



EUROPEAN CENTRAL BANK

MONTHLY BULLETIN | 1 | 2005

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ABBREVIATIONS

COUNTRIES

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

OTHERS

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

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



EDITORIAL

At its meeting on 3 November 2005, the Governing Council of the ECB decided to leave the minimum bid rate on the main refinancing operations of the Eurosystem unchanged at 2.0%. The interest rates on the marginal lending facility and the deposit facility were also left unchanged at 3.0% and 1.0% respectively.

On the basis of its regular economic and monetary analyses, taking into account ongoing upward pressure on prices stemming mainly from energy price developments, the Governing Council concluded that the monetary policy stance still remains appropriate. At the same time, strong vigilance with regard to the upside risks to price stability is warranted. Strong vigilance is also called for in the light of ample liquidity and buoyant monetary and credit growth in the euro area. It is of the essence that the increase in current inflation rates does not translate into inflationary pressures over the medium term and to ensure that inflation expectations remain firmly anchored at levels consistent with price stability. Across the maturity spectrum, interest rates in the euro area remain very low in both nominal and real terms, and the current very accommodative stance of monetary policy lends considerable support to economic activity.

The Governing Council started its assessment with the economic analysis. Although economic growth has been dampened by the marked increase in oil prices over recent quarters, it appears that the euro area economy has shown considerable resilience to this shock, supported also by responsible wage-negotiating behaviour. Moreover, the latest indicators suggest that economic activity is currently strengthening. This would be in line with the September ECB staff projections, which indicate a gradual recovery from the second half of 2005 onwards. On the external side, it is projected that ongoing growth in global demand will support euro area exports, and on the domestic side, that investment will benefit from continued favourable financing conditions, as well as from the robust growth of corporate earnings. Consumption should gradually

recover, broadly in line with expected developments in real disposable income. At the same time, the outlook for economic activity remains subject to downward risks, relating mainly to oil prices, concerns about global imbalances and weak consumer confidence.

Turning to price developments, recent increases in mainly energy prices have pushed headline inflation rates to levels significantly in excess of 2%. According to Eurostat's flash estimate, annual HICP inflation was 2.5% in October 2005, compared with 2.6% in September and 2.2% in the two preceding months. It is likely that HICP inflation will remain elevated in the short term. As stressed in October, it is key in interpreting current inflation rates to make a clear distinction between temporary, short-term factors on the one hand, and those of a more lasting nature on the other. While some developments might prove to be transitory, markets expect oil prices to remain at high levels, driven mainly by buoyant global demand and, to some extent, by fragilities on the supply side. This suggests a more lasting impact of energy prices on overall price developments.

This assumption underlies the Governing Council's forward-looking assessment of price developments. At the same time, wage increases have remained contained over recent quarters and, with labour markets weak, this should continue for the time being. Moreover, pressure from manufacturing prices remains low given strong global competition. All in all, while inflation rates are expected to stay above 2% over the shorter term, there continues to be no clear evidence yet of domestic inflationary pressures building up in the euro area.

The Governing Council remains, however, concerned about the medium-term upside risks to this scenario. As stressed a month ago, these relate to ongoing uncertainties surrounding oil market developments, to a potentially stronger pass-through than has so far been observed, on account of higher oil prices being passed on to consumers via the domestic production chain, and to potential second-round effects in wage

and price-setting behaviour. In addition, possible further increases in administered prices and indirect taxes have to be taken into account. Hence, strong vigilance is required to ensure that medium and long-term inflation expectations for the euro area remain well-anchored.

The monetary analysis also points to increased upside risks to price stability over the medium to longer term. Liquidity in the euro area is very ample by all plausible measures. Moreover, the strengthening of monetary growth observed since mid-2004 has gained further momentum over the past few months. Growth in the monetary aggregate M3 has been driven by its most liquid components, confirming the increasingly dominant impact of the low level of interest rates. Furthermore, the growth of borrowing, especially mortgage loans, remains very robust. In this context, price dynamics in a number of housing markets need to be monitored closely.

To sum up, the economic analysis indicates that energy price increases, in particular, imply upward revisions to the outlook for short-term price developments. Some of the contributing factors can be expected to be temporary but others are likely to be more lasting. Domestic inflationary pressures over the medium term still remain contained in the euro area, but significant upside risks have to be taken into account. Moreover, the monetary analysis identifies increased risks to price stability over the medium to longer term. Overall, cross-checking the information from the two pillars confirms that strong vigilance is warranted to keep inflation expectations in line with price stability. Only by keeping medium and long-term inflation expectations firmly anchored at levels consistent with price stability can monetary policy make a significant ongoing contribution towards a recovery in economic growth.

As regards fiscal policies, a number of countries have presented their 2006 budget plans. Despite some welcome progress with

fiscal consolidation, the outlook for countries in excessive deficit is a matter of great concern, as there is a risk of consolidation not proceeding and commitments for this year and next not being met. Further delays in the correction of excessive deficits and a continued inclination to look for the most lenient way to implement the procedural steps of the revised Stability and Growth Pact risk undermining the Pact's credibility. This must be avoided. All parties involved in the forthcoming decisions carry an important responsibility to ensure the proper functioning of the overall fiscal framework in the future. This would be the most effective way to enhance the growth prospects of the euro area and to build confidence in public finances ahead of the time when the challenges of population ageing set in. The Governing Council therefore urges countries with fiscal imbalances to give priority to their timely correction and to implement the revised Pact rigorously. This will send the right signal to the public and support the credibility of the fiscal framework.

As regards structural reforms, the Governing Council stresses again the urgent need to increase the flexibility of labour and product markets in order to achieve a more dynamic and competitive European economy and to help foster the adjustment processes within the euro area. The opportunities arising from globalisation and rapid technological change can best be captured by allowing and by speeding up structural change with a view to enhancing potential growth and employment creation. This would also help to facilitate the necessary adjustment to the higher level of oil prices by further increasing energy efficiency and energy savings, while avoiding distortionary measures that hamper the adjustment process.

This issue of the Monthly Bulletin contains three articles. The first article provides a summary of recent findings on price-setting behaviour in the euro area, drawing on the analysis conducted by the Eurosystem in the context of the "Inflation Persistence Network".

The second article analyses the financing conditions, financing developments and balance sheet positions of non-financial corporations in the euro area over the past ten years. The third article reviews the economic and financial relations between the euro area and Russia, and reports on the cooperation between the Eurosystem and the Bank of Russia.

ECONOMIC AND MONETARY DEVELOPMENTS

I THE EXTERNAL ENVIRONMENT OF THE EURO AREA

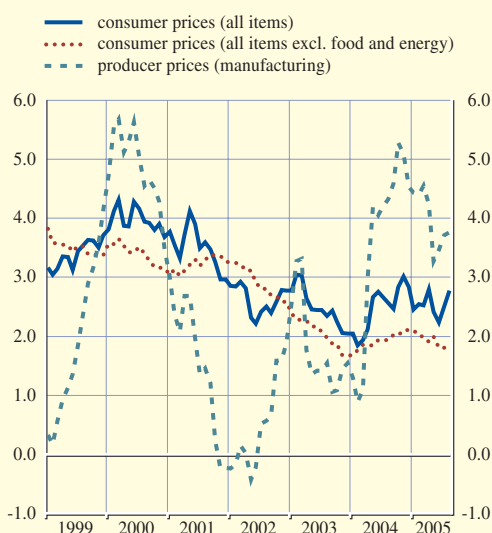
The global economy continues to expand at a relatively robust pace overall. Increases in energy prices are contributing to higher consumer price inflation, but underlying inflationary pressures remain contained. While elevated oil prices pose downside risks to global growth, the outlook for the external environment of the euro area remains fairly favourable.

I.1 DEVELOPMENTS IN THE WORLD ECONOMY

The global economy continues to expand at a fairly robust pace. Recent data releases show that the impact of the hurricanes on the US economy appears to have been relatively limited, with the underlying momentum of the economy remaining fairly strong. The recovery of the Japanese economy appears to be broadening, while the Chinese economy is expanding more or less unabated. Reflecting to a large extent the elevated price of oil and refined products, consumer price inflation has increased recently in a number of countries, including, most notably, the United States. Nonetheless, consumer price inflation excluding energy and food has so far remained relatively contained. Overall, consumer prices in the OECD countries increased on average by 2.8% year on year in August, although excluding food and energy the increase was 1.8% (see Chart 1).

Chart 1 Price developments in the OECD countries

(annual percentage changes; monthly data)



Source: OECD.

UNITED STATES

The US economy continued to grow steadily in the third quarter of 2005, despite the increases in energy prices and the disruptive effects of the hurricanes. According to advance estimates, GDP grew at a quarterly annualised rate of 3.8% in the third quarter, after 3.3% in the second quarter, partly due to a smaller decline in inventory investment and an increase in federal government consumption and gross investment. Private consumption spending grew at a strong pace, while business fixed investment growth remained high, albeit lower than in the second quarter. The contribution of net trade to GDP growth was slightly positive as a result of a small increase in exports and stable imports.

Notwithstanding the third-quarter rebound in overall activity, the negative effects of the hurricanes on the US economy were clearly evident in recent data releases. In September industrial production declined, mostly on account of the disruptions in oil production. Likewise, the drop in manufacturing activity was mainly concentrated in oil-related goods. Employment conditions, however, remained rather healthy, as the large job losses in the regions affected by the hurricanes were, to a large extent, offset by new jobs created in the rest of the economy. Indicators of private consumption and business fixed investment spending have improved slightly.

Nevertheless, owing to reconstruction spending, the outlook for overall economic activity in the near term remains favourable, as growth continues to be supported by solid fundamentals.

Although slower recently, labour productivity growth remains fairly strong. Growth in business fixed investment is expected to continue to be buoyant, while private consumption spending is likely to return gradually to more sustainable levels.

Annual headline CPI inflation climbed to 4.7% in September, owing to especially large increases in energy prices. Excluding food and energy, inflation stood at 2.0% for the month. Upward pressures on prices, caused by increases in raw material costs and intensified by the storms, may turn out to be transitory, provided that the factors contributing to the price hikes start to weaken.

With respect to monetary policy, at its meeting on 1 November the US Federal Open Market Committee decided to raise its target for the federal funds rate by 25 basis points for the 12th consecutive time, bringing the policy rate to 4.0%. The Committee reiterated its statement that “policy accommodation can be removed at a pace that is likely to be measured”.

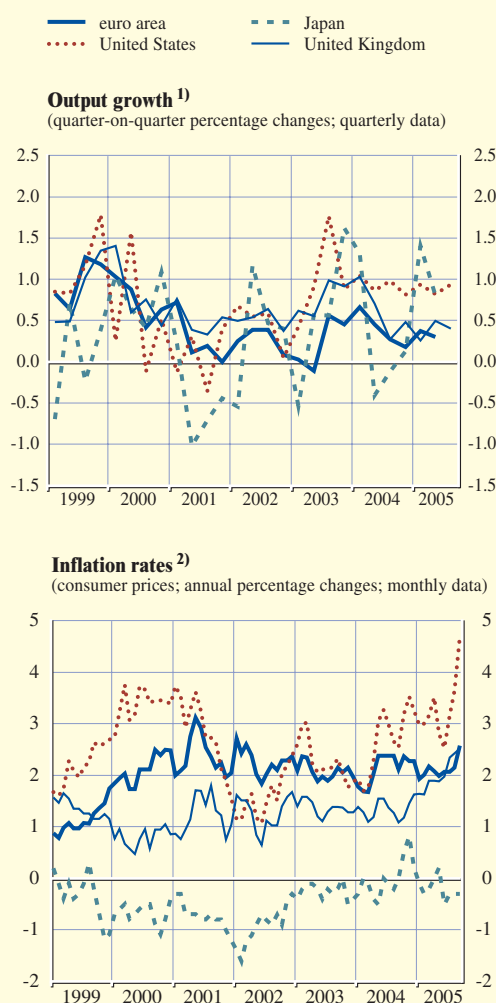
JAPAN

In Japan, economic activity has been gaining momentum since the beginning of 2005. In the first two quarters, real GDP grew year on year by 5.8% and 3.3% respectively, driven mainly by strong growth in private domestic demand. The latest data on economic activity indicators (e.g. industrial production) suggest that growth may moderate somewhat in the third quarter of this year, down from the very high rates observed in the first half of the year.

Nevertheless, the short-term outlook for business conditions remains favourable, as confirmed by the August readings of the Cabinet Office’s leading indicator of business conditions and the Economy Watchers’ Survey (based on replies from employees in the retail services sector). Looking forward, the medium-term outlook for the economy is positive, partly reflecting advances in structural reforms, particularly in labour markets and the banking sector.

With regard to price developments in September, the annual rate of change in the headline CPI stood at -0.3%, while that of the CPI excluding fresh food was -0.1%. Meanwhile, producer prices – as measured by the domestic corporate goods price index – continued to rise, reflecting high prices for commodities. In September, domestic corporate goods prices rose by 1.7% year on year.

Chart 2 Main developments in major industrialised economies



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

Data from the Bank of Japan's Tankan corporate survey show that a majority of manufacturing firms have reported an adverse combination of rising input prices and declining output prices over the last few quarters. The diverging developments in input and output prices may end up denting corporate profitability, particularly in the manufacturing sector.

At its meeting on 31 October, the Bank of Japan decided to keep its target for the outstanding balance of current accounts unchanged at around JPY 30-35 trillion. At the same time, in the accompanying press release it reiterated that when the demand for liquidity is exceptionally weak owing to technical factors, the balance may be allowed to fall below the lower bound of the target.

UNITED KINGDOM

In the United Kingdom, economic activity remains subdued. According to the first estimate of national accounts, real GDP rose at a quarterly rate of 0.4% in the third quarter of 2005, broadly unchanged from the first two quarters of the year (0.3% and 0.5% respectively), but significantly weaker than throughout last year. Weak household consumption and investment are largely responsible for this development and therefore for the expected slowdown in economic growth in 2005 as a whole.

Annual HICP inflation increased further in September to 2.5%, mainly as a result of soaring energy prices. The annual growth rate of residential property prices (according to the Halifax House Price Index), which had been falling until July, has since picked up. In the labour market there are some signs of easing. The number of unemployed claiming benefits has increased, although the official unemployment rate and average earnings remain rather flat.

OTHER EUROPEAN COUNTRIES

The economic outlook in many of the other non-euro area EU countries seems rather favourable. Output growth is expected to remain relatively robust in the third quarter of this year in most countries. HICP inflation has, nevertheless, generally continued to increase in September, mainly as a result of higher energy prices.

In Denmark and Sweden, the quarterly rate of real GDP growth increased to 1.6% and 0.6% respectively, in the second quarter of this year. Private consumption and investment, partly supported by low interest rates, remained the main drivers of growth. For 2005 as a whole, economic activity is expected to remain rather robust in these two economies. HICP inflation continued to increase in both countries in September. However, while in Denmark higher energy and food prices pushed annual HICP inflation to a two-year high (2.4%), in Sweden annual HICP inflation remained rather moderate (1.1%), supported by strong competition and high productivity growth.

In the three largest new EU Member States, the latest indicators suggest that developments in real GDP growth are relatively favourable, with some variations across countries. In the Czech Republic and Hungary, annual output growth, which increased in the second quarter of this year to 5.1% and 4.0% respectively, is expected to remain rather robust. Economic activity in the Czech Republic seems to be mostly supported by external demand, while in Hungary, both external demand and investment growth are adding further momentum to real GDP growth. In Poland, real GDP growth, which stood at 1.0% year on year in the second quarter driven mainly by domestic demand, is expected to increase.

Despite upward pressures from higher energy prices, annual HICP inflation remained virtually unchanged in Hungary and Poland in September (3.6% and 1.8% respectively), on account of favourable developments in food prices and recent currency appreciation trends. In the Czech Republic, however, the latter factors did not offset the upward pressure from higher energy prices and in September annual HICP inflation rose to 2.0%. Against the background of a deterioration in the inflation outlook, the Czech National Bank increased its key policy rate by 25 basis points to 2.0% on 27 October.

NON-JAPAN ASIA

In non-Japan Asia, economic growth continues at a robust pace. In China and South Korea, real GDP growth rates in the third quarter exceeded market expectations. In most major economies in the region, export growth has showed further upward momentum, owing partly to a pick-up in IT product exports. Meanwhile, domestic demand has continued to strengthen, which, together with high oil prices, has pushed up CPI inflation in a number of major economies in the region. As a result, several central banks have recently started raising interest rates.

In China, the economy continues to expand rapidly, with GDP growing by 9.4% year on year in the third quarter of 2005, after 9.5% in the first half of the year. Both robust domestic demand and rising exports contributed to this performance. In September, urban fixed asset investment and industrial production remained very robust, rising by 29.4% and 16.5% year on year respectively. In the same month, import growth picked up strongly while export growth moderated, leading to a slight decline in the trade surplus. With regard to price developments, inflationary pressures continued to abate, with annual CPI inflation declining further to 0.9% in September. The relatively muted impact of high oil prices on inflation in China reflects the low weight of energy in the CPI basket and administrative controls on petrol prices. The box entitled “Macroeconomic implications of high oil prices for emerging market economies” provides a more detailed description of the effect of the oil price increase on external balance, and price and fiscal developments in the region and in other selected emerging market economies.

Economic prospects for non-Japan Asia remain rather favourable, bolstered by steady growth in domestic demand and a further revival in export growth. Strong growth in the Chinese economy is likely to support regional trade. High oil prices remain a major risk to the region.

LATIN AMERICA

In Latin America, the latest data releases show that economic activity remains rather strong. Output growth continues to be led by exports, while domestic demand has recently proved resilient. Industrial production expanded by 3.8% and 2.1% year on year in Brazil and Mexico respectively, in August, and by 8.6% year on year in Argentina in September. The region’s economic prospects are favourable. Domestic demand is likely to keep firming, offsetting an expected moderation in currently very positive conditions in foreign demand. Growth is also expected to be supported by the easing of financing costs, reflecting a significant moderation of inflationary pressures.

Box I

MACROECONOMIC IMPLICATIONS OF HIGH OIL PRICES FOR EMERGING MARKET ECONOMIES

Persistently high oil prices have affected emerging market economies through their impact on external balances, inflation, monetary and exchange rate policies, and fiscal balances in the past few years. The rise in oil prices since 2002 has led to significant improvements in the external and fiscal balances of most net oil exporters, while it appears to have had little impact on the inflation and real exchange rates of many countries. Perhaps even more remarkably, the external and fiscal balances of most emerging market economies that are net importers of oil have proven to be broadly resilient to higher oil prices, and the pass-through to domestic inflation remained very limited until 2004. Since 2005, however, the external and fiscal performance of some of the net oil-importing economies – notably that of countries in Emerging Asia – has started to deteriorate, which appears to be partly related to the further increase in oil prices.

Impact on external balances

The current account positions of many oil-importing and oil-exporting economies in Latin America, Asia and the Middle East have been robust in recent years. Net oil-exporting economies have generally experienced a sizeable improvement in their trade and current account surpluses since 2002. This has resulted in a more favourable GDP growth outcome, particularly in those countries where the oil sector accounts for the bulk of economic activity.

Current account, inflation and fiscal balance in selected emerging market economies

	Current account % of GDP			CPI ¹⁾ Year-on-year, end-of-period			Fiscal balance % of GDP		
	2002	2004	2005 ²⁾	2002	2004	2005 ³⁾	2002	2004	2005 ²⁾
Net oil exporters									
Argentina	8.5	2.0	1.3	41.0	6.1	10.8	-11.7	-1.6	0.2
Malaysia	8.4	12.6	13.5	1.7	2.1	2.0	-5.6	-4.3	-3.5
Mexico	-2.1	-1.1	-1.1	5.7	5.2	3.8	-1.6	-0.3	-0.7
Russia	9.0	10.3	13.2	15.0	11.7	11.9	1.3	4.4	8.6
Saudi Arabia	6.3	20.5	32.4	0.2	0.3	0.6	-5.9	9.6	17.5
Venezuela	8.2	12.7	15.9	31.2	19.2	20.4	-6.0	-3.8	-1.4
Net oil importers									
Brazil	-1.7	1.9	1.7	14.7	6.1	4.0	-0.8	-1.5	-3.8
Chile	-0.9	1.5	0.3	2.8	2.4	2.7	-1.2	2.2	2.8
China	2.8	4.2	6.1	-0.4	2.4	2.3	-3.3	-1.7	-1.7
India	1.4	-0.1	-1.8	6.0	5.3	5.5	-6.1	-4.5	-4.5
Indonesia	3.9	1.2	-0.4	10.0	6.4	7.8	-1.5	-1.4	-1.6
Korea	1.0	4.1	2.0	3.7	3.0	2.7	2.3	2.3	2.2
Thailand	5.5	4.5	-2.5	1.6	2.9	3.0	-2.3	0.3	0.5
Memorandum									
Latin America + Caribbean	-0.9	0.9	0.9	8.7	6.5	6.3	-3.1	-1.5	-2.1
Emerging Asia	3.7	4.1	3.7	1.8	4.0	3.9	-3.5	-2.2	-2.3
Middle East + North Africa	4.0	11.0	19.0	5.7	7.3	8.4	-2.1	1.6	5.9
Advanced economies	-0.8	-1.0	-1.3	1.5	2.0	2.2	-2.4	-2.8	-2.6

Sources: WEO and IIF databases.

1) Annual average for Saudi Arabia and regional aggregates.

2) WEO September 2005 projections.

3) IIF 2005 projections.

It could have been expected that net oil-importing economies would have experienced a deterioration of their external balances due to the significant increase in oil prices. However, most countries have continued to record strong, and even rising, trade and current account surpluses relative to 2002 (see table). Strong export growth in net oil-importing countries in 2003 and 2004 more than offset the rise in oil imports. Over that period exports were buoyed by stronger global growth, higher non-oil commodity prices (which benefited Latin American economies, in particular) and strong demand for IT goods (benefiting mainly Emerging Asia).

In 2005, however, export growth declined noticeably across much of Asia, due both to the slowdown in the growth of demand for IT goods and to the significantly lower growth of China's imports. Non-fuel commodity prices, although still high, trended down relative to 2004 and domestic demand rebounded in several of these countries. Coupled with a sustained high import bill and the potential slowdown of demand from mature economies, the current account surpluses of most Emerging Asian economies (except China) are expected to decline significantly in 2005 and beyond (see table). To a lesser extent, this also holds true for many Latin American economies.

An additional factor behind current account developments is the relative oil intensity of emerging market countries. Most of these countries remain less efficient energy consumers than the G7 economies. However, in some countries, a much smaller share of oil in their total domestic energy consumption has limited the impact of higher oil prices on external balances. China and India, for example, which rank third and ninth in the list of the world's largest net oil importers and are the two emerging markets where oil demand grew fastest in 2004, rely on oil for only 20% of their total energy needs compared with around 40% in the G7 economies. Furthermore, the disproportionate reliance on coal as the main energy resource in both China and India means that both economies consume less oil per unit of GDP (in purchasing power parity terms) than advanced economies like the United States. Many Latin American countries – including some major net oil exporters such as Venezuela – also rely on hydropower rather than oil for most of their electricity generation.

Impact on inflation

Higher oil revenues have not led to higher domestic inflation in most net oil-exporting countries. On the contrary, inflation rates declined from 2002 to 2004 in many of these countries. Although the rise in oil prices has resulted in a substantial increase in current account surpluses in many countries, this has not led to nominal exchange rate appreciation. Countries that have managed to control inflation relatively well and have pegged their currencies to the US dollar have in fact experienced real effective exchange rate depreciation. Several of these countries have also used the higher oil proceeds to reduce foreign debt, thus limiting the impact of oil-related inflows on domestic monetary growth. However, a few countries, such as Russia, have indeed seen a real effective appreciation since 2002, or have experienced such pressures in the course of 2005 (as in the case of Colombia and Mexico).

In net oil-importing emerging countries, the impact of high oil prices on inflation has thus far been remarkably benign. Although inflation increased in some countries between 2002 and 2004 (in Thailand and Peru, for example), it decreased in others (in Brazil, India, Indonesia, Korea and Chile, for instance). The reasons for the decline in inflation in these countries

between 2002 and 2004 are varied and include factors unrelated to oil prices, such as weak domestic demand (Korea), a phase of monetary policy tightening (Brazil), nominal exchange rate appreciation (Chile) and slower growth in food prices (Indonesia and India). To some extent, the pass-through to domestic prices was also contained by fuel subsidies and other protracted administrative measures. However, the pass-through of high oil prices to domestic inflation has increased in 2005, especially in those parts of Emerging Asia where fuel subsidies have been cut and currencies have depreciated against the US dollar (Indonesia and Thailand, for instance).

Impact on fiscal balances

With regard to the impact of higher oil prices on fiscal balances, net oil-exporting economies have generally experienced large improvements in public accounts, even though some have continued to post fiscal deficits in spite of the rise in oil prices (Malaysia, Venezuela and Mexico, for instance). In most cases, strong fiscal surpluses have tended to provide the anchor for macroeconomic restraint, particularly in countries with tightly managed exchange rates. In addition to bringing down overall debt levels, some net oil-exporting countries (notably in Latin America) have also engaged in strategic debt management to improve the maturity and amortisation profile of their public debt. This development has also been supported by favourable financing conditions in emerging markets.

In net oil-importing economies, the impetus to government revenue provided by strong growth and (in some cases) by the rise in non-fuel commodity exports also helped to improve fiscal balances between 2002 and 2004, in spite of the sometimes high cost of maintaining fuel subsidies. However, fuel subsidies and price caps – which are widespread among net oil-importing countries and, particularly so, in Emerging Asia – are becoming increasingly costly to maintain. In 2005, the cost of financing these subsidies is estimated to reach 5.5% of GDP in Indonesia, 3.1% of GDP in Malaysia and 1.1% of GDP in India. Fuel subsidies have translated into increased public expenditure in countries where they are directly financed by the government (in Indonesia, for instance) or into lower corporate profits in countries where price caps transfer the cost to the balance sheets of state-owned refineries (in China and India, for example). In some countries, including China, there have been signs that this policy has led to shortages in the supply of refined products as some suppliers have been hesitant to serve the domestic market at prices below those prevailing internationally. The implicit fiscal vulnerabilities associated with these fuel subsidies and administrative measures in an environment of persistently high oil prices have prompted many economies in Emerging Asia to scale these measures back (in Indonesia, Malaysia, Thailand, China and India, for instance).

These policy changes are also in line with the recent G7 statement of September 2005 calling on countries to avoid using subsidies and price caps that artificially lower the price of domestic fuel and contribute to persistently high global oil demand. In addition, the statement stressed the importance of increasing energy efficiency in developing countries. These calls may be of specific relevance to some emerging market economies that currently appear to be significantly less energy-efficient than the G7 countries.

1.2 COMMODITY MARKETS

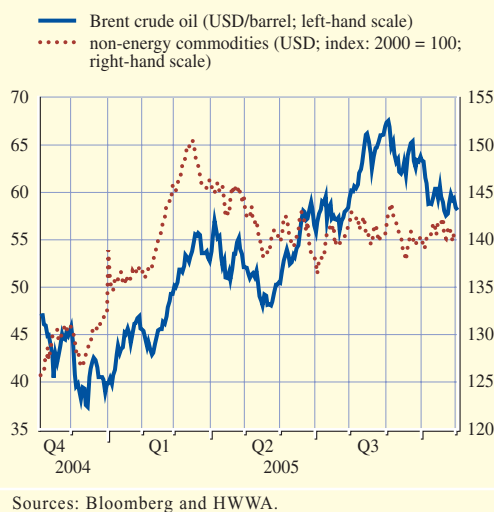
In October oil prices eased from the all-time highs reached in early September, following larger than expected increases in US oil inventories and preliminary indications of a decline in the demand for oil (although possibly temporarily) by the hurricanes in the United States. On 2 November, the price of Brent crude oil stood at USD 58.1, 14% below its September peak but still 46% higher than at the start of the year. Petrol prices also eased in October, returning to pre-hurricane levels. Limited spare capacity all along the oil supply chain, and therefore high sensitivity to unanticipated changes in the supply-demand balance, is expected to keep oil prices both high and volatile. According to futures markets, oil prices are expected to remain around current levels over the coming years.

After retreating from their March 2005 peak, non-energy commodity prices have broadly remained stable over the last six months, with an increase in the prices of industrial raw materials being offset by declining food prices. Nevertheless, expressed in US dollar terms, non-energy commodity prices were around 13% higher in October than one year earlier.

1.3 OUTLOOK FOR THE EXTERNAL ENVIRONMENT

The outlook for the external environment and for euro area external demand remains fairly favourable. Notwithstanding some temporary hurricane-induced weakening in the United States in the short term, the underlying momentum of the global economy appears to be relatively robust, supported by favourable financing and profit conditions. This is also suggested by available leading indicators, with the six-month rate of change in the OECD Composite Leading Indicator remaining stable in August, reflecting increases in most countries being counterbalanced by decreases in a few others, most notably the United States and Canada. Although the prices of oil and oil-related products have fallen from their September highs, they remain elevated. Oil prices, therefore, remain the most important risk to the overall relatively benign outlook for the global economy.

Chart 3 Main developments in commodity markets



Sources: Bloomberg and HWWA.

2 MONETARY AND FINANCIAL DEVELOPMENTS

2.1 MONEY AND MFI CREDIT

In September 2005 the annual rate of growth of M3 continued to strengthen, maintaining the upward trend observed since mid-2004. The stimulative effect of the prevailing low level of interest rates, which implies low opportunity costs of holding money, remains the dominant factor driving monetary and credit dynamics. The ongoing strong growth of money and credit in an environment of more than ample liquidity points to increasing upside risks to price stability over medium to longer-term horizons. Moreover, these developments imply a need to monitor asset price dynamics closely, given the potential for price misalignments to emerge.

THE BROAD MONETARY AGGREGATE M3

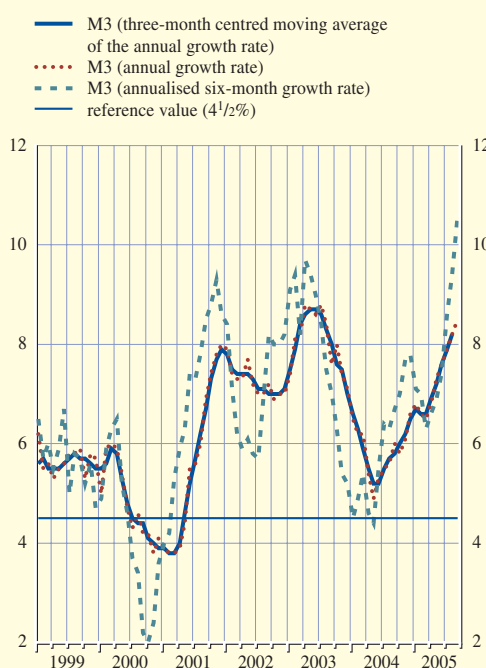
The annual growth rate of the broad monetary aggregate M3 rose to 8.5% in September 2005, from 8.2% in August. The three-month average of the annual M3 growth rates increased to 8.2% in the period between July and September 2005, from 7.9% in the period between June and August. The data for recent months confirm the strengthening of M3 growth observed since the second half of 2004. This is particularly visible in the shorter-term dynamics, as illustrated by the further rise of the annualised six-month growth rate of M3 to 10.6% in September, from 9.4% in the previous month (see Chart 4). The six-month annualised growth rate is now at its highest level since the start of Stage Three of EMU in January 1999.

The September data support the view that the stimulative impact of the prevailing low level of interest rates has continued to be the dominant factor driving monetary dynamics. On the components side, the most liquid assets within M3 contained in the narrow aggregate M1 contributed most to the current high level of M3 growth. On the counterparts side, monetary expansion has been driven by the further increase in the annual growth rate of MFI credit to the private sector. At the same time, the normalisation of the portfolio allocation behaviour of the euro area money-holding sector, which had dampened M3 growth in late 2003 and early 2004, has lost some momentum.

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

Chart 4 M3 growth and the reference value

(percentage changes; adjusted for seasonal and calendar effects)



Source: ECB.

MAIN COMPONENTS OF M3

In September developments in M1 continued to make the largest contribution to the level of annual M3 growth. Among the components of M1, currency in circulation and overnight deposits continued to grow at a robust, albeit somewhat moderating pace. The annual rate of growth of short-term deposits other than overnight deposits increased further in September (see Table 1), making these assets the most important driver of increases in M3 growth. The current strength of demand for short-term deposits is likely to reflect the low opportunity cost of holding these assets in an environment of low interest rates.

The annual growth rate of short-term deposits and repurchase agreements held by the private sector with MFIs (excluding the Eurosystem) increased further in September. This asset class constitutes the broadest aggregation of M3 components for which information by holding sector is available, accounting for around 80% of M3 in September 2005. The strengthening of the annual rate of growth of these assets observed since the middle of 2004 has been broad-based across sectors, although particularly pronounced contributions to this strengthening have come from non-monetary financial intermediaries other than insurance corporations and pension funds, despite their relatively modest share in overall holdings of short-term deposits.

The annual growth rate of marketable instruments included in M3 increased slightly in September. Among these instruments, the annual growth rate of money market fund shares/units, which are held by households and firms to park liquidity at times of heightened uncertainty, remained relatively subdued. The modest growth in these instruments over the past few months, following the double-digit annual growth rates observed between mid-2001 and late 2003, implies a normalisation of the portfolio allocation behaviour of euro area residents. At the same time, double-digit annual growth was observed in debt securities with a maturity of up to two years, probably linked in part to the emergence of new structured products which combine these securities with derivative instruments offering some exposure to equity and bond market developments.

Table 1 Summary table of monetary variables

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

	Outstanding amount as a percentage of M3 ¹⁾	Annual growth rates					
		2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Aug.	2005 Sep.
M1	48.0	9.3	9.6	9.8	11.3	11.6	11.2
Currency in circulation	7.3	19.1	18.0	17.3	16.0	15.6	15.3
Overnight deposits	40.7	7.7	8.2	8.5	10.4	10.9	10.4
M2 - M1 (= other short-term deposits)	37.7	3.5	4.5	5.0	5.4	5.3	6.5
Deposits with an agreed maturity of up to two years	15.5	-2.4	0.5	2.6	4.5	4.2	7.1
Deposits redeemable at notice of up to three months	22.1	7.4	7.1	6.6	6.0	6.0	5.9
M2	85.7	6.4	7.1	7.5	8.4	8.6	8.9
M3 - M2 (= marketable instruments)	14.3	3.9	4.0	4.4	5.7	5.8	6.2
M3	100.0	6.1	6.7	7.1	8.0	8.2	8.5
Credit to euro area residents		6.0	6.5	6.6	6.9	7.0	7.3
Credit to general government		3.7	3.4	2.2	1.2	1.1	1.3
Loans to general government		0.4	-0.3	-0.7	-0.9	-0.9	0.7
Credit to the private sector		6.7	7.3	7.8	8.5	8.6	8.9
Loans to the private sector		6.9	7.3	7.5	8.3	8.4	8.6
Longer-term financial liabilities (excluding capital and reserves)		8.9	9.5	9.6	9.8	9.8	9.1

Source: ECB.

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

MAIN COUNTERPARTS OF M3

On the counterparts side, the annual growth rate of MFI loans to the private sector edged up further, to 8.6% in September, from 8.4% in August. The continued robust growth of MFI loans was broadly based across sectors, reflecting the stimulative impact of the low level of interest rates and possibly also improved confidence in some sectors of the economy.

MFI loans to households continued to be driven mainly by the dynamism of loans for house purchase, which grew at an annual rate of 10.5% in September, after 10.7% in August (see Table 2). The ongoing strong borrowing for house purchase reflects the environment of low mortgage lending rates in the euro area as a whole and the strength of housing market developments in many regions. Growth in MFI loans to non-financial corporations, which has strengthened since early 2004, increased further in September. This reflects increases in the demand for loans at all maturities, with particularly strong demand being registered for loans with a maturity of over five years. Taken together with the results of the October Bank Lending Survey (see Box 2 for details), data on MFI loans suggest that non-financial corporations are in a position to finance future real investment spending if it is warranted by demand conditions.

As regards overall MFI credit to euro area residents, the further strengthening in September continued to mask considerable differences in the pace of growth between the strong demand from the private sector and the subdued developments observed for MFI credit to general government.

Among the other counterparts of M3, the annual growth rate of MFI longer-term financial liabilities (excluding capital and reserves) declined to 9.1% in September, from 9.8% in August, but remained robust. This strong growth was mainly a result of developments in debt securities issued with a maturity of over two years and provides evidence of an ongoing inclination in the euro area money-holding sector to invest in longer-term and riskier euro area financial instruments.

Table 2 MFI loans to the private sector

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

	Outstanding amount as a percentage of the total ¹⁾	Annual growth rates					
		2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Aug.	2005 Sep.
Non-financial corporations	41.2	5.1	5.7	6.1	6.7	6.6	7.0
Up to one year	30.6	1.6	3.2	4.5	5.1	4.8	5.3
Over one and up to five years	17.2	5.8	6.7	6.4	6.3	5.8	5.8
Over five years	52.2	7.0	6.9	6.9	7.9	8.0	8.5
Households²⁾	50.6	7.9	8.1	8.1	8.5	8.6	8.6
Consumer credit ³⁾	13.3	6.2	6.4	6.7	7.0	7.0	7.3
Lending for house purchase ³⁾	69.1	9.9	10.1	10.1	10.6	10.7	10.5
Other lending	17.5	1.9	2.2	2.1	2.3	2.3	2.4
Insurance corporations and pension funds	0.8	14.4	23.0	14.4	16.5	18.3	22.7
Other non-monetary financial intermediaries	7.5	10.2	10.6	11.4	15.7	16.4	17.5

Source: ECB.

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

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

2) As defined in the ESA 95.

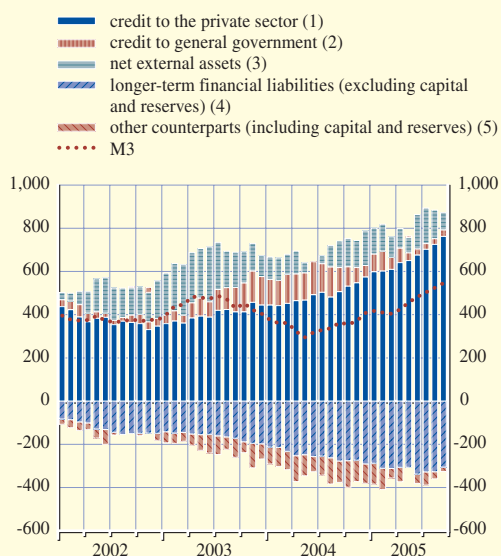
3) The definitions of consumer credit and lending for house purchase are not fully consistent across the euro area.

The annual flow of euro area MFI net external assets declined to €80 billion in September from €132 billion in the previous month, reflecting to a certain extent the recent net outflow of funds. However, over the course of 2005 the annual flows in net external assets have remained positive and, thus, continued to contribute positively to annual M3 growth. The changes in the net external asset position of MFIs point to a reluctance of the euro area money-holding sector to invest in foreign assets, at least relative to non-euro area residents' demand for euro area assets. This reluctance is hindering a substantial unwinding of the portfolio shifts accumulated during the period of heightened economic and financial uncertainty between 2001 and mid-2003.

Summing up the information from the counterparts, the prevailing low level of interest rates fostered the increasing dynamism of MFI loans to the private sector, which continued to support strong M3 growth. This more than offset the inclination in the euro area money-holding sector to invest in longer-term, riskier euro area financial instruments, as reflected in the ongoing robust expansion of MFI longer-term financial liabilities.

Chart 5 Counterparts of M3

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



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

Box 2

THE RESULTS OF THE OCTOBER 2005 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the October 2005 bank lending survey for the euro area carried out by the Eurosystem.¹ The results showed a slight net tightening² of credit standards for loans to enterprises in the third quarter of 2005, compared with the significant net easing recorded in the previous quarter. At the same time, however, banks slightly eased their credit standards applied to loans to households for house purchase, while credit standards for consumer credit and other loans to households remained broadly unchanged. During the third quarter of 2005 banks reported a strong increase in net demand³ for loans. For the fourth quarter of 2005, reporting banks expected a further net tightening of credit standards applied to corporate loans, while they expected a slight net easing of the credit standards applied to household loans.

1 A comprehensive assessment of the results of the October 2005 bank lending survey for the euro area was released on 4 November 2005 and can be found on the ECB's website (www.ecb.int/stats/money/lend/html/index.en.html).

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

3 The term "net demand" refers to the difference between the proportion of banks reporting an increase in loan demand and the proportion of banks reporting a decline.

Loans or credit lines to enterprises

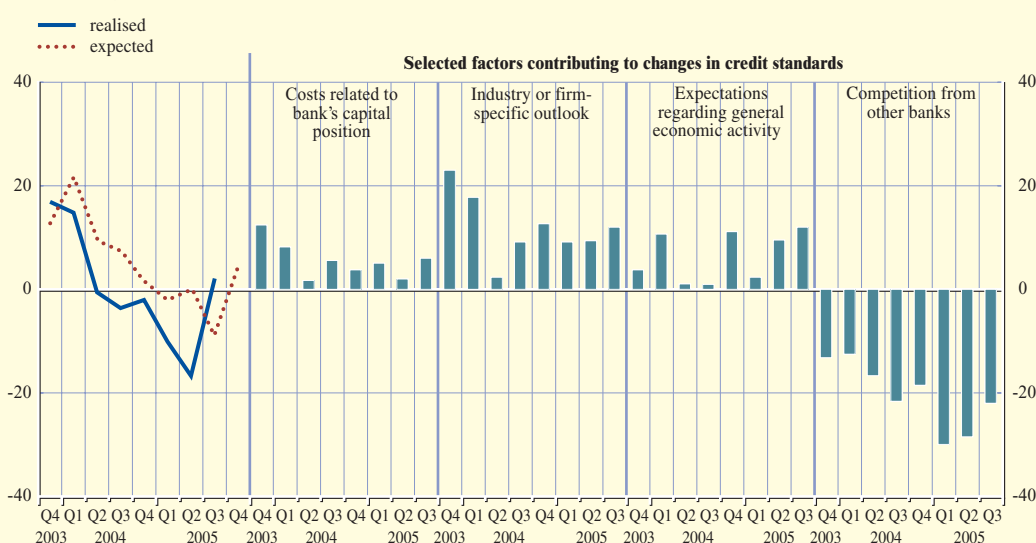
Credit standards: For the third quarter of 2005, banks reported a slight net tightening of credit standards for loans or credit lines to enterprises (of 2%, from a net easing of -17% in the previous quarter; see Chart A, first panel). Among the factors explaining this development, risk perceptions regarding general economic activity and the industry-specific outlook contributed to tightening only marginally more than in the previous quarter (see Chart A, third and fourth panels). At the same time, competition from other banks contributed less to easing than in the previous quarter (see Chart A, fifth panel). As regards the terms and conditions of credit, the net tightening of credit standards was mainly attributable to an increase in margins on riskier loans, as well as an increase in non-interest rate charges and a reduction in the size of loans or credit lines. In terms of the borrower's size, banks reported a net tightening of credit standards on loans both to small and medium-sized enterprises and to large enterprises.

Loan demand: Net demand for loans to enterprises increased strongly compared with the previous quarter (to 17%, from -5%; see Chart B, first panel). This development reflected a strong increase in net demand for loans both to small and medium-sized enterprises and to large enterprises.

The major factors contributing to the increase in net demand were, according to the responding banks, firms' increased financing needs for inventories and working capital, as well as for mergers and acquisitions and corporate restructuring activities. For the first time since the launch of the survey, fixed investment contributed positively to the increase in loan demand.

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

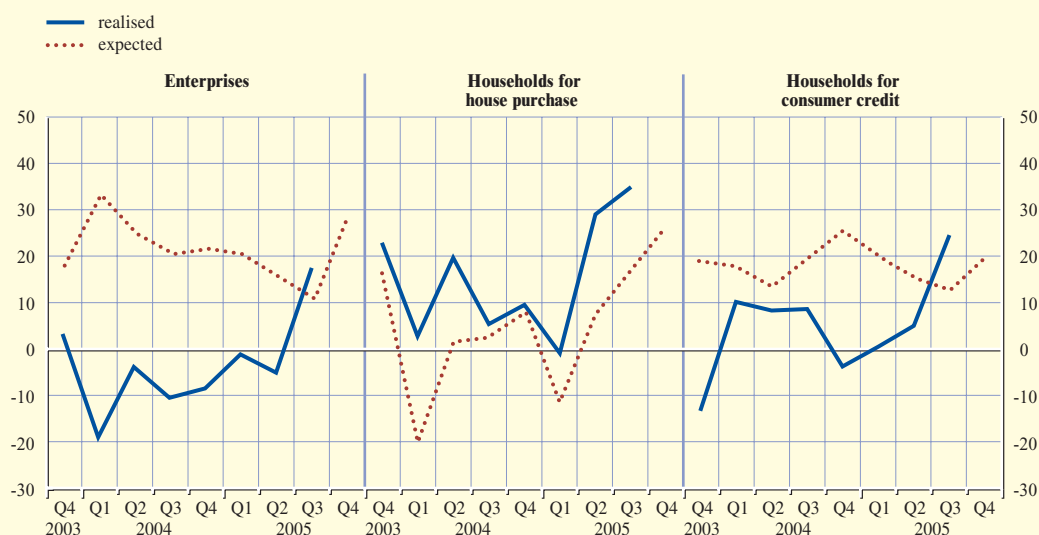
(net percentages)



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

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

(net percentages)



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

The slightly lower availability of internal finance for enterprises and lower issuance of debt securities also contributed to the recent developments in net demand for loans.

Expectations: Overall, for the fourth quarter of 2005, banks expected a net tightening of credit standards applied to the approval of loans or credit lines to enterprises (see Chart A, first panel). At the same time, banks expected higher positive net demand for loans to enterprises, in particular by small and medium-sized enterprises (see Chart B, first panel).

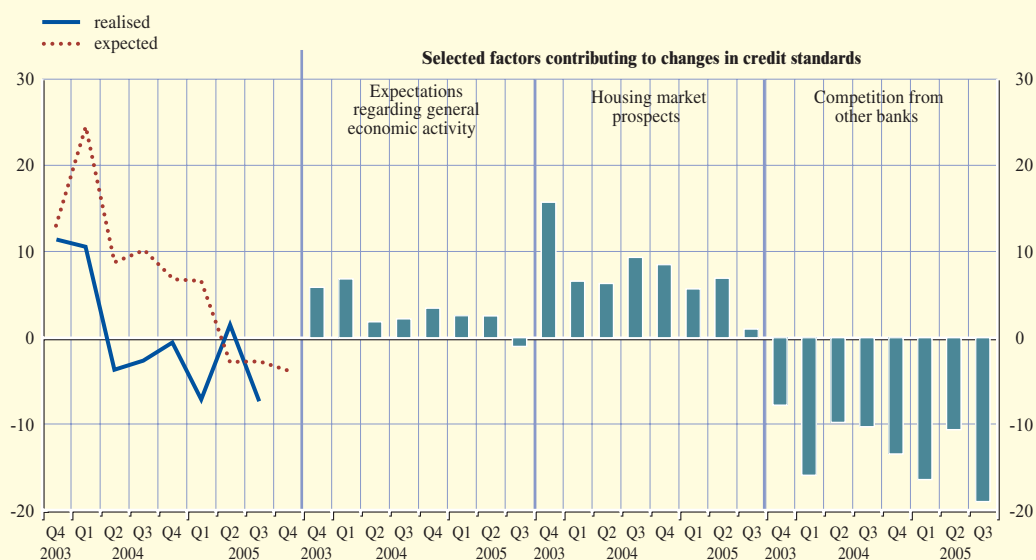
Loans to households for house purchase

Credit standards: Banks reported a net easing of credit standards applied to loans to households for house purchase in the third quarter of 2005 (of -7%, from 2% in the second quarter), in line with their expectations in the July 2005 survey (see Chart C, first panel). The slight net easing reflected banks’ reduced perceptions of risk in terms of housing market prospects and expectations regarding general economic activity (see Chart C, second and third panels). At the same time, competition from other banks continued to contribute to easing, as in previous quarters (see Chart C, fourth panel). As regards the terms and conditions of credit, banks reported that the slight net easing of credit standards applied to housing loans was achieved predominantly via a narrowing of margins on average loans and, to a lesser extent, by a lengthening of the maturity of new loans. Developments in loan-to-value ratios also contributed to the net easing of credit standards in the third quarter.

Loan demand: Net demand for loans to households for house purchase continued to increase strongly in the third quarter of 2005 (to 35%, from 29% in the previous quarter; see Chart B,

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

(net percentages)



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

second panel). The main factor underpinning this development was a slightly more positive contribution from housing market prospects as perceived by households. Another factor was the slight improvement in consumer confidence reported by banks for the third quarter.

Expectations: For the fourth quarter of 2005, respondent banks continued to expect a net easing of credit standards for housing loans (see Chart C, first panel) and an increase in the net demand for housing loans (see Chart B, second panel).

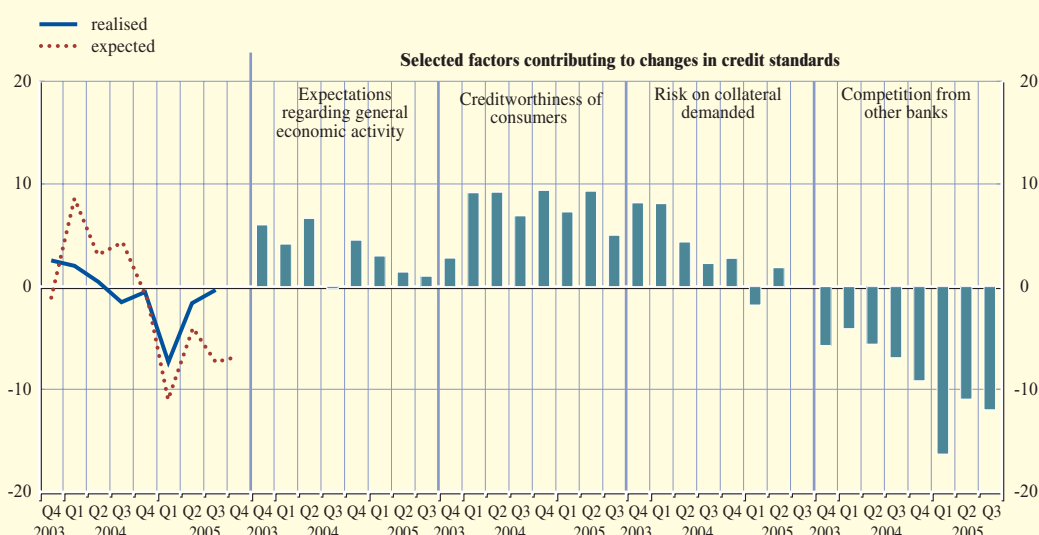
Loans for consumer credit and other lending to households

Credit standards: For loans to households for consumer credit, credit standards remained basically unchanged compared with the previous quarter (at 0%, following -2% in July; see Chart D, first panel). Almost all factors affecting banks’ consumer credit standards remained broadly unchanged relative to the previous quarter (see Chart D, second, third and fourth panels). However, risks stemming from the creditworthiness of consumers were somewhat less negative, although these continued to contribute slightly to tightening of credit standards. At the same time, the terms and conditions of consumer credit remained broadly unchanged.

Loan demand: According to responding banks, net demand for consumer credit and other lending to households increased strongly in the third quarter of 2005 (to 25%, from 5% in the second quarter; see Chart B, third panel). The main factor contributing to this development was

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

(net percentages)



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

increased spending on durable consumer goods. In addition, banks reported, for the first time, consumer confidence as a factor contributing positively to net demand.

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

2.2 SECURITIES ISSUANCE

In August 2005 the annual growth rate of debt securities issued by euro area residents remained strong. The annual growth rate of debt securities issued by non-financial corporations increased slightly from the low level observed in the previous month. At the same time, the growth rate of debt securities issued by MFIs remained robust. The annual growth rate of quoted shares issued by euro area residents was significantly higher in July and August. However, this increase was primarily caused by a statistical revision.

DEBT SECURITIES

The annual growth rate of debt securities issued by euro area residents remained robust in August, but continued to decline, falling to 7.1%, from 7.3% in July. That growth rate was largely driven by the annual growth rate of long-term debt securities, which fell slightly to 7.8% in August. The annual growth rate of short-term debt securities issued by euro area residents increased to 1.1% in August. The slight decline in long-term debt securities issuance was mainly caused by the further

Table 3 Securities issued by euro area residents

Issuing sector	Amount outstanding (EUR billions) 2005 Aug.	Annual growth rates ¹⁾					
		2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 July	2005 Aug.
Debt securities:	10,054	7.2	6.8	7.2	7.3	7.3	7.1
MFIs	4,030	8.6	8.8	9.1	8.8	9.2	9.2
Non-monetary financial corporations	827	11.4	9.9	11.6	17.2	18.7	19.0
Non-financial corporations	617	3.7	3.0	2.8	4.6	1.5	2.2
General government	4,580	5.9	5.3	5.5	4.9	4.7	4.2
<i>of which:</i>							
Central government	4,313	5.4	4.8	5.1	4.5	4.3	3.7
Other general government	268	16.4	14.5	13.7	12.0	12.7	11.9
Quoted shares:	4,606	0.9	1.1	1.1	1.0	3.0	3.1
MFIs	723	1.7	2.0	2.6	2.2	2.2	2.9
Non-monetary financial corporations	447	1.7	1.5	1.0	1.0	1.2	1.2
Non-financial corporations	3,436	0.7	0.9	0.8	0.8	3.4	3.3

Source: ECB.

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

decrease in the annual growth rate of debt securities issued at variable rates, which fell somewhat to 19.8% in August, from a high of 22.1% in June.

Looking at sectoral issuance, the annual growth rate of debt securities issued by non-financial corporations increased to 2.2% in August, from 1.5% in July (see Table 3). However, seasonally adjusted data indicated that the six-month annualised rate of growth declined to 1.7% in August, from 2.5% in July. The relatively subdued issuance of debt securities by non-financial corporations can probably be explained by the replacement of debt securities financing with other sources of financing, in particular bank loans (see sub-section 2.1).

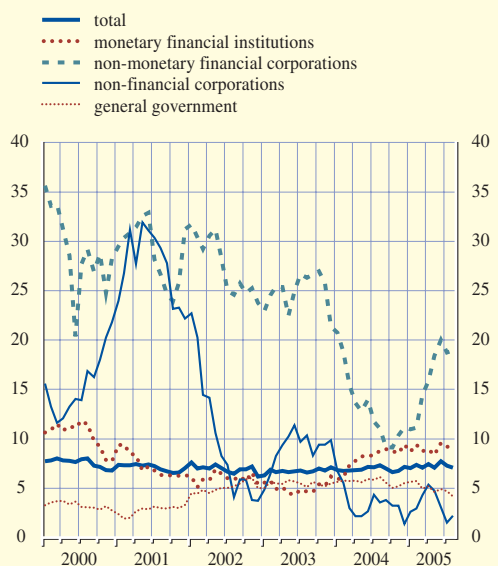
This is supported by qualitative evidence from the October 2005 bank lending survey for the euro area (see Box 2). Its results indicate an increase in firms' demand for bank loans, mainly owing to growing financing needs for inventories and working capital, for mergers and acquisitions and corporate restructuring activities, and, for the first time since the launch of the survey, for fixed investment.

In August the annual growth rate of debt securities issued by MFIs remained unchanged at 9.2%. The growth of financing via long-term debt securities at variable rates remained particularly strong at 19%, accounting for 37% of the outstanding amount of long-term debt securities issued by euro area MFIs. The strong growth in MFI issuance was related to the financing needs of MFIs resulting from the relatively robust growth of MFI loans to the private sector.

Non-financial corporations and MFIs also use non-monetary financial corporations to raise external funds indirectly. The annual growth rate of debt securities issued by non-monetary financial corporations remained high but broadly unchanged at 19% in August. Within this sector, most of the growth was accounted for by the issuance of long-term debt securities at variable rates, which increased by around 38%. The importance of issuance activity by non-monetary financial corporations has been growing, as indicated by the 19% rise in the outstanding amount of debt securities issued by such corporations in the year to August 2005, compared with the 2.2% increase observed for non-financial corporations.

Chart 6 Sectoral breakdown of debt securities issued by euro area residents

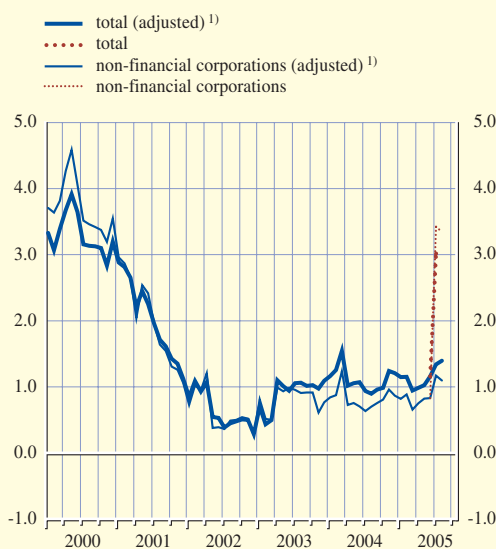
(annual growth rates)



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

Chart 7 Sectoral breakdown of quoted shares issued by euro area residents

(annual growth rates)



Source: ECB.
Notes: Growth rates are calculated on the basis of financial transactions. For annual growth rates of other sectors, see Chart C17 in the "Euro area statistics" section.
1) The adjusted series exclude the effect of significant corporate restructuring involving a euro area resident entity and a non-euro area resident entity.

The annual growth rate of debt securities issued by the general government sector declined slightly to 4.2% in August.

QUOTED SHARES

On average, the annual growth rate of quoted shares issued by euro area residents was significantly higher in July and August, largely as a result of an upward revision of the July figure for quoted shares issued by non-financial corporations owing to significant corporate restructuring involving a euro area resident entity and a non-resident entity. Without this statistical effect, the figures for July and August would have been only slightly higher than the annual growth rates recorded in the past few years and, indeed, for non-financial corporations, the annual growth rate declined slightly, to 3.3% in August, from 3.4% in July. The slight overall pick-up observed in equity issuance was supported by an increase in gross issuance of initial public offerings and secondary public offerings.

2.3 MONEY MARKET INTEREST RATES

In October 2005 money market interest rates with a maturity of one month remained broadly stable, while those with a maturity of three months, six months or one year increased markedly. As a result, the slope of the money market yield curve steepened over the month. In addition, the interest rates on three-month EURIBOR futures contracts maturing between December 2005 and June 2006 rose sharply.

Money market interest rates with a maturity of one month remained broadly stable during October 2005. By contrast, the three-, six- and twelve-month EURIBOR increased by 8, 19 and 25 basis points respectively in the period from the end of September to 2 November. On the latter date those four money market interest rates stood at 2.12%, 2.26%, 2.39% and 2.57% respectively. Consequently, the slope of the money market yield curve steepened sharply over the month. The difference between the twelve-month and the one-month EURIBOR increased from 20 basis points at the end of September to 45 basis points on 2 November.

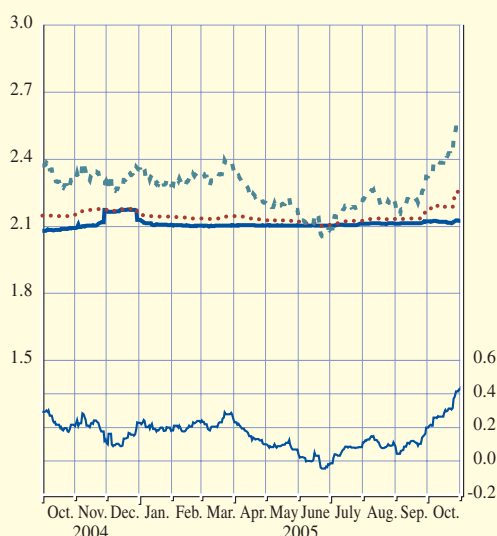
In a similar vein, between the end of September and 2 November the rates implied by three-month EURIBOR futures contracts maturing in December 2005 and in March and June 2006 increased markedly, rising by between 19 and 31 basis points. On 2 November these rates stood at 2.40%, 2.59% and 2.74% respectively.

Interest rates at the shortest end of the money market yield curve were broadly stable during October 2005. On 30 September the Euro Overnight Index Average (EONIA) rose to 2.15%, reflecting the usual end-of-quarter effect. In the following days, however, the EONIA declined to 2.09-2.10%, thereby remaining slightly higher than the level observed in September. Towards the end of the reserve maintenance period the EONIA declined progressively, falling to 1.93% on 11 October on account of loose liquidity conditions. On that day a liquidity-absorbing fine-tuning operation was successfully conducted to restore neutral liquidity conditions. In the following days the EONIA stood at 2.08%, in line with the level prevailing in the days prior to the end of the previous quarter and the end of the maintenance period. The EONIA declined further to 2.07% at the end of October, with the only exception being 31 October due to the end-of-month effect.

Chart 8 Short-term money market interest rates

(percentages per annum; percentage points; daily data)

- one-month EURIBOR (left-hand scale)
- ... three-month EURIBOR (left-hand scale)
- - - twelve-month EURIBOR (left-hand scale)
- spread between twelve-month and one-month EURIBOR (right-hand scale)

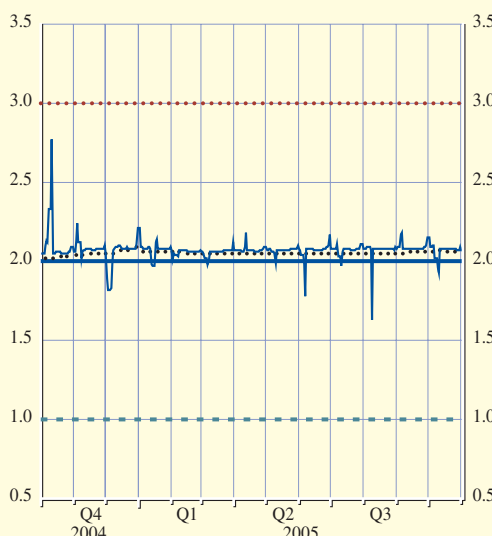


Source: Reuters.

Chart 9 ECB interest rates and the overnight interest rate

(percentages per annum; daily data)

- minimum bid rate in the main refinancing operations
- ... marginal lending rate
- - - deposit rate
- overnight interest rate (EONIA)
- marginal rate in the main refinancing operations



Sources: ECB and Reuters.

The marginal rate in the Eurosystem's main refinancing operations (MROs) rose from 2.06% to 2.07% in the operation settled on 12 October, i.e. the first day of the reserve maintenance period ending on 8 November. In response, the ECB allotted slightly more than the published benchmark in the first MRO. The marginal tender rate declined by 1 basis point in the following MRO but stabilised in subsequent MROs, while the weighted average rate remained unchanged at 2.07% in all operations conducted in October. Finally, in the MRO conducted on 2 November, both tender rates declined further by 1 basis point to 2.05% and 2.06% respectively (see Chart 8).

In the longer-term refinancing operation of the Eurosystem settled on 27 October, the marginal and the weighted average interest rates rose to 2.17% and 2.19% respectively, i.e. 9 and 10 basis points higher than in the previous operation. Compared with the three-month EURIBOR prevailing on that date, tender rates were 7 and 5 basis points lower respectively.

2.4 BOND MARKETS

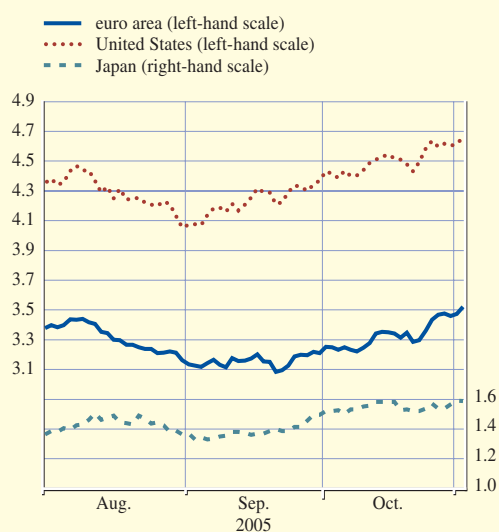
Long-term government bond yields in the major markets increased further in October. The higher yields in global bond markets reflected increases in real interest rates which, in turn, partly emanated from a more favourable outlook for economic growth following the slight decline in oil prices. Market participants' uncertainty about near-term bond market developments, as indicated by implied bond market volatility, remained fairly low in the major markets.

Developments in nominal long-term interest rates were broadly similar across the major global markets in October. Ten-year government bond yields in both the euro area and the United States increased by around 30 basis points between the end of September and 2 November (see Chart 10). As a result, the differential between US and euro area ten-year government bond yields remained stable and stood at around 115 basis points on 2 November. Ten-year government bond yields in Japan rose slightly over the same period. Euro area and US bond market investors seemed to react to lower oil prices, which were interpreted as good news for near-term growth prospects. At the same time, market participants' uncertainty about near-term bond market developments remained more or less unchanged in most major markets, as indicated by broadly stable levels of implied bond market volatility. Those levels were by the end of October slightly below the average levels observed since 1999 in most major markets.

In the United States, long-term nominal bond yields continued to recover in October from the lows reached in early September, when market participants had been much more concerned about the possible economic consequences of the sharp increases in energy prices and the damage caused by hurricane Katrina. The subsequent decline in oil prices therefore

Chart 10 Long-term government bond yields

(percentages per annum; daily data)



Sources: Bloomberg and Reuters.

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

seemed to have an impact on the perceived outlook for economic growth in the United States. In this respect, real yields on index-linked US government bonds, which should be positively linked to economic growth prospects, increased across all maturities in October but remained at relatively low levels. Heightened stock market uncertainty and the related safe-haven portfolio reallocations from stocks to bonds undertaken by investors may have somewhat dampened the increase in nominal and real long-term bond yields.

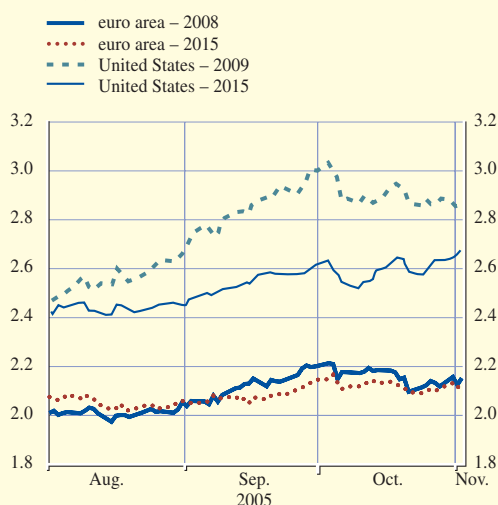
At the same time, near-term inflation concerns among market participants seem to have abated somewhat in October as suggested by slightly lower short-term break-even inflation rates. This development may be linked to the decline in oil prices. However, the level of short-term break-even inflation rates remained fairly high at the end of October, reflecting continuing concerns that inflationary pressures may be building up in the US economy (see Chart 11). Ten-year break-even inflation rates – as derived from the difference between the yields on US nominal and index-linked government bonds maturing in 2015 – remained broadly unchanged and stood at around 2.7% on 2 November.

Market participants' uncertainty about future developments in long-term bond yields in the United States, as measured by the implied volatility on ten-year US Treasury future contracts, was more or less unchanged in October and remained at relatively low levels by historical standards.

In the euro area, ten-year government bond yields increased in October but still remained at low levels. Somewhat better than expected data releases on economic activity supported bond yields. In addition, the higher than expected figures for HICP inflation in September exerted further upward pressure on euro area bond yields.

Chart 11 Break-even inflation rates in the euro area and in the United States

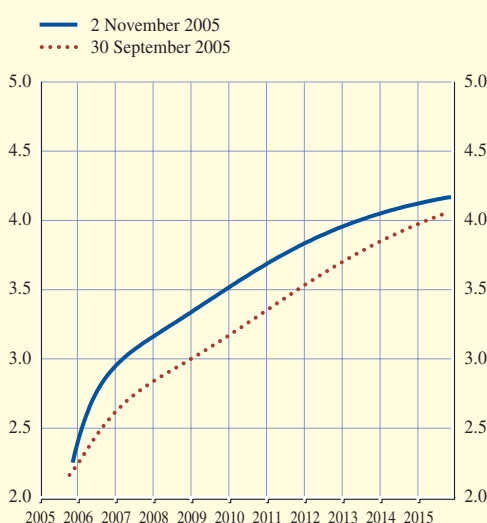
(percentages)



Sources: Reuters and ECB calculations.

Chart 12 Implied forward euro area overnight interest rates

(percentages per annum; daily data)



Source: ECB estimate.

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

The yields offered on euro area index-linked bonds were somewhat higher in October, particularly over shorter horizons, which suggests that market participants may, on balance, have become slightly more optimistic about short-term growth prospects over the review period. Reflecting this, the real yield on the index-linked Italian government bond (linked to the euro area HICP excluding tobacco) maturing in 2008 increased by around 35 basis points between end-September and 2 November. In addition to favourable data releases on economic activity and the business climate, the drop in oil prices was interpreted by market participants as another important factor supporting the growth outlook and thus contributing to the increase in real interest rates. Probably related to the same factors, the implied forward overnight rate curve for the euro area shifted upwards across all maturities, with a more pronounced shift over the near term (see Chart 12).

The euro area ten-year break-even inflation rate, as derived from the difference between the yields on French nominal and index-linked government bonds maturing in 2015, remained broadly unchanged and stood close to 2.1% on 2 November. At the same time, lower oil prices probably helped to contain inflation expectations over shorter horizons, as suggested by slightly lower short-term break-even inflation rates.

The degree of uncertainty prevailing in the euro area bond markets, as measured by implied bond market volatility, declined marginally and remained at a level slightly lower than those recorded over the last few months.

2.5 INTEREST RATES ON LOANS AND DEPOSITS

In August 2005 the majority of MFI interest rates on new deposits and loans remained broadly unchanged or declined.

In August 2005 short-term interest rates on MFI loans to both households and non-financial corporations remained broadly unchanged from the previous month, with the exception of rates on loans to households for consumption, which increased by 41 basis points compared with July 2005 (see Table 4). Generally, however, short-term movements in the latter interest rate category have to be interpreted with particular caution, as the level of this rate may vary substantially in a fairly volatile manner. Overall, developments in short-term MFI lending rates were in line with those in comparable short-term money market rates, which remained basically unchanged.

Short-term MFI deposit rates followed a very similar pattern and remained unchanged in August 2005, with the exception of the rates on deposits from households redeemable at a period of notice of up to three months, which declined by 12 basis points compared with the previous month.

Looking back over the last 12 months, most short-term deposit rates have remained broadly unchanged, in line with the stable developments in money market rates observed during the same period (see Chart 13). At the same time, short-term lending rates have declined by between around 10 and 35 basis points, with the exception of rates on loans (of over €1 million) to non-financial corporations, which have remained broadly unchanged.

In August 2005 most long-term interest rates continued to decline slightly, the main exception being rates on deposits from non-financial corporations with an agreed maturity of over two years,

Table 4 MFI interest rates on new business

(percentages per annum; basis points; weight-adjusted^{1),2)}

							Change in basis points up to Aug. 2005		
	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 July	2005 Aug.	2004 Aug.	2005 May	2005 July
MFI interest rates on deposits									
Deposits from households									
with an agreed maturity of up to one year	1.90	1.92	1.94	1.99	1.93	1.95	3	2	2
with an agreed maturity of over two years	2.54	2.53	2.42	2.29	2.22	2.10	-52	-17	-12
redeemable at notice of up to three months	1.94	2.00	1.98	1.94	2.15	2.03	9	6	-12
redeemable at notice of over three months	2.54	2.52	2.49	2.45	2.34	2.31	-22	-12	-3
Overnight deposits from non-financial corporations	0.87	0.89	0.93	0.94	0.94	0.96	9	1	2
Deposits from non-financial corporations									
with an agreed maturity of up to one year	1.99	2.04	2.04	2.01	2.01	2.03	4	1	1
with an agreed maturity of over two years	3.61	3.53	3.23	3.22	2.98	3.05	-65	-31	7
MFI interest rates on loans									
Loans to households for consumption									
with a floating rate and an initial rate fixation of up to one year	6.58	6.72	6.97	6.54	6.56	6.96	-9	12	41
Loans to households for house purchase									
with a floating rate and an initial rate fixation of up to one year	3.46	3.49	3.43	3.40	3.31	3.34	-16	-7	3
with an initial rate fixation of over five and up to ten years	4.80	4.76	4.43	4.36	4.07	4.04	-84	-25	-3
Bank overdrafts to non-financial corporations	5.44	5.40	5.34	5.24	5.13	5.12	-34	-5	-1
Loans to non-financial corporations of up to €1 million									
with a floating rate and an initial rate fixation of up to one year	4.02	4.01	3.98	3.91	3.86	3.89	-14	-3	3
with an initial rate fixation of over five years	4.68	4.65	4.45	4.36	4.15	4.13	-58	-9	-1
Loans to non-financial corporations of over €1 million									
with a floating rate and an initial rate fixation of up to one year	3.03	2.99	3.02	2.99	2.96	2.96	-2	-3	0
with an initial rate fixation of over five years	4.31	4.19	3.96	3.90	3.86	3.78	-40	2	-8
Memo items									
Three-month money market interest rate	2.12	2.15	2.15	2.14	2.12	2.13	2	0	1
Two-year government bond yield	2.70	2.47	2.39	2.34	2.19	2.24	-29	2	5
Five-year government bond yield	3.49	3.18	2.92	2.89	2.66	2.70	-63	-4	4

Source: ECB.

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

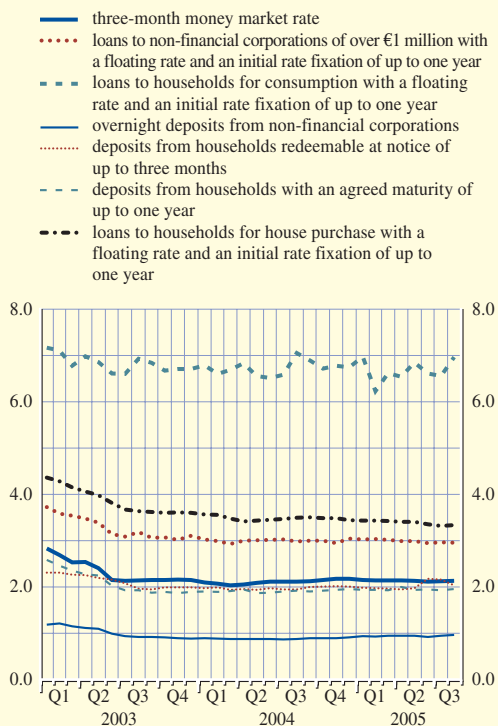
2) Quarterly data refer to the end of the quarter.

which increased by 7 basis points. However, aggregate euro area interest rates for this category of deposits tend to be very volatile. In contrast to the declines seen for most long-term rates, five-year government bond yields continued to increase, rising by 5 basis points in August 2005 (see Chart 14).

Over the past 12 months, long-term lending rates have fallen markedly, by between 40 and 85 basis points, with the largest fall being observed for long-term housing loans. Over the same period, long-term deposit rates have decreased by between 20 and 65 basis points, with the largest decrease being seen for long-term deposits from non-financial corporations (see Table 4). At the same time, five-year government bond yields have fallen by 63 basis points.

Chart 13 Short-term MFI interest rates and a short-term market rate

(percentages per annum; rates on new business; weight-adjusted¹⁾)

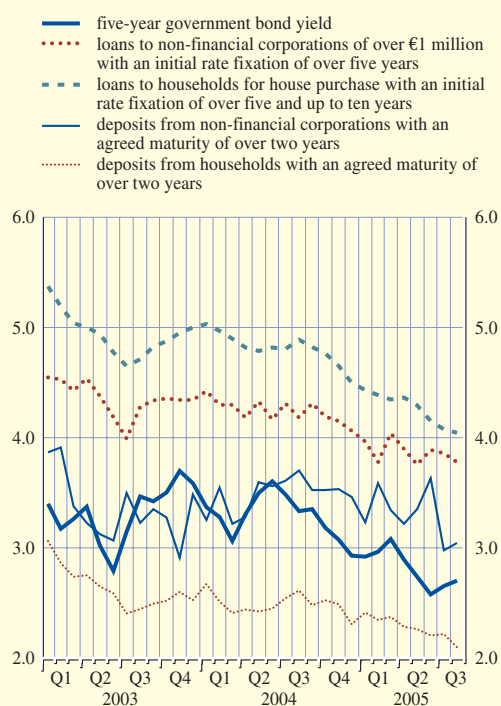


Source: ECB.

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

Chart 14 Long-term MFI interest rates and a long-term market rate

(percentages per annum; rates on new business; weight-adjusted¹⁾)



Source: ECB.

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

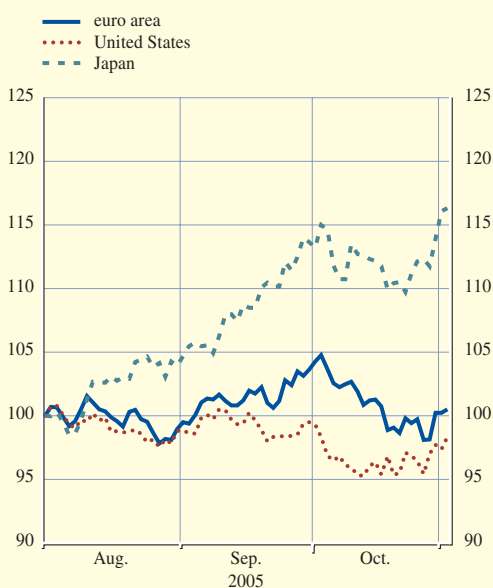
2.6 EQUITY MARKETS

Stock prices fell in the euro area and the United States in October, partly as a result of heightened stock market uncertainty. At the same time, profit growth recorded by listed companies remained robust, which probably lent ongoing support to stock prices.

Stock prices in the US and euro area markets declined in October, bringing to an end the upward trend observed over the past few months in the euro area (see Chart 15). In Japan, however, there was a continuation of the upward trend witnessed over the past few months. Stock prices in the euro area and the United States, as measured by the Dow Jones EURO STOXX and Standard & Poor's 500 indices, fell by around 3% and 1% respectively between the end of September and 2 November. At the same time, Japanese stock prices, as measured by the Nikkei 225 index, increased by around 2% over the same period.

Chart 15 Stock price indices

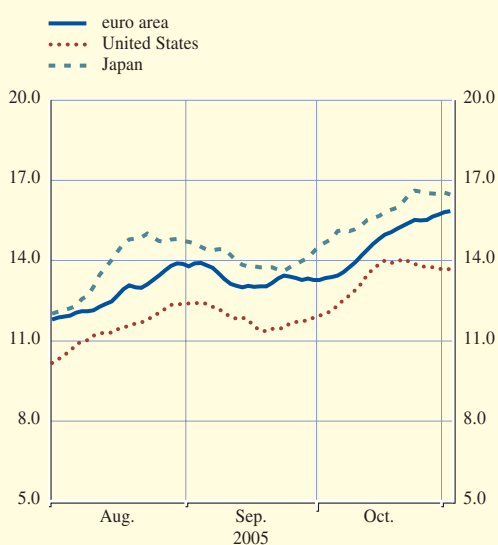
(index: 1 August 2005 = 100; daily data)



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

Chart 16 Implied stock market volatility

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



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

Stock market uncertainty, as measured by the implied volatility extracted from stock options, increased relatively strongly in all major markets in October (see Chart 16).

In the United States, stock prices ended the review period in negative territory. Recent data on corporate profits suggest that although US corporations have continued to show relatively robust profitability in the second half of 2005, some companies have signalled a slowdown in earnings growth next year. The resulting heightened concerns about future profitability and the higher level of long-term interest rates may have had a dampening effect on US stock prices. In addition, perceptions of increased stock market risks might have led to higher equity risk premia in October, with lower stock prices as a result. Evidence of this was the surge in implied stock market volatility derived from options on the Standard & Poor's 500 index (see Chart 16). In addition, there are some indications of an underweighting of US equities in the portfolios of global fund managers, which could also have contributed to this development.

In line with the global stock market environment, euro area stock prices also declined in October. This reflected the impact of several factors. First, stock market uncertainty, as measured by the implied volatility extracted from options on the Dow Jones EURO STOXX 50 index, increased sharply over the review period. Second, long-term interest rates in the euro area increased in October, thereby lowering the expected present value of future dividend payouts. Third, some investors may have become concerned about heightened global inflationary pressures. Historically, stock prices tend to underperform in such an environment. As a countervailing

factor, corporate profit growth – both actual and expected – remained strong. Looking at sectoral developments, stock prices in the oil and gas sectors dropped by around 8% between the end of September and 2 November owing to the decline in oil prices.

3 PRICES AND COSTS

Energy price developments explain most of the recent increase in euro area HICP inflation. In September, HICP inflation rose to 2.6% and, according to Eurostat's flash estimate, it may have moderated only slightly, to 2.5%, in October. Underlying price pressures, however, continue to remain fairly contained. Looking ahead, HICP inflation is likely to stay above 2% in the coming months. Over the medium term, upside risks to price stability remain.

3.1 CONSUMER PRICES

FLASH ESTIMATE FOR OCTOBER 2005

According to Eurostat's flash estimate, euro area HICP inflation fell slightly to 2.5% in October (see Table 5). Uncertainty surrounding this estimate remains significant given the preliminary nature of the data, but provisional information suggests that the slight decline in headline inflation was driven mainly by an easing in the energy price component, partly due to a base effect. The rate of increase in energy prices remained, however, at a high level.

HICP INFLATION IN SEPTEMBER 2005

Overall euro area HICP inflation rose from 2.2% in August to 2.6% in September (see Chart 17). This significant increase was largely due to a surge in energy prices, although the annual growth rate of the HICP excluding energy and unprocessed food also increased slightly, by 0.1 percentage point, to 1.5%.

In the aftermath of hurricane Katrina at the end of August, and shortly before hurricane Rita hit the Gulf of Mexico in early September, oil and petrol prices increased dramatically both in the global market and in the euro area (see also Box 4 in the October 2005 issue of the Monthly Bulletin). In particular, average euro area car fuel prices, which represent around 4% of the euro area consumer's average consumption basket, rose by nearly 5% between August and September. As a result, the annual growth rate of energy prices surged.

Table 5 Price developments

(annual percentage changes, unless otherwise indicated)

	2003	2004	2005 May	2005 June	2005 July	2005 Aug.	2005 Sep.	2005 Oct.
HICP and its components								
Overall index ¹⁾	2.1	2.1	2.0	2.1	2.2	2.2	2.6	2.5
Energy	3.0	4.5	6.9	9.4	11.8	11.6	15.2	.
Unprocessed food	2.1	0.6	1.0	0.6	0.3	1.1	1.1	.
Processed food	3.3	3.4	1.5	1.5	1.6	1.7	2.3	.
Non-energy industrial goods	0.8	0.8	0.4	0.3	0.0	0.0	0.2	.
Services	2.5	2.6	2.5	2.2	2.3	2.3	2.2	.
Other price indicators								
Industrial producer prices	1.4	2.3	3.5	4.0	4.1	4.1	.	.
Oil prices (EUR per barrel)	25.1	30.5	39.4	45.7	48.3	52.0	52.2	49.3
Non-energy commodity prices	-4.5	10.8	1.2	7.6	9.6	11.9	13.2	17.4

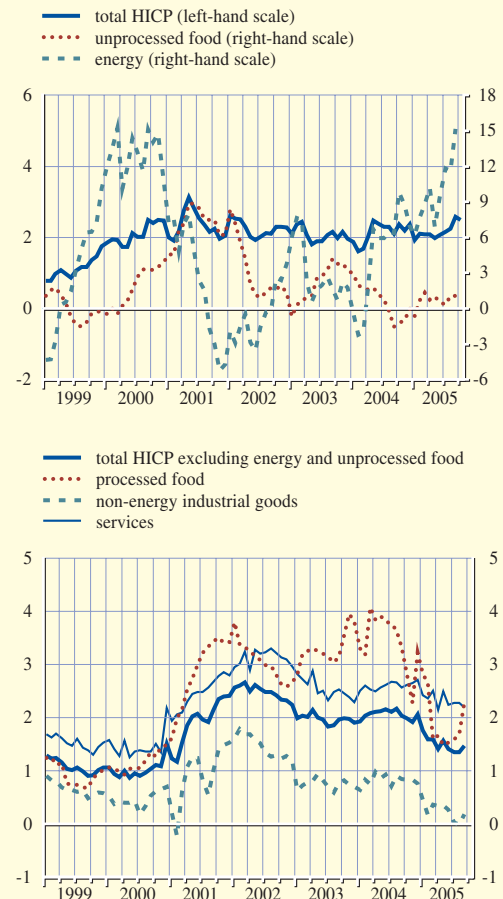
Sources: Eurostat, HWWA and ECB calculations based on Thomson Financial Datastream.

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

There is still little evidence that previous hikes in energy prices have had significant indirect effects on the non-energy components of the HICP. The annual growth rate of the HICP excluding energy and unprocessed food rose slightly in September, but this increase seems to be largely attributable to two factors. First, a further rise in Germany's tobacco tax led to an increase in the annual growth rate of euro area processed food prices, from 1.7% in August to 2.3% in September. Second, there was a moderate increase in the annual growth rate of non-energy goods prices in September, which appears to be linked to the end of an unusually strong decline in clothing prices during the sales period. However, developments in this sub-component of the HICP remain rather moderate, possibly reflecting the still subdued domestic demand and the strong international competition to which this sector is exposed. Service price inflation declined slightly from 2.3% in August to 2.2% in September. Box 3 considers the current divergence between these moderate developments in underlying inflation indicators on the one hand and headline inflation on the other hand, and highlights the limitations of underlying inflation indicators as a signal of medium-term price trends.

Chart 17 Breakdown of HICP inflation: main sub-components

(annual percentage changes; monthly data)



Source: Eurostat.

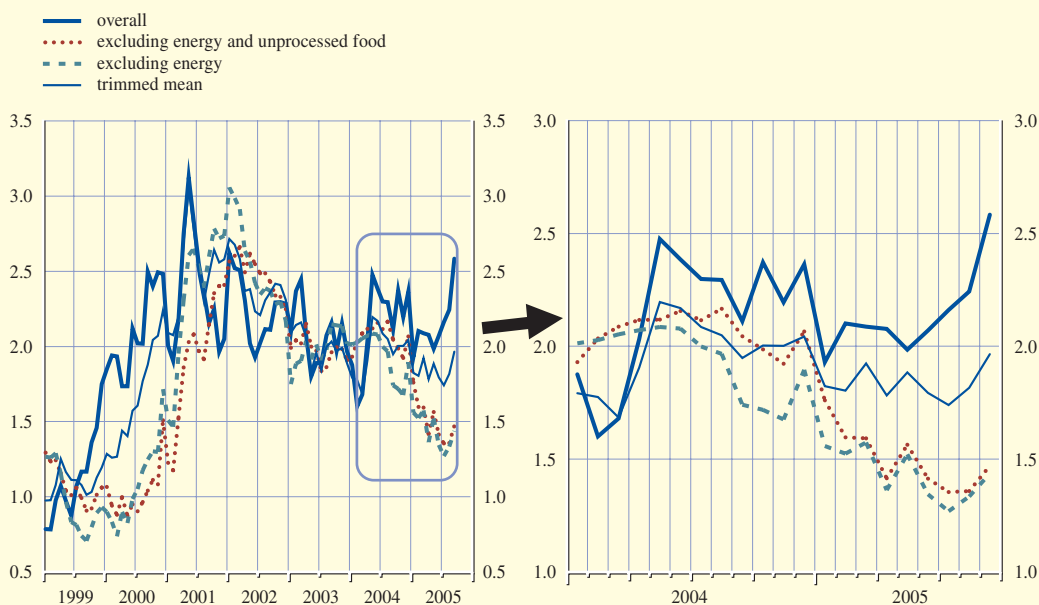
Box 3

DIVERSE PATTERNS IN HEADLINE AND UNDERLYING INFLATION

Since January 2005, the patterns of headline HICP inflation and commonly used indicators of underlying inflation have diverged significantly. For example, while overall inflation stabilised at around 2.0% in the period up to July 2005 before rising to 2.6% in September, HICP inflation excluding unprocessed food and energy decreased from around 2% to around 1.5% over the whole period. This is not the first time that such a large gap (more than 1 percentage point) between the two indicators has arisen. From the second half of 1999 to 2002 a similar gap appeared, and was finally closed when underlying inflation caught up with headline inflation. In this episode, contrary to arguments often put forward, indicators of underlying inflationary pressures in fact turned out to lag developments in the overall HICP rather than providing a reliable signal of medium-term inflationary pressures. This box

Chart A Headline and underlying inflation, short and medium-term perspectives

(annual percentage changes)



Sources: Eurostat and ECB calculations.

presents two important messages drawn from an analysis of current developments and a comparison with past ones, namely that: (1) there is no clear-cut answer to the question of which indicator is lagging the other, as this depends on the nature of the shocks affecting the economy, and (2) the uncertainty with regard to the nature of current shocks impacting on inflation – whether they are temporary or more lasting – suggests a need for caution in interpreting the currently relatively subdued levels of some underlying inflation indicators.

The relationship between headline and underlying inflation depends on the nature of the shock impacting on inflation

Various types of underlying inflation indicators can be referred to (for a detailed presentation, see “Measures of underlying inflation in the euro area”, ECB Monthly Bulletin, July 2001). One type of measure, which can be labelled “permanent exclusion”, relies on the exclusion of the same HICP items over time. A commonly used permanent exclusion measure for the euro area is HICP inflation excluding unprocessed food and energy, two categories generally considered particularly volatile. Another frequently cited measure of this type is simply the HICP excluding energy. The second type of measure is more ad hoc: it excludes items from the basket at given points in time on the basis of their behaviour. The composition of the indicator therefore differs from period to period. For instance, the trimmed mean measure we refer to hereafter excludes the 10% strongest price decreases and increases (5% on each side) of the index.

As noted above, while overall inflation rose in August and September, the permanent exclusion measures have pointed to an easing of inflation, particularly since January 2005 (Chart A). The

picture is slightly different for recent developments in the trimmed mean measure, which lies between headline inflation and the two permanent exclusion measures. Unlike the two exclusion measures, the trimmed mean excludes by construction the effect of some downward shocks on overall prices. It was relatively stable, at around 1.7% to 1.9%, in the first eight months of 2005, before rising slightly, to 2.0%, in September. However, the gap between this measure and overall inflation has also widened recently.

It is interesting to compare the current situation with the period from mid-1999 to 2002, in which a considerable gap also opened up between overall HICP inflation and underlying measures. Also during this period, the difference between headline inflation and the trimmed mean was smaller than the gap with permanent exclusion measures. In the end, all the indicators of underlying inflation clearly converged upwards towards headline inflation with a lag. What is evident from both this period and today's situation is that an oil price shock is undoubtedly the initial driving force behind the rise in headline inflation. Such a shock initially impacts on headline inflation. Given that it can also result in indirect effects and possible second-round effects, it could be expected that the indicators of underlying inflation would at least partly adjust upwards, albeit with some delay.

Thus such a delayed upward movement in underlying inflation indicators back towards headline inflation might also be expected to occur, at least to some extent, in the current situation. However, there are also substantial differences between the two periods. In the period from 1999 to 2002, the oil price shock was reinforced by the depreciation of the euro and by adverse food price shocks related to animal diseases. In addition, domestic demand was more robust in 1999 and 2000 than it is today, and wage pressures were stronger. It is also likely that the euro cash changeover constituted an additional shock which affected the HICP, in particular services prices. This example illustrates that an analysis of the economic context is a necessary condition for understanding the relationship between the headline HICP and measures of underlying inflation. Thus, the ECB's strategy relies on an analysis of all the shocks affecting headline inflation and on a wide variety of economic indicators, in order to enable such a comprehensive economic diagnosis.

The uncertainty with regard to the nature of current shocks impacting on inflation is particularly strong

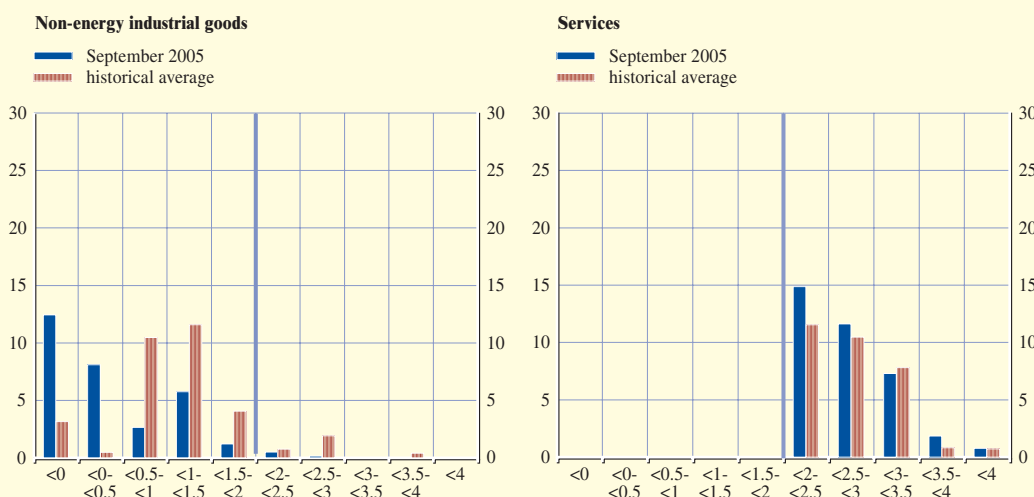
There is strong uncertainty today about the precise nature of some shocks impacting on prices – in particular as to whether or not these will be of a lasting nature; thus excluding them in order to obtain a measure of underlying inflation may be misleading as regards the overall price pressures that may be faced by consumers over the medium term.

On the one hand, the oil price pattern could have significantly changed, as stronger demand (in particular from China and other emerging economies) and supply constraints (due to insufficient refinery capacity) may last for some time. While this conclusion must still be tentative, the possibility must be considered when assessing the outlook. Thus, it could be argued that the current oil price rise should not simply be regarded as “volatility” and should not, therefore, be excluded from indicators of underlying inflation.

On the other hand, on the downside, there are also a number of uncertainties. From the distribution of annual rates of change, two observations can be highlighted: services prices are

Chart B Distribution of the annual growth rates of HICP components

(in percentage of overall HICP)



Sources: Eurostat and ECB calculations.

Note: The charts show the distribution of annual growth rates in non-energy industrial goods and services at the detail level of almost 100 sub-components of the HICP. A bar for a given range (for example between 1.5 and 2.0) reports the share of HICP items whose annual growth rate is within this range. The "historical average" is the average growth between January 1995 and September 2005. The vertical line represents the upper limit of the ECB's definition of price stability over the medium term.

persistently increasing faster than goods prices, and the distribution of the annual rates of change in goods prices has clearly shifted to the left (Chart B). A detailed analysis of the HICP sub-components reveals that this shift is attributable to several factors. The decline in the price of household high-tech equipment has recently accelerated: the rates of change in the prices of equipment for recording and photographic instruments are today significantly below their ten-year averages (1995 to September 2005) and computer prices in the HICP have persistently been decreasing by around 13-14% a year. Average textile prices have also declined, with the annual growth rate of textile items today being between 0.6 and 1.7 percentage points below their ten-year averages. For many manufactured goods, notably textiles, these more subdued price developments may be related to the rise in exports from China. They may therefore persist for some time to come, even if the overall impact of this factor is difficult to gauge (see the box entitled "Trade liberalisation and its impact on the euro area textile and clothing sectors" in the October 2005 issue of the ECB's Monthly Bulletin). If this is the case, such developments, which may help to keep inflation low for a while, should not be regarded as pure volatility (as is implicitly the case with the trimmed mean measure).

One possible interpretation of this analysis may well be that the global economy is currently experiencing sizeable changes in relative prices, which may in part reflect the strong rise in exports from China and a number of other Asian countries. On the one hand, the strong demand for resources from these economies is putting upward pressures on commodity prices. On the other hand, the growing importance of these economies in the world markets is fostering competition and helping to keep manufactured goods prices low. Seen from this angle, it would be misleading to exclude only one effect, namely the rise in oil prices, from the HICP in order to assess underlying inflation trends. At the current juncture, the uncertainty with regard to the

temporary or permanent nature of some of the current shocks impacting on inflation is limiting the ability of underlying inflation indicators to signal medium-term inflationary trends.

Summing up, an optimal assessment of medium-term inflation developments will not rely only on indicators of underlying inflation, but rather be based on a broad cross-check of all indicators with a view to identifying the nature of the shocks impacting on inflation and their likely persistence. In this context, there would be little justification for giving priority to indicators of underlying inflation over such a broadly-based analysis of the shocks driving prices.

3.2 INDUSTRIAL PRODUCER PRICES

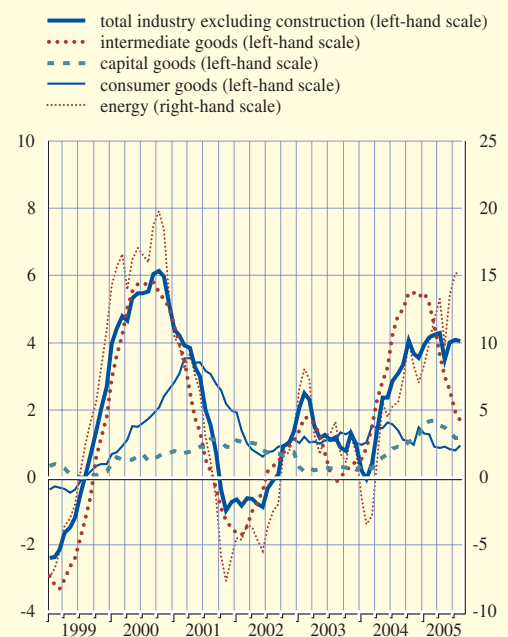
The annual rate of change of producer prices was fairly stable in August, remaining at levels similar to those observed during the first half of 2005 (see Chart 18). While the annual rate of change in energy producer prices rose as a result of higher oil prices in August, that of intermediate goods producer prices continued to decline. At the same time, the annual rate of change in capital and consumer goods producer prices also declined slightly, suggesting that previously higher oil prices have still not yet had any significant indirect effects on prices in later stages of the production chain.

Looking ahead, price-related survey indicators for September and October suggested a sizeable rise in firms' input prices, but so far suggest only a moderate increase in selling prices. The Eurozone Manufacturing Input Price Index from the Purchasing Managers' Survey indeed rose in October, to its highest level since March. By contrast, the index for prices charged in the manufacturing sector remained at a much lower level. The gap between movements in input price and selling price adjustments could be the result of a lag in firms' adjustment of final prices. It could also mean that, given the strong international competition and subdued domestic demand, firms are reluctant to pass on fully the energy price increases to their final selling prices, probably preferring to contain other input costs or to let their profit margins deteriorate temporarily.

The picture is only slightly different for the services sector. The index of input prices has also risen, from an already fairly high level in historical terms. By contrast, the index for output prices in the services sector increased only slightly. Remaining very close to 50, it indicated only very moderate price increases in September (see Chart 19).

Chart 18 Breakdown of industrial producer prices

(annual percentage changes; monthly data)



Sources: Eurostat and ECB calculations.

3.3 LABOUR COST INDICATORS

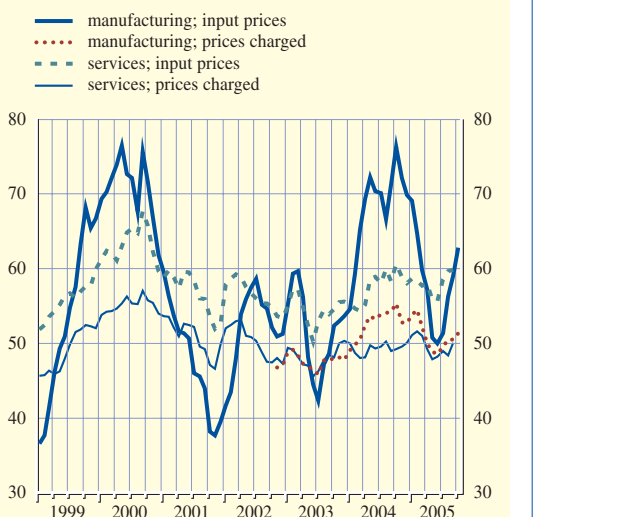
The latest release of compensation per employee data for the euro area pointed to a decline in the annual rate of growth from 1.8% in the first quarter of 2005 to 1.6% in the second quarter (see Table 6). In addition, previous per employee compensation figures were revised downwards significantly, correcting the initial upsurge in wage growth in the first quarter of 2005, which was seen as an overestimation due to statistical factors.

Overall, the euro area labour cost data therefore confirm the picture of euro area wages levelling off at moderate rates of growth, with no apparent second-round effects of higher energy prices on wages in the period up to the end of the second quarter of 2005. In the first half of 2005, both negotiated wages and hourly labour cost growth remained broadly in line with their level in 2004, and the annual growth rates of compensation per employee in the same period were actually below those of 2004 (see Chart 20). The sectoral breakdown of the annual growth rates of compensation per employee illustrates a strong decline in wage growth in industry excluding construction since the beginning of 2004 (see Chart 21). By contrast, wage growth in the services sector, notwithstanding some degree of volatility linked to statistical factors, has broadly levelled off since the second half of 2004.

Turning to unit labour costs, the slowdown in labour productivity growth since the second half of 2004 resulted in an increase in unit labour cost growth at the turn of the year. In the first half of 2005, the slight decrease in the annual growth rate of compensation per employee allowed unit labour cost growth to remain broadly stable. As productivity growth is expected to recover only slowly, unit labour cost growth is not expected to ease significantly in the short term. Nonetheless, its current rate is broadly in line with the assessment that inflationary pressures emanating from the labour market are moderate.

Chart 19 Producer input and output price surveys

(diffusion indices; monthly data)



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

Table 6 Labour cost indicators

(annual percentage changes, unless otherwise indicated)

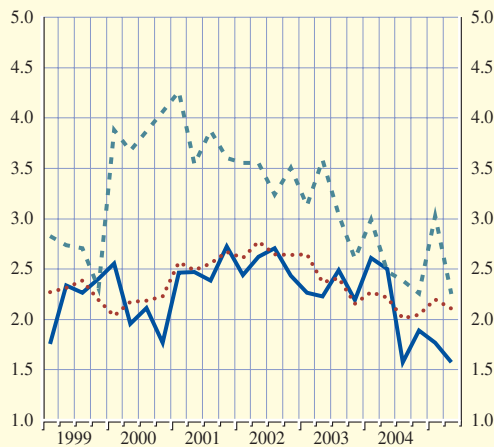
	2003	2004	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2
Negotiated wages	2.4	2.1	2.2	2.0	2.0	2.2	2.1
Total hourly labour costs	3.1	2.5	2.5	2.4	2.3	3.0	2.3
Compensation per employee	2.3	2.1	2.5	1.6	1.9	1.8	1.6
<i>Memo items:</i>							
Labour productivity	0.4	1.2	1.7	1.2	0.8	0.6	0.4
Unit labour costs	1.8	0.9	0.8	0.3	1.1	1.2	1.1

Sources: Eurostat, national data and ECB calculations.

Chart 20 Selected labour cost indicators

(annual percentage changes)

- compensation per employee
- ... negotiated wages
- - - hourly labour costs

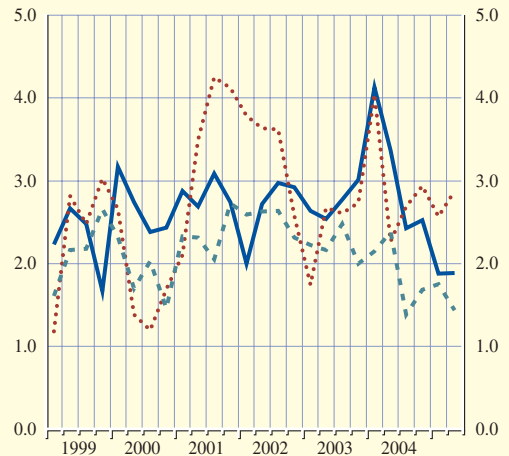


Sources: Eurostat, national data and ECB calculations.

Chart 21 Sectoral compensation per employee

(annual percentage changes; quarterly data)

- industry excluding construction
- ... construction
- - - services



Sources: Eurostat and ECB calculations.

3.4 THE OUTLOOK FOR INFLATION

Given recent developments in oil and petrol prices, the short-term outlook for inflation has deteriorated significantly, and euro area HICP inflation is expected to remain above 2% in the coming months. However, the latest indicators do not point to a strengthening of underlying domestic inflationary pressures in the euro area. Wage increases, in particular, remained contained against a background of ongoing moderate economic growth and of labour market prospects that are still subdued. This assessment is broadly shared by private sector forecasters, as reported in Box 4. Upside risks to price stability, however, need to be borne in mind. The possibility of higher oil prices and the associated risk of second-round effects on wages and a potentially stronger pass-through of oil prices than has so far been observed warrant strong vigilance. Thus, wage developments and inflation expectations need to be monitored very closely. Upside risks to the current inflation outlook also stem from uncertainties about possible future increases in administered prices and indirect taxes.

Box 4

PRIVATE SECTOR EXPECTATIONS FOR THE EURO AREA: RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE FOURTH QUARTER OF 2005

This box reports the results of the 29th ECB Survey of Professional Forecasters (SPF), conducted between 18 and 24 October 2005. The SPF gathers expectations for euro area inflation, economic activity and unemployment from experts affiliated to financial or non-financial institutions based in the EU. It is important to bear in mind that, given the diversity of the panel of participants, aggregate SPF results can reflect a relatively heterogeneous set of subjective views and assumptions. Whenever possible, SPF results are compared with other indicators of private sector expectations for the same horizons.

Inflation expectations for 2005, 2006 and 2007

SPF forecasters revised their short-term inflation expectations upwards. Average HICP inflation is now expected to stand at 2.2% in 2005 and 2.0% in 2006 (compared with 2.1% and 1.8% respectively in the previous SPF round). According to respondents' qualitative explanations, it is clear that this upward revision was largely influenced by recent developments in oil and petrol prices and their expected effects on domestic prices. Expectations for 2007, however, have remained unchanged, as a large majority of SPF respondents assume that higher energy prices will not have any second-round effects on wages. Moderate wage developments are indeed generally considered to make a major contribution to limiting inflationary pressures, together with strong international competition and continuing subdued domestic demand.

Results from the SPF, Consensus Economics and Euro Zone Barometer

(annual percentage changes, unless otherwise indicated)

HICP inflation	Survey horizon					
	2005	Sep. 2006	2006	Sep. 2007	2007	Longer term ²⁾
2005 Q4 SPF	2.2	1.8	2.0	1.8	1.8	1.9
<i>Previous SPF (2005 Q3)</i>	<i>2.1</i>	-	<i>1.8</i>	-	<i>1.8</i>	<i>1.9</i>
Consensus Economics (Oct. 2005)	2.2	-	1.9	-	1.8	1.9
Euro Zone Barometer (Oct. 2005)	2.2	-	1.9	-	1.8	1.9
Real GDP growth	2005	2006 Q2	2006	2007 Q2	2007	Longer term ²⁾
2005 Q4 SPF	1.3	1.7	1.7	2.0	2.0	2.1
<i>Previous SPF (2005 Q3)</i>	<i>1.4</i>	-	<i>1.8</i>	-	<i>2.0</i>	<i>2.1</i>
Consensus Economics (Oct. 2005)	1.3	-	1.6	-	1.9	1.9
Euro Zone Barometer (Oct. 2005)	1.3	-	1.6	-	1.8	2.0
Unemployment rate ¹⁾	2005	Aug. 2006	2006	Aug. 2007	2007	Longer term ²⁾
2005 Q4 SPF	8.7	8.5	8.5	8.2	8.2	7.5
<i>Previous SPF (2005 Q3)</i>	<i>8.9</i>	-	<i>8.7</i>	-	<i>8.4</i>	<i>7.6</i>
Consensus Economics (Oct. 2005)	8.8	-	8.6	-	-	-
Euro Zone Barometer (Oct. 2005)	8.8	-	8.6	-	8.5	8.0

1) As a percentage of the labour force.

2) In the current and the previous SPF rounds, longer-term inflation expectations refer to 2010. In the Euro Zone Barometer these referred to 2009. The Consensus Economics forecast refers to the period 2011-15.

SPF participants are also asked to assign a probability distribution to their forecasts. This distribution provides information on the probability, expressed as a percentage, of the future outcome being within a specific interval. The probability distribution resulting from the aggregation of responses also helps to assess how, on average, survey participants gauge the risk of the actual outcome being above or below the most likely range. While the large majority of SPF forecasters expect inflationary pressures to remain contained in the near future, the probability distributions provided in the survey for the fourth quarter of 2005 indicate a shift in the risks more to the upside. Chart A, which shows the aggregate probability distribution for average annual rates of HICP inflation in 2006 in the last three rounds of the survey, indicates that the associated balance of risks has clearly shifted towards higher outcomes and SPF respondents now believe there is a 44% probability that inflation in 2006 may actually stand between 2.0% and 2.4% (compared with 29% in the previous round).¹ Indeed, several SPF forecasters highlight the risk of higher oil prices, and a few also stress the risk of higher administered prices and indirect taxes.

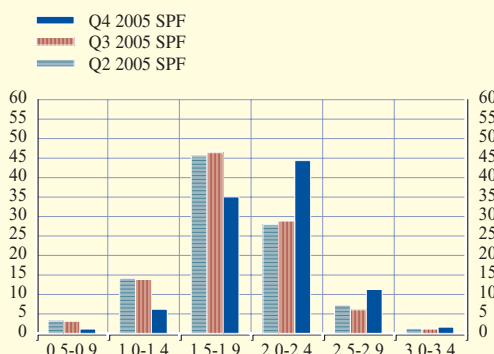
Indicators of longer-term inflation expectations

Inflation expectations five years ahead remained unchanged at 1.9% for the 16th consecutive round, in line with the recently published estimates from Euro Zone Barometer and Consensus Economics. However, as shown in Chart B, the probability that inflation five years ahead may stand at or above 2.0% rose slightly further in the fourth quarter of 2005, pointing to a slight increase in the perception of an upward risk to long-term inflation.

SPF survey results can also be compared with an indicator of long-term inflation expectations among market participants calculated as the yield spread between nominal and inflation-linked bonds. The break-even inflation rates derived from French government inflation-linked bonds (linked to the euro area HICP excluding tobacco) maturing in 2012 and 2015 have edged up

Chart A Probability distribution for average inflation in 2006 in the last three rounds of the SPF ¹⁾

(percentages)



1) Corresponds to the aggregation of each individual probability distribution provided by SPF forecasters.

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

(percentages)



¹ Additional data are available on the ECB's website at www.ecb.int/stats/prices/indic/forecast/html/index.en.html.

since June 2005 (see Chart C).² However, break-even inflation rates should not be interpreted as direct measures of inflation expectations, as they may also incorporate various risk premia (such as inflation uncertainty and liquidity premia). Consequently, their development may partly reflect greater uncertainty among investors about future inflation and a resulting willingness to pay a premium for a hedge.

Expectations for real GDP growth and unemployment in the euro area

The short-term forecasts for real GDP growth were revised further downwards. Real GDP growth is now expected to stand at 1.3% in 2005 and 1.7% in 2006. The 0.1 percentage point downward revision for both years appears to have been largely driven by the

relatively weak outcome resulting from data releases in the first half of 2005, as well as by the negative impact of rising oil prices. The gradual pick-up in real GDP growth expected by SPF forecasters implies a return to a 2% annual growth rate in 2007. Favourable financing conditions, price stability and improvements in profitability (mainly resulting from a fall in real unit labour costs) are seen as key factors likely to support an upswing in investment. Over the forecast horizon, the balance of risks was generally assessed to be on the downside and, according to SPF participants, largely depended on oil prices.

The SPF forecasts for 2005 are in line with the most recent estimates published by Euro Zone Barometer and Consensus Economics for 2005, but for 2006 and 2007 they are slightly more optimistic (see the table).

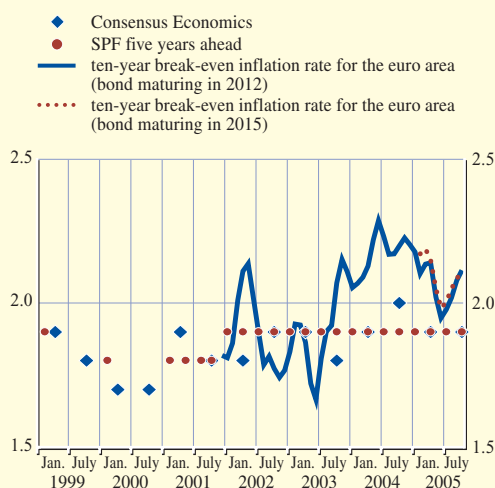
Finally, five-year ahead real GDP growth expectations stand at 2.1%, unchanged from the previous round. According to most SPF forecasters, longer-term growth prospects largely depend on structural reforms.

Despite the slightly more pessimistic economic growth outlook, the forecasts for the rate of euro area unemployment between 2005 and 2007 were revised down by 0.2 percentage point. However, these revisions were mainly due to statistical revisions to the official unemployment rate that were published between the SPF for the third quarter and the SPF for the fourth quarter of 2005. The forecast profile remained unchanged, with the euro area unemployment rate declining gradually throughout the forecast horizon. Expectations for the long-term unemployment rate were also revised down to 7.5% for 2010, but once again, it was stressed that this forecast was dependent on further labour market reforms.

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

Chart C Indicators of long-term inflation expectations

(average annual percentage changes)



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

4 OUTPUT, DEMAND AND THE LABOUR MARKET

Although real GDP growth was moderate in the first half of 2005, the latest indicators, supported by favourable fundamentals, continue to suggest a gradual recovery in economic activity from the second half of the year onwards. In particular, survey data continue to show signs of improvement, consistent with stronger activity in the third quarter and at the start of the fourth quarter. There are also some indications of an improvement in the labour market. This picture of gradually strengthening activity is in line with recent forecasts from international and private sector organisations. However, there continue to be some downside risks to this outlook, relating mainly to oil prices.

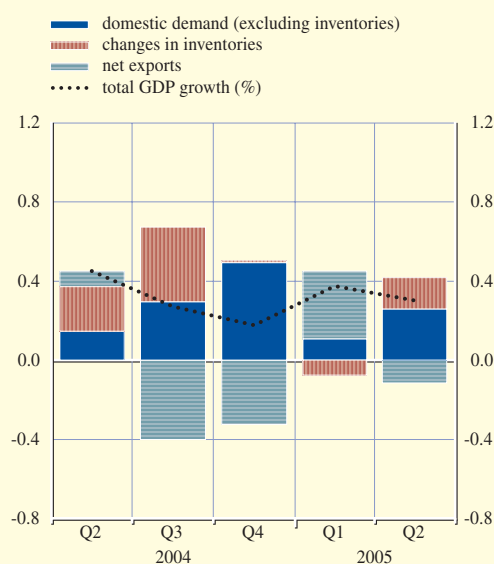
4.1 OUTPUT AND DEMAND DEVELOPMENTS

REAL GDP AND EXPENDITURE COMPONENTS

The second estimate of national accounts data for the second quarter of 2005 confirmed that economic growth in the euro area remained moderate in the first half of the year, the pace being similar to that in the second half of last year. Real GDP increased by 0.3% quarter on quarter in the second quarter of 2005, unchanged from the first release, following an increase of 0.4% in the first quarter (see Chart 22). In fact, the rate of real GDP growth in the euro area has remained broadly stable, at relatively low levels, since the recovery began in mid-2003. The current recovery therefore appears to be fairly subdued from a historical perspective. Box 5, entitled “The current euro area recovery from a historical perspective”, compares the present upswing in the euro area to previous recoveries in the early 1980s and early 1990s, and describes some of the potential factors behind the differences.

Chart 22 Real GDP growth and contributions

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



Sources: Eurostat and ECB calculations.

Box 5

THE CURRENT EURO AREA RECOVERY FROM A HISTORICAL PERSPECTIVE

The current recovery of the euro area economy, following the protracted period of slow growth experienced from mid-2001 to mid-2003, has been rather modest compared with those seen in the early 1980s and the early 1990s. The purpose of this box is to place the latest recovery in a historical perspective and to discuss the role of some important factors that partially account for the relatively weak recovery that has been experienced to date.

Real GDP growth across recoveries

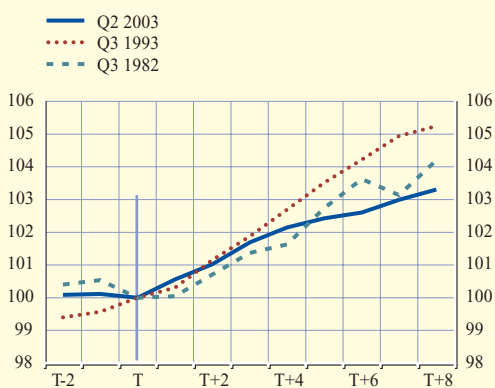
Although there is no universally accepted dating of the euro area business cycle, the Centre for Economic Policy Research (CEPR) established a Business Cycle Dating Committee in 2003 to

identify peaks and troughs in the euro area's business cycle.¹ On the basis of turning points in the early 1980s and early 1990s identified by this Committee (more precisely, the troughs in the third quarters of 1982 and 1993), it is possible to draw comparisons with the recent recovery. No trough has yet been identified for the latest recovery, but for the purposes of this analysis it is assumed to have started in the third quarter of 2003, when quarter-on-quarter real GDP growth returned to significantly positive values (having been negative in the second quarter).

On the basis of these dates, the pace of the recent recovery appears to be relatively weak as compared with the previous two recoveries. For example, eight quarters after the trough in the third quarter of 2003, real GDP had increased by 3.3% overall, 1.8 percentage points lower than the corresponding increase recorded in the recovery of the early 1990s and 0.9 percentage point lower than that observed in the recovery of the early 1980s (see Chart A). The recovery in the early 1980s seems to be relatively similar to the recent recovery in terms of overall growth dynamics. However, while growth tended to strengthen during the course of the recovery in the early 1980s (with quarter-on-quarter growth being on average 0.4% in the first year and 0.6% in the second year of the recovery), the opposite was the case in the most recent recovery (with quarter-on-quarter growth being on average 0.5% in the first year and 0.3% in the second year of the recovery).²

Chart A Euro area real GDP across recoveries

(levels, index numbers with trough equal to 100)



Sources: ECB calculations based on data from the European Commission and, for the 1980s, from the publication "An area-wide model (AWM) for the euro area", by G. Fagan, J. Henry and R. Mestre, ECB Working Paper No. 42, January 2001).

Note: The recovery starts in T+1, i.e. one quarter after the trough (T) as defined by the CEPR.

It is also of interest to identify the dynamics of the largest euro area countries that underlie the above-mentioned euro area patterns. In order to do so, it is necessary to compare the recent upturns for the individual euro area countries with those in the early 1980s and early 1990s. However, important caveats need to be kept in mind when comparing upswings across the five largest euro area countries. In particular, the recovery periods above have been selected on the basis of the evidence for the euro area as a whole. Clearly, there are differences in the business cycles of the individual countries. For example, by contrast with several other euro area countries which experienced a recession in 2003, there was only a slight deceleration in economic activity in Spain. Similar considerations apply to the Netherlands in 1993, which saw a mild slowdown of economic activity but never entered a contraction phase. Keeping in mind these differences across countries, the

table below compares the development of real GDP from the troughs in the third quarters of 1982 and 1993 and the second quarter of 2003 for the five largest euro area countries. This

1 The CEPR Euro Area Business Cycle Dating Committee announced its decision regarding turning points in September 2003 (see <http://www.cepr.org/data/Dating/>).

2 Although distortions arising from working-day adjustment practices affect the growth rates for the fourth quarter of 2004 and the first quarter of 2005, the picture remains of a weakening growth.

Real GDP across recoveries in the five largest euro area countries

(cumulative percentage change)

	Accumulated growth of real GDP – four and eight quarters after the euro area trough											
	Euro area		Germany		France		Italy		Spain		The Netherlands	
	t+4	t+8	t+4	t+8	t+4	t+8	t+4	t+8	t+4	t+8	t+4	t+8
Q3 1982	1.6	4.2	2.0	6.0	1.6	2.8	1.9	4.8	1.5	3.6	2.9	5.0
Q3 1993	2.7	5.2	2.6	4.7	1.9	3.8	3.2	5.7	2.2	6.8	2.6	5.8
Q2 2003	2.1	3.3	1.6	2.2	2.8	4.0	1.2	1.3	3.1	6.6	1.8	2.8

Sources: see Chart A.

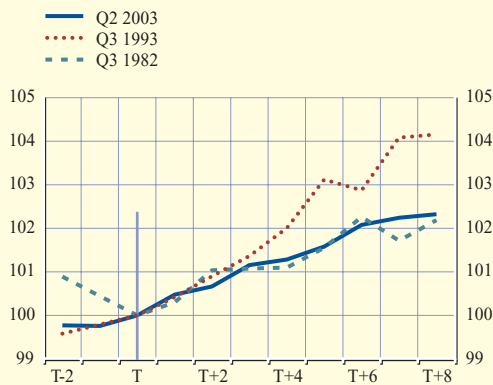
shows that the current recovery has been much milder than the previous two recoveries for Italy, Germany and the Netherlands. By contrast, GDP growth in France and Spain has been stronger since the third quarter of 2003, as compared with the average of the two previous upswings.

The contribution of expenditure components to growth during the recoveries

Comparing the development of various demand components during the upturns, the contribution from domestic demand during the current recovery has been significantly weaker than in the 1990s recovery, but not weaker than in the recovery of the early 1980s (see Chart B). Similar conclusions can be drawn for private consumption and investment. By contrast, recently the contribution from net exports has been similar to that of the 1990s recovery, but weaker than in the early 1980s (see Chart C).

Chart B Euro area real (final) domestic demand contributions to real GDP across recoveries

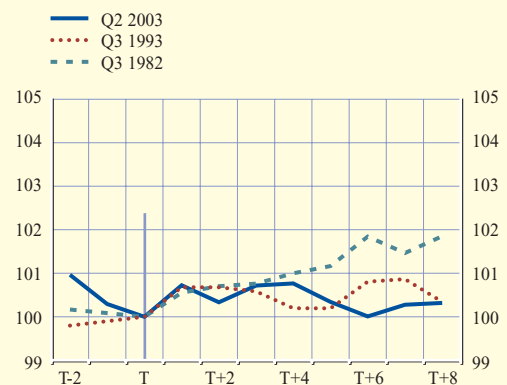
(levels, index numbers with trough equal to 100)



Sources: see Chart A.
Note: The recovery starts in T+1, i.e. one quarter after the trough (T) as defined by the CEPR.

Chart C Euro area real net export contributions to real GDP across recoveries

(levels, index numbers with trough equal to 100)

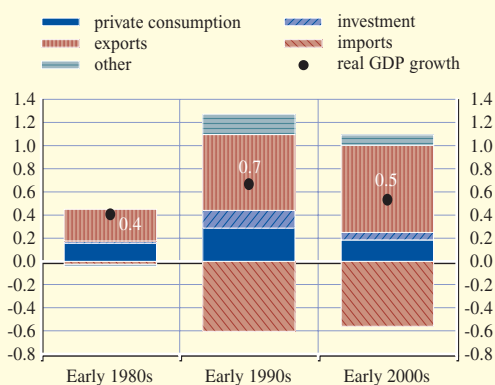


Sources: see Chart A.
Note: The recovery starts in T+1, i.e. one quarter after the trough (T) as defined by the CEPR.

Looking at the pattern of the expenditure components, it can be seen that the relative contribution of some components changed over the course of the recovery. In this respect, the most striking feature is that the average contribution from export growth in the latest recovery

Chart D Average contributions to quarter-on-quarter real GDP growth during the first year of euro area recoveries

(contributions to growth, percentages)

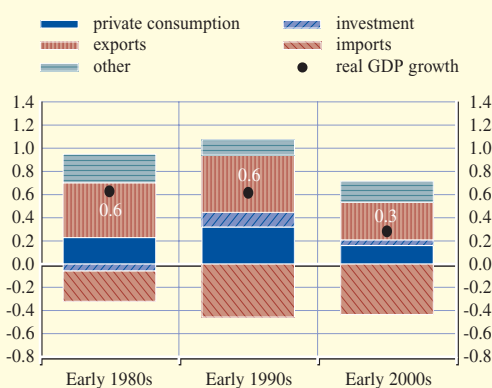


Sources: see Chart A.

Note: Figures in the chart indicate average quarter-on-quarter real GDP growth.

Chart E Average contributions to quarter-on-quarter real GDP growth during the second year of euro area recoveries

(contributions to growth, percentages)



Sources: see Chart A.

Note: Figures in the chart indicate average quarter-on-quarter real GDP growth.

declined markedly from 0.8% in the first to 0.3% in the second year (see Charts D and E). During previous recoveries, by contrast, it either increased slightly (early 1980s) or declined (early 1990s).

While the upswing in the early 1990s was characterised by relatively strong and homogeneous recoveries in private consumption in the largest countries, the current upswing has so far failed to feed into private consumption growth in a number of these countries, most notably Germany and the Netherlands. From this point of view, the most recent recovery is more similar to that in the early 1980s, which was also characterised by weak private consumption in a number of countries. In addition, France, Italy and Spain have experienced very modest export growth in the latest recovery compared with the previous two recoveries.

Possible reasons for the sluggishness of the current recovery

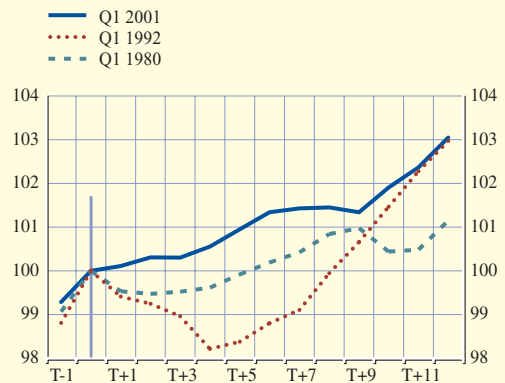
Several factors could help to explain the weakness of the most recent upturn as compared with past recoveries in the euro area. First, by contrast with previous recoveries, the current recovery has been marked by a combination of adverse shocks, such as the recent oil price increases and the significant appreciation of the euro. The latter factor, in particular, may explain the relative weakness of export growth observed in the second year of the recovery. Second, there is some evidence that trend potential output growth has been lower in recent years as compared with the 1980s and 1990s.³ In this respect, the uncertainty relating to the timing and extent of the implementation of structural reforms in some euro area countries may also have contributed to consumer confidence remaining at a low level. Finally, it needs to be taken into account that the slowdown preceding the current recovery was relatively shallow (see Chart F). Hence, to the extent that the strength of the rebound tends to depend on the depth of the previous downturn, it is not totally surprising that the current recovery is to some extent less dynamic than previous recoveries.

³ See the box entitled "Trends in euro area potential output growth" in the July 2005 issue of the Monthly Bulletin.

Looking at the individual euro area countries, differences in their relative performances can be explained by a number of factors. Lagged effects of past changes in price and non-price competitiveness in some countries may to a large extent help to explain differences in their export performances. In addition, varying degrees of structural reforms undertaken in the past – as well as uncertainty about future reforms – may explain some of the differences in domestic demand patterns. Finally, differences across countries' performances may partly reflect catching-up processes towards higher GDP per capita levels in some cases.

Chart F Euro area real GDP across slowdowns

(levels, index numbers with peak equal to 100)



Sources: see Chart A.

Note: The slowdown starts in T+1, i.e. one quarter after the peak (T) as defined by the CEPR.

While overall real GDP growth in the second quarter was unchanged between the first and second releases of national accounts data, there were some revisions to the composition of growth. In particular, there was an upward revision to domestic demand, which is now estimated to have provided the main contribution, at 0.4 percentage point, to quarter-on-quarter real GDP growth in the second quarter (revised upwards by 0.3 percentage point). By contrast, the contribution of net exports was revised downwards, to -0.1 percentage point, primarily reflecting higher import growth. Stronger domestic demand was attributable to both higher private consumption growth (revised upwards by 0.2 percentage point to 0.1%) and investment growth (revised upwards by 0.3 percentage point to 0.5%). The contribution of inventories remained unchanged at 0.2 percentage point.

The breakdown of investment by type of product for the second quarter shows that the pick-up in investment was largely due to the strong growth recorded in construction investment, following a weather-related decline in the first quarter of 2005. It also shows a slight decline in non-construction investment in the second quarter (see Box 6, entitled “Latest developments in investment by type of product”, for further details).

Box 6

LATEST DEVELOPMENTS IN INVESTMENT BY TYPE OF PRODUCT

In the first half of 2005, investment in the euro area increased by 0.2% relative to the second half of the previous year. This was below the increase of 0.7% observed in the second half of last year (see Chart A). This box reviews in further detail developments in investment by type of product in the euro area in the first half of 2005.

Overall, the deceleration in investment was mainly due to lower non-construction investment. By contrast, construction investment contributed less negatively to overall investment growth

in the first half of this year than in the second half of last year. Looking forward, favourable financing conditions are expected to support investment activity in the euro area. Moreover, the robust growth of corporate profits and the improvement in confidence indicators suggest that the gradual recovery of investment should continue.

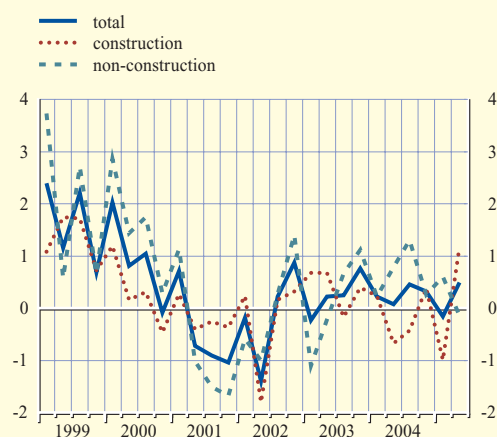
Non-construction investment increased at a slower rate in the first half of 2005 than in the second half of 2004

In the first half of this year, non-construction investment increased by 0.7%, following an increase of 1.8% in the second half of last year. This development partly mirrors changes in industrial confidence: the European Commission's industrial confidence indicator deteriorated continuously in the period between October 2004 and May 2005. Since then, however, it has improved, as has capacity utilisation. The PMI for manufacturing shows a similar pattern, deteriorating between February and May 2005 and slightly improving since then. In addition, capital goods industrial production growth (in three-month moving average terms), having declined throughout the last quarter of 2004, turned positive in 2005. Overall, recent data and survey releases suggest an increase in non-construction investment growth in the second half of the year.

The lower growth in non-construction investment in the first half of this year compared with the second half of 2004 was mainly attributable to a negative development in the transport sector (see Chart B). Investment growth in transport equipment (accounting for around 10% of total investment) was negative in both the first and the second quarter. These declines were only partly counterbalanced by positive investment growth in metal products and machinery (accounting for around 30% of total investment), while investment growth in other products (with a 12% share in the total) was close to zero. The decline in transport investment, while not considerably larger than normal volatility allows for, may partly be attributable to recent oil price increases.

Chart A Total, construction and non-construction investment

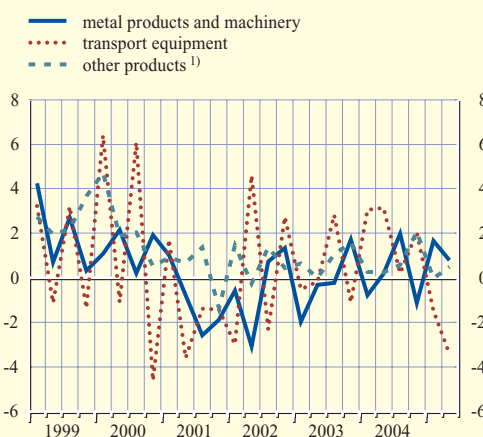
(quarter-on-quarter changes; seasonally adjusted)



Source: Eurostat.
1) Includes agriculture.

Chart B Breakdown of non-construction investment

(quarter-on-quarter changes; seasonally adjusted)



The decline in construction investment slowed down in the first half of 2005

Construction investment declined by 0.2% on average in the euro area in the first half of 2005, following a decline of 0.6% on average in the second half of last year (see Chart A). Housing and non-housing construction investment followed similar patterns. These series are known to be very volatile, in part because weather conditions have a great influence on construction investment.¹ The EC confidence indicator for the construction sector has, however, improved significantly in the course of the year, which may also be a positive indicator for investment.

¹ See Box 6 in the September issue of the ECB's Monthly Bulletin for a detailed analysis of developments in construction investment up to the first quarter of 2005 and of important factors shaping the evolution of the series.

SECTORAL OUTPUT AND INDUSTRIAL PRODUCTION

Looking at the sectoral composition of growth, the data for real value added in the second quarter of 2005 confirm a positive contribution to growth from both the industrial and the services sectors. While the services sector accounts for the bulk of real value added in the euro area, its contribution in the second quarter was roughly half that of the industrial sector (almost reversing the pattern in the first quarter).

Data for July and August suggest a continuation of the gradual and broad-based pick-up of industrial activity in the third quarter (see Chart 23). Industrial production increased by 0.8% month on month in August, following increases of 0.5% in June and 0.2% in July. The recovery of industrial activity is also reflected in this year's quarterly growth rates so far, with no change being recorded in the first quarter and 0.7% in the second quarter.

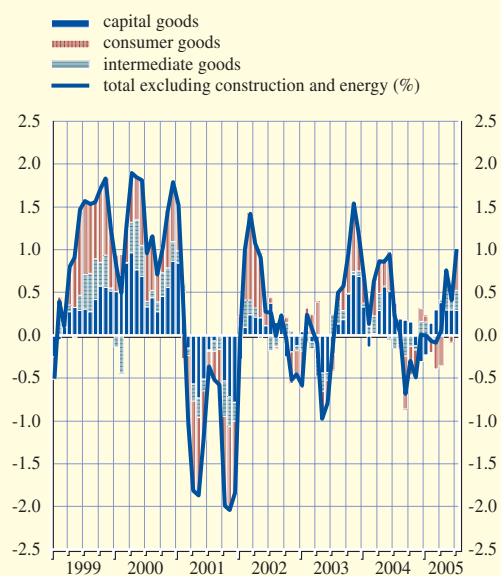
Industrial new orders declined month on month in July and August. However, in terms of three-month moving averages, the growth rate has remained close to 3% on account of a relatively strong increase in June. Overall, the level of new orders in August was still above the average level of the second quarter.

SURVEY DATA FOR THE MANUFACTURING AND SERVICES SECTORS

Survey data for both the euro area manufacturing and services sectors continued to improve at the start of the fourth quarter. The European Commission's industrial confidence indicator increased further in October. It now stands five points above the trough in May of this year and is at roughly the same level as at the beginning of the year. This increase reflects an improvement in the assessment of order books and stocks, as well as in production expectations. The Purchasing Managers' Index

Chart 23 Industrial production growth and contributions

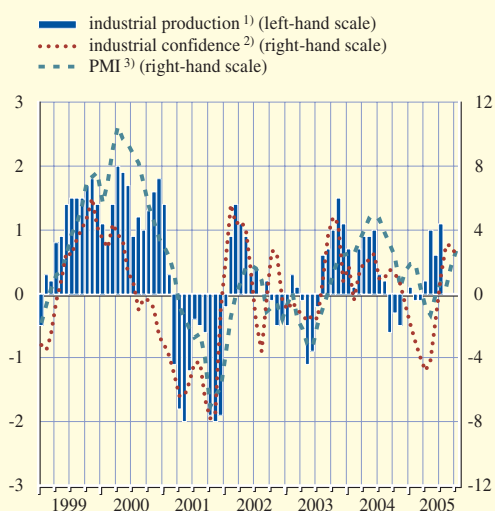
(growth rate and percentage point contributions; seasonally adjusted)



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

Chart 24 Industrial production, industrial confidence and the PMI

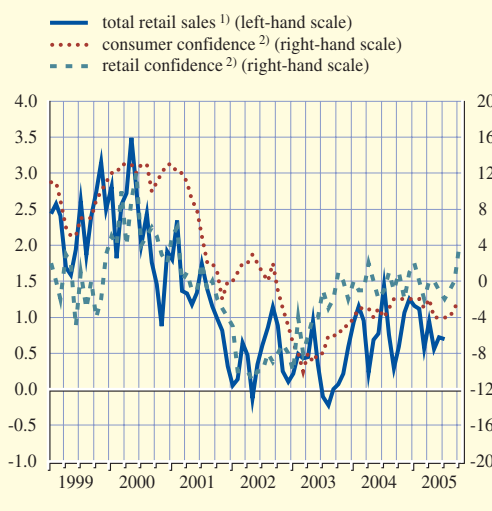
(monthly data; seasonally adjusted)



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

Chart 25 Retail sales and confidence in the retail trade and household sectors

(monthly data)



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

(PMI) also recorded a further improvement in October. The increase in the industrial confidence indicator over the previous months and the rise in the PMI provide a positive signal for activity both for the third quarter and the start of the fourth quarter, which is consistent with a gradual pick-up in growth (see Chart 24).

The European Commission's services confidence indicator for the euro area recorded a relatively strong increase in October, following a smaller improvement in September. It now stands clearly above its average for the current year. However, despite having reached its highest value for more than four years, the Commission's indicator remains slightly below its long-term average. The PMI for business activity in the services sector reached its highest value for a year in September, standing slightly above its long-term average. Overall, the survey information provides a positive signal for growth in the services sector in the euro area during the third quarter.

INDICATORS OF HOUSEHOLD SPENDING

Despite some upward revision, private consumption growth was still relatively weak in the euro area in the second quarter. Available indicators of household spending point to continued moderate private consumption growth in the third quarter.

Retail sales volumes in the euro area showed a slight increase on a three-month moving average basis in July and August (0.3% and 0.4% respectively). Thus the level of retail sales returned to approximately that of May and June this year. With regard to new passenger car registrations,

there was an increase in September, following declines in both July and August. Consequently, car registrations rose by 0.5% in the third quarter, after 1.8% in the second quarter.

In October the European Commission's consumer confidence indicator rose further. Overall, consumer confidence, though still relatively low (and below its long-term average), shows some signs of a gradual improvement, and is now back to its level at the beginning of the year (see Chart 25).

4.2 LABOUR MARKET

The latest available indicators for the euro area point to a continuous gradual improvement in labour market conditions from the first quarter of 2005 onwards. In particular, employment expectations for both the industrial and services sectors improved considerably in October and support the view of an ongoing, albeit mild, improvement in underlying labour market conditions in the second half of the year.

UNEMPLOYMENT

The euro area standardised unemployment rate increased to 8.6% in August 2005, from 8.5% in July (see Chart 26). The number of unemployed people increased by around 140,000, adjusted for seasonal factors, following an average monthly decline of around 120,000 in the previous three months. However, recent unemployment data for the euro area must be interpreted with caution. The developments in August were driven largely by a rise in the unemployment rate in Germany, where methodological and institutional changes in the data collection process make the analysis more difficult. Data for the euro area excluding Germany show an ongoing gradual decrease in unemployment in August.

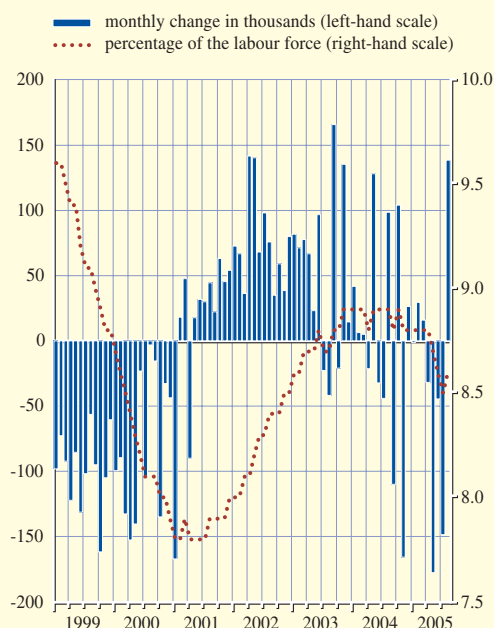
EMPLOYMENT

Employment increased by 0.2% quarter on quarter in the second quarter of 2005, after 0.1% in the first quarter (see Table 7). The increase in the second quarter was mainly attributable to the expansion of employment in the industrial sector (more precisely, in construction). Employment growth in the services sector showed little change as compared with the previous quarters. Overall, developments over the past few quarters thus point to an ongoing gradual improvement. However, any interpretation of the data should also take into account the recent effects of labour market policy measures to boost employment, such as the expansion of part-time work and self-employment.

Data from the European Commission regarding euro area employment expectations indicate a

Chart 26 Unemployment

(monthly data; seasonally adjusted)



Source: Eurostat.

Table 7 Employment growth

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

	Annual rates		Quarterly rates				
	2003	2004	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2
Whole economy	0.3	0.6	0.2	0.2	0.2	0.1	0.2
<i>of which:</i>							
Agriculture and fishing	-1.8	-0.8	-0.2	0.0	-0.4	-1.2	0.1
Industry	-1.0	-0.9	0.2	-0.1	0.0	-0.6	0.1
Excluding construction	-1.5	-1.7	0.1	-0.5	0.1	-0.9	-0.1
Construction	0.2	1.0	0.6	1.1	-0.4	0.1	0.6
Services	0.9	1.2	0.3	0.3	0.3	0.4	0.3
Trade and transport	0.3	0.9	0.3	0.4	0.1	0.1	0.1
Finance and business	1.3	2.5	0.4	0.6	0.5	0.8	0.2
Public administration	1.2	0.8	0.1	0.2	0.3	0.4	0.5

Sources: Eurostat and ECB calculations.

significant improvement for both the industrial and the services sectors in October. This improvement, however, masks diverging longer-term trends in the two sectors. While employment expectations have been broadly stable in the industrial sector since the beginning of the year, they have clearly improved in the services sector. Employment expectations in manufacturing as derived from the PMI improved further in October. According to the PMI, employment expectations in the services sector improved in September. Both indicators are currently above their average for the second quarter, thereby pointing to an improvement in employment conditions in both the industrial and the services sectors.

4.3 THE OUTLOOK FOR ECONOMIC ACTIVITY

Looking ahead, the latest available data remain broadly in line with the assessment that activity should strengthen in the second half of 2005, as detailed in both the September 2005 ECB staff projections and recent forecasts by international and private sector organisations (see Box 4 entitled “Private sector expectations for the euro area: results of the ECB Survey of Professional Forecasters for the fourth quarter of 2005”). Beyond the short term, the conditions are in place for an increase in the rate of economic expansion. On the external side, ongoing growth in global demand should support euro area exports. On the domestic side, very favourable financing conditions and robust growth in corporate earnings should be conducive to investment growth. Consumption is expected to expand gradually, in line with the expected moderate growth in real disposable income. Overall, there is scope for more positive fundamental factors to shape economic developments. However, the outlook for economic activity remains subject to downward risks, relating mainly to oil prices, concerns about global imbalances and weak consumer confidence.

5 EXCHANGE RATE AND BALANCE OF PAYMENTS DEVELOPMENTS

5.1 EXCHANGE RATES

After declining moderately in September 2005, the effective exchange rate of the euro was almost unchanged in October. The main development in the foreign exchange markets was a spell of broad-based weakness in the rate of the Japanese yen against other major currencies, in spite of several positive signals for the Japanese economic outlook.

US DOLLAR/EURO

After declining from a peak of USD 1.25 in early September 2005, the euro stabilised at about USD 1.20 against the US dollar in October. The widening interest rate differential in favour of the United States relative to other major economies appears to have continued to support the dollar. Additional support has also come from news that foreign demand for US assets remained buoyant, as evidenced by a rise in portfolio investment inflows into the United States for the third consecutive month in August. This was broadly counterbalanced by signs of an improving business climate in the euro area, which seems to have positively affected the euro. Against this background, the euro stood at USD 1.20 on 2 November 2005, almost unchanged compared with its end-September level (-0.4%) and 3.6% lower than its 2004 average.

JAPANESE YEN/EURO

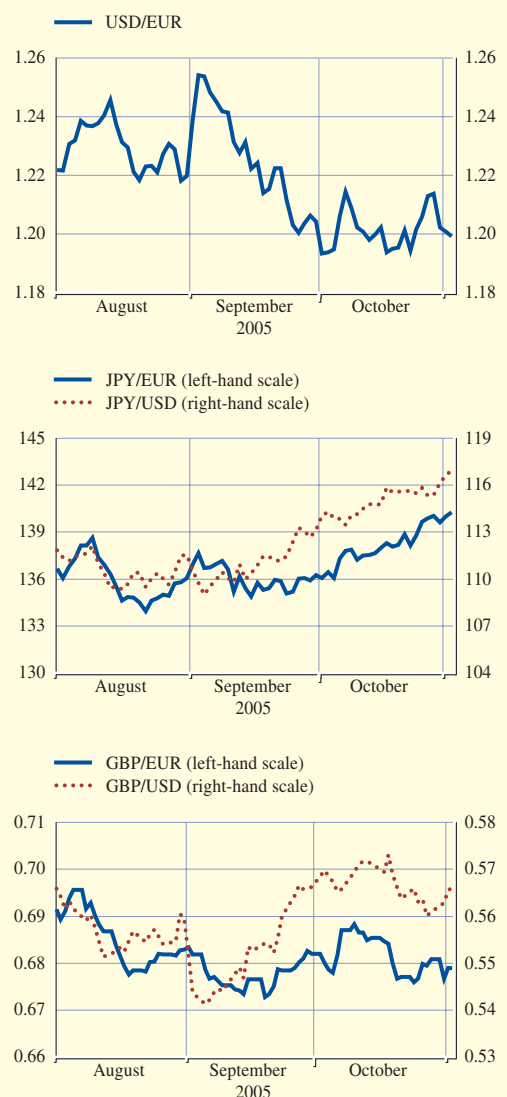
The main development in the foreign exchange markets in October was a spell of broad-based weakness in the rate of the Japanese yen against other major currencies, in spite of several positive signals for the Japanese economic outlook. Factors helping to explain the yen's present weakness may include the impact of high oil prices on the Japanese current account surplus and the widening yield differential between the United States and Japan. On 31 October the euro was quoted at JPY 140.3, i.e. 2.9% above its end-September level and 3.6% above its 2004 average.

EU MEMBER STATES' CURRENCIES

In ERM II, fluctuations were very small in October, with most currencies either at, or close to, their respective central parity. With regard to the currencies of other EU Member

Chart 27 Patterns in exchange rates

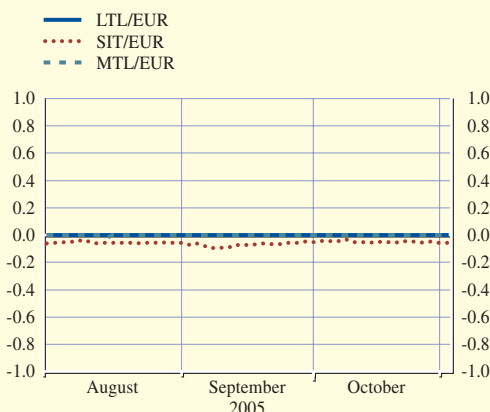
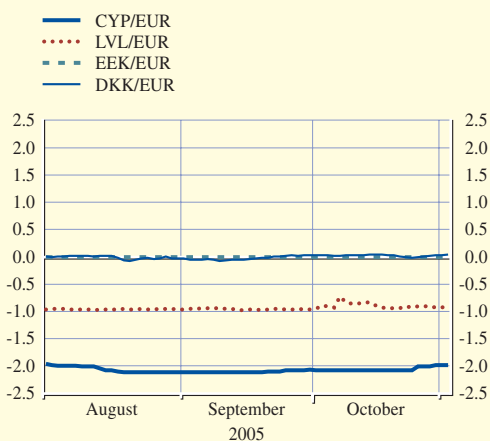
(daily data)



Source: ECB.

Chart 28 Patterns in exchange rates within ERM II

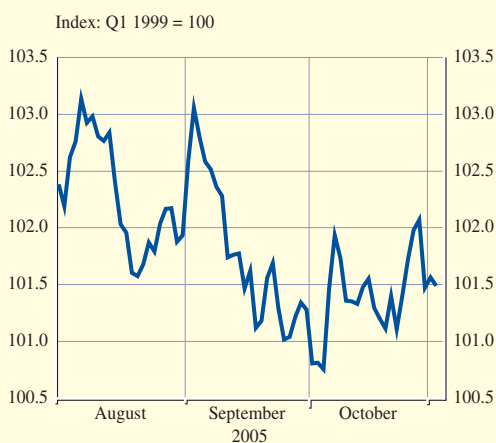
(daily data; deviation from the central parity in percentage points)



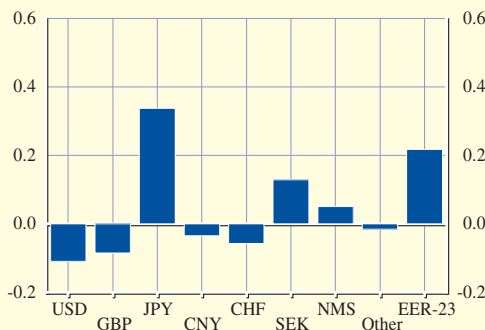
Source: ECB.
Note: A positive/negative deviation from the central parity against the euro implies that the currency is on the weak/strong side of the band. For the Danish krone, the fluctuation band is $\pm 2.25\%$; for all other currencies, the standard fluctuation band of $\pm 15\%$ applies.

Chart 29 Euro effective exchange rate and its decomposition¹⁾

(daily data)



Contributions to EER changes²⁾
From 30 September to 2 November 2005
(in percentage points)



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

States, the euro depreciated slightly vis-à-vis the pound sterling in October, first strengthening and then more than unwinding its initial gains. On 2 November the euro traded at GBP 0.68, or 0.4% below its end-September level and close to its 2004 average. The euro strengthened vis-à-vis the Swedish krona (by 2.9%) and the Polish zloty (by 1.3%).

OTHER CURRENCIES

Regarding other non-EU currencies, since end-September the euro has depreciated by 0.9% vis-à-vis the Swiss franc. By contrast, it appreciated against both the Australian and the Canadian dollar (by 2.3% and 0.6% respectively), partly recovering its September losses.

EFFECTIVE EXCHANGE RATE OF THE EURO

On 2 November the nominal effective exchange rate of the euro – as measured against the currencies of 23 of the euro area's important trading partners – was close to its end-September level and 2.3% weaker than its average in 2004 (see Chart 29). The relative stability of the euro in October resulted from counterbalancing forces, i.e. the broad-based weakness of the Japanese yen and a small depreciation of the euro vis-à-vis the US dollar and the pound sterling.

5.2 BALANCE OF PAYMENTS

Balance of payments data up to August 2005 confirm that euro area exports are continuing their upward trend, while import values are growing at an even faster pace, largely due to higher oil prices. The 12-month cumulated surplus of the euro area current account fell to €5.2 billion in August, from €47.3 billion a year earlier. In the financial account, the euro area recorded net inflows of €73.0 billion in combined direct and portfolio investment in the 12-month period up to August 2005, compared with net outflows of €29.4 billion a year earlier.

TRADE AND THE CURRENT ACCOUNT

The latest balance of payments data (August 2005) confirm the robustness of euro area exports observed in the preceding months. The three-month moving average value of exports of goods and services in August 2005 increased by 3.6% compared with May, due to strong rises in the value of both goods (nearly 4%) and services (2.6%) (see Table 8). Meanwhile, imports of goods and services grew by 6.6% over the same period, reflecting an 8.1% rise in the value of imported goods and a 1.7% increase in the value of services imports (see Chart 30).

Eurostat's breakdown of extra-euro area exports into volumes and prices (up to July 2005) indicates that the recent strength in the value of exports of goods can be mainly associated with

Table 8 Main items of the euro area balance of payments

(EUR billions; seasonally adjusted, unless otherwise indicated)

	2005		Three-month moving average figures ending				12-month cumulated figures ending	
	July	Aug.	2004 Nov.	2005 Feb.	2005 May	2005 Aug.	2004 Aug.	2005 Aug.
Current account	-4.7	-6.6	1.9	2.0	1.7	-3.9	47.3	5.2
Goods balance	3.0	1.0	5.2	7.3	7.1	3.5	115.7	69.2
Exports	102.7	104.9	95.1	95.0	98.4	102.3	1,092.3	1,172.2
Imports	99.7	103.9	89.9	87.7	91.3	98.7	976.6	1,102.9
Services balance	2.3	2.6	2.5	2.5	2.0	2.3	26.4	27.7
Exports	31.8	31.7	30.3	30.7	30.9	31.7	344.7	370.7
Imports	29.6	29.1	27.8	28.2	28.9	29.4	318.3	343.0
Income balance	-6.1	-4.5	-1.3	-1.9	-2.7	-5.0	-38.3	-32.6
Current transfers balance	-3.8	-5.6	-4.5	-5.9	-4.7	-4.7	-56.5	-59.1
Financial account¹⁾	-1.9	-1.4	4.1	7.3	2.9	4.9	-3.3	57.6
Combined direct and portfolio investment	-5.8	-31.8	5.9	2.2	-2.4	18.6	-29.4	73.0
Direct investment	-81.2	-15.7	-5.3	-12.7	-3.4	-35.0	-54.3	-169.3
Portfolio investment	75.3	-16.1	11.3	14.9	1.0	53.6	24.9	242.3
Equities	90.3	20.2	12.1	7.0	-7.8	55.4	1.6	200.2
Debt instruments	-15.0	-36.3	-0.8	7.9	8.8	-1.9	23.3	42.1

Source: ECB.

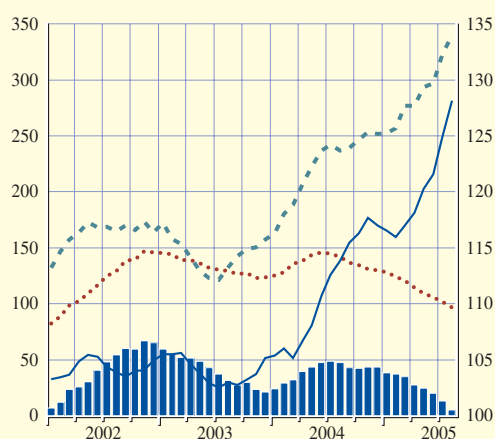
Notes: Figures may not add up due to rounding.

1) Figures refer to balances (net flows). A positive (negative) sign indicates a net inflow (outflow). Not seasonally adjusted.

Chart 30 The euro area current account and the trade balance

(EUR billions; monthly data; seasonally adjusted)

- current account (12-month cumulated data; left-hand scale)
- trade balance (12-month cumulated data; left-hand scale)
- - - exports of goods and services (3-month moving average; right-hand scale)
- imports of goods and services (3-month moving average; right-hand scale)

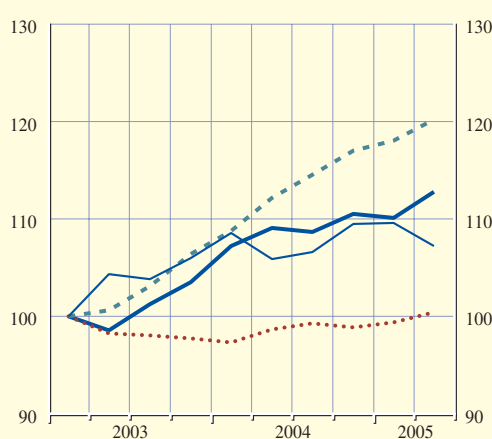


Source: ECB.

Chart 31 Extra-euro area export volumes and key determinants

(indices: Q1 2003 = 100; quarterly data; seasonally adjusted)

- export volumes
- export prices
- - - foreign demand
- nominal effective exchange rate



Sources: Eurostat and ECB calculations.
Note: The latest observations are for Q2 2005.

strong export volumes (see Chart 31). The pick-up in export volumes that took place in the second quarter of 2005 contrasts with the weak pattern observed previously, when the increase in export volumes was noticeably smaller than that in foreign demand, which was most likely due to the lagged effect of the appreciation of the euro. The recent recovery in exports may imply that the effects of the past appreciation of the euro are fading.

Turning to imports, the rise in import prices that took place in the summer of 2005 – mostly related to oil – has contributed to the robust growth rate of import values over this period (see Chart 32). However, the rise in import values also seems to have been stimulated by stronger import volumes at the beginning of the third quarter of 2005. Looking back, total import prices have risen by around 6% in euro terms since the beginning of 2003, despite the significant appreciation of the euro over this period. This overall rise stems from very different developments within the various categories of imports: while import prices of manufactured goods have fallen by just over 1%, import prices of oil have increased by more than 40%. Over the longer term, it seems that the ongoing rise in the share of imports from low-cost countries – such as Asia (especially China) and new EU Member States – has put some downward pressure on import prices of manufactured goods. The box entitled “Diverse patterns in headline and underlying inflation” in the “Prices and costs” section provides detailed information on the divergence of developments in some HICP components. Export prices, however, have remained basically flat since 2003, implying some worsening in the terms of trade since mid-2004.

From a longer-term perspective, the 12-month cumulated surplus in goods fell by more than €46.5 billion in August 2005 compared with a year earlier, as import values grew more strongly than those of exports. A reduction in the deficit for the income account (of €5.7 billion) and a moderate increase in the services surplus partly counterbalanced the fall in the goods surplus, while the deficit on current transfers rose slightly (by €2.6 billion). These developments resulted in a €42.1 billion fall in the 12-month cumulated current account surplus, which stood at €5.2 billion in August 2005, representing less than 0.1% of GDP.

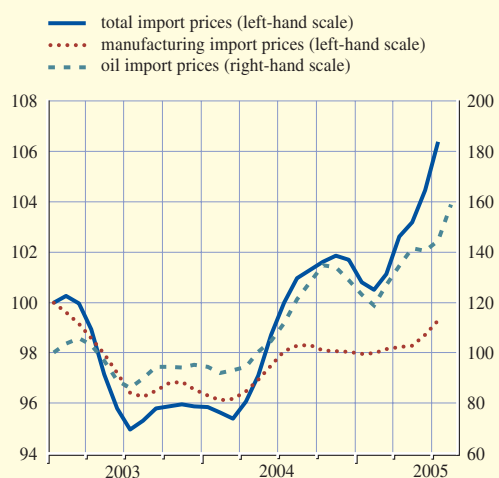
The geographical breakdown of the euro area current account, which is available until the second quarter of 2005, reveals that the strong decrease in the 12-month cumulated current account surplus at the end of June 2005 (by around €30 billion compared with a year earlier) was mostly due to an increase of nearly €48 billion in the deficit with “other countries”. Over the same period, the surplus with the United States remained roughly unchanged (at more than €40 billion), while the surplus with non-euro area EU countries rose by around €14 billion, mostly due to an increase in the surplus with the United Kingdom.

FINANCIAL ACCOUNT

The euro area recorded net outflows of €31.8 billion in combined direct and portfolio investment in August, reflecting net outflows of broadly equal size in both direct and in portfolio investment (see Table 8). After the relatively large net outflows in euro area direct investment and net inflows of euro area equity securities in July, mostly due to one exceptional transaction, cross-border flows in both direct and equity portfolio investment returned to the average levels recorded in the first half of 2005. In contrast to the inflows in equity portfolio investment, debt instruments recorded large net outflows in August, mainly reflecting the disinvestment by non-residents in euro area bonds and notes.

Chart 32 Extra-euro area import prices

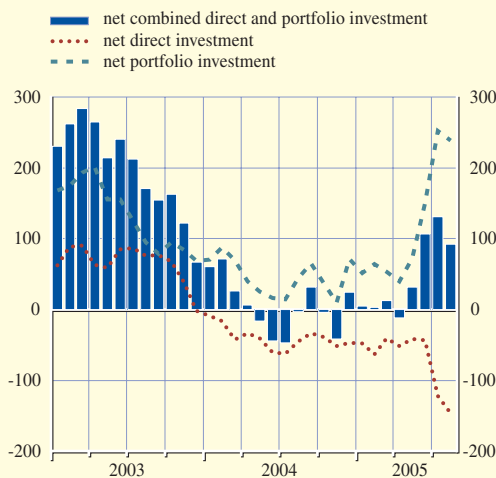
(indices: January 2003 = 100; seasonally adjusted; three-month moving averages)



Sources: Eurostat and ECB calculations.
Note: The latest observations are for July 2005, except for oil import prices (August 2005).

Chart 33 Net direct and portfolio investment flows

(EUR billions; 12-month cumulated data)



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

Looking at developments over the 12-month period up to August 2005, the euro area recorded net inflows of €73.0 billion in combined direct and portfolio investment compared with net outflows of €29.4 billion a year earlier (see Chart 33). This switch in the direction of capital flows stems largely from a sharp increase in the net purchases by non-residents of euro area equity securities, possibly driven, at least in part, by relatively higher returns in the euro area stock market against the backdrop of the low interest rate environment.

The steady rise in net inflows in euro area debt instruments observed since the beginning of the year may have reached a peak in early summer, as net outflows in debt instruments were recorded in July and August 2005. This may reflect the fact that the yield differentials between the United States and euro area government bonds and notes have become quite sizeable, particularly over the summer.

Meanwhile, the euro area continued to record steady net outflows in direct investment, largely on account of equity capital investment by euro area residents abroad. The pick-up of euro area foreign direct investment abroad may reflect the rise in the expected profitability of euro area corporations, which has shown a strong correlation with foreign direct investment outflows in the past. Conversely, foreign direct investment in the euro area has remained at low – and relatively stable – levels since March 2004. Expectations that the global economy would experience stronger economic growth than the euro area in 2004 and 2005 may account for this development.

Data on the geographical breakdown of the euro area financial account indicate that – over the 12-month period up to June 2005 – the United Kingdom was the country receiving the largest share of euro area foreign direct investment, particularly in the form of equity capital, followed by offshore centres and “other countries”, the latter including non-Japan Asia and Latin America. These economies were also the largest recipients of euro area portfolio investment abroad over the same period. Conversely, euro area portfolio investment in the United States declined by almost half in the 12-month period ending in June 2005, as compared with the 12-month period ending a year earlier.

ARTICLES

PRICE-SETTING BEHAVIOUR IN THE EURO AREA



This article draws on new Eurosystem research to provide a summary of recent findings on price-setting behaviour in the euro area. It is structured around three main questions: What are the typical patterns of price adjustment that can be observed in the euro area? Do price setters follow particular rules in reviewing and changing prices? Are there factors that prevent price setters from changing prices?

The main results of this research can be summarised as follows. Prices in the euro area change infrequently. Consumer prices remain unchanged for four to five quarters on average; producer prices remain unchanged for similar or somewhat shorter periods. However, the actual frequencies differ substantially across sectors and product groups. There are various reasons why prices may change infrequently. On the one hand, in a stable macroeconomic environment where agents expect prices to be stable, there is less of a need to change prices. On the other hand, there may be structural factors that prevent firms from changing prices. The evidence supports both reasons.

I INTRODUCTION

A thorough understanding of the nature of the price-setting process adopted by economic agents is important for a central bank. Price-setting behaviour is what ultimately shapes the evolution of inflation over time. Accordingly, most commonly used models of inflation dynamics rely on assumptions about the behaviour of price setters. The models' predictions about the evolution of inflation are therefore strongly dependent on these underlying assumptions, as will be the models' indications for the design and conduct of monetary policy. Understanding the nature of the price-setting process will improve these models and the ensuing policy conclusions. Furthermore, a disaggregated analysis of economic agents' price-setting behaviour can reveal important differences, such as heterogeneity across sectors in the way prices react to changes in the underlying economic conditions. This knowledge can indicate which sectors need to be monitored more closely for the purposes of monetary policy. Finally, a detailed investigation of price setting may reveal structural inefficiencies that prevent prices from changing even if price setters see, in principle, a potential need for changing them. As a consequence, prices would not be an effective signal of the relative scarcity of goods, a situation that would call for structural reforms.

This article provides a summary of recent findings on price-setting behaviour in the euro area. It draws mainly on new analyses conducted by the Eurosystem in the context of the "Inflation Persistence Network" (IPN).¹ This network was created in 2003 by the ECB and the NCBs of the euro area for the purpose of analysing the patterns, determinants and implications of inflation persistence and price-setting behaviour, as well as the link between the two in the euro area and in its member countries. To study price setting, it availed itself of an unprecedented dataset covering individual price records collected for the construction of the consumer and producer price indices, as well as information on price-setting behaviour obtained from one-off surveys on firms' pricing policies.

This article focuses on three main issues: the typical patterns of price adjustment observed in the euro area; the rules followed by price setters in reviewing and changing prices; and factors that prevent price setters from changing prices. The main results regarding each of these issues are reported in the three following sections of this article. Important features of

¹ The bulk of the papers produced by the IPN were presented at the conference entitled "Inflation Persistence in the Euro Area", hosted by the ECB in December 2004, and are available online at the "Past conferences and seminars" page of the ECB's website. A large number of papers produced by the IPN have also been published in the ECB's Working Paper Series.

the datasets that have been used in the analyses are presented in two boxes. Box 1 covers the individual price records underlying the consumer and producer price indices and Box 2 presents the surveys conducted by the IPN. The last section contains the overall conclusions.

2 STYLISED FACTS REGARDING THE PATTERNS OF PRICE ADJUSTMENT IN THE EURO AREA

Based on the individual price records collected for the construction of the consumer and producer price indices, this section reports a number of interesting patterns of price adjustment.² A first key result relates to how often prices are typically changed, or in other words, for how long prices remain unchanged on average. Tables 1 and 2 show the respective results for consumer and producer prices, highlighting the fact that prices change infrequently. On average, only 15% of prices of consumer goods and 20% of producer prices are changed each month. Calculating the average time for which prices of a given product category remain unchanged and aggregating the results for the euro area reveals that prices of consumer goods remain unchanged for about four to five quarters, while producer prices maintain their level for almost as long. Similar results are obtained when asking firms directly how often they change prices: the evidence obtained from firm surveys shows that the average firm changes prices less than once a year.

These average figures mask a substantial degree of heterogeneity, however – a point which is illustrated by the breakdown of

the figures provided in Tables 1 and 2 according to sectors. Consumer prices change most frequently for energy products and unprocessed food, while price changes are relatively infrequent for non-energy industrial goods and services in particular. Energy products, where 78% of all prices in the sample change each month, and unprocessed food products, where the corresponding figure stands at 28%, therefore show substantially more price changes than the average consumer good. Both sectors are characterised by frequent and considerable changes in the supply of and demand for their input factors and, accordingly, by frequently changing input prices. This has a bearing on the prices of consumer goods, indicating that in these sectors prices are often reset in response to changes in economic conditions. At the other end of the spectrum, it is particularly evident that the prices of services change less frequently: on average only 6% of prices change each month. Interestingly, it can also be observed that sectors in which prices change infrequently exhibit an adjustment pattern whereby price increases are typically followed by further price increases; such a pattern can be

2 For a summary of the results for consumer prices, see Dhyne, E., L. Álvarez, H. Le Bihan, G. Veronese, D. Dias, J. Hoffmann, N. Jonker, P. Lünemann, F. Rumler and J. Vilmunen (2005), “Price setting in the euro area: some stylized facts from individual consumer price data”, ECB Working Paper No 524. For a summary of the results for producer prices, see Álvarez, L., E. Dhyne, M. Hoeberichts, C. Kwapil, H. Le Bihan, P. Lünemann, F. Martins, R. Sabbatini, H. Stahl, P. Vermeulen and J. Vilmunen (2005), “Sticky prices in the euro area: evidence from individual data”, a paper presented at the 2005 Annual Congress of the European Economic Association. More detailed analyses focusing on individual countries are provided in various research papers referenced in the two papers.

Table 1 Average percentage of consumer prices changed each month

Sector	Unprocessed food	Processed food	Energy	Non-energy industrial goods	Services	Total
Percentage of price changes	28	14	78	9	6	15

Source: Dhyne et al. (2005), “Price setting in the euro area: some stylized facts from individual consumer price data”, ECB Working Paper No 524.

Note: Based on a sample of 50 products. For further details, see the footnote in Box 1.

Table 2 Average percentage of producer prices changed each month

Sector	Food	Non-durable goods (excluding food)	Durables	Intermediate products	Energy	Capital goods	Total
Percentage of price changes	26	12	10	22	70	9	20

Source: Álvarez et al. (2005), "Sticky prices in the euro area: evidence from individual data", a paper presented at the 2005 Annual Congress of the European Economic Association.

expected in an environment of small, positive inflation rates, where occasional price increases take account of the time that has elapsed since the last price change.

A very similar pattern can be observed for producer prices, as shown in Table 2. The more processed products, for which costs are less closely linked to the raw material price, show fewer price changes. Accordingly, the most frequently changing prices are again observed for energy and food products, where 70% and 26%, respectively, of all prices in the sample are changed each month. At the other extreme, prices for durables and capital goods change much less often.

It has furthermore been found that heterogeneity of price-setting behaviour is not only considerable across product categories but also within them. In other words, even though the breakdown according to sectors in Tables 1 and 2 constitutes a useful way of summarising the differences in price setting, it still masks further differences in the frequency with which prices for the various products within a sector are changed.³ Finally, there is also some heterogeneity across countries. Cross-country variation can arise as a result of differences in consumption structure, in the relative market shares of outlet types or in the relative importance of regulated prices across countries, or it can arise because of different statistical approaches to the way the data are collected (for example, because of the treatment of sales and quality adjustment by each national statistical institute). However, heterogeneity across countries is less extensive than across sectors: the ranking of sectors with

respect to the frequency of price changes, for example, is shared across the euro area countries.

Looked at in more detail, quantitative data also enable price increases to be disentangled from price decreases and the size of price changes to be analysed. Although one might expect that in the presence of a high degree of price stickiness the price changes that are observed are more likely to be price increases rather than price decreases, it turns out that price decreases are not uncommon, except in services.⁴ On average, around 40% of both consumer and producer price changes are price reductions. Looking at the breakdown of consumer prices according to sectors in the first row of Table 3, it is apparent that unprocessed food, processed food, energy and non-energy industrial goods are characterised by an almost equal share of price increases and decreases. The difference is much greater in the services sector, where only two out of ten price changes are price decreases. The pattern in the services sector may be partly related to the higher average inflation rate in services and to the fact that the share of labour in the production costs of services is particularly large, such that stickiness in wage developments can translate into price stickiness for that sector.

Looking at the magnitude of price changes, it emerges that price increases, as well as

3 See in particular the evidence provided in Aucremanne, L. and E. Dhyne (2004), "How frequently do prices change? Evidence based on the micro data underlying the Belgian CPI", ECB Working Paper No 331.

4 This result does not depend on whether price changes due to sales are included in the calculation or not.

Table 3 Share and average size of consumer price increases and decreases in percentages

Sector	Unprocessed food	Processed food	Energy	Non-energy industrial goods	Services	Total
Share of price increases	54	54	54	57	80	58
Size of price increases	15	7	3	9	7	8
Size of price decreases	16	8	2	11	9	10

Source: Dhyne et al. (2005), "Price setting in the euro area: some stylized facts from individual consumer price data", ECB Working Paper No 524.

Note: Results are based on a sample of 50 products.

decreases, are sizeable compared with the inflation rate. This discrepancy arises because, first, a large number of prices do not change in a given period, and second, the inflation rate aggregates simultaneous price increases and decreases, which partly offset each other. Price reductions and price increases have a similar order of magnitude, although price reductions are on average somewhat larger: for consumer prices, the average price increase is found to be in the order of 8% and the average price decrease slightly larger, at 10%, as shown in Table 3. In particular, for unprocessed food, price changes are not only very frequent but are also very large, at 15% and 16% for increases and decreases respectively. This finding is consistent with the notion that the pricing structure in this sector is strongly affected by the supply of goods, owing to the seasonal nature of many unprocessed food items. With respect to the average size of price changes, heterogeneity across countries is moderate, particularly when compared with sectoral heterogeneity.

In order to put the patterns found for the euro area into perspective, it is useful to provide a comparison with other economies. The economy for which most evidence on the patterns of price adjustment is available is the United States.⁵ The main difference between these two economies relates to the average time for which consumer prices remain unchanged. Whereas each month only around 15% of consumer prices change in the euro area, corresponding estimates for the United States are higher, at 26% over the period from 1995 to 1997. Whereas a typical price remains

unchanged for four to five quarters in the euro area, it changes on average every two quarters in the United States. The lower figure for the euro area cannot be explained by differences in consumption structure, as euro area consumption is characterised by a larger share of food products (the prices of which change frequently) and a smaller share of services (with infrequent price changes). Therefore, the difference in the frequency of price changes would be even greater if both economies shared the same consumption structure. However, there are several factors that can give rise to these patterns, such as differences in the behaviour of price setters, market competition, the typically applied pricing strategies which could themselves be related to differences in retail structure, or differences in regulated prices. Furthermore, comparability of the underlying data could be an issue, as well as differences in the shocks that occurred over the analysed time periods.

Other patterns of price setting are more similar across the two economies. In the United States, as in the euro area, there is a high degree of heterogeneity across sectors, with energy products and unprocessed food standing out as the sectors with the most frequent price changes; furthermore, similarly to what is observed in the euro area, 45% of all price changes are price decreases in the United States, and price changes are large in relation to the prevailing inflation rate, at 13% (or 8% when sales prices are not taken into account).

⁵ See, for example, Bills, M. and P. Klenow (2004), "Some evidence on the importance of sticky prices", *Journal of Political Economy* 112, pp. 947-985.

Box I

PRICE RECORDS UNDERLYING THE CONSUMER AND PRODUCER PRICE INDICES

A large number of results reported in this article are based on datasets comprising individual price records collected for the construction of consumer and producer price indices by the national statistical offices. Owing to national confidentiality rules, data have been made available exclusively to the NCBs. For consumer prices, the data cover ten euro area countries (Belgium, Germany, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland), spanning 96% of the euro area in terms of GDP.

Table A Coverage of national consumer price databases

Country	Percentage of CPI covered or number of product categories	Period covered
Belgium	68%	Jan. 1989 - Dec. 2001
Germany	20% (52 product categories)	Jan. 1998 - Jan. 2004
Spain	70%	Jan. 1993 - Dec. 2001
France	65%	July 1994 - Feb. 2003
Italy	20% (50 product categories)	Jan. 1996 - Dec. 2003
Luxembourg	100%	Jan. 1999 - Dec. 2004
The Netherlands	8% (49 product categories)	Nov. 1998 - April 2003
Austria	90%	Jan. 1996 - Dec. 2003
Portugal	100%	Jan. 1992 - Jan. 2001
Finland	100%	Jan. 1997 - Dec. 2003

Source: Dhyne et al. (2005), "Price setting in the euro area: some stylized facts from individual consumer price data", ECB Working Paper No 524, and references therein.

The datasets contain several million price quotes, as recorded for particular products sold in given outlets, tracked continuously over time. As shown in Table A, the time dimension of the data varies considerably across countries and can span up to 13 years. The product coverage varies across countries. While price quotes for product categories covering at least 65% of the consumption basket are available for seven countries, for another three countries a "minimum common sample" of approximately 50 product categories was obtained. This common sample was defined with the aim of enabling results to be compared, and forms the basis for the results reported in this article.¹

For producer prices, statistical information on the micro data underlying the national producer price indices has been made available to the NCBs of Belgium, Germany, Spain, Italy and Portugal, leading to a coverage of 63% of the euro area in terms of GDP. These data are, to a large extent, comparable to those described above for consumer prices. The price records relate to the ex-factory price, including all duties and taxes except VAT. The prices are actual

1 The 50 selected product categories are: four unprocessed food categories (comprising steak, one type of fresh fish, lettuce and bananas), seven processed food categories (milk, sugar, frozen spinach, mineral water, coffee, whisky and beer), three energy (oil) products (gasoline for heating purposes and two types of fuel), 17 non-energy industrial goods (socks, jeans, sports shoes, a shirt, acrylic paint, cement, a toaster, light bulb, one item of furniture, a towel, car tyre, television set, dog food, a tennis ball, Lego set, toothpaste and a suitcase) and 19 services (dry cleaning, electrician's hourly rate, plumber's hourly rate, domestic services, hourly rate of a garage mechanic, the cost of a car wash, wheel balancing, taxi ride, cinema ticket, fax machine, videotape rental, photo developing, hotel room, glass of beer in a bar, a meal in a restaurant, a hot dog, a cola in a bar and men's and ladies' hairdressing). If one product category was not available in a particular country, it was replaced by a close substitute. The period covered in each country was harmonised as much as possible, and generally started in January 1996 and ended in January 2001.

transaction prices, not list prices (with the exception of Portugal). A price collected in period t should refer to orders made during period t (the moment of order). As far as the number of product categories is concerned, these databases cover either nearly the complete set of data available to the national statistical offices or a “minimum common sample”. Although the time dimension of these datasets is generally smaller than for consumer prices, they nonetheless span up to eight years.

Table B Coverage of national producer price databases

Country	Percentage of PPI covered or number of product categories	Period covered
Belgium	100%	Jan. 2001 - Jan. 2005
Germany	100%	Jan. 1997 - Feb. 2003
Spain	99.40%	Nov. 1991 - Feb. 1999
Italy	60 product categories	Jan. 1997 - Dec. 2002
Portugal	Almost 100%	Jan. 1995 - Aug. 2002

Source: Álvarez et al. (2005), “Sticky prices in the euro area: evidence from individual data”, a paper presented at the 2005 Annual Congress of the European Economic Association, and references therein.

Finally, an alternative type of data on producer prices has been analysed in Belgium, France and Germany. Based on regular business surveys with firms, qualitative data were obtained, such as whether prices are changed during the month under review, or whether firms intend to change prices in the coming months. Although such analyses are unable to quantify price changes, they are able to link a firm’s pricing behaviour to other variables observed for this firm in the same survey – information which is generally not available for the quantitative data described above.

3 PRICE-SETTING RULES

Having analysed some of the properties of the observed price records, it is also of interest to identify the behavioural patterns of price setters that determine the evolution of prices, and which may explain the stylised facts mentioned above. This section will provide evidence of the prevalence of various price-setting rules, while the following section will highlight potential reasons for price stickiness. The first important result is that the price adjustment process takes place in two steps, namely i) a price review and ii) a price change. Surveys on firms’ price-setting behaviour conducted by the IPN show that price reviews are conducted more frequently than price changes.⁶ Most firms review prices once to three times a year, yet actually change prices only once a year. Interestingly, firms in the

services sector both review and change their prices less frequently than firms in other sectors. Furthermore, reviews and changes are generally more frequent for firms in more competitive markets.

The difference in frequency between price reviews and changes raises the question of its causes. Prices may be left unchanged after a review i) because none of the factors which the firm has considered in its review suggests a need to change them or ii) because, even though the review suggests a price change is called for,

⁶ For a summary of the results obtained from the surveys on price setting, see Fabiani, S., M. Druant, I. Hernando, C. Kwopil, B. Landau, C. Loupias, F. Martins, T. Mathä, R. Sabbatini, H. Stahl and A. Stokman (2005), “The pricing behaviour of firms in the euro area: new survey evidence”, ECB Working Paper No 535. More detailed analyses focusing on individual countries are provided in various research papers referenced therein.

there are other factors preventing an adjustment. Such factors are addressed in Section 4.

The first step in the price formation process is therefore to conduct a price review. This can be done in various ways. For example, a firm could decide to review prices periodically, at regular time intervals (so-called time-dependent pricing rules). Alternatively, prices could be reviewed whenever a firm feels that there has been a change in the underlying determinants of prices, such as input costs, demand, or competitors' prices, to name but a few (so-called state-dependent pricing rules). Finally, firms may want to follow a combination of the two strategies, namely to review prices regularly but also to allow for flexibility in reviewing prices whenever this is felt necessary due to changing circumstances.

There is clear evidence that price changes exhibit seasonal patterns. In general, they are more likely to take place during the first quarter (especially in January) or after the summer period (especially in September), and are less frequent in July and August. The greater frequency of price changes taking place in January is particularly evident in the case of services. In a similar vein, the probability that a retailer will adjust its price depends on the time that has elapsed since the last price change. The probability of a price change increases substantially if the price has remained unchanged for 12, 24 or 36 months, indicating that a fraction of firms revise their prices on an annual basis. Although this may at first glance suggest that firms generally follow pricing rules which imply a review of prices at regular time intervals, such a pattern could also be observed in the case of pricing rules whereby firms respond to changes in economic conditions, for instance if costs or demand typically change once a year.

Further testing has been carried out in order to better distinguish between the two scenarios in which prices are set either at regular time intervals or in response to changes in the

underlying determinants. For example, the relationship between inflation and the frequency of price changes has been analysed. If price setting is responsive to economic conditions, one expects there to be a link. Indeed, it is generally found that higher aggregate inflation is related to higher frequencies of price increases and lower frequencies of price decreases. The same pattern also holds for the inflation rate computed at the sector level – in particular, it has been found that the probability of observing a price change for a specific product in a specific outlet increases with the absolute value of accumulated product-specific inflation since the occurrence of the last price change for this product in the outlet.

Events that change the relevant economic conditions for price setters can also be exploited to gain a better understanding of the rules determining price-setting behaviour. If they have an impact on the frequency of price changes, this can be interpreted as evidence in favour of rules that are responsive to changes in economic conditions. There is very strong evidence in this respect: for instance, changes in indirect taxes always lead to a temporary increase in the number of price changes.

In sum, although there is some evidence in favour of pricing rules based on fixed time intervals, at the same time there is a clear pattern of firms changing their prices in response to changes in underlying economic conditions.

This finding is corroborated by the results of surveys in which euro area firms were asked about their price-setting rules. 34% review their prices at regular time intervals, a share which generally increases slightly for larger firms. Looking at a breakdown according to sectors, relatively less firms involved in industry apply this rule than firms involved in the retail and wholesale trades, which, in turn, use this rule less often than firms providing other services. 20% of firms in the euro area review prices mainly in response to changing

economic conditions, and the remaining 46% apply a combination of both approaches.

Another important question relates to how firms actually set prices, an issue addressed by the surveys on firms' price-setting behaviour. Firms were asked whether their price i) is set as a margin over costs; ii) depends on the price of their main competitor(s); or iii) is set according to other strategies. 54% of the firms polled opted for the first answer, 27% for the second and the remainder for the third. With regard to

the information that feeds into the pricing decision, around half of the participating firms take a wide range of information into account, including both past and expected economic developments; at the same time, however, 34% of the firms are not forward-looking in the sense that only information about the past and present is considered. In a similar vein, there is evidence that a substantial number of firms apply a rule of thumb (such as indexation based on the consumer price index) in the price-setting process.

Box 2

SURVEYS ON FIRMS' PRICE-SETTING BEHAVIOUR

The IPN has carried out surveys on firms' pricing policies in nine euro area countries, covering 94% of the euro area in terms of GDP. The surveys were conducted by each NCB at the national level to take advantage of the experience already acquired regarding survey and sample design and/or to adapt the list of questions, the exact wording and the technical aspects of the survey to national features and characteristics. Comparability across countries was achieved by means of coordination at the various stages of the project. In particular, a "minimum common sample" of questions was addressed in each survey and subsequently analysed.

Survey coverage

(percentages; number of respondents in brackets)

Country	Industry	Retail and wholesale	Other services	Construction	Total
Belgium	38 (753)	24 (478)	18 (364)	20 (384)	100 (1,979)
Germany	100 (1,228)	-	-	-	100 (1,228)
Spain	44 (888)	26 (515)	30 (605)	-	100 (2,008)
France	100 (1,662)	-	-	-	100 (1,662)
Italy	65 (215)	14 (46)	20 (68)	1 (4)	100 (333)
Luxembourg	20 (67)	22 (73)	37 (125)	22 (74)	100 (339)
The Netherlands	18 (219)	22 (271)	60 (756)	-	100 (1,246)
Austria	76 (661)	-	24 (212)	-	100 (873)
Portugal	84 (1,157)	-	16 (213)	-	100 (1,370)
Total	62 (6,850)	13 (1,383)	21 (2,343)	4 (462)	100 (11,038)

Source: Fabiani et al. (2005), "The pricing behaviour of firms in the euro area: new survey evidence", ECB Working Paper No 535.
Note: The table reports the breakdown of firms according to countries and sectors.

As shown in the table, more than 11,000 euro area firms and enterprises participated in the surveys, covering various sectors of the economy, although with a strong emphasis on industry, which accounts for more than 60% of all observations. Response rates differed across countries, ranging from 30% to 69%. The modalities of the survey also differed across countries: they were conducted over the telephone, using traditional mail, over the internet or in a few cases face to face. The sample of firms was generally taken from existing samples used for other regular surveys conducted by the NCBs or by external survey providers. The fact that results are very robust across countries suggests that they do not depend on the way the survey was conducted, the number of questions asked, the precise wording and the language of the questions, or the ordering of the questions and/or the possible answers.

The aim of the surveys was to gather qualitative information which could complement the results obtained on the basis of the quantitative datasets described in Box 1. Compared with these datasets, ad hoc surveys have the advantage that they can document, in qualitative terms, the underlying rationale of the observed pricing patterns. Moreover, surveys can analyse separately the two stages of the price adjustment process: the price reviewing stage and the price changing stage. However, the information provided by the surveys is mainly qualitative, and as a result it is difficult to quantify the effects of a given factor, e.g. on the size of price changes.

4 AVAILABLE EVIDENCE ON THE REASONS FOR SLUGGISH PRICE DYNAMICS

While the preceding sections have reported the typical patterns of price changes and the rules that are followed by price setters, this section focuses on potential reasons why price dynamics may be sluggish. It is apparent that prices are reviewed more often than they are changed. This may indeed be the case if the price reviews at times suggest that there is no need to actually change prices. Alternatively, however, there may be factors that prevent firms from adjusting their prices even if the review were to suggest doing so. Such factors are discussed in this section.

The surveys on firms' price-setting behaviour investigated this issue by asking firms which factors may well prevent an immediate price adjustment despite there being reasons for changing the price of their product. The list following this question offered a series of statements, expressed in simple terms, based on different economic theories, as to why prices may not be adjusted instantaneously. Some theories are more likely to apply in

situations where the intended price change would be an increase, others are more relevant for price decreases; most theories, however, cover both cases. The respondents could indicate their level of agreement with each statement by choosing one of four categories: unimportant (1), of minor importance (2), important (3) and very important (4), with the numbers in brackets indicating the scores allocated to each category. The mean scores given to the various theories by the participating firms have been used to calculate a ranking of possible reasons for price stickiness. The results are shown in Table 4.

The statement that achieved the highest average score (2.7), and is thus most important in practice, relates to the concept of "implicit contracts". This theory is based on the idea that firms establish long-term relationships with customers, for example in order to make future sales more predictable; in other words, they try to win customer loyalty simply by changing prices as little as possible. A constant price is attractive to customers because it allows them to make calculations using a stable long-term average price rather than prices

Table 4 Ranking of theories explaining price stickiness

Reasons for not changing prices	Average score
Implicit contracts	2.7
Explicit contracts	2.6
Cost-based pricing	2.6
Competitors' prices	2.4
Judging quality by price	2.1
Temporary shocks	2.0
Change of non-price factors	1.7
Menu costs	1.6
Costly information	1.6
Attractive pricing	1.6

Source: Fabiani et al. (2005), "The pricing behaviour of firms in the euro area: new survey evidence", ECB Working Paper No 535.

Note: The table shows the average ranking of the potential reasons why a firm may decide not to change its prices despite this being otherwise warranted. The ranking is based on the average response of firms from the following categories: unimportant (1), of minor importance (2), important (3) and very important (4).

that fluctuate over time. "Explicit contracts" are an alternative scenario in which firms have a contract with a customer that stipulates the price of the product to be delivered, such that it would be necessary to renegotiate the contract in order to change prices. This alternative has been found to be a significant impediment to price changes, scoring an average of 2.6. The prominence of implicit and explicit contracts is consistent with the fact that 70% of firms in the survey have some sort of long-term relationship with their customers.

Another possibility relates to "cost-based pricing", which assumes that prices do not change unless the costs actually incurred by firms change. Such a pattern implies that a change to the price of an intermediate product early in the production chain will only gradually be reflected in consumer prices, i.e. after the cost changes have been propagated throughout the entire production chain. This explanation has also proven to be very important, with the same average score of 2.6. As shown in the previous section, a large proportion of firms sets prices as a margin over costs, which may explain the importance of this factor.

Considerable weight is also attached to another possibility, with an average score of 2.4, whereby firms may prefer not to change their prices unless one of their competitors moves first ("competitors' prices"). If a firm is alone in increasing prices after changes in economic conditions, it may lose customers; on the other hand, being the first to reduce prices may spark an undesired price war. Therefore, if there is a risk that competing companies will not change prices, a firm may wish to wait for its competitors to act, and then follow suit.

Other alternatives have earned relatively lower scores and therefore seem to be less important. Among these is the possibility that consumers "judge quality by price". In such a case, firms may be reluctant to reduce prices as their customers may misinterpret this as a reduction in the quality of the product. Firms do not judge "temporary shocks" as being very important, either. The idea behind this reasoning is that a change in the underlying economic conditions that is perceived to be temporary will not induce a firm to respond with a price change, as this would then have to be readjusted in due course. Furthermore, another relatively unimportant alternative is the possibility that a firm may not adjust its price but instead "change non-price factors", such as the quality of the product, or the services offered in connection with the purchase.

Finally, the three possible reasons with the lowest score are "menu costs", "costly information" and "attractive pricing". The first is based on the possibility that the act of changing prices itself can be costly (e.g. because a restaurant would have to print a new menu), such that a firm might only change prices if the necessary change were sufficiently large to warrant paying the costs of changing it. In a similar vein, there might be other costs of changing prices, like the cost of the resources required to gather the relevant information, to decide upon and to implement price changes ("costly information"). Finally, if a product is typically sold at an "attractive price" (for example at €0.99), a firm may decide to delay a

price change until it can adjust it to a new attractive price.

The importance attached to the various possibilities differs only slightly across sectors, and is generally very similar across countries. One noticeable difference, however, relates to the retail and wholesale sectors, where explicit contracts are of minor importance while attractive prices and menu costs receive higher scores than in the other sectors. The low ranking of attractive pricing as an impediment to price changes in the producer sector in particular needs to be put into perspective, as such price-setting practices are widespread in the case of consumer prices in the euro area. As a matter of fact, analysis of the consumer price records generally finds that prices which are set at an attractive level are changed less frequently than other prices, suggesting that retailers may decide not to reset prices in response to changing conditions if the required change would result in an unattractive price.

Finally, the survey results show another marked regularity, namely an asymmetry in price adjustment. There is a general pattern whereby changes to costs are more relevant for price increases than for price decreases, while changes to market conditions matter more when prices have to be decreased. In other words, prices increase more when costs increase than they decrease when costs decrease, but on the other hand, prices decrease more when demand falls than they increase when demand rises. On the cost side, the development of labour and raw material costs in particular may lead to price increases, while financial costs are of minor importance; conversely, price decreases are mainly influenced by weakening demand or decreasing competitor prices. Firms in highly competitive markets react particularly strongly to price-decreasing factors, especially on the demand side.

To some extent, the asymmetry found in the surveys could also be verified in the analysis of the price records for consumer goods, where

input prices have been identified as an important determinant for the frequency of price increases, but not for price decreases. At the same time, the variability of input prices is an important driver of the adjustment of the final price of consumer goods: the more input prices for a product fluctuate, the more frequently its price is adjusted. The same effect is also observed for producer prices. It has been found that higher shares of labour input imply lower frequencies of price changes because input prices vary but little and, conversely, that higher shares of raw material input are related to higher frequencies of price changes because input prices are highly variable.⁷

The importance of wages for price setting has furthermore been illustrated in the case of Germany. As wage setting in Germany is highly synchronised, with trade unions organised on a sectoral basis, it is possible to analyse whether firms change their prices in a synchronised fashion during the months of negotiated wage increases. As a matter of fact, the share of firms that increase prices generally peaks in such months.⁸

The hypothesis that sluggish price dynamics are related to a low level of competitiveness in product markets was also tested using the individual price observations. Looking at producer prices, competitiveness of the markets in which firms operate is indeed important: the more competitive the environment, the more frequently prices change. For consumer prices, there is some evidence pointing in the same direction, although it is of a more indirect nature. For instance, there is substantial evidence that the frequency of consumer price changes depends on the outlet type: it is significantly higher in supermarkets and hypermarkets than in traditional corner shops. However, this can reflect differences in the degree of

⁷ See Álvarez, L., P. Burriel and I. Hernando (2005), "Price-setting behaviour in Spain: evidence from micro PPI data", ECB Working Paper No 522.

⁸ See Stahl, H. (2005), "Time-dependent or state-dependent price setting? Micro evidence from German metal-working industries", ECB Working Paper No 534.

price competition, as well as in the relative importance of the costs of changing prices or in the pricing strategies (for example “everyday low pricing” versus “high-low pricing”) in the different outlet types.

5 CONCLUSION

This article has presented an overview of recent research into price-setting behaviour in the euro area. Most of the analytical results were assembled in the course of research projects conducted jointly by the research areas of the Eurosystem central banks. They draw on an extensive and unprecedented dataset, covering quantitative individual price data underlying the construction of the consumer and producer price indices as well as qualitative information obtained from surveys with firms.

Several noteworthy findings have emerged from this research. Prices change infrequently in the euro area. A number of reasons for this pattern have been identified. First, most price setters review their prices only once to three times a year, and they tend to do so at regular time intervals. This finding supports the notion that, in general, price setters are operating in a stable macroeconomic environment characterised by price stability and thus there is little need to change prices. However, when such a need arises, some firms refrain from doing so for various reasons. The most prominent factors preventing immediate price adjustments are: i) the existence of long-term relationships with customers; ii) explicit contracts which would have to be renegotiated; and iii) pricing policies that do not lead to price changes unless the costs actually incurred by firms have changed. The first two factors in particular are of a structural nature and do not necessarily imply inefficiencies in the price-setting mechanism, but rather point to the value that is attached to stable prices by both price setters and their customers. At the same time, however, the results reported above suggest that greater competition reduces price stickiness. In that sense, structural reforms to

enhance competitiveness in product markets might be a useful step in order to reduce undesired forms of price stickiness.

A closer look at the frequency with which prices change reveals that there is strong heterogeneity across sectors, whereas differences across euro area countries are minor in comparison. The frequency of price changes in a given sector appears to depend strongly on the variability of input costs. Sectors where demand, supply and/or costs of input factors fluctuate substantially also change prices much more often, as is the case for example for energy products or unprocessed food. At the other end of the spectrum, services prices change very infrequently, which can at least partly be related to the importance of labour inputs into services, the costs for which fluctuate but little.

Finally, an interesting and perhaps surprising result obtained in this recent research is the fact that price decreases constitute a large share of all recorded price changes, with the services sector being a notable and, given its size, important exception. This pattern is most likely also related to the degree to which input costs and market conditions fluctuate. In any case, this finding suggests that there are no general impediments that prevent prices from decreasing if the underlying economic conditions warrant such a price change.



DEVELOPMENTS IN CORPORATE FINANCE IN THE EURO AREA

For central banks, the monitoring of corporate financing is an important factor in the assessment of economic developments and the transmission of monetary policy. Against this background, this article analyses the financing conditions, financing developments and balance sheet positions of non-financial corporations in the euro area over the past ten years up to the end of the second quarter of 2005.

Since the mid-1990s the financing conditions of non-financial corporations in the euro area have improved, mostly owing to an overall decline in the real cost of debt financing. Since 2003 banks have also eased their credit standards. By contrast, the real cost of equity, which stood around its long-term average in the second quarter of 2005, has been more volatile and persistently higher than the cost of debt.

The profit developments of non-financial corporations influence both the cost of external financing (through their impact on the credit risk premium) and the demand for external funds. The profitability of non-financial corporations, which started to decrease following a peak in 2000, has improved markedly since 2003. This has been supported by corporate restructuring efforts, for instance in the form of cuts in operating expenses relative to sales.

After rising steeply in the second half of the 1990s, the annual growth rate of external financing (loans, debt securities and equity financing) of non-financial corporations in the euro area declined from a peak at the end of 2000. As regards debt financing developments, after a weakening in the balance sheet situation, non-financial corporations have reduced their debt ratios in recent years and generally improved their balance sheet positions. Owing to the very low cost of debt financing and banks' more favourable credit standards, non-financial corporations have shown a preference for debt over equity financing in recent years. Finally, the financing and the balance sheet position of non-financial corporations in the euro area and in the United States have followed similar trends over recent years.

I INTRODUCTION

In the context of its regular monitoring of economic and monetary developments, the ECB devotes particular attention to the evolution of the financing conditions of euro area non-financial corporations, as well as to corporate financing developments.¹

In terms of the transmission mechanism, changes in monetary policy impact financing conditions mostly, although not exclusively, via two main channels: the interest rate channel and the credit channel.² Through the interest rate channel, monetary policy affects real interest rates which, in turn, affect the real cost of the different sources of financing across the maturity spectrum. The interest rate channel is therefore crucial to the cost of financing, which then affects the choice of the source of financing, as well as the balance sheet positions of non-financial corporations. The credit channel reflects the effect of imperfect

and costly information on the functioning of credit markets. In particular, the credit channel focuses on how the availability of external financing from banks is affected by the state of the financial sector (i.e. the bank lending channel) and by corporations' financial situation (i.e. the balance sheet channel). In the balance sheet channel (also known as the broad credit channel), the amount and conditions of credit that a bank will grant a corporation largely depend on the financial situation of the corporation. In addition, the bank lending channel (also known as the narrow credit channel) emphasises the function of bank

¹ For more detailed information, see L. Bê Duc, G. de Bondt, A. Calza, D. Marqués Ibáñez, A. van Rixtel and S. Scopel, "Financing conditions in the euro area", ECB Occasional Paper No 37, October 2005.

² For more information on the transmission mechanism see, for example, F. S. Mishkin, "The channels of monetary policy: lessons for monetary policy", NBER Working Paper 5464, 1996.

credit supply in the transmission process. More specifically, owing to the role of banks and their position at the centre of the financial system, changes in the state of the banking sector can strongly influence financing conditions for borrowers and, in turn, the real economy.

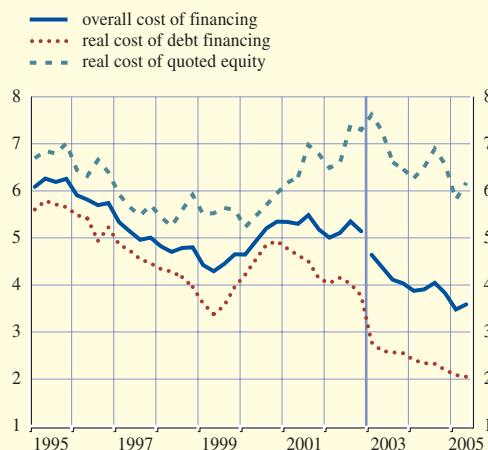
This article reviews developments in corporate finance in the euro area over the past ten years, with a focus on non-financial corporations. The analysis of corporate finance aims to assess developments in the cost of external financing as well as developments in internal and external sources of financing. Furthermore, as corporate balance sheet positions result from financing decisions and, in turn, partially determine the cost and accessibility of external financing, the analysis of corporate balance sheet positions plays an important role in the corporate finance analysis. Against this background, Section 2 of this article analyses the real cost of external financing of non-financial corporations in the euro area, as reflected in interest rates, risk premia and equity prices as well as in banks' credit standards. Section 3 analyses developments in internal funds. Section 4 examines external financing developments of euro area non-financial corporations and developments in their balance sheet positions. Section 5 provides some concluding remarks.

2 REAL COST OF EXTERNAL FINANCE

The cost of external financing (loans, debt securities and equity financing) is one of the main factors in non-financial corporations' financing decisions.³ It is determined, to a large extent, by the borrower's credit risk, as well as by the "risk-free" market interest rate level (generally government bond yields), which, in the long term, mainly tends to reflect market participants' macroeconomic, and in particular, inflation and growth expectations. Corporate financing rates, however, are also affected by the risk preferences of asset holders

Chart 1 Real cost of external financing of non-financial corporations

(percentages per annum)



Sources: ECB, Thomson Financial Datastream, Merrill Lynch and Consensus Economics Forecast.

Notes: The real cost of the external financing of non-financial corporations is calculated as a weighted average of the cost of bank lending, the cost of debt securities and the cost of equity, based on their respective amounts outstanding and deflated by inflation expectations (see Box 4 in the March 2005 issue of the Monthly Bulletin).

The introduction of the harmonised MFI lending rates at the beginning of 2003 led to a break in the statistical series.

and by other specific factors mainly linked to information asymmetries between borrowers and lenders. In this regard, changes in market participants' general risk perception can lead to movements in market interest rates, and in turn, corporate financing rates. Lastly, spillover effects from other markets can also influence the cost of financing. For instance, corporate bond rates could be affected by the prices and volatility of other financial assets, such as equities.

The overall real cost of external financing for non-financial corporations, as reflected by a

³ The euro area is historically a bank-based economic system. While there has been remarkable growth in various alternative sources of external financing in recent years, loans to non-financial corporations account for around 80% of the total amount of debt of non-financial corporations. The overall cost of external financing is a macroeconomic approximation. At the microeconomic level, other factors, such as differences in firm prospects, size and previous relationship with banks, would significantly affect the credit conditions of individual companies.

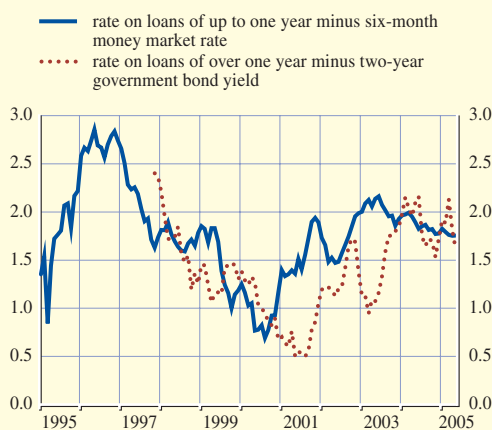
composite indicator of the real cost of debt and equity financing, has been on a general downward trend since the early 1990s, hitting its lowest level in the first quarter of 2005 (see Chart 1).⁴ This is primarily attributable to the marked decline in the real cost of debt financing to historically low levels in the second quarter of 2005. More precisely, from 1995 to early 1999 the cost of debt financing for non-financial corporations in the euro area fell quite significantly, partly owing to the upcoming introduction of the euro. After increasing in 1999 and 2000, the cost of debt financing has been decreasing since late 2000. At the same time, the real cost of quoted equity rose significantly between 2000 and early 2003, mainly as a result of the fall in stock market prices. It subsequently dropped slightly, standing at around its long-term average in the second quarter of 2005.⁵

Analysing the spreads between bank or market-based debt and “risk-free” interest rates (i.e. credit spreads) generally provides insight into the credit risk premium incurred by corporations when raising external funding. In addition to casting light on the market’s perception regarding the probability of losses should the corporate borrower default, credit spreads also reflect liquidity and tax considerations as well as, in the case of bank debt, the existence of a previous relationship between the bank and the borrower. In addition to these factors, the bank lending channel theory suggests that the state of the banking sector also has a bearing on banks’ lending rates and on their ability to lend.

From 1997 to 2000 the spreads between bank interest rates on loans to non-financial corporations and comparable “risk-free” market rates (government bond yields or money market rates) declined for both short and long-term loans (see Chart 2). This was linked to the positive corporate earnings and credit risk outlook, as well as a delayed pass-through from “risk-free” rates to lending rates. Increased banking competition probably also exerted downward pressure on bank lending

Chart 2 Spreads between bank lending interest rates to non-financial corporations and comparable market rates

(in percentage points)



Source: ECB.

Notes: MFI interest rates have been aggregated using amounts outstanding whenever available. Otherwise, aggregated new business volumes have been used. In January 2003 there was a statistical break in the interest rate series. To take this into account, past levels of previous interest rate statistics data were adjusted on the basis of the difference between the old and the new interest rate statistics levels in January 2003.

spreads. From 2001 to 2003, however, spreads increased after market participants re-evaluated their profit expectations following the slump in stock market prices in 2001 and 2002, thereby probably increasing the perceived financial risk of borrowers linked to the build-up of corporate debt (see Section 4). The increase in lending spreads for non-financial corporations also seems to have coincided with a worsening in the state of the banking sector,⁶ although euro area banks in general remained resilient, particularly in comparison with previous economic slowdowns.⁷ By contrast, in late

⁴ Compared with a measure of the overall cost of financing based on transactions, the weighting based on the amounts outstanding currently gives greater weight to the cost of equity, which has been substantially higher than the cost of debt financing in recent years.

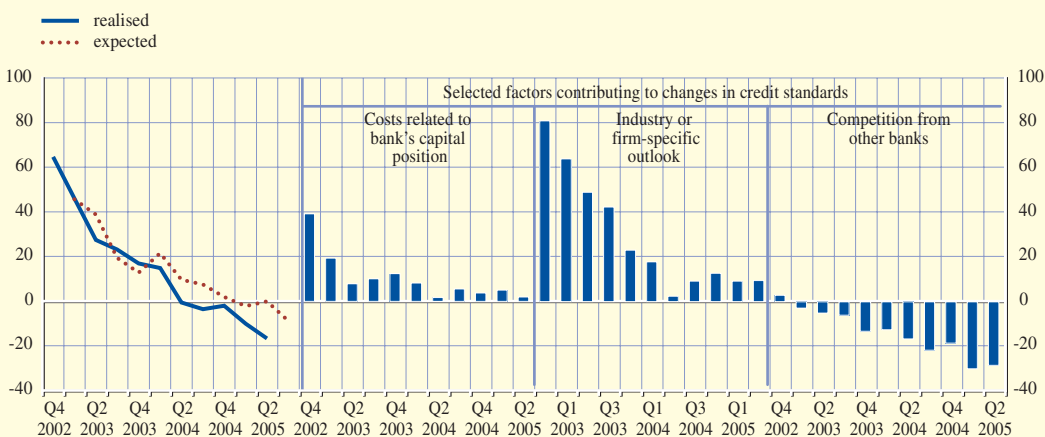
⁵ See also Box 4 entitled “The cost of equity in the euro area and in the United States” in the September 2005 issue of the Monthly Bulletin.

⁶ For more details on the situation of the banking sector, see “EU banking sector stability”, European Central Bank, 2004, Frankfurt am Main.

⁷ For instance, loan-loss provisions remained contained. See Box 2 entitled “Developments in banks’ loan-loss provisions over recent years” in the March 2004 issue of the Monthly Bulletin.

Chart 3 Changes in credit standards applied to the approval of loans or credit lines to enterprises

(net percentages)



Source: Eurosystem.

Notes: The net percentage refers to the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for Q3 2005 were reported in the July 2005 survey. The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage reporting that it contributed to an easing.

2004 and early 2005 corporate lending spreads mostly declined, probably owing to improvements in corporate profits.

The Eurosystem’s bank lending survey⁸ provides additional information on other terms and conditions of bank lending, such as restrictions on the amount of credit granted or more stringent collateral requirements, which, in addition to the cost of financing, might affect the financing of firms. It also provides information on the main factors that, according to respondent banks, determine the demand for bank credit.

According to the bank lending survey results up to July 2005,⁹ there has been a marked trend towards an easing in credit conditions since the survey was launched in the last quarter of 2002. Interestingly, respondent banks suggest that risk perceptions of the industry or firm-specific outlook have contributed to a decrease in the net tightening of credit standards since early 2003. At the same time, growing competition between banks has continued to encourage a loosening of credit standards (see Chart 3).

According to respondent banks, this easing of credit standards has taken place primarily via a net decline in margins on average loans and, to a lesser extent, via a decrease in the margins on riskier loans. Furthermore, net collateral and loan covenant requirements moderated gradually during this period.

In addition to bank lending spreads, corporate credit spreads, defined as the difference between the yields on corporate bonds and “risk-free” interest rates (government bond yields), constitute a major source of information from the credit markets for those – normally very large – companies which issue corporate bonds regularly.

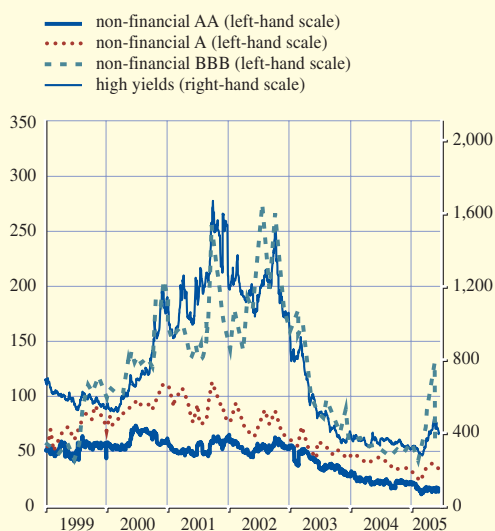
Developments in various corporate bond spreads in the euro area since 1998 show that the spreads on BBB-rated bonds and high-yield bonds rose sharply between 2000 and 2002

8 For more detailed information on the bank lending survey, see J. Berg, A. van Rixtel, A. Ferrando, G. de Bondt and S. Scopel, “The bank lending survey for the euro area”, ECB Occasional Paper No 23, February 2005.

9 For the most recent bank lending survey results, see the box in this issue of the Monthly Bulletin.

Chart 4 Euro-denominated corporate bond spreads

(against euro-denominated government AAA bonds; basis points)



Sources: ECB, Thomson Financial Datastream and Merrill Lynch.

(see Chart 4). This was due to a large number of factors, including the September 2001 terrorist attacks in the United States and various accounting scandals in the course of 2002, predominantly in the United States but also in the euro area. In 2003, however, increasing market confidence and diminishing uncertainties brought about rapid corrections in the investment-grade credit spreads, and in the course of 2004 corporate bond spreads hit their lowest levels since the introduction of the euro. This may partly be attributable to the perception of relatively low credit risk in the euro area. It may also reflect the relatively strong investor demand for high-yield assets in an environment of relatively low returns on investment-grade instruments.

More recently, the widening spreads on BBB-rated corporate bonds until mid-May of this year were driven by a series of firm-specific events affecting, in particular, the automobile industry. Corporate bond spreads on high-yield bonds also widened during this period, although they remained at low levels. Overall, the current low level of corporate bond spreads

continues to indicate a fairly benign assessment by financial markets of the credit risks of the non-financial corporate sector in the euro area.

3 INTERNAL FUNDS

Non-financial corporations generally prefer internal funds to external financing, as the latter is generally more costly due to the external financing premium that lenders demand to cover both the borrower's credit risk and information asymmetries.¹⁰ Profit developments are therefore one determinant in the demand for external financing. They also influence the credit risk assessment of lenders and, hence, the credit risk premium as well as the general availability of credit. Consequently, the analysis of internal funds is an important component of the analysis of corporate finance.

At the macroeconomic level, profit developments are roughly indicated by the annual growth in the gross operating surplus.¹¹ More detailed information on profit developments of non-financial corporations can be obtained on the basis of microeconomic data. To this end, company financial statement data of listed non-financial corporations in the euro area have been aggregated.¹² Generally, such microeconomic information enables the additional monitoring of sectoral and other

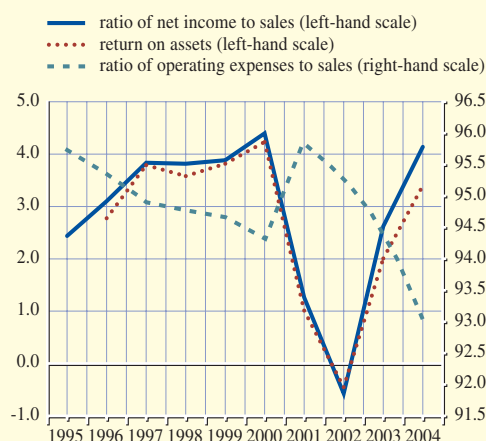
10 For the "pecking-order" theory of corporate financing, see for instance S. C. Myers, "The capital structure puzzle", *Journal of Finance*, Vol. 39, No 3, 1984, pp. 575-592, as well as S. C. Myers and N. S. Majluf, "Corporate financing and investment decisions – when firms have information that investors do not have", *Journal of Financial Economics*, Vol. 13, No 2, 1984, pp. 187-221.

11 For macroeconomic profit measures, see the article entitled "Measuring and analysing profit developments in the euro area" in the January 2004 issue of the Monthly Bulletin.

12 The microeconomic indicators used in this article have been constructed on the basis of company financial statement data of listed non-financial companies provided by the commercial database Thomson Financial Datastream. The aggregation is based on consolidated annual financial statements and covers the period 1995 to 2004. Generally, while listed firms are likely to dominate developments, the fact that non-listed companies are not included may lead to a bias towards larger companies.

Chart 5 Annual profit ratios of listed non-financial corporations

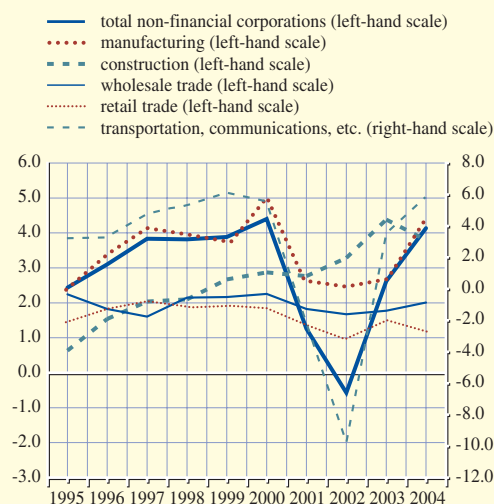
(in percentages)



Sources: Thomson Financial Datastream and ECB calculations. Notes: The calculation is based on an unbalanced sample of listed non-financial corporations over time. The return on assets is defined as the ratio of net income to total assets in the previous period.

Chart 6 Net income to sales ratio across non-financial corporate sectors

(in percentages)



Sources: Thomson Financial Datastream and ECB calculations. Note: The calculation is based on an unbalanced sample of listed non-financial corporations over time.

microeconomic trends. In addition, stock market-based data provide timely information on profit developments for listed companies.

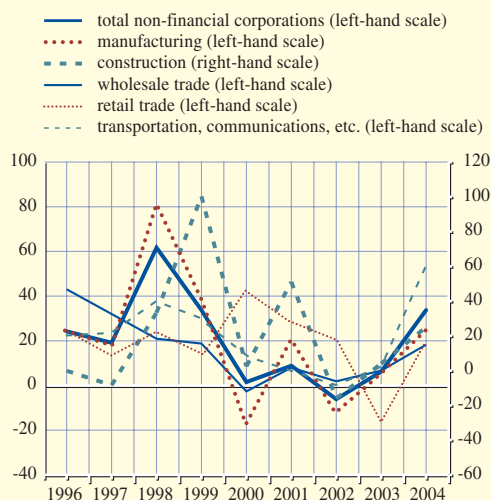
Having increased in the second half of the 1990s, microeconomic profit ratios of non-financial corporations in the euro area peaked in 2000, broadly in line with the euro area gross operating surplus, and fell steeply thereafter until 2002 (see Chart 5). This is illustrated by the development of the ratio of net income (defined as the operating and financial profit after interest expenses, taxation and extraordinary items¹³) to sales as well as by the development of the return on assets, which relates net income to total assets in the previous period. In 2003 and 2004 non-financial corporate profitability rose considerably. A key reason for the rise in profit ratios was the decrease in the operating expenses of non-financial corporations relative to sales between 2002 and 2004, indicating successful restructuring efforts.

As regards sectoral developments, profitability improved in most non-financial corporate sectors in 2003 and 2004 (see Chart 6). The manufacturing sector, which is rather export-oriented, benefited from the favourable global economic growth in 2004, which seems to have more than offset the negative impact of the appreciation of the euro. There has been a strong recovery in profitability in the communication sector from its low level in 2002. By contrast, the profit situation in the mainly domestic-oriented retail trade sector has, all in all, not improved over recent years, probably due to relatively weak private consumption. The general recovery in profits was linked to the decrease in the ratio of operating expenses to sales in most sectors between 2002 and 2004.

13 Consequently, by contrast with the macroeconomic measure gross operating surplus, net income refers not only to the operating income, but also to the non-operating income, as well as extraordinary items. A further difference is that net income is after taxation and depreciation.

Chart 7 Dividend growth across non-financial corporate sectors

(annual percentage changes)



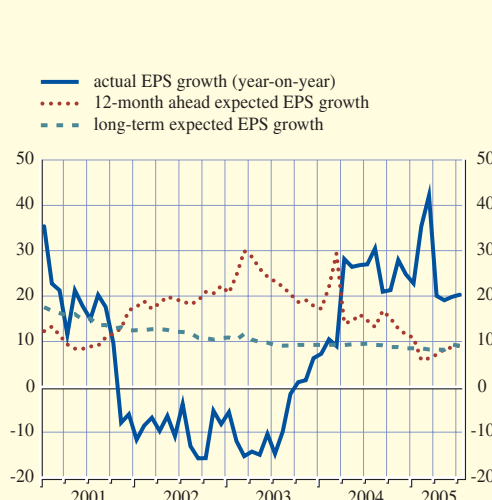
Sources: Thomson Financial Datastream and ECB calculations. Note: The calculation is based on a balanced sample of listed non-financial corporations over time, i.e. the same companies over time.

The profit increase was partly used in 2003 and 2004 to pay out higher dividends than in 2002 (see Chart 7), the likely aim being to boost the appeal of shares following the substantial valuation losses between 2000 and 2002. Higher dividend payments also take into account investors' preference for a more secure return on their financial assets. The higher dividends paid by most non-financial corporate sectors seem to reflect a general change in the attitude towards dividend payments compared with the late-1990s, when stock prices increased considerably. They may, however, also reflect a perceived lack of attractive investment opportunities.

In addition to company financial statement data, stock market-based measures provide information about recent and expected profit developments. Broadly in line with the information on profit developments garnered from company financial statements, the annual earnings per share (EPS) growth of the companies included in the Dow Jones EURO STOXX index fell during 2001 and 2002 but has recovered since 2003.¹⁴ In the second

Chart 8 Dow Jones EURO STOXX actual and expected earnings per share (EPS) growth

(annual percentage changes)



Source: Thomson Financial Datastream I/B/E/S.

quarter of 2005 actual EPS growth was at a sound level (see Chart 8). As regards profit expectations, while a decline in growth has been observed since early 2004, the 12-month ahead EPS figure remained robust until the second quarter of 2005.

4 EXTERNAL FINANCING AND BALANCE SHEET DEVELOPMENTS

Contrary to the Modigliani-Miller (1958) "irrelevance hypothesis"¹⁵, a borrower's financial structure is relevant to its investment decisions. In addition to the cost and accessibility of external financing, as well as the availability of internal funds, the financing decisions of corporations are

¹⁴ In addition to non-financial corporations, the Dow Jones EURO STOXX index also includes financial corporations. To some extent, the rise in EPS in 2004 was also driven by share buybacks.

¹⁵ See F. Modigliani and M. H. Miller, "The cost of capital, corporation finance and the theory of investment", *American Economic Review*, Vol. 48, No 3, June 1958, pp. 261-297.

influenced by a number of other factors, such as taxation and asymmetric information.¹⁶ In turn, these factors are partly influenced by the current and expected balance sheet situation of borrowers. Against this background, the analysis of financing flows, i.e. debt financing (loans and debt securities) and the issuance of quoted shares, as well as the analysis of the development of corporate balance sheet positions are important components of the corporate finance analysis.

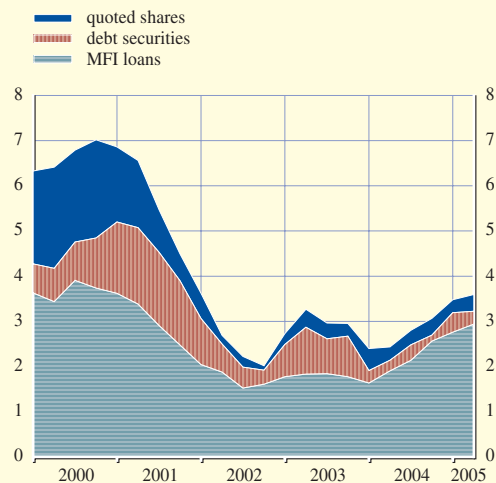
Looking at overall external financing developments over the past ten years, the annual growth rate of financing of non-financial corporations rose significantly in the second half of the 1990s and peaked at 7% in the fourth quarter of 2000 (see Chart 9). Loans were the major factor behind this high growth, but equity issuance activity by non-financial corporations was also strong during this period. While the importance of debt securities issued in the overall external financing of non-financial corporations increased during this period, their contribution to the overall external financing growth of non-financial corporations was more limited. The high external financing growth was partly driven by non-financial investment growth and buoyant growth expectations during the period, but it also reflected increased financing needs of euro area non-financial corporations engaged in financial transactions linked to intense merger and acquisition (M&A) activity, both within the euro area and beyond. Subsequently, the annual growth rate of financing of non-financial corporations declined considerably, broadly in line with the economic slowdown in the euro area. Since the second half of 2004 it has recovered, mainly due to a pick-up in debt financing growth.

4.1 DEBT FINANCING AND BALANCE SHEET DEVELOPMENTS

Following the strong rise in debt financing throughout the second half of the 1990s, the

Chart 9 Breakdown of the annual rate of growth of financing of non-financial corporations

(percentage changes)



Source: ECB.

balance sheet position of non-financial corporations in the euro area, as well as in other industrialised countries such as the United States, weakened.

Useful information on the balance sheet position of non-financial corporations can be derived first from the financing gap (i.e. the balance of gross saving and capital expenditure to GDP). When capital expenditure exceeds available internal funds, this signals a need for external financing, in the form of either debt or equity issuance. A widening (or narrowing) of the financing gap can be caused either by a decline (or increase) in saving or an increase (or decrease) in capital formation, or by a combination of the two, which leads to some ambiguity in the assessment of this indicator. Second, debt ratios and indicators of the debt service burden of non-financial corporations

¹⁶ Asymmetries of information between borrowers and lenders are the main cause of problems of moral hazard and adverse selection in corporate finance. For more information, see J. Amaro de Mato, "Theoretical Foundations of Corporate Finance", Princeton University Press, Princeton, 2001.

are key leverage indicators for non-financial corporations.¹⁷ In addition to such macroeconomic indicators, microeconomic indicators based on company financial statements can provide more detailed information on firms' balance sheet position.

Against this background, the weakening balance sheet position of non-financial corporations throughout the second half of the 1990s is highlighted by the considerable widening of the financing gap between 1995 and 2000 – which resulted from the higher capital formation and lower saving by non-financial corporations in relation to GDP in the euro area and the United States – as well as by

the steep rise in the debt ratios of non-financial corporations in both economic areas during that period (see Box 1).

In line with the slowdown in economic growth, debt financing growth of non-financial corporations fell considerably in the course of 2001 and 2002 and remained at fairly modest levels until mid-2004. Between 2001 and 2004 non-financial corporations scaled back their capital formation significantly and increased

¹⁷ See also the articles entitled “Developments in the debt financing of the euro area private sector” in the November 2003 issue of the Monthly Bulletin and “Developments in private sector balance sheets in the euro area and the United States” in the February 2004 issue of the Monthly Bulletin.

Box 1

CORPORATE FINANCING DEVELOPMENTS: A COMPARISON BETWEEN THE EURO AREA AND THE UNITED STATES

This box compares developments in the profits, financing and balance sheet positions of non-financial corporations in the euro area and in the United States. Overall, corporate profitability and the balance sheet positions of non-financial corporations have improved in both economic areas during recent years. Furthermore, while non-financial corporations in both economic areas have tended to prefer debt over equity financing, this preference has been much more pronounced in the United States.

Any comparison of corporate developments in the two economic areas has to take major differences in statistical accounting into account.¹ First, the US sector that broadly corresponds to the euro area non-financial corporate sector is the non-financial business sector, which includes all corporate and non-corporate non-financial businesses. However, by contrast with its euro area counterpart, the US non-financial business sector also includes sole proprietorships.² Second, in terms of financing instruments, accounting differences mean that only the sum of all loans to non-financial corporations (as reported in the quarterly euro area financial accounts and the US flow of funds accounts, respectively) can be compared. In addition, with regard to equity financing, the quarterly figures for the euro area only cover quoted shares issued by non-financial corporations, whereas the figures for the United States cover both quoted and non-quoted corporate equities issued by its non-financial business sector. Third, in order to bring the definition of the debt ratio more into line with its US counterpart, the figure for the debt ratio of euro area non-financial corporations used in this box includes an estimate (based on the balance of payments) of loans granted by non-euro area banks.

¹ For the comparability of the national account data of the euro area and the United States, see the box in the article entitled “Developments in private sector balance sheets in the euro area and the United States” in the February 2004 issue of the Monthly Bulletin.

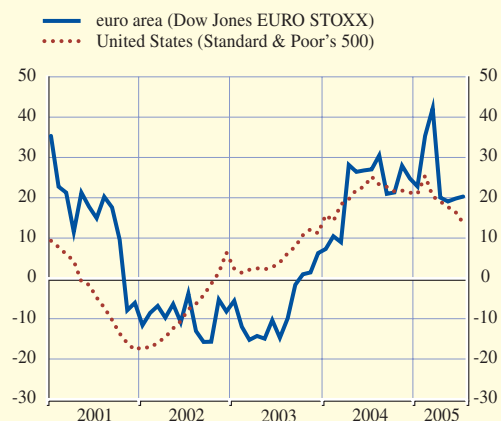
² In the euro area, sole proprietorships fall within the household sector.

Favourable profit developments

In both economic areas, non-financial corporations have increased their profitability during recent years. This is reflected, for example, in earnings per share (EPS) developments. In the United States, the recovery of the EPS growth of companies included in the Standard & Poor's (S&P) 500 index started in 2002, whereas in the euro area, the EPS growth of companies included in the Dow Jones EURO STOXX index did not begin to recover until mid-2003 (see Chart A).³ In both economic areas, EPS have continued to increase in 2005, although EPS growth has moderated somewhat in the course of the year. Cost-cutting, contained labour cost developments and low interest rates have all played an important role in the profit increases in both the euro area and the United States during recent years. While robust demand and productivity growth have contributed to favourable profit developments in the United States, these factors have been more modest in the euro area.

Chart A Earnings per share growth

(annual percentage changes)



Source: Thomson Financial Datastream I/B/E/S.

Rise in debt financing, but subdued net equity issuance

After a period of declining annual growth rates, non-financial corporations in both economic areas started to raise their debt financing during 2003 (see Chart B). In the euro area, however, the annual growth of debt financing dropped again in late 2003 and remained low in 2004 before starting to pick up again in the fourth quarter of that year. In the United States, the annual growth of debt financing by non-financial corporations stabilised only temporarily in the second half of 2003 and the first half of 2004, and has been on the increase since the second half of 2004. Overall, the recovery in the annual growth of debt financing has been more stable and, since the end of 2003, more pronounced in the United States. This is broadly in line with the earlier and stronger recovery of economic growth and fixed capital formation in the United States.

The rise in the annual growth of debt financing was driven in both economic areas largely by loans. In addition to the positive impact of the low cost of debt financing on the demand for loans, credit standards for loans to enterprises eased during 2004 in both economic areas according to the euro area bank lending survey and the Senior Loan Officer Opinion Survey on Bank Lending Practices published by the Federal Reserve System. Debt securities generally play a greater role in the debt financing of non-financial corporations in the United States than in the euro area (and accounted for around 40% of the amount outstanding of debt in the second quarter of 2005). However, the annual growth of debt securities issued by US non-financial corporations has been relatively modest since the end of 2002. In the euro area, the annual growth of debt securities issued by non-financial corporations has been more volatile over the same period and recovered somewhat, all in all, until the second quarter of 2005. However, even

³ Both the S&P 500 index and the Dow Jones EURO STOXX index include non-financial and financial companies.

though it is increasing, the share of debt securities in the total amount outstanding of debt of euro area non-financial corporations is still relatively modest (around 15% in the second quarter of 2005, when pension fund reserves are excluded from the definition of debt).

In contrast to debt financing, the net issuance of equity by non-financial corporations in both economic areas has been subdued, or even negative, since 2003. The annual rate of change of quoted shares issued by non-financial corporations has been positive, although low, in the euro area. In the United States, net corporate equity issuance by the non-financial business sector has been negative since the second half of 1994 due to share buybacks and equity retirements following mergers. While share buybacks by non-financial corporations also increased in the euro area in 2004, they played a much more limited role than in the United States.

Sounder corporate balance sheets

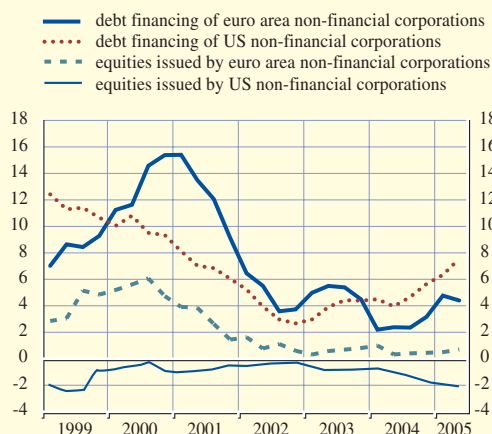
Non-financial corporate balance sheets in both the euro area and the United States have improved during recent years. This is illustrated by the financing gap (i.e. broadly the balance of gross saving and gross capital formation in relation to GDP) and debt ratios of the non-financial corporate sector.

From its low in 2000, the financing gap of non-financial corporations in both the euro area and the United States narrowed significantly until 2004 (see Chart C). This recovery was more pronounced in the United States than in the euro area due to the greater improvement in non-financial corporate gross saving in relation to GDP from its low in 2001 (2000 for the euro area), as well as to a larger cut in non-financial corporate gross capital formation in relation to GDP from its peak in 2000 (also 2000 for the euro area). The increase in non-financial corporate saving in both economic areas is in line with the above-mentioned evidence from stock market-based data that points to a rise in profits during recent years. Interestingly, from 2002 US non-financial corporations had a surplus of internal funds over capital expenditure, while the opposite was true for the euro area until 2004. The smaller surplus of US non-financial corporations in 2004 was the result of a pick-up in capital expenditure in relation to GDP, whereas gross saving in relation to GDP remained stable. By contrast, both ratios remained broadly stable in 2004 in the euro area.

After a large increase in the debt ratios of non-financial corporations in both the euro area and the United States in the late 1990s, debt-to-GDP ratios stood at the same level at the end of 2002 (at 67% – see Chart D). Thereafter, however, the debt-to-GDP ratio of non-financial corporations in the euro area (including loans from non-euro area banks) rose further, peaking at

Chart B Financing of non-financial corporations

(annual percentage changes)

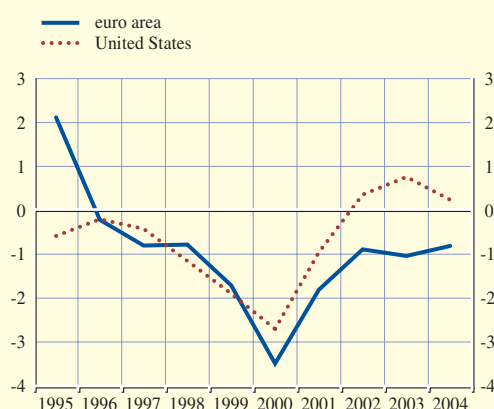


Sources: ECB and US flow of funds accounts.

Notes: Debt financing includes loans and debt securities. For the euro area, equity issuance only includes quoted shares.

Chart C Financing gap of non-financial corporations

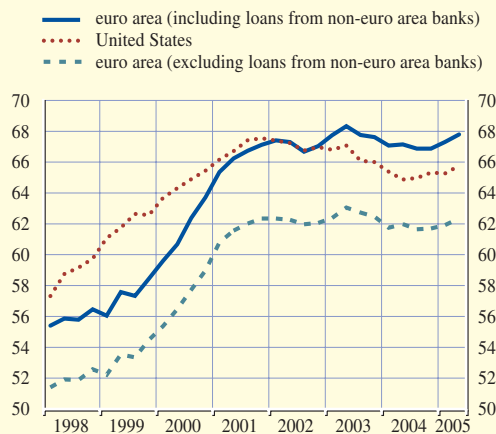
(as a percentage of GDP)



Sources: ECB, Eurostat and US national income and product accounts.
Notes: Estimated for 2004 for the euro area. The financing gap is defined as the net lending (+)/net borrowing (-) of the sector in relation to GDP.

Chart D Debt-to-GDP ratios of non-financial corporations

(in percentages)



Sources: ECB, Eurostat and US flow of funds accounts.
Notes: Estimated for Q2 2005 for the euro area. Debt includes loans, debt securities and, for the euro area, pension fund reserves. For the euro area, loans granted by non-euro area banks have been estimated on the basis of the euro area balance of payments.

68% in the second quarter of 2003. By contrast, the debt-to-GDP ratio of US non-financial corporations broadly stabilised. From the second half of 2003 the debt-to-GDP ratios of non-financial corporations declined in a more or less similar manner in both economic areas, but stood at a slightly higher level in the euro area. The fall in debt ratios during 2003 and 2004 reflects cost-cutting and debt consolidation efforts by non-financial corporations in both economic areas. Despite the greater debt financing growth of non-financial corporations in the United States since 2004, the gap between the debt-to-GDP ratios of non-financial corporations in the two economic areas has not closed due to the stronger GDP growth in the United States.

their saving in relation to GDP. Consequently, the financing gap narrowed substantially between 2001 and 2004 (see Chart C in Box 1). In addition to increasing their profitability (see Section 3), which is also reflected in the rise in saving, non-financial corporations reduced their debt ratios in 2003 and most of 2004 (see Chart D in Box 1).

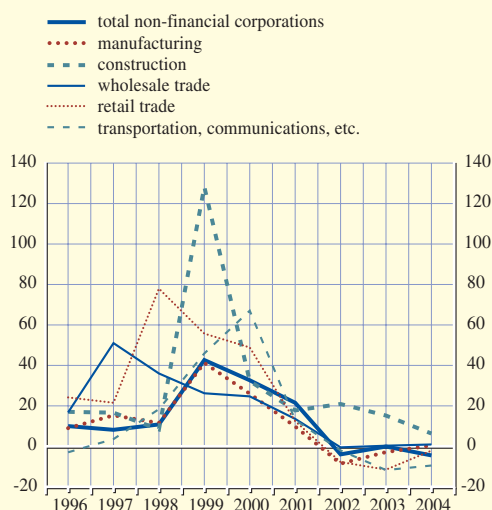
The consolidation of balance sheets was widespread across non-financial corporate sectors. Between 2001 and 2004 the annual rate of change in the amount of debt fell in most sectors and was mostly negative from 2002 to 2004 (see Chart 10).¹⁸

After the deleveraging that took place in 2003 and most of 2004, there has been a recovery in the debt financing growth of non-financial corporations since the second half of 2004. This recovery has been fuelled primarily by a marked increase in the annual rate of change in MFI loans granted to non-financial corporations and is also likely to be linked to the very low cost of bank lending and banks' more favourable credit standards. Furthermore, as the increase in the annual growth of loans has been mostly driven by developments in short-term loans, demand for

¹⁸ The microeconomic leverage indicators used in this section have been determined in the same way as the profit indicators.

Chart 10 Debt developments of listed non-financial corporations across sectors

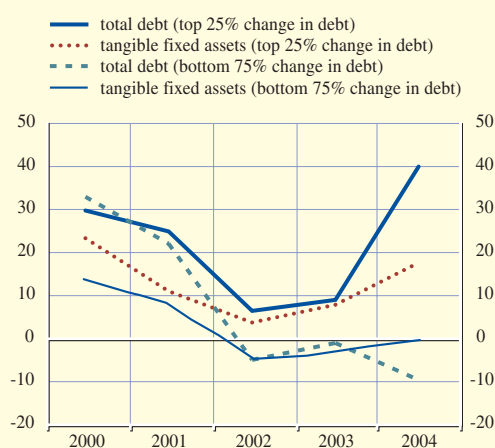
(annual percentage changes)



Sources: Thomson Financial Datastream and ECB calculations. Note: The calculation is based on a balanced sample of listed non-financial corporations over time.

Chart 11 Debt and fixed asset developments of listed non-financial corporations according to their change in debt

(annual percentage changes)



Sources: Thomson Financial Datastream and ECB calculations. Note: "Top 25% change in debt" ("bottom 75% change in debt") refers to the 25% (75%) listed non-financial corporations with the greatest (least) change in debt in 2004.

working capital, which is often financed by short-term loans, is likely to have played a role. The slight rebound in the annual growth of debt securities issued by non-financial corporations in the first half of 2005 is likely to be linked to the persistently low cost of financing through debt securities, as well as to a certain pick-up in M&A activity.

Notwithstanding the overall improvement in the balance sheet position of non-financial corporations since 2001, and as a result of the recovery in debt financing growth, the debt of non-financial corporations in relation to GDP has increased again slightly since the fourth quarter of 2004, reaching 62% in the second quarter of 2005.¹⁹

In addition to the greater demand for working capital, as reflected in the rise in short-term loans (accounting for around 20% of the amount outstanding of total debt of non-financial corporations) and the pick-up in M&A activity, direct investment abroad might have contributed, to some extent, to the rise in debt ratios of non-financial corporations.²⁰ The

renewed increase in debt ratios is also likely to reflect, to some extent, the capital restructuring that has been carried out because of the very low cost of debt financing compared with the cost of equity. The decrease in the interest payment burden of non-financial corporations after 2001 in an environment of very low interest rates across the entire maturity spectrum probably also contributed to the preference for debt over equity. Moreover, the buyback of shares and higher dividend payments (see Chart 7) have also played a part in spurring capital restructuring towards debt.

Non-financial corporations might also have used debt financing in order to secure a low cost of financing for future investment. Notwithstanding the relatively weak gross fixed capital formation in the euro area up to the second quarter of 2005, microeconomic

¹⁹ This debt-to-GDP ratio, which is usually reported in the Monthly Bulletin, does not include loans granted by non-euro area banks to euro area non-financial corporations.

²⁰ However, some uncertainty surrounds this theory as there is no separate information available for non-financial corporate direct investment abroad.

data suggest that, as early as 2004, some non-financial corporations had started to increase their debt in order to finance fixed investment. Chart 11 indicates that the 25% of non-financial corporations that increased their indebtedness to the largest extent in 2004 also acquired more fixed assets. By contrast, the other 75%, on average, further decreased their indebtedness in 2004 and continued to reduce their fixed assets. This might indicate that they had either recognised the need to further consolidate their balance sheets or that they did

not have profitable investment opportunities for which to take on debt.

4.2 EQUITY FINANCING

Alongside debt financing, equities are the other major source of external financing for non-financial corporations (see Box 2).

Following a similar pattern to debt financing developments, the annual growth of quoted

Box 2

EQUITY ISSUANCE OF NON-FINANCIAL CORPORATIONS

This box provides a short overview of the various forms of equity issuance by non-financial corporations in the euro area.

Equities are claims to shares in the assets and profits of a corporation. Generally, equity can be issued privately in the form of unquoted shares and venture capital, and publicly via shares that are listed on a stock exchange (quoted shares).

Private equity consists of equity investments in the non-quoted securities of private and public firms.¹ Venture capital is often provided by investors, such as specialised venture capital firms, as start-up money to finance new high-risk companies, for example specialising in new technologies, in return for an equity position in the firm.

With respect to public issuance, companies can either issue shares for the first time (initial public offering or IPO) and obtain a listing on a stock exchange or, if they are already listed, they can issue additional public shares (secondary public offering or SPO). The listing of a firm's shares on a stock exchange improves its access to the capital markets, as potential investors receive better information due to the improved transparency and disclosure of information requirements that are part of the listing conditions. Furthermore, listed companies often have to meet certain financial performance criteria and accounting standards, which should boost investor confidence in the firm. Finally, when a firm is listed, investors can observe the movement of its share price and consequently form a better opinion of the firm's earnings potential.

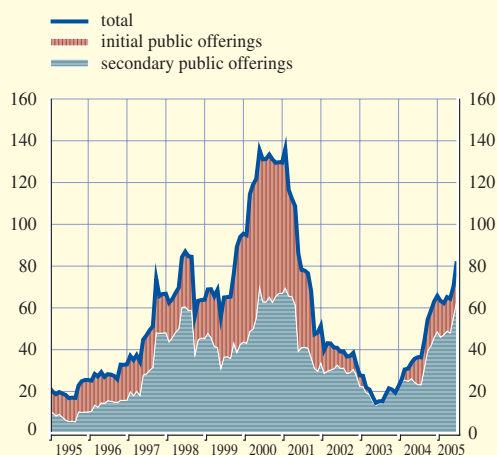
One of the main findings of empirical studies on public equity issuance is that there is substantial evidence of strong market cycles in IPOs, i.e. pronounced cycles in the number of IPOs per month and in the average initial return per month so that the volume of IPOs fluctuates considerably over time. These "hot" and "cold" markets seem to be mainly caused by fluctuations in the demand for capital by non-financial corporations and investor sentiment.²

1 For further information, see Box 2 entitled "The development of private equity and venture capital in Europe" in the October 2005 issue of the Monthly Bulletin.

2 See J. R. Ritter, "Investment banking and securities issuance", *Handbook of the Economics of Finance*, G. Constantinides, M. Harris and R. Stulz (eds.), 2003, North-Holland, Amsterdam, pp. 255-306.

Chart 12 Initial and secondary public offerings by non-financial corporations

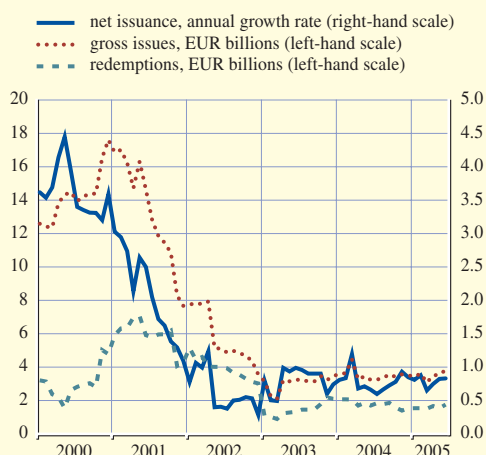
(EUR billions; 12-month cumulated figures)



Source: Thomson Financial Deals.

Chart 13 Net and gross issuance of quoted shares by non-financial corporations

(EUR billions; 12-month moving average; annual growth rates)



Source: ECB.

shares issued by non-financial corporations in the euro area rose strongly in the second half of the 1990s. From 1999 to 2001 there was a record volume of initial public offerings (IPOs) in the euro area, which was partly fuelled by hopes of making substantial corporate profit in the area of new technologies (see Chart 12). Such IPOs therefore became known as “New Economy” IPOs. In fact, during this period, in addition to the privatisation of a number of (partially) state-owned companies, there was a large number of new company listings, especially in the telecommunications, media and technology sectors. This development was also linked to the spectacular growth around that time of specialised stock markets for “growth companies”, which became a particularly active segment for the issuance of quoted shares. More generally, equity financing is a particularly advantageous means of financing for innovative firms, as the risk profile of such firms can make banks reluctant to provide loans.

In the aftermath of the decline in stock market prices, the annual growth rate of the gross and net issuance of quoted shares by non-financial corporations in the euro area fell dramatically

until mid-2002, stabilising at a relatively low level thereafter (see Chart 13).²¹ This relatively subdued issuance of quoted shares by non-financial corporations in the euro area from 2002 to the second quarter of 2005 may partly reflect cyclical elements, but also indicates the relatively high cost of equity, particularly when compared with alternative financing sources. In order to take advantage of the low cost of debt financing, non-financial corporations have reduced the share of net equity issuance (from slightly above 30% in early 2000 to around 10% of their total annual financing transactions in the second quarter of 2005) and increased the share of debt financing (from slightly below 70% to around 90%) in their overall financing.

Other factors may also have played a role. The number of privatisations, for example, has declined considerably in recent years. In addition, private buyouts, mergers and takeovers have implied a reduction in the amount of outstanding quoted shares.

²¹ For an assessment of the development of equity financing, the net amount of equity issued is a more relevant indicator than gross issuance, as non-financial corporations may buy back or delist some or all of the shares they have issued.

Moreover, M&A activity, which was often financed by the issuance of new shares, slowed significantly, and anecdotal evidence suggests that a large number of companies initiated share buyback programmes, thus reducing their actual net issuance.

5 CONCLUSION

Over the past ten years, non-financial corporations in the euro area have experienced substantial changes in terms of their financing conditions, financing and balance sheet position. First, there was a general improvement in the financing conditions of non-financial corporations. This was partly attributable to the positive impact the introduction of the euro had on the level of interest rates. Second, following the peak in the external financing growth of non-financial corporations in 2000, which stemmed from heavy non-financial and financial investment, as well as a weakening in their balance sheet position, non-financial corporations underwent a period of restructuring. This led in part to improvements in corporate profitability, a substantial narrowing of financing gaps and a reduction in debt ratios. Only recently has there been a slight renewed increase in debt ratios due to a pick-up in non-financial corporate demand for debt financing in the first half of 2005, while equity issuance by non-financial corporations remained subdued up to the end of the second quarter of 2005.

ECONOMIC AND FINANCIAL RELATIONS BETWEEN THE EURO AREA AND RUSSIA



This article reviews economic developments in Russia, as well as the economic and financial relations between the euro area and Russia. It analyses the factors that have contributed to strong growth and macroeconomic stabilisation in Russia, focusing on the conduct of monetary policy as well as key steps in banking sector reforms. Trade and financial links between the euro area and Russia have also strengthened in recent years, while the EU and Russia are seeking to create an open and integrated EU-Russian market in the long term. Against this background, the Eurosystem and the Bank of Russia have intensified their dialogue and cooperation, as demonstrated by the high-level Eurosystem-Bank of Russia Seminars, the first two being held in May 2004 and October 2005, and the EU's two-year TACIS project in the field of banking supervision, which the Eurosystem implemented together with the Bank of Russia.

I INTRODUCTION

Russia, with a population of more than 140 million, is the largest country neighbouring the European Union and a strategic partner. The country's transition from a planned to a market economy was difficult at first, culminating in the financial crisis of August 1998. Since then, however, the economy has seen a period of strong growth, macroeconomic stabilisation and structural reforms, supported by a substantial increase in the prices of energy and metals, Russia's main export goods. Economic links between the euro area and Russia have strengthened in the areas of trade, finance and investment.

Nevertheless, various challenges remain. The achievement of sustainable growth is seen by the Russian authorities as requiring the diversification of the economy. Strong capital inflows are making it more difficult for the authorities to achieve their twin monetary policy goals of reducing inflation and containing the appreciation of the real effective exchange rate. And while progress has been made in banking sector reform, there is a need for further strengthening of the legal and regulatory framework. In terms of economic relations, the EU and Russia are seeking to create, in the long term, an open and integrated EU-Russian market. This will foster real integration between the euro area and Russia via the further development of trade and euro area investment in Russia.

The Eurosystem has enhanced cooperation with the Bank of Russia, complementing the bilateral relations that several national central banks have been developing since the 1990s. The two-year training programme on banking supervision, implemented by the Eurosystem for the benefit of the Bank of Russia and funded by TACIS, the EU's technical assistance programme for the CIS countries, has been the most visible form of that extended cooperation. The Eurosystem and the Bank of Russia have also held high-level seminars focusing on the central banking dimension of the economic and financial links between the two economic areas.¹ Against this background, this article examines economic developments and policies in Russia, analyses economic and financial linkages between the euro area and Russia, and provides an overview of relations between the Eurosystem and the Bank of Russia.

2 THE RUSSIAN ECONOMY

Since the 1998 financial crisis Russia has seen an unprecedented period of growth, with real GDP increasing by almost 50% at an average annual rate of 6.8%. The initial real depreciation of the rouble, combined with significant increases in both the prices of Russia's main export goods – energy and metals – and the volume of such exports,

¹ Over the last few years the Eurosystem has held several high-level seminars with regional groups of central banks. See the articles entitled "The Barcelona partner countries and their relations with the euro area" and "Economic integration in selected regions outside the European Union" in the April and October 2004 issues of the Monthly Bulletin.

Table 1 Key economic indicators

(annual percentage changes, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004
Real GDP	-5.3	6.4	10.0	5.1	4.7	7.3	7.2
Private consumption	-3.4	-2.9	7.3	9.5	8.5	7.5	10.7
Fixed capital formation	-12.4	6.4	18.1	10.2	2.8	12.8	10.8
Current account balance (as a percentage of GDP)	0.1	12.6	18.0	11.1	8.4	8.2	10.3
Inflation, at year-end	84.4	36.5	20.2	18.6	15.1	12.0	11.7
General government balance (as a percentage of GDP)	-8.2	-3.1	3.1	2.7	0.6	0.9	4.5
Unemployment (as a percentage of workforce; annual averages)	11.9	12.9	10.5	9.0	8.1	8.6	8.2
Nominal GDP (EUR billions)	242	184	281	342	365	382	468

Sources: Federal State Statistics Service, Bank of Russia, IMF and ECB calculations.

provided a strong stimulus to growth and led to current account surpluses of between 8% and 18% of GDP. From 2000 corporate investment and private consumption turned the recovery into a broad-based expansion, supported by macroeconomic stabilisation and structural reforms in areas such as business deregulation, taxation and land ownership. More recently, despite the continuous rise in energy prices and a record current account surplus, growth rates have declined somewhat, reflecting the real appreciation of the rouble and an uncertain business and regulatory environment, highlighting the need to implement further structural reforms in areas such as energy, health, education, public administration and the judiciary.

Growth is the priority of Russian economic policies, with the goal of doubling real GDP in a decade, implying an average annual growth rate of over 7%.² Currently Russian GDP per capita stands at around 15% of euro area GDP per capita in nominal terms and around 35% of euro area GDP per capita in purchasing power parity terms.

Russia accounts for 6.1% of the world's proven oil reserves and 26.5% of the world's proven gas reserves, making economic development considerably dependent on the energy sector. Domestically, the energy and metals sectors are estimated to account for as much as 25% of GDP.³ Moreover, the oil and gas sectors make

up more than 50% of total exports of goods and services and generate up to 40% of all federal budget revenues. Econometric analysis suggests that the effect of oil price changes on Russian GDP growth is substantial.⁴ Over the last few years Russia has benefited not only from rising world prices for its main export products, but also from increased production. For example, output of crude oil rose from 6.2 million barrels per day (bpd) in 1998 to 9.8 million bpd in 2004, making Russia the second largest oil producer in the world. Looking ahead, the creation of a more diversified economy is seen by the Russian authorities as a prerequisite for the achievement of sustainable growth.

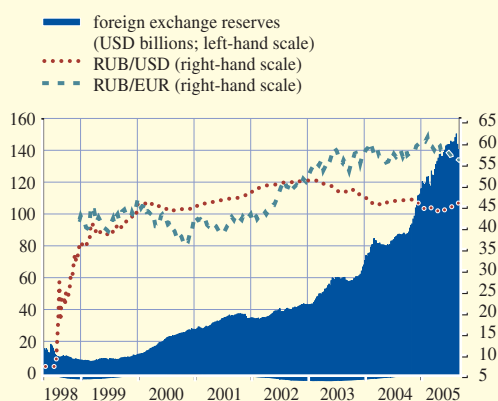
The economic recovery after the financial crisis was accompanied by a decline in annual inflation, from more than 80% at end-1998 to 10% in mid-2004, and a stabilisation of the exchange rate (see Chart 1). Currently the Bank of Russia has two monetary policy goals, namely reducing inflation and slowing the pace

2 The government recently projected GDP growth of 5.9% in 2005.

3 This figure, published by the World Bank for 2000, takes into account transfer pricing between producers and their trading companies in the various sectors. The figure is twice as high as that indicated in official data.

4 See, for example, International Monetary Fund (2002), *Russian Federation: Selected Issues and Statistical Appendix*, IMF Country Report No 02/75, Washington, DC, and Rautava, J. (2002), *The role of oil prices and the real exchange rate in Russia's economy*, BOFIT Discussion Paper 3/2002, Helsinki.

Chart 1 Foreign exchange reserve and exchange rate developments



Sources: Bank of Russia and Bloomberg.

of real exchange rate appreciation to support growth in the non-energy sector of the economy, and foreign exchange market interventions have been the main instrument to achieve these goals. Against the background of sizeable current account surpluses, this has led to a rapid accumulation of foreign reserve assets, from USD 12 billion at end-1998 to more than USD 140 billion in mid-2005, making Russia the seventh largest holder of foreign exchange reserves worldwide and an international net creditor.

Foreign exchange interventions have been accompanied by high rates of growth in monetary aggregates, even though prudent fiscal policies have helped to partly sterilise interventions via government deposits held at the Bank of Russia and – since the beginning of 2004 – via the newly established oil stabilisation fund. Thus, inflation has picked up since summer 2004, with year-on-year inflation standing above 12% in mid-2005, compared with the end-year goal of 7.5-8.5%.⁵ Moreover, owing to persistent inflation and appreciation pressures, the rate of appreciation of the rouble's real effective exchange rate stood at 8.3% year on year in mid-2005, i.e. slightly higher than the upper limit of 8% within which the Bank of Russia aims to

maintain real effective appreciation by the end of 2005.

Rising income from oil exports has, together with strong growth, led to a turnaround in government finances compared with the pre-1998 period. Since 2000 the government budget has seen five successive years of surpluses. For 2005 a new record surplus is expected, despite some increases in government spending, for example in relation to social security reforms. At the same time, the amounts deposited in the oil stabilisation fund increased from less than 1% of GDP at the beginning of 2004 to more than 3% at end-June 2005. In addition, Russia prepaid all of its remaining debt to the IMF in early 2005 and made substantial prepayments of its previously rescheduled Soviet-era debt to the Paris Club of official creditors in summer 2005. The government's strong fiscal position and improving external position has been a major reason for both a continuous upgrade in sovereign credit ratings, which have reached investment grade, and a major decline in sovereign spreads, which stood below 100 basis points in autumn 2005 (see Chart 2).

The strong macroeconomic environment also supported the recovery of the Russian banking sector, the main pillar of the Russian financial system. Profitability and asset quality improved, and the capital adequacy ratio of banks with positive capital recovered after the crisis, standing at 17% at end-2004. Assets, deposits and loans have been surpassing pre-crisis levels as a percentage of GDP. Lending to the private sector, in particular household lending, has seen strong growth, raising the question of whether this development reflects a catch-up in "financial deepening" or whether credit is expanding at a pace that – also given the experiences of other emerging market countries – could risk becoming unsustainable. Reflecting increasing confidence in the stability of the domestic currency, rouble deposits have recorded strong growth, leading

⁵ The government recently projected an inflation rate of 10-11% for 2005.

Table 2 Key monetary and financial indicators

(annual percentage changes, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004
Foreign exchange reserves (USD billions), at year-end	12.2	12.5	28.0	36.6	47.8	76.9	124.5
Broad money (rouble M2)	21.3	57.5	61.6	39.7	32.4	50.5	35.8
Money market rate (percentages per annum)	50.6	14.8	7.1	10.1	8.2	3.8	3.3
Banking sector assets	50.3	51.6	48.9	33.7	31.2	35.1	27.4
Credit to the private sector	64.2	53.7	53.6	52.0	30.0	44.8	48.6

Sources: Bank of Russia and ECB calculations.

to a drop in the share of foreign currency-denominated deposits in total deposits, from around 40% at end-1998 to 25% at end-2004.

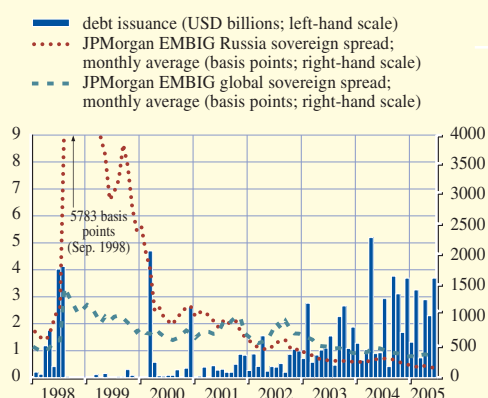
State-owned credit institutions continue to play a substantial role in banking sector structures, with approximately 38% of total banking sector assets being held by such institutions and the two largest banks being state-owned. Moreover, the entire banking sector shows a substantial degree of concentration, as 20 out of a total of 1,270 banks account for over 60% of assets, 75% of household deposits and over 50% of corporate accounts. While banks with foreign capital account for less than 8% of banking sector assets, the majority of financial institutions are banks with private, domestic ownership. Many of them remain small and continue to display poor governance, with opaque ownership and capital structures. Moreover, although banks have made efforts to enter new markets, balance sheets are still highly concentrated on a small number of borrowers and depositors.

Reflecting these structural weaknesses, a crisis of confidence struck the private domestic banking sector in the early summer of 2004.⁶ This confirmed the need for an acceleration of banking reforms, as laid down in the authorities' banking sector strategy. Principal goals include enhancing the effectiveness of intermediation services, increasing the transparency and international competitiveness of the industry and preventing illegal activities, especially money laundering and the financing of terrorism.

A key element in this strategy has been the introduction of a general deposit insurance system. By the end of September 2005 more than 920 banks – representing almost 99% of total household deposits – had been admitted to the scheme, leading to some consolidation in the sector. The scheme was initially seen as an instrument for creating a more level playing field with the state-owned banks. However, it has also proven instrumental in exploring the ownership and capital structures of Russian banks in the course of the process of reviewing the applicant banks. Together with a number of regulations issued in 2004, including those aimed at fighting the fictitious capitalisation of banks, it represents a further step in the Bank of Russia's efforts to supplement compliance with risk-based banking supervision. Nevertheless, there is a need for further strengthening of the legal and regulatory framework.

Russian banks have only recently joined large non-financial corporations in raising funds from global capital markets. International bonds and loans issued by the non-financial corporate sector, mainly companies in the oil, gas, metal and telecommunication sectors, totalled over USD 18 billion in 2004, up from USD 3 billion in 2001 (see Chart 2). In the

⁶ The crisis was triggered by the withdrawal of the licence of a medium-sized bank on charges of money laundering, followed by tensions in the interbank market. In mid-summer a relatively large bank was struggling to meet payments to customers, which led to deposit withdrawals from some private banks. See also Box 1 in the ECB's December 2004 Financial Stability Review.

Chart 2 International debt¹⁾ and bond spreads

Sources: Bondware, Bloomberg and ECB calculations.

1) International bond issuance and borrowing by Russian entities.

same period the exposure of BIS reporting banks to the Russian corporate sector rose by USD 14 billion to more than USD 27 billion. Thus, the corporate sector's stock of gross foreign debt (excluding debt to foreign owners) stood at 10% of GDP at end-2004, up from 5% at end-2000.

3 ECONOMIC AND FINANCIAL LINKS BETWEEN THE EURO AREA AND RUSSIA

Economic and financial links between the euro area and Russia have strengthened over the last few years. The euro area is Russia's most important trading partner, accounting for around 35% of Russia's total trade in goods (while the European Union as a whole accounts for around 50% of Russia's total trade in goods). While Russia's share in the trade of the euro area is considerably smaller, it has increased by more than 80% from the low level of 1999, driven by rising global energy and metal prices,⁷ as well as strong Russian growth. In 2004 Russia accounted for around 3% of the euro area's goods exports and almost 5% of imports (see Table 3), making it the fourth largest non-EU destination for euro area exports, after the United States, Switzerland

and China, and the third largest non-EU source of euro area imports, after the United States and China.

Trade developments are strongly influenced by the fact that Russia provides around one-quarter of the EU15's total net imports of oil and around one-third of its gas imports. Against the background of rising prices on world markets, imports from Russia have become even more dominated by energy supplies and metals (see Chart 3). At the same time, growth in euro area exports has been driven by strong consumption and investment demand in Russia for machinery and transport equipment, including passenger cars and telecommunications equipment, as well as various manufactured goods.

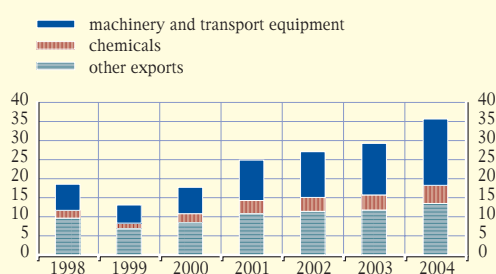
While the 1998 financial crisis had a severe effect on financial links between the euro area and Russia, the subsequent recovery has confirmed the prominent role of euro area banks as creditors of the Russian economy, with those banks providing a significant amount of the funds that the Russian corporate sector has been raising in global markets over the last few years. At the same time, the Russian banking sector is holding part of its foreign assets in euro area banks and securities. The EU is a major source of foreign direct investment (FDI) in Russia, accounting for around 37% of total FDI flows. However, the current level of FDI flows into Russia is, at around 2% of GDP, still low compared with other countries in Central and Eastern Europe. Correspondingly, Russia receives less than 1% of all FDI by euro area investors. Further positive changes in the investment climate, including better protection of ownership rights, the enhancement of the rule of law and the strengthening of market economy institutions, will be needed to foster real integration via euro area investment in Russia. At the same time, while total FDI flows from Russia are

⁷ See also Box 1 in the July 2005 issue of the Monthly Bulletin, which stresses that euro area exports have benefited from increasing import demand by oil-exporting economies in the CIS.

Chart 3 Euro area trade in goods with Russia

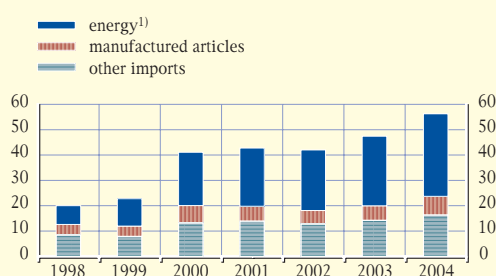
(EUR billions)

Euro area exports to Russia



Source: Eurostat.

Euro area imports from Russia



Source: Eurostat.

1) The chart understates the importance of energy in imports from Russia, since the data in that product group do not include most of the imports of Russian gas into the euro area (instead, most of the gas imports are included in "other imports").

roughly equal to FDI flows into Russia, the EU and the euro area have until now received only a small share of Russian FDI.

In recent years the Bank of Russia has taken steps that have led to the increased use of the euro as an anchor and reserve currency. Since 2003 the Bank of Russia's exchange rate policy has aimed to limit the real effective appreciation of the rouble against a trade-weighted currency basket composed of the currencies of a large number of Russia's trading partners. Euro area countries, and hence the euro, have a weight of over 36%. In February 2005 an operational US dollar-euro basket was introduced as a point of reference for the daily management of the rouble

exchange rate. The weight of the euro in this operational basket, initially set at 10%, increased to 35% by August 2005. In line with this change in exchange rate management, daily volatility in the rouble/euro exchange rate has decreased slightly. Euro-denominated assets have also increasingly been included in the Bank of Russia's foreign exchange reserve holdings, with the authorities recently indicating that euro-denominated assets make up around one-third of total foreign exchange reserves. Thus, Russia has become a significant holder of euro-denominated reserve assets.

Data on foreign exchange cash transactions by authorised Russian banks also suggest that demand for euro cash by Russian households has increased following the euro cash changeover, mainly – as indicated by the seasonal pattern of banks' euro sales – for tourism purposes. By contrast, the use of the euro as a vehicle currency in the foreign exchange market and as an investment and financing currency remains limited. While the euro's share in the foreign assets of Russian banks rose to around 20% in early 2005 (up from around 7% in early 2002), the share of the euro in banks' foreign liabilities has remained at around 7%. Foreign banknotes and foreign exchange deposits are mainly held in US dollars.⁸

4 RELATIONS BETWEEN THE EUROSISTEM AND THE BANK OF RUSSIA

Relations between the Eurosystem and the Bank of Russia have strengthened considerably in recent years, complementing the bilateral relations and cooperation that several national central banks of the Eurosystem have been developing and implementing since the 1990s. The cornerstones of that process have

8 2002 estimates put the amount of US dollar cash circulating in Russia and the former Soviet Union at USD 178 billion, close to 30% of total US dollar cash held abroad. See Botta, J. (2003), *The Federal Reserve Bank of New York's experience of managing cross-border migration of US dollar banknotes*, BIS Papers No 15, Basel, pp. 152-162.

Table 3 Selected indicators of economic and financial integration between the euro area and Russia

	2000	2001	2002	2003	2004
Trade					
Share of Russia in the euro area's trade in goods					
Exports	1.8	2.3	2.5	2.8	3.1
Imports	3.9	3.8	3.6	4.1	4.6
Share of the euro area in Russia's trade in goods					
Exports	29.2	32.5	30.0	30.7	32.8
Imports	28.0	34.4	34.1	32.7	40.8
Share of Russia in the euro area's trade in services	1.2	1.3	1.2	1.2	...
Finance					
Claims of euro area BIS reporting banks on Russia					
USD billions	30.8	30.8	24.1	33.3	40.7
As a percentage of total claims on Russia	85.0	83.4	71.9	72.8	72.4
Direct investment (EUR billions)					
Euro area foreign direct investment in Russia					
Flows	1.5	1.6	1.9	4.0	...
Stocks	4.8	6.8	7.3	...	...
Russian foreign direct investment in the euro area					
Flows	0.3	0.5	0.1	0.5	...
Stocks	2.1	2.5	2.8	...	...

Sources: Eurostat, IMF, BIS and ECB calculations.

Note: No data are available for the share of the euro area in Russia's trade in services.

been (1) the high-level Eurosystem-Bank of Russia Seminars, the first two being held in May 2004 and October 2005, and (2) the EU's two-year TACIS project in the field of banking supervision, which the Eurosystem implemented together with the Bank of Russia.

Cooperation between the Eurosystem and the Bank of Russia has been advancing against the general background of EU-Russian relations. Those relations are based on the Partnership and Cooperation Agreement (PCA), in force since 1997, which covers a number of areas, including trade and economic cooperation. In particular, the PCA envisages the establishment of an EU-Russian free trade area. In 2003 both sides agreed to develop, in the long term, four common spaces in the areas of economic relations; freedom, security and justice; external security; and research and education. Against the background of the experience gained in Europe and many other parts of the world about the role of markets in promoting trade and economic growth, the

objective of the Common Economic Space is to create an open and integrated EU-Russian market once Russia has joined the World Trade Organization (WTO). The road map towards this goal foresees a wide range of actions, including a regulatory dialogue on industrial products, competition legislation, investment regulation, the stability of the financial system, accounting and auditing, trade facilitation and customs, as well as telecommunications, transport and the environment. The EU and Russia also aim to maintain the momentum of the energy dialogue established in 2000, dealing with questions of common interest relating to the most prominent sector in EU-Russian trade.

The increasing degree of real and financial integration and economic cooperation between the EU and Russia was also one of the issues discussed intensively at the first high-level Eurosystem-Bank of Russia Seminar in May 2004 in Helsinki. Participants agreed that EU enlargement had created new opportunities to

explore the mutual benefits of economic integration in terms of trade and investment flows. Thus, there is a strong basis for a constructive dialogue between the Eurosystem and the Bank of Russia on the central banking dimension of this integration process. Against this background, the Helsinki seminar focused on the conduct of monetary policy under free capital mobility as well as banking system development and financial sector stability. In view of developments in the Russian banking sector over the last two years, the St Petersburg seminar, held in October 2005, analysed in more depth issues of banking sector development and stability, as well as the use of certain tools, such as the introduction of a deposit insurance system, to promote confidence and financial stability.

The high-level seminar in St Petersburg coincided with the end of the two-year TACIS project in the field of banking supervision. The training programme aimed to contribute to financial stability in Russia via a transfer of knowledge from EU banking supervisors to the supervisory staff of the Bank of Russia. Unique in terms of scope, concentration and complexity, the project was based on the contract signed by the Delegation of the European Commission to Russia and the European Central Bank in October 2003. It was coordinated and implemented by the ECB in partnership with the Deutsche Bundesbank, the Banco de España, the Banque de France, the Central Bank and Financial Services Authority of Ireland, the Banca d'Italia, De Nederlandsche Bank, the Oesterreichische Nationalbank, the Banco de Portugal, Suomen Pankki – Finlands Bank, Rahoitustarkastus (the Finnish Financial Supervision Authority), Finansinspektionen (Sweden) and the Financial Services Authority (United Kingdom).

800 Bank of Russia supervisors attended 64 courses introducing them to the EU standards and methods of risk-based supervision. Half of the courses were dedicated to topics such as market, liquidity, credit and operational risk,

early warning systems and bank rehabilitation. More than 30 Bank of Russia managers, mainly from its head office, conducted one-week study visits to national central banks and supervisory agencies in the EU in order to gain an insight into the practical implementation of banking supervision techniques. Finally, the programme included four one-day seminars addressing financial stability, Basel II and the fight against money laundering, as well as corporate governance and operational risk. These four seminars were characterised by policy discussions between high-level EU and Eurosystem speakers and representatives of the Bank of Russia's Board of Directors and senior management in banking supervision, the Russian legislative branches, the Presidential Administration, the Finance Ministry, Russian academia and the Association of Russian Banks.

The Steering Committee supervising the project – which was chaired by the Bank of Russia – evaluated it as making an important, well-timed contribution to the reform efforts of the Bank of Russia in the field of banking supervision.⁹

As a supplement to the training activities, a book on EU experiences and Russian practices in banking supervision has been published, aimed at those Bank of Russia supervisors who were unable to attend the training courses offered. While one chapter of the book was prepared by the Bank of Russia, the other chapters and annexes were drafted by the ECB, drawing on the fundamental banking supervision courses held by its partner institutions.

5 CONCLUSION

Over the past few years the Eurosystem and the Bank of Russia have significantly enhanced cooperation, complementing the bilateral

⁹ Additional information about the project is available on the Bank of Russia's website (www.cbr.ru).

relations and cooperation that several national central banks of the Eurosystem have been developing and implementing with the Bank of Russia since the 1990s. That cooperation between the Eurosystem and the Bank of Russia has been centred around a two-year training programme on banking supervision implemented by the Eurosystem together with the Bank of Russia and funded by the EU's TACIS programme, as well as high-level Eurosystem-Bank of Russia Seminars focusing on the central banking dimension of the EU-Russian integration process.

That cooperation has taken place against the background of positive macroeconomic developments in Russia, growing economic and financial links between the euro area and Russia, and developing EU-Russian institutional relations. In particular, the euro area is Russia's most important trading partner, while Russia has become the euro area's fourth most important non-EU trading partner. The recovery of the Russian banking system and the acceleration of its banking reforms, as well as the challenges facing monetary and exchange rate policies, have provided further stimulus for the development of a fruitful exchange of views. Against this background, the Eurosystem will continue its dialogue and cooperation with the Bank of Russia at various levels.

EURO AREA STATISTICS



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

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WHAT'S NEW

From now on, Sections 4.1, 4.2 and 4.3 will include seasonally adjusted outstanding amounts, transactions and growth rates for debt securities issued by euro area residents. The tables in these sections have been enhanced to accommodate the new information.

Furthermore, quarterly euro area general government debt and changes in debt will be published in Section 6.5. This month's table includes figures for the second quarter of 2005.

Conventions used in the tables

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



EURO AREA OVERVIEW

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

1. Monetary developments and interest rates

	M1 ¹⁾	M2 ¹⁾	M3 ^{1),2)}	M3 ^{1),2)} 3-month moving average (centred)	MFI loans to euro area residents excluding MFIs and general government ¹⁾	Securities other than shares issued in euro by non- financial and non- monetary financial corporations ¹⁾	3-month interest rate (EURIBOR, % per annum, period averages)	10-year government bond yield (% per annum, period averages)
	1	2	3	4	5	6	7	8
2003	10.9	8.0	8.1	-	4.9	19.3	2.33	4.16
2004	10.0	6.3	5.8	-	6.1	9.9	2.11	4.14
2004 Q4	9.3	6.4	6.1	-	6.9	7.7	2.16	3.84
2005 Q1	9.6	7.1	6.7	-	7.3	8.9	2.14	3.67
Q2	9.8	7.5	7.1	-	7.5	13.2	2.12	3.41
Q3	11.3	8.4	8.0	-	8.3	.	2.13	3.26
2005 May	10.1	7.6	7.3	7.2	7.5	14.0	2.13	3.41
June	10.9	8.0	7.6	7.6	8.0	14.1	2.11	3.25
July	11.1	8.3	7.9	7.9	8.3	12.7	2.12	3.32
Aug.	11.6	8.6	8.2	8.2	8.4	13.1	2.13	3.32
Sep.	11.2	8.9	8.5	.	8.6	.	2.14	3.16
Oct.	.	.	.	.	.	.	2.20	3.32

2. Prices, output, demand and labour markets

	HICP	Industrial producer prices	Hourly labour costs	Real GDP	Industrial production excluding construction	Capacity utilisation in manufacturing (percentages)	Employment	Unemployment (% of labour force)
	1	2	3	4	5	6	7	8
2003	2.1	1.4	3.1	0.7	0.3	81.0	0.3	8.7
2004	2.1	2.3	2.5	2.1	2.0	81.6	0.6	8.9
2004 Q4	2.3	3.8	2.3	1.6	1.1	82.0	0.8	8.8
2005 Q1	2.0	4.1	3.0	1.3	0.5	81.5	0.7	8.8
Q2	2.0	3.9	2.3	1.1	0.5	81.0	0.7	8.7
Q3	2.3	.	.	.	.	81.1	.	.
2005 May	2.0	3.5	-	-	-0.1	-	-	8.7
June	2.1	4.0	-	-	0.6	-	-	8.6
July	2.2	4.1	-	-	0.5	80.9	-	8.5
Aug.	2.2	4.1	-	-	2.5	-	-	8.6
Sep.	2.6	.	-	-	.	-	-	.
Oct.	2.5	.	-	-	.	81.2	-	.

3. Balance of payments, reserve assets and exchange rates

(EUR billions, unless otherwise indicated)

	Balance of payments (net transactions)				Reserve assets (end-of-period positions)	Effective exchange rate of the euro: EER-23 ³⁾ (index, 1999 Q1 = 100)		USD/EUR exchange rate
	Current and capital accounts	Goods	Direct investment	Portfolio investment		Nominal	Real (CPI)	
2003	33.5	102.7	5.4	43.4	306.5	99.9	101.7	1.1312
2004	64.2	102.7	-78.1	72.8	280.6	103.8	105.8	1.2439
2004 Q4	21.7	20.1	-44.1	27.3	280.6	105.7	107.7	1.2977
2005 Q1	4.6	15.6	-20.0	3.8	285.0	105.7	107.8	1.3113
Q2	-9.4	18.8	-11.6	106.7	302.3	103.4	105.6	1.2594
Q3	.	.	.	.	311.6	101.9	104.1	1.2199
2005 May	-1.2	6.1	8.2	19.7	291.8	104.0	106.2	1.2694
June	2.3	8.7	-8.2	101.5	302.3	101.2	103.5	1.2165
July	2.2	9.9	-81.2	75.3	296.3	101.7	103.8	1.2037
Aug.	-2.1	1.1	-15.7	-16.1	295.7	102.3	104.5	1.2292
Sep.	.	.	.	.	311.6	101.8	103.9	1.2256
Oct.	.	.	.	.	.	101.4	103.5	1.2015

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

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

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



MONETARY POLICY STATISTICS

1.1 Consolidated financial statement of the Eurosystem (EUR millions)

1. Assets

	2005 7 Oct.	2005 14 Oct.	2005 21 Oct.	2005 28 Oct.
Gold and gold receivables	149,784	149,680	149,568	149,170
Claims on non-euro area residents in foreign currency	161,314	160,001	161,295	160,162
Claims on euro area residents in foreign currency	21,155	21,375	21,086	21,363
Claims on non-euro area residents in euro	8,998	9,230	8,537	8,712
Lending to euro area credit institutions in euro	378,012	371,001	386,005	391,476
Main refinancing operations	288,000	280,999	296,000	301,466
Longer-term refinancing operations	89,999	89,999	89,999	90,002
Fine-tuning reverse operations	0	0	0	0
Structural reverse operations	0	0	0	0
Marginal lending facility	12	2	5	7
Credits related to margin calls	1	1	1	1
Other claims on euro area credit institutions in euro	3,686	3,249	3,391	3,257
Securities of euro area residents in euro	91,560	91,829	91,783	92,315
General government debt in euro	40,753	40,753	40,753	40,757
Other assets	135,734	136,233	136,134	136,292
Total assets	990,996	983,351	998,552	1,003,504

2. Liabilities

	2005 7 Oct.	2005 14 Oct.	2005 21 Oct.	2005 28 Oct.
Banknotes in circulation	536,301	535,363	533,267	536,209
Liabilities to euro area credit institutions in euro	154,294	150,855	149,361	150,290
Current accounts (covering the minimum reserve system)	154,132	150,839	149,274	150,193
Deposit facility	162	14	82	71
Fixed-term deposits	0	0	0	0
Fine-tuning reverse operations	0	0	0	0
Deposits related to margin calls	0	2	5	26
Other liabilities to euro area credit institutions in euro	152	153	153	153
Debt certificates issued	0	0	0	0
Liabilities to other euro area residents in euro	48,207	46,370	63,673	65,261
Liabilities to non-euro area residents in euro	10,647	10,797	10,949	11,182
Liabilities to euro area residents in foreign currency	240	331	222	219
Liabilities to non-euro area residents in foreign currency	10,884	9,266	10,440	9,801
Counterpart of special drawing rights allocated by the IMF	5,885	5,885	5,885	5,885
Other liabilities	62,233	62,177	62,447	62,348
Revaluation accounts	103,749	103,749	103,749	103,749
Capital and reserves	58,404	58,405	58,406	58,407
Total liabilities	990,996	983,351	998,552	1,003,504

Source: ECB.

1.2 Key ECB interest rates

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

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

Source: ECB.

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

1.3 Eurosystem monetary policy operations allotted through tenders ^{1), 2)}

(EUR millions; interest rates in percentages per annum)

1. Main and longer-term refinancing operations ³⁾

Date of settlement	Bids (amount)	Number of participants	Allotment (amount)	Variable rate tenders			Running for (...) days
				Minimum bid rate	Marginal rate ⁴⁾	Weighted average rate	
	1	2	3	4	5	6	7
Main refinancing operations							
2005 6 July	389,743	336	307,500	2.00	2.05	2.05	7
13	388,642	334	298,500	2.00	2.05	2.05	7
20	406,178	355	308,500	2.00	2.05	2.05	7
27	391,489	357	317,000	2.00	2.05	2.06	7
3 Aug.	414,656	336	314,000	2.00	2.05	2.06	7
10	432,277	345	308,000	2.00	2.05	2.05	7
17	445,746	354	303,000	2.00	2.05	2.06	7
24	474,374	367	310,000	2.00	2.05	2.06	7
31	433,707	339	293,000	2.00	2.05	2.06	7
7 Sep.	447,874	332	294,500	2.00	2.05	2.06	7
14	435,111	356	279,500	2.00	2.06	2.06	7
21	396,280	402	287,500	2.00	2.06	2.06	7
28	364,417	361	293,500	2.00	2.06	2.07	7
5 Oct.	382,662	348	288,000	2.00	2.06	2.07	7
12	380,299	372	281,000	2.00	2.07	2.07	7
19	383,949	397	296,000	2.00	2.06	2.07	7
26	371,445	384	301,500	2.00	2.06	2.07	8
3 Nov.	354,563	340	294,000	2.00	2.05	2.06	6
Longer-term refinancing operations							
2004 28 Oct.	46,646	187	25,000	-	2.10	2.11	91
25 Nov.	51,095	174	25,000	-	2.13	2.14	91
23 Dec.	34,466	155	25,000	-	2.12	2.14	98
2005 27 Jan.	58,133	164	30,000	-	2.09	2.10	91
24 Feb.	40,340	145	30,000	-	2.08	2.09	91
31 Mar.	38,462	148	30,000	-	2.09	2.10	91
28 Apr.	47,958	148	30,000	-	2.08	2.09	91
26 May	48,282	140	30,000	-	2.08	2.08	98
30 June	47,181	141	30,000	-	2.06	2.07	91
28 July	46,758	166	30,000	-	2.07	2.08	92
1 Sep.	62,563	153	30,000	-	2.08	2.09	91
29	52,795	142	30,000	-	2.09	2.10	84
28 Oct.	51,313	168	30,000	-	2.17	2.19	90

2. Other tender operations

Date of settlement	Type of operation	Bids (amount)	Number of participants	Allotment (amount)	Fixed rate tenders	Variable rate tenders			Running for (...) days
					Fixed rate	Minimum bid rate	Marginal rate ⁴⁾	Weighted average rate	
	1	2	3	4	5	6	7	8	9
2001 28 Nov.	Reverse transaction	73,096	166	53,000	-	3.25	3.28	3.29	7
2002 4 Jan.	Reverse transaction	57,644	61	25,000	-	3.25	3.30	3.32	3
10	Reverse transaction	59,377	63	40,000	-	3.25	3.28	3.30	1
18 Dec.	Reverse transaction	28,480	50	10,000	-	2.75	2.80	2.82	6
2003 23 May	Collection of fixed-term deposits	3,850	12	3,850	2.50	-	-	-	3
2004 11 May	Collection of fixed-term deposits	16,200	24	13,000	2.00	-	-	-	1
8 Nov.	Reverse transaction	33,175	42	6,500	-	2.00	2.06	2.07	1
7 Dec.	Collection of fixed-term deposits	18,185	16	15,000	2.00	-	-	-	1
2005 18 Jan.	Reverse transaction	33,065	28	8,000	-	2.00	2.05	2.05	1
7 Feb.	Reverse transaction	17,715	24	2,500	-	2.00	2.05	2.05	1
8 Mar.	Collection of fixed-term deposits	4,300	5	3,500	2.00	-	-	-	1
7 June	Collection of fixed-term deposits	3,708	6	3,708	2.00	-	-	-	1
12 July	Collection of fixed-term deposits	9,605	11	9,605	2.00	-	-	-	1
9 Aug.	Collection of fixed-term deposits	500	1	500	2.00	-	-	-	1
6 Sep.	Reverse transaction	51,060	41	9,500	-	2.00	2.09	2.10	1
11 Oct.	Collection of fixed-term deposits	23,995	22	8,500	2.00	-	-	-	1

Source: ECB.

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

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

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

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

1.4 Minimum reserve and liquidity statistics

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

1. Reserve base of credit institutions subject to reserve requirements

Reserve base as at ¹⁾ :	Total	Liabilities to which a 2% reserve coefficient is applied		Liabilities to which a 0% reserve coefficient is applied		
		Deposits (overnight, up to 2 years' agreed maturity and notice period)	Debt securities up to 2 years' agreed maturity	Deposits (over 2 years' agreed maturity and notice period)	Repos	Debt securities over 2 years' agreed maturity
	1	2	3	4	5	6
2003	11,538.7	6,283.8	412.9	1,459.1	759.5	2,623.5
2004	12,415.9	6,593.7	458.1	1,565.2	913.7	2,885.3
2005 Q1	12,866.9	6,783.2	472.3	1,599.3	1,010.8	3,001.1
2005 Apr.	13,081.7	6,888.4	496.7	1,607.3	1,067.3	3,022.1
May	13,224.8	6,988.9	494.8	1,616.4	1,069.5	3,055.3
June	13,328.1	7,021.1	488.2	1,676.0	1,027.9	3,114.9
July	13,431.5	7,064.6	496.2	1,682.8	1,068.0	3,119.9
Aug.	13,388.1	7,003.0	499.9	1,689.2	1,066.0	3,130.1

2. Reserve maintenance

Maintenance period ending on:	Required reserves	Credit institutions' current accounts	Excess reserves	Deficiencies	Interest rate on minimum reserves
	1	2	3	4	5
2003	131.8	132.6	0.8	0.0	2.00
2004	137.9	138.5	0.6	0.0	2.05
2005 Q1	140.5	141.3	0.8	0.0	2.05
Q2	144.6	145.5	0.9	0.0	2.05
2005 12 July	147.2	147.9	0.7	0.0	2.05
9 Aug.	149.2	149.8	0.6	0.0	2.05
6 Sep.	149.7	150.2	0.6	0.0	2.05
11 Oct.	150.7	151.4	0.7	0.0	2.05
8 Nov.	149.5	.	.	.	.

3. Liquidity

Maintenance period ending on:	Liquidity-providing factors					Liquidity-absorbing factors					Credit institutions' current accounts	Base money
	Monetary policy operations of the Eurosystem											
	Eurosystem's net assets in gold and foreign currency	Main refinancing operations	Longer-term refinancing operations	Marginal lending facility	Other liquidity-providing operations	Deposit facility	Other liquidity-absorbing operations	Banknotes in circulation	Central government deposits with the Eurosystem	Other factors (net)		
	1	2	3	4	5	6	7	8	9	10	11	12
2003	320.1	235.5	45.0	0.6	0.0	0.1	0.0	416.1	57.0	-4.5	132.6	548.7
2004	298.0	265.7	75.0	0.1	0.0	0.1	0.5	475.4	60.2	-36.0	138.5	614.1
2005 Q2	286.8	273.1	90.0	0.1	0.0	0.2	0.1	512.8	53.5	-62.0	145.5	658.5
2005 12 July	293.3	297.6	90.0	0.1	0.0	0.2	0.3	522.6	67.4	-57.3	147.9	670.6
9 Aug.	305.5	309.5	90.0	0.0	0.0	0.3	0.0	532.6	67.4	-45.0	149.8	682.7
6 Sep.	304.8	303.5	90.0	0.0	0.3	0.1	0.0	531.5	63.1	-46.2	150.2	681.8
11 Oct.	307.9	288.6	90.0	0.1	0.0	0.1	0.2	531.6	47.9	-44.6	151.4	683.1

Source: ECB.

1) End of period.



MONEY, BANKING AND INVESTMENT FUNDS

2.1 Aggregated balance sheet of euro area MFIs

(EUR billions; outstanding amounts at end of period)

1. Assets

	Total	Loans to euro area residents				Holdings of securities other than shares issued by euro area residents				Money market fund shares/units ¹⁾	Holdings of shares/other equity issued by euro area residents	External assets	Fixed assets	Remaining assets
		Total	General government	Other euro area residents	MFIs	Total	General government	Other euro area residents	MFIs					
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Eurosysteem														
2003	1,086.8	471.3	22.6	0.6	448.0	133.6	121.5	1.3	10.8	-	12.8	317.9	12.4	138.8
2004	1,197.3	546.5	21.5	0.6	524.3	154.8	140.0	1.7	13.1	-	14.2	291.6	14.0	176.2
2005 Q1	1,274.5	599.9	21.5	0.6	577.8	167.8	151.9	1.6	14.4	-	14.0	296.6	12.5	183.7
2005 Apr.	1,286.4	602.9	21.5	0.6	580.8	169.3	153.1	1.6	14.7	-	13.7	300.8	13.1	186.7
May	1,275.5	581.0	21.5	0.6	558.9	173.6	156.3	1.8	15.4	-	13.9	304.1	13.1	189.8
June	1,353.6	638.4	21.2	0.6	616.6	176.9	158.8	2.0	16.1	-	14.1	315.2	13.3	195.8
July	1,353.4	642.4	21.2	0.6	620.6	176.8	159.6	1.8	15.5	-	14.4	309.2	13.3	197.3
Aug.	1,327.9	610.7	21.2	0.6	588.9	180.6	162.8	1.9	15.9	-	14.4	309.5	13.3	199.4
Sep. ^(p)	1,351.2	609.8	21.2	0.6	588.0	183.8	165.6	1.9	16.3	-	14.9	326.1	13.3	203.2
MFIs excluding the Eurosysteem														
2003	19,795.4	12,113.1	817.5	7,101.8	4,193.9	2,944.0	1,242.6	427.7	1,273.6	67.3	894.9	2,567.8	161.8	1,046.4
2004	21,351.8	12,825.3	811.4	7,556.1	4,457.8	3,187.7	1,299.9	465.2	1,422.6	72.5	942.9	2,942.9	159.6	1,220.9
2005 Q1	22,027.0	13,051.3	806.6	7,669.3	4,575.4	3,295.2	1,358.5	481.2	1,455.5	73.1	970.5	3,182.3	156.5	1,298.3
2005 Apr.	22,486.3	13,231.2	811.3	7,721.3	4,698.5	3,340.8	1,372.3	491.8	1,476.7	76.3	1,043.4	3,297.3	156.5	1,340.8
May	22,703.2	13,329.7	809.2	7,785.5	4,734.9	3,343.3	1,369.2	497.3	1,476.7	75.7	1,045.8	3,352.6	157.1	1,399.1
June	22,773.2	13,256.1	808.4	7,918.4	4,529.3	3,392.6	1,383.8	505.3	1,503.5	75.1	999.4	3,404.1	163.2	1,482.7
July	22,876.5	13,327.9	808.9	7,976.8	4,542.2	3,394.9	1,378.7	504.7	1,511.5	75.0	999.9	3,447.1	164.2	1,467.4
Aug.	22,826.7	13,305.4	809.9	7,979.8	4,515.6	3,386.7	1,371.1	505.2	1,510.3	80.5	999.5	3,436.7	164.3	1,453.6
Sep. ^(p)	23,053.7	13,435.4	816.1	8,067.3	4,551.9	3,374.7	1,359.9	504.8	1,510.0	81.4	1,012.5	3,511.1	164.5	1,474.1

2. Liabilities

	Total	Currency in circulation	Deposits of euro area residents				Money market fund shares/units ²⁾	Debt securities issued ³⁾	Capital and reserves	External liabilities	Remaining liabilities
			Total	Central government	Other general government/other euro area residents	MFIs					
	1	2	3	4	5	6	7	8	9	10	11
Eurosysteem											
2003	1,086.8	450.5	324.0	21.3	16.9	285.8	-	1.6	143.8	27.5	139.4
2004	1,197.3	517.3	346.6	24.7	15.0	306.8	-	0.5	138.4	27.2	167.4
2005 Q1	1,274.5	516.4	411.5	61.1	17.6	332.7	-	0.5	149.9	24.9	171.3
2005 Apr.	1,286.4	523.3	410.6	59.3	15.8	335.5	-	0.5	152.5	26.0	173.5
May	1,275.5	529.0	386.0	46.3	17.2	322.5	-	0.5	160.0	24.7	175.2
June	1,353.6	540.9	433.6	76.4	18.7	338.5	-	0.6	173.6	24.4	180.5
July	1,353.4	550.7	426.2	68.5	13.8	344.0	-	0.6	170.0	23.9	182.0
Aug.	1,327.9	544.4	402.6	56.6	13.4	332.6	-	0.6	171.6	25.2	183.5
Sep. ^(p)	1,351.2	550.3	396.5	47.4	15.3	333.9	-	0.6	186.6	27.4	189.7
MFIs excluding the Eurosysteem											
2003	19,795.4	0.0	10,774.8	134.4	6,275.5	4,364.9	648.8	3,161.4	1,145.0	2,606.4	1,458.9
2004	21,351.8	0.0	11,487.5	137.7	6,640.9	4,709.0	677.4	3,496.9	1,199.5	2,815.0	1,675.6
2005 Q1	22,027.0	0.0	11,653.8	126.3	6,706.7	4,820.7	687.7	3,614.8	1,213.5	3,085.5	1,771.7
2005 Apr.	22,486.3	0.0	11,841.8	121.6	6,761.0	4,959.3	704.1	3,667.7	1,227.9	3,198.7	1,846.1
May	22,703.2	0.0	11,895.6	127.2	6,809.3	4,959.1	710.5	3,695.3	1,236.4	3,285.5	1,879.8
June	22,773.2	0.0	11,849.2	135.2	6,920.7	4,793.2	696.4	3,762.2	1,258.5	3,227.8	1,979.1
July	22,876.5	0.0	11,895.3	142.3	6,950.6	4,802.4	710.1	3,775.9	1,268.6	3,264.0	1,962.7
Aug.	22,826.7	0.0	11,813.9	110.2	6,930.0	4,773.7	720.3	3,788.7	1,274.2	3,254.0	1,975.6
Sep. ^(p)	23,053.7	0.0	11,912.2	134.5	6,988.4	4,789.3	712.9	3,807.4	1,272.1	3,344.3	2,004.8

Source: ECB.

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

2.2 Consolidated balance sheet of euro area MFIs

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

1. Assets

	Total	Loans to euro area residents			Holdings of securities other than shares issued by euro area residents			Holdings of shares/ other equity issued by other euro area residents	External assets	Fixed assets	Remaining assets
		Total	General government	Other euro area residents	Total	General government	Other euro area residents				
	1	2	3	4	5	6	7	8	9	10	11
Outstanding amounts											
2003	14,551.8	7,942.6	840.1	7,102.5	1,793.1	1,364.1	429.0	623.6	2,885.7	174.2	1,132.6
2004	15,719.1	8,389.6	832.9	7,556.8	1,906.8	1,439.9	466.9	666.2	3,234.5	173.6	1,348.3
2005 Q1	16,260.4	8,498.1	828.1	7,669.9	1,993.2	1,510.4	482.8	683.9	3,478.9	169.0	1,437.3
2005 Apr.	16,566.8	8,554.7	832.8	7,722.0	2,018.8	1,525.4	493.4	740.4	3,598.1	169.6	1,485.3
May	16,753.6	8,616.8	830.6	7,786.2	2,024.7	1,525.6	499.1	739.4	3,656.7	170.3	1,545.8
June	17,042.4	8,748.6	829.6	7,919.1	2,050.0	1,542.7	507.3	713.9	3,719.2	176.5	1,634.2
July	17,113.3	8,807.5	830.0	7,977.5	2,044.8	1,538.3	506.5	706.8	3,756.3	177.5	1,620.4
Aug.	17,091.7	8,811.6	831.1	7,980.5	2,041.0	1,533.9	507.1	705.9	3,746.2	177.6	1,609.5
Sep. ^(p)	17,311.6	8,905.3	837.4	8,068.0	2,032.2	1,525.5	506.7	725.0	3,837.3	177.8	1,634.1
Transactions											
2003	766.2	384.0	12.1	371.8	170.4	116.3	54.1	19.3	224.8	-3.6	-28.6
2004	1,267.9	499.7	-7.0	506.7	91.9	58.1	33.8	34.6	435.1	2.7	203.9
2005 Q1	449.0	107.9	-5.5	113.4	82.5	66.2	16.4	15.7	185.3	-4.1	61.7
2005 Apr.	291.7	56.7	4.6	52.0	21.6	11.9	9.7	58.2	109.5	0.1	45.6
May	105.9	56.8	-2.4	59.2	0.8	-3.9	4.7	-4.1	-6.7	0.7	58.3
June	130.6	86.4	-1.3	87.8	15.6	7.8	7.8	-28.6	23.2	0.3	33.8
July	85.5	62.0	0.5	61.5	-2.8	-1.4	-1.4	-8.0	48.1	1.0	-14.8
Aug.	-16.5	6.3	1.2	5.2	-5.9	-5.8	0.0	-0.3	-5.0	0.1	-11.7
Sep. ^(p)	177.1	91.3	6.2	85.2	-8.8	-7.2	-1.6	12.6	58.8	0.1	23.0

2. Liabilities

	Total	Currency in circulation	Deposits of central government	Deposits of other general government/ other euro area residents	Money market fund shares/ units ¹⁾	Debt securities issued ²⁾	Capital and reserves	External liabilities	Remaining liabilities	Excess of inter-MFI liabilities
Outstanding amounts										
2003	14,551.8	397.9	155.7	6,292.3	581.5	1,878.5	1,004.7	2,634.0	1,598.3	8.9
2004	15,719.1	468.4	162.4	6,655.9	604.9	2,061.7	1,047.0	2,842.2	1,842.9	33.6
2005 Q1	16,260.4	471.8	187.4	6,724.4	614.6	2,145.5	1,062.9	3,110.4	1,943.0	0.4
2005 Apr.	16,566.8	481.1	180.9	6,776.7	627.8	2,176.8	1,063.6	3,224.7	2,019.6	15.5
May	16,753.6	485.8	173.5	6,826.5	634.8	2,203.7	1,076.2	3,310.2	2,055.1	-12.2
June	17,042.4	496.6	211.6	6,939.5	621.3	2,243.2	1,132.6	3,252.2	2,159.7	-14.2
July	17,113.3	506.4	210.8	6,964.4	635.1	2,249.4	1,131.2	3,287.8	2,144.7	-16.5
Aug.	17,091.7	500.9	166.8	6,943.4	639.8	2,263.1	1,137.8	3,279.3	2,159.0	1.8
Sep. ^(p)	17,311.6	507.1	181.9	7,003.7	631.5	2,281.6	1,156.3	3,371.8	2,194.6	-16.8
Transactions										
2003	766.2	79.0	15.1	313.7	56.7	133.5	38.6	130.8	-60.8	59.8
2004	1,267.9	70.5	6.1	377.4	22.3	197.1	50.5	276.8	229.3	37.7
2005 Q1	449.0	3.4	25.0	57.8	9.9	65.3	13.1	211.9	107.2	-44.4
2005 Apr.	291.7	9.3	-6.5	51.5	13.7	29.2	-2.8	107.4	76.7	13.3
May	105.9	4.8	-7.4	42.6	7.3	14.7	4.7	32.8	48.1	-41.7
June	130.6	10.7	38.1	73.1	-14.4	36.7	22.5	-78.8	47.4	-4.7
July	85.5	9.9	-0.8	28.6	12.9	7.1	1.5	44.0	-17.7	0.1
Aug.	-16.5	-5.5	-44.3	-19.4	4.0	15.0	5.1	-3.2	12.9	18.9
Sep. ^(p)	177.1	6.2	15.1	58.2	-6.9	13.9	5.3	77.3	29.6	-21.5

Source: ECB.

1) Amounts held by euro area residents.

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

2.3 Monetary statistics

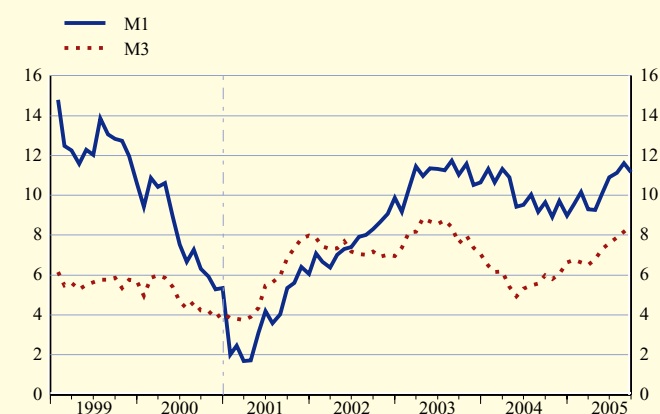
(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period, transactions during period)

1. Monetary aggregates¹⁾ and counterparts

	M1		M2	M3-M2	M3	M3 3-month moving average (centred)	Longer-term financial liabilities	Credit to general government	Credit to other euro area residents		Net external assets ²⁾
	1	2	3	4	5	6	7	8	Loans		11
									9	10	
Outstanding amounts											
2003	2,680.6	2,553.3	5,233.9	907.2	6,141.1	-	4,133.3	2,226.1	8,154.1	7,097.8	230.6
2004	2,912.6	2,661.0	5,573.6	960.6	6,534.2	-	4,454.5	2,297.0	8,688.3	7,551.6	373.4
2005 Q1	3,007.2	2,675.4	5,682.7	945.0	6,627.6	-	4,579.5	2,328.5	8,826.6	7,670.2	383.3
2005 Apr.	3,025.2	2,694.8	5,720.0	956.5	6,676.5	-	4,611.2	2,352.6	8,912.7	7,705.7	406.3
May	3,050.6	2,702.2	5,752.8	972.2	6,725.0	-	4,656.1	2,338.7	8,980.9	7,769.8	367.2
June	3,257.5	2,558.2	5,815.7	981.1	6,796.8	-	4,797.3	2,353.5	9,112.2	7,892.9	465.4
July	3,302.3	2,572.3	5,874.6	994.8	6,869.4	-	4,801.5	2,364.5	9,188.6	7,965.3	471.8
Aug.	3,329.9	2,585.0	5,914.9	1,005.2	6,920.1	-	4,828.1	2,375.9	9,236.8	8,007.0	463.0
Sep. ^(p)	3,349.9	2,630.1	5,980.0	1,001.8	6,981.8	-	4,858.7	2,369.8	9,333.6	8,084.6	454.5
Transactions											
2003	259.4	113.4	372.9	32.2	405.1	-	236.1	131.9	444.7	371.9	96.0
2004	240.4	111.8	352.2	56.0	408.2	-	340.8	53.5	574.5	506.2	160.4
2005 Q1	91.8	8.2	100.0	-20.4	79.6	-	107.1	26.4	137.0	118.8	7.2
2005 Apr.	17.7	18.9	36.6	11.8	48.3	-	26.2	21.0	87.0	35.5	20.2
May	22.4	4.4	26.8	15.7	42.5	-	23.9	-18.3	59.2	59.1	-51.6
June	45.7	14.7	60.5	8.9	69.4	-	69.1	5.4	82.7	78.2	79.6
July	45.2	14.6	59.8	12.9	72.7	-	10.8	14.0	77.9	75.4	9.0
Aug.	28.8	13.1	41.9	9.8	51.6	-	26.5	10.0	50.3	44.0	-9.0
Sep. ^(p)	19.2	44.0	63.2	-1.1	62.1	-	11.6	-4.9	86.7	75.2	-25.6
Growth rates											
2003 Dec.	10.6	4.6	7.6	3.8	7.1	7.0	6.0	6.3	5.8	5.5	96.0
2004 Dec.	9.0	4.4	6.7	6.2	6.6	6.5	8.2	2.4	7.1	7.2	160.4
2005 Mar.	9.3	4.8	7.1	2.8	6.5	6.6	8.7	2.5	7.4	7.5	94.0
2005 Apr.	9.3	5.3	7.4	3.4	6.8	6.9	8.4	3.0	7.7	7.4	89.1
May	10.1	4.9	7.6	5.8	7.3	7.2	8.4	1.6	7.8	7.5	70.5
June	10.9	5.1	8.0	5.1	7.6	7.6	9.5	1.2	8.1	8.0	159.1
July	11.1	5.3	8.3	5.6	7.9	7.9	9.1	1.2	8.3	8.3	164.2
Aug.	11.6	5.3	8.6	5.8	8.2	8.2	9.0	1.1	8.6	8.4	132.4
Sep. ^(p)	11.2	6.5	8.9	6.2	8.5	.	8.3	1.3	8.9	8.6	80.1

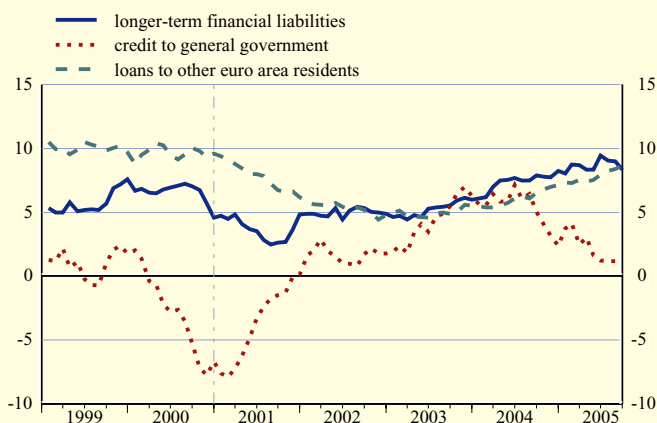
C1 Monetary aggregates

(annual growth rates; seasonally adjusted)



C2 Counterparts

(annual growth rates; seasonally adjusted)



Source: ECB.

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

2.3 Monetary statistics

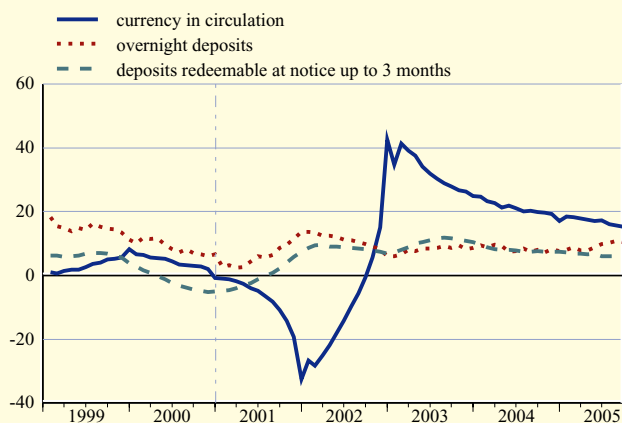
(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period, transactions during period)

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

	Currency in circulation	Overnight deposits	Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	Repos	Money market fund shares/units	Debt securities up to 2 years	Debt securities over 2 years	Deposits redeemable at notice over 3 months	Deposits with agreed maturity over 2 years	Capital and reserves
	1	2	3	4	5	6	7	8	9	10	11
Outstanding amounts											
2003	386.9	2,293.7	1,031.0	1,522.3	218.4	596.1	92.7	1,789.6	90.7	1,250.0	1,003.1
2004	452.7	2,460.0	1,026.5	1,634.5	239.4	618.9	102.3	1,962.6	89.6	1,357.3	1,044.9
2005 Q1	477.6	2,529.7	1,019.3	1,656.1	225.8	613.2	106.1	2,038.7	90.9	1,387.1	1,062.8
2005 Apr.	481.5	2,543.7	1,030.5	1,664.3	215.7	619.8	121.0	2,056.7	91.3	1,395.2	1,068.0
May	487.0	2,563.6	1,023.9	1,678.3	231.3	627.4	113.5	2,085.9	91.4	1,396.2	1,082.7
June	493.7	2,763.8	1,039.5	1,518.7	239.7	622.9	118.5	2,122.9	91.6	1,449.0	1,133.8
July	494.7	2,807.6	1,045.3	1,527.0	243.3	632.3	119.2	2,126.1	90.8	1,453.9	1,130.7
Aug.	501.5	2,828.4	1,047.9	1,537.1	252.6	631.8	120.7	2,146.2	89.8	1,455.4	1,136.7
Sep. ^(p)	507.4	2,842.5	1,084.2	1,545.9	244.9	636.6	120.3	2,155.4	87.8	1,465.1	1,150.4
Transactions											
2003	77.5	181.9	-29.7	143.1	-10.3	57.6	-15.1	149.2	-13.2	61.9	38.1
2004	65.7	174.7	-0.8	112.6	23.1	21.7	11.2	185.2	-1.1	106.6	50.1
2005 Q1	24.9	66.9	-13.2	21.4	-13.7	-5.6	-1.0	62.4	0.8	28.9	15.0
2005 Apr.	4.0	13.7	10.8	8.1	-10.1	7.2	14.7	16.1	0.5	8.0	1.6
May	5.4	17.0	-9.4	13.8	15.5	7.9	-7.6	17.1	0.0	-0.1	6.9
June	6.8	39.0	12.3	2.5	8.4	-5.4	6.0	33.3	-0.5	19.3	17.1
July	1.0	44.3	6.1	8.4	3.6	8.5	0.7	4.1	-0.8	7.7	-0.2
Aug.	6.8	22.0	3.0	10.1	9.4	-1.2	1.6	21.4	-1.0	1.6	4.5
Sep. ^(p)	5.9	13.3	35.2	8.8	-7.8	6.2	0.5	3.7	-2.0	9.4	0.5
Growth rates											
2003 Dec.	24.9	8.6	-2.8	10.4	-4.6	11.0	-14.9	8.9	-12.7	5.2	3.9
2004 Dec.	17.0	7.6	-0.1	7.4	10.7	3.6	12.3	10.3	-1.2	8.5	5.0
2005 Mar.	17.8	7.8	1.7	6.8	4.0	1.8	6.5	10.6	0.5	9.1	5.4
2005 Apr.	17.5	7.8	3.3	6.6	0.3	2.6	14.6	10.4	1.2	8.7	4.9
May	17.0	8.9	1.9	6.7	8.3	4.2	10.0	10.6	1.7	8.2	5.0
June	17.2	9.8	3.3	6.1	10.3	2.3	10.5	11.7	1.4	8.9	6.7
July	16.0	10.3	4.0	6.0	6.8	3.7	13.6	11.2	0.3	8.8	6.3
Aug.	15.6	10.9	4.2	6.0	11.0	2.5	13.6	11.4	-0.9	8.3	6.4
Sep. ^(p)	15.3	10.4	7.1	5.9	8.8	3.7	15.1	10.2	-2.3	8.3	5.8

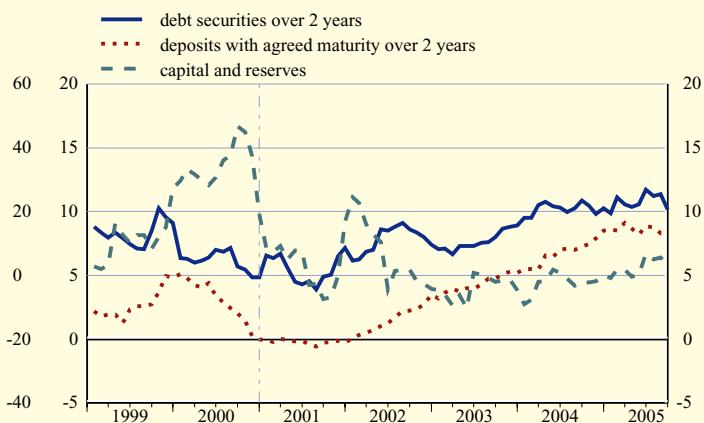
C3 Components of monetary aggregates

(annual growth rates; seasonally adjusted)



C4 Components of longer-term financial liabilities

(annual growth rates; seasonally adjusted)



Source: ECB.

2.4 MFI loans, breakdown ¹⁾

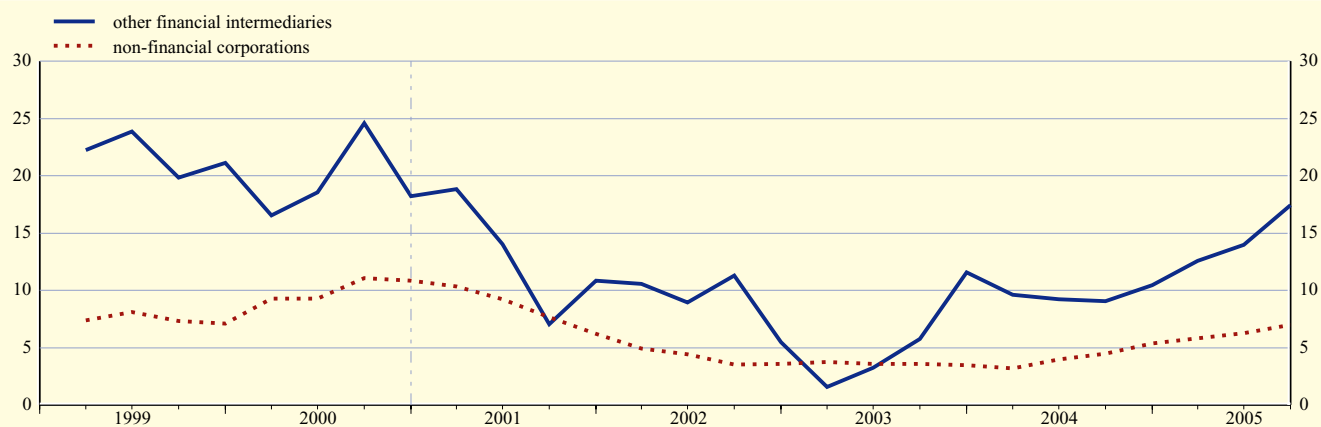
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

1. Loans to financial intermediaries and non-financial corporations

	Insurance corporations and pension funds		Other financial intermediaries ²⁾		Non-financial corporations			
	Total		Total		Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
	1	Up to 1 year 2	3	Up to 1 year 4	5	6	7	8
Outstanding amounts								
2003	35.4	22.1	511.4	325.0	3,034.3	961.5	524.1	1,548.8
2004	48.6	31.4	546.3	334.4	3,152.7	973.8	547.8	1,631.2
2005 Q1	58.2	39.7	561.3	351.1	3,189.5	983.8	554.7	1,650.9
2005 Apr.	59.5	40.8	559.3	345.9	3,214.8	991.7	559.7	1,663.4
May	62.1	43.0	570.0	354.2	3,233.9	993.5	564.3	1,676.2
June	63.8	43.9	581.6	362.7	3,281.9	1,025.2	564.0	1,692.6
July	63.7	43.3	579.5	357.1	3,308.8	1,024.9	573.1	1,710.7
Aug.	64.4	42.7	572.6	349.2	3,294.3	1,001.1	571.0	1,722.3
Sep. ^(p)	65.2	42.6	601.7	373.1	3,320.8	1,014.8	572.3	1,733.7
Transactions								
2003	4.2	2.2	53.4	26.2	102.6	-7.9	15.9	94.7
2004	13.1	9.1	52.1	27.7	162.9	23.2	31.2	108.5
2005 Q1	8.6	7.9	11.3	14.9	37.2	8.0	7.7	21.5
2005 Apr.	1.3	1.2	-2.4	-5.5	26.8	8.1	6.2	12.5
May	2.5	2.1	8.5	6.8	17.4	0.9	4.7	11.8
June	1.7	0.9	10.4	7.9	31.6	19.5	-1.1	13.2
July	-0.1	-0.6	-1.4	-5.3	27.8	0.3	9.1	18.4
Aug.	0.7	-0.5	-7.1	-7.8	-12.5	-22.9	-2.0	12.4
Sep. ^(p)	0.7	-0.2	28.3	23.5	25.1	12.9	1.3	11.0
Growth rates								
2003 Dec.	11.8	11.6	11.6	8.8	3.5	-0.8	3.1	6.5
2004 Dec.	36.9	41.5	10.5	9.1	5.4	2.4	6.0	7.0
2005 Mar.	23.7	21.8	12.6	17.5	5.9	3.8	6.6	6.9
2005 Apr.	14.7	8.3	10.2	11.4	6.0	4.2	6.6	6.9
May	8.8	0.7	10.6	12.1	6.2	4.8	6.4	6.9
June	17.6	9.8	14.0	18.7	6.3	4.9	6.1	7.2
July	11.3	3.1	15.0	19.1	6.8	5.3	7.0	7.7
Aug.	18.3	9.1	16.4	21.4	6.6	4.8	5.8	8.0
Sep. ^(p)	22.7	12.6	17.5	23.0	7.0	5.3	5.8	8.5

C5 Loans to financial intermediaries and non-financial corporations

(annual growth rates)



Source: ECB.

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

2) This category includes investment funds.

2.4 MFI loans, breakdown ¹⁾

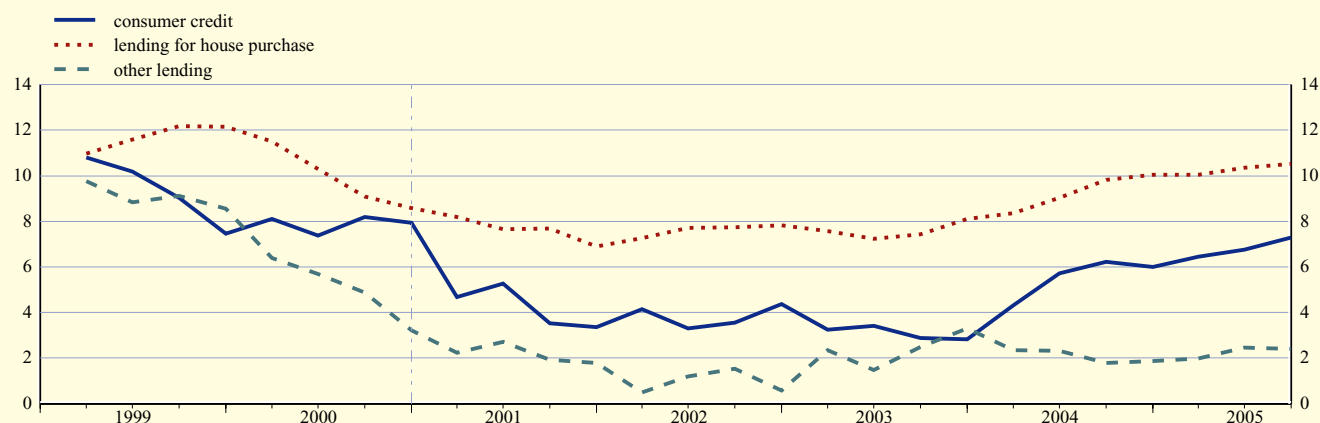
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

2. Loans to households ²⁾

	Total	Consumer credit				Lending for house purchase				Other lending			
		Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
	1	2	3	4	5	6	7	8	9	10	11	12	13
Outstanding amounts													
2003	3,520.6	484.5	112.0	181.0	191.5	2,360.5	14.4	63.3	2,282.7	675.6	145.0	95.5	435.1
2004	3,808.4	515.4	120.3	189.6	205.6	2,591.5	14.6	65.8	2,511.1	701.5	144.1	99.2	458.2
2005 Q1	3,860.4	519.3	120.2	191.1	208.0	2,640.3	14.3	67.1	2,558.9	700.8	144.4	98.7	457.8
2005 Apr.	3,887.8	522.9	119.8	192.6	210.5	2,662.2	14.3	65.0	2,582.9	702.7	142.6	100.2	460.0
May	3,919.5	527.5	121.2	194.5	211.8	2,686.1	14.3	65.0	2,606.9	705.8	142.6	100.8	462.4
June	3,991.2	537.3	124.4	197.3	215.6	2,737.1	14.8	66.2	2,656.0	716.8	149.8	101.1	465.9
July	4,024.8	539.1	122.3	198.9	217.9	2,772.9	14.8	66.8	2,691.2	712.8	145.1	101.2	466.5
Aug.	4,048.4	540.6	123.2	198.8	218.6	2,795.2	14.6	67.2	2,713.4	712.6	143.5	101.3	467.8
Sep. ^(p)	4,079.7	544.6	126.2	198.8	219.6	2,820.2	15.0	67.6	2,737.6	714.9	145.7	101.1	468.1
Transactions													
2003	211.6	13.3	8.4	6.3	-1.4	177.3	-5.9	1.7	181.4	21.0	-6.3	-4.9	32.2
2004	278.6	29.0	7.1	8.6	13.3	236.9	0.9	2.9	233.1	12.7	-0.8	2.0	11.6
2005 Q1	56.2	4.4	-0.3	1.6	3.1	49.5	-0.2	1.3	48.4	2.2	1.3	-0.4	1.3
2005 Apr.	26.3	4.2	-0.3	1.6	2.8	21.5	0.0	-0.8	22.3	0.6	-1.7	0.1	2.2
May	30.8	4.8	1.5	2.0	1.3	23.1	0.0	0.2	22.9	3.0	0.0	0.7	2.2
June	44.1	7.2	3.1	2.3	1.9	28.6	0.5	1.1	26.9	8.3	7.4	-0.3	1.2
July	35.2	2.4	-1.9	1.7	2.5	36.0	0.0	0.5	35.4	-3.1	-4.5	0.2	1.2
Aug.	24.0	2.1	1.1	-0.1	1.1	22.2	-0.2	0.4	22.0	-0.3	-1.5	0.1	1.1
Sep. ^(p)	31.0	4.0	2.7	0.1	1.2	25.1	0.4	0.4	24.3	1.9	1.8	-0.2	0.3
Growth rates													
2003 Dec.	6.4	2.8	8.1	3.6	-0.2	8.1	-26.3	2.6	8.6	3.3	-4.1	-5.0	8.5
2004 Dec.	7.9	6.0	6.3	4.8	6.9	10.0	6.0	4.6	10.2	1.9	-0.5	2.0	2.6
2005 Mar.	8.0	6.4	7.7	4.6	7.5	10.1	5.0	8.1	10.1	2.0	2.0	1.1	2.2
2005 Apr.	8.0	6.4	6.6	4.7	8.0	10.1	5.4	6.2	10.2	1.9	1.3	0.5	2.5
May	8.2	7.2	8.4	5.7	8.0	10.1	5.0	5.9	10.3	2.3	2.2	1.2	2.6
June	8.4	6.8	6.8	5.8	7.7	10.4	4.1	4.6	10.5	2.4	3.9	0.6	2.4
July	8.5	6.8	6.3	5.9	8.0	10.6	5.4	4.7	10.8	2.2	3.2	0.9	2.1
Aug.	8.6	7.0	6.6	6.1	8.2	10.7	4.3	4.7	10.9	2.3	3.2	1.2	2.2
Sep. ^(p)	8.6	7.3	8.3	5.9	8.0	10.5	5.7	4.8	10.7	2.4	2.8	1.2	2.5

C6 Loans to households

(annual growth rates)



Source: ECB.

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

2) Including non-profit institutions serving households.

2.4 MFI loans, breakdown ¹⁾

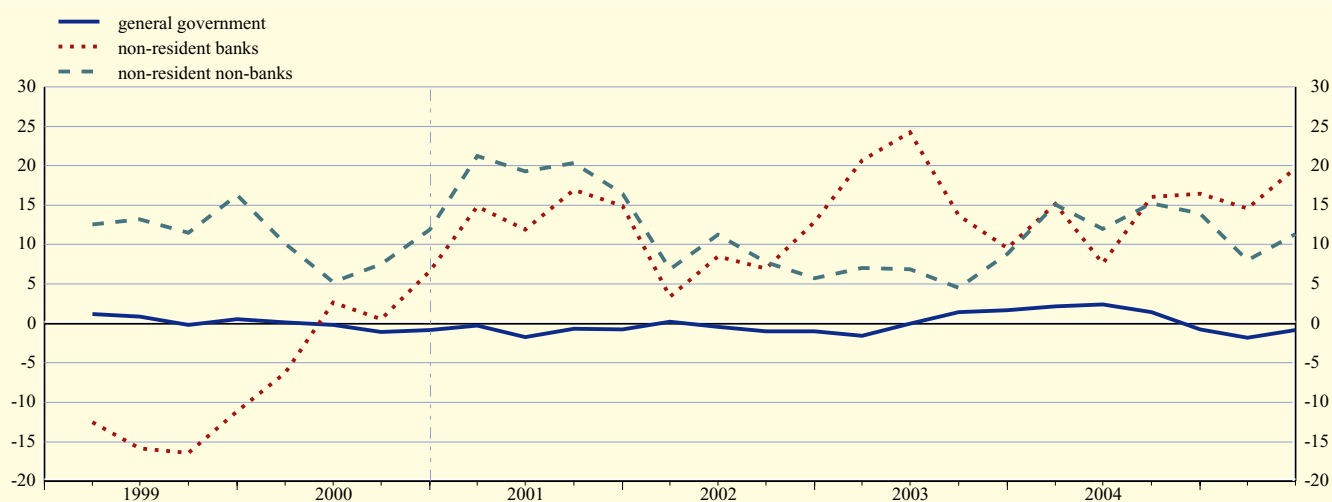
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

3. Loans to government and non-euro area residents

	General government					Non-euro area residents				
	Total	Central government	Other general government			Total	Banks ²⁾	Non-banks		
			State government	Local government	Social security funds			Total	General government	Other
	1	2	3	4	5	6	7	8	9	10
Outstanding amounts										
2003	817.5	128.4	265.1	388.9	35.0	1,757.9	1,182.2	575.7	59.3	516.4
2004	811.4	129.6	252.3	405.7	23.8	1,974.7	1,342.2	632.5	61.3	571.1
2005 Q1	806.6	129.3	248.1	406.6	22.5	2,136.5	1,463.8	672.7	62.0	610.7
Q2 ^(p)	808.4	125.3	247.6	412.3	23.3	2,292.5	1,579.6	712.2	63.5	648.7
Transactions										
2003	13.7	-5.9	-12.2	16.6	15.3	159.4	109.2	50.1	-5.0	55.0
2004	-5.9	2.0	-13.9	17.3	-11.2	275.6	194.9	80.4	1.8	78.6
2005 Q1	-5.5	-0.5	-4.2	0.5	-1.3	124.8	98.6	26.2	0.6	25.5
Q2 ^(p)	1.2	-4.4	-0.7	5.5	0.7	93.8	78.3	14.8	1.5	13.3
Growth rates										
2003 Dec.	1.7	-4.4	-4.4	4.4	77.5	9.3	9.6	8.8	-7.7	11.0
2004 Dec.	-0.7	1.5	-5.2	4.4	-32.1	15.6	16.4	13.9	3.1	15.2
2005 Mar.	-1.8	-1.6	-5.5	4.6	-42.1	12.4	14.6	8.0	1.1	8.8
June ^(p)	-0.8	-0.2	-2.6	5.2	-46.8	17.0	19.7	11.3	4.4	12.1

C7 Loans to government and non-euro area residents

(annual growth rates)



Source: ECB.

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

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

2.5 Deposits held with MFIs, breakdown ¹⁾

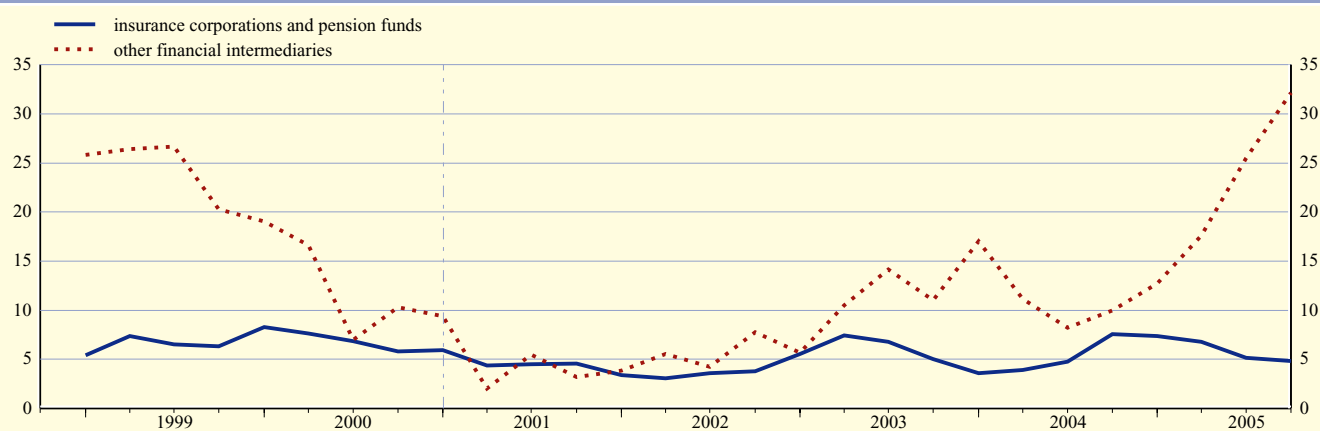
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

1. Deposits by financial intermediaries

	Insurance corporations and pension funds							Other financial intermediaries ²⁾						
	Total	Overnight	With agreed maturity		Redeemable at notice		Repos	Total	Overnight	With agreed maturity		Redeemable at notice		Repos
			Up to 2 years	Over 2 years	Up to 3 months	Over 3 months				Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Outstanding amounts														
2003	542.4	58.9	41.7	420.5	1.3	0.8	19.1	565.6	180.9	130.8	143.3	6.1	0.1	104.4
2004	583.2	59.2	51.4	449.4	1.2	1.3	20.8	636.6	180.3	139.0	187.3	10.1	0.1	119.8
2005 Q1	597.0	65.7	48.5	460.3	1.3	1.3	19.8	692.9	213.3	134.2	205.2	11.5	0.1	128.7
2005 Apr.	602.6	65.7	50.6	462.5	1.3	1.3	21.1	704.5	209.6	143.9	210.7	13.1	0.1	127.1
May	602.5	65.5	50.4	461.9	1.6	1.3	21.8	729.8	217.4	144.7	215.2	12.7	0.1	139.6
June	596.3	61.4	48.6	463.0	1.1	1.6	20.5	791.7	226.3	148.9	264.5	11.1	0.1	140.7
July	603.7	64.3	51.9	464.8	1.1	1.6	20.1	799.2	223.5	155.8	267.6	11.6	0.1	140.5
Aug.	604.1	59.1	50.8	466.1	1.1	1.6	25.4	797.4	217.2	157.4	268.1	11.4	0.1	143.2
Sep. ^(p)	602.9	60.1	50.8	466.9	1.1	1.6	22.4	833.6	242.7	169.6	276.3	10.6	0.1	134.4
Transactions														
2003	19.0	1.6	3.9	11.8	0.3	0.4	1.1	82.8	25.3	-0.2	38.5	3.2	0.1	16.0
2004	39.9	0.7	10.3	27.7	-0.1	-0.1	1.5	72.2	0.9	5.8	43.7	4.1	0.0	17.7
2005 Q1	12.5	6.4	-3.1	10.0	0.1	0.0	-1.0	48.8	32.1	-9.4	16.0	1.3	0.0	8.7
2005 Apr.	5.6	0.0	2.1	2.3	0.0	0.0	1.3	11.2	-3.8	9.6	5.4	1.6	0.0	-1.5
May	-0.5	-0.4	-0.4	-0.7	0.3	0.0	0.7	22.9	6.9	0.3	4.0	-0.6	0.0	12.4
June	-6.6	-4.6	-1.9	1.1	0.0	0.0	-1.2	24.0	7.2	0.9	15.0	-0.2	0.0	1.1
July	7.5	2.9	3.3	1.8	-0.1	0.0	-0.4	10.6	-2.6	7.0	5.9	0.5	0.0	-0.2
Aug.	0.5	-5.2	-1.0	1.3	0.0	0.1	5.3	-1.9	-6.3	1.5	0.5	-0.3	0.0	2.7
Sep. ^(p)	-1.3	1.0	-0.1	0.7	0.0	0.0	-2.9	35.6	25.2	11.9	8.1	-0.8	0.0	-8.8
Growth rates														
2003 Dec.	3.6	2.8	9.9	2.9	41.3	58.8	6.0	17.0	16.3	-0.2	36.4	70.4	-	17.1
2004 Dec.	7.4	1.2	24.6	6.6	-8.0	-43.1	7.9	12.7	0.5	4.3	30.4	67.6	-	17.1
2005 Mar.	6.8	2.3	16.4	7.5	1.7	-51.5	-10.4	17.6	8.5	9.3	40.1	50.0	-	11.4
2005 Apr.	6.7	6.2	22.9	6.8	-9.4	-52.2	-16.2	17.0	7.7	8.7	41.2	60.1	-	8.0
May	6.5	15.1	11.2	5.5	11.2	-53.8	-3.9	21.4	12.9	9.0	44.2	60.3	-	17.7
June	5.2	2.3	16.0	4.8	18.3	31.3	-3.0	25.5	16.3	14.2	48.3	50.1	-	21.0
July	6.2	15.0	13.2	4.9	13.8	32.1	-8.3	27.2	19.7	18.8	47.4	56.2	-	18.6
Aug.	6.3	10.0	9.1	5.1	11.4	32.6	13.8	28.3	23.1	15.9	44.2	55.2	-	25.2
Sep. ^(p)	4.8	-2.6	7.8	5.1	26.4	33.0	12.0	32.2	27.3	32.3	45.6	46.2	-	18.8

C8 Deposits by financial intermediaries

(annual growth rates)



Source: ECB.

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

2) This category includes investment funds.

2.5 Deposits held with MFIs, breakdown ¹⁾

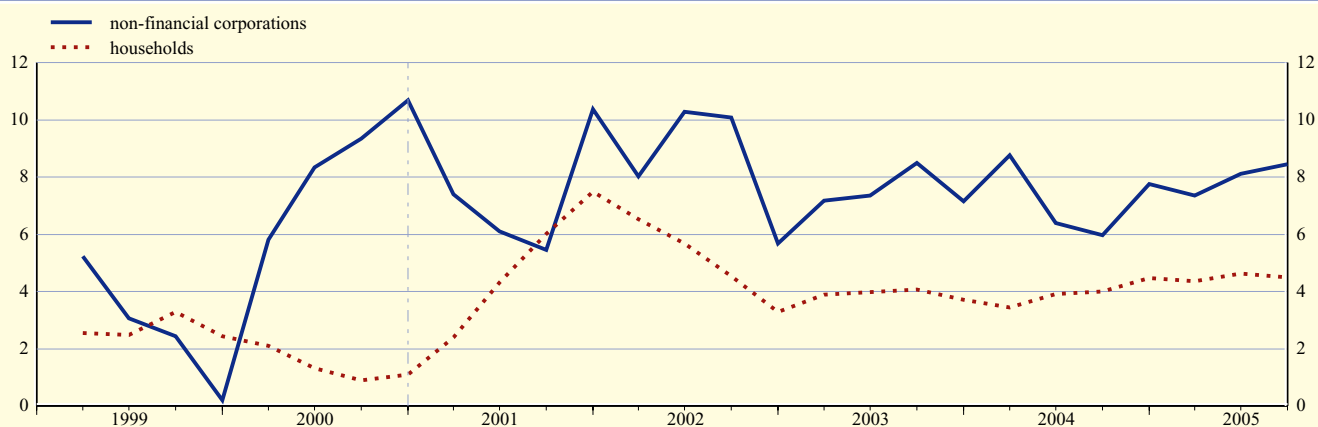
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

2. Deposits by non-financial corporations and households

	Non-financial corporations							Households ²⁾						
	Total	Overnight	With agreed maturity		Redeemable at notice		Repos	Total	Overnight	With agreed maturity		Redeemable at notice		Repos
			Up to 2 years	Over 2 years	Up to 3 months	Over 3 months				Up to 2 years	Over 2 years	Up to 3 months	Over 3 months	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Outstanding amounts														
2003	1,050.1	633.3	280.2	67.6	38.1	1.0	30.0	3,978.6	1,311.8	544.0	600.8	1,379.2	89.9	52.9
2004	1,114.6	674.7	291.1	73.8	44.2	1.1	29.7	4,162.0	1,403.1	515.0	634.3	1,466.1	88.0	55.6
2005 Q1	1,096.3	675.3	280.2	72.1	44.0	1.1	23.6	4,177.0	1,409.1	513.2	632.8	1,481.9	88.7	51.2
2005 Apr.	1,102.1	678.8	284.9	69.2	44.7	1.1	23.5	4,206.1	1,433.8	514.7	633.5	1,485.1	88.2	50.8
May	1,112.7	692.4	282.8	69.3	45.5	1.1	21.7	4,214.9	1,440.0	514.6	630.7	1,489.7	87.8	52.1
June	1,133.3	721.8	274.8	71.4	41.6	1.5	22.1	4,246.2	1,629.9	510.8	630.9	1,336.3	87.2	51.2
July	1,134.5	719.7	279.0	70.9	42.2	1.4	21.3	4,265.2	1,642.9	512.8	630.0	1,339.5	86.4	53.6
Aug.	1,138.7	715.3	287.3	70.7	41.8	1.3	22.3	4,238.4	1,610.4	515.6	630.2	1,342.3	85.5	54.4
Sep. ^(p)	1,152.5	719.2	296.9	68.8	43.9	1.2	22.4	4,247.1	1,627.1	515.5	627.1	1,341.9	83.9	51.6
Transactions														
2003	70.4	40.9	20.3	3.3	10.2	0.0	-4.2	141.9	95.3	-45.4	10.0	117.4	-13.7	-21.8
2004	80.8	48.5	17.1	6.7	8.0	0.7	-0.2	178.1	90.5	-29.6	31.1	85.2	-1.9	2.7
2005 Q1	-20.0	-0.5	-12.1	-1.1	-0.2	0.0	-6.1	14.8	5.4	-2.0	-0.1	15.8	0.2	-4.5
2005 Apr.	5.5	3.3	4.6	-2.9	0.7	0.0	-0.1	29.0	24.7	1.4	0.6	3.2	-0.4	-0.4
May	7.8	12.1	-3.1	-0.2	0.7	0.0	-1.8	7.2	5.9	-1.1	-2.9	4.4	-0.5	1.3
June	19.7	25.5	-8.5	2.8	-0.4	-0.1	0.4	30.7	32.8	-4.2	0.2	3.4	-0.5	-1.0
July	1.5	-2.0	4.4	-0.5	0.6	-0.2	-0.7	19.2	13.1	2.2	-0.9	3.2	-0.8	2.5
Aug.	5.8	-3.2	8.7	-0.1	-0.4	-0.1	1.0	-26.6	-32.4	2.8	0.2	2.9	-1.0	0.8
Sep. ^(p)	13.0	3.5	9.2	-1.9	2.0	0.0	0.1	7.9	16.5	-0.5	-3.2	-0.5	-1.5	-2.9
Growth rates														
2003 Dec.	7.2	6.7	7.7	5.3	41.5	-3.9	-12.4	3.7	7.9	-7.7	1.7	9.3	-13.2	-29.2
2004 Dec.	7.8	7.7	6.2	9.9	21.2	72.2	-0.8	4.5	6.9	-5.4	5.2	6.2	-2.1	5.2
2005 Mar.	7.4	9.3	3.7	4.4	15.2	68.0	-8.3	4.4	6.6	-2.7	3.8	5.6	0.1	-1.3
2005 Apr.	7.7	9.3	7.0	-1.4	15.3	66.5	-11.2	4.7	7.2	-1.6	3.7	5.5	0.9	-2.9
May	7.0	10.2	2.9	-2.8	16.0	69.5	-16.7	4.5	6.6	-1.1	3.0	5.4	1.3	3.2
June	8.1	10.6	4.6	2.7	14.9	-5.8	-13.4	4.6	7.8	-1.4	2.9	4.8	1.1	1.5
July	8.4	11.7	4.1	1.3	14.9	-17.5	-19.5	4.7	8.3	-0.9	2.6	4.7	0.1	2.0
Aug.	8.8	11.7	7.1	1.0	12.5	-24.5	-22.5	4.5	7.8	0.0	2.3	4.7	-0.9	-0.3
Sep. ^(p)	8.5	9.0	10.8	-1.6	16.5	-26.5	-12.5	4.5	7.9	0.5	1.8	4.6	-2.4	-4.0

C9 Deposits by non-financial corporations and households

(annual growth rates)



Source: ECB.

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

2) Including non-profit institutions serving households.

2.5 Deposits held with MFIs, breakdown ¹⁾

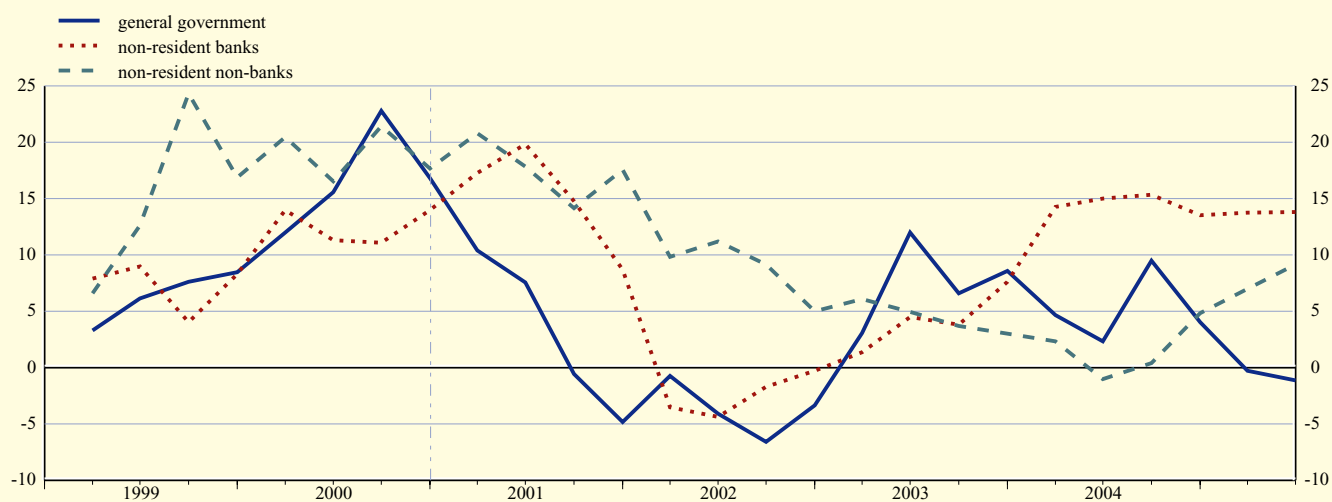
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

3. Deposits by government and non-euro area residents

	General government					Non-euro area residents				
	Total	Central government	Other general government			Total	Banks ²⁾	Non-banks		
			State government	Local government	Social security funds			Total	General government	Other
	1	2	3	4	5	6	7	8	9	10
Outstanding amounts										
2003	273.3	134.4	31.1	66.9	40.9	2,245.1	1,580.8	664.3	96.1	568.2
2004	282.2	137.7	30.5	69.6	44.3	2,428.9	1,748.0	680.9	103.4	577.5
2005 Q1	269.9	126.3	33.4	67.5	42.7	2,669.1	1,935.7	733.4	105.4	628.0
Q2 ^(p)	288.4	135.2	35.1	69.8	48.4	2,784.7	2,039.0	744.5	117.6	626.9
Transactions										
2003	21.5	23.3	-0.5	-2.3	1.0	138.6	117.5	21.1	-1.3	22.4
2004	11.0	2.7	1.8	2.8	3.8	247.1	214.8	32.0	6.9	25.1
2005 Q1	-12.2	-11.4	2.8	-2.1	-1.6	188.2	147.1	41.0	2.0	39.1
Q2 ^(p)	18.5	8.9	1.7	2.2	5.7	42.0	47.5	-6.8	12.3	-19.1
Growth rates										
2003 Dec.	8.6	21.3	-1.5	-3.4	2.6	6.2	7.6	3.0	-1.3	3.7
2004 Dec.	4.0	2.0	5.6	4.1	9.2	11.0	13.5	4.8	7.2	4.4
2005 Mar.	-0.3	-10.5	19.6	8.3	8.6	11.8	13.7	7.0	4.1	7.5
June ^(p)	-1.1	-13.7	19.4	8.3	16.9	12.6	13.8	9.1	14.8	8.1

C10 Deposits by government and non-euro area residents

(annual growth rates)



Source: ECB.

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

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

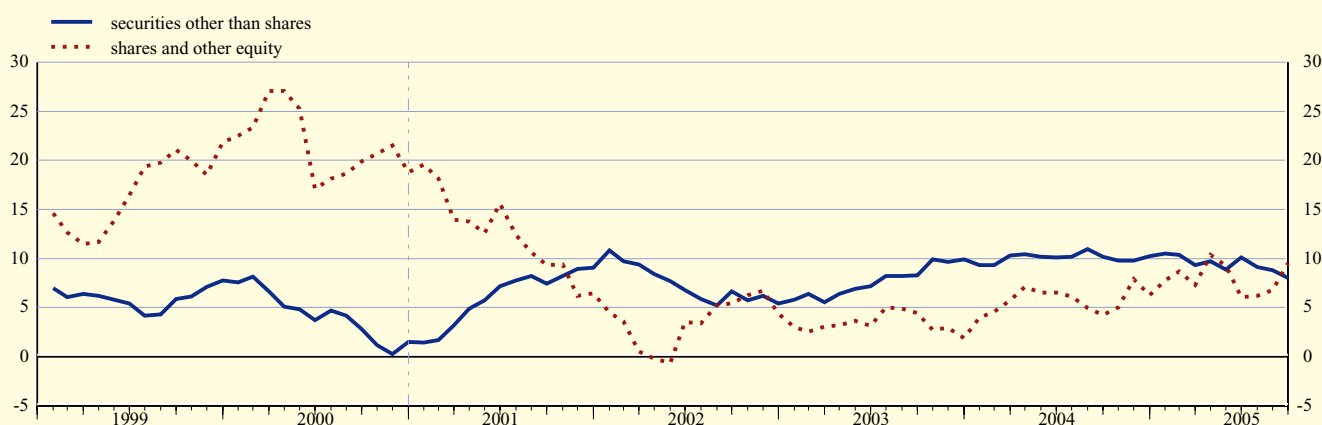
2.6 MFI holdings of securities, breakdown ¹⁾

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

	Securities other than shares								Shares and other equity			
	Total	MFIs		General government		Other euro area residents		Non-euro area residents	Total	MFIs	Non-MFIs	Non-euro area residents
		Euro	Non-euro	Euro	Non-euro	Euro	Non-euro					
	1	2	3	4	5	6	7	8	9	10	11	12
Outstanding amounts												
2003	3,576.3	1,216.2	57.4	1,227.1	15.6	409.1	18.6	632.3	1,071.4	279.7	615.3	176.4
2004	3,939.5	1,362.7	59.9	1,284.1	15.8	449.0	16.3	751.7	1,158.1	286.4	656.4	215.2
2005 Q1	4,093.1	1,388.9	66.6	1,342.8	15.8	464.9	16.3	797.9	1,217.0	296.1	674.4	246.5
2005 Apr.	4,160.0	1,411.7	65.0	1,354.5	17.9	474.1	17.7	819.2	1,281.7	312.3	731.1	238.3
May	4,198.8	1,409.6	67.2	1,351.1	18.1	478.0	19.3	855.5	1,283.0	315.9	729.9	237.2
June	4,267.4	1,436.0	67.4	1,368.0	15.8	486.5	18.8	874.7	1,234.7	295.1	704.2	235.3
July	4,270.7	1,444.3	67.2	1,362.8	16.0	485.0	19.7	875.7	1,241.0	303.0	696.8	241.1
Aug.	4,281.3	1,443.0	67.3	1,355.0	16.1	484.7	20.5	894.6	1,241.5	303.6	695.9	242.0
Sep. ^(p)	4,264.2	1,442.2	67.8	1,343.2	16.7	485.1	19.7	889.6	1,256.9	298.0	714.5	244.4
Transactions												
2003	324.6	90.8	4.1	79.0	0.8	52.3	1.7	95.9	18.8	7.2	19.3	-7.8
2004	368.4	148.1	4.9	40.3	1.3	34.8	-1.3	140.4	67.6	2.2	34.5	30.8
2005 Q1	137.7	29.1	4.7	55.3	-0.5	17.0	-0.5	32.5	57.1	9.4	16.1	31.6
2005 Apr.	60.5	23.0	-2.1	9.5	1.9	8.5	1.3	18.5	67.3	16.6	58.2	-7.4
May	16.4	-2.0	0.5	-6.3	-0.4	3.5	1.0	20.0	-6.6	2.7	-4.2	-5.2
June	50.1	25.5	-0.4	8.5	-2.6	8.4	-0.7	11.6	-46.5	-14.7	-28.6	-3.2
July	7.2	7.4	0.4	-3.0	0.4	-2.3	1.0	3.3	0.1	3.5	-8.0	4.5
Aug.	8.3	-2.3	0.1	-8.9	0.1	-0.9	0.7	19.4	0.1	0.9	-0.5	-0.3
Sep. ^(p)	-22.7	-1.8	-0.1	-10.6	0.4	-0.7	-0.9	-9.1	10.8	-1.1	12.4	-0.5
Growth rates												
2003 Dec.	9.9	8.1	8.7	6.9	5.0	14.8	8.2	17.2	1.9	2.7	3.4	-4.2
2004 Dec.	10.2	12.2	8.4	3.3	7.7	8.4	-7.3	22.0	6.3	0.8	5.6	17.2
2005 Mar.	9.3	9.1	14.1	3.9	-4.1	11.1	-4.6	19.1	7.3	1.9	4.0	26.4
2005 Apr.	9.7	10.1	8.6	4.0	10.3	12.0	-0.2	18.7	10.4	5.5	9.3	21.4
May	8.9	9.0	10.6	1.3	7.4	11.5	10.8	21.4	9.3	5.1	8.7	17.4
June	10.1	11.4	7.6	1.4	-9.9	12.3	4.0	24.2	6.1	1.3	6.6	11.5
July	9.1	10.4	9.3	1.5	-6.5	11.6	15.8	19.6	6.2	3.2	6.7	8.7
Aug.	8.8	9.9	7.2	0.9	-2.9	11.5	21.6	19.8	6.8	3.9	8.3	6.4
Sep. ^(p)	8.0	9.0	5.7	-0.2	3.0	12.0	10.4	19.3	9.5	5.3	10.5	12.5

C11 MFI holdings of securities

(annual growth rates)



Source: ECB.

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

2.7 Revaluation of selected MFI balance sheet items ¹⁾

(EUR billions)

1. Write-offs/write-downs of loans to households ²⁾

	Consumer credit				Lending for house purchase				Other lending			
	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
	1	2	3	4	5	6	7	8	9	10	11	12
2003	-2.7	-1.1	-0.5	-1.1	-3.2	-0.3	-0.1	-2.8	-7.2	-2.8	-0.3	-4.1
2004	-3.2	-1.3	-0.7	-1.3	-3.4	-0.3	-0.1	-3.0	-6.7	-2.3	-0.3	-4.1
2005 Q1	-1.3	-0.6	-0.2	-0.5	-1.2	-0.1	0.0	-1.1	-2.7	-1.1	-0.1	-1.6
2005 Apr.	-0.3	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.3	-0.1	0.0	-0.2
May	-0.2	-0.1	0.0	-0.1	-0.1	0.0	0.0	-0.1	-0.4	-0.2	0.0	-0.2
June	-0.3	-0.1	-0.1	-0.1	-0.5	0.0	0.0	-0.5	-0.9	-0.4	0.0	-0.5
July	-0.4	-0.2	0.0	-0.1	-0.2	0.0	0.0	-0.2	-0.3	-0.1	0.0	-0.1
Aug.	-0.3	-0.1	0.0	-0.1	-0.1	0.0	0.0	-0.1	-0.3	-0.1	0.0	-0.1
Sep. ^(p)	-0.3	-0.1	-0.1	-0.1	-0.2	0.0	0.0	-0.2	-0.4	-0.2	0.0	-0.2

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

	Non-financial corporations				Non-euro area residents		
	Total	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total	Up to 1 year	Over 1 year
	1	2	3	4	5	6	7
2003	-17.5	-8.8	-1.3	-7.4	-1.1	-0.3	-0.7
2004	-16.1	-8.8	-0.8	-6.5	-1.6	-0.5	-1.1
2005 Q1	-5.1	-2.5	-0.7	-1.9	-0.3	-0.1	-0.3
2005 Apr.	-0.8	-0.5	0.0	-0.3	0.0	0.0	0.0
May	-1.1	-0.5	0.0	-0.6	-0.2	0.0	-0.2
June	-1.9	-1.0	-0.1	-0.9	-0.1	0.0	-0.1
July	-0.5	-0.3	-0.1	-0.2	-0.1	0.0	-0.1
Aug.	-0.5	-0.2	-0.1	-0.2	-0.1	0.0	0.0
Sep. ^(p)	-0.8	-0.4	-0.1	-0.3	-0.1	0.0	0.0

3. Revaluation of securities held by MFIs

	Securities other than shares								Shares and other equity			
	Total	MFIs		General government		Other euro area residents		Non-euro area residents	Total	MFIs	Non-MFIs	Non-euro area residents
		Euro	Non-euro	Euro	Non-euro	Euro	Non-euro					
	1	2	3	4	5	6	7	8	9	10	11	12
2003	-1.2	-0.8	-0.3	3.0	0.0	-1.1	-0.1	-1.9	19.4	8.0	5.0	6.4
2004	13.5	1.5	-0.1	10.8	-0.2	0.9	-0.1	0.6	8.1	1.3	3.4	3.5
2005 Q1	5.9	1.0	0.1	3.8	0.1	-0.7	0.1	1.6	4.6	0.5	2.7	1.4
2005 Apr.	3.8	0.4	0.0	2.2	0.0	0.8	0.0	0.4	-3.1	-0.8	-1.5	-0.8
May	6.0	0.5	0.1	2.9	0.1	0.3	0.1	2.2	7.8	0.8	3.0	4.1
June	7.7	2.0	0.1	2.8	0.1	0.6	0.0	2.1	5.3	1.1	2.8	1.4
July	-0.8	0.6	0.0	-2.3	-0.1	0.5	0.0	0.6	4.8	1.5	2.1	1.2
Aug.	1.6	0.4	0.1	1.1	0.0	0.3	0.1	-0.4	0.3	-0.6	-0.4	1.3
Sep. ^(p)	0.5	0.4	0.1	-1.2	0.0	1.0	-0.1	0.3	4.1	-0.1	1.6	2.5

Source: ECB.

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

2) Including non-profit institutions serving households.

2.8 Currency breakdown of selected MFI balance sheet items ¹⁾

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

1. Deposits

	MFIs ²⁾							Non-MFIs						
	All currencies (outstanding amount)	Euro ³⁾	Non-euro currencies				All currencies (outstanding amount)	Euro ³⁾	Non-euro currencies					
			Total	USD	JPY	CHF			GBP	Total	USD	JPY	CHF	GBP
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
	By euro area residents													
2003	4,364.9	91.3	8.7	5.4	0.5	1.5	0.9	6,409.9	97.3	2.7	1.7	0.3	0.1	0.3
2004	4,709.0	91.4	8.6	5.0	0.5	1.5	1.1	6,778.5	97.2	2.8	1.7	0.3	0.1	0.4
2005 Q1	4,820.7	91.0	9.0	5.4	0.5	1.4	1.1	6,833.0	97.0	3.0	1.9	0.3	0.1	0.4
Q2 ^(p)	4,793.2	90.9	9.1	5.5	0.5	1.4	1.1	7,055.9	96.9	3.1	1.9	0.3	0.1	0.4
	By non-euro area residents													
2003	1,580.8	46.9	53.1	35.6	1.8	3.6	9.4	664.3	51.0	49.0	32.1	2.1	2.2	9.6
2004	1,748.0	46.7	53.3	35.8	2.1	3.2	9.5	680.9	55.4	44.6	28.9	1.5	2.2	9.3
2005 Q1	1,935.7	46.9	53.1	35.2	2.4	2.9	9.7	733.4	54.6	45.4	29.4	1.5	2.0	9.2
Q2 ^(p)	2,039.0	45.8	54.2	35.9	2.3	3.0	9.8	744.5	52.3	47.7	30.9	1.5	2.2	9.9

2. Debt securities issued by euro area MFIs

	All currencies (outstanding amount)	Euro ³⁾	Non-euro currencies				
			Total	USD	JPY	CHF	GBP
	1	2	3	4	5	6	7
2003	3,304.0	85.4	14.6	7.9	1.5	1.7	2.3
2004	3,653.9	84.6	15.4	7.6	1.7	1.9	2.7
2005 Q1	3,794.9	83.4	16.6	8.2	1.7	1.9	2.9
Q2 ^(p)	3,943.0	82.4	17.6	9.0	1.8	1.9	3.0

Source: ECB.

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

2.8 Currency breakdown of selected MFI balance sheet items ¹⁾

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

3. Loans

	MFIs ²⁾							Non-MFIs						
	All currencies (outstanding amount)	Euro ³⁾	Non-euro currencies				All currencies (outstanding amount)	Euro ³⁾	Non-euro currencies					
			Total						Total					
			USD	JPY	CHF	GBP			USD	JPY	CHF	GBP		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
To euro area residents														
2003	4,193.9	-	-	-	-	-	-	7,919.3	96.5	3.5	1.6	0.3	1.2	0.3
2004	4,457.8	-	-	-	-	-	-	8,367.5	96.6	3.4	1.4	0.2	1.3	0.4
2005 Q1	4,575.4	-	-	-	-	-	-	8,475.9	96.5	3.5	1.5	0.2	1.3	0.4
2005 Q2 ^(p)	4,529.3	-	-	-	-	-	-	8,726.8	96.4	3.6	1.7	0.2	1.3	0.4
To non-euro area residents														
2003	1,182.2	50.2	49.8	29.3	4.7	2.5	9.2	575.7	38.8	61.2	43.6	2.4	4.6	7.0
2004	1,342.2	51.4	48.6	29.9	3.7	2.2	8.7	632.5	42.2	57.8	40.1	2.6	4.5	7.2
2005 Q1	1,463.8	51.8	48.2	29.2	3.4	2.1	9.2	672.7	41.8	58.2	42.1	1.4	4.3	7.1
2005 Q2 ^(p)	1,579.6	49.5	50.5	31.1	3.8	2.2	8.8	712.2	40.5	59.5	43.3	1.1	4.4	7.3

4. Holdings of securities other than shares

	Issued by MFIs ²⁾							Issued by non-MFIs						
	All currencies (outstanding amount)	Euro ³⁾	Non-euro currencies				All currencies (outstanding amount)	Euro ³⁾	Non-euro currencies					
			Total						Total					
			USD	JPY	CHF	GBP			USD	JPY	CHF	GBP		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
Issued by euro area residents														
2003	1,273.6	95.5	4.5	1.7	0.3	0.9	1.3	1,670.3	98.0	2.0	1.0	0.5	0.3	0.2
2004	1,422.6	95.8	4.2	1.8	0.3	0.5	1.3	1,765.1	98.2	1.8	0.9	0.5	0.1	0.3
2005 Q1	1,455.5	95.4	4.6	2.1	0.4	0.4	1.5	1,839.7	98.3	1.7	0.9	0.4	0.1	0.3
2005 Q2 ^(p)	1,503.5	95.5	4.5	2.0	0.3	0.4	1.4	1,889.2	98.2	1.8	1.0	0.4	0.1	0.3
Issued by non-euro area residents														
2003	276.9	45.1	54.9	30.6	1.2	4.9	15.4	355.5	45.8	54.2	31.1	5.8	5.8	6.4
2004	341.3	50.3	49.7	28.6	1.0	0.5	17.0	410.4	44.8	55.2	30.5	8.6	0.7	9.2
2005 Q1	359.8	48.9	51.1	30.3	1.0	0.5	16.5	438.0	43.7	56.3	32.7	7.2	0.8	9.1
2005 Q2 ^(p)	395.6	47.0	53.0	30.9	0.9	0.5	17.9	475.4	41.4	58.6	34.0	7.4	0.8	10.0

Source: ECB.

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

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

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

2.9 Aggregated balance sheet of euro area investment funds ¹⁾

(EUR billions; outstanding amounts at end of period)

1. Assets

	Total 1	Deposits 2	Holdings of securities other than shares			Holdings of shares/ other equity 6	Holdings of investment fund shares 7	Fixed assets 8	Other assets 9
			Total 3	Up to 1 year 4	Over 1 year 5				
2004 Q1	3,356.2	266.5	1,434.5	70.4	1,364.1	1,103.9	263.2	136.9	151.2
Q2	3,373.2	244.9	1,430.8	69.4	1,361.5	1,121.1	278.5	140.3	157.6
Q3	3,392.8	246.7	1,472.8	72.1	1,400.6	1,095.3	281.0	144.4	152.6
Q4	3,509.0	240.1	1,497.6	71.9	1,425.7	1,157.8	293.7	146.9	172.9
2005 Q1	3,714.2	265.5	1,561.6	72.8	1,488.9	1,226.1	316.9	151.1	193.0
Q2 ^(p)	3,929.2	272.1	1,642.1	83.3	1,558.8	1,294.5	346.5	154.7	219.3

2. Liabilities

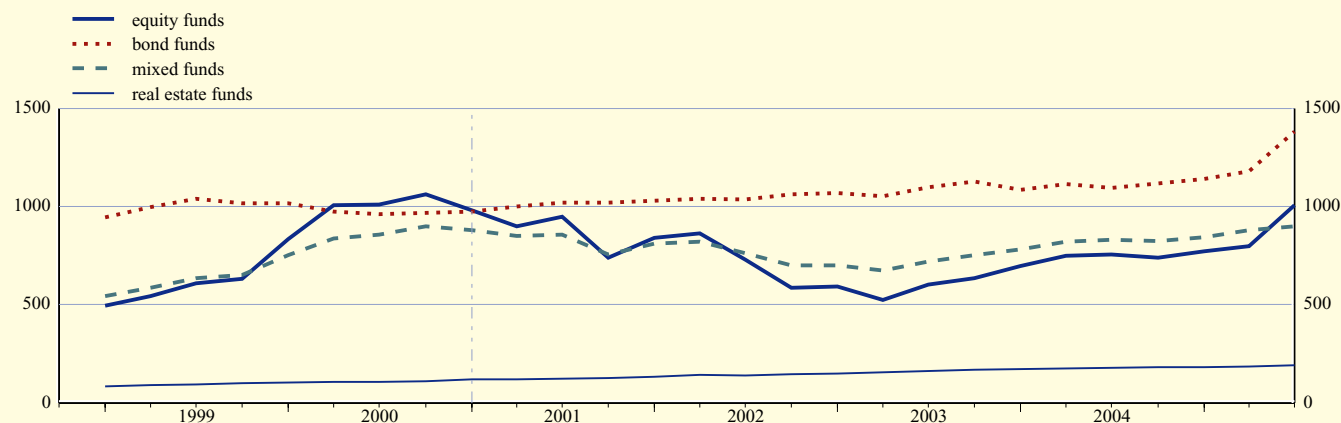
	Total 1	Deposits and loans taken 2	Investment fund shares 3	Other liabilities 4
2004 Q1	3,356.2	49.6	3,173.8	132.9
Q2	3,373.2	50.4	3,196.2	126.6
Q3	3,392.8	49.5	3,216.6	126.7
Q4	3,509.0	48.5	3,322.4	138.2
2005 Q1	3,714.2	56.0	3,483.8	174.4
Q2 ^(p)	3,929.2	53.3	3,683.6	192.2

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

	Total 1	Funds by investment policy					Funds by type of investor	
		Equity funds 2	Bond funds 3	Mixed funds 4	Real estate funds 5	Other funds 6	General public funds 7	Special investors' funds 8
2004 Q1	3,356.2	750.4	1,116.3	820.6	176.2	492.8	2,469.8	886.4
Q2	3,373.2	756.5	1,094.2	830.0	179.7	512.7	2,479.5	893.7
Q3	3,392.8	740.1	1,119.0	825.8	182.4	525.5	2,495.4	897.4
Q4	3,509.0	772.4	1,140.9	844.4	182.3	568.9	2,588.3	920.7
2005 Q1	3,714.2	797.8	1,179.9	880.9	186.2	669.5	2,759.1	955.1
Q2 ^(p)	3,929.2	1,007.1	1,381.9	898.7	191.2	450.3	2,929.7	999.5

C12 Total assets of investment funds

(EUR billions)



Source: ECB.

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

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

(EUR billions; outstanding amounts at end of period)

1. Funds by investment policy

	Total 1	Deposits 2	Holdings of securities other than shares			Holdings of shares/ other equity 6	Holdings of investment fund shares 7	Fixed assets 8	Other assets 9
			Total 3	Up to 1 year 4	Over 1 year 5				
Equity funds									
2004 Q1	750.4	32.8	32.2	3.0	29.2	635.6	23.4	-	26.5
Q2	756.5	31.5	31.6	3.2	28.3	642.8	25.3	-	25.3
Q3	740.1	31.5	33.0	3.7	29.3	625.3	25.1	-	25.1
Q4	772.4	28.5	33.9	3.7	30.2	653.4	28.0	-	28.6
2005 Q1	797.8	31.2	33.9	3.7	30.2	675.5	28.9	-	28.2
Q2 ^(p)	1,007.1	41.4	38.8	4.0	34.8	862.5	33.4	-	31.0
Bond funds									
2004 Q1	1,116.3	97.3	918.4	35.3	883.1	32.6	21.4	-	46.6
Q2	1,094.2	79.1	910.0	36.3	873.7	33.0	21.8	-	50.3
Q3	1,119.0	80.8	932.4	38.8	893.6	31.9	23.4	-	50.5
Q4	1,140.9	77.5	943.6	39.9	903.7	36.9	23.4	-	59.5
2005 Q1	1,179.9	90.3	964.5	41.2	923.3	36.4	26.0	-	62.6
Q2 ^(p)	1,381.9	101.7	1,130.5	53.4	1,077.1	35.4	30.0	-	84.3
Mixed funds									
2004 Q1	820.6	52.9	333.7	21.2	312.5	286.6	107.2	0.3	39.9
Q2	830.0	52.3	340.1	22.3	317.7	278.9	114.9	0.3	43.5
Q3	825.8	52.3	347.8	22.0	325.9	270.5	115.6	0.3	39.4
Q4	844.4	50.4	347.0	20.1	326.8	281.6	121.3	0.2	43.9
2005 Q1	880.9	55.9	358.7	20.7	338.0	290.7	124.8	0.1	50.6
Q2 ^(p)	898.7	59.8	385.7	19.5	366.2	255.1	134.2	0.2	63.6
Real estate funds									
2004 Q1	176.2	14.7	9.1	0.6	8.5	0.7	7.7	135.9	8.0
Q2	179.7	15.0	8.6	0.6	7.9	0.7	7.7	139.2	8.7
Q3	182.4	14.4	8.5	0.6	7.9	0.7	7.5	143.1	8.0
Q4	182.3	14.6	7.1	0.7	6.4	0.9	6.9	144.8	8.0
2005 Q1	186.2	13.3	7.8	0.7	7.1	1.0	6.9	148.9	8.3
Q2 ^(p)	191.2	13.0	7.6	0.7	6.9	1.0	7.0	154.3	8.4

2. Funds by type of investor

	Total 1	Deposits 2	Holdings of securities other than shares 3	Holdings of shares/ other equity 4	Holdings of investment fund shares 5	Fixed assets 6	Other assets 7
2004 Q1	2,469.8	219.2	948.7	877.3	198.8	117.8	107.9
Q2	2,479.5	202.1	945.8	890.2	211.0	120.5	109.8
Q3	2,495.4	205.7	974.3	872.6	213.2	124.0	105.5
Q4	2,588.3	201.2	992.9	926.0	221.4	127.4	119.4
2005 Q1	2,759.1	223.4	1,045.4	979.8	240.2	130.7	139.5
Q2 ^(p)	2,929.7	228.1	1,110.0	1,036.4	259.2	133.7	162.5
Special investors' funds							
2004 Q1	886.4	47.3	485.8	226.5	64.4	19.1	43.3
Q2	893.7	42.8	485.0	230.8	67.5	19.8	47.8
Q3	897.4	41.0	498.4	222.7	67.7	20.4	47.2
Q4	920.7	38.9	504.7	231.8	72.3	19.5	53.5
2005 Q1	955.1	42.1	516.2	246.2	76.7	20.4	53.5
Q2 ^(p)	999.5	43.9	532.1	258.2	87.3	21.0	56.8

Source: ECB.



FINANCIAL AND NON-FINANCIAL ACCOUNTS

3.1 Main financial assets of non-financial sectors

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

	Currency and deposits											Memo: deposits of non-banks with banks outside the euro area
	Total	Total	Currency	Deposits of non-financial sectors other than central government with euro area MFIs					Deposits of central government with euro area MFIs	Deposits with non-MFIs ¹⁾		
				Total	Overnight	With agreed maturity	Redeemable at notice	Repos				
	1	2	3	4	5	6	7	8	9	10	11	
Outstanding amounts												
2003 Q4	15,657.3	5,883.9	352.4	5,183.2	2,027.5	1,559.1	1,511.4	85.2	155.7	192.6	347.3	
2004 Q1	15,869.1	5,914.7	350.8	5,180.6	2,020.6	1,545.0	1,533.9	81.2	183.8	199.4	396.7	
Q2	16,151.3	6,051.9	372.1	5,263.9	2,101.2	1,529.5	1,553.9	79.4	223.7	192.2	397.2	
Q3	16,240.3	6,076.3	383.5	5,284.3	2,104.2	1,532.2	1,565.1	82.8	204.1	204.4	394.9	
Q4	16,597.9	6,234.8	413.5	5,435.0	2,165.2	1,577.9	1,603.7	88.2	162.4	224.0	386.8	
2005 Q1	16,878.2	6,251.4	408.4	5,433.3	2,174.8	1,560.0	1,620.0	78.5	187.4	222.2	428.7	
Transactions												
2003 Q4	162.8	127.5	29.7	118.0	79.0	7.9	36.3	-5.2	-28.1	8.0	11.0	
2004 Q1	148.6	28.3	-1.6	-5.0	-7.6	-15.8	22.4	-3.9	28.1	6.8	44.2	
Q2	291.0	139.5	21.2	86.1	82.0	-14.7	20.7	-1.9	39.4	-7.2	0.0	
Q3	120.3	28.8	11.5	24.8	4.6	5.5	11.3	3.4	-19.7	12.2	1.7	
Q4	165.3	167.3	30.0	159.4	65.2	49.9	38.9	5.4	-41.7	19.6	4.4	
2005 Q1	168.7	16.0	-5.0	-3.5	7.9	-17.4	15.7	-9.7	25.0	-0.5	35.1	
Growth rates												
2003 Q4	4.7	5.6	21.2	4.3	7.6	-1.0	8.1	-23.4	11.0	9.0	25.3	
2004 Q1	4.4	5.3	20.9	4.3	8.8	-1.3	6.5	-23.0	5.9	7.5	26.1	
Q2	4.8	5.3	19.5	4.2	8.3	-1.7	6.3	-15.7	12.8	4.8	21.9	
Q3	4.7	5.6	18.8	4.4	8.1	-1.1	6.2	-8.5	10.7	10.7	16.5	
Q4	4.6	6.2	17.3	5.1	7.1	1.6	6.2	3.6	3.9	16.3	14.5	
2005 Q1	4.7	5.9	16.4	5.2	7.9	1.5	5.6	-3.3	1.7	12.1	10.4	
Securities other than shares												
			Shares ²⁾					Insurance technical reserves				
	Total	Short-term	Long-term	Total	Quoted shares	Mutual fund shares	Money market fund shares/units	Total	Net equity of households in life insurance reserves and pension fund reserves	Prepayments of insurance premiums and reserves for outstanding claims		
	12	13	14	15	16	17	18	19	20	21		
Outstanding amounts												
2003 Q4	1,904.9	191.0	1,713.9	3,932.1	2,036.3	1,895.8	406.6	3,936.3	3,561.1	375.2		
2004 Q1	1,923.8	198.8	1,725.0	4,020.8	2,070.1	1,950.7	420.9	4,009.8	3,624.7	385.1		
Q2	1,955.2	215.5	1,739.7	4,068.1	2,125.5	1,942.6	424.2	4,076.1	3,686.5	389.5		
Q3	1,974.6	214.8	1,759.8	4,034.8	2,097.1	1,937.7	424.7	4,154.6	3,761.5	393.1		
Q4	1,967.5	202.0	1,765.6	4,166.4	2,216.1	1,950.3	407.4	4,229.1	3,831.9	397.2		
2005 Q1	2,006.4	212.8	1,793.6	4,299.4	2,306.4	1,993.0	415.7	4,321.0	3,916.3	404.7		
Transactions												
2003 Q4	1.3	11.5	-10.2	-17.6	-17.8	0.1	-10.2	51.7	51.1	0.6		
2004 Q1	10.7	7.6	3.1	37.2	7.1	30.1	15.1	72.4	62.5	9.9		
Q2	37.4	16.0	21.4	58.3	58.0	0.3	-0.5	55.8	51.4	4.5		
Q3	15.3	-0.2	15.5	13.5	10.6	2.9	-2.2	62.7	59.1	3.6		
Q4	-18.9	-13.8	-5.1	-49.6	-37.4	-12.2	-15.8	66.5	62.5	4.0		
2005 Q1	44.9	8.9	36.0	29.7	1.5	28.2	8.9	78.1	69.7	8.5		
Growth rates												
2003 Q4	-1.2	-2.5	-1.1	4.2	1.3	7.1	8.5	6.9	7.1	4.7		
2004 Q1	-1.0	1.4	-1.2	3.7	2.1	5.1	2.8	6.6	6.8	5.4		
Q2	3.0	20.8	1.1	3.4	4.0	2.9	1.7	6.3	6.4	5.1		
Q3	3.3	18.8	1.7	2.5	3.3	1.8	0.5	6.2	6.4	4.9		
Q4	2.3	5.0	2.0	1.5	1.9	1.1	-0.8	6.5	6.6	5.8		
2005 Q1	4.1	5.5	3.9	1.3	1.6	1.0	-2.3	6.6	6.7	5.3		

Source: ECB.

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

2) Excluding unquoted shares.

3.2 Main liabilities of non-financial sectors

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

	Loans taken from euro area MFIs and other financial corporations by												Memo: loans taken from banks outside the euro area by non-banks
	Total			General government			Non-financial corporations			Households ¹⁾			
	Total	Taken from euro area MFIs		Total	Short-term	Long-term	Total	Short-term	Long-term	Total	Short-term	Long-term	
1	2	3	4	5	6	7	8	9	10	11	12	13	
Outstanding amounts													
2003 Q4	16,655.7	8,496.4	7,395.7	965.1	82.3	882.7	3,664.5	1,167.3	2,497.2	3,866.8	284.6	3,582.2	266.5
2004 Q1	17,008.5	8,542.0	7,463.0	977.2	86.3	890.9	3,649.3	1,163.7	2,485.5	3,915.5	278.7	3,636.8	338.5
Q2	17,219.1	8,696.5	7,593.6	978.2	91.7	886.5	3,694.0	1,172.9	2,521.1	4,024.3	290.7	3,733.6	335.8
Q3	17,329.1	8,775.8	7,671.3	974.8	90.4	884.3	3,695.2	1,153.2	2,542.0	4,105.8	288.0	3,817.8	309.1
Q4	17,694.9	8,904.6	7,794.7	973.0	80.9	892.1	3,745.9	1,177.1	2,568.8	4,185.7	293.4	3,892.4	317.9
2005 Q1	18,065.3	8,991.9	7,878.6	968.9	77.4	891.5	3,777.1	1,179.2	2,597.9	4,245.9	293.3	3,952.6	331.8
Transactions													
2003 Q4	133.9	117.3	118.2	23.2	9.8	13.5	15.3	-17.2	32.6	78.7	3.8	74.9	-1.4
2004 Q1	209.6	54.8	74.3	13.6	4.0	9.6	-12.8	-3.8	-9.0	54.1	-4.4	58.5	66.7
Q2	277.7	161.4	134.5	-0.6	5.3	-5.9	69.5	16.3	53.3	92.5	8.7	83.7	-2.8
Q3	152.0	79.4	86.1	-3.1	-1.3	-1.8	-1.4	-17.2	15.8	84.0	-2.3	86.2	-23.3
Q4	117.1	141.1	139.6	-1.8	-9.5	7.7	62.9	24.8	38.1	80.1	6.7	73.4	18.5
2005 Q1	234.7	85.1	87.9	-4.8	-3.5	-1.3	25.6	5.2	20.4	64.3	0.8	63.5	31.6
Growth rates													
2003 Q4	4.9	5.0	4.6	2.0	35.5	-0.5	3.4	0.1	5.0	7.4	-1.9	8.2	13.1
2004 Q1	4.6	4.5	4.7	3.4	25.9	1.5	1.8	-1.7	3.5	7.4	-0.7	8.1	35.4
Q2	4.6	5.0	5.3	4.5	28.3	2.4	2.2	-2.5	4.5	7.9	0.9	8.5	33.6
Q3	4.7	5.0	5.7	3.8	24.5	1.9	1.9	-1.9	3.7	8.1	2.1	8.6	14.2
Q4	4.5	5.1	5.9	0.8	-1.8	1.1	3.2	1.7	3.9	8.0	3.1	8.4	22.2
2005 Q1	4.6	5.5	6.0	-1.1	-10.4	-0.2	4.3	2.5	5.1	8.2	5.0	8.4	7.1
Securities other than shares issued by													
	General government						Non-financial corporations			Quoted shares issued by non-financial corporations	Deposit liabilities of central government	Pension fund reserves of non- financial corporations	
Total	Total	Short-term	Long-term	Total	Short-term	Long-term							
14	15	16	17	18	19	20	21	22	23				
Outstanding amounts													
2003 Q4	4,958.7	4,341.1	551.4	3,789.6	617.7	196.7	421.0	2,726.3	181.7	292.5			
2004 Q1	5,146.9	4,531.1	594.4	3,936.7	615.7	209.0	406.8	2,834.1	189.0	296.5			
Q2	5,197.2	4,566.0	619.9	3,946.0	631.3	219.0	412.3	2,842.8	181.9	300.7			
Q3	5,290.8	4,651.1	617.5	4,033.6	639.7	217.4	422.3	2,763.5	194.0	305.0			
Q4	5,297.2	4,661.4	585.0	4,076.4	635.8	213.2	422.6	2,980.1	213.5	299.5			
2005 Q1	5,420.8	4,766.3	594.4	4,171.9	654.5	231.3	423.2	3,138.3	212.0	302.3			
Transactions													
2003 Q4	4.5	-4.2	-14.2	10.0	8.7	0.8	7.9	0.2	7.4	4.4			
2004 Q1	142.5	149.3	42.7	106.6	-6.8	12.4	-19.2	2.1	7.3	2.9			
Q2	118.5	100.8	25.4	75.4	17.7	10.7	7.1	1.8	-7.1	3.1			
Q3	51.3	41.0	-1.1	42.1	10.3	-1.0	11.2	5.9	12.1	3.2			
Q4	-49.6	-45.0	-32.9	-12.1	-4.6	-4.2	-0.5	2.4	19.4	3.8			
2005 Q1	143.1	120.5	7.7	112.8	22.6	19.2	3.4	3.9	-0.2	2.8			
Growth rates													
2003 Q4	6.5	5.8	13.8	4.8	11.6	22.2	7.2	0.8	8.9	4.9			
2004 Q1	6.1	6.3	11.1	5.7	4.7	14.0	0.6	1.0	7.5	4.8			
Q2	6.1	6.5	8.2	6.2	3.4	15.8	-2.0	0.3	4.8	4.7			
Q3	6.3	6.5	9.4	6.1	4.9	11.9	1.7	0.4	11.3	4.7			
Q4	5.3	5.7	6.2	5.6	2.7	9.1	-0.3	0.4	17.5	4.5			
2005 Q1	5.1	4.8	-0.1	5.5	7.5	11.8	5.2	0.5	12.8	4.4			

Source: ECB.

1) Including non-profit institutions serving households.

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

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

Main financial assets												
Total	Deposits with euro area MFIs					Loans			Securities other than shares			
	Total	Overnight	With agreed maturity	Redeemable at notice	Repos	Total	Short-term	Long-term	Total	Short-term	Long-term	
1	2	3	4	5	6	7	8	9	10	11	12	
Outstanding amounts												
2003 Q4	3,633.0	542.4	58.9	462.3	2.1	19.1	349.0	60.0	289.0	1,476.3	59.4	1,416.9
2004 Q1	3,759.9	557.3	64.7	468.3	2.3	22.0	349.3	60.8	288.5	1,541.0	62.0	1,479.0
Q2	3,774.7	565.4	59.9	482.0	2.3	21.2	342.6	59.0	283.5	1,544.3	63.4	1,480.9
Q3	3,837.2	573.6	61.5	489.8	2.3	20.0	348.7	62.2	286.5	1,589.8	63.3	1,526.5
Q4	3,918.1	583.2	59.2	500.8	2.5	20.8	329.0	56.0	273.0	1,644.5	61.9	1,582.6
2005 Q1	4,043.8	597.0	65.7	508.8	2.7	19.8	332.6	58.7	273.9	1,695.7	62.4	1,633.3
Transactions												
2003 Q4	71.2	10.2	1.5	7.9	0.3	0.5	-3.7	1.2	-4.9	50.2	-1.4	51.6
2004 Q1	81.5	14.6	5.7	5.9	0.2	2.8	0.0	0.6	-0.6	47.0	2.3	44.7
Q2	26.1	7.2	-4.9	13.7	-0.6	-0.9	-6.7	-1.6	-5.0	24.4	0.9	23.5
Q3	54.3	8.2	1.6	7.8	-0.1	-1.1	5.6	2.6	3.0	29.4	-0.6	30.0
Q4	52.1	9.9	-1.7	10.6	0.2	0.7	-19.4	-5.9	-13.5	51.5	-0.5	52.0
2005 Q1	91.4	12.5	6.4	6.9	0.2	-1.0	3.7	2.8	0.9	48.6	0.3	48.2
Growth rates												
2003 Q4	6.7	3.6	2.9	3.5	17.9	6.1	0.2	-13.1	3.5	11.3	14.7	11.1
2004 Q1	6.9	3.9	5.0	3.0	38.5	18.7	-0.1	0.4	-0.2	10.5	11.7	10.5
Q2	6.1	4.8	-6.4	6.9	6.5	-6.3	-3.0	-2.4	-3.1	10.6	8.4	10.7
Q3	6.6	7.5	6.8	7.7	-12.8	6.7	-1.3	4.8	-2.6	10.5	1.9	10.9
Q4	5.9	7.4	1.2	8.2	-12.0	7.8	-5.8	-7.1	-5.6	10.3	3.4	10.6
2005 Q1	6.0	6.8	2.2	8.3	-11.6	-10.5	-4.8	-3.5	-5.1	10.0	0.1	10.4

Main financial assets						Main liabilities							
Shares ¹⁾				Prepayments of insurance premiums and reserves for outstanding claims	Total	Loans taken from euro area MFIs and other financial corporations		Securities other than shares	Quoted shares	Insurance technical reserves			
Total	Quoted shares	Mutual fund shares	Money market fund shares/units			Total	Taken from euro area MFIs			Total	Net equity of households in life insurance reserves and pension fund reserves	Prepayments of insurance premiums and reserves for outstanding claims	
													13	14	15	16	17	18	19	20	21	22	23	24	25
Outstanding amounts													
2003 Q4	1,157.5	526.5	631.0	64.1	107.8	3,914.3	54.9	35.4	23.0	189.9	3,646.4	3,112.5	534.0
2004 Q1	1,200.8	539.6	661.2	63.4	111.5	4,009.4	64.7	46.3	23.7	190.9	3,730.1	3,182.9	547.2
Q2	1,209.9	538.6	671.2	63.6	112.6	4,079.2	71.1	53.7	24.2	193.3	3,790.6	3,238.3	552.3
Q3	1,210.5	531.2	679.4	63.1	114.6	4,135.5	68.8	52.5	22.6	185.7	3,858.3	3,300.6	557.8
Q4	1,245.6	553.3	692.3	68.4	115.9	4,222.2	65.5	48.6	23.6	207.1	3,926.0	3,364.5	561.5
2005 Q1	1,299.2	601.4	697.8	68.5	119.2	4,332.3	74.2	58.2	24.4	219.5	4,014.3	3,441.2	573.0
Transactions													
2003 Q4	21.8	6.7	15.1	4.1	-7.2	42.6	-9.6	-8.9	2.5	5.0	44.7	43.4	1.3
2004 Q1	16.2	-1.1	17.3	-0.8	3.6	81.3	9.6	10.8	0.4	0.8	70.5	57.3	13.2
Q2	0.0	-7.5	7.5	-0.1	1.1	58.2	6.1	7.0	0.6	0.1	51.5	46.5	5.1
Q3	9.0	3.2	5.7	-0.5	2.1	58.1	-2.3	-1.1	-1.3	2.1	59.5	54.1	5.5
Q4	8.7	0.9	7.8	5.4	1.4	53.6	-3.0	-3.6	0.7	0.1	55.9	52.2	3.6
2005 Q1	23.4	5.5	17.9	0.2	3.2	84.7	7.8	8.6	0.7	0.1	76.0	63.5	12.5
Growth rates													
2003 Q4	5.3	2.6	7.5	11.3	-1.1	7.1	16.7	12.7	26.4	6.2	6.9	7.3	4.7
2004 Q1	6.6	3.6	8.8	5.9	-0.1	6.9	7.5	8.5	25.4	8.3	6.7	6.9	5.2
Q2	4.5	0.7	7.5	-1.7	-0.9	6.4	12.3	18.8	23.7	3.5	6.3	6.6	4.8
Q3	4.3	0.3	7.5	4.6	-0.4	6.2	6.0	17.5	10.9	4.8	6.3	6.5	4.7
Q4	2.9	-0.8	6.1	6.3	7.6	6.4	19.0	36.9	1.7	1.6	6.5	6.7	5.1
2005 Q1	3.4	0.4	5.9	8.0	7.0	6.3	13.3	23.7	2.8	1.2	6.5	6.8	4.9

Source: ECB.

1) Excluding unquoted shares.

3.4 Annual saving, investment and financing

(EUR billions, unless otherwise indicated)

1. All sectors in the euro area

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

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

2. Non-financial corporations

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

3. Households⁵⁾

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

Source: ECB.

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



FINANCIAL MARKETS

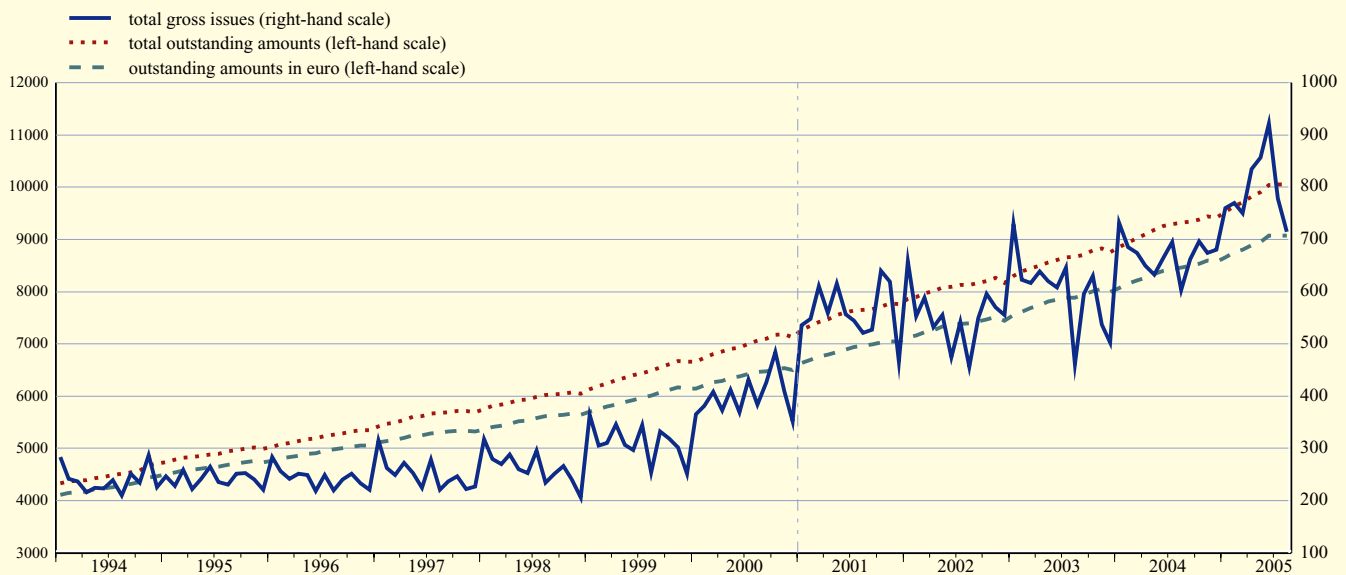
4.1 Securities, other than shares, by original maturity, residency of the issuer and currency

(EUR billions and period growth rates; seasonally adjusted; transactions during the month and end-of-period outstanding amounts; nominal values)

	Total in euro ¹⁾			By euro area residents								
	Outstanding amounts	Gross issues	Net issues	In euro			In all currencies					
				Outstanding amounts	Gross issues	Net issues	Outstanding amounts	Gross issues	Net issues	Annual growth rates	Seasonally adjusted ²⁾	
											Net issues	Net issues	6-month growth rates
1	2	3	4	5	6	7	8	9	10	11	12	
Total												
2004 Aug.	9,796.7	619.8	29.3	8,457.1	572.0	12.8	9,314.2	603.7	13.5	7.3	45.2	7.2
Sep.	9,909.8	725.3	108.8	8,501.6	627.7	40.5	9,347.2	661.4	39.9	7.0	40.5	6.9
Oct.	9,935.3	712.2	21.7	8,534.6	652.7	30.2	9,383.7	696.7	40.3	6.6	38.9	6.6
Nov.	10,026.5	703.7	84.8	8,596.6	635.9	55.7	9,440.3	674.0	58.6	6.7	61.8	6.5
Dec.	10,030.7	706.6	4.8	8,574.9	648.2	-21.3	9,413.4	680.5	-22.5	7.2	77.2	6.6
2005 Jan.	10,096.1	763.3	52.8	8,652.6	712.5	65.1	9,525.8	759.5	81.3	7.0	43.3	6.7
Feb.	10,216.5	792.9	117.2	8,760.0	726.7	104.4	9,639.3	769.2	114.4	7.4	79.1	7.5
Mar.	10,324.3	798.1	106.9	8,805.5	704.4	44.3	9,707.8	750.4	54.6	7.1	36.0	7.3
Apr.	10,380.1	834.3	52.4	8,892.3	788.4	83.1	9,819.0	834.9	99.4	7.4	84.3	8.3
May	10,442.5	871.0	62.8	8,952.0	817.4	60.0	9,908.5	856.9	64.5	7.1	34.8	7.6
June	10,630.6	994.0	186.2	9,074.6	872.4	121.0	10,046.8	922.1	130.7	7.7	133.9	8.8
July	.	.	.	9,077.8	737.4	2.7	10,053.4	778.6	5.7	7.3	2.7	7.9
Aug.	.	.	.	9,069.4	675.7	-14.1	10,054.0	714.9	-5.9	7.1	32.0	6.8
Long-term												
2004 Aug.	8,878.0	87.2	25.3	7,620.3	65.4	10.6	8,368.5	75.3	15.5	7.6	41.9	7.2
Sep.	8,972.6	191.6	89.7	7,675.9	143.8	50.7	8,418.3	157.0	52.4	7.3	47.5	7.2
Oct.	9,009.3	174.0	33.8	7,693.1	139.2	15.3	8,439.1	158.0	25.8	7.0	34.2	7.0
Nov.	9,085.2	168.7	70.1	7,748.8	138.3	50.1	8,493.3	155.1	59.5	7.1	63.6	6.9
Dec.	9,110.3	148.5	24.8	7,765.7	124.7	16.2	8,501.2	136.1	16.2	7.4	62.5	6.9
2005 Jan.	9,180.1	198.5	59.8	7,826.9	174.9	51.3	8,588.7	195.0	61.9	7.7	62.4	7.7
Feb.	9,296.1	220.6	113.5	7,924.0	180.3	94.7	8,691.4	199.4	103.2	7.8	73.4	8.4
Mar.	9,370.5	202.6	73.9	7,974.3	163.4	49.6	8,758.6	183.8	57.5	7.8	47.5	8.3
Apr.	9,423.1	181.8	50.9	8,035.0	163.8	58.8	8,838.4	181.7	70.2	8.0	66.0	9.1
May	9,490.7	178.5	66.2	8,095.5	150.2	58.9	8,925.8	165.5	65.0	7.6	38.2	8.4
June	9,669.4	296.9	174.9	8,239.9	231.6	140.9	9,089.8	254.1	151.0	8.6	138.6	10.2
July	.	.	.	8,233.3	130.5	-6.7	9,086.6	145.1	-2.1	8.1	-2.5	8.5
Aug.	.	.	.	8,218.7	61.0	-17.5	9,082.4	74.4	-10.1	7.8	21.1	7.2

C13 Total outstanding amounts and gross issues of securities, other than shares, issued by euro area residents

(EUR billions)



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

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

2) For the calculation of the growth rates, see the Technical notes. The 6-month growth rates have been annualised.

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

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

1. Outstanding amounts and gross issues

	Outstanding amounts						Gross issues					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government
1	2	3	4	5	6	7	8	9	10	11	12	
	Total											
2003	8,750	3,353	665	591	3,923	219	7,209	4,487	245	911	1,479	87
2004	9,413	3,714	735	594	4,120	250	8,049	5,252	222	1,028	1,464	83
2004 Q3	9,347	3,644	690	603	4,169	242	1,960	1,313	41	256	334	16
2004 Q4	9,413	3,714	735	594	4,120	250	2,051	1,434	84	228	284	20
2005 Q1	9,708	3,850	755	606	4,238	259	2,279	1,544	50	248	412	25
2005 Q2	10,047	3,993	830	617	4,341	266	2,614	1,802	108	281	399	23
2005 May	9,909	3,937	792	622	4,296	262	857	600	29	97	126	4
2005 June	10,047	3,993	830	617	4,341	266	922	632	48	99	133	11
2005 July	10,053	4,014	830	617	4,325	268	779	550	14	88	119	8
2005 Aug.	10,054	4,030	827	617	4,313	268	715	545	8	81	77	4
	Short-term											
2003	861	390	6	94	367	3	5,333	3,698	41	796	768	29
2004	912	447	7	90	362	5	6,147	4,383	44	931	756	33
2004 Q3	929	412	6	100	405	6	1,555	1,119	11	230	186	9
2004 Q4	912	447	7	90	362	5	1,602	1,223	12	205	155	7
2005 Q1	949	457	8	105	374	5	1,701	1,262	12	229	188	9
2005 Q2	957	462	7	105	377	5	2,013	1,558	11	258	178	8
2005 May	983	477	8	115	378	5	691	537	3	92	56	3
2005 June	957	462	7	105	377	5	668	519	3	86	57	3
2005 July	967	475	7	103	376	5	633	490	4	81	56	3
2005 Aug.	972	481	7	102	376	5	641	501	4	77	56	3
	Long-term ¹⁾											
2003	7,889	2,962	659	497	3,556	216	1,876	788	203	115	711	58
2004	8,501	3,266	728	504	3,758	245	1,902	869	179	97	708	49
2004 Q3	8,418	3,232	684	503	3,764	236	406	194	30	25	148	8
2004 Q4	8,501	3,266	728	504	3,758	245	449	211	72	24	129	13
2005 Q1	8,759	3,393	747	501	3,863	254	578	281	37	19	224	16
2005 Q2	9,090	3,530	822	512	3,965	260	601	245	98	24	221	14
2005 May	8,926	3,460	784	507	3,917	257	166	63	26	6	70	1
2005 June	9,090	3,530	822	512	3,965	260	254	113	45	12	76	8
2005 July	9,087	3,539	822	514	3,949	263	145	60	10	7	63	5
2005 Aug.	9,082	3,548	819	515	3,937	263	74	44	4	4	21	1
	Of which long-term fixed rate											
2003	6,117	1,885	406	421	3,240	165	1,287	415	114	91	626	41
2004	6,380	1,929	416	414	3,436	186	1,193	408	69	61	620	36
2004 Q3	6,392	1,951	408	417	3,436	180	248	87	9	14	132	6
2004 Q4	6,380	1,929	416	414	3,436	186	259	93	26	15	117	9
2005 Q1	6,517	1,969	426	409	3,517	196	387	137	21	15	199	15
2005 Q2	6,674	2,003	445	416	3,607	203	343	101	28	15	187	12
2005 May	6,601	1,984	433	412	3,573	199	97	24	6	3	63	1
2005 June	6,674	2,003	445	416	3,607	203	140	46	15	9	63	7
2005 July	6,650	1,998	440	415	3,590	205	93	24	3	4	59	3
2005 Aug.	6,649	2,003	437	416	3,589	205	45	23	2	2	17	1
	Of which long-term variable rate											
2003	1,579	959	249	59	262	51	508	337	90	12	53	16
2004	1,869	1,148	309	77	275	59	619	404	109	32	60	14
2004 Q3	1,772	1,101	273	73	269	56	136	95	21	10	9	2
2004 Q4	1,869	1,148	309	77	275	59	175	105	47	7	12	4
2005 Q1	1,956	1,212	317	79	291	58	167	129	16	3	17	2
2005 Q2	2,113	1,291	374	83	308	57	235	128	70	7	28	2
2005 May	2,033	1,250	348	81	297	58	62	34	20	2	5	0
2005 June	2,113	1,291	374	83	308	57	105	60	30	3	11	1
2005 July	2,127	1,301	379	84	307	57	44	31	7	2	2	1
2005 Aug.	2,129	1,300	379	85	308	57	22	16	2	1	2	0

Source: ECB.

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

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

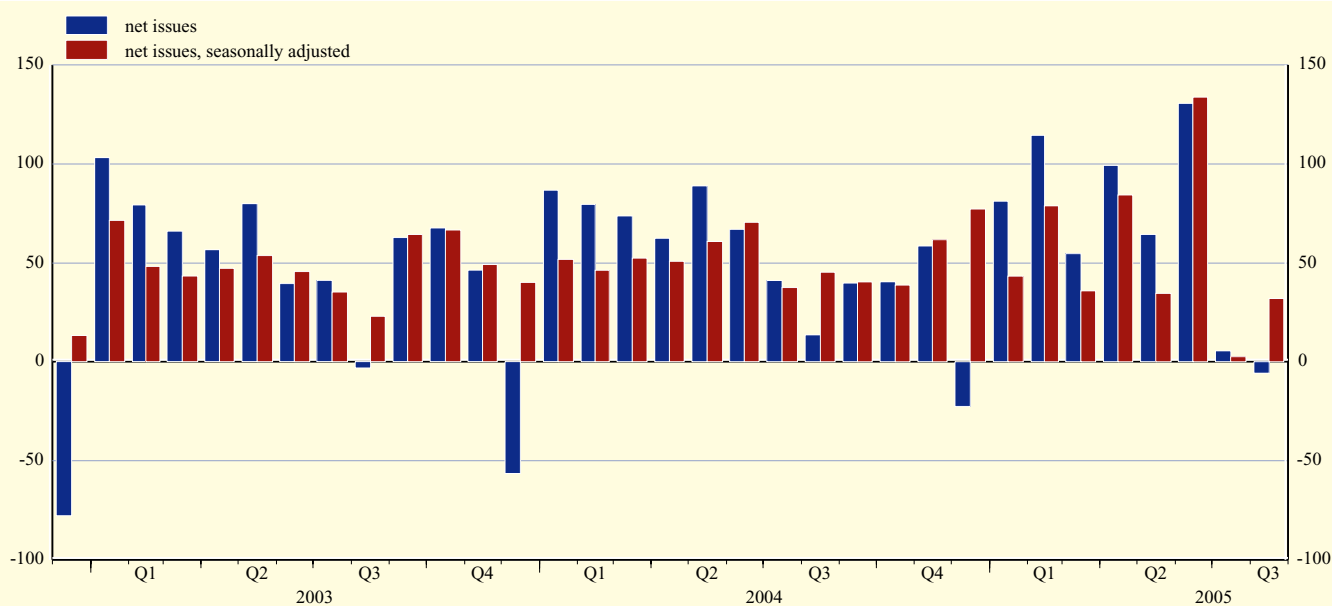
(EUR billions unless otherwise indicated; transactions during the period; nominal values)

2. Net issues

	Non-seasonally adjusted						Seasonally adjusted					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government
1	2	3	4	5	6	7	8	9	10	11	12	
	Total											
2003	582.7	194.4	118.1	53.7	176.7	39.9	588.8	195.9	115.6	53.7	183.4	40.2
2004	629.8	318.1	74.3	8.4	197.6	31.5	633.8	320.8	72.4	8.1	200.8	31.7
2004 Q3	94.7	60.6	3.1	0.5	27.4	3.1	123.3	69.5	7.7	2.2	39.3	4.6
2004 Q4	76.4	69.5	50.5	-4.4	-47.6	8.4	177.9	97.9	36.5	1.0	34.6	7.9
2005 Q1	250.3	103.1	13.2	13.7	111.3	9.0	158.4	60.6	29.3	10.2	50.0	8.3
2005 Q2	294.6	111.1	70.7	8.7	98.1	6.0	253.0	115.5	63.6	4.8	63.5	5.5
2005 May	64.5	13.6	18.0	5.5	28.0	-0.6	34.8	11.8	18.5	1.1	3.7	-0.3
2005 June	130.7	51.4	36.7	-5.2	44.2	3.5	133.9	64.6	32.3	-3.5	37.0	3.5
2005 July	5.7	19.5	0.1	-0.3	-16.3	2.7	2.7	10.1	-6.9	-4.9	1.0	3.4
2005 Aug.	-5.9	8.3	-2.8	0.7	-11.6	-0.5	32.0	26.3	7.6	2.7	-5.4	0.8
	Long-term											
2003	529.5	185.8	118.8	51.2	133.3	40.5	530.7	186.4	116.4	51.1	135.9	40.8
2004	587.1	270.1	72.9	12.0	202.3	29.8	590.2	271.1	71.1	11.9	206.1	30.1
2004 Q3	102.2	64.9	2.3	8.9	23.9	2.2	122.4	65.4	6.8	10.7	35.9	3.6
2004 Q4	101.5	43.3	49.2	5.3	-5.4	9.1	160.3	70.1	35.3	4.1	41.8	8.9
2005 Q1	222.6	103.0	12.8	-1.2	99.3	8.7	183.3	76.7	29.1	3.1	66.8	7.5
2005 Q2	286.3	104.6	71.0	8.6	96.0	6.1	242.8	102.7	63.6	3.4	67.4	5.8
2005 May	65.0	21.7	18.5	1.9	23.5	-0.6	38.2	15.8	18.7	-0.7	4.6	-0.3
2005 June	151.0	60.5	37.0	4.1	45.9	3.5	138.6	65.8	32.3	1.0	36.1	3.4
2005 July	-2.1	8.9	0.1	1.9	-15.9	2.8	-2.5	1.7	-6.6	-0.9	-0.6	3.9
2005 Aug.	-10.1	2.4	-2.5	1.7	-11.2	-0.5	21.1	13.5	8.0	4.1	-4.9	0.5

C14 Net issues of securities, other than shares, seasonally adjusted and non-seasonally adjusted

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



Source: ECB.

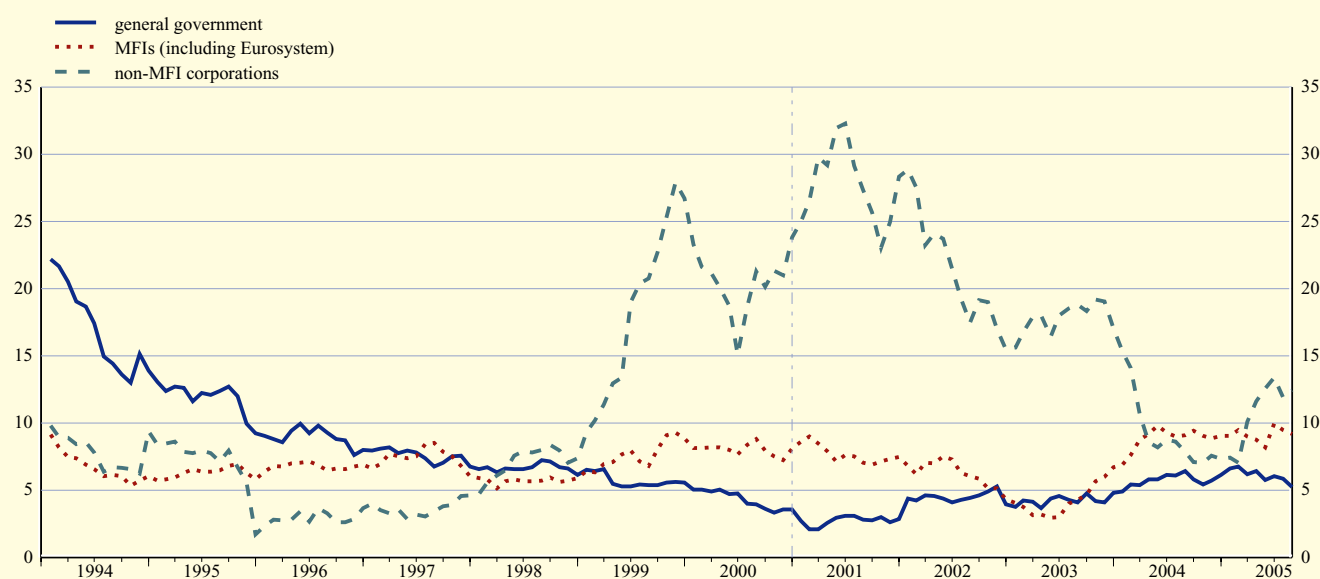
4.3 Growth rates of securities, other than shares, issued by euro area residents ¹⁾

(percentage changes)

	Annual growth rates (non-seasonally adjusted)						6-month seasonally adjusted growth rates					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government
	1	2	3	4	5	6	7	8	9	10	11	12
	Total											
2004 Aug.	7.3	8.8	11.1	3.5	5.6	16.8	7.2	9.7	6.6	3.1	5.6	10.3
Sep.	7.0	9.0	9.2	3.8	5.0	15.4	6.9	8.6	9.3	5.0	5.1	10.2
Oct.	6.6	8.8	9.1	3.2	4.5	14.2	6.6	8.3	12.1	4.7	4.3	9.9
Nov.	6.7	8.6	10.4	3.2	4.7	14.5	6.5	7.8	17.0	4.0	3.8	13.0
Dec.	7.2	9.4	11.2	1.4	5.0	14.4	6.6	9.6	13.3	1.1	3.6	10.7
2005 Jan.	7.0	8.7	11.0	2.6	5.1	15.1	6.7	8.3	15.2	0.6	4.4	16.1
Feb.	7.4	9.4	11.1	3.0	5.3	13.0	7.5	9.1	15.9	2.7	4.9	15.6
Mar.	7.1	8.7	14.4	4.3	4.6	11.9	7.3	8.9	19.9	3.8	4.1	13.7
Apr.	7.4	8.9	15.8	5.4	4.7	12.7	8.3	9.5	19.5	6.1	5.3	15.6
May	7.1	8.4	18.4	4.7	4.2	11.7	7.6	8.9	19.8	5.4	4.6	10.5
June	7.7	9.6	20.0	3.1	4.6	11.1	8.8	9.5	27.0	5.1	5.5	11.3
July	7.3	9.2	18.7	1.5	4.3	12.7	7.9	10.1	22.5	2.5	4.1	9.5
Aug.	7.1	9.2	19.0	2.2	3.7	11.9	6.8	9.2	22.3	1.7	2.6	8.4
	Long-term											
2004 Aug.	7.6	9.1	11.3	3.5	5.9	16.4	7.2	9.2	6.5	0.9	6.4	9.6
Sep.	7.3	9.4	9.2	4.4	5.3	14.6	7.2	8.6	9.0	6.3	5.8	8.7
Oct.	7.0	9.1	9.2	4.3	4.9	13.5	7.0	8.2	12.0	9.3	4.6	9.2
Nov.	7.1	8.8	10.4	3.8	5.2	13.5	6.9	7.5	16.8	7.7	4.2	12.1
Dec.	7.4	9.0	11.1	2.4	5.7	13.8	6.9	8.8	12.8	6.1	4.2	10.9
2005 Jan.	7.7	9.0	10.9	2.8	6.1	14.8	7.7	8.8	14.7	2.8	5.5	16.0
Feb.	7.8	9.5	10.9	1.9	6.4	12.6	8.4	9.8	15.4	2.7	6.3	15.6
Mar.	7.8	9.0	14.2	4.6	5.8	11.5	8.3	9.3	19.7	2.9	5.9	14.3
Apr.	8.0	8.7	15.6	6.1	6.0	12.6	9.1	9.2	19.2	3.2	7.5	16.2
May	7.6	8.2	18.2	4.9	5.4	11.7	8.4	8.9	19.6	2.0	6.6	11.3
June	8.6	9.9	19.8	4.4	5.7	11.1	10.2	11.1	27.3	2.6	7.2	11.1
July	8.1	9.5	18.6	2.7	5.4	13.0	8.5	10.1	22.6	2.7	5.2	10.1
Aug.	7.8	9.2	18.9	3.5	4.8	12.1	7.2	8.7	22.7	4.3	3.4	8.9

C15 Annual growth rates of long-term debt securities, by sector of the issuer, in all currencies combined

(annual percentage changes)



Source: ECB.

1) For the calculation of the growth rates, see the Technical notes. The 6-month growth rates have been annualised.

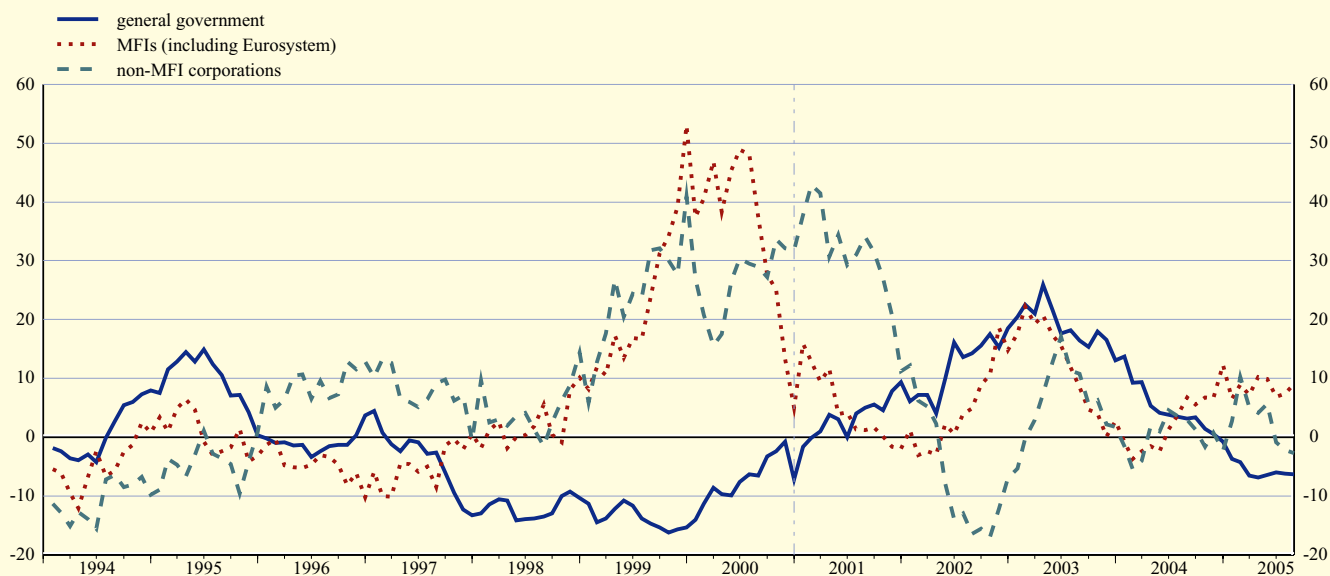
4.3 Growth rates of securities, other than shares, issued by euro area residents ¹⁾ (cont'd)

(percentage changes)

	Long-term fixed rate						Long-term variable rate					
	Total	MFIs (including Eurosystem)	Non-MFI corporations		General government		Total	MFIs (including Eurosystem)	Non-MFI corporations		General government	
			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government			Non-monetary financial corporations	Non-financial corporations	Central government	Other general government
13	14	15	16	17	18	19	20	21	22	23	24	
In all currencies combined												
2003	5.2	2.1	15.3	12.1	4.4	22.6	8.5	8.3	51.2	-13.4	-9.2	43.2
2004	5.1	3.1	6.4	3.4	5.8	14.7	16.3	18.5	27.2	8.1	0.6	26.4
2004 Q3	4.9	3.1	3.5	1.4	6.2	13.5	17.6	19.2	27.1	18.2	3.3	25.1
Q4	4.3	2.4	2.6	0.8	5.7	12.3	17.8	20.2	22.6	29.0	2.3	18.7
2005 Q1	4.7	2.8	3.9	-1.2	6.3	13.7	18.3	19.4	23.8	27.7	7.7	12.4
Q2	4.8	2.5	6.1	1.3	5.8	14.8	19.3	18.9	34.8	26.6	8.5	3.0
2005 Mar.	4.5	2.4	5.8	0.6	5.6	13.6	18.9	19.5	28.2	27.3	9.3	5.1
Apr.	5.1	2.5	5.4	2.3	6.3	15.1	18.7	18.6	32.6	26.6	7.8	5.2
May	4.6	2.2	6.2	0.9	5.6	15.1	18.8	17.7	38.0	26.1	7.7	1.5
June	4.8	3.1	7.5	0.7	5.5	14.7	22.0	21.5	38.9	27.0	10.8	0.0
July	4.6	2.9	6.3	0.3	5.2	16.6	20.6	20.4	37.1	15.8	10.1	1.7
Aug.	4.5	3.1	6.3	0.9	5.0	15.9	19.8	19.1	37.9	16.6	10.0	0.5
In euro												
2003	4.6	0.1	20.5	12.4	4.2	21.3	8.6	7.6	51.2	-8.9	-9.3	43.7
2004	4.8	1.3	10.4	2.0	5.9	14.7	15.7	17.8	27.3	8.4	0.5	25.3
2004 Q3	4.7	1.2	7.5	-0.2	6.4	13.8	16.9	18.4	27.3	15.7	3.3	24.0
Q4	4.0	0.3	6.3	-0.9	5.8	12.5	17.2	19.7	22.9	26.5	2.3	18.1
2005 Q1	4.3	0.5	7.9	-2.5	6.2	13.7	17.5	18.3	24.0	26.7	7.8	12.9
Q2	4.4	0.3	10.1	0.8	5.8	15.1	18.9	18.0	34.9	24.7	8.9	3.7
2005 Mar.	4.2	0.2	10.2	-0.2	5.6	13.8	18.1	17.9	28.4	26.7	9.7	5.3
Apr.	4.8	0.2	9.2	1.8	6.4	15.4	18.1	17.5	32.8	24.6	8.2	5.4
May	4.2	0.1	10.3	0.5	5.6	15.5	18.6	17.0	38.1	23.8	8.1	2.6
June	4.5	0.9	11.5	0.5	5.4	15.2	21.9	21.2	38.7	25.0	11.4	1.0
July	4.2	0.9	10.0	-0.2	5.0	17.2	20.4	19.8	36.9	17.0	10.6	2.8
Aug.	4.1	1.0	9.9	0.7	4.8	16.4	19.6	18.3	37.7	18.0	10.5	1.5

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

(annual percentage changes)



Source: ECB.

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

4.4 Quoted shares issued by euro area residents ¹⁾

(EUR billions, unless otherwise indicated; market values)

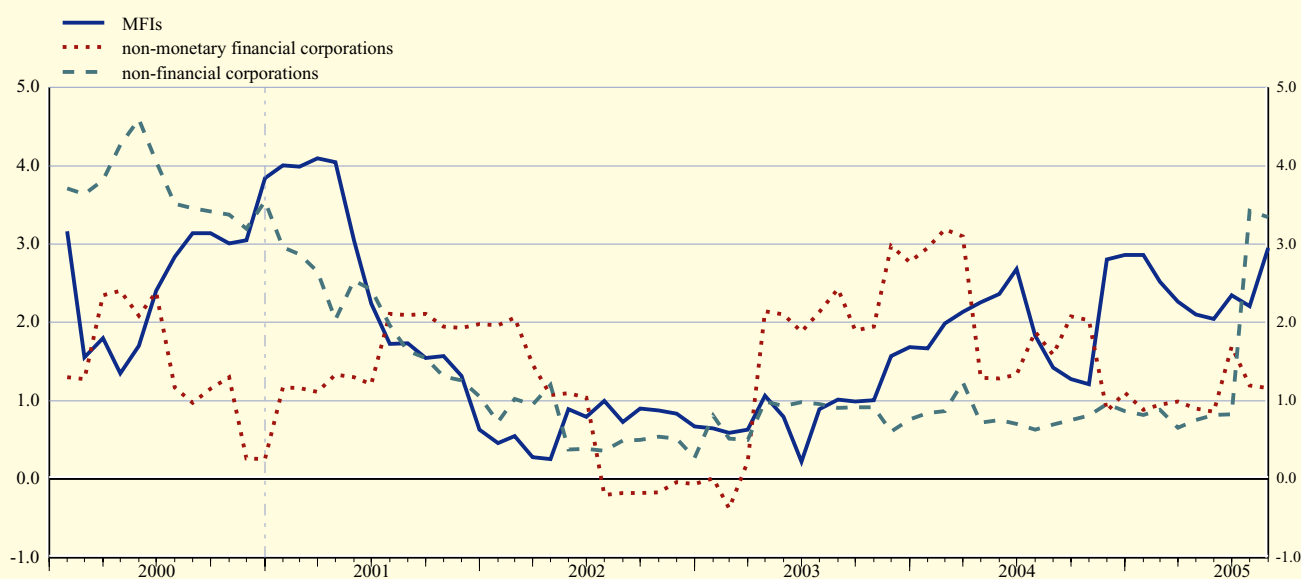
1. Outstanding amounts and annual growth rates

(outstanding amounts as end-of-period)

	Total			MFIs		Non-monetary financial corporations		Non-financial corporations	
	Total	Index Dec. 01 = 100	Annual growth rates (%)	Total	Annual growth rates (%)	Total	Annual growth rates (%)	Total	Annual growth rates (%)
	1	2	3	4	5	6	7	8	9
2003 Aug.	3,413.4	101.1	1.1	506.5	1.0	325.5	2.4	2,581.5	0.9
Sep.	3,276.7	101.1	1.0	494.8	1.0	307.1	1.9	2,474.7	0.9
Oct.	3,484.0	101.2	1.0	535.2	1.0	333.2	1.9	2,615.6	0.9
Nov.	3,546.9	101.3	1.0	549.5	1.6	337.9	3.0	2,659.6	0.6
Dec.	3,647.4	101.4	1.1	569.5	1.7	348.6	2.8	2,729.3	0.8
2004 Jan.	3,788.6	101.4	1.2	584.1	1.7	372.3	3.0	2,832.2	0.8
Feb.	3,852.1	101.5	1.3	587.9	2.0	374.3	3.2	2,889.9	0.9
Mar.	3,766.5	101.8	1.5	571.9	2.1	355.0	3.1	2,839.6	1.2
Apr.	3,748.5	102.0	1.0	579.4	2.3	361.1	1.3	2,808.0	0.7
May	3,687.9	101.9	1.1	568.1	2.4	350.6	1.3	2,769.2	0.8
June	3,790.1	102.0	1.1	582.5	2.7	362.0	1.3	2,845.7	0.7
July	3,679.8	102.1	0.9	562.3	1.8	354.0	1.9	2,763.5	0.6
Aug.	3,621.2	102.0	0.9	562.5	1.4	353.1	1.6	2,705.6	0.7
Sep.	3,707.9	102.1	1.0	579.6	1.3	362.3	2.1	2,766.1	0.8
Oct.	3,787.6	102.2	1.0	598.0	1.2	372.6	2.0	2,817.1	0.8
Nov.	3,906.5	102.5	1.2	623.9	2.8	386.5	0.9	2,896.2	1.0
Dec.	4,033.8	102.6	1.2	643.7	2.9	405.6	1.1	2,984.5	0.9
2005 Jan.	4,138.0	102.6	1.1	662.6	2.9	412.2	0.9	3,063.3	0.8
Feb.	4,254.5	102.7	1.2	681.1	2.5	431.8	1.0	3,141.5	0.9
Mar.	4,242.4	102.8	0.9	677.7	2.3	421.8	1.0	3,142.9	0.7
Apr.	4,094.7	103.0	1.0	656.0	2.1	400.6	0.9	3,038.1	0.8
May	4,272.6	103.0	1.0	678.1	2.0	414.0	0.9	3,180.5	0.8
June	4,382.2	103.2	1.2	698.0	2.4	431.1	1.7	3,253.0	0.8
July	4,631.7	105.1	3.0	727.9	2.2	456.4	1.2	3,447.4	3.4
Aug.	4,606.5	105.2	3.1	723.4	2.9	447.1	1.2	3,436.0	3.3

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

(annual percentage changes)



Source: ECB.

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

4.4 Quoted shares issued by euro area residents ¹⁾

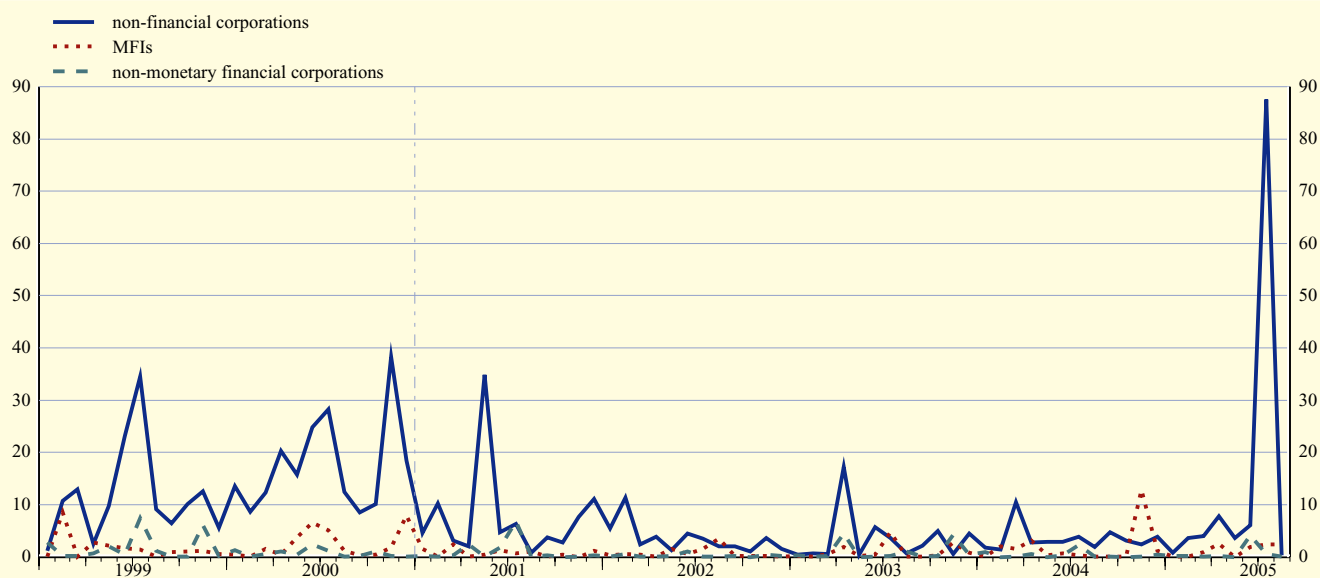
(EUR billions; market values)

2. Transactions during the month

	Total			MFIs			Non-monetary financial corporations			Non-financial corporations		
	Gross issues	Redemptions	Net issues	Gross issues	Redemptions	Net issues	Gross issues	Redemptions	Net issues	Gross issues	Redemptions	Net issues
	1	2	3	4	5	6	7	8	9	10	11	12
2003 Aug.	1.8	1.3	0.5	0.1	0.0	0.1	1.1	0.1	1.0	0.6	1.2	-0.6
Sep.	2.3	2.0	0.4	0.1	0.1	0.0	0.1	1.6	-1.5	2.2	0.3	1.9
Oct.	5.4	3.8	1.6	0.4	0.0	0.4	0.2	0.0	0.1	4.9	3.8	1.1
Nov.	7.5	5.5	2.1	2.7	0.0	2.7	4.2	0.3	3.9	0.6	5.1	-4.5
Dec.	5.7	1.5	4.2	0.8	0.1	0.8	0.4	0.9	-0.5	4.4	0.5	4.0
2004 Jan.	2.9	0.9	2.0	0.1	0.0	0.1	0.9	0.0	0.9	1.8	0.8	1.0
Feb.	3.5	0.5	3.0	2.0	0.0	2.0	0.0	0.2	-0.2	1.4	0.3	1.2
Mar.	12.0	1.1	10.8	1.5	0.0	1.5	0.0	0.1	-0.1	10.5	1.0	9.5
Apr.	6.5	0.6	5.8	3.1	0.1	3.1	0.6	0.1	0.5	2.8	0.5	2.3
May	3.3	3.6	-0.4	0.3	0.0	0.3	0.0	0.0	0.0	2.9	3.6	-0.6
June	3.8	2.2	1.6	0.7	1.6	-1.0	0.3	0.0	0.2	2.9	0.5	2.4
July	6.4	3.6	2.8	0.4	0.0	0.4	2.2	0.0	2.2	3.8	3.6	0.2
Aug.	2.0	2.9	-0.9	0.1	2.2	-2.2	0.0	0.0	0.0	1.9	0.7	1.2
Sep.	4.9	2.2	2.7	0.1	0.9	-0.8	0.0	0.0	0.0	4.8	1.3	3.5
Oct.	3.2	0.4	2.8	0.1	0.0	0.1	0.0	0.0	0.0	3.1	0.4	2.7
Nov.	15.2	3.4	11.8	12.8	0.3	12.5	0.1	0.0	0.1	2.4	3.0	-0.7
Dec.	5.5	2.3	3.2	1.2	0.0	1.2	0.4	0.1	0.3	3.9	2.1	1.7
2005 Jan.	1.1	1.1	0.0	0.1	0.0	0.1	0.2	0.0	0.2	0.8	1.1	-0.3
Feb.	3.9	0.6	3.3	0.1	0.0	0.1	0.2	0.1	0.1	3.7	0.5	3.2
Mar.	5.0	1.8	3.2	0.9	0.9	0.0	0.1	0.1	0.0	3.9	0.8	3.1
Apr.	10.6	2.3	8.3	2.5	0.0	2.5	0.2	0.0	0.2	7.8	2.3	5.5
May	3.6	2.4	1.3	0.0	0.0	0.0	0.0	0.2	-0.2	3.6	2.1	1.5
June	12.1	4.5	7.5	1.9	1.0	0.9	4.1	0.4	3.7	6.1	3.2	3.0
July	90.5	6.6	83.9	2.4	3.0	-0.5	0.5	0.0	0.5	87.5	3.7	83.9
Aug.	2.8	1.5	1.3	2.5	0.0	2.4	0.0	0.1	-0.1	0.4	1.4	-1.0

C18 Gross issues of quoted shares by sector of the issuer

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



Source: ECB.

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

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

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

1. Interest rates on deposits (new business)

	Deposits from households						Deposits from non-financial corporations				Repos
	Overnight ¹⁾	With agreed maturity			Redeemable at notice ^{1),2)}		Overnight ¹⁾	With agreed maturity			
		Up to 1 year	Over 1 and up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 1 year	Over 1 and up to 2 years	Over 2 years	
	1	2	3	4	5	6	7	8	9	10	11
2004 Sep.	0.72	1.90	2.20	2.48	2.00	2.52	0.90	2.00	2.32	3.68	1.99
Oct.	0.72	1.92	2.29	2.48	2.00	2.52	0.89	2.04	2.34	3.56	2.00
Nov.	0.73	1.94	2.20	2.50	2.01	2.51	0.90	2.04	2.23	3.39	2.02
Dec.	0.73	1.95	2.19	2.31	2.00	2.52	0.90	2.08	2.70	3.51	2.02
2005 Jan.	0.74	1.95	2.29	2.54	1.98	2.49	0.93	2.04	2.25	3.26	2.05
Feb.	0.74	1.95	2.19	2.33	1.97	2.49	0.93	2.03	2.25	3.47	2.03
Mar.	0.74	1.93	2.16	2.40	1.96	2.47	0.94	2.00	2.35	3.15	1.99
Apr.	0.74	2.01	2.09	2.32	1.95	2.45	0.95	2.01	2.23	2.92	2.00
May	0.75	1.94	2.01	2.20	1.97	2.43	0.95	2.01	2.12	3.31	2.00
June	0.69	1.95	2.21	2.20	2.17	2.38	0.91	2.01	2.05	3.57	2.00
July	0.68	1.94	2.01	2.19	2.15	2.34	0.94	2.02	2.21	3.11	2.00
Aug.	0.69	1.95	2.07	2.32	2.03	2.31	0.96	2.03	2.22	2.90	2.01

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

	Bank overdrafts ¹⁾	Consumer credit				Annual percentage rate of charge ³⁾	Lending for house purchase				Annual percentage rate of charge ³⁾	Other lending by initial rate fixation			
		By initial rate fixation			Annual percentage rate of charge ³⁾		By initial rate fixation					Annual percentage rate of charge ³⁾	Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years
		Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years			Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 and up to 10 years	Over 10 years					
	1	2	3	4	5	6	7	8	9	10	11	12	13		
2004 Sep.	9.60	6.92	6.96	8.45	8.07	3.49	4.14	4.82	4.66	4.24	3.90	4.98	5.00		
Oct.	9.53	6.80	6.87	8.34	7.87	3.50	4.12	4.77	4.64	4.18	4.08	4.87	4.92		
Nov.	9.48	6.89	6.84	8.23	7.85	3.45	4.07	4.66	4.58	4.09	3.97	4.89	4.82		
Dec.	9.53	6.73	6.60	7.67	7.59	3.43	3.95	4.49	4.41	4.07	3.82	4.59	4.65		
2005 Jan.	9.60	6.97	6.83	8.33	8.01	3.44	3.97	4.43	4.45	4.07	3.96	4.64	4.62		
Feb.	9.65	6.20	6.83	8.18	7.77	3.40	3.94	4.39	4.33	3.98	4.00	4.73	4.49		
Mar.	9.60	6.62	6.72	8.12	7.83	3.40	3.89	4.35	4.27	3.97	3.84	4.60	4.57		
Apr.	9.62	6.60	6.64	8.19	7.81	3.40	3.89	4.36	4.28	3.95	3.97	4.71	4.62		
May	9.64	6.96	6.56	8.00	7.82	3.38	3.85	4.28	4.20	3.93	3.86	4.68	4.61		
June	9.61	6.62	6.49	7.90	7.72	3.32	3.76	4.13	4.09	3.89	3.84	4.60	4.50		
July	9.52	6.67	6.61	7.96	7.80	3.33	3.70	4.06	4.05	3.87	3.89	4.54	4.29		
Aug.	9.58	6.99	6.70	8.10	7.99	3.33	3.73	4.04	4.03	3.91	3.80	4.59	4.44		

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

	Bank overdrafts ¹⁾	Other loans up to EUR 1 million by initial rate fixation			Other loans over EUR 1 million by initial rate fixation			
		Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years	Floating rate and up to 1 year	Over 1 and up to 5 years	Over 5 years	
								1	2	3	4	5	6	7
2004 Sep.		5.37	4.00	4.85		2.99	3.41	4.46
Oct.		5.39	4.02	4.87		2.99	3.30	4.27
Nov.		5.37	4.02	4.79		2.95	3.41	4.31
Dec.		5.26	3.97	4.67		3.05	3.55	4.10
2005 Jan.		5.38	3.97	4.69		3.02	3.30	4.10
Feb.		5.30	3.91	4.76		3.02	3.34	3.81
Mar.		5.28	3.89	4.51		3.02	3.48	4.11
Apr.		5.22	3.88	4.51		3.00	3.54	3.99
May		5.14	3.91	4.45		2.99	3.61	3.80
June		5.12	3.87	4.45		2.92	3.44	3.88
July		5.12	3.86	4.40		2.96	3.56	3.77
Aug.		5.04	3.91	4.45		2.87	3.53	3.80

Source: ECB.

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

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

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

4. Interest rates on deposits (outstanding amounts)

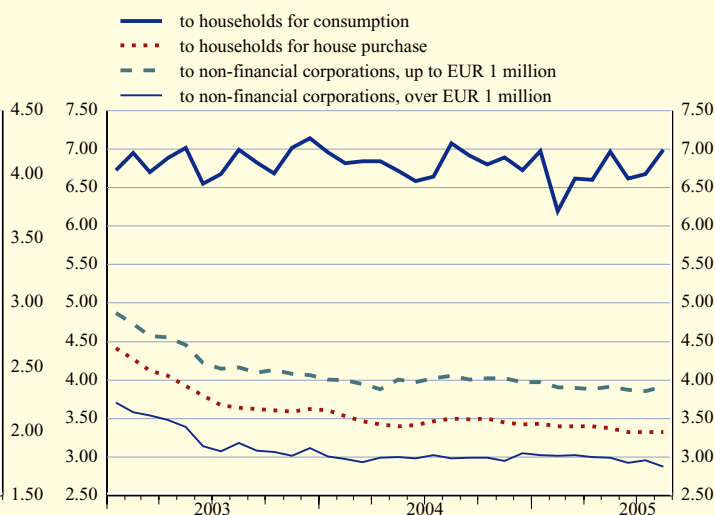
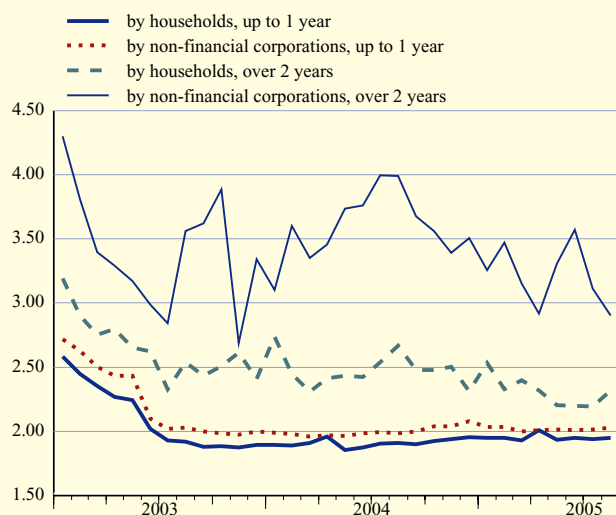
	Deposits from households					Deposits from non-financial corporations			Repos
	Overnight ¹⁾	With agreed maturity		Redeemable at notice ^{1),2)}		Overnight ¹⁾	With agreed maturity		
		Up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 2 years	Over 2 years	
	1	2	3	4	5	6	7	8	9
2004 Sep.	0.72	1.90	3.22	2.00	2.52	0.90	2.12	3.97	1.97
Oct.	0.72	1.90	3.27	2.00	2.52	0.89	2.10	3.89	1.98
Nov.	0.73	1.90	3.26	2.01	2.51	0.90	2.12	3.86	2.00
Dec.	0.73	1.92	3.24	2.00	2.52	0.90	2.16	3.77	2.02
2005 Jan.	0.74	1.91	3.23	1.98	2.49	0.93	2.12	3.73	2.01
Feb.	0.74	1.92	3.26	1.97	2.49	0.93	2.11	3.70	2.00
Mar.	0.74	1.92	3.22	1.96	2.47	0.94	2.09	3.70	1.99
Apr.	0.74	1.93	3.22	1.95	2.45	0.95	2.10	3.57	1.99
May	0.75	1.92	3.19	1.97	2.43	0.95	2.10	3.50	2.00
June	0.69	1.92	3.22	2.17	2.38	0.91	2.11	3.55	2.01
July	0.68	1.91	3.18	2.15	2.34	0.94	2.11	3.49	1.98
Aug.	0.69	1.92	3.18	2.03	2.31	0.96	2.10	3.51	2.00

5. Interest rates on loans (outstanding amounts)

	Loans to households						Loans to non-financial corporations		
	Lending for house purchase, with maturity			Consumer credit and other loans, with maturity			With maturity		
	Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years	Up to 1 year	Over 1 and up to 5 years	Over 5 years
	1	2	3	4	5	6	7	8	9
2004 Sep.	4.82	4.58	4.90	8.06	7.13	5.85	4.45	3.99	4.52
Oct.	4.69	4.54	4.88	8.05	7.07	5.80	4.41	3.97	4.48
Nov.	4.67	4.52	4.86	7.94	6.98	5.82	4.40	3.96	4.48
Dec.	4.78	4.50	4.83	7.94	7.01	5.80	4.34	3.97	4.44
2005 Jan.	4.78	4.45	4.79	8.07	6.97	5.77	4.41	3.90	4.41
Feb.	4.74	4.45	4.76	8.06	7.03	5.76	4.39	3.92	4.46
Mar.	4.75	4.41	4.78	8.07	6.97	5.77	4.38	3.91	4.40
Apr.	4.69	4.38	4.74	8.02	6.94	5.76	4.34	3.86	4.37
May	4.63	4.36	4.71	8.00	6.87	5.74	4.33	3.85	4.35
June	4.63	4.33	4.67	7.92	6.93	5.72	4.32	3.85	4.35
July	4.58	4.29	4.63	7.89	6.86	5.70	4.30	3.82	4.29
Aug.	4.55	4.24	4.60	7.96	6.86	5.73	4.25	3.80	4.28

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

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



Source: ECB.

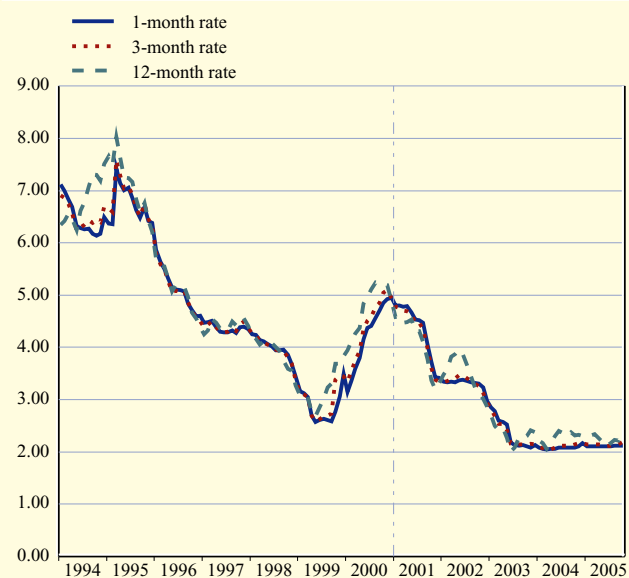
4.6 Money market interest rates

(percentages per annum; period averages)

	Euro area ¹⁾					United States	Japan
	Overnight deposits (EONIA)	1-month deposits (EURIBOR)	3-month deposits (EURIBOR)	6-month deposits (EURIBOR)	12-month deposits (EURIBOR)	3-month deposits (LIBOR)	3-month deposits (LIBOR)
	1	2	3	4	5	6	7
2002	3.29	3.30	3.32	3.35	3.49	1.80	0.08
2003	2.32	2.35	2.33	2.31	2.34	1.22	0.06
2004	2.05	2.08	2.11	2.15	2.27	1.62	0.05
2004 Q3	2.05	2.08	2.12	2.19	2.35	1.75	0.05
Q4	2.08	2.12	2.16	2.20	2.32	2.30	0.05
2005 Q1	2.06	2.11	2.14	2.19	2.32	2.84	0.05
Q2	2.07	2.10	2.12	2.14	2.19	3.28	0.05
Q3	2.08	2.11	2.13	2.15	2.20	3.77	0.06
2004 Oct.	2.11	2.09	2.15	2.19	2.32	2.08	0.05
Nov.	2.09	2.11	2.17	2.22	2.33	2.31	0.05
Dec.	2.05	2.17	2.17	2.21	2.30	2.50	0.05
2005 Jan.	2.08	2.11	2.15	2.19	2.31	2.66	0.05
Feb.	2.06	2.10	2.14	2.18	2.31	2.82	0.05
Mar.	2.06	2.10	2.14	2.19	2.34	3.03	0.05
Apr.	2.08	2.10	2.14	2.17	2.27	3.15	0.05
May	2.07	2.10	2.13	2.14	2.19	3.27	0.05
June	2.06	2.10	2.11	2.11	2.10	3.43	0.05
July	2.07	2.11	2.12	2.13	2.17	3.61	0.06
Aug.	2.06	2.11	2.13	2.16	2.22	3.80	0.06
Sep.	2.09	2.12	2.14	2.17	2.22	3.91	0.06
Oct.	2.07	2.12	2.20	2.27	2.41	4.17	0.06

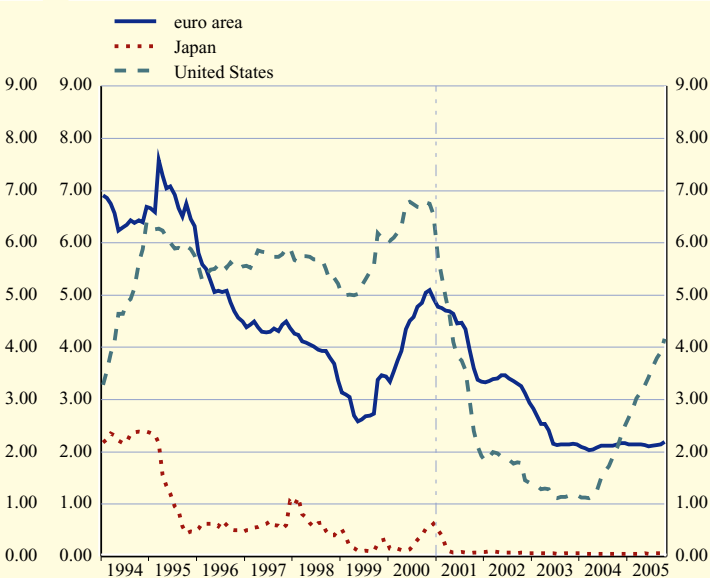
C21 Euro area money market rates

(monthly; percentages per annum)



C22 3-month money market rates

(monthly; percentages per annum)



Source: ECB.

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

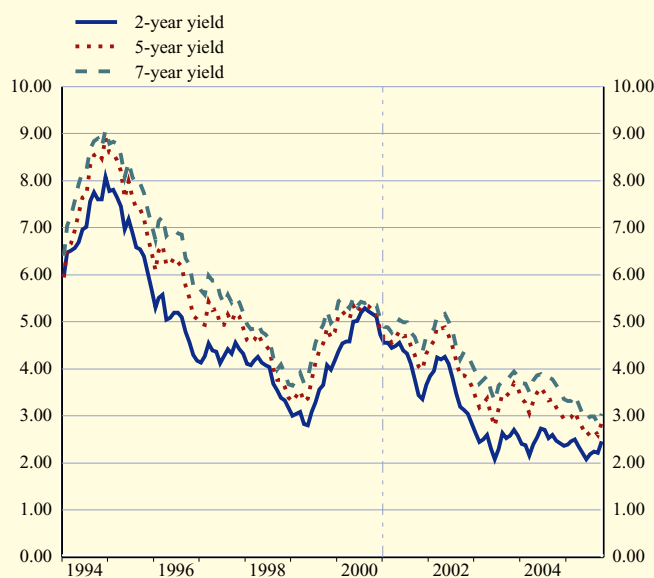
4.7 Government bond yields

(percentages per annum; period averages)

	Euro area ¹⁾					United States	Japan
	2 years	3 years	5 years	7 years	10 years	10 years	10 years
	1	2	3	4	5	6	7
2002	3.67	3.94	4.35	4.69	4.92	4.60	1.27
2003	2.49	2.74	3.32	3.74	4.16	4.00	0.99
2004	2.47	2.77	3.29	3.70	4.14	4.26	1.50
2004 Q3	2.61	2.89	3.39	3.80	4.21	4.29	1.64
Q4	2.41	2.62	3.06	3.51	3.84	4.17	1.45
2005 Q1	2.45	2.66	2.99	3.36	3.67	4.30	1.41
Q2	2.21	2.40	2.73	3.07	3.41	4.16	1.28
Q3	2.21	2.36	2.65	2.94	3.26	4.21	1.36
2004 Oct.	2.47	2.71	3.18	3.66	3.98	4.08	1.49
Nov.	2.41	2.62	3.08	3.53	3.87	4.19	1.46
Dec.	2.36	2.53	2.93	3.35	3.69	4.23	1.40
2005 Jan.	2.39	2.57	2.92	3.31	3.63	4.21	1.37
Feb.	2.45	2.67	2.97	3.32	3.62	4.16	1.40
Mar.	2.49	2.74	3.08	3.44	3.76	4.49	1.45
Apr.	2.34	2.55	2.89	3.25	3.57	4.34	1.32
May	2.22	2.41	2.74	3.05	3.41	4.14	1.27
June	2.07	2.24	2.58	2.93	3.25	4.00	1.24
July	2.19	2.34	2.66	2.99	3.32	4.16	1.26
Aug.	2.24	2.40	2.70	2.99	3.32	4.26	1.43
Sep.	2.21	2.34	2.60	2.84	3.16	4.19	1.38
Oct.	2.45	2.61	2.85	3.05	3.32	4.45	1.54

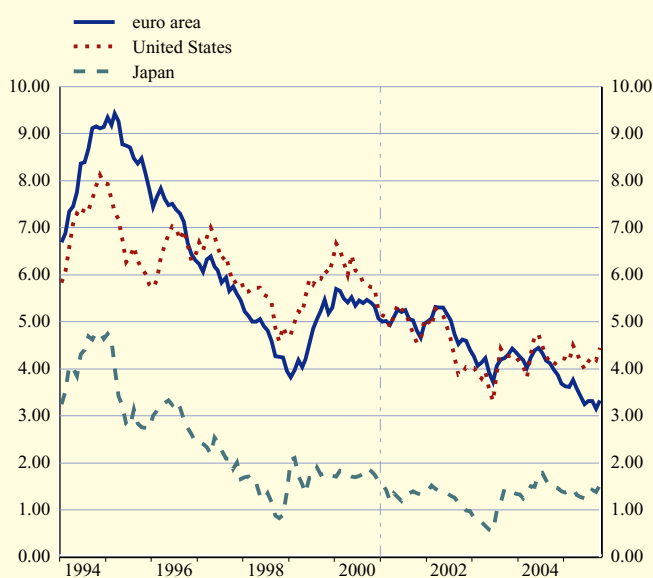
C23 Euro area government bond yields

(monthly; percentages per annum)



C24 10-year government bond yields

(monthly; percentages per annum)



Source: ECB.

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

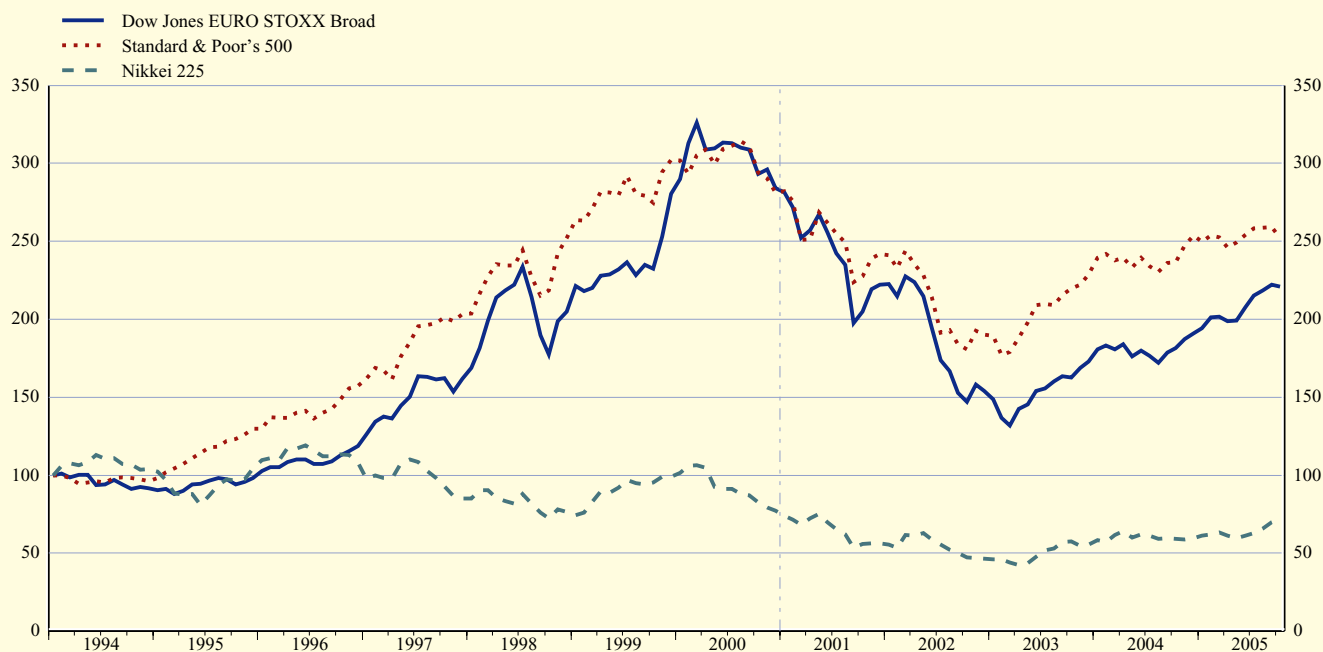
4.8 Stock market indices

(index levels in points; period averages)

	Dow Jones EURO STOXX indices												United States	Japan
	Benchmark		Main industry indices										Standard & Poor's 500	Nikkei 225
	Broad	50	Basic materials	Consumer services	Consumer goods	Oil & gas	Financials	Industrials	Technology	Utilities	Telecom.	Health care		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
2002	260.0	3,052.5	267.5	194.8	239.0	309.0	243.4	252.4	345.2	255.5	349.2	411.9	995.3	10,119.3
2003	213.3	2,422.7	212.5	144.9	193.8	259.5	199.3	213.5	275.2	210.7	337.5	304.5	964.9	9,312.9
2004	251.1	2,804.8	251.4	163.4	219.9	300.5	238.2	258.6	298.3	266.3	399.2	395.9	1,131.1	11,180.9
2004 Q3	244.0	2,708.7	246.8	159.3	216.4	305.0	228.7	253.1	259.9	266.8	379.8	402.6	1,104.4	11,152.3
Q4	259.2	2,869.7	268.9	162.7	215.0	315.7	249.1	268.0	281.8	287.3	423.5	419.1	1,163.7	11,027.1
2005 Q1	276.2	3,025.3	290.4	177.0	227.9	335.8	269.0	290.9	274.8	309.6	446.5	427.0	1,191.7	11,594.1
Q2	280.1	3,063.7	291.1	177.7	232.4	354.5	271.2	291.7	284.8	321.7	423.0	455.7	1,182.2	11,282.4
Q3	303.4	3,308.0	311.9	185.0	256.7	411.3	293.4	318.6	303.8	346.0	439.7	466.5	1,223.6	12,310.8
2004 Oct.	252.1	2,794.4	259.1	157.4	211.5	315.5	240.4	262.5	273.3	278.8	401.2	415.1	1,118.1	11,028.9
Nov.	260.0	2,882.7	269.5	163.8	215.6	317.3	249.4	267.7	290.3	287.4	421.1	422.3	1,169.5	10,963.5
Dec.	264.8	2,926.0	277.2	166.5	217.7	314.4	256.8	273.2	281.3	295.0	446.2	419.6	1,199.7	11,086.3
2005 Jan.	269.4	2,957.0	277.0	172.0	221.6	318.1	262.8	284.2	270.4	302.9	450.6	423.8	1,181.6	11,401.1
Feb.	279.0	3,050.4	294.2	179.5	230.0	338.5	270.1	295.1	277.4	317.5	453.8	428.7	1,199.7	11,545.7
Mar.	279.8	3,065.8	299.4	179.3	232.0	349.5	273.7	293.5	276.5	308.7	436.3	428.6	1,193.9	11,812.4
Apr.	275.9	3,013.7	290.0	176.7	227.9	345.5	269.0	287.6	268.5	314.2	426.1	443.1	1,164.4	11,377.2
May	276.1	3,023.5	285.7	175.4	228.7	344.1	267.1	285.2	283.8	319.4	421.3	460.5	1,179.2	11,071.4
June	288.2	3,151.7	297.7	181.0	240.4	373.4	277.4	302.0	301.5	331.2	421.7	462.8	1,202.3	11,402.7
July	298.4	3,267.1	302.0	184.9	249.5	398.3	288.2	313.8	308.6	336.8	437.5	463.4	1,220.9	11,718.9
Aug.	303.1	3,303.3	311.5	185.7	257.1	405.8	293.4	318.9	297.6	343.9	444.7	473.0	1,224.3	12,205.0
Sep.	308.4	3,351.8	321.7	184.4	263.0	429.3	298.5	322.9	305.7	357.0	436.5	462.5	1,225.6	12,986.6
Oct.	306.8	3,340.1	322.4	182.4	260.6	405.3	302.6	317.3	312.4	347.7	434.0	466.8	1,192.0	13,384.9

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

(January 1994 = 100; monthly averages)



Source: ECB.



PRICES, OUTPUT, DEMAND AND LABOUR MARKETS

5.1 HICP, other prices and costs

(annual percentage changes, unless otherwise indicated)

1. Harmonised Index of Consumer Prices

	Total					Total (s.a., percentage change on previous period)					
	Index 1996 = 100	Total		Goods	Services	Total	Processed food	Unprocessed food	Non-energy industrial goods	Energy (n.s.a.)	Services
		Total excl. unprocessed food and energy									
% of total ¹⁾	100.0	100.0	83.8	59.0	41.0	100.0	12.0	7.6	30.8	8.6	41.0
	1	2	3	4	5	6	7	8	9	10	11
2001	108.5	2.3	1.9	2.3	2.5	-	-	-	-	-	-
2002	110.9	2.3	2.5	1.7	3.1	-	-	-	-	-	-
2003	113.2	2.1	2.0	1.8	2.5	-	-	-	-	-	-
2004	115.7	2.1	2.1	1.8	2.6	-	-	-	-	-	-
2004 Q3	115.9	2.2	2.1	2.0	2.6	0.5	0.3	-0.2	0.2	1.9	0.7
Q4	116.6	2.3	2.0	2.1	2.7	0.5	0.3	0.1	0.1	1.8	0.6
2005 Q1	116.7	2.0	1.6	1.8	2.4	0.3	0.6	0.7	-0.1	0.3	0.5
Q2	118.1	2.0	1.5	1.8	2.3	0.7	0.3	0.3	0.1	4.5	0.5
Q3	118.6	2.3	1.4	2.4	2.3	0.8	0.6	-0.2	0.0	5.7	0.6
2005 May	118.2	2.0	1.6	1.6	2.5	0.2	0.1	0.3	0.0	-0.6	0.5
June	118.3	2.1	1.4	1.9	2.2	0.1	0.2	-0.2	0.0	1.6	0.0
July	118.2	2.2	1.4	2.1	2.3	0.3	0.2	-0.4	-0.1	2.8	0.3
Aug.	118.5	2.2	1.4	2.2	2.3	0.3	0.2	0.4	0.0	1.4	0.2
Sep.	119.1	2.6	1.5	2.9	2.2	0.4	0.5	-0.1	0.2	3.0	0.1
Oct. ²⁾	.	2.5	.	.	.	.	.	.	.	.	.

	Goods						Services					
	Food (incl. alcoholic beverages and tobacco)			Industrial goods			Housing	Transport	Communication	Recreation and personal	Miscellaneous	
	Total	Processed food	Unprocessed food	Total	Non-energy industrial goods	Energy						
% of total ¹⁾	19.6	12.0	7.6	39.4	30.8	8.6	10.4	6.4	6.4	2.8	14.8	6.6
	12	13	14	15	16	17	18	19	20	21	22	23
2001	4.5	2.9	7.0	1.2	0.9	2.2	1.8	1.4	3.6	-4.1	3.6	2.7
2002	3.1	3.1	3.1	1.0	1.5	-0.6	2.4	2.0	3.2	-0.3	4.2	3.4
2003	2.8	3.3	2.1	1.2	0.8	3.0	2.3	2.0	2.9	-0.6	2.7	3.4
2004	2.3	3.4	0.6	1.6	0.8	4.5	2.4	1.9	2.8	-2.0	2.4	5.1
2004 Q3	2.0	3.6	-0.3	2.0	0.8	6.3	2.5	2.0	2.8	-2.6	2.5	5.3
Q4	1.4	2.8	-0.7	2.4	0.8	8.5	2.6	2.1	3.0	-2.6	2.4	5.3
2005 Q1	1.6	2.4	0.5	1.9	0.3	7.6	2.6	2.1	3.1	-1.9	2.4	3.5
Q2	1.3	1.6	0.8	2.1	0.3	8.8	2.7	2.1	2.4	-2.0	2.3	3.4
Q3	1.5	1.9	0.8	2.9	0.1	12.9	2.5	2.1	2.6	-2.2	2.4	3.0
2005 May	1.3	1.5	1.0	1.8	0.4	6.9	2.7	2.2	2.5	-2.2	2.8	3.5
June	1.2	1.5	0.6	2.2	0.3	9.4	2.7	2.2	2.5	-2.1	2.2	3.2
July	1.1	1.6	0.3	2.6	0.0	11.8	2.5	2.1	2.7	-2.1	2.4	3.0
Aug.	1.5	1.7	1.1	2.6	0.0	11.6	2.6	2.1	2.6	-2.1	2.5	3.0
Sep.	1.8	2.3	1.1	3.5	0.2	15.2	2.5	2.1	2.6	-2.3	2.3	2.9
Oct.	.	.	.	.	.	.	.	.	.	.	.	.

Sources: Eurostat and ECB calculations.

1) Referring to the index period 2005.

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

5.1 HICP, other prices and costs

(annual percentage changes, unless otherwise indicated)

2. Industry, construction, residential property and commodity prices

	Industrial producer prices excluding construction										Construct- ion ¹⁾	Residential property prices ²⁾	World market prices of raw materials ³⁾	Oil prices ⁴⁾ (EUR per barrel)		
	Total (index 2000 = 100)	Total		Industry excluding construction and energy						Energy					Total	Total excluding energy
		Manu- facturing	Total	Intermedi- ate goods	Capital goods	Consumer goods										
						Total	Durable	Non-durable								
% of total ⁵⁾	100.0	100.0	89.5	82.5	31.6	21.3	29.5	4.0	25.5	17.5			100.0	32.8		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
2001	102.0	2.0	1.2	1.7	1.2	0.9	3.0	1.9	3.1	2.6	2.8	6.0	-8.3	-8.1	27.8	
2002	101.9	-0.1	0.3	0.5	-0.3	0.9	1.0	1.3	1.0	-2.3	2.7	6.8	-4.1	-0.9	26.5	
2003	103.4	1.4	0.9	0.8	0.8	0.3	1.1	0.6	1.2	3.8	2.1	7.1	-4.0	-4.5	25.1	
2004	105.7	2.3	2.5	2.0	3.5	0.7	1.3	0.7	1.4	3.9	2.6	7.3	18.4	10.8	30.5	
2004 Q3	106.4	3.1	3.5	2.5	4.7	0.9	1.4	0.8	1.5	6.1	3.0	-	26.9	11.9	33.3	
Q4	107.2	3.8	4.0	2.8	5.5	1.2	1.2	1.1	1.2	8.5	3.5	7.5 ⁶⁾	22.9	1.3	34.5	
2005 Q1	108.2	4.1	3.8	2.8	5.1	1.6	1.2	1.4	1.1	10.0	3.5	-	22.9	1.9	36.6	
Q2	109.4	3.9	3.1	1.9	3.1	1.5	0.9	1.4	0.8	12.2	3.1	-	22.4	2.2	42.2	
Q3	.	.	.	.	.	.	.	.	.	.	.	-	33.5	11.6	50.9
2005 May	109.2	3.5	2.6	1.9	3.0	1.5	0.9	1.4	0.8	9.8	-	-	13.2	1.2	39.4	
June	109.7	4.0	3.1	1.7	2.6	1.4	0.8	1.4	0.7	13.5	-	-	31.9	7.6	45.7	
July	110.3	4.1	2.9	1.4	2.0	1.2	0.8	1.3	0.7	15.2	-	-	34.1	9.6	48.3	
Aug.	110.8	4.1	2.9	1.3	1.7	1.2	1.0	1.2	0.9	15.2	-	-	32.4	11.9	52.0	
Sep.	.	.	.	.	.	.	.	.	.	.	-	-	33.9	13.2	52.2
Oct.	.	.	.	.	.	.	.	.	.	.	-	-	23.1	17.4	49.3

3. Hourly labour costs⁷⁾

	Total (s.a. index 2000 = 100)	Total	By component		By selected economic activity			Memo: indicator of negotiated wages
			Wages and salaries	Employers' social contributions	Mining, manufacturing and energy	Construction	Services	
% of total ⁵⁾	100.0	100.0	73.3	26.7	36.8	8.9	54.4	
	1	2	3	4	5	6	7	8
2001	103.8	3.8	4.0	3.2	3.8	3.6	3.7	2.6
2002	107.4	3.5	3.3	4.1	3.3	4.1	3.5	2.7
2003	110.7	3.1	2.9	3.8	3.1	3.7	3.0	2.4
2004	113.5	2.5	2.3	3.0	2.8	2.7	2.3	2.1
2004 Q2	113.2	2.5	2.4	2.7	2.7	2.5	2.4	2.2
Q3	113.9	2.4	2.3	2.7	2.5	2.7	2.4	2.0
Q4	114.6	2.3	1.9	3.3	2.7	2.1	2.0	2.0
2005 Q1	115.4	3.0	2.5	4.6	3.2	2.4	3.1	2.2
Q2	116.0	2.3	2.0	3.1	2.3	1.5	2.4	2.1

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

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

5.1 HICP, other prices and costs

(annual percentage changes, unless otherwise indicated)

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

(seasonally adjusted)

	Total (index 2000 = 100)	Total	By economic activity					
			Agriculture, hunting, forestry and fishing	Mining, manufacturing and energy	Construction	Trade, repairs, hotels and restaurants, transport and communication	Financial, real estate, renting and business services	Public administration, education, health and other services
	1	2	3	4	5	6	7	8
Unit labour costs ¹⁾								
2001	102.1	2.1	1.2	1.5	3.1	1.3	2.4	2.4
2002	104.6	2.4	1.0	1.1	3.6	1.7	3.4	2.8
2003	106.5	1.8	2.8	0.9	2.1	1.9	1.8	2.7
2004	107.4	0.9	-7.5	-0.4	2.5	0.7	1.9	1.7
2004 Q2	107.4	0.8	-7.9	-1.3	1.1	0.0	1.6	2.6
Q3	107.4	0.3	-9.2	-1.6	3.6	1.0	2.1	0.5
Q4	107.9	1.1	-6.4	0.6	3.5	0.3	1.9	1.5
2005 Q1	108.3	1.2	0.0	-0.6	4.8	0.2	2.1	1.9
Q2	108.6	1.1	1.7	-0.4	3.7	0.5	2.9	1.4
Compensation per employee								
2001	102.5	2.5	0.6	2.8	3.5	2.5	1.0	2.8
2002	105.1	2.6	2.6	2.7	3.4	2.4	2.3	2.8
2003	107.5	2.3	1.0	2.7	2.4	2.0	1.8	2.6
2004	109.8	2.1	0.4	3.1	3.0	1.6	1.3	2.4
2004 Q2	109.8	2.5	0.2	3.4	2.3	1.3	1.2	3.7
Q3	109.8	1.6	0.2	2.4	2.7	1.7	1.4	1.2
Q4	110.4	1.9	1.6	2.5	2.9	1.6	1.1	2.0
2005 Q1	111.2	1.8	2.4	1.9	2.6	1.9	1.8	1.7
Q2	111.5	1.6	2.0	1.9	2.9	2.0	2.5	0.6
Labour productivity ²⁾								
2001	100.4	0.4	-0.6	1.3	0.4	1.2	-1.3	0.4
2002	100.5	0.2	1.6	1.5	-0.2	0.7	-1.1	0.0
2003	101.0	0.4	-1.8	1.8	0.3	0.1	0.0	-0.2
2004	102.2	1.2	8.5	3.5	0.4	0.9	-0.6	0.7
2004 Q2	102.3	1.7	8.9	4.8	1.2	1.3	-0.4	1.0
Q3	102.3	1.2	10.3	4.1	-0.9	0.7	-0.6	0.6
Q4	102.3	0.8	8.5	1.9	-0.6	1.4	-0.8	0.4
2005 Q1	102.6	0.6	2.3	2.5	-2.2	1.7	-0.3	-0.3
Q2	102.7	0.4	0.3	2.3	-0.8	1.5	-0.5	-0.8

5. Gross domestic product deflators

	Total (s.a. index 2000 = 100)	Total	Domestic demand			Exports ³⁾	Imports ³⁾	
			Total	Private consumption	Government consumption			Gross fixed capital formation
	1	2	3	4	5	6	7	8
2001	102.3	2.3	2.1	2.5	2.6	1.8	0.8	0.6
2002	105.0	2.6	2.0	2.0	2.7	1.8	-0.6	-1.8
2003	107.3	2.2	1.7	1.9	2.4	1.3	-0.6	-1.4
2004	109.3	1.9	1.9	1.8	2.2	2.7	1.3	1.4
2004 Q2	109.3	2.2	2.3	2.1	3.0	2.6	1.4	1.4
Q3	109.7	1.8	1.9	2.1	1.1	3.2	2.2	3.0
Q4	110.0	1.7	2.0	1.8	2.1	3.2	2.5	3.7
2005 Q1	110.5	1.9	2.2	1.9	2.0	3.7	2.6	3.7
Q2	111.0	1.6	1.8	1.8	1.3	2.7	2.0	3.2

Sources: ECB calculations based on Eurostat data.

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

5.2 Output and demand

1. GDP and expenditure components

	GDP								
	Total	Domestic demand				External balance ¹⁾			
		Total	Private consumption	Government consumption	Gross fixed capital formation	Changes in inventories ²⁾	Total	Exports ¹⁾	Imports ¹⁾
1	2	3	4	5	6	7	8	9	
	Current prices (EUR billions, seasonally adjusted)								
2001	6,887.8	6,785.7	3,976.6	1,372.4	1,453.5	-16.8	102.1	2,557.5	2,455.5
2002	7,128.4	6,956.7	4,094.1	1,444.6	1,444.6	-26.7	171.7	2,593.8	2,422.1
2003	7,333.2	7,186.6	4,217.8	1,501.3	1,473.5	-5.9	146.6	2,598.2	2,451.5
2004	7,609.3	7,461.0	4,357.3	1,549.9	1,533.8	19.9	148.4	2,788.5	2,640.2
2004 Q2	1,899.8	1,857.0	1,084.7	388.7	381.4	2.2	42.9	694.1	651.2
Q3	1,911.5	1,876.8	1,091.7	388.6	386.4	10.0	34.7	709.1	674.4
Q4	1,920.7	1,893.7	1,104.5	389.8	390.2	9.2	27.1	715.2	688.2
2005 Q1	1,936.6	1,904.7	1,110.4	394.2	390.9	9.3	31.9	712.7	680.8
Q2	1,951.9	1,925.5	1,118.6	397.6	396.8	12.6	26.4	729.7	703.3
	<i>percentage of GDP</i>								
2004	100.0	98.1	57.3	20.4	20.2	0.3	1.9	-	-
	Constant prices (ECU billions at 1995 prices, seasonally adjusted)								
	<i>quarter-on-quarter percentage changes</i>								
2004 Q2	0.5	0.4	0.1	0.3	0.1	-	-	2.5	2.5
Q3	0.3	0.7	0.2	0.4	0.5	-	-	1.3	2.4
Q4	0.2	0.5	0.8	-0.2	0.3	-	-	0.5	1.4
2005 Q1	0.4	0.0	0.1	0.4	-0.2	-	-	-0.5	-1.4
Q2	0.3	0.4	0.1	0.4	0.5	-	-	1.8	2.3
	<i>annual percentage changes</i>								
2001	1.8	1.0	1.8	2.2	0.0	-	-	4.0	2.1
2002	0.9	0.2	0.9	2.6	-2.4	-	-	1.9	0.3
2003	0.7	1.4	1.0	1.5	0.8	-	-	0.7	2.7
2004	2.1	2.0	1.5	1.1	1.9	-	-	6.5	6.5
2004 Q2	2.1	1.4	1.3	1.3	1.3	-	-	7.8	6.2
Q3	1.9	2.3	1.1	1.1	1.5	-	-	6.4	7.9
Q4	1.6	1.9	1.9	0.6	1.1	-	-	6.1	7.3
2005 Q1	1.3	1.6	1.3	0.9	0.7	-	-	3.8	4.9
Q2	1.1	1.7	1.3	1.0	1.1	-	-	3.1	4.6
	<i>contributions to annual percentage changes of GDP in percentage points</i>								
2001	1.8	1.0	1.0	0.4	0.0	-0.4	0.8	-	-
2002	0.9	0.2	0.5	0.5	-0.5	-0.3	0.6	-	-
2003	0.7	1.4	0.6	0.3	0.2	0.3	-0.7	-	-
2004	2.1	1.9	0.9	0.2	0.4	0.4	0.1	-	-
2004 Q2	2.1	1.4	0.7	0.3	0.3	0.1	0.8	-	-
Q3	1.9	2.2	0.6	0.2	0.3	1.0	-0.4	-	-
Q4	1.6	1.9	1.1	0.1	0.2	0.5	-0.3	-	-
2005 Q1	1.3	1.6	0.7	0.2	0.1	0.5	-0.3	-	-
Q2	1.1	1.6	0.7	0.2	0.2	0.5	-0.5	-	-

Source: Eurostat.

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

2) Including acquisitions less disposals of valuables.

5.2 Output and demand

2. Value added by economic activity

	Gross value added (basic prices)						Intermediate consumption of FISIM ¹⁾	Taxes less subsidies on products	
	Total	Agriculture, hunting, forestry and fishing activities	Mining, manufacturing and energy	Construction	Trade, repairs, hotels and restaurants, transport and communication	Financial, real estate, renting and business activities			Public administration, education, health and other services
	1	2	3	4	5	6	7	8	9
<i>Current prices (EUR billions, seasonally adjusted)</i>									
2001	6,387.9	161.0	1,385.1	360.9	1,348.1	1,729.9	1,402.9	215.4	715.3
2002	6,619.9	156.4	1,399.1	374.3	1,400.0	1,814.4	1,475.7	230.3	738.8
2003	6,806.1	156.9	1,412.4	391.3	1,427.4	1,886.9	1,531.2	238.8	765.9
2004	7,046.6	157.6	1,454.1	414.5	1,473.5	1,958.7	1,588.3	243.0	805.8
2004 Q2	1,761.8	39.6	364.4	103.1	368.2	488.1	398.4	61.3	199.3
Q3	1,769.3	39.1	366.2	103.8	370.7	493.0	396.6	60.2	202.4
Q4	1,777.2	39.6	365.1	105.9	371.6	495.5	399.4	61.4	204.9
2005 Q1	1,795.3	38.7	370.4	106.5	374.5	501.2	404.1	62.3	203.7
Q2	1,811.7	38.6	373.6	109.6	376.6	507.3	406.0	63.4	203.6
<i>percentage of value added</i>									
2004	100.0	2.2	20.6	5.9	20.9	27.8	22.5	-	-
<i>Constant prices (ECU billions at 1995 prices, seasonally adjusted)</i>									
<i>quarter-on-quarter percentage changes</i>									
2004 Q2	0.7	1.1	0.9	0.0	1.0	0.7	0.3	1.8	-1.2
Q3	0.2	0.0	0.2	-0.3	0.4	0.3	0.1	-0.3	0.7
Q4	0.2	1.1	-0.4	0.4	0.4	0.3	0.3	0.8	0.4
2005 Q1	0.4	-1.7	0.6	-0.9	0.9	0.6	0.1	-0.1	-0.5
Q2	0.4	-0.6	0.5	1.4	0.6	0.4	0.1	0.6	-0.5
<i>annual percentage changes</i>									
2001	2.0	-1.8	1.3	0.7	2.7	2.6	1.9	5.5	1.5
2002	1.0	-0.2	-0.2	-0.3	1.2	1.4	2.0	2.4	0.2
2003	0.6	-3.9	0.2	0.5	0.3	1.4	1.0	1.8	1.5
2004	2.2	7.6	2.5	1.7	2.2	2.0	1.6	4.4	1.8
2004 Q2	2.4	7.7	3.0	1.5	2.2	2.2	1.8	5.7	1.3
Q3	1.9	9.4	2.3	0.8	1.6	1.8	1.5	4.4	2.0
Q4	1.7	7.5	1.0	0.7	2.4	1.8	1.3	4.5	1.3
2005 Q1	1.5	0.5	1.3	-0.9	2.7	1.9	0.7	2.1	-0.6
Q2	1.2	-1.2	0.9	0.6	2.3	1.6	0.5	0.9	0.0
<i>contributions to annual percentage changes of value added in percentage points</i>									
2001	2.0	0.0	0.3	0.0	0.6	0.7	0.4	-	-
2002	1.0	0.0	0.0	0.0	0.3	0.4	0.4	-	-
2003	0.6	-0.1	0.1	0.0	0.1	0.4	0.2	-	-
2004	2.2	0.2	0.6	0.1	0.5	0.5	0.3	-	-
2004 Q2	2.4	0.2	0.7	0.1	0.5	0.6	0.4	-	-
Q3	1.9	0.2	0.5	0.0	0.4	0.5	0.3	-	-
Q4	1.7	0.2	0.2	0.0	0.5	0.5	0.3	-	-
2005 Q1	1.5	0.0	0.3	0.0	0.6	0.5	0.2	-	-
Q2	1.2	0.0	0.2	0.0	0.5	0.4	0.1	-	-

Source: Eurostat.

1) Financial intermediation services indirectly measured (FISIM) are treated as intermediate consumption which is not allocated among branches.

5.2 Output and demand

(annual percentage changes, unless otherwise indicated)

3. Industrial production

	Total		Industry excluding construction								Construction	
	% of total ¹⁾	Total (s.a. index 2000 = 100)	Total		Industry excluding construction and energy					Energy		
			Manu- facturing	Total	Intermedi- ate goods	Capital goods	Consumer goods					
							Total	Durable	Non-durable			
1	2	3	4	5	6	7	8	9	10	11	12	
2002	-0.2	99.9	-0.5	-0.8	-0.7	-0.1	-1.7	-0.3	-5.5	0.7	1.1	1.3
2003	0.2	100.2	0.3	0.0	0.0	0.4	-0.2	-0.5	-4.6	0.2	3.0	-0.2
2004	2.1	102.1	2.0	2.0	1.9	1.8	3.0	0.5	-0.1	0.7	2.5	-0.3
2004 Q3	2.8	102.4	2.8	3.0	2.8	2.9	5.0	0.4	-0.5	0.5	2.6	-0.7
Q4	1.1	102.2	1.1	0.8	0.5	1.1	1.7	-0.2	-3.6	0.4	2.7	-1.0
2005 Q1	-0.5	102.2	0.5	0.3	0.1	0.6	2.1	-1.0	-4.0	-0.5	1.0	-4.4
Q2	0.9	102.9	0.5	0.6	0.2	-0.6	2.1	0.5	-1.9	1.0	1.1	-0.7
2005 Mar.	-2.0	102.0	-0.2	-1.1	-1.3	-0.8	1.8	-2.4	-4.7	-1.9	1.7	-6.7
Apr.	1.9	103.0	1.1	1.9	1.7	0.2	3.3	0.6	-0.8	0.9	0.2	-1.7
May	0.1	102.6	-0.1	-0.4	-1.0	-0.9	0.7	0.5	-4.3	1.3	0.7	-1.3
June	0.8	103.1	0.6	0.4	-0.2	-1.2	2.4	0.5	-0.7	0.7	2.5	0.7
July	.	103.3	0.5	-0.1	-0.3	-0.5	2.2	-0.1	-2.3	0.3	2.4	.
Aug.	.	104.2	2.5	2.8	2.9	3.9	2.2	3.1	1.7	3.3	-0.5	.
<i>month-on-month percentage changes (s.a.)</i>												
2005 Mar.	-0.5	-	0.0	-0.3	-0.3	-0.8	1.2	-0.4	-0.6	-0.4	1.2	-1.6
Apr.	2.5	-	0.9	2.1	2.0	1.3	0.2	1.8	2.6	1.6	-5.0	3.6
May	-0.6	-	-0.3	-1.0	-1.2	-0.5	-0.2	-0.3	-2.0	0.0	1.9	0.2
June	0.2	-	0.5	0.6	0.5	0.0	1.1	0.1	1.4	-0.1	2.1	1.6
July	.	-	0.2	-0.1	0.2	1.0	0.0	-0.1	-0.5	0.0	-0.1	.
Aug.	.	-	0.8	1.4	1.5	2.2	0.0	1.2	0.8	1.2	-2.5	.

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

	Industrial new orders		Industrial turnover		Retail sales							New passenger car registrations	
	Manufacturing ²⁾ (current prices)		Manufacturing (current prices)		Current prices	Constant prices						Total (s.a., thousands) ³⁾	Total
	Total (s.a. index 2000 = 100)	Total	Total (s.a. index 2000 = 100)	Total	Total	Total (s.a. index 2000 = 100)	Total	Food, beverages, tobacco	Non-food				
									Textiles, clothing, footwear	Household equipment			
1	2	3	4	5	6	7	8	9	10	11	12	13	
% of total ¹⁾	100.0	100.0	100.0	100.0	100.0	100.0	100.0	43.7	56.3	10.6	14.8		
2002	98.4	-0.4	101.4	-0.6	1.9	101.7	0.3	1.2	-0.4	-1.9	-1.9	925	-4.4
2003	98.4	0.2	101.0	-0.3	1.8	102.1	0.4	1.1	-0.4	-2.8	0.2	911	-1.5
2004	106.2	8.1	105.9	4.9	1.7	102.9	0.9	0.8	0.9	0.8	2.7	922	1.1
2004 Q4	110.8	9.7	107.2	5.1	1.8	103.2	1.1	1.1	0.8	1.1	2.2	941	3.6
2005 Q1	106.2	3.1	106.7	2.5	1.9	104.0	1.1	1.1	1.1	0.4	0.4	921	0.4
Q2	108.6	1.3	110.3	4.2	1.5	103.6	0.6	0.1	0.6	0.5	0.9	938	1.0
Q3	.	.	.	.	.	.	.	.	.	.	.	942	4.6
2005 Apr.	107.5	1.9	110.6	4.1	0.3	102.7	-0.8	-2.0	-0.2	0.4	-0.1	939	1.0
May	107.4	-3.4	108.0	4.9	3.0	104.1	2.1	1.8	2.1	1.7	2.0	894	-4.2
June	110.8	5.5	112.2	3.7	1.2	104.1	0.4	0.5	0.1	-0.5	0.8	980	6.1
July	109.3	1.6	106.9	0.4	0.4	103.4	-0.4	-1.8	0.4	-0.3	1.0	940	3.0
Aug.	109.2	7.5	112.9	7.4	2.7	104.5	2.1	1.2	3.2	3.1	2.6	933	7.4
Sep.	.	.	.	.	.	.	.	.	.	.	.	954	4.5
<i>month-on-month percentage changes (s.a.)</i>													
2005 Apr.	-	2.4	-	3.3	-0.2	-	-1.1	-1.9	-0.6	0.3	0.1	-	0.9
May	-	-0.1	-	-2.3	0.8	-	1.3	2.2	0.6	-1.4	0.7	-	-4.7
June	-	3.2	-	3.9	0.1	-	0.0	-0.3	0.1	1.2	0.4	-	9.6
July	-	-1.4	-	-4.7	-0.6	-	-0.7	-1.0	-0.2	0.0	-0.3	-	-4.1
Aug.	-	-0.1	-	5.6	0.9	-	1.1	1.0	1.2	1.4	0.7	-	-0.8
Sep.	-	.	-	.	.	-	.	.	.	.	.	-	2.3

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

1) In 2000.

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

3) Annual and quarterly figures are averages of monthly figures in the period concerned.

5.2 Output and demand

(percentage balances,¹⁾ unless otherwise indicated; seasonally adjusted)

5. Business and Consumer Surveys

	Economic sentiment indicator ²⁾ (long-term average = 100)	Manufacturing industry					Consumer confidence indicator ³⁾				
		Industrial confidence indicator				Capacity utilisation ⁴⁾	Total ⁵⁾	Financial situation over next 12 months	Economic situation over next 12 months	Unemployment situation over next 12 months	Savings over next 12 months
		Total ⁵⁾	Order books	Stocks of finished products	Production expectations						
	1	2	3	4	5	6	7	8	9	10	11
2001	100.8	-9	-15	13	1	82.7	-5	2	-9	14	2
2002	94.4	-11	-25	11	3	81.2	-11	-1	-12	27	-3
2003	93.3	-11	-25	10	3	81.0	-18	-5	-21	38	-9
2004	99.9	-5	-16	8	10	81.6	-14	-4	-14	30	-8
2004 Q3	100.5	-4	-13	8	9	82.1	-14	-4	-14	30	-8
Q4	100.9	-3	-12	8	9	82.0	-13	-3	-14	29	-6
2005 Q1	99.0	-6	-15	11	6	81.5	-13	-3	-13	30	-8
Q2	96.3	-10	-20	13	3	81.0	-14	-3	-16	31	-7
Q3	98.0	-8	-18	11	6	81.1	-15	-4	-17	29	-8
2005 May	96.1	-11	-21	14	2	-	-15	-4	-17	31	-7
June	96.3	-10	-21	12	4	-	-15	-4	-17	33	-7
July	97.5	-8	-18	11	4	80.9	-15	-4	-19	30	-9
Aug.	97.8	-8	-18	11	6	-	-15	-4	-17	29	-8
Sep.	98.6	-7	-16	10	7	-	-15	-5	-16	28	-9
Oct.	100.5	-6	-16	10	8	81.2	-13	-5	-15	23	-9
	Construction confidence indicator			Retail trade confidence indicator				Services confidence indicator			
	Total ⁵⁾	Order books	Employment expectations	Total ⁵⁾	Present business situation	Volume of stocks	Expected business situation	Total ⁵⁾	Business climate	Demand in recent months	Demand in the months ahead
	12	13	14	15	16	17	18	19	20	21	22
2001	-9	-15	-4	-8	-5	17	-1	15	16	8	20
2002	-18	-25	-11	-17	-20	18	-12	1	-3	-6	13
2003	-19	-26	-13	-12	-16	17	-3	2	-6	1	12
2004	-15	-23	-7	-8	-12	14	1	11	7	10	18
2004 Q3	-14	-22	-6	-8	-10	14	0	12	8	11	18
Q4	-12	-19	-5	-8	-14	13	3	11	8	9	16
2005 Q1	-12	-16	-7	-8	-12	12	1	11	6	7	18
Q2	-12	-18	-6	-8	-13	13	1	9	1	8	17
Q3	-9	-16	-3	-9	-12	14	0	11	4	11	17
2005 May	-12	-17	-7	-8	-13	11	1	10	1	11	16
June	-13	-19	-6	-9	-16	14	2	9	1	8	17
July	-12	-18	-5	-10	-14	15	-3	12	5	12	18
Aug.	-9	-16	-2	-9	-11	14	-1	9	-1	11	18
Sep.	-8	-14	-1	-8	-12	15	5	11	7	9	16
Oct.	-8	-14	-1	-4	-9	14	11	15	10	15	19

Source: European Commission (Economic and Financial Affairs DG).

- 1) Difference between the percentages of respondents giving positive and negative replies.
- 2) The economic sentiment indicator is composed of the industrial, services, consumer, construction and retail trade confidence indicators; the industrial confidence indicator has a weight of 40%, the services confidence indicator a weight of 30%, the consumer confidence indicator a weight of 20% and the two other indicators a weight of 5% each. Values of the economic sentiment indicator above (below) 100 indicate above-average (below-average) economic sentiment, calculated for the period from January 1985.
- 3) Owing to changes in the questionnaire used for the French survey, euro area results from January 2004 onwards are not fully comparable with previous results.
- 4) Data are collected in January, April, July and October each year. The quarterly figures shown are averages of two successive surveys. Annual data are derived from quarterly averages.
- 5) The confidence indicators are calculated as simple averages of the components shown; the assessments of stocks (columns 4 and 17) and unemployment (column 10) are used with inverted signs for the calculation of confidence indicators.

5.3 Labour markets ¹⁾

(annual percentage changes, unless otherwise indicated)

1. Employment

	Whole economy		By employment status		By economic activity					
	Millions (s.a.)		Employees	Self-employed	Agriculture, hunting, forestry and fishing	Mining, manufacturing and energy	Construction	Trade, repairs, hotels and restaurants, transport and communication	Financial, real estate, renting and business services	Public administration, education, health and other services
% of total ²⁾	100.0	100.0	84.4	15.6	4.5	18.1	7.2	25.0	15.3	29.9
	1	2	3	4	5	6	7	8	9	10
2001	134.513	1.5	1.7	0.2	-0.7	0.1	0.7	1.7	4.1	1.4
2002	135.478	0.7	0.8	0.1	-1.5	-1.6	0.1	0.5	2.6	2.0
2003	135.842	0.3	0.3	0.4	-1.8	-1.5	0.2	0.3	1.3	1.2
2004	136.610	0.6	0.5	1.1	-0.8	-1.7	1.0	0.9	2.5	0.8
2004 Q2	136.329	0.5	0.4	1.1	-0.9	-1.7	0.6	0.8	2.7	0.7
Q3	136.621	0.6	0.5	1.4	-0.4	-1.8	2.0	0.9	2.4	0.8
Q4	136.854	0.8	0.7	1.3	-0.7	-0.9	1.4	1.0	2.5	0.9
2005 Q1	136.942	0.7	0.7	1.0	-1.6	-1.2	1.5	1.0	2.2	1.0
Q2	137.268	0.7	0.7	0.7	-1.5	-1.4	1.6	0.7	2.1	1.3
	<i>quarter-on-quarter percentage changes (s.a.)</i>									
2004 Q2	0.302	0.2	0.1	0.7	-0.2	0.1	0.6	0.3	0.4	0.1
Q3	0.292	0.2	0.0	1.3	0.0	-0.5	1.1	0.4	0.6	0.2
Q4	0.233	0.2	0.2	0.0	-0.4	0.1	-0.4	0.1	0.5	0.3
2005 Q1	0.088	0.1	0.2	-0.9	-1.2	-0.9	0.1	0.1	0.8	0.4
Q2	0.326	0.2	0.2	0.4	0.1	-0.1	0.6	0.1	0.2	0.5

2. Unemployment

(seasonally adjusted)

	Total		By age ³⁾				By gender ⁴⁾			
	Millions	% of labour force	Adult		Youth		Male		Female	
			Millions	% of labour force	Millions	% of labour force	Millions	% of labour force	Millions	% of labour force
% of total ²⁾	100.0		75.6		24.4		47.9		52.1	
	1	2	3	4	5	6	7	8	9	10
2001	11.018	7.9	8.092	6.6	2.925	16.1	5.037	6.3	5.981	9.9
2002	11.737	8.3	8.721	7.0	3.017	16.8	5.509	6.9	6.228	10.1
2003	12.515	8.7	9.397	7.5	3.117	17.6	5.963	7.4	6.552	10.5
2004	12.867	8.9	9.731	7.6	3.136	17.9	6.166	7.6	6.701	10.5
2004 Q2	12.889	8.9	9.711	7.6	3.178	18.1	6.151	7.6	6.738	10.6
Q3	12.895	8.9	9.757	7.6	3.138	18.0	6.151	7.5	6.744	10.6
Q4	12.857	8.8	9.760	7.6	3.097	17.9	6.260	7.7	6.597	10.3
2005 Q1	12.843	8.8	9.596	7.5	3.247	18.5	6.206	7.6	6.637	10.4
Q2	12.698	8.7	9.623	7.5	3.075	17.7	6.167	7.5	6.532	10.2
2005 Mar.	12.863	8.8	9.590	7.5	3.273	18.7	6.236	7.6	6.627	10.4
Apr.	12.831	8.8	9.668	7.5	3.164	18.1	6.222	7.6	6.610	10.3
May	12.654	8.7	9.655	7.5	2.999	17.3	6.162	7.5	6.492	10.1
June	12.609	8.6	9.548	7.4	3.062	17.6	6.116	7.5	6.493	10.1
July	12.461	8.5	9.560	7.4	2.901	16.9	6.036	7.4	6.424	10.0
Aug.	12.599	8.6	9.650	7.5	2.949	17.1	6.243	7.6	6.357	9.9

Sources: ECB calculations based on Eurostat data (in Table 1 in Section 5.3) and Eurostat (Table 2 in Section 5.3).

1) Data for employment refer to persons and are based on the ESA 95. Data for unemployment refer to persons and follow ILO recommendations.

2) In 2004.

3) Adult: 25 years of age and over; youth: below 25 years of age; rates are expressed as a percentage of the labour force for the relevant age group.

4) Rates are expressed as a percentage of the labour force for the relevant gender.



GOVERNMENT FINANCE

6.1 Revenue, expenditure and deficit/surplus ¹⁾ (as a percentage of GDP)

1. Euro area – revenue

	Total		Current revenue								Capital revenue		Memo: fiscal burden ²⁾	
	1	2	Direct taxes		Indirect taxes	Received by EU institutions		Social contributions		Sales	Capital taxes			
			Households	Corporations		Employers	Employees							
	3	4	5	6	7	8	9	10	11	12	13	14		
1996	47.0	46.6	11.7	9.1	2.3	13.2	0.7	17.3	8.5	5.5	2.4	0.3	0.2	42.5
1997	47.2	46.7	11.9	9.1	2.5	13.4	0.7	17.3	8.6	5.5	2.3	0.5	0.3	42.9
1998	46.7	46.4	12.2	9.6	2.3	14.0	0.6	16.2	8.4	4.9	2.3	0.3	0.3	42.7
1999	47.2	47.0	12.6	9.7	2.5	14.2	0.6	16.2	8.4	4.9	2.3	0.3	0.3	43.3
2000	46.9	46.6	12.8	9.8	2.6	14.0	0.6	16.0	8.3	4.8	2.2	0.3	0.3	43.0
2001	46.1	45.8	12.4	9.6	2.4	13.6	0.6	15.7	8.2	4.7	2.2	0.2	0.3	42.0
2002	45.5	45.2	11.9	9.4	2.2	13.6	0.4	15.7	8.2	4.6	2.2	0.3	0.3	41.5
2003	45.5	44.8	11.6	9.2	2.1	13.6	0.4	15.9	8.3	4.7	2.2	0.7	0.5	41.6
2004	45.0	44.5	11.5	8.8	2.3	13.7	0.3	15.7	8.2	4.6	2.1	0.5	0.4	41.2

2. Euro area – expenditure

	Total		Current expenditure						Capital expenditure			Memo: primary expenditure ³⁾		
	1	2	Compensation of employees	Intermediate consumption	Interest	Current transfers	Social payments		Subsidies	Paid by EU institutions	Investment		Capital transfers	Paid by EU institutions
							7	8							9	10	11	12	13
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1996	51.3	47.4	11.1	4.8	5.6	25.9	22.9	2.2	0.6	3.8	2.6	1.3	0.0	45.6
1997	49.9	46.3	10.9	4.7	5.0	25.6	22.8	2.1	0.6	3.6	2.4	1.2	0.1	44.9
1998	49.0	45.2	10.6	4.6	4.6	25.4	22.3	2.1	0.5	3.8	2.4	1.4	0.1	44.4
1999	48.6	44.7	10.6	4.7	4.1	25.3	22.3	2.1	0.5	3.9	2.5	1.4	0.1	44.5
2000	47.9	44.1	10.5	4.7	3.9	25.0	21.9	2.0	0.5	3.8	2.5	1.3	0.0	44.0
2001	48.0	44.0	10.4	4.8	3.8	25.0	21.9	1.9	0.5	4.0	2.5	1.4	0.0	44.1
2002	48.1	44.2	10.5	4.9	3.6	25.3	22.4	1.9	0.5	3.8	2.4	1.4	0.0	44.5
2003	48.5	44.5	10.6	4.9	3.4	25.7	22.8	1.9	0.5	4.0	2.6	1.4	0.1	45.2
2004	47.7	43.9	10.5	4.9	3.2	25.3	22.5	1.8	0.5	3.8	2.5	1.4	0.0	44.6

3. Euro area – deficit/surplus, primary deficit/surplus and government consumption

	Deficit (-)/surplus (+)					Primary deficit (-)/surplus (+)	Government consumption ⁴⁾							
	Total	Central gov.	State gov.	Local gov.	Social security funds		Total	Compensation of employees	Intermediate consumption	Transfers in kind via market producers	Consumption of fixed capital	Sales (minus)	Collective consumption	Individual consumption
1996	-4.3	-3.7	-0.4	0.0	-0.1	1.3	20.3	11.1	4.8	4.9	1.9	2.4	8.5	11.9
1997	-2.7	-2.4	-0.4	0.1	0.1	2.4	20.1	10.9	4.7	4.9	1.9	2.3	8.4	11.7
1998	-2.3	-2.2	-0.2	0.1	0.1	2.4	19.7	10.6	4.6	4.9	1.8	2.3	8.1	11.6
1999	-1.3	-1.7	-0.1	0.1	0.4	2.7	19.9	10.6	4.7	4.9	1.8	2.3	8.2	11.6
2000	-1.0	-1.4	-0.1	0.1	0.5	2.9	19.8	10.5	4.7	4.9	1.8	2.2	8.1	11.7
2001	-1.9	-1.7	-0.4	0.0	0.3	2.0	19.8	10.4	4.8	5.0	1.8	2.2	8.0	11.8
2002	-2.6	-2.1	-0.5	-0.2	0.2	1.0	20.2	10.5	4.9	5.1	1.8	2.2	8.1	12.1
2003	-3.0	-2.3	-0.4	-0.2	0.0	0.3	20.4	10.6	4.9	5.2	1.8	2.2	8.1	12.3
2004	-2.7	-2.3	-0.3	-0.3	0.1	0.4	20.3	10.5	4.9	5.2	1.8	2.1	8.0	12.3

4. Euro area countries – deficit (-)/surplus (+)⁵⁾

	BE	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI
	1	2	3	4	5	6	7	8	9	10	11	12
2001	0.6	-2.9	-6.1	-0.5	-1.6	0.8	-3.2	6.1	-0.2	0.1	-4.2	5.2
2002	0.0	-3.8	-4.9	-0.3	-3.2	-0.4	-2.7	2.1	-2.0	-0.4	-2.8	4.3
2003	0.1	-4.1	-5.7	0.0	-4.2	0.2	-3.2	0.2	-3.2	-1.2	-2.9	2.5
2004	0.0	-3.7	-6.6	-0.1	-3.6	1.4	-3.2	-0.6	-2.1	-1.0	-3.0	2.1

Sources: ECB for euro area aggregated data; European Commission for data relating to countries' deficit/surplus.

- 1) Revenue, expenditure and deficit/surplus are based on the ESA 95, but the figures exclude proceeds from the sale of UMTS licences in 2000 (the euro area deficit/surplus including those proceeds is equal to 0.0% of GDP). Transactions involving the EU budget are included and consolidated. Transactions among Member States' governments are not consolidated.
- 2) The fiscal burden comprises taxes and social contributions.
- 3) Comprises total expenditure minus interest expenditure.
- 4) Corresponds to final consumption expenditure (P.3) of general government in the ESA 95.
- 5) Ratios are computed using GDP excluding financial intermediation services indirectly measured (FISIM). Includes proceeds from the sale of UMTS licences and settlements under swaps and forward rate agreements.

6.2 Debt ¹⁾

(as a percentage of GDP)

1. Euro area – by financial instrument and sector of the holder

	Total	Financial instruments				Holders				Other creditors ³⁾
		Coins and deposits	Loans	Short-term securities	Long-term securities	Domestic creditors ²⁾				
						Total	MFIs	Other financial corporations	Other sectors	
1	2	3	4	5	6	7	8	9	10	
1995	74.0	2.8	17.6	8.0	45.7	58.6	30.3	10.3	18.0	15.4
1996	75.4	2.8	17.1	7.9	47.5	59.1	30.9	12.0	16.1	16.3
1997	74.5	2.8	16.1	6.6	49.1	56.7	29.4	13.3	14.0	17.8
1998	73.1	2.7	15.1	5.6	49.6	53.3	27.6	14.2	11.5	19.7
1999	72.4	2.9	14.3	4.3	50.9	49.4	26.5	11.4	11.6	22.9
2000	69.9	2.7	13.2	3.7	50.3	44.8	23.3	10.3	11.1	25.1
2001	68.6	2.7	12.5	3.9	49.5	42.6	21.9	9.8	11.0	25.9
2002	68.5	2.7	11.8	4.5	49.5	40.2	20.4	8.9	10.9	28.3
2003	69.8	2.0	12.4	4.9	50.4	39.7	21.0	9.4	9.3	30.1
2004	70.2	2.2	11.9	4.7	51.4	39.3	20.1	9.8	9.4	30.9

2. Euro area – by issuer, maturity and currency denomination

	Total	Issued by ⁴⁾				Original maturity			Residual maturity			Currencies	
		Central gov.	State gov.	Local gov.	Social security funds	Up to 1 year	Over 1 year	Variable interest rate	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Euro or participating currencies ⁵⁾	Other currencies
1995	74.0	61.8	5.6	5.9	0.8	11.5	62.5	7.5	18.6	26.7	28.8	71.8	2.2
1996	75.4	63.1	5.9	5.8	0.5	11.2	64.2	7.0	20.0	26.1	29.2	73.1	2.2
1997	74.5	62.4	6.1	5.4	0.6	9.7	64.8	6.8	19.4	25.9	29.3	72.3	2.2
1998	73.1	61.3	6.1	5.3	0.4	8.5	64.6	6.4	16.7	27.0	29.4	71.0	2.1
1999	72.4	60.9	6.1	5.1	0.3	7.3	65.0	5.7	15.1	27.9	29.3	70.4	1.9
2000	69.9	58.7	5.9	4.9	0.3	6.5	63.4	5.0	15.0	28.4	26.5	68.1	1.8
2001	68.6	57.4	6.1	4.8	0.3	6.8	61.7	3.6	15.6	26.4	26.6	67.1	1.5
2002	68.5	57.0	6.3	4.8	0.3	7.6	60.9	3.4	16.4	25.2	26.8	67.2	1.3
2003	69.8	57.4	6.6	5.2	0.6	7.7	62.1	3.5	15.3	26.4	28.1	68.8	1.0
2004	70.2	57.9	6.7	5.2	0.4	7.5	62.7	3.4	15.5	26.8	27.9	69.3	0.9

3. Euro area countries ⁶⁾

	BE	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI
	1	2	3	4	5	6	7	8	9	10	11	12
2001	108.0	59.6	114.4	56.3	56.8	35.9	110.9	6.7	51.5	67.0	53.6	43.6
2002	105.4	61.2	111.6	53.2	58.8	32.4	108.3	6.8	51.3	66.7	56.1	42.3
2003	100.0	64.8	108.8	49.4	63.2	31.5	106.8	6.7	52.6	65.1	57.7	45.2
2004	95.7	66.4	109.3	46.9	65.1	29.8	106.5	6.6	53.1	64.3	59.4	45.1

Sources: ECB for euro area aggregated data; European Commission for data relating to countries' debt.

- 1) Gross general government debt at nominal value and consolidated between sub-sectors of government. Holdings by non-resident governments are not consolidated. Data are partially estimated.
- 2) Holders resident in the country whose government has issued the debt.
- 3) Includes residents of euro area countries other than the country whose government has issued the debt.
- 4) Excludes debt held by general government in the country whose government has issued it.
- 5) Before 1999, this comprises debt in ECU, in domestic currency and in the currencies of other Member States which have adopted the euro.
- 6) Ratios are computed using GDP excluding financial intermediation services indirectly measured (FISIM).

6.3 Change in debt ¹⁾ (as a percentage of GDP)

1. Euro area – by source, financial instrument and sector of the holder

	Total	Source of change				Financial instruments				Holders			Other creditors ⁷⁾
		Borrowing requirement ²⁾	Valuation effects ³⁾	Other changes in volume ⁴⁾	Aggregation effect ⁵⁾	Coins and deposits	Loans	Short-term securities	Long-term securities	Domestic creditors ⁶⁾	MFIs	Other financial corporations	
1996	3.9	4.2	0.0	0.0	-0.4	0.1	0.1	0.2	3.4	2.5	1.7	2.0	1.4
1997	2.0	2.2	0.4	-0.4	-0.1	0.0	-0.3	-1.1	3.3	-0.1	-0.4	1.8	2.1
1998	1.8	2.0	0.0	0.0	-0.1	0.1	-0.3	-0.6	2.7	-1.0	-0.5	1.5	2.8
1999	2.0	1.6	0.5	0.0	-0.1	0.2	-0.2	-1.2	3.1	-1.9	-0.1	-2.3	3.9
2000	1.0	0.9	0.2	0.0	0.0	0.0	-0.4	-0.4	1.9	-2.2	-1.8	-0.5	3.3
2001	1.8	1.6	0.0	0.1	0.0	0.2	-0.1	0.4	1.4	-0.2	-0.5	-0.1	2.0
2002	2.2	2.5	-0.4	0.1	0.0	0.1	-0.2	0.8	1.6	-1.0	-0.7	-0.6	3.2
2003	3.1	3.3	-0.1	0.0	0.0	-0.6	0.9	0.5	-2.3	0.6	1.1	0.8	2.5
2004	3.1	3.3	0.0	-0.1	0.0	0.2	0.0	0.0	2.9	1.1	-0.1	0.7	2.0

2. Euro area – deficit-debt adjustment

	Change in debt	Deficit (-) / surplus (+) ⁸⁾	Deficit-debt adjustment ⁹⁾											Other ¹⁰⁾
			Total	Transactions in main financial assets held by general government							Valuation effects	Exchange rate effects	Other changes in volume	
				Total	Currency and deposits	Securities ¹¹⁾	Loans	Shares and other equity	Privatisations	Equity injections				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1996	3.9	-4.3	-0.4	-0.1	0.0	0.0	-0.1	-0.1	-0.2	0.2	0.0	-0.1	0.0	-0.3
1997	2.0	-2.7	-0.7	-0.5	0.1	-0.1	0.0	-0.5	-0.7	0.2	0.4	0.2	-0.4	-0.2
1998	1.8	-2.3	-0.5	-0.4	0.1	0.0	-0.1	-0.4	-0.6	0.2	0.0	0.0	0.0	0.0
1999	2.0	-1.3	0.7	0.0	0.5	0.0	0.1	-0.6	-0.7	0.0	0.5	0.3	0.0	0.2
2000	1.0	0.0	1.1	1.0	0.7	0.1	0.2	0.0	-0.4	0.2	0.2	0.1	0.0	0.0
2001	1.8	-1.9	-0.1	-0.5	-0.6	0.1	0.1	-0.1	-0.3	0.1	0.0	0.0	0.1	0.2
2002	2.2	-2.5	-0.3	0.1	0.0	0.0	0.1	0.0	-0.3	0.1	-0.4	0.0	0.1	-0.1
2003	3.1	-3.0	0.1	0.1	0.0	0.0	0.0	0.1	-0.4	0.1	-0.1	-0.1	0.0	0.1
2004	3.1	-2.7	0.4	0.3	0.2	0.1	0.2	-0.1	-0.3	0.1	0.0	0.0	-0.1	0.2

Source: ECB.

- 1) Data are partially estimated. Annual change in gross nominal consolidated debt is expressed as a percentage of GDP, i.e. $[\text{debt}(t) - \text{debt}(t-1)] \div \text{GDP}(t)$.
- 2) The borrowing requirement is by definition equal to transactions in debt.
- 3) Includes, in addition to the impact of foreign exchange movements, effects arising from measurement at nominal value (e.g. premia or discounts on securities issued).
- 4) Includes, in particular, the impact of the reclassification of units and certain types of debt assumption.
- 5) The difference between the changes in the aggregated debt, resulting from the aggregation of countries' debt, and the aggregation of countries' change in debt is due to variations in the exchange rates used for aggregation before 1999.
- 6) Holders resident in the country whose government has issued the debt.
- 7) Includes residents of euro area countries other than the country whose government has issued the debt.
- 8) Including proceeds from sales of UMTS licences.
- 9) The difference between the annual change in gross nominal consolidated debt and the deficit as a percentage of GDP.
- 10) Mainly composed of transactions in other assets and liabilities (trade credits, other receivables/payables and financial derivatives).
- 11) Excluding financial derivatives.

6.4 Quarterly revenue, expenditure and deficit/surplus ¹⁾

(as a percentage of GDP)

1. Euro area – quarterly revenue

	Total	Current revenue					Capital revenue		Memo: fiscal burden ²⁾	
		Direct taxes	Indirect taxes	Social contributions	Sales	Property income	Capital taxes			
	1	2	3	4	5	6	7	8	9	10
1999 Q2	48.3	47.7	13.5	13.6	16.2	2.2	1.4	0.6	0.3	43.6
Q3	45.3	44.8	11.9	13.1	16.1	2.0	0.8	0.5	0.3	41.4
Q4	51.5	50.8	14.4	14.7	17.0	2.9	0.9	0.7	0.3	46.4
2000 Q1	44.1	43.5	11.2	13.3	15.6	1.9	0.7	0.6	0.3	40.4
Q2	48.3	47.7	14.0	13.5	16.0	2.1	1.2	0.6	0.3	43.8
Q3	45.0	44.5	12.1	12.8	15.9	2.0	0.8	0.5	0.3	41.1
Q4	50.6	50.0	14.1	14.3	16.8	2.9	0.9	0.6	0.3	45.5
2001 Q1	43.1	42.6	10.7	12.9	15.4	1.8	0.9	0.5	0.2	39.3
Q2	47.7	47.2	13.7	13.2	15.8	2.0	1.7	0.5	0.2	42.9
Q3	44.4	44.0	11.9	12.6	15.8	1.9	0.9	0.4	0.3	40.5
Q4	49.9	49.4	13.7	14.1	16.5	3.0	1.1	0.5	0.3	44.6
2002 Q1	42.8	42.3	10.3	13.0	15.7	1.7	0.8	0.5	0.2	39.2
Q2	46.4	45.8	12.8	12.9	15.7	2.0	1.6	0.6	0.3	41.7
Q3	44.5	43.9	11.4	13.0	15.7	2.0	0.8	0.5	0.3	40.4
Q4	49.9	49.2	13.6	14.3	16.5	3.0	0.9	0.7	0.3	44.7
2003 Q1	42.8	42.3	10.0	13.1	15.8	1.8	0.7	0.5	0.2	39.1
Q2	46.9	45.3	12.3	12.9	16.0	2.0	1.3	1.6	1.3	42.5
Q3	43.7	43.2	11.0	12.9	15.8	1.9	0.7	0.5	0.3	40.0
Q4	50.1	49.0	13.3	14.5	16.5	2.9	0.8	1.1	0.3	44.5
2004 Q1	42.3	41.8	9.8	13.1	15.6	1.7	0.7	0.6	0.3	38.7
Q2	45.7	44.8	12.3	13.1	15.6	2.0	0.9	0.9	0.7	41.7
Q3	43.4	42.9	10.9	12.9	15.6	1.9	0.7	0.5	0.3	39.7
Q4	50.2	49.2	13.2	14.7	16.4	2.9	0.8	1.1	0.4	44.8
2005 Q1	43.1	42.4	10.2	13.2	15.6	1.7	0.7	0.6	0.3	39.2
Q2	45.1	44.4	12.1	13.2	15.5	2.0	0.9	0.7	0.3	41.0

2. Euro area – quarterly expenditure and deficit/surplus

	Total	Current expenditure							Capital expenditure			Deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+)
		Total	Compensation of employees	Intermediate consumption	Interest	Current transfers	Social		Investment	Capital transfers			
							benefits	Subsidies					
	1	2	3	4	5	6	7	8	9	10	11	12	13
1999 Q2	47.9	44.2	10.6	4.6	4.2	24.8	21.5	1.5	3.7	2.4	1.2	0.4	4.6
Q3	47.9	44.1	10.4	4.6	4.0	25.1	21.5	1.6	3.7	2.5	1.2	-2.5	1.5
Q4	51.2	46.4	11.1	5.3	3.7	26.2	22.5	1.7	4.8	3.1	1.7	0.3	4.0
2000 Q1	46.7	43.3	10.3	4.5	4.1	24.4	21.2	1.2	3.4	2.0	1.4	-2.6	1.5
Q2	47.1	43.6	10.5	4.7	3.9	24.6	21.2	1.4	3.5	2.4	1.2	1.2	5.1
Q3	43.8	43.4	10.2	4.6	4.0	24.5	21.2	1.5	0.4	2.5	1.1	1.2	5.2
Q4	50.3	46.4	11.1	5.3	3.8	26.1	22.2	1.6	3.9	3.1	1.6	0.3	4.1
2001 Q1	46.3	42.9	10.2	4.1	4.1	24.4	21.2	1.2	3.5	2.0	1.5	-3.3	0.8
Q2	47.3	43.7	10.5	4.7	4.0	24.6	21.2	1.4	3.6	2.4	1.2	0.4	4.4
Q3	47.2	43.4	10.2	4.6	3.9	24.7	21.3	1.5	3.8	2.5	1.3	-2.8	1.1
Q4	51.7	46.6	11.1	5.6	3.7	26.3	22.4	1.6	5.1	3.2	1.8	-1.8	1.9
2002 Q1	46.9	43.3	10.5	4.3	3.8	24.8	21.6	1.2	3.5	2.0	1.6	-4.0	-0.3
Q2	47.6	44.0	10.5	4.9	3.6	24.9	21.5	1.4	3.5	2.4	1.2	-1.2	2.5
Q3	47.8	44.0	10.2	4.7	3.6	25.4	21.8	1.5	3.8	2.6	1.3	-3.4	0.2
Q4	51.6	47.0	11.2	5.6	3.4	26.8	23.0	1.6	4.6	2.9	1.7	-1.7	1.7
2003 Q1	47.5	43.9	10.5	4.4	3.6	25.3	21.9	1.2	3.6	1.9	1.6	-4.7	-1.1
Q2	48.3	44.6	10.6	4.7	3.5	25.8	22.1	1.4	3.7	2.4	1.3	-1.4	2.1
Q3	48.0	44.2	10.4	4.8	3.4	25.6	22.0	1.4	3.8	2.6	1.2	-4.3	-0.9
Q4	52.0	47.0	11.1	5.7	3.2	27.0	23.1	1.5	5.0	3.3	1.7	-1.9	1.3
2004 Q1	47.1	43.7	10.5	4.5	3.3	25.3	21.8	1.1	3.5	2.0	1.5	-4.8	-1.5
Q2	47.4	43.9	10.6	4.8	3.2	25.3	21.8	1.3	3.5	2.4	1.1	-1.7	1.5
Q3	46.9	43.4	10.2	4.6	3.3	25.4	21.8	1.4	3.5	2.5	1.0	-3.5	-0.2
Q4	51.4	46.3	11.0	5.7	3.1	26.6	22.9	1.4	5.1	3.1	1.9	-1.2	1.9
2005 Q1	47.3	43.7	10.4	4.5	3.3	25.5	21.8	1.1	3.5	1.9	1.6	-4.2	-0.9
Q2	47.0	43.5	10.5	4.9	3.2	25.1	21.7	1.3	3.5	2.3	1.1	-1.9	1.3

Source: ECB calculations based on Eurostat and national data.

- 1) Revenue, expenditure and deficit/surplus are based on the ESA 95. Transactions involving the EU budget are not included. Including these transactions would increase both revenue and expenditure by, on average, about 0.2% of GDP. Otherwise, and except for different data transmission deadlines, the quarterly data are consistent with the annual data. The data are not seasonally adjusted. The ratios are computed using GDP excluding financial intermediation services indirectly measured (FISIM).
- 2) The fiscal burden comprises taxes and social contributions.

6.5 Quarterly debt and change in debt

(as a percentage of GDP)

1. Euro area – Maastricht debt by financial instrument¹⁾

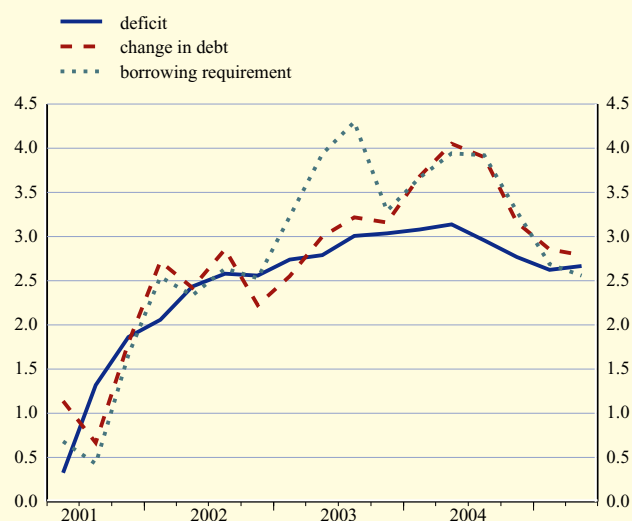
	Total 1	Financial instruments			
		Coins and deposits 2	Loans 3	Short-term securities 4	Long-term securities 5
2002 Q4	69.3	2.7	11.9	4.6	50.0
2003 Q1	70.5	2.6	12.0	5.3	50.6
2003 Q2	71.0	2.7	11.8	5.8	50.8
2003 Q3	71.3	2.7	11.8	5.6	51.2
2003 Q4	70.5	2.1	12.6	4.9	50.9
2004 Q1	72.1	2.0	12.6	5.5	52.0
2004 Q2	72.5	2.1	12.4	5.7	52.3
2004 Q3	72.5	2.2	12.3	5.6	52.4
2004 Q4	70.9	2.2	12.1	4.8	51.9
2005 Q1	72.4	2.1	12.1	4.9	53.2
2005 Q2	73.0	2.3	11.8	5.1	53.8

2. Euro area – deficit-debt adjustment

	Change in debt 1	Deficit (-)/ surplus (+) 2	Deficit-debt adjustment								Memo: Borrowing requirement 11
			Total 3	Transactions in main financial assets held by general government				Valuation effects and other changes in volume 9	Other 10		
				Total 4	Currency and deposits 5	Securities 6	Loans 7			Shares and other equity 8	
2002 Q3	2.2	-3.4	-1.2	-2.4	-2.5	-0.1	0.0	0.2	0.7	0.5	1.5
2002 Q4	-0.7	-1.7	-2.4	0.6	0.3	0.0	0.4	-0.1	-2.8	-0.2	2.1
2003 Q1	7.1	-4.7	2.4	2.9	1.9	0.2	0.5	0.3	-0.7	0.3	7.9
2003 Q2	3.6	-1.4	2.2	3.2	2.3	0.0	0.1	0.9	-0.7	-0.3	4.3
2003 Q3	3.0	-4.3	-1.2	-1.6	-1.6	-0.1	0.0	0.1	0.0	0.4	3.0
2003 Q4	-0.8	-1.9	-2.6	-3.6	-2.2	-0.1	-0.6	-0.7	0.8	0.1	-1.6
2004 Q1	9.1	-4.8	4.2	1.9	1.3	0.2	0.5	0.0	-0.1	2.4	9.2
2004 Q2	5.0	-1.7	3.3	3.8	3.5	0.3	0.0	0.1	-0.3	-0.2	5.4
2004 Q3	2.5	-3.5	-1.0	-0.9	-1.2	0.1	0.1	0.1	-0.5	0.3	2.9
2004 Q4	-3.4	-1.2	-4.6	-3.6	-2.7	-0.2	0.1	-0.7	0.4	-1.5	-3.8
2005 Q1	7.7	-4.2	3.5	2.2	1.8	0.4	0.1	0.0	1.1	0.2	6.6
2005 Q2	4.7	-1.9	2.8	3.3	2.7	0.4	0.1	0.1	-0.1	-0.4	4.8

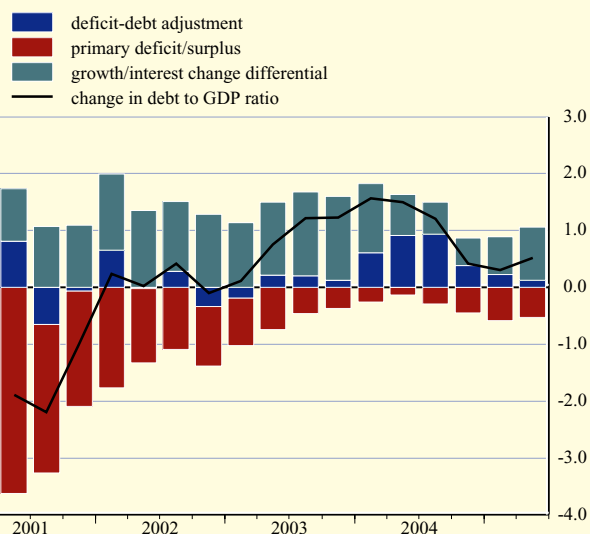
C26 Deficit, borrowing requirement and change in debt

(four-quarter moving sum as a percentage of GDP)



C27 Maastricht debt

(annual change in the debt to GDP ratio and underlying factors)



Source: ECB calculations based on Eurostat and national data.

1) The stock data in quarter t are expressed as a percentage of the sum of GDP (excluding FISIM) in t and the previous three quarters.



EXTERNAL TRANSACTIONS AND POSITIONS

7.1 Balance of payments

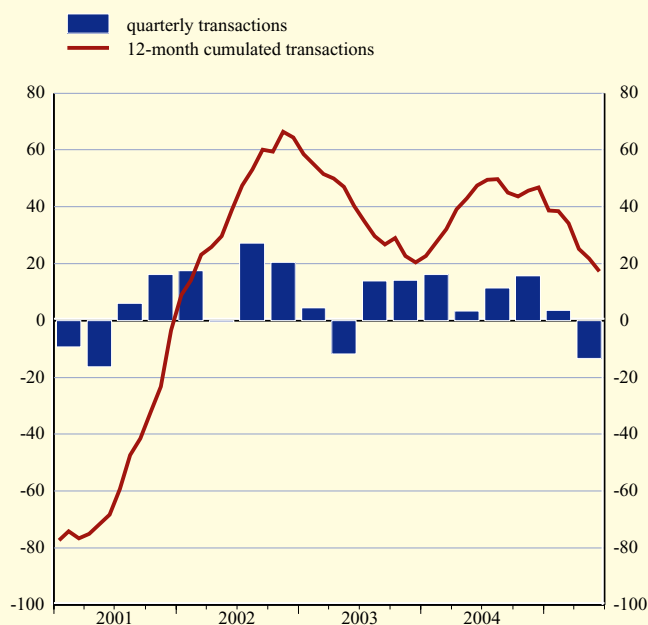
(EUR billions; net transactions)

1. Summary balance of payments

	Current account					Capital account	Net lending/borrowing to/from rest of the world (columns 1+6)	Financial account						Errors and omissions
	Total	Goods	Services	Income	Current transfers			Total	Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
2002	64.5	128.5	16.4	-31.9	-48.6	10.2	74.6	-43.9	0.6	127.8	-11.0	-159.1	-2.3	-30.7
2003	20.4	102.7	19.7	-45.8	-56.1	13.1	33.5	-5.9	5.4	43.4	-12.2	-72.5	30.0	-27.6
2004	46.8	102.7	27.7	-28.0	-55.7	17.4	64.2	-5.5	-78.1	72.8	-1.7	-10.8	12.3	-58.7
2004 Q2	3.4	31.4	10.4	-21.7	-16.7	4.0	7.4	11.3	-12.1	27.0	-1.2	0.4	-2.8	-18.6
Q3	11.4	23.5	8.8	-3.0	-18.0	4.1	15.5	3.1	1.1	7.2	-1.0	-7.7	3.5	-18.6
Q4	15.8	20.1	6.7	3.1	-14.0	5.9	21.7	-25.4	-44.1	27.3	-4.8	-6.1	2.4	3.7
2005 Q1	3.5	15.6	3.2	-3.0	-12.2	1.1	4.6	25.9	-20.0	3.8	-7.2	44.5	4.8	-30.5
Q2	-13.3	18.8	9.5	-25.5	-16.1	3.9	-9.4	46.0	-11.6	106.7	3.2	-55.3	3.1	-36.6
2004 Aug.	3.3	5.2	2.6	0.8	-5.3	1.6	4.9	6.3	5.1	2.5	-4.2	-0.9	3.8	-11.2
Sep.	-0.1	4.9	2.5	-1.2	-6.3	1.1	1.0	14.4	3.3	45.3	2.5	-36.2	-0.5	-15.4
Oct.	3.4	8.4	4.1	-3.5	-5.6	0.6	4.1	-30.4	-13.4	-1.5	-4.0	-12.4	0.9	26.3
Nov.	4.7	4.5	1.2	3.5	-4.4	1.0	5.7	28.4	-5.8	-10.1	1.5	42.8	-0.1	-34.1
Dec.	7.6	7.2	1.4	3.1	-4.0	4.3	12.0	-23.4	-24.9	38.8	-2.2	-36.6	1.5	11.4
2005 Jan.	-5.8	1.4	0.5	-4.1	-3.6	-0.8	-6.6	18.3	-10.5	-17.3	-3.4	51.0	-1.6	-11.7
Feb.	5.9	5.9	1.2	1.4	-2.6	1.1	6.9	27.1	-2.7	23.3	1.3	0.4	4.9	-34.0
Mar.	3.5	8.3	1.5	-0.4	-6.0	0.8	4.3	-19.4	-6.8	-2.1	-5.0	-7.0	1.5	15.1
Apr.	-10.7	4.0	2.6	-13.0	-4.3	0.2	-10.5	-11.5	-11.6	-14.5	-0.4	15.8	-0.8	22.0
May	-2.8	6.1	3.0	-6.7	-5.3	1.6	-1.2	39.5	8.2	19.7	0.6	8.5	2.6	-38.3
June	0.2	8.7	3.9	-5.8	-6.5	2.1	2.3	18.0	-8.2	101.5	3.0	-79.7	1.3	-20.3
July	1.3	9.9	3.8	-6.8	-5.6	0.9	2.2	-1.9	-81.2	75.3	0.7	0.8	2.4	-0.3
Aug.	-2.9	1.1	1.8	-0.3	-5.6	0.8	-2.1	-1.4	-15.7	-16.1	-6.2	36.6	-0.1	3.5
<i>12-month cumulated transactions</i>														
2005 Aug.	4.2	70.3	27.5	-33.8	-59.8	13.8	18.0	57.6	-169.3	242.3	-11.7	-15.8	12.1	-75.6

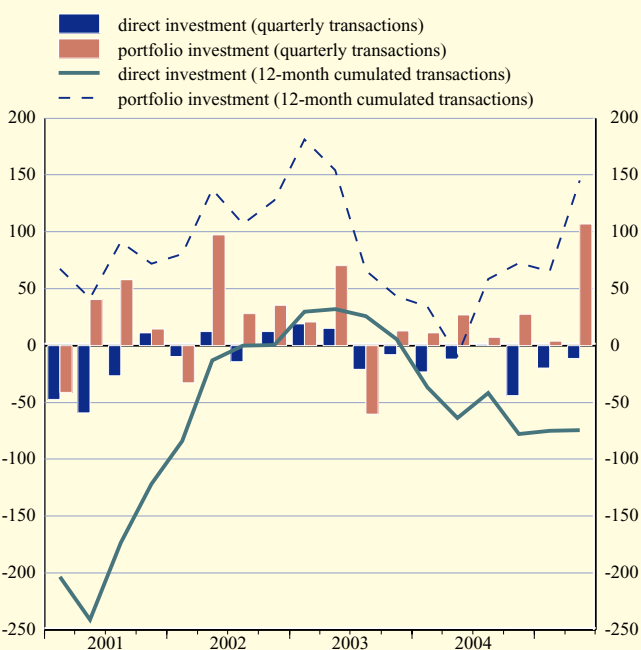
C28 B.o.p. current account balance

(EUR billions)



C29 B.o.p. net direct and portfolio investment

(EUR billions)



Source: ECB.

7.1 Balance of payments

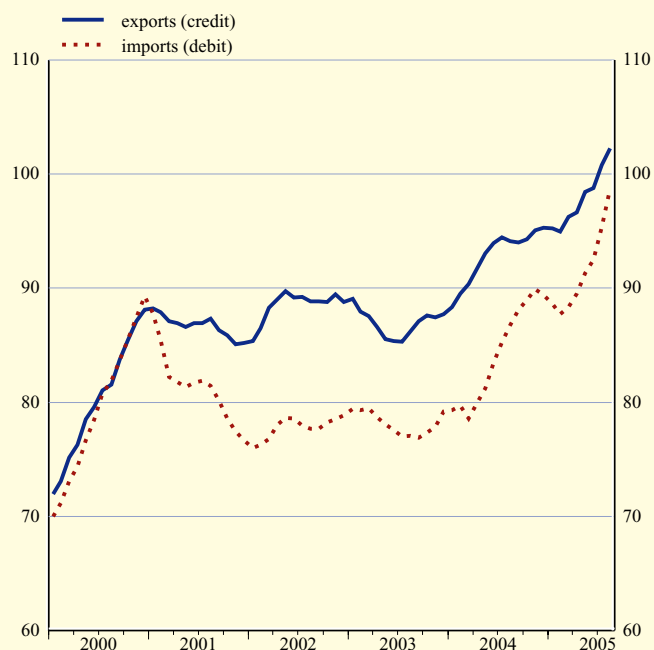
(EUR billions; transactions)

2. Current and capital accounts

	Current account										Capital account		
	Total			Goods		Services		Income		Current transfers		Credit	Debit
	Credit	Debit	Net	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit		
1	2	3	4	5	6	7	8	9	10	11	12	13	
2002	1,726.9	1,662.4	64.5	1,062.1	933.6	332.1	315.7	247.3	279.2	85.4	133.9	19.2	9.0
2003	1,675.4	1,655.0	20.4	1,039.7	937.0	329.3	309.6	225.6	271.5	80.8	137.0	23.3	10.1
2004	1,819.0	1,772.3	46.8	1,129.6	1,026.9	355.5	327.8	254.0	281.9	80.0	135.7	23.5	6.1
2004 Q2	455.9	452.5	3.4	285.0	253.6	89.8	79.4	66.0	87.7	15.0	31.7	5.3	1.3
Q3	451.7	440.3	11.4	279.6	256.1	96.4	87.5	60.3	63.3	15.4	33.4	5.6	1.6
Q4	480.4	464.7	15.8	298.8	278.8	92.1	85.5	71.4	68.4	18.0	32.0	7.6	1.6
2005 Q1	460.5	457.0	3.5	278.9	263.3	83.9	80.7	65.3	68.4	32.3	44.5	4.8	3.7
Q2	496.7	510.0	-13.3	304.3	285.5	95.0	85.5	80.8	106.3	16.6	32.7	5.7	1.8
2005 June	173.1	172.9	0.2	105.7	97.0	33.7	29.8	28.1	33.9	5.6	12.1	2.6	0.6
July	167.2	165.9	1.3	103.5	93.7	35.3	31.5	23.3	30.0	5.1	10.7	1.3	0.5
Aug.	160.0	163.0	-2.9	97.3	96.1	33.7	31.9	23.5	23.9	5.6	11.1	1.4	0.6
	Seasonally adjusted												
2004 Q2	452.4	435.7	16.7	281.9	250.3	89.1	81.8	61.4	71.2	20.0	32.4	.	.
Q3	454.6	450.7	3.9	282.0	264.4	89.7	82.0	63.3	69.5	19.6	34.9	.	.
Q4	464.1	455.6	8.5	285.9	268.2	89.5	82.8	68.9	71.1	19.8	33.6	.	.
2005 Q1	472.9	467.2	5.8	288.7	265.0	94.4	86.0	69.2	76.4	20.7	39.7	.	.
Q2	486.3	484.4	2.0	296.3	277.4	92.7	87.3	75.3	85.7	22.0	33.9	.	.
2004 Dec.	153.0	150.1	2.9	94.5	87.2	29.3	27.7	22.6	23.1	6.7	12.0	.	.
2005 Jan.	156.7	156.7	0.0	95.4	87.5	31.3	28.4	23.1	26.2	6.9	14.6	.	.
Feb.	154.9	151.9	3.0	95.0	88.4	31.6	28.6	21.6	23.8	6.7	11.2	.	.
Mar.	161.3	158.5	2.8	98.2	89.1	31.6	29.0	24.5	26.5	7.1	13.9	.	.
Apr.	160.5	160.2	0.3	96.7	91.1	30.1	28.2	26.2	30.3	7.6	10.6	.	.
May	163.9	161.9	2.0	100.5	93.8	31.0	29.5	25.1	27.0	7.4	11.6	.	.
June	161.9	162.3	-0.4	99.2	92.6	31.6	29.6	24.1	28.3	7.1	11.7	.	.
July	165.4	170.0	-4.7	102.7	99.7	31.8	29.6	24.3	30.4	6.6	10.4	.	.
Aug.	168.6	175.2	-6.6	104.9	103.9	31.7	29.1	25.2	29.7	6.8	12.4	.	.

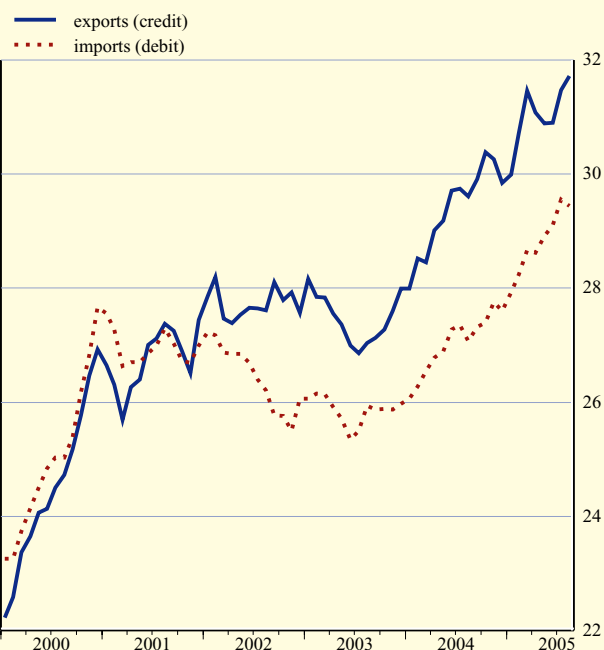
C30 B.o.p. goods

(EUR billions, seasonally adjusted; three-month moving average)



C31 B.o.p. services

(EUR billions, seasonally adjusted; three-month moving average)



Source: ECB.

7.1 Balance of payments

(EUR billions)

3. Income account

(transactions)

	Compensation of employees		Investment income											
	Credit	Debit	Total		Direct investment				Portfolio investment				Other investment	
			Credit	Debit	Equity		Debt		Equity		Debt		Credit	Debit
					Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
2002	14.9	6.2	232.4	273.0	56.4	51.8	7.6	7.1	19.8	52.3	65.6	71.0	83.0	90.8
2003	14.5	6.3	211.1	265.2	47.9	53.7	10.3	9.6	19.0	50.0	64.6	76.7	69.3	75.2
2004	15.1	6.3	238.9	275.6	66.7	56.8	11.8	11.2	23.9	56.6	73.9	79.3	62.7	71.7
2004 Q2	3.7	1.6	62.4	86.1	18.2	17.0	3.0	2.7	8.1	26.0	17.6	22.8	15.4	17.6
Q3	3.8	1.8	56.6	61.5	14.0	13.8	2.4	2.6	5.7	11.1	19.0	16.5	15.4	17.6
Q4	4.0	1.6	67.5	66.8	22.7	12.7	3.1	3.4	5.4	10.2	19.4	21.3	16.8	19.2
2005 Q1	3.7	1.4	61.7	67.0	15.6	13.2	2.8	2.9	6.1	11.2	19.2	19.1	18.0	20.5
Q2	3.7	1.7	77.1	104.5	24.2	23.8	3.1	3.5	9.6	30.2	21.7	24.1	18.5	22.8

4. Direct investment

(net transactions)

	By resident units abroad							By non-resident units in the euro area						
	Total	Equity capital and reinvested earnings			Other capital (mostly inter-company loans)			Total	Equity capital and reinvested earnings			Other capital (mostly inter-company loans)		
		Total	MFIs excluding Eurosystem	Non-MFIs	Total	MFIs excluding Eurosystem	Non-MFIs		Total	MFIs excluding Eurosystem	Non-MFIs	Total	MFIs excluding Eurosystem	Non-MFIs
2002	-179.9	-179.3	-22.3	-157.0	-0.6	0.0	-0.7	180.6	124.9	1.9	123.0	55.6	0.5	55.2
2003	-136.0	-112.7	-1.7	-111.0	-23.3	-0.1	-23.3	141.4	124.2	3.0	121.2	17.2	0.1	17.1
2004	-155.4	-163.8	-18.0	-145.8	8.4	0.1	8.3	77.3	75.3	3.2	72.1	2.1	0.8	1.3
2004 Q2	-27.9	-24.8	-3.6	-21.2	-3.1	0.0	-3.1	15.8	10.6	0.6	10.0	5.2	0.8	4.5
Q3	-16.4	-27.5	-1.1	-26.4	11.1	0.0	11.1	17.6	17.7	1.5	16.3	-0.1	0.4	-0.6
Q4	-82.7	-89.0	-8.4	-80.5	6.3	0.1	6.2	38.5	33.5	1.8	31.7	5.1	-0.1	5.1
2005 Q1	-32.3	-15.5	-2.4	-13.0	-16.9	0.1	-16.9	12.3	12.2	0.3	11.8	0.1	0.3	-0.2
Q2	-27.0	-21.4	-2.1	-19.3	-5.7	0.0	-5.7	15.4	4.6	0.6	4.0	10.9	-0.1	11.0
2004 Aug.	9.1	-7.3	0.2	-7.5	16.4	0.0	16.4	-4.0	-1.9	0.3	-2.3	-2.1	0.0	-2.0
Sep.	-6.8	-3.9	-1.3	-2.5	-3.0	0.0	-3.0	10.2	8.3	0.9	7.3	1.9	0.5	1.4
Oct.	-31.9	-25.0	0.0	-25.0	-6.9	0.0	-6.9	18.4	10.8	0.5	10.3	7.6	0.0	7.6
Nov.	-25.4	-24.4	-13.2	-11.2	-1.0	0.1	-1.1	19.6	11.6	0.6	11.0	8.0	0.0	8.0
Dec.	-25.4	-39.5	4.8	-44.3	14.1	0.0	14.1	0.5	11.0	0.7	10.3	-10.5	0.0	-10.5
2005 Jan.	-13.9	-7.7	-0.5	-7.2	-6.2	0.0	-6.2	3.4	4.7	0.1	4.7	-1.3	0.1	-1.4
Feb.	-5.9	-2.1	-1.2	-0.9	-3.9	0.0	-3.9	3.2	2.9	0.3	2.6	0.3	0.1	0.2
Mar.	-12.5	-5.7	-0.8	-4.9	-6.8	0.1	-6.9	5.7	4.5	-0.1	4.6	1.2	0.2	1.0
Apr.	-16.0	1.5	-1.9	3.4	-17.5	0.0	-17.5	4.4	7.8	-0.1	7.9	-3.4	0.1	-3.5
May	8.5	-4.3	-0.6	-3.7	12.9	0.0	12.9	-0.4	-2.6	0.3	-2.9	2.2	0.0	2.2
June	-19.6	-18.5	0.4	-18.9	-1.1	0.0	-1.1	11.4	-0.6	0.4	-1.0	12.0	-0.3	12.3
July	-82.6	-74.8	-2.7	-72.0	-7.8	0.0	-7.8	1.4	3.6	0.2	3.4	-2.2	0.0	-2.2
Aug.	-12.5	-4.5	-0.6	-4.0	-7.9	0.0	-7.9	-3.2	-3.2	0.1	-3.3	0.0	-0.1	0.0

Source: ECB.

7.1 Balance of payments

(EUR billions; transactions)

5. Portfolio investment by instrument and sector of holder

	Equity				Debt instruments										
	Assets				Liabilities	Bonds and notes					Money market instruments				
	Eurosystem	MFIs excluding Eurosystem	Non-MFIs			Eurosystem	MFIs excluding Eurosystem	Non-MFIs		Eurosystem	MFIs excluding Eurosystem	Non-MFIs		Liabilities	
			General gov.		General gov.			General gov.							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2002	-0.4	-7.4	-31.0	-4.4	86.2	-0.7	-17.4	-70.6	-0.9	157.9	2.0	-31.9	-18.8	-1.1	59.8
2003	-0.3	-12.8	-53.8	-2.6	117.2	-2.4	-45.1	-134.8	-0.2	170.4	0.2	-41.3	13.7	0.6	32.4
2004	0.0	-21.9	-52.3	-2.4	123.1	1.2	-80.8	-72.3	-1.3	211.4	-0.1	-42.9	-14.6	0.2	21.8
2004 Q2	0.0	-12.4	-3.8	-0.7	-4.1	0.3	-10.7	-17.6	-0.1	85.4	0.1	-5.0	-3.5	-2.4	-1.7
Q3	0.0	-2.5	-3.9	-0.6	38.5	0.7	-23.0	-15.0	-0.1	39.9	0.0	-14.7	-5.8	-0.7	-6.9
Q4	0.0	-0.9	-19.9	-0.2	68.1	0.6	-20.7	-22.2	-0.5	32.0	-0.1	-12.6	4.8	4.3	-1.8
2005 Q1	0.0	-27.5	-20.6	-0.9	36.5	-0.1	-35.4	-38.9	-0.3	45.3	0.3	5.9	-6.6	-3.7	45.1
Q2	0.0	21.7	-22.4	-0.6	27.6	-0.7	-40.5	-33.1	-0.1	155.7	-0.4	-9.7	-4.6	-2.3	13.1
2004 Aug.	0.0	-4.2	-7.5	-	15.8	0.4	-12.0	-0.7	-	9.8	-0.1	-3.5	-2.2	-	6.8
Sep.	0.0	10.6	4.0	-	12.6	0.6	1.9	-15.0	-	39.2	-0.1	7.9	-5.0	-	-11.3
Oct.	0.0	-3.7	-10.6	-	14.6	0.3	-13.7	-5.1	-	11.7	-0.1	0.6	0.2	-	4.3
Nov.	0.0	-9.1	-5.6	-	23.5	0.4	-5.9	-10.4	-	8.4	0.2	-14.5	5.0	-	-2.0
Dec.	0.0	11.9	-3.6	-	30.0	-0.1	-1.1	-6.7	-	11.9	-0.1	1.3	-0.4	-	-4.2
2005 Jan.	0.0	-9.2	-7.7	-	10.5	-0.1	-27.0	-2.1	-	4.9	0.2	-4.1	-5.9	-	23.1
Feb.	0.0	-16.5	-3.7	-	9.2	-0.2	-4.0	-16.4	-	37.5	0.1	17.2	-1.9	-	1.9
Mar.	0.0	-1.8	-9.3	-	16.8	0.2	-4.5	-20.4	-	2.9	0.0	-7.3	1.2	-	20.1
Apr.	0.0	9.9	-5.3	-	-47.5	-0.9	-13.3	-10.6	-	51.9	-0.3	-10.6	2.0	-	10.1
May	0.0	6.7	-15.5	-	22.8	-0.1	-16.1	-5.3	-	27.8	0.0	-2.4	-6.2	-	8.0
June	0.0	5.1	-1.6	-	52.3	0.2	-11.1	-17.2	-	75.9	0.0	3.4	-0.4	-	-5.1
July	-0.1	-3.5	-11.1	-	105.0	0.3	-1.8	-17.6	-	2.6	-0.6	0.4	-0.1	-	1.8
Aug.	0.0	2.0	-4.7	-	23.0	-0.5	-5.9	-15.2	-	-9.9	0.3	-11.6	-1.0	-	7.7

6. Other investment by sector

	Total		Eurosystem		General government		MFIs (excluding Eurosystem)						Other sectors			
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Total		Long-term		Short-term		Assets	Liabilities		
							Assets	Liabilities	Assets	Liabilities	Assets	Liabilities				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
2002	-225.1	66.0	-0.9	19.3	0.1	-	-8.3	-168.0	25.8	-35.0	52.1	-133.0	-26.3	-56.3	-	29.2
2003	-240.1	167.6	-0.8	10.0	-0.6	-	-3.9	-154.7	136.2	-59.9	64.4	-94.9	71.8	-84.0	-	25.3
2004	-288.7	277.9	0.1	7.3	-1.8	-1.9	-2.7	-259.6	246.5	-19.9	0.5	-239.7	246.0	-27.4	-5.4	26.8
2004 Q2	-18.6	19.0	0.9	1.7	-4.9	-4.9	3.1	-5.3	22.2	-2.3	6.7	-3.0	15.5	-9.3	10.1	-7.9
Q3	-17.9	10.2	-1.5	3.2	0.2	-0.2	2.2	-24.2	6.5	-7.8	-5.7	-16.5	12.2	7.6	-7.4	-1.7
Q4	-73.3	67.1	1.4	3.7	3.4	3.7	-1.7	-74.0	59.3	0.7	-0.8	-74.7	60.1	-4.1	7.8	5.7
2005 Q1	-170.6	215.1	0.5	4.7	4.0	2.7	0.3	-126.8	195.8	-21.5	10.3	-105.2	185.6	-48.3	-19.0	14.2
Q2	-160.4	105.1	-1.3	0.4	-7.4	-8.4	-1.8	-97.4	45.2	-18.7	22.2	-78.7	23.0	-54.3	13.2	61.3
2004 Aug.	-31.8	30.9	-0.2	0.2	-0.2	-0.3	0.1	-31.3	18.8	-5.7	2.3	-25.5	16.5	-0.1	-1.2	11.8
Sep.	-43.4	7.2	-1.0	1.5	0.7	0.7	2.6	-39.0	0.4	-5.2	-0.2	-33.9	0.6	-4.0	-8.9	2.7
Oct.	-15.6	3.2	-0.2	1.3	2.0	2.2	0.2	-9.7	-0.3	8.3	5.3	-18.0	-5.6	-7.7	-0.6	2.0
Nov.	-66.6	109.5	0.5	2.0	-0.4	-0.8	1.0	-60.0	97.3	-0.4	3.3	-59.6	94.1	-6.8	-1.5	9.1
Dec.	8.9	-45.5	1.1	0.4	1.8	2.2	-2.9	-4.3	-37.8	-7.3	-9.4	2.9	-28.4	10.4	9.9	-5.3
2005 Jan.	-50.4	101.4	0.7	3.9	0.2	-1.3	2.6	-33.8	95.4	-9.0	12.9	-24.9	82.5	-17.4	-16.1	-0.5
Feb.	-65.5	65.9	0.1	-3.5	-1.8	0.3	-4.3	-60.8	61.8	-8.2	4.6	-52.6	57.2	-3.0	5.2	11.9
Mar.	-54.7	47.8	-0.2	4.3	5.5	3.7	2.0	-32.1	38.6	-4.4	-7.2	-27.8	45.8	-27.9	-8.0	2.9
Apr.	-120.3	136.1	0.1	-0.2	-5.1	-5.2	-2.1	-98.0	94.5	-9.1	0.0	-89.0	94.5	-17.2	11.6	43.9
May	-13.0	21.5	-0.8	-0.2	0.2	2.3	0.5	17.5	20.9	-3.4	10.9	-20.9	10.0	-30.0	-4.2	0.4
June	-27.1	-52.6	-0.7	0.8	-2.5	-5.5	-0.2	-16.8	-70.2	-6.2	11.3	-10.6	-81.5	-7.1	5.8	17.0
July	-40.4	41.2	0.0	-1.1	-0.6	-4.3	0.8	-34.4	42.0	-10.3	3.4	-24.1	38.6	-5.4	-5.5	-0.5
Aug.	29.0	7.5	0.2	1.0	6.3	8.6	0.6	24.8	0.4	-3.8	4.1	28.6	-3.6	-2.2	-1.8	5.5

Source: ECB.

7.1 Balance of payments

(EUR billions; transactions)

7. Other investment by sector and instrument

	Eurosystem				General government							
	Assets		Liabilities		Assets				Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities
						Total	Loans	Currency and deposits				
1	2	3	4	5	6	7	8	9	10	11	12	
2002	-0.9	0.0	19.3	0.0	1.5	-0.4	-	-	-1.0	0.0	-8.0	-0.3
2003	-0.8	0.0	10.0	0.0	-0.1	0.4	-	-	-0.9	0.0	-4.2	0.3
2004	0.4	-0.3	7.1	0.2	0.0	0.1	2.0	-1.9	-1.9	0.0	-2.7	0.0
2004 Q2	0.9	0.0	1.5	0.2	0.0	-4.5	0.4	-4.9	-0.4	0.0	2.8	0.2
Q3	-1.5	0.0	3.3	-0.1	0.0	0.5	0.7	-0.2	-0.3	0.0	2.1	0.1
Q4	1.7	-0.3	3.5	0.2	0.0	3.9	0.2	3.7	-0.4	0.0	-1.6	-0.1
2005 Q1	0.5	0.0	4.7	0.0	0.0	4.4	1.7	2.7	-0.5	0.0	0.6	-0.2
Q2	-1.2	-0.1	0.4	0.0	0.0	-6.8	1.6	-8.4	-0.5	0.0	-1.8	0.0

	MFIs (excluding Eurosystem)				Other sectors							
	Assets		Liabilities		Assets				Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities
						Total	Loans	Currency and deposits				
13	14	15	16	17	18	19	20	21	22	23	24	
2002	-163.0	-5.0	27.9	-2.1	-1.9	-50.7	-	-	-3.7	-3.7	26.2	6.6
2003	-154.2	-0.5	136.3	-0.1	0.2	-81.2	-	-	-3.0	3.4	22.7	-0.7
2004	-256.5	-3.1	243.6	2.9	-4.2	-18.0	-12.6	-5.4	-5.2	8.3	18.0	0.6
2004 Q2	-4.7	-0.6	22.2	0.0	-3.2	-5.1	-15.3	10.1	-1.0	1.6	-7.4	-2.1
Q3	-22.5	-1.7	5.0	1.5	1.9	6.6	14.0	-7.4	-0.9	-0.2	-4.1	2.7
Q4	-75.8	1.8	59.6	-0.3	0.0	-2.3	-10.1	7.8	-1.8	2.2	4.2	-0.6
2005 Q1	-124.8	-1.9	193.0	2.8	-2.8	-42.7	-23.8	-19.0	-2.8	2.9	6.2	5.2
Q2	-97.2	-0.2	44.0	1.2	-5.0	-47.3	-60.5	13.2	-2.0	1.1	58.6	1.6

8. Reserve assets

	Total	Monetary gold	Special drawing rights	Reserve position in the IMF	Foreign exchange						Other claims	
					Total	Currency and deposits		Securities				Financial derivatives
						With monetary authorities and the BIS	With banks	Equity	Bonds and notes	Money market instruments		
1	2	3	4	5	6	7	8	9	10	11	12	
2002	-2.3	0.7	0.2	-2.0	-1.2	-2.3	-15.3	0.0	8.1	8.5	-0.2	0.0
2003	30.0	1.7	0.0	-1.6	29.9	-1.8	1.6	0.0	23.2	6.9	0.1	0.0
2004	12.3	1.2	0.5	4.0	6.7	-3.8	3.7	0.3	17.8	-11.3	-0.1	0.0
2004 Q2	-2.8	0.5	0.1	0.6	-4.0	-3.3	2.2	0.0	5.4	-8.4	0.1	0.0
Q3	3.5	0.0	-0.1	1.5	2.1	2.6	-3.6	0.0	1.0	2.1	0.0	0.0
Q4	2.4	0.8	0.5	1.1	0.0	-3.9	3.4	-0.1	3.3	-2.6	-0.1	0.0
2005 Q1	4.8	0.8	0.0	1.6	2.4	5.2	-1.1	0.0	1.1	-2.7	0.0	0.0
Q2	3.1	1.3	0.0	1.3	0.5	-4.4	1.1	0.0	0.8	3.0	0.0	0.0

Source: ECB.

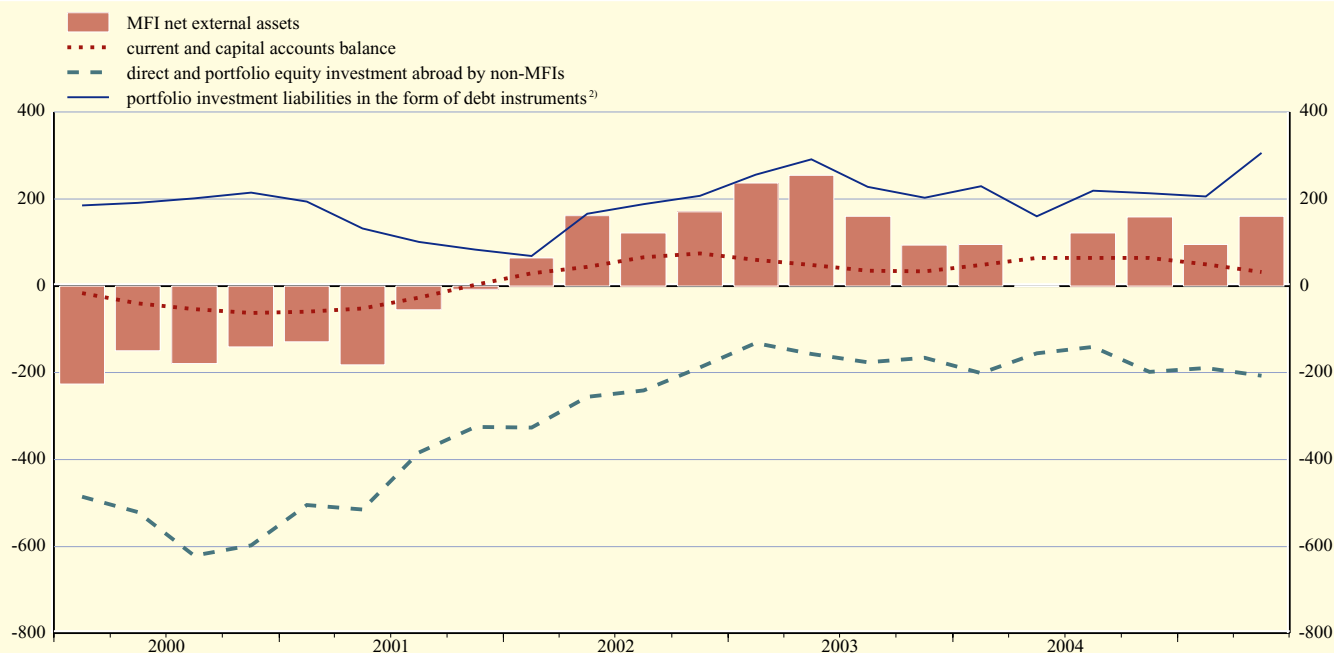
7.2 Monetary presentation of the balance of payments

(EUR billions; transactions)

	B.o.p. items balancing transactions in the external counterpart of M3											Memo: Transactions in the external counterpart of M3
	Current and capital accounts balance	Direct investment		Portfolio investment			Other investment		Financial derivatives	Errors and omissions	Total of columns 1 to 10	
		By resident units abroad (non-MFIs)	By non- resident units in the euro area	Assets Non-MFIs	Liabilities		Assets Non-MFIs	Liabilities Non-MFIs				
					Equity ¹⁾	Debt instruments ²⁾						
1	2	3	4	5	6	7	8	9	10	11	12	
2002	74.6	-157.7	180.1	-120.5	49.9	208.0	-56.2	20.9	-11.0	-30.7	157.5	170.4
2003	33.5	-134.2	141.3	-174.9	121.5	203.1	-84.6	21.5	-12.2	-27.6	87.4	94.1
2004	64.2	-137.4	76.5	-139.1	113.1	213.3	-29.2	24.1	-1.7	-58.7	124.9	158.2
2004 Q2	7.4	-24.3	15.0	-24.9	-4.3	72.7	-14.2	-4.9	-1.2	-18.6	2.8	0.1
Q3	15.5	-15.4	17.2	-24.8	37.6	44.6	7.9	0.5	-1.0	-18.6	63.4	64.6
Q4	21.7	-74.3	38.6	-37.4	75.5	16.8	-0.7	4.1	-4.8	3.7	43.3	57.2
2005 Q1	4.6	-30.0	12.0	-66.2	29.4	71.2	-44.4	14.6	-7.2	-30.5	-46.5	-26.5
Q2	-9.4	-25.0	15.6	-60.2	1.7	174.4	-61.7	59.5	3.2	-36.6	61.5	64.6
2004 Aug.	4.9	8.9	-4.0	-10.3	15.5	17.9	-0.3	11.9	-4.2	-11.2	29.1	30.3
Sep.	1.0	-5.5	9.7	-16.0	16.1	37.0	-3.3	5.3	2.5	-15.4	31.3	34.9
Oct.	4.1	-31.9	18.5	-15.5	13.3	13.2	-5.7	2.2	-4.0	26.3	20.4	20.5
Nov.	5.7	-12.3	19.6	-11.0	27.3	4.2	-7.1	10.1	1.5	-34.1	3.9	10.3
Dec.	12.0	-30.2	0.5	-10.8	34.9	-0.6	12.2	-8.2	-2.2	11.4	19.0	26.4
2005 Jan.	-6.6	-13.4	3.3	-15.7	7.4	22.9	-17.2	2.1	-3.4	-11.7	-32.2	-17.4
Feb.	6.9	-4.8	3.1	-22.0	16.4	35.8	-4.8	7.6	1.3	-34.0	5.5	13.6
Mar.	4.3	-11.8	5.5	-28.6	5.6	12.5	-22.4	4.9	-5.0	15.1	-19.8	-22.7
Apr.	-10.5	-14.1	4.3	-13.9	-58.0	59.2	-22.4	41.8	-0.4	22.0	8.0	2.1
May	-1.2	9.1	-0.4	-27.0	11.1	33.8	-29.7	0.8	0.6	-38.3	-41.2	-39.5
June	2.3	-20.0	11.7	-19.3	48.6	81.4	-9.6	16.8	3.0	-20.3	94.7	102.0
July	2.2	-79.9	1.4	-28.8	112.0	2.6	-6.0	0.3	0.7	-0.3	4.3	4.1
Aug.	-2.1	-11.9	-3.1	-21.0	24.6	-3.4	4.0	6.1	-6.2	3.5	-9.4	-1.8
	<i>12-month cumulated transactions</i>											
2005 Aug.	18.0	-226.5	74.1	-229.6	259.3	298.7	-112.0	89.7	-11.7	-75.6	84.4	132.5

C32 Main b.o.p. transactions underlying the developments in MFI net external assets

(EUR billions; 12-month cumulated transactions)



Source: ECB.

1) Excluding money market fund shares/units.

2) Excluding debt securities with a maturity of up to two years issued by euro area MFIs.

7.3 Geographical breakdown of the balance of payments and international investment position (EUR billions)

1. Balance of payments: current and capital accounts (cumulated transactions)

	Total	European Union (outside the euro area)						Canada	Japan	Switzerland	United States	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions					
2004 Q3 to 2005 Q2	1	2	3	4	5	6	7	8	9	10	11	12
Credits												
Current account	1,889.3	696.9	39.2	62.3	375.1	160.7	59.5	24.7	49.2	129.8	322.2	666.5
Goods	1,161.7	406.5	26.7	43.3	205.4	130.9	0.2	14.9	33.3	67.3	174.7	465.0
Services	367.4	131.2	7.1	10.0	92.2	17.6	4.3	5.1	10.4	35.7	73.7	111.4
Income	277.9	98.8	5.0	8.5	68.8	10.9	5.6	4.2	5.3	20.6	67.3	81.7
of which: investment income	262.8	93.8	4.9	8.3	67.3	10.8	2.5	4.1	5.3	14.4	65.8	79.4
Current transfers	82.4	60.4	0.4	0.5	8.7	1.3	49.4	0.5	0.2	6.2	6.5	8.5
Capital account	23.7	21.3	0.0	0.0	0.8	0.1	20.4	0.0	0.1	0.3	1.0	1.0
Debits												
Current account	1,872.0	612.2	34.3	58.5	295.4	136.3	87.7	19.2	81.1	122.2	281.2	755.9
Goods	1,083.7	320.8	25.1	39.4	147.0	109.3	0.0	8.7	51.1	54.3	114.0	534.8
Services	339.2	103.6	5.9	7.7	68.9	20.9	0.1	5.1	7.2	29.9	73.1	120.4
Income	306.4	94.3	2.9	10.4	72.0	4.6	4.4	3.9	22.5	32.9	85.5	67.3
of which: investment income	299.8	91.1	2.8	10.4	71.0	2.5	4.4	3.8	22.4	32.3	84.6	65.6
Current transfers	142.7	93.6	0.3	0.9	7.6	1.6	83.2	1.6	0.3	5.2	8.6	33.4
Capital account	8.7	0.9	0.0	0.0	0.5	0.2	0.2	0.1	0.0	0.4	0.5	6.9
Net												
Current account	17.4	84.7	5.0	3.8	79.7	24.4	-28.2	5.4	-31.9	7.5	41.0	-89.4
Goods	77.9	85.7	1.6	3.9	58.4	21.6	0.2	6.2	-17.9	13.0	60.7	-69.8
Services	28.2	27.6	1.2	2.2	23.3	-3.3	4.2	0.0	3.2	5.8	0.6	-9.0
Income	-28.4	4.5	2.1	-2.0	-3.2	6.4	1.2	0.3	-17.2	-12.3	-18.1	14.4
of which: investment income	-37.0	2.7	2.1	-2.0	-3.7	8.3	-1.9	0.3	-17.1	-18.0	-18.8	13.8
Current transfers	-60.3	-33.2	0.1	-0.3	1.2	-0.3	-33.8	-1.1	-0.1	1.0	-2.1	-24.9
Capital account	15.0	20.4	0.0	0.0	0.3	-0.1	20.3	-0.1	0.1	-0.1	0.5	-5.9

2. Balance of payments: direct investment (cumulated transactions)

	Total	European Union (outside the euro area)						Canada	Japan	Switzerland	United States	Offshore financial centres	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions						
2004 Q3 to 2005 Q2	1	2	3	4	5	6	7	8	9	10	11	12	13
Direct investment	-74.6	-30.4	2.6	-0.9	-31.0	-1.1	0.0	-1.8	-3.6	20.0	8.3	-38.7	-28.5
Abroad	-158.5	-73.9	0.1	-4.8	-49.5	-19.6	0.0	1.2	-6.2	8.5	-7.8	-44.0	-36.3
Equity/reinvested earnings	-153.3	-63.7	-2.5	-1.4	-36.8	-22.9	0.0	1.7	-5.8	1.9	-19.9	-43.3	-24.1
Other capital	-5.2	-10.1	2.6	-3.4	-12.7	3.3	0.0	-0.5	-0.3	6.6	12.1	-0.7	-12.2
In the euro area	83.8	43.5	2.5	4.0	18.5	18.6	0.0	-3.0	2.6	11.6	16.1	5.3	7.8
Equity/reinvested earnings	67.9	37.8	-0.5	2.7	34.6	1.0	0.0	-4.0	0.8	6.7	15.7	8.9	2.0
Other capital	15.9	5.7	3.0	1.2	-16.1	17.6	0.0	0.9	1.8	4.9	0.4	-3.6	5.7

Source: ECB.

7.3 Geographical breakdown of the balance of payments and international investment position

(EUR billions)

3. Balance of payments: portfolio investment assets by instrument

(cumulated transactions)

	Total	European Union (outside the euro area)						Canada	Japan	Switzerland	United States	Offshore financial centres	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions						
2004 Q3 to 2005 Q2	1	2	3	4	5	6	7	8	9	10	11	12	13
Portfolio investment assets	-348.2	-157.9	-4.8	-5.2	-118.9	-20.0	-9.0	-3.5	-36.0	0.5	-41.1	-58.1	-52.1
Equity	-76.2	-23.5	0.5	-1.2	-20.0	-2.7	-0.1	-1.9	-10.1	-0.1	-5.5	-16.9	-18.1
Debt instruments	-272.0	-134.4	-5.3	-4.0	-98.9	-17.4	-8.9	-1.6	-25.9	0.6	-35.5	-41.1	-34.0
Bonds and notes	-228.6	-104.9	-3.4	-5.5	-69.1	-18.1	-8.7	-2.0	-15.9	0.5	-51.5	-21.4	-33.4
Money market instruments	-43.4	-29.6	-1.9	1.6	-29.8	0.7	-0.1	0.4	-10.0	0.1	16.0	-19.8	-0.6

4. Balance of payments: other investment by sector

(cumulated transactions)

	Total	European Union (outside the euro area)						Canada	Japan	Switzerland	United States	Offshore financial centres	Internat. organisations	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions							
2004 Q3 to 2005 Q2	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Other investment	-24.6	-79.8	3.8	-0.8	-78.7	-10.7	6.6	-2.5	13.4	-0.9	36.0	-24.9	2.0	32.1
Assets	-422.2	-320.3	-9.2	-4.6	-283.2	-21.2	-2.1	-3.6	7.9	-9.9	-29.9	-44.2	-3.2	-19.1
General government	0.3	-0.7	-1.3	-0.1	-0.1	1.4	-0.5	-0.3	0.0	-0.1	0.0	0.0	-1.8	3.2
MFIs	-323.3	-232.0	-6.2	-1.8	-200.3	-22.1	-1.5	-2.8	8.6	-8.3	-35.8	-30.3	-1.4	-21.3
Other sectors	-99.1	-87.5	-1.7	-2.6	-82.7	-0.5	-0.1	-0.5	-0.6	-1.5	5.9	-13.9	-0.1	-0.9
Liabilities	397.5	240.5	13.0	3.8	204.5	10.5	8.8	1.1	5.5	8.9	65.9	19.3	5.2	51.2
General government	-1.0	0.3	0.0	0.0	-0.7	0.0	1.0	0.0	-0.6	0.0	-1.0	0.0	-0.5	0.8
MFIs	318.9	171.1	13.0	2.9	141.7	8.7	4.7	0.5	5.1	8.0	50.0	15.6	5.7	62.9
Other sectors	79.6	69.1	0.1	0.8	63.5	1.8	3.0	0.5	1.0	1.0	16.9	3.6	-0.1	-12.5

5. International investment position

(end-of-period outstanding amounts)

	Total	European Union (outside the euro area)						Canada	Japan	Switzerland	United States	Offshore financial centres	Internat. organisations	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions							
2003	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Direct investment	79.7	-250.1	1.8	-11.1	-346.3	105.6	-0.1	33.0	5.0	71.2	-3.3	-40.2	-0.1	264.2
Abroad	2,110.4	683.3	25.9	63.5	485.0	108.8	0.0	73.0	53.6	231.6	492.8	218.5	0.0	357.6
Equity/reinvested earnings	1,647.3	524.9	22.6	40.3	377.0	85.0	0.0	59.5	45.4	171.4	350.5	206.0	0.0	289.5
Other capital	463.1	158.3	3.4	23.2	107.9	23.8	0.0	13.5	8.2	60.1	142.3	12.5	0.0	68.0
In the euro area	2,030.7	933.4	24.2	74.6	831.2	3.2	0.1	39.9	48.7	160.4	496.2	258.7	0.1	93.4
Equity/reinvested earnings	1,474.4	732.2	18.9	60.2	650.8	2.3	0.0	37.5	38.4	109.7	347.0	135.1	0.1	74.2
Other capital	556.4	201.1	5.2	14.4	180.5	1.0	0.1	2.4	10.2	50.7	149.1	123.6	0.0	19.1
Portfolio investment assets	2,607.4	799.4	48.3	91.7	568.3	45.0	46.1	57.0	117.5	84.7	960.3	284.5	27.8	276.2
Equity	1,054.6	267.4	8.3	26.0	223.5	9.6	0.0	6.8	80.7	75.7	441.6	74.9	0.5	107.0
Debt instruments	1,552.8	532.0	40.0	65.7	344.8	35.5	46.1	50.2	36.8	9.0	518.7	209.6	27.3	169.2
Bonds and notes	1,317.0	433.8	37.5	53.6	262.3	34.9	45.5	49.0	35.2	7.9	423.6	197.0	26.2	144.2
Money market instruments	235.8	98.2	2.5	12.0	82.4	0.6	0.6	1.2	1.6	1.2	95.0	12.5	1.1	25.0
Other investment	-314.8	-76.5	33.5	18.1	23.4	12.2	-163.8	2.1	14.1	-52.5	-71.8	-239.6	-6.8	116.1
Assets	2,587.3	1,240.7	49.9	49.1	1,064.8	72.5	4.5	14.2	86.4	170.6	368.4	229.7	38.9	438.4
General government	92.7	9.4	0.0	0.0	4.2	2.4	2.8	0.0	0.3	0.1	2.8	1.1	33.2	45.8
MFIs	1,768.1	961.8	42.2	33.1	834.2	51.7	0.7	6.8	70.3	109.0	233.9	153.0	5.1	228.1
Other sectors	726.4	269.5	7.7	16.0	226.4	18.4	1.0	7.3	15.8	61.5	131.7	75.6	0.5	164.5
Liabilities	2,902.1	1,317.2	16.3	31.0	1,041.4	60.3	168.2	12.1	72.3	223.1	440.1	469.3	45.6	322.3
General government	43.5	25.6	0.0	0.1	4.1	0.2	21.1	0.0	1.6	0.3	5.2	0.3	3.0	7.6
MFIs	2,333.1	1,012.1	13.2	15.5	816.6	48.3	118.5	6.7	50.6	192.0	350.7	436.2	41.3	243.5
Other sectors	525.5	279.5	3.2	15.3	220.7	11.8	28.6	5.4	20.1	30.8	84.3	32.8	1.4	71.2

Source: ECB.

7.4 International investment position (including international reserves)

(EUR billions, unless otherwise indicated; end-of-period outstanding amounts)

1. Summary international investment position

	Total	Total as a % of GDP	Direct investment	Portfolio investment	Financial derivatives	Other investment	Reserve assets
	1	2	3	4	5	6	7
Net international investment position							
2001	-398.8	-5.8	410.2	-820.8	2.5	-383.4	392.7
2002	-618.0	-8.7	204.2	-879.0	-12.0	-297.2	366.1
2003	-759.6	-10.4	79.7	-823.5	-7.5	-314.8	306.5
2004 Q3	-714.1	-9.4	112.1	-865.8	-6.5	-252.4	298.5
Q4	-874.1	-11.5	58.1	-959.5	-14.4	-239.0	280.7
2005 Q1	-959.3	-12.2	89.2	-1,071.1	-21.3	-241.0	285.0
Q2	-1,010.5	-12.8	113.5	-1,226.1	-13.5	-186.7	302.3
Outstanding assets							
2001	7,628.1	110.8	1,951.4	2,515.0	129.9	2,639.2	392.7
2002	7,260.6	101.9	1,877.4	2,302.6	135.9	2,578.6	366.1
2003	7,768.2	106.0	2,110.4	2,607.4	156.6	2,587.3	306.5
2004 Q3	8,429.8	110.6	2,202.0	2,869.5	167.7	2,892.0	298.5
Q4	8,525.7	111.8	2,252.4	2,933.8	164.9	2,893.9	280.7
2005 Q1	9,115.6	115.7	2,324.0	3,141.0	174.3	3,191.2	285.0
Q2	9,683.3	122.9	2,378.1	3,355.3	197.7	3,449.9	302.3
Outstanding liabilities							
2001	8,026.9	116.6	1,541.2	3,335.8	127.4	3,022.6	-
2002	7,878.6	110.6	1,673.2	3,181.6	147.9	2,875.9	-
2003	8,527.8	116.4	2,030.7	3,430.9	164.1	2,902.1	-
2004 Q3	9,143.9	120.0	2,090.0	3,735.3	174.2	3,144.4	-
Q4	9,399.8	123.3	2,194.3	3,893.2	179.4	3,132.9	-
2005 Q1	10,074.8	127.9	2,234.8	4,212.2	195.6	3,432.3	-
Q2	10,693.8	135.7	2,264.6	4,581.4	211.2	3,636.6	-

2. Direct investment

	By resident units abroad						By non-resident units in the euro area					
	Equity capital and reinvested earnings			Other capital (mostly inter-company loans)			Equity capital and reinvested earnings			Other capital (mostly inter-company loans)		
	Total	MFIs excluding Eurosystem	Non- MFIs	Total	MFIs excluding Eurosystem	Non- MFIs	Total	MFIs excluding Eurosystem	Non- MFIs	Total	MFIs excluding Eurosystem	Non- MFIs
1	2	3	4	5	6	7	8	9	10	11	12	
2001	1,555.8	124.6	1,431.2	395.6	0.8	394.8	1,175.1	32.5	1,142.6	366.1	2.8	363.3
2002	1,544.1	127.7	1,416.4	333.3	0.3	333.0	1,264.6	37.1	1,227.5	408.6	2.9	405.7
2003	1,647.3	114.8	1,532.5	463.1	0.4	462.7	1,474.4	47.6	1,426.8	556.4	2.9	553.5
2004 Q3	1,757.4	124.3	1,633.1	444.6	1.5	443.1	1,515.4	42.1	1,473.2	574.6	4.0	570.7
Q4	1,809.8	129.3	1,680.5	442.6	1.7	440.9	1,617.8	46.4	1,571.4	576.5	4.3	572.2
2005 Q1	1,858.6	145.3	1,713.3	465.3	1.2	464.2	1,640.0	46.1	1,593.9	594.7	3.7	591.0
Q2	1,908.5	152.1	1,756.4	469.6	1.2	468.4	1,655.1	47.2	1,608.0	609.5	3.7	605.8

3. Portfolio investment assets by instrument and sector of holder

	Equity				Debt instruments										
	Assets				Liabilities	Bonds and notes					Money market instruments				
						Assets		Liabilities	Assets			Liabilities	Assets				Liabilities
	Eurosystem	MFIs excluding Eurosystem	Non-MFIs	Eurosystem	MFIs excluding Eurosystem	Non-MFIs	Eurosystem		MFIs excluding Eurosystem	Non-MFIs	General gov.		Other sectors		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
2001	0.6	38.5	6.7	1,070.9	1,640.5	2.0	424.8	8.2	783.6	1,514.8	2.8	135.1	0.2	41.6	180.5
2002	0.7	43.8	8.3	800.5	1,366.1	6.4	404.8	8.0	787.2	1,628.8	1.2	193.8	1.3	46.7	186.7
2003	1.8	52.6	11.5	988.8	1,516.2	8.3	463.7	8.0	837.1	1,701.3	1.1	184.8	0.6	49.2	213.4
2004 Q3	1.8	75.3	14.4	1,063.8	1,632.3	6.5	539.6	8.6	884.1	1,891.1	0.9	212.0	4.7	57.8	211.9
Q4	1.7	76.3	15.9	1,107.7	1,782.3	6.1	546.2	10.1	895.1	1,902.5	1.0	219.3	0.5	53.8	208.4
2005 Q1	2.1	104.2	17.1	1,180.5	1,862.5	6.1	582.4	10.1	950.3	2,078.1	0.5	223.9	4.1	59.7	271.6
Q2	2.5	88.1	18.8	1,266.5	2,002.9	6.9	643.4	10.2	1,006.5	2,283.8	0.9	242.0	6.5	63.0	294.6

Source: ECB.

7.4 International investment position (including international reserves)

(EUR billions, unless stated otherwise; end-of-period outstanding amounts)

4. Other investment by instrument

	Eurosystem				General government								
	Assets		Liabilities		Assets					Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities	
						Total	Loans	Currency and deposits					
1	2	3	4	5	6	7	8	9	10	11	12		
2001	3.0	0.1	40.5	0.2	3.1	68.6	-	-	55.8	0.2	44.8	12.3	
2002	3.4	0.1	57.2	0.2	1.3	58.7	-	-	54.4	0.1	42.8	13.5	
2003	4.2	0.6	65.3	0.2	1.4	53.2	49.1	4.1	38.1	0.0	39.7	3.8	
2004 Q3	5.6	0.6	69.5	0.2	1.4	60.1	49.4	10.7	38.9	0.0	40.8	3.3	
Q4	4.6	2.2	71.8	0.2	1.4	58.5	51.3	7.2	38.9	0.0	41.0	3.1	
2005 Q1	3.8	0.1	77.5	0.2	1.4	55.3	49.1	6.2	40.8	0.0	43.7	2.4	
Q2	5.0	0.2	78.9	0.2	1.4	62.2	47.7	14.5	42.3	0.0	42.0	3.1	

	MFIs (excluding Eurosystem)				Other sectors								
	Assets		Liabilities		Assets					Liabilities			
	Loans/currency and deposits	Other assets	Loans/currency and deposits	Other liabilities	Trade credits	Loans/currency and deposits			Other assets	Trade credits	Loans	Other liabilities	
						Total	Loans	Currency and deposits					
13	14	15	16	17	18	19	20	21	22	23	24		
2001	1,666.6	48.8	2,364.6	49.3	176.3	515.8	-	-	101.2	109.6	360.2	40.9	
2002	1,631.3	55.3	2,197.7	42.9	183.6	496.7	-	-	93.9	102.6	369.3	49.6	
2003	1,731.1	32.3	2,238.8	28.8	176.4	470.4	148.7	321.6	79.6	103.0	377.6	44.9	
2004 Q3	1,946.2	29.1	2,437.5	38.3	169.7	538.3	198.9	339.4	102.1	111.4	393.4	50.0	
Q4	1,955.2	45.4	2,426.9	44.2	155.8	527.4	199.1	328.3	104.5	106.4	392.3	47.0	
2005 Q1	2,117.3	58.5	2,662.9	60.8	177.6	625.0	259.7	365.3	111.4	116.7	411.6	56.4	
Q2	2,277.6	66.4	2,780.1	72.5	184.4	681.7	325.8	355.9	128.6	116.4	480.5	62.8	

5. International reserves

	Reserve assets												Memo			
	Total	Monetary gold		Special drawing rights	Reserve position in the IMF	Foreign exchange							Other claims	Claims on euro area residents in foreign currency	Predetermined short-term net drains in foreign currency	
		In EUR billions	In fine troy ounces (millions)			Total	Currency and deposits		Securities			Financial derivatives				
							With monetary authorities and the BIS	With banks	Total	Equity	Bonds and notes					Money market instruments
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
	Eurosystem															
2002	366.1	130.4	399.022	4.8	25.0	205.8	10.3	35.3	159.8	1.0	120.2	38.5	0.4	0.0	22.4	-26.3
2003	306.5	130.0	393.543	4.4	23.3	148.9	10.0	30.4	107.8	0.9	80.5	26.5	0.7	0.0	20.3	-16.3
2004 Q4	280.7	125.4	389.998	3.9	18.6	132.8	12.5	25.5	94.6	0.5	58.2	35.9	0.1	0.0	19.1	-12.8
2005 Q1	285.0	127.7	387.359	4.0	17.4	135.8	7.7	27.8	100.4	0.5	59.8	40.1	-0.1	0.0	21.4	-15.1
Q2	302.3	138.2	382.323	4.2	16.5	143.4	12.4	28.3	103.0	0.5	62.8	39.7	-0.4	0.0	23.4	-17.7
2005 July	296.3	135.2	381.223	4.2	14.7	142.1	8.3	29.2	104.9	-	-	-	-0.3	0.0	23.4	-16.3
Aug.	295.7	135.2	380.520	4.2	14.2	142.1	9.1	29.1	104.2	-	-	-	-0.3	0.0	24.0	-18.1
Sep.	311.6	149.4	380.258	4.2	13.8	144.2	10.8	27.3	106.3	-	-	-	-0.2	0.0	24.0	-19.5
	of which held by the European Central Bank															
2002	45.5	8.1	24.656	0.2	0.0	37.3	1.2	9.9	26.1	0.0	19.5	6.7	0.0	0.0	3.0	-5.2
2003	36.9	8.1	24.656	0.2	0.0	28.6	1.4	5.0	22.2	0.0	14.9	7.3	0.0	0.0	2.8	-1.5
2004 Q4	35.1	7.9	24.656	0.2	0.0	27.0	2.7	3.3	21.1	0.0	9.7	11.3	0.0	0.0	2.6	-1.3
2005 Q1	36.2	8.1	24.656	0.2	0.0	27.9	1.1	4.2	22.6	0.0	7.7	14.9	0.0	0.0	2.7	-0.9
Q2	39.7	8.4	23.145	0.2	0.0	31.2	3.8	5.1	22.3	0.0	8.2	14.1	0.0	0.0	2.6	-1.4
2005 July	39.7	8.2	23.145	0.2	0.0	31.4	2.1	6.5	22.8	-	-	-	0.0	0.0	2.0	-1.1
Aug.	39.5	8.2	23.145	0.2	0.0	31.1	2.3	6.7	22.0	-	-	-	0.0	0.0	2.3	-1.2
Sep.	41.0	9.1	23.145	0.2	0.0	31.8	4.7	5.1	22.0	-	-	-	0.0	0.0	2.3	-1.5

Source: ECB.

7.5 Trade in goods

(seasonally adjusted, unless otherwise indicated)

1. Values, volumes and unit values by product group

	Total (n.s.a.)		Exports (f.o.b.)					Imports (c.i.f.)					
	Exports	Imports	Total			Memo: Manufactures	Total			Memo: Manufactures	Oil		
			Intermediate	Capital	Consumption		Intermediate	Capital	Consumption				
	1	2	3	4	5	6	7	8	9	10	11	12	13
Values (EUR billions; annual percentage changes for columns 1 and 2)													
2001	6.1	-0.7	1,062.8	505.9	235.1	289.2	932.5	1,016.8	579.1	178.8	228.4	740.9	107.7
2002	2.0	-3.0	1,083.7	512.4	227.9	309.5	949.2	984.5	559.5	163.3	234.3	717.4	105.2
2003	-2.3	0.5	1,059.9	500.9	222.8	300.4	925.2	989.9	553.8	164.2	240.9	716.4	109.0
2004	8.7	9.1	1,145.4	543.0	244.8	311.8	989.0	1,072.8	599.1	181.8	253.7	761.2	129.0
2004 Q1	4.9	0.2	278.6	131.7	59.9	76.4	241.9	254.5	139.8	43.0	63.1	183.3	26.4
Q2	12.1	9.5	287.2	135.6	61.1	79.5	246.8	264.2	147.0	46.1	63.2	187.7	29.7
Q3	8.9	14.5	288.0	137.4	61.3	78.4	248.8	275.4	155.5	45.6	63.3	193.0	36.3
Q4	8.9	12.4	291.6	138.3	62.4	77.5	251.4	278.6	156.8	47.1	64.2	197.2	36.6
2005 Q1	3.5	8.8	292.0	137.6	61.9	77.4	255.5	279.2	155.1	44.7	63.6	197.6	36.0
Q2	6.5	10.8	302.0	142.5	63.3	79.9	258.8	292.3	163.2	48.5	64.4	201.8	39.9
2005 Mar.	0.6	7.3	97.6	46.0	20.8	26.0	86.0	94.3	54.0	15.1	21.5	66.8	13.7
Apr.	5.1	10.6	99.7	47.4	21.0	26.3	85.8	96.8	53.6	16.3	21.1	66.4	13.4
May	7.4	13.4	101.3	47.4	21.0	26.5	86.9	98.0	54.9	15.5	21.7	68.1	13.0
June	7.0	8.7	101.1	47.7	21.4	27.1	86.0	97.5	54.6	16.7	21.6	67.3	13.5
July	3.0	9.1	103.0	47.4	22.3	26.9	89.0	102.0	56.7	16.4	21.6	70.4	14.5
Aug.	13.8	20.4	106.5	50.0	23.2	28.7	92.0	107.2	62.4	17.9	23.4	74.7	17.1
Volume indices (2000 = 100; annual percentage changes for columns 1 and 2)													
2001	5.1	-0.8	104.9	102.1	108.6	107.9	105.4	99.1	99.3	96.3	100.5	97.8	99.3
2002	2.9	-0.7	107.9	105.0	106.2	115.1	108.2	98.3	98.9	89.6	104.1	96.3	101.4
2003	1.0	3.7	109.0	105.9	108.0	114.9	109.3	102.0	100.5	95.2	110.4	100.0	104.9
2004	8.6	6.4	117.8	114.4	119.9	119.3	117.3	107.8	103.0	107.2	117.3	106.1	105.2
2004 Q1	7.8	5.0	116.0	112.9	117.9	117.9	115.8	106.5	102.6	101.3	117.3	103.6	101.4
Q2	11.6	6.3	118.0	114.5	119.4	121.2	117.0	106.8	102.4	107.9	116.8	104.7	101.0
Q3	7.6	8.3	117.6	114.9	119.4	119.7	117.4	108.5	103.9	107.1	116.5	106.8	113.7
Q4	7.6	5.9	119.5	115.2	122.9	118.5	118.9	109.3	102.9	112.5	118.5	109.4	104.7
2005 Q1	1.4	2.5	119.1	113.6	121.9	117.9	120.0	110.2	102.7	108.2	116.9	109.5	105.8
Q2	4.7	4.7	122.0	116.5	124.3	121.1	121.2	111.7	103.0	115.9	118.0	111.2	101.8
2005 Mar.	-1.6	-0.3	118.9	113.4	123.5	118.4	120.8	109.9	104.6	108.6	118.5	110.6	112.2
Apr.	3.1	3.7	121.0	116.2	123.2	119.9	120.5	111.6	102.0	117.9	117.1	110.6	102.7
May	6.1	8.5	123.3	117.1	123.7	120.9	122.5	114.0	106.0	112.2	119.1	113.0	106.1
June	4.8	2.3	121.6	116.1	125.9	122.4	120.4	109.4	100.9	117.7	117.8	109.9	96.7
July	0.5	0.7	123.4	114.9	130.4	121.4	124.3	111.4	100.4	115.3	117.6	115.2	96.2
Aug.	.	.	.	.	.	.	.	.	.	.	.	.	.
Unit value indices (2000 = 100; annual percentage changes for columns 1 and 2)													
2001	1.1	0.3	101.0	100.7	100.1	102.1	100.9	100.2	98.7	101.4	102.8	101.7	88.6
2002	-0.9	-2.3	100.1	99.1	99.2	102.4	100.1	97.8	95.8	99.6	101.9	100.0	84.6
2003	-3.2	-3.1	96.9	96.1	95.4	99.5	96.6	94.8	93.3	94.2	98.8	96.1	85.0
2004	0.1	2.5	96.9	96.4	94.4	99.5	96.2	97.2	98.4	92.6	97.9	96.2	99.6
2004 Q1	-2.7	-4.6	95.8	94.8	94.0	98.8	95.3	93.4	92.2	92.6	97.3	94.9	84.8
Q2	0.4	3.0	97.1	96.2	94.6	99.9	96.3	96.6	97.2	93.4	97.9	96.2	95.8
Q3	1.3	5.8	97.7	97.2	94.9	99.8	96.7	99.2	101.3	93.0	98.4	97.0	104.1
Q4	1.2	6.1	97.3	97.6	93.9	99.6	96.5	99.6	103.1	91.4	98.1	96.8	113.8
2005 Q1	2.1	6.0	97.8	98.5	93.8	99.9	97.1	99.0	102.3	90.4	98.5	96.9	110.9
Q2	1.7	5.8	98.7	99.4	94.2	100.6	97.5	102.3	107.3	91.4	98.7	97.4	127.8
2005 Mar.	2.2	7.7	98.2	99.0	93.6	100.4	97.4	100.6	104.7	91.0	98.7	97.3	119.7
Apr.	1.9	6.7	98.5	99.4	94.4	100.3	97.5	101.7	106.7	90.7	98.0	96.7	127.6
May	1.2	4.5	98.2	98.8	93.9	100.3	97.1	100.8	105.3	90.5	98.8	97.1	119.7
June	2.1	6.2	99.4	100.1	94.3	101.3	97.8	104.4	109.9	92.8	99.4	98.5	136.1
July	2.5	8.3	99.8	100.6	94.7	101.1	98.0	107.3	114.6	93.4	99.8	98.4	147.7
Aug.	.	.	.	.	.	.	.	.	.	.	.	.	.

Sources: Eurostat and ECB calculations based on Eurostat data (volume indices and seasonal adjustment of unit value indices).

7.5 Trade in goods

(EUR billions, unless otherwise indicated; seasonally adjusted)

2. Geographical breakdown

	Total	European Union (outside the euro area)				Russia	Switzerland	Turkey	United States	Asia			Africa	Latin America	Other countries
		Denmark	Sweden	United Kingdom	Other EU countries					China	Japan	Other Asian countries			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Exports (f.o.b.)															
2001	1,062.8	24.4	37.0	202.5	105.8	24.7	66.4	17.9	180.2	25.2	34.5	140.3	60.4	49.9	93.5
2002	1,083.7	25.3	37.1	205.8	112.1	27.1	64.0	21.4	184.1	29.9	33.1	140.5	59.5	43.4	100.3
2003	1,059.9	24.9	38.7	194.8	117.6	29.2	63.4	24.9	166.3	35.3	31.3	135.4	59.5	37.9	100.8
2004	1,145.4	25.6	41.8	203.6	126.9	35.6	66.1	31.8	173.4	40.3	33.1	149.9	63.6	40.2	113.5
2004 Q1	278.6	6.2	10.1	49.8	31.2	8.1	15.5	7.9	42.5	9.8	8.4	36.8	15.2	9.6	27.4
Q2	287.2	6.3	10.4	51.0	31.6	9.1	16.3	8.2	43.9	10.7	8.0	37.0	15.9	9.9	28.8
Q3	288.0	6.4	10.5	51.6	31.2	9.3	17.1	7.9	43.3	9.8	8.4	38.5	16.6	10.3	27.0
Q4	291.6	6.6	10.8	51.2	32.9	9.2	17.1	7.7	43.8	10.0	8.2	37.6	16.0	10.5	30.3
2005 Q1	292.0	6.7	10.9	50.0	33.1	9.8	17.4	8.0	43.5	10.3	8.5	38.9	17.0	11.0	27.0
Q2	302.0	7.0	11.2	50.0	34.2	10.6	16.9	8.1	45.5	9.9	8.4	40.5	17.1	11.2	31.5
2005 Mar.	97.6	2.2	3.7	16.6	10.9	3.4	5.9	2.7	14.5	3.5	2.9	12.8	6.0	3.6	8.8
Apr.	99.7	2.3	3.7	16.6	11.4	3.4	5.6	2.8	15.0	3.3	2.9	13.8	5.6	3.9	9.4
May	101.3	2.4	3.7	16.9	11.3	3.5	5.7	2.7	15.1	3.3	2.7	13.3	6.0	3.7	10.8
June	101.1	2.4	3.7	16.6	11.6	3.7	5.5	2.7	15.3	3.4	2.8	13.3	5.5	3.6	11.2
July	103.0	2.4	3.8	16.8	11.5	3.4	5.7	2.8	15.1	3.7	2.8	14.5	6.0	4.1	10.5
Aug.	106.5	2.6	3.7	18.0	11.7	4.0	6.2	3.0	15.7	3.7	2.9	14.4	6.6	4.0	10.0
<i>% share of total exports</i>															
2004	100.0	2.2	3.6	17.8	11.1	3.1	5.8	2.8	15.1	3.5	2.9	13.1	5.6	3.5	9.9
Imports (c.i.f.)															
2001	1,016.8	22.0	35.6	154.6	88.9	42.8	52.9	16.7	138.7	57.5	58.6	150.5	74.0	41.0	82.9
2002	984.5	23.0	35.6	149.7	93.5	42.0	52.1	17.7	125.6	61.8	52.7	142.7	67.9	39.4	80.8
2003	989.9	23.7	36.9	138.9	102.1	47.4	50.4	19.3	110.3	74.4	52.2	141.4	68.9	39.8	84.2
2004	1,072.8	24.4	39.5	142.4	107.4	56.3	53.4	22.8	113.6	92.0	53.9	163.1	72.6	45.0	86.1
2004 Q1	254.5	6.0	9.5	34.3	27.0	12.3	12.8	5.0	26.4	20.7	13.6	36.6	16.6	10.8	22.9
Q2	264.2	5.9	9.9	34.9	26.2	13.6	13.2	5.7	29.8	22.5	13.1	40.9	17.3	11.0	20.4
Q3	275.4	6.2	10.0	37.0	26.7	14.6	13.6	6.0	28.7	23.6	13.8	42.5	19.1	11.6	21.9
Q4	278.6	6.3	10.1	36.1	27.5	15.8	13.8	6.1	28.7	25.2	13.5	43.0	19.8	11.7	20.9
2005 Q1	279.2	6.2	10.0	35.7	26.9	16.7	13.5	6.2	29.0	26.6	13.0	40.6	20.1	12.0	22.7
Q2	292.3	6.5	10.3	36.6	28.8	17.5	14.4	5.8	29.9	27.7	12.5	45.8	21.6	11.8	23.0
2005 Mar.	94.3	2.1	3.4	12.0	8.7	6.0	4.5	2.1	9.8	9.2	4.5	13.7	7.3	4.0	6.9
Apr.	96.8	2.1	3.4	12.5	9.3	5.7	4.6	2.0	10.0	8.9	4.1	14.7	7.0	3.9	8.5
May	98.0	2.3	3.4	12.1	10.0	6.0	4.8	2.1	9.9	9.5	4.3	15.0	7.5	3.9	7.3
June	97.5	2.1	3.4	12.0	9.6	5.8	4.9	1.8	10.0	9.4	4.1	16.2	7.1	3.9	7.2
July	102.0	2.0	3.5	12.7	9.6	5.7	5.0	2.0	10.1	9.9	4.4	15.6	7.7	4.1	9.6
Aug.	107.2	2.3	3.6	13.0	9.5	6.7	5.0	2.1	10.3	10.1	4.7	17.4	9.7	5.0	7.9
<i>% share of total imports</i>															
2004	100.0	2.3	3.7	13.3	10.0	5.2	5.0	2.1	10.6	8.6	5.0	15.2	6.8	4.2	8.0
Balance															
2001	46.0	2.3	1.4	47.9	17.0	-18.1	13.5	1.2	41.5	-32.3	-24.1	-10.2	-13.6	8.9	10.5
2002	99.1	2.3	1.5	56.1	18.6	-14.9	12.0	3.8	58.4	-31.9	-19.7	-2.2	-8.3	4.0	19.5
2003	70.0	1.1	1.7	55.9	15.5	-18.2	12.9	5.5	56.0	-39.1	-20.9	-5.9	-9.4	-1.8	16.5
2004	72.6	1.2	2.3	61.2	19.5	-20.7	12.7	8.9	59.8	-51.8	-20.8	-13.2	-9.0	-4.8	27.4
2004 Q1	24.1	0.2	0.7	15.5	4.3	-4.2	2.7	2.9	16.1	-11.0	-5.2	0.2	-1.4	-1.2	4.5
Q2	23.0	0.5	0.6	16.1	5.4	-4.5	3.1	2.6	14.1	-11.8	-5.0	-4.0	-1.3	-1.1	8.4
Q3	12.5	0.2	0.5	14.5	4.5	-5.3	3.5	1.9	14.5	-13.8	-5.3	-4.0	-2.5	-1.3	5.1
Q4	13.1	0.3	0.6	15.0	5.4	-6.7	3.3	1.6	15.1	-15.2	-5.3	-5.4	-3.8	-1.2	9.4
2005 Q1	12.8	0.5	0.9	14.3	6.2	-6.9	4.0	1.7	14.5	-16.3	-4.5	-1.6	-3.0	-1.0	4.3
Q2	9.8	0.6	0.9	13.5	5.3	-6.9	2.5	2.3	15.6	-17.8	-4.1	-5.4	-4.5	-0.6	8.5
2005 Mar.	3.4	0.1	0.3	4.6	2.3	-2.6	1.4	0.6	4.7	-5.7	-1.6	-0.9	-1.3	-0.4	1.9
Apr.	2.9	0.2	0.3	4.1	2.1	-2.3	1.0	0.8	5.1	-5.6	-1.2	-0.9	-1.5	0.0	1.0
May	3.2	0.1	0.3	4.8	1.3	-2.4	0.9	0.6	5.2	-6.2	-1.6	-1.7	-1.4	-0.2	3.5
June	3.7	0.3	0.3	4.6	2.0	-2.2	0.6	0.8	5.3	-6.0	-1.3	-2.8	-1.6	-0.4	4.1
July	1.0	0.3	0.2	4.0	1.9	-2.3	0.8	0.8	5.0	-6.3	-1.6	-1.1	-1.8	0.0	0.9
Aug.	-0.7	0.3	0.1	5.0	2.1	-2.7	1.1	1.0	5.4	-6.4	-1.8	-2.9	-3.1	-1.0	2.2

Sources: Eurostat and ECB calculations based on Eurostat data (balance and columns 5, 12 and 15).



EXCHANGE RATES

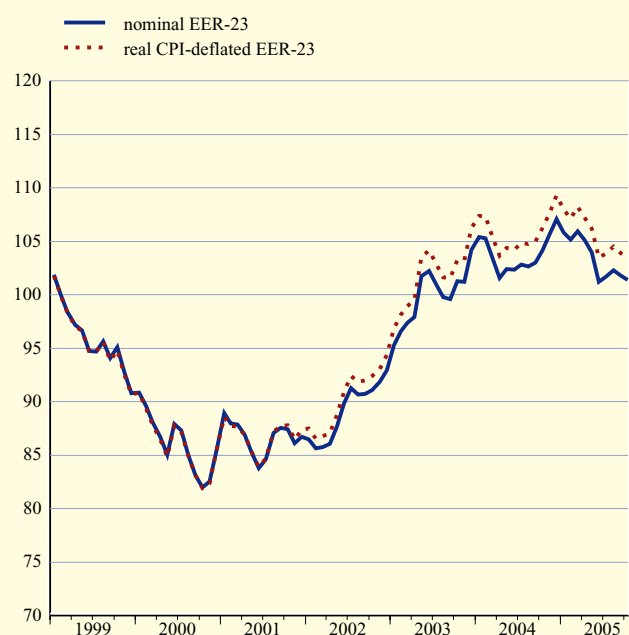
8.1 Effective exchange rates ¹⁾

(period averages; index 1999 Q1=100)

	EER-23						EER-42		
	Nominal	Real CPI	Real PPI	Real GDP deflator	Real ULCM	Real ULCT	Nominal	Real CPI	
	1	2	3	4	5	6	7	8	
2002	89.2	90.3	91.9	90.2	86.4	87.9	94.8	90.8	
2003	99.9	101.7	102.2	101.5	97.2	99.0	106.6	101.6	
2004	103.8	105.8	105.2	105.4	102.6	103.1	111.0	105.4	
2004 Q3	102.8	104.9	104.3	104.5	100.8	102.2	110.1	104.5	
Q4	105.7	107.7	106.6	107.0	104.6	104.6	113.0	107.1	
2005 Q1	105.7	107.8	107.0	107.0	103.3	104.3	112.6	106.5	
Q2	103.4	105.6	104.2	104.8	100.7	102.7	110.1	104.1	
Q3	101.9	104.1	102.4	.	.	.	108.3	102.3	
2004 Oct.	104.2	106.2	105.2	-	-	-	111.5	105.7	
Nov.	105.6	107.6	106.4	-	-	-	113.1	107.1	
Dec.	107.1	109.3	108.2	-	-	-	114.4	108.5	
2005 Jan.	105.8	108.0	107.1	-	-	-	112.9	106.9	
Feb.	105.1	107.2	106.4	-	-	-	111.9	105.8	
Mar.	106.0	108.2	107.3	-	-	-	112.9	106.8	
Apr.	105.1	107.2	105.9	-	-	-	111.9	105.8	
May	104.0	106.2	104.6	-	-	-	110.6	104.6	
June	101.2	103.5	102.2	-	-	-	107.6	101.9	
July	101.7	103.8	102.3	-	-	-	108.0	102.0	
Aug.	102.3	104.5	102.9	-	-	-	108.7	102.7	
Sep.	101.8	103.9	101.9	-	-	-	108.2	102.2	
Oct.	101.4	103.5	101.4	-	-	-	107.8	101.7	
	<i>% change versus previous month</i>								
2005 Oct.	-0.4	-0.4	-0.5	-	-	-	-0.4	-0.5	
	<i>% change versus previous year</i>								
2005 Oct.	-2.7	-2.5	-3.6	-	-	-	-3.4	-3.8	

C33 Effective exchange rates

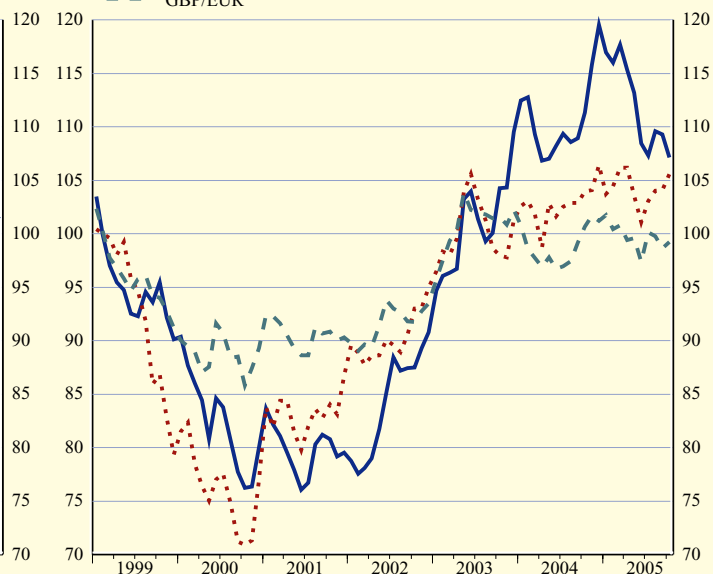
(monthly averages; index 1999 Q1=100)



C34 Bilateral exchange rates

(monthly averages; index 1999 Q1=100)

— USD/EUR
 JPY/EUR
 - - - GBP/EUR



Source: ECB.

1) For the definition of the trading partner groups and other information, please refer to the General notes.

8.2 Bilateral exchange rates

(period averages; units of national currency per euro)

	Danish krone	Swedish krona	Pound sterling	US dollar	Japanese yen	Swiss franc	South Korean won	Hong Kong dollar	Singapore dollar	Canadian dollar	Norwegian krone	Australian dollar
	1	2	3	4	5	6	7	8	9	10	11	12
2002	7.4305	9.1611	0.62883	0.9456	118.06	1.4670	1,175.50	7.3750	1.6912	1.4838	7.5086	1.7376
2003	7.4307	9.1242	0.69199	1.1312	130.97	1.5212	1,346.90	8.8079	1.9703	1.5817	8.0033	1.7379
2004	7.4399	9.1243	0.67866	1.2439	134.44	1.5438	1,422.62	9.6881	2.1016	1.6167	8.3697	1.6905
2005 Q1	7.4433	9.0736	0.69362	1.3113	137.01	1.5488	1,340.74	10.2257	2.1452	1.6083	8.2388	1.6878
Q2	7.4463	9.2083	0.67856	1.2594	135.42	1.5437	1,269.53	9.8090	2.0885	1.5677	8.0483	1.6389
Q3	7.4588	9.3658	0.68344	1.2199	135.62	1.5533	1,255.21	9.4782	2.0436	1.4668	7.8817	1.6054
2005 Apr.	7.4499	9.1670	0.68293	1.2938	138.84	1.5475	1,306.82	10.0899	2.1375	1.5991	8.1763	1.6738
May	7.4443	9.1931	0.68399	1.2694	135.37	1.5449	1,272.34	9.8900	2.0962	1.5942	8.0814	1.6571
June	7.4448	9.2628	0.66895	1.2165	132.22	1.5391	1,231.12	9.4597	2.0342	1.5111	7.8932	1.5875
July	7.4584	9.4276	0.68756	1.2037	134.75	1.5578	1,248.53	9.3590	2.0257	1.4730	7.9200	1.6002
Aug.	7.4596	9.3398	0.68527	1.2292	135.98	1.5528	1,255.33	9.5529	2.0439	1.4819	7.9165	1.6144
Sep.	7.4584	9.3342	0.67760	1.2256	136.06	1.5496	1,261.46	9.5138	2.0603	1.4452	7.8087	1.6009
Oct.	7.4620	9.4223	0.68137	1.2015	138.05	1.5490	1,256.66	9.3191	2.0326	1.4149	7.8347	1.5937
	% change versus previous month											
2005 Oct.	0.0	0.9	0.6	-2.0	1.5	0.0	-0.4	-2.0	-1.3	-2.1	0.3	-0.4
	% change versus previous year											
2005 Oct.	0.3	4.0	-1.5	-3.8	1.5	0.4	-11.9	-4.2	-3.0	-9.3	-4.9	-6.5
	Czech koruna	Estonian kroon	Cyprus pound	Latvian lats	Lithuanian litas	Hungarian forint	Maltese lira	Polish zloty	Slovenian tolar	Slovak koruna	Bulgarian lev	New Roma- nian leu ¹⁾
	13	14	15	16	17	18	19	20	21	22	23	24
2002	30.804	15.6466	0.57530	0.5810	3.4594	242.96	0.4089	3.8574	225.98	42.694	1.9492	31,270
2003	31.846	15.6466	0.58409	0.6407	3.4527	253.62	0.4261	4.3996	233.85	41.489	1.9490	37,551
2004	31.891	15.6466	0.58185	0.6652	3.4529	251.66	0.4280	4.5268	239.09	40.022	1.9533	40,510
2005 Q1	30.012	15.6466	0.58267	0.6962	3.4528	245.01	0.4316	4.0267	239.74	38.294	1.9559	37,069
Q2	30.129	15.6466	0.57824	0.6960	3.4528	249.75	0.4295	4.1301	239.54	38.919	1.9558	36,195
Q3	29.688	15.6466	0.57328	0.6960	3.4528	245.57	0.4293	4.0186	239.49	38.672	1.9558	3,5250
2005 Apr.	30.134	15.6466	0.58282	0.6961	3.4528	248.19	0.4299	4.1559	239.65	39.232	1.9553	36,277
May	30.220	15.6466	0.57806	0.6960	3.4528	251.95	0.4293	4.1749	239.51	39.004	1.9561	36,175
June	30.034	15.6466	0.57405	0.6960	3.4528	249.04	0.4293	4.0606	239.47	38.535	1.9558	36,136
July	30.180	15.6466	0.57367	0.6961	3.4528	246.47	0.4293	4.0986	239.48	38.886	1.9558	3,5647
Aug.	29.594	15.6466	0.57321	0.6960	3.4528	244.49	0.4293	4.0436	239.51	38.681	1.9557	3,5034
Sep.	29.317	15.6466	0.57296	0.6961	3.4528	245.83	0.4293	3.9160	239.47	38.459	1.9558	3,5097
Oct.	29.675	15.6466	0.57319	0.6965	3.4528	251.85	0.4293	3.9229	239.53	38.923	1.9559	3,5997
	% change versus previous month											
2005 Oct.	1.2	0.0	0.0	0.1	0.0	2.4	0.0	0.2	0.0	1.2	0.0	2.6
	% change versus previous year											
2005 Oct.	-5.8	0.0	-0.5	4.1	0.0	2.1	-0.1	-9.2	-0.2	-2.7	0.0	-
	Chinese yuan renminbi ²⁾	Croatian kuna ²⁾	Icelandic krona	Indonesian rupiah ²⁾	Malaysian ringgit ²⁾	New Zealand dollar	Philippine peso ²⁾	Russian rouble ²⁾	South African rand	Thai baht ²⁾	New Turkish lira ³⁾	
	25	26	27	28	29	30	31	32	33	34	35	
2002	7.8265	7.4130	86.18	8,785.12	3.5933	2.0366	48.837	29.7028	9.9072	40.637	1,439,680	
2003	9.3626	7.5688	86.65	9,685.54	4.2983	1.9438	61.336	34.6699	8.5317	46.923	1,694,851	
2004	10.2967	7.4967	87.14	11,127.34	4.7273	1.8731	69.727	35.8192	8.0092	50.077	1,777,052	
2005 Q1	10.8536	7.5081	80.67	12,165.35	4.9835	1.8299	72.084	36.5154	7.8793	50.622	1,7412	
Q2	10.4232	7.3443	80.79	12,032.61	4.7858	1.7597	68.847	35.3733	8.0799	50.497	1,7193	
Q3	9.9250	7.3728	77.64	12,216.99	4.6008	1.7640	68.335	34.7864	7.9392	50.375	1,6372	
2005 Apr.	10.7080	7.3908	80.71	12,362.94	4.9163	1.7967	70.435	35.9794	7.9649	51.165	1,7645	
May	10.5062	7.3272	82.36	12,033.61	4.8237	1.7665	68.966	35.4730	8.0500	50.562	1,7396	
June	10.0683	7.3169	79.30	11,716.31	4.6234	1.7175	67.214	34.6951	8.2194	49.793	1,6560	
July	9.8954	7.3090	78.40	11,803.89	4.5590	1.7732	67.394	34.5513	8.0790	50.199	1,6133	
Aug.	9.9589	7.3684	78.37	12,283.08	4.6216	1.7675	68.768	35.0119	7.9508	50.604	1,6534	
Sep.	9.9177	7.4384	76.15	12,542.23	4.6190	1.7515	68.782	34.7750	7.7936	50.305	1,6430	
Oct.	9.7189	7.3822	73.29	12,118.09	4.5330	1.7212	66.777	34.3262	7.9139	49.153	1,6331	
	% change versus previous month											
2005 Oct.	-2.0	-0.8	-3.8	-3.4	-1.9	-1.7	-2.9	-1.3	1.5	-2.3	-0.6	
	% change versus previous year											
2005 Oct.	-6.0	-2.0	-16.3	6.6	-4.5	-5.8	-5.2	-5.4	-0.9	-4.7	-	

Source: ECB.

1) Data prior to July 2005 refer to the Romanian leu; 1 new Romanian leu is equivalent to 10,000 old Romanian lei.

2) For these currencies the ECB computes and publishes euro reference exchange rates as from 1 April 2005. Previous data are indicative.

3) Data prior to January 2005 refer to the Turkish lira; 1 new Turkish lira is equivalent to 1,000,000 old Turkish liras.



DEVELOPMENTS OUTSIDE THE EURO AREA

9.1 In other EU Member States

(annual percentage changes, unless otherwise indicated)

1. Economic and financial developments

	Czech Republic	Denmark	Estonia	Cyprus	Latvia	Lithuania	Hungary	Malta	Poland	Slovenia	Slovakia	Sweden	United Kingdom
	1	2	3	4	5	6	7	8	9	10	11	12	13
HICP													
2003	-0.1	2.0	1.4	4.0	2.9	-1.1	4.7	1.9	0.7	5.7	8.4	2.3	1.4
2004	2.6	0.9	3.0	1.9	6.2	1.1	6.8	2.7	3.6	3.6	7.5	1.0	1.3
2005 Q1	1.4	1.0	4.5	2.5	6.7	3.1	3.5	2.3	3.6	2.8	2.8	0.7	1.7
Q2	1.2	1.6	3.6	2.1	6.7	2.4	3.6	2.2	2.2	2.2	2.6	0.5	1.9
Q3	1.6	2.2	4.3	1.7	6.7	2.2	3.5	2.1	1.7	2.3	2.2	0.9	2.4
2005 May	0.9	1.3	2.9	2.1	6.5	1.9	3.5	2.4	2.2	2.1	2.4	0.2	1.9
June	1.3	1.7	3.2	1.5	6.6	2.0	3.7	2.1	1.4	1.7	2.6	0.8	2.0
July	1.4	1.9	3.9	1.3	6.3	1.9	3.6	1.7	1.5	2.0	2.1	0.7	2.3
Aug.	1.4	2.3	4.2	1.5	6.3	2.3	3.5	2.5	1.8	1.8	2.1	1.0	2.4
Sep.	2.0	2.4	4.9	2.1	7.4	2.6	3.6	2.0	1.8	3.2	2.3	1.1	2.5
General government deficit (-)/surplus (+) as a % of GDP¹⁾													
2002	-6.8	1.4	1.5	-4.5	-2.3	-1.4	-8.5	-5.7	-3.3	-2.7	-7.8	-0.3	-1.6
2003	-12.5	1.0	2.6	-6.3	-1.2	-1.2	-6.5	-10.4	-4.8	-2.7	-3.8	0.2	-3.3
2004	-3.0	2.3	1.7	-4.1	-1.0	-1.4	-5.4	-5.1	-3.9	-2.1	-3.1	1.6	-3.1
General government gross debt as a % of GDP¹⁾													
2002	29.8	47.6	5.8	65.2	14.2	22.4	55.5	63.3	41.2	29.8	43.7	52.4	38.2
2003	36.8	45.0	6.0	69.8	14.6	21.4	57.4	72.8	45.3	29.4	43.1	52.0	39.7
2004	36.8	43.2	5.5	72.0	14.7	19.6	57.4	75.9	43.6	29.8	42.5	51.1	41.5
Long-term government bond yield as a % per annum, period average													
2005 Apr.	3.55	3.58	-	5.87	3.87	3.82	6.91	4.71	5.49	3.95	3.76	3.58	4.67
May	3.49	3.39	-	5.84	3.87	3.87	7.00	4.66	5.35	3.92	3.54	3.34	4.45
June	3.31	3.16	-	5.13	3.87	3.78	6.59	4.56	4.91	3.90	3.36	3.11	4.31
July	3.35	3.21	-	4.84	3.87	3.61	6.13	4.55	4.72	3.78	3.22	3.06	4.31
Aug.	3.37	3.24	-	4.84	3.87	3.50	5.85	4.43	4.88	3.79	3.24	3.14	4.34
Sep.	3.26	3.05	-	4.81	3.87	3.50	5.64	4.41	4.57	3.74	3.13	2.98	4.25
3-month interest rate as a % per annum, period average													
2005 Apr.	2.03	2.18	2.40	4.89	2.92	2.44	7.43	3.24	5.78	4.05	2.56	2.11	4.94
May	1.78	2.18	2.39	4.67	2.85	2.42	7.52	3.25	5.48	4.05	2.75	2.05	4.89
June	1.75	2.16	2.34	4.11	2.81	2.36	-	3.27	5.22	4.05	2.88	1.82	4.84
July	1.78	2.16	2.33	3.92	2.71	2.32	6.50	3.28	4.68	4.04	2.89	1.64	4.66
Aug.	1.79	2.17	2.33	3.85	2.76	2.33	6.35	3.26	4.67	4.02	2.94	1.67	4.59
Sep.	1.80	2.18	2.32	3.80	2.82	2.32	5.65	3.26	4.51	4.03	2.93	1.67	4.60
Real GDP													
2003	3.2	0.6	6.7	1.9	7.2	10.6	2.9	-1.9	3.8	2.5	4.5	1.5	2.5
2004	4.4	2.1	7.8	3.7	8.3	6.0	4.2	0.4	5.4	4.6	5.5	3.6	3.2
2005 Q1	4.7	2.1	7.2	3.8	7.4	4.6	3.8	0.2	3.8	2.8	5.1	2.2	1.7
Q2	5.1	3.0	9.9	3.5	11.6	7.1	4.0	2.4	1.0	4.7	5.1	2.1	1.5
Q3	.	.	.	.	.	.	.	.	.	.	.	.	1.6
Current and capital accounts balance as a % of GDP													
2003	-6.3	3.3	-12.6	-2.4	-7.5	-6.4	-8.7	-6.1	-2.2	-1.0	-0.5	7.4	-1.4
2004	-5.7	2.4	-12.5	-4.9	-12.0	-6.4	-8.5	-8.5	-4.0	-2.5	-3.1	8.3	-1.8
2004 Q4	-7.8	0.5	-16.3	-17.4	-9.5	-3.5	-7.5	-17.2	-1.6	-3.8	-3.6	7.0	-0.9
2005 Q1	2.9	4.3	-9.5	-13.6	-9.4	-3.7	-6.9	-7.7	-1.1	-1.7	-2.2	8.5	-2.0
Q2	-4.0	5.7	-9.2	1.5	-10.0	-6.7	-7.2	-7.1	-0.8	0.4	-11.3	7.2	-1.7
Unit labour costs													
2003	7.6	1.6	4.9	-	5.6	1.5	7.2	-	.	4.7	3.5	1.3	3.2
2004	1.2	1.1	3.0	-	8.8	.	4.2	-	.	3.8	2.1	-0.7	2.0
2004 Q4	0.7	0.3	2.9	-	-	.	-	-	.	-	5.1	-0.4	1.3
2005 Q1	-0.2	1.9	3.1	-	-	.	-	-	.	-	5.7	2.6	5.0
Q2	0.7	2.7	2.4	-	-	.	-	-	.	-	3.6	0.0	3.1
Standardised unemployment rate as a % of labour force (s.a.)													
2003	7.8	5.6	10.2	4.5	10.4	12.7	5.8	8.0	19.2	6.5	17.5	5.6	4.9
2004	8.3	5.4	9.2	5.2	9.8	10.9	6.0	7.6	18.8	6.0	18.2	6.4	4.7
2005 Q1	8.0	5.1	8.0	6.0	9.5	9.2	6.9	8.0	18.2	5.7	16.9	6.3	4.6
Q2	7.8	5.0	7.8	5.9	9.1	8.6	7.1	8.2	18.0	5.8	16.5	.	4.6
Q3	.	4.8	7.3	6.3	8.8	7.9	7.2	7.9	17.7	5.8	16.4	.	.
2005 May	7.8	5.0	7.8	6.0	9.1	8.6	7.1	8.2	17.9	5.8	16.5	.	4.7
June	7.8	4.9	7.7	6.2	9.0	8.4	7.1	8.0	17.9	5.8	16.5	.	4.6
July	7.7	4.9	7.5	6.2	8.9	8.2	7.1	7.9	17.8	5.8	16.4	.	4.6
Aug.	7.7	4.8	7.3	6.3	8.8	7.9	7.2	7.8	17.7	5.8	16.3	.	.
Sep.	.	4.7	7.1	6.4	8.8	7.6	7.2	7.8	17.7	5.8	16.4	.	.

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

1) Ratios are computed using GDP excluding financial intermediation services indirectly measured (FISIM).

9.2 In the United States and Japan

(annual percentage changes, unless otherwise indicated)

1. Economic and financial developments

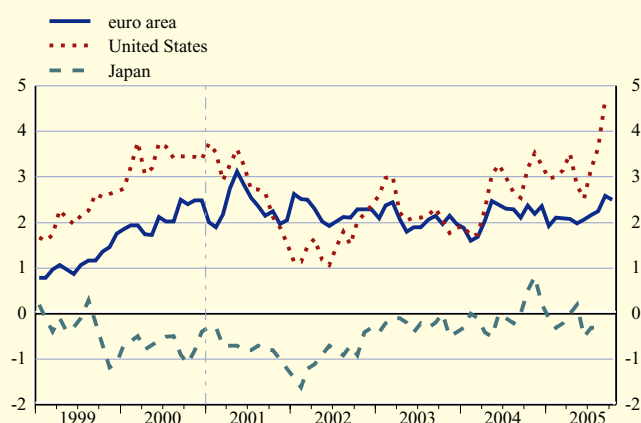
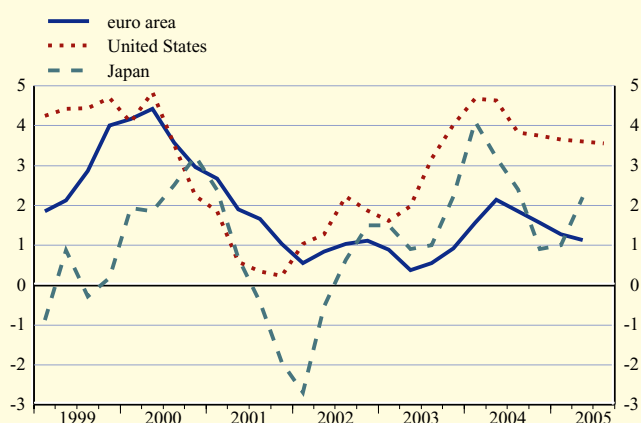
	Consumer price index	Unit labour costs ¹⁾ (manufacturing)	Real GDP	Industrial production index (manufacturing)	Unemployment rate as a % of labour force (s.a.)	Broad money ²⁾	3-month interbank deposit rate ³⁾ as a % per annum	10-year government bond yield ³⁾ as a % per annum	Exchange rate ⁴⁾ as national currency per 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											
2001	2.8	0.2	0.8	-4.1	4.8	11.4	3.78	5.01	0.8956	-0.4	42.9
2002	1.6	-0.2	1.6	-0.1	5.8	8.0	1.80	4.60	0.9456	-3.8	45.3
2003	2.3	2.9	2.7	0.0	6.0	6.4	1.22	4.00	1.1312	-5.0	47.9
2004	2.7	-2.9	4.2	4.9	5.5	5.1	1.62	4.26	1.2439	-4.7	48.6
2004 Q3	2.7	-2.2	3.8	5.5	5.4	4.6	1.75	4.29	1.2220	-4.8	48.4
Q4	3.3	-1.5	3.8	5.1	5.4	5.8	2.30	4.17	1.2977	-4.3	48.6
2005 Q1	3.0	2.5	3.6	4.5	5.3	5.8	2.84	4.30	1.3113	-3.7	49.6
Q2	2.9	4.3	3.6	3.3	5.1	5.0	3.28	4.16	1.2594	.	.
Q3	3.8	.	3.6	3.1	5.0	6.1	3.77	4.21	1.2199	.	.
2005 June	2.5	.	.	3.6	5.0	5.1	3.43	4.00	1.2165	.	.
July	3.2	.	.	3.0	5.0	5.4	3.61	4.16	1.2037	.	.
Aug.	3.6	.	.	3.2	4.9	6.1	3.80	4.26	1.2292	.	.
Sep.	4.7	.	.	3.0	5.1	6.6	3.91	4.19	1.2256	.	.
Oct.	.	.	.	.	.	.	4.17	4.45	1.2015	.	.
Japan											
2001	-0.7	4.4	0.2	-6.8	5.0	2.8	0.15	1.34	108.68	-6.1	134.7
2002	-0.9	-3.2	-0.3	-1.2	5.4	3.3	0.08	1.27	118.06	-7.9	141.5
2003	-0.3	-3.8	1.4	3.2	5.2	1.7	0.06	0.99	130.97	-7.7	149.2
2004	0.0	-5.2	2.7	5.5	4.7	1.9	0.05	1.50	134.44	.	.
2004 Q3	-0.1	-5.7	2.4	6.4	4.8	1.8	0.05	1.64	134.38	.	.
Q4	0.5	-1.5	0.9	1.8	4.6	2.0	0.05	1.45	137.11	.	.
2005 Q1	-0.2	-1.0	1.0	1.4	4.6	2.0	0.05	1.41	137.01	.	.
Q2	-0.1	0.9	2.2	0.3	4.4	1.7	0.05	1.28	135.42	.	.
Q3	-0.3	.	.	0.0	4.3	1.8	0.06	1.36	135.62	.	.
2005 June	-0.5	0.6	.	0.2	4.2	1.6	0.05	1.24	132.22	.	.
July	-0.3	2.8	.	-2.3	4.4	1.7	0.06	1.26	134.75	.	.
Aug.	-0.3	.	.	1.5	4.3	1.7	0.06	1.43	135.98	.	.
Sep.	-0.3	.	.	1.0	4.2	2.0	0.06	1.38	136.06	.	.
Oct.	.	.	.	.	.	.	0.06	1.54	138.05	.	.

C35 Real gross domestic product

(annual percentage changes; quarterly)

C36 Consumer price indices

(annual percentage changes; monthly)



Sources: National data (columns 1, 2 (United States), 3, 4, 5 (United States), 6, 9 and 10); OECD (column 2 (Japan)); Eurostat (column 5 (Japan), euro area chart data); Reuters (columns 7 and 8); ECB calculations (column 11).

1) Data for the United States are seasonally adjusted.

2) Average-of-period values; M3 for US, M2+CDs for Japan.

3) For more information, see Sections 4.6 and 4.7.

4) For more information, see Section 8.2.

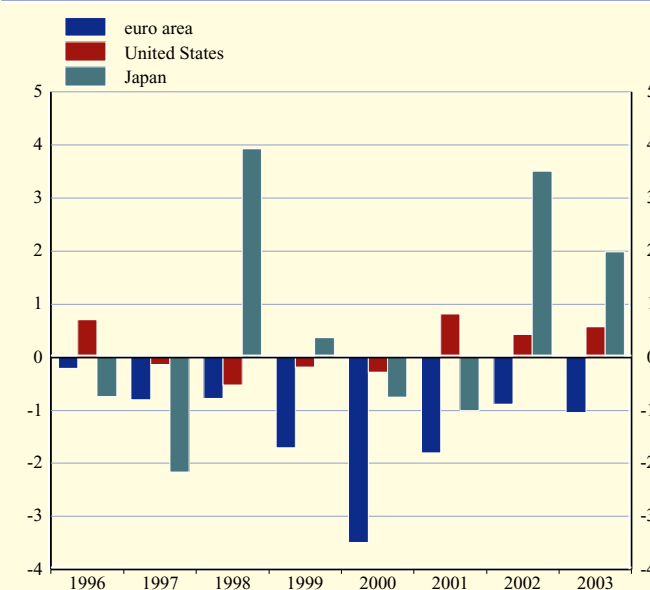
5) Gross consolidated general government debt (end of period).

9.2 In the United States and Japan
(as a percentage of GDP)

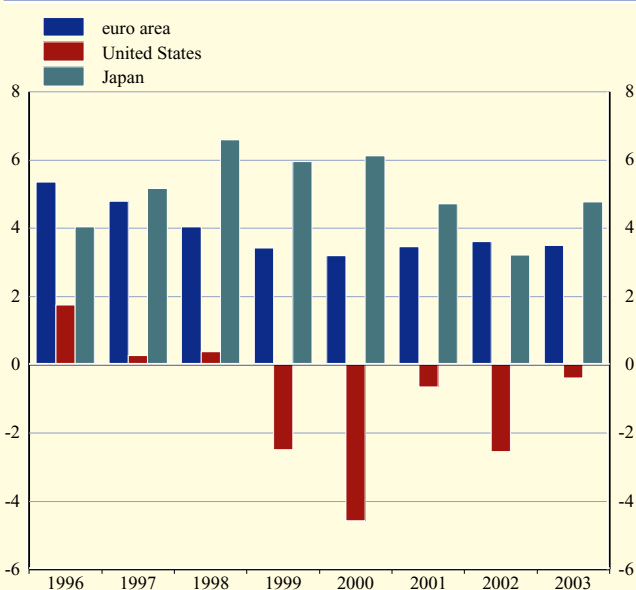
2. Saving, investment and financing

	National saving and investment			Investment and financing of non-financial corporations						Investment and financing of households 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 expenditures ²⁾	Net acquisition of financial assets	Gross saving ³⁾	Net incurrence of liabilities
	1	2	3	4	5	6	7	8	9	10	11	12	13
United States													
2001	16.4	19.1	-3.7	7.9	8.3	1.8	7.5	0.9	1.7	12.8	5.0	10.8	5.7
2002	14.2	18.4	-4.4	7.0	7.0	1.2	7.7	0.8	-0.1	13.0	4.2	11.4	6.7
2003	13.4	18.5	-4.6	6.8	6.8	0.8	8.0	0.3	0.8	13.3	7.8	11.3	8.1
2004	13.4	19.6	-5.6	7.3	7.0	4.4	8.0	3.4	0.7	13.5	6.6	11.0	9.4
2003 Q3	13.3	18.6	-4.5	6.8	6.9	-0.1	8.1	-0.6	0.3	13.5	8.7	11.7	7.6
2003 Q4	13.9	18.8	-4.3	7.0	6.9	1.2	8.3	0.4	0.1	13.5	5.1	11.2	4.3
2004 Q1	13.4	19.0	-5.0	7.1	6.8	5.3	8.2	4.0	1.0	13.3	7.2	11.0	10.0
2004 Q2	13.3	19.8	-5.6	7.4	7.0	3.7	8.1	2.4	-0.5	13.6	4.8	10.7	8.6
2004 Q3	13.5	19.8	-5.5	7.3	7.1	3.7	8.4	2.3	0.5	13.6	7.1	10.9	9.1
2004 Q4	13.5	19.9	-6.2	7.5	7.2	5.1	7.3	4.8	1.8	13.6	7.5	11.4	9.8
2005 Q1	13.4	20.2	-6.4	7.6	7.2	3.5	7.7	3.0	1.2	13.7	5.8	10.0	8.3
2005 Q2	13.8	20.0	-6.2	7.4	7.3	3.5	8.1	2.5	0.5	13.8	2.8	9.7	8.4
Japan													
2001	26.6	25.8	2.0	15.3	15.3	-2.8	14.4	-6.4	0.2	4.9	2.8	8.6	0.2
2002	25.7	24.2	2.8	13.8	14.1	-1.7	15.4	-7.4	-0.8	4.8	-0.2	9.1	-2.1
2003	26.4	23.9	3.1	14.3	14.4	2.3	16.1	-5.3	0.2	4.6	0.3	9.2	-0.6
2004	.	23.9	.	.	.	4.6	.	0.8	0.8	.	1.9	.	-0.7
2003 Q3	25.9	24.0	3.7	.	.	9.2	.	-5.6	-0.6	.	-3.7	.	1.4
2003 Q4	27.9	24.8	2.9	.	.	10.5	.	5.5	1.1	.	9.5	.	-1.4
2004 Q1	31.0	24.0	3.9	.	.	12.5	.	-1.9	-0.6	.	-7.2	.	2.6
2004 Q2	.	23.0	.	.	.	-13.7	.	-11.2	0.6	.	8.0	.	-6.2
2004 Q3	.	23.8	.	.	.	7.1	.	0.7	0.2	.	-2.1	.	1.5
2004 Q4	.	24.6	.	.	.	12.1	.	14.6	2.8	.	8.3	.	-0.5
2005 Q1	.	24.4	.	.	.	8.6	.	-2.3	-2.9	.	-8.1	.	3.3
2005 Q2	.	23.7	.	.	.	-17.9	.	-16.5	1.0	.	7.5	.	-6.6

C37 Net lending of non-financial corporations
(as a percentage of GDP)



C38 Net lending of households¹⁾
(as a percentage of GDP)



Sources: ECB, Federal Reserve Board, Bank of Japan and Economic and Social Research Institute.

1) Including non-profit institutions serving households.

2) Gross capital formation in Japan. Capital expenditures in the United States include purchases of consumer durable goods.

3) Gross saving in the United States is increased by expenditures on consumer durable goods.



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TECHNICAL NOTES

RELATING TO THE EURO AREA OVERVIEW

CALCULATION OF GROWTH RATES FOR MONETARY DEVELOPMENTS

The average growth rate for the quarter ending in month t is calculated as:

$$a) \left(\frac{0.5I_t + \sum_{i=1}^2 I_{t-i} + 0.5I_{t-3}}{0.5I_{t-12} + \sum_{i=1}^2 I_{t-i-12} + 0.5I_{t-15}} - 1 \right) \times 100$$

where I_t is the index of adjusted outstanding amounts as at month t (see also below). Likewise, for the year ending in month t , the average growth rate is calculated as:

$$b) \left(\frac{0.5I_t + \sum_{i=1}^{11} I_{t-i} + 0.5I_{t-12}}{0.5I_{t-12} + \sum_{i=1}^{11} I_{t-i-12} + 0.5I_{t-24}} - 1 \right) \times 100$$

RELATING TO SECTIONS 2.1 TO 2.6

CALCULATION OF TRANSACTIONS

Monthly transactions are calculated from monthly differences in outstanding amounts adjusted for reclassifications, other revaluations, exchange rate variations and any other changes which do not arise from transactions.

If L_t represents the outstanding amount at the end of month t , C_t^M the reclassification adjustment in month t , E_t^M the exchange rate adjustment and V_t^M the other revaluation adjustments, the transactions F_t^M in month t are defined as:

$$c) F_t^M = (L_t - L_{t-1}) - C_t^M - E_t^M - V_t^M$$

Similarly, the quarterly transactions F_t^Q for the quarter ending in month t are defined as:

$$d) F_t^Q = (L_t - L_{t-3}) - C_t^Q - E_t^Q - V_t^Q$$

where L_{t-3} is the amount outstanding at the end of month $t-3$ (the end of the previous quarter)

and, for example, C_t^Q is the reclassification adjustment in the quarter ending in month t .

For those quarterly series for which monthly observations are now available (see below), the quarterly transactions can be derived as the sum of the three monthly transactions in the quarter.

CALCULATION OF GROWTH RATES FOR MONTHLY SERIES

Growth rates may be calculated from transactions or from the index of adjusted outstanding amounts. If F_t^M and L_t are defined as above, the index I_t of adjusted outstanding amounts in month t is defined as:

$$e) I_t = I_{t-1} \times \left(1 + \frac{F_t^M}{L_{t-1}} \right)$$

The base of the index (of the non-seasonally adjusted series) is currently set as December 2001 = 100. Time series of the index of adjusted outstanding amounts are available on the ECB's website (www.ecb.int) under the "Money, banking and financial markets" sub-section of the "Statistics" section.

The annual growth rate a_t for month t – i.e. the change in the 12 months ending in month t – may be calculated using either of the following two formulae:

$$f) a_t = \left[\prod_{i=0}^{11} \left(1 + \frac{F_{t-i}^M}{L_{t-i-1}} \right) - 1 \right] \times 100$$

$$g) a_t = \left(\frac{I_t}{I_{t-12}} - 1 \right) \times 100$$

Unless otherwise indicated, the annual growth rates refer to the end of the indicated period. For example, the annual percentage change for the year 2002 is calculated in g) by dividing the index of December 2002 by the index of December 2001.

Growth rates for intra-annual periods may be derived by adapting formula g). For example, the month-on-month growth rate a_t^M may be calculated as:

$$h) a_t^M = \left(\frac{I_t}{I_{t-1}} - 1 \right) \times 100$$

Finally, the three-month moving average (centred) for the annual growth rate of M3 is obtained as $(a_{t+1} + a_t + a_{t-1})/3$, where a_t is defined as in f) or g) above.

CALCULATION OF GROWTH RATES FOR QUARTERLY SERIES

If F_t^Q and L_{t-3} are defined as above, the index I_t of adjusted outstanding amounts for the quarter ending in month t is defined as:

$$i) I_t = I_{t-3} \times \left(1 + \frac{F_t^Q}{L_{t-3}} \right)$$

The annual growth rate in the four quarters ending in month t , i.e. a_t , may be calculated using formula g).

SEASONAL ADJUSTMENT OF THE EURO AREA MONETARY STATISTICS¹

The approach used relies on a multiplicative decomposition through X-12-ARIMA.² The seasonal adjustment may include a day-of-the-week adjustment, and for some series is carried out indirectly by means of a linear combination of components. In particular, this is the case for M3, derived by aggregating the seasonally adjusted series for M1, M2 less M1, and M3 less M2.

The seasonal adjustment procedures are first applied to the index of adjusted outstanding amounts.³ The resulting estimates of the seasonal factors are then applied to the levels and to the adjustments arising from reclassifications and revaluations, in turn yielding seasonally adjusted transactions.

Seasonal (and trading day) factors are revised at annual intervals or as required.

RELATING TO SECTIONS 3.1 TO 3.3

CALCULATION OF GROWTH RATES

Growth rates are calculated on the basis of financial transactions and therefore exclude reclassifications, revaluations, exchange rate variations and any other changes which do not arise from transactions.

If T_t represents the transactions in quarter t and L_t represents the outstanding amount at the end of quarter t , then the growth rate for the quarter t is calculated as:

$$j) \frac{\sum_{i=0}^3 T_{t-i}}{L_{t-4}} \times 100$$

RELATING TO SECTION 4.3 AND 4.4

CALCULATION OF GROWTH RATES FOR DEBT SECURITIES AND QUOTED SHARES

Growth rates are calculated on the basis of financial transactions and therefore exclude reclassifications, revaluations, exchange rate variations and any other changes which do not arise from transactions. They may be calculated from transactions or from the index of notional stocks. If N_t^M represents the transactions (net

¹ For details, see "Seasonal adjustment of monetary aggregates and HICP for the euro area", ECB (August 2000) and the "Statistics" section of the ECB's website (www.ecb.int), under the "Money, banking and financial markets" sub-section.

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

For internal purposes, the model-based approach of TRAMO-SEATS is also used. For details on TRAMO-SEATS, see Gomez, V. and Maravall, A. (1996), "Programs TRAMO and SEATS: Instructions for the User", Banco de España, Working Paper No. 9628, Madrid.

³ It follows that for the seasonally adjusted series, the level of the index for the base period, i.e. December 2001, generally differs from 100, reflecting the seasonality of that month.

issues) in month t and L_t the level outstanding at the end of the month t , the index I_t of notional stocks in month t is defined as:

$$k) \quad I_t = I_{t-1} \times \left(1 + \frac{N_t}{L_{t-1}} \right)$$

As a base, the index is set equal to 100 on December 2001. The growth rate a_t for month t corresponding to the change in the 12 months ending in month t , may be calculated using either of the following two formulae:

$$l) \quad a_t = \left[\prod_{i=0}^{11} \left(1 + \frac{N_{t-i}^M}{L_{t-1-i}} \right) - 1 \right] \times 100$$

$$m) \quad a_t = \left(\frac{I_t}{I_{t-12}} - 1 \right) \times 100$$

The method used to calculate the growth rates for securities other than shares is the same as that used for the monetary aggregates, the only difference being that an “N” is used rather than an “F”. The reason for this is to distinguish between the different ways of obtaining “net issues” for securities issues statistics and the equivalent “transactions” calculated used for the monetary aggregates.

The average growth rate for the quarter ending in month t is calculated as:

$$n) \quad \left(\frac{0.5I_t + \sum_{i=1}^2 I_{t-i} + 0.5I_{t-3}}{0.5I_{t-12} + \sum_{i=1}^2 I_{t-i-12} + 0.5I_{t-15}} - 1 \right) \times 100$$

where I_t is the index of notional stocks as at month t . Likewise, for the year ending in month t , the average growth rate is calculated as:

$$o) \quad \left(\frac{0.5I_t + \sum_{i=1}^{11} I_{t-i} + 0.5I_{t-12}}{0.5I_{t-12} + \sum_{i=1}^{11} I_{t-i-12} + 0.5I_{t-24}} - 1 \right) \times 100$$

SEASONAL ADJUSTMENT OF SECURITIES ISSUES STATISTICS⁴

The approach used relies on a multiplicative decomposition through X-12-ARIMA. The seasonal adjustment for the securities issues total is carried out indirectly by means of a linear combination of sector and maturity component breakdowns.

The seasonal adjustment procedures are applied to the index of notional stocks. The resulting estimates of the seasonal factors are then applied to the outstanding amounts, from which seasonally adjusted net issues are derived. Seasonal factors are revised at annual intervals or as required.

Similar as depicted in formula l) and m), the growth rate a_t for month t corresponding to the change in the 6 months ending in month t , may be calculated using either of the following two formulae:

$$p) \quad a_t = \left[\prod_{i=0}^5 \left(1 + \frac{N_{t-i}^M}{L_{t-1-i}} \right) - 1 \right] \times 100$$

$$q) \quad a_t = \left(\frac{I_t}{I_{t-6}} - 1 \right) \times 100$$

The calculation formula used for Section 4.3 is also used for Section 4.4 and is likewise based on that used for the monetary aggregates. Section 4.4 is based on market values and the basis for the calculation are financial transactions, which exclude reclassifications, revaluations or any other changes that do not arise from transactions. Exchange rate variations are not included as all quoted shares covered are denominated in euro.

⁴ For details, see “Seasonal adjustment of monetary aggregates and HICP for the euro area”, ECB (August 2000) and the “Statistics” section of the ECB’s website (www.ecb.int), under the “Money, banking and financial markets” sub-section.

RELATING TO TABLE 1 IN SECTION 5.1

SEASONAL ADJUSTMENT OF THE HICP⁴

The approach used relies on multiplicative decomposition through X-12-ARIMA (see footnote 2 on page S74). The seasonal adjustment of the overall HICP for the euro area is carried out indirectly by aggregating the seasonally adjusted euro area series for processed food, unprocessed food, industrial goods excluding energy, and services. Energy is added without adjustment since there is no statistical evidence of seasonality. Seasonal factors are revised at annual intervals or as required.

RELATING TO TABLE 2 IN SECTION 7.1

SEASONAL ADJUSTMENT OF THE BALANCE OF PAYMENTS CURRENT ACCOUNT

The approach relies on multiplicative decomposition through X-12-ARIMA (see footnote 2 on page S74). The raw data for goods and services, income and current transfers are pre-adjusted to take a working-day effect into account. For goods, services and current transfers, the working-day adjustment is corrected for national public holidays. Data on service credits are also pre-adjusted for Easter. The seasonal adjustment for these items is carried out using these pre-adjusted series. Current transfers debits are not pre-adjusted. The seasonal adjustment of the total current account is carried out by aggregating the seasonally adjusted euro area series for goods, services, income and current transfers. Seasonal (and trading day) factors are revised at semi-annual intervals or as required.



GENERAL NOTES

The “Euro area statistics” section of the Monthly Bulletin focuses on statistics for the euro area as a whole. More detailed and longer runs of data, with further explanatory notes, are available in the “Statistics” section of the ECB’s website (www.ecb.int). Services available under the “Data services” sub-section include a browser interface with search facilities, subscription to different datasets and a facility for downloading data directly as compressed Comma Separated Value (CSV) files. For further information, please contact us at: statistics@ecb.int.

In general, the cut-off date for the statistics included in the Monthly Bulletin is the day preceding the first meeting in the month of the Governing Council. For this issue, the cut-off date was 2 November 2005.

All data relate to the Euro 12, unless otherwise indicated. For the monetary data, the Harmonised Index of Consumer Prices (HICP), investment fund and financial market statistics, the statistical series relating to the euro area cover the EU Member States that had adopted the euro at the time to which the statistics relate. Where applicable, this is shown in the tables by means of a footnote; in the charts, the break is indicated by a dotted line. In these cases, where underlying data are available, absolute and percentage changes for 2001, calculated from a base in 2000, use a series which takes into account the impact of Greece’s entry into the euro area.

Given that the composition of the ECU does not coincide with the former currencies of the countries which have adopted the single currency, pre-1999 amounts converted from the participating currencies into ECU at current ECU exchange rates are affected by movements in the currencies of EU Member States which have not adopted the euro. To avoid this effect on the monetary statistics, the pre-1999 data in Sections 2.1 to 2.8 are expressed in units converted from national currencies at the irrevocable euro exchange rates established on 31 December 1998. Unless otherwise indicated,

price and cost statistics before 1999 are based on data expressed in national currency terms.

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

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

The group “Other EU Member States” comprises the Czech Republic, Denmark, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia, Sweden and United Kingdom.

In most cases, the terminology used within the tables follows international standards, such as those contained in the European System of Accounts 1995 (ESA 95) and the IMF Balance of Payments Manual. Transactions refer to voluntary exchanges (measured directly or derived), while flows also encompass changes in outstanding amounts owing to price and exchange rate changes, write-offs, and other changes.

In the tables, the term “up to (x) years” means “up to *and including* (x) years”.

OVERVIEW

Developments in key indicators for the euro area are summarised in an overview table.

MONETARY POLICY STATISTICS

Section 1.4 shows statistics on minimum reserve and liquidity factors. Annual and quarterly observations refer to averages of the last reserve maintenance period of the year/quarter. Until December 2003, the maintenance periods started on the 24th calendar day of a month and ran to the 23rd of the following month. On 23 January 2003 the ECB announced changes to the operational

framework, which were implemented on 10 March 2004. As a result of these changes, maintenance periods start on the settlement day of the main refinancing operation (MRO) following the Governing Council meeting at which the monthly assessment of the monetary policy stance is scheduled. A transitional maintenance period was defined to cover the period from 24 January to 9 March 2004.

Table 1 in Section 1.4 shows the components of the reserve base of credit institutions subject to reserve requirements. The liabilities vis-à-vis other credit institutions subject to the ESCB's minimum reserve system, the ECB and participating national central banks are excluded from the reserve base. When a credit institution cannot provide evidence of the amount of its issues of debt securities with a maturity of up to two years held by the institutions mentioned above, it may deduct a certain percentage of these liabilities from its reserve base. The percentage for calculating the reserve base was 10% until November 1999 and 30% thereafter.

Table 2 in Section 1.4 contains average data for completed maintenance periods. The amount of the reserve requirement of each individual credit institution is first calculated by applying the reserve ratio for the corresponding categories of liabilities to the eligible liabilities, using the balance sheet data from the end of each calendar month. Subsequently, each credit institution deducts from this figure a lump-sum allowance of €100,000. The resulting required reserves are then aggregated at the euro area level (column 1). The current account holdings (column 2) are the aggregate average daily current account holdings of credit institutions, including those that serve the fulfilment of reserve requirements. The excess reserves (column 3) are the average current account holdings over the maintenance period in excess of the required reserves. The deficiencies (column 4) are defined as the average shortfalls of current account holdings from required reserves over the maintenance period, computed

on the basis of those credit institutions that have not fulfilled their reserve requirement. The interest rate on minimum reserves (column 5) is equal to the average, over the maintenance period, of the ECB's rate (weighted according to the number of calendar days) on the Eurosystem's main refinancing operations (see Section 1.3).

Table 3 in Section 1.4 shows the banking system's liquidity position, which is defined as the current account holdings in euro of credit institutions in the euro area with the Eurosystem. All amounts are derived from the consolidated financial statement of the Eurosystem. The other liquidity-absorbing operations (column 7) exclude the issuance of debt certificates initiated by national central banks in Stage Two of EMU. The net other factors (column 10) represent the netted remaining items in the consolidated financial statement of the Eurosystem. The credit institutions' current accounts (column 11) are equal to the difference between the sum of liquidity-providing factors (columns 1 to 5) and the sum of liquidity-absorbing factors (columns 6 to 10). The base money (column 12) is calculated as the sum of the deposit facility (column 6), the banknotes in circulation (column 8) and the credit institutions' current account holdings (column 11).

MONEY, BANKING AND INVESTMENT FUNDS

Section 2.1 shows the aggregated balance sheet of the monetary financial institution (MFI) sector, i.e. the sum of the harmonised balance sheets of all MFIs resident in the euro area. MFIs are central banks, credit institutions as defined under Community law, money market funds and other institutions whose business it is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credits and/or make investments in securities. A complete list of MFIs is published on the ECB's website.

Section 2.2 shows the consolidated balance sheet of the MFI sector, which is obtained by netting the aggregated balance sheet positions between MFIs in the euro area. Due to limited heterogeneity in recording practices, the sum of the inter-MFI positions is not necessarily zero; the balance is shown in column 10 of the liabilities side of Section 2.2. Section 2.3 sets out the euro area monetary aggregates and counterparts. These are derived from the consolidated MFI balance sheet, and include positions of non-MFIs resident in the euro area held with MFIs resident in the euro area; they also take account of some monetary assets/liabilities of central government. Statistics on monetary aggregates and counterparts are adjusted for seasonal and trading-day effects. The external liabilities item of Sections 2.1 and 2.2 shows the holdings by non-euro area residents of i) shares/units issued by money market funds located in the euro area and ii) debt securities issued with a maturity of up to two years by MFIs located in the euro area. In Section 2.3, however, these holdings are excluded from the monetary aggregates and contribute to the item “net external assets”.

Section 2.4 provides an analysis by sector, type and original maturity of loans granted by MFIs other than the Eurosystem (the banking system) resident in the euro area. Section 2.5 shows a sectoral and instrument analysis of deposits held with the euro area banking system. Section 2.6 shows the securities held by the euro area banking system, by type of issuer.

Sections 2.2 to 2.6 include transactions, which are derived as differences in outstanding amounts adjusted for reclassifications, revaluations, exchange rate variations and any other changes which do not arise from transactions. Section 2.7 shows selected revaluations which are used in the derivation of transactions. Sections 2.2 to 2.6 also provide growth rates in terms of annual percentage changes based on the transactions. Section 2.8 shows a quarterly currency breakdown of selected MFI balance sheet items.

Details of the sector definitions are set out in the “Money and Banking Statistics Sector Manual – Guidance for the statistical classification of customers” (ECB, November 1999). The “Guidance Notes to the Regulation ECB/2001/13 on the MFI Balance Sheet Statistics” (ECB, November 2002) explains practices recommended to be followed by the NCBs. Since 1 January 1999 the statistical information has been collected and compiled on the basis of Regulation ECB/1998/16 of 1 December 1998 concerning the consolidated balance sheet of the Monetary Financial Institutions sector¹, as last amended by Regulation ECB/2003/10².

In line with this Regulation, the balance sheet item “money market paper” has been merged with the item “debt securities” on both the assets and liabilities side of the MFI balance sheet.

Section 2.9 shows end-of-quarter outstanding amounts for the balance sheet of the euro area investment funds (other than money market funds). The balance sheet is aggregated and therefore includes, among the liabilities, holdings by investment funds of shares/units issued by other investment funds. Total assets/liabilities are also broken down by investment policy (equity funds, bond funds, mixed funds, real estate funds and other funds) and by type of investor (general public funds and special investors’ funds). Section 2.10 shows the aggregated balance sheet for each investment fund sector as identified by investment policy and type of investor.

FINANCIAL AND NON-FINANCIAL ACCOUNTS

Sections 3.1 and 3.2 show quarterly data on financial accounts for non-financial sectors in the euro area, comprising general government (S.13 in the ESA 95), non-financial

¹ OJ L 356, 30.12.1998, p. 7.

² OJ L 250, 2.10.2003, p. 19.

corporations (S.11 in the ESA 95), and households (S.14 in the ESA 95) including non-profit institutions serving households (S.15 in the ESA 95). The data cover non-seasonally adjusted amounts outstanding and financial transactions classified according to the ESA 95 and show the main financial investment and financing activities of the non-financial sectors. On the financing side (liabilities), the data are presented by ESA 95 sector and original maturity (“short-term” refers to an original maturity of up to one year; “long-term” refers to an original maturity of over one year). Whenever possible, the financing taken from MFIs is presented separately. The information on financial investment (assets) is currently less detailed than that on financing, especially since a breakdown by sector is not possible.

Section 3.3 shows quarterly data on financial accounts for insurance corporations and pension funds (S.125 in the ESA 95) in the euro area. As in Sections 3.1 and 3.2, the data cover non-seasonally adjusted amounts outstanding and financial transactions, and show the main financial investment and financing activities of this sector.

The quarterly data in these three sections are based on quarterly national financial accounts data and MFI balance sheet and securities issues statistics. Sections 3.1 and 3.2 also refer to data taken from the BIS international banking statistics. Although all euro area countries contribute to the MFI balance sheet and securities issues statistics, Ireland and Luxembourg do not yet provide quarterly national financial accounts data.

Section 3.4 shows annual data on saving, investment (financial and non-financial) and financing for the euro area as a whole, and separately for non-financial corporations and households. These annual data provide, in particular, fuller sectoral information on the acquisition of financial assets and are consistent with the quarterly data in the two previous sections.

FINANCIAL MARKETS

The series on financial market statistics for the euro area cover the EU Member States that had adopted the euro at the time to which the statistics relate.

Statistics on securities other than shares and quoted shares (Sections 4.1 to 4.4) are produced by the ECB using data from the ESCB and the BIS. Section 4.5 presents MFI interest rates on euro-denominated deposits and loans by euro area residents. Statistics on money market interest rates, long-term government bond yields and stock market indices (Sections 4.6 to 4.8) are produced by the ECB using data from wire services.

Statistics on securities issues cover securities other than shares (debt securities), which are presented in Sections 4.1, 4.2 and 4.3, and quoted shares, which are presented in Section 4.4. Debt securities are broken down into short-term and long-term securities. “Short-term” means securities with an original maturity of one year or less (in exceptional cases two years or less). Securities with a longer maturity, or with optional maturity dates, the latest of which is more than one year away, or with indefinite maturity dates, are classified as “long-term”. Long-term debt securities issued by euro area residents are further broken down into fixed and variable rate issues. Fixed rate issues consist of issues where the coupon rate does not change during the life of the issues. Variable rate issues include all issues where the coupon is periodically refixed by reference to an independent interest rate or index. The statistics on debt securities are estimated to cover approximately 95% of total issues by euro area residents. Euro-denominated securities indicated in Sections 4.1, 4.2 and 4.3 also include items expressed in national denominations of the euro.

Section 4.1 shows securities other than shares, by original maturity, residency of the issuer and currency. The section presents outstanding amounts, gross issues and net issues of

securities other than shares denominated in euro and securities other than shares issued by euro area residents in euro and in all currencies for total and long-term debt securities. Net issues differ from the changes in outstanding amounts owing to valuation changes, reclassifications and other adjustments. This section also presents seasonally adjusted statistics including annualised six-month seasonally adjusted growth rates for total and long-term debt securities. The latter are calculated from the seasonally adjusted index of notional stocks from which the seasonal effects have been removed. See the Technical notes for details.

Section 4.2 contains a sectoral breakdown of outstanding amounts, gross issues and net issues for issuers resident in the euro area in line with the ESA 95. The ECB is included in the Eurosystem.

The total outstanding amounts for total and long-term debt securities in column 1 of table 1 in Section 4.2, corresponds to the data on outstanding amounts for total and long-term debt securities issued by euro area residents in column 7 of Section 4.1. The outstanding amounts for total and long-term debt securities issued by MFIs in column 2 of table 1, Section 4.2 are broadly comparable with data for debt securities issued as shown on the liabilities side of the aggregated MFI balance sheet in column 8 of table 2, Section 2.1. The total net issues for total debt securities in column 1 of table 2 in Section 4.2 correspond to the data on total net issues by euro area residents in column 9 of Section 4.1. The residual difference between long-term debt securities and total fixed and variable rate long-term debt securities in table 1, Section 4.2 consists of zero coupon bonds and revaluation effects.

Section 4.3 shows non-seasonally and seasonally adjusted growth rates for debt securities issued by euro area residents (broken down by maturity, type of instrument, sector of the issuer and currency), which are based on financial transactions that occur when an

institutional unit incurs or redeems liabilities. The growth rates therefore exclude reclassifications, revaluations, exchange rate variations and any other changes which do not arise from transactions. The seasonally adjusted growth rates have been annualised for presentational purposes. See the Technical notes for details.

Section 4.4, columns 1, 4, 6 and 8, show the outstanding amounts of quoted shares issued by euro area residents broken down by issuing sector. The monthly data for quoted shares issued by non-financial corporations correspond to the quarterly series shown in Section 3.2 (main liabilities, column 21).

Section 4.4, columns 3, 5, 7 and 9, show annual growth rates for quoted shares issued by euro area residents (broken down by the sector of the issuer), which are based on financial transactions that occur when an issuer sells or redeems shares for cash excluding investments in the issuer's own shares. Transactions include the quotation of an issuer on a stock exchange for the first time and the creation or deletion of new instruments. The calculation of annual growth rates excludes reclassifications, revaluations and any other changes which do not arise from transactions.

Section 4.5 presents statistics on all the interest rates that MFIs resident in the euro area apply to euro-denominated deposits and loans vis-à-vis households and non-financial corporations resident in the euro area. Euro area MFI interest rates are calculated as a weighted average (by corresponding business volume) of the euro area countries' interest rates for each category.

MFI interest rate statistics are broken down by type of business coverage, sector, instrument category and maturity, period of notice or initial period of interest rate fixation. The new MFI interest rate statistics replace the ten transitional statistical series on euro area retail interest rates that have been published in the ECB's Monthly Bulletin since January 1999.

Section 4.6 presents money market interest rates for the euro area, the United States and Japan. For the euro area, a broad spectrum of money market interest rates is covered spanning from interest rates on overnight deposits to those on twelve-month deposits. Before January 1999 synthetic euro area interest rates were calculated on the basis of national rates weighted by GDP. With the exception of the overnight rate to December 1998, monthly, quarterly and yearly values are period averages. Overnight deposits are represented by interbank deposit bid rates up to December 1998. From January 1999 column 1 of Section 4.6 shows the euro overnight index average (EONIA). These are end-of-period rates up to December 1998 and period averages thereafter. From January 1999 interest rates on one-, three-, six- and twelve-month deposits are euro interbank offered rates (EURIBOR); until December 1998, London interbank offered rates (LIBOR) where available. For the United States and Japan, interest rates on three-month deposits are represented by LIBOR.

Section 4.7 presents government bond yields for the euro area, the United States and Japan. Until December 1998, two-, three-, five- and seven-year euro area yields were end-of-period values and ten-year yields period averages. Thereafter, all yields are period averages. Until December 1998, euro area yields were calculated on the basis of harmonised national government bond yields weighted by GDP; thereafter, the weights are the nominal outstanding amounts of government bonds in each maturity band. For the United States and Japan, ten-year yields are period averages.

Section 4.8 shows stock market indices for the euro area, the United States and Japan.

PRICES, OUTPUT, DEMAND AND LABOUR MARKETS

Most of the data described in this section are produced by the European Commission (mainly Eurostat) and national statistical authorities.

Euro area results are obtained by aggregating data for individual countries. As far as possible, the data are harmonised and comparable. Statistics on hourly labour costs, GDP and expenditure components, value added by economic activity, industrial production, retail sales and passenger car registrations are adjusted for the variations in the number of working days.

The Harmonised Index of Consumer Prices (HICP) for the euro area (Section 5.1) is available from 1995 onwards. It is based on national HICPs, which follow the same methodology in all euro area countries. The breakdown by goods and services components is derived from the Classification of individual consumption by purpose (Coicop/HICP). The HICP covers monetary expenditure on final consumption by households on the economic territory of the euro area. The table includes seasonally adjusted HICP data which are compiled by the ECB.

Industrial producer prices (Table 2 in Section 5.1), industrial production, industrial new orders, industrial turnover and retail sales (Section 5.2) are covered by Council Regulation (EC) No 1165/98 of 19 May 1998 concerning short-term statistics³. The breakdown by end-use of products for industrial producer prices and industrial production is the harmonised sub-division of industry excluding construction (NACE sections C to E) into Main Industrial Groupings (MIGs) as defined by Commission Regulation (EC) No 586/2001 of 26 March 2001⁴. Industrial producer prices reflect the ex-factory gate prices of producers. They include indirect taxes except VAT and other deductible taxes. Industrial production reflects the value added of the industries concerned.

World market prices of raw materials (Table 2 in Section 5.1) measures price changes of euro-denominated euro area imports compared with the base period.

3 OJ L 162, 5.6.1998, p. 1.

4 OJ L 86, 27.3.2001, p. 11.

The labour cost indices (Table 3 in Section 5.1) measure the changes in labour costs per hour worked in industry (including construction) and market services. Their methodology is laid down in Regulation (EC) No 450/2003 of the European Parliament and of the Council of 27 February 2003 concerning the labour cost index⁵ and in the implementing Commission Regulation (EC) No 1216/2003 of 7 July 2003⁶. A breakdown of hourly labour costs for the euro area is available by labour cost component (wages and salaries, and employers' social contributions plus employment-related taxes paid by the employer less subsidies received by the employer) and by economic activity. The ECB calculates the indicator of negotiated wages (memo item in Table 3 of Section 5.1) on the basis of non-harmonised, national-definition data.

Unit labour cost components (Table 4 in Section 5.1), GDP and its components (Tables 1 and 2 in Section 5.2), GDP deflators (Table 5 in Section 5.1) and employment statistics (Table 1 in Section 5.3) are results of the ESA 95 quarterly national accounts.

Industrial new orders (Table 4 in Section 5.2) measure the orders received during the reference period and cover industries working mainly on the basis of orders – in particular textile, pulp and paper, chemical, metal, capital goods and durable consumer goods industries. The data are calculated on the basis of current prices.

Indices for turnover in industry and for the retail trade (Table 4 in Section 5.2) measure the turnover, including all duties and taxes with the exception of VAT, invoiced during the reference period. Retail trade turnover covers all retail trade excluding sales of motor vehicles and motorcycles, and except repairs. New passenger car registrations covers registrations of both private and commercial passenger cars.

Qualitative business and consumer survey data (Table 5 in Section 5.2) draw on the European Commission Business and Consumer Surveys.

Unemployment rates (Table 2 in Section 5.3) conform to International Labour Organisation (ILO) guidelines. They refer to persons actively seeking work as a share of the labour force, using harmonised criteria and definitions. The labour force estimates underlying the unemployment rate are different from the sum of the employment and unemployment levels published in Section 5.3.

GOVERNMENT FINANCE

Sections 6.1 to 6.5 show the general government fiscal position in the euro area. The data are mainly consolidated and are based on the ESA 95 methodology. The annual euro area aggregates in Sections 6.1 to 6.3 are compiled by the ECB from harmonised data provided by the NCBs, which are regularly updated. The deficit and debt data for the euro area countries may therefore differ from those used by the European Commission within the excessive deficit procedure. The quarterly euro area aggregates in Sections 6.4 and 6.5 are compiled by the ECB on the basis of Eurostat and national data.

Section 6.1 presents annual figures on general government revenue and expenditure on the basis of definitions laid down in Commission Regulation (EC) No 1500/2000 of 10 July 2000⁷ amending the ESA 95. Section 6.2 shows details of general government gross consolidated debt at nominal value in line with the Treaty provisions on the excessive deficit procedure. Sections 6.1 and 6.2 include summary data for the individual euro area countries owing to their importance in the framework of the Stability and Growth Pact. The deficits/surpluses presented for the individual euro area countries correspond to EDP B.9 as defined by Commission Regulation (EC) No 351/2002 of 25 February 2002

5 OJL 69, 13.3.2003, p. 1.

6 OJL 169, 8.7.2003, p. 37.

7 OJL 172, 12.7.2000, p. 3.

amending Council Regulation (EC) No 3605/93 as regards references to the ESA 95. Section 6.3 presents changes in general government debt. The difference between the change in the government debt and the government deficit – the deficit-debt adjustment – is mainly explained by government transactions in financial assets and by foreign exchange valuation effects. Section 6.4 presents quarterly figures on general government revenue and expenditure on the basis of definitions laid down in the Regulation (EC) No 1221/2002 of the European Parliament and of the Council of 10 June 2002⁸ on quarterly non-financial accounts for general government. Section 6.5 presents quarterly figures on gross consolidated government debt, the deficit-debt adjustment and the government borrowing requirement. These figures are compiled using data provided by the Member States under Regulations (EC) No 501/2004 and 1222/2004 and data provided by the National Central Banks.

EXTERNAL TRANSACTIONS AND POSITIONS

The concepts and definitions used in balance of payments (b.o.p.) and international investment position (i.i.p.) statistics (Sections 7.1 to 7.4) are generally in line with the IMF Balance of Payments Manual (fifth edition, October 1993), the ECB Guideline of 16 July 2004 on the statistical reporting requirements of the ECB (ECB/2004/15)⁹, and Eurostat documents. Additional references about the methodologies and sources used in the euro area b.o.p. and i.i.p. statistics can be found in the ECB publication entitled “European Union balance of payments/international investment position statistical methods” (November 2004), and in the following task force reports: “Portfolio investment collection systems” (June 2002), “Portfolio investment income” (August 2003) and “Foreign direct investment” (March 2004), which can be downloaded from the ECB’s website. In addition, the report of the ECB/Commission (Eurostat) Task Force on Quality of balance of payments and international

investment position statistics (June 2004) is available on the website of the Committee on Monetary, Financial and Balance of Payments Statistics (www.cmfb.org). The first annual quality report on the euro area b.o.p./i.i.p. (January 2005), which is based on the Task Force’s recommendations, is available on the ECB’s website.

The presentation of net transactions in the financial account follows the sign convention of the IMF Balance of Payments Manual: an increase of assets appears with a minus sign, while an increase of liabilities appears with a plus sign. In the current account and capital account, both credit and debit transactions are presented with a plus sign.

The euro area b.o.p. is compiled by the ECB. The recent monthly figures should be regarded as provisional. Data are revised when figures for the following month and/or the detailed quarterly b.o.p. are published. Earlier data are revised periodically or as a result of methodological changes in the compilation of the source data.

In Section 7.1, Table 2 contains seasonally adjusted data for the current account. Where appropriate, the adjustment covers also working-day, leap year and/or Easter effects. Table 5 provides a sectoral breakdown of euro area purchasers of securities issued by non-residents of the euro area. It is not yet possible to show a sectoral breakdown of euro area issuers of securities acquired by non-residents. In Tables 6 and 7 the breakdown between “loans” and “currency and deposits” is based on the sector of the non-resident counterpart, i.e. assets vis-à-vis non-resident banks are classified as deposits, whereas assets vis-à-vis other non-resident sectors are classified as loans. This breakdown follows the distinction made in other statistics, such as the MFI consolidated balance sheet, and conforms to the IMF Balance of Payments Manual.

⁸ OJ L 179, 9.7.2002, p. 1.

⁹ OJ L 354, 30.11.2004, p. 34.

Section 7.2 contains a monetary presentation of the b.o.p.: the b.o.p. transactions mirroring the transactions in the external counterpart of M3. The data follow the sign conventions of the b.o.p., except for the transactions in the external counterpart of M3 taken from money and banking statistics (column 12), where a positive sign denotes an increase of assets or a decrease of liabilities. In portfolio investment liabilities (columns 5 and 6), the b.o.p. transactions include sales and purchases of equity and debt securities issued by MFIs in the euro area, apart from shares of money market funds and debt securities with a maturity of up to two years. A methodological note on the monetary presentation of the euro area b.o.p. is available in the “Statistics” section of the ECB’s website. See also Box 1 in the June 2003 issue of the Monthly Bulletin.

Section 7.3 presents a geographical breakdown of the euro area b.o.p. (Tables 1 to 4) and i.i.p. (Table 5) vis-à-vis main partner countries individually or as a group, distinguishing between EU Member States outside the euro area and countries or areas outside the European Union. The breakdown also shows transactions and positions vis-à-vis EU institutions (which, apart from the ECB, are treated statistically as outside the euro area, regardless of their physical location) and for some purposes also offshore centres and international organisations. Tables 1 to 4 show cumulative b.o.p. transactions in the latest four quarters; Table 5 shows a geographical breakdown of the i.i.p. for the latest end-year. The breakdown does not cover transactions or positions in portfolio investment liabilities, financial derivatives and international reserves. The geographical breakdown is described in the article entitled “Euro area balance of payments and international investment position vis-à-vis main counterparts” in the February 2005 issue of the Monthly Bulletin.

The data on the euro area i.i.p. in Section 7.4 are based on positions vis-à-vis non-residents of the euro area, considering the euro area as a single economic entity (see also Box 9 in the

December 2002 issue of the Monthly Bulletin). The i.i.p. is valued at current market prices, with the exception of direct investment, where book values are used to a large extent. The quarterly i.i.p. is compiled on the basis of the same methodological framework as the annual i.i.p. As some data sources are not available on a quarterly basis (or are available with a delay), the quarterly i.i.p. is partly estimated on the basis of financial transactions and asset prices and foreign exchange developments.

The outstanding amounts of the Eurosystem’s international reserves and related assets and liabilities are shown in Section 7.4, Table 5, together with the part held by the ECB. These figures are not fully comparable with those of the Eurosystem’s weekly financial statement owing to differences in coverage and valuation. The data in Table 5 are in line with the recommendations for the IMF/BIS template on international reserves and foreign currency liquidity. Changes in the gold holdings of the Eurosystem (column 3) are due to transactions in gold within the terms of the Central Bank Gold Agreement of 26 September 1999, updated on 8 March 2004. More information on the statistical treatment of the Eurosystem’s international reserves can be found in a publication entitled “Statistical treatment of the Eurosystem’s international reserves” (October 2000), which can be downloaded from the ECB’s website. The website also contains more comprehensive data in accordance with the template on international reserves and foreign currency liquidity.

Section 7.5 shows data on euro area external trade in goods. The main source is Eurostat. The ECB derives volume indices from Eurostat value and unit value indices, and performs seasonal adjustment of unit value indices, while value data are seasonally and working-day adjusted by Eurostat.

The breakdown by product group in columns 4 to 6 and 9 to 11 of Table 1 in Section 7.5 is in line with the classification by Broad Economic Categories. Manufactured goods (columns 7

and 12) and oil (column 13) are in line with the SITC Rev. 3 definition. The geographical breakdown (Table 2 in Section 7.5) shows main trading partners individually or in regional groups. Mainland China excludes Hong Kong.

Owing to differences in definitions, classification, coverage and time of recording, external trade data, in particular for imports, are not fully comparable with the goods item in the balance of payments statistics (Sections 7.1 to 7.3). The difference for imports has been around 5% in recent years (ECB estimate), a significant part of which relates to the inclusion of insurance and freight services in the external trade data (c.i.f. basis).

EXCHANGE RATES

Section 8.1 shows nominal and real effective exchange rate (EER) indices for the euro calculated by the ECB on the basis of weighted averages of bilateral exchange rates of the euro against the currencies of the euro area's trading partners. A positive change denotes an appreciation of the euro. Weights are based on trade in manufactured goods with the trading partners in the periods 1995-1997 and 1999-2001, and are calculated to account for third-market effects. The EER indices result from the linking at the beginning of 1999 of the indices based on 1995-1997 weights to those based on 1999-2001 weights. The EER-23 group of trading partners is composed of the 13 non-euro area EU Member States, Australia, Canada, China, Hong Kong, Japan, Norway, Singapore, South Korea, Switzerland and the United States. The EER-42 group includes, in addition to the EER-23, the following countries: Algeria, Argentina, Brazil, Bulgaria, Croatia, India, Indonesia, Israel, Malaysia, Mexico, Morocco, New Zealand, the Philippines, Romania, Russia, South Africa, Taiwan, Thailand and Turkey. Real EERs are calculated using consumer price indices, producer price indices, gross domestic product deflators, unit labour costs in manufacturing and unit labour costs in the total economy.

For more detailed information on the calculation of the EERs, see Box 10 entitled "Update of the overall trade weights for the effective exchange rates of the euro and computation of a new set of euro indicators" in the September 2004 issue of the Monthly Bulletin and the ECB's Occasional Paper No 2 ("The effective exchange rates of the euro" by Luca Buldorini, Stelios Makrydakis and Christian Thimann, February 2002), which can be downloaded from the ECB's website.

The bilateral rates shown in Section 8.2 are monthly averages of those published daily as reference rates for these currencies.

DEVELOPMENTS OUTSIDE THE EURO AREA

Statistics on other EU Member States (Section 9.1) follow the same principles as those for data relating to the euro area. Data for the United States and Japan contained in Section 9.2 are obtained from national sources.

ANNEXES

CHRONOLOGY OF MONETARY POLICY MEASURES OF THE EUROSYSTEM¹



9 JANUARY 2003

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.75%, 3.75% and 1.75% respectively.

23 JANUARY 2003

The Governing Council of the ECB decides to implement the following two measures to improve the operational framework for monetary policy:

First, the timing of the reserve maintenance period will be changed so that it will always start on the settlement day of the main refinancing operation (MRO) following the Governing Council meeting at which the monthly assessment of the monetary policy stance is pre-scheduled. Furthermore, as a rule, the implementation of changes to the standing facility rates will be aligned with the start of the new reserve maintenance period.

Second, the maturity of the MROs will be shortened from two weeks to one week.

These measures are scheduled to come into effect during the first quarter of 2004.

Further to the press release of 10 July 2002, the Governing Council also decides to maintain at €15 billion the allotment amount for each of the longer-term refinancing operations to be conducted in the year 2003. This amount takes into consideration the expected liquidity needs of the euro area banking system in 2003 and reflects the desire of the Eurosystem to continue to provide the bulk of liquidity through its main refinancing operations.

6 FEBRUARY 2003

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.75%, 3.75% and 1.75% respectively.

6 MARCH 2003

The Governing Council of the ECB decides to lower the minimum bid rate on the main refinancing operations by 0.25 percentage point to 2.50%, starting from the operation to be settled on 12 March 2003. It also decides to lower the interest rates on both the marginal lending facility and the deposit facility by 0.25 percentage point, to 3.50% and 1.50% respectively, both with effect from 7 March 2003.

3 APRIL 2003

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.50%, 3.50% and 1.50% respectively.

8 MAY 2003

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.50%, 3.50% and 1.50% respectively.

¹ The chronology of monetary policy measures of the Eurosystem taken between 1999 and 2002 can be found on pages 176 to 180 of the ECB's Annual Report 1999, on pages 205 to 208 of the ECB's Annual Report 2000, on pages 219 to 220 of the ECB's Annual Report 2001 and on pages 234 to 235 of the ECB's Annual Report 2002 respectively.

It also announces the results of its evaluation of the ECB's monetary policy strategy. This strategy, which was announced on 13 October 1998, consists of three main elements: a quantitative definition of price stability, a prominent role for money in the assessment of risks to price stability, and a broadly based assessment of the outlook for price developments.

The Governing Council confirms the definition of price stability formulated in October 1998, namely that "price stability is defined as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%. Price stability is to be maintained over the medium term". At the same time, the Governing Council agrees that in the pursuit of price stability it will aim to maintain inflation rates close to 2% over the medium term.

The Governing Council confirms that its monetary policy decisions will continue to be based on a comprehensive analysis of the risks to price stability. At the same time, the Governing Council decides to clarify in its communication the respective roles played by economic and monetary analysis in the process of coming to the Council's overall assessment of risks to price stability.

To underscore the longer-term nature of the reference value for monetary growth as a benchmark for the assessment of monetary developments, the Governing Council also decides that it will no longer conduct a review of the reference value on an annual basis. However, it will continue to assess the underlying conditions and assumptions.

5 JUNE 2003

The Governing Council of the ECB decides to lower the minimum bid rate on the main refinancing operations by 0.50 percentage

point to 2.0%, starting from the operation to be settled on 9 June 2003. It also decides to lower the interest rates on both the marginal lending facility and the deposit facility by 0.50 percentage point, to 3.0% and 1.0% respectively, both with effect from 6 June 2003.

10 JULY, 31 JULY, 4 SEPTEMBER, 2 OCTOBER, 6 NOVEMBER, 4 DECEMBER 2003 AND 8 JANUARY 2004

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.0%, 3.0% and 1.0% respectively.

12 JANUARY 2004

The Governing Council of the ECB decides to increase the allotment amount for each of the longer-term refinancing operations to be conducted in the year 2004 from €15 billion to €25 billion. This increased amount takes into consideration the higher liquidity needs of the euro area banking system anticipated for the year 2004. The Eurosystem will, however, continue to provide the bulk of liquidity through its main refinancing operations. The Governing Council may decide to adjust the allotment amount again at the beginning of 2005.

5 FEBRUARY, 4 MARCH 2004

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.0%, 3.0% and 1.0% respectively.

10 MARCH 2004

In accordance with the Governing Council's decision of 23 January 2003, the maturity of the Eurosystem's main refinancing operations is reduced from two weeks to one week and the maintenance period for the Eurosystem's required reserve system is redefined to start on the settlement day of the main refinancing operation following the Governing Council meeting at which the monthly assessment of the monetary policy stance is pre-scheduled, rather than on the 24th day of the month.

**1 APRIL, 6 MAY, 3 JUNE, 1 JULY,
5 AUGUST, 2 SEPTEMBER, 7 OCTOBER,
4 NOVEMBER, 2 DECEMBER 2004 AND
13 JANUARY 2005**

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.0%, 3.0% and 1.0% respectively.

14 JANUARY 2005

The Governing Council of the ECB decides to increase the allotment amount for each of the longer-term refinancing operations to be conducted in the year 2005 from €25 billion to €30 billion. This increased amount takes into consideration the higher liquidity needs of the euro area banking system anticipated in 2005. The Eurosystem will however continue to provide the bulk of liquidity through its main refinancing operations. The Governing Council may decide to adjust the allotment amount again at the beginning of 2006.

**3 FEBRUARY, 3 MARCH, 7 APRIL,
4 MAY, 2 JUNE, 7 JULY, 4 AUGUST,
1 SEPTEMBER, 6 OCTOBER AND
3 NOVEMBER 2005**

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 2.0%, 3.0% and 1.0% respectively.





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GLOSSARY

This glossary contains selected items that are frequently used in the Monthly Bulletin. A more comprehensive and detailed glossary can be found on the ECB's website (www.ecb.int/home/glossary/html/index.en.html).

Autonomous liquidity factors: liquidity factors that do not normally stem from the use of monetary policy instruments. Such factors are, for example, banknotes in circulation, government deposits with the central bank and the net foreign assets of the central bank.

Bank lending survey: a quarterly survey on lending policies that has been conducted by the Eurosystem since January 2003. It addresses qualitative questions on developments in credit standards, terms and conditions of loans and loan demand for both enterprises and households to a predefined sample group of banks in the euro area.

Central parity: the exchange rate of each ERM II member currency vis-à-vis the euro, around which the ERM II fluctuation margins are defined.

Compensation per employee: the total remuneration, in cash or in kind, that is payable by employers to employees, i.e. gross wages and salaries, as well as bonuses, overtime payments and employers' social security contributions, divided by the total number of employees.

Consolidated balance sheet of the MFI sector: a balance sheet obtained by netting out inter-MFI positions (e.g. inter-MFI loans and deposits) in the aggregated MFI balance sheet. It provides statistical information on the MFI sector's assets and liabilities vis-à-vis residents of the euro area not belonging to this sector (i.e. general government and other euro area residents) and vis-à-vis non-euro area residents. It is the main statistical source for the calculation of monetary aggregates, and it provides the basis for the regular analysis of the counterparts of M3.

Debt (financial accounts): loans, deposit liabilities, debt securities issued and pension fund reserves of non-financial corporations (resulting from employers' direct pension commitments on behalf of their employees), valued at market value at the end of the period. However, due to data limitations, the debt given in the quarterly financial accounts does not include loans granted by non-financial sectors (e.g. inter-company loans) or by banks outside the euro area, whereas these components are included in the annual financial accounts.

Debt (general government): the total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government.

Debt security: a promise on the part of the issuer (i.e. the borrower) to make one or more payment(s) to the holder (the lender) at a specified future date or dates. Such securities usually carry a specific rate of interest (the coupon) and/or are sold at a discount to the amount that will be repaid at maturity. Debt securities issued with an original maturity of more than one year are classified as long-term.

Debt-to-GDP ratio (general government): the ratio of general government debt to GDP at current market prices. It is the subject of one of the fiscal criteria laid down in Article 104 (2) of the Treaty establishing the European Community to define the existence of an excessive deficit.

Deficit (general government): the general government's net borrowing, i.e. the difference between total government revenue and total government expenditure.

Deficit ratio (general government): the ratio of the general government deficit to GDP at current market prices. It is the subject of one of the fiscal criteria laid down in Article 104 (2) of the Treaty establishing the European Community to define the existence of an excessive deficit. It is also referred to as the budget deficit ratio or the fiscal deficit ratio.

Deposit facility: a standing facility of the Eurosystem which counterparties may use to make overnight deposits, remunerated at a pre-specified interest rate, at a national central bank.

Direct investment: cross-border investment for the purpose of obtaining a lasting interest in an enterprise resident in another economy (assumed, in practice, for ownership of at least 10% of the ordinary shares or voting power). Included are equity capital, reinvested earnings and other capital associated with inter-company operations. The direct investment account records net transactions/positions in assets abroad by euro area residents (as "direct investment abroad") and net transactions/positions in euro area assets by non-residents (as "direct investment in the euro area").

Effective exchange rates (EERs) of the euro (nominal/real): weighted averages of bilateral euro exchange rates against the currencies of the euro area's main trading partners. The ECB publishes nominal EER indices for the euro against two groups of trading partners: the EER-23 (comprising the 13 non-euro area EU Member States and the 10 main trading partners outside the EU) and the EER-42 (composed of the EER-23 and 19 additional countries). The weights used reflect the share of each partner country in euro area trade and account for competition in third markets. Real EERs are nominal EERs deflated by a weighted average of foreign, relative to domestic, prices or costs. They are thus measures of price and cost competitiveness.

EONIA (euro overnight index average): a measure of the effective interest rate prevailing in the euro interbank overnight market. It is calculated as a weighted average of the interest rates on unsecured overnight lending transactions denominated in euro, as reported by a panel of contributing banks.

Equities: securities representing ownership of a stake in a corporation. They comprise shares traded on stock exchanges (quoted shares), unquoted shares and other forms of equity. Equities usually produce income in the form of dividends.

ERM II (exchange rate mechanism II): the exchange rate arrangement that provides the framework for exchange rate policy cooperation between the euro area countries and the EU Member States not participating in Stage Three of EMU.

EURIBOR (euro interbank offered rate): the rate at which a prime bank is willing to lend funds in euro to another prime bank, computed daily for interbank deposits with different maturities of up to 12 months.

European Commission surveys: harmonised surveys of business and/or consumer sentiment conducted on behalf of the European Commission in each of the EU Member States. Such questionnaire-based surveys are addressed to managers in the manufacturing, construction,

retail and services sectors, as well as to consumers. From each monthly survey, composite indicators are calculated that summarise the replies to a number of different questions in a single indicator (confidence indicators).

Eurozone Purchasing Managers' Surveys: surveys of business conditions in manufacturing and in services industries conducted for a number of countries in the euro area and used to compile indices. The Eurozone Manufacturing Purchasing Managers' Index (PMI) is a weighted indicator calculated from indices of output, new orders, employment, suppliers' delivery times and stocks of purchases. The services sector survey asks questions on business activity, expectations of future business activity, the amount of business outstanding, incoming new business, employment, input prices and prices charged. The Eurozone Composite Index is calculated by combining the results from the manufacturing and services sector surveys.

External trade in goods: exports and imports of goods with countries outside the euro area, measured in terms of value and as indices of volume and unit value. External trade statistics are not comparable with the exports and imports recorded in the national accounts, as the latter include both intra-euro area and extra-euro area transactions, and also combine goods and services. Nor are they fully comparable with the goods item in b.o.p. statistics. Besides methodological adjustments, the main difference is to be found in the fact that imports in external trade statistics are recorded including insurance and freight services, whereas they are recorded free on board in the goods item in the b.o.p. statistics.

Fixed rate tender: a tender procedure in which the interest rate is specified in advance by the central bank and in which participating counterparties bid the amount of money they wish to transact at the fixed interest rate.

General government: a sector defined in the ESA 95 as comprising resident entities that are engaged primarily in the production of non-market goods and services intended for individual and collective consumption and/or in the redistribution of national income and wealth. Included are central, regional and local government authorities as well as social security funds. Excluded are government-owned entities that conduct commercial operations, such as public enterprises.

Gross domestic product (GDP): the value of an economy's total output of goods and services less intermediate consumption, plus net taxes on products and imports. GDP can be broken down by output, expenditure or income components. The main expenditure aggregates that make up GDP are household final consumption, government final consumption, gross fixed capital formation, changes in inventories, and imports and exports of goods and services (including intra-euro area trade).

Gross monthly earnings: gross monthly wages and salaries of employees, including employees' social security contributions.

Harmonised Index of Consumer Prices (HICP): a measure of consumer prices that is compiled by Eurostat and harmonised for all EU Member States.

Hourly labour cost index: a measure of labour costs, including gross wages and salaries (as well as bonuses of all kinds), employers' social security contributions and other labour costs (such as vocational training costs, recruitment costs and employment-related taxes), net of subsidies, per hour actually worked. Hourly costs are obtained by dividing the sum total of these costs for all employees by the sum total of all hours worked by them (including overtime).

Implied volatility: a measure of expected volatility (standard deviation in terms of annualised percentage changes) in the prices of, for example, bonds and stocks (or of corresponding futures contracts), which can be extracted from option prices.

Index of negotiated wages: a measure of the direct outcome of collective bargaining in terms of basic pay (i.e. excluding bonuses) at the euro area level. It refers to the implied average change in monthly wages and salaries.

Industrial producer prices: factory-gate prices (transportation costs are not included) of all products sold by industry excluding construction on the domestic markets of the euro area countries, excluding imports.

Industrial production: the gross value added created by industry at constant prices.

Inflation-indexed government bonds: debt securities issued by the general government, the coupon payments and principal of which are linked to a specific consumer price index.

International investment position (i.i.p.): the value and composition of an economy's outstanding net financial claims on (or financial liabilities to) the rest of the world.

Job vacancies: a collective term covering newly created jobs, unoccupied jobs or jobs about to become vacant in the near future, for which the employer has taken recent active steps to find a suitable candidate.

Key ECB interest rates: the interest rates, set by the Governing Council, which reflect the monetary policy stance of the ECB. They are the minimum bid rate on the main refinancing operations, the interest rate on the marginal lending facility and the interest rate on the deposit facility.

Labour force: the sum total of persons in employment and the number of unemployed.

Labour productivity: the output that can be produced with a given input of labour. It can be measured in several ways, but is commonly measured as GDP at constant prices divided by either total employment or total hours worked.

Longer-term refinancing operation: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a monthly standard tender and normally have a maturity of three months.

M1: a narrow monetary aggregate that comprises currency in circulation plus overnight deposits held with MFIs and central government (e.g. at the post office or treasury).

M2: an intermediate monetary aggregate that comprises M1 plus deposits redeemable at a period of notice of up to and including three months (i.e. short-term savings deposits) and deposits with an agreed maturity of up to and including two years (i.e. short-term time deposits) held with MFIs and central government.

M3: a broad monetary aggregate that comprises M2 plus marketable instruments, in particular repurchase agreements, money market fund shares and units, and debt securities with a maturity of up to and including two years issued by MFIs.

Main refinancing operation: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a weekly standard tender and normally have a maturity of one week.

Marginal lending facility: a standing facility of the Eurosystem which counterparties may use to receive overnight credit from a national central bank at a pre-specified interest rate against eligible assets.

MFI credit to euro area residents: MFI loans granted to non-MFI euro area residents (including the general government and the private sector) and MFI holdings of securities (shares, other equity and debt securities) issued by non-MFI euro area residents.

MFI interest rates: the interest rates that are applied by resident credit institutions and other MFIs, excluding central banks and money market funds, to euro-denominated deposits and loans vis-à-vis households and non-financial corporations resident in the euro area.

MFI longer-term financial liabilities: deposits with an agreed maturity of over two years, deposits redeemable at a period of notice of over three months, debt securities issued by euro area MFIs with an original maturity of more than two years and the capital and reserves of the euro area MFI sector.

MFI net external assets: the external assets of the euro area MFI sector (such as gold, foreign currency banknotes and coins, securities issued by non-euro area residents and loans granted to non-euro area residents) minus the external liabilities of the euro area MFI sector (such as non-euro area residents' deposits and repurchase agreements, as well as their holdings of money market fund shares/units and debt securities issued by MFIs with a maturity of up to and including two years).

MFIs (monetary financial institutions): financial institutions which together form the money-issuing sector of the euro area. These include the Eurosystem, resident credit institutions (as defined in Community law) and all other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credit and/or invest in securities. The latter group consists predominantly of money market funds.

Portfolio investment: euro area residents' net transactions and/or positions in securities issued by non-residents of the euro area ("assets") and non-residents' net transactions and/or positions in securities issued by euro area residents ("liabilities"). Included are equity securities and debt securities (bonds and notes, and money market instruments). Transactions are recorded at the effective price paid or received, less commissions and expenses. To be regarded as a portfolio asset, ownership in an enterprise must be equivalent to less than 10% of the ordinary shares or voting power.

Price stability: the maintenance of price stability is the primary objective of the Eurosystem. The Governing Council defines price stability as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%. The Governing Council has also made it clear that, in the pursuit of price stability, it aims to maintain inflation rates below, but close to, 2% over the medium term.

Reference value for M3 growth: the annual growth rate of M3 over the medium term that is consistent with the maintenance of price stability. At present, the reference value for annual M3 growth is 4½%.

Reserve requirement: the minimum amount of reserves a credit institution is required to hold with the Eurosystem. Compliance is determined on the basis of the average of the daily balances over a maintenance period of around one month.

Survey of Professional Forecasters (SPF): a quarterly survey that has been conducted by the ECB since 1999 to collect macroeconomic forecasts on euro area inflation, real GDP growth and unemployment from a panel of experts affiliated to financial and non-financial organisations based in the EU.

Unit labour costs: a measure of total labour costs per unit of output calculated for the euro area as the ratio of total compensation per employee to GDP at constant prices per person employed.

Variable rate tender: a tender procedure where the counterparties bid both the amount of money they wish to transact with the central bank and the interest rate at which they wish to enter into the transaction.

Yield curve: a curve describing the relationship between the interest rate or yield and the maturity at a given point in time for debt securities with the same credit risk but different maturity dates. The slope of the yield curve can be measured as the difference between the interest rates at two selected maturities.

