



EUROPEAN CENTRAL BANK

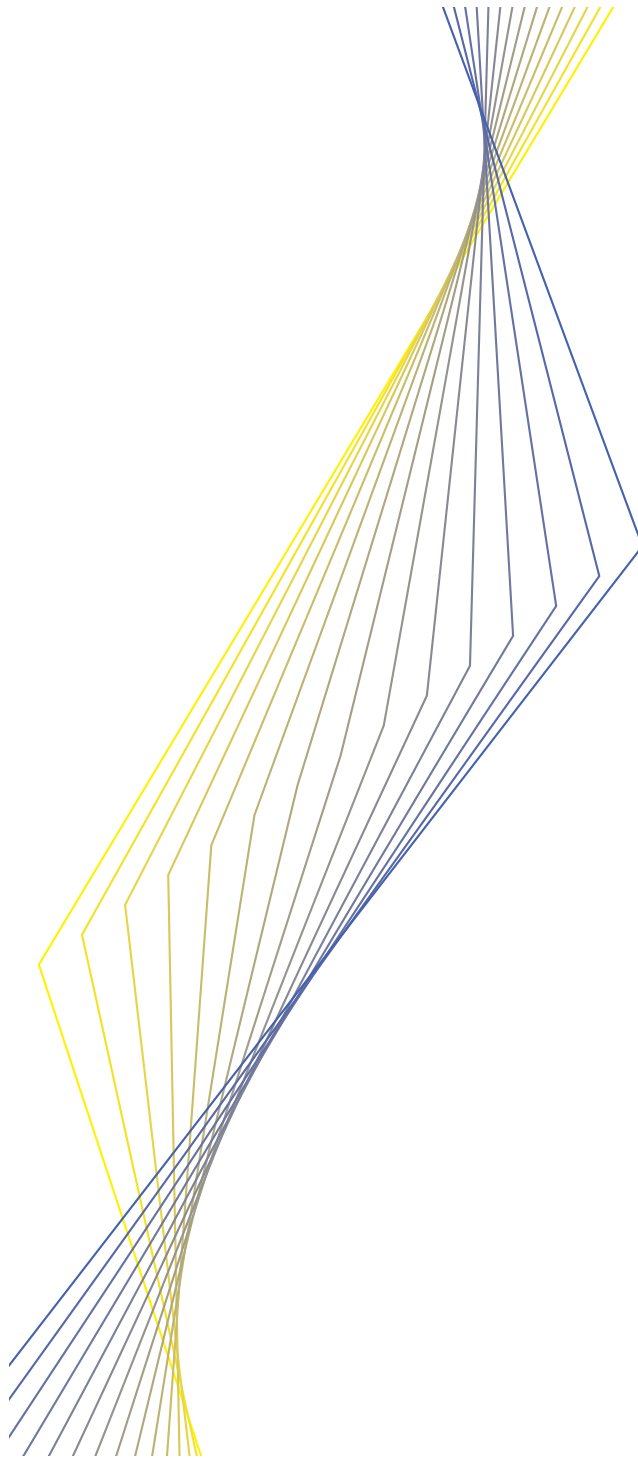
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**M O N T H L Y
B U L L E T I N**

August 1999



EUROPEAN CENTRAL BANK



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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

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 Organization
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 Bulletin using the alphabetical order of the country names in the national languages.

Editorial

The data and surveys which have become available since end-June 1999 are consistent with earlier expectations, according to which economic activity in the euro area first ceased to decline and then stabilised in the first part of 1999 and should accelerate in the second part of the year. Signals from the financial markets confirmed this improved outlook. In a scenario of a gradually strengthening economic recovery, the subdued evolution both of prices and of leading indicators of future inflation suggests that the development of consumer prices should remain compatible with price stability. The evolution of monetary and credit aggregates up to June 1999 broadly supports this assessment, although some upward risks to future price stability cannot be ruled out. The Governing Council of the ECB decided on 15 and 29 July 1999 to maintain the interest rates on the main refinancing operations and on the deposit and marginal lending facilities at 2.5%, 1.5% and 3.5% respectively.

The three-month average of the annual growth rates of the broad monetary aggregate M3, covering the period from April to June 1999, was equal to 5.1%, unchanged from the three-month period ending in May 1999. Consequently, M3 growth remained above the reference value of 4½% set by the Governing Council. The annual increase in M3 fell from 5.2% in May to 5.0% in June. Most of the components of M3 contributed to this decline, albeit to varying degrees.

In June 1999 the 12-month growth rate of credit granted to the private sector increased further from 10.5% in the previous month to 10.9%. However, the rate of increase in total credit to euro area residents declined from 7.9% in May to 7.7% in June, as credit extended to the general government contracted. The high rate of growth of credit to the private sector and the development of M3 are not seen as signalling inflationary pressures at the present juncture. However, careful monitoring will be necessary in the coming months, particularly in view of the fact that the dynamic growth of the most liquid components of M3 and of credit to the

private sector implies that euro area residents are not facing liquidity constraints at present.

During July and the first few days of August long-term interest rates in the euro area rose further. The upward movement of bond yields in the euro area was mainly driven by internal factors, as bond yields in international markets did not show a clear trend. In particular, long-term interest rates may have been affected by expectations of more favourable cyclical developments in the euro area. Reflecting these expectations, the differential between long-term interest rates in the euro area and those in the United States narrowed in July and the positive slope of the yield curve became more marked.

The exchange rate of the euro benefited in July from more favourable market expectations regarding the evolution of economic activity in the euro area. After having declined until mid-July, the nominal effective exchange rate appreciated in the second part of the month. The overall appreciation of the nominal effective exchange rate of the euro between the end of June and 5 August was approximately 2%, while it was 3% between mid-July and 5 August. The appreciation of the euro was more pronounced against the US dollar.

The outlook for the external environment continued to support the view of an acceleration of output growth in the euro area. While the US economy showed some signs of a slowdown, initial signs of a recovery were detected in the United Kingdom. In Japan the prolonged decline in economic activity may have come to a halt, although signals continue to be mixed. Recent developments in economic indicators for emerging markets suggest that a recovery is under way in East Asia, while the outlook has improved only moderately in Latin America.

Recent evidence has confirmed that output growth in the euro area should recover in the second part of 1999. According to revised estimates from Eurostat, the quarter-on-quarter rate of real GDP growth increased

to 0.5% in the first quarter of 1999, from 0.2% in the last quarter of 1998. These figures are largely based on data compiled in accordance with the new methodology of the European System of Accounts 1995 (ESA 95). Some caution should be exercised when interpreting these data, given the lack of experience gained with the ESA 95. On the basis of three-month averages, industrial production stabilised in the periods ending in March and April and then increased in the period ending in May 1999. According to the preliminary survey data released by the European Commission, industrial confidence increased further both in June and in July 1999, thereby returning to its long-run average for the first time since November 1998. Consumer confidence increased markedly in July, after having fallen in the previous three months, and thus moved closer to the all-time high it reached in January 1999. Overall, the outlook for economic activity in the euro area is more favourable now than it was a month ago.

The annual rate of increase in the HICP fell further from 1.0% in May to 0.9% in June 1999, despite further increases in energy prices caused by the pronounced rise in oil prices in recent months. The deceleration was mainly caused by a steep fall in the annual rate of change in unprocessed food prices and, to a lesser extent, in processed food

prices. The annual rate of increase in services prices remained subdued, unchanged from the previous month. The annual increase in the HICP excluding seasonal food and energy declined slightly to 0.8%, from 0.9% in May 1999. Over the short term, while the increase in oil prices and the effective depreciation of the euro in the first half of 1999 are likely to exert upward pressures on prices in the euro area, the intense competition in some sectors should contribute to the dampening of price pressures.

Taking all the available evidence into account, the outlook for the maintenance of price stability remains favourable. However, careful monitoring of the evolution of monetary and credit aggregates, and of the indicators which are now pointing more firmly towards an acceleration of economic activity in the euro area, will be necessary in the months to come.

This issue of the ECB Monthly Bulletin contains two articles. The first, entitled "The international role of the euro", considers the different aspects of the role of the euro in international financial markets. The second, entitled "The balance sheets of the Monetary Financial Institutions of the euro area in early 1999", analyses the information contained in such balance sheets and highlights differences and similarities across the euro area.

Economic developments in the euro area

I Monetary and financial developments

Monetary policy decisions by the Governing Council of the ECB

At its meetings held on 15 and 29 July 1999 the Governing Council of the ECB examined the outlook for price developments and the risks for price stability in the euro area. The latest information was seen to confirm the view that the prospects for inflation remained compatible with price stability. Against this background, the Governing Council decided to maintain the prevailing level of ECB interest rates. The interest rate on the main refinancing operations of the Eurosystem was therefore left at 2.5%, and the interest rates on the marginal lending facility and on the deposit facility were maintained at 3.5% and 1.5% respectively (see Chart 1).

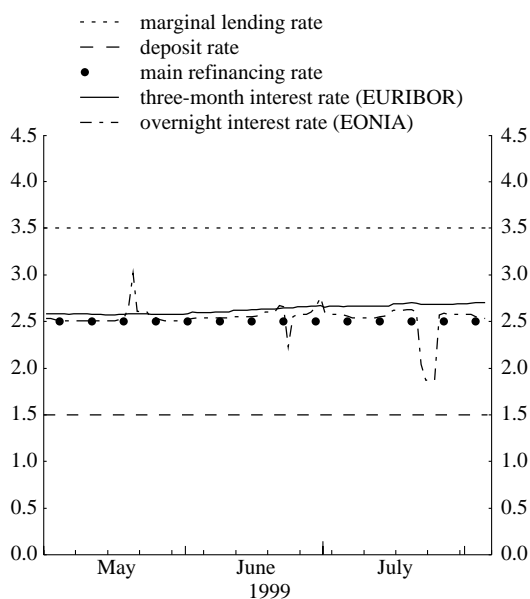
Slight decline in M3 growth in June

In June 1999 the annual rate of increase in the broad monetary aggregate M3 fell to 5.0%, from 5.2% in the previous month. (The latter figure was revised downwards from 5.3%.) The

Chart 1

ECB interest rates and money market rates

(percentages per annum; daily data)

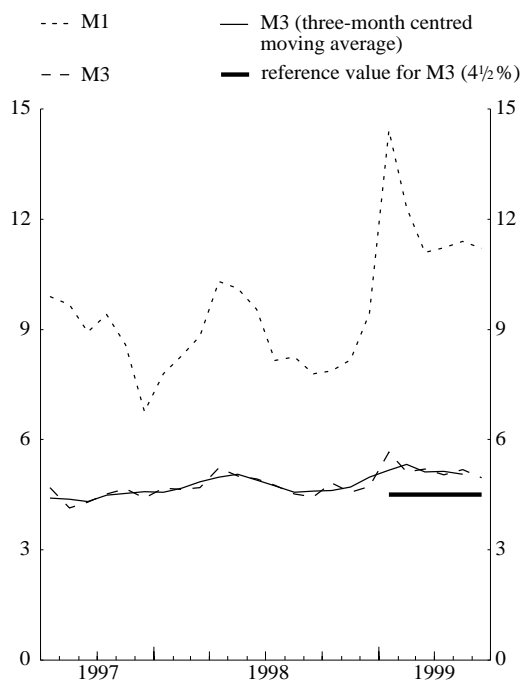


Source: ECB.

Chart 2

Monetary aggregates in the euro area

(annual percentage changes)



Source: ECB.

three-month average of the annual growth rates of M3, covering the period from April to June 1999, stood at 5.1%. The same figure was recorded for the three-month period up to May 1999 (which was revised downwards from 5.2%). Consequently, M3 growth remained above the reference value of 4½% set by the Governing Council (see Chart 2).

On the basis of non-seasonally adjusted data, M3 expanded by €10 billion in June 1999; considering seasonally adjusted figures, M3 rose by €5 billion (or about 0.1%) compared with the previous month (see Table 1). This moderate seasonally adjusted rise in M3 reflected, on the one hand, a large rise in the components of M1 (€14 billion; comprising both currency in circulation and overnight deposits) and a small increase in other short-term deposits (€2 billion) and, on the other, a decline in the marketable instruments included in M3 (€12 billion).

The reduction in the annual rate of M3 growth was the result of a slowdown in most

Table I**M3 and its main components***(seasonally adjusted end-of-month levels and month-on-month changes)*

	June 1999 levels		Apr. 1999 change		May 1999 change		June 1999 change		Apr. to June 1999 average change	
	EUR billions	EUR billions	EUR billions	%	EUR billions	%	EUR billions	%	EUR billions	%
M3	4,550.0	11.0	0.2	20.0	0.4	4.6	0.1	11.9	0.3	
Currency in circulation and overnight deposits (= M1)	1,830.6	17.6	1.0	12.4	0.7	14.5	0.8	14.8	0.8	
Other short-term deposits (= M2 - M1)	2,118.2	-15.0	-0.7	4.4	0.2	2.1	0.1	-2.8	-0.1	
Marketable instruments (= M3 - M2)	601.2	8.5	1.4	3.2	0.5	-12.0	-2.0	-0.1	0.0	

*Source: ECB.**Note: Due to rounding, the sum of the components of M3 in euro (billions) may not add up to the total reported for M3.*

of its components, with the most important contributions coming from a slower pace of growth of money market fund shares and money market paper and a further contraction in debt securities with a maturity of over one and up to two years. Conversely, currency in circulation and deposits redeemable at a period of notice of up to three months contributed to a higher pace of M3 growth.

In June 1999 the annual growth rate of currency in circulation rose to 3.0%, thereby continuing the gradual upturn which has been noticeable over recent months (1.7% in May). By contrast, the annual growth rate of overnight deposits dropped from 13.7% in May to 13.1% in June. Affected by the strong increase recorded in January 1999 and reflecting a high preference for holding liquid instruments in an environment of low opportunity costs, the year-on-year increase in overnight deposits nonetheless remained at a considerably higher level than that prevailing before the start of Stage Three of EMU. Owing to the slower pace of increase in overnight deposits in June, the 12-month growth rate of the narrow monetary aggregate M1 fell slightly to 11.2%, from the level of 11.4% recorded in May.

The annual increase in short-term deposits other than overnight deposits rose moderately to 2.0% in June, from 1.8% in May. Taking a

somewhat longer-term perspective, the annual increase in these financial instruments – which account for nearly half of the outstanding amount of M3 – has remained subdued at levels between 1.5% and 3.0%. The rate of change of deposits with an agreed maturity of less than two years remained negative (at -3.6% in June), largely reflecting the steady decline in retail bank interest rates on these deposits during recent months. By contrast, the demand for deposits redeemable at a period of notice of up to three months strengthened, as their annual rate of increase rose from 5.7% in May to 6.2% in June. This occurred despite the fact that retail bank interest rates on these instruments declined somewhat further in June. As deposits redeemable at short notice tend to be close substitutes for overnight deposits, the possibility cannot be ruled out that their higher pace of growth in that month may have resulted from a shift in investors' portfolios away from the latter. Taking currency in circulation, overnight deposits and other short-term deposits together, the growth rate of the intermediate monetary aggregate M2 rose from 6.0% in May to 6.2% in June.

The annual pace of change of marketable instruments included in M3 fell to -2.4% in June, down from a positive growth rate of 0.3% in the previous month. These instruments thus resumed their negative trend, which appears to be due mainly to the relatively low return they provide, given the

low level of short-term interest rates in the euro area and the steepening of the term structure. Among the marketable instruments, the relatively high annual rate of increase in money market fund shares and money market paper declined from 13.7% in May to 10.4% in June. The outstanding amount of repurchase agreements continued to display a significantly negative trend, declining at an annual rate of 15.7% (which was somewhat stronger than that recorded in the most recent months). The amount of debt securities issued with a maturity of less than two years also contracted further, falling by 17.5% on an annual basis in June (compared with a decline of 12.7% in the previous month).

Growth of credit to the private sector continued to increase in June

The annual growth rate of credit granted to private euro area residents rose from 10.5% in May to 10.9% in June 1999, reflecting a higher growth in both loans and securities other than shares. However, a decline in the annual rate of change in credit to the general government, from 1.3% in May 1999 to -0.6% in June, more than offset the increase in private sector credit growth. As a result, the annual growth rate of total credit extended to euro area residents declined to 7.7% in June, from 7.9% in the previous month.

The rise in the rate of expansion of credit to the private sector occurred despite the fact that the downward trend in retail bank lending interest rates – especially for loans to enterprises over one year and for loans for house purchase – was reversed in June. While remaining modest, the increase in these bank lending rates may have raised expectations of a further rise in the future, following the upward movement in longer-term market interest rates in June. This may have led to a stronger demand for loans in order to take advantage of the still relatively low levels of lending interest rates. An underlying factor in recent credit developments is presumably the high level of competition in the banking sector, which may have contributed

to easy conditions on MFI financing extended to the private sector.

The growth rate of longer-term financial liabilities of the MFI sector against other euro area residents increased slightly from 5.0% in May to 5.2% in June 1999, thus continuing the stronger pace of growth in this counterpart of M3 since the cut in ECB interest rates on 8 April 1999. This increase was due to a higher annual growth rate of deposits with an agreed maturity of over two years, even though they continued to grow at a relatively modest pace (2.2% in June, as compared with 1.5% in May). The rise in the annual growth rate of these deposits may have been associated with a widening differential in retail bank interest rates on these deposits relative to those on deposits with an agreed maturity of up to two years and those on overnight deposits. This development and the decline in the annual growth rates of these short-term deposits (see above) suggest that some portfolio shifts towards deposits with an agreed maturity of over two years may have occurred in June.

Deposits redeemable at a period of notice of over three months decreased at a stronger pace in June, falling at an annual rate of 6.3%, compared with a decline of 6.0% in May. These developments suggest that these deposits have not constituted very attractive investments in recent months. Unlike deposits with an agreed maturity, deposits redeemable at notice represent only a small share of longer-term deposits and they are not as widespread in the euro area as deposits with an agreed maturity (see also the article entitled “The balance sheets of the Monetary Financial Institutions of the euro area in early 1999” in this issue of the ECB Monthly Bulletin). Finally, debt securities with an original maturity of over two years continued to grow at a strong pace, despite a slight decline in the annual growth rate from 8.1% in May to 7.9% in June 1999. The annual growth rate of capital and reserves remained stable at 6.7%.

The net external asset position of the euro area MFI sector increased in absolute and

non-seasonally adjusted terms by €12 billion in June, compared with a decline in net external assets of €46 billion in the previous month. Despite the improvement in June 1999, net external assets declined by €201 billion compared with a year ago. This reflected the fact that the external transactions of non-MFI residents in terms of the current account, capital account and financial account over the past 12 months have resulted in net outflows of funds from the euro area.

Money market yield curve steepened in July

During July and in early August the money market yield curve steepened, as interest rates with a maturity of up to three months did not change materially, while both the six-month and the 12-month interest rates rose by more than 20 basis points. The overnight interest rate, as measured by the EONIA (“euro overnight index average”), fluctuated on most days of the sixth reserve maintenance period (which started on 24 June and ended on 23 July 1999) between 2.54% and 2.63%, i.e. between approximately the same levels as those prevailing during the previous reserve maintenance period (see also Chart 1). On the last two days of the sixth reserve maintenance period the EONIA fell to around 2.0%, as the banking system’s liquidity exceeded the amount needed to meet the reserve requirements of the Eurosystem (see Box 1). In the first days of the seventh reserve maintenance period the overnight interest rate stood below 2.6%.

Further along the money market yield curve the one-month and three-month EURIBOR interest rates showed only minor changes, standing at 2.63% and 2.70% respectively on 5 August 1999. By contrast, the six-month and the 12-month EURIBOR interest rates increased by 22 and 29 basis points to stand at 3.04% and 3.23% respectively. As a consequence, the spread between the 12-month and the three-month EURIBOR interest rates widened from 27 basis points at end-June to 53 basis points on 5 August

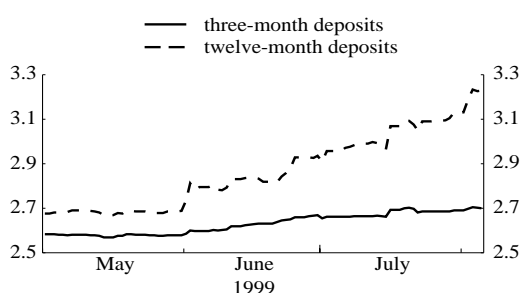
(see Chart 3). This pattern may be regarded as reflecting expectations on the part of market participants that short-term interest rates would be more likely to rise in the year 2000 than in the course of the next few months.

This market expectation was also visible in EURIBOR interest rates implied in futures prices. The three-month interest rate implied in the futures contract maturing in September 1999 increased only marginally in the course of July, while the corresponding interest rates for futures contracts maturing in December 1999 and in March and June 2000 edged up by between 26 and 41 basis points, to stand at 3.33%, 3.42%, and 3.71% respectively on 5 August. As noted in the past, the futures rate for December 1999 also appears to be affected by market expectations with regard to the potential impact of the century date change.

The stability of money market conditions at the short end of the maturity spectrum was reflected in the regular monthly longer-term refinancing operation which was settled on 29 July 1999. As usual, this longer-term operation had a three-month maturity and was conducted using the multiple rate allotment procedure. The resulting weighted average and marginal rates of allotment were equal to 2.66% and 2.65% respectively, i.e. only two basis points above the rates of the longer-term operation carried out one month earlier and, as in the past, slightly below the three-month EURIBOR interest rate on the day of execution.

Chart 3
Short-term interest rates in the euro area

(percentages per annum; daily data)



Source: ECB.

Note: Three-month and twelve-month EURIBOR.

Box I**Monetary policy operations and liquidity conditions in the sixth maintenance period****Allotments in monetary policy operations**

During the sixth reserve maintenance period, which lasted from 24 June to 23 July 1999, the Eurosystem conducted four main refinancing operations and one longer-term refinancing operation. All main refinancing operations were carried out at a fixed interest rate of 2.5%. The allotted volume varied between €53.0 billion and €95.0 billion. The aggregate amount of bids reached a new high of €1,479.4 billion in the operation conducted on 20 July. With an average of €1,307.9 billion, the amount of bids in the main refinancing operations increased considerably relative to the preceding reserve maintenance period, in which the average amount of bids was €895.5 billion. In addition, the number of bidders in the weekly tender operations increased to within a range of 856 to 915 institutions, compared with a range of 666 to 894 participants in the previous reserve maintenance period. Partially owing to the difference in the size of the two outstanding tender operations, the allotment ratios alternated between 4.25% and 7.41%.

Contributions to the banking system's liquidity

(EUR billions)

Daily average during the reserve maintenance period from 24 June to 23 July 1999

	<i>Liquidity providing</i>	<i>Liquidity absorbing</i>	<i>Net contribution</i>
(a) Monetary policy operations of the Eurosystem	188.5	0.6	+ 187.9
Main refinancing operations	143.1	-	+ 143.1
Longer-term refinancing operations	45.0	-	+ 45.0
Standing facilities	0.4	0.6	- 0.2
Other operations	0.0	0.0	0.0
(b) Other factors affecting the banking system's liquidity	342.4	427.3	- 84.9
Banknotes in circulation	-	342.1	- 342.1
Government deposits with the Eurosystem	-	45.7	-45.7
Net foreign assets (including gold)	342.4	-	+ 342.4
Other factors (net)	-	39.5	- 39.5
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) – (b)			103.0
(d) Required reserves			102.0

Source: ECB.

Totals may not add up due to rounding.

Use of standing facilities

Compared with the previous reserve maintenance period, the average use of the marginal lending facility increased from a daily average of €0.3 billion to one of €0.4 billion, while the average use of the deposit facility was almost unchanged, amounting to a daily average of €0.6 billion. Apart from considerable recourse to both standing facilities on 14 July, which was mainly caused by problems in a payment system component in one country, most of the recourse to the deposit facility took place on the penultimate day of the maintenance period (€8.7 billion). Counterparties put excess liquidity in the deposit facility one day before the end of the maintenance period, since this ended on a Friday and it was more profitable to earn the deposit facility rate on the preceding Thursday, while being remunerated over the weekend at the higher, average rate of the main refinancing operation, which is paid on the current account balances counting towards fulfilment of the reserve requirement. In addition, recourse to both standing facilities was relatively large on the last day of the maintenance period (€1.6 billion for the marginal lending facility and €1.8 billion for the deposit facility), as a consequence of the usual imperfections in the distribution of interbank liquidity at the end of the reserve maintenance period. The ECB had allotted ample liquidity in the last main refinancing operation of the reserve maintenance period. This was felt to be appropriate in view of the development of autonomous factors

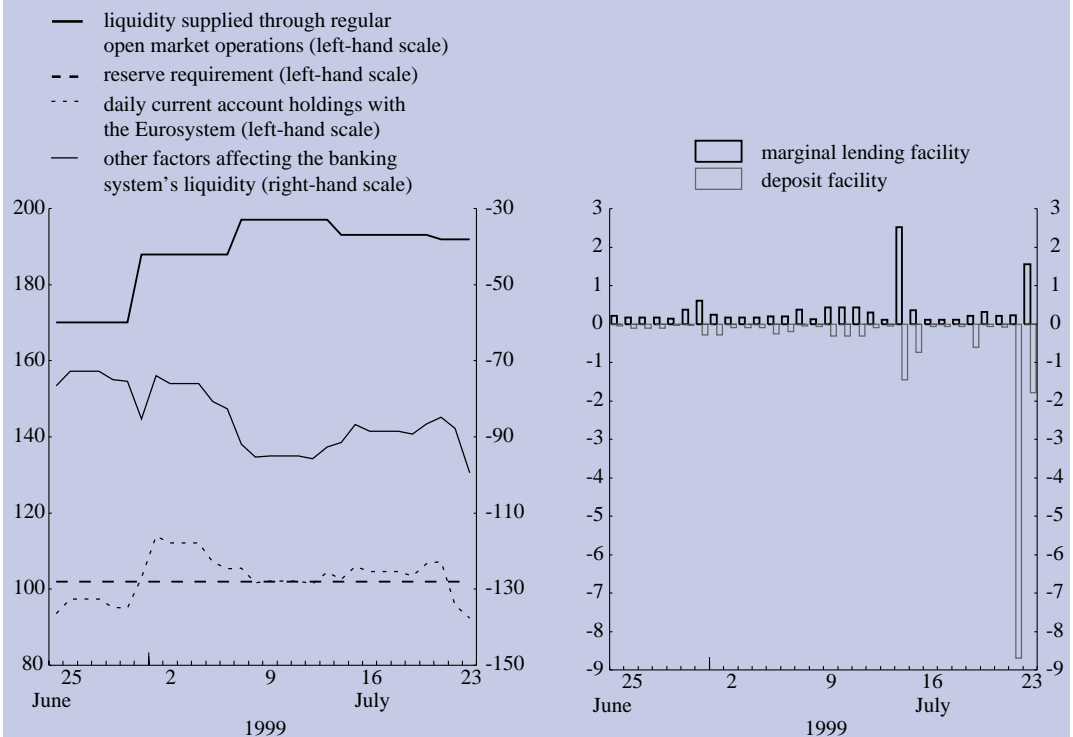
at the beginning of the subsequent reserve maintenance period and also taking into account the relatively high level of overnight interest rates.

Liquidity factors not related to monetary policy

The net liquidity-absorbing impact of the autonomous factors (i.e. the factors not related to monetary policy) on the banking system's liquidity (item (b) in the table above) was, on average, €84.9 billion, i.e. €10.1 billion more than during the previous reserve maintenance period. The sum of the autonomous factors fluctuated between €72.7 billion and €99.3 billion. The main reasons for the higher level of autonomous factors were the seasonal increase in banknotes in circulation, which amounted to €5.1 billion on average, and an increase of €5.3 billion in the government deposits held with the Eurosystem.

Factors contributing to the banking system's liquidity during the sixth maintenance period

(EUR billions; daily data)



Source: ECB.

Current account holdings of counterparties

The current account holdings of counterparties with the Eurosystem correspond to the difference between the liquidity provided through monetary policy operations (including the net impact of the use of standing facilities) and the net effect of the autonomous factors. During the sixth reserve maintenance period the average current account holdings amounted to €103.0 billion, while the average reserve requirements stood at €102.0 billion. Thus, compared with the fifth reserve maintenance period, the difference between the average current account holdings and the reserve requirements increased slightly by €0.1 billion to €1.0 billion. Around €0.2 billion of this amount was due to current account holdings not contributing to the fulfilment of reserve requirements, which remained as in the fifth reserve maintenance period. Around €0.8 billion related to excess reserves. The same reason as that illustrated above can be given for the slightly higher excess reserves compared with the previous three reserve maintenance periods (in which they amounted, on average, to €0.7 billion), i.e. resulting from the fact that the reserve maintenance period ended on a Friday.

Long-term bond yields continued to rise in July

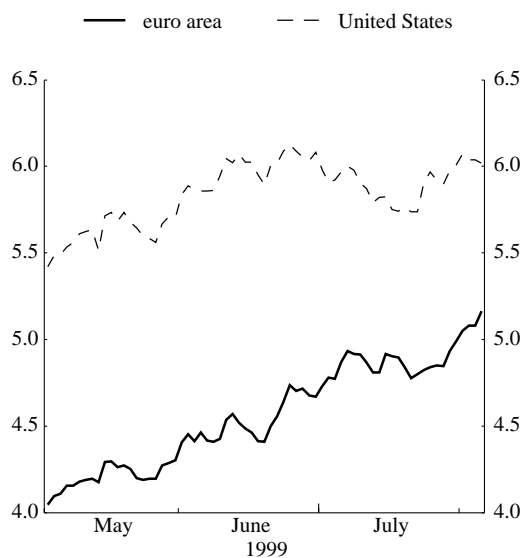
Continuing a trend that has been evident since early May 1999, long-term government bond yields in the euro area rose further in the course of July, by almost 50 basis points (see Chart 4). By 5 August the average level of euro area 10-year bond yields stood at just over 5.1%, which was more than 120 basis points higher than the levels seen at the end of 1998. The sources of the increase in bond yields since the end of 1998 seem to have been manifold, with both global and domestic factors playing important roles. Among international factors, the increase in long-term bond yields in the United States by 5 August of around 130 basis points compared with the end of 1998 placed upward pressures on long-term bond yields in the euro area. In addition, financial market uncertainties up to mid-July about the future course of the euro may at times have caused international investors to require higher yields from long-term fixed income bonds in the euro area. Among domestic factors, changing market perceptions about the economic outlook for the euro area in recent months have tended to play a more important role in the determination of long-term bond yields. In addition, a relatively high level of debt security issuance since the beginning of 1999 and market uncertainties about the fiscal situation in some euro area countries may at times have added to upward pressures on long-term bond yields.

The international setting for domestic bond market developments during July 1999 was rather benign. By contrast with the developments observed in the United States during the first half of 1999, which saw a more or less continuous rise in US bond yields, 10-year government bond yields did not exhibit a clear trend during July. By 5 August the level of US 10-year bond yields stood at just above 6%, which was slightly lower than the level seen at end-June. This overall development seemed to reflect countervailing influences on market perceptions concerning the longer-term inflation outlook in the

Chart 4

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

(percentages per annum; daily data)



Sources: ECB, national data and Reuters.

Note: Long-term government bond yields refer to 10-year bonds or to the closest available bond maturity.

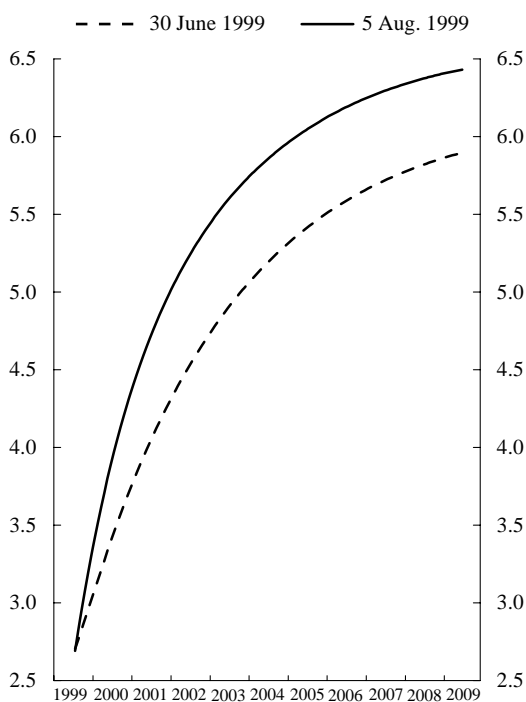
United States. While data on consumer and producer price developments, as well as some evidence of a deceleration in the pace of economic activity, seemed to have a favourable influence on bond market developments, indications of upward pressures on labour costs tended to partly offset this. In addition, the recent weakening of the US dollar may also have played an offsetting role. In Japan long-term interest rates exhibited a volatile pattern during July, with little overall change seen in the level of long-term bond yields over the period from end-June to 5 August. The source of this volatility in long-term bond yields seemed partly to reflect some uncertainty on the part of market participants about whether an economic recovery in Japan would be self-sustained.

Despite the benign influence of international bond market developments, other factors seemed to place upward pressures on long-term bond yields in the euro area during July. These upward pressures seemed to come chiefly from upward revisions to the

expectations of financial market participants regarding the pace of economic activity in the euro area, which were linked in particular to indications of improving business sentiment. Against this, the further decline in HICP inflation data for June, as well as the decline in the growth rate of M3 relative to May, tended to have an offsetting influence on long-term interest rate developments. A further offsetting influence may have emanated from the turnaround in exchange rate developments during July that seemed to limit upward pressures on long-term interest rates. All in all, reflecting the important role of domestic influences on the level of euro area bond yields, the spread of US long-term government bond yields over comparable yields in the euro area narrowed by more than 50 basis points from end-June to 5 August to stand below 90 basis points.

Chart 5 Implied forward euro area overnight interest rates

(percentages per annum; daily data)



Source: ECB estimation. The implied forward yield curve, which is derived from the term structure of interest rates observed in the market, reflects the market expectation of future levels for short-term interest rates. The method used to 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.

Reflecting these developments in the euro area bond markets, the positive slope of the yield curve, which has tended to increase in the course of 1999, became more pronounced during July (see Chart 5). When measured as the difference between 10-year government bond yields and three-month money market interest rates, the yield curve slope reached more than 240 basis points by 5 August. This is the highest level reached by this measure of the yield curve slope since the summer months of 1996 and it is around 180 basis points higher than the levels seen at the end of 1998. Apart from risk premia considerations that can relate to the term to maturity, the forward yield curve embodies expectations concerning the future path of short-term interest rate developments. Developments in this curve during July and in early August suggest that much of the increase in the yield curve slope was due to increases in interest rate expectations for medium and longer-term maturities, which would tend to suggest that market participants may have revised upwards their expectations for the pace of economic activity. In this vein, the increase of close to 40 basis points in the 10-year real yield available on index-linked bonds issued in France from end-June to 5 August seems to reflect an improvement in market expectations concerning the future pace of economic activity. At the same time, “break-even” inflation rates, as measured by the difference between French 10-year nominal and index-linked bond yields, also rose slightly during July.

Stock prices declined during July

Despite growing financial market expectations of a pick-up in the pace of economic activity in the euro area, stock price developments in the euro area during July 1999 reversed the gains seen in June. As measured by the broad Dow Jones EURO STOXX index, stock prices declined by more than 6.5% over the period from end-June to 5 August 1999 (see Chart 6). This set-back brought the average level of stock prices in the euro area to less than 2% above the level observed at the end of 1998. The source of this decline in stock prices during July

seemed to come both from weakness in the US stock market and from the aforementioned upward pressures on domestic long-term interest rates.

In the United States the Standard and Poor's 500 index declined by more than 4% over the period from end-June to 5 August. Although reported corporate earnings growth of Standard and Poor's 500 index companies for the second quarter of 1999 had generally been ahead of financial market projections, it seemed that financial market participants had taken the view that aggregate corporate earnings growth would tend to decelerate in the future. Reflecting the aforementioned uncertainty in Japan about whether an economic recovery would be self-sustained, stock prices in Japan showed little overall change during July, with a decline of just 1% recorded over the period from end-June to 5 August. This still left the cumulative increase in the Nikkei 225 index since the end of 1998 at more than 25% by 5 August.

Apart from a spillover to the euro area of falling stock prices in the United States, other factors

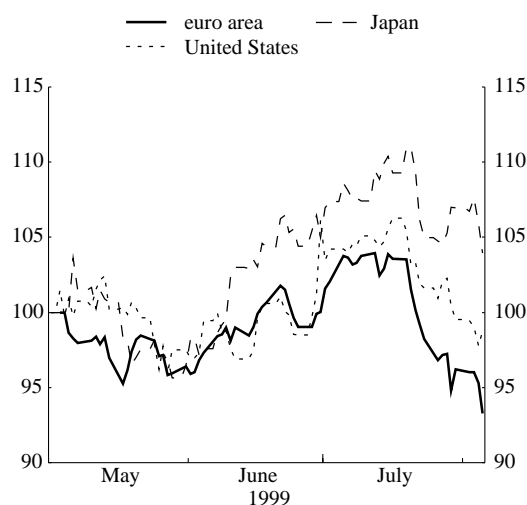
played a role in the decline in euro area stock prices during July. In particular, by tending to lower the current valuation of future corporate earnings, the rise in long-term interest rates and, notably, the aforementioned evidence of increasing real long-term interest rates seemed to place additional downward pressures on stock prices. This was indicated by the fact that the decline in stock prices was broadly based, with the majority of economic sectors recording declines of a similar magnitude during July. A further factor that may have added to downward pressures on stock prices in the euro area may have been the turnaround in exchange rate developments during July. As with the earlier depreciation of the euro up to mid-July that seemed to support earlier increases in stock prices, the appreciation after mid-July may likewise have dampened the positive influence of growing financial market expectations of an improvement in economic prospects.

Although stock prices in the euro area have on average only shown limited increases since the beginning of 1999, stock prices in some sectors have shown considerable increases, reflecting more favourable market perceptions of corporate earnings prospects in these sectors. In particular, stock prices in economic sectors that are considered to show a relatively high degree of sensitivity to the stage of the domestic business cycle and, more specifically, those that tend to be more sensitive to cyclical conditions in the global economy, have tended to show the strongest performances. These sectors include the basic materials sector and the industrial sector, which by 5 August had seen increases of around 35% and 20% respectively compared with end-1998. In addition, reflecting the increases seen in oil prices since mid-February 1999, stock prices in the energy sector had also increased by around 30% by 5 August. Contrasting developments have been seen in some sectors that show a lower degree of sensitivity to the economic cycle, particularly in those that are less exposed to international economic conditions. These include the utilities and food and beverage sectors, where by 5 August stock prices had recorded declines of around 10% or more compared with end-1998.

Chart 6

Stock price indices in the euro area, the United States and Japan

(1 May 1999 = 100; daily data)



Sources: Reuters for the euro area; national data 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.

2 Price developments

Lower food prices behind the fall in consumer price increases

The annual rate of increase in consumer prices in the euro area continued to slow down gradually in June 1999. As measured by the Harmonised Index of Consumer Prices (HICP), the increase was 0.9%, as compared with 1.0% in May and 1.1% in April. As in May 1999, the downward movement was mainly caused by a falling annual rate of increase in food prices, which was only partly offset by a rise in energy prices as a result of a further increase in oil prices (see Chart 7 and Table 2). Although the headline HICP rate in June 1999 was mainly affected by temporary factors, the annual increase in HICP excluding seasonal food and energy also fell slightly from 0.9% to 0.8%.

The main reason for the continuing decrease in the HICP rate in June was the significant fall in prices for unprocessed food, which, in June 1999, were 0.7% lower than a year earlier (as compared with being 0.4% higher in May). This can be explained to a large extent by a fall in the year-on-year rates of change for fruit and, in particular, vegetable prices as a result of favourable weather conditions. A falling rate of change in processed food prices also contributed to the decline in the HICP rate, although to a lesser extent. The annual rate of increase in processed food prices fell from 0.8% in May 1999 to 0.7% in June, probably reflecting, in part, the trend towards increased competition in the retail sector. The lower food prices were partly offset by a further increase in the year-on-year rate of change in

Table 2
Price and cost developments in the euro area

(annual percentage changes, unless otherwise indicated)

	1996	1997	1998	1998	1998	1999	1999	1999	1999	1999	1999	1999	1999
				Q3	Q4	Q1	Q2	Feb.	Mar.	Apr.	May	June	July
Harmonised Index of Consumer Prices (HICP) and its components													
Overall index	2.2	1.6	1.1	1.1	0.8	0.8	1.0	0.8	1.0	1.1	1.0	0.9	.
<i>of which:</i>													
Goods	1.8	1.1	0.6	0.7	0.2	0.3	0.6	0.2	0.5	0.8	0.6	0.5	.
Food	1.9	1.4	1.6	1.7	1.1	1.3	0.6	1.4	1.4	1.2	0.6	0.1	.
Processed food	1.9	1.4	1.4	1.4	1.2	1.2	0.9	1.3	1.1	1.1	0.8	0.7	.
Unprocessed food	1.8	1.4	2.0	2.1	0.8	1.5	0.3	1.5	1.8	1.2	0.4	-0.7	.
Industrial goods	1.8	1.0	0.1	0.1	-0.2	-0.2	0.6	-0.4	0.0	0.6	0.6	0.8	.
Non-energy industrial goods	1.6	0.5	0.9	1.0	0.9	0.8	0.6	0.7	0.7	0.6	0.6	0.6	.
Energy	2.6	2.8	-2.6	-3.2	-4.4	-3.8	0.8	-4.3	-2.8	0.3	0.5	1.4	.
Services	2.9	2.4	2.0	2.0	2.0	1.7	1.6	1.7	1.8	1.7	1.5	1.5	.
Other price and cost indicators													
Industrial producer prices ¹⁾	0.4	1.1	-0.8	-1.3	-2.3	-2.6	.	-2.7	-2.3	-1.6	-1.4	.	.
Unit labour costs ²⁾	2.0	0.6	.	-0.3	.	.	.	-	-	-	-	-	-
Labour productivity ²⁾	1.2	1.9	.	1.4	.	.	.	-	-	-	-	-	-
Compensation per employee ²⁾	3.3	2.5	.	1.1	.	.	.	-	-	-	-	-	-
Total hourly labour costs ³⁾	2.5	2.5	1.6	1.5	1.9	2.2	.	-	-	-	-	-	-
Oil prices (EUR per barrel) ⁴⁾	15.9	17.1	12.0	11.7	10.0	10.3	14.9	9.4	11.8	14.4	14.9	15.6	18.0
Commodity prices ⁵⁾	-6.9	12.9	-12.5	-18.2	-20.5	-16.0	-8.3	-16.0	-14.6	-12.6	-7.8	-4.2	-2.3

Sources: Eurostat, national data, HWWA – Institut für Wirtschaftsforschung (Hamburg) and ECB calculations.

1) Excluding construction.

2) Whole economy.

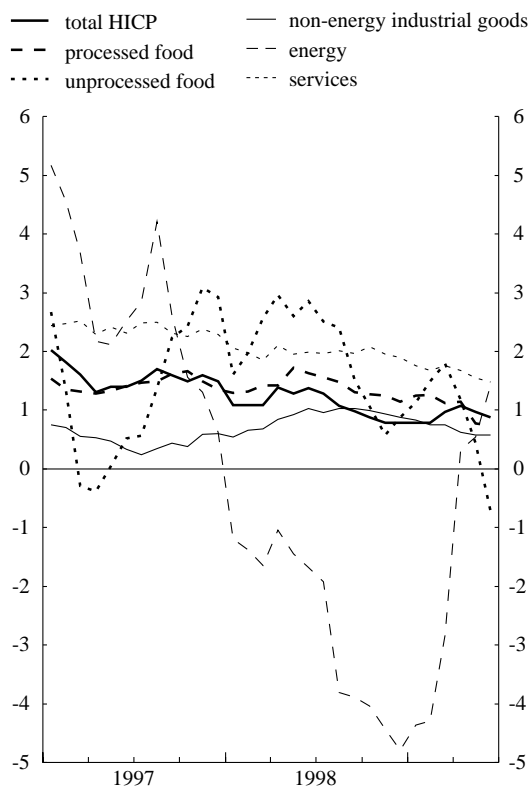
3) Whole economy (excluding agriculture, public administration, education, health and other services).

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

5) Excluding energy. In euro; ECU up to December 1998.

Chart 7
Breakdown of HICP inflation in the euro area by components

(annual percentage changes; monthly data)



Source: Eurostat.

energy prices, from 0.5% in May 1999 to 1.4% in June. This was the result of rising oil and energy prices between May and June 1999, given the fall in energy prices between May and June of last year. The price increases for non-energy industrial goods and services, which together make up around two-thirds of the total HICP, were both unchanged at 0.6% and 1.5% respectively. As a consequence, headline HICP in June 1999 was mainly affected by components that are normally very volatile (i.e. prices for unprocessed food and energy).

While there are factors indicating that there will be some upward pressure on prices in the next few months, other factors suggest that consumer price increases may remain subdued. Oil prices have continued to increase since the cut-off date for the July issue of the ECB Monthly Bulletin (from an average level of €15.6 per barrel in June 1999

to €18.0 in July), and this can be expected to have a direct impact on energy prices in the HICP in the coming months. Moreover, non-energy commodity prices, expressed in euro, have increased slightly in recent months, following a gradual fall in prices since mid-1997. Nevertheless, in July 1999 non-energy commodity prices were still 2.3% lower than a year earlier (as compared with year-on-year declines of about 17% at the beginning of 1999 and 4.2% in June 1999). The rise in overall commodity prices has led to a rising level of industrial producer prices. As a result, in May 1999 they were only 1.4% lower than a year earlier (as compared with 1.6% lower in April 1999).

The upward movement in industrial producer price increases is almost entirely due to higher prices for intermediate goods, which can be expected to be passed on to the subsequent stages in the production process and ultimately to consumer prices, most likely to the non-energy industrial goods component of the HICP. However, the relationship between industrial producer and consumer prices is not necessarily stable or straightforward (see the article entitled "The role of short-term economic indicators in the analysis of price developments in the euro area" in the April 1999 issue of the ECB Monthly Bulletin for a more detailed discussion). Consequently, it is uncertain precisely when the higher industrial producer prices will have an impact on the non-energy industrial goods component of the HICP. The relationship in recent years suggests that the year-on-year rate of change in non-energy industrial goods in the HICP may remain subdued in the next few months. In addition, further liberalisation of markets and intensified competition can be expected to continue to dampen price pressures.

Eurostat has recently released data on hourly labour costs, including preliminary estimates for the first quarter of 1999. Total hourly labour costs in the non-agricultural business sector (i.e. the whole economy excluding the agricultural, fisheries and government sectors) are estimated to have increased in the euro area as a whole by 2.2% in the year

up to the first quarter of 1999. However, it is expected that this first estimate will be revised downwards, with the result that the year-on-year change in hourly costs could be similar to that recorded in the previous quarter (at 1.9%). This picture is also supported by the non-harmonised data on gross monthly earnings in the non-farm business sector, which, in most countries, decreased slightly in the first quarter of this year compared with the same quarter a year earlier. Thus, recent information suggests that

no significant upward pressures on wage growth were noticeable in the first quarter of this year. However, in most recent forecasts from international organisations wage growth has been expected to rise in the course of 1999.

Overall, while the development of oil prices suggests that the increase in consumer prices may rise in the next few months, this effect is likely to be mitigated by other factors.

3 Output, demand and labour market developments

Output growth in the first quarter of 1999 revised upwards

Revised Eurostat estimates for real GDP indicate that the growth performance of the euro area improved in the first quarter of 1999. GDP growth was 0.5% quarter-on-quarter, the pace of growth thus returning to around the rates recorded prior to the slowdown to 0.2% seen in the fourth quarter of 1998 (see Table 3). The revised data continue to suggest that GDP growth in the first quarter of 1999 was due to strong

domestic demand growth (excluding changes in inventories), while the contributions to growth resulting from net exports and, in particular, changes in inventories were negative. However, the growth rates of both exports and imports have been revised upwards. While this leaves the contribution to growth of net exports broadly unchanged, the data now point to a far less substantial worsening of external trade at the beginning of this year than was implied by the initial estimates. When interpreting the revised GDP data, it should be noted that

Table 3
Composition of real GDP growth in the euro area

(percentage changes, unless otherwise indicated; seasonally adjusted)

	Annual rates ¹⁾									Quarterly rates ²⁾				
	1996	1997	1998	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	
Real gross domestic product of which:	1.3	2.3	2.8	3.6	2.8	2.7	2.0	1.8	0.7	0.5	0.6	0.2	0.5	
Domestic demand	0.9	1.8	3.4	3.7	3.0	3.6	3.2	2.6	1.3	0.4	0.8	0.7	0.7	
Private consumption	1.4	1.4	2.6	2.4	2.3	3.0	2.6	2.8	0.9	0.5	0.6	0.6	1.1	
Government consumption	1.5	0.7	1.5	1.9	2.1	1.3	0.7	1.4	1.3	0.2	-0.3	-0.5	2.0	
Gross fixed capital formation	1.0	2.3	4.3	6.1	3.1	4.7	3.4	4.4	1.6	-0.7	2.3	0.3	2.6	
Changes in inventories ³⁾	-0.4	0.4	0.6	0.7	0.5	0.6	0.7	-0.3	0.1	0.2	0.0	0.4	-0.8	
Net exports ³⁾	0.4	0.6	-0.5	0.0	-0.1	-0.8	-1.1	-0.7	-0.5	0.2	-0.2	-0.5	-0.2	
Exports ⁴⁾	4.5	9.6	6.1	11.0	8.6	4.2	1.1	-0.1	1.0	1.4	0.1	-1.4	-0.2	
Imports ⁴⁾	3.2	8.4	8.3	12.0	9.7	7.3	4.7	2.3	2.8	1.0	0.6	0.2	0.4	

Sources: Eurostat and ECB calculations.

1) Annual rates: percentage change compared with the same period a year earlier.

2) Quarterly rates: percentage change compared with the previous quarter.

3) As a contribution to real GDP growth; in percentage points.

4) Exports and imports cover goods and services and include internal cross-border trade in the euro area. Intra-euro area trade is not cancelled out in import and export figures used in national accounts. Consequently, these data are not fully comparable with balance of payments data.

Table 4**Industrial production in the euro area***(annual percentage changes, unless otherwise indicated)*

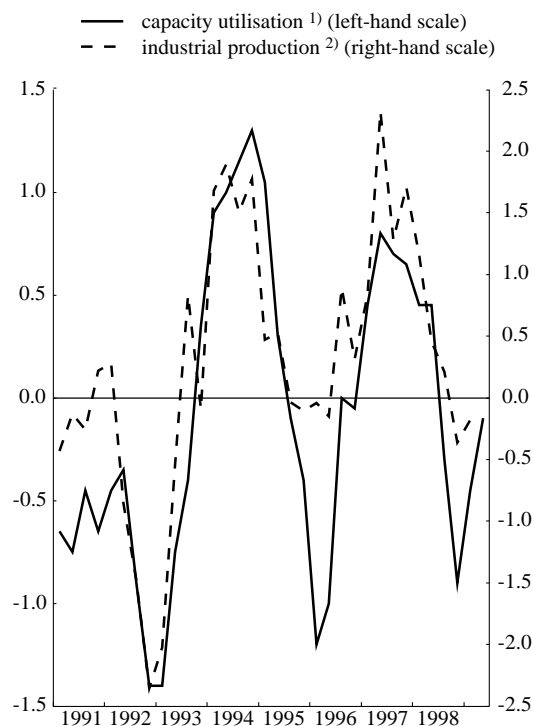
	1997	1998	1999	1999	1999	1999	1999	1999	1998	1999	1999	1999	1999
			Mar.	Apr.	May	Mar.	Apr.	May	Dec.	Jan.	Feb.	Mar.	Apr.
						month-on-month			3-month moving averages				
Total industry excl. construct.	4.4	4.0	-0.1	-0.6	-0.5	0.7	-0.7	0.5	-0.5	-0.9	-0.2	-0.1	0.3
Manufacturing	5.0	4.5	-0.4	-0.8	-0.8	0.9	-0.6	0.6	-0.8	-0.8	0.0	-0.2	0.4
<i>by main industrial groupings:</i>													
Intermediate goods	5.4	3.9	-0.7	-1.5	-1.0	0.0	-0.2	-0.1	-0.6	-0.7	-0.5	-0.4	-0.3
Capital goods	4.8	6.6	-1.4	0.5	-0.9	-0.3	0.2	-0.4	-0.1	-0.3	-0.4	-0.5	-0.5
Consumer goods	2.7	3.0	0.4	-0.8	0.0	0.6	-0.9	1.2	-0.7	-0.6	0.2	0.0	0.4
Durable consumer goods	2.8	6.3	-1.0	-1.4	0.9	-0.1	-0.3	1.4	-0.7	-0.8	-0.3	-0.3	0.2
Non-durable consumer goods	2.6	1.4	1.6	-0.5	-1.1	0.1	0.0	-0.2	-0.1	-0.1	0.0	0.0	0.0

*Sources: Eurostat and ECB calculations.**Note: Annual percentage changes are calculated by using data adjusted for variations in the number of working days; percentage changes on the previous month and three-month centred moving averages against the corresponding average three months earlier are calculated by using seasonally and working day adjusted data.*

Eurostat estimates are now more closely based on national data compiled in accordance with the new ESA 95 methodology. This changeover has had an impact on both the level and the growth pattern of GDP, reinforced by changes resulting from improved or additional source data which were implemented at the same time (see Box 2 on the effects of the new methodology and other revisions on GDP data). In view of the far-reaching scope of the changeover to the ESA 95, the possibility of subsequent revisions to these first GDP estimates cannot be excluded.

The improvement in overall output growth in the first quarter of 1999 broadly reflects the positive development in the rate of industrial output growth since the start of the year. On the basis of three-month centred moving averages, growth of industrial production (excluding construction) has seen a turnaround from pronounced rates of decline at the beginning of the year towards a stabilisation of output levels. This development continued in the latest three-month period up to May, with production increasing by 0.3% compared with the three-month period up to February. In the manufacturing sector a similar pick-up in growth to 0.4% has been observed for the latest three-month period (see Table 4). With regard to the main industrial groupings, a

more positive development was, for the most part, recorded for industries producing consumer goods. The pronounced declines

Chart 8**Capacity utilisation and industrial production in the euro area***(in manufacturing; seasonally adjusted data; quarterly averages)**Sources: Eurostat and European Commission Business and Consumer Surveys.*1) *Change compared with the previous period in percentage points.*2) *Percentage change compared with the previous period.*

in the output of durable consumer goods essentially came to a halt in the latest three-month period up to May, and the output of non-durable consumer goods, in contrast to other industries, has remained at a fairly stable level since the beginning of the year.

According to preliminary survey data for July, capacity utilisation in the manufacturing sector fell slightly to 81.7%. The average utilisation ratio in the second quarter of 1999, calculated on the basis of the survey results for April and July, was 0.1 percentage point lower than that seen in the first quarter, but remained well in line with its long-term average. This further slight decline is consistent with the stabilisation of activity in the industrial sector and with a further upward movement in manufacturing production growth (see Chart 8).

Industrial confidence back at its long-run average level

Since the cut-off date of the July issue of the ECB Monthly Bulletin, the European Commission has released euro area data for the Business and Consumer Surveys in June and July 1999 (see Table 5). While in June industrial and consumer confidence broadly continued their respective upward and

downward movement observed over the past few months, in July an improvement was recorded for both indicators. Industrial confidence increased further in both June and July, returning to its long-run average level for the first time since November 1998. This largely reflects an ongoing improvement in production expectations. Consumer confidence, which had continued to decline in June, improved noticeably in July, thus moving back closer to its all-time high reached in January. While the recent fall in consumer confidence was mainly due to a more pessimistic assessment by households of the general economic situation over the past months, the latest improvement largely came from a more favourable outlook for the general economic situation in the coming months. Confidence also increased in July in the construction sector and in the retail sector. However, this provides less conclusive evidence of a recovery, given that construction confidence has been on an upward trend for several years now, but has not been closely followed by actual developments in construction activity, and given that developments in retail confidence have been rather volatile.

There is somewhat mixed evidence regarding actual developments in the consumer sector of the economy. In the first quarter of 1999

Table 5
Results from EC Business and Consumer Surveys for the euro area

(seasonally adjusted data)

	1996	1997	1998	1998	1998	1999	1999	1999	1999	1999	1999	1999	1999
				Q3	Q4	Q1	Q2	Feb.	Mar.	Apr.	May	June	July
Economic sentiment index ¹⁾	-2.7	2.4	3.1	0.0	-0.7	0.5	-0.2	-0.2	-0.3	0.2	-0.2	0.0	0.4
Consumer confidence indicator ²⁾	-8	-3	7	7	10	12	8	12	11	9	8	7	9
Industrial confidence indicator ²⁾	-8	4	7	7	1	-3	-2	-3	-4	-3	-3	-1	0
Construction confidence indicator ²⁾	-13	-10	4	10	8	14	16	14	14	16	15	17	18
Retail confidence indicator ²⁾	-5	-3	4	5	3	3	2	2	0	5	3	-3	0
Capacity utilisation (%) ³⁾	80.3	81.6	83.1	83.3	82.4	81.9	81.8	-	-	81.9	-	-	81.7

Source: European Commission Business and Consumer Surveys.

1) Percentage changes compared with the previous period; index 1985 = 100.

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

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.

real private consumption increased by 2.8% on the previous year, i.e. by slightly more than in the fourth quarter of 1998. At the same time, the growth of retail sales volumes, at 2.5% on a year earlier in the first quarter of 1999, was lower than before and saw further declines in April and May to 2.3% and 0.5% respectively (see Table 5.1 in the "Euro area statistics" section of this ECB Monthly Bulletin). While partial and preliminary evidence from national sources suggests that retail sales growth may have been higher again in June, average growth in the second quarter of 1999 is likely to have been lower than in the first quarter. In some contrast, in the second quarter of 1999 new passenger car registrations were 10% higher than a year earlier, following rates of increase of slightly more than 7% in previous quarters. This points to a continued willingness on the part of households to make major purchases, but it has to be noted that new registrations also include commercially used cars, which are recorded as an investment rather than as a form of private consumption.

Overall, on the basis of available short-term indicators, there appears to be increasing evidence that the contraction of industrial activity came to an end at the start of the second quarter of 1999, thus supporting the view that overall output growth will recover in the course of the year. Comparing the magnitude of overall and industrial output growth in the first quarter of 1999 implies that there was also a pick-up in output growth in the non-industrial sectors. This is consistent with continuously strong consumption growth up to the first quarter of this year. Nevertheless, it is too early to draw firm conclusions regarding the precise timing and magnitude of the recovery in overall growth. One reason for exercising caution when assessing GDP developments is that little experience has so far been gained in working with data compiled in accordance with the new ESA 95 methodology and of assessing their liability to revisions.

Box 2

The impact of the changeover to the ESA 95 on GDP data

Changes reflect a number of factors

Eurostat recently published estimates for euro area GDP and its expenditure components which are, for the first time, based on the new framework for national accounts, the European System of Accounts 1995 (ESA 95). When comparing the new area-wide data with those available at the end of April 1999, labelled "ESA 79 data"¹ for convenience, account has to be taken of the fact that the application of the new ESA 95 accounting rules is only one reason for the differences. To the extent that the new system includes items which were not previously included under expenditure or production, GDP will increase. Changes in levels can also be due to a more harmonised and improved coverage of economic activities, an exercise to which extensive work has recently been devoted. In most cases, differences between ESA 95 data and ESA 79 data also stem from those revisions which are regularly undertaken to incorporate additional or improved source statistics. Statistical offices in the Member States used the changeover to the ESA 95 as an opportunity to re-evaluate their national accounts in this respect. Changes resulting from such revisions can also have a significant impact on the growth rates of GDP data. In addition, some effect on real rates of growth may result from the re-basing of constant price estimates.

¹ The Eurostat euro area aggregates used for this comparison were based on national data which only partially followed ESA 79 principles, and on ESA 95 data for Finland. It should also be noted that the current estimates for the euro area still rely on non-ESA 95 data for Luxembourg, Austria and Portugal.

Overall, a number of factors contribute to the differences between ESA 95 data and ESA 79 data discussed in the sections below, and it is not generally possible to identify the individual effects. On the basis of preliminary information on the individual Member States published by Eurostat for 1995, only slightly more than half of the rise in euro area GDP levels is due to conceptual changes, while the remainder of the rise is accounted for by improvements in the source statistics. More than 20 conceptual changes which potentially affect the level of GDP have been identified, and Member States have been asked to provide more detailed information on these effects. Along the same lines, further work has been initiated with regard to other national accounts indicators. Assessing the full impact of the changeover to the ESA 95 will have to wait until these more detailed studies have been carried out. For presentational purposes, in this Box conceptual changes are discussed in connection with the difference in the GDP level, but this does not preclude other effects in terms of the rates of growth. The comparisons in terms of levels, growth rates and quarterly data are based on data for 1991 to 1998 and focus on the main causes of the differences at the euro area level, acknowledging that these explanations do not necessarily hold true for every individual Member State. On average, the new ESA 95 data do not give rise to a significant change in the picture of the business cycle.

Some increase in overall GDP levels

The effect of the revisions in connection with the ESA 95 on overall GDP at current prices was to slightly, but consistently, raise the level by around 2% in the period under review (see the table below). This is mainly due to a wider definition of gross fixed capital formation, while conceptual changes to the individual components of both final consumption and external trade have tended to offset one another in terms of their effect on overall GDP.

Differences in euro area GDP and components (ESA 95 minus ESA 79)

(percentages, in current prices; annual data)

	1991 - 1998	1991 - 1995	1995 - 1998
Gross domestic product	1.9	2.0	1.8
Private consumption	-6.7	-6.4	-7.0
Government consumption	31.9	31.2	33.2
Gross fixed capital formation	6.9	6.4	7.5
Changes in inventories	-12.2	0.5	-13.6
Exports	2.3	2.3	2.3
Imports	3.9	3.8	3.9

Sources: Eurostat and ECB calculations.

The value of fixed capital formation is about 7% higher than that recorded before, contributing around 1½ percentage points to the overall increase in GDP levels, and the share of investment in GDP has risen to slightly more than 20%. The definition of investment has been extended by making allowance for categories that were not previously recorded under fixed capital formation, reclassifying some intermediate consumption as capital expenditure. Reclassifications of this kind automatically increase GDP. Inter alia, fixed capital formation now includes expenditure on certain intangible assets, such as computer software bought or produced on own account, and expenditure on mineral exploration. Military equipment, such as airports and hospitals, which can potentially be used for civilian purposes, are also treated as capital formation, whereas they were formerly recorded under government consumption.

According to the new ESA 95 data, the level of private consumption is almost 7% lower and that of government consumption is 32% higher than before. Overall, final consumption has increased by 1%,

explaining slightly more than ½ percentage point of the rise in overall GDP levels. The shift from private to government consumption is largely explained by the fact that private consumption now consists exclusively of expenditure which is directly financed by households, while goods and services consumed by households but provided by the government as social transfers in kind are recorded as government consumption.

Compared with the ESA 79 data, exports and imports are 2½% and 4% higher respectively, the net effect on the level of overall GDP being a small decrease. The higher values for external trade are mainly due to the fact that cross-border flows are now consistently recorded on a gross basis. While this concept continues to exclude simple transit trade, flows of goods which are sent abroad only for intermediate processing and repair are now treated as exports and imports.

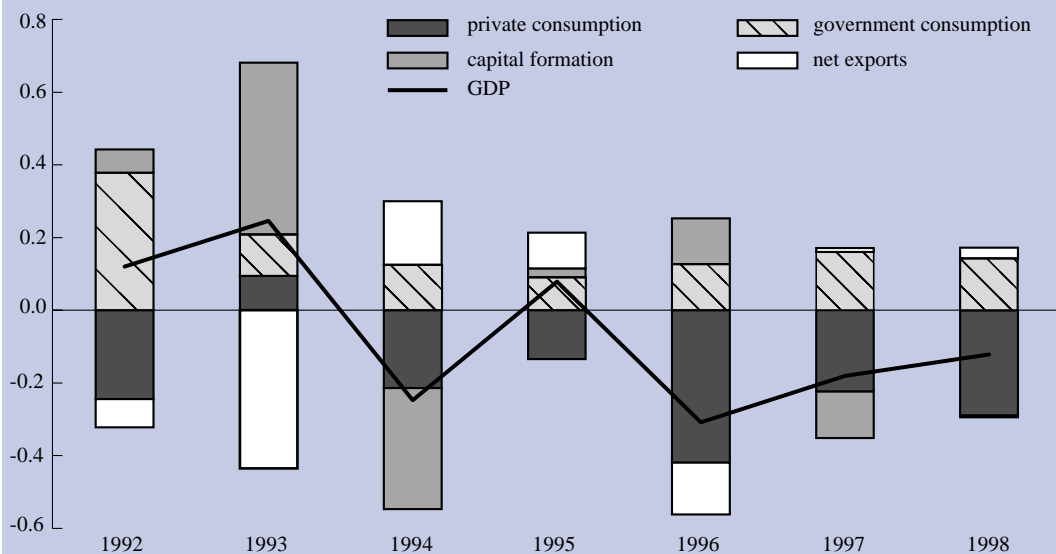
Finally, changes in inventories tend to be lower on average than under the ESA 79, but this is not a consistent feature across years. As this component to some degree also reflects statistical uncertainties and discrepancies, the revisions for more recent years are likely to be due mainly to the incorporation of additional and better source statistics.

Somewhat lower real GDP growth in recent years

The main effect of the revisions to overall GDP at constant prices is a somewhat lower annual rate of growth in the second half of the period under review and a marginally higher rate of growth in the first half, without much changing the broad picture of the business cycle in the 1990s. Comparing the ESA 95 data with the previously published figures, the difference in euro area real GDP growth in the period under review does not exceed 0.3 percentage point, although some Member States show larger changes. Slightly larger differences of up to 0.5 percentage point can be observed with regard to the contributions by individual components to overall GDP growth (see the chart below). While growth in government consumption is generally higher and private consumption growth is lower than in the corresponding ESA 79 results, the direction of change is less consistent in the case of other components.

GDP growth rates and contributions to growth (ESA 95 minus ESA 79)

(differences in annual percentage point contributions)



Sources: Eurostat and ECB calculations.

The differences in overall GDP growth rates are particularly marked for 1993 and 1996. On the basis of ESA 95 data, the recession in 1993 is now slightly less severe, while the dip in growth in 1996 has become more pronounced. This is reflected in marked differences with regard to the contributions of domestic demand, net exports and changes in inventories to real GDP growth, which, however, partly move in opposite directions (see the table below). For both 1993 and 1996, the relatively poor growth performance is now explained to a larger extent by lower contributions of net exports. For 1993, this has been more than offset by upward revisions in terms of contributions of domestic demand (excluding changes in inventories) and inventory changes. By contrast, for 1996, the contributions of domestic demand are lower under the ESA 95, while changes in inventories appear, at the same time, to have been less of a drag on growth. Overall, for the period under review, the new ESA 95 data give rise to a stronger role for domestic demand and a somewhat smaller role for net exports in explaining GDP growth.

Comparison of real GDP growth and contributions to growth

(annual percentage point contributions, unless otherwise stated)

	1992	1993	1994	1995	1996	1997	1998
Real gross domestic product ¹⁾							
ESA 95	1.5	-0.8	2.4	2.2	1.3	2.3	2.8
ESA 79	1.4	-1.1	2.6	2.1	1.7	2.5	2.9
Domestic demand (excl. changes in inventories)							
ESA 95	2.0	-1.5	1.5	1.7	1.3	1.4	2.7
ESA 79	1.6	-2.0	1.5	1.8	1.6	1.4	2.8
Changes in inventories							
ESA 95	-0.4	-0.5	0.6	0.3	-0.4	0.4	0.6
ESA 79	-0.2	-0.8	1.0	0.2	-0.5	0.6	0.7
Net exports							
ESA 95	0.0	1.2	0.3	0.2	0.4	0.6	-0.5
ESA 79	0.1	1.7	0.1	0.1	0.6	0.5	-0.5

Sources: Eurostat and ECB calculations.

1) Annual percentage changes.

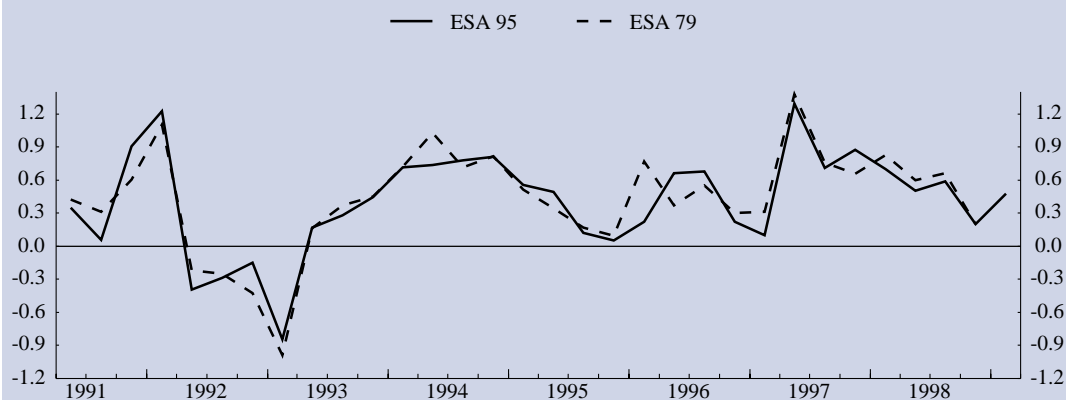
Some changes in the quarterly pattern of real GDP growth

An important improvement made by the new ESA 95 data in analytical terms relates to the fact that quarterly euro area GDP estimates can draw on a wider set of corresponding national data. As in the case of annual figures, some differences compared with ESA 79 data may result, for instance, from revisions in connection with improved source statistics. An important source of differences lies in the adjustment procedures carried out on the raw data. The estimates for the euro area national accounts are compiled from national data which are adjusted for seasonal variations and, in some cases, calendar effects. In connection with the changeover to the ESA 95, some Member States have changed their methods of adjusting data for seasonal effects and some have introduced an adjustment for the number of working days in a particular quarter. Taken together, this may give rise to a different quarterly pattern. Moreover, as the new ESA 95 series are generally far shorter than the former series, this may have an impact on the estimated seasonal factors, and thus on the quarterly pattern.

Overall, while there are differences in quarterly real GDP growth (see the chart below), they do not give rise to a different assessment with regard to turning-points in the growth path. This holds true not only for more recent developments, but also for the recession in 1993, where the onset of the downturn will continue to be dated in the second quarter of 1992 and the recession trough at the beginning of 1993.

Real GDP growth in the euro area according to ESA 95 and ESA 79 data

(percentage change compared with the previous period; quarterly data; seasonally adjusted)



Source: Eurostat.

The unemployment rate remained unchanged in May

Owing to the time-lags with which changes in economic activity affect labour market developments, the improvement in the euro area growth performance since the turn of the year cannot yet be expected to exert an influence on labour market conditions. On the contrary, the most recent labour market developments are only just starting to show the effects of the slowdown in economic activity at the end of 1998.

In May 1999 the standardised rate of unemployment for the euro area stood at 10.3%, i.e. at the same level as in the previous two months, after the downward revisions for March and April from 10.5% and 10.4% respectively.

The revisions have reduced the rate of unemployment, but have left unchanged the previous picture of unemployment stalling in more recent months. This lack of further decreases in the rate of unemployment in recent months may be due to the slowdown in GDP growth observed at the turn of the year affecting employment growth in the second quarter of 1999. On the basis of available national data, the standardised rate of unemployment in June is expected to be broadly unchanged from that recorded in May.

With regard to the composition of unemployment by age, some improvement was recorded for young people. In May youth unemployment continued to follow a downward trend, although the rate remained above 19%. However, the unemployment rate

Table 6

Unemployment in the euro area

(as a percentage of the labour force; seasonally adjusted)

	1996	1997	1998	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1998 Dec.	1999 Jan.	1999 Feb.	1999 Mar.	1999 Apr.	1999 May
Total	11.6	11.6	10.9	11.0	10.9	10.7	10.4	10.6	10.5	10.4	10.3	10.3	10.3
Under 25 years ¹⁾	23.9	23.3	21.4	21.4	21.3	20.9	20.1	20.6	20.4	20.1	19.8	19.6	19.4
25 years and over ²⁾	9.8	10.0	9.4	9.5	9.4	9.2	9.0	9.2	9.0	9.0	9.0	9.0	9.0

Source: Eurostat.

Note: According to ILO recommendations.

1) In 1998 this category represented 24.4% of total unemployment.

2) In 1998 this category represented 75.6% of total unemployment.

Chart 9**Unemployment in the euro area***(monthly data; seasonally adjusted)**Source: Eurostat.*

for those over 25 years of age has remained unchanged since the beginning of the year (at 9%). Data at the country level confirm the pattern observed for the area-wide rate of unemployment. These data also show some reduction in the dispersion in unemployment rates among countries in recent months. This is due to an improved performance in some of the countries with the highest rates, while

unemployment levels have remained stable in those countries with the lowest rates.

According to revised figures for employment growth in the fourth quarter of 1998, contrary to earlier estimates, there was no slowdown in employment growth at the end of 1998. The quarter-on-quarter rate of employment growth has been revised upwards from 0.2% to 0.4%, to broadly the same rate of growth as in the previous quarter. As a result, total employment increased by 1.6% in the fourth quarter of 1998, as compared with the same quarter in 1997.

Preliminary estimates for the first quarter of 1999 suggest that total employment growth in the euro area as a whole was only slightly lower than in the fourth quarter of 1998. Sectoral growth patterns continue to differ. Recent data show that employment in the manufacturing sector continued to contract slightly during the first quarter of 1999 (-0.1% compared with the previous quarter), which implies that the rest of the economy has broadly maintained its rate of employment growth.

In sum, if the economic slowdown around the turn of the year were to start to affect employment growth in the second quarter, unemployment would not be expected to decline further. However, the resistance of employment to the temporary slowdown in economic activity which occurred at the turn of the year does seem to have been greater than expected.

Table 7**Employment growth in the euro area***(annual percentage changes, unless otherwise indicated)*

	1997	1998	1998	1998	1998	1999	1998	1998	1998	1999	1999	1999	1999
			Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.
	Quarterly rates ¹⁾												
Whole economy ²⁾	0.5	1.3	1.2	1.4	1.6	.	0.4	0.5	0.4	.	-	-	-
Total industry	-1.4	0.1	0.0	0.2	0.2	.	0.0	0.0	0.0	.	.	.	.
Construction	-0.5	-0.1	-1.4	-0.4	1.5	.	-0.5	0.6	1.5	.	.	.	.
Total industry excl. construct.	-1.4	0.4	0.6	0.6	0.1	-0.3	0.2	0.0	-0.3	-0.2	-0.1	-0.2	-0.6
Manufacturing	-1.0	0.7	1.0	0.9	0.4	0.1	0.3	0.0	-0.2	-0.1	0.3	0.2	-0.2

*Sources: National data and Eurostat.**1) Quarterly rates: percentage change compared with the previous quarter; seasonally adjusted.**2) Excluding Belgium and Ireland; seasonally adjusted.*

4 Exchange rate and balance of payments developments

Euro strengthened during July and early August

Foreign exchange markets witnessed a strengthening of the euro in July and early August, in particular against the US dollar, but also against the pound sterling and a number of other European currencies. The Japanese yen continued to strengthen against the US dollar, albeit at a slower pace than in earlier months, but remained in a narrow range against the euro. Currencies in emerging market economies in Latin America and Asia remained broadly stable against the US dollar.

Against the US dollar, the euro strengthened by 4.2% during July, to a level of USD 1.07 at the end of the month (see Chart 10). The level at end-July corresponds to levels last recorded in early May. As in earlier months, euro exchange rate developments against the US dollar can largely be traced back to changes in the underlying cyclical outlooks for the United States and the euro area. In the second half of July these changes moved in the opposite direction, compared with earlier months, as some recent data releases pointed towards an economic slowdown in the United States and a pick-up in the pace of economic growth in the euro area. In particular, the GDP growth estimates released for the second quarter of 1999 in the United States showed a slowdown to 2.3% at an annual rate, down from 4.3% in the first quarter. On 5 August, the cut-off date for the statistics used in this issue of the ECB Monthly Bulletin, the euro was quoted at USD 1.08.

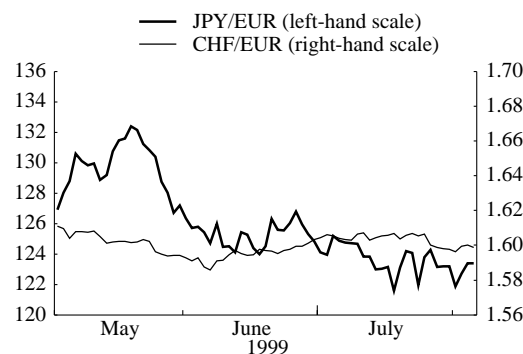
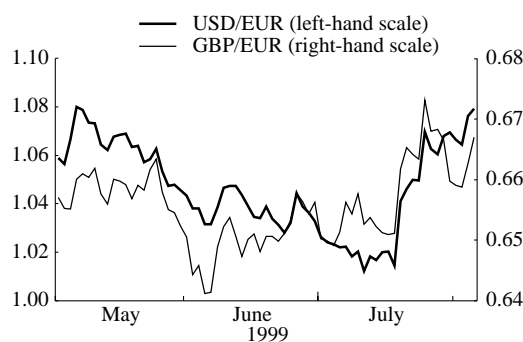
Against the Japanese yen, the euro fluctuated within a narrow range around an average level of JPY 124 in July, after having weakened in earlier months in line with other major currencies. The volatility of the euro/yen exchange rate has fallen significantly over the past two months, possibly reflecting market expectations that the economic downturn in Japan may be bottoming out. In particular,

consumer confidence in Japan has improved and both activity in some domestic areas and imports have picked up. On 5 August the euro was quoted at JPY 123, i.e. at almost the same level as in early July.

Since mid-July the euro has appreciated somewhat against the pound sterling. As in the case of the US dollar, the strengthening of the euro was due mainly to a more positive economic outlook for the euro area and was also supported by narrowing interest rate spreads. However, in late July the interest rate differential again widened in favour of the United Kingdom as data releases there pointed to both the improved performance of the UK manufacturing sector and the continuing strength of domestic demand. It is noteworthy that, as a result, the pound sterling appreciated against the US dollar, departing somewhat from the earlier close link with the US dollar. On 5 August the

Chart 10
Patterns in exchange rates

(daily data)



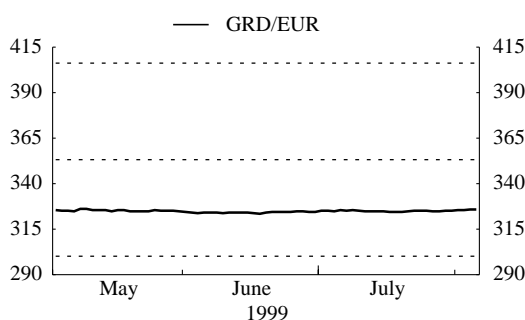
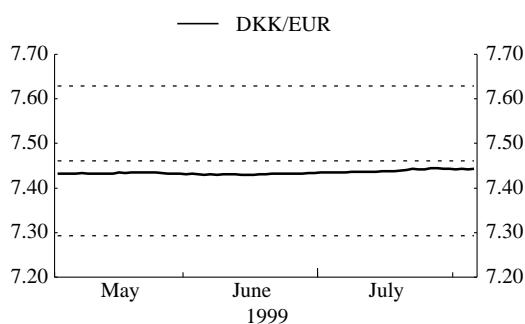
Source: ECB.

euro was quoted at GBP 0.67, i.e. 2.6% higher than at the beginning of July.

As for the ERM II currencies, both the Danish krone and the Greek drachma showed very little change in July, as in earlier months (see Chart 11). While the Danish krone remained very close to its central parity, the Greek drachma continued to trade at around 9% above its central parity. The latter is a result mainly of relatively high short-term interest rates in Greece, reflecting the relatively tight monetary policy stance.

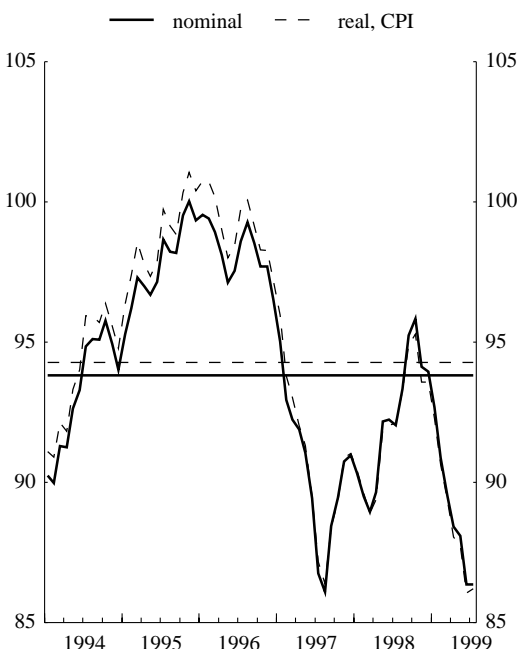
Overall, in nominal effective terms, i.e. on the basis of the trade-weighted exchange rate index provided by the Bank for International Settlements (BIS), the euro strengthened by about 2% in the second half of July, leaving its average level in July unchanged from its average level in June (see Chart 12). In early August the euro was about 2% above its level in early July in nominal effective terms

Chart 11
Patterns of exchange rates within ERM II
(daily data)



Source: ECB.
Note: The horizontal lines indicate the central parity and the respective fluctuation bands ($\pm 2.25\%$ for DKK and $\pm 15\%$ for GRD).

Chart 12
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 (January 1994 to July 1999).

and 7% below that at the time the euro was launched. The bulk of the effective strengthening of the index in July and early August was due to the appreciation of the euro against the US dollar.

Cumulative current account in surplus from January to May

In the first five months of 1999 the cumulative current account surplus reached €18.5 billion, which was around €0.9 billion lower than during the same period a year ago (see Table 8). Over this period a significant decline in the surplus on goods and services was largely offset by improvements in the balances on income and current transfers. Taken together, the surplus on goods and services for the first five months of 1999 declined by approximately €11.3 billion, relative to the same period last year, as exports decreased

Table 8**Balance of payments of the euro area ¹⁾***(EUR billions, compared with ECU billions for 1998 (not seasonally adjusted))*

	1999 May	1999 Jan. - May	1999	1999
			May	Jan. - May
			Absolute difference from the same period a year earlier	
Current account (a)	2.5	18.5	-3.9	-0.9
Credit	101.0	497.5	-3.4	-30.9
Debit	98.5	479.0	0.5	-30.0
Goods	6.5	34.1	-4.3	-9.4
Credit	60.6	302.1	-3.7	-19.5
Debit	54.1	267.9	0.6	-10.1
Services	0.1	-3.5	-0.7	-1.9
Credit	18.2	84.0	-2.5	-13.2
Debit	18.2	87.5	-1.7	-11.3
Income	-1.3	-1.0	0.8	3.9
Credit	16.9	78.9	1.7	0.5
Debit	18.2	80.0	0.9	-3.4
Current transfers	-2.7	-11.1	0.3	6.4
Credit	5.3	32.5	1.1	1.3
Debit	8.0	43.6	0.7	-5.2
Capital account (b)	0.9	3.9	0.4	-1.9
Credit	1.2	7.2	0.3	-0.7
Debit	0.3	3.2	-0.1	1.2
Net lending to the rest of the world (a) + (b)	3.4	22.5	-3.5	-2.8
Financial account	-7.4	-11.7	-26.9	-0.6
Direct investment	-17.0	-40.7	-15.7	-20.0
Abroad	-25.4	-75.9	-13.1	3.5
In the euro area	8.4	35.2	-2.6	-23.5
Portfolio investment	-27.6	-67.1	-36.7	0.3
Assets	-25.0	-104.0	-5.4	63.7
Liabilities	-2.6	36.9	-31.3	-63.3
Financial derivatives	-3.2	-2.1	-1.8	0.0
Other investment	36.6	88.8	24.3	8.4
Assets	-3.1	-38.0	-2.4	-12.8
Liabilities	39.7	126.8	26.8	21.3
Reserve assets	3.9	9.3	3.0	10.6
Errors and omissions	4.0	-10.7	30.4	3.4

*Source: ECB.**1) Figures may not add up due to rounding.*

by around €32.7 billion and imports by €21.4 billion. The surplus in goods reported between January and May declined to €34.1 billion, compared with €43.5 billion for the corresponding period in 1998, and the deficit in services rose from €1.6 billion to €3.5 billion over the same period. Compared with last year, over the last three months of the period under review the value of exports fell far more rapidly than that of imports.

Between January and May 1999 the deficit on the income account declined to €1 billion, compared with €4.9 billion last year. At the same time, the deficit on current transfers fell by approximately €6.4 billion relative to the same period a year ago.

The current account surplus of the euro area in May 1999 was €2.5 billion, compared with €6.4 billion in the same month in 1998. The

reduced current account surplus in May was primarily due to a decline in the surplus on goods and services, which was partially offset by a small reduction in the deficits on income and current transfers. In May 1999 the surplus of the balance on goods of the euro area amounted to €6.5 billion, down from the €10.8 billion recorded in May last year, with imports showing an increase relative to the same month in 1998 for the first time this year.

The balance on services amounted to €0.1 billion in May, while the net income and current transfers accounts were both in deficit, by €1.3 billion and €2.7 billion respectively. The small surplus on trade in services declined marginally in May, by around €0.7 billion relative to the same month a year ago, while the combined deficits on income and current transfers declined by €1.1 billion. It should be noted, however, that the deterioration observed in the balance on services may be overstated as one Member State has changed the methodology applied to services in 1999, but has yet to change that applied to services in 1998.

In May 1999 the capital account showed a surplus of €0.9 billion, compared with €0.5 billion a year ago, while the cumulative capital account surplus of €3.9 billion for the first five months of this year was €1.9 billion lower than in the corresponding period in 1998.

Net outflows in direct and portfolio investment recorded for the first five months

In the first five months of 1999 the financial account recorded outflows of €11.7 billion. In May net outflows stood at €7.4 billion, mainly on account of increases in net outflows of direct investment and portfolio investment. By contrast, the net inflows in April were mostly related to a reduction in the short-

term external assets of the MFI sector that more than offset outflows related to foreign direct investment.

Direct investment recorded net outflows of €40.7 billion in the first five months of the year. The net outflows amounted to €17.0 billion in May 1999, following net outflows of €13.8 billion in April and €2.6 billion in March. They accelerated strongly in April and May, as compared with the first quarter of 1999, and reached a new high for 1999 in May.

Portfolio investment also showed net outflows of €67.1 billion in the first five months of the year. In May the net outflows amounted to €27.6 billion, compared with net inflows in the order of €2.4 billion in April and net outflows of €33.2 billion in March. The net outflows in May resulted mainly from considerable purchases by euro area residents of equities and bonds issued by non-residents and substantial sales of euro-denominated bonds and notes by non-residents. At the same time, on a smaller scale, inflows related to the acquisition of euro area money market instruments by non-residents increased. Hence, foreign investors may have switched from euro area bonds to other interest-bearing assets in anticipation of recent movements in bond values. By contrast, net portfolio investment inflows in April resulted from net redemption and net sales by euro area residents of money market instruments issued by non-residents.

Other investment showed net inflows of €88.8 billion in the first five months of 1999. In May the inflows amounted to €36.6 billion, mainly reflecting an increase in short-term external liabilities of the MFI sector. Net outflows in financial derivatives amounted to €2.1 billion in the first five months of 1999 and reached €3.2 billion in May 1999. Finally, reserve assets decreased by €9.3 billion in the first five months of the year and by €3.9 billion in May 1999.

The international role of the euro

The introduction of the euro on 1 January 1999 was a major event with important implications not only inside but also outside the euro area. The euro is the second most widely used currency at the international level, as a result of both the legacy of the former national currencies replaced by the euro and the economic weight of the euro area in the world economy. The development of the euro as an international currency will mainly be a market-driven process. In particular, the use of the euro by private agents as an investment and financing currency, as well as a payment and vehicle currency, will play a prominent role. The decisions of private sector agents will be influenced to a large extent by the degree of integration, liquidity and diversification of the euro financial markets, and by the cross-border relationships of the euro area. Moreover, the international role of the euro will be affected by the economic conditions in the euro area, thereby highlighting the contribution of all economic policies to a sound and stable currency. The orientation of the Eurosystem's monetary policy towards price stability will remain a major factor behind investors' confidence in the euro. Conversely, the Eurosystem is aware of potential implications for the conduct of its monetary policy of the internationalisation of the euro, which will not impair its ability to maintain price stability. Since the internationalisation of the euro, as such, is not a policy objective, it will be neither fostered nor hindered by the Eurosystem.

This article provides a conceptual framework that may be used in reviewing the international role of the euro. Owing to, inter alia, the difficulty of making a proper evaluation at this early stage, this article does not attempt to offer a conclusive assessment of the international role of the euro.

I Introduction

The euro is the second most widely used currency at the international level, behind the US dollar and ahead of the Japanese yen. This reflects the legacy of the former national currencies of the euro area countries that have been replaced by the euro. It also results from the economic weight of the euro area in the world economy. Compared with the United States, the euro area is smaller in terms of GDP, accounts for a greater share of world exports and has developed a larger banking sector with correspondingly smaller equity and debt securities markets (see Table 1).

The current and prospective use of the euro as an international currency can be reviewed by looking at the different purposes for which non-euro area residents accept and use the euro. Table 2 summarises the functions fulfilled by an international currency, distinguishing between the three classical functions of money and the status of the user (private or official). Such a classification is retained in this article as a way to facilitate the description of the relative importance of the euro for each function.

In analysing the economic factors likely to affect the international role of the euro, two broad categories can be identified: size factors (e.g. the volume of cross-border transactions of the euro area with the rest of the world and the size of its domestic financial markets) and risk factors (e.g. inflation risk). On the one hand, the size factors generally tend to lead to "centralisation" on one or a few key international currencies. For example, the larger the foreign exchange market in a given currency, the lower the transaction costs will be in this market; this will encourage more agents to use this currency, thus lowering transaction costs further and engendering a trend towards centralisation. On the other hand, the risk factors tend to lead to diversification among international currencies or, in other words, "decentralisation". For example, an investor holding only a given foreign currency will either be exposed to exchange rate risk or need to hedge such a risk; this may encourage such an investor to diversify among several currencies. In achieving a balance between size and risk factors, a "hierarchy" among currencies usually emerges at some point in time,

Table 1
Key characteristics of the euro area, the United States and Japan (1998)

Indicator	Unit	Euro area	United States	Japan	Source
Population	millions	292	270	127	Eurostat
GDP	EUR billions	5,773	7,592	3,375	IMF (WEO)
as a share of world GDP					
- in current terms	%	22.2	29.3	13.0	IMF (WEO)
- in PPP terms	%	15.5	20.8	7.4	IMF (WEO)
Exports of goods and services					
- as a share of domestic GDP	%	17.8	10.9	11.5	ECB, IMF
- as a share of world exports	%	20.1	16.3	7.6	ECB, IMF
Bank deposits	EUR billions	4,849	4,128	4,104	IMF (IFS)
- as a share of domestic GDP	%	84	54	122	
Domestic credit	EUR billions	7,477	6,132	5,120	IMF (IFS)
- as a share of domestic GDP	%	130	81	152	
Domestic debt securities	EUR billions	5,240	11,787	4,440	BIS
- as a share of domestic GDP	%	91	155	132	
- issued by the private sector	EUR billions	1,997	5,096	1,229	BIS
- issued by the public sector	EUR billions	3,243	6,691	3,211	BIS
Stock market capitalisation	EUR billions	3,655	13,025	2,091	FIBV
- as a share of domestic GDP	%	63	172	62	

whereby a small number of currencies are used in most international transactions and other currencies play limited or merely regional roles. In the following, size and risk factors are discussed in greater detail in relation to each function performed by the euro.

This article focuses on four complementary aspects of the international role of the euro. Section 2 reviews available information on the current use of the euro by non-euro area residents. Section 3 examines those factors

that are most likely to influence the use of the euro outside the euro area in the future. Section 4 covers potential implications of the internationalisation of the euro for the Eurosystem's monetary policy. Section 5 discusses possible benefits and costs of the international use of the euro for residents of the euro area. Finally, Section 6 provides concluding remarks.

Table 2
Functions of international currencies

Functions of money	Use by residents of a geographical area other than that in which the international currency is issued	
	Private use	Official use
<i>Store of value</i>	Investment and financing currency	Reserve currency
<i>Medium of exchange</i>	Payment/vehicle currency (i) in exchanges of goods and services (ii) in currency exchange	Intervention currency
<i>Unit of account</i>	Pricing/quotation currency	Pegging currency

2 The current use of the euro by non-euro area residents

Private use of the euro as an investment and financing currency

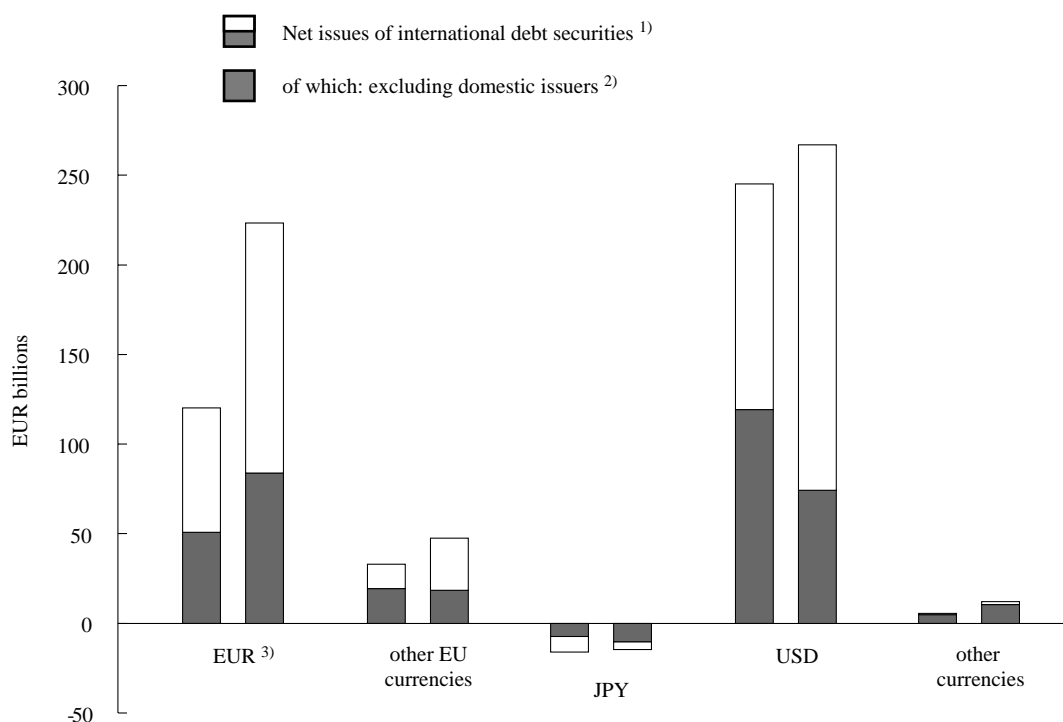
Available statistical data allow only a very preliminary assessment of the private use of the euro as an investment and financing currency, owing to incomplete coverage and possible distortions arising from one-off factors and the shift of regime associated with the introduction of the euro. In particular, the development of an “internal” financial market in the euro area makes it difficult to identify the truly international component of the euro financial markets, thus creating problems of data measurement and comparison. Even adopting cautious measurement criteria, the available information seems to confirm that the euro already plays a significant role as an investment and financing currency in international financial markets.

With regard to the *international debt securities market* (money market instruments, bonds and notes), a distinction is made between a broad approach including both the issuers and their targeted investors (see Tables A1, A2 and A3 at the end of this article, and Charts 1 and 2), and a narrow approach focusing only on the issuers (see Tables B1, B2 and B3 at the end of this article, and Charts 1 and 2). Hence, the narrow approach comprises debt securities denominated in a currency different from the domestic currency of the borrower, whereas the broad definition comprises also those issues in domestic currency by residents of a given geographical area that are targeted at non-residents. The broad approach provides information on both the investment and the financing currency functions, while the narrow one highlights only the financing currency function.

Chart 1

Net issues of international debt securities broken down by currency

(left-hand bars indicate figures for the first two quarters of 1998; right-hand bars indicate figures for the first two quarters of 1999¹⁾)



Sources: BIS and ECB calculations.

1) Data for the second quarter of 1999 are provisional.

2) See the definition in Table A3, footnote 1.

3) See the definition in Table B3, footnote 1.

4) Former euro area currencies and ECU up to 31 December 1998, euro since 1 January 1999.

In the first two quarters of 1999 the euro accounted for a greater share of new international debt issuance than the combined shares of the former euro area national currencies and the ECU prior to the changeover (see Tables A2 and B2). In the same period, net international issues (i.e. completed new issues net of redemption) of money market instruments, bonds and notes denominated in euro amounted to EUR 83.9 billion (narrow definition) compared with EUR 74.0 billion for the US dollar; in the case of the Japanese yen the amounts redeemed exceeded new issues. By comparison, in the first two quarters of 1998 net issues in former euro area national currencies and ECUs amounted to EUR 50.9 billion (narrow definition), compared with EUR 119.1 billion for the US dollar (see Table B3 and Chart 1). Developments in the first quarter of 1999 are partly explained by one-off factors, such as the postponement of certain issues from the end of 1998 until the beginning of 1999 owing to the introduction of the euro and the strategy adopted by a number of issuers of creating liquid benchmarks in the euro-denominated securities market. However, available evidence shows that issuance of debt securities in euro continued in the second quarter of 1999 at a pace comparable with that observed in the first quarter. Other factors

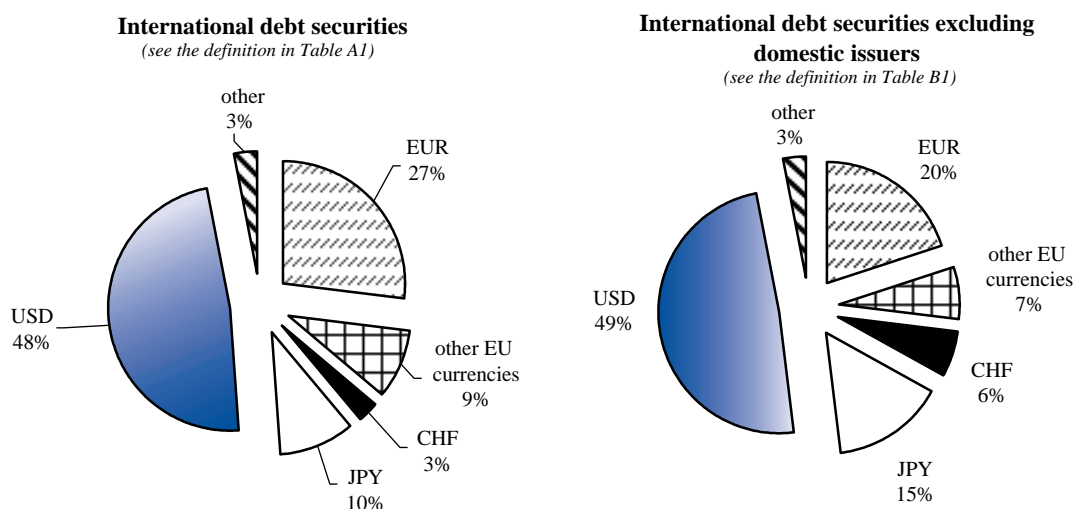
may therefore have played a role in these developments. On the supply side, countries such as Brazil, Argentina, South Africa, Canada and the Philippines have launched euro issues in significant amounts in order to reallocate the currency composition of their foreign debt in favour of the euro. Moreover, if issues by residents of the euro area targeted at non-residents are also taken into account (Tables A2 and A3), mergers and acquisitions within the euro area – in both the financial and corporate sectors – may have been increasingly financed by resorting to the euro-denominated international debt securities market. On the demand side, higher liquidity resulting from increased volumes of issuance played a role.

By contrast with the flows discussed above, the outstanding stock of international debt securities tends to change more slowly. Based on the broad definition of international securities, the share of the euro in the stock of international debt outstanding at the end of June 1999 was 27%, only 2 percentage points higher than the share of the former euro area national currencies at the end of 1997. This was combined with decreasing weights of the Japanese yen and the Swiss franc (see Table A1 and Chart 2). Based on the narrow definition, the share of the euro is 20% (see Table B1 and

Chart 2

Composition by currency of the stock of international debt securities

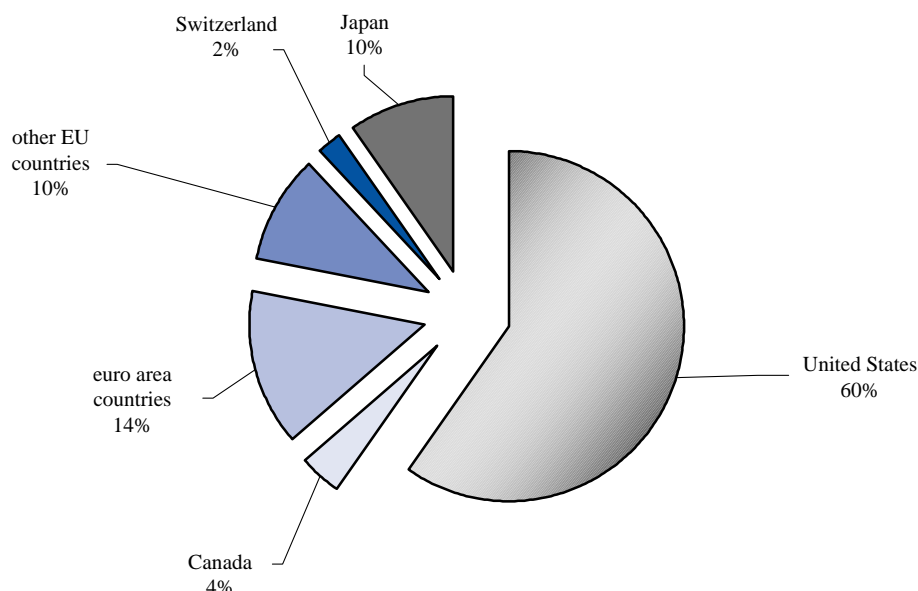
(30 June 1999)



Source: BIS.

Chart 3

Market capitalisation distribution as at end-April 1999



Source: Fédération Internationale des Bourses de Valeurs (FIBV).

Chart 2). This is slightly lower than the aggregate amount of its predecessor currencies, because the euro's growth in the first half of 1999 offsets only part of the "arithmetic" adjustment owing to the fact that on 1 January 1999 intra-euro area transactions became domestic as opposed to international transactions.

With regard to equity markets, the segmentation of organised stock exchanges in the euro area

still hinders both their liquidity and access by non-residents. However, two developments have already reduced this segmentation. The first has been under way for the past few years as a result of EU legislation. EU stock exchanges have been required to adapt their regulatory and technical infrastructures so as to allow "remote access", i.e. the possibility for investors and financial intermediaries of other jurisdictions to invest without restrictions throughout the

Table 3

Market capitalisation of selected equity markets

(end-of-period data in EUR billions)

	1997	1998	1999			
			Jan.	Feb.	Mar.	Apr.
United States ¹⁾	11,546	13,025	14,256	14,446	15,571	16,555
Canada ²⁾	903	929	988	996	1,059	1,128
Euro area countries	2,696	3,655	3,780	3,742	3,845	3,997
Other EU countries	2,163	2,426	2,451	2,597	2,704	2,751
Switzerland	521	591	590	592	600	610
Japan	1,957	2,091	2,154	2,177	2,500	2,713
Total	19,785	22,717	24,218	24,550	26,279	27,754

Source: Fédération Internationale des Bourses de Valeurs (FIBV).

1) Comprises the NYSE, Nasdaq and Chicago stock exchange.

2) Comprises the Montreal, Toronto and Vancouver stock exchanges.

Table 4**Euro area MFIs ¹⁾ other than the Eurosystem: euro-denominated deposits, loans and holdings of securities vis-à-vis non-euro area residents***(end-of-period data)*

	June ²⁾	1998 Sep. ²⁾	Dec.	1999 Mar.
1. Deposits in euro placed by non-euro area residents				
- in EUR billions	630.3	628.6	624.3	653.8
- as a percentage of all currencies	42.3	39.7	41.1	40.4
2. Loans in euro to non-euro area residents				
- in EUR billions	564.9	575.2	529.2	534.6
- as a percentage of all currencies	42.5	41.6	41.7	41.8
3. Holdings of securities in euro issued by non-euro area residents				
- in EUR billions	69.0	59.7	61.7	67.8
- as a percentage of all currencies	25.3	22.6	24.1	24.0

Source: ECB.

1) "Monetary Financial Institutions", as defined in Article 2 of Regulation EC/2819/98, resident in the territory of the "participating Member States" as defined in Article 1 of Regulation EC/2533/98.

2) Data are provisional and not complete for all euro area countries.

EU capital market. The *second* trend has emerged more recently, with the conclusion of alliances and partnerships among European stock exchanges. At present, the weight of euro area stock exchanges in terms of capitalisation is second to that of the United States, the size of which exceeds that of all the other major industrialised countries taken together (see Table 3 and Chart 3).

With regard to the *banking sector*, the data available at present are produced by the ECB and refer to the euro area Monetary Financial Institutions (MFIs) other than the Eurosystem (see also the February issue of the ECB Monthly Bulletin, page 31, and the article on the balance sheet of the MFIs in early 1999, published in this issue). The latest data show that, at the end of March 1999, above 40% of deposits and loans vis-à-vis non-residents were denominated in euro (see Table 4), with the share of the US dollar being almost as high.

Private use of the euro as a payment and vehicle currency

The function of an international medium of exchange performed by the euro in the

private sector can be divided into its function as a *payment currency* in international trade in goods and services and its function as a *vehicle currency* in the foreign exchange markets. The latter is a prominent function, partly because of the huge size of foreign exchange markets. These markets play a pivotal role, since in any international transaction, typically, at least one counterpart has to resort to them, thereby affecting transaction and hedging costs of both trade and financial operations.

The role of the euro as a payment/vehicle currency cannot be derived from the international use of the former euro area national currencies, since transactions within the euro area have become "domestic" transactions. Although no data are available at this stage, the value of world exports denominated in euro is likely not to differ significantly from that of euro area exports. By contrast, the value of world exports settled in US dollars is nearly four times as high as that of US exports. This is attributable mainly to the combined and reinforcing effects of network externalities and economies of scale in the use of a predominant international currency.

Private use of the euro as a pricing and quotation currency

The third function performed by the euro in the private sector is that of a *pricing/quotation currency*, i.e. a currency used to price goods and services (assets), which is different from that of the supplier (issuer) in a given transaction.

The widespread use of the US dollar as a unit of account is related less to the size factor than to the convenience of using one standard for pricing. In particular, the US dollar prevails in homogeneous, centralised and efficient markets such as commodity exchanges, where traders benefit from being able to make direct comparisons between prices expressed in a single currency.

Official use of the euro as a reserve, intervention and pegging currency

The euro can be used as a reserve, intervention and pegging currency by the public sector. In most cases these uses are interrelated.

According to the International Monetary Fund, at the end of 1997 the share of US dollar-denominated holdings in the official foreign exchange reserves world-wide was 57.1%, while the former euro area national currencies accounted for 19.6% and the Japanese yen for 4.9%. Such figures, however, are likely to underestimate the effective share of these reserve currencies owing to incomplete information.

With the introduction of the euro, the share of euro area currencies (i.e. the former national currencies and the ECU up to 31 December 1998 and the euro since 1 January 1999) in the foreign exchange reserve assets of central banks declined as a result of two technical adjustments. *First*, on 31 December 1998 the Eurosystem unwound into gold and US dollars the official ECUs that were issued to EU central banks through revolving swaps against the contribution of

20% of their gross gold holdings and US dollar reserves, for a total amount of ECU 60.9 billion. *Second*, with effect from 1 January 1999 the Eurosystem's reserves previously denominated in former euro area national currencies became domestic assets, which brought about a decrease in the Eurosystem's foreign exchange reserves.

These developments, which are related to technical implications of the changeover to the euro, resulted in a contraction of the share of the euro in official reserves. Although no updated information is currently available, the euro is likely to remain the second international reserve currency as a legacy of the former euro area national currencies.

The use of the euro as an *intervention currency* is mainly related to its function as a pegging currency. In addition, countries with currencies which are not pegged to the euro can also use it for intervention purposes to pursue more informal exchange rate objectives. No quantitative data are available on this function since, with a few exceptions, most central banks do not release figures on their intervention operations. Furthermore, information provided by central banks through public statements is qualitative in nature.

With regard to the use of the euro as a *pegging currency*, there are a number of arrangements ranging from the introduction of the euro as their own currency by a few countries to the adoption of exchange rate regimes involving the use of the euro. These arrangements are mainly a legacy of past links to the former euro area national currencies.

On the basis of Article 123 (4) (ex Article 109I (4)) of the Treaty establishing the European Community (the Treaty), the EU Council took a decision concerning monetary arrangements in the French territorial communities of Saint-Pierre-et-Miquelon and Mayotte, according to which the euro is the currency of these territories as of 1 January 1999. Moreover, on the basis of Article 111 (3) (ex Article 109 (3)) of the Treaty and taking into account the

Declaration on monetary relations with the Republic of San Marino, the Vatican City and the Principality of Monaco which is annexed to the Treaty, the EU Council took three decisions regarding agreements concerning the monetary relations with these three sovereign countries. According to these decisions the countries concerned will be entitled to use the euro as their official currency subject to an agreement with the Community. The European Commission and the ECB are involved in the current negotiations on these agreements. In addition, also on the basis of Article 111 (3) (ex Article 109 (3)) of the Treaty, the EU Council took two other decisions concerning exchange rate matters relating to the CFA franc and the Comorian franc and to the Cape Verde escudo. These decisions stipulate that France and Portugal may continue their respective present arrangements with 14 African countries and the Comoros as well as Cape Verde. As a result, the euro has replaced the former national currencies (French franc and Portuguese escudo) as a pegging currency, with effect from 1 January 1999 (see Table C at the end of this article).

Besides these ad hoc monetary agreements, around 30 countries outside the euro area, which account for a relatively small share of world GDP, currently have exchange rate regimes involving the euro (see Table C). These countries can be divided into four groups. The first includes countries the currency of which is *pegged to the euro*. Excluding the ad hoc monetary agreements

mentioned above, this group comprises four countries. Since January 1999 two EU Member States, Denmark and Greece, have been participating in the new exchange rate mechanism (ERM II) that links the currencies of EU Member States to the euro on a bilateral and voluntary basis. Two other countries (Cyprus and Macedonia) unilaterally peg their currency to the euro. A second group (Bosnia-Herzegovina, Bulgaria and Estonia) has adopted euro/Deutsche Mark-based *currency boards*. The formal substitution of the euro for the Deutsche Mark in these exchange rate regimes is planned to take place at the latest upon the introduction of the euro banknotes in 2002. A third group (including Hungary, Iceland and Poland) consists of 17 countries that *peg their currency to a basket of currencies including the euro or one of its national denominations*. This group also includes, in broad terms, those countries with currencies pegged to the Special Drawing Right (SDR). When it was introduced, the euro automatically replaced the fixed currency amounts of the Deutsche Mark and the French franc in the SDR basket, which also includes the US dollar, the Japanese yen and the pound sterling. The weight of the euro in the SDR basket as of 23 July 1999 was 27.3%. Finally, a fourth group of seven countries (including the Czech Republic, the Slovak Republic and Slovenia) has adopted a system of *managed floating*, with the euro used informally as the reference currency.

3 Factors that may affect the international use of the euro in the future

Factors influencing the private use of the euro as an investment and financing currency

The behaviour of private sector investors is of particular relevance in analysing the internationalisation of the euro. The amount of financial assets they manage is much greater than official reserve holdings. Moreover, they usually adjust their asset

management strategies more rapidly than most public sector institutions. Portfolio shifts involving the use of the euro are therefore likely to be more significant and to occur at a more rapid pace in the private than in the public sector.

With the start of Stage Three of EMU, a process of structural changes in euro area capital markets has been initiated which is

likely to increase competitive pressure and consequently enhance the efficiency of these markets. Progress in the integration of national capital markets in the euro area will tend to establish, slowly but surely, a capital market that is characterised by substantial improvements in terms of size, breadth, depth and openness. These structural changes may bring about further internationalisation of the euro.

In particular, size factors may facilitate the international use of the euro through lower transaction costs in the euro area capital markets. The larger, more integrated and more liquid these markets become, the lower the transaction costs (e.g. bid-ask spreads) will be. This, in turn, could attract investors and issuers, and contribute to increasing volumes and further reducing transaction costs. This virtuous circle, based on the combined effect of network externalities and economies of scale, hinges on the integration of domestic financial markets, i.e. the progressive establishment of a single, non-segmented European financial market with an efficient technical infrastructure.

In this regard the euro area money market is already integrated and liquid, while the elimination of segmentation is proceeding more slowly in the banking sector than in securities and derivatives markets. With regard to *government bond markets*, in certain cases the spread between yields on bonds issued by different euro area Member States is explained not only by differences in country credit risk premia, but also by technical factors such as differences in liquidity and structure between national markets. The elimination of technical obstacles to full market integration implies the harmonisation of certain tax, regulatory and trading standards. Both the private and the public sector have already taken initiatives in this direction. With regard to *private debt securities markets*, the development of a broader spectrum of euro-denominated financial instruments is likely to be a gradual process. However, developments in the first half of 1999 show that the introduction of the euro

may encourage the creation of new products. In particular, new euro-denominated money market instruments have been launched, such as cash management funds for corporate sector firms and new forms of commercial paper. With regard to *equity markets*, it will probably take some time for non-euro area residents to start to exploit the full potential of the euro equity markets. Part of the gap is explained by the different structures for the intermediation of financial funds, the latter being much more security-based in the United States and the United Kingdom than in the euro area, where financial intermediation by the banking system plays a greater role. However, the integration of national stock exchanges is making progress.

In connection with these size factors, analysts are discussing more specific effects which could potentially have an impact on the supply of and demand for euro-denominated financial instruments. It has been argued that the introduction of the euro should initially result in portfolio shifts into the euro which would be larger than new issues in euro, since the latter would depend on further structural integration of national capital markets throughout the euro area. As discussed in Section 2, such an argumentation does not seem to be supported by evidence available so far. Furthermore, it has been observed that both the disappearance of exchange rate risk and the emergence of a wider range of financial products in the euro area may encourage European investors to increase their demand for assets denominated in their domestic currency, the euro ("home bias"). Yet this trend may be weakened by the fact that even retail investors are increasingly resorting to institutional investors that can more easily hedge exchange rate risk and do not suffer from important information asymmetries about external investment opportunities.

In the coming years, the *risk* characteristics of the euro will continue to be a major factor in determining its international role. Three key factors will play an important role in this regard. The *first* is investors' confidence in

the ability of the Eurosystem to maintain price stability. The explicit assignment of responsibility to the Eurosystem with regard to this objective, together with its independence and its medium-term stability-oriented strategy, are essential factors in building up market confidence in the euro as a stable currency. *Second*, the correlation of returns between euro-denominated financial assets and foreign currency assets will determine the attractiveness of the euro as a risk diversification tool for international professional investors. For example, it has been argued that euro area interest rates may become more dependent on domestic factors than was the case for the former euro area national currencies, thus making it likely that there will be a lower correlation between the euro and the US dollar interest rates. However, so far there is no clear evidence of such a development, and any diversification effects will also depend on the correlation of returns between the euro and investment currencies other than the US dollar. The *third* factor will be the overall performance of the euro area economy. Sustained real growth of an economy in relation to other countries tends to have beneficial effects on market expectations and foster the international use of its currency. One factor behind sustained growth is the international competitiveness of domestic firms, which increases the share of an economy in cross-border transactions and thereby also the scope for the international use of its currency. In the coming years, the improvement of growth prospects for the euro area economy will require a comprehensive medium-term-oriented path of structural reforms and fiscal consolidation.

Factors influencing the private use of the euro as a payment and vehicle currency

Although the euro area accounts for a higher proportion of world exports of goods and services than the United States – 20.1% compared with 16.3% in 1998 – the euro is

likely to develop at a slow pace as a payment/vehicle currency. In fact, structural changes in invoicing and denomination practices are expected to take place over an extended period of time. However, even if only in the long run, inertia in respect of the prevalent use of the US dollar as a payment/vehicle currency might be affected by four factors. *First*, lower transaction costs are likely to emerge in all markets in which the euro is used as a payment/vehicle currency, thus making it possible that there will be some shift towards the euro. In particular, in order to hedge exchange rate risk, non-residents may increasingly find new euro-denominated instruments in the single euro foreign exchange market. *Second*, more so than in the past, euro area traders may be in a position to demand that the euro be used in their transactions in order to avoid exchange rate risk. In particular, those European exporters that have been willing to use foreign currencies until now may adopt their local currency, the euro, for the invoicing and settlement of exports to other industrialised countries. *Third*, residents of emerging or transition countries – especially those with less stable domestic monetary conditions at the present juncture in central and eastern Europe – may increasingly resort to the euro as a medium of exchange for their local transactions (“direct currency substitution”). *Fourth*, transactions denominated in euro may reach – at some point in time and for reasons different from those related to its functions as a medium of exchange and a unit of account – a threshold above which agents’ propensity to use the euro as a payment/vehicle currency increases. This would further reduce transaction costs and may contribute to furthering the process of internationalisation of the euro.

A precondition for these four potential factors to produce their effects is that the euro must continue to be associated with price stability.

Factors influencing the private use of the euro as a pricing and quotation currency

The possibility of the euro becoming a widely used pricing/quotation currency in the future will partly depend on factors similar in nature to those already discussed with regard to the function of the euro as a payment/vehicle currency. However, in international trade or commodity markets prices may be quoted in a currency other than that in which transactions are actually settled. For example, some oil producing countries in the early 1970s tended to quote their oil prices in US dollars, while requiring payment in pounds sterling. Even today, pricing practices in commodity exchanges and other highly concentrated markets are likely to change very slowly, owing to the high degree of standardisation and centralisation of these markets. The currency area in which the main commodity exchanges are located is also an important factor.

Factors influencing the official use of the euro as a reserve, intervention and pegging currency

With regard to the euro as a *reserve currency*, central banks traditionally refrain from abrupt and large changes in the level and composition of their foreign reserves. Potential shifts involving the euro are therefore expected to take place at a slower pace in the central bank community than in the private sector. Nonetheless, over an extended time horizon central banks outside the euro area might

reassess their reserve management strategy, for three main reasons. *First*, central banks may reallocate their portfolios in the light of improved global diversification opportunities available as a result of holding an increased share of reserves in euro. In comparison with the past, this trend may be enhanced by the increased depth and liquidity of international markets, which have significantly relaxed the portfolio management constraints faced by central banks. *Second*, further strengthening of trade and financial links with neighbouring geographical areas (e.g. central and eastern Europe) may have an indirect bearing on the currency composition of reserves in these areas. *Third*, the euro will be used by those countries that intend to peg their exchange rates to the euro and/or carry out *intervention* in euro.

With regard to the use of the euro as a *pegging currency*, it seems plausible that in the future further countries will decide to link their currency unilaterally, either formally or informally, to the euro or to a basket of currencies in which the euro is a major component. This may hold true for economies in central and eastern Europe, as well as African or Mediterranean countries which are closely linked to the euro area through trade and financial relationships. In particular, in the foreseeable future, changes are likely to take place as a result of the prospect of EU enlargement. Besides geographical vicinity and economic links with the euro area, the other key variables that are likely to influence decisions to peg to the euro are the denomination of foreign debt in euro and political relations with the euro area.

4 Potential implications for the Eurosystem's monetary policy

Growth of the international role of the euro might have some impact on the transmission mechanism of monetary policy and the indicator properties of some monetary policy indicators. This section addresses three aspects of the impact of the internationalisation of the euro: the transmission mechanism of monetary policy,

the stability of money demand, and the role of the exchange rate. It also explains how the monetary and economic assessment of the Governing Council of the ECB based on the monetary policy strategy naturally takes these factors and related uncertainties into account.

The transmission mechanism of monetary policy

The internationalisation of the euro may affect the transmission of changes in the ECB interest rates to price developments. For example, if third countries successfully peg their exchange rates to the euro, the exchange rate channel in the transmission mechanism would tend to become less effective, depending on the importance of trade relations of the euro area with the countries that tie their exchange rates to the euro. At the same time, the more third countries successfully peg to the euro, the greater the impact of changes in euro area interest rates on interest rates outside the euro area will be. This, in turn, will have an impact on economic developments in these countries and therefore reinforce the strength of the transmission of interest rate changes of the Eurosystem through its effect on demand for euro area exports from these countries.

The transmission process of monetary policy via feedback effects through third countries will also be influenced by the role of the euro as an international investment currency and by the respective net asset position of other countries. For example, if a country has mainly used the euro for the denomination of short-term or floating debt, higher short-term euro rates would tend to dampen demand in that country. The indirect impact of these developments on euro area developments would again mainly depend on the extent of trade relations between the euro area and the respective countries.

Furthermore, increasing use of the euro as a payment/vehicle and pricing/quotation currency could have two effects. *First*, it could make the euro area Harmonised Index of Consumer Prices (HICP) less sensitive, in the short run, to US dollar exchange rate movements. Under these circumstances commodity price movements would convey a more accurate signal of relative price changes for euro area producers and consumers and might also help to focus attention on the more fundamental and persistent factors underlying

price trends. *Second*, growing use of the euro as a payment/vehicle and as a pricing/quotation currency could also influence the effects of exchange rate changes on the euro area balance of payments current account. If euro area exports and imports are increasingly invoiced in euro, the short-term effects of exchange rate changes on the goods and services trade balance should generally be reduced.

Stability of money demand

In its monetary policy strategy the ECB gives a prominent role to money with the announcement of a reference value for the growth of a broad monetary aggregate (M3).

The euro may play an enhanced role in some countries outside the euro area. To the extent that the euro is held by non-residents in the form of euro-denominated deposits, the broad aggregate M3 is not affected directly, as this aggregate only includes deposits held by euro area residents, but the demand for euro banknotes in foreign countries will have a direct impact on M3. However, as the M3 aggregate covers a broad range of financial assets, the share of currency in circulation is relatively small. At the end of May 1999 it amounted to only 7%. While increases in euro banknotes in circulation abroad may affect the narrow monetary aggregate M1, such currency substitution is less likely to be a source of concern regarding the information content of the broad aggregate M3 in the euro area.

Obviously, internationalisation of the euro may also take the form of increased holdings by euro area residents of euro-denominated deposits with MFIs established abroad. Such holdings may be driven by differences in taxation or other regulatory measures between euro area and non-euro area countries. It is a priori unclear whether such holdings would ideally have to be part of euro area monetary aggregates. On the one hand, the fact that they have similar liquidity characteristics to holdings of comparable deposits in the euro area would argue

in favour of their inclusion in euro area monetary aggregates. On the other hand, experience shows that these deposits are often not held for transaction purposes and may therefore be less relevant for monetary policy assessments. At the present juncture, however, it is reassuring that the current definition of M3 (which excludes deposits of domestic residents with foreign MFIs) shows signs of stability. Hence it is unclear whether including holdings abroad would imply better empirical properties than the current definition of M3.

Overall, the monetary policy strategy of the Eurosystem is sufficiently flexible to take into account any changes a growing international role for the euro might bring about with regard to the development of monetary aggregates.

The role of the exchange rate

With the introduction of the euro, it has been argued that exchange rate volatility

might increase, giving rise to calls to manage the exchange rates between the major international currencies. In this respect, it has also been suggested that the co-ordination of exchange rate policies that such arrangements would require might be easier to achieve with two or three global currencies than with a higher number of international reference currencies.

A key factor for future exchange rate stability will be whether monetary policy in the major industrialised countries can credibly continue to focus on price stability and whether it is supported in this respect by appropriate fiscal and structural policies. In keeping with its primary objective of maintaining price stability, the Eurosystem does not pursue an exchange rate target. At the same time, however, the euro exchange rate is one of the variables included in the second pillar of the Eurosystem's monetary policy strategy. As one of these variables, the euro exchange rate is monitored in the context of the preparation of monetary policy decisions.

5 Possible benefits and costs of the euro as an international currency

The international role of the euro has implications for euro area consumers, firms and governments. The list of potential benefits and costs for euro area residents is for the time being of a rather speculative, forward-looking nature. Many benefits are difficult to measure with precision. Estimates of several quantifiable benefits seem to indicate that their size would be relatively modest in relation to euro area GDP. Bearing in mind these caveats, one can identify, at this stage, some potential microeconomic effects.

With reference to the *real sector*, the benefits mainly relate to savings of various forms of transaction costs for euro area residents should the euro's external role increase. In particular, euro area consumers travelling abroad are likely to face lower transaction costs for exchanging cash. This is because a

greater role for the euro in wholesale foreign exchange markets and the related reduction in bid-ask spreads would, through competition, also lead to lower fees and other transaction costs in the retail markets for currencies. More importantly, greater acceptability of the euro in trade invoicing would reduce the costs of currency conversion and exchange rate risk management for euro area firms' corporate treasurers. If the euro gained importance as an invoicing currency, the costs of hedging foreign exchange assets and liabilities would increasingly fall on the counterparts of third countries, thus enhancing the competitive position of euro area enterprises. Finally, firms still invoicing and settling in foreign currencies would face lower costs in relation to managing currency exposure, as a result of more liquid euro foreign exchange and derivatives markets.

In the *financial* sector, microeconomic benefits would primarily relate to the general improvement in the competitive position of large, internationally active euro area banks. In particular, euro area banks would play a prominent role in the channelling of euro liquidity to the outside world, owing to the fact that as direct counterparts of the Eurosystem they have more cost-effective access to refinancing in euro. Moreover, there is empirical evidence that financial institutions of the country of issuance of a currency dominate the primary bond market in this currency. Hence, a growing role for the euro in international bond markets could increase euro area financial institutions' market share in global investment banking. The advent of the euro may also imply efficiency gains in financial intermediation, i.e. the channelling of savings into investment, in the euro area. For instance, owing to the size effects discussed in Section 3, new market segments may emerge, thus making the euro area capital markets broader. Examples of this could be high-risk segments of bond markets or credit derivatives markets. Similarly, increases in the liquidity of secondary bond markets would reduce bid-ask spreads and liquidity premia in bond yields. As a consequence, the cost of capital would be reduced with beneficial effects on real investment. Furthermore, the international use of the euro would increase non-resident agents' need to hold liquid funds in euro, at least partly within the euro area. Under normal conditions, this would improve the private funding situation of the euro area banking system, which would receive the

related deposits. The implied reduction of debt service for a given amount of liabilities can create income effects for the domestic economy, which are sometimes regarded as an element of international seigniorage.

There are also potential *microeconomic costs*, or risks, related to the internationalisation of the euro. As regards the domestic banking sector, there is a drawback to increased foreign holdings of short-term euro deposits. At times of sudden changes in exchange rate or interest rate expectations between the major international currencies, these liquid short-term assets might be withdrawn quickly in large amounts by foreign investors. If the domestic banking sector of a country with an international currency is heavily involved in maturity transformation, it can be more exposed to liquidity shocks, in particular during periods of market stress. Other microeconomic costs or risks are related to potential increases in asset price volatility resulting from a growing international role of the euro. In particular, enhanced use of the euro as an investment currency could go hand in hand with more pronounced international portfolio shifts by international investors when uncertainty increases or expectations change. In fact, higher financial market trading volumes seem to be empirically associated with higher short-term volatility. Furthermore, econometric evidence shows that increases in financial market bid-ask spreads are clearly linked to an increase in volatility. This volume-volatility-spread nexus could reduce the beneficial liquidity effects described above, but is unlikely to offset them fully.

6 Concluding remarks

The internationalisation of the euro is one of many potential consequences of Monetary Union, which primarily aims at credibly maintaining price stability within the euro area, thereby fostering economic welfare. Moreover, the euro represents a major contribution to the completion of a fully integrated Single Market in Europe.

As the currency of an economic area with a population of almost 300 million and a share of around 16% in world GDP, the euro is the second most widely used international currency. Its international use is likely to continue to develop in line with the relative position of the euro area in the world economy. Further progress in the institutional

and political integration of EU Member States will also play a role.

The international importance of the euro will mainly be determined by its use by private agents as both an investment/financing currency and a payment/vehicle currency. This is due to the fact that, following the liberalisation of capital movements in most industrialised countries during the 1980s, international financial transactions have outpaced international trade and official reserve holdings in terms of size. The introduction of the euro determines a shift of regime with regard to both the degree of integration and the size of the euro area financial markets. The euro has not simply replaced the former euro area national currencies within a given market structure. Its advent will also bring about changes in the structure of financial markets, which implies that market participants may revise their strategies as a consequence.

The internationalisation of the euro should not impair the ability of the Eurosystem to

maintain price stability. To some extent, it may affect the transmission mechanism of monetary policy, thus making it important for the Eurosystem to be well informed about the use of the euro outside the euro area. The Eurosystem's monetary policy is based on a framework that is able to cope with the possible impact of external developments, including a degree of internationalisation of the euro, on price developments in the euro area. In particular, an element of strength of this strategy is that it does not depend on the information content of a single indicator but allows for all relevant indicators to be taken into account over time.

In conclusion, the international role of the euro is mainly determined by the decisions of market participants in a context of increasing integration and liberalisation of product and capital markets world-wide. The Eurosystem therefore adopts a neutral stance, neither hindering nor fostering the international use of its currency.

For Tables A1-C referred to in this article, please see the following pages.

Table A I**International debt securities¹⁾ by currency and financial instrument***(in EUR billions)***Amounts outstanding**

	1. International money market instruments			2. International bonds and notes				Total (1+2)
	Commercial paper	Other short-term paper	Total	Floating rate	Straight fixed rate	Equity-related	Total	
Dec. 1997								
Euro ²⁾	13.4	16.2	29.6	119.0	626.0	22.0	767.1	796.7
Other EU currencies	10.8	1.3	12.1	70.0	181.9	7.2	259.1	271.2
<i>of which: GBP</i>	10.6	1.3	11.9	68.1	167.2	7.2	242.6	254.4
CHF	6.8	1.5	8.3	7.3	98.4	20.5	126.2	134.6
JPY	4.5	1.5	6.0	63.1	334.5	13.4	410.9	416.9
USD	60.2	35.2	95.4	391.1	812.4	108.4	1,311.8	1,407.2
Other currencies	4.2	10.8	14.9	6.9	115.9	0.5	123.3	138.2
TOTAL	99.8	66.5	166.3	657.3	2,169.0	172.1	2,998.4	3,164.7
Dec. 1998								
Euro ²⁾	20.6	10.1	30.7	158.2	778.1	36.2	972.6	1,003.2
Other EU currencies	12.0	1.4	13.4	73.0	221.9	7.0	301.9	315.3
<i>of which: GBP</i>	11.9	1.4	13.3	71.4	202.0	6.5	279.8	293.1
CHF	5.8	1.4	7.2	9.0	106.4	17.4	132.8	140.0
JPY	3.0	1.0	4.0	71.6	325.0	13.3	409.9	413.9
USD	66.7	28.8	95.5	465.7	1,015.1	106.3	1,587.1	1,682.6
Other currencies	5.6	10.1	15.7	7.5	102.3	0.6	110.4	126.0
TOTAL	113.7	52.8	166.5	785.0	2,548.8	180.7	3,514.6	3,681.1
Mar. 1999								
Euro ²⁾	37.1	22.1	59.3	184.7	821.1	40.4	1,046.2	1,105.4
Other EU currencies	13.5	1.7	15.2	78.1	249.6	8.6	336.4	351.6
<i>of which: GBP</i>	13.4	1.7	15.1	76.5	227.8	8.1	312.4	327.5
CHF	5.8	2.4	8.2	8.4	111.0	16.2	135.6	143.9
JPY	2.3	0.9	3.2	76.1	332.2	14.6	422.9	426.1
USD	79.8	30.5	110.3	528.4	1,203.2	114.4	1,846.1	1,956.3
Other currencies	5.8	10.9	16.8	7.9	113.0	0.6	121.4	138.2
TOTAL	144.3	68.6	212.9	883.6	2,830.2	194.8	3,908.5	4,121.5
June 1999								
Euro ²⁾	38.8	16.1	54.9	240.7	891.1	48.1	1,179.9	1,234.8
Other EU currencies	16.8	1.4	18.2	85.9	272.9	8.5	367.3	385.5
<i>of which: GBP</i>	16.6	1.4	18.0	84.3	250.3	8.0	342.5	360.5
CHF	5.0	1.8	6.8	9.3	114.8	15.7	139.8	146.6
JPY	2.2	1.6	3.8	79.6	335.2	14.9	429.7	433.4
USD	79.1	33.1	112.2	580.9	1,367.6	121.0	2,069.5	2,181.8
Other currencies	5.4	12.4	17.9	8.7	125.2	1.4	135.3	153.2
TOTAL	147.3	66.5	213.8	1,005.1	3,106.8	209.6	4,321.5	4,535.3

Sources: BIS and ECB calculations.

1) Debt securities are reported in this table in accordance with the BIS definition of an "international debt security". Two types of security issue are included in this definition: (i) all issues denominated in a currency other than that of the country in which the borrower resides (e.g. issues in euro by residents of the United States); (ii) issues in domestic currency where the targeted investor resides outside the country of residence of the issuer (e.g. issues in euro by euro area residents where the targeted investors are non-euro area residents).

2) Former euro area national currencies and the ECU up to 31 December 1998, euro since 1 January 1999.

Table A2**International debt securities ¹⁾ by currency and financial instrument***(in EUR billions)***Gross issuance or announced issues ²⁾**

	1. International money market instruments			2. International bonds and notes				Total (1+2)
	Commercial paper	Other short-term paper	Total	Floating rate	Straight fixed rate	Equity-related	Total	
Q1 1998								
Euro ³⁾	9.4	8.3	17.7	10.9	79.4	2.9	93.2	110.9
Other EU currencies	9.4	1.4	10.7	5.4	21.5	0.9	27.8	38.5
<i>of which: GBP</i>	9.2	1.3	10.5	5.4	19.8	0.9	26.1	36.6
CHF	5.2	1.3	6.5	0.2	9.1	0.2	9.5	15.9
JPY	4.8	1.6	6.4	4.7	13.2	1.2	19.0	25.4
USD	50.8	26.7	77.5	41.7	105.2	6.9	153.7	231.2
Other currencies	4.8	7.8	12.6	0.6	7.2	0.0	7.7	20.4
TOTAL	84.3	47.0	131.4	63.4	235.5	12.1	311.0	442.3
Q2 1998								
Euro ³⁾	9.9	7.3	17.3	17.5	53.1	4.8	75.4	92.7
Other EU currencies	9.8	0.3	10.1	5.3	13.7	0.2	19.2	29.3
<i>of which: GBP</i>	9.7	0.3	9.9	5.3	12.2	0.2	17.6	27.6
CHF	4.5	0.6	5.2	1.0	4.4	2.2	7.6	12.8
JPY	3.7	0.7	4.4	2.8	9.5	0.0	12.2	16.7
USD	52.5	20.2	72.6	47.4	106.6	4.9	158.9	231.5
Other currencies	2.5	7.8	10.3	0.9	6.1	0.1	7.1	17.4
TOTAL	82.9	36.9	119.8	74.8	193.5	12.2	280.4	400.3
Q1 1999								
Euro ³⁾	31.9	18.7	50.6	36.3	87.3	7.8	131.4	182.0
Other EU currencies	10.4	1.1	11.5	4.9	20.3	1.0	26.3	37.8
<i>of which: GBP</i>	10.3	1.1	11.4	4.9	18.1	1.0	24.0	35.4
CHF	4.5	2.0	6.4	0.7	8.3	0.1	9.1	15.5
JPY	1.8	0.4	2.2	3.8	11.1	0.9	15.8	18.0
USD	59.2	18.0	77.2	42.2	133.3	0.8	176.3	253.5
Other currencies	4.6	6.2	10.9	0.6	6.1	0.0	6.7	17.6
TOTAL	112.4	46.5	158.8	88.5	266.4	10.7	365.6	524.4
Q2 1999								
Euro ³⁾	31.5	10.8	42.4	67.8	90.4	8.8	167.0	209.4
Other EU currencies	14.5	0.8	15.3	9.9	21.6	1.0	32.5	47.8
<i>of which: GBP</i>	14.3	0.8	15.1	9.8	20.8	1.0	31.6	46.8
CHF	3.1	0.8	3.8	1.5	5.0	0.0	6.6	10.4
JPY	1.8	0.9	2.7	3.5	19.7	0.0	23.3	25.9
USD	56.7	19.9	76.6	45.4	134.6	3.2	183.2	259.8
Other currencies	3.6	7.5	11.2	0.6	8.4	0.8	9.7	20.9
TOTAL	111.2	40.7	151.9	128.8	279.6	13.9	422.3	574.3

Sources: BIS and ECB calculations.

- 1) Debt securities are reported in this table in accordance with the BIS definition of an "international debt security". Two types of security issue are included in this definition: (i) all issues denominated in a currency other than that of the country in which the borrower resides (e.g. issues in euro by residents of the United States); (ii) issues in domestic currency where the targeted investor resides outside the country of residence of the issuer (e.g. issues in euro by euro area residents where the targeted investors are non-euro area residents).
- 2) With regard to money market instruments, gross issuance excluding issues redeemed in the same quarter. With regard to international bonds and notes, announced issues.
- 3) Former euro area national currencies and the ECU up to 31 December 1998, euro since 1 January 1999.

Table A3**International debt securities¹⁾ by currency and financial instrument***(in EUR billions)***Net issues**

	1. International money market instruments			2. International bonds and notes				Total (1+2)
	Commercial paper	Other short-term paper	Total	Floating rate	Straight fixed rate	Equity-related	Total	
Q1 1998								
Euro ²⁾	-1.1	0.0	-1.1	5.8	50.4	0.7	56.8	55.7
Other EU currencies	0.1	0.5	0.6	1.3	16.9	0.2	18.4	19.0
<i>of which: GBP</i>	0.1	0.5	0.5	1.4	15.3	0.2	16.9	17.5
CHF	-0.5	0.0	-0.6	-0.1	3.6	-2.8	0.7	0.2
JPY	0.8	0.4	1.2	1.5	-9.6	0.4	-7.7	-6.5
USD	5.9	1.8	7.7	28.3	76.4	-0.2	104.5	112.1
Other currencies	1.2	0.6	1.8	0.3	-1.9	0.0	-1.6	0.2
TOTAL	6.3	3.2	9.5	37.1	135.7	-1.6	171.1	180.6
Q2 1998								
Euro ²⁾	-0.3	0.7	0.4	14.3	47.1	2.6	64.0	64.5
Other EU currencies	1.1	-1.2	0.0	3.4	11.5	-0.4	14.5	14.4
<i>of which: GBP</i>	1.2	-1.1	0.0	3.2	10.1	-0.4	13.0	13.0
CHF	-0.4	-0.2	-0.6	0.3	3.0	0.8	4.2	3.6
JPY	-0.4	-0.8	-1.2	0.6	-8.2	-0.7	-8.3	-9.4
USD	4.3	-1.0	3.3	35.8	92.1	2.0	130.0	133.3
Other currencies	-1.3	-0.5	-1.8	0.9	2.9	0.1	3.9	2.1
TOTAL	3.0	-2.9	0.1	55.3	148.5	4.5	208.3	208.4
Q1 1999								
Euro ²⁾	14.5	11.0	25.4	25.9	41.7	4.3	71.8	97.2
Other EU currencies	0.5	0.2	0.7	1.2	16.1	1.3	18.6	19.3
<i>of which: GBP</i>	0.5	0.2	0.7	1.3	14.6	1.3	17.2	17.9
CHF	-0.4	0.9	0.5	-0.7	4.0	-1.3	2.0	2.5
JPY	-0.9	-0.2	-1.1	0.4	-11.0	0.5	-10.1	-11.2
USD	7.0	-0.8	6.3	21.7	96.6	-1.0	117.2	123.5
Other currencies	-0.2	0.0	-0.3	-0.3	1.0	0.0	0.8	0.5
TOTAL	20.4	11.1	31.5	48.2	148.4	3.7	200.3	231.9
Q2 1999								
Euro ²⁾	0.5	-6.6	-6.1	55.1	69.4	7.8	132.4	126.3
Other EU currencies	2.7	-0.3	2.4	6.5	19.4	-0.3	25.7	28.1
<i>of which: GBP</i>	2.7	-0.3	2.3	6.5	18.9	-0.3	25.1	27.4
CHF	-0.9	-0.7	-1.6	0.9	4.2	-0.4	4.6	3.0
JPY	-0.2	0.6	0.4	1.7	-5.2	0.0	-3.6	-3.2
USD	-3.8	1.4	-2.4	30.6	113.5	1.9	146.0	143.7
Other currencies	-0.7	1.0	0.3	0.4	4.9	0.7	6.0	6.3
TOTAL	-2.4	-4.5	-6.9	95.2	206.2	9.8	311.1	304.2

Sources: BIS and ECB calculations.

1) Debt securities are reported in this table in accordance with the BIS definition of an "international debt security". Two types of security issue are included in this definition: (i) all issues denominated in a currency other than that of the country in which the borrower resides (e.g. issues in euro by residents of the United States); (ii) issues in domestic currency where the targeted investor resides outside the country of residence of the issuer (e.g. issues in euro by euro area residents where the targeted investors are non-euro area residents).

2) Former euro area national currencies and the ECU up to 31 December 1998, euro since 1 January 1999.

Table B I**International debt securities by currency and financial instrument excluding domestic issuers ¹⁾***(in EUR billions)***Amounts outstanding**

	1. International money market instruments	2. International bonds and notes	Total (1+2)
Dec. 1997			
Euro ²⁾	10.4	344.7	355.1
Other EU currencies	5.7	119.7	125.5
CHF	8.2	124.0	132.2
JPY	6.0	362.0	368.0
USD	90.0	897.3	987.3
Other currencies	1.6	68.2	69.8
TOTAL	121.9	1,916.1	2,037.9
Dec. 1998			
Euro ²⁾	12.4	428.0	440.4
Other EU currencies	6.3	154.2	160.4
CHF	7.1	129.1	136.2
JPY	4.0	368.5	372.5
USD	91.6	984.4	1,076.0
Other currencies	1.9	64.5	66.4
TOTAL	123.3	2,128.6	2,251.9
Mar. 1999			
Euro ²⁾	25.4	462.3	487.7
Other EU currencies	8.0	165.7	173.7
CHF	8.2	131.9	140.0
JPY	3.2	380.8	384.1
USD	105.9	1,096.2	1,202.0
Other currencies	2.2	71.2	73.4
TOTAL	152.9	2,308.1	2,461.0
June 1999			
Euro ²⁾	22.9	505.1	528.0
Other EU currencies	10.8	179.1	189.9
CHF	6.7	136.1	142.8
JPY	3.8	388.7	392.4
USD	108.2	1,185.1	1,293.3
Other currencies	2.3	79.0	81.3
TOTAL	154.7	2,473.0	2,627.8

Sources: BIS and ECB calculations.

- 1) Debt securities denominated in a currency other than the domestic currency of the borrower. This definition is narrower than the BIS definition of "international debt security", since it coincides only with point (i) of the definition reported in Table A1, footnote 1. In Table B1, those issues in domestic currency where the targeted investor resides outside the country of residence of the issuer are subtracted from "international debt securities" as defined by the BIS.
- 2) Former euro area national currencies and the ECU up to 31 December 1998, euro since 1 January 1999.

Table B2**International debt securities by currency and financial instrument excluding domestic issuers ¹⁾***(in EUR billions)***Gross issuance or announced issues ²⁾**

	1. International money market instruments	2. International bonds and notes	Total (1+2)
Q1 1998			
Euro ³⁾	7.2	42.1	49.3
Other EU currencies	4.5	13.8	18.3
CHF	6.3	9.0	15.3
JPY	6.4	18.6	25.0
USD	72.9	84.4	157.3
Other currencies	1.3	5.7	7.0
TOTAL	98.5	173.6	272.1
Q2 1998			
Euro ³⁾	7.3	35.7	43.0
Other EU currencies	4.0	10.5	14.5
CHF	5.0	6.7	11.7
JPY	4.4	12.1	16.5
USD	67.0	79.3	146.3
Other currencies	1.0	4.9	5.9
TOTAL	88.7	149.2	237.9
Q1 1999			
Euro ³⁾	22.4	54.2	76.5
Other EU currencies	6.0	8.1	14.1
CHF	6.4	9.1	15.5
JPY	2.2	14.3	16.4
USD	73.5	73.5	147.0
Other currencies	1.2	4.4	5.7
TOTAL	111.7	163.5	275.2
Q2 1999			
Euro ³⁾	18.8	58.0	76.8
Other EU currencies	9.0	13.6	22.6
CHF	3.8	6.6	10.4
JPY	2.7	22.2	24.9
USD	73.1	71.0	144.1
Other currencies	1.2	5.6	6.8
TOTAL	108.6	176.9	285.5

Sources: BIS and ECB calculations.

1) *Debt securities denominated in a currency other than the domestic currency of the borrower. This definition is narrower than the BIS definition of "international debt security", since it coincides only with point (i) of the definition reported in Table A2, footnote 1. In Table B2, those issues in domestic currency where the targeted investor resides outside the country of residence of the issuer are subtracted from "international debt securities" as defined by the BIS.*

2) *With regard to money market instruments, gross issuance excluding issues redeemed in the same quarter. With regard to international bonds and notes, announced issues.*

3) *Former euro area national currencies and the ECU up to 31 December 1998, euro since 1 January 1999.*

Table B3**International debt securities by currency and financial instrument excluding domestic issuers ¹⁾***(in EUR billions)***Net issues**

	1. International money market instruments	2. International bonds and notes	Total (1+2)
Q1 1998			
Euro ²⁾	- 1.4	24.3	22.9
Other EU currencies	- 0.1	10.2	10.1
CHF	- 0.6	0.2	- 0.4
JPY	1.2	- 3.9	- 2.8
USD	7.8	49.7	57.5
Other currencies	0.0	- 0.1	- 0.1
TOTAL	6.9	80.3	87.2
Q2 1998			
Euro ²⁾	0.1	27.8	28.0
Other EU currencies	0.2	9.3	9.5
CHF	- 0.7	3.9	3.2
JPY	- 1.2	- 3.6	- 4.8
USD	2.0	59.6	61.6
Other currencies	- 0.2	2.7	2.5
TOTAL	0.2	99.7	99.9
Q1 1999			
Euro ²⁾	11.7	33.4	45.1
Other EU currencies	1.2	3.8	5.0
CHF	0.5	2.0	2.5
JPY	- 1.1	- 8.4	- 9.5
USD	6.1	25.8	31.9
Other currencies	0.1	1.2	1.3
TOTAL	18.5	57.8	76.4
Q2 1999			
Euro ²⁾	- 3.3	42.1	38.8
Other EU currencies	2.5	10.8	13.3
CHF	- 1.6	4.6	3.1
JPY	0.4	- 1.6	- 1.2
USD	- 1.9	44.0	42.1
Other currencies	0.0	3.5	3.5
TOTAL	- 3.9	103.4	99.5

Sources: BIS and ECB calculations.

1) *Debt securities denominated in a currency other than the domestic currency of the borrower. This definition is narrower than the BIS definition of "international debt security", since it coincides only with point (i) of the definition reported in Table A3, footnote 1. In Table B3, those issues in domestic currency where the targeted investor resides outside the country of residence of the issuer are subtracted from "international debt securities" as defined by the BIS.*

2) *Former euro area national currencies and the ECU up to 31 December 1998, euro since 1 January 1999.*

Table C**Exchange rate regimes involving the euro or its national denominations***(as of April 1999, unless otherwise indicated)*

1. European countries				
Country	Exchange rate regime	Peg against	Features of the arrangement	Remarks
Bosnia-Herzegovina	Currency board	EUR/DEM		Formally introduced on 20 June 1997. National legislation provides that the euro will replace the Deutsche Mark upon the introduction of the euro banknotes in 2002 at the latest.
Bulgaria	Currency board	EUR/DEM		Formally introduced on 1 July 1997. National legislation provides that the euro will replace the Deutsche Mark upon the introduction of the euro banknotes in 2002 at the latest.
Croatia	Managed floating (EUR/DEM used informally as reference currency)			The managed float has been in place since the stabilisation plan was introduced in October 1993.
Czech Republic	Managed floating (EUR/DEM used informally as reference currency)			In May 1997 the peg with a $\pm 7.5\%$ fluctuation band to a currency basket (DEM (65%) and USD (35%)) that had been introduced in February 1996 was abandoned; the peg to a currency basket had been introduced in 1991.
Cyprus	Peg	EUR	$\pm 2.25\%$ fluctuation band	The Cypriot pound (CYP) was pegged to the ECU between June 1992 and December 1998. The CYP has been pegged to the euro since 1 January 1999 with the same central parity previously adopted for the ECU.
Denmark	Peg within co-operative arrangement	EUR	$\pm 2.25\%$ fluctuation band	Participation in ERM II since 1 January 1999.
Estonia	Currency board	EUR/DEM		Introduced in June 1992. National legislation provides that the euro will replace the Deutsche Mark upon the introduction of the euro banknotes in 2002 at the latest.
FYROM	De facto peg	EUR/DEM		Monetary policy based on an exchange rate objective, with a de facto peg to the Deutsche Mark in force since early 1994.
Greece	Peg within co-operative arrangement	EUR	$\pm 15\%$ fluctuation band	Participation in ERM II since 1 January 1999.
Hungary	Crawling fluctuation band	Basket: EUR (70%) USD (30%)	$\pm 2.25\%$ pre-announced crawling fluctuation band with a 0.5 % monthly depreciation rate	Introduced in December 1994. The monthly rate of depreciation of the central rate and accordingly of the crawling fluctuation band has been frequently reduced over time. On 1 January 1999 the monthly rate was lowered to 0.6% and again in June to 0.5%. The National Bank of Hungary announced a further reduction to 0.4% by October 1999; moreover, as of 1 January 2000 the euro will replace the currency basket.
Iceland	Peg	Trade-weighted currency basket including the euro	$\pm 6\%$ band (widened from $\pm 2.25\%$ in 1995)	Currency basket peg in effect since early 1992. Until September 1995 the currency basket was: ECU (76%); USD (18%); JPY (6%).
Latvia	Peg	SDR		De facto peg to the SDR since February 1994, formalised in 1997.
Malta	Peg	Currency basket: EUR (56.8%) USD (21.6%) GBP (21.6%)	$\pm 0.25\%$ fluctuation band	Currency basket peg in effect since 1971. The euro was substituted for the ECU, with effect from 1 January 1999.
Poland	Crawling fluctuation band	Currency basket: USD (45%) EUR (55%)	$\pm 15\%$ preannounced crawling fluctuation band with a 0.3% monthly depreciation rate	The currency basket peg was introduced in May 1991, with the basket weights unchanged until 31 December 1998 (USD 45%, DEM 35%, GBP 10%, CHF 5%, FRF 5%). The crawling band around the peg was introduced in May 1995. Since 1 January 1999 the basket comprises only the euro and the US dollar.
Slovak Republic	Managed floating (euro used informally as reference currency)			Between 14 July 1994 and 1 October 1998 the Slovak crown (SKK) was pegged to a basket of two currencies (60% DEM and 40% US dollar). In 1996 the fluctuation band was widened from $\pm 1.5\%$ to $\pm 7\%$. On 2 October 1998 the system of pegging was abolished and replaced by managed floating; on 1 January 1999 the Deutsche Mark was replaced by the euro as reference currency.
Slovenia	Managed floating (euro used informally as reference currency)			Since 1992 the exchange rate has remained within an unannounced narrow band against the Deutsche Mark (the euro since 1 January 1999).
Turkey	Managed floating with a de facto crawling peg	Currency basket including USD and EUR/DEM		In effect since approximately 1993, interrupted by floating during 1994. The present basket was defined in the Stand-by Arrangement with the International Monetary Fund in 1995. Exchange rate policy aims at minimising fluctuations of the real effective exchange rate.

2. Non-European countries

Country	Exchange rate regime	Peg against	Features of the arrangement	Remarks
14 African countries of which the CFA franc is the legal tender	Peg	EUR	Fixed	The CFA franc is issued by the Central Bank of West African States and the Bank of Central African States. The first institution issues the currency for Benin, Burkina Faso, Ivory Coast, Guinea-Bissau, Mali, Niger, Senegal and Togo, and the second for Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea and Gabon. The CFA franc was pegged to the French franc until 31 December 1998.
Bahrain	Peg	SDR	±7.25% fluctuation band	The dinar is de jure pegged to the SDR, although, de facto, it closely follows the US dollar.
Bangladesh	Peg	Basket of trading partners' currencies, including the euro		
Botswana	Peg	SDR and basket of trading partners' currencies, including the euro		
Burundi	Peg	Basket of currencies of its major trading partners, including the euro		
Cape Verde	Peg	EUR	Fixed	The escudo was pegged to the Portuguese escudo until 31 December 1998.
Chile	Crawling fluctuation band	Basket USD, EUR/DEM, JPY	±16% band	
Comoros	Peg	EUR	Fixed	The Comorian franc was pegged to the French franc until 31 December 1998.
Israel	Crawling fluctuation band	Basket (in terms of units of each currency in the basket): USD (0.6741) EUR (0.2282) GBP (0.0589) JPY (6.5437)	±15% crawling fluctuation band. Under this system, there is a gradual, constant and predetermined adjustment to both the midpoint and the band.	The number of units of each currency in the basket is determined according to its share in external trade during the previous calendar year and to international cross rates at the time the basket's composition is fixed. The euro replaced the Deutsche Mark, with effect from 1 January 1999.
Jordan	Peg	De jure peg to the SDR	Fixed	The dinar has been de jure pegged to the SDR since 1995, although de facto it closely follows the US dollar.
Libyan Arab Jamahiriya	Peg	SDR	Broad fluctuation band	
Morocco	Peg	Undisclosed basket	The rate can fluctuate daily by 0.3% either way.	The euro is likely to be included in the currency basket.
Myanmar	Peg	SDR	±2% fluctuation band	
Qatar	Peg	SDR	±7.25% fluctuation band	
Saudi Arabia	Peg	SDR	Fixed	The riyal is officially pegged to the SDR, although de facto it follows the US dollar.
Seychelles	Peg	Weighted basket including the euro		
United Arab Emirates	Peg	SDR	±7.25% fluctuation band	
Vanuatu	Peg	Undisclosed transactions-weighted currency basket		The euro is likely to be included in the currency basket.

Sources: ECB; IMF "Impact of EMU on Selected Country Groups, Background Material for Central European and Mediterranean Countries"; IMF Staff Reports and IMF Recent Economic Developments (various countries); IMF Exchange Arrangements and Exchange Restrictions; IMF International Financial Statistics.

The balance sheets of the Monetary Financial Institutions of the euro area in early 1999

In its analysis of monetary, financial and other economic developments, the European Central Bank (ECB) focuses on euro area developments and gives a prominent role to monetary aggregates, in particular M3. A proper assessment of monetary growth in the euro area requires an accurate statistical framework. In this respect the balance sheets reported by the Monetary Financial Institutions (MFIs) of the euro area play a crucial role and contribute to the general assessment of developments in the banking sector as well as in the financial system as a whole.

The ECB computes both an aggregated and a consolidated balance sheet of the MFI sector at the euro area level. While the aggregated balance sheet is the sum of the balance sheets of individual MFIs (including the Eurosystem), the consolidated version excludes positions between MFIs. The balance sheets of the euro area MFIs provide a comprehensive picture of the assets and liabilities vis-à-vis both MFIs and other economic agents, with a breakdown by sector and by instrument.

This article shows that these balance sheets are a rich source of information for monetary analyses at the euro area level. In addition, it demonstrates that there were important similarities, but also a number of differences, with regard to some key features of the financial structure of the 11 euro area Member States at the start of Stage Three of Economic and Monetary Union.

I The information content of the balance sheets of the euro area Monetary Financial Institutions

The ECB computes both an aggregated and a consolidated balance sheet of the Monetary Financial Institutions (MFI) sector at the euro area level. The former is the sum of the harmonised balance sheets of all the MFIs resident in the euro area and includes inter-MFI positions. The consolidated balance sheet of the MFI sector is obtained by netting out inter-MFI positions on the aggregated balance sheet. It shows the assets and liabilities of the MFI sector vis-à-vis both the non-MFI euro area residents (the general government and other euro area residents) and the non-euro area residents (including banks and non-banks).

The balance sheets of the MFI sector have the following *main functions*:

- The liabilities side of the consolidated balance sheet of the euro area MFIs provides the basis for the calculation of monetary aggregates (M1, M2 and M3). The liability breakdowns on the consolidated balance sheet of the MFI sector allow different degrees of moneyness to be distinguished. Money plays a prominent role in the Eurosystem's monetary policy

strategy as evidenced by the announcement of a reference value for the growth of M3.

- The consolidated balance sheet of the MFI sector also provides the basis for the regular analysis of the counterparts of M3. The counterparts of M3 correspond to all the items other than M3 on the consolidated balance sheet (both on the assets side and on the liabilities side).
- The aggregated balance sheet of the MFI sector provides information on inter-MFI positions and on cross-border activities of MFIs both within the euro area and with regard to the rest of the world. This information can be used to assess the integration of financial systems and the importance of the interbank market.
- Both the aggregated balance sheet and the consolidated balance sheet of the euro area MFIs provide a breakdown of several positions by original maturity, currency denomination and sector. For example, these data provide information on the share of long-term lending compared with short-term lending, the importance of the

euro in the assets and liabilities of the MFI sector, and the relative weight of inter-MFI positions compared with positions vis-à-vis other euro area residents (including households, corporations and the government). The data can also be used to examine the financial structure of the economy and they facilitate an understanding of the monetary transmission mechanism.

- Moreover, the balance sheet of an individual credit institution provides the basis for the regular calculation of its reserve base. This information is necessary when determining the minimum reserves which credit institutions are required to hold with the Eurosystem.

The information derived from the balance sheets of the euro area MFIs also has *some limitations*:

- Causal relationships between the counterparts and M3 cannot be inferred

from the accounting identity underlying the consolidated balance sheet.

- The balance sheets only provide a snapshot of the financial position of the MFI sector at a particular point in time.
- There are a number of financial developments of relevance to an analysis of the monetary transmission mechanism which are not captured in the balance sheets of the euro area MFIs, for example off-balance-sheet transactions of MFIs and transactions between non-MFI financial intermediaries and corporations, households or the government. In order to capture these other financial flows, a broader framework is necessary, including a flow-of-funds analysis of the economy. Information on the financial accounts of both the general government and the private non-MFI sector in the euro area is being developed and will complement the information on the MFI balance sheets.

2 Statistical framework of the balance sheets of the euro area Monetary Financial Institutions

The ECB's statistical system provides a consistent framework for collecting money and banking statistics on the MFIs for the euro area as a whole. The system is based on the MFI reporting population (see Box 1).

Since the aggregated balance sheet simply adds up individual balance sheets of the euro area MFIs, it is possible to compile a separate aggregated balance sheet for the Eurosystem as well as one for the euro area "other MFIs". The aggregated balance sheet of the Eurosystem is the sum of the balance sheets of the 11 national central banks of the euro area and that of the ECB (see Table 2.1 in the "Euro area statistics" section of the ECB Monthly Bulletin). The aggregated balance sheet of the "other MFIs" in the euro area is the sum of 11 national aggregated balance

sheets covering other MFIs (see Table 2.2 in the "Euro area statistics" section of the Bulletin).

The consolidated balance sheet of the euro area MFIs (see Table 2.3 of the "Euro area statistics" section) is the sum of the balance sheets of the Eurosystem and of the "other MFIs" after the consolidation of all inter-MFI positions (see Box 2). The consolidation of inter-MFI positions is performed at the euro area level because only at this level is it possible to consolidate cross-border inter-MFI positions.

The consolidated balance sheet of euro area MFIs provides the main source for a detailed monthly analysis of the stock of money, its components and its counterparts. In addition

Box I**The reporting population of Monetary Financial Institutions**

The Monetary Financial Institutions (MFI) sector comprises the institutions which mainly form the money-issuing sector of the euro area. It includes resident credit institutions, as defined in Community law, and other resident financial institutions, the business of which is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credit and/or invest in securities.

The European System of Central Banks (ESCB) has established procedures for the continuous monitoring, checking and updating of the credit institutions which form the MFI sector, in order to ensure that the list of MFIs remains up to date, accurate, as homogenous as possible and sufficiently stable for reporting balance sheet statistics for monetary analysis purposes. The list of MFIs covers not only the euro area countries, but also those EU Member States not participating in Monetary Union. The list is regularly updated on the ECB's Web site (<http://www.ecb.int>) under the heading "MFIs and assets".

Composition of the list of MFIs, July 1999

Residence	Central banks	Credit institutions	Money market funds	Other institutions	Total number of MFIs
Euro area	1	-	-	-	1
Belgium	1	117	29	0	147
Germany	1	3,180	41	0	3,222
Spain	1	390	206	0	597
France	1	1,200	710	1	1,912
Ireland	1	78	17	0	96
Italy	1	925	17	0	943
Luxembourg	1	210	463	0	674
Netherlands	1	613	28	5	647
Austria	1	899	8	2	910
Portugal	1	228	0	0	229
Finland	1	345	5	0	351
Euro area total	12	8,185	1,524	8	9,729
Denmark	1	212	3	0	216
Greece	1	59	42	0	102
Sweden	1	148	29	1	179
United Kingdom	2	508	33	0	543
EU total	17	9,112	1,631	9	10,769

For the purposes of compiling the consolidated balance sheet of the MFI sector within the euro area, the reporting population consists of resident MFIs, including subsidiaries and branches of parent companies located outside the euro area. When reporting, MFIs consolidate the business of all their branches located within the same national territory. Furthermore, head offices are permitted to consolidate the business of any subsidiaries that are also MFIs located in the same national territory, but they must keep the business of credit institutions and other MFIs separate for the purposes of compiling the minimum reserve base. No consolidation is permitted across national boundaries for statistical returns. For statistical purposes, credit institutions located in offshore financial centres are treated as residents of the territories in which they are located.

The table above presents the composition of the list of MFIs, broken down by residence as at July 1999. The first item for the euro area corresponds to the European Central Bank, which is part of the Eurosystem. In the United Kingdom the Banking Department and the Issue Department of the Bank of England are currently shown on the list of MFIs as two separate institutions; in line with the ESA 95, a single consolidated balance sheet of these two institutions is reported to the ECB for statistical purposes. With regard to the credit institutions category, Germany has the largest number of credit institutions (3,180), followed by France (1,200), Italy and Austria (925 and 899 respectively). France has the most money market funds (710), followed by Luxembourg (463) and Spain (206).

Box 2

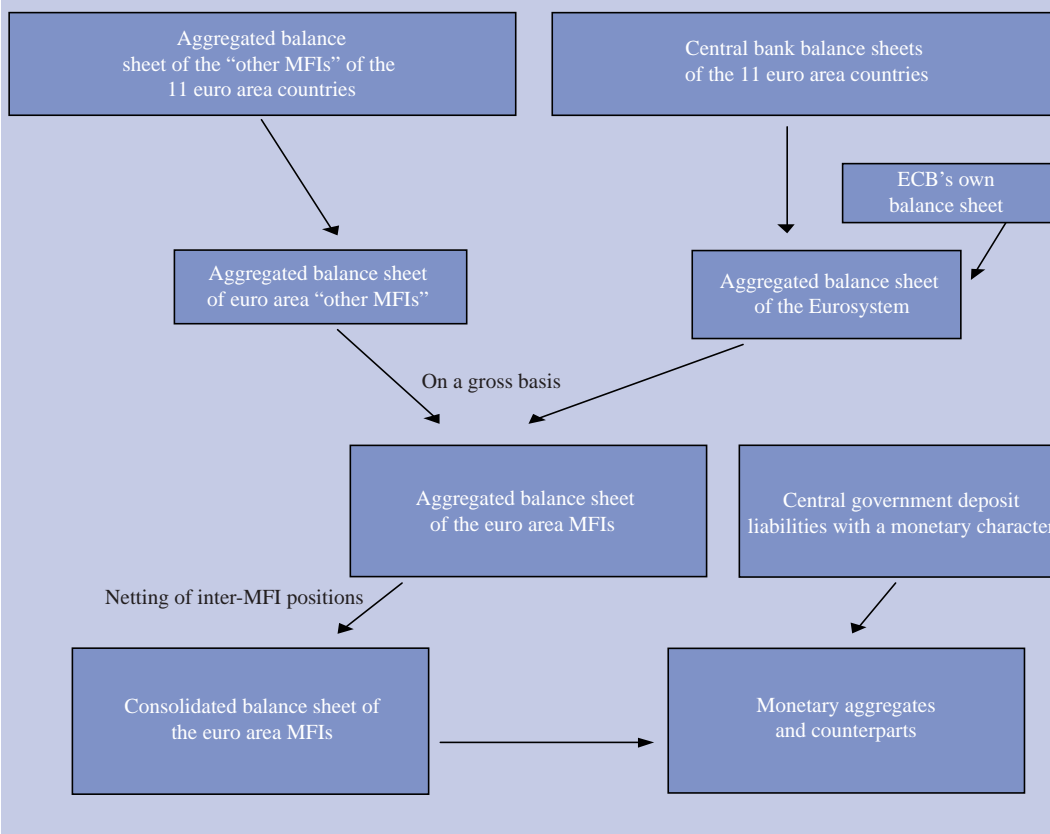
The aggregated balance sheet and the consolidated balance sheet of the euro area Monetary Financial Institutions

The diagram below outlines the process leading from national submissions to the consolidated balance sheet of the euro area MFIs and to the euro area monetary aggregates. The balance sheets of the national “other MFIs” sectors of the 11 euro area countries are combined to form the aggregated balance sheet of the euro area “other MFIs” sector. Similarly, aggregation of the balance sheets of the 11 euro area national central banks and that of the ECB yields the aggregated balance sheet of the Eurosystem. These balance sheets are both compiled on a gross basis. The aggregated balance sheet thus includes assets and liabilities vis-à-vis other MFIs. For example, it includes deposits exchanged on the interbank markets or the liquidity periodically supplied to the banking system by the Eurosystem.

Consolidation implies the following: i) deposits with MFIs and loans to MFIs are netted out; and ii) currency in circulation and negotiable liabilities issued by the MFI sector (debt securities, money market paper and money market fund shares and units) are netted out with the amounts of such instruments held on the assets side by MFIs. As it is very difficult to identify the current holder of a negotiable financial instrument (to do so would imply monitoring all subsequent on-sales of the security), the amounts held outside the MFI sector can only be derived as a residual of the total issued, minus the corresponding holdings reported by MFIs as assets.

Finally, monetary aggregates are derived by adding to the monetary liabilities recorded on the consolidated balance sheet certain short-term deposit liabilities of the central government (Post Office accounts, national savings accounts and Treasury accounts), which have similar characteristics to short-term bank deposits.

The compilation of the consolidated balance sheet of the euro area MFIs



to the monthly data, further detailed information is reported quarterly, which consists of breakdowns of the aggregated balance sheet, in particular with regard to original maturity, country, purpose, currency denomination and sector (see, for example,

Tables 2.5 and 2.6 in the “Euro area statistics” section of the Bulletin). The sector breakdown is based on classifications laid down in the European System of Accounts 1995 (ESA 95).

3 The counterparts of M3 in the consolidated balance sheet of the euro area Monetary Financial Institutions

Derivation of the counterparts of M3

Table I below shows how the counterparts of M3 may be obtained from the consolidated balance sheet of the euro area MFIs.

Using the balance sheet identity, it is possible to present the monetary aggregate M3 as follows:

$$M3 \equiv \text{credit to euro area residents} + \text{net external assets} - \text{longer-term financial liabilities} + \text{other counterparts}$$

The counterparts of M3 are defined in the following way:

- *Credit* is defined as loans granted to non-MFI euro area residents (including the general government and the private sector) plus MFI holdings of securities issued by non-MFI euro area residents. As securities can be seen as an alternative source of funds relative to loans, this definition provides more accurate information on the amount of financing supplied by the MFI sector to the economy than a narrow definition comprising only loans.

- *Net external assets* are defined as external assets held by MFIs less external liabilities of MFIs. External assets are holdings of cash in non-euro area currencies, holdings of securities issued by non-euro area residents, loans to non-euro area residents (including banks), and gold and special drawing rights (SDRs) held by the Eurosystem. External liabilities are deposits held by non-euro area residents with euro area MFIs, loans by non-euro area residents to euro area MFIs, and the counterpart of SDRs.

Changes in the net external assets of the MFI sector to a large extent reflect foreign transactions of non-MFI euro area residents in terms of the current account, the capital account and the non-MFI sector financial account of the euro area balance of payments. This is illustrated in a monetary presentation of the euro area balance of payments which makes a distinction between the external transactions of the MFI sector and those of the non-MFI sector (see Table 2).

Table I

Schematic consolidated balance sheet of the euro area MFIs

Assets	Liabilities
Credit to euro area residents	M3 ¹⁾
External assets	Longer-term financial liabilities
Other assets (including fixed assets)	External liabilities
	Other liabilities (including deposits held by the central government)

1) Including central government deposit liabilities of a monetary nature.

Table 2**Monetary presentation of the euro area balance of payments***(on a cash basis)***External transactions of the non-MFI sector:**

	Current account
+	Capital account
+	Balance of financial transactions by the non-MFI sector
+	Errors and omissions
=	Balance of payments of the non-MFI sector

External transactions of the MFI sector:¹⁾

	Balance of financial transactions of the Eurosystem
+	Balance of financial transactions by other MFIs
=	Balance of payments of the MFI sector

The overall balance of payments identity implies that:

	Balance of payments of the non-MFI sector
=	– Balance of payments of the MFI sector
=	Change in the net external assets of the MFI sector

1) *This simplified presentation does not include external transactions of the MFI sector classified in the current account or in the capital account or errors and omissions corresponding to the external transactions of this sector.*

As shown in the simplified presentation given above, the change in the net external assets of the MFI sector is the mirror image of the transactions of non-MFIs with non-euro area residents. This results from the fact that external transactions of non-MFI euro area residents have an impact on the consolidated balance sheet of the euro area MFIs to the extent that the corresponding payments go through the banking system. For this reason, many of the foreign transactions of MFIs and the resulting change in their net external asset position can be associated with the external transactions of the non-MFI sector.

- *Longer-term financial liabilities* are deposits with an agreed maturity of over two years, debt securities issued by euro area MFIs with an original maturity of more than two years, deposits redeemable at a period of notice of over three months, plus the capital and reserves of the MFI sector. Longer-term financial liabilities are excluded from the definition of M3 as they are considered more as portfolio instruments used for savings than as means of transaction. Nevertheless, they may be considered substitutes for some of the positions in M3. Developments in longer-term financial liabilities may also reflect

financing decisions by MFIs, as they may constitute an alternative source of funds to short-term liabilities, and allow MFIs to have a maturity structure for their liabilities which is more in line with that for their assets.

- *Other counterparts* include the remaining items on the consolidated balance sheet. One of these is deposits that the central government holds with the MFI sector. In addition, there are fixed assets, i.e. non-financial assets of MFIs, such as buildings. The remaining assets and liabilities include a variety of items, such as financial derivatives positions, amounts receivable or payable in respect of suspense and transit items, accrued interest receivable/payable on deposits, dividends to be received/paid, amounts receivable/payable not related to the main MFI business, the asset counterpart to coins issued by the state, net positions arising from securities lending without cash collateral, and net amounts payable in respect of the future settlement of transactions in securities. Finally, the other counterparts position also includes a balancing item for the short-term deposit liabilities of the central government which are included in M3 (see Box 2).

The relationship between M3 and its counterparts rests on an accounting identity; it does not imply a causal relationship between M3 and its counterparts. In practice, most of the items on the balance sheet depend on movements in interest rates and developments in economic activity and inflation. In this sense, various balance sheet positions have common or similar determinants and their behaviour can provide an indication of the nature of underlying developments in the euro area economy. While it may be possible to relate movements in individual counterparts to those in M3,

this is not necessarily always the case. For example, an increase in lending to euro area residents will not be associated with a change in M3 if borrowers use the funds to finance investments outside the euro area. In this case the increase in the item "credit to euro area residents" is matched by a decrease in the MFIs' net external assets. The analysis of the counterparts is nevertheless helpful to complement the analysis of monetary developments and to facilitate a better understanding of economic trends in the euro area.

4 Structure of the balance sheets of the euro area Monetary Financial Institutions in March 1999

The consolidated balance sheet of the euro area MFIs

The consolidated balance sheet of the euro area MFIs provides the basis for an analysis of developments in M3 and its counterparts at the euro area level. Chart 1 below shows the composition of the consolidated balance sheet of the euro area MFIs at end-March 1999.

On the *liabilities* side, MFI positions included in M3 accounted for 40.8% of total liabilities in March 1999. With regard to the components of M3, currency in circulation and overnight deposits (which form the narrow monetary aggregate M1) accounted for 7.1% and 32.4% of M3 respectively, thereby implying a share of M1 in M3 of slightly below 40%. Deposits with an agreed maturity of up to two years accounted for 19.5% of M3, while the share of deposits redeemable at a period of notice of up to three months was 27.8% of M3 (these two categories plus the liabilities included in M1 constitute the intermediate monetary aggregate M2). Finally, the marketable instruments which are included in M3 (but not in M2) represented 13.2% of M3. Among these, money market fund shares/units and money market paper (net) amounted to 8.2% of M3, repurchase agreements to 4.0% and debt securities issued with a maturity of up to two years to 1.1%.

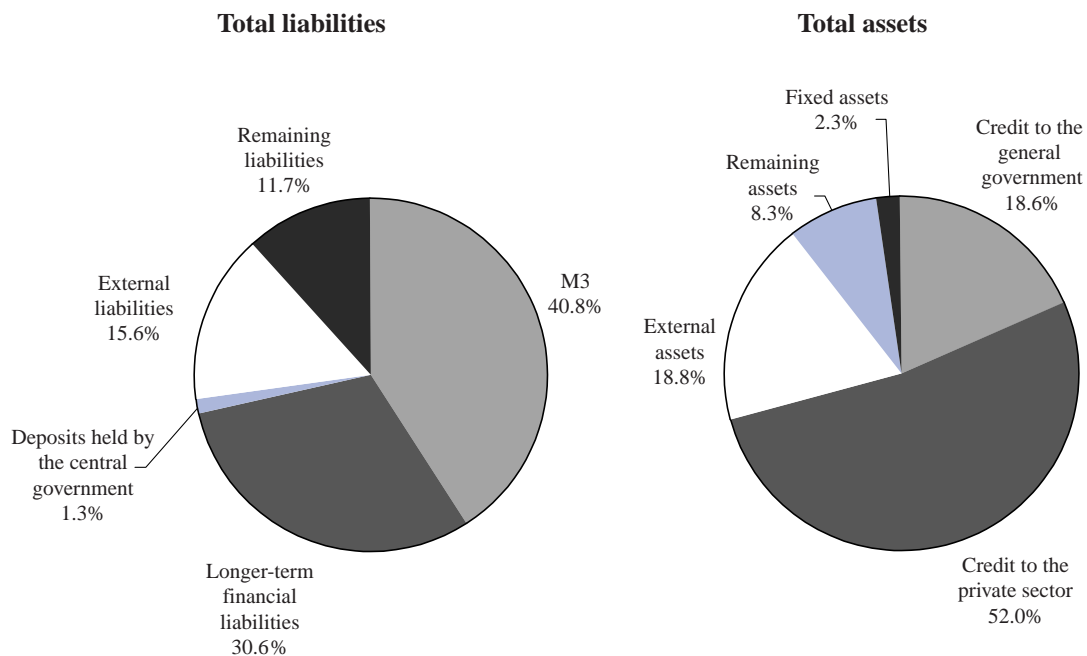
The share of longer-term financial liabilities was 30.6% of total MFI liabilities in March 1999. Deposits with an agreed maturity of over two years accounted for 10.1% of the total consolidated balance sheet of the euro area MFIs and the share of debt securities issued with a maturity of over two years was 12.4%. Capital and reserves accounted for 7.0% of total liabilities. Finally, the share of deposits redeemable at a period of notice of over three months was 1.1%.

On the *assets* side of the consolidated balance sheet, credit to euro area residents was the largest item at end-March 1999, amounting to 70.6% of the total. Most of the credit to euro area residents is extended to the private sector (which has a 73.6% share of total credit to euro area residents), with the remainder being credit to the general government. Around 90% of the amount of credit granted to the private sector corresponded to direct lending, i.e. loans. Securitised lending in the form of debt securities, shares and other equity covered the remaining 10%. By contrast, credit to the general government mainly takes the form of MFI purchases of debt securities (which accounted for nearly 60% of total MFI credit to the general government).

Chart I

Consolidated balance sheet of the euro area MFIs

(March 1999; shares as a percentage of the total)



In March 1999 the MFI sector (including the Eurosystem) had a positive net external asset position. External liabilities amounted to 15.6% of the total consolidated liabilities of the euro area and external assets amounted to 18.8% of the total consolidated assets of the euro area. The outstanding stocks of external assets and liabilities of the Eurosystem include temporary gross positions vis-à-vis the national central banks not participating in the euro area related to the operation of the TARGET payment system. Obviously, these positions disappear on a net basis.

Structure of the aggregated balance sheet of the euro area MFIs, excluding the Eurosystem

The aggregated balance sheet of the euro area "other MFIs" (i.e. MFIs excluding the Eurosystem) shows the financial position of these MFIs vis-à-vis the sectors of the economy and vis-à-vis non-euro area residents. A breakdown by country and by instrument can also be provided.

Main liabilities

As can be seen from Table 3, more than one-third (36.2%) of the *total amount of liabilities* on the aggregated balance sheet of the euro area other MFIs is accounted for by institutions located in Germany. The three largest euro area countries (Germany, France and Italy) account for 70.9% of total liabilities. Other countries' shares in the total balance sheet of the euro area other MFIs range from 0.7% for Finland to 6.7% for Spain. Other MFIs resident in Luxembourg have a 4% share in the total liabilities of the euro area other MFIs; this implies that the share of other MFIs resident in Luxembourg as a percentage of national GDP is the largest of all the euro area countries.

Deposits are the main liability category of other MFIs, accounting for 67.8% of total liabilities (see Table 3). Roughly half of these deposits are held by the euro area money-holding sector, while inter-MFI deposits account for slightly more than one-third of total deposits (34.0%) (see Table 2.2 in the

Table 3**Total aggregated liabilities of other MFIs by country and by instrument***(March 1999)*

	Deposits (all currencies)		Debt securities issued		Money market fund shares/units		Money market paper	
	as a % of national liabilities	as a % of the euro area total	as a % of national liabilities	as a % of the euro area total	as a % of national liabilities	as a % of the euro area total	as a % of national liabilities	as a % of the euro area total
Belgium	76.0	5.4	11.3	3.7	0.2	0.4	0.0	0.0
Germany	67.3	35.9	22.4	54.6	0.4	7.3	0.5	14.1
Spain	78.0	7.7	3.4	1.5	4.8	16.8	0.0	0.0
France	63.4	22.5	9.6	15.6	4.9	62.0	3.5	69.4
Ireland	78.1	2.0	8.3	1.0	-	-	0.0	0.0
Italy	59.6	9.3	16.5	11.8	0.2	1.3	0.0	0.0
Luxembourg	78.4	4.6	5.6	1.5	5.8	12.2	2.4	8.0
Netherlands	74.7	6.7	13.9	5.7	-	-	0.0	0.0
Austria	71.4	3.3	17.2	3.6	-	-	0.0	0.0
Portugal	63.8	1.8	5.1	0.7	-	-	0.0	0.0
Finland	67.4	0.7	5.0	0.2	-	-	14.1	8.6
<i>Euro area</i>	<i>67.8</i>	<i>100.0</i>	<i>14.9</i>	<i>100.0</i>	<i>1.9</i>	<i>100.0</i>	<i>1.2</i>	<i>100.0</i>
Total (EUR billions)		9,933		2,176		280		178

	Capital and reserves		Remaining liabilities		Total liabilities	
	as a % of national liabilities	as a % of the euro area total	as a % of national liabilities	as a % of the euro area total	Memo item: as a % of national GDP ¹⁾	as a % of the euro area total
Belgium	3.9	3.7	8.7	4.6	318.9	4.9
Germany	4.1	29.1	5.3	21.1	274.6	36.2
Spain	8.0	10.3	5.8	4.2	187.5	6.7
France	5.5	25.9	13.0	34.6	272.1	24.1
Ireland	6.8	2.3	6.8	1.3	333.3	1.7
Italy	7.2	14.8	16.5	19.3	146.5	10.6
Luxembourg	2.4	1.9	5.4	2.4	3,768.3	4.0
Netherlands	4.9	5.8	6.5	4.4	253.0	6.1
Austria	5.0	3.1	6.3	2.2	243.1	3.1
Portugal	6.0	2.2	25.2	5.4	295.8	1.9
Finland	5.9	0.9	7.6	0.6	95.9	0.7
<i>Euro area</i>	<i>5.1</i>	<i>100.0</i>	<i>9.1</i>	<i>100.0</i>	<i>249.5</i>	<i>100.0</i>
Total (EUR billions)		750		1,328		14,645

Note: "As a % of national liabilities" is to be understood as the percentage share of each item in the total liabilities of each country's other MFIs. "As a % of the euro area total" is to be understood as the percentage share of each country in the euro area total for each item.

1) Total liabilities of MFIs excluding the Eurosystem as a percentage of national nominal GDP for 1998. Sources: Eurostat and ECB calculations.

"Euro area statistics" section of the ECB Monthly Bulletin). The remaining deposits are held by non-euro area residents (16% of total deposits) and by central governments (1%). The relative importance of individual countries in terms of deposits is broadly similar to their share in total liabilities.

Debt securities issued are the second largest liability on the aggregated balance sheet of the euro area other MFIs, with a share of

14.9%. The amounts issued are particularly high in Germany, amounting to 54.6% of the total for the euro area, while other MFIs resident in France and in Spain account for a relatively small amount of debt securities issued when compared with their share in the total aggregated balance sheet for the euro area.

MFI liabilities in respect of money market fund shares/units and money market paper account

for a relatively small proportion of the total, representing 1.9% and 1.2% of total liabilities respectively. These liabilities are mostly concentrated in France, with a 69.4% share of the total euro area amount of money market paper and 62.0% of the total for euro area money market fund shares/units. In relation to the small size of the country, MFIs resident in Luxembourg also issue a significant proportion of these short-term marketable securities. Furthermore, compared with the size of the

respective countries, Spanish MFIs have a relatively high share of total money market fund shares/units, and Finnish MFIs issue a relatively high proportion of money market paper.

Finally, *capital and reserves*, i.e. the other MFIs' own funds, and *remaining liabilities* represented 5.1% and 9.1% of total euro area liabilities respectively. With a few exceptions, the country shares are broadly similar to those seen for total euro area liabilities.

Table 4
Total aggregated assets of other MFIs by country and by instrument
(March 1999)

	Loans		Securities other than shares		Shares and other equity		Money market paper	
	as a % of national assets	as a % of the euro area total	as a % of national assets	as a % of the euro area total	as a % of national assets	as a % of the euro area total	as a % of national assets	as a % of the euro area total
Belgium	63.5	4.3	27.1	8.1	2.3	3.1	0.0	0.1
Germany	76.3	38.5	15.2	33.9	5.0	49.7	0.1	6.6
Spain	73.9	6.9	15.0	6.1	4.1	7.6	0.5	5.1
France	67.2	22.6	16.1	23.9	1.7	11.3	2.1	78.1
Ireland	73.0	1.8	18.6	2.0	1.7	0.8	0.0	0.0
Italy	65.5	9.7	16.5	10.7	4.1	12.0	0.0	0.0
Luxembourg	66.9	3.7	27.1	6.7	1.6	1.7	1.0	6.0
Netherlands	81.4	6.9	11.3	4.2	3.5	6.0	0.0	0.0
Austria	77.3	3.4	12.4	2.4	5.7	4.9	0.0	0.0
Portugal	57.2	1.5	11.0	1.3	4.5	2.4	0.0	0.0
Finland	70.6	0.7	13.2	0.6	1.9	0.4	3.6	4.1
<i>Euro area</i>	<i>71.7</i>	<i>100.0</i>	<i>16.2</i>	<i>100.0</i>	<i>3.6</i>	<i>100.0</i>	<i>0.7</i>	<i>100.0</i>
Total (EUR billions)		10,501		2,379		528		95

	Fixed assets		Remaining assets		Total assets	
	as a % of national assets	as a % of the euro area total	as a % of national assets	as a % of the euro area total	Memo item: as a % of national GDP ¹⁾	as a % of the euro area total
Belgium	0.5	1.6	6.6	5.2	318.9	4.9
Germany	0.7	14.5	2.7	15.8	274.6	36.2
Spain	2.2	8.6	4.3	4.7	187.5	6.7
France	3.4	48.7	9.5	37.3	272.1	24.1
Ireland	0.6	0.6	6.1	1.7	333.3	1.7
Italy	2.9	18.2	11.0	19.1	146.5	10.6
Luxembourg	0.5	1.2	3.0	2.0	3,768.3	4.0
Netherlands	0.6	2.2	3.2	3.1	253.0	6.1
Austria	1.0	1.9	3.6	1.9	243.1	3.1
Portugal	1.3	1.4	26.1	8.2	295.8	1.9
Finland	2.4	1.1	8.3	1.0	95.9	0.7
<i>Euro area</i>	<i>1.7</i>	<i>100.0</i>	<i>6.3</i>	<i>100.0</i>	<i>249.5</i>	<i>100.0</i>
Total (EUR billions)		244		897		14,645

Note: "As a % of national assets" is to be understood as the percentage share of each item in the total assets of each country's other MFIs. "As a % of the euro area total" is to be understood as the percentage share of each country in the euro area total for each item.
1) Total assets of MFIs excluding the Eurosystem as a percentage of national nominal GDP for 1998. Sources: Eurostat and ECB calculations.

Main assets

At the euro area level loans were by far the most important asset on the aggregated balance sheet of the euro area other MFIs in March 1999, accounting for 71.7% of total assets (see Table 4). Holdings of securities other than shares constituted the second largest item, representing 16.2% of total assets of other MFIs, while holdings of shares and other equity amounted to only 3.6% of total assets. Holdings of money market paper amounted to a mere 0.7% of the aggregated assets.

For loans, the relative shares of individual countries broadly match the shares in the total for the aggregated balance sheet of the euro area other MFIs. A similar picture exists for holdings of securities other than shares. As regards shares and other equity, the other MFIs in Germany hold a relatively high proportion of the total aggregated euro area amount (almost 50%), whereas that of other MFIs resident in France is only half as large as their share in total euro area assets. At the same time, French other MFIs hold 78.1% of the total amount of money market paper held by euro area other MFIs, and they also hold a relatively large proportion of fixed assets and remaining assets when compared with other MFIs resident in other euro area countries.

Structure of deposits of the money-holding sector

Table 5 shows the structure of deposits held by non-MFI euro area residents, with a breakdown by original maturity. At the euro area level deposits with an agreed maturity are the most common type of deposits of the money-holding sector, representing more than 40% of the total. Overnight deposits and deposits redeemable at notice also account for significant shares of the total (28.5% and 27% respectively). More than half of the amount of deposits with an agreed maturity are of a longer-term nature (around 56% have a maturity of over two years). By contrast, a large proportion of deposits

redeemable at notice (about 91%) can be classified as having a period of notice of up to three months.

With regard to country patterns, *overnight deposits* held by the money-holding sector reach relatively high levels in Italy (24.9% of the euro area total for overnight deposits) when compared with Italy's share in total euro area deposits (11.7%). By contrast, the share of overnight deposits is relatively low in Germany (27.5% of total euro area overnight deposits, while its share of total deposits is 39.1%). In other countries the share of overnight deposits is more similar to their share of total deposits.

Among the *deposits with an agreed maturity*, the share of deposits held with MFIs resident in Italy in the total amount of euro area deposits is relatively small (5%, compared with an 11.7% share of total deposits), while the share of such deposits held with MFIs resident in Germany is relatively large (about 45% of the euro area total). The share of deposits with an agreed maturity of up to one year is particularly high in Luxembourg; it accounts for almost 10% of total euro area deposits with an agreed maturity of up to one year. Conversely, Luxembourg's share in the total deposits of the money-holding sector in the euro area is just 2.8%. MFIs in Italy have the largest share of deposits with an agreed maturity of over one and up to two years. Of the total amount of euro area deposits with an agreed maturity of over two years, almost 85% are concentrated in Germany and France.

The use of *deposits redeemable at notice* is not as widespread in the euro area as that of deposits with an agreed maturity. Compared with national MFI sector shares of total deposits, deposits redeemable at notice are of low importance in Luxembourg, Austria and Portugal. While deposits redeemable at a period of notice of up to three months are common in most countries, those redeemable at a period of notice of over three months are almost exclusively held in Germany (98.8% of the total). The latter account for

Table 5**Deposits of the money-holding sector with MFIs (excluding the Eurosystem)***(March 1999)*

	Overnight deposits		Deposits with an agreed maturity							
			<i>Total</i>		<i>up to one year</i>		<i>over one and up to two years</i>		<i>over two years</i>	
	as a % of national deposits	as a % of the euro area total	as a % of national deposits	as a % of the euro area total	as a % of national deposits	as a % of the euro area total	as a % of national deposits	as a % of the euro area total	as a % of national deposits	as a % of the euro area total
Belgium	21.0	3.5	35.0	4.0	28.4	8.1	0.8	2.5	5.8	1.2
Germany	20.1	27.5	46.9	44.9	12.4	29.3	0.4	11.5	34.1	58.5
Spain	27.7	8.3	32.0	6.7	24.9	12.9	3.4	19.5	3.7	1.4
France	25.1	15.9	39.2	17.3	5.6	6.1	0.2	2.8	33.4	26.4
Ireland	12.8	0.7	49.7	1.8	39.0	3.5	1.7	1.7	9.0	0.6
Italy	60.7	24.9	17.4	5.0	9.7	6.8	4.0	31.1	3.8	1.9
Luxembourg	34.7	3.4	61.8	4.2	57.6	9.7	0.9	1.7	3.3	0.4
Netherlands	32.1	7.7	32.1	5.4	15.5	6.4	0.6	2.9	16.0	4.8
Austria	24.2	3.0	75.1	6.5	42.4	9.0	3.5	8.2	29.2	4.5
Portugal	33.4	2.5	66.1	3.4	56.5	7.3	7.2	10.3	2.4	0.2
Finland	65.0	2.7	24.5	0.7	12.1	0.9	10.1	7.9	2.4	0.1
<i>Euro area</i>	28.5	100.0	40.8	100.0	16.5	100.0	1.5	100.0	22.8	100.0
Total (EUR billions)	1,384		1,983		803		72		1,107	

	Deposits redeemable at notice						Repurchase agreements		Total deposits
	<i>Total</i>		<i>up to three months</i>		<i>over three months</i>				
	as a % of national deposits	as a % of the euro area total	as a % of national deposits	as a % of the euro area total	as a % of national deposits	as a % of the euro area total	as a % of national deposits	as a % of the euro area total	as a % of the euro area total
Belgium	43.5	7.6	43.4	8.4	0.1	0.1	0.5	0.7	4.7
Germany	32.9	47.7	26.6	42.5	6.3	98.8	0.1	1.0	39.1
Spain	22.7	7.2	22.7	7.9	0.0	0.0	17.7	40.8	8.5
France	31.6	21.1	31.6	23.3	0.0	0.0	4.1	20.1	18.0
Ireland	36.7	2.0	36.5	2.2	0.1	0.1	0.8	0.3	1.5
Italy	10.5	4.5	10.5	5.0	0.0	0.0	11.4	36.1	11.7
Luxembourg	3.3	0.3	3.1	0.4	0.1	0.1	0.2	0.2	2.8
Netherlands	35.6	9.1	35.5	10.0	0.1	0.3	0.2	0.4	6.9
Austria	0.6	0.1	0.2	0.0	0.4	0.6	0.1	0.1	3.5
Portugal	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.3	2.1
Finland	10.3	0.4	10.3	0.5	0.0	0.0	0.1	0.0	1.2
<i>Euro area</i>	27.0	100.0	24.5	100.0	2.5	100.0	3.7	100.0	100.0
Total (EUR billions)	1,310		1,189		121		180		4,856

Note: "As a % of national deposits" is to be understood as the percentage share of each item in the total deposits of each country. "As a % of the euro area total" is to be understood as the percentage share of each country in the euro area total for each item.

only a small share of total deposits of the money-holding sector of the euro area (2.5%).

Structure of loans granted to the non-financial private sector

In the ECB's statistical framework repurchase agreements also fall under the heading "deposits held by the money-holding sector", although, in practice, in some countries they have characteristics similar to those of marketable securities. These instruments are held mainly in Spain (40.8% of the euro area total), Italy (36.1%) and France (20.1%).

Data available at a quarterly frequency allow for a sectoral analysis of loans. A first set of key quarterly data, relating to a breakdown of outstanding loans to non-MFIs by sector, type and original maturity at issue, was published in the April 1999 issue of the ECB Monthly Bulletin (see Table 2.5 in the "Euro area statistics" section).

Table 6 below presents a *sector breakdown* of loans granted by other MFIs, showing separate data for non-financial corporations, households and non-profit institutions serving households. At the euro area level loans to households in March 1999 accounted for 52.4% of the total value of outstanding loans to the non-financial private sector, with the share of loans to non-financial corporations amounting to 46.9%. The share of loans to

non-profit institutions serving households (such as consumers' associations, charities, social and cultural clubs, trade unions and political parties, etc.) was 0.7%.

For households, an additional breakdown by *type of loan* is available. Table 6 shows that loans for house purchase play an important role at the euro area level. In March 1999 they represented around 32% of total loans to the

Table 6
MFI loans to the non-financial private sector by type
(March 1999)

	Non-financial corporations		Households			
	as a % of national loans	as a % of the euro area total	as a % of national loans	as a % of the euro area total	Consumer credit	
					as a % of national loans	as a % of the euro area total
Belgium	50.7	3.8	48.8	3.2	5.1	2.0
Germany	36.6	32.4	62.8	49.8	10.8	51.7
Spain	48.3	8.8	51.2	8.3	9.6	9.3
France	50.8	20.0	48.3	17.0	10.7	22.8
Ireland	46.1	1.0	52.2	1.0	12.7	1.5
Italy	66.7	17.6	32.2	7.6	2.6	3.6
Luxembourg	67.7	1.4	30.3	0.5	1.4	0.2
Netherlands	46.2	7.2	53.8	7.5	3.5	3.0
Austria	69.9	5.0	29.3	1.9	9.7	3.7
Portugal	47.8	1.9	51.9	1.8	6.7	1.4
Finland	40.9	0.9	58.2	1.2	5.9	0.7
<i>Euro area</i>	<i>46.9</i>	<i>100.0</i>	<i>52.4</i>	<i>100.0</i>	<i>8.7</i>	<i>100.0</i>
Total (EUR billions)		2,268.0		2,535.0		421.0

	Households (continued)				Non-profit institutions serving households		Total loans as a % of the euro area total
	Lending for house purchase		Other loans		as a % of national loans	as a % of the euro area total	
	as a % of national loans	as a % of the euro area total	as a % of national loans	as a % of the euro area total			
Belgium	28.1	3.1	15.5	4.6	0.5	2.5	3.5
Germany	38.6	50.2	13.4	47.3	0.6	36.7	41.6
Spain	31.2	8.3	10.4	7.5	0.5	6.3	8.5
France	29.4	17.0	8.2	12.9	0.9	23.8	18.5
Ireland	39.6	1.3	0.0	0.0	1.7	2.4	1.0
Italy	11.4	4.4	18.2	19.2	1.2	19.9	12.4
Luxembourg	9.7	0.3	19.2	1.5	1.9	2.5	0.9
Netherlands	45.5	10.4	4.8	3.0	0.0	0.0	7.3
Austria	13.7	1.4	6.0	1.7	0.8	3.7	3.3
Portugal	39.4	2.3	5.8	0.9	0.3	0.8	1.8
Finland	38.3	1.3	14.0	1.3	0.9	1.3	1.1
<i>Euro area</i>	<i>31.9</i>	<i>100.0</i>	<i>11.7</i>	<i>100.0</i>	<i>0.7</i>	<i>100.0</i>	<i>100.0</i>
Total (EUR billions)		1,546.0		568.0		36.0	4,839.0

Note: "As a % of national loans" is to be understood as the percentage share of each item in the total loans of each country. "As a % of the euro area total" is to be understood as the percentage share of each country in the euro area total for each item.

Table 7**MFI loans to non-financial corporations and households by maturity at issue***(March 1999)*

	Non-financial corporations (as a percentage of total)			Households					
				Consumer credit (as a percentage of total)			Lending for house purchase (as a percentage of total)		
	up to one year	over one and up to five years	over five years	up to one year	over one and up to five years	over five years	up to one year	over one and up to five years	over five years
Belgium	35	20	45	4	77	18	0	1	99
Germany	29	10	61	20	20	59	1	6	93
Spain	38	22	40	18	42	40	1	3	97
France	29	16	55	12	66	22	0	4	96
Ireland	44	22	34	78	18	4	0	10	90
Italy	51	23	25	31	49	20	2	4	94
Luxembourg	67	11	22	13	83	5	4	2	94
Netherlands	34	8	58	52	28	20	1	5	94
Austria	37	13	50	18	16	66	2	5	93
Portugal	63	18	19	35	53	12	1	2	97
Finland	20	22	58	38	21	41	1	3	96
<i>Euro area</i>	<i>36</i>	<i>15</i>	<i>49</i>	<i>20</i>	<i>36</i>	<i>44</i>	<i>1</i>	<i>5</i>	<i>94</i>

non-financial private sector, while the share of loans classified as consumer credit stood at 8.7%. Other loans to households (mainly for business, educational purposes or to consolidate debt) accounted for 11.7% of total loans to non-financial corporations and households.

There are some significant differences across euro area countries in respect of the relative importance of each type of loan at the national level. The share of MFIs resident in Germany in total euro area loans to households is relatively high, at around 50% for loans of all types, whereas the share of MFIs resident in Germany in loans to non-financial corporations is consequently relatively low. Loans for house purchase are the most important type of loan to households in all euro area countries, with the exception of Italy and Luxembourg, where other loans are more important. Consumer credit is well below the euro area average in Italy, Luxembourg and the Netherlands, while the largest shares of the national total for this type of credit are seen in Germany, France and Ireland.

The breakdown of loans by maturity at issue is also relevant for the transmission mechanism of

monetary policy. The timing of the impact of monetary policy on the economy will depend on the speed with which changes in central bank interest rates are transmitted to bank lending rates. This depends, in turn, on the relative importance of loans with a short-term maturity compared with a long-term maturity as shown in the quarterly MFI data (see Table 7). It also depends on the relative share of fixed rate loans compared with variable rate loans.

As shown in Table 7, at the euro area level almost half of the loans to non-financial corporations have a maturity of over five years. The share of longer-term loans to non-financial corporations is the highest in Germany (61%), followed by the Netherlands (58%), Finland (58%) and France (55%). By contrast, in some countries non-financial corporations largely finance themselves with loans with a maturity at issue of up to one year (Italy, Luxembourg and Portugal).

With regard to households, the share of consumer credit with a maturity of more than five years is 44% (see Table 7), whereas 94% of the outstanding amount of MFI loans

granted for house purchase (which include loans for building and home improvement) falls within the same maturity band. While there are some differences in the pattern of consumer credit across euro area countries, structures for lending for house purchase are

relatively uniform, as in all cases at least 90% of lending for house purchase has an initial maturity of more than five years. However, as noted above, there may be cross-country differences in the share of lending for house purchase linked to variable interest rates.

5 Concluding remarks

This article has provided a description of both the aggregated and the consolidated balance sheets of the MFI sector in early 1999. The analysis has shown that these balance sheets are a rich source of information for monetary analyses at the euro area level. In addition, this article has demonstrated that there were important similarities, but also a number of differences, with regard to some key features of the financial structure of the 11 euro area Member States at the start of Stage Three of Economic and Monetary Union.

The main items of the assets and liabilities as seen in the aggregated balance sheet of the euro area MFIs are loans and deposits. Data for March 1999 show that the shares of each country for these two items (including inter-MFI positions) are similar to those of each country in the total assets/liabilities of the euro area MFIs, excluding the Eurosystem.

As regards other assets and liabilities, some cross-country differences are noticeable. Debt securities issued by MFIs are particularly relevant in the case of German MFIs and of relatively low importance for MFIs resident in France and Spain. Money market securities are mostly concentrated in France, but MFIs resident in Luxembourg also issue and hold a significant amount, especially when seen in the light of the small size of the country's economy.

Looking more closely at the maturity structure of the deposits of the money-holding sector, deposits with an agreed maturity are the most common at the euro area level. Overnight deposits and deposits redeemable at notice also account for significant shares of the euro area total. More

than half of all deposits with an agreed maturity are of a longer-term nature (i.e. with a maturity of over two years). By contrast, deposits redeemable at notice are mostly of a short-term nature.

The maturity structure of the deposits of the money-holding sector shows some cross-country differences which are more marked for specific deposit maturities. For example, this is the case for deposits redeemable at notice, the use of which is not widespread across the euro area. Deposits redeemable at a period of notice of over three months are held almost exclusively in Germany, but these represent only a relatively small share of the total amount of deposits of the euro area money-holding sector. In addition, deposits with an agreed maturity of over two years are mostly concentrated in Germany and France and repurchase agreements are important mainly in Spain, France and Italy.

If one considers a breakdown of data on loans by sector, type and maturity at issue, it is noticeable that loans to households represent the largest component of loans to the non-financial private sector in the euro area. With regard to loans to households, lending for house purchase has the largest share in all euro area countries, with the exception of Italy and Luxembourg. Finally, around half of all loans to non-financial corporations and 44% of consumer credit are characterised by a maturity at issue of over five years. However, these shares differ considerably across countries. By contrast, in all euro area countries a very large proportion of loans for house purchase have a maturity at issue of over five years.



Euro area statistics



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I Monetary policy statistics

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

		Gold and gold	Claims on non-	Claims on euro	Claims on non-	Lending to	Main	Longer-term	Fine-tuning
		receivables	euro area	area residents in	euro area	financial sector				refinancing	refinancing	reverse
		1	residents in	foreign currency	residents	counterparties in	operations	operations	operations
			foreign currency		in euro	the euro area			
			2	3	4	5	6	7	8
1999	5 Mar.	99,589	228,538	8,591	4,890	190,857	144,836	45,001	0
	12	99,589	227,441	9,834	3,990	188,013	141,819	45,001	0
	19	99,589	228,150	9,027	4,445	165,292	119,020	45,001	0
	26	99,589	228,549	8,925	3,780	192,221	146,030	45,005	0
	2 Apr.	105,323	242,761	10,618	3,492	187,687	140,975	44,994	0
	9	105,323	243,199	10,331	3,789	152,226	105,607	44,994	0
	16	105,323	241,250	11,488	4,146	180,495	133,600	44,994	0
	23	105,323	240,702	11,963	4,033	168,543	117,043	44,994	0
	30	105,323	240,747	11,683	4,002	174,322	128,023	44,999	0
	7 May	105,323	239,350	12,366	4,018	166,184	119,944	44,984	0
	14	105,323	238,483	12,091	4,088	166,060	119,953	44,981	0
	21	105,323	240,921	11,904	4,265	167,728	120,953	44,981	0
	28	105,323	237,639	12,383	4,350	185,070	138,992	45,008	0
	4 June	105,307	236,031	12,428	4,345	184,680	139,032	44,997	0
	11	105,307	238,154	12,499	4,216	174,876	129,020	44,997	0
	18	105,307	237,871	12,156	4,031	170,664	125,012	44,997	0
	25	105,307	238,361	11,927	3,941	170,641	125,020	44,997	0
	2 July	101,753	244,594	12,827	3,832	188,687	142,963	44,991	0
	9	101,753	244,546	12,415	4,002	198,094	152,001	44,991	0
	16	101,753	245,833	12,344	4,140	193,768	148,065	45,001	0
	23	101,754	247,105	11,717	4,364	194,138	146,956	45,001	0
	30	101,754	245,380	12,802	4,162	214,012	166,954	45,001	0

2. Liabilities

		Banknotes in	Liabilities to	Current accounts	Deposit facility	Fixed-term	Fine-tuning	Deposits	Debt certificates
		circulation	financial sector							(covering the	deposits	reverse	related to	issued
		1	counterparties	minimum			operations	margin calls	
			in the euro area	reserves system)					
			in euro						
			2	3	4	5	6	7	8
1999	5 Mar.	328,763	115,173	114,900	210	0	0	63	11,650
	12	328,646	108,092	107,621	436	0	0	35	11,650
	19	327,281	87,857	84,427	3,410	0	0	20	11,650
	26	327,128	100,416	100,274	130	0	0	12	11,650
	2 Apr.	335,331	104,850	104,298	536	0	0	16	10,158
	9	333,367	79,332	79,117	213	0	0	2	10,158
	16	330,839	120,752	120,462	283	0	0	7	10,158
	23	328,984	90,190	89,605	580	0	0	5	10,158
	30	332,280	104,395	104,241	119	0	0	35	10,158
	7 May	335,708	101,663	101,459	197	0	0	7	10,158
	14	337,375	99,361	99,229	118	0	0	14	10,158
	21	335,245	102,373	99,795	2,561	0	0	17	10,158
	28	335,148	109,331	109,194	134	0	0	3	10,158
	4 June	338,980	106,950	106,826	101	0	0	23	10,158
	11	338,947	96,441	96,278	155	0	0	8	10,158
	18	337,865	103,238	103,141	91	0	0	6	10,158
	25	337,877	97,499	97,383	101	0	0	15	10,158
	2 July	342,556	112,235	112,120	95	0	0	20	10,158
	9	344,694	102,529	102,185	316	0	0	28	10,158
	16	344,405	104,586	104,499	68	0	0	19	10,158
	23	342,580	94,151	92,351	1,788	0	0	12	10,158
	30	345,768	109,826	109,789	27	0	0	10	10,158

Source: ECB.

							Total	
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	97	62	861	24,638	60,185	80,785	698,073	5 Mar.
0	161	95	937	25,365	60,185	78,637	693,054	12
0	188	118	965	25,036	60,185	76,559	668,283	19
0	171	149	866	26,107	60,185	80,040	699,396	26
0	665	178	875	26,640	60,186	81,041	717,748	2 Apr.
0	710	72	843	26,511	60,186	77,903	679,468	9
0	1,019	128	754	25,871	60,186	76,831	705,590	16
0	5,591	138	777	26,181	60,186	74,786	691,717	23
0	500	47	753	26,088	60,186	75,945	698,296	30
0	481	52	723	26,047	60,186	78,650	692,124	7 May
0	366	55	705	26,030	60,186	75,266	687,527	14
0	950	65	779	25,945	60,186	74,813	691,085	21
0	479	63	528	25,873	60,180	74,249	705,060	28
0	229	32	390	25,957	60,156	77,522	706,426	4 June
0	397	30	432	26,137	60,156	75,708	697,053	11
0	193	29	433	25,929	60,156	75,657	691,771	18
0	165	29	430	26,088	60,156	79,223	695,644	25
0	177	29	527	25,806	60,156	78,537	716,192	2 July
0	440	79	583	25,882	60,156	75,867	722,715	9
0	108	133	461	25,700	60,156	77,875	721,569	16
0	1,562	156	463	26,009	60,156	76,639	721,882	23
0	1,465	103	489	25,775	60,156	75,684	739,725	30

								Total	
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	Revaluation accounts	Capital and reserves	Other liabilities		
9	10	11	12	13	14	15	16	17	
49,724	7,141	778	6,910	5,767	59,658	51,280	61,229	698,073	5 Mar.
53,503	7,820	828	6,860	5,767	59,658	51,281	58,949	693,054	12
49,493	8,100	856	6,729	5,767	59,658	51,281	59,611	668,283	19
64,280	7,663	856	7,780	5,767	59,658	51,281	62,917	699,396	26
48,234	8,468	917	7,381	6,043	78,685	54,146	63,535	717,748	2 Apr.
39,644	7,936	940	7,684	6,043	78,479	54,147	61,738	679,468	9
38,048	7,830	930	7,389	6,043	78,479	54,147	50,975	705,590	16
57,279	7,617	969	7,629	6,043	78,479	54,638	49,731	691,717	23
44,993	7,207	994	7,931	6,043	78,479	54,639	51,177	698,296	30
36,822	6,993	998	7,925	6,043	78,479	54,666	52,669	692,124	7 May
35,681	7,557	896	7,199	6,043	78,479	54,694	50,084	687,527	14
35,029	8,111	948	8,847	6,042	78,479	54,694	51,159	691,085	21
43,906	7,751	938	8,838	6,043	78,479	54,809	49,659	705,060	28
44,070	7,457	902	7,269	6,042	78,479	54,858	51,261	706,426	4 June
45,428	7,275	776	9,603	6,042	78,479	53,227	50,677	697,053	11
36,035	6,918	733	9,028	6,042	78,479	53,226	50,049	691,771	18
40,939	7,075	734	9,265	6,042	78,479	53,227	54,349	695,644	25
40,446	7,158	782	8,994	6,192	82,510	53,231	51,930	716,192	2 July
56,382	6,962	757	8,559	6,192	82,510	53,217	50,755	722,715	9
52,128	6,924	741	9,611	6,192	82,510	53,217	51,097	721,569	16
61,172	7,265	716	9,924	6,192	82,510	53,217	53,997	721,882	23
62,055	6,727	871	10,606	6,192	82,510	53,218	51,794	739,725	30

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
	9 Apr.	1.50	-0.50	3.50	-1.00

Source: ECB.

1) On 22 December 1998 the ECB announced that, as an exceptional measure between 4 January 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 allotted through tenders¹⁾***(EUR millions; interest rates in percentages per annum)*

Main refinancing operations							
Date of settlement	Bids (amount)	Allotment (amount)	Fixed rate tenders	Variable rate tenders		Running for [...] days	
			Fixed rate 3	Marginal rate 4	Weighted average rate 5		
	1	2	3	4	5	6	
1999	7 Apr.	67,353	67,353	3.00		14	
	14	781,721	67,000	2.50		14	
	21	612,275	50,000	2.50		14	
	28	754,825	78,000	2.50		14	
	5 May	655,789	42,000	2.50		14	
	12	708,881	78,000	2.50		14	
	19	638,583	43,000	2.50		14	
	26	784,380	96,000	2.50		14	
	2 June	698,358	43,000	2.50		14	
	9	907,145	86,000	2.50		14	
	16	922,203	39,000	2.50		14	
	23	1,165,521	86,000	2.50		14	
	30	1,222,128	57,000	2.50		14	
	7 July	1,282,746	95,000	2.50		14	
	14	1,247,454	53,000	2.50		14	
	21	1,479,409	94,000	2.50		14	
	28	1,342,169	73,000	2.50		14	
Longer-term refinancing operations							
Date of settlement	Bids (amount)	Allotment (amount)	Fixed rate tenders	Variable rate tenders		Running for [...] days	
			Fixed rate 3	Marginal rate 4	Weighted average rate 5		
	1	2	3	4	5	6	
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	
	25 Mar.	53,659	15,000		2.96	98	
	29 Apr.	66,911	15,000		2.53	91	
	27 May	72,294	15,000		2.53	91	
	1 July	76,284	15,000		2.63	91	
	29	64,973	15,000		2.65	91	
Other tender operations							
Date of settlement	Type of operation	Bids (amount)	Allotment (amount)	Fixed rate tenders	Variable rate tenders		Running for [...] days
				Fixed rate 4	Marginal rate 5	Weighted average rate 6	
	1	2	3	4	5	6	7
1999							

Source: ECB.

1) The amounts shown may differ slightly from those in Table 1.1, columns 6 to 8, due to operations allotted but not executed.

Table 1.4**Minimum reserve statistics****1. Reserve base of credit institutions subject to reserve requirements^{1) 2)}***(EUR billions; end of period)*

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 Jan.	8,699.7	4,839.2	83.1	146.0	1,196.9	510.6	1,923.8
Feb.	8,731.2	4,801.5	86.9	148.9	1,203.6	543.9	1,946.5
Mar.	8,777.8	4,803.9	88.8	151.2	1,217.7	549.8	1,966.4
Apr.	8,834.9	4,827.7	93.3	160.3	1,223.1	542.0	1,988.6
May	8,889.8	4,867.1	101.1	158.7	1,223.0	541.0	1,999.0
June ^(p)	8,951.2	4,918.0	106.3	151.9	1,238.0	518.5	2,018.6

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) 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.	100.6	101.5	0.9	0.1	3.00
Apr.	100.1	100.7	0.6	0.0	2.84
May	100.2	101.0	0.8	0.0	2.50
June	100.9	101.5	0.6	0.0	2.50
July	102.0	102.7	0.8	0.0	2.50
Aug. ^(p)	102.9				

Source: ECB.

- 1) This table contains full data for completed maintenance periods and required reserves for the current maintenance period.
- 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 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 ⁹⁾	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
Mar.	323.6	136.4	45.0	0.0	0.4	1.4	326.9	49.9	25.0	102.2	430.5
Apr.	338.4	130.1	45.0	0.0	0.7	0.3	331.0	42.9	38.9	101.1	432.4
May	342.5	121.6	45.0	0.0	0.8	0.4	333.8	36.3	38.1	101.3	435.5
June	339.8	132.0	45.0	0.0	0.3	0.6	337.0	40.4	37.2	101.9	439.5
July	342.4	143.1	45.0	0.0	0.4	0.6	342.1	45.7	39.5	103.0	445.6

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.
- 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 developments in the euro area

Table 2.1

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

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

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
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1998	Jan.	234.9	213.3	21.2	0.4	111.7	1.0	109.3	1.5	2.9	0.3	2.6	294.3	7.2	43.0	694.0
	Feb.	257.7	235.9	21.2	0.7	108.2	1.0	105.8	1.5	2.9	0.4	2.5	294.6	7.3	44.3	715.1
	Mar.	242.7	221.3	21.2	0.2	106.6	1.2	104.2	1.3	3.0	0.4	2.6	294.0	7.5	41.3	695.1
	Apr.	237.2	215.6	21.2	0.4	102.5	1.4	100.2	0.9	3.0	0.4	2.6	298.4	7.6	45.7	694.4
	May	239.3	217.8	21.2	0.3	101.9	1.6	99.4	0.9	3.0	0.4	2.6	301.7	7.7	48.8	702.4
	June	325.0	303.7	21.1	0.2	105.4	4.8	99.7	0.8	3.2	0.6	2.6	288.4	7.8	49.8	779.7
	July	338.2	316.9	21.1	0.2	87.8	1.1	85.9	0.8	4.8	2.1	2.8	292.5	8.0	51.9	783.3
	Aug.	339.9	318.5	21.1	0.2	88.1	0.9	86.3	0.9	4.8	2.0	2.8	290.4	8.0	56.9	788.1
	Sep.	326.8	305.5	21.1	0.2	82.7	1.0	81.0	0.7	4.8	2.0	2.8	288.0	8.0	52.1	762.4
	Oct.	326.6	305.3	21.1	0.2	73.3	0.9	71.7	0.7	4.8	1.9	2.9	297.9	8.1	51.7	762.3
	Nov.	322.2	300.7	21.1	0.4	78.0	1.0	76.3	0.6	4.8	1.9	2.9	305.1	8.1	53.4	771.5
	Dec.	225.1	204.5	20.4	0.1	87.8	1.1	86.2	0.5	5.5	1.8	3.7	317.2	7.9	49.4	692.9
1999	Jan.	451.0	430.4	20.4	0.2	89.2	1.3	87.3	0.6	8.2	4.1	4.1	416.8	9.5	56.9	1,031.5
	Feb.	504.5	483.9	20.4	0.2	90.7	1.5	88.6	0.5	8.3	4.2	4.1	364.6	9.5	56.6	1,034.3
	Mar.	513.4	492.8	20.4	0.2	94.0	1.5	91.9	0.6	8.1	4.0	4.1	425.9	9.4	52.1	1,103.0
	Apr.	486.7	466.1	20.4	0.2	93.2	1.2	91.3	0.7	8.1	4.0	4.1	435.3	9.7	52.6	1,085.6
	May	420.4	399.9	20.4	0.2	93.1	1.6	90.8	0.7	8.2	4.0	4.2	386.8	9.8	51.0	969.4
	June ^(p)	646.2	625.6	20.4	0.2	92.4	1.5	90.0	0.9	8.8	4.4	4.3	499.2	9.8	47.9	1,304.2

2. Liabilities

		Currency in circulation	Deposits of euro area residents	MFIs	Central government	Other general government/ other euro area residents	Money market paper	Debt securities issued	Capital and reserves	External liabilities ³⁾	Remaining liabilities	Total
		1	2	3	4	5	6	7	8	9	10	11
1998	Jan.	339.9	136.3	83.4	50.7	2.2	13.9	16.3	109.2	16.1	62.3	694.0
	Feb.	339.9	159.2	93.7	61.5	4.0	13.3	16.5	107.4	15.1	63.7	715.1
	Mar.	340.5	137.9	88.4	46.8	2.7	11.3	17.2	106.6	15.3	66.3	695.1
	Apr.	343.8	131.3	84.8	44.3	2.2	12.0	16.9	105.6	16.4	68.4	694.4
	May	346.1	141.8	90.9	47.0	4.0	13.1	15.3	105.3	15.9	64.8	702.4
	June	345.4	208.0	149.3	54.2	4.5	13.5	14.1	113.4	20.8	64.4	779.7
	July	350.4	199.9	132.8	64.0	3.0	13.9	14.3	112.1	24.0	68.8	783.3
	Aug.	344.6	208.8	135.5	69.7	3.5	12.4	13.5	112.0	21.6	75.1	788.1
	Sep.	341.5	195.9	124.4	67.1	4.5	11.2	12.8	108.2	23.2	69.7	762.4
	Oct.	342.3	198.2	129.2	64.7	4.3	11.7	11.8	108.5	22.6	67.2	762.3
	Nov.	344.1	210.5	147.3	56.8	6.4	12.5	11.6	105.1	20.0	67.8	771.5
	Dec.	359.1	146.9	89.0	55.0	2.9	7.2	6.7	97.1	18.6	57.4	692.9
1999	Jan.	343.8	383.2	326.7	50.3	6.2	6.3	5.3	125.7	99.3	67.8	1,031.5
	Feb.	342.4	451.5	389.8	55.0	6.7	6.3	5.3	122.9	49.9	56.0	1,034.3
	Mar.	348.3	454.4	391.4	55.1	7.9	4.9	5.3	138.0	97.7	54.5	1,103.0
	Apr.	349.6	432.0	386.8	38.8	6.4	4.9	5.3	138.9	104.8	50.2	1,085.6
	May	353.0	358.8	308.6	42.7	7.5	4.9	5.3	137.4	60.9	49.1	969.4
	June ^(p)	355.8	581.6	529.6	44.1	7.8	4.9	5.3	141.3	170.8	44.5	1,304.2

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.
- 3) From January 1999 including temporary gross positions of the Eurosystem with the national central banks of Member States not participating in the euro area related to the operation of the TARGET system. These positions amounted to approximately EUR 75 billion at end-January, EUR 27 billion at end-February, EUR 77 billion at end-March, EUR 84 billion at end-April, EUR 40 billion at end-May and EUR 149 billion at end-June.

Table 2.2**Aggregated balance sheet of the euro area MFIs, excluding the Eurosystem ¹⁾***(EUR billions (not seasonally adjusted; end of period))***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-remaining assets	Total
		1	2	3	4	5	6	7	8		10	11	12					13	14	15	16
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	351.2	102.2	249.0	1,597.3	236.4	826.4	13,528.4
	Feb.	8,538.7	2,986.8	807.9	4,744.0	1,932.1	651.8	1,086.2	194.1	106.3	363.7	106.6	257.1	1,623.6	236.7	831.4	13,632.5
	Mar.	8,561.6	2,979.8	806.0	4,775.8	1,957.2	654.9	1,103.7	198.6	105.1	384.4	110.9	273.5	1,676.7	238.0	811.3	13,734.4
	Apr.	8,617.1	2,999.7	810.9	4,806.5	1,978.1	664.3	1,114.8	199.1	105.7	396.1	114.0	282.1	1,634.0	238.2	830.8	13,800.1
	May	8,618.2	2,994.0	799.7	4,824.4	2,000.0	670.8	1,126.5	202.7	105.7	404.0	116.4	287.7	1,632.9	247.0	845.6	13,853.4
	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	779.7	13,911.9
	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	13,933.9
	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	3,131.9	812.8	4,998.9	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	14,145.0
	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.	9,047.7	3,130.2	821.3	5,096.2	2,031.9	731.1	1,107.3	193.6	101.5	423.0	121.8	301.2	1,587.6	243.3	795.0	14,230.1
1999	Jan.	9,266.9	3,344.5	821.2	5,101.1	2,060.0	738.6	1,115.0	206.3	103.8	431.5	102.0	329.5	1,631.5	244.0	947.5	14,685.2
	Feb.	9,164.8	3,233.0	821.7	5,110.1	2,075.7	746.6	1,126.2	202.8	108.2	442.6	107.7	334.9	1,586.9	242.9	967.2	14,588.2
	Mar.	9,218.6	3,235.6	818.7	5,164.3	2,082.0	762.5	1,122.8	196.7	95.4	468.9	114.5	354.5	1,640.9	243.7	895.0	14,644.5
	Apr.	9,265.5	3,266.3	811.5	5,187.8	2,098.3	776.0	1,121.2	201.2	101.2	482.0	114.1	367.9	1,629.1	245.4	865.6	14,687.2
	May	9,281.9	3,248.5	810.5	5,223.0	2,136.5	789.4	1,139.9	207.2	95.8	497.9	115.3	382.6	1,613.8	246.5	852.2	14,724.6
	June ^(p)	9,409.6	3,289.0	815.6	5,305.0	2,126.4	801.5	1,115.8	209.1	96.6	484.0	112.1	371.9	1,633.5	248.3	871.5	14,870.0

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-remaining liabilities	Total	
						5	6	7	8								9	10	11	12	13	14	15	16
1998	Jan.	0.4	7,782.1	3,029.5	95.9	4,656.6	1,179.8	1,917.8	1,341.8	217.1	253.7	1,946.6	145.2	690.8	1,436.0	1,273.7	13,528.4
	Feb.	0.4	7,829.7	3,066.1	98.4	4,665.2	1,181.7	1,922.1	1,345.1	216.3	255.7	1,969.9	147.2	696.0	1,469.8	1,263.9	13,632.5
	Mar.	0.4	7,836.4	3,077.0	92.8	4,666.7	1,210.8	1,897.2	1,346.4	212.2	255.5	1,987.2	149.5	710.3	1,521.2	1,273.7	13,734.4
	Apr.	0.4	7,867.3	3,079.7	97.2	4,690.3	1,225.3	1,912.4	1,346.0	206.6	258.3	2,001.5	156.3	702.6	1,492.4	1,321.3	13,800.1
	May	0.4	7,890.0	3,092.8	88.2	4,709.0	1,242.3	1,910.6	1,347.9	208.2	261.2	2,013.3	150.9	712.2	1,485.2	1,340.2	13,853.4
	June	0.4	7,999.4	3,174.8	94.0	4,730.5	1,289.8	1,890.8	1,346.5	203.4	259.8	2,042.4	145.9	718.7	1,496.1	1,260.8	13,923.5
	July	0.4	7,961.8	3,163.3	92.4	4,706.1	1,250.8	1,893.9	1,345.9	215.5	259.8	2,063.1	152.8	720.1	1,472.9	1,281.2	13,911.9
	Aug.	0.4	7,982.1	3,183.7	95.4	4,702.9	1,241.8	1,905.4	1,347.6	208.2	264.7	2,074.7	152.9	720.1	1,475.8	1,263.3	13,933.9
	Sep.	0.4	8,013.6	3,212.6	96.3	4,704.7	1,260.9	1,889.5	1,346.6	207.7	260.3	2,074.8	153.2	718.4	1,484.9	1,288.4	13,993.9
	Oct.	0.4	8,105.1	3,285.9	97.0	4,722.2	1,266.2	1,887.8	1,349.8	218.3	258.4	2,077.7	160.2	722.5	1,532.4	1,288.3	14,145.0
	Nov.	0.4	8,213.4	3,370.6	98.2	4,744.6	1,306.2	1,887.6	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	8,233.8	3,283.0	101.3	4,849.5	1,379.1	1,907.0	1,385.4	178.0	241.1	2,091.0	165.3	727.5	1,516.1	1,254.9	14,230.1
1999	Jan.	0.4	8,369.3	3,427.0	87.5	4,854.8	1,399.7	1,972.7	1,309.8	172.5	272.0	2,125.5	174.1	738.2	1,601.6	1,404.2	14,685.2
	Feb.	0.4	8,270.6	3,339.4	91.2	4,840.0	1,372.9	1,970.0	1,312.5	184.7	286.5	2,150.8	179.1	742.9	1,600.8	1,357.0	14,588.2
	Mar.	0.5	8,314.0	3,372.4	85.8	4,855.9	1,384.0	1,982.7	1,309.7	179.6	279.7	2,175.9	178.5	749.6	1,618.8	1,327.6	14,644.5
	Apr.	0.5	8,317.2	3,364.5	84.7	4,868.1	1,402.0	1,980.2	1,313.0	172.9	297.4	2,206.3	187.5	759.7	1,634.2	1,284.4	14,687.2
	May	0.5	8,339.6	3,369.6	85.2	4,884.8	1,427.9	1,970.6	1,313.0	173.3	296.3	2,230.6	187.7	767.7	1,660.8	1,241.5	14,724.6
	June ^(p)	0.5	8,407.5	3,401.9	87.6	4,917.9	1,473.5	1,959.8	1,317.0	167.6	294.0	2,253.4	175.5	776.4	1,671.5	1,291.2	14,870.0

Source: ECB.

¹⁾ Data have been revised in the light of new information.

Table 2.3**Consolidated balance sheet of the euro area MFIs, including the Eurosystem^{1) 2)}***(EUR billions (not seasonally adjusted; end of period))***1. Assets: levels outstanding**

		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 ⁴⁾	Fixed assets	Remaining assets	Total
		1	2	3	4	5	6	7	8	9	10	11
1998	Jan.	5,548.5	827.5	4,721.0	1,373.6	1,183.2	190.4	251.6	1,891.6	243.6	840.5	10,149.4
	Feb.	5,573.8	829.1	4,744.7	1,387.6	1,192.0	195.6	259.6	1,918.2	244.0	847.1	10,230.3
	Mar.	5,603.2	827.2	4,776.0	1,407.7	1,207.9	199.8	276.1	1,970.7	245.5	823.5	10,326.7
	Apr.	5,639.0	832.1	4,806.9	1,414.9	1,215.0	199.9	284.7	1,932.4	245.8	847.0	10,363.9
	May	5,645.6	820.9	4,824.7	1,429.4	1,225.9	203.5	290.3	1,934.6	254.7	865.1	10,419.7
	June	5,703.4	826.9	4,876.6	1,433.7	1,237.3	196.4	285.4	1,963.3	248.0	755.8	10,389.6
	July	5,739.7	822.5	4,917.2	1,424.9	1,223.1	201.8	277.9	1,925.2	243.3	801.4	10,412.5
	Aug.	5,741.6	825.0	4,916.7	1,424.8	1,222.4	202.4	271.1	1,931.5	244.3	795.6	10,408.9
	Sep.	5,792.8	828.0	4,964.8	1,419.6	1,216.7	202.9	272.9	1,912.9	245.0	804.2	10,447.5
	Oct.	5,833.1	833.9	4,999.1	1,432.9	1,226.3	206.6	273.9	1,919.1	247.1	804.4	10,510.4
	Nov.	5,884.4	840.7	5,043.7	1,429.4	1,228.1	201.3	287.4	1,971.2	249.3	818.3	10,640.1
	Dec.	5,938.0	841.6	5,096.4	1,387.6	1,193.5	194.1	304.9	1,904.8	251.2	808.7	10,595.2
1999	Jan.	5,942.9	841.7	5,101.3	1,409.2	1,202.3	206.9	333.6	2,048.3	253.5	973.8	10,961.3
	Feb.	5,952.4	842.2	5,110.3	1,418.2	1,214.9	203.3	339.0	1,951.5	252.3	994.0	10,907.5
	Mar.	6,003.6	839.1	5,164.5	1,412.0	1,214.7	197.2	358.6	2,066.8	253.1	916.1	11,010.2
	Apr.	6,019.8	831.9	5,187.9	1,414.3	1,212.4	201.9	372.1	2,064.4	255.1	888.0	11,013.7
	May	6,054.0	830.9	5,223.1	1,438.7	1,230.7	207.9	386.8	2,000.7	256.2	871.4	11,007.7
	June ^(p)	6,141.1	836.0	5,305.1	1,415.8	1,205.8	210.0	376.3	2,132.7	258.1	887.1	11,211.1

2. Liabilities: levels outstanding

		Currency in circulation	Deposits of central government	Deposits of other general government/other euro area residents	Overnight	With agreed maturity	Redeemable at notice	Repurchase agreements	Money market fund shares/units and money market paper	Debt securities issued	Capital and reserves	External liabilities ⁴⁾	Re-maining liabilities	Excess of inter-MFI liabilities	Total
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
1998	Jan.	311.4	146.6	4,658.8	1,182.1	1,917.8	1,341.8	217.1	308.0	1,313.8	697.5	1,452.0	1,336.0	-74.8	10,149.4
	Feb.	311.7	160.0	4,669.2	1,185.6	1,922.1	1,345.1	216.3	309.8	1,333.7	696.5	1,484.9	1,327.6	-62.9	10,230.3
	Mar.	311.8	139.6	4,669.4	1,213.6	1,897.2	1,346.4	212.2	311.2	1,348.3	705.7	1,536.6	1,340.0	-35.8	10,326.7
	Apr.	314.8	141.6	4,692.5	1,227.5	1,912.4	1,346.0	206.6	320.9	1,352.7	693.8	1,508.8	1,389.7	-50.8	10,363.9
	May	317.2	135.1	4,713.0	1,246.3	1,910.6	1,347.9	208.2	319.4	1,356.3	700.8	1,501.2	1,405.0	-28.2	10,419.7
	June	315.5	148.2	4,735.0	1,294.3	1,890.8	1,346.5	203.4	315.1	1,370.3	713.4	1,516.9	1,325.2	-50.1	10,389.6
	July	320.6	156.4	4,709.1	1,253.8	1,893.9	1,345.9	215.5	322.3	1,378.7	713.1	1,496.9	1,349.9	-34.6	10,412.5
	Aug.	314.9	165.2	4,706.4	1,245.3	1,905.4	1,347.6	208.2	326.2	1,383.4	712.0	1,497.4	1,338.4	-35.1	10,408.9
	Sep.	311.9	163.3	4,709.2	1,265.4	1,889.5	1,346.6	207.7	322.5	1,377.0	715.0	1,508.1	1,358.1	-17.6	10,447.5
	Oct.	313.4	161.7	4,726.5	1,270.5	1,887.8	1,349.8	218.3	328.5	1,378.6	713.3	1,555.0	1,355.5	-22.2	10,510.4
	Nov.	314.3	155.0	4,751.0	1,312.5	1,887.6	1,352.5	198.4	331.8	1,384.8	710.7	1,620.1	1,364.4	8.0	10,640.1
	Dec.	323.8	156.3	4,852.4	1,382.1	1,907.0	1,385.4	178.0	312.0	1,365.5	701.0	1,534.7	1,312.3	37.2	10,595.2
1999	Jan.	313.6	137.9	4,861.0	1,405.9	1,972.7	1,309.8	172.5	348.5	1,390.8	757.9	1,700.9	1,472.0	-21.3	10,961.3
	Feb.	313.0	146.2	4,846.8	1,379.6	1,970.0	1,312.5	184.7	363.8	1,408.0	753.9	1,650.7	1,413.0	12.2	10,907.5
	Mar.	317.8	140.8	4,863.8	1,391.8	1,982.7	1,309.7	179.6	367.6	1,417.2	769.1	1,716.5	1,382.1	35.4	11,010.2
	Apr.	319.9	123.5	4,874.4	1,408.3	1,980.2	1,313.0	173.0	388.5	1,434.5	780.5	1,738.9	1,334.7	18.9	11,013.7
	May	321.6	127.9	4,892.3	1,435.3	1,970.6	1,313.0	173.4	393.1	1,444.9	785.8	1,721.7	1,290.6	29.8	11,007.7
	June ^(p)	324.1	131.8	4,925.7	1,481.3	1,959.8	1,317.0	167.6	377.6	1,455.8	801.2	1,842.3	1,335.7	16.9	11,211.1

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.
- 3) Calculated from monthly differences in levels adjusted for reclassifications, other revaluations, exchange rate variations and any other changes which do not arise from transactions.
- 4) From January 1999 including temporary gross positions of the Eurosystem with the national central banks of Member States not participating in the euro area related to the operation of the TARGET system. These positions amounted to approximately EUR 75 billion at end-January, EUR 27 billion at end-February, EUR 77 billion at end-March, EUR 84 billion at end-April, EUR 40 billion at end-May and EUR 149 billion at end-June.

(EUR billions (not seasonally adjusted))

3. Assets: flows ³⁾

	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 ⁴⁾	Fixed assets	Remaining assets	Total
	General government	Other euro area residents		General government	Other euro area residents						
	1	2	3	4	5	6	7	8	9	10	11
1998 Feb.	28.5	2.4	26.1	14.1	8.8	5.3	8.0	33.2	0.4	6.2	90.5
Mar.	31.0	-1.9	32.9	19.2	15.1	4.2	16.5	40.4	1.5	-23.6	85.0
Apr.	39.2	5.0	34.2	7.8	7.4	0.3	8.6	-6.4	0.3	23.2	72.7
May	7.9	-11.1	19.0	14.7	11.0	3.7	5.6	14.9	9.0	17.9	69.9
June	66.8	5.9	60.9	2.9	10.7	-7.8	-6.0	13.3	-6.7	-104.5	-34.3
July	39.9	-4.3	44.1	-11.7	-17.3	5.6	-6.8	-17.1	-4.7	46.0	45.6
Aug.	1.5	2.4	-0.9	-0.4	-0.9	0.5	-6.7	-3.2	1.0	-6.0	-13.7
Sep.	57.7	3.3	54.4	-4.8	-5.6	0.8	1.9	47.3	0.6	8.4	111.2
Oct.	40.3	5.9	34.4	12.0	8.5	3.5	0.9	-1.4	2.2	0.3	54.4
Nov.	53.6	6.7	46.9	-3.7	1.7	-5.5	13.5	26.3	2.4	13.7	105.6
Dec.	63.5	1.1	62.4	-40.9	-33.7	-7.2	17.4	-60.1	2.1	-9.2	-27.3
1999 Jan.	66.1	0.9	65.1	16.8	17.1	-0.2	9.7	112.3	-0.2	151.9	356.6
Feb.	7.0	0.3	6.7	8.3	12.2	-3.9	5.5	-133.9	-1.2	20.2	-94.1
Mar.	45.9	-3.8	49.7	9.8	8.1	1.7	19.3	66.1	0.8	-88.4	53.5
Apr.	14.9	-8.8	23.7	3.2	-1.4	4.6	13.5	-17.7	2.0	-28.1	-12.3
May	33.3	-1.1	34.4	24.1	18.2	5.9	14.7	-75.6	1.1	-16.6	-19.0
June ^(p)	85.5	5.0	80.5	-24.0	-26.0	1.9	-11.1	117.8	1.7	15.3	185.1

4. Liabilities: flows ³⁾

	Currency in circulation	Deposits of central government	Deposits of other general government/ other euro area residents	Deposits of other general government/ other euro area residents				Money market fund shares/units and money market paper	Debt securities issued	Capital and reserves	External liabilities ⁴⁾	Re-maining liabilities	Excess of inter-MFI liabilities	Total
				Over-night	With agreed maturity	Redeem-able at notice	Repur-chase agree-ments							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1998 Feb.	0.4	13.3	10.9	3.7	4.7	3.2	-0.8	1.8	20.6	0.5	38.0	-7.6	12.6	90.5
Mar.	0.0	-20.4	-0.9	27.5	-25.6	1.3	-4.1	1.3	14.7	12.5	42.3	8.2	27.2	85.0
Apr.	3.0	2.0	25.8	14.8	16.9	-0.4	-5.6	10.1	8.2	-11.2	-3.4	53.3	-15.1	72.7
May	2.4	-6.5	21.5	19.2	-1.2	1.9	1.6	-1.3	6.1	7.4	1.4	16.5	22.5	69.9
June	-1.7	13.1	20.8	47.4	-20.4	-1.4	-4.8	-4.4	14.5	15.5	5.0	-77.5	-19.6	-34.3
July	5.2	8.2	-23.8	-39.7	4.3	-0.6	12.1	7.4	11.5	-1.0	-3.8	24.9	17.0	45.6
Aug.	-5.7	8.8	-3.7	-8.9	10.8	1.7	-7.3	3.8	3.1	-0.1	-7.6	-11.8	-0.5	-13.7
Sep.	-3.1	-1.8	8.9	22.2	-12.1	-0.8	-0.4	-3.0	0.0	4.0	63.3	25.5	17.3	111.2
Oct.	1.5	-1.6	16.4	4.6	-2.1	3.2	10.6	6.0	-1.7	-1.2	43.0	-3.2	-4.8	54.4
Nov.	0.9	-6.7	22.3	41.1	-1.6	2.6	-19.9	3.0	4.7	-1.8	42.8	10.3	30.3	105.6
Dec.	9.5	1.3	103.8	70.1	21.3	32.9	-20.5	-19.2	-19.6	-10.0	-76.5	-46.3	29.8	-27.3
1999 Jan.	-9.4	-6.4	34.5	23.7	-2.4	14.6	-1.4	13.6	26.9	13.6	158.8	167.9	-42.8	356.6
Feb.	-0.6	8.3	-24.3	-27.4	-11.5	2.5	12.1	14.9	13.7	-3.0	-83.3	-60.2	40.3	-94.1
Mar.	4.8	-5.2	13.9	10.8	11.0	-2.9	-5.1	-0.4	11.6	14.4	39.1	-41.5	16.9	53.5
Apr.	2.1	-17.4	9.4	16.1	-3.3	3.3	-6.7	20.3	16.1	11.9	9.3	-47.9	-16.2	-12.3
May	1.7	4.4	16.6	26.5	-10.3	0.0	0.4	4.4	9.0	6.2	-29.3	-43.1	10.9	-19.0
June ^(p)	2.4	3.9	31.9	45.5	-11.7	3.9	-5.9	-16.6	9.4	17.0	105.9	44.9	-13.7	185.1

Table 2.4**Monetary aggregates^{1) 2)}***(EUR billions (not seasonally adjusted) and annual percentage changes, unless otherwise indicated)***1. Levels outstanding at the end of the period**

			M1				M2		Repurchase agreements	Money market fund shares/units and money market paper	Debt securities up to 2 years
			Total	Index, Dec. 98 =100 ³⁾	Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	Total	Index, Dec. 98 =100 ³⁾			
	Currency in circulation	Overnight deposits									
1	2	3	4	5	6	7	8	9	10	11	
1998 Jan.	311.4	1,253.6	1,565.0	88.13	908.4	1,177.5	3,650.9	93.71	217.1	308.0	74.8
Feb.	311.7	1,254.1	1,565.8	88.19	905.1	1,181.6	3,652.5	93.76	216.3	309.8	79.7
Mar.	311.8	1,283.8	1,595.5	89.84	878.8	1,183.4	3,657.7	93.87	212.2	311.2	85.9
Apr.	314.8	1,295.9	1,610.7	90.75	892.6	1,185.1	3,688.4	94.72	206.6	320.9	86.4
May	317.2	1,313.0	1,630.2	91.87	888.8	1,189.2	3,708.3	95.25	208.2	319.4	88.7
June	315.5	1,361.7	1,677.2	94.48	871.2	1,189.0	3,737.4	95.97	203.4	315.1	87.8
July	320.6	1,321.7	1,642.3	92.56	872.5	1,189.7	3,704.6	95.17	215.5	322.3	93.5
Aug.	314.9	1,312.6	1,627.5	91.71	879.3	1,192.9	3,699.7	95.02	208.2	326.2	88.9
Sep.	311.9	1,331.3	1,643.2	92.71	864.6	1,192.9	3,700.7	95.18	207.7	322.5	81.2
Oct.	313.4	1,335.3	1,648.6	92.99	867.0	1,196.4	3,712.0	95.45	218.3	328.5	84.6
Nov.	314.3	1,377.0	1,691.3	95.35	870.9	1,198.9	3,761.1	96.67	198.4	331.8	81.8
Dec.	323.8	1,449.4	1,773.2	100.00	884.8	1,231.1	3,889.1	100.00	178.0	312.0	68.5
1999 Jan.	313.6	1,473.8	1,787.3	100.83	881.2	1,247.1	3,915.6	100.60	172.5	348.5	55.5
Feb.	313.0	1,443.8	1,756.8	99.05	867.4	1,251.4	3,875.7	99.51	184.7	363.8	57.3
Mar.	317.8	1,454.0	1,771.8	99.81	876.2	1,249.2	3,897.2	99.99	179.6	367.6	48.9
Apr.	319.9	1,472.1	1,792.0	100.93	870.5	1,254.1	3,916.6	100.46	173.0	388.5	53.5
May	321.6	1,495.7	1,817.3	102.33	861.4	1,258.2	3,936.9	100.95	173.4	393.1	60.2
June ^(p)	324.1	1,542.5	1,866.5	105.07	844.2	1,263.5	3,974.3	101.88	167.6	377.6	56.4

2. Flows⁴⁾

			M1				M2		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	Total	Annual percentage change ⁴⁾			
	Currency in circulation	Overnight deposits									
1	2	3	4	5	6	7	8	9	10	11	
1998 Feb.	0.4	0.7	1.1	8.3	-3.1	4.1	2.0	4.2	-0.8	1.8	4.9
Mar.	0.0	29.3	29.3	8.8	-26.9	1.8	4.2	4.4	-4.1	1.3	6.2
Apr.	3.0	13.0	16.1	10.3	15.0	1.8	32.9	5.1	-5.6	10.1	0.9
May	2.4	17.5	19.9	10.1	-3.2	4.1	20.7	5.3	1.6	-1.3	2.5
June	-1.7	48.1	46.4	9.5	-18.1	-0.2	28.1	5.3	-4.8	-4.4	-1.0
July	5.2	-39.2	-34.1	8.2	2.3	0.7	-31.1	4.4	12.1	7.4	5.9
Aug.	-5.7	-9.4	-15.2	8.2	6.3	3.2	-5.7	4.3	-7.3	3.8	-4.8
Sep.	-3.1	20.8	17.8	7.8	-11.8	0.1	6.1	4.5	-0.4	-3.0	-7.1
Oct.	1.5	3.5	5.0	7.9	2.1	3.5	10.6	4.4	10.6	6.0	3.1
Nov.	0.9	40.9	41.8	8.2	2.8	2.5	47.1	4.9	-19.9	3.0	-2.9
Dec.	9.5	72.9	82.4	9.4	15.4	31.9	129.7	5.9	-20.5	-19.2	-13.6
1999 Jan.	-9.4	24.2	14.8	14.4	-6.9	15.6	23.5	7.4	-1.4	13.6	-1.3
Feb.	-0.6	-31.1	-31.7	12.3	-15.2	4.2	-42.6	6.1	12.1	14.9	1.3
Mar.	4.8	8.8	13.6	11.1	7.5	-2.4	18.7	6.5	-5.1	-0.4	-1.7
Apr.	2.1	17.7	19.8	11.2	-6.3	4.9	18.4	6.1	-6.7	20.3	1.7
May	1.7	23.2	25.0	11.4	-9.7	4.1	19.3	6.0	0.4	4.4	6.5
June ^(p)	2.4	46.2	48.7	11.2	-17.8	5.3	36.2	6.2	-5.9	-16.6	-4.0

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.
- 3) Taking the December 1998 outstanding level (not seasonally adjusted) as 100, the index shows the cumulative product of changes from that date calculated from flows, as described in footnote 4. The percentage change in the index between any two dates corresponds to the change in the aggregate excluding such reclassifications, etc.
- 4) Calculated from monthly differences in levels adjusted for reclassifications, other revaluations, exchange rate variations and any other changes which do not arise from transactions.

M3			Memo: Non-monetary liabilities of MFIs							
Total	Index, Dec. 98 =100 ³⁾							Total		
			Deposits	With agreed maturity over 2 years	Redeemable at notice over 3 months	Debt securities over 2 years	Capital and reserves			
12	13	14	15	16	17	18	19	20		
4,250.9	95.38		1,227.7	1,010.0	217.7	1,239.0	697.5	3,164.2	1998	Jan.
4,258.3	95.56		1,235.2	1,017.7	217.5	1,254.0	696.5	3,185.7		Feb.
4,267.0	95.73		1,235.8	1,019.1	216.8	1,262.5	705.7	3,203.9		Mar.
4,302.4	96.59		1,235.2	1,020.5	214.7	1,266.2	693.8	3,195.2		Apr.
4,324.6	97.12		1,235.3	1,022.3	213.0	1,267.5	700.8	3,203.6		May
4,343.8	97.52		1,232.2	1,020.2	212.0	1,282.5	713.4	3,228.0		June
4,335.9	97.40		1,232.6	1,021.8	210.8	1,285.2	713.1	3,230.9		July
4,323.0	97.08		1,236.5	1,026.6	209.9	1,294.6	712.0	3,243.0		Aug.
4,312.1	96.98		1,234.7	1,025.3	209.3	1,295.8	715.0	3,245.5		Sep.
4,343.4	97.67		1,230.4	1,021.3	209.1	1,294.1	713.3	3,237.8		Oct.
4,373.1	98.28		1,226.7	1,017.2	209.5	1,302.9	710.7	3,240.3		Nov.
4,447.6	100.00		1,237.4	1,022.8	214.6	1,297.0	701.0	3,235.4		Dec.
4,492.1	100.77		1,215.4	1,092.3	123.1	1,335.3	757.9	3,308.6	1999	Jan.
4,481.4	100.45		1,225.2	1,103.3	121.8	1,350.6	753.9	3,329.7		Feb.
4,493.3	100.71		1,228.1	1,107.2	120.9	1,368.3	769.1	3,365.5		Mar.
4,531.5	101.46		1,229.3	1,110.6	118.7	1,381.0	780.5	3,390.8		Apr.
4,563.6	102.15		1,225.3	1,110.2	115.2	1,384.6	785.8	3,395.8		May
4,575.9	102.37		1,230.7	1,116.6	114.2	1,399.4	801.2	3,431.3		June ^(p)

M3			Memo: Non-monetary liabilities of MFIs							
Total	Annual percentage change ⁴⁾	3-month moving average (centered)						Total		
			Deposits	With agreed maturity over 2 years	Redeemable at notice over 3 months	Debt securities over 2 years	Capital and reserves			
12	13	14	15	16	17	18	19	20		
8.0	4.6	4.7	7.6	7.8	-0.2	15.6	0.5	23.7	1998	Feb.
7.6	4.7	4.9	0.5	1.2	-0.8	8.5	12.5	21.5		Mar.
38.3	5.2	5.0	-0.1	1.9	-2.0	7.2	-11.2	-4.1		Apr.
23.5	5.0	5.1	0.2	1.9	-1.7	3.6	7.4	11.2		May
18.0	4.9	4.9	-3.3	-2.3	-1.0	15.5	15.5	27.7		June
-5.6	4.8	4.7	0.7	1.9	-1.2	5.6	-1.0	5.3		July
-14.0	4.5	4.6	3.6	4.5	-0.9	7.9	-0.1	11.4		Aug.
-4.3	4.4	4.6	-0.9	-0.4	-0.6	7.1	4.0	10.2		Sep.
30.3	4.8	4.6	-4.4	-4.2	-0.2	-4.8	-1.2	-10.4		Oct.
27.3	4.6	4.7	-4.0	-4.4	0.4	7.6	-1.8	1.8		Nov.
76.5	4.7	5.0	11.4	5.9	5.5	-6.1	-10.0	-4.7		Dec.
34.3	5.7	5.2	3.7	4.7	-1.0	28.2	13.6	45.5	1999	Jan.
-14.2	5.1	5.3	2.4	3.7	-1.3	12.3	-3.0	11.8		Feb.
11.4	5.2	5.1	2.7	3.5	-0.8	13.3	14.4	30.4		Mar.
33.7	5.0	5.1	0.9	3.2	-2.2	14.3	11.9	27.2		Apr.
30.7	5.2	5.1	-4.2	-0.7	-3.5	2.5	6.2	4.5		May
9.8	5.0	-	5.1	6.1	-1.0	13.4	17.0	35.5		June ^(p)

Table 2.4**Monetary aggregates^{1) 2)}***(EUR billions and percentage changes, unless otherwise indicated)***3. Seasonally adjusted levels**

		M1				M2		Marketable instruments ⁵⁾		M3	
		Total		Other short term deposits ⁴⁾		Total	Index ³⁾	Total		Total	Index ³⁾
		1	2	3	4	5	6	7	8	9	10
1998	Jan.	1,570.0	88.42	2,058.3		3,628.4	93.16	607.8		4,236.2	95.15
	Feb.	1,587.4	89.40	2,063.1		3,650.5	93.74	601.5		4,252.0	95.51
	Mar.	1,603.7	90.30	2,063.2		3,666.9	94.14	608.3		4,275.2	96.01
	Apr.	1,621.8	91.38	2,064.2		3,686.0	94.69	607.1		4,293.2	96.48
	May	1,628.6	91.78	2,070.1		3,698.7	95.03	603.1		4,301.8	96.70
	June	1,643.0	92.56	2,072.6		3,715.6	95.44	605.5		4,321.1	97.11
	July	1,644.6	92.69	2,070.2		3,714.8	95.46	624.4		4,339.2	97.57
	Aug.	1,652.6	93.12	2,074.9		3,727.5	95.77	610.4		4,337.9	97.51
	Sep.	1,660.4	93.68	2,076.6		3,736.9	96.15	610.9		4,347.8	97.89
	Oct.	1,672.0	94.31	2,078.0		3,750.0	96.46	632.1		4,382.1	98.63
	Nov.	1,684.0	94.94	2,094.5		3,778.5	97.15	615.5		4,394.0	98.85
	Dec.	1,701.0	95.93	2,106.4		3,807.4	97.93	591.1		4,398.5	99.00
1999	Jan.	1,787.9	100.87	2,099.8		3,887.7	99.92	585.6		4,473.3	100.45
	Feb.	1,774.6	100.05	2,095.5		3,870.1	99.40	602.0		4,472.1	100.34
	Mar.	1,784.8	100.55	2,124.9		3,909.7	100.34	596.4		4,506.1	101.09
	Apr.	1,802.8	101.54	2,110.5		3,913.3	100.41	608.3		4,521.6	101.34
	May	1,815.7	102.24	2,115.4		3,931.1	100.84	611.8		4,542.9	101.79
	June ^(P)	1,830.6	103.05	2,118.2		3,948.9	101.27	601.2		4,550.0	101.89

4. Seasonally adjusted flows⁶⁾

		M1				M2		Marketable instruments ⁵⁾		M3	
		Total		Other short term deposits ⁴⁾		Total	Change on previous month (%)	Total	Change on previous month (%)	Total	Change on previous month (%)
		1	2	3	4	5	6	7	8	9	10
1998	Jan.	18.7	1.2	7.7	0.4	26.5	0.7	-0.2	0.0	26.3	0.6
	Feb.	17.5	1.1	5.1	0.2	22.6	0.6	-6.2	-1.0	16.4	0.4
	Mar.	16.0	1.0	-0.5	0.0	15.5	0.4	6.7	1.1	22.1	0.5
	Apr.	19.0	1.2	2.3	0.1	21.3	0.6	-0.4	-0.1	20.9	0.5
	May	7.1	0.4	6.4	0.3	13.5	0.4	-3.6	-0.6	9.9	0.2
	June	13.9	0.9	2.0	0.1	15.8	0.4	2.1	0.4	18.0	0.4
	July	2.4	0.1	-1.4	-0.1	0.9	0.0	19.5	3.2	20.5	0.5
	Aug.	7.6	0.5	4.3	0.2	11.9	0.3	-14.3	-2.3	-2.3	-0.1
	Sep.	9.9	0.6	4.7	0.2	14.6	0.4	1.9	0.3	16.5	0.4
	Oct.	11.2	0.7	1.1	0.1	12.3	0.3	20.9	3.4	33.2	0.8
	Nov.	11.1	0.7	15.5	0.7	26.6	0.7	-17.0	-2.7	9.5	0.2
	Dec.	17.5	1.0	13.1	0.6	30.6	0.8	-24.1	-3.9	6.5	0.1
1999	Jan.	87.5	5.1	-10.3	-0.5	77.2	2.0	-12.8	-2.2	64.5	1.5
	Feb.	-14.5	-0.8	-5.8	-0.3	-20.3	-0.5	15.6	2.7	-4.7	-0.1
	Mar.	8.8	0.5	27.9	1.3	36.7	0.9	-3.3	-0.5	33.5	0.7
	Apr.	17.6	1.0	-15.0	-0.7	2.6	0.1	8.5	1.4	11.0	0.2
	May	12.4	0.7	4.4	0.2	16.8	0.4	3.2	0.5	20.0	0.4
	June ^(P)	14.5	0.8	2.1	0.1	16.6	0.4	-12.0	-2.0	4.6	0.1

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.
- 3) Taking the December 1998 outstanding level (not seasonally adjusted) as 100, the index shows the cumulative product of changes from that date calculated from flows, as described in footnote 6. The percentage change in the index between any two dates corresponds to the change in the aggregate excluding such reclassifications, etc.
- 4) Other short term deposits comprise deposits with an agreed maturity of up to two years and deposits redeemable at notice of up to three months.
- 5) Marketable instruments comprise repurchase agreements, money market fund shares/units and money market paper together with debt securities issued with an original maturity of up to two years.
- 6) Calculated from monthly differences in levels adjusted for reclassifications, other revaluations, exchange rate variations and any other changes which do not arise from transactions.

Table 2.5**Outstanding MFI loans to households and non-financial corporations by type and maturity at issue ¹⁾***(EUR billions (not seasonally adjusted); end of period)*

	Non-financial corporations ²⁾	Non-financial corporations ²⁾			Households ²⁾	Consumer credit ³⁾			Lending for house purchase ³⁾			Non-profit institutions serving households ²⁾
		Up to 1 year	Over 1 and up to 5 years	Over 5 years		Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years	
	1	2	3	4	5	6	7	8	9	10	11	12
1998 Dec.	2,277.6	813.4	321.3	1,142.9	2,482.7	84.8	128.2	199.8	28.2	48.7	1,409.9	37.2
1999 Mar. ^(p)	2,277.5	819.8	349.4	1,108.3	2,538.5	86.8	149.3	186.1	15.4	73.1	1,459.4	35.4

Source: ECB.

1) Data have been revised in the light of new information.

2) Corresponding ESA 95 sector codes: non-financial corporations, S11; households, S14; non-profit institutions serving households, S15.

3) The definitions of consumer credit and lending for house purchase are not fully consistent across the euro area. Column 5 includes other lending to households.

Table 2.4 – Technical note**Seasonal adjustment of the euro area monetary aggregates**

Multiplicative versions of X-12-ARIMA (version 0.2.2¹⁾ and TRAMO/SEATS² (beta version, July 1998) are used. For technical reasons, the results of X-12-ARIMA are published as the official figures. Seasonal adjustment for monetary aggregates includes a day-of-the-week adjustment for some components of M2. The seasonal adjustment of M3 is carried out indirectly by aggregating the seasonally adjusted series of M1, M2 less M1, and M3 less M2 to fulfil the additivity constraint.

Seasonal factors are estimated for the index of adjusted stocks (Table 2.4.1). They are then applied to the levels expressed in EUR billions and to the adjustments due to reclassifications, other revaluations, etc., yielding seasonally adjusted values for the levels, the adjustments, and thus for the flows.

1 For details see Findley, D., Monsell, B., Bell, W., Otto, M., and Chen, B.C. (1998), "New Capabilities and Methods of the X-12-ARIMA Seasonal Adjustment Program", *Journal of Business and Economic Statistics*, 16, 2, 127-152, or "X-12-ARIMA Reference Manual Version 0.2.2", (December 1998), *Time Series Staff, Bureau of the Census, Washington, D.C.*

2 For details see Gomez, V. and Maravall, A. (1996), "Programs TRAMO and SEATS: Instructions for the User", *Bank of Spain, Working Paper No. 9628, Madrid.*

Table 2.6**Currency analysis of certain liabilities and assets of the euro area MFIs¹⁾***(EUR billions (not seasonally adjusted; end of period))***Liabilities outstanding****1. Deposits placed by euro area residents**

		MFIs								Non-MFIs							
		All currencies	Euro ²⁾	Other EU currencies	Other currencies	USD	JPY	CHF	Other	All currencies	Euro ²⁾	Other EU currencies	Other currencies	USD	JPY	CHF	Other
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1998	Dec.	3,370.9	2,978.4	43.2	349.4	244.5	27.2	51.2	26.5	5,008.0	4,863.2	19.5	125.4	90.0	13.1	13.2	9.1
1999	Mar. ^(p)	3,761.9	3,302.5	47.5	411.9	290.7	30.4	54.4	36.4	5,002.6	4,851.8	23.2	127.6	88.1	14.3	14.5	10.7

2. Deposits placed by non-residents of the euro area

		Banks ³⁾								Non-banks							
		All currencies	Euro ²⁾	Other EU currencies	Other currencies	USD	JPY	CHF	Other	All currencies	Euro ²⁾	Other EU currencies	Other currencies	USD	JPY	CHF	Other
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1998	Dec.	1,166.3	478.4	122.2	565.7	432.3	56.2	50.8	26.4	367.4	155.3	32.9	179.1	131.4	23.1	11.9	12.8
1999	Mar. ^(p)	1,291.3	555.6	131.4	604.2	465.7	53.7	53.9	31.0	418.0	179.2	39.5	199.0	147.3	25.2	12.5	14.0

3. Debt securities and money market paper issued by euro area MFIs

		Debt securities								Money market paper							
		All currencies	Euro ²⁾	Other EU currencies	Other currencies	USD	JPY	CHF	Other	All currencies	Euro ²⁾	Other EU currencies	Other currencies	USD	JPY	CHF	Other
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1998	Dec.	2,097.6	1,885.2	25.9	186.6	107.3	34.4	30.9	13.9	172.5	158.5	0.6	13.4	11.3	0.9	1.1	0.1
1999	Mar. ^(p)	2,182.5	1,977.3	27.0	178.2	108.2	27.0	28.3	14.7	183.3	167.6	0.8	15.0	12.8	0.8	1.3	0.2

Source: ECB.

1) Data have been revised in the light of new information.

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

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

Assets outstanding

4. Loans to euro area residents

		MFIs							Non-MFIs								
		All currencies	Euro ²⁾	Other EU currencies	Other currencies	USD	JPY	CHF	Other	All currencies	Euro ²⁾	Other EU currencies	Other currencies	USD	JPY	CHF	Other
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1998	Dec.	3,334.7	.	.	.	.	.	.	.	5,937.1	5,764.1	26.1	146.9	79.7	15.1	49.1	3.1
1999	Mar. ^(p)	3,728.4	.	.	.	.	.	.	.	6,002.8	5,803.8	20.0	179.0	99.5	18.7	54.2	6.7

5. Holdings of securities other than shares issued by euro area residents

		MFIs							Non-MFIs								
		All currencies	Euro ²⁾	Other EU currencies	Other currencies	USD	JPY	CHF	Other	All currencies	Euro ²⁾	Other EU currencies	Other currencies	USD	JPY	CHF	Other
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1998	Dec.	732.1	688.8	18.1	25.3	16.9	3.8	1.8	2.9	1,387.6	1,346.1	10.8	30.6	16.4	9.2	2.8	2.3
1999	Mar. ^(p)	763.0	728.7	7.8	26.5	17.7	5.3	1.2	2.2	1,412.8	1,376.1	4.2	32.5	17.6	11.6	2.4	0.9

6. Loans to non-residents of the euro area

		Banks ³⁾							Non-banks								
		All currencies	Euro ²⁾	Other EU currencies	Other currencies	USD	JPY	CHF	Other	All currencies	Euro ²⁾	Other EU currencies	Other currencies	USD	JPY	CHF	Other
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1998	Dec.	973.5	378.2	80.6	514.6	374.5	74.1	27.1	38.9	379.3	152.7	26.7	200.0	173.7	8.3	13.4	4.6
1999	Mar. ^(p)	1,004.3	435.6	109.4	459.7	326.9	62.5	27.1	43.2	384.7	139.9	28.3	216.6	189.3	7.8	14.2	5.4

7. Holdings of securities other than shares issued by non-residents of the euro area

		Banks ³⁾							Non-banks								
		All currencies	Euro ²⁾	Other EU currencies	Other currencies	USD	JPY	CHF	Other	All currencies	Euro ²⁾	Other EU currencies	Other currencies	USD	JPY	CHF	Other
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1998	Dec.	69.3	18.8	9.9	40.7	27.7	5.0	0.8	7.2	312.9	47.0	32.0	233.9	178.3	33.1	4.1	18.4
1999	Mar. ^(p)	77.5	19.2	10.0	48.3	34.4	5.1	0.9	7.9	395.4	51.4	31.4	312.6	252.3	30.9	4.3	25.1

3 Financial markets and interest rates in the euro area

Table 3.1

Money market interest rates¹⁾

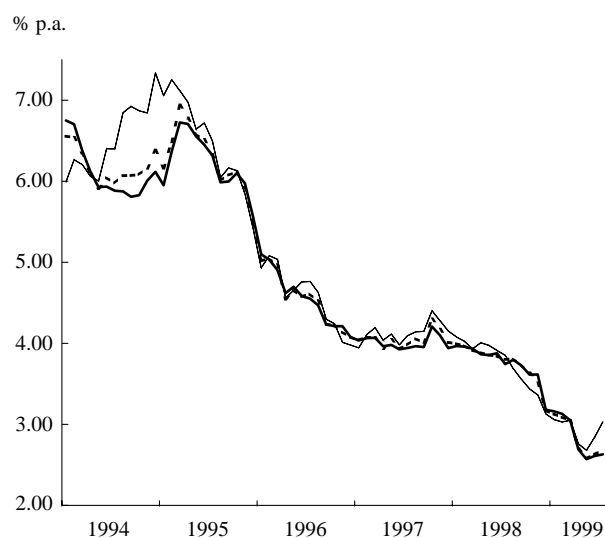
(percentages per annum)²⁾

	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 July	3.77	3.74	3.80	3.82	3.85	5.56	0.34
Aug.	3.78	3.80	3.81	3.72	3.69	5.50	0.37
Sep.	3.81	3.73	3.73	3.64	3.55	5.20	0.12
Oct.	3.66	3.61	3.63	3.53	3.44	5.12	0.68
Nov.	3.40	3.62	3.51	3.43	3.36	5.12	0.68
Dec.	3.09	3.18	3.17	3.14	3.13	5.00	0.18
1999 Jan.	3.14	3.16	3.13	3.10	3.06	4.99	0.35
Feb.	3.12	3.13	3.09	3.04	3.03	5.00	0.38
Mar.	2.93	3.05	3.05	3.02	3.05	4.99	0.20
Apr.	2.71	2.69	2.70	2.70	2.76	4.97	0.18
May	2.55	2.57	2.58	2.60	2.68	4.98	0.12
June	2.56	2.61	2.63	2.68	2.84	5.17	0.10
July	2.52	2.63	2.68	2.90	3.03	5.30	0.12
1999 2 July	2.58	2.64	2.66	2.84	2.96	5.28	0.12
9	2.54	2.62	2.67	2.87	2.99	5.29	0.13
16	2.62	2.65	2.69	2.93	3.07	5.33	0.12
23	1.87	2.63	2.69	2.93	3.09	5.29	0.09
30	2.58	2.63	2.69	2.97	3.13	5.38	0.12

Euro area money market rates

(monthly)

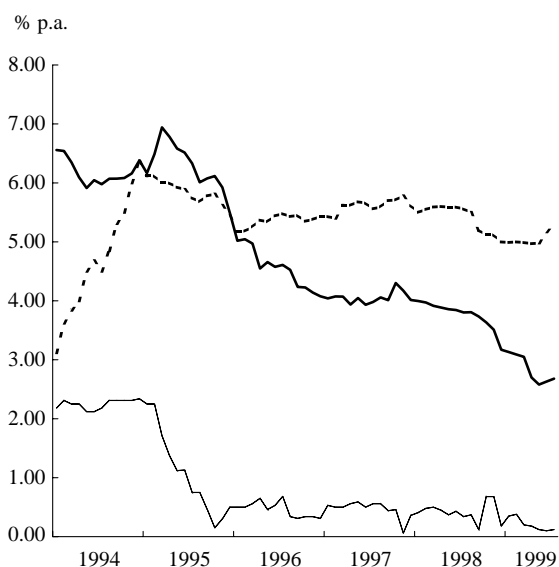
— 1-month rate - - - - - 3-month rate
— 12-month rate



3-month money market rates

(monthly)

— euro area - - - - - United States — Japan



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.

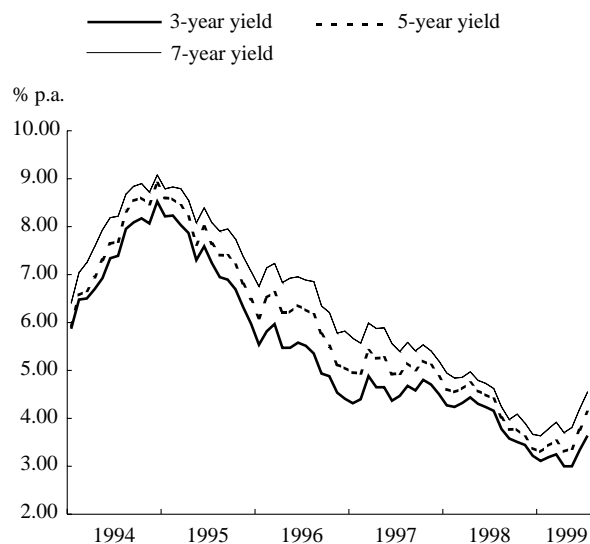
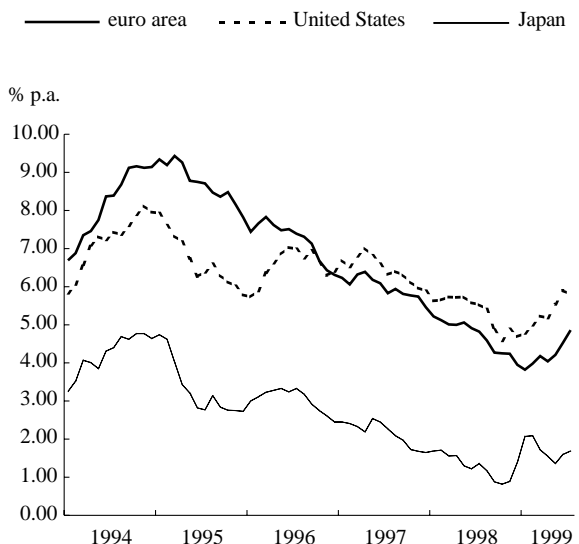
3) Before January 1999 synthetic euro area rates were calculated on the basis of national rates weighted by GDP.

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 3.2**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 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
Mar.	3.08	3.25	3.53	3.92	4.18	5.23	1.72
Apr.	2.83	3.00	3.31	3.70	4.04	5.18	1.55
May	2.82	3.00	3.37	3.81	4.21	5.54	1.36
June	3.09	3.34	3.77	4.20	4.53	5.90	1.60
July	3.30	3.64	4.13	4.55	4.86	5.80	1.69
1999 2 July	3.22	3.54	4.01	4.47	4.78	5.83	1.66
9	3.30	3.68	4.20	4.61	4.91	5.82	1.67
16	3.37	3.75	4.24	4.62	4.91	5.70	1.76
23	3.46	3.64	4.11	4.52	4.82	5.83	1.68
30	3.43	3.81	4.32	4.69	4.99	5.93	1.77

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

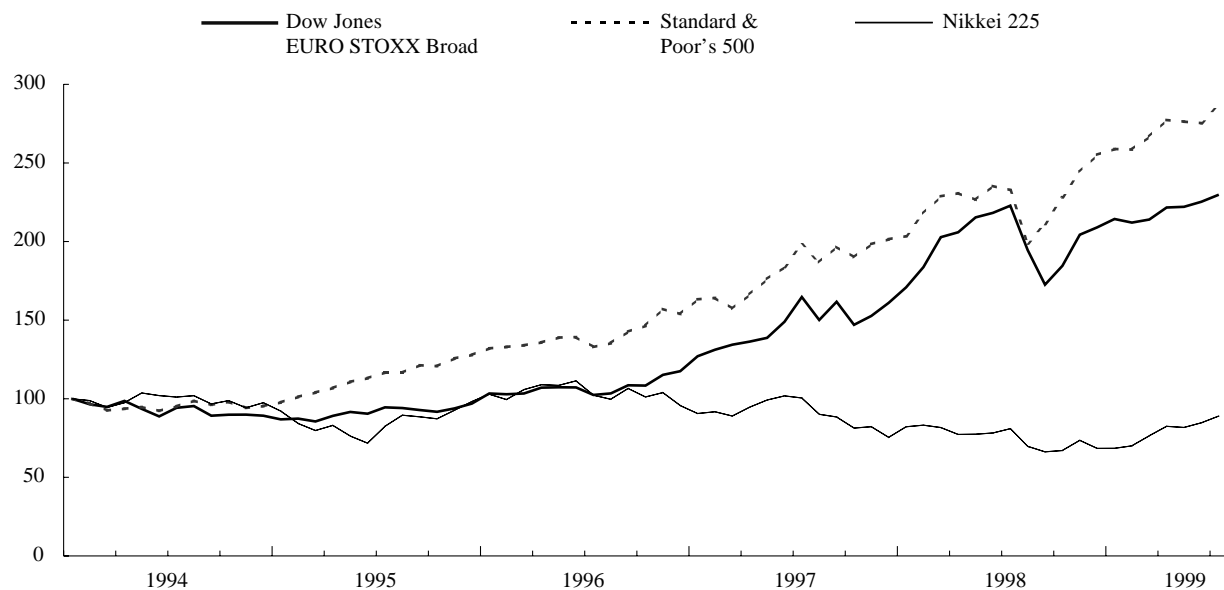
Sources: Reuters, ECB, Federal Reserve and Bank of Japan.

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 3.3**Stock market indices***(index levels, in points)¹⁾*

	Dow Jones EURO STOXX indices											United States	Japan
	Benchmark		Main economic sector indices									Standard & Poor's 500	Nikkei 225
	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 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 Mar.	305.52	3,524.19	153.81	155.94	480.73	254.11	249.73	229.77	311.75	374.45	318.57	1,284.56	15,459.81
1999 Apr.	316.39	3,671.80	172.06	162.67	493.62	276.64	257.18	238.42	334.72	403.94	306.87	1,335.79	16,689.65
1999 May	317.05	3,669.07	176.93	167.47	482.10	291.29	253.77	257.12	344.94	413.34	300.15	1,330.72	16,533.26
1999 June	321.66	3,749.45	177.95	168.33	487.77	299.00	251.77	268.06	365.11	440.22	300.26	1,325.93	17,135.96
1999 July	328.07	3,846.24	190.82	168.19	487.34	316.01	246.24	277.97	379.94	481.62	302.28	1,380.99	18,008.62
1999 2 July	331.34	3,888.11	184.03	170.35	494.23	306.08	250.51	283.41	380.86	489.03	309.04	1,380.96	17,932.47
1999 9	336.91	3,962.42	192.76	171.13	501.72	325.64	253.39	285.83	379.15	490.57	309.85	1,403.28	17,937.73
1999 16	336.31	3,952.20	197.60	170.36	488.87	330.76	248.67	281.56	394.02	504.32	304.89	1,418.78	18,248.30
1999 23	318.89	3,723.55	191.68	165.16	484.10	305.16	240.51	272.61	372.09	464.17	295.99	1,356.94	17,534.44
1999 30	312.35	3,638.62	190.10	162.42	467.49	305.26	235.95	267.88	365.41	456.03	288.16	1,328.72	17,861.86

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

Source: Reuters.

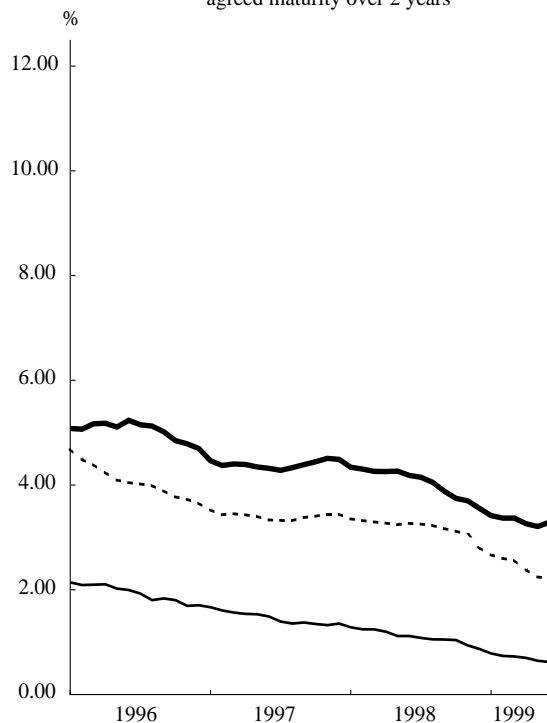
1) End-of-period values to December 1998; period averages thereafter.

Table 3.4**Retail bank interest rates***(percentages per annum; period averages)*

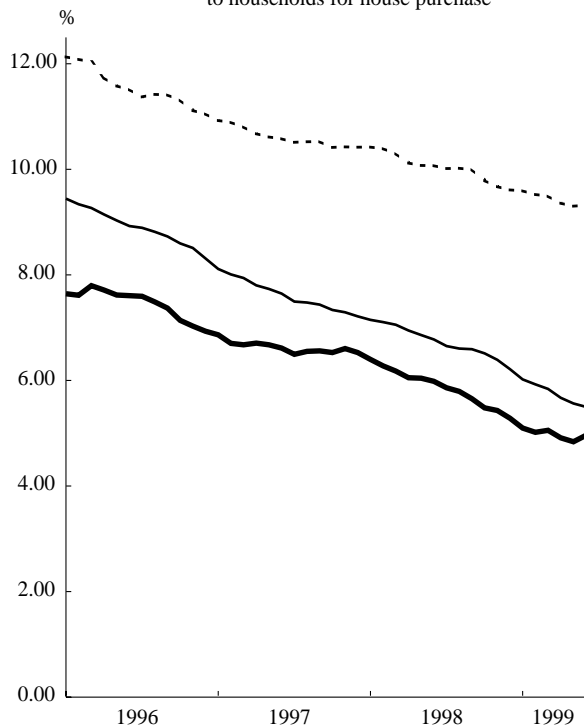
	Deposit interest rates						Lending interest rates			
	Overnight	With agreed maturity			Redeemable at notice		To enterprises		To households	
		Up to 1 year	Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	Up to 1 year	Over 1 year	Consumer lending	For house purchase
	1	2	3	4	5	6	7	8	9	10
1996	1.94	4.09	4.69	5.04	3.05	3.16	8.92	.	11.56	7.46
1997	1.46	3.41	3.63	4.40	2.80	3.09	7.62	6.64	10.61	6.63
1998	1.10	3.20	3.22	4.06	2.61	3.25	6.74	5.80	10.04	5.87
1998 June	1.12	3.27	3.28	4.18	2.58	3.34	6.78	5.90	10.07	5.98
July	1.08	3.26	3.26	4.15	2.56	3.29	6.65	5.84	10.02	5.86
Aug.	1.05	3.23	3.24	4.05	2.55	3.30	6.60	5.77	10.02	5.79
Sep.	1.05	3.17	3.18	3.88	2.53	3.21	6.59	5.65	10.00	5.65
Oct.	1.04	3.12	3.13	3.74	2.49	3.14	6.51	5.52	9.79	5.48
Nov.	0.94	3.06	3.05	3.70	2.48	3.12	6.39	5.44	9.67	5.43
Dec.	0.87	2.81	2.81	3.56	2.44	3.03	6.21	5.12	9.61	5.28
1999 Jan.	0.79	2.67	2.67	3.42	2.36	2.86	6.02	5.04	9.59	5.10
Feb.	0.74	2.60	2.60	3.37	2.33	2.78	5.93	5.00	9.52	5.02
Mar.	0.73	2.57	2.56	3.37	2.30	2.79	5.84	4.99	9.50	5.06
Apr.	0.70	2.39	2.39	3.26	2.26	2.61	5.67	4.81	9.36	4.91
May	0.65	2.25	2.25	3.21	2.16	2.48	5.56	4.73	9.30	4.84
June	0.62	2.22	2.22	3.29	2.15	2.45	5.50	4.79	9.32	4.96

Deposit interest rates*(monthly)*

— overnight
 - - - - agreed maturity up to 1 year
 ——— agreed maturity over 2 years

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

— up to 1 year to enterprises
 - - - - consumer lending
 ——— to households for house purchase



Source: ECB.

These euro area retail bank interest rates should be used with caution and for statistical purposes only, primarily to analyse 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 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.

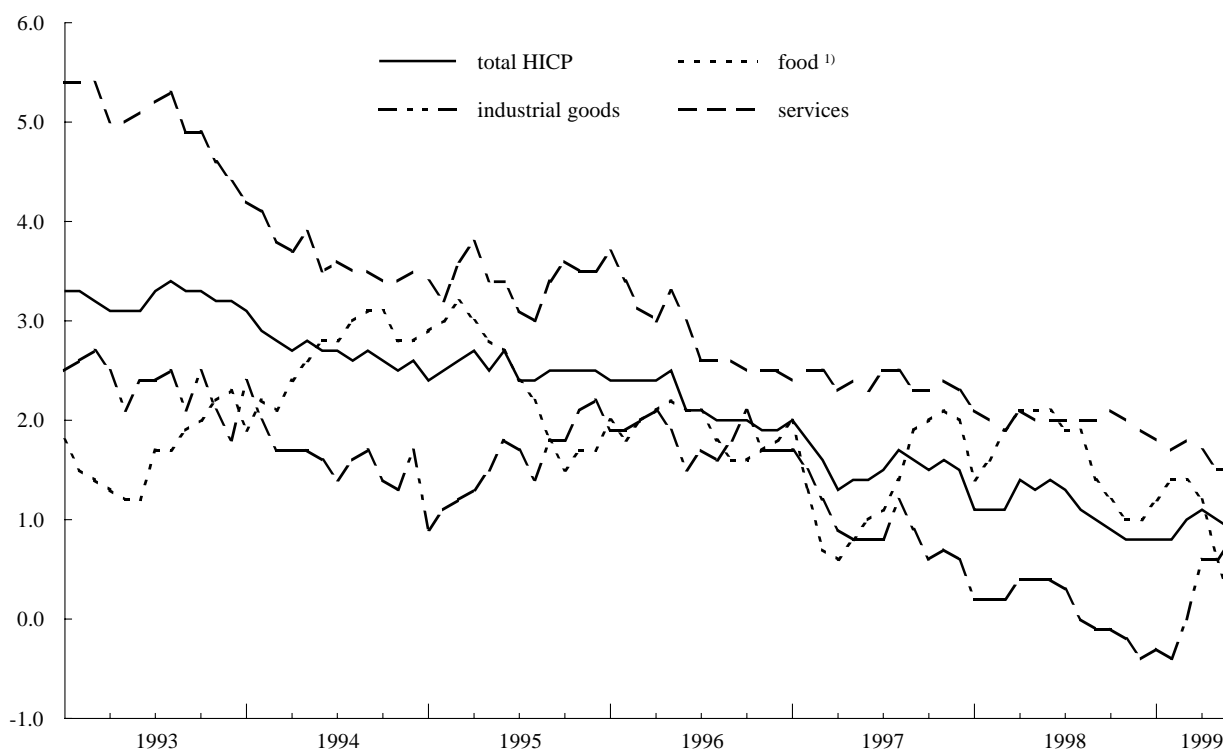
4 HICP and other prices in the euro area

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	13.4	9.0	41.3	32.5	8.8		
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	2.5	.	2.4	2.5	2.4	1.6	1.7	1.4	3.4	
1996	100.0	2.2	1.8	1.9	1.9	1.8	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	
1998 Q2	102.8	1.3	1.0	2.1	1.6	2.8	0.4	0.9	-1.4	2.0	
1998 Q3	102.9	1.1	0.7	1.7	1.4	2.1	0.1	1.0	-3.2	2.0	
1998 Q4	102.8	0.8	0.2	1.1	1.2	0.8	-0.2	0.9	-4.4	2.0	
1999 Q1	103.1	0.8	0.3	1.3	1.2	1.5	-0.2	0.8	-3.8	1.7	
1999 Q2	103.8	1.0	0.6	0.6	0.9	0.3	0.6	0.6	0.8	1.6	
1998 June	102.9	1.4	1.0	2.1	1.6	2.9	0.4	1.0	-1.7	2.0	
1998 July	102.9	1.3	0.9	1.9	1.6	2.5	0.3	1.0	-1.9	2.0	
1998 Aug.	102.9	1.1	0.6	1.9	1.5	2.4	0.0	1.0	-3.8	2.0	
1998 Sep.	102.9	1.0	0.4	1.4	1.3	1.5	-0.1	1.0	-3.9	2.0	
1998 Oct.	102.8	0.9	0.3	1.2	1.3	1.1	-0.1	1.0	-4.0	2.1	
1998 Nov.	102.8	0.8	0.2	1.0	1.2	0.6	-0.2	0.9	-4.4	2.0	
1998 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	
1999 Feb.	103.1	0.8	0.2	1.4	1.3	1.5	-0.4	0.7	-4.3	1.7	
1999 Mar.	103.4	1.0	0.5	1.4	1.1	1.8	0.0	0.7	-2.8	1.8	
1999 Apr.	103.7	1.1	0.8	1.2	1.1	1.2	0.6	0.6	0.3	1.7	
1999 May	103.8	1.0	0.6	0.6	0.8	0.4	0.6	0.6	0.5	1.5	
1999 June	103.8	0.9	0.5	0.1	0.7	-0.7	0.8	0.6	1.4	1.5	



Source: Eurostat. Data before 1995 are estimates based on national definitions and are not fully comparable with HICPs starting in 1995.

1) Including alcoholic beverages and tobacco.

2) Referring to index period 1999.

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	1.9	2.2	2.4	.	0.3	2.1
1996	100.4	0.4	1.0	-1.1	1.2	1.7	1.7	1.7	1.2	6.4	-6.9
1997	101.4	1.1	0.6	1.2	0.3	0.8	0.1	1.2	1.4	10.0	12.9
1998	100.6	-0.8	-0.7	-2.2	0.5	0.4	0.1	0.6	0.3	-21.2	-12.5
1998 Q2	101.0	-0.2	0.0	-1.1	0.5	0.6	0.1	0.8	0.4	-16.6	-10.7
1998 Q3	100.4	-1.3	-1.1	-2.9	0.7	0.3	0.3	0.3	0.0	-24.2	-18.2
1998 Q4	99.4	-2.3	-2.2	-4.5	0.3	-0.2	0.1	-0.3	0.3	-30.0	-20.5
1999 Q1	98.8	-2.6	-2.1	-4.8	0.2	0.0	0.2	-0.2	0.8	-17.6	-16.0
1999 Q2	.	.	.	.	.	.	.	.	.	5.9	-8.3
1998 July	100.6	-0.8	-0.6	-2.1	0.7	0.6	0.4	0.6	-	-21.1	-14.5
1998 Aug.	100.4	-1.4	-1.2	-3.2	0.7	0.4	0.3	0.4	-	-26.3	-19.0
1998 Sep.	100.2	-1.6	-1.5	-3.4	0.5	0.1	0.2	0.0	-	-25.2	-21.0
1998 Oct.	99.8	-2.0	-1.9	-4.1	0.4	-0.1	0.1	-0.2	-	-30.5	-23.5
1998 Nov.	99.4	-2.4	-2.2	-4.6	0.3	-0.2	0.1	-0.4	-	-28.6	-18.4
1998 Dec.	99.1	-2.6	-2.3	-4.9	0.3	-0.1	0.2	-0.3	-	-30.8	-19.4
1999 Jan.	98.8	-2.7	-2.4	-5.1	0.2	-0.1	0.3	-0.3	-	-23.3	-17.2
1999 Feb.	98.7	-2.7	-2.3	-5.1	0.2	-0.1	0.2	-0.1	-	-20.6	-16.0
1999 Mar.	99.0	-2.3	-1.8	-4.3	0.2	-0.1	0.2	-0.2	-	-8.4	-14.6
1999 Apr.	99.6	-1.6	-1.2	-3.3	0.3	.	0.2	.	-	0.2	-12.6
1999 May	99.7	-1.4	-1.0	-2.8	0.0	.	0.1	.	-	5.1	-7.8
1999 June	.	.	.	.	.	.	.	.	-	12.9	-4.2
1999 July	.	.	.	.	.	.	.	.	-	22.7	-2.3

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

	Deflators of GDP ³⁾ (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	2.6	2.8	2.8	1.5	1.7	3.5	3.6
1996	102.1	2.1	2.5	2.4	0.8	2.0	3.3	3.5
1997	103.7	1.6	2.1	1.5	1.0	0.6	2.5	3.0
1998	105.4	1.7	1.5	1.1	0.5	.	.	.
1996 Q3	102.2	1.8	2.3	2.1	0.5	1.9	3.2	3.7
1996 Q4	102.7	1.7	2.2	2.6	0.6	1.4	2.8	2.9
1997 Q1	103.2	1.6	2.0	1.8	0.9	1.9	2.8	3.1
1997 Q2	103.5	1.6	1.8	2.1	0.9	0.5	2.7	3.4
1997 Q3	103.8	1.5	2.1	1.4	0.9	0.2	2.2	2.7
1997 Q4	104.2	1.5	1.9	1.7	1.0	-0.1	2.1	2.8
1998 Q1	104.9	1.6	1.6	1.3	0.5	-2.0	0.9	2.1
1998 Q2	105.2	1.6	1.5	1.3	0.6	-0.5	1.1	2.8
1998 Q3	105.5	1.6	1.1	2.0	0.2	-0.3	1.1	2.6
1998 Q4	105.7	1.5	0.9	1.7	0.0	.	.	.
1999 Q1	106.1	1.2	0.9	1.0	0.1	.	.	.

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).

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

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

3) Based mainly on the ESA 95.

5 Real economy indicators in the euro area

Table 5.1

Output and demand indicators

1. Gross domestic product and its components

(EUR billions (ECU billions to end-1998), seasonally adjusted, at 1995 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	5,302.3	5,203.2	2,993.6	1,089.4	1,093.4	1,568.0	1,469.0
1996	5,373.5	5,250.9	3,035.8	1,105.9	1,104.6	1,638.5	1,515.9
1997	5,499.0	5,346.5	3,076.9	1,113.6	1,130.5	1,796.4	1,643.9
1998	5,651.9	5,526.6	3,156.5	1,130.5	1,179.3	1,906.1	1,780.8
1998 Q1	1,402.8	1,370.2	782.7	282.9	292.9	472.9	440.3
Q2	1,409.9	1,375.0	786.4	283.6	290.7	479.5	444.7
Q3	1,418.2	1,385.5	791.4	282.7	297.4	480.1	447.5
Q4	1,421.0	1,395.8	796.1	281.3	298.3	473.6	448.4
1999 Q1	1,427.8	1,405.7	804.7	287.0	305.9	472.4	450.3

(annual percentage changes)¹⁾

	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	2.0	1.8	0.5	2.6	8.0	7.6
1996	1.3	0.9	1.4	1.5	1.0	4.5	3.2
1997	2.3	1.8	1.4	0.7	2.3	9.6	8.4
1998	2.8	3.4	2.6	1.5	4.3	6.1	8.3
1998 Q1	3.6	3.7	2.4	1.9	6.1	11.0	12.0
Q2	2.8	3.0	2.3	2.1	3.1	8.6	9.7
Q3	2.7	3.6	3.0	1.3	4.7	4.2	7.3
Q4	2.0	3.2	2.6	0.7	3.4	1.1	4.7
1999 Q1	1.8	2.6	2.8	1.4	4.4	-0.1	2.3

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	3.4	3.5	2.6	7.3	.	.	-0.4	2.0	0.3	
1996	100.5	0.4	0.1	-0.1	1.7	0.1	-0.3	-2.5	1.1	6.6	
1997	104.9	4.4	5.0	5.4	4.8	2.8	2.6	-1.0	0.8	3.9	
1998	109.1	4.0	4.5	3.9	6.6	6.3	1.4	-0.6	2.6	7.6	
1998 Q2	109.2	4.6	5.3	4.6	7.1	6.9	2.4	-0.2	1.8	2.8	
Q3	109.5	3.9	4.2	3.1	6.6	6.4	2.0	-1.5	2.8	7.4	
Q4	109.1	1.4	1.3	0.3	3.8	4.5	-0.5	-3.6	3.0	7.5	
1999 Q1	108.9	0.1	-0.3	-0.9	0.6	0.9	0.7	0.7	2.5	7.1	
Q2	.	.	.	.	.	.	.	.	.	10.0
1998 June	109.1	3.5	4.0	3.7	5.3	5.6	1.7	-0.8	2.6	4.8	
July	110.0	4.2	4.6	3.5	7.4	6.5	2.8	-0.3	3.5	7.2	
Aug.	108.9	4.3	4.8	3.6	6.9	7.6	2.4	-0.9	2.4	7.1	
Sep.	109.5	3.2	3.4	2.5	5.7	5.7	1.0	-2.9	2.6	7.9	
Oct.	109.7	2.3	2.6	1.2	5.6	8.1	0.1	-3.5	1.8	1.2	
Nov.	109.4	1.9	1.9	1.3	4.3	4.3	-0.1	-4.0	4.0	15.3	
Dec.	108.2	-0.3	-0.9	-1.8	1.6	0.5	-1.4	-3.5	3.3	7.3	
1999 Jan.	109.0	1.1	1.0	-0.3	3.8	3.5	0.8	3.0	0.2	5.1	
Feb.	108.4	-0.7	-1.5	-1.5	-0.1	0.6	-0.5	-2.3	1.6	5.6	
Mar.	109.2	-0.1	-0.4	-0.7	-1.4	-1.0	1.6	1.3	5.8	10.0	
Apr.	108.4	-0.6	-0.8	-1.5	0.5	-1.4	-0.5	.	2.3	11.2	
May	108.9	-0.5	-0.8	-1.0	-0.9	0.9	-1.1	.	0.5	7.9	
June	.	.	.	.	.	.	.	.	.	10.6

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

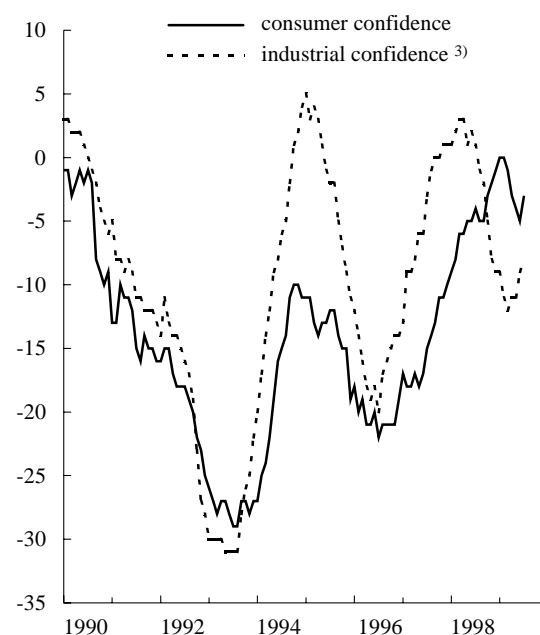
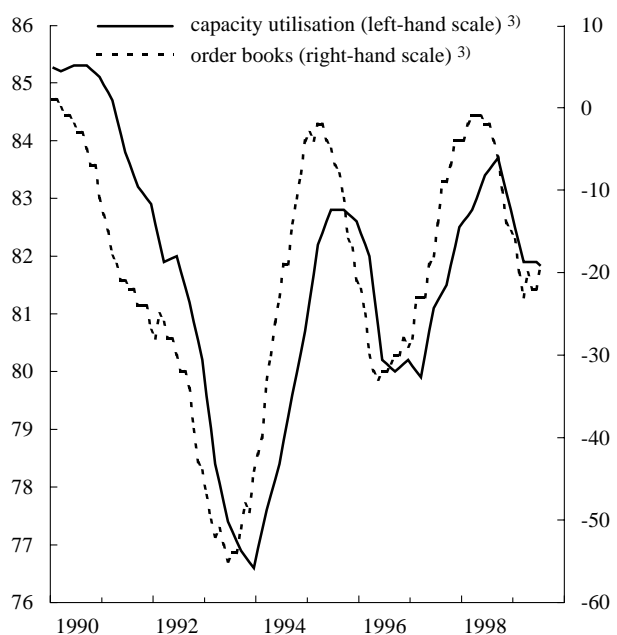
1) Components exclude changes in inventories. Based mainly on the ESA 95.

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				Unemployment ²⁾		Labour productivity	
	Whole economy ¹⁾		Manufacturing		Millions	% of labour force	Whole economy ¹⁾ (annual percentage changes)	Manufacturing (annual percentage changes)
	Index, 1995 = 100	Annual percentage changes	Index, 1995 = 100	Annual percentage changes					5	6	7	8
	1	2	3	4				
1995	100.0	0.5	100.0	-1.1	14.380	11.4	1.9	4.7
1996	100.3	0.3	98.1	-1.9	14.807	11.6	1.2	2.1
1997	100.9	0.5	97.1	-1.0	14.901	11.6	1.9	6.1
1998	102.2	1.3	97.8	0.7	14.104	10.9	.	3.8
1998 Q1	101.5	1.1	97.6	0.6	14.469	11.2	3.0	7.0
Q2	101.9	1.2	97.9	1.0	14.191	11.0	1.5	4.3
Q3	102.4	1.4	97.9	0.9	14.009	10.9	1.4	3.3
Q4	102.8	1.6	97.8	0.4	13.749	10.7	.	0.9
1999 Q1	.	.	97.6	0.1	13.410	10.4	.	-0.4
1998 May	-	-	97.9	1.0	14.190	11.0	-	6.8
June	-	-	98.0	1.0	14.110	10.9	-	3.0
July	-	-	97.9	0.9	14.056	10.9	-	3.7
Aug.	-	-	97.9	0.9	14.028	10.9	-	3.8
Sep.	-	-	97.9	0.8	13.941	10.8	-	2.6
Oct.	-	-	97.9	0.6	13.840	10.7	-	2.0
Nov.	-	-	97.7	0.4	13.741	10.7	-	1.5
Dec.	-	-	97.7	0.3	13.666	10.6	-	-1.1
1999 Jan.	-	-	97.8	0.3	13.501	10.5	-	0.7
Feb.	-	-	97.7	0.2	13.411	10.4	-	-1.6
Mar.	-	-	97.5	-0.2	13.317	10.3	-	-0.2
Apr.	-	-	.	.	13.284	10.3	-	.
May	-	-	.	.	13.260	10.3	-	.

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, 2, 7), Eurostat (columns 3 to 6, 8) 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)

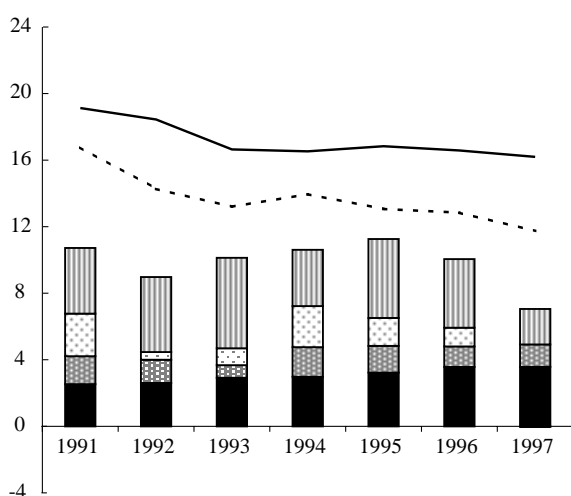
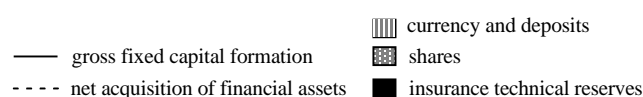
	Euro area saving and investment ¹⁾			Investment of private non-financial sectors ^{1) 2)}								
	Gross saving	Gross fixed capital formation	Net lending to the rest of the world	Gross fixed capital formation	Non-financial corporations	Net acquisition of financial assets	Currency and deposits	Securities other than shares	Long-term securities	Shares	Insurance technical reserves	
	1	2	3	4	5	6	7	8	9	10	11	
1991	21.9	23.0	-1.3	19.1	14.3	16.8	3.9	3.0	2.6	1.7	2.5	
1992	20.9	22.2	-1.0	18.4	13.7	14.3	4.5	1.7	0.5	1.4	2.6	
1993	20.0	20.2	0.5	16.6	12.3	13.2	5.4	0.6	1.0	0.8	2.9	
1994	20.4	19.8	0.3	16.5	12.3	14.0	3.4	2.3	2.5	1.8	3.0	
1995	21.2	20.0	0.8	16.8	12.6	13.1	4.7	1.9	1.7	1.6	3.2	
1996	20.8	19.7	1.3	16.6	12.3	12.8	4.1	0.2	1.1	1.2	3.6	
1997	21.6	19.2	1.9	16.2	12.1	11.7	2.1	-0.5	0.0	1.3	3.6	
1998	21.6	19.4	0.9	16.4	12.4	.	.	.	.	.	.

	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				
1991	21.0	12.1	13.2	0.4	0.3	1.5	9.0	4.8	3.6	46.7	38.6	
1992	20.7	12.1	10.7	0.7	0.6	1.4	6.9	4.7	3.6	43.6	34.0	
1993	20.4	11.5	7.6	1.3	1.4	1.5	3.8	4.6	5.6	44.2	27.1	
1994	20.3	10.6	9.8	1.1	1.2	1.8	3.8	3.7	4.1	45.8	32.6	
1995	21.0	10.8	5.6	-1.7	-1.8	1.6	4.7	2.9	7.5	43.7	21.0	
1996	20.3	10.7	8.4	0.2	0.1	1.8	4.6	3.5	4.4	43.6	29.3	
1997	19.8	9.4	7.9	0.0	-0.1	1.4	5.0	3.4	3.8	42.0	28.6	
1998	19.0	8.8	.	.	.	.	.	.	.	.	.

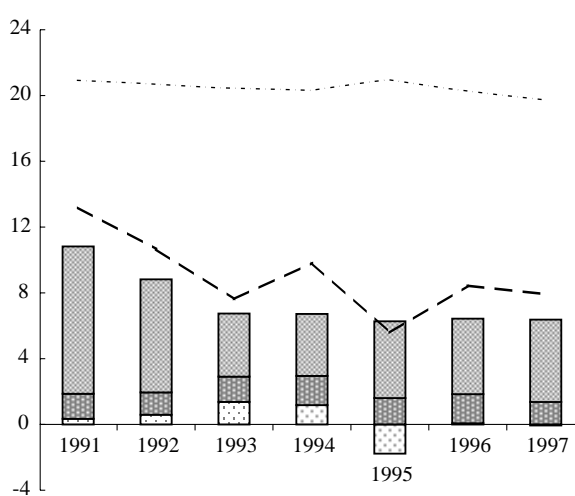
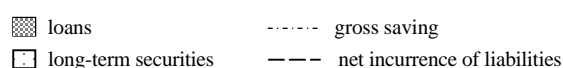
Investment and financing of private non-financial sectors ^{1) 2)}

(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

General government fiscal position

(as a percentage of GDP)

1. Euro area ^{1) 2)} – receipts and expenditure

	Receipts							Expenditure							
	Total	Current receipts	Direct taxes	Indirect taxes	Social contributions	Sales	Capital receipts	Total	Current expenditure	Compensation of employees	Inter-mediate consumption	Interest	Transfers to households	Capital expenditure	Investment
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1991	48.0	47.5	12.3	12.9	17.3	2.5	0.4	52.4	47.7	11.8	5.5	4.9	21.3	4.6	3.0
1992	49.2	48.4	12.3	13.0	17.7	2.7	0.8	53.8	49.3	12.1	5.5	5.5	22.2	4.5	3.0
1993	49.9	49.4	12.5	13.2	18.2	2.8	0.5	55.5	51.0	12.3	5.7	5.7	23.1	4.5	2.9
1994	49.2	48.6	12.0	13.4	18.1	2.7	0.5	54.3	50.1	12.0	5.5	5.4	23.1	4.2	2.7
1995	49.1	48.5	12.1	13.3	18.1	2.8	0.6	54.0	49.7	11.8	5.3	5.7	23.1	4.3	2.6
1996	49.3	48.8	12.1	13.4	18.3	2.8	0.5	53.4	49.7	11.9	5.4	5.5	23.2	3.7	2.4
1997	49.7	49.0	12.2	13.5	18.3	2.7	0.7	52.2	48.6	11.6	5.2	5.0	23.1	3.6	2.3
1998	49.1	48.5	12.5	14.1	17.2	2.7	0.5	51.2	47.4	11.3	5.1	4.5	22.6	3.7	2.3

2. Euro area ^{1) 2)} – saving, deficit and debt

	Gross saving	Deficit (-) / surplus (+)				Primary deficit/surplus	Deficit/debt adjust-ment ³⁾	Change in debt ⁴⁾				Gross nominal consolidated debt			
		Total	Central government	Local government	Social security			Total	Currency, deposits and loans	Short-term securities	Medium/long-term securities	Total	Currency, deposits and loans	Short-term securities	Medium/long-term securities
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
1991	-0.2	-4.4	-4.5	-0.2	0.3	0.5	0.7	5.1	1.3	0.0	3.9	58.3	18.5	8.5	31.2
1992	-0.9	-4.6	-4.3	-0.2	-0.1	0.9	2.2	6.8	1.7	0.9	4.2	61.9	19.2	8.9	33.8
1993	-1.6	-5.5	-5.3	-0.2	0.0	0.2	2.5	8.1	1.5	-0.3	6.9	68.4	20.2	8.4	39.8
1994	-1.5	-5.1	-4.9	-0.2	0.0	0.3	0.8	5.9	0.2	0.6	5.1	70.8	19.4	8.5	42.9
1995	-1.3	-5.0	-4.6	-0.1	-0.3	0.7	2.3	7.3	2.0	-0.2	5.5	74.8	20.6	7.9	46.4
1996	-0.9	-4.1	-3.9	0.0	-0.2	1.3	-0.2	3.9	0.3	0.2	3.4	76.1	20.2	7.8	48.1
1997	0.4	-2.5	-2.6	0.0	0.0	2.5	-0.3	2.2	-0.1	-1.0	3.2	75.4	19.3	6.6	49.5
1998	1.1	-2.1	-2.3	0.2	0.1	2.4	-0.6	1.5	-0.4	-0.7	2.6	73.6	18.1	5.6	49.9

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

	BE	DE	ES	FR	IE	IT	LU	NL	AT	PT	FI
	1	2	3	4	5	6	7	8	9	10	11
1991	-6.3	-3.3	-4.4	-2.1	-2.3	-10.1	1.9	-2.9	-3.0	-6.0	-1.1
1992	-7.1	-2.8	-4.0	-3.9	-2.4	-9.6	0.7	-3.9	-2.0	-3.0	-5.7
1993	-7.3	-3.5	-6.8	-5.8	-2.3	-9.6	1.6	-3.2	-4.3	-6.1	-7.3
1994	-4.9	-2.6	-6.2	-5.8	-1.5	-9.2	2.7	-3.8	-5.0	-6.0	-6.0
1995	-4.0	-3.3	-7.1	-4.9	-2.1	-7.7	1.8	-4.0	-5.1	-5.7	-4.6
1996	-3.1	-3.4	-4.5	-4.1	-0.3	-6.6	2.8	-2.0	-3.7	-3.3	-3.1
1997	-1.9	-2.7	-2.6	-3.0	1.1	-2.7	2.9	-0.9	-1.9	-2.5	-1.2
1998	-1.3	-2.1	-1.8	-2.9	2.3	-2.7	2.1	-0.9	-2.1	-2.3	1.0

4. Euro area countries – gross nominal consolidated debt

	BE	DE	ES	FR	IE	IT	LU	NL	AT	PT	FI
	12	13	14	15	16	17	18	19	20	21	22
1991	128.4	40.9	44.6	35.8	92.6	102.0	4.0	79.0	58.2	67.3	23.1
1992	130.6	43.6	47.0	39.9	89.5	109.4	4.9	79.9	58.1	59.9	41.5
1993	137.6	47.5	58.8	45.4	93.1	120.0	5.9	81.1	62.8	63.2	58.0
1994	135.1	49.9	61.3	48.6	86.5	125.7	5.5	77.8	65.6	63.8	59.6
1995	132.2	58.3	64.2	52.8	78.9	125.3	5.8	79.0	69.4	65.9	58.1
1996	128.0	60.8	68.6	55.7	69.4	124.6	6.3	77.0	69.8	64.9	57.8
1997	123.4	61.5	67.5	58.1	61.3	122.4	6.4	71.2	64.3	61.7	54.9
1998	117.3	61.0	65.6	58.5	52.1	118.7	6.7	67.7	63.1	57.8	49.6

Sources: ECB for euro area aggregated data; European Commission (DG II and Eurostat) for data relating to euro area countries' deficit/surplus and debt.

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

2) Euro area excluding Luxembourg.

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: $[\text{debt}(t) - \text{debt}(t-1)] \div \text{GDP}(t)$.

8 Balance of payments of the euro area and the Eurosystem's reserve position

Table 8.1

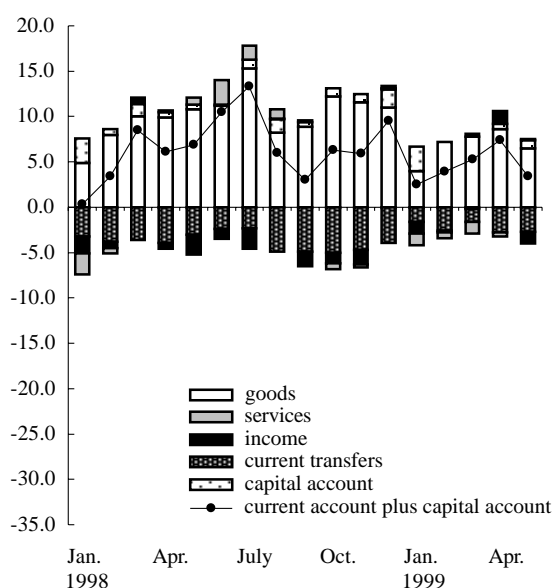
Summary balance of payments

(EUR billions (ECU billions to end-1998); net flows)

	Current account					Capital account	Financial account ¹⁾						Errors and omissions ²⁾
	Total	Goods	Services	Income	Current transfers		Total ²⁾	Direct investment	Portfolio investment ²⁾	Financial derivatives ²⁾	Other investment ^{2) 3)}	Reserve assets ²⁾	
	1	2	3	4	5	6	7	8	9	10	11	12	13
1998	67.0	122.1	3.1	-12.6	-45.5	12.6	7.9	-100.2	-90.8	-8.3	198.9	8.3	-87.6
1998 Q1	7.6	22.9	-2.6	-2.2	-10.5	4.7	-1.6	-11.2	-54.7	0.3	65.2	-1.3	-10.7
Q2	22.3	31.8	3.7	-4.0	-9.3	1.2	4.1	-14.8	-1.7	-4.1	24.6	0.0	-27.5
Q3	19.3	32.4	2.7	-3.8	-12.1	3.0	-3.3	-23.1	12.3	1.2	3.5	2.8	-19.0
Q4	17.9	34.9	-0.6	-2.8	-13.6	3.7	8.7	-51.1	-46.7	-5.6	105.5	6.7	-30.3
1999 Q1	9.2	19.1	-3.2	-1.2	-5.6	2.4	-21.6	-9.9	-41.9	-1.6	27.7	4.0	10.0
1998 Jan.	-2.4	4.9	-2.3	-1.9	-3.2	2.7	13.5	-5.1	-2.0	-1.8	20.0	2.5	-13.9
Feb.	2.8	8.0	-0.6	-0.7	-3.8	0.6	-17.6	-4.5	-22.8	0.7	12.9	-3.9	14.2
Mar.	7.1	10.0	0.3	0.4	-3.6	1.4	2.5	-1.5	-29.9	1.4	32.3	0.2	-11.0
Apr.	5.5	9.9	0.2	-0.7	-3.9	0.6	-29.0	-8.2	-21.9	-0.9	2.9	-0.9	22.9
May	6.4	10.8	0.8	-2.2	-3.0	0.5	19.5	-1.3	9.1	-1.5	12.3	0.9	-26.4
June	10.4	11.2	2.7	-1.1	-2.4	0.1	13.6	-5.2	11.1	-1.8	9.5	0.0	-24.1
July	12.3	15.3	1.5	-2.3	-2.3	1.0	23.8	-8.6	14.6	-1.4	17.8	1.3	-37.1
Aug.	4.5	8.2	1.0	0.1	-4.9	1.5	8.6	-7.9	8.5	2.3	8.3	-2.5	-14.6
Sep.	2.5	8.9	0.2	-1.6	-4.9	0.5	-35.7	-6.6	-10.8	0.3	-22.6	4.0	32.6
Oct.	5.4	12.2	-0.6	-1.2	-5.0	0.9	-12.3	-16.6	-33.4	-3.0	44.1	-3.3	6.0
Nov.	5.0	11.6	-0.3	-1.6	-4.7	0.9	4.7	-33.8	1.8	-2.4	45.1	-6.1	-10.5
Dec.	7.5	11.0	0.3	0.1	-3.9	2.0	16.3	-0.7	-15.1	-0.2	16.2	16.1	-25.8
1999 Jan.	-0.2	4.0	-1.3	-1.3	-1.6	2.7	11.8	-5.2	8.1	-2.1	13.6	-2.4	-14.3
Feb.	3.9	7.2	-0.6	-0.2	-2.6	0.0	6.7	-2.0	-16.8	-0.2	21.2	4.6	-10.6
Mar.	5.5	7.8	-1.3	0.3	-1.4	-0.2	-40.2	-2.6	-33.2	0.8	-7.0	1.8	34.9
Apr.	6.8	8.6	-0.4	1.4	-2.8	0.6	17.3	-13.8	2.4	2.7	24.5	1.5	-24.7
May	2.5	6.5	0.1	-1.3	-2.7	0.9	-7.4	-17.0	-27.6	-3.2	36.6	3.9	4.0

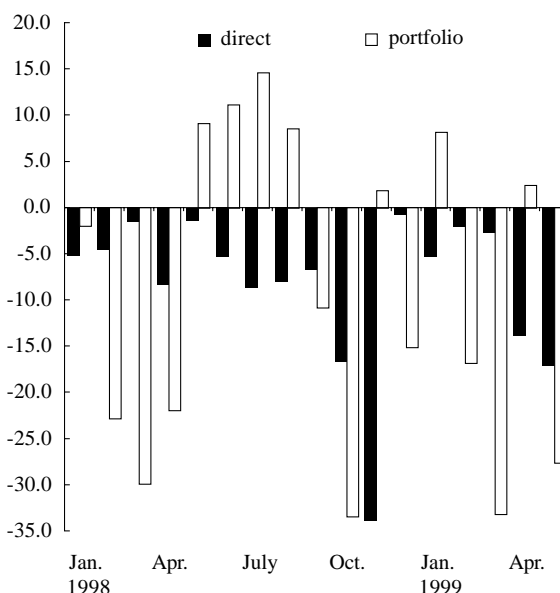
Current and capital accounts

(EUR billions (ECU billions to end-1998); net flows)



Direct and portfolio investment

(EUR billions (ECU billions to end-1998); net flows)



Source: ECB.

1) Inflows (+); outflows (-). Reserve assets: increase (-); decrease (+).

2) Data from January 1999 are not closely comparable with earlier observations.

3) Flows before January 1999 include estimates.

Table 8.2**Current and capital accounts***(EUR billions (ECU billions to end-1998); gross flows)*

	Current account										Capital account	
	Total		Goods		Services		Income		Current transfers		Credit 11	Debit 12
	Credit 1	Debit 2	Credit 3	Debit 4	Credit 5	Debit 6	Credit 7	Debit 8	Credit 9	Debit 10		
1998	1,277.8	1,210.7	779.4	657.3	247.6	244.4	190.2	202.9	60.6	106.1	17.6	5.0
1998 Q1	317.6	310.1	190.8	167.9	56.3	58.9	47.0	49.2	23.5	34.1	5.9	1.2
Q2	325.7	303.5	199.0	167.2	64.1	60.4	50.3	54.2	12.3	21.6	2.4	1.2
Q3	316.0	296.7	190.8	158.3	67.4	64.7	45.5	49.3	12.2	24.3	4.1	1.1
Q4	318.4	300.5	198.8	163.9	59.7	60.4	47.4	50.1	12.5	26.1	5.2	1.5
1999 Q1	292.7	283.5	177.9	158.9	47.9	51.0	44.5	45.6	22.4	28.0	4.4	2.0
1998 Jan.	104.7	107.1	58.6	53.7	18.5	20.8	14.6	16.5	13.0	16.2	3.1	0.4
Feb.	101.0	98.1	62.3	54.3	17.6	18.2	15.1	15.8	6.0	9.8	0.9	0.4
Mar.	112.0	104.9	69.9	60.0	20.2	19.9	17.3	16.9	4.6	8.1	1.8	0.4
Apr.	106.4	101.0	66.5	56.6	20.2	20.0	16.2	16.9	3.5	7.4	1.0	0.4
May	104.4	98.0	64.3	53.5	20.7	19.9	15.2	17.3	4.2	7.2	0.9	0.4
June	114.9	104.5	68.2	57.1	23.2	20.5	18.9	20.0	4.6	7.0	0.5	0.4
July	116.0	103.7	70.6	55.3	24.1	22.6	16.2	18.5	5.0	7.3	1.4	0.4
Aug.	94.6	90.1	55.3	47.1	22.3	21.3	13.4	13.3	3.6	8.5	1.8	0.3
Sep.	105.4	102.9	64.8	55.9	21.0	20.9	15.9	17.5	3.6	8.5	0.9	0.4
Oct.	106.8	101.4	68.2	56.0	20.4	21.0	14.6	15.8	3.6	8.6	1.3	0.4
Nov.	101.5	96.5	65.2	53.5	18.1	18.4	14.2	15.8	4.1	8.8	1.3	0.5
Dec.	110.1	102.5	65.4	54.4	21.2	20.9	18.6	18.5	4.8	8.7	2.6	0.6
1999 Jan.	94.3	94.5	53.0	49.0	14.5	15.8	14.2	15.5	12.6	14.2	3.1	0.5
Feb.	93.7	89.8	58.1	50.9	16.0	16.6	14.3	14.4	5.3	7.9	0.5	0.5
Mar.	104.7	99.2	66.8	58.9	17.4	18.6	16.1	15.7	4.5	5.9	0.8	1.0
Apr.	103.8	97.0	63.5	55.0	17.9	18.3	17.5	16.1	4.8	7.6	1.5	0.9
May	101.0	98.5	60.6	54.1	18.2	18.2	16.9	18.2	5.3	8.0	1.2	0.3

Source: ECB.

Table 8.4**Direct and portfolio investment accounts ¹⁾***(EUR billions (ECU billions to end-1998); net flows)*

	Direct investment		Portfolio investment									
			Total		Equity		Debt instruments					
	Abroad	In the euro area	Assets	Liabilities ²⁾	Assets	Liabilities ²⁾	Assets			Liabilities ²⁾		
							Total	Bonds and notes	Money market instruments	Total	Bonds and notes	Money market instruments
1	2	3	4	5	6	7	8	9	10	11	12	
1998	-177.9	77.7	-307.1	216.3	-82.4	68.5	-224.7	-206.9	-17.9	147.8	119.4	28.3
1998 Q1	-46.4	35.2	-114.1	59.4	-29.6	14.8	-84.5	-74.9	-9.5	44.6	39.9	4.6
Q2	-39.6	24.9	-83.3	81.6	-25.6	24.8	-57.6	-55.1	-2.5	56.7	44.3	12.4
Q3	-25.3	2.2	-55.0	67.3	-9.8	-0.4	-45.2	-42.5	-2.7	67.7	50.5	17.3
Q4	-66.6	15.4	-54.7	8.0	-17.3	29.2	-37.4	-34.3	-3.1	-21.2	-15.2	-6.0
1999 Q1	-28.1	18.3	-64.6	22.7	-15.2	-13.5	-49.4	-47.8	-1.6	36.2	33.2	3.0
1998 Jan.	-9.8	4.7	-20.8	18.7	-5.7	4.7	-15.1	-16.3	1.2	14.0	11.3	2.7
Feb.	-15.0	10.5	-51.1	28.3	-11.4	3.2	-39.7	-33.0	-6.7	25.1	26.0	-1.0
Mar.	-21.6	20.1	-42.3	12.4	-12.5	6.9	-29.7	-25.7	-4.0	5.5	2.6	2.9
Apr.	-20.7	12.5	-34.0	12.1	-8.0	1.2	-26.0	-30.9	4.9	10.9	10.6	0.3
May	-12.3	10.9	-19.6	28.7	-6.7	5.5	-12.9	-10.0	-2.9	23.2	15.8	7.5
June	-6.6	1.4	-29.7	40.8	-10.9	18.2	-18.7	-14.2	-4.6	22.6	17.9	4.7
July	-2.8	-5.8	-23.0	37.6	-3.2	9.1	-19.8	-20.9	1.1	28.6	17.0	11.6
Aug.	-4.0	-4.0	-14.5	23.0	0.5	-5.4	-15.0	-14.1	-0.9	28.4	22.4	6.0
Sep.	-18.6	12.0	-17.5	6.7	-7.1	-4.1	-10.4	-7.4	-2.9	10.8	11.1	-0.3
Oct.	-11.7	-5.0	-6.9	-26.6	-1.4	-6.1	-5.5	-8.0	2.5	-20.4	-24.8	4.3
Nov.	-41.1	7.3	-30.3	32.1	-9.0	33.0	-21.3	-15.7	-5.6	-0.9	1.1	-2.0
Dec.	-13.8	13.1	-17.6	2.5	-7.0	2.4	-10.6	-10.6	0.0	0.1	8.4	-8.3
1999 Jan.	-11.6	6.3	-17.2	25.3	-6.3	5.9	-10.9	-7.4	-3.5	19.3	23.5	-4.1
Feb.	-5.4	3.4	-19.8	3.0	-3.1	2.8	-16.7	-18.5	1.8	0.1	-5.8	5.9
Mar.	-11.1	8.5	-27.6	-5.6	-5.8	-22.3	-21.8	-21.9	0.1	16.7	15.5	1.3
Apr.	-22.4	8.6	-14.4	16.8	-4.1	2.7	-10.3	-16.4	6.1	14.1	12.7	1.3
May	-25.4	8.4	-25.0	-2.6	-11.7	6.1	-13.3	-14.1	0.8	-8.7	-17.5	8.8

Source: ECB.

1) Inflows (+); outflows (-).

2) Data from January 1999 are not closely comparable with earlier observations.

Table 8.5**Other investment account ^{1) 2)}***(EUR billions (ECU billions to end-1998); net flows)*

	Total		Eurosysteem		General government		MFIs (excluding the Eurosystem)						Other sectors	
	Assets 1	Liabilities 2	Assets 3	Liabilities 4	Assets 5	Liabilities 6	Total		Long-term		Short-term		Assets 13	Liabilities 14
							Assets 7	Liabilities 8	Assets 9	Liabilities 10	Assets 11	Liabilities 12		
1998	-37.0	235.8	-0.7	2.5	-1.4	-8.2	-18.1	211.0	-38.3	36.6	20.3	174.4	-16.8	30.5
1998 Q1	-31.2	96.4	0.4	-0.1	-1.9	-2.4	-9.6	88.7	-7.6	11.1	-1.9	77.6	-20.1	10.2
Q2	-1.5	26.2	-1.0	0.5	-2.9	-1.0	-1.8	20.7	-13.7	7.7	11.9	13.1	4.2	5.9
Q3	-79.3	82.8	0.4	-0.6	0.4	-1.9	-73.6	78.7	-14.7	1.4	-58.8	77.3	-6.5	6.6
Q4	75.0	30.4	-0.5	2.7	3.1	-2.8	66.9	22.8	-2.3	16.4	69.1	6.4	5.6	7.8
1999 Q1	-52.8	80.5	-2.4	0.0	-3.3	-5.0	-32.1	71.0	-19.9	21.1	-12.2	49.9	-14.9	14.5
1998 Jan.	-14.4	34.3	0.1	0.2	-2.4	-1.6	3.1	32.8	-4.4	3.6	7.5	29.2	-15.2	2.9
Feb.	-14.1	27.0	0.3	-0.3	-0.8	-1.3	-6.6	24.6	-4.3	7.3	-2.3	17.4	-7.0	4.0
Mar.	-2.7	35.0	0.0	0.1	1.2	0.5	-6.0	31.3	1.1	0.2	-7.1	31.1	2.1	3.3
Apr.	6.7	-3.8	0.0	0.3	0.5	0.2	12.9	-7.2	-4.1	4.0	17.0	-11.3	-6.6	2.9
May	-0.7	12.9	0.0	-0.3	-1.2	-0.6	-5.9	13.5	-3.9	0.8	-1.9	12.7	6.4	0.4
June	-7.6	17.0	-0.9	0.6	-2.2	-0.6	-8.8	14.5	-5.6	2.9	-3.2	11.6	4.4	2.6
July	-3.2	20.9	0.2	-0.1	0.3	-3.4	6.4	21.9	-3.3	0.9	9.7	21.1	-10.0	2.5
Aug.	-10.2	18.5	0.1	-0.1	0.5	0.5	-22.8	17.4	-6.1	-1.6	-16.7	19.0	12.0	0.7
Sep.	-65.9	43.3	0.1	-0.4	-0.3	0.9	-57.1	39.4	-5.3	2.1	-51.9	37.3	-8.5	3.4
Oct.	5.5	38.7	0.0	0.4	0.2	0.4	14.8	33.6	-1.0	4.6	15.7	29.0	-9.5	4.3
Nov.	10.2	34.9	-0.1	-2.7	1.1	1.5	2.5	33.1	0.5	2.3	2.1	30.9	6.7	3.0
Dec.	59.4	-43.2	-0.4	5.0	1.8	-4.7	49.6	-43.9	-1.8	9.6	51.4	-53.5	8.4	0.5
1999 Jan.	-59.2	72.8	2.7	0.0	-0.5	-5.6	-58.5	75.1	-13.2	8.2	-45.3	67.0	-3.0	3.2
Feb.	20.4	0.7	-4.9	0.0	-2.1	-0.7	39.4	-3.2	-0.7	-3.0	40.2	-0.2	-12.0	4.6
Mar.	-14.0	7.0	-0.3	0.0	-0.8	1.3	-13.0	-1.0	-5.9	15.9	-7.1	-16.8	0.1	6.7
Apr.	17.9	6.6	0.9	0.0	-0.1	0.4	17.0	3.6	-3.5	4.8	20.5	-1.2	0.1	2.6
May	-3.1	39.7	3.6	0.0	1.2	-0.8	-5.6	39.9	-7.1	7.3	1.5	32.5	-2.3	0.6

Source: ECB.

1) Inflows (+); outflows (-).

2) Data from January 1999 are not closely comparable with earlier observations. Flows before January 1999 include estimates.

Table 8.6**Reserves and related assets of the Eurosystem ¹⁾***(EUR billions; end-of-period positions, unless otherwise indicated)*

		Reserve assets							Memo:
		Total	Monetary gold	In fine troy ounces (millions)	Special drawing rights	Reserve position in the IMF	Foreign exchange	Other claims	Related assets
									Claims on euro area residents denominated in foreign currency
		1	2	3	4	5	6	7	8
1999	1 Jan.	330.3	99.6	405	6.0	22.5	201.5	0.7	7.6
	Jan.	337.5	101.6	405	5.9	22.4	205.9	1.6	7.4
	Feb.	340.2	105.6	405	3.0	22.4	208.5	0.7	9.4
	Mar.	348.9	105.3	405	3.8	23.3	214.7	1.8	10.1
	Apr.	352.2	109.7	405	5.4	23.8	211.6	1.7	11.7
	May	344.7	103.9	405	4.9	23.9	210.2	1.7	12.2
	June	345.4	101.9	404	3.9	25.1	212.9	1.6	12.5

Source: ECB.

1) The figures are not fully comparable with those of Table 1.1 owing to differences in coverage and valuation.

9 External trade in goods of the euro area

Table 9

1. Exports ¹⁾

(EUR billions (ECU billions to end-1998); f.o.b. value)

	Total	Food, drink, tobacco	Raw materials	Energy	Chemicals	Other manufactured articles	Machinery, transport equipment	Other	Export trade indices 1995 = 100		
									Value ²⁾	Volume ²⁾	Unit value
	1	2	3	4	5	6	7	8	9	10	11
1996	669.7	49.2	14.2	13.1	85.5	195.5	295.9	16.3	107.6	104.7	102.8
1997	762.6	52.8	16.3	14.4	98.9	216.4	342.8	20.9	122.5	115.9	105.7
1998	791.5	53.2	15.7	12.4	104.1	219.4	367.4	19.2	127.2	119.3	106.6
1996 Q4	182.2	13.7	3.8	3.5	21.8	52.4	82.8	4.2	117.1	114.8	102.0
1997 Q1	170.7	12.0	3.8	3.7	22.6	48.9	74.7	5.0	109.7	104.2	105.3
Q2	191.7	13.4	4.1	3.6	25.1	53.8	86.4	5.3	123.2	117.2	105.1
Q3	193.4	13.0	4.2	3.4	25.6	55.6	86.5	5.1	124.3	116.6	106.6
Q4	206.7	14.4	4.2	3.7	25.6	58.1	95.1	5.5	132.8	125.7	105.7
1998 Q1	194.1	13.1	4.1	3.4	26.6	54.4	87.5	5.0	124.7	115.7	107.8
Q2	203.6	13.9	3.9	3.3	26.9	56.1	94.5	5.0	130.9	122.5	106.8
Q3	194.6	12.7	3.9	2.9	25.7	54.6	90.1	4.6	125.1	117.4	106.5
Q4	199.1	13.4	3.8	2.8	24.9	54.3	95.3	4.6	128.0	121.6	105.2
1999 Q1	186.6	.	.	.	.	.	.	.	119.9	.	.
1997 Dec.	67.1	4.5	1.3	1.2	8.1	18.1	32.0	1.8	129.4	122.3	105.8
1998 Jan.	58.4	4.0	1.3	1.2	8.4	16.2	25.8	1.6	112.7	104.7	107.6
Feb.	63.7	4.3	1.4	1.0	8.6	18.0	28.8	1.6	122.8	113.9	107.8
Mar.	71.9	4.8	1.5	1.2	9.6	20.2	32.9	1.8	138.7	128.4	108.0
Apr.	67.9	4.7	1.3	1.1	9.2	18.9	31.0	1.8	131.0	122.5	106.9
May	65.7	4.5	1.3	1.1	8.7	18.1	30.5	1.6	126.8	118.6	106.9
June	70.0	4.7	1.3	1.1	9.1	19.1	33.1	1.6	134.9	126.4	106.7
July	72.7	4.5	1.3	1.1	9.2	21.0	34.0	1.6	140.2	131.2	106.9
Aug.	56.2	4.0	1.2	0.9	7.7	15.4	25.5	1.4	108.4	102.3	105.9
Sep.	65.7	4.3	1.3	0.9	8.8	18.2	30.6	1.6	126.6	118.8	106.6
Oct.	68.4	4.5	1.3	1.0	8.6	19.4	32.1	1.5	131.9	124.9	105.6
Nov.	66.3	4.5	1.3	0.9	8.1	18.0	32.0	1.6	127.9	122.1	104.7
Dec.	64.4	4.4	1.2	0.9	8.2	16.9	31.2	1.5	124.1	117.9	105.3
1999 Jan.	54.4	3.6	1.2	0.8	7.8	14.7	25.0	1.4	104.8	.	.
Feb.	59.7	3.9	1.2	0.8	8.3	16.4	27.3	1.8	115.1	.	.
Mar.	72.5	.	.	.	.	.	.	.	139.8	.	.
Apr.	65.7	.	.	.	.	.	.	.	126.7	.	.
May	61.9	.	.	.	.	.	.	.	119.3	.	.

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

1) Owing to differences in definitions, coverage and time of recording, trade data (as compiled by Eurostat) are not fully comparable with the goods item in the balance of payments statistics compiled by the ECB (Table 8.2).

2) ECB calculations based on Eurostat data.

Table 9**2. Imports ¹⁾***(EUR billions (ECU billions to end-1998); c.i.f. value)*

	Total	Food, drink, tobacco	Raw materials	Energy	Chemicals	Other manu- factured articles	Machinery, transport equipment	Other	Import trade indices 1995 = 100		
									Value ²⁾	Volume ²⁾	Unit value
	1	2	3	4	5	6	7	8	9	10	11
1996	593.9	46.6	36.5	71.6	54.1	167.0	193.6	24.6	105.5	102.9	102.6
1997	674.2	49.7	41.3	81.2	62.0	188.1	228.8	23.1	119.8	110.3	108.6
1998	708.4	50.3	41.0	61.9	67.3	199.8	265.0	23.1	125.9	122.7	102.6
1996 Q4	157.9	12.2	9.1	21.6	14.0	41.8	52.1	7.0	112.2	108.8	103.2
1997 Q1	159.1	11.4	9.7	21.2	14.7	44.6	51.8	5.8	113.1	106.0	106.7
Q2	168.0	12.6	11.0	18.6	16.0	46.5	57.5	5.7	119.4	111.4	107.2
Q3	166.6	12.2	10.0	20.0	15.2	48.9	55.6	4.7	118.5	106.9	110.8
Q4	180.4	13.5	10.6	21.4	16.1	48.2	63.8	6.8	128.2	117.0	109.6
1998 Q1	180.7	12.6	10.8	17.5	17.6	51.2	64.7	6.2	128.4	119.7	107.3
Q2	178.7	12.5	11.1	15.9	17.2	50.0	65.9	6.1	127.0	121.4	104.6
Q3	170.8	12.2	9.6	14.7	16.3	50.1	62.6	5.2	121.4	119.3	101.7
Q4	178.3	12.9	9.5	13.9	16.3	48.4	71.8	5.6	126.7	130.5	97.1
1999 Q1	176.6	.	.	.	.	.	.	.	125.5	.	.
1997 Dec.	58.8	4.4	3.4	7.1	5.1	15.3	21.0	2.5	125.5	116.3	107.9
1998 Jan.	57.9	4.1	3.5	6.2	5.6	16.4	20.1	2.0	123.5	114.8	107.6
Feb.	58.3	4.0	3.5	5.7	5.5	16.6	20.7	2.2	124.2	115.2	107.8
Mar.	64.5	4.6	3.8	5.6	6.5	18.2	23.9	2.0	137.6	129.3	106.4
Apr.	60.0	4.3	3.7	5.4	5.7	16.6	22.3	2.0	127.9	121.3	105.5
May	57.1	4.0	3.5	5.5	5.6	15.7	20.9	1.8	121.7	116.0	104.9
June	61.6	4.2	3.9	4.9	5.9	17.7	22.7	2.3	131.4	127.1	103.4
July	59.2	4.3	3.6	4.9	5.9	17.7	20.9	1.9	126.1	123.5	102.1
Aug.	50.1	3.7	2.8	4.7	4.7	14.7	17.9	1.5	106.8	105.6	101.1
Sep.	61.5	4.2	3.3	5.0	5.7	17.7	23.7	1.9	131.2	128.9	101.8
Oct.	61.7	4.3	3.3	5.0	5.7	17.2	24.3	2.0	131.6	132.6	99.3
Nov.	59.1	4.2	3.1	4.4	5.3	16.0	24.3	1.8	126.0	130.9	96.3
Dec.	57.5	4.4	3.1	4.4	5.2	15.3	23.2	1.8	122.6	128.2	95.6
1999 Jan.	54.4	3.6	2.9	4.5	5.2	15.4	21.2	1.7	116.0	.	.
Feb.	55.7	3.6	2.9	4.1	5.4	16.0	21.7	1.9	118.8	.	.
Mar.	66.4	.	.	.	.	.	.	.	141.7	.	.
Apr.	60.3	.	.	.	.	.	.	.	128.6	.	.
May	59.2	.	.	.	.	.	.	.	126.3	.	.

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

1) Owing to differences in definitions, coverage and time of recording, trade data (as compiled by Eurostat) are not fully comparable with the goods item in the balance of payments statistics compiled by the ECB (Table 8.2). Part of the difference arises from the inclusion of insurance and freight services in the recording of goods imported, which accounted for about 3.8% of the value of imports (c.i.f.) in 1998.

2) ECB calculations based on Eurostat data.

Table 9**3. Trade balance ¹⁾***(EUR billions (ECU billions to end-1998); 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
1996	75.8	2.7	-22.3	-58.5	31.4	28.5	102.3	-8.3
1997	88.4	3.2	-25.0	-66.8	37.0	28.3	114.0	-2.2
1998	83.0	2.9	-25.4	-49.5	36.8	19.6	102.4	-3.8
1996 Q4	24.2	1.4	-5.4	-18.1	7.8	10.6	30.7	-2.8
1997 Q1	11.6	0.6	-5.8	-17.5	7.9	4.3	22.8	-0.8
Q2	23.7	0.7	-6.9	-15.0	9.1	7.4	28.9	-0.4
Q3	26.8	0.9	-5.9	-16.6	10.4	6.7	30.9	0.3
Q4	26.3	1.0	-6.4	-17.7	9.5	9.9	31.3	-1.3
1998 Q1	13.3	0.5	-6.7	-14.1	9.0	3.1	22.7	-1.2
Q2	25.0	1.4	-7.2	-12.6	9.7	6.1	28.6	-1.1
Q3	23.9	0.5	-5.8	-11.8	9.5	4.5	27.5	-0.6
Q4	20.8	0.5	-5.7	-11.1	8.6	5.9	23.5	-0.9
1999 Q1	10.1	.	.	.	.	.	.	.
1997 Dec.	8.3	0.1	-2.1	-5.8	3.0	2.8	11.0	-0.7
1998 Jan.	0.5	-0.1	-2.3	-5.0	2.8	-0.2	5.7	-0.4
Feb.	5.4	0.4	-2.2	-4.7	3.1	1.4	8.1	-0.6
Mar.	7.4	0.2	-2.3	-4.4	3.1	1.9	9.0	-0.2
Apr.	7.9	0.4	-2.3	-4.3	3.4	2.3	8.7	-0.1
May	8.7	0.5	-2.3	-4.5	3.1	2.4	9.6	-0.2
June	8.3	0.5	-2.6	-3.8	3.2	1.5	10.4	-0.8
July	13.6	0.2	-2.2	-3.8	3.4	3.3	13.1	-0.2
Aug.	6.1	0.3	-1.6	-3.8	3.1	0.7	7.6	-0.1
Sep.	4.2	0.0	-2.0	-4.1	3.1	0.5	6.9	-0.3
Oct.	6.7	0.2	-2.0	-4.0	2.9	2.2	7.7	-0.4
Nov.	7.2	0.3	-1.9	-3.5	2.8	2.0	7.7	-0.2
Dec.	6.9	-0.1	-1.8	-3.5	3.0	1.6	8.0	-0.3
1999 Jan.	0.0	0.0	-1.8	-3.7	2.6	-0.7	3.9	-0.3
Feb.	4.0	0.3	-1.7	-3.3	2.8	0.4	5.6	-0.1
Mar.	6.1	.	.	.	.	.	.	.
Apr.	5.4	.	.	.	.	.	.	.
May	2.7	.	.	.	.	.	.	.

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

1) Owing to differences in definitions, coverage and time of recording, trade data (as compiled by Eurostat) are not fully comparable with the goods item in the balance of payments statistics compiled by the ECB (Table 8.1). Part of the difference arises from the inclusion of insurance and freight services in the recording of goods imported, which accounted for about 3.8% of the value of imports (c.i.f.) in 1998.

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
1998 Q2	1.100	149.5	1.643	0.665	8.60	7.52	339.9	8.28	1.592
1998 Q3	1.118	156.3	1.642	0.676	8.95	7.50	332.7	8.54	1.690
1998 Q4	1.177	140.6	1.600	0.702	9.38	7.44	331.5	8.82	1.814
1999 Q1	1.122	130.7	1.599	0.687	8.98	7.44	322.7	8.60	1.696
1999 Q2	1.057	127.7	1.600	0.658	8.90	7.43	325.0	8.24	1.557
1998 July	1.098	154.3	1.661	0.668	8.77	7.52	328.7	8.37	1.630
1998 Aug.	1.102	159.4	1.646	0.675	8.96	7.50	331.6	8.51	1.688
1998 Sep.	1.154	155.3	1.617	0.687	9.12	7.48	337.9	8.74	1.756
1998 Oct.	1.194	144.2	1.596	0.705	9.37	7.44	336.5	8.88	1.842
1998 Nov.	1.164	140.1	1.612	0.701	9.31	7.44	329.1	8.68	1.793
1998 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
1999 Feb.	1.121	130.8	1.598	0.689	8.91	7.44	322.0	8.65	1.679
1999 Mar.	1.088	130.2	1.595	0.671	8.94	7.43	322.5	8.51	1.651
1999 Apr.	1.070	128.2	1.602	0.665	8.91	7.43	325.5	8.32	1.594
1999 May	1.063	129.7	1.603	0.658	8.97	7.43	325.2	8.23	1.553
1999 June	1.038	125.3	1.595	0.650	8.83	7.43	324.2	8.17	1.524
1999 July	1.035	123.7	1.604	0.658	8.74	7.44	325.0	8.18	1.540
% ch. vs. ²⁾ prev. month	-0.2	-1.3	0.6	1.2	-0.9	0.1	0.2	0.2	1.0

	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	98.7
1996	1.623	1.847	9.68	1007.9	1.765	34.39	9.52	98.3	99.1	
1997	1.528	1.715	8.75	1,069.8	1.678	32.50	8.95	90.4	90.7	
1998	1.787	2.097	8.69	1,568.9	1.876	37.64	10.30	92.3	92.1	
1998 Q2	1.754	2.063	8.53	1,537.0	1.810	37.09	9.55	91.3	91.1	
1998 Q3	1.867	2.199	8.67	1,486.8	1.935	38.71	10.62	93.5	93.4	
1998 Q4	1.887	2.236	9.16	1,516.6	1.942	38.64	11.84	94.6	94.2	
1999 Q1	1.770	2.087	8.69	1,342.6	1.911	36.60	11.18	91.0	90.8	
1999 Q2	1.618	1.949	8.19	1,258.8	1.810	34.57	9.98	87.6	87.3	
1998 July	1.776	2.116	8.51	1,423.6	1.878	37.79	9.78	92.0	92.1	
1998 Aug.	1.868	2.196	8.55	1,450.4	1.939	38.33	10.34	93.3	93.3	
1998 Sep.	1.962	2.289	8.97	1,592.4	1.994	40.10	11.83	95.2	94.9	
1998 Oct.	1.932	2.284	9.31	1,615.7	1.969	39.81	12.21	95.8	95.3	
1998 Nov.	1.834	2.180	9.05	1,511.9	1.913	38.08	11.64	94.1	93.6	
1998 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	1,362.4	1.950	37.43	11.82	92.7	92.3	
1999 Feb.	1.751	2.062	8.68	1,330.2	1.905	36.41	11.21	90.9	90.6	
1999 Mar.	1.726	2.045	8.43	1,336.2	1.881	36.04	10.60	89.5	89.4	
1999 Apr.	1.668	1.972	8.30	1,292.2	1.834	35.22	10.10	88.4	88.0	
1999 May	1.605	1.925	8.24	1,272.1	1.820	34.82	9.97	88.1	87.7	
1999 June	1.580	1.948	8.05	1,212.6	1.775	33.70	9.88	86.4	86.1	
1999 July	1.576	1.967	8.03	1,229.4	1.756	33.42	9.71	86.4	86.2	
% ch. vs. ²⁾ prev. month	-0.3	1.0	-0.2	1.4	-1.1	-0.8	-1.7	0.0	0.2	
prev. year								-6.2	-6.4	

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 ¹⁾ as a % per annum	
	1	2	3	4	5	6	7	8	9	10	11	12	
Denmark													
1995	-	-2.4	72.1	8.27	7.33	.	0.5	3.7	4.4	7.2	-2.0	6.20	
1996	2.1	-0.9	67.4	7.19	7.36	.	1.4	2.8	2.0	6.8	7.2	3.98	
1997	1.9	0.4	63.6	6.26	7.48	0.6	2.8	3.1	5.6	5.6	4.7	3.73	
1998	1.3	0.8	58.1	4.94	7.50	-1.3	2.4	2.7	2.2	5.1	4.6	4.27	
1998	Q2	1.4	-	-	5.12	7.52	-1.9	1.7	1.0	-1.2	5.2	5.1	4.21
	Q3	1.2	-	-	4.82	7.50	1.5	2.1	3.6	3.7	5.1	6.6	4.47
	Q4	1.1	-	-	4.51	7.44	-3.7	3.5	2.5	-0.3	4.7	3.7	4.51
1999	Q1	1.4	-	-	4.22	7.44	1.5	5.4	1.0	-0.3	4.8	4.5	3.64
	Q2	1.8	-	-	4.50	7.43	.	.	.	.	5.0	3.12
1999	Jan.	1.2	-	-	4.03	7.44	-	-	-	-0.9	4.9	3.7	3.87
	Feb.	1.3	-	-	4.19	7.44	-	-	-	-0.9	4.8	4.3	3.62
	Mar.	1.7	-	-	4.43	7.43	-	-	-	0.9	4.7	5.5	3.46
	Apr.	1.7	-	-	4.22	7.43	-	-	-	9.8	4.7	3.9	3.12
	May	1.6	-	-	4.46	7.43	-	-	-	11.7	.	5.2	3.11
	June	1.9	-	-	4.81	7.43	-	-	-	.	.	5.8	3.13
	July	.	-	-	5.11	7.44	-	-	3.17
Greece													
1995	-	-10.3	110.1	-	303.0	-2.8	11.6	2.1	2.1	7.1	6.4	16.09	
1996	7.9	-7.5	112.2	-	305.5	-3.7	10.6	2.4	0.6	7.5	9.8	13.54	
1997	5.4	-3.9	109.4	9.92	309.3	-4.0	7.1	3.2	1.0	7.9	14.5	12.48	
1998	4.5	-2.4	106.5	8.48	330.7	-3.1	.	.	3.4	10.0	4.0	13.53	
1998	Q2	5.0	-	-	7.90	339.9	.	.	6.1	10.3	3.4	12.77	
	Q3	4.8	-	-	7.83	332.7	.	.	3.7	11.7	2.3	13.18	
	Q4	4.0	-	-	7.76	331.5	.	.	0.8	9.8	5.7	11.94	
1999	Q1	3.4	-	-	6.08	322.7	.	.	-0.8	.	.	10.56	
	Q2	2.2	-	-	5.87	325.0	.	.	.	.	.	9.80
1999	Jan.	3.5	-	-	6.32	323.6	-	-	-0.1	.	14.6	11.45	
	Feb.	3.5	-	-	5.96	322.0	-	-	-0.9	.	.	10.43	
	Mar.	3.2	-	-	5.97	322.5	-	-	-1.2	.	.	9.84	
	Apr.	2.6	-	-	5.85	325.5	-	-	0.0	.	.	9.85	
	May	2.2	-	-	5.75	325.2	-	-	1.0	.	.	9.72	
	June	1.8	-	-	6.02	324.2	-	-	.	.	.	9.84	
	July	.	-	-	.	325.0	-	-	.	.	.	9.83	
Sweden													
1995	-	-6.9	77.6	10.24	9.33	.	.	3.7	10.6	8.8	-1.3	8.83	
1996	0.8	-3.5	76.7	8.02	8.51	.	.	1.3	1.8	9.6	10.0	6.03	
1997	1.8	-0.7	76.7	6.62	8.65	.	.	1.8	7.2	9.9	4.2	4.43	
1998	1.0	2.0	75.1	4.99	8.92	2.3	2.6	4.1	8.3	8.3	3.5	4.36	
1998	Q2	1.4	-	-	5.13	8.60	1.1	1.8	6.2	8.6	2.6	4.53	
	Q3	0.6	-	-	4.82	8.95	2.4	2.5	4.8	8.2	4.7	4.29	
	Q4	0.1	-	-	4.50	9.38	2.7	3.2	1.2	7.6	4.5	3.94	
1999	Q1	0.2	-	-	4.21	8.98	2.5	3.6	.	7.5	5.4	3.31	
	Q2	0.3	-	-	4.54	8.90	.	.	.	.	6.4	3.07
1999	Jan.	0.0	-	-	4.02	9.08	-	-	-1.1	7.7	4.1	3.42	
	Feb.	0.2	-	-	4.18	8.91	-	-	.	7.3	5.8	3.31	
	Mar.	0.5	-	-	4.44	8.94	-	-	.	7.4	6.3	3.23	
	Apr.	0.3	-	-	4.24	8.91	-	-	.	7.3	6.7	2.99	
	May	0.3	-	-	4.50	8.97	-	-	.	6.8	6.6	3.10	
	June	0.4	-	-	4.87	8.83	-	-	.	.	5.9	3.12	
	July	.	-	-	5.26	8.74	-	-	.	.	.	3.23	
United Kingdom													
1995	-	-5.7	53.0	8.32	0.829	-0.4	1.7	2.8	1.5	8.7	7.2	6.75	
1996	2.5	-4.4	53.6	7.94	0.814	0.0	2.0	2.6	0.4	8.2	9.9	6.11	
1997	1.8	-1.9	52.1	7.13	0.692	0.9	3.3	3.5	1.0	7.0	11.2	6.92	
1998	1.5	0.6	49.4	5.60	0.676	0.1	.	2.2	0.3	6.3	9.6	7.43	
1998	Q2	1.8	-	-	5.89	0.665	-0.3	2.5	1.0	6.3	9.9	7.58	
	Q3	1.4	-	-	5.57	0.676	0.4	2.0	0.5	6.3	9.5	7.67	
	Q4	1.4	-	-	4.82	0.702	0.2	1.6	-0.5	6.3	8.6	6.89	
1999	Q1	1.6	-	-	4.39	0.687	-1.6	1.2	-1.2	6.3	7.2	5.60	
	Q2	1.4	-	-	4.82	0.658	.	.	.	.	6.7	5.29
1999	Jan.	1.6	-	-	4.20	0.703	-	-	-1.0	6.3	7.5	5.90	
	Feb.	1.5	-	-	4.37	0.689	-	-	-1.4	6.3	7.3	5.53	
	Mar.	1.7	-	-	4.60	0.671	-	-	-1.3	6.3	6.8	5.40	
	Apr.	1.5	-	-	4.54	0.665	-	-	-1.5	.	7.5	5.32	
	May	1.3	-	-	4.83	0.658	-	-	.	.	7.1	5.35	
	June	1.4	-	-	5.09	0.650	-	-	.	.	5.6	5.22	
	July	.	-	-	.	0.658	-	-	.	.	.	5.17	

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

1) Average-of-period values.

4) Whole economy; data for the United Kingdom

6) Average of end-month values;

2) For more information, see Table 10.

exclude employers' contribution to social security.

M3; M4 for the United Kingdom.

3) BPM5; BPM4 for Greece.

5) Manufacturing; adjusted for working days.

12 Economic and financial developments outside the EU

Table 12.1

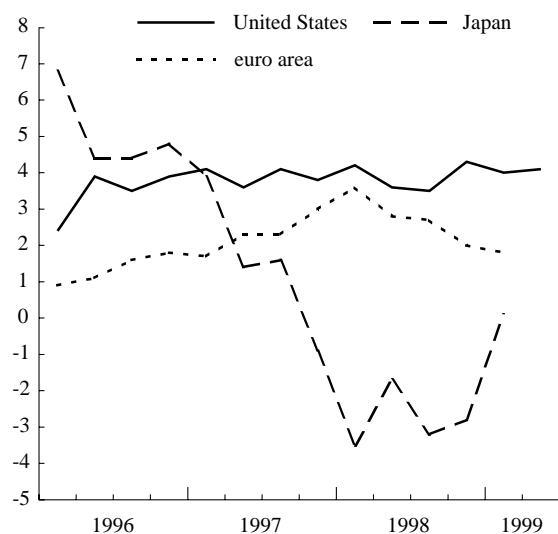
Economic and financial developments

(annual percentage changes, unless otherwise indicated)

	Consumer price index	Unit labour costs ¹⁾	Real GDP	Industrial production index ¹⁾	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	-2.2	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	4.2	4.5	7.4	5.00	5.33	1.121	1.4	55.1
1998 Q2	1.6	1.0	3.6	5.0	4.4	7.2	5.59	5.67	1.100	-	56.1
1998 Q3	1.6	1.4	3.5	3.2	4.5	7.3	5.20	5.27	1.118	-	55.3
1998 Q4	1.5	-0.8	4.3	2.5	4.4	8.4	5.00	4.72	1.177	-	55.1
1999 Q1	1.7	-1.6	4.0	2.2	4.3	8.5	4.99	5.00	1.122	-	54.8
1999 Q2	2.1	.	4.1	2.7	4.3	7.9	5.04	5.54	1.057	-	.
1999 Jan.	1.7	-	-	2.0	4.3	8.7	4.99	4.78	1.161	-	-
1999 Feb.	1.6	-	-	2.5	4.4	8.5	5.00	4.99	1.121	-	-
1999 Mar.	1.7	-	-	2.2	4.2	8.1	4.99	5.23	1.088	-	-
1999 Apr.	2.3	-	-	2.3	4.3	8.2	4.97	5.18	1.070	-	-
1999 May	2.1	-	-	2.2	4.2	8.0	4.98	5.54	1.063	-	-
1999 June	2.0	-	-	3.7	4.3	7.7	5.17	5.90	1.038	-	-
1999 July	.	-	-	.	.	.	5.30	5.80	1.035	-	-
Japan											
1995	-0.1	-2.2	1.5	3.4	3.2	3.0	0.50	3.32	123.0	-3.6	.
1996	0.1	-1.9	5.1	2.3	3.4	3.3	0.31	3.03	138.1	-4.3	.
1997	1.7	-2.2	1.4	3.6	3.4	3.1	0.36	2.15	137.1	-3.3	.
1998	0.6	6.3	-2.8	-7.1	4.1	4.4	0.18	1.30	146.4	-5.9	.
1998 Q2	0.3	8.1	-1.7	-8.8	4.1	4.2	0.43	1.36	149.5	-	-
1998 Q3	-0.2	7.6	-3.2	-8.5	4.3	4.2	0.12	1.14	156.3	-	-
1998 Q4	0.5	5.1	-2.8	-6.8	4.4	4.5	0.18	1.04	140.6	-	-
1999 Q1	-0.1	3.6	0.1	-4.2	4.6	4.1	0.31	1.96	130.7	-	-
1999 Q2	-0.3	.	.	-1.0	4.8	4.1	0.13	1.50	127.7	-	-
1999 Jan.	0.2	7.5	-	-8.3	4.4	4.1	0.35	2.07	131.3	-	-
1999 Feb.	-0.1	2.9	-	-4.1	4.6	3.9	0.38	2.09	130.8	-	-
1999 Mar.	-0.4	-0.2	-	-0.8	4.8	4.2	0.20	1.72	130.2	-	-
1999 Apr.	-0.1	0.4	-	-2.4	4.8	4.0	0.18	1.55	128.2	-	-
1999 May	-0.4	.	-	-0.5	4.6	4.1	0.12	1.36	129.7	-	-
1999 June	-0.3	.	-	-0.2	4.9	4.3	0.10	1.60	125.3	-	-
1999 July	.	.	-	.	.	.	0.12	1.69	123.7	-	-

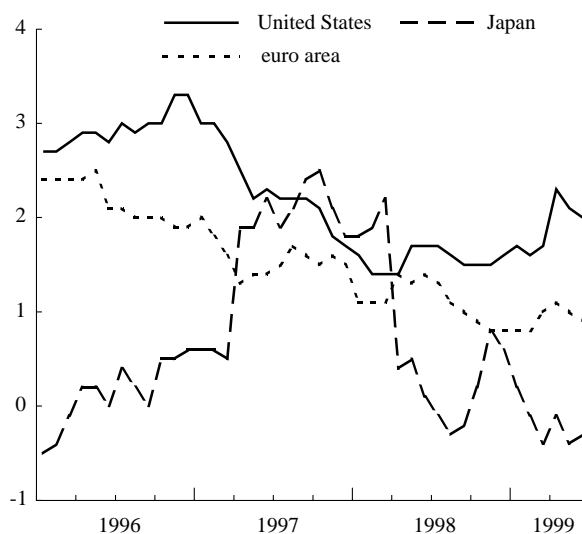
Real gross domestic product

(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.

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

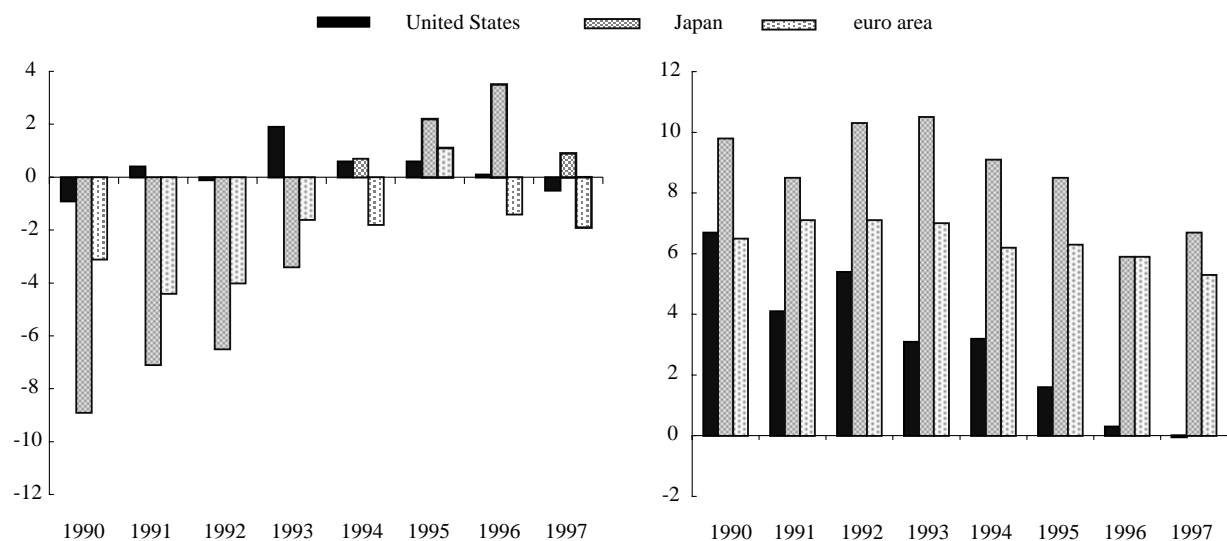
3) For more information, see Tables 3.1 and 3.2.

4) For more information, see Table 10.

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

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	2.3	12.2	6.6	13.5	5.0
1996	16.6	17.8	-1.6	7.9	7.5	5.3	8.2	5.2	0.7	12.4	5.1	13.5	4.8
1997	17.3	18.4	-1.7	8.3	7.4	3.7	8.2	4.3	1.5	12.3	4.6	12.8	4.6
1998	17.2	18.8	-2.5	8.3	7.7	4.3	8.1	4.6	0.8	12.8	4.9	11.5	5.9
1997 Q2	17.6	18.5	-1.5	8.7	7.5	1.8	8.3	2.9	1.1	12.2	5.9	13.3	4.5
Q3	17.5	18.4	-1.7	8.2	7.7	5.1	8.4	6.1	1.6	12.3	4.9	12.9	5.4
Q4	17.3	18.5	-2.0	8.1	7.3	3.2	8.1	3.4	2.1	12.2	4.6	12.3	4.0
1998 Q1	17.7	19.1	-2.1	8.7	7.7	6.1	8.2	6.6	1.9	12.5	3.5	11.6	5.6
Q2	17.2	18.7	-2.5	8.1	7.8	2.3	8.1	2.7	2.6	12.8	8.2	11.5	6.0
Q3	17.3	18.8	-2.7	8.2	7.6	4.1	8.1	4.1	0.7	12.7	3.6	11.3	5.1
Q4	16.9	18.8	-2.6	8.2	7.8	4.7	8.0	4.8	-2.0	13.1	4.4	11.5	6.7
1999 Q1	17.0	19.0	-3.0	8.2	7.7	5.4	8.1	5.7	3.9	13.3	4.3	10.9	6.6
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
1998	.	.	.	.	.	4.4	.	-5.7	-1.3	.	5.3	.	-0.3
1997 Q2	31.2	26.6	2.3	.	.	2.6	.	-1.9	1.4	.	10.7	.	0.7
Q3	30.2	30.0	2.2	.	.	3.0	.	3.1	0.4	.	-0.3	.	1.5
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
Q2	.	24.1	.	.	.	-0.6	.	1.3	2.2	.	12.2	.	0.0
Q3	.	26.7	.	.	.	4.1	.	-1.9	0.5	.	-2.2	.	0.5
Q4	.	.	.	.	.	12.7	.	-6.7	-4.8	.	15.4	.	0.6
1999 Q1	.	.	.	.	.	.	.	.	.	.	.	.	.

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 2.6 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.

As a general rule, the cut-off date for the statistics included in the ECB Monthly Bulletin is the date of the first meeting in the month of the Governing Council of the ECB. For this issue, it was 5 August 1999.

Recent data are often provisional and may be revised. Discrepancies between totals and their components may arise from rounding.

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; they also include some (monetary) liabilities of central government. Table 2.5 shows a quarterly sectoral and maturity analysis of loans by MFIs to euro area residents. Table 2.6 shows a quarterly currency analysis of certain MFI balance sheet items. More quarterly detail will be available shortly. 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 3.1 to 3.3) are produced by the

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).

ECB using data from wire services. For details concerning the statistics on retail bank interest rates (Table 3.4), see the footnote at the bottom of the relevant page.

Statistics on securities market issues and redemptions are expected to be available later in 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 methodology in all euro area countries. Estimates for periods before 1995 based on national consumer price indices are not fully comparable. The implementation of Council Regulation (EC) No. 1165/98 of 19 May 1998 concerning 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 has begun to pave the way for fully comparable data, including quarterly summary accounts, across the euro area. The data in this issue are based mainly on the ESA 95.

Unemployment rates conform to International Labour Organization (ILO) guidelines. Data on whole economy employment are derived from national sources using similar definitions. Data on manufacturing employment are harmonised and reported under the Regulation concerning short-term statistics (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

The general government fiscal position in the euro area is presented in Table 7 by reference to general government receipts, expenditure, saving, deficit and debt as a percentage of GDP. These data are aggregated by the ECB from harmonised data provided by the NCBs.

In addition, general 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. These data are provided by the European Commission.

Balance of payments of the euro area, the Eurosystem's reserve position, trade in goods and exchange rates

The concepts and definitions used in balance of payments statistics (Tables 8.1 to 8.5) and international investment position statistics (to be published next autumn, for end-1998 stocks) generally conform to the 5th edition of the IMF Balance of Payments Manual (October 1993), to the ECB Guideline of 1 December 1998 (ECB/1998/17) on the statistical reporting requirements of the European Central Bank, and to Eurostat's documentation. The common methodology agreed between the ECB and the European Commission (Eurostat) and the aggregation method were explained on page 26 of the May issue of the Monthly Bulletin (see also the ECB's Web site). Table 8.3 on income is not included in this issue; it will be published in the next issue, when detailed quarterly data are available.

The euro area balance of payments is compiled by the ECB. Data up to December 1998 are expressed in ECU.

The outstanding amounts of the Eurosystem's reserves and related assets from 1999 onwards are shown in Table 8.6. Corresponding net flows are shown in Table 8.1. These data are not comparable with the net flows up to December 1998 shown in Table 8.1, which are compiled by aggregating figures following national definitions and include instruments issued by other residents of the euro area.

Table 9 gives data on euro area external trade in goods, and indices – value, volume and unit value – for total exports and imports. The value index is calculated by the ECB. The volume index is derived from the unit value index provided by Eurostat and the value index. Owing to differences in definitions, classification, coverage and time of recording, external trade data, in particular imports, are not fully comparable with the goods item in the balance of payments statistics (Tables 8.1 and 8.2).

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

Detailed methodological notes on euro area balance of payments statistics, external trade in goods of the euro area, and exchange rates are available on the ECB's Web site.

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%.

12 January 1999

Following the decision of the Governing Council of the ECB on 22 December 1998, the ECB announces that the first longer-term refinancing operations of the Eurosystem will be conducted as variable rate tenders using the single rate method of allotment. With a view to phasing in the longer-term refinancing operations, the first such operation is conducted through three parallel tenders with three different maturities, namely 25 February, 25 March and 29 April 1999. The ECB also announces that the intention is to allot an amount of €15 billion in each of these parallel tenders. For the subsequent longer-term refinancing operations in the first three months of 1999, the intention is to allot an unchanged amount of €15 billion per operation.

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.

18 March 1999

The Governing Council of the ECB decides that for the main refinancing operations to be settled on 24 and 31 March and 7 April 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%.

8 April 1999

The Governing Council of the ECB decides to reduce the interest rate on the main refinancing operations by 0.5 percentage point to 2.5%, starting with the operation to be settled on 14 April 1999. In addition, it decides to lower the interest rate on the marginal lending facility by 1 percentage point to 3.5% and the interest rate on the deposit facility by 0.5 percentage point to 1.5%, both with effect from 9 April 1999.

22 April 1999

The Governing Council of the ECB decides that the interest rates on the main refinancing operations, the marginal lending facility and the deposit facility will remain unchanged at 2.5%, 3.5% and 1.5% respectively. In addition, the

Governing Council announces that for the longer-term refinancing operations to be settled during the next six months, the intention is to continue to allot an amount of €15 billion per operation.

6 May 1999

The Governing Council of the ECB decides that the interest rates on the main refinancing operations, the marginal lending facility and the deposit facility will remain unchanged at 2.5%, 3.5% and 1.5% respectively.

20 May 1999

The Governing Council of the ECB decides that the interest rates on the main refinancing operations, the marginal lending facility and the deposit facility will remain unchanged at 2.5%, 3.5% and 1.5% respectively. The Governing Council also decides to change the maturity of

the longer-term refinancing operation scheduled to be settled on 30 September 1999. The redemption date of this operation will be brought forward from 30 December to 23 December 1999. Correspondingly, the longer-term refinancing operation which was originally scheduled to be announced on 27 December 1999 and to be allotted and settled on 30 December 1999 will be announced on 21 December, allotted on 22 December and settled on 23 December 1999. The rescheduling of operations is intended to alleviate the working procedures for financial market participants at the turn of the year.

2 June, 17 June, 1 July, 15 July, 29 July 1999

The Governing Council of the ECB decides that the interest rates on the main refinancing operations, the marginal lending facility and the deposit facility will remain unchanged at 2.5%, 3.5% and 1.5% respectively.

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

Annual Report

"Annual Report 1998", April 1999.

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.

"The role of short-term economic indicators in the analysis of price developments in the euro area", April 1999.

"Banking in the euro area: structural features and trends", April 1999.

"The operational framework of the Eurosystem: description and first assessment", May 1999.

"The implementation of the Stability and Growth Pact", May 1999.

"Longer-term developments and cyclical variations in key economic indicators across euro area countries", July 1999.

"The institutional framework of the European System of Central Banks", July 1999.

"The international role of the euro", August 1999.

"The balance sheets of the Monetary Financial Institutions of the euro area in early 1999", August 1999.

Working Paper Series

- 1 "A global hazard index for the world foreign exchange markets" by V. Brousseau and F. Scacciavillani, May 1999.
- 2 "What does the single monetary policy do? A SVAR benchmark for the European Central Bank" by C. Monticelli and O. Tristani, May 1999.
- 3 "Fiscal policy effectiveness and neutrality results in a non-Ricardian world" by C. Detken, May 1999.

4 “From the ERM to the euro: new evidence on economic and policy convergence among EU countries” by I. Angeloni and L. Dedola, May 1999.

5 “Core inflation: a review of some conceptual issues” by M. Wynne, May 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.

“Payment systems in the European Union: Addendum incorporating 1997 figures”, January 1999.

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

“Euro area monetary aggregates: conceptual reconciliation exercise”, July 1999.

“The effects of technology on the EU banking systems”, July 1999.

“Payment systems in countries that have applied for membership of the European Union”, August 1999.

