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ABBREVIATIONS

COUNTRIES

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

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
HWWI	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
OECD	Organisation for Economic Co-operation and Development
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

On the basis of its regular economic and monetary analyses, the Governing Council decided at its meeting on 10 May 2007 to leave the key ECB interest rates unchanged. The information that has become available since the meeting of the Governing Council on 12 April has further underpinned the reasoning behind its decision to increase interest rates at the meeting on 8 March. Strong vigilance is of the essence in order to ensure that risks to price stability over the medium term do not materialise. In turn, this will contribute to ensuring that medium to longer-term inflation expectations in the euro area remain solidly anchored at levels consistent with price stability. Such anchoring is a prerequisite for monetary policy to make an ongoing contribution towards supporting sustainable economic growth and job creation in the euro area. Given the favourable economic environment, the ECB's monetary policy continues to be on the accommodative side, with the key ECB interest rates moderate, money and credit growth vigorous, and liquidity in the euro area ample by all plausible measures. Therefore, looking ahead, acting in a firm and timely manner to ensure price stability in the medium term is warranted.

Turning first to the economic analysis, the latest indicators and survey data confirm that the expansion of economic activity continued in the first quarter of 2007 and remains solid and broad-based. Looking ahead, the medium-term outlook for economic growth in the euro area continues to be favourable. Conditions are in place for the ongoing expansion to proceed at sustained rates. Global economic growth has become more balanced across regions and, while moderating somewhat in recent quarters, remains strong. External conditions thus continue to provide support for euro area exports. Domestic demand in the euro area is also expected to maintain its momentum. Investment should remain dynamic, benefiting from an extended period of favourable financing conditions, balance sheet restructuring, strong corporate earnings and gains in business efficiency. Consumption should also strengthen

further over time, in line with developments in real disposable income, increasingly supported by employment growth and improving labour market conditions.

The risks surrounding this favourable outlook for economic growth are broadly balanced over the shorter term. At longer horizons, the balance of risks remains on the downside, stemming mainly from external factors. Such factors include fears of a rise in protectionist pressures, the possibility of further increases in oil prices and concerns about possible disorderly developments due to global imbalances.

With regard to price developments, according to Eurostat's flash estimate, annual HICP inflation was 1.8% in April 2007, after 1.9% in March. Looking at the coming months, barring further increases in oil prices, significant base effects deriving from last year's energy price volatility will strongly influence the profile of annual inflation rates. On the basis of the current level of oil prices and oil price futures, annual inflation rates are likely to fall somewhat in the months to come, before rising again towards the end of the year to hover at levels around 2%.

Over the policy-relevant medium-term horizon, the outlook for price developments remains subject to upside risks. These relate notably to the increasing capacity utilisation in the euro area economy, the possibility of further oil price rises and additional increases in administered prices and indirect taxes beyond those announced and decided thus far. More fundamentally, stronger than currently expected wage developments could pose significant upward risks to price stability, not least in view of the favourable momentum in labour markets observed over the past few quarters. The Governing Council is monitoring wage negotiations in the euro area countries with particular attention. It is crucial that the social partners meet their responsibilities so as to continue to avoid wage developments that would eventually lead to inflationary pressures and harm the purchasing power of all euro area

citizens. In this context, it is also important to point out that wage agreements should be sufficiently differentiated and take into account price competitiveness positions, the still high level of unemployment in many economies and productivity developments across sectors.

The monetary analysis confirms the prevailing upside risks to price stability at medium to longer horizons. The underlying rate of monetary expansion remains strong, in a context of already ample liquidity. The ongoing strength of monetary expansion is reflected in the increasingly rapid growth of M3, which in March reached an annual rate of 10.9%, as well as in the ongoing high levels of credit growth. Monetary and credit expansion is due partly to the moderate level of interest rates and solid economic growth. Short-term monetary and credit developments can be affected, *inter alia*, by the shape of the yield curve and external factors, and be subject to some degree of volatility. Looking through such transitory aspects, there are, however, several indications that higher short-term interest rates are influencing monetary dynamics, although they have not, as yet, significantly dampened the overall strength of these dynamics. For example, increases in short-term rates have served to moderate the expansion of the narrow aggregate, M1, in recent quarters, but its annual growth is still robust. Equally, the annual growth rate of loans to the private sector has shown some signs of stabilising since mid-2006, albeit at double-digit levels.

All in all, taking into account both short-term factors and the underlying trend of the continued vigorous expansion of money and credit, there are clear indications of upside risks to price stability at medium to longer-term horizons. In fact, following several years of robust monetary growth, the liquidity situation in the euro area is ample by all plausible measures. In this environment, monetary developments continue to require very careful monitoring, particularly against the background of a solid expansion in economic activity and still strong property market developments.

To sum up, in assessing price trends it is important to look beyond any short-term volatility in inflation rates. The relevant horizon for monetary policy is the medium term. Risks to the medium-term outlook for price stability remain on the upside, relating in particular to stronger than currently expected wage developments in a context of ongoing robust growth in employment and economic activity. Given the vigorous monetary and credit growth in an environment of already ample liquidity, a cross-check of the outcome of the economic analysis with that of the monetary analysis supports the assessment that upside risks to price stability prevail over the medium to longer term. Accordingly, the Governing Council will continue to be strongly vigilant in order to ensure that risks to price stability over the medium term do not materialise. This will support the solid anchoring of medium to longer-term inflation expectations in the euro area at levels consistent with price stability. Therefore, looking ahead, acting in a firm and timely manner to ensure price stability in the medium term remains warranted.

In relation to fiscal policies, the Governing Council welcomes the recent commitment by the euro area finance ministers, at the Eurogroup meeting in Berlin on 20 April 2007, to make full use of the current economic growth and better than expected tax revenues to pursue sound fiscal policies and to avoid procyclical policies in line with the provisions of the Stability and Growth Pact. In the view of the Governing Council, this requires a rigorous implementation of 2007 budgets, the avoidance of expenditure overruns and the full allocation of unexpected extra revenues to deficit and debt reduction. For 2008, countries with remaining fiscal imbalances are expected to pursue more ambitious than planned budgetary targets. As a result, all euro area countries should achieve their medium-term objective of sound budgetary positions as soon as possible and by 2010 at the latest. Moreover, all countries should avoid fiscal policies that feed macroeconomic imbalances. This would allow euro area

countries to prepare themselves for less favourable economic conditions.

As repeatedly stressed, the Governing Council fully supports structural reforms that enhance competition, increase productivity and foster economic flexibility, thus promoting the potential for real GDP growth and employment. Increased productivity also allows for increases in real wages without negatively impacting on employment, thereby supporting the income growth of the euro area work force. In recent years, average wage increases in the euro area as a whole have been rather moderate, making a vital contribution to job creation and lower unemployment. It is important that this favourable trend in labour markets continues, so contributing to a prolonged and robust upswing. In this respect, sufficient wage differentiation is required so as to improve employment opportunities for less-skilled workers and in sectors and regions with high unemployment. Furthermore, the removal of impediments to labour mobility would help to address local imbalances in labour markets and to enhance the adjustment flexibility of euro area economies to economic shocks. The euro area could reap major benefits from these policies in terms of economic dynamism, more job creation, lower unemployment and increased per capita income.

This issue of the Monthly Bulletin contains four articles. The first article examines developments in measured inflation and inflation perceptions in the euro area. The second article analyses the degree of competition in the euro area services sector and its effects on labour productivity and price developments. The third article reviews the main drivers of growth in the EU Member States of central and eastern Europe. The fourth article presents a theoretical framework and available evidence of share buybacks by firms in the euro area.

ECONOMIC AND MONETARY DEVELOPMENTS

I THE EXTERNAL ENVIRONMENT OF THE EURO AREA

While moderating somewhat, the global economy remains overall relatively robust. Global price developments continue to be influenced by changes in energy prices. Risks to the global economic outlook relate to a rise in protectionist pressures, the possibility of further increases in oil prices and concerns about a disorderly unwinding of global imbalances.

I.1 DEVELOPMENTS IN THE WORLD ECONOMY

While moderating somewhat, the global economy remains overall relatively robust. Growth in industrial activity continued to expand at a fairly robust rate in the OECD countries (outside the euro area) at the beginning of the year. Recent survey evidence also suggests some strengthening in the manufacturing sector. The services sector, after showing some signs of weakening in the first quarter, seemed to rebound in April.

Global price developments continue to be influenced by changes in energy prices. Headline consumer prices for the OECD countries increased in March. At the same time, inflation measures excluding food and energy remained at relatively moderate levels. Survey evidence on input prices suggest some further increases in cost pressures.

UNITED STATES

In the United States, advance estimates indicate that in the first quarter of 2007 real GDP growth slowed to 1.3% on a quarterly annualised basis. The moderation in real GDP growth reflected a strong negative contribution stemming from net trade and weaker federal government spending. In addition, residential investment continued to be a substantial drag on economic growth (falling by 17% in quarterly annualised terms). At the same time, consumption continues to hold up well, advancing by 3.8% on a quarterly annualised basis.

As for price developments, inflationary pressures have picked up somewhat in recent months, mostly on account of higher energy and food prices. As a result, on an annual basis, consumer price inflation stood at 2.8% in March. At the same time, consumer price inflation excluding food and energy edged lower to 2.5% in March.

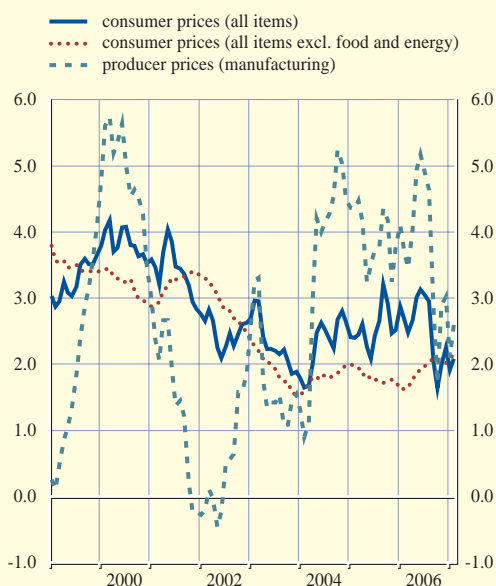
On 9 May 2007 the US Federal Open Market Committee decided to keep its target for the federal funds rate unchanged for the seventh consecutive time at 5.25%.

JAPAN

In Japan, economic activity has continued to recover steadily, while inflation has remained subdued. Output is being driven by robust exports and steady domestic demand, the latter being supported especially by business investment. The results of the March 2007 Bank of Japan's

Chart 1 Price developments in OECD countries

(annual percentage changes; monthly data)



Source: OECD.

Tankan survey indicated that business conditions remain firm, despite a slight deterioration among large manufacturers, while large non-manufacturers continue to report robust business conditions. For the fiscal year 2006 (which ended in March 2007), sales and profits have been revised upward by Japanese firms. Overall, the latest Tankan survey points to a favourable short-term outlook for the Japanese economy.

As regards price developments, inflation has remained subdued. In recent months, CPI inflation has decelerated, reflecting in part the negative contribution from oil-related prices. As a result, annual changes in CPI returned to negative territory in February 2007 for the first time since April 2006. In March 2007, the overall CPI and the CPI excluding fresh food declined by 0.1% and 0.3% respectively on an annual basis, after declining by 0.2% and 0.1% respectively in the previous month.

At its meeting on 27 April, the Bank of Japan decided to leave its target for the uncollateralised overnight call rate unchanged at 0.50%.

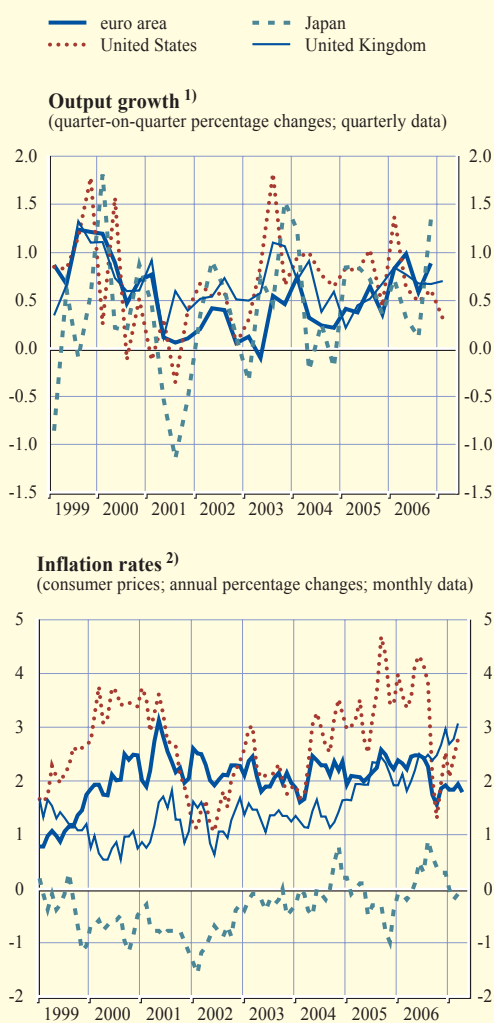
UNITED KINGDOM

In the United Kingdom, according to the preliminary estimate, real GDP in the first quarter of 2007 grew by 0.7% quarter on quarter, unchanged from the previous two quarters. No expenditure components of GDP are available yet, but the quarterly growth rate of retail sales in that first quarter, at 0.4%, suggests some moderation in consumption growth compared with the previous quarter. By contrast, survey information points to persistently high levels of investment intentions and sustained export growth.

In March the annual rate of growth in the HICP increased to 3.1%, driven by a wide range of goods and services. Growth in average earnings excluding bonuses has been subdued in recent months, but including bonuses it accelerated somewhat in the three months to February.

On 10 May the Bank of England's Monetary Policy Committee decided to raise the official Bank Rate paid on commercial bank reserves by 25 basis points to 5.5%.

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; national data are used for the United States and Japan. GDP figures have been seasonally adjusted.
2) HICP for the euro area and the United Kingdom; CPI for the United States and Japan.

OTHER EUROPEAN COUNTRIES

In most other EU countries outside the euro area, output growth remained robust in the fourth quarter of 2006. Growth was mainly driven by domestic demand. Inflationary developments showed a mixed picture across countries in March 2007.

In Denmark and Sweden, the quarterly rate of real GDP growth slightly accelerated in the fourth quarter of 2006. In both countries, economic activity was mainly driven by domestic demand. HICP inflation remained at 1.9% in Denmark and decreased slightly to 1.6% in Sweden in March 2007.

In the four largest central and eastern European economies (the Czech Republic, Hungary, Poland and Romania), overall quarterly output growth remained robust in the fourth quarter of 2006. In the Czech Republic, Poland and Romania, real GDP growth was driven by domestic demand, while in Hungary it was mainly driven by net exports. Annual HICP inflation stood in March 2007 in the Czech Republic and Poland at 2.1% and 2.4% respectively. In Hungary and Romania, by contrast, inflation was higher, standing at 9.0% and 3.7% respectively. In the case of Hungary, the current high level of inflation is mainly due to the impact of the fiscal consolidation package.

EMERGING ASIA

In emerging Asia, economic activity has continued to expand at a robust pace, most noticeably in the largest economies of the region. CPI inflation picked up further in several economies in March, although overall inflationary pressures have remained broadly moderate across the region.

In China, GDP growth increased to an annualised rate of 11.1% in the first quarter of 2007, from 10.4% in the previous quarter. Short-term business indicators suggest that strong net trade and investment expansion were the key drivers of higher growth in the first quarter. Despite some moderation in export growth in March, the trade surplus continued to widen, rising to a cumulative USD 47 billion in the first three months of the year, almost twice as high as in the comparable period of 2006. Strong activity has been accompanied by a pick-up in inflationary pressures. Annual CPI inflation rose to 3.3% in March, from 2.7% in February, partly owing to the volatile food component of the index. Citing the acceleration in economic activity and excess liquidity, the People's Bank of China raised the reserve requirement ratio twice in April, by a cumulated 100 basis points, to 11%, following the increase in the benchmark policy interest rates in March.

LATIN AMERICA

In Latin America, economic activity remained sustained, although performance across economies continued to display some heterogeneity. In Brazil, real GDP for the fourth quarter of 2006 was revised upward to 4.7% from an initial estimate of 3.8%. Industrial production expanded by 3.9% year on year in March. On 18 April, the central bank cut its key interest rate for the 15th consecutive time, by 25 basis points, to 12.5%. In Argentina, industrial production grew at 7% year on year in March. Inflationary pressures remained strong at 8.9% year on year in April. In Mexico, industrial production, after two months of sluggish growth, was flat in February, possibly indicating an incipient slowdown in economic activity. Annual inflation stood at 4.0% in April. In this context, the Banco de México raised its policy interest rate on 27 April by 25 basis points, to 7.25%.

1.2 COMMODITY MARKETS

After an increase towards the end of March, oil prices were fairly volatile in April, but remained at elevated levels. The price of Brent crude oil stood at USD 64.7 per barrel on 8 May, approximately 7% higher than at the start of the year. Current petrol market tightness continued to be one of the main drivers of oil prices. Strong draws on US petrol inventories and unplanned downstream outages have added upward pressure on petrol prices as concerns emerged over the adequacy of petrol supplies ahead of peak demand during the summer. Against a backdrop of tight oil market fundamentals, the geopolitical environment and the ensuing concerns over the security of future supplies remained an important factor supporting oil prices. Continued limited spare capacity in the oil supply chain, rebounding demand growth and the geopolitical environment are likely to keep oil prices high and volatile in the near term as well. Uncertainty about oil prices remains considerable. Market participants currently expect oil prices to remain at elevated levels also in the medium term, with December 2009 oil futures contracts currently trading at USD 68.8.

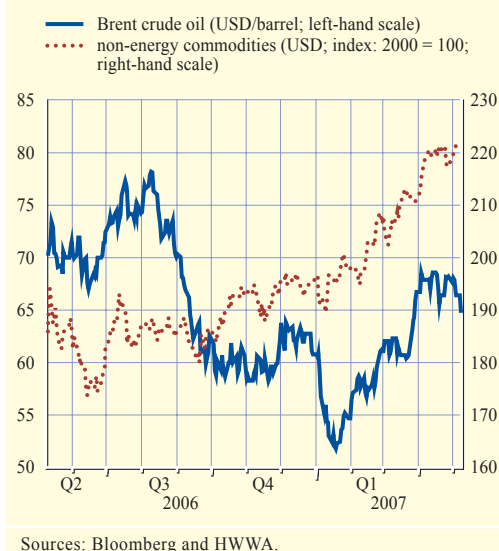
Non-energy commodity prices have soared in recent months and peaked once again in May. The recent increase has been mainly driven by industrial raw material prices, as the prices of metals and agricultural raw materials have increased. At the same time, food prices weakened somewhat in monthly terms, driven by a decline in the prices of oilseeds, oils and cereals. In aggregate terms, the price index for non-energy commodities (denominated in US dollars) was approximately 27% higher in April than a year earlier.

1.3 OUTLOOK FOR THE EXTERNAL ENVIRONMENT

Despite some moderation in the pace of expansion in a number of countries, the outlook for the external environment, and therefore for foreign demand for euro area goods and services, remains favourable. In March, the six-month rate of change of the composite leading indicator (CLI) for the OECD continued to show a downward trend in most of the advanced economies. At the same time, the corresponding indicators for large emerging market economies point to accelerating expansion in China and steady expansion in India and Brazil.

Risks to the global economic outlook remain overall on the downside and are mainly related to a rise in protectionist pressures, the possibility of further increases in oil prices and concerns about global imbalances.

Chart 3 Main developments in commodity markets



Sources: Bloomberg and HWWA.

2 MONETARY AND FINANCIAL DEVELOPMENTS

2.1 MONEY AND MFI CREDIT

The strength of underlying monetary dynamics is reflected in the robust annual growth rate of M3, which increased further to 10.9% in March 2007. Although credit growth continued to account for the strong rate of monetary expansion, the stabilisation of the growth rate of loans to the private sector suggests that the increases in key ECB interest rates have been influencing monetary developments. At the same time, the further strengthening of the dynamics of M3 is largely explained by strong capital inflows into the euro area. In the context of current global financial market developments and the flatness of the yield curve in the euro area, this robust growth of M3 needs to be assessed with caution. Overall, against the background of already ample liquidity conditions, the strength of underlying monetary growth points to upside risks to price stability over the medium to longer term, particularly in an environment of improved economic activity.

THE BROAD MONETARY AGGREGATE M3

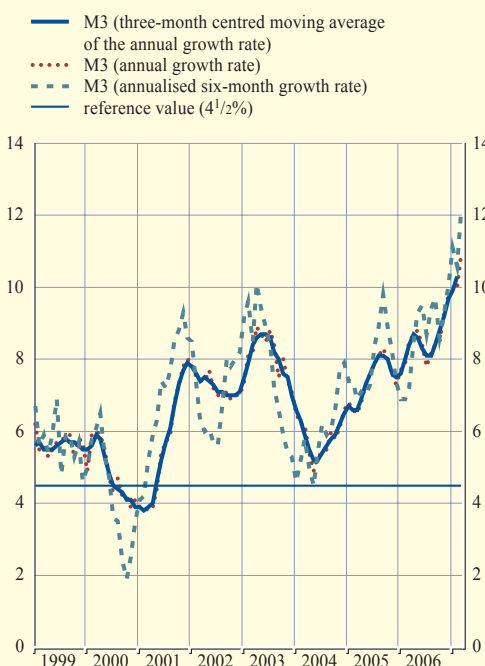
In March 2007 the annual growth rate of the broad monetary aggregate M3 showed a further strong increase, to 10.9%, from 10.0% in the previous month. This increase reflected the very high month-on-month growth rate in March, as is also visible in a further rise of the annualised six-month rate of growth. By all these measures, M3 dynamics in March 2007 have been the strongest since the start of Stage Three of EMU (see Chart 4).

Latest data on monetary and credit aggregates confirm the assessment of past months that the stepwise withdrawal of monetary policy accommodation since December 2005 has impacted on monetary developments. On the components side, higher key ECB interest rates have affected the composition of M3 growth. This is visible in a relatively moderate annual growth rate of M1, reflecting the dampening impact of the increased opportunity costs of holding M1 instruments. At the same time, the flatness of the yield curve associated with recent increases in short-term interest rates has enhanced the attractiveness of liquid monetary assets in M3 (but not M1) relative to longer-term financial assets outside M3. This can be seen from the rapid expansion of short-term instruments outside M1. On the counterparts side, the impact of higher interest rates has been visible in the levelling-off of the annual growth rate of loans to the euro area private sector since the second half of 2006, although loan growth remains vigorous.

The continued strength of private sector borrowing explains the high rate of M3 growth, but the strengthening of monetary dynamics in

Chart 4 M3 growth and the reference value

(percentage changes; adjusted for seasonal and calendar effects)



Source: ECB.

recent months reflects a rise in the net external asset position of MFIs and, therefore, needs to be seen in the context of the global financial market environment. In this respect, the strong capital inflows into the euro area are likely to reflect the current relative attractiveness of euro area assets for foreign investors.

Taking a medium to longer-term perspective appropriate for assessing trends in money and credit growth, the latest data continue to show strong money and credit growth. The strength of the underlying monetary dynamics is reflected in the robust growth of M3. Against the background of already ample liquidity, underlying monetary developments point to upside risks to price stability over the medium to longer term, particularly in an environment of improved economic activity. However, in the context of current global financial market developments and the flatness of the yield curve in the euro area, this robust growth needs to be assessed with caution.

MAIN COMPONENTS OF M3

The annual growth rate of M1 rose slightly to 7.0% in March, after 6.6% in February, as a result of a pick-up in the growth of both currency in circulation and overnight deposits (see Table 1).

The annual growth rate of short-term deposits other than overnight deposits rose to 12.6% in March, from 11.6% in February. This reflected a pick-up in the rate of increase in short-term time deposits (i.e. deposits with a maturity of up to two years), while the annual rate of change in short-term savings deposits (i.e. deposits redeemable at notice of up to three months) became more negative. The relative attractiveness of short-term time deposits may be due to their remuneration, which has broadly followed the rise in short-term market rates and has increased relative to both the remuneration of overnight deposits and that of short-term savings deposits.

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					
		2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Feb.	2007 Mar.
M1	46.8	9.8	7.6	6.7	6.8	6.6	7.0
Currency in circulation	7.4	11.9	11.4	11.1	10.5	10.2	10.5
Overnight deposits	39.4	9.5	7.0	6.0	6.1	6.0	6.3
M2 - M1 (= other short-term deposits)	38.3	8.5	9.5	11.1	11.9	11.6	12.6
Deposits with an agreed maturity of up to two years	19.1	15.3	19.7	25.2	29.5	29.4	32.1
Deposits redeemable at notice of up to three months	19.2	3.8	2.4	1.1	-0.8	-1.4	-1.8
M2	85.1	9.2	8.4	8.6	9.0	8.8	9.4
M3 - M2 (= marketable instruments)	14.9	5.6	6.4	11.3	16.8	18.0	19.8
M3	100.0	8.6	8.1	9.0	10.1	10.0	10.9
Credit to euro area residents		9.5	9.2	8.8	7.9	7.8	7.7
Credit to general government		1.0	-0.9	-3.1	-4.5	-4.1	-4.9
Loans to general government		0.3	-0.6	-0.3	-1.3	-0.8	-1.4
Credit to the private sector		11.8	11.9	11.9	11.1	10.8	10.8
Loans to the private sector		11.2	11.2	11.1	10.5	10.3	10.5
Longer-term financial liabilities (excluding capital and reserves)		8.7	8.5	9.0	9.9	9.9	10.1

Source: ECB.

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

The currently flat yield curve is likely to have generally enhanced the attractiveness of liquid monetary assets included in M3 but not in M1 in comparison with that of longer-term financial assets. This is particularly apparent in the further strong increase in the annual growth rate of marketable instruments included in M3, which rose to 19.8% in March, from 18.0% in February. Most of this further increase was accounted for by demand for money market fund shares/units, which may be attractive for institutional investors, as the funds with the highest returns outperform their money market interest rate benchmark. The annual rate of growth of short-term debt securities remained very high in March. The elevated growth rates witnessed for this component may be linked to the increases in key ECB interest rates since December 2005, as floating rate short-term debt securities allow investors to benefit from interest rate rises that occur before the maturity of the security.

The annual growth rate of short-term deposits and repurchase agreements with MFIs (M3 deposits) – which represent the broadest aggregation of M3 components for which information is available by holding sector – rose strongly in March. This increase was broadly based across the money-holding sectors. The annual growth rates of holdings of both the non-financial corporate sector and financial intermediaries went up particularly noticeably, but the growth of household's holdings also increased further and remained the largest contributor to the level of growth in M3 deposits.

MAIN COUNTERPARTS OF M3

On the counterparts side, the annual growth in loans to the private sector continued to account for most of the high rate of M3 growth. The annual growth rate of MFI loans to the private sector was 10.5% in March 2007, after 10.3% in February. The ongoing high demand for loans reflects the current strength of economic activity and the generally favourable financing conditions in the euro area.

The growth of loans to the private sector in March reflected strong demand for loans by non-monetary financial intermediaries (other than insurance corporations and pension funds), while demand from the non-financial private sector declined. In the case of non-financial corporations, the annual rate of growth of loans fell to 12.4%, from 12.6% in February, mainly on account of less strong demand for loans with longer-term maturities. The latest moderation in non-financial corporations' demand for loans is in line with historical regularities, which suggest that the response to interest rate increases takes place with a longer lag than in the case of demand for loans on the part of households.

In March the annual rate of growth of loans to households declined to 7.9%, from 8.1% in February (see Table 2). The ongoing strong lending activity to households continued to be explained predominantly by borrowing for house purchase, which decreased to 8.9% in March, continuing the steady decline from the peak of 12.1% recorded twelve months earlier. This downward trend is in line both with the moderation of house price growth and the slowdown in housing market activity observed in a number of euro area economies in the course of 2006 and with the rises in mortgage rates throughout the euro area. In the April 2007 bank lending survey, banks – on balance – reported a decline in demand for loans for house purchase (see Box 1). The annual growth rate of consumer credit increased to 7.3% in March, from 6.7% in February.

THE RESULTS OF THE APRIL 2007 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the April 2007 bank lending survey for the euro area conducted by the Eurosystem.¹ The survey includes for the first time respondent banks in Slovenia. Respondent banks reported for the first quarter of 2007 a slight net easing of credit standards for loans or credit lines to enterprises.² This follows a period over the past few quarters when standards remained basically unchanged or were slightly eased. Banks also reported that the net demand for loans to enterprises remained significantly positive.³ This was to a large extent related to economic factors, in particular stronger financing needs linked to fixed investments, larger inventories and working capital, as well as to financial factors reflecting loan demand to finance M&A activity. For the second quarter of 2007, net demand for loans or credit lines to enterprises is expected to remain significantly positive.

As regards lending to households, banks reported a slight net easing of credit standards applied to loans for housing purposes in the first quarter of 2007, which was broadly at the same level as in the previous quarter. These developments reflected the contribution of competitive pressures towards easier credit standards, while risk perceptions related to housing market prospects contributed more towards a net tightening than in the previous quarter. Net demand for loans for housing purposes fell significantly during the first quarter of 2007 as a result of a sharp deterioration in housing market prospects. Banks expect net demand to remain basically unchanged in the second quarter of 2007.

With regard to credit standards for consumer credit and other lending to households, banks slightly eased credit standards on a net basis, as in the previous quarter, mostly as a result of stronger competition from banks and – to some extent – positive expectations regarding economic activity. Net demand for consumer credit and other lending continued to be positive, mainly supported by spending on durable consumer goods and consumer confidence. Expectations for net demand in the second quarter of 2007 remain significantly positive.

Loans or credit lines to enterprises

Credit standards: Credit standards for loans or credit lines to enterprises eased somewhat in net terms in the first quarter of 2007 (see Chart A, panel a). This follows a period over the past few quarters when standards remained basically unchanged or were slightly eased. Banks also expected a slight net easing of credit standards for the next quarter, in particular for short-term loans.

Competition from other banks continued to be an important factor contributing towards net easing of credit standards, albeit less than in previous quarters (see Chart A, panel e). Also, more favourable expectations regarding general economic activity contributed, for the third

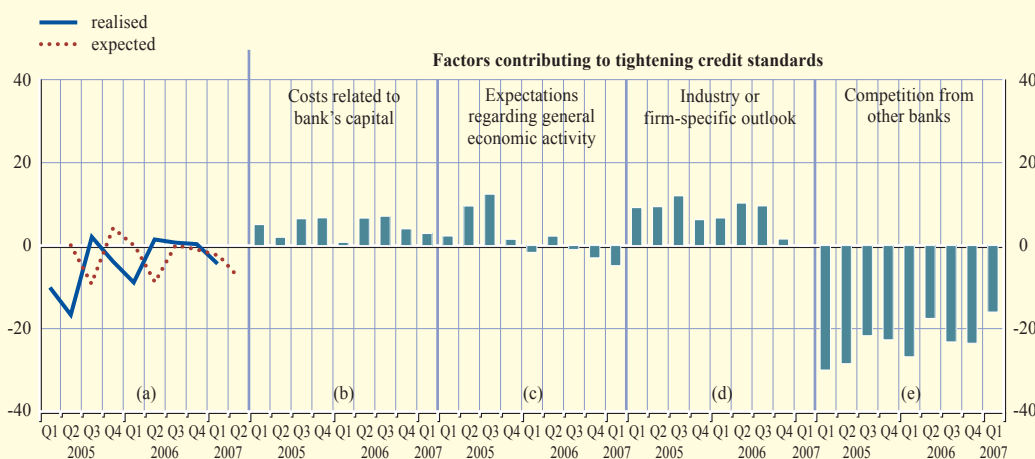
1 A comprehensive assessment of the results of the April 2007 bank lending survey for the euro area was published on 11 May 2007 on the ECB's website.

2 The reported net percentage was -4%. 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 been 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.

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

(net percentages)



Notes: In panel a, 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 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 second quarter of 2007 were reported by banks in the April 2007 survey.

time in a row, towards net easing (see Chart A, panel c). The industry or firm-specific outlook for the first time no longer contributed to net tightening as had been the case in previous years (see Chart A, panel d).

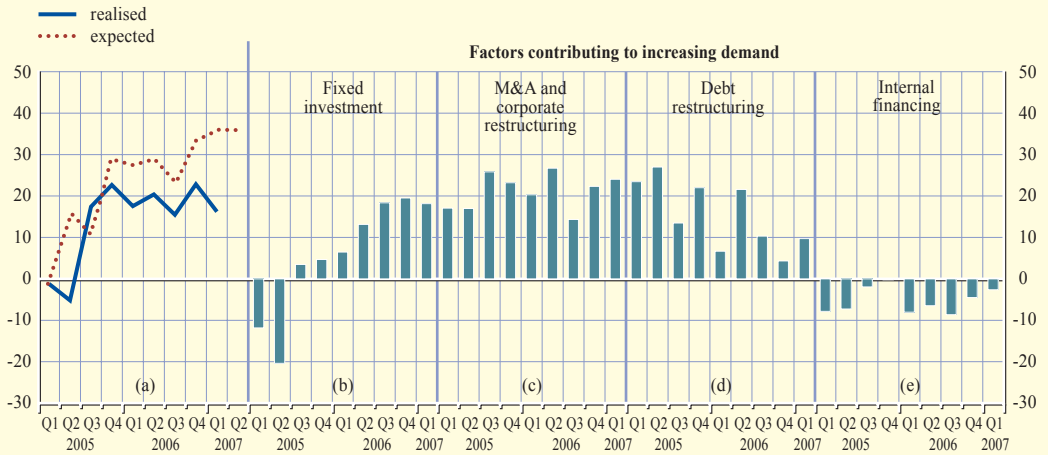
In terms of borrower size, the net easing of credit standards applied mainly to large enterprises. The credit standards applied to small and medium-sized enterprises remained basically unchanged in the first quarter of 2007, following a series of slight net tightenings in 2006. As regards loan maturities, the net easing was more pronounced in comparison with the previous quarter for long-term loans than for short-term loans.

Loan demand: In line with the six previous surveys, in the first quarter of 2007 net demand for loans by enterprises was significantly positive, although at a somewhat lower level than in the previous quarter (16% in the April survey after 23% in January; see Chart B, panel a). Net loan demand is expected to remain significantly positive in the second quarter of 2007. In terms of borrower size, net loan demand from small and medium-sized enterprises (16%) continued to be stronger than for large enterprises (12%), although the difference was less pronounced than in previous quarters. Net demand was positive across the maturity spectrum, although with a continued downward tendency for long-term loans.

According to responding banks, the factors behind the persistent high positive net demand continued to be of a both non-financial and financial nature and included fixed investment, inventories and working capital, as well as mergers and acquisitions and corporate restructuring (see Chart B, panels b to d). The use of alternative financing from internal sources (i.e. higher profits) contributed to moderating net loan demand, albeit less than during the previous survey (see Chart B, panel e).

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

(net percentages)



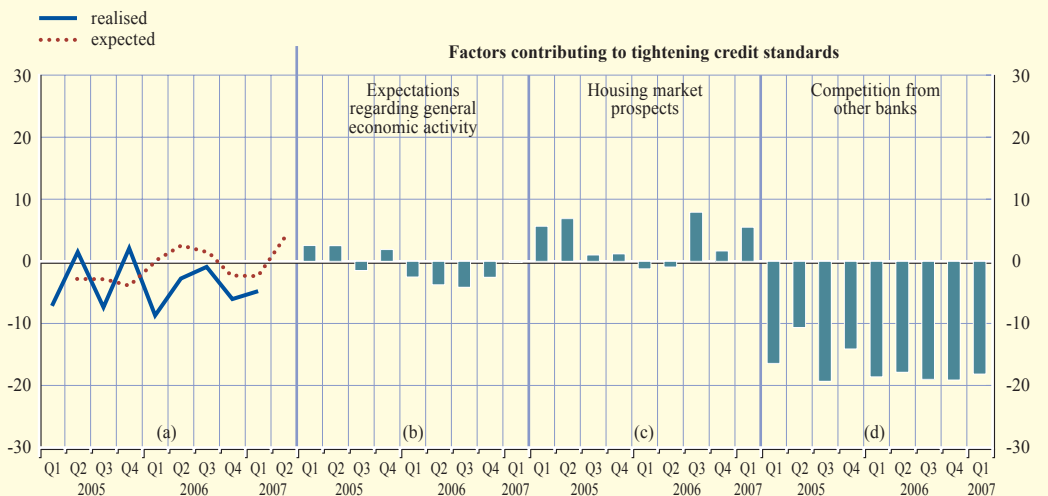
Notes: The net percentages refer to the difference between the sum of the percentages for “increased considerably” and “increased somewhat” and the sum of the percentages for “decreased somewhat” and “decreased considerably”. The net percentages for the questions related to the factors are the difference between the percentage of banks reporting that the given factor contributed to an increase in demand and the percentage reporting that it contributed to a decline. “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 second quarter of 2007 were reported by banks in the April 2007 survey.

Loans to households for house purchase

Credit standards: In the first quarter of 2007, banks reported a slight net easing of credit standards for loans to households for house purchase, which was broadly at the same level as

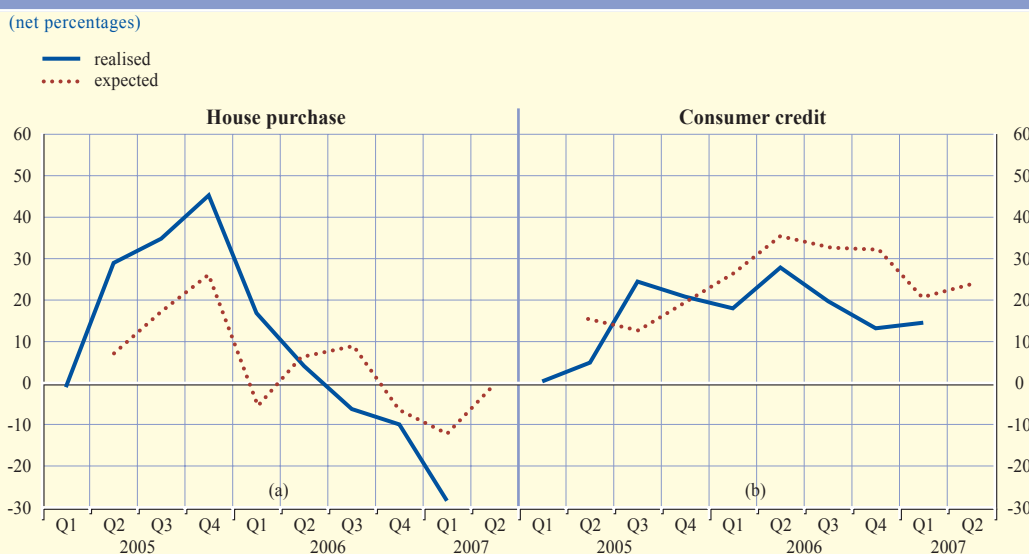
Chart C Changes in credit standards applied to the approval of loans to households for house purchase

(net percentages)



Notes: In panel a, 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 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 second quarter of 2007 were reported by banks in the April 2007 survey.

Chart D Changes in demand for loans to households for house purchase and consumer credit



Notes: The net percentages refer 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”. The net percentages for the questions related to the factors are the difference between the percentage of banks reporting that the given factor contributed to an increase in demand and the percentage reporting that it contributed to a decline. “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 second quarter of 2007 were reported by banks in the April 2007 survey.

in the previous quarter (see Chart C, panel a). For the second quarter of 2007, banks expect a slight net tightening. While the main factor behind the net easing continued to be competition from other banks (see Chart C, panel d), housing market prospects contributed more towards a tightening relative to the previous quarter (see Chart C, panel c). The net easing for loans for house purchase was mainly implemented by reducing the margins on average loans, lengthening the loan maturity and reducing non-interest rate charges. At the same time, margins on riskier loans continued to contribute to a net tightening, but slightly less than in most previous quarters.

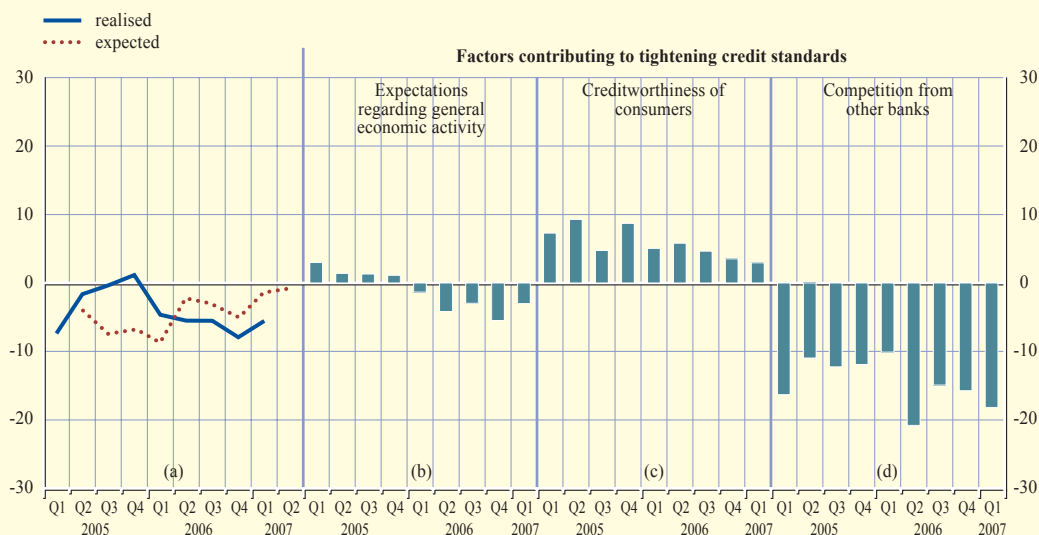
Loan demand: The net demand for housing loans to households fell considerably in the first quarter of 2007 (to -28% in the April 2007 survey, from -10% in January; see Chart D, panel a). For the second quarter of 2007, banks expect net demand to remain basically unchanged. This decrease was for a large part caused by a sharp deterioration in the assessment of housing market prospects. Consumer confidence also contributed slightly towards a negative net loan demand, unlike in the previous survey rounds.

Loans for consumer credit and other lending to households

Credit standards: In the first quarter of 2007, banks reported a slight net easing of the credit standards applied to the approval of consumer credit and other lending to households, which was broadly at the same level as in the previous quarter (see Chart E, panel a). For the second quarter of 2007, banks expect credit standards to remain basically unchanged. Among the factors contributing to the slight net easing in credit standards were competitive pressures from other banks, as well as favourable expectations regarding general economic activity (see

Chart E Changes in credit standards applied to the approval of consumer credit and other lending to households

(net percentages)



Notes: In panel a, 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 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 second quarter of 2007 were reported by banks in the April 2007 survey.

Chart E, panels b and d). Banks cited concerns about the creditworthiness of consumers as the main factor contributing towards tighter consumer credit standards (see Chart E, panel c).

Margins on average loans contributed significantly to the net easing, although mostly reversing the movement seen in the January 2007 survey. The lengthening of loan maturity also contributed to the net easing. At the same time, margins on riskier loans contributed slightly more to a net tightening than in the previous quarter, although movements over the past few quarters have been somewhat volatile. The other terms and conditions remained basically unchanged in net terms compared with the previous quarter.

Loan demand: Banks reported that net demand for consumer credit and other lending to households remained positive in the first quarter of 2007, at broadly the same level as in the previous quarter (15% in the April 2007 survey compared with 13% in January; see Chart D, panel b). For the second quarter of 2007, banks expect the net demand to remain significantly positive. The main drivers behind the positive net demand for consumer credit continued to be spending on durable consumer goods and, albeit less than during previous quarters, consumer confidence. The impact of household savings remained very low.

Looking at developments in overall MFI credit granted to euro area residents in March, the annual growth rate declined further. This decrease is attributable to a further moderation in demand for credit to the general government, while the private sector’s demand for MFI credit remained unchanged. However, the unchanged annual rate of growth in credit to the private sector concealed divergent developments in MFIs’ purchases of securities. While the annual rate of growth in the

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					
		2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Feb.	2007 Mar.
Non-financial corporations	41.9	11.0	11.9	13.0	12.8	12.6	12.4
Up to one year	29.6	8.4	9.2	10.3	9.5	9.1	9.3
Over one and up to five years	18.7	15.8	19.0	20.5	19.9	19.6	18.6
Over five years	51.7	11.0	11.2	12.0	12.4	12.3	12.0
Households²⁾	48.8	9.7	9.3	8.6	8.0	8.1	7.9
Consumer credit ³⁾	12.8	8.2	8.5	8.0	7.2	6.7	7.3
Lending for house purchase ³⁾	71.0	12.0	11.2	10.2	9.4	9.4	8.9
Other lending	16.2	2.1	2.3	2.7	3.3	3.4	4.2
Insurance corporations and pension funds	1.0	41.2	36.7	29.1	27.7	28.8	20.5
Other non-monetary financial intermediaries	8.2	19.0	17.3	16.4	12.3	10.8	16.0

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.

MFIs' holdings of securities other than shares increased, that of MFIs' holdings of shares and other equities continued to decline. Box 2 discusses the sectoral decomposition of MFIs' purchases of securities issued by the private sector.

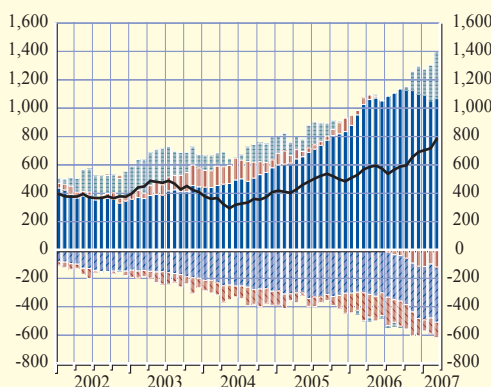
Among the other counterparts of M3, the annual growth rate of MFIs' longer-term financial liabilities (excluding capital and reserves) increased to 10.1%, from 9.9% in February. While demand for loans continues to explain the high level of annual M3 growth on the counterparts side, developments in the net external asset position of MFIs explain most of the strengthening seen in annual M3 growth since late 2006. The monthly flow in MFIs' net external asset position was €93 billion in March, raising the annual flow to €335 billion, from €251 billion in February (see Chart 5). While these net inflows were limited to a few euro area countries in November and December 2006, recent developments are more widespread across the euro area Member States. The last few months represent the period with the largest capital flows into the euro area private non-MFI sector, which is likely to reflect the current relative attractiveness of euro area assets for foreign investors.

Overall, the rises in key ECB interest rates have influenced monetary developments. This is

Chart 5 Counterparts of M3

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

- credit to the private sector (1)
- credit to general government (2)
- net external assets (3)
- longer-term financial liabilities (excluding capital and reserves) (4)
- other counterparts (including capital and reserves) (5)
- M3



Source: ECB.

Notes: 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.

reflected in the stabilisation of the growth of loans to the non-financial private sector and the relatively subdued contribution of M1 to M3 growth. At the same time, the further strengthening of the dynamics of M3 is largely explained by strong capital inflows into the euro area. In the context of current global financial market developments and the flattening of the yield curve in the euro area, the robust growth of M3 needs to be assessed with caution.

Box 2

THE SECTORAL BREAKDOWN OF THE PRIVATE SECTOR SECURITIES HELD BY MONETARY FINANCIAL INSTITUTIONS

Part of the total credit that MFIs grant to the private sector takes the form of debt securities (i.e. securities other than shares) or of shares and other equity. MFIs purchase securities issued by non-financial corporations and financial intermediaries (other than MFIs). The recent developments in this type of credit compared with those in loans were discussed in the April 2007 issue of the Monthly Bulletin.¹ This box focuses more narrowly on the sectoral composition of securities issued by the private sector and held by euro area MFIs.

The sectoral dimension in the structure of MFI credit

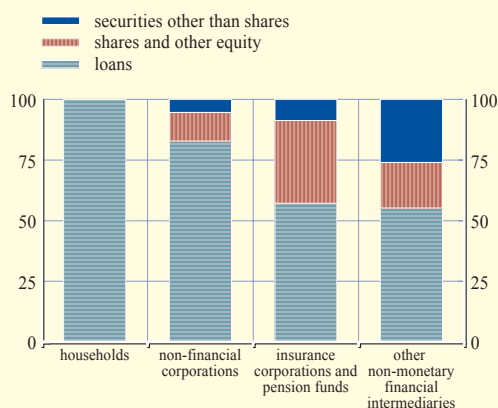
In the period 2003 to 2006, for which detailed sectoral credit data is available, credit granted by MFIs to households consisted almost entirely of loans.² In the case of non-financial corporations, around 10% of credit was provided in the form of purchased shares and 5% in the form of purchased debt securities (see Chart A). For other financial intermediaries (OFIs) and insurance

1 See the box entitled "Recent changes in the composition of growth in credit to euro area residents" in the April 2007 issue of the Monthly Bulletin.

2 Securities issued by the "household sector" include instruments issued by sole proprietary enterprises categorised within the "household and non-profit organisations serving households" sector.

Chart A Components of credit to the individual private sectors

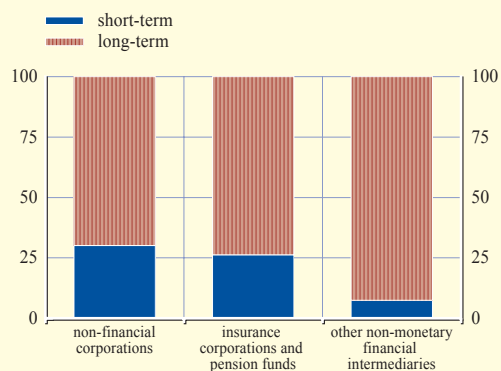
(as a percentage of total credit to the respective sector; average 2003-2006)



Source: ECB.

Chart B Maturity breakdown of MFI holdings of private sector debt securities

(as a percentage of MFI debt security holdings of the respective sector; average 2003-2006)



Source: ECB.

Note: Short-term debt securities include debt securities with a maturity of up to one year, while long-term debt securities include those with a maturity of over one year.

corporations and pension funds (ICPFs), the proportion of credit provided through MFIs' holdings of their securities was much larger, amounting to 45% in each case. However, there are also differences between these two financial intermediary sectors: while in the case of ICPFs, the share of debt securities is much lower than that of shares and other equity, the opposite holds true in the case of OFIs. When looking at these shares, it must of course be noted that the absolute amounts of credit provided to the individual sectors differ considerably. In December 2006, for example, total MFI credit to non-financial corporations was €4,607 billion, while that to OFIs was €1,364 billion. This means that although MFIs' holdings of shares and other equity account for only 12% of credit to non-financial corporations but 19% of credit to OFIs, MFIs' holdings of shares issued by non-financial corporations are still larger, in absolute terms, than those of shares issued by OFIs.

Looking more closely at the debt securities that MFIs purchase from the individual sectors, it appears that the bulk of these securities have a maturity of more than one year, irrespective of the issuance sector (see Chart B).

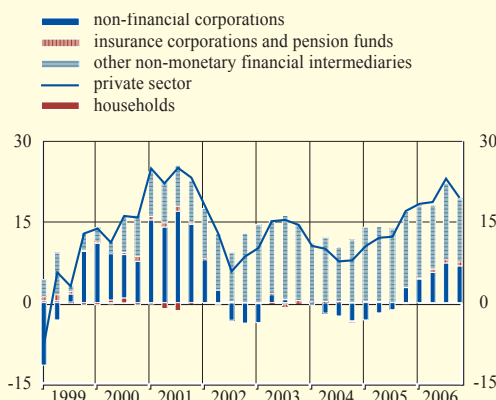
The sectoral dimension in the development of MFIs' holdings of securities

Over the period since 1999, purchases by euro area MFIs of private sector securities have displayed a clear cyclical pattern, with a strengthening recorded, in particular, in 1999-2000 and again since 2005. For the full period since 1999, a sectoral breakdown is only available for MFIs' purchases of debt securities, while in the case of MFIs' purchases of shares and other equity, sectoral data are only available for the period since 2003.

Looking first at MFIs' purchases of debt securities, Chart C suggests that the cyclical pattern of the growth of this type of credit is determined by purchases of non-financial corporations' debt securities. In December 2006 these instruments accounted for 6.9 percentage points of the annual growth rate of 20% in MFIs' holdings of debt securities, following a steady increase

Chart C Contributions to the growth of MFI holdings of private sector debt securities

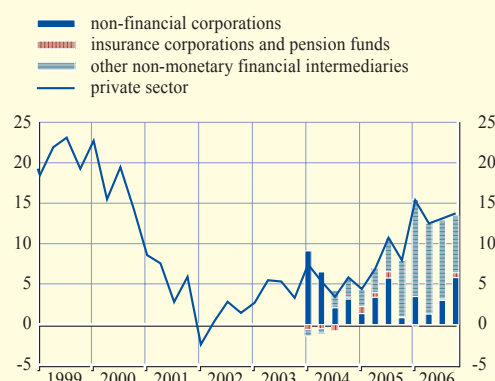
(annual percentage changes; contributions in percentage points)



Source: ECB.
Note: Securities issued by the "household sector" include instruments issued by sole proprietary enterprises categorised within the "household and non-profit organisations serving households" sector.

Chart D Contributions to the growth of MFI holdings of private sector shares and other equity

(annual percentage changes; contributions in percentage points)



Source: ECB.

from the negative contributions in 2005. A similar strengthening was observed in 1999-2000, at the time explaining almost all of the developments in the growth rate of MFIs' holdings of private sector debt securities. In the meantime, purchases of debt securities issued by OFIs play a larger role, although they display a less cyclical pattern: the contribution increased steadily up to 2003 and then remained broadly stable at a high level, adding 11.7 percentage points to the annual growth rate of MFIs' holdings of private sector debt securities in December 2006. This strong contribution may reflect the importance of loan securitisation activity in the euro area, where, for instance, MFIs in one euro area country may use the purchase of instruments securitising mortgage loans granted in other euro area countries as a substitute for directly investing in these housing markets.

Turning to MFIs' purchases of shares and other equity, the strengthening of the annual growth rate since 2005 reflects higher contributions from, in particular, purchases of shares issued by the OFI sector, while the contribution from purchases of shares issued by non-financial corporations has been fluctuating at a more subdued level (see Chart D). This could be related to a greater inclination on the part of MFIs to hold equity investments through specialised asset management entities rather than directly investing in these instruments.

Given the current size of MFIs' purchases of securities issued by ICPFs, these have, on average, an only marginal impact on developments in MFIs' overall holdings of securities. Individual transactions, however, can be large and vary significantly over time.

To sum up, the breakdown of euro area MFIs' holdings of private sector securities indicates that the overwhelming share of instruments is of a long-term nature. Furthermore, the sectoral decomposition of MFIs' purchases of securities indicates a growing importance of debt securities and shares issued by the OFI sector. More specifically, the substantial purchases of OFIs' debt securities may reflect the growing importance of securitisation as a form of redistributing risks among MFIs, while the rise in holdings of OFIs' shares may indicate an increasing inclination on the part of MFIs to hold equity investments through specialised asset management entities.

2.2 SECURITIES ISSUANCE

In February 2007 debt securities issued by euro area residents continued to grow at a robust rate, slightly higher than in the previous month. This outcome reflected increased or unchanged growth rates in debt securities issuance by all sub-sectors. Despite a slight increase, issuance of quoted shares continued to be relatively subdued.

DEBT SECURITIES

The annual growth rate of debt securities issued by euro area residents was 8.2% in February 2007, up from 8.0% in January (see Table 3). Despite the decline in February, the rate of growth of floating rate securities was significantly stronger than the rate of growth of fixed rate securities, which increased compared with the previous month. Thus it seems that issuers are continuing to meet the high demand for floating rate securities in a situation of a relatively flat yield curve. As for the maturity structure of debt securities issuance, the annual growth rate of short-term securities issuance increased slightly to 5.9%, while that of long-term securities issuance rose to 8.4% in February 2007, up from 8.2% in January.

Table 3 Securities issued by euro area residents

Issuing sector	Amount outstanding (EUR billions) 2007 Feb.	Annual growth rates ¹⁾					
		2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Jan.	2007 Feb.
Debt securities:	11,312	7.5	7.3	7.1	7.9	8.0	8.2
MFIs	4,700	9.0	9.2	8.4	9.8	10.5	10.7
Non-monetary financial corporations	1,203	25.5	26.5	26.6	28.9	27.0	27.0
Non-financial corporations	648	3.2	3.4	4.2	4.8	5.2	5.3
General government	4,761	3.7	3.0	2.8	2.8	2.2	2.4
<i>of which:</i>							
Central government	4,455	3.2	2.5	2.3	2.4	1.9	2.1
Other general government	306	11.9	11.5	11.8	9.1	7.4	5.8
Quoted shares:	6,228	1.2	1.1	1.2	1.1	1.0	1.1
MFIs	1,081	1.2	1.5	1.8	2.0	2.1	2.5
Non-monetary financial corporations	633	3.5	2.2	1.5	1.1	0.8	0.9
Non-financial corporations	4,513	0.9	0.9	1.1	0.8	0.8	0.8

Source: ECB.

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

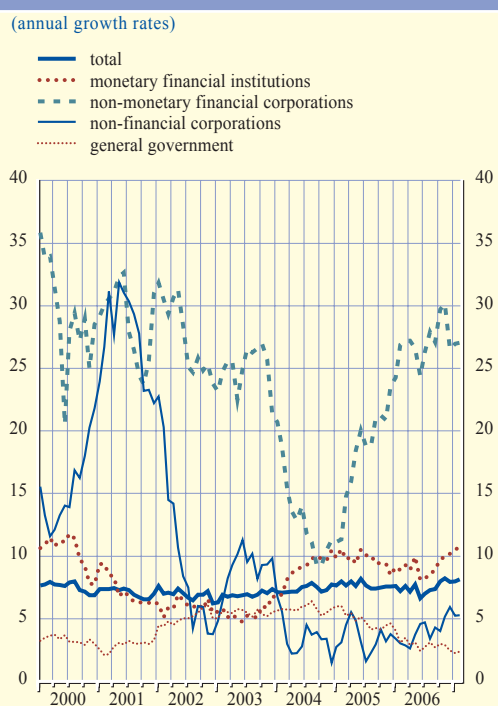
The annual growth rate of debt securities issued by non-financial corporations continued to lag behind the rates of growth observed for debt securities issued by MFIs and non-monetary financial institutions. However, it increased slightly between January and February to reach 5.3% (see Chart 6). Despite increasing growth rates during the last months, and a moderation of growth of MFI bank loans over the same period, growth in debt securities issued by non-financial corporations is still relatively subdued compared with growth in bank loans. In terms of maturity structure, in February 2007 the rate of growth of debt securities issued by non-financial corporations stood at 5.5% in the case of long-term securities, down from 6.2% during the previous month, while the rate of growth of short-term securities was 4.2%, significantly higher than the 0.2% recorded in January.

In February 2007 the annual growth rate of debt securities issued by MFIs increased further, albeit only slightly, to 10.7% from 10.5% in January 2007, suggesting that banks are continuing to raise funds to meet the considerable demand arising from the robust growth of loans to non-financial corporations. The overall increase in the growth rates of debt securities issued reflected an increase in the growth rate of issuance of long-term debt securities, mainly due to robust growth in floating rate securities, while the growth rate of issuance of short-term securities decreased substantially from 17.0% in January to 13.9% in February.

The annual growth rate of debt securities issued by non-monetary financial corporations stood at 27% in February, unchanged from the previous month. While the overall rate of growth remains significantly higher than the rate of growth for the other sectors, it has shown a declining trend since November 2006, which may reflect a levelling-off in transactions related to M&A activity as well as changes in the financing patterns of such transactions.

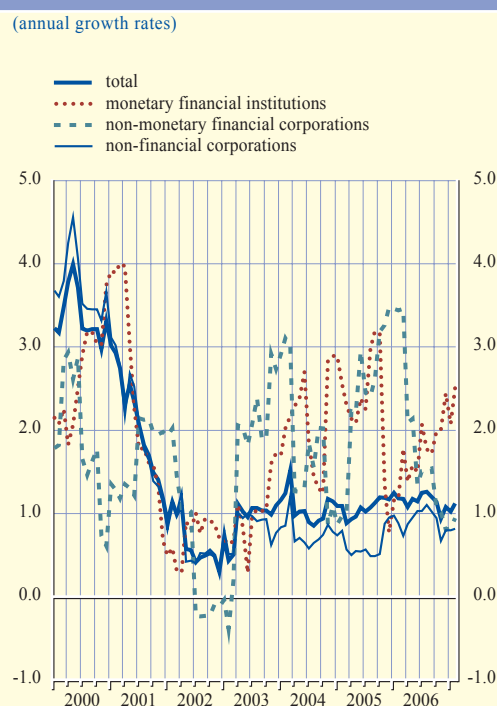
The annual growth rate of debt securities issued by the general government sector increased slightly to 2.4% in February, from 2.2% in January. The growth rate of debt securities issued by the central government sector remained relatively subdued at 2.1% in February, while growth in the issuance activity of the other general government sector continued to be significantly stronger,

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



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



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

standing at an annual rate of 5.8%, significantly down from 7.4% in January. Thus, the declining trend since the peak reached in August 2006 continued.

QUOTED SHARES

The annual growth rate of quoted shares issued by euro area residents stood at 1.1% in February, slightly above the growth rate recorded in January. This reflected mainly an increase in the annual growth rate of quoted shares issued by monetary financial institutions, to 2.5% in February from 2.1% in January (see Chart 7). The annual growth rate of quoted shares issued by non-financial corporations – which in general constitute the large majority of total gross issuance – remained unchanged at 0.8%. The subdued net issuance by non-financial corporations may be related to ongoing high share buyback activity, still robust profitability and private equity activities where companies are being taken private through leveraged buyouts. The annual growth rate of quoted shares issued by non-monetary financial corporations remained unchanged at 1.1%, while the corresponding rate for institutional investors such as insurance corporations and pension funds increased slightly to 0.8%.

2.3 MONEY MARKET INTEREST RATES

In April and early May 2007, money market interest rates rose for all maturities of more than one month, with the largest increases being observed for longer-term rates. As a result, the slope of the money market yield curve steepened over that period.

Money market interest rates for maturities of more than one month rose in the period from 1 April to 9 May 2007, with the most marked increases being observed at the longer end of the money market maturity spectrum. The one-month interest rate, by contrast, remained stable at 3.86%. Compared with their levels at the beginning of April, interest rates at maturities of three, six and twelve months rose by between 11 and 13 basis points to stand at 4.05%, 4.16% and 4.32% respectively on 9 May 2007. As a result, the slope of the money market yield curve steepened over the period under review. The spread between the twelve-month and the one-month EURIBOR rose from 33 basis points at the beginning of April to 46 basis points on 9 May 2007 (see Chart 8).

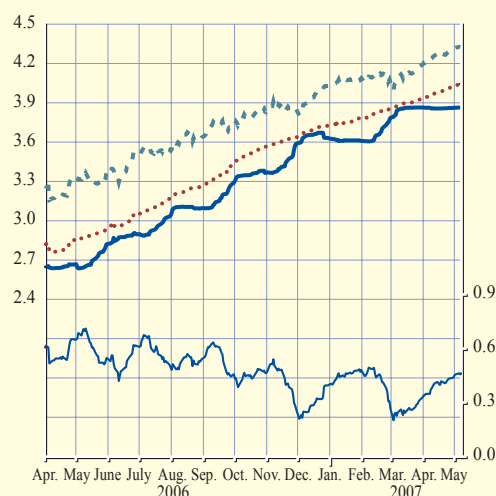
The interest rates implied by the prices of three-month EURIBOR futures maturing in June, September and December 2007 stood at 4.14%, 4.27% and 4.36% respectively on 9 May. Compared with the levels observed at the beginning of April, this represented increases of 2, 5 and 11 basis points respectively.

On 12 April, the Governing Council decided to keep the key ECB interest rates unchanged, with the minimum bid rate in the Eurosystem's main refinancing operations remaining at 3.75%. Towards the end of the maintenance period ending on 17 April, the EONIA drifted slightly lower, reaching 3.69% on 16 April, as market participants perceived prevailing liquidity conditions to

Chart 8 Money market interest rates

(percentages per annum; 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)

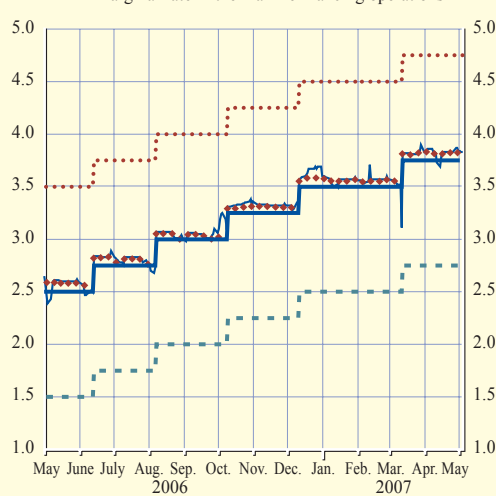


Sources: ECB and Reuters.

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.

be relatively loose. Given the size of the liquidity surplus foreseen by the ECB at the end of the maintenance period, a liquidity-absorbing fine-tuning operation was launched on 17 April. In that operation, market participants offered €42.2 billion, of which the ECB accepted €22.5 billion. The EONIA ended the maintenance period at 3.79% (see Chart 9). In the first weeks of the new maintenance period ending on 14 May, the EONIA remained stable at 3.83%, i.e. 8 basis points higher than the minimum bid rate. The EONIA then rose to 3.87% on 30 April owing to end-of-month effects. After 1 May, the EONIA declined somewhat and fell to 3.70%, i.e. 5 basis points below the current level of the minimum bid rate, on 9 May amid prevailing loose liquidity conditions.

In the maintenance period starting on 18 April, the marginal and average rates in the Eurosystem's main refinancing operations remained broadly stable. Liquidity was provided at a marginal rate of 3.81-3.82% and an average rate of 3.82-3.83%. In the Eurosystem's longer-term refinancing operation conducted on 26 April 2007, the marginal rate and the weighted average rate stood at 3.96% and 3.97% respectively. These tender rates were 5 and 4 basis points lower respectively than the three-month EURIBOR prevailing on that date.

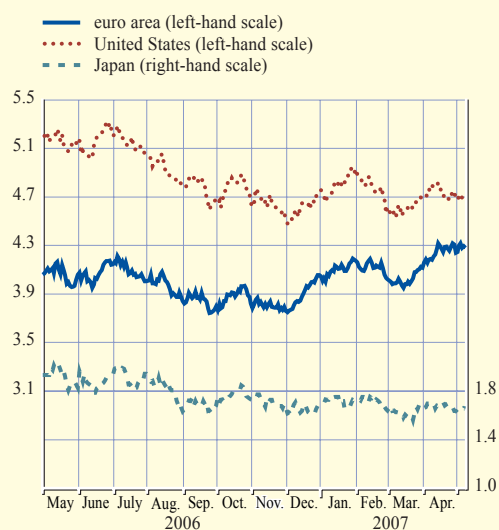
2.4 BOND MARKETS

Long-term government bond yields increased in the euro area in the course of April and early May, while comparable bond yields in the United States and Japan remained largely unchanged. The increase in euro area long-term rates was mainly driven by a similar rise in long-term real bond yields, which suggests that market participants have again become more optimistic regarding the growth outlook for the euro area economy. By contrast, inflation expectations and related risk premia, as reflected in break-even inflation rates, changed only little in the euro area between end-March and early May.

Long-term government bond yields in the euro area continued on their mild ascending trend in the course of April, while long-term rates in other major markets remained largely unchanged all in all (see Chart 10). In the euro area, ten-year government bond yields increased by around 17 basis points between end-March and 9 May, to stand at 4.3% on the latter date. In the United States, ten-year government bond yields ended the review period at a level of about 4.7%, which is more or less the same as that prevailing at the end of March. As a consequence, the differential between ten-year government bond yields in the United States and the euro area further narrowed to about 40 basis points on 9 May, which is the lowest level since November 2004. Since changes in nominal yields in these two economies have been driven mainly by corresponding changes in real yields, the narrowing in the interest rate differential likely reflects, to some extent, market participants'

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.

changing views about relative growth prospects in favour of the euro area. In Japan, ten-year government bond yields also changed very little since the end of March, standing at 1.7% at the end of the review period. Measures of implied bond market volatility remained broadly unchanged in the euro area and the United States, suggesting that market participants' uncertainty regarding the short-term outlook for the bond market remained rather low by historical standards.

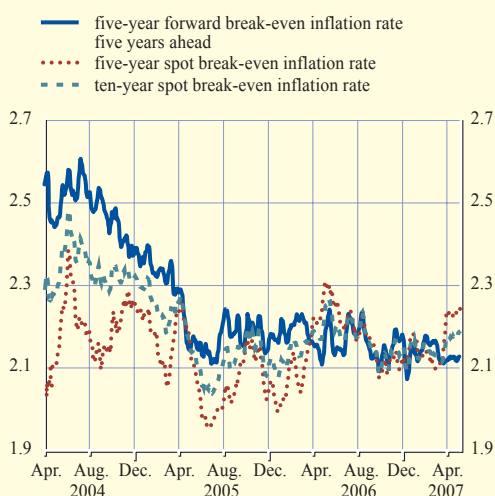
In the United States, long-term government bond yields remained broadly unchanged overall in April and early May, albeit with distinct intra-period movements. In early April ten-year government bond yields rose moderately, but that rise was reversed later in the month, especially after the release of the unexpected low figure for real GDP growth in the United States for the first quarter of 2007. Long-term index-linked government bond yields moved in tandem with nominal yields, leaving long-term break-even inflation rates almost unchanged over the review period. By 9 May the break-even inflation rate calculated from 2015-maturity bonds stood at a level of about 2.4%.

The upturn in euro area long-term nominal interest rates was mainly driven by similar increases in long-term real yields. The yield on index-linked bonds maturing in 2015 increased by 18 basis points to reach a level of 2.0% on 9 May. These developments suggest that market participants have again become more optimistic regarding the growth outlook for the euro area economy. Such views were supported by generally positive economic data releases over the review period. Despite the recent increases, euro area bond yields still stand at low levels. As discussed in Box 3, this may be partly related to institutional investors' demand for bonds.

Long-term break-even inflation rates, by contrast, hardly changed overall in the euro area in the period under review. The five-year forward break-even inflation rate five years ahead, a measure

Chart 11 Zero coupon spot and forward break-even inflation rates

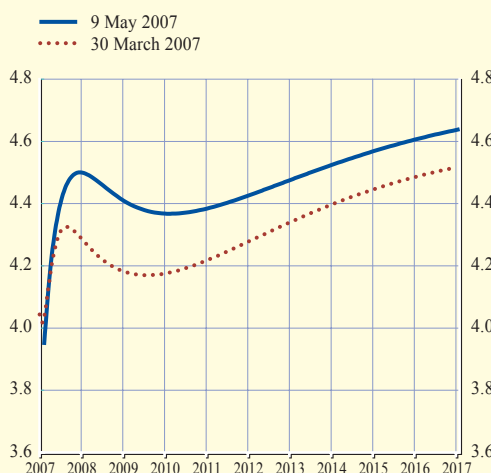
(percentages per annum; five-day moving averages of daily data)



Sources: Reuters and ECB calculations.

Chart 12 Implied forward euro area overnight interest rates

(percentages per annum; daily data)



Sources: ECB estimates and Reuters.

Notes: The implied forward yield curve, which is derived from the term structure of interest rates observed in the market, reflects market expectations of future levels for short-term interest rates. The method used to calculate these implied forward yield curves was outlined in Box 4 of the January 1999 issue of the Monthly Bulletin. The data used in the estimate are zero coupon swap rates.

of purely long-term inflation expectations and related risk premia, remained at a level of around 2.1% on 9 May (see Chart 11). Moreover, break-even inflation rates at five and ten-year maturities stood at very similar levels in early May, indicating that inflation expectations and inflation risk premia were rather flat over these horizons.

The implied forward overnight interest rate curve in the euro area experienced an upward shift over the review period across almost all horizons (see Chart 12). The Governing Council's decision on 12 April to keep the key ECB interest rates unchanged was well anticipated by markets and thus did not lead to a substantial revision of future interest rate expectations in the short run. The general upward shift of this curve may thus mainly reflect an upward revision by investors of growth prospects for the euro area economy over both shorter and longer horizons.

Box 3

DEMAND FOR BONDS BY INSTITUTIONAL INVESTORS AND BOND YIELD DEVELOPMENTS IN THE EURO AREA

Long-term bond yields in the euro area and in other major markets have been at very low levels in recent years. There is evidence supporting the view that low long-term bond yields reflect, to a large extent, unusually low levels of bond market risk premia, especially in real terms.¹ Several arguments put forward to explain low risk premia in the global bond markets point to certain groups of investors having considerably stepped up their demand for longer-dated bonds, pushing up long-term bond prices and depressing yields accordingly. For example, it is argued that a much increased demand for US bonds from in particular Asian central banks (investing accumulated foreign exchange reserves) and oil-exporting countries (recycling windfall profits from the strong increases in commodity prices) had such effects on US bond yields in recent years, which were then transmitted to the euro area and other major markets reflecting the high degree of substitutability between government bonds in the developed countries.

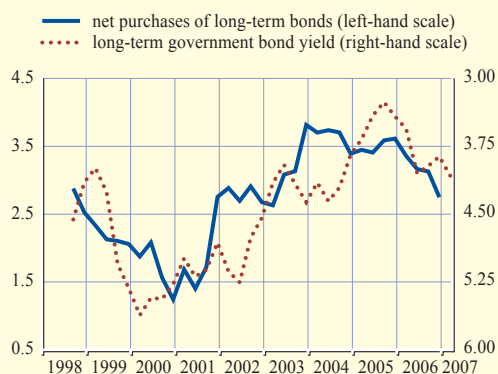
In the same vein, it has also been argued that institutional investors have shown a stronger demand for bonds related, among other things, to changes in the regulatory framework and in accounting rules, as well as to the ageing of the population and increasing life expectancies. This box presents some preliminary and purely descriptive evidence regarding the demand for long-term bonds from euro area insurance corporations, pension funds and mutual bond funds and its potential impact on long-term interest rates in the euro area.

Chart A plots the annual net purchases of long-term bonds by euro area insurance corporations and pension funds (as a percentage of the total outstanding amount of euro-denominated long-term government bonds) and the euro area ten-year government bond yields (plotted on an inverted scale) since the third quarter of 1998. Because a higher demand for bonds would, all else being equal, lead to lower bond yields, the chart may suggest that the bond demand from euro area insurance corporations and pension funds might indeed have played a role in driving euro area long-term bond yield developments in recent years. Periods of increasing and high

¹ See the box entitled "Recent developments in long-term real interest rates" in the April 2005 issue of the Monthly Bulletin; I. Alexopoulou, F. Drudi and J. Scheithauer, "What accounts for the low level of interest rates?", background paper to CGFS Paper No 27 on the BIS website; and the box entitled "Long-term real and inflation risk premia in the euro area bond market" in the April 2007 issue of the Monthly Bulletin.

Chart A Net purchases of long-term bonds by euro area insurance corporations and pension funds

(annual flows as a percentage of outstanding euro-denominated long-term government bonds; percentages per annum)

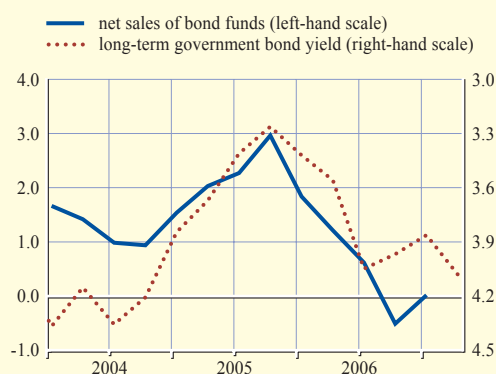


Sources: ECB and Reuters.

Notes: Long-term bonds refer to long-term securities other than shares. Government bonds refer to debt securities issued by the euro area general government.

Chart B Net sales of bond funds

(annual flows as a percentage of outstanding euro-denominated long-term government bonds; percentages per annum)



Sources: ECB, EFAMA and Reuters.

Notes: Bond funds refer to UCITS bond funds. Government bonds refer to debt securities issued by the euro area general government.

demand for bonds were typically associated with declining and low long-term government bond yields. This seems to be confirmed by Chart B, which plots the annual net sales of bond funds and the long-term bond yields in the euro area since the fourth quarter of 2003. The chart indicates that the lowest level of bond yields in recent years occurred at the times of the highest demand for bond funds.

However, the share of net purchases of long-term bonds by euro area insurance corporations and pension funds (as a percentage of the total outstanding amount of euro-denominated long-term government bonds), despite having increased, remained relatively modest at around 3.5%. Moreover, available evidence suggests that the direct effects of changes in pension and accounting regulations on long-term interest rates are quite limited, with estimates of up to -15 basis points.² Finally, it is also possible that this observed pattern of co-movement reflected common third factors. For example, during the IT-driven stock market bust which started in 2000, insurance corporations' and pension funds' increased bond demand reflected their desire to gradually reduce the share of equities in their asset portfolios. At the same time, the end of the technology boom was associated with a period of weaker economic activity and lower inflationary pressures in the euro area which, in turn, also contributed to lower bond yields.

All in all, the graphical illustrations of this box suggest a negative relation between the developments in the demand for bonds by institutional investors and long-term bond yields in the euro area. This pattern of co-movement is largely consistent with the hypothesis that stronger bond demand from institutional investors contributed to lower bond yields. However, the quantities involved are rather modest in terms of outstanding long-term government bonds (see Charts A and B), which tends to be an argument against the presumption that the stronger

² See Table 4 in "Institutional investors, global savings and asset allocation", CGFS Paper No 27, 2006; and Table 5 in G. Rudebusch, E. Swanson and T. Wu, "The bond yield 'conundrum' from a macro-finance perspective", Federal Reserve Bank of San Francisco Working Paper No 2006-16, 2006.

bond demand from euro area institutional investors has had a major impact on long-term bond yields. At the same time, it has to be borne in mind that the presented analysis is very partial and that other demand and supply factors play a role in determining long-term bond yields and could have likewise led to the observed co-movement between institutional investors' bond demand and bond yields. In particular, the data featured in this box only relate to the demand for bonds by euro area residents (and only for one specific sector), whereas in a global environment of highly integrated products and financial markets euro area bond yields tend to be strongly affected by international factors.³ Additional effects on euro area yields might thus be due to increased demand for long-term bonds from institutional investors from outside the euro area either by expanding their investment in euro area assets directly or via spillover effects from global bond markets.

³ See the box entitled "The developments of international linkages between government bond yield curves in the euro area and the United States" in the March 2007 issue of the Monthly Bulletin.

2.5 INTEREST RATES ON LOANS AND DEPOSITS

In February 2007 the majority of MFI interest rates continued their upward trend, while some bank rates declined slightly. Interest rates on long-term deposits decreased for both households and non-financial corporations. Over a longer period, the pass-through of market interest rates to bank interest rates was more pronounced for short-term interest rates.

In February 2007 short-term MFI interest rates on deposits and loans tended to increase slightly following market rates, although developments were mixed (see Table 4 and Chart 13). Between end-January and end-February 2007 interest rates on short-term loans to households for house purchase increased further by 5 basis points, while interest rates on short-term loans to households for consumption purposes decreased by 7 basis points. At the same time, MFI interest rates on loans to non-financial corporations with floating rates and an initial rate fixation of up to one year increased by 6 basis points for both small and large loans. In addition, bank rates on deposits from households increased by 3 basis points, while they decreased slightly on deposits from non-financial corporations.

Looking back over a longer period, the pass-through of increases in short-term interest rates from market rates to bank rates, which was lagging behind in early 2006 following the start of the interest rate increase cycle, has caught up over the last few months. Between September 2005 and February 2007 the three-month money market rate rose by 168 basis points. At the same time, MFI interest rates on deposits by households with an agreed maturity of up to one year rose by 140 basis points. By contrast, MFI rates on short-term loans to households for consumption purposes rose by only 77 basis points, albeit from much higher levels. In addition, bank interest rates on loans with an initial rate fixation of one year increased by around 149 basis points for loans to non-financial corporations and 138 basis points for loans for house purchase.

In February 2007 long-term MFI interest rates on deposits from households and non-financial corporations decreased by 23 and 7 basis points respectively compared with the previous month (see Table 4 and Chart 14), while two-year government bond yields increased slightly. At the same time, long-term MFI rates on loans to households for house purchase and loans to non-financial corporations of up to €1 million increased by around 10 basis points. However,

Table 4 MFI interest rates on new business

(percentages per annum; basis points; weight-adjusted¹⁾)

							Change in basis points up to Feb. 2007 ²⁾		
	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Jan.	2007 Feb.	2006 July	2006 Oct.	2007 Jan.
MFI interest rates on deposits									
Deposits from households									
with an agreed maturity of up to one year	2.36	2.56	2.87	3.26	3.33	3.36	67	33	3
with an agreed maturity of over two years	2.43	2.57	2.68	2.84	2.90	2.67	-12	-17	-23
redeemable at notice of up to three months	1.98	2.03	2.26	2.37	2.35	2.35	27	6	0
redeemable at notice of over three months	2.37	2.52	2.68	2.86	2.97	3.07	50	33	10
Overnight deposits from non-financial corporations									
	1.15	1.23	1.36	1.53	1.60	1.62	37	17	2
Deposits from non-financial corporations									
with an agreed maturity of up to one year	2.48	2.70	2.98	3.47	3.49	3.48	70	29	-1
with an agreed maturity of over two years	3.34	3.23	3.70	4.04	4.08	4.01	9	-18	-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	6.77	7.15	7.89	7.65	7.79	7.72	40	9	-7
Loans to households for house purchase									
with a floating rate and an initial rate fixation of up to one year	3.74	4.02	4.31	4.54	4.65	4.70	59	28	5
with an initial rate fixation of over five and up to ten years	4.23	4.51	4.63	4.55	4.58	4.67	12	8	9
Bank overdrafts to non-financial corporations									
	5.30	5.46	5.69	5.80	5.90	5.98	46	22	8
Loans to non-financial corporations of up to €1 million									
with a floating rate and an initial rate fixation of up to one year	4.23	4.47	4.74	5.08	5.16	5.22	64	31	6
with an initial rate fixation of over five years	4.19	4.40	4.59	4.67	4.65	4.75	30	15	10
Loans to non-financial corporations of over €1 million									
with a floating rate and an initial rate fixation of up to one year	3.50	3.74	4.02	4.49	4.45	4.51	67	29	6
with an initial rate fixation of over five years	4.22	4.26	4.48	4.63	4.72	4.70	22	23	-2
Memo items									
Three-month money market interest rate	2.72	2.99	3.34	3.68	3.75	3.82	72	32	7
Two-year government bond yield	3.22	3.47	3.62	3.79	3.94	3.96	38	27	2
Five-year government bond yield	3.47	3.78	3.70	3.83	4.02	4.02	18	25	0

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. Quarterly data refer to the end of the quarter.

2) Figures may not add up due to rounding.

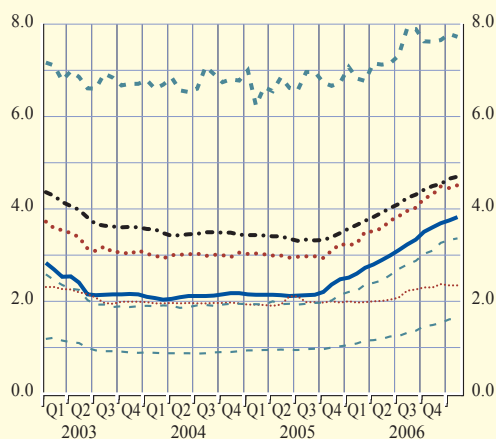
long-term rates on loans to non-financial corporations of over €1 million decreased slightly (see Chart 14).

In the case of long-term rates, the pass-through of interest rate increases since September 2005 is still sluggish. The two and five-year euro area government bond yields rose by 175 and 142 basis points respectively between September 2005 and February 2007. Over the same period, long-term deposit rates for households increased by only 64 basis points. As for lending rates, MFI interest rates on loans to households for house purchase with an initial rate fixation of over five and up to ten years only rose by around 67 basis points. In the case of loans to non-financial corporations with an initial rate fixation of over five years, MFI interest rates increased by 69 to 82 basis points depending on the size of the loan. Increased competition from other banks, as well as from non-banks, may have been behind the compression of bank spreads. The rather sluggish pass-through to long-term lending rates is, however, broadly in line with historical experience partly reflecting interest rate smoothing by banks.

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

(percentages per annum; rates on new business; weight-adjusted)¹⁾

- three-month money market rate
- loans to non-financial corporations of over €1 million with a floating rate and an initial rate fixation of up to one year
- - - loans to households for consumption with a floating rate and an initial rate fixation of up to one year
- overnight deposits from non-financial corporations
- deposits from households redeemable at notice of up to three months
- - - deposits from households with an agreed maturity of up to one year
- - - loans to households for house purchase with a floating rate and an initial rate fixation of up to one year



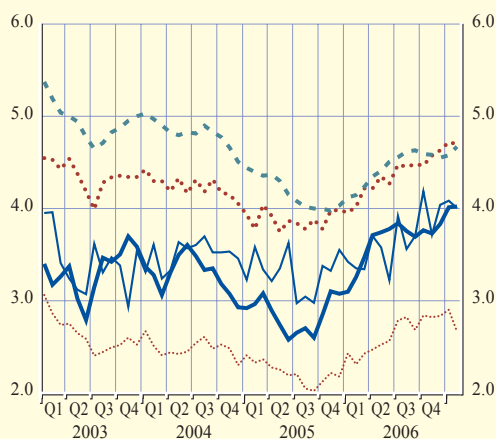
Source: ECB.

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-adjusted)¹⁾

- five-year government bond yield
- loans to non-financial corporations of over €1 million with an initial rate fixation of over five years
- - - loans to households for house purchase with an initial rate fixation of over five and up to ten years
- deposits from non-financial corporations with an agreed maturity of over two years
- deposits from households with an agreed maturity of over two years



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.

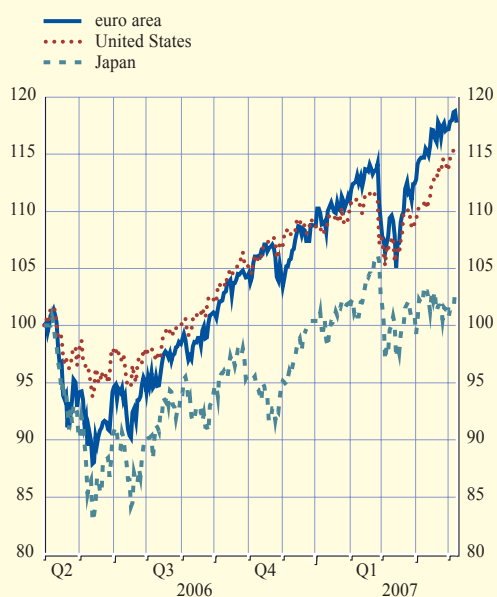
2.6 EQUITY MARKETS

Stock prices in the euro area and the United States increased further between the end of March and early May. The performance of the euro area stock market in that period was generally supported by continued robust actual and expected earnings growth which, in turn, might also be related to the generally favourable data releases on economic activity in the euro area. At the same time, stock market uncertainty, as measured by implied volatility, remained at subdued levels in the major markets.

Broad-based stock price indices continued to rise in major markets in the course of April and at the beginning of May (see Chart 15). Euro area and US stock prices, as measured by the Dow Jones EURO STOXX index and the Standard and Poor's 500 index, increased by around 5% and 6% respectively between the end of March and 9 May 2007. Stock prices in Japan, as measured by the Nikkei 225 index, increased mildly in the same period. At the same time, stock market uncertainty, as measured by the implied volatility extracted from stock options, changed little

Chart 15 Stock price indices

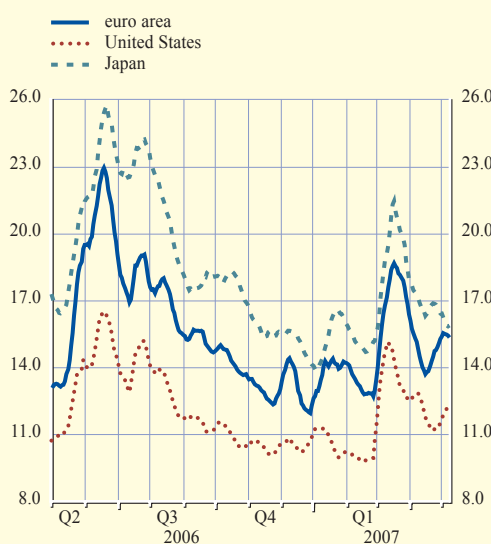
(index: 1 May 2006 = 100; daily data)



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.
Notes: The implied volatility series reflects the expected standard deviation of percentage changes in stock prices 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.

overall in major markets. Hence, global stock market uncertainty remained at relatively low levels in early May 2007 (see Chart 16).

In the United States, stock markets appeared rather resilient in the face of recent mixed data releases on the US economy. For example, the decline in consumer confidence, slower growth in personal spending and lower than expected GDP growth in the first quarter only temporarily and marginally affected the Standard & Poor's 500 index, which continued to rise in the course of April based on solid earnings growth. In fact, the actual annual earnings growth for corporations in the Standard & Poor's 500 index remained broadly unchanged compared with March 2007, at around 14%. At the same time, analysts' expected earnings growth twelve months ahead remained high at levels of about 8% in April 2007, while long-term expected earnings growth remained at the elevated level of 12% according to I/B/E/S (Institutional Brokers' Estimate System) data. Additionally, the overall decline in oil prices over recent months might have underpinned developments in stock prices.

Euro area stock prices, as measured by the Dow Jones EURO STOXX index, continued their renewed upward trend over the review period, reaching the highest level in the last seven years. Generally positive news about economic activity in the euro area might have supported stock prices through the likely positive impact on the earnings outlook of listed companies, which may have offset the negative effects from higher long-term interest rates (see Section 2.4). Survey-based measures of expected earnings growth remained robust in the course of April and supported favourable developments in the euro area stock markets. In April 2007 stock market analysts

expected earnings per share for companies included in the Dow Jones EURO STOXX index to grow at a rate of around 9% over the next twelve months and at around 7% over the next three to five years, according to I/B/E/S data. Moreover, the actual year-on-year earnings growth for firms in the Dow Jones EURO STOXX index, albeit trending slightly downwards since September, remained high at a rate of about 15% in April 2007. Stock prices around the globe might have also benefited from lower equity risk premia reflecting investors' generally increased appetite for risk as suggested, for example, by the April Merrill Lynch Global Fund Manager Survey. Although the rise was notable across all sectors of the index, the main sectors driving the strong performance of the euro area stock market were the technology, the industrial and the financial sectors, with rises of around 6%.

Implied volatility remained broadly unchanged overall in the euro area, indicating little change in market participants' uncertainty about near-term stock price moves. Hence, euro area stock market uncertainty remained at relatively low levels by historical standards in early May. Moreover, euro area corporate bond spreads at the lower end of the rating spectrum narrowed slightly further over the review period, which may also indicate a resumption in the general decline in the risk premia demanded by investors for more risky assets such as stocks after the temporary reversal in late March.

3 PRICES AND COSTS

HICP inflation is estimated to have been at 1.8% in April 2007. HICP data for March 2007, which contain a detailed breakdown of components, indicate that energy prices have continued to play a strong role in shaping overall HICP inflation. In general, some price pressures appear to be present in the context of robust economic activity. Indeed, the indicators currently available, such as producer prices and business survey data, suggest ongoing domestic price pressures arising from high non-labour input costs and the strengthening pricing power of firms, while wage developments remained contained until the end of last year. Looking ahead, and barring further increases in oil prices, favourable base effects from oil price developments last year are expected to contribute to some decline in annual HICP inflation until August, whereas unfavourable base effects thereafter would push up annual inflation towards the end of the year. Several upside risks remain for HICP inflation. These are related, in particular, to the possibility of stronger than currently expected labour cost pressures, due to emerging constraints in some segments of the labour market, but also to further rises in oil prices, increases in administered prices and indirect taxes beyond those already envisaged, and the pass-through of still strong producer prices in a context of a higher pricing power of firms.

3.1 CONSUMER PRICES

FLASH ESTIMATE FOR APRIL 2007

According to Eurostat's flash estimate, HICP inflation was 1.8% in April 2007 (see Table 5), down from 1.9% in March. Although a detailed breakdown of the HICP components in April will only become available in mid-May, there was a significant base effect in April due to past energy price developments, which exerted a downward impact of around 0.2 percentage point on the annual rate of change.

HICP INFLATION UP TO MARCH 2007

The increase in euro area annual HICP inflation from 1.8% in February to 1.9% in March 2007 was mainly driven by a sizeable rise in the energy component of the HICP. When viewed more generally over recent months, however, annual changes in HICP components have also involved a continuation of upward movements in some less volatile components. This latter pattern of gradual increases may reflect some upward pressure on prices from higher input costs and pricing

Table 5 Price developments

(annual percentage changes, unless otherwise indicated)

	2005	2006	2006 Nov.	2006 Dec.	2007 Jan.	2007 Feb.	2007 Mar.	2007 Apr.
HICP and its components								
Overall index ¹⁾	2.2	2.2	1.9	1.9	1.8	1.8	1.9	1.8
Energy	10.1	7.7	2.1	2.9	0.9	0.8	1.8	.
Unprocessed food	0.8	2.8	4.4	3.7	3.7	2.8	2.9	.
Processed food	2.0	2.1	2.2	2.1	2.2	2.1	1.9	.
Non-energy industrial goods	0.3	0.6	0.8	0.9	0.9	1.1	1.2	.
Services	2.3	2.0	2.1	2.0	2.3	2.4	2.4	.
Other price indicators								
Industrial producer prices	4.1	5.1	4.3	4.1	3.1	2.9	2.7	.
Oil prices (EUR per barrel)	44.6	52.9	46.7	47.4	42.2	44.9	47.3	50.2
Non-energy commodity prices	9.4	24.8	22.9	17.7	15.6	13.9	17.6	15.3

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

1) HICP inflation in April 2007 refers to Eurostat's flash estimate.

power along with the German VAT increase of January 2007.

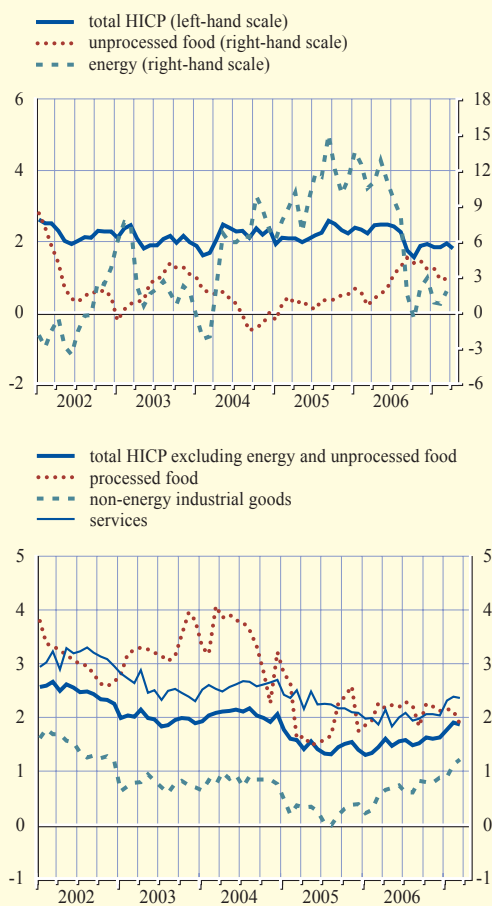
As regards the more volatile components of the HICP, a sizeable increase in the annual rate of change of energy prices contrasted with a relatively stable annual rate of change in unprocessed food prices. The annual rate of change of energy prices rose to 1.8% in March 2007 (see Chart 17), from 0.8% in February, mainly on account of a strong increase in the prices of fuels and lubricants for personal transport equipment. While the annual rate of change of unprocessed food prices edged up to 2.9% in March, from 2.8% a month earlier, seasonally adjusted unprocessed food prices declined on a month-on-month basis, mainly because of the mild weather conditions across Europe.

Concerning the less volatile components of the HICP, there was an increase in the annual rate of change in the prices of non-energy industrial goods, to 1.2%, continuing the upward movement witnessed in this component over recent months. Although the annual rate of change in services prices remained stable in March, at 2.4%, a similar upward movement had also been witnessed in this component over the previous few months. The annual rate of change in processed food prices declined to 1.9% in March, from 2.1% a month earlier.

Administered prices and indirect taxes continued to influence HICP inflation into early 2007, particularly in the context of the German VAT rise of January 2007. More generally, as discussed in Box 4, the impact of administered prices and indirect taxes on euro area inflation has increased over the past few years.

Chart 17 Breakdown of HICP inflation: main components

(annual percentage changes; monthly data)



Source: Eurostat.

Box 4

MEASURING AND ASSESSING THE IMPACT OF ADMINISTERED PRICES ON HICP INFLATION

Although inflation in the medium term is ultimately determined by monetary policy developments, conjunctural economic analysis and forecasting require an understanding of the factors behind short-term disaggregate HICP dynamics. Two prominent channels through which governments can have a direct impact on price-setting are indirect taxes and administered prices.

Statistical developments

Over the past two years work has been ongoing in Eurostat and the national statistical institutes of the EU Member States to calculate an auxiliary HICP index with a view to removing the direct impact of changes in indirect taxes from the overall HICP. At the same time, the ECB, with the cooperation of the NCBs of the ESCB, has been compiling HICP-based estimates of administered prices. These experimental estimates for the euro area are now published for the first time in this issue of the Monthly Bulletin (see Table 5.1 of the “Euro area statistics” section). The analysis given in this box aims to present the newly available information on administered prices and assess their direct influence on euro area inflation.

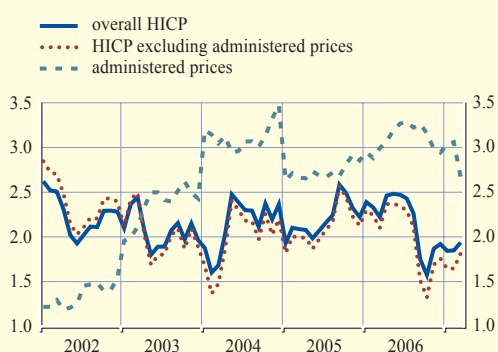
The new ECB estimates of administered prices aim to show the development of a subset of prices in the HICP basket that are either directly set or significantly influenced by the government (including central, regional and local government, as well as national regulators) via measures other than changes in indirect taxes. Examples for administered prices include local transportation charges, education fees, regulated rents and telephone tariffs that may, depending on national practices, require approval by regulatory authorities. The estimates are compiled by the ECB based on the HICP sub-indices and weights for euro area countries as published by Eurostat. The euro area results are based on an assessment of national price administration practices for the goods and services contained in each of the 93 detailed HICP sub-indices.¹ A breakdown is also compiled for fully administered prices (i.e. those prices directly set by the government) and mainly administered prices (i.e. those prices on whose development the government or any national regulator has a very significant influence).² It should be noted that, owing to the difficulty in isolating the impact of government decisions from other influences on price-setting, the estimates can only provide an approximation of price changes due to administrative decisions and should therefore be interpreted with caution.³

Impact of administered prices on HICP inflation

According to the new estimates of the HICP-based administered prices index, in the period from January 2002 to March 2007⁴ the year-on-year rate of change in administered prices was, on average, 2.5%. It rose from a low of 1.2% towards the beginning of the period to

Chart A Overall HICP and administered prices

(annual percentage changes)



Sources: Eurostat and ECB estimates based on Eurostat data.

1 The fact that the new estimates take account of differences in national price administration practices in the euro area countries is a major improvement compared with previously published estimates (see, for example, the box entitled “The impact of developments in indirect taxes and administered prices on inflation” in the January 2004 edition of the Monthly Bulletin).

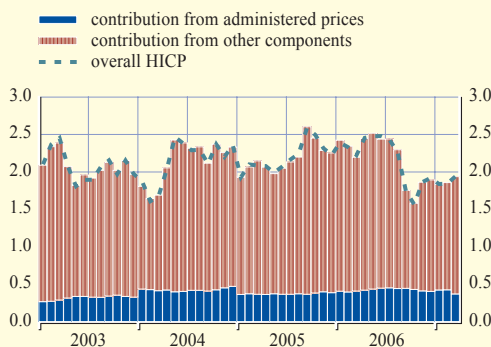
2 The administered price estimates (including these sub-indices) can be downloaded from the website of the ECB’s Statistical Data Warehouse at <http://sdw.ecb.int/browse.do?currentNodeId=2120778>

3 For further details of the methodology used in the compilation of this indicator see <http://www.ecb.int/stats/prices/hicp/html/index.en.html>

4 The new HICP-based administered prices index starts from January 2001.

Chart B Contribution of changes in administered prices to overall HICP inflation

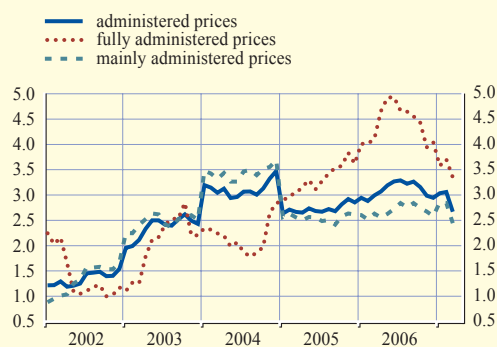
(annual percentage changes; contributions in percentage points)



Sources: Eurostat and ECB calculations based on Eurostat data.

Chart C Administered prices and components

(annual percentage changes)



Sources: Eurostat and ECB estimates based on Eurostat data.

a high of 3.5% in December 2004, and stood at 2.7% in March 2007 (see Chart A). As of May 2003 administered prices grew faster than the overall HICP. Administered prices have therefore been adding to upward price pressures, which is also visible when comparing the actual annual HICP inflation for the euro area with a synthetic index that excludes such prices.

The total share of administered prices in the overall HICP is 13.9% in 2007. Over the past few years the contribution of changes in administered prices to aggregate annual HICP inflation has been significant and does not seem to be correlated with the overall inflation rates (see Chart B). In March 2007 the contribution was 0.4 percentage point, in line with its average since 2003. Starting from its lowest level of 0.3 percentage point at the beginning of 2003, the contribution of administered prices to the annual inflation rates in the euro area peaked at nearly 0.5 percentage point during 2004, mainly driven by the healthcare reform in Germany.

Focusing on administered prices that are classified as fully administered (see Chart C), changes in their annual rates are considerably more volatile than those of the administered component taken as a whole. Fully administered prices recorded their lowest growth rate of 1% in October and November 2002 and their highest growth rate of 4.9% in May and June 2006, while their current rate of 3.3% in March 2007 is still high. However, this component has a relatively low weight of 3.5% in the overall HICP.

It is important to keep in mind that the precise quantification of the impact of administered prices on HICP inflation is subject to a number of uncertainties. For example, although the newly compiled administered price index offers more precise information than previously available, inevitably it is not possible to distinguish perfectly between price changes that have occurred due to government intervention and those driven by market developments, such as price pressures stemming from imperfect competition on certain product markets, underlying costs and other factors outside government control. Border-line cases and decisions in the classification of certain items are therefore unavoidable.

An assessment of the overall direct impact of government measures on inflation developments should also take into consideration the influence of indirect taxes. According to the latest ECB staff projections⁵, indirect taxes are expected to contribute 0.5 percentage point to euro area HICP inflation in 2007. This is significantly above the average contribution of about 0.2 percentage point in previous years. Further information will be available after Eurostat and the national statistical institutes complete their project to calculate an auxiliary HICP index that maintains indirect taxes constant over time, assuming a full and immediate pass-through of changes in tax rates. The first results from this index are expected to be published by Eurostat by the end of 2007.

Overall the impact of government policies on euro area inflation through price administration and indirect taxation generally appears to be non-negligible and has increased over recent years. This has to be taken into account when assessing overall price pressures in order to maintain inflation rates below, but close to, 2% over the medium term.

⁵ See the box entitled “ECB staff macroeconomic projections for the euro area” in the March 2007 issue of the Monthly Bulletin.

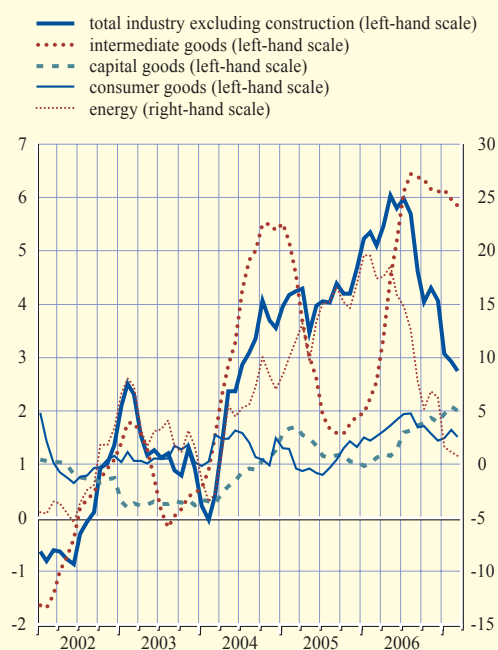
3.2 INDUSTRIAL PRODUCER PRICES

In March 2007 the annual rate of change in total industrial producer prices (excluding construction) stood at 2.7%, slightly down from 2.9% in February (see Chart 18). This development was mainly due to the energy component, reflecting base effects from past increases in oil prices. The annual rate of change in the PPI excluding energy and construction remained virtually constant, at 3.4%. This reflects only minor declines in all three main components. Intermediate goods annual inflation remained at quite elevated levels in March, declining by 0.2 percentage point to 5.8%, reflecting the pass-through of high raw materials prices. The annual inflation rate of capital and consumer goods declined by 0.1 percentage point, to rates of 2.0% (capital and durable consumer goods) and 1.4% (non-durable consumer goods). Despite these latest declines, recent developments in both consumer and capital goods components of the PPI continue to also indicate some pass-through of past increases in the costs of raw materials.

The latest business survey information on price-setting also suggests that price pressures remain high in both the manufacturing and services sectors (see Chart 19). Nevertheless, according to NTC Economics, the latest changes in April 2007 vary between manufacturing and services. The rate of price increases in manufacturing – while still indicative of upward pressure – is slowing down, influenced by both a slower growth of input costs and the need to compete on prices to maintain sales volumes. In contrast, inflation pressures in services picked up further in April, as suggested by survey indicators for both input prices and prices charged. According to survey respondents, these developments reflect capacity constraints, strengthening demand and the heightened pricing power of firms in the services sector.

Chart 18 Breakdown of industrial producer prices

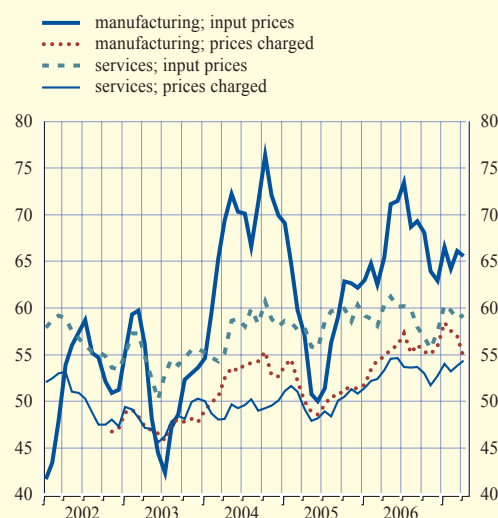
(annual percentage changes; monthly data)



Sources: Eurostat and ECB calculations.

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.

3.3 LABOUR COST INDICATORS

The information available suggests that labour cost growth remained generally moderate until the end of 2006. The annual rate of change in hourly labour costs was 2.5% in the fourth quarter of 2006 (see Chart 20). This rate of change was similar to (upwardly revised) figures for the first three quarters of the year. The resulting annual increase in total hourly labour costs of 2.5% for 2006 as a whole was marginally above the average growth observed in the previous two years (see Table 6). A small increase is also evident in negotiated wage growth for 2006 as a whole.

Table 6 Labour cost indicators

(annual percentage changes, unless otherwise indicated)

	2005	2006	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4
Negotiated wages	2.1	2.2	2.0	2.1	2.4	2.0	2.4
Total hourly labour costs	2.4	2.5	2.4	2.5	2.6	2.5	2.5
Compensation per employee	1.6	2.2	2.1	2.2	2.4	2.4	1.8
<i>Memo items:</i>							
Labour productivity	0.7	1.4	1.1	1.2	1.4	1.2	1.8
Unit labour costs	0.9	0.8	0.9	1.0	1.0	1.1	0.0

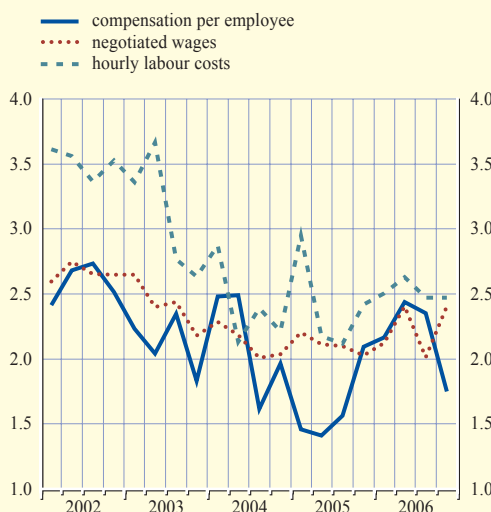
Sources: Eurostat, national data and ECB calculations.
Note: Data on negotiated wages do not include Slovenia.

A sectoral decomposition indicates that, whereas the annual rate of growth of hourly labour costs increased in both construction and market-related services in the fourth quarter of the year, while decelerating in industry (see Chart 21), wages in industry continued to grow more strongly than in market services in annual average terms.

The fall in the annual growth rate of compensation per employee for the euro area, to 1.8% in the fourth quarter of 2006, from an upwardly revised 2.4% in the third quarter, was largely driven by specific temporary developments in the public sector in Italy. This fall in compensation per employee growth, together with a surge in productivity developments, pushed unit labour cost growth down to zero in the fourth quarter of 2006, after having been stable at 1.0% in the first three quarters. Thus, data for 2006 confirm that increases in unit labour costs were rather subdued on account of overall moderate wage developments and a significant pick-up in productivity growth. To some extent this moderation may reflect structural factors, such as the impact of globalisation and associated strong competition, as well as changes in the composition of employment towards lower wage-earners as a result of past reforms. However, looking ahead, against the backdrop of an improving cyclical position, and given the favourable growth momentum observed recently in the euro area and a tightening of labour market conditions, risks of increasing wage pressures are rising.

Chart 20 Selected labour cost indicators

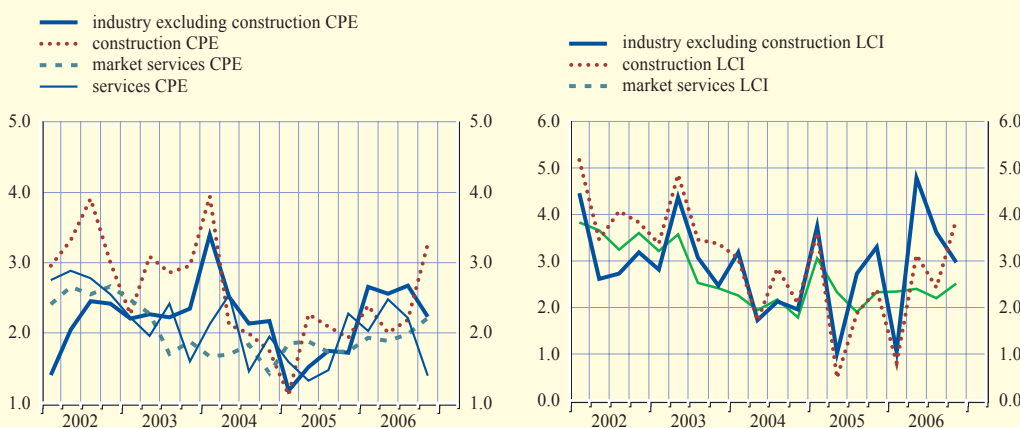
(annual percentage changes; quarterly data)



Sources: Eurostat, national data and ECB calculations.
Note: Data on negotiated wages do not include Slovenia.

Chart 21 Sectoral labour cost developments

(annual percentage changes; quarterly data)



Sources: Eurostat and ECB calculations.
Note: CPE is compensation per employee and LCI is hourly labour cost index.

3.4 EURO AREA RESIDENTIAL PROPERTY PRICES

The deceleration in euro area residential property prices since mid-2005 continued through the second half of 2006, despite residential property market developments remaining buoyant in many parts of the euro area (see Box 5). According to the latest estimates, the annual growth rate of residential property prices for the euro area as a whole was 6.0% in the second half of 2006, down from 6.9% in the first half of last year. This brought the annual growth rate of residential property prices in the euro area for 2006 to 6.4%, compared to a growth rate of 7.9% in 2005.

Box 5

RECENT DEVELOPMENTS IN EURO AREA RESIDENTIAL PROPERTY PRICES

This box provides an overview of recent developments in residential property markets in the euro area, focusing on price changes against the background of trends in housing demand and supply.

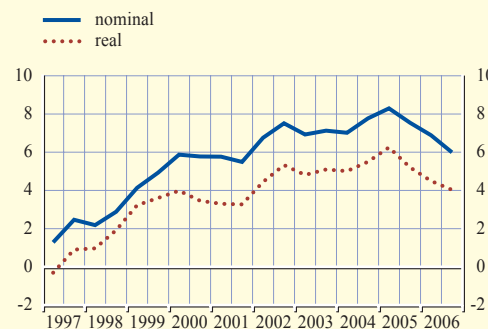
Recent property price developments

The deceleration in euro area residential property prices already observed in the second half of 2005 has continued in 2006. According to the latest estimates, the annual growth rate of residential property prices for the euro area as a whole was 6.0% in the second half of 2006, down from 6.9% in the first half of 2006 (see Chart A). This brought the annual growth rate of residential property prices in the euro area for 2006 to 6.4%, compared with a growth rate of 7.9% in 2005. The country data available, while revealing some degree of heterogeneity within the euro area, confirm that a gradual slowing in the annual growth rate of house prices is taking place in a number of countries (see table).

Data available for 2006 show that most countries that have witnessed strong increases in house prices in 2005, with rates close to or above 10%, experienced moderation in the course of 2006. For Belgium, France and Italy, 2006 represented the first year of moderation, while for Spain, 2006 constituted a continuation of the moderation that started in 2005. In Ireland, data available for the first half of 2006 showed continued strong growth, but more up-to-date information suggests that a gradual deceleration has taken place since mid-2006. Recent data also show for the first time a pick-up in house prices in Germany, following a period of subdued developments.

Chart A Residential property prices in the euro area

(annual percentage changes; semi-annual data)



Source: ECB calculations based on national data.
Note: Real residential property price series calculated using the euro area HICP as a deflator. Euro area residential property price aggregate built from national series covering more than 90% of euro area GDP for the whole period.

Residential property prices in the euro area countries

(annual percentage changes)

	1997-2000	2001	2002	2003	2004	2005	2006	2005		2006	
								H1	H2	H1	H2
Belgium ¹⁾	6.7	6.7	7.7	6.1	10.7	18.5	11.2	18.7	18.2	12.3	10.2
Germany ²⁾	-0.5	0.2	-1.3	-1.3	-1.6	-1.6	0.3	-	-	-	-
Ireland ²⁾	21.0	8.1	10.1	15.2	11.4	11.5	-	10.8	12.1	13.6	-
Greece ²⁾	10.5	14.4	13.9	5.4	2.2	11.0	-	9.2	12.7	-	-
Spain ²⁾	6.2	9.9	15.7	17.6	17.4	13.9	10.4	14.8	13.1	11.4	9.5
France ³⁾	4.4	7.9	8.3	11.7	15.2	15.3	12.0	15.5	15.1	13.9	10.4
Italy ²⁾	1.5	7.4	13.7	10.6	9.2	9.6	6.7	11.6	7.8	6.4	7.0
Luxembourg ¹⁾	5.5	13.8	11.7	12.9	10.0	-	-	-	-	-	-
Netherlands ³⁾	14.1	11.2	8.5	4.9	4.1	4.8	4.5	4.8	4.9	4.9	4.2
Austria ^{2), 4)}	-1.8	2.2	0.2	0.3	-2.2	5.1	4.0	6.8	3.4	4.1	4.0
Portugal ²⁾	5.8	3.6	1.1	1.6	0.4	-	-	1.9	-	-	-
Slovenia	-	-	-	-	-	-	-	-	-	-	-
Finland ³⁾	10.6	0.7	6.1	6.3	7.3	6.1	-	4.6	7.6	8.3	-
Euro area	3.7	5.6	7.1	7.0	7.4	7.9	6.4	8.3	7.5	6.9	6.0

Sources: National sources and ECB calculations.

Note: Weights based on 2005 nominal GDP.

1) New and existing houses; whole country.

2) All dwellings (new and existing houses and flats); whole country.

3) Existing dwellings (houses and flats); whole country.

4) Up to 2000, data for Vienna only.

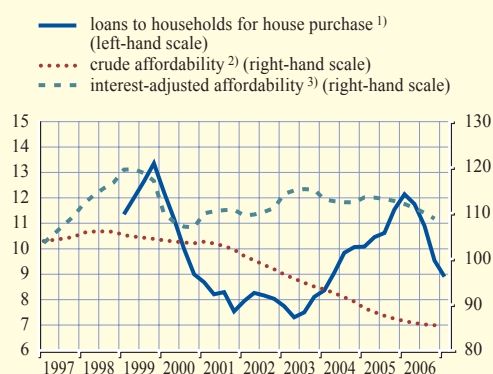
Developments in demand-side indicators

Developments in euro area house prices reflect the interaction of supply and demand for housing.¹ As regards housing demand, the most recent signals from indicators such as measures of housing affordability and financial indicators point to a gradual cooling of demand for residential properties in 2006 and early 2007.

Measures of housing affordability combine various indicators of household income and financing conditions. Even though household nominal disposable income growth has increased during 2006 compared with 2005, it has remained clearly below the growth rate in residential property prices. As a result, “crude” affordability – as measured by the ratio of households’ nominal disposable income to residential property prices – continued to decline in 2006 in line with the declining path observed since about 2001 (see Chart B). In 2006 measures of interest-adjusted affordability² have also moved in the same direction. This reflects to a large extent the turning point in

Chart B Selected housing demand indicators in the euro area

(annual percentage changes; index 100 = average)



Sources: Eurostat and ECB calculations.

1) Data for loans to households for house purchase available up to March 2007.

2) Ratio of households’ nominal disposable income to residential property prices.

3) Ratio of households’ nominal disposable income to the income that households would require in order to buy a house under the prevailing borrowing conditions.

1 For a detailed analysis of available indicators of demand and supply of housing, see the article entitled “Assessing house price developments in the euro area” in the February 2006 issue of the Monthly Bulletin.

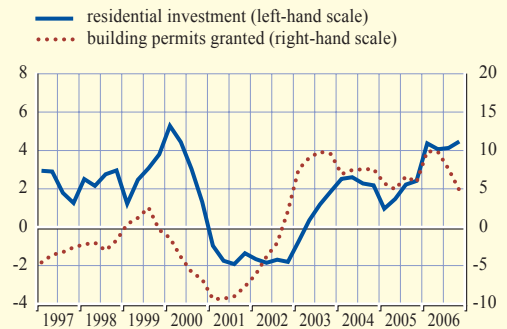
2 Interest-adjusted affordability measures consist of the ratio of households’ nominal disposable income to the income that households would require in order to buy a house under the prevailing borrowing conditions. For more detailed information, see the article entitled “Assessing house price developments in the euro area” in the February 2006 issue of the Monthly Bulletin.

financing conditions in late 2005 as both nominal and real bank lending rates for house purchase, after having reached historical record low levels in 2005, increased during 2006.

Some normalisation of housing demand can also be seen in the development of mortgage loans. The annual growth rate of MFI loans to households for house purchase, after having reached a peak in March 2006 (at levels around 12.1%), started to gradually decline, reaching levels of about 8.9% in March 2007 (see Chart B). This decline most likely reflects the increase in borrowing costs, together with the slight deceleration in house price growth. Overall, available indicators and survey data suggest that housing demand continued to moderate in early 2007.

Chart C Selected housing supply indicators in the euro area

(annual percentage changes)



Sources: Eurostat and ECB calculations.
Note: Both indicators are reported as four-quarters moving average of quarter-on-quarter growth.

Developments in housing supply

Turning to housing supply, the available indicators give a mixed picture. For example, residential investment growth in the euro area, which can be associated with the flow into housing stock, increased significantly in 2006 compared with 2005. The annual growth rate recorded in 2006, at 4.7%, was the highest since 1994 (see Chart C). However, as regards the growth in building permits granted, some signs of deceleration can be detected towards the second half of 2006. Unfortunately, the picture of housing supply in the euro area remains partial, given the lack of homogeneous and timely data on important indicators such as land prices and housing completions.

Overall, recent information appears to be in line with a cooling down of housing market developments after a prolonged period of unusually high growth rates in house prices. However, in real terms, deflated by the HICP, house price growth still remains relatively buoyant in the euro area on average when seen in historical perspective (see Chart A). Moreover, the real growth rate of mortgage credit remains high from a long-term point of view. Housing market developments therefore need to continue to be monitored closely.

3.5 THE OUTLOOK FOR INFLATION

Barring further increases in oil prices, annual HICP inflation is expected to fall in the coming months, but to rise again towards the end of the year to around 2%, following a time pattern heavily influenced by last year's volatility in energy prices. The outlook for inflation is subject to a number of upside risks. First, further rises in oil prices remain a risk to the outlook for HICP inflation. Second, there is a risk of additional increases in administered prices and indirect taxes beyond those announced and decided thus far. Third, and more fundamentally, stronger than currently expected wage developments could pose significant upward risks to the inflation outlook,

not least in view of the favourable momentum in labour market conditions observed over the past few quarters. The results of the latest Survey of Professional Forecasters, conducted by the ECB in April 2007, show broadly similar expectations and assessment of risks to the inflation outlook (see Box 6).

Box 6

RESULTS OF THE ECB SURVEY OF PROFESSIONAL FORECASTERS FOR THE SECOND QUARTER OF 2007

This box reports the results of the ECB Survey of Professional Forecasters (SPF) for the second quarter of 2007. The survey was conducted between 16 and 23 April 2007. The SPF gathers information on expectations for euro area inflation, GDP growth and unemployment from experts affiliated to financial or non-financial institutions based in the EU. Given the diversity of the panel of participants, aggregate SPF results can reflect a relatively heterogeneous set of subjective views and assumptions.

Inflation expectations for 2007 and 2008

SPF participants revised down, on average, their inflation expectations for 2007 to 1.9%, from 2.0% in the previous SPF round (see table).¹ This downward revision largely reflects the perception of a smaller-than-expected impact of the VAT increase in Germany, a stronger pass-through from lower energy prices and more favourable food price developments, due to the exceptionally mild weather conditions. SPF inflation expectations for 2007 are 0.1 percentage point higher than expectations expressed in the April 2007 issues of Consensus Economics and the Euro Zone Barometer, but in the range of the March 2007 ECB staff macroeconomic

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

Results from the SPF, ECB staff macroeconomic projections, Consensus Economics and Euro Zone Barometer

(annual percentage changes, unless otherwise indicated)

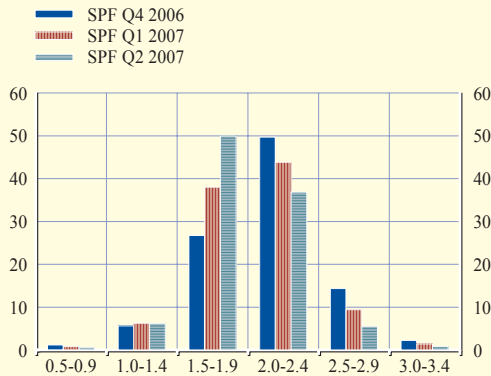
HICP inflation	Survey horizon				
	2007	Mar. 2008	2008	Mar. 2009	Longer-term ²⁾
SPF Q2 2007	1.9	2.0	1.9	1.9	1.9
Previous SPF (Q1 2007)	2.0	-	1.9	-	1.9
ECB staff macroeconomic projections	1.5-2.1	-	1.4-2.6	-	-
Consensus Economics (April 2007)	1.8	-	1.9	-	1.9
Euro Zone Barometer (April 2007)	1.8	-	1.9	-	1.9
Real GDP growth	2007	Q4 2007	2008	Q4 2008	Longer-term ²⁾
SPF Q2 2007	2.5	2.2	2.3	2.3	2.1
Previous SPF (Q1 2007)	2.1	-	2.1	-	2.1
ECB staff macroeconomic projections	2.1-2.9	-	1.9-2.9	-	-
Consensus Economics (April 2007)	2.4	-	2.2	-	1.9
Euro Zone Barometer (April 2007)	2.4	-	2.2	-	2.0
Unemployment rate ¹⁾	2007	Feb. 2008	2008	Feb. 2009	Longer-term ²⁾
SPF Q2 2007	7.2	7.0	6.9	6.9	6.7
Previous SPF (Q1 2007)	7.5	-	7.3	-	6.9
Consensus Economics (April 2007)	7.3	-	7.1	-	-
Euro Zone Barometer (April 2007)	7.3	-	7.0	-	6.9

1) As a percentage of the labour force.

2) Longer-term expectations refer to 2011 in the SPF and Euro Zone Barometer (data published in the January 2007 Euro Zone Barometer) and to the period 2013-17 in Consensus Economics.

Chart A Probability distribution for average inflation in 2007 in the last three rounds of the SPF ¹⁾

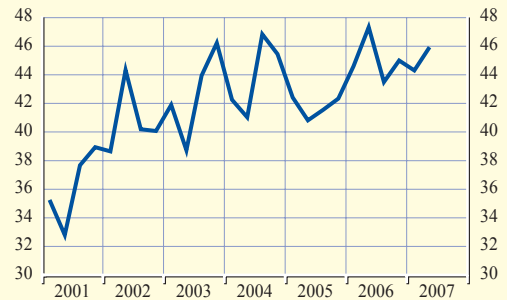
(percentages)



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

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

(percentages)



Source: ECB.

projections. For 2008 SPF forecasters provided on average an unchanged picture of inflation expectations at 1.9%. This is basically in line with Consensus Economics and Euro Zone Barometer and in the range of the ECB staff projections.

SPF participants were also asked to assign a probability distribution to their forecasts. This distribution provides information on the probability of the future outcome being within a specific interval. The probability distribution resulting from the aggregation of responses makes it easier to assess how, on average, survey participants gauge the risk of the actual outcome being above or below the most likely range. In line with the downward revision of the point estimate in 2007, the probability distribution for expected inflation this year has shifted towards lower outcomes compared with the SPF round for the first quarter of 2007 (see Chart A). There was also some change in the associated probability distribution for 2008, where the bulk of responses have remained in the central interval of 1.5%-1.9%, but with a marked increase in the interval 2.0%-2.4%.

The risks surrounding the SPF forecasts are assessed by the experts to be mainly on the upside, related in particular to a rebound in oil prices and an acceleration of wages in the context of a sustained growth momentum. A few respondents referred to the impact of government measures on prices as also posing upside risks to inflation. However, some panel members also mentioned a downside risk due to a stronger exchange rate.

Indicators of longer-term inflation expectations

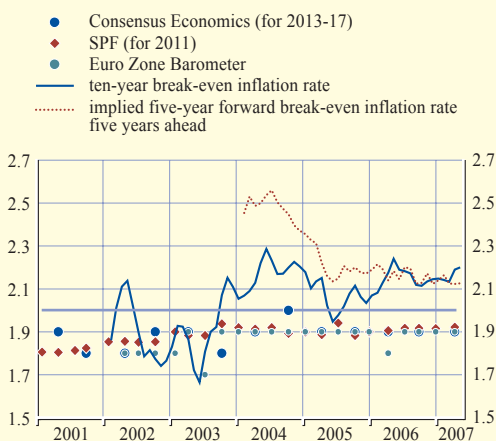
Longer-term inflation expectations (five years ahead) remained firmly anchored at 1.9% for the 22nd consecutive survey. This is fully in line with the newly released expectations from the Euro Zone Barometer for 2011 and the April 2007 results from Consensus Economics for inflation expectations six to ten years ahead. The average probability distribution of longer-term inflation expectations remained broadly unchanged compared with the previous round, with the bulk of the aggregate probability distribution falling in the 1.5%-1.9% interval. The

probability that inflation may stand at 2% or above increased slightly to 46% (see Chart B).

SPF survey results can also be compared with the break-even inflation rate, an indicator of longer-term inflation expectations among market participants calculated as the yield spread between nominal and inflation-linked bonds.² The ten-year break-even inflation rate derived from the French government inflation-linked bonds (linked to the euro area HICP excluding tobacco) maturing in 2015 has recently edged up slightly (see Chart C), while the implied five-year forward break-even inflation rate five years ahead has remained relatively stable. However, break-even inflation rates should not be interpreted as direct measures of inflation expectations, since they may also incorporate various risk premia (such as inflation uncertainty and liquidity premia).

Chart C Longer-term inflation expectations from surveys and break-even inflation rates

(average annual percentage changes)



Sources: Consensus Economics, ECB, Reuters and ECB calculations.

Note: Ten-year break-even inflation rate derived from 2012-maturity bonds until March 2005 and from 2015-maturity bonds thereafter.

Real GDP growth expectations

Expectations for real GDP growth have been revised markedly upwards by 0.4 percentage point for 2007 in comparison with the previous SPF round, and now point to real GDP growth at 2.5%. This upward revision mainly reflects improved expectations for domestic demand (in particular private consumption and investment) and external demand. Expected GDP growth for 2008 has also been revised up by 0.2 percentage point, to 2.3%. In both calendar years, the risks surrounding the forecasts are assessed by the respondents to be more on the downside, mostly related to the evolution of oil prices, the strength of the euro and global imbalances. Overall, SPF growth expectations for 2007 and 2008 are slightly higher than those reported in the April 2007 Euro Zone Barometer and Consensus Economics, but within the ranges of the ECB staff macroeconomic projections. Longer-term growth expectations (i.e. for 2011) remain unchanged at 2.1%. According to forecasters, longer-term growth prospects depend principally on further structural reforms in the labour market and the social security systems, migration flows and improved productivity.

Expectations for the euro area unemployment rate

Unemployment rate expectations for 2007 and 2008 have been revised downwards by 0.3 percentage point and now stand at 7.2% and 6.9% respectively. As in the previous SPF round, forecasters referred to the ongoing economic growth and the induced improvement of the labour market situation as being the main factors behind the further decline of the unemployment rate. SPF unemployment rate expectations for 2007 and 2008 are below those

² See also the article entitled "Measures of inflation expectations in the euro area" in the July 2006 issue of the Monthly Bulletin.

of the latest editions of Consensus Economics and the Euro Zone Barometer. Longer-term unemployment rate expectations have also been revised down by 0.2 percentage point, to 6.7% in 2011. The balance of risks to these forecasts is assessed to be on the upside. Respondents continue to mention that the decline in the unemployment rate over the longer-term horizon is mainly dependent on further labour market reforms.

4 OUTPUT, DEMAND AND THE LABOUR MARKET

The latest economic information confirms the expected outlook for strong and broadly based growth in euro area real GDP, reflecting favourable domestic and foreign demand conditions. Labour market conditions continue to improve and are expected to foster stronger private consumption growth. Risks to this outlook remain broadly balanced over the short term and on the downside over the longer term, mainly stemming from the external side.

4.1 OUTPUT AND DEMAND DEVELOPMENTS

REAL GDP AND EXPENDITURE COMPONENTS

According to Eurostat's second release, euro area real GDP increased by 0.9% quarter on quarter in the fourth quarter of 2006, following 0.6% in the third quarter. Growth in the euro area has become increasingly balanced across the expenditure components (see Chart 22). The acceleration of growth in the fourth quarter was driven primarily by gross fixed capital formation and net exports. In contrast, inventories contributed negatively to real GDP growth by 0.5 percentage point, a figure which, in absolute terms, is twice the historical average. Due to the residual character of inventories in national accounts, any economically meaningful interpretation of this negative contribution is subject to a large degree of uncertainty. Furthermore, part of the decline in inventories can be attributed to a "technical" downward correction to growth in inventories in Germany to accommodate a distortion in export figures in the fourth quarter of 2006.

SECTORAL OUTPUT AND INDUSTRIAL PRODUCTION

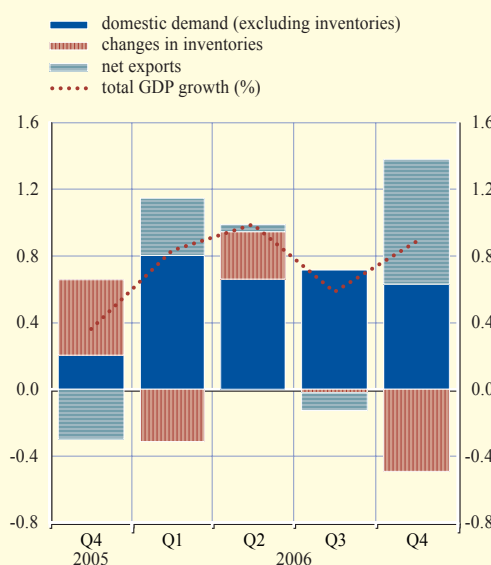
Compared with the third quarter of 2006, the sectoral breakdown of growth in the fourth quarter showed a strengthening of economic activity in the services sector and a slowing-down in industry.

Euro area industrial production (excluding construction) increased by 0.6% month on month in February 2007. Having declined sharply towards the end of 2006, growth in production has recovered in recent months, with three-month-on-three-month growth rising to 1.3% in February, close to the strong rates recorded in the middle of last year (see Chart 23). Recent positive developments in industrial production growth have been driven primarily by growth in intermediate and capital goods production. Increases in consumer goods have been more modest, partly reflecting developments in Germany, possibly associated with the impact of the VAT increase at the start of 2007. Construction production growth remained strong on a three-month moving average basis in February.

Industrial new orders increased by 1.8% on a three-month moving average basis in February and continue to provide a positive signal for developments in the industrial sector in the first quarter of 2007.

Chart 22 Real GDP growth and contributions

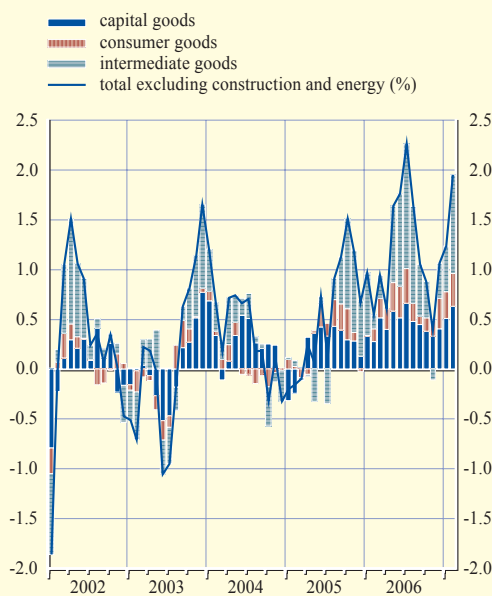
(quarter-on-quarter growth rate and quarterly percentage point contributions; seasonally adjusted)



Sources: Eurostat and ECB calculations.

Chart 23 Industrial production growth and contributions

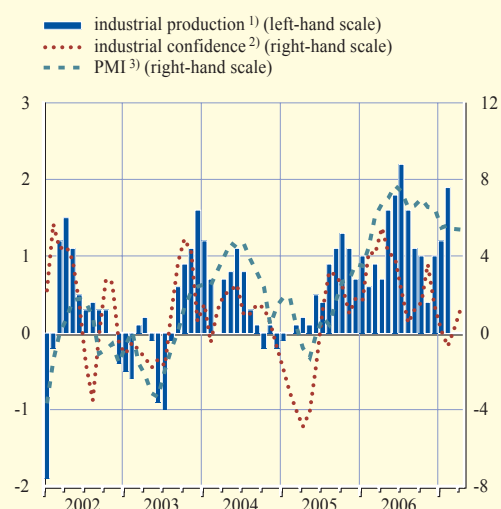
(growth rate and percentage point contributions; monthly data; seasonally adjusted)



Sources: Eurostat and ECB calculations.
Note: Data shown are calculated as three-month 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.

SURVEY DATA FOR THE INDUSTRIAL AND SERVICES SECTORS

Business surveys for the services and industrial sectors provide encouraging signals as regards the robustness of economic activity at the start of the second quarter of 2007.

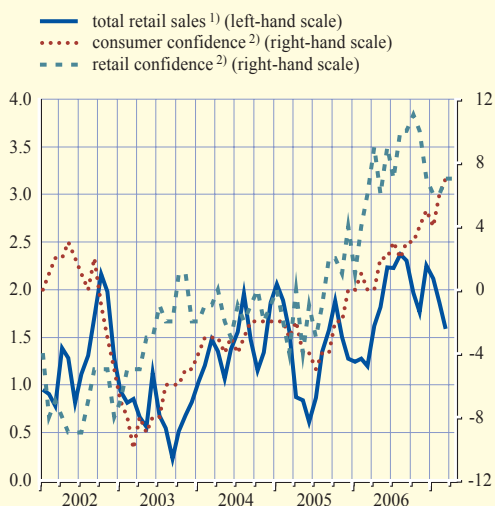
According to the European Commission Business and Consumer Surveys, industrial confidence increased further in April to reach its highest recorded value. The rise in confidence resulted from improvements in the assessment of production expectations and order book levels, whereas the assessment of stocks of finished goods remained stable. The Purchasing Managers' Index (PMI) for the manufacturing sector was stable in April and hence continues to support the view of positive growth. In contrast with the Commission's survey, the PMI indicator has been pointing over recent months to a possible deceleration in growth in euro area manufacturing (see Chart 24). As regards services, the Commission's confidence indicator was also constant in April. At the same time, the activity index of the PMI survey for the services sector declined slightly in April. Overall, the latest survey indicators continue to point to broadly based economic growth in the first half of 2007.

INDICATORS OF HOUSEHOLD SPENDING

Euro area private consumption increased by 0.4% quarter on quarter in the fourth quarter of 2006, following growth of 0.7% in the third quarter. The latest available economic information on household spending suggests further moderation in consumption activity in the first quarter of 2007 related to the VAT increase in Germany. New car registrations fell by 3.5% in the first quarter of 2007, indicating a negative contribution of car sales to private consumption of approximately

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

(monthly data)



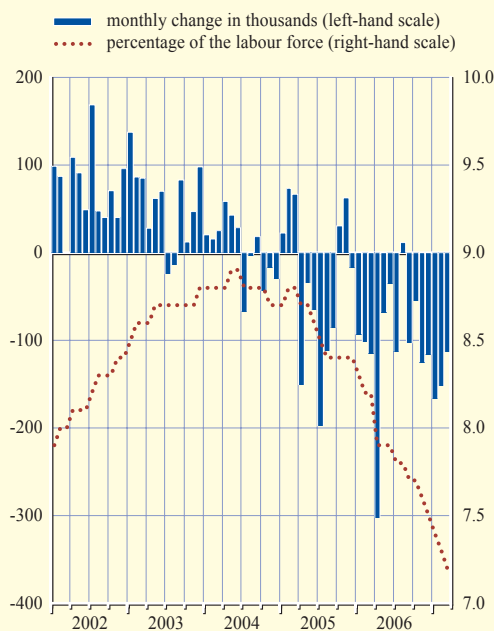
Sources: European Commission Business and Consumer Surveys and Eurostat.

1) Annual percentage changes; three-month moving averages; working day-adjusted.

2) Percentage balances; seasonally and mean-adjusted. For consumer confidence, euro area results from January 2004 onwards are not fully comparable with previous figures due to changes in the questionnaire used for the French survey.

Chart 26 Unemployment

(monthly data; seasonally adjusted)



Source: Eurostat.

0.2 percentage point. Growth in euro area retail sales declined from 0.4% in the fourth quarter of 2006 to 0.0% in the first quarter of 2007. This puts the combined contribution from retail sales and new car registrations to private consumption growth at -0.2 percentage point in the first quarter (see Chart 25).

Looking beyond these short-term developments, prospects for consumption remain positive over the medium term. Euro area consumer confidence was stable in April, at its highest level since June 2001. Current high levels of consumer confidence are very likely linked to favourable labour market conditions, which continued to improve at the start of 2007 and should be supportive of private consumption developments in the first half of 2007.

4.2 LABOUR MARKET

Employment growth in the euro area has been gradually strengthening since the start of 2005, whereas unemployment has been on a declining trend since 2004. The latest unemployment rate data and survey data on employment expectations both continue to show that labour market conditions are favourable in the first half of 2007.

UNEMPLOYMENT

The euro area unemployment rate fell to 7.2% in March 2007, down by 0.1 percentage point from February (see Chart 26). When using other sources of information, mainly the EU Labour Force Survey, to prolong the official unemployment rate series published by Eurostat before its starting

Table 7 Employment growth

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

	Annual rates		Quarterly rates				
	2005	2006	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4
Whole economy	0.8	1.4	0.3	0.5	0.5	0.3	0.3
<i>of which:</i>							
Agriculture and fishing	-1.4	-0.1	0.1	0.2	0.7	-1.8	-0.4
Industry	-0.1	0.7	0.3	0.1	0.3	0.2	0.3
Excluding construction	-1.2	-0.2	0.0	-0.1	0.2	0.0	-0.2
Construction	2.7	2.7	0.9	0.6	0.7	0.9	1.6
Services	1.3	1.8	0.3	0.6	0.5	0.4	0.4
Trade and transport	0.7	1.2	0.3	0.5	0.5	0.1	0.4
Finance and business	2.1	3.5	1.1	0.9	0.9	1.0	0.7
Public administration	1.3	1.4	-0.1	0.6	0.4	0.4	0.2

Sources: Eurostat and ECB calculations.

point in 1993, the current unemployment rate appears to be the lowest since the early 1980s. The number of unemployed people fell in the first quarter of 2007 by about 430,000 and by about 300,000 in the fourth quarter of 2006.

EMPLOYMENT

Employment growth was 0.3% in the fourth quarter of 2006. The sectoral breakdown of employment in the fourth quarter of 2006 showed that employment growth continued to be robust in the services sector and construction, while it declined slightly in industry excluding construction. As in previous quarters, growth in financial and business services recorded the strongest growth in employment in services (see Table 7).

Annual labour productivity growth was 1.8% in the fourth quarter of 2006, reaching its highest value since the second quarter of 2000. The latest data available also showed that the recent improvement in labour productivity growth also extended to the services sector. However, some caution is probably advisable, so as not to over-interpret these recent developments in productivity as being driven primarily by structural factors. Standard estimates of euro area total factor productivity, which capture improvements in technology as well as improvements in organisation and in the quality of capital, are still low.

Employment expectations from the European Commission's surveys declined slightly in services and construction and were unchanged in industry. Employment expectations from the PMI recorded an increase for the manufacturing sector and a marginal decline in the services sector in April. Overall, employment expectations are running at high levels and appear consistent with the assessment that euro area labour market conditions are improving.

4.3 THE OUTLOOK FOR ECONOMIC ACTIVITY

The latest data releases confirm that the expansion of economic activity continued in the first quarter of 2007 and remains solid and broad-based. Over the medium-term horizon, domestic and external factors should remain supportive. In particular, the ongoing improvement in labour markets and consequent rise in real disposable income should support private consumption growth. Continuing strong growth in world demand should contribute to robust export developments. This,

together with strengthening domestic activity, strong corporate earnings and healthy business confidence, should also support investment activity. The broad assessment of risks to this outlook remains largely unchanged. The short-term risks are judged to be broadly balanced. At longer horizons, risks are judged to be on the downside, stemming mainly from the external side and related to possible renewed increases in oil prices, a rise in protectionist pressures and a possible disorderly unwinding of global imbalances.

In line with this assessment, expectations for euro area real GDP growth in 2007 and 2008 were revised upwards by private forecasters in April 2007, reflecting improved expectations for both domestic and foreign demand (see Box 6 on the results of the ECB Survey of Professional Forecasters).

5 EXCHANGE RATE AND BALANCE OF PAYMENTS DEVELOPMENTS

5.1 EXCHANGE RATES

In effective terms, the euro has strengthened over the past three months, reflecting a relatively broad-based appreciation vis-à-vis most major currencies.

EFFECTIVE EXCHANGE RATE OF THE EURO

On 8 May 2007 the nominal effective exchange rate – as measured against the currencies of 24 of the euro area’s important trading partners – was 2.2% above its level at the end of January and 3.5% higher than its average level in 2006 (see Chart 27).

US DOLLAR/EURO

In the last three months the euro has strengthened vis-à-vis the US dollar, reaching an all-time high of USD 1.365 on 25 April 2007. The appreciation of the euro appears to have been related to some extent to differences in the assessment by market participants of the cyclical outlook for the two economic areas. Relatively robust data releases for the euro area contrasted with a more mixed data environment for the United States with, for example, first quarter US GDP growth below market expectations. These cyclical differences have also been reflected in a narrowing of interest differentials between the United States and the euro area over the past three months. Having signalled expectations that the euro would remain stable against the US dollar in February, developments in the prices of currency derivatives since mid-March have been consistent with increasing expectations of a further appreciation of the euro over the short term. On 8 May the euro traded at USD 1.36, i.e. 4.7% above its level at the end of January and 8.0% stronger than its 2006 average (see Chart 28).

JAPANESE YEN/EURO

The euro continued to strengthen vis-à-vis the Japanese yen over the past three months, reaching an all-time high of JPY 163.47 on 3 May 2007. This appreciation trend was only temporarily interrupted in the context of the global financial market turbulences in late February and early March, during which the euro weakened against the Japanese currency. However, these losses have been more than offset subsequently. Market participants attribute the strengthening of the euro vis-à-vis the Japanese yen mainly to the favourable market attitude towards risk in conjunction with a low volatility environment, which has supported the continuation of high volumes of carry trades, in which low-yielding currencies,

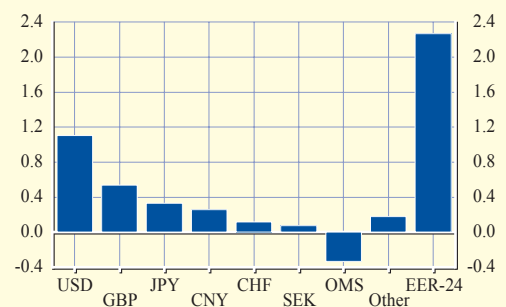
Chart 27 Euro effective exchange rate and its decomposition¹⁾

(daily data)



Contributions to EER changes²⁾

From 31 January to 8 May 2007
(in percentage points)



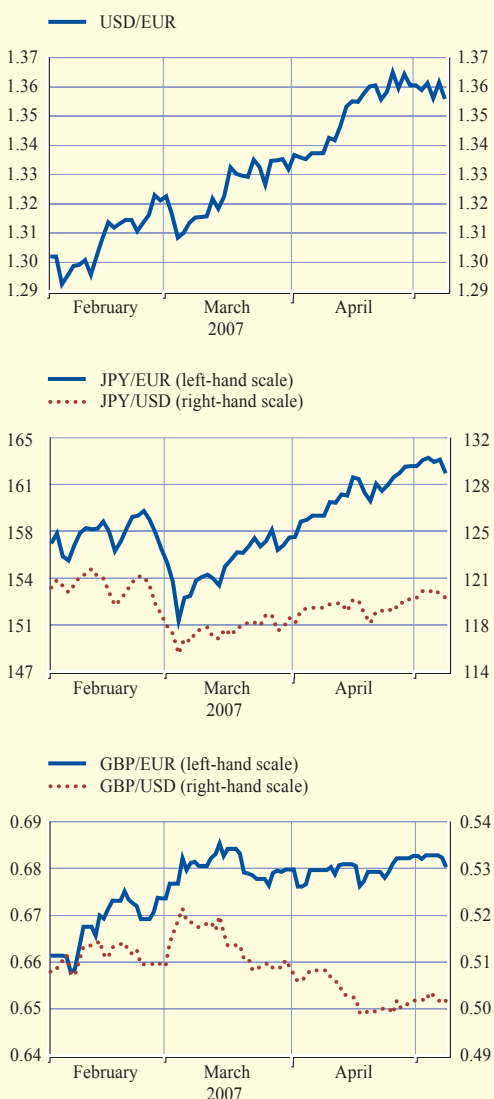
Source: ECB.

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-24 changes are displayed individually for the currencies of the six main trading partners of the euro area. The category “Other Member States (OMS)” refers to the aggregate contribution of the currencies of the non-euro area Member States (except the GBP and SEK). The category “Other” refers to the aggregate contribution of the remaining six trading partners of the euro area in the EER-24 index. Changes are calculated using the corresponding overall trade weights in the EER-24 index.

Chart 28 Patterns in exchange rates

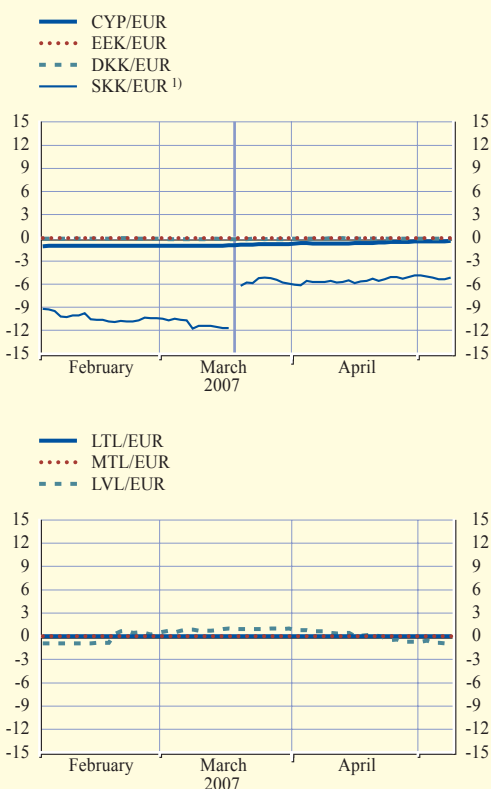
(daily data)



Source: ECB.

Chart 29 Patterns in exchange rates in ERM II

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



Source: ECB.

Note: A positive (negative) deviation from the central rate 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.

1) The vertical line indicates the date of 19 March 2007 when the central rate of the Slovak koruna was revalued from 38.4550 to 35.4424 SKK/EUR.

such as the Japanese yen, are often used as funding currencies. Developments in currency options are signalling continued expectations of some strengthening of the Japanese currency vis-à-vis the euro in the short term. On 8 May the euro stood at JPY 162.29, i.e. 3.2% higher than its level at the end of January and 11.1% stronger than its 2006 average (see Chart 28).

EU MEMBER STATES' CURRENCIES

Since the end of January most currencies participating in ERM II have remained stable and have continued to trade at or close to their respective central rates (see Chart 29). The Slovak koruna appreciated by 4.3% since end-January on the back of strong underlying fundamentals, trading on

8 May 5.1% stronger than its central rate. Over the same period, the Latvian lats remained overall broadly unchanged, amid some fluctuations. After depreciating in March towards the lower end of the 1% intervention band unilaterally set by Latvijas Banka, the Latvian lats strengthened in the course of April, trading on 8 May 0.9% stronger than its ERM II central rate.

With regard to the currencies of other EU Member States not participating in ERM II, between the end of January and 8 May 2007, the euro strengthened by 2.6% against the pound sterling and by 1.5% against the Swedish krona. At the same time, the euro weakened vis-à-vis the Polish zloty (by 4.5%), the Hungarian forint (by 4.4%) and the Romanian leu (by 2.9%).

OTHER CURRENCIES

Over the last three months the euro has appreciated vis-à-vis the currencies of the euro area's main Asian trading partners, notably against the Hong Kong dollar (4.8%), the Chinese renminbi (3.6%), the Singapore dollar (3.2%) and the Korean won (2.6%). The euro also strengthened by 1.7% against the Swiss franc. By contrast, it depreciated by 2.6% vis-à-vis the Australian dollar and by 2.5% against the Canadian dollar.

5.2 BALANCE OF PAYMENTS

The latest balance of payments data, for February 2007, showed a slowdown in growth of exports and an acceleration in growth of imports on a three-month moving average basis. Despite these developments, the 12-month current account deficit continued to decrease in February 2007, registering a deficit of about 0.1% of GDP. In the financial account, combined direct and portfolio investment recorded cumulative net inflows of €202.6 billion in the 12-month period to February 2007 compared to net outflows of €97.7 billion in the previous year. This shift in the direction of capital flows mainly reflected larger net inflows in portfolio investment.

TRADE AND THE CURRENT ACCOUNT

According to the latest b.o.p. data, the value of extra-euro area exports of goods and services grew by 1.9% in seasonally adjusted terms in the three-month period to February 2007, decelerating markedly relative to developments in the three-month period ending November 2006 (see Table 8). By contrast, growth in the value of imports of goods and services picked up over the same period, rising to a seasonally adjusted 2.4%. The dynamics of both exports and imports were mainly driven by trade in goods, partly counterbalanced by the growth in the value of services exports and imports, which developed in the opposite direction.

The breakdown of trade in goods, available up to December 2006, shows that export volumes accelerated strongly, growing by around 3.7% in the fourth quarter and accounted for most of the growth in the value of goods exports during that quarter. Volumes of goods imports grew only moderately, increasing by 1.8%. Import prices decreased by 1.5%, mainly owing to the significant decrease in oil prices in the same period.¹ Given that the fourth quarter of 2006 was marked by a particularly strong growth in exports and significantly less buoyant import volumes than export volumes, the most recently observed deceleration in exports and the pick-up in imports can partly be interpreted as a counter-reaction to previous exceptional developments. However, monthly data for February 2007 suggest that exports are still benefiting from robust foreign demand conditions.

¹ These figures relate to extra-euro area trade, with Slovenia included in the euro area.

Table 8 Main items of the euro area balance of payments

(seasonally adjusted, unless otherwise indicated)

	2007		3-month moving average figures ending				12-month cumulated figures ending	
	2007 Jan.	2007 Feb.	2006 May	2006 Aug.	2006 Nov.	2007 Feb.	2006 Feb.	2007 Feb.
<i>EUR billions</i>								
Current account	3.5	-5.3	-4.0	-1.1	2.4	1.6	-13.2	-3.3
Goods balance	4.9	2.6	1.2	0.6	5.7	4.3	33.9	35.6
Exports	120.2	123.7	112.7	114.7	121.0	122.9	1,250.8	1,413.8
Imports	115.2	121.0	111.5	114.0	115.3	118.6	1,216.9	1,378.2
Services balance	3.0	3.8	3.1	2.9	2.6	3.5	35.8	36.5
Exports	36.8	37.8	35.3	35.8	36.1	37.2	408.8	433.1
Imports	33.8	34.0	32.2	32.9	33.5	33.7	373.0	396.6
Income balance	-0.1	-5.1	-1.8	1.1	1.0	-1.2	-15.8	-2.8
Current transfers balance	-4.3	-6.6	-6.5	-5.7	-7.0	-4.9	-67.1	-72.6
Financial account¹⁾	42.1	-7.2	28.2	4.4	13.1	1.9	18.9	142.9
Combined net direct and portfolio investment	23.2	16.0	19.8	6.2	27.1	14.4	-97.7	202.6
Net direct investment	-12.3	-12.6	-1.9	-10.7	-18.7	-17.9	-220.4	-147.7
Net portfolio investment	35.4	28.6	21.8	16.9	45.8	32.3	122.7	350.3
Equities	34.3	17.3	2.6	25.0	17.1	26.0	146.1	211.8
Debt instruments	1.2	11.2	19.2	-8.1	28.7	6.3	-23.4	138.4
Bonds and notes	-7.6	10.3	24.8	1.9	25.4	17.0	-42.1	207.4
Money market instruments	8.8	0.9	-5.6	-10.0	3.3	-10.7	18.7	-69.0
<i>Percentage changes over previous period</i>								
Goods and services								
Exports	-3.0	2.9	1.8	1.6	4.4	1.9	10.3	11.3
Imports	-2.5	4.0	1.6	2.2	1.3	2.4	15.4	11.6
Goods								
Exports	-3.7	2.9	2.4	1.8	5.5	1.5	10.3	13.0
Imports	-3.6	5.0	2.1	2.3	1.1	2.9	16.8	13.3
Services								
Exports	-0.7	2.7	-0.4	1.2	0.9	3.1	10.4	6.0
Imports	1.4	0.6	-0.1	2.0	1.8	0.7	10.9	6.4

Source: ECB.

Note: 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.

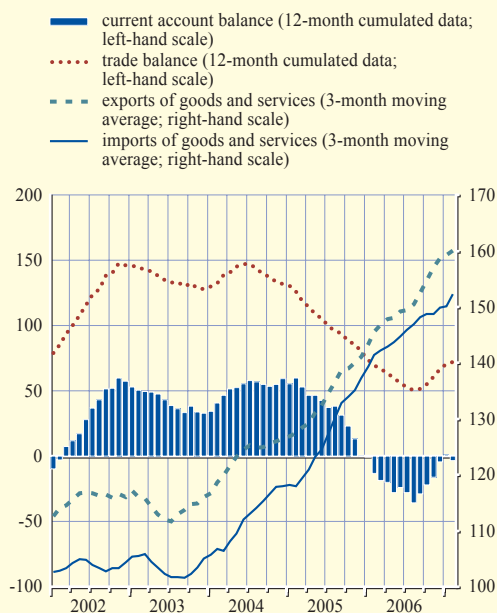
Import growth rebounded in the same month, probably partly offsetting the previous decline that may have been related to the decrease in euro area stockbuilding.

Taking a longer-term perspective, the 12-month cumulated, working day-adjusted current account to February 2007 recorded a deficit of €3.3 billion (about 0.1% of GDP), with deficits in income and current transfers offsetting the surpluses in the balances for goods and services (see Chart 30). The decrease in the current account deficit from €13.2 billion (close to 0.2% of GDP) a year earlier was mainly attributable to a lower income deficit and, to a lesser extent, to the increase in the goods surplus. After halting its decline around mid-2006, the 12-month cumulated goods surplus has increased gradually. The decline in oil prices – together with robustly growing goods exports and moderating imports – supported this amelioration, particularly in the fourth quarter of 2006.

The euro area balance of payments for the whole of 2006 shows an increase in the euro area current account deficit (from €1.9 billion in 2005 to €6.1 billion in 2006). This was mainly

Chart 30 The euro area current account and trade balances

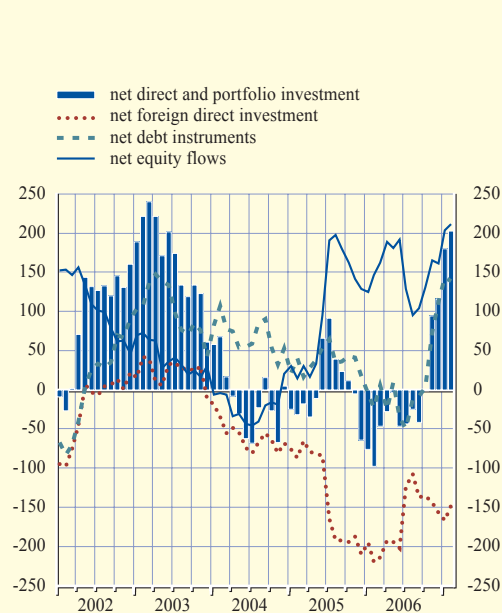
(EUR billions; monthly data; seasonally adjusted)



Source: ECB.

Chart 31 Euro area combined direct and portfolio investment

(EUR billions; monthly data; 12-month cumulated flows)



Source: ECB.

attributable to an increase in the goods deficit with “other countries”², particularly oil-exporting countries (from €109.5 billion in 2005 to €138.5 billion in 2006). This was partly counterbalanced by the developments in the income account, which shifted from a deficit to a surplus, mainly as a result of the decline in the income deficit with the United States (from €13.0 billion in 2005 to €3.1 billion in 2006).

FINANCIAL ACCOUNT

In the three-month period to February 2007, euro area combined direct and portfolio investment recorded monthly average net inflows of €14.4 billion. This was the result of net inflows in portfolio investment (€32.3 billion), which more than offset net outflows in direct investment (€17.9 billion). Portfolio investment recorded large net inflows in equity and bonds and notes, while net outflows were recorded in money market instruments (see Table 8).

In the 12-month period to February 2007, cumulative net inflows in combined direct and portfolio investment amounted to €202.6 billion, compared with net outflows of €97.7 billion a year earlier. The shift in direction of net capital flows mostly resulted from increased net purchases of euro area portfolio securities by non-residents as well as from lower net outflows in direct investment (see Chart 31), amid a favourable euro area economic outlook.

As regards direct investment in 2006, net outflows recorded a decrease (from €210.0 billion in 2005 to €156.7 billion in 2006). This was mainly accounted for by lower net outflows to the

2 These are countries other than the EU Member States, Canada, Japan, Switzerland and the United States.

United Kingdom, mostly attributable to a negative base effect related to the restructuring of Royal Dutch Shell in 2005, and the shift from net outflows to net inflows from Japan. The United Kingdom and offshore financial centres continued to be the most important recipient of euro area foreign direct investment, receiving around 40% of total euro area direct investment abroad. Compared with 2005, the euro area registered higher net outflows in direct investment to the United States as well as to other EU countries.

ARTICLES

MEASURED INFLATION AND INFLATION PERCEPTIONS IN THE EURO AREA



The Harmonised Index of Consumer Prices (HICP) for the euro area is an objective and methodologically well founded quantitative measure of price changes. The HICP and the European Commission's survey results on inflation as perceived by consumers are different in nature and cannot be directly compared. Yet, it is striking that a frequently used summary statistic from this survey on perceived inflation, having increased strongly in 2002 following the euro cash changeover, is still above the level recorded in 2001, whereas HICP inflation has remained broadly unchanged over this entire period.

Perceptions are a qualitative expression of an individual's complex assessment of a given issue. Inflation perceptions may be influenced by quite a number of economic and psychological factors, which may not all be directly related to the overall average change in consumer prices. It appears that notably the euro cash changeover has had a longer-lasting impact on consumers' inflation perceptions. Differences in the evolution of measures of inflation perceptions compared with developments in the HICP should not be interpreted as reflecting inaccuracy in consumer price statistics. Even so, protracted divergences in the evolution of these two variables warrant close examination, given that inflation perceptions might have an impact on inflation expectations and other macroeconomic variables. The significant increase in perceived inflation that followed the euro cash changeover has partly reversed since 2003. Convergence towards the evolution of measured inflation should continue.

I INTRODUCTION

The ECB defines price stability in the euro area in terms of the HICP, a harmonised and high quality statistic designed according to international standards.¹ Following the euro cash changeover in 2002, there was no significant increase in euro area HICP inflation. By contrast, summary statistics on perceived inflation derived from surveys of the general public in the euro area rose significantly in the course of the introduction of the euro banknotes and coins in 2002. In particular, the European Commission's Consumer Survey showed a significant increase in the derived measure of inflation perceptions after the cash changeover. Although the results from the Commission survey decreased again in 2003 and 2004, they have remained at elevated levels.

This article aims to provide a comprehensive overview of the possible reasons behind the divergent evolution of indicators of measured and perceived inflation in the euro area, focusing on their respective characteristics and properties. Section 2 summarises the most recent developments in the HICP and in perceived inflation in the euro area and across its member countries. Section 3 highlights the

qualitative and subjective nature of individuals' inflation perceptions and explores the likely impact of the euro cash changeover. Section 4 details key features of the HICP and explains why it differs from aggregated individual inflation perceptions. Section 5 concludes.

2 DEVELOPMENTS IN MEASURED AND PERCEIVED INFLATION

The results of the European Commission's survey of euro area consumers' inflation perceptions are summarised by a balance statistic, i.e. the shares of the different response categories are weighted together (see Box 1). As this measure is different in nature from HICP inflation, a direct comparison between the two cannot be made. However, the evolution of the two variables over time is often compared (see Chart 1). From 1991 to the end of 2001, developments in the balance statistic were broadly in line with those in HICP inflation, with both measures decreasing from 1991 to 1999 and then increasing from 1999 to the end of 2001. From January 2002, however,

¹ See the article entitled "The Harmonised Index of Consumer Prices: concept, properties and experience to date" in the July 2005 issue of the Monthly Bulletin.

Chart 1 Measured HICP inflation and inflation perceptions in the euro area

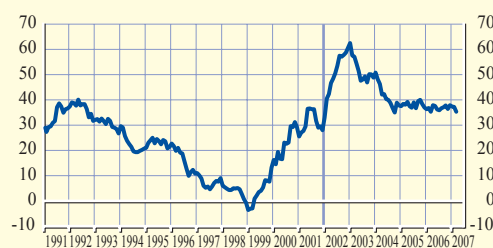
(annual percentage changes)

HICP inflation



(percentage balances; seasonally adjusted)

Inflation perceptions



Sources: Eurostat and European Commission Consumer Survey.
Note: Estimates for the HICP over the period 1991-95 are not fully comparable with HICP data from 1996 onwards.

perceived inflation continued to increase strongly, peaking in January 2003. Over the

course of 2003 and 2004, this indicator declined gradually, but since late 2004 it has broadly stabilised around a level somewhat higher than that of 2001.² At the same time, HICP inflation fluctuated within a narrow range over the period from December 2001 to March 2007, averaging 2.1%.³

Developments in inflation perceptions at the euro area level mask some cross-country diversity. In all euro area countries, perceived inflation increased with the introduction of the euro banknotes and coins in January 2002. Thereafter, it decreased gradually in several countries, particularly in Germany, Ireland, Italy and the Netherlands. This notwithstanding, in most euro area countries there was still, on balance, a larger share of consumers during the period 2005-06 than during the period 1999-2001 who had the impression that inflation had been high (see Table).

2 See the box entitled “Consumers’ inflation perceptions: still at odds with official statistics?” in the April 2005 issue of the Monthly Bulletin.

3 Annual HICP inflation averaged 2.2% over the period from December 2001 to January 2003, and 2.0% from January 1999 to March 2007.

Table HICP and inflation perceptions across euro area countries

	HICP inflation			Perceptions of price changes over the last 12 months		
	Average annual percentage changes			Percentage balances, seasonally adjusted		
	1999-2001	2002-2004	2005-2006	1999-2001	2002-2004	2005-2006
Belgium	2.1	1.6	2.4	29	44	53
Germany	1.3	1.4	1.9	23	48	27
Ireland	3.9	3.7	2.4	40	53	38
Greece	2.9	3.5	3.4	18	57	66
Spain	2.8	3.2	3.5	20	52	52
France	1.4	2.1	1.9	5	45	47
Italy	2.2	2.6	2.2	25	52	37
Luxembourg	2.4	2.6	3.4	-	38	41
Netherlands	3.2	2.5	1.6	28	61	25
Austria	1.6	1.6	1.9	-1	36	35
Portugal	3.1	3.1	2.6	29	46	42
Finland	2.3	1.2	1.0	-11	-5	-4

Sources: Eurostat and European Commission Consumer Survey.
Note: Data on inflation perceptions for Luxembourg are only available from January 2002 onwards.

Box I

THE EUROPEAN COMMISSION'S SURVEY OF CONSUMERS' INFLATION PERCEPTIONS

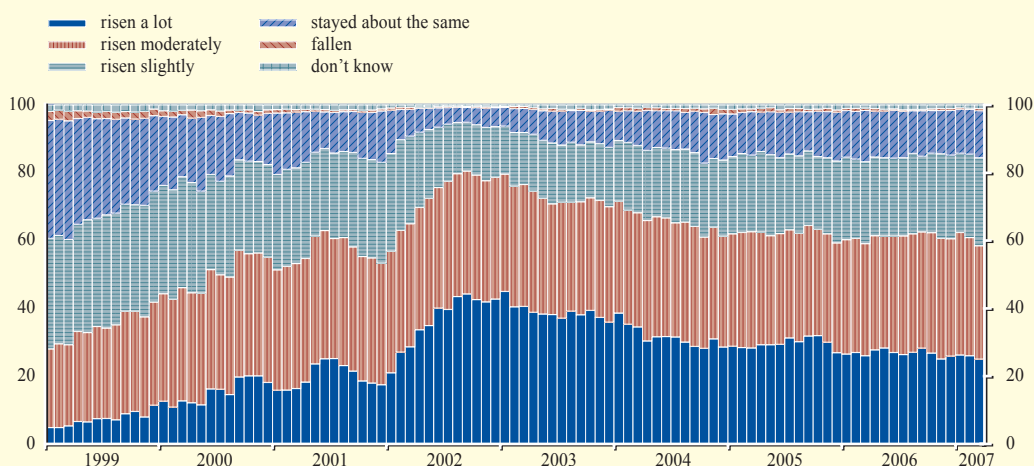
Consumer opinions on inflation are collected through the Consumer Survey of the European Commission (Directorate General for Economic and Financial Affairs). As the indicator derived from this survey differs in nature from the HICP, it is not possible to make a direct comparison between the two measures. In order to interpret its developments, it is important to gain a better understanding of the methodology used to calculate the European Commission indicator. This box takes a look at the survey and the development of the respective shares of the response categories.

In the context of the European Commission's Consumer Survey, approximately 23,000 randomly selected consumers in the euro area are surveyed on a monthly basis by means of a harmonised questionnaire, mostly via telephone. Among other qualitative questions on how they perceive their household's financial situation or the overall economic situation for example, survey participants are asked the following question: "How do you think that consumer prices have developed over the last 12 months?" The possible response categories are: (1) "risen a lot", (2) "risen moderately", (3) "risen slightly", (4) "stayed about the same", (5) "fallen" and (6) "don't know".

An aggregate measure of consumers' opinions – the "balance statistic" – is calculated as the difference between the proportion of respondents saying that consumer prices have either "risen a lot" or "risen moderately" and the proportion of respondents saying that consumer prices have "fallen" or "stayed about the same". In order to differentiate between the more "moderate" and more "extreme" answer categories, the European Commission attributes half the weight of the extreme answers (1) and (5) to responses (2) and (4); the middle response (3) and the "don't know" response (6) are not explicitly taken into account.

Perceptions of price changes over the last 12 months in the euro area – evolution of response categories

(percentages; not seasonally adjusted)



Source: European Commission Consumer Survey.

The balance statistic is thus computed as $P_{[1]} + (0.5 P_{[2]}) - (0.5 P_{[4]}) - P_{[5]}$, where $P_{[1]}$ is the percentage of respondents having answered (1) etc. The values for the balance statistic range between -100 and +100.

The increase in the balance statistic during the period from 2002 to early 2003 was due mainly to an increase in the share of consumers replying that prices have “risen a lot” (see Chart), which rose from an average of 14% during the period 1999-2001 to 38% during the period 2002-03. Since the euro cash changeover, this average has stood at 32%. The shift in this response category was mainly at the expense of the shares of the answers “risen slightly” and “stayed about the same”. The distribution of answers across categories has remained almost stable since early 2005.

In general, qualitative opinion surveys are subject to several methodological difficulties. First, the response categories used may be interpreted differently by respondents and their interpretation may vary over time. Second, the weighting scheme applied inevitably involves a certain degree of arbitrariness but determines the evolution of the balance statistic. For example, it remains unclear whether it is justified that the replies in the category “risen a lot” receive exactly double weight compared with those consumers saying that prices have “risen moderately”. Moreover, consumers assessing that prices have “risen slightly” represent the third largest group of replies (24% on average over the period since January 1999) but are not explicitly taken into consideration for the compilation of the balances.

3 UNDERSTANDING CONSUMERS' INFLATION PERCEPTIONS

In addition to the above-mentioned methodological features of the European Commission's aggregated measure of consumers' opinions, a number of factors may influence the formation of consumers' individual inflation perceptions and therefore determine their answers to the survey, as well as the possible interpretation thereof.

THE QUALITATIVE NATURE OF INFLATION PERCEPTIONS

The European Commission's questionnaire asks consumers to classify inflation as they perceive it into six given categories of a qualitative nature (see Box 1). The resulting balance statistic does not give any indication of the magnitude of the perceived inflation rate.⁴ Although respondents may implicitly associate each qualitative category with a certain numeric range of values, such values are likely to vary among individuals and, possibly, over time. It

cannot be ruled out that a certain proportion of the consumers reporting that prices have “risen a lot” may do so on account of an increased sensitivity to inflation. For example, although, in several countries, inflation is today significantly lower than it was in the early 1990s, a better awareness of monetary policy in the euro area may have brought consumers' implicit quantitative reference more into line with the ECB's definition of price stability. It may also very well be that an increased sensitivity to inflation stemming from the public debate on this issue since the euro cash changeover has also influenced, and is still influencing, perceptions of price developments. In addition, the regular publication of indicators of perceived inflation may itself have reinforced perceptions.

4 Various techniques have been developed to “translate” qualitative estimates of inflation sentiment into quantitative values. However, all approaches have to rely on particular technical assumptions and their results are considerably influenced by the method chosen. For a detailed summary and a critical review of each technique, see, for instance, E. D'Elia, “Using the results of qualitative surveys in quantitative analysis”, Istituto di Studi e Analisi Economica (ISAE) Working Paper No 56, September 2005.

Finally, consumers may have become acutely aware of price changes after the cash changeover because of the need to interpret new prices by converting them into the former national currency and comparing them with the former prices. Consequently, the uncertainty surrounding the intertemporal comparability of survey results calls for caution when interpreting both the level and the development of the qualitative indicators.

A REFLECTION OF A SUBJECTIVE EVALUATION

Perceptions, as collected in opinion surveys, are an expression of an individual's complex assessment of a given issue. There is little knowledge of what perceptions truly are and how they are formed. In psychology and cognitive sciences, perception is defined as "the process of acquiring, interpreting, selecting and organising sensory information".⁵ In forming their inflation perceptions, consumers may not use information on prices in isolation but may process it in relation to other elements of their personal situation. The European Commission survey does not apply any techniques to "frame" consumers' responses, for instance by providing the most recent change in consumer prices as a reference. Consequently, the survey results could be influenced by the evolution of other variables related to the consumers' economic situation,

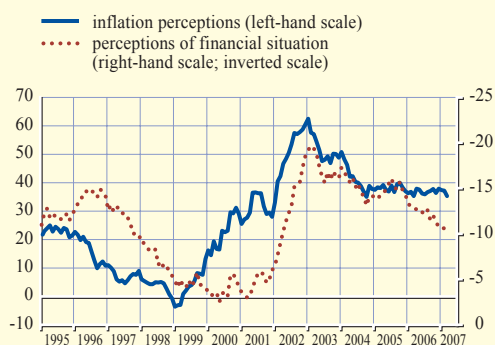
such as changes in disposable income or purchasing power.

More broadly, although consumers are asked about perceived price changes, their responses may also be influenced by more general sentiments about their financial situation or the overall economic situation. Indeed, as available survey data suggests, the increase in perceived inflation in 2002 seems to have coincided with a surge in a negative perception on the part of consumers as regards their financial situation (see Chart 2a) and the general economic situation (see Chart 2b). This more pessimistic consumer sentiment could be seen as an expression of the high degree of uncertainty relating to the economic slowdown and the bursting of the equity bubble in 2000, as well as of the geopolitical uncertainty in the aftermath of the terrorist attacks in the United States on 11 September 2001. At the same time, this pessimism seems to have receded since mid-2005, in particular with regard to perceptions of the economic situation, whereas the indicator of consumers' inflation perceptions has not fallen.

5 "Communication and perception: which world do statistics live in?", Federal Statistical Office of Germany, United Nations Economic Commission for Europe work session on statistical dissemination and communication, 12-14 September 2006 (www.unece.org/stats/documents/ece/ces/ge.45/2006/wp.14.e.pdf).

Chart 2a Euro area consumers' perception of inflation and of their own financial situation

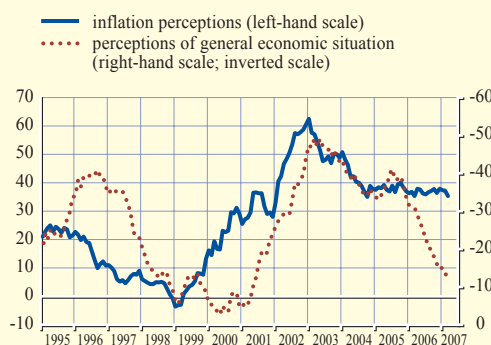
(percentage balances; seasonally adjusted)



Source: European Commission Consumer Survey.

Chart 2b Euro area consumers' perception of inflation and of the general economic situation

(percentage balances; seasonally adjusted)



Source: European Commission Consumer Survey.

THE IMPACT OF THE EURO CASH CHANGEOVER

It is likely that the introduction of the euro banknotes and coins contributed to consumers' perception of stronger price increases in 2002 and thereafter. Such perceptions were probably linked to actual price increases for some items such as food, petrol and some personal services such as restaurants. Some of these increases may have been due to the practices of retailers and firms, which may have sought to raise profit margins at the time of the introduction of the euro banknotes and coins. In addition, since retailers knew they had to change their posted prices in January 2002, they may have postponed some price increases that would otherwise have taken place earlier.⁶ Nevertheless, for a number of products, upward price pressures were caused by factors unrelated to the euro cash changeover, such as the strong increase in oil prices (by about 35% in euro terms between December 2001 and April 2002) and crop failures caused by cold winter weather across Europe. The same factors also caused upward price pressures in non-euro area EU countries, e.g. the United Kingdom, around the time of the euro cash changeover. The overall effect of price increases induced by the euro cash changeover on measured euro area HICP inflation was limited. Eurostat estimated the contribution of the cash changeover to euro area overall HICP inflation in 2002 to lie within a range of 0.12 and 0.29 percentage point.

However, the cash changeover appears to have had a significant impact on perceptions, as shown by the European Commission's latest survey of public opinion on euro-related issues, which was published in November 2006.⁷ A large majority of survey respondents (93%) thought that the introduction of the euro added to the increase in prices. This suggests that the impact of the cash changeover on consumer prices was probably magnified in the eyes of the general public for several reasons.

First, the survey results may reflect the fact that the price increases that did occur were concentrated on the most frequently purchased

goods and services, such as food, petrol, coffee and hairdressing. Durable goods, such as cars and computers, and other infrequently purchased items are less likely to have had a strong impact on consumer perceptions, unless the individual concerned happened to have recently purchased such an item. Since all respondents carry an equal weight, this may have led to a lower representation of such items in aggregated consumer perceptions, despite the fact that every year they account for a sizeable proportion of actual aggregated household expenditure.

Second, different payment methods may also have had different implications for inflation perceptions. For example, products normally paid for in cash (such as a cup of coffee or a haircut) may have a greater implicit weight in perceptions than items that are typically paid for via an automatic bank transfer (e.g. rent, electricity and phone charges). Section 4 and Chart 3 illustrate this point further.

Third, other psychological factors may also have played a role. For example, it has been argued that consumers may have a more vivid memory of price rises than of price declines.⁸ Since the number of price changes around the time of the euro cash changeover was exceptionally large,⁹ consumers may have been more sensitive to the price increases than to the price reductions that took place at the same time. Extreme, but unrepresentative, changes in the prices of individual products may have attracted considerable attention from consumers and the media and may therefore have played

6 See, for instance, B. Hobijn, F. Ravenna and A. Tambalotti, "Menu costs at work: restaurant prices and the introduction of the euro" in *Quarterly Journal of Economics*, Vol. 121(3), August 2006, MIT Press, pp. 1103-31.

7 The Flash Eurobarometer survey is conducted by Gallup on behalf of the European Commission. See "The eurozone, 5 years after the introduction of euro coins and banknotes", Flash Eurobarometer 193, European Commission, November 2006.

8 See, for example, H. W. Brachinger, "Euro or 'Teuro'?: the euro-induced perceived inflation in Germany", Department of Quantitative Economics, University of Freiburg/Fribourg Switzerland, Working Paper No 5.

9 See E. Dhyne, L. J. Alvarez, H. Le Bihan, G. Veronese, D. Dias, J. Hoffmann, N. Jonker, P. Lünemann, F. Rumler and J. Vilmunen, "Price setting in the euro area: some stylized facts from individual consumer price data", ECB Working Paper No 524, September 2005.

an important role in the formation of average inflation perceptions. In addition, there is evidence that the number of different prices put on an individual product rose significantly following the euro cash changeover,¹⁰ and it is likely that this greater price diversity and the temporary lack of “attractive” euro prices (convenient or threshold prices) generated some degree of uncertainty among consumers.

Furthermore, many euro area citizens continue to calculate in their former national currency, especially for major purchases. According to the results of the November 2006 Flash Eurobarometer survey, euro area consumers are increasingly using the euro as a mental benchmark when evaluating the prices of small purchases (in 2006, only 22% reported that they calculate prices most often in their former national currency, compared with 30% in 2003). However, in the case of major purchases, the adjustment appears to be slower, with 40% of euro area consumers still making price comparisons most often in their former national currencies in 2006 (compared with 54% in 2003). Consequently, instead of comparing the current price level with that of one year ago, consumers may be implicitly using the national currency price prevailing before the euro cash changeover (a price “frozen in time”) as a basis for comparison. This would result, over time, in an increasingly unfavourable comparison of perceptions with annual consumer price developments, as it would be equivalent to consumers incorporating several years of inflation into their survey replies (the overall HICP inflation from January 2002 to March 2007 was around 11%). In some cases, this problem has been found to be compounded by distortions in memory of past prices, with prices recalled as prevailing before the changeover being significantly outdated.¹¹

Finally, psychological experiments have shown that a priori expectations can play an important role.¹² If consumers were already convinced before the euro cash changeover that prices would generally increase, such increases were also more likely to be perceived afterwards,

even if only a few price rises had actually occurred. This effect may have been reinforced by the extensive media coverage before and immediately after the euro cash changeover.

While there may be factors other than the euro cash changeover to explain the divergent developments in the indicator of perceived inflation and actual inflation, the introduction of the euro banknotes and coins is likely to have played an important role, notably because it has most likely heightened consumers’ price awareness.

4 FEATURES OF THE HICP WHICH MAY EXPLAIN DIFFERENCES WITH INFLATION PERCEPTIONS

When consumers form their perceptions of inflation, that which they associate with the term “inflation” may not be completely identical to the measurement concept on which official price statistics such as the HICP are based. This section highlights several of the key methodological features of the HICP that are important to bear in mind when assessing differences with perceived inflation.

THE HICP’S BROAD BASKET OF GOODS AND SERVICES

The HICP aims to measure price changes in the full range of goods and services purchased by all types of households. These are weighted to reflect their relative importance in aggregate consumption expenditure in the economy as a whole. On average, statistical institutes in the euro area countries track prices for over 700 representative goods and services, which

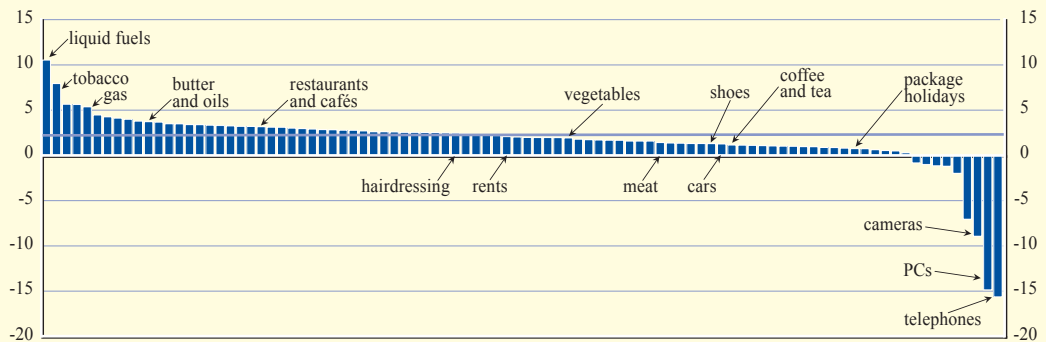
10 See, for example, J. Hoffmann and J.-R. Kurz-Kim, “Consumer price adjustment under the microscope: Germany in a period of low inflation”, ECB Working Paper No 652, July 2006.

11 See V. Cestari, P. Del Giovane and C. Rossi-Arnaud, “Memory for prices and the euro cash changeover: an analysis for cinema prices in Italy”, Banca d’Italia Temi di discussione del Servizio Studi No 619, February 2007.

12 See E. Traut-Mattausch, S. Schulz-Hardt, T. Greitemeyer and D. Frey, “Expectancy confirmation in spite of disconfirming evidence: the case of price increases due to the introduction of the euro”, in *European Journal of Social Psychology*, Vol. 34, No 6, 2004, pp. 739-760.

Chart 3 Average annual price changes in 93 HICP sub-indices, with selected products marked (2002-06)

(average annual percentage changes)



Source: ECB calculations based on Eurostat data.

Note: The solid line shows the average annual increase in the HICP, which was 2.2% between 2002 and 2006.

amounts to a total of around 1.7 million price observations each month. The average annual price developments of the 93 sub-indices published by Eurostat since 2002 are shown in Chart 3.

However, it is conceivable that, when individual consumers are asked about their inflation perceptions, their answers are based on a narrower sample of goods and services. This sample might vary over time, but, as noted above, it is likely to give more weight to items bought on a frequent basis (such as food or petrol). According to ECB estimates, around half of the HICP basket (in terms of the expenditure shares) is composed of items generally purchased at least on a monthly basis. A further third consists of items normally purchased at least on an annual basis and the remaining sixth comprises items generally purchased on less than an annual basis.

The fact that the HICP averages price developments in a broad basket of goods and services in many outlets and locations (see Box 2) implies that individual price observations have an extremely small weight in the overall index, as opposed to the potentially strong impact of extreme changes in the prices of individual products on consumers' inflation perceptions. The HICP is an average of a large number of components that have shown, in many cases, quite divergent developments over the past five

years. As can be seen from Chart 3, since 2002 most items normally purchased at a higher frequency have tended to have larger price changes than those purchased less frequently.

THE HICP'S ADJUSTMENT FOR CHANGES IN QUALITY

In a dynamic economy, the specifications of many consumer goods and services purchased by households are constantly changing. The HICP is designed in such a way that price changes are isolated from other changes in the product's features. The adjustment of observed prices to take account of all such changes is referred to as "quality adjustment". For some items, such as high-tech consumer electronic products and cars, quality and functionality tend to improve considerably on a frequent basis, so that the quality adjustment effects are significant. For example, a car manufacturer may add additional safety features, such as passenger airbags, to the new model of a car without increasing its price. This would be recorded as a price decrease in the index. Such adjustments are essential for a properly calculated price index but can lead to substantial differences between the nominal price changes as observed by consumers and the quality-adjusted price changes that should be reflected in the HICP. When forming their inflation perceptions, it is possible that consumers focus on changes in the price tags of products, taking the improvements in quality for granted. The expenditure weight of

items which typically improve significantly in quality on a frequent basis is estimated at around 8-9% of the overall HICP.¹³

THE TREATMENT OF HOUSING COSTS IN THE HICP

Since 2002 residential property prices have been increasing at rates well above those of the HICP in many euro area countries (the annual rate of house price inflation in the euro area was on average 7.2% during the period 2002-06) and this has attracted much attention in the countries concerned. It is plausible to assume that house prices also play a part in the formation of consumers' inflation perceptions.

While the expenditure of tenants is included in the HICP, most of the expenditure of owner-occupiers is currently excluded, in line with the current definition of the HICP.¹⁴ However, at the euro area level the impact of including owner-occupied housing on the overall HICP is assessed to be relatively limited.¹⁵

¹³ Based on ECB calculations.

¹⁴ Eurostat is currently conducting a pilot project to investigate an approach to appropriately account for the expenditure of owner-occupiers in the HICP. For further details, see the article entitled "The Harmonised Index of Consumer Prices: concept, properties and experience to date" in the July 2005 issue of the Monthly Bulletin.

¹⁵ See M. Eiglsperger, "The treatment of owner-occupied housing in the harmonised index of consumer prices" in *ifc Bulletin* No 24, August 2006, pp. 68-79.

Box 2

THE HICP: A HIGH QUALITY STATISTIC

The divergence in the developments of perceived and measured inflation since 2002 has led, in some countries, to speculation on the accuracy and relevance of official consumer price statistics. It may therefore be useful to recall the facts regarding the measurement of inflation.

HICPs are compiled in 30 European countries (the US Bureau of Labor Statistics also publishes a proxy HICP on an experimental basis). The HICP has been developed according to international standards and benefits from the wealth of experience of all EU countries in consumer price statistics. The harmonisation process led by the European Commission (Eurostat) began in 1995 and has focused on ensuring high standards in terms of quality and comparability across countries. It is supported by a set of legally binding regulations that cover the essential aspects of the index, including coverage, formulae for aggregation, frequency of updates to the basket, treatment of specific items (such as insurance, tariff prices, health and education) and minimum standards for quality adjustment. The European Commission has a programme of compliance monitoring visits during which the compilation practices of individual countries are scrutinised.¹

The euro area HICP is compiled as a weighted average of the HICPs of the euro area countries. The monthly compilation of the euro area results is a very large-scale undertaking, with an approximate total of 1.7 million prices being observed by price collectors in more than 180,000 shopping outlets in nearly 1,000 towns and cities across the euro area. Prices are collected in each country for, on average, over 700 representative goods and services. The HICP is representative of all household monetary consumption expenditure, including non-durable and durable goods and services (excluding owner-occupied housing). It has occasionally been suggested that alternative measures be used that cover only sub-sets of consumer expenditure (such as indices of essential purchases, indices of frequent purchases or indices for low-income households). However, unlike a general consumer price index, these would be biased measures, since they would exclude items that form part of the actual consumption expenditure of households.

¹ The results of these compliance monitoring exercises are summarised on Eurostat's HICP website. See http://epp.eurostat.ec.europa.eu/pls/portal/url/page/PGP_DS_HICP for further details.

Research on the accuracy of consumer price indices² has identified four primary measurement issues. These relate to a substitution bias (since consumers may substitute goods that have become relatively more expensive with those that have become relatively cheaper), a bias due to the delay in including new products, problems in performing quality adjustment and a bias due to the delay in including new outlets in the sample. While several measures have already been taken during the process of developing the HICP to minimise such biases (e.g. the annual updating to include significant changes in expenditure shares), some degree of bias cannot be ruled out. These four measurement issues can have different effects at different times and under different conditions. However, it is expected that, overall, they may lead to actual price changes being slightly overestimated in the HICP, contrary to the current public perception.³

In conclusion, the official euro area HICP, as published by the European Commission (Eurostat), is an accurate measure of consumer price inflation in the euro area which conforms to international standards. There is no evidence that the HICP underestimates actual average price changes, as may be suggested by some media reports.

2 See, for example, C. Mackie and C. Schultze, *At what price? Conceptualizing and measuring cost-of-living and price indexes*, National Academy Press, 2002 and R. Gordon, "The Boskin Commission Report: a retrospective one decade later", Working Paper No 12311, National Bureau of Economic Research, 2006. Both of these articles concern the US CPI.

3 Research using alternative techniques for consumer price compilation has typically led to overestimates in the region of a few tenths of a percentage point.

5 CONCLUSION

The HICP and the European Commission's survey of perceived inflation do not measure the same thing; this reflects the difference between the macroeconomic concept of inflation and the aggregation of surveyed subjective inflation perceptions. Consequently, the fact that developments in the latter diverge from developments in annual inflation, as measured by official statistics, should not be considered as evidence of a measurement error in consumer price statistics.

The results of surveys on inflation perceptions capture a qualitative and subjective sentiment on the part of consumers. They do not provide an indication of the magnitude of the inflation rate perceived and may be influenced by various economic and psychological factors that can vary over time, notably related to the euro cash changeover. Indeed, there seems to be some evidence that the cash changeover may have heightened consumers' price awareness but at the same time blurred somewhat their price references, as consumers may still be comparing

current prices in euro with pre-2002 prices in national currencies or focusing on the price increases of frequently purchased items only.

The HICP, as the best objective measure of the average change in consumer prices, is based on an up-to-date and comprehensive basket of goods and services that is representative of aggregate consumer expenditure. It is adjusted for product quality changes and is comparable over time. Differences between the HICP and the European Commission's survey of perceived inflation therefore do not provide grounds to doubt the quality of the HICP.

Notwithstanding the accuracy of the HICP as a measure of consumer price inflation, protracted divergences in the evolution of measured and perceived inflation warrant close examination, given that perceived inflation might have an impact on inflation expectations and other macroeconomic variables. The significant increase in perceived inflation that followed the euro cash changeover has partly reversed since 2003. Convergence towards the evolution of measured inflation should continue.

COMPETITION IN AND ECONOMIC PERFORMANCE OF THE EURO AREA SERVICES SECTOR

ARTICLES

Competition in and economic performance of the euro area services sector

This article analyses the degree of competition in the euro area services sector and its effects on labour productivity and prices in that sector compared with other sectors. The importance of the euro area services sector has increased significantly over time; it now accounts for around 70% of the euro area's total nominal value added and total employment. Labour productivity growth across the euro area services sectors appears to be characterised by a high degree of diversity, and services price increases are on average higher than aggregate inflation. Considering several proxies of market competition in the non-financial business services, the article finds that less competition in services tends to hamper labour productivity growth. Moreover, measures aimed at increasing market competition in services may have a dampening impact on price developments in some services sub-sectors.

1 INTRODUCTION

Insufficient competition in the services sector is often referred to as one of the factors hindering labour productivity growth and contributing to the gap in productivity growth between the euro area and the United States that has been recorded since the mid-1990s.¹ In addition, empirical studies conducted within the Eurosystem Inflation Persistence Network (IPN) have found that services are characterised by less frequent, but larger and mostly upward, price changes. Given the growing importance of the services sector in the euro area and its role in providing inputs for other sectors, monitoring productivity growth and price developments in this sector is important for the conduct of monetary policy.

Section 2 of this article highlights the macroeconomic importance of the euro area services sector and assesses its performance in terms of labour productivity and price developments.² Section 3 explains the main theoretical channels through which competition in the services sector affects its productivity and prices, analyses the degree of competition in the euro area and refers to some key results on the empirical link between services competition and the economic performance of the sector. The final section draws some policy conclusions.

2 MACROECONOMIC IMPORTANCE AND PERFORMANCE OF THE EURO AREA SERVICES SECTOR

MAIN CHARACTERISTICS AND RELEVANCE TO CONJUNCTURAL DEVELOPMENTS

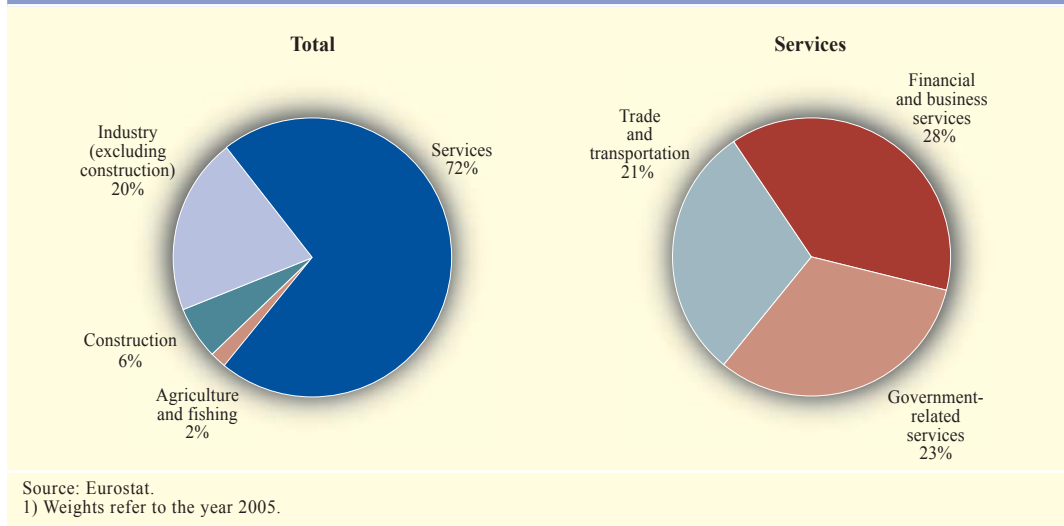
The sectoral breakdown of the euro area economy highlights the importance of the services sector in the euro area (see Charts 1 and 2).³ With a share of around 70% in terms of both nominal value added and employment, the services sector is by far the largest economic sector in the euro area. The industrial sector, which comprises mainly manufacturing, accounts for roughly 20% of euro area value added and employment. The construction and agricultural sectors are both relatively small in comparison. While there is some heterogeneity in the exact size of the services sector across euro area countries, the large and rising share of services in value added and employment represents a common feature among them (see Charts 3 and 4). This is also a characteristic of other developed economies, such as the United States, where services are even more important than they are in the euro area.

1 See the article entitled "Labour productivity developments in the euro area: aggregate trends and sectoral patterns" in the July 2004 issue of the Monthly Bulletin.

2 This article draws on previous research carried out by a Task Force of the Monetary Policy Committee of the ESCB. See "Competition, productivity and prices in the euro area services sector", ECB Occasional Paper No 44, April 2006 (referred to as ECB (2006) hereafter).

3 The euro area aggregate does not include Slovenia due to data limitations.

Chart 1 Breakdown of total nominal gross value added in the euro area ¹⁾



According to the breakdown of the European System of Accounts (ESA 95), the euro area services sector can be decomposed into three main sub-sectors, namely “trade and transportation”, “financial and business services” and a sub-sector that comprises mainly “government-related services”. Though this decomposition does not strictly separate market and non-market services, the two categories “trade and transportation” and “financial and business services” are usually referred to as the

market services sector. The relative size of the three main sub-sectors differs somewhat between value added and employment. While the size of the three sub-sectors is relatively similar in terms of value added, the share of employment is relatively high in “government-related services” and relatively low in “financial and business services”, pointing to differences in the relative labour productivity levels across these sub-sectors. At a more disaggregated level, “trade and transportation” includes

Chart 2 Breakdown of total employment in the euro area ¹⁾

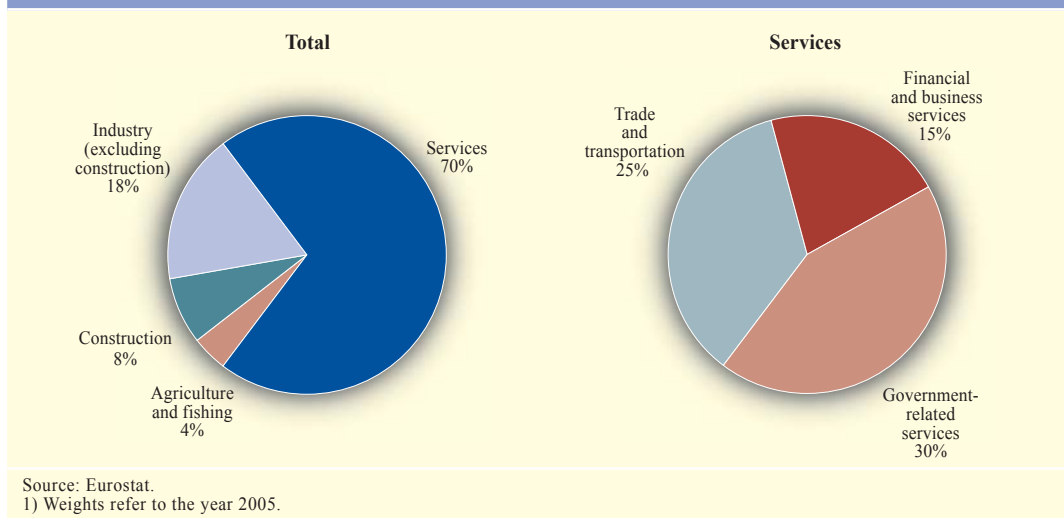
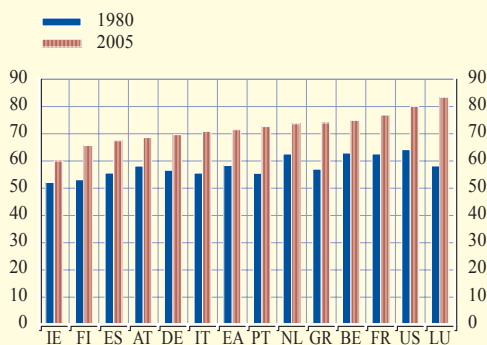


Chart 3 Share of services in total nominal gross value added

(in percentages)

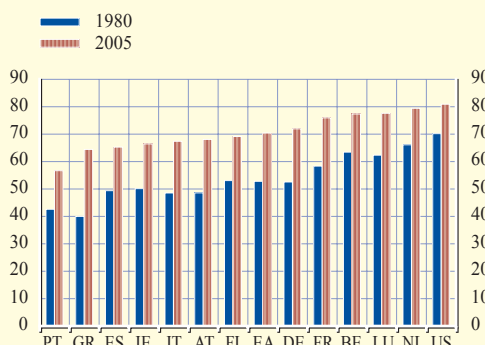


Sources: 1980: ECB (2006); 2005: Eurostat, Bureau of Economic Analysis.

Notes: Data for Ireland refer to the year 2004. EA stands for "euro area".

Chart 4 Share of services in total employment

(in percentages)



Sources: 1980: ECB (2006); 2005: Eurostat, OECD STAN database.

Notes: Data for Portugal and the United States refer to 2003 and those for Greece refer to 2004. EA stands for "euro area".

“wholesale and retail trade, repair of motor vehicles and household goods”, “hotels and restaurants” and “transport, storage and communication”, while “financial and business services” encompass “financial intermediation” and “real estate, renting and business activities”. “Government-related services” include a wide variety of activities, such as “public administration and defence”, “health and social work” and “education”.

Like other developed economies, the euro area economy has undergone significant structural changes associated with the strong increase in the share of services in both nominal value added and employment over time (see Charts 3 and 4).⁴ This trend is shared by all euro area countries, as well as by other economies, such as the United States. Several, in part complementary, explanations have been suggested to account for this shift to services. For instance, the demand for services is likely to rise with the income level, as services satisfy higher needs than do goods according to the “hierarchy of needs” hypothesis. Furthermore, the increased participation of women in the labour market has caused some shift from in-house produced to market-provided services, in turn boosting both GDP and the number of people employed, as well as the share of

services in total value added and employment. Moreover, market liberalisation in services and globalisation are likely to have contributed to this development.

The rising share of services in the euro area reflects clear differences in the relative growth performances of the various sectors. Over the last ten years, the average contribution from services to total value added volume growth amounted to more than 70%, with the rest coming primarily from industry; construction and agriculture made only a small contribution. In terms of employment, these differences are even more pronounced, as services account for almost all of the employment growth in the euro area during the same period. A further specific characteristic of services value added volume growth is its lower volatility both in terms of the range of its fluctuations over the entire business cycle and the short-term volatility of its quarterly growth rates.⁵ This

4 The charts in Section 2 are based on the dataset compiled for the ECB (2006), details of which can be found in Annex 1 of that report. For the period 1980-2003, the dataset incorporates data from the OECD STAN database, from the Groningen Growth and Development Centre (GGDC) and from the national central banks. For the period 2004-05, the Eurostat ESA95 database is used.

5 See Box 5 entitled “The sectoral composition of euro area growth” in the ECB’s Annual Report 2005.

applies, in particular, to government-related services, but is also evident for market services. However, despite this lower volatility, the services sector contributes as much to the average absolute changes in the quarterly pattern of value added growth in the euro area as the more volatile (but smaller) industrial sector. This highlights the importance of short-

term developments in this sector for conjunctural analysis and forecasting and therefore also the importance of conjunctural indicators and timely information for this sector, which, despite recent improvements, are still less well developed than for the industrial sector (see Box 1).

Box 1

EURO AREA SHORT-TERM STATISTICS ON SERVICES OUTPUT

Despite the services sector's large share in euro area value added, the data and indicators available for monitoring short-term developments in its output are less well developed than those for the industrial sector. This applies to the depth of the detailed breakdown of the data, the frequency with which the data are collected, the timeliness with which the information is released and the number, as well as the quality (e.g. the time series length), of available indicators. Nevertheless, the European Statistical System has recently made significant progress in terms of the provision and timeliness of euro area turnover series for services as covered by the Short-Term Statistics Regulation.¹

At the moment, the main source of data for the short-term analysis of activity in the euro area services sub-sectors is value added data from the national accounts. For total (market and non-market) services as well as the three major sub-categories, i.e. (i) trade, repairs, hotels and restaurants, transport and communication, (ii) financial, real estate, renting and business activities and (iii) public administration, education, health and other services, value added data are available from 1995 onwards on a quarterly basis with a delay of around two months after the end of the reference quarter. These data are available in current prices and in volume terms. Value added data for more detailed euro area services industries are published by Eurostat on an annual basis about ten months after the end of the reference year.

Monthly information on actual turnover for the services industries, as covered by the Short-Term Statistics Regulation, is available for retail trade and other (market-related) services. Euro area retail trade turnover data, expressed in current and constant prices, are made available in a timely manner, the first estimate being released around 35 days after the end of the reference month. Recently, euro area turnover data for other services industries (e.g. sale and repair of motor vehicles, wholesale trade, hotels and restaurants, transportation and business activities) have been published by Eurostat. However, these time series are rather short and are available in current prices, but not in volume terms. Work is under way pursuant to the new Short-Term Statistics Regulation to provide services price data, which are necessary to calculate deflated turnover data, by 2009. Monthly production data for services, similar to the industrial production index, which is published around one and a half months after the reference month, are not available.

¹ See Regulation (EC) No 1158/2005 of the European Parliament and of the Council of July 2005 amending Council Regulation (EC) No 1165/98 concerning short-term statistics.

As regards tendency surveys, the European Commission (EC) and Purchasing Managers' (PM) surveys for the retail trade and services industries are published on a monthly basis. The results of these surveys for the euro area are made available in a timely manner, i.e. around the end of the reference month to which they refer. However, the survey results differ somewhat in the length and coverage of the time series. The surveys for retail trade started in 1985 (EC) and 2004 (PM), whereas the surveys for the services industries started in mid-1995 (EC) and mid-1998 (PM) and are therefore available over shorter time horizons than those for the manufacturing industries. With regard to the available breakdowns, the EC survey provides detailed information for only a number of services industries, whereas a very detailed and almost complete breakdown is available for the manufacturing industries. As regards the PM survey, such details are not available for the euro area. The services industries covered in the EC survey have been extended continuously in the recent past; the PM survey includes branches currently not covered by the EC survey, e.g. the financial services industries.

Overall, enhanced data availability has helped to improve the overall picture for the services sector. However, given the importance of the euro area services industries, the existing information is still insufficient for a comprehensive and timely conjunctural analysis of the euro area services sector. This becomes particularly evident when compared with the data availability for industrial activities. All in all, the development of new services statistics requires significant effort on the part of national statistical institutes and has become an agreed priority at the European level.

KEY FACTS REGARDING LABOUR PRODUCTIVITY AND PRICES

LABOUR PRODUCTIVITY GROWTH

Labour productivity growth in the euro area services sector decelerated slightly in the 1990s compared with the previous decade. This downward trend persisted during the period 2000-05 (see Chart 5), even though it appears to have reversed in the Netherlands and Spain since 2000. Conversely, productivity growth in the United States picked up considerably in the mid-1990s, surpassing that in the euro area and increasing further during the period 2000-05.

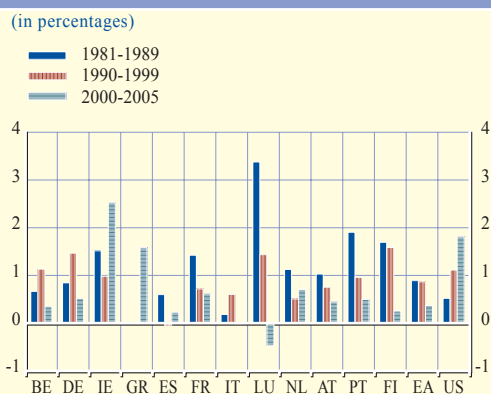
Chart 6 shows a positive gap between labour productivity growth in total manufacturing and total services for the euro area. However, the evidence on slow productivity growth in the services sector needs to be qualified in two respects. First, the labour productivity growth gap in the euro area has narrowed since the 1990s. Second, there is substantial heterogeneity across the sector, with post and

telecommunications and financial intermediation experiencing strong productivity growth, but hotels and restaurants and real estate, renting and business activities showing low or even negative productivity growth. This is a common phenomenon across the majority of euro area countries.

Analysing the individual sub-sectors in more detail,⁶ the most striking difference between the euro area and the United States can be observed in the wholesale and retail trade sectors, with the euro area showing low and decreasing productivity growth since the 1990s (in particular since the mid-1990s) compared with the United States. In the literature, this is attributed mainly to the larger retail outlets and consequently the better use of economies of scale and more intensive use of information and

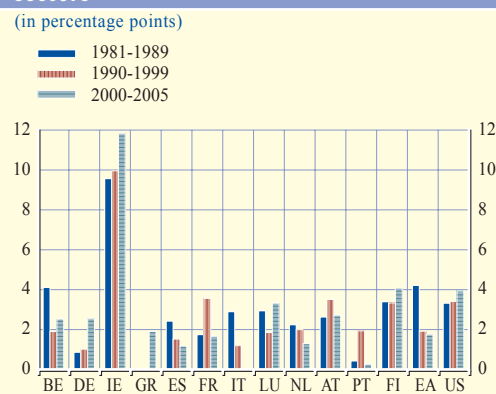
6 For more detailed data on productivity growth and valued added price changes in individual services sectors, see ECB (2006) and Box 4 entitled "Labour productivity and price developments in the euro area services sector: the role of competition" in the April 2006 issue of the Monthly Bulletin.

Chart 5 Labour productivity growth in the services sector



Sources: ECB (2006) and Eurostat.
Note: Data up to 2005 if available, otherwise the latest available year. EA stands for "euro area".

Chart 6 Labour productivity growth gap between the manufacturing and services sectors



Sources: ECB (2006) and Eurostat.
Note: Data up to 2005 if available, otherwise the latest available year. EA stands for "euro area".

communication technology (ICT) in the United States.⁷ Negative labour productivity changes in hotels and restaurants across the majority of countries could also be related to the sectors' labour-intensive nature, domestic orientation and issues of quality adjustment in measuring output. Labour productivity growth in transport and storage and in telecommunications in the euro area was higher than in the United States during the period under consideration. In transport and storage, this partly reflects the differences between this sector in the United States and in the euro area.⁸ In telecommunications, the liberalisation measures implemented in the 1990s contributed to increased efficiency, the use of ICT, an increase in demand and lower prices (see below). Negative labour productivity developments in real estate, renting and business activities recorded in both the euro area and the United States may also be attributed to the fact that they are inherently based on rents and do not increase output.

VALUE ADDED PRICE CHANGES

Chart 7 shows a clearly decreasing pattern in the implicit value added price deflator for services (referred to as price changes hereafter) in the majority of the euro area countries and the United States since the beginning of the 1980s. This development has been accompanied

by decreasing dispersion in price changes across euro area countries, as measured by the coefficient of variation.

At the euro area level, the gap between price changes in the services and manufacturing sectors shrank (see Chart 8), whereas in the United States, the gap widened during the period 2000-05 due to a more pronounced price decline in the manufacturing sector than in the services sector.

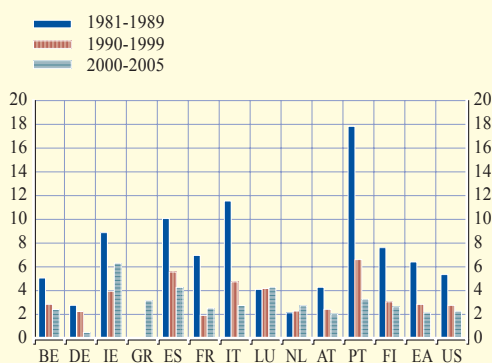
Looking beyond aggregates, price developments within the services sector are rather heterogeneous. In hotels and restaurants, prices generally grew at a faster rate compared with total services, which is explained mainly by a higher labour intensity and the resulting smaller scope for productivity improvements in a context of limited wage flexibility and/or insufficient competition. A similar trend in real estate, renting and business activities can be attributed to the increase in prices of underlying

7 M. Timmer and R. Inklaar, "Productivity differentials in the US and EU distributive trade sector: statistical myth or reality?", Research Memorandum GD-76, Groningen Growth and Development Centre, 2005.

8 B. van Ark, E. Monnikhof and N. Mulder, "Productivity in services: an international comparative perspective", in *Canadian Journal of Economics*, Vol. 32, No 2, 1999, pp. 471-499. This article highlights the high use of private cars and a smaller scope for efficiency improvements in US passenger transport.

Chart 7 Value added price changes in the services sector

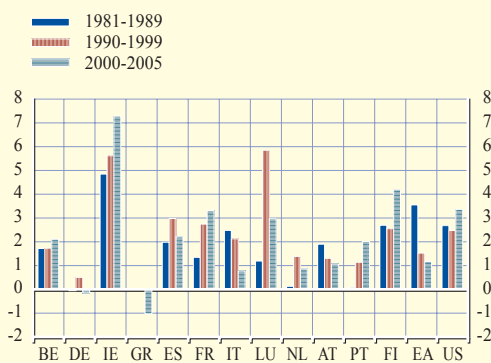
(in percentages)



Sources: ECB (2006) and Eurostat.
Note: Data up to 2005 if available, otherwise the latest available year. EA stands for "euro area".

Chart 8 Gaps in value added price changes between the services and manufacturing sectors

(in percentage points)



Sources: ECB (2006) and Eurostat.
Note: Data up to 2005 if available, otherwise the latest available year. EA stands for "euro area".

assets in real estate and to the improving quality and growing customisation of professional services. Conversely, in post and telecommunications, prices fell in a majority of countries over time (in particular in Germany, France and the Netherlands since 1996) due to the opening-up to competition and cost decline on the back of technological progress in the sector.⁹ Price developments in wholesale and retail trade in the euro area show a pattern similar to the one in total services, while the United States experienced negative price changes in this sector from the second half of the 1990s onwards, reflecting its more positive productivity developments.

CONSUMER PRICE INDEX (HICP) DEVELOPMENTS

The main HICP developments in the services sector are broadly similar to those observed for the value added deflator. The HICP for services refers to final consumer prices of services and reflects, in addition to the components of the value added deflator, the evolution of other factors influencing consumption prices, i.e. taxes on consumption, the prices of other inputs and the prices of imported products directly consumed.

The weight of services in the euro area HICP has been growing steadily. In 2006 it reached 40.8% which, however, is less than the share of

services in total value added or employment. The differences arise for two main reasons. First, many services are intermediate inputs for the production of consumer goods, and their input is embodied in the prices of the other items of the HICP (e.g. margins of wholesale and retail services are incorporated into the price of the goods sold to customers). Second, some non-market services do not require monetary transactions and are not included in the HICP, since the share of households' final monetary expenditures for these services is zero (e.g. public administration and defence, and to some extent education, health and social protection services).

Since 1992, increases in services prices have followed a broadly similar pattern to that of non-energy industrial goods (i.e. consumer goods excluding food and energy).

However, the annual rate of increase in HICP services prices has been consistently above that of HICP non-energy industrial goods prices (see Chart 9). This gap, which has been around 1.7 percentage points on average, mainly

⁹ For a discussion, see "Price effects of regulatory reform in selected network industries", ECB, March 2001, and R. Martin, M. Roma and I. Vansteenkiste, "Regulatory reform in selected EU network industries", ECB Occasional Paper No 28, April 2005.

Chart 9 HICP developments in the euro area

(annual percentage changes)



Source: Eurostat.
Note: Data prior to 1996 are estimated on the basis of national CPIs.

reflects the above-mentioned productivity growth differentials between the services and industrial goods-producing sectors and the resulting impact on unit labour cost developments.

At a more detailed level of disaggregation, the benefits of liberalisation and technological progress can be seen clearly in the evolution of telecommunications services prices which have declined at an annual rate of 2.2% on average since 1996, compared with an average increase of 2.3% in overall HICP services prices. In this context, the broader liberalisation of services activities could also be expected to have an impact on overall services price developments.

Beyond the effect on the degree of inflationary pressures, services price increases contribute to the persistence of inflationary fluctuations over time. The recent work of the Eurosystem Inflation Persistence Network (IPN) points to higher price increases and a larger degree of nominal rigidities in services than in other items of the HICP.¹⁰ Services price index changes are less frequent, but larger compared with those recorded for manufactured goods. According to price-setting surveys, the main factors preventing price adjustments are (i) long-term relationships with customers, (ii) explicit contracts that are costly to

renegotiate and (iii) a low level of competition. Moreover, there is a large asymmetry in price changes, since only 20% of price changes in services are price decreases (compared with 40% in manufacturing). This asymmetry may also be explained by a larger share of labour input and downward nominal wage rigidities.

3 THE IMPACT OF COMPETITION ON PRODUCTIVITY AND PRICE DEVELOPMENTS IN THE SERVICES SECTOR

THE ECONOMIC ARGUMENT

Perfect competition is generally associated with a market structure where all economic agents are price-takers and firms are able to enter and exit the market freely without incurring fixed costs and unable to exploit increasing returns to scale. In the real world, perfect competition is rare, especially in the services sector, where the heterogeneity of the output supplied may create monopolistic power for the suppliers. Competition in services can be limited not only by the nature of the products involved, but also by legal barriers to trade or by legislation discriminating between local and foreign firms (see Box 3).

The effects of increased services sector competition on services sector labour productivity can be direct and indirect. Direct effects stem from the reduction in business costs and the removal of entry barriers following a broad range of product market reforms. Indirect effects on labour productivity in the services sector operate through three main channels:¹¹ (i) a reduction in mark-ups and a better allocation of scarce resources (allocative efficiency); (ii) an improvement in firms' utilisation of the factors of production

10 For a summary of the main findings of the IPN in the euro area, see I. Angeloni et al., "Inflation persistence in the euro area: preliminary summary of findings", Eurosystem Inflation Persistence Network, ECB, 2005, and E. Dhyne et al., "Price-setting in the euro area: some stylised facts from individual consumer price data", ECB Working Paper No 524, 2005.

11 See, for example, "The EU Economy: 2004 Review", European Commission, 2004.

(productive efficiency); and (iii) an incentive for firms to innovate and move to the technology frontier (dynamic efficiency). Gains in allocative and productive efficiency (known as static gains), which are brought about by changes in competition, represent one-off changes in the level of productivity. By contrast, the effects of dynamic efficiency on productivity, also known as dynamic gains, are believed to raise the level and growth rate of total factor productivity in the long run, as well as to have a potentially larger and longer-lasting impact on productivity, compared with static gains. Services sector competition can also indirectly support labour productivity in other sectors of the economy that use services as an input in their production process.

Increased competition is generally associated with a lower price level brought about by a reduction in the mark-ups of firms for given marginal costs. Moreover, stronger competition stimulates a more efficient use and allocation of resources, exerting downward pressure on costs and triggering price reductions.¹² The price (level) effects in services are both direct, via the effects of lower services prices for consumers, and indirect, via the reduction in the prices of services used as inputs to produce

other services within the services sector or other sectors of the economy. The effects of changes in competition on price levels are expected to persist. It may take several years before the sector has reached a new steady state. During this period of relative price adjustments, the aggregate inflation rate is also expected to be affected temporarily by such changes in competition.

In general, the more competition there is in an economy, the more flexible it is likely to be in terms of wages and prices and factor substitution of inputs. More flexible prices could lead to a less persistent output loss following a negative cost-push shock. This is particularly relevant in the case of services, since services prices are generally stickier than manufacturing prices and companies operating in markets with a higher degree of competition adjust their prices more frequently in response to cost and demand factors (see Section 2). Finally, increased competition in the international services market should also enable consumers to compare prices more easily, especially in a monetary union, increase price

¹² See, for example, the article entitled "Price level convergence and competition in the euro area" in the August 2002 issue of the Monthly Bulletin.

Table 1 Measures of product market regulation

	Product market regulation		Retail services		Professional services ¹⁾	
	2003	2003 minus 1998	2003	2003 minus 1998	2003	2003 minus 1996
Belgium	1.4	-0.7	4.5	0.9	2.1	-0.1
Germany	1.4	-0.5	3.1	0.8	3.1	-1.0
Ireland	1.1	-0.4	1.1	-0.2	1.3	0.1
Greece	1.8	-1.0	4.2	0.2	2.9	-
Spain	1.6	-0.7	3.4	-0.3	2.4	-1.0
France	1.7	-0.8	3.1	-1.6	2.0	0.1
Italy	1.9	-0.9	2.4	-0.5	3.6	0.3
Luxembourg	1.3	-	-	-	3.2	0.0
Netherlands	1.4	-0.4	1.6	-0.3	1.6	0.2
Austria	1.4	-0.4	3.2	-0.9	2.0	-2.2
Portugal	1.6	-0.6	2.2	-1.0	2.4	-0.3
Finland	1.3	-0.7	2.6	-0.8	1.0	0.2
Euro area	1.5	-0.7	2.8	-0.3	2.3	-0.3
United States	1.0	-0.3	2.6	-	1.8	-

Source: OECD.

Note: A higher index indicates stricter regulation.

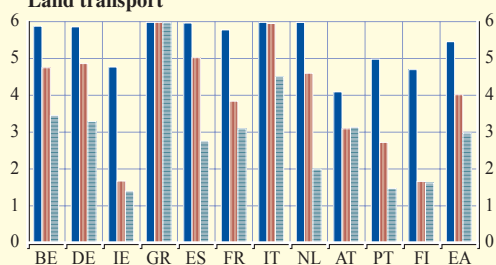
1) The overall indicator for professional services is the simple average of indicators for accounting, architect, engineer and legal services.

Chart 10 Sectoral regulation

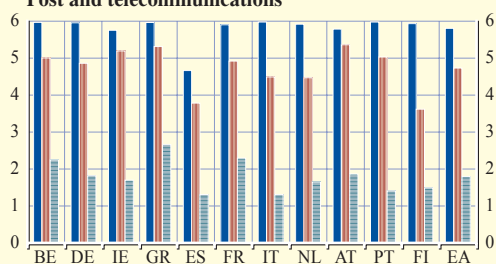
(period averages)

— 1981-1989
 ■ 1990-1999
 ■ 2000-2003

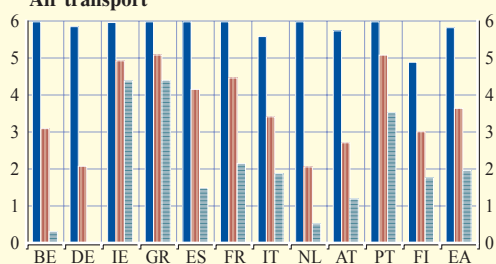
Land transport



Post and telecommunications



Air transport



Sources: OECD and own calculations.
 Notes: The index ranges from 0 to 6. A higher index indicates stricter regulation. The value for the euro area is computed as a simple average. EA stands for "euro area".

transparency, enhance arbitrage possibilities across countries and allow a smoother functioning of EMU. More competition in economies could therefore attain lower inflation rates for a longer period of time.

SERVICES MARKET COMPETITION IN THE EURO AREA

Measuring competition in the non-financial business services market is a complex task,¹³

since regulations do not lend themselves to being measured quantitatively and competition is hard to observe directly. Therefore, proxies that capture institutional information or assess actual performance against the hypothetical benchmark of full competition must be used. Box 2 provides an overview of such proxies, as well as a discussion of their strengths and limitations. Looking at the different measures of competition, however, provides a fairly robust picture of the progress the euro area countries have made in increasing competition over recent years and the remaining cross-country differences. Consequently, proxies measuring the degree of total economy and sectoral regulation, as well as proxies of corporate profitability, are presented in this section.

The overall OECD Product Market Regulation (PMR) index provides a synthesis of regulations that have the potential to reduce or increase the intensity of competition. This index dropped clearly during the period 1998-2003 for both the euro area and all countries examined (see Table 1, columns one and two), suggesting that the overall regulatory environment has become more supportive of product market competition since 1998, although for the most part it remains tighter than in the United States. The biggest improvements have been recorded for Greece, Italy and France, although the levels in all these countries are still among the highest. By contrast, retail services and professional services have shown only limited progress in terms of deregulation since 1998 and 1996, respectively, and even some tightening of regulations in some countries (see Table 1, columns three to six).

Chart 10 shows the evolution of sectoral regulation for air transport, land transport and post and telecommunications during the periods 1981-1989, 1990-1999 and 2000-2003. A higher index value indicates stricter regulation in terms of barriers to entry, public ownership, market structure, vertical integration and price

¹³ See Chapter 3 of ECB (2006) for a detailed discussion.

controls. These indicators have decreased significantly over time in the euro area as a whole and across countries, suggesting that regulation in these sectors has become more “business-friendly”. This is the case for air transport and post and telecommunications in particular, which experienced the biggest drop. Progress recorded, however, tended to differ across countries and industries, as suggested by the increase in the dispersion of sectoral regulation over time (signalled by a higher unweighted standard deviation across countries in the second and third periods considered than in the first). Consequently, cross-country differences in the level of regulation in these industries are still considerable.

The extent of regulation in the services sector could affect firms’ behaviour and profitability. Proxies of profitability can therefore be used as an alternative measure of competition. They comprise the mark-up, simply measured as the ratio of the value added deflator to unit labour costs, and the profit margin which is calculated as the ratio of the operating surplus to value added. The mark-up, corrected for the imputed

labour compensation of the self-employed, is characterised by rather limited variations over time and by an upward trend in the euro area as a whole and most of the euro area countries and sectors examined in the 1990s compared with the 1980s.¹⁴ In general, both the mark-up and profit margin in the euro area non-financial business services sectors exceeded the corresponding indicators for the total economy and manufacturing in the 1980s and 1990s. However, it is difficult to draw strong conclusions on the evolution of competition from these proxies, as a high level of profitability could be associated either with limited competition or with the high dynamic efficiency of firms within a competitive sector leading to productivity gains (see also Box 2). Nevertheless, stronger competition should reduce economic rents from regulations and therefore mark-ups in the medium to long term.

¹⁴ For a discussion, see the article entitled “Measuring and analysing profit developments in the euro area” in the January 2004 issue of the Monthly Bulletin.

Box 2

COMPETITION PROXIES IN THE SERVICES SECTOR

Measuring competition in the services market is important for the assessment of its effects on labour productivity, growth and inflation. Since competition cannot be observed directly, different proxies have been developed for non-financial business services. This box complements the second part of Section 3 of this article by providing a comprehensive overview of these proxies of competition. They are schematically divided into four categories, detailing their statistical sources and their main methodological caveats.

1. Proxies of corporate profitability at the sectoral level, such as the mark-up and the profit margin (OECD Structural Analysis (STAN) database). Difficulties in measuring capital stock at the sectoral level may make it difficult to measure profits and, in general, international comparisons should be cautiously interpreted. Moreover, higher profitability cannot be unambiguously understood as an indication of less competition.
2. Proxies measuring the degree of total economy and sectoral regulation (OECD Product Market Regulation (PMR) database). Using a bottom-up approach, these proxies summarise indicators covering information on state control, barriers to entry, state involvement in

business operations and price controls. They are generally available with some delay (the latest available observations cover the year 2003) and with low frequency. Other indicators of regulations for selected services (accountants, pharmacists, architects, engineers, lawyers, retailers) are also available (Copenhagen Economics¹ and Paterson et al.²). These indicators are generally available at a high level of disaggregation but their time coverage is very limited.

3. Indicators of market structure, such as the number of firms, the number of persons employed per enterprise and the share of self-employed in total employment (Eurostat New Cronos). The construction of more precise measures of market structure, such as Herfindahl indices, poses significant challenges due to data limitations. It is important to stress that firm size should not be taken unambiguously as a proxy for market concentration. On one hand, average firm size may be positively related to concentration and on the other hand a fragmented market structure might be an indication of barriers to entry for more efficient organisational models, such as large retail outlets.
4. Proxies measuring the degree of market openness, such as trade openness (OECD Statistics on International Trade in Services) and indices of foreign direct investment restrictions³. The latter are constructed by aggregating several indicators signalling the discrimination of a country against foreign firms, for example through operational restrictions on foreign firms and limits on foreign equity ownership. This category of proxies can be used to assess the extent of international competition.

- 1 Copenhagen Economics, "Economic Assessment of the Barriers to the Internal Market for Services", 2005, a study commissioned by the European Commission, DG-Enterprise, Brussels.
- 2 I. Paterson, M. Fink and A. Ogus, "Economic impact of regulation in the field of liberal professions in different Member States", Regulation of Professional Services, Research Report, Institute for Advanced Studies (IHS), Vienna, 2003.
- 3 S. Golub, "Measures of restrictions on inward Foreign Direct Investment for OECD countries", OECD Economic Studies No 36, 2003, pp. 85-117.

THE EMPIRICAL LINK BETWEEN MARKET COMPETITION, LABOUR PRODUCTIVITY GROWTH AND RELATIVE PRICE CHANGES IN SERVICES

The empirical literature generally finds that competition is an important factor in explaining both labour productivity and price developments in the services sector. Deregulation and liberalisation contribute to higher levels and rates of growth in labour productivity.¹⁵ At the same time, higher competition is generally found to exert downward pressure on costs and prices.¹⁶

For the euro area, the ECB (2006) study investigates the link between several proxies of competition in the services market, labour productivity growth and relative value added

price changes (i.e. price changes in each analysed services sub-sector relative to price changes in the economy as a whole).¹⁷ Although several findings are in line with the evidence for broad sets of industrialised countries, it is

- 15 See the study by P. Conway, D. De Rosa, G. Nicoletti and F. Steiner, "Regulation, Competition and Productivity Convergence", OECD Economics Department Working Paper No 509, 2006, and the literature quoted therein.
- 16 See, for example, P. Cavelaars, "Does Competition Enhancement Have Permanent Inflation Effects?", *Kyklos*, Vol. 56, No 1, 2003, pp. 69-94, and M. Przybyla and M. Roma, "Does product market competition reduce inflation? Evidence from EU countries and sectors", ECB Working Paper No 453, March 2005.
- 17 Value added price changes rather than the HICP are used for the purpose of analysing data since the start of the 1990s, given that comparable HICP data across countries are available only from 1996. Relative rather than absolute value added price changes are investigated given that, in the medium to long run, absolute price level changes are driven by monetary developments and country-specific characteristics.

worth stressing that the results should be interpreted with caution given the limitations of the existing data. The caveats associated with the proxies of services market competition should also be borne in mind (see Box 2).

The study shows that competition in the services market is an important factor in explaining labour productivity growth in the majority of industries analysed. This result is fairly robust to possible measurement errors since it holds true for a range of indicators (FDI restrictions, OECD indicators of sectoral regulation, etc.). In particular, limited competition in the services market generally appears to dampen labour productivity growth in the services sector across euro area countries. However, the results differ across sub-sectors and there did not appear to be any systematic impact of services market competition in the case of hotels and restaurants and real estate, renting and business activities.

In all sectors examined, relative unit labour costs prove to be a key explanatory variable of

relative price changes. Moreover, higher relative profit margins are associated with higher relative price increases. However, these results should be interpreted with caution given that higher profitability cannot be unambiguously understood as an indication of less competition. In addition, in wholesale and retail trade, hotels and restaurants, and transport and storage, the other proxies of services market competition do not explain relative price changes. However, in post and telecommunications and real estate, renting and business activities, tighter sectoral regulation and some indicators of economy-wide product market regulation are associated with higher price increases or lower price decreases, suggesting that increased services market competition has a dampening impact on relative price changes in these sub-sectors.

Overall, more competition in services would promote more efficient and better functioning services markets (see Box 3), as well as increase productivity and consumer welfare in terms of price reductions in some sectors.

Box 3

THE EU DIRECTIVE ON SERVICES IN THE INTERNAL MARKET

The Treaty of Rome spelled out two fundamental freedoms underpinning the internal market for services: the freedom of establishment, allowing EU companies to establish themselves in other Member States, and the free movement of services, guaranteeing EU companies the freedom to provide services – on a temporary basis – on the territory of a Member State other than the one in which they are established.

However, in spite of these Treaty provisions, the internal market for services is not yet working satisfactorily. A plethora of legal and administrative barriers are preventing service providers from extending their operations beyond their national borders. The need to put into practice the internal market for services has thus been at the forefront of the European policy agenda for many years. Most notably, at the Lisbon summit in March 2000, the EU Heads of State or Government asked for a strategy to remove cross-border barriers to services, considering it a crucial cornerstone of the growth strategy known as the Lisbon agenda.

With a view to bolstering the exercise by service providers of these two fundamental freedoms, the European Commission presented in January 2004 a proposal for a Directive on services in the internal market (hereafter the “Services Directive”). The Services Directive was finally

adopted by the European Parliament and the Council in December 2006, and must now be transposed by the Member States into national law by the end of 2009.

The European Parliament and the Council modified the initial proposal of the European Commission on a number of points. They agreed to exclude a number of sensitive services from the scope of the Directive. Moreover, they rejected the Commission's suggestion to base the free movement of services on the "country of origin principle", which states that a company providing a service in another Member State – on a temporary basis – would only be subject to the laws of the country where it is established (with some exceptions). The European Parliament and the Council agreed to replace the country of origin principle by the principle that the Member State of destination must ensure free access to and free exercise of a service activity within its territory. The Member State of destination would be able to impose requirements on foreign providers of services only if these requirements are non-discriminatory, proportional and necessary on the grounds of public policy, public security, environment and health.

Notwithstanding these modifications, the Directive should still produce substantial benefits to both businesses and consumers by making it easier to provide and use cross-border services. In spite of its narrower scope, a large number of services continue to fall within the Directive's application. These include business services (e.g. management consultancy), consumer services (e.g. tourism) and services provided both to businesses and consumers (e.g. construction). Moreover, in line with the case law of the European Court of Justice, a number of restrictions on the exercise of both fundamental freedoms are now explicitly prohibited. The Directive will also cut red tape by modernising and simplifying the administrative procedures concerning the access to and exercise of service activities. Finally, all the restrictions imposed by Member States on foreign providers of services will be communicated to both the Commission and the other Member States and will be subject to mutual assessment.

Economic studies¹ have tried to quantify the macroeconomic impact of the Directive on economic growth and employment in the services sector. It has been argued that the Directive – as proposed by the Commission – would increase EU bilateral trade and investment in commercial services (except transport) by up to a third. Moreover, estimates indicate that the static effects (i.e. disregarding dynamic effects, such as the impact on firm behaviour) would already lead to gains in consumption and employment of 0.7% and 0.3% respectively, corresponding to a net increase of 600,000 jobs. Others suggest that GDP could rise by almost 0.7% as a result of the draft Directive.

These studies also consider the effect of the exclusion of the country of origin principle. Copenhagen Economics indicates that the provisions relating to this principle could increase the total welfare gains, measured in terms of total consumption, from the Services Directive by around 10%, while others estimate that the beneficial effects on GDP, consumption and trade could be approximately twice as high if the country of origin principle was adopted.

1 R. De Bruijn et al., "The trade-induced effects of the Services Directive and the country of origin principle", CPB Document No 108, 2006. Copenhagen Economics, "Economic assessment of the barriers to the internal market for services", a study commissioned by the European Commission, DG-Enterprise, 2005. F. Breuss and H. Badinger, "The European Single Market for services in the context of the Lisbon Agenda: macroeconomic effects", a study commissioned by the Austrian Federal Ministry of Economics and Labour, 2006.

Overall, these studies provide some empirical evidence that the Directive's economic effects, despite being less than those that could be expected from the European Commission's original proposal, should be economically meaningful for all EU Member States.

Looking ahead, it is crucial that the Directive is implemented fully and effectively in all EU Member States, thus allowing the EU to reap the benefits as soon as possible.

4 CONCLUSION

The importance of the euro area services sector has increased significantly over time. This sector now accounts for around 70% of the euro area's total nominal value added and employment. However, labour productivity growth in the euro area services sector decreased slightly in the 1990s relative to the 1980s and this downward trend persisted during the period 2000-05.

Insufficient competition in the services sector is often referred to as one of the factors hindering labour productivity growth and contributing to stronger price increases than those in the manufacturing sector. Empirical results suggest that measures aimed at increasing market competition in the services sector may contribute to higher labour productivity growth and have a dampening impact on relative price changes in some services sub-sectors.

The proxies of competition in the services sector analysed here generally indicate that regulations in the euro area services sectors have become more "business-friendly" over time. However, the progress recorded tends to differ across euro area countries and industries, with retail and professional services showing only limited progress since the mid-1990s.

Overall, a higher level of competition in the services sector would promote more efficient and flexible services markets, facilitate adjustment processes and increase the resilience of the euro area to economic shocks, thus allowing a smoother functioning of EMU. The reduction of rigidities and barriers in the services sector should be part of a comprehensive

approach to reforms exploiting the complementarities of labour and product market reforms. In this respect, the completion of the single market for services should remain a high priority for European policy.

DETERMINANTS OF GROWTH IN THE EU MEMBER STATES OF CENTRAL AND EASTERN EUROPE¹

ARTICLES

Determinants of growth in the EU Member States of central and eastern Europe

After the recession following the collapse of the centrally planned economies at the beginning of the 1990s, the countries in central and eastern Europe embarked on a path of economic transformation and rapid growth. The buoyant expansion was underpinned by structural and institutional reforms, macroeconomic stabilisation, the prospect of EU membership and actual accession to the EU in May 2004 and January 2007. These developments give rise to many important questions regarding current economic conditions in the central and eastern European (CEE) countries and the ensuing growth prospects. The purpose of this article is to review the main drivers of growth in the CEE countries, i.e. the EU Member States of that region, and to assess the key challenges faced by these countries in making progress with convergence in the years ahead.

The article finds that, in order to ensure sustainable economic growth in the CEE countries, it is crucial for these economies to take appropriate policy action in several areas. In particular, sound macroeconomic policies, including a credible monetary policy and an adequate fiscal policy, are essential to ensure appropriate fundamentals for further sustainable growth and convergence. In addition, there appears to be a need for them to address their structural labour market problems. In this context, enhancing labour participation and reducing regional and skill mismatches are of particular importance. Finally, further efforts to improve the attractiveness of the business environment and investment in human capital appear to be crucial for any faster catching-up.

I INTRODUCTION

At the beginning of the 1990s, most CEE countries entered a new political and economic era. Since the beginning of this transformation process, they have sought to become members of the EU. The Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovenia and Slovakia achieved this goal in May 2004, followed by Bulgaria and Romania in January 2007.² Since then, several of these CEE countries have joined the exchange rate mechanism II (ERM II), namely Estonia, Lithuania, Latvia, Slovenia and Slovakia, with Slovenia adopting the euro on 1 January 2007.

There is no doubt that the CEE countries involved have come a long way since the late 1980s, but this is by no means the end of their process of “transition.” Many challenges still lie ahead and the real convergence process, defined here as the convergence of the level of per capita income in these CEE countries to the euro area average, is far from complete.³ Although living standards in the CEE countries have improved considerably since the beginning of the transition period, the gap between their per capita income and the euro area average still remains significant.

A natural framework for many long-term analyses of economic growth is the traditional production function approach that links output to the accumulation of labour and capital, and to technological progress. This approach, which also forms the analytical basis for the article, helps to distinguish the main components of growth. Against this background, the article focuses on aspects related to labour market performance, capital investment and human capital.

With regard to other important determinants of growth, cross-country studies suggest that stable macroeconomic fundamentals and financial sector development have a positive influence on long-term growth. It has been found that overly large governments, often

1 The article is based on O. Arratibel, F. Heinz, R. Martin, M. Przybyla, L. Rawdanowicz, R. Serafini and T. Zumer, “Determinants of growth in the central and eastern European EU Member States – a production function approach”, ECB Occasional Paper No 61, April 2007.

2 Cyprus and Malta are not covered in this article since they did not undergo a transition process, which makes them less comparable with the CEE countries.

3 There are also other possible definitions of real convergence, such as the convergence of the sectoral structure of different economies or the international convergence of institutions and legal framework conditions. However, the convergence of per capita income levels is the most frequently used definition of the term “real convergence” in economic literature.

represented by sizable total expenditure-to-GDP ratios, may have a negative impact on output growth by distorting the efficiency of resource allocation. In this context, it is important to note that the total expenditure ratios are above 40% in a number of the CEE countries involved (e.g. the Czech Republic, Latvia, Hungary, Poland and Slovenia), which is relatively high in relation to countries at comparable levels of development. In addition, four of these CEE countries (the Czech Republic, Hungary, Poland and Slovakia) are still in excessive deficit. Where the development of the financial sector is concerned, a broad consensus in the literature suggests that a deepening of the financial market is linked to growth through the promotion of capital accumulation and through a positive impact on the pace of productivity growth.

The remainder of the article is organised as follows. Section 2 gives a short overview of the output growth and real convergence experienced by the EU Member States of central and eastern Europe since the mid-1990s and looks at the contributions of labour, capital and total factor productivity to the growth in income per capita. This provides a general background for the more detailed analyses of recent labour market

and investment developments in Sections 3 and 4. Section 5 summarises the main findings and identifies key challenges for the CEE countries with regard to their further real convergence process.

2 PROGRESS WITH REAL CONVERGENCE

Following the abrupt end of the centrally planned systems in central and eastern Europe in the late 1980s, output collapsed in most CEE countries. Although data for the first half of the 1990s are mostly unreliable and should be treated with great caution, Table 1 indicates that output losses in these countries between 1991 and 1995 differed significantly and were largest in the Baltic States (Estonia, Latvia and Lithuania).

Since 1996 real GDP growth has resumed in almost all countries, reflecting progress in macroeconomic stabilisation and the implementation of a wide range of structural and institutional reforms.⁴ Bulgaria and Romania are notable exceptions, due to the fact

4 The high growth rates also reflect a “base effect” caused by the large initial drop in output.

Table 1 Real GDP growth rates

(annual average percentages)

	1991-1995	1996-2000	2001-2005
Bulgaria	-2.6	-0.8	5.0
Czech Republik	-1.0	1.5	3.3
Estonia	-6.2	5.6	7.3
Latvia	-11.8	5.4	7.8
Lithuania	-10.0	4.2	7.7
Hungary	-2.4	4.0	4.1
Poland	2.2	5.1	2.9
Romania	-2.1	-1.3	5.9
Slovenia	-0.6	4.4	3.4
Slovakia	-1.7	3.7	4.8
CEE countries	-1.0	3.5	3.9
Euro area	1.5	2.8	1.5

Source: ECB staff calculations based on the Total Economy Database of the Groningen Growth and Development Centre (GGDC), May 2006.

Table 2 GDP per capita in terms of purchasing power parity

(euro area = 100)

	1995	2000	2005	2005-1995 ¹⁾
Bulgaria	27.8	24.8	31.3	3.5
Czech Republic	63.6	60.6	67.3	3.7
Estonia	29.8	35.9	49.7	19.9
Latvia	25.7	30.8	43.8	18.1
Lithuania	30.4	33.3	46.1	15.7
Hungary	46.6	50.8	59.2	12.6
Poland	36.6	41.4	45.1	8.5
Romania	29.0	24.2	30.3	1.3
Slovenia	64.0	69.5	77.1	13.1
Slovakia	42.0	44.1	52.1	10.0
CEE countries	38.1	39.3	45.5	7.4

Source: ECB staff calculations based on the GGDC Total Economy Database, May 2006.
1) Change in percentage points.

that deep structural changes associated with the transition process occurred later than in the other CEE countries. In the period from 1996 to 2000, output growth was particularly strong in Estonia, Latvia, Lithuania, Poland and Slovenia, and slightly less strong in Hungary and Slovakia. The slowest pace of recovery was recorded in the Czech Republic, largely on account of the recession that followed the financial crisis of 1997. In the subsequent period from 2001 to 2005, real GDP growth accelerated further in all CEE countries, except Poland and Slovenia which, nonetheless, continued to register higher growth rates than the euro area.

The relatively strong growth performance in the CEE countries relative to the euro area also led to some progress in real convergence.

While the levels of per capita income in all CEE countries have increased relative to the euro area over the past decade, they were – on average in terms of purchasing power parity (PPP) – still below half the euro area level in 2005 (see Table 2), although there were some major differences from country to country. In that year, the level of income per capita in Slovenia was around 77% of the euro area average, while that in Bulgaria and Romania stood at around 30%. In addition, the pace of convergence in per capita income levels differs widely across countries. While the Baltic States have made remarkable progress regarding real convergence with the euro area in the past decade, per capita income levels in Romania in 2005 were only slightly higher than ten years ago. With the exception of Bulgaria and Romania, the countries with the lowest income levels in 1995 recorded the highest output growth rates in the following ten years (see Table 1).

ANALYSIS OF REAL CONVERGENCE PATTERNS

As pointed out above, the CEE countries are still characterised by quite large gaps vis-à-vis the euro area with respect to their GDP per capita levels. In order to gain a better insight into the nature of these gaps, this sub-section

looks into differences between the CEE countries and the euro area in labour utilisation and productivity.⁵

As can be seen from Chart 1, all CEE countries improved their relative labour productivity vis-à-vis the euro area between 1995 and 2005, although the gap still remains quite significant.

Labour utilisation, defined as the proportion of the total population that is in employment, was significantly lower in Lithuania, Hungary, Poland, Romania and Slovakia in 2005 than in the euro area (see Chart 2). It is worth noting that, since 1995, overall labour utilisation has declined in most CEE countries except Bulgaria, Latvia, Hungary and Slovenia. But even in the latter countries, the increase in labour utilisation was very small, and labour utilisation in Hungary is still very low.

As regards average hours worked, people in employment in most CEE countries (especially in the Baltic States) appear to work far longer

5 More specifically, GDP per capita is decomposed according to the following formula:

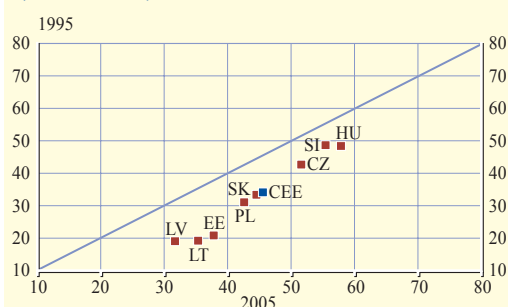
$$\frac{GDP}{POP} = \frac{EMP}{POP} * \frac{GDP}{EMP} = \frac{EMP}{POP} * \frac{THW}{EMP} * \frac{GDP}{THW}$$

labour utilisation per worker labour productivity (hours worked) labour productivity per hour

where *GDP* is the gross domestic product, *POP* the population, *EMP* total employment and *THW* total hours worked.

Chart 1 Relative labour productivity levels per hour worked

(euro area = 100)

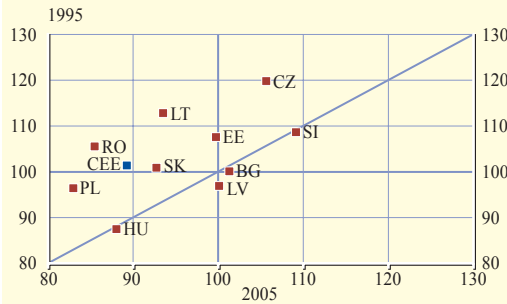


Source: ECB staff calculations based on the GGDC Total Economy Database, May 2006.

Note: No data are available for Bulgaria and Romania.

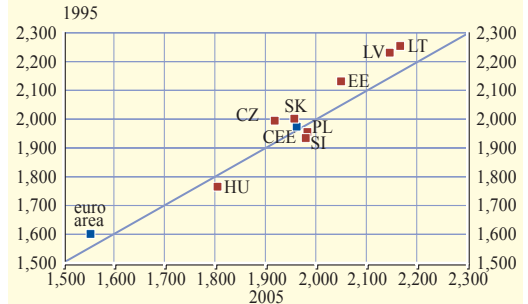
Chart 2 Labour utilisation

(euro area = 100)



Source: ECB staff calculations based on the GGDC Total Economy Database, May 2006.
Note: Labour utilisation is defined as the ratio of total employment to the total population.

Chart 3 Average annual hours worked per person employed



Source: ECB staff calculations based on the GGDC Total Economy Database, May 2006.
Note: The CEE aggregate does not include Bulgaria and Romania due to data limitations.

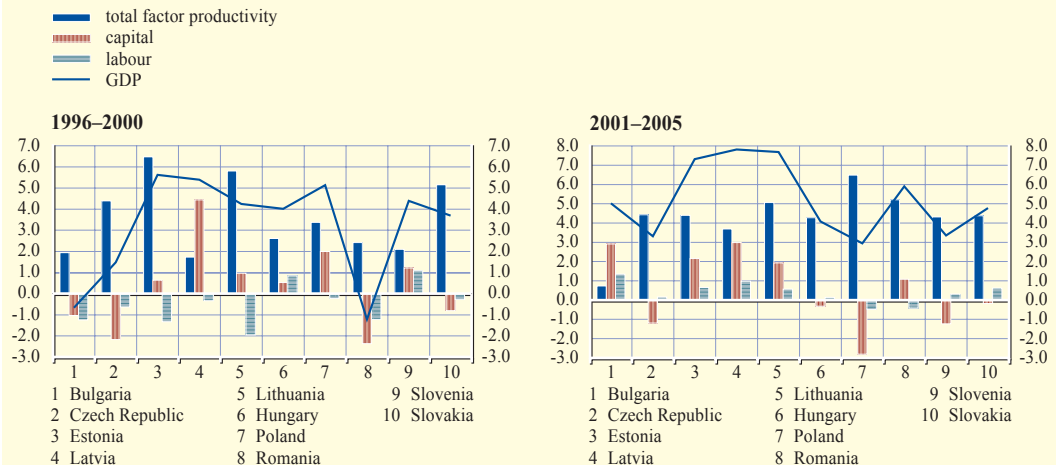
hours than those in the euro area (see Chart 3). This is likely to reflect differences in product and labour market regulations (for example, shops in the CEE countries are open longer than in the euro area; differences in the standard working week or relatively high non-wage labour costs in the CEE countries work in favour of having fewer employees who work longer hours), diverging preferences with respect to work and leisure, and a relatively smaller share of part-time arrangements in the CEE countries than in the euro area.

In addition to the analysis of the differences in the levels of GDP per capita in the CEE countries and in the euro area, it is useful to investigate the changes in GDP per capita. As population figures in most countries have been relatively stable over the past decade, changes in GDP per capita can be approximated by real GDP growth.⁶

6 Average growth in real GDP and real GDP per capita is almost identical for most of the CEE countries. The exceptions are Bulgaria, Estonia and Latvia, where due to a decline in the population, growth in real GDP per capita is significantly higher than growth in real GDP.

Chart 4 Contribution of total factor productivity, capital and labour to average GDP growth

(annual percentage changes; percentage points)



Source: ECB staff calculations based on the GGDC Total Economy Database, May 2006.
Note: Capital stock estimated using the perpetual inventory method (see O. Arratibel et al., "Determinants of growth in the central and eastern European EU Member States – a production function approach").

Between 1996 and 2005, rising total factor productivity (TFP) made a very significant contribution to GDP growth in all CEE countries, with the exception of Latvia in the period from 1996 to 2000 and Bulgaria in that from 2001 to 2005 (Chart 4).⁷ However, the exact magnitude of the TFP contribution may be overestimated – to the extent that capital and labour are underestimated (for instance, due to the assumed high depreciation rate or unrecorded employment). The transition process – involving privatisation, restructuring, higher competition, deregulation in product and labour markets, opening-up markets to international trade, foreign direct investment (FDI) inflows, transfers of technology, etc. – necessitated a more efficient use of production inputs and better managerial practices, both of which are captured by TFP. At the same time, for most of the CEE countries, the contribution of labour to real GDP growth was very modest or even negative, which to some extent reflects the process of economic restructuring.⁸

3 LABOUR MARKET DEVELOPMENTS

This section first reviews labour market developments and then looks at the issue of skill mismatches in the CEE countries. Looking at the labour market performance over the

period from 1997 to 2006, the picture is rather mixed. The employment rate declined in the Czech Republic, Poland, Romania and Slovakia (see Table 3). This decline was also associated with an increase in the unemployment rate and falling labour participation rates. Some other CEE countries such as Hungary, Slovenia and the Baltic States, by contrast, experienced a more encouraging labour market performance, with employment rates rising and unemployment rates declining continuously since 1997. Labour participation rates increased in Hungary and Slovenia, in particular. Focusing on more recent developments, most CEE countries experienced notable improvements in their labour markets. The employment rates increased in all CEE countries in 2006 and, with the exception of Hungary and Slovenia, all countries recorded decreases in the unemployment rates.

7 For the calculation of TFP, it is assumed that output is given by a Cobb-Douglas production function where K is the capital stock, EMP the labour supply and α and $(1-\alpha)$ the shares of capital and labour in GDP respectively. In line with the literature on growth, it is assumed that $\alpha=0.35$.

$$GDP = TFP * K^\alpha * EMP^{1-\alpha}$$

8 The above findings are broadly corroborated by other studies that have undertaken similar exercises for the CEE countries (P. Doyle et al., “Real convergence to EU income levels: Central Europe from 1990 to the long term”, IMF Working Paper, WP/01/146, 2001; European Commission, “Catching up, growth and convergence of the new Member States”, 2004; IMF, “Growth in the Central and Eastern European Countries of the European Union – a Regional Review”, 2006).

Table 3 Selected labour market indicators

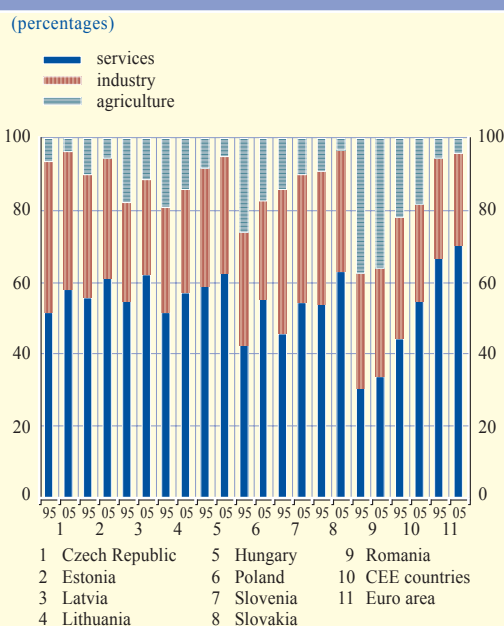
(percentages)

	Employment rate		Unemployment rate		Participation rate	
	1997 ¹⁾	2006	1997 ¹⁾	2006	1997 ¹⁾	2006
Bulgaria	n.a.	58.3	n.a.	9.2	n.a.	64.2
Czech Republic	68.6	65.2	4.8	7.4	72.0	70.4
Estonia	65.3	68.0	10.5	6.2	73.0	72.5
Latvia	59.7	65.9	14.2	7.2	69.6	71.1
Lithuania	62.3	63.6	13.6	6.0	72.2	67.6
Hungary	52.0	57.2	9.0	7.5	57.1	61.8
Poland	58.8	54.1	11.2	14.6	66.2	63.3
Romania	67.2	59.3	6.0	7.6	71.5	64.1
Slovenia	62.8	66.8	6.8	6.2	67.4	71.2
Slovakia	60.6	59.2	12.6	13.8	69.3	68.7
CEE countries	n.a.	58.2	n.a.	10.5	n.a.	65.0
Euro area	58.2	64.1	11.8	8.8	65.9	70.3

Source: Eurostat.

1) For Latvia, Lithuania and Slovakia, the data refer to 1998.

Chart 5 Employment shares, broken down by broad economic sectors, 1995-2005



Source: Eurostat.
 Notes: Data on the sectoral breakdown of employment are not available for Bulgaria, and the most recent year for which data are available for Romania is 2002. The CEE aggregate does not include Bulgaria and the aggregate for 2005 is based on 2002 data for Romania.

Overall, however, the indicators presented above point to a relatively weak performance of the CEE labour markets in comparison with the average for the euro area. In particular, the gap between the employment rate in most of the CEE countries and that in the euro area as a whole was negative in 2006. Only in three countries, namely Estonia, Latvia and Slovenia, did the rate of employment exceed the euro area level.

To some extent, the above-mentioned developments in the labour market reflect the process of economic restructuring faced by the CEE countries in the past decade. All CEE countries have seen the share of the services sector increasing, at the expense of the shares of the agricultural and industrial sectors. Compared with the euro area, however, agriculture and industry still provide a larger share of employment (see Chart 5); the percentage of people employed in agriculture in 2005 ranged from below 4% in the Czech Republic and Slovakia

to above 36% in Romania. This was lower than ten years earlier, but was still significantly higher for a vast majority of the countries than the average of 4.3% recorded for the euro area in 2005. The share of employment in industry also remained higher than in the euro area in all CEE countries. The share of employment in the services sector in the CEE countries is still small in comparison with the euro area, but is gradually becoming more important.

LABOUR MARKET MISMATCHES

The structural change in the output and employment composition in the CEE countries brought about by the transition process is associated with a change in the composition of the workforce by qualification and skill level. This often implies an increased mismatch between a demand for more skilled workers and a lesser-skilled labour supply, which effectively reduces the overall labour supply and possibly creates growth bottlenecks. The high and, in some cases, increasing proportion of the total number of unemployed who have primary and secondary schooling in most CEE countries (see Table 4) also reflects the fact that the economic transition has led to a shedding of labour and job relocation, with jobs being destroyed in industries with low productivity and created in industries with higher productivity and in an underdeveloped service sector.⁹

More detailed information on educational mismatches in the CEE countries tends to be country-specific and is not available for all the countries concerned. In all CEE countries, however, a better labour market performance would require providing training opportunities for displaced workers and, more generally, improving the ability of education systems to respond – in both qualitative and quantitative terms – to an increasing demand for better qualifications.

9 For an empirical analysis of skill mismatches and cross-sectoral mobility, see A. Lamo, J. Messina and E. Wasmer, “Are specific skills an obstacle to labour market adjustment? Theory and an application to the EU enlargement”, ECB Working Paper No 585, February 2006.

Table 4 Unemployment rates by level of education attained, 2006

(percentages; ages 15-64)

	Primary	Secondary	Tertiary
Bulgaria	20.5	7.7	3.8
Czech Republic	24.9	6.3	2.5
Estonia	13.3	6.2	4.1
Latvia	19.9	6.0	2.7
Lithuania	11.1	6.5	2.4
Hungary	16.2	6.6	2.6
Poland	24.9	15.2	5.5
Romania	9.0	7.7	3.1
Slovenia	8.5	6.5	3.0
Slovakia	47.9	12.1	3.0
Euro area	11.4	8.0	5.0

Source: Eurostat.

The existing skill mismatches may be affected by the increased migration of labour from the CEE countries to some of the other EU countries following the opening of their labour markets.¹⁰ Given that young and qualified workers typically show the highest propensity to migrate, increased east-west migration within the EU, while generally beneficial and desirable in economic terms, may temporarily aggravate existing labour market bottlenecks in some sectors in the CEE countries. At the same time,

the skills that these workers acquire abroad may support productivity growth in the long run, provided that the large share of current migration is temporary in character.

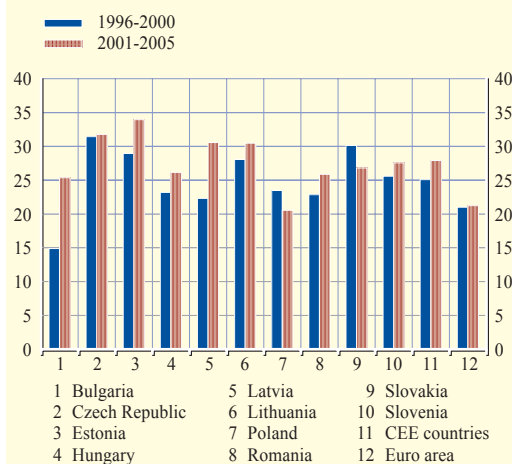
4 INVESTMENT DEVELOPMENTS

This section reviews recent trends in, and the main determinants of physical capital accumulation in the CEE countries. It then moves on to discuss issues related to human capital accumulation. Finally, it looks at the role of foreign direct investment in the catching-up process. Besides the performance of labour markets, investment growth is also likely to play a prominent role in the catching-up process of the CEE countries. It is expected to have a major impact on potential growth, not only by deepening the availability of capital, but also on account of its potential impact on productivity growth via the promotion of innovation and the enhancement of the international distribution of knowledge. From 1996 to 2005, the share of investment in GDP

¹⁰ See F. Heinz and M. Ward-Warmedinger, "Cross-border labour mobility within an enlarged EU", ECB Occasional Paper No 52, October 2006.

Chart 6 Ratio of gross fixed capital formation to GDP

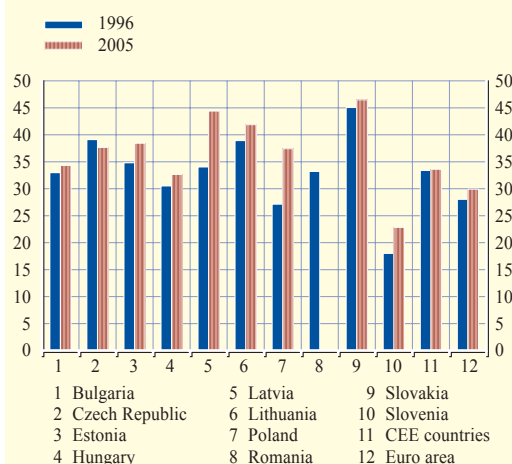
(percentages; annual averages)



Source: Eurostat.

Chart 7 Ratio of the gross operating surplus to GDP

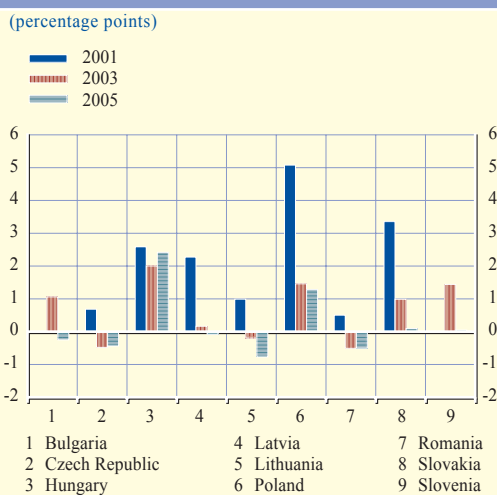
(percentages)



Source: ECB.

Note: The CEE average for 2005 does not include Romania.

Chart 8 The real cost of capital in the CEE countries – the gap vis-à-vis the euro area



Sources: Eurostat, European Commission and ECB staff calculations.
 Notes: No data for 2001 are available for Bulgaria and Slovenia. No real cost of capital was calculated for Estonia, due to the lack of data on comparable long term interest rates (see also footnotes 11 and 12 in the main text).

in most CEE countries was higher than in the euro area (see Chart 6). This can be explained by the relative scarcity of capital in the CEE in comparison with the euro area, which implies that high investment ratios might be necessary to catch up.

From 1996 to 2005 (see Chart 6), the development of the ratios of investment to GDP showed large country-specific differences. In Bulgaria, Estonia, Latvia, Lithuania, Hungary, Romania and Slovenia, the investment ratios increased markedly, reaching between 25% and 34%, on average, between 2001 and 2005. The investment ratio of the Czech Republic was stable at a fairly high level (33%), while that of Slovakia decreased from a correspondingly high level in the period from 1996 to 2000 to 26% in the period from 2001 to 2005. Finally, the investment ratio of Poland decreased further from already a relatively low level to 20% in the period from 2001 to 2005.

There are two main supply-side determinants of investment ratios: profitability and the cost of

capital. With regard to profitability indicators, although the theory suggests that the expected future profitability is what really matters for investment decisions, current figures on profitability are often used as a proxy in empirical work. Based on national accounts data, the share of profits (the ratio of the operating surplus to GDP) was calculated for the CEE (see Chart 7).

The share of profits increased in most CEE countries in the period from 1996 to 2005 and ranged from 23% in Slovenia to 46% in Slovakia in 2005. The increasing profitability of investments in the CEE countries is likely to have supported the accumulation of capital.

Turning to the cost of capital, the simplest measure thereof contains three major elements: the financial costs arising from the ownership of the capital stock, the changes in the price of the capital stock and the losses due to the depreciation of the capital stock.¹¹

Calculations for the period from 2001 to 2005 suggest that the gap between the cost of capital in CEE countries and that in the euro area initially decreased in all CEE countries, although it increased somewhat again in Hungary in 2005 (see Chart 8).¹² While the cost of capital declined in both the euro area and the CEE countries between 2001 and 2005, the decrease was larger in the latter countries.

The key reason for the overall drop in the cost of capital was the decrease in borrowing costs, for which the long-term interest rates are used as a proxy here. The decline in the spread of

11 The cost of capital for the CEE countries can then be approximated by using the formula $Ck = PI*(R-dlog(PIe)+\delta)/PGDP$ where Ck is the real cost of capital, R is the nominal long-term interest rate, PI is the investment price deflator, $dlog(PIe)$ is the expected change in the investment price deflator, δ is the physical depreciation rate of capital and $PGDP$ is the GDP deflator. The advantage of this formula is that it can be easily applied to macro data. Its shortcomings are that it does not take into account the cost of equity capital and tax changes.

12 On account of data limitations, the cost of capital was not calculated prior to 2001.

long-term interest rates with respect to the euro area rates, in turn, largely reflected the reduction in the country risk premia that was triggered by the decrease in macroeconomic uncertainty as a result of the nominal convergence process of the CEE countries with the euro area. In particular, the disinflation process in several CEE countries played a key role in the decrease in long-term interest rates. Moreover, the borrowing costs in the CEE countries were influenced by the development of competition and efficiency in the banking sector.¹³ Overall, however, the decrease in the cost of capital in general, and the fall in borrowing costs in particular, are likely to have supported investment growth in the CEE countries.

Looking ahead, the high degree of convergence of the cost of capital in the CEE countries to the euro area level suggests that the further investment growth stimulus to be expected from a further decrease in the cost of capital will not be all that high. However, experience in some CEE countries has shown that this convergence process can be reversed if stability-oriented macroeconomic policies are not followed consistently. In particular, the still comparatively high cost of capital in some of the larger CEE countries (notably Hungary and

Poland) can be linked, among other things, to market uncertainties that are related to fiscal imbalances.

INSTITUTIONAL ENVIRONMENT

In addition to the factors discussed above, institutional factors, such as product market regulations, might also have a strong impact on the pace of capital accumulation. A study by Alesina et al. provides robust empirical evidence suggesting that the decrease of entry barriers can lead to higher capital accumulation.¹⁴

Unfortunately, there is no standardised way of measuring the regulatory burden of a certain country, and all measures used to compare regulations in different countries should be considered with due caution. One way of doing so is to compare the administrative burden in the CEE countries and the euro area, based on indicators published by the Fraser Institute (see Table 5). The tentative conclusion that can be

13 See, for example, the article entitled "Financial development in central, eastern and south-eastern Europe" in the November 2006 issue of the Monthly Bulletin.

14 A. Alesina, S. Ardagna, G. Nicoletti and F. Schiantarelli, "Regulation and Investment", NBER Working Paper No 9560, National Bureau of Economic Research, 2003.

Table 5 Indicators of the Fraser Institute on the administrative burden in 2004

	Price controls	Burden of regulations	Time with government bureaucracy	Starting a new business	Irregular payments	Business regulations	Regulation
Bulgaria	3	2.9	3.7	4.7	7.2	4.3	6.2
Czech Republic	7.0	3.1	8.8	5.0	6.3	6.0	6.4
Estonia	6.0	5.2	7.3	7.1	7.8	6.7	7.3
Hungary	6.0	3.2	9.7	6.5	7.3	6.6	7.3
Latvia	6.0	3.8	6.9	6.8	5.8	5.9	6.7
Lithuania	6.0	3.1	6.3	5.8	6.9	5.6	6.4
Poland	3.0	2.8	7.0	5.4	5.5	4.8	5.9
Romania	1	3.3	10.0	6.5	5.0	5.2	5.9
Slovakia	6.0	2.9	7.4	6.8	6.3	5.9	6.8
Slovenia	4.0	2.9	6.3	4.9	7.8	5.2	6.3
CEE countries	4.8	3.3	7.3	5.9	6.6	5.6	6.5
Euro area	6.3	3.5	7.3	6.2	8.0	6.3	6.5

Source: Fraser Institute.

Notes: All indices are between 1 and 10, and higher indices mean better regulations. The shaded cells represent those parameters where a particular CEE country reaches or exceeds the euro area average.

drawn is that the business environment in the CEE countries has improved significantly over the past few years; on average, however, it has not reached the level of the euro area countries. This implies that new businesses in the CEE countries generally face higher administrative burdens than their counterparts in the euro area. However, there are significant country-specific differences. Estonia and Hungary, in particular, appear to be outliers. In both countries, four of seven indicators suggest an environment that is more friendly to businesses than that in the euro area.

HUMAN CAPITAL ENDOWMENT

While accumulating physical capital is a necessary condition for any catching-up by the CEE countries, it is at least as important to improve the efficiency of the use of capital (and labour). A higher degree of efficiency in the use of inputs can be achieved through investment in “knowledge”, a common term for investment both in research and development (R&D) and in higher education.

The adoption of foreign technologies has played a key role in the development of the CEE economies. However, the diffusion of foreign technologies requires a well-educated labour

force, a network of scientists who can apply and perfect them, as well as a business environment that is supportive of innovation. Moreover, investment in these non-tangible factors is also essential for the CEE countries to adjust their production structure by increasing the share of goods and services with higher added value.

Looking at the CEE countries’ public spending on education, expressed as a percentage of GDP, suggests a fairly favourable picture, as this ratio is higher than the euro area average in all CEE countries except Bulgaria, the Czech Republic, Romania and Slovakia. Moreover, in some of the CEE countries (Bulgaria, Hungary and Poland), it has increased significantly over time (see Table 6).

Another indicator of human capital endowment in the CEE countries is the share of 20 to 24 year-olds in the population who have completed at least upper secondary education. In all CEE countries, this share is higher than the euro area average, and the CEE average in 2005 was more than 10 percentage points above the euro area level (see Chart 9). This relatively high share suggests that the CEE countries have a good potential as locations for skill-intensive economic activities. However, there is still

Table 6 Total public expenditure on education as a percentage of GDP

	1996	2003	2003-1996 ¹⁾
Bulgaria	2.60	4.24	1.64
Czech Republic	4.68	4.51	-0.17
Estonia	6.05	5.43	-0.62
Latvia	5.14	5.32	0.18
Lithuania	5.18	5.18	0.00
Hungary	4.51	5.85	1.34
Poland	4.67	5.62	0.95
Romania	-	3.44	-
Slovenia	-	6.02	-
Slovakia	4.53	4.34	-0.19
CEE countries	4.67	5.00	0.33
Euro area	-	5.02	-

Source: Eurostat.

1) Change in percentage points.

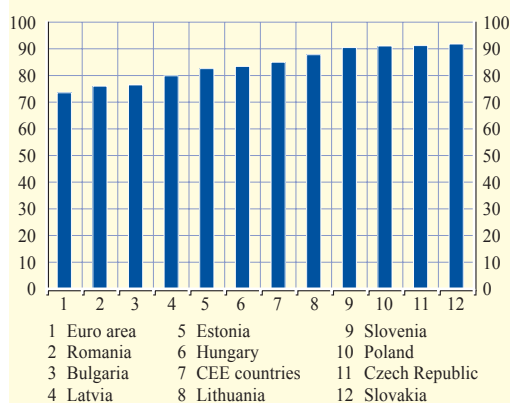
Table 7 Gross expenditure on research and development as a percentage of GDP

	1996	2004	2004-1996 ¹⁾
Bulgaria	0.52	0.51	-0.01
Czech Republic	0.97	1.26	0.29
Estonia	-	0.88	-
Latvia	0.42	0.42	0.00
Lithuania	0.50	0.76	0.26
Hungary	0.65	0.88	0.23
Poland	0.65	0.56	-0.09
Romania	-	0.39	-
Slovenia	1.35	1.45	0.10
Slovakia	0.92	0.51	-0.41
CEE countries	0.75	0.76	0.01
Euro area	1.90	1.89	-0.01

Source: Eurostat.

1) Change in percentage points.

Chart 9 The share of 20 to 24 year-olds in the population with at least a secondary level of education in 2005



Source: Eurostat.

scope for improving the responsiveness of education to market demand in the CEE countries.¹⁵

Turning to investment in R&D, gross expenditure on R&D (as percentage of GDP) in 2004 was, on average, less than half that in the euro area. In recent years, however, spending on R&D has increased substantially in a number of CEE countries (see Table 7).

The relatively low R&D spending in, and the small number of patents registered by, the CEE countries can partly be explained by looking at the sources of R&D financing in these countries. In 2000, industry already played a smaller role, on average, in the financing of R&D in the CEE countries (39% of total R&D spending) than in the euro area (around 57%). The share accounted for by industry in the CEE countries decreased to around 36% of total R&D financing in 2003, while it remained stable at around 56% in the euro area. The relatively small involvement of industry can be explained by the fact that the export-oriented sector in the CEE countries is dominated by foreign companies, which often prefer to carry out most of their R&D activities at their headquarters. At the same time, the domestic small and medium-sized enterprise (SME) sector often lacks the means to finance R&D activities. A greater involvement of the

SME sector in R&D activities and better financing opportunities for these activities would thus appear to be beneficial for the long-term growth prospects of the CEE countries.

While government involvement can play an important role in supporting innovative SMEs, the solution to the apparent problem of financing R&D activities is more complex. Traditionally, a certain part of R&D financing is the responsibility of the government, in particular the financing of basic research with a highly unpredictable rate of return. In the case of applied research, however, government involvement often distorts economic incentives and the public sector lacks the knowledge to pick those projects that are commercially most viable. The key to success is thus not only to increase gross expenditure on R&D as a percentage of GDP, but also to ensure the most efficient allocation of resources, which in turn requires well-functioning financial markets. Providing financial markets and, more generally, the business sector with the right incentives for involvement in R&D activities thus appears to be the key means of improving the innovation potential of CEE countries.

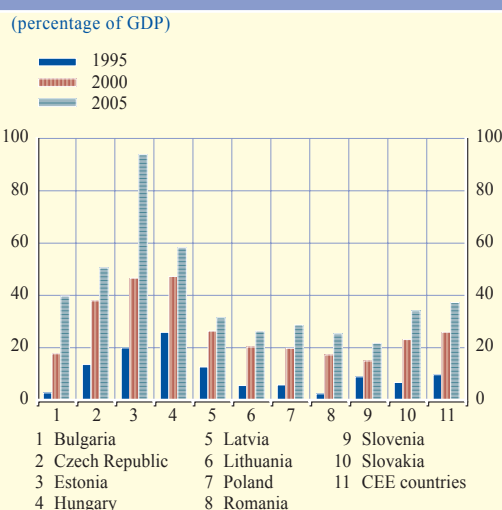
DEVELOPMENTS IN FOREIGN DIRECT INVESTMENT

FDI plays an important role in the real convergence process of the CEE countries. On a theoretical basis, FDI can be viewed as supportive of investment and growth in primarily two ways. On the one hand, it acts as a catalyst for technological progress and boosts productivity via technology and knowledge spill-overs. On the other hand, it provides financial resources and thus facilitates the accumulation of capital.

The CEE countries have received substantial FDI inflows since the early stages of their transition. Annual FDI inflows averaged around 5% of GDP between 1995 and 2005, although

¹⁵ See, for example, H. Feldmann, "How flexible are labour markets in the EU accession countries Poland, Hungary and the Czech Republic?", *Comparative Economic Studies*, Vol. 46, No 2, 2004.

Chart 10 Stocks of inward foreign direct investment



Source: WIW Database of the Vienna Institute for International Economic Studies.

the pattern varied strongly across countries. Overall, FDI inflows remained strong throughout the past decade. In 2005, FDI inflows in the CEE countries amounted to 4.8% of GDP (€26 billion).

In line with strong FDI inflows, inward FDI positions have been growing rapidly in most CEE countries (see Chart 10). The stock of inward FDI in the CEE countries rose to 37% of GDP (€211 billion) in 2005. Estonia recorded the highest accumulation of FDI (more than 90% of GDP), followed by Hungary and the Czech Republic. In Latvia, Lithuania, Poland, Slovenia and Slovakia, FDI has been more moderate, resulting in inward FDI positions below the CEE average, with the lowest position being registered for Slovenia (22% of GDP in 2005).

Various factors have shaped the accumulation of FDI in the CEE countries, with EU accession prospects and privatisation being counted among the main drivers. Privatisation was a major factor in the 1990s, in particular. Indeed, differences in the timing of privatisation and the degree of openness to foreign investment help to explain country-specific differences in

the FDI positions. More recently, however, other determinants of FDI, such as cost factors, the size of the market and the location, overall political and macroeconomic stability and FDI policies have gained in importance, given that privatisation is generally playing a diminishing role as a source of FDI, while so-called greenfield FDI is gaining importance, both in relative and in absolute terms, with respect to the overall picture presented by FDI.

5 CONCLUSION

After the severe economic recession in the aftermath of the collapse of the centrally planned systems in the CEE countries at the beginning of the 1990s, these countries embarked on a path of rapid growth. As a result, all CEE countries have managed to converge in terms of their level of per capita income towards the euro area average, although the gaps remain quite large for many of them. The buoyant expansion was bolstered by structural and institutional reforms, macroeconomic stabilisation, the prospect of EU membership and actual accession to the EU in May 2004. Improvements in labour productivity were the main driver of the catching-up process, while labour utilisation declined in most of the countries involved.

The still ongoing process of sectoral transition from agriculture and industry to services is associated with the prevailing mismatch between the labour supply and job vacancies in the CEE countries. This has already created labour market bottlenecks in some countries and sectors and is likely, if not appropriately addressed, to lead to increasing wage pressure and ultimately lower growth and real convergence. With regard to capital, most CEE countries recorded rising investment ratios, driven by improved profitability and a reduction of the cost of capital, which, in turn, mainly reflected the effect of nominal convergence towards the euro area and increasing competition in the CEE countries' banking sectors. Looking at investment in human capital, the CEE

countries show a mixed picture. Some indicators of educational attainments show a favourable picture relative to the euro area. Figures on R&D spending, by contrast, suggest that the CEE countries lag substantially behind the euro area.

In order to ensure that fast economic growth in the CEE countries remains sustainable, it is crucial for these economies to take appropriate policy action in several areas. First, it is of key importance that the countries aim at improving their fiscal performance by implementing credible and sufficiently ambitious fiscal consolidation plans. Such measures, together with the conduct of a credible monetary policy, are essential to ensure appropriate conditions for further sustainable growth and convergence. Second, they need to address their structural labour market problems. In this context, raising labour participation and reducing regional and skill mismatches are of particular importance. Finally, in order to ensure that the capital accumulation process continues and that R&D investment increases, the countries need to make further efforts to improve the attractiveness of their business environment. Further investment in human capital also appears to be crucial for any faster catching-up. Many of the above-mentioned facets of growth-enhancing policies will also help to ensure a continued inflow of FDI, which is expected, in turn, to help accelerate the convergence process of the CEE countries. Also, measures to further enhance competition in product markets would be equally important for future growth performance.

Overall, real convergence cannot be taken for granted, as the experience of some other EU Member States has demonstrated. Real convergence requires continued efforts to improve the supply side of the economy, while at the same time providing an adequate macroeconomic environment.

SHARE BUYBACKS IN THE EURO AREA

Firms' share buybacks have witnessed a very strong rise over the past decade in most major markets. This article presents some theoretical considerations as regards firms' payout policies and also discusses the reasons why firms may choose to effect payouts by means of share buybacks rather than dividends. In the empirical part, estimates are provided for dividend and share buyback activities undertaken by firms in the euro area. The article finds that the recent upturn in share buybacks appears to have been driven partly by exceptionally strong profitability among euro area firms. Furthermore, it is also possible that part of the increase in euro area firms' share buyback activities may be linked to the "signalling hypothesis", which suggests that management may use share buybacks as a means of signalling improved future earnings and profitability to the markets. Finally, euro area firms that have undertaken share buybacks over the past few years have, on average, invested less than firms not undertaking any share buybacks. Although the causality between investments and share buybacks can work in both directions, this provides some tentative evidence that share buybacks have become an important tool allowing euro area firms to distribute excess cash flows during periods when investment opportunities are scarce.

I INTRODUCTION

Large established firms typically pay out a significant percentage of their earnings to their shareholders. As this decision has implications, for example, for the extent to which the funds generated can be invested in the internal or external growth of the firm, a firm's "payout policy" constitutes an integral part of corporate financial decision-making. The payout to shareholders can be effected in two main ways: either through dividends; or through share buybacks, where the firm buys back some of the outstanding shares from the shareholders. Historically, firms' payouts have predominantly taken the form of dividends. However, over the past decade or so share buybacks have become an increasingly popular alternative among firms in most major markets, including the euro area.

The purpose of this article is twofold. First, it considers the theoretical arguments that have been put forward in the academic literature concerning firms' payout policies, with a special focus on share buybacks, and second, it presents available data on euro area firms' dividends and share buybacks over the period 1998-2005.¹

The structure of the article is as follows. Section 2 presents various theoretical arguments concerning firms' payout policies and puts

forward some reasons why firms may prefer share buybacks to dividends. This section also discusses the various different ways in which a firm can go about implementing share buybacks. Section 3 presents available data on euro area firms' dividends and share buybacks over the past few years and evaluates the extent to which those data are in line with what would be expected on the basis of financial theory. In addition, an event study is conducted to examine the financial market's responses to announced share buybacks. Section 4 concludes.

2 SHARE BUYBACKS IN THEORY AND PRACTICE

A firm's strategic finance decisions can be broken down into four interrelated elements. The first concerns decisions on which investment projects the firm should undertake. The second concerns the firm's capital structure policy, which determines the degree of financial leverage the firm should adopt. The third element comprises the firm's working capital decisions, which concern the amount of liquidity and working capital the firm needs on an ongoing basis. Finally, the fourth element is the firm's payout policy, which involves deciding

¹ The subject of this article is related to those of the articles entitled "Characteristics of corporate finance in the euro area" and "Financing and financial investment of the non-financial sectors in the euro area" which appeared in the February 2001 and May 2001 issues of the Monthly Bulletin respectively.

the amount of cash the firm believes it is necessary and appropriate to pay out to its shareholders. This section discusses some theoretical concepts concerning firms' payout policies and also elaborates on why firms may prefer to opt for share buybacks rather than paying money back to their shareholders through dividends. This section also describes how share buybacks are implemented in practice.

FIRMS' PAYOUT POLICIES

In the late 1950s and early 1960s Modigliani and Miller published a number of papers that have had a strong influence on corporate finance theory. At the heart of those papers lay an irrelevance proposition, namely that, in a world without taxes, transaction costs or other market imperfections, a firm's financial decisions do not affect its value.² In the present context, it can be shown that a firm's value is, in such circumstances, independent of its payout policy.³

Some of the traditional finance literature has, however, claimed that payout policy does indeed affect the value of the firm, as the assumptions underlying the irrelevance proposition do not hold up. In particular, differences in the taxation of shareholders' dividends and capital gains can have a notable impact on firms' payout policies. In most economies, dividends tend to be taxed more heavily than capital gains. As a consequence, if this difference in taxation is large enough, a firm may choose to retain earnings or buy back shares instead of paying out dividends, in order to minimise the tax burden on its shareholders.⁴

Another strand of the corporate finance literature argues that the payout to shareholders should be large. For instance, Graham and Dodd suggest that investors generally prefer a "safe dollar" coming from a payout such as a dividend, rather than an uncertain payoff in the form of an expected capital gain.⁵ In addition, according to the "free cash flow hypothesis" there is an

agency problem between managers and shareholders as regards the distribution of free cash flows generated by the firm.⁶ By keeping the payout ratio high, the shareholders can to some extent prevent the management of a firm from undertaking investments that would yield negative net present values. Furthermore, the literature on event studies has found that firms with high payout ratios tend to be rewarded by the financial markets in terms of excess stock price returns.

WHY DO FIRMS UNDERTAKE SHARE BUYBACKS?

In practice, firms in most major markets tend to pay a large proportion of their earnings back to their shareholders. For a long time the payout was effected mainly in the form of dividends. However, over the past decade it has become more and more popular to return money to shareholders in the form of share buybacks rather than dividends. In 1999 industrial firms in the United States spent, for the first time, more money on share buybacks than on dividend payments. Since then this trend has continued and also spread to other major economies.

In addition to possible tax advantages, several other factors may lie behind this development, of which the following three hypotheses are those emphasised most in the academic literature. First, the signalling hypothesis suggests that management can use share

2 Miller, M. H., and Modigliani, F. (1958), "The cost of capital, corporation finance and the theory of investment", *American Economic Review*, 48, 261-97; Miller, M. H., and Modigliani, F. (1961), "Dividend policy, growth and the valuation of shares", *Journal of Business*, 34, 411-33; Miller, M. H., and Modigliani, F. (1963), "Corporate income taxes and the cost of capital: a correction", *American Economic Review*, 53, 433-43.

3 See, for example, Tirole, J. (2006), "The Theory of Corporate Finance", Princeton University Press, 77-78.

4 The taxation of dividends and capital gains is not homogeneous across euro area countries. In some large euro area countries dividends are subject to income taxes, whereas in others investors pay a fixed tax rate on the dividend received. For share buybacks, investors usually pay taxes on capital gains, with the tax rate differing across the countries in the euro area.

5 Graham, B., and Dodd, D. L. (1951), "Security analysis: Principles and Techniques", McGraw-Hill, New York, 432.

6 Jensen, M. C. (1986), "Agency costs of free cash flow, corporate finance, and takeovers", *American Economic Review*, 76, 323-29.

buybacks to signal to the markets private information about a firm's future profitability. Managers can be assumed to have better information than outside investors as regards the firm's prospects. The management of the firm can thus use share buybacks as a signalling device to convey to the markets that the stock price of the firm is lower than would be suggested by a fundamental valuation.⁷

Second, the financial flexibility hypothesis suggests that share buybacks can be used as an instrument to distribute cash flows which the firm perceives to be temporary, while dividends represent an ongoing commitment and are therefore used to distribute cash flows which are more permanent.⁸ For instance, healthy firms with robust profitability may sometimes have problems finding investment opportunities with positive net present values. If the firms perceive these difficulties to be of a temporary nature, they may choose to hand some of the excess cash back to their shareholders. According to this financial flexibility hypothesis, a firm should in these circumstances choose share buybacks over dividend payouts to signal to investors that the payout is only transitory and not permanent.

Third, share buybacks boost earnings per share (i.e. net income divided by the number of outstanding shares). A buyback is a share reduction mechanism, in the sense that it reduces the equity base. Of the myriad profitability measures, earnings per share is usually the standard measure monitored by investors. A share buyback will have the effect of decreasing the denominator in this ratio and in effect boosting earnings per share. Again, if markets are not fully informed, some investors may perceive the increase in earnings per share (on account of the share buyback) to reflect higher earnings potential on the part of the firm in question.

In addition to the three motivating factors outlined above, a firm may announce a share buyback programme in order to protect itself against the risk of hostile takeovers. By buying

back stocks from those investors who value them the least, a corporation makes it more difficult for a would-be buyer to take effective control of the company. In addition, a number of market commentators have reported that some firms also use share buybacks for stock option programmes and cash management purposes. Finally, on a more structural level, changes in the national legislation of some large euro area countries in the late 1990s have, in all probability, also contributed to the increase in the use of share buybacks.⁹

IMPLEMENTATION OF SHARE BUYBACKS

There are various ways in which a firm can go about undertaking share buybacks, of which the following three are the most important.¹⁰ First, there is the open market share buyback, where a company simply purchases its shares in the market at the current market price. The seller of the shares is not necessarily aware that he or she is selling shares to the company. The second method is the fixed price self-tender offer, where the company submits – or tenders – an offer to buy up a certain number of shares from existing shareholders at a fixed price. To attract investors, the fixed price tends to be somewhat higher than the current market price. The firm usually reserves the right to increase the number of shares repurchased if the tender offer is oversubscribed. Third is the Dutch auction

7 Dividends can also be used as a tool to signal mispricing to the markets. However, as shown by Ofer and Thakor (1987), the signalling costs for dividends tend to be higher than for share buybacks. As a result, if a firm's future prospects are much better than is perceived by the markets, its managers will prefer share buybacks to dividends as a signalling device (see Ofer, A. R., and Thakor, A. V. (1987), "A theory of stock price responses to alternative corporate cash disbursement methods: Stock repurchases and dividends", *The Journal of Finance*, Vol. 42, No 2, 365-94).

8 Jagannathan, M., Stephens, C. P., and Weisbach, M. S. (2000), "Financial flexibility and the choice between dividends and stock repurchases", *Journal of Financial Economics*, 57, 355-84.

9 Restrictions on share buybacks were abolished in Germany by the "Corporate Control and Transparency Act", which took effect in May 1998, and in France by Law No 98-546 of 2 July 1998.

10 See Allen, F., and Michaely, R. (2003), "Chapter 7: Payout policy" in *Handbook of the Economics of Finance*, Elsevier, B. V., 404-07.

tender offer method, where the company initially specifies a range of prices for the offer. After that, each shareholder can specify the number of shares he or she is willing to sell and the minimum acceptable price within the range. The offering firm then pays, to all shareholders, the lowest price that will fetch the number of shares sought.

Studies of developments in the United States suggest that the open market vehicle accounts for the vast majority of the announced buybacks. For instance, the study by Grullon and Ikenberry (2000) found that over the 20-year period between 1980 and 1999 open market programmes accounted for around 90% of the total value of all buyback announcements in the United States.¹¹

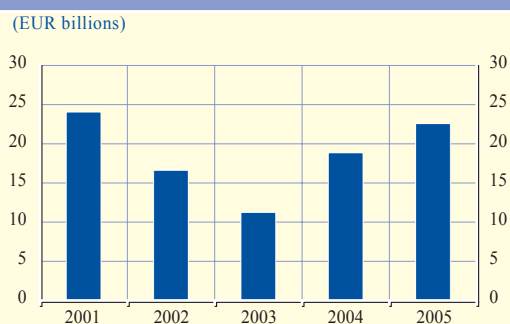
3 RECENT DEVELOPMENTS IN EURO AREA SHARE BUYBACKS – AN EMPIRICAL EXAMINATION

This section presents available data on payout activities for listed firms in the euro area, with a special focus on share buybacks. In order to evaluate whether any of the theoretical motivations for undertaking share buybacks outlined in Section 2 are supported by actual data, this section compares developments in euro area firms' share buybacks with data on firms' profitability and investment. This section also undertakes an event study evaluating euro area firms' stock price performance around the time they announce a share buyback programme.

DIVIDENDS AND SHARE BUYBACKS OF EURO AREA FIRMS

There are only a few sources that publish aggregate data on share buybacks for euro area firms in a regular and systematic way. Consequently, data on share buybacks in this section were collected from the financial statements of the companies in the Dow Jones EURO STOXX 50 index. As Chart 1 shows, the 50 largest listed companies in the euro area

Chart 1 Euro area firms' aggregated share buybacks



Source: Firms' financial statements and annual reports.
Note: The sample includes all firms in the Dow Jones EURO STOXX 50 index.

repurchased shares, in net terms, with a value of more than €20 billion in 2005, which was almost double that observed in 2003. Despite this upturn, the level in 2005 was, however, still slightly lower than that seen in 2001.

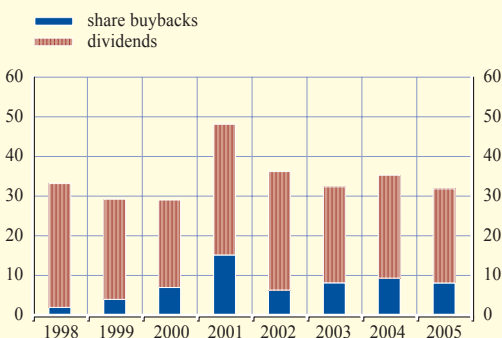
As mentioned in the previous section, a firm's total payout is the sum of dividends and share buybacks. Chart 2 shows the average annual payout ratio for all listed companies in the euro area, calculated as the ratio of dividends and share buybacks to operating income. This measure gives an idea of how much of euro area firms' operating income is retained by those firms (being used either for increased cash holdings or for investment purposes) and how much firms pay back to their shareholders.

The chart shows three interesting things. First, the total payout ratio remained relatively stable at around 30% between 1998 and 2005, with the exception of 2001. This seems to suggest that euro area firms prefer to pay a constant percentage of their operating income back to their shareholders. Second, dividends make up the bulk of the payouts in the sample under consideration. Third, share buybacks increased strongly as a percentage of total payouts at the turn of the century and have stayed at such elevated levels since then. This, in turn, might

¹¹ Grullon, F., and Ikenberry, D. I. (2000), "What do we know about stock repurchases?", *Journal of Applied Corporate Finance*, Vol. 13, No 1.

Chart 2 Euro area firms' dividends and share buybacks

(percentages of operating income)

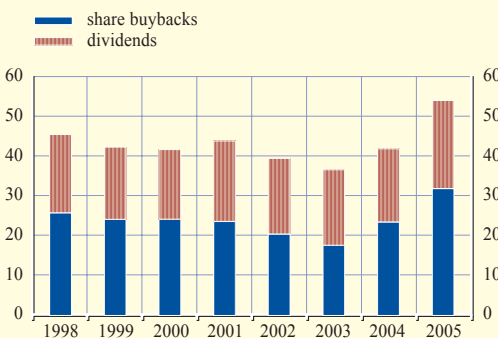


Sources: Thomson Financial Datastream and ECB calculations.

Notes: Figures are aggregates of firm-level data based on a sample consisting of all firms in the broad-based Dow Jones EURO STOXX index for which yearly cash flow statements were available. In total, the sample consists of 1,760 firm-year observations. The following data items were used: operating income (WC01250), dividends (WC04551) and share buybacks (WC04751).

Chart 3 US firms' dividends and share buybacks

(percentages of operating income)



Sources: Thomson Financial Datastream and ECB calculations.

Notes: Figures are aggregates of firm-level data based on a sample consisting of all firms in the Standard and Poor's 500 index for which yearly cash flow statements were available. In total, the sample consists of 3,934 firm-year observations. The following data items were used: operating income (WC01250), dividends (WC04551) and share buybacks (WC04751).

reflect a structural change in firms' payout policies.

By contrast with the euro area, data on firms' share buybacks in the United States are published more frequently. Chart 3 shows the average payout ratio for US firms in the Standard & Poor's 500 index. As the chart shows, there are marked differences between the two economies in terms of both the level and the breakdown of the payout ratio. First, the payout ratio is, on average, higher in the United States than in the euro area. Second, it seems that share buybacks are more common among US firms than among euro area firms.

One possible explanation for this discrepancy could be related to differences in the financing needs of the firms in the two economies. In particular, non-financial corporations in the United States have, since 2000, witnessed a stronger recovery in the financing gap – measured as the ratio between firms' lending and borrowing – than euro area non-financial firms. This stronger improvement in the balance sheets of US corporations could thus represent a plausible explanation for the higher US payout ratios. However, caution should be exercised

when comparing the payout ratios in the two economies, as there may be some differences in how operating income is defined. In addition, the different characteristics of the firms included in the two indices can further complicate direct comparisons.

EURO AREA FIRMS' SHARE BUYBACK ACTIVITIES, PROFITABILITY AND INVESTMENT

A firm's share buyback activities should not be considered in isolation, but rather as a strategic decision very closely linked to its earnings prospects, leverage and investment decisions. As regards earnings prospects, Chart 4 shows the share buybacks of firms in the Dow Jones EURO STOXX index as a percentage of total payouts, together with 12-month annual growth rates for actual and expected earnings.

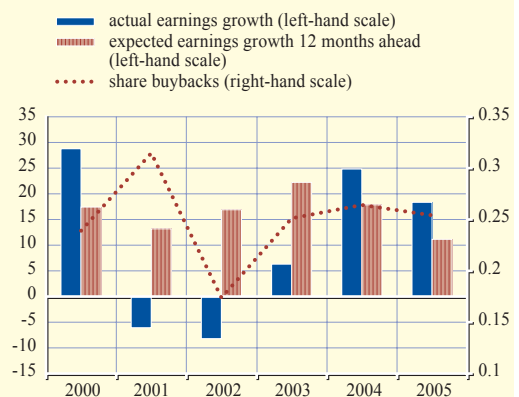
As the chart shows, there have been significant fluctuations in the profitability of euro area firms over the period 2000-05. Most notably, annual earnings growth dropped sharply in 2001 and 2002, mainly owing to weak economic growth in the euro area. Subsequently, ongoing cost-cutting efforts, the low interest rate environment and, recently, a pick-up in

economic activity in the euro area have all helped to boost the profitability of euro area firms. In 2004 and 2005 annual earnings growth rates hovered around the 20% mark, which was much higher than market analysts had anticipated in late 2003 and 2004. At the same time, share buybacks by euro area firms increased in magnitude. The first conclusion that can be drawn from Chart 4 is that, in accordance with the above-mentioned signalling hypothesis, some managers of euro area firms may in 2004 and 2005 have felt the need to signal to the markets that the stock prices of their firms were, in their own assessment, below their fundamental value. Consequently, they may have undertaken share buybacks to bet on these projections and thereby signal their private information to the market.¹² As shown in the box below, stock markets have tended to reward share buybacks through excess returns, which could be an indication that investors perceive a share buyback announcement to be a credible signal of undervaluation.

Moreover, the strong earnings growth observed was probably an important factor in the higher levels of dividends and share buybacks in 2003 and 2004. In this respect, some firms probably

Chart 4 Share buybacks and actual and expected growth in earnings per share for the EURO STOXX index

(annual percentage changes (left-hand scale); ratio of share buybacks to total payouts (right-hand scale))



Sources: Thomson Financial Datastream and ECB calculations.

Notes: Expected earnings growth has been shifted forward one year to enable a direct comparison with realised earnings. The share buybacks series is based on firm-level data from a sample consisting of all firms in the broad-based Dow Jones EURO STOXX index for which yearly cash flow statements were available. In total, the sample consists of 1,760 firm-year observations. The following data items were used for the share buyback series: dividends (WC04551) and share buybacks (WC04751).

¹² It should, however, be noted that the causality between earnings per share and share buybacks can work in both directions. As mentioned in Section 2, share buybacks reduce the number of outstanding shares and thus boost earnings per share.

Box

SHARE BUYBACKS AND STOCK MARKET PERFORMANCE

In theory, if market participants are relatively well informed about a firm's earnings prospects, the announcement of a share buyback programme should not have any significant impact on the stock price of the firm. In practice, however, many market analysts have pointed out that the wave of share buyback activities in the euro area has indeed supported the positive stock market sentiment observed over the past few years. This box conducts an event study and examines the average behaviour of firms' stock prices around the time that firms announce an intention to embark upon a share buyback programme. The study looks at the largest listed firms in the euro area.

Event studies have a long history in the academic literature, dating back to Dolley (1933), who examined the price effects of stock splits.¹ This strand of the literature has since been applied to many firm-specific and economy-wide events. Studies of share buybacks have so far largely focused on the US markets, with the main finding being that announcing share buyback

¹ Dolley, J. C. (1933), "Characteristics and procedure of common stock split-ups", *Harvard Business Review*, 11, 316-26.

programmes tends to result in abnormal positive stock price returns. The less numerous studies carried out for European countries largely reflect the results of the US studies.²

Various methods can be applied when conducting an event study, of which the market model approach, also used in this box, tends to be the most prevalent. This approach first establishes how the stock price of the firm effecting the share buyback is related to the market portfolio, the latter usually being approximated by broad-based stock market indices. This relationship is then used to calculate the abnormal developments in the relevant individual securities around the time of the events in question.³

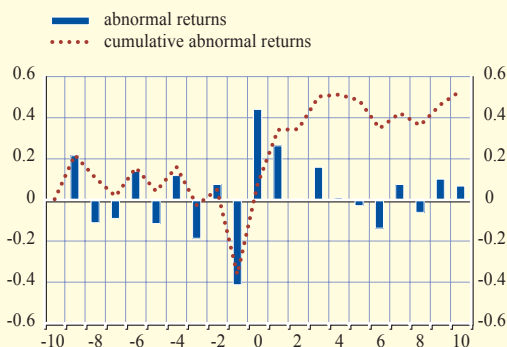
The share buyback data used here consist of 106 share buyback programmes announced by the largest euro area firms in the broad-based Dow Jones EURO STOXX index over the period 2001-06. The timeline for the event study consists of a 21-day window around the time of the announced buybacks (ten days before and ten days after the actual announcements). To gauge how the firms' stock prices are related to the market portfolio, the firms' daily stock price returns are regressed on the basis of the returns of the Dow Jones EURO STOXX index over a one-year estimation window prior to the share buyback event window. Abnormal returns in the event window are then calculated by subtracting the respective firms' stock price returns from the normal reaction pattern derived from the estimation window results. The chart shows the aggregate daily and cumulative abnormal returns over the event window.

As the chart shows, the stock prices of the euro area firms that decided to undertake a share buyback programme saw a positive abnormal return in the order of close to one percentage point, which is broadly in line with previous findings.⁴ When explaining this finding, the event study literature on share buybacks tends to accord most prominence to the fact that firms that buy back their own shares do so to signal to investors that the price of their stock is lower than would be suggested by a fundamental valuation.

To conclude, share buyback activities tend to boost the stock prices of the firms undertaking them. Thus, it cannot be ruled out that the strong performance of euro area stock prices in the period 2000-06 resulted not only from strong earnings and cost-cutting measures, but also, although to a lesser extent, from the share buyback activities of euro area firms.

Abnormal returns associated with announcements of share buyback programmes

(percentage points)



Sources: Announcement information is taken from the Zephyr database of Bureau van Dijk. Share price information is taken from Thomson Financial Datastream.

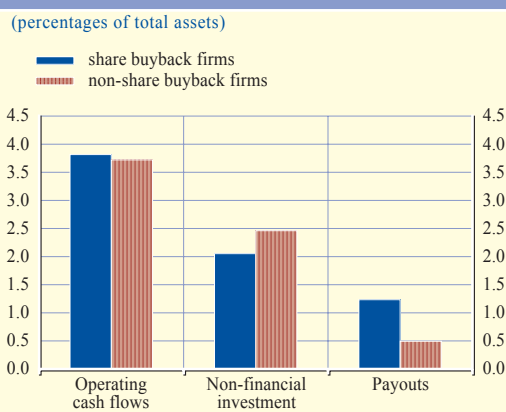
Notes: The sample comprises 106 observations from euro area firms announcing an open market share buyback programme in the period between 2001 and 2006. Only firms in the broad-based Dow Jones EURO STOXX index are included. Abnormal returns are calculated after removing the 1st and 99th percentiles from the daily return distributions. The horizontal axis spans the 21-day window around the announcement day (zero).

2 For the United Kingdom, see Oswald, D., and Young, S. (2002), "What role for taxes and regulation? A second look at open market share buyback activity in the UK", *Journal of Business Finance & Accounting*, Vol. 31 (1-2), 257-92. As regards Germany, see Hackethal, A., and Zdantchouk, A. (2006), "Signalling power of open market share repurchases in Germany", *Financial Market Portfolio Management*, 123-51.

3 See the overview provided in MacKinlay, A. C. (1997), "Event studies in economics and finance", *Journal of Economic Literature*, Vol. XXXV, 13-39.

4 For European evidence, see Lasfer, M. A. (2000), "The market valuation of share repurchases in Europe", City University Business School working paper.

Chart 5 Breakdown of firms' characteristics on the basis of share buyback activity



Sources: Thomson Financial Datastream and ECB calculations. Notes: All figures are based on an aggregation of firm-year data in the period 1998-2005. The categorisation of firms is effected on a yearly basis, which means that a firm can appear in both categories over the period. The sample consists of all firms in the broad-based Dow Jones EURO STOXX index for which yearly cash flow statements were available. In total, the sample consists of 1,760 firm-year observations. The following data items were used: cash flow from operations (WC04860); non-financial investment (calculated as cash flow for investments (WC04870) minus net cash flow for financial investments (WC04760 – WC04440)); payouts (the sum of dividends (WC04551) and share buybacks (WC04751)); and total assets (WC02999).

adjusted the payouts made to their shareholders in order to leave the payout ratio broadly unchanged.

Another theoretical rationale for a firm to undertake share buybacks could be a combination of a temporarily strong cash flow coupled with uncertain investment opportunities. In such an environment, a firm may opt for a wait-and-see strategy to allow such uncertainties to unwind, and therefore distribute some of the excess cash flow back to its shareholders in the form of share buybacks. To get an idea of whether such a hypothesis can be supported by data on euro area corporations, Chart 5 breaks down firms' operating earnings, investment and payouts on the basis of whether or not the firms bought back shares.

Interestingly, the chart confirms that, on average, those firms that undertook share buybacks spent less on investment and paid more money to their shareholders than those firms that did not embark on share buyback

programmes. These results thus provide some tentative evidence that some euro area firms may use share buybacks to distribute excess cash flows.

4 CONCLUSION

Firms' payout policies are very closely related to their own assessment of earnings prospects and investment opportunities. As those two variables are important elements in a central bank's assessment of the growth and inflation outlook for an economy, share buyback activities should also be closely monitored.

This article comes to a number of relevant conclusions. First, share buybacks now account for a significantly larger share of total payouts than was the case in the late 1990s. This could indicate that firms' payout policies have, to some extent, undergone a structural change over this period, increasingly taking the form of share buybacks. Second, although share buybacks have become more common among euro area firms, such activities are, however, still more prevalent among the largest firms in the United States. Third, the most recent upturn in share buybacks appears to have been driven partly by exceptionally strong profitability growth among euro area firms. In this respect, firms have scaled up their share buybacks – as well as their dividends – in order to leave the total payout ratio broadly unchanged. Particularly during the early stages of the stock market recovery following the bursting of the “IT bubble” at the beginning of this century, some firms may also have used share buybacks as a signalling device to convey to the markets that they perceived the stock prices of their firms to be lower than would be suggested by a fundamental valuation. Recently, in an environment in which takeover bids and leveraged buyouts have increased in magnitude, share buybacks may also have been used by some firms to protect themselves against the risk of hostile takeovers. Finally, a number of firms in the euro area may have preferred share buybacks to dividends in an environment

ARTICLES

Share buybacks
in the euro area

characterised by a temporarily strong cash flow coupled with uncertainty about investment opportunities. However, it should be kept in mind that firms' investments, profits and share buyback decisions are closely intertwined and the direction of causality can vary over time and across firms.



EURO AREA STATISTICS



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1) For further information, please contact us at: statistics@ecb.int. See the ECB Statistical Data Warehouse on the Statistics section of the ECB website (<http://sdw.ecb.int>) for longer runs and more detailed data.

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ENLARGEMENT OF THE EURO AREA ON 1 JANUARY 2007 TO INCLUDE SLOVENIA

Unless otherwise indicated, all data series covering observations for 2007 relate to the Euro 13 (the euro area including Slovenia) for the whole time series. For interest rates, monetary statistics and the HICP (and, for consistency reasons, the components and counterparts of M3 and the components of the HICP), 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 indicated in the tables by means of a footnote. In such cases, where underlying data are available, absolute and percentage changes for 2001 and 2007, calculated from a base in 2000 and in 2006, use a series which takes into account the impact of the entry of Greece and Slovenia, respectively, into the euro area. Historical data referring to the euro area before the entry of Slovenia are available on the ECB web site at <http://www.ecb.int/stats/services/downloads/html/index.en.html>

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-MFI 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
2005	10.4	7.9	7.4	-	8.1	12.7	2.18	3.44
2006	8.6	8.7	8.4	-	10.9	16.1	3.08	3.86
2006 Q2	9.8	9.2	8.6	-	11.2	15.9	2.90	4.05
Q3	7.6	8.4	8.1	-	11.2	15.4	3.22	3.97
Q4	6.7	8.6	9.0	-	11.1	17.0	3.59	3.86
2007 Q1	6.8	9.0	10.1	-	10.5	.	3.82	4.08
2006 Nov.	6.6	8.8	9.3	9.2	11.2	17.9	3.60	3.80
Dec.	7.4	9.3	9.8	9.7	10.8	16.4	3.68	3.90
2007 Jan.	6.6	8.9	9.9	9.9	10.6	16.2	3.75	4.10
Feb.	6.6	8.8	10.0	10.3	10.3	16.0	3.82	4.12
Mar.	7.0	9.4	10.9	.	10.5	.	3.89	4.02
Apr.	.	.	.	.	.	.	3.98	4.25

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
2005	2.2	4.1	2.4	1.4	1.3	81.2	0.8	8.6
2006	2.2	5.1	2.5	2.7	4.0	83.3	1.4	7.9
2006 Q2	2.5	5.8	2.6	2.8	4.3	83.0	1.5	7.9
Q3	2.1	5.4	2.5	2.8	4.1	83.8	1.5	7.8
Q4	1.8	4.1	2.4	3.3	3.9	84.2	1.6	7.6
2007 Q1	1.9	2.9	.	.	.	84.6	.	7.3
2006 Nov.	1.9	4.3	-	-	3.0	-	-	7.6
Dec.	1.9	4.1	-	-	4.8	-	-	7.5
2007 Jan.	1.8	3.1	-	-	3.3	84.4	-	7.4
Feb.	1.8	2.9	-	-	4.1	-	-	7.3
Mar.	1.9	2.7	-	-	.	-	-	7.2
Apr.	1.8	.	-	-	.	84.8	-	.

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-24 ³⁾ (index, 1999 Q1 = 100)		USD/EUR exchange rate
	Current and capital accounts	Goods	Direct investment	Portfolio investment		Nominal	Real (CPI)	
2005	10.3	45.4	-210.0	146.1	320.1	103.3	104.1	1.2441
2006	5.3	30.5	-156.7	273.1	325.8	103.6	104.4	1.2556
2006 Q2	-5.8	6.8	-20.0	97.6	323.8	103.8	104.6	1.2582
Q3	-3.6	7.5	-43.9	22.3	325.0	104.5	105.3	1.2743
Q4	27.3	19.7	-57.3	130.0	325.8	104.6	105.3	1.2887
2007 Q1	.	.	.	.	331.6	105.5	106.0	1.3106
2006 Nov.	7.0	7.8	-15.7	61.9	327.0	104.5	105.2	1.2881
Dec.	17.9	5.9	-28.8	32.8	325.8	105.5	106.0	1.3213
2007 Jan.	-2.0	-3.0	-12.3	35.4	338.6	104.9	105.5	1.2999
Feb.	-5.8	1.5	-12.6	28.6	337.5	105.4	105.9	1.3074
Mar.	.	.	.	.	331.6	106.1	106.6	1.3242
Apr.	.	.	.	.	.	107.1	107.6	1.3516

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.

- 1) 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.
- 2) 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.
- 3) 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

	2007 6 April	2007 13 April	2007 20 April	2007 27 April
Gold and gold receivables	181,210	181,179	180,898	180,703
Claims on non-euro area residents in foreign currency	139,243	140,613	140,331	142,051
Claims on euro area residents in foreign currency	23,731	23,565	24,894	25,014
Claims on non-euro area residents in euro	14,323	14,602	15,350	14,463
Lending to euro area credit institutions in euro	443,529	430,680	431,548	440,018
Main refinancing operations	291,500	280,001	281,502	288,500
Longer-term refinancing operations	150,001	150,001	150,001	149,999
Fine-tuning reverse operations	0	0	0	0
Structural reverse operations	0	0	0	0
Marginal lending facility	2,028	678	29	1,519
Credits related to margin calls	0	0	16	0
Other claims on euro area credit institutions in euro	14,794	14,741	14,175	15,800
Securities of euro area residents in euro	90,329	90,556	90,486	92,358
General government debt in euro	39,283	39,283	39,283	39,240
Other assets	224,978	226,351	227,280	226,661
Total assets	1,171,420	1,161,570	1,164,245	1,176,308

2. Liabilities

	2007 6 April	2007 13 April	2007 20 April	2007 27 April
Banknotes in circulation	625,993	619,392	615,817	619,662
Liabilities to euro area credit institutions in euro	185,863	183,662	183,775	183,664
Current accounts (covering the minimum reserve system)	185,086	183,478	183,632	183,574
Deposit facility	617	53	37	18
Fixed-term deposits	155	131	103	64
Fine-tuning reverse operations	0	0	0	0
Deposits related to margin calls	5	0	3	8
Other liabilities to euro area credit institutions in euro	107	109	133	127
Debt certificates issued	0	0	0	0
Liabilities to other euro area residents in euro	60,074	57,564	64,593	69,973
Liabilities to non-euro area residents in euro	18,360	18,903	18,525	19,521
Liabilities to euro area residents in foreign currency	159	163	157	296
Liabilities to non-euro area residents in foreign currency	12,576	13,204	14,122	15,878
Counterpart of special drawing rights allocated by the IMF	5,578	5,578	5,578	5,578
Other liabilities	68,926	69,041	67,698	67,760
Revaluation accounts	125,521	125,521	125,521	125,521
Capital and reserves	68,263	68,433	68,326	68,328
Total liabilities	1,171,420	1,161,570	1,164,245	1,176,308

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	
			Fixed rate tenders	Variable rate tenders			
	Level	Change	Fixed rate	Minimum bid rate	Change	Level	Change
			Level	Level			
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
2005 6 Dec.	1.25	0.25	-	2.25	0.25	3.25	0.25
2006 8 Mar.	1.50	0.25	-	2.50	0.25	3.50	0.25
15 June	1.75	0.25	-	2.75	0.25	3.75	0.25
9 Aug.	2.00	0.25	-	3.00	0.25	4.00	0.25
11 Oct.	2.25	0.25	-	3.25	0.25	4.25	0.25
13 Dec.	2.50	0.25	-	3.50	0.25	4.50	0.25
2007 14 Mar.	2.75	0.25	-	3.75	0.25	4.75	0.25

Source: ECB.

- 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.
- 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.
- 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							
2007 10 Jan.	381,305	375	310,500	3.50	3.55	3.56	7
17	412,215	381	312,500	3.50	3.55	3.56	7
24	428,181	395	317,500	3.50	3.55	3.56	7
31	399,269	352	292,500	3.50	3.56	3.56	7
7 Feb.	381,952	346	279,500	3.50	3.54	3.55	7
14	402,912	363	286,500	3.50	3.55	3.56	8
22	425,650	361	301,500	3.50	3.55	3.56	6
28	380,816	343	289,000	3.50	3.56	3.56	7
7 Mar.	364,245	333	280,000	3.50	3.55	3.56	7
14	375,459	352	271,500	3.75	3.81	3.81	7
21	372,414	370	282,000	3.75	3.80	3.81	7
28	365,416	357	283,500	3.75	3.82	3.83	7
4 Apr.	382,753	356	291,500	3.75	3.83	3.83	7
11	364,037	346	280,000	3.75	3.81	3.82	7
18	397,484	366	281,500	3.75	3.81	3.82	7
25	392,541	350	288,500	3.75	3.82	3.83	7
2 May	371,510	306	279,500	3.75	3.82	3.83	7
9	353,181	325	276,000	3.75	3.81	3.82	6
Longer-term refinancing operations							
2006 27 Apr.	63,596	188	40,000	-	2.76	2.78	91
1 June	59,771	161	40,000	-	2.87	2.88	91
29	57,185	167	40,000	-	3.00	3.01	91
27 July	54,824	158	40,000	-	3.08	3.09	91
31 Aug.	51,079	148	40,000	-	3.20	3.21	91
28 Sep.	49,801	136	40,000	-	3.30	3.32	84
26 Oct.	62,854	159	40,000	-	3.48	3.50	98
30 Nov.	72,782	168	40,000	-	3.58	3.58	91
21 Dec.	74,150	161	40,000	-	3.66	3.67	98
2007 1 Feb.	79,099	164	50,000	-	3.72	3.74	85
1 Mar.	80,110	143	50,000	-	3.80	3.81	91
29	76,498	148	50,000	-	3.87	3.87	91
27 Apr.	71,294	148	50,000	-	3.96	3.97	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	
2005 11 Oct.	Collection of fixed-term deposits	23,995	22	8,500	2.00	-	-	-	1
5 Dec.	Collection of fixed-term deposits	21,240	18	7,500	2.00	-	-	-	1
2006 17 Jan.	Reverse transaction	24,900	28	7,000	-	2.25	2.27	2.28	1
7 Feb.	Reverse transaction	28,260	28	6,500	-	2.25	2.31	2.32	1
7 Mar.	Collection of fixed-term deposits	2,600	3	2,600	2.25	-	-	-	1
11 Apr.	Reverse transaction	47,545	29	26,000	-	2.50	2.55	2.58	1
9 May	Collection of fixed-term deposits	15,810	16	11,500	2.50	-	-	-	1
14 June	Collection of fixed-term deposits	4,910	8	4,910	2.50	-	-	-	1
11 July	Collection of fixed-term deposits	9,000	9	8,500	2.75	-	-	-	1
8 Aug.	Collection of fixed-term deposits	19,860	21	18,000	2.75	-	-	-	1
5 Sep.	Collection of fixed-term deposits	13,635	17	11,500	3.00	-	-	-	1
10 Oct.	Reverse transaction	36,120	26	9,500	-	3.00	3.05	3.06	1
12 Dec.	Reverse transaction	21,565	25	2,500	-	3.25	3.32	3.33	1
2007 13 Mar.	Collection of fixed-term deposits	2,300	2	2,300	3.50	-	-	-	1
17 Apr.	Collection of fixed-term deposits	42,245	35	22,500	3.75	-	-	-	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 1	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) 2	Debt securities up to 2 years' agreed maturity 3	Deposits (over 2 years' agreed maturity and notice period) 4	Repos 5	Debt securities over 2 years' agreed maturity 6
2004	12,415.9	6,593.7	458.1	1,565.2	913.7	2,885.3
2005	14,040.7	7,409.5	499.2	1,753.5	1,174.9	3,203.6
2006 Q1	14,500.2	7,604.7	550.2	1,825.1	1,241.5	3,278.8
Q2	14,712.2	7,764.5	550.9	1,877.1	1,174.4	3,345.3
Q3	15,261.0	8,064.9	584.0	1,931.6	1,269.7	3,410.8
2006 Oct. ²⁾	15,421.0	8,133.9	615.2	1,965.1	1,264.5	3,442.4
Nov. ²⁾	15,543.0	8,199.7	613.2	1,973.0	1,285.9	3,471.2
Dec. ²⁾	15,648.3	8,411.7	601.9	1,968.4	1,180.3	3,486.1
2007 Jan.	15,889.0	8,478.5	638.8	1,984.4	1,278.8	3,508.5
Feb.	16,033.9	8,490.3	645.9	1,990.6	1,350.2	3,556.9

2. Reserve maintenance

Maintenance period ending on:	Required reserves 1	Credit institutions' current accounts 2	Excess reserves 3	Deficiencies 4	Interest rate on minimum reserves 5
2005	152.0	153.0	1.0	0.0	2.07
2006	172.5	173.2	0.7	0.0	3.30
2007 16 Jan. ³⁾	174.3	175.3	1.0	0.0	3.57
13 Feb.	175.8	176.5	0.8	0.0	3.55
13 Mar.	179.8	180.6	0.8	0.0	3.55
17 Apr.	181.8	182.6	0.8	0.0	3.81
14 May	182.2	.	.	.	.

3. Liquidity

Maintenance period ending on:	Liquidity-providing factors					Liquidity-absorbing factors					Credit institutions' current accounts 11	Base money 12
	Eurosystem's net assets in gold and foreign currency 1	Main refinancing operations 2	Longer-term refinancing operations 3	Marginal lending facility 4	Other liquidity-providing operations 5	Deposit facility 6	Other liquidity-absorbing operations ⁴⁾ 7	Banknotes in circulation 8	Central government deposits with the Eurosystem 9	Other factors (net) 10		
2005	313.2	301.3	90.0	0.0	0.0	0.1	0.3	539.8	51.0	-39.6	153.0	692.9
2006	327.0	313.1	120.0	0.1	0.1	0.1	0.0	598.6	54.9	-66.4	173.2	771.8
2007 16 Jan.	325.8	322.3	120.0	0.1	0.0	0.2	1.0	619.5	45.0	-72.7	175.3	794.9
13 Feb.	322.1	300.5	124.6	0.1	0.1	0.1	1.5	604.6	47.9	-83.1	176.5	781.2
13 Mar.	321.6	288.7	134.6	0.0	0.0	0.5	0.8	606.2	47.1	-90.0	180.6	787.2
17 Apr.	323.6	281.7	145.7	0.5	0.0	0.3	0.9	614.8	48.2	-95.2	182.6	797.7

Source: ECB.

- End of period.
- Includes the reserve bases of credit institutions in Slovenia. On a transitional basis, credit institutions located in euro area countries may have decided to deduct from their own reserve bases any liabilities owed to credit institutions located in Slovenia. Starting from the reserve base as at end-January 2007, the standard treatment will apply (see Regulation (EC) No 1637/2006 of the ECB of 2 November 2006 concerning transitional provisions for the application of minimum reserves by the ECB following the introduction of the euro in Slovenia (ECB/2006/15)).
- Owing to the adoption of the euro by Slovenia on 1 January 2007, the reserve requirement is an average - weighted by the number of calendar days - of the reserve requirements for the then 12 countries of the euro area for the period 13-31 December 2006 and the reserve requirements for the 13 countries now in the euro area for the period 1-16 January 2007.
- Starting from 1 January 2007, includes monetary policy operations in the form of collection of fixed-term deposits which were conducted by Banka Slovenije before 1 January 2007 and were still outstanding after this date.



MONEY, BANKING AND INVESTMENT FUNDS

2.1 Aggregated balance sheet of euro area MFIs ¹⁾

(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 ²⁾	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														
2004	1,197.3	546.5	21.5	0.6	524.3	154.8	140.0	1.7	13.1	-	14.2	294.1	14.0	173.8
2005	1,404.9	635.5	20.7	0.6	614.2	185.7	165.6	2.1	18.1	-	14.8	337.0	14.7	217.2
2006 Q1	1,431.3	636.9	20.7	0.6	615.6	188.2	168.0	2.3	18.0	-	15.8	348.9	14.7	226.6
Q2	1,532.1	731.1	20.3	0.6	710.1	192.8	170.3	2.3	20.2	-	16.4	343.7	14.6	233.5
Q3	1,521.6	694.2	20.3	0.6	673.2	206.5	179.9	2.2	24.4	-	16.5	348.5	14.8	241.1
Q4	1,558.2	695.7	19.7	0.6	675.3	217.0	187.5	2.5	27.0	-	17.2	351.4	14.6	262.5
2007 Jan.	1,540.4	663.7	19.7	0.6	643.3	224.7	194.4	2.4	27.9	-	17.2	361.4	14.8	258.7
Feb.	1,582.1	682.5	19.7	0.6	662.1	234.6	202.8	2.4	29.5	-	17.2	365.7	14.7	267.4
Mar. ^(p)	1,576.6	693.3	19.7	0.6	673.0	238.0	205.4	2.1	30.4	-	17.4	359.6	14.7	253.6
MFIs excluding the Eurosysteem														
2004	21,355.4	12,825.3	811.9	7,555.6	4,457.8	3,188.1	1,299.9	465.5	1,422.7	72.6	945.5	2,943.4	159.6	1,220.9
2005	23,631.5	13,681.7	826.9	8,285.1	4,569.7	3,498.6	1,429.4	551.5	1,517.7	83.1	1,008.7	3,652.8	165.7	1,540.9
2006 Q1	24,331.4	14,021.7	816.3	8,549.1	4,656.3	3,584.9	1,440.5	573.5	1,570.9	83.6	1,096.6	3,825.1	166.3	1,553.2
Q2	24,695.9	14,321.5	809.3	8,782.0	4,730.3	3,588.0	1,402.8	600.0	1,585.3	86.6	1,109.1	3,849.1	167.9	1,573.6
Q3	25,299.6	14,577.8	804.2	8,982.7	4,790.9	3,596.0	1,351.4	618.0	1,626.6	82.4	1,139.7	4,069.8	168.8	1,665.2
Q4	25,974.0	14,904.1	810.5	9,160.3	4,933.4	3,555.5	1,276.9	645.8	1,632.8	83.6	1,193.5	4,330.1	172.6	1,734.7
2007 Jan.	26,403.9	15,074.3	806.2	9,275.7	4,992.3	3,602.0	1,296.1	644.4	1,661.6	84.6	1,219.5	4,489.5	171.8	1,762.2
Feb.	26,620.3	15,159.2	803.2	9,337.1	5,018.9	3,626.6	1,293.2	658.1	1,675.2	87.4	1,219.6	4,575.7	171.8	1,780.0
Mar. ^(p)	27,095.9	15,331.8	801.3	9,439.3	5,091.2	3,661.9	1,281.3	686.6	1,693.9	92.1	1,238.1	4,682.7	195.2	1,894.1

2. Liabilities

	Total	Currency in circulation	Deposits of euro area residents				Money market fund shares/units ³⁾	Debt securities issued ⁴⁾	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											
2004	1,197.3	517.3	346.6	24.7	15.0	306.8	-	0.5	138.4	27.2	167.4
2005	1,404.9	582.7	385.4	24.4	14.5	346.5	-	0.1	202.9	27.6	206.2
2006 Q1	1,431.3	574.7	405.0	45.0	15.0	345.0	-	0.1	214.5	30.3	206.6
Q2	1,532.1	598.2	487.4	69.3	21.5	396.5	-	0.1	206.2	30.6	209.5
Q3	1,521.6	607.7	448.3	55.2	16.1	377.0	-	0.1	211.6	33.8	220.0
Q4	1,558.2	647.0	431.6	33.7	15.9	382.0	-	0.1	208.6	35.3	235.6
2007 Jan.	1,540.4	621.2	433.3	48.1	18.8	366.4	-	0.8	214.9	36.9	233.2
Feb.	1,582.1	623.2	466.5	51.4	19.8	395.3	-	0.4	218.2	39.1	234.7
Mar. ^(p)	1,576.6	632.5	455.6	44.8	17.5	393.4	-	0.3	216.0	39.5	232.7
MFIs excluding the Eurosysteem											
2004	21,355.4	-	11,487.5	137.7	6,640.9	4,709.0	677.4	3,496.9	1,203.1	2,815.0	1,675.6
2005	23,631.5	-	12,212.2	149.2	7,211.9	4,851.2	698.9	3,858.3	1,310.6	3,518.0	2,033.5
2006 Q1	24,331.4	-	12,417.2	148.1	7,319.6	4,949.5	686.7	3,991.5	1,368.7	3,733.7	2,133.6
Q2	24,695.9	-	12,706.3	138.1	7,510.4	5,057.9	703.1	4,060.7	1,376.2	3,701.4	2,148.1
Q3	25,299.6	-	12,852.1	147.7	7,613.2	5,091.2	728.0	4,160.1	1,410.9	3,900.4	2,248.2
Q4	25,974.0	-	13,257.9	123.2	7,887.7	5,247.0	697.7	4,247.6	1,448.7	3,991.2	2,331.0
2007 Jan.	26,403.9	-	13,297.9	122.3	7,888.2	5,287.4	726.1	4,314.0	1,459.3	4,181.4	2,425.2
Feb.	26,620.3	-	13,358.7	138.0	7,899.4	5,321.2	739.9	4,372.4	1,478.3	4,231.2	2,439.8
Mar. ^(p)	27,095.9	-	13,590.8	138.7	8,044.9	5,407.2	759.3	4,422.1	1,521.4	4,253.5	2,548.8

Source: ECB.

- 1) Data refer to the changing composition of the euro area. For further information, see the General notes.
- 2) Amounts issued by euro area residents. Amounts issued by non-euro area residents are included in external assets.
- 3) Amounts held by euro area residents.
- 4) 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 ¹⁾

(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											
2004	15,723.6	8,389.6	833.4	7,556.3	1,907.1	1,439.9	467.2	669.9	3,237.4	173.6	1,345.9
2005	17,870.7	9,133.3	847.5	8,285.7	2,148.5	1,595.0	553.6	710.5	3,989.7	180.4	1,708.2
2006 Q1	18,447.9	9,386.8	837.0	8,549.8	2,184.2	1,608.4	575.8	784.5	4,174.0	181.0	1,737.4
Q2	18,712.0	9,612.2	829.6	8,782.6	2,175.4	1,573.1	602.3	786.6	4,192.8	182.5	1,762.5
Q3	19,232.3	9,807.9	824.6	8,983.3	2,151.5	1,531.3	620.2	809.3	4,418.3	183.6	1,861.7
Q4	19,743.5	9,991.1	830.2	9,160.9	2,112.6	1,464.3	648.3	828.9	4,681.5	187.2	1,942.3
2007 Jan.	20,098.6	10,102.3	826.0	9,276.4	2,137.2	1,490.5	646.7	846.3	4,850.9	186.5	1,975.4
Feb.	20,284.4	10,160.7	822.9	9,337.7	2,156.6	1,496.0	660.5	836.4	4,941.4	186.5	2,002.9
Mar. ^(p)	20,642.0	10,261.0	821.1	9,439.9	2,175.6	1,486.8	688.8	849.8	5,042.2	209.9	2,103.5
Transactions											
2004	1,269.9	499.7	-6.7	506.4	92.1	58.1	33.9	36.5	437.7	2.7	201.3
2005	1,608.6	708.9	12.8	696.0	156.1	76.2	79.9	53.2	448.5	1.4	240.4
2006 Q1	593.9	240.5	-10.4	250.8	54.3	28.5	25.8	67.8	202.4	-0.2	29.1
Q2	359.8	235.5	-7.2	242.7	13.0	-15.8	28.8	9.0	79.6	1.5	21.1
Q3	485.8	203.7	-3.0	206.7	-31.5	-51.2	19.7	9.8	205.3	1.1	97.4
Q4	563.2	193.2	6.2	187.0	-25.1	-57.9	32.8	11.2	308.0	3.9	72.1
2007 Jan.	293.4	84.4	-4.0	88.3	22.7	21.1	1.6	14.4	143.6	-0.8	29.1
Feb.	222.5	63.4	-3.0	66.4	17.8	4.3	13.5	-8.8	123.7	0.0	26.4
Mar. ^(p)	382.9	104.5	-1.3	105.8	21.5	-7.8	29.3	11.8	123.3	23.4	98.5

2. Liabilities

	Total	Currency in circulation	Deposits of central government	Deposits of other general government/ other euro area residents	Money market fund shares/ units ²⁾	Debt securities issued ³⁾	Capital and reserves	External liabilities	Remaining liabilities	Excess of inter-MFI liabilities	
											1	2	3	4	5	6	7	8	9	10
Outstanding amounts											
2004	15,723.6	468.4	162.4	6,655.9	604.9	2,061.7	1,051.6	2,842.2	1,842.9	33.6	
2005	17,870.7	532.8	173.6	7,226.4	615.8	2,322.6	1,200.6	3,545.6	2,239.7	13.7	
2006 Q1	18,447.9	532.2	193.1	7,334.7	603.1	2,402.7	1,255.2	3,764.0	2,340.2	22.6	
Q2	18,712.0	553.7	207.4	7,531.9	616.5	2,455.3	1,243.5	3,732.0	2,357.7	14.0	
Q3	19,232.3	563.2	202.9	7,629.3	645.6	2,509.2	1,275.6	3,934.3	2,468.2	4.1	
Q4	19,743.5	592.2	156.9	7,903.6	614.1	2,587.8	1,275.5	4,026.6	2,566.5	20.2	
2007 Jan.	20,098.6	575.6	170.4	7,907.0	641.5	2,625.4	1,283.7	4,218.3	2,658.4	18.2	
Feb.	20,284.4	578.7	189.4	7,919.2	652.5	2,668.2	1,296.2	4,270.2	2,674.6	35.5	
Mar. ^(p)	20,642.0	588.3	183.4	8,062.4	667.1	2,698.1	1,331.8	4,293.0	2,781.5	36.4	
Transactions											
2004	1,269.9	70.5	6.1	377.4	22.3	197.2	49.6	276.9	232.1	37.8	
2005	1,608.6	64.4	10.9	495.7	-3.0	213.5	96.1	448.0	333.8	-50.8	
2006 Q1	593.9	-0.6	19.6	103.0	9.0	77.0	29.0	240.6	81.9	34.5	
Q2	359.8	21.5	15.2	204.8	14.9	65.0	1.2	19.4	12.6	5.3	
Q3	485.8	9.5	-4.5	97.7	9.8	56.7	24.9	203.6	100.6	-12.5	
Q4	563.2	29.0	-46.4	274.9	-6.7	86.7	0.6	136.0	68.8	20.4	
2007 Jan.	293.4	-17.0	12.2	-17.7	28.9	30.2	1.9	166.6	96.1	-7.8	
Feb.	222.5	3.1	19.0	16.3	11.5	50.2	8.8	84.4	5.4	23.8	
Mar. ^(p)	382.9	9.6	-5.8	145.3	15.0	33.4	40.6	39.0	101.3	4.5	

Source: ECB.

1) Data refer to the changing composition of the euro area. For further information, see the General notes.

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.

2.3 Monetary statistics ¹⁾

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

1. Monetary aggregates ²⁾ and counterparts

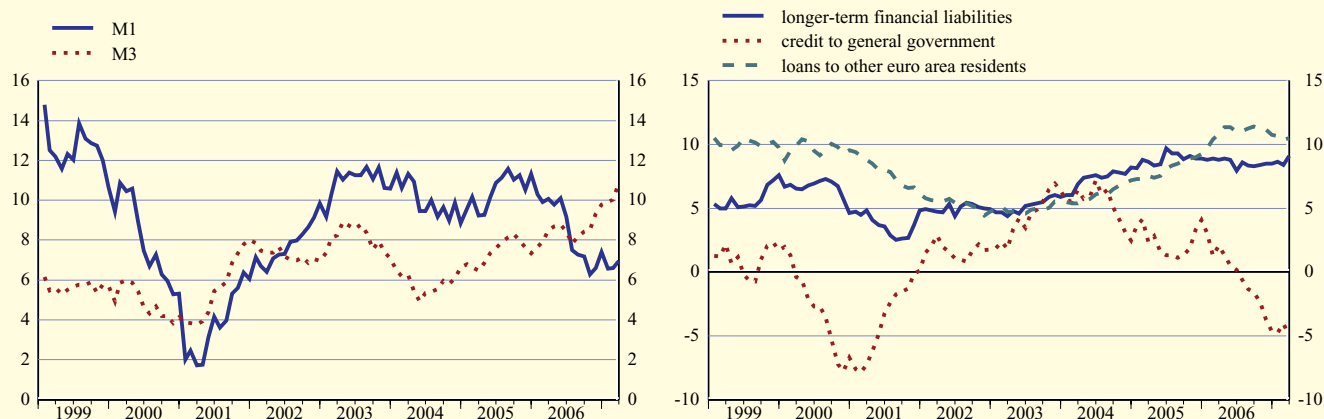
	M1		M2	M3-M2	M3	M3 3-month moving average (centred)	Longer-term financial liabilities	Credit to general government	Credit to other euro area residents		Net external assets ³⁾
	1	2	3	4	5	6	7	8	Loans		11
									9	10	
Outstanding amounts											
2004	2,906.7	2,663.2	5,569.9	968.2	6,538.1	-	4,462.8	2,298.1	8,698.6	7,553.7	373.8
2005	3,419.4	2,653.2	6,072.6	999.4	7,072.0	-	5,000.2	2,472.5	9,561.0	8,287.3	422.2
2006 Q1	3,492.8	2,720.2	6,213.0	1,004.6	7,217.6	-	5,139.7	2,438.0	9,903.1	8,553.2	426.6
Q2	3,555.6	2,783.0	6,338.6	1,027.1	7,365.7	-	5,222.5	2,389.4	10,141.7	8,756.7	456.1
Q3	3,591.5	2,877.4	6,468.9	1,092.5	7,561.5	-	5,323.5	2,364.9	10,443.9	8,992.8	467.6
Q4	3,674.4	2,954.1	6,628.6	1,098.5	7,727.1	-	5,427.7	2,321.6	10,657.5	9,167.3	632.8
2007 Jan.	3,686.5	2,989.2	6,675.6	1,135.1	7,810.7	-	5,478.4	2,321.7	10,770.7	9,273.8	629.5
Feb.	3,709.2	3,006.3	6,715.5	1,153.2	7,868.7	-	5,514.2	2,321.8	10,843.1	9,342.5	680.0
Mar. ^(p)	3,745.8	3,062.9	6,808.7	1,188.0	7,996.7	-	5,580.4	2,300.5	10,969.5	9,443.0	766.6
Transactions											
2004	237.3	110.7	348.1	59.6	407.6	-	341.0	55.3	580.5	508.7	162.5
2005	337.0	138.9	475.9	8.5	484.4	-	401.5	94.5	835.5	700.4	0.1
2006 Q1	75.1	69.7	144.7	20.1	164.9	-	108.0	-19.2	326.3	252.7	0.3
Q2	65.4	66.3	131.6	29.5	161.1	-	104.0	-29.0	257.4	213.3	39.1
Q3	35.2	93.9	129.1	50.0	179.1	-	94.4	-31.9	296.8	242.0	-10.1
Q4	77.5	81.0	158.5	26.9	185.4	-	118.9	-33.5	219.2	184.0	166.3
2007 Jan.	3.4	25.7	29.1	38.2	67.3	-	33.4	-4.7	86.3	79.4	-3.9
Feb.	24.1	19.0	43.1	18.3	61.4	-	40.7	-1.1	78.2	73.7	51.1
Mar. ^(p)	37.3	57.6	94.9	34.5	129.4	-	75.6	-19.3	129.3	104.1	92.8
Growth rates											
2004 Dec.	8.9	4.3	6.6	6.6	6.6	6.5	8.2	2.5	7.1	7.2	162.5
2005 Dec.	11.3	5.4	8.5	0.9	7.3	7.5	8.9	4.1	9.6	9.2	0.1
2006 Mar.	10.1	7.9	9.0	5.5	8.5	8.4	8.8	2.0	11.6	10.8	-6.7
June	9.2	8.8	9.0	4.9	8.4	8.3	7.9	0.2	11.6	11.0	-19.3
Sep.	7.2	9.9	8.4	9.0	8.4	8.4	8.3	-1.6	12.2	11.4	-10.9
Dec.	7.4	11.7	9.3	12.9	9.8	9.7	8.5	-4.6	11.5	10.8	195.6
2007 Jan.	6.6	12.0	8.9	16.2	9.9	9.9	8.6	-4.8	11.3	10.6	184.8
Feb.	6.6	11.6	8.8	18.0	10.0	10.3	8.4	-4.1	10.8	10.3	250.6
Mar. ^(p)	7.0	12.6	9.4	19.8	10.9	.	9.1	-4.9	10.8	10.5	335.4

C1 Monetary aggregates ¹⁾

(annual growth rates; seasonally adjusted)

C2 Counterparts ¹⁾

(annual growth rates; seasonally adjusted)



Source: ECB.

1) Data refer to the changing composition of the euro area. For further information, see the General notes.

2) 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).

3) Values in the section "growth rates" are sums of the transactions during the 12 months ending in the period indicated.

2.3 Monetary statistics ¹⁾

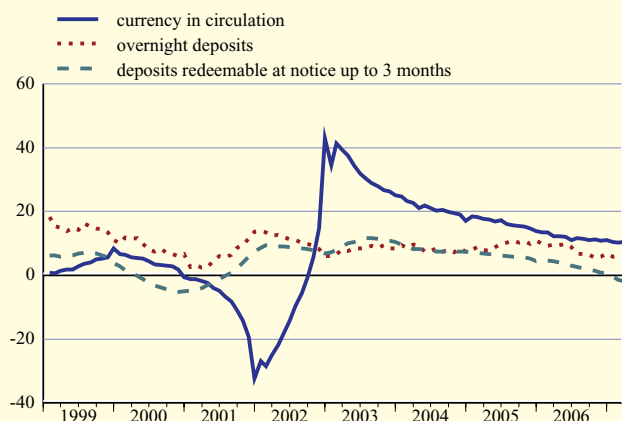
(EUR billions and annual growth rates; seasonally adjusted; outstanding amounts and growth rates at end of period, transactions during period)

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											
2004	458.3	2,448.4	1,026.8	1,636.4	246.3	619.6	102.3	1,964.2	90.0	1,358.0	1,050.5
2005	521.5	2,897.9	1,109.9	1,543.2	241.6	631.6	126.2	2,202.6	86.9	1,511.2	1,199.6
2006 Q1	535.4	2,957.4	1,156.7	1,563.5	235.8	605.7	163.1	2,239.4	88.7	1,559.0	1,252.6
Q2	548.3	3,007.3	1,217.4	1,565.6	247.6	617.7	161.8	2,287.2	92.4	1,598.0	1,244.9
Q3	563.8	3,027.7	1,311.5	1,565.9	268.6	645.2	178.7	2,330.2	97.5	1,626.7	1,269.1
Q4	579.0	3,095.4	1,402.5	1,551.6	268.5	631.4	198.7	2,396.2	102.4	1,654.6	1,274.6
2007 Jan.	583.2	3,103.3	1,442.5	1,546.7	268.2	645.5	221.4	2,422.4	105.2	1,666.4	1,284.4
Feb.	588.3	3,120.9	1,468.5	1,537.8	265.1	655.7	232.3	2,441.7	106.9	1,670.0	1,295.6
Mar. ^(p)	592.0	3,153.9	1,526.7	1,536.2	280.3	670.8	236.9	2,460.9	107.8	1,683.1	1,328.5
Transactions											
2004	66.8	170.6	-2.6	113.4	25.7	22.7	11.3	185.5	-0.9	106.7	49.6
2005	63.2	273.8	69.1	69.8	-5.9	-2.0	16.4	198.4	-4.3	111.2	96.1
2006 Q1	13.9	61.2	49.1	20.6	-5.8	-4.1	30.0	40.6	1.8	38.2	27.4
Q2	12.9	52.5	64.0	2.3	12.6	13.4	3.5	55.3	3.7	39.8	5.2
Q3	15.5	19.6	93.7	0.2	21.0	8.4	20.7	42.2	5.1	30.1	17.1
Q4	15.2	62.3	94.8	-13.8	0.0	11.1	15.9	78.1	4.9	29.7	6.2
2007 Jan.	3.7	-0.3	31.5	-5.8	-0.3	15.6	22.9	18.6	2.1	9.2	3.5
Feb.	5.1	19.0	27.9	-8.9	-3.1	10.8	10.6	27.1	1.6	4.4	7.5
Mar. ^(p)	3.7	33.6	59.1	-1.5	15.2	15.4	4.0	23.2	0.9	13.6	37.9
Growth rates											
2004 Dec.	17.0	7.5	-0.3	7.4	11.7	3.8	12.3	10.3	-1.0	8.5	4.9
2005 Dec.	13.8	10.9	6.5	4.4	-2.4	-0.3	15.7	10.0	-4.7	8.1	8.9
2006 Mar.	12.3	9.7	12.8	4.4	3.2	-0.4	43.5	8.7	-3.1	8.9	9.8
June	11.1	8.8	17.3	3.1	2.7	0.7	30.4	8.1	1.6	8.9	7.1
Sep.	11.1	6.5	21.4	1.7	12.2	0.6	44.7	8.1	10.6	9.3	7.1
Dec.	11.0	6.8	27.3	0.6	11.6	4.7	54.5	9.9	17.8	9.1	4.6
2007 Jan.	10.4	5.9	29.3	-0.5	11.6	8.2	58.5	10.2	18.9	8.9	4.7
Feb.	10.2	6.0	29.4	-1.4	15.2	9.6	56.5	10.7	20.7	8.2	3.6
Mar. ^(p)	10.5	6.3	32.1	-1.8	19.3	12.3	49.1	11.0	20.6	8.1	6.2

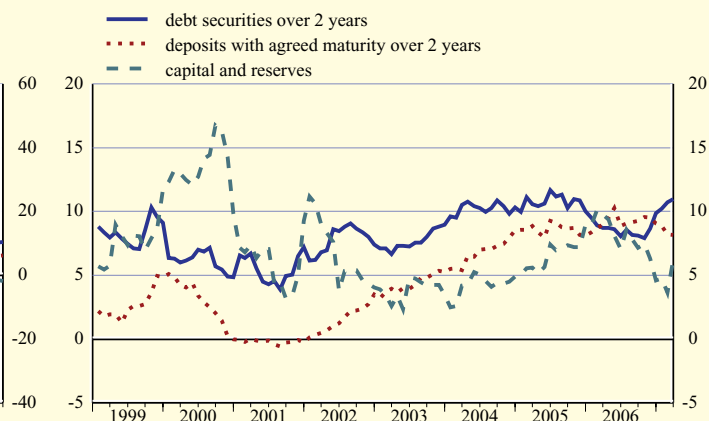
C3 Components of monetary aggregates ¹⁾

(annual growth rates; seasonally adjusted)



C4 Components of longer-term financial liabilities ¹⁾

(annual growth rates; seasonally adjusted)



Source: ECB.

1) Data refer to the changing composition of the euro area. For further information, see the General notes.

2.4 MFI loans, breakdown ^{1), 2)}

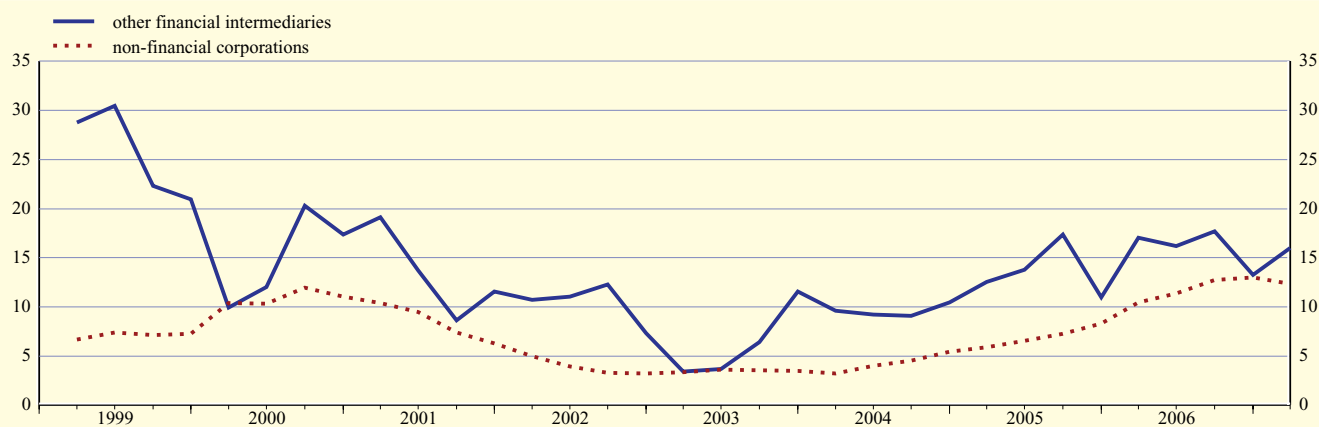
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

1. Loans to financial intermediaries and non-financial corporations ³⁾

	Insurance corporations and pension funds		Other financial intermediaries ⁴⁾		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								
2004	48.6	31.4	546.3	334.4	3,152.2	973.8	547.3	1,631.2
2005	64.6	41.6	620.4	370.2	3,409.1	1,037.7	594.0	1,777.3
2006 Q1	81.9	57.1	661.9	412.0	3,525.1	1,060.8	626.7	1,837.6
Q2	84.7	59.6	673.5	419.6	3,640.0	1,098.6	650.9	1,890.5
Q3	89.5	63.0	703.6	439.0	3,731.0	1,106.4	681.7	1,942.9
Q4	82.8	55.2	695.9	420.6	3,846.8	1,140.2	707.1	1,999.5
2007 Jan.	99.9	72.2	721.7	440.8	3,898.3	1,157.6	717.5	2,023.2
Feb.	97.0	70.2	742.2	460.8	3,920.2	1,160.6	726.2	2,033.5
Mar. ^(p)	98.5	71.6	774.8	488.3	3,956.6	1,170.7	738.4	2,047.5
Transactions								
2004	13.1	9.1	52.1	27.7	163.9	24.5	31.1	108.2
2005	15.0	9.8	60.8	29.2	262.7	56.8	54.3	151.6
2006 Q1	17.1	15.6	46.6	45.2	108.9	27.0	35.8	46.1
Q2	2.8	2.6	13.8	9.0	120.8	39.6	26.4	54.8
Q3	4.8	3.4	32.5	20.7	91.2	8.3	30.8	52.1
Q4	-6.5	-7.7	-11.0	-17.2	123.4	23.9	30.0	69.6
2007 Jan.	17.0	17.0	16.8	19.0	36.7	12.6	7.2	16.9
Feb.	-2.8	-2.0	21.6	20.7	24.6	3.8	9.3	11.5
Mar. ^(p)	1.6	1.5	32.9	28.1	38.7	10.7	12.7	15.3
Growth rates								
2004 Dec.	36.9	41.5	10.5	9.1	5.4	2.6	6.0	7.0
2005 Dec.	30.6	31.2	11.0	8.7	8.3	5.8	9.9	9.3
2006 Mar.	40.3	44.1	17.0	16.8	10.5	7.7	14.9	10.6
June	32.5	36.3	16.2	16.7	11.3	8.0	17.4	11.4
Sep.	37.0	47.6	17.7	19.5	12.7	10.3	20.4	11.6
Dec.	28.1	33.3	13.3	15.7	13.0	9.5	20.8	12.4
2007 Jan.	30.5	37.1	11.4	13.2	13.2	9.8	20.4	12.7
Feb.	28.8	36.9	10.8	12.3	12.6	9.1	19.6	12.3
Mar. ^(p)	20.5	25.9	16.0	19.6	12.4	9.3	18.6	12.0

C5 Loans to financial intermediaries and non-financial corporations ²⁾

(annual growth rates)



Source: ECB.

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

2) Data refer to the changing composition of the euro area. For further information, see the General notes.

3) Before January 2003 data were collected in March, June, September and December each year. Monthly data prior to January 2003 are derived from quarterly data.

4) This category includes investment funds.

2.4 MFI loans, breakdown^{1), 2)}

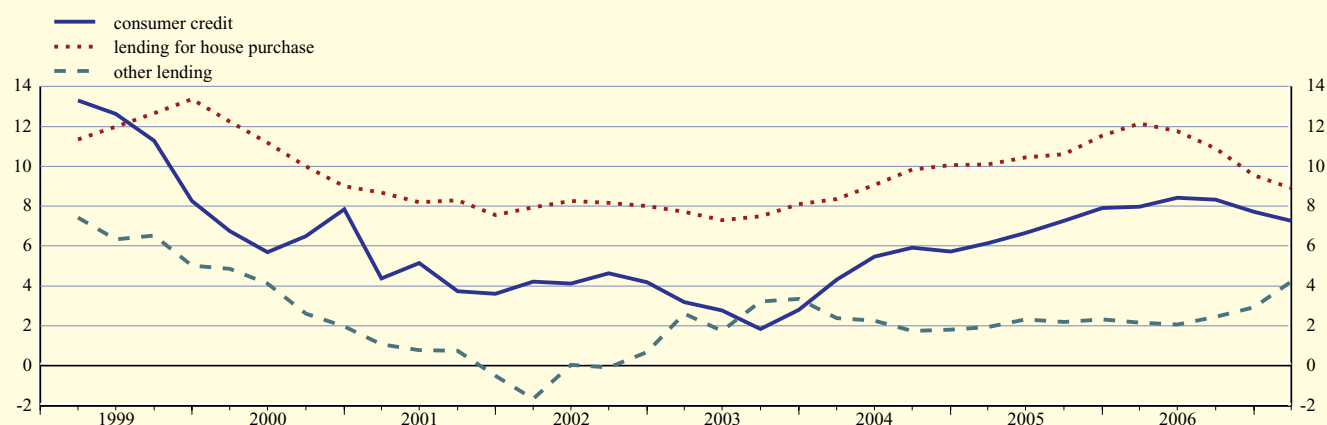
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

2. Loans to households³⁾

	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														
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	4,191.0	554.1	129.1	200.7	224.3	2,915.3	15.2	67.5	2,832.6	721.6	147.3	99.9	474.4	
2006 Q1	4,280.1	557.1	126.2	200.9	230.1	3,004.0	15.1	67.9	2,921.0	719.1	146.4	98.1	474.5	
Q2	4,383.9	576.1	130.6	205.5	240.0	3,079.3	15.8	70.0	2,993.6	728.4	150.7	98.3	479.5	
Q3	4,458.7	582.9	130.2	206.1	246.5	3,147.1	16.4	70.9	3,059.8	728.7	146.7	99.1	483.0	
Q4	4,534.7	586.5	135.4	202.7	248.4	3,209.6	15.6	72.1	3,122.0	738.6	146.2	101.5	490.9	
2007 Jan.	4,555.8	586.9	134.8	202.2	249.9	3,230.4	15.3	72.4	3,142.7	738.5	145.3	100.9	492.2	
Feb.	4,577.7	585.3	132.5	201.5	251.2	3,252.1	15.5	72.5	3,164.0	740.2	145.6	100.8	493.9	
Mar. ^(p)	4,609.4	590.0	133.3	202.9	253.8	3,270.7	16.1	71.8	3,182.7	748.7	147.5	102.2	499.0	
Transactions														
2004	277.4	27.7	6.4	8.4	12.9	237.4	0.8	2.7	233.9	12.3	-0.9	2.0	11.1	
2005	357.5	40.7	9.0	11.6	20.0	300.6	0.7	4.8	295.0	16.2	3.8	1.3	11.1	
2006 Q1	78.3	5.2	-2.2	1.2	6.2	71.8	0.0	0.4	71.4	1.2	-0.2	0.4	1.0	
Q2	105.4	19.3	4.5	4.3	10.4	75.6	0.6	1.9	73.0	10.5	4.5	0.7	5.4	
Q3	78.1	8.8	0.2	0.8	7.8	68.5	0.7	0.9	66.9	0.8	-4.0	0.8	4.0	
Q4	81.1	9.2	5.7	-1.5	5.1	63.3	0.1	1.3	61.9	8.5	1.3	1.8	5.4	
2007 Jan.	17.8	-1.3	-0.6	-1.1	0.4	19.3	-0.3	0.4	19.3	-0.3	-1.2	-0.7	1.6	
Feb.	22.9	-1.2	-2.2	-0.6	1.6	22.0	0.3	0.1	21.6	2.2	0.4	-0.1	1.9	
Mar. ^(p)	32.6	5.5	0.9	1.5	3.1	18.7	0.6	-0.4	18.5	8.5	1.7	1.5	5.2	
Growth rates														
2004 Dec.	7.9	5.7	5.8	4.6	6.7	10.1	5.3	4.4	10.3	1.8	-0.6	2.1	2.5	
2005 Dec.	9.4	7.9	7.5	6.1	9.8	11.5	5.2	7.5	11.7	2.3	2.6	1.3	2.4	
2006 Mar.	9.8	8.0	5.9	5.8	11.1	12.1	6.9	6.0	12.3	2.2	1.6	2.1	2.4	
June	9.6	8.4	6.2	4.8	13.1	11.8	7.5	8.1	11.9	2.1	0.8	2.4	2.4	
Sep.	9.1	8.3	5.1	4.1	14.0	10.9	9.5	7.3	11.0	2.5	1.3	3.2	2.7	
Dec.	8.2	7.7	6.5	2.4	13.2	9.5	9.8	6.8	9.6	2.9	1.0	3.9	3.4	
2007 Jan.	8.0	7.3	6.2	2.0	12.5	9.4	8.9	7.8	9.5	2.9	0.5	3.8	3.4	
Feb.	8.1	6.7	5.2	1.2	12.5	9.4	10.6	7.6	9.5	3.4	1.1	3.0	4.1	
Mar. ^(p)	7.9	7.3	6.8	1.7	12.4	8.9	13.7	6.3	8.9	4.2	1.8	4.2	5.0	

C6 Loans to households²⁾

(annual growth rates)



Source: ECB.

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

2) Data refer to the changing composition of the euro area. For further information, see the General notes.

3) Including non-profit institutions serving households.

2.4 MFI loans, breakdown ^{1), 2)}

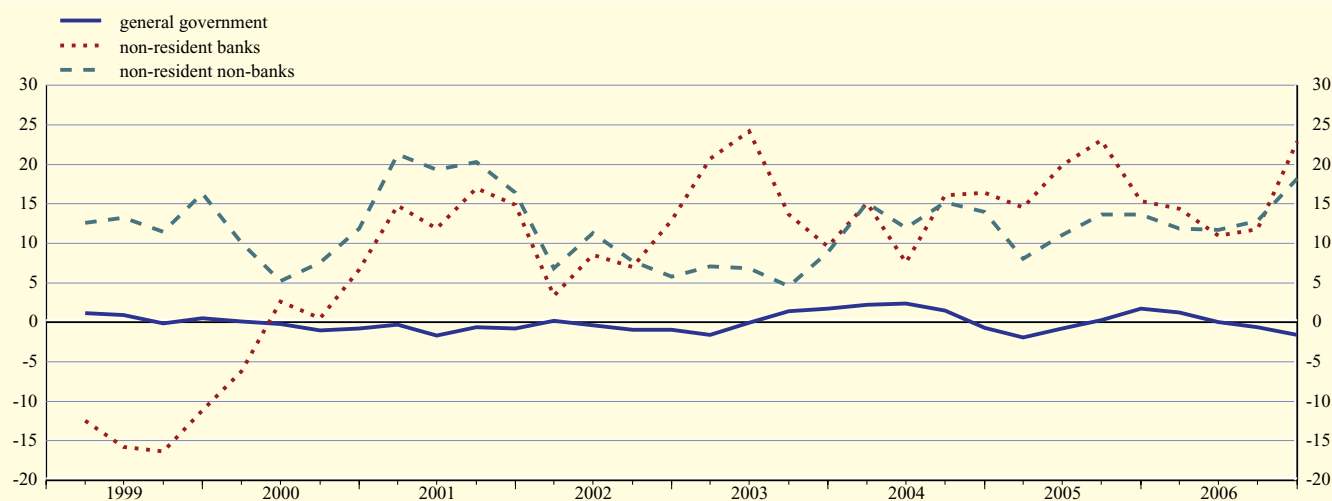
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

3. Loans to government and non-euro area residents

	General government					Non-euro area residents				
	Total	Central government	Other general government			Total	Banks ³⁾	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										
2004	811.9	130.1	252.3	405.7	23.8	1,974.7	1,342.2	632.5	61.3	571.1
2005	826.9	125.1	246.8	425.8	29.2	2,485.2	1,722.1	763.1	66.0	697.1
2006 Q1	816.3	118.5	240.9	427.7	29.2	2,594.7	1,821.6	773.1	62.9	710.2
Q2	809.3	106.7	234.5	436.0	32.0	2,611.3	1,839.9	771.5	66.5	705.0
Q3	804.2	101.8	230.1	436.6	35.7	2,735.9	1,919.9	816.1	66.5	749.6
Q4 ^(p)	810.5	103.6	232.5	439.4	34.2	2,924.3	2,053.2	869.9	67.2	802.7
Transactions										
2004	-5.6	2.2	-13.9	17.3	-11.2	275.6	194.9	80.4	1.8	78.6
2005	13.7	-5.6	-8.1	21.9	5.5	296.8	207.9	89.0	4.7	84.3
2006 Q1	-10.4	-6.3	-5.9	1.9	-0.1	131.2	111.6	19.6	-3.0	22.6
Q2	-6.8	-11.6	-6.4	8.3	2.9	56.3	42.8	13.5	3.6	9.9
Q3	-3.0	-2.7	-4.3	0.4	3.6	120.2	75.8	44.3	-0.7	45.0
Q4 ^(p)	6.8	2.7	2.4	2.5	-1.4	218.7	159.3	58.2	1.3	56.9
Growth rates										
2004 Dec.	-0.7	1.7	-5.2	4.4	-32.1	15.6	16.4	13.9	3.1	15.2
2005 Dec.	1.7	-4.3	-3.2	5.4	22.9	14.8	15.3	13.6	7.7	14.2
2006 Mar.	1.2	-8.0	-3.9	5.8	29.5	13.7	14.4	11.9	1.7	12.9
June	0.1	-13.9	-6.3	7.4	12.2	11.2	10.9	11.7	7.3	12.1
Sep.	-0.6	-12.8	-7.9	6.5	9.1	12.1	11.8	12.8	2.9	13.8
Dec. ^(p)	-1.6	-14.4	-5.8	3.1	17.1	21.5	22.9	18.2	1.8	19.8

C7 Loans to government and non-euro area residents ²⁾

(annual growth rates)



Source: ECB.

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

2) Data refer to the changing composition of the euro area. For further information, see the General notes.

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

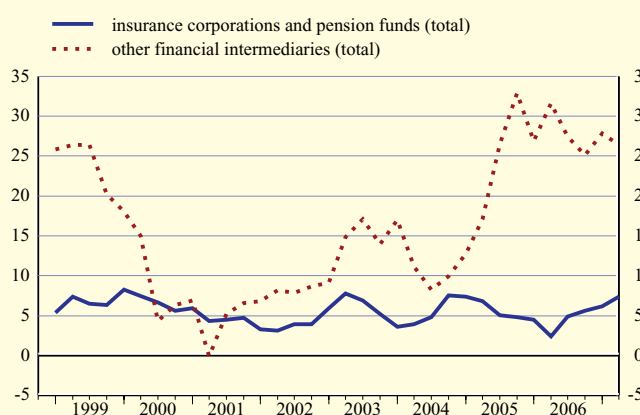
2.5 Deposits held with MFIs, breakdown ^{1), 2)}

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

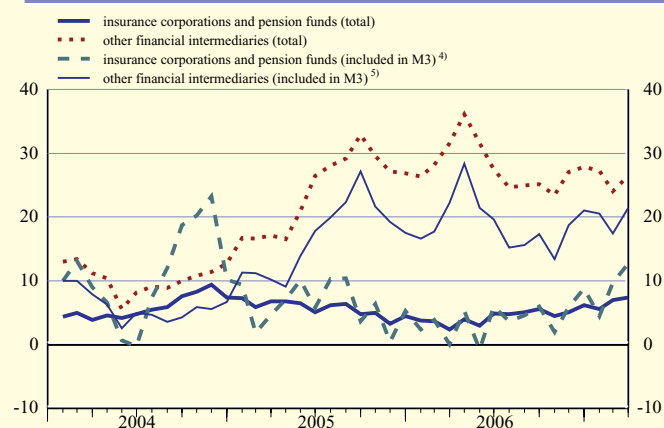
1. Deposits by financial intermediaries

	Insurance corporations and pension funds							Other financial intermediaries ³⁾						
	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														
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	612.6	67.8	51.9	469.7	1.2	1.4	20.6	880.4	233.9	185.0	329.8	10.5	0.1	121.1
2006 Q1	613.0	65.6	50.4	474.8	1.1	1.4	19.7	986.8	271.5	195.1	373.9	11.0	0.1	135.2
Q2	625.7	68.6	47.9	484.7	1.0	1.4	22.1	1,045.8	278.1	213.3	404.6	10.8	0.2	138.8
Q3	637.3	66.8	51.1	492.7	1.0	1.4	24.4	1,082.5	272.2	236.0	418.4	10.2	0.3	145.5
Q4	650.0	70.2	57.1	495.4	1.0	1.4	24.9	1,137.3	282.7	252.6	469.4	10.6	0.2	121.7
2007 Jan.	655.7	71.9	57.7	499.5	1.0	1.4	24.3	1,177.5	307.3	247.1	475.8	10.5	0.2	136.6
Feb.	657.3	69.4	58.5	502.8	1.1	1.2	24.2	1,176.5	299.9	247.2	480.3	10.3	0.2	138.6
Mar.	658.2	72.1	57.9	503.0	1.1	1.2	22.9	1,250.2	318.3	266.6	502.6	11.4	0.3	151.0
Transactions														
2004	39.9	0.7	10.3	27.7	-0.1	1.5	72.1	0.9	5.8	43.6	4.1	0.0	17.7	
2005	26.3	7.4	-0.6	19.2	0.4	0.0	-0.2	176.1	40.1	37.3	96.8	1.5	0.0	0.4
2006 Q1	0.6	-2.0	-1.4	5.0	-0.1	0.0	-0.8	98.2	38.3	10.7	34.4	0.5	0.0	14.2
Q2	12.9	3.0	-2.4	10.0	0.0	0.0	2.4	61.7	7.6	18.5	31.3	-0.1	0.1	4.3
Q3	11.4	-1.9	3.2	8.0	-0.1	0.0	2.2	35.9	-6.6	22.5	14.0	-0.7	0.1	6.7
Q4	12.9	3.6	6.1	2.7	0.0	0.0	0.6	50.1	5.5	17.1	50.8	0.5	-0.1	-23.6
2007 Jan.	5.2	1.5	0.3	4.0	0.0	0.0	-0.7	37.2	24.0	-6.4	5.1	-0.3	0.0	14.8
Feb.	1.8	-2.4	0.9	3.4	0.1	-0.1	0.0	1.2	-6.8	0.8	5.3	-0.1	0.0	2.0
Mar.	1.1	2.7	-0.5	0.2	0.0	0.0	-1.3	74.8	18.7	19.8	22.7	1.1	0.1	12.5
Growth rates														
2004 Dec.	7.4	1.2	24.6	6.6	-8.0	-43.1	7.9	12.7	0.5	4.3	30.3	67.6	-	17.1
2005 Dec.	4.5	12.4	-1.2	4.3	36.0	2.9	-0.8	26.9	22.2	25.0	47.3	14.3	-	0.4
2006 Mar.	2.4	-1.7	2.2	3.1	11.3	0.9	-0.3	31.6	20.7	41.8	52.2	6.1	-	4.7
Jun.	4.9	11.8	-1.7	4.6	-8.9	0.8	7.5	27.4	18.2	43.5	42.5	-1.8	-	-1.8
Sep.	5.6	10.9	-0.4	5.5	-12.0	-3.8	8.6	25.1	7.9	39.3	40.2	-3.2	-	8.4
Dec.	6.2	4.0	10.6	5.5	-16.3	-3.4	21.2	27.8	19.1	37.3	38.8	2.9	-	1.3
2007 Jan.	5.6	-0.8	15.6	5.9	-13.5	-3.5	-1.4	27.3	16.2	38.5	38.7	4.7	-	5.4
Feb.	7.0	1.2	23.7	6.2	-6.7	-13.8	7.1	24.1	15.1	30.2	35.0	1.2	-	4.9
Mar.	7.4	10.2	15.0	6.0	-2.9	-14.3	16.0	26.4	15.3	37.0	34.6	4.1	-	12.4

C8 Total deposits by sector ²⁾
(annual growth rates)



C9 Total deposits and deposits included in M3 by sector ²⁾
(annual growth rates)



Source: ECB.

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

2) Data refer to the changing composition of the euro area. For further information, see the General notes.

3) This category includes investment funds.

4) Covers deposits in columns 2, 3, 5 and 7.

5) Covers deposits in columns 9, 10, 12 and 14.

2.5 Deposits held with MFIs, breakdown ^{1), 2)}

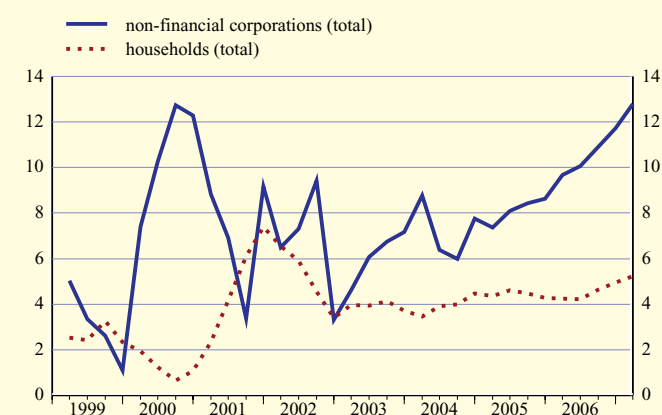
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

2. Deposits by non-financial corporations and households

	Non-financial corporations							Households ³⁾						
	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														
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	1,211.9	769.2	305.1	67.2	44.5	1.2	24.6	4,343.1	1,685.9	534.0	631.7	1,354.2	84.5	52.8
2006 Q1	1,199.9	745.5	313.0	71.9	46.7	1.2	21.6	4,355.8	1,673.8	549.3	623.6	1,367.7	86.3	55.1
Q2	1,236.7	783.6	313.0	73.2	43.6	1.2	22.0	4,422.9	1,725.6	569.4	616.5	1,363.9	89.0	58.5
Q3	1,268.9	790.6	334.7	73.4	43.8	1.3	25.1	4,439.1	1,703.3	613.8	608.9	1,355.4	93.0	64.8
Q4	1,343.1	851.9	355.3	69.4	40.5	1.3	24.7	4,552.6	1,751.2	669.0	606.8	1,355.7	99.8	70.0
2007 Jan.	1,302.5	807.3	359.2	69.7	39.4	2.1	24.9	4,553.2	1,717.7	701.3	602.5	1,357.1	101.7	72.9
Feb.	1,304.2	808.6	360.2	69.1	38.0	2.1	26.3	4,562.1	1,717.3	721.7	597.2	1,347.0	103.8	75.0
Mar. ⁶⁾	1,346.8	832.5	378.0	68.6	39.4	1.3	27.0	4,590.6	1,727.4	746.2	593.2	1,342.0	105.4	76.4
Transactions														
2004	80.8	48.5	17.1	6.6	8.0	0.7	-0.2	178.1	90.5	-29.6	31.1	85.2	-1.9	2.7
2005	96.6	88.9	11.4	-1.6	3.7	-0.4	-5.4	177.7	125.1	16.3	-2.8	45.9	-4.0	-2.9
2006 Q1	-10.4	-23.0	8.9	4.8	2.0	0.0	-3.1	14.0	-11.9	16.0	-8.1	13.9	1.8	2.3
Q2	40.0	39.3	2.0	1.3	-3.0	0.0	0.4	68.5	52.2	21.0	-7.0	-3.7	2.7	3.4
Q3	32.0	6.9	21.6	0.2	0.2	0.0	3.1	17.5	-22.2	44.3	-6.3	-8.5	3.9	6.3
Q4	79.6	62.6	23.2	-2.5	-3.4	0.0	-0.3	115.2	47.7	56.2	-1.6	0.7	6.9	5.2
2007 Jan.	-45.0	-46.4	2.5	0.1	-1.3	0.0	0.1	-12.2	-39.1	26.6	-5.4	1.0	1.8	2.9
Feb.	2.8	1.8	1.6	-0.5	-1.4	0.0	1.4	9.6	-0.2	20.8	-5.3	-10.0	2.1	2.1
Mar. ⁶⁾	43.3	24.2	18.1	-0.5	1.4	-0.7	0.7	28.8	10.1	24.7	-4.1	-5.0	1.6	1.4
Growth rates														
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 Dec.	8.6	13.1	3.8	-2.0	9.0	-29.0	-18.2	4.3	8.5	3.1	-0.4	3.3	-4.5	-5.1
2006 Mar.	9.7	9.8	11.5	6.6	14.2	-27.6	-9.8	4.2	7.4	6.6	-1.7	3.2	-2.7	7.6
June	10.1	8.9	15.4	8.3	4.3	-19.5	1.1	4.2	6.0	11.5	-2.5	2.2	2.1	14.9
Sep.	10.9	10.1	13.9	14.0	-0.5	4.2	10.6	4.6	4.8	19.2	-2.8	1.1	10.8	25.7
Dec.	11.7	11.2	18.4	5.7	-9.4	5.9	0.4	5.0	3.9	25.8	-3.7	0.2	18.2	32.7
2007 Jan.	10.2	9.1	20.1	2.0	-17.5	8.7	-2.4	4.8	2.6	30.3	-4.2	-0.6	19.4	37.1
Feb.	10.9	9.9	19.8	0.3	-19.8	8.4	19.3	4.9	2.7	32.6	-4.6	-1.4	21.4	39.7
Mar. ⁶⁾	12.8	11.9	22.2	-2.6	-16.2	-29.9	25.2	5.2	2.9	35.2	-4.8	-1.9	22.1	38.7

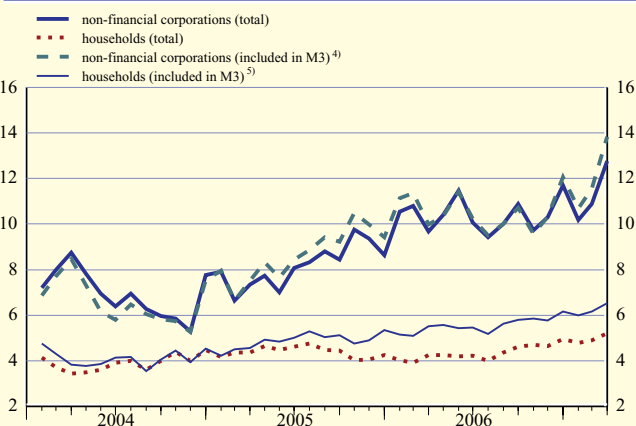
C10 Total deposits by sector ²⁾

(annual growth rates)



C11 Total deposits and deposits included in M3 by sector ²⁾ (annual growth rates)

(annual growth rates)



Source: ECB.

- 1) MFI sector excluding the Eurosystem; sectoral classification is based on ESA 95.
- 2) Data refer to the changing composition of the euro area. For further information, see the General notes.
- 3) Including non-profit institutions serving households.
- 4) Covers deposits in columns 2, 3, 5 and 7.
- 5) Covers deposits in columns 9, 10, 12 and 14.

2.5 Deposits held with MFIs, breakdown ^{1), 2)}

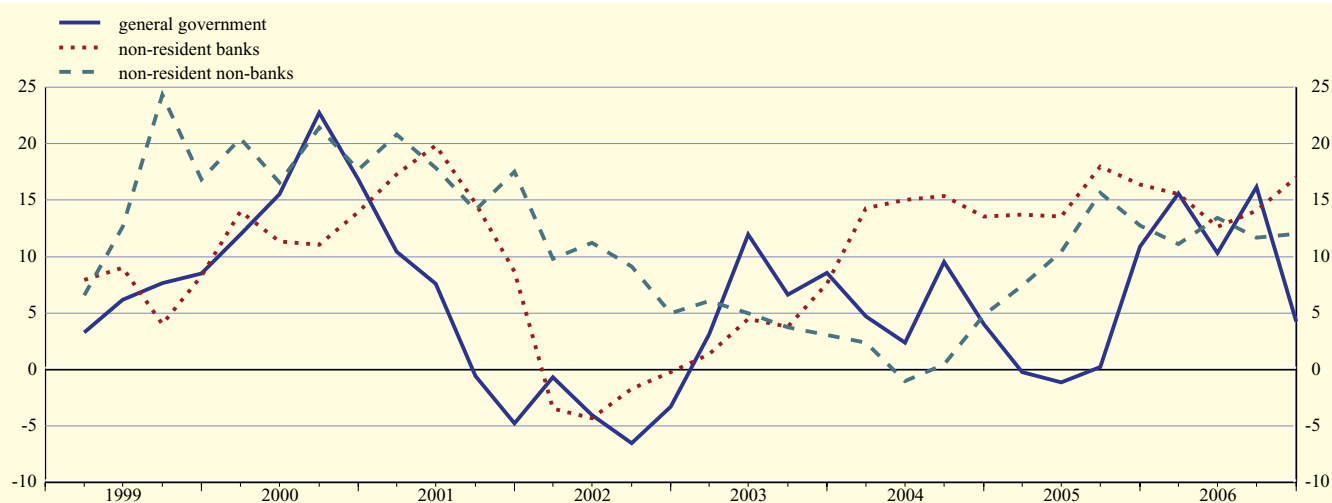
(EUR billions and annual growth rates; outstanding amounts and growth rates at end of period, transactions during period)

3. Deposits by government and non-euro area residents

	General government					Non-euro area residents				
	Total	Central government	Other general government			Total	Banks ³⁾	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										
2004	282.2	137.7	30.5	69.6	44.3	2,428.9	1,748.0	680.9	103.4	577.5
2005	313.1	149.2	38.3	80.9	44.7	3,050.5	2,250.5	800.0	125.8	674.2
2006 Q1	312.2	148.1	38.1	77.0	48.9	3,241.9	2,410.4	831.5	128.2	703.3
Q2	317.2	138.1	39.6	82.6	56.9	3,202.9	2,368.0	834.9	128.3	706.6
Q3	333.0	147.7	41.6	83.5	60.2	3,369.2	2,492.1	877.1	133.3	743.7
Q4 ^(p)	328.0	123.2	45.4	91.2	68.1	3,429.0	2,552.1	876.8	128.6	748.2
Transactions										
2004	11.0	2.7	1.8	2.8	3.8	247.1	214.9	32.0	6.9	25.0
2005	30.8	11.2	7.8	11.5	0.3	381.1	292.8	88.3	22.4	66.0
2006 Q1	-1.0	-1.1	-0.2	-3.9	4.3	210.4	170.9	39.5	2.4	37.1
Q2	6.0	-9.1	1.5	5.6	8.0	7.9	-8.3	16.2	0.1	16.2
Q3	15.8	9.6	2.0	0.9	3.3	157.5	117.5	40.0	5.1	34.9
Q4 ^(p)	-7.7	-25.0	3.8	5.6	7.9	98.6	99.0	-0.6	-4.7	4.1
Growth rates										
2004 Dec.	4.0	2.0	5.6	4.1	9.2	11.0	13.5	4.8	7.2	4.4
2005 Dec.	10.9	8.1	25.4	16.6	0.7	15.4	16.4	12.7	21.6	11.2
2006 Mar.	15.6	17.0	14.1	14.3	14.6	14.3	15.5	11.1	21.6	9.3
June	10.3	2.7	13.0	18.7	17.6	12.9	12.7	13.4	8.2	14.4
Sep.	16.2	10.1	15.8	17.2	33.3	13.4	14.0	11.7	6.5	12.7
Dec. ^(p)	4.2	-17.2	18.4	10.1	52.5	15.7	17.0	12.0	2.3	13.9

C12 Deposits by government and non-euro area residents ²⁾

(annual growth rates)



Source: ECB.

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

2) Data refer to the changing composition of the euro area. For further information, see the General notes.

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

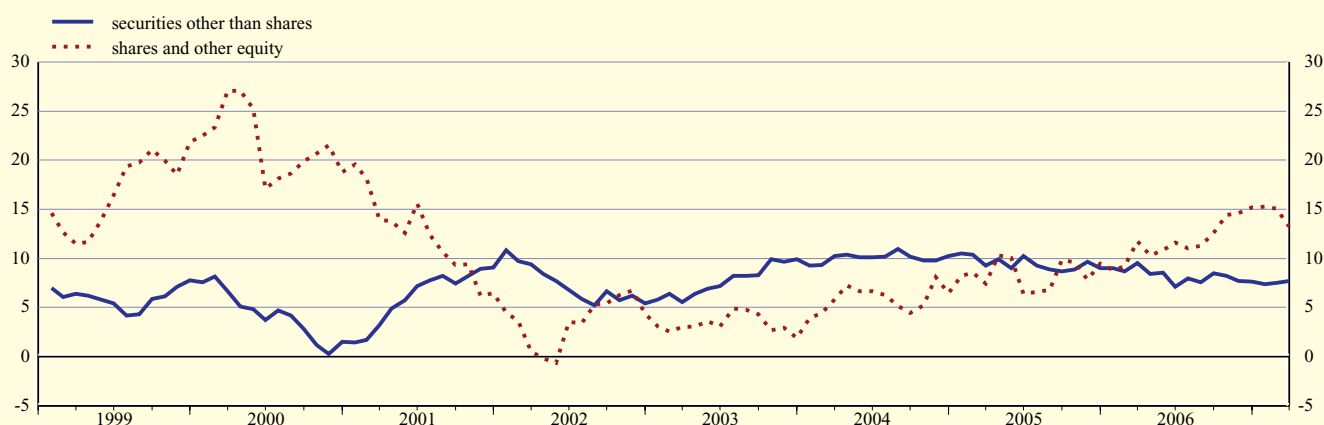
2.6 MFI holdings of securities, breakdown ^{1), 2)}

(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												
2004	3,939.9	1,362.7	59.9	1,284.1	15.8	449.2	16.3	751.8	1,161.2	285.4	660.1	215.7
2005	4,418.9	1,450.4	67.3	1,412.5	17.0	525.7	25.8	920.3	1,254.7	308.5	700.1	246.1
2006 Q1	4,551.2	1,501.6	69.3	1,423.8	16.6	544.9	28.6	966.3	1,359.5	323.6	773.0	262.9
Q2	4,565.7	1,519.5	65.8	1,385.6	17.2	572.6	27.4	977.7	1,367.8	334.5	774.7	258.7
Q3	4,652.8	1,557.7	68.9	1,334.7	16.7	589.3	28.7	1,056.8	1,415.5	342.4	797.2	275.8
Q4	4,664.1	1,560.5	72.3	1,260.7	16.2	615.7	30.1	1,108.6	1,489.3	377.3	816.2	295.8
2007 Jan.	4,756.2	1,586.5	75.1	1,279.9	16.2	613.7	30.6	1,154.2	1,528.4	386.0	833.5	308.9
Feb.	4,791.0	1,596.6	78.6	1,277.2	16.0	625.7	32.5	1,164.4	1,541.8	395.9	823.7	322.3
Mar. ^(p)	4,840.4	1,617.3	76.6	1,265.7	15.6	652.7	33.9	1,178.5	1,572.1	401.2	837.0	334.0
Transactions												
2004	368.4	148.0	4.9	40.3	1.3	34.9	-1.3	140.3	69.7	2.3	36.4	30.9
2005	356.2	85.7	2.0	52.3	-0.9	71.9	7.7	137.6	109.1	26.5	53.4	29.2
2006 Q1	172.6	59.2	3.6	23.4	0.2	22.2	3.4	60.7	89.2	10.7	67.2	11.3
Q2	45.4	15.1	-2.0	-20.8	1.0	29.1	-0.4	23.3	17.4	13.5	8.0	-4.0
Q3	72.4	39.0	4.1	-58.2	-0.7	18.6	1.2	68.4	25.6	2.1	10.0	13.4
Q4	46.2	9.7	5.0	-66.8	0.0	30.3	2.2	65.9	61.5	32.6	11.1	17.9
2007 Jan.	81.9	25.1	1.9	15.7	-0.7	-1.5	3.3	38.0	35.4	7.2	14.4	13.9
Feb.	45.0	10.0	4.7	-3.4	0.0	11.1	2.3	20.2	14.6	10.0	-8.8	13.5
Mar. ^(p)	58.2	21.4	-1.4	-10.9	-0.2	27.8	1.7	19.8	28.3	5.0	11.7	11.5
Growth rates												
2004 Dec.	10.2	12.2	8.4	3.3	7.7	8.5	-7.2	22.0	6.5	0.9	5.9	17.3
2005 Dec.	9.0	6.3	3.6	4.2	-4.5	16.0	43.8	18.2	9.5	9.4	8.0	13.6
2006 Mar.	9.5	8.3	1.2	1.6	-0.4	16.5	68.1	21.1	11.7	9.9	15.3	3.8
June	7.1	5.9	1.0	-0.9	12.4	17.4	50.7	15.9	11.6	12.6	12.3	8.3
Sep.	8.5	8.5	6.9	-3.6	1.7	22.0	50.5	19.6	12.6	12.7	12.9	11.2
Dec.	7.7	8.5	16.5	-8.8	3.0	19.2	25.7	24.1	15.2	18.7	13.6	15.2
2007 Jan.	7.4	8.2	24.9	-9.2	-2.7	17.9	31.4	23.9	15.3	17.2	13.3	18.3
Feb.	7.5	7.6	26.1	-9.0	-5.0	17.4	41.6	24.4	15.1	22.2	9.5	22.0
Mar. ^(p)	7.7	8.0	18.5	-10.2	-3.6	21.3	39.5	24.6	13.3	21.5	5.9	24.7

C13 MFI holdings of securities ²⁾

(annual growth rates)



Source: ECB.

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

2) Data refer to the changing composition of the euro area. For further information, see the General notes.

2.7 Revaluation of selected MFI balance sheet items ^{1), 2)}

(EUR billions)

1. Write-offs/write-downs of loans to households ³⁾

	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
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	-4.1	-1.7	-0.9	-1.5	-4.4	-0.3	-1.1	-3.0	-9.8	-2.7	-3.2	-3.9
2006 Q1	-1.1	-0.4	-0.2	-0.5	-1.3	-0.1	0.0	-1.2	-2.0	-0.5	-0.3	-1.2
Q2	-0.7	-0.2	-0.2	-0.3	-0.1	0.0	0.0	-0.1	-1.4	-0.1	-0.6	-0.7
Q3	-0.9	-0.3	-0.2	-0.3	-0.4	0.0	0.0	-0.4	-1.1	-0.1	-0.3	-0.7
Q4	-1.3	-0.4	-0.4	-0.5	-0.8	-0.1	0.0	-0.6	-2.1	-0.4	-0.8	-1.0
2007 Jan.	-0.5	-0.2	-0.1	-0.2	-0.5	0.0	0.0	-0.4	-0.9	-0.3	-0.1	-0.5
Feb.	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.5	-0.1	-0.1	-0.3
Mar. ^(p)	-0.3	-0.1	-0.1	-0.1	0.1	0.0	0.0	0.1	-0.4	0.0	-0.1	-0.3

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
2004	-16.1	-8.8	-0.8	-6.5	-1.6	-0.5	-1.1
2005	-19.3	-7.4	-5.6	-6.2	-1.2	-0.3	-0.9
2006 Q1	-3.5	-1.2	-0.7	-1.6	-0.2	0.0	-0.2
Q2	-2.6	-0.6	-1.1	-0.9	-0.1	0.0	0.0
Q3	-2.5	-0.5	-1.2	-0.9	-0.2	0.0	-0.2
Q4	-4.1	-0.7	-1.6	-1.8	-0.3	-0.1	-0.2
2007 Jan.	-1.4	-0.4	-0.4	-0.6	0.0	0.0	0.0
Feb.	-0.7	-0.2	-0.1	-0.4	0.0	0.0	0.0
Mar. ^(p)	-0.7	0.1	-0.2	-0.7	-0.1	0.0	-0.1

3. Revaluation of securities held by MFIs

	Securities other than shares								Shares and other equity			
	Total	MFIs		General government		Other euro area residents		Non-euro area residents	Total	MFIs	Non-MFIs	Non-euro area residents
		Euro	Non-euro	Euro	Non-euro	Euro	Non-euro					
	1	2	3	4	5	6	7	8	9	10	11	12
2004	13.5	1.5	-0.1	10.8	-0.2	0.9	-0.1	0.6	5.4	1.3	0.8	3.3
2005	21.5	3.4	0.5	6.7	0.7	1.3	0.2	8.6	25.7	5.0	14.4	6.3
2006 Q1	-6.6	-1.2	-0.1	-4.1	-0.1	-0.8	-0.1	-0.3	15.9	4.0	6.6	5.3
Q2	-9.0	0.2	-0.1	-4.2	0.0	-1.2	-0.1	-3.6	-10.8	-2.2	-6.4	-2.2
Q3	11.7	2.0	0.0	6.0	0.0	1.3	0.0	2.3	14.0	3.0	8.1	2.8
Q4	-4.2	0.0	-0.2	-5.3	-0.1	0.2	-0.1	1.3	12.2	2.3	7.8	2.1
2007 Jan.	-0.7	-1.4	0.0	0.3	0.0	-0.1	0.0	0.4	2.5	0.4	1.9	0.1
Feb.	1.6	0.2	-0.1	0.8	0.0	0.8	0.0	0.0	-0.5	-0.1	-0.3	-0.1
Mar. ^(p)	-2.7	-0.4	0.0	-0.6	0.0	-0.8	0.0	-0.8	1.9	0.3	1.5	0.2

Source: ECB.

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

2) Data refer to the changing composition of the euro area. For further information, see the General notes.

3) 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							Total				
			USD	JPY	CHF	GBP				USD	JPY	CHF	GBP	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
By euro area residents														
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	4,851.2	90.9	9.1	5.6	0.4	1.5	1.0	7,361.0	96.8	3.2	1.9	0.3	0.1	0.5
2006 Q1	4,949.5	89.8	10.2	6.2	0.4	1.5	1.4	7,467.7	96.6	3.4	2.0	0.3	0.1	0.6
Q2	5,057.9	90.3	9.7	5.6	0.4	1.5	1.5	7,648.5	96.6	3.4	2.0	0.3	0.1	0.6
Q3	5,091.2	90.4	9.6	5.7	0.4	1.5	1.2	7,760.9	96.4	3.6	2.2	0.3	0.1	0.6
Q4 ^(p)	5,247.0	90.7	9.3	5.7	0.4	1.4	1.2	8,010.9	96.3	3.7	2.2	0.3	0.1	0.6
By non-euro area residents														
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	2,250.5	46.2	53.8	35.4	2.7	2.8	10.0	800.0	51.8	48.2	32.1	1.7	2.2	9.2
2006 Q1	2,410.4	47.4	52.6	34.3	2.9	2.6	9.7	831.5	51.9	48.1	32.6	1.4	2.0	9.1
Q2	2,368.0	47.7	52.3	34.1	2.1	2.7	10.5	834.9	52.5	47.5	31.1	1.5	2.3	9.2
Q3	2,492.1	47.3	52.7	34.4	2.2	2.6	10.3	877.1	51.7	48.3	31.2	1.6	2.1	10.1
Q4 ^(p)	2,552.1	45.2	54.8	35.5	2.4	2.6	11.1	876.8	51.0	49.0	31.8	1.3	1.9	10.4

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	
2004	3,653.9	84.6	15.4	7.6	1.7	1.9	2.7
2005	4,051.7	81.2	18.8	9.6	1.8	1.9	3.2
2006 Q1	4,204.3	81.2	18.8	9.5	1.8	1.9	3.2
Q2	4,273.7	81.2	18.8	9.5	1.7	1.9	3.2
Q3	4,383.1	80.9	19.1	9.8	1.6	1.9	3.3
Q4 ^(p)	4,485.5	80.5	19.5	10.0	1.6	1.9	3.5

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														
2004	4,457.8	-	-	-	-	-	8,367.5	96.6	3.4	1.4	0.2	1.3	0.4	
2005	4,569.7	-	-	-	-	-	9,112.0	96.3	3.7	1.6	0.2	1.3	0.5	
2006 Q1	4,656.3	-	-	-	-	-	9,365.4	96.3	3.7	1.7	0.2	1.2	0.5	
Q2	4,730.3	-	-	-	-	-	9,591.2	96.4	3.6	1.7	0.1	1.2	0.5	
Q3	4,790.9	-	-	-	-	-	9,786.9	96.3	3.7	1.7	0.1	1.2	0.6	
Q4 ^(p)	4,933.4	-	-	-	-	-	9,970.7	96.4	3.6	1.7	0.1	1.1	0.5	
To non-euro area residents														
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	1,722.1	48.5	51.5	30.5	4.3	2.0	10.1	763.1	38.2	61.8	43.7	1.8	4.1	8.6
2006 Q1	1,821.6	49.6	50.4	30.3	3.8	2.4	9.2	773.1	38.9	61.1	44.1	1.7	3.9	7.8
Q2	1,839.9	49.6	50.4	29.4	2.8	2.4	10.6	771.5	40.3	59.7	42.2	1.1	4.1	8.3
Q3	1,919.9	50.2	49.8	29.1	2.3	2.4	10.8	816.1	41.2	58.8	41.1	1.8	3.8	8.5
Q4 ^(p)	2,053.2	50.6	49.4	29.1	2.2	2.3	10.8	869.9	39.8	60.2	42.5	1.3	4.0	8.7

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														
2004	1,422.7	95.8	4.2	1.8	0.3	0.5	1.3	1,765.4	98.2	1.8	0.9	0.5	0.1	0.3
2005	1,517.7	95.6	4.4	2.0	0.3	0.4	1.4	1,980.9	97.8	2.2	1.1	0.3	0.1	0.5
2006 Q1	1,570.9	95.6	4.4	2.0	0.2	0.4	1.5	2,014.0	97.8	2.2	1.1	0.3	0.1	0.6
Q2	1,585.3	95.8	4.2	1.9	0.3	0.4	1.3	2,002.7	97.8	2.2	1.2	0.3	0.1	0.6
Q3	1,626.6	95.8	4.2	2.2	0.2	0.3	1.2	1,969.4	97.7	2.3	1.3	0.3	0.1	0.6
Q4 ^(p)	1,632.8	95.6	4.4	2.3	0.3	0.3	1.3	1,922.7	97.6	2.4	1.3	0.3	0.1	0.7
Issued by non-euro area residents														
2004	341.4	50.3	49.7	28.6	1.0	0.5	17.0	410.5	44.8	55.2	30.5	8.6	0.7	9.2
2005	397.5	51.0	49.0	28.5	0.8	0.5	15.7	522.8	38.3	61.7	35.0	7.8	0.8	12.6
2006 Q1	426.5	52.8	47.2	26.8	0.8	0.5	15.7	539.8	39.6	60.4	33.8	5.3	0.8	14.8
Q2	439.9	53.5	46.5	26.8	0.9	0.5	15.0	537.8	40.1	59.9	33.5	5.6	0.8	14.6
Q3	475.2	52.4	47.6	28.4	0.7	0.6	14.5	581.6	38.2	61.8	35.6	4.7	0.8	15.4
Q4 ^(p)	510.7	52.5	47.5	28.4	0.7	0.4	14.5	598.0	38.7	61.3	35.6	4.5	0.8	15.7

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				
2005 Q3	4,631.2	303.5	1,860.6	101.2	1,759.4	1,553.4	460.0	171.6	282.1
Q4	4,789.2	291.4	1,848.1	109.6	1,738.5	1,683.1	505.2	176.1	285.4
2006 Q1	5,197.1	315.9	1,905.2	139.8	1,765.3	1,896.3	569.2	177.3	333.3
Q2	5,135.6	316.7	1,908.3	145.2	1,763.1	1,776.1	600.9	180.3	353.2
Q3	5,356.3	317.2	1,984.7	178.4	1,806.3	1,872.5	631.2	181.5	369.2
Q4 ^(p)	5,545.3	320.4	2,005.0	170.5	1,834.5	2,019.2	670.5	186.0	344.1

2. Liabilities

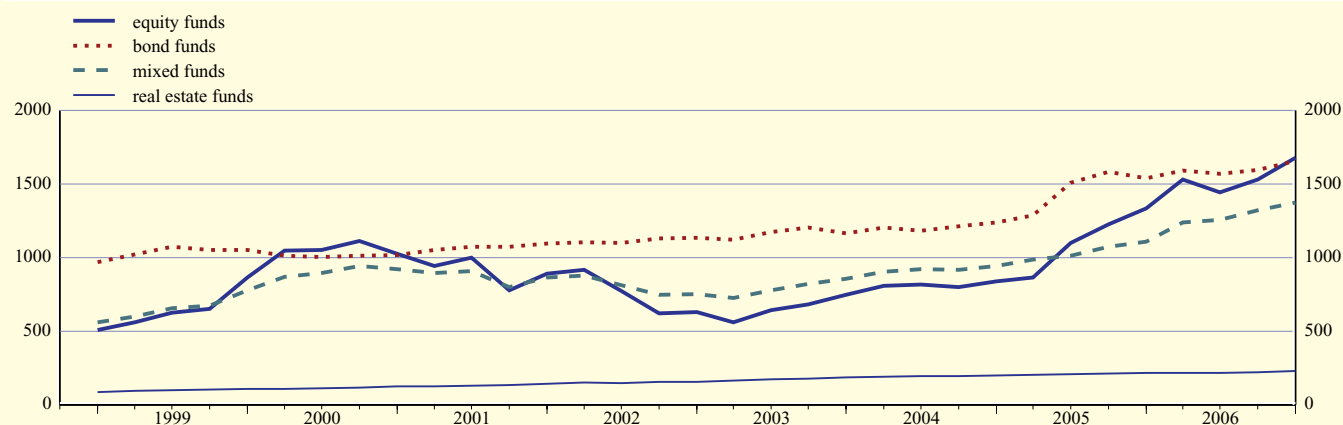
	Total 1	Deposits and loans taken 2	Investment fund shares 3	Other liabilities 4
2005 Q3	4,631.2	60.4	4,351.7	219.1
Q4	4,789.2	61.8	4,516.8	210.5
2006 Q1	5,197.1	73.6	4,868.9	254.6
Q2	5,135.6	76.4	4,787.2	271.9
Q3	5,356.3	75.9	4,996.9	283.6
Q4 ^(p)	5,545.3	77.6	5,211.7	256.0

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
2005 Q3	4,631.2	1,224.8	1,581.9	1,071.1	213.2	540.2	3,507.5	1,123.8
Q4	4,789.2	1,335.8	1,538.0	1,109.2	216.2	590.0	3,659.1	1,130.1
2006 Q1	5,197.1	1,530.3	1,592.6	1,238.8	214.0	621.5	3,996.6	1,200.5
Q2	5,135.6	1,441.6	1,569.3	1,256.4	217.4	650.9	3,910.9	1,224.7
Q3	5,356.3	1,531.5	1,594.1	1,320.7	221.2	688.9	4,082.9	1,273.5
Q4 ^(p)	5,545.3	1,678.5	1,657.1	1,374.3	229.8	605.6	4,246.7	1,298.6

C14 Total assets of investment funds ²⁾

(EUR billions)



Source: ECB.

1) Other than money market funds. For further details, see the General notes.

2) Data refer to the changing composition of the euro area. For further information, 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	Deposits	Holdings of securities other than shares			Holdings of shares/ other equity	Holdings of investment fund shares	Fixed assets	Other assets
			Total	Up to 1 year	Over 1 year				
	1	2	3	4	5	6	7	8	9
Equity funds									
2005 Q3	1,224.8	48.3	43.4	4.9	38.5	1,044.8	52.4	-	35.9
Q4	1,335.8	50.8	45.8	5.7	40.2	1,145.4	60.3	-	33.5
2006 Q1	1,530.3	55.0	51.4	6.3	45.1	1,308.2	71.0	-	44.6
Q2	1,441.6	52.2	51.3	6.4	44.9	1,220.3	69.2	-	48.6
Q3	1,531.5	53.6	76.0	33.2	42.8	1,282.8	66.8	-	52.3
Q4 ^(p)	1,678.5	55.9	65.9	22.8	43.2	1,427.6	74.2	-	54.8
Bond funds									
2005 Q3	1,581.9	110.3	1,289.1	67.0	1,222.1	38.4	43.8	-	100.2
Q4	1,538.0	100.0	1,251.7	67.6	1,184.2	38.6	46.3	-	101.3
2006 Q1	1,592.6	108.9	1,285.4	82.6	1,202.8	41.1	49.3	-	107.9
Q2	1,569.3	106.5	1,264.7	87.3	1,177.4	38.5	47.5	-	112.1
Q3	1,594.1	105.5	1,288.5	86.8	1,201.7	41.6	48.2	-	110.3
Q4 ^(p)	1,657.1	108.3	1,343.6	91.1	1,252.5	45.4	49.9	-	110.0
Mixed funds									
2005 Q3	1,071.1	67.0	426.0	21.7	404.3	301.2	185.5	0.2	91.3
Q4	1,109.2	60.9	440.9	26.9	413.9	315.5	202.0	0.1	89.9
2006 Q1	1,238.8	67.9	465.2	38.6	426.6	349.2	238.5	0.1	117.9
Q2	1,256.4	71.9	483.9	40.3	443.6	318.3	253.6	0.2	128.5
Q3	1,320.7	68.4	510.4	45.2	465.2	331.9	272.3	0.3	137.4
Q4 ^(p)	1,374.3	70.9	519.0	43.4	475.6	363.5	292.8	0.4	127.8
Real estate funds									
2005 Q3	213.2	15.2	8.8	1.2	7.6	1.3	8.1	171.0	8.7
Q4	216.2	14.5	7.8	1.5	6.3	1.4	6.9	175.1	10.4
2006 Q1	214.0	15.1	6.1	1.7	4.4	1.8	4.4	176.5	10.1
Q2	217.4	15.5	5.6	1.5	4.1	1.6	5.4	179.4	9.9
Q3	221.2	16.4	6.0	1.6	4.4	1.9	6.3	180.3	10.4
Q4 ^(p)	229.8	17.6	6.0	1.6	4.4	2.2	6.9	185.2	12.0

2. Funds by type of investor

	Total	Deposits	Holdings of securities other than shares	Holdings of shares/ other equity	Holdings of investment fund shares	Fixed assets	Other assets
General public funds							
2005 Q3	3,507.5	251.6	1,261.0	1,257.9	353.3	146.5	237.3
Q4	3,659.1	242.8	1,277.5	1,371.0	381.0	150.1	236.7
2006 Q1	3,996.6	263.2	1,334.2	1,549.4	427.4	150.2	272.2
Q2	3,910.9	256.9	1,321.1	1,448.1	452.1	151.2	281.5
Q3	4,082.9	260.4	1,373.8	1,529.4	470.8	151.2	297.3
Q4 ^(p)	4,246.7	265.2	1,401.8	1,647.8	498.2	153.3	280.4
Special investors' funds							
2005 Q3	1,123.8	51.9	599.6	295.5	106.7	25.2	44.8
Q4	1,130.1	48.6	570.6	312.0	124.3	25.9	48.7
2006 Q1	1,200.5	52.7	571.0	346.9	141.7	27.1	61.1
Q2	1,224.7	59.9	587.2	328.1	148.8	29.1	71.7
Q3	1,273.5	56.9	610.9	343.1	160.5	30.2	71.9
Q4 ^(p)	1,298.6	55.2	603.3	371.4	172.3	32.7	63.7

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)

	Total		Currency and deposits							Memo: deposits of non-MFIs with banks outside the euro area	
	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		
			Total	Overnight	With agreed maturity	Redeemable at notice	Repos				
	1	2	3	4	5	6	7	8	9	10	11
Outstanding amounts											
2005 Q3	17,893.3	6,539.2	439.9	5,565.0	2,440.3	1,571.7	1,475.5	77.6	182.4	351.8	389.2
Q4	18,328.7	6,740.9	465.5	5,732.3	2,559.1	1,604.4	1,488.5	80.3	173.6	369.6	366.8
2006 Q1	18,852.4	6,757.0	459.4	5,733.7	2,517.7	1,629.2	1,505.9	80.9	193.1	370.8	372.3
Q2	18,920.2	6,915.8	478.9	5,859.1	2,619.4	1,653.9	1,501.6	84.2	207.4	370.3	384.1
Q3	19,236.6	6,959.4	486.8	5,908.4	2,601.6	1,715.7	1,497.1	93.9	202.9	361.3	361.8
Q4	19,793.7	7,159.3	513.3	6,115.1	2,721.1	1,795.6	1,500.5	97.9	156.9	373.8	346.9
Transactions											
2005 Q3	97.6	1.0	8.1	16.7	-7.3	18.8	4.4	0.7	-29.4	5.6	11.5
Q4	296.5	204.9	25.6	170.7	119.2	34.9	14.2	2.4	-8.9	17.5	-12.7
2006 Q1	146.4	18.9	-6.1	4.2	-40.5	26.6	17.5	0.6	19.6	1.3	6.7
Q2	304.7	164.1	19.6	130.1	103.2	27.7	-4.1	3.3	15.2	-0.8	5.4
Q3	151.6	55.6	7.9	50.4	-17.7	62.9	-4.5	9.7	-4.5	1.9	-19.1
Q4	258.5	204.1	26.5	211.9	118.8	85.2	3.8	4.0	-46.4	12.2	-15.5
Growth rates											
2005 Q3	4.4	5.4	14.5	5.3	8.4	2.7	4.5	-6.3	-10.8	5.7	1.3
Q4	5.1	6.0	12.9	5.4	10.6	1.7	2.8	-9.3	6.7	6.3	2.5
2006 Q1	4.9	6.1	12.2	5.6	8.4	4.5	2.9	2.7	2.9	9.4	-1.9
Q2	4.8	6.0	10.9	5.8	7.1	7.0	2.2	9.2	-1.6	6.8	3.0
Q3	5.0	6.8	10.7	6.4	6.7	9.7	1.6	20.7	11.7	5.7	-5.1
Q4	4.7	6.6	10.3	6.9	6.4	12.6	0.9	22.0	-9.3	3.9	-6.1
Securities other than shares Shares ¹⁾ Insurance technical reserves											
	Total	Short-term	Long-term	Total	Quoted shares	Investment fund and money market fund shares/units	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											
2005 Q3	1,898.3	140.7	1,757.6	4,844.3	2,690.3	2,154.1	407.8	4,611.5	4,166.6	444.9	
Q4	1,856.3	117.7	1,738.6	5,002.0	2,833.0	2,169.0	396.8	4,729.5	4,282.8	446.7	
2006 Q1	1,936.1	154.5	1,781.6	5,325.7	3,112.7	2,213.0	377.9	4,833.6	4,382.2	451.4	
Q2	1,954.7	161.5	1,793.2	5,174.0	3,030.9	2,143.2	377.0	4,875.6	4,423.3	452.4	
Q3	1,984.4	171.9	1,812.4	5,328.9	3,151.4	2,177.5	384.5	4,963.9	4,509.7	454.2	
Q4	2,011.5	163.4	1,848.1	5,572.8	3,373.3	2,199.5	350.7	5,050.1	4,593.0	457.1	
Transactions											
2005 Q3	-11.8	-2.2	-9.6	32.4	-5.5	37.9	3.3	75.9	69.6	6.3	
Q4	-7.4	-21.6	14.2	6.4	3.2	3.2	-9.7	92.5	90.7	1.9	
2006 Q1	68.0	35.2	32.8	-26.7	-37.1	10.4	4.3	86.2	80.1	6.1	
Q2	34.4	9.1	25.4	46.2	55.0	-8.8	-2.5	59.9	59.2	0.7	
Q3	29.2	9.1	20.0	1.6	10.9	-9.2	9.6	65.2	66.1	-0.8	
Q4	26.5	-6.1	32.6	-43.6	-27.9	-15.7	-9.1	71.5	70.1	1.4	
Growth rates											
2005 Q3	1.7	-3.5	2.3	1.1	-1.2	3.8	-2.1	7.3	7.3	7.3	
Q4	1.5	-11.0	2.6	2.8	1.3	4.6	-0.3	7.6	7.8	6.1	
2006 Q1	3.9	14.3	3.1	1.1	-0.6	3.3	-0.7	7.5	7.8	4.6	
Q2	4.4	14.1	3.6	1.3	0.6	2.1	-1.1	7.0	7.4	3.4	
Q3	6.5	22.6	5.3	0.6	1.2	-0.2	0.4	6.6	7.1	1.8	
Q4	8.5	40.2	6.4	-0.4	0.0	-1.1	0.6	6.0	6.4	1.6	

Source: ECB.

1) 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 outside the euro area by non-MFIs
	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													
2005 Q3	19,269.3	9,373.2	8,240.1	931.0	87.8	843.2	3,956.0	1,235.8	2,720.1	4,486.2	295.1	4,191.1	555.5
2005 Q4	19,531.1	9,612.7	8,448.2	937.5	80.1	857.4	4,069.8	1,278.5	2,791.4	4,605.4	301.5	4,303.8	588.9
2006 Q1	20,160.6	9,836.1	8,642.9	931.8	87.0	844.7	4,205.8	1,301.6	2,904.2	4,698.6	297.3	4,401.3	645.3
2006 Q2	20,253.4	10,065.7	8,854.1	918.3	89.0	829.2	4,336.5	1,350.2	2,986.3	4,810.9	307.2	4,503.7	693.3
2006 Q3	20,642.9	10,238.2	9,014.9	910.5	90.9	819.7	4,434.5	1,365.8	3,068.8	4,893.1	304.6	4,588.5	746.4
2006 Q4	21,145.7	10,448.9	9,211.6	914.4	86.1	828.3	4,548.9	1,406.3	3,142.6	4,985.5	309.3	4,676.3	802.6
Transactions													
2005 Q3	193.9	125.0	133.4	3.9	5.4	-1.5	29.4	-16.3	45.7	91.6	-2.7	94.4	29.6
2005 Q4	281.8	275.4	224.7	13.6	-7.4	21.0	140.2	45.1	95.1	121.6	6.6	115.0	48.3
2006 Q1	284.6	190.5	176.8	-5.5	6.9	-12.5	106.0	26.6	79.4	90.1	-2.6	92.7	66.4
2006 Q2	342.7	247.1	219.0	-7.1	2.3	-9.4	139.7	50.1	89.6	114.4	10.1	104.3	68.2
2006 Q3	200.0	177.2	166.4	-5.7	1.8	-7.5	97.0	21.2	75.9	85.9	-2.1	88.0	39.3
2006 Q4	243.1	256.8	210.0	4.5	-4.8	9.3	149.7	31.3	118.4	102.7	7.9	94.7	80.1
Growth rates													
2005 Q3	5.0	6.6	7.1	0.2	-2.5	0.5	5.7	4.9	6.0	8.8	4.8	9.1	23.8
2005 Q4	5.8	7.7	8.1	1.4	-0.6	1.6	7.6	6.5	8.2	9.2	5.2	9.5	33.2
2006 Q1	6.0	8.8	9.2	1.4	12.7	0.4	9.4	8.1	10.1	9.8	4.1	10.2	42.3
2006 Q2	5.9	9.1	9.3	0.5	8.8	-0.3	10.6	8.5	11.6	9.5	3.8	9.9	40.2
2006 Q3	5.8	9.5	9.5	-0.5	4.2	-1.0	12.2	11.6	12.5	9.2	4.1	9.5	40.0
2006 Q4	5.5	9.1	9.1	-1.5	7.8	-2.3	12.1	10.1	13.0	8.5	4.4	8.8	43.1
Securities other than shares issued by													
	Total			General government			Non-financial corporations			Quoted shares issued by non-financial corporations	Deposit liabilities of general government	Pension fund reserves of non- financial corporations	
	Total	Short-term	Long-term	Total	Short-term	Long-term	Total	Short-term	Long-term				
	14	15	16	17	18	19	20	21	22	23			
Outstanding amounts													
2005 Q3	5,709.6	5,025.0	608.4	4,416.6	684.6	252.7	431.9	3,577.3	298.6	310.6			
2005 Q4	5,614.7	4,950.3	580.5	4,369.9	664.4	242.8	421.6	3,674.7	315.2	313.8			
2006 Q1	5,606.8	4,936.8	591.5	4,345.3	670.0	255.8	414.2	4,081.3	319.5	316.8			
2006 Q2	5,608.2	4,921.8	603.8	4,318.0	686.4	261.8	424.6	3,941.9	318.0	319.6			
2006 Q3	5,679.1	4,989.9	590.6	4,399.3	689.2	261.2	428.0	4,084.5	318.4	322.8			
2006 Q4	5,596.0	4,907.8	562.8	4,345.0	688.2	262.0	426.2	4,448.0	326.7	326.1			
Transactions													
2005 Q3	-13.9	-2.4	-12.4	10.0	-11.5	-10.8	-0.7	76.8	2.7	3.3			
2005 Q4	-32.0	-20.3	-25.1	4.7	-11.7	-10.2	-1.4	19.9	15.3	3.2			
2006 Q1	88.7	79.0	10.6	68.4	9.7	12.9	-3.2	-1.9	4.4	3.0			
2006 Q2	75.6	54.0	11.4	42.6	21.6	5.9	15.7	18.7	-1.5	2.8			
2006 Q3	15.4	9.9	-13.3	23.1	5.6	-0.8	6.4	3.8	0.4	3.2			
2006 Q4	-38.0	-41.6	-30.2	-11.4	3.6	7.6	-4.0	12.4	8.6	3.3			
Growth rates													
2005 Q3	3.5	4.1	-1.3	4.9	-0.8	1.1	-1.8	3.1	5.7	4.5			
2005 Q4	3.9	4.5	-0.7	5.3	-0.7	1.4	-1.8	3.4	8.2	4.2			
2006 Q1	2.9	3.5	-0.9	4.1	-1.0	-0.8	-1.1	3.1	13.0	4.2			
2006 Q2	2.1	2.2	-2.5	2.9	1.2	-0.8	2.4	3.5	7.0	4.0			
2006 Q3	2.6	2.4	-2.7	3.1	3.7	3.1	4.1	1.1	6.2	3.9			
2006 Q4	2.5	2.0	-3.7	2.8	6.1	10.5	3.5	0.9	3.7	3.9			

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												
2005 Q3	4,689.1	602.9	60.0	517.7	2.7	22.4	360.0	60.6	299.4	2,017.7	214.5	1,803.1
Q4	4,750.2	612.6	67.8	521.6	2.6	20.6	356.6	63.9	292.7	2,039.3	212.9	1,826.4
2006 Q1	4,880.6	613.0	65.6	525.2	2.5	19.7	369.0	68.1	300.8	2,059.0	220.6	1,838.4
Q2	4,884.1	625.7	68.6	532.6	2.4	22.1	370.9	70.6	300.4	2,069.3	218.6	1,850.7
Q3	5,050.3	637.3	66.8	543.8	2.4	24.4	370.9	67.0	303.8	2,127.8	217.7	1,910.1
Q4	5,130.4	650.0	70.2	552.5	2.4	24.9	361.3	63.3	298.0	2,110.4	212.3	1,898.1
Transactions												
2005 Q3	78.3	7.1	-1.2	6.4	0.1	1.8	2.3	-0.1	2.4	36.9	2.6	34.2
Q4	67.1	8.7	7.4	3.1	0.0	-1.9	-4.0	3.6	-7.6	47.4	8.8	38.6
2006 Q1	97.6	0.6	-2.0	3.6	-0.1	-0.8	14.1	4.3	9.9	41.9	6.9	35.0
Q2	68.6	12.9	3.0	7.6	0.0	2.4	2.9	2.4	0.5	22.4	-3.8	26.2
Q3	85.5	11.4	-1.9	11.2	-0.1	2.2	5.1	0.8	4.3	33.0	-0.3	33.3
Q4	41.0	12.9	3.6	8.8	0.0	0.6	-8.4	-3.7	-4.7	22.1	-0.6	22.7
Growth rates												
2005 Q3	7.8	4.8	-2.8	5.3	30.1	12.0	0.2	1.1	0.0	11.2	59.2	9.1
Q4	7.0	4.5	12.5	3.7	18.4	-0.8	-2.2	8.3	-4.1	9.1	10.4	9.0
2006 Q1	7.0	2.4	-1.7	3.0	7.2	-0.3	2.2	14.4	0.0	8.6	11.1	8.3
Q2	6.9	4.9	11.8	4.0	-3.1	7.5	4.4	18.1	1.8	7.5	6.9	7.6
Q3	6.8	5.6	10.9	4.9	-6.9	8.6	5.0	18.2	2.4	7.2	5.4	7.4
Q4	6.2	6.2	4.0	6.0	-9.3	21.2	3.9	5.8	3.4	5.9	1.0	6.4

	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	Investment fund and money market fund shares/units	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															
2005 Q3	1,569.4	682.0	887.4	88.5	139.1	4,855.2	92.4	65.2	23.3	251.2	4,488.3	3,832.2	656.1		
Q4	1,608.3	697.4	910.9	81.9	133.4	4,999.5	82.3	64.6	21.9	285.9	4,609.3	3,943.2	666.1		
2006 Q1	1,702.4	733.8	968.6	81.6	137.2	5,137.6	99.7	81.9	22.1	300.5	4,715.3	4,041.0	674.3		
Q2	1,678.9	705.8	973.0	85.5	139.2	5,167.7	102.6	84.7	22.3	274.5	4,768.2	4,088.2	680.0		
Q3	1,772.7	754.4	1,018.3	85.9	141.7	5,308.0	107.2	89.5	23.1	310.0	4,867.8	4,173.9	693.9		
Q4	1,865.2	825.0	1,040.2	85.9	143.4	5,386.3	99.4	82.8	26.2	320.8	4,939.9	4,255.3	684.6		
Transactions															
2005 Q3	29.3	11.8	17.6	0.4	2.6	79.8	-0.4	1.4	0.6	1.1	78.5	68.4	10.1		
Q4	21.3	-2.2	23.4	-7.8	-6.2	100.3	-0.5	-0.6	-1.2	4.0	98.0	88.9	9.1		
2006 Q1	36.0	-5.2	41.2	-0.2	4.9	105.5	17.3	17.1	0.0	0.1	88.1	78.2	9.9		
Q2	27.4	6.3	21.1	3.3	3.0	66.6	3.0	2.8	0.3	0.1	63.2	58.3	4.9		
Q3	32.6	11.3	21.2	-0.7	3.4	84.8	4.5	4.8	0.6	4.1	75.6	62.6	13.0		
Q4	11.9	0.9	11.0	0.3	2.5	74.8	-6.3	-6.5	3.1	0.3	77.7	65.4	12.3		
Growth rates															
2005 Q3	7.1	4.4	9.2	19.3	5.4	7.0	1.1	22.8	6.3	0.9	7.4	7.6	6.4		
Q4	7.9	3.8	11.0	-1.7	1.9	7.8	14.4	30.8	0.4	2.7	8.0	8.3	6.5		
2006 Q1	8.4	1.7	13.4	-1.5	2.8	7.9	21.2	40.4	-2.0	2.6	8.0	8.4	5.5		
Q2	7.7	1.7	12.2	-4.9	3.2	7.5	20.8	32.5	-1.2	2.4	7.5	7.9	5.3		
Q3	7.5	1.5	12.1	-6.1	3.7	7.4	26.3	37.1	-1.1	3.3	7.2	7.5	5.6		
Q4	6.7	1.9	10.4	3.2	10.4	6.6	22.4	28.1	18.5	1.6	6.6	6.7	6.0		

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
1999	508.0	1,353.7	-871.5	25.7	0.1	3,313.5	-1.3	566.5	499.5	879.5	1,090.1	264.7	14.4
2000	565.4	1,456.0	-927.2	36.3	0.3	3,282.1	-1.3	369.1	334.9	797.9	1,506.6	251.4	23.5
2001	517.6	1,483.0	-976.7	10.6	0.6	2,797.7	0.5	583.2	578.4	693.8	727.1	254.4	-39.6
2002	453.0	1,481.8	-1,013.9	-15.3	0.5	2,545.7	-0.9	802.0	376.5	520.7	599.7	226.2	21.5
2003	464.0	1,507.3	-1,043.4	-0.3	0.4	2,756.8	-1.7	737.8	576.0	613.6	577.0	240.9	13.2
2004	509.7	1,573.2	-1,086.0	22.6	-0.2	3,148.8	-1.6	1,007.4	647.0	710.5	520.3	257.7	7.6

	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	
1999	488.6	1,347.3	-871.5	12.8		3,333.0	842.5	554.4	773.5		894.5	268.0
2000	505.3	1,419.7	-927.2	12.8		3,342.1	507.7	474.0	903.2		1,200.7	256.6
2001	481.8	1,451.1	-976.7	7.4		2,833.4	614.0	512.4	673.2		773.1	260.7
2002	517.9	1,521.3	-1,013.9	10.6		2,480.7	637.8	437.7	565.4		610.0	229.8
2003	500.3	1,528.8	-1,043.4	14.9		2,720.5	672.9	587.1	581.0		629.1	250.4
2004	538.9	1,608.4	-1,086.0	16.5		3,119.5	1,120.9	684.5	548.1		506.5	259.5

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
1999	257.5	728.5	-489.2	619.9	29.9	79.6	187.4	319.4	96.6	529.8	780.8	46.8	433.4	289.7
2000	380.8	803.4	-524.2	938.4	68.2	68.5	244.2	543.7	83.4	557.3	1,235.8	70.3	632.6	521.1
2001	279.6	821.3	-554.9	623.3	106.5	45.6	183.2	234.3	95.6	587.9	807.3	104.1	381.0	310.8
2002	219.8	810.8	-576.9	408.8	24.9	22.1	65.5	256.7	123.2	639.8	505.3	17.8	268.5	206.5
2003	218.6	814.5	-592.0	378.0	91.2	-26.0	150.5	202.1	116.3	663.2	480.2	72.5	210.4	183.5
2004	254.8	850.6	-614.2	267.5	83.5	-48.6	85.2	164.9	156.0	714.6	366.3	16.8	165.9	170.5

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	Gross disposable income	Gross saving ratio ⁶⁾
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1999	199.1	427.4	-232.9	472.0	116.6	-60.7	190.4	250.0	400.9	608.5	270.3	268.8	4,230.0	14.2
2000	201.4	445.2	-245.1	422.5	78.7	28.8	119.8	245.5	392.7	612.0	231.3	229.3	4,436.0	13.7
2001	184.8	443.9	-257.6	433.2	168.1	59.4	35.7	234.2	435.9	675.6	182.1	180.4	4,667.4	14.3
2002	185.9	455.4	-267.9	493.2	219.6	16.2	0.1	216.3	458.1	719.0	221.0	218.9	4,824.2	14.7
2003	190.1	465.1	-278.6	531.0	217.5	-45.6	92.3	240.0	470.7	735.9	250.4	248.3	4,958.7	14.7
2004	202.5	491.4	-291.9	601.6	237.3	62.8	18.9	246.4	485.9	761.9	318.1	315.8	5,128.9	14.7

Source: ECB.

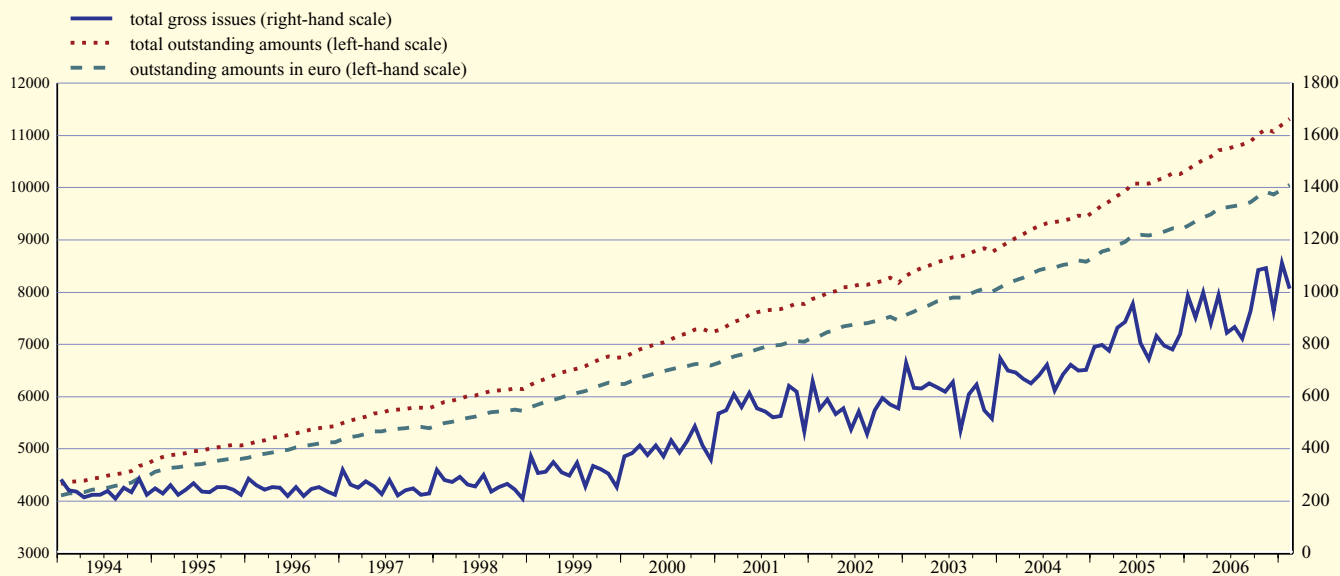
- Including net acquisition of valuables.
- Excluding financial derivatives.
- Financial derivatives and other accounts receivable/payable.
- Arising from saving and net capital transfers receivable, after allowance for consumption of fixed capital (-).
- Including non-profit institutions serving households.
- Gross saving divided by gross disposable income and net increase in claims on pension funds reserves.

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			Annual growth rates	Seasonally adjusted ²⁾	
				Outstanding amounts	Gross issues	Net issues	Outstanding amounts	Gross issues	Net issues		Net issues	6-month growth rates
	1	2	3	4	5	6	7	8	9	10	11	12
Total												
2006 Feb.	10,990.3	917.7	105.2	9,353.5	846.0	76.3	10,448.3	902.8	89.0	7.2	61.3	7.5
Mar.	11,142.4	1,050.4	151.8	9,434.6	937.1	80.9	10,532.9	998.6	97.4	7.6	70.4	8.0
Apr.	11,165.0	873.7	19.4	9,486.2	820.7	48.5	10,590.7	881.5	67.5	7.2	55.6	7.9
May	11,291.8	1,007.7	127.0	9,598.3	936.8	112.2	10,711.6	989.0	126.0	7.7	88.9	8.2
June	11,354.0	895.4	64.1	9,619.5	792.8	23.0	10,744.1	845.8	31.7	6.6	24.1	7.1
July	11,367.0	877.4	12.5	9,654.8	819.9	34.8	10,793.4	867.6	44.6	7.0	53.6	6.9
Aug.	11,399.2	837.8	31.8	9,676.3	779.9	21.0	10,823.1	822.5	24.4	7.3	74.5	7.1
Sep.	11,520.0	1,004.1	120.3	9,726.9	882.0	50.2	10,891.7	927.6	56.9	7.3	57.0	6.8
Oct.	11,616.0	1,106.1	93.8	9,830.3	1,022.9	101.5	11,026.8	1,085.6	122.0	8.0	122.8	8.1
Nov.	11,753.4	1,133.4	136.5	9,921.7	1,036.7	90.9	11,118.2	1,092.3	107.1	8.2	99.8	8.3
Dec.	11,734.9	978.7	-19.1	9,868.8	884.7	-53.9	11,075.1	929.1	-58.2	7.9	41.1	8.6
2007 Jan.	.	.	.	9,966.1	1,051.8	97.4	11,202.1	1,111.1	115.7	8.0	76.3	9.0
Feb.	.	.	.	10,056.5	951.2	90.5	11,311.9	1,014.3	116.9	8.2	88.3	9.2
Long-term												
2006 Feb.	10,034.7	215.0	88.0	8,485.6	170.7	59.6	9,439.1	196.3	71.8	7.6	49.5	7.8
Mar.	10,131.2	243.8	96.8	8,556.5	194.3	71.3	9,507.8	220.1	79.6	7.8	60.2	8.1
Apr.	10,167.3	174.9	34.6	8,585.9	141.7	28.1	9,545.7	170.7	47.9	7.5	49.3	8.1
May	10,268.0	205.9	101.0	8,671.8	167.4	86.1	9,638.9	187.0	95.7	7.7	63.7	7.7
June	10,327.0	199.6	59.7	8,735.2	167.7	64.0	9,722.8	192.6	80.2	6.7	52.1	7.2
July	10,360.7	186.6	33.9	8,761.0	158.5	25.9	9,763.7	177.1	37.0	7.2	49.0	7.0
Aug.	10,377.0	90.4	16.5	8,772.2	71.5	11.4	9,781.7	87.9	20.8	7.5	65.8	7.3
Sep.	10,470.8	218.4	94.2	8,827.2	156.7	55.4	9,851.1	175.4	62.9	7.6	53.4	7.1
Oct.	10,572.6	224.7	99.4	8,897.5	173.8	68.3	9,943.5	206.1	85.9	8.1	101.8	8.2
Nov.	10,706.6	224.9	133.1	8,992.2	167.2	94.0	10,037.0	193.0	108.3	8.4	101.3	9.0
Dec.	10,733.5	173.1	24.3	9,012.8	132.4	17.7	10,065.4	152.1	14.7	8.2	57.6	9.1
2007 Jan.	.	.	.	9,063.4	176.3	50.5	10,136.8	199.9	61.3	8.2	64.6	9.4
Feb.	.	.	.	9,139.5	183.3	76.3	10,226.4	213.9	97.3	8.4	74.1	9.5

C15 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	
			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government
1	2	3	4	5	6	7	8	9	10	11	12	
Total												
2005	10,259	4,112	925	613	4,325	283	9,869	6,983	325	1,033	1,434	95
2006	11,075	4,556	1,163	645	4,406	305	11,329	8,374	413	1,118	1,339	85
2006 Q1	10,533	4,262	969	621	4,391	289	2,888	2,106	85	256	418	22
Q2	10,744	4,340	1,032	639	4,436	298	2,716	1,976	107	260	351	22
Q3	10,892	4,438	1,068	637	4,450	298	2,618	1,928	78	265	329	18
Q4	11,075	4,556	1,163	645	4,406	305	3,107	2,364	143	336	241	23
2006 Nov.	11,118	4,555	1,136	648	4,474	304	1,092	834	43	114	91	9
Dec.	11,075	4,556	1,163	645	4,406	305	929	728	44	106	46	5
2007 Jan.	11,202	4,634	1,171	645	4,445	306	1,111	851	24	76	153	7
Feb.	11,312	4,700	1,203	648	4,455	306	1,014	769	45	75	118	8
Short-term												
2005	945	482	7	90	361	5	7,797	6,046	45	943	729	33
2006	1,010	570	12	94	329	4	9,175	7,375	59	1,023	686	31
2006 Q1	1,025	539	7	98	376	5	2,276	1,817	14	242	195	8
Q2	1,021	531	10	101	374	5	2,166	1,739	16	227	175	8
Q3	1,041	561	12	96	367	4	2,177	1,733	16	249	171	8
Q4	1,010	570	12	94	329	4	2,556	2,086	14	305	144	7
2006 Nov.	1,081	596	12	103	367	4	899	732	4	104	57	2
Dec.	1,010	570	12	94	329	4	777	646	4	95	30	2
2007 Jan.	1,065	607	12	96	346	4	911	753	6	73	77	3
Feb.	1,085	612	12	100	357	5	800	655	5	71	68	3
Long-term ¹⁾												
2005	9,313	3,630	918	523	3,964	278	2,072	937	279	90	705	61
2006	10,065	3,986	1,151	551	4,077	301	2,154	999	354	94	653	54
2006 Q1	9,508	3,723	962	523	4,015	285	612	290	71	14	223	15
Q2	9,723	3,809	1,021	538	4,061	294	550	237	91	33	175	14
Q3	9,851	3,877	1,057	540	4,083	294	440	195	62	16	158	9
Q4	10,065	3,986	1,151	551	4,077	301	551	278	130	31	97	16
2006 Nov.	10,037	3,959	1,125	546	4,107	300	193	102	39	10	35	7
Dec.	10,065	3,986	1,151	551	4,077	301	152	82	40	12	15	3
2007 Jan.	10,137	4,027	1,159	549	4,099	302	200	98	18	4	76	4
Feb.	10,226	4,088	1,191	548	4,098	301	214	114	40	4	51	5
Of which long-term fixed rate												
2005	6,720	2,017	459	413	3,615	217	1,227	412	91	54	621	48
2006	7,043	2,132	535	420	3,718	237	1,287	474	137	60	576	40
2006 Q1	6,822	2,061	475	407	3,653	225	401	156	31	8	195	12
Q2	6,917	2,081	499	415	3,691	232	332	109	41	21	151	10
Q3	6,970	2,108	508	414	3,707	233	275	94	22	11	140	8
Q4	7,043	2,132	535	420	3,718	237	280	116	44	20	90	10
2006 Nov.	7,053	2,135	529	418	3,733	237	100	43	11	9	33	4
Dec.	7,043	2,132	535	420	3,718	237	65	32	10	6	15	2
2007 Jan.	7,092	2,158	539	420	3,737	238	139	59	7	2	67	4
Feb.	7,128	2,187	554	418	3,729	239	133	60	21	4	43	4
Of which long-term variable rate												
2005	2,259	1,344	456	94	305	60	715	429	188	28	58	12
2006	2,604	1,501	609	118	313	63	713	403	214	31	51	15
2006 Q1	2,332	1,385	482	97	308	60	172	108	39	4	18	3
Q2	2,431	1,425	516	108	320	62	177	95	50	12	15	4
Q3	2,489	1,444	543	110	332	60	134	76	40	4	13	2
Q4	2,604	1,501	609	118	313	63	230	123	85	11	5	6
2006 Nov.	2,571	1,479	589	112	328	63	77	43	28	1	2	3
Dec.	2,604	1,501	609	118	313	63	75	38	30	6	0	1
2007 Jan.	2,616	1,514	612	116	311	63	46	32	9	1	3	0
Feb.	2,660	1,539	629	117	315	62	68	43	19	1	4	1

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

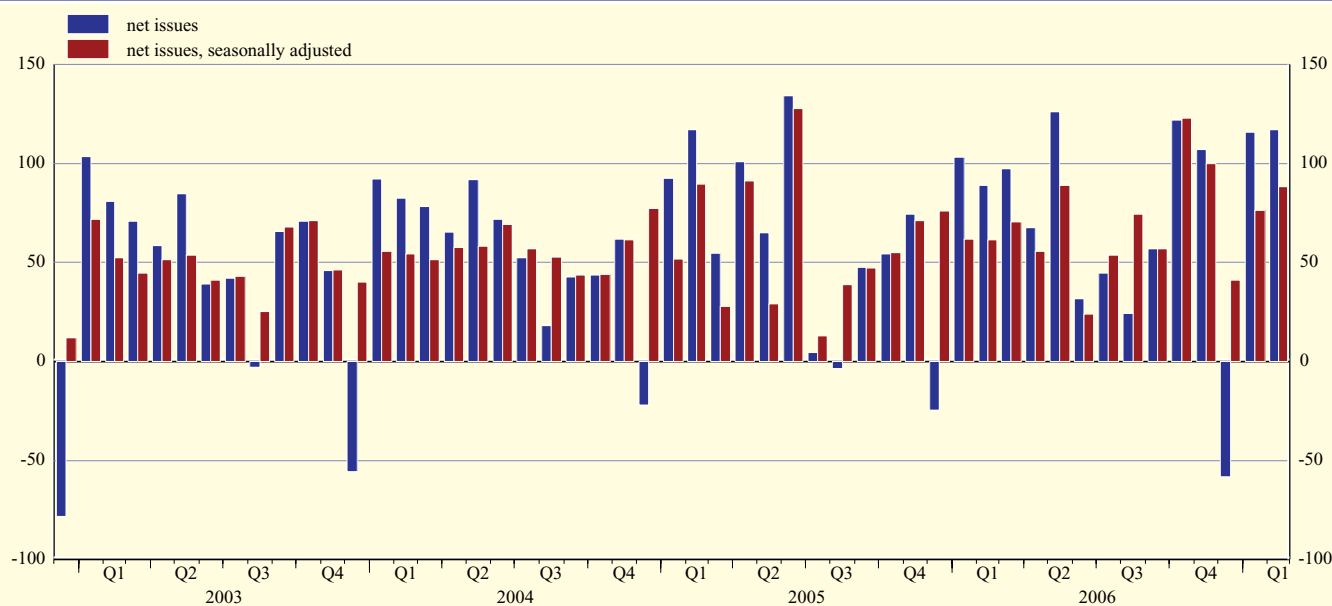
(EUR billions unless otherwise indicated; transactions during the period; nominal values)

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	
			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government
1	2	3	4	5	6	7	8	9	10	11	12	
	Total											
2005	716.9	316.5	175.6	22.2	170.3	32.4	718.7	319.9	171.5	22.4	172.5	32.5
2006	811.6	418.2	244.4	36.3	90.4	22.3	810.7	422.5	239.8	36.7	89.4	22.3
2006 Q1	289.5	158.7	46.0	9.4	68.5	6.9	193.3	106.9	66.1	6.0	8.2	6.1
Q2	225.2	83.6	64.5	19.4	48.6	9.1	168.6	88.0	52.0	12.8	7.3	8.6
Q3	125.9	78.1	36.3	-2.4	14.4	-0.5	185.1	94.6	52.9	1.7	33.7	2.3
Q4	171.0	97.7	97.7	10.0	-41.2	6.7	263.6	133.0	68.8	16.2	40.2	5.4
2006 Nov.	107.1	39.7	30.1	4.5	27.2	5.6	99.8	42.2	24.1	5.7	24.2	3.7
Dec.	-58.2	-14.1	27.0	-3.0	-68.3	0.3	41.1	32.6	0.2	5.6	0.9	1.9
2007 Jan.	115.7	70.1	6.5	-0.3	38.3	1.2	76.3	52.6	25.2	-3.2	1.2	0.5
Feb.	116.9	68.7	33.6	3.7	11.1	-0.2	88.3	49.2	35.2	3.3	1.8	-1.3
	Long-term											
2005	709.2	293.1	176.1	22.5	185.0	32.6	710.8	294.9	172.0	22.4	188.9	32.7
2006	762.0	345.3	239.1	32.9	121.5	23.3	761.2	347.5	234.4	32.8	123.3	23.3
2006 Q1	208.5	100.5	45.8	1.8	53.4	7.0	167.1	70.0	65.9	7.0	18.3	6.0
Q2	223.8	87.3	61.4	16.3	49.7	9.1	165.1	85.1	48.8	9.7	12.9	8.6
Q3	120.7	61.8	34.9	2.6	21.5	-0.1	168.2	66.6	51.5	4.8	42.7	2.6
Q4	208.9	95.6	97.0	12.2	-3.1	7.2	260.7	125.8	68.2	11.3	49.4	6.1
2006 Nov.	108.3	45.8	29.8	2.5	24.2	6.0	101.3	52.2	24.2	2.4	18.5	4.1
Dec.	14.7	12.7	26.2	5.5	-30.1	0.4	57.6	38.3	-0.5	6.3	11.5	2.0
2007 Jan.	61.3	34.9	7.0	-2.3	21.0	0.7	64.6	38.2	25.6	1.0	-0.2	0.0
Feb.	97.3	64.4	33.6	-0.4	0.1	-0.4	74.1	46.3	35.5	1.1	-7.6	-1.3

C16 Net issues of securities, other than shares, seasonally adjusted and non-seasonally adjusted

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



Source: ECB.

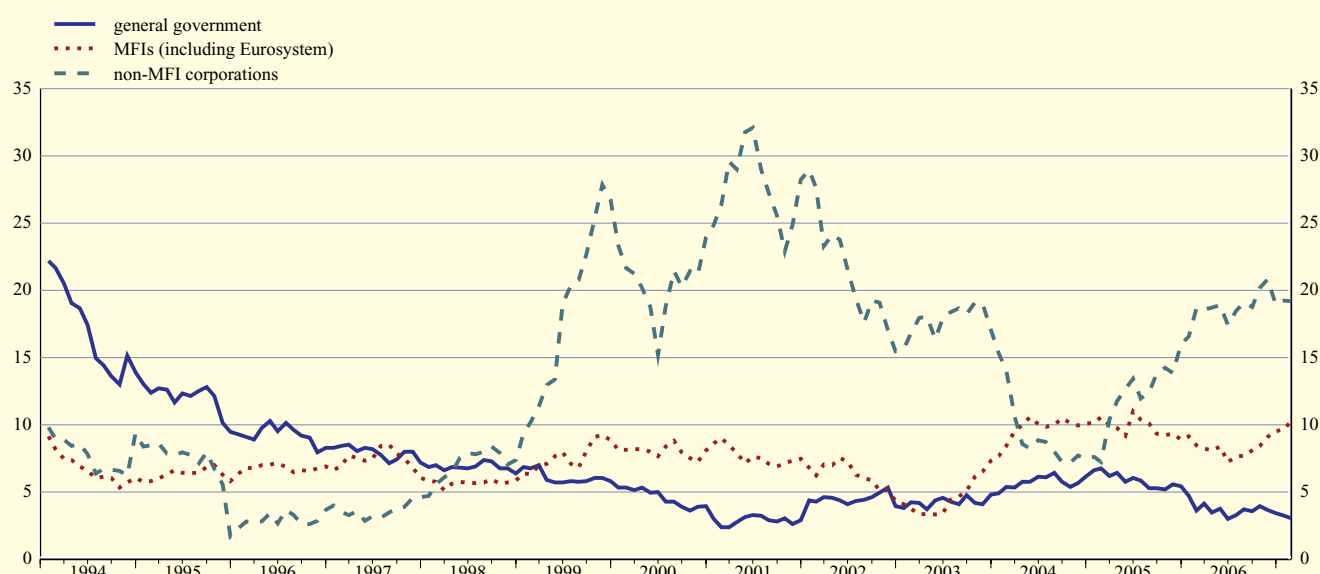
4.3 Growth rates of securities, other than shares, issued by euro area residents ¹⁾

(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	
			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government
1	2	3	4	5	6	7	8	9	10	11	12	
	Total											
2006 Feb.	7.2	8.9	26.9	3.0	2.5	11.9	7.5	8.1	30.9	4.2	2.8	14.3
Mar.	7.6	9.3	27.2	2.9	3.0	11.7	8.0	9.3	31.7	3.9	2.6	13.1
Apr.	7.2	8.9	27.2	2.6	2.5	10.2	7.9	9.3	31.5	3.3	2.7	11.5
May	7.7	9.9	26.6	3.7	2.6	12.2	8.2	10.5	31.5	6.1	1.8	10.5
June	6.6	8.1	24.4	4.6	1.8	12.4	7.1	9.6	27.7	6.2	0.7	10.6
July	7.0	8.3	26.3	4.7	2.2	11.8	6.9	8.9	26.6	5.2	1.2	10.7
Aug.	7.3	8.4	27.9	3.4	2.5	12.2	7.1	8.8	25.2	2.6	2.3	10.2
Sep.	7.3	9.0	27.1	4.3	2.2	10.3	6.8	8.8	22.8	4.7	1.9	7.7
Oct.	8.0	9.6	29.7	4.0	2.6	9.5	8.1	10.1	28.1	4.7	2.5	7.6
Nov.	8.2	10.0	30.2	5.2	2.5	8.8	8.3	9.5	28.8	4.2	3.3	7.0
Dec.	7.9	10.2	26.5	5.9	2.1	7.9	8.6	10.7	25.2	5.7	3.4	5.3
2007 Jan.	8.0	10.5	27.0	5.2	1.9	7.4	9.0	12.3	27.3	5.2	2.6	4.1
Feb.	8.2	10.7	27.0	5.3	2.1	5.8	9.2	12.7	28.8	8.0	1.9	1.4
	Long-term											
2006 Feb.	7.6	8.4	27.2	5.9	3.0	12.6	7.8	7.6	31.0	7.2	3.0	15.1
Mar.	7.8	8.2	27.6	5.0	3.6	12.2	8.1	7.9	32.0	5.9	3.3	13.7
Apr.	7.5	8.1	27.5	5.4	3.0	10.6	8.1	7.8	31.4	5.8	3.7	12.0
May	7.7	8.3	26.7	6.8	3.2	12.6	7.7	7.7	31.2	8.1	2.7	11.1
June	6.7	7.2	24.3	6.4	2.3	12.8	7.2	8.7	27.1	6.5	1.6	10.8
July	7.2	7.6	26.2	6.0	2.7	12.0	7.0	7.9	26.0	5.1	2.1	10.8
Aug.	7.5	7.7	27.6	5.5	3.1	12.5	7.3	7.8	24.5	3.9	3.3	10.0
Sep.	7.6	8.1	26.8	5.7	3.1	10.9	7.1	8.3	21.9	5.6	2.8	8.1
Oct.	8.1	8.4	29.4	5.2	3.6	10.0	8.2	9.0	27.5	4.6	3.5	8.2
Nov.	8.4	9.1	29.9	5.7	3.3	9.4	9.0	10.5	28.4	3.2	3.9	7.7
Dec.	8.2	9.5	26.1	6.3	3.1	8.4	9.1	10.4	25.0	6.1	4.6	6.0
2007 Jan.	8.2	9.6	26.7	6.2	2.9	7.6	9.4	11.4	27.2	7.3	3.8	4.5
Feb.	8.4	10.3	26.8	5.5	2.9	5.9	9.5	12.8	29.0	7.1	2.4	1.8

C17 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.

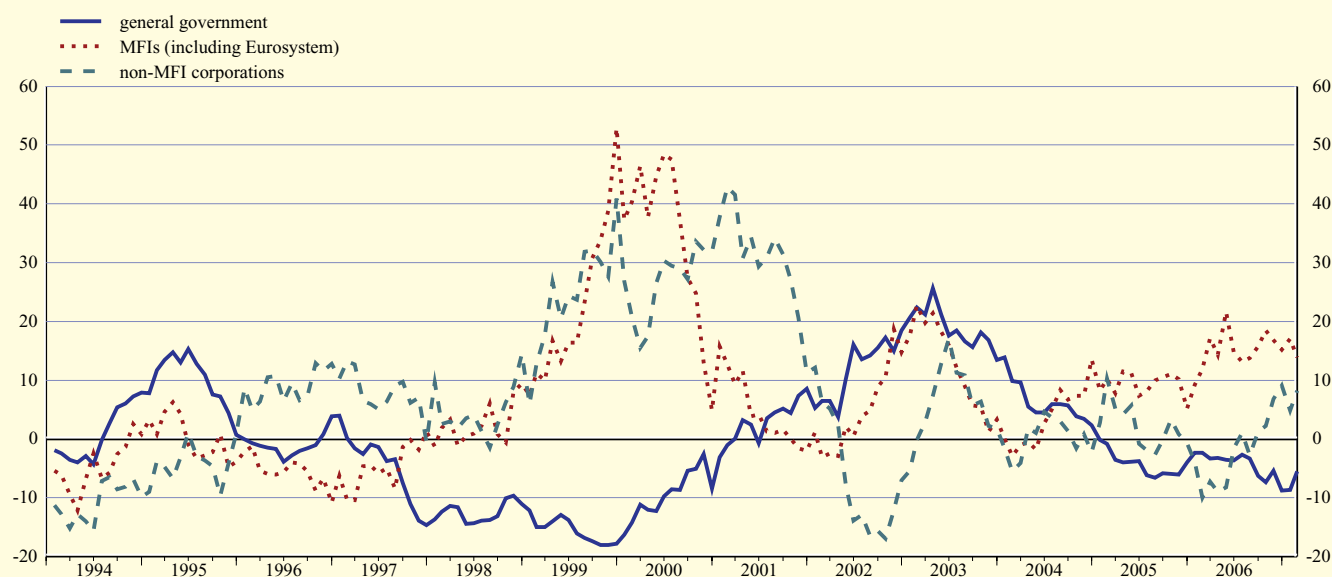
4.3 Growth rates of securities, other than shares, issued by euro area residents ¹⁾ (cont'd)

(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	
			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government			Financial corporations other than MFIs	Non-financial corporations	Central government	Other general government
13	14	15	16	17	18	19	20	21	22	23	24	
	In all currencies combined											
2005	4.7	3.1	5.7	0.4	5.5	15.0	19.4	18.3	35.7	22.6	9.9	4.7
2006	4.5	4.7	13.8	1.1	3.1	13.4	16.6	11.7	42.4	27.4	5.2	4.3
2006 Q1	4.3	4.2	8.9	0.7	3.6	15.6	18.9	14.3	48.4	24.5	7.8	1.3
Q2	4.2	4.4	11.7	1.1	3.0	13.6	16.8	11.9	45.5	28.3	3.6	5.4
Q3	4.4	4.6	14.9	1.0	2.8	13.8	15.1	10.0	39.6	30.1	4.1	6.3
Q4	5.1	5.4	19.5	1.8	3.1	11.1	15.8	11.0	37.8	26.8	5.5	4.5
2006 Sep.	4.7	5.1	16.9	1.5	2.9	12.9	14.9	10.1	37.4	27.8	5.1	3.7
Oct.	5.1	5.1	20.0	0.7	3.3	12.0	15.9	10.7	39.3	29.6	6.2	2.8
Nov.	5.2	5.5	20.9	2.4	3.0	10.3	16.3	11.3	38.8	24.4	6.5	6.2
Dec.	5.2	6.0	18.2	3.0	3.1	9.3	15.3	11.7	33.7	25.2	2.7	5.0
2007 Jan.	5.2	5.7	19.0	4.0	3.1	8.4	15.1	12.2	34.0	21.1	0.2	4.5
Feb.	5.5	6.7	20.8	3.5	3.0	6.7	14.9	12.2	32.3	20.1	1.0	3.1
	In euro											
2005	4.3	0.9	9.2	-0.1	5.4	15.3	18.9	17.3	35.0	22.6	10.3	5.3
2006	3.8	3.1	11.3	0.3	3.2	13.6	15.5	10.1	38.8	30.4	5.4	3.5
2006 Q1	3.8	2.4	9.1	0.6	3.5	16.1	18.1	12.9	45.6	26.4	8.2	1.2
Q2	3.6	2.8	10.0	0.8	3.1	13.9	15.5	10.2	41.4	31.6	3.6	4.3
Q3	3.6	3.1	11.2	-0.2	2.9	13.7	13.6	8.1	35.1	33.9	4.1	4.9
Q4	4.3	4.1	14.8	0.1	3.3	11.2	14.9	9.6	35.0	29.6	5.6	3.5
2006 Sep.	3.9	3.7	12.8	0.4	2.9	12.9	13.8	8.5	34.2	31.2	5.1	2.6
Oct.	4.2	3.5	14.7	-1.2	3.6	12.1	15.1	9.2	36.8	32.9	6.3	2.0
Nov.	4.4	4.4	15.9	0.6	3.2	10.4	15.5	10.1	36.2	26.9	6.6	5.2
Dec.	4.6	4.9	14.6	1.1	3.4	9.5	14.1	10.3	30.2	27.1	2.8	4.0
2007 Jan.	4.7	5.0	15.0	2.0	3.5	8.4	13.7	10.6	30.6	22.3	0.2	3.8
Feb.	4.8	5.9	15.9	1.4	3.3	6.7	13.8	11.1	29.0	21.1	1.1	2.9

C18 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)

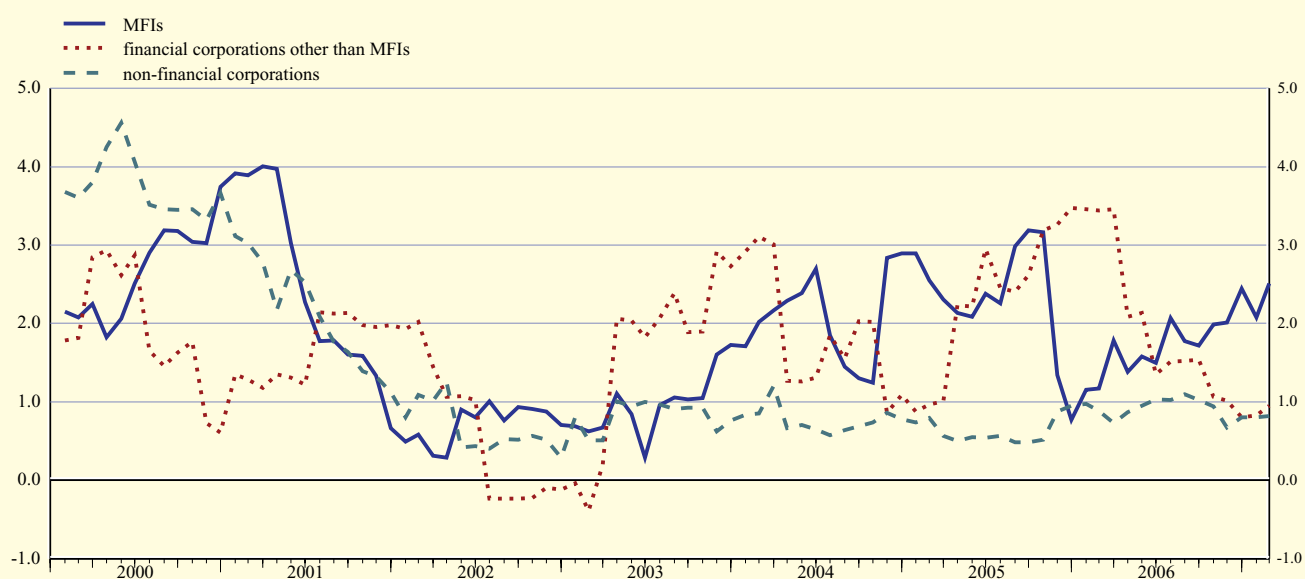
1. Outstanding amounts and annual growth rates

(outstanding amounts as end-of-period)

	Total			MFIs		Financial corporations other than MFIs		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
2005 Feb.	4,263.1	102.6	1.1	681.4	2.6	435.5	1.0	3,146.1	0.8
Mar.	4,250.5	102.7	0.9	677.8	2.3	425.4	1.0	3,147.3	0.6
Apr.	4,102.5	102.9	0.9	656.0	2.1	410.8	2.2	3,035.6	0.5
May	4,280.1	102.9	1.0	678.1	2.1	425.4	2.2	3,176.5	0.6
June	4,388.2	103.1	1.1	698.1	2.4	442.6	2.9	3,247.5	0.5
July	4,638.2	103.1	1.0	727.9	2.3	467.7	2.5	3,442.6	0.6
Aug.	4,613.0	103.1	1.1	723.5	3.0	458.2	2.4	3,431.4	0.5
Sep.	4,834.1	103.2	1.1	764.1	3.2	484.8	2.6	3,585.2	0.5
Oct.	4,666.6	103.4	1.2	752.4	3.2	481.5	3.2	3,432.7	0.5
Nov.	4,889.2	103.7	1.2	809.2	1.3	514.6	3.3	3,565.4	0.9
Dec.	5,063.5	103.8	1.2	836.4	0.8	541.8	3.5	3,685.3	0.9
2006 Jan.	5,296.6	103.8	1.2	884.8	1.2	536.8	3.5	3,875.0	1.0
Feb.	5,436.6	103.8	1.2	938.8	1.2	562.7	3.4	3,935.1	0.9
Mar.	5,637.3	103.9	1.2	962.3	1.8	580.0	3.5	4,094.9	0.7
Apr.	5,662.8	104.0	1.1	948.8	1.4	573.9	2.1	4,140.1	0.9
May	5,373.0	104.1	1.2	896.7	1.6	534.5	2.1	3,941.8	0.9
June	5,384.8	104.3	1.1	905.0	1.5	530.6	1.3	3,949.1	1.0
July	5,381.0	104.4	1.3	918.4	2.1	544.4	1.5	3,918.2	1.0
Aug.	5,545.2	104.4	1.3	958.6	1.8	595.7	1.5	3,990.8	1.1
Sep.	5,689.4	104.5	1.2	986.1	1.7	607.7	1.5	4,095.6	1.0
Oct.	5,869.1	104.6	1.1	1,015.6	2.0	614.5	1.1	4,239.0	0.9
Nov.	5,922.6	104.7	0.9	1,024.3	2.0	603.8	1.0	4,294.4	0.7
Dec.	6,139.4	104.9	1.1	1,056.3	2.4	623.2	0.8	4,459.9	0.8
2007 Jan.	6,310.4	104.9	1.0	1,111.3	2.1	641.7	0.8	4,557.4	0.8
Feb.	6,228.0	105.0	1.1	1,081.2	2.5	633.4	0.9	4,513.4	0.8

C19 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⁾

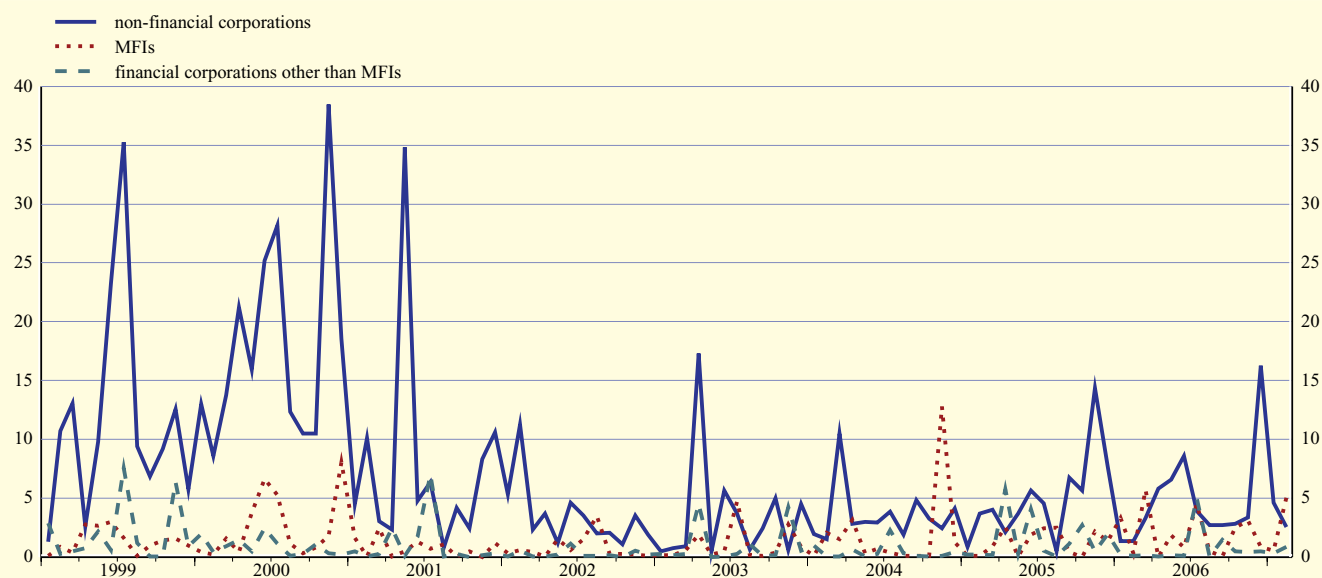
(EUR billions; market values)

2. Transactions during the month

	Total			MFIs			Financial corporations other than MFIs			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
2005 Feb.	4.0	1.3	2.7	0.1	0.0	0.1	0.2	0.1	0.1	3.7	1.2	2.5
Mar.	5.0	1.8	3.2	0.9	0.8	0.1	0.1	0.1	0.0	4.0	0.8	3.2
Apr.	10.4	2.3	8.1	2.5	0.0	2.5	5.8	0.0	5.7	2.1	2.3	-0.2
May	3.9	3.1	0.8	0.0	0.0	0.0	0.2	0.3	-0.1	3.7	2.8	0.8
June	11.6	4.9	6.7	1.9	1.0	0.9	4.1	0.7	3.3	5.6	3.2	2.5
July	7.5	6.6	0.9	2.4	2.9	-0.4	0.5	0.0	0.5	4.5	3.7	0.8
Aug.	2.9	2.2	0.8	2.5	0.0	2.5	0.0	0.2	-0.1	0.4	2.0	-1.6
Sep.	8.2	2.3	5.9	0.4	0.0	0.4	1.1	0.1	1.0	6.7	2.2	4.5
Oct.	8.3	1.6	6.8	0.0	0.1	-0.1	2.7	0.0	2.7	5.6	1.4	4.2
Nov.	17.0	3.9	13.0	2.1	0.0	2.1	0.5	0.1	0.4	14.4	3.9	10.5
Dec.	10.9	7.4	3.5	1.3	4.3	-3.0	1.9	0.4	1.5	7.7	2.6	5.0
2006 Jan.	4.8	0.8	4.1	3.3	0.0	3.3	0.2	0.0	0.2	1.3	0.7	0.6
Feb.	1.7	1.7	0.0	0.3	0.1	0.2	0.1	0.0	0.1	1.3	1.6	-0.3
Mar.	9.1	5.4	3.7	5.7	0.0	5.7	0.1	0.0	0.1	3.3	5.4	-2.1
Apr.	5.8	0.5	5.4	0.0	0.2	-0.1	0.0	0.0	0.0	5.8	0.3	5.5
May	8.6	2.2	6.4	1.9	0.0	1.8	0.2	0.0	0.2	6.5	2.2	4.4
June	9.4	2.7	6.8	0.8	0.3	0.5	0.1	0.1	0.0	8.6	2.4	6.2
July	13.4	6.6	6.8	4.5	0.0	4.5	5.0	3.5	1.5	3.9	3.1	0.8
Aug.	3.2	1.8	1.4	0.4	0.0	0.4	0.0	0.1	-0.1	2.7	1.6	1.0
Sep.	4.2	0.5	3.7	0.0	0.0	0.0	1.5	0.0	1.4	2.7	0.5	2.2
Oct.	5.8	1.2	4.6	2.5	0.0	2.5	0.5	0.0	0.5	2.8	1.2	1.6
Nov.	6.9	2.1	4.8	3.1	0.0	3.1	0.4	0.2	0.3	3.3	1.9	1.5
Dec.	17.6	5.1	12.5	0.9	0.3	0.5	0.5	0.0	0.5	16.3	4.7	11.5
2007 Jan.	5.4	3.9	1.5	0.5	0.1	0.4	0.3	0.0	0.3	4.6	3.8	0.8
Feb.	8.4	2.1	6.3	5.0	0.0	5.0	0.9	0.0	0.9	2.5	2.1	0.5

C20 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
2006 Mar.	0.76	2.37	2.60	2.45	1.98	2.37	1.14	2.48	2.93	3.28	2.44
Apr.	0.79	2.40	2.81	2.49	2.00	2.42	1.16	2.51	2.93	3.71	2.49
May	0.79	2.45	2.86	2.48	2.00	2.48	1.18	2.58	3.18	3.38	2.48
June	0.81	2.57	2.88	2.57	2.04	2.53	1.22	2.70	3.22	3.27	2.65
July	0.81	2.70	3.04	2.80	2.08	2.58	1.24	2.78	3.31	3.99	2.76
Aug.	0.85	2.79	2.97	2.82	2.23	2.63	1.32	2.92	3.25	3.78	2.86
Sep.	0.86	2.87	3.15	2.66	2.26	2.68	1.36	2.99	3.45	3.82	2.96
Oct.	0.90	3.04	3.30	2.87	2.30	2.75	1.45	3.19	3.58	4.24	3.14
Nov.	0.91	3.10	3.34	2.80	2.30	2.81	1.49	3.26	3.47	3.66	3.23
Dec.	0.92	3.27	3.31	2.79	2.38	2.87	1.51	3.47	4.99	3.88	3.41
2007 Jan.	0.98	3.33	3.48	2.92	2.35	2.98	1.61	3.49	3.91	4.07	3.46
Feb.	1.01	3.37	3.63	2.71	2.36	3.07	1.62	3.48	3.80	4.14	3.47

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

	Bank overdrafts ¹⁾	Consumer credit				Lending for house purchase					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
2006 Mar.	9.90	6.79	6.28	7.88	7.65	3.73	3.99	4.22	4.10	4.15	4.33	4.72	4.49
Apr.	9.76	7.06	6.31	7.92	7.76	3.84	4.07	4.33	4.17	4.29	4.30	4.85	4.62
May	9.78	7.24	6.23	7.89	7.77	3.90	4.15	4.40	4.19	4.34	4.43	5.05	4.76
June	9.84	7.11	6.31	7.82	7.71	4.00	4.19	4.48	4.25	4.42	4.52	5.09	4.71
July	9.86	7.33	6.33	8.02	7.87	4.11	4.23	4.52	4.34	4.52	4.55	5.24	4.74
Aug.	9.95	7.86	6.39	8.15	8.12	4.21	4.36	4.60	4.39	4.59	4.65	5.26	4.94
Sep.	10.06	7.86	6.26	8.09	7.98	4.30	4.36	4.61	4.44	4.65	4.76	5.30	4.98
Oct.	10.04	7.50	6.02	8.17	7.77	4.42	4.45	4.58	4.46	4.72	4.93	5.18	4.80
Nov.	10.08	7.66	6.16	8.15	7.83	4.49	4.50	4.58	4.47	4.76	4.97	5.25	4.90
Dec.	10.03	7.56	6.08	7.97	7.72	4.55	4.58	4.56	4.49	4.80	4.93	5.23	4.82
2007 Jan.	10.15	7.63	6.71	8.39	8.26	4.67	4.60	4.60	4.50	4.83	5.13	5.43	4.92
Feb.	10.34	7.67	6.87	8.25	8.29	4.69	4.66	4.68	4.57	4.90	5.26	5.37	5.08

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
2006 Mar.		5.30	4.23	4.59	4.16	3.50	3.83	4.18
Apr.		5.40	4.34	4.73	4.15	3.51	3.94	4.22
May		5.36	4.38	4.83	4.26	3.57	4.13	4.32
June		5.45	4.47	4.84	4.33	3.74	4.12	4.23
July		5.52	4.57	4.99	4.38	3.84	4.21	4.36
Aug.		5.56	4.70	5.09	4.60	3.97	4.33	4.49
Sep.		5.69	4.75	5.02	4.54	4.02	4.41	4.47
Oct.		5.76	4.91	5.16	4.57	4.24	4.37	4.45
Nov.		5.82	5.00	5.24	4.68	4.31	4.62	4.58
Dec.		5.80	5.08	5.23	4.71	4.50	4.77	4.63
2007 Jan.		5.94	5.16	5.31	4.69	4.44	4.67	4.70
Feb.		6.00	5.21	5.43	4.77	4.50	4.66	4.67

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) Data prior to 2007 refer to Euro 12, that is, the euro area excluding Slovenia.

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)

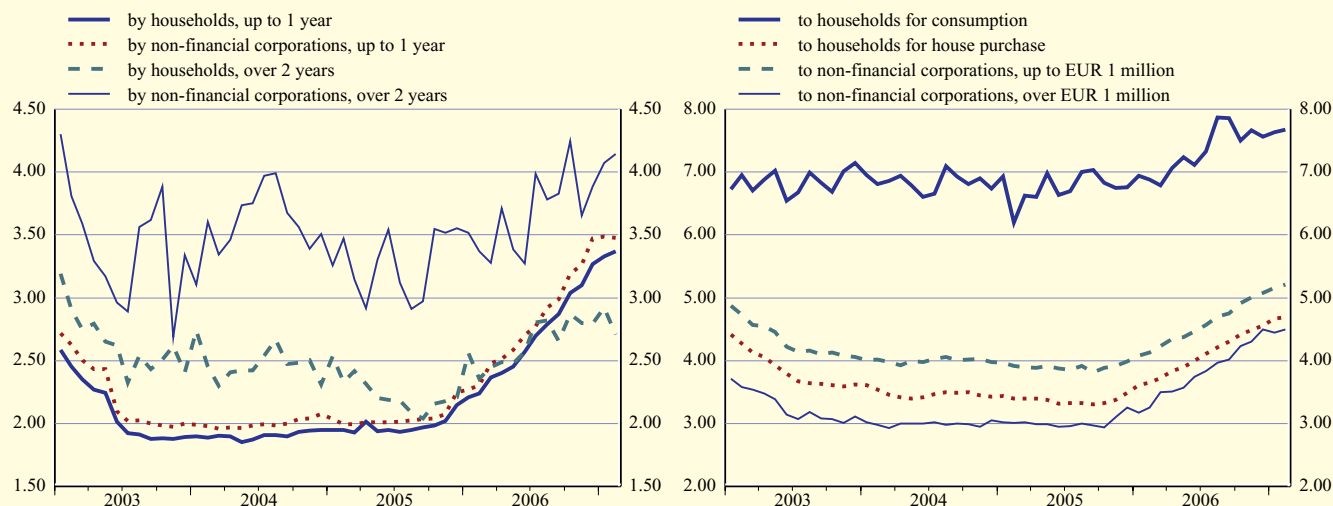
	Deposits from households					Deposits from non-financial corporations			Repos
	Overnight ¹⁾	With agreed maturity		Redeemable at notice ¹⁾²⁾		Overnight ¹⁾	With agreed maturity		
		Up to 2 years	Over 2 years	Up to 3 months	Over 3 months		Up to 2 years	Over 2 years	
	1	2	3	4	5	6	7	8	9
2006 Mar.	0.76	2.16	3.01	1.98	2.37	1.14	2.48	3.46	2.38
Apr.	0.79	2.21	3.01	2.00	2.42	1.16	2.53	3.51	2.42
May	0.79	2.27	3.05	2.00	2.48	1.18	2.59	3.52	2.49
June	0.81	2.34	3.08	2.04	2.53	1.22	2.72	3.53	2.63
July	0.81	2.43	3.03	2.08	2.58	1.24	2.80	3.57	2.71
Aug.	0.85	2.52	3.05	2.23	2.63	1.32	2.93	3.64	2.81
Sep.	0.86	2.59	3.08	2.26	2.68	1.36	3.00	3.69	2.90
Oct.	0.90	2.69	3.10	2.30	2.75	1.45	3.15	3.80	3.05
Nov.	0.91	2.78	3.05	2.30	2.81	1.49	3.24	3.80	3.14
Dec.	0.92	2.89	3.05	2.38	2.87	1.51	3.42	3.88	3.29
2007 Jan.	0.98	2.99	3.06	2.35	2.98	1.61	3.45	3.91	3.36
Feb.	1.01	3.07	3.11	2.36	3.07	1.62	3.51	3.93	3.41

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
2006 Mar.	4.60	4.15	4.52	8.06	6.80	5.73	4.53	3.98	4.31
Apr.	4.63	4.16	4.52	8.10	6.73	5.75	4.59	4.05	4.34
May	4.63	4.16	4.52	8.10	6.70	5.71	4.64	4.10	4.36
June	4.67	4.20	4.55	8.10	6.75	5.73	4.72	4.19	4.40
July	4.68	4.21	4.57	8.15	6.71	5.82	4.81	4.27	4.45
Aug.	4.72	4.23	4.60	8.21	6.72	5.82	4.85	4.33	4.48
Sep.	4.82	4.27	4.62	8.31	6.81	5.87	4.93	4.40	4.53
Oct.	4.90	4.29	4.65	8.36	6.81	5.88	5.07	4.51	4.57
Nov.	4.98	4.33	4.68	8.34	6.81	5.91	5.14	4.59	4.63
Dec.	5.00	4.35	4.70	8.43	6.81	5.93	5.23	4.66	4.68
2007 Jan.	5.04	4.39	4.72	8.55	6.84	5.95	5.30	4.76	4.77
Feb.	5.11	4.47	4.79	8.67	6.95	5.96	5.37	4.85	4.84

C21 New deposits with agreed maturity
(percentages per annum excluding charges; period averages)

C22 New loans at floating rate and up to 1 year initial rate fixation
(percentages per annum excluding charges; period averages)



Source: ECB.

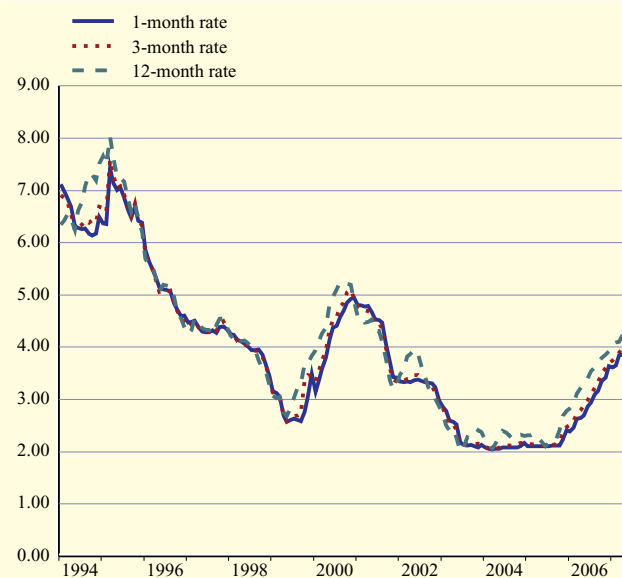
4.6 Money market interest rates

(percentages per annum; period averages)

	Euro area ^{1,2)}					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
2004	2.05	2.08	2.11	2.15	2.27	1.62	0.05
2005	2.09	2.14	2.18	2.23	2.33	3.56	0.06
2006	2.83	2.94	3.08	3.23	3.44	5.19	0.30
2006 Q1	2.40	2.50	2.61	2.75	2.95	4.76	0.08
Q2	2.63	2.74	2.90	3.06	3.32	5.21	0.21
Q3	2.94	3.06	3.22	3.41	3.62	5.43	0.41
Q4	3.36	3.46	3.59	3.72	3.86	5.37	0.49
2007 Q1	3.61	3.71	3.82	3.94	4.09	5.36	0.62
2006 Apr.	2.63	2.65	2.79	2.96	3.22	5.07	0.11
May	2.58	2.69	2.89	3.06	3.31	5.18	0.19
June	2.70	2.87	2.99	3.16	3.40	5.38	0.32
July	2.81	2.94	3.10	3.29	3.54	5.50	0.40
Aug.	2.97	3.09	3.23	3.41	3.62	5.42	0.41
Sep.	3.04	3.16	3.34	3.53	3.72	5.38	0.42
Oct.	3.28	3.35	3.50	3.64	3.80	5.37	0.44
Nov.	3.33	3.42	3.60	3.73	3.86	5.37	0.48
Dec.	3.50	3.64	3.68	3.79	3.92	5.36	0.56
2007 Jan.	3.56	3.62	3.75	3.89	4.06	5.36	0.56
Feb.	3.57	3.65	3.82	3.94	4.09	5.36	0.59
Mar.	3.69	3.84	3.89	4.00	4.11	5.35	0.71
Apr.	3.82	3.86	3.98	4.10	4.25	5.35	0.66

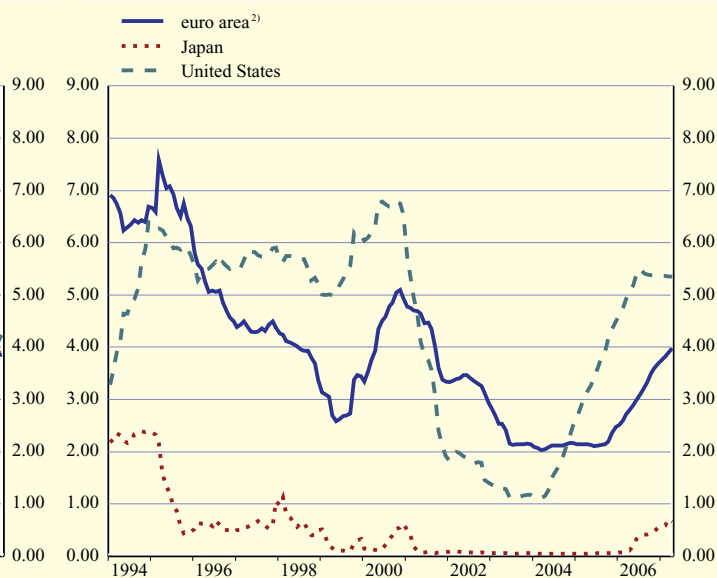
C23 Euro area money market rates ²⁾

(monthly; percentages per annum)



C24 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.
- 2) Data refer to the changing composition of the euro area. For further information, see the General notes.

4.7 Government bond yields

(percentages per annum; period averages)

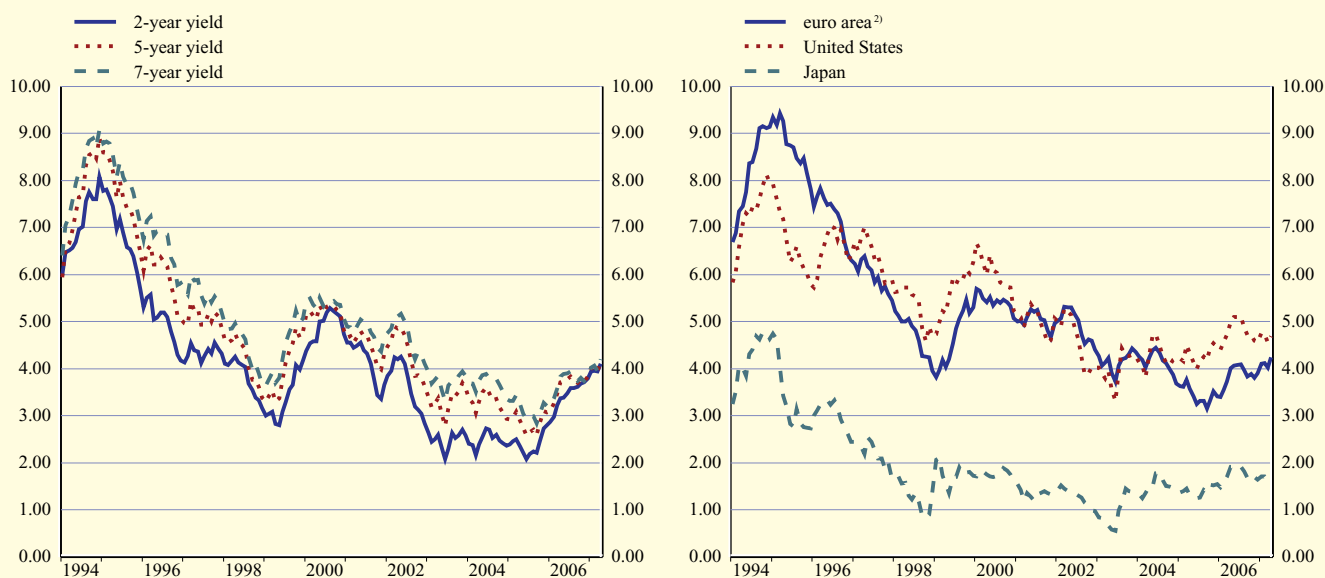
	Euro area ^{1,2)}					United States	Japan
	2 years	3 years	5 years	7 years	10 years	10 years	10 years
	1	2	3	4	5	6	7
2004	2.47	2.77	3.29	3.70	4.14	4.26	1.50
2005	2.38	2.55	2.85	3.14	3.44	4.28	1.39
2006	3.44	3.51	3.64	3.72	3.86	4.79	1.74
2006 Q1	3.02	3.11	3.28	3.39	3.56	4.57	1.58
Q2	3.41	3.53	3.75	3.88	4.05	5.07	1.90
Q3	3.60	3.66	3.76	3.84	3.97	4.90	1.80
Q4	3.73	3.73	3.77	3.79	3.86	4.63	1.70
2007 Q1	3.95	3.96	3.99	4.02	4.08	4.68	1.68
2006 Apr.	3.37	3.49	3.71	3.83	4.01	4.99	1.91
May	3.38	3.52	3.74	3.89	4.06	5.10	1.91
June	3.47	3.59	3.78	3.91	4.08	5.10	1.87
July	3.58	3.69	3.84	3.94	4.10	5.10	1.91
Aug.	3.59	3.65	3.75	3.83	3.97	4.88	1.81
Sep.	3.62	3.64	3.70	3.74	3.84	4.72	1.68
Oct.	3.69	3.70	3.77	3.80	3.88	4.73	1.76
Nov.	3.71	3.70	3.73	3.74	3.80	4.60	1.70
Dec.	3.79	3.79	3.83	3.84	3.90	4.57	1.64
2007 Jan.	3.94	3.96	4.02	4.02	4.10	4.76	1.71
Feb.	3.96	3.96	4.02	4.07	4.12	4.73	1.71
Mar.	3.94	3.94	3.95	3.96	4.02	4.56	1.62
Apr.	4.11	4.12	4.15	4.20	4.25	4.69	1.67

C25 Euro area government bond yields ²⁾

(monthly; percentages per annum)

C26 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.
- 2) Data refer to the changing composition of the euro area. For further information, see the General notes.

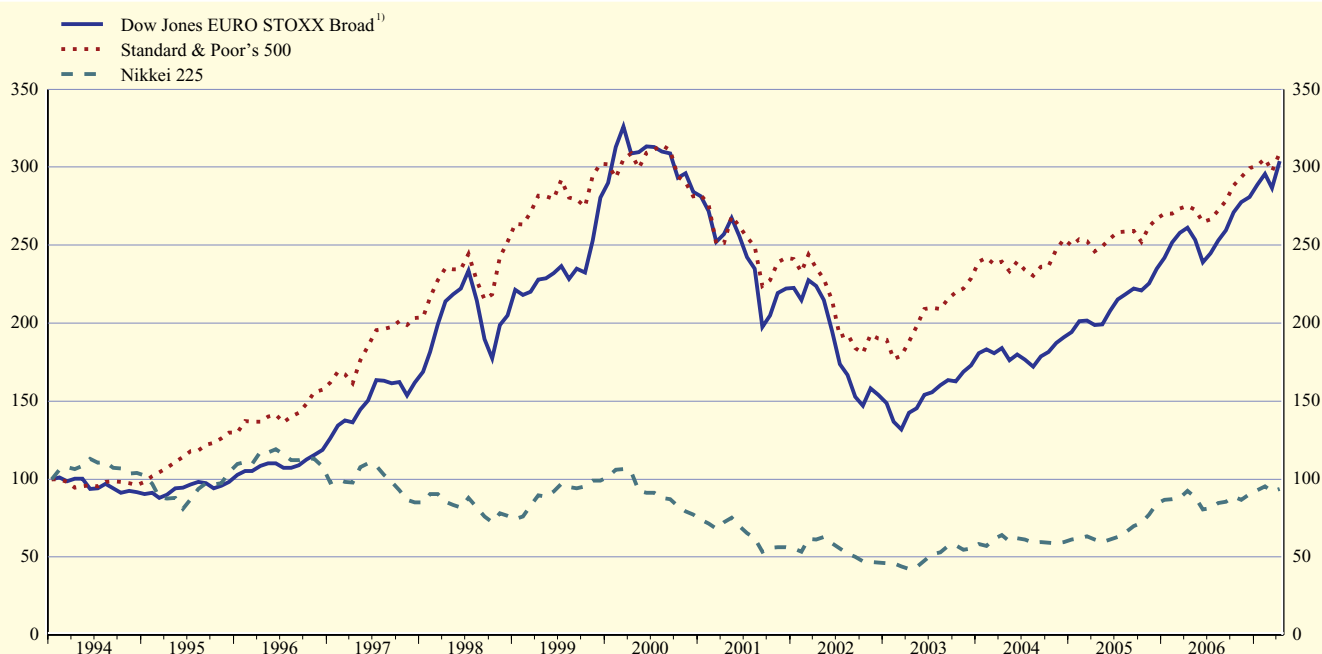
4.8 Stock market indices

(index levels in points; period averages)

	Dow Jones EURO STOXX indices ¹⁾												United States Standard & Poor's 500	Japan Nikkei 225
	Benchmark		Main industry indices											
	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
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
2005	293.8	3,208.6	307.0	181.3	245.1	378.6	287.7	307.3	297.2	334.1	433.1	457.0	1,207.4	12,421.3
2006	357.3	3,795.4	402.3	205.0	293.7	419.8	370.3	391.3	345.3	440.0	416.8	530.2	1,310.5	16,121.2
2006 Q1	347.6	3,729.4	373.1	199.2	286.5	423.6	358.4	379.7	354.5	413.3	415.8	522.4	1,283.2	16,207.8
Q2	348.2	3,692.9	386.0	199.6	285.5	412.8	357.5	387.5	358.0	417.7	403.5	539.1	1,280.9	16,190.0
Q3	350.2	3,726.8	399.7	202.0	287.9	410.1	364.7	378.4	325.8	438.1	397.8	532.9	1,288.6	15,622.2
Q4	383.3	4,032.4	450.4	219.3	315.1	432.7	400.7	419.5	343.1	490.8	450.1	526.3	1,389.2	16,465.0
2007 Q1	402.5	4,150.5	489.9	233.3	335.7	422.8	418.6	462.7	349.4	512.3	472.8	527.2	1,424.8	17,363.9
2006 Apr.	362.3	3,834.6	399.0	204.8	299.9	433.6	372.9	404.0	381.1	429.3	415.8	545.4	1,301.5	17,233.0
May	351.7	3,726.8	392.2	200.9	287.9	415.8	362.7	394.5	358.9	420.4	401.0	542.2	1,289.6	16,430.7
June	331.8	3,528.7	367.8	193.6	269.8	390.7	338.2	365.2	336.0	404.4	394.8	530.2	1,253.1	14,990.3
July	339.6	3,617.3	389.0	196.6	277.0	409.5	348.2	369.8	321.7	415.7	393.3	548.6	1,261.2	15,133.2
Aug.	351.1	3,743.9	399.7	200.9	289.3	418.2	366.5	375.9	324.4	442.3	394.9	525.3	1,287.2	15,786.8
Sep.	359.9	3,817.6	410.4	208.4	297.2	401.9	379.1	389.6	331.3	456.0	405.6	525.4	1,317.5	15,930.9
Oct.	375.8	3,975.8	435.6	216.9	306.8	419.4	397.5	405.6	341.1	475.6	431.1	532.2	1,363.4	16,515.7
Nov.	384.8	4,052.8	451.8	220.1	319.2	438.6	401.3	420.2	343.6	490.5	456.8	517.4	1,389.4	16,103.9
Dec.	389.5	4,070.4	464.4	221.0	319.3	440.4	403.4	433.3	344.6	507.0	463.1	529.4	1,416.2	16,790.2
2007 Jan.	400.4	4,157.8	476.4	229.1	328.2	426.5	419.8	452.2	350.4	505.0	485.0	538.1	1,423.9	17,270.0
Feb.	410.3	4,230.2	496.6	235.9	339.4	428.2	428.3	476.2	355.3	524.7	481.0	530.4	1,445.3	17,729.4
Mar.	397.5	4,070.5	497.9	235.1	340.2	413.9	408.6	461.2	343.0	508.5	452.6	512.9	1,407.0	17,130.0
Apr.	421.7	4,330.7	531.7	247.6	363.9	437.2	432.7	493.8	362.4	540.4	477.4	531.5	1,462.7	17,466.5

C27 Dow Jones EURO STOXX Broad, Standard & Poor's 500 and Nikkei 225

(January 1994 = 100; monthly averages)



Source: ECB.

1) Data refer to the changing composition of the euro area. For further information, see the General notes.



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 ¹⁾

	Total					Total (s.a., percentage change on previous period)						Memo item: Administered prices ²⁾		
	Index 2005 = 100	Total			Goods	Services	Total	Processed food	Unprocessed food	Non-energy industrial goods	Energy (n.s.a.)	Services	Total HICP excluding administered prices	Administered prices
		Total excl. unprocessed food and energy												
% of total ³⁾	100.0	100.0	82.8	59.2	40.8	100.0	11.9	7.6	30.0	9.6	40.8	86.1	13.9	
	1	2	3	4	5	6	7	8	9	10	11	12	13	
2003	95.8	2.1	2.0	1.8	2.5	-	-	-	-	-	-	2.0	2.4	
2004	97.9	2.1	2.1	1.8	2.6	-	-	-	-	-	-	2.0	3.1	
2005	100.0	2.2	1.5	2.1	2.3	-	-	-	-	-	-	2.1	2.7	
2006	102.2	2.2	1.5	2.3	2.0	-	-	-	-	-	-	2.0	3.1	
2006 Q1	101.0	2.3	1.4	2.6	1.9	0.4	0.5	0.7	0.1	1.3	0.4	2.2	2.9	
Q2	102.4	2.5	1.5	2.8	2.0	0.8	0.4	0.6	0.3	3.9	0.5	2.4	3.2	
Q3	102.5	2.1	1.5	2.3	2.0	0.5	0.4	1.9	0.2	0.6	0.6	2.0	3.3	
Q4	102.8	1.8	1.6	1.6	2.1	0.0	0.8	0.8	0.3	-4.2	0.6	1.6	3.0	
2007 Q1	102.9	1.9	1.9	1.6	2.4	0.5	0.4	-0.2	0.4	1.0	0.7	1.7	2.9	
2006 Nov.	102.6	1.9	1.6	1.7	2.1	0.1	0.1	0.5	0.1	-0.5	0.2	1.7	3.0	
Dec.	103.0	1.9	1.6	1.8	2.0	0.1	0.1	-0.1	0.1	0.1	0.2	1.7	2.9	
2007 Jan.	102.5	1.8	1.8	1.5	2.3	0.2	0.1	0.1	0.1	0.4	0.3	1.6	3.0	
Feb.	102.8	1.8	1.9	1.5	2.4	0.2	0.1	-0.5	0.3	0.3	0.3	1.7	3.1	
Mar.	103.5	1.9	1.9	1.7	2.4	0.2	0.1	-0.2	0.2	1.5	0.1	1.8	2.7	
Apr. ⁴⁾	.	1.8	.	.	.	.	.	.	.	.	.	.	.

	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 ³⁾	19.6	11.9	7.6	39.6	30.0	9.6	10.2	6.2	6.4	3.1	14.4	6.7		
	14	15	16	17	18	19	20	21	22	23	24	25		
2003	2.8	3.3	2.1	1.2	0.8	3.0	2.4	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		
2005	1.6	2.0	0.8	2.4	0.3	10.1	2.6	2.0	2.7	-2.2	2.3	3.1		
2006	2.4	2.1	2.8	2.3	0.6	7.7	2.5	2.1	2.5	-3.3	2.3	2.3		
2006 Q1	1.8	2.0	1.4	3.0	0.3	12.2	2.5	2.0	2.4	-3.3	2.2	2.3		
Q2	2.0	2.2	1.6	3.1	0.7	11.6	2.5	2.1	2.8	-3.6	2.3	2.2		
Q3	2.8	2.1	3.9	2.0	0.7	6.3	2.5	2.1	2.6	-3.6	2.4	2.3		
Q4	2.9	2.2	4.1	1.0	0.8	1.5	2.5	2.1	2.3	-2.5	2.4	2.4		
2007 Q1	2.5	2.1	3.1	1.1	1.1	1.1	2.6	2.0	2.9	-2.1	2.8	2.5		
2006 Oct.	3.0	2.3	4.2	0.5	0.8	-0.5	2.5	2.2	2.4	-2.7	2.4	2.4		
Nov.	3.0	2.2	4.4	1.1	0.8	2.1	2.5	2.1	2.3	-2.7	2.5	2.4		
Dec.	2.7	2.1	3.7	1.4	0.9	2.9	2.5	2.1	2.2	-2.3	2.4	2.4		
2007 Jan.	2.8	2.2	3.7	0.9	0.9	0.9	2.6	2.0	2.9	-1.7	2.7	2.4		
Feb.	2.4	2.1	2.8	1.1	1.1	0.8	2.6	2.0	2.8	-1.8	2.8	2.6		
Mar.	2.3	1.9	2.9	1.4	1.2	1.8	2.6	2.0	2.9	-2.8	2.9	2.6		

Sources: Eurostat and ECB calculations.

- 1) Data refer to the changing composition of the euro area. For further information, see the General notes.
- 2) ECB estimates based on Eurostat data; these experimental statistics can only provide an approximate measure of price administration since changes in administered prices cannot be fully isolated from other influences. Please refer to <http://www.ecb.int/stats/prices/hicp/html/index.en.html> for a note explaining the methodology used in the compilation of this indicator.
- 3) Referring to the index period 2007.
- 4) Estimate based on provisional national releases usually covering around 95% of the euro area, 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	Intermediate goods	Capital goods	Consumer goods									
							Total	Durable	Non-durable							
% of total ⁵⁾	100.0	100.0	89.5	82.4	31.6	21.2	29.6	4.0	25.6	17.6	100.0	32.8				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
2003	103.4	1.4	0.9	0.8	0.8	0.3	1.1	0.6	1.2	3.7	2.1	7.0	-4.0	-4.5	25.1	
2004	105.8	2.3	2.5	2.0	3.5	0.7	1.3	0.7	1.4	3.9	2.6	7.4	18.4	10.8	30.5	
2005	110.1	4.1	3.2	1.9	2.9	1.3	1.1	1.3	1.1	13.4	3.1	7.9	28.5	9.4	44.6	
2006	115.8	5.1	3.4	2.8	4.8	1.4	1.7	1.6	1.7	13.2	.	6.4	19.7	24.8	52.9	
2006 Q1	113.9	5.2	3.2	1.7	2.2	1.0	1.5	1.4	1.5	18.8	2.6	-	36.4	23.6	52.3	
Q2	115.8	5.8	3.9	2.6	4.4	1.2	1.7	1.6	1.8	17.3	3.4	6.9 ⁶⁾	30.0	26.2	56.2	
Q3	116.9	5.4	3.7	3.6	6.3	1.7	1.9	1.8	1.9	11.7	3.5	-	13.4	26.6	55.7	
Q4	116.6	4.1	2.8	3.5	6.2	1.8	1.6	1.7	1.6	6.1	.	6.0 ⁶⁾	3.9	23.0	47.3	
2007 Q1	117.2	2.9	2.5	3.4	6.0	2.0	1.5	2.0	1.5	1.2	.	-	-5.5	15.7	44.8	
2006 Nov.	116.6	4.3	2.9	3.5	6.2	1.9	1.6	1.7	1.6	6.9	-	-	4.5	22.9	46.7	
Dec.	116.6	4.1	2.9	3.4	6.1	1.8	1.4	1.7	1.4	6.2	-	-	3.2	17.7	47.4	
2007 Jan.	116.9	3.1	2.4	3.5	6.1	1.9	1.5	1.9	1.4	1.7	-	-	-9.6	15.6	42.2	
Feb.	117.3	2.9	2.5	3.5	6.0	2.1	1.6	2.0	1.6	1.2	-	-	-4.6	13.9	44.9	
Mar.	117.6	2.7	2.5	3.4	5.8	2.0	1.5	2.0	1.4	0.8	-	-	-2.3	17.6	47.3	
Apr.	.	.	.	.	.	.	.	.	.	.	-	-	-5.5	15.3	50.2

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	73.1	26.9	34.6	9.1	56.3	
	1	2	3	4	5	6	7	8
2003	110.8	3.1	2.9	3.8	3.1	3.8	2.9	2.4
2004	113.5	2.4	2.3	2.3	2.8	2.7	2.0	2.1
2005	116.2	2.4	2.6	1.9	2.5	2.2	2.4	2.1
2006	119.1	2.5	2.8	1.9	2.8	2.2	2.4	2.2
2005 Q4	117.3	2.4	2.6	1.4	2.5	2.5	2.3	2.0
2006 Q1	118.0	2.5	2.9	1.2	2.7	2.4	2.4	2.1
Q2	118.7	2.6	2.9	2.0	3.2	1.7	2.4	2.4
Q3	119.5	2.5	2.7	2.2	3.1	1.9	2.2	2.0
Q4	120.2	2.4	2.5	2.2	2.2	2.6	2.5	2.4

Sources: Eurostat, HWWI (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		
	1	2	3	4	5	6	7	8	
Unit labour costs ¹⁾									
2003	106.5	1.8	6.2	0.4	3.3	2.2	1.3	2.8	
2004	107.6	1.1	-9.3	-0.1	3.1	-0.3	2.6	2.6	
2005	108.6	0.9	8.7	-1.2	3.5	0.2	2.0	1.8	
2006	109.5	0.8	3.9	-2.0	1.3	0.0	2.7	2.4	
2005 Q4	109.2	0.9	10.2	-2.1	2.4	0.0	2.2	2.7	
2006 Q1	109.4	1.0	5.7	-1.7	1.8	0.0	2.9	2.4	
Q2	109.7	1.0	4.4	-1.9	0.2	0.3	2.1	3.4	
Q3	109.6	1.1	4.3	-2.0	1.1	-0.1	3.3	2.8	
Q4	109.2	0.0	1.3	-2.4	2.1	-0.1	2.4	0.9	
Compensation per employee									
2003	107.4	2.1	2.6	2.2	2.8	1.9	2.3	2.0	
2004	109.7	2.1	2.5	2.5	2.4	1.2	2.0	2.5	
2005	111.5	1.6	3.1	1.5	1.9	1.4	2.1	1.6	
2006	113.9	2.2	2.8	2.5	2.5	2.0	1.7	2.2	
2005 Q4	112.5	2.1	3.2	1.7	1.9	1.5	1.8	3.0	
2006 Q1	113.1	2.2	1.9	2.6	2.3	1.9	1.7	2.2	
Q2	113.9	2.4	2.3	2.5	2.0	2.2	1.2	3.2	
Q3	114.1	2.3	3.6	2.6	2.2	1.8	1.9	2.7	
Q4	114.5	1.8	3.3	2.2	3.4	2.1	2.0	0.7	
Labour productivity ²⁾									
2003	100.9	0.3	-3.3	1.8	-0.5	-0.2	1.0	-0.8	
2004	101.9	1.0	13.0	2.6	-0.6	1.5	-0.5	0.0	
2005	102.6	0.7	-5.1	2.8	-1.7	1.1	0.1	-0.2	
2006	104.0	1.4	-1.1	4.6	1.2	2.0	-1.0	-0.2	
2005 Q4	103.0	1.1	-6.3	3.9	-0.5	1.5	-0.4	0.3	
2006 Q1	103.3	1.2	-3.5	4.4	0.5	1.9	-1.2	-0.2	
Q2	103.8	1.4	-2.0	4.5	1.8	1.9	-0.9	-0.1	
Q3	104.2	1.2	-0.7	4.7	1.1	1.9	-1.4	-0.2	
Q4	104.8	1.8	2.0	4.7	1.2	2.1	-0.4	-0.3	

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
2003	107.3	2.1	2.0	2.1	2.4	1.2	-1.2	-1.8
2004	109.3	1.9	2.1	2.1	2.2	2.5	1.1	1.5
2005	111.4	1.9	2.2	2.0	2.2	2.3	2.6	3.6
2006	113.4	1.8	2.4	2.0	1.7	2.7	2.6	4.2
2005 Q4	112.4	2.1	2.6	2.2	2.9	2.1	2.9	4.2
2006 Q1	112.6	1.8	2.8	2.3	2.0	2.3	2.7	5.5
Q2	113.1	1.9	2.8	2.2	2.6	2.8	3.0	5.4
Q3	113.7	1.9	2.4	2.0	1.8	2.9	2.7	3.8
Q4	114.2	1.6	1.8	1.6	0.5	2.8	1.9	2.3

Sources: ECB calculations based on Eurostat data.

1) Compensation (at current prices) per employee divided by value added (volumes) per person employed.

2) Value added (volumes) 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	
<i>Current prices (EUR billions, seasonally adjusted)</i>									
2003	7,461.9	7,305.2	4,278.3	1,526.7	1,499.2	1.0	156.7	2,624.5	2,467.8
2004	7,738.8	7,576.5	4,426.6	1,580.9	1,562.4	6.6	162.3	2,823.6	2,661.3
2005	8,001.5	7,883.4	4,584.2	1,639.9	1,641.1	18.1	118.0	3,025.7	2,907.6
2006	8,374.6	8,276.6	4,763.4	1,704.0	1,769.3	39.9	98.0	3,366.2	3,268.1
2005 Q4	2,031.5	2,008.0	1,162.1	418.3	419.0	8.6	23.6	784.4	760.9
2006 Q1	2,052.1	2,034.8	1,174.9	421.1	426.9	11.9	17.3	812.1	794.8
Q2	2,082.5	2,063.8	1,185.4	425.9	440.0	12.7	18.7	826.8	808.0
Q3	2,106.3	2,086.7	1,198.1	427.0	446.7	14.9	19.6	848.0	828.5
Q4	2,133.7	2,091.2	1,205.1	430.0	455.7	0.4	42.4	879.2	836.8
<i>percentage of GDP</i>									
2006	100.0	98.8	56.9	20.3	21.1	0.5	1.2	-	-
<i>Chain-linked volumes (prices of the previous year, seasonally adjusted³⁾)</i>									
<i>quarter-on-quarter percentage changes</i>									
2005 Q4	0.4	0.7	0.2	0.1	0.5	-	-	0.8	1.7
2006 Q1	0.8	0.5	0.5	1.3	1.1	-	-	3.2	2.4
Q2	1.0	1.0	0.4	0.0	2.2	-	-	1.0	0.9
Q3	0.6	0.7	0.7	0.7	0.9	-	-	1.9	2.2
Q4	0.9	0.1	0.4	0.4	1.5	-	-	3.6	1.7
<i>annual percentage changes</i>									
2003	0.8	1.5	1.2	1.8	1.1	-	-	1.1	3.1
2004	2.0	1.9	1.5	1.4	2.2	-	-	6.9	6.7
2005	1.4	1.7	1.4	1.4	2.5	-	-	4.2	5.2
2006	2.7	2.4	1.7	2.2	4.7	-	-	8.3	7.8
2005 Q4	1.8	2.0	1.3	1.6	3.5	-	-	4.9	5.6
2006 Q1	2.2	2.2	1.8	2.5	4.1	-	-	8.8	9.1
Q2	2.8	2.6	1.8	1.9	5.3	-	-	7.9	7.4
Q3	2.8	2.9	1.8	2.0	4.7	-	-	7.1	7.5
Q4	3.3	2.3	2.0	2.4	5.8	-	-	10.0	7.5
<i>contributions to quarter-on-quarter percentage changes of GDP in percentage points</i>									
2005 Q4	0.4	0.7	0.1	0.0	0.1	0.5	-0.3	-	-
2006 Q1	0.8	0.5	0.3	0.3	0.2	-0.3	0.3	-	-
Q2	1.0	0.9	0.2	0.0	0.4	0.3	0.0	-	-
Q3	0.6	0.7	0.4	0.1	0.2	0.0	-0.1	-	-
Q4	0.9	0.1	0.2	0.1	0.3	-0.5	0.8	-	-
<i>contributions to annual percentage changes of GDP in percentage points</i>									
2003	0.8	1.4	0.7	0.4	0.2	0.2	-0.7	-	-
2004	2.0	1.8	0.9	0.3	0.4	0.2	0.2	-	-
2005	1.4	1.6	0.8	0.3	0.5	0.0	-0.2	-	-
2006	2.7	2.4	1.0	0.4	1.0	0.0	0.3	-	-
2005 Q4	1.8	1.9	0.7	0.3	0.7	0.2	-0.1	-	-
2006 Q1	2.2	2.2	1.0	0.5	0.8	-0.2	0.0	-	-
Q2	2.8	2.5	1.0	0.4	1.1	0.0	0.3	-	-
Q3	2.8	2.8	1.0	0.4	1.0	0.4	0.0	-	-
Q4	3.3	2.3	1.2	0.5	1.2	-0.6	1.0	-	-

Sources: Eurostat and ECB calculations.

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.

3) Annual data are not adjusted for the variations in the number of working days.

5.2 Output and demand

2. Value added by economic activity

	Gross value added (basic prices)							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
<i>Current prices (EUR billions, seasonally adjusted)</i>								
2003	6,704.0	152.1	1,385.5	390.2	1,423.4	1,824.9	1,528.0	757.9
2004	6,946.1	157.3	1,418.2	413.6	1,476.0	1,898.5	1,582.4	792.7
2005	7,166.3	143.4	1,454.3	436.7	1,519.5	1,977.0	1,635.5	835.1
2006	7,479.8	147.1	1,520.5	478.7	1,572.5	2,075.2	1,685.8	894.8
2005 Q4	1,816.0	36.2	367.0	113.0	382.1	501.7	416.0	215.5
2006 Q1	1,833.0	35.5	373.0	114.7	385.5	508.3	416.0	219.2
Q2	1,860.6	36.4	377.6	118.1	391.0	515.5	422.1	221.9
Q3	1,884.1	37.2	383.8	121.5	396.3	522.7	422.7	222.2
Q4	1,902.1	38.1	386.1	124.5	399.7	528.8	425.1	231.5
<i>percentage of value added</i>								
2006	100.0	2.0	20.3	6.4	21.0	27.7	22.5	-
<i>Chain-linked volumes (prices of the previous year, seasonally adjusted¹⁾)</i>								
<i>quarter-on-quarter percentage changes</i>								
2005 Q4	0.4	0.2	0.6	0.9	0.5	0.1	0.2	0.3
2006 Q1	0.8	-2.1	1.6	-0.1	0.8	0.9	0.4	1.2
Q2	1.1	0.6	1.4	2.4	1.3	1.0	0.3	0.2
Q3	0.6	-0.1	1.1	1.0	0.6	0.4	0.2	0.6
Q4	0.7	2.2	0.5	1.5	0.8	0.8	0.4	2.6
<i>annual percentage changes</i>								
2003	0.7	-5.9	0.3	0.3	0.4	1.6	1.0	1.4
2004	2.1	11.6	1.9	1.1	2.8	1.7	1.2	1.5
2005	1.4	-6.3	1.2	0.9	1.7	2.2	1.1	1.4
2006	2.6	-1.3	4.0	3.9	3.0	2.4	1.1	3.4
2005 Q4	1.8	-7.3	2.7	2.1	2.0	2.1	1.1	2.2
2006 Q1	2.1	-3.0	3.8	2.8	2.6	1.7	1.0	3.1
Q2	2.8	-0.8	4.4	3.8	3.3	2.6	1.2	3.2
Q3	2.8	-1.3	4.7	4.2	3.2	2.5	1.2	2.5
Q4	3.2	0.7	4.6	4.8	3.6	3.2	1.3	4.8
<i>contributions to quarter-on-quarter percentage changes of value added in percentage points</i>								
2005 Q4	0.4	0.0	0.1	0.1	0.1	0.0	0.1	-
2006 Q1	0.8	0.0	0.3	0.0	0.2	0.2	0.1	-
Q2	1.1	0.0	0.3	0.1	0.3	0.3	0.1	-
Q3	0.6	0.0	0.2	0.1	0.1	0.1	0.1	-
Q4	0.7	0.0	0.1	0.1	0.2	0.2	0.1	-
<i>contributions to annual percentage changes of value added in percentage points</i>								
2003	0.7	-0.1	0.1	0.0	0.1	0.4	0.2	-
2004	2.1	0.3	0.4	0.1	0.6	0.5	0.3	-
2005	1.4	-0.1	0.2	0.1	0.4	0.6	0.2	-
2006	2.8	0.2	0.8	0.2	0.6	0.7	0.3	-
2005 Q4	1.8	-0.2	0.5	0.1	0.4	0.6	0.3	-
2006 Q1	2.1	-0.1	0.8	0.2	0.5	0.5	0.2	-
Q2	2.8	0.0	0.9	0.2	0.7	0.7	0.3	-
Q3	2.8	0.0	0.9	0.3	0.7	0.7	0.3	-
Q4	3.2	0.0	0.9	0.3	0.8	0.9	0.3	-

Sources: Eurostat and ECB calculations.

1) Annual data are not adjusted for the variations in the number of working days.

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	Intermediate goods	Capital goods	Consumer goods					
							Total	Durable	Non-durable			
1	2	3	4	5	6	7	8	9	10	11	12	
	100.0	82.9	82.9	75.0	74.0	30.0	22.4	21.5	3.6	17.9	8.9	17.1
2004	2.2	102.4	2.1	2.1	2.0	2.3	3.4	0.5	0.1	0.6	2.0	-0.1
2005	1.1	103.8	1.3	1.3	1.1	0.9	2.8	0.5	-0.9	0.7	1.3	-0.2
2006	3.8	107.9	4.0	4.3	4.4	5.0	5.8	2.4	4.2	2.1	0.7	4.4
2006 Q1	3.9	106.2	3.5	3.7	3.6	3.0	5.3	2.2	2.4	2.2	3.9	2.1
Q2	3.2	107.6	4.3	4.4	4.7	5.8	5.6	2.6	3.7	2.4	0.9	3.8
Q3	4.2	108.6	4.1	4.5	4.4	5.8	5.6	1.7	5.1	1.1	1.5	4.5
Q4	4.1	109.3	3.9	4.8	4.8	5.3	6.6	3.0	5.5	2.6	-3.3	6.8
2006 Sep.	3.6	108.5	3.5	3.8	3.7	4.7	5.3	1.5	4.5	1.0	-0.4	4.0
Oct.	4.2	108.6	4.1	4.7	4.8	5.4	5.9	3.0	4.9	2.6	-1.7	5.4
Nov.	3.8	108.9	3.0	4.0	3.8	3.5	6.4	2.5	5.2	2.0	-4.0	6.5
Dec.	4.4	110.3	4.8	5.9	5.9	7.4	7.6	3.6	6.4	3.2	-4.1	8.9
2007 Jan.	3.5	109.6	3.3	5.4	5.6	5.5	7.0	3.5	3.7	3.5	-7.4	8.4
Feb.	4.8	110.2	4.1	5.7	5.8	6.7	7.4	2.8	4.7	2.5	-5.7	10.6
<i>month-on-month percentage changes (s.a.)</i>												
2006 Sep.	-0.7	-	-0.9	-1.1	-1.0	-2.2	-0.6	-0.6	-3.2	-0.2	-1.4	0.8
Oct.	0.0	-	0.1	0.3	0.3	0.6	-0.1	0.5	0.2	0.5	-2.1	0.9
Nov.	0.6	-	0.3	0.5	0.4	0.1	1.4	0.1	1.3	-0.1	0.4	0.8
Dec.	1.0	-	1.2	1.3	1.5	2.2	0.8	1.0	0.8	1.1	1.9	0.8
2007 Jan.	-0.4	-	-0.5	-0.1	0.0	-0.6	0.4	-0.3	-1.5	-0.1	-3.3	0.2
Feb.	0.7	-	0.5	0.5	0.4	0.4	0.8	0.2	0.6	0.1	0.9	1.1

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		
2004	105.0	7.4	106.2	5.1	2.3	105.3	1.6	1.2	1.7	1.9	3.3	926	1.0
2005	110.9	4.6	110.7	3.6	2.2	106.7	1.3	0.6	1.7	2.3	1.2	941	1.6
2006	121.3	9.4	118.9	7.4	3.3	108.8	2.0	0.7	2.6	3.0	4.7	963	2.3
2006 Q2	119.7	8.2	118.3	6.4	3.7	108.5	2.2	1.2	2.5	2.9	4.0	967	2.6
Q3	123.1	10.5	119.8	6.5	3.8	109.2	2.3	1.3	2.7	3.6	5.0	937	-1.8
Q4	124.8	6.8	121.9	7.6	3.3	109.7	2.3	-0.2	3.5	3.3	6.8	983	5.1
2007 Q1	.	.	.	.	2.7	109.7	1.6	0.4	2.3	.	.	948	-1.7
2006 Oct.	123.7	13.2	119.8	10.9	2.5	109.1	1.5	-0.8	2.6	1.7	5.4	949	-0.5
Nov.	124.5	6.3	122.3	8.0	3.3	109.7	2.1	-0.1	3.4	3.5	7.1	973	4.4
Dec.	126.3	1.7	123.5	4.0	4.1	110.2	3.0	0.3	4.4	4.5	7.8	1,027	13.2
2007 Jan.	126.3	12.2	123.4	10.1	2.0	109.2	0.9	-0.4	1.7	2.4	4.0	939	-2.9
Feb.	125.6	4.9	124.0	7.5	2.1	109.6	1.2	-0.5	2.6	4.7	4.4	935	-3.7
Mar.	.	.	.	.	3.9	110.2	2.6	2.1	2.6	.	.	971	0.8
<i>month-on-month percentage changes (s.a.)</i>													
2006 Oct.	-	0.2	-	-0.1	0.2	-	0.2	-0.2	0.4	0.9	0.2	-	-1.6
Nov.	-	0.6	-	2.1	0.7	-	0.5	0.0	0.8	1.5	1.1	-	2.5
Dec.	-	1.5	-	0.9	0.5	-	0.5	0.2	0.5	0.5	1.2	-	5.5
2007 Jan.	-	0.0	-	0.0	-0.8	-	-0.9	-0.3	-1.1	-0.6	-2.0	-	-8.5
Feb.	-	-0.6	-	0.5	0.5	-	0.4	0.3	0.6	1.0	0.5	-	-0.5
Mar.	-	.	-	.	0.9	-	0.5	0.7	0.2	.	.	-	3.8

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				Capacity utilisation ⁴⁾ (percentages)	Consumer confidence indicator ³⁾				
		Industrial confidence indicator					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
2003	93.1	-10	-25	10	4	80.8	-18	-5	-20	37	-10
2004	99.2	-5	-15	8	10	81.5	-14	-4	-14	30	-9
2005	97.9	-7	-17	11	6	81.2	-14	-4	-15	28	-9
2006	106.9	2	0	6	13	83.3	-9	-3	-9	15	-9
2006 Q1	102.6	-2	-9	9	11	82.2	-11	-3	-11	20	-9
Q2	106.8	2	0	6	13	83.0	-10	-3	-10	16	-9
Q3	108.2	4	3	5	12	83.8	-8	-3	-10	12	-8
Q4	109.9	6	6	4	15	84.2	-7	-3	-7	10	-9
2007 Q1	110.0	6	7	4	14	84.6	-5	-2	-5	6	-8
2006 Nov.	109.9	6	6	4	16	-	-7	-3	-7	10	-9
Dec.	109.8	6	8	3	14	-	-6	-3	-5	9	-9
2007 Jan.	109.2	5	6	4	15	84.4	-7	-2	-7	8	-9
Feb.	109.7	5	7	3	12	-	-5	-3	-4	5	-8
Mar.	111.1	6	8	4	14	-	-4	-1	-3	5	-8
Apr.	111.0	7	9	4	15	84.8	-4	-2	-3	3	-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
2003	-16	-23	-9	-10	-12	16	0	4	-4	3	14
2004	-12	-20	-4	-8	-12	14	1	11	6	8	18
2005	-7	-12	-2	-7	-12	13	4	11	5	10	18
2006	0	-5	5	0	3	14	13	18	13	18	23
2006 Q1	-2	-8	3	-3	-4	15	9	15	10	14	20
Q2	-1	-6	4	1	1	14	16	19	14	18	24
Q3	3	-2	7	2	5	13	14	19	14	19	25
Q4	3	-3	8	2	8	13	11	20	13	21	26
2007 Q1	0	-8	9	-1	1	16	12	21	16	21	25
2006 Nov.	3	-4	10	3	10	13	12	19	12	19	26
Dec.	2	-2	7	0	5	13	8	19	12	20	25
2007 Jan.	1	-8	10	-1	2	16	11	20	16	19	23
Feb.	0	-8	8	-1	0	16	12	20	15	21	24
Mar.	0	-9	9	0	2	15	13	22	18	22	28
Apr.	0	-6	7	0	3	17	14	22	19	23	25

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 1990 to 2006.
- 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	84.6	15.4	4.3	17.4	7.6	24.9	15.3	30.5
	1	2	3	4	5	6	7	8	9	10
2003	135.465	0.4	0.5	0.1	-2.7	-1.4	0.8	0.7	0.6	1.8
2004	136.451	0.7	0.7	0.9	-1.2	-1.3	1.5	1.0	2.1	1.2
2005	137.532	0.8	1.0	-0.1	-1.4	-1.2	2.7	0.7	2.1	1.3
2006	139.456	1.4	1.5	1.0	0.0	-0.2	2.7	1.2	3.5	1.4
2005 Q4	137.994	0.7	1.0	-1.0	-1.0	-1.1	2.4	0.5	2.5	0.8
2006 Q1	138.664	1.0	1.1	0.6	0.2	-0.6	2.0	0.8	2.8	1.2
Q2	139.339	1.5	1.5	1.3	1.2	-0.1	1.9	1.5	3.4	1.3
Q3	139.697	1.5	1.6	0.8	-0.6	0.1	2.8	1.2	3.8	1.3
Q4	140.124	1.6	1.7	1.0	-1.0	-0.3	4.0	1.4	3.9	1.6
	<i>quarter-on-quarter percentage changes (s.a.)</i>									
2005 Q4	0.406	0.3	0.3	0.0	0.2	0.0	1.0	0.3	1.1	-0.1
2006 Q1	0.670	0.5	0.4	0.9	0.2	-0.1	0.6	0.5	0.9	0.7
Q2	0.675	0.5	0.5	0.6	0.8	0.2	0.7	0.5	0.9	0.4
Q3	0.358	0.3	0.4	-0.4	-1.8	0.0	0.8	0.0	1.0	0.4
Q4	0.426	0.3	0.3	0.1	-0.5	-0.2	1.5	0.4	0.7	0.2

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		75.4		24.6		47.9		52.1	
	1	2	3	4	5	6	7	8	9	10
2003	12.521	8.7	9.332	7.4	3.189	17.8	5.978	7.3	6.543	10.4
2004	12.876	8.8	9.657	7.5	3.219	18.2	6.190	7.5	6.685	10.4
2005	12.660	8.6	9.570	7.4	3.090	17.7	6.140	7.4	6.520	10.0
2006	11.717	7.9	8.832	6.7	2.886	16.7	5.612	6.7	6.105	9.3
2006 Q1	12.220	8.2	9.198	7.0	3.023	17.4	5.840	7.0	6.380	9.7
Q2	11.749	7.9	8.892	6.8	2.858	16.6	5.688	6.8	6.062	9.3
Q3	11.564	7.8	8.701	6.6	2.862	16.6	5.524	6.6	6.040	9.2
Q4	11.321	7.6	8.491	6.4	2.830	16.5	5.335	6.4	5.987	9.1
2007 Q1	10.895	7.3	8.105	6.1	2.791	16.3	5.085	6.1	5.810	8.8
2006 Oct.	11.444	7.7	8.585	6.5	2.859	16.6	5.387	6.5	6.056	9.2
Nov.	11.319	7.6	8.499	6.4	2.819	16.4	5.333	6.4	5.986	9.1
Dec.	11.202	7.5	8.389	6.3	2.813	16.4	5.284	6.3	5.918	9.0
2007 Jan.	11.035	7.4	8.222	6.2	2.813	16.4	5.179	6.2	5.856	8.9
Feb.	10.882	7.3	8.089	6.1	2.793	16.3	5.075	6.1	5.807	8.8
Mar.	10.769	7.2	8.003	6.0	2.766	16.1	5.001	6.0	5.767	8.7

Source: Eurostat.

- 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 2006.
- 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 ³⁾
	1	2	Direct taxes		Indirect taxes	Received by EU institutions	Social contributions		Sales	Capital taxes	13	14		
			Households	Corporations			Employers	Employees						
1998	46.6	46.3	12.2	9.1	2.8	13.9	0.6	16.1	8.3	4.9	2.3	0.3	0.3	42.5
1999	47.0	46.7	12.5	9.3	2.9	14.1	0.6	16.1	8.3	4.9	2.3	0.3	0.3	43.0
2000	46.6	46.4	12.7	9.4	3.0	13.9	0.6	15.9	8.2	4.8	2.2	0.3	0.3	42.7
2001	45.8	45.6	12.3	9.2	2.8	13.6	0.6	15.7	8.2	4.7	2.2	0.2	0.3	41.8
2002	45.3	45.0	11.8	9.1	2.5	13.5	0.4	15.7	8.2	4.6	2.1	0.3	0.3	41.3
2003	45.2	44.5	11.5	8.9	2.3	13.5	0.4	15.8	8.3	4.7	2.1	0.6	0.5	41.3
2004	44.7	44.2	11.4	8.6	2.5	13.6	0.3	15.6	8.2	4.6	2.1	0.5	0.4	41.0
2005	45.1	44.7	11.6	8.7	2.7	13.7	0.3	15.5	8.1	4.5	2.2	0.5	0.3	41.2
2006	45.8	45.5	12.2	8.8	3.1	14.0	0.3	15.6	8.2	4.5	2.1	0.3	0.3	42.1

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		14
1998	48.8	45.1	10.6	4.7	4.6	25.2	22.2	2.1	0.5	3.8	2.4	1.4	0.1	44.2
1999	48.4	44.5	10.6	4.8	4.0	25.1	22.1	2.1	0.5	3.9	2.5	1.4	0.1	44.3
2000	47.6	43.9	10.4	4.8	3.9	24.8	21.7	2.0	0.5	3.8	2.5	1.3	0.0	43.7
2001	47.7	43.8	10.3	4.8	3.8	24.8	21.8	1.9	0.5	3.9	2.5	1.4	0.0	43.9
2002	47.8	44.0	10.4	4.9	3.5	25.2	22.3	1.9	0.5	3.8	2.4	1.4	0.0	44.3
2003	48.2	44.3	10.5	5.0	3.3	25.5	22.7	1.9	0.5	4.0	2.5	1.4	0.1	44.9
2004	47.5	43.7	10.4	5.0	3.1	25.2	22.5	1.7	0.5	3.8	2.5	1.4	0.0	44.4
2005	47.6	43.7	10.4	5.1	3.0	25.2	22.5	1.7	0.5	3.9	2.5	1.4	0.0	44.6
2006	47.4	43.3	10.3	5.0	2.9	25.1	22.3	1.6	0.5	4.1	2.5	1.6	0.0	44.5

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
1998	-2.3	-2.2	-0.2	0.1	0.1	2.3	19.8	10.6	4.7	4.8	1.9	2.3	8.2	11.5
1999	-1.4	-1.7	-0.1	0.1	0.4	2.7	19.9	10.6	4.8	4.9	1.9	2.3	8.3	11.6
2000	-1.0	-1.4	-0.1	0.1	0.5	2.9	19.8	10.4	4.8	4.9	1.9	2.2	8.2	11.6
2001	-1.9	-1.7	-0.4	-0.1	0.3	1.9	19.9	10.3	4.8	5.0	1.9	2.2	8.1	11.7
2002	-2.6	-2.1	-0.5	-0.2	0.2	0.9	20.3	10.4	4.9	5.1	1.9	2.1	8.2	12.0
2003	-3.1	-2.4	-0.5	-0.2	0.0	0.2	20.5	10.5	5.0	5.2	1.9	2.1	8.3	12.2
2004	-2.8	-2.4	-0.3	-0.2	0.1	0.3	20.4	10.4	5.0	5.2	1.9	2.1	8.3	12.2
2005	-2.5	-2.2	-0.3	-0.3	0.2	0.5	20.5	10.4	5.1	5.2	1.9	2.2	8.2	12.3
2006	-1.6	-1.6	-0.1	-0.3	0.3	1.3	20.4	10.3	5.0	5.2	1.9	2.1	8.1	12.4

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

	BE	DE	IE	GR	ES	FR	IT	LU	NL	AT	PT	SI	FI
	1	2	3	4	5	6	7	8	9	10	11	12	13
2003	0.1	-4.0	0.4	-6.2	0.0	-4.1	-3.5	0.4	-3.1	-1.6	-2.9	-2.8	2.5
2004	0.0	-3.7	1.4	-7.9	-0.2	-3.6	-3.5	-1.2	-1.8	-1.2	-3.3	-2.3	2.3
2005	-2.3	-3.2	1.0	-5.5	1.1	-3.0	-4.2	-0.3	-0.3	-1.6	-6.1	-1.5	2.7
2006	0.2	-1.7	2.9	-2.6	1.8	-2.5	-4.4	0.1	0.6	-1.1	-3.9	-1.4	3.9

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

- 1) The data refer to the Euro 13. 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) 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⁾
		Currency 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	
1997	73.9	2.8	16.0	6.4	48.8	55.5	28.4	13.5	13.5	18.4
1998	72.6	2.7	15.0	5.3	49.6	52.2	26.5	14.5	11.2	20.4
1999	71.8	2.9	14.2	4.2	50.5	48.5	25.4	11.9	11.2	23.4
2000	69.3	2.7	13.0	3.7	49.8	44.0	22.0	11.0	11.0	25.3
2001	68.2	2.8	12.3	4.0	49.2	41.9	20.5	10.3	11.0	26.3
2002	68.0	2.7	11.7	4.5	49.1	40.0	19.3	9.7	11.0	28.0
2003	69.2	2.1	12.3	5.0	49.9	39.3	19.4	10.2	9.8	29.9
2004	69.7	2.2	11.9	5.0	50.6	37.5	18.4	9.9	9.2	32.2
2005	70.5	2.4	11.7	4.7	51.6	35.5	17.4	10.4	7.8	35.0
2006	69.0	2.5	11.4	4.1	51.0	32.8	17.7	7.6	7.5	36.2

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
1997	73.9	61.9	6.0	5.4	0.6	9.4	64.5	8.4	18.1	25.3	30.6	71.9	2.0
1998	72.6	60.9	6.1	5.3	0.4	8.1	64.5	7.5	15.4	26.4	30.8	70.8	1.8
1999	71.8	60.3	6.0	5.1	0.4	7.3	64.6	6.6	13.6	27.9	30.4	69.7	2.2
2000	69.3	58.1	5.9	4.9	0.4	6.5	62.8	5.8	13.4	27.9	28.0	67.3	1.9
2001	68.2	57.0	6.1	4.8	0.4	7.0	61.3	5.0	13.7	26.8	27.8	66.5	1.7
2002	68.0	56.6	6.3	4.8	0.4	7.6	60.4	5.0	15.3	25.2	27.5	66.6	1.5
2003	69.2	57.0	6.6	5.1	0.6	7.8	61.4	4.9	14.3	26.1	28.8	68.1	1.1
2004	69.7	57.4	6.7	5.1	0.4	7.8	61.8	4.6	14.3	26.5	28.9	68.6	1.1
2005	70.5	57.9	6.8	5.3	0.5	7.9	62.6	4.9	14.4	26.1	30.0	69.3	1.2
2006	69.0	56.3	6.6	5.4	0.6	7.5	61.5	4.6	13.8	25.2	30.0	68.0	0.9

3. Euro area countries

	BE	DE	IE	GR	ES	FR	IT	LU	NL	AT	PT	SI	FI
	1	2	3	4	5	6	7	8	9	10	11	12	13
2003	98.6	63.9	31.2	107.8	48.8	62.4	104.3	6.3	52.0	64.6	56.8	28.6	44.3
2004	94.3	65.7	29.7	108.5	46.2	64.3	103.8	6.6	52.6	63.9	58.2	28.9	44.1
2005	93.2	67.9	27.4	107.5	43.2	66.2	106.2	6.1	52.7	63.5	63.6	28.4	41.4
2006	89.1	67.9	24.9	104.6	39.9	63.9	106.8	6.8	48.7	62.2	64.7	27.8	39.1

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

- 1) The data refer to the Euro 13. 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.

6.3 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			
		Borrowing requirement ²⁾	Valuation effects ³⁾	Other changes in volume ⁴⁾	Aggregation effect ⁵⁾	Currency and deposits	Loans	Short-term securities	Long-term securities	Domestic creditors ⁶⁾	MFIs	Other financial corporations	Other creditors ⁷⁾
1998	1.8	2.2	-0.3	0.0	-0.1	0.1	-0.3	-0.8	2.8	-0.9	-0.7	1.5	2.7
1999	2.0	1.6	0.4	0.0	0.0	0.2	-0.2	-0.9	2.8	-1.8	-0.2	-2.0	3.8
2000	1.0	1.1	0.0	0.0	-0.1	0.0	-0.5	-0.3	1.9	-2.1	-2.0	-0.4	3.1
2001	1.9	1.9	-0.1	0.1	0.0	0.2	-0.2	0.4	1.4	-0.2	-0.6	-0.2	2.1
2002	2.1	2.7	-0.5	0.0	0.0	0.0	-0.2	0.7	1.6	-0.4	-0.5	-0.3	2.6
2003	3.1	3.3	-0.2	0.0	0.0	-0.6	0.9	0.6	2.1	0.4	0.6	0.7	2.7
2004	3.1	3.2	-0.1	0.0	0.0	0.2	0.1	0.1	2.7	-0.3	-0.3	0.1	3.4
2005	3.1	3.1	0.1	-0.1	0.0	0.3	0.3	-0.1	2.6	-0.7	-0.4	0.8	3.8
2006	1.5	1.4	0.1	0.0	0.0	0.2	0.1	-0.4	1.6	-1.2	1.0	-2.3	2.7

2. Euro area – deficit-debt adjustment

	Change in debt	Deficit (-) / surplus (+) ⁸⁾	Deficit-debt adjustment ⁹⁾											
			Total	Transactions in main financial assets held by general government							Valuation effects	Exchange rate effects	Other changes in volume	Other ¹⁰⁾
				Total	Currency and deposits	Loans	Securities ¹¹⁾	Shares and other equity	Privatisations	Equity injections				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
1998	1.8	-2.3	-0.5	-0.2	0.2	0.0	0.1	-0.4	-0.7	0.2	-0.3	0.0	0.0	0.0
1999	2.0	-1.4	0.6	0.0	0.5	0.1	0.0	-0.5	-0.7	0.1	0.4	0.2	0.0	0.2
2000	1.0	0.0	1.0	1.0	0.7	0.2	0.2	0.0	-0.4	0.2	0.0	0.1	0.0	0.0
2001	1.9	-1.8	0.0	-0.5	-0.6	0.1	0.1	-0.1	-0.3	0.1	-0.1	0.0	0.1	0.6
2002	2.1	-2.6	-0.4	0.1	0.1	0.0	0.0	0.0	-0.3	0.2	-0.5	-0.1	0.0	0.0
2003	3.1	-3.1	0.0	0.1	0.0	0.0	0.0	0.1	-0.2	0.2	-0.2	-0.1	0.0	0.1
2004	3.1	-2.8	0.3	0.3	0.2	0.0	0.1	0.0	-0.4	0.2	-0.1	-0.1	0.0	0.1
2005	3.1	-2.5	0.6	0.7	0.3	0.1	0.2	0.1	-0.2	0.2	0.1	0.1	-0.1	-0.1
2006	1.5	-1.6	-0.1	0.3	0.4	-0.1	0.2	-0.1	-0.4	0.1	0.1	0.0	0.0	-0.5

Source: ECB.

- 1) The data refer to the Euro 13 and 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 2001.
- 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⁾
	1	2	Direct taxes 3	Indirect taxes 4	Social contributions 5	Sales 6	Property income 7	8	Capital taxes 9	
2000 Q4	49.9	49.4	13.9	14.1	16.6	2.9	1.0	0.5	0.3	44.9
2001 Q1	42.3	41.9	10.5	12.7	15.3	1.8	0.8	0.4	0.2	38.7
Q2	46.9	46.6	13.5	13.0	15.6	2.0	1.6	0.4	0.2	42.3
Q3	43.4	43.0	11.6	12.3	15.5	1.9	0.9	0.4	0.3	39.7
Q4	49.2	48.7	13.5	14.0	16.3	2.9	1.1	0.5	0.3	44.0
2002 Q1	42.0	41.6	10.1	12.7	15.5	1.7	0.8	0.4	0.2	38.6
Q2	45.6	45.1	12.6	12.7	15.5	2.0	1.6	0.5	0.3	41.1
Q3	43.4	43.0	11.2	12.7	15.4	1.9	0.8	0.4	0.3	39.6
Q4	49.2	48.6	13.4	14.2	16.2	3.0	0.9	0.6	0.3	44.1
2003 Q1	42.0	41.5	9.8	12.8	15.6	1.7	0.7	0.5	0.2	38.4
Q2	46.0	44.5	12.1	12.7	15.8	2.0	1.3	1.5	1.2	41.7
Q3	42.8	42.3	10.8	12.7	15.5	1.9	0.7	0.5	0.2	39.2
Q4	49.4	48.4	13.1	14.3	16.2	2.9	0.8	1.0	0.3	43.9
2004 Q1	41.4	41.0	9.6	12.8	15.4	1.7	0.7	0.5	0.3	38.0
Q2	45.2	44.4	12.2	13.1	15.4	2.0	0.9	0.8	0.6	41.2
Q3	42.6	42.1	10.6	12.6	15.4	1.9	0.7	0.5	0.3	38.9
Q4	49.5	48.4	13.0	14.5	16.2	2.9	0.8	1.0	0.4	44.1
2005 Q1	42.1	41.6	10.0	12.9	15.4	1.7	0.6	0.5	0.2	38.5
Q2	45.0	44.3	11.9	13.3	15.3	2.0	1.0	0.6	0.3	40.9
Q3	43.3	42.6	11.0	12.9	15.3	1.9	0.7	0.7	0.3	39.5
Q4	49.7	48.9	13.5	14.5	16.2	3.0	0.9	0.8	0.3	44.5
2006 Q1	42.7	42.3	10.3	13.3	15.3	1.7	0.8	0.5	0.3	39.2
Q2	46.2	45.7	12.7	13.7	15.4	2.0	1.2	0.5	0.3	42.1
Q3	43.6	43.2	11.5	12.9	15.3	1.9	0.8	0.5	0.3	40.0
Q4	50.1	49.5	14.3	14.6	16.0	2.9	0.9	0.6	0.3	45.2

2. Euro area – quarterly expenditure and deficit/surplus

	Total		Current expenditure						Capital expenditure			Deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+)
	1	2	Total	Compensation of employees 3	Intermediate consumption 4	Interest 5	Current transfers 6	Social benefits 7	Subsidies 8	Investment 9	Capital transfers 10			11
2000 Q4	49.7	45.9	11.0	5.3	3.7	25.9	22.0	1.6	3.8	3.1	1.5	0.2	3.9
2001 Q1	45.7	42.3	10.1	4.2	4.0	24.1	20.9	1.3	3.4	1.9	1.5	-3.4	0.6
Q2	46.3	42.8	10.2	4.6	3.9	24.1	20.8	1.3	3.5	2.4	1.1	0.7	4.5
Q3	46.1	42.4	10.0	4.6	3.8	24.0	20.8	1.4	3.7	2.5	1.2	-2.7	1.1
Q4	51.1	46.2	11.0	5.7	3.6	25.9	22.1	1.7	4.9	3.2	1.7	-1.9	1.6
2002 Q1	46.3	42.9	10.3	4.3	3.7	24.6	21.2	1.4	3.5	2.0	1.5	-4.4	-0.7
Q2	46.7	43.2	10.3	4.9	3.5	24.4	21.2	1.3	3.4	2.3	1.1	-1.0	2.5
Q3	46.8	43.1	10.0	4.7	3.5	24.9	21.4	1.4	3.7	2.5	1.2	-3.4	0.1
Q4	50.8	46.4	11.0	5.7	3.3	26.4	22.7	1.6	4.4	2.8	1.6	-1.6	1.7
2003 Q1	47.0	43.5	10.4	4.5	3.5	25.1	21.6	1.3	3.5	1.9	1.6	-5.0	-1.5
Q2	47.4	43.9	10.4	4.8	3.4	25.3	21.8	1.3	3.5	2.4	1.2	-1.4	2.0
Q3	47.0	43.3	10.2	4.8	3.3	25.1	21.6	1.3	3.7	2.5	1.1	-4.2	-0.9
Q4	51.2	46.3	11.0	5.7	3.1	26.5	22.9	1.5	4.8	3.3	1.6	-1.8	1.3
2004 Q1	46.6	43.2	10.4	4.6	3.2	25.0	21.5	1.2	3.4	2.0	1.4	-5.1	-1.9
Q2	46.7	43.4	10.4	4.9	3.1	24.9	21.6	1.2	3.3	2.3	1.0	-1.5	1.6
Q3	46.1	42.7	10.0	4.7	3.2	24.9	21.5	1.3	3.4	2.5	0.9	-3.5	-0.3
Q4	50.8	45.9	11.0	5.7	3.0	26.2	22.7	1.4	4.9	3.1	1.8	-1.3	1.7
2005 Q1	47.2	43.4	10.3	4.7	3.1	25.3	21.5	1.2	3.8	1.9	1.9	-5.1	-2.0
Q2	46.6	43.2	10.3	5.0	3.2	24.7	21.5	1.1	3.4	2.4	1.1	-1.6	1.6
Q3	45.8	42.4	9.9	4.8	3.0	24.8	21.4	1.2	3.4	2.5	1.0	-2.5	0.4
Q4	50.7	45.9	11.1	5.8	2.8	26.2	22.7	1.3	4.8	3.1	1.7	-1.0	1.7
2006 Q1	45.9	42.6	10.1	4.5	3.0	24.9	21.3	1.1	3.3	1.9	1.4	-3.1	-0.1
Q2	46.2	42.8	10.3	4.9	3.2	24.3	21.3	1.0	3.5	2.4	1.1	0.0	3.1
Q3	46.3	41.9	9.8	4.7	2.9	24.5	21.2	1.1	4.4	2.5	1.8	-2.6	0.3
Q4	50.8	45.3	10.7	5.8	2.7	26.0	22.3	1.3	5.5	3.3	2.3	-0.7	2.0

Source: ECB calculations based on Eurostat and national data.

1) The data refer to the Euro 13. Revenue, expenditure and deficit/surplus are based on the ESA 95. Transactions between the EU budget and entities outside the government sector are not included. Otherwise, and except for different data transmission deadlines, the quarterly data are consistent with the annual data. The data are not seasonally adjusted.

2) The fiscal burden comprises taxes and social contributions.

6.5 Quarterly debt and change in debt ¹⁾

(as a percentage of GDP)

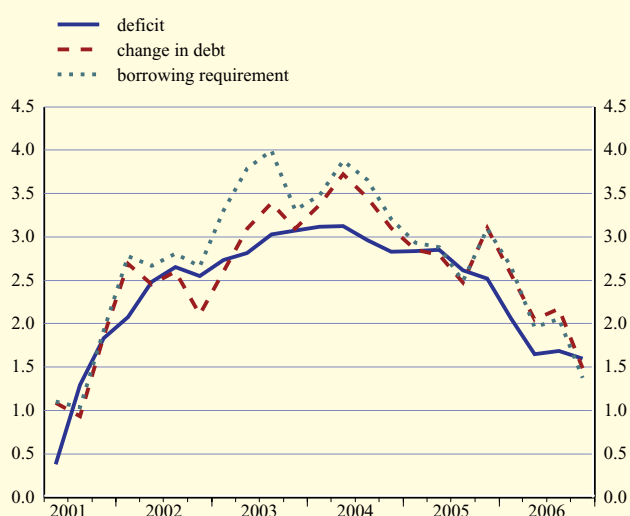
1. Euro area – Maastricht debt by financial instrument ²⁾

	Total 1	Financial instruments			
		Currency and deposits 2	Loans 3	Short-term securities 4	Long-term securities 5
2004 Q1	70.6	2.1	12.3	5.5	50.8
Q2	71.3	2.2	12.1	5.5	51.5
Q3	71.1	2.3	12.0	5.5	51.4
Q4	69.7	2.2	11.9	5.0	50.6
2005 Q1	71.0	2.2	11.9	5.2	51.7
Q2	71.8	2.3	11.6	5.2	52.6
Q3	71.3	2.4	11.7	5.2	52.0
Q4	70.5	2.4	11.7	4.7	51.6
2006 Q1	70.9	2.5	11.7	4.9	51.8
Q2	71.1	2.5	11.6	4.9	52.1
Q3	70.6	2.5	11.6	4.7	51.7
Q4	69.0	2.5	11.4	4.1	51.0

2. Euro area – deficit-debt adjustment

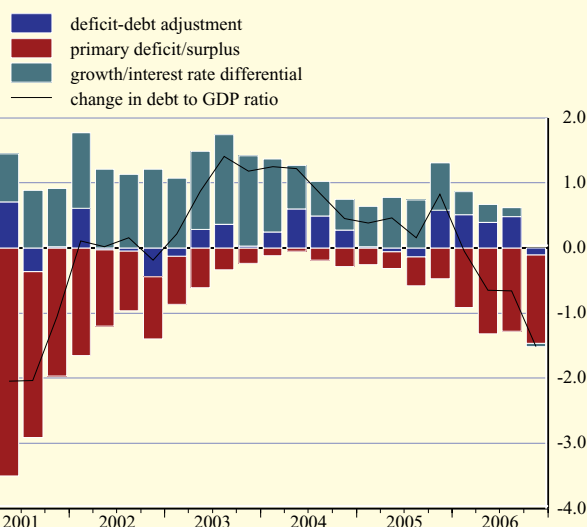
	Change in debt 1	Deficit (-)/ surplus (+) 2	Deficit-debt adjustment							Memo: Borrowing requirement 11	
			Total 3	Transactions in main financial assets held by general government				Valuation effects and other changes in volume 9	Other 10		
				Total 4	Currency and deposits 5	Loans 6	Securities 7				Shares and other equity 8
2004 Q1	8.5	-5.1	3.3	1.9	1.4	-0.1	0.2	0.5	0.0	1.4	8.4
Q2	5.8	-1.5	4.3	3.9	3.4	0.1	0.2	0.2	0.0	0.3	5.8
Q3	1.8	-3.5	-1.7	-1.2	-1.4	0.0	0.2	0.1	-0.3	-0.3	2.1
Q4	-3.2	-1.3	-4.5	-3.3	-2.5	0.1	-0.2	-0.6	-0.2	-1.1	-3.0
2005 Q1	7.3	-5.1	2.2	2.2	1.3	0.1	0.3	0.5	0.1	-0.1	7.2
Q2	5.5	-1.6	3.8	3.5	2.5	0.1	0.4	0.5	0.0	0.4	5.5
Q3	0.6	-2.5	-2.0	-2.5	-2.4	0.0	0.3	-0.3	0.0	0.5	0.6
Q4	-0.6	-1.0	-1.6	-0.5	-0.1	0.0	-0.3	-0.1	-0.1	-1.0	-0.5
2006 Q1	5.0	-3.1	1.8	1.3	1.1	0.1	0.6	-0.5	-0.3	0.8	5.2
Q2	3.3	0.0	3.2	3.2	2.5	0.1	0.4	0.3	0.7	-0.6	2.6
Q3	1.1	-2.6	-1.5	-0.8	-0.7	-0.1	0.0	0.0	0.1	-0.9	1.0
Q4	-3.1	-0.7	-3.8	-2.3	-1.4	-0.6	-0.1	-0.2	-0.1	-1.4	-3.0

C28 Deficit, borrowing requirement and change in debt (four-quarter moving sum as a percentage of GDP)



C29 Maastricht debt

(annual change in the debt to GDP ratio and underlying factors)



Source: ECB calculations based on Eurostat and national data.

1) The data refer to the Euro 13.

2) The stock data in quarter t are expressed as a percentage of the sum of GDP in t and the previous three quarters.

EXTERNAL TRANSACTIONS AND POSITIONS

7.1 Balance of payments

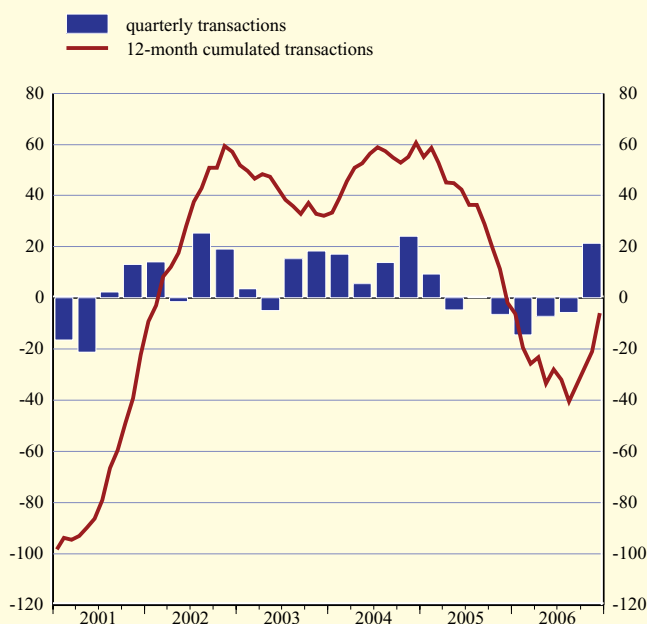
(EUR billions; net transactions)

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
2004	60.7	100.5	32.6	-13.7	-58.6	16.6	77.3	-18.7	-68.6	72.9	-8.3	-27.1	12.5	-58.6
2005	-1.9	45.4	34.8	-11.6	-70.5	12.1	10.3	25.5	-210.0	146.1	-13.9	85.3	18.0	-35.8
2006	-6.1	30.5	36.6	1.8	-75.0	11.3	5.3	134.0	-156.7	273.1	-2.6	21.7	-1.5	-139.3
2005 Q4	-6.5	2.5	10.4	-2.6	-16.8	4.7	-1.8	-37.8	-37.8	-47.2	-6.9	45.7	8.3	39.7
2006 Q1	-14.5	-3.5	5.0	4.4	-20.4	1.9	-12.6	72.8	-35.4	23.1	-7.6	86.8	5.9	-60.2
Q2	-7.2	6.8	12.5	-10.6	-15.8	1.3	-5.8	39.1	-20.0	97.6	-2.1	-34.9	-1.5	-33.3
Q3	-5.7	7.5	9.8	0.9	-23.9	2.1	-3.6	51.0	-43.9	22.3	7.9	67.8	-3.2	-47.4
Q4	21.3	19.7	9.3	7.1	-14.9	6.0	27.3	-28.8	-57.3	130.0	-0.8	-98.1	-2.7	1.5
2006 Feb.	-3.7	0.4	2.3	1.8	-8.1	1.0	-2.6	22.5	-32.0	25.8	-2.5	29.2	2.0	-19.9
Mar.	-1.1	2.6	1.5	2.2	-7.5	0.1	-1.0	46.8	-1.5	36.3	-2.3	8.0	6.4	-45.7
Apr.	-5.7	1.1	3.3	-4.0	-6.2	0.3	-5.4	12.1	2.0	-9.0	-6.3	26.6	-1.2	-6.7
May	-10.6	0.4	4.1	-9.5	-5.5	0.3	-10.3	25.6	-6.2	37.9	2.5	-6.9	-1.7	-15.3
June	9.1	5.3	5.0	2.9	-4.1	0.7	9.9	1.4	-15.8	68.7	1.8	-54.7	1.4	-11.2
July	-1.2	4.1	4.2	-1.1	-8.4	0.8	-0.4	8.2	-10.8	4.6	3.4	12.3	-1.3	-7.8
Aug.	-5.9	-2.2	1.8	1.5	-7.0	1.0	-4.8	3.7	-5.5	-22.5	-2.5	35.0	-0.8	1.2
Sep.	1.4	5.6	3.8	0.5	-8.5	0.2	1.7	39.1	-27.7	40.2	7.1	20.5	-1.1	-40.7
Oct.	1.8	6.0	3.3	0.4	-7.9	0.7	2.5	8.8	-12.8	35.3	5.8	-19.5	0.1	-11.3
Nov.	5.7	7.8	2.3	2.7	-7.1	1.2	7.0	-8.4	-15.7	61.9	-2.1	-51.7	-0.8	1.5
Dec.	13.8	5.9	3.6	4.1	0.2	4.1	17.9	-29.2	-28.8	32.8	-4.5	-26.8	-1.9	11.3
2007 Jan.	-4.5	-3.0	0.6	-1.1	-1.0	2.5	-2.0	42.1	-12.3	35.4	-4.9	26.9	-3.1	-40.1
Feb.	-7.2	1.5	2.6	0.2	-11.4	1.4	-5.8	-7.2	-12.6	28.6	-7.8	-14.7	-0.6	13.0
<i>12-month cumulated transactions</i>														
2007 Feb.	-4.4	35.1	36.3	-1.2	-74.6	13.4	9.1	142.9	-147.7	350.3	-10.1	-45.0	-4.6	-152.0

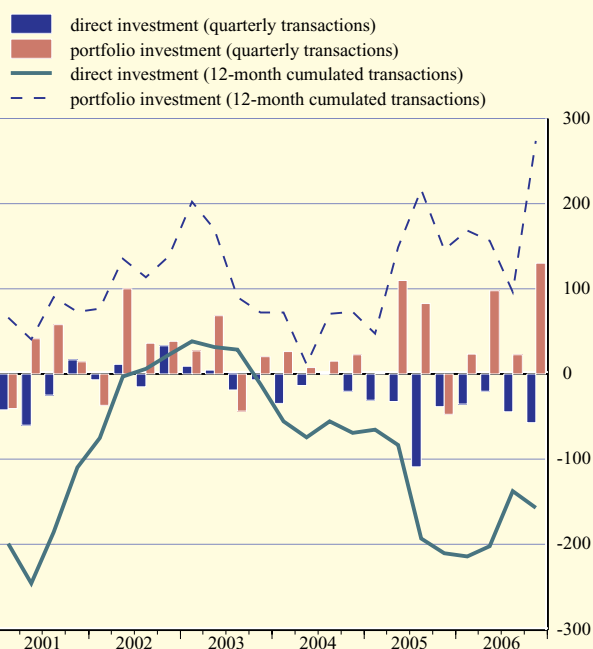
C30 B.o.p. current account balance

(EUR billions)



C31 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

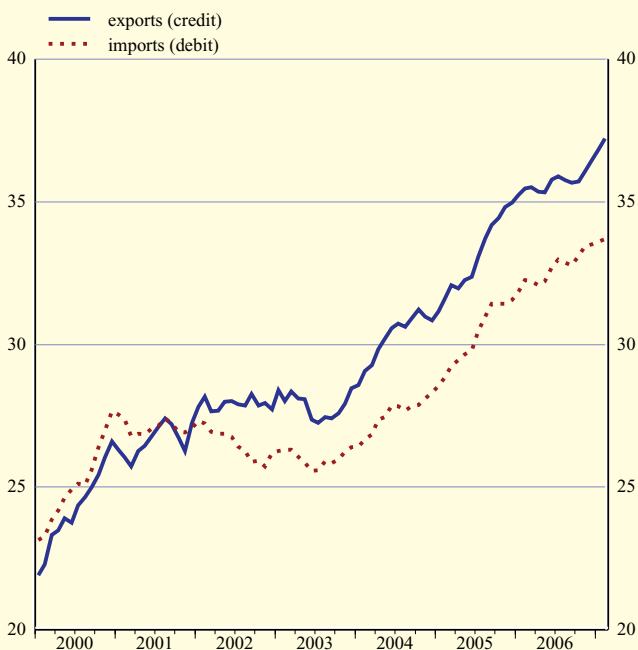
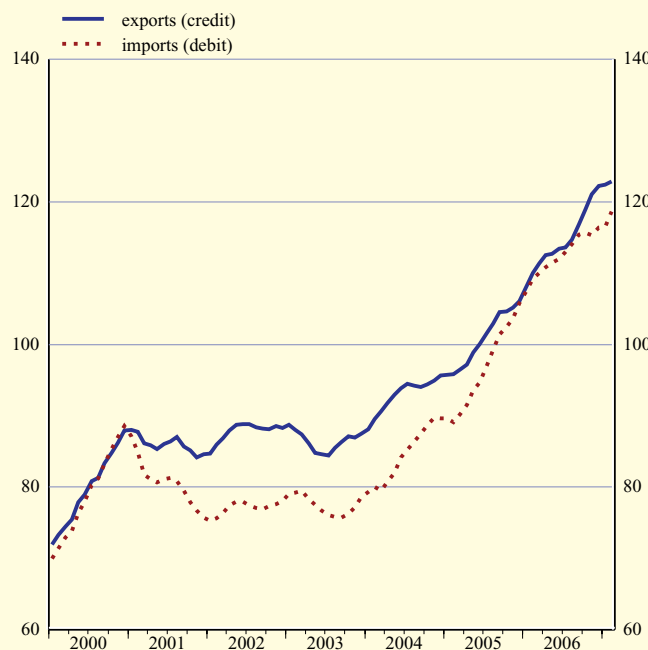
	Current account										Capital account		
	Total			Goods		Services		Income		Current transfers		Credit	Debit
	Credit	Debit	Net	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit		
1	2	3	4	5	6	7	8	9	10	11	12	13	
2004	1,866.8	1,806.0	60.7	1,129.3	1,028.9	366.4	333.8	288.9	302.7	82.1	140.7	24.6	8.1
2005	2,066.1	2,067.9	-1.9	1,224.2	1,178.9	401.8	367.0	354.7	366.2	85.4	155.9	24.1	12.0
2006	2,338.7	2,344.8	-6.1	1,390.0	1,359.5	429.8	393.2	432.6	430.8	86.3	161.3	23.7	12.4
2005 Q4	560.6	567.1	-6.5	327.6	325.1	106.6	96.2	103.9	106.5	22.5	39.3	8.5	3.8
2006 Q1	545.2	559.7	-14.5	330.3	333.8	97.5	92.5	91.6	87.3	25.8	46.2	5.9	4.0
Q2	584.9	592.1	-7.2	343.5	336.6	107.5	95.1	116.4	127.0	17.5	33.4	4.5	3.2
Q3	575.8	581.4	-5.7	342.1	334.6	114.1	104.3	104.0	103.1	15.5	39.4	4.4	2.4
Q4	632.9	611.6	21.3	374.1	354.4	110.6	101.3	120.6	113.5	27.5	42.4	8.8	2.8
2006 Dec.	220.8	207.0	13.8	117.5	111.6	38.1	34.5	48.9	44.8	16.3	16.1	5.4	1.3
2007 Jan.	192.2	196.7	-4.5	113.4	116.4	33.4	32.7	36.1	37.1	9.3	10.4	3.5	1.0
Feb.	196.5	203.7	-7.2	116.9	115.4	33.4	30.8	33.9	33.7	12.4	23.8	1.9	0.5
	Seasonally adjusted												
2005 Q4	542.5	556.3	-13.9	318.3	317.3	104.9	94.7	98.8	105.2	20.5	39.1	.	.
2006 Q1	560.4	566.6	-6.2	333.9	330.0	106.5	96.6	98.0	99.8	22.0	40.2	.	.
Q2	576.3	580.8	-4.5	340.4	335.9	107.3	98.1	107.6	109.3	21.0	37.4	.	.
Q3	590.0	594.5	-4.4	350.5	346.2	107.0	98.3	111.1	109.1	21.5	40.8	.	.
Q4	614.6	603.7	10.8	366.7	349.3	109.4	100.5	114.6	111.5	23.8	42.5	.	.
2006 June	195.9	191.6	4.3	114.7	112.0	36.2	33.4	37.6	34.7	7.5	11.5	.	.
July	191.7	195.6	-3.9	113.3	114.4	35.5	32.5	36.0	35.2	6.8	13.5	.	.
Aug.	195.8	199.4	-3.6	116.0	115.7	35.6	32.7	36.9	37.3	7.3	13.7	.	.
Sep.	202.5	199.4	3.1	121.1	116.1	35.9	33.1	38.2	36.6	7.4	13.6	.	.
Oct.	200.3	196.9	3.4	119.7	115.0	35.7	33.5	36.8	33.6	8.1	14.8	.	.
Nov.	199.8	199.1	0.7	122.2	114.7	36.7	33.8	35.1	36.8	5.8	14.0	.	.
Dec.	214.4	207.7	6.8	124.8	119.6	37.0	33.3	42.8	41.1	9.8	13.7	.	.
2007 Jan.	202.0	198.5	3.5	120.2	115.2	36.8	33.8	40.2	40.3	4.8	9.2	.	.
Feb.	212.2	217.5	-5.3	123.7	121.0	37.8	34.0	38.4	43.5	12.4	19.0	.	.

C32 B.o.p. goods

(EUR billions, seasonally adjusted; three-month moving average)

C33 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	
2004	15.5	7.9	273.4	294.7	100.6	76.2	13.4	12.8	24.5	56.2	67.7	77.0	67.2	72.4
2005	15.7	9.3	339.0	357.0	121.5	89.1	14.0	13.5	31.3	71.2	78.1	82.4	94.1	100.7
2006	16.1	10.0	416.5	420.8	124.4	66.7	18.4	16.3	38.0	99.4	100.0	89.6	135.7	148.8
2005 Q4	4.1	2.4	99.7	104.1	38.7	33.1	4.2	4.1	7.3	14.0	20.9	23.3	28.6	29.7
2006 Q1	4.0	2.2	87.6	85.1	22.9	12.9	4.2	3.4	8.2	16.0	22.7	21.8	29.6	31.0
Q2	4.0	2.4	112.4	124.6	38.1	18.6	4.5	4.0	13.2	43.0	24.0	23.1	32.5	36.0
Q3	4.0	2.9	100.0	100.1	26.8	15.4	4.5	4.1	8.5	21.4	25.8	21.2	34.4	38.1
Q4	4.2	2.5	116.5	111.0	36.6	19.8	5.2	4.9	8.0	19.0	27.5	23.6	39.3	43.7

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
2004	-161.0	-171.1	-21.4	-149.8	10.1	0.1	10.0	92.4	95.7	0.7	95.0	-3.3	0.5	-3.8
2005	-301.6	-242.0	-11.0	-230.9	-59.7	-0.2	-59.5	91.6	64.0	0.7	63.2	27.7	-0.3	28.0
2006	-314.8	-264.2	-34.7	-229.5	-50.6	-1.0	-49.6	158.1	128.8	4.3	124.6	29.3	0.3	29.0
2005 Q4	-74.0	-60.5	0.6	-61.2	-13.5	0.1	-13.6	36.2	30.6	-1.5	32.1	5.6	-0.4	6.0
2006 Q1	-56.3	-49.6	-1.7	-47.9	-6.8	0.2	-7.0	20.9	17.8	1.6	16.2	3.1	-0.3	3.5
Q2	-112.5	-92.0	-6.5	-85.5	-20.5	-0.6	-19.9	92.5	79.6	0.5	79.1	12.8	1.0	11.9
Q3	-73.5	-65.1	-10.4	-54.6	-8.4	0.2	-8.6	29.6	25.6	1.2	24.4	4.0	-0.3	4.3
Q4	-72.5	-57.5	-16.1	-41.4	-14.9	-0.7	-14.2	15.2	5.8	0.9	4.9	9.4	0.0	9.4
2006 Feb.	-42.9	-37.4	-1.5	-35.8	-5.5	0.0	-5.5	10.9	12.2	0.3	11.9	-1.3	0.1	-1.4
Mar.	-5.7	-15.2	0.3	-15.5	9.5	0.3	9.2	4.2	-1.6	0.2	-1.8	5.8	-0.5	6.3
Apr.	-83.0	-60.2	-1.7	-58.4	-22.8	-0.3	-22.5	85.0	71.4	0.0	71.3	13.6	0.2	13.4
May	-16.2	-20.4	-3.5	-16.9	4.2	-0.2	4.4	10.0	8.3	0.4	7.9	1.7	0.4	1.3
June	-13.3	-11.4	-1.2	-10.2	-1.9	-0.1	-1.8	-2.5	0.0	0.1	-0.1	-2.4	0.4	-2.8
July	-21.1	-18.1	-1.5	-16.5	-3.1	0.1	-3.1	10.3	7.1	0.4	6.7	3.3	-0.1	3.4
Aug.	-4.3	-7.4	-3.6	-3.8	3.1	0.0	3.1	-1.2	4.6	0.4	4.1	-5.7	-0.1	-5.6
Sep.	-48.0	-39.6	-5.3	-34.3	-8.5	0.1	-8.5	20.4	14.0	0.4	13.6	6.4	-0.1	6.5
Oct.	-22.2	-13.2	-5.8	-7.5	-9.0	0.1	-9.1	9.4	3.4	1.1	2.3	6.0	1.5	4.4
Nov.	-12.3	-16.2	-1.9	-14.3	3.8	-0.2	4.0	-3.3	-3.8	-0.2	-3.6	0.5	-1.7	2.1
Dec.	-37.9	-28.1	-8.5	-19.6	-9.8	-0.7	-9.1	9.1	6.2	0.0	6.2	3.0	0.1	2.9
2007 Jan.	-24.3	-25.8	-2.6	-23.2	1.5	2.3	-0.8	12.0	2.0	0.2	1.8	10.1	-1.1	11.2
Feb.	-29.4	-10.2	-0.1	-10.1	-19.2	-0.3	-18.8	16.8	7.7	4.2	3.5	9.0	0.2	8.8

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		Liabilities	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	
2004	0.0	-22.4	-84.1	-3.7	126.8	0.6	-81.9	-98.1	-2.1	273.5	0.0	-43.1	-14.9	0.1	16.5	
2005	-0.1	-14.4	-119.8	-3.5	263.2	-0.7	-119.6	-142.2	-0.8	248.6	0.1	-14.5	-0.1	0.1	45.6	
2006	0.0	-27.9	-101.5	-6.1	290.3	-2.4	-166.4	-117.6	-1.1	459.3	-0.1	-48.7	-12.5	0.1	0.6	
2005 Q4	0.0	-4.9	-52.8	-0.8	62.2	0.5	-25.1	-27.9	-0.2	18.8	0.1	-4.9	5.6	5.9	-18.8	
2006 Q1	0.0	-19.5	-77.6	-0.8	120.4	-0.2	-53.9	-36.1	-0.2	81.7	0.7	2.5	-10.0	-3.8	15.2	
Q2	0.0	11.1	7.2	-2.6	32.8	1.0	-23.4	-25.6	0.1	116.5	-3.2	-7.6	-0.7	-3.2	-10.4	
Q3	0.0	-4.7	-23.7	-0.9	53.5	-0.4	-51.9	-15.7	-0.2	80.9	1.9	-25.0	0.7	3.1	6.8	
Q4	0.0	-14.8	-7.4	-1.8	83.6	-2.8	-37.2	-40.2	-0.8	180.2	0.6	-18.5	-2.4	4.0	-10.9	
2006 Feb.	0.0	-4.0	-23.3	-	36.2	-0.2	-7.0	-16.7	-	28.9	0.3	1.5	-2.0	-	12.0	
Mar.	0.0	-8.7	-17.7	-	49.2	-0.1	-13.8	-16.5	-	53.8	0.0	-2.0	-0.5	-	-7.2	
Apr.	0.0	3.3	-6.0	-	-11.5	0.2	-6.1	-10.7	-	25.3	-1.1	-7.1	0.6	-	4.2	
May	0.0	3.2	12.3	-	-16.4	0.1	-10.8	-12.2	-	65.3	-1.6	-2.2	-2.0	-	2.3	
June	0.0	4.5	1.0	-	60.7	0.6	-6.4	-2.7	-	25.9	-0.4	1.7	0.7	-	-16.8	
July	0.0	3.2	-11.7	-	42.8	0.2	-13.2	-2.0	-	6.2	0.4	-18.1	-1.1	-	-2.0	
Aug.	0.0	-4.7	-7.2	-	-13.6	0.0	-8.9	-9.1	-	15.1	1.0	0.2	1.2	-	3.3	
Sep.	0.0	-3.2	-4.8	-	24.2	-0.6	-29.8	-4.6	-	59.6	0.5	-7.1	0.5	-	5.5	
Oct.	0.0	-5.8	-2.1	-	23.9	-1.8	-14.6	-19.4	-	52.7	0.4	-5.8	-5.3	-	13.1	
Nov.	0.0	-0.8	-7.4	-	27.2	-0.5	-24.7	-9.7	-	69.6	0.3	-9.6	5.0	-	12.5	
Dec.	0.0	-8.2	2.1	-	32.4	-0.6	2.1	-11.1	-	57.9	-0.1	-3.1	-2.1	-	-36.6	
2007 Jan.	0.0	-6.0	-3.4	-	43.6	-0.1	-32.2	-11.1	-	35.7	0.5	-8.4	-2.2	-	18.9	
Feb.	0.0	-14.6	-7.7	-	39.7	0.0	-15.5	-12.7	-	38.6	0.1	-4.3	1.8	-	3.4	

6. Other investment by sector

	Total		Eurosystem		General government			MFIs (excluding Eurosystem)						Other sectors		
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Currency and deposits	Total		Long-term		Short-term		Assets	Currency and deposits	Liabilities
								Assets	Liabilities	Assets	Liabilities	Assets	Liabilities			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
2004	-310.7	283.6	0.4	7.8	-1.6	-2.0	-3.8	-260.1	245.7	6.2	-17.0	-266.3	262.7	-49.3	-9.1	33.8
2005	-569.1	654.3	-0.9	6.7	5.1	-2.4	-2.2	-395.5	483.5	-96.9	55.3	-298.6	428.2	-177.7	-6.0	166.4
2006	-751.0	772.6	-2.9	18.6	3.4	-3.0	1.2	-522.1	489.1	-133.3	82.5	-388.8	406.6	-229.3	25.6	263.7
2005 Q4	-127.6	173.4	-1.1	-0.9	-2.0	-1.1	-2.1	-87.3	120.3	-37.5	5.2	-49.8	115.0	-37.1	13.9	56.1
2006 Q1	-219.2	305.9	-3.2	7.0	7.6	3.8	-2.2	-135.7	222.9	-12.9	13.1	-122.8	209.8	-87.8	-10.5	78.3
Q2	-113.7	78.8	0.9	2.1	-11.0	-12.1	0.3	-57.5	9.0	-15.1	21.6	-42.4	-12.5	-46.0	6.7	67.4
Q3	-144.5	212.3	0.5	4.9	12.3	8.5	6.3	-119.9	161.7	-32.6	21.3	-87.3	140.5	-37.4	10.7	39.4
Q4	-273.6	175.6	-1.1	4.7	-5.5	-3.2	-3.2	-209.1	95.4	-72.8	26.6	-136.3	68.8	-58.0	18.7	78.7
2006 Feb.	-45.0	74.3	-4.8	0.3	1.2	1.0	-1.0	-3.4	36.4	-7.1	9.7	3.7	26.7	-38.1	-4.1	38.6
Mar.	-71.0	79.0	1.2	1.6	2.6	0.5	0.1	-61.5	68.2	-12.4	4.0	-49.0	64.1	-13.4	10.3	9.1
Apr.	-86.2	112.8	0.0	-1.4	-4.5	-4.9	4.3	-64.6	81.7	-0.1	10.1	-64.5	71.6	-17.1	2.9	28.3
May	-75.7	68.8	0.1	4.4	-4.3	-4.7	-4.7	-45.0	40.4	-3.0	2.5	-42.0	38.0	-26.4	-7.0	28.7
June	48.2	-102.9	0.8	-0.9	-2.2	-2.6	0.7	52.1	-113.0	-11.9	9.0	64.1	-122.0	-2.5	10.8	10.3
July	-58.8	71.1	1.6	1.0	7.2	7.1	2.1	-48.5	64.9	-10.4	8.6	-38.1	56.3	-19.1	8.0	3.1
Aug.	11.1	23.9	-1.5	1.3	0.6	0.0	-0.6	7.3	18.7	-7.1	6.7	14.4	12.0	4.8	0.2	4.5
Sep.	-96.8	117.3	0.5	2.5	4.6	1.5	4.8	-78.6	78.1	-15.1	6.0	-63.5	72.1	-23.2	2.5	31.8
Oct.	-104.7	85.2	-0.5	-1.1	-2.4	-4.1	-2.1	-78.0	63.2	-41.8	5.0	-36.2	58.3	-23.8	3.3	25.2
Nov.	-148.4	96.7	0.5	3.2	-3.8	-4.3	1.6	-105.9	70.3	-10.5	27.3	-95.4	42.9	-39.2	-8.4	21.6
Dec.	-20.5	-6.3	-1.1	2.5	0.7	5.2	-2.7	-25.2	-38.1	-20.5	-5.7	-4.7	-32.4	5.0	23.9	31.9
2007 Jan.	-141.9	168.8	-1.5	5.7	1.0	1.3	-5.3	-91.7	144.7	-27.1	9.4	-64.6	135.3	-49.6	-30.7	23.6
Feb.	-126.1	111.4	-3.5	0.4	0.1	1.6	4.6	-89.7	78.1	-4.2	7.8	-85.5	70.3	-33.0	-10.3	28.2

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		
2004	0.6	-0.3	7.8	0.0	0.0	-0.4	1.7	-2.0	-1.3	0.0	-3.7	-0.2	
2005	-0.9	0.0	6.6	0.0	0.0	6.3	8.8	-2.4	-1.1	0.0	-1.9	-0.3	
2006	-2.9	0.0	18.6	0.0	0.0	4.2	7.2	-3.0	-0.8	0.0	1.3	-0.1	
2005 Q4	-1.2	0.0	-0.9	0.0	0.0	-2.1	-1.0	-1.1	0.1	0.0	-2.1	0.0	
2006 Q1	-3.2	0.0	6.9	0.1	0.0	7.7	4.0	3.8	-0.2	0.0	-1.8	-0.4	
Q2	0.9	0.0	2.1	0.0	0.0	-10.8	1.4	-12.1	-0.3	0.0	0.2	0.1	
Q3	0.5	0.0	4.8	0.0	0.0	12.3	3.7	8.5	0.1	0.0	6.2	0.1	
Q4	-1.1	0.0	4.7	0.0	0.0	-5.0	-1.9	-3.2	-0.4	0.0	-3.3	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	
2004	-256.2	-4.0	242.8	2.9	-6.2	-39.0	-30.0	-9.1	-4.1	9.5	22.8	1.6
2005	-392.3	-3.2	481.9	1.6	-8.9	-152.2	-146.2	-6.0	-16.7	11.8	148.8	5.8
2006	-517.9	-4.2	486.1	3.0	-6.9	-215.8	-241.5	25.6	-6.5	8.6	252.8	2.3
2005 Q4	-90.7	3.4	125.0	-4.8	-1.9	-36.2	-50.1	13.9	1.0	5.0	50.3	0.8
2006 Q1	-131.8	-3.9	217.0	5.9	-3.8	-75.7	-65.2	-10.5	-8.4	4.4	68.2	5.6
Q2	-58.0	0.5	14.6	-5.6	-3.7	-44.2	-50.9	6.7	1.9	4.1	67.9	-4.7
Q3	-118.8	-1.0	159.5	2.3	2.4	-36.0	-46.8	10.7	-3.8	3.2	33.2	3.0
Q4	-209.3	0.3	95.0	0.4	-1.8	-59.9	-78.6	18.7	3.7	-3.2	83.4	-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	
2004	12.5	1.2	0.5	4.0	6.8	-2.9	3.3	0.5	18.3	-12.2	-0.1	0.0
2005	18.0	3.9	-0.2	8.6	5.8	0.2	7.2	0.0	-4.9	3.3	0.0	0.0
2006	-1.5	4.2	-0.5	5.2	-10.6	6.1	-2.8	0.0	-19.4	5.5	0.0	0.2
2005 Q4	8.3	1.2	-0.1	3.0	4.2	-2.1	6.1	0.0	-1.9	2.0	0.0	0.0
2006 Q1	5.9	0.8	0.0	3.4	2.2	6.2	-4.8	0.0	-4.1	4.9	0.0	-0.5
Q2	-1.5	1.4	0.0	-0.5	-3.1	0.9	2.4	0.0	-7.2	0.7	0.0	0.7
Q3	-3.2	0.9	-0.3	0.8	-4.6	1.0	-2.9	0.0	-4.1	1.4	0.0	0.0
Q4	-2.7	1.1	-0.2	1.6	-5.1	-2.0	2.5	0.0	-4.0	-1.5	0.0	0.0

Source: ECB.

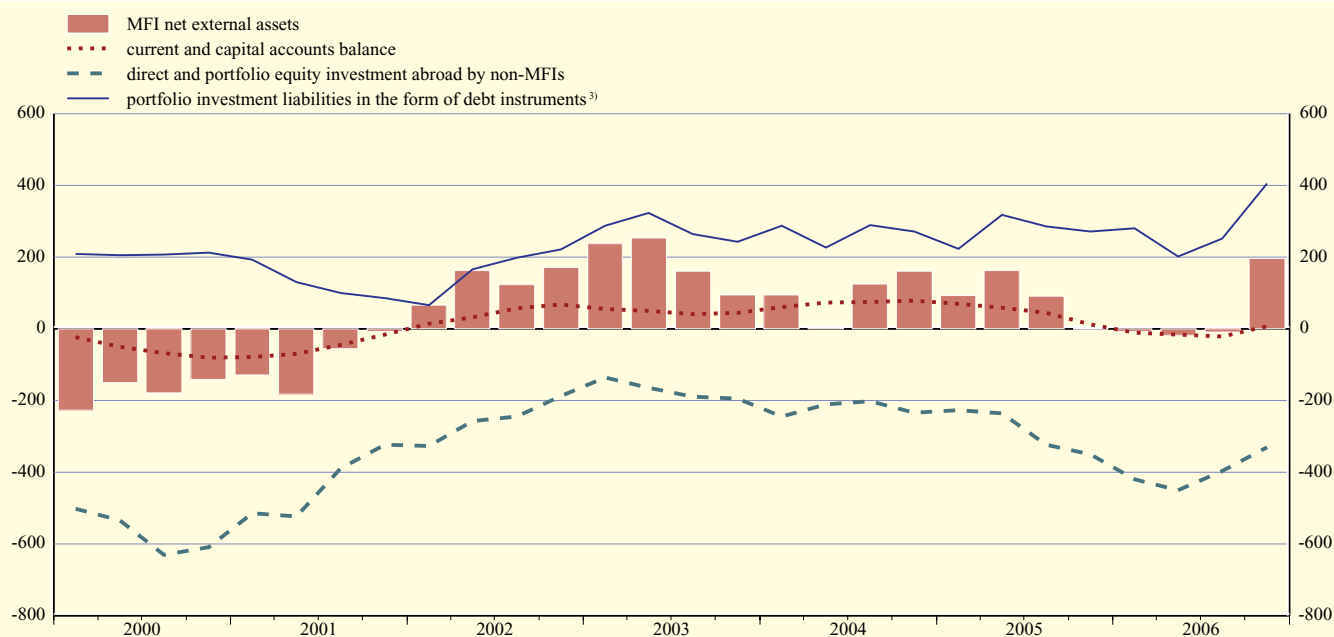
7.2 Monetary presentation of the balance of payments ¹⁾

(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 ²⁾	Debt instruments ³⁾						
1	2	3	4	5	6	7	8	9	10	11	12	
2004	79.1	-139.7	91.7	-196.8	116.9	270.5	-51.0	29.7	-8.3	-58.0	134.0	160.8
2005	12.0	-290.5	92.0	-261.6	220.2	270.4	-172.6	164.2	-13.9	-35.8	-15.5	0.5
2006	7.6	-279.1	157.8	-231.1	229.3	404.4	-225.7	264.7	-2.6	-140.4	185.0	195.8
2005 Q4	-1.3	-74.8	36.7	-74.9	47.6	-3.6	-39.3	54.1	-6.9	39.5	-22.9	-33.1
2006 Q1	-11.9	-54.8	21.3	-123.6	115.4	74.7	-80.1	76.1	-7.6	-60.0	-50.7	-38.1
Q2	-5.5	-105.4	91.5	-19.0	26.3	101.5	-56.9	67.7	-2.1	-34.2	63.8	60.3
Q3	-2.9	-63.3	29.8	-38.7	20.2	78.1	-25.1	45.6	7.9	-47.4	4.3	1.7
Q4	27.9	-55.5	15.3	-49.8	67.5	150.1	-63.5	75.3	-0.8	1.2	167.5	172.0
2006 Feb.	-2.3	-41.3	10.8	-42.0	31.4	35.0	-36.9	37.6	-2.5	-20.1	-30.3	-26.1
Mar.	-0.8	-6.4	4.7	-34.8	52.7	38.0	-10.7	9.3	-2.3	-45.8	3.8	0.4
Apr.	-5.3	-80.9	84.7	-16.2	-15.6	19.8	-21.5	32.6	-6.3	-7.6	-16.4	-16.4
May	-10.1	-12.5	9.6	-1.9	-16.7	63.3	-30.7	24.0	2.5	-15.4	12.0	6.4
June	9.9	-12.0	-2.8	-0.9	58.7	18.4	-4.8	11.1	1.8	-11.1	68.2	70.3
July	-0.2	-19.7	10.4	-14.8	24.6	7.6	-11.9	5.2	3.4	-8.0	-3.2	3.8
Aug.	-4.6	-0.7	-1.1	-15.1	-8.4	11.1	5.4	3.8	-2.5	1.2	-11.0	-19.1
Sep.	2.0	-42.9	20.4	-8.9	4.0	59.4	-18.5	36.6	7.1	-40.6	18.6	17.0
Oct.	2.6	-16.5	7.9	-26.8	13.4	49.5	-26.2	23.0	5.8	-11.9	20.8	25.8
Nov.	7.1	-10.2	-1.6	-12.0	31.7	77.1	-43.0	23.1	-2.1	1.3	71.4	65.2
Dec.	18.1	-28.8	9.0	-11.0	22.3	23.5	5.6	29.2	-4.5	11.8	75.3	81.0
2007 Jan.	-2.0	-24.0	13.1	-16.7	33.6	48.4	-48.6	18.3	-4.9	-40.1	-22.8	-22.9
Feb.	-5.8	-28.9	16.6	-18.7	44.3	37.4	-32.9	32.9	-7.8	13.0	49.9	39.3
	<i>12-month cumulated transactions</i>											
2007 Feb.	11.0	-283.6	170.9	-177.7	244.6	453.5	-237.8	249.1	-10.1	-153.3	266.5	250.7

C34 Main b.o.p. transactions underlying the developments in MFI net external assets ¹⁾

(EUR billions; 12-month cumulated transactions)



Source: ECB.

1) Data refer to the changing composition of the euro area. For further information, see the General notes.

2) Excluding money market fund shares/units.

3) 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
2006 Q1 to 2006 Q4	1	2	3	4	5	6	7	8	9	10	11	12
Credits												
Current account	2,338.7	880.1	47.9	73.5	453.6	244.4	60.7	31.0	54.6	153.1	384.9	835.1
Goods	1,390.0	500.1	31.5	49.7	224.3	194.5	0.1	17.8	34.1	77.8	200.9	559.3
Services	429.8	154.3	8.7	11.7	104.3	24.5	5.2	6.1	11.3	41.9	79.6	136.6
Income	432.6	162.4	7.2	11.5	114.5	22.9	6.3	6.8	8.9	27.3	97.9	129.3
of which: investment income	416.5	157.0	7.1	11.4	112.8	22.7	3.0	6.7	8.9	21.0	96.5	126.5
Current transfers	86.3	63.3	0.5	0.7	10.4	2.5	49.2	0.4	0.2	6.1	6.5	9.8
Capital account	23.7	18.8	0.0	0.0	0.8	0.2	17.7	0.0	0.4	0.4	0.9	3.2
Debits												
Current account	2,344.8	778.3	39.6	71.9	380.2	190.0	96.6	22.5	87.7	144.4	326.4	985.6
Goods	1,359.5	397.5	27.2	45.9	172.5	152.0	0.0	10.6	53.6	68.1	131.8	697.8
Services	393.2	126.8	7.2	9.3	82.8	27.4	0.1	5.6	7.7	30.8	86.5	135.8
Income	430.8	151.2	4.8	15.8	115.7	7.6	7.4	4.9	26.0	40.1	101.0	107.7
of which: investment income	420.8	145.7	4.7	15.7	114.5	3.4	7.4	4.8	25.9	39.6	100.1	104.7
Current transfers	161.3	102.7	0.5	0.8	9.2	3.1	89.2	1.4	0.4	5.4	7.1	44.3
Capital account	12.4	2.0	0.0	0.2	1.2	0.3	0.2	0.1	0.0	0.5	1.2	8.5
Net												
Current account	-6.1	101.8	8.3	1.6	73.4	54.4	-35.9	8.5	-33.1	8.7	58.5	-150.5
Goods	30.5	102.6	4.3	3.8	51.9	42.6	0.1	7.2	-19.4	9.7	69.1	-138.5
Services	36.6	27.5	1.5	2.3	21.5	-3.0	5.1	0.5	3.6	11.1	-6.9	0.8
Income	1.8	11.2	2.5	-4.3	-1.2	15.3	-1.1	1.9	-17.0	-12.8	-3.1	21.6
of which: investment income	-4.4	11.3	2.4	-4.3	-1.8	19.4	-4.4	1.9	-17.0	-18.6	-3.6	21.7
Current transfers	-75.0	-39.4	0.0	-0.2	1.2	-0.5	-40.0	-1.0	-0.3	0.7	-0.6	-34.4
Capital account	11.3	16.8	0.0	-0.1	-0.5	-0.1	17.5	-0.1	0.4	-0.1	-0.3	-5.3

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
2006 Q1 to 2006 Q4	1	2	3	4	5	6	7	8	9	10	11	12	13
Direct investment	-156.7	-70.6	2.6	11.0	-52.7	-31.6	0.1	-6.9	11.7	-3.7	-47.3	9.4	-49.4
Abroad	-314.8	-159.2	-0.5	3.8	-131.0	-31.5	0.0	-9.9	4.0	-8.4	-66.1	-25.2	-50.0
Equity/reinvested earnings	-264.2	-148.1	-0.8	4.1	-123.6	-27.8	0.0	-8.0	6.8	-1.0	-47.4	-17.7	-48.8
Other capital	-50.6	-11.0	0.3	-0.3	-7.4	-3.7	0.0	-1.8	-2.9	-7.4	-18.8	-7.5	-1.2
In the euro area	158.1	88.6	3.1	7.2	78.3	-0.1	0.1	3.0	7.8	4.7	18.8	34.6	0.6
Equity/reinvested earnings	128.8	66.6	2.7	4.0	60.6	-0.9	0.1	0.3	4.8	10.2	1.1	42.3	3.6
Other capital	29.3	22.0	0.4	3.2	17.6	0.8	0.0	2.7	3.0	-5.5	17.8	-7.7	-3.0

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 27 (outside the euro area)						Canada	Japan	Switzerland	United States	Offshore financial centres	Other
		Total	Denmark	Sweden	United Kingdom	Other EU countries	EU institutions						
2006 Q1 to 2006 Q4	1	2	3	4	5	6	7	8	9	10	11	12	13
Portfolio investment assets	-477.1	-125.3	-2.5	-12.9	-100.4	-8.3	-1.2	-7.7	-6.8	-5.2	-161.0	-96.3	-74.7
Equity	-129.5	-5.5	0.7	-3.3	-2.4	-0.4	-0.1	-2.2	-14.4	-1.5	-43.5	-30.5	-31.9
Debt instruments	-347.6	-119.8	-3.2	-9.6	-98.0	-8.0	-1.0	-5.5	7.5	-3.7	-117.5	-65.8	-42.8
Bonds and notes	-286.4	-89.6	-2.3	-9.2	-69.9	-7.2	-1.0	-4.8	-3.1	-1.5	-93.9	-47.7	-45.8
Money market instruments	-61.3	-30.2	-0.9	-0.4	-28.1	-0.7	-0.1	-0.7	10.6	-2.3	-23.6	-18.1	3.0

4. Balance of payments: other investment by sector (cumulated transactions)

	Total	European Union 27 (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							
2006 Q1 to 2006 Q4	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Other investment	21.7	-80.8	-16.8	7.4	-71.6	-15.6	15.7	2.0	41.7	-28.0	21.0	27.3	15.7	22.8
Assets	-751.0	-548.6	-36.2	-3.4	-473.1	-36.2	0.3	-0.3	26.0	-57.4	-49.0	-71.5	-2.0	-48.0
General government	3.4	-6.3	-1.9	0.2	-5.0	0.1	0.2	0.1	-0.4	0.0	0.2	0.1	-1.2	10.9
MFIs	-525.0	-356.2	-33.6	0.1	-290.9	-32.0	0.2	-1.4	24.5	-50.7	-53.1	-42.8	-0.9	-44.4
Other sectors	-229.3	-186.1	-0.7	-3.7	-177.2	-4.3	-0.1	1.0	1.8	-6.7	3.8	-28.7	0.1	-14.5
Liabilities	772.6	467.8	19.5	10.8	401.5	20.6	15.4	2.3	15.8	29.4	70.0	98.8	17.7	70.8
General government	1.2	2.0	0.0	0.0	0.1	0.0	1.8	0.0	-0.2	-0.6	-0.7	0.1	2.8	-2.1
MFIs	507.7	256.2	19.5	9.4	208.0	17.4	1.9	1.1	12.6	26.3	37.7	94.1	15.0	64.6
Other sectors	263.7	209.6	0.0	1.4	193.3	3.2	11.7	1.2	3.4	3.6	33.0	4.6	-0.1	8.4

5. International investment position (end-of-period outstanding amounts)

	Total	European Union 27 (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							
2005	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Direct investment	324.1	-142.8	0.8	-17.3	-292.9	166.8	-0.2	25.2	4.7	35.3	-1.6	-13.9	-0.3	417.5
Abroad	2,710.3	957.2	33.8	81.0	651.8	190.6	0.0	76.1	68.8	241.8	558.1	316.1	0.0	492.2
Equity/reinvested earnings	2,184.8	753.5	29.7	56.8	502.1	164.9	0.0	64.9	63.6	193.8	419.2	297.1	0.0	392.8
Other capital	525.4	203.7	4.1	24.2	149.6	25.7	0.0	11.2	5.2	48.1	138.9	19.0	0.0	99.4
In the euro area	2,386.2	1,100.0	33.0	98.3	944.7	23.8	0.2	50.9	64.1	206.6	559.6	330.0	0.3	74.6
Equity/reinvested earnings	1,777.9	874.0	26.9	81.9	757.1	8.0	0.1	45.9	53.5	142.2	396.0	199.7	0.0	66.7
Other capital	608.2	226.0	6.1	16.4	187.6	15.8	0.1	5.1	10.7	64.4	163.6	130.2	0.3	8.0
Portfolio investment assets	3,874.9	1,202.7	61.2	119.3	861.3	90.8	70.0	83.4	270.4	122.3	1,308.8	411.5	30.8	445.0
Equity	1,733.6	422.4	10.9	46.5	342.4	22.6	0.0	21.7	182.4	112.1	617.1	155.6	1.4	220.9
Debt instruments	2,141.3	780.3	50.3	72.8	519.0	68.2	70.0	61.7	88.0	10.2	691.7	255.9	29.4	224.1
Bonds and notes	1,826.7	652.8	45.9	61.6	408.2	67.2	69.9	60.2	62.4	7.8	592.5	228.7	28.7	193.7
Money market instruments	314.6	127.5	4.3	11.2	110.8	1.0	0.1	1.5	25.6	2.4	99.2	27.2	0.7	30.5
Other investment	-304.2	-50.7	51.8	15.4	17.8	9.3	-145.0	4.5	9.4	-81.5	-13.0	-216.6	-22.8	66.4
Assets	3,664.7	1,872.1	77.0	62.0	1,618.3	105.1	9.8	21.7	92.6	209.2	510.6	354.2	41.8	562.6
General government	102.2	17.4	0.2	0.3	8.9	0.5	7.5	0.1	0.1	0.1	3.3	1.2	35.8	44.2
MFIs	2,515.2	1,432.7	65.7	44.5	1,243.0	78.5	0.9	11.6	67.1	122.0	316.3	245.0	5.4	315.2
Other sectors	1,047.4	422.0	11.0	17.2	366.4	26.0	1.4	10.0	25.4	87.2	191.0	107.9	0.6	203.2
Liabilities	3,969.0	1,922.8	25.2	46.6	1,600.5	95.8	154.8	17.2	83.1	290.7	523.6	570.7	64.6	496.2
General government	46.5	23.7	0.0	0.3	3.3	0.0	20.1	0.0	0.8	0.1	7.4	0.2	3.3	11.1
MFIs	3,180.6	1,491.7	20.0	26.3	1,270.8	74.0	100.6	12.2	55.5	243.9	400.6	518.2	60.0	398.5
Other sectors	741.9	407.4	5.2	20.0	326.4	21.8	34.0	5.0	26.8	46.7	115.6	52.3	1.4	86.6

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							
2002	-714.9	-9.8	179.5	-940.9	-12.6	-307.1	366.1
2003	-784.9	-10.5	87.4	-916.1	-7.5	-255.4	306.7
2004	-829.9	-10.7	106.7	-996.6	-14.9	-206.2	281.0
2005	-817.1	-10.2	324.1	-1,142.6	-14.4	-304.2	320.1
2006 Q3	-957.1	-11.4	433.4	-1,294.7	-15.4	-405.4	325.1
Q4	-969.7	-11.5	473.3	-1,473.6	-15.3	-279.9	325.8
Outstanding assets							
2002	7,419.6	102.1	2,005.9	2,291.9	133.1	2,622.6	366.1
2003	7,964.9	106.5	2,169.3	2,658.1	160.8	2,670.0	306.7
2004	8,768.7	112.7	2,337.1	3,035.8	174.1	2,940.8	281.0
2005	10,806.1	134.5	2,710.3	3,874.9	236.1	3,664.7	320.1
2006 Q3	11,857.5	141.2	2,944.9	4,213.6	300.0	4,073.9	325.1
Q4	12,325.0	146.7	3,006.2	4,393.5	289.0	4,310.5	325.8
Outstanding liabilities							
2002	8,134.5	111.9	1,826.4	3,232.7	145.7	2,929.7	-
2003	8,749.8	117.0	2,081.9	3,574.2	168.3	2,925.4	-
2004	9,598.6	123.4	2,230.4	4,032.3	189.0	3,147.0	-
2005	11,623.2	144.7	2,386.2	5,017.6	250.5	3,969.0	-
2006 Q3	12,814.5	152.6	2,511.5	5,508.4	315.4	4,479.2	-
Q4	13,294.7	158.3	2,532.9	5,867.1	304.3	4,590.4	-

2. Direct investment

	By resident units abroad						By non-resident units in the euro area					
	Equity capital and reinvested earnings			Other capital (mostly inter-company loans)			Equity capital and reinvested earnings			Other capital (mostly inter-company loans)		
	Total	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	
2002	1,544.6	132.3	1,412.3	461.3	1.6	459.7	1,295.6	42.1	1,253.5	530.8	2.7	528.1
2003	1,726.8	124.4	1,602.4	442.5	2.1	440.4	1,510.1	46.2	1,464.0	571.8	3.2	568.6
2004	1,897.4	144.6	1,752.8	439.7	3.1	436.5	1,661.2	43.9	1,617.4	569.1	8.2	560.9
2005	2,184.8	166.5	2,018.3	525.4	6.6	518.8	1,777.9	45.9	1,732.1	608.2	10.1	598.1
2006 Q3	2,394.6	176.9	2,217.7	550.3	2.7	547.6	1,907.8	46.5	1,861.3	603.7	10.0	593.7
Q4	2,445.6	191.9	2,253.7	560.6	2.8	557.8	1,905.3	46.9	1,858.4	627.6	10.1	617.5

3. Portfolio investment assets 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.	Other sectors				General gov.	Other sectors			General gov.	Other sectors		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
2002	0.7	43.6	8.3	799.2	1,364.4	7.2	403.1	6.3	784.7	1,660.1	1.3	189.4	1.1	47.1	208.2
2003	1.7	53.5	11.5	1,026.2	1,570.4	9.3	460.2	8.0	846.0	1,755.7	1.1	191.5	0.6	48.5	248.0
2004	2.1	73.9	16.1	1,160.6	1,755.9	7.9	540.7	9.7	938.0	2,041.3	0.9	231.4	0.4	54.2	235.1
2005	3.0	100.8	26.6	1,603.3	2,428.0	8.3	693.0	11.6	1,113.9	2,271.9	0.8	260.5	0.4	52.9	317.6
2006 Q3	2.9	114.0	33.0	1,729.4	2,748.1	7.8	789.9	10.8	1,177.5	2,442.4	1.4	283.1	4.2	59.8	317.8
Q4	2.8	131.4	36.2	1,817.1	2,990.4	10.4	809.7	11.4	1,210.2	2,576.1	0.9	301.0	0.2	62.1	300.6

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		
2002	4.9	0.3	57.2	0.1	1.4	62.1	57.4	4.7	55.4	0.1	42.6	13.8	
2003	5.2	0.7	66.0	0.2	0.2	59.0	53.2	5.8	42.4	0.0	42.3	3.8	
2004	4.7	0.3	74.5	0.2	0.2	62.3	54.1	8.3	42.6	0.0	42.4	3.4	
2005	5.4	0.4	82.2	0.2	0.1	57.5	45.7	11.8	44.6	0.0	42.8	3.6	
2006 Q3	7.4	0.4	95.6	0.3	0.1	50.1	38.5	11.6	45.0	0.0	46.8	3.4	
Q4	8.4	0.4	100.0	0.2	0.1	55.0	40.2	14.8	44.7	0.0	45.1	3.4	

	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	1,685.1	61.0	2,250.8	48.4	174.4	487.4	199.3	288.1	90.7	104.5	364.3	47.8	
2003	1,734.6	38.5	2,241.9	31.0	169.2	535.9	206.7	329.2	84.3	107.2	387.3	45.7	
2004	1,950.5	45.4	2,423.0	42.2	172.4	568.8	236.8	332.0	93.5	110.2	401.4	49.7	
2005	2,453.1	56.3	3,045.8	52.4	185.1	730.4	374.9	355.5	131.9	125.3	547.5	69.1	
2006 Q3	2,705.7	56.8	3,360.7	52.3	181.8	886.5	535.7	350.8	140.1	131.0	701.0	88.1	
Q4	2,879.2	58.6	3,414.0	55.8	185.0	943.0	610.3	332.8	136.1	128.3	759.0	84.6	

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	306.7	130.0	393.543	4.4	23.3	149.0	10.0	30.4	107.9	1.0	80.5	26.5	0.7	0.0	20.3	-16.3
2004	281.0	125.4	389.998	3.9	18.6	133.0	12.5	25.5	94.7	0.5	58.5	35.6	0.4	0.0	19.1	-12.8
2005	320.1	163.4	375.861	4.3	10.6	141.7	12.6	21.4	107.9	0.6	69.6	37.7	-0.2	0.0	25.6	-17.9
2006 Q2	323.8	178.9	370.694	4.2	7.8	133.0	5.4	22.0	105.3	0.5	74.6	30.2	0.2	0.0	26.9	-19.1
Q3	325.1	174.2	367.958	4.5	7.0	139.4	4.5	25.3	109.7	0.5	79.1	30.1	-0.1	0.0	26.8	-21.9
Q4	325.8	176.3	365.213	4.6	5.2	139.7	6.3	22.5	110.7	0.5	79.4	30.8	0.3	0.0	24.6	-21.5
2007 Jan.	338.6	183.3	365.051	4.7	5.1	145.4	4.4	22.9	118.1	-	-	-	0.0	0.0	24.9	-24.0
Feb.	337.5	183.3	364.604	4.6	4.5	145.1	4.1	26.6	114.1	-	-	-	0.2	0.0	23.6	-23.8
Mar.	331.6	180.4	363.108	4.6	4.3	142.2	4.9	27.6	109.5	-	-	-	0.3	0.0	25.1	-22.6
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	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	41.5	10.1	23.145	0.2	0.0	31.2	5.1	2.5	23.6	0.0	10.6	12.9	0.0	0.0	2.9	-0.9
2006 Q1	40.5	11.1	23.145	0.2	0.0	29.3	2.6	3.6	23.1	0.0	15.3	7.8	0.0	0.0	3.9	-0.5
Q2	39.2	10.3	21.312	0.2	0.0	28.7	1.3	2.4	25.1	0.0	18.6	6.5	0.0	0.0	3.5	0.0
Q3	40.8	10.1	21.312	0.2	0.0	30.5	1.4	3.8	25.3	0.0	18.4	6.9	0.0	0.0	2.9	-0.7
2007 Jan.	43.0	10.4	20.632	0.4	0.0	32.2	0.7	3.9	27.6	-	-	-	0.0	0.0	2.5	-2.0
Feb.	42.8	10.4	20.632	0.4	0.0	32.0	0.7	4.4	27.0	-	-	-	0.0	0.0	2.4	-1.9
Mar.	40.5	10.3	20.632	0.4	0.0	29.9	1.4	3.3	25.2	-	-	-	0.0	0.0	3.0	-0.6

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:	Total			Memo:			
			Intermediate	Capital	Consumption	Manufactures	Intermediate	Capital	Consumption	Manufactures	Oil		
	1	2	3	4	5	6	7	8	9	10	11	12	13
Values (EUR billions; annual percentage changes for columns 1 and 2)													
2003	-2.3	0.5	1,056.8	499.3	221.3	299.8	916.4	987.7	553.1	164.0	240.1	708.6	109.1
2004	8.9	9.4	1,142.8	545.7	246.7	314.6	994.3	1,073.4	604.4	183.2	255.5	767.5	129.2
2005	7.8	13.5	1,237.1	590.2	269.6	334.7	1,068.6	1,223.3	705.0	206.5	275.9	842.8	186.3
2006	11.1	13.3	1,379.8	662.5	289.4	366.0	1,183.7	1,390.5	824.9	207.3	302.2	938.9	224.7
2005 Q3	10.2	15.7	317.8	150.8	70.6	85.7	275.3	318.2	183.7	53.6	70.8	216.8	52.9
Q4	9.8	15.9	321.6	154.6	68.9	86.6	276.1	328.7	189.3	55.9	72.6	222.5	53.8
2006 Q1	16.0	22.4	332.2	158.9	72.0	89.8	283.1	337.3	198.7	53.6	73.9	224.7	55.1
Q2	9.4	14.3	340.5	162.4	71.4	89.9	290.6	344.1	204.5	52.0	75.0	231.1	57.3
Q3	8.0	10.4	346.4	167.5	71.4	91.0	298.0	354.1	212.0	51.0	75.4	238.3	59.9
Q4	11.6	7.4	360.6	173.8	74.6	95.4	312.0	355.0	209.7	50.8	77.9	244.8	52.3
2006 Sep.	8.4	7.5	118.6	57.5	25.3	30.4	103.4	118.0	69.9	17.1	25.2	80.4	18.8
Oct.	16.1	13.7	118.2	57.2	24.5	31.4	101.7	117.7	69.8	17.2	25.8	80.6	18.0
Nov.	12.6	6.2	120.0	58.4	25.7	31.2	104.9	116.3	68.8	16.9	25.9	80.7	17.0
Dec.	6.2	2.4	122.3	58.2	24.4	32.8	105.4	121.0	71.0	16.8	26.2	83.4	17.4
2007 Jan.	11.8	8.1	121.4	49.4	22.2	30.8	100.6	119.6	63.4	14.1	23.3	81.1	16.1
Feb.	10.3	8.5	122.1	52.7	23.7	31.8	101.3	122.3	67.2	15.2	25.6	82.0	.
Volume indices (2000 = 100; annual percentage changes for columns 1 and 2)													
2003	1.0	3.7	108.6	106.0	106.9	113.2	108.5	102.0	100.2	97.1	110.1	100.3	103.1
2004	9.0	6.5	117.5	115.7	120.0	118.5	118.1	108.0	104.2	109.1	118.0	108.5	105.2
2005	4.8	5.0	123.7	120.2	129.6	123.6	124.3	113.9	107.5	123.7	124.2	116.7	109.8
2006	7.4	5.6	133.2	129.4	136.4	131.1	134.1	120.7	113.6	124.0	131.3	125.6	109.6
2005 Q3	7.0	5.6	126.1	122.0	134.9	125.6	127.3	115.8	108.3	126.6	126.6	119.4	115.5
Q4	5.6	5.4	126.6	123.3	131.4	126.0	127.2	117.0	108.1	132.8	127.4	121.4	108.2
2006 Q1	10.5	8.5	128.8	124.7	135.4	128.8	128.5	117.2	110.2	125.2	127.8	120.5	107.2
Q2	5.1	3.8	131.9	127.8	135.0	128.4	132.3	119.1	112.0	124.4	131.2	124.5	106.9
Q3	5.0	4.5	133.7	130.4	135.2	130.6	135.1	122.1	115.6	123.1	130.4	127.0	116.2
Q4	9.0	5.7	138.6	134.8	139.9	136.6	140.4	124.3	116.7	123.2	135.5	130.4	108.2
2006 Sep.	5.6	3.1	137.2	133.8	143.4	131.3	140.1	123.0	115.6	123.8	131.4	128.1	115.3
Oct.	13.3	11.5	136.5	133.4	137.8	134.7	137.2	124.2	117.3	124.9	134.2	129.0	114.3
Nov.	9.4	4.2	138.4	135.4	144.9	134.5	141.6	122.1	115.2	121.9	135.4	128.8	106.7
Dec.	4.2	1.4	140.9	135.5	136.9	140.6	142.3	126.6	117.5	122.7	136.8	133.4	103.7
2007 Jan.	.	.	.	.	.	.	.	.	.	.	.	.	.
Feb.	.	.	.	.	.	.	.	.	.	.	.	.	.
Unit value indices (2000 = 100; annual percentage changes for columns 1 and 2)													
2003	-3.2	-3.0	97.5	96.1	96.3	101.0	97.3	94.7	93.6	92.3	99.2	95.9	86.4
2004	-0.1	2.6	97.4	96.3	95.6	101.3	97.1	97.1	98.3	91.7	98.5	96.0	99.7
2005	2.8	8.0	100.2	100.2	96.7	103.3	99.1	104.9	111.2	91.2	101.0	98.0	137.7
2006	3.6	7.4	103.7	104.5	98.7	106.5	101.7	112.7	123.1	91.4	104.7	101.5	166.7
2005 Q3	3.0	9.6	101.0	100.9	97.3	104.1	99.7	107.5	115.0	92.6	101.7	98.6	148.9
Q4	4.1	10.0	101.8	102.3	97.5	104.8	100.1	109.9	118.7	92.0	103.7	99.5	161.7
2006 Q1	5.0	12.8	103.4	104.0	99.0	106.3	101.6	112.6	122.3	93.5	105.1	101.3	167.4
Q2	4.1	10.2	103.4	103.8	98.4	106.8	101.2	113.0	123.9	91.4	103.9	100.8	174.3
Q3	2.8	5.7	103.8	104.9	98.2	106.3	101.7	113.4	124.4	90.5	105.1	101.9	167.7
Q4	2.4	1.6	104.3	105.3	99.2	106.6	102.5	111.7	121.9	90.2	104.6	101.9	157.4
2006 Sep.	2.7	4.2	104.0	105.3	98.4	105.9	102.0	112.6	123.0	90.5	104.9	102.2	158.9
Oct.	2.5	1.9	104.1	105.0	99.2	106.7	102.5	111.2	121.1	90.1	104.8	101.8	153.3
Nov.	3.0	1.9	104.3	105.7	99.0	106.3	102.5	111.8	121.6	90.9	104.4	102.2	155.3
Dec.	1.9	0.9	104.4	105.2	99.3	106.8	102.4	112.1	123.0	89.5	104.7	101.9	163.7
2007 Jan.	.	.	.	.	.	.	.	.	.	.	.	.	.
Feb.	.	.	.	.	.	.	.	.	.	.	.	.	.

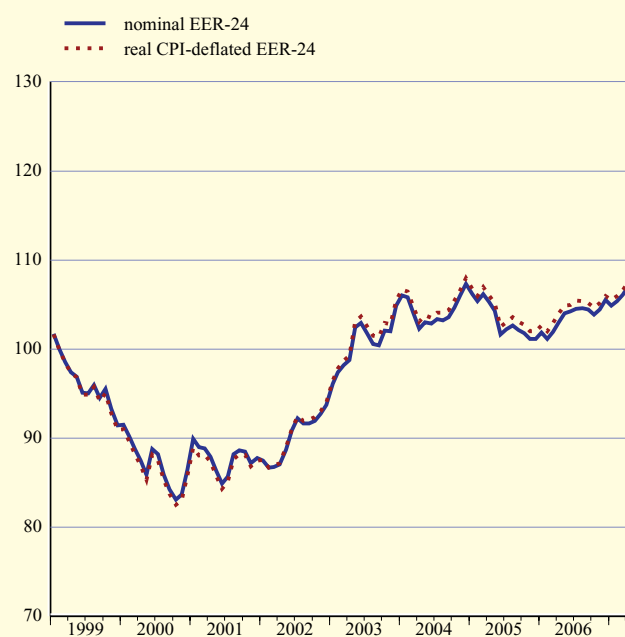
Sources: Eurostat and ECB calculations based on Eurostat data (volume indices and seasonal adjustment of unit value indices).

EXCHANGE RATES

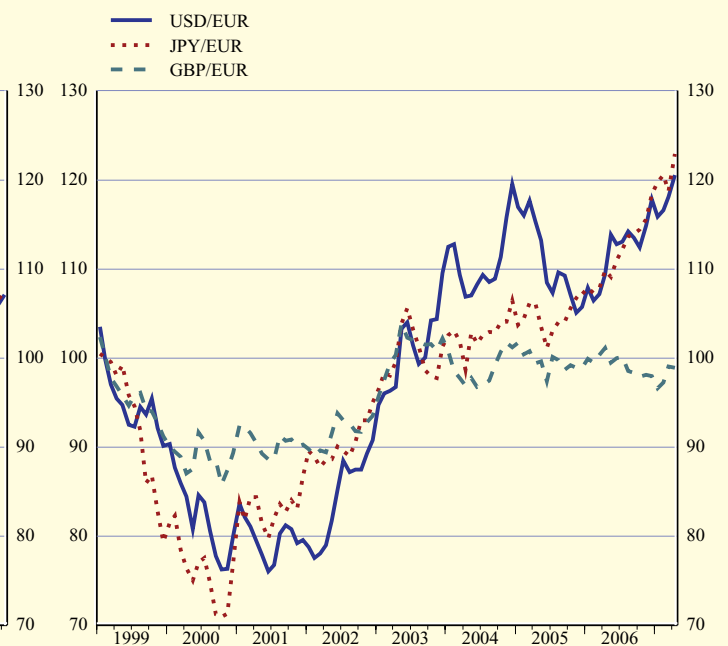
8.1 Effective exchange rates ¹⁾ (period averages; index 1999 Q1=100)

	EER-24						EER-44	
	Nominal	Real CPI	Real PPI	Real GDP deflator	Real ULCM	Real ULCT	Nominal	Real CPI
	1	2	3	4	5	6	7	8
2004	104.3	105.1	104.2	103.2	99.9	101.8	111.2	105.6
2005	103.3	104.1	102.5	100.9	97.4	99.3	109.7	103.7
2006	103.6	104.4	102.9	100.7	95.1	97.7	110.0	103.4
2006 Q1	101.7	102.5	101.0	99.0	94.1	96.6	107.4	101.2
Q2	103.8	104.6	103.0	100.9	95.1	98.2	110.1	103.6
Q3	104.5	105.3	103.7	101.4	95.7	98.3	111.2	104.5
Q4	104.6	105.3	104.1	101.5	95.3	97.8	111.3	104.3
2007 Q1	105.5	106.0	104.8	.	.	.	112.0	104.8
2006 Apr.	103.0	104.0	102.5	-	-	-	108.8	102.5
May	104.0	104.9	103.3	-	-	-	110.5	104.0
June	104.2	104.9	103.3	-	-	-	111.1	104.4
July	104.5	105.4	103.8	-	-	-	111.3	104.7
Aug.	104.6	105.4	103.7	-	-	-	111.3	104.6
Sep.	104.4	105.2	103.4	-	-	-	111.1	104.3
Oct.	103.9	104.7	103.4	-	-	-	110.4	103.6
Nov.	104.5	105.2	103.9	-	-	-	111.1	104.2
Dec.	105.5	106.0	104.9	-	-	-	112.3	105.0
2007 Jan.	104.9	105.5	104.3	-	-	-	111.5	104.3
Feb.	105.4	105.9	104.8	-	-	-	111.9	104.6
Mar.	106.1	106.6	105.3	-	-	-	112.7	105.3
Apr.	107.1	107.6	106.3	-	-	-	113.7	106.2
	<i>% change versus previous month</i>							
2007 Apr.	1.0	1.0	0.9	-	-	-	0.8	0.8
	<i>% change versus previous year</i>							
2007 Apr.	4.0	3.5	3.7	-	-	-	4.5	3.6

C35 Effective exchange rates (monthly averages; index 1999 Q1=100)



C36 Bilateral exchange rates (monthly averages; index 1999 Q1=100)



Source: ECB.

1) For the definition of the trading partner groups and other information, please refer to the General notes.

9.2 In the United States and Japan

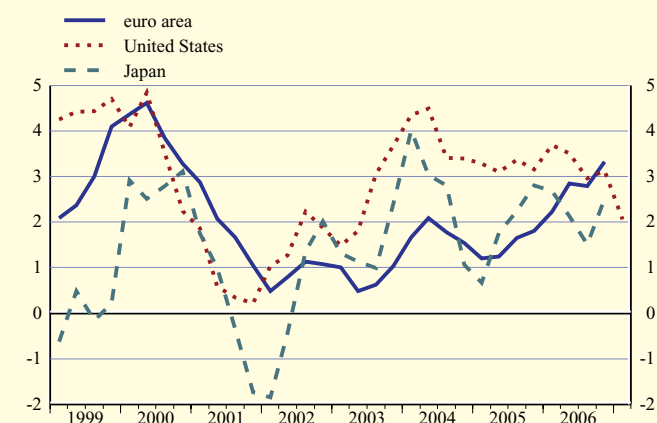
(annual percentage changes, unless otherwise indicated)

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											
2003	2.3	0.8	2.5	1.3	6.0	6.9	1.22	4.00	1.1312	-4.8	48.0
2004	2.7	0.1	3.9	3.0	5.5	4.6	1.62	4.26	1.2439	-4.6	48.8
2005	3.4	-0.1	3.2	4.0	5.1	4.3	3.56	4.28	1.2441	-3.7	49.2
2006	3.2	-0.2	3.3	5.0	4.6	4.7	5.19	4.79	1.2556	.	.
2006 Q1	3.6	1.9	3.7	4.9	4.7	4.7	4.76	4.57	1.2023	-2.3	49.8
Q2	4.0	0.1	3.5	5.5	4.6	4.7	5.21	5.07	1.2582	-2.3	48.6
Q3	3.3	-2.2	3.0	6.1	4.7	4.5	5.43	4.90	1.2743	-2.6	48.5
Q4	1.9	-0.4	3.1	3.6	4.5	5.0	5.37	4.63	1.2887	.	.
2007 Q1	2.4	-2.0	2.1	2.4	4.5	5.7	5.36	4.68	1.3106	.	.
2006 Dec.	2.5	-	-	3.6	4.5	5.3	5.36	4.57	1.3213	-	-
2007 Jan.	2.1	-	-	2.1	4.6	5.5	5.36	4.76	1.2999	-	-
Feb.	2.4	-	-	2.5	4.5	5.5	5.36	4.73	1.3074	-	-
Mar.	2.8	-	-	2.7	4.4	6.1	5.35	4.56	1.3242	-	-
Apr.	.	-	-	.	4.5	.	5.35	4.69	1.3516	-	-
Japan											
2003	-0.2	-3.8	1.5	3.2	5.2	1.7	0.06	0.99	130.97	-7.7	151.4
2004	0.0	-5.2	2.7	5.5	4.7	1.9	0.05	1.50	134.44	-5.5	157.6
2005	-0.3	-0.5	1.9	1.1	4.4	1.8	0.06	1.39	136.85	-5.9	164.2
2006	0.2	-2.6	2.2	4.8	4.1	1.1	0.30	1.74	146.02	.	.
2006 Q1	-0.1	-1.6	2.7	3.0	4.2	1.7	0.08	1.58	140.51	.	.
Q2	0.2	-2.4	2.1	4.7	4.1	1.4	0.21	1.90	143.81	.	.
Q3	0.6	-2.9	1.5	5.6	4.1	0.6	0.41	1.80	148.09	.	.
Q4	0.3	-3.6	2.5	5.9	4.1	0.7	0.49	1.70	151.72	.	.
2007 Q1	-0.1	.	.	2.9	4.0	1.0	0.62	1.68	156.43	.	.
2006 Dec.	0.3	-3.1	-	5.2	4.1	0.7	0.56	1.64	154.82	-	-
2007 Jan.	0.0	.	-	4.4	4.0	0.9	0.56	1.71	156.56	-	-
Feb.	-0.2	.	-	3.1	4.0	1.0	0.59	1.71	157.60	-	-
Mar.	-0.1	.	-	1.5	4.0	1.1	0.71	1.62	155.24	-	-
Apr.	.	.	-	.	.	.	0.66	1.67	160.68	-	-

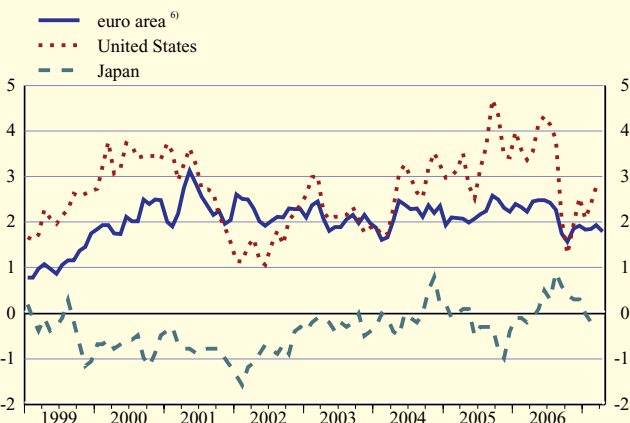
C37 Real gross domestic product

(annual percentage changes; quarterly)



C38 Consumer price indices

(annual percentage changes; monthly)



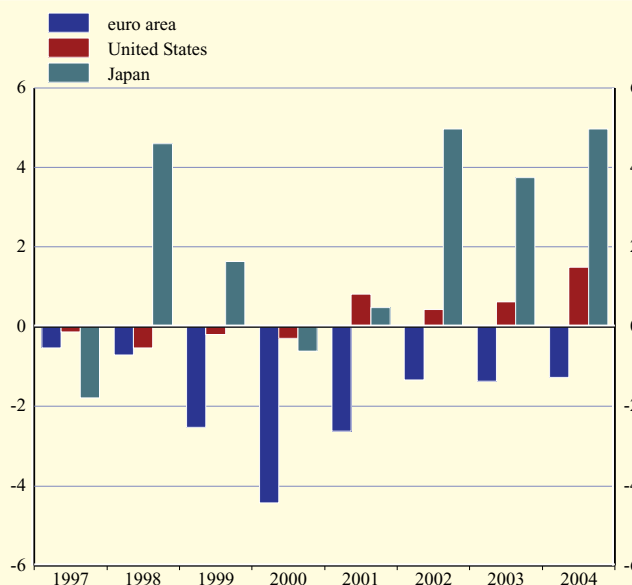
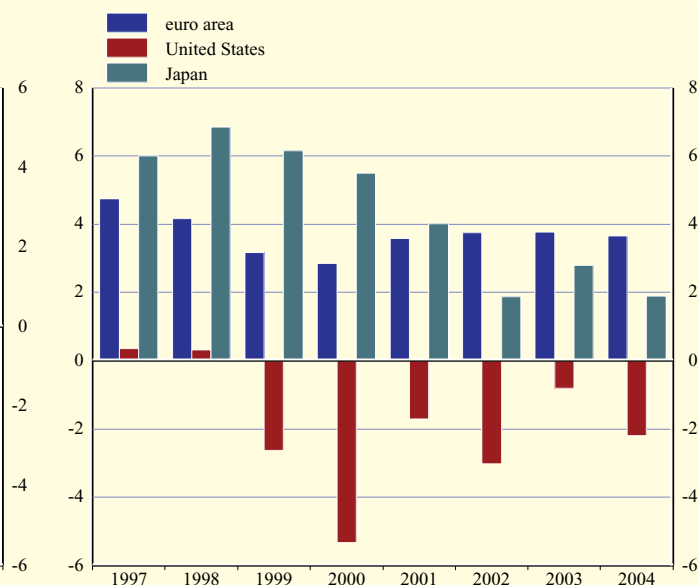
Sources: National data (columns 1, 2 (United States), 3, 4, 5 (United States), 6, 9 and 10); OECD (column 2 (Japan)); Eurostat (column 5 (Japan), euro area chart data); Reuters (columns 7 and 8); ECB calculations (column 11).

- 1) Data for the United States are seasonally adjusted.
- 2) Average-of-period values; M2 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).
- 6) Data refer to the changing composition of the euro area. For further information, see the General notes.

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													
2003	13.3	18.5	-4.7	6.8	6.8	0.8	7.6	0.1	0.4	13.3	8.5	11.3	9.3
2004	13.2	19.3	-5.6	7.0	6.7	6.7	7.6	5.2	0.3	13.5	7.9	11.2	10.1
2005	12.9	19.7	-6.2	7.1	7.0	3.3	7.9	2.6	-1.0	13.8	4.9	9.6	9.7
2006	13.8	20.0	-6.2	7.6	7.3	2.3	8.2	1.4	-1.2	13.1	3.6	8.5	8.1
2005 Q1	13.2	19.8	-6.3	7.3	6.9	3.4	7.4	3.6	0.1	13.6	5.7	10.0	8.5
Q2	12.7	19.5	-6.1	6.9	7.0	3.4	7.9	3.1	-0.7	14.0	4.4	9.4	10.4
Q3	13.2	19.5	-5.7	6.8	7.0	3.5	8.5	1.4	-1.4	13.9	5.6	10.0	10.3
Q4	12.7	20.2	-6.8	7.3	7.1	3.1	7.9	2.3	-1.7	13.6	3.8	9.1	9.7
2006 Q1	14.5	20.3	-6.3	7.5	7.2	2.7	8.4	1.1	-0.8	13.6	5.4	9.1	9.4
Q2	13.6	20.2	-6.4	7.6	7.3	3.0	8.1	2.3	-1.5	13.3	1.9	8.2	8.5
Q3	13.3	20.0	-6.5	7.7	7.4	1.5	8.3	0.7	-1.9	12.9	4.4	8.3	7.3
Q4	14.0	19.4	-5.7	7.7	7.3	2.0	8.1	1.4	-0.7	12.6	2.7	8.4	7.4
Japan													
2003	25.4	22.9	3.1	13.2	13.2	2.4	16.9	-5.4	0.2	3.6	0.3	7.0	-0.7
2004	25.8	22.8	3.6	13.6	13.4	4.2	17.8	-0.5	1.0	4.8	3.1	6.8	-1.0
2005	26.4	23.3	3.5	14.4	14.2	6.8	17.1	-4.9	-4.6	4.4	3.0	6.4	1.2
2006	.	24.1	.	.	.	1.6	.	0.4	0.2	.	4.1	0.0	-0.2
2005 Q1	31.6	25.9	3.7	.	.	10.5	.	-3.5	-1.7	.	-12.3	.	3.0
Q2	22.3	24.2	3.2	.	.	-15.6	.	-14.0	2.3	.	9.1	.	-6.4
Q3	24.6	23.6	3.8	.	.	6.2	.	2.0	0.5	.	-3.3	.	3.1
Q4	27.0	24.2	3.4	.	.	21.4	.	-9.6	-19.8	.	16.3	.	4.6
2006 Q1	31.9	23.8	4.2	.	.	8.6	.	-5.0	-3.1	.	-7.6	.	5.2
Q2	.	23.4	.	.	.	-24.3	.	-15.7	1.2	.	9.8	.	-9.9
Q3	.	24.3	.	.	.	8.3	.	2.9	-0.1	.	0.2	.	3.9
Q4	.	24.7	.	.	.	13.4	.	18.3	2.7	.	13.0	.	0.3

C39 Net lending of non-financial corporations
(as a percentage of GDP)

C40 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 2006 = 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:

$$k) I_t = I_{t-1} \times \left(1 + \frac{N_t}{L_{t-1}} \right)$$

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:

$$l) a_t = \left[\prod_{i=0}^{11} \left(1 + \frac{N_{t-i}^M}{L_{t-1-i}} \right) - 1 \right] \times 100$$

$$m) a_t = \left(\frac{I_t}{I_{t-12}} - 1 \right) \times 100$$

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:

$$n) \left(\frac{0.5I_t + \sum_{i=1}^2 I_{t-i} + 0.5I_{t-3}}{0.5I_{t-12} + \sum_{i=1}^2 I_{t-i-12} + 0.5I_{t-15}} - 1 \right) \times 100$$

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:

$$o) \left(\frac{0.5I_t + \sum_{i=1}^{11} I_{t-i} + 0.5I_{t-12}}{0.5I_{t-12} + \sum_{i=1}^{11} I_{t-i-12} + 0.5I_{t-24}} - 1 \right) \times 100$$

The calculation formula used for Section 4.3 is also used for Section 4.4 and is likewise based on that used for the monetary aggregates. Section 4.4 is based on market values and the basis for the calculation are financial transactions, which exclude reclassifications, revaluations or any other changes that do not arise from transactions. Exchange rate variations are not included as all quoted shares covered are denominated in euro.

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:

$$p) a_t = \left[\prod_{i=0}^5 \left(1 + \frac{N_{t-i}^M}{L_{t-1-i}} \right) - 1 \right] \times 100$$

$$q) a_t = \left(\frac{I_t}{I_{t-6}} - 1 \right) \times 100$$

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, services and income are pre-adjusted to take a working-day effect into account. The working-day adjustment is corrected for national public holidays. Data on goods credits are also pre-adjusted for Easter. The seasonal adjustment for these items is carried out using these pre-adjusted series. 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). This allows user-friendly access to data via the ECB Statistical Data Warehouse (<http://sdw.ecb.int/>), which includes search and download facilities. Further services available under the “Data services” sub-section include the subscription to different datasets and a repository of 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 ECB’s Governing Council. For this issue, the cut-off date was 8 May 2007.

Unless otherwise indicated, all data series covering observations for 2007 relate to the Euro 13 (i.e. the euro area including Slovenia) for the whole time series. For interest rates, monetary statistics and the HICP (and, for consistency reasons, the components and counterparts of M3 and the components of the HICP), the statistical series refer to the changing composition of the euro area. Where applicable, this is indicated in the tables by means of a footnote. In such cases, where underlying data are available, absolute and percentage changes for 2001 and 2007, calculated from bases in 2000 and 2006, use a series which takes into account the impact of the entry of Greece and Slovenia, respectively, into the euro area. Historical data referring to the euro area before the entry of Slovenia are available on the ECB’s website at <http://www.ecb.int/stats/services/downloads/html/index.en.html>.

The statistical series referring to the changing composition of the euro area are based on the euro area composition at the time to which the statistics relate. Thus, data prior to 2001 refer to the Euro 11, i.e. the following 11 EU Member States: Belgium, Germany, Ireland, Spain,

France, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland. Data from 2001 to 2006 refer to the Euro 12, i.e. the Euro 11 plus Greece. Data after 2007 refer to the Euro 13, i.e. the Euro 12 plus Slovenia.

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 Bulgaria, the Czech Republic, Denmark, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Romania, Slovakia, Sweden and the 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,

¹ OJ L 356, 30.12.1998, p. 7.

² OJ L 250, 2.10.2003, p. 19.

real estate funds and other funds) and by type of investor (general public funds and special investors' funds). Section 2.10 shows the aggregated balance sheet for each investment fund sector as identified by investment policy and type of investor.

FINANCIAL AND NON-FINANCIAL ACCOUNTS

Sections 3.1 and 3.2 show quarterly data on financial accounts for non-financial sectors in the euro area, comprising general government (S.13 in the ESA 95), non-financial corporations (S.11 in the ESA 95), and households (S.14 in the ESA 95) including non-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.

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 (changing composition), with the exception of statistics on securities issues (Tables 4.1 to 4.4), which relate to the Euro 13 (i.e. the Euro 12 plus Slovenia) for the whole time series (fixed composition).

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 in 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 in 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 in 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 issuers' own shares. Transactions include the quotation of an issuer on a stock exchange for the first time and the creation or deletion of new instruments. The calculation of annual growth rates excludes reclassifications, revaluations and any other changes which do not arise from transactions.

Section 4.5 presents statistics on all the interest rates that MFIs resident in the euro area apply to euro-denominated deposits and loans vis-à-

vis households and non-financial corporations resident in the euro area. Euro area MFI interest 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 (Table 1 in 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 and experimental HICP-based estimates of administered prices 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-

³ OJ L 162, 5.6.1998, p. 1.

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.

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 Organization (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.

4 OJ L 86, 27.3.2001, p. 11.

5 OJ L 69, 13.3.2003, p. 1.

6 OJ L 169, 8.7.2003, p. 37.

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 excessive deficit procedure B.9, as defined by Commission Regulation (EC) No 351/2002 of 25 February 2002 amending Council Regulation (EC) No 3605/93 as regards references to the ESA 95. Section 6.3 presents changes in general government debt. The difference between the change in the government debt and the government deficit – the deficit-debt adjustment – is mainly explained by government transactions in financial assets and by foreign exchange valuation effects. Section 6.4 presents quarterly figures on general government revenue and expenditure on the basis of definitions laid down in 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 2005), 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 by the ECB/European 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 annual quality report on the euro area b.o.p./i.i.p., 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

⁷ OJ L 172, 12.7.2000, p. 3.

⁸ OJ L 179, 9.7.2002, p. 1.

⁹ OJ L 354, 30.11.2004, p. 34.

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.

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 available four quarters; Table 5 shows a geographical breakdown of the i.i.p. for the latest available 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, which was 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-24 group of trading partners is composed of the 14 non-euro area EU Member States, Australia, Canada, China, Hong Kong, Japan, Norway, Singapore, South Korea, Switzerland and the United States. The EER-44 group includes, in addition to the EER-24, the following countries: Algeria, Argentina, Brazil, Chile, Croatia, Iceland, India, Indonesia, Israel, Malaysia, Mexico, Morocco, New Zealand, the Philippines, Russia, South Africa, Taiwan, Thailand, Turkey and Venezuela. 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 8 entitled "The effective exchange rates of the euro following the recent euro area and EU enlargements" in the March 2007 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



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.

1 DECEMBER 2005

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 0.25 percentage point to 2.25%, starting from the operation to be settled on 6 December 2005. In addition, it decides to increase the interest rates on both the marginal lending facility and the deposit facility by 0.25 percentage point, to 3.25% and

1.25% respectively, both with effect from 6 December 2005.

16 DECEMBER 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 2006 from €30 billion to €40 billion. This increased amount takes two aspects into consideration. First, the liquidity needs of the euro area banking system are expected to increase further in the year 2006. Second, the Eurosystem has decided to increase slightly the share of the liquidity needs satisfied by the longer-term refinancing operations. 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 2007.

12 JANUARY AND 2 FEBRUARY 2006

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 2.25%, 3.25% and 1.25% respectively.

2 MARCH 2006

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 25 basis points to 2.50%, starting from the operation to be settled on 8 March 2006. In addition, it decides to increase the interest rates on both the

¹ The chronology of monetary policy measures of the Eurosystem taken between 1999 and 2004 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, on pages 234 to 235 of the ECB's Annual Report 2002, on pages 217 to 218 of the ECB's Annual Report 2003 and on page 217 of the ECB's Annual Report 2004 respectively.

marginal lending facility and the deposit facility by 25 basis points, to 3.50% and 1.50% respectively, both with effect from 8 March 2006.

6 APRIL AND 4 MAY 2006

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 JUNE 2006

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 25 basis points to 2.75%, starting from the operation to be settled on 15 June 2006. In addition, it decides to increase the interest rates on both the marginal lending facility and the deposit facility by 25 basis points, to 3.75% and 1.75% respectively, both with effect from 15 June 2006.

6 JULY 2006

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.

3 AUGUST 2006

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 25 basis points to 3.0%, starting from the operation to be settled on 9 August 2006. In addition, it decides to increase the interest rates on both the marginal lending facility and the deposit facility by

25 basis points, to 4.0% and 2.0%, both with effect from 9 August 2006.

31 AUGUST 2006

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 3.0%, 4.0% and 2.0% respectively.

5 OCTOBER 2006

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 25 basis points to 3.25%, starting from the operation to be settled on 11 October 2006. In addition, it decides to increase the interest rates on both the marginal lending facility and the deposit facility by 25 basis points, to 4.25% and 2.25%, both with effect from 11 October 2006.

2 NOVEMBER 2006

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 3.25%, 4.25% and 2.25% respectively.

7 DECEMBER 2006

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 25 basis points to 3.50%, starting from the operation to be settled on 13 December 2006. In addition, it decides to increase the interest rates on both the marginal lending facility and the deposit facility by 25 basis points, to 4.50% and 2.50%, both with effect from 13 December 2006.

21 DECEMBER 2006

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 2007 from €40 billion to €50 billion. This increased amount takes the following aspects into consideration: the liquidity needs of the euro area banking system have grown strongly in recent years and are expected to increase further in the year 2007. Therefore the Eurosystem has decided to increase slightly the share of the liquidity needs satisfied by the longer-term refinancing operations. 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 2008.

the marginal lending facility and the deposit facility will remain unchanged at 3.75%, 4.75% and 2.75% respectively.

11 JANUARY AND 8 FEBRUARY 2007

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 3.50%, 4.50% and 2.50% respectively.

8 MARCH 2007

The Governing Council of the ECB decides to increase the minimum bid rate on the main refinancing operations by 25 basis points to 3.75%, starting from the operation to be settled on 14 March 2007. In addition, it decides to increase the interest rates on both the marginal lending facility and the deposit facility by 25 basis points, to 4.75% and 2.75%, both with effect from 14 March 2007.

12 APRIL AND 10 MAY 2007

The Governing Council of the ECB decides that the minimum bid rate on the main refinancing operations and the interest rates on



DOCUMENTS PUBLISHED BY THE EUROPEAN CENTRAL BANK SINCE 2006

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

ANNUAL REPORT

"Annual Report 2005", April 2006.

"Annual Report 2006", April 2007.

CONVERGENCE REPORT

"Convergence Report May 2006".

"Convergence Report December 2006".

"Convergence Report May 2007".

MONTHLY BULLETIN ARTICLES

"The predictability of the ECB's monetary policy", January 2006.

"Hedge funds: developments and policy implications", January 2006.

"Assessing house price developments in the euro area", February 2006.

"Fiscal policies and financial markets", February 2006.

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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.

Balance of payments (b.o.p.): a statistical statement that summarises, for a specific period of time, the economic transactions of an economy with the rest of the world.

Bank lending survey (BLS): 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.

Borrowing requirement (general government): net incurrence of debt by general government.

Capital account: a b.o.p. account that covers all capital transfers and acquisitions/disposals of non-produced, non-financial assets between residents and non-residents.

Central parity (or central rate): 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.

Current account: a b.o.p. account that covers all transactions in goods and services, income and current transfers between residents and non-residents.

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 gross debt (deposits, loans and debt securities excluding financial derivatives) 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) on 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-debt adjustment (general government): the difference between the general government deficit and the change in general government debt.

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.

Deflation: a decline in the general price level, e.g. in the consumer price index.

Deposit facility: a standing facility of the Eurosystem which counterparties may use to make overnight deposits, remunerated at a pre-specified interest rate, at an NCB.

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-24 (comprising the 14 non-euro area EU Member States and the 10 main trading partners outside the EU) and the EER-44 (composed of the EER-24 and 20 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.

Euro area: the area formed by those EU Member States in which the euro has been adopted as the single currency in accordance with the Treaty establishing the European Community.

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 industries, 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).

Eurosystem: the central banking system made up of the ECB and the NCBs of those EU Member States that have already adopted the euro.

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 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.

Financial account: a b.o.p. account that covers all transactions in direct investment, portfolio investment, other investment, financial derivatives and reserve assets, between residents and non-residents.

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).

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 (in cash and in kind, including bonuses) and other labour costs (employers' social contributions plus employment-related taxes paid by the employer minus subsidies received by the employer), per hour actually worked (including overtime).

Implied volatility: the expected volatility (i.e. standard deviation) in the rates of change of the price of an asset (e.g. a share or a bond). It can be derived from the asset's price, maturity date and exercise price of its options, as well as from a riskless rate of return, using an option pricing model such as the Black-Scholes model.

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: an increase in the general price level, e.g. in the consumer price index.

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.

International reserves: external assets readily available to and controlled by monetary authorities for directly financing or regulating the magnitude of payments imbalances through intervention in exchange markets. The international reserves of the euro area comprise non-euro denominated claims on non-euro area residents, gold, special drawing rights (SDRs) and the reserve positions in the IMF which are held by the Eurosystem.

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 an NCB 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 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.

Minimum bid rate: the lower limit to the interest rates at which counterparties may submit bids in the variable tenders.

Other investment: an item in the b.o.p. and the i.i.p. that covers the financial transactions/positions with non-residents in trade credits, deposits and loans, and other accounts receivable and payable.

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 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.

Purchasing power parity (PPP): the rate at which one currency is converted into another so as to equalise the purchasing power of the two currencies by eliminating the differences in the price levels prevailing in the countries concerned. In their simplest form, PPPs show the ratio of the prices in national currency of the same good or service in different countries.

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 labour productivity (defined as 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.

Write-down: a downward adjustment to the value of loans recorded in the balance sheets of MFIs when it is recognised that the loans have become partly unrecoverable.

Write-off: the removal of the value of loans from the balance sheets of MFIs when the loans are considered to be totally unrecoverable.

Yield curve: a graphical representation of the relationship between the interest rate or yield and the residual 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 or yield at two selected maturities.

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