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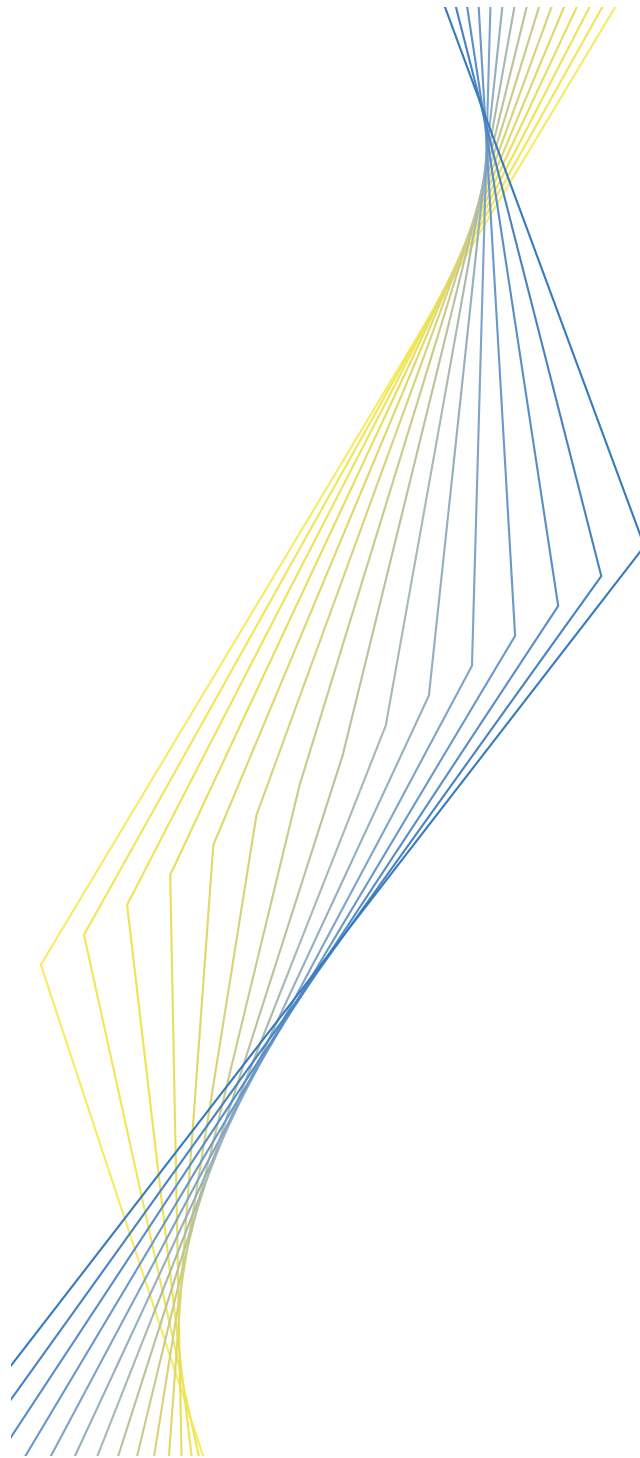
MONTHLY BULLETIN March 1999

**M O N T H L Y
B U L L E T I N**

March 1999



EUROPEAN CENTRAL BANK



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The cut-off date for the statistics included in this issue was 4 March 1999.

ISSN 1561-0136

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Abbreviations

Countries

BE	Belgium
DK	Denmark
DE	Germany
GR	Greece
ES	Spain
FR	France
IE	Ireland
IT	Italy
LU	Luxembourg
NL	Netherlands
AT	Austria
PT	Portugal
FI	Finland
SE	Sweden
UK	United Kingdom
JP	Japan
US	United States

Others

ACEA/A.A.A.	European Automobile Manufacturers' Association
BIS	Bank for International Settlements
BPM4	IMF Balance of Payments Manual (4th edition)
BPM5	IMF Balance of Payments Manual (5th edition)
CDs	Certificates of deposit
C.i.f.	Cost, insurance and freight at the importer's border
CPI	Consumer Price Index
ECB	European Central Bank
ECU	European Currency Unit
EMI	European Monetary Institute
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
ILO	International Labour Organisation
IMF	International Monetary Fund
MFIs	Monetary Financial Institutions
NCBs	National central banks
Repos	Repurchase agreements
SITC Rev. 3	Standard International Trade Classification (revision 3)

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

The Eurosystem has assumed responsibility for the single monetary policy at a time when inflation rates are compatible with price stability and when prospects for the maintenance of price stability are favourable. Over the first two months of 1999 this picture remained broadly unchanged, reflecting the absence of significant pressures on prices – either upwards or downwards – which would have warranted a change in the monetary policy stance.

Against this background, the Eurosystem has conducted all its main refinancing operations as fixed rate tenders at a rate of 3.0% since the start of Stage Three of Economic and Monetary Union (EMU). Following its meeting on 4 March 1999, the last before the publication of this issue of the Monthly Bulletin, the Governing Council of the ECB announced that it would maintain the main refinancing rate of 3.0% also for the operations to be settled on 10 and 17 March 1999. Furthermore, the Governing Council decided to keep the interest rates applicable to the deposit facility and the marginal lending facility unchanged at 2.0% and 4.5% respectively.

These decisions were made against the background of the stability-oriented monetary policy strategy of the Eurosystem, which is based on two pillars, namely a prominent role for money and a broadly based assessment of the outlook for price developments and the risks to price stability, using financial and other economic indicators.

With regard to the first pillar, in December 1998 the Governing Council announced a reference value of 4½% for the growth of the broad monetary aggregate M3. Since monthly data for monetary aggregates can be rather volatile, the Governing Council decided to focus in its strategy not on outturns for a single month but instead on the three-month moving average of the 12-month growth rate of this broad monetary aggregate. The latest three-month moving average of M3 growth (covering the period from November 1998 to January 1999) was 4.9%, which – although

up from 4.6% in the previous three-month period – is still close to the reference value of 4½%.

The monetary data for January 1999 showed an increase in the annual growth rate of M3 to 5.7% from 4.5% in December 1998. The acceleration of M3 was due to a large extent to a significant increase in the rate of growth of overnight deposits. This increase was largely attributable to low levels of short-term and long-term interest rates and the environment of price stability in the euro area, as well as to technical factors related to the start of Stage Three of EMU and the introduction of the euro. Against this background, and in view of the uncertainty relating to special factors pertaining to the start of Stage Three, the Governing Council did not consider the acceleration of M3 in January 1999 as a signal of upcoming inflationary pressures. However, close monitoring of monetary developments in the coming months will remain necessary to provide more conclusive evidence as regards the underlying causes of the rise in M3 growth and on whether this rise is likely to be permanent or temporary in nature.

A further remarkable feature of the monetary situation in the first month of Stage Three was the fact that credit to the private sector accelerated further (the 12-month growth rate reached 10.5% in January 1999, compared with 9.1% in December 1998). In part, this reflected the fact that the costs of bank loans extended to non-financial firms and households in the euro area have rarely been as favourable as they are at present.

Turning to the second pillar of the monetary policy strategy, recent evidence from financial and other economic indicators has pointed in different directions. The steady decline of long-term nominal interest rates throughout most of 1998 and in January 1999 came to an end in February 1999. Between end-January and 4 March 1999 bond yields rose, mainly driven by global factors. As a consequence, the euro area yield curve shifted upwards at all maturities, in particular at the longer end,

while the spread of nominal government bond yields over the comparable yield on an inflation index-linked bond issued in the euro area increased.

Domestic factors behind these developments in financial markets may be the increased uncertainties about the political support for a stability-oriented monetary policy, as well as over the future course of fiscal policy in the euro area – in particular, whether the requirements of the Stability and Growth Pact will be met in the near term, or conversely whether fiscal deficit-to-GDP ratios risk reaching or exceeding the 3% reference value. This quarterly version of the Monthly Bulletin reviews the current fiscal situation in the euro area in some detail in the section entitled “Economic developments in the euro area”.

Recent information on indicators of economic activity in the euro area provided evidence of a sizable slowdown in the fourth quarter of 1998. Eurostat’s first estimate of real GDP growth in the fourth quarter of 1998 was 0.2% (quarter-on-quarter), down from 0.7% in the third quarter of 1998. Production in the manufacturing sector fell by almost 1% in the fourth quarter of 1998 compared with the previous quarter. In addition, assessing more forward-looking or coincident indicators, the deterioration in industrial confidence has continued into 1999. At the same time, according to February 1999 data released by the European Commission, consumer confidence remained unchanged from the record high levels observed at the beginning of the year.

The standardised unemployment rate in the euro area declined slightly to 10.6% in January 1999 after having remained unchanged at 10.7% from October to December 1998. However, the situation differs across sectors. According to the EC Business Survey, expectations for employment in construction and the retail trade remained broadly favourable up to February 1999. By contrast, the latest data available on expectations for employment in manufacturing show that these have deteriorated since last autumn.

More recently, external developments have shown some signs of improvement, even though uncertainties remain with regard to their influence on the euro area. In particular, the latest data available support the view of continuing strong output growth in the United States and show signs of improvement in the real economies of some Asian countries. By contrast, developments in Brazil, following the crisis in January 1999, continued to be a source of concern. In Japan economic prospects remained bleak.

Recent price developments in the euro area do not appear to signal a threat to future price stability. The HICP inflation rate for the euro area was 0.8% in January 1999 – unchanged from the level recorded in November and December 1998. This reflected the fact that the decline in the rate of increase in the price of services was offset by a slight increase in the rate of change in goods prices. The increase in the latter item was mainly the result of a deceleration in the fall in energy prices in January 1999.

Taking account of all relevant indicators, the overall outlook for price stability has remained favourable. In the light of recent developments in real economy indicators, and taking into account the current level of HICP inflation rates, it appears that there is no major risk of HICP inflation exceeding the 2% ceiling in the near future. At the same time, the pattern of upward and downward risks to price stability has remained broadly unchanged on balance. On the downside, there is a slowdown in the euro area economy. There is also the risk that a continuing decline in industrial producer prices may lead to further downward pressure on prices for consumer goods. On the upside, some recent wage settlements indicate that the very subdued growth or even decline in unit labour costs seen in 1998 may not continue in the period ahead. Furthermore, the weakening of the euro, through its effects on economic activity and import costs, could place some upward pressure on industrial and consumer prices. Finally, any easing of fiscal policies would

be a cause for concern and monetary developments do not point in a downward direction. Taken together, all these factors argue in favour of an unchanged monetary policy stance.

The current stance of monetary policy is appropriate not only to maintain price stability, but also to support economic growth and employment. The low levels of short-term interest rates, both in nominal and in real terms, represent a significant decline compared with the levels prevailing a year ago. At the same time, nominal and real long-term interest rates, even after their rise in February 1999, are still at relatively low levels

when viewed in the context of historical patterns and when compared with international levels. Furthermore, the fact that credit to the private sector is increasing at a high and accelerating pace suggests that financing conditions for households and enterprises are indeed very favourable at this juncture. However, in order to translate this favourable environment into more investment, higher output growth and lower unemployment, confidence needs to be supported. Priority needs to be given to removing the structural impediments to a higher level of economic activity in the euro area.

Economic developments in the euro area

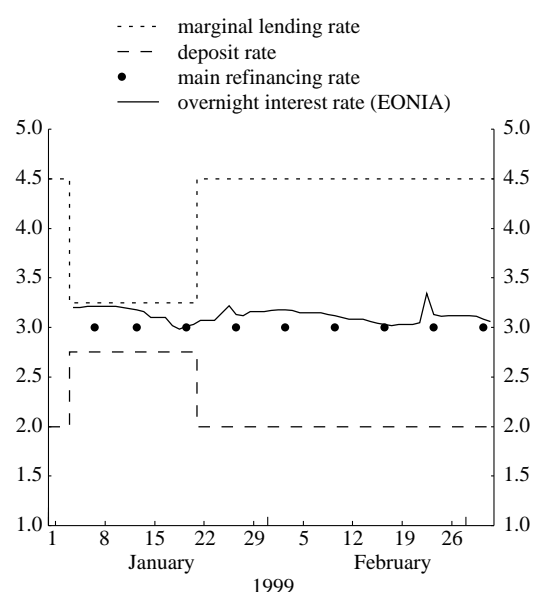
I Monetary and financial developments

Monetary policy decisions by the Governing Council of the ECB

In the first two months of Stage Three of EMU the Governing Council of the ECB decided to conduct the main refinancing operations of the Eurosystem as fixed rate tenders at a rate of 3.0%. This ECB interest rate was identical to the level to which the key national central bank interest rates were lowered towards the end of 1998. Following its meeting on 4 March 1999 the Governing Council announced that it would maintain the main refinancing rate of 3.0% for the operations to be settled on 10 and 17 March 1999. On that occasion, the Governing Council also decided to keep the interest rates applicable to the deposit facility and the marginal lending facility unchanged at 2.0% and 4.5% respectively. As explained in detail in the "Editorial" section of this Bulletin, these decisions were deemed appropriate in view of the favourable overall assessment regarding the medium-term outlook for price stability in the euro area.

Chart I
ECB interest rates and the overnight market interest rate

(percentages per annum; daily data)



Source: ECB.

Monetary growth affected by the transition to Stage Three of EMU

In January 1999 the 12-month growth rate of the broad monetary aggregate M3 increased to 5.7% from a level of 4.5% in December 1998. Since monthly data on monetary aggregates can be rather volatile, the Governing Council decided in December 1998 to monitor monetary developments against the reference value for M3 in terms of a three-month moving average of 12-month growth rates. The latest three-month moving average of M3 growth (covering the period from November 1998 to January 1999) stood at 4.9%. This was 0.3 percentage point higher than that recorded over the three-month period between October and December 1998. However, it still remained close to the reference value of 4½% set by the Governing Council for M3 growth.

The 12-month growth rate recorded in January 1999 is the highest since June 1996. Between those two months M3 recorded a steady pace of growth of between 3.5% and 5.5%. The increase in M3 growth in January 1999 was due to a pronounced increase in the rate of growth of overnight deposits (18.3% on a 12-month basis, compared with 11.4% in December 1998). By contrast, other deposits included in M3 showed a moderate slowdown and marketable instruments in M3 continued to decline.

The strong pace of growth of overnight deposits caused the growth of M1 to increase at an annual rate of 14.9% in January 1999. This was significantly higher than the annual rate of growth of 9.4% recorded in December 1998. As in 1998, the high rate of growth of overnight deposits in January 1999 was mainly due to the historically low level of nominal and real interest rates, as well as to the environment of price stability in the euro area. Both of these factors contributed to lowering the opportunity cost of holding short-term deposits, thereby making them more attractive. The expansion of overnight

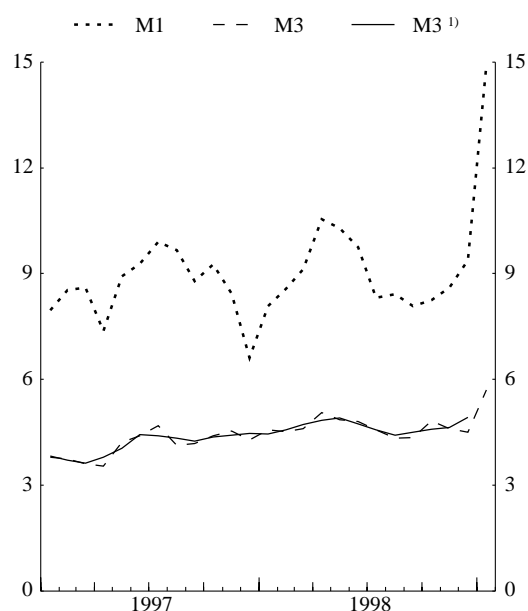
deposits may, however, also have reflected a cautious attitude on the part of investors in the euro area in January 1999 in a climate of uncertainty which was related, on the one hand, to the process of learning to cope with the new environment of Stage Three of EMU and, on the other, to the high level of volatility in international financial markets as a result of developments in Latin America. Furthermore, the acceleration of overnight deposits recorded in January 1999 may have reflected technical factors linked to the start of Stage Three and the introduction of the euro which, in the short term, may have stimulated the demand for liquid balances.

Given the uncertainty relating to special factors at the start of Stage Three, it would not be warranted to consider the acceleration of overnight deposits to be a signal of upcoming inflationary pressures in the euro area. However, due attention will have to be paid to the development of this component of M3 as time passes and the influence of these special factors wanes.

The 12-month growth rate of other deposits included in M3 fell to 2.2% in January 1999, compared with 2.9% in December 1998. This reflected a further decline in the growth of deposits with an agreed maturity of up to two years and a stable rate of growth of deposits redeemable at notice of up to three months. Still, reflecting the strong growth of narrow money, the intermediate monetary aggregate M2 accelerated significantly to a 12-month growth rate of 7.6% in January 1999 from 5.8% in December 1998.

Finally, the marketable instruments included in M3 continued their declining trend in January 1999. The 12-month growth rate of this component slipped to -5.8% in January 1999, compared with -3.5% in December 1998. This development reflected contrasting movements in the individual sub-components. On the one hand, the growth of money market fund shares/units and money market paper accelerated (to 8.2% on a 12-month basis, up from 3.1% in December 1998); on the other, a further contraction was recorded

Chart 2
Monetary aggregates in the euro area
(annual percentage changes)



Source: ECB.
 1) Three-month centred moving average.

in repurchase agreements (-20.0%, compared with -13.3% in December 1998) and in debt securities issued with a maturity of up to two years (-22.5%, compared with -3.7% in the previous month).

Credit growth remained strong

Regarding the counterparts of M3, total credit to euro area residents accelerated further, with the 12-month growth rate reaching 7.8% in January 1999, compared with 7.0% in December 1998. This increase was accounted for by the higher 12-month growth rate of credit to the private sector, which reached 10.5% in January 1999, compared with 9.1% in the previous month.

Several factors underlie the high and accelerating pace of credit growth, which was observed already in 1998. Most importantly, in recent years retail bank lending rates have declined significantly in the euro area. In fact, the financing conditions on bank loans extended to non-financial firms and households have rarely been as favourable in

the euro area as they were in early 1999. In addition, the dynamic economic expansion in some parts of the euro area during 1998 contributed to the stronger growth of loans to the private sector. Furthermore, the strong rise in land and housing prices in some euro area countries has contributed to a rising demand for mortgage lending.

By contrast, the 12-month growth rate of credit to general government has remained very subdued. In January 1999 it stood at 0.8%, compared with a rate of 1.5% in December 1998. The annual rate of change of loans to general government was 2.2% in January 1999, compared with -0.1% in December 1998, while MFIs' holdings of public sector debt securities decreased at an annual rate of -0.1% in January 1999, compared with an annual increase of 2.7% in December 1998.

Among the other counterparts of M3, the longer-term financial liabilities of the MFI sector (comprising longer-term deposits, debt securities issued by MFIs and MFIs' capital and reserves) expanded at an annual rate of 5.1% in January 1999 (up from 2.4% in December 1998). The increase in the growth of this component was mainly the result of a stronger increase in MFIs' capital and reserves and in debt securities issued by MFIs with a maturity of more than two years. The relatively strong increase in the latter item may be due to the fact that the reserve requirement which some euro area countries applied to these instruments until end-1998 no longer applied as from the start of Stage Three.

Finally, the rate of growth of both external assets and liabilities of the MFI sector increased significantly in January 1999. This was partly due to temporary gross balances of euro area credit institutions vis-à-vis financial institutions outside the euro area, of an amount of approximately €75 billion, relating to the operation of the TARGET system. These gross balances, which have no economic significance, were unwound in February 1999. On balance, in January 1999

the net external asset position of the MFI sector deteriorated by a non-seasonally adjusted €35.6 billion compared with the level recorded in December 1998.

Overnight interest rate fluctuated above the main refinancing rate

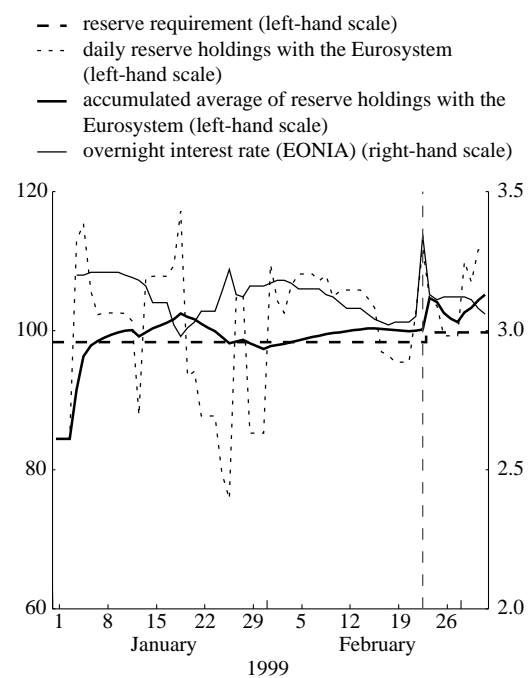
The overnight interest rate, as measured by the EONIA ("euro overnight index average", i.e. the weighted average of the rates on unsecured overnight contracts reported by a panel of major credit institutions in the euro area), fluctuated for most of the first two months of Stage Three slightly above the rate which was applied to the main refinancing operations of the Eurosystem (see Chart 1). As can be seen from Chart 3, these fluctuations broadly mirrored the pattern of the accumulated reserve position of credit institutions as measured by the difference between the accumulated amount of reserve holdings of credit institutions with the Eurosystem and their aggregate reserve requirement. By contrast, movements in the overnight interest rate were not related to transitory daily fluctuations in the reserve holdings to any noticeable extent. This indicates that credit institutions were already making effective use of the averaging provision of the minimum reserve system from the start of the first maintenance period of Stage Three, which ran from 1 January to 23 February 1999. This allowed them to smooth most of the daily fluctuations in the market's liquidity (due, for example, to changes in Treasury accounts with NCBs or to variations in the demand for banknotes; see the upper panel of Chart 4).

In a minimum reserve system with an averaging provision, the volatility of the overnight interest rate is typically higher on the last day of the maintenance period, since only on that day does the reserve requirement become binding. Indeed, on 23 February 1999 the overnight interest rate increased by around 30 basis points from the level of the previous day, to 3.34%. Access to the marginal lending facility on that day

was above €23 billion, indicating that many credit institutions still needed funds to fulfil their reserve requirement until the very last moment. However, it is notable that the sharp rise in the overnight interest rate and the recourse to the marginal lending facility occurred against the background of a surplus reserve position of the banking system as a whole. If measured over the whole of the first maintenance period, the average daily amount of current account holdings was €100.2 billion (see Table 1). Around €0.9 billion of this amount reflected holdings of credit institutions which were not eligible for use in fulfilling the reserve requirement and were mainly related to the participation in payment systems. The remaining €99.3 billion reflected eligible current account holdings of credit institutions that were subject to the reserve requirement. About €1.1 billion of this amount was held in excess of this requirement. In principle, these excess

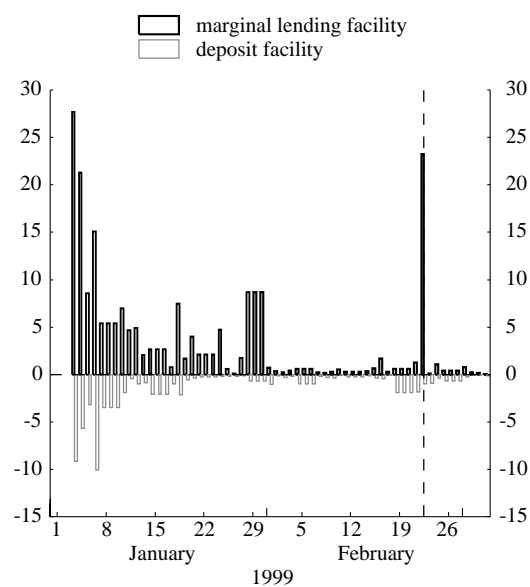
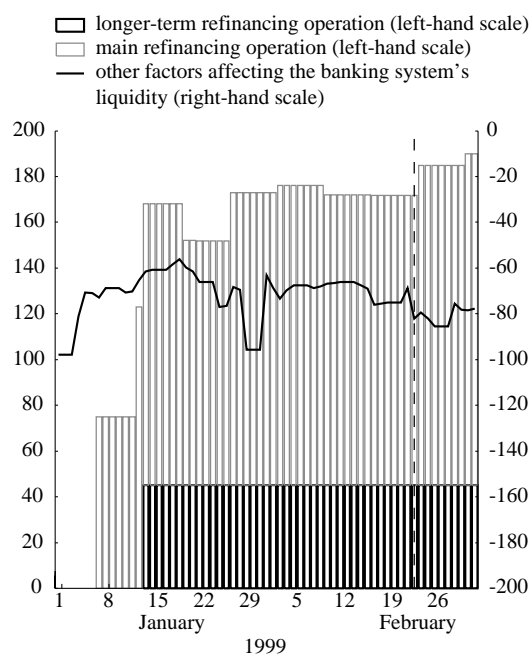
reserves could have been traded in the money market or placed with the deposit facility of the Eurosystem. The amount of excess reserves may decline over time as

Chart 3
Banking liquidity and the overnight market interest rate
(EUR billions; daily data)



Source: ECB.
Note: Overnight interest rate in percentages per annum. The vertical dotted line indicates the end of the first reserve maintenance period.

Chart 4
Factors contributing to the banking system's liquidity
(EUR billions; daily data)



Source: ECB.
Note: The vertical dotted line indicates the end of the first reserve maintenance period.

credit institutions adapt to the functioning of the Eurosystem's operational framework.

Table I, which was discussed in detail on page 12 of the February 1999 issue of the Monthly Bulletin, provides an overview of the factors contributing to the liquidity of the banking system throughout the whole of the first maintenance period of Stage Three. The figures in Table I are presented as daily averages. The table shows that during the first maintenance period approximately two-thirds of the liquidity provided by the Eurosystem's monetary policy instruments was supplied through the main refinancing operations (€104.6 billion). The amount of liquidity supplied through the longer-term refinancing operation was €45 billion, but, as this operation was not settled until 14 January 1999, the average daily amount provided through this operation was only €34.2 billion. The net recourse to the standing facilities, computed as the difference between the recourse to the marginal lending facility and

that to the deposit facility, was €2.4 billion on average. As can be seen from the lower panel of Chart 4, the recourse to these standing facilities has fallen considerably over time. Since the interest rate corridor of the Eurosystem's standing facilities was widened on 22 January 1999, significant amounts were only borrowed or deposited on the occasion of an incident in the TARGET system on 29 January 1999 and on the last day of the first maintenance period (23 February 1999). Finally, monetary policy operations which were initiated by NCBs during 1998 and which gradually matured during the first few weeks of January 1999 provided the banking system with an average amount of liquidity of €30.6 billion during the first maintenance period.

Owing to the need to phase in the operational framework of the Eurosystem, the length of the first maintenance period in Stage Three was – exceptionally – 54 days. Subsequent maintenance periods will cover

Table I
Contributions to the banking system's liquidity

(EUR billions)

Daily average during the first maintenance period (1 January to 23 February 1999)

		Liquidity providing	Liquidity absorbing	Net contribution
Monetary policy operations of the Eurosystem				
Main refinancing operations		104.6	-	+ 104.6
Longer-term refinancing operations		34.2	-	+ 34.2
Standing facilities		3.8	1.3	+ 2.4
Other operations		0.0	0.0	0.0
Stage Two monetary policy operations (net) ¹⁾		30.6	0.0	+ 30.6
TOTAL	(a)	173.2	1.3	+ 171.8
Other factors affecting the banking system's liquidity				
Banknotes in circulation		-	329.3	- 329.3
Government deposits with the Eurosystem		-	41.1	- 41.1
Net foreign assets (including gold)		328.2	-	+ 328.2
Other factors (net)		-	29.4	- 29.4
TOTAL	(b)	328.2	399.8	- 71.6
Credit institutions' holdings on current accounts with the Eurosystem				
	(c) = (a) + (b)			100.2
Of which eligible for use in fulfilling the reserve requirement	(d)			99.3
Required reserves	(e)			98.3
Excess reserves	(f) = (d) - (e)			1.1

Totals may not add up due to rounding.

1) Monetary policy operations initiated by national central banks in Stage Two and outstanding at the start of Stage Three (excluding outright operations and the issuance of debt certificates).

the duration of a full month, starting on the 24th day and ending on the 23rd day of the following month. In the first two main refinancing operations during the maintenance period which started on 24 February 1999, the Eurosystem provided a higher volume of liquidity than in previous such operations, but it kept the volume outstanding for its longer-term refinancing operations constant. The higher provision of liquidity took into account, to some extent, the fact that the reserve requirement for the second maintenance period was estimated to be above that for the first maintenance period, reflecting the growth of overnight deposits in January 1999, as well as projections of the other factors affecting the banking system's liquidity position.

Broadly stable three-month interest rate

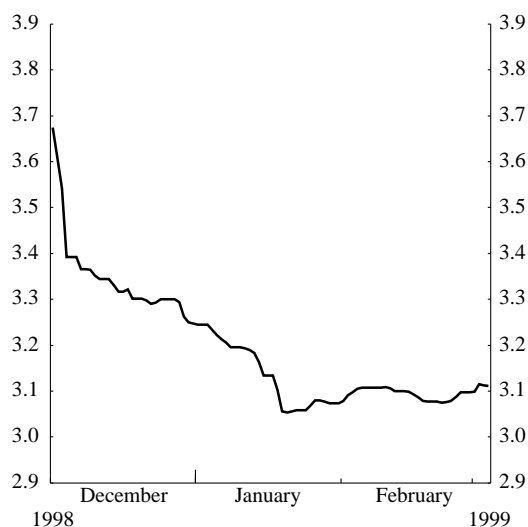
The three-month market interest rate fell continuously in 1998 and stabilised in the second half of January 1999. Between then and 4 March 1999 this rate, as measured by the EURIBOR, showed moderate fluctuations in a narrow range around 3.10%. On 4 March 1999, the cut-off date for the data contained in this issue of the Monthly Bulletin, the three-month EURIBOR stood at 3.11%, i.e. slightly above the level recorded at end-January, while it was around 13 basis points below its level at the beginning of the year (see Chart 5). The relative stability of the three-month interest rate since mid-January shows that the temporary movements in the overnight interest rate, in particular at the end of the reserve maintenance period (23 February 1999), were not transmitted to longer maturities.

The outcome of the second longer-term refinancing operation of the Eurosystem, which was conducted as a variable rate tender and settled on 25 February with a three-month maturity, was a rate of 3.04%. As the allotment volume of the longer-term refinancing operation was announced in advance by the Eurosystem, this rate

reflected market conditions and should not be regarded as a monetary policy signal. The occurrence of a small negative spread between the longer-term refinancing rate and the three-month EURIBOR rate prevailing on that date is not surprising in this respect. It can be partly attributed to the fact that the transactions underlying the calculation of the EURIBOR are unsecured, implying that the EURIBOR embodies a higher risk premium.

After January 1999 had seen increasing market expectations of a decline in short-term interest rates in the remainder of 1999, these expectations receded during February 1999 and almost disappeared in early March 1999. On 4 March 1999 the three-month interest rate on the euro for futures contracts with delivery in June and September 1999 was equal to 3.04%, i.e. slightly below the spot rate prevailing on that date. This corresponds to an increase in the futures rates for these contracts of approximately 20-25 basis points since the end of January 1999. The one-month futures rate on EURIBOR showed a similar upward revision.

Chart 5
Three-month interest rate in the euro area
(percentages per annum; daily data)



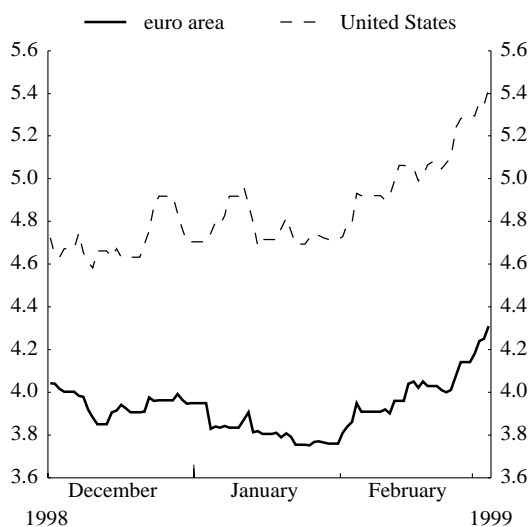
Source: ECB.
 Note: Euro area average of national three-month interbank rates until 29 December 1998; three-month EURIBOR from 30 December 1998 onwards.

Reversal of trend in long-term bond yields caused by global factors

Subsequent to the declines observed throughout 1998 and in January 1999, 10-year government bond yields across the euro area fell to the lowest levels seen since the late 1940s. This declining trend was, however, reversed in February 1999 when long-term interest rates in the euro area rose significantly. On 4 March 1999, the cut-off date for the data contained in this issue of the Monthly Bulletin, the average 10-year government bond yield in the euro area stood at 4.31%. This was more than 50 basis points higher than the level seen at end-January 1999 (see Chart 6) and this increase brought long-term interest rates in the euro area back to the levels observed in autumn 1998. Although domestic factors appear to have played some role in this sharp movement, the key influence was the spillover of a distinct financial market reassessment of the economic situation and prospects in the United States. Nevertheless, despite this global spillover, bond market developments in the euro area remained decoupled somewhat from developments in the

Chart 6
Long-term government bond yields in the euro area and the United States

(percentages per annum; daily data)

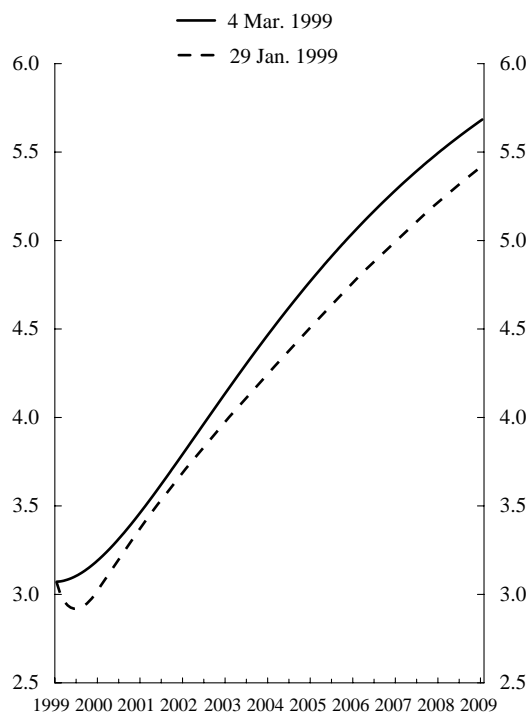


Sources: ECB, BIS and Reuters.

Note: Long-term government bond yields refer to 10-year bonds or to the closest available bond maturity. For further information on the data used, see the respective tables and charts in the "Euro area statistics" section of this Bulletin.

Chart 7
Implied forward euro area overnight interest rates

(percentages per annum; daily data; end-period)



Source: ECB estimation. The implied forward yield curve, which is derived from the market observed term structure of interest rates, reflects the market expectation of future levels for short-term interest rates. The method used to compute these implied forward yield curves was outlined on page 26 of the January 1999 issue of the Monthly Bulletin. The data used in the estimation are derived from swap contracts.

United States as the differential between 10-year yields in the United States and comparable yields in the euro area widened by about 15 basis points between end-January 1999 and 4 March 1999 to stand at around 110 basis points.

The catalyst for this turnaround in financial market sentiment about the United States was the publication of GDP data for the final quarter of 1998. Subsequent to this, a stream of economic indicators confirmed the view of the robustness of the US economy. This led to a significant steepening of the yield curve in the United States. In addition to these developments in the United States, euro area bond markets were influenced by spillovers emanating from Japan which were related to financial market concerns about imbalances between supply and demand in the Japanese

government bond market. However, the spillovers related to these concerns tended to influence more the volatility than the level of yields in the euro area.

Apart from these global influences, other factors may have placed upward pressure on euro area bond yields. In this regard, the depreciation of the euro vis-à-vis the US dollar in the first two months of 1999 may have played a role. Other influences may have included some reversal of earlier “safe-haven” flows that had partly facilitated the decline in long-term bond yields in the euro area to the exceptionally low levels seen in January 1999. In addition, a relatively high level of issuance activity for bonds

denominated in euro in both the sovereign and the corporate sectors may have added to these upward pressures. Furthermore, it cannot be excluded that increased uncertainty about the political support for a stability-oriented monetary and fiscal policy has contributed to this development. At the same time, the widening of the spread vis-à-vis yields with a comparable maturity in the United States shows that other domestic factors played an offsetting role. In particular, the euro area bond market seems to have been influenced by expectations of a slower pace of future economic activity that may have been triggered by a number of weak domestic real economy indicators in some countries released by end-February 1999.

Box I

Key issues for the analysis of real interest rates in the euro area

A real interest rate is defined as a nominal interest rate corrected for a measure of expected inflation; therefore, it measures the anticipated real return of an investment. This Box addresses some issues that arise in the measurement of real interest rates and presents a description of the evolution of real rates in the euro area in the past.

In constructing real interest rates, one difficult measurement issue is how inflation expectations, which are not observable, are computed. The simplest approach, which may work well over shorter horizons, is to assume that expectations simply reflect past developments, so that the best forecast of future inflation is its most recent level. However, for horizons longer than a few months the difference between current and future inflation may not be negligible. When calculating long-term real interest rates, this distortion is likely to be severe. Therefore, a forward-looking approach is typically used in an attempt to estimate long-term inflation expectations, e.g. through simple statistical models of inflation or larger-scale econometric models that take into account information regarding the whole economy. Surveys of inflationary expectations can also be used. In addition, for backward-looking historical analyses over long periods of time, another approach often pursued is to subtract the level of current actual inflation (rather than estimates of expected inflation) from the nominal interest rate, on the assumption that ex post expectations are on average in line with actual outturns.

Regardless of whether an ex ante or ex post approach is adopted, measures of real interest rates are also sensitive to the selection of the price index used to construct them. For the euro area economy, a natural choice for the calculation of the real interest rate is the HICP. However, it is sometimes argued that a measure of (HICP) inflation excluding some of the most volatile components, such as energy prices, is preferable in this context, as it eliminates components of the HICP whose impact on price developments may be transitory. Furthermore, it has also been claimed that a producer price index (PPI) should be used rather than a CPI.

Comparing the industrial PPI (for which a standardised series from January 1991 is available for the euro area) with the evolution of a euro area weighted average of national CPIs (which is strongly correlated with the HICP, but for which a longer series is available than for the HICP), the average CPI inflation rate since 1991 has been equal to 2.9%, while that of the PPI has been 1.3%. In December 1998 the PPI recorded an annual decline of 2.5%, reflecting the fall in commodity and energy prices in 1998. By contrast, HICP inflation was 0.8%. Therefore, average real interest rates constructed using the PPI are higher than those constructed using the HICP, especially at present but also to some extent when computed over the period since 1991.

The argumentation put forward in favour of using the PPI is that it may be more relevant for investment decisions, since it captures the price of firms' output. Investment is often believed to be the most interest rate-sensitive component of aggregate demand and, therefore, an important element of the transmission mechanism. However, there are several reasons why using the PPI is not an appropriate way to construct a measure of the real interest rate. First, the PPI is usually more strongly affected by the price of imported commodities and energy prices than is the HICP. These imported commodities and energy are often important inputs. The profitability of an investment project depends, however, not only on the price of the firm's output, but also on the price of its inputs. Second, the PPI only covers the industrial sector, and thus excludes services. The services sector is a large (and growing) component of the euro area economy. Therefore, the PPI may be unrepresentative of price developments relevant for investment in the area-wide economy as a whole. Finally, consumption demand is also interest-sensitive to some extent. A real interest rate measured using the CPI rather than the PPI is clearly a better measure to use when investigating and assessing individuals' consumption and saving decisions, since it reflects the intertemporal price of consumer goods.

The current level of the *short-term real interest rate* (measured as the difference between the average three-month EURIBOR during February 1999 (3.1%) and the latest outcome for HICP inflation (0.8% in January 1999)) is equal to 2.3% (see first table below). Employing a measure of HICP inflation that excludes energy prices yields a real rate of 1.8%. Using a more sophisticated measure of inflation expectations, namely the latest (December 1998) IMF and OECD inflation forecasts for 1999, leads to a short-term real interest rate equal to 1.7% in 1999.

Measures of the current short-term real interest rate for the euro area

(percentages per annum)

Using most recent headline HICP ¹⁾	2.3
Using most recent HICP excluding energy prices ¹⁾	1.8
Using IMF / OECD (December 1998) projections ^{2) 3)}	1.7

1) Short-term nominal interest rate during February 1999 minus inflation rate in January 1999.

2) Short-term nominal interest rate during February 1999 minus 1999 average forecast inflation. IMF forecast taken from the World Economic Outlook. OECD forecast taken from the Economic Outlook.

3) Consumer price deflator.

The current level of short-term real interest rates in the euro area can be compared with its evolution in the past and with the level in other major industrial countries (see table below). The euro area average over the 1990s – a figure which is affected, inter alia, by exchange rate risk premia and excessive fiscal deficits – is almost twice as high (4.5%) as the current level (2.3%). The current euro area short-term real interest rate is also lower than the German average for both the 1990s (3.2%) and the entire period from 1960 to 1998 (2.8%). Finally, it is also lower than in the United States, where the average level in February 1999 was 3.2%.

Historical short-term and long-term real interest rates ¹⁾

(percentages per annum)

Period	Short-term real interest rate			Long-term real interest rate		
	euro area	Germany	United States	euro area	Germany	United States
1960-69	.	2.2	2.8	.	4.2	2.4
1970-79	.	1.9	0.9	.	3.2	0.5
1980-89	.	3.9	5.0	.	4.8	5.5
1990-98	4.5	3.2	2.3	5.2	4.1	3.9
1960-98	.	2.8	2.8	.	4.1	3.1
Current level ²⁾	2.3	-	3.2	3.2	-	3.3

1) Short-term real interest rates are calculated by subtracting the contemporaneous 12-month CPI inflation rate from the nominal three-month interest rate. Long-term real interest rates are calculated by subtracting the contemporaneous 12-month CPI inflation rate from the 10-year government bond yield. The HICP inflation rate is used for current euro area data.

2) Average of daily observations of the nominal interest rate during February 1999 minus the inflation rate in January 1999.

. not available - not applicable

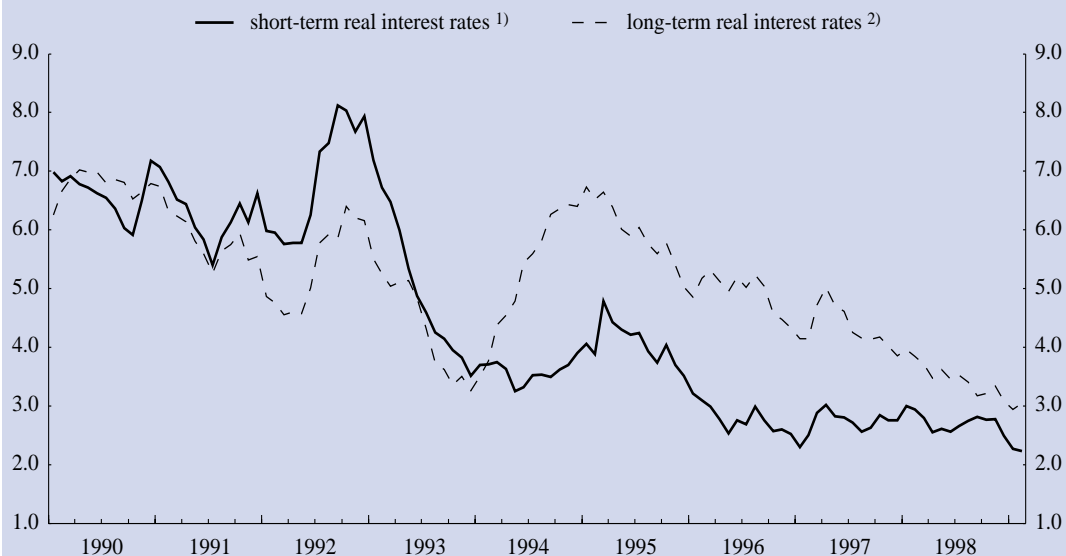
Turning to the *long-term real interest rate* for the euro area (using yields on 10-year government bonds), the average value for February 1999 was 3.2% (see table above). As evidenced by the real yield on a French

CPI-indexed 10-year Treasury bond, market expectations at the beginning of March 1999 point in the direction of a 3% real interest rate over the next 10 years (see Box 2 on page 16 of the February 1999 issue of the Monthly Bulletin). The average euro area long-term real rate in February 1999 was approximately 200 basis points lower than the average over the 1990s (5.2%) and also considerably lower than the average for Germany over the past 30 years (4.1%). In the United States the average level of the long-term rate in February 1999 was 3.3%, slightly higher than that of the euro area. The average real interest rate associated with price level-indexed US Treasury bonds of a 10-year maturity in February 1999 was around 3.8%. All this evidence confirms that real rates in the euro area can be regarded as relatively low, both in historical and in international terms.

The chart below shows the development of the short-term and long-term real interest rates for the euro area in the 1990s. The fall in real interest rates observed in recent years may be related to some extent to the cyclical situation. It is notable, however, that real interest rates are currently lower than they were in the mid-1990s, when capacity utilisation in the manufacturing sector was at levels similar to those observed at present. This suggests that other factors, such as declining inflation and exchange rate risk premia and lower fiscal deficits, have allowed euro area average real interest rates to come down substantially. This is a clear illustration of the benefits of the convergence process towards Monetary Union, indicating that progress towards low inflation, exchange rate stability and improved fiscal positions have together brought about lower real interest rates. Establishing a credible single monetary policy in this beneficial environment has fostered expectations of price stability, thereby lowering real interest rates and supporting economic growth.

Short-term and long-term real interest rates for the euro area

(percentages per annum)



Source: ECB aggregation of individual country data; monthly averages.

Note: Nominal interest rates minus annual changes in the CPI.

1) Euro area average of national three-month interbank rates until 29 December 1998; three-month EURIBOR from 30 December 1998 onwards.

2) Long-term government bond yields, 10-year bonds or the closest available bond maturity.

In the light of the aforementioned developments in euro area bond markets, the yield curve in the euro area shifted upwards during February 1999 (see Chart 7). At the same time, there was a slight widening of the differential between yields on fixed nominal income bonds and the

real yields on inflation index-linked bonds with a comparable maturity in France, thus reflecting the stability of the real yield during February 1999 (see Box 1). As discussed in detail in Box 2 on page 16 of the February 1999 issue of the Monthly Bulletin, a widening of this

differential can be interpreted as an indication that financial market participants have raised their longer-term inflation expectations.

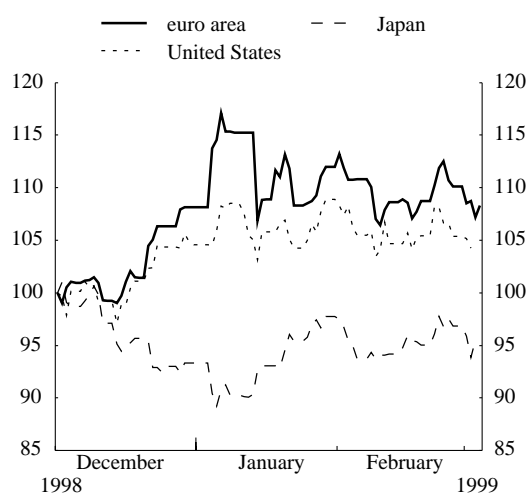
Spillovers from global to euro area bond markets highlight the important influence of movements in global financial markets on euro area fixed income bond markets, particularly at the longer end of the maturity spectrum. They show that, at times, caution should be exercised when interpreting the forward-looking information contained in domestic financial asset prices within the euro area.

Slight decline in stock markets

Recent stock market developments in the euro area were heavily influenced by global financial markets. Continuing the relatively volatile pattern observed in January 1999, in the first half of February stock prices in the euro area, as measured by the broad Dow Jones EURO STOXX index, declined by almost 5%. Subsequently, despite some volatility, they tended upwards, to stand 3% below their end-January 1999 levels by 4 March 1999 (see Chart 8). A similar pattern of development of initial declines and subsequent increases in stock prices was observed in both the United States and Japan. The US Standard and Poor's 500 and the Japanese Nikkei 225 indices declined by around 2.5% and by more than 2% respectively over the period from end-January to 4 March 1999.

An important influence on euro area stock price developments during February 1999 was the transmission of a high degree of volatility from the stock market in the United States. This volatility reflected the fact that the improved economic conditions apparently affected stock prices via two countervailing channels. On the one hand, upward effects on stock prices arose as the positive news tended to raise expectations of future dividend streams. On the other, the improved economic conditions affected the bond yields in the United States. This might have affected the discount factor for future dividend payments, thereby exerting a

Chart 8
Stock price indices in the euro area, the United States and Japan
 (1 December 1998=100; daily data)



Sources: Reuters for the euro area; BIS for the United States and Japan.

Note: Dow Jones EURO STOXX broad (stock price) index for the euro area, Standard and Poor's 500 for the United States and Nikkei 225 for Japan.

downward effect on stock prices. All in all, these developments left the US Standard and Poor's 500 index just over 1% above end-1998 levels by 4 March 1999, and 5% above the peaks seen in July 1998.

Reflecting spillovers from these stock market developments in the United States, as well as the increase in domestic long-term bond yields, stock prices in the euro area were at times subject to downward pressures. However, markets may have perceived that the depreciation of the euro in February was indicative of an improved outlook for exports and corporate earnings in the shorter term. A further positive influence on the euro area stock market came from expectations of heightened merger activity in certain sectors of the euro area economy.

All in all, by 4 March 1999 these developments had left euro area stock prices at more or less the same level as that observed at end-December 1998, but still almost 11% below the peak levels observed in mid-July 1998.

2 Price developments

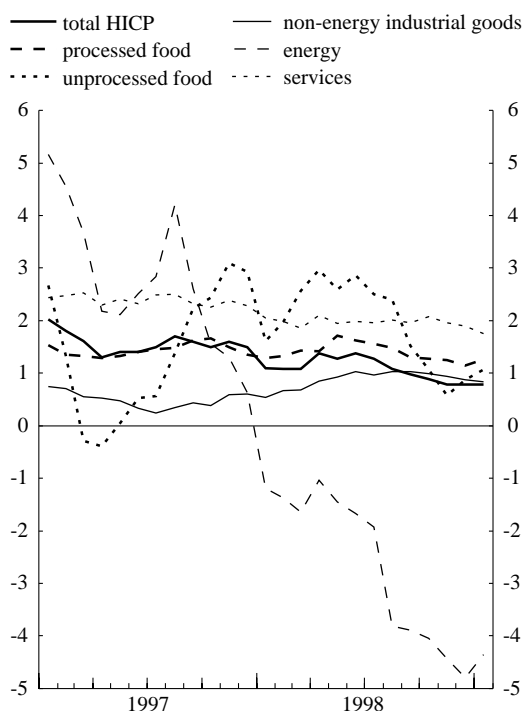
Consumer price increases unchanged around the turn of the year

Since finalisation of the February issue of the Monthly Bulletin, Eurostat has released HICP figures for January 1999 and slightly revised the HICP data for the period prior to 1999. According to the revised data, the rate of increase of headline HICP followed a downward trend from 1.4% in June 1998 to 0.8% in November 1998, while remaining unchanged at this rate (0.8%) in December 1998 and January 1999 (see Table 2).

Notwithstanding this picture of unchanged price increases in the overall index around the turn of the year, sub-components of the HICP showed somewhat diverging tendencies. On the one hand, the annual rate

of increase of unprocessed food prices rose by 1.1% in January 1999, up from 0.6% in November 1998 (see Chart 9). Moreover, the decline in energy prices, at 4.4%, was less pronounced in January 1999 than it had been in the previous month, but was equal to that in November 1998. On the other hand, price increases in non-energy industrial goods and in services slowed down. In the case of non-energy industrial goods, prices increased by 0.8% in January 1999, compared with 0.9% in November and December and 1.0% in October 1998, which may reflect some fall in industrial producer prices in the consumer goods sector at the end of 1998. The reduction in services price inflation to 1.8% in January, from around 2% throughout 1998, was mainly due to lower price increases for transport services and communications, affected by the deregulation of these sectors. More generally, however, in both non-energy industrial goods and services, a delayed effect of the reduction in energy prices throughout 1998 may have played a role.

Chart 9
Breakdown of HICP inflation in the euro area by components
(annual percentage changes; monthly data)



Source: Eurostat.
Note: For further information on the data used, see the respective tables and charts in the "Euro area statistics" section of this Bulletin.

Impact of energy prices on current and prospective consumer price developments

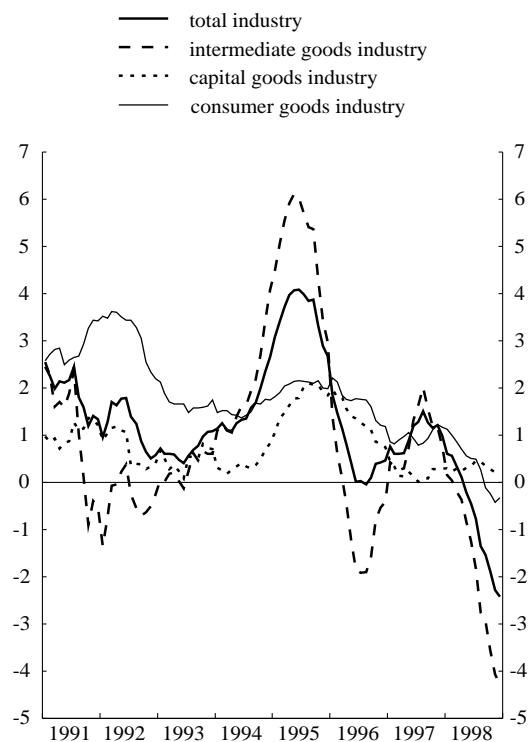
Energy prices were the main factor behind the declining trend in the year-on-year increase of headline HICP in the second half of 1998 (together with prices for unprocessed food, which generally show a large degree of volatility). Comparing the euro area overall HICP rate of inflation with an HICP measure excluding energy shows that the latter has fluctuated around a level of 1½% since early 1997, while the former has followed a broadly downward trend (see Chart 10). This highlights the fact that price stability is clearly established in the euro area, even though there was some downward pressure due to the development in energy prices in 1998. This development is closely linked to world market prices of oil. Apart from the impact of the deregulation of utilities (which has recently occurred) and changes in energy taxation and exchange rates,

changes in the world market price of oil are typically reflected in the HICP energy index with only a short lag. A stabilisation of oil prices or an increase could therefore be expected to feed through quickly to consumer prices through the energy price component. In addition, changes in the world market price of oil (as well as non-oil commodities) will affect other components of consumer prices with a somewhat longer lag owing to their effect on production costs throughout the economy. In particular, this could be the case for non-energy industrial goods (see also the section below on industrial producer price developments).

Looking backwards, the world market price of oil has been following a broad downward trend since early 1997 and stood, in real terms, at a historic low in December 1998 (EUR 8.8 per barrel). However, it increased to EUR 9.5 per barrel in January 1999 and stood at EUR 9.4 (corresponding to USD 10.6) per barrel in

Chart 11
Industrial producer prices in the euro area

(annual percentage changes; monthly data)

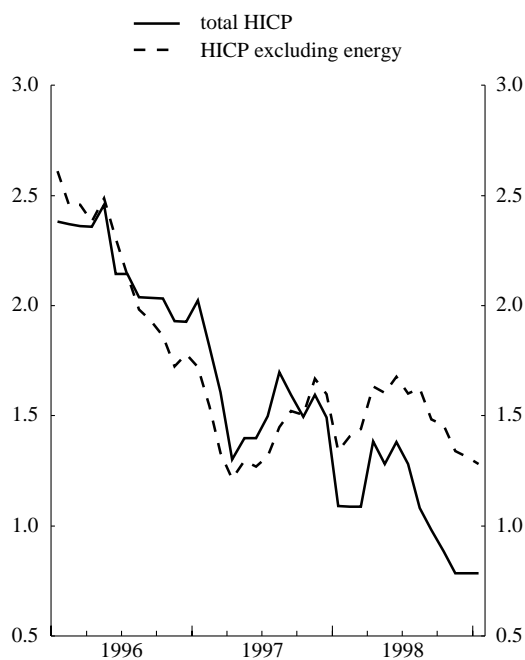


Source: Eurostat.

Note: For further information on the data used, see the respective tables and charts in the "Euro area statistics" section of this Bulletin.

Chart 10
Measures of HICP inflation for the euro area

(annual percentage changes; monthly data)



Source: Eurostat.

Note: For further information on the data used, see the respective tables and charts in the "Euro area statistics" section of this Bulletin.

February 1999. Thus the downward trend did not continue in early 1999. Looking forward, while the prospects for the world market price of oil are difficult to foresee, oil price futures indicate that Brent crude oil prices are expected to increase slightly during the course of 1999, to stand at around USD 12 per barrel at the end of the year.

Against this background, it is to be expected that the downward impact of energy prices on HICP price developments in 1999 will be far more muted than was the case in 1998. Instead, limited upward effects could materialise as the sharp reductions in energy prices observed in 1998 drop out of the calculations of annual rates of change. This mechanical effect may be demonstrated by assuming that the annual rate of increase of all sub-components of the HICP (excluding energy) will remain at the level of

January 1999 and that the level of the HICP energy index will be unchanged from January 1999 onwards. As a result, the overall annual increase in the HICP would be 0.4 percentage point higher than the current level of 0.8% by the end of 1999. While it is likely (as mentioned above) that other sub-components will continue to be affected by the decrease in energy prices in 1998 with a lagged effect, such mechanical calculations may nevertheless highlight the fact that the strong downward effect of, in particular, oil price developments could ebb away during the course of this year.

Strong decline in industrial producer prices and underlying factors

Similar to energy prices, industrial producer prices have also decreased significantly since around mid-1998, and they have occasionally

given rise to concern about protracted price falls which could spill over into the economy as a whole. However, while clearly recognising the fact that there are no factors suggesting immediate upward risks which might constitute a cause for concern, a number of factors can be highlighted which indicate that recent downward movements are concentrated in one sub-sector (the intermediate goods industry) and are far less pronounced elsewhere.

Chart 11 shows that total industrial producer price annual increases in the euro area have been subdued since around 1996, before turning negative in the second quarter of 1998. In December 1998 they were 2.4% lower than a year earlier. However, prices in the intermediate goods industry fell much more sharply than in other sectors, such as the capital goods industry and the consumer goods industry.

Table 2
Price and cost developments in the euro area

(annual percentage changes, unless otherwise indicated)

	1996	1997	1998	1998	1998	1998	1998	1998	1998	1998	1998	1999	1999
				Q1	Q2	Q3	Q4	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
Harmonised Index of Consumer Prices (HICP) and its components													
Overall index	2.2	1.6	1.1	1.1	1.3	1.1	0.8	1.0	0.9	0.8	0.8	0.8	.
<i>of which:</i>													
Goods	1.8	1.1	0.6	0.7	1.0	0.7	0.2	0.4	0.3	0.2	0.1	0.2	.
Food	1.9	1.4	1.6	1.6	2.1	1.7	1.1	1.4	1.2	1.0	1.0	1.2	.
Processed food	1.9	1.4	1.4	1.3	1.6	1.4	1.2	1.3	1.3	1.2	1.1	1.3	.
Unprocessed food	1.9	1.4	2.0	2.0	2.8	2.1	0.8	1.5	1.1	0.6	0.9	1.1	.
Industrial goods prices	1.8	1.0	0.1	0.2	0.4	0.1	-0.2	-0.1	-0.1	-0.2	-0.4	-0.3	.
Non-energy industrial goods	1.6	0.5	0.9	0.6	0.9	1.0	0.9	1.0	1.0	0.9	0.9	0.8	.
Energy	2.6	2.8	-2.6	-1.4	-1.4	-3.2	-4.4	-3.9	-4.0	-4.4	-4.8	-4.4	.
Services	2.9	2.4	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.0	1.9	1.8	.
Other price and cost indicators													
Industrial producer prices ¹⁾	0.6	1.0	-0.8	0.5	-0.2	-1.2	-2.2	-1.5	-1.9	-2.3	-2.4	.	.
Unit labour costs ²⁾	1.8	0.6	.	-2.3	-0.6	-0.6	.	-	-	-	-	-	-
Compensation per employee ²⁾	3.4	2.6	.	1.0	1.2	1.3	.	-	-	-	-	-	-
Labour productivity ²⁾	1.6	2.1	.	3.4	1.8	1.8	.	-	-	-	-	-	-
Oil prices (EUR per barrel) ³⁾	15.9	17.1	12.0	13.6	12.8	11.7	10.0	11.9	11.2	10.2	8.8	9.5	9.4
Commodity prices (EUR) ⁴⁾	-6.9	13.0	-12.5	-0.1	-10.7	-18.2	-20.5	-20.9	-23.6	-18.4	-19.4	-17.2	-16.1

Sources: Eurostat, national data, HWWA-Institut für Wirtschaftsforschung, Hamburg, and ECB calculations.

Note: For further information on the data used, see the respective tables and charts in the "Euro area statistics" section of this Bulletin.

1) Excluding construction.

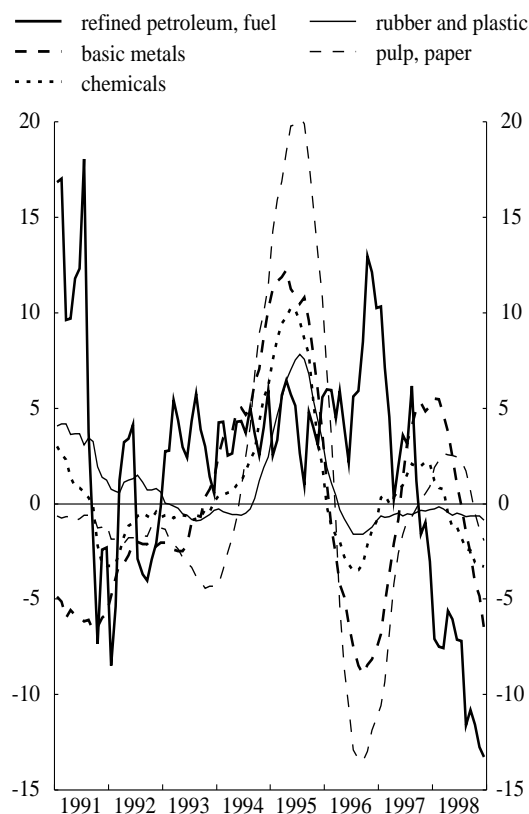
2) Whole economy.

3) Brent Blend (for one-month forward delivery). ECU up to December 1998.

4) Excluding energy. ECU up to December 1998.

Chart 12
Intermediate goods industrial producer prices

(annual percentage changes; monthly data)



Source: Eurostat.

Chart 12 displays producer prices for various sub-sectors of the intermediate goods industry. In the light of the decline in the world market commodity prices of oil, non-ferrous metals and iron ore (measured in euro) since mid-1997, it is not surprising that the strongest price decline among intermediate goods has been recorded for petroleum and other fuels, followed by basic metals. The prices of chemicals and, more recently, paper and pulp have also declined, but to a lesser extent than those of basic metals. In comparison, prices of rubber and plastic have been declining slowly but gradually over the past two and a half years. In all these areas of production, goods are generally processed to a lesser degree than in the consumer and capital goods industries, and raw materials therefore make up a larger share of production costs. As a result,

intermediate goods prices tend to be strongly influenced by developments in world market commodity prices.

Moreover, as intermediate goods prices are more exposed to international competition than those for many finished goods, the recent pattern of falling prices can also be linked to enhanced competition from foreign producers.

Besides these external factors, the absence of any significant domestic upward price pressure over the past few years can be seen as generally reflecting subdued labour cost developments. Wage increases as measured by compensation per employee remained low in the first three quarters of 1998 (rising just above 1%), while productivity grew at a somewhat higher rate, thereby leading to some reduction in unit labour costs over the same period. More up-to-date data are currently unavailable, but there is some evidence that wage growth might accelerate in the course of 1999.

Finally, recent trends in both overall consumer prices and various categories of other price and cost developments and their main underlying factors indicate the absence of notable upward pressures on prices in the immediate future. Nonetheless, they also indicate that the most recent price developments have been influenced by a number of factors which appear to be exceptional and may eventually cease to have an effect, in particular in the context of more favourable developments in the world economy. However, given the uncertainty associated with a further recovery of major economies and trading partners of the euro area, it is difficult to make precise forecasts of when a stabilisation or rise in oil and non-oil commodity prices could occur. Recent downward developments in specific price and cost indicators therefore need to be monitored closely, also taking into account the most recent trends in world market prices and exchange rate developments of the euro. In addition, wage developments need to be monitored closely.

3 Output, demand and labour market developments

Significant slowdown in real GDP growth in the fourth quarter of 1998

According to a preliminary estimate of area-wide real GDP growth by Eurostat, which was broadly in line with expectations based on available national data, there was a significant slowdown in the final quarter of 1998 compared with earlier quarters (see Table 3). Whereas quarter-on-quarter growth for the euro area as a whole is considered to have been around 0.7% on average in each of the first three quarters of last year, GDP growth is estimated to have slowed to just 0.2% in the fourth quarter of 1998 (i.e. 2.4%

higher than in the fourth quarter of the previous year). As noted in the February issue of the Monthly Bulletin, differences in the treatment of variations in the number of working days and seasonal adjustment methods, and in particular the likelihood of revisions, suggest that caution should be exercised when interpreting the quarterly pattern of area-wide trends in overall growth on the basis of first estimates. Moreover, it has to be borne in mind that this estimate is based only on data available for a number of larger countries in the euro area (viz. Germany, France, Spain, Italy and the Netherlands), although together these account for over 80% of total

Table 3
Output, demand and labour market developments in the euro area

(annual percentage changes, unless otherwise indicated)

	1996	1997	1998	1998	1998	1998	1998	1998	1998	1998	1998	1998	1999
				Q1	Q2	Q3	Q4	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.
	3-month centred moving averages												
Real gross domestic product	1.6	2.5	3.0	3.8	3.0	2.9	2.4	-	-	-	-	-	-
- Change from previous period ¹⁾	-	-	-	0.9	0.6	0.7	0.2	-	-	-	-	-	-
Industrial production excl. construction	0.0	4.1	4.1	6.3	4.4	4.0	1.9	4.0	3.6	3.1	1.9	.	.
- Change from previous period ²⁾	-	-	-	1.4	0.8	0.2	-0.3	0.2	0.1	0.2	-0.3	.	.
<i>of which:</i>													
Manufacturing	-0.2	4.8	4.6	7.3	5.0	4.3	1.8	4.3	4.0	3.2	1.8	.	.
<i>by main industrial groupings:</i>													
Intermediate goods	-0.7	5.4	3.9	7.3	4.3	3.3	0.8	3.3	2.6	2.1	0.8	.	.
Capital goods	1.7	4.2	6.8	9.1	6.6	6.9	4.9	6.9	7.0	6.2	4.9	.	.
Consumer goods	-0.5	2.0	3.5	4.1	4.1	3.9	2.1	3.9	3.8	3.2	2.1	.	.
Construction	-2.6	-1.0	-1.1	2.8	-1.0	-2.1	-3.6	-2.1	-2.6	-3.2	-3.6	.	.
Capacity utilisation (%) ³⁾	80.3	81.6	83.1	83.1	83.6	83.3	82.4	-	-	-	-	-	-
Economic sentiment index	-2.7	2.5	3.2	3.7	4.4	3.0	1.6	3.0	2.1	1.8	1.6	1.7	1.3
Consumer confidence indicator ⁴⁾	-9	-3	7	4	6	7	10	7	7	8	10	11	11
Industrial confidence indicator ⁴⁾	-8	3	7	10	10	7	0	7	5	3	0	-1	-2
Construction confidence indicator ⁴⁾	-13	-10	4	-2	1	10	8	10	9	9	8	11	12
Retail sales, constant prices	1.1	0.8	.	2.8	1.8	2.9	.	2.9	2.4	2.9	.	.	.
New passenger car registrations	6.6	3.9	7.6	12.6	3.3	7.4	7.5	7.4	5.1	7.7	7.5	9.0	.
Employment (whole economy)	0.2	0.3	.	1.0	1.1	1.4	.	-	-	-	-	-	-
Unemployment (annual change in 000s)	419	97	-862	-523	-828	-1020	-1071	-1020	-1065	-1108	-1072	-1000	.
Unemployment (% of labour force)	11.6	11.6	11.0	11.2	11.0	10.9	10.7	10.9	10.8	10.7	10.7	10.7	.

Sources: Eurostat, European Commission Business and Consumer Surveys, ACEA/A.A.A., national data and ECB calculations.

Note: For further information on the data used, see the respective tables and charts in the "Euro area statistics" section of this Bulletin. All data are seasonally adjusted, apart from industrial production (adjusted for variations in the number of working days), retail sales and new passenger car registrations.

1) Seasonally adjusted data.

2) Seasonally adjusted data; monthly data are calculated as three-month centred moving averages against the corresponding average three months earlier.

3) Data are collected in January, April, July and October of each year. The quarterly figures shown are the average of two successive surveys, i.e. the surveys conducted at the beginning of the quarter in question and at the beginning of the following quarter. Annual data are quarterly averages. Latest observations: 83.7% (July 1998), 82.8% (Oct. 1998) and 81.9% (Jan. 1999).

4) Percentage balances; data shown are calculated as deviations from the average over the period since January 1985.

euro area GDP. The estimate includes projections from Eurostat for the remaining countries. Nonetheless, the data confirm previous expectations that output growth weakened markedly around the turn of the year. Overall, real GDP growth in 1998 is estimated to have

been 3.0%, which is considerably above the rate of growth achieved in 1997. However, the slower growth in the fourth quarter supports the general view that GDP growth will be weaker in 1999, particularly in the early part of the year (see also Box 2).

Box 2

A review of the prospects for the euro area in 1999

Real GDP growth for the euro area proved to be significantly stronger in 1998, at 3.0%, than in the previous year, despite the weakening in the external environment. This reflected a strengthening in domestic demand which more than compensated for the diminished contribution to output growth from net exports. The overall rate of growth recorded in 1998 was the strongest since 1990 and was accompanied by both an increase in employment and – for the first time since 1995 – a decrease in unemployment. Nevertheless, evidence of a slowdown in growth in the euro area was also apparent during the course of 1998, first in industrial production and, towards the end of the year, in total GDP. For the year as a whole, the increase in the HICP slowed to 1.1% from 1.6% in 1997, continuing the downward trend observed in recent years. By the end of 1998, the annual increase in the HICP had reached 0.8%.

The impact of the emerging markets crisis on the euro area has been a source of considerable uncertainty in terms of evaluating the outlook. Forecasts for both real output growth and inflation tended to be revised downwards in the course of 1998, as the negative impact of the external environment was assessed to be both stronger and more prolonged than initially envisaged. The table below summarises the outlook for real GDP growth and inflation in 1999 on the basis of the latest forecasts by international organisations and the private sector. It should be noted that differences between the forecasts are due, in part, to differences in the assumptions underlying the projections, as well as to their different publication dates. In addition, these forecasts have not been able to take into account the consequences of weaker than expected GDP growth in the last quarter of 1998. Nevertheless, they may help to illustrate the general downward revisions to forecasts.

A slowdown in growth generally foreseen for 1999

Generally, real GDP growth in the euro area is expected to continue in 1999, but at a slower pace than that observed in 1998. Although there is some variation in the extent of the anticipated slowdown, most projections place real GDP growth in 1999 within a range of 2-2½%, whereas the most recent forecasts place growth towards the lower end of this range. The forecast of lower output growth in 1999 is generally projected as a result of weaker demand in major overseas markets. Domestic demand is expected to continue to be supported

Inflation and real GDP forecasts for the euro area for 1999¹⁾

	Latest forecast	Inflation		Real GDP	
		forecast (p.c.p.a)	change (in % points) ²⁾	forecast (p.c.p.a)	change (in % points) ²⁾
European Commission	Oct. 1998	1.4	-0.5	2.6	-0.6
IMF	Dec. 1998	1.4	-0.2	2.4	-0.4
NIESR ³⁾⁴⁾	Jan. 1999	1.0	-0.4	2.2	-0.2
OECD	Dec. 1998	1.4	-0.4	2.5	-0.4
Consensus Economics ⁴⁾	Feb. 1999	1.1	-0.1	2.2	0.0

1) Differences in forecasts may be due to differing exogenous assumptions among forecasting institutions.

2) Difference between latest and previous forecast in percentage points; biannual (European Commission and OECD), quarterly (NIESR) and monthly (Consensus Economics); IMF December 1998 update compared with October 1998 forecast.

3) National Institute of Economic and Social Research.

4) Euro area forecasts from NIESR and Consensus Economics exclude Luxembourg.

mainly by private consumption in 1999. One consequence of the lower consumer price increases is that there has been an unanticipated increase in households' real income. This, combined with an upturn in employment growth since early 1997, has accompanied a substantial improvement in consumer confidence and underpins the expectation of continued consumption growth in 1999. In general, investment is also expected to continue to grow, supported by, among other factors, low interest rates.

The risks to output growth remain on the downside. In particular, a decline in profits of the corporate sector, linked to lower demand for area-wide exports, could result in a slowdown in business investment, stronger destocking and weaker employment growth. In addition, a significant reversal in consumer confidence, which had reached unusually high levels around the turn of the year, could constitute a risk to sustained increases in private consumption. The risks arising from the external environment may have become somewhat more balanced, but remain a major source of uncertainty regarding the outlook (see also Section 5).

Labour market conditions expected to improve, but by less than in 1998

In general, labour market conditions in the euro area are expected to continue to improve in 1999, following a decline in unemployment of around 0.8 percentage point in 1998, which brought the rate down to 10.6% in January 1999. However, employment is expected to continue to increase at a slower rate than in 1998. A more sustained decline in unemployment requires much stronger structural reforms in a number of countries.

Slow progress in fiscal consolidation

Fiscal policy for 1999, as reflected in the initial budget plans of most governments, has adopted a broadly neutral stance for the euro area as a whole. In fact, the small envisaged reduction in the euro area weighted average deficit ratio in 1999 is expected to be the result of a similar decline in the ratio of interest payments to GDP. Hence, no significant fiscal consolidation has formed part of countries' budget plans, but rather an easing of the efforts made in 1997, with the exception of those countries that have to compensate in 1998 for the unwinding of temporary effects introduced in the previous year. More recently, in view of the weaker than expected growth in some components of demand, some governments have considered leaving automatic stabilisers to work in an unrestricted manner, at least on the revenue side. This course of action would be compatible with the attainment of the announced budgetary targets, as the impact on public revenue of slower output growth, especially in exports, should not be sizable. In addition, however, the expected slowdown in growth has prompted some requests for a more expansionary fiscal policy stance to counterbalance the effects of the weaker components of demand. However, such discretionary easing of fiscal policies could increase uncertainty about the stance of fiscal policies in the future and the achievement of the objectives enshrined in the Stability and Growth Pact, as it would lead to a rise in structural deficits.

Increases in consumer prices expected to remain subdued

The outlook for consumer price increases in 1999 has also tended to be revised downwards. Part of this reassessment of near-term price developments is due to weaker than expected energy prices. Although inflation rates could increase again in the course of 1999, largely owing to the effect on the overall price index of either more stable or slightly higher energy prices, they can be expected to remain clearly below 2% on average in 1999.

There are no strong upward or downward pressures evident in the outlook for consumer prices at present. There could be a further downward impact on consumer prices in the euro area if world prices turn out, yet again, to be weaker than expected. Moreover, the effects of the Single Market and utilities deregulation on competition may also constitute a downward factor in the development of consumer prices. Upside risks to price stability may be associated with recent wage settlements and exchange rate developments. Overall, the outlook for price stability remains favourable, with consumer price increases expected to remain consistent with the quantitative definition of price stability adopted by the Governing Council of the ECB.

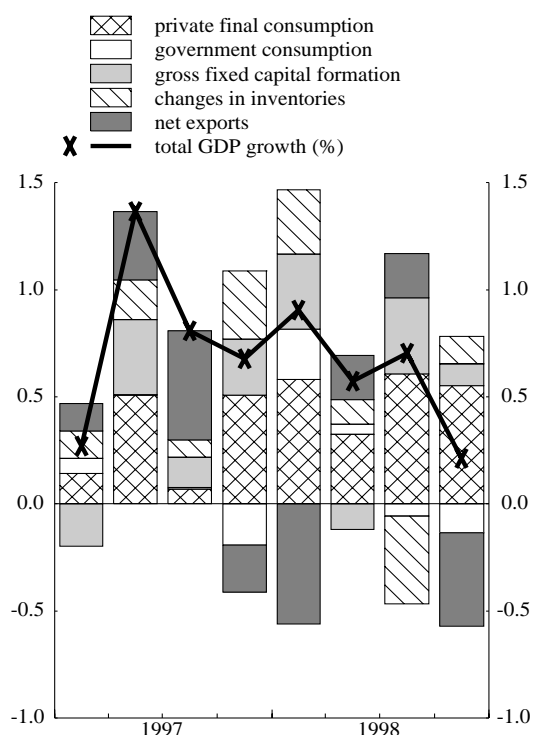
Sustained growth in domestic demand, weaker net exports

The slowdown in the final quarter of 1998 mainly reflects a negative impact from net exports, whereas the contribution of domestic demand to overall quarter-on-quarter real GDP growth in the fourth quarter was 0.6 percentage point, slightly higher than in the previous two quarters. Among the main expenditure components which comprise domestic demand, the development in the fourth quarter was particularly influenced by a slowdown in gross fixed capital formation, offset by a rise in stockbuilding (see Chart 13). By contrast, private consumption growth remained robust and, continuing the pattern of the recent past, the contribution to growth

from government expenditure continued to be close to zero.

Considering the growth of private consumption in more detail, between the third and fourth quarters of 1998 it rose by 0.9%, i.e. maintaining the same pace of growth as in earlier quarters. In the year to the fourth quarter, private consumption growth was 3.4%. This development is consistent with the sustained increases in consumer confidence which occurred during the course of 1998 and in early 1999. Euro area consumer confidence does not appear to have risen further in the February release of the Consumer Survey, on the basis of provisional figures from the European Commission. Nevertheless, looking at the national data available, which enable a longer time period to be considered, the current level of consumer confidence is not only the highest since 1985, when the euro area indicator starts, but also appears to match that reached in previous peaks since the early 1970s.

Chart 13
Contribution of components to real GDP growth in the euro area ¹⁾
(quarterly percentage point contributions)



Source: Eurostat.

Note: For further information on the data used, see the respective tables and charts in the "Euro area statistics" section of this Bulletin.

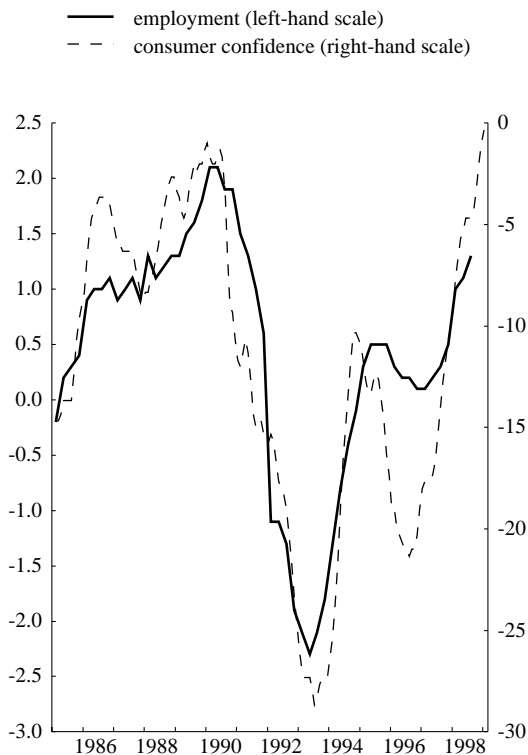
1) Missing or unavailable data are estimated by Eurostat.

The main factors underlying the strength of consumer behaviour are the net gains in employment which occurred in 1998, together with the further decline in consumer price increases, which brought about more positive real income growth. In addition, the development of the stock markets and lower interest rates may also have contributed to an improvement in the financial situation of households during the past year. The link between employment growth and consumer confidence has been very close since 1985 (see Chart 14). Higher consumer confidence during the past year may therefore be linked to strong net job creation (see below), and sustainable employment growth would therefore appear to be an important factor in maintaining consumer confidence at current high levels.

By contrast, gross fixed capital formation weakened somewhat in the fourth quarter of 1998. However, the contribution to growth from stockbuilding was positive. Together, the contribution of investment and stockbuilding

Chart 14
Employment and consumer confidence
in the euro area

(annual percentage changes; percentage balances for consumer confidence, three-month centred moving averages)



Sources: ECB calculations based on available national non-harmonised data and European Commission Business and Consumer Surveys.

Note: For further information on the data used, see the respective tables and charts in the "Euro area statistics" section of this Bulletin. All data are seasonally adjusted; data on employment are quarterly and, prior to 1992, only data for western Germany are included.

to real GDP growth rose to 0.2 percentage point in the fourth quarter, after falling from 0.7 percentage point in the first quarter of 1998 to 0 percentage point in the second and third quarters of the year. The recent decline in investment growth can be attributed to a number of factors, including the impact of weaker foreign demand. Considering recent cyclical developments in more detail, the subdued nature of investment was one of the reasons why there was not a much stronger upturn – both in 1994-95 and from 1996 onwards – and can be regarded as a worrying feature in current demand trends, as it indicates slow progress towards expanding the growth potential in the future (see Box 3 for a more

detailed review of recent developments in investment in the euro area).

Developments in stockbuilding, on the basis of the data available from national accounts, have been an important quantitative factor underlying domestic demand in the euro area, particularly since mid-1997. Prior to the fourth quarter, the contribution of stockbuilding to growth had been decreasing on a quarter-on-quarter basis, falling from 0.3 percentage point in the first quarter of 1998 to 0.1 percentage point in the second quarter, and in the third quarter of 1998 stockbuilding made a negative contribution to real GDP growth of -0.4 percentage point. On a year-on-year basis, the contribution of stockbuilding to GDP was close to 1 percentage point in each quarter for the period from mid-1997 to mid-1998 before declining. Such a high contribution may be considered somewhat unusual, particularly when also seen in terms of the protracted period of the positive stockbuilding. It would therefore not be surprising to see some part of this stockbuilding revised downwards. Overall, there is evidence of a stockbuilding cycle in the euro area in recent years, with a considerable build-up of stocks up to mid-1998 and a reduction thereafter (see Chart 15).

There is a reasonable degree of consistency between the national accounts data and the survey data from the regular monthly European Commission Business Surveys on the assessment of stocks of finished products. Both series indicate that stocks began to rise from around mid-1996 onwards and probably peaked sometime around early to mid-1998. One area of possible contrast between the two indicators is that the survey data tend to suggest that the most recent stock position built up was lower than that observed at the previous peak in the period 1994-95, whereas the national accounts data point to a higher level of stocks than that which was recorded even in 1990-91. As noted above, some of this difference may be reconciled through subsequent revisions to the national accounts data for stockbuilding. Looking ahead, at least to the early part of 1999, there would

seem to be scope for a continued negative contribution of stockbuilding to growth. Given the degree of uncertainty surrounding the exact current stock position, the extent of this temporary correction to inventory positions would, however, appear to be more difficult to gauge.

Finally, the contribution of net exports to growth has been more volatile in the past few quarters. The quarter-on-quarter contribution of net exports to GDP growth turned negative in the fourth quarter after having been positive in the previous two quarters. Further analysis of exports and imports for the euro area is contained in Section 5.

Industrial production declined significantly in December

The latest data on industrial production provide further evidence of a slowdown in activity towards the end of 1998. Figures released by Eurostat now cover December of last year, and contain important revisions of data for both total industrial production and its main categories for earlier months of the year.

The December 1998 figures are characterised by a marked decline in production from the November levels. On the basis of the latest data, industrial production for the euro area

Box 3

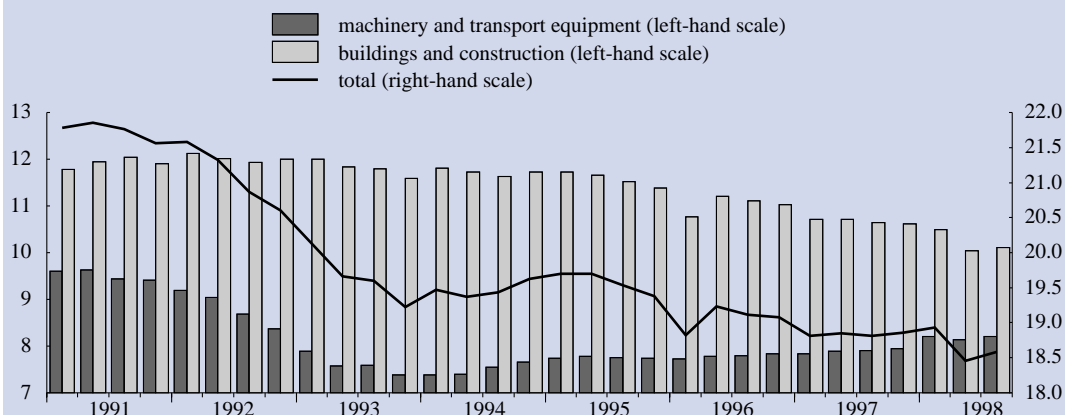
Investment in the euro area

For the euro area as a whole, gross domestic fixed capital formation rose by 4.2% in 1998, compared with an increase of around 2% in the previous year. The contribution of investment to real GDP growth rose to 0.8 percentage point in 1998, compared with 0.4 percentage point in 1997. This was the strongest contribution to growth since 1990 and, in conjunction with robust private consumption, it underpinned the overall acceleration in output growth observed last year. However, viewed from a more medium-term perspective, the rise in investment has been relatively subdued for a number of years and it may be regarded as somewhat surprising that investment growth has not responded more strongly to the upturn in activity that has taken place from mid-1995 onwards. Indeed, it appears that, since peaking at around 22% in the early 1990s, the ratio of investment to GDP has fallen significantly, to around 18.5% during 1998 (see the chart below). The ratio of investment to GDP is calculated on the basis of current prices. However, as the relative price of investment goods has tended to fall, the development of investment has been slightly more positive when measured in terms of constant prices. This relative price decline is at least partly due to the strong downward trend in the prices of many high technology investments, such as personal computers and computer software.

Investment is not only a significant component of total GDP, but also important in the context of increasing the productive potential of the economy, as long as the capital expenditure is allocated efficiently. Thus any secular decline in investment over the longer term could be a cause for concern.

Breakdown of investment

(as a percentage of GDP; quarterly data)



Sources: Eurostat and ECB calculations.

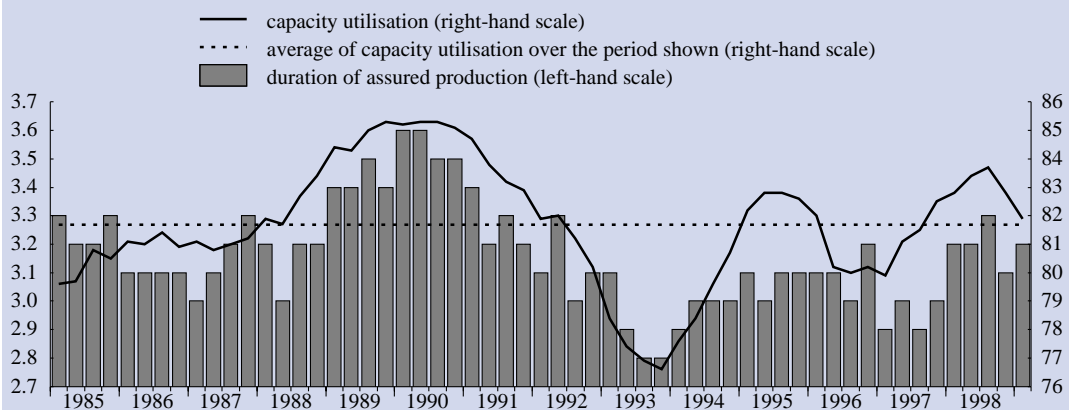
A breakdown of euro area investment into two components – machinery and transport equipment, and buildings and construction – is available from Eurostat for the period from 1991 onwards. The annual growth rate of investment in machinery and transport equipment (which is generally somewhat more volatile than that of investment in buildings and construction and accounts for around 40% of the total) has increased more rapidly since mid-1994, whereas the level of investment in buildings and construction has remained broadly unchanged (and even fell slightly in the last quarter of 1998). In recent quarters investment in machinery and transport has risen at a year-on-year growth rate of around 8%. This rise in machinery and transport equipment follows a relatively sharp decline in the early 1990s. In addition, although the breakdown of private as opposed to public investment is not readily available for the euro area, the ratio of public investment to GDP has fallen somewhat in recent years, to a large extent as a result of the fiscal consolidation efforts being placed on investment expenditure by Member States in the euro area. This, too, has contributed to lower rates of investment.

Investment intentions for 1999 may well have been adversely affected by the emerging markets crisis. According to a survey undertaken on behalf of the European Commission in October and November of last year, some reduction in the rate of growth of investment in both value and volume terms was expected in 1999, compared with the preceding year. The slowdown in world demand, reflected in industrial production figures, together with an expected slowdown in real GDP growth in the euro area in 1999 suggest that the immediate need to increase capacity may have diminished. Estimates of capacity utilisation have fallen and now stand close to their long-term averages (see the chart below). In addition, in some countries there may be some hesitancy to undertake further investment when future tax policy is uncertain and the path of wage developments is either unclear or is threatening to undermine the profitability of investment.

However, there are also some positive factors which may help to support continued investment expenditure. Figures on the duration of production assured by current order books do not yet suggest an unusually low position which might point to a sharp slowdown in investment. Furthermore, the low level of nominal and real interest rates, together with stock market buoyancy, would suggest that financial conditions are also very favourable for investment.

Capacity utilisation and duration of assured production

(percentage and number of months; quarterly data)



Sources: European Commission Business and Consumer Surveys and ECB calculations.

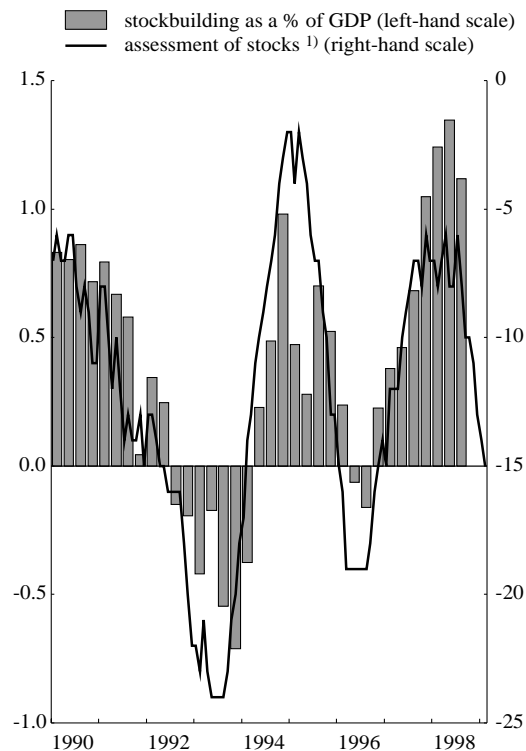
in December is estimated to have fallen by 0.5% from the level recorded in the same month a year earlier, with a decline of 1% between November and December 1998 alone. Annual rates of change in industrial production have been slowing in recent

months, and, in December, the annual rate was negative for the first time since December 1996. On a month-on-month basis, the data for December contrast with the broadly constant level of production observed in the period from April to

Chart 15

Stockbuilding in the euro area

(as a percentage of GDP; percentage balances for the assessment of stocks)



Sources: Eurostat, European Commission Business and Consumer Surveys and ECB calculations.

Note: All data are seasonally adjusted.

1) With inverted sign.

November 1998, during which monthly changes in production were within the range -0.3% to 0.4%, and averaged less than 0.1%. The decline in manufacturing production was similar to that recorded for total industrial production.

Average monthly changes in capital goods, intermediate goods and consumer goods production over the past six months (i.e. for the period from July to December 1998), are now all estimated to have been slightly negative. Downward revisions to the data were particularly significant in the intermediate goods sector. There is some indication that the weakening in intermediate goods production was apparent before that observed in the other two categories, with the annual growth rate of durable goods production continuing to be the highest in recent months. However, in December there was a sharp decline in production in all three main categories of goods.

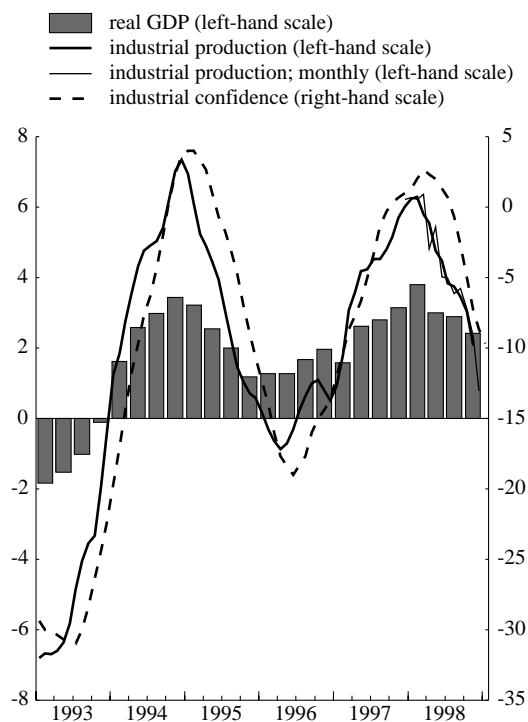
Level of industrial confidence falls further

Industrial confidence, which has in the past been highly correlated with production (see Chart 16), fell further in the February release of the Business Survey, on the basis of provisional figures from the European Commission (these data relate to confidence in the period from December 1998 to January 1999). This follows an unchanged level of industrial confidence in the previous month. However, industrial confidence is still close to the average level of industrial confidence recorded over the period since 1985, and is well above both the lowest point reached in 1992-93, when industrial production fell substantially, and also above the trough of

Chart 16

Output and industrial confidence in the euro area

(annual percentage changes; percentage balances for industrial confidence)



Sources: Eurostat and European Commission Business and Consumer Surveys.

Note: For further information on the data used, see the respective tables and charts in the "Euro area statistics" section of this Bulletin. All data are seasonally adjusted; data for industrial production (total, excluding construction) and industrial confidence are three-month centred moving averages.

1995-96. The latest data suggest that the situation in the industrial sector may have continued to deteriorate since the turn of the year. Additional evidence supporting this view is that the assessment of order books (including export orders) showed a decline according to the latest survey data, and currently stands slightly below its long-term average.

The three-month (centred) moving average of the annual changes in the economic sentiment index published by the European Commission, which combines the data for industrial, construction and consumer confidence as well as share price movements, has been increasing in recent months, but more slowly than earlier in the year (largely due to the effect of changes in share prices). Although the economic sentiment index remains below the peak level reached in mid-1998, it is nevertheless well above its long-term average.

As in previous months, there continues to be a contrast between the behaviour of the manufacturing and retail sectors. The latest data on retail sales suggest only a slight moderation in the rate of growth compared with previous periods. Overall, the growth rate of retail sales remained broadly stable throughout the year. In the latest three months (to November 1998), retail sales were 2.9% higher than in the corresponding three months a year earlier. New passenger car registrations, another indicator of consumer demand, also continued to rise in early 1999. In the three months to January, car sales rose by 9.0% compared with the figure for the same three months in 1997, thereby maintaining the strong growth rate recorded in 1998.

Construction sector activity remains subdued

Data on activity in the construction sector suggest that, despite some indications of stronger activity in the first quarter of 1998, when output rose by 2.8% compared with a year earlier, this level was not maintained during the remainder of the year. For the

year as a whole, construction activity is estimated to have fallen by just over 1%. At the same time, however, construction confidence has improved from the low levels observed in 1996 and 1997.

Prospects for total employment are mixed

Data available up to the third quarter of 1998 indicate sustained employment growth for the whole economy (see Chart 14). In particular, the rate of 1.4% for annual growth in total employment recorded in the third quarter of 1998 was high by historical standards. This rate was only exceeded in the period prior to the first oil shock, in 1973 and in the late 1980s and in 1990. However, at the same time these data indicate that job creation may have slowed down in sectors experiencing a reduction in output growth, in particular the manufacturing sector, while employment in other sectors of the economy continued to increase. As noted in the February issue of the Monthly Bulletin, quarter-on-quarter growth in manufacturing employment decelerated markedly in the third quarter of 1998 to 0.3%, compared with 1.2% and 0.8% respectively in the first and second quarters. By contrast, quarter-on-quarter growth in total employment, at 0.4% in the third quarter of 1998, was unchanged from the levels seen previously in 1998. Given the partial evidence available for the months around the turn of the year, this pattern may have continued more recently and might also extend into the early part of 1999.

Employment growth in the manufacturing sector is expected to have declined

Expectations of a slowdown in manufacturing employment growth are supported by Business Surveys released by the European Commission. These indicate that employers' expectations for employment growth in the manufacturing sector (which accounts for

around one-fifth of total employment) have deteriorated since last autumn, in line with actual data reported for the third quarter of 1998. Moreover, these survey results suggest a slowdown towards the end of 1998, possibly also pointing to a fall in actual employment around the turn of the year. While such survey data need to be interpreted with caution, they have, in the past, shown some leading indicator properties with regard to actual developments in employment in the manufacturing sector (see Chart 17). Furthermore, the survey data appear to be consistent both with the national data

available on actual employment in the manufacturing sector and with recent developments in some short-term indicators of output.

Employment expectations in the construction and retail trade sectors remain favourable

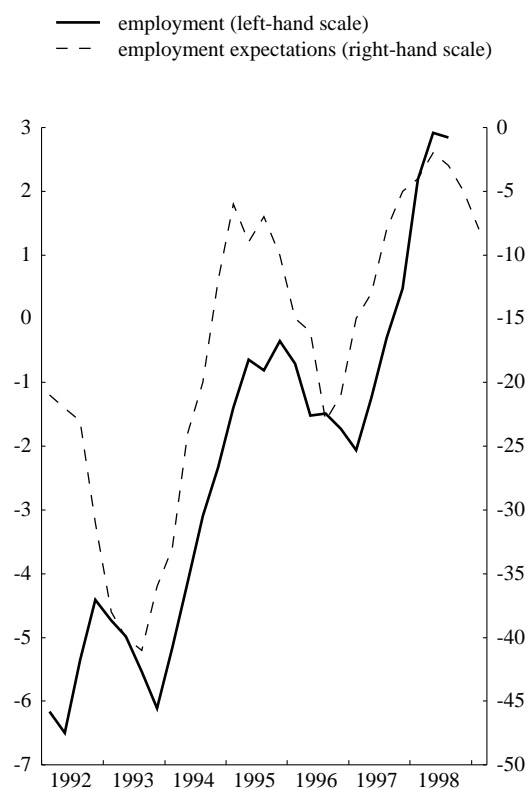
By contrast, similar surveys carried out in the construction sector and in the retail trade sector indicate more optimistic employment expectations (see Chart 18). These two sectors represent around 8% and 10% respectively of total employment. In the construction sector the continuing rise in employment expectations is in line with the more optimistic view of employers with regard to construction activity. Data recently released by Eurostat suggest that actual employment growth in this sector bottomed out in spring 1998 and started to increase again thereafter. However, particular caution is also warranted with regard to these indicators, as the link between expectations and actual developments is typically weaker in the construction sector owing to, inter alia, unforeseeable factors such as weather conditions. In the retail trade sector employment expectations, although rather volatile, have clearly been following an upward trend since the beginning of 1997. This appears to be consistent with the development of retail sales and the high level of consumer confidence.

Finally, with regard to employment developments in other sectors of the economy, no detailed information is available for the euro area. However, employment growth in these other sectors may have continued throughout 1998, in line with the strength of domestic demand. Overall, the prospects for total employment growth in 1999 remain uncertain and may to a large extent depend on whether or not the weakness in manufacturing output growth spills over into other sectors.

Chart 17

Employment and employment expectations in manufacturing for the euro area

(annual percentage changes; percentage balances for employment expectations; quarterly data)



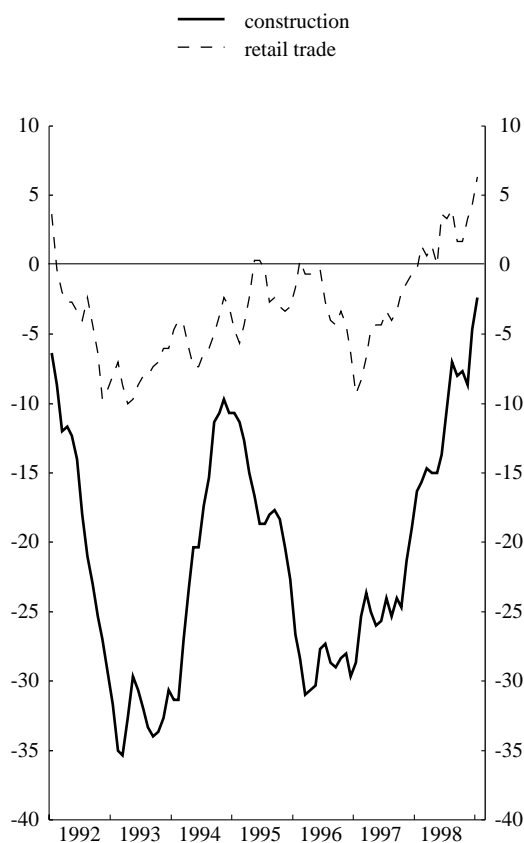
Sources: ECB calculations based on available national non-harmonised data and European Commission Business and Consumer Surveys.

Note: For further information on the data used, see the respective tables and charts in the "Euro area statistics" section of this Bulletin. All data are seasonally adjusted.

Chart 18

Employment expectations for the euro area

(percentage balances; three-month centred moving averages)



Source: European Commission Business and Consumer Surveys.
Note: All data are seasonally adjusted.

Decline in the unemployment rate is only gradual

According to Eurostat, the standardised rate of unemployment for the euro area stood at 10.6% in January 1999, i.e. 0.1 percentage point lower than in December 1998 (the rate in December was revised downwards from 10.8% to 10.7%). The unemployment rate has fallen by 1.1 percentage points since June 1997, when unemployment reached a peak level of 11.7%. Progress towards sustainable low rates of unemployment has been very gradual and may even have slowed down more recently. In terms of the unemployment rate, the average monthly reduction since the latest peak has been considerably less than 0.1 percentage point. Moreover, the

latest decline – in January – came after three months in which the level of unemployment was unchanged. In addition, the latest developments may have been partly affected by relatively favourable weather conditions supporting employment in the construction sector (a factor which may have the opposite effect on unemployment in February). When measured in terms of absolute numbers of those unemployed, the total reduction from June 1997 to January 1999 amounted to 1,416,200. The month-on-month decline slowed from 100,900 on average during the first half of last year to 58,200 on average in the second half. This slowdown may also have been due to an increase in labour force growth, as inactive people might have been encouraged to enter or return to the labour market as a result of a perception of better employment prospects.

When unemployment is considered in terms of a breakdown by age group, it is clear that the overall reduction is closely related to the reduction in unemployment among those under 25 years of age. In this category, which represents only one quarter of total unemployment, the number of jobless has fallen by 464,700, which is one-third of the total decline. Although the reduction in youth unemployment is an important policy objective, supported by specifically designed government job schemes and training programmes, such a pattern nevertheless indicates the continuing absence of a broadly based trend towards lower rates of unemployment. In fact, the number of unemployed among those aged over 25 in January 1998 was 8.5% below its peak level in June 1997, which represents two-thirds of the reduction in youth unemployment in the same period.

Reducing the rate of unemployment is the most important challenge facing the euro area. Overall, while some headway has been made, the reduction to date has not been sufficient to achieve more tolerable levels of unemployment, despite continued strong growth in activity over most of 1998. This suggests that significant structural problems

remain in the labour markets in the euro area and emphasises the particular need for more determined structural measures to enhance demand for labour. In this respect,

evidence available suggests that governments and social partners should focus on reducing labour market rigidities and on maintaining wage moderation.

4 Fiscal developments

Budgetary developments in 1998

Budgetary positions were consolidated at a comparatively slow pace in 1998, leaving general government deficits at high levels, which does not allow for a rapid decline in debt ratios. According to the European Commission's autumn 1998 forecast, which is at the time of publication of this Monthly Bulletin the most up-to-date source of comparable euro area statistical information on fiscal variables, the weighted euro area average budget deficit amounted to 2.3% of GDP in 1998, just 0.2 percentage point lower than in 1997. According to more recent but not fully comparable national data, the deficit ratio across the euro area may have been slightly below the value estimated by the European Commission in autumn 1998. The average deficit ratio was therefore much closer to the value of 3% set in the Treaty as a reference for an excessive deficit than to balance (see Table 4).

Strong economic growth contributed to improving budgetary positions. However, on average in the euro area favourable cyclical effects were not fully utilised as a means of reducing the general government deficit-to-GDP ratio. Instead, part of the cyclically induced benefits was absorbed by higher structural deficits. Hence the very small deficit reduction of 0.2 percentage point was exclusively the result of buoyant economic growth and not of genuine fiscal consolidation efforts. Moreover, the euro area countries benefited from low interest rates, which contributed to a lowering of interest payments by 0.4 percentage point on average for the euro area. Savings in interest spending were used by governments to cut tax revenues, while the reduction in primary expenditure as a percentage of GDP was very

limited. Hence the euro area primary surplus ratio deteriorated, after having improved continuously for several years.

Budgetary developments in 1998 were also partly determined by the unwinding of temporary measures on government deficits. Such measures have favourable effects in one year only, improve the budgetary situation at the expense of future budgets or have mere presentational effects. Hence, by their very nature, they do not contribute to fiscal sustainability. Such measures had reduced the general government deficit ratios of several Member States in 1997. Hence, in order simply to maintain the budgetary positions achieved in 1997, let alone to reach more ambitious targets, these countries had to take further corrective action in 1998. In other words, owing to the necessary compensation for the temporary measures taken in 1997, fiscal consolidation efforts taken in 1998 did not fully translate into deficit reduction. From the evidence available, it would appear that further temporary measures played only a minor role in budgetary developments in 1998.

With regard to the evolution of individual items in governments' budget constraints, the small overall deficit reduction of 0.2 percentage point of GDP in 1998 was achieved by a reduction in the government expenditure ratio that was strong enough to outpace a decline in government revenue as a share of GDP. In 1996 and 1997 deficit reduction had relied partly on increasing government revenue. In this sense, the fiscal strategy pursued in 1998 of lowering the deficit ratio without increasing the revenue ratio can be considered as appropriate, even though the magnitude of the deficit reduction was too modest. At the same time,

Table 4
General government fiscal position in the euro area ¹⁾

(as a percentage of GDP)

	1997 ²⁾	1998 ³⁾
Total current receipts	47.3	46.7
of which: Direct taxes	12.2	12.4
Indirect taxes	13.5	14.0
Social security contributions	18.2	17.0
Total expenditure	49.8	49.1
of which: Current transfers	24.0	23.7
to households	20.5	20.2
Actual interest payments	5.1	4.7
Public consumption	17.9	17.8
Net capital expenditure ⁴⁾	2.7	3.0
Public investment expenditure	2.4	2.3
Surplus (+) or deficit (-)	-2.5	-2.3
Primary surplus (+) or deficit (-)	2.6	2.4
Cyclically adjusted budget balance	-1.9	-2.1
Gross debt	75.3	73.8

Source: European Commission (DG II and Eurostat) for Member State data and ECB for the euro area aggregation.

1) Sub-groups may not add up to totals due to rounding.

2) Estimation.

3) Forecast.

4) Equal to expenditure minus current transfers minus actual interest payments minus public consumption.

government revenue ratios, albeit declining, remained very high, thereby causing substantial disincentives to economic activity. Looking at the structure of government revenue, taxes as a percentage of GDP increased in 1998, whereas the share of social security contributions in GDP fell. All major components on the expenditure side of the budget (i.e. current transfers to households, government consumption and interest payments) contributed to lowering the share of government expenditure in GDP, while the share of public investment in GDP remained relatively stable at a comparatively low level. At the same time, public investment expenditure was marginally higher than overall general government deficits (see Table 4).

Developments in government debt in 1998

Average euro area government debt stood at 73.8% of GDP at the end of 1998, i.e. 1.5 percentage points lower than a year earlier. With regard to the evolution of government debt, so-called deficit-debt adjustments have played a non-negligible role

in reducing debt ratios in the euro area, as was already the case in 1997. Such adjustments reflect various financial transactions that leave the deficit ratio unaffected but which have an impact on government debt levels. They occur, in particular, in the case of privatisation – a course of action which has been pursued by most euro area governments in recent years. Deficit-debt adjustments do not of themselves contribute to a sustained improvement in public finances, in the sense that they represent a one-off reduction in the debt level only, without thereby bringing the debt onto a continuously falling trend path. They may, however, result in a permanent lowering of interest payments. In the recent past the composition of government debt has been shifting more towards medium and long-term financing instruments.

Medium-term orientation of fiscal policies

Fiscal plans for 1999, as enshrined in government budgets, appear to be directed more towards fuelling aggregate demand

growth and increasing employment in the short run than towards further consolidating public finances. Governments' medium-term fiscal strategies are laid down in the Member States' stability programmes submitted to the European Commission in accordance with the Stability and Growth Pact (see Box 4). Most countries are still far from attaining the target set out in the Stability and Growth Pact of achieving budgetary positions "close to balance or in surplus" over the medium term. At the same time, most governments envisage making only very little progress towards achieving this target over the coming years. Rather, these government plans seem to rely heavily on the assumption of sustained economic growth and low interest rates and the beneficial budgetary effects of such developments.

In the event of a severe or prolonged growth slowdown, government deficits could easily approach the 3% deficit limit because current

fiscal plans do not incorporate sufficient safety margins to allow automatic stabilisers to work fully without the risk of budgetary positions becoming excessively imbalanced. In addition, government debt remains far too high and debt ratios have only started to decline recently, with no sign of the downward movement being rapid. Hence they continue to impose strong pressure on public finances as interest payments absorb a significant share of government revenue. In addition, government budgets and, in particular, unfunded public pension and healthcare schemes will be confronted with the serious financial consequences of ageing populations over the medium term in almost all euro area countries. For these reasons, budget plans should not only be tailored so as to safeguard public finances against the financial consequences of potential future recessions, but should also build up reserves from which to reduce implicit future liabilities accumulated within the government sector.

Box 4

Obligations of euro area countries concerning their fiscal policies under the Treaty and the Stability and Growth Pact

According to the Treaty, Member States shall conduct their economic policies with a view to contributing to the achievement of the objectives of the Community. Moreover, they shall regard their economic policies as a matter of common concern and shall co-ordinate them within the Council. The Council shall formulate broad guidelines for the economic policies of the Member States and shall monitor economic developments in a multilateral surveillance framework. For this purpose, Member States shall forward, inter alia, information about important measures taken by them in the field of their economic policy. Should the economic policies of a Member State be inconsistent with the broad guidelines or should they risk jeopardising the proper functioning of Economic and Monetary Union, the Council may make a recommendation to the Member State concerned and can decide to make this recommendation public.

Concerning fiscal policy in particular, Member States shall avoid excessive deficits. Compliance with budgetary discipline shall be examined on the basis of reference values for the general government deficit and gross debt in relation to GDP, whereby a number of qualifications can be applied. In particular, an only exceptional and temporary excess of the deficit over the reference value can be exempt from being considered excessive, provided that it remains close to the reference value. In assessing the budgetary position, further information can also be taken into account, e.g. the level of public investment in relation to the government deficit. The decision as to whether or not a Member State is in an excessive deficit position lies with the Council upon a recommendation from the European Commission. The avoidance of excessive deficits being a criterion for entry into Economic and Monetary Union, current euro area Member States are not in the position of having excessive deficits.

A clarification of the Treaty's fiscal norms was decided by the Council in 1997 by implementing the Stability and Growth Pact. This Pact mainly aims at (a) ensuring lasting compliance of fiscal policies with the

requirement of budgetary prudence, and (b) monitoring fiscal developments with a view to receiving early warnings in the event of budgetary slippage. In this context, the Council underlines the importance of safeguarding sound government finances as a means of strengthening the conditions for price stability and strong sustainable growth conducive to employment creation.

As the main provision to ensure sound fiscal policies on a permanent basis, the Stability and Growth Pact incorporates the Member States' commitment to respect the medium-term budgetary objective of positions close to balance or in surplus. This objective would allow all Member States to deal with normal cyclical fluctuations, while keeping the government deficit at or below the reference value of 3% of GDP. Deficits of above 3% of GDP will be regarded as excessive, unless they occur only temporarily and under exceptional circumstances and provided that deficits remain close to the reference value. Such exceptional and temporary circumstances are defined as either an unusual event beyond the control of the Member State concerned which has a major impact on the financial position of the general government or as a severe recession. An excess over the reference value resulting from a severe economic downturn shall, as a rule, only be considered as exceptional if there is an annual fall in real GDP of at least 2%. A smaller decline in real GDP can only be considered as exceptional when this is suggested by supporting evidence, in particular the abruptness of the downturn or the accumulated loss of output relative to past trends. However, Member States have committed themselves not to invoke this possibility unless they are in severe recession. In evaluating whether or not an economic downturn is severe, as a rule Member States will take a reference point of an annual fall in real GDP of at least 0.75%. The temporary nature of a deficit exceeding the 3% level will be apparent from budgetary forecasts as provided by the European Commission indicating that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn.

Should a Member State's government deficit be considered excessive, the Council will formulate recommendations for the correction of this budgetary imbalance. Effective measures to this effect have to be taken by the Member State concerned within four months. Should, according to the Council's judgement, such effective action not be taken, the Council can impose sanctions. These initially take the form of a non-interest-bearing deposit quantified in relation to the Member State's GDP, which may be converted into a fine should the excessive deficit persist for more than two years.

In order to monitor budgetary developments and to receive signals of any potential budgetary slippage, as well as to facilitate the co-ordination of economic policies, an early warning mechanism has also been established in the context of the Stability and Growth Pact. For this purpose, participating Member States shall submit to the Council and Commission annual stability programmes specifying their medium-term budgetary objectives. The content and format of stability programmes follow an agreed pattern. The Council shall deliver an opinion on the stability programmes and request adjustments, should it consider a strengthening of the programme's objectives and contents to be necessary. Moreover, the implementation of the programmes shall be monitored by the Council and a recommendation shall be made to the Member State concerned if the Council identifies any significant divergence of the budgetary position from the medium-term budgetary objectives laid down in the programme.

5 The global macroeconomic environment, exchange rates and the balance of payments

The global environment

The global environment showed some signs of improvement

Following a period of great uncertainty in the second half of 1998, the turmoil in financial markets has recently subsided and global macroeconomic conditions have improved slightly. Signals coming from world financial markets and economic indicators are, however, still mixed as the economic performance among major regional blocs continues to be divergent and uncertainties persist in some emerging markets.

On the positive side, growth in the United States in 1999 is expected to be stronger than originally anticipated, thereby supporting global economic growth and compensating for weak performance in other regions. Some emerging market economies in Asia are showing the first signs of economic recovery. Moreover, the reaction of international financial markets to the crisis in Brazil has so far been muted and the immediate contagion effects via financial markets have remained limited.

On the negative side, in Japan there are as yet no signs of a turnaround. In addition, in the wake of the currency crisis – which caused the Brazilian real to depreciate by around 40% from the beginning of the float in January 1999 to early March – Brazil has entered a recession, which might also affect the economic performance of other Latin American economies. As risk aversion has increased substantially, private capital flows to emerging market economies are projected to decline further in 1999, therefore hampering their growth prospects. Moreover, some of these economies will be increasingly affected by low commodity prices and weak demand for raw materials. Finally, external imbalances of major regional blocs are likely to expand during the course of the year, thus increasing the risks of protectionist measures.

As a result of these diverging forces in the world economy, significant uncertainty remains regarding prospects for world growth and world trade during 1999. The absence of a clear outlook and the growing external imbalances of major regions could have a negative effect on the global environment, thereby further increasing investors' risk aversion and contributing to higher volatility in financial markets.

With regard to the major world economies, in the United States the economy grew strongly in 1998 for the seventh consecutive year, thus rendering the current economic expansion the most enduring in the post-war period. Driven mostly by domestic demand, real GDP increased by an estimated annualised rate of 6.1% in the fourth quarter of 1998, consequently posting a 3.9% growth rate for the year as a whole. Looking ahead, most leading and coincident indicators suggest that domestic demand is likely to maintain its momentum into 1999. Consumer confidence improved markedly as the consumer expectations index rose to 102.4 in February 1999 from a level of 95.7 in January. Housing starts also rose in January and are expected to continue to grow as there was an increase in applications for new building permits as well. However, industrial output was flat in January and overall capacity utilisation declined slightly. The relatively weak performance of the manufacturing sector can be attributed mainly to sluggish foreign demand. The latter, coupled with the parallel increase in imports due to continued strong domestic demand, drove the current account to a deficit of USD 61 billion in the third quarter of 1998.

In spite of buoyant activity, inflationary pressures in the United States have so far remained subdued owing mainly to the fact that commodity and energy prices are at historically low levels and significant gains in productivity have largely offset wage increases. More specifically, consumer price inflation was 1.6%

in 1998 and continued to remain modest in early 1999, increasing slightly to a year-on-year rate of 1.7% in January 1999. Nonetheless, with the unemployment rate remaining at its 30-year low of 4.3% in January, inflation could pick up later in the year, should the tightness in labour markets translate into upward pressures on wages.

In Japan major downside risks remain with regard to a sustainable recovery, despite the likely positive impact of the fiscal stimulus package of April 1998 on public investment in the final quarter of last year. In January 1999 growth in public works contracts was nil compared with the corresponding month in 1998, an indication that the effect of the April 1998 package is waning and that the impact of the November 1998 fiscal stimulus measures has yet to materialise. Moreover, preliminary figures for December 1998 show – in real terms – a year-on-year decrease of 0.6% in household consumption expenditure, due to lower “end-of-year” bonus payments. Finally, private investment remained rather depressed, as year-on-year machinery orders declined by 12.2% in November 1998. Looking ahead, economic growth may pick up somewhat in the first half of 1999 as a result of the latest fiscal stimulus package. There are no clear signs, however, that this will spill over into private sector demand and lead to a sustainable recovery. Against this background, the surplus in the current account rose to JPY 4.6 trillion (or 0.9% of annual GDP) in the third quarter of 1998.

With regard to price developments, overall wholesale prices in Japan fell by 0.6% and 3.6% in the third and fourth quarters of 1998 respectively, and by 4.9% in January 1999. Consumer prices remained more stable, decreasing year-on-year by 0.2% and increasing by 0.5% in the third and fourth quarters of 1998 respectively. Excluding perishable products, however, consumer prices decreased by 0.2% and 0.3% in the third and fourth quarters of last year.

On 12 February 1999 the Bank of Japan lowered its target for the overnight call rate

from 0.25% to around 0.15%. In addition, it was decided that the rate on an emergency lending facility for banks would be halved to 0.25% as from 22 February 1999 and that the expansion of the money supply would be encouraged through further injections of funds into the money market.

Exchange rate and balance of payments developments

The euro weakened against major currencies

The main trends that had characterised foreign exchange markets in January mostly persisted in February as the euro continued to weaken against the currencies of the major euro area trading partners, in particular the US dollar. Moreover, the volatility of the Japanese yen remained high, against both the dollar and the euro.

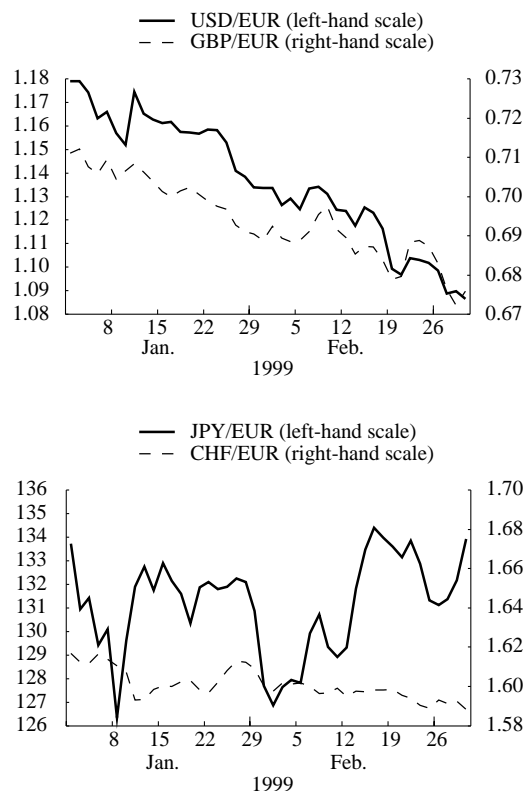
Against the US dollar, the euro weakened further during February (see Chart 19). It ended the month at USD 1.10, 2.8% below its level at the beginning of the month and 6.5% below the level at its launch on 4 January 1999. The weakening of the euro vis-à-vis the US dollar was mainly attributable to a continued stream of data releases showing stronger than expected output growth in the United States. Furthermore, expectations of monetary policy changes in the United States shifted from a further easing to the possibility of some tightening. On 4 March 1999 the euro was quoted at USD 1.09.

The exchange rate of the Japanese yen vis-à-vis the euro fluctuated significantly during February. Nevertheless, the euro ended the month at JPY 131, practically unchanged from its level at the beginning of February and 1.8% below its rate at the time of the euro launch. Underlying the volatility of the yen against both the euro and the US dollar were partly conflicting signals about general policy directions in Japan. These signals were related, inter alia, to discussions about the absorption of government bonds by the Trust Fund Bureau, an official body which has taken

Chart 19

Patterns in exchange rates

(daily data)



Source: ECB.

up large proportions of government bonds in the past. Until the Japanese Ministry of Finance announced in mid-February that the Bureau would resume bond purchases, the prospect that these bonds might have to be placed in the market led to sharp rises in bond yields and pick-ups in the yen. On the other hand, the recent easing of monetary policy by the Bank of Japan created some scope for the weakening of the yen. On 4 March 1999 the euro stood at JPY 134.

Against the pound sterling, on 4 March 1999 the euro was quoted at GBP 0.68, i.e. about 5% below its level when the euro was launched. While the pound sterling may potentially have been negatively affected by the projected slowdown of the UK economy, it may also have benefited from the strength of the US dollar – to whose movements it is traditionally linked. The decision of the Bank

of England on 4 February 1999 to cut interest rates by 50 basis points had only little effect on the exchange rate of the pound. In the absence of significant news affecting the bilateral exchange rate, the euro was broadly stable against the Swiss franc. On 4 March 1999 the euro was quoted at CHF 1.59.

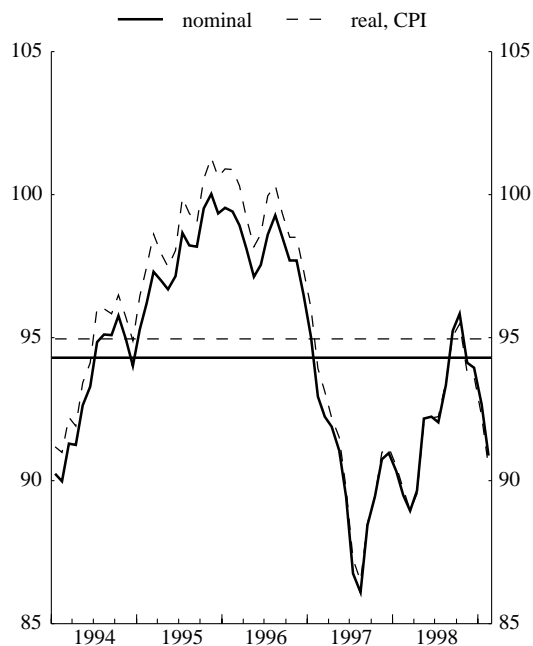
The trade-weighted euro exchange rate eased

In nominal effective terms, i.e. on the basis of the trade-weighted average index provided by the Bank for International Settlements (BIS), the euro weakened by around 1% during February. Since the start of the year the nominal effective exchange rate index declined by 3.8% up to the end of February, owing mainly to a weakening of the euro against the US dollar and the pound sterling.

Chart 20

Effective exchange rates of the euro area¹⁾

(monthly averages; index 1990 = 100)



Source: BIS.

1) Data are BIS calculations; for information on the methodology used, see Table 10 in the "Euro area statistics" section of this Bulletin. An upward movement of the index represents an appreciation for the euro area. Horizontal lines are averages over the period shown.

Table 5
Trade in goods of the euro area

	1996	1997	1997	1997	1997	1997	1998	1998	1998	1998	1998
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Oct.	Nov.
Exports											
ECU billions	669.7	761.8	170.2	191.6	193.5	206.5	194.0	203.9	194.3	68.7	66.0
Annual percentage changes	7.6	13.8	7.2	15.3	19.0	13.4	13.9	6.4	0.4	-6.2	-0.4
Imports											
ECU billions	593.9	672.5	158.1	167.6	166.6	180.2	180.5	178.7	169.1	61.4	59.5
Annual percentage changes	5.5	13.2	7.0	13.7	18.2	14.1	14.2	6.6	1.5	-3.3	2.7
Trade balance											
ECU billions	75.8	89.3	12.1	24.0	26.9	26.3	13.4	25.2	25.2	7.2	6.5
ECU billions, cumulative ¹⁾	75.8	89.3	12.1	36.2	63.1	89.3	13.4	38.6	63.8	71.1	77.6

Source: Eurostat.

1) For the year to date. Figures may not add up due to rounding.

The weakening of the euro against the Japanese yen and the Swedish krona over this two-month period also contributed to this. From a medium-term perspective, looking back a few years, the most recent developments indicate that the euro effective exchange rate is currently somewhat below its longer-term average, both in nominal and in real terms (deflated by the CPI) (see Chart 20).

Further reduction in the trade balance surplus

As noted in the January and February issues of the Monthly Bulletin, overall balance of payments data for the euro area are not yet available. The following comments are based on figures produced by Eurostat and refer to exports and imports of goods between the euro area and the rest of the world, excluding intra-euro area transactions.

The trade balance surplus for the euro area in November 1998 (the latest month for which data are available) was ECU 6.5 billion (see Table 5), i.e. ECU 1.8 billion lower than in the corresponding month in 1997. The decline in the trade surplus resulted from lower exports and accelerating imports. In November 1998 exports declined for the third consecutive month, reflecting the

impact of both the global international environment and the strengthening of the euro area currencies during the second and third quarters of 1998. Over the last three-month period (September to November 1998) exports declined by 3.7% compared with the same period in 1997. Imports rose by 2.7% in November 1998 compared with the same month in 1997. Over the three months up to November imports were broadly unchanged when compared with the same period in 1997. The cumulative trade surplus had reached ECU 77.6 billion since the start of the year, which was ECU 3.5 billion lower than the corresponding figure in 1997. In line with the above trends, the trade balance surplus as a percentage of GDP should decline slightly in 1998, reversing the continuous increase recorded over the past few years.

The product disaggregation of the trade figures (SITC; see Tables 9.1 to 9.3 in the "Euro area statistics" section of this Bulletin), shows that the export decline mainly affected other manufactured products and machinery and transport equipment. The 34% reduction in oil prices (in US dollar terms) between October 1997 and October 1998 contributed to limiting the reduction in the cumulative trade balance surplus, which – excluding energy products – amounted to ECU 14.3 billion for the same period (see Table 6).

Table 6**Cumulative trade balance***(absolute differences from corresponding period in the previous year; ECU billions)*

	1998 Jan.	1998 Feb.	1998 Mar.	1998 Apr.	1998 May	1998 June	1998 July	1998 Aug.	1998 Sep.	1998 Oct.
Total	0.72	0.78	1.31	2.77	4.11	2.44	2.92	3.04	0.79	-1.65
Non-energy	-0.69	-1.45	-1.85	-1.11	-0.38	-3.16	-4.23	-6.02	-9.68	-14.33
Food, drink and tobacco	-0.06	-0.09	-0.14	-0.04	0.41	0.53	0.64	0.61	0.23	0.03
Raw materials	-0.13	-0.51	-0.92	-0.91	-0.89	-1.21	-1.36	-1.34	-1.11	-0.96
Energy	1.40	2.23	3.16	3.87	4.49	5.60	7.15	9.06	10.47	12.75
Chemicals	0.38	0.70	0.93	1.19	1.47	1.50	1.17	0.71	0.57	-0.11
Other manufactured articles	-0.42	-0.76	-1.14	-1.17	-1.39	-2.60	-3.24	-3.93	-4.95	-6.47
Machinery and transport equipment	-0.62	-0.72	-0.26	-0.04	0.33	-0.44	-0.42	-0.93	-2.74	-5.50
Others	0.17	-0.07	-0.33	-0.13	-0.31	-0.95	-1.03	-1.14	-1.68	-1.38

Sources: Eurostat and ECB calculations; the commodity breakdown is in accordance with the SITC Rev. 3.



Euro area statistics



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I Monetary policy statistics

Table I.1
Consolidated financial statement of the Eurosystem ¹⁾
(EUR millions)
1. Assets

	Gold and gold receivables 1	Claims on non-euro area residents in foreign currency 2	Claims on euro area residents in foreign currency 3	Claims on non-euro area residents in euro 4	Lending to financial sector counterparties in the euro area 5	Main refinancing operations 6	Longer-term refinancing operations 7	Fine-tuning reverse operations 8
1999 1 Jan.	99,598	230,342	6,704	8,939	185,120	144,924	24,698	6,680
8	99,598	234,128	5,255	8,786	174,769	145,067	22,230	49
15	99,589	235,398	6,541	8,110	173,146	122,898	44,998	0
22	99,589	235,387	7,277	7,238	155,287	106,918	44,998	0
29	99,589	233,019	7,385	9,094	182,912	127,967	44,998	0
5 Feb.	99,589	231,709	7,454	6,702	177,831	130,994	44,993	0
12	99,589	231,409	8,104	6,176	173,248	126,879	44,993	0
19	99,589	232,211	8,448	5,277	173,527	126,830	44,993	0
26	99,589	228,797	9,338	4,430	186,437	139,938	45,001	0

2. Liabilities

	Banknotes in circulation 1	Liabilities to financial sector counterparties in the euro area in euro 2	Current accounts (covering the minimum reserve system) 3	Deposit facility 4	Fixed-term deposits 5	Fine-tuning reverse operations 6	Deposits related to margin calls 7	Debt certificates issued 8
1999 1 Jan.	341,708	87,308	84,437	973	1,886	0	12	13,835
8	336,551	106,002	102,518	3,475	0	0	9	11,651
15	330,796	109,936	107,824	2,110	0	0	2	11,651
22	326,555	87,970	87,733	234	0	0	3	11,651
29	326,534	85,353	84,632	709	0	0	12	11,650
5 Feb.	328,262	109,138	108,127	1,010	0	0	1	11,650
12	327,341	106,048	105,821	226	0	0	1	11,650
19	324,490	97,297	95,419	1,870	0	0	8	11,650
26	325,207	99,970	99,261	705	0	0	4	11,650

Source: ECB.
1) Discrepancies may arise from rounding.

								Total assets		
Structural reverse operations	Marginal lending facility	Credits related to margin calls	Other lending	Securities of euro area residents in euro	General government debt in euro	Other assets				
9	10	11	12	13	14	15	16			
0	6,372	26	2,420	21,650	60,125	84,683	697,160	1999	1 Jan.	
0	5,434	24	1,966	20,914	60,125	81,554	685,128		8	
0	2,655	58	2,537	21,335	60,130	82,743	686,992		15	
0	2,111	80	1,180	21,794	60,183	80,867	667,622		22	
0	8,700	127	1,120	22,096	60,185	80,358	694,638		29	
0	592	101	997	22,549	60,185	81,428	687,447		5 Feb.	
0	210	102	1,064	23,255	60,185	78,270	680,236		12	
0	592	95	1,017	23,868	60,185	78,786	681,891		19	
0	423	102	973	24,281	60,185	79,584	692,641		26	

								Total liabilities		
Liabilities to other euro area residents in euro	Liabilities to non-euro area residents in euro	Liabilities to euro area residents in foreign currency	Liabilities to non-euro area residents in foreign currency	Counterpart of special drawing rights allocated by the IMF	Capital and reserves	Other liabilities				
9	10	11	12	13	14	15	16			
61,477	9,969	595	3,314	5,765	112,498	60,690	697,160	1999	1 Jan.	
32,203	11,538	1,051	3,929	5,765	112,488	63,950	685,128		8	
33,020	10,899	1,529	4,068	5,767	110,878	68,448	686,992		15	
43,442	9,148	1,297	4,344	5,767	110,956	66,492	667,622		22	
56,652	14,049	1,618	4,325	5,767	110,937	77,753	694,638		29	
44,017	8,161	810	5,827	5,767	110,937	62,878	687,447		5 Feb.	
43,556	7,840	733	6,395	5,767	110,937	59,969	680,236		12	
54,905	8,052	746	7,172	5,767	110,937	60,875	681,891		19	
62,143	7,739	777	6,385	5,767	110,938	62,065	692,641		26	

Table 1.2**ECB interest rates on standing facilities***(levels in percentages per annum; changes in percentage points)*

	Deposit facility		Marginal lending facility	
	Level 1	Change 2	Level 3	Change 4
1999 1 Jan.	2.00	-	4.50	-
4 ¹⁾	2.75	0.75	3.25	-1.25
22	2.00	-0.75	4.50	1.25

Source: ECB.

1) 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 regime by market participants.

Table 1.3**Eurosystem monetary policy operations executed through tenders***(EUR millions; interest rates in percentages per annum)*

Main refinancing operations							
Date of settlement	Bids (amount) 1	Allotment (amount) 2	Fixed rate tenders	Variable rate tenders		Running for [...] days 6	
			Fixed rate 3	Marginal rate 4	Weighted average rate 5		
1999 7 Jan.	481,625	75,000	3.00			13	
13	563,409	48,000	3.00			14	
20	593,418	59,000	3.00			14	
27	689,467	69,000	3.00			14	
3 Feb.	757,724	62,000	3.00			14	
10	911,302	65,000	3.00			14	
17	896,138	62,000	3.00			14	
24	991,109	78,000	3.00			14	
3 Mar.	1,100,797	67,000	3.00			14	
Longer-term refinancing operations							
Date of settlement	Bids (amount) 1	Allotment (amount) 2	Fixed rate tenders	Variable rate tenders		Running for [...] days 6	
			Fixed rate 3	Marginal rate 4	Weighted average rate 5		
1999 14 Jan.	79,846	15,000		3.13		42	
14	39,343	15,000		3.10		70	
14	46,152	15,000		3.08		105	
25 Feb.	77,300	15,000		3.04		91	
Other tender operations							
Date of settlement	Type of operation 1	Bids (amount) 2	Allotment (amount) 3	Fixed rate tenders	Variable rate tenders		Running for [...] days 7
				Fixed rate 4	Marginal rate 5	Weighted average rate 6	

1999

Source: ECB.

Table 1.4**Minimum reserve statistics****1. Reserve base of credit institutions subject to reserve requirements^{1) 2)}**

(EUR billions)

Reserve base as at:	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	Money market paper	Deposits (over 2 years agreed maturity and notice period)	Repos	Debt securities over 2 years agreed maturity
	1	2	3	4	5	6	7
1999 1 Jan.	8,409.1	4,726.4	89.0	131.9	1,102.5	448.0	1,911.4
end-Jan. ^(p)	8,482.9	.	.	.	.	.	.

Source: ECB.

- 1) 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. If a credit institution cannot provide evidence of the amount of its issues of debt securities with a maturity up to 2 years and of money market paper held by the institutions mentioned above, it may deduct 10% of these liabilities from its reserve base.
- 2) The reserve base of credit institutions as at 1 January 1999 was used to calculate the minimum reserves for the maintenance period starting on 1 January 1999 and ending on 23 February 1999. Subsequent maintenance periods start on the 24th of the month and run to the 23rd of the following month; the required reserve is calculated from the reserve base as at the end of the preceding month.

2. Reserve maintenance¹⁾

(EUR billions; interest rates as annual percentages)

Maintenance period ending in:	Required reserves ²⁾	Actual reserves ³⁾	Excess reserves ⁴⁾	Deficiencies ⁵⁾	Interest rate on minimum reserves ⁶⁾
	1	2	3	4	5
1999 Feb.	98.3	99.3	1.1	0.1	3.00
Mar. ^(p)	99.7	.	.	.	.

Source ECB.

- 1) This table contains full data for completed maintenance periods and required reserves for the current maintenance period. Discrepancies may arise from rounding.
- 2) The amount of 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 as at the end of each calendar month; subsequently, each credit institution deducts from this figure a lump-sum allowance of EUR 100,000. The resulting positive reserve requirements are then aggregated at the euro area level.
- 3) Aggregate average daily holdings of credit institutions required to hold a positive amount of reserves on their reserve accounts over the maintenance period.
- 4) Average actual reserve holdings over the maintenance period in excess of the required reserves, computed on the basis of those credit institutions that have fulfilled the reserve requirement.
- 5) Average shortfalls of actual reserve holdings from required reserves over the maintenance period, computed on the basis of those credit institutions that have not fulfilled the reserve requirement.
- 6) This rate equals 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 Table 1.3).

Table 1.5**Banking system's liquidity position ¹⁾***(EUR billions; period averages of daily positions)*

Maintenance period ending in:	Liquidity providing factors					Liquidity absorbing factors				Credit institutions' current accounts ⁴⁾	Base money ⁵⁾
	Monetary policy operations of the Eurosystem					Deposit facility	Banknotes in circulation	Central government deposits with the Eurosystem	Other factors (net) ³⁾		
	Eurosystem's net assets in gold and foreign currency	Main refinancing operations	Longer-term refinancing operations	Other operations ²⁾	Marginal lending facility						
1	2	3	4	5	6	7	8	9	10	11	
1999 Feb.	328.2	104.6	34.2	30.6	3.8	1.3	329.3	41.1	29.5	100.2	430.8

Source: ECB.

- 1) The banking system's liquidity position is defined as the current account holdings in euro of credit institutions in the euro area with the Eurosystem. Amounts are derived from the consolidated financial statement of the Eurosystem. Discrepancies may arise from rounding.
- 2) Includes monetary policy operations initiated by national central banks in Stage Two and outstanding at the start of Stage Three (excluding outright operations and the issuance of debt certificates).
- 3) Remaining items in the consolidated financial statement of the Eurosystem.
- 4) Equal to the difference between the sum of liquidity providing factors (items 1 to 5) and the sum of liquidity absorbing factors (items 6 to 9).
- 5) Calculated as the sum of the deposit facility (item 6), banknotes in circulation (item 7) and credit institutions' current account holdings (item 10) or, alternatively, as the difference between the sum of liquidity providing factors (items 1 to 5) and the sum of government deposits (item 8) and other factors (net) (item 9).

2 Monetary and financial developments in the euro area

Table 2.1

Aggregated balance sheet of the Eurosystem^{1) 2)}

(EUR billions (not seasonally adjusted; end-of-period stocks))

1. Assets

	Loans to euro area residents				Holdings of securities other than shares issued by euro area residents				Holdings of shares/other equity issued by euro area residents			External assets ³⁾	Fixed assets	Remaining assets	Total assets
	1	2	3	4	5	6	7	8	9	10	11					12	13	14	15
1997 Sep.	245.4	223.0	21.8	0.6	115.4	0.8	113.3	1.3	2.8	0.5	2.3	278.8	7.1	46.1	695.7
Oct.	251.1	228.6	21.8	0.6	113.6	0.7	111.6	1.3	2.8	0.5	2.3	278.2	7.2	44.4	697.3
Nov.	242.4	220.0	21.8	0.6	113.6	0.7	111.3	1.5	2.8	0.5	2.3	280.3	7.2	55.2	701.5
Dec.	254.3	232.6	21.1	0.6	114.0	0.7	111.8	1.5	2.9	0.5	2.4	289.1	7.0	53.5	720.8
1998 Jan.	238.1	216.5	21.2	0.4	111.7	1.0	109.3	1.5	2.9	0.5	2.5	291.1	7.2	42.5	693.5
Feb.	260.9	239.1	21.2	0.7	108.2	1.0	105.8	1.5	2.9	0.6	2.4	291.4	7.3	43.7	714.5
Mar.	246.5	225.1	21.2	0.2	106.6	1.2	104.2	1.3	3.0	0.6	2.5	290.2	7.5	40.8	694.6
Apr.	240.8	219.2	21.2	0.4	102.5	1.4	100.2	0.9	3.0	0.6	2.5	294.8	7.6	45.1	693.9
May	242.8	221.4	21.2	0.3	101.9	1.6	99.4	0.9	3.1	0.6	2.5	298.1	7.7	48.3	701.8
June	325.2	303.9	21.1	0.2	105.4	4.8	99.8	0.8	3.3	0.8	2.5	288.2	7.8	49.3	779.2
July	338.2	316.9	21.1	0.2	87.8	1.1	85.9	0.8	4.7	2.1	2.6	292.5	8.0	51.3	782.6
Aug.	339.9	318.5	21.1	0.2	88.1	0.9	86.3	0.9	4.7	2.0	2.7	290.4	8.0	56.3	787.4
Sep.	326.4	305.1	21.1	0.2	82.7	1.0	81.0	0.7	4.7	2.0	2.7	288.4	8.0	51.5	761.7
Oct.	326.6	305.3	21.1	0.2	73.3	0.9	71.7	0.7	4.7	2.0	2.7	297.9	8.1	51.1	761.6
Nov.	322.2	300.7	21.1	0.4	78.0	1.0	76.3	0.6	4.7	2.0	2.7	305.1	8.1	52.8	770.9
Dec.	225.7	205.2	20.4	0.1	87.8	1.1	86.2	0.5	5.4	1.7	3.7	316.5	8.0	48.5	691.8
1999 Jan. ^(p)	397.3	376.3	20.4	0.6	89.2	1.3	87.3	0.7	8.3	4.3	4.1	423.9	9.8	58.9	987.5

2. Liabilities

	Currency in circulation	Deposits of euro area residents				Money market paper	Debt securities issued	Capital and reserves	External liabilities ³⁾	Remaining liabilities	Total liabilities
		1	2	3	4							5	6	7	8	9	10	11
1997 Sep.	338.4	139.6	80.4	55.8	3.3	17.3	16.8	100.8	15.9	67.0	695.7
Oct.	338.4	144.0	88.6	51.9	3.5	17.0	16.6	99.9	15.7	65.6	697.3
Nov.	341.9	141.6	82.3	54.5	4.8	13.3	15.6	100.9	15.9	72.3	701.5
Dec.	354.0	147.0	91.9	52.2	2.9	13.2	15.0	105.6	16.1	69.8	720.8
1998 Jan.	339.9	136.3	83.4	50.7	2.2	13.9	16.3	107.4	16.1	63.5	693.5
Feb.	339.9	159.2	93.7	61.5	4.0	13.3	16.5	105.6	15.1	64.9	714.5
Mar.	340.5	137.9	88.4	46.8	2.7	11.3	17.2	104.8	15.3	67.5	694.6
Apr.	343.8	131.3	84.8	44.3	2.2	12.0	16.9	103.7	16.4	69.6	693.9
May	346.1	141.8	90.9	47.0	4.0	13.1	15.3	103.5	15.9	66.1	701.8
June	345.4	208.0	149.3	54.2	4.5	13.5	14.1	111.6	20.8	65.6	779.1
July	350.4	199.9	132.8	64.0	3.0	13.9	14.3	110.3	24.0	69.9	782.6
Aug.	344.6	208.8	135.5	69.7	3.5	12.4	13.5	110.2	21.6	76.2	787.4
Sep.	341.5	195.9	124.4	67.1	4.5	11.2	12.8	106.4	23.2	70.7	761.7
Oct.	342.3	198.2	129.2	64.7	4.3	11.7	11.8	106.6	22.6	68.4	761.6
Nov.	344.1	210.5	147.3	56.8	6.4	12.5	11.6	103.3	20.0	68.9	770.9
Dec.	359.0	146.8	89.0	54.9	2.9	7.2	6.7	97.0	18.6	56.7	691.8
1999 Jan. ^(p)	343.8	349.7	294.2	50.3	5.2	6.3	5.3	123.2	100.3	58.9	987.5

Source: ECB.

1) The ECB was established on 1 June 1998. The data shown for the Eurosystem relate to the ECB (as from June 1998) and the national central banks of Member States in the euro area.

2) Data have been revised in the light of new information. Discrepancies may arise from rounding.

3) Including temporary gross positions with the national central banks of Member States not participating in the euro area relating to the operation of the TARGET system, amounting to approximately EUR 75 billion at end-January 1999.

Table 2.2**Aggregated balance sheet of the euro area MFIs (excluding the Eurosystem) ¹⁾***(EUR billions (not seasonally adjusted; end-of-period stocks))***1. Assets**

		Loans to euro area residents				Holdings of securities other than shares issued by euro area residents				Money market paper	Holdings of shares/other equity issued by euro area residents			External assets	Fixed assets	Re-maining assets	Total assets
		MFI	General government	Other euro area residents	Other securities	MFI	General government	Other euro area residents	MFI		Other euro area residents						
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1997	Sep.	8,142.0	2,737.2	814.5	4,590.4	1,891.2	632.8	1,069.2	189.2	105.9	307.0	90.5	216.5	1,556.0	238.4	776.3	13,016.7
	Oct.	8,229.0	2,795.8	816.4	4,616.8	1,894.2	637.3	1,068.4	188.5	106.8	311.8	91.7	220.1	1,543.5	241.3	789.2	13,115.8
	Nov.	8,324.6	2,848.1	834.6	4,641.9	1,905.9	641.4	1,073.7	190.8	104.6	316.6	92.5	224.1	1,600.1	243.9	822.4	13,318.2
	Dec.	8,436.1	2,905.6	821.4	4,709.1	1,868.5	635.6	1,050.6	182.3	99.6	329.8	94.2	235.6	1,594.8	238.9	796.9	13,364.8
1998	Jan.	8,501.3	2,974.4	806.4	4,720.6	1,911.0	648.2	1,074.0	188.9	104.8	351.1	102.2	248.9	1,597.3	236.4	827.2	13,529.2
	Feb.	8,538.7	2,986.8	807.9	4,744.0	1,932.1	651.8	1,086.2	194.1	106.3	363.6	104.6	259.0	1,623.6	236.7	832.7	13,633.7
	Mar.	8,561.6	2,979.8	806.0	4,775.8	1,957.2	654.9	1,103.7	198.6	105.1	384.3	108.9	275.4	1,676.7	238.0	811.3	13,734.3
	Apr.	8,617.1	2,999.7	810.9	4,806.5	1,978.1	664.3	1,114.8	199.1	105.7	396.0	112.1	283.9	1,634.0	238.2	829.9	13,799.1
	May	8,618.2	2,994.0	799.7	4,824.4	2,000.0	670.8	1,126.5	202.7	105.7	403.9	116.4	287.5	1,632.9	247.0	844.5	13,852.2
	June	8,752.6	3,070.5	805.8	4,876.4	2,014.5	681.3	1,137.6	195.5	104.1	401.0	118.2	282.8	1,674.8	240.2	736.3	13,923.5
	July	8,732.2	3,013.8	801.4	4,917.0	2,035.7	697.5	1,137.2	201.0	104.0	392.2	117.2	275.1	1,632.7	235.3	780.7	13,912.9
	Aug.	8,756.1	3,035.8	803.9	4,916.4	2,041.4	703.8	1,136.1	201.6	103.7	386.4	118.2	268.3	1,641.1	236.3	768.9	13,934.0
	Sep.	8,820.5	3,049.0	806.9	4,964.6	2,047.5	709.6	1,135.8	202.2	102.2	379.7	109.6	270.1	1,624.9	237.0	782.1	13,993.9
	Oct.	8,943.6	3,132.0	812.8	4,998.8	2,070.4	709.9	1,154.6	205.9	101.9	386.8	115.7	271.1	1,621.2	239.0	782.1	14,145.1
	Nov.	9,072.1	3,209.2	819.6	5,043.3	2,071.8	719.4	1,151.8	200.6	108.9	401.2	116.7	284.5	1,666.1	241.2	795.2	14,356.6
	Dec.	9,048.0	3,130.3	821.3	5,096.4	2,033.2	731.4	1,107.5	194.4	102.6	423.0	120.2	302.8	1,587.8	243.3	795.1	14,233.0
1999	Jan. ^(p)	9,267.6	3,347.2	817.1	5,103.3	2,059.2	737.6	1,114.2	207.4	103.1	430.8	103.4	327.4	1,651.8	244.3	957.3	14,714.0

2. Liabilities

		Currency in circulation	Deposits of euro area residents	MFIs	Central government	Other general government/other euro area residents				Money market fund shares/units	Debt securities issued	Money market paper	Capital and reserves	External liabilities	Re-maining liabilities	Total liabilities	
						Over-night	With agreed maturity	Redeem-able at notice	Repur- chase agreements								
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1997	Sep.	0.4	7,467.7	2,841.8	95.8	4,530.1	1,140.7	1,897.7	1,284.8	207.0	263.2	1,906.8	143.6	677.1	1,338.8	1,219.1	13,016.7
	Oct.	0.4	7,545.8	2,904.3	99.4	4,542.1	1,141.3	1,907.5	1,286.4	206.8	258.6	1,913.2	146.6	675.5	1,343.1	1,232.6	13,115.8
	Nov.	0.4	7,637.8	2,972.8	88.4	4,576.6	1,169.3	1,902.6	1,289.1	215.6	260.5	1,923.9	145.6	677.7	1,393.7	1,278.6	13,318.2
	Dec.	0.4	7,764.0	2,999.8	102.1	4,662.1	1,227.7	1,902.7	1,326.4	205.4	252.0	1,925.1	138.8	687.5	1,383.0	1,214.0	13,364.8
1998	Jan.	0.4	7,781.6	3,029.5	95.6	4,656.5	1,177.9	1,919.3	1,341.8	217.4	253.7	1,944.5	145.2	690.8	1,436.0	1,276.9	13,529.2
	Feb.	0.4	7,829.5	3,066.1	98.4	4,665.1	1,179.7	1,923.9	1,345.1	216.3	255.7	1,967.8	147.2	696.0	1,469.8	1,267.3	13,633.7
	Mar.	0.4	7,836.2	3,077.0	92.8	4,666.5	1,208.8	1,899.0	1,346.4	212.2	255.5	1,985.1	149.5	710.3	1,521.2	1,275.9	13,734.3
	Apr.	0.4	7,866.9	3,079.7	97.2	4,689.9	1,223.1	1,914.2	1,346.0	206.6	258.3	1,999.4	156.3	702.6	1,492.4	1,322.7	13,799.1
	May	0.4	7,890.0	3,092.8	88.2	4,709.0	1,239.5	1,913.4	1,347.9	208.2	261.2	2,012.1	150.9	712.2	1,485.2	1,340.2	13,852.2
	June	0.4	7,999.1	3,174.8	94.0	4,730.3	1,287.0	1,893.3	1,346.5	203.4	259.8	2,041.2	145.9	718.7	1,496.1	1,262.3	13,923.5
	July	0.4	7,961.7	3,163.3	92.4	4,706.1	1,248.0	1,896.6	1,345.9	215.5	259.8	2,061.8	152.8	720.1	1,472.9	1,283.5	13,912.9
	Aug.	0.4	7,981.8	3,183.7	95.4	4,702.6	1,238.9	1,908.0	1,347.6	208.2	264.7	2,072.6	152.9	720.1	1,475.8	1,265.8	13,934.0
	Sep.	0.4	8,013.7	3,212.6	96.3	4,704.8	1,259.9	1,890.7	1,346.6	207.7	260.3	2,074.8	153.2	718.4	1,484.9	1,288.3	13,993.9
	Oct.	0.4	8,105.1	3,285.9	97.0	4,722.2	1,265.1	1,888.9	1,349.8	218.3	258.4	2,077.7	160.2	722.5	1,532.4	1,288.3	14,145.1
	Nov.	0.4	8,213.5	3,370.6	98.2	4,744.7	1,305.2	1,888.7	1,352.5	198.3	259.6	2,093.6	168.6	724.3	1,600.1	1,296.6	14,356.6
	Dec.	0.4	8,233.0	3,283.2	101.3	4,848.4	1,379.2	1,906.9	1,384.4	178.0	244.1	2,091.0	165.3	727.5	1,516.2	1,255.5	14,233.0
1999	Jan. ^(p)	0.4	8,376.8	3,418.1	87.7	4,871.1	1,411.3	1,883.6	1,400.8	175.4	274.3	2,124.9	174.4	744.8	1,619.2	1,399.1	14,714.0

Source: ECB.

¹⁾ Data have been revised in the light of new information. Discrepancies may arise from rounding.

Table 2.3**Consolidated balance sheet of the euro area MFIs (including the Eurosystem¹⁾ 2)***(EUR billions (not seasonally adjusted; end-of-period stocks))***1. Assets**

	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 ³⁾	Fixed assets	Remaining assets	Total assets
	1	2	3	4	5	6					
1997 Sep.	5,427.3	836.3	4,591.0	1,373.0	1,182.6	190.4	218.9	1,834.8	245.5	794.2	9,893.6
Oct.	5,455.7	838.2	4,617.5	1,369.8	1,180.0	189.8	222.4	1,821.8	248.4	805.7	9,923.9
Nov.	5,498.9	856.4	4,642.5	1,377.4	1,185.0	192.4	226.4	1,880.4	251.1	849.4	10,083.6
Dec.	5,552.3	842.5	4,709.7	1,346.2	1,162.4	183.8	238.0	1,883.9	245.9	815.7	10,081.9
1998 Jan.	5,548.5	827.5	4,721.0	1,373.6	1,183.2	190.4	251.4	1,888.4	243.6	840.8	10,146.2
Feb.	5,573.8	829.1	4,744.7	1,387.6	1,192.0	195.6	261.4	1,915.0	244.0	847.8	10,229.6
Mar.	5,603.2	827.2	4,776.0	1,407.7	1,207.9	199.8	277.9	1,966.8	245.5	823.0	10,324.1
Apr.	5,639.0	832.1	4,806.9	1,414.9	1,215.0	199.9	286.4	1,928.9	245.8	845.6	10,360.6
May	5,645.6	820.9	4,824.7	1,429.4	1,225.9	203.5	290.0	1,931.0	254.7	863.4	10,414.2
June	5,703.4	826.9	4,876.6	1,433.7	1,237.4	196.4	285.3	1,963.1	248.0	755.2	10,388.7
July	5,739.7	822.5	4,917.2	1,424.9	1,223.1	201.8	277.7	1,925.2	243.3	801.9	10,412.8
Aug.	5,741.6	825.0	4,916.7	1,424.8	1,222.4	202.4	271.0	1,931.4	244.3	795.0	10,408.2
Sep.	5,792.8	828.0	4,964.8	1,419.6	1,216.7	202.9	272.8	1,913.4	245.0	803.6	10,447.2
Oct.	5,833.0	833.9	4,999.0	1,432.9	1,226.3	206.6	273.8	1,919.1	247.1	803.9	10,509.6
Nov.	5,884.4	840.7	5,043.7	1,429.4	1,228.1	201.3	287.3	1,971.2	249.3	817.8	10,639.3
Dec.	5,938.2	841.6	5,096.6	1,388.6	1,193.7	194.9	306.5	1,904.3	251.3	807.8	10,596.7
1999 Jan. ^(p)	5,941.4	837.6	5,103.9	1,409.5	1,201.5	208.1	331.4	2,075.7	254.1	985.7	10,997.9

2. Liabilities

	Currency in circulation	Deposits of central government	Deposits of other general government/other euro area residents				Repurchase agreements	Money market fund shares/units and money market paper	Debt securities issued	Capital and reserves	External liabilities ³⁾	Re-maining liabilities	Excess of inter-MFI liabilities	Total liabilities
			Over-night	With agreed maturity	Redeem-able at notice	3								
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1997 Sep.	310.6	151.7	4,533.4	1,143.9	1,897.7	1,284.8	207.1	318.3	1,290.1	687.0	1,354.6	1,286.1	-38.0	9,893.6
Oct.	311.0	151.3	4,545.6	1,144.6	1,907.6	1,286.4	206.9	315.4	1,291.8	683.3	1,358.8	1,298.2	-31.5	9,923.9
Nov.	314.1	142.9	4,581.4	1,173.8	1,902.8	1,289.1	215.6	314.8	1,297.3	685.6	1,409.6	1,350.9	-13.0	10,083.6
Dec.	319.7	154.3	4,665.1	1,230.6	1,902.7	1,326.4	205.4	304.4	1,303.7	698.3	1,399.1	1,283.8	-46.5	10,081.9
1998 Jan.	311.4	146.3	4,658.7	1,180.2	1,919.3	1,341.8	217.4	308.0	1,311.7	695.6	1,452.0	1,340.4	-78.0	10,146.2
Feb.	311.7	160.0	4,669.1	1,183.7	1,924.0	1,345.1	216.3	309.8	1,331.6	696.5	1,484.9	1,332.2	-66.1	10,229.6
Mar.	311.8	139.6	4,669.2	1,211.5	1,899.0	1,346.4	212.2	311.2	1,346.2	705.6	1,536.6	1,343.5	-39.6	10,324.1
Apr.	314.8	141.6	4,692.2	1,225.4	1,914.2	1,346.0	206.6	320.9	1,350.6	693.7	1,508.8	1,392.4	-54.4	10,360.6
May	317.2	135.1	4,713.0	1,243.5	1,913.4	1,347.9	208.2	319.4	1,355.0	698.8	1,501.2	1,406.2	-31.7	10,414.2
June	315.5	148.2	4,734.8	1,291.5	1,893.3	1,346.5	203.4	315.1	1,369.1	711.4	1,516.9	1,327.9	-50.3	10,388.7
July	320.6	156.4	4,709.1	1,251.0	1,896.6	1,345.9	215.5	322.3	1,377.5	711.2	1,496.9	1,353.4	-34.6	10,412.8
Aug.	314.9	165.2	4,706.2	1,242.4	1,908.0	1,347.6	208.2	326.2	1,381.3	710.1	1,497.4	1,341.9	-35.1	10,408.2
Sep.	311.9	163.3	4,709.4	1,264.4	1,890.7	1,346.6	207.7	322.5	1,377.0	713.2	1,508.1	1,359.1	-17.2	10,447.2
Oct.	313.4	161.7	4,726.5	1,269.4	1,888.9	1,349.8	218.3	328.5	1,378.6	711.5	1,555.0	1,356.7	-22.3	10,509.6
Nov.	314.3	155.0	4,751.0	1,311.4	1,888.7	1,352.5	198.4	331.8	1,384.8	708.8	1,620.1	1,365.5	8.0	10,639.3
Dec.	323.7	156.2	4,851.3	1,382.1	1,906.9	1,384.4	178.0	313.9	1,365.2	702.6	1,534.8	1,312.3	36.7	10,596.7
1999 Jan. ^(p)	313.7	138.0	4,876.2	1,416.4	1,883.6	1,400.8	175.4	351.9	1,391.4	760.3	1,719.5	1,458.2	-11.3	10,997.9

Source: ECB.

1) The ECB was established on 1 June 1998. The data shown for the Eurosystem relate to the ECB (as from June 1998) and the national central banks of Member States in the euro area.

2) Data have been revised in the light of new information. Discrepancies may arise from rounding.

3) Including temporary gross positions of the Eurosystem with the national central banks of Member States not participating in the euro area relating to the operation of the TARGET system, amounting to approximately EUR 75 billion at end-January 1999.

Table 2.4**Monetary aggregates^{1) 2)}***(EUR billions (not seasonally adjusted; end-of-period stocks) and annual percentage changes)***1. Stocks**

		M1				M2		Total	Annual percentage change ³⁾	Repurchase agreements	Money market fund shares/units and money market paper	Debt securities up to 2 years
		Total	Annual percentage change ³⁾	Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	M2						
Currency in circulation	Overnight deposits											
		1	2	3	4	5	6	7	8	9	10	11
1997	Sep.	310.6	1,208.4	1,518.9	8.8	899.3	1,119.2	3,537.4	4.0	207.1	318.3	68.5
	Oct.	311.0	1,210.8	1,521.8	9.3	906.5	1,121.7	3,550.0	4.3	206.9	315.4	70.3
	Nov.	314.1	1,242.4	1,556.5	8.4	901.0	1,124.7	3,582.2	4.1	215.6	314.8	67.7
	Dec.	319.7	1,300.2	1,619.8	6.6	894.0	1,159.6	3,673.5	3.4	205.4	304.4	71.5
1998	Jan.	311.4	1,251.3	1,562.7	8.1	905.5	1,177.5	3,645.7	4.0	217.4	308.0	72.8
	Feb.	311.7	1,251.8	1,563.5	8.6	902.1	1,181.6	3,647.2	4.2	216.3	309.8	77.6
	Mar.	311.8	1,281.4	1,593.2	9.1	875.8	1,183.4	3,652.4	4.4	212.2	311.2	83.8
	Apr.	314.8	1,293.4	1,608.2	10.6	889.8	1,185.2	3,683.2	5.1	206.6	320.9	84.3
	May	317.2	1,309.9	1,627.1	10.3	887.7	1,189.2	3,704.0	5.2	208.2	319.4	87.5
	June	315.5	1,358.6	1,674.0	9.8	870.0	1,188.9	3,733.0	5.2	203.4	315.1	86.6
	July	320.6	1,318.5	1,639.2	8.3	871.3	1,189.5	3,699.9	4.4	215.5	322.3	92.2
	Aug.	314.9	1,309.4	1,624.3	8.4	878.0	1,192.4	3,694.7	4.3	208.2	326.2	86.8
	Sep.	311.9	1,329.9	1,641.8	8.1	865.7	1,192.2	3,699.7	4.6	207.7	322.5	81.2
	Oct.	313.4	1,333.9	1,647.3	8.3	868.1	1,195.7	3,711.1	4.5	218.3	328.5	84.6
	Nov.	314.3	1,376.1	1,690.4	8.6	872.0	1,198.2	3,760.6	5.0	198.4	331.8	81.8
	Dec.	323.7	1,448.1	1,771.8	9.4	884.6	1,229.3	3,885.7	5.8	178.0	313.9	68.8
1999	Jan. ^(p)	313.7	1,479.8	1,793.5	-	883.4	1,245.1	3,922.0	-	175.4	351.9	52.6

2. Flows ⁴⁾

		M1				M2		Total	Annual percentage change ⁴⁾	Repurchase agreements	Money market fund shares/units and money market paper	Debt securities up to 2 years
		Total	Annual percentage change ⁴⁾	Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	M2						
Currency in circulation	Overnight deposits											
		1	2	3	4	5	6	7	8	9	10	11
1999	Jan. ^(p)	-9.2	30.0	20.8	14.9	-4.4	16.0	32.4	7.6	-4.1	15.8	-12.8

Source: ECB.

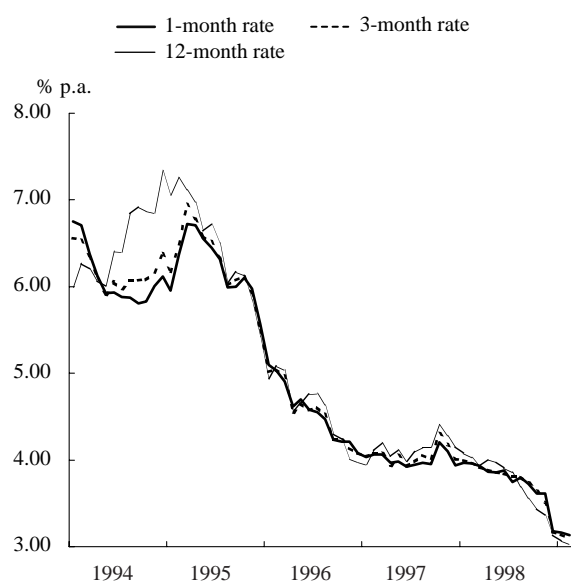
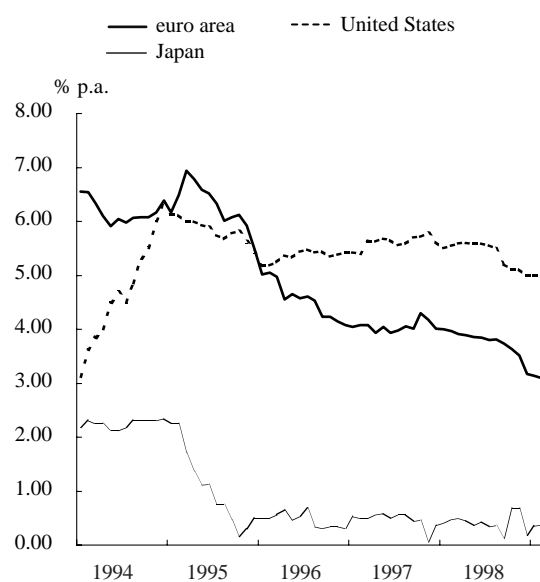
- 1) Monetary aggregates comprise monetary liabilities of MFIs and central government (Post Office, Treasury) vis-à-vis non-MFI euro area residents excluding central government.
- 2) Data have been revised in the light of new information. Discrepancies may arise from rounding.
- 3) Calculated from amounts outstanding adjusted for incomplete coverage of the data before September 1997.
- 4) Calculated from differences in levels adjusted for reclassifications, other revaluations and any other changes which do not arise from transactions.

M3			Memo: Non-monetary liabilities of MFIs								
Total	Annual percentage change ³⁾	3-month moving average (centered)							Total		
12	13	14	Deposits		Debt securities over 2 years	Capital and reserves	20				
			15	With agreed maturity over 2 years	16 Redeemable at notice over 3 months	17	18	19	20		
4,131.3	4.2	4.3	1,215.6	999.0	216.6	1,221.5	687.0	3,124.1	1997	Sep.	
4,142.7	4.4	4.4	1,217.7	1,001.7	216.0	1,221.5	683.3	3,122.4		Oct.	
4,180.3	4.5	4.4	1,218.6	1,002.5	216.1	1,229.6	685.6	3,133.8		Nov.	
4,254.8	4.3	4.5	1,229.0	1,009.2	219.8	1,232.2	698.3	3,159.6		Dec.	
4,243.9	4.6	4.5	1,232.1	1,014.4	217.7	1,239.0	695.6	3,166.7	1998	Jan.	
4,250.9	4.5	4.6	1,240.0	1,022.5	217.5	1,254.0	696.5	3,190.5		Feb.	
4,259.6	4.6	4.7	1,240.6	1,023.8	216.8	1,262.5	705.6	3,208.7		Mar.	
4,295.0	5.1	4.8	1,239.8	1,025.1	214.7	1,266.2	693.7	3,199.8		Apr.	
4,319.0	4.9	4.9	1,239.3	1,026.3	213.0	1,267.5	698.8	3,205.7		May	
4,338.2	4.8	4.7	1,236.0	1,024.0	212.0	1,282.5	711.4	3,229.8		June	
4,330.0	4.6	4.6	1,236.6	1,025.8	210.8	1,285.2	711.2	3,233.1		July	
4,315.9	4.3	4.4	1,240.4	1,030.5	209.9	1,294.6	710.1	3,245.1		Aug.	
4,311.1	4.4	4.5	1,234.8	1,025.5	209.3	1,295.8	713.2	3,243.7		Sep.	
4,342.4	4.8	4.6	1,230.4	1,021.3	209.1	1,294.1	711.5	3,235.9		Oct.	
4,372.6	4.6	4.6	1,226.7	1,017.2	209.5	1,302.9	708.8	3,238.4		Nov.	
4,446.5	4.5	4.9	1,237.5	1,022.8	214.6	1,296.3	702.6	3,236.4		Dec.	
4,501.9	-	-	1,215.8	1,001.0	214.9	1,338.8	760.3	3,314.9	1999	Jan. ^(P)	

M3			Memo: Non-monetary liabilities of MFIs								
Total	Annual percentage change ⁴⁾	3-month moving average (centered)							Total		
12	13	14	Deposits		Debt securities over 2 years	Capital and reserves	20				
			15	With agreed maturity over 2 years	16 Redeemable at notice over 3 months	17	18	19	20		
31.3	5.7	-	4.0	3.8	0.2	37.3	33.5	74.9	1999	Jan. ^(P)	

Table 2.5**Money market interest rates¹⁾***(percentages per annum)²⁾*

	Euro area ^{3) 4)}					United States ⁵⁾	Japan ⁵⁾
	Overnight deposits ¹	1-month deposits ²	3-month deposits ³	6-month deposits ⁴	12-month deposits ⁵	3-month deposits ⁶	3-month deposits ⁷
1994	5.24	6.12	6.38	6.83	7.34	6.37	2.34
1995	5.62	5.57	5.49	5.62	5.42	5.44	0.50
1996	4.04	4.08	4.08	4.06	3.98	5.43	0.31
1997	3.98	3.94	4.01	4.05	4.15	5.62	0.36
1998	3.09	3.18	3.17	3.14	3.13	5.00	0.18
1998 Feb.	4.22	3.96	3.97	3.98	4.02	5.55	0.48
1998 Mar.	3.83	3.93	3.92	3.89	3.93	5.59	0.50
1998 Apr.	3.76	3.86	3.89	3.93	4.01	5.60	0.45
1998 May	3.79	3.85	3.86	3.89	3.98	5.59	0.37
1998 June	3.76	3.88	3.84	3.85	3.91	5.59	0.43
1998 July	3.77	3.74	3.80	3.82	3.85	5.56	0.34
1998 Aug.	3.78	3.80	3.81	3.72	3.69	5.50	0.37
1998 Sep.	3.81	3.73	3.73	3.64	3.55	5.20	0.12
1998 Oct.	3.66	3.61	3.63	3.53	3.44	5.12	0.68
1998 Nov.	3.40	3.62	3.51	3.43	3.36	5.12	0.68
1998 Dec.	3.09	3.18	3.17	3.14	3.13	5.00	0.18
1999 Jan.	3.14	3.16	3.14	3.10	3.07	4.99	0.35
1999 Feb.	3.12	3.13	3.09	3.04	3.03	5.00	0.38
1999 5 Feb.	3.15	3.16	3.11	3.04	3.03	4.98	0.47
1999 12	3.08	3.14	3.10	3.05	3.04	5.00	0.38
1999 19	3.03	3.09	3.08	3.03	3.03	5.00	0.28
1999 26	3.12	3.12	3.10	3.06	3.07	5.03	0.27

Euro area money market rates*(monthly)***3-month money market rates***(monthly)*

Sources: Reuters and ECB.

1) Interbank deposit bid rates to December 1998; offered rates thereafter.

2) End-of-period rates to December 1998; period averages thereafter.

3) Prior to January 1999, synthetic euro area rates were calculated on the basis of national rates weighted by GDP.

4) From January 1999, column 1 shows the euro overnight interest average (EONIA); other euro area money market rates from January 1999 are euro interbank offered rates (EURIBOR).

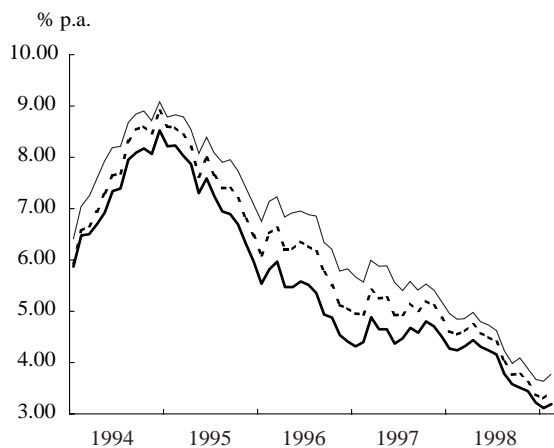
5) From February 1999, London interbank offered rate (LIBOR).

Table 2.6**Government bond yields¹⁾***(percentages per annum)*

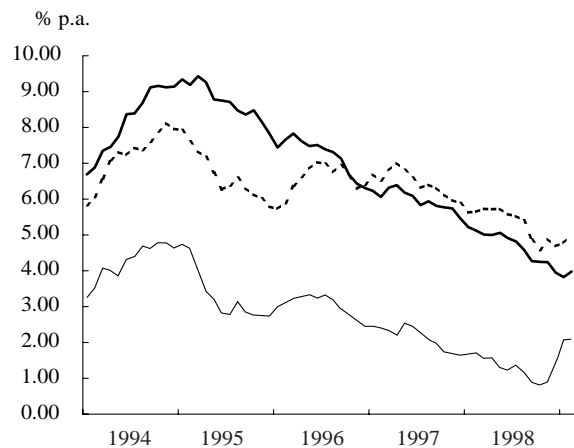
	Euro area ²⁾					United States	Japan
	2 years 1	3 years 2	5 years 3	7 years 4	10 years 5	10 years 6	10 years 7
1994	8.08	8.52	8.91	9.08	8.18	7.21	4.24
1995	5.69	5.97	6.48	7.06	8.73	6.69	3.32
1996	4.17	4.41	5.06	5.82	7.23	6.54	3.03
1997	4.33	4.51	4.87	5.20	5.99	6.45	2.15
1998	3.16	3.22	3.38	3.67	4.71	5.33	1.30
1998 Feb.	4.08	4.24	4.55	4.84	5.12	5.65	1.71
Mar.	4.17	4.32	4.61	4.86	5.01	5.73	1.56
Apr.	4.26	4.44	4.75	4.97	5.00	5.72	1.57
May	4.13	4.30	4.58	4.79	5.06	5.73	1.30
June	4.08	4.24	4.50	4.73	4.91	5.58	1.22
July	4.04	4.16	4.41	4.62	4.82	5.53	1.36
Aug.	3.68	3.78	4.01	4.24	4.59	5.41	1.17
Sep.	3.55	3.58	3.77	3.98	4.27	4.87	0.88
Oct.	3.39	3.51	3.77	4.09	4.25	4.58	0.82
Nov.	3.33	3.44	3.62	3.90	4.24	4.89	0.89
Dec.	3.16	3.22	3.38	3.67	3.95	4.69	1.39
1999 Jan.	2.98	3.11	3.30	3.64	3.82	4.78	2.07
Feb.	3.05	3.19	3.43	3.78	3.98	4.99	2.09
1999 5 Feb.	3.02	3.16	3.39	3.72	3.91	4.92	2.45
12	3.05	3.18	3.42	3.76	3.96	4.99	2.12
19	3.05	3.21	3.46	3.82	4.03	5.07	1.78
26	3.15	3.33	3.58	3.93	4.14	5.28	1.90

Euro area government bond yields*(monthly)*

— 3-year yield - - - 5-year yield — 7-year yield

**10-year government bond yields***(monthly)*

— euro area - - - United States — Japan



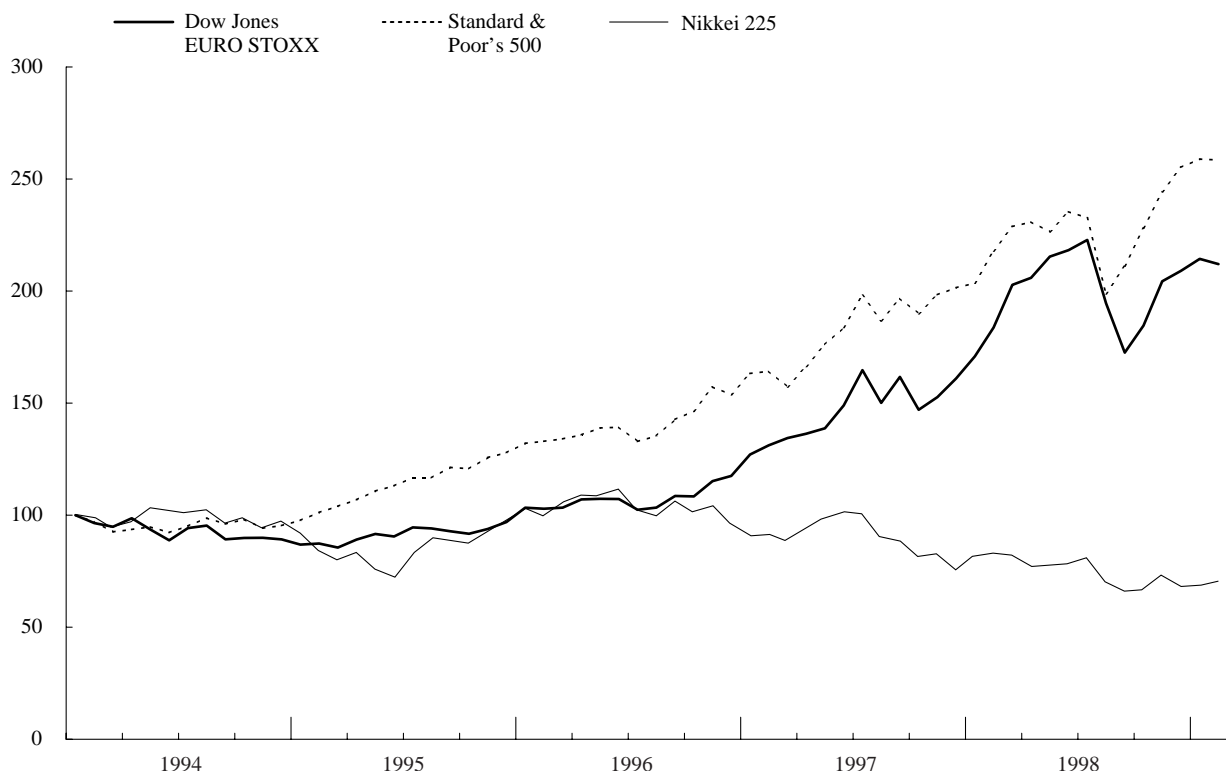
Sources: Reuters, ECB, Federal Reserve and Bank of Japan.

1) To December 1998, 2, 3, 5, and 7-year euro area yields are end-of-period values and 10-year yields are period averages. Thereafter, all yields are period averages.

2) 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.

Table 2.7**Stock market indices***(index levels in points)¹⁾*

	Dow Jones EURO STOXX indices											United States Standard & Poor's 500	Japan Nikkei 225
	Benchmark		Main economic sectors										
	Broad	50	Basic materials	Consumer cyclical	Consumer non-cyclical	Energy	Financial	Conglomerates	Industrial	Technology	Utilities		
	1	2	3	4	5	6	7	8	9	10	11	12	13
1994	127.33	1,320.59	145.88	107.82	143.90	125.92	109.29	125.91	132.31	128.66	122.60	455.19	19,299.47
1995	138.37	1,506.82	137.78	111.06	181.13	145.46	117.66	133.05	136.18	145.57	152.09	614.57	19,417.95
1996	167.75	1,850.32	145.11	120.25	274.94	180.64	137.84	156.11	171.05	153.17	192.40	743.25	20,147.27
1997	229.86	2,531.99	166.33	159.82	324.06	249.22	188.87	210.33	204.75	248.37	225.11	962.37	15,917.07
1998	298.37	3,342.32	147.10	156.74	485.39	232.87	250.29	218.78	283.76	353.38	329.50	1,229.23	13,842.17
1998 Feb.	262.29	2,878.04	185.29	179.88	367.60	252.05	225.29	222.68	234.57	303.85	247.81	1,023.74	16,797.69
1998 Mar.	289.46	3,153.32	196.69	197.27	390.26	278.01	249.55	239.23	270.77	335.91	268.38	1,076.83	16,840.31
1998 Apr.	293.96	3,195.43	204.90	202.37	386.70	270.47	266.59	238.17	276.74	354.64	275.98	1,112.20	15,941.29
1998 May	307.44	3,357.77	211.08	207.22	401.14	280.40	276.07	248.87	302.71	378.82	285.79	1,108.42	15,514.28
1998 June	311.58	3,406.82	198.55	204.62	430.65	275.47	270.69	244.59	299.67	387.80	294.99	1,108.39	15,231.29
1998 July	318.06	3,480.63	182.52	195.81	436.13	255.90	291.41	226.39	301.26	417.31	305.08	1,156.58	16,370.17
1998 Aug.	277.73	3,050.59	151.13	167.11	413.58	217.55	240.10	194.28	262.30	360.33	279.30	1,074.62	15,243.98
1998 Sep.	246.31	2,670.97	131.62	137.37	379.55	230.22	187.86	182.29	240.51	279.90	277.86	1,020.64	14,140.69
1998 Oct.	263.49	2,887.11	138.21	147.48	419.19	223.71	206.17	197.45	250.98	300.39	295.80	1,098.67	13,564.51
1998 Nov.	291.73	3,232.44	147.95	153.01	442.91	237.51	236.66	208.39	270.40	339.22	306.30	1,176.46	14,883.70
1998 Dec.	298.37	3,342.32	147.10	156.74	485.39	232.87	250.29	218.78	283.76	353.38	329.50	1,229.23	13,842.17
1999 Jan.	306.01	3,486.40	146.59	152.92	498.08	226.40	254.13	229.20	301.23	367.41	339.23	1,246.89	13,859.26
1999 Feb.	302.69	3,450.87	149.74	152.16	496.17	225.01	246.99	229.33	312.25	366.43	330.00	1,244.93	14,168.83
1999 5 Feb.	305.81	3,489.98	151.95	148.38	503.26	231.88	252.80	227.87	318.83	368.55	331.89	1,239.40	13,898.08
1999 12	299.76	3,405.68	151.56	152.73	496.88	224.61	244.03	228.42	307.37	365.28	323.52	1,254.04	13,973.69
1999 19	300.01	3,415.52	147.12	153.48	500.91	222.04	241.40	229.39	309.53	362.16	326.75	1,239.22	14,098.04
1999 26	303.87	3,484.24	150.00	154.26	487.31	227.63	245.22	219.75	312.39	365.04	328.83	1,238.33	14,367.54

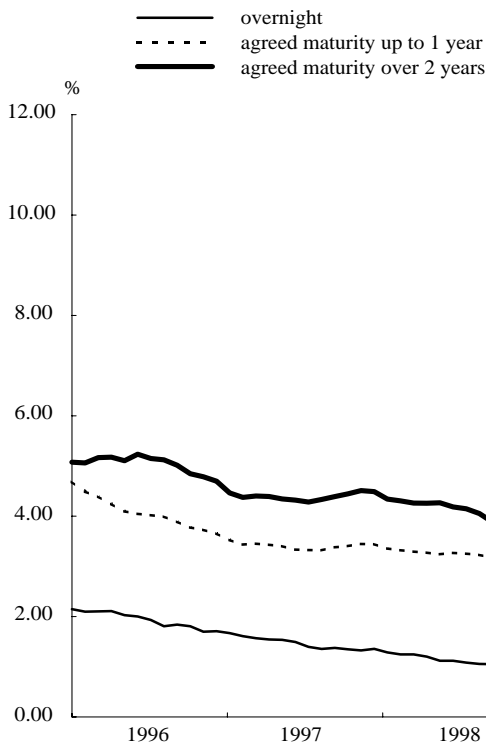
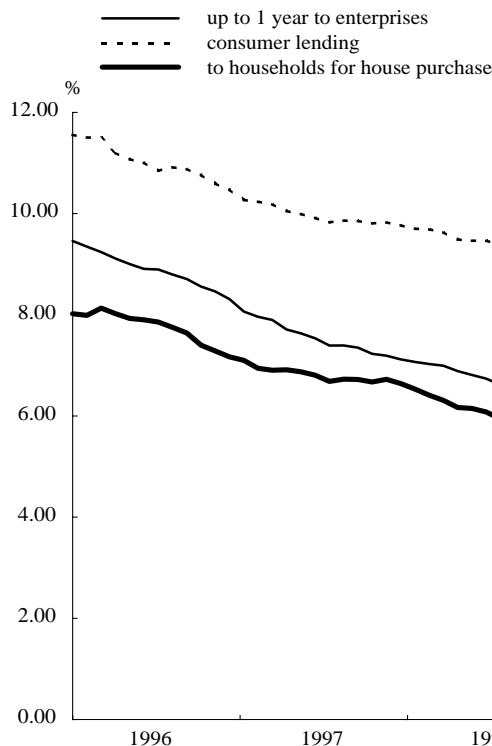
Dow Jones EURO STOXX Broad, Standard & Poor's 500 and Nikkei 225 re-based*(base month: January 1994 = 100; monthly)*

Source: Reuters.

1) End-of-period values to December 1998; period averages thereafter.

Table 2.8**Retail bank interest rates***(percentages per annum; period averages; lending interest rates are provisional)*

	Deposit interest rates						Lending interest rates			
	Overnight	With agreed maturity			Redeemable at notice		To enterprises		To households	
		Up to 1 year	Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	Up to 1 year	Over 1 year	Consumer lending	For house purchase
	1	2	3	4	5	6	7	8	9	10
1996	1.94	4.09	4.68	5.04	3.05	3.16	8.90	.	11.03	7.76
1997	1.47	3.41	3.62	4.40	2.80	3.09	7.54	6.69	9.97	6.81
1998	1.10	3.20	3.22	4.06	2.61	3.25	6.69	5.94	9.39	5.98
1998 Jan.	1.29	3.36	3.41	4.34	2.76	3.35	7.07	6.36	9.70	6.53
Feb.	1.25	3.32	3.36	4.31	2.76	3.30	7.03	6.30	9.69	6.41
Mar.	1.25	3.30	3.33	4.26	2.74	3.32	6.99	6.19	9.63	6.31
Apr.	1.20	3.27	3.30	4.26	2.71	3.30	6.89	6.12	9.49	6.17
May	1.12	3.24	3.26	4.27	2.71	3.33	6.81	6.09	9.46	6.15
June	1.12	3.27	3.28	4.19	2.58	3.34	6.74	6.04	9.46	6.08
July	1.08	3.25	3.26	4.15	2.56	3.29	6.61	6.00	9.39	5.94
Aug.	1.06	3.23	3.23	4.05	2.55	3.30	6.58	5.91	9.39	5.88
Sep.	1.05	3.17	3.18	3.88	2.53	3.21	6.56	5.78	9.37	5.75
Oct.	1.04	3.12	3.12	3.74	2.49	3.14	6.45	5.65	9.15	5.58
Nov.	0.94	3.05	3.04	3.69	2.48	3.12	6.34	5.57	9.03	5.52
Dec.	0.87	2.82	2.82	3.57	2.44	3.03	6.17	5.26	8.92	5.38
1999 Jan.	0.79	2.67	2.67	3.41	2.36	2.86	6.04	5.19	8.90	5.26

Deposit interest rates*(monthly)***Lending interest rates***(monthly)*

Source: ECB.

These euro area retail bank interest rates should be used with caution and for statistical purposes only, primarily for analysing their development over time rather than their level. They are calculated as the weighted average of national interest rates provided by the national central banks. The national rates represent those rates that are currently available from national sources and which are judged to fit the standard categories. These national rates have been aggregated to derive information for the euro area, in some cases relying on proxies and working assumptions due to the heterogeneity observed in the national financial instruments across MU Member States. Furthermore, the national interest rates are not harmonised in terms of their coverage (new business and/or outstanding amounts), the nature of the data (nominal or effective) or the compilation method. The country weights for the euro area retail bank interest rates are derived from the monthly MFI balance sheet statistics or close proxies. The weights reflect the country-specific proportions of the relevant instruments within the euro area, measured as outstanding amounts. The weights are adjusted monthly, so that interest rates and weights always refer to the same month.

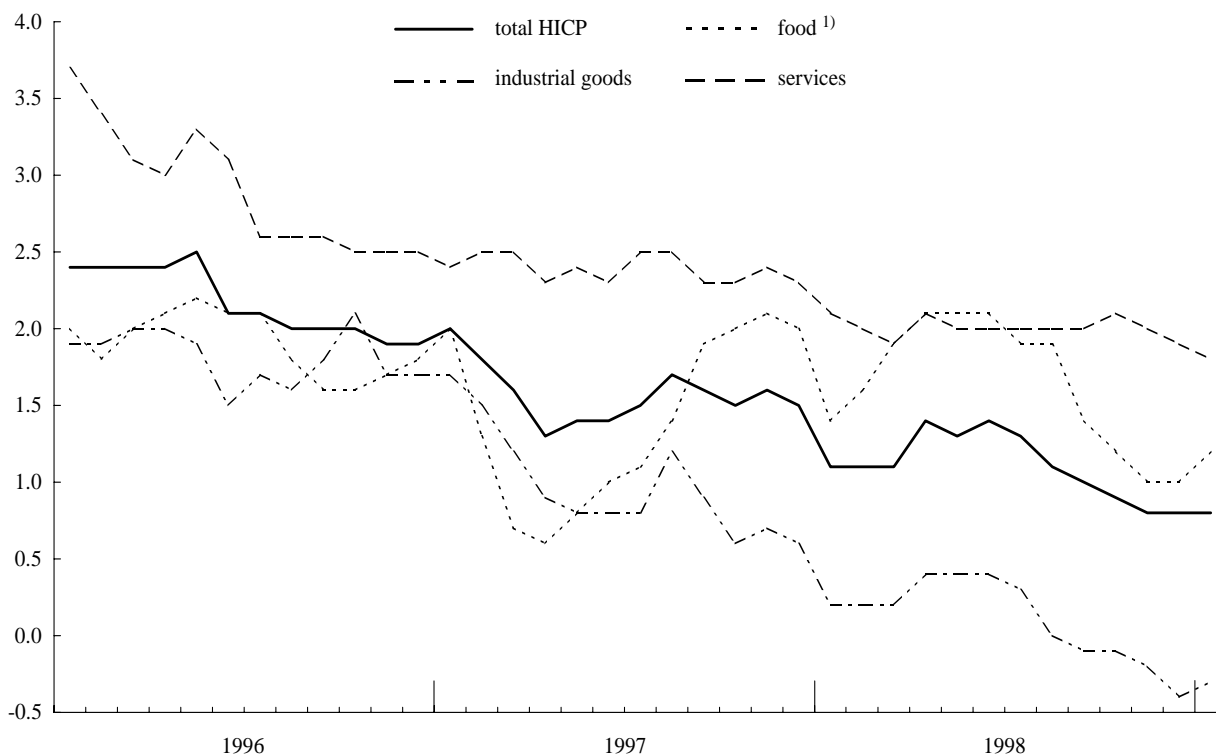
4 HICP and other prices in the euro area

Table 4.1

Harmonised Index of Consumer Prices

(annual percentage changes, unless otherwise indicated)

	Total (index, 1996 = 100)	Total									Services
		100.0	Goods								
			63.7	Food ¹⁾				Industrial goods			
				22.4	Processed food ¹⁾	Unprocessed food	Non-energy industrial goods	Energy			
Weight in the total (%) ²⁾	100.0	100.0	63.7	22.4	13.4	9.0	41.3	32.5	8.8	36.3	
	1	2	3	4	5	6	7	8	9	10	
1995	97.9	-	-	-	-	-	-	-	-	-	-
1996 ³⁾	100.0	2.2	1.8	1.9	1.9	1.9	1.8	1.6	2.6	2.9	
1997	101.6	1.6	1.1	1.4	1.4	1.4	1.0	0.5	2.8	2.4	
1998	102.7	1.1	0.6	1.6	1.4	2.0	0.1	0.9	-2.6	2.0	
1997 Q4	102.0	1.5	1.1	2.0	1.5	2.8	0.7	0.5	1.2	2.3	
1998 Q1	102.2	1.1	0.7	1.6	1.3	2.0	0.2	0.6	-1.4	2.0	
Q2	102.8	1.3	1.0	2.1	1.6	2.8	0.4	0.9	-1.4	2.0	
Q3	102.9	1.1	0.7	1.7	1.4	2.1	0.1	1.0	-3.2	2.0	
Q4	102.8	0.8	0.2	1.1	1.2	0.8	-0.2	0.9	-4.4	2.0	
1998 Jan.	102.0	1.1	0.6	1.4	1.3	1.6	0.2	0.5	-1.2	2.1	
Feb.	102.3	1.1	0.7	1.6	1.3	2.0	0.2	0.7	-1.4	2.0	
Mar.	102.4	1.1	0.8	1.9	1.4	2.6	0.2	0.7	-1.6	1.9	
Apr.	102.6	1.4	1.0	2.1	1.4	3.0	0.4	0.8	-1.0	2.1	
May	102.8	1.3	1.0	2.1	1.7	2.6	0.4	0.9	-1.4	2.0	
June	102.9	1.4	1.0	2.1	1.6	2.9	0.4	1.0	-1.7	2.0	
July	102.9	1.3	0.9	1.9	1.6	2.5	0.3	1.0	-1.9	2.0	
Aug.	102.9	1.1	0.6	1.9	1.5	2.4	0.0	1.0	-3.8	2.0	
Sep.	102.9	1.0	0.4	1.4	1.3	1.5	-0.1	1.0	-3.9	2.0	
Oct.	102.8	0.9	0.3	1.2	1.3	1.1	-0.1	1.0	-4.0	2.1	
Nov.	102.8	0.8	0.2	1.0	1.2	0.6	-0.2	0.9	-4.4	2.0	
Dec.	102.9	0.8	0.1	1.0	1.1	0.9	-0.4	0.9	-4.8	1.9	
1999 Jan.	102.8	0.8	0.2	1.2	1.3	1.1	-0.3	0.8	-4.4	1.8	



Source: Eurostat.

1) Including alcoholic beverages and tobacco.

2) Referring to index period 1999.

3) Annual percentage changes in 1996 include France for the overall index, but do not cover France for all components of the HICP.

Table 4.2**Selected other price and cost indicators***(annual percentage changes, unless otherwise indicated)***1. Industry and commodity prices**

	Industrial producer prices									World market prices of raw materials ¹⁾	
	Total excluding construction (index, 1995 = 100)	Total excluding construction	Manufacturing	Intermediate goods	Capital goods	Consumer goods	Durable consumer goods	Non-durable consumer goods	Construction ²⁾	Total	Total excluding energy
	1	2	3	4	5	6						7	8	9	10	11
1995	100.0	3.6	3.9	5.0	1.8	2.2	1.9	2.3	.	0.3	2.1
1996	100.6	0.6	1.0	-0.7	1.3	1.7	1.7	1.7	1.2	6.4	-6.9
1997	101.6	1.0	0.6	1.0	0.2	1.0	0.2	1.4	1.4	10.0	13.0
1998	100.8	-0.8	-0.5	-1.8	0.3	0.4	0.0	0.6	.	-21.2	-12.5
1997 Q4	102.0	1.1	1.0	1.0	0.3	1.2	0.1	1.7	1.4	1.8	14.1
1998 Q1	101.7	0.5	0.7	0.0	0.3	1.0	-0.2	1.6	0.3	-14.1	-0.1
1998 Q2	101.2	-0.2	0.0	-0.8	0.3	0.6	0.0	0.9	0.1	-16.6	-10.7
1998 Q3	100.6	-1.2	-1.0	-2.5	0.4	0.2	0.2	0.2	-0.3	-24.3	-18.2
1998 Q4	99.7	-2.2	-1.9	-4.0	0.2	-0.3	0.0	-0.5	.	-30.0	-20.5
1998 Feb.	101.7	0.6	0.7	0.0	0.2	1.0	-0.2	1.6	-	-13.8	-0.5
1998 Mar.	101.5	0.3	0.5	-0.2	0.3	0.9	-0.2	1.4	-	-15.8	-4.7
1998 Apr.	101.4	0.1	0.4	-0.4	0.2	0.7	-0.1	1.1	-	-12.2	-6.0
1998 May	101.3	-0.2	0.0	-0.8	0.3	0.6	0.0	0.8	-	-18.6	-12.8
1998 June	101.0	-0.5	-0.3	-1.2	0.3	0.5	0.0	0.8	-	-18.9	-13.3
1998 July	100.8	-0.8	-0.5	-1.8	0.5	0.5	0.3	0.6	-	-21.1	-14.4
1998 Aug.	100.6	-1.3	-1.1	-2.8	0.4	0.3	0.3	0.3	-	-26.3	-19.0
1998 Sep.	100.4	-1.5	-1.3	-2.9	0.4	-0.1	0.0	-0.2	-	-25.4	-20.9
1998 Oct.	100.1	-1.9	-1.7	-3.6	0.3	-0.2	0.0	-0.4	-	-30.6	-23.6
1998 Nov.	99.7	-2.3	-1.9	-4.1	0.2	-0.4	0.0	-0.7	-	-28.6	-18.4
1998 Dec.	99.4	-2.4	-2.1	-4.3	0.1	-0.3	0.0	-0.5	-	-30.8	-19.4
1999 Jan.	.	.	.	.	.	.	.	.	-	-23.2	-17.2
1999 Feb.	.	.	.	.	.	.	.	.	-	-20.6	-16.1

2. Deflators of gross domestic product and indicators of labour costs

	Deflators of GDP (s.a.)					Unit labour costs in whole economy	Compensation per employee in whole economy	Earnings per employee in manufacturing
	GDP (index, 1995 = 100)	GDP	Private consumption	Government consumption	Gross fixed capital formation			
	12	13	14	15	16				17	18	19
1995	100.0	2.7	2.6	3.0	2.1	1.7	3.5	3.7
1996	102.0	2.0	2.4	2.4	0.7	1.8	3.4	3.5
1997	103.4	1.4	1.8	2.0	0.9	0.6	2.6	3.0
1996 Q1	101.4	2.6	2.5	3.4	1.2	2.6	3.6	4.1
1996 Q2	101.9	2.2	2.6	2.2	0.7	2.0	3.3	3.2
1996 Q3	102.2	1.7	2.3	2.1	0.5	1.7	3.5	3.6
1996 Q4	102.6	1.5	2.1	2.2	0.4	1.5	3.3	2.8
1997 Q1	102.8	1.4	2.1	2.0	0.6	1.8	2.9	3.1
1997 Q2	103.2	1.3	1.6	2.2	0.7	0.3	2.9	3.4
1997 Q3	103.6	1.4	1.9	1.9	1.1	-0.1	2.3	2.7
1997 Q4	104.0	1.4	1.7	2.0	1.0	-0.4	2.2	2.8
1998 Q1	104.3	1.5	1.4	1.5	0.6	-2.3	1.0	2.2
1998 Q2	104.8	1.6	1.4	1.7	0.3	-0.6	1.2	2.8
1998 Q3	105.2	1.5	1.0	1.9	-0.2	-0.6	1.3	2.6

Sources: Eurostat, except columns 10 and 11 (HWWA - Institut für Wirtschaftsforschung, Hamburg), columns 12 to 16 (ECB calculations based on deflators in national currency) and columns 17 to 19 (ECB calculations based on non-harmonised national data).

1) To December 1998, in ECU; from January 1999, in euro.

2) Residential buildings, based on non-harmonised data.

5 Real economy indicators in the euro area

Table 5.1

Output and demand indicators

1. Gross domestic product and its components

(ECU billions, seasonally adjusted, at 1990 prices)¹⁾

	GDP	Domestic demand	Private consumption	Government consumption	Gross fixed capital formation	Exports ²⁾	Imports ²⁾
	1	2	3	4	5	6	7
1995	4,493.3	4,401.8	2,758.2	708.6	908.2	1,442.2	1,350.8
1996	4,563.0	4,452.2	2,809.6	720.8	911.7	1,506.2	1,395.4
1997	4,679.0	4,538.2	2,849.6	722.9	930.8	1,661.8	1,520.9
1998	4,820.6	4,691.3	2,935.5	726.0	969.5	1,761.9	1,632.6
1997 Q4	1,184.4	1,147.2	718.7	179.1	236.8	432.8	395.6
1998 Q1	1,195.1	1,164.6	725.6	181.8	241.0	433.3	402.8
Q2	1,202.0	1,169.0	729.5	182.4	239.6	441.4	408.4
Q3	1,210.5	1,174.9	736.8	181.7	243.8	446.8	411.3
Q4	1,213.0	1,182.8	743.5	180.1	245.1	440.4	410.2

(annual percentage changes)³⁾

	GDP	Domestic demand	Private consumption	Government consumption	Gross fixed capital formation	Exports ²⁾	Imports ²⁾
	8	9	10	11	12	13	14
1995	2.2	1.9	1.9	0.0	3.4	8.1	7.4
1996	1.6	1.1	1.9	1.7	0.4	4.4	3.3
1997	2.5	1.9	1.4	0.3	2.1	10.3	9.0
1998	3.0	3.4	3.0	0.4	4.2	6.0	7.3
1997 Q4	3.2	2.5	2.0	-0.7	2.8	11.6	10.2
1998 Q1	3.8	3.9	2.8	0.3	5.7	11.0	11.8
Q2	3.0	3.2	2.5	0.6	3.2	7.7	8.6
Q3	2.9	3.4	3.4	0.2	4.3	4.2	5.7
Q4	2.4	3.1	3.4	0.6	3.5	1.8	3.7

2. Selected other real economy indicators

(annual percentage changes, unless otherwise indicated)

	Industrial production ³⁾									Retail sales at constant prices	New passenger car registrations
	Total excluding construction (index (s.a.), 1995 = 100)	Total excluding construction	Manufacturing	Intermediate goods	Capital goods	Durable consumer goods	Non-durable consumer goods	Construction			
	15	16	17	18	19	20	21	22	23	24	
1995	100.0	3.3	3.5	2.6	7.2	-0.8	1.7	-0.3	2.0	0.3	
1996	100.1	0.0	-0.2	-0.7	1.7	0.0	-0.8	-2.6	1.1	6.6	
1997	104.1	4.1	4.8	5.4	4.2	1.8	2.2	-1.0	0.8	3.9	
1998	108.5	4.1	4.6	3.9	6.8	8.2	1.3	-1.1	.	7.6	
1997 Q4	106.4	5.7	6.4	7.3	6.2	4.9	2.8	-0.3	2.1	11.2	
1998 Q1	107.8	6.3	7.3	7.3	9.1	9.5	1.4	2.8	2.8	12.6	
Q2	108.7	4.4	5.0	4.3	6.6	8.5	2.2	-1.0	1.8	3.3	
Q3	108.9	4.0	4.3	3.3	6.9	8.6	2.0	-2.1	2.9	7.4	
Q4	108.6	1.9	1.8	0.8	4.9	6.2	-0.2	-3.6	.	7.5	
1998 Jan.	107.1	5.8	7.7	7.7	8.2	6.3	2.3	12.2	3.0	10.7	
Feb.	107.8	6.1	6.9	7.1	8.0	10.0	1.1	0.1	2.2	9.8	
Mar.	108.6	6.9	7.3	7.1	10.8	11.9	0.8	-2.1	3.1	16.5	
Apr.	108.4	3.3	3.8	3.6	5.1	5.1	1.0	-3.6	0.8	-1.8	
May	108.9	6.8	7.7	6.2	10.3	14.2	4.3	2.1	1.8	6.9	
June	108.7	3.3	3.7	3.3	4.8	6.9	1.6	-1.2	2.6	5.3	
July	109.0	4.2	4.6	3.6	7.7	7.9	2.6	-1.1	3.6	7.2	
Aug.	108.7	4.6	5.1	4.0	7.5	10.8	2.5	-1.1	2.5	7.1	
Sep.	109.1	3.3	3.5	2.5	5.8	8.0	1.0	-3.8	2.8	7.9	
Oct.	109.2	3.3	3.6	1.8	7.8	9.8	0.4	-2.7	1.9	1.2	
Nov.	108.8	2.7	2.5	2.0	5.1	6.0	0.5	-3.1	4.0	15.3	
Dec.	107.7	-0.5	-0.8	-1.5	2.0	2.1	-1.7	-5.2	.	7.3	
1999 Jan.	.	.	.	.	.	.	.	.	.	5.1

Sources: Eurostat, except column 23 (ECB calculation based on non-harmonised national data) and column 24 (ACEA/A.A.A.)

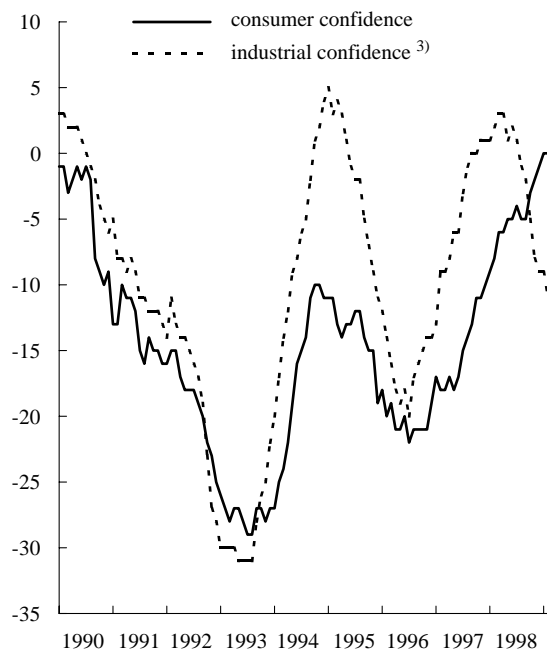
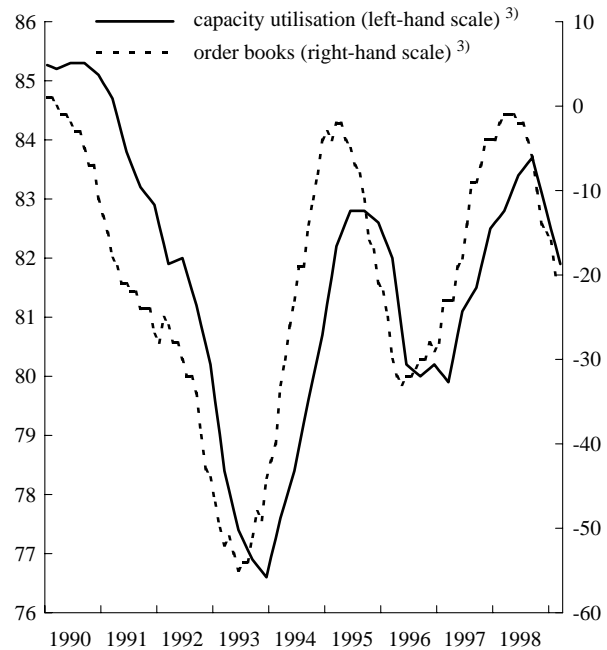
1) Components exclude changes in inventories. The latest quarter is a first estimate.

2) Exports and imports cover goods and services and include internal cross-border trade in the euro area.

3) Adjusted for variations in the number of working days.

Table 5.2**Labour market indicators***(seasonally adjusted)*

	Employment ¹⁾				Unemployment ²⁾		Labour productivity ¹⁾	
	Whole economy		Manufacturing		Millions	% of labour force	Whole economy (annual percentage changes)	Manufacturing (annual percentage changes)
	Index, 1995 = 100	Annual percentage changes	Index, 1995 = 100	Annual percentage changes				
	1	2	3	4	5	6	7	8
1995	100.0	0.4	100.0	-0.8	14.401	11.4	1.8	4.3
1996	100.2	0.2	98.6	-1.4	14.821	11.6	1.6	1.2
1997	100.4	0.3	97.9	-0.8	14.918	11.6	2.1	5.6
1998	.	.	.	.	14.057	11.0	.	.
1997 Q4	100.7	0.5	98.4	0.5	14.801	11.5	2.6	6.0
1998 Q1	101.1	1.0	99.6	2.2	14.418	11.2	3.4	5.0
Q2	101.5	1.1	100.4	2.9	14.139	11.0	1.8	2.1
Q3	101.9	1.4	100.8	2.8	13.943	10.9	1.8	1.4
Q4	.	.	.	.	13.729	10.7	.	.
1998 Jan.	-	-	-	-	14.480	11.3	-	-
Feb.	-	-	-	-	14.432	11.2	-	-
Mar.	-	-	-	-	14.343	11.2	-	-
Apr.	-	-	-	-	14.213	11.1	-	-
May	-	-	-	-	14.150	11.0	-	-
June	-	-	-	-	14.054	11.0	-	-
July	-	-	-	-	13.993	10.9	-	-
Aug.	-	-	-	-	13.964	10.9	-	-
Sep.	-	-	-	-	13.873	10.8	-	-
Oct.	-	-	-	-	13.777	10.7	-	-
Nov.	-	-	-	-	13.705	10.7	-	-
Dec.	-	-	-	-	13.704	10.7	-	-
1999 Jan.	-	-	-	-	13.568	10.6	-	-

Chart 5.3**Opinion surveys****Consumer and industrial confidence indicators***(percentage balances, monthly; seasonally adjusted)***Capacity utilisation and order books***(capacity utilisation, percentages, quarterly; order books, percentage balances, monthly; seasonally adjusted)*

Sources: ECB calculations based on available national non-harmonised data (columns 1 to 4, and 7 to 8), Eurostat (columns 5 to 6) and European Commission Business and Consumer Surveys (chart data).

1) Quarterly results are based on available data from those countries which compile monthly or quarterly statistics.

2) Calculated according to ILO recommendations.

3) Manufacturing; data on capacity utilisation are collected in January, April, July and October.

6 Saving, investment and financing in the euro area

Table 6

Saving, investment and financing

(as a percentage of GDP, unless otherwise indicated)

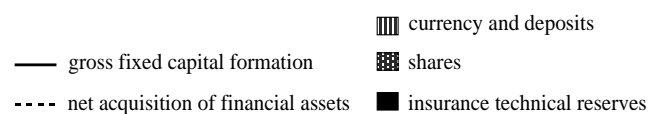
	Euro area saving and investment ¹⁾			Investment of private non-financial sectors ^{1) 2)}							
	Gross saving	Gross fixed capital formation	Net lending to the rest of the world	Gross fixed capital formation	Non-financial corporations	Net acquisition of financial assets	Currency and deposits	Securities other than shares	Long-term securities	Shares	Insurance technical reserves
	1	2	3	4	5	6	7	8	9	10	11
1990	23.5	22.8	0.1	19.1	13.7	18.7	5.6	4.4	3.2	2.0	2.5
1991	21.9	22.9	-1.2	19.1	14.2	16.8	4.0	3.0	2.6	1.6	2.5
1992	20.9	22.2	-1.0	18.4	13.6	14.3	4.5	1.7	0.5	1.4	2.6
1993	20.0	20.2	0.5	16.6	12.2	13.0	5.4	0.6	1.1	0.9	2.9
1994	20.4	19.8	0.3	16.5	12.2	14.1	3.3	2.3	2.5	1.5	3.0
1995	21.3	20.0	1.0	16.8	12.6	13.2	4.8	1.9	1.7	1.3	3.3
1996	20.8	19.6	1.4	16.7	12.4	13.2	4.1	0.3	1.2	1.1	3.6
1997	21.4	19.0	2.1	16.2	11.9	12.0	2.1	-0.3	0.2	1.3	3.6

	Financing of private non-financial sectors ^{1) 2)}								Net financial investment (col. 6 - 14)	Financial investment as a % of gross investment (col. 6 / (4+6))	Net incurrence of liabilities as a % of financing (col. 14 / (12+14))
	Gross saving	Households	Net incurrence of liabilities	Securities other than shares	Long-term securities	Shares	Loans	Long-term loans			
	12	13	14	15	16	17	18	19			
1990	22.0	12.0	14.2	0.6	0.3	2.1	9.6	4.5	4.4	49.5	39.3
1991	21.0	12.2	13.2	0.4	0.3	1.7	8.9	4.8	3.6	46.8	38.5
1992	20.7	12.1	10.7	0.7	0.6	1.6	6.9	4.7	3.6	43.7	34.0
1993	20.4	11.5	7.4	1.3	1.4	1.7	3.6	4.3	5.6	43.8	26.6
1994	20.3	10.6	9.9	1.1	1.2	1.9	3.9	3.7	4.1	46.0	32.9
1995	21.3	10.7	5.7	-1.7	-1.8	1.7	4.9	3.0	7.5	44.0	21.1
1996	20.7	10.6	8.7	0.2	0.1	1.9	4.8	3.6	4.5	44.2	29.6
1997	20.1	10.0	7.9	0.0	0.0	1.5	4.9	3.2	4.1	42.6	28.2

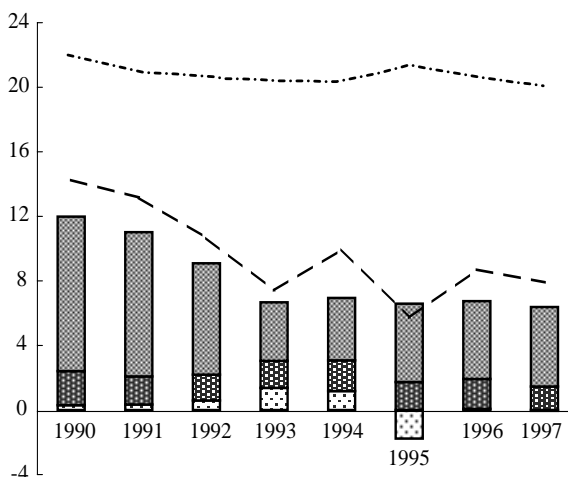
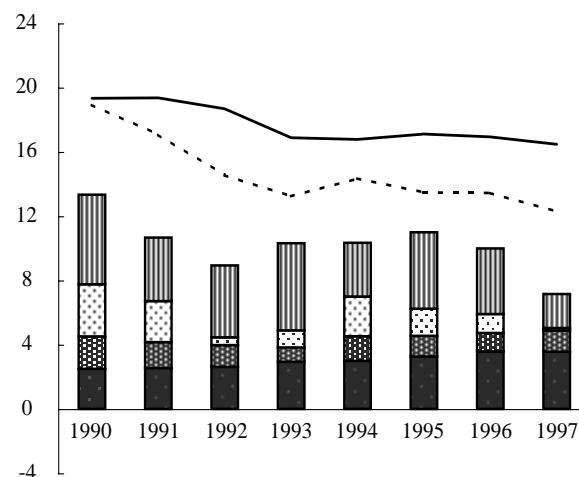
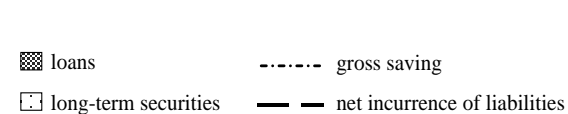
Investment and financing of private non-financial sectors ^{1) 2)}

(as a percentage of GDP)

Investment



Financing



Source: ECB.

1) Selected items of financing and investment.

2) Private non-financial sectors comprise non-financial corporations, households and non-profit institutions serving households.

7 General government fiscal position in the euro area and in the euro area countries

Table 7.1

General government fiscal position

(as a percentage of GDP)

1. Euro area ¹⁾ - receipts and expenditure

	Current receipts ²⁾				Current expenditure ²⁾				Net capital expenditure ²⁾		Deficit (-) / surplus (+)
	1	Direct taxes	Indirect taxes	Social contributions	5	Public consumption	Interest	Transfers to households	8	Investment		10
1990	45.0	12.0	12.9	16.7	45.0	17.5	4.8	18.5	4.1	3.0	-4.1
1991	45.9	12.3	12.9	17.3	46.2	18.1	4.9	19.2	4.2	3.1	-4.4
1992	46.7	12.3	13.0	17.7	47.7	18.5	5.5	19.9	3.6	3.1	-4.6
1993	47.6	12.5	13.2	18.1	49.4	18.8	5.7	20.8	3.9	2.9	-5.6
1994	47.0	12.0	13.4	18.0	48.5	18.5	5.5	20.7	3.6	2.8	-5.1
1995	46.8	12.1	13.3	18.0	48.2	18.2	5.8	20.6	3.6	2.6	-5.0
1996	47.1	12.1	13.4	18.2	48.2	18.3	5.5	20.6	3.2	2.5	-4.2
1997	47.3	12.2	13.5	18.2	47.1	17.9	5.1	20.5	2.7	2.4	-2.5

2. Euro area ¹⁾ - deficit and debt

	Primary deficit (-) / surplus (+)	Cyclically adjusted deficit (-) / surplus (+) ²⁾	Deficit/ debt adjustment ³⁾	Change in debt ⁴⁾				Gross nominal consolidated debt			
				Total	Currency, deposits and loans	Short-term securities	Medium/ long-term securities	Total	Currency, deposits and loans	Short-term securities	Medium/ long-term securities
1990	0.7	-5.7	1.5	5.6	1.3	1.0	3.3	58.4	18.8	9.4	30.2
1991	0.5	-5.9	0.7	5.2	1.2	0.0	4.0	58.3	18.4	8.5	31.4
1992	0.9	-5.6	2.2	6.8	1.7	0.8	4.2	61.8	19.0	8.9	33.9
1993	0.2	-4.9	2.5	8.0	1.5	-0.3	6.9	68.3	20.0	8.3	39.9
1994	0.4	-4.7	0.8	5.9	0.2	0.6	5.1	70.7	19.2	8.5	43.1
1995	0.8	-4.6	2.3	7.2	2.0	-0.2	5.5	74.6	20.3	7.8	46.5
1996	1.4	-3.5	-0.2	3.9	0.3	0.0	3.6	76.0	19.9	7.6	48.5
1997	2.6	-1.9	-0.3	2.2	0.0	-1.0	3.2	75.3	19.1	6.3	49.9

3. Euro area countries - deficit (-) / surplus (+)

	BE	DE	ES	FR	IE	IT	LU	NL	AT	PT	FI
1990	-5.5	-2.1	-4.3	-1.6	-2.3	-11.1	5.0	-5.1	-2.4	-5.1	5.4
1991	-6.3	-3.1	-4.5	-2.1	-2.3	-10.1	1.9	-2.9	-3.0	-6.0	-1.5
1992	-6.9	-2.6	-4.1	-3.9	-2.5	-9.6	0.8	-3.9	-2.0	-3.0	-5.9
1993	-7.1	-3.2	-7.0	-5.8	-2.4	-9.5	1.7	-3.2	-4.2	-6.1	-8.0
1994	-4.9	-2.4	-6.3	-5.8	-1.7	-9.2	2.8	-3.8	-5.0	-6.0	-6.4
1995	-3.9	-3.3	-7.3	-4.9	-2.2	-7.7	1.9	-4.0	-5.1	-5.7	-4.7
1996	-3.2	-3.4	-4.7	-4.1	-0.4	-6.7	2.9	-2.0	-3.7	-3.3	-3.5
1997	-2.0	-2.7	-2.6	-3.0	0.9	-2.7	3.0	-0.9	-1.9	-2.5	-1.1

4. Euro area countries - gross nominal consolidated debt

	BE	DE	ES	FR	IE	IT	LU	NL	AT	PT	FI
1990	125.7	43.8	44.8	35.5	96.0	98.0	4.7	79.1	57.9	65.3	14.5
1991	127.5	41.5	45.5	35.8	95.3	101.5	4.2	78.9	58.1	67.3	23.0
1992	129.0	44.1	48.0	39.8	92.3	108.7	5.1	79.9	58.0	60.1	41.5
1993	135.2	48.0	60.0	45.3	96.3	119.1	6.1	81.1	62.7	63.1	58.0
1994	133.2	50.2	62.6	48.5	88.2	124.9	5.7	77.9	65.4	63.8	59.6
1995	131.0	58.3	65.6	52.7	80.9	124.2	5.9	79.2	69.2	65.9	58.1
1996	126.8	60.8	70.2	55.7	71.4	124.0	6.6	77.1	69.6	64.9	57.8
1997	121.9	61.5	68.9	58.1	63.4	121.6	6.7	71.4	64.3	61.5	55.1

Sources: European Commission (DG II and Eurostat) for Member State data, except the breakdown of debt; ECB for the breakdown of debt and the euro area aggregation.

1) Transactions among the euro area countries are not consolidated.

2) Euro area excluding Luxembourg for 1990-95.

3) Difference between the annual change in nominal gross consolidated debt and the deficit as a percentage of GDP.

4) Annual change in nominal gross consolidated debt expressed as a percentage of GDP: $[\text{debt}(t) - \text{debt}(t-1)] / \text{GDP}(t)$.

Chart 7.2

General government deficit ¹⁾

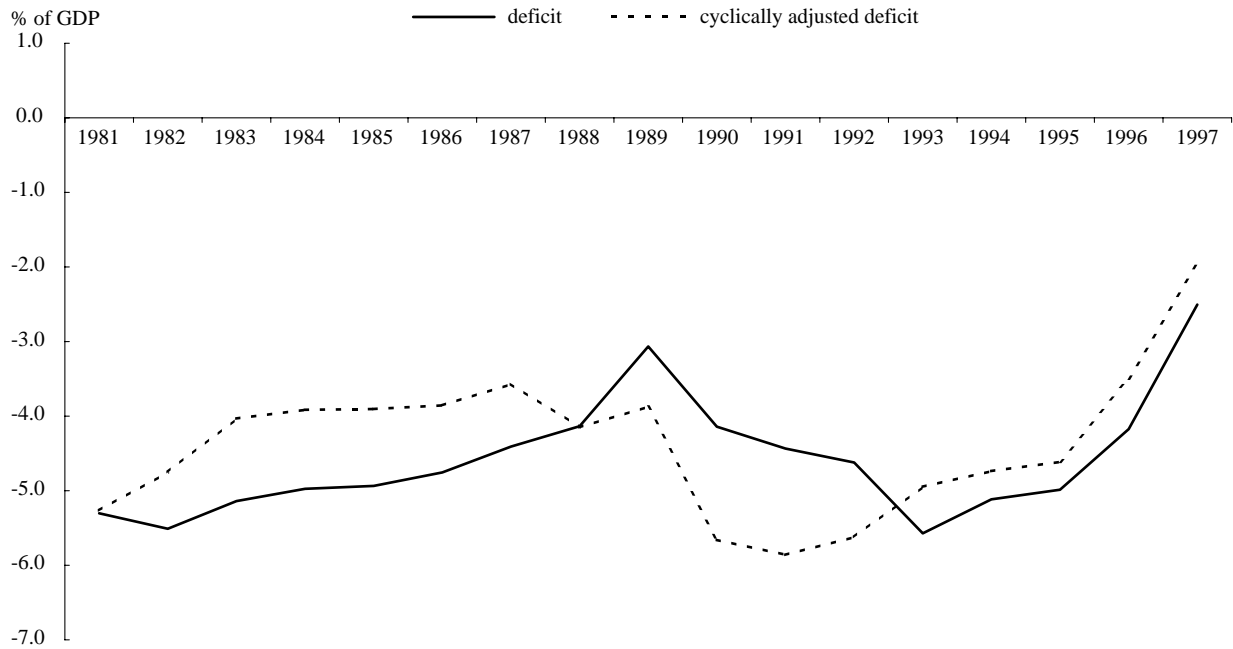
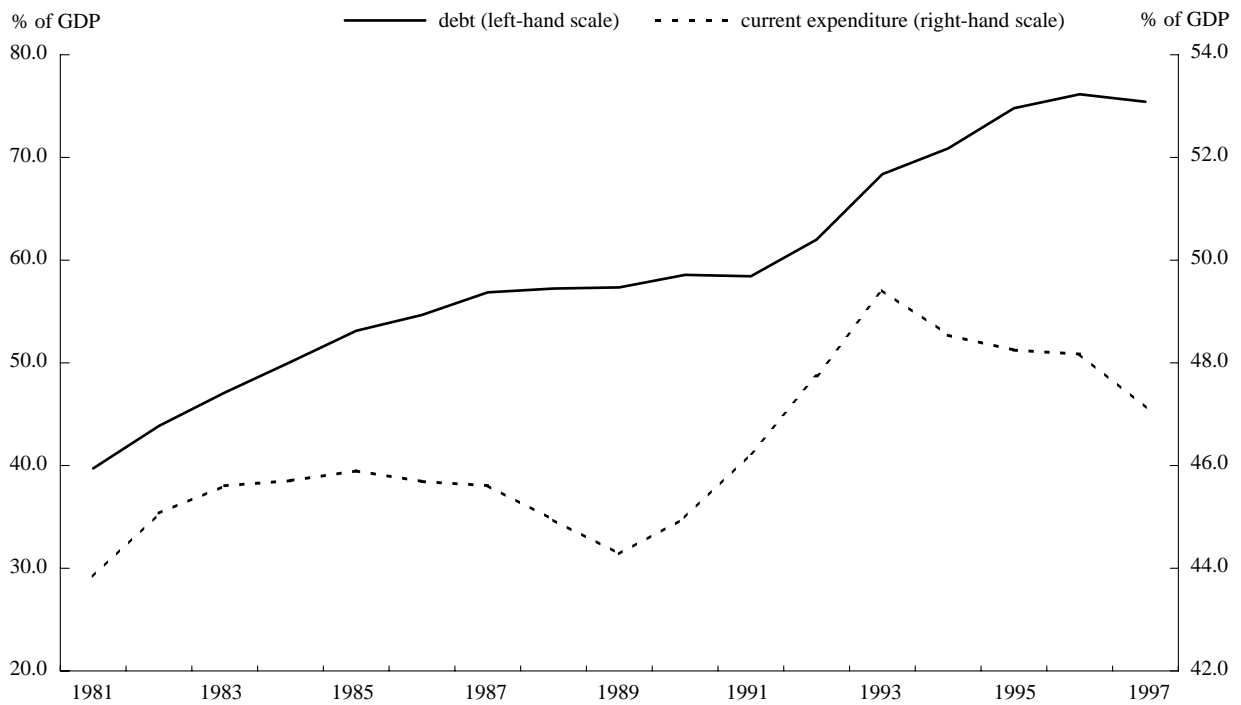


Chart 7.3

General government debt and current expenditure ¹⁾



Sources: European Commission (DG II and Eurostat) for Member State data; ECB for the euro area aggregation.

1) Euro area excluding Luxembourg.

9 Trade in goods of the euro area

Table 9.1

Exports

(ECU billions; f.o.b. value)

	Total	Food, drink, tobacco	Raw materials	Energy	Chemicals	Other manufactured articles	Machinery, transport equipment	Other
	1	2	3	4	5	6	7	8
1995	622.45	46.79	14.53	11.14	79.50	182.75	271.31	16.44
1996	669.70	48.65	13.71	12.97	85.09	194.25	293.46	21.58
1997	761.81	52.57	16.22	14.35	98.75	215.77	341.60	22.55
1996 Q1	158.77	11.48	3.43	3.08	20.46	46.11	68.71	5.51
Q2	166.17	11.94	3.43	3.24	21.26	47.73	73.38	5.19
Q3	162.60	11.92	3.25	3.15	21.69	48.39	69.34	4.86
Q4	182.16	13.31	3.60	3.50	21.67	52.03	82.02	6.02
1997 Q1	170.21	11.93	3.80	3.63	22.53	48.56	74.38	5.39
Q2	191.59	13.28	4.07	3.61	25.09	53.72	86.06	5.76
Q3	193.50	12.99	4.14	3.42	25.60	55.54	86.29	5.51
Q4	206.52	14.37	4.21	3.70	25.54	57.95	94.87	5.88
1998 Q1	193.95	13.14	4.13	3.40	26.54	54.32	87.45	4.99
Q2	203.86	13.94	3.89	3.31	26.94	56.03	94.71	5.04
Q3	194.34	12.71	3.87	2.90	25.76	54.50	90.06	4.54
1997 Oct.	73.17	5.24	1.54	1.27	9.27	21.22	32.65	2.00
Nov.	66.31	4.63	1.34	1.18	8.20	18.71	30.33	1.92
Dec.	67.03	4.51	1.33	1.25	8.07	18.02	31.89	1.96
1998 Jan.	58.41	4.04	1.25	1.17	8.37	16.17	25.80	1.60
Feb.	63.64	4.30	1.37	1.01	8.59	17.99	28.76	1.62
Mar.	71.90	4.79	1.51	1.21	9.58	20.16	32.89	1.77
Apr.	67.94	4.69	1.31	1.11	9.16	18.84	31.00	1.83
May	65.87	4.55	1.27	1.07	8.69	18.09	30.56	1.64
June	70.05	4.70	1.32	1.12	9.09	19.10	33.16	1.56
July	72.57	4.50	1.33	1.06	9.26	20.91	33.94	1.57
Aug.	56.17	3.96	1.24	0.92	7.74	15.46	25.46	1.39
Sep.	65.60	4.25	1.30	0.92	8.75	18.14	30.66	1.57
Oct.	68.66	4.29	1.28	0.96	8.27	18.92	31.56	3.39
Nov.	66.02	.	.	.	.	.	.	.
Percentage change compared with the corresponding period in the previous year								
Oct. 1998	-6.2	-18.1	-16.9	-24.4	-10.8	-10.8	-3.3	69.5
Cumulative								
Jan.-Oct. 1998	5.1	1.5	-2.8	-11.6	6.1	2.6	8.7	-3.9

Source: Eurostat; the commodity breakdown is in accordance with the SITC Rev. 3.

Table 9.2**Imports***(ECU billions; c.i.f. value)*

	Total	Food, drink, tobacco	Raw materials	Energy	Chemicals	Other manufactured articles	Machinery, transport equipment	Other
	1	2	3	4	5	6	7	8
1995	562.73	46.03	39.81	62.09	52.12	163.71	177.36	21.60
1996	593.92	46.68	36.45	73.85	53.75	166.12	191.34	25.73
1997	672.47	49.42	41.19	80.91	61.59	187.01	226.90	25.44
1996 Q1	147.69	11.72	9.70	16.35	13.60	42.71	47.81	5.80
Q2	147.38	11.64	9.42	17.53	13.75	40.22	48.69	6.13
Q3	140.94	11.18	8.29	17.81	12.69	41.75	43.51	5.70
Q4	157.91	12.13	9.05	22.16	13.71	41.44	51.32	8.10
1997 Q1	158.08	11.29	9.59	20.88	14.51	44.31	51.23	6.27
Q2	167.56	12.57	11.01	18.62	15.92	46.27	56.98	6.18
Q3	166.60	12.14	10.01	19.98	15.13	48.62	55.27	5.46
Q4	180.23	13.43	10.59	21.42	16.03	47.81	63.42	7.53
1998 Q1	180.52	12.64	10.84	17.49	17.59	51.21	64.56	6.18
Q2	178.70	12.55	11.12	15.88	17.21	50.05	65.81	6.08
Q3	169.09	12.16	9.64	14.59	16.21	49.93	61.34	5.23
1997 Oct.	63.51	4.81	3.68	7.53	5.79	17.33	21.91	2.47
Nov.	57.99	4.21	3.47	6.84	5.19	15.30	20.65	2.32
Dec.	58.74	4.41	3.43	7.06	5.06	15.18	20.86	2.74
1998 Jan.	57.90	4.12	3.51	6.16	5.60	16.41	20.11	2.00
Feb.	58.22	3.95	3.53	5.74	5.53	16.58	20.69	2.20
Mar.	64.40	4.57	3.80	5.60	6.47	18.22	23.75	1.99
Apr.	59.97	4.33	3.66	5.42	5.74	16.62	22.25	1.96
May	57.09	4.03	3.55	5.53	5.56	15.75	20.89	1.78
June	61.63	4.19	3.91	4.93	5.91	17.67	22.67	2.34
July	58.94	4.30	3.57	4.90	5.87	17.66	20.79	1.85
Aug.	49.74	3.68	2.79	4.70	4.66	14.73	17.67	1.52
Sep.	60.41	4.18	3.28	5.00	5.68	17.54	22.88	1.86
Oct.	61.43	4.06	3.26	4.94	5.48	16.54	23.58	3.56
Nov.	59.53	.	.	.	.	.	.	.
Percentage change compared with the corresponding period in the previous year								
Oct. 1998	-3.3	-15.6	-11.4	-34.4	-5.4	-4.6	7.6	44.1
Cumulative								
Jan.-Oct. 1998	6.1	1.4	1.7	-21.0	10.0	7.1	16.1	3.3

Source: Eurostat; the commodity breakdown is in accordance with the SITC Rev. 3.

Table 9.3**Trade balance***(ECU billions; exports (f.o.b.) - imports (c.i.f.))*

	Total	Food, drink, tobacco	Raw materials	Energy	Chemicals	Other manufactured articles	Machinery, transport equipment	Other
	1	2	3	4	5	6	7	8
1995	59.73	0.76	-25.29	-50.96	27.37	19.04	93.95	-5.16
1996	75.78	1.97	-22.74	-60.88	31.33	28.13	102.12	-4.15
1997	89.34	3.15	-24.97	-66.56	37.16	28.76	114.70	-2.89
1996 Q1	11.08	-0.25	-6.26	-13.27	6.86	3.40	20.89	-0.29
Q2	18.80	0.30	-5.99	-14.29	7.51	7.51	24.69	-0.94
Q3	21.65	0.74	-5.04	-14.67	9.00	6.63	25.83	-0.84
Q4	24.25	1.18	-5.45	-18.66	7.96	10.59	30.70	-2.08
1997 Q1	12.13	0.63	-5.79	-17.26	8.02	4.25	23.15	-0.87
Q2	24.03	0.72	-6.94	-15.01	9.16	7.45	29.07	-0.42
Q3	26.90	0.86	-5.87	-16.57	10.48	6.93	31.03	0.05
Q4	26.29	0.94	-6.38	-17.72	9.50	10.14	31.45	-1.65
1998 Q1	13.44	0.49	-6.71	-14.10	8.95	3.11	22.89	-1.20
Q2	25.16	1.39	-7.23	-12.57	9.73	5.98	28.90	-1.04
Q3	25.25	0.55	-5.77	-11.70	9.55	4.58	28.72	-0.69
1997 Oct.	9.67	0.43	-2.14	-6.26	3.48	3.89	10.74	-0.47
Nov.	8.33	0.42	-2.13	-5.65	3.01	3.41	9.68	-0.41
Dec.	8.29	0.10	-2.11	-5.81	3.02	2.83	11.03	-0.78
1998 Jan.	0.51	-0.08	-2.25	-4.99	2.77	-0.24	5.69	-0.39
Feb.	5.42	0.35	-2.17	-4.73	3.07	1.41	8.07	-0.58
Mar.	7.51	0.22	-2.29	-4.38	3.11	1.94	9.13	-0.22
Apr.	7.97	0.36	-2.35	-4.31	3.42	2.22	8.75	-0.12
May	8.78	0.52	-2.28	-4.45	3.13	2.34	9.66	-0.14
June	8.42	0.51	-2.59	-3.81	3.18	1.43	10.48	-0.78
July	13.63	0.20	-2.23	-3.85	3.40	3.25	13.14	-0.28
Aug.	6.44	0.28	-1.55	-3.77	3.09	0.73	7.79	-0.12
Sep.	5.19	0.07	-1.98	-4.08	3.07	0.60	7.78	-0.28
Oct.	7.24	0.23	-1.99	-3.98	2.80	2.37	7.98	-0.17
Nov.	6.49	.	.	.	.	.	.	.
Absolute change compared with the corresponding period in the previous year								
Oct. 1998	-2.4	-0.2	0.2	2.3	-0.7	-1.5	-2.8	0.3
Cumulative								
Jan.-Oct. 1998	-1.6	0.0	-0.9	12.7	-0.1	-6.5	-5.5	-1.4

Source: Eurostat; the commodity breakdown is in accordance with the SITC Rev. 3.

10 Exchange rates

Table 10

Exchange rates ¹⁾

(period averages; units of national currency per ECU or euro (bilateral); index 1990 = 100 (effective))

	Bilateral ECU or euro exchange rates								
	US dollar 1	Japanese yen 2	Swiss franc 3	Pound sterling 4	Swedish krona 5	Danish krone 6	Greek drachma 7	Norwegian krone 8	Canadian dollar 9
1995	1.308	123.0	1.546	0.829	9.33	7.33	303.0	8.29	1.795
1996	1.270	138.1	1.568	0.814	8.51	7.36	305.5	8.20	1.731
1997	1.134	137.1	1.644	0.692	8.65	7.48	309.3	8.02	1.569
1998	1.121	146.4	1.622	0.676	8.92	7.50	330.7	8.47	1.665
1997 Q4	1.123	140.5	1.610	0.677	8.58	7.51	310.2	8.01	1.581
1998 Q1	1.087	139.2	1.604	0.660	8.71	7.53	319.1	8.20	1.554
Q2	1.100	149.5	1.643	0.665	8.60	7.52	339.9	8.28	1.592
Q3	1.118	156.3	1.642	0.676	8.95	7.50	332.7	8.54	1.690
Q4	1.177	140.6	1.600	0.702	9.38	7.44	331.5	8.82	1.814
1998 Feb.	1.088	136.8	1.593	0.664	8.80	7.53	312.4	8.23	1.561
Mar.	1.084	139.9	1.614	0.653	8.64	7.55	331.6	8.22	1.536
Apr.	1.091	144.1	1.643	0.653	8.53	7.55	345.0	8.22	1.560
May	1.109	149.7	1.639	0.677	8.54	7.50	340.3	8.26	1.603
June	1.101	154.4	1.645	0.667	8.71	7.52	334.8	8.34	1.613
July	1.098	154.3	1.661	0.668	8.77	7.52	328.7	8.37	1.630
Aug.	1.102	159.4	1.646	0.675	8.96	7.50	331.6	8.51	1.688
Sep.	1.154	155.3	1.617	0.687	9.12	7.48	337.9	8.74	1.756
Oct.	1.194	144.2	1.596	0.705	9.37	7.44	336.5	8.88	1.842
Nov.	1.164	140.1	1.612	0.701	9.31	7.44	329.1	8.68	1.793
Dec.	1.172	137.4	1.594	0.702	9.45	7.45	328.8	8.91	1.807
1999 Jan.	1.161	131.3	1.605	0.703	9.08	7.44	323.6	8.65	1.765
Feb.	1.121	130.8	1.598	0.689	8.88	7.44	322.0	8.65	1.679
% ch. vs. prev. month ²⁾	-3.4	-0.4	-0.5	-2.0	-2.2	-0.1	-0.5	0.0	-4.9

	Bilateral ECU or euro exchange rates								Effective exchange rate (EER) of the euro area ³⁾	
	Australian dollar 10	New Zealand dollar 11	Hong Kong dollar 12	Korean won 13	Singapore dollar 14	Taiwan dollar 15	Mexican peso 16	Nominal 17	Real 18	
	1995	1.765	1.993	10.01	999.7	1.833	34.28	8.35	97.8	98.9
1996	1.623	1.847	9.68	1,007.9	1.765	34.39	9.52	98.3	99.3	
1997	1.528	1.715	8.75	1,073.2	1.678	32.50	8.95	90.4	90.8	
1998	1.787	2.097	8.69	1,568.9	1.876	37.64	10.30	92.3	92.2	
1997 Q4	1.621	1.820	8.69	1,291.1	1.795	35.15	9.07	90.4	90.5	
1998 Q1	1.630	1.879	8.42	1,745.8	1.817	36.07	9.17	89.6	89.7	
Q2	1.754	2.063	8.53	1,537.0	1.810	37.09	9.55	91.3	91.3	
Q3	1.867	2.199	8.67	1,486.8	1.935	38.71	10.62	93.5	93.6	
Q4	1.887	2.236	9.16	1,516.6	1.942	38.64	11.84	94.6	94.3	
1998 Feb.	1.615	1.867	8.43	1,773.8	1.798	35.89	9.26	89.5	89.7	
Mar.	1.619	1.892	8.41	1,615.8	1.757	35.30	9.30	88.9	89.0	
Apr.	1.673	1.971	8.47	1,520.2	1.749	36.07	9.29	89.6	89.5	
May	1.762	2.062	8.60	1,552.4	1.817	37.13	9.53	92.2	92.1	
June	1.824	2.151	8.53	1,539.8	1.866	38.06	9.83	92.2	92.2	
July	1.776	2.116	8.51	1,423.6	1.878	37.79	9.78	92.0	92.2	
Aug.	1.868	2.196	8.55	1,450.4	1.939	38.33	10.34	93.3	93.5	
Sep.	1.962	2.289	8.97	1,592.4	1.994	40.10	11.83	95.2	95.1	
Oct.	1.932	2.284	9.31	1,615.7	1.969	39.81	12.21	95.8	95.5	
Nov.	1.834	2.180	9.05	1,511.9	1.913	38.08	11.64	94.1	93.8	
Dec.	1.893	2.241	9.11	1,426.3	1.941	38.02	11.65	94.0	93.6	
1999 Jan.	1.839	2.159	8.99	1,362.5	1.950	37.43	11.83	92.7	92.2	
Feb.	1.751	2.062	8.68	1,330.2	1.905	36.41	11.21	90.9	90.5	
% ch. vs. ²⁾ prev. month	-4.7	-4.5	-3.4	-2.4	-2.3	-2.7	-5.2	-1.9	-1.9	
prev. year								1.5	0.9	

Source: ECB.

1) To December 1998, rates for the ECU (source BIS); from January 1999, rates for the euro.

2) A percentage change in the latest monthly observation is shown compared with the previous month and (only for the effective exchange rate) the same month of the previous year, respectively. A positive change denotes an appreciation of the euro.

3) BIS calculations; to December 1998, based on weighted averages of the euro area countries' effective exchange rates; from January 1999, based on weighted averages of bilateral euro exchange rates (original BIS figures have been rescaled to 1990 = 100). Weights are based on 1990 manufactured goods trade with the trading partners whose currencies are shown in the table and capture third-market effects. Real rates are calculated using national CPIs. Where CPI data are not yet available, estimates are used.

II Economic and financial developments in the other EU Member States

Table II
Economic and financial developments

(annual percentage changes, unless otherwise indicated)

	HICP	General government deficit (-) / surplus (+) as a % of GDP	General government gross debt as a % of GDP	Long-term government bond yield ¹⁾ as a % per annum	Exchange rate ²⁾ as national currency per ECU or euro	Current and new capital account ³⁾ as a % of GDP	Unit labour costs ⁴⁾	Real GDP	Industrial production index ⁵⁾	Standardised unemployment rate as a % of labour force (s.a.)	Broad money ⁶⁾	3-month interest rate ⁷⁾ as a % per annum
	1	2	3	4	5	6	7	8	9	10	11	12
Denmark												
1995	-	-2.4	73.1	8.27	7.33	1.1	1.7	3.0	4.4	7.2	-2.0	4.60
1996	2.1	-0.7	68.4	7.19	7.36	1.7	1.0	3.3	1.4	6.8	7.2	3.56
1997	1.9	0.5	64.1	6.26	7.48	0.9	2.8	3.1	4.6	5.6	4.7	3.83
1998	1.3	.	.	4.94	7.50	.	.	.	1.6	5.1	4.6	4.00
1997	Q4	1.6	-	5.96	7.51	-1.3	3.1	3.3	7.4	5.4	3.9	3.83
1998	Q1	1.6	-	5.30	7.53	-0.7	2.2	4.0	6.1	5.5	3.0	3.75
	Q2	1.4	-	5.12	7.52	.	2.0	1.1	-0.8	5.2	5.1	4.00
	Q3	1.2	-	4.82	7.50	.	3.5	3.4	2.7	5.1	6.6	4.62
	Q4	1.1	-	4.51	7.44	.	.	.	-1.3	4.7	3.8	4.00
1998	Aug.	1.1	-	4.81	7.50	-	-	-	4.9	5.1	6.2	4.25
	Sep.	1.1	-	4.74	7.48	-	-	-	0.0	4.9	8.4	4.62
	Oct.	1.1	-	4.67	7.44	-	-	-	1.6	4.8	4.0	4.43
	Nov.	1.1	-	4.59	7.44	-	-	-	0.0	4.6	4.1	4.12
	Dec.	1.1	-	4.27	7.45	-	-	-	-5.5	4.6	3.3	4.00
1999	Jan.	1.2	-	4.03	7.44	-	-	-	.	.	.	3.78
	Feb.	.	-	4.19	7.44	-	-	-	.	.	.	3.60
Greece												
1995	-	-10.6	110.1	-	303.0	-2.5	11.6	2.1	2.1	7.1	6.4	14.70
1996	7.9	-7.5	112.2	-	305.5	-3.7	10.6	2.4	0.6	7.5	9.8	12.20
1997	5.4	-4.0	109.5	9.92	309.3	.	7.1	3.2	1.0	7.9	14.5	12.50
1998	4.5	.	.	8.48	330.7	.	.	.	.	.	3.8	11.40
1997	Q4	4.7	-	10.18	310.2	.	.	.	2.8	7.9	13.6	12.50
1998	Q1	4.2	-	10.45	319.1	.	.	.	2.9	8.1	4.6	10.85
	Q2	5.0	-	7.90	339.9	.	.	.	6.0	10.3	3.4	12.20
	Q3	4.8	-	7.83	332.7	.	.	.	3.1	11.7	1.8	12.25
	Q4	4.0	-	7.76	331.5	.	.	.	.	.	5.6	11.40
1998	Aug.	4.7	-	7.56	331.6	-	-	-	3.2	12.1	2.0	14.00
	Sep.	5.0	-	8.25	337.9	-	-	-	-1.4	11.9	1.1	12.25
	Oct.	4.5	-	8.45	336.5	-	-	-	0.4	10.4	2.4	11.70
	Nov.	3.9	-	7.65	329.1	-	-	-	3.5	.	5.4	11.45
	Dec.	3.7	-	7.17	328.8	-	-	-	.	.	8.7	11.40
1999	Jan.	3.5	-	6.32	323.6	-	-	-	.	.	14.6	11.40
	Feb.	.	-	5.96	322.0	-	-	-	.	.	.	10.41
Sweden												
1995	-	-7.0	78.0	10.24	9.33	.	.	3.9	12.6	8.8	-1.3	8.37
1996	0.8	-3.5	77.2	8.02	8.51	.	.	1.3	3.1	9.6	10.0	3.93
1997	1.8	-0.8	76.9	6.62	8.65	2.9	.	1.8	8.1	9.9	4.2	4.68
1998	1.0	.	.	4.99	8.92	.	.	.	.	8.2	3.5	3.42
1997	Q4	2.7	-	6.18	8.58	2.2	.	3.3	9.1	9.1	2.0	4.68
1998	Q1	1.9	-	5.51	8.71	3.0	.	2.9	4.2	8.7	2.0	4.50
	Q2	1.4	-	5.13	8.60	1.1	.	2.3	6.6	8.6	2.6	4.12
	Q3	0.6	-	4.82	8.95	2.5	.	3.5	4.3	8.1	4.7	4.12
	Q4	0.1	-	4.50	9.38	.	.	.	.	7.5	4.5	3.42
1998	Aug.	0.6	-	4.80	8.96	-	-	-	6.3	8.1	3.9	4.19
	Sep.	-0.1	-	4.79	9.12	-	-	-	0.8	7.6	4.8	4.12
	Oct.	0.1	-	4.72	9.37	-	-	-	4.4	7.5	5.9	3.93
	Nov.	0.1	-	4.55	9.31	-	-	-	1.8	7.6	5.6	3.50
	Dec.	0.0	-	4.22	9.45	-	-	-	.	7.5	2.1	3.42
1999	Jan.	0.0	-	4.02	9.08	-	-	-	.	7.6	.	3.36
	Feb.	.	-	4.18	8.88	-	-	-	.	.	.	3.30
United Kingdom												
1995	-	-5.5	53.9	8.32	0.829	-0.5	1.7	2.8	1.5	8.7	7.2	6.56
1996	2.5	-4.7	54.7	7.94	0.814	-0.2	2.0	2.6	0.4	8.2	9.9	6.56
1997	1.8	-2.1	53.5	7.13	0.692	0.6	3.3	3.5	1.0	7.0	11.2	7.48
1998	1.5	.	.	5.60	0.676	.	.	2.3	.	6.3	9.6	6.12
1997	Q4	1.9	-	6.57	0.677	0.0	3.5	4.0	0.5	6.6	11.2	7.48
1998	Q1	1.5	-	6.10	0.660	-1.6	3.1	3.2	0.1	6.5	10.5	7.47
	Q2	1.8	-	5.89	0.665	.	.	2.7	0.9	6.3	9.9	7.59
	Q3	1.4	-	5.57	0.676	.	.	2.0	0.4	6.3	9.6	7.27
	Q4	1.4	-	4.82	0.702	.	.	1.3	.	6.2	8.6	6.12
1998	Aug.	1.3	-	5.63	0.675	-	-	-	0.5	6.3	9.0	7.50
	Sep.	1.5	-	5.16	0.687	-	-	-	0.4	6.3	9.3	7.27
	Oct.	1.3	-	4.99	0.705	-	-	-	-0.5	6.2	9.3	7.12
	Nov.	1.4	-	4.93	0.701	-	-	-	-0.2	6.2	8.4	6.62
	Dec.	1.5	-	4.54	0.702	-	-	-	.	.	8.1	6.12
1999	Jan.	1.6	-	4.20	0.703	-	-	-	.	.	.	5.82
	Feb.	.	-	4.37	0.689	-	-	-	.	.	.	5.51

Sources: Eurostat (columns 1, 8 and 10 (except Greece)); European Commission (DG II and Eurostat) (columns 2 and 3); Reuters (column 12); national data (columns 4, 5, 6, 7, 9, 10 (Greece) and 11).

1) Average-of-period values.

2) For more information, see Table 10.

3) BPM4; BPM5 for Sweden.

4) Whole economy; data for the United Kingdom exclude employers' contribution to social security.

5) Manufacturing; adjusted for working days.

6) Average of end-month values; M3; M4 for the United Kingdom.

7) End-of-period rates to December 1998; period averages thereafter.

12 Economic and financial developments outside the EU

Table 12.1

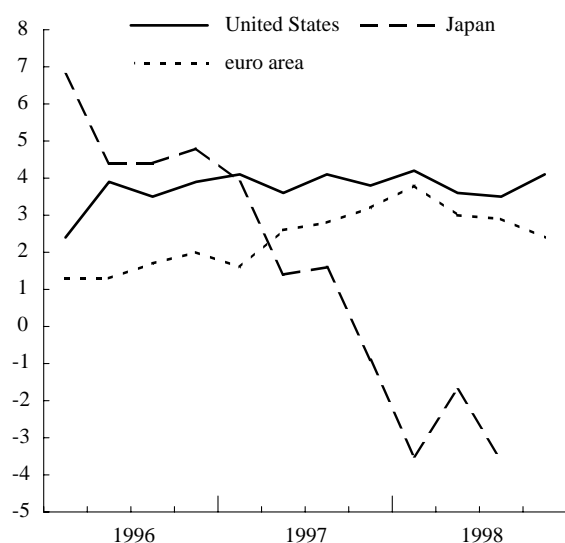
Economic and financial developments

(annual percentage changes, unless otherwise indicated)

	Consumer price index	Unit labour costs ¹⁾	Real GDP	Industrial production index ¹⁾	Standardised unemployment rate as a % of labour force (s.a.)	M2 ²⁾	3-month interbank deposit rate ³⁾ as a % per annum	10-year government bond yield ³⁾ as a % per annum	Exchange rate ⁴⁾ as national currency per ECU or euro	Fiscal deficit (-) / surplus (+) as a % of GDP	Gross public debt ⁵⁾ as a % of GDP
	1	2	3	4	5	6	7	8	9	10	11
United States											
1995	2.8	-1.6	2.3	5.4	5.6	2.1	5.44	6.69	1.308	-2.3	60.8
1996	2.9	-2.3	3.4	4.8	5.4	4.8	5.43	6.54	1.270	-1.2	59.9
1997	2.3	0.0	3.9	6.7	4.9	5.0	5.62	6.45	1.134	0.1	57.8
1998	1.6	0.7	3.9	4.1	4.5	7.5	5.00	5.33	1.121	-	-
1997 Q4	1.9	0.7	3.8	7.3	4.7	5.7	5.62	5.99	1.123	-	57.8
1998 Q1	1.5	1.1	4.2	6.0	4.6	6.6	5.59	5.67	1.087	-	57.7
Q2	1.6	1.0	3.6	5.0	4.4	7.2	5.59	5.67	1.100	-	56.1
Q3	1.6	1.4	3.5	3.2	4.5	7.4	5.20	5.27	1.118	-	55.2
Q4	1.5	-0.8	4.1	2.5	4.4	8.7	5.00	4.72	1.177	-	-
1998 Aug.	1.6	-	-	3.7	4.5	7.1	5.50	5.41	1.102	-	-
Sep.	1.5	-	-	2.9	4.5	7.8	5.20	4.87	1.154	-	-
Oct.	1.5	-	-	3.0	4.5	8.4	5.12	4.58	1.194	-	-
Nov.	1.5	-	-	2.3	4.4	8.7	5.12	4.89	1.164	-	-
Dec.	1.6	-	-	2.2	4.3	9.0	5.00	4.69	1.172	-	-
1999 Jan.	1.7	-	-	2.2	4.3	9.0	4.99	4.78	1.161	-	-
Feb.	-	-	-	-	-	-	5.00	4.99	1.121	-	-
Japan											
1995	-0.1	-2.5	1.5	3.4	3.1	3.0	0.50	3.32	123.0	-3.6	-
1996	0.1	-1.7	5.1	2.3	3.4	3.3	0.31	3.03	138.1	-4.3	-
1997	1.7	-1.8	1.4	3.6	3.4	3.1	0.36	2.15	137.1	-3.3	-
1998	0.6	-	-	-6.9	4.1	4.0	0.18	1.30	146.4	-	-
1997 Q4	2.1	1.8	-0.9	-0.7	3.5	3.3	0.36	1.68	140.5	-	-
1998 Q1	2.0	3.7	-3.5	-4.0	3.6	4.7	0.50	1.65	139.2	-	-
Q2	0.3	7.1	-1.7	-8.5	4.2	3.7	0.43	1.36	149.5	-	-
Q3	-0.2	-	-3.6	-8.6	4.3	3.7	0.12	1.14	156.3	-	-
Q4	0.5	-	-	-6.7	4.3	4.0	0.18	1.04	140.6	-	-
1998 Aug.	-0.3	8.3	-	-9.1	4.3	3.8	0.37	1.17	159.4	-	-
Sep.	-0.2	-	-	-7.6	4.3	3.8	0.12	0.88	155.3	-	-
Oct.	0.2	-	-	-7.9	4.3	3.9	0.68	0.82	144.2	-	-
Nov.	0.8	-	-	-5.6	4.4	4.3	0.68	0.89	140.1	-	-
Dec.	0.6	-	-	-6.4	4.3	3.9	0.18	1.39	137.4	-	-
1999 Jan.	0.2	-	-	-7.5	-	3.6	0.35	2.07	131.3	-	-
Feb.	-	-	-	-	-	-	0.38	2.09	130.8	-	-

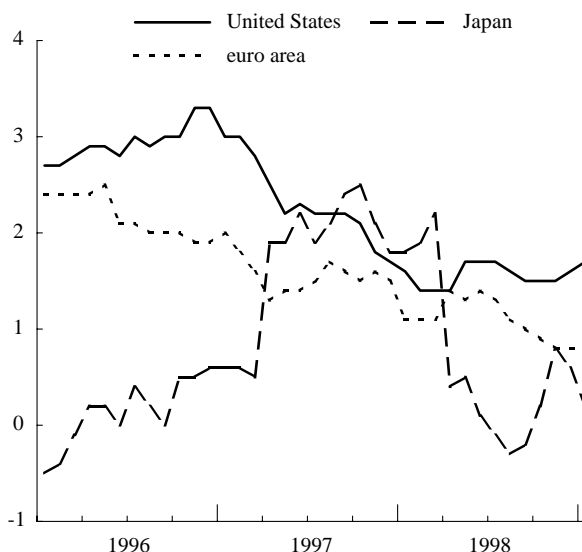
Real gross domestic product

(annual percentage changes; quarterly)



Consumer price indices

(annual percentage changes; monthly)



Sources: National data (columns 1, 2 (United States), 3, 4, 5, 6, 8 (to December 1998), 9 and 11); OECD (column 2 (Japan)); Eurostat (euro area chart data); Reuters (columns 7 and 8 (from January 1999)); European Commission (DG II) (column 10).

1) Manufacturing.

4) For more information, see Table 10.

2) Average-of-period values, M2 and CDs for Japan.

5) Gross consolidated debt for the general government (end of period).

3) For more information, see Tables 2.5 and 2.6.

Table 12.2

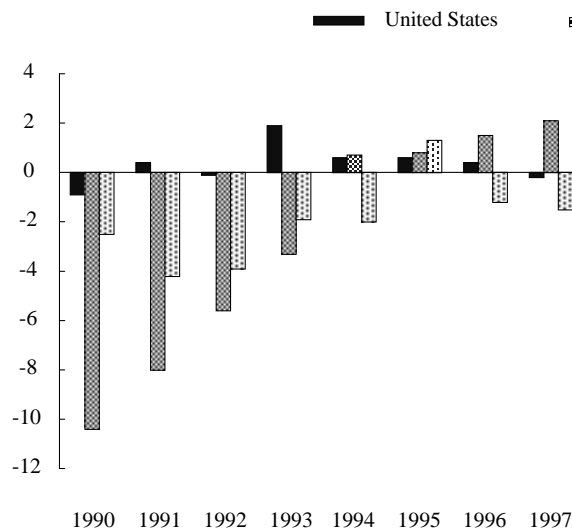
Saving, investment and financing

(as a percentage of GDP)

	National saving and investment			Investment and financing of non-financial corporations						Investment and financing of households ¹⁾			
	Gross saving	Gross capital formation	Net lending to the rest of the world	Gross capital formation	Gross fixed capital formation	Net acquisition of financial assets	Gross saving	Net incurrence of liabilities	Securities and shares	Capital expenditure	Net acquisition of financial assets	Gross saving	Net incurrence of liabilities
	1	2	3	4	5	6	7	8	9	10	11	12	13
United States													
1995	16.3	17.4	-1.4	7.8	7.2	6.0	8.3	5.4	2.5	12.2	6.7	13.4	4.9
1996	16.6	17.8	-1.6	7.8	7.5	5.2	8.2	4.8	1.4	12.4	5.7	13.3	5.1
1997	17.3	18.4	-1.7	8.4	7.6	4.2	8.2	4.4	1.9	12.3	4.8	12.7	4.9
1997 Q1	17.0	18.1	-1.6	8.2	7.4	6.1	8.1	5.9	1.5	12.4	3.0	12.7	4.5
1997 Q2	17.6	18.5	-1.5	8.8	7.5	2.4	8.3	2.9	1.4	12.2	5.7	13.2	4.7
1997 Q3	17.5	18.4	-1.7	8.3	7.7	4.8	8.4	5.2	2.0	12.3	5.7	12.8	5.4
1997 Q4	17.3	18.5	-2.0	8.4	7.7	3.7	8.1	3.6	2.5	12.3	4.8	12.1	4.9
1998 Q1	17.7	19.1	-2.1	8.9	7.9	5.9	8.2	7.2	2.3	12.5	4.3	11.5	5.6
1998 Q2	17.2	18.7	-2.5	8.4	8.0	4.4	8.1	5.1	2.7	12.8	6.5	11.5	5.6
1998 Q3	17.2	18.8	-2.7	8.6	7.9	4.1	8.1	4.8	2.1	12.8	3.8	11.0	5.5
Japan													
1995	30.8	28.6	2.1	14.9	14.9	3.1	13.5	2.3	0.5	5.3	10.3	13.1	1.9
1996	31.5	30.0	1.4	14.6	15.3	1.7	15.2	0.3	1.0	6.7	6.4	12.7	1.1
1997	30.9	28.7	2.2	15.5	16.1	3.3	15.2	1.2	0.1	5.6	7.1	12.3	0.7
1997 Q1	33.4	29.4	1.5	.	.	0.6	.	-8.1	-1.0	.	-3.3	.	-0.9
1997 Q2	31.2	26.6	2.3	.	.	2.6	.	-1.9	1.4	.	10.7	.	0.7
1997 Q3	30.2	30.0	2.2	.	.	3.0	.	3.1	0.4	.	-0.3	.	1.5
1997 Q4	29.0	29.3	2.6	.	.	6.6	.	10.7	-0.3	.	19.8	.	1.5
1998 Q1	33.2	27.9	2.4	.	.	0.6	.	-15.3	-2.6	.	-5.4	.	-2.3
1998 Q2	.	24.1	.	.	.	-0.6	.	1.3	2.2	.	12.2	.	0.0
1998 Q3	.	26.7	.	.	.	4.9	.	-2.3	0.6	.	-2.6	.	0.6

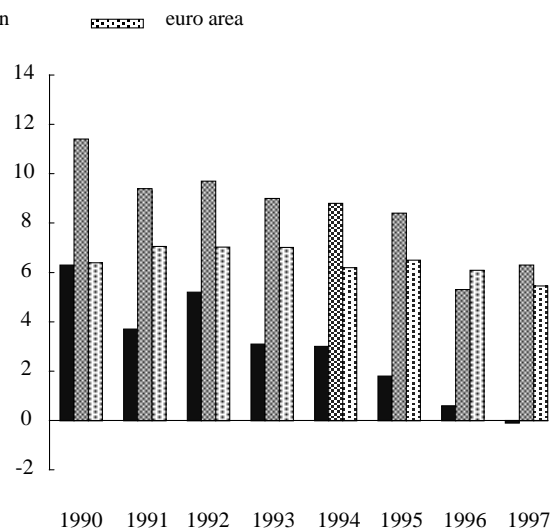
Net lending of non-financial corporations

(as a percentage of GDP)



Net lending of households ¹⁾

(as a percentage of GDP)



Sources: ECB, Federal Reserve Board, Bank of Japan and Economic Planning Agency.

1) Households including non-profit institutions serving households. For Japan, saving of non-profit institutions serving households is included under saving of non-financial corporations.



General notes

The basis for the statistics compiled and published by the European Central Bank (ECB) was laid down in the document entitled the "Statistical requirements for Stage Three of Monetary Union (Implementation Package)" which was made available to banking associations and others involved in statistical preparations for Stage Three by the European Monetary Institute (EMI) and the national central banks (NCBs) in July 1996. The Implementation Package covers money and banking statistics, balance of payments statistics, international investment position statistics, financial accounts statistics, price and cost and other economic statistics.¹⁾

The focus of these statistics is the euro area as a whole. More detailed and longer runs of data, with further explanatory notes, are available on the ECB's Web site (<http://www.ecb.int>), and new or expanded data will appear in the ECB Monthly Bulletin as they become available.

Because the composition of the ECU does not coincide with the currencies of the Member States adopting 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 Member States which have not adopted the euro. To avoid this effect in the monetary statistics, the pre-1999 data in Tables 2.1 to 2.4 are expressed in units converted from national currencies at the irrevocable fixed exchange rates announced on 31 December 1998. Unless indicated otherwise, price and cost statistics before 1999 are based on the data expressed in national currency terms.

Methods of aggregation and/or consolidation (including cross-country consolidation) have been used as appropriate.

1) Money and banking statistics are the responsibility of the ECB at the European level; responsibility for balance of payments, international investment position and financial accounts statistics is shared with the European Commission (Eurostat); price and cost and other economic statistics are the responsibility of the European Commission (Eurostat).

As a general rule, the cut-off date for the statistics included in this issue was 4 March 1999. Recent data are often provisional and may be revised.

Monetary policy and financial statistics

Tables 1.1 to 1.5 show the consolidated financial statement of the Eurosystem, data on Eurosystem operations, statistics relating to minimum reserves, and the banking system's liquidity position. Monetary data relating to Monetary Financial Institutions (MFIs), including the Eurosystem, are shown in Tables 2.1 to 2.3. Table 2.3 is consolidated; inter-MFI positions within the euro area are not shown, but any difference between the sum total of such claims and liabilities as recorded is shown in column 13. Table 2.4 sets out monetary aggregates drawn from the consolidated MFI balance sheet. Fuller quarterly data relating to the MFI balance sheet and monetary statistics are planned for the April issue. A complete list of MFIs is published on the ECB's Web site. Details of the sector definitions are set out in the "Money and Banking Statistics Sector Manual – Guidance for the statistical classification of customers" (EMI, April 1998). The "Money and Banking Statistics Compilation Guide" (EMI, April 1998) explains recommended practices to be followed by the NCBs. From 1 January 1999 the statistical information is collected and compiled on the basis of the ECB Regulation concerning the consolidated balance sheet of the Monetary Financial Institutions sector (ECB/1998/16).

Statistics on money market interest rates, long-term government bond yields and stock market indices (Tables 2.5 to 2.7) are produced by the ECB from wire services. For details concerning the statistics on retail bank interest rates (Table 2.8), see the footnote at the bottom of the relevant page.

Statistics on securities market issues and redemptions (Table 3) are expected to be available in spring 1999.

Prices and real economy indicators

The data presented in the ECB Monthly Bulletin are, with a few exceptions, 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. However, the availability of comparable data is, as a general rule, better for the more recent periods than for earlier periods. The seasonally adjusted data are produced by Eurostat or national sources.

The Harmonised Index of Consumer Prices (HICP) for the euro area (Table 4.1) is available from 1995 onwards. It is based on national HICPs that follow the same methods in all euro area countries. The implementation of the 1998 EU Council Regulation on short-term statistics will enlarge the range of available euro area data, including timely and comparable data for retail trade turnover, for which, at present, an estimate based on national data is used (Table 5.1).

With regard to statistics on national accounts (Tables 4.2 and 5.1), the implementation of the European System of Accounts 1995 (ESA 95) during 1999 and thereafter will pave the way for fully comparable data, including quarterly summary accounts, across the euro area.

Unemployment rates conform to International Labour Organisation (ILO) guidelines. Data on employment are derived from the most recent national sources using similar, but not fully comparable, definitions of employment (Table 5.2).

Opinion survey data (Chart 5.3) draw on the business and consumer surveys of the European Commission.

Financial accounts statistics

The Implementation Package foresaw a need for detailed information covering the financial transactions and balance sheets for the euro area in order to complement monetary analysis and policy research. The aim is to provide a fairly full, though not complete, set of financial accounts for the euro area based on money and banking, balance of payments, capital market, non-MFI financial corporation and government finance statistics, and drawing also on the ESA 95 national accounts. Table 6 shows euro area aggregates based on national capital and financial accounts.

A more detailed and further harmonised set of statistics presenting financial accounts for the euro area is expected to appear in the ECB Monthly Bulletin later in 1999.

General government fiscal position

Table 7.1 shows the euro area general government fiscal position as a percentage of GDP and is based on data provided by the European Commission (DG II and Eurostat) in the framework of the excessive deficit procedure as laid down in the Treaty establishing the European Community. In addition, government deficit and debt data are shown for individual euro area countries owing to their importance in the framework of the Stability and Growth Pact.

Euro area receipts and expenditure, and the cyclically adjusted deficit, are compiled on the basis of country data provided by the European Commission (DG II). The aggregation is carried out by the ECB. While the data on the deficit/surplus are harmonised, data on receipts and expenditure are not. The breakdown of debt is compiled from data provided by NCBs.

Balance of payments, trade and exchange rate statistics

Balance of payments data for the euro area will be published for the first time in the April issue of the Monthly Bulletin, and international investment position statistics in the autumn, conforming to the 5th edition of the IMF Balance of Payments Manual (October 1993) and the ECB Guideline of 1 December 1998 on the statistical reporting requirements of the European Central Bank (ECB/1998/17). Meanwhile, Tables 9.1 to 9.3 present data on euro area trade in goods only.

From January 1999 onwards, statistics on exchange rates (Table 10) are daily reference rates published by the ECB.

Other statistics

Statistics on other EU Member States (Table 11) follow the same principles as those for data relating to the euro area. Data for the United States and Japan contained in Tables/Charts 12.1 and 12.2 are obtained from national sources. Saving, investment and financing data for the United States and Japan (Table/Chart 12.2) are structured in the same way as the capital and financial flows data shown for the euro area in Table/Chart 6.

Conventions used in the tables

- “-” not applicable
- “.” not available
- “...” nil or negligible
- “billion” 10^9
- ^(p) provisional
- s.a. seasonally adjusted

Chronology of monetary policy measures of the Eurosystem

22 December 1998

The Governing Council of the ECB decides that the first main refinancing operation of the Eurosystem will be a fixed rate tender offered at an interest rate of 3.0%, a level which it intends to maintain for the foreseeable future. This operation will be initiated on 4 January 1999, while the allotment decision will be taken on 5 January 1999 and settlement will take place on 7 January 1999. In addition, the first longer-term refinancing operation will be announced on 12 January 1999 (with a settlement date of 14 January 1999) and will be conducted through a variable rate tender using the single rate allotment procedure.

The Governing Council furthermore decides that the interest rate for the marginal lending facility will be set at a level of 4.5% and the interest rate for the deposit facility at a level of 2.0% for the start of Stage Three, i.e. 1 January 1999. As a transitional measure, between 4 and 21 January 1999, the interest rate for the marginal lending facility will be set at a level of 3.25% and the interest rate for the deposit facility at a level of 2.75%. The Governing Council intends to terminate this transitional measure following its meeting on 21 January 1999.

31 December 1998

In accordance with Article 109I (4) of the Treaty establishing the European Community, the EU Council, acting with the unanimity of the Member States of the European Community without a derogation, upon a proposal from the European Commission and after consultation of the ECB, adopts the irrevocable conversion rates for the euro, with effect from 1 January 1999, 0.00 a.m. (local time).

The ministers of the euro area Member States, the ECB and the ministers and central bank governors of Denmark and Greece decide, in a common procedure involving the European Commission and after consultation

of the Monetary Committee, to fix the central rates against the euro for the currencies participating in the exchange rate mechanism which comes into operation on 1 January 1999. Further to this decision on the euro central rates, the ECB, Denmark's Nationalbank and the Bank of Greece establish by common accord the compulsory intervention rates for the Danish krone and the Greek drachma. A fluctuation band of $\pm 2.25\%$ will be observed around the euro central rate for the Danish krone. The standard fluctuation band of $\pm 15\%$ will be observed around the euro central rate for the Greek drachma.

7 January 1999

The Governing Council of the ECB decides that for the two main refinancing operations to be announced on 11 and 18 January 1999 respectively the same conditions will apply as for the first such operation, which was settled on 7 January 1999, i.e. they will be fixed rate tenders conducted at an interest rate of 3.0%. The Governing Council confirmed its intention to maintain the main refinancing rate at this level for the foreseeable future.

21 January 1999

The Governing Council of the ECB decides to revert to the interest rates on the Eurosystem's two standing facilities which it had set for the start of Stage Three, i.e. to set the interest rate for the marginal lending facility at a level of 4.5% and that for the deposit facility at a level of 2.0% with effect from 22 January 1999. Furthermore, it decides that for the two main refinancing operations to be settled on 27 January and 3 February 1999 respectively the same conditions will apply as for the first three such operations settled earlier in January, i.e. they will be fixed rate tenders conducted at an interest rate of 3.0%.

4 February 1999

The Governing Council of the ECB decides that for the main refinancing operations to be settled on 10 and 17 February 1999 the same conditions will apply as for the first such operations settled earlier in the year, i.e. they will be fixed rate tenders conducted at an interest rate of 3.0%. In addition, the interest rate on the marginal lending facility continues to be 4.5% and the interest rate on the deposit facility remains 2.0%.

18 February 1999

The Governing Council of the ECB decides that for the main refinancing operations to be settled on 24 February and 3 March 1999 the same conditions will apply as for the previous such operations settled earlier in the year, i.e. they will be fixed rate tenders conducted at an interest rate of 3.0%. In addition, the interest

rate on the marginal lending facility continues to be 4.5% and the interest rate on the deposit facility remains 2.0%.

4 March 1999

The Governing Council of the ECB decides that for the main refinancing operations to be settled on 10 and 17 March 1999 the same conditions will apply as for the previous such operations settled earlier in the year, i.e. they will be fixed rate tenders conducted at an interest rate of 3.0%. In addition, the interest rate on the marginal lending facility continues to be 4.5% and the interest rate on the deposit facility remains 2.0%. The Governing Council also decides that for forthcoming longer-term refinancing operations of the Eurosystem the multiple rate method of allotment will be applied (starting from the operation with a settlement date of 25 March 1999), until otherwise indicated.

The TARGET (Trans-European Automated Real-time Gross settlement Express Transfer) system

The primary objective of TARGET is to provide a safe and reliable mechanism for the settlement of cross-border payments on a real-time gross settlement (RTGS) basis. TARGET was implemented in particular to serve the needs of the Eurosystem's monetary policy and those of the money market in euro. The ECB intends to report on developments related to TARGET in the quarterly versions of its Monthly Bulletin, i.e. in March, June, September and December. Further information on the TARGET system is provided in the "TARGET brochure" and in other documents available in the TARGET section of the ECB's Web site (see the list of documents published by the ECB on page 41* of this Bulletin).

Operational framework

The closing time of TARGET was delayed by one hour each day during the last three weeks of January in order to help the participants to adapt to the new payment systems environment in Stage Three of EMU. On 1 February 1999, as scheduled, the system returned to its normal operating hours, i.e. 7 a.m. to 6 p.m. (C.E.T.). It did not prove necessary to continue use of the extended opening hours of TARGET because the banks had successfully adjusted to a more efficient way of managing their liquidity. They increasingly recognise the benefits of using TARGET for their treasury management and for the processing of large-value payments.

At its meeting on 4 February 1999 the Governing Council decided that, as from 5 February 1999, the deadline for requesting access to the marginal lending facility shall coincide with the deadline for access to the deposit facility, i.e. 30 minutes after the actual closing time of TARGET. This makes it easier for TARGET participants to manage their end-of-day positions.

The TARGET rules allow the closing time of the system to be postponed whenever the processing of large-value payments needs to continue after 6 p.m. in order to ensure the orderly completion of the business day. However, according to the original wording of the rules, a delayed closing applied only to the country of the NCB requesting the delay. The rules have since been amended so that, as from 5 February 1999, a delay of the closing time has applied to all NCBs for the purposes of making new payments to, and receiving new payments from, other NCBs.

This measure increases transparency and ensures a level playing-field for all TARGET users.

Payment flows in TARGET

In January 1999 TARGET as a whole processed a daily average of 151,197 payments, representing a value of €1,046 billion (see Tables I and 2). In this period the

Table I
Payment instructions processed by TARGET and other selected interbank funds transfer systems: volume of transactions
(number of payments)

TARGET	1999 Jan.
All TARGET payments	
Total volume	3,023,945
Daily average	151,197
Cross-border TARGET payments	
Total volume	402,266
Daily average	20,113
Domestic TARGET payments	
Total volume	2,621,679
Daily average	131,084
Other systems	
Euro 1	
Total volume	855,032
Daily average	42,752
Euro Access Frankfurt (EAF)	
Total volume	958,828
Daily average	47,941
Système Net Protégé (SNP)	
Total volume	439,479
Daily average	21,974
Servicio Español de Pagos Interbancarios (SEPI)	
Total volume	100,696
Daily average	5,035

Table 2
Payment instructions processed by TARGET
and other selected interbank funds transfer
systems: value of transactions
(EUR billions)

TARGET	1999 Jan.
All TARGET payments	
Total value	20,926
Daily average	1,046
Cross-border TARGET payments	
Total value	7,107
Daily average	355
Domestic TARGET payments	
Total value	13,819
Daily average	691
Other systems	
Euro 1	
Total value	3,441
Daily average	172
Euro Access Frankfurt (EAF)	
Total value	4,001
Daily average	200
Système Net Protégé (SNP)	
Total value	2,131
Daily average	107
Servicio Español de Pagos Interbancarios (SEPI)	
Total value	168
Daily average	8

number of cross-border TARGET payments was, on average, 20,113 per day (€355 billion in terms of value). During the first three weeks of February the number of cross-border TARGET payments stabilised at a daily average of more than 25,000 transactions with a value of around €342 billion.

With regard to cross-border payments channelled through TARGET, the share of customer payments increased only slightly in February and now stands at around 16% of the total number of payments. In terms of value, they represent only 1.8% of the total. This shows that, as expected, TARGET is used primarily for high-value interbank payments (the average value of interbank payments processed through TARGET now amounts to around €16 million). For this reason, as can be seen from Tables 1 and 2, TARGET's share in the total volume of payments in euro is lower than its share in the total value of these payments.

Documents published by the European Central Bank (ECB)

This list is designed to inform readers about selected documents published by the European Central Bank. The publications are available to interested parties free of charge from the Press Division. Please submit orders in writing to the postal address given on the back of the title page.

For a list of documents published by the European Monetary Institute, please visit the ECB's Web site (<http://www.ecb.int>).

Monthly Bulletin

Articles published from January 1999 onwards:

“The euro area at the start of Stage Three”, January 1999.

“The stability-oriented monetary policy strategy of the Eurosystem”, January 1999.

“Euro area monetary aggregates and their role in the Eurosystem's monetary policy strategy”, February 1999.

Other publications

TARGET brochure, July 1998.

“The TARGET service level”, July 1998.

“Report on electronic money”, August 1998.

“Assessment of EU securities settlement systems against the standards for their use in ESCB credit operations”, September 1998.

“Money and banking statistics compilation guide”, September 1998.

“The single monetary policy in Stage Three: General documentation on ESCB monetary policy instruments and procedures”, September 1998.

“Third progress report on the TARGET project”, November 1998.

“Correspondent central banking model (CCBM)”, December 1998.

“Possible effects of EMU on the EU banking systems in the medium to long term”, February 1999.

