation (at current prices) per employee divided by value added (at constant prices) per person employed.
- 2) Value added (at constant prices) per person employed.
- 3) Deflators for exports and imports refer to goods and services and include cross-border trade within the euro area.

## 5.2 Output and demand

## 1. GDP and expenditure components

	GDP								
	Total	Domestic demand					External balance <sup>1)</sup>		
		Total	Private consumption	Government consumption	Gross fixed capital formation	Changes in inventories <sup>2)</sup>	Total	Exports <sup>1)</sup>	Imports <sup>1)</sup>
1	2	3	4	5	6	7	8	9	
	Current prices (EUR billions, seasonally adjusted)								
2001	6,882.5	6,778.4	3,970.4	1,372.1	1,450.6	-14.8	104.1	2,557.3	2,453.2
2002	7,124.4	6,951.9	4,088.4	1,444.1	1,441.9	-22.6	172.5	2,595.3	2,422.8
2003	7,323.6	7,179.1	4,207.7	1,499.8	1,466.5	5.1	144.5	2,589.3	2,444.8
2004	7,587.9	7,443.5	4,347.5	1,548.7	1,525.9	21.4	144.4	2,774.1	2,629.7
2004 Q1	1,873.7	1,828.9	1,073.4	382.2	372.3	1.0	44.8	667.1	622.3
Q2	1,895.1	1,852.7	1,081.9	388.2	379.9	2.6	42.4	691.1	648.8
Q3	1,905.5	1,873.6	1,090.4	388.1	384.4	10.7	31.9	704.6	672.7
Q4	1,913.7	1,888.3	1,101.7	390.2	389.2	7.2	25.3	711.3	685.9
2005 Q1	1,932.5	1,899.8	1,107.8	394.7	389.3	8.1	32.6	708.7	676.1
	<i>percentage of GDP</i>								
2004	100.0	98.1	57.3	20.4	20.1	0.3	1.9	-	-
	Constant prices (ECU billions at 1995 prices, seasonally adjusted)								
	<i>quarter-on-quarter percentage changes</i>								
2004 Q1	0.6	0.2	0.5	0.3	-0.3	-	-	1.6	0.4
Q2	0.5	0.4	0.1	0.8	0.3	-	-	2.6	2.6
Q3	0.3	0.8	0.3	0.7	0.4	-	-	1.1	2.5
Q4	0.2	0.4	0.6	0.3	0.6	-	-	0.7	1.3
2005 Q1	0.5	0.1	0.3	0.0	-0.4	-	-	-0.6	-1.6
	<i>annual percentage changes</i>								
2001	1.7	1.0	1.9	2.3	0.1	-	-	3.7	1.8
2002	0.9	0.3	0.9	2.6	-2.4	-	-	2.1	0.5
2003	0.7	1.4	1.1	1.3	0.4	-	-	0.6	2.5
2004	2.0	1.9	1.3	1.4	1.8	-	-	6.2	6.3
2004 Q1	1.5	1.2	1.1	2.6	1.1	-	-	3.3	2.5
Q2	2.1	1.4	1.1	2.9	1.4	-	-	7.6	6.1
Q3	1.8	2.3	1.0	2.8	1.6	-	-	6.2	7.7
Q4	1.5	1.8	1.6	2.1	1.1	-	-	6.1	7.0
2005 Q1	1.4	1.6	1.3	1.8	1.0	-	-	3.9	4.8
	<i>contributions to annual percentage changes of GDP in percentage points</i>								
2001	1.7	1.0	1.1	0.4	0.0	-0.5	0.7	-	-
2002	0.9	0.3	0.5	0.5	-0.5	-0.2	0.6	-	-
2003	0.7	1.3	0.6	0.3	0.1	0.4	-0.7	-	-
2004	2.0	1.9	0.8	0.3	0.4	0.5	0.1	-	-
2004 Q1	1.5	1.1	0.6	0.5	0.2	-0.2	0.3	-	-
Q2	2.1	1.4	0.6	0.6	0.3	-0.1	0.7	-	-
Q3	1.8	2.2	0.6	0.6	0.3	0.7	-0.4	-	-
Q4	1.5	1.7	0.9	0.4	0.2	0.2	-0.2	-	-
2005 Q1	1.4	1.6	0.7	0.3	0.2	0.3	-0.2	-	-

Source: Eurostat.

1) Exports and imports cover goods and services and include cross-border intra-euro area trade. They are not fully consistent with Table 1 in Section 7.3.

2) Including acquisitions less disposals of valuables.

## 5.2 Output and demand

### 2. Value added by economic activity

	Gross value added (basic prices)						Intermediate consumption of FISIM <sup>1)</sup>	Taxes less subsidies on products	
	Total	Agriculture, hunting, forestry and fishing activities	Mining, manufacturing and energy	Construction	Trade, repairs, hotels and restaurants, transport and communication	Financial, real estate, renting and business activities			Public administration, education, health and other services
	1	2	3	4	5	6	7	8	9
<i>Current prices (EUR billions, seasonally adjusted)</i>									
2001	6,381.5	160.3	1,385.5	360.9	1,345.3	1,727.2	1,402.3	216.3	717.3
2002	6,615.4	155.7	1,400.9	374.2	1,396.8	1,814.8	1,472.9	231.7	740.7
2003	6,796.8	156.0	1,413.4	389.6	1,428.1	1,879.3	1,530.5	239.1	765.8
2004	7,030.8	157.7	1,455.1	411.9	1,470.1	1,953.9	1,582.1	245.0	802.1
2004 Q1	1,735.9	39.5	358.4	100.7	363.4	481.4	392.5	61.2	199.0
Q2	1,759.1	39.8	365.0	102.6	367.6	486.9	397.0	62.7	198.7
Q3	1,763.8	38.9	366.1	103.1	369.2	491.6	394.8	60.0	201.7
Q4	1,772.1	39.5	365.5	105.5	369.8	493.9	397.8	61.2	202.8
2005 Q1	1,788.7	39.3	369.4	105.8	374.5	498.6	401.2	61.6	205.3
<i>percentage of value added</i>									
2004	100.0	2.2	20.7	5.9	20.9	27.8	22.5	-	-
<i>Constant prices (ECU billions at 1995 prices, seasonally adjusted)</i>									
<i>quarter-on-quarter percentage changes</i>									
2004 Q1	0.7	3.2	0.6	0.4	1.0	0.8	0.1	3.2	1.2
Q2	0.7	1.3	0.9	0.4	0.8	0.7	0.5	2.2	-1.4
Q3	0.1	-0.6	-0.1	-0.8	0.2	0.2	0.1	-3.7	0.5
Q4	0.2	1.8	-0.5	0.7	0.2	0.2	0.5	1.3	0.6
2005 Q1	0.4	-1.4	0.5	-1.7	1.5	0.6	-0.2	-1.1	0.2
<i>annual percentage changes</i>									
2001	2.0	-1.4	1.3	0.8	2.5	2.9	1.8	5.2	0.9
2002	1.0	-0.1	-0.1	-0.3	1.0	1.5	2.2	2.7	0.4
2003	0.6	-3.9	-0.1	0.3	0.4	1.5	1.2	1.7	1.5
2004	2.2	6.2	2.5	1.5	2.0	2.2	1.7	4.5	1.4
2004 Q1	1.4	3.7	0.8	1.7	0.9	1.9	1.7	5.0	3.5
Q2	2.4	6.7	3.0	1.4	2.0	2.4	1.9	7.7	1.2
Q3	1.9	7.3	2.3	0.4	1.5	2.0	1.4	2.5	1.7
Q4	1.7	5.8	0.9	0.7	2.2	2.0	1.2	2.8	0.8
2005 Q1	1.4	1.1	0.8	-1.5	2.7	1.8	0.8	-1.4	-0.1
<i>contributions to annual percentage changes of value added in percentage points</i>									
2001	2.0	0.0	0.3	0.0	0.5	0.7	0.4	-	-
2002	1.0	0.0	0.0	0.0	0.2	0.4	0.5	-	-
2003	0.6	-0.1	0.0	0.0	0.1	0.4	0.3	-	-
2004	2.2	0.2	0.5	0.1	0.5	0.6	0.4	-	-
2004 Q1	1.4	0.1	0.2	0.1	0.2	0.5	0.4	-	-
Q2	2.4	0.2	0.7	0.1	0.4	0.6	0.4	-	-
Q3	1.9	0.2	0.5	0.0	0.3	0.5	0.3	-	-
Q4	1.7	0.1	0.2	0.0	0.5	0.5	0.3	-	-
2005 Q1	1.4	0.0	0.2	-0.1	0.6	0.5	0.2	-	-

Source: Eurostat.

1) The use of financial intermediation services indirectly measured (FISIM) is treated as intermediate consumption which is not allocated among branches.

## 5.2 Output and demand

(annual percentage changes, unless otherwise indicated)

## 3. Industrial production

	Total		Industry excluding construction								Construction	
	% of total <sup>1)</sup>	Total (s.a. index 2000 = 100)	Total	Industry excluding construction and energy							Energy	
				Manu- facturing	Total	Intermediate goods	Capital goods	Consumer goods				
								Total	Durable	Non-durable		
1	2	3	4	5	6	7	8	9	10	11	12	
	100.0	82.9	82.9	75.0	74.0	30.0	22.4	21.5	3.6	17.9	8.9	17.1
2002	-0.3	99.9	-0.5	-0.8	-0.7	-0.1	-1.7	-0.3	-5.5	0.7	1.1	0.8
2003	0.2	100.2	0.3	0.0	0.0	0.4	-0.2	-0.5	-4.6	0.3	3.0	0.0
2004	2.1	102.2	1.9	2.0	1.9	1.8	2.9	0.5	-0.1	0.7	2.5	0.1
2004 Q2	3.2	102.2	3.0	3.2	3.1	2.6	4.7	1.5	2.9	1.2	2.7	-0.2
Q3	2.9	102.6	2.8	3.0	2.8	2.8	5.0	0.4	-0.6	0.5	2.5	-0.2
Q4	1.2	102.4	1.1	0.7	0.5	1.1	1.6	-0.2	-3.6	0.4	2.7	-0.3
2005 Q1	-0.1	102.4	0.8	0.6	0.4	1.0	2.0	-0.4	-3.4	0.1	1.4	-3.7
2004 Dec.	2.4	102.5	1.2	0.8	0.5	1.1	-0.5	1.0	-4.0	1.9	4.7	-0.5
2005 Jan.	3.0	102.8	2.1	2.6	2.5	3.3	2.9	1.3	-2.6	2.0	0.1	2.2
Feb.	-0.8	102.2	0.4	0.1	-0.2	0.3	1.4	-0.7	-3.6	-0.1	2.1	-3.8
Mar.	-2.1	102.1	0.1	-0.8	-0.9	-0.5	1.8	-1.7	-3.9	-1.4	2.2	-8.7
Apr.	.	102.9	1.2	2.0	1.8	0.4	2.9	0.8	-0.8	1.1	0.3	.
May	.	102.6	0.2	-0.2	-0.7	-0.4	0.7	0.6	-3.7	1.4	1.0	.
<i>month-on-month percentage changes (s.a.)</i>												
2004 Dec.	1.2	-	0.4	0.6	0.4	0.4	-0.4	1.1	0.0	1.3	1.2	0.7
2005 Jan.	0.3	-	0.3	0.6	0.8	0.9	1.2	0.1	0.7	0.0	-2.4	1.2
Feb.	-1.6	-	-0.6	-1.1	-1.2	-1.5	-0.6	-0.9	-0.1	-1.1	3.8	-3.6
Mar.	-1.0	-	-0.1	-0.4	-0.4	-1.0	1.2	-0.4	-0.5	-0.4	1.2	-4.9
Apr.	.	-	0.8	1.9	1.7	1.2	0.0	1.5	1.9	1.4	-4.9	.
May	.	-	-0.3	-1.0	-1.1	-0.4	0.0	-0.3	-1.6	-0.1	2.2	.

## 4. Industrial new orders and turnover, retail sales and passenger car registrations

	Industrial new orders		Industrial turnover		Retail sales							New passenger car registrations	
	Manufacturing <sup>2)</sup> (current prices)		Manufacturing (current prices)		Current prices	Constant prices						Total (s.a.) thousands <sup>3)</sup>	Total
	Total (s.a. index 2000 = 100)	Total	Total (s.a. index 2000 = 100)	Total	Total	Total (s.a. index 2000 = 100)	Total	Food, beverages, tobacco	Non-food				
									Textiles, clothing, footwear	Household equipment			
1	2	3	4	5	6	7	8	9	10	11	12	13	
% of total <sup>1)</sup>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	43.7	56.3	10.6	14.8		
2002	98.2	-0.4	101.4	-0.6	1.9	101.7	0.3	1.2	-0.4	-1.9	-1.9	925	-4.4
2003	98.2	0.1	101.0	-0.3	1.8	102.1	0.3	1.1	-0.4	-2.8	0.2	911	-1.5
2004	105.9	8.2	105.9	4.9	1.6	102.8	0.8	0.7	0.7	0.4	2.2	922	1.1
2004 Q3	105.2	7.2	106.5	5.7	1.4	102.9	0.7	0.3	0.9	1.3	2.0	904	-3.4
Q4	110.0	9.9	107.1	5.1	1.6	103.1	1.0	1.1	0.6	0.8	1.7	941	3.6
2005 Q1	106.3	3.0	106.8	2.5	1.9	103.9	1.0	1.0	1.0	0.6	0.5	921	0.4
Q2	.	.	.	.	.	103.6	0.7	0.2	0.8	.	.	938	1.0
2005 Jan.	108.1	6.9	106.4	5.4	1.2	104.1	0.7	0.1	0.8	-1.1	0.6	922	1.5
Feb.	105.5	3.3	106.9	3.3	2.0	103.7	1.1	1.5	0.8	-0.9	0.5	910	-2.3
Mar.	105.2	-0.4	107.2	-0.4	2.4	103.8	1.4	1.5	1.5	3.6	0.5	931	1.7
Apr.	106.9	1.7	111.0	4.3	0.4	102.7	-0.8	-2.1	-0.1	1.0	-0.1	939	1.0
May	105.3	-3.2	107.9	5.0	2.9	103.9	1.9	1.6	1.9	1.8	2.1	894	-4.2
June	.	.	.	.	.	104.2	0.9	1.2	0.4	.	.	981	6.1
<i>month-on-month percentage changes (s.a.)</i>													
2005 Jan.	-	-7.2	-	-1.9	0.7	-	0.9	0.7	0.7	1.1	0.3	-	-0.3
Feb.	-	-2.5	-	0.5	-0.1	-	-0.3	-0.2	-0.3	-1.1	-0.4	-	-1.4
Mar.	-	-0.3	-	0.2	-0.1	-	0.0	-0.2	0.3	1.6	0.3	-	2.3
Apr.	-	1.6	-	3.6	-0.2	-	-1.0	-1.9	-0.5	0.7	0.0	-	0.9
May	-	-1.4	-	-2.8	0.8	-	1.1	2.1	0.5	-1.8	0.7	-	-4.8
June	-	.	-	.	.	-	0.4	0.2	0.3	.	.	-	9.7

Sources: Eurostat, except columns 12 and 13 in Table 4 in Section 5.2 (ECB calculations based on data from the ACEA, European Automobile Manufacturers' Association).

1) In 2000.

2) Includes manufacturing industries working mainly on the basis of orders, representing 62.6% of total manufacturing in 2000.

3) Annual and quarterly figures are averages of monthly figures in the period concerned.

## 5.2 Output and demand

(percentage balances,<sup>1)</sup> unless otherwise indicated; seasonally adjusted)

### 5. Business and Consumer Surveys

	Economic sentiment indicator <sup>2)</sup> (long-term average = 100)	Manufacturing industry					Consumer confidence indicator <sup>3)</sup>				
		Industrial confidence indicator				Capacity utilisation <sup>4)</sup>	Total <sup>5)</sup>	Financial situation over next 12 months	Economic situation over next 12 months	Unemployment situation over next 12 months	Savings over next 12 months
		Total <sup>5)</sup>	Order books	Stocks of finished products	Production expectations						
	1	2	3	4	5	6	7	8	9	10	11
2001	100.9	-9	-15	13	1	82.8	-5	2	-9	14	2
2002	94.4	-11	-25	11	3	81.3	-11	-1	-12	26	-3
2003	93.5	-10	-25	10	3	81.1	-18	-5	-21	38	-9
2004	100.0	-5	-15	8	10	81.7	-14	-4	-14	30	-8
2004 Q2	99.9	-5	-17	8	10	81.6	-14	-3	-15	32	-8
Q3	100.6	-4	-12	7	9	82.1	-14	-4	-14	29	-8
Q4	100.9	-3	-12	8	10	82.0	-13	-3	-13	29	-6
2005 Q1	99.0	-6	-15	11	6	81.6	-13	-3	-13	29	-8
Q2	96.3	-10	-20	13	4	81.2	-14	-3	-16	31	-7
2005 Feb.	98.8	-6	-15	10	6	-	-13	-2	-13	30	-8
Mar.	97.5	-8	-17	12	6	-	-14	-3	-13	31	-9
Apr.	96.5	-9	-19	13	4	81.2	-13	-3	-14	29	-8
May	96.1	-11	-21	14	3	-	-15	-4	-17	31	-7
June	96.3	-10	-20	12	4	-	-15	-4	-17	33	-7
July	97.3	-8	-18	11	4	81.2	-15	-4	-19	30	-9

	Construction confidence indicator			Retail trade confidence indicator				Services confidence indicator			
	Total <sup>5)</sup>	Order books	Employment expectations	Total <sup>5)</sup>	Present business situation	Volume of stocks	Expected business situation	Total <sup>5)</sup>	Business climate	Demand in recent months	Demand in the months ahead
	12	13	14	15	16	17	18	19	20	21	22
2001	-10	-16	-4	-8	-5	17	-1	15	16	8	20
2002	-19	-26	-11	-16	-20	18	-12	1	-4	-6	13
2003	-20	-27	-13	-11	-15	17	-2	2	-6	1	12
2004	-16	-24	-8	-8	-12	14	2	12	7	10	18
2004 Q2	-16	-23	-9	-8	-10	15	2	11	6	12	17
Q3	-15	-24	-7	-8	-10	14	0	12	8	11	17
Q4	-14	-21	-6	-8	-14	13	3	11	8	9	16
2005 Q1	-13	-18	-9	-8	-12	12	1	11	6	7	18
Q2	-14	-20	-7	-8	-13	13	1	9	1	8	17
2005 Feb.	-14	-18	-10	-8	-14	13	2	10	6	5	18
Mar.	-13	-17	-9	-10	-15	13	-1	9	1	7	19
Apr.	-14	-21	-7	-8	-12	14	1	8	1	6	18
May	-13	-19	-8	-8	-13	11	1	10	1	11	16
June	-14	-21	-8	-9	-16	14	2	9	1	8	17
July	-13	-20	-7	-10	-13	15	-3	11	5	11	18

Source: European Commission (Economic and Financial Affairs DG).

- 1) Difference between the percentages of respondents giving positive and negative replies.
- 2) The economic sentiment indicator is composed of the industrial, services, consumer, construction and retail trade confidence indicators; the industrial confidence indicator has a weight of 40%, the services confidence indicator a weight of 30%, the consumer confidence indicator a weight of 20% and the two other indicators a weight of 5% each. Values of the economic sentiment indicator above (below) 100 indicate above-average (below-average) economic sentiment, calculated for the period from January 1985.
- 3) Owing to changes in the questionnaire used for the French survey, euro area results from January 2004 onwards are not fully comparable with previous results.
- 4) Data are collected in January, April, July and October each year. The quarterly figures shown are averages of two successive surveys. Annual data are derived from quarterly averages.
- 5) The confidence indicators are calculated as simple averages of the components shown; the assessment of stocks (columns 4 and 17) and unemployment (column 10) are used with inverted signs for the calculation of confidence indicators.

5.3 Labour markets <sup>1)</sup>

(annual percentage changes, unless otherwise indicated)

## 1. Employment

	Whole economy		By employment status		By economic activity					
	Millions (s.a.)		Employees	Self-employed	Agriculture, hunting, forestry and fishing	Mining, manufacturing, and energy	Construction	Trade, repairs, hotels and restaurants, transport and communication	Financial, real estate, renting and business services	Public administration, education, health and other services
% of total <sup>2)</sup>	100.0	100.0	84.4	15.6	4.5	18.2	7.3	25.0	15.1	29.9
	1	2	3	4	5	6	7	8	9	10
2001	134.495	1.5	1.7	0.3	-0.6	0.1	0.7	1.7	4.2	1.4
2002	135.454	0.7	0.8	0.1	-1.5	-1.6	0.1	0.5	2.6	2.0
2003	135.811	0.3	0.3	0.3	-1.8	-1.5	0.1	0.3	1.3	1.2
2004	136.578	0.6	0.4	1.4	-0.3	-1.6	1.0	0.8	2.5	0.8
2004 Q1	135.952	0.3	0.2	0.7	-1.3	-2.2	-0.1	0.8	2.5	0.8
Q2	136.302	0.5	0.4	1.3	-0.8	-1.7	0.6	0.9	2.7	0.7
Q3	136.604	0.6	0.3	1.7	0.2	-1.8	1.9	0.7	2.3	0.8
Q4	136.931	0.9	0.7	1.7	0.5	-0.8	1.6	1.0	2.4	1.0
2005 Q1	137.220	1.0	0.9	1.4	0.4	-0.9	2.2	0.9	2.5	1.4
	<i>quarter-on-quarter percentage changes (s.a.)</i>									
2004 Q1	0.174	0.1	0.2	-0.4	-0.2	-0.7	-0.1	0.1	1.1	0.3
Q2	0.350	0.3	0.2	0.8	0.0	0.1	0.7	0.3	0.4	0.2
Q3	0.302	0.2	0.0	1.4	0.4	-0.5	1.1	0.4	0.6	0.1
Q4	0.327	0.2	0.2	0.2	0.0	0.2	-0.4	0.2	0.6	0.3
2005 Q1	0.289	0.2	0.4	-0.7	-0.5	-0.8	0.1	0.2	0.9	0.6

## 2. Unemployment

*(seasonally adjusted)*

	Total		By age <sup>3)</sup>				By gender <sup>4)</sup>			
	Millions	% of labour force	Adult		Youth		Male		Female	
			Millions	% of labour force	Millions	% of labour force	Millions	% of labour force	Millions	% of labour force
% of total <sup>2)</sup>	100.0		75.6		24.4		47.9		52.1	
	1	2	3	4	5	6	7	8	9	10
2001	11.018	7.9	8.092	6.6	2.925	16.1	5.037	6.3	5.981	9.9
2002	11.737	8.3	8.721	7.0	3.017	16.8	5.509	6.9	6.228	10.1
2003	12.515	8.7	9.397	7.5	3.117	17.6	5.963	7.4	6.552	10.5
2004	12.867	8.9	9.731	7.6	3.136	17.9	6.166	7.6	6.701	10.5
2004 Q2	12.887	8.9	9.710	7.6	3.177	18.1	6.152	7.6	6.735	10.6
Q3	12.901	8.9	9.756	7.6	3.145	18.0	6.155	7.5	6.746	10.6
Q4	12.861	8.8	9.762	7.6	3.100	17.9	6.261	7.7	6.600	10.4
2005 Q1	12.864	8.8	9.601	7.5	3.263	18.6	6.209	7.6	6.654	10.4
Q2	12.769	8.8	9.638	7.5	3.130	18.0	6.183	7.5	6.586	10.3
2005 Jan.	12.836	8.8	9.571	7.5	3.265	18.6	6.233	7.6	6.603	10.3
Feb.	12.869	8.8	9.639	7.5	3.230	18.4	6.154	7.5	6.715	10.5
Mar.	12.886	8.8	9.593	7.5	3.293	18.8	6.240	7.6	6.645	10.4
Apr.	12.896	8.8	9.678	7.5	3.217	18.4	6.239	7.6	6.656	10.4
May	12.725	8.7	9.671	7.5	3.054	17.6	6.176	7.5	6.549	10.2
June	12.685	8.7	9.565	7.5	3.120	17.9	6.133	7.5	6.553	10.3

Sources: ECB calculations based on Eurostat data (in Table 1 in Section 5.3) and Eurostat (Table 2 in Section 5.3).

1) Data for employment refer to persons and are based on the ESA 95. Data for unemployment refer to persons and follow ILO recommendations.

2) In 2004.

3) Adult: 25 years of age and over; youth: below 25 years of age; rates are expressed as a percentage of the labour force for the relevant age group.

4) Rates are expressed as a percentage of the labour force for the relevant gender.



## GOVERNMENT FINANCE

### 6.1 Revenue, expenditure and deficit/surplus <sup>1)</sup> (as a percentage of GDP)

#### 1. Euro area – revenue

	Total		Current revenue									Capital revenue		Memo: fiscal burden <sup>2)</sup>
	1	2	Direct taxes			Indirect taxes	Received by EU institutions		Social contributions			Sales	Capital taxes	
			Households	Corporations	3		4	5	6	7	Employers			
1996	47.3	46.9	11.8	9.1	2.3	13.3	0.8	17.4	8.6	5.5	2.4	0.4	0.3	42.8
1997	47.6	47.1	12.0	9.1	2.6	13.5	0.7	17.4	8.6	5.5	2.4	0.5	0.4	43.2
1998	47.1	46.8	12.3	9.6	2.3	14.1	0.7	16.3	8.4	4.9	2.3	0.3	0.3	43.0
1999	47.6	47.3	12.7	9.8	2.6	14.3	0.6	16.3	8.4	4.9	2.3	0.3	0.3	43.6
2000	47.2	46.9	12.9	9.9	2.7	14.1	0.6	16.0	8.3	4.9	2.3	0.3	0.3	43.3
2001	46.4	46.2	12.5	9.7	2.5	13.7	0.6	15.9	8.3	4.7	2.2	0.3	0.3	42.4
2002	45.8	45.5	12.0	9.5	2.2	13.7	0.4	15.8	8.3	4.7	2.2	0.3	0.3	41.9
2003	45.9	45.2	11.7	9.3	2.1	13.7	0.4	16.0	8.4	4.7	2.3	0.7	0.6	41.9
2004	45.4	44.9	11.6	9.0	2.3	13.8	0.4	15.9	8.3	4.7	2.2	0.5	0.4	41.6

#### 2. Euro area – expenditure

	Total		Current expenditure							Capital expenditure			Memo: primary expenditure <sup>3)</sup>		
	1	2	Total	Compensation of employees	Intermediate consumption	Interest	Current transfers	Social payments		Subsidies	Paid by EU institutions	Investment		Capital transfers	Paid by EU institutions
								7	8						
1996	51.6	47.8	11.1	4.8	5.7	26.1	23.0	2.2	0.6	3.8	2.6	1.3	0.0	45.9	
1997	50.2	46.6	11.0	4.8	5.1	25.8	22.9	2.1	0.6	3.6	2.4	1.2	0.1	45.1	
1998	49.3	45.6	10.7	4.7	4.7	25.5	22.5	2.1	0.5	3.8	2.4	1.3	0.1	44.6	
1999	48.9	45.0	10.6	4.8	4.1	25.4	22.4	2.0	0.5	3.9	2.5	1.4	0.1	44.7	
2000	48.1	44.3	10.5	4.8	4.0	25.0	22.0	1.9	0.5	3.8	2.5	1.3	0.1	44.1	
2001	48.2	44.2	10.4	4.8	3.9	25.1	22.1	1.9	0.5	4.0	2.6	1.4	0.0	44.3	
2002	48.3	44.4	10.6	4.9	3.6	25.4	22.5	1.9	0.5	3.9	2.5	1.4	0.0	44.7	
2003	48.8	44.8	10.6	4.9	3.4	25.8	22.9	1.8	0.5	4.0	2.6	1.4	0.1	45.3	
2004	48.2	44.2	10.5	4.9	3.3	25.5	22.8	1.8	0.5	3.9	2.5	1.4	0.0	44.9	

#### 3. Euro area – deficit/surplus, primary deficit/surplus and government consumption

	Deficit (-)/surplus (+)					Primary deficit (-)/surplus (+)	Government consumption <sup>4)</sup>							
	Total	Central gov.	State gov.	Local gov.	Social security funds		Total	Compensation of employees	Intermediate consumption	Transfers in kind via market producers	Consumption of fixed capital	Sales (minus)	Collective consumption	Individual consumption
1996	-4.3	-3.7	-0.4	0.0	-0.1	1.4	20.4	11.1	4.8	5.0	1.9	2.4	8.6	11.8
1997	-2.6	-2.4	-0.4	0.1	0.1	2.4	20.2	11.0	4.8	5.0	1.8	2.4	8.5	11.7
1998	-2.3	-2.2	-0.2	0.1	0.1	2.4	19.9	10.7	4.7	5.0	1.8	2.3	8.3	11.6
1999	-1.3	-1.7	-0.1	0.1	0.4	2.8	19.9	10.6	4.8	5.0	1.8	2.3	8.3	11.6
2000	-0.9	-1.4	-0.1	0.1	0.5	3.0	19.8	10.5	4.8	5.0	1.8	2.3	8.2	11.6
2001	-1.8	-1.6	-0.4	0.0	0.3	2.1	20.0	10.4	4.8	5.1	1.8	2.2	8.2	11.7
2002	-2.5	-2.0	-0.5	-0.2	0.2	1.1	20.3	10.6	4.9	5.2	1.8	2.2	8.3	12.0
2003	-2.8	-2.3	-0.4	-0.1	0.0	0.6	20.6	10.6	4.9	5.3	1.8	2.3	8.4	12.2
2004	-2.7	-2.4	-0.4	-0.2	0.2	0.5	20.4	10.5	4.9	5.3	1.8	2.2	8.3	12.2

#### 4. Euro area countries – deficit (-)/surplus (+)<sup>5)</sup>

	BE 1	DE 2	GR 3	ES 4	FR 5	IE 6	IT 7	LU 8	NL 9	AT 10	PT 11	FI 12
2001	0.6	-2.8	-3.6	-0.5	-1.5	0.9	-3.2	6.2	-0.1	0.3	-4.4	5.2
2002	0.1	-3.7	-4.1	-0.3	-3.2	-0.4	-2.7	2.3	-1.9	-0.2	-2.7	4.3
2003	0.4	-3.8	-5.2	0.3	-4.2	0.2	-3.2	0.5	-3.2	-1.1	-2.9	2.5
2004	0.1	-3.7	-6.1	-0.3	-3.6	1.3	-3.2	-1.1	-2.5	-1.3	-2.9	2.1

Sources: ECB for euro area aggregated data; European Commission for data relating to countries' deficit/surplus.

- Revenue, expenditure and deficit/surplus are based on the ESA 95, but the figures exclude proceeds from the sale of UMTS licences in 2000 (the euro area deficit/surplus including those proceeds is equal to 0.1% of GDP). Transactions involving the EU budget are included and consolidated. Transactions among Member States' governments are not consolidated.
- The fiscal burden comprises taxes and social contributions.
- Comprises total expenditure minus interest expenditure.
- Corresponds to final consumption expenditure (P.3) of general government in the ESA 95.
- Ratios are computed using GDP excluding Financial Intermediation Services Indirectly Measured (FISIM). Includes proceeds from the sale of UMTS licences and settlements under swaps and forward rate agreements.

6.2 Debt <sup>1)</sup>

(as a percentage of GDP)

## 1. Euro area – by financial instrument and sector of the holder

	Total	Financial instruments				Holders				Other creditors <sup>3)</sup>
		Coins and deposits	Loans	Short-term securities	Long-term securities	Domestic creditors <sup>2)</sup>				
						Total	MFIs	Other financial corporations	Other sectors	
1	2	3	4	5	6	7	8	9	10	
1995	74.5	2.8	17.7	8.0	46.0	58.9	30.9	10.8	17.2	15.5
1996	75.8	2.8	17.2	8.0	47.8	59.4	30.6	12.6	16.2	16.4
1997	74.9	2.8	16.2	6.6	49.4	57.1	28.9	14.1	14.1	17.9
1998	73.4	2.7	15.0	5.7	49.9	53.5	26.9	15.0	11.5	19.9
1999	72.5	2.9	14.2	4.3	51.2	49.5	26.4	11.4	11.7	23.1
2000	70.0	2.7	13.1	3.7	50.5	44.8	23.3	10.3	11.2	25.2
2001	68.9	2.7	12.4	3.9	49.9	42.8	21.9	9.7	11.2	26.2
2002	68.8	2.7	11.8	4.6	49.8	40.2	20.4	8.6	11.2	28.6
2003	70.1	2.0	12.4	4.9	50.9	39.7	20.9	9.3	9.6	30.4
2004	70.6	2.1	11.9	4.8	51.7	39.2	20.1	9.6	9.5	31.4

## 2. Euro area – by issuer, maturity and currency denomination

	Total	Issued by <sup>4)</sup>				Original maturity			Residual maturity			Currencies	
		Central gov.	State gov.	Local gov.	Social security funds	Up to 1 year	Over 1 year	Variable interest rate	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Euro or participating currencies <sup>5)</sup>	Other currencies
1995	74.5	62.2	5.6	5.9	0.8	13.0	61.5	6.2	18.7	26.8	28.9	72.2	2.2
1996	75.8	63.5	5.9	5.8	0.5	12.4	63.4	5.9	20.2	26.2	29.4	73.6	2.2
1997	74.9	62.8	6.1	5.4	0.6	11.1	63.9	5.5	19.5	26.0	29.4	72.7	2.2
1998	73.4	61.6	6.1	5.3	0.4	9.3	64.1	5.8	16.8	27.1	29.5	71.3	2.1
1999	72.5	61.0	6.1	5.2	0.3	9.1	63.4	4.0	15.2	28.0	29.4	70.6	2.0
2000	70.0	58.8	6.0	5.0	0.3	8.1	61.9	3.4	15.0	28.5	26.5	68.3	1.8
2001	68.9	57.6	6.2	4.8	0.3	8.6	60.3	2.1	15.6	26.6	26.7	67.4	1.5
2002	68.8	57.3	6.4	4.8	0.3	8.9	60.0	1.9	16.5	25.4	27.0	67.5	1.3
2003	70.1	57.7	6.7	5.2	0.6	8.9	61.2	1.8	15.3	26.5	28.3	69.1	1.0
2004	70.6	58.1	6.8	5.2	0.4	9.8	60.8	0.8	15.5	27.1	28.0	69.6	1.0

3. Euro area countries <sup>6)</sup>

	BE	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI
	1	2	3	4	5	6	7	8	9	10	11	12
2001	108.0	59.1	114.8	56.3	56.8	35.8	110.9	7.2	52.9	67.0	55.9	43.8
2002	105.4	60.6	112.2	53.2	58.8	32.6	108.3	7.5	52.6	66.8	58.5	42.5
2003	100.0	64.0	109.3	49.4	63.2	32.0	106.8	7.1	54.3	65.2	60.1	45.3
2004	95.6	66.1	110.5	46.9	65.0	29.9	106.6	7.5	55.7	64.4	61.9	45.3

Sources: ECB for euro area aggregated data; European Commission for data relating to countries' debt.

- 1) Gross general government debt at nominal value and consolidated between sub-sectors of government. Holdings by non-resident governments are not consolidated. Data are partially estimated.
- 2) Holders resident in the country whose government has issued the debt.
- 3) Includes residents of euro area countries other than the country whose government has issued the debt.
- 4) Excludes debt held by general government in the country whose government has issued it.
- 5) Before 1999, this comprises debt in ECU, in domestic currency and in the currencies of other Member States which have adopted the euro.
- 6) Ratios are computed using GDP excluding Financial Intermediation Services Indirectly Measured (FISIM).



## 6.3 Change in debt <sup>1)</sup>

(as a percentage of GDP)

### 1. Euro area – by source, financial instrument and sector of the holder

	Total	Source of change				Financial instruments				Holders			
		Borrowing requirement <sup>2)</sup>	Valuation effects <sup>3)</sup>	Other changes in volume <sup>4)</sup>	Aggregation effect <sup>5)</sup>	Coins and deposits	Loans	Short-term securities	Long-term securities	Domestic creditors <sup>6)</sup>	MFIs	Other financial corporations	Other creditors <sup>7)</sup>
1996	3.9	4.4	-0.2	0.0	-0.4	0.1	0.1	0.2	3.4	2.5	0.7	2.1	1.4
1997	2.0	2.4	0.2	-0.4	-0.2	0.0	-0.3	-1.1	3.4	-0.1	-0.6	1.9	2.1
1998	1.7	2.0	-0.2	0.0	-0.1	0.1	-0.5	-0.6	2.7	-1.1	-0.7	1.6	2.8
1999	1.9	1.5	0.4	0.0	-0.1	0.2	-0.3	-1.2	3.2	-2.0	0.5	-3.1	3.9
2000	1.1	1.0	0.1	0.0	0.0	0.0	-0.3	-0.4	1.9	-2.2	-1.8	-0.5	3.3
2001	1.8	1.7	0.0	0.1	0.0	0.1	-0.1	0.4	1.4	-0.2	-0.5	-0.2	2.0
2002	2.2	2.5	-0.4	0.1	0.0	0.1	-0.2	0.8	1.6	-1.1	-0.8	-0.7	3.3
2003	3.0	3.2	-0.1	0.0	0.0	-0.6	0.9	0.5	-2.3	0.5	1.0	0.9	2.5
2004	3.1	3.3	0.0	-0.1	0.0	0.3	0.0	0.1	2.8	0.9	0.0	0.7	2.2

### 2. Euro area – deficit-debt adjustment

	Change in debt	Deficit (-) / surplus (+) <sup>8)</sup>	Deficit-debt adjustment <sup>9)</sup>											Other <sup>10)</sup>
			Total	Transactions in main financial assets held by general government							Valuation effects	Exchange rate effects	Other changes in volume	
				Total	Currency and deposits	Securities <sup>11)</sup>	Loans	Shares and other equity	Privatisations	Equity injections				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1996	3.9	-4.3	-0.4	-0.1	0.0	0.0	-0.1	-0.1	-0.2	0.2	-0.2	-0.2	0.0	-0.2
1997	2.0	-2.6	-0.6	-0.5	0.1	-0.1	0.0	-0.5	-0.7	0.2	0.2	0.2	-0.4	0.0
1998	1.7	-2.3	-0.6	-0.5	0.1	0.0	-0.1	-0.6	-0.8	0.3	-0.2	0.0	0.0	0.0
1999	1.9	-1.3	0.6	-0.1	0.5	0.0	0.1	-0.7	-0.8	0.1	0.4	0.3	0.0	0.3
2000	1.1	0.1	1.2	1.0	0.7	0.1	0.2	0.0	-0.4	0.2	0.1	0.1	0.0	0.0
2001	1.8	-1.7	0.0	-0.5	-0.6	0.1	0.1	-0.1	-0.3	0.2	0.0	0.0	0.1	0.4
2002	2.2	-2.5	-0.3	0.0	0.0	0.0	0.0	0.0	-0.4	0.2	-0.4	0.0	0.1	0.0
2003	3.0	-2.8	0.2	0.1	0.1	0.0	0.0	0.1	-0.4	0.1	-0.1	-0.1	0.0	0.2
2004	3.1	-2.7	0.4	0.2	0.2	0.1	0.0	-0.1	-0.2	0.1	0.0	0.0	-0.1	0.4

Source: ECB.

- 1) Data are partially estimated. Annual change in gross nominal consolidated debt is expressed as a percentage of GDP, i.e.  $[\text{debt}(t) - \text{debt}(t-1)] \div \text{GDP}(t)$ .
- 2) The borrowing requirement is by definition equal to transactions in debt.
- 3) Includes, in addition to the impact of foreign exchange movements, effects arising from measurement at nominal value (e.g. premia or discounts on securities issued).
- 4) Includes, in particular, the impact of the reclassification of units and certain types of debt assumption.
- 5) The difference between the changes in the aggregated debt, resulting from the aggregation of countries' debt, and the aggregation of countries' change in debt is due to variations in the exchange rates used for aggregation before 1999.
- 6) Holders resident in the country whose government has issued the debt.
- 7) Includes residents of euro area countries other than the country whose government has issued the debt.
- 8) Including proceeds from sales of UMTS licences.
- 9) The difference between the annual change in gross nominal consolidated debt and the deficit as a percentage of GDP.
- 10) Mainly composed of transactions in other assets and liabilities (trade credits, other receivables/payables and financial derivatives).
- 11) Excluding financial derivatives.

## 6.4 Quarterly revenue, expenditure and deficit/surplus <sup>1)</sup>

(as a percentage of GDP)

### 1. Euro area – quarterly revenue

	Total		Current revenue					Capital revenue		Memo: fiscal burden <sup>2)</sup>
	1	2	Direct taxes	Indirect taxes	Social contributions	Sales	Property income	8	Capital taxes	
1999 Q1	44.3	43.7	10.8	13.4	16.0	2.0	0.7	0.6	0.2	40.4
Q2	48.3	47.7	13.6	13.6	16.2	2.1	1.4	0.6	0.3	43.6
Q3	45.4	44.8	11.9	13.2	16.2	2.0	0.8	0.5	0.3	41.5
Q4	51.5	50.8	14.4	14.7	17.0	2.9	0.9	0.7	0.3	46.4
2000 Q1	44.1	43.5	11.2	13.3	15.6	1.9	0.7	0.6	0.3	40.3
Q2	48.2	47.7	14.0	13.6	15.9	2.1	1.2	0.6	0.3	43.8
Q3	45.0	44.5	12.1	12.8	16.0	2.0	0.8	0.5	0.3	41.1
Q4	50.7	50.1	14.1	14.3	16.8	3.0	0.9	0.6	0.3	45.6
2001 Q1	43.0	42.5	10.6	12.9	15.5	1.8	0.9	0.5	0.2	39.3
Q2	47.7	47.1	13.7	13.1	15.8	2.0	1.7	0.5	0.2	42.9
Q3	44.5	44.0	11.9	12.6	15.8	1.9	0.9	0.5	0.3	40.6
Q4	50.1	49.5	13.8	14.1	16.6	3.0	1.1	0.6	0.3	44.8
2002 Q1	42.7	42.2	10.3	13.0	15.7	1.7	0.8	0.5	0.2	39.2
Q2	46.4	45.8	12.8	12.9	15.7	2.0	1.6	0.6	0.3	41.7
Q3	44.5	44.0	11.4	13.0	15.8	2.0	0.8	0.5	0.3	40.5
Q4	50.0	49.4	13.7	14.4	16.5	3.0	0.9	0.7	0.3	44.9
2003 Q1	42.6	42.1	10.0	13.1	15.8	1.7	0.7	0.5	0.2	39.1
Q2	47.0	45.4	12.3	12.9	16.0	2.0	1.3	1.6	1.3	42.5
Q3	43.8	43.2	11.0	12.9	15.8	1.9	0.7	0.6	0.3	40.1
Q4	50.3	49.2	13.4	14.6	16.5	2.9	0.8	1.1	0.3	44.7
2004 Q1	42.3	41.7	9.8	13.1	15.7	1.6	0.6	0.6	0.3	38.8
Q2	45.8	44.8	12.3	13.2	15.6	2.0	0.9	0.9	0.7	41.8
Q3	43.6	43.0	10.9	12.9	15.7	1.9	0.7	0.6	0.3	39.9
Q4	50.5	49.5	13.3	14.8	16.6	2.9	0.8	1.0	0.4	45.1
2005 Q1	42.8	42.3	10.2	13.3	15.6	1.5	0.6	0.6	0.3	39.4

### 2. Euro area – quarterly expenditure and deficit/surplus

	Total		Current expenditure						Capital expenditure			Deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+)
	1	2	Total	Compensation of employees	Intermediate consumption	Interest	Current transfers	Social		Investment	Capital transfers		
								benefits	Subsidies				
1999 Q1	47.9	44.5	10.5	4.4	4.5	25.1	21.7	1.3	3.3	2.0	1.4	-3.6	1.0
Q2	47.9	44.2	10.6	4.6	4.2	24.8	21.5	1.5	3.6	2.4	1.2	0.4	4.6
Q3	47.9	44.2	10.4	4.6	4.0	25.2	21.5	1.6	3.7	2.5	1.2	-2.5	1.5
Q4	51.2	46.4	11.1	5.3	3.7	26.2	22.5	1.7	4.8	3.1	1.7	0.3	4.1
2000 Q1	46.7	43.3	10.3	4.5	4.1	24.3	21.1	1.2	3.4	2.0	1.4	-2.5	1.6
Q2	47.1	43.6	10.5	4.6	3.9	24.5	21.1	1.4	3.5	2.4	1.2	1.2	5.1
Q3	43.8	43.4	10.2	4.6	4.0	24.6	21.2	1.5	0.4	2.5	1.2	1.2	5.2
Q4	50.4	46.5	11.1	5.3	3.8	26.2	22.3	1.7	3.9	3.1	1.6	0.3	4.1
2001 Q1	46.1	42.7	10.2	4.1	4.0	24.3	21.1	1.2	3.5	2.0	1.6	-3.1	0.9
Q2	47.2	43.6	10.4	4.7	3.9	24.5	21.1	1.4	3.6	2.4	1.2	0.5	4.4
Q3	47.2	43.4	10.2	4.6	3.9	24.6	21.3	1.5	3.9	2.5	1.3	-2.8	1.2
Q4	51.9	46.8	11.1	5.6	3.7	26.3	22.4	1.6	5.1	3.2	1.9	-1.9	1.8
2002 Q1	46.6	43.1	10.4	4.2	3.8	24.7	21.5	1.2	3.5	2.0	1.6	-3.9	-0.2
Q2	47.5	44.0	10.5	4.9	3.7	24.9	21.5	1.4	3.5	2.4	1.2	-1.1	2.5
Q3	47.8	44.0	10.2	4.7	3.6	25.4	21.7	1.5	3.8	2.5	1.3	-3.3	0.3
Q4	51.7	47.2	11.2	5.7	3.4	26.9	23.0	1.6	4.6	2.8	1.7	-1.7	1.7
2003 Q1	47.2	43.6	10.4	4.3	3.6	25.2	21.8	1.2	3.6	2.0	1.6	-4.5	-0.9
Q2	48.3	44.7	10.6	4.8	3.5	25.8	22.1	1.4	3.6	2.4	1.2	-1.3	2.2
Q3	47.9	44.2	10.4	4.8	3.4	25.6	22.0	1.4	3.8	2.6	1.2	-4.1	-0.8
Q4	52.1	47.1	11.2	5.7	3.2	27.0	23.2	1.5	4.9	3.3	1.7	-1.8	1.4
2004 Q1	46.9	43.5	10.4	4.4	3.3	25.3	21.8	1.1	3.5	2.0	1.5	-4.7	-1.3
Q2	47.4	44.0	10.6	4.8	3.2	25.3	21.8	1.3	3.5	2.4	1.1	-1.7	1.6
Q3	47.1	43.5	10.1	4.6	3.3	25.5	22.0	1.3	3.5	2.5	1.0	-3.5	-0.2
Q4	51.9	46.7	11.1	5.7	3.1	26.8	23.1	1.4	5.2	3.2	1.9	-1.4	1.7
2005 Q1	47.0	43.4	10.4	4.4	3.3	25.3	21.8	1.0	3.5	1.9	1.6	-4.1	-0.8

Source: ECB calculations based on Eurostat and national data.

- 1) Revenue, expenditure and deficit/surplus are based on the ESA 95. Transactions involving the EU budget are not included. Including these transactions would increase both revenue and expenditure by, on average, about 0.2% of GDP. Otherwise, and except for different data transmission deadlines, the quarterly data are consistent with the annual data. The data are not seasonally adjusted.
- 2) The fiscal burden comprises taxes and social contributions.



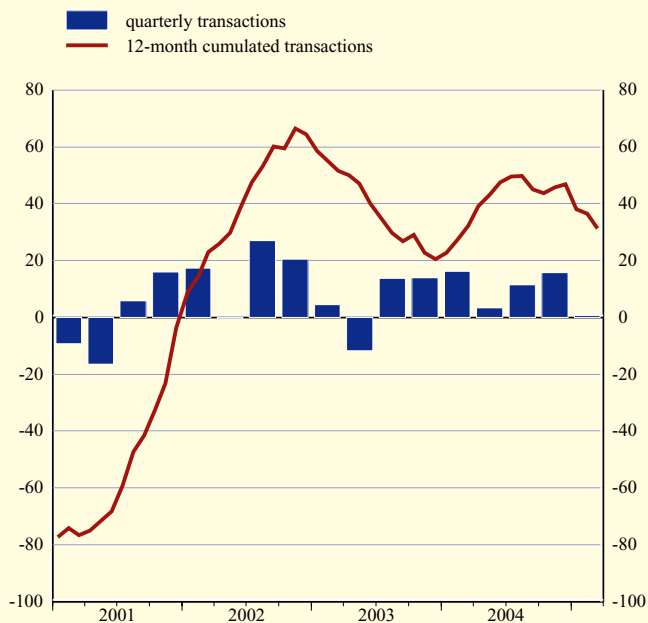
## EXTERNAL TRANSACTIONS AND POSITIONS

### 7.1 Balance of payments (EUR billions; net transactions)

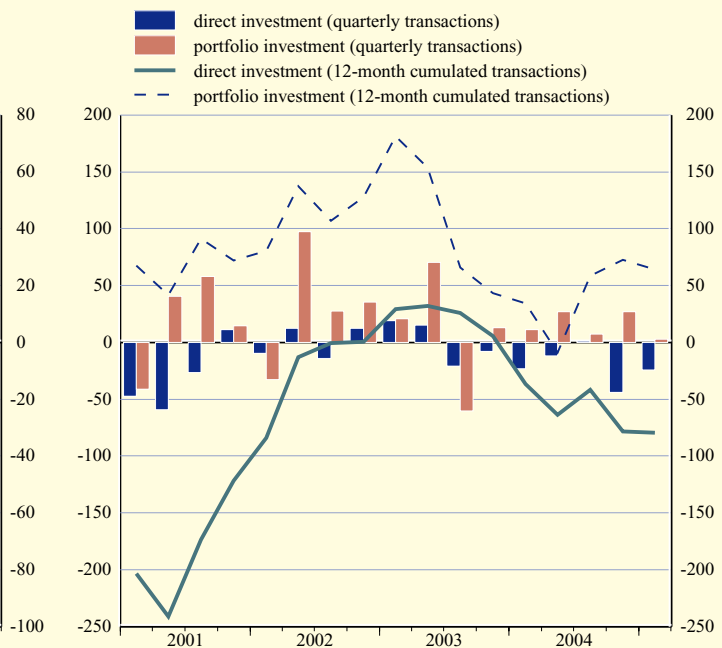
#### 1. Summary balance of payments

	Current account					Capital account	Net lending/borrowing to/from rest of the world (columns 1+6)	Financial account						Errors and omissions
	Total	Goods	Services	Income	Current transfers			Total	Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
2002	64.5	128.5	16.4	-31.9	-48.6	10.2	74.6	-43.9	0.6	127.8	-11.0	-159.1	-2.3	-30.7
2003	20.4	102.7	19.7	-45.8	-56.1	13.1	33.5	-5.9	5.4	43.4	-12.2	-72.5	30.0	-27.6
2004	46.8	102.7	27.7	-28.0	-55.7	17.4	64.2	-5.5	-78.1	72.8	-1.7	-10.8	12.3	-58.7
2004 Q1	16.2	27.7	1.8	-6.4	-7.0	3.4	19.6	5.5	-23.0	11.3	5.3	2.6	9.3	-25.1
Q2	3.4	31.4	10.4	-21.7	-16.7	4.0	7.4	11.3	-12.1	27.0	-1.2	0.4	-2.8	-18.6
Q3	11.4	23.5	8.8	-3.0	-18.0	4.1	15.5	3.1	1.1	7.2	-1.0	-7.7	3.5	-18.6
Q4	15.8	20.1	6.7	3.1	-14.0	5.9	21.7	-25.4	-44.1	27.3	-4.8	-6.1	2.4	3.7
2005 Q1	0.8	14.5	2.8	-4.4	-12.2	1.2	2.0	34.4	-24.1	2.6	-7.4	58.5	4.8	-36.4
2004 May	0.5	10.2	4.2	-7.9	-6.0	2.3	2.9	15.7	0.0	1.2	-0.3	14.2	0.7	-18.6
June	4.7	11.5	3.9	-4.2	-6.6	0.9	5.5	11.1	-10.1	31.6	1.8	-11.3	-0.8	-16.7
July	8.3	13.5	3.7	-2.5	-6.4	1.3	9.6	-17.6	-7.2	-40.6	0.6	29.4	0.2	8.0
Aug.	3.3	5.2	2.6	0.8	-5.3	1.6	4.9	6.3	5.1	2.5	-4.2	-0.9	3.8	-11.2
Sep.	-0.1	4.9	2.5	-1.2	-6.3	1.1	1.0	14.4	3.3	45.3	2.5	-36.2	-0.5	-15.4
Oct.	3.4	8.4	4.1	-3.5	-5.6	0.6	4.1	-30.4	-13.4	-1.5	-4.0	-12.4	0.9	26.3
Nov.	4.7	4.5	1.2	3.5	-4.4	1.0	5.7	28.4	-5.8	-10.1	1.5	42.8	-0.1	-34.1
Dec.	7.6	7.2	1.4	3.1	-4.0	4.3	12.0	-23.4	-24.9	38.8	-2.2	-36.6	1.5	11.4
2005 Jan.	-6.6	0.8	0.3	-4.0	-3.6	-0.7	-7.3	24.4	-9.3	-15.7	-3.5	54.5	-1.6	-17.2
Feb.	4.4	5.9	1.1	0.0	-2.7	1.1	5.5	28.6	0.2	20.9	1.2	1.4	4.9	-34.1
Mar.	2.9	7.9	1.3	-0.4	-5.9	0.9	3.8	-18.6	-15.1	-2.5	-5.1	2.7	1.5	14.8
Apr.	-10.1	4.2	2.3	-12.5	-4.2	0.3	-9.8	-17.8	-4.8	-11.0	-0.6	-0.6	-0.8	27.6
May	-3.9	6.6	1.9	-7.1	-5.3	1.6	-2.3	40.6	3.8	24.0	0.0	10.1	2.6	-38.3
<i>12-month cumulated transactions</i>														
2005 May	18.6	80.5	26.4	-28.1	-60.3	14.1	32.7	46.0	-78.3	81.8	-12.1	42.8	11.7	-78.7

#### C26 B.o.p. current account balance (EUR billions)



#### C27 B.o.p. net direct and portfolio investment (EUR billions)



Source: ECB.

## 7.1 Balance of payments

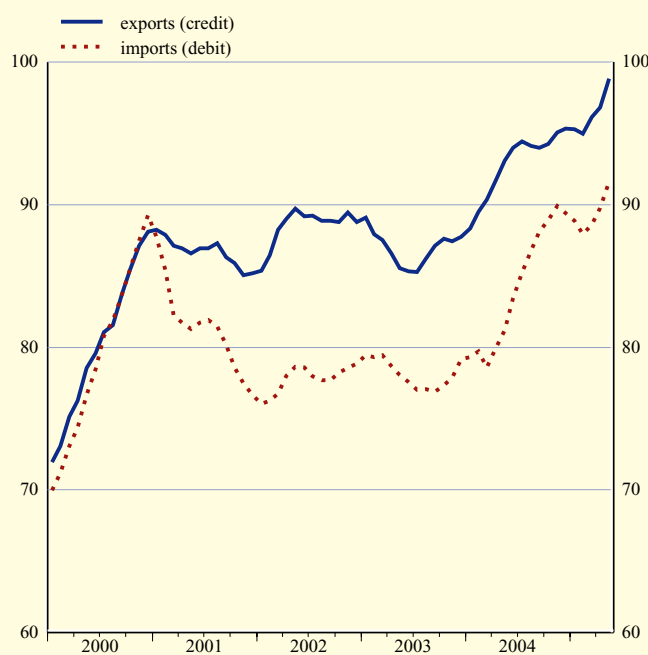
(EUR billions; transactions)

### 2. Current and capital accounts

	Current account										Capital account		
	Total			Goods		Services		Income		Current transfers		Credit	Debit
	Credit	Debit	Net	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit		
1	2	3	4	5	6	7	8	9	10	11	12	13	
2002	1,726.9	1,662.4	64.5	1,062.1	933.6	332.1	315.7	247.3	279.2	85.4	133.9	19.2	9.0
2003	1,675.4	1,655.0	20.4	1,039.7	937.0	329.3	309.6	225.6	271.5	80.8	137.0	23.3	10.1
2004	1,819.0	1,772.3	46.8	1,129.6	1,026.9	355.5	327.8	254.0	281.9	80.0	135.7	23.5	6.1
2004 Q1	431.0	414.8	16.2	266.1	238.4	77.2	75.4	56.1	62.5	31.5	38.5	5.0	1.6
Q2	455.9	452.5	3.4	285.0	253.6	89.8	79.4	66.0	87.7	15.0	31.7	5.3	1.3
Q3	451.7	440.3	11.4	279.6	256.1	96.4	87.5	60.3	63.3	15.4	33.4	5.6	1.6
Q4	480.4	464.7	15.8	298.8	278.8	92.1	85.5	71.4	68.4	18.0	32.0	7.6	1.6
2005 Q1	457.0	456.3	0.8	278.3	263.8	83.0	80.2	63.4	67.8	32.4	44.5	4.7	3.5
2005 Mar.	163.1	160.2	2.9	101.8	93.9	29.3	28.0	24.7	25.0	7.3	13.3	1.7	0.8
Apr.	160.1	170.2	-10.1	99.2	95.0	28.4	26.1	26.9	39.4	5.5	9.7	0.9	0.6
May	159.0	162.9	-3.9	100.9	94.2	28.3	26.4	24.4	31.5	5.5	10.8	2.1	0.4
	Seasonally adjusted												
2004 Q1	435.5	421.1	14.4	271.1	235.8	85.4	79.6	59.4	69.9	19.7	35.8	.	.
Q2	452.4	435.7	16.7	281.9	250.3	89.1	81.8	61.4	71.2	20.0	32.4	.	.
Q3	454.6	450.7	3.9	282.0	264.4	89.7	82.0	63.3	69.5	19.6	34.9	.	.
Q4	464.1	455.6	8.5	285.9	268.2	89.5	82.8	68.9	71.1	19.8	33.6	.	.
2005 Q1	469.3	466.3	3.0	288.4	265.8	92.9	85.0	67.2	75.8	20.7	39.7	.	.
2004 Sep.	152.6	152.3	0.3	93.7	88.6	30.6	28.2	21.7	24.0	6.6	11.5	.	.
Oct.	155.1	151.5	3.7	95.6	89.9	30.8	27.4	22.2	23.5	6.6	10.6	.	.
Nov.	156.0	154.1	1.9	95.9	91.1	29.4	27.6	24.2	24.4	6.5	11.0	.	.
Dec.	153.0	150.1	2.9	94.5	87.2	29.3	27.7	22.6	23.1	6.7	12.0	.	.
2005 Jan.	156.2	157.0	-0.8	95.5	88.3	30.9	28.2	22.9	25.9	6.9	14.7	.	.
Feb.	152.7	151.2	1.5	94.9	88.3	31.0	28.1	20.0	23.6	6.7	11.2	.	.
Mar.	160.4	158.1	2.3	98.0	89.3	31.1	28.7	24.2	26.3	7.1	13.8	.	.
Apr.	159.2	158.5	0.8	97.6	91.7	28.4	26.7	25.7	29.6	7.6	10.5	.	.
May	160.7	159.7	0.9	101.0	93.8	28.2	27.7	24.2	26.7	7.3	11.6	.	.

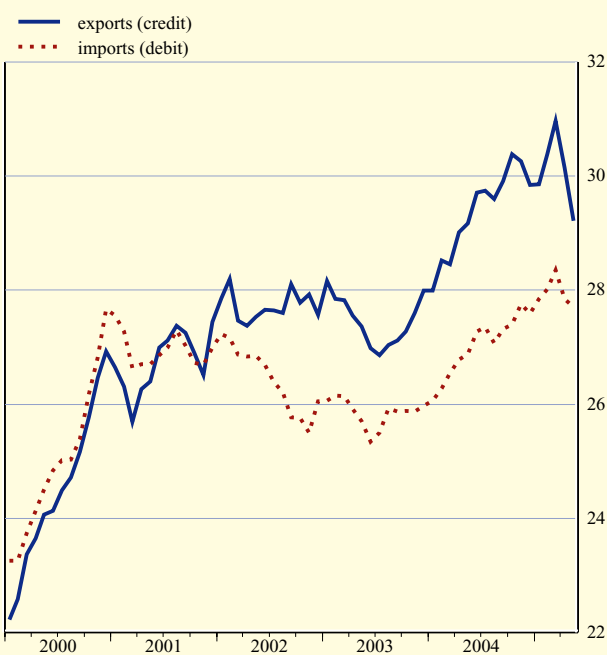
### C28 B.o.p. goods

(EUR billions, seasonally adjusted; three-month moving average)



### C29 B.o.p. services

(EUR billions, seasonally adjusted; three-month moving average)



Source: ECB.

## 7.1 Balance of payments

(EUR billions)

### 3. Income account

(transactions)

	Compensation of employees		Investment income											
	Credit	Debit	Total		Direct investment				Portfolio investment				Other investment	
			Credit	Debit	Equity		Debt		Equity		Debt		Credit	Debit
					Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
2002	14.9	6.2	232.4	273.0	56.4	51.8	7.6	7.1	19.8	52.3	65.6	71.0	83.0	90.8
2003	14.5	6.3	211.1	265.2	47.9	53.7	10.3	9.6	19.0	50.0	64.6	76.7	69.3	75.2
2004	15.1	6.3	238.9	275.6	66.7	56.8	11.8	11.2	23.9	56.6	73.9	79.3	62.7	71.7
2004 Q1	3.7	1.3	52.5	61.2	11.7	13.3	3.2	2.5	4.6	9.3	17.8	18.7	15.1	17.3
Q2	3.7	1.6	62.4	86.1	18.2	17.0	3.0	2.7	8.1	26.0	17.6	22.8	15.4	17.6
Q3	3.8	1.8	56.6	61.5	14.0	13.8	2.4	2.6	5.7	11.1	19.0	16.5	15.4	17.6
Q4	4.0	1.6	67.5	66.8	22.7	12.7	3.1	3.4	5.4	10.2	19.4	21.3	16.8	19.2
2005 Q1	3.7	1.5	59.8	66.3	13.8	12.9	2.8	2.8	6.1	11.2	19.2	19.0	18.0	20.4

### 4. Direct investment

(net transactions)

	By resident units abroad							By non-resident units in the euro area						
	Total	Equity capital and reinvested earnings			Other capital (mostly inter-company loans)			Total	Equity capital and reinvested earnings			Other capital (mostly inter-company loans)		
		Total	MFIs excluding Eurosystem	Non-MFIs	Total	MFIs excluding Eurosystem	Non-MFIs		Total	MFIs excluding Eurosystem	Non-MFIs	Total	MFIs excluding Eurosystem	Non-MFIs
2002	-179.9	-179.3	-22.3	-157.0	-0.6	0.0	-0.7	180.6	124.9	1.9	123.0	55.6	0.5	55.2
2003	-136.0	-112.7	-1.7	-111.0	-23.3	-0.1	-23.3	141.4	124.2	3.0	121.2	17.2	0.1	17.1
2004	-155.4	-163.8	-18.0	-145.8	8.4	0.1	8.3	77.3	75.3	3.2	72.1	2.1	0.8	1.3
2004 Q1	-28.4	-22.5	-4.9	-17.6	-5.9	-0.1	-5.8	5.4	13.5	-0.7	14.2	-8.1	-0.3	-7.8
Q2	-27.9	-24.8	-3.6	-21.2	-3.1	0.0	-3.1	15.8	10.6	0.6	10.0	5.2	0.8	4.5
Q3	-16.4	-27.5	-1.1	-26.4	11.1	0.0	11.1	17.6	17.7	1.5	16.3	-0.1	0.4	-0.6
Q4	-82.7	-89.0	-8.4	-80.5	6.3	0.1	6.2	38.5	33.5	1.8	31.7	5.1	-0.1	5.1
2005 Q1	-36.4	-20.1	-2.8	-17.3	-16.3	0.1	-16.4	12.3	12.0	0.5	11.5	0.3	0.3	0.0
2004 May	-2.8	-5.6	0.0	-5.6	2.8	0.0	2.8	2.9	3.1	0.3	2.8	-0.3	0.3	-0.6
June	-9.7	-11.6	-3.2	-8.5	2.0	0.0	2.0	-0.5	-1.1	0.0	-1.2	0.7	0.4	0.3
July	-18.7	-16.4	0.1	-16.4	-2.3	0.0	-2.3	11.4	11.4	0.2	11.2	0.0	-0.1	0.1
Aug.	9.1	-7.3	0.2	-7.5	16.4	0.0	16.4	-4.0	-1.9	0.3	-2.3	-2.1	0.0	-2.0
Sep.	-6.8	-3.9	-1.3	-2.5	-3.0	0.0	-3.0	10.2	8.3	0.9	7.3	1.9	0.5	1.4
Oct.	-31.9	-25.0	0.0	-25.0	-6.9	0.0	-6.9	18.4	10.8	0.5	10.3	7.6	0.0	7.6
Nov.	-25.4	-24.4	-13.2	-11.2	-1.0	0.1	-1.1	19.6	11.6	0.6	11.0	8.0	0.0	8.0
Dec.	-25.4	-39.5	4.8	-44.3	14.1	0.0	14.1	0.5	11.0	0.7	10.3	-10.5	0.0	-10.5
2005 Jan.	-11.8	-7.6	-0.5	-7.1	-4.2	0.0	-4.2	2.5	4.6	0.1	4.5	-2.1	0.1	-2.1
Feb.	-2.9	-0.6	-1.5	0.9	-2.3	0.0	-2.3	3.1	3.0	0.4	2.6	0.1	0.1	0.1
Mar.	-21.8	-11.9	-0.8	-11.1	-9.9	0.1	-10.0	6.7	4.4	0.0	4.4	2.2	0.2	2.1
Apr.	-12.3	2.1	-1.3	3.4	-14.4	0.0	-14.4	7.4	8.5	0.3	8.2	-1.1	0.1	-1.2
May	5.6	-5.5	-0.6	-4.9	11.1	0.1	11.0	-1.8	-1.9	0.2	-2.2	0.1	0.0	0.1

Source: ECB.

## 7.1 Balance of payments

(EUR billions; transactions)

## 5. Portfolio investment by instrument and sector of holder

	Equity					Debt instruments									
	Assets				Liabilities	Bonds and notes					Money market instruments				
	Eurosysteem	MFIs excluding Eurosysteem	Non-MFIs			Eurosysteem	MFIs excluding Eurosysteem	Non-MFIs		Eurosysteem	MFIs excluding Eurosysteem	Non-MFIs		Liabilities	
			General gov.		General gov.			General gov.							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2002	-0.4	-7.4	-31.0	-4.4	86.2	-0.7	-17.4	-70.6	-0.9	157.9	2.0	-31.9	-18.8	-1.1	59.8
2003	-0.3	-12.8	-53.8	-2.6	117.2	-2.4	-45.1	-134.8	-0.2	170.4	0.2	-41.3	13.7	0.6	32.4
2004	0.0	-21.9	-52.3	-2.4	123.1	1.2	-80.8	-72.3	-1.3	211.4	-0.1	-42.9	-14.6	0.2	21.8
2004 Q1	0.0	-6.0	-24.6	-0.9	20.6	-0.4	-26.3	-17.5	-0.5	54.1	-0.1	-10.6	-10.1	-1.0	32.3
Q2	0.0	-12.4	-3.8	-0.7	4.1	0.3	-10.7	-17.6	-0.1	85.4	0.1	-5.0	-3.5	-2.4	-1.7
Q3	0.0	-2.5	-3.9	-0.6	38.5	0.7	-23.0	-15.0	-0.1	39.9	0.0	-14.7	-5.8	-0.7	-6.9
Q4	0.0	-0.9	-19.9	-0.2	68.1	0.6	-20.7	-22.2	-0.5	32.0	-0.1	-12.6	4.8	4.3	-1.8
2005 Q1	0.0	-27.6	-20.8	-0.9	36.0	-0.1	-35.6	-39.2	-0.3	45.6	0.3	5.7	-6.2	-3.6	-44.6
2004 May	0.0	-1.8	0.4	-	1.2	0.1	-7.3	-7.3	-	17.6	-0.2	2.6	0.6	-	-4.7
June	0.0	-9.7	-6.8	-	14.5	0.0	-0.5	-5.0	-	29.1	0.3	7.6	-0.3	-	2.4
July	0.0	-8.9	-0.5	-	10.2	-0.3	-12.9	0.7	-	-9.1	0.3	-19.1	1.4	-	-2.4
Aug.	0.0	-4.2	-7.5	-	15.8	0.4	-12.0	-0.7	-	9.8	-0.1	-3.5	-2.2	-	6.8
Sep.	0.0	10.6	4.0	-	12.6	0.6	1.9	-15.0	-	39.2	-0.1	7.9	-5.0	-	-11.3
Oct.	0.0	-3.7	-10.6	-	14.6	0.3	-13.7	-5.1	-	11.7	-0.1	0.6	0.2	-	4.3
Nov.	0.0	-9.1	-5.6	-	23.5	0.4	-5.9	-10.4	-	8.4	0.2	-14.5	5.0	-	-2.0
Dec.	0.0	11.9	-3.6	-	30.0	-0.1	-1.1	-6.7	-	11.9	-0.1	1.3	-0.4	-	-4.2
2005 Jan.	0.0	-9.2	-7.5	-	12.3	-0.1	-27.1	-2.1	-	4.7	0.2	-4.1	-5.8	-	23.0
Feb.	0.0	-16.5	-3.7	-	6.8	-0.2	-3.9	-16.3	-	37.6	0.1	17.1	-1.8	-	1.8
Mar.	0.0	-1.8	-9.5	-	16.9	0.2	-4.6	-20.8	-	3.3	0.0	-7.3	1.4	-	19.7
Apr.	0.0	11.3	-3.0	-	-46.7	-0.9	-8.3	-15.1	-	57.0	-0.3	-12.9	3.2	-	4.8
May	0.0	6.7	-10.9	-	26.6	-0.1	-18.1	-4.4	-	29.8	0.0	-3.6	-5.3	-	3.3

## 6. Other investment by sector

	Total		Eurosysteem		General government		MFIs (excluding Eurosysteem)						Other sectors			
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Total		Long-term		Short-term		Assets	Liabilities		
							Assets	Liabilities	Assets	Liabilities	Assets	Liabilities				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
2002	-225.1	66.0	-0.9	19.3	0.1	-	-8.3	-168.0	25.8	-35.0	52.1	-133.0	-26.3	-56.3	-	29.2
2003	-240.1	167.6	-0.8	10.0	-0.6	-	-3.9	-154.7	136.2	-59.9	64.4	-94.9	71.8	-84.0	-	25.3
2004	-288.7	277.9	0.1	7.3	-1.8	-1.9	-2.7	-259.6	246.5	-19.9	0.5	-239.7	246.0	-27.4	-5.4	26.8
2004 Q1	-178.9	181.5	-0.6	-1.3	-0.6	-0.5	-6.3	-156.0	158.4	-10.4	0.3	-145.6	158.1	-21.7	-16.0	30.7
Q2	-18.6	19.0	0.9	1.7	-4.9	-4.9	3.1	-5.3	22.2	-2.3	6.7	-3.0	15.5	-9.3	10.1	-7.9
Q3	-17.9	10.2	-1.5	3.2	0.2	-0.2	2.2	-24.2	6.5	-7.8	-5.7	-16.5	12.2	7.6	-7.4	-1.7
Q4	-73.3	67.1	1.4	3.7	3.4	3.7	-1.7	-74.0	59.3	0.7	-0.8	-74.7	60.1	-4.1	7.8	5.7
2005 Q1	-172.2	230.7	0.5	4.7	4.4	3.2	0.3	-127.6	194.8	-22.0	9.0	-105.6	185.8	-49.5	-19.1	30.8
2004 May	12.2	2.0	-0.1	-0.2	-0.2	-0.1	0.5	17.6	10.3	3.6	3.5	14.0	6.8	-5.1	6.3	-8.6
June	20.3	-31.6	0.5	1.3	-3.3	-3.6	2.9	27.4	-42.4	0.4	2.7	27.1	-45.2	-4.4	-1.2	6.7
July	57.3	-27.8	-0.3	1.5	-0.3	-0.5	-0.4	46.1	-12.7	3.1	-7.8	43.0	-4.9	11.8	2.7	-16.2
Aug.	-31.8	30.9	-0.2	0.2	-0.2	-0.3	0.1	-31.3	18.8	-5.7	2.3	-25.5	16.5	-0.1	-1.2	11.8
Sep.	-43.4	7.2	-1.0	1.5	0.7	0.7	2.6	-39.0	0.4	-5.2	-0.2	-33.9	0.6	-4.0	-8.9	2.7
Oct.	-15.6	3.2	-0.2	1.3	2.0	2.2	0.2	-9.7	-0.3	8.3	5.3	-18.0	-5.6	-7.7	-0.6	2.0
Nov.	-66.6	109.5	0.5	2.0	-0.4	-0.8	1.0	-60.0	97.3	-0.4	3.3	-59.6	94.1	-6.8	-1.5	9.1
Dec.	8.9	-45.5	1.1	0.4	1.8	2.2	-2.9	-4.3	-37.8	-7.3	-9.4	2.9	-28.4	10.4	9.9	-5.3
2005 Jan.	-51.4	105.9	0.7	3.9	0.4	-1.1	2.6	-34.1	94.1	-9.1	11.5	-25.0	82.6	-18.4	-16.1	5.3
Feb.	-65.3	66.7	0.1	-3.5	-1.6	0.4	-4.3	-61.1	62.0	-8.4	4.7	-52.7	57.3	-2.7	5.1	12.5
Mar.	-55.4	58.1	-0.2	4.3	5.7	3.9	2.0	-32.4	38.8	-4.5	-7.1	-27.9	45.9	-28.5	-8.1	13.0
Apr.	-119.2	118.6	0.1	0.0	-5.7	-5.7	-2.1	-97.7	92.2	-10.4	0.2	-87.3	92.0	-16.0	9.8	28.5
May	-11.1	21.1	-0.8	2.6	-0.2	1.8	0.4	18.8	19.1	-4.6	10.8	23.4	8.3	-28.9	-4.6	-0.9

Source: ECB.

## 7.1 Balance of payments

(EUR billions; transactions)

### 7. Other investment by sector and instrument

	Eurosystem				General government							
	Assets		Liabilities		Assets				Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities
						Total	Loans	Currency and deposits				
1	2	3	4	5	6	7	8	9	10	11	12	
2002	-0.9	0.0	19.3	0.0	1.5	-0.4	-	-	-1.0	0.0	-8.0	-0.3
2003	-0.8	0.0	10.0	0.0	-0.1	0.4	-	-	-0.9	0.0	-4.2	0.3
2004	0.4	-0.3	7.1	0.2	0.0	0.1	2.0	-1.9	-1.9	0.0	-2.7	0.0
2004 Q1	-0.6	0.0	-1.3	0.0	0.0	0.2	0.7	-0.5	-0.8	0.0	-6.0	-0.3
Q2	0.9	0.0	1.5	0.2	0.0	-4.5	0.4	-4.9	-0.4	0.0	2.8	0.2
Q3	-1.5	0.0	3.3	-0.1	0.0	0.5	0.7	-0.2	-0.3	0.0	2.1	0.1
Q4	1.7	-0.3	3.5	0.2	0.0	3.9	0.2	3.7	-0.4	0.0	-1.6	-0.1
2005 Q1	0.5	0.0	4.7	0.0	0.0	5.0	1.8	3.2	-0.5	0.0	0.6	-0.2

	MFIs (excluding Eurosystem)				Other sectors							
	Assets		Liabilities		Assets				Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities
						Total	Loans	Currency and deposits				
13	14	15	16	17	18	19	20	21	22	23	24	
2002	-163.0	-5.0	27.9	-2.1	-1.9	-50.7	-	-	-3.7	-3.7	26.2	6.6
2003	-154.2	-0.5	136.3	-0.1	0.2	-81.2	-	-	-3.0	3.4	22.7	-0.7
2004	-256.5	-3.1	243.6	2.9	-4.2	-18.0	-12.6	-5.4	-5.2	8.3	18.0	0.6
2004 Q1	-153.5	-2.6	156.8	1.6	-2.8	-17.2	-1.2	-16.0	-1.6	4.8	25.3	0.5
Q2	-4.7	-0.6	22.2	0.0	-3.2	-5.1	-15.3	10.1	-1.0	1.6	-7.4	-2.1
Q3	-22.5	-1.7	5.0	1.5	1.9	6.6	14.0	-7.4	-0.9	-0.2	-4.1	2.7
Q4	-75.8	1.8	59.6	-0.3	0.0	-2.3	-10.1	7.8	-1.8	2.2	4.2	-0.6
2005 Q1	-125.7	-1.9	192.0	2.8	-3.0	-43.7	-24.6	-19.1	-2.9	3.2	23.2	4.5

### 8. Reserve assets

	Total	Monetary gold	Special drawing rights	Reserve position in the IMF	Foreign exchange						Other claims	
					Total	Currency and deposits		Securities				Financial derivatives
						With monetary authorities and the BIS	With banks	Equity	Bonds and notes	Money market instruments		
1	2	3	4	5	6	7	8	9	10	11	12	
2002	-2.3	0.7	0.2	-2.0	-1.2	-2.3	-15.3	0.0	8.1	8.5	-0.2	0.0
2003	30.0	1.7	0.0	-1.6	29.9	-1.8	1.6	0.0	23.2	6.9	0.1	0.0
2004	12.3	1.2	0.5	4.0	6.7	-3.8	3.7	0.3	17.8	-11.3	-0.1	0.0
2004 Q1	9.3	-0.1	-0.1	0.7	8.7	0.8	1.8	0.5	8.1	-2.4	-0.1	0.0
Q2	-2.8	0.5	0.1	0.6	-4.0	-3.3	2.2	0.0	5.4	-8.4	0.1	0.0
Q3	3.5	0.0	-0.1	1.5	2.1	2.6	-3.6	0.0	1.0	2.1	0.0	0.0
Q4	2.4	0.8	0.5	1.1	0.0	-3.9	3.4	-0.1	3.3	-2.6	-0.1	0.0
2005 Q1	4.8	0.8	0.0	1.6	2.4	5.2	-1.1	0.0	1.3	-2.9	0.0	0.0

Source: ECB.

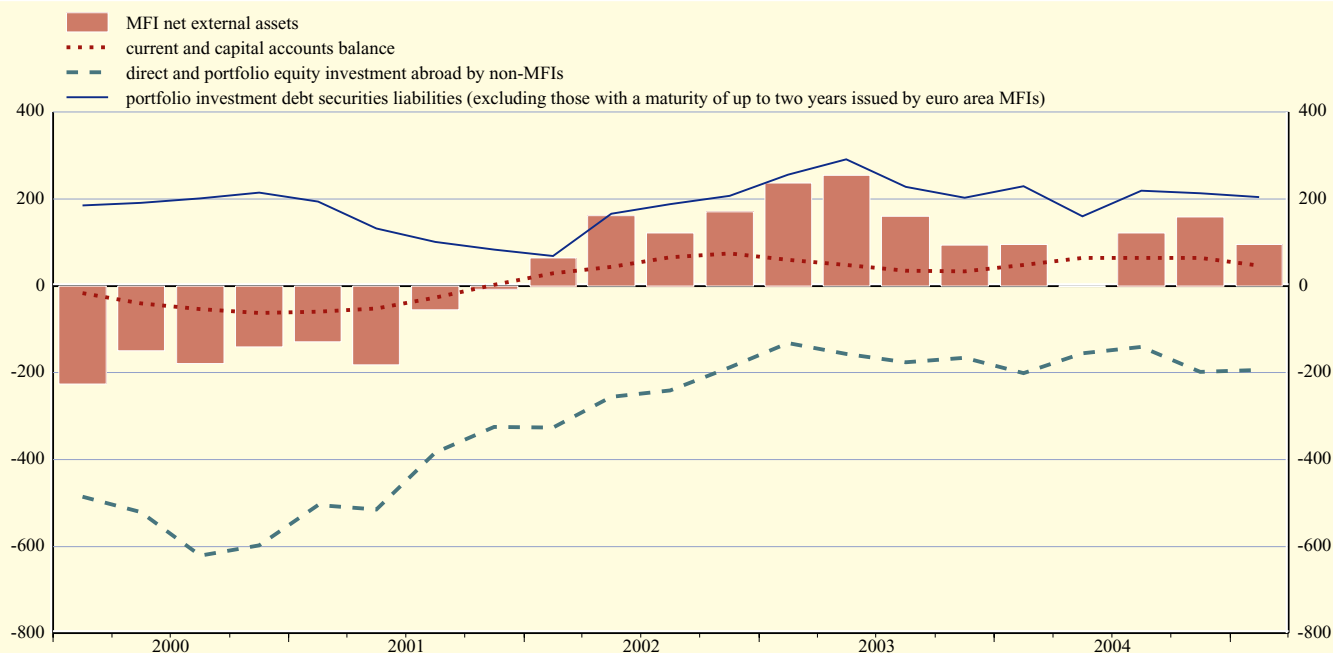
## 7.2 Monetary presentation of the balance of payments

(EUR billions; transactions)

	B.o.p. items balancing transactions in the external counterpart of M3											Memo: Transactions in the external counterpart of M3
	Current and capital accounts balance	Direct investment		Portfolio investment			Other investment		Financial derivatives	Errors and omissions	Total of columns 1 to 10	
		By resident units abroad (non-MFIs)	By non- resident units in the euro area	Assets	Liabilities		Assets	Liabilities				
					Non-MFIs	Equity <sup>1)</sup>						
1	2	3	4	5	6	7	8	9	10	11	12	
2002	74.6	-157.7	180.1	-120.5	49.9	208.0	-56.2	20.9	-11.0	-30.7	157.5	170.4
2003	33.5	-134.2	141.3	-174.9	121.5	203.1	-84.6	21.5	-12.2	-27.6	87.4	94.1
2004	64.2	-137.4	76.5	-139.1	113.1	213.3	-29.2	24.1	-1.7	-58.7	124.9	158.2
2004 Q1	19.6	-23.4	5.7	-52.1	4.3	79.1	-22.2	24.3	5.3	-25.1	15.4	36.3
Q2	7.4	-24.3	15.0	-24.9	-4.3	72.7	-14.2	-4.9	-1.2	-18.6	2.8	0.1
Q3	15.5	-15.4	17.2	-24.8	37.6	44.6	7.9	0.5	-1.0	-18.6	63.4	64.6
Q4	21.7	-74.3	38.6	-37.4	75.5	16.8	-0.7	4.1	-4.8	3.7	43.3	57.2
2005 Q1	2.0	-33.7	12.0	-66.2	28.9	71.0	-45.1	31.2	-7.4	-36.4	-43.8	-26.4
2004 May	2.9	-2.7	2.5	-6.4	4.5	10.1	-5.3	-8.2	-0.3	-18.6	-21.5	-21.2
June	5.5	-6.5	-0.8	-12.1	13.9	30.4	-7.7	9.6	1.8	-16.7	17.5	14.3
July	9.6	-18.8	11.5	1.6	5.9	-10.3	11.4	-16.6	0.6	8.0	3.0	-0.6
Aug.	4.9	8.9	-4.0	-10.3	15.5	17.9	-0.3	11.9	-4.2	-11.2	29.1	30.3
Sep.	1.0	-5.5	9.7	-16.0	16.1	37.0	-3.3	5.3	2.5	-15.4	31.3	34.9
Oct.	4.1	-31.9	18.5	-15.5	13.3	13.2	-5.7	2.2	-4.0	26.3	20.4	20.3
Nov.	5.7	-12.3	19.6	-11.0	27.3	4.2	-7.1	10.1	1.5	-34.1	3.9	10.5
Dec.	12.0	-30.2	0.5	-10.8	34.9	-0.6	12.2	-8.2	-2.2	11.4	19.0	26.3
2005 Jan.	-7.3	-11.2	2.4	-15.4	9.2	22.6	-18.0	7.9	-3.5	-17.2	-30.5	-17.4
Feb.	5.5	-1.4	3.0	-21.8	13.9	35.9	-4.3	8.2	1.2	-34.1	6.1	13.6
Mar.	3.8	-21.1	6.5	-29.0	5.8	12.6	-22.8	15.0	-5.1	14.8	-19.4	-22.6
Apr.	-9.8	-11.0	7.3	-14.9	-57.2	59.0	-21.6	26.4	-0.6	-27.6	5.1	1.8
May	-2.3	6.1	-1.8	-20.6	14.9	31.1	-29.1	-0.5	0.0	-38.3	-40.5	-39.0
<i>12-month cumulated transactions</i>												
2005 May	32.7	-134.7	72.3	-176.0	113.6	252.9	-96.2	71.2	-12.1	-78.7	45.0	72.5

## C30 Main b.o.p. transactions underlying the developments in MFI net external assets

(EUR billions; 12-month cumulated transactions)



Source: ECB.

1) Excluding money market fund shares/units.

2) Excluding debt securities with a maturity of up to two years issued by euro area MFIs.



## 7.3 Geographical breakdown of the balance of payments and international investment position

(EUR billions)

### 1. Balance of payments: current and capital accounts

(Cumulated transactions)

	Total	European Union (outside the euro area)						Canada	Japan	Switzerland	United States	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions					
2004 Q2 to 2005 Q1	1	2	3	4	5	6	7	8	9	10	11	12
<b>Credits</b>												
<b>Current account</b>	1,845.1	679.8	37.6	60.1	368.4	155.8	58.0	24.6	48.7	126.6	312.7	652.7
Goods	1,141.8	399.9	25.7	42.4	204.4	127.2	0.3	14.7	32.9	66.5	172.4	455.5
Services	361.2	127.4	6.8	9.6	89.7	17.1	4.2	4.8	10.5	35.5	73.6	109.4
Income	261.3	93.2	4.7	7.6	65.4	10.1	5.3	4.5	5.0	18.4	60.1	80.1
of which: investment income	246.2	88.3	4.6	7.5	63.9	10.0	2.4	4.4	5.0	12.2	58.4	77.9
Current transfers	80.8	59.4	0.4	0.5	9.0	1.3	48.2	0.6	0.3	6.2	6.6	7.7
<b>Capital account</b>	23.2	20.8	0.0	0.0	0.6	0.1	20.1	0.0	0.0	0.3	1.2	0.9
<b>Debits</b>												
<b>Current account</b>	1,813.7	602.4	34.1	57.5	291.1	131.6	88.0	19.0	83.8	120.8	267.3	720.6
Goods	1,052.2	312.7	24.3	38.9	143.9	105.7	0.0	8.6	51.7	52.5	112.8	513.9
Services	332.6	98.8	5.8	7.3	65.4	20.1	0.2	4.9	7.1	30.2	73.7	117.9
Income	287.2	96.5	3.8	10.5	74.0	4.3	4.0	3.8	24.6	32.8	71.6	57.9
of which: investment income	280.7	93.3	3.7	10.4	73.1	2.2	4.0	3.7	24.5	32.3	70.7	56.2
Current transfers	141.7	94.4	0.3	0.9	7.7	1.6	83.9	1.7	0.3	5.2	9.2	30.9
<b>Capital account</b>	8.0	0.9	0.0	0.0	0.4	0.2	0.3	0.1	0.0	0.2	0.4	6.4
<b>Net</b>												
<b>Current account</b>	31.3	77.5	3.5	2.5	77.3	24.1	-30.0	5.6	-35.1	5.8	45.4	-67.9
Goods	89.5	87.2	1.4	3.5	60.4	21.6	0.2	6.1	-18.8	14.0	59.5	-58.4
Services	28.6	28.7	1.1	2.2	24.3	-2.9	4.0	-0.1	3.4	5.3	-0.1	-8.6
Income	-26.0	-3.4	0.9	-2.9	-8.6	5.8	1.4	0.7	-19.6	-14.5	-11.5	22.3
of which: investment income	-34.6	-5.0	0.9	-2.9	-9.2	7.8	-1.6	0.7	-19.5	-20.1	-12.3	21.7
Current transfers	-60.9	-35.0	0.1	-0.3	1.3	-0.3	-35.7	-1.1	0.0	1.0	-2.5	-23.1
<b>Capital account</b>	15.2	19.9	0.0	0.0	0.3	-0.1	19.8	0.0	0.0	0.0	0.8	-5.5

### 2. Balance of payments: direct investment

(Cumulated transactions)

	Total	European Union (outside the euro area)						Canada	Japan	Switzerland	United States	Offshore financial centres	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions						
2004 Q2 to 2005 Q1	1	2	3	4	5	6	7	8	9	10	11	12	13
<b>Direct investment</b>	-79.2	-26.9	5.3	-1.3	-26.4	-4.5	0.0	-4.9	-6.1	12.0	12.6	-43.5	-22.5
Abroad	-163.4	-70.2	2.0	-6.6	-55.1	-10.5	0.0	0.6	-10.3	3.4	-3.6	-52.1	-31.2
Equity/reinvested earnings	-161.4	-63.1	-0.8	-2.3	-44.8	-15.2	0.0	1.2	-8.4	0.4	-18.9	-51.5	-21.2
Other capital	-2.0	-7.1	2.9	-4.3	-10.3	4.6	0.0	-0.6	-1.9	3.0	15.3	-0.7	-10.0
In the euro area	84.2	43.3	3.3	5.3	28.7	6.0	0.0	-5.5	4.2	8.5	16.2	8.7	8.8
Equity/reinvested earnings	73.7	38.6	0.6	4.2	32.8	1.0	0.0	-6.5	1.2	7.4	18.8	12.0	2.3
Other capital	10.5	4.7	2.7	1.1	-4.1	5.0	0.0	1.0	3.0	1.2	-2.6	-3.3	6.5

Source: ECB.

## 7.3 Geographical breakdown of the balance of payments and international investment position

(EUR billions)

## 3. Balance of payments: portfolio investment assets by instrument

(Cumulated transactions)

	Total	European Union (outside the euro area)						Canada	Japan	Switzerland	United States	Offshore financial centres	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions						
2004 Q2 to 2005 Q1	1	2	3	4	5	6	7	8	9	10	11	12	13
<b>Portfolio investment assets</b>	-311.5	-126.1	-2.9	-5.1	-95.0	-15.6	-7.5	-4.8	-41.8	-4.9	-43.3	-50.6	-40.0
Equity	-91.9	-22.4	3.0	-1.3	-21.9	-2.0	-0.1	-1.7	-18.8	-4.3	-18.4	-16.3	-10.0
Debt securities	-219.6	-103.6	-5.8	-3.8	-73.1	-13.6	-7.3	-3.1	-23.0	-0.7	-24.9	-34.3	-30.0
Bonds and notes	-182.6	-84.4	-4.2	-4.2	-55.4	-13.3	-7.3	-3.2	-9.7	-0.1	-42.6	-10.9	-31.7
Money market instruments	-37.0	-19.2	-1.6	0.4	-17.7	-0.3	0.0	0.1	-13.3	-0.6	17.7	-23.4	1.8

## 4. Balance of payments: other investment by sector

(Cumulated transactions)

	Total	European Union (outside the euro area)						Canada	Japan	Switzerland	United States	Offshore financial centres	Internat. organisations	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions							
2004 Q2 to 2005 Q1	1	2	3	4	5	6	7	8	9	10	11	12	13	14
<b>Other investment</b>	45.1	-23.6	-0.2	-8.7	-19.7	-3.4	8.4	1.7	22.7	6.2	24.8	-3.1	-0.8	17.2
Assets	-281.9	-234.2	-4.2	-16.8	-194.9	-17.9	-0.4	-0.3	17.8	-22.7	-12.8	-15.4	-2.9	-11.3
General government	3.2	1.5	-0.3	0.1	2.0	0.2	-0.6	0.0	0.0	0.0	0.4	-0.3	-1.6	3.3
MFIs	-229.9	-180.3	-4.7	-13.9	-144.4	-17.6	0.3	0.3	17.8	-24.9	-18.3	-1.3	-1.2	-21.9
Other sectors	-55.3	-55.4	0.7	-3.0	-52.5	-0.6	0.0	-0.6	0.0	2.2	5.1	-13.8	-0.1	7.3
Liabilities	327.1	210.6	4.0	8.0	175.2	14.5	8.9	2.1	4.9	28.9	37.6	12.4	2.1	28.5
General government	3.9	1.3	0.0	0.0	-1.0	0.0	2.2	0.0	-0.7	3.0	-0.4	0.0	-0.3	1.0
MFIs	296.2	191.8	4.2	6.5	164.2	12.8	4.0	1.1	4.2	15.8	26.0	11.8	2.6	43.0
Other sectors	27.0	17.5	-0.2	1.5	12.0	1.7	2.6	0.9	1.3	10.1	12.0	0.6	-0.1	-15.4

## 5. International investment position

(End-of-period outstanding amounts)

	Total	European Union (outside the euro area)						Canada	Japan	Switzerland	United States	Offshore financial centres	Internat. organisations	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions							
2003	1	2	3	4	5	6	7	8	9	10	11	12	13	14
<b>Direct investment</b>	79.7	-250.1	1.8	-11.1	-346.3	105.6	-0.1	33.0	5.0	71.2	-3.3	-40.2	-0.1	264.2
Abroad	2,110.4	683.3	25.9	63.5	485.0	108.8	0.0	73.0	53.6	231.6	492.8	218.5	0.0	357.6
Equity/reinvested earnings	1,647.3	524.9	22.6	40.3	377.0	85.0	0.0	59.5	45.4	171.4	350.5	206.0	0.0	289.5
Other capital	463.1	158.3	3.4	23.2	107.9	23.8	0.0	13.5	8.2	60.1	142.3	12.5	0.0	68.0
In the euro area	2,030.7	933.4	24.2	74.6	831.2	3.2	0.1	39.9	48.7	160.4	496.2	258.7	0.1	93.4
Equity/reinvested earnings	1,474.4	732.2	18.9	60.2	650.8	2.3	0.0	37.5	38.4	109.7	347.0	135.1	0.1	74.2
Other capital	556.4	201.1	5.2	14.4	180.5	1.0	0.1	2.4	10.2	50.7	149.1	123.6	0.0	19.1
<b>Portfolio investment assets</b>	2,607.4	799.4	48.3	91.7	568.3	45.0	46.1	57.0	117.5	84.7	960.3	284.5	27.8	276.2
Equity	1,054.6	267.4	8.3	26.0	223.5	9.6	0.0	6.8	80.7	75.7	441.6	74.9	0.5	107.0
Debt securities	1,552.8	532.0	40.0	65.7	344.8	35.5	46.1	50.2	36.8	9.0	518.7	209.6	27.3	169.2
Bonds and notes	1,317.0	433.8	37.5	53.6	262.3	34.9	45.5	49.0	35.2	7.9	423.6	197.0	26.2	144.2
Money market instruments	235.8	98.2	2.5	12.0	82.4	0.6	0.6	1.2	1.6	1.2	95.0	12.5	1.1	25.0
<b>Other investment</b>	-314.8	-76.5	33.5	18.1	23.4	12.2	-163.8	2.1	14.1	-52.5	-71.8	-239.6	-6.8	116.1
Assets	2,587.3	1,240.7	49.9	49.1	1,064.8	72.5	4.5	14.2	86.4	170.6	368.4	229.7	38.9	438.4
General government	92.7	9.4	0.0	0.0	4.2	2.4	2.8	0.0	0.3	0.1	2.8	1.1	33.2	45.8
MFIs	1,768.1	961.8	42.2	33.1	834.2	51.7	0.7	6.8	70.3	109.0	233.9	153.0	5.1	228.1
Other sectors	726.4	269.5	7.7	16.0	226.4	18.4	1.0	7.3	15.8	61.5	131.7	75.6	0.5	164.5
Liabilities	2,902.1	1,317.2	16.3	31.0	1,041.4	60.3	168.2	12.1	72.3	223.1	440.1	469.3	45.6	322.3
General government	43.5	25.6	0.0	0.1	4.1	0.2	21.1	0.0	1.6	0.3	5.2	0.3	3.0	7.6
MFIs	2,333.1	1,012.1	13.2	15.5	816.6	48.3	118.5	6.7	50.6	192.0	350.7	436.2	41.3	243.5
Other sectors	525.5	279.5	3.2	15.3	220.7	11.8	28.6	5.4	20.1	30.8	84.3	32.8	1.4	71.2

Source: ECB.

## 7.4 International investment position (including international reserves)

(EUR billions, unless otherwise indicated; end-of-period outstanding amounts)

### 1. Summary international investment position

	Total	Total as a % of GDP	Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets
	1	2	3	4	5	6	7
Net international investment position							
2001	-398.8	-5.8	410.2	-820.8	2.5	-383.4	392.7
2002	-618.0	-8.7	204.2	-879.0	-12.0	-297.2	366.1
2003	-759.6	-10.4	79.7	-823.5	-7.5	-314.8	306.5
2004 Q2	-706.4	-9.3	134.4	-842.3	-10.2	-290.5	302.2
Q3	-714.1	-9.4	112.1	-865.8	-6.5	-252.4	298.5
Q4	-874.1	-11.5	58.1	-959.5	-14.4	-239.0	280.7
2005 Q1	-931.4	-11.9	108.6	-1,028.4	-20.8	-275.7	285.0
Outstanding assets							
2001	7,628.1	110.9	1,951.4	2,515.0	129.9	2,639.2	392.7
2002	7,260.6	102.0	1,877.4	2,302.6	135.9	2,578.6	366.1
2003	7,768.2	106.2	2,110.4	2,607.4	156.6	2,587.3	306.5
2004 Q2	8,317.6	109.4	2,188.7	2,821.9	150.6	2,854.2	302.2
Q3	8,429.8	110.9	2,202.0	2,869.5	167.7	2,892.0	298.5
Q4	8,525.7	112.2	2,252.4	2,933.8	164.9	2,893.9	280.7
2005 Q1	9,028.6	114.9	2,319.0	3,082.5	175.4	3,166.7	285.0
Outstanding liabilities							
2001	8,026.9	116.7	1,541.2	3,335.8	127.4	3,022.6	-
2002	7,878.6	110.7	1,673.2	3,181.6	147.9	2,875.9	-
2003	8,527.8	116.5	2,030.7	3,430.9	164.1	2,902.1	-
2004 Q2	9,024.0	118.7	2,054.3	3,664.2	160.8	3,144.7	-
Q3	9,143.9	120.3	2,090.0	3,735.3	174.2	3,144.4	-
Q4	9,399.8	123.7	2,194.3	3,893.2	179.4	3,132.9	-
2005 Q1	9,960.0	126.8	2,210.4	4,111.0	196.2	3,442.4	-

### 2. Direct investment

	By resident units abroad						By non-resident units in the euro area					
	Equity capital and reinvested earnings			Other capital (mostly inter-company loans)			Equity capital and reinvested earnings			Other capital (mostly inter-company loans)		
	Total	MFI excluding Eurosystem	Non- MFIs	Total	MFI excluding Eurosystem	Non- MFIs	Total	MFI excluding Eurosystem	Non- MFIs	Total	MFI excluding Eurosystem	Non- MFIs
1	2	3	4	5	6	7	8	9	10	11	12	
2001	1,555.8	124.6	1,431.2	395.6	0.8	394.8	1,175.1	32.5	1,142.6	366.1	2.8	363.3
2002	1,544.1	127.7	1,416.4	333.3	0.3	333.0	1,264.6	37.1	1,227.5	408.6	2.9	405.7
2003	1,647.3	114.8	1,532.5	463.1	0.4	462.7	1,474.4	47.6	1,426.8	556.4	2.9	553.5
2004 Q2	1,709.1	124.9	1,584.1	479.6	1.5	478.1	1,494.5	38.3	1,456.3	559.8	3.6	556.2
Q3	1,757.4	124.3	1,633.1	444.6	1.5	443.1	1,515.4	42.1	1,473.2	574.6	4.0	570.7
Q4	1,809.8	129.3	1,680.5	442.6	1.7	440.9	1,617.8	46.4	1,571.4	576.5	4.3	572.2
2005 Q1	1,853.2	132.9	1,720.2	465.8	1.1	464.7	1,629.5	43.8	1,585.7	580.9	4.5	576.4

### 3. Portfolio investment assets by instrument and sector of holder

	Equity				Debt instruments										
	Assets				Liabilities	Bonds and notes					Money market instruments				
						Assets		Liabilities	Assets			Liabilities	Assets		
	Eurosystem	MFI excluding Eurosystem	Non-MFI	Eurosystem	MFI excluding Eurosystem	Non-MFI	Eurosystem		MFI excluding Eurosystem	Non-MFI	General gov.		Other sectors		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
2001	0.6	38.5	6.7	1,070.9	1,640.5	2.0	424.8	8.2	783.6	1,514.8	2.8	135.1	0.2	41.6	180.5
2002	0.7	43.8	8.3	800.5	1,366.1	6.4	404.8	8.0	787.2	1,628.8	1.2	193.8	1.3	46.7	186.7
2003	1.8	52.6	11.5	988.8	1,516.2	8.3	463.7	8.0	837.1	1,701.3	1.1	184.8	0.6	49.2	213.4
2004 Q2	1.8	73.7	14.1	1,075.5	1,620.0	6.9	515.8	8.5	866.4	1,819.2	1.1	198.4	4.0	55.7	225.1
Q3	1.8	75.3	14.4	1,063.8	1,632.3	6.5	539.6	8.6	884.1	1,891.1	0.9	212.0	4.7	57.8	211.9
Q4	1.7	76.3	15.9	1,107.7	1,782.3	6.1	546.2	10.1	895.1	1,902.5	1.0	219.3	0.5	53.8	208.4
2005 Q1	1.7	106.0	15.9	1,144.4	1,861.1	5.9	588.1	9.3	934.6	1,997.6	0.5	214.0	4.1	58.0	252.2

Source: ECB.

## 7.4 International investment position (including international reserves)

(EUR billions, unless stated otherwise; end-of-period outstanding amounts)

## 4. Other investment by instrument

	Eurosysteem					General government							
	Assets		Liabilities			Assets				Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities	
						Total	Loans	Currency and deposits					
1	2	3	4	5	6	7	8	9	10	11	12		
2001	3.0	0.1	40.5	0.2	3.1	68.6	-	-	55.8	0.2	44.8	12.3	
2002	3.4	0.1	57.2	0.2	1.3	58.7	-	-	54.4	0.1	42.8	13.5	
2003	4.2	0.6	65.3	0.2	1.4	53.2	49.1	4.1	38.1	0.0	39.7	3.8	
2004 Q2	4.3	0.6	66.0	0.2	1.4	60.6	50.2	10.5	39.5	0.0	39.0	3.5	
Q3	5.6	0.6	69.5	0.2	1.4	60.1	49.4	10.7	38.9	0.0	40.8	3.3	
Q4	4.6	2.2	71.8	0.2	1.4	58.5	51.3	7.2	38.9	0.0	41.0	3.1	
2005 Q1	4.0	2.2	77.5	0.2	1.4	55.6	49.4	6.2	39.6	0.0	42.6	2.8	

	MFIs (excluding Eurosysteem)				Other sectors							
	Assets		Liabilities		Assets				Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities
						Total	Loans	Currency and deposits				
13	14	15	16	17	18	19	20	21	22	23	24	
2001	1,666.6	48.8	2,364.6	49.3	176.3	515.8	-	-	101.2	109.6	360.2	40.9
2002	1,631.3	55.3	2,197.7	42.9	183.6	496.7	-	-	93.9	102.6	369.3	49.6
2003	1,731.1	32.3	2,238.8	28.8	176.4	470.4	148.7	321.6	79.6	103.0	377.6	44.9
2004 Q2	1,943.5	25.1	2,458.8	32.8	169.9	509.0	189.2	319.8	100.4	111.0	385.7	47.5
Q3	1,946.2	29.1	2,437.5	38.3	169.7	538.3	198.9	339.4	102.1	111.4	393.4	50.0
Q4	1,955.2	45.4	2,426.9	44.2	155.8	527.4	199.1	328.3	104.5	106.4	392.3	47.0
2005 Q1	2,119.3	58.4	2,676.1	60.4	163.9	611.5	256.9	354.6	110.8	115.4	412.3	55.1

## 5. International reserves

	Reserve assets													Memo		
	Total	Monetary gold		Special drawing rights	Reserve position in the IMF	Total	Foreign exchange						Other claims	Claims on euro area residents in foreign currency	Predetermined short-term net drains in foreign currency	
		In EUR billions	In fine troy ounces (millions)				Currency and deposits	Securities				Financial derivatives				
								With monetary authorities and the BIS	With banks	Total	Equity					Bonds and notes
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
	Eurosysteem															
2002	366.1	130.4	399.022	4.8	25.0	205.8	10.3	35.3	159.8	1.0	120.2	38.5	0.4	0.0	22.4	-26.3
2003	306.5	130.0	393.543	4.4	23.3	148.9	10.0	30.4	107.8	0.9	80.5	26.5	0.7	0.0	20.3	-16.3
2004 Q4	280.7	125.4	389.998	3.9	18.6	132.8	12.5	25.5	94.6	0.5	58.2	35.9	0.1	0.0	19.1	-12.8
2005 Q1	285.0	127.7	387.359	4.0	17.4	135.8	7.7	27.8	100.4	0.5	59.0	40.9	-0.1	0.0	21.4	-15.1
2005 Apr.	288.9	129.6	385.428	4.0	17.1	138.1	9.4	29.8	99.0	-	-	-	-0.1	0.0	22.6	-18.9
May	291.7	129.3	384.622	4.2	17.3	141.0	9.9	29.5	102.0	-	-	-	-0.4	0.0	23.3	-17.3
June	302.2	138.2	382.323	4.2	16.5	143.3	12.4	28.3	102.9	-	-	-	-0.3	0.0	23.4	-17.7
	of which held by the European Central Bank															
2002	45.5	8.1	24.656	0.2	0.0	37.3	1.2	9.9	26.1	0.0	19.5	6.7	0.0	0.0	3.0	-5.2
2003	36.9	8.1	24.656	0.2	0.0	28.6	1.4	5.0	22.2	0.0	14.9	7.3	0.0	0.0	2.8	-1.5
2004 Q4	35.1	7.9	24.656	0.2	0.0	27.0	2.7	3.3	21.1	0.0	9.7	11.3	0.0	0.0	2.6	-1.3
2005 Q1	36.2	8.1	24.656	0.2	0.0	27.9	1.1	4.2	22.6	0.0	7.7	14.9	0.0	0.0	2.7	-0.9
2005 Apr.	36.5	7.8	23.145	0.2	0.0	28.6	2.2	4.2	22.2	-	-	-	0.0	0.0	2.8	-1.1
May	37.8	7.8	23.145	0.2	0.0	29.9	1.8	5.4	22.6	-	-	-	0.0	0.0	2.4	-0.4
June	39.7	8.4	23.145	0.2	0.0	31.2	3.8	5.1	22.3	-	-	-	0.0	0.0	2.6	-1.4

Source: ECB.

## 7.5 Trade in goods

(seasonally adjusted, unless otherwise indicated)

### 1. Values, volumes and unit values by product group

	Total (n.s.a.)		Exports (f.o.b.)					Imports (c.i.f.)					
	Exports	Imports	Total			Memo: Manufactures	Total			Memo:			
			Intermediate	Capital	Consumption		Intermediate	Capital	Consumption	Manufactures	Oil		
	1	2	3	4	5	6	7	8	9	10	11	12	13
Values (EUR billions; annual percentage changes for columns 1 and 2)													
2001	6.1	-0.7	1,062.8	506.1	235.2	289.2	932.4	1,014.4	579.1	178.9	228.5	741.1	107.7
2002	2.0	-3.0	1,084.1	512.3	227.9	309.6	949.3	984.7	559.5	163.2	234.3	717.8	105.2
2003	-2.3	0.5	1,059.1	500.7	222.9	300.1	925.3	988.5	553.9	164.3	240.9	716.0	109.0
2004	8.6	8.9	1,145.4	540.7	242.3	310.6	988.2	1,073.0	596.5	178.5	252.5	759.5	128.2
2003 Q4	-0.4	1.5	269.3	125.7	57.0	76.3	233.1	249.9	138.8	42.1	61.5	180.6	27.0
2004 Q1	4.8	-0.1	278.3	131.1	59.0	76.1	241.6	252.2	138.0	42.1	62.4	183.0	26.3
Q2	11.9	9.0	286.7	134.7	60.0	78.6	245.5	263.0	145.7	44.7	62.4	185.5	29.3
Q3	8.9	14.5	288.8	136.9	61.0	78.5	249.4	277.1	156.3	45.0	63.8	193.5	36.2
Q4	9.0	12.4	291.7	138.0	62.3	77.4	251.7	280.6	156.5	46.6	63.9	197.5	36.5
2005 Q1	3.5	8.9	291.5	136.8	61.2	76.8	255.3	277.5	153.7	43.9	62.6	197.0	35.9
2004 Dec.	9.7	11.6	96.9	46.5	20.9	25.8	84.2	92.6	52.2	15.3	20.9	65.5	11.4
2005 Jan.	6.5	10.8	97.3	45.5	20.4	25.5	86.0	92.0	50.2	14.6	20.7	65.5	11.2
Feb.	3.9	8.4	96.7	45.4	20.1	25.3	83.5	91.4	50.0	14.2	20.7	65.1	11.0
Mar.	0.8	7.9	97.6	45.9	20.6	25.9	85.8	94.1	53.5	15.1	21.2	66.4	13.7
Apr.	4.8	10.5	99.3	47.2	20.8	26.3	85.4	95.0	53.1	16.1	20.9	66.2	13.3
May	7.5	14.0	100.7	46.8	20.9	26.9	86.9	97.5	55.8	15.6	22.1	68.1	12.5
Volume indices (2000 = 100; annual percentage changes for columns 1 and 2)													
2001	5.1	-0.8	105.0	102.1	108.6	107.9	105.4	98.8	99.3	96.3	100.6	97.8	99.3
2002	2.9	-0.7	108.0	105.0	106.2	115.1	108.2	98.3	98.8	89.6	104.1	96.4	101.4
2003	1.0	3.7	109.0	105.8	108.0	114.8	109.3	101.8	100.5	95.2	110.4	100.0	104.8
2004	8.5	6.1	117.8	113.9	118.6	118.9	117.1	107.7	102.4	105.3	116.8	105.9	104.5
2003 Q4	3.0	5.4	111.8	107.2	111.1	117.3	111.1	104.0	101.7	98.0	113.6	101.8	106.5
2004 Q1	7.7	4.8	116.0	112.4	116.1	117.5	115.7	105.5	101.4	99.7	116.5	103.7	101.4
Q2	11.4	5.8	117.8	113.7	117.2	119.8	116.3	106.3	101.5	104.8	115.6	103.6	100.0
Q3	7.5	8.2	117.9	114.4	118.7	119.7	117.6	109.1	104.3	105.3	117.1	106.8	112.6
Q4	7.6	5.9	119.6	115.0	122.6	118.5	118.9	110.1	102.6	111.3	118.0	109.6	104.1
2005 Q1	1.4	2.6	119.0	113.1	120.7	117.1	120.0	109.3	101.7	105.8	115.4	109.2	105.8
2004 Dec.	8.7	6.4	119.8	116.7	124.3	118.5	119.6	110.1	104.1	110.0	115.7	109.0	103.1
2005 Jan.	4.9	6.0	119.6	113.7	120.5	117.0	121.5	110.2	102.7	105.4	114.5	109.1	108.6
Feb.	1.4	2.0	118.6	112.4	119.1	116.2	118.0	108.0	98.9	103.0	114.4	108.3	96.7
Mar.	-1.4	0.2	118.9	113.0	122.4	118.2	120.7	109.7	103.6	108.8	117.3	110.2	112.0
Apr.	2.9	3.6	120.5	115.9	122.6	120.0	120.1	109.6	101.0	116.8	115.8	110.3	101.9
May	.	.	.	.	.	.	.	.	.	.	.	.	.
Unit value indices (2000 = 100; annual percentage changes for columns 1 and 2)													
2001	1.1	0.3	101.0	100.7	100.1	102.1	100.9	100.2	98.7	101.4	102.9	101.7	88.6
2002	-0.9	-2.3	100.1	99.1	99.2	102.4	100.1	97.8	95.8	99.6	101.9	100.0	84.6
2003	-3.2	-3.1	96.9	96.1	95.4	99.5	96.6	94.8	93.3	94.2	98.8	96.1	85.0
2004	0.1	2.5	97.0	96.4	94.4	99.5	96.2	97.2	98.5	92.6	97.9	96.2	99.6
2003 Q4	-3.2	-3.7	96.1	95.3	94.8	99.1	95.7	93.8	92.3	93.8	98.1	95.3	82.6
2004 Q1	-2.7	-4.6	95.7	94.7	93.9	98.7	95.3	93.4	92.1	92.3	97.0	94.8	84.4
Q2	0.4	3.0	97.1	96.3	94.6	99.9	96.3	96.6	97.2	93.3	97.8	96.1	95.4
Q3	1.3	5.8	97.7	97.2	95.0	99.9	96.8	99.2	101.3	93.5	98.7	97.3	104.6
Q4	1.2	6.1	97.3	97.5	94.0	99.6	96.6	99.6	103.2	91.5	98.1	96.8	114.2
2005 Q1	2.1	6.1	97.7	98.3	93.7	99.9	97.0	99.1	102.2	90.6	98.2	96.8	110.6
2004 Dec.	0.8	4.9	96.8	97.0	93.1	99.6	96.4	98.6	101.8	91.3	98.4	96.8	108.0
2005 Jan.	1.6	4.5	97.4	97.6	94.0	99.6	96.9	97.7	99.1	90.6	98.2	96.6	101.0
Feb.	2.4	6.2	97.6	98.4	93.8	99.7	96.9	99.1	102.6	90.4	98.2	96.9	111.1
Mar.	2.2	7.7	98.2	99.0	93.4	100.3	97.3	100.5	104.8	90.8	98.4	97.1	119.6
Apr.	1.9	6.6	98.6	99.4	94.0	100.3	97.4	101.6	106.6	90.4	97.9	96.6	128.0
May	.	.	.	.	.	.	.	.	.	.	.	.	.

Sources: Eurostat and ECB calculations based on Eurostat data (volume indices and seasonal adjustment of unit value indices).

## 7.5 Trade in goods

(EUR billions, unless otherwise indicated; seasonally adjusted)

## 2. Geographical breakdown

	Total	European Union (outside the euro area)				Russia	Switzer-land	Turkey	United States	Asia			Africa	Latin America	Other countries
		Denmark	Sweden	United Kingdom	Other EU countries					China	Japan	Other Asian countries			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
<b>Exports (f.o.b.)</b>															
2001	1,062.8	24.4	37.0	202.5	105.8	24.7	66.4	17.9	180.2	25.2	34.5	140.3	60.5	49.9	93.5
2002	1,084.1	25.3	37.1	205.8	112.1	27.1	64.0	21.4	184.1	29.9	33.1	140.5	59.6	43.4	100.7
2003	1,059.1	24.9	38.7	194.8	117.6	29.2	63.4	24.9	166.3	35.3	31.3	135.4	59.6	37.9	99.8
2004	1,145.4	25.5	41.8	203.1	126.9	35.5	66.1	31.8	173.5	40.2	33.0	149.6	63.6	40.2	114.6
2003 Q4	269.3	6.1	9.8	49.5	29.6	7.4	15.9	6.7	41.4	9.0	8.1	34.3	15.0	8.9	27.5
2004 Q1	278.3	6.2	10.0	49.7	31.2	8.0	15.5	7.9	42.5	9.7	8.4	36.8	15.2	9.6	27.5
Q2	286.7	6.3	10.4	50.4	31.5	9.0	16.3	8.2	43.9	10.5	8.0	36.7	15.8	9.9	29.7
Q3	288.8	6.5	10.5	51.6	31.2	9.3	17.2	8.0	43.3	9.9	8.4	38.6	16.7	10.3	27.2
Q4	291.7	6.6	10.8	51.4	32.9	9.2	17.1	7.7	43.7	10.0	8.2	37.4	15.9	10.5	30.2
2005 Q1	291.5	6.6	10.9	50.0	33.0	9.7	17.4	7.9	43.5	10.2	8.5	39.0	17.0	11.0	26.8
2004 Dec.	96.9	2.2	3.6	16.4	10.9	3.2	5.8	2.6	14.8	3.4	2.8	12.7	5.4	3.4	9.6
2005 Jan.	97.3	2.2	3.6	16.6	11.3	3.2	5.9	2.7	14.6	3.4	2.8	13.7	5.6	3.7	8.0
Feb.	96.7	2.2	3.6	16.7	10.9	3.2	5.6	2.5	14.4	3.4	2.8	12.5	5.5	3.7	9.8
Mar.	97.6	2.2	3.7	16.7	10.9	3.3	5.9	2.7	14.5	3.5	2.9	12.8	6.0	3.6	8.9
Apr.	99.3	2.3	3.6	16.6	11.2	3.4	5.6	2.7	14.9	3.2	2.9	13.9	5.6	3.9	9.5
May	100.7	2.4	3.6	17.4	11.1	3.5	5.7	2.7	15.0	3.3	2.7	13.1	6.0	3.7	10.5
<i>% share of total exports</i>															
2004	100.0	2.2	3.6	17.7	11.1	3.1	5.8	2.8	15.1	3.5	2.9	13.1	5.6	3.5	10.0
<b>Imports (c.i.f.)</b>															
2001	1,014.4	22.0	35.6	154.6	88.8	42.8	52.9	16.7	138.7	57.5	58.6	150.5	74.0	41.0	80.6
2002	984.7	23.0	35.6	149.7	93.5	42.0	52.1	17.7	125.6	61.8	52.7	142.7	67.9	39.4	81.0
2003	988.5	23.7	36.9	138.9	102.0	47.4	50.4	19.3	110.3	74.3	52.2	141.4	68.9	39.8	82.9
2004	1,073.0	24.4	39.5	141.8	107.6	56.2	53.4	22.8	113.4	91.9	53.5	163.0	72.2	44.9	88.4
2003 Q4	249.9	5.9	9.3	34.5	26.8	11.9	12.4	4.9	26.7	20.0	12.9	35.7	16.5	10.6	21.8
2004 Q1	252.2	6.0	9.4	33.9	27.1	12.3	12.8	5.1	26.3	20.6	13.4	36.1	16.5	10.7	22.0
Q2	263.0	5.8	9.8	34.5	26.3	13.4	13.2	5.6	29.6	22.3	12.9	40.8	17.1	10.9	20.8
Q3	277.1	6.2	10.1	37.4	26.7	14.6	13.7	6.0	28.8	23.8	13.7	43.0	18.9	11.6	22.6
Q4	280.6	6.3	10.2	36.0	27.6	15.9	13.8	6.1	28.7	25.2	13.4	43.1	19.6	11.7	22.9
2005 Q1	277.5	6.1	9.9	35.3	27.0	16.8	13.4	6.3	28.9	26.5	13.0	40.1	20.1	12.0	22.1
2004 Dec.	92.6	1.9	3.4	11.4	9.4	5.4	4.5	2.1	9.6	8.4	4.4	15.3	6.3	3.9	6.6
2005 Jan.	92.0	2.1	3.3	11.8	9.2	5.0	4.5	2.1	9.6	8.6	4.4	12.8	6.3	4.0	8.4
Feb.	91.4	2.0	3.3	11.7	9.0	5.9	4.4	2.0	9.6	8.7	4.2	13.7	6.4	4.0	6.5
Mar.	94.1	2.1	3.3	11.9	8.7	5.9	4.5	2.2	9.8	9.1	4.5	13.5	7.4	4.0	7.1
Apr.	95.0	2.1	3.4	12.3	9.3	5.7	4.6	2.0	9.9	8.8	4.1	14.6	7.0	3.9	7.4
May	97.5	2.1	3.4	12.4	10.1	5.8	4.7	2.1	9.9	9.3	4.2	14.7	7.5	3.9	7.4
<i>% share of total imports</i>															
2004	100.0	2.3	3.7	13.2	10.0	5.2	5.0	2.1	10.6	8.6	5.0	15.2	6.7	4.2	8.2
<b>Balance</b>															
2001	48.4	2.3	1.4	47.9	17.0	-18.1	13.5	1.2	41.5	-32.3	-24.0	-10.2	-13.6	8.9	12.8
2002	99.4	2.3	1.5	56.1	18.6	-14.9	12.0	3.8	58.5	-31.9	-19.7	-2.2	-8.3	4.0	19.7
2003	70.5	1.1	1.8	56.0	15.5	-18.2	13.0	5.5	56.0	-39.1	-20.9	-6.0	-9.4	-1.8	16.9
2004	72.4	1.1	2.3	61.3	19.3	-20.7	12.7	9.0	60.1	-51.7	-20.5	-13.4	-8.6	-4.7	26.2
2003 Q4	19.4	0.2	0.5	15.0	2.8	-4.5	3.5	1.8	14.7	-11.0	-4.8	-1.4	-1.5	-1.6	5.8
2004 Q1	26.0	0.1	0.6	15.8	4.1	-4.3	2.7	2.8	16.3	-10.9	-5.0	0.7	-1.4	-1.1	5.4
Q2	23.7	0.4	0.6	15.9	5.3	-4.4	3.1	2.6	14.3	-11.8	-4.9	-4.1	-1.3	-1.0	8.9
Q3	11.7	0.2	0.4	14.2	4.6	-5.3	3.5	2.0	14.5	-13.8	-5.3	-4.4	-2.2	-1.3	4.6
Q4	11.1	0.3	0.7	15.4	5.3	-6.7	3.3	1.6	15.1	-15.2	-5.3	-5.7	-3.7	-1.2	7.3
2005 Q1	14.1	0.5	1.0	14.7	6.1	-7.1	4.0	1.7	14.5	-16.2	-4.6	-1.1	-3.1	-1.0	4.7
2004 Dec.	4.3	0.3	0.2	5.0	1.5	-2.2	1.3	0.5	5.2	-5.0	-1.6	-2.6	-0.8	-0.5	3.0
2005 Jan.	5.4	0.1	0.3	4.9	2.0	-1.8	1.4	0.6	5.0	-5.2	-1.5	0.9	-0.8	-0.2	-0.4
Feb.	5.3	0.3	0.3	5.0	1.8	-2.7	1.2	0.5	4.8	-5.4	-1.4	-1.3	-0.9	-0.3	3.3
Mar.	3.4	0.1	0.4	4.7	2.2	-2.6	1.4	0.6	4.7	-5.6	-1.6	-0.7	-1.4	-0.4	1.8
Apr.	4.2	0.2	0.3	4.2	2.0	-2.3	1.0	0.8	5.0	-5.6	-1.2	-0.7	-1.5	0.0	2.0
May	3.2	0.3	0.2	5.0	1.1	-2.3	1.0	0.6	5.1	-6.1	-1.5	-1.6	-1.5	-0.2	3.1

Sources: Eurostat and ECB calculations based on Eurostat data (balance and columns 5, 12 and 15).



## EXCHANGE RATES

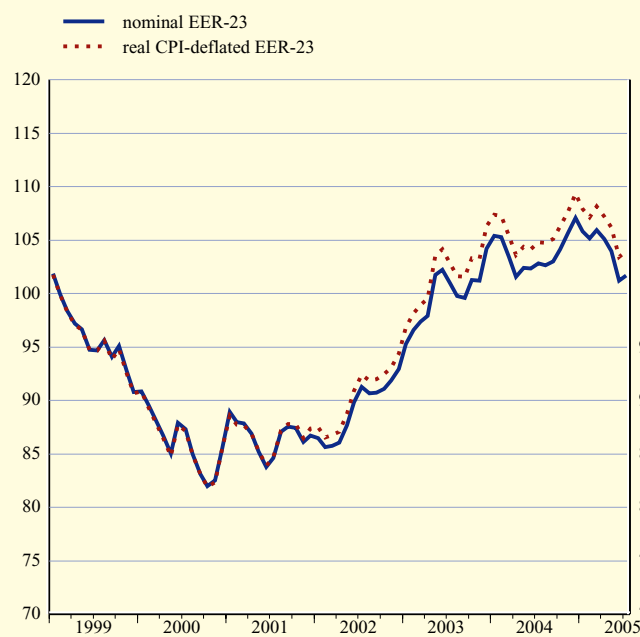
### 8.1 Effective exchange rates <sup>1)</sup>

(period averages; index 1999 Q1=100)

	EER-23						EER-42		
	Nominal	Real CPI	Real PPI	Real GDP deflator	Real ULCM	Real ULCT	Nominal	Real CPI	
	1	2	3	4	5	6	7	8	
2002	89.2	90.3	91.9	90.3	88.6	88.4	94.8	90.8	
2003	99.9	101.7	102.2	101.6	100.2	99.6	106.6	101.6	
2004	103.8	105.8	105.3	105.5	104.4	104.0	111.0	105.4	
2004 Q2	102.1	104.1	103.7	104.1	102.7	102.4	109.2	103.7	
Q3	102.8	104.9	104.4	104.4	102.6	103.1	110.1	104.5	
Q4	105.7	107.8	106.7	107.0	106.5	105.5	113.0	107.1	
2005 Q1	105.7	107.8	107.1	107.2	105.9	105.3	112.6	106.5	
Q2	103.4	105.6	104.3	.	.	.	110.1	104.0	
2004 July	102.8	104.8	104.4	-	-	-	110.1	104.4	
Aug.	102.7	104.7	104.3	-	-	-	109.9	104.4	
Sep.	103.0	105.1	104.5	-	-	-	110.3	104.6	
Oct.	104.2	106.3	105.3	-	-	-	111.5	105.8	
Nov.	105.6	107.6	106.5	-	-	-	113.1	107.1	
Dec.	107.1	109.3	108.3	-	-	-	114.4	108.5	
2005 Jan.	105.8	107.9	107.2	-	-	-	112.9	106.9	
Feb.	105.1	107.1	106.6	-	-	-	111.9	105.8	
Mar.	106.0	108.2	107.5	-	-	-	112.9	106.8	
Apr.	105.1	107.2	106.0	-	-	-	111.9	105.8	
May	104.0	106.2	104.7	-	-	-	110.6	104.6	
June	101.2	103.4	102.3	-	-	-	107.6	101.8	
July	101.7	104.0	103.0	-	-	-	108.0	102.0	
	<i>% change versus previous month</i>								
2005 July	0.5	0.5	0.7	-	-	-	0.3	0.3	
	<i>% change versus previous year</i>								
2005 July	-1.1	-0.8	-1.4	-	-	-	-1.9	-2.3	

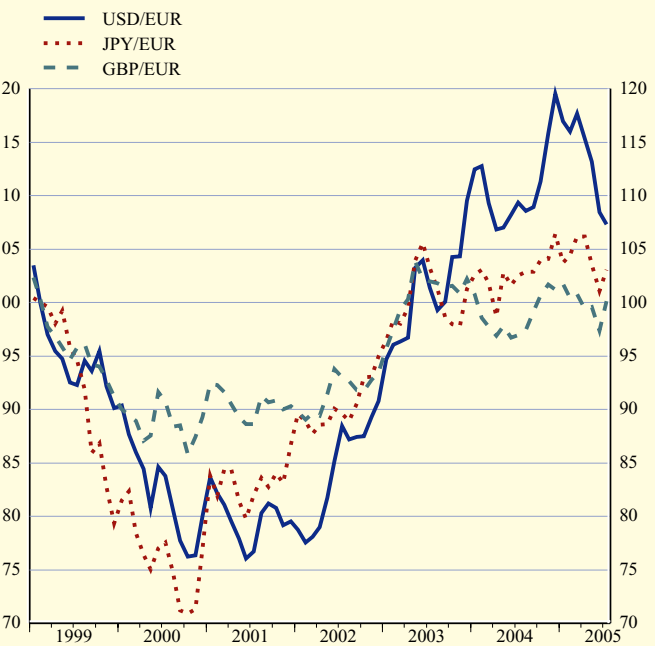
### C31 Effective exchange rates

(monthly averages; index 1999 Q1=100)



### C32 Bilateral exchange rates

(monthly averages; index 1999 Q1=100)



Source: ECB.

1) For the definition of the trading partner groups and other information, please refer to the General notes.

## 8.2 Bilateral exchange rates

(period averages; units of national currency per euro)

	Danish kroner 1	Swedish krona 2	Pound sterling 3	US dollar 4	Japanese yen 5	Swiss franc 6	South Korean won 7	Hong Kong dollar 8	Singapore dollar 9	Canadian dollar 10	Norwegian kroner 11	Australian dollar 12
2002	7.4305	9.1611	0.62883	0.9456	118.06	1.4670	1,175.50	7.3750	1.6912	1.4838	7.5086	1.7376
2003	7.4307	9.1242	0.69199	1.1312	130.97	1.5212	1,346.90	8.8079	1.9703	1.5817	8.0033	1.7379
2004	7.4399	9.1243	0.67866	1.2439	134.44	1.5438	1,422.62	9.6881	2.1016	1.6167	8.3697	1.6905
2004 Q4	7.4343	9.0128	0.69507	1.2977	137.11	1.5335	1,415.11	10.0964	2.1481	1.5835	8.1987	1.7132
2005 Q1	7.4433	9.0736	0.69362	1.3113	137.01	1.5488	1,340.74	10.2257	2.1452	1.6083	8.2388	1.6878
2005 Q2	7.4463	9.2083	0.67856	1.2594	135.42	1.5437	1,269.53	9.8090	2.0885	1.5677	8.0483	1.6389
2005 Jan.	7.4405	9.0476	0.69867	1.3119	135.63	1.5469	1,362.01	10.2269	2.1501	1.6060	8.2125	1.7147
Feb.	7.4427	9.0852	0.68968	1.3014	136.55	1.5501	1,330.26	10.1507	2.1327	1.6128	8.3199	1.6670
Mar.	7.4466	9.0884	0.69233	1.3201	138.83	1.5494	1,329.44	10.2960	2.1522	1.6064	8.1880	1.6806
Apr.	7.4499	9.1670	0.68293	1.2938	138.84	1.5475	1,306.82	10.0899	2.1375	1.5991	8.1763	1.6738
May	7.4443	9.1931	0.68399	1.2694	135.37	1.5449	1,272.34	9.8900	2.0962	1.5942	8.0814	1.6571
June	7.4448	9.2628	0.66895	1.2165	132.22	1.5391	1,231.12	9.4597	2.0342	1.5111	7.8932	1.5875
July	7.4584	9.4276	0.68756	1.2037	134.75	1.5578	1,248.53	9.3590	2.0257	1.4730	7.9200	1.6002
% change versus previous month												
2005 July	0.2	1.8	2.8	-1.0	1.9	1.2	1.4	-1.1	-0.4	-2.5	0.3	0.8
% change versus previous year												
2005 July	0.3	2.5	3.3	-1.9	0.5	2.0	-12.1	-2.2	-3.5	-9.2	-6.5	-6.6
	Czech koruna 13	Estonian kroon 14	Cyprus pound 15	Latvian lats 16	Lithuanian litas 17	Hungarian forint 18	Maltese lira 19	Polish zloty 20	Slovenian tolar 21	Slovak koruna 22	Bulgarian lev 23	New Roman- ian leu <sup>1)</sup> 24
2002	30.804	15.6466	0.57530	0.5810	3.4594	242.96	0.4089	3.8574	225.98	42.694	1.9492	31.270
2003	31.846	15.6466	0.58409	0.6407	3.4527	253.62	0.4261	4.3996	233.85	41.489	1.9490	37.551
2004	31.891	15.6466	0.58185	0.6652	3.4529	251.66	0.4280	4.5268	239.09	40.022	1.9533	40,510
2004 Q4	31.125	15.6466	0.57769	0.6801	3.4528	245.94	0.4314	4.2342	239.83	39.454	1.9559	39,839
2005 Q1	30.012	15.6466	0.58267	0.6962	3.4528	245.01	0.4316	4.0267	239.74	38.294	1.9559	37,069
2005 Q2	30.129	15.6466	0.57824	0.6960	3.4528	249.75	0.4295	4.1301	239.54	38.919	1.9558	36,195
2005 Jan.	30.304	15.6466	0.58170	0.6963	3.4528	246.48	0.4322	4.0794	239.77	38.573	1.9559	38,168
Feb.	29.957	15.6466	0.58315	0.6961	3.4528	243.69	0.4309	3.9867	239.74	38.044	1.9559	36,733
Mar.	29.771	15.6466	0.58319	0.6961	3.4528	244.81	0.4317	4.0123	239.70	38.253	1.9559	36,292
Apr.	30.134	15.6466	0.58282	0.6961	3.4528	248.19	0.4299	4.1559	239.65	39.232	1.9553	36,277
May	30.220	15.6466	0.57806	0.6960	3.4528	251.95	0.4293	4.1749	239.51	39.004	1.9561	36,175
June	30.034	15.6466	0.57405	0.6960	3.4528	249.04	0.4293	4.0606	239.47	38.535	1.9558	36,136
July	30.180	15.6466	0.57367	0.6961	3.4528	246.47	0.4293	4.0986	239.48	38.886	1.9558	3,5647
% change versus previous month												
2005 July	0.5	0.0	-0.1	0.0	0.0	-1.0	0.0	0.9	0.0	0.9	0.0	-
% change versus previous year												
2005 July	-4.3	0.0	-1.4	5.5	0.0	-1.4	0.8	-8.2	-0.2	-2.5	0.0	-
	Chinese yuan renminbi <sup>2)</sup> 25	Croatian kuna <sup>2)</sup> 26	Icelandic krona 27	Indonesian rupiah <sup>2)</sup> 28	Malaysian ringgit <sup>2)</sup> 29	New Zealand dollar 30	Philippine peso <sup>2)</sup> 31	Russian rouble <sup>2)</sup> 32	South African rand 33	Thai baht <sup>2)</sup> 34	New Turkish lira <sup>3)</sup> 35	
2002	7.8265	7.4130	86.18	8,785.12	3.5933	2.0366	48.837	29.7028	9.9072	40.637	1,439,680	
2003	9.3626	7.5688	86.65	9,685.54	4.2983	1.9438	61.336	34.6699	8.5317	46.923	1,694,851	
2004	10.2967	7.4967	87.14	11,127.34	4.7273	1.8731	69.727	35.8192	8.0092	50.077	1,777,052	
2004 Q4	10.7423	7.5528	86.19	11,840.69	4.9324	1.8526	73.035	36.9618	7.8379	52.191	1,871,592	
2005 Q1	10.8536	7.5081	80.67	12,165.35	4.9835	1.8299	72.084	36.5154	7.8793	50.622	1,7412	
2005 Q2	10.4232	7.3443	80.79	12,032.61	4.7858	1.7597	68.847	35.3733	8.0799	50.497	1,7193	
2005 Jan.	10.8588	7.5494	82.12	12,073.27	4.9861	1.8620	73.068	36.6704	7.8386	50.855	1,7784	
Feb.	10.7719	7.5176	80.74	12,039.68	4.9458	1.8192	71.305	36.3910	7.8337	50.078	1,7104	
Mar.	10.9262	7.4577	79.15	12,377.13	5.0167	1.8081	71.842	36.4789	7.9635	50.908	1,7333	
Apr.	10.7080	7.3908	80.71	12,362.94	4.9163	1.7967	70.435	35.9794	7.9649	51.165	1,7645	
May	10.5062	7.3272	82.36	12,033.61	4.8237	1.7665	68.966	35.4730	8.0500	50.562	1,7396	
June	10.0683	7.3169	79.30	11,716.31	4.6234	1.7175	67.214	34.6951	8.2194	49.793	1,6560	
July	9.8954	7.3090	78.40	11,803.89	4.5590	1.7732	67.394	34.5513	8.0790	50.199	1,6133	
% change versus previous month												
2005 July	-1.7	-0.1	-1.1	0.7	-1.4	3.2	0.3	-0.4	-1.7	0.8	-2.6	
% change versus previous year												
2005 July	-2.6	-1.0	-10.6	6.5	-2.2	-6.5	-1.8	-3.2	7.5	0.0	-	

Source: ECB.

1) Data prior to July 2005 refer to the Romanian leu; 1 new Romanian leu is equivalent to 10,000 old Romanian lei.

2) For these currencies the ECB computes and publishes euro reference exchange rates as from 1 April 2005. Previous data are indicative.

3) Data prior to January 2005 refer to the Turkish lira; 1 new Turkish lira is equivalent to 1,000,000 old Turkish liras.





## DEVELOPMENTS OUTSIDE THE EURO AREA

### 9.1 In other EU Member States

(annual percentage changes, unless otherwise indicated)

#### 1. Economic and financial developments

	Czech Republic	Denmark	Estonia	Cyprus	Latvia	Lithuania	Hungary	Malta	Poland	Slovenia	Slovakia	Sweden	United Kingdom
	1	2	3	4	5	6	7	8	9	10	11	12	13
HICP													
2003	-0.1	2.0	1.4	4.0	2.9	-1.1	4.7	1.9	0.7	5.7	8.5	2.3	1.4
2004	2.6	0.9	3.0	1.9	6.2	1.1	6.8	2.7	3.6	3.6	7.4	1.0	1.3
2004 Q4	2.7	1.2	4.4	2.8	7.2	3.0	5.9	2.2	4.5	3.5	6.0	1.1	1.4
2005 Q1	1.4	1.0	4.5	2.5	6.7	3.1	3.5	2.3	3.6	2.8	2.6	0.7	1.7
Q2	1.2	1.6	3.6	2.1	6.7	2.4	3.6	2.2	2.2	2.2	2.4	0.5	1.9
2005 Feb.	1.4	1.0	4.6	2.4	7.0	3.2	3.4	2.5	3.7	2.8	2.6	1.2	1.6
Mar.	1.2	1.3	4.8	2.4	6.6	3.3	3.3	2.6	3.4	3.3	2.3	0.5	1.9
Apr.	1.4	1.7	4.7	2.8	7.1	3.2	3.8	2.0	3.1	2.7	2.5	0.4	1.9
May	0.9	1.3	2.9	2.0	6.5	1.9	3.5	2.4	2.2	2.1	2.3	0.2	1.9
June	1.3	1.7	3.2	1.5	6.6	2.0	3.7	2.1	1.4	1.7	2.5	0.8	2.0
General government deficit (-)/surplus (+) as a % of GDP <sup>1)</sup>													
2002	-6.8	1.7	1.4	-4.5	-2.7	-1.4	-8.5	-5.9	-3.6	-2.4	-5.7	-0.3	-1.7
2003	-11.7	1.2	3.0	-6.3	-1.5	-1.2	-6.2	-10.5	-4.5	-2.0	-3.7	0.2	-3.4
2004	-3.0	2.8	1.7	-4.2	-0.5	-1.4	-4.5	-5.2	-4.8	-1.9	-3.3	1.4	-3.2
General government gross debt as a % of GDP <sup>1)</sup>													
2002	30.7	47.2	5.3	65.2	14.1	22.4	55.5	62.7	41.2	29.5	43.3	52.4	38.3
2003	38.3	44.7	5.3	69.8	14.4	21.4	56.9	71.8	45.4	29.4	42.6	52.0	39.7
2004	37.4	42.7	4.8	71.9	14.3	19.7	57.6	75.0	43.6	29.4	43.6	51.2	41.6
Long-term government bond yield as a % per annum, period average													
2005 Jan.	3.84	3.74	-	6.13	4.29	3.85	7.21	4.71	5.97	3.87	4.04	3.84	4.60
Feb.	3.55	3.64	-	6.06	4.03	3.80	6.84	4.72	5.73	3.92	3.80	3.76	4.66
Mar.	3.62	3.82	-	5.89	3.94	3.73	6.83	4.72	5.55	3.89	3.60	3.86	4.87
Apr.	3.55	3.58	-	5.87	3.87	3.82	6.91	4.71	5.49	3.95	3.76	3.58	4.67
May	3.49	3.39	-	5.84	3.87	3.87	7.00	4.66	5.35	3.92	3.54	3.34	4.45
June	3.31	3.16	-	5.13	3.87	3.78	6.59	4.56	4.91	3.90	3.36	3.11	4.31
3-month interest rate as a % per annum, period average													
2005 Jan.	2.53	2.20	2.40	5.16	3.99	2.62	-	2.97	6.63	4.05	3.66	2.15	4.87
Feb.	2.25	2.19	2.40	5.13	3.97	2.59	8.45	2.97	6.54	4.05	2.90	2.12	4.89
Mar.	2.08	2.19	2.40	4.96	3.26	2.49	-	2.98	6.15	4.05	2.29	2.11	4.99
Apr.	2.03	2.18	2.40	4.89	2.92	2.44	7.43	3.24	5.78	4.05	2.56	2.11	4.94
May	1.78	2.18	2.39	4.67	2.85	2.42	7.52	3.25	5.48	4.05	2.75	2.05	4.89
June	1.75	2.16	2.34	4.11	2.81	2.36	-	3.27	5.22	4.05	2.88	1.82	4.84
Real GDP													
2003	3.2	0.7	6.7	2.0	7.5	9.7	2.9	-1.9	3.8	2.5	4.5	1.5	2.5
2004	4.4	2.4	7.8	3.8	8.5	6.7	4.2	1.0	5.4	4.6	5.5	3.6	3.2
2004 Q4	4.6	3.0	6.8	3.1	8.6	6.3	4.0	1.4	3.7	3.4	5.8	2.5	2.7
2005 Q1	4.4	1.9	6.9	3.9	7.4	6.5	3.6	-0.1	3.8	2.7	5.1	1.8	2.1
Q2	.	.	.	.	.	6.7	.	.	.	.	.	.	1.7
Current and capital accounts balance as a % of GDP													
2003	-6.3	3.3	-12.6	-3.3	-7.6	-6.5	-8.8	-5.6	-2.2	-1.0	-0.5	7.0	-1.4
2004	-5.7	2.4	-12.5	-5.0	-11.3	-5.9	-8.4	-8.6	-1.1	-1.6	-3.4	8.2	-1.8
2004 Q3	-7.4	2.5	-4.4	5.1	-11.6	-5.0	-8.1	-7.2	-0.7	-0.7	-3.4	8.5	-2.7
Q4	-7.8	0.5	-16.3	-12.6	-7.1	-2.5	-7.1	-17.6	0.5	-2.6	-3.6	7.3	-0.9
2005 Q1	2.3	3.2	-8.5	-13.6	-9.2	-3.7	-6.7	-9.9	1.5	-0.2	-1.9	9.0	-1.4
Unit labour costs													
2003	7.6	2.0	4.9	-	5.2	1.5	7.4	-	.	4.8	3.5	0.6	3.2
2004	1.2	0.9	3.0	-	8.7	.	.	-	.	.	2.1	.	2.0
2004 Q3	1.4	1.1	3.2	-	.	.	.	-	.	.	3.5	-1.2	0.7
Q4	0.7	0.3	2.9	-	.	.	.	-	.	.	5.1	-0.4	1.3
2005 Q1	-0.2	1.9	3.1	-	.	.	.	-	.	.	5.7	3.1	4.6
Standardised unemployment rate as a % of labour force (s.a.)													
2003	7.8	5.6	10.2	4.5	10.4	12.7	5.8	8.0	19.2	6.5	17.5	5.6	5.0
2004	8.3	5.4	9.2	5.0	9.8	10.7	5.9	7.3	18.8	6.0	18.0	6.4	4.7
2004 Q4	8.2	5.2	8.4	5.3	9.7	9.6	6.1	7.0	18.4	5.8	17.1	6.4	4.6
2005 Q1	8.1	5.0	8.0	5.4	9.5	8.8	6.3	6.9	18.1	5.8	16.1	6.3	4.6
Q2	7.9	4.9	7.9	5.0	9.1	.	6.3	6.8	17.8	5.9	15.5	.	.
2005 Mar.	8.0	4.9	7.9	5.1	9.4	8.6	6.3	6.9	18.1	5.8	15.9	6.3	4.6
Apr.	7.9	4.9	7.9	4.8	9.2	8.4	6.3	6.9	17.9	5.8	15.6	.	4.7
May	7.9	4.9	7.9	5.0	9.1	8.1	6.3	6.8	17.7	5.9	15.5	.	.
June	7.8	4.8	7.8	5.3	9.0	.	6.3	6.6	17.6	5.9	15.4	.	.
July	.	.	.	5.3	.	.	.	.	.	.	.	.	.

Sources: European Commission (Economic and Financial Affairs DG and Eurostat); national data, Reuters and ECB calculations.

1) Ratios are computed using GDP excluding Financial Intermediation Services Indirectly Measured (FISIM).

9.2 In the United States and Japan

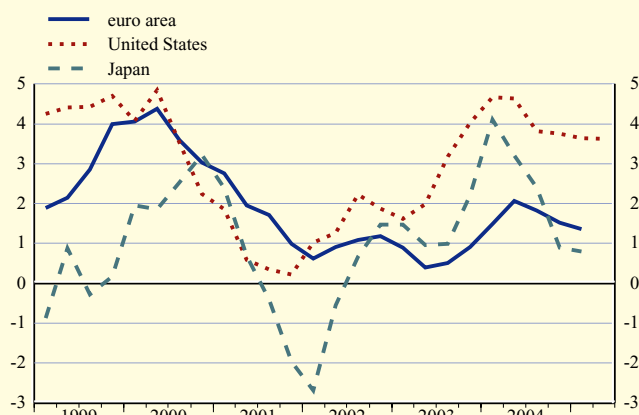
(annual percentage changes, unless otherwise indicated)

1. Economic and financial developments

	Consumer price index	Unit labour costs <sup>1)</sup> (manufacturing)	Real GDP	Industrial production index (manufacturing)	Unemployment rate as a % of labour force (s.a.)	Broad money <sup>2)</sup>	3-month interbank deposit rate <sup>3)</sup> as a % per annum	10-year government bond yield <sup>3)</sup> as a % per annum	Exchange rate <sup>5)</sup> as national currency per euro	Fiscal deficit (-)/surplus (+) as a % of GDP	Gross public debt <sup>5)</sup> as a % of GDP
	1	2	3	4	5	6	7	8	9	10	11
United States											
2001	2.8	0.2	0.8	-4.1	4.8	11.4	3.78	5.01	0.8956	-0.4	42.9
2002	1.6	-0.8	1.6	-0.1	5.8	8.0	1.80	4.60	0.9456	-3.8	45.3
2003	2.3	3.3	2.7	0.0	6.0	6.4	1.22	4.00	1.1312	-5.0	47.9
2004	2.7	-0.5	4.2	4.9	5.5	5.2	1.62	4.26	1.2439	-4.7	48.6
2004 Q2	2.9	-1.7	4.6	5.6	5.6	5.7	1.30	4.58	1.2046	-4.8	48.2
Q3	2.7	-0.1	3.8	5.5	5.4	4.8	1.75	4.29	1.2220	-4.8	48.4
Q4	3.3	0.4	3.8	5.1	5.4	5.8	2.30	4.17	1.2977	-4.3	48.6
2005 Q1	3.0	2.4	3.6	4.5	5.3	5.8	2.84	4.30	1.3113	-3.7	49.6
Q2	2.9	.	3.6	3.4	5.1	4.7	3.28	4.16	1.2594	.	.
2005 Mar.	3.1	-	-	4.1	5.2	5.3	3.03	4.49	1.3201	-	-
Apr.	3.5	-	-	3.3	5.2	5.0	3.15	4.34	1.2938	-	-
May	2.8	-	-	3.1	5.1	4.4	3.27	4.14	1.2694	-	-
June	2.5	-	-	3.7	5.0	4.8	3.43	4.00	1.2165	-	-
July	.	-	-	.	.	.	3.61	4.16	1.2037	-	-
Japan											
2001	-0.7	4.4	0.2	-6.8	5.0	2.8	0.15	1.34	108.68	-6.1	134.7
2002	-0.9	-3.2	-0.3	-1.2	5.4	3.3	0.08	1.27	118.06	-7.9	141.5
2003	-0.3	-3.8	1.4	3.2	5.2	1.7	0.06	0.99	130.97	-7.7	149.2
2004	0.0	-5.2	2.7	5.5	4.7	1.9	0.05	1.50	134.44	.	.
2004 Q2	-0.3	-6.7	3.2	7.2	4.6	1.9	0.05	1.59	132.20	.	.
Q3	-0.1	-5.7	2.4	6.4	4.8	1.8	0.05	1.64	134.38	.	.
Q4	0.5	-1.5	0.9	1.8	4.6	2.0	0.05	1.45	137.11	.	.
2005 Q1	-0.2	-1.0	0.8	1.4	4.6	2.0	0.05	1.41	137.01	.	.
Q2	-0.1	.	.	0.2	4.4	1.7	0.05	1.28	135.42	.	.
2005 Mar.	-0.2	-0.6	-	1.2	4.5	2.1	0.05	1.45	138.83	-	-
Apr.	0.0	0.8	-	0.3	4.4	1.9	0.05	1.32	138.84	-	-
May	0.2	.	-	0.3	4.4	1.5	0.05	1.27	135.37	-	-
June	-0.5	.	-	0.0	4.2	1.7	0.05	1.24	132.22	-	-
July	.	.	-	.	.	.	0.06	1.26	134.75	-	-

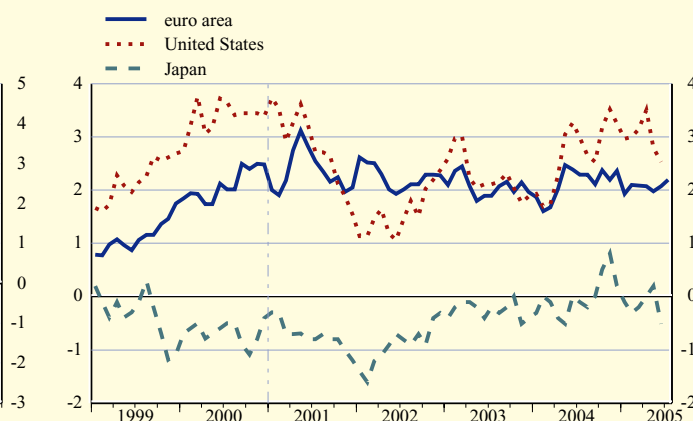
C33 Real gross domestic product

(annual percentage changes; quarterly)



C34 Consumer price indices

(annual percentage changes; monthly)



Sources: National data (columns 1, 2 (United States), 3, 4, 5 (United States), 6, 9 and 10); OECD (column 2 (Japan)); Eurostat (column 5 (Japan), euro area chart data); Reuters (columns 7 and 8); ECB calculations (column 11).

- 1) Data for the United States are seasonally adjusted.
- 2) Average-of-period values; M3 for US, M2+CDs for Japan.
- 3) For more information, see Sections 4.6 and 4.7.
- 4) For more information, see Section 8.2.
- 5) Gross consolidated general government debt (end of period).

## 9.2 In the United States and Japan

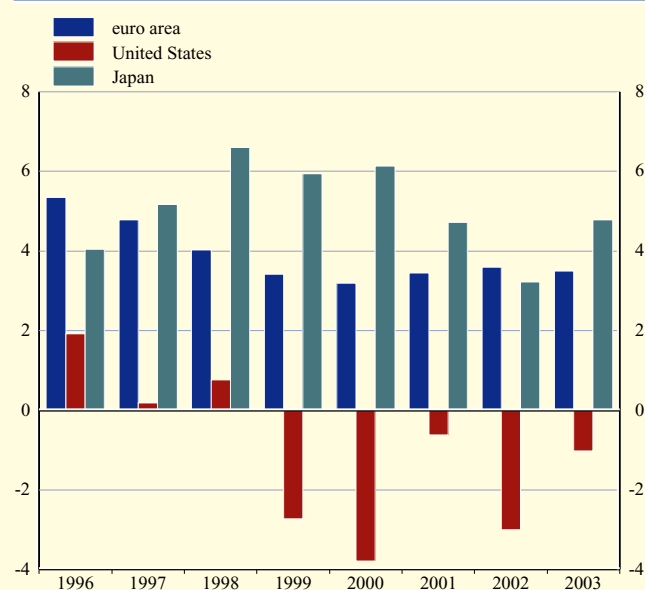
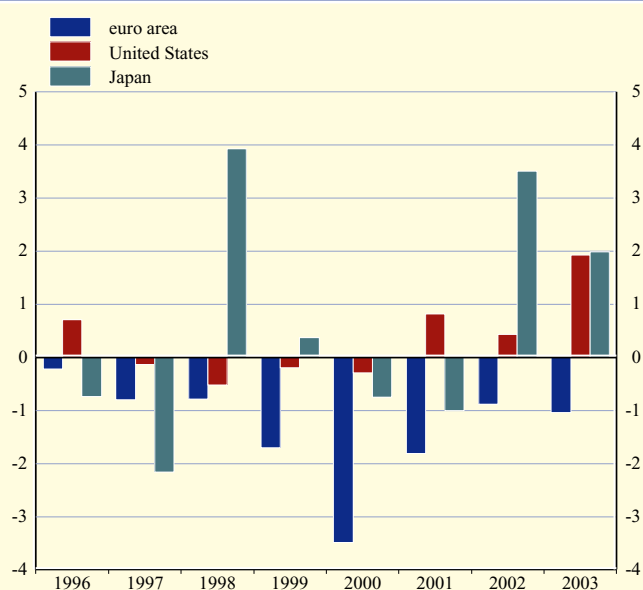
(as a percentage of GDP)

### 2. Saving, investment and financing

	National saving and investment			Investment and financing of non-financial corporations						Investment and financing of households <sup>1)</sup>			
	Gross saving 1	Gross capital formation 2	Net lending to the rest of the world 3	Gross capital formation 4	Gross fixed capital formation 5	Net acquisition of financial assets 6	Gross saving 7	Net incurrence of liabilities 8	Securities and shares 9	Capital expenditures <sup>2)</sup> 10	Net acquisition of financial assets 11	Gross saving <sup>3)</sup> 12	Net incurrence of liabilities 13
United States													
2001	16.4	19.1	-3.7	7.9	8.3	1.8	7.5	0.9	1.7	12.8	5.1	10.8	5.7
2002	14.2	18.4	-4.4	7.3	7.3	1.2	7.9	0.8	-0.1	12.9	3.6	11.1	6.6
2003	13.5	18.4	-4.7	7.0	7.1	3.3	8.3	1.3	0.8	13.2	7.1	10.6	8.1
2004	14.0	19.7	-5.4	7.7	7.4	5.1	8.5	3.2	0.6	13.4	6.1	10.5	9.6
2003 Q2	13.2	18.1	-4.8	6.8	7.0	3.5	8.3	1.9	2.0	13.1	10.3	10.5	11.8
Q3	13.7	18.6	-4.6	7.0	7.1	2.4	8.5	0.4	0.3	13.4	9.3	11.2	7.5
Q4	14.4	18.8	-4.3	7.2	7.2	3.5	8.9	1.1	0.0	13.4	4.1	10.7	4.3
2004 Q1	13.7	19.1	-4.9	7.4	7.2	6.1	8.7	4.0	1.0	13.1	6.0	10.2	10.2
Q2	13.9	19.8	-5.4	7.7	7.3	4.9	8.6	2.9	-0.6	13.4	6.5	10.3	9.1
Q3	13.8	19.7	-5.4	7.6	7.4	4.1	8.9	2.5	0.2	13.5	6.9	10.4	9.2
Q4	14.5	20.1	-6.0	7.9	7.6	5.4	8.0	3.3	1.8	13.5	4.9	11.2	9.8
2005 Q1	14.6	20.3	-6.2	8.1	7.6	5.5	8.4	4.4	1.3	13.5	4.6	10.1	8.0
Japan													
2001	26.6	25.8	2.0	15.3	15.3	-2.8	14.4	-6.4	0.2	4.9	2.8	8.6	0.2
2002	25.7	24.2	2.8	13.8	14.1	-1.7	15.4	-7.4	-0.8	4.8	-0.2	9.1	-2.1
2003	26.4	23.9	3.1	14.3	14.4	2.3	16.1	-5.3	-0.1	4.6	0.3	9.2	-0.6
2004	.	23.9	.	.	.	4.6	.	0.8	0.6	.	1.9	.	-0.7
2003 Q2	23.7	23.3	2.9	.	.	-26.1	.	-20.6	-0.9	.	4.2	.	-5.7
Q3	25.9	24.0	3.7	.	.	9.2	.	-5.6	-0.6	.	-3.7	.	1.4
Q4	27.9	24.8	2.9	.	.	10.5	.	5.5	1.1	.	9.5	.	-1.4
2004 Q1	31.0	24.0	3.9	.	.	12.5	.	-1.9	-0.3	.	-7.2	.	2.6
Q2	.	23.0	.	.	.	-13.7	.	-11.2	1.3	.	8.0	.	-6.2
Q3	.	23.8	.	.	.	7.1	.	0.7	-0.5	.	-2.1	.	1.5
Q4	.	24.6	.	.	.	12.1	.	14.6	1.9	.	8.3	.	-0.5
2005 Q1	.	24.4	.	.	.	12.5	.	0.7	-1.1	.	-11.5	.	4.1

**C35 Net lending of non-financial corporations**  
(as a percentage of GDP)

**C36 Net lending of households<sup>1)</sup>**  
(as a percentage of GDP)



Sources: ECB, Federal Reserve Board, Bank of Japan and Economic and Social Research Institute.

1) Including non-profit institutions serving households.

2) Gross capital formation in Japan. Capital expenditures in the United States include purchases of consumer durable goods.

3) Gross saving in the United States is increased by expenditures on consumer durable goods.



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## TECHNICAL NOTES

### RELATING TO THE EURO AREA OVERVIEW

#### CALCULATION OF GROWTH RATES FOR MONETARY DEVELOPMENTS

The average growth rate for the quarter ending in month  $t$  is calculated as:

$$a) \left( \frac{0.5I_t + \sum_{i=1}^2 I_{t-i} + 0.5I_{t-3}}{0.5I_{t-12} + \sum_{i=1}^2 I_{t-i-12} + 0.5I_{t-15}} - 1 \right) \times 100$$

where  $I_t$  is the index of adjusted outstanding amounts as at month  $t$  (see also below). Likewise, for the year ending in month  $t$ , the average growth rate is calculated as:

$$b) \left( \frac{0.5I_t + \sum_{i=1}^{11} I_{t-i} + 0.5I_{t-12}}{0.5I_{t-12} + \sum_{i=1}^{11} I_{t-i-12} + 0.5I_{t-24}} - 1 \right) \times 100$$

### RELATING TO SECTIONS 2.1 TO 2.6

#### CALCULATION OF TRANSACTIONS

Monthly transactions are calculated from monthly differences in outstanding amounts adjusted for reclassifications, other revaluations, exchange rate variations and any other changes which do not arise from transactions.

If  $L_t$  represents the outstanding amount at the end of month  $t$ ,  $C_t^M$  the reclassification adjustment in month  $t$ ,  $E_t^M$  the exchange rate adjustment and  $V_t^M$  the other revaluation adjustments, the transactions  $F_t^M$  in month  $t$  are defined as:

$$c) F_t^M = (L_t - L_{t-1}) - C_t^M - E_t^M - V_t^M$$

Similarly, the quarterly transactions  $F_t^Q$  for the quarter ending in month  $t$  are defined as:

$$d) F_t^Q = (L_t - L_{t-3}) - C_t^Q - E_t^Q - V_t^Q$$

where  $L_{t-3}$  is the amount outstanding at the end of month  $t-3$  (the end of the previous quarter)

and, for example,  $C_t^Q$  is the reclassification adjustment in the quarter ending in month  $t$ .

For those quarterly series for which monthly observations are now available (see below), the quarterly transactions can be derived as the sum of the three monthly transactions in the quarter.

#### CALCULATION OF GROWTH RATES FOR MONTHLY SERIES

Growth rates may be calculated from transactions or from the index of adjusted outstanding amounts. If  $F_t^M$  and  $L_t$  are defined as above, the index  $I_t$  of adjusted outstanding amounts in month  $t$  is defined as:

$$e) I_t = I_{t-1} \times \left( 1 + \frac{F_t^M}{L_{t-1}} \right)$$

The base of the index (of the non-seasonally adjusted series) is currently set as December 2001 = 100. Time series of the index of adjusted outstanding amounts are available on the ECB's website ([www.ecb.int](http://www.ecb.int)) under the "Money, banking and financial markets" sub-section of the "Statistics" section.

The annual growth rate  $a_t$  for month  $t$  – i.e. the change in the 12 months ending in month  $t$  – may be calculated using either of the following two formulae:

$$f) a_t = \left[ \prod_{i=0}^{11} \left( 1 + \frac{F_{t-i}^M}{L_{t-i-1}} \right) - 1 \right] \times 100$$

$$g) a_t = \left( \frac{I_t}{I_{t-12}} - 1 \right) \times 100$$

Unless otherwise indicated, the annual growth rates refer to the end of the indicated period. For example, the annual percentage change for the year 2002 is calculated in g) by dividing the index of December 2002 by the index of December 2001.

Growth rates for intra-annual periods may be derived by adapting formula g). For example, the month-on-month growth rate  $a_t^M$  may be calculated as:

$$h) a_t^M = \left( \frac{I_t}{I_{t-1}} - 1 \right) \times 100$$

Finally, the three-month moving average (centred) for the annual growth rate of M3 is obtained as  $(a_{t+1} + a_t + a_{t-1})/3$ , where  $a_t$  is defined as in f) or g) above.

#### CALCULATION OF GROWTH RATES FOR QUARTERLY SERIES

If  $F_t^Q$  and  $L_{t-3}$  are defined as above, the index  $I_t$  of adjusted outstanding amounts for the quarter ending in month  $t$  is defined as:

$$i) I_t = I_{t-3} \times \left( 1 + \frac{F_t^Q}{L_{t-3}} \right)$$

The annual growth rate in the four quarters ending in month  $t$ , i.e.  $a_t$ , may be calculated using formula g).

#### SEASONAL ADJUSTMENT OF THE EURO AREA MONETARY STATISTICS<sup>1</sup>

The approach used relies on a multiplicative decomposition through X-12-ARIMA.<sup>2</sup> The seasonal adjustment may include a day-of-the-week adjustment, and for some series is carried out indirectly by means of a linear combination of components. In particular, this is the case for M3, derived by aggregating the seasonally adjusted series for M1, M2 less M1, and M3 less M2.

The seasonal adjustment procedures are first applied to the index of adjusted outstanding amounts.<sup>3</sup> The resulting estimates of the seasonal factors are then applied to the levels and to the adjustments arising from reclassifications and revaluations, in turn yielding seasonally adjusted transactions.

Seasonal (and trading day) factors are revised at annual intervals or as required.

#### RELATING TO SECTIONS 3.1 TO 3.3

#### CALCULATION OF GROWTH RATES

Growth rates are calculated on the basis of financial transactions and therefore exclude reclassifications, revaluations, exchange rate variations and any other changes which do not arise from transactions.

If  $T_t$  represents the transactions in quarter  $t$  and  $L_t$  represents the outstanding amount at the end of quarter  $t$ , then the growth rate for the quarter  $t$  is calculated as:

$$j) \frac{\sum_{i=0}^3 T_{t-i}}{L_{t-4}} \times 100$$

#### RELATING TO SECTION 4.3 AND 4.4

#### CALCULATION OF GROWTH RATES FOR DEBT SECURITIES AND QUOTED SHARES

Growth rates are calculated on the basis of financial transactions and therefore exclude reclassifications, revaluations, exchange rate variations and any other changes which do not arise from transactions. They may be calculated from transactions or from the index of adjusted outstanding amounts. If  $N_t^M$  represents the

<sup>1</sup> For details, see "Seasonal adjustment of monetary aggregates and HICP for the euro area", ECB (August 2000) and the "Statistics" section of the ECB's website ([www.ecb.int](http://www.ecb.int)), under the "Money, banking and financial markets" sub-section.

<sup>2</sup> For details, see Findley, D., Monsell, B., Bell, W., Otto, M., and Chen, B. C. (1998), "New Capabilities and Methods of the X-12-ARIMA Seasonal Adjustment Program", *Journal of Business and Economic Statistics*, 16, 2, pp.127-152, or "X-12-ARIMA Reference Manual", Time Series Staff, Bureau of the Census, Washington, D.C.

For internal purposes, the model-based approach of TRAMO-SEATS is also used. For details on TRAMO-SEATS, see Gomez, V. and Maravall, A. (1996), "Programs TRAMO and SEATS: Instructions for the User", Banco de España, Working Paper No. 9628, Madrid.

<sup>3</sup> It follows that for the seasonally adjusted series, the level of the index for the base period, i.e. December 2001, generally differs from 100, reflecting the seasonality of that month.

transactions (net issues) in month  $t$  and  $L_t$  the level outstanding at the end of the month  $t$ , the index  $I_t$  of adjusted outstanding amounts in month  $t$  is defined as:

$$k) \quad I_t = I_{t-1} \times \left( 1 + \frac{N_t}{L_{t-1}} \right)$$

As a base, the index is set equal to 100 on December 2001. The growth rate  $a_t$  for month  $t$  corresponding to the change in the 12 months ending in month  $t$ , may be calculated using either of the following two formulae:

$$l) \quad a_t = \left[ \prod_{i=0}^{11} \left( 1 + \frac{N_{t-i}^M}{L_{t-1-i}} \right) - 1 \right] \times 100$$

$$m) \quad a_t = \left( \frac{I_t}{I_{t-12}} - 1 \right) \times 100$$

The method used to calculate the growth rates for securities other than shares is the same as that used for the monetary aggregates, the only difference being that an “N” is used rather than an “F”. The reason for this is to distinguish between the different ways of obtaining “net issues” for securities issues statistics, where the ECB collects information on gross issues and redemptions separately, and “transactions” used for the monetary aggregates.

The average growth rate for the quarter ending in month  $t$  is calculated as:

$$n) \quad \left( \frac{0.5I_t + \sum_{i=1}^2 I_{t-i} + 0.5I_{t-3}}{0.5I_{t-12} + \sum_{i=1}^2 I_{t-i-12} + 0.5I_{t-15}} - 1 \right) \times 100$$

where  $I_t$  is the index of adjusted outstanding amounts as at month  $t$ . Likewise, for the year ending in month  $t$ , the average growth rate is calculated as:

$$o) \quad \left( \frac{0.5I_t + \sum_{i=1}^{11} I_{t-i} + 0.5I_{t-12}}{0.5I_{t-12} + \sum_{i=1}^{11} I_{t-i-12} + 0.5I_{t-24}} - 1 \right) \times 100$$

The calculation formula used for Section 4.3 is also used for Section 4.4 and is likewise based on that used for the monetary aggregates. Section 4.4 is based on market values and the basis for the calculation are financial transactions, which exclude reclassifications, revaluations or any other changes that do not arise from transactions. Exchange rate variations are not included as all quoted shares covered are denominated in euro.

#### RELATING TO TABLE I IN SECTION 5.1

#### SEASONAL ADJUSTMENT OF THE HICP<sup>4</sup>

The approach used relies on multiplicative decomposition through X-12-ARIMA (see footnote 2 on page S74). The seasonal adjustment of the overall HICP for the euro area is carried out indirectly by aggregating the seasonally adjusted euro area series for processed food, unprocessed food, industrial goods excluding energy, and services. Energy is added without adjustment since there is no statistical evidence of seasonality. Seasonal factors are revised at annual intervals or as required.

#### RELATING TO TABLE 2 IN SECTION 7.1

#### SEASONAL ADJUSTMENT OF THE BALANCE OF PAYMENTS CURRENT ACCOUNT

The approach relies on multiplicative decomposition through X-12-ARIMA (see footnote 2 on page S74). The raw data for goods and services, income and current transfers are pre-adjusted to take a working-day effect into account. For goods, services and current transfers, the working-day adjustment is corrected for national public holidays. Data on

4 For details, see “Seasonal adjustment of monetary aggregates and HICP for the euro area”, ECB (August 2000) and the “Statistics” section of the ECB’s website ([www.ecb.int](http://www.ecb.int)), under the “Money, banking and financial markets” sub-section.



service credits are also pre-adjusted for Easter. The seasonal adjustment for these items is carried out using these pre-adjusted series. Current transfers debits are not pre-adjusted. The seasonal adjustment of the total current account is carried out by aggregating the seasonally adjusted euro area series for goods, services, income and current transfers. Seasonal (and trading day) factors are revised at semi-annual intervals or as required.



## GENERAL NOTES

The “Euro area statistics” section of the Monthly Bulletin focuses on statistics for the euro area as a whole. More detailed and longer runs of data, with further explanatory notes, are available in the “Statistics” section of the ECB’s website ([www.ecb.int](http://www.ecb.int)). Services available under the “Data services” sub-section include a browser interface with search facilities, subscription to different datasets and a facility for downloading data directly as compressed Comma Separated Value (CSV) files. For further information, please contact us at: [statistics@ecb.int](mailto:statistics@ecb.int).

In general, the cut-off date for the statistics included in the Monthly Bulletin is the day preceding the first meeting in the month of the Governing Council. For this issue, the cut-off date was 3 August 2005.

All data relate to the Euro 12, unless otherwise indicated. For the monetary data, the Harmonised Index of Consumer Prices (HICP), investment fund and financial market statistics, the statistical series relating to the euro area cover the EU Member States that had adopted the euro at the time to which the statistics relate. Where applicable, this is shown in the tables by means of a footnote; in the charts, the break is indicated by a dotted line. In these cases, where underlying data are available, absolute and percentage changes for 2001, calculated from a base in 2000, use a series which takes into account the impact of Greece’s entry into the euro area.

Given that the composition of the ECU does not coincide with the former currencies of the countries which have adopted the single currency, pre-1999 amounts converted from the participating currencies into ECU at current ECU exchange rates are affected by movements in the currencies of EU Member States which have not adopted the euro. To avoid this effect on the monetary statistics, the pre-1999 data in Sections 2.1 to 2.8 are expressed in units converted from national currencies at the irrevocable euro exchange rates established on 31 December 1998. Unless otherwise indicated,

price and cost statistics before 1999 are based on data expressed in national currency terms.

Methods of aggregation and/or consolidation (including cross-country consolidation) have been used where appropriate.

Recent data are often provisional and may be revised. Discrepancies between totals and their components may arise from rounding.

The group “Other EU Member States” comprises the Czech Republic, Denmark, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia, Sweden and United Kingdom.

In most cases, the terminology used within the tables follows international standards, such as those contained in the European System of Accounts 1995 (ESA 95) and the IMF Balance of Payments Manual. Transactions refer to voluntary exchanges (measured directly or derived), while flows also encompass changes in outstanding amounts owing to price and exchange rate changes, write-offs, and other changes.

In the tables, the term “up to (x) years” means “up to *and including* (x) years”.

### OVERVIEW

Developments in key indicators for the euro area are summarised in an overview table.

### MONETARY POLICY STATISTICS

Section 1.4 shows statistics on minimum reserve and liquidity factors. Annual and quarterly observations refer to averages of the last reserve maintenance period of the year/quarter. Until December 2003, the maintenance periods started on the 24th calendar day of a month and ran to the 23rd of the following month. On 23 January 2003 the ECB announced changes to the operational

framework, which were implemented on 10 March 2004. As a result of these changes, maintenance periods start on the settlement day of the main refinancing operation (MRO) following the Governing Council meeting at which the monthly assessment of the monetary policy stance is scheduled. A transitional maintenance period was defined to cover the period from 24 January to 9 March 2004.

Table 1 in Section 1.4 shows the components of the reserve base of credit institutions subject to reserve requirements. The liabilities vis-à-vis other credit institutions subject to the ESCB's minimum reserve system, the ECB and participating national central banks are excluded from the reserve base. When a credit institution cannot provide evidence of the amount of its issues of debt securities with a maturity of up to two years held by the institutions mentioned above, it may deduct a certain percentage of these liabilities from its reserve base. The percentage for calculating the reserve base was 10% until November 1999 and 30% thereafter.

Table 2 in Section 1.4 contains average data for completed maintenance periods. The amount of the reserve requirement of each individual credit institution is first calculated by applying the reserve ratio for the corresponding categories of liabilities to the eligible liabilities, using the balance sheet data from the end of each calendar month. Subsequently, each credit institution deducts from this figure a lump-sum allowance of €100,000. The resulting required reserves are then aggregated at the euro area level (column 1). The current account holdings (column 2) are the aggregate average daily current account holdings of credit institutions, including those that serve the fulfilment of reserve requirements. The excess reserves (column 3) are the average current account holdings over the maintenance period in excess of the required reserves. The deficiencies (column 4) are defined as the average shortfalls of current account holdings from required reserves over the maintenance period, computed

on the basis of those credit institutions that have not fulfilled their reserve requirement. The interest rate on minimum reserves (column 5) is equal to the average, over the maintenance period, of the ECB's rate (weighted according to the number of calendar days) on the Eurosystem's main refinancing operations (see Section 1.3).

Table 3 in Section 1.4 shows the banking system's liquidity position, which is defined as the current account holdings in euro of credit institutions in the euro area with the Eurosystem. All amounts are derived from the consolidated financial statement of the Eurosystem. The other liquidity-absorbing operations (column 7) exclude the issuance of debt certificates initiated by national central banks in Stage Two of EMU. The net other factors (column 10) represent the netted remaining items in the consolidated financial statement of the Eurosystem. The credit institutions' current accounts (column 11) are equal to the difference between the sum of liquidity-providing factors (columns 1 to 5) and the sum of liquidity-absorbing factors (columns 6 to 10). The base money (column 12) is calculated as the sum of the deposit facility (column 6), the banknotes in circulation (column 8) and the credit institutions' current account holdings (column 11).

## **MONEY, BANKING AND INVESTMENT FUNDS**

Section 2.1 shows the aggregated balance sheet of the monetary financial institution (MFI) sector, i.e. the sum of the harmonised balance sheets of all MFIs resident in the euro area. MFIs are central banks, credit institutions as defined under Community law, money market funds and other institutions whose business it is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credits and/or make investments in securities. A complete list of MFIs is published on the ECB's website.

Section 2.2 shows the consolidated balance sheet of the MFI sector, which is obtained by netting the aggregated balance sheet positions between MFIs in the euro area. Due to limited heterogeneity in recording practices, the sum of the inter-MFI positions is not necessarily zero; the balance is shown in column 10 of the liabilities side of Section 2.2. Section 2.3 sets out the euro area monetary aggregates and counterparts. These are derived from the consolidated MFI balance sheet, and include positions of non-MFIs resident in the euro area held with MFIs resident in the euro area; they also take account of some monetary assets/liabilities of central government. Statistics on monetary aggregates and counterparts are adjusted for seasonal and trading-day effects. The external liabilities item of Sections 2.1 and 2.2 shows the holdings by non-euro area residents of i) shares/units issued by money market funds located in the euro area and ii) debt securities issued with a maturity of up to two years by MFIs located in the euro area. In Section 2.3, however, these holdings are excluded from the monetary aggregates and contribute to the item “net external assets”.

Section 2.4 provides an analysis by sector, type and original maturity of loans granted by MFIs other than the Eurosystem (the banking system) resident in the euro area. Section 2.5 shows a sectoral and instrument analysis of deposits held with the euro area banking system. Section 2.6 shows the securities held by the euro area banking system, by type of issuer.

Sections 2.2 to 2.6 include transactions, which are derived as differences in outstanding amounts adjusted for reclassifications, revaluations, exchange rate variations and any other changes which do not arise from transactions. Section 2.7 shows selected revaluations which are used in the derivation of transactions. Sections 2.2 to 2.6 also provide growth rates in terms of annual percentage changes based on the transactions. Section 2.8 shows a quarterly currency breakdown of selected MFI balance sheet items.

Details of the sector definitions are set out in the “Money and Banking Statistics Sector Manual – Guidance for the statistical classification of customers” (ECB, November 1999). The “Guidance Notes to the Regulation ECB/2001/13 on the MFI Balance Sheet Statistics” (ECB, November 2002) explains practices recommended to be followed by the NCBs. Since 1 January 1999 the statistical information has been collected and compiled on the basis of Regulation ECB/1998/16 of 1 December 1998 concerning the consolidated balance sheet of the Monetary Financial Institutions sector<sup>1</sup>, as last amended by Regulation ECB/2003/10<sup>2</sup>.

In line with this Regulation, the balance sheet item “money market paper” has been merged with the item “debt securities” on both the assets and liabilities side of the MFI balance sheet.

Section 2.9 shows end-of-quarter outstanding amounts for the balance sheet of the euro area investment funds (other than money market funds). The balance sheet is aggregated and therefore includes, among the liabilities, holdings by investment funds of shares/units issued by other investment funds. Total assets/liabilities are also broken down by investment policy (equity funds, bond funds, mixed funds, real estate funds and other funds) and by type of investor (general public funds and special investors’ funds). Section 2.10 shows the aggregated balance sheet for each investment fund sector as identified by investment policy and type of investor.

## FINANCIAL AND NON-FINANCIAL ACCOUNTS

Sections 3.1 and 3.2 show quarterly data on financial accounts for non-financial sectors in the euro area, comprising general government (S.13 in the ESA 95), non-financial corporations (S.11 in the ESA 95), and households (S.14 in the ESA 95) including non-

1 OJL 356, 30.12.1998, p. 7.

2 OJL 250, 2.10.2003, p. 19.

profit institutions serving households (S.15 in the ESA 95). The data cover non-seasonally adjusted amounts outstanding and financial transactions classified according to the ESA 95 and show the main financial investment and financing activities of the non-financial sectors. On the financing side (liabilities), the data are presented by ESA 95 sector and original maturity (“short-term” refers to an original maturity of up to one year; “long-term” refers to an original maturity of over one year). Whenever possible, the financing taken from MFIs is presented separately. The information on financial investment (assets) is currently less detailed than that on financing, especially since a breakdown by sector is not possible.

Section 3.3 shows quarterly data on financial accounts for insurance corporations and pension funds (S.125 in the ESA 95) in the euro area. As in Sections 3.1 and 3.2, the data cover non-seasonally adjusted amounts outstanding and financial transactions, and show the main financial investment and financing activities of this sector.

The quarterly data in these three sections are based on quarterly national financial accounts data and MFI balance sheet and securities issues statistics. Sections 3.1 and 3.2 also refer to data taken from the BIS international banking statistics. Although all euro area countries contribute to the MFI balance sheet and securities issues statistics, Ireland and Luxembourg do not yet provide quarterly national financial accounts data.

Section 3.4 shows annual data on saving, investment (financial and non-financial) and financing for the euro area as a whole, and separately for non-financial corporations and households. These annual data provide, in particular, fuller sectoral information on the acquisition of financial assets and are consistent with the quarterly data in the two previous sections.

## FINANCIAL MARKETS

The series on financial market statistics for the euro area cover the EU Member States that had adopted the euro at the time to which the statistics relate.

Statistics on securities other than shares and quoted shares (Sections 4.1 to 4.4) are produced by the ECB using data from the ESCB and the BIS. Section 4.5 presents MFI interest rates on euro-denominated deposits and loans by euro area residents. Statistics on money market interest rates, long-term government bond yields and stock market indices (Sections 4.6 to 4.8) are produced by the ECB using data from wire services.

Statistics on securities issues cover securities other than shares (debt securities), which are presented in Sections 4.1, 4.2 and 4.3, and quoted shares, which are presented in Section 4.4. Debt securities are broken down into short-term and long-term securities. “Short-term” means securities with an original maturity of one year or less (in exceptional cases two years or less). Securities with a longer maturity, or with optional maturity dates, the latest of which is more than one year away, or with indefinite maturity dates, are classified as “long-term”. Long-term debt securities issued by euro area residents are further broken down into fixed and variable rate issues. Fixed rate issues consist of issues where the coupon rate does not change during the life of the issues. Variable rate issues include all issues where the coupon is periodically refixed by reference to an independent interest rate or index. The statistics on debt securities are estimated to cover approximately 95% of total issues by euro area residents. Euro-denominated securities indicated in Sections 4.1, 4.2 and 4.3 also include items expressed in national denominations of the euro.

Section 4.1 shows securities issued, redemptions, net issues and outstanding amounts for all maturities, with an additional breakdown of long-term maturities. Net issues

differ from the changes in outstanding amounts owing to valuation changes, reclassifications and other adjustments.

Columns 1 to 4 show the outstanding amounts, gross issues, redemptions and net issues for all euro-denominated issues. Columns 5 to 8 show the outstanding amounts, gross issues, redemptions and net issues for all securities other than shares (i.e. debt securities) issued by euro area residents. Columns 9 to 11 show the percentage share of the outstanding amounts, gross issues and redemptions of securities that have been issued in euro by euro area residents. Column 12 shows euro-denominated net issues by euro area residents.

Section 4.2 contains a sectoral breakdown of outstanding amounts and gross issues for issuers resident in the euro area which is in line with the ESA 95<sup>3</sup>. The ECB is included in the Eurosystem.

The total outstanding amounts for total and long-term debt securities in column 1 of Table 1 in Section 4.2 correspond to the data on outstanding amounts for total and long-term debt securities issued by euro area residents in Section 4.1, column 5. The outstanding amounts for total and long-term debt securities issued by MFIs in Table 4.2.1, column 2, are broadly comparable with data for debt securities issued as shown on the liabilities side of the aggregated MFI balance sheet in Table 2 of Section 2.1, column 8.

The total gross issues for total debt securities in column 1 of Table 2 in Section 4.2 correspond to the data on total gross issues by euro area residents in Section 4.1, column 6. The residual difference between long-term debt securities in Section 4.1, column 6, and total fixed and variable rate long-term debt securities in Table 2 of Section 4.2, column 7 consists of zero coupon bonds and revaluation effects.

Section 4.3 shows annual growth rates for debt securities issued by euro area residents (broken down by maturity, type of instrument, sector of

the issuer and currency), which are based on financial transactions that occur when an institutional unit incurs or redeems liabilities. The annual growth rates therefore exclude reclassifications, revaluations, exchange rate variations and any other changes which do not arise from transactions. Annual percentage changes for monthly data refer to the end of the month, whereas for quarterly and yearly data, those percentage changes refer to the annual change in the period average. See the technical notes for details.

Section 4.4, columns 1, 4, 6 and 8, show the outstanding amounts of quoted shares issued by euro area residents broken down by issuing sector. The monthly data for quoted shares issued by non-financial corporations correspond to the quarterly series shown in Section 3.2 (main liabilities, column 21).

Section 4.4, columns 3, 5, 7 and 9, show annual growth rates for quoted shares issued by euro area residents (broken down by the sector of the issuer), which are based on financial transactions that occur when an issuer sells or redeems shares for cash excluding investments in the issuers' own shares. Transactions include the quotation of an issuer on a stock exchange for the first time and the creation or deletion of new instruments. The calculation of annual growth rates excludes reclassifications, revaluations and any other changes which do not arise from transactions.

Section 4.5 presents statistics on all the interest rates that MFIs resident in the euro area apply to euro-denominated deposits and loans vis-à-vis households and non-financial corporations resident in the euro area. Euro area MFI interest

<sup>3</sup> The code numbers in the ESA 95 for the sectors shown in tables in the Monthly Bulletin are: MFIs (including the Eurosystem), which comprises the ECB, the NCBs of the euro area countries (S.121) and other monetary financial institutions (S.122); non-monetary financial corporations, which comprises other financial intermediaries (S.123), financial auxiliaries (S.124) and insurance corporations and pension funds (S.125); non-financial corporations (S.11); central government (S.1311); and other general government, which comprises state government (S.1312), local government (S.1313) and social security funds (S.1314).

rates are calculated as a weighted average (by corresponding business volume) of the euro area countries' interest rates for each category.

MFI interest rate statistics are broken down by type of business coverage, sector, instrument category and maturity, period of notice or initial period of interest rate fixation. The new MFI interest rate statistics replace the ten transitional statistical series on euro area retail interest rates that have been published in the ECB's Monthly Bulletin since January 1999.

Section 4.6 presents money market interest rates for the euro area, the United States and Japan. For the euro area, a broad spectrum of money market interest rates is covered spanning from interest rates on overnight deposits to those on twelve-month deposits. Before January 1999 synthetic euro area interest rates were calculated on the basis of national rates weighted by GDP. With the exception of the overnight rate to December 1998, monthly, quarterly and yearly values are period averages. Overnight deposits are represented by interbank deposit bid rates up to December 1998. From January 1999 column 1 of Section 4.6 shows the euro overnight index average (EONIA). These are end-of-period rates up to December 1998 and period averages thereafter. From January 1999 interest rates on one-, three-, six- and twelve-month deposits are euro interbank offered rates (EURIBOR); until December 1998, London interbank offered rates (LIBOR) where available. For the United States and Japan, interest rates on three-month deposits are represented by LIBOR.

Section 4.7 presents government bond yields for the euro area, the United States and Japan. Until December 1998, two-, three-, five- and seven-year euro area yields were end-of-period values and ten-year yields period averages. Thereafter, all yields are period averages. Until December 1998, euro area yields were calculated on the basis of harmonised national government bond yields weighted by GDP; thereafter, the weights are the nominal outstanding amounts of government bonds in

each maturity band. For the United States and Japan, ten-year yields are period averages.

Section 4.8 shows stock market indices for the euro area, the United States and Japan.

## PRICES, OUTPUT, DEMAND AND LABOUR MARKETS

Most of the data described in this section are produced by the European Commission (mainly Eurostat) and national statistical authorities. Euro area results are obtained by aggregating data for individual countries. As far as possible, the data are harmonised and comparable. Statistics on hourly labour costs, GDP and expenditure components, value added by economic activity, industrial production, retail sales and passenger car registrations are adjusted for the variations in the number of working days.

The Harmonised Index of Consumer Prices (HICP) for the euro area (Section 5.1) is available from 1995 onwards. It is based on national HICPs, which follow the same methodology in all euro area countries. The breakdown by goods and services components is derived from the Classification of individual consumption by purpose (Coicop/HICP). The HICP covers monetary expenditure on final consumption by households on the economic territory of the euro area. The table includes seasonally adjusted HICP data which are compiled by the ECB.

Industrial producer prices (Table 2 in Section 5.1), industrial production, industrial new orders, industrial turnover and retail sales (Section 5.2) are covered by Council Regulation (EC) No 1165/98 of 19 May 1998 concerning short-term statistics<sup>4</sup>. The breakdown by end-use of products for industrial producer prices and industrial production is the harmonised sub-division of industry excluding construction (NACE sections C to E) into Main Industrial

4 OJL 162, 5.6.1998, p. 1.

Groupings (MIGs) as defined by Commission Regulation (EC) No 586/2001 of 26 March 2001<sup>5</sup>. Industrial producer prices reflect the ex-factory gate prices of producers. They include indirect taxes except VAT and other deductible taxes. Industrial production reflects the value added of the industries concerned.

World market prices of raw materials (Table 2 in Section 5.1) measures price changes of euro-denominated euro area imports compared with the base period.

The labour cost indices (Table 3 in Section 5.1) measure the changes in labour costs per hour worked in industry (including construction) and market services. Their methodology is laid down in Regulation (EC) No 450/2003 of the European Parliament and of the Council of 27 February 2003 concerning the labour cost index<sup>6</sup> and in the implementing Commission Regulation (EC) No 1216/2003 of 7 July 2003<sup>7</sup>. A breakdown of hourly labour costs for the euro area is available by labour cost component (wages and salaries, and employers' social contributions plus employment-related taxes paid by the employer less subsidies received by the employer) and by economic activity. The ECB calculates the indicator of negotiated wages (memo item in Table 3 of Section 5.1) on the basis of non-harmonised, national-definition data.

Unit labour cost components (Table 4 in Section 5.1), GDP and its components (Tables 1 and 2 in Section 5.2), GDP deflators (Table 5 in Section 5.1) and employment statistics (Table 1 in Section 5.3) are results of the ESA 95 quarterly national accounts.

Industrial new orders (Table 4 in Section 5.2) measure the orders received during the reference period and cover industries working mainly on the basis of orders – in particular textile, pulp and paper, chemical, metal, capital goods and durable consumer goods industries. The data are calculated on the basis of current prices.

Indices for turnover in industry and for the retail trade (Table 4 in Section 5.2) measure the turnover, including all duties and taxes with the exception of VAT, invoiced during the reference period. Retail trade turnover covers all retail trade excluding sales of motor vehicles and motorcycles, and except repairs. New passenger car registrations covers registrations of both private and commercial passenger cars.

Qualitative business and consumer survey data (Table 5 in Section 5.2) draw on the European Commission Business and Consumer Surveys.

Unemployment rates (Table 2 in Section 5.3) conform to International Labour Organisation (ILO) guidelines. They refer to persons actively seeking work as a share of the labour force, using harmonised criteria and definitions. The labour force estimates underlying the unemployment rate are different from the sum of the employment and unemployment levels published in Section 5.3.

## GOVERNMENT FINANCE

Sections 6.1 to 6.4 show the general government fiscal position in the euro area. The data are mainly consolidated and are based on the ESA 95 methodology. The annual euro area aggregates in Sections 6.1 to 6.3 are compiled by the ECB from harmonised data provided by the NCBs, which are regularly updated. The deficit and debt data for the euro area countries may therefore differ from those used by the European Commission within the excessive deficit procedure. The quarterly euro area aggregates in Section 6.4 are compiled by the ECB on the basis of Eurostat and national data.

Section 6.1 presents annual figures on general government revenue and expenditure on the basis of definitions laid down in Commission Regulation (EC) No 1500/2000 of 10 July 2000<sup>8</sup>

<sup>5</sup> OJL 86, 27.3.2001, p. 11.

<sup>6</sup> OJL 69, 13.3.2003, p. 1.

<sup>7</sup> OJL 169, 8.7.2003, p. 37.

<sup>8</sup> OJL 172, 12.7.2000, p. 3.



amending the ESA 95. Section 6.2 shows details of general government gross consolidated debt at nominal value in line with the Treaty provisions on the excessive deficit procedure. Sections 6.1 and 6.2 include summary data for the individual euro area countries owing to their importance in the framework of the Stability and Growth Pact. The deficits/surpluses presented for the individual euro area countries correspond to EDP B.9 as defined by Commission Regulation (EC) No 351/2002 of 25 February 2002 amending Council Regulation (EC) No 3605/93 as regards references to the ESA 95. Section 6.3 presents changes in general government debt. The difference between the change in the government debt and the government deficit – the deficit-debt adjustment – is mainly explained by government transactions in financial assets and by foreign exchange valuation effects. Section 6.4 presents quarterly figures on general government revenue and expenditure on the basis of definitions laid down in the Regulation (EC) No 1221/2002 of the European Parliament and of the Council of 10 June 2002<sup>9</sup> on quarterly non-financial accounts for general government.

## EXTERNAL TRANSACTIONS AND POSITIONS

The concepts and definitions used in balance of payments (b.o.p.) and international investment position (i.i.p.) statistics (Sections 7.1 to 7.4) are generally in line with the IMF Balance of Payments Manual (fifth edition, October 1993), the ECB Guideline of 16 July 2004 on the statistical reporting requirements of the ECB (ECB/2004/15)<sup>10</sup>, and Eurostat documents. Additional references about the methodologies and sources used in the euro area b.o.p. and i.i.p. statistics can be found in the ECB publication entitled “European Union balance of payments/international investment position statistical methods” (November 2004), and in the following task force reports: “Portfolio investment collection systems” (June 2002), “Portfolio investment income” (August 2003) and “Foreign direct investment” (March 2004),

which can be downloaded from the ECB’s website. In addition, the report of the ECB/Commission (Eurostat) Task Force on Quality of balance of payments and international investment position statistics (June 2004) is available on the website of the Committee on Monetary, Financial and Balance of Payments Statistics ([www.cmfb.org](http://www.cmfb.org)). The first annual quality report on the euro area b.o.p./i.i.p. (January 2005), which is based on the Task Force’s recommendations, is available on the ECB’s website.

The presentation of net transactions in the financial account follows the sign convention of the IMF Balance of Payments Manual: an increase of assets appears with a minus sign, while an increase of liabilities appears with a plus sign. In the current account and capital account, both credit and debit transactions are presented with a plus sign.

The euro area b.o.p. is compiled by the ECB. The recent monthly figures should be regarded as provisional. Data are revised when figures for the following month and/or the detailed quarterly b.o.p. are published. Earlier data are revised periodically or as a result of methodological changes in the compilation of the source data.

In Section 7.1, Table 2 contains seasonally adjusted data for the current account. Where appropriate, the adjustment covers also working-day, leap year and/or Easter effects. Table 5 provides a sectoral breakdown of euro area purchasers of securities issued by non-residents of the euro area. It is not yet possible to show a sectoral breakdown of euro area issuers of securities acquired by non-residents. In Tables 6 and 7 the breakdown between “loans” and “currency and deposits” is based on the sector of the non-resident counterpart, i.e. assets vis-à-vis non-resident banks are classified as deposits, whereas assets vis-à-vis other non-resident sectors are classified as

<sup>9</sup> OJ L 179, 9.7.2002, p. 1.

<sup>10</sup> OJ L 354, 30.11.2004, p. 34.

loans. This breakdown follows the distinction made in other statistics, such as the MFI consolidated balance sheet, and conforms to the IMF Balance of Payments Manual.

Section 7.2 contains a monetary presentation of the b.o.p.: the b.o.p. transactions mirroring the transactions in the external counterpart of M3. The data follow the sign conventions of the b.o.p., except for the transactions in the external counterpart of M3 taken from money and banking statistics (column 12), where a positive sign denotes an increase of assets or a decrease of liabilities. In portfolio investment liabilities (columns 5 and 6), the b.o.p. transactions include sales and purchases of equity and debt securities issued by MFIs in the euro area, apart from shares of money market funds and debt securities with a maturity of up to two years. A methodological note on the monetary presentation of the euro area b.o.p. is available in the “Statistics” section of the ECB’s website. See also Box 1 in the June 2003 issue of the Monthly Bulletin.

Section 7.3 presents a geographical breakdown of the euro area b.o.p. (Tables 1 to 4) and i.i.p. (Table 5) vis-à-vis main partner countries individually or as a group, distinguishing between EU Member States outside the euro area and countries or areas outside the European Union. The breakdown also shows transactions and positions vis-à-vis EU institutions (which, apart from the ECB, are treated statistically as outside the euro area, regardless of their physical location) and for some purposes also offshore centres and international organisations. Tables 1 to 4 show cumulative b.o.p. transactions in the latest four quarters; Table 5 shows a geographical breakdown of the i.i.p. for the latest end-year. The breakdown does not cover transactions or positions in portfolio investment liabilities, financial derivatives and international reserves. The geographical breakdown is described in the article entitled “Euro area balance of payments and international investment position vis-à-vis main counterparts” in the February 2005 issue of the Monthly Bulletin.

The data on the euro area i.i.p. in Section 7.4 are based on positions vis-à-vis non-residents of the euro area, considering the euro area as a single economic entity (see also Box 9 in the December 2002 issue of the Monthly Bulletin). The i.i.p. is valued at current market prices, with the exception of direct investment, where book values are used to a large extent. The quarterly i.i.p. is compiled on the basis of the same methodological framework as the annual i.i.p. As some data sources are not available on a quarterly basis (or are available with a delay), the quarterly i.i.p. is partly estimated on the basis of financial transactions and asset prices and foreign exchange developments.

The outstanding amounts of the Eurosystem’s international reserves and related assets and liabilities are shown in Section 7.4, Table 5, together with the part held by the ECB. These figures are not fully comparable with those of the Eurosystem’s weekly financial statement owing to differences in coverage and valuation. The data in Table 5 are in line with the recommendations for the IMF/BIS template on international reserves and foreign currency liquidity. Changes in the gold holdings of the Eurosystem (column 3) are due to transactions in gold within the terms of the Central Bank Gold Agreement of 26 September 1999, updated on 8 March 2004. More information on the statistical treatment of the Eurosystem’s international reserves can be found in a publication entitled “Statistical treatment of the Eurosystem’s international reserves” (October 2000), which can be downloaded from the ECB’s website. The website also contains more comprehensive data in accordance with the template on international reserves and foreign currency liquidity.

Section 7.5 shows data on euro area external trade in goods. The main source is Eurostat. The ECB derives volume indices from Eurostat value and unit value indices, and performs seasonal adjustment of unit value indices, while value data are seasonally and working-day adjusted by Eurostat.

The breakdown by product group in columns 4 to 6 and 9 to 11 of Table 1 in Section 7.5 is in line with the classification by Broad Economic Categories. Manufactured goods (columns 7 and 12) and oil (column 13) are in line with the SITC Rev. 3 definition. The geographical breakdown (Table 2 in Section 7.5) shows main trading partners individually or in regional groups. Mainland China excludes Hong Kong.

Owing to differences in definitions, classification, coverage and time of recording, external trade data, in particular for imports, are not fully comparable with the goods item in the balance of payments statistics (Sections 7.1 to 7.3). The difference for imports has been around 5% in recent years (ECB estimate), a significant part of which relates to the inclusion of insurance and freight services in the external trade data (c.i.f. basis).

## EXCHANGE RATES

Section 8.1 shows nominal and real effective exchange rate (EER) indices for the euro calculated by the ECB on the basis of weighted averages of bilateral exchange rates of the euro against the currencies of the euro area's trading partners. A positive change denotes an appreciation of the euro. Weights are based on trade in manufactured goods with the trading partners in the periods 1995-1997 and 1999-2001, and are calculated to account for third-market effects. The EER indices result from the linking at the beginning of 1999 of the indices based on 1995-1997 weights to those based on 1999-2001 weights. The EER-23 group of trading partners is composed of the 13 non-euro area EU Member States, Australia, Canada, China, Hong Kong, Japan, Norway, Singapore, South Korea, Switzerland and the United States. The EER-42 group includes, in addition to the EER-23, the following countries: Algeria, Argentina, Brazil, Bulgaria, Croatia, India, Indonesia, Israel, Malaysia, Mexico, Morocco, New Zealand, the Philippines, Romania, Russia, South Africa, Taiwan, Thailand and Turkey. Real EERs are calculated using

consumer price indices, producer price indices, gross domestic product deflators, unit labour costs in manufacturing and unit labour costs in the total economy.

For more detailed information on the calculation of the EERs, see Box 10 entitled "Update of the overall trade weights for the effective exchange rates of the euro and computation of a new set of euro indicators" in the September 2004 issue of the Monthly Bulletin and the ECB's Occasional Paper No 2 ("The effective exchange rates of the euro" by Luca Buldorini, Stelios Makrydakis and Christian Thimann, February 2002), which can be downloaded from the ECB's website.

The bilateral rates shown in Section 8.2 are monthly averages of those published daily as reference rates for these currencies.

## DEVELOPMENTS OUTSIDE THE EURO AREA

Statistics on other EU Member States (Section 9.1) follow the same principles as those for data relating to the euro area. Data for the United States and Japan contained in Section 9.2 are obtained from national sources.



## CHRONOLOGY OF MONETARY POLICY MEASURES OF THE EUROSYSTEM<sup>1</sup>

### 9 JANUARY 2003

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.75%, 3.75% and 1.75% respectively.

### 23 JANUARY 2003

The Governing Council of the ECB decides to implement the following two measures to improve the operational framework for monetary policy:

First, the timing of the reserve maintenance period will be changed so that it will always start on the settlement day of the main refinancing operation (MRO) following the Governing Council meeting at which the monthly assessment of the monetary policy stance is pre-scheduled. Furthermore, as a rule, the implementation of changes to the standing facility rates will be aligned with the start of the new reserve maintenance period.

Second, the maturity of the MROs will be shortened from two weeks to one week.

These measures are scheduled to come into effect during the first quarter of 2004.

Further to the press release of 10 July 2002, the Governing Council also decides to maintain at €15 billion the allotment amount for each of the longer-term refinancing operations to be conducted in the year 2003. This amount takes into consideration the expected liquidity needs of the euro area banking system in 2003 and reflects the desire of the Eurosystem to continue to provide the bulk of liquidity through its main refinancing operations.

### 6 FEBRUARY 2003

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.75%, 3.75% and 1.75% respectively.

### 6 MARCH 2003

The Governing Council of the ECB decides to lower the minimum bid rate on the main refinancing operations by 0.25 percentage point to 2.50%, starting from the operation to be settled on 12 March 2003. It also decides to lower the interest rates on both the marginal lending facility and the deposit facility by 0.25 percentage point, to 3.50% and 1.50% respectively, both with effect from 7 March 2003.

### 3 APRIL 2003

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.50%, 3.50% and 1.50% respectively.

### 8 MAY 2003

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.50%, 3.50% and 1.50% respectively.

<sup>1</sup> The chronology of monetary policy measures of the Eurosystem taken between 1999 and 2002 can be found on pages 176 to 180 of the ECB's Annual Report 1999, on pages 205 to 208 of the ECB's Annual Report 2000, on pages 219 to 220 of the ECB's Annual Report 2001 and on pages 234 to 235 of the ECB's Annual Report 2002 respectively.

It also announces the results of its evaluation of the ECB's monetary policy strategy. This strategy, which was announced on 13 October 1998, consists of three main elements: a quantitative definition of price stability, a prominent role for money in the assessment of risks to price stability, and a broadly based assessment of the outlook for price developments.

The Governing Council confirms the definition of price stability formulated in October 1998, namely that "price stability is defined as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%. Price stability is to be maintained over the medium term". At the same time, the Governing Council agrees that in the pursuit of price stability it will aim to maintain inflation rates close to 2% over the medium term.

The Governing Council confirms that its monetary policy decisions will continue to be based on a comprehensive analysis of the risks to price stability. At the same time, the Governing Council decides to clarify in its communication the respective roles played by economic and monetary analysis in the process of coming to the Council's overall assessment of risks to price stability.

To underscore the longer-term nature of the reference value for monetary growth as a benchmark for the assessment of monetary developments, the Governing Council also decides that it will no longer conduct a review of the reference value on an annual basis. However, it will continue to assess the underlying conditions and assumptions.

#### **5 JUNE 2003**

The Governing Council of the ECB decides to lower the minimum bid rate on the main refinancing operations by 0.50 percentage

point to 2.0%, starting from the operation to be settled on 9 June 2003. It also decides to lower the interest rates on both the marginal lending facility and the deposit facility by 0.50 percentage point, to 3.0% and 1.0% respectively, both with effect from 6 June 2003.

#### **10 JULY, 31 JULY, 4 SEPTEMBER, 2 OCTOBER, 6 NOVEMBER, 4 DECEMBER 2003 AND 8 JANUARY 2004**

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.0%, 3.0% and 1.0% respectively.

#### **12 JANUARY 2004**

The Governing Council of the ECB decides to increase the allotment amount for each of the longer-term refinancing operations to be conducted in the year 2004 from €15 billion to €25 billion. This increased amount takes into consideration the higher liquidity needs of the euro area banking system anticipated for the year 2004. The Eurosystem will, however, continue to provide the bulk of liquidity through its main refinancing operations. The Governing Council may decide to adjust the allotment amount again at the beginning of 2005.

#### **5 FEBRUARY, 4 MARCH 2004**

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.0%, 3.0% and 1.0% respectively.

**10 MARCH 2004**

In accordance with the Governing Council's decision of 23 January 2003, the maturity of the Eurosystem's main refinancing operations is reduced from two weeks to one week and the maintenance period for the Eurosystem's required reserve system is redefined to start on the settlement day of the main refinancing operation following the Governing Council meeting at which the monthly assessment of the monetary policy stance is pre-scheduled, rather than on the 24th day of the month.

**1 APRIL, 6 MAY, 3 JUNE, 1 JULY,  
5 AUGUST, 2 SEPTEMBER, 7 OCTOBER,  
4 NOVEMBER, 2 DECEMBER 2004 AND  
13 JANUARY 2005**

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.0%, 3.0% and 1.0% respectively.

**14 JANUARY 2005**

The Governing Council of the ECB decides to increase the allotment amount for each of the longer-term refinancing operations to be conducted in the year 2005 from €25 billion to €30 billion. This increased amount takes into consideration the higher liquidity needs of the euro area banking system anticipated in 2005. The Eurosystem will however continue to provide the bulk of liquidity through its main refinancing operations. The Governing Council may decide to adjust the allotment amount again at the beginning of 2006.

**3 FEBRUARY, 3 MARCH, 7 APRIL, 4 MAY,  
2 JUNE, 7 JULY AND 4 AUGUST 2005**

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.0%, 3.0% and 1.0% respectively.







## DOCUMENTS PUBLISHED BY THE EUROPEAN CENTRAL BANK SINCE 2004

This list is designed to inform readers about selected documents published by the European Central Bank since January 2004. For Working Papers, the list only refers to publications released between May and July 2005. The publications are available to interested parties free of charge from the Press and Information Division. Please submit orders in writing to the postal address given on the back of the title page.

For a complete list of documents published by the European Central Bank and by the European Monetary Institute, please visit the ECB's website (<http://www.ecb.int>).

### ANNUAL REPORT

“Annual Report 2003”, April 2004.

“Annual Report 2004”, April 2005.

### CONVERGENCE REPORT

“Convergence Report 2004”, October 2004.

### MONTHLY BULLETIN ARTICLES

“EMU and the conduct of fiscal policies”, January 2004.

“Opinion survey on activity, prices and labour market developments in the euro area: features and uses”, January 2004.

“Measuring and analysing profit developments in the euro area”, January 2004.

“The acceding countries' economies on the threshold of the European Union”, February 2004.

“Developments in private sector balance sheets in the euro area and the United States”, February 2004.

“The impact of fair value accounting on the European banking sector – a financial stability perspective”, February 2004.

“Fiscal policy influences on macroeconomic stability and prices”, April 2004.

“Future developments in the TARGET system”, April 2004.

“The Barcelona partner countries and their relations with the euro area”, April 2004.

“The EU economy following the accession of the new Member States”, May 2004.

“The natural real interest rate in the euro area”, May 2004.

“Risk mitigation methods in Eurosystem credit operations”, May 2004.

“Labour productivity developments in the euro area: aggregate trends and sectoral patterns”, July 2004.

“Accounting for the resilience of the EU banking sector since 2000”, July 2004.

“The European Constitution and the ECB”, August 2004.

“Properties and use of general government quarterly accounts”, August 2004.

“Euro banknotes: first years of experience”, August 2004.

“Monetary analysis in real time”, October 2004.

“Economic integration in selected regions outside the European Union”, October 2004.

“Oil prices and the euro area economy”, November 2004.

“Extracting information from financial asset prices”, November 2004.

“Developments in the EU framework for financial regulation, supervision and stability”, November 2004.

“The new Basel Capital Accord: main features and implications”, January 2005.

“Financial flows to emerging market economies: changing patterns and recent developments”, January 2005.



- “Bank market discipline”, February 2005.
- “Initial experience with the changes to the Eurosystem’s operational framework for monetary policy implementation”, February 2005.
- “Euro area balance of payments and international investment position vis-à-vis main counterparts”, February 2005.
- “Asset price bubbles and monetary policy”, April 2005.
- “Comparability of statistics for the euro area, the United States and Japan”, April 2005.
- “The ESCB-CESR standards for securities clearing and settlement in the European Union”, April 2005.
- “Monetary policy and inflation differentials in a heterogeneous currency area”, May 2005.
- “Consolidation and diversification in the euro area banking sector”, May 2005.
- “The evolving framework for corporate governance”, May 2005.
- “The Harmonised Index of Consumer Prices: concept, properties and experience to date”, July 2005.
- “The Lisbon strategy – five years on”, July 2005
- “The use of harmonised MFI interest rate statistics”, July 2005.
- “The reform of the Stability and Growth Pact”, August 2005.
- “The role of ‘Emerging Asia’ in the global economy”, August 2005.
- “The euro banknotes: developments and future challenges”, August 2005.

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Available monthly since August 2003.

#### **OCCASIONAL PAPER SERIES**

- 9 “Fiscal adjustment in 1991-2002: stylised facts and policy implications” by M. G. Briotti, February 2004.
- 10 “The acceding countries’ strategies towards ERM II and the adoption of the euro: an analytical review” by a staff team led by P. Backé and C. Thimann and including O. Arratibel, O. Calvo-Gonzalez, A. Mehl and C. Nerlich, February 2004.
- 11 “Official dollarisation/euroisation: motives, features and policy implications of current cases” by A. Winkler, F. Mazzaferro, C. Nerlich and C. Thimann, February 2004.
- 12 “Understanding the impact of the external dimension on the euro area: trade, capital flows and other international macroeconomic linkages” by R. Anderton, F. di Mauro and F. Moneta, April 2004.
- 13 “Fair value accounting and financial stability” by a staff team led by A. Enria and including L. Capiello, F. Dierick, S. Grittini, A. Maddaloni, P. Molitor, F. Pires and P. Poloni, April 2004.
- 14 “Measuring financial integration in the euro area” by L. Baele, A. Ferrando, P. Hördahl, E. Krylova, C. Monnet, April 2004.
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- 30 “Competitiveness and the export performance of the euro area”, by a task force of the Monetary Policy Committee of the European System of Central Banks, June 2005.
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- 507 “Incorporating a “public good factor” into the pricing of large-value payment systems” by C. Holthausen and J.-C. Rochet, July 2005.
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“TARGET2 – the future TARGET system”, September 2004.

“TARGET – the current system”, September 2004.



## GLOSSARY

This glossary contains selected items that are frequently used in the Monthly Bulletin. A more comprehensive and detailed glossary can be found on the ECB's website ([www.ecb.int/home/glossary/html/index.en.html](http://www.ecb.int/home/glossary/html/index.en.html)).

**Autonomous liquidity factors:** liquidity factors that do not normally stem from the use of monetary policy instruments. Such factors are, for example, banknotes in circulation, government deposits with the central bank and the net foreign assets of the central bank.

**Bank lending survey:** a quarterly survey on lending policies that has been conducted by the Eurosystem since January 2003. It addresses qualitative questions on developments in credit standards, terms and conditions of loans and loan demand for both enterprises and households to a predefined sample group of banks in the euro area.

**Central parity:** the exchange rate of each ERM II member currency vis-à-vis the euro, around which the ERM II fluctuation margins are defined.

**Compensation per employee:** the total remuneration, in cash or in kind, that is payable by employers to employees, i.e. gross wages and salaries, as well as bonuses, overtime payments and employers' social security contributions, divided by the total number of employees.

**Consolidated balance sheet of the MFI sector:** a balance sheet obtained by netting out inter-MFI positions (e.g. inter-MFI loans and deposits) in the aggregated MFI balance sheet. It provides statistical information on the MFI sector's assets and liabilities vis-à-vis residents of the euro area not belonging to this sector (i.e. general government and other euro area residents) and vis-à-vis non-euro area residents. It is the main statistical source for the calculation of monetary aggregates, and it provides the basis for the regular analysis of the counterparts of M3.

**Debt (financial accounts):** loans, deposit liabilities, debt securities issued and pension fund reserves of non-financial corporations (resulting from employers' direct pension commitments on behalf of their employees), valued at market value at the end of the period. However, due to data limitations, the debt given in the quarterly financial accounts does not include loans granted by non-financial sectors (e.g. inter-company loans) or by banks outside the euro area, whereas these components are included in the annual financial accounts.

**Debt (general government):** the total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government.

**Debt security:** a promise on the part of the issuer (i.e. the borrower) to make one or more payment(s) to the holder (the lender) at a specified future date or dates. Such securities usually carry a specific rate of interest (the coupon) and/or are sold at a discount to the amount that will be repaid at maturity. Debt securities issued with an original maturity of more than one year are classified as long-term.

**Debt-to-GDP ratio (general government):** the ratio of general government debt to GDP at current market prices. It is the subject of one of the fiscal criteria laid down in Article 104 (2) of the Treaty establishing the European Community to define the existence of an excessive deficit.

**Deficit (general government):** the general government's net borrowing, i.e. the difference between total government revenue and total government expenditure.

**Deficit ratio (general government):** the ratio of the general government deficit to GDP at current market prices. It is the subject of one of the fiscal criteria laid down in Article 104 (2) of the Treaty establishing the European Community to define the existence of an excessive deficit. It is also referred to as the budget deficit ratio or the fiscal deficit ratio.

**Deposit facility:** a standing facility of the Eurosystem which counterparties may use to make overnight deposits, remunerated at a pre-specified interest rate, at a national central bank.

**Direct investment:** cross-border investment for the purpose of obtaining a lasting interest in an enterprise resident in another economy (assumed, in practice, for ownership of at least 10% of the ordinary shares or voting power). Included are equity capital, reinvested earnings and other capital associated with inter-company operations. The direct investment account records net transactions/positions in assets abroad by euro area residents (as "direct investment abroad") and net transactions/positions in euro area assets by non-residents (as "direct investment in the euro area").

**Effective exchange rates (EERs) of the euro (nominal/real):** weighted averages of bilateral euro exchange rates against the currencies of the euro area's main trading partners. The ECB publishes nominal EER indices for the euro against two groups of trading partners: the EER-23 (comprising the 13 non-euro area EU Member States and the 10 main trading partners outside the EU) and the EER-42 (composed of the EER-23 and 19 additional countries). The weights used reflect the share of each partner country in euro area trade and account for competition in third markets. Real EERs are nominal EERs deflated by a weighted average of foreign, relative to domestic, prices or costs. They are thus measures of price and cost competitiveness.

**EONIA (euro overnight index average):** a measure of the effective interest rate prevailing in the euro interbank overnight market. It is calculated as a weighted average of the interest rates on unsecured overnight lending transactions denominated in euro, as reported by a panel of contributing banks.

**Equities:** securities representing ownership of a stake in a corporation. They comprise shares traded on stock exchanges (quoted shares), unquoted shares and other forms of equity. Equities usually produce income in the form of dividends.

**ERM II (exchange rate mechanism II):** the exchange rate arrangement that provides the framework for exchange rate policy cooperation between the euro area countries and the EU Member States not participating in Stage Three of EMU.

**EURIBOR (euro interbank offered rate):** the rate at which a prime bank is willing to lend funds in euro to another prime bank, computed daily for interbank deposits with different maturities of up to 12 months.

**European Commission surveys:** harmonised surveys of business and/or consumer sentiment conducted on behalf of the European Commission in each of the EU Member States. Such questionnaire-based surveys are addressed to managers in the manufacturing, construction,

retail and services sectors, as well as to consumers. From each monthly survey, composite indicators are calculated that summarise the replies to a number of different questions in a single indicator (confidence indicators).

**Eurozone Purchasing Managers' Surveys:** surveys of business conditions in manufacturing and in services industries conducted for a number of countries in the euro area and used to compile indices. The Eurozone Manufacturing Purchasing Managers' Index (PMI) is a weighted indicator calculated from indices of output, new orders, employment, suppliers' delivery times and stocks of purchases. The services sector survey asks questions on business activity, expectations of future business activity, the amount of business outstanding, incoming new business, employment, input prices and prices charged. The Eurozone Composite Index is calculated by combining the results from the manufacturing and services sector surveys.

**External trade in goods:** exports and imports of goods with countries outside the euro area, measured in terms of value and as indices of volume and unit value. External trade statistics are not comparable with the exports and imports recorded in the national accounts, as the latter include both intra-euro area and extra-euro area transactions, and also combine goods and services. Nor are they fully comparable with the goods item in b.o.p. statistics. Besides methodological adjustments, the main difference is to be found in the fact that imports in external trade statistics are recorded including insurance and freight services, whereas they are recorded free on board in the goods item in the b.o.p. statistics.

**Fixed rate tender:** a tender procedure in which the interest rate is specified in advance by the central bank and in which participating counterparties bid the amount of money they wish to transact at the fixed interest rate.

**General government:** a sector defined in the ESA 95 as comprising resident entities that are engaged primarily in the production of non-market goods and services intended for individual and collective consumption and/or in the redistribution of national income and wealth. Included are central, regional and local government authorities as well as social security funds. Excluded are government-owned entities that conduct commercial operations, such as public enterprises.

**Gross domestic product (GDP):** the value of an economy's total output of goods and services less intermediate consumption, plus net taxes on products and imports. GDP can be broken down by output, expenditure or income components. The main expenditure aggregates that make up GDP are household final consumption, government final consumption, gross fixed capital formation, changes in inventories, and imports and exports of goods and services (including intra-euro area trade).

**Gross monthly earnings:** gross monthly wages and salaries of employees, including employees' social security contributions.

**Harmonised Index of Consumer Prices (HICP):** a measure of consumer prices that is compiled by Eurostat and harmonised for all EU Member States.



**Hourly labour cost index:** a measure of labour costs, including gross wages and salaries (as well as bonuses of all kinds), employers' social security contributions and other labour costs (such as vocational training costs, recruitment costs and employment-related taxes), net of subsidies, per hour actually worked. Hourly costs are obtained by dividing the sum total of these costs for all employees by the sum total of all hours worked by them (including overtime).

**Implied volatility:** a measure of expected volatility (standard deviation in terms of annualised percentage changes) in the prices of, for example, bonds and stocks (or of corresponding futures contracts), which can be extracted from option prices.

**Index of negotiated wages:** a measure of the direct outcome of collective bargaining in terms of basic pay (i.e. excluding bonuses) at the euro area level. It refers to the implied average change in monthly wages and salaries.

**Industrial producer prices:** factory-gate prices (transportation costs are not included) of all products sold by industry excluding construction on the domestic markets of the euro area countries, excluding imports.

**Industrial production:** the gross value added created by industry at constant prices.

**Inflation-indexed government bonds:** debt securities issued by the general government, the coupon payments and principal of which are linked to a specific consumer price index.

**International investment position (i.i.p.):** the value and composition of an economy's outstanding net financial claims on (or financial liabilities to) the rest of the world.

**Job vacancies:** a collective term covering newly created jobs, unoccupied jobs or jobs about to become vacant in the near future, for which the employer has taken recent active steps to find a suitable candidate.

**Key ECB interest rates:** the interest rates, set by the Governing Council, which reflect the monetary policy stance of the ECB. They are the minimum bid rate on the main refinancing operations, the interest rate on the marginal lending facility and the interest rate on the deposit facility.

**Labour force:** the sum total of persons in employment and the number of unemployed.

**Labour productivity:** the output that can be produced with a given input of labour. It can be measured in several ways, but is commonly measured as GDP at constant prices divided by either total employment or total hours worked.

**Longer-term refinancing operation:** a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a monthly standard tender and normally have a maturity of three months.

**M1:** a narrow monetary aggregate that comprises currency in circulation plus overnight deposits held with MFIs and central government (e.g. at the post office or treasury).

**M2:** an intermediate monetary aggregate that comprises M1 plus deposits redeemable at a period of notice of up to and including three months (i.e. short-term savings deposits) and deposits with an agreed maturity of up to and including two years (i.e. short-term time deposits) held with MFIs and central government.

**M3:** a broad monetary aggregate that comprises M2 plus marketable instruments, in particular repurchase agreements, money market fund shares and units, and debt securities with a maturity of up to and including two years issued by MFIs.

**Main refinancing operation:** a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a weekly standard tender and normally have a maturity of one week.

**Marginal lending facility:** a standing facility of the Eurosystem which counterparties may use to receive overnight credit from a national central bank at a pre-specified interest rate against eligible assets.

**MFI credit to euro area residents:** MFI loans granted to non-MFI euro area residents (including the general government and the private sector) and MFI holdings of securities (shares, other equity and debt securities) issued by non-MFI euro area residents.

**MFI interest rates:** the interest rates that are applied by resident credit institutions and other MFIs, excluding central banks and money market funds, to euro-denominated deposits and loans vis-à-vis households and non-financial corporations resident in the euro area.

**MFI longer-term financial liabilities:** deposits with an agreed maturity of over two years, deposits redeemable at a period of notice of over three months, debt securities issued by euro area MFIs with an original maturity of more than two years and the capital and reserves of the euro area MFI sector.

**MFI net external assets:** the external assets of the euro area MFI sector (such as gold, foreign currency banknotes and coins, securities issued by non-euro area residents and loans granted to non-euro area residents) minus the external liabilities of the euro area MFI sector (such as non-euro area residents' deposits and repurchase agreements, as well as their holdings of money market fund shares/units and debt securities issued by MFIs with a maturity of up to and including two years).

**MFIs (monetary financial institutions):** financial institutions which together form the money-issuing sector of the euro area. These include the Eurosystem, resident credit institutions (as defined in Community law) and all other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credit and/or invest in securities. The latter group consists predominantly of money market funds.

**Portfolio investment:** euro area residents' net transactions and/or positions in securities issued by non-residents of the euro area ("assets") and non-residents' net transactions and/or positions in securities issued by euro area residents ("liabilities"). Included are equity securities and debt securities (bonds and notes, and money market instruments). Transactions are recorded at the effective price paid or received, less commissions and expenses. To be regarded as a portfolio asset, ownership in an enterprise must be equivalent to less than 10% of the ordinary shares or voting power.

**Price stability:** the maintenance of price stability is the primary objective of the Eurosystem. The Governing Council defines price stability as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%. The Governing Council has also made it clear that, in the pursuit of price stability, it aims to maintain inflation rates below, but close to, 2% over the medium term.

**Reference value for M3 growth:** the annual growth rate of M3 over the medium term that is consistent with the maintenance of price stability. At present, the reference value for annual M3 growth is 4½%.

**Reserve requirement:** the minimum amount of reserves a credit institution is required to hold with the Eurosystem. Compliance is determined on the basis of the average of the daily balances over a maintenance period of around one month.

**Survey of Professional Forecasters (SPF):** a quarterly survey that has been conducted by the ECB since 1999 to collect macroeconomic forecasts on euro area inflation, real GDP growth and unemployment from a panel of experts affiliated to financial and non-financial organisations based in the EU.

**Unit labour costs:** a measure of total labour costs per unit of output calculated for the euro area as the ratio of total compensation per employee to GDP at constant prices per person employed.

**Variable rate tender:** a tender procedure where the counterparties bid both the amount of money they wish to transact with the central bank and the interest rate at which they wish to enter into the transaction.

**Yield curve:** a curve describing the relationship between the interest rate or yield and the maturity at a given point in time for debt securities with the same credit risk but different maturity dates. The slope of the yield curve can be measured as the difference between the interest rates at two selected maturities.

